



## **Q4'19 Industrial Sentiment Survey**

January 23, 2020

For over a decade, we have surveyed global industrial investors quarterly on the equity markets, world economies and business climate. At the start of every earnings season, we publish our leading-edge research, *Inside The Buy-side Industrial Sentiment Survey*®, which captures real-time Voice of Investor™ sentiment and trends.<sup>1</sup>

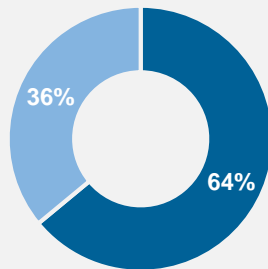
Leveraging our deep understanding of capital markets, proprietary research, powerful technology and best practice knowledge, our research demonstrates the value we add by remaining at the forefront of global market trends, investor sentiment and effective communication strategies.

**Survey Scope:** 28 sector-dedicated investors and analysts globally; buy-side firms manage ~\$939 billion in assets and have ~\$101 billion invested in Industrials

**Survey Timeframe:** Nov. 28, 2019 – Jan. 14, 2020

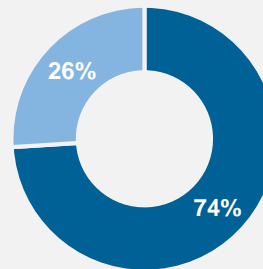
Market Performance	2019	Q4'19
DJIA	6.0%	22.3%
NASDAQ	12.2%	35.2%
S&P 500	8.5%	28.9%
S&P 500 Industrial	5.0%	26.8%
Russell 2000	9.5%	23.7%

## ROLE



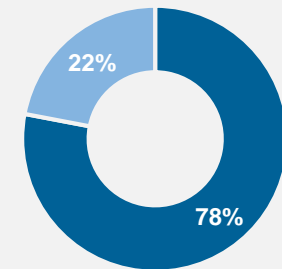
■ Buy Side ■ Sell Side

## SECTOR FOCUS



■ Industrials ■ Multi-Industry Incl. Industrials

## REGION



■ North America ■ EMEA

<sup>1</sup> The Industrial Sentiment Survey was first published in June 2015

Word cloud visually demonstrates the investment community's focus areas, trends in frequency of word occurrence and underlying tone

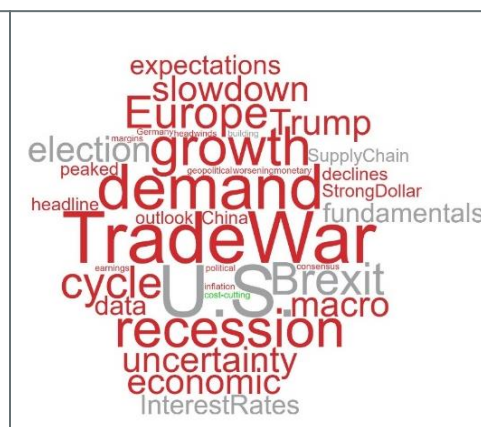
## Investor Feedback Indicates More Upbeat Sentiment

Q1'19

Q2'19

Q3'19

Q4'19



Top 2019 Mentions	Q1'19	Q2'19	Q3'19	Q4'19	Q/Q
Trade War	13	14	17	9	↓ 8
Growth	10	6	7	8	↑ 1
Brexit	3	6	6	3	↓ 3
Europe	5	7	6	3	↓ 3
U.S.	6	6	12	3	↓ 9
Demand	3	6	8	2	↓ 6
Recession	0	6	7	2	↓ 5

### Key: Underlying Sentiment

- Positive
- Neutral
- Negative

## #1 After Weak but Better-than-Expected Q3 Results, the Buy Side Expresses Greater Optimism Heading into 2020

- For the second consecutive survey, those classifying themselves as *Bullish* or *Neutral to Bullish* increased from 34% to 54%; perceived management tone is described as more optimistic
- While 48% predict sequential earnings deceleration following a number of Q4 guide-downs, 54% now expect results to come *In Line* with consensus, more than doubling QoQ; only 31% expect *Worse Than* results, down from 55%
- EPS, Revenue Growth and Operating Margins are all expected to *Stay the Same* and all see decreases in *Worse Than* views
- Prior to the Phase 1 tariff deal and Mnuchin's comment that Phase 2 may not remove all tariffs, 67% believed a favorable resolution to the U.S./China tariff dispute by the 2020 U.S. Presidential election was probable
- 73% cite reinvestment as the preferred use of free cash, up from 57% in Q3'19; given all-time market highs, buybacks are out-of-favor and preferred by only 15%, down from 36% last quarter
- 2020 guidance outlooks are divided, with one-third each expecting *Stronger*, *In Line* or *Weaker* guidance relative to 2019; however, 42% of surveyed buy side participants are expecting 2020 outlooks to be *Stronger Than* 2019, compared to only 14% of sell side analysts

## #2 With FCF Views Improving to the Most Favorable Levels Since Dec. 2017, Shifts in Capital Deployment Preferences Emerge

- 62% believe FCF will *Improve* QoQ, nearly tripling from 22% and registering near-record levels; only 15% expect *Worsening* cash flow, down from 37% last quarter
- In addition to 2020 outlooks, capital allocation is cited as the primary area of interest on upcoming earnings calls, while only 5% expect a U.S. recession in the next 12 months
- Nearly 80% expect global capex to *Stay the Same* or *Improve*, up from 44% last quarter
- Reinvestment remains the leading preference while appetite for M&A increases to 34% from 13% last quarter, with investors expressing greater comfort with leverage of up to 2.5x to 3.0x assuming a compelling deal

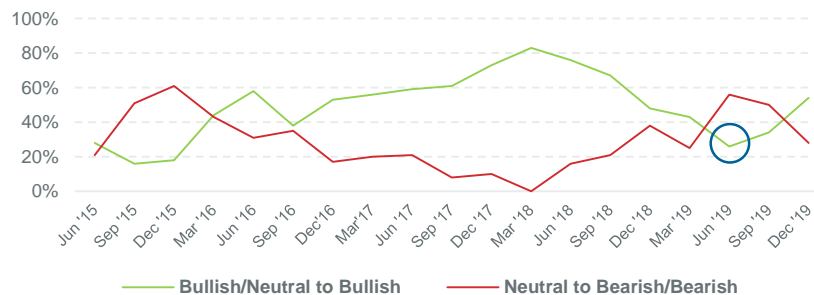
## #3 Industrials Getting Some Love as Executives Hack through Tough Times and Leave 2019 in the Past

- 50% report *Rotating* or *Net Buying*, focusing on companies with strong balance sheets; the most compelling investment themes include cost-cutting initiatives, aftermarket components and consolidation stories
- For the 9<sup>th</sup> consecutive quarter, Defense remains the top pick among industries; Agriculture sees the most bears, replacing Auto, which held this spot for 14 consecutive quarters (Phase 1 should take some pressure off)

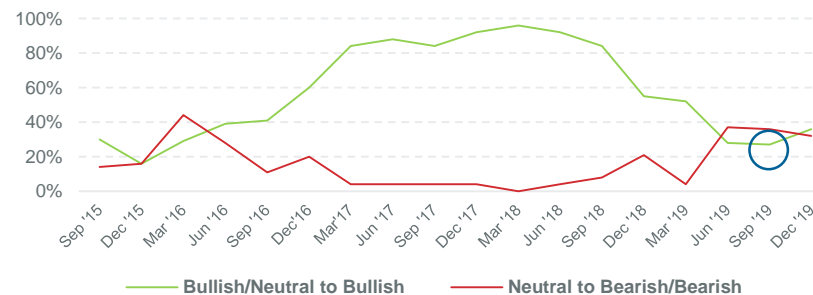
# Overall Investor Sentiment and Expectations Continue to Trend Higher

After decreasing steadily since March 2018, investor sentiment continued to rebound; Q3'19 earnings were in line or exceeded expectations, with positive stock price reactions even for those that reported poor earnings

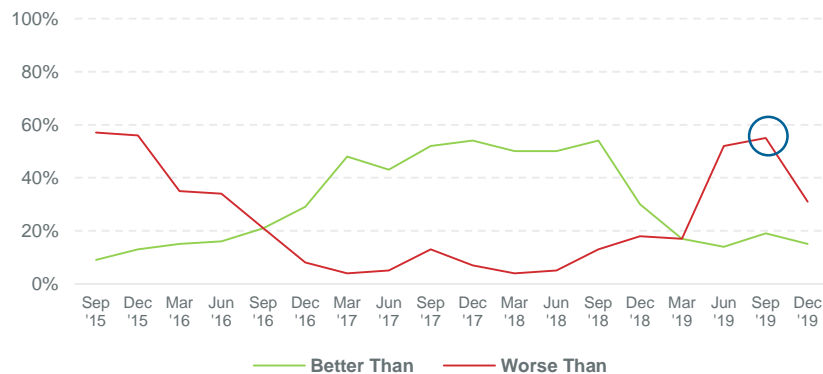
## Investor Sentiment



## Management Tone



## Earnings Expectations Vs. Consensus



## Positive Q3'19 Surprises

"Positive stock reactions to some poor earnings results." Buy Side, Generalist, N. America

"Share reactions." Buy Side, Industrials, N. America

"Earnings better-than-expected." Buy Side, Industrials, Europe

"Semiconductor and U.S." Buy Side, Industrials, Europe

"Stock price reactions." Sell Side, Industrials, N. America

## Negative Q3'19 Surprises

"Still muted outlook." Buy Side, Generalist, N. America

"Earnings revisions." Buy Side, Industrials, N. America

"Order intake growth turned negative." Buy Side, Industrials, Europe

"Drop through." Buy Side, Industrials, Europe

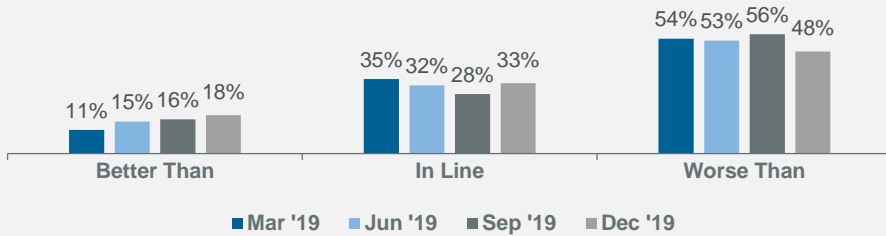
"Industrial softening." Sell Side, Industrials, N. America

**77%** Note Q3'19 earnings were *In Line* or *Better Than* expectations  
74% of S&P 500 industrials reported earnings above expectations (compared to 76% for the entire S&P 500) and 20% below (slightly above the entire S&P 500)

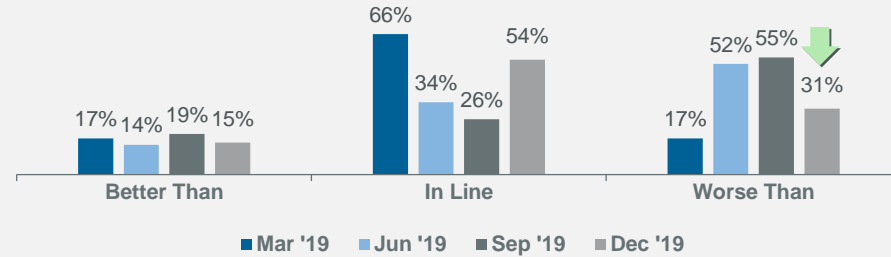
# Based on Company Guides, Weak Q4 Built In; Views on 2020 Outlooks are Divided

Dichotomy identified between the buy side and sell side; 42% of surveyed buy side participants are expecting 2020 outlooks to be *Better Than 2019*, compared to only 14% of sell side analysts

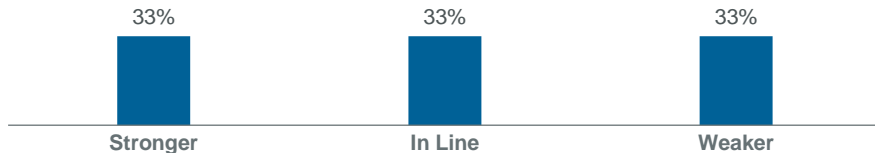
## Q4'19 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



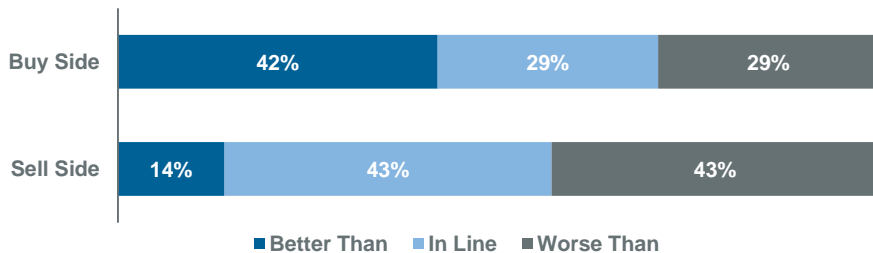
## Q4'19 EARNINGS EXPECTATIONS EARNINGS VS. CONSENSUS



## EXPECTATIONS FOR 2020 GUIDANCE OUTLOOKS RELATIVE TO 2019



## BY CONSTITUENCY



### Better Than

*"It is going to be up modestly."* Buy Side, Generalist, N. America

*"Global growth improving."* Buy Side, Generalist, N. America

*"Faster economic growth."* Buy Side, Generalist, N. America

### In Line

*"Restructuring offsetting weak utilization."* Buy Side, Industrials, N. America

*"Slow H1 hopefully accelerating H2."* Buy Side, Industrials, Europe

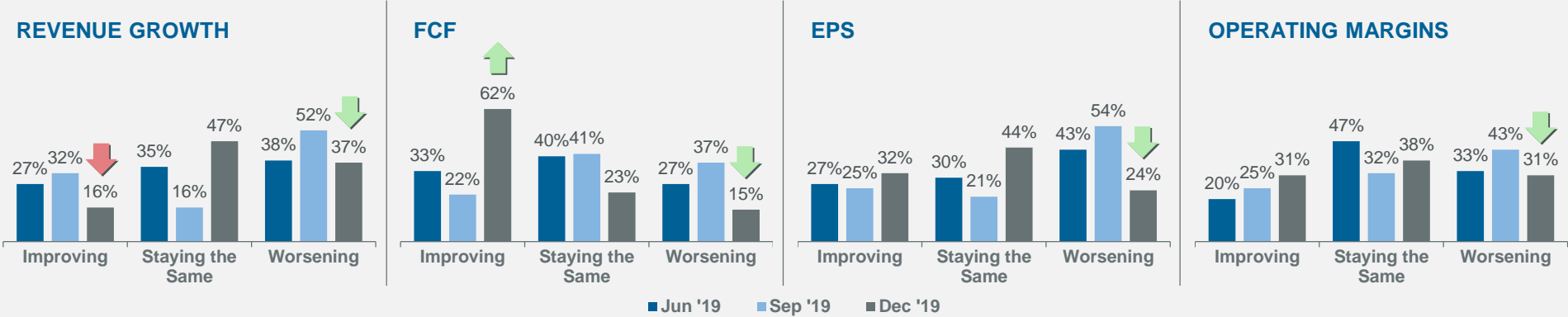
### Worse Than

*"Management body language."* Buy Side, Industrials, N. America

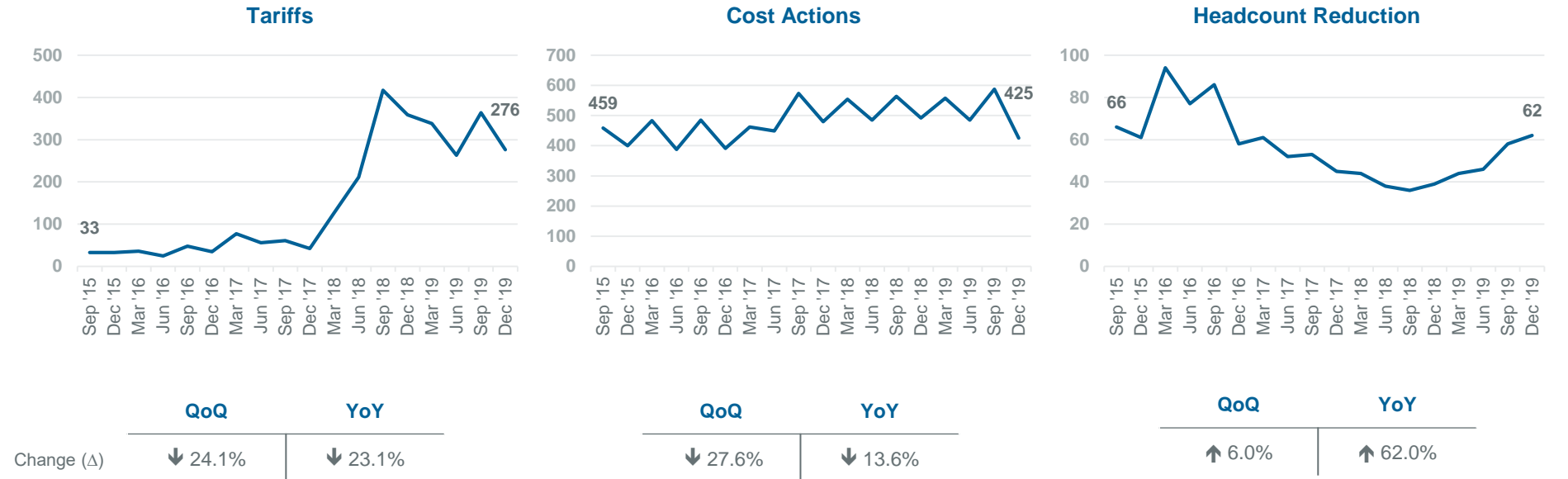
*"Weak fundamental end to the year will drive conservatism."* Sell Side, Industrials, N. America

# Expectations for Improvement in FCF Registers at the Highest Level in Two Years

Those expecting FCF to improve nearly triples QoQ, while Revenue Growth, EPS and Operating Margins are expected to *Stay the Same*; those expecting *Worse Than* results recedes for every KPI



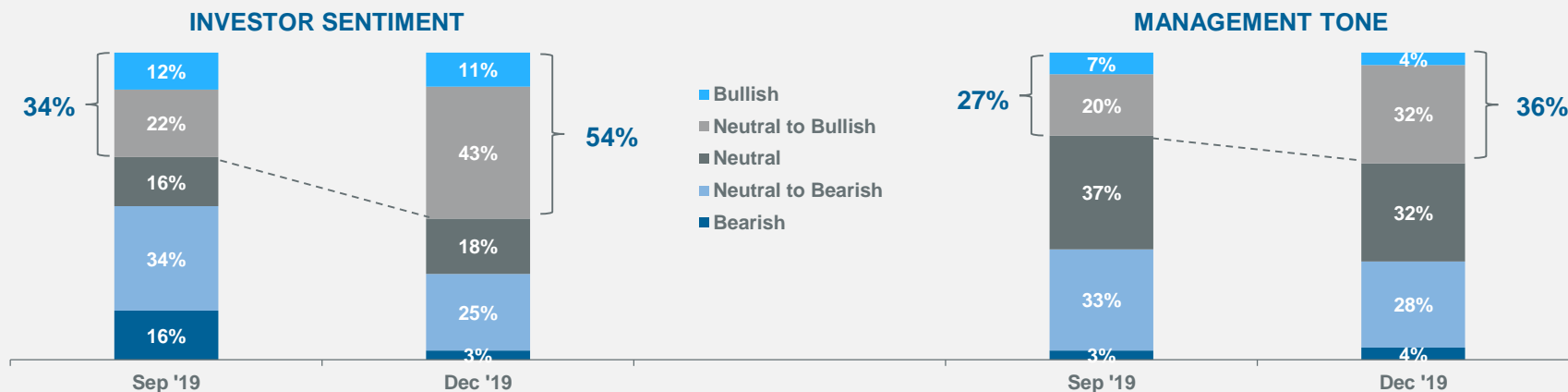
## Total Number of Mentions on Quarterly Earnings Calls by Industrial Companies Globally<sup>1</sup>



<sup>1</sup> Source: Corbin Advisors proprietary research

# With Q3 Performance Not as Bad as Expected, Investors Feeling More Upbeat

With a cautious executive tone expected, investors and analysts will press for candid commentary on 2020 outlooks



## TOPICS OF INTEREST FOR UPCOMING EARNINGS CALLS

<b>1</b>	2020 outlooks	<b>2</b>	Growth prospects	<b>3</b>	Capital allocation
<b>4</b>	Balance sheet strength	<b>5</b>	Contingency plans	<b>6</b>	Changes in costs

### Views from N. America

*"Executives are going to be cautious going into the year because the environment is not that great, even though the market is expecting it to get better. If they feel there is a disconnect between their business and the market, I want them to highlight that."* Buy Side, Generalist

*"Global outlook."* Buy Side, Generalist

*"Balance sheet structure, cash utilization, strategic outlook and expectations, competitive environment."* Buy Side, Generalist

*"Any visibility to improving trends and contingency plans should conditions stagnate/weaken."* Buy Side, Industrials

*"Any industrial company guiding 2020 organic growth above flat to 3+% growth is begging for shorts to look at them."* Buy Side, Industrials

*"Capex outlook among their customer base. A lot of them are producing capital goods, so I want to know what they are seeing from their customers in terms of order strength. Is anything getting pushed out? Are customers taking orders on time? Are they looking to do more or less?"* Buy Side, Industrials

*"Financing methods, balance sheet, growth prospects."* Buy Side, Industrials

*"Underlying costs, labor, HC, pension, raws, etc. Are those inflating while revenues fall?"* Buy Side, Industrials

### Views from Europe

*"Sector developments."* Buy Side, Generalist

*"2020 outlook."* Sell Side, Generalist

*"Actions in a lackluster growth environment, impact of trade deal."* Sell Side, Industrials

*"2020 guidance."* Sell Side, Industrials



## Top Concerns from Around the Globe

Trade war remains in focus and will continue to be watched closely throughout 2020; U.S. election and elevated expectations are other leading areas of concern

<b>65%</b>	<b>35%</b>	<b>24%</b>	<b>18%</b>	<b>18%</b>	<b>12%</b>
Trade war	U.S. election	“Too much” optimism	Interest rates	Valuations	Economic growth

### Views from N. America

*“Trade, election uncertainty, Hong Kong.”* **Buy Side, Generalist**

*“Economic growth, interest rates rising, regulation.”* **Buy Side, Generalist**

*“Labor availability, political risks, interest rate policy.”* **Buy Side, Generalist**

*“Expectations for a sizable/durable cyclical recovery, expectations for a meaningful China trade deal.”* **Buy Side, Industrials**

*“Aggressive 2020 guidance, Middle East conflict, trade war nonsense.”* **Buy Side, Industrials**

*“Excess money creation, money creation theft, lawless politicians.”* **Buy Side, Industrials**

*“Recession, Democratic President, valuations.”* **Buy Side, Industrials**

*“Sentiment (a lot of optimism of a recovery), valuations (markets aren’t cheap), geopolitics (Trump and his tariffs), Europe and Brexit.”* **Buy Side, Industrials**

*“Rates, capex, valuations.”* **Buy Side, Industrials**

*“Trade war, strong USD relative to other major currencies.”* **Buy Side, Industrials**

*“Complacency, too much bullishness, manufacturing.”* **Sell Side, Industrials**

*“Trade, reversal of globalization trends, populism.”* **Sell Side, Industrials**

*“Election, trade, recessionary talks causing less investment.”* **Sell Side, Industrials**

### Views from Europe

*“Trade war, demand.”* **Buy Side, Industrials**

*“China demand, China - U.S. trade disruption, 737 max aerospace disruption.”* **Sell Side, Generalist**

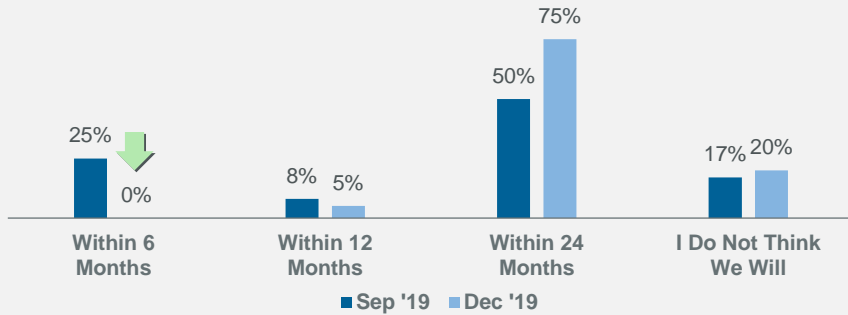
*“U.S. elections, trade deal, Iran.”* **Sell Side, Generalist**

*“Trump, recession, nationalism.”* **Sell Side, Industrials**

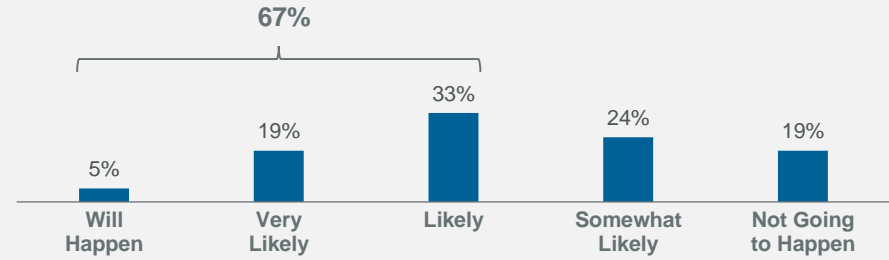
# Another Channel Check on the Health of the Economy: U.S. Recession Predictions Shift Out 24 Months

With Manufacturing ISM<sup>®</sup> continuing to worsen in December, slowing growth is expected but only 5% anticipate a U.S. recession in the next 12 months

## U.S. RECESSION PREDICTION



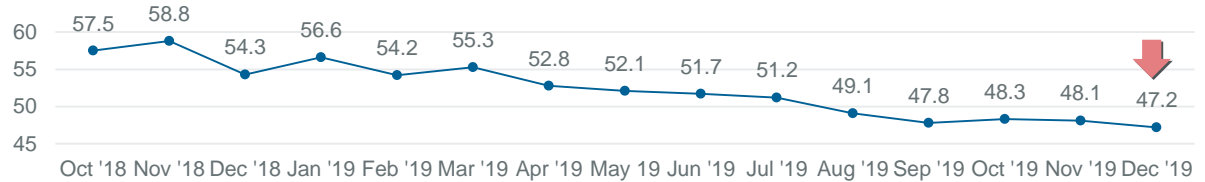
## LIKELIHOOD OF A FAVORABLE RESOLUTION TO THE U.S.-CHINA TARIFF DISPUTE BY 2020 U.S. ELECTION



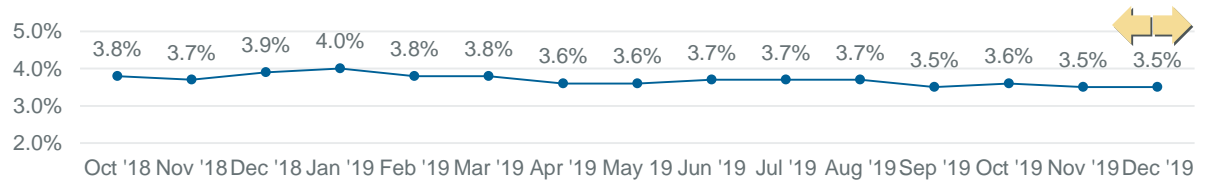
Proprietary Research: According to our survey, investors most focused on the following economic indicators

1	Manufacturing ISM <sup>®</sup>	76%
2	Unemployment	39%
3	Consumer Confidence	18%
4	Yield Curve	18%
5	Commodity prices	15%
6	CPI	9%
7	GDP	9%
8	CFI	6%
9	Housing market	6%
10	Stock market	6%

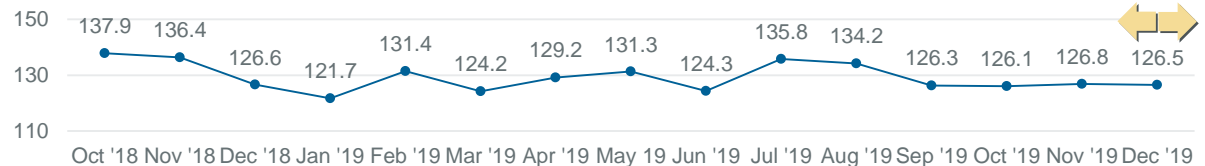
## Manufacturing ISM<sup>®</sup> Report on Business<sup>1</sup>



## U.S. Unemployment Rate<sup>2</sup>



## Consumer Confidence<sup>3</sup>



<sup>1</sup> Source: Institute for Supply Management

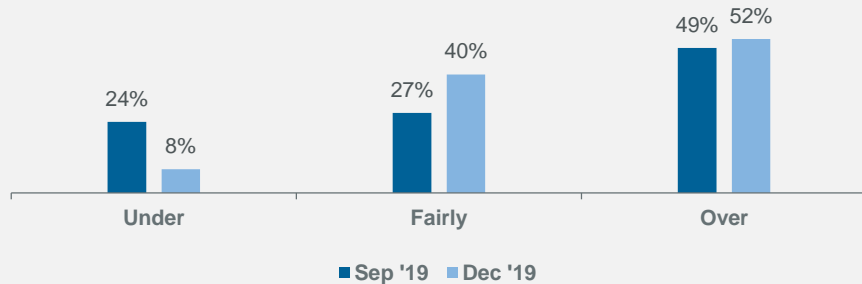
<sup>2</sup> Source: U.S. Bureau of Labor Statistics

<sup>3</sup> Source: The Conference Board

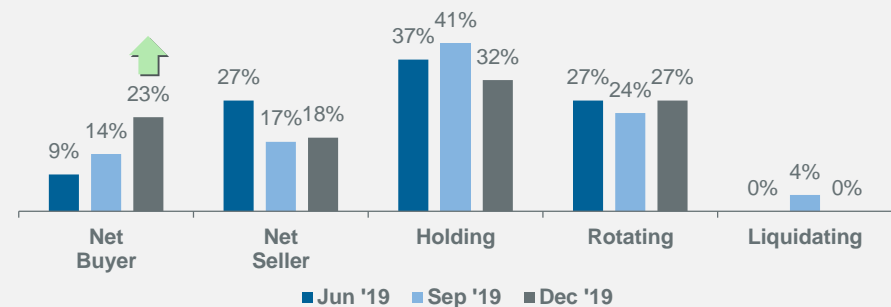
# Despite Lofty Valuations, Market Proves It Has Room to Run; Industrial Investors Join The Party

50% report *Rotating* or being *Net Buyers*, focusing on companies with strong balance sheets; the most compelling investment themes include cost-cutting initiatives, aftermarket components and consolidation stories

## GLOBAL INDUSTRIAL VALUATIONS



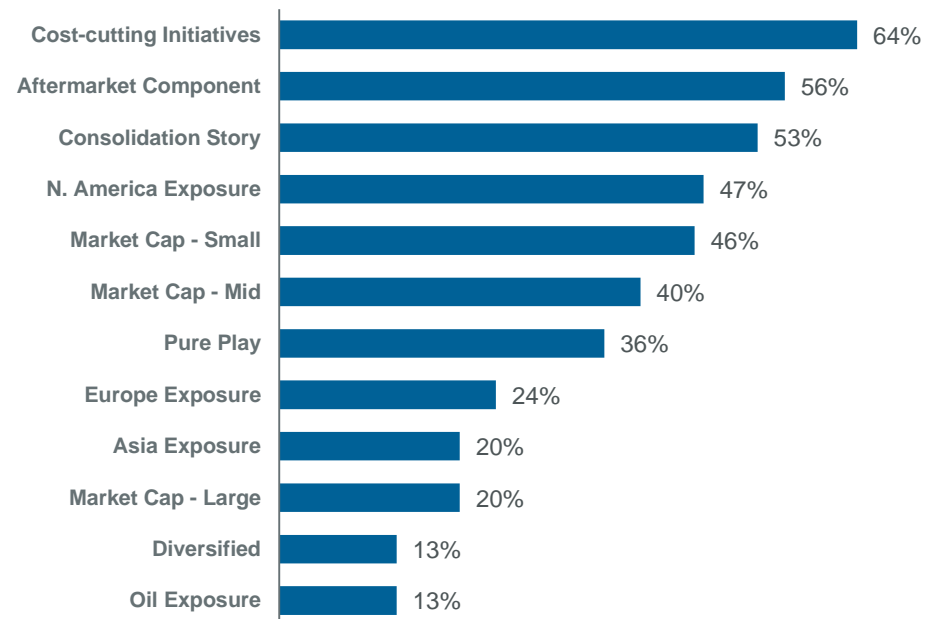
## QoQ INVESTMENT TRENDS



### Top Measures to Evaluate Downside Risk

1	Balance Sheet Strength	65%
2	Sensitivity Analyses	38%
3	Recurring Revenue	24%
4	Multiple Compression	24%
5	Margin Resiliency	21%

### MOST COMPELLING INVESTMENT THEMES WITHIN INDUSTRIALS

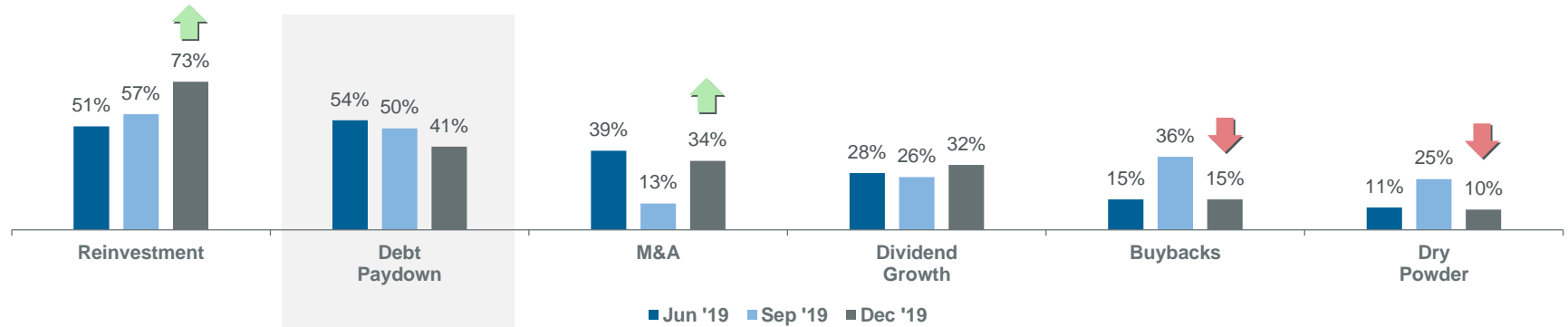


# With FCF on the Rise, Investors Continue to Favor Reinvestment and Grow More Supportive of M&A

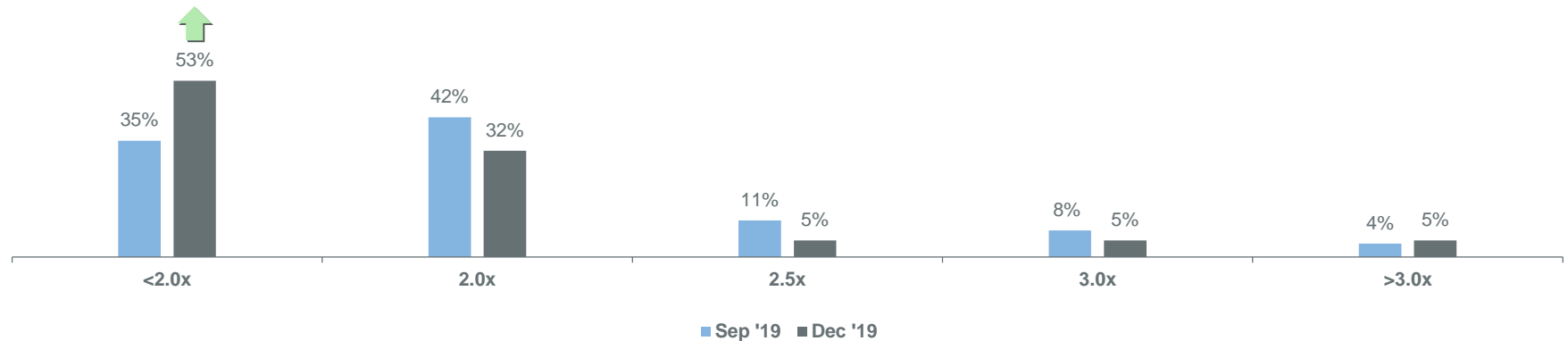
Amid an increase in optimism toward the economy, reinvestment is overwhelmingly favored while appetite for M&A increases, with investors comfortable leveraging up to 2.5x to 3.0x; given all-time market highs, support for buybacks erodes

## PREFERRED USES OF CASH FOR INDUSTRIALS

*In Descending Order of Top Two Preferences*



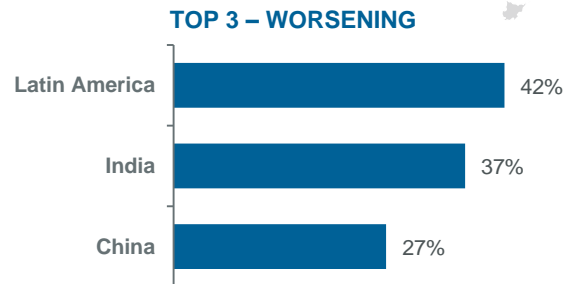
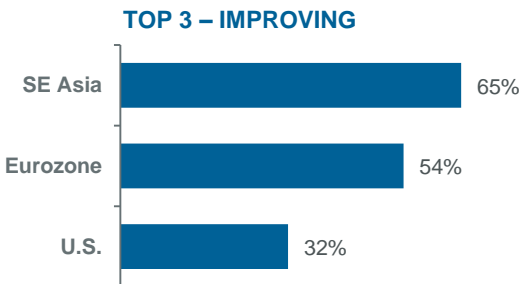
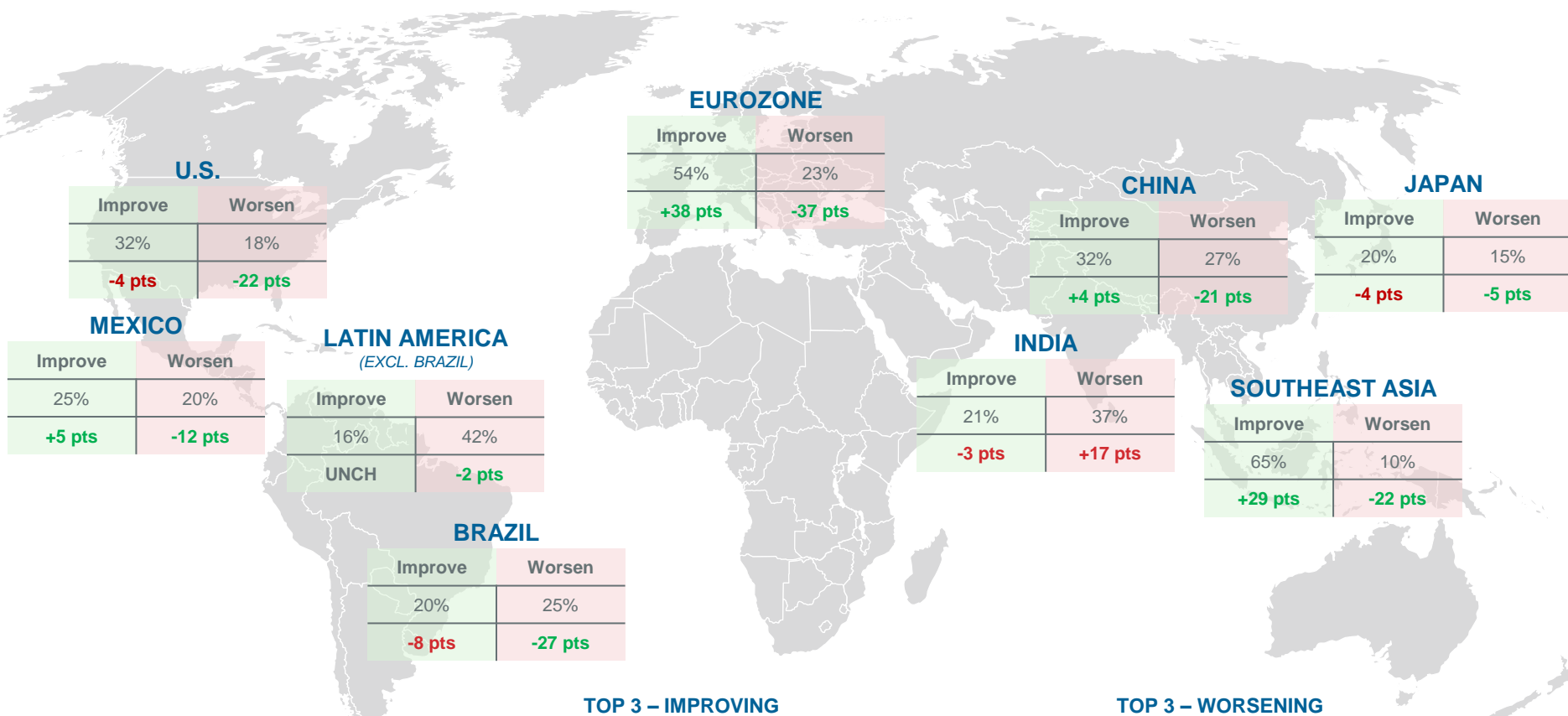
## PREFERRED NET DEBT-TO-EBITDA LEVELS FOR INDUSTRIALS



# Most Global Economies See Fewer Concerns Over the Next Six Months

Southeast Asia, Eurozone and U.S. concerns ease, with Southeast Asia seeing the most upbeat outlook across all regions; Latin America and India are expected to *Worsen*

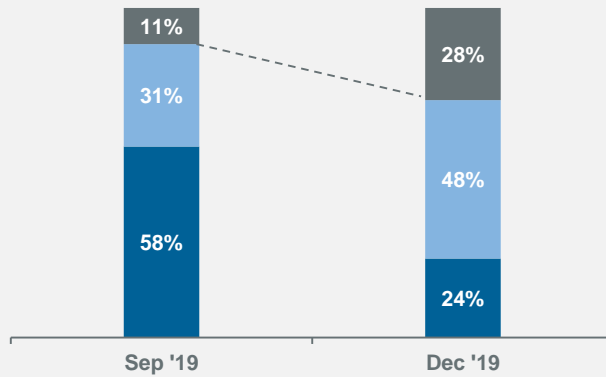
## GLOBAL ECONOMY EXPECTATIONS OVER THE NEXT SIX MONTHS



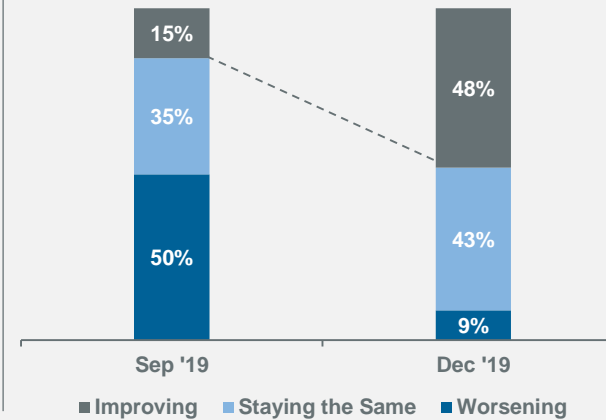
# More Positive Views on Key Business Factors and Selected End Markets Over the Next Six Months

Global PMI and Non-Resi. Construction see the most meaningful shifts in positive sentiment

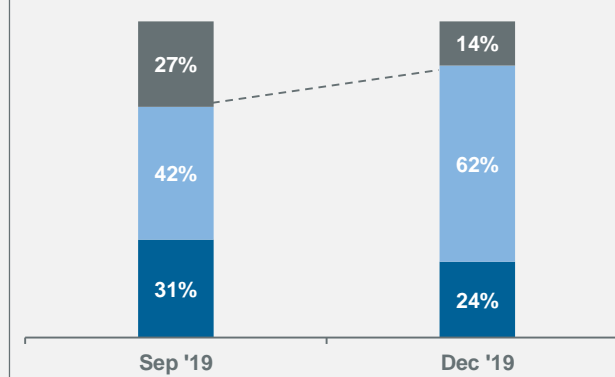
## GLOBAL CAPEX



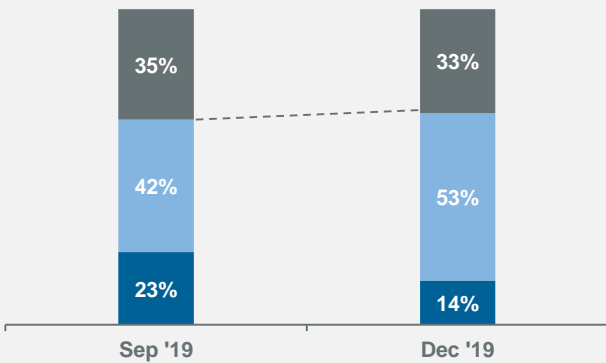
## GLOBAL PMI



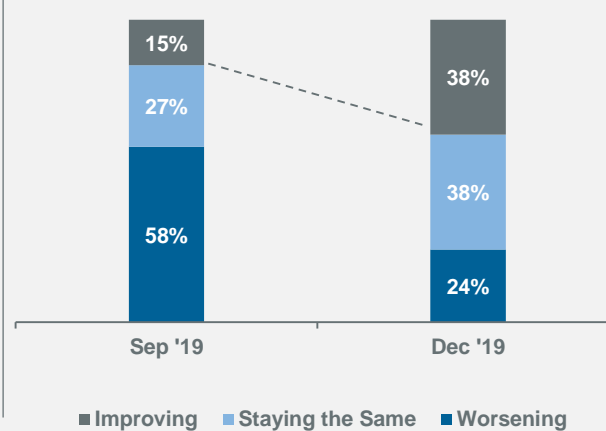
## COMPANY INPUT COSTS



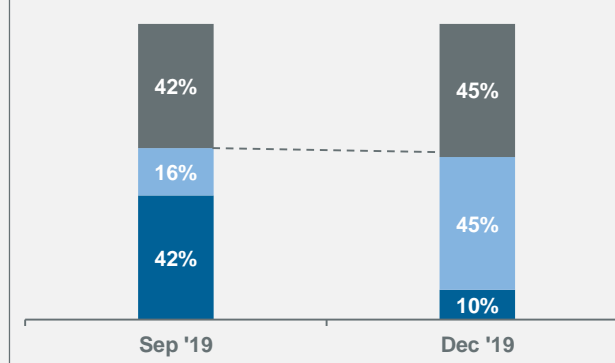
## OIL & GAS MARKETS



## NON-RESI. CONSTRUCTION



## RESI. CONSTRUCTION



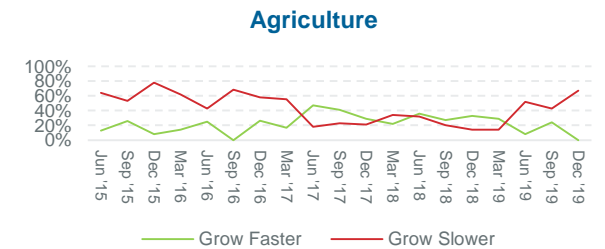
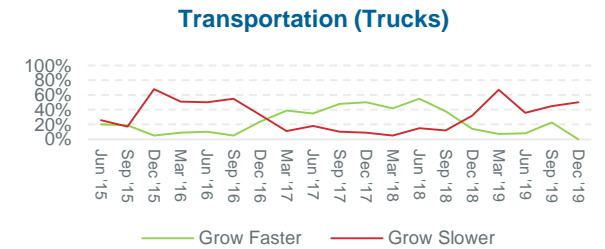
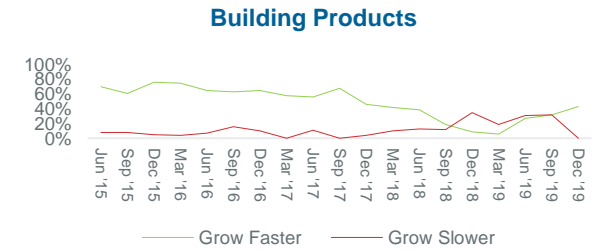
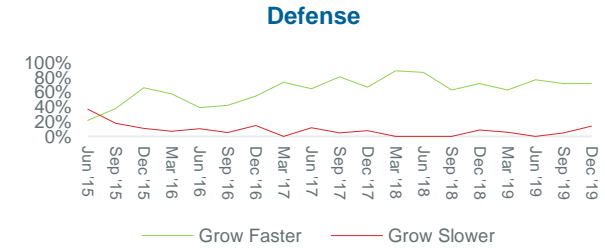
# Significant Rotation Identified with Notable Swings in Sentiment

For the 9<sup>th</sup> consecutive quarter, Defense remains the top pick among industries; ahead of Phase 1 Trade Deal, Agriculture replaced Auto as the laggard after 14 consecutive quarters of maintaining that spot

## BULLS VS BEARS

■ Bulls ■ Bears

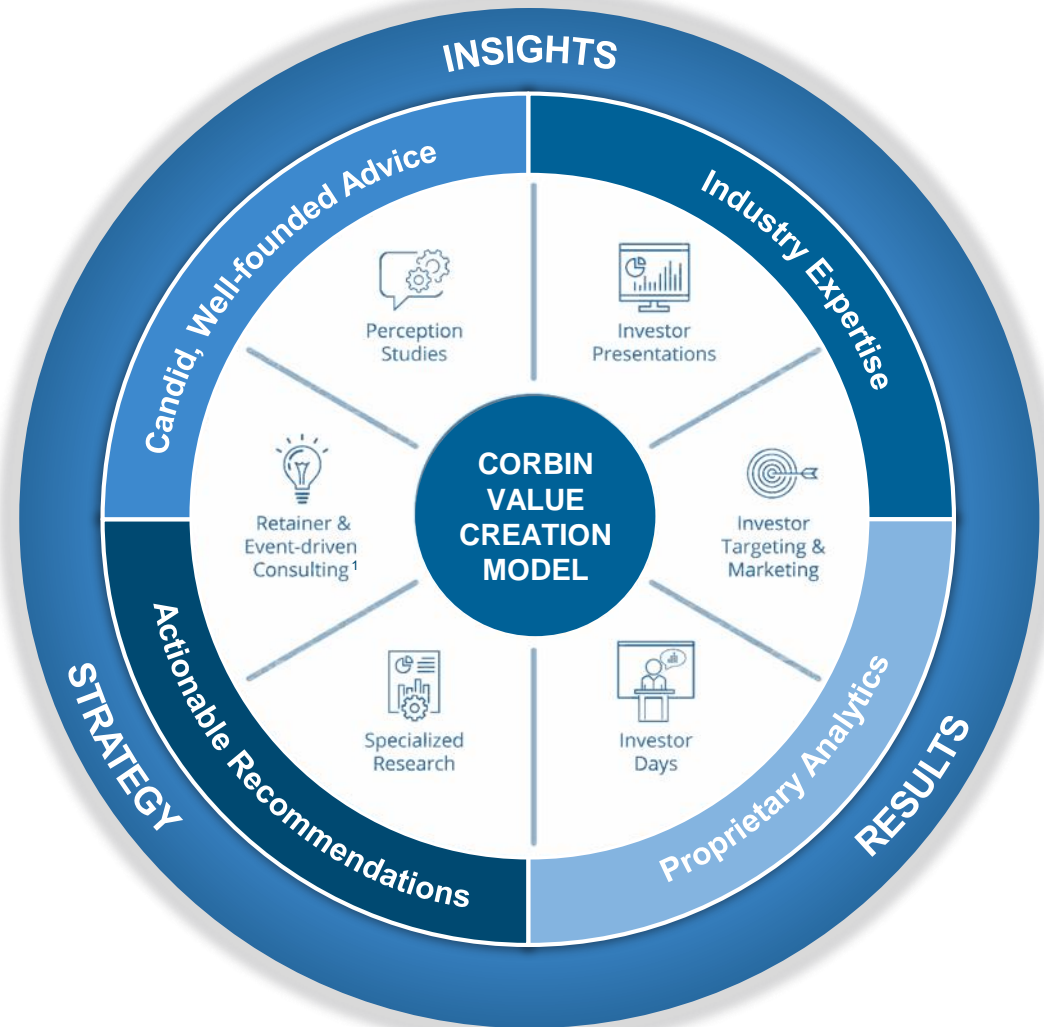
Defense	UNCH	72%	14%	+9 pts
Building Products		+11 pts 43%	0%	-32 pts
Resi Construction		+7 pts 43%	7%	-7 pts
Distribution		+25 pts 43%	14%	UNCH
Water		-22 pts 38%	0%	-5 pts
Non-Resi Construction		+15 pts 29%	14%	-31 pts
Commerical Aerospace		-21 pts 29%	42%	+15 pts
Chemicals		+3 pts 21%	21%	-11 pts
Materials		-6 pts 8%	23%	-13 pts
Indl. Equip. & Comp.		-7 pts 7%	36%	-14 pts
Machinery		-11 pts 7%	43%	-12 pts
Metals & Mining		-12 pts 7%	43%	-5 pts
Automotive		-2 pts 7%	64%	-13 pts
Transportation (Trucks)		-23 pts 0%	50%	+5 pts
Agriculture		-24 pts 0%	67%	+24 pts



Our proprietary approach combines stakeholder research, investor engagement and communication strategies to unlock embedded value.

Leveraging deep experience across sectors, market-caps and various company situations, we engage with public companies on both high-level strategy and tactical execution.

Our candid advice and actionable recommendations consistently result in value creation.



<sup>1</sup> Event-driven Consulting includes: Restructuring; Earnings; Large-Platform M&A; Transformations