

A photograph of a cave interior, illuminated with a strong blue light. The cave walls are textured and layered, creating a sense of depth. A person is visible at the end of a narrow passage, standing near a bright light source. The overall atmosphere is mysterious and dramatic.

corbin

Q4'20 Inside The Buy-side[®]

Industrial Sentiment Survey

January 21, 2021

Inside The Buy-side® Q4'20 Industrial Sentiment Survey

For 13+ years, 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.

In June 2015, we introduced the *Industrial Sentiment Survey*.

Leveraging our deep understanding of capital markets and the industrial sector, proprietary research, and best practice, our research demonstrates the value we add by remaining at the forefront of global market trends, investor sentiment and value realization strategies.

Survey Scope: 35 sector-dedicated investors and analysts globally; buy side firms manage ~\$2.1 trillion in assets, including ~\$148 billion invested in Industrials

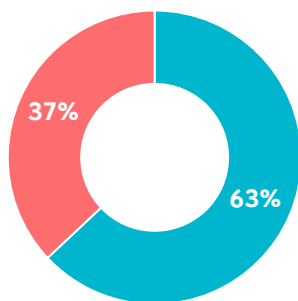
Survey Timeframe: December 16, 2020 – January 13, 2021

Issue: 23

Date: January 21, 2021

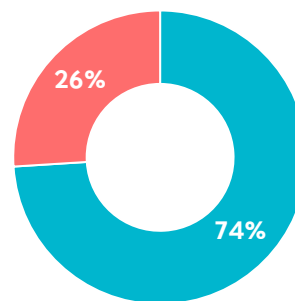
MARKET PERFORMANCE	Q4'20	2020
DJIA	10.0%	7.2%
NASDAQ	13.8%	43.6%
S&P 500	11.1%	16.3%
S&P 500 Industrial	9.0%	15.6%
Russell 2000	29.0%	18.4%

ROLE



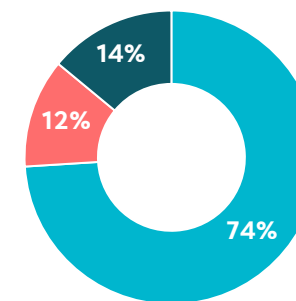
■ Buy Side ■ Sell Side

SECTOR FOCUS



■ Industrials ■ Multi-Industry Incl. Industrials

REGION



■ North America ■ EMEA ■ APAC

Word Cloud: Frequency of Occurrence

Visual representation of investment community focus areas, trends in frequency of word occurrence and underlying tone

A Sea of Green with Growth the Leading Investor Focus Area



Key: Underlying Sentiment

- Positive
- Neutral
- Negative

TOP MENTIONS	Q1'20	Q2'20	Q3'20	Q4'20	Q/Q
Growth	3	4	6	18	↑ 12
COVID-19	37	16	11	15	↑ 4
Recovery	3	10	13	11	↓ 2
Cost	3	5	6	10	↑ 4
Guidance	4	5	5	9	↑ 4

Survey Finds Near-Record Bullish Industrial Investor Sentiment

High Expectations for Continued Improvement and Earnings Beats in Q4

- 58% of surveyed investors and analysts affirm last quarter's earnings were *Better Than* expectations; 85% believe earnings will *Improve* QoQ
- Nearly two-thirds anticipate Q4 earnings beats, the highest percentage ever recorded
- 91% expect FCF to improve QoQ, while 87% believe the same for EPS and 83% for Operating Margins, up from ~65% last quarter
- 80% describe themselves as *Neutral to Bullish* or *Bullish*, up from 57% last quarter, while only 7% are *Neutral to Bearish* or *Bearish*; nearly 90% also describe management tone as optimistic

Investors Shift Their Focus to Growth

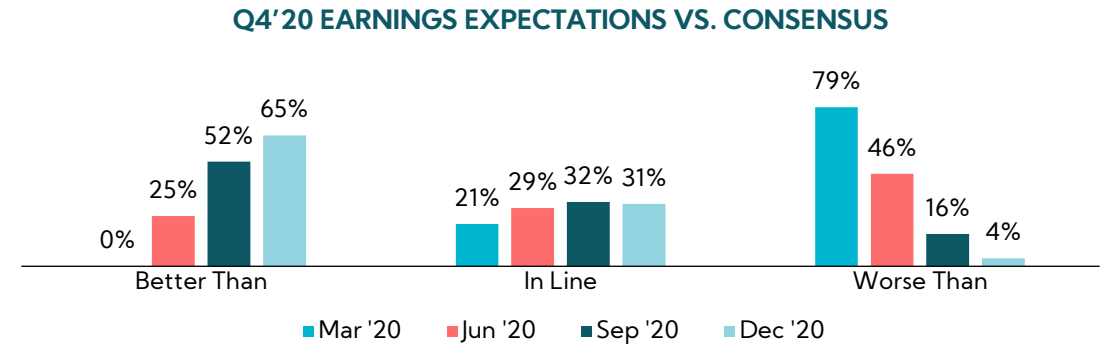
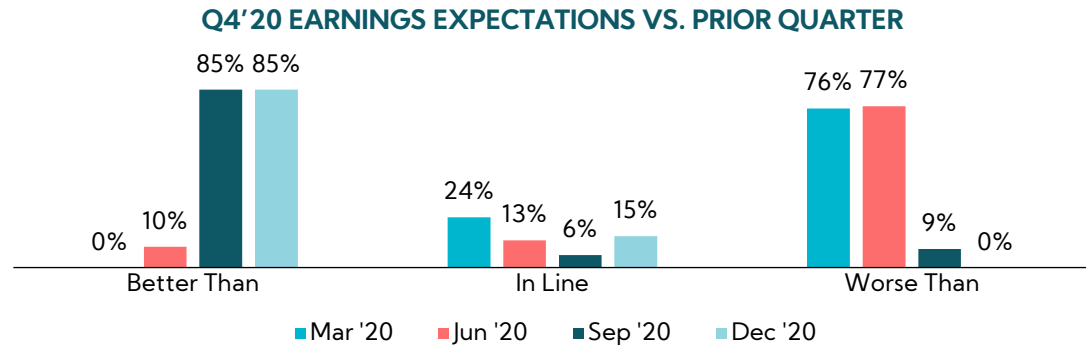
- 95% expect revenue growth to *Improve* sequentially, also the highest percentage ever recorded
- Expectations are for 2021 U.S. industrial organic growth of 5.0%, on average, compared to 4.0% globally
- 78% cite reinvestment as the leading preferred use of cash, registering at the highest level in over two years
- Capital allocation, including M&A, as well as growth expectations are cited as the top areas to address on upcoming earnings calls
- More than 80% are in favor of bolt-on acquisitions; fewer than 20% would react negatively to a transformational deal, down from 28% QoQ, though only 25% are in favor, down from 31%
- Furthermore, 54% are open to companies leveraging up to 4x for compelling transactions, up from 39% QoQ
- Regarding 2021 outlooks, nearly 70% remain keenly focused on the pace of recovery and organic growth
- Growth investments and digitalization are viewed as the most compelling investment themes heading into 2021, according to ~70% of investors

With Industrials Now Considered Fairly Valued, Rotation Starts to Set In

- 57% consider industrials *Fairly Valued*, up from 28% last quarter, while those in the *Overvalued* camp increases to 38% from 20% QoQ
- 30% report *Rotating* within industrials, more than 3x last quarter; another 35% report *Net Buying*
- 75% favor North American exposure, compared to just 47% for Asia and 7% for Europe
- 50% favoring small caps at this time, up from 37% last quarter
- Nearly all sub-sectors see improving sentiment, with Machinery, Agriculture and Metals & Mining seeing the largest increase in bulls
- Auto is experiencing the highest number of bulls for the first time in our survey's history

Near-Universal Expectations for Sequential Earnings Growth with Record Number Expecting Beats

Continued pick-up in manufacturing activity leads to 85% expecting sequential earnings improvement for the second consecutive quarter, with two-thirds expecting beats, surpassing the previous high in September 2018



Better Than

"Current state of economic activity." Buy Side, Generalist, N. America

"Pandemic uncertainty still does not motivate management to give granular guidance, so consensus views will not be tight." Buy Side, Generalist, N. America

"Continued acceleration in industrial output and production." Sell Side, Industrials, N. America

"Seems that manufacturing activity, excluding domestic energy-related projects, picked up." Sell Side, Industrials, N. America

"Macro recovery and tight supply chain." Sell Side, Industrials, N. America

"Pent-up demand has been stronger and cost saving measures have been more effective than expected." Sell Side, Industrials, Europe

"The flexibility of the industrial world far exceeds the flexibility of the investing world." Sell Side, Industrials, N. America

"Rush orders better-than-expected." Sell Side, Industrials, Asia

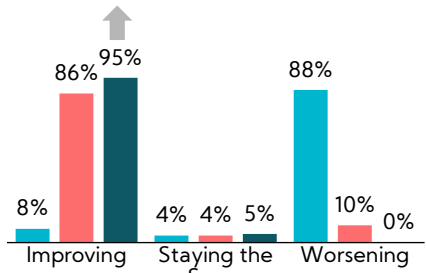
In Line

"Large cost-cutting measures." Buy Side, Industrials, N. America

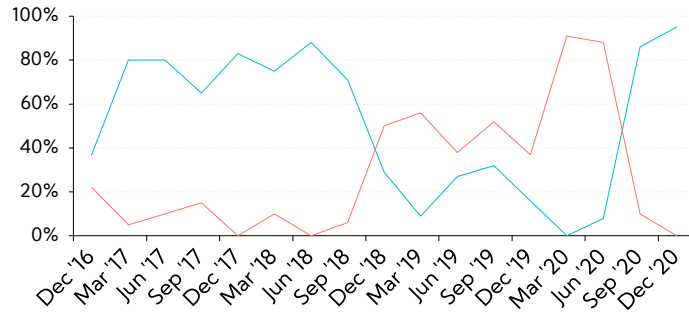
"Continued catch up." Sell Side, Industrials, Europe

Investor Confidence in KPI Acceleration Reaches an All-time High

REVENUE GROWTH

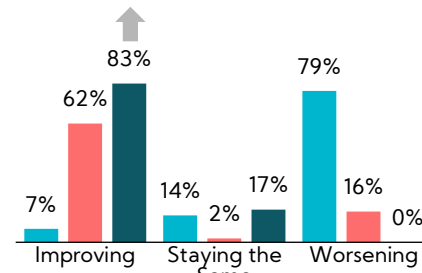


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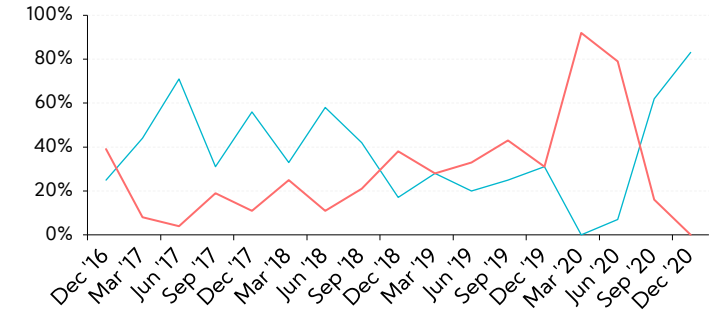


— Improving — Staying the Same — Worsening

OPERATING MARGINS

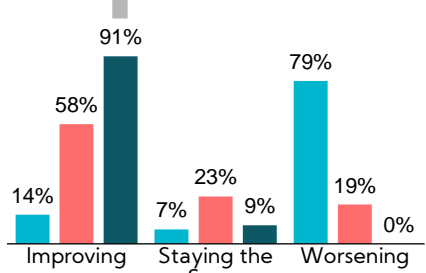


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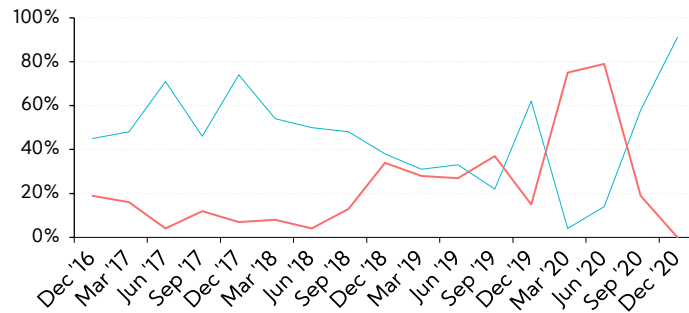


— Improving — Staying the Same — Worsening

FCF

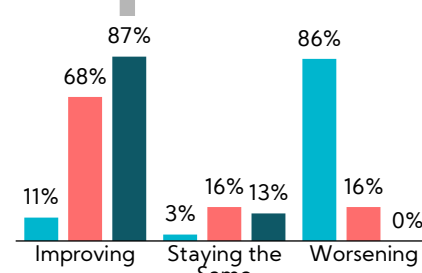


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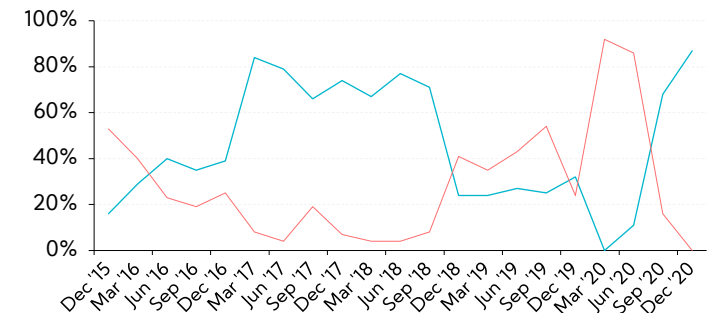


— Improving — Staying the Same — Worsening

EPS



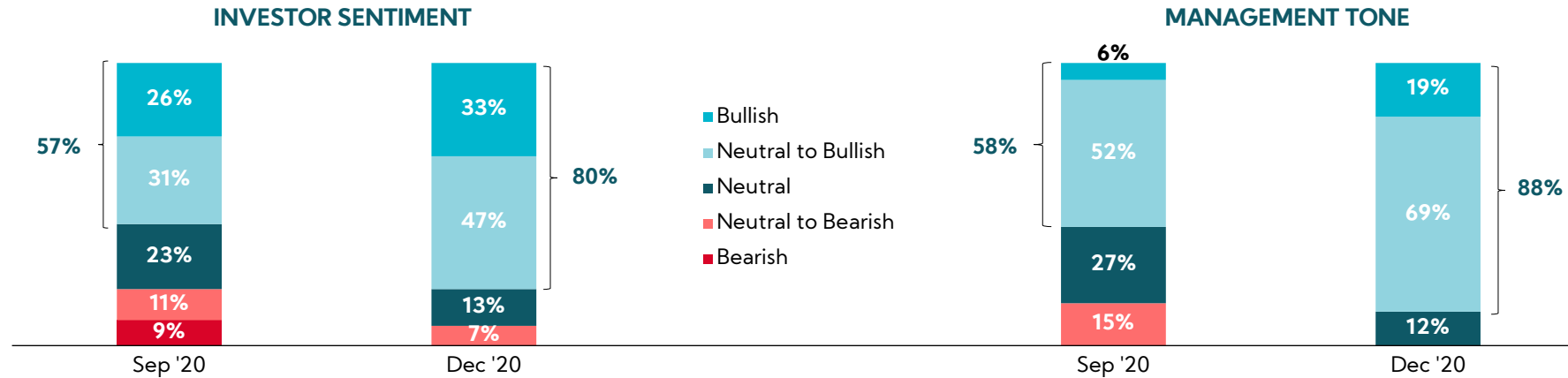
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— Improving — Staying the Same — Worsening

Near-record Investor Sentiment and Perceived Management Tone Registered with No Outright Bears

Investor sentiment continues to climb with low comps and demand recovery setting up a strong 2021



Bullish

"A lot of executives are learning from this pandemic there are opportunities to drive efficiencies in their business. If the business had a strong culture, it brought people closer together in ways perhaps they never thought. Everyone, including me, is probably just excited to get back to some level of normality, whatever form that takes in the future. It seems a vaccine is highly likely and probably means an uptick in activity and some uncertainty removed and most people are cautiously optimistic." **Buy Side, Industrials, N. America**

"We had a tough year; next year should be easy to show growth. Even if we did not have COVID-19, it would be a solid 2021 for a lot of the companies." **Sell Side, Industrials, N. America**

"A positive short-term cycle." **Sell Side, Industrials, Europe**

Neutral to Bullish

"Positive on inventory re-stock and recovery against easy COVID-19-induced comps, juxtaposed against relatively high valuations and near-term weakness related to rising case counts." **Buy Side, Industrials, N. America**

"Still some variability around the pandemic. A democratic-controlled senate may have a dimmer view of defense spending if needed to fund social programs." **Buy Side, Industrials, N. America**

"Easy comps, low commodity inflation, need to automate." **Sell Side, Industrials, N. America**

"History of global demand drivers." **Sell Side, Industrials, N. America**

"Guidance and forecasts remain far too low." **Sell Side, Industrials, N. America**

"Demand recovery in industrial sector." **Sell Side, Industrials, Asia**

Neutral to Bearish

"Valuations." **Buy Side, Industrials, N. America**

"I'm neutral to bearish because everything is rebounding off the bottom, so all the sequential stuff looks really good but relative to expectations names are going to disappoint. They are going to miss estimates and that will start to matter now that valuations are pretty full." **Buy Side, Industrials, N. America**

"Macro concerns." **Buy Side, Industrials, N. America**



1. Capital allocation priorities, including M&A
2. Growth opportunities, trends and order rates
3. Cost structure, margin profile
4. Technological disruption
5. Inflation
6. Lessons learned from pandemic

Topics of Interest for Upcoming Earnings Calls

Capital deployment priorities and growth opportunities overwhelming the top focus areas

Views from N. America

*"Impact of COVID-19 on '20 and impact to comparisons on '21 growth, current order rates and backlog, impact of inflation." **Buy Side, Industrials***

*"Capital allocation priorities, M&A environment, organic growth." **Buy Side, Generalist, N. America***

*"Opportunities for growth and cost cutting, cash generation and redeployment, M&A." **Buy Side, Generalist***

*"Trends, stability, consistency." **Buy Side, Generalist, N. America***

*"Recap, what did you say you were going to do and what did you deliver on or missed." **Buy Side, Industrials***

*"Reinvestment areas, cost reduction, M&A." **Buy Side, Industrials***

*"Tactically navigating the inflation area pressures out there, the price / cost dynamic but then more importantly strategically, what if anything did you learn about your business because of COVID-19 and what happened that you did not know and what are you changing and what new opportunities have been created? How do we come out of this better?" **Sell Side, Generalist***

*"End market capex, global growth markets – India and China, automation." **Sell Side, Industrials***

*"Expanding inorganic growth initiatives to participate in new industrial growth vectors, ways to lift long-term organic sales growth, commitment to reduce reliance on share repurchase." **Sell Side, Industrials***

*"Decline, decline, decline." **Sell Side, Industrials***

Views from EMEA and APAC

*"Organic growth, acquisitions, electrification / digitalization." **Sell Side, Industrials***

*"Cost structure evolution, margins outlook, capital management." **Sell Side, Industrials***

*"Underlying growth and order book, further restructuring requirements, any consolidation." **Sell Side, Industrials***

*"Sales pipeline conversion, technology disruption, costs / benefits of workplace change." **Buy Side, Generalist***

Preferred Qualitative Color for 2021 Outlooks

Investors looking for commentary on the pace of recovery, margins and FCF generation

66%	Pace of recovery and organic growth	52%	Margin structure	41%	FCF generation, working capital
20%	End market trends	15%	Restructuring, reorganization activity	12%	Backlog

"How are they driving efficiencies in their organization, if they have not done that already? How are they thinking about investing in their business in the future from a technology standpoint? How are they shifting their business into technology?" **Buy Side, Industrials, N. America**

"Orders, backlog." **Buy Side, Industrials, N. America**

"Growth tailwinds / headwinds, returning costs, sustainability of demand." **Buy Side, Industrials, N. America**

"Cost position, range of organic sales growth, free cash flow." **Buy Side, Industrials, N. America**

"Pace of organic growth, changes in margin structure (reduced, retained COVID-19 costs), late cycle vs. short cycle activity." **Buy Side, Generalist, N. America**

"First is pace of recovery and it is helpful to understand how that works by business. Two, maybe a little bit more discussion in terms of inventory levels in the channel to the extent it is relevant for some of these shorter-cycle businesses, Three, management opinions on some of the major end markets. Going beyond relying on industry forecasts, how is management team thinking about the different scenarios and what end markets are up and down and by how much? Four is there has been a lot of conversation about incremental margins and companies have taken costs out during the pandemic but some are coming back and now we have some price cost headwinds, so helping us understand the moving pieces on the margin line to the extent possible." **Buy Side, Industrials, N. America**

"End market outlook, tax rate – for both EPS and offshore cash, reorg activity." **Sell Side, Industrials, N. America**

"Anything on the markets they are specifically playing in, the more detail the better; have they changed? Is there more competition or less competition because of COVID-19?" **Sell Side, Industrials, N. America**

"That they have finished cleaning out their attics (no more restructuring and divesting weak businesses), understand significantly enhancing organic sales growth is key to outperforming the overall markets and are reinvesting in accelerating new product development to participate in new industrial growth vectors like green sustainable power or commercial space." **Sell Side, Industrials, N. America**

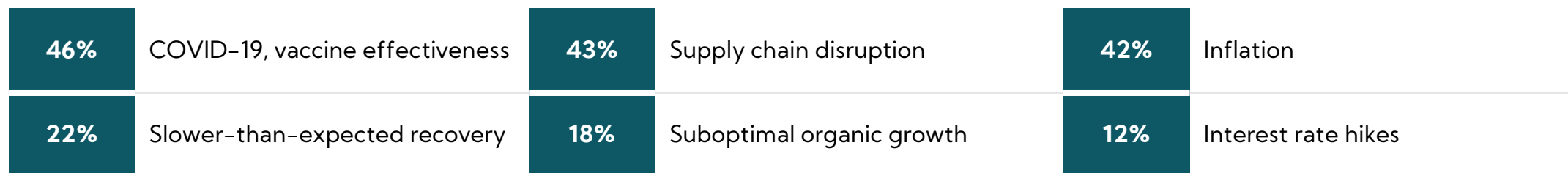
"Sales pipeline strength and conversion, changes to cost base due to new working environment." **Buy Side, Generalist, Europe**

"Level of real demand recovery supporting order book, ongoing cost-cutting measures seen during the 2H20 continuing into 2022, the rapid increase in material costs due to raw materials. Could this reduce the impact of previous cost-cutting measures, e.g., auto sector with steel?" **Sell Side, Industrials, Europe**

"Somewhat above end demand in Q4 2020." **Sell Side, Industrials, Australia**

"Order recovery." **Sell Side, Industrials, Asia**

Top Concerns from around the Globe



Views from N. America

"Pace of the recovery in 2021, valuations, U.S. dollar." **Buy Side, Industrials**

"U.S. politics, COVID-19, inflation." **Buy Side, Industrials**

"Elevated expectations, durability of growth, raw material inflation." **Buy Side, Industrials**

"Virus disruptions, logistics / supply chain, oversupply / inventory." **Buy Side, Generalist**

"Another wave of COVID-19, a weaker U.S. dollar or the devaluing of it and what that means, especially for multinational industrials, what the long-term implications are for COVID-19 and what it ultimately ends up shaping for those unfortunate circumstances for some of those countries and how that may or may not impact some of these industrial businesses." **Buy Side, Industrials**

"Shallow economic recovery, re-inflation, raw material cost increases." **Buy Side, Industrials**

"Lack of manpower, pricing power, corporate taxes." **Sell Side, Industrials**

"Valuation, sustainability of recovery, supply chains." **Sell Side, Industrials**

"Strength of spending from local and state governments. In terms of the cost structure, people got comfortable with this year because a lot of these are giving it back already in Q4. Are they going to be able to walk out to the other side of COVID-19 with perhaps improvement on that side that people seem to be baking into some of the forward numbers?" **Sell Side, Industrials**

"Need to see sharply higher organic sales growth for industrial shares to move higher. Operational restructuring, portfolio exits of weaker businesses should all be completed and will not drive industrial stock prices higher. Share repurchase funds should be invested in higher R&D to enable participation in new industrial growth vectors accelerated or created by pandemic." **Sell Side, Industrials**

Views from EMEA and APAC

"U.S. tax increases, COVID-19, government actions."
Buy Side, Generalist

"Risks of a long COVID-19 extending to a third wave, level of underlying demand recovery after the pent-up demand push, what is going to happen to furloughs and how much will be made permanent?" **Sell Side, Industrials**

"Recovery from COVID-19, interest rates hikes."
Sell Side, Industrials

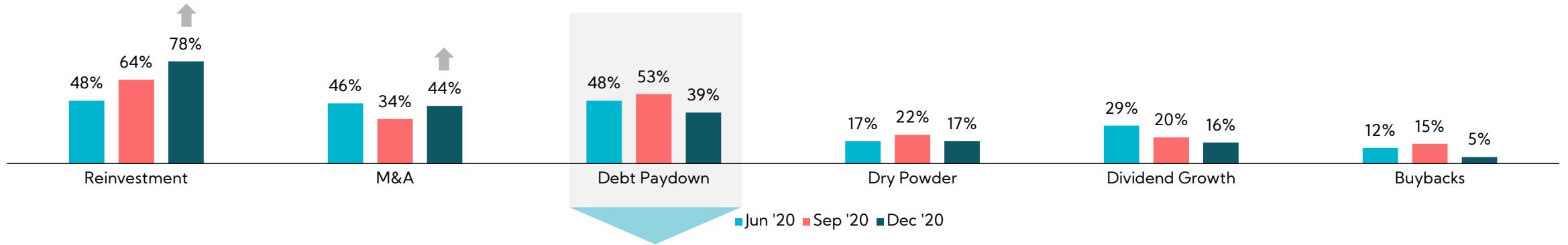
"Another shutdown." **Sell Side, Industrials**

All Eyes on Growth Heading into 2021

Investor preference for organic growth reaches the highest level in over two years; M&A back in focus and while preferred debt levels remain conservative, fewer prefer debt reduction

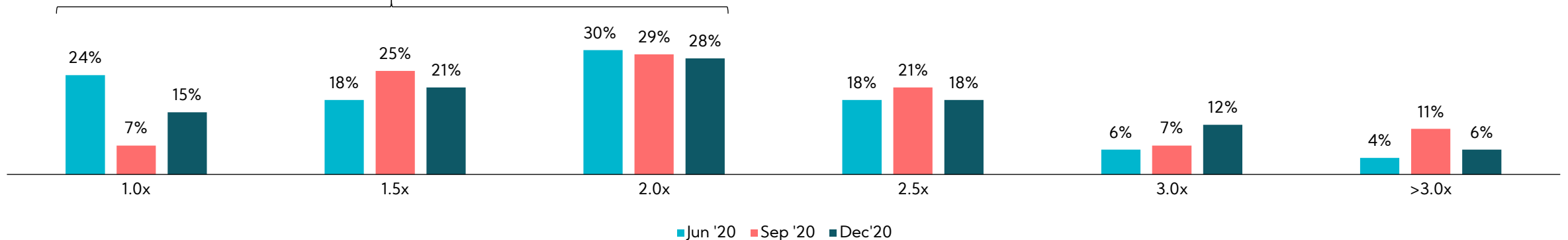
PREFERRED USES OF CASH FOR INDUSTRIALS

In Descending Order of Top Two Preferences



IDEAL NET DEBT-TO-EBITDA LEVELS FOR INDUSTRIALS

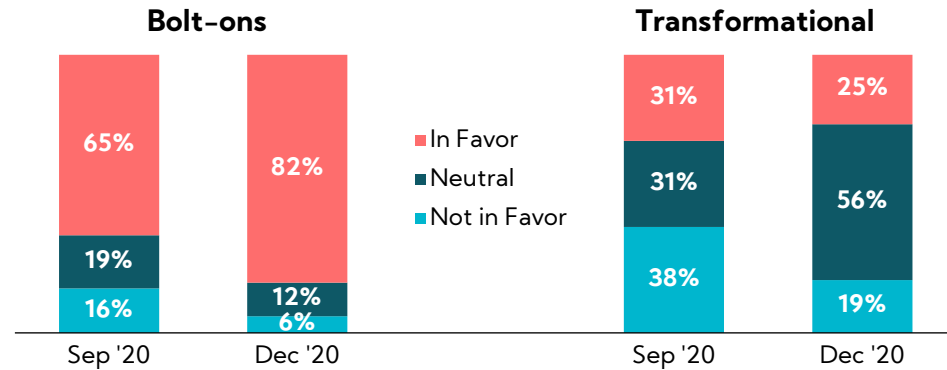
64% prefer ≤2.0x



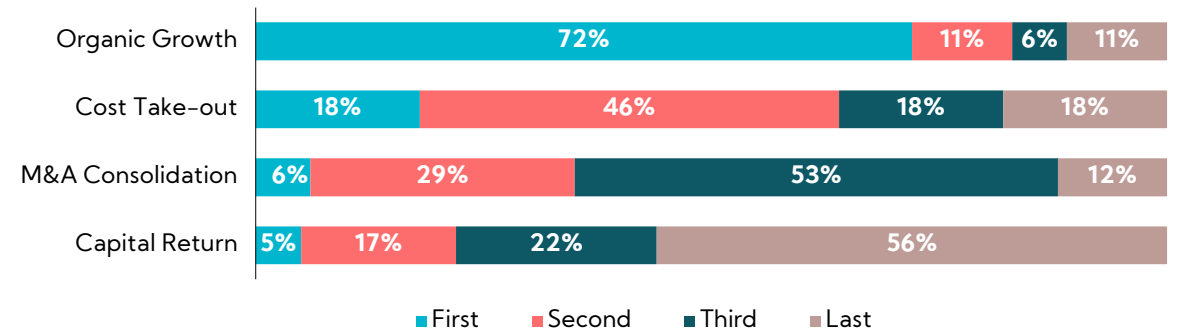
Expectations for 5% U.S. Industrial Organic Growth in 2021, on Average

Global industrial organic growth expectations are slightly more modest at 4.0%, while investors increasingly open to leveraging up beyond 4.0x for a compelling transaction

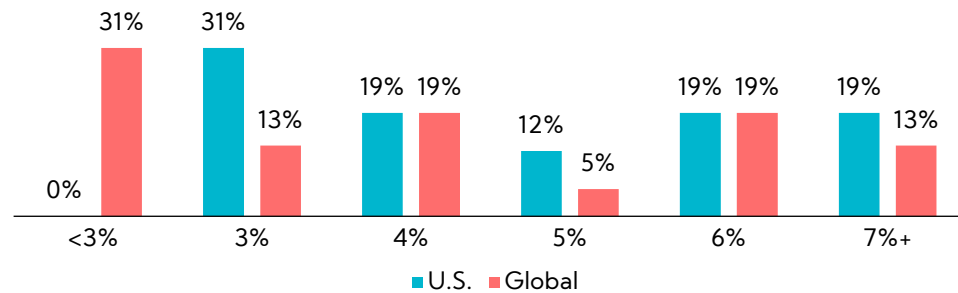
VIEWS ON INORGANIC GROWTH INITIATIVES



MOST COMPELLING THEMES WHEN EVALUATING POTENTIAL INVESTMENTS

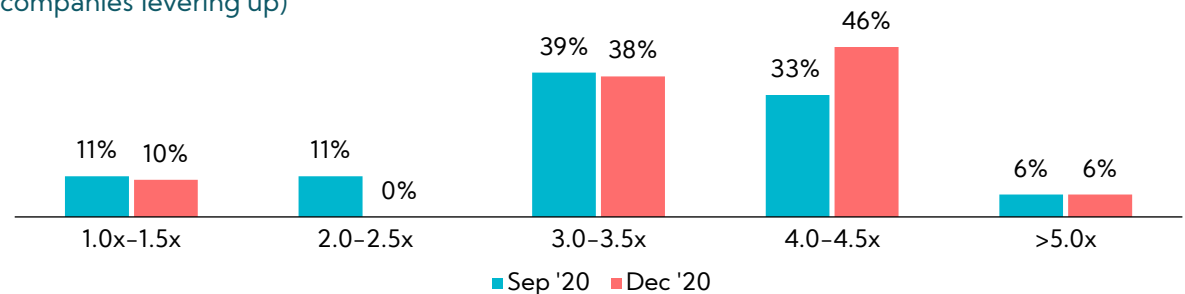


FULL YEAR 2021 U.S. AND GLOBAL INDUSTRIAL ORGANIC GROWTH EXPECTATION



COMFORT LEVEL WITH LEVERAGE FOR COMPANIES FUNDING M&A WITH DEBT

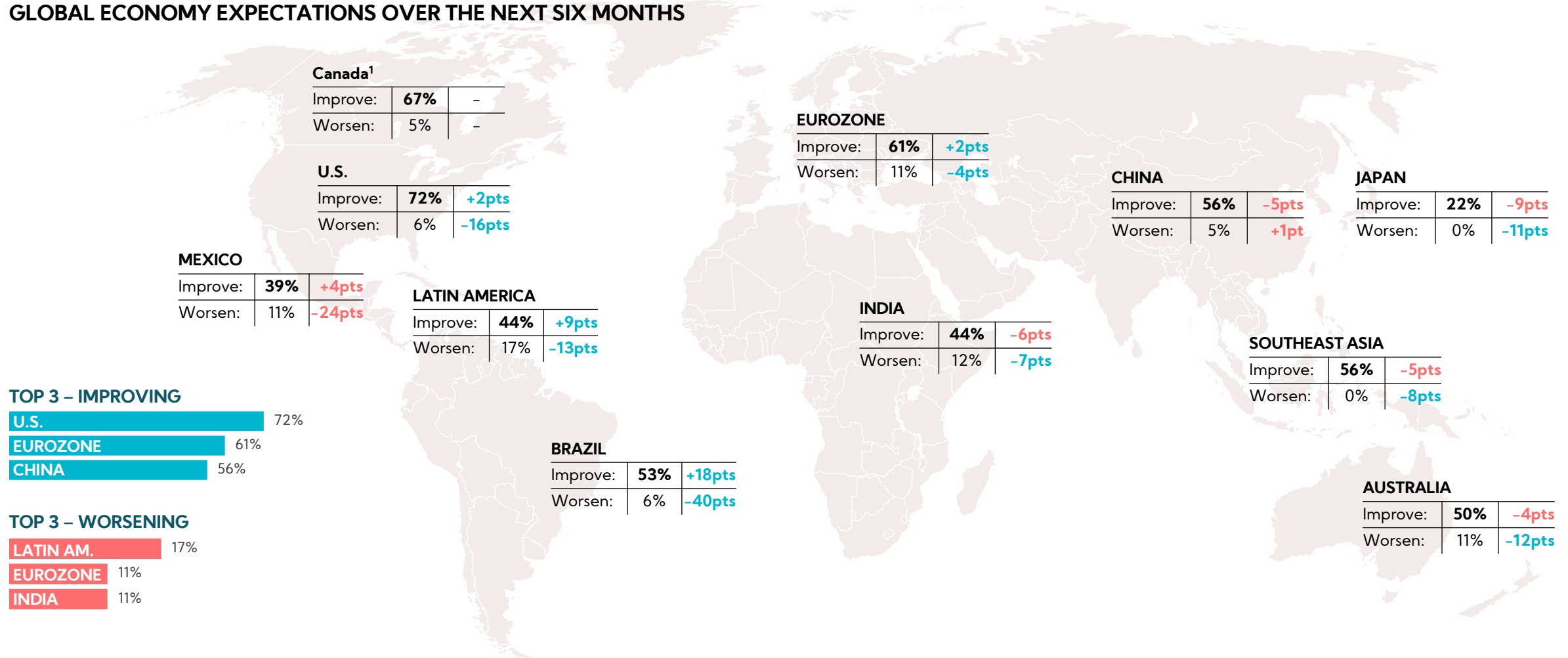
(Assuming a compelling transaction, the level to which investors would be comfortable companies leveraging up)



Broad-based Recovery Expected Globally, with Developed Economies Leading the Way

More than 60% expect the U.S. and Eurozone to Improve over the next six months, while Brazil is seeing the most positive shift in sentiment

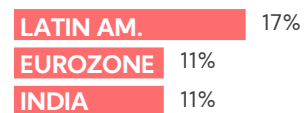
GLOBAL ECONOMY EXPECTATIONS OVER THE NEXT SIX MONTHS



TOP 3 – IMPROVING

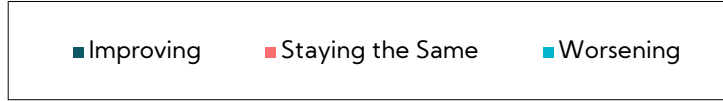


TOP 3 – WORSENING

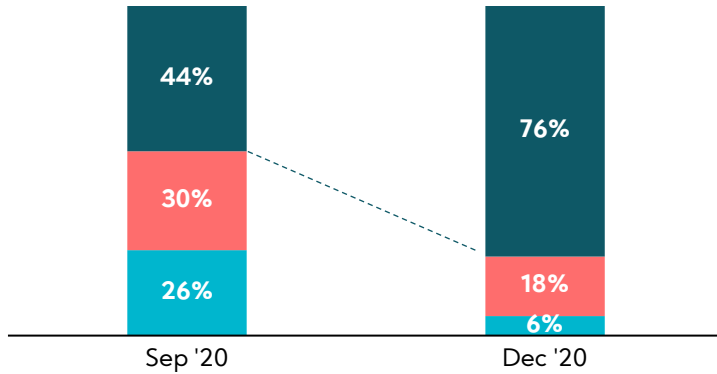


Views on Key Economic Indicators Over the Next Six Months

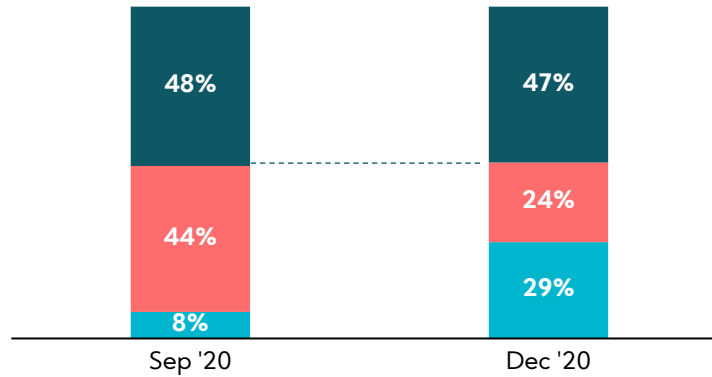
Global Capex, Oil & Gas Markets and U.S. Unemployment Rate expected to see the most improvement



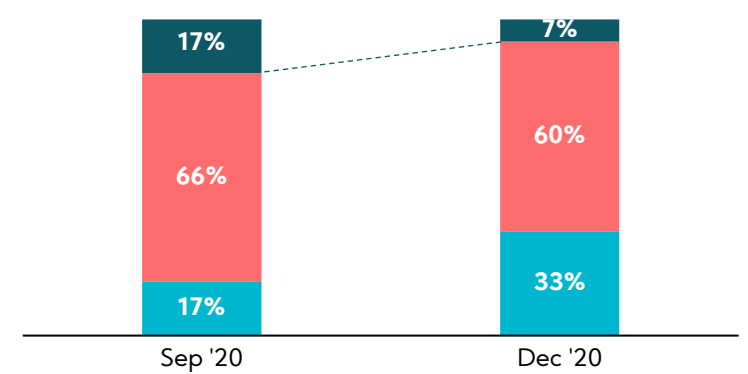
GLOBAL CAPEX



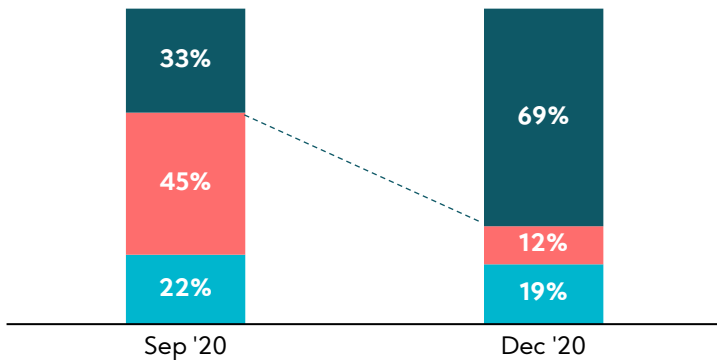
GLOBAL PMI



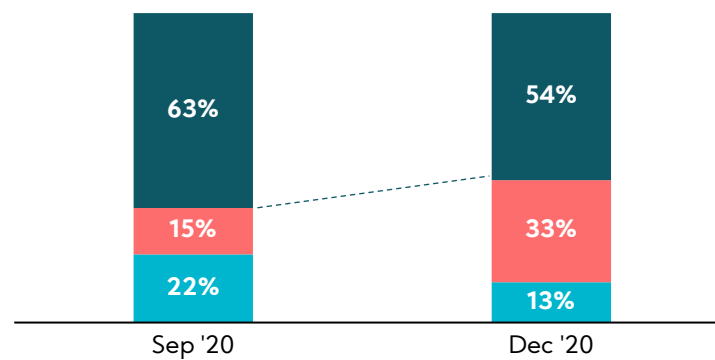
FX HEADWINDS



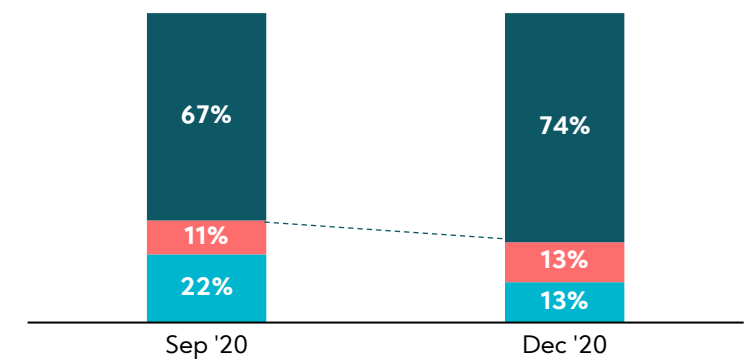
OIL & GAS MARKETS



U.S. CONSUMER CONFIDENCE



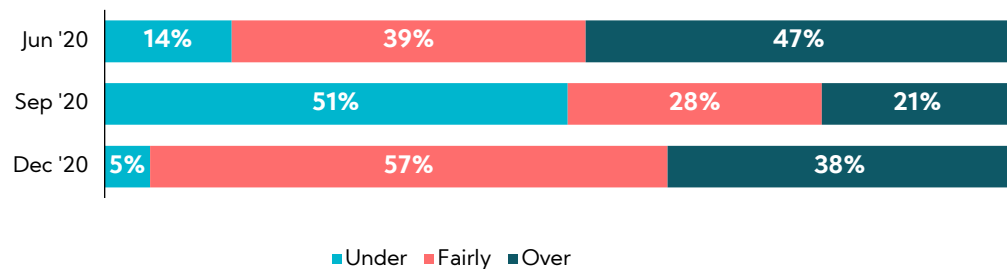
U.S. UNEMPLOYMENT RATE



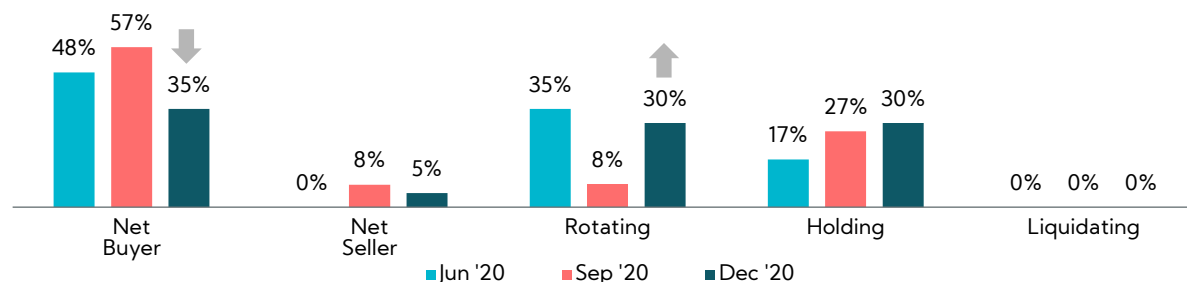
Industrials Now Considered Fairly Valued; Majority Holding or Rotating

Growth and digitalization remain a key focus area, while small caps viewed as compelling at this time

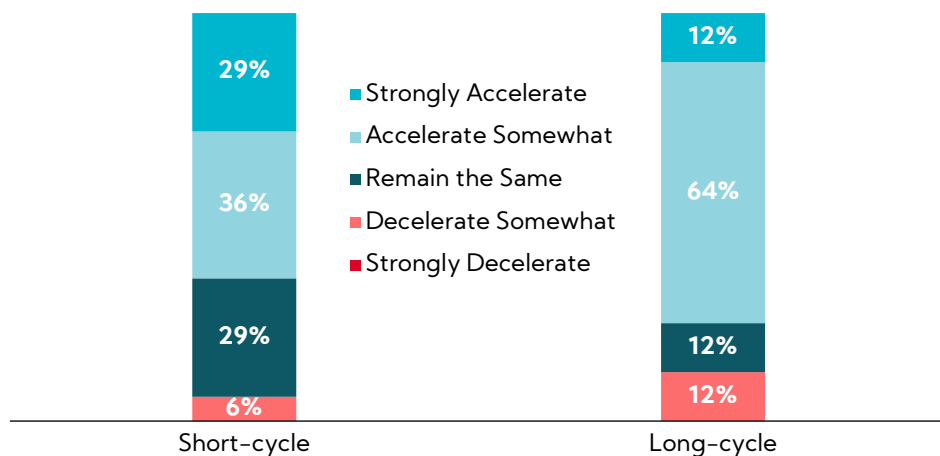
GLOBAL INDUSTRIAL VALUATIONS



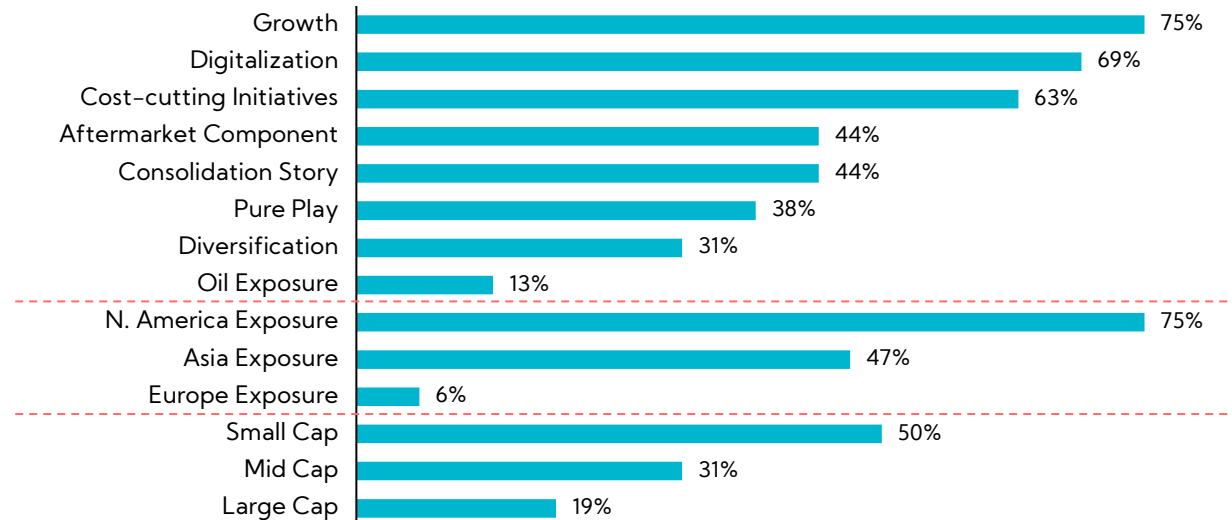
QoQ INVESTMENT TRENDS



INDUSTRIAL ORDER RATES EXPECTATIONS OVER IN THE FIRST HALF OF 2021



MOST COMPELLING INDUSTRIAL INVESTMENT THEMES

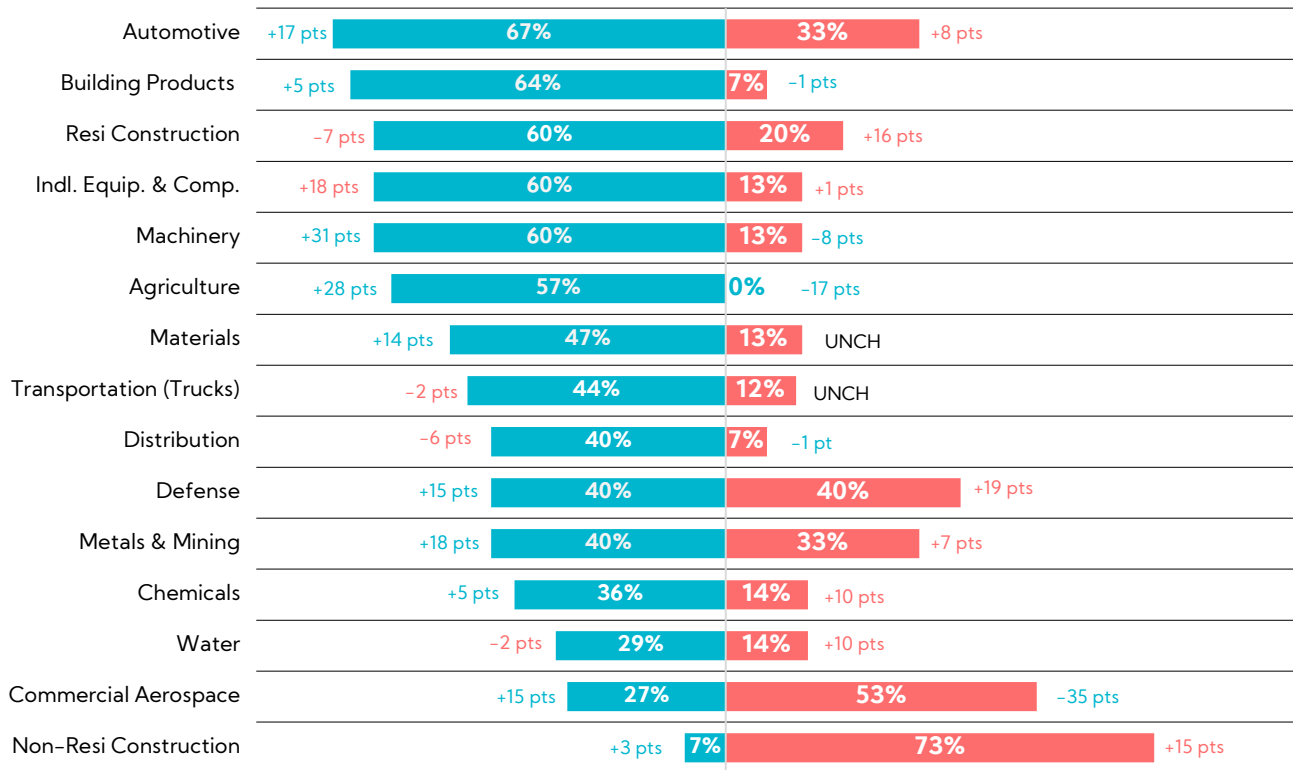


Auto Tops the Bull Chart for the First Time in Our Survey's History

Nearly all sectors seeing more bulls than bears, with Machinery, Ag and Metals & Mining experiencing the largest increase in bulls

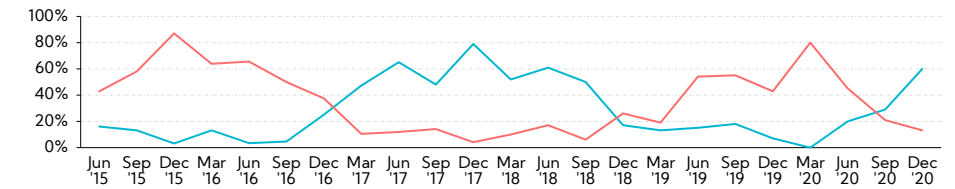
BULLS VS BEARS

■ Bulls ■ Bears

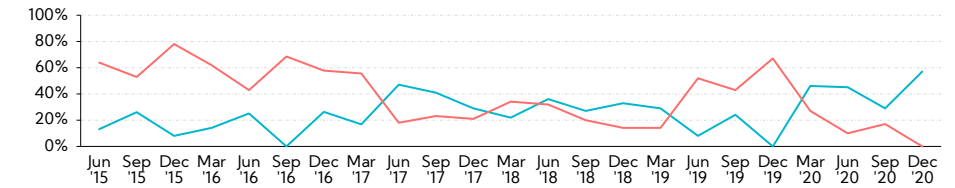


Largest Bull Gainers

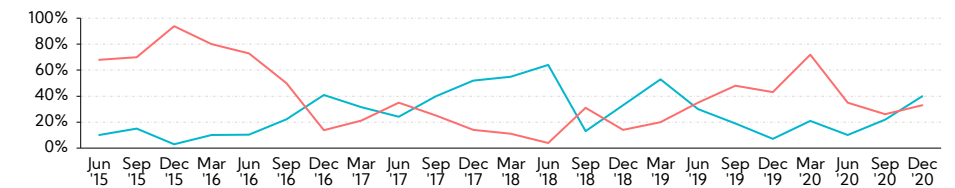
MACHINERY



AGRICULTURE



METALS & MINING



■ Bulls ■ Bears

We are a Specialized Research and Advisory Firm Focused on Helping Public Companies Realize Their Value



TRANSFORMATIONAL INSIGHT

Our proprietary research and unparalleled analytics database powers our unique insights and benchmarking capabilities.



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We bring extensive experience, passion, and commitment to every engagement, always putting our clients' best interests first.



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We simplify the complex to deliver positive outcomes with agility, precision, and excellence.



PURPOSEFUL CANDOR

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Contact Us

research@corbinadvisors.com

270 Farmington Ave, Suite 260
Farmington, CT 06032

corbinadvisors.com

