

A person in a red jacket stands in a cave, illuminated by a bright blue light source. The cave walls are rugged and textured, and the floor is covered in dark, wet rocks. The overall atmosphere is mysterious and dramatic.

corbin

Q4'21

Inside The Buy-side[®]

Industrial Sentiment Survey

January 20, 2022

Inside The Buy-side® Q4'21 Industrial Sentiment Survey

Issue: 27
Date: January 20, 2022

For 14 years, we have surveyed global 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.

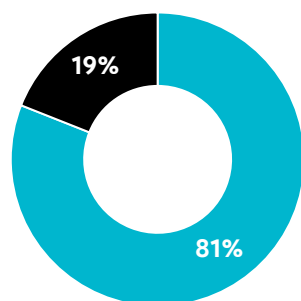
Leveraging our deep understanding of capital markets, cutting-edge technology and best practice knowledge, our research demonstrates the value we add by remaining at the forefront of global market trends, investor sentiment and effective communication strategies.

Survey Scope: 28 sector-dedicated investors and analysts globally; buy side firms manage ~\$2.3 trillion in assets, including ~\$168 billion invested in Industrials

Survey Timeframe: December 17, 2021 – January 14, 2022

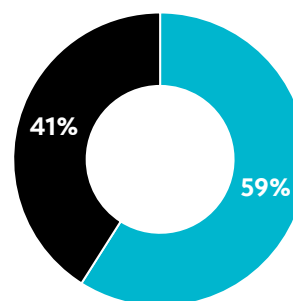
MARKET PERFORMANCE	Q4'21	2021
DJIA	5.9%	20.2%
NASDAQ	7.4%	23.2%
S&P 500	9.4%	28.8%
S&P 500 Industrial	6.8%	19.4%
Russell 2000	0.2%	15.4%

ROLE



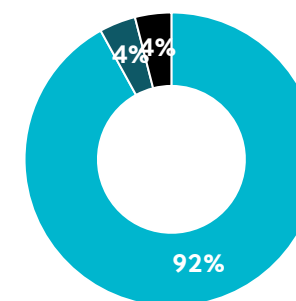
■ Buy Side ■ Sell Side

SECTOR FOCUS



■ Industrials ■ Multi-Industry Incl. Industrials

REGION



■ North America ■ Latin America ■ Europe

Word Cloud: Frequency of Occurrence

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

Favorable Views on Demand, Orders and Backlog Outshine The Big 3 Concerns (Supply Chain, Inflation, and Labor Shortages)



Key: Underlying Sentiment

- Positive
- Neutral
- Negative

TOP MENTIONS	Q1'21	Q2'21	Q3'21	Q4'21	Q/Q
Inflation	14	24	25	32	↑ 7
Supply Chain	14	14	51	20	↓ 31
Demand	4	6	13	20	↑ 7
Pricing	-	11	14	11	↓ 3
Labor Shortage	4	10	9	8	↓ 1

Continued Strong Demand Drives Upbeat Industrial Sentiment and the Highest Level of Investor Buying Activity Since March 2021

Top-line Growth, Earnings and FCF Anticipated to Remain Strong in 2022, with Expectations for 6.0% Organic Growth on Average

- 90% believe strong demand levels will continue in 2022, an increase from 68% last quarter
- 83% expect that revenues *Improved* sequentially, up from 70% last quarter, followed by EPS (61% vs. 21% respectively) and FCF (53% vs. 13%)
- 61% believe earnings will increase sequentially, up from 21%, while 47% anticipate consensus beats
- 50% see global capex *Improving* over the next six months, with none seeing *Worsening* trends
- 89% rank M&A as their leading preferred use of cash, a survey record, followed by reinvestment (56%)

Industrial Companies Increasingly Seen as Undervalued amid Upbeat Management Tone and 2022 Guidance Expectations

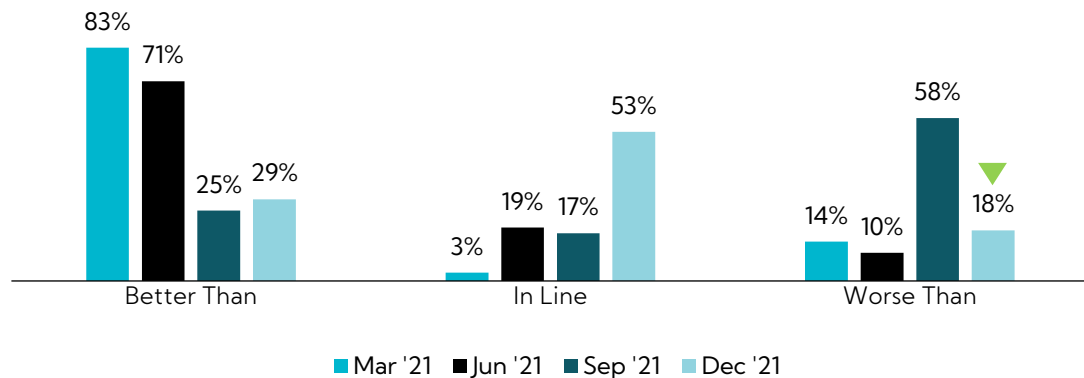
- 84% of surveyed investors and analysts describe management tone as *Neutral to Bullish* or *Bullish*, a significant increase from 32% last quarter, pointing to demand, backlog, orders and pricing
- 71% report upbeat sentiment, up from 54% last quarter, with outright bulls increasing more than four-fold
- 100% expect 2022 EPS and FCF guides to be *In Line* to *Better Than* 2021 results, with 75% anticipating the same for organic growth
- 29% consider industrial companies undervalued, the highest level reported since Sep. 2020
- 56% report *Buying* or *Holding* Industrials, with Net Buyers increasing to the highest level (29%) since Mar. 2021
- 78% identify *Digitalization* as the most compelling investment theme at this time, followed by *Cost-Cutting Initiatives* (75%) and *Pure Plays* (67%)

Margin Views Are More Divided But Meaningfully Less Downbeat as Companies Execute Against “Known” Headwinds

- 44% expect margins to *Stay the Same* sequentially, up from 13% last quarter, while 28% anticipate *Worsening* results, down from 83%
- Still, 75% expect 2022 margin guides to be *Better Than* 2021 results
- 92% identify inflation (unaided) as the top concern this quarter, surpassing supply chain disruption (55%)
- 80% report *more concern* (aided) or a continued *high level of concern* with labor availability, up from 56%, followed by inflation (73%) and supply chain disruption (70%), both lower QoQ
- 83% encourage management to discuss inflation impact on earnings calls, followed by supply chain disruption, capital allocation and demand trends (34%)

Earnings Expected To Be Consistent QoQ, A Notable Improvement from Last Quarter's More Draconian Views, with Meet and Beats Anticipated

Q4'21 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



Better Than

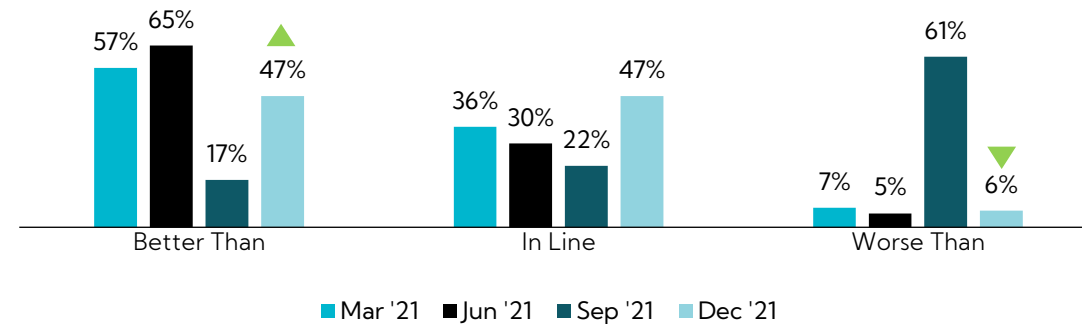
"Increased demand, pent-up demand from previous quarters along with price hikes." **Buy Side, Generalist, N. America**

"Optimization of supply chain problems into better productivity and production, sales and margins." **Buy Side, Generalist, Europe**

"Supply chain congestion appears to have peaked in October 2021. Prices remain elevated but price increases have been pervasive. Swelling backlogs from earlier this year may end up being shipped and enable better-than-expected sales and earnings." **Sell Side, Industrials, N. America**

"Margins and volume from increasing demand." **Sell Side, Generalist, N. America**

Q4'21 EARNINGS EXPECTATIONS VS. CONSENSUS



In Line

"Supply chain challenges, higher inflation inputs, employment shortage." **Buy Side, Generalist, N. America**

"Continued strong demand, partially offset by supply chain constraints and cost inflation." **Buy Side, Industrials, N. America**

"Expectations have been reset in the last few months but the macro environment (pandemic + supply chain) continue to weigh on end markets and ability to execute." **Buy Side, Industrials, N. America**

"The 2022 economic uncertainty will give management pause over how much earnings to show in 2021 (for comparisons sake)." **Buy Side, Industrials, N. America**

"The biggest risk that everyone is talking about, and comes up a lot is on supply chain, cost inflation, and logistics issues. I get the sense that there are some puts and takes in certain areas but it's been stabilizing. I think that's what's baked into some of the forward-looking assumptions at the time of the call. I would say in line for both, coming in line with expectations as said on the Q3 call. But on an absolute basis, that probably means it's higher, absolute Q3 to Q4." **Buy Side, Industrials, N. America**

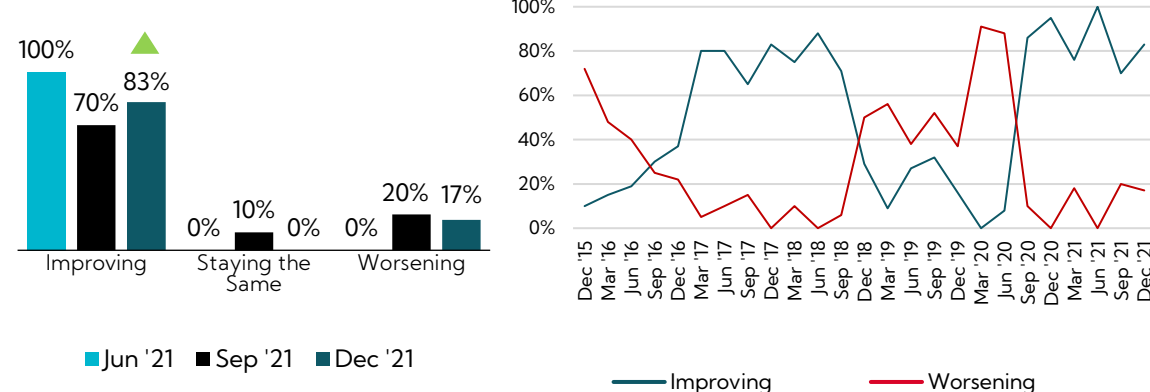
Worse Than

"Continued supply chain bottlenecks, labor shortage." **Sell Side, Industrials, N. America**

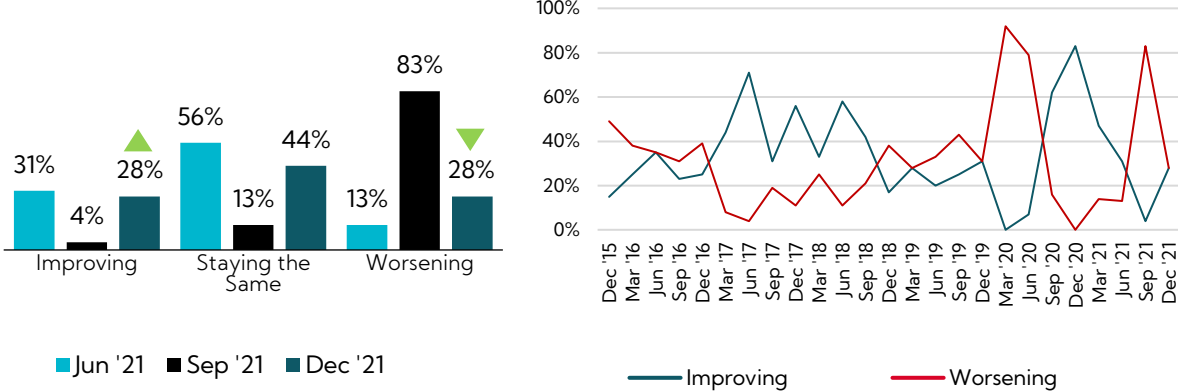
Strong Growth Trends Expected to Continue, with EPS and FCF Views No Longer Downbeat; Margin Views Improved but Mixed

90% expect strong demand levels to continue in 2022, an increase from 68% last quarter

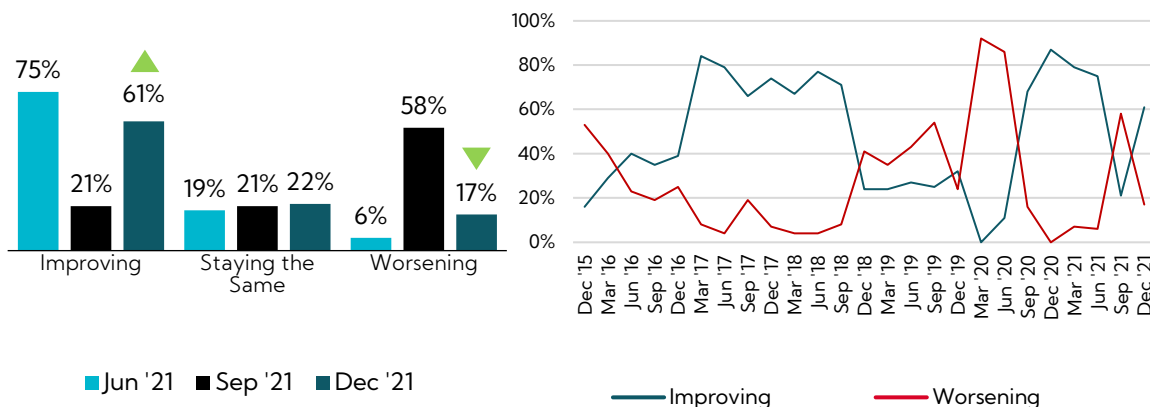
REVENUE GROWTH



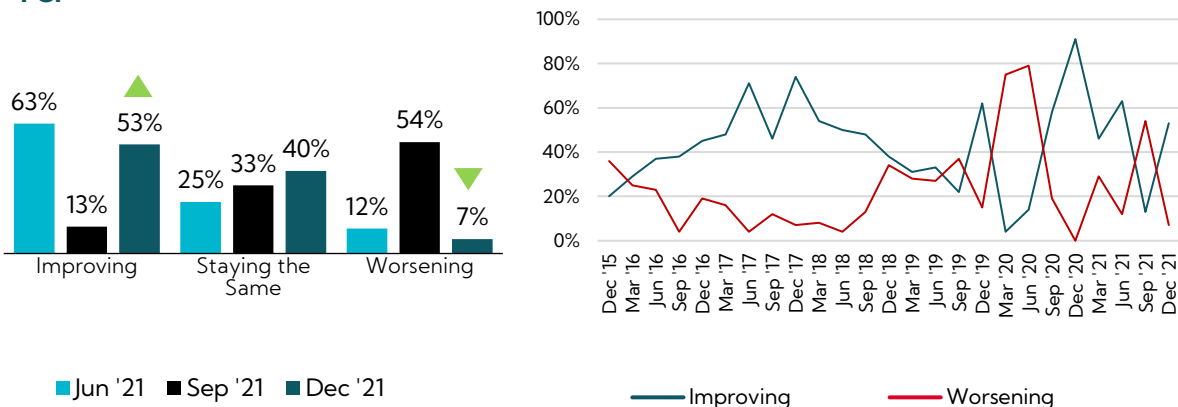
OPERATING MARGINS



EPS

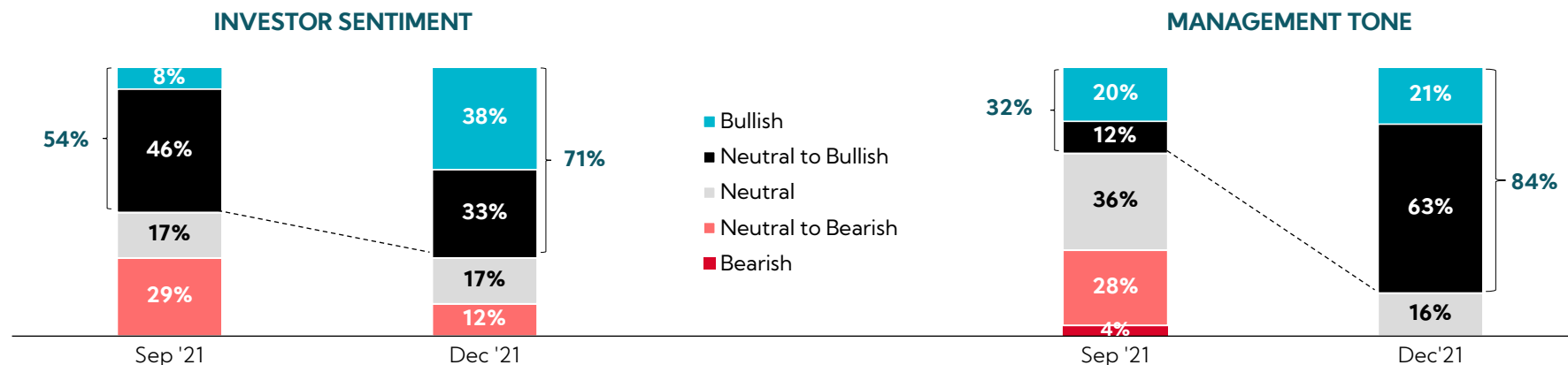


FCF



Upbeat Management Tone Drives Most Favorable Investor Sentiment Since March 2021 with No Outright Bears in Sight

Continued strong demand, backlog, orders and pricing offset headwinds



Bullish

"They are significantly undervalued compared to other sectors in the marketplace and significantly under-owned compared to other segments of the market. Executives have concerns relating to cost inflation and the ability to complete the assembly of their products if they include any form of electronics but their order book is strong. Overall, they are bullish but with a question mark on margins and ability to deliver, which is reflective of cost inflation and electronics shortage." Buy Side, Industrials, N. America

"What I am hearing from management is demand is good. Costs are very high. A lot of variability in terms of supply chain issues. It's still a problem. Inflation is a problem. Labor availability is a problem. It's like the demand side is good, the cost side is still an issue, supply chain is still a problem, not getting terribly better." Buy Side, Industrials, N. America

"Inflations, margins are recovering faster than expected due to pricing." Sell Side, Industrials, Latin America

Neutral to Bullish

"Continued strong demand, partially offset by constraints/cost." Buy Side, Industrials, N. America

"[Management] is bullish maybe somewhat neutral to bullish. Backlog, they seem to be bullish. Costs, they're a little bit more neutral but demand remains there." Buy Side, Industrials, N. America

"Demand remains strong, order books healthy which will prolong recovery, double ordering worries can't be quantified." Buy Side, Generalist, N. America

"Back-to-work policies. Some hedge for vaccine mandate." Buy Side, Generalist, N. America

"European and U.S. online meetings with C-level execs." Buy Side, Generalist, Europe

"We are entering the most extended period of elevated capital spending in over 30 years, lead by higher investment to automate all facets of the economy, fund the accelerating shift in energy to green hydrogen and renewable energy from fossil and the steadily building near and re-shoring of production to N.A. by overseas manufacturers that historically have exported their products to the U.S." Sell Side, Industrials, N. America

"No shortage of demand for goods and services." Sell Side, Industrials, N. America

Neutral / Neutral to Bearish

"While backlogs are strong, industrial valuations are not cheap." Buy Side, Industrials, N. America

"Inflation rate; interest rates." Buy Side, Industrials, N. America

"I am cautious." Buy Side, Industrials, N. America

"This is regard to chemicals; I think they peaked in 2021." Buy Side, Industrials, N. America

Top Concerns from around the Globe

More than 9 in every 10 industrial investors cite inflation as a top concern, with supply chain mentions starting to abate somewhat

92% (↑ 35pts)	Inflation	55% (↓ 31pts)	Supply chain	33% (↑ 18pts)	Labor shortage
18% (↑ 18 pts)	Geopolitical risks	18% (↓ 15pts)	U.S. administration	17% (↑ 3pts)	Demand

Views from N. America

"Inflation, supply chain strictures, interest rates." Buy Side, Industrials

"Input cost inflation, COVID-19 disruptions, geopolitical risk." Buy Side, Industrials

"How much will demand moderate?" Buy Side, Industrials

"Demand, supply chains, inflation." Buy Side, Generalist

"Supply chain, labor availability/cost, materials price increases." Buy Side, Generalist

"Geopolitical stability (China, Russia, N. Korea, Iran), inflation doesn't significantly decelerate in 2H22, shortage of skilled workforce becomes more acute in 2022." Sell Side, Industrials

"Inflation, labor, government." Sell Side, Industrials

"Supply bottlenecks, labor shortage, valuation." Sell Side, Industrials

"Inflation." Sell Side, Generalist

Views from EMEA

"Government, taxes, inflation." Buy Side, Generalist



83% (↑ 19pts QoQ)
Inflation

51% (↓ 35pts)
Supply Chain

36% (↑ 13pts)
Capital Allocation

34% (↓ 23pts)
Demand Trends

29% (↑ 16pts)
ESG Initiatives

Topics of Interest for Upcoming Earnings Calls

Inflation top of mind for investors, followed by supply chain, which is less pronounced QoQ

Views from N. America

"Capital allocation. 2021 was a strong year, with strong FCF. What are companies going to do with that money?" **Buy Side, Industrials**

"Cost inflation, pricing, capital allocation." **Buy Side, Industrials**

"I am interested in executives discussing the labor availability issues, supply chain management, changes to supply chain and sourcing." **Buy Side, Industrials**

"Inflation." **Buy Side, Industrials**

"Raw materials cost increases, supply chain pressures, pricing opportunities." **Buy Side, Industrials**

"Visibility into order books, price vs. cost, supply chain." **Buy Side, Industrials**

"Reinvesting in their businesses, improvement in supply chains, countering inflation/worker shortage." **Buy Side, Generalist**

"End market demand, supply chain issues, cost/pricing power." **Buy Side, Generalist**

"Electrification of heating (and cooling) with heat pumps, shift to renewable packaging (fiber and biopolymers) to replace plastic, green hydrogen/renewable energy vs. transitional energy sources like plug-in EVs or SAF." **Sell Side, Industrials**

"Price, demand, labor." **Sell Side, Industrials**

"Geographic opportunities, infrastructure bill actual impacts, rates, ESG." **Sell Side, Industrials**

Views from EMEA

"Adequate debt/equity, long-term debt increases, M&A consolidation, global tax focus and management." **Buy Side, Generalist**

Industrials Are Expected to Guide Strongly on EPS and FCF, with Organic Growth Levels Generally Anticipated to Remain in Line with 2021

Industrial Organic Growth Rate

7.5% expected in 2021 and 6.0% in 2022, on average, with margins seeing more favorable views

"Organic, in line. It varies by company type, some will be above and some below, so overall, about in line." Buy Side, Industrials, N. America

"Better in that you'll see some growth albeit a large deceleration; EPS should grow but more due to top-line growth." Buy Side, Generalist, N. America

"Double ordering in backlogs, price vs cost." Buy Side, Industrials, N. America

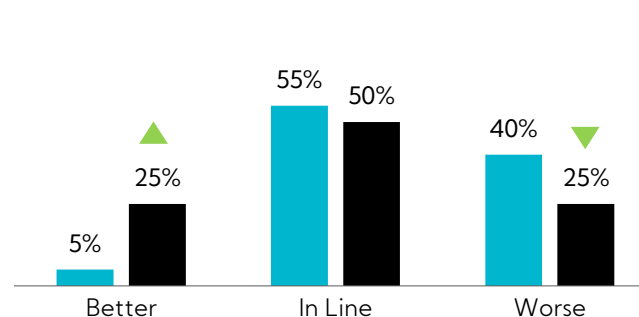
"Vaccine mandate and labor pool implications." Buy Side, Generalist, N. America

"Right now, input cost inflation is expected to normalize in 2H22 at about 2.5%-3.5% - if it continues at 7%-8% like 1H21, this will become a significant challenge to earnings." Sell Side, Industrials, N. America

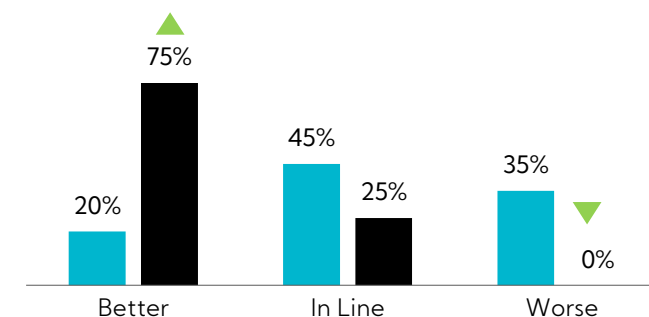
EXPECTATIONS FOR 2022 GUIDANCE RELATIVE TO 2021

■ Sep '21 ■ Dec '21

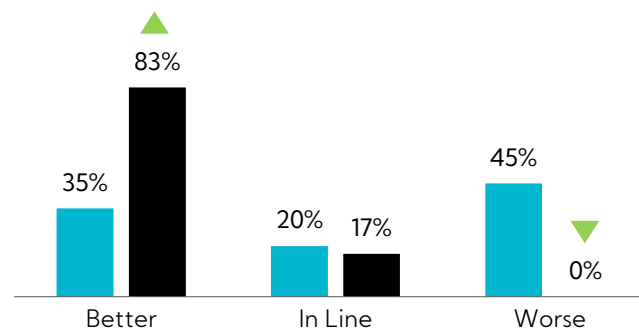
ORGANIC GROWTH



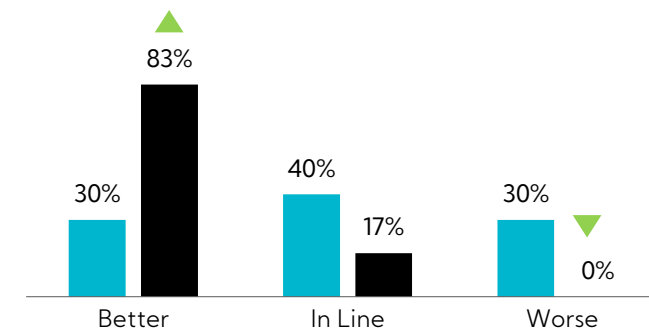
MARGINS



EPS



FCF

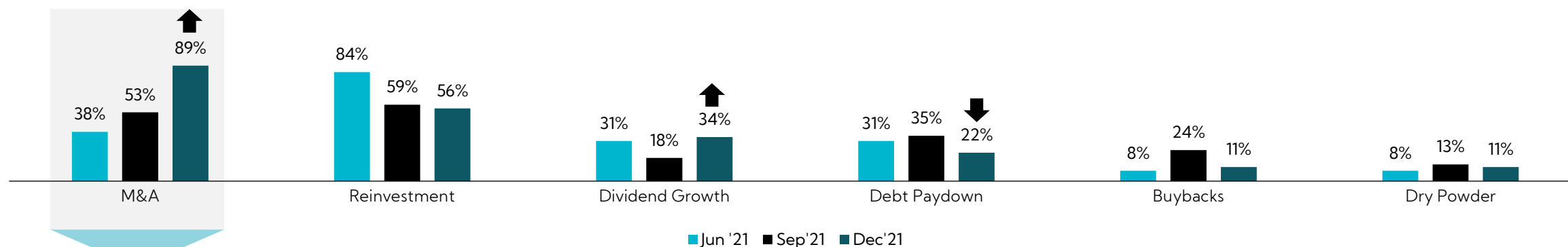


We're In a Growth Cycle - Preference for M&A Registers at Record Level, with Reinvestment Also Remaining in Focus

While M&A highly favored, investors are encouraging discipline, favoring leveraging up to 3.0-3.5x for a compelling transaction, slightly more conservative than last quarter

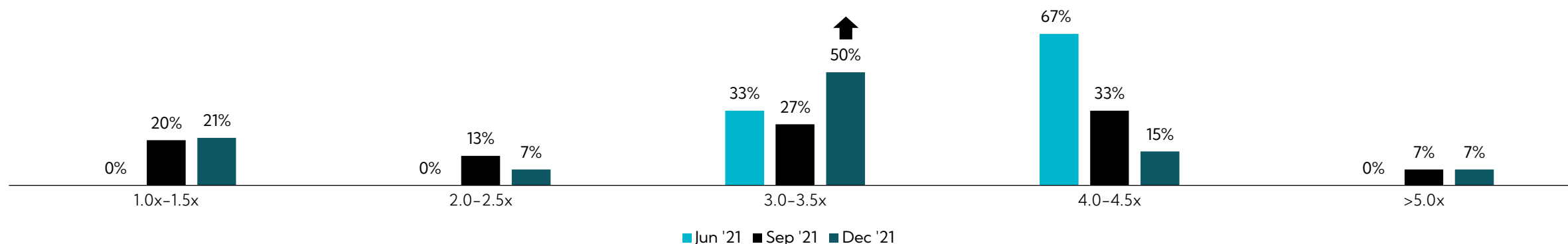
PREFERRED USES OF CASH FOR INDUSTRIALS

In Descending Order of Top Two Preferences



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

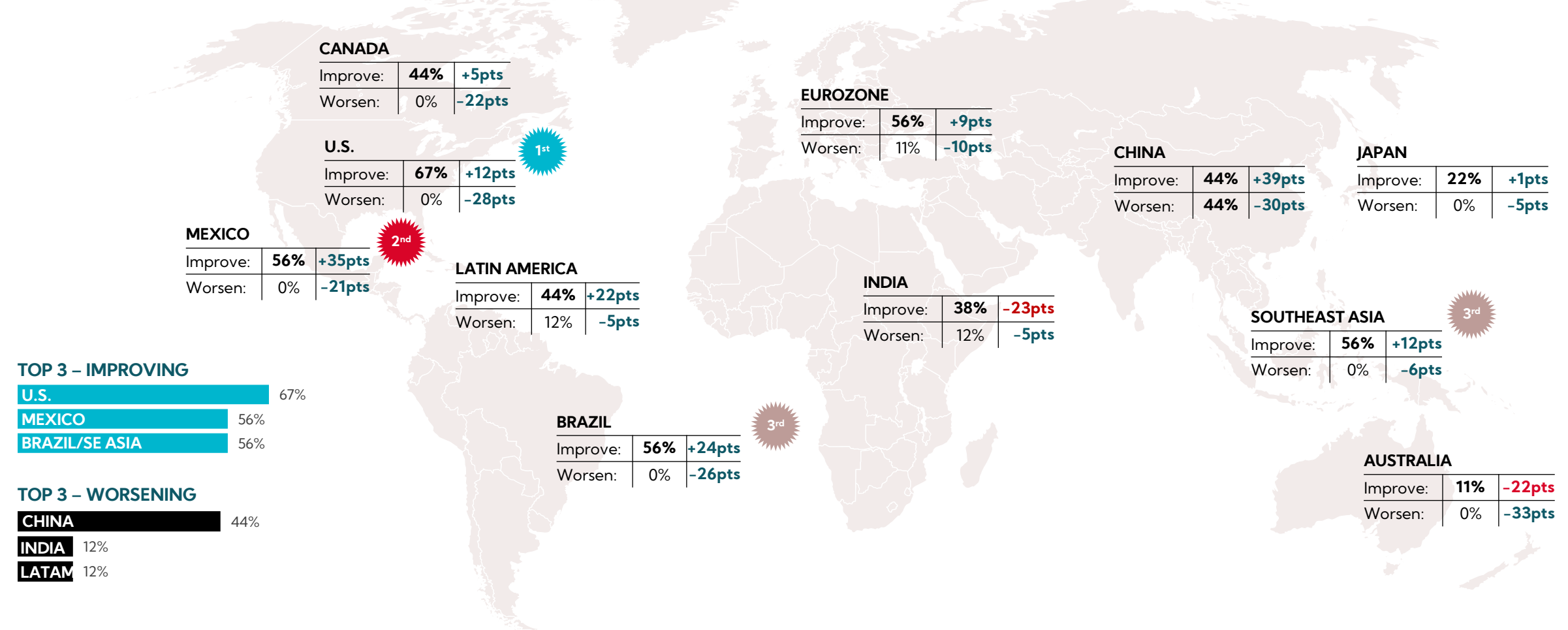
(Assuming a compelling transaction, the level to which investors would be comfortable companies leveraging up)



Nearly All Economies Expected to Improve Over the Next Six Months, Led by the U.S., Mexico, Brazil and Southeast Asia

China sees improving sentiment – now mixed versus wholeheartedly downbeat but garners the least positive views on a relative basis

GLOBAL ECONOMY EXPECTATIONS OVER THE NEXT SIX MONTHS

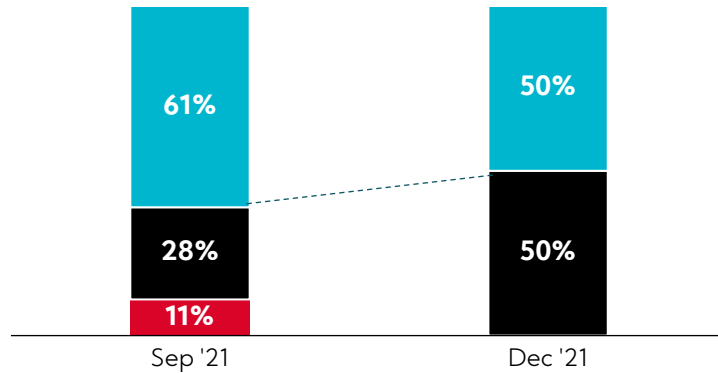


Views on Key Economic Indicators Over the Next Six Months

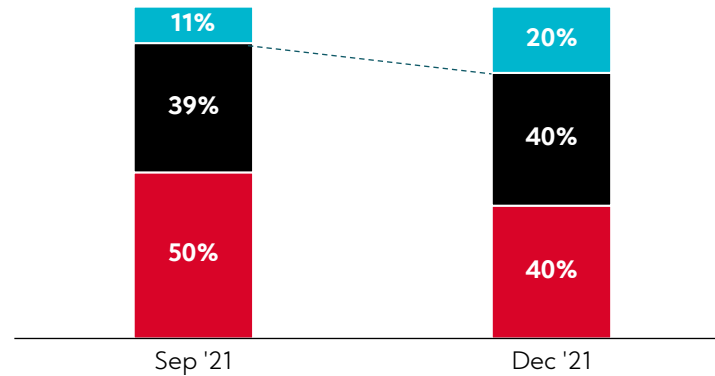
Oil & Gas markets anticipated to improve, with upbeat views on Global Capex and the U.S. Unemployment Rate; FX emerges as a potential notable headwind

■ Improving ■ Staying the Same ■ Worsening

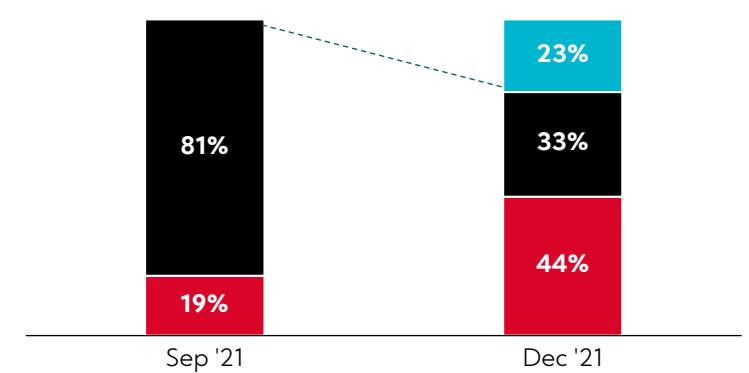
GLOBAL CAPEX



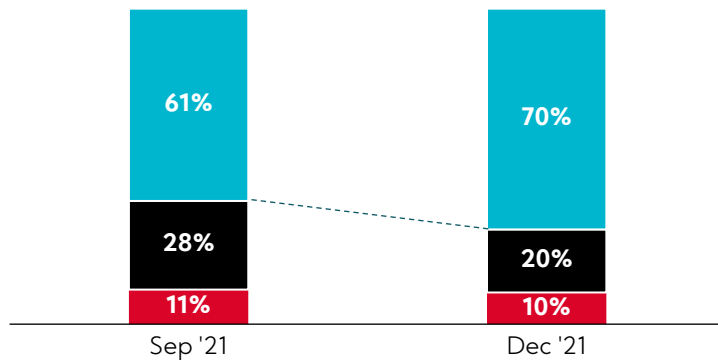
GLOBAL PMI



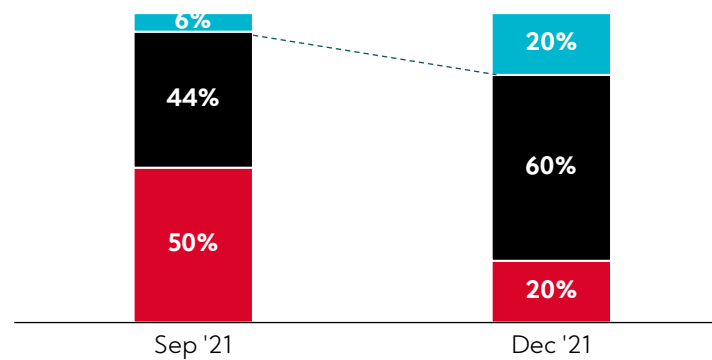
FX HEADWINDS



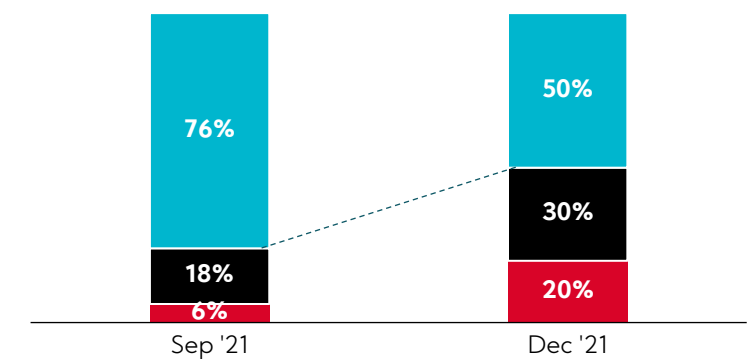
OIL & GAS MARKETS



U.S. CONSUMER CONFIDENCE

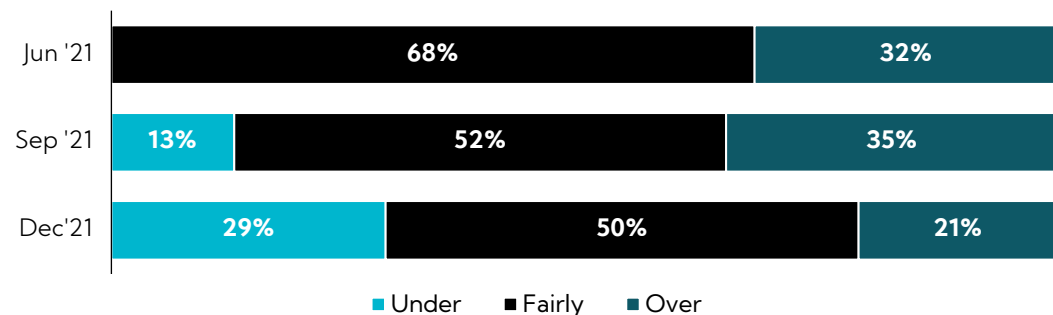


U.S. UNEMPLOYMENT RATE

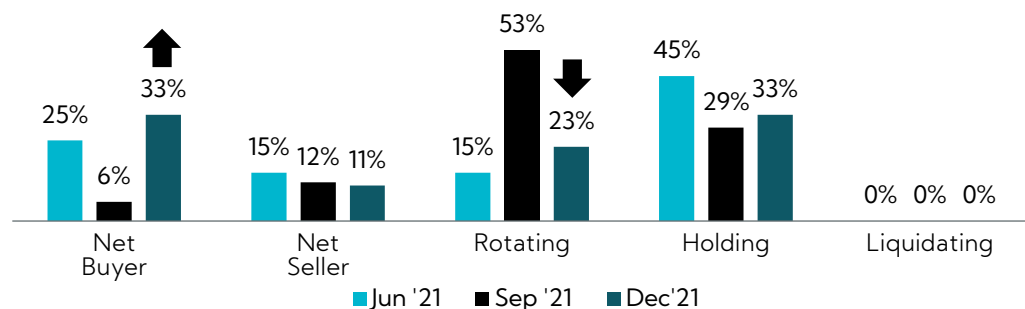


Buyers Increase as Industrials Increasingly Seen as Undervalued, with Digitalization, North American Exposure and Small Caps Remaining in Favor

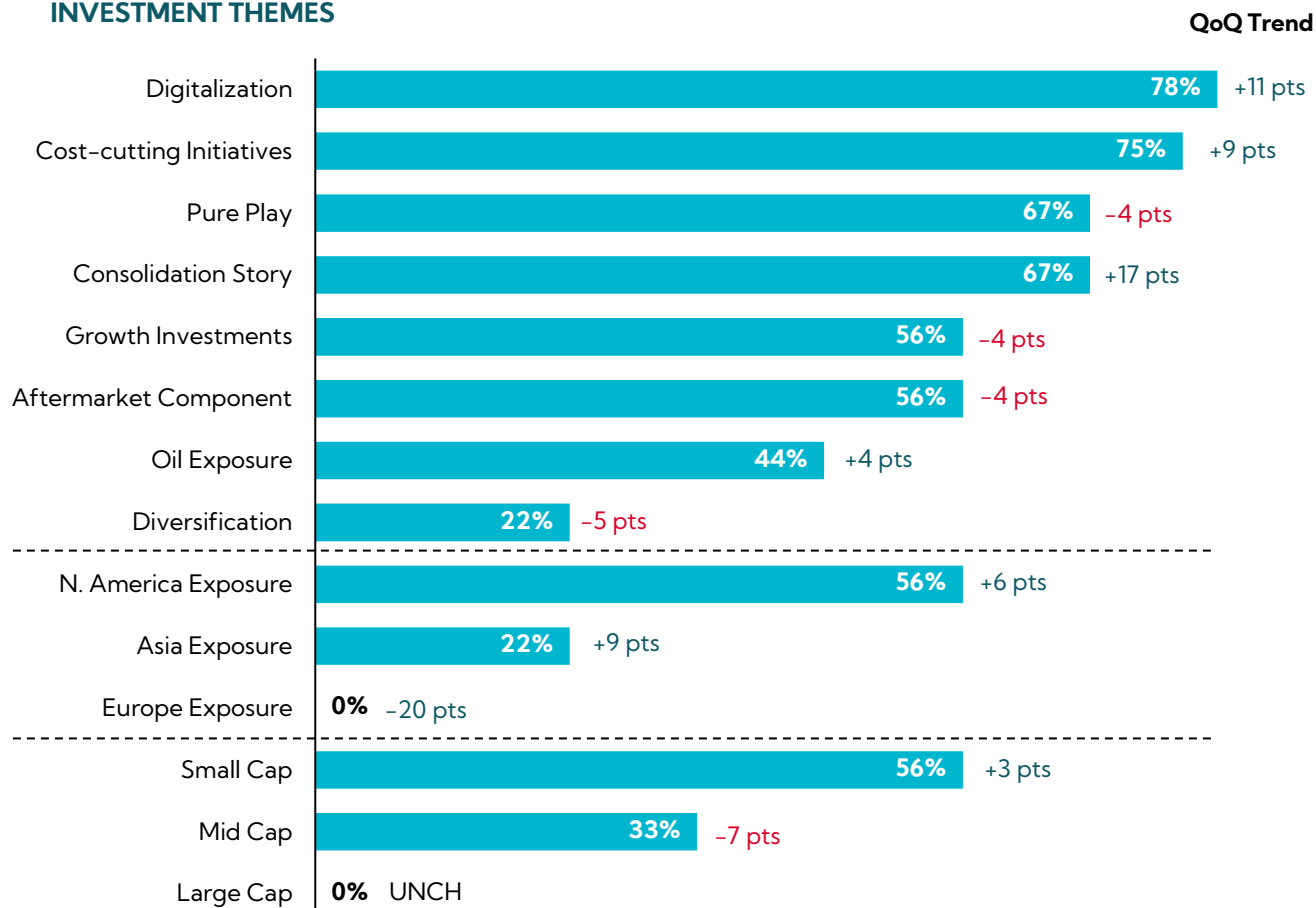
GLOBAL INDUSTRIAL VALUATIONS



QoQ INVESTMENT TRENDS



MOST COMPELLING INDUSTRIAL INVESTMENT THEMES



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.



TRUSTED PARTNERS

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



IMPACTFUL EXECUTION

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



PURPOSEFUL CANDOR

Our clients trust us. We provide explicit, no-nonsense counsel with objectivity and candor.

A person in a red jacket stands in a cave, illuminated by a bright blue light source. The cave walls are textured and layered, creating a sense of depth and mystery. The floor is covered in dark, wet rocks.

corbin

Contact Us

research@corbinadvisors.com

270 Farmington Ave, Suite 260
Farmington, CT 06032

corbinadvisors.com