

*corbin*

Q1'22

INSIDE THE  
**Buy•Side**<sup>®</sup>

INDUSTRIAL SENTIMENT SURVEY

April 21, 2022



# Inside The Buy-side® Q1'22 Industrial Sentiment Survey

Issue: 28  
Date: April 21, 2022

Since 2007, 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.

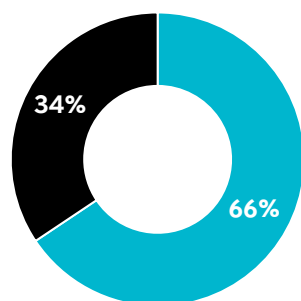
Leveraging our deep understanding of capital markets, cutting-edge technology and best practice knowledge, our research demonstrates the value we add by remaining at the forefront of global market trends, investor sentiment and effective communication strategies.

**Survey Scope:** 32 sector-dedicated investors and analysts globally; buy side firms manage ~\$1.7 trillion in assets, including ~\$163 billion invested in Industrials

**Survey Timeframe:** March 21, 2022 – April 13, 2022

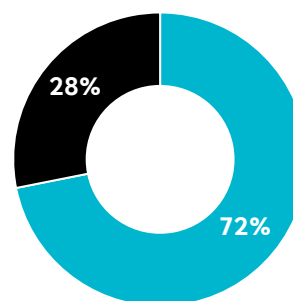
MARKET PERFORMANCE	Q1'22	Q1'21
DJIA	(5.2%)	20.2%
NASDAQ	(10.2%)	23.2%
S&P 500	(5.5%)	28.8%
S&P 500 Industrial	(6.3%)	22.5%
Russell 2000	(8.9%)	15.4%

ROLE



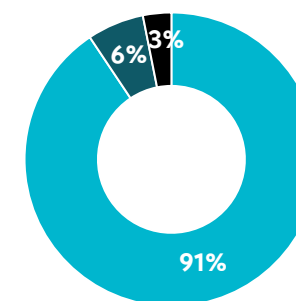
■ Buy Side ■ Sell Side

SECTOR FOCUS



■ Industrials ■ Multi-Industry Incl. Industrials

REGION



■ North America ■ Asia ■ Europe

# Word cloud: Frequency of occurrence

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

## Concerns Overtake Demand as Investors Weigh the Effects of a Taught Economy and War in Europe



Key: Underlying Sentiment

●	Positive
●	Neutral
●	Negative

TOP MENTIONS	Q2'21	Q3'21	Q4'21	Q1'22	Q/Q
Inflation	24	25	32	56	↑ 24
Supply Chain	14	51	20	28	↑ 8
Pricing	11	14	11	16	↑ 5
Demand	6	13	20	10	↓ 10
Europe	0	0	0	7	↑ 7



# Sentiment contracts to March 2020 levels amid anxiousness over compounding headwinds and growth sustainability; management expected to address order outlook

## Investor Sentiment Most Fractured Since Onset of COVID-19 Amid Concerns of Softening Demand

- **76%** expect U.S. consumer confidence to *Worsen* over the next six months, up 20% sequentially and registering at the highest level since March 2020
- **67%** identify inflation as a key topic for executives to address on upcoming earnings calls, followed by demand trends (61%) and supply chain disruption (55%)
- **52%** describe their sentiment as *Neutral to Bearish* or *Bearish*, up from 12% last quarter and the highest level since March 2020
- While **48%** expect Q1'22 results to be largely *In line* with consensus, the number of anticipated misses is up five-fold QoQ

## Margins, EPS and FCF Expectations Inflect Downward for 2022, with Organic Growth Outlook Lowered to 4.0% from 6.0% on Average

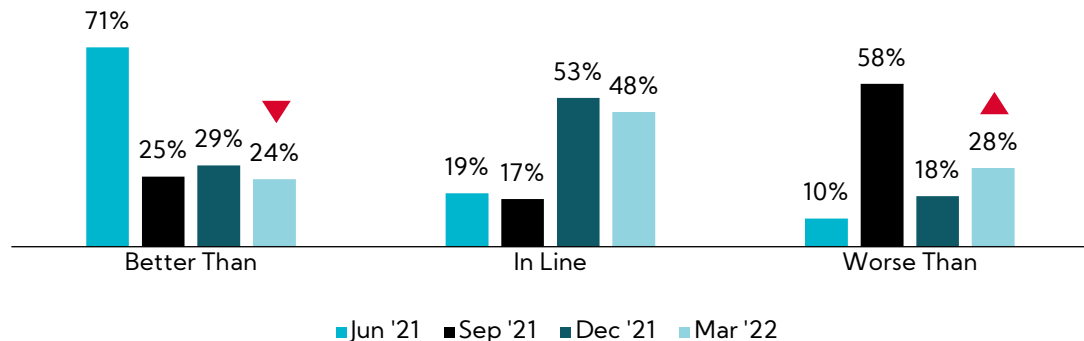
- **59%** expect operating margins to *Worsen*, more than double the amount registered last quarter, while 22% expect margins to *Stay the Same*, down from 44%
- **40%+** anticipate EPS and FCF will *Worsen* sequentially, inflecting after both metrics were expected to *Improve* last quarter by over 50% of investors
- **21%** report *Selling* industrials, the highest level since March 2020, and **37%** report *Holding*
- **58%** identify *Cost-Cutting Initiatives* as the most compelling investment theme at this time followed by *Aftermarket Components* (55%) and *Pure Plays* (55%)

## Investors Seek Strong Balance Sheets as Fears of a Recession Enter the Mix

- **54%** favor debt paydown as a top use of cash, up from 22%, though reinvestment remains the highest priority
- **65%** report *more concern* (aided) or a continued *high level of concern* with Fed policy, up from 40%
- **80%+** prefer a net debt-to-EBITDA level of 2.0x or less, compared with just 28% last quarter
- **30%** identify recession (unaided) as a newly recognized top concern, surpassing energy costs (25%), monetary policy (23%) and geopolitical risks (19%)
- **29%** encourage management to discuss capital allocation priorities on earnings calls

# While sequential growth expected to remain intact, fewer consensus beats and more misses anticipated amid a challenged operating environment and consumer weakness

Q1'22 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



## Better Than

*"Q1'22 guidance was set appropriately low given rising inflation, difficult supply chains, and catch-up pricing. Companies should do decently against a low bar but remainder of the year should come down."* **Buy Side, Industrials, N. America**

*"Strong economy."* **Sell Side, Generalist, N. America**

*"The most important message will be related to guidance."* **Sell Side, Industrials, Europe**

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

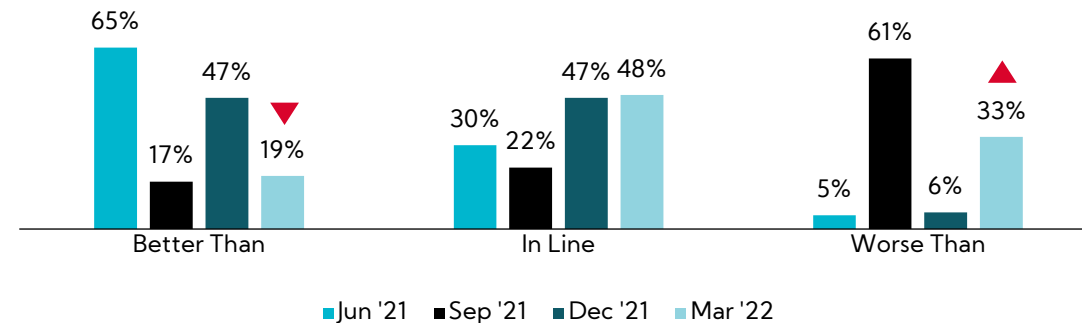
## In Line

*"Large backlogs supporting current revenue and more pricing flowing through."* **Buy Side, Industrials, N. America**

*"I think it's going to be ugly again. Similar to last quarter, bad."* **Buy Side, Industrials, N. America**

*"Increased interest rates and war."* **Buy Side, Industrials, N. America**

Q1'22 EARNINGS EXPECTATIONS VS. CONSENSUS



## Worse Than

*"Supply chain challenges squeezing margins, seasonality issues (Q1 typically slower than Q4)."* **Buy Side, Generalist, N. America**

*"The supply chain issues have been exasperated. We are still having good inflation. There is fuel cost as well, but depending on the subsector, a lot of it has passed through but there is a lag before those surcharges come through. Consumer sentiment is declining. Just as you are trying to get through the supply chain issue, all of a sudden you might be facing a demand reduction scenario as well."* **Buy Side, Generalist, N. America**

*"Supply chain, Russia/Ukraine, commodities."* **Buy Side, Industrials, N. America**

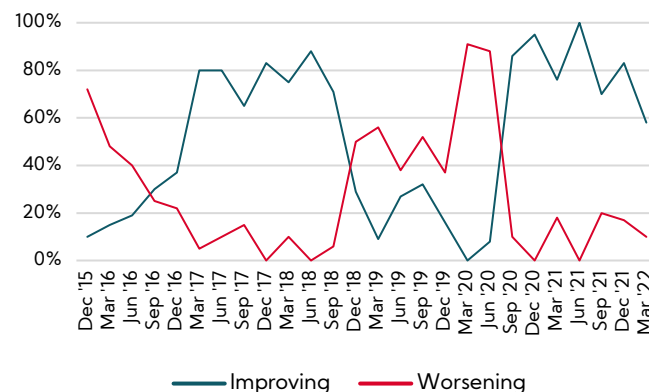
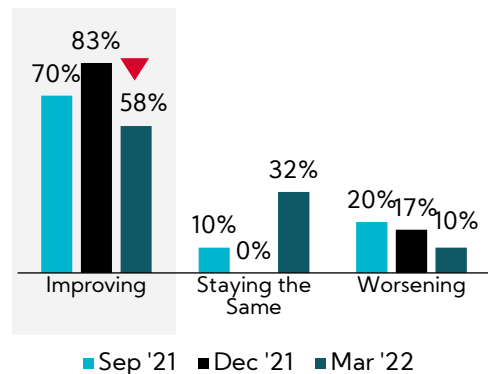
*"Ignoring seasonality, a bit worse. Some companies were able to sneak out more production than they thought. This quarter might be tougher, January sucked because of COVID, demand and production. I am more worried about YoY comp. Q1'21 you had price but no cost inflation. Now, we have price and cost inflation. The estimates have come down a bit. I am not bearish on Q1 – a lot of these problems are known. The forward look is the bigger issue."* **Buy Side, Industrials, N. America**

*"Q1'22 is likely to start the year with a house-cleaning – most industrials had sales in Russia and Russia's invasion (and the required exit) provides cover for most companies to claim a "Black Swan" event quarter – they think they will get a hall pass for unusually soft earnings."* **Sell Side, Industrials, N. America**

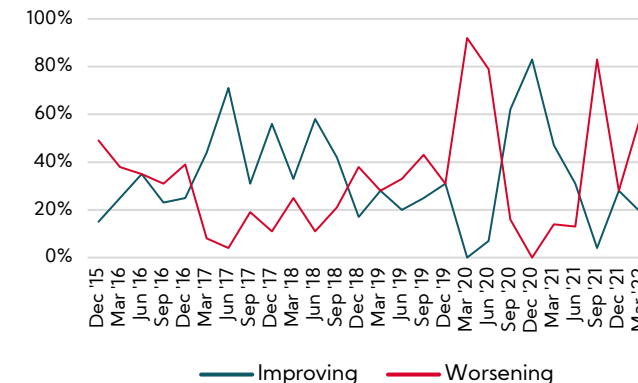
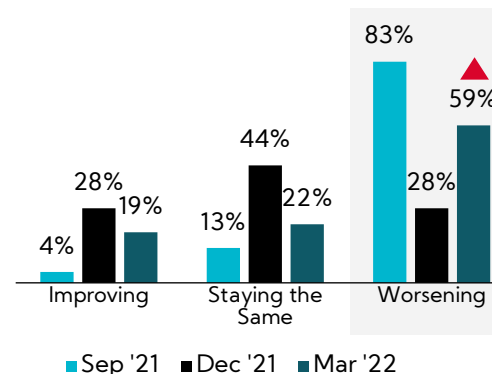
# Revenue growth anticipated to remain intact while Margins, EPS and FCF expected to inflect downward

*Revenue growth expectations register at lowest levels in seven quarters*

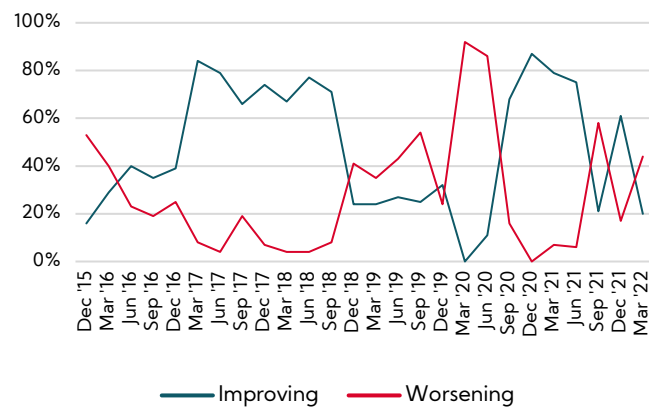
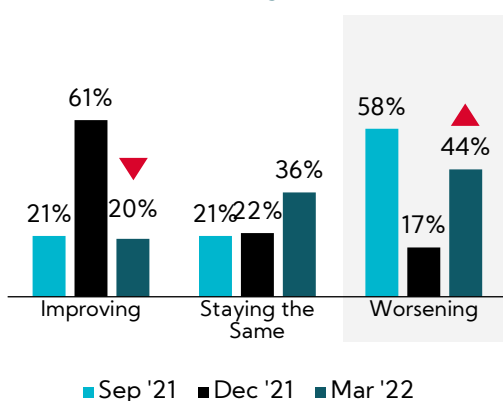
## REVENUE GROWTH



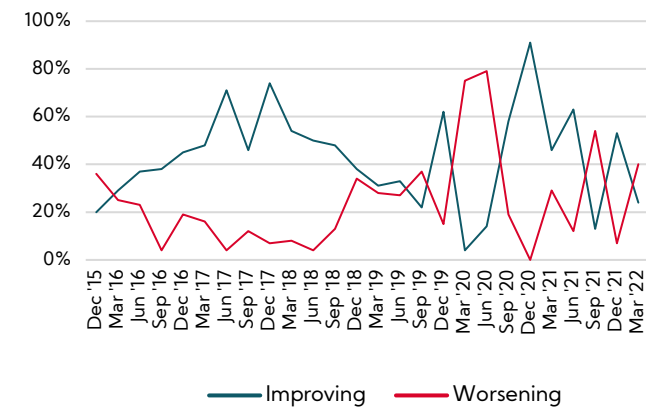
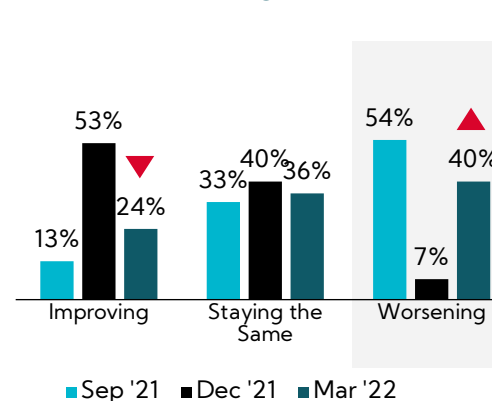
## OPERATING MARGINS



## EPS

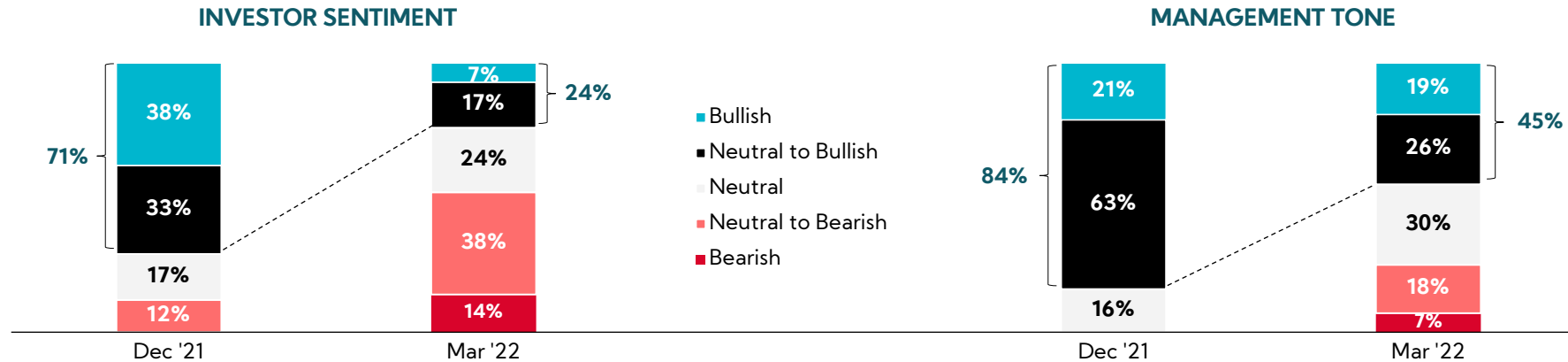


## FCF



# Investor sentiment and management tone contract meaningfully QoQ; neutral to bearish / bearish sentiment registers at highest levels since March 2020

*Continued rising inflation, new supply chain headwinds and concerns about the consumer eroding confidence in demand*



## Bullish / Neutral to Bullish

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

*"I'm bullish on parts of industrials, less so on other parts. Management is still bullish. People are seeing end product price increases and they're concerned about input costs, but not yet feeling like those input costs are going to overtake them or that the demand is softening. Demand right now for the products across our space is quite good, and they are achieving price increases, so the tone tends to be upbeat." Sell Side, Industrials, N. America*

*"Companies may have not yet seen the initial signs of a downturn in demand but continue to look at orders which have remained strong." Buy Side, Industrials, N. America*

## Neutral

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

*"The reindustrialization of the U.S., bringing supply chains home, seeing the beginning benefits of the bipartisan infrastructure bill, the reopening of the post-COVID-19 economy." Buy Side, Generalist, N. America*

## Neutral to Bearish / Bearish

*"My market sentiment is mildly positive but declining. There are a few schematics, like the whole reshoring domestic supply chain narrative going forward. Those companies that have the assets is a powerful position and those that can outprice inflation." Buy Side, Generalist, N. America*

*"Management tone is hesitant, uncertain, modestly confused and lacking confidence." Buy Side, Industrials, N. America*

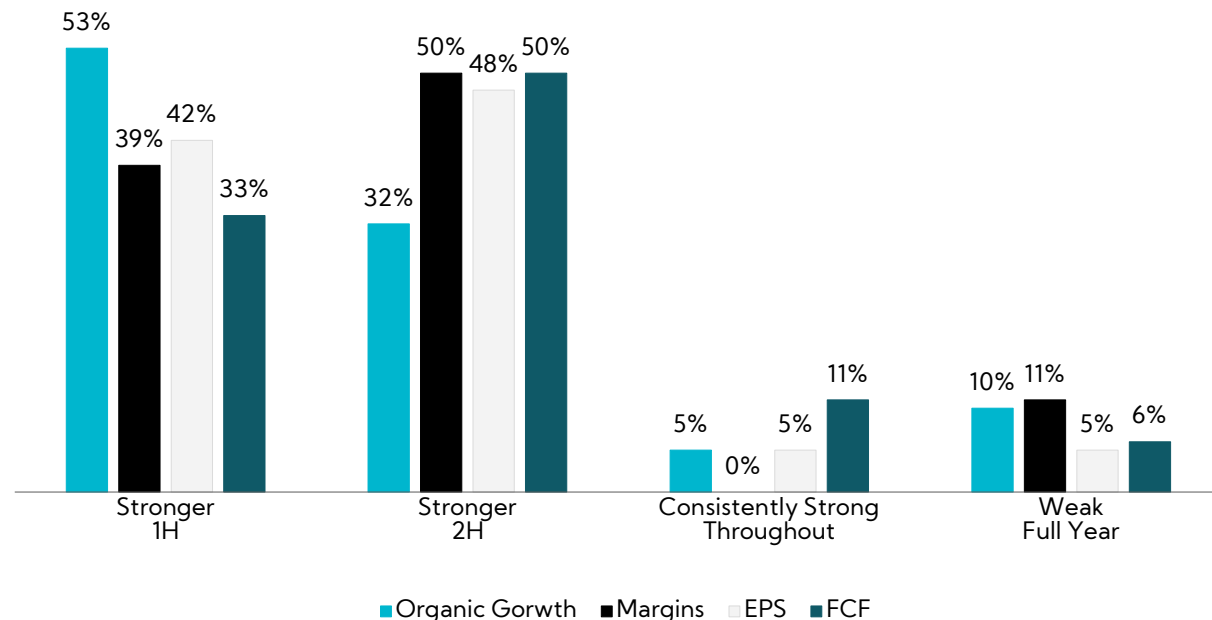
*"Concerns on costs inflation and energy." Sell Side, Industrials, Europe*

*"Companies often call around late in the quarter with update calls, but I can't remember when we had two in the last month of the quarter before." Sell Side, Industrials, N. America*

# Fewer expecting organic growth to have a stronger second half following expected interest rate hikes, while margins, EPS and FCF anticipated to improve

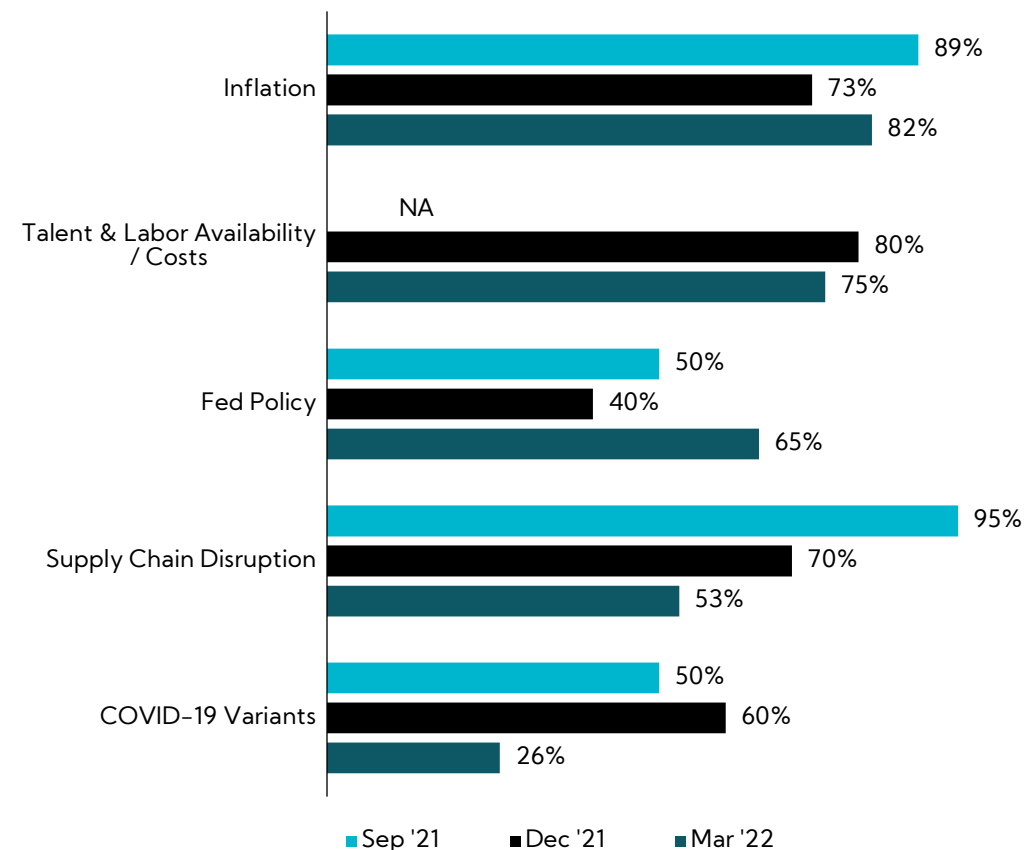
*Industrial organic growth rate expected to be 4.0% for 2022, on average, a decrease from 6.0% last quarter; investor concerns amplify around inflation and Fed policy*

EXPECTATIONS FOR 2022 COMPANY PERFORMANCE



LEVEL OF CONCERN RELATIVE TO LAST QUARTER (AIDED)

*More Concerned or Continued High Level of Concern*





# Top concerns from around the globe

*9 in every 10 industrial investors continue to cite inflation as a top concern with recession, energy costs and monetary policy new threats*

92% (UNCH)	Inflation	60% (↑ 5pts)	Supply chain	30% (↑ 30pts) NEW	Recession
25% (↑ 25pts) NEW	Energy costs	23% (↑ 23pts) NEW	Monetary policy	19% (↑ 1pt)	Geopolitical risks

## Views from N. America

*"Supply chains – speed and availability of materials, cost inflation – labor, material, and components, economic recession."* **Buy Side, Generalist**

*"Inflationary costs, higher interest rates, peaking ISM."* **Buy Side, Industrials**

*"Labor inflation, commodity inflation, supply chain."* **Buy Side, Industrials**

*"Regulation, energy prices, labor."* **Buy Side, Industrials**

*"Inflationary cost increases."* **Buy Side, Industrials**

*"Inflation, Fed is too aggressive and slows growth, geopolitical concerns."* **Buy Side, Industrials**

*"Reduction in economy."* **Buy Side, Industrials**

*"Double ordering, inflation, labor tightness."* **Buy Side, Industrials**

*"Inflation, supply chain, European energy cost headwinds."* **Buy Side, Industrials**

*"Inflation."* **Sell Side, Generalist**

*"Lower consumer spending, lengthening period before inflation moderates, shift in corporate capital allocation to capital spending from share repurchase."* **Sell Side, Industrials**

*"I am concerned about rising input costs as everybody should be."* **Sell Side, Industrials**

*"Geopolitics."* **Sell Side, Industrials**

## Views from EMEA / APAC

*"Ukraine, inflation, commodity issues."* **Sell Side, Generalist**

*"Cost inflation, energy costs, logistics."* **Sell Side, Industrials**



67% (↓ 16pts QoQ)  
Inflation

61% (↑ 27pts)  
Demand Trends

55% (↑ 4pts)  
Supply Chain

29% (↑ 7pts)  
Capital Allocation

14% (↑ 14pts)  
Margin Outlook **NEW**

## Topics of interest for upcoming earnings calls

*Inflation remains top of mind for investors, followed by demand trends, which is more pronounced QoQ*

### Views from N. America

*"Cost/price, supply chain, dry powder."* **Buy Side, Generalist**

*"Supply chain issues, profit margin risks and opportunities, impact of Ukraine conflict on business."* **Buy Side, Generalist**

*"The inflation supply chain has been beaten to death. My biggest concern is once they get that solved, will the demand still be there? I am more focused on the demand side at this point versus supply chain cost inflation."* **Buy Side, Generalist**

*"Order rates through the quarter, pricing ability, geographical trends."* **Buy Side, Industrials**

*"Price/cost, volumes, capital redeployments."* **Buy Side, Industrials**

*"Pricing, labor costs, hedging."* **Buy Side, Industrials**

*"Trends in order rates, ability to push price, cancellations."* **Buy Side, Industrials**

*"Supply chain management, cost inflation."* **Buy Side, Industrials**

*"Inflationary cost increases versus pricing, demand outlook, supply chain issues."* **Buy Side, Industrials**

*"Resolution of supply chain shortages, labor availability, M&A landscape."* **Buy Side, Industrials**

*"Orders, price and costs, supply chain."* **Buy Side, Industrials**

*"Price/costs, demand, margin color, supply chain, freight inflation, and Europe. As far as recent quarter-end, backlog, whether companies are seeing cancellations and/or ordering ahead."* **Buy Side, Industrials**

*"Organic growth."* **Buy Side, Industrials**

*"Any impact of rising interest rates on demand as well as any change in cost inflation, especially if having any exposure to diesel."* **Sell Side, Industrials**

*"Do they have significant excess production capacity to handle surge in industrial demand, are they shifting funds from share repurchase to capital spending, have they begun to structurally adjust their global supply chains and shorten them by shifting production back closer to major core markets?"* **Sell Side, Industrials**

*"ESG. I haven't forgotten that in the context of high energy prices in the war in Europe, which seems to have faded from the headlines. I want to hear continuing narratives from the company on what they're doing on energy consumption reduction, carbon emissions reduction, and looking at that through scope 1, 2 and 3."* **Sell Side, Industrials**

*"Supply chain and inflation. It is interesting to see how much more pricing they think they can pass through because everyone is getting pricing fatigue, so that is going to be a subject of interest in the first quarter as far as expectations for the back half."* **Sell Side, Industrials**

### Views from EMEA

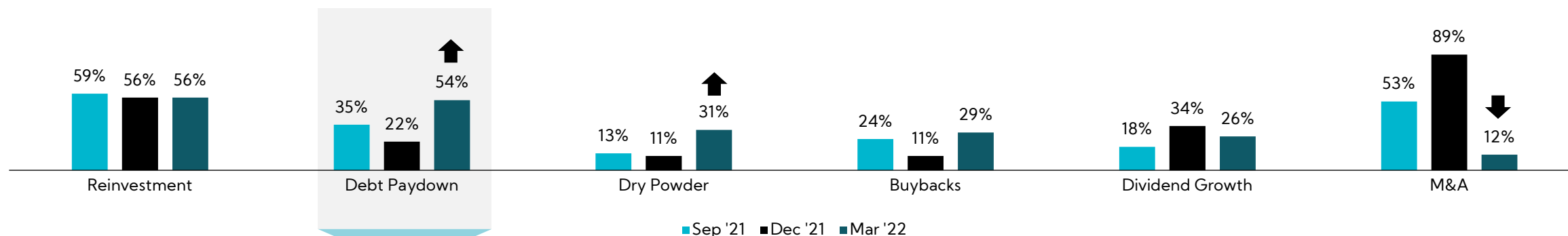
*"Volume outlook for Q2 and Q3, cost inflation, room for cost cutting measures."* **Sell Side, Industrials**

# After registering at a record level, attitudes toward M&A diminish as greater uncertainty increases preference for balance sheet strength

*Reinvestment is cited as the leading use of cash followed closely by debt paydown; tolerance for leverage tightens QoQ*

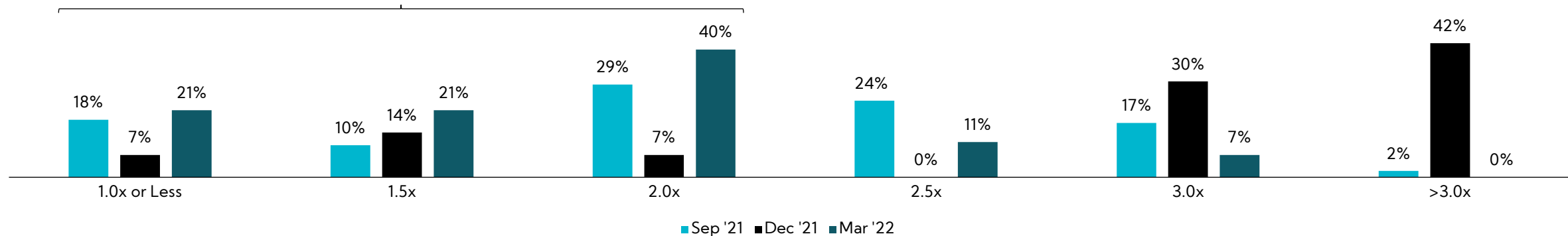
## PREFERRED USES OF CASH FOR INDUSTRIALS

In Descending Order of Top Two Preferences



## IDEAL NET DEBT-TO-EBITDA LEVEL

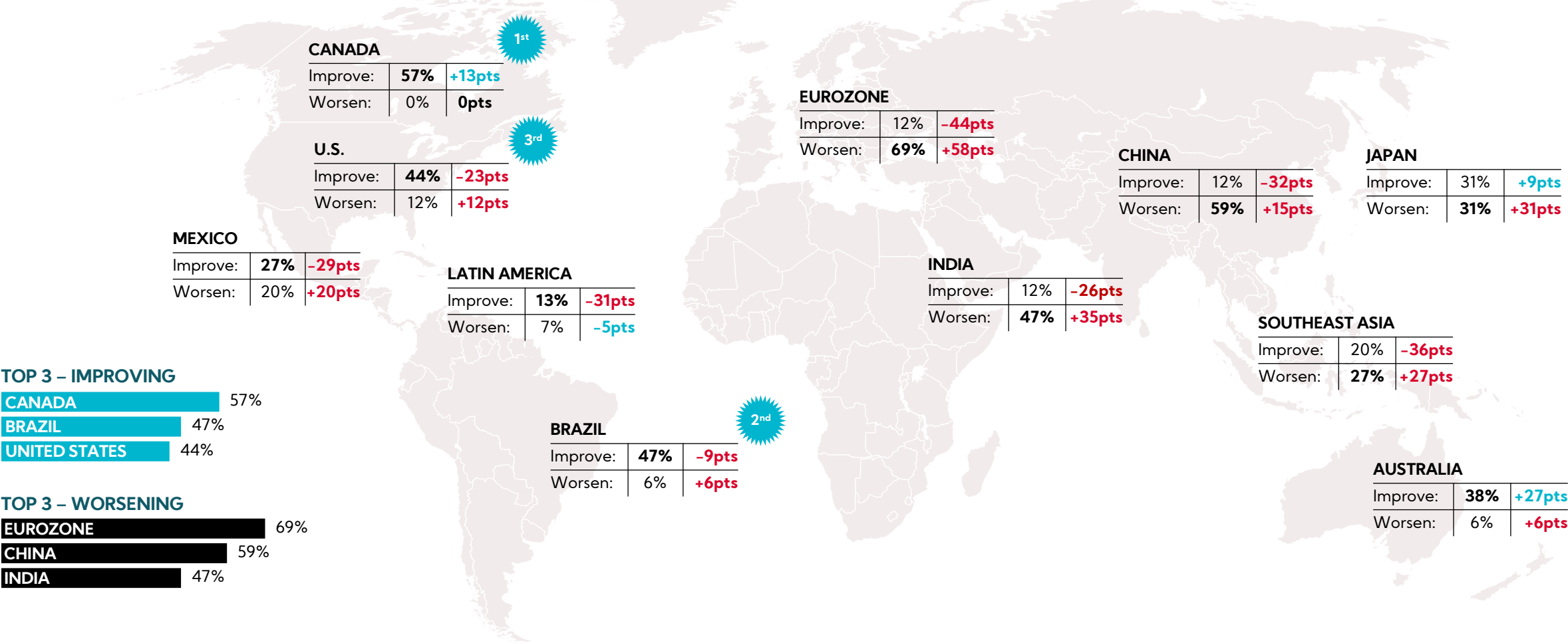
82% prefer  $\leq 2.0x$



# Europe sees its highest level of investor concern since the onset of COVID-19, followed by worsening expectations in China amid strict lockdowns

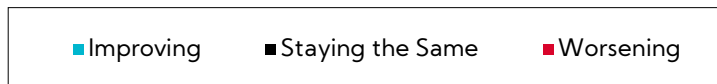
Investors believe most economies will slow from here over the next six months

## GLOBAL ECONOMY EXPECTATIONS OVER THE NEXT SIX MONTHS

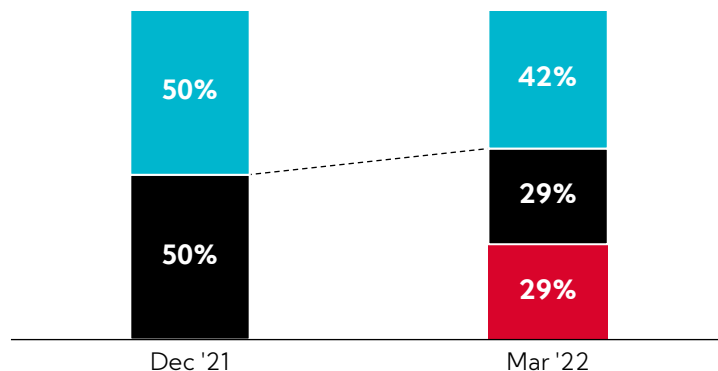


# Views on key economic indicators over the next six months

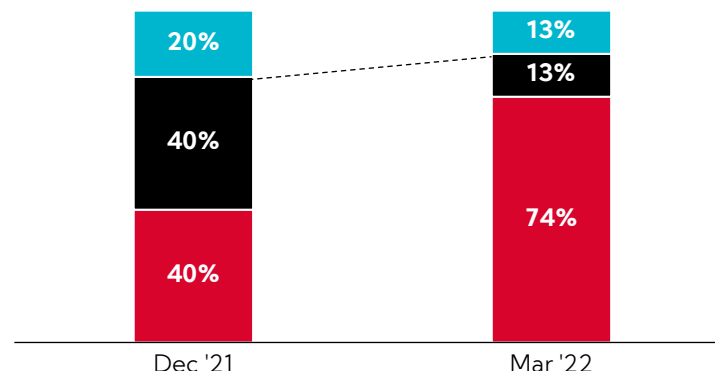
*Nearly all KPIs register a rise in concern among investors, with global PMI and U.S. consumer confidence expected to deteriorate significantly*



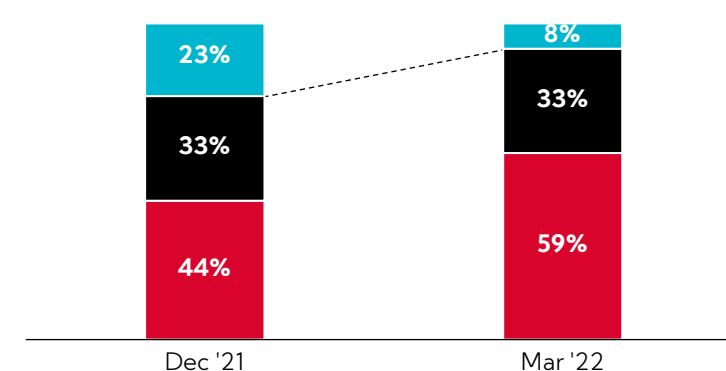
GLOBAL CAPEX



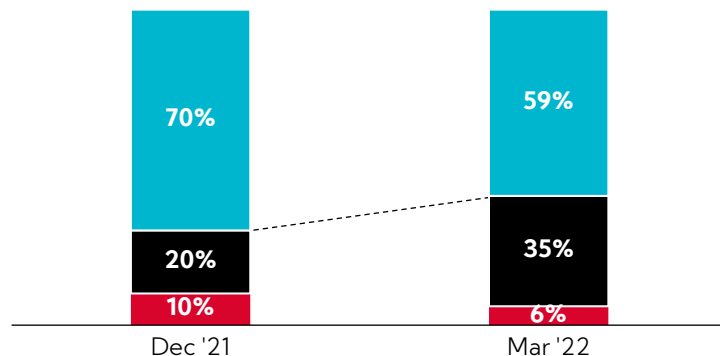
GLOBAL PMI



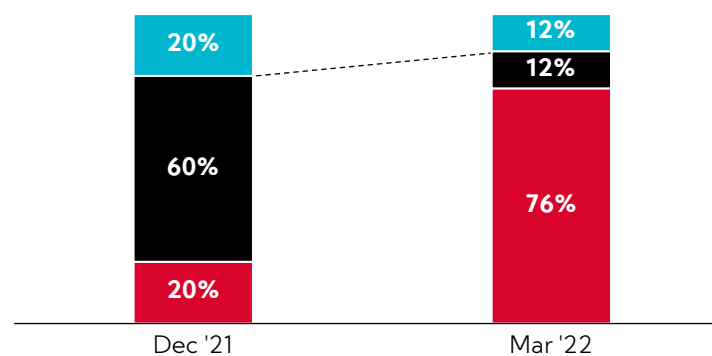
FX HEADWINDS



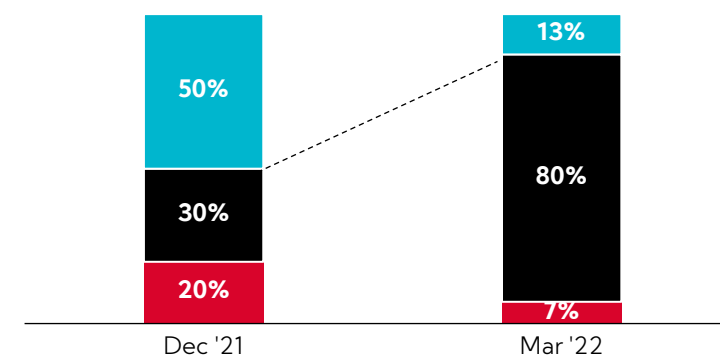
OIL & GAS MARKETS



U.S. CONSUMER CONFIDENCE



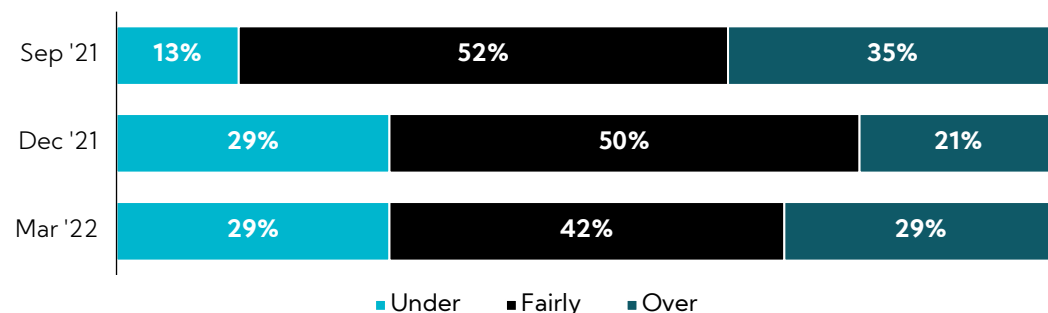
U.S. UNEMPLOYMENT RATE



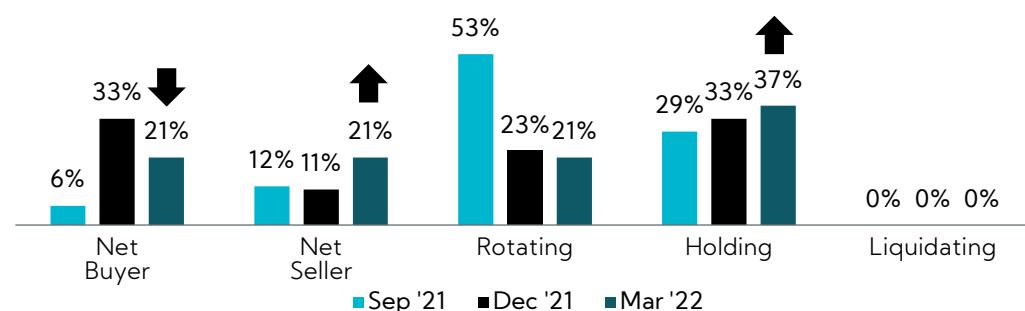


# Investors largely holding amid uncertainty with cost-cutting, North America exposure and small caps leading investment themes

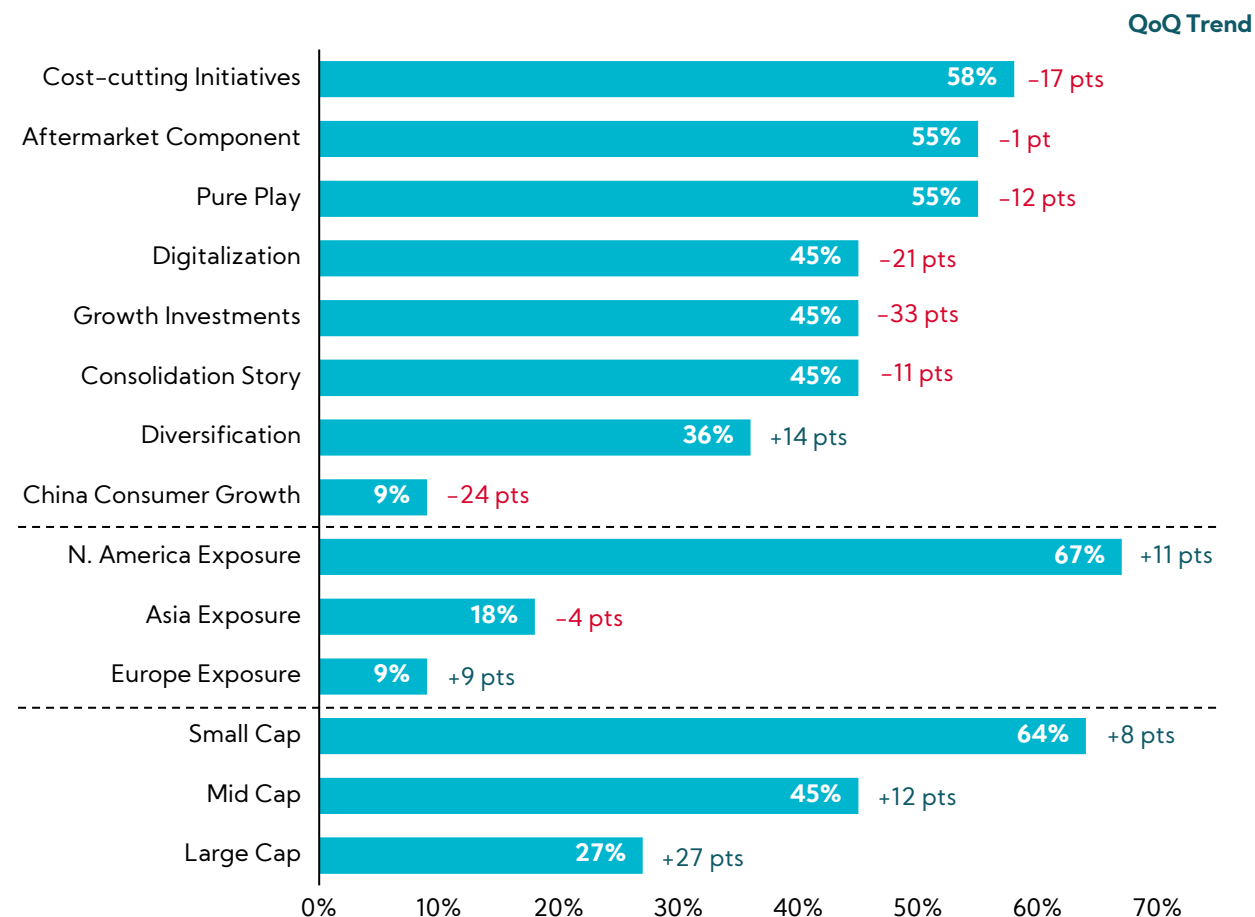
## GLOBAL INDUSTRIAL VALUATIONS



## QoQ INVESTMENT TRENDS



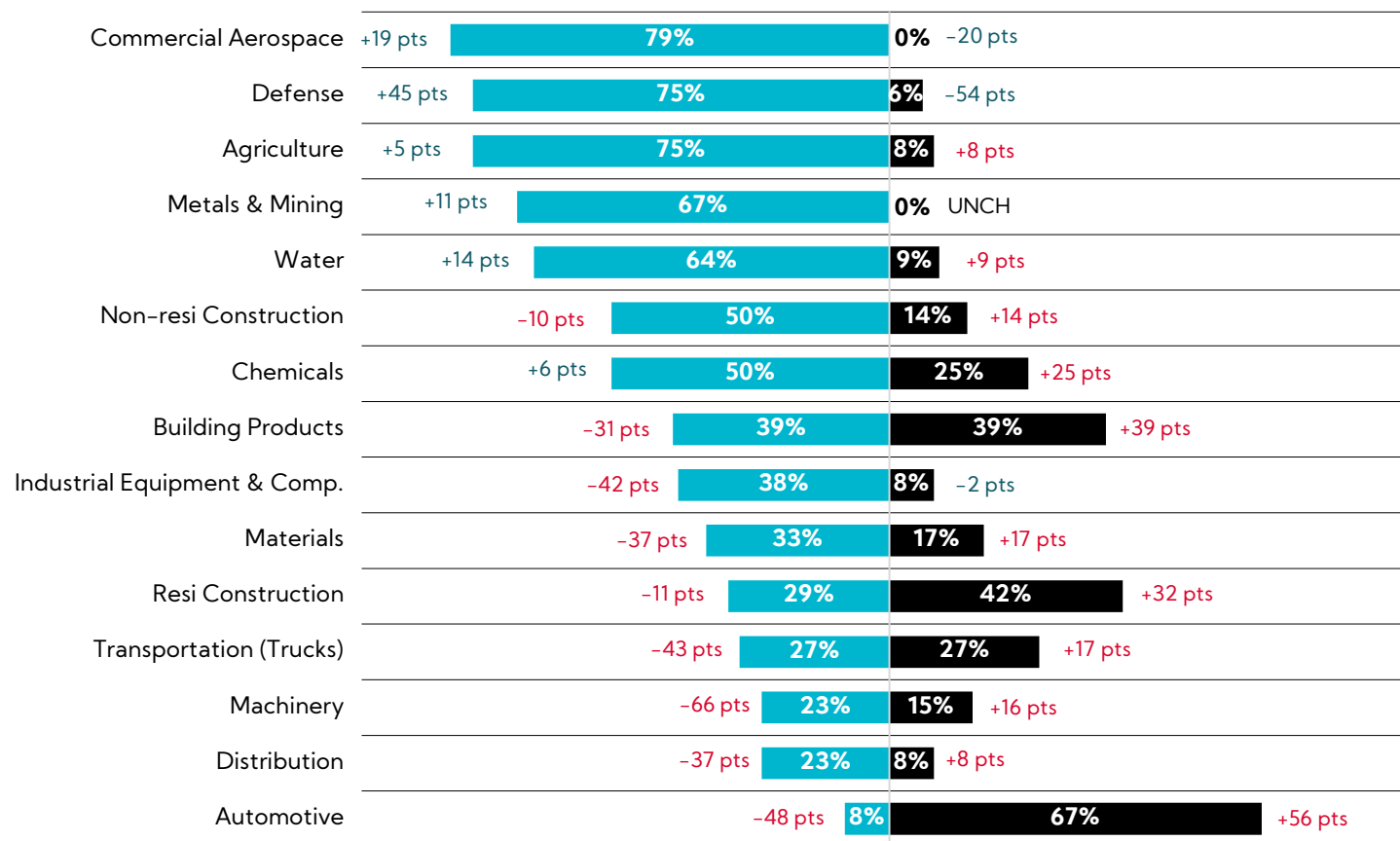
## MOST COMPELLING INDUSTRIAL INVESTMENT THEMES



# Still more bulls than bears, though most industries across the sector experience a net negative swing in sentiment QoQ

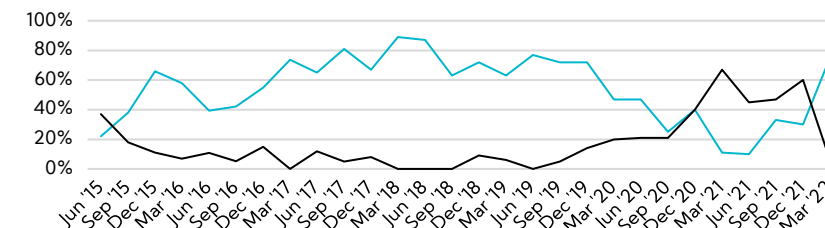
## INDUSTRY VIEWS

■ Bulls ■ Bears

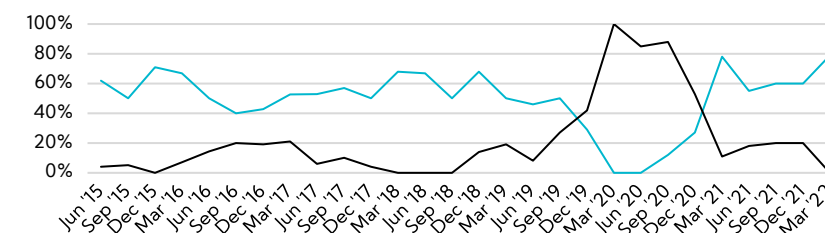


## Largest Bull Gainers

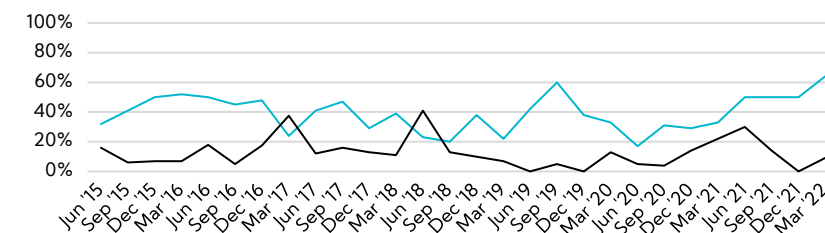
### DEFENSE



### COMMERCIAL AEROSPACE



### WATER

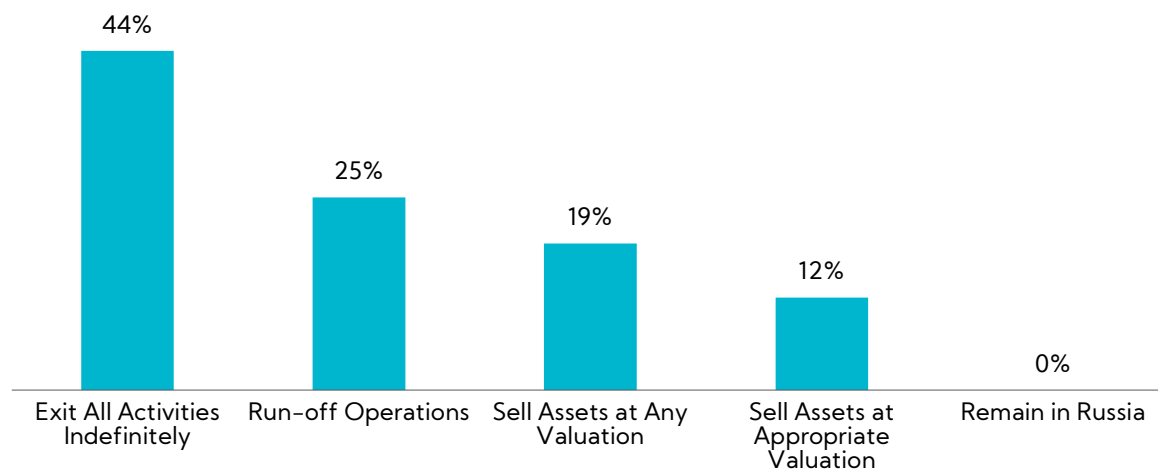


■ Bulls ■ Bears

# Investors favor companies exit all activities in Russia indefinitely as a result of the invasion

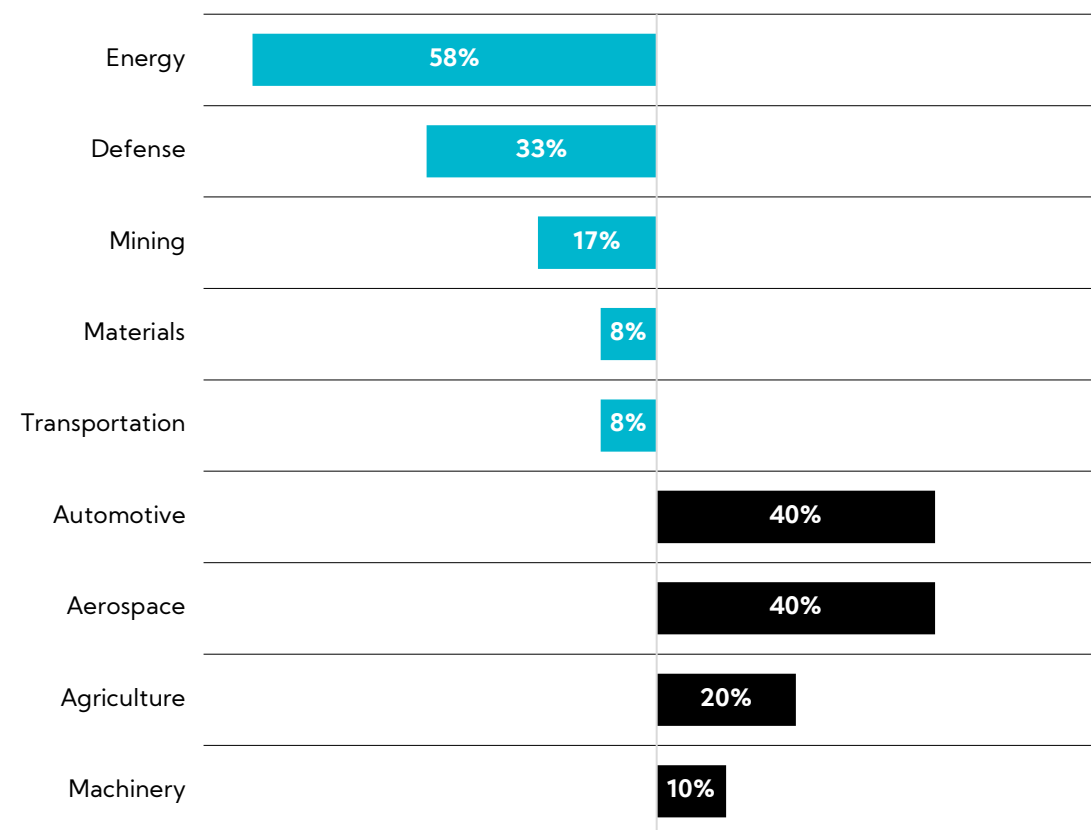
*Automotive industry expected to see the greatest negative impact, while investors are bullish on rising energy prices as a result of shifting dependencies*

## PREFERENCE FOR COMPANIES WITH RUSSIAN ASSETS



## SECTORS EXPECTED TO BE NEGATIVELY AND POSITIVELY IMPACTED BY THE RUSSIA-UKRAINE CRISIS

■ Positive ■ Negative



# We are a specialized research and advisory firm focused on helping public companies realize their value



## TRANSFORMATIONAL INSIGHT

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



## TRUSTED PARTNERS

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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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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 rugged and textured, and the floor is covered in dark, wet rocks. The light creates a strong contrast between the illuminated areas and the deep shadows of the cave.

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# Contact Us

[research@corbinadvisors.com](mailto:research@corbinadvisors.com)

270 Farmington Ave, Suite 260  
Farmington, CT 06032

[corbinadvisors.com](http://corbinadvisors.com)