

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*

INSIDE THE  
**Buy•Side**

# Q2'22 Industrial Sentiment Survey

July 21, 2022

# Inside The Buy-side® Q2'22 Industrial Sentiment Survey

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.

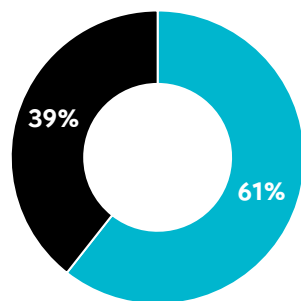
Leveraging our deep understanding of capital markets, cutting-edge technology and best practice knowledge, our research demonstrates the value we add by remaining at the forefront of global market trends, investor sentiment and effective communication strategies.

**Survey Scope:** 33 sector-dedicated investors and analysts globally; buy side firms manage ~\$1.1 trillion in assets, including ~\$96 billion invested in Industrials

**Survey Timeframe:** June 15 – July 12, 2022

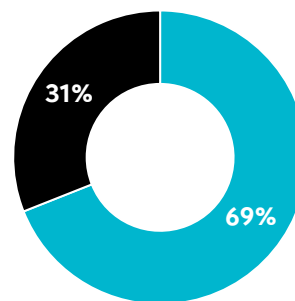
Market Performance	Q2'22	YTD <sup>1</sup>
DJIA	(11.6%)	(14.5%)
NASDAQ	(22.7%)	(27.7%)
S&P 500	(16.7%)	(19.5%)
S&P 500 Industrial	(17.0%)	(17.2%)
Russell 2000	(18.3%)	(23.2%)

ROLE



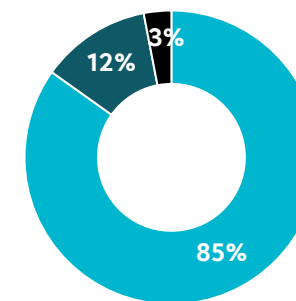
■ Buy Side ■ Sell Side

SECTOR FOCUS



■ Industrials ■ Multi-Industry Incl. Industrials

REGION



■ North America ■ Europe ■ APAC



# Word Cloud: Visual Representation of Investment Community

## Focus Areas, Themes and Sentiment

*Headwinds continue to dominate mindshare, with demand and capex now in investor focus*



Top Mentions	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q/Q
Inflation	26	25	32	56	25	↓ 31
Demand	7	13	20	10	21	↑ 11
CapEx	2	1	0	0	19	↑ 19
Costs	27	18	17	26	18	↓ 8
Recession	0	0	0	4	17	↑ 13
Supply Chain	14	51	20	28	16	↓ 12

### Key: Underlying Sentiment

- Positive
- Neutral
- Negative

# Industrial Investor Sentiment Warms QoQ and Is Less Downbeat than Generalist Counterparts; While Expectations for the Next Six Months Are Gloomier, Reinvestment Remains Top Cash Use

## Bearish Industrial Investor Sentiment Ebbs QoQ Amid Expectations for a Mixed / Not All Bad Q2

- **39%** describe sentiment as *Neutral*, up from 29% last quarter while those characterizing their view as *Neutral to Bearish* or *Bearish* falls to 38% from 52%, QoQ
- **50%** classify executive tone as cautiously optimistic, up from 45% QoQ, citing continued strong orders and backlogs; only 27% view leadership stances as downbeat, in line with last quarter
- Views on sequential performance are mixed: **37%** anticipate *Better Than* prior quarter earnings, up from 24% last quarter while 31% expect declines in the same period, up from 28%
- **Half** expect industrials to lower EPS guidance and half to *Maintain*; more are expecting Margins and FCF to *Worsen* and companies to *Lower* profitability outlooks

## Looking Out, Recessionary Fears Grow and Views on Demand Drivers See Significant Erosion

- **57%** expect Global Capex to *Worsen* over the next six months, up from 29% QoQ
- **76%** report being *significantly concerned* or *concerned* (aided) about a recession in the next 6 to 12 months
- **50%** identify demand as a key concern, surpassing monetary policy (31%), supply chain (31%), and labor (21%)
- **80%** expect Europe to *Worsen* over the next six months and 67% for the U.S.; 57% believe China will *Improve* after four consecutive quarters of downbeat sentiment

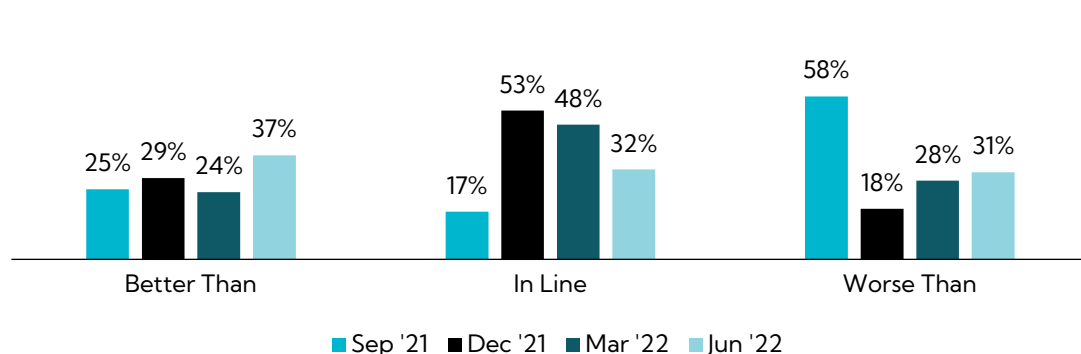
## While Investors Continue to Encourage Reinvestment in the Business, *Cost Cutting* Remains the Leading Investment Theme

- Capital deployment preferences see notable shifts this survey
  - **76%** favor reinvestment as a top use of cash, up from 56% QoQ
  - **47%** suggest companies maintain current levels of growth capex with **67%** continuing to highlight *Digitalization* as a compelling investment theme
  - Only **16%** prefer debt paydown, though 90% report an ideal Net Debt-to-EBITDA level of 2.0x or less
  - Only 23% favor M&A at this time
- With **95%** seeing industrials as *under* to *fairly* valued, 56% report *Holding* or *Rotating* within industrials, looking for companies positioned to outperform
- Defense, Auto and Commercial Aero see the most upbeat views, while Resi Construction, Metals & Mining and Machinery see greatest influx of bears

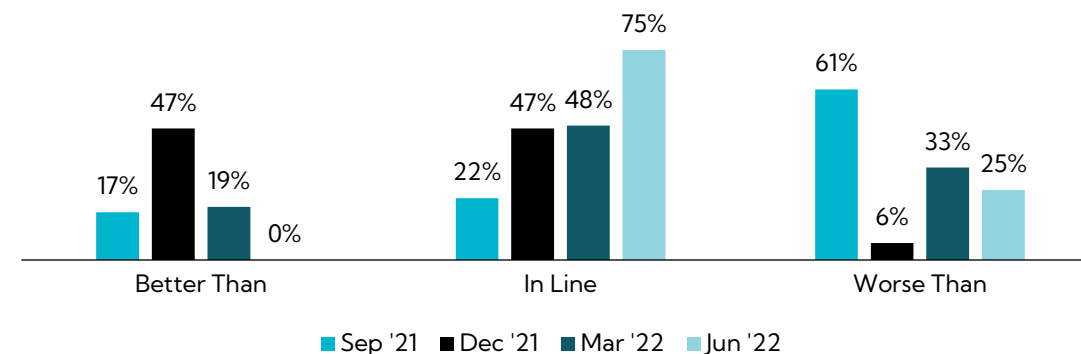
# Slightly More Investors Expecting Sequential Strength Amid Strength in Backlogs, Orders and Pricing with Three-Quarters Calling for Results to Be In Line with Consensus

*Sell side viewed as having lowered consensus enough to be in line with company performance this quarter; none expecting beats but fewer anticipating misses*

Q2'22 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



Q2'22 EARNINGS EXPECTATIONS VS. CONSENSUS



## Better Than

*"Strong backlogs and modest sequential improvement in supply chains." **Sell Side, Industrials, N. America***

*"Discussions with management." **Sell Side, Industrials, Europe***

*"Strong order intake supports sales and earnings for 2022." **Sell Side, Industrials, Europe***

## In Line

*"Continued difficult environment (supply chain, labor, China lockdowns) will make it difficult for companies to materially outperform expectations." **Buy Side, Industrials, N. America***

*"Still too many frictional inefficiencies combined with rising demand uncertainty to hit 2H-weighted guidance." **Sell Side, Industrials, N. America***

*"Strong order intake." **Sell Side, Industrials, Europe***

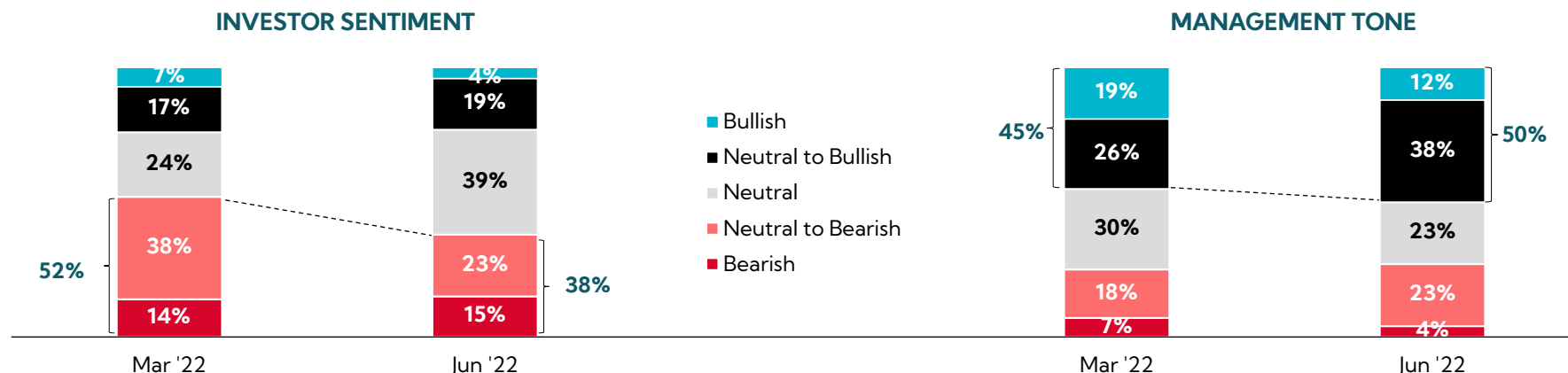
## Worse Than

*"China shutdown, inflation." **Buy Side, Industrials, N. America***

*"The month of June has probably been worse than expected." **Sell Side, Industrials, Europe***

# Investor Sentiment Less Bearish, More Neutral QoQ; While Those Downbeat Do Not Feel “Overwhelmingly Negative”, There Is Growing Awareness of More Recent Slowing Demand

*Investors see opportunity as the market has priced worst-case scenario; more cautious amid “cooled” demand but not seeing the rug pulled out yet*



## Neutral to Bullish / Bullish

*"The macro environment is uncertain but many industrials have lagged YTD and are beginning to discount a mild recession. Fundamentals and expectations can absolutely get worse but the stocks are reflecting some of this already."* **Buy Side, Industrials, N. America**

*"The executives that I talk to are neutral to bullish because they expect some type of slowdown on the 300bps move on mortgage rates. It's a question now of do we see other things start to fall apart, do layoffs pick up, do we get a bad jobs print now or in August? I think there is some hesitancy around that. At the same time, debt levels are in good shape, balance sheets are in good shape, so it's not going to be like '07 where you had to sell everything all the way down to the nails in the wall to make payroll or interest payments."* **Sell Side, Industrials, N. America**

*"You have to be neutral to bullish. If you are bullish as an executive in this environment, it only leaves room to be left exposed, so you definitely want to stay neutral to bullish to factor that into your guidance. Companies that have revised guidance have been penalized and it will take a while for them to get out of the penalty box, so you have to stay neutral to bullish until we are done with this."* **Sell Side, Industrials, N. America**

## Neutral to Bearish / Bearish

*"I am being cautious in this backdrop given the challenges of inflation and the upcoming challenges of slower growth. The tone from executives has been increasingly cautious around growth in general."* **Buy Side, Generalist, N. America**

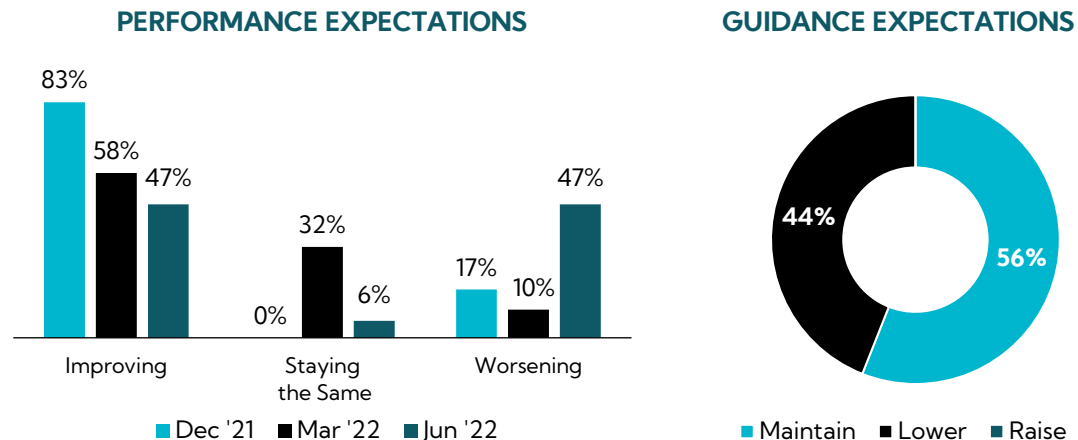
*"Executives often will point out the positives but the macro backdrop is quite difficult. I am not getting overwhelmingly negative sentiment but it feels like there has been somewhat of a change over the course of the last four to six weeks and it has ticked negative by several steps."* **Buy Side, Generalist, N. America**

*"I think most of the management comments we've heard after the Q1 season were too early for them to come forward with new guidance for the rest of the year. But this Q2 season, I expect to hear more about the earnings over the last part of the year. Q1 earnings were artificially high because of all the hedges but these hedges will have run out completely for most of the industrial companies in 2H. On the back of that, I would expect a profit squeeze because of much higher input hedging costs as well."* **Buy Side, Industrials, Europe**

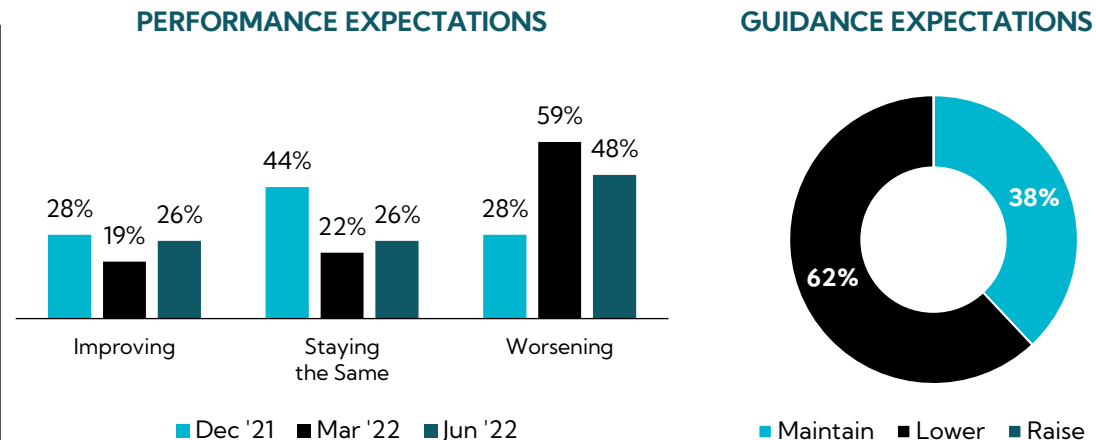
*"Particularly for industrials that are tied to the consumer, there has been a market change in the last 60 days. You are starting to see inflationary pressures start to impact end market demand. There has been a shift. Not a 'look out below,' but demand has cooled and folks are waiting to see if it is temporary or more of a longer-term shift."* **Sell Side, Industrials, N. America**

# Investors Baking in Less Rosy KPIs but Again Not A Full Cratering; Divided Views on the Top Line This Quarter, Which Is Seen as the Second Biggest Concern Behind Inflation

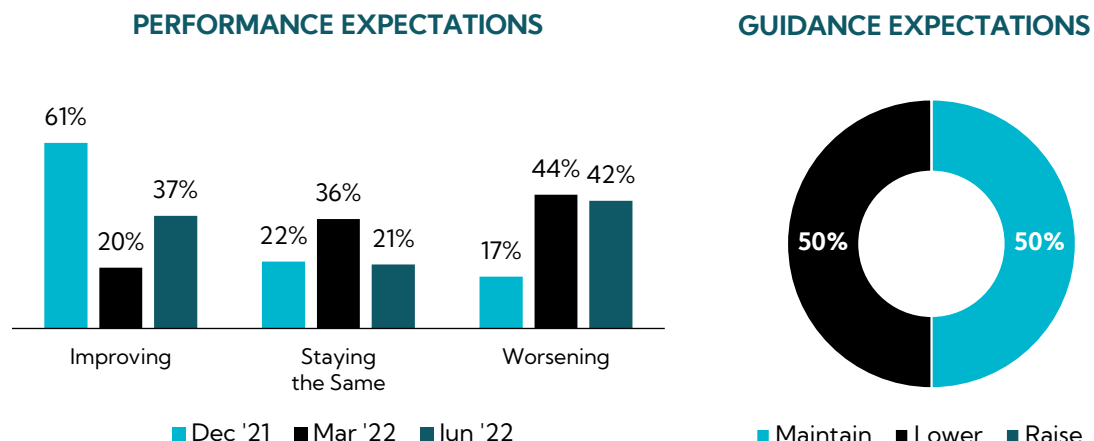
## REVENUE GROWTH



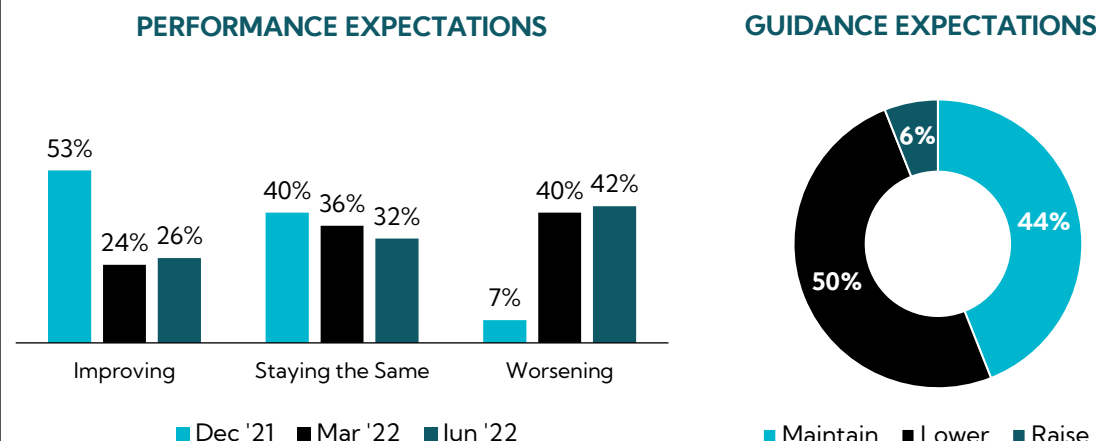
## OPERATING MARGINS




## EPS



## FCF





**78%** (↑ 11pts QoQ)  
**Inflation, price/cost**

**41%** (↑ 11 pts)  
**Demand**

**39%** (↑ 25pts)  
**Margin outlook**

**39%** (↓ 16pts)  
**Supply chain**

**34%** (↑ 5pts)  
**Capital allocation**

## Topics of Interest for Upcoming Earnings Calls

*Inflation remains the leading focus area for the third consecutive quarter, followed by demand and margins; while still notable, fewer seeking perspective on supply chain disruption*

### Views from N. America

*"Demand prospects, supply chain alleviation prospects, material and labor cost increases."* **Buy Side, Industrials**

*"End market demand environment, price/cost outlook, capital allocation priorities."* **Buy Side, Industrials**

*"Demand, margins, China."* **Buy Side, Industrials**

*"Recent order trends, inflationary pressures (potential peak coming?)."* **Buy Side, Industrials**

*"I am interested in what executives are seeing. They are probably not seeing anything but you want to hear how they view their business if we do take a downturn or encounter a recession."* **Buy Side, Industrials**

*"It would be nice to know how much pricing may have to go backwards if the market turns and material costs go lower; investors will be interested in which companies will be able to hold pricing even in softening demand, as well as benefit from material deflation to bolster margins."* **Buy Side, Generalist**

*"Number one is they need to continue to address the price/cost relationship, what they have forecasted for the year versus the price they expect to have in the market currently or will put in the market eventually, two is their ability to flex cost if we do go down into a lower demand environment for housing in general."* **Buy Side, Generalist**

*"Conditions in July, supply chain, pricing power."* **Sell Side, Industrials**

*"Demand runway in core markets, ability to navigate recession, capacity to invest through downturn."* **Sell Side, Industrials**

*"Pricing, price/costs and supply chain, more color into industry dynamics."* **Sell Side, Industrials**

### Views from EMEA

*"It's going to be mostly about maintaining earnings at good levels and cash generation. Maintaining operating margins at decent levels, despite the fact that input costs increases because of disruptions will have increased quite significantly, impacting profit margins. That's what the discussion is going to be mostly about, instead of who is growing a little bit faster than the other."* **Buy Side, Industrials**

*"Falling demand, long term capex needs, inflation."* **Sell Side, Industrials**

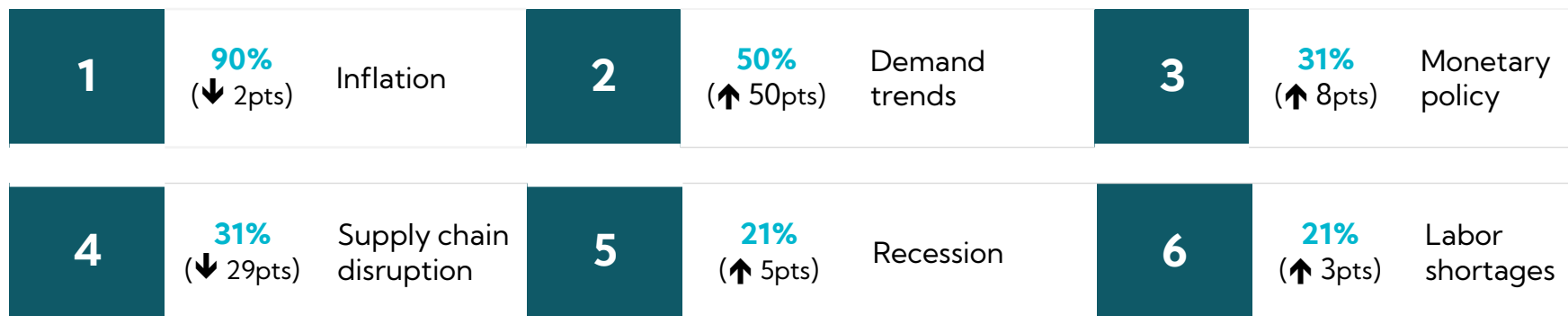
*"Visibility of order book and risks of cancelations, operational issues, what are companies doing after having already cut costs during the past few years, supply chain issues have persisted and expectations have been hyped up too often – what is the underlying visibility regarding these challenges?."* **Sell Side, Industrials**

*"Supply side issues, material cost development, price increases, China."* **Sell Side, Industrials**



# Top Concerns from Around the Globe *(unaided)*

*9 in every 10 industrial investors continue to cite inflation as a top concern; demand trends a new topic this quarter*



## Views from N. America

*"Margins, revenues, supply chain."* **Buy Side, Industrials**

*"Inflation, supply chain, labor shortages."* **Buy Side, Industrials**

*"Cost increases, consumer spending, pace of price increases."* **Buy Side, Industrials**

*"For transport, I am significantly concerned about a recession. For the industrial economy, I am not as concerned. There is a good potential for a recession. The general industrial trend never got that heated."* **Buy Side, Industrials**

*"Weakening demand, inflationary pressures."* **Buy Side, Industrials**

*"Inflation, Russia/Ukraine, COVID resurgence."* **Sell Side, Industrials**

*"Fed policy, inflation/demand destruction."* **Sell Side, Industrials**

*"Still appears to be pent-up demand, spending/investment will falter if confidence lowers."* **Sell Side, Industrials**

*"The market is pricing at a much more aggressive housing recession than what we see."* **Sell Side, Industrials**

*"You're coming off an extraordinary period of demand for goods with COVID and all the government stimulus, people were spending money on goods rather than services. Also, you now have the inflationary pressures. Lastly, the economy is slowing; I think it will end up hitting different sectors at different rates and magnitudes, but we have already seen a number of blowups. There is a consumer shift occurring."* **Sell Side, Generalist**

## Views from EMEA / APAC

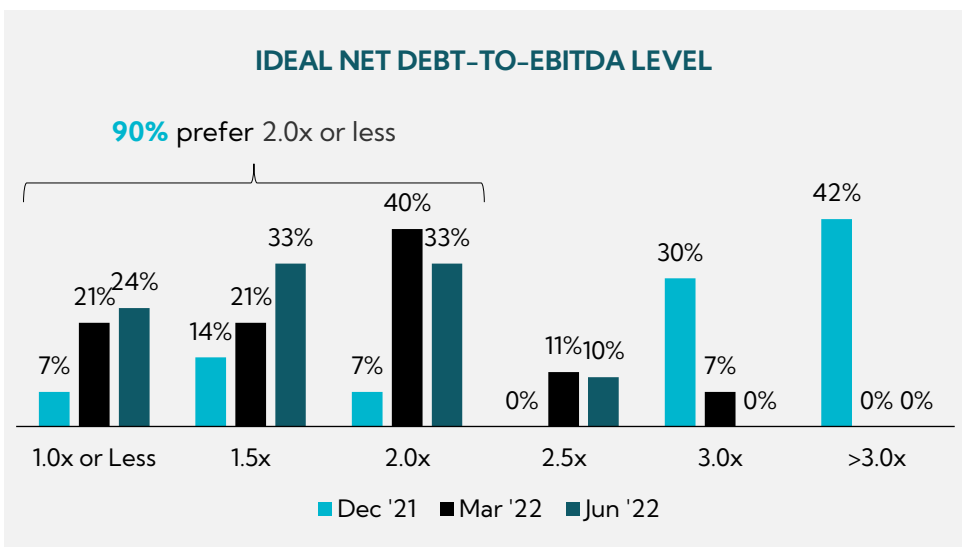
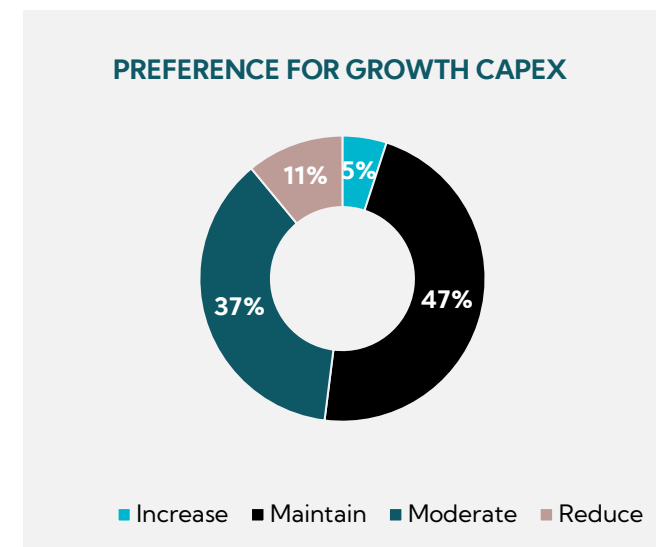
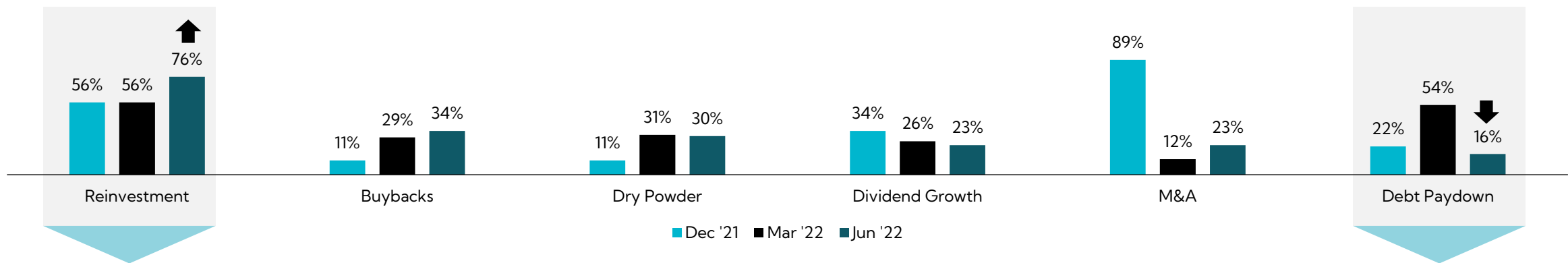
*"Supply side shortages, cost inflation (PPI), interest rates."* **Sell Side, Industrials**

*"Ability to continue passing on higher costs, labor issues, costs and availability, companies having a lack of visibility which can continue during the 2H22."* **Sell Side, Industrials**

*"The coming recession, interest rates, inflation."* **Sell Side, Industrials**

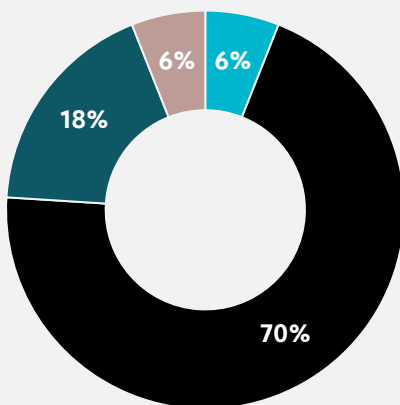
# A Reflection of Lessons Learned from the Great Financial Crisis and COVID-19 – Balance Sheets Seen as Strong So Reinvestment Remains Top Preference

**PREFERRED USES OF CASH FOR INDUSTRIALS**  
In Descending Order of Top Two Preferences



# Majority Are Concerned about a Recession

LEVEL OF CONCERN ABOUT A RECESSION  
IN NEXT 6-12 MONTHS



■ Significant ■ Concerned ■ Somewhat ■ Little

## On a Recession

*"For transport, I am significantly concerned about a recession. For the industrial economy, I am not as concerned. There is a good potential for a recession. The general industrial trend never got that heated."* **Buy Side, Industrials, N. America**

*"Still appears to be pent-up demand but spending and investment will falter if confidence worsens."* **Sell Side, Industrials, N. America**

*"The market is pricing at a much more aggressive housing recession than what we see."* **Sell Side, Industrials, N. America**

## On Reinvesting at this Time

*"Increase: In general, industrial is countercyclical with cash flow, so even if there is a recession coming, I am fine with spending more and the last two years have proven that everyone is underspent. There are reasons to spend more and come out in a better place versus buybacks. I do not want to see people cut proactively."* **Buy Side, Industrials, N. America**

*"Maintain: Assuming there isn't evidence of greater systemic risk or severe recession."* **Sell Side, Industrials, N. America**

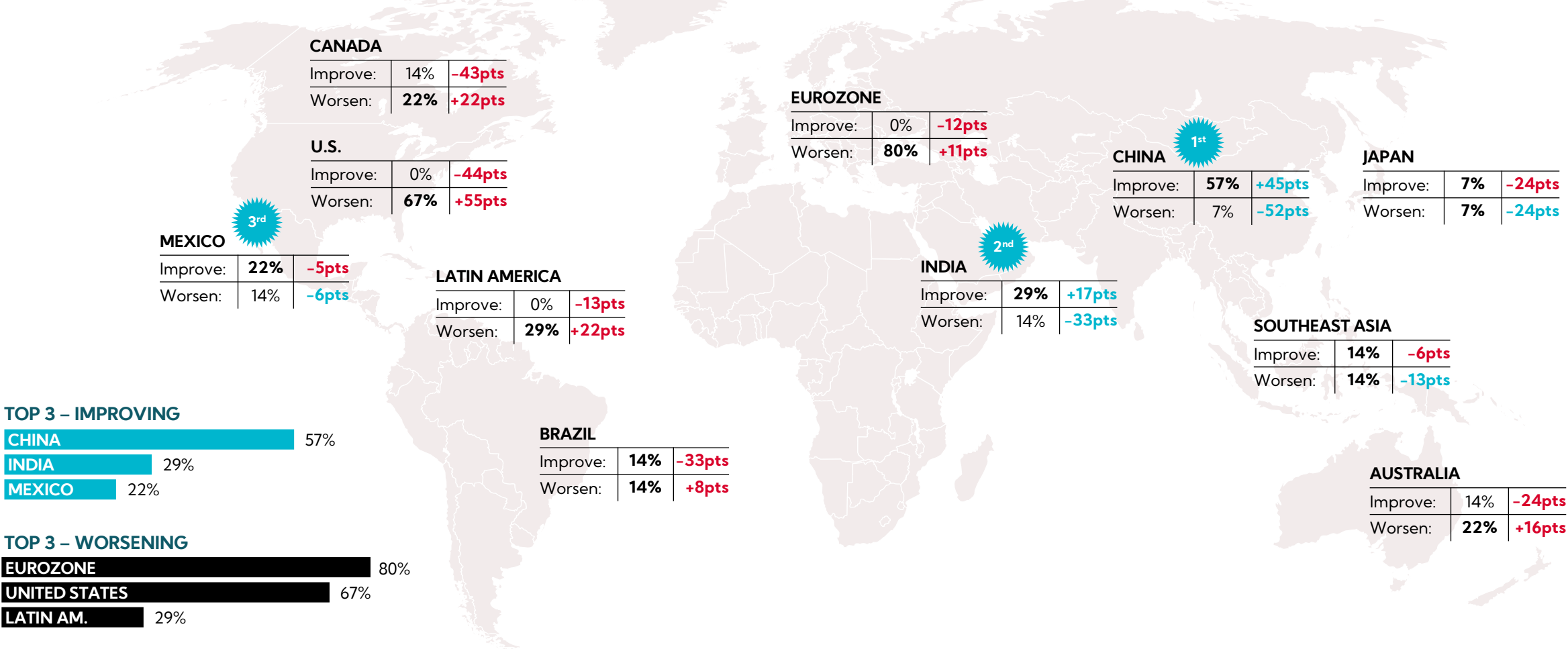
*"Maintain: If you have a great balance sheet and you have a 3- to 5-year plus outlook, there is no reason to take the foot off the accelerator. Companies should maintain capex investment, not accelerate dramatically because of more uncertainty. I do not like to see companies starve long-term growth because of what could be a short-term recession."* **Sell Side, Industrials, N. America**

*"Reduce: Companies should be reducing growth capex / investments. They should have done it last month. We are in an inflationary environment. It is causing supply chain issues. If companies do not have projects well underway and costs locked in, it is prudent to moderate that. Given the macro outlook, which is terrible, we are already in a recession this month, companies need to cut back and preserve their balance sheets as quickly as possible."* **Buy Side, Industrials, N. America**

# Ukraine War, Energy and Supply Constraints Continue to Weigh on Europe, with the U.S. Expected to Cool Off

China expected to improve from here after experiencing four consecutive quarters of downbeat expectations

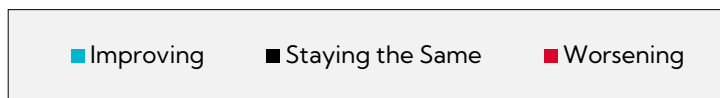
## GLOBAL ECONOMY EXPECTATIONS OVER THE NEXT SIX MONTHS



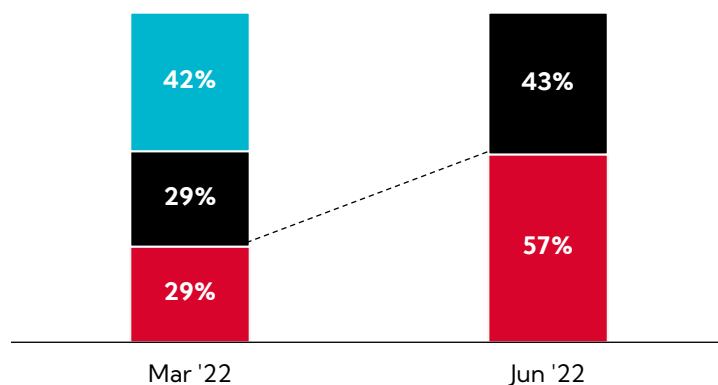


# Views on Key Economic Indicators over the Next Six Months

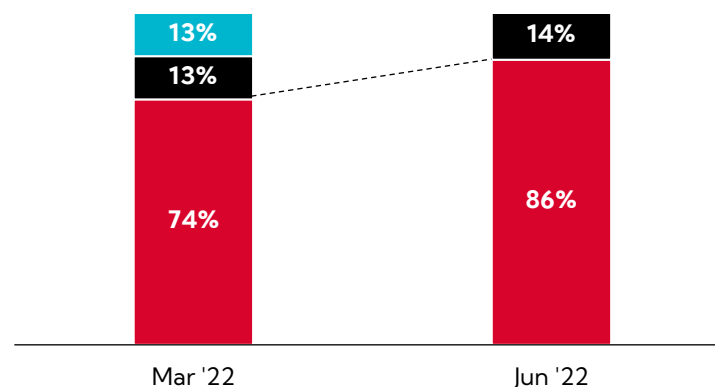
*Global PMI, Global Capex and U.S. Consumer Confidence see biggest deterioration in sentiment; Oil & Gas markets a bright spot*



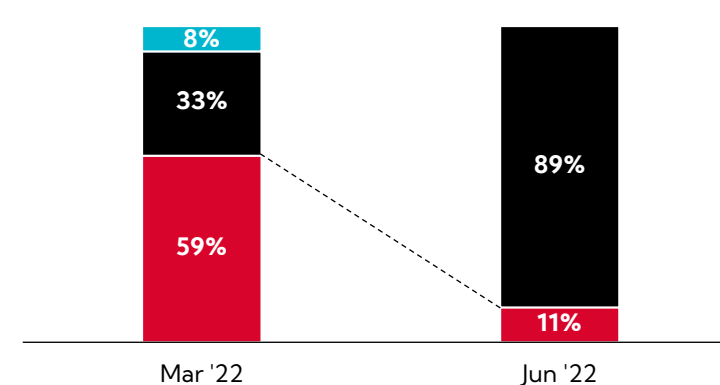
## GLOBAL CAPEX



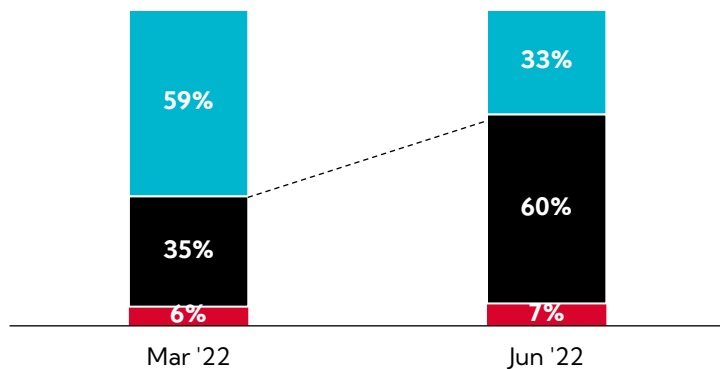
## GLOBAL PMI



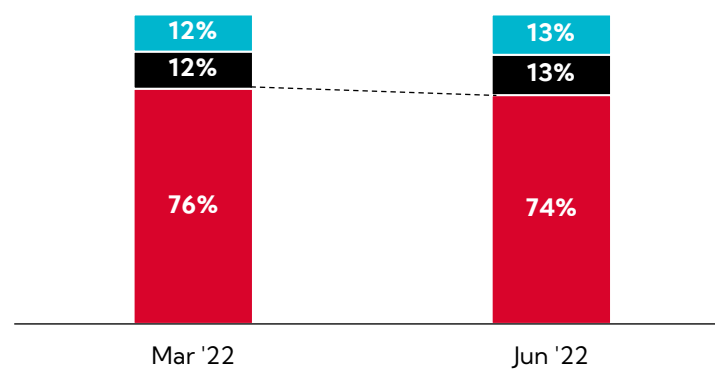
## FX HEADWINDS



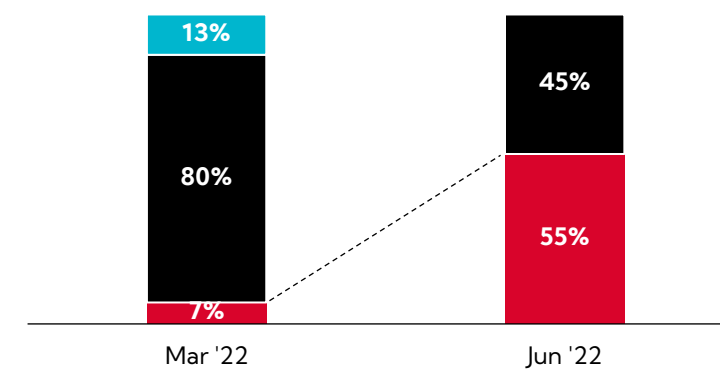
## OIL & GAS MARKETS



## U.S. CONSUMER CONFIDENCE



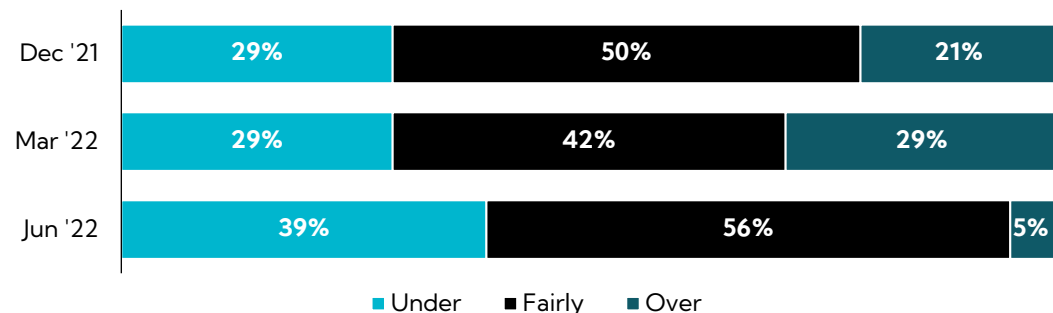
## U.S. UNEMPLOYMENT RATE



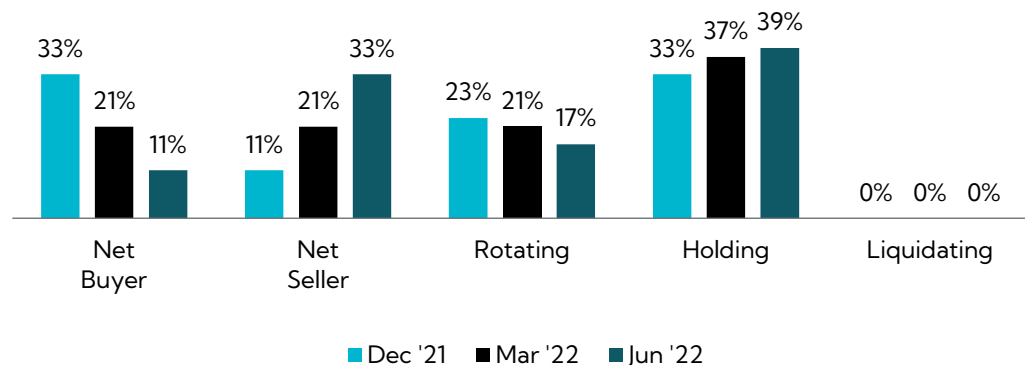
# Investors Report Industrial Equities Are Increasingly Undervalued

*Cost-cutting initiatives and digitalization remain leading investment themes; larger market-cap companies preferred*

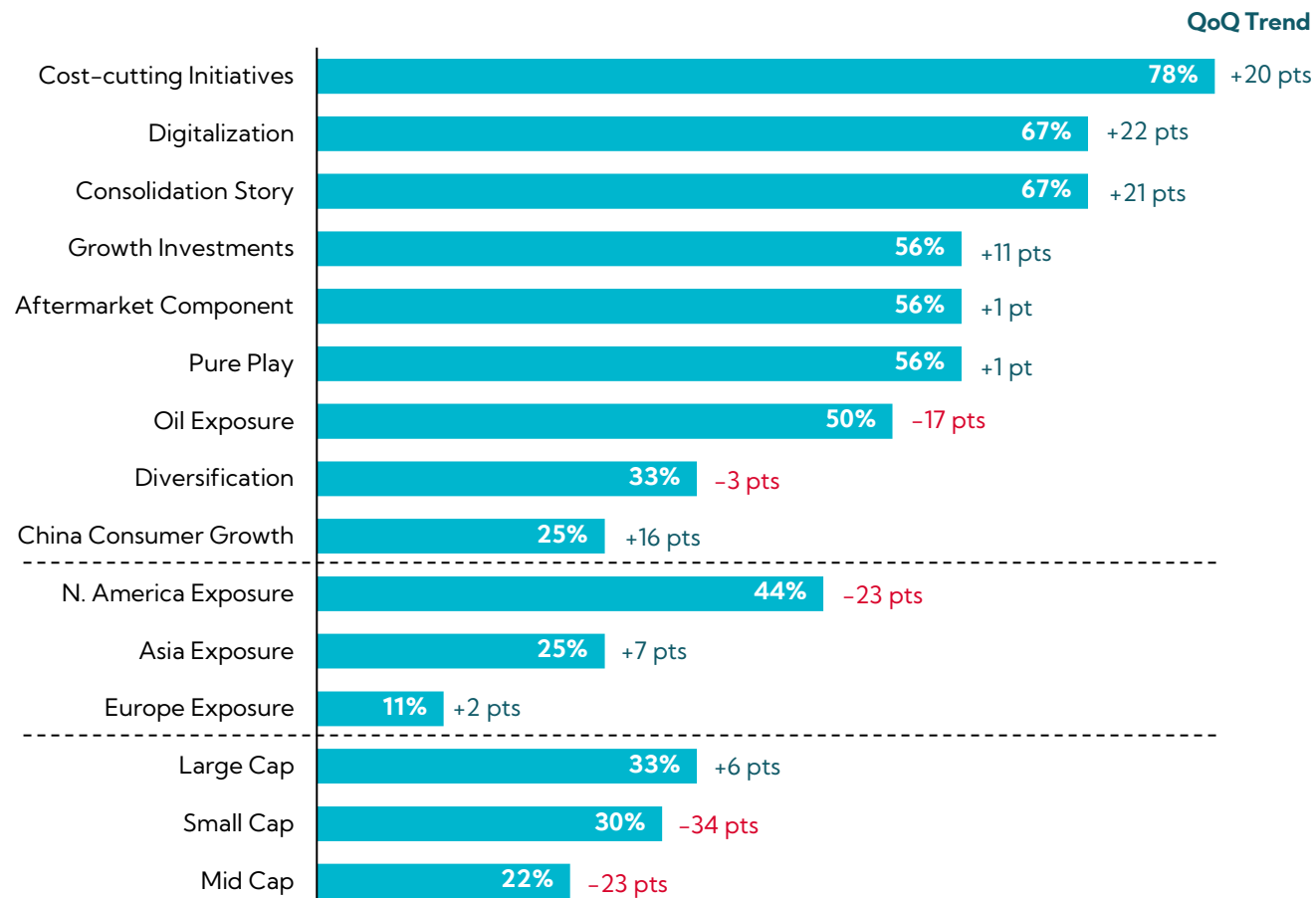
## GLOBAL INDUSTRIAL VALUATIONS



## QoQ INVESTMENT TRENDS



## MOST COMPELLING INDUSTRIAL INVESTMENT THEMES

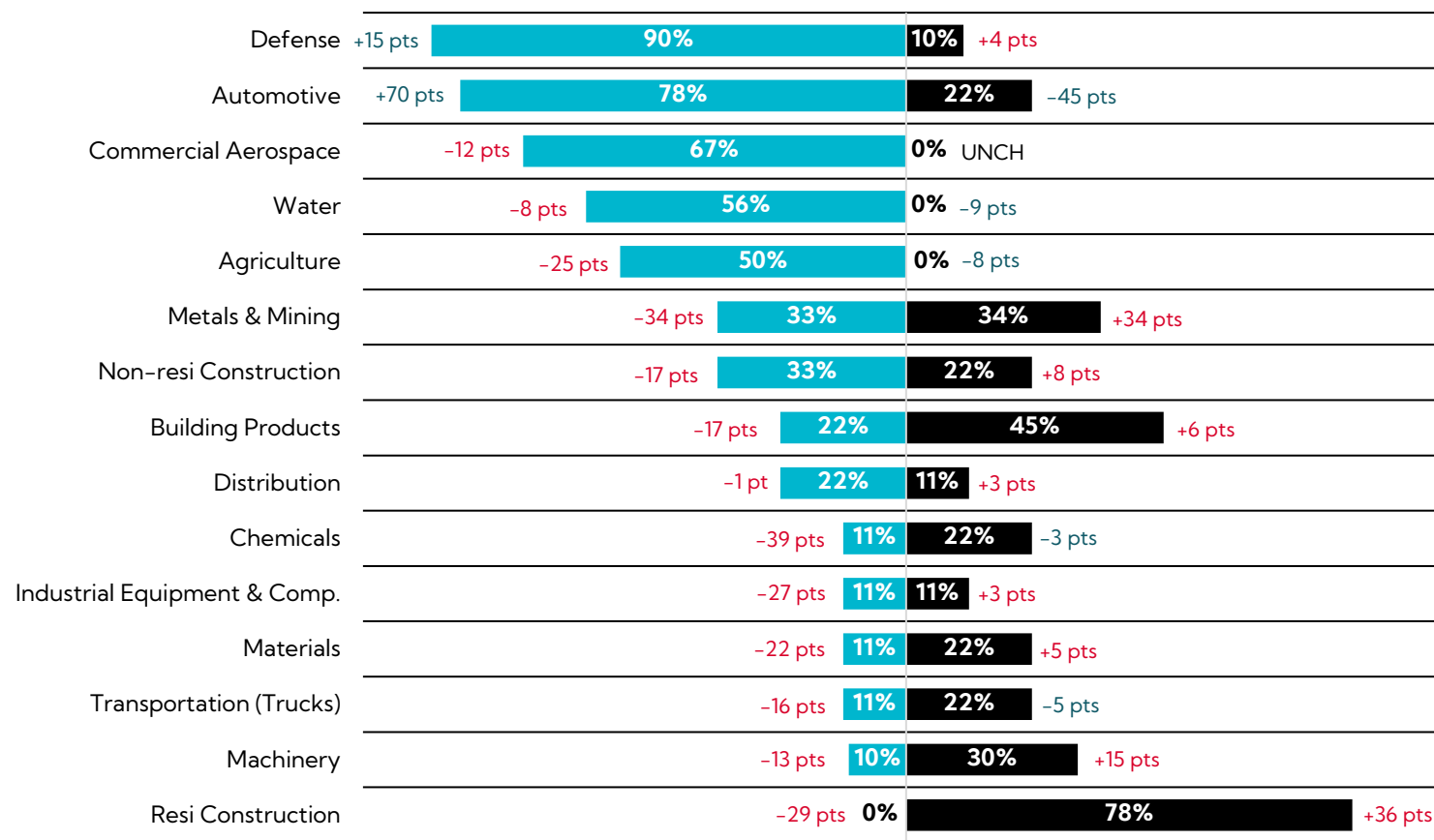


# Significant Sector Rotation Identified, with Auto Seeing an Influx of Bulls

*Bears move into Resi Construction, while Building Products and Machinery Also See Downbeat Views*

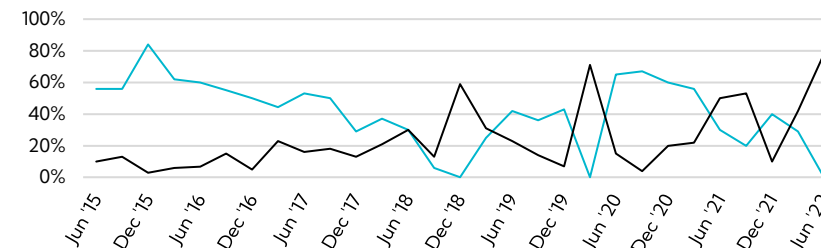
## INDUSTRY VIEWS

■ Bulls ■ Bears

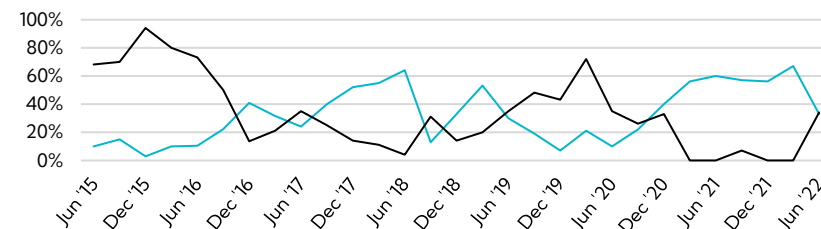


## Largest Bear Gainers

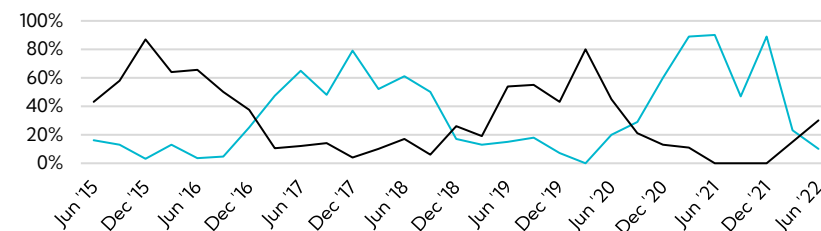
### RESI CONSTRUCTION



### METALS & MINING



### MACHINERY



■ Bulls ■ Bears



# About Corbin



# We are a specialized research and advisory firm with a track record of value realization

FOUNDED  
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Connecticut**

CLIENTS  
**Pre-IPO and public  
companies ranging  
from \$250M to \$350B  
in market-cap, across  
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AND DEEP CAPITAL MARKETS EXPERTISE

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Practice

Research as a Service

## Advisory Group

Investor Relations  
Advisory Practice

Investor Day  
Advisory Practice

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Advisory Practice

## Community Impact Group

ESG Practice

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Nonprofits



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**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.

**corbin**

**WOMEN  
OWNED**  
CERTIFIED BY | WOMEN'S BUSINESS ENTERPRISE  
NATIONAL COUNCIL

A person in a red jacket is standing in a cave, illuminated by a bright blue light source. The cave walls are dark and textured, and the floor is covered in rocks. The person is holding a flashlight, and the light reflects off the cave walls and floor.

*corbin*

# Contact Us

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