

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.

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INSIDE THE Buy•Side®

Q4'22 Industrial Sentiment Survey

January 19, 2023

Inside The Buy-side® Q4'22 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.

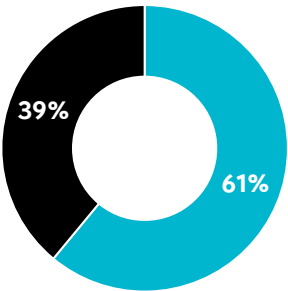
Leveraging our capital markets experience, deep understanding of investor relations, and best practice knowledge, our research and advice is at the forefront of global market trends, investor sentiment, and effective communication strategies.

Survey Scope: 34 sector-dedicated investors and analysts globally; buy side firms manage ~\$1.7 trillion in assets, including ~\$168 billion invested in Industrials

Survey Timeframe: December 19, 2022 – January 9, 2023

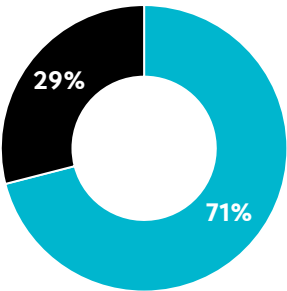
Market Performance	Q4'22	2022
DJIA	12.4%	(9.4%)
NASDAQ	(3.2%)	(33.9%)
S&P 500	4.4%	(20.0%)
S&P 500 Industrial	15.2%	(6.3%)
Russell 2000	3.1%	(22.5%)

ROLE



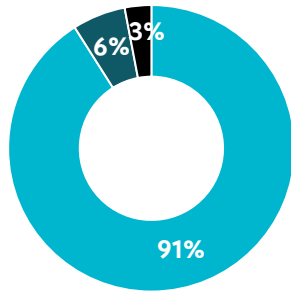
■ Buy Side ■ Sell Side

SECTOR FOCUS



■ Industrials ■ Multi-Industry Incl. Industrials

REGION



■ North America ■ Europe ■ Latin America

Word Cloud: Visual Representation of Investment Community

Focus Areas, Themes, and Sentiment

Costs take center stage, views warm on supply chain, and China concerns proliferate



Top Mentions	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22	Q/Q
Costs	17	26	18	13	20	↑ 7
Inflation	32	56	25	37	18	↓ 19
China	1	0	4	6	13	↑ 7
Price	11	10	13	13	11	↓ 2
Labor	8	6	4	6	10	↑ 4
Demand	20	10	21	14	9	↓ 5

Key: Underlying Sentiment

- Positive
- Neutral
- Negative

Industrial Investor Sentiment a Mixed Bag but Less Downbeat QoQ; Expectations Are for Low-Single-Digit 2023 Organic Growth while Growth Investments Garner Increased Support

Bearish Sentiment on Industrials Thaws Somewhat QoQ, But Outlook Remains Tepid Amid Expectations for a Challenging Environment; FCF Growth a Bright Spot (But Also Signals Weaker Demand Environment)

- 34% describe their **sentiment** as *Neutral to Bearish* or *Bearish*, an improvement from 53% last quarter, with an equal number reporting *Neutral to Bullish* or *Bullish* views, up slightly; the *Neutral* camp sees the greatest increase, doubling QoQ
- 41% describe **executive tone** as *Neutral to Bearish* or *Bearish*, an increase from 30% since last survey but less downbeat than the COVID-19 onset (58%) and December 2015 (69%) periods, the latter representing the height of the 2014 – 2016 Industrial Recession
- Regarding Q4 earnings season, **Organic Growth** sees the most significant pullback in optimism QoQ with just 16% expecting top lines to *Improve*, down from 43%, and more, 52%, now anticipating them to *Worsen* sequentially; **Margins** and **EPS** are also largely expected to *Worsen*
- With 60% forecasting low-single-digit 2023 **Industrial Organic Growth** – 2.4% on average – most are also anticipating lower Organic Growth, Margin, and EPS guidance for 2023
- A bright spot, >45% anticipate *Improving* **FCF** QoQ and *Higher* FCF guidance in 2023, owing to improved inventory balances and intense management focus on cash
- Topics of interest for **upcoming earnings calls** include inflation and pricing actions (49%), 2023 outlooks (38%), demand (38%), and capital allocation (21%)

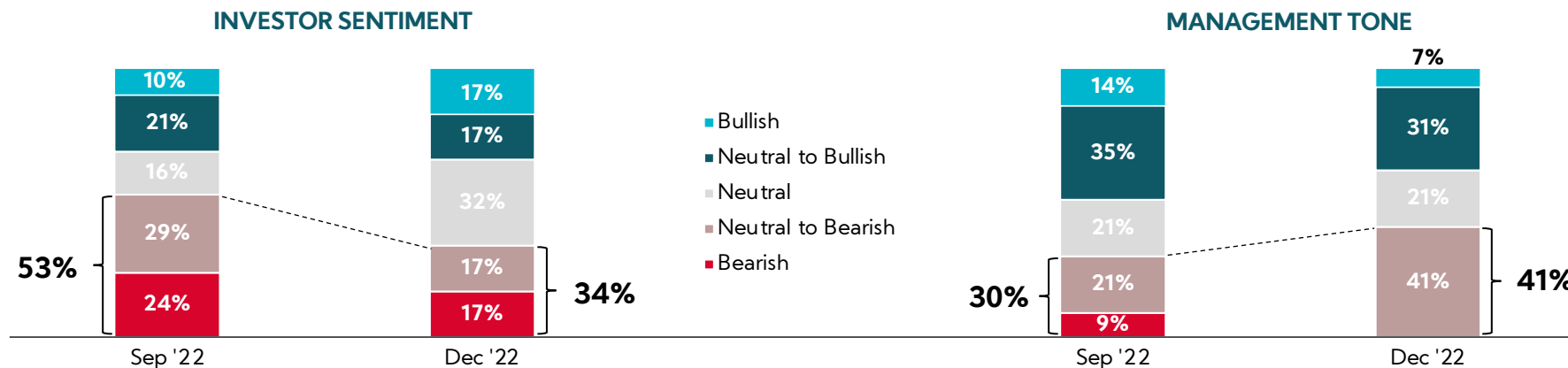
With Broad-based Industrial Weakness Forecasted for 1H23, Investors Remain Focused on Expense Management and Strategic Reinvestment

- 59% are bracing for broad-based **industrial weakness** in the first half of 2023, with continued outlooks for generally worsening key economic indicators over the next six months, albeit at less downbeat levels QoQ
 - 47% anticipate **Global Capex** to *Worsen*, down from 67% last quarter and those expecting spend to *Improve* more than double to 29%
 - Those that expect **Global PMI** to *Stay the Same* or *Improve* nearly double, with views that it will *Worsen* falling to 41% from 70% QoQ
 - **Consumer Confidence** is seen as the most challenged going forward, though downbeat views wane QoQ
- Over 80% report companies in their universe are **cutting costs** but fewer than 20% are seeing broad-based layoffs given the continued tight labor market
- Behind inflation and demand, 33% identify **labor shortages** as a leading area of concern (unaided), up from 10% QoQ
- **Reinvestment** continues to see strong support as the top use of cash by 67% of investors, up QoQ; 45% support increasing **growth capex**, up from 29%
- Buttrussing balance sheets remains in focus, with 56% and 40% favoring **debt paydown** and **cash conservation**, respectively, up slightly QoQ

Pronounced “In Favor” and “Out of Favor” Findings; North America Remains a Highlight While Concerns Over China’s Long-term Viability for U.S.-Based Companies Grows

- 84% cite **North America** as the most compelling region (aided)
- While **China** is viewed more favorably than **Europe** 3:1 at this time, 61% and 39% are assigning a *High* level of risk to companies with exposure to the former in the short-term and long-term, respectively
- **Defense, Commercial Aerospace, and Machinery** see the most upbeat views
- **Residential Construction** receives its most downbeat sentiment in survey history with zero bulls and **Automotive** garners the greatest influx of bears

Investor Sentiment Warms Sequentially and Is Divided; Management Tone Registers Most Downbeat Since COVID-19 Onset But Less Severe than Dec. 2015 (Industrial Recession)



Bullish/Neutral to Bullish

"Cost reduction actions emerged as a key to better-than-expected Q3'22 earnings, and I expect these actions to be increased while many input costs decline and revenues are flat to slightly lower (helped by a weaker USD in Q4'22)." **Sell Side, Industrials, N. America**

"For some, it's the expected dollars from the IRA or the Infrastructure Act." **Sell Side, Industrials, N. America**

"Reality." **Sell Side, Industrials, N. America**

Neutral

"Cautious due to potential 2023 recession." **Buy Side, Industrials, N. America**

"A belief that the environment continues to weaken vs. several supportive tailwinds." **Buy Side, Industrials, N. America**

"Fundamentals are worsening and valuation multiples are high." **Buy Side, Industrials, N. America**

"I am more neutral on the building stocks because I feel that a lot of pain is in the price, but the right time to buy these stocks is five to six months from now once the market gets a handle on how bad 2023 and the recession is." **Buy Side, Multi-industry, N. America**

"New orders." **Buy Side, Multi-industry, Europe**

"The sentiment may be trending negatively, but I'm a bit more bullish on companies that are impacted by fiscal stimulus." **Sell Side, Industrials, N. America**

Neutral to Bearish

"Depending on the timeframe, I think 2023 will be okay for pure industrials. Anything with residential exposure, I am bearish." **Buy Side, Multi-industry, N. America**

"Q3 going into Q4 there's a lot of uncertainty." **Buy Side, Multi-industry, N. America**

"It depends on the business; it really is a mixed bag." **Sell Side, Industrials, N. America**

"A lot of the businesses I cover got a big kick from COVID-19. We are definitely seeing some retraction in terms of volume and price." **Sell Side, Industrials, N. America**

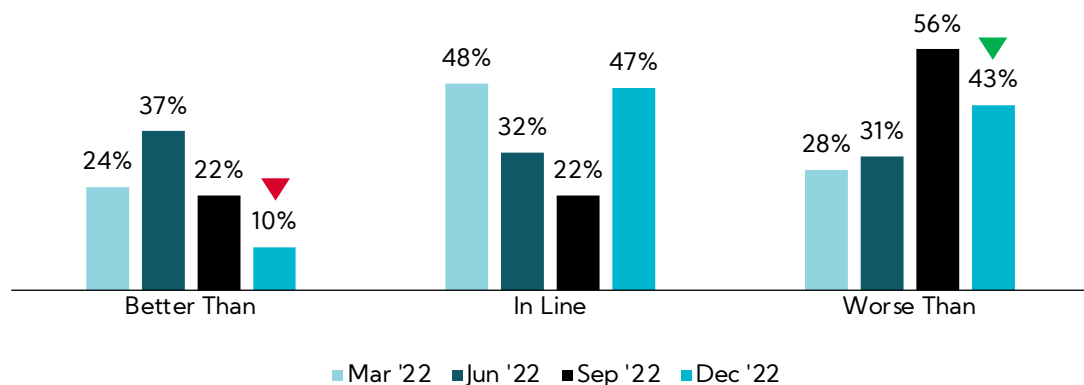
Bearish

"I think we'll see order cancellations and deferrals, slowing order books." **Buy Side, Industrials, N. America**

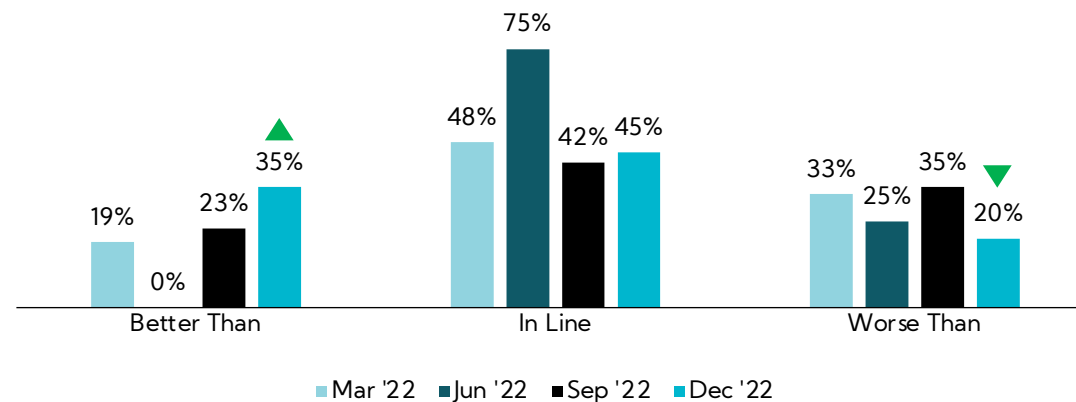
"Industry conditions are going to further deteriorate over the next year, such that consensus earnings estimates are far more likely to fall than rise." **Sell Side, Industrials, N. America**

Majority Expect Flat to Moderating Sequential Industrial Earnings with a Greater Number Anticipating Fewer Consensus Misses and More Beats QoQ

Q4'22 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



Q4'22 EARNINGS EXPECTATIONS VS. CONSENSUS



Better Than/In Line

"Some easing of supply chain difficulties helping convert backlog to revenue, slight easing of currency pressures, and a lowering of inventories helping cash flow." **Buy Side, Industrials, N. America**

"Demand for distribution closer to markets so that transportation energy costs are reduced." **Buy Side, Multi-industry, N. America**

"Can't get much worse and probably won't be much better than consensus." **Buy Side, Multi-industry, N. America**

"Cost reductions plus declining input costs other than labor for most industrial manufacturers (lower raw materials, transportation/logistics, and improving supply chains)." **Sell Side, Industrials, N. America**

Worse Than

"China COVID-19 disruption, weaker PMI offset by better margin/FX/costs, and supply chain." **Buy Side, Industrials, N. America**

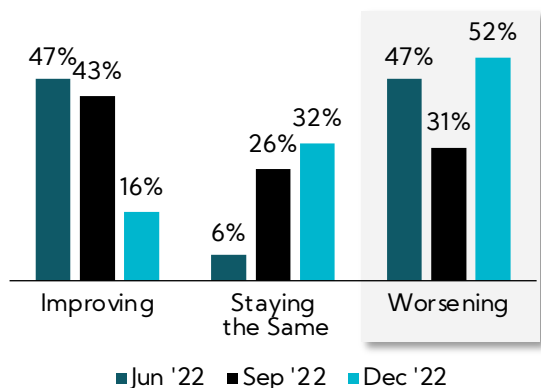
"Global slowdown and costs rising." **Buy Side, Multi-industry, N. America**

"Higher inflation and some project slowing." **Sell Side, Industrials, N. America**

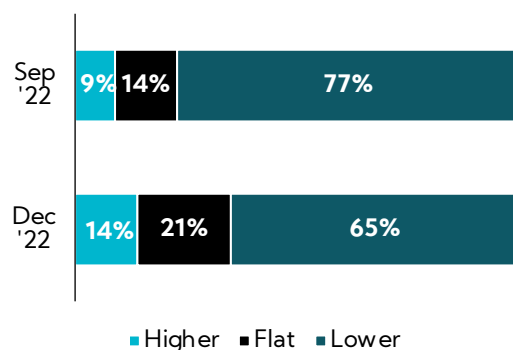
While Most Quarterly KPIs Are Expected to Worsen and 2023 Guides See Similar Sentiment, Fewer Express Concern QoQ; FCF Expected to Grow as Elevated Inventories Abate

ORGANIC GROWTH

PERFORMANCE EXPECTATIONS

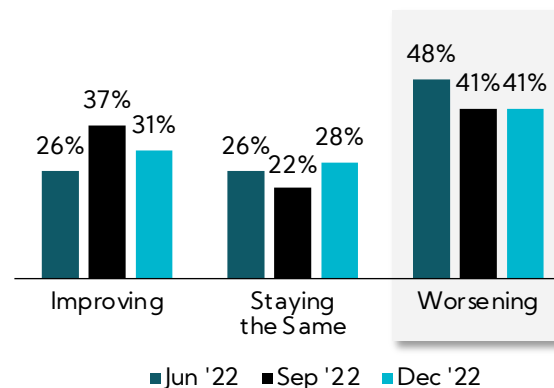


GUIDANCE EXPECTATIONS (Full Year 2023 Relative to 2022)

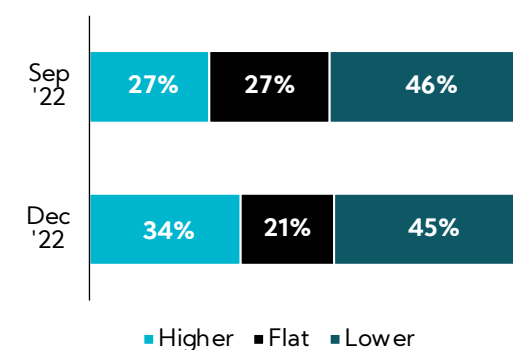


MARGINS

PERFORMANCE EXPECTATIONS

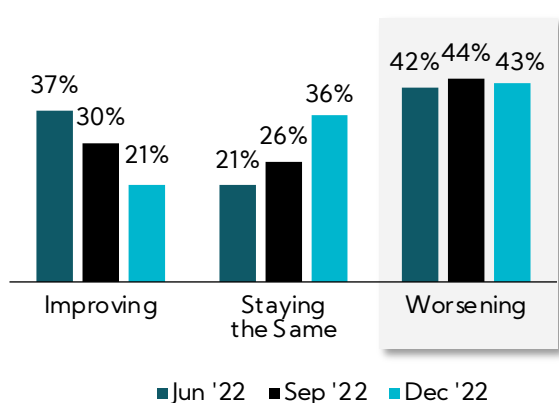


GUIDANCE EXPECTATIONS (Full Year 2023 Relative to 2022)



EPS

PERFORMANCE EXPECTATIONS

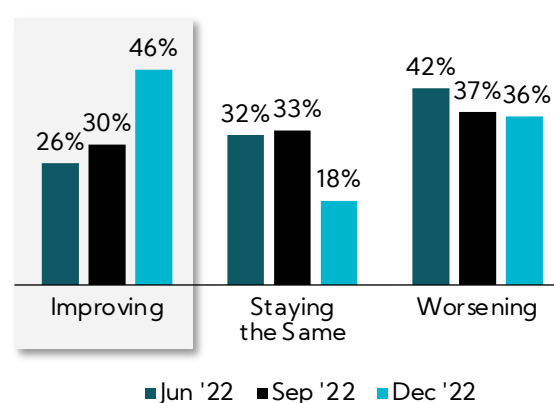


GUIDANCE EXPECTATIONS (Full Year 2023 Relative to 2022)

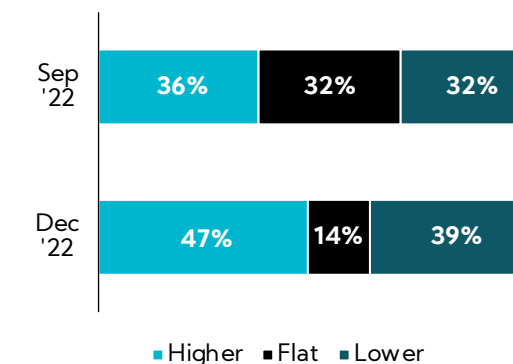


FCF

PERFORMANCE EXPECTATIONS



GUIDANCE EXPECTATIONS (Full Year 2023 Relative to 2022)



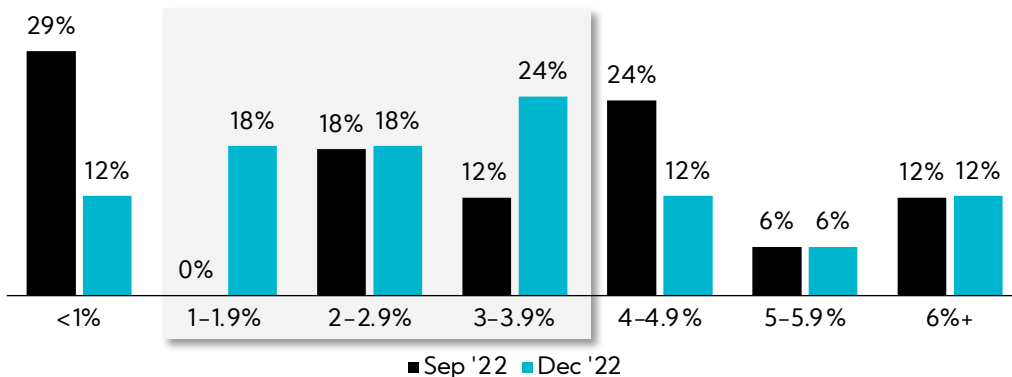
Investor Sentiment Warms Sequentially but Remains Divided; Management Tone Registers Most Downbeat Since COVID-19 and Outpaces Investors for First Time in Four Quarters

Amid views for a soft landing, cost cuts are in focus but investors not seeing layoffs at this time amid a tight labor market and lessons learned over the past three years

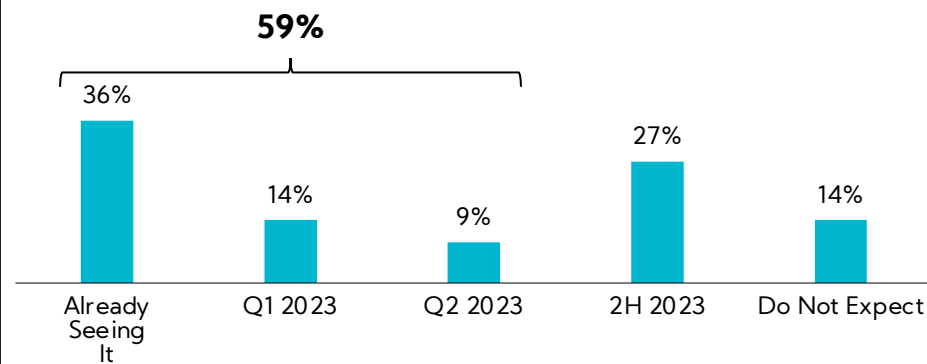
2.4%

Anticipated industrial organic growth rate for 2023, on average, vs. 1.4% last quarter and 6.6% for 2022

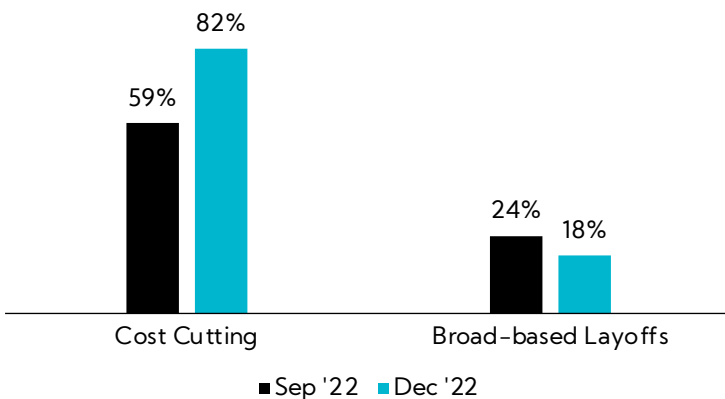
INDUSTRIAL ORGANIC GROWTH EXPECTATIONS FOR 2023



EXPECTATIONS FOR BROAD-BASED INDUSTRIAL WEAKNESS



COMPANY ACTIONS SEEN AS ACCELERATING IN CURRENT ENVIRONMENT




"Pricing environment, while getting more difficult, is still generally favorable. Companies saw the challenges of hiring back in 2020-2021 and will be slow to cut and hold extra labor if needed." **Buy Side, Industrials, N. America**

"Weakness in residential, commercial, and office will be earlier, and pure industrials will probably be later." **Buy Side, Multi-industry, N. America**

"Cost reduction was evident initially in Q3'22 and will likely become broader in Q4'22 and 1H'23." **Sell Side, Industrials, N. America**

"The only way a broad industrial slowdown in 2023 will occur will be if consumer spending weakens sharply." **Sell Side, Industrials, N. America**

"Not for several years...for the best companies." **Sell Side, Industrials, N. America**



49% (↓ 18pts)
Pricing (26%), Inflation (23%)

38% (↑ 38pts)
2023 Expectations,
Outlook

38% (↓ 9pts)
Demand/Order Trends

21% (↓ 22pts)
Capital Allocation

19% (UNCH)
Supply Chain

18% (↑ 1pt)
Policy/Legislation Impacts
(U.S. industrial stimulus, energy
projects, etc.)

Topics of Interest for Upcoming Earnings Calls

Inflation remains the leading focus area for the fifth consecutive quarter as investors remain keenly focused on pricing power; demand, capital allocation, supply chain, and policy/legislation also top of mind

Views from N. America

"Expectations for 2023 and how realistic and forthright they are going to be about trends they are seeing." **Buy Side, Industrials**

"Recessionary outcomes for business, FX, inflation." **Buy Side, Industrials**

"Inventory levels across the value chain, price vs. cost, order cancellation trends."
Buy Side, Industrials

"Order books, backlog, cost structure management, scenario planning." **Buy Side, Industrials**

"Order patterns, geographic trends, supply chain/inventory reduction." **Buy Side, Industrials**

"Cash flow, margin leverage, inventories." **Buy Side, Industrials**

"Pricing environment, while getting more difficult, is still generally favorable. Companies saw the challenges of hiring back in 2020-2021 and will be slow to cut and hold extra labor if needed." **Buy Side, Industrials**

"Broad-based end market demand and regional demand, capital deployment, if things are challenging, what the company can do to support margins – cut costs, etc."
Sell Side, Industrials

"Moving away from China, supply chain, interest rates, and inflation." **Buy Side, Multi-industry**

"The impact of reshoring in their inventory turns capital efficiency in their balance sheet." **Buy Side, Multi-industry**

"What impact is inflation having on production cost, what impact does inflation and energy cost have on profit margins, what is the continued availability of raw materials." **Buy Side, Multi-industry**

"Economic conditions, pricing, labor." **Buy Side, Multi-industry**

"Profit margins, inflation impact, labor force." **Buy Side, Multi-industry**

"Evidence of benefits from \$1.2 trillion U.S. Gov't in US Industrial Stimulus, slowing ability to raise prices, benefit from weaker USD." **Sell Side, Industrials**

"Can they pass along price, timing of projects related to IRA/infrastructure, energy policy." **Sell Side, Industrials**

"Interest rates impact, recession, housing market." **Sell Side, Industrials**

"Cost reduction was evident initially in Q3'22 and will likely become broader in Q4'22 and 1H'23." **Sell Side, Industrials**

"Cost-cutting is a bad motivator." **Sell Side, Industrials**

Views from Europe

"Capex plans, cash generation, pricing power." **Buy Side, Multi-industry**

"Acquisitions for growth, export efforts" **Sell Side, Industrials**

Top Concerns from Around the Globe *(unaided)*

Inflation retakes the helm as top concern after falling second to economic growth/recessionary concerns last quarter, while demand and labor shortage worries grow

1	49% (↑ 9 pts)	Inflation	2	46% (↑ 30 pts)	Demand	3	33% (↑ 23 pts)	Labor Shortages
4	32% (↓ 14 pts)	Economic Growth/ Recession	5	27% (↑ 11 pts)	Geopolitical Tensions	6	26% (↓ 15 pts)	Interest Rates

Views from N. America

"Inventory de-stocking, price vs. cost spread, risk of order cancellations." **Buy Side, Industrials**

"Order books, margins, multiples." **Buy Side, Industrials**

"Monetary policy, labor shortage, wage inflation." **Buy Side, Industrials**

"Demand weakness, cost/inflation, inventories remain high." **Buy Side, Industrials**

"Recession, sticky inflation, geopolitical risks." **Buy Side, Industrials**

"Inflation, underwriting tightening, reduction in demand." **Buy Side, Multi-industry**

"Inflation, interest rates, geopolitics." **Buy Side, Multi-industry**

"Economic slowdown, costs higher, interest rates higher." **Buy Side, Multi-industry**

"Inflation, U.S. budget deficits, talent availability." **Buy Side, Multi-industry**

"USD continues to weaken, labor costs will remain stubbornly high, geopolitical stability could deteriorate further." **Sell Side, Industrials**

"Worker shortage, inflation, China." **Sell Side, Industrials**

"Market sentiment, bad culture, fallacious reasoning." **Sell Side, Industrials**

"China, recession." **Sell Side, Industrials**

"Demand, costs, capital commitments." **Sell Side, Industrials**

Views from Europe

"Stronger than expected growth slowdown, rising interest rates, collapsing earnings growth." **Buy Side, Multi-industry**

"War, energy, climate." **Sell Side, Industrials**

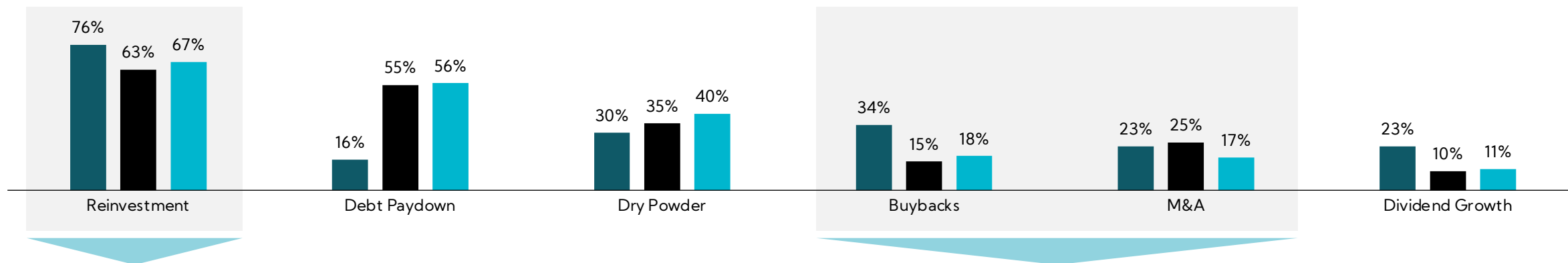
Reinvestment Continues as the Leading Use of Cash with a Notable Call for Increasing Growth Capex, Followed Closely by a Preference for Buttressing the Balance Sheet

66% continue to prefer $\leq 2.0\%$ Net Debt-to-EBITDA levels and buybacks slightly edge out M&A

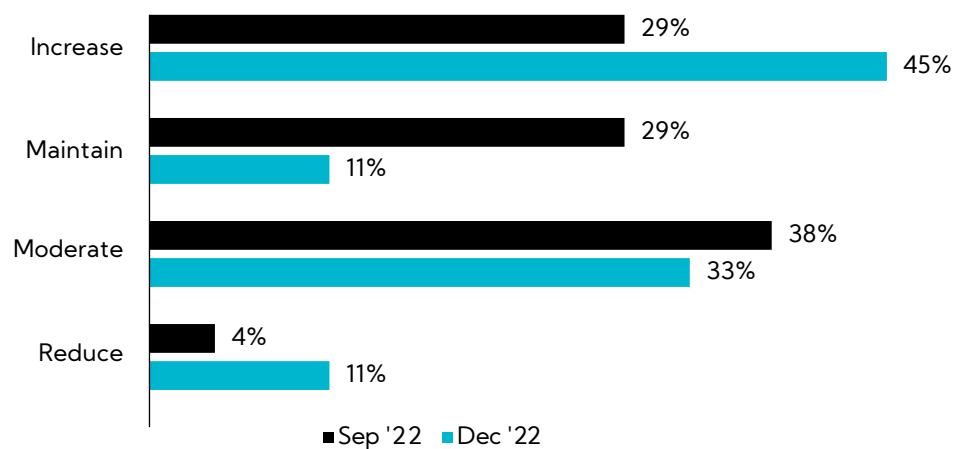
PREFERRED USES OF CASH FOR INDUSTRIALS

In Descending Order of Top Two Preferences

■ Jun '22 ■ Sep '22 ■ Dec '22

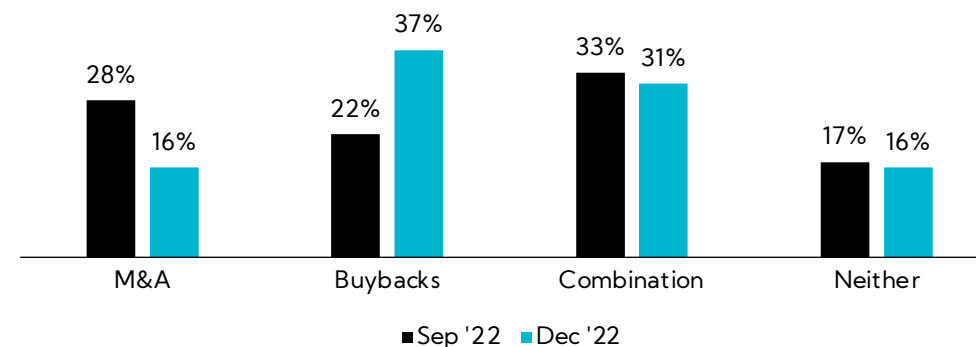


PREFERENCE FOR GROWTH CAPEX (aided)



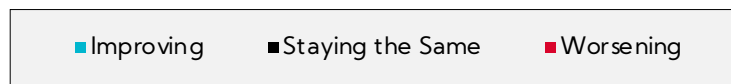
PREFERENCE FOR M&A VS. BUYBACKS (aided)

Assuming Equal ROI

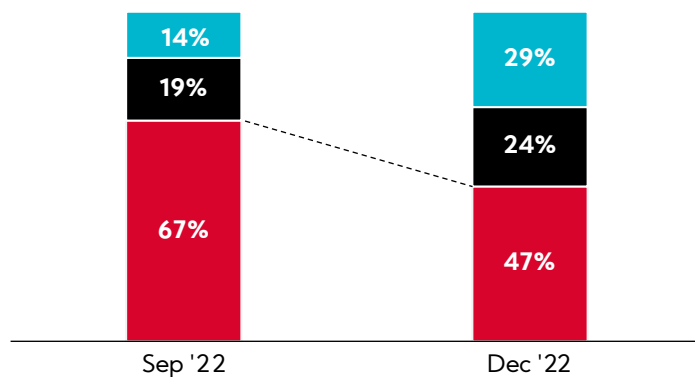


Views on Key Economic Indicators over the Next Six Months

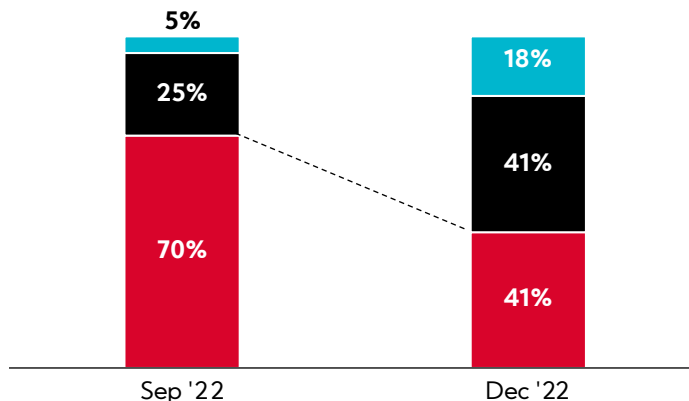
Bearishness appears to have bottomed in Q3, as nearly all indicator outlooks are less downbeat; while inflation expected to continue to improve, investors bracing for weaker spend in general



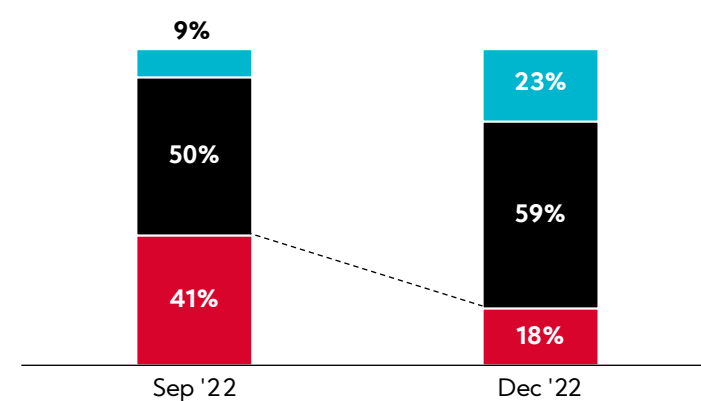
GLOBAL CAPEX



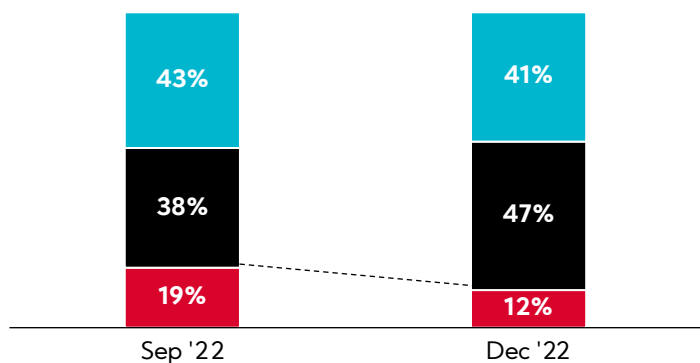
GLOBAL PMI



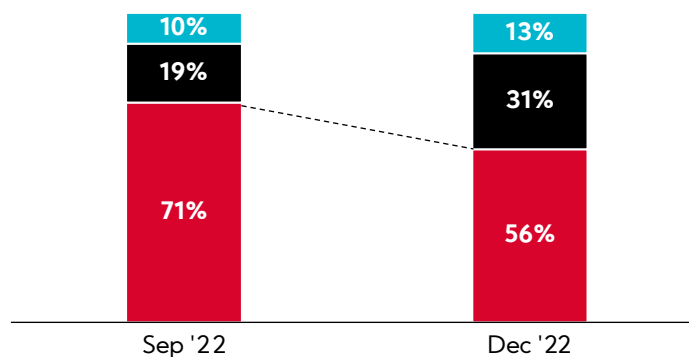
FX HEADWINDS



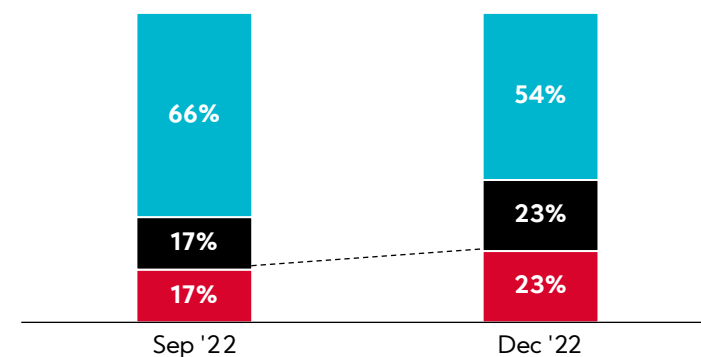
OIL & GAS MARKETS



U.S. CONSUMER CONFIDENCE



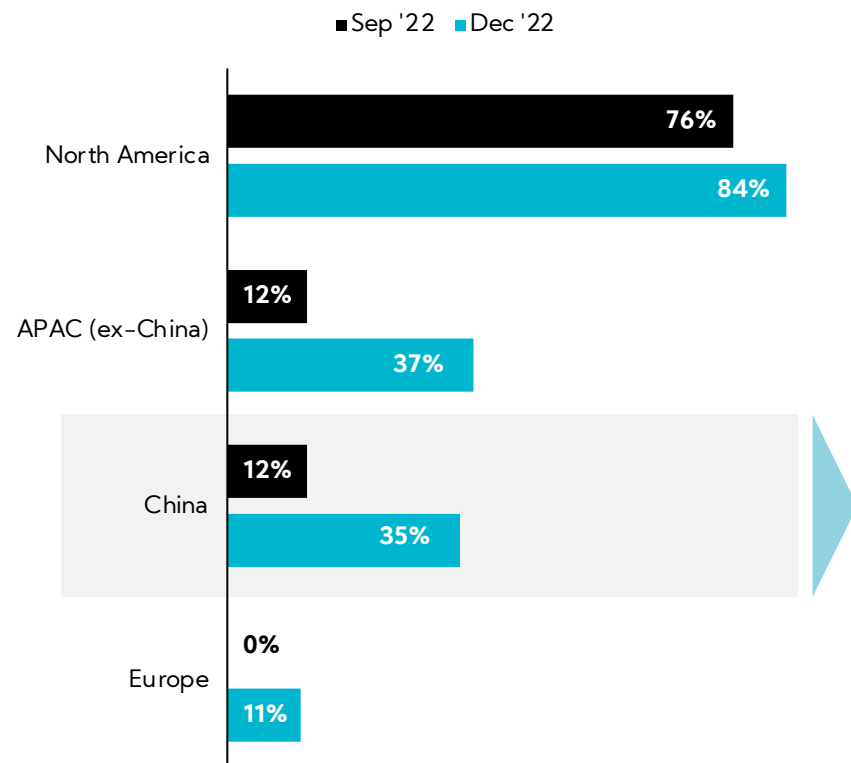
INFLATION



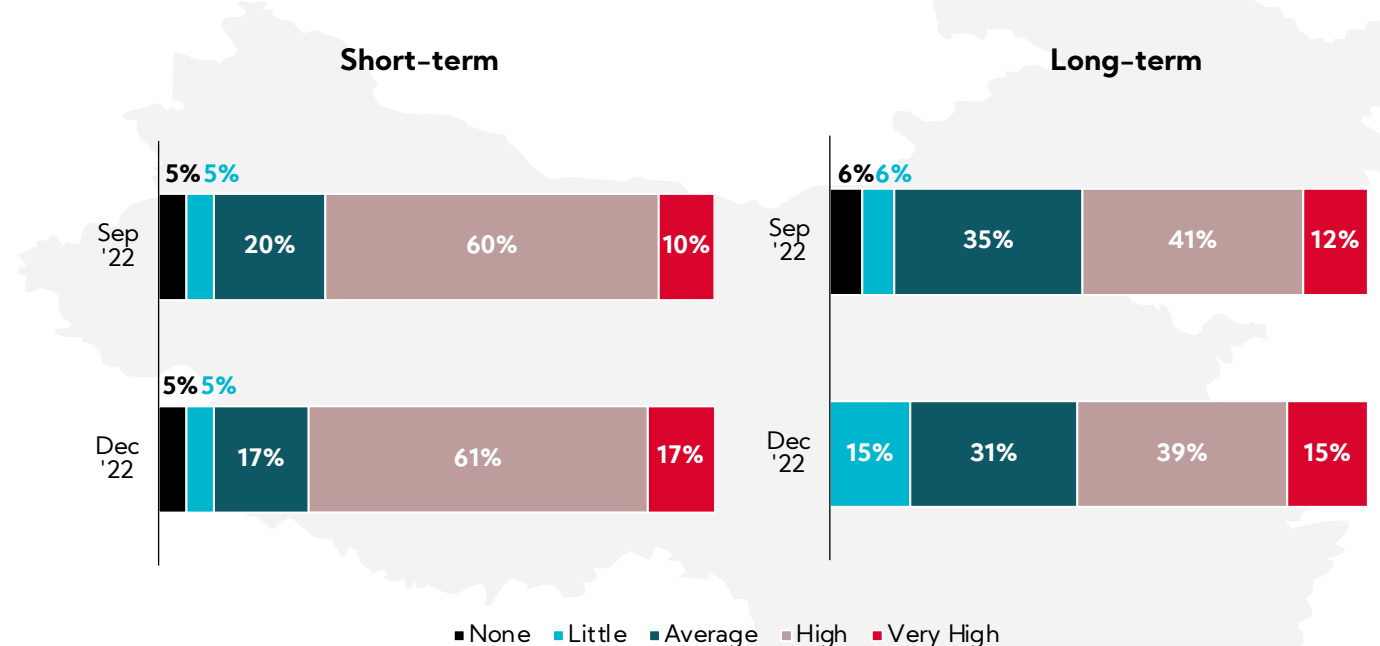
Industrials with North American Exposure Considered the Most Compelling Regional Play

Most are assigning a high level of risk to companies with exposure to China over the short-term amidst COVID-19 protocol but with over 50% also expressing concern long-term with reshoring trends

MOST COMPELLING REGIONAL EXPOSURE WITHIN INDUSTRIAL UNIVERSE



LEVEL OF RISK ASSIGNED TO COMPANIES WITH BUSINESS/OPERATIONAL EXPOSURE IN CHINA

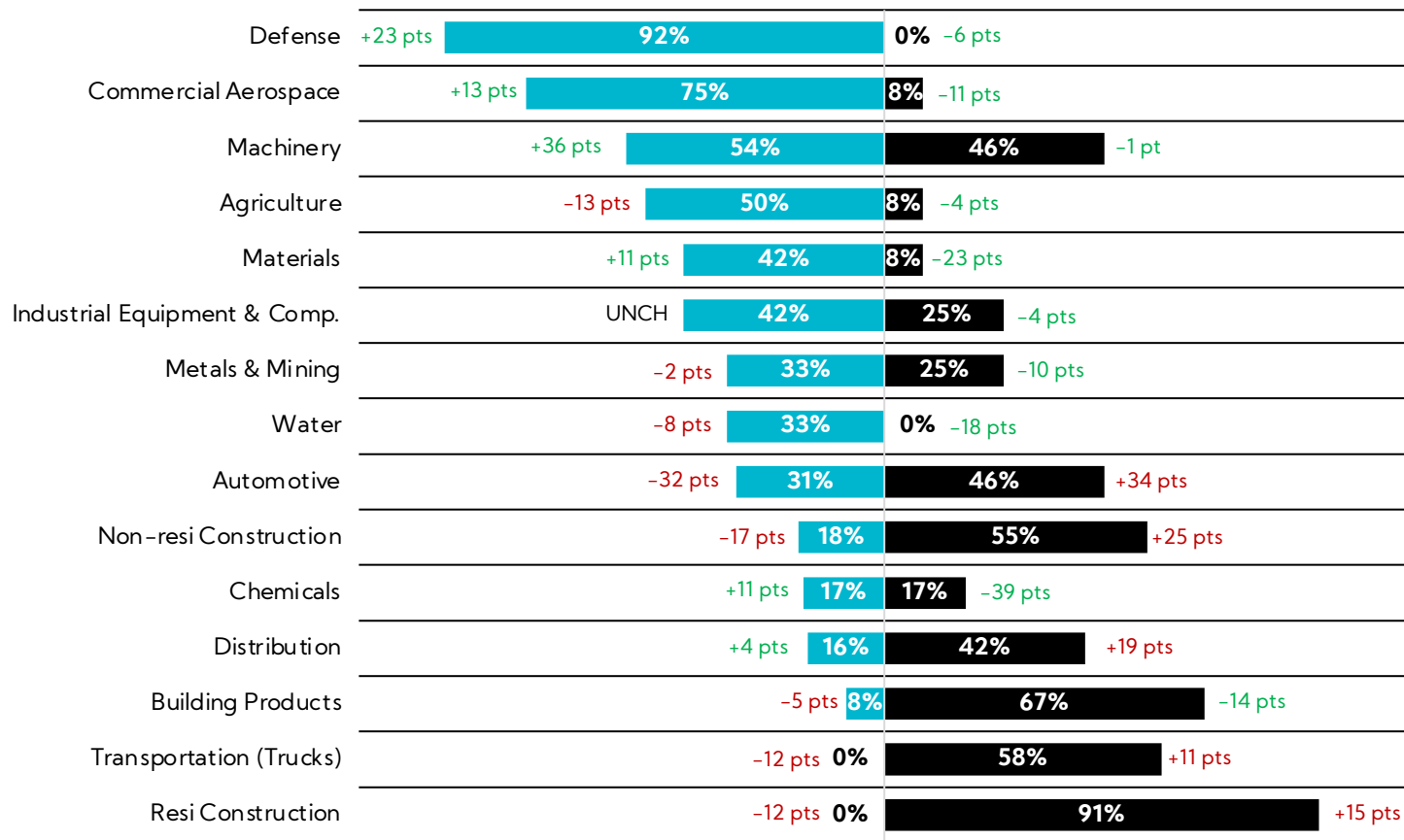


"The situation in China is very bad for business. The Chinese economy has been weak for well over a year and it remains very weak. Chinese citizens do not even know what is going on. I have no idea what the Chinese government is going to do over the next few months. Relations between China and the U.S. have deteriorated and Apple among others has been vocal about saying it is relocating some of its production out of China. I assume you will see more such announcements in the months and years ahead." **Sell Side, Industrials, N. America**

Defense, Commercial Aero, and Machinery Feel the Love While Resi Const. Hits Its Most Downbeat Level in Survey History with 0 Bulls and Auto Sees the Greatest Influx of Bears

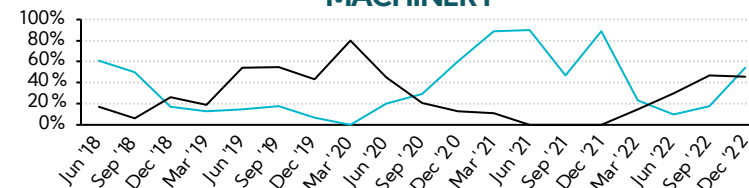
INDUSTRY VIEWS

■ Bulls ■ Bears

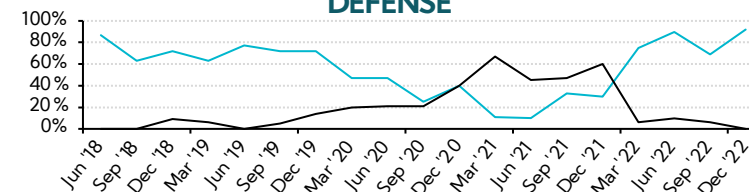


Largest Bull Gainers

MACHINERY

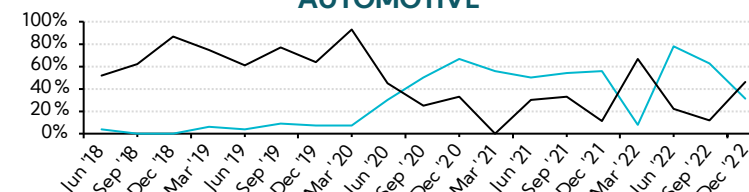


DEFENSE

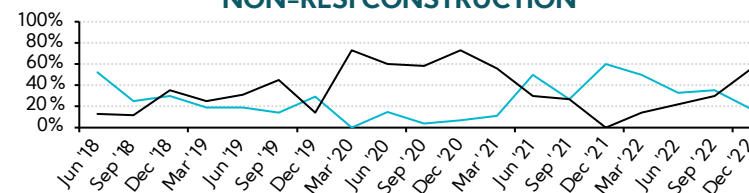


Largest Bear Gainers

AUTOMOTIVE



NON-RESI CONSTRUCTION



— Bulls — Bears



About Corbin

About Corbin Advisors – A Research and Advisory Firm Specializing in Value Creation



FOUNDED
2007

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**We are purpose-built for specialization
and cross-practice collaboration**

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Practice
–
Research as a Service

Advisory Group

Investor Relations
Practice
–
Investor Day Practice
–
Special Situations

Community Impact Group

ESG Practice
–
Corbin for
Nonprofits

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Corbin was founded on the idea that data-driven, insights-based advice is a powerful catalyst for unlocking value.

Leveraging proprietary research and analytics, a best-practice mindset, executional excellence, and a deep understanding of what influences investor sentiment – we deploy a proven model to realize value.

With a consistent track record of leveraging our insights and experience to drive breakthrough thinking and impact, organizations globally – across all sectors and sizes – partner with Corbin.





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