

A photograph of an ice cave with blue lighting and a person in the distance.

corbin
celebrating 15 years

INSIDE THE
Buy·Side

**Q1'23 Industrial Sentiment
Survey**

April 20, 2023

Inside The Buy-side® Q1'23 Industrial Sentiment Survey

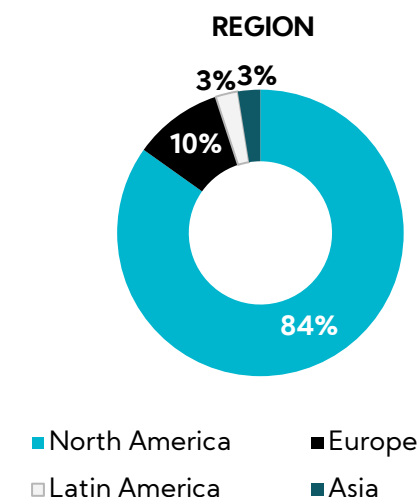
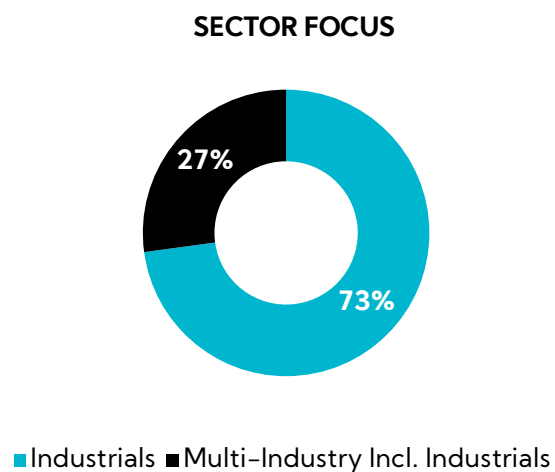
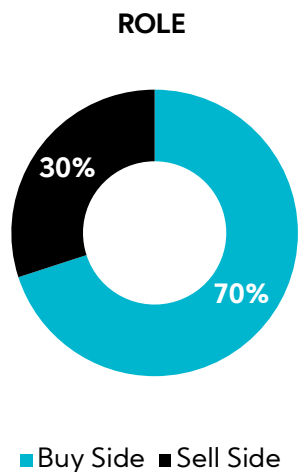
Since 2007, we have surveyed global investors quarterly on the equity markets, world economies, and business climate. At the start of every earnings season, we publish our leading-edge research, *Inside The Buy-side® Industrial Sentiment Survey*, which captures real-time *Voice of Investor®* sentiment 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: 40 sector-dedicated investors and analysts globally; buy side firms manage ~\$4.3 trillion in assets, including ~\$332 billion invested in Industrials

Survey Timeframe: March 10 – April 11, 2023

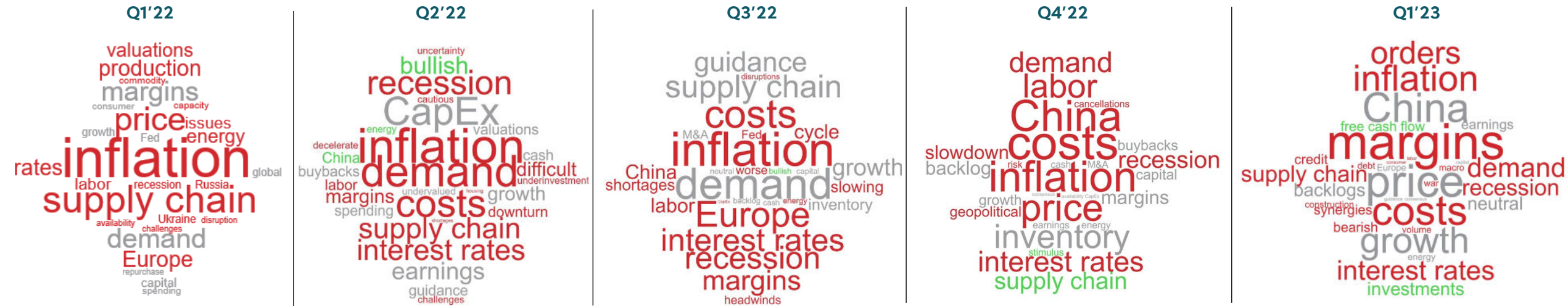
Market Performance	Q1'23	Q1'22
DJIA	0.4%	(5.2%)
NASDAQ	17.7%	(10.2%)
S&P 500	7.5%	(5.6%)
S&P 500 Industrial	2.8%	(1.9%)
Russell 2000	3.0%	(8.9%)



Word Cloud: Visual Representation of Investment Community

Focus Areas, Themes, and Sentiment

Pricing and margins take center stage, while inflation mentions recede QoQ; brights spots include free cash flow and growth investments



Top Mentions	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q/Q
Margins	7	6	9	7	13	↑ 6
Price	10	13	13	11	13	↑ 2
China	0	4	6	13	11	↓ 2
Costs	26	18	13	20	11	↓ 9
Growth	3	8	8	6	10	↑ 4
Inflation	56	25	37	18	10	↓ 8

Key: Underlying Sentiment

- Positive
- Neutral
- Negative

Investors Continue to Exhibit Mixed Sentiment and Characterize Management Tone as More Positive; Demand and Margins Take Center Stage Amid Broad-Based Expectations for Industrial Weakness in 2H23

Greater Confidence in Organic Growth Performance this Quarter but Margin and EPS Concerns Mount; Management Tone Heard as Significantly More Optimistic Relative to Self-Described Sentiment

- Regarding Q1 earnings season, most (**50%+**) expect *Margins* and *EPS* to *Worsen*, with skepticism increasing toward both KPIs QoQ; **50%** expect *Organic Growth* to *Stay the Same* sequentially
- A bright spot, **41%** anticipate *Improving* FCF, owing to improved inventory balances and executive focus on cash management
- Despite over one-third reporting 2023 guides were *Better Than* expectations and views that executive tone is notably less downbeat, **37%** describe their sentiment as *Neutral to Bearish* or *Bearish*, a slight increase from 34% last quarter
- Only **13%** describe executive tone as *Neutral to Bearish*, a significant decrease from 41% QoQ; notably, those perceiving executives as *Neutral to Bullish* or *Bullish* increased from 38% to 52%
- Leading topics of interest for upcoming earnings calls include demand and order trends (**63%**, up from 38%), pricing and inflation (**57%**), and margins (**45%**)

Broad-Based Industrial Weakness Expected in 2H23, Resulting in Greater Focus on Debt Paydown and Notable Pullback in Growth Investment Support

- **87%** are already seeing or bracing for broad-based industrial weakness by year end
 - 42% expect Global PMI to *Worsen* over the next six months, double the number expecting improvement
 - *Consumer Confidence* is seen as the most challenged indicator looking forward, with **69%** expecting *Worsening* conditions, up from 56% QoQ
- Top concerns include a recession (**49%**), inflation (**41%**), and geopolitics and war (**41%**)
- Buttressing balance sheets remains in focus, with **69%** favoring debt paydown as a primary use of cash, a survey record, up from 56% QoQ
- Reinvestment, while still the leading second use of cash, is cited by **42%** of investors, down from 67% last quarter, the lowest level since the onset of COVID-19
- Only **21%** encourage *Increasing* growth capex, down from 45% last quarter; **68%** support *Maintaining* growth capex, up from 11%
- **75%+** report companies in their universe are cutting costs, and nearly 40% are seeing broad-based layoffs, more than double QoQ

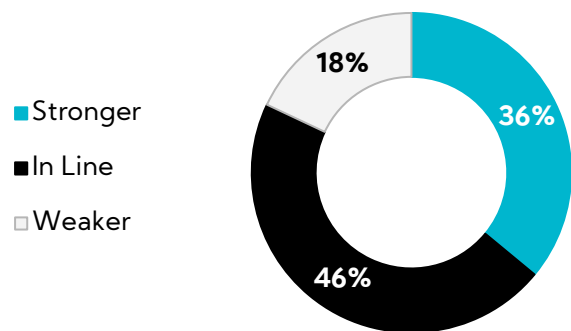
Clear Investment Themes Evident Across Geographies, Sectors, and Company Profiles While Obstinate Overhangs Remain for Some

- **Commercial Aerospace, Agriculture, and Defense** garner the most upbeat sentiment while **Water** sees the largest influx of bulls
- **Residential and Non-residential Construction** remain out of favor, with the latter representing the lowest sentiment in survey history at 76% bears; **Chemicals** see the largest influx of bears, increasing 30% QoQ
- **57%** continue to cite North America as the most compelling region within the Industrial universe (aided), down from 84%; APAC (ex-China), China, and Europe all notch slight increases in sentiment QoQ
- While **China's** prospects are viewed more favorably than Europe's by virtually 3:1, 86% are assigning a *High* or *Very High* level of risk over the long term to companies with exposure, up from 54%
- Companies with significant **FCF (71%)** and **above-market growth (59%)** are seen as the most compelling investment themes
- Despite big deal activity heating up, **66%** cite *Little to No Favor* of large, transformational M&A, a significant increase from **34%** two years ago

Industrial Annual Guides Generally Seen as In Line to Stronger Than Expectations

Post 2022 results and 2023 guides, consensus on top lines increased for ~half of companies, while EPS saw more mixed revisions

2023 FULL-YEAR GUIDANCE VS. EXPECTATIONS



Stronger

"A lot of people expected Q4 to be the reset, but everybody skated through Q4 pretty well. People gave guidance for this year, but they qualified it with some expecting a slowdown in the second half of the year. It's uncertain. They reserve the right to make adjustments as the year goes on." **Buy Side, Industrials, N. America**

"Given everything that is happening in the world, the outlook was stronger than I would have thought." **Buy Side, Industrials, N. America**

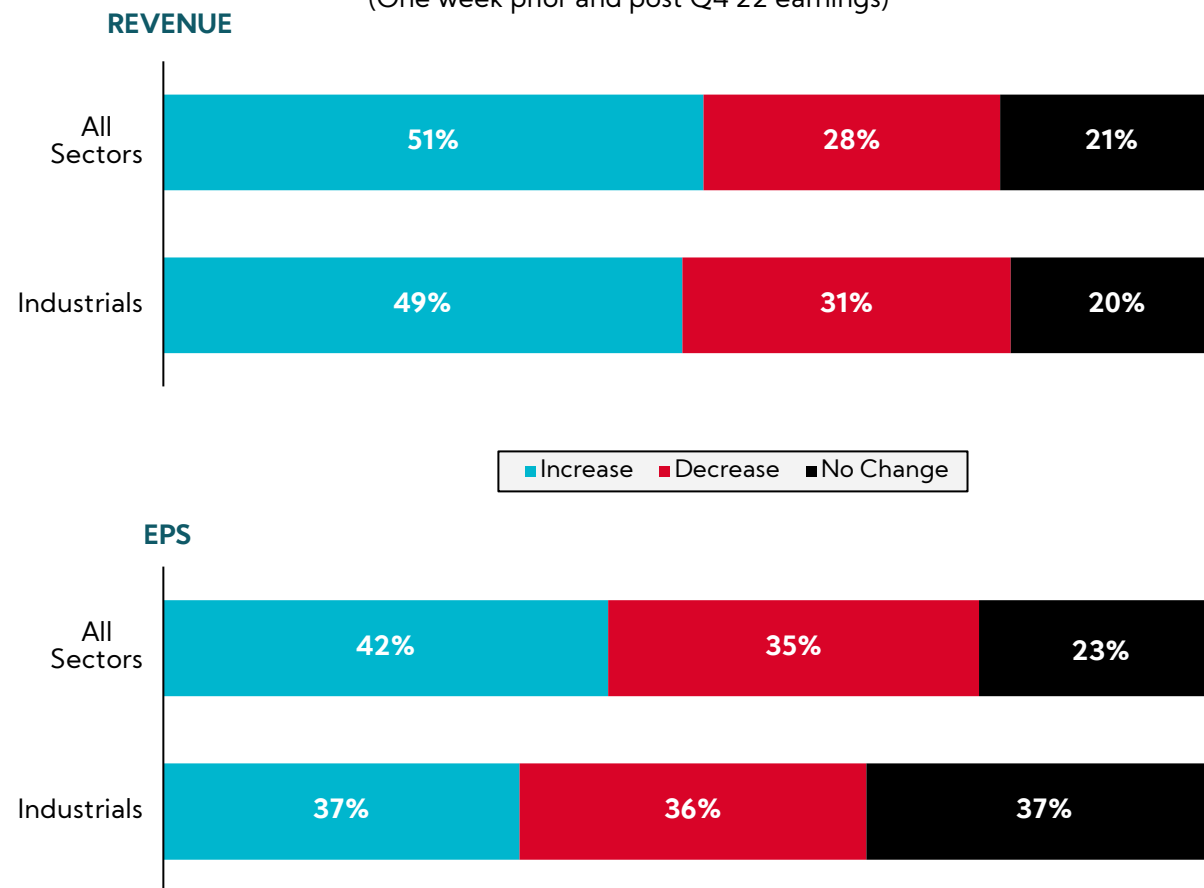
In Line

"The majority of companies gave a guidance range where consensus expectations were already at the very high end. They guided more conservatively, which I am not surprised by. You will continue to see numbers slide down throughout the year as orders dry up, costs remain somewhat high, and backlogs are depleted over time. It will be hard to have that turnaround without orders finding a trough." **Buy Side, Industrials, N. America**

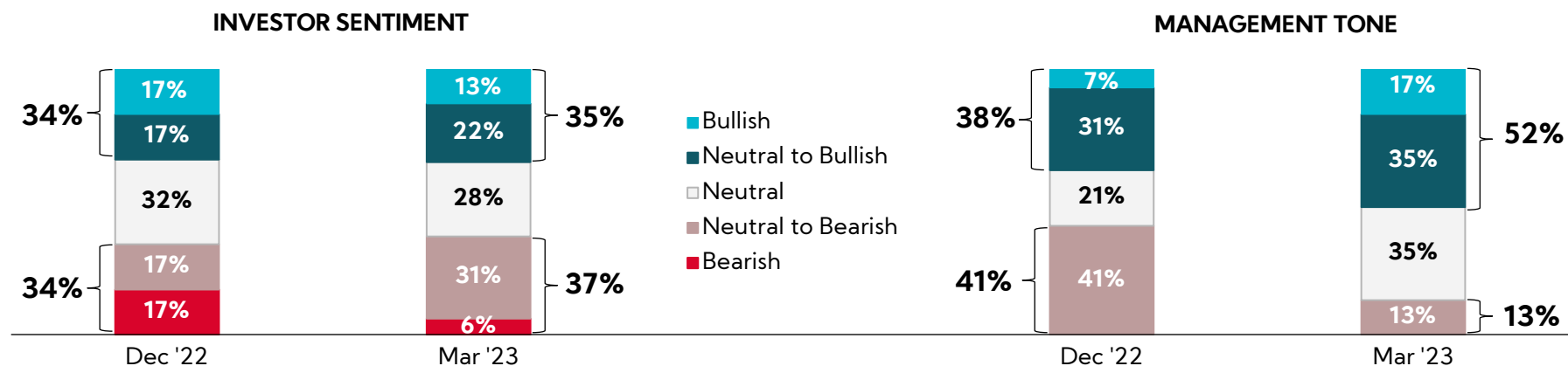
"It varies by end market, but where you thought things would be good, things were good. And where you thought things would be bad, things were bad." **Buy Side, Industrials, N. America**

"In line with bullish expectations." **Sell Side, Industrials, N. America**

S&P 500 2023 CONSENSUS REVISIONS
(One week prior and post Q4'22 earnings)



A Notable Disconnect Between the Street and Perceived Management Tone - Investor Angst Is Increasing Amid Slowing Order Growth



Bullish/Neutral to Bullish

"We are very positive on industrials. There are a lot of good business models and investment opportunities in industrials despite the cycle." **Buy Side, Industrials, N. America**

"Overall macro, infrastructure stimulus, secular themes." **Buy Side, Industrials, N. America**

"Need for investment in U.S. infrastructure." **Buy Side, Generalist, N. America**

"Stronger energy capex." **Sell Side, Industrials, N. America**

"Better than expected pricing." **Sell Side, Industrials, Europe**

Neutral

"High valuations and slowing growth offset by a strong demand backdrop." **Buy Side, Industrials, N. America**

"High valuations and weak sales volume." **Buy Side, Industrials, N. America**

"2H'23 softness." **Buy Side, Industrials, N. America**

"Difficulty for management in finding employees." **Buy Side, Generalist, N. America**

"Recession will reduce demand in future quarters." **Buy Side, Generalist, N. America**

"Given our growth profile, it comes down to the individual company because you could have a tough industrial space but have a company with some interesting growth prospects that are company-specific." **Buy Side, Generalist, N. America**

"Elevated backlogs." **Sell Side, Industrials, N. America**

Neutral to Bearish/Bearish

"Economic data continues to moderate and economists predict a modest contraction, yet industrials are predicting a 2H'23 rebound. My sentiment and most investors are more bearish than that of the management's color on how their businesses are doing. We look at the ISM index where orders are way down and yet companies seem to say that for the next few quarters they are expecting to do decently; it just does not seem to fit. I know industrial companies overall have massive backlogs, so they are able to work those off and turn those backlogs into revenue. A lot of investor sentiment is going to be swayed by where order growth is going. From some of the headline indexes that you see, they are going to be heading south for the next few quarters, so it is difficult to bridge the investor's slightly more bearish stance the next 6-to-9 months with management teams that seem to be more even keeled." **Buy Side, Industrials, N. America**

"A lot of industrials, especially cyclicals, went too far ahead of themselves. There is a recession that is going to come through; we are seeing it potentially this quarter and for sure the second half of this year. A lot of these guys are saying they have pricing power, and I don't think that is true. Historically, that has not been true." **Buy Side, Industrials, N. America**

"Management has failed to anticipate realities." **Buy Side, Industrials, N. America**

"Macro forces, notably construction." **Sell Side, Industrials, N. America**

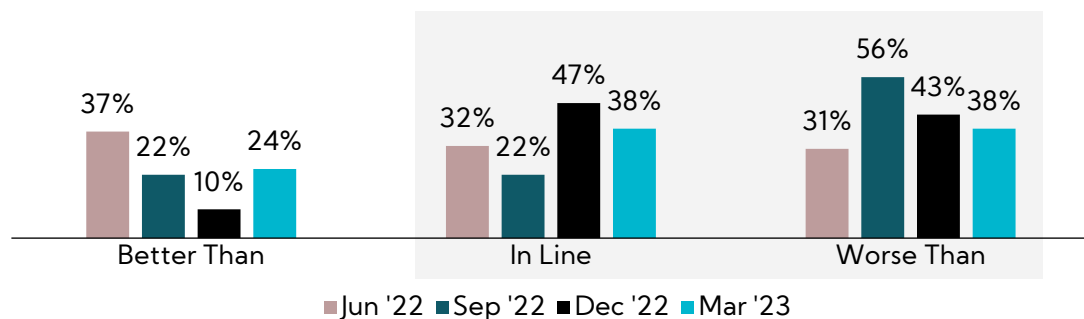
"Finance crisis, inflation, global security." **Sell Side, Generalist, Asia**

Less Downbeat Views on Sequential Performance but with a Higher Bar to Beat

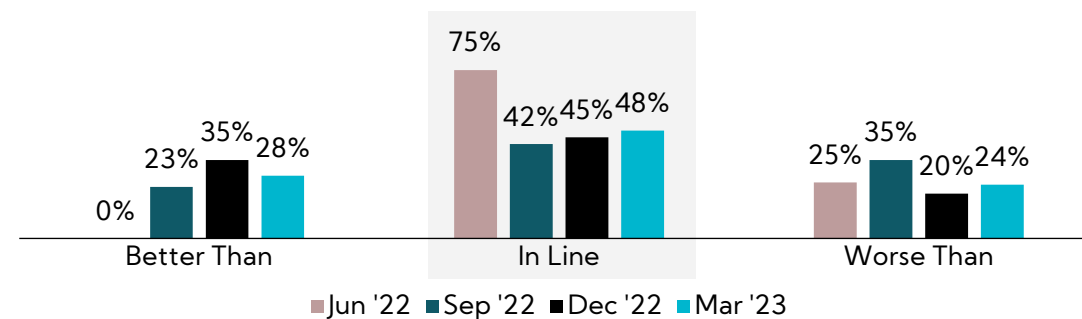
As companies work through big backlogs, investors remain keenly focused on demand and order trends

Q1'23 EARNINGS EXPECTATIONS

VS. PRIOR QUARTER



VS. CONSENSUS



Better Than

"Housing and construction will be better than but that is largely seasonality." **Buy Side, Industrials, N. America**

"Higher than expected volumes, continued positive price/cost." **Buy Side, Industrials, N. America**

"Strong backlog, improved supply chain, pricing increases catch up with inflation." **Buy Side, Generalist, N. America**

"Pricing." **Sell Side, Industrials, Europe**

In Line

"Better than expected macro, positive intra-quarter commentary from companies." **Buy Side, Industrials, N. America**

"As the year goes on, particularly in the back half of the year, consensus is generally way too high, and numbers are going to start missing against estimates." **Buy Side, Industrials, N. America**

"I see most of the analysts are working very closely with the companies, and it's different than it was years ago where it was a little more independent; now it's more of a managed process." **Buy Side, Industrials, N. America**

"Pick up in the economy, but yearly seasonality causing in-line versus Q4." **Buy Side, Generalist, N. America**

"Decline in construction markets." **Sell Side, Industrials, N. America**

"Absence of recovery from China." **Sell Side, Generalist, N. America**

Worse Than

"Lower revenues, weak orders, cost pressure leading to lower margins." **Buy Side, Industrials, N. America**

"Inflation, high interest rates, cut back in credit, analysts are too bullish." **Buy Side, Industrials, N. America**

"Inflation/tighter credit conditions." **Buy Side, Industrials, Europe**

"Margins are going to come down in large part due to people problems." **Buy Side, Generalist, N. America**

"Slower volumes." **Buy Side, Generalist, N. America**

"Lower order rates." **Sell Side, Industrials, N. America**

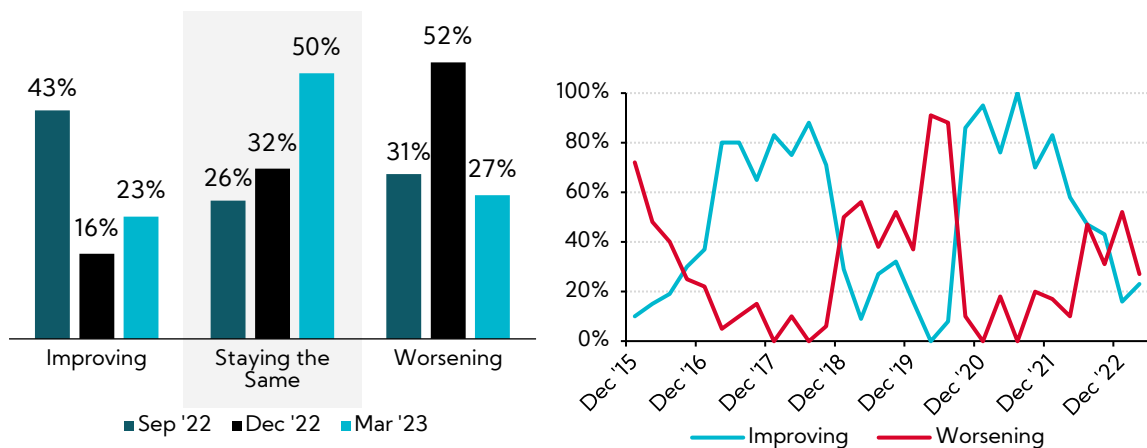
"Seasonal pattern." **Sell Side, Industrials, N. America**

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

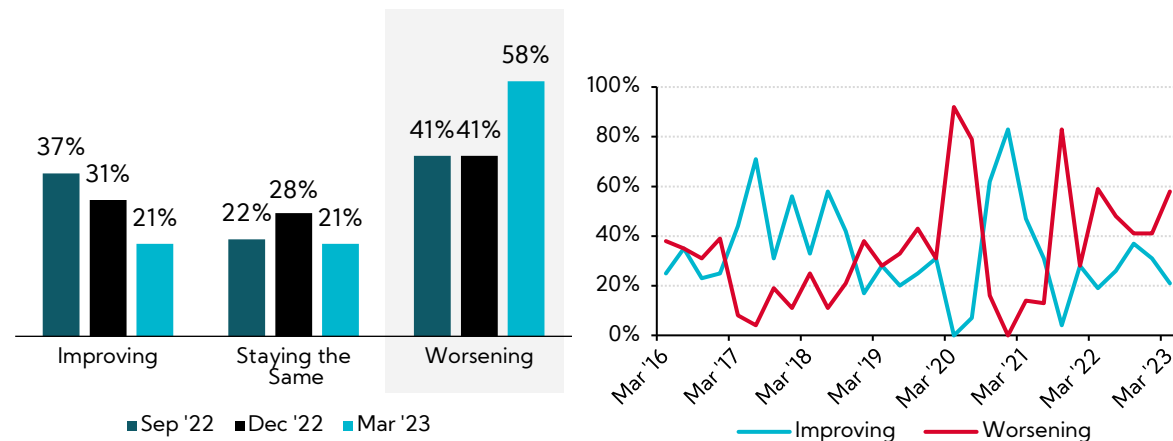
Solid Organic Growth + Strong FCF Generation Amid Normalizing Inventory Levels Anticipated; Margins + EPS Expected to Come Under Pressure (This View May Be Too Early)

Q1'23 PERFORMANCE EXPECTATIONS

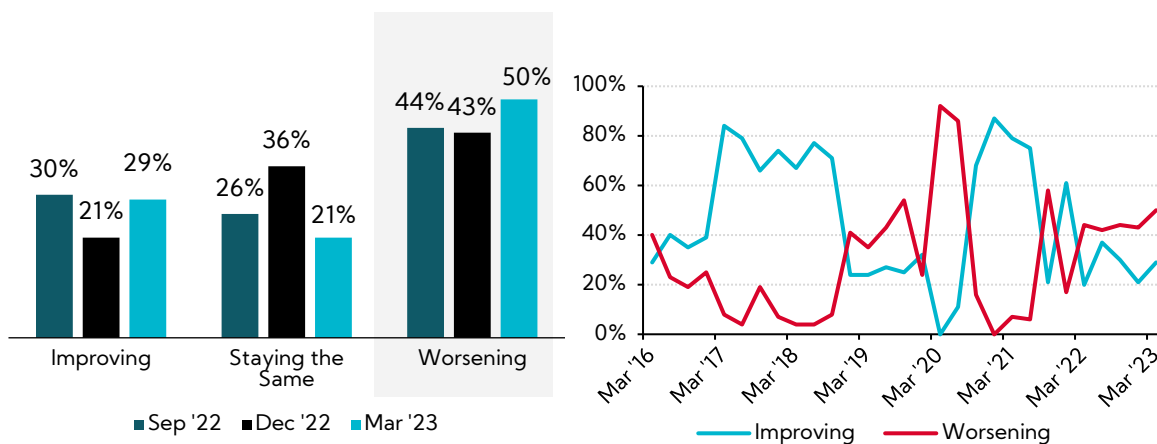
ORGANIC GROWTH



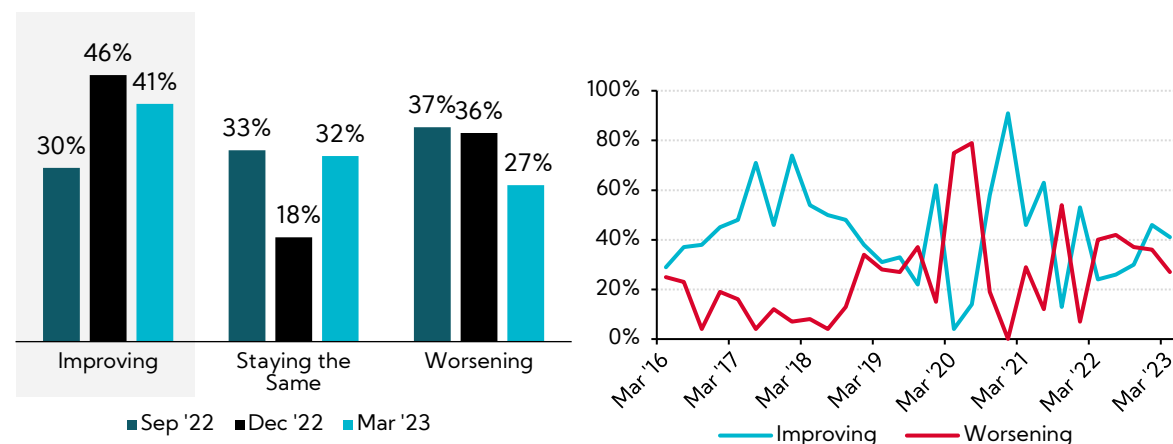
MARGINS



EPS



FCF

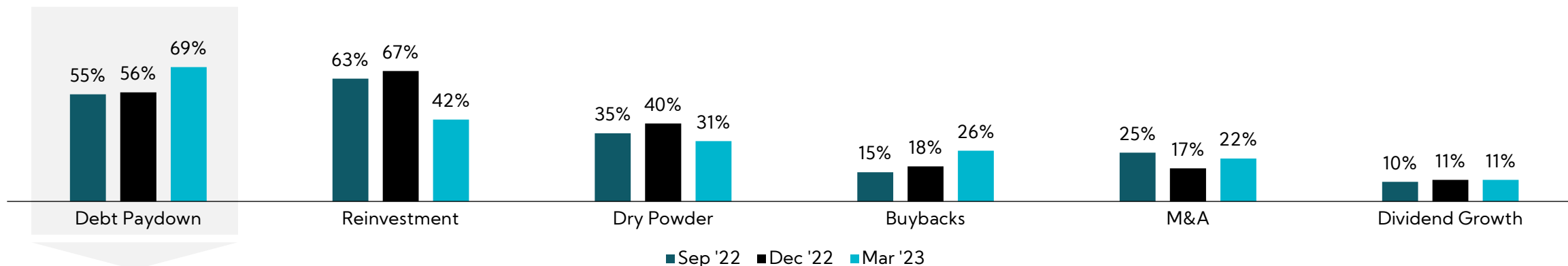


While Capital Allocation is Always Company-Specific, Preferences Reinforce Growing Concern About the Future

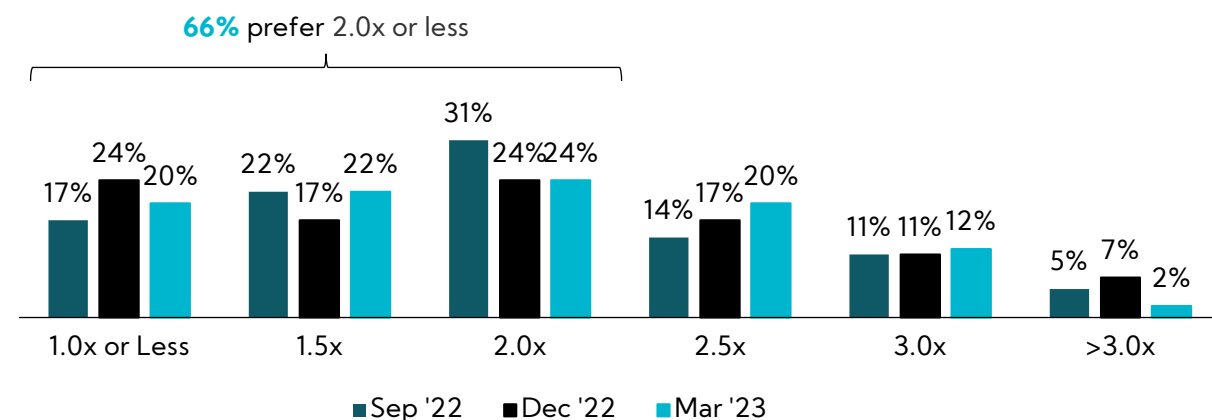
Debt paydown sets new survey record while growth investments see a notable pullback in support to the lowest level since the onset of COVID-19

PREFERRED USES OF CASH

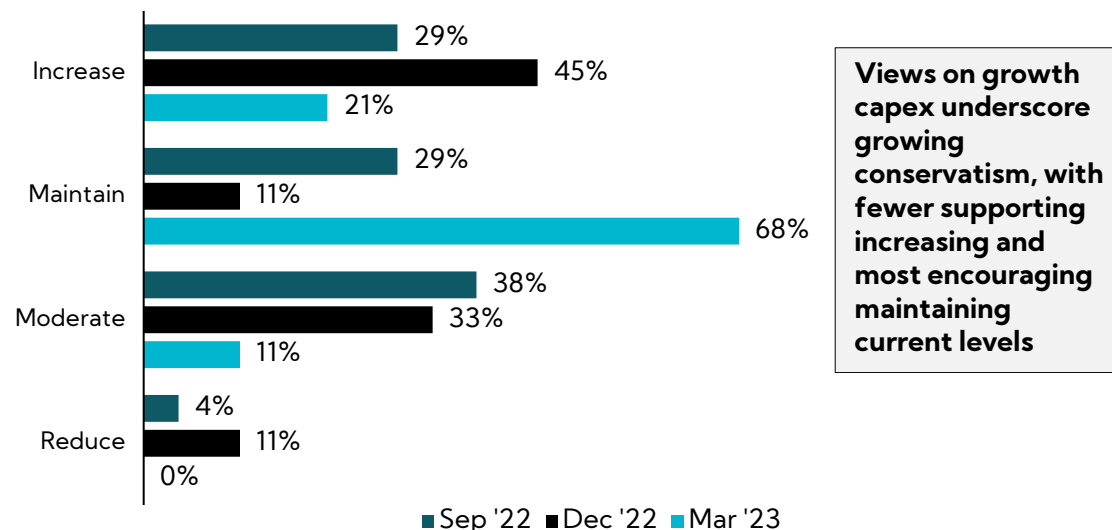
In Descending Order of Top Two Preferences



THRESHOLDS FOR NET DEBT-TO-EBITDA LEVELS

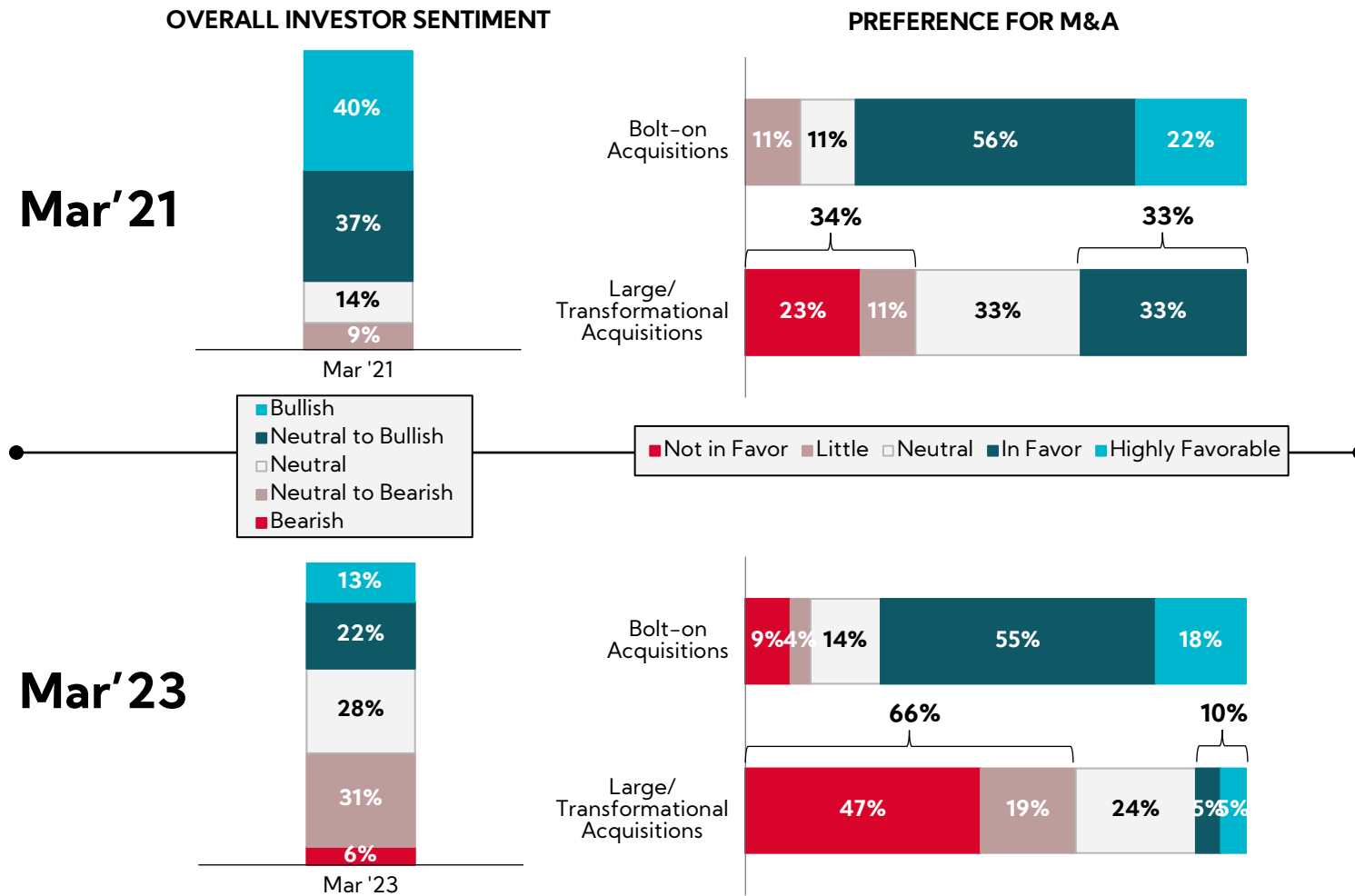


PREFERENCE FOR GROWTH CAPEX



M&A Spotlight: Bolt-on Acquisitions Remain In Favor, While Big M&A is Non Grata at Higher Levels vs. March 2021 Highs

For companies undertaking large, transformational acquisition, buyers beware and proceed with an iron gut; strategic fit with clear and compelling synergies top of mind for investors



"I am not in favor of acquisitions in the next 12 months. If you look at some of the acquisitions inside industrials that have been announced over the last four to six months, the stock reaction has been immensely negative. The average stock price movement is anywhere between 10% and 20% down from these announcements. Companies are reinvesting in themselves knowing they can take their own cash flow with very little free cash volatility and then invest it back in themselves and pay down that debt. In the short-term, I would not be very happy if companies were trying to do any large, inorganic acquisitions."

"M&A is getting a little overheated, so we think companies should hold off on that and continue to execute on the core."

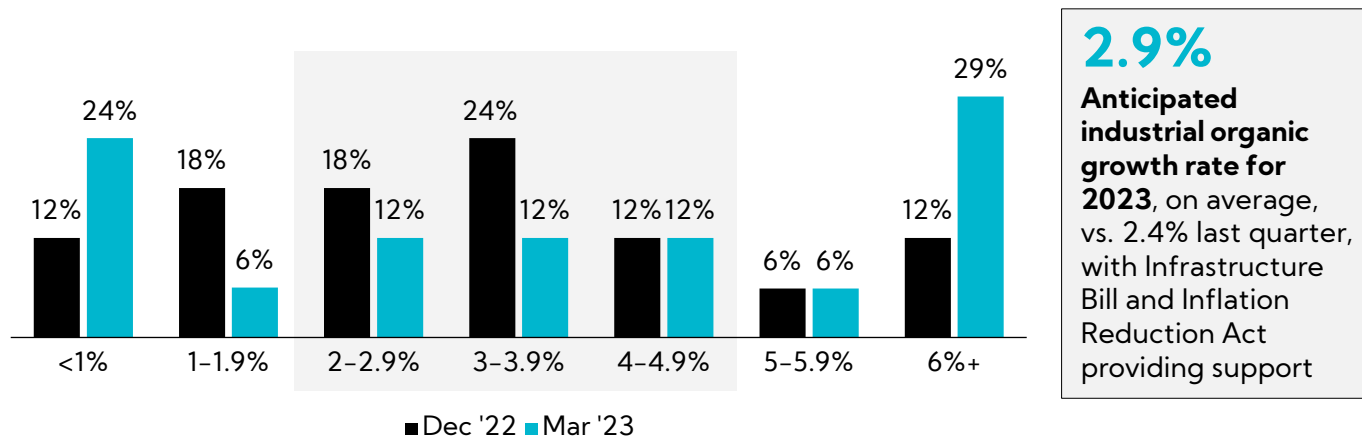
"A handful of companies have levered up to buy another company or bigger competitor and it was very value-destructive. That does not change looking over the longer-term."

"I always say to management teams I talk to that when I wake up on Monday morning and see you made an acquisition, I want to read a press release and think, 'That is exactly what we talked about.'"

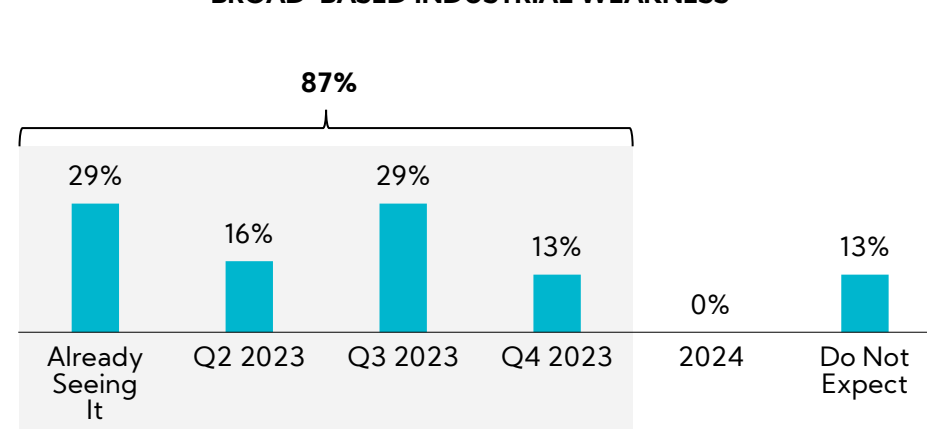
Nearly 9 in 10 Investors Expect Broad-Based Industrial Weakness by Year End

More than double the number of investors are seeing layoffs vs. last quarter and over half are observing hiring freezes

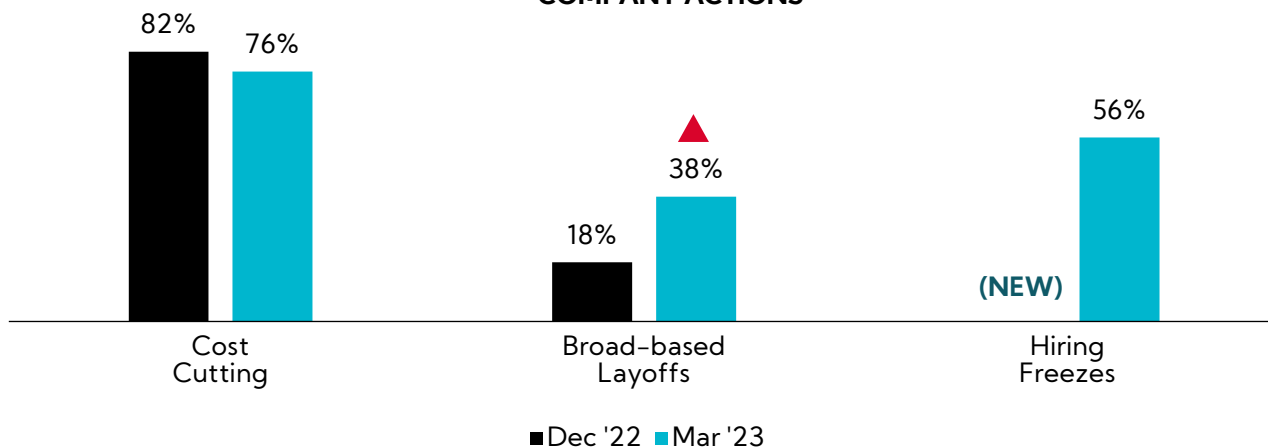
INDUSTRIAL ORGANIC GROWTH EXPECTATIONS FOR 2023



EXPECTATIONS FOR BROAD-BASED INDUSTRIAL WEAKNESS



COVERAGE UNIVERSE COMPANY ACTIONS



"I expect to see a slowdown in the back half of the year, but people are watching very carefully what the guidance is going to be. I'm not expecting many companies to be missing on earnings in Q1, but you'll see a top-line slowdown and outlook to be more negative than what we saw in Q4." **Buy Side, Industrials, N. America**

"I thought I would have been seeing more than I did already, so before the end of the year you will start to see it weaken further." **Buy Side, Industrials, N. America**

"We already saw it in Q3/Q4 2022." **Buy Side, Generalist, N. America**

63% (↑ 25pts)
Demand, Order Trends

57% (↑ 8pts)
Pricing (45%), Inflation (12%)

45% (↑ 28pts)
Margins

30% (↑ 11pts)
Supply Chain

25% (↑ 4pts)
Capital Allocation

13% (NEW)
Financing, Liquidity

Topics of Interest for Upcoming Earnings Calls

Increased focus on demand and order rates as investor angst over industrial weakness grows with price stickiness and margins also top of mind

Views from N. America

"Order books, credit and demand outlook post-SVB, price/cost." **Buy Side, Industrials**

"Price/cost, end market performance, market share." **Buy Side, Industrials**

"Color on if they are maintaining/increasing margins." **Buy Side, Industrials**

"Cost reductions, margin expansion, free cash flow." **Buy Side, Industrials**

"Visibility into 2H demand, price/cost stickiness, contingency plans." **Buy Side, Industrials**

"Supply chain issues, materials and labor costs, ability to obtain price increases." **Buy Side, Industrials**

"Ability to navigate a more challenging macro environment, capital allocation, demand." **Buy Side, Generalist**

"Uses of free cash, margin enhancement." **Buy Side, Generalist**

"Global economy, supply chain both in short-term (disruptions) and long-term potential reshoring/nearshoring, input costs/margins." **Buy Side, Generalist**

"Nearshoring, supply chain, health of customers." **Sell Side, Industrials**

"Trajectory of demand, inflation and price/cost management, capital deployment." **Sell Side, Industrials**

Views from Europe & Asia

"Supply chain, pricing, demand." **Buy Side, Industrials**

"Pricing, volume trends, China reopening." **Sell Side, Industrials**

"Ordering, order backlogs, margin." **Sell Side, Generalist**

"Operating measures, investments, financing." **Sell Side, Generalist**

"FCF, dealing with rapid changes." **Sell Side, Generalist**

Top Concerns from Around the Globe *(Unaided)*

Fears over a recession shoot to the top as the leading concern, while margin, geopolitical, and interest rate worries grow

1	49% (↑ 17pts)	Recession	2	41% (↓ 9pts)	Inflation	3	41% (↑ 14pts)	Geopolitics and War
4	39% (↑ 13pts)	Interest Rates	5	36% (↓ 10pts)	Demand	6	22% (↑ 16pts)	Margins

Views from N. America

"Credit, geopolitics, consumer weakness." Buy Side, Industrials

"Recession, inflation remaining, profit margin pressure." Buy Side, Industrials

"Fed policy, China/Russia, investor sentiment." Buy Side, Industrials

"Recession, high interest rates." Buy Side, Industrials

"Liquidity, high interest rates, failure to prepare." Buy Side, Industrials

"Slowing demand, supply chain, price deflation." Buy Side, Industrials

"Supply chain, high materials prices, volume growth." Buy Side, Industrials

"Costs/raw materials, supply chain, people." Buy Side, Generalist

"Interest rates, political uncertainty, recession." Buy Side, Generalist

"Labor inflation, Europe, China." Buy Side, Generalist

"Financial conditions, interest rates, labor costs." Buy Side, Generalist

"Rates, funding/loans, higher costs." Sell Side, Industrials

"Construction markets, disinflation & price/cost, inventory destocking." Sell Side, Industrials

"There are general macro concerns in the cycle within the space, such as the cycle either not coming back fast or the economic activity coming down and staying subdued for a while." Sell Side, Industrials

"Mortgage rates and affordability." Sell Side, Industrials

"Fed over tightening, credit availability, tight availability of qualified personnel." Sell Side, Industrials

Views from Europe

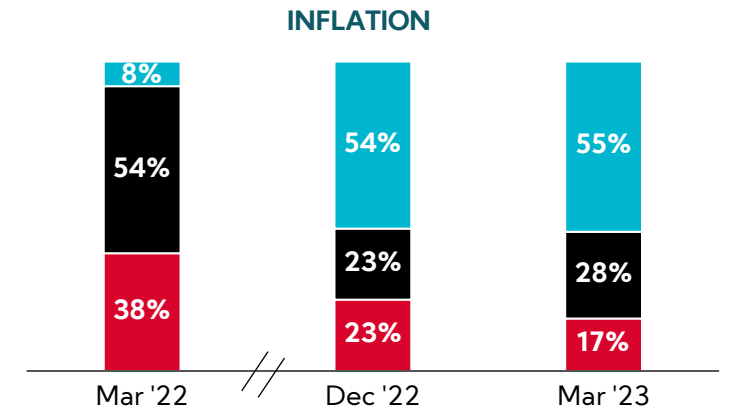
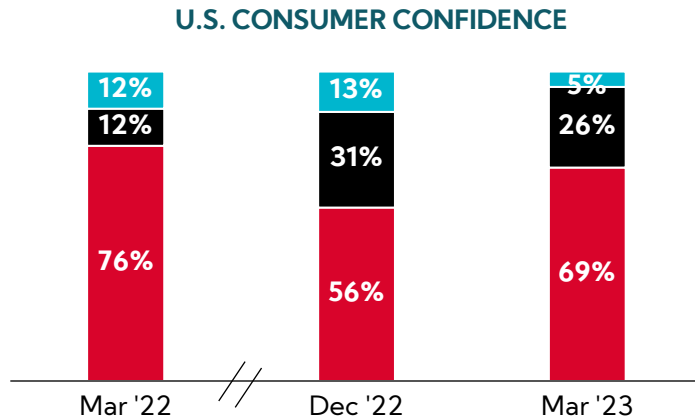
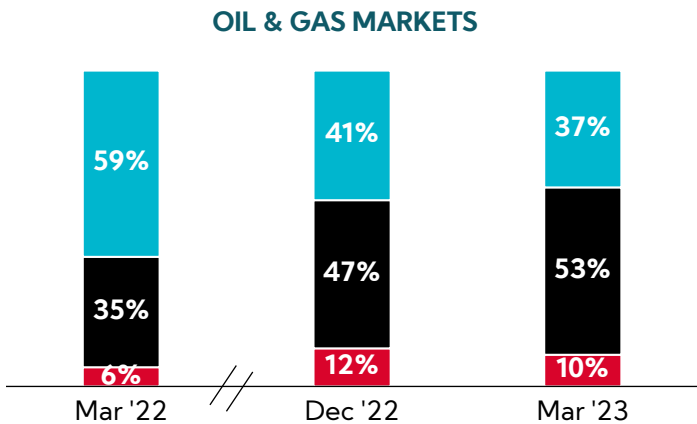
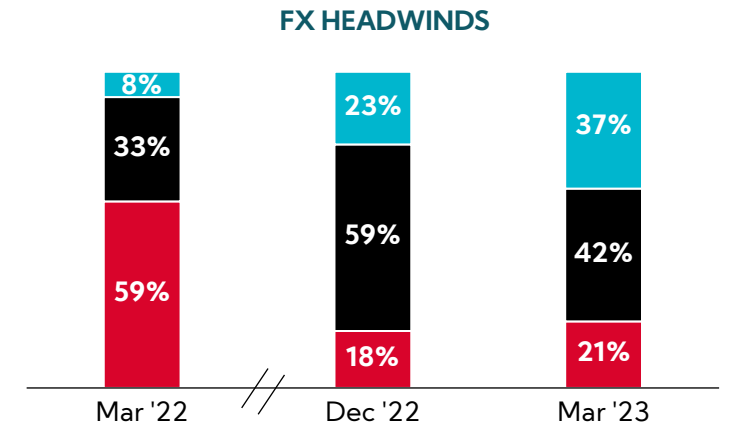
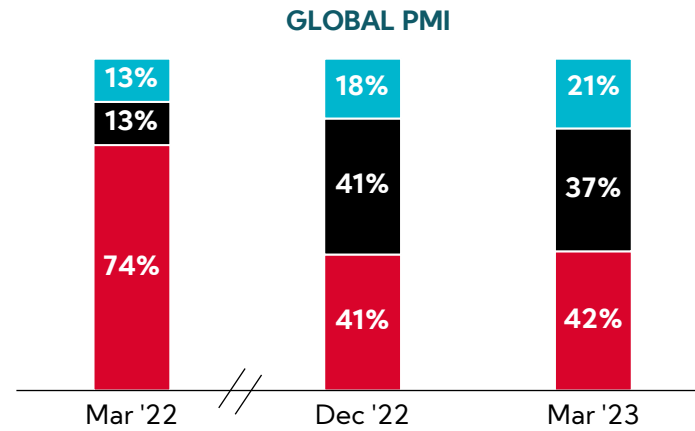
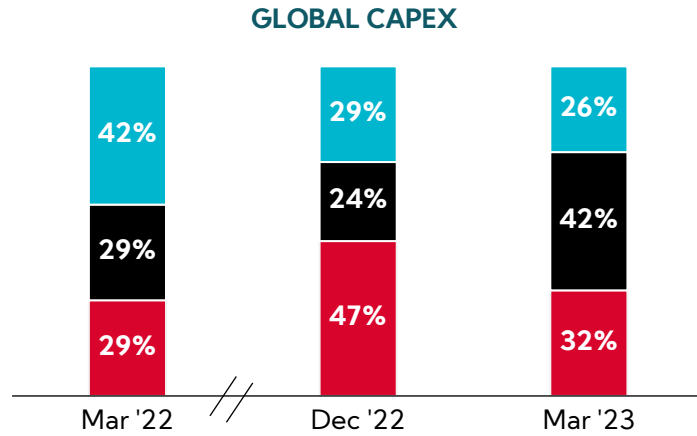
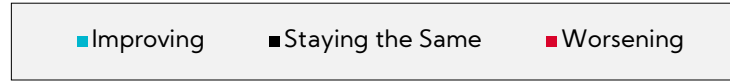
"Financial conditions, inflation, volatility in the stock market." Buy Side, Industrials

"Volume weakness, China/U.S. trade war, Russia/Ukraine war." Sell Side, Industrials

"Orders, capacity utilization, margins." Sell Side, Generalist

"War, global finance turmoil, sustainability." Sell Side, Generalist

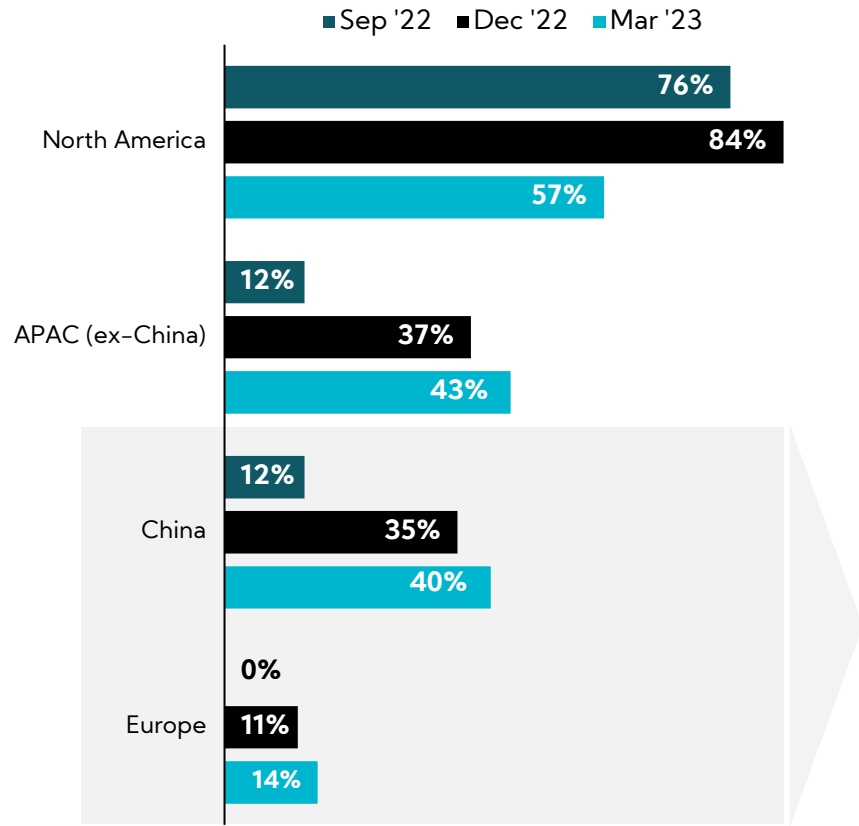
Views on Key Economic Indicators over the Next Six Months: FX Headwinds and Inflation Abating, Capex Levels Sustaining, Consumer Confidence Concerns Elevating



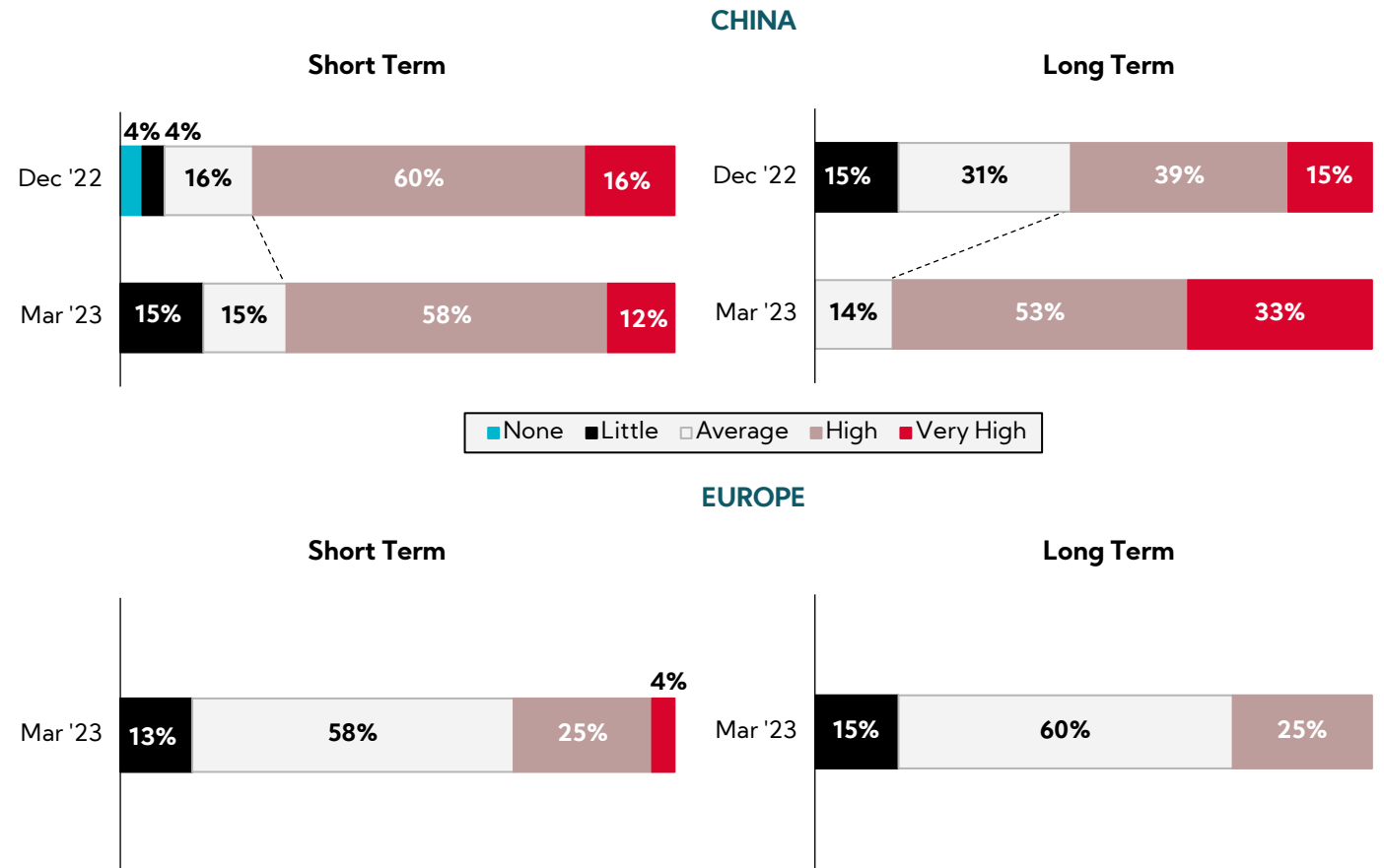
Industrials with North America Exposure Continue to be Seen as the Most Compelling Regional Play

Most are assigning a High or Very High level of risk to companies with exposure to China over the short- and long-term, the latter of which increased to 86% from 54% QoQ despite China's economy opening up; Europe in a much better place from a sentiment perspective

MOST COMPELLING REGIONAL EXPOSURE WITHIN INDUSTRIAL UNIVERSE



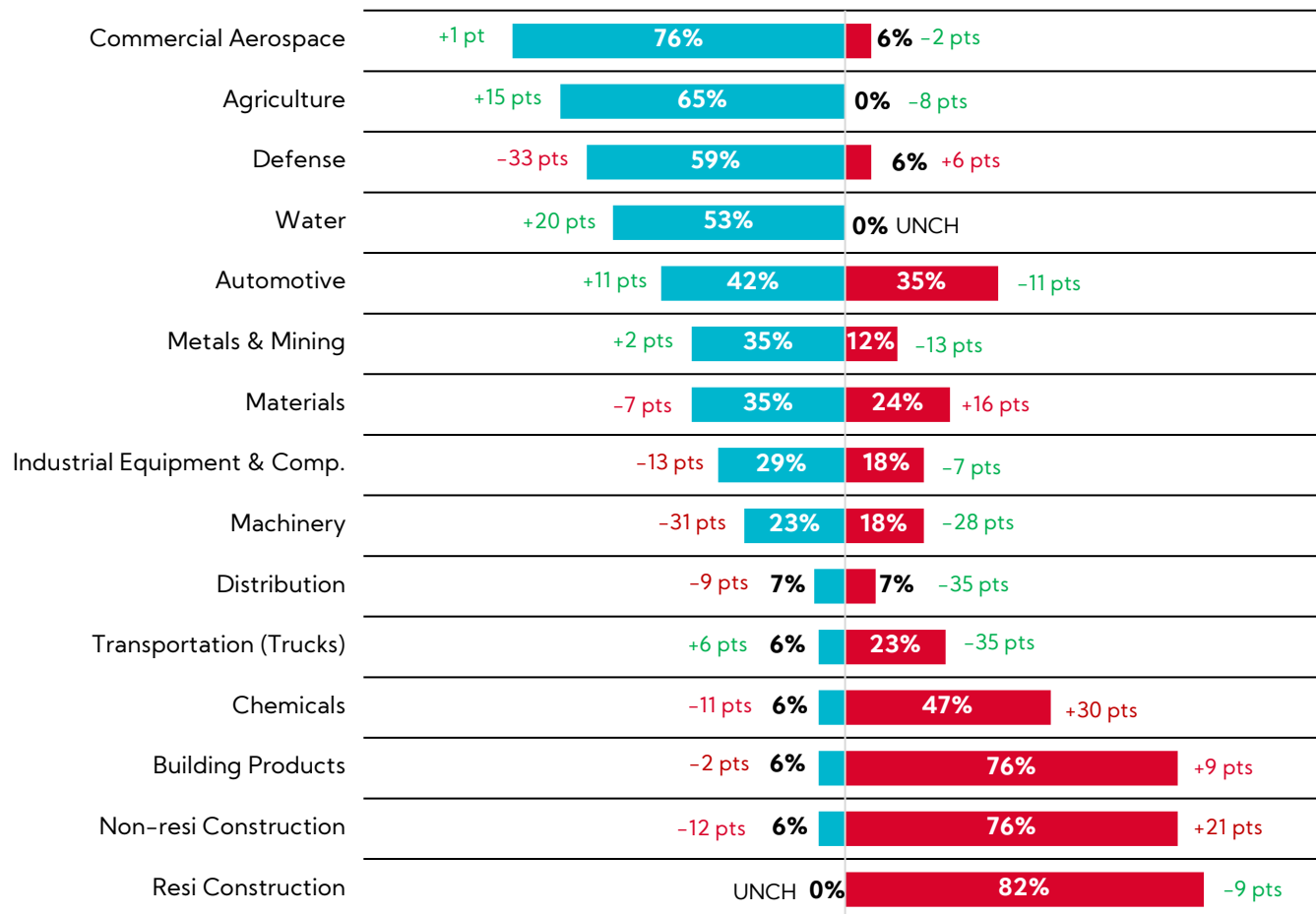
LEVEL OF RISK ASSIGNED TO COMPANIES WITH BUSINESS/OPERATIONAL EXPOSURE TO:



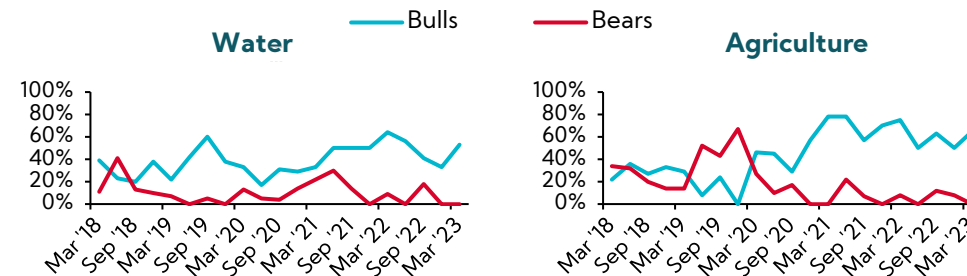
Commercial Aero and Ag Remain in Favor, While Non-resi Construction Sees Its Lowest Point in Survey History; Outsized FCF is in Focus as the Leading Investment Theme

INDUSTRY VIEWS

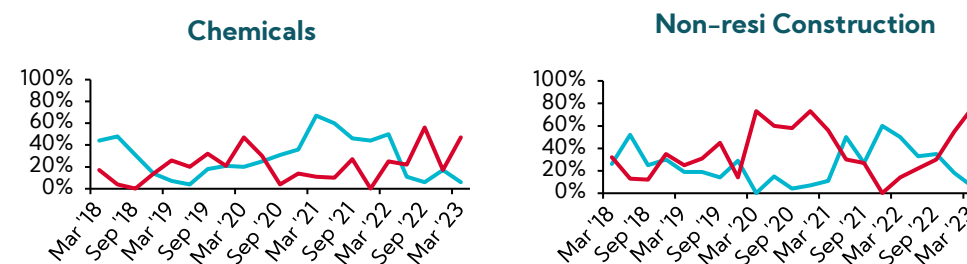
■ Bulls ■ Bears



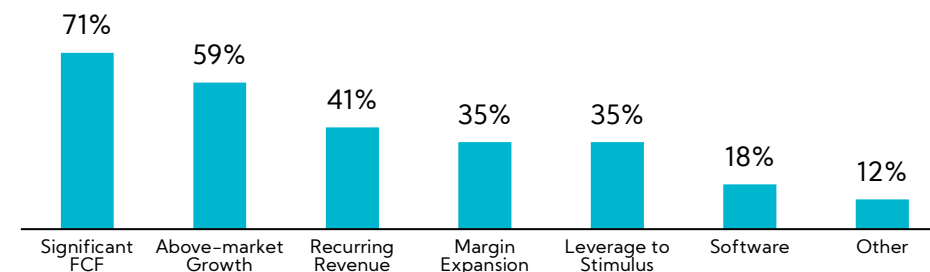
LARGEST BULL SENTIMENT GAINERS



LARGEST BEAR SENTIMENT GAINERS



Q1'23 MOST COMPELLING INVESTMENT THEMES





About Corbin

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



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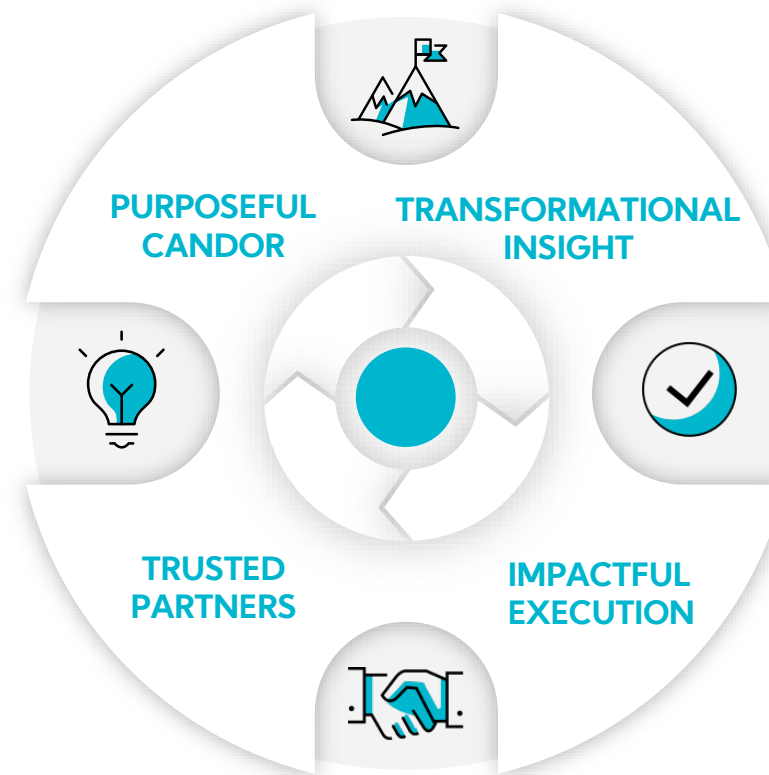
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Corbin was founded on the idea that data-driven, insights-based advice is a powerful catalyst for unlocking value.

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