

INSIDE THE  
**Buy • Side**<sup>®</sup>

INDUSTRIAL SENTIMENT SURVEY™



**corbin**  
celebrating **15** years

**Q2'23**

ISSUE: 33  
July 20, 2023

# INSIDE THE Buy-Side®

## INDUSTRIAL SENTIMENT SURVEY™

### Survey Scope:

35 sector-dedicated investors and analysts globally; buy side firms manage ~\$2.0 trillion in assets, including ~\$205 billion invested in Industrials

### Survey Timeframe:

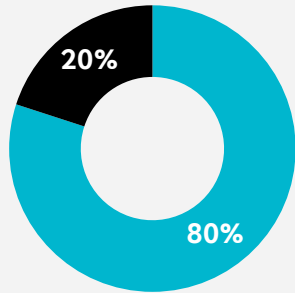
June 19 – July 14, 2023

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 flagship 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.

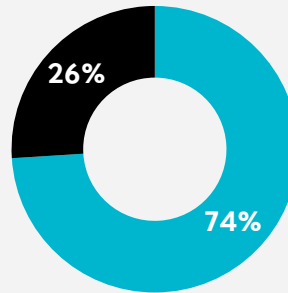
Market Performance	Q2'23	YTD <sup>1</sup>
DJIA	3.4%	5.8%
NASDAQ	12.0%	37.2%
S&P 500	8.3%	18.9%
S&P 500 Industrial	5.8%	11.5%
Russell 2000	4.8%	12.7%

BY ROLE



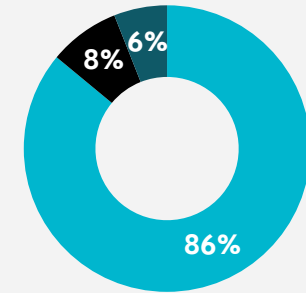
■ Buy Side ■ Sell Side

BY SECTOR FOCUS



■ Industrials ■ Multi-Industry Incl. Industrials

BY REGION



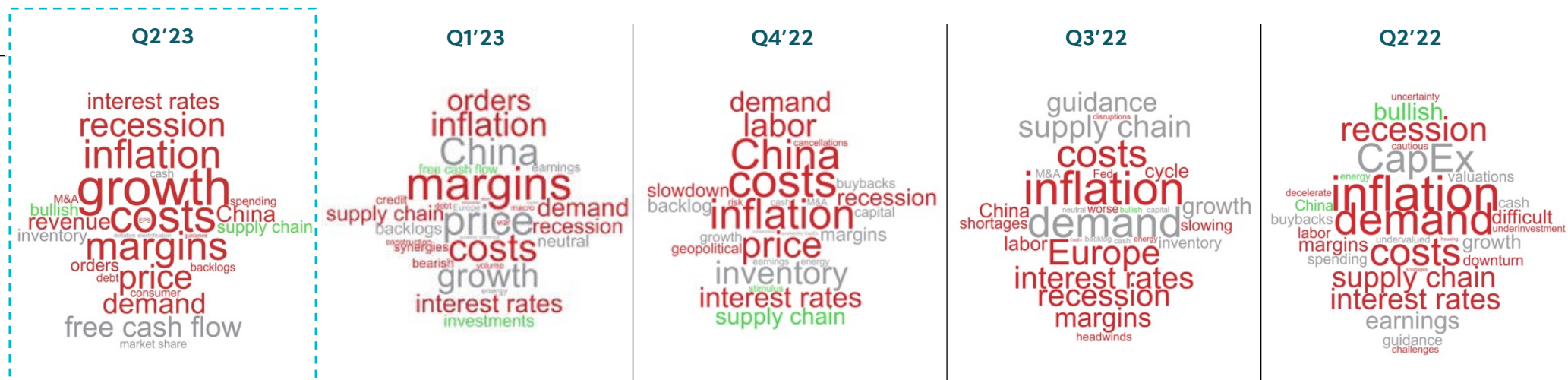
■ North America ■ Europe ■ Asia

<sup>1</sup>As of 7'19'23

# Near-term Bullish Q2 Expectations and Improving Supply Chains Not Enough to Offset Increasing Concerns Over Moderating Growth and Persistent Inflation

## Key: Underlying Sentiment

- Positive
- Neutral
- Negative



Quarterly Ranking (1-30)

Top Mentions	Q/Q	Q2'23	Q1'23	Q4'22	Q3'22	Q2'22
Growth	↑ 4	1	5	12	10	10
Costs	↑ 2	2	4	1	4	4
Inflation	↑ 3	3	6	2	1	1
Price	↓ 3	4	1	4	6	8
Margins	↓ 3	5	2	14	9	11
Recession	↑ 5	6	11	9	6	5

# Investors Divided on Sentiment but Aligned on Perceived Executive Tone – Largely Characterized as More Upbeat – And Major Shifts in Sub-sector Views

## For Q2, More Optimistic Management Tone Supports Healthy Performance Expectations and Modest Predictions for Consensus Misses; Demand and Order Trends Top the List of Earnings Call Topics

- **59%** describe executive tone as *Neutral to Bullish* or *Bullish*, up from 52% last quarter and the highest level since Q4'21
- Conversely, **45%** of investors self-describe sentiment as *Neutral to Bearish* or *Bearish*, slightly up QoQ; those in the *Neutral to Bullish* or *Bullish* camp also see rise, to **38%**, reflecting diverging perspectives among the investment community
- A majority, **50%+**, expect Q2 FCF and EPS to *Improve* amid easing skepticism QoQ with significantly fewer anticipating *Worsening* Margins; Revenue predictions are also more optimistic
- **Half** anticipate results to be *In Line* with consensus; more expect beats (31%) than misses (19%)
- Despite elevated Q2 expectations, the majority, **50%+**, presume companies will maintain annual guides across leading financial KPIs
- Leading topics of interest for upcoming earnings calls include demand and order trends (**75%**), margins and input costs (**63%**), and pricing power (**27%**)

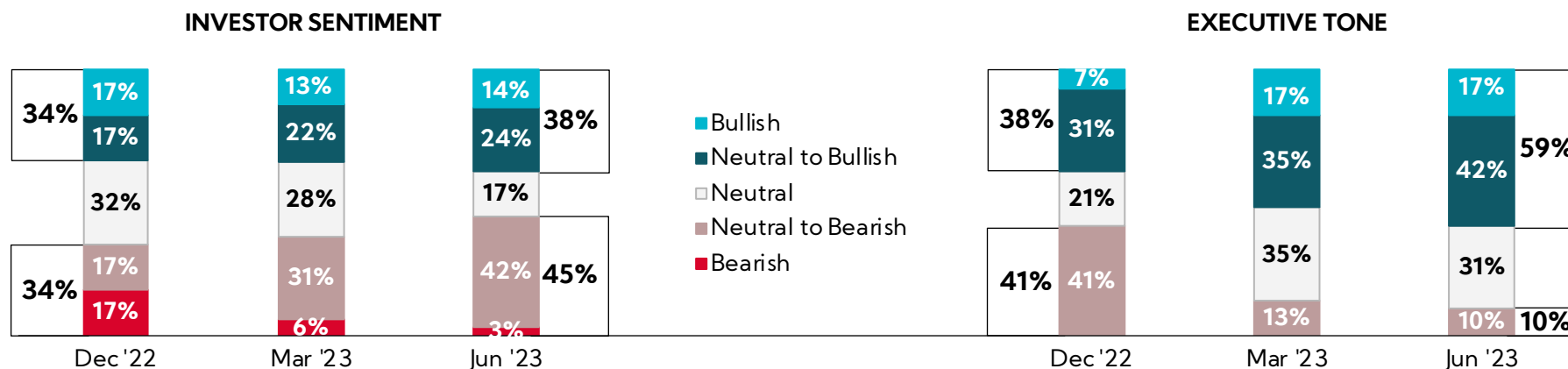
## Broad-based Industrial Weakness Expected but with Improved 2023 Organic Growth Rate Predictions, Forecasts Extend into 2024; Investors Grow Increasingly Comfortable with Allocating Capital in Support of Growth

- **92%** expect broad-based industrial weakness
  - While 71% are already seeing or expect to see weakness in 2023, predictions are increasingly moving beyond year end, as **21%** now point to 2024, up from 0% QoQ
  - *Global Capex* and *Consumer Confidence* seen as the most challenged indicators looking ahead, with **41%** and **55%** expecting *Worsening* conditions, respectively
- Top concerns include demand and order trends (**80%**, up from 36% QoQ), interest rates (**38%**), and China's economy (**28%**)
- Similar to sentiment, 2023 industrial organic growth rates see diverging views with **3.8%** forecasted, on average, up 90 bps QoQ
- Reinvestment shifts to the top preferred cash usage, surpassing debt paydown, while bolt-on acquisitions continue to garner support

## Clear Investor Preferences with Consistent and Emerging Themes Across Regions, Sub-sectors, and Company Profiles

- **71%** cite North America as the most compelling region, up from 57% QoQ; APAC (ex-China), Europe, and China all notch decreases in sentiment
  - Notably, **60%+** continue to assign a *High* or *Very High* level of risk to companies with China exposure – over both the short and long term
- **Defense**, **Commercial Aero**, and **Water** top the bull chart, while **Chemicals** shakes off the bears and sees the largest increase in positive support
- Shade falls on **Ag** while bears topple into **Transportation** with nary a bull in sight, representing its lowest level of sentiment since the onset of the pandemic
- Investors remain focused on **FCF** generation and **above-market growth** as most compelling investment themes while **margin expansion** comes in third with the largest increase in support

# Disconnect Between Investor Sentiment and Perceived Management Tone Widening; Secular Trends and Government Stimulus Among the Factors Contributing to Rosier Executive Tone



## Bullish

*"Valuations looking out three years are good and there is not much to be concerned about."* **Buy Side, Industrials, N. America**

*"On all the stuff we are involved in, we are exposed to secular growth schemes. Obviously, they are not immune to the macro, but we will benefit. We do a lot on water and electrification. Onshoring is another theme we are playing on. Broadband internet access and cell service is another one. We try and find reasonably valued companies that are exposed to those trends that we think growth can possibly accelerate. On certain slivers of Industrial, we are very positive."* **Buy Side, Generalist, N. America**

## Neutral to Bullish

*"Management is cautiously bullish, but it depends on where you are. If you are tied to the themes of the Inflation Reduction Act, Infrastructure Act, CHIPS Act, all the reshoring, auto spend, and electrification, I think you sound pretty good. If you are a company that sells parts that go into car washes and random industrial stuff, or you are selling chemicals where you have pricing going crazy and there's excess capacity, then you don't sound too good. There are definitely two worlds in industrials right now."* **Buy Side, Industrials, N. America**

*"Pack of recession concerns."* **Buy Side, Generalist, N. America**

*"Anticipate margins to be sustained with potential for upside surprise given what appears to be a rolling expansion (soft landing) versus a rolling recession."* **Buy Side, Generalist, N. America**

*"Strong macro led by government stimulus, but weaker consumer spending. Housing starts looked good, though, which is one of the largest areas of concern."* **Sell Side, Industrials, N. America**

## Neutral/Neutral to Bearish

*"Softening leading economic indicators and persistent inflation that pressure profit margins."* **Buy Side, Industrials, N. America**

*"Management is positive on what is happening but are incrementally more cautious. My sentiment is similar but more bearish."* **Buy Side, Industrials, N. America**

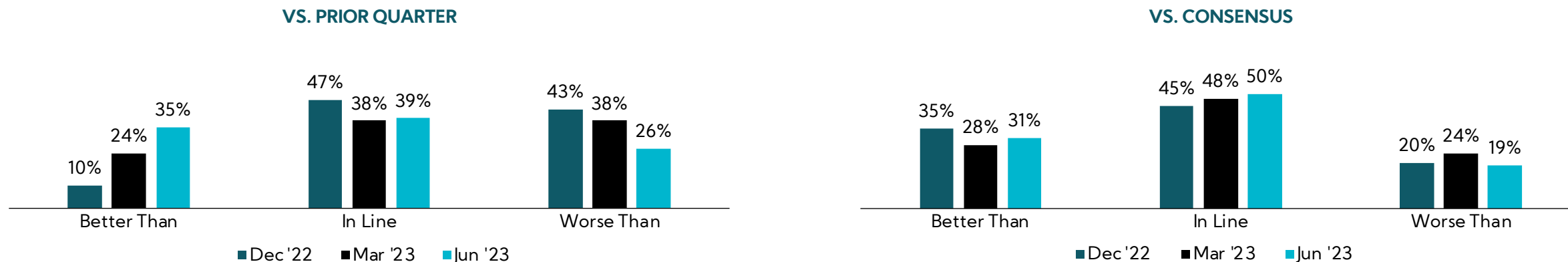
*"Lag effect of interest rate hikes that will eventually catch up to demand."* **Buy Side, Industrials, N. America**

*"Near a trough in some of the key firms."* **Sell Side, Generalist, Asia**

# Sustained or Better Sequential Performance Expected with Most Anticipating Consensus Meets and Beats

*Those expecting worsening sequential performances falls to the lowest level since Q4'21*

## Q2'23 EARNINGS EXPECTATIONS



### Better Than

*"I think most will be pretty good, but expectations are higher. Consensus numbers are not that different but when you look at the stocks, people were nervous last quarter. Now they might say they are nervous, but stocks are closing high."* **Buy Side, Industrials, N. America**

### In Line

*"Backlogs with improving supply chains should provide a tailwind for earnings. However, with slowing global economic growth, the offset is challenged order books."* **Buy Side, Industrials, N. America**

*"Labor inflation, sluggish China demand."* **Buy Side, Industrials, N. America**

*"Lumpy positives and negatives throughout the quarter. Absence of a defined driver."* **Buy Side, Generalist, N. America**

*"Economy is better than recession-rhetoric-influenced guide."* **Buy Side, Generalist, N. America**

### Worse Than

*"Macro data."* **Buy Side, Industrials, N. America**

*"Mostly seasonality. Anticipate positive QoQ & YoY yet lower sequential growth to Q1 2023."* **Buy Side, Generalist, N. America**

*"Low operating rates."* **Sell Side, Industrials, N. America**

*"Low volume environment."* **Sell Side, Industrials, N. America**

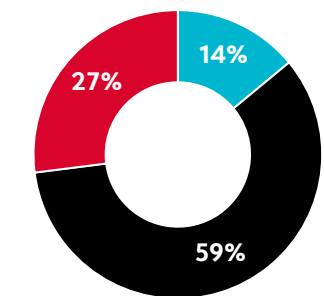
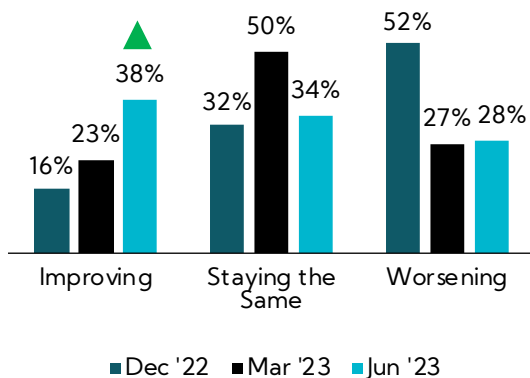
# Despite Broad-based Views of Strong Q2 KPI Performance, Most Expect Companies to Hold Annual Guides Amid Back-half Concern; Expectations for EPS and FCF Improvement Notable

## Q2'23 PERFORMANCE EXPECTATIONS

### REVENUE GROWTH

#### PERFORMANCE EXPECTATIONS

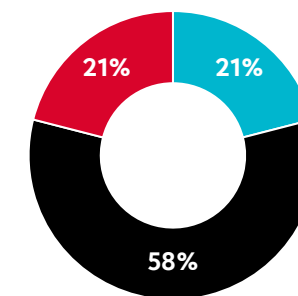
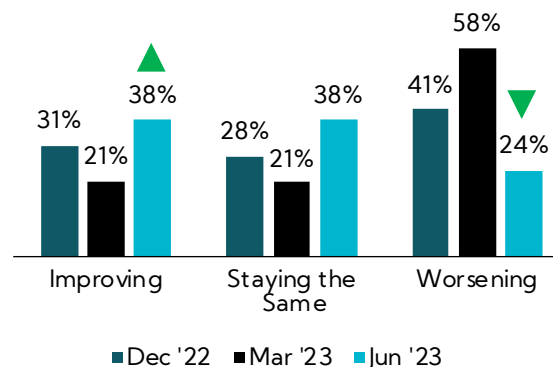
#### GUIDANCE EXPECTATIONS



### OPERATING MARGINS

#### PERFORMANCE EXPECTATIONS

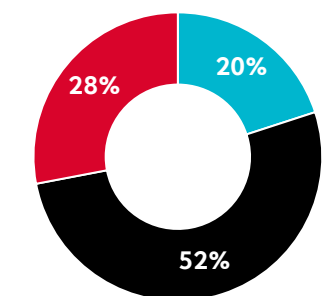
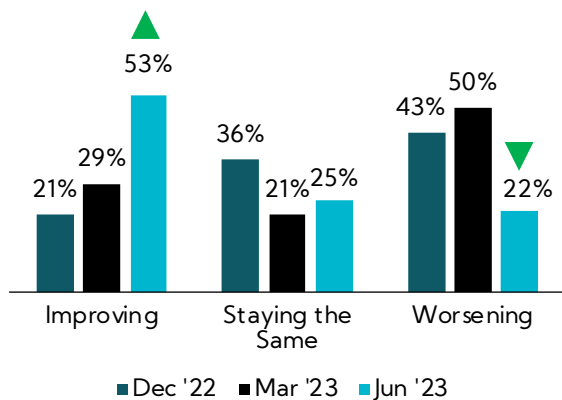
#### GUIDANCE EXPECTATIONS



### EPS GROWTH

#### PERFORMANCE EXPECTATIONS

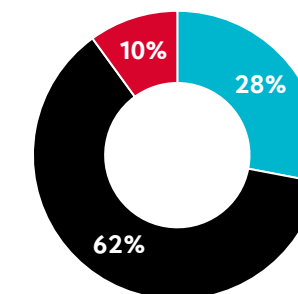
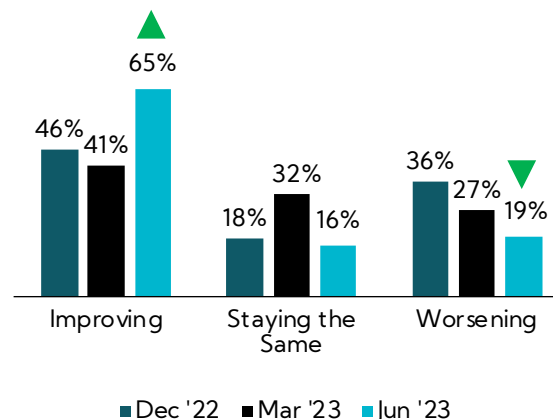
#### GUIDANCE EXPECTATIONS



### FCF

#### PERFORMANCE EXPECTATIONS

#### GUIDANCE EXPECTATIONS

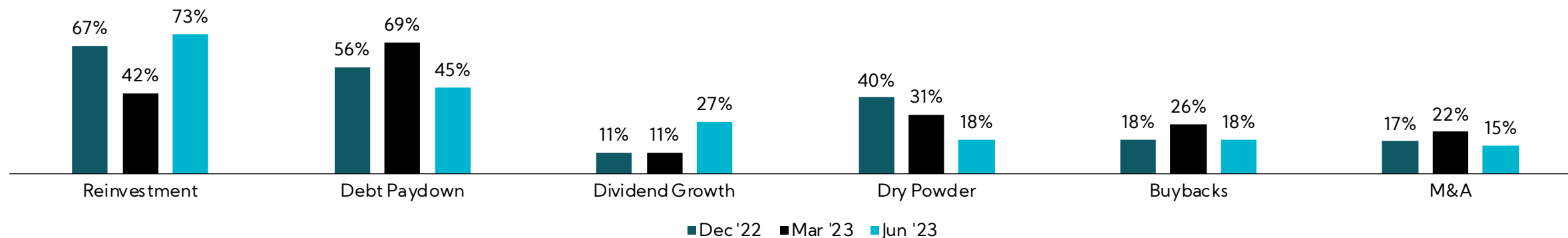


# Support for Cash Usage Shifts from Debt Paydown to Reinvestment

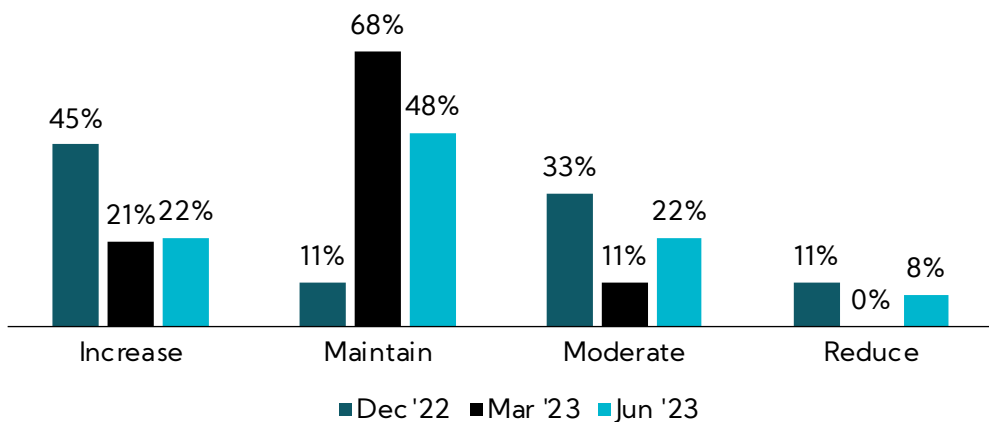
Debt paydown remains in focus but off the survey high set last quarter with tolerance levels trending toward  $\leq 2.0x$

## PREFERRED USES OF CASH

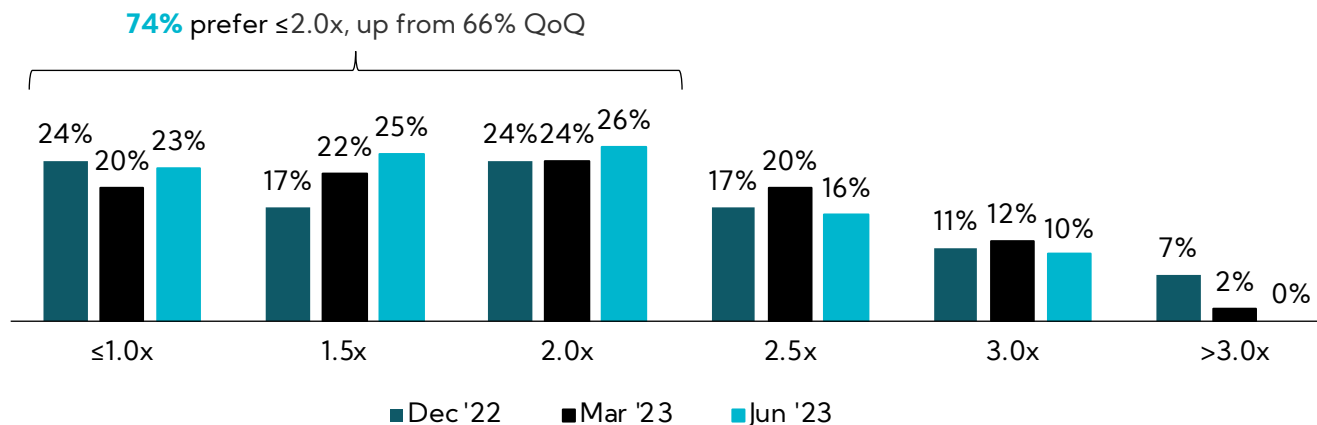
In Descending Order of Top Two Preferences



## GROWTH CAPEX PREFERENCES

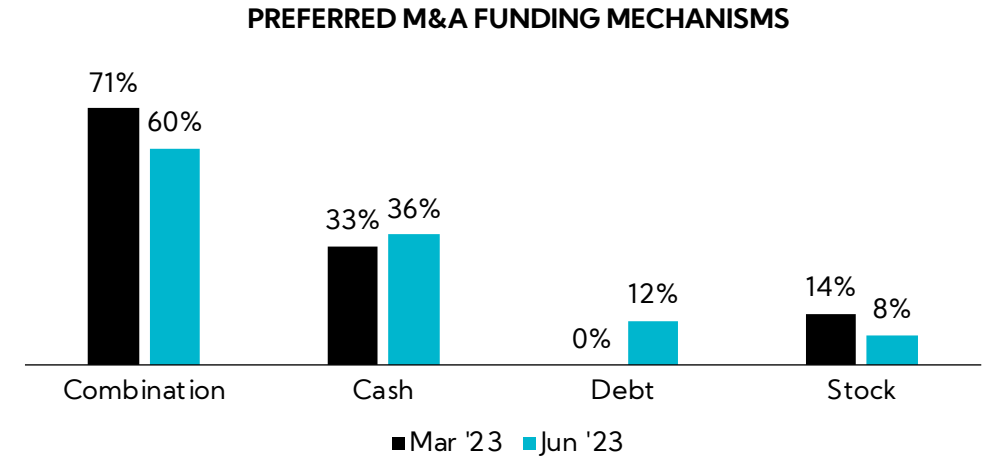
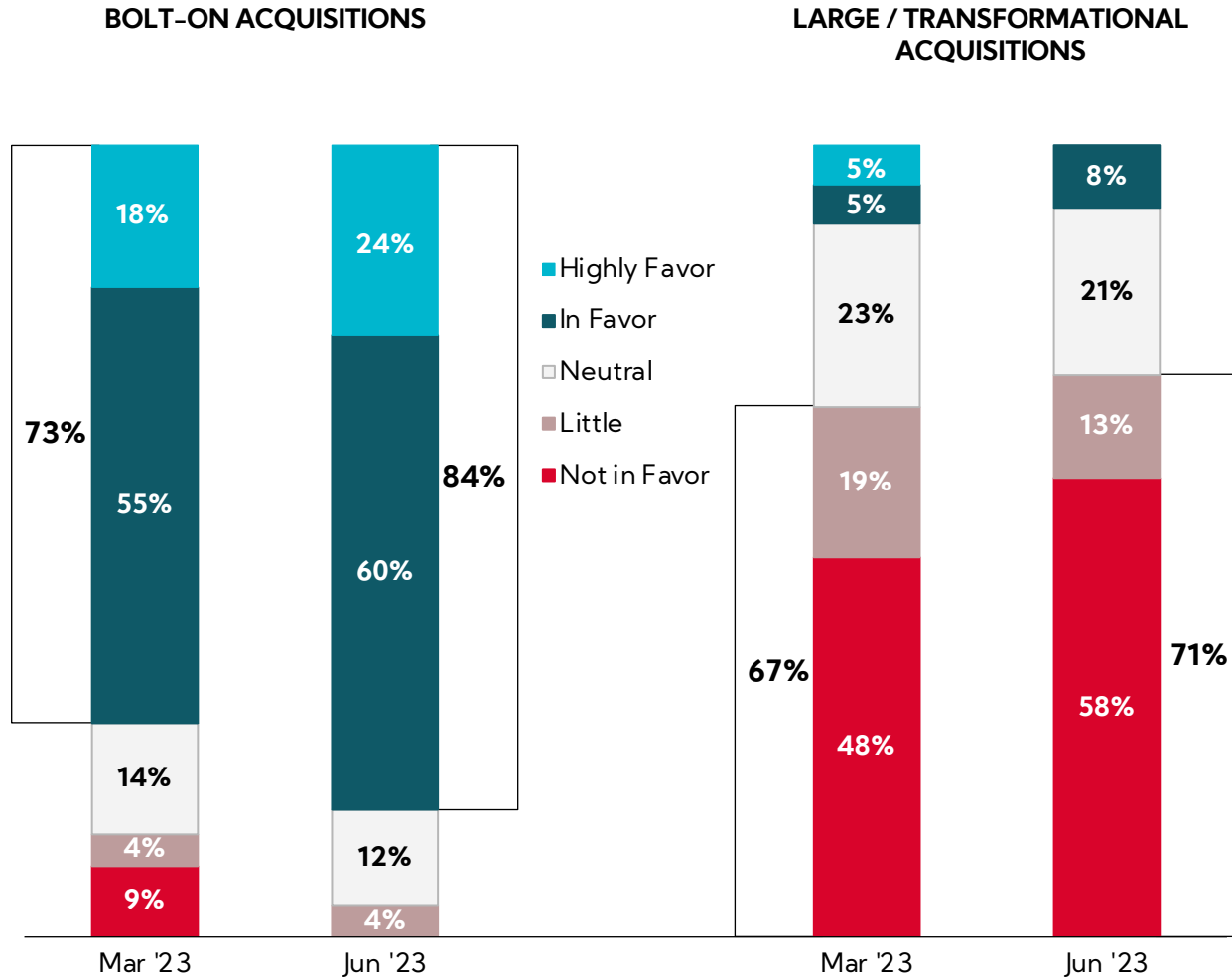


## THRESHOLDS FOR NET DEBT-TO-EBITDA LEVELS





# M&A Spotlight: Bolt-on Acquisitions Viewed with Preferential Treatment as Transformational Deals Fall Ever More Out Favor (Note to Management: Iron Gut Required)



*"Accretion needs to make sense. Multiple pre- and post-synergies need to make the deal compelling besides the strategic rationale. The days of buying assets at crazy multiples for the strategic value and getting rewarded for it are over."*

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

*"The deal needs to be accretive and compelling right out of the gate. It can't be a work in progress."*

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

*"My preference is for smaller deals that use cash. If it is a larger deal, it is all relative on where the stock is trading. In general, I am against stock deals but some stock and cash."*

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

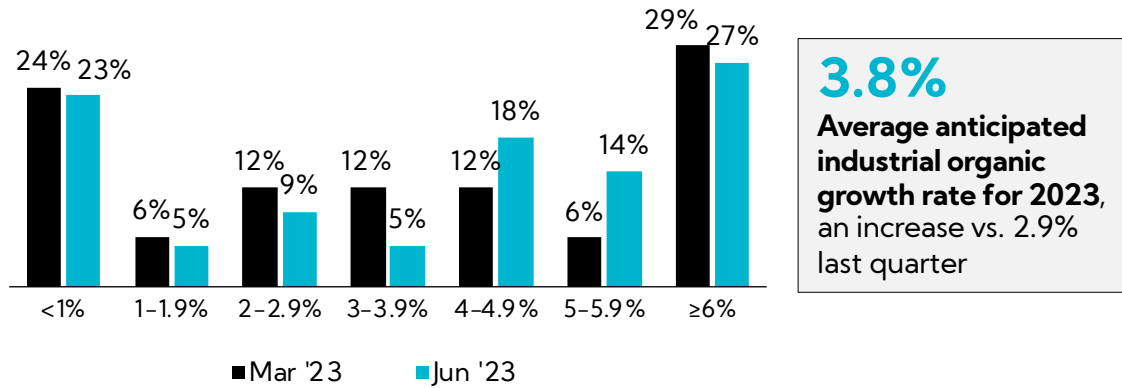
*"If it is a company I own, I definitely don't want them funding a deal with stock, and I want them to use only the free cash flow they generate or some modest amount of leverage."*

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

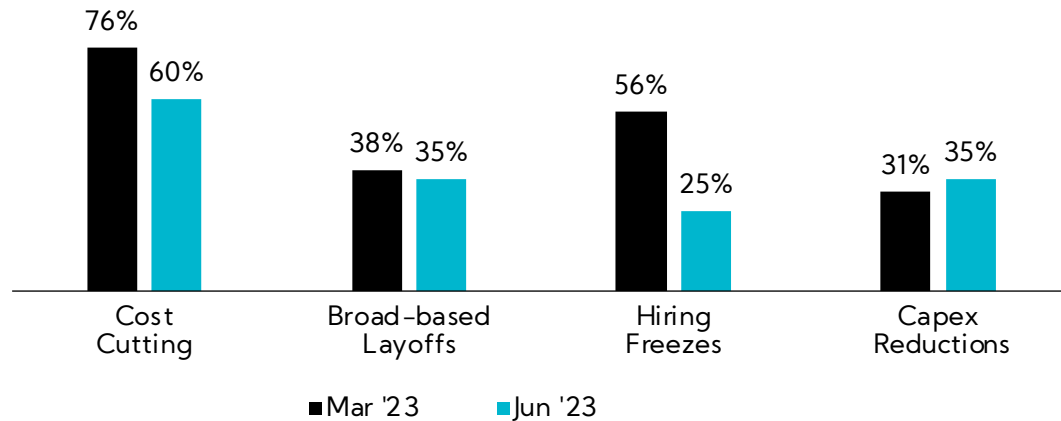
# 9 in 10 Investors Expect Broad-based Industrial Weakness, with an Increasing Proportion Anticipating a Slowdown in 2024

Stronger 1H 2023 expectations support a slightly rosier organic growth rate of 3.8%, up 90 bps QoQ

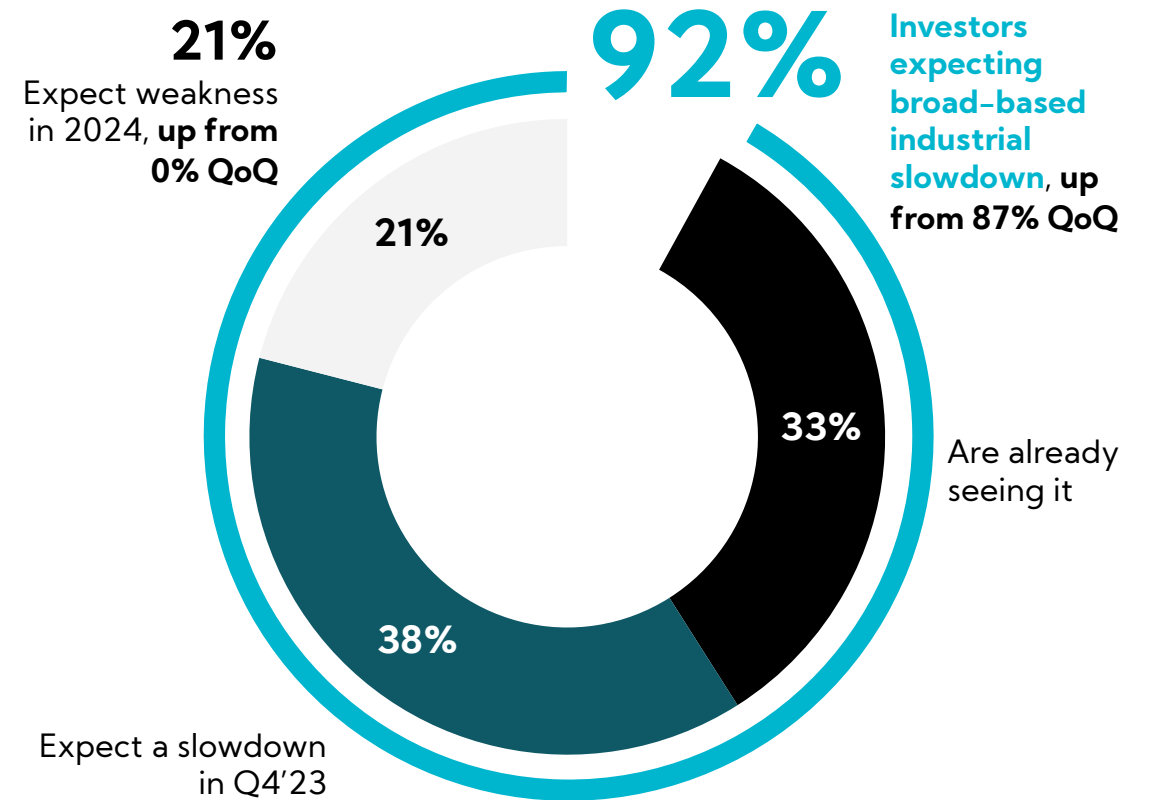
INDUSTRIAL ORGANIC GROWTH EXPECTATIONS FOR 2023

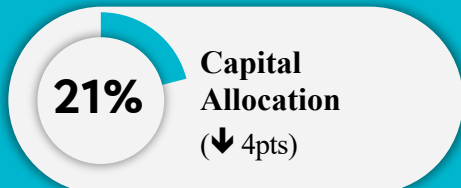
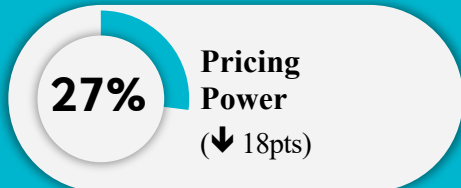
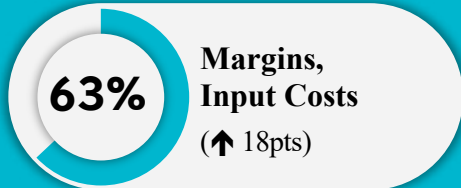


COVERAGE UNIVERSE COMPANY ACTIONS



BROAD-BASED INDUSTRIAL WEAKNESS





## Topics of Interest for Upcoming Earnings Calls

*Demand and order trends remain the leading topic of interest for the second consecutive quarter, while interest in margin preservation grows*

### Views from N. America

*"How can you defend your earnings growth and pricing power?" Buy Side, Industrials*

*"Revenue and order slowdown, impact of inflation on cost, China." Buy Side, Industrials*

*"Planning for recession, increasing operating margin." Buy Side, Industrials*

*"New orders, growth capex initiatives, margin preservation in a disinflationary or deflationary environment." Buy Side, Industrials*

*"Market conditions and outlooks for the rest of the year." Buy Side, Industrials*

*"Ability to grow faster than markets, free cash flow generation/financial flexibility, stress test for economic downturn." Buy Side, Industrials*

*"Backlogs and duration of backlog, order strength/weakness, reduction of inventories/supply chain." Buy Side, Industrials*

*"Updated 2H'23 expectations, capital allocation priorities." Buy Side, Generalist*

*"Free cash use." Buy Side, Generalist*

*"Recession thoughts/ fears/contingencies, inflation data, Russia impact." Buy Side, Generalist*

*"Sustainability, value proposition of company, ongoing relevancy, focus on business model and enhancements thereto." Buy Side, Generalist*

*"Costs, commodity pricing, debt." Sell Side, Industrials*

*"Pricing, demand expectations, share gains." Sell Side, Industrials*

*"Revenue outlook, cost outlook, margins." Sell Side, Industrials*

*"Macro outlook globally, inventory channel and pricing power, margin opportunities, have labor and supply chain improved." Sell Side, Industrials*

### Views from Asia

*"Top line growth, cost control, shareholder returns." Sell Side, Generalist*

# Top Concerns from Around the Globe

*Apprehension over demand and slowing order trends shoot to the top while concerns over slowing growth in China emerge*

1	80% (↑ 44pts)	Demand, Order Trends	2	38% (↓ 1pt)	Interest Rates	3	28% (↑ 28pts)	<b>NEW</b> China's Economy
4	27% (↑ 5pts)	Margins	5	21% (↓ 20pts)	Geopolitics	6	21% (↓ 28pts)	Recession

## Views from N. America

"Guidance, demand." **Buy Side, Industrials**

"Revenue and order slowdown, impact of inflation on cost, China." **Buy Side, Industrials**

"Revenues, interest rates, China recovery path." **Buy Side, Industrials**

"Orders, backlogs, 2024 EPS estimates." **Buy Side, Industrials**

"Slowing orders, customer destocking, sustainability of pricing gains." **Buy Side, Industrials**

"Global recession, persistent elevated inflation, higher rates pushing down valuations." **Buy Side, Industrials**

"Credit dislocations, inflation reacceleration, technological obsolescence." **Buy Side, Industrials**

"Interest rate hikes, slow China, U.S. consumer." **Buy Side, Industrials**

"Cost of capital, reduction in customer spending, human resources." **Buy Side, Industrials**

"Inventory levels, durability of backlogs, how well companies can hang on to pricing to preserve margins." **Buy Side, Industrials**

"2H expectations too high, FCF generation as working capital demands increase, valuation in the standout names." **Buy Side, Generalist**

"Pricing, China, energy costs." **Buy Side, Generalist**

"Recession fears, interest rates, Russia." **Buy Side, Generalist**

"Monetary policy overshoot, prospective recession, geopolitical considerations." **Buy Side, Generalist**

"Low operating rates, import competition, weak demand." **Sell Side, Industrials**

"Demand, deflation, sentiment gets too bullish." **Sell Side, Industrials**

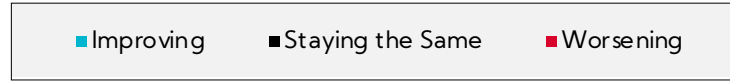
"Rates, inflation, labor costs." **Sell Side, Industrials**

"Residential and commercial construction, consumer spending, China COVID-19 recovery." **Sell Side, Industrials**

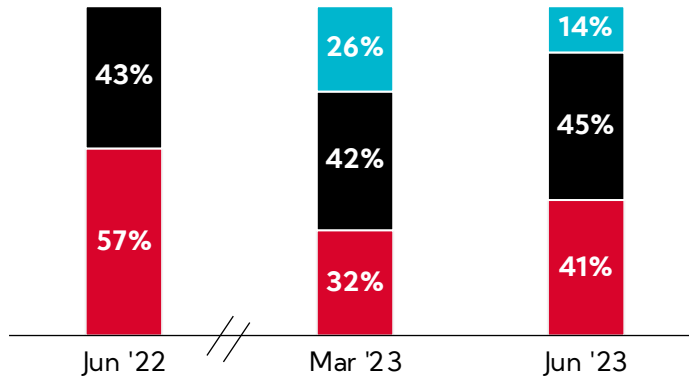
## Views from Asia

"Economic growth, global geopolitics, interest rates." **Sell Side, Generalist**

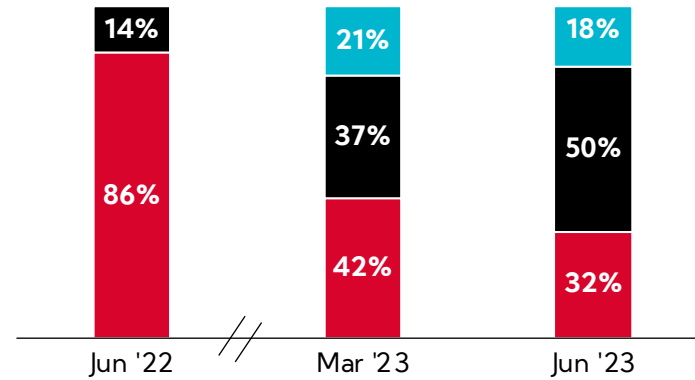
# Views on Key Economic Indicators Over the Next Six Months – What a Difference a Year Makes...Capex and Consumer Retrenchment Largely Expected



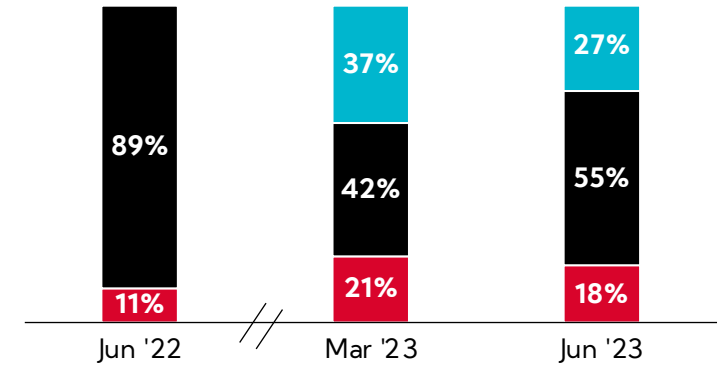
GLOBAL CAPEX



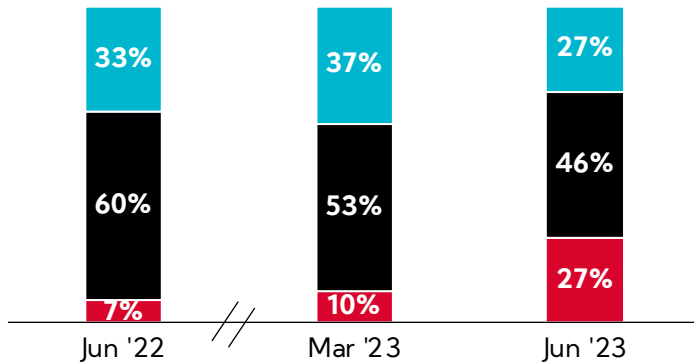
GLOBAL PMI



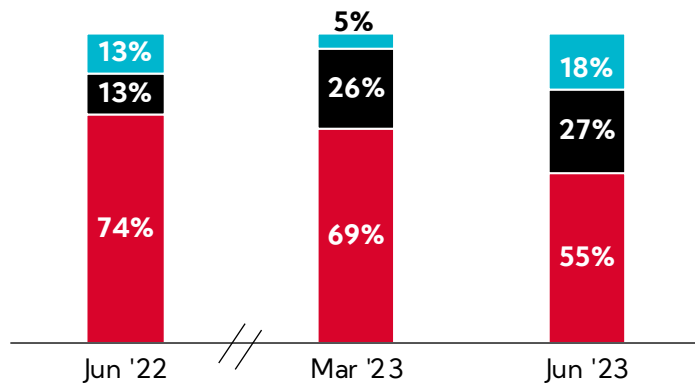
FX HEADWINDS



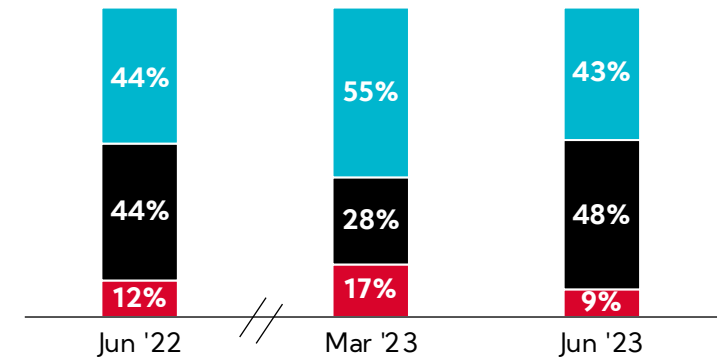
OIL & GAS MARKETS



U.S. CONSUMER CONFIDENCE



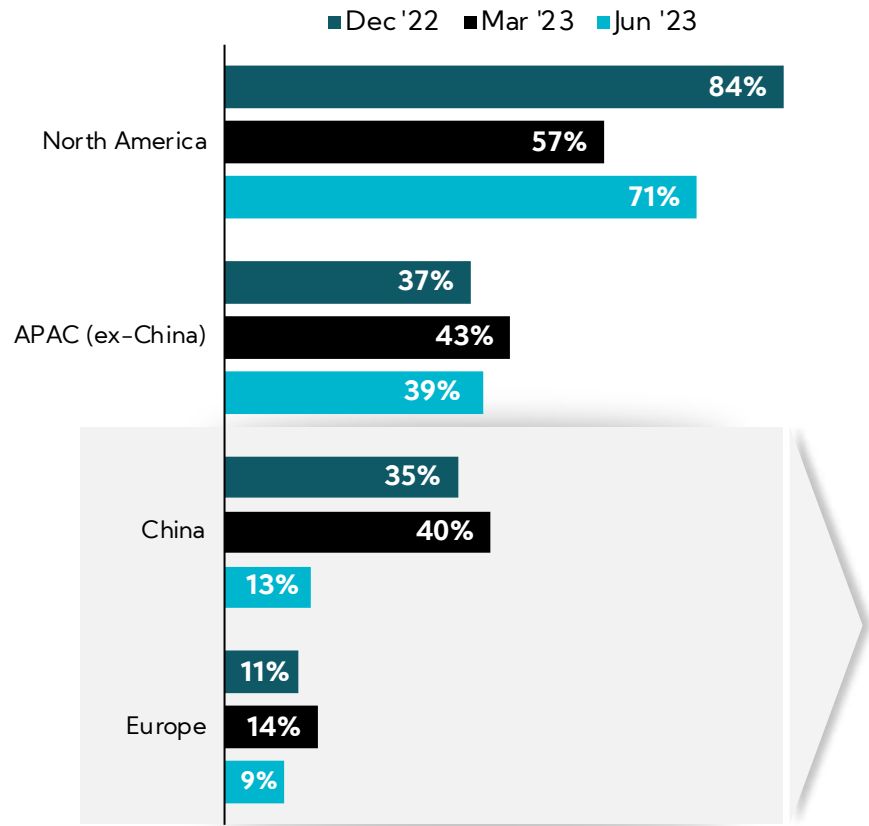
INFLATION



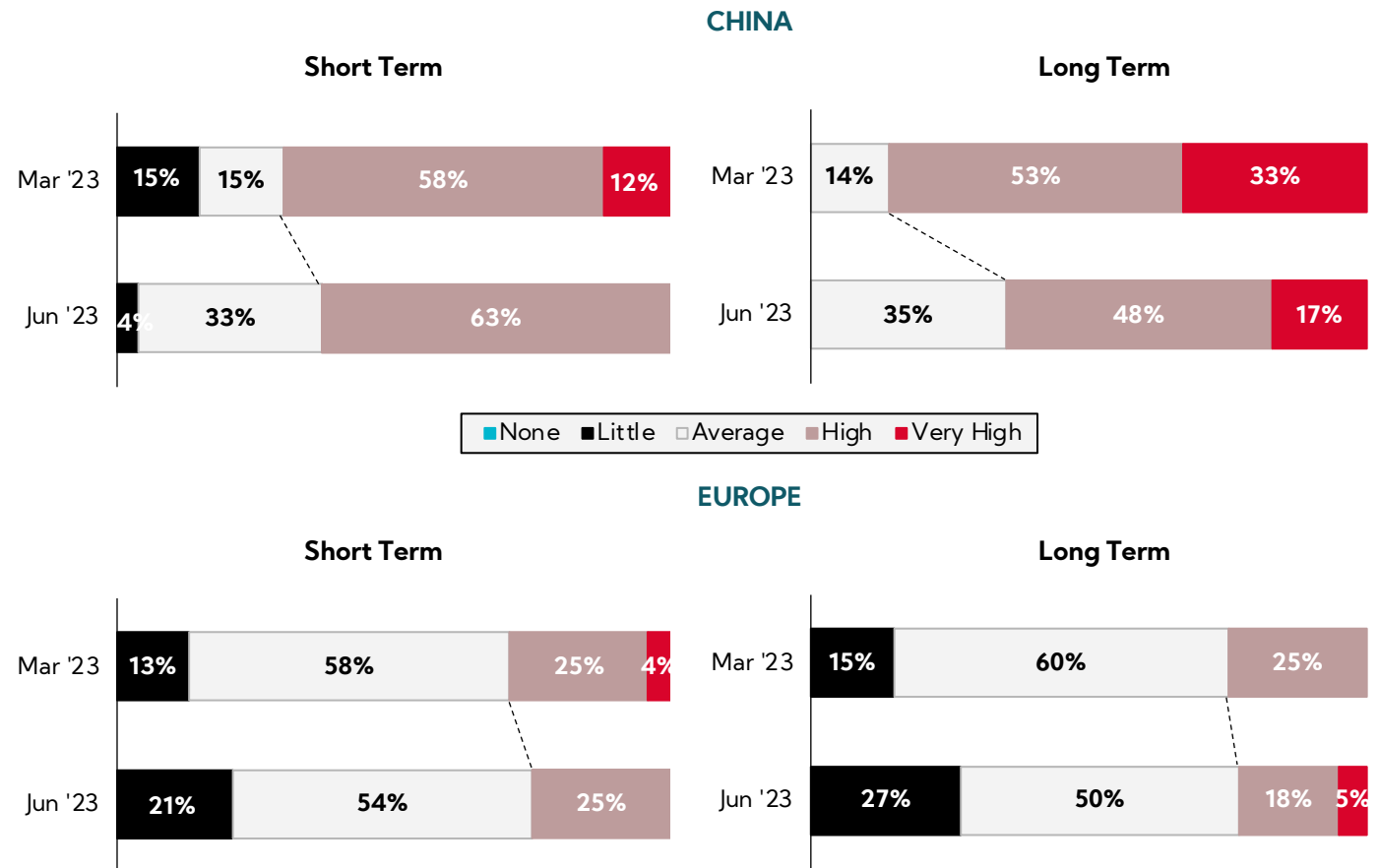
# Industrials with North America Exposure Remain the Most Compelling Regional Play, While China Optimism Shrinks by Over Half

*Despite notching slight improvements QoQ, most continue to assign a High or Very High level of risk to companies with exposure to China over the short and long term; Europe stays the course toward steady risk-profile improvement*

**MOST COMPELLING REGIONAL EXPOSURE WITHIN INDUSTRIAL UNIVERSE**



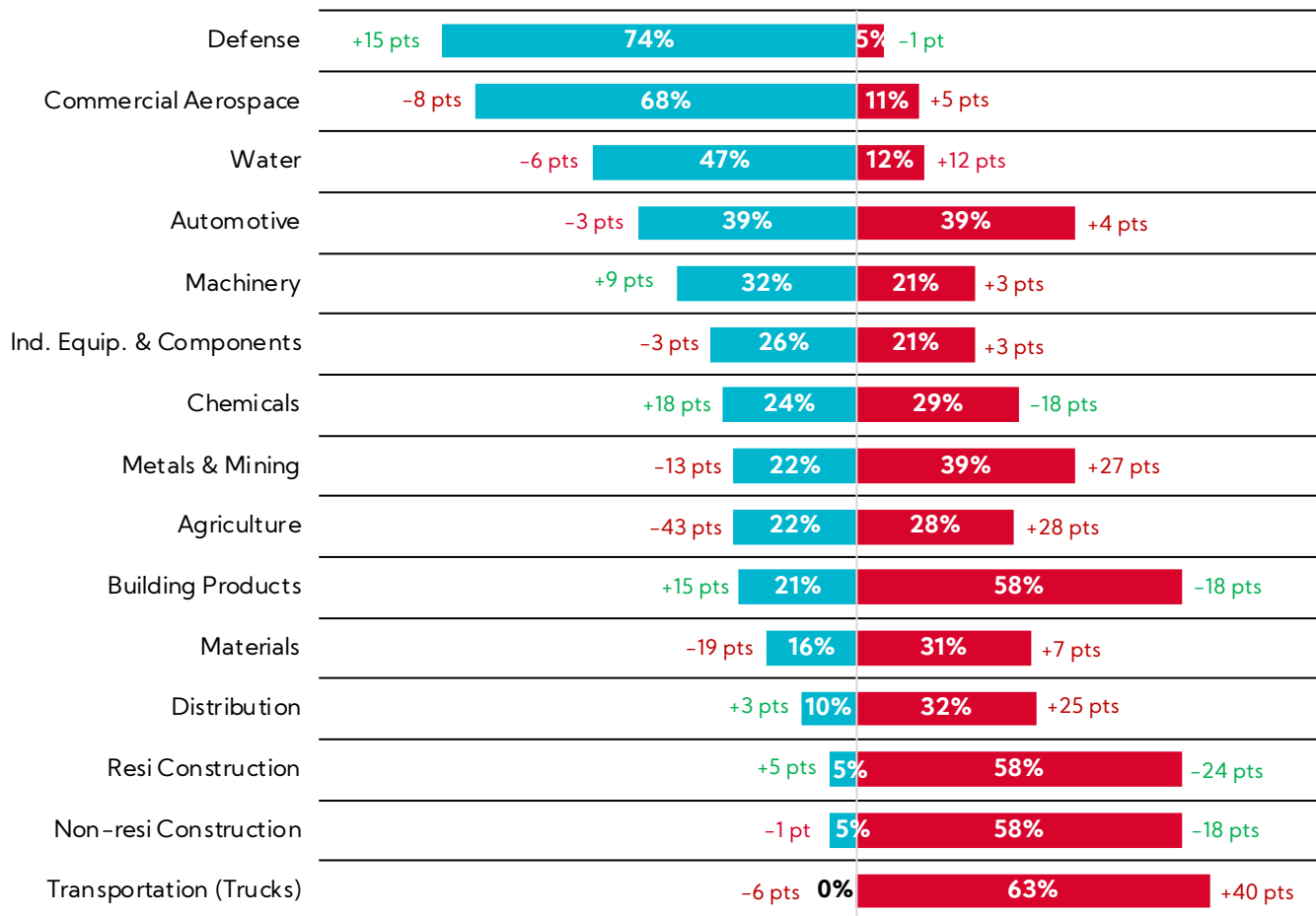
**LEVEL OF RISK ASSIGNED TO COMPANIES WITH BUSINESS/OPERATIONAL EXPOSURE TO:**



# Big Shifts in Sentiment Across the Board with Transportation Seeing Its Lowest Point Since the Pandemic; Outsized FCF and Growth in Focus as the Leading Investment Themes

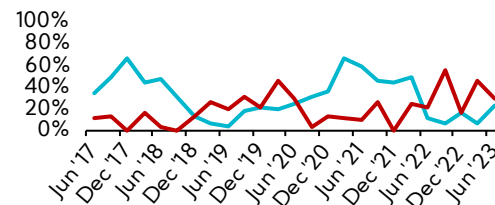
## INDUSTRY VIEWS

■ Bulls ■ Bears

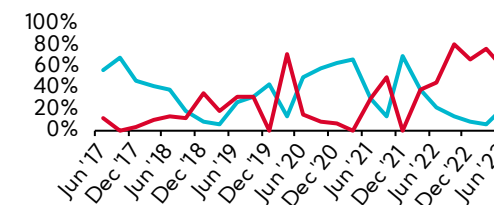


## LARGEST BULL AND BEAR SENTIMENT GAINERS

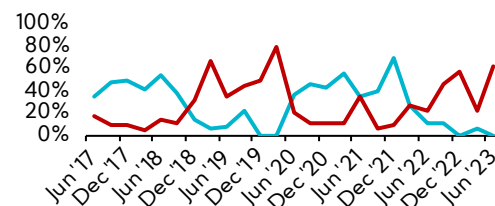
### CHEMICALS



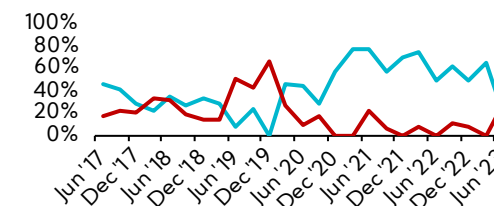
### BUILDING PRODUCTS



### TRANSPORTATION

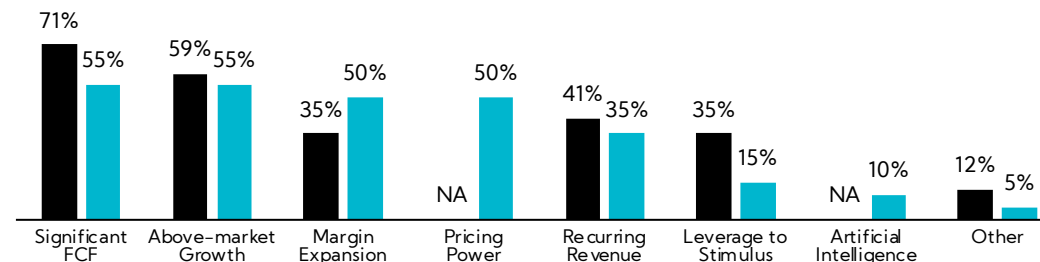


### AGRICULTURE



## MOST COMPELLING INVESTMENT THEMES

■ Mar '23 ■ Jun '23



## A Differentiated Research and Advisory Firm Specializing in Value Creation



FOUNDED  
**2007**

HEADQUARTERS  
**Farmington  
Connecticut**



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 have developed a proven model that supports value realization.

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The Exchange  
270 Farmington Ave.  
Ste. 260  
Farmington, CT 06032  
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