

INSIDE THE
Buy • Side
INDUSTRIAL SENTIMENT SURVEY®



corbin

Q4'23

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INSIDE THE Buy-Side®

INDUSTRIAL SENTIMENT SURVEY®

Survey Scope:

35 sector-dedicated investors and analysts globally; buy side firms manage ~\$5.3 trillion in assets, including ~\$456 billion invested in Industrials

Survey Timeframe:

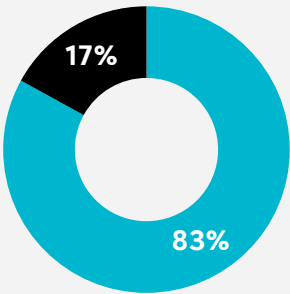
December 4, 2023 – January 10, 2024

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 nexus of global market trends, investor sentiment, and effective communication strategies.

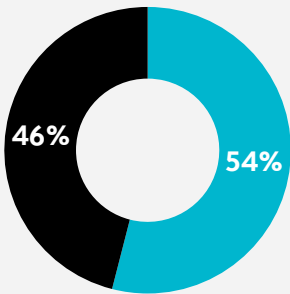
Market Performance	Q4'23	2023
DJIA	12.5%	13.7%
NASDAQ	13.9%	44.6%
S&P 500	11.2%	24.3%
S&P 500 Industrial	13.5%	16.0%
Russell 2000	13.6%	15.1%

BY ROLE



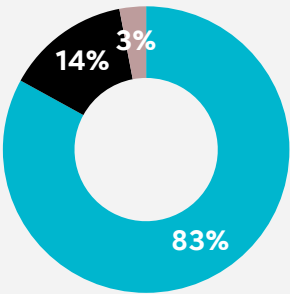
■ Buy Side ■ Sell Side

BY SECTOR FOCUS



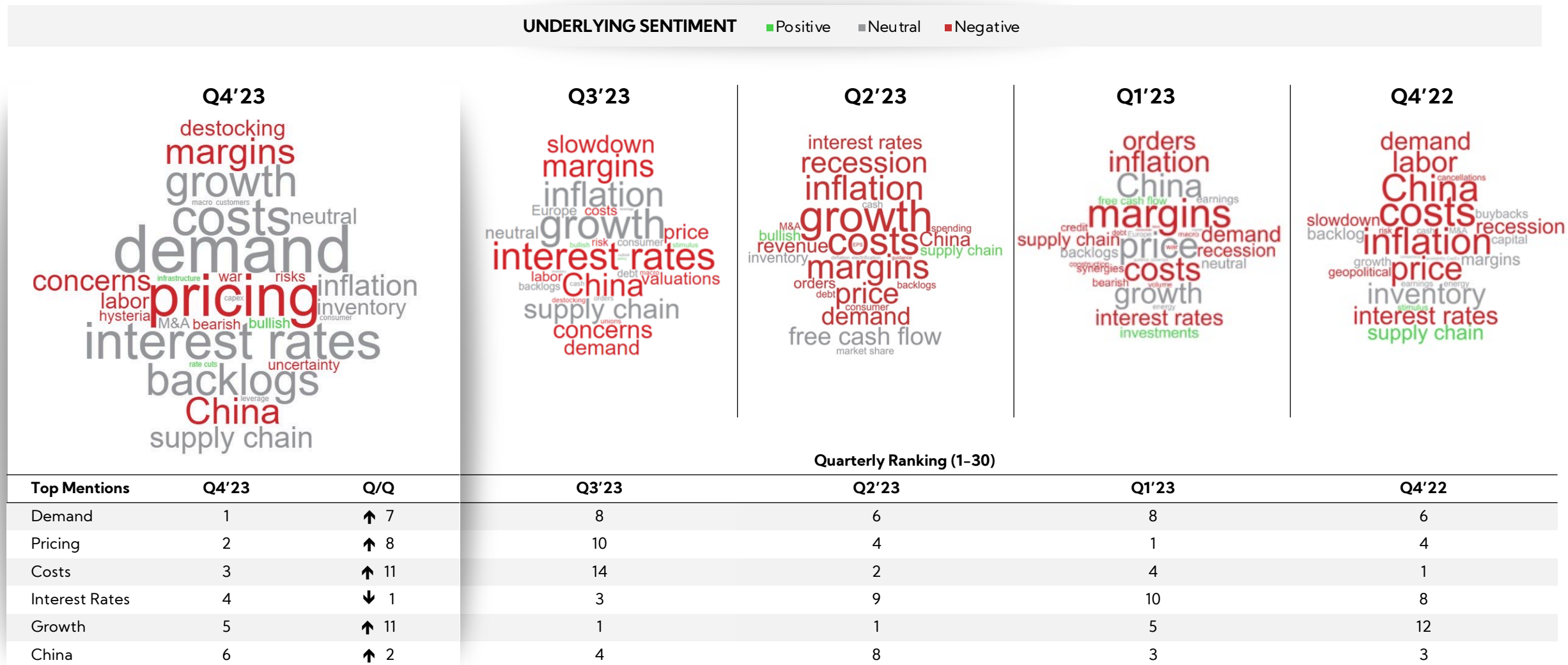
■ Industrials ■ Multi-Industry Incl. Industrials

BY REGION



■ North America ■ Europe ■ APAC

Demand and Pricing Increasingly in Focus, with Investor Expectations Trending More Mixed than Prior Quarters



Margins Remain Top of Mind, But Amid Expectations for a Lower Interest Rate Environment, Support for Funding Growth – Both Organic and M&A – Gains Ground

Investor Sentiment and Perceived Executive Tone Converge in Neutral; Views on Performance KPIs Are Mixed as Questions on Demand and Margins Dominate Headspace

- More, **42%**, characterize current sentiment as *Neutral*, similar to last quarter and up significantly from just 17% in Q2'23, when sentiment was decidedly more downbeat
- **48%** describe executive tone as *Neutral*, up from **36%** last quarter; positive stances less pronounced than in Q2'23
- **52%** and **70%** expect Industrial Earnings to be *In Line* with prior quarter performances and consensus, respectively
- Regarding Q4 KPIs, contributors express mixed views; more anticipate Revenue and EPS to *Worsen* QoQ, while Operating Margins are expected to *Stay the Same* and FCF to *Improve*
 - More anticipate annual guides to be *Higher* than 2023 actuals, except for Operating margins, which are anticipated to be *In Line* to *Lower*
- *Demand/order trends* and *margins/pricing power* lead earnings topics of interest, followed by newcomer *regional dynamics*

Broad-based Industrial Weakness Expected Nearly Universally, Though Cash Deployment Preferences Favor Increases in Growth Capex and M&A – The Deal Window is Opening

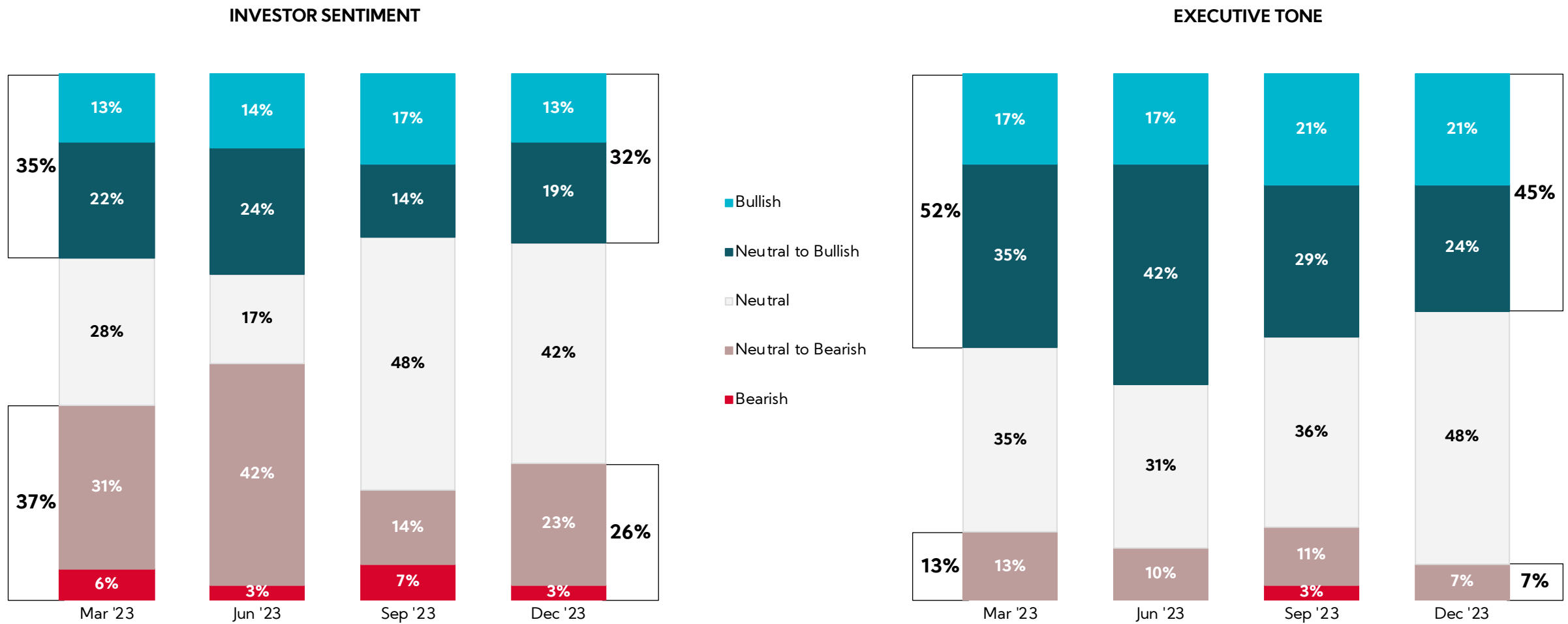
- **94%** expect broad-based Industrial Weakness
 - **75%** either already see or expect weakness by the end of Q1'24
 - **52%** report prioritizing margins over growth at this time, down from 68% last quarter
 - At **56%**, *margins* is the leading identified concern, more than doubling QoQ, followed by *interest rates* (**51%**) and a *slowing economy* (**49%**)
- *Reinvestment* reclaims the top spot as the preferred use of cash (**71%**), overtaking Debt Paydown (**53%**); notably, M&A (**35%**) sees a meaningful increase in support, which nearly doubles QoQ
 - Reflecting shifting investor risk profiles, **33%** now support *Increasing* growth capex levels, up from 3% in Q3'23, and **94%** are *Highly in Favor* or *In Favor* of bolt-on acquisitions

Investors Seeking Strong Secular Growth Attachment, North America Exposure, and Diversified Portfolios as End Markets Continue to Pop at Different Points

- North America remains the regional darling for seven subsequent quarters, while Europe sees some love QoQ
- Conversely, China garners 0% support, a new survey low
 - Aversion to China continues to grow, as **76%** now assign a *High* or *Very High* level of risk to companies with exposure, up from 73% last quarter
- **58%** of investors are positively disposed toward multi-sector exposure; as well, leverage to government policy actions, automation, and reshoring/onshoring are cited as the most compelling investment themes
- Nearly all sub-industries register a net improvement in bullishness
 - **Ag** and **Distribution** are the largest bull gainers while **Defense** sees the highest level of bull erosion, and **Non-Resi Construction** is decidedly out of favor

Investor Sentiment Remains Largely In Neutral, While Perceived Executive Tone Continues to Shift Into Similar Territory

Across sector, a “mixed bag”



2024 Growth Expectations, Secular Tailwinds, and Waning Pricing Power

Influencing Investor Sentiment

Bullish / Neutral to Bullish

"Rates are coming down so things will improve. There is the stimulus and reshoring that will help." **Buy Side, Industrials, N. America**

"Fuller valuations despite rising uncertainty, though watch out for inventory destocking." **Buy Side, Industrials, N. America**

"Valuations have held up better than most other areas. Price-cost has been a significant tailwind for many of these companies, but it is not going to be as strong as it has been." **Buy Side, Industrials, N. America**

"I am very constructive on industrials; the broader U.S. infrastructure is massively underinvested, very old, and there's been a real change in thinking in terms of supply chain dependence on China and globalization. For those reasons, broader industrial investment activity could really stay elevated for a couple years. We should be in an environment where a lot of these companies are set up to succeed." **Buy Side, Generalist, N. America**

"Very bullish on names that are exposed to U.S. infrastructure spending. Otherwise, we are pretty neutral." **Sell Side, Generalist, N. America**

Neutral

"Within industrials, there are a lot of different segments. I am more positive on some segments than others. Some things are going well for the industrial economy, which is great but there are some headwinds ahead of us in some other places. In terms of the tone of executives, they incline toward bullish given the secular tailwinds they see in a lot of parts of their business, whether it is onshoring or infrastructure spending." **Buy Side, Industrials, N. America**

"When thinking about the overall market, I still think this is a positive outlook for industrials in the lowering rate environment and with all the noise around the election. However, there could be returns elsewhere in the market such as in Tech, semiconductors, etc." **Buy Side, Generalist, Europe**

"Because of likely flowing economic growth into 2024 and given we may be going into a rate-cutting environment, there is going to be more risk appetite and industrials may be more cyclical as opposed to risk within higher beta stocks in Tech, Communications, and Healthcare." **Sell Side, Industrials, N. America**

"Earnings season will be the opportunity to see where companies are aborting. The interest rate cycle is obviously critical as well. Those are the two main things that we're looking for. Sentiment as a reaction to interest rates is probably the most significant." **Buy Side, Generalist, Europe**

Neutral to Bearish / Bearish

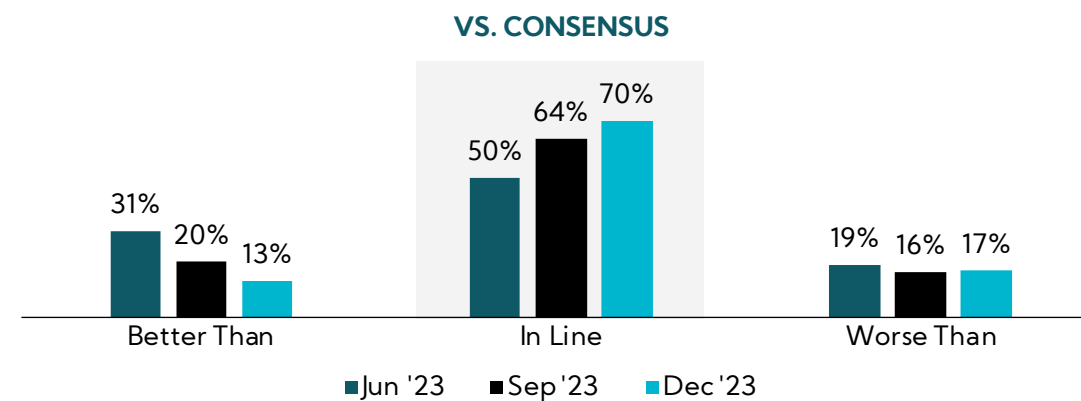
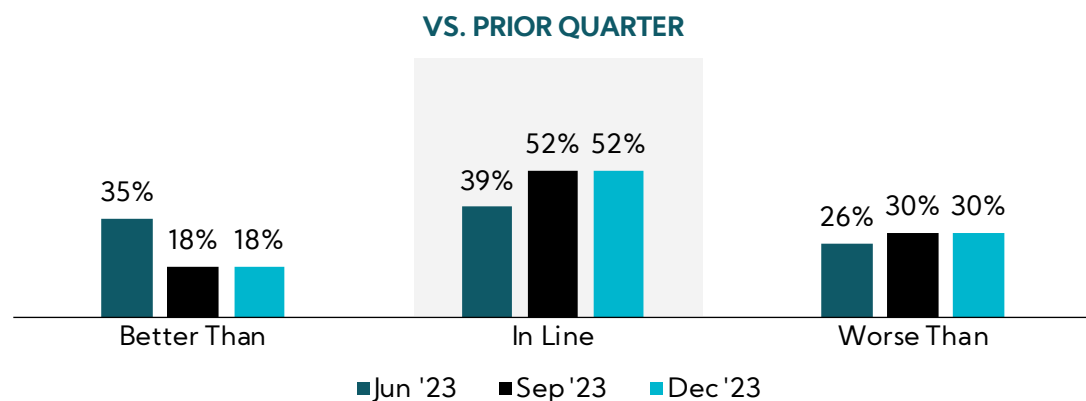
"Over the last 12 months, most companies have been living off backlog that became abnormally large during the pandemic and that has carried them through. They have gone through a period with generally weak orders and ISM has been below 50 for a year, so trends are decelerating, but the large backlog has helped carry them through. If it continues to get worked down and you do not have the economy turning up in 2024, you are going to have more earnings pressure generally across most industrials in 2024, particularly with higher rates and a general lagged effect of monetary policies. The tone of executives has been cautious about what is coming over the next six months because there is going to be softer demand." **Buy Side, Industrials, N. America**

"Industrials have had a couple very strong years with price increases and strong demand, so it is going to be more challenging as we compare to those stronger periods of growth. There is some slowdown in the economy, so it is going to be a negative for top-line growth, which will filter through to earnings. The higher price in the backlog that has been working through a lot of businesses in the last three or four quarters is not going to repeat again." **Buy Side, Industrials, N. America**

"A lot of these stocks are trading at well above their historical multiples and while business drivers have been strong, there has been a big pull forward of demand, especially in heavy equipment where customers were double ordering due to supply chain constraints. Now, those have released, and a lot of the manufactures are going to be exposed to shocks because the demand was pulled forward. You have these creeping demand risks, especially with high interest rates, plus a lot of them have gotten margin from pricing but now costs have gone down and they have not brought pricing down, so there is a risk that margins contract." **Buy Side, Generalist, N. America**

Investors Largely Expect Q4 Results to Be In Line with Prior Quarter and Consensus

Q4'23 EARNINGS EXPECTATIONS



Representative Commentary

"There are still backlogs getting worked through, but I do not know if it is accelerating in any place."
Buy Side, Industrials, N. America

"Most companies alluded to a noticeable slowing of activity in September and October. With higher interest rates, customers will be reticent to hold excess inventory over into the new year so orders likely weak."
Buy Side, Industrials, N. America

"The decline in inflation means that it's harder for these companies to take price, so companies that are weaker in their negotiation power or leverage will see their margins squeeze."
Buy Side, Industrials, N. America

"Decelerating growth and orders."
Buy Side, Industrials, N. America

"Robust Q4 economic statistics."
Buy Side, Generalist, N. America

"Slowdown everywhere and less inflation."
Buy Side, Generalist, Europe

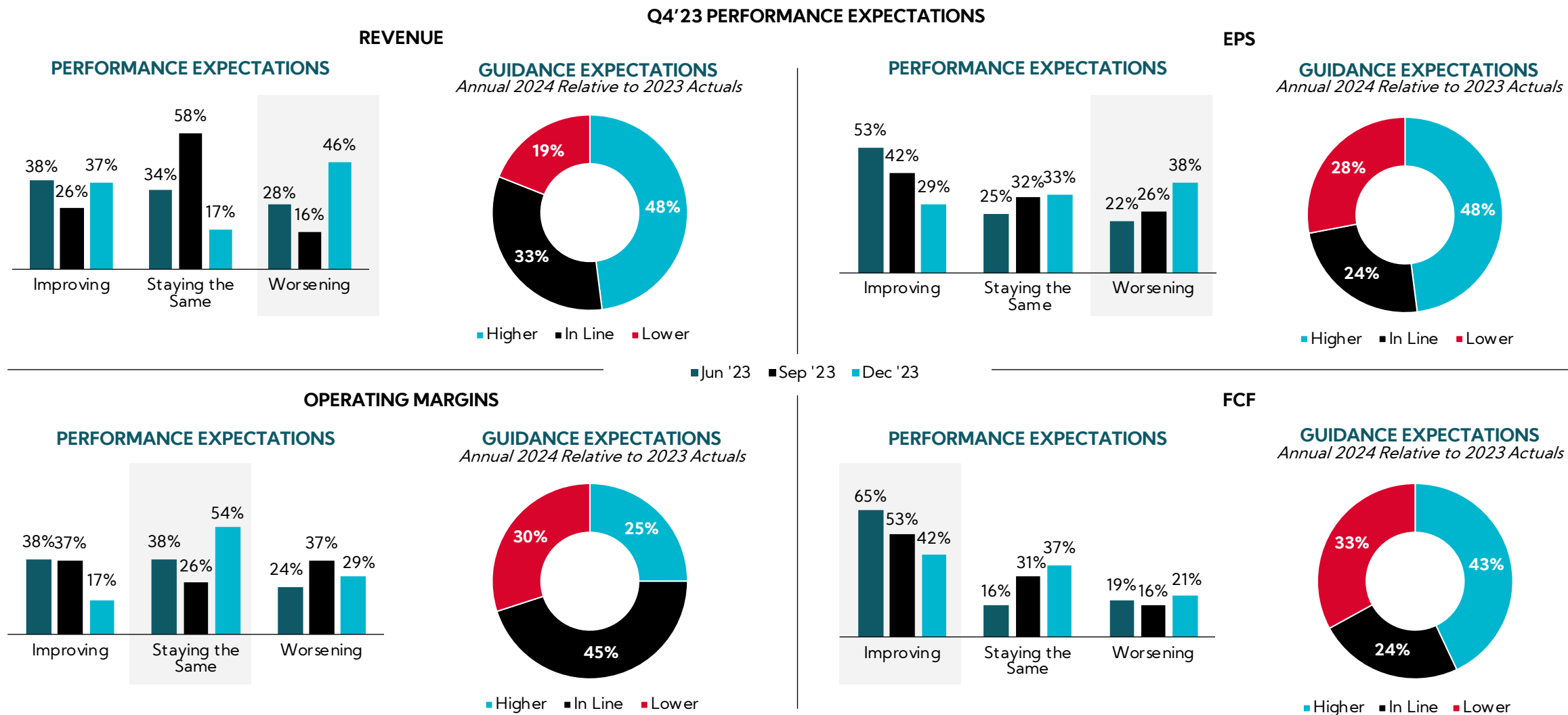
"Weak Q3, so Q4 should be okay by comparison."
Buy Side, Generalist, N. America

"Not seeing anything that suggests material upside. I think this cycle will just take some time to play out."
Buy Side, Generalist, N. America

"Weakening economic conditions globally."
Sell Side, Industrials, N. America

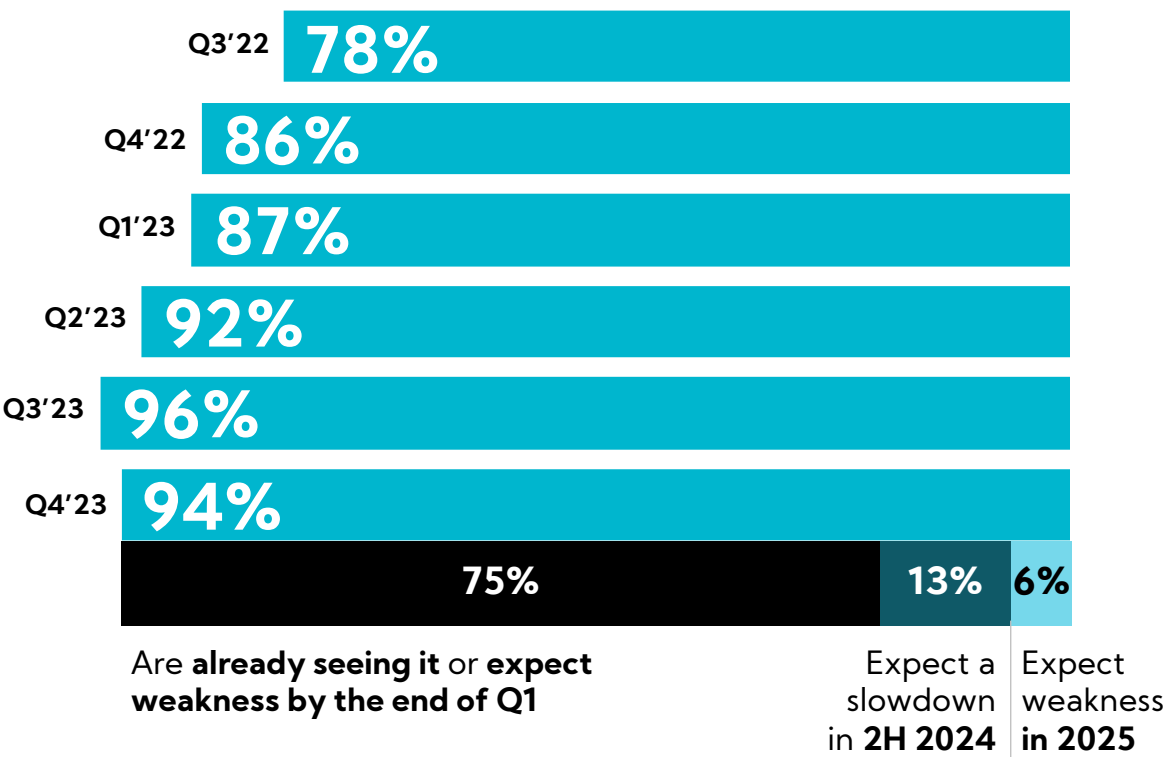
Mixed Views Expressed Across KPIs, Though More See Revenue and EPS Worsening QoQ while Confidence in Margins Wanes

Outside of margins, more anticipate higher full-year guides relative to 2023 actuals

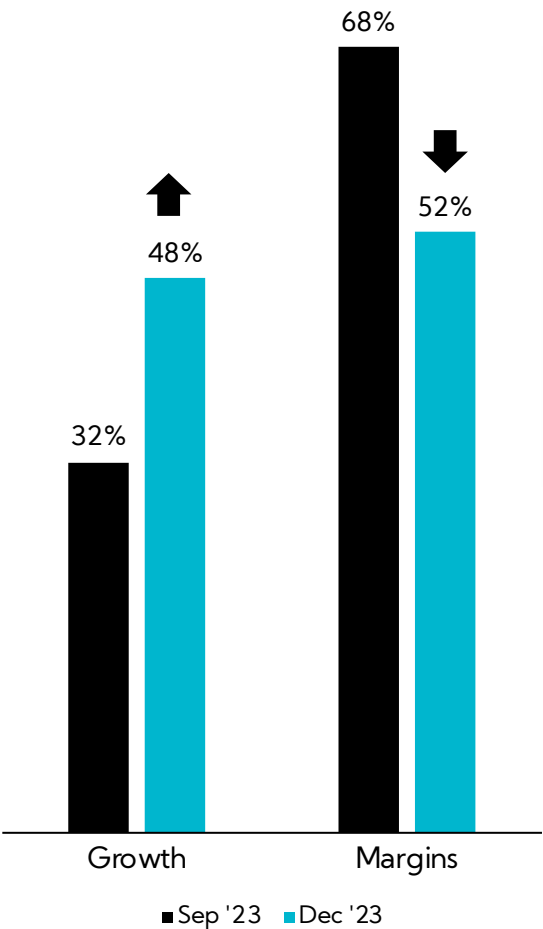


Emphasis Remains on Bottom-Line Performances, Though Prioritization Increasingly Skews Toward Harder-to-Come-By Growth

BROAD-BASED INDUSTRIAL WEAKNESS, QOQ EXPECTATIONS



KPI PRIORITIZATION AT THIS POINT IN THE CYCLE



Representative Commentary

"Seems order growth will drive relative performance near-term."
Buy Side, Industrials, N. America

"Large-cap industrials continue to have levers to maintain margins (price, productivity), but growth is harder to come by."
Buy Side, Industrials, N. America

"Lower rates will spur the second half of the year."
Buy Side, Generalist, N. America

"Unless there is a global economic deflation, signs seem to indicate moderate weakening that is ongoing."
Buy Side, Industrials, N. America

64%

Exhibit **More Concern** or a **Continued Level of High Concern** over **Demand** QoQ

53%

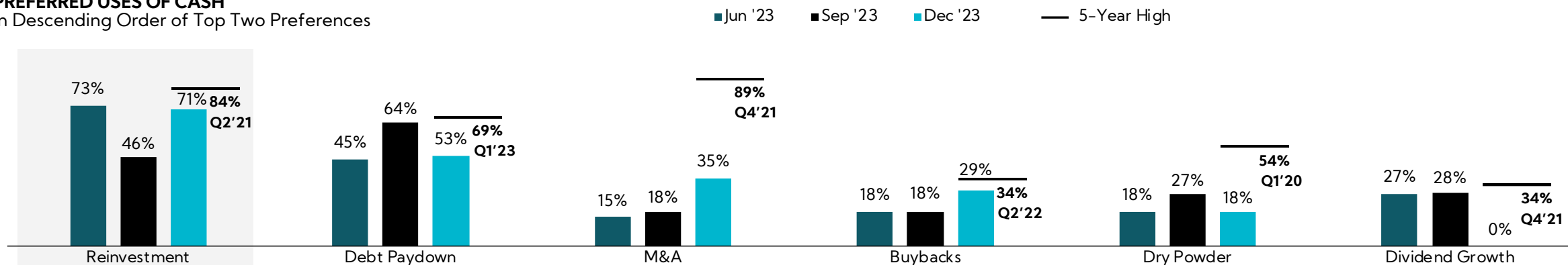
Exhibit **More Concern** or a **Continued Level of High Concern** over **Ability to Pass on Cost** QoQ

Amid Expectations for a Lower Rate Environment, Funding Growth is on the Rise – Reinvestment Shifts Into Pole Position while Appetite for M&A Nearly Doubles

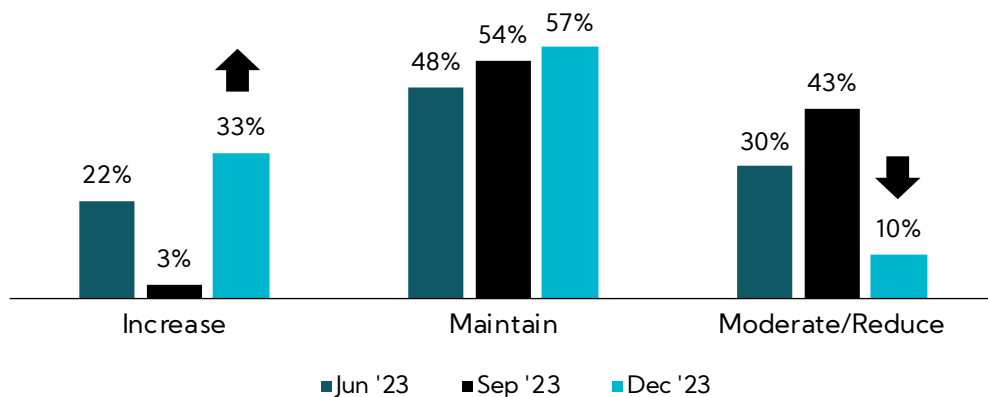
One-third of investors now prefer industrials increase growth capex, up from just 3% QoQ; while conservativeness is still evidenced by more than half supporting debt paydown as a leading use of cash, those endorsing M&A reaches its highest level since Q4'21

PREFERRED USES OF CASH

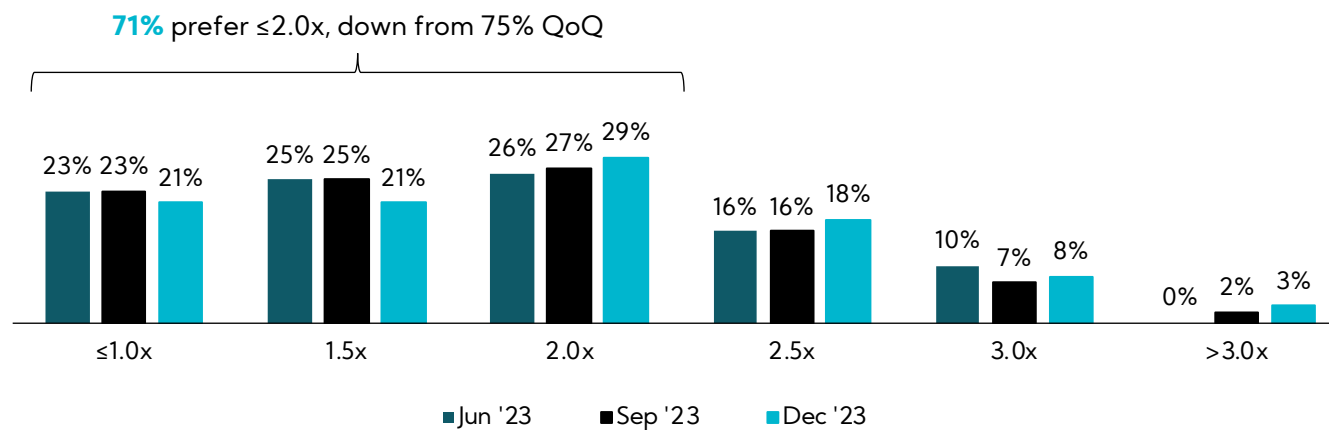
In Descending Order of Top Two Preferences



GROWTH CAPEX PREFERENCES



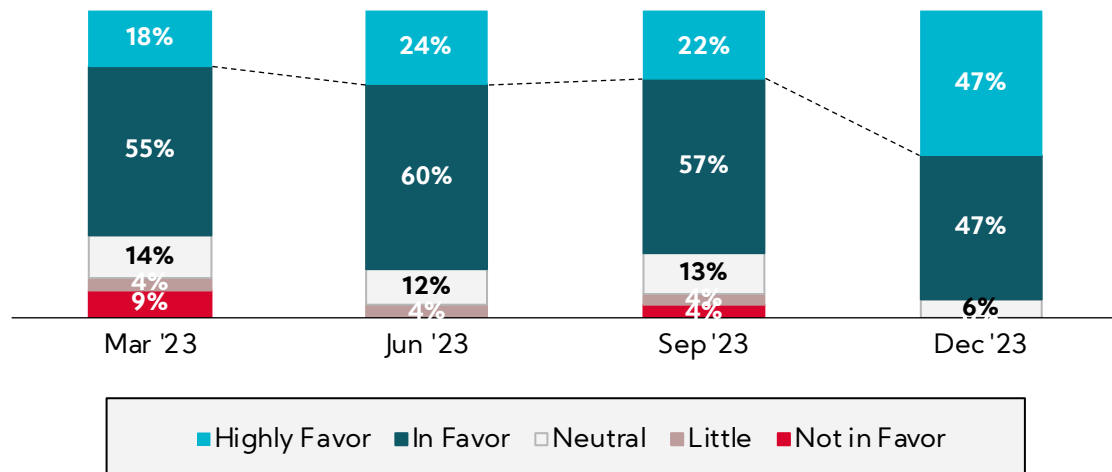
THRESHOLDS FOR IDEAL NET DEBT-TO-EBITDA



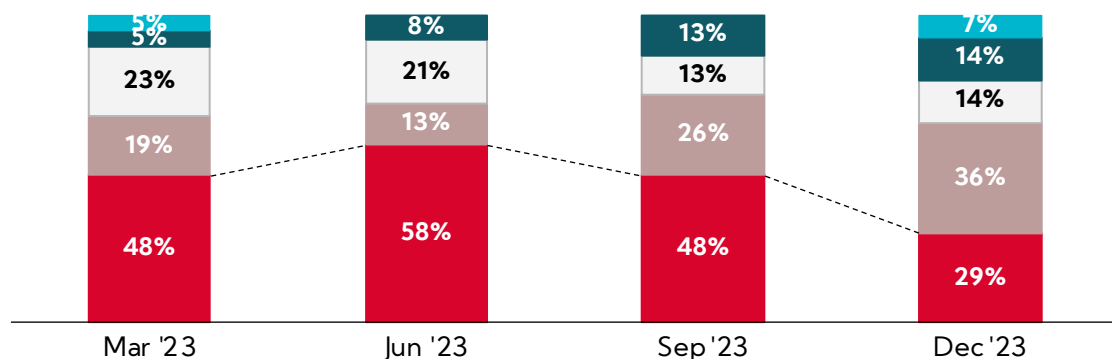
As the Deal Environment Warms, Investors Indicate a Clear Openness Toward Bolt-On Acquisitions and Inherent Stone-cold Views On Large Transactions Sees Thawing

More, 47%, prefer a combination of funding mechanisms over only stock, debt, or cash; however, 40% point to cash-only funding as the preferred method

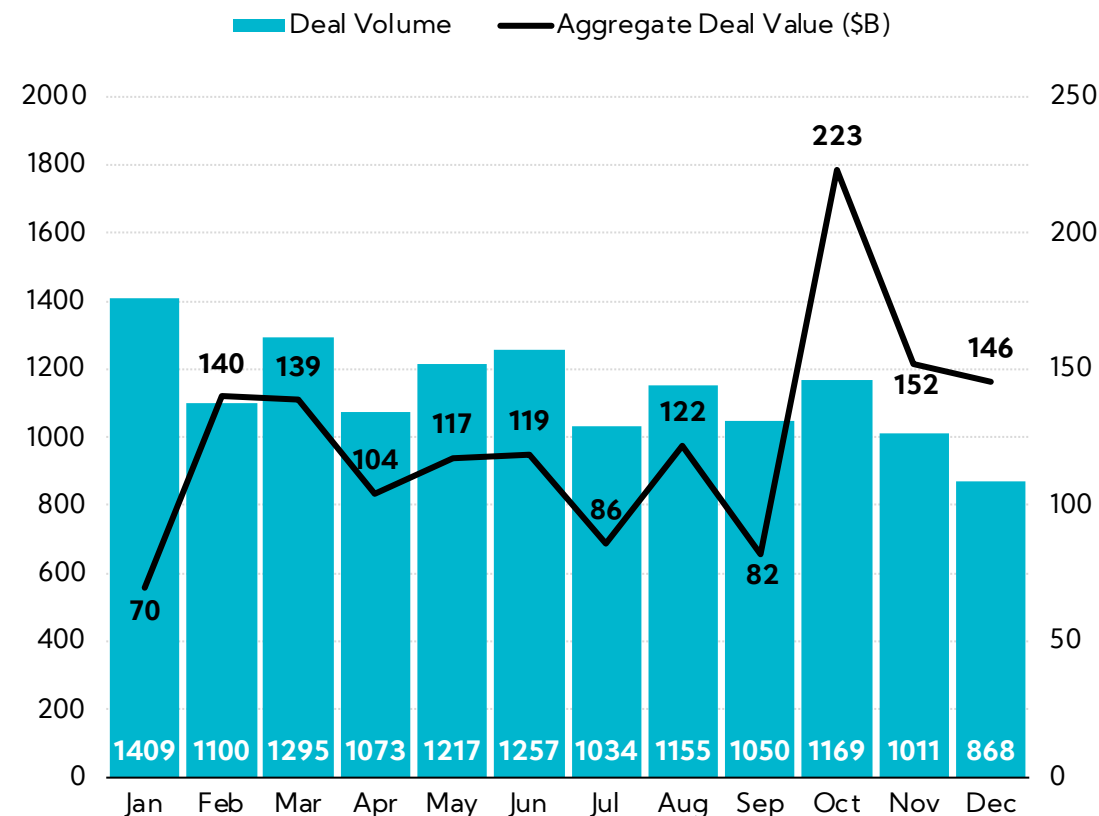
BOLT-ON ACQUISITIONS



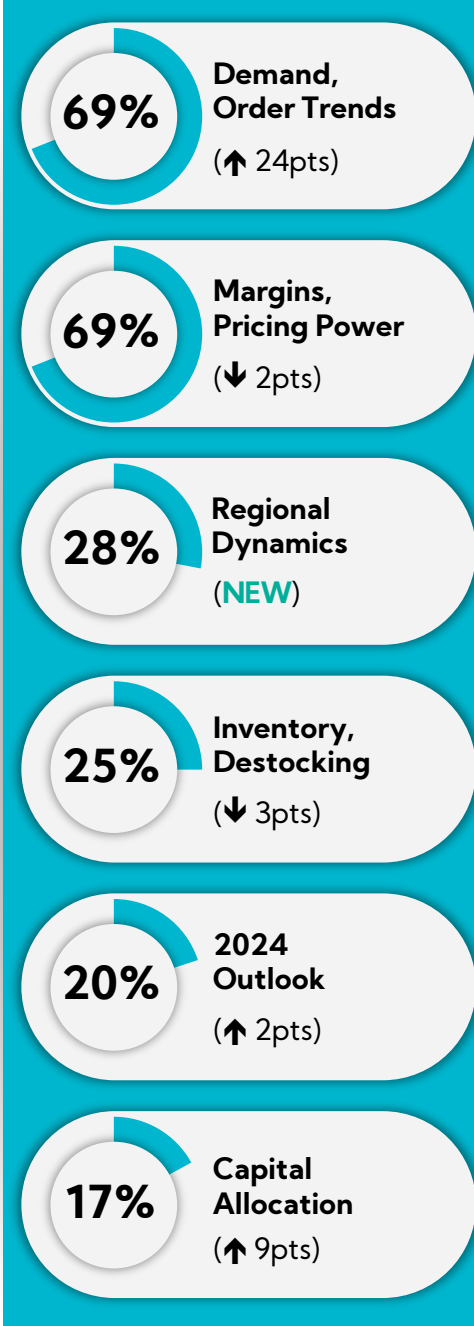
LARGE / TRANSFORMATIONAL ACQUISITIONS



2023 U.S. MERGERS & ACQUISITIONS¹



¹Source: FactSet



Topics of Interest for Upcoming Earnings Calls

Demand/Order Trends sees renewed focus QoQ, tied for the top spot with margins and pricing power; representing a new area of interest, investors seek color on regional dynamics as macro/geopolitical conditions intensify globally

Views from N. America

"I want executives to address if they are seeing any negative or positive inflections in their business depending on where they operate around the globe. I want to know if there are any changes in cost pressures or margins." **Buy Side, Industrials**

"Price versus cost, growth, margins." **Buy Side, Industrials**

"I want to know about the order rates, such as are they getting worse or better or staying the same. I also want to know about pricing because it has been a big positive over the last few years, so are they starting to have to give back price? I am interested in commentary on what customers are telling them for 2024, such as how is the visibility looking into next year? It may not be great but I want to hear more." **Buy Side, Industrials**

"Cadence of order growth, will the FCF benefit from destocking internally be repeatable, regional growth disparities." **Buy Side, Industrials**

"Orders and backlog, pricing, timing on stimulus impact." **Buy Side, Industrials**

"Material and labor costs versus pricing, FCF prospects, electronics markets recovery." **Buy Side, Industrials**

"I would like an outlook on the different geographic regions." **Buy Side, Industrials**

"Impact of inflation and higher rates, impact of political uncertainty." **Buy Side, Industrials**

"Leading edge demand, pricing, soft landing playbook." **Sell Side, Industrials**

"Capex, margins, inventories." **Sell Side, Industrials**

"Growth prospects, supply chain impediments, G&A cost control." **Buy Side, Generalist**

"How does AI affect the business, is tech allowing efficiencies, new competition." **Buy Side, Generalist**

"Margins, revenue, business outlooks." **Buy Side, Generalist**

"Structural demand (non-inventory related), China, wages." **Buy Side, Generalist**

"Operating leverage, mix, end demand." **Sell Side, Generalist**

Views from Europe

"2024/2025 outlook, destocking, capital allocation." **Buy Side, Industrials**

"Full year impact of heightened wages, pricing power and inflation slowing, buying less from Chinese manufacturers." **Buy Side, Generalist**

"End customer demand, destocking, M&A." **Buy Side, Generalist**

Top Concerns from Around the Globe

Most risks give way to acute investor focus on margin preservation as the leading concern, cited by over half of all respondents and more than doubling in concentration QoQ; separately, labor is back on the leader board while inflation drops off

QoQ Change	1	56% (↑ 37pts)	Margins Pricing Power (12%)	2	51% (↓ 14pts)	Interest Rates	3	49% (UNCH)	Slowing Economy
	4	33% (↓ 19pts)	Geopolitical Risks	5	29% (↓ 17pts)	Demand	6	19% (↑ 13pts)	Labor

Views from N. America

"The lack of pricing power for many industrials is likely to [squeeze] their margins. The interest rate environment may change the feasibility of the intensive M&A we have seen over the past 15 years in this space. What does a slow down in China mean for the through-cycle growth outlook?" **Buy Side, Industrials**

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

"Order weakness, U.S. versus Rest-of-World economies, margin challenges with still high labor cost." **Buy Side, Industrials**

"Geopolitical risk, short-cycle demand, timing of rate cuts." **Buy Side, Industrials**

"Foreign economies, U.S. economic growth, inflation rate." **Buy Side, Industrials**

"Political uncertainty." **Buy Side, Industrials**

"Demand, inventory overhang, valuations." **Sell Side, Industrials**

"Interest rates, labor, election." **Sell Side, Industrials**

"There are always tail risks, and the geopolitical risks are as high as ever. Those risks have real probabilities that could lead to the screw up of supply chains, disrupting companies' abilities to execute. Good companies are thinking about those risks proactively and are making moves to mitigate ahead of time. On our side of the table in terms of allocating capital, you want to be betting on teams that are looking around the corner." **Buy Side, Generalist**

"Interest rates, global supply chains, geopolitics." **Buy Side, Generalist**

"Debt, fiscal policy." **Buy Side, Generalist**

"Capex such as factory automation, labor pressures, inventory digestion." **Buy Side, Generalist**

Views from Europe

"Stickier and resurgent inflation, China/Taiwan, monetary policy error." **Buy Side, Industrials**

"That a rebound doesn't occur as quickly as one would expect, particularly when interest rates slow. As well, if the consumer environment doesn't rebound as quickly as people would expect, then there are going to be ramifications across the market; so, this is about the consumer recovery plan into the back half of this year." **Buy Side, Generalist**

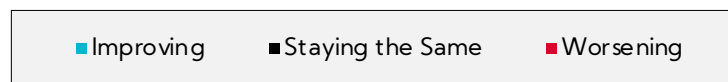
"Margins, margins, margins!" **Buy Side, Generalist**

"Macro, pricing, costs." **Buy Side, Generalist**

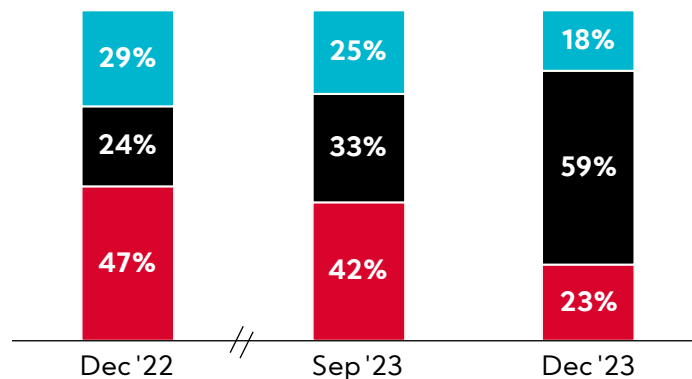
"End demand, operating leverage, machinery outlook." **Sell Side, Generalist**

Views on Key Economic Indicators Over the Next Six Months

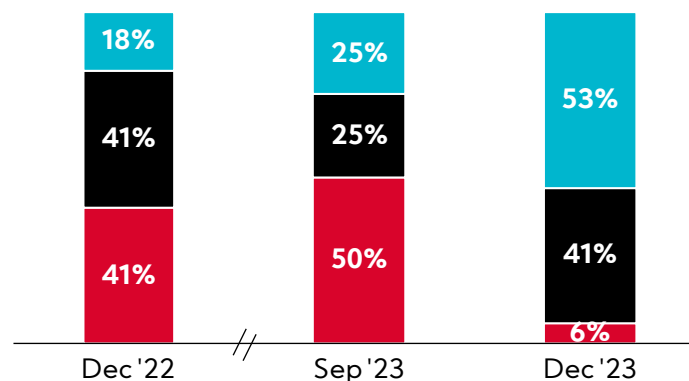
Less downbeat views identified across nearly all measures with Global PMI seeing the biggest boost in positive outlooks



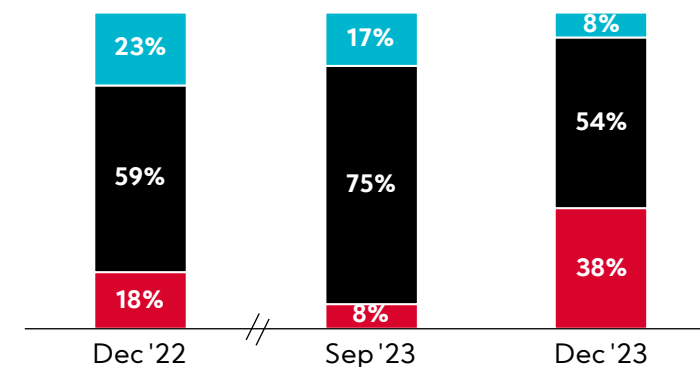
GLOBAL CAPEX



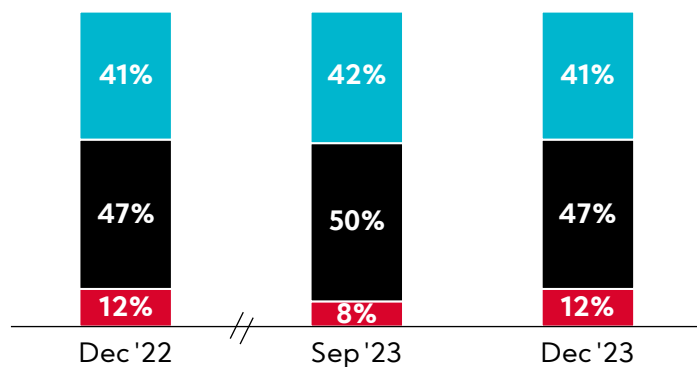
GLOBAL PMI



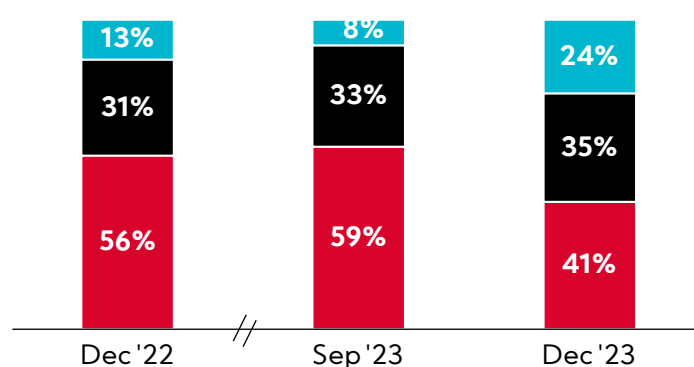
FX HEADWINDS



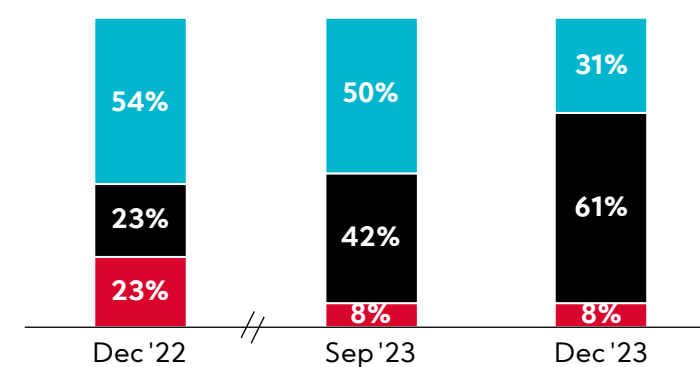
OIL & GAS MARKETS



U.S. CONSUMER CONFIDENCE



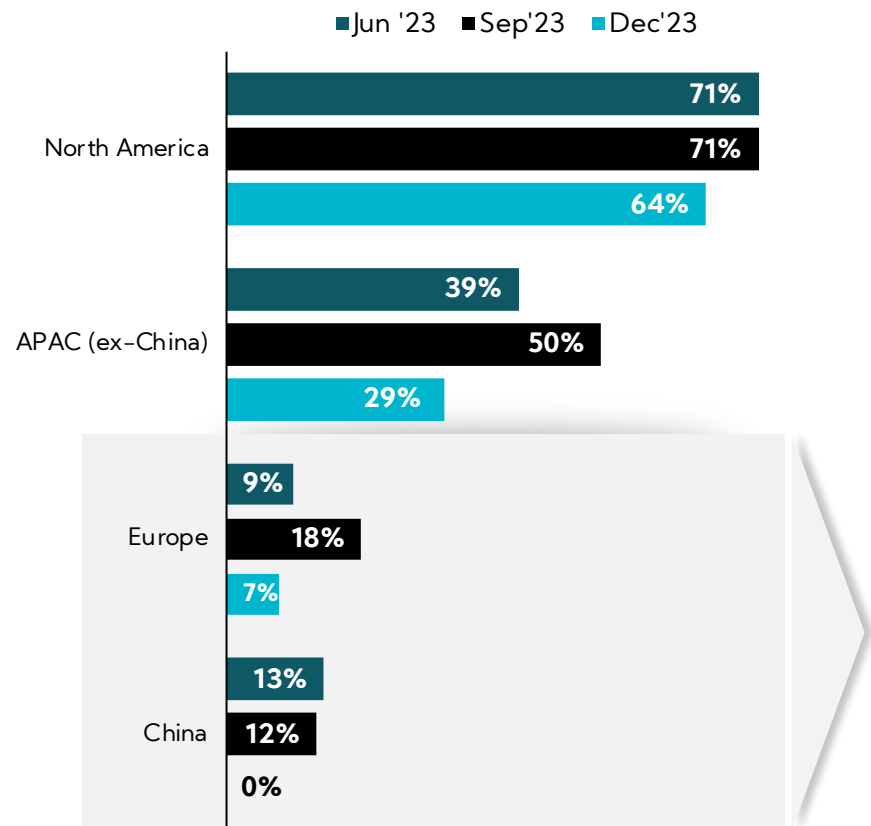
INFLATION



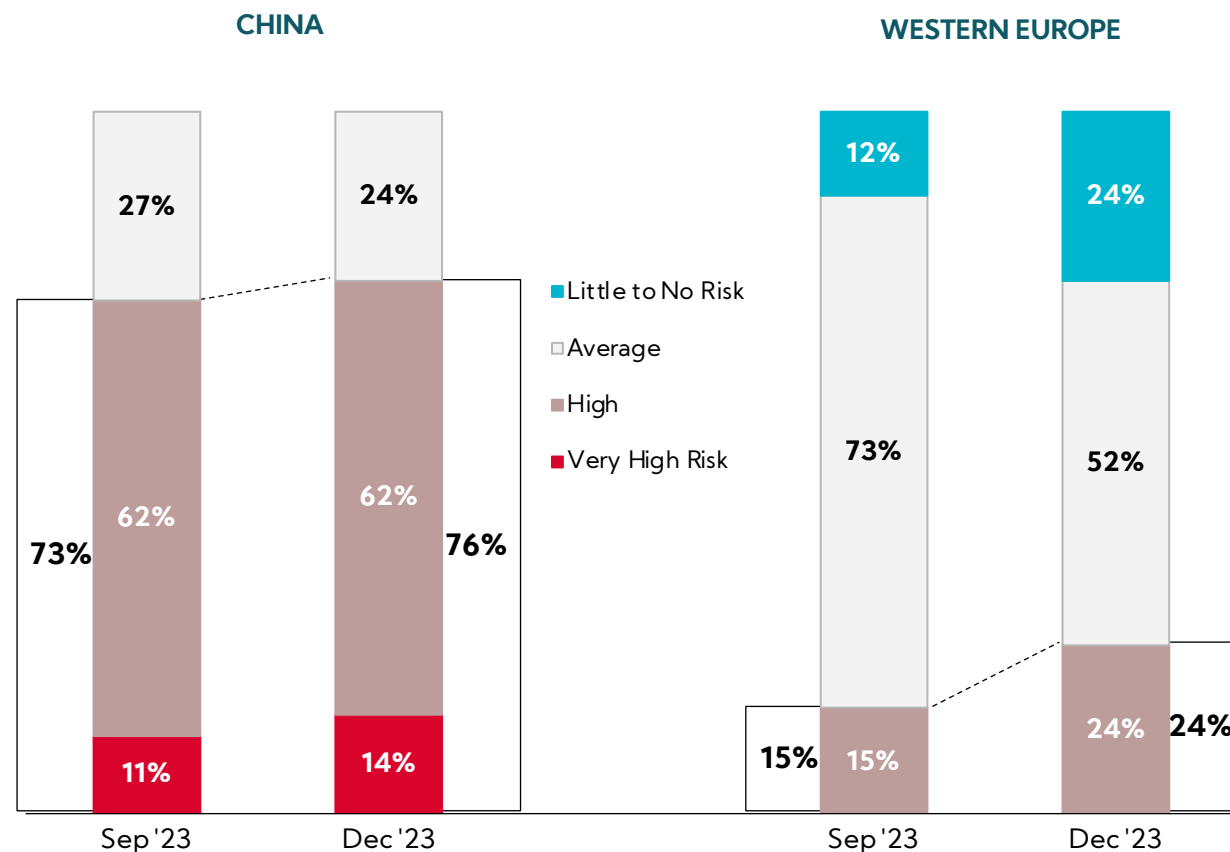
North American Exposure Continues to be the Most Compelling Regional Play, while China Experiences Another Quarter of Growing Apprehension

China sees 0% support as a “most compelling” region, a new survey low

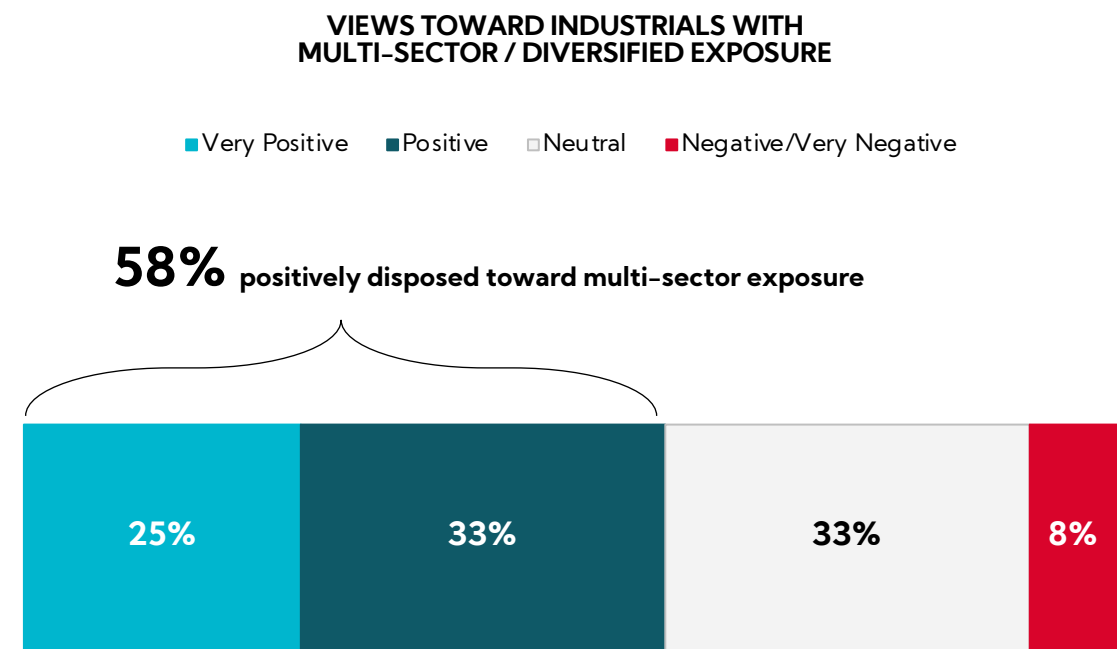
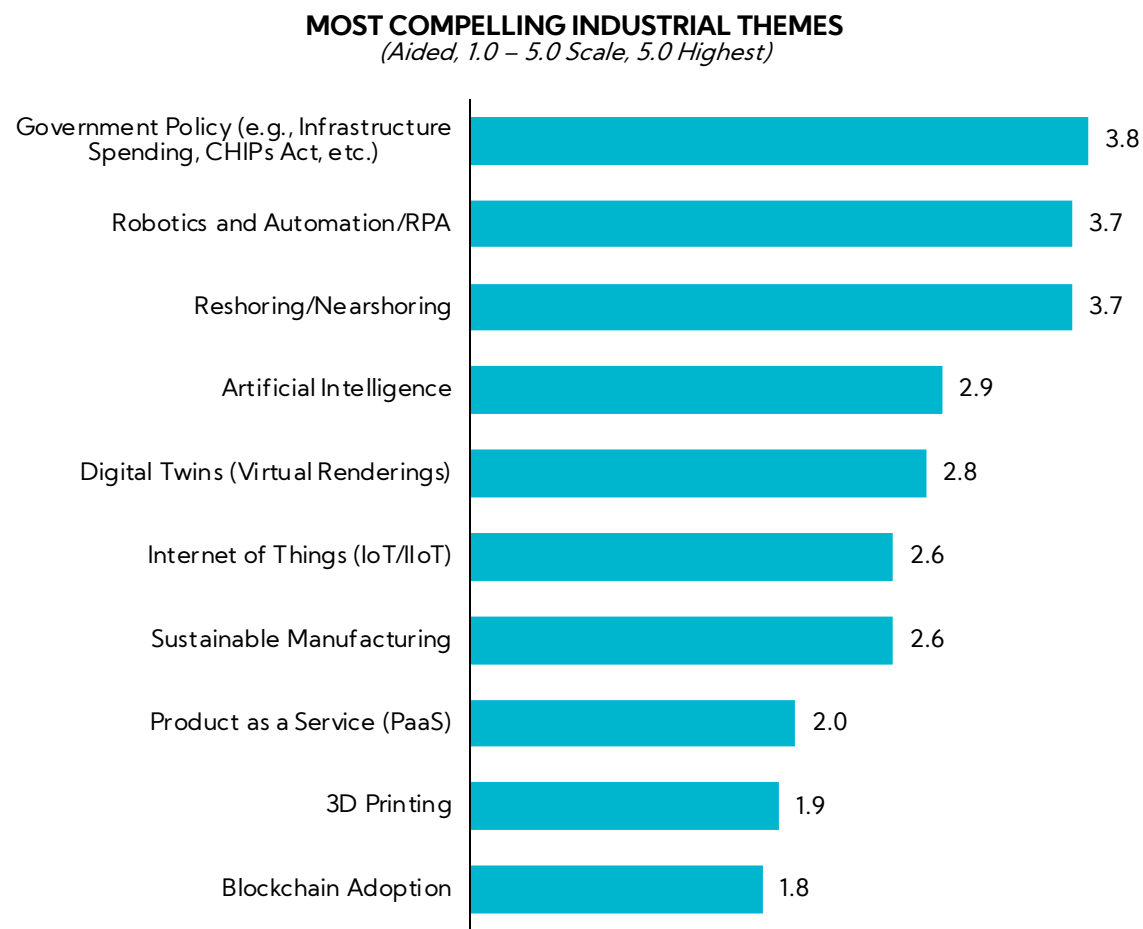
MOST COMPELLING REGIONAL EXPOSURE WITHIN INDUSTRIAL UNIVERSE



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



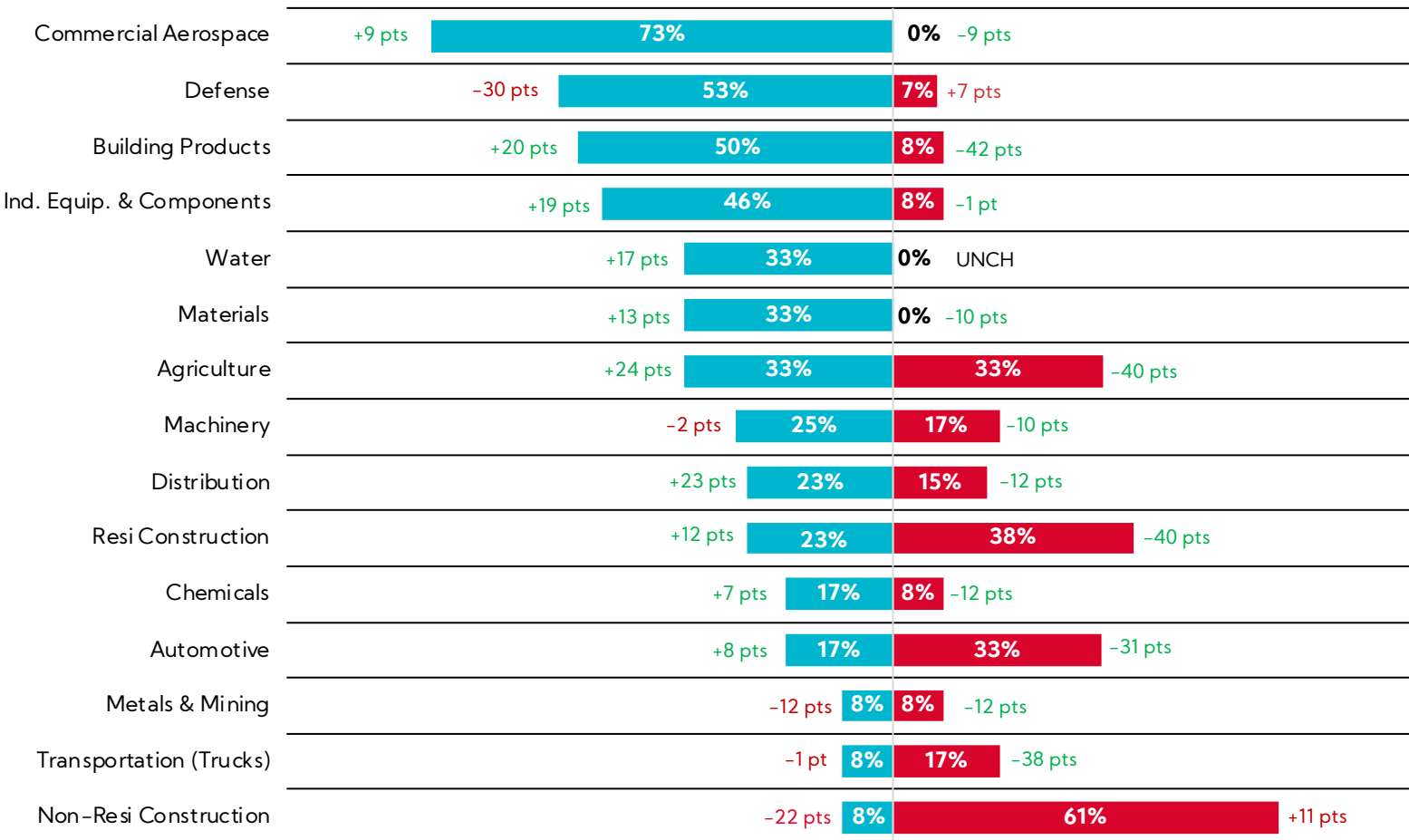
Technology Enablement Proliferates Most Compelling Investment Themes while End Market Diversification Sees Strong Support



More Bulls than Bears Emerge this Quarter, Driving Improved Sentiment Across Nearly All Sub-Sectors with the Exception of Defense, Which Sees Flagging Support

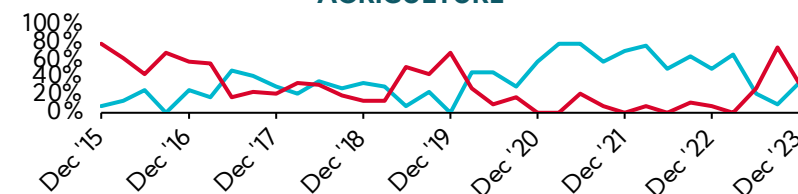
INDUSTRY VIEWS

■ Bulls ■ Bears

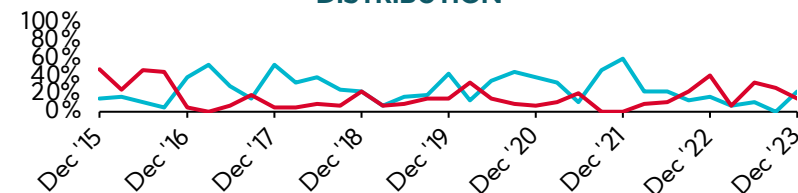


LARGEST BULL AND BEAR SENTIMENT GAINERS

AGRICULTURE



DISTRIBUTION



NON-RESI CONSTRUCTION



DEFENSE



A Differentiated Research and Advisory Firm Specializing in Value Creation



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 consistently supports value realization.

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contactus@corbinadvisors.com

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

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