

INSIDE THE
Buy • Side

INDUSTRIAL SENTIMENT SURVEY®



corbin

Q1'24

ISSUE: 36
April 18, 2024

INSIDE THE Buy-Side

INDUSTRIAL SENTIMENT SURVEY®

Survey Scope:

52 sector-dedicated investors and analysts globally; buy side firms manage ~\$1.8 trillion in assets, including ~\$184 billion invested in Industrials

Survey Timeframe:

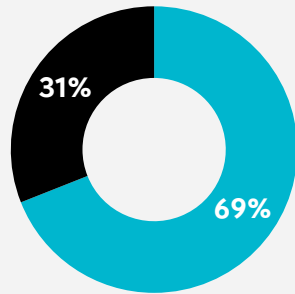
March 14 – April 9, 2024

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 *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.

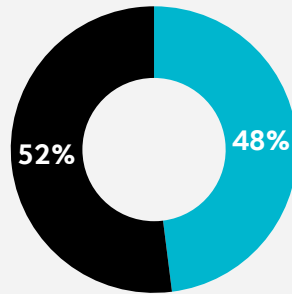
Market Performance	Q1'24	Q1'23
DJIA	5.5%	0.4%
NASDAQ	8.7%	17.0%
S&P 500	10.2%	7.0%
S&P 500 Industrial	10.7%	6.5%
Russell 2000	4.8%	2.3%

BY ROLE



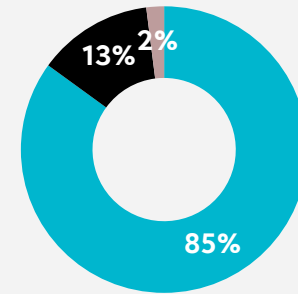
■ Buy Side ■ Sell Side

BY SECTOR FOCUS



■ Industrials ■ Multi-Industry Incl. Industrials

BY REGION



■ North America ■ Europe ■ LatAm

Commentary Continues to Exhibit Sequential Improvement with Less Negatives Overall

Increasing optimism identified, with “growth” in greater focus and “bullish” mentions breaching the top ranks this quarter; still, inflation persists as a prevalent concern amid rate cut uncertainty

UNDERLYING SENTIMENT ■ Positive ■ Neutral ■ Negative



Quarterly Ranking (1-30)

Top Mentions	Q4'23	Q/Q	Q4'23	Q3'23	Q2'23	Q1'23
Growth	1	↑ 4	5	1	1	5
Inflation	2	↑ 9	11	2	3	6
Costs	3	UNCH	3	14	2	4
Pricing	4	↓ 2	2	10	4	1
Bullish	5	↑ 18	23	18	12	30+
Margins	6	↑ 1	7	5	5	2

Industrial Investor Optimism Continues to Rise as Expectations for Broad-Based Weakness are Replaced with Anticipation of an Improving Landscape Amid Inventory Normalization and Orders Green Shoots

Investor Sentiment and Perceived Executive Tone Converge in Positive Territory; Q1 KPIs are Unilaterally Expected to Improve, though Questions Around Improving Demand Signals and Impact on Margins Dominate Mindshare

- **68%** characterize current sentiment as *Neutral to Bullish* or *Bullish*, more than double the **32%** observed last quarter when sentiment was decidedly more *Neutral*
- Similarly, **66%** describe executive tone as *Neutral to Bullish* or *Bullish*, up from **45%** last quarter; perceived stances reverse two quarters of ebbing positivity
- **54%**, expect results to be *In Line* with consensus while those expecting beats more than double
- Regarding Q1 KPIs, the majority anticipate *Improving* performances, particularly in Revenue and EPS; fewer than one-quarter expect *Worsening* results across all measures, though FCF does see an uptick in that view
- ~**60%** anticipate companies to *Maintain* annual guides
- Top areas to address on earnings calls this period include demand and growth, margins/pricing power, and inflation, which is in bigger focus this quarter

Majority Shrug Off Broad-Based Industrial Weakness Concerns, as Expectations for an Improving Landscape After a Period of Weakness Take Root; Support for Growth Investment Continues

- Fewer than half, **47%**, now expect broad-based Industrial weakness, down from **90%+** captured for three consecutive quarters
 - **46%** now expect 2024 Industrial Organic Growth to be *Higher* than 2023, up from **38%** QoQ; those expecting a *Lower* growth rate declined from **50%** to **27%**
 - As for order rates over the next six months, contributors anticipate steady to improving conditions, particularly for short-cycle products
- **59%** report prioritizing growth over margins at this time, up from 48% last quarter
 - Still, despite the increasing optimism, *Demand* and *Margins* are the leading identified concerns this quarter
- *Reinvestment* remains the preferred use of cash, with **44%** in support for *Increasing* growth capex, up significantly from just **3%** in Q3'23
- M&A continues to see increased backing with **94%** *In Favor* or *Highly in Favor* of bolt-on acquisitions

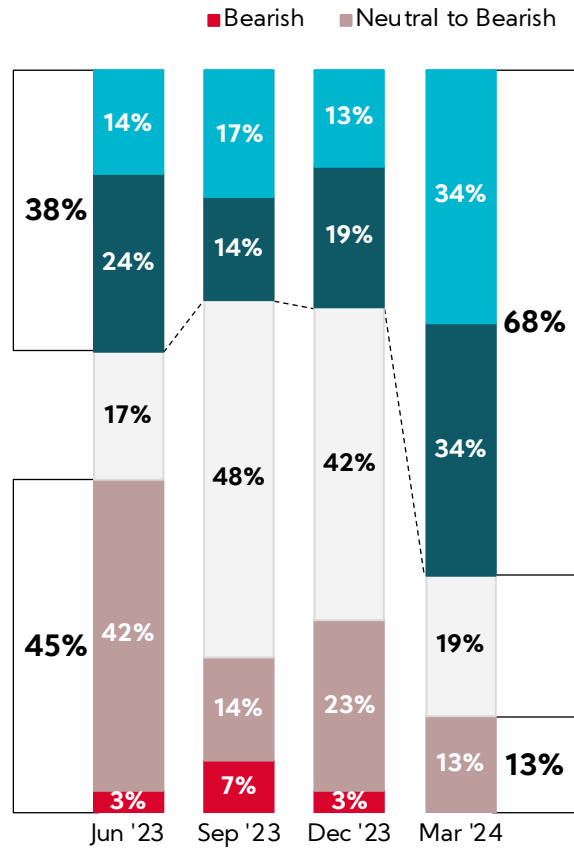
Investors Rally Around Technology-Enabled Business Narratives, China Derisking, and North America; Majority of Sub-industries Bask in Bullish Glow

- Leverage to AI and nearshoring/reshoring activity are cited as the most compelling investment themes
- North America remains the regional darling for eight consecutive quarters, while APAC (ex-China) sees increasing support QoQ
- China as a compelling region garners zero support for the second consecutive quarter and aversion toward the country continues to grow
 - **80%** now assign a High or Very High level of risk to companies with operational exposure, up from 76% last quarter
- Nearly all sub-industries register more bulls than bears
 - **Industrial Equipment & Components** and **Water** are the largest bull gainers while **Materials** sees the highest influx of bears; **Ag** and **Transportation** are decidedly out of favor

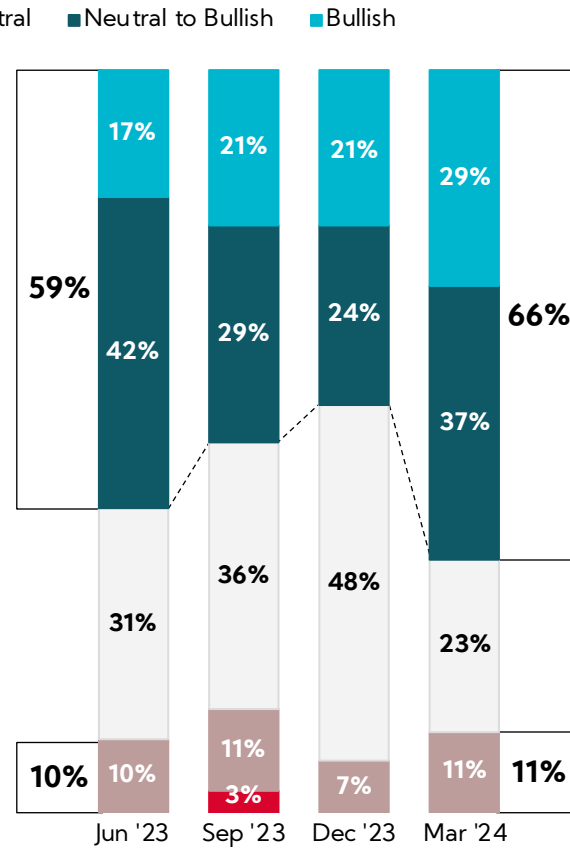
Investor Sentiment and Perceived Executive Tone Experience a Jolt of Optimism and Coalesce in Positive Territory, the Likes of Which Has Not Been Observed Since 2021

No outright bears registered amongst investors and executives for the first time since Q4'21, underscoring heightened expectations for Q1'24 prints

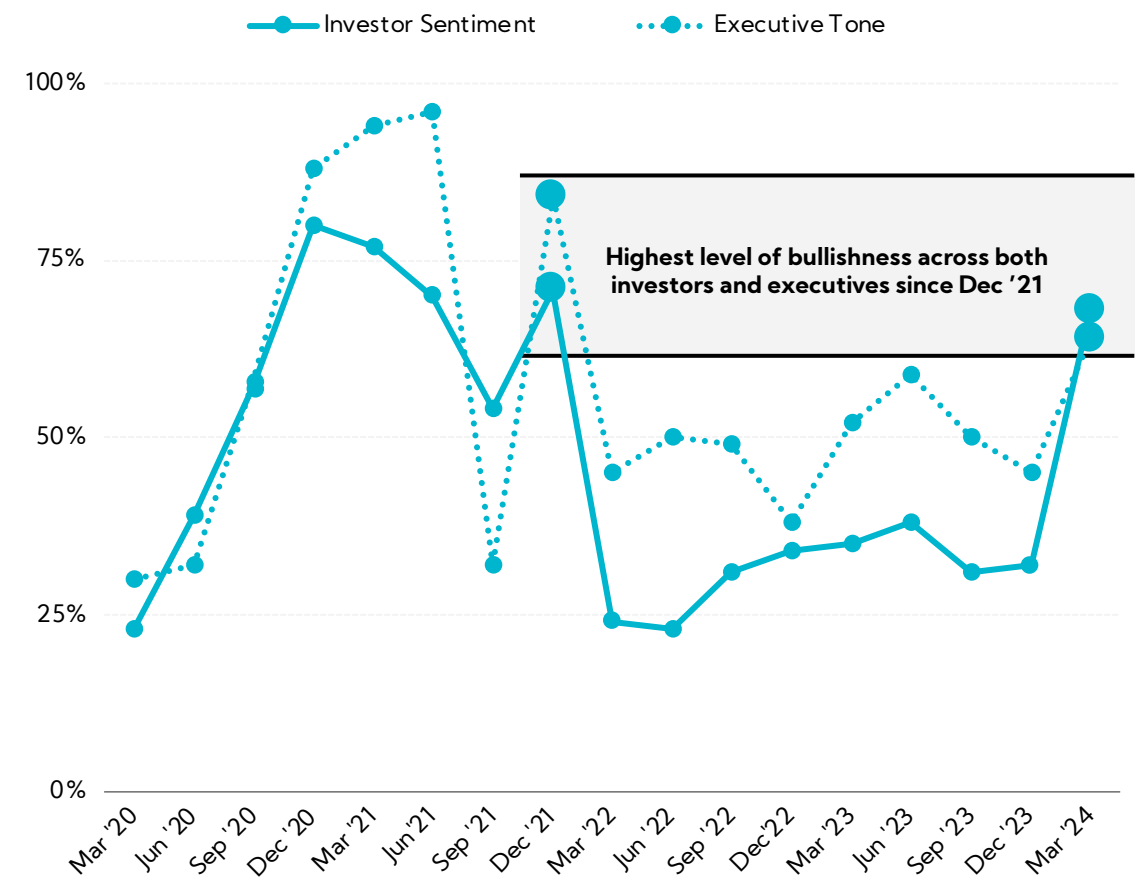
INVESTOR SENTIMENT



EXECUTIVE TONE



BULLISH INVESTOR SENTIMENT AND PERCEIVED EXECUTIVE TONE



Investors Point to a Sector Largely Poised for Improvement After a Period of Weakness

Bullish / Neutral to Bullish

"Improving underlying trends relative to the broader market." **Buy Side, Industrials, N. America**

"I am bullish because it is one of the few places that has actually been weak. The fundamentals have been poor, whereas most other companies it is strength upon strength, reaching to margins you have never seen before. They should improve from here." **Buy Side, Industrials, N. America**

"New industries gaining momentum." **Buy Side, Industrials, Europe**

"Judging off last earnings calls plus what analysts are saying going into earnings, business is pretty good. Companies are still hiring people; utilization is at a decent level, and business seems to be pretty good." **Buy Side, Generalist, N. America**

"Management are erring on the side of caution with their outlooks, which could come in better than expected as we get through the summer months." **Buy Side, Generalist, N. America**

"Industrial includes many subsegments. Some are very bullish, and some are not. We are focused on the bullish ones and there are plenty of them." **Buy Side, Generalist, N. America**

Neutral

"My sentiment toward the industrial sector is mostly bullish. From a stock perspective, some of them have gotten expensive but some have not. Fundamentally, it seems like a lot of them are doing fine, growing revenues, growing earnings and sometimes growing by acquisition. The executives are fairly bullish about resilient end markets and feeling good about their opportunities." **Buy Side, Generalist, N. America**

"In the industrial sector, the executives are more bullish now. The comments in January were toned down. Now it is more optimistic in general. They are more confident on the recovery for the rest of the year." **Buy Side, Generalist, N. America**

"The executives for engineering firms are very bullish. These stocks are trading at these high multiples because it is very bullish." **Buy Side, Generalist, N. America**

"15 months of sub-50 ISM." **Sell Side, Industrials, N. America**

"Profit growth will remain strong." **Sell Side, Industrials, N. America**

"Still lots of infrastructure money coming." **Sell Side, Generalist, N. America**

"Things are reasonably good in industrials but valuations are fairly high." **Buy Side, Industrials, N. America**

"Neutral because of geopolitical risk, uncertainty related to the Fed, and the market's been a little too optimistic recently. It's that time of year where people are still wanting to under promise and over deliver." **Buy Side, Generalist, N. America**

"The industrial sector is very broad. There are many moving parts and businesses that are completely unrelated to each other so it's very hard to narrow that down. I will say E&C subsectors I am very bullish." **Buy Side, Generalist, N. America**

"Backlogs remain strong and some of the long-term structural drivers remain intact. I am wary of near-term pressures and continuing normalization of backlogs/inventory." **Buy Side, Generalist, Europe**

"Industrials are very tortuous, so I am neutral. The industrial sector is large, broad, and has different business models. You have transportation, commercial and professional services, equipment names, and rails. Some are suffering from high interest rates or recessionary risks. Some have performed nicely, so expectations are high." **Buy Side, Generalist, Europe**

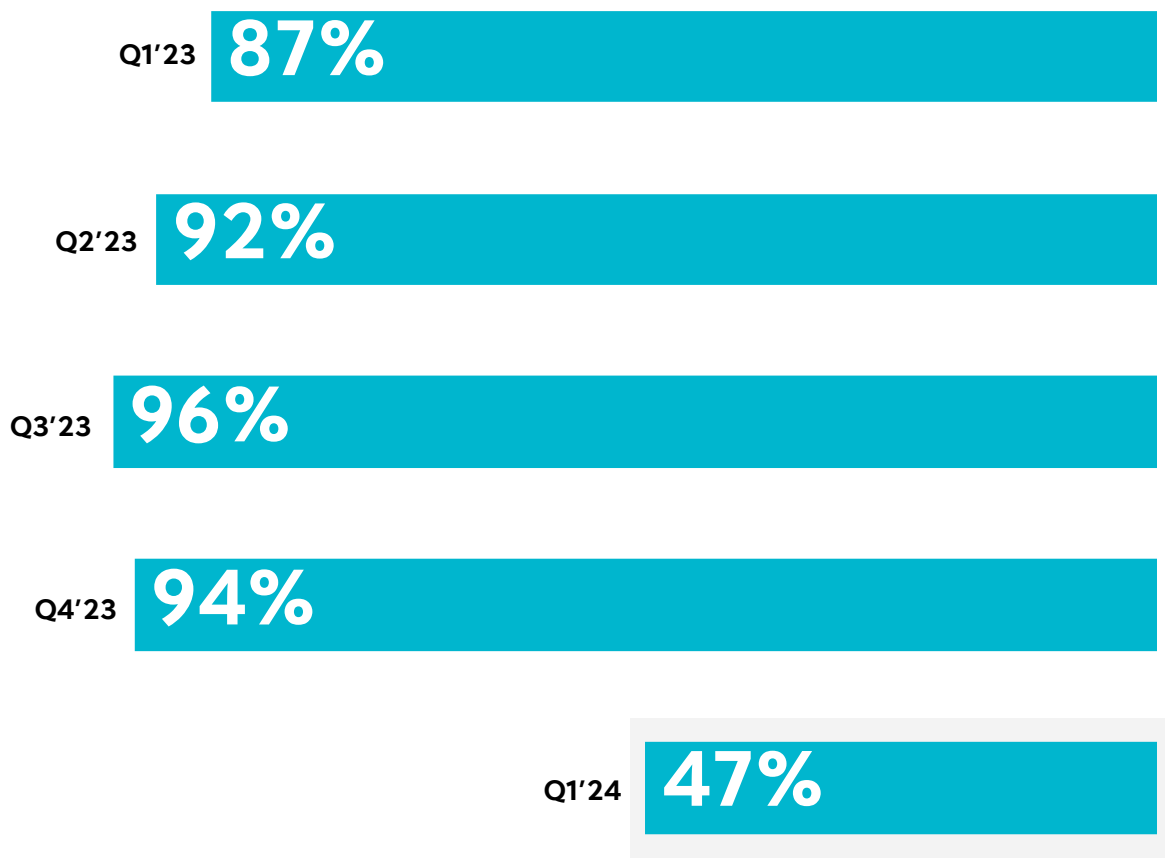
Neutral to Bearish / Bearish

"Difficult time for the staffing industry for the sector." **Sell Side, Generalist, N. America**

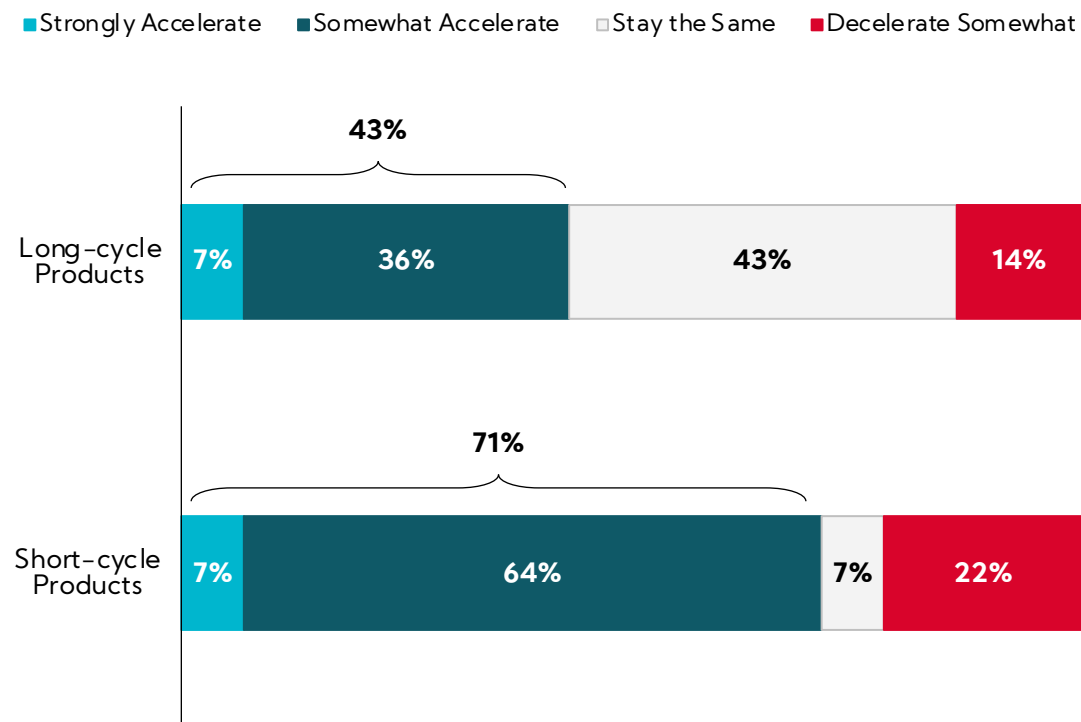
Broad-Based Industrial Weakness Expectations Shrink by Half QoQ...

Most investors anticipate steady to improving Industrial order rates over the next six months, particularly short-cycle products

BROAD-BASED INDUSTRIAL WEAKNESS, QoQ EXPECTATIONS



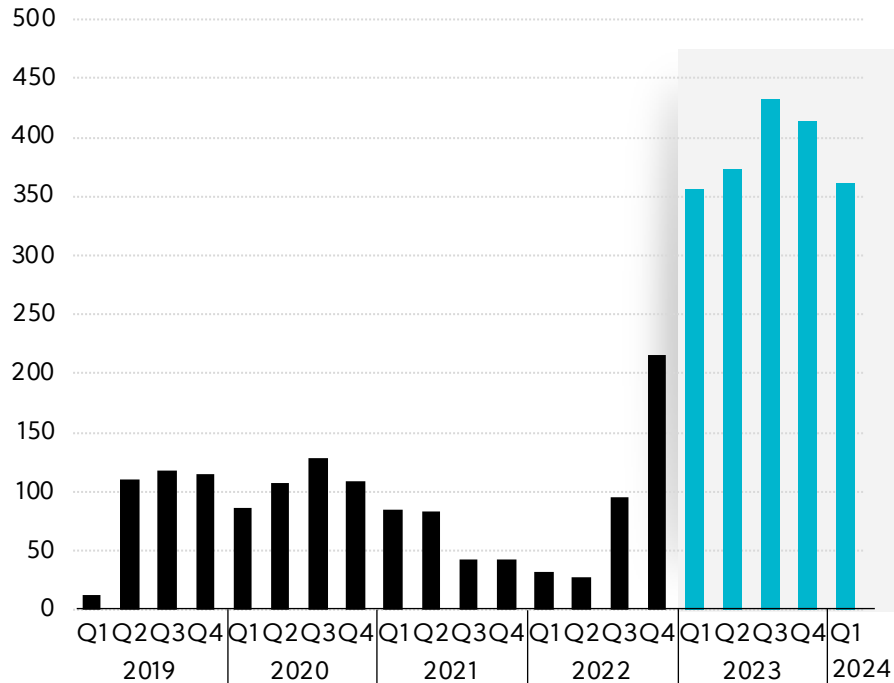
INDUSTRIAL ORDER RATE EXPECTATIONS OVER THE NEXT SIX MONTHS



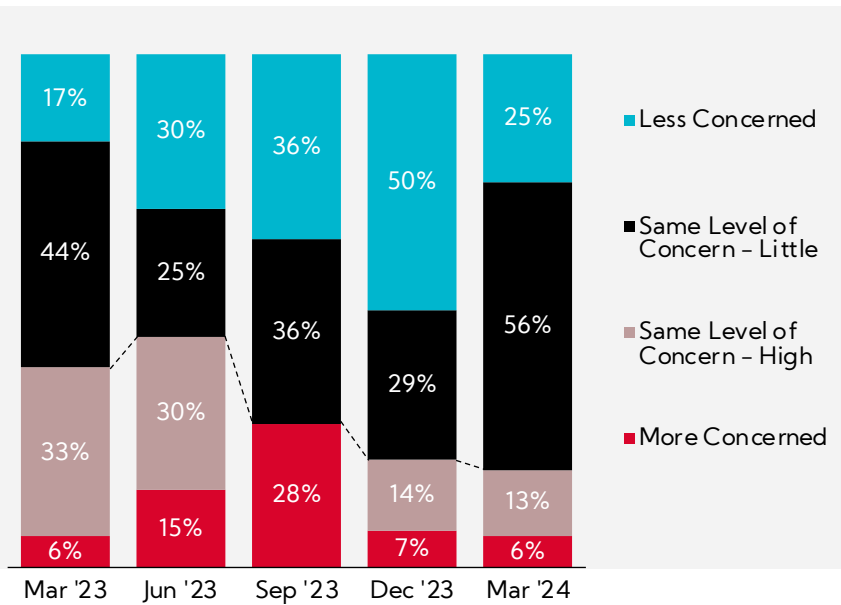
...And Inventory Build is Increasingly of Little or Less Concern

Destocking mentions among Industrials, while still elevated, have ebbed from their high in Q3'23

"DESTOCKING" MENTIONS AMONG INDUSTRIALS
U.S. Industrials >\$1B Market Cap



CONCERN TOWARD INVENTORY LEVELS



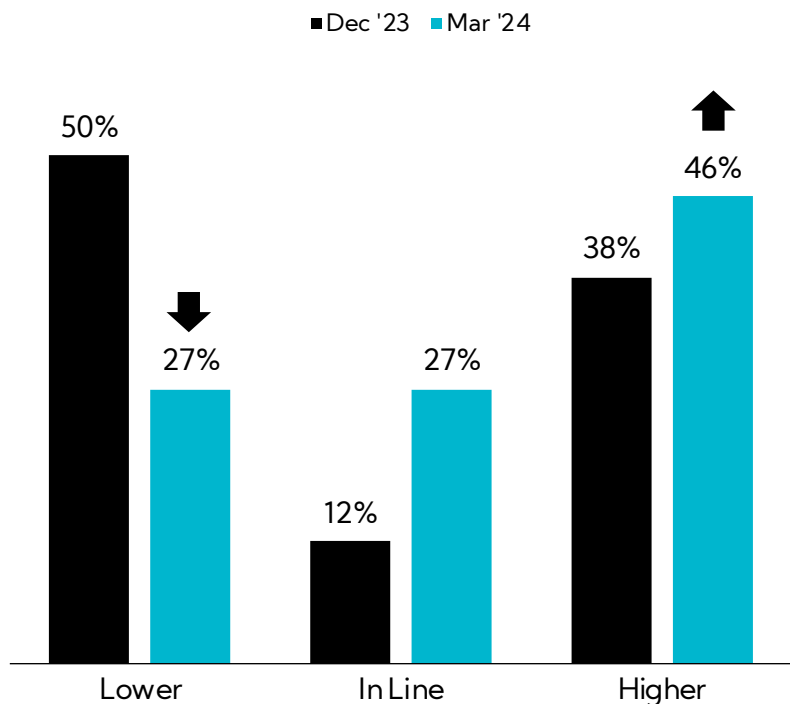
"There is an inflection coming in industrial demand. We are seeing improvements in things like consumer, which has been driving a lot of destocking in the manufacturing space, which is driving some incremental freight demand. We are seeing some improvements in Resi and companies' optimism and willingness to spend money as rates fall. I am incrementally positive as the economic environment improves." **Buy Side, Generalist, N. America**

"KPIs are improving. We are seeing margins generally expand as the supply chain improves and pricing generally stayed high as costs have decelerated. On the revenue side, with all the deep destocking we have seen, some improvements in housing, and improvements in business confidence, that is all driving capex, which will all have a positive impact on industrial companies." **Buy Side, Generalist, N. America**

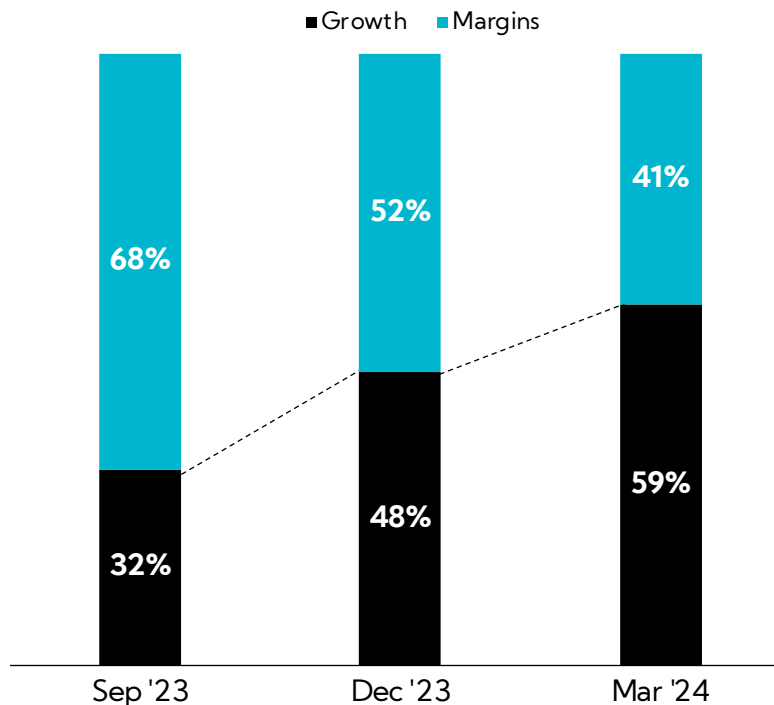
Improved Growth Expectations Overall as More Now Anticipate a Higher YoY Industrial Organic Rate

76% report Industrial companies within their coverage universe are still passing on cost

2024 INDUSTRIAL ORGANIC GROWTH RELATIVE TO 2023



KPI PRIORITIZATION AT THIS POINT IN THE CYCLE

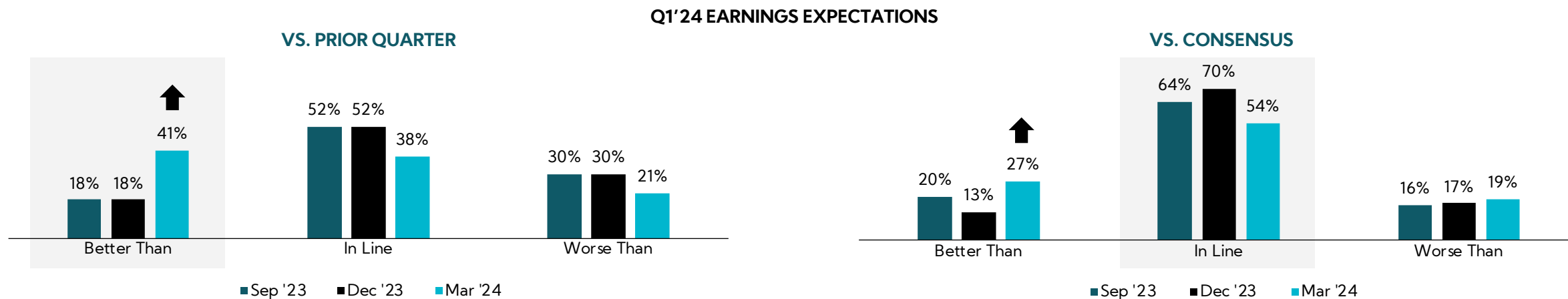


"I was already positive, and the Q4'23 earnings for the companies I follow reinforced my sentiment. This is nothing new. This has been growing for a couple years with the U.S. Infrastructure, Inflation Reduction, and CHIPS Acts. All this funding, trillions of dollars, are going to flow through to a lot of parties, such as construction and engineer companies, etc. It is going to happen over the next decade. Everyone is going to get a share of that pie, so you have strength in organic revenue growth." **Buy Side, Generalist, N. America**

"I am prioritizing growth for companies because we are in the early part of the cycle and once you see growth inflect, it is a leading indicator for price and once you see price inflect, that helps margins. Given where we are cyclically, growth is the priority." **Sell Side, Generalist, N. America**

Majority, 68%, Believe Q1'24 Results Will Be Stronger YoY While Expectations for Consensus Beats Doubles

48% assert positive or improved sentiment following full-year 2024 outlooks provided last quarter



Better Than

"Companies gave more guarded Q1 guidance, but are optimistic toward 2024 overall. As the quarter rolled along, companies said they felt much better about Q1 and that is backed up by better-than-expected economic data." **Buy Side, Industrials, N. America**

"Positive industrial indicators like order rates, normalized supply chains, etc." **Buy Side, Industrials, N. America**

"Inflation improving." **Buy Side, Industrials, N. America**

"General strength of economy." **Buy Side, Generalist, N. America**

"Strong economy." **Buy Side, Generalist, N. America**

"Strong pricing and good cost control in old tech industries and strong AI-generated growth in tech." **Sell Side, Industrials, N. America**

In Line

"Inventory correction that plagued latter parts of 2023 is over, general positive reshoring/electrical trends should be supportive; however, I do not expect meaningful upside vs. expectations." **Buy Side, Industrials, N. America**

"Status quo economic backdrop." **Buy Side, Industrials, N. America**

"Overstocking in previous years driving outperformance in 2023...but some orders are picking back up." **Buy Side, Generalist, N. America**

"Drags from weak ISM activity and destocking lingers another quarter or two before acceleration." **Buy Side, Generalist, N. America**

"Macroeconomic headwinds persist despite the promise of rate cuts later this year." **Buy Side, Generalist, N. America**

"Troughing markets in aggregate." **Sell Side, Industrials, N. America**

"Many indicators are weakening beneath the surface and headlines." **Sell Side, Generalist, N. America**

"Most industrials in my universe are still growing, but at much reduced pace vs. 2023." **Sell Side, Generalist, N. America**

Worse Than

"Things are still bad. The fact FedEx stock is up is more to do with expectations than fundamentals. Versus expectations, industrials will be in line. Versus last quarter, Q1 is seasonally a bad quarter and there was bad weather this year, so most transports will have a tougher Q1." **Buy Side, Industrials, N. America**

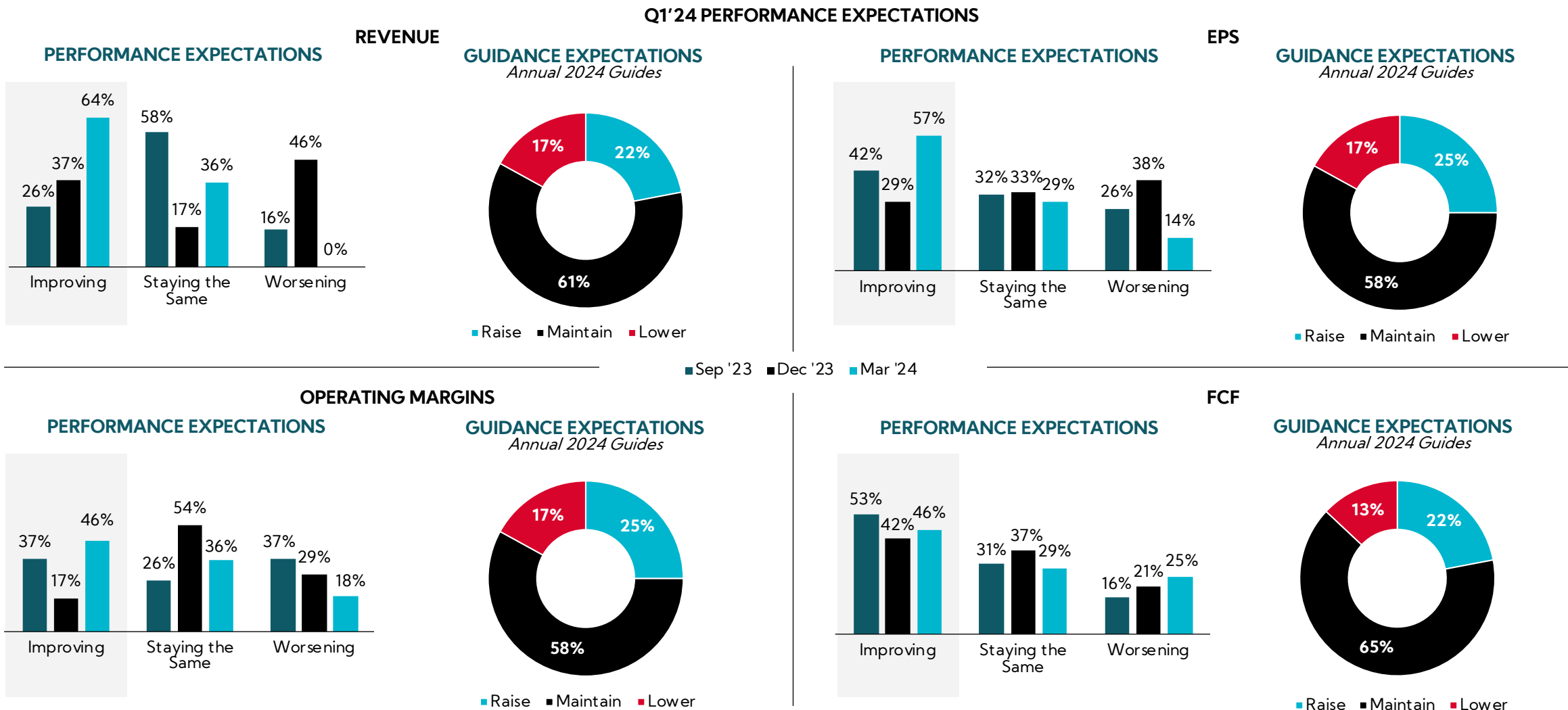
"Cautious banking environment." **Buy Side, Industrials, Europe**

"It depends. It is not equal. In Canada, we have a lot of rail and transportation, and it is going to be a little slower in Q1'24 compared to Q4 '23." **Buy Side, Generalist, N. America**

"Negative intra-quarter data for staffing, in particular." **Sell Side, Generalist, N. America**

Across the Board, KPIs Anticipated to Improve, Particularly Revenue and EPS; Majority Anticipate Full-Year Guides to be Maintained

Lowest proportion of investors expecting *Worsening* results across KPIs since Q2'21



56%

Demand,
Order Rates
(↑ 27pts)

41%

Margins,
Pricing Power
(↓ 28pts)

34%

Growth
(↓ 6pts)

30%

Inflation
(↑ 24pts)

30%

Capital
Allocation
(↑ 13pts)

18%

Labor
(↑ 7pts)

Topics of Interest for Upcoming Earnings Calls

Demand tops the list and sees renewed interest QoQ, followed by margins and pricing power; to that end, inflation experiences an acute boost in attention as investors contend with the prospect of input cost levels reigniting

Views from N. America

"Order growth, geographic results, price/cost." **Buy Side, Industrials**

"Cadence of 2024 sales outlook." **Buy Side, Industrials**

"Order rates, price/cost, backlogs." **Buy Side, Industrials**

"Materials costs, labor availability, leverage." **Buy Side, Industrials**

"Order rates in the first half of the year, backlog changes in the first half and those expected in second half, effect on profit margins of more moderate price increases." **Buy Side, Industrials**

"Election year impact, hiring difficulty, AI impact." **Buy Side, Industrials**

"M&A appetite, internal growth initiatives, productivity and cost opportunities." **Buy Side, Generalist**

"Order activity and opportunity pipeline, supply chain issues, capital deployment." **Buy Side, Generalist**

"Overall economy, top line trends, M&A." **Buy Side, Generalist**

"Growth, the economy." **Buy Side, Generalist, Industrials**

"Pricing, including inflation/deflation, supply chain normalization, inflecting demand." **Sell Side, Industrials**

"Pricing trends, signs of recovery for U.S. oil drilling." **Sell Side, Industrials**

"Operational costs." **Sell Side, Industrials**

"End market demand, FCF and working capital needs, labor costs and availability." **Sell Side, Generalist**

"Return to growth, margin defense, sequential trends." **Sell Side, Generalist**

Views from Europe

"Volume development, organizational adaptations, margins." **Buy Side, Industrials**

"Destocking headwinds, inflation, capital allocation." **Buy Side, Generalist**

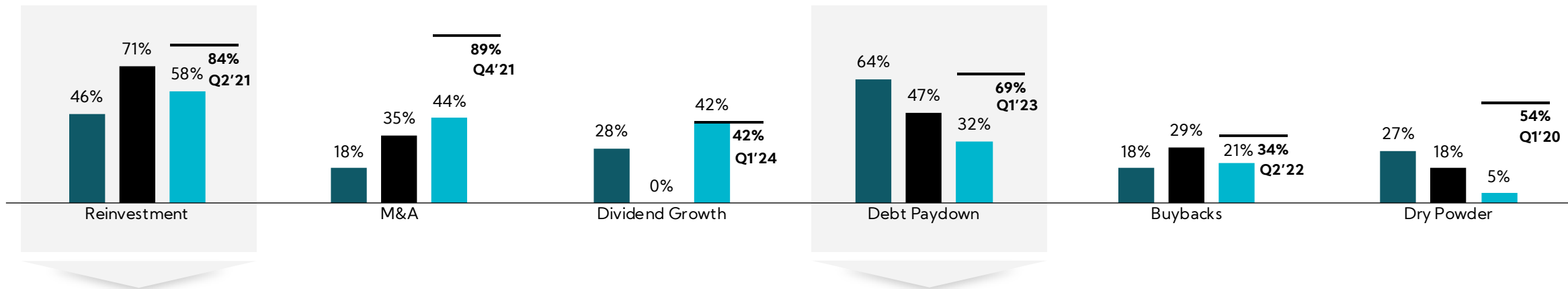
Capital Allocation Preferences Reflect Optimism with Reinvestment in the Top Spot and M&A Gaining Ground; Setting a New Survey High, Investors Exhibit a Hankering for Dividends

Amid expectations for a rising tide, debt paydown wanes while 44% show continued QoQ support for increased growth capex, up from just 3% in Q3'23

PREFERRED USES OF CASH

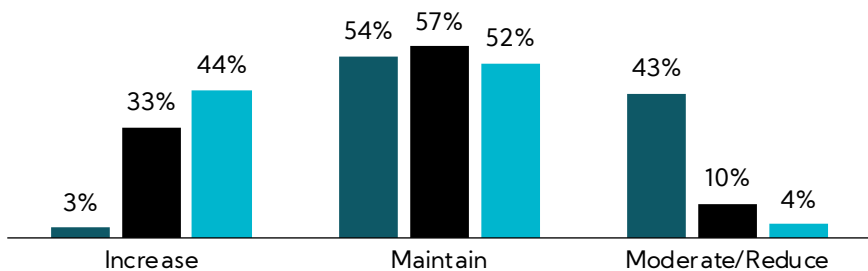
In Descending Order of Top Two Preferences

■ Sep '23 ■ Dec '23 ■ Mar '24 — 5-Year High



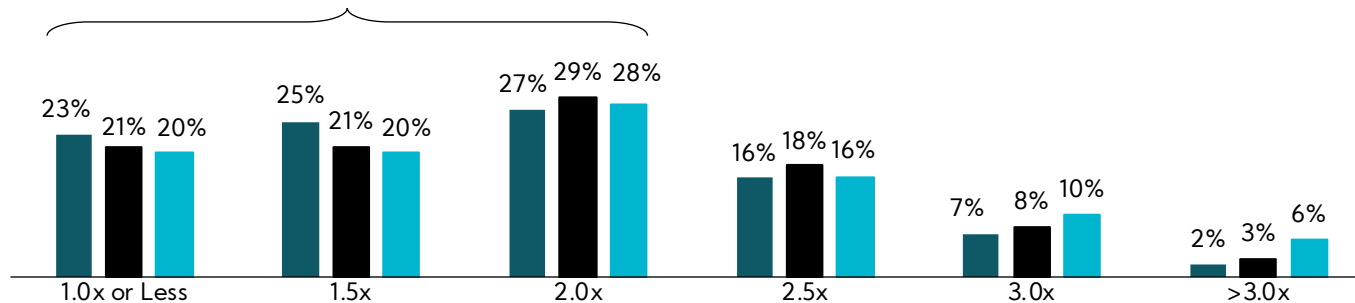
GROWTH CAPEX PREFERENCES

■ Sep '23 ■ Dec '23 ■ Mar '24



THRESHOLDS FOR IDEAL NET DEBT-TO-EBITDA

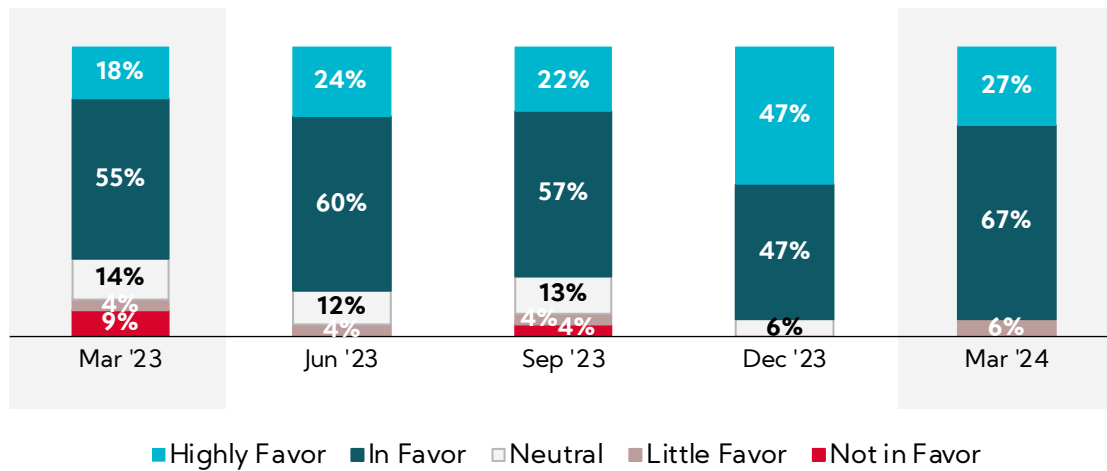
68% prefer ≤2.0x, down from 71% QoQ



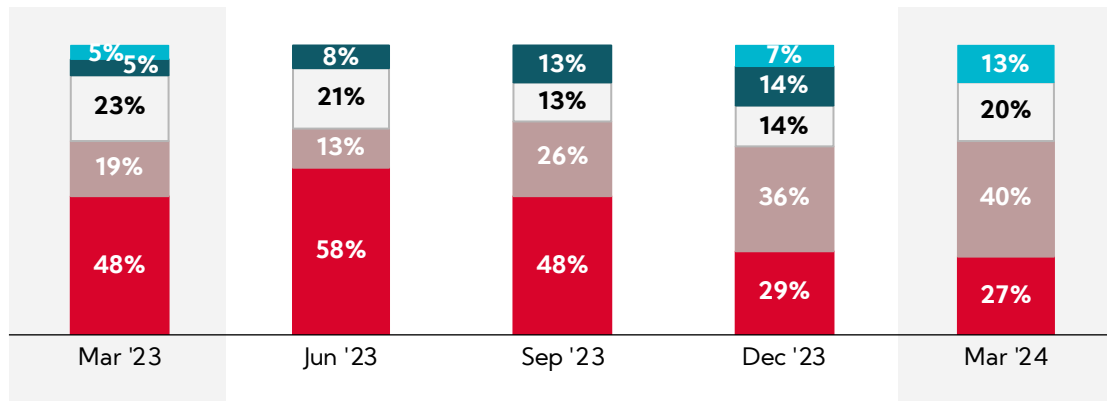
Bolt-on Acquisitions Continue to Garner Meaningful Investor Support and Those Outright Against Large Deals Falls for the Third Consecutive Quarter

Despite deal activity slumping in March, total M&A values for Q1 rose 39% YoY

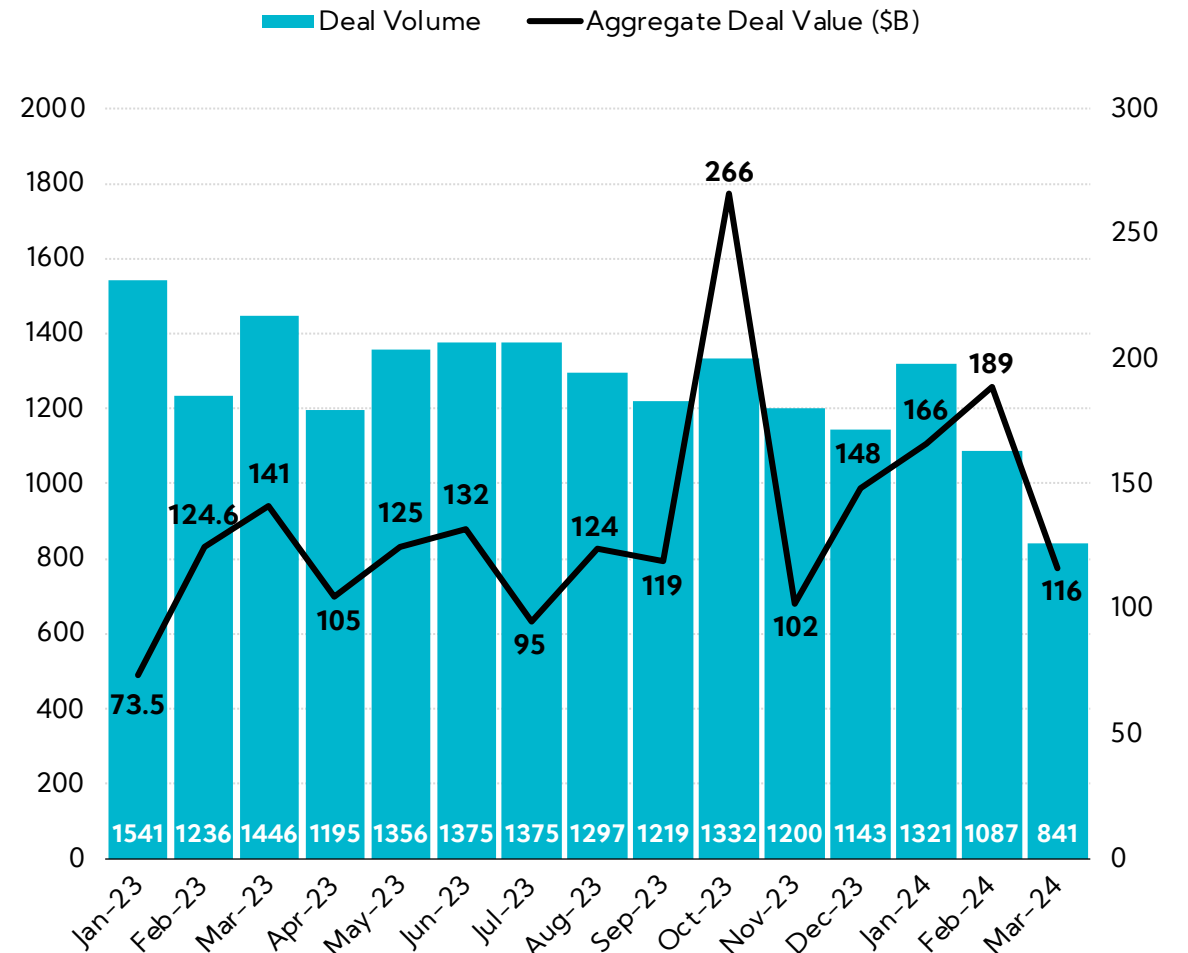
BOLT-ON ACQUISITIONS



LARGE/TRANSFORMATIONAL ACQUISITIONS



U.S. MERGERS & ACQUISITIONS¹



¹Source: FactSet

Top Concerns from Around the Globe

Margins top the list for the second consecutive quarter (albeit at lower levels) and while expectations for growth ramp, some investors remain apprehensive about top lines; notably, U.S. politics sees the largest increase of all, while a slowing economy falls off the list

Unaided									
QoQ Change	1	38% (↓ 18pts)	Margins	2	33% (↑ 13pts)	Growth	3	30% (↓ 7pts)	Monetary Policy
	4	28% (↑ 22pts)	U.S. Politics / Elections	5	28% (↑ 16pts)	Global Macro	6	25% (↑ 7pts)	Inflation

Views from N. America

"My top concern is how much growth people are expecting attributable to macro factors, such as the Fed rate cut." **Buy Side, Industrials**

"Growth remains weak, inability to price for inflation, ex-U.S. growth disappoints." **Buy Side, Industrials**

"Inflation, election impact." **Buy Side, Industrials**

"Order rates, price versus cost, China outlook." **Buy Side, Industrials**

"Pace of industrial improvement, softer regions throughout the world, ability to stay price/cost neutral or better." **Buy Side, Industrials**

"Election, AI impact on business and jobs, China tensions." **Buy Side, Industrials**

"Economy, the Fed, government debt." **Buy Side, Generalist**

"End demand, price/cost execution, becoming too optimistic too early." **Buy Side, Generalist**

"Political environment, macroeconomic environment, weak commercial real estate market." **Buy Side, Generalist**

"Slowing economy, competition, margin maintenance." **Buy Side, Generalist**

"Deflation, margin slippage, lower for longer revenue growth rates." **Sell Side, Industrials**

"Inflation, election." **Sell Side, Industrials**

"Energy inflation, Fed cuts and inflation picks up, U.S. political violence following the presidential election." **Sell Side, Industrials,**

"The border invasion, potential geopolitical disruption, poor stewardship in DC with awful policies." **Sell Side, Generalist**

"Slowing revenue growth, lower interest rate expectations delayed, labor availability." **Sell Side, Generalist**

Views from Europe

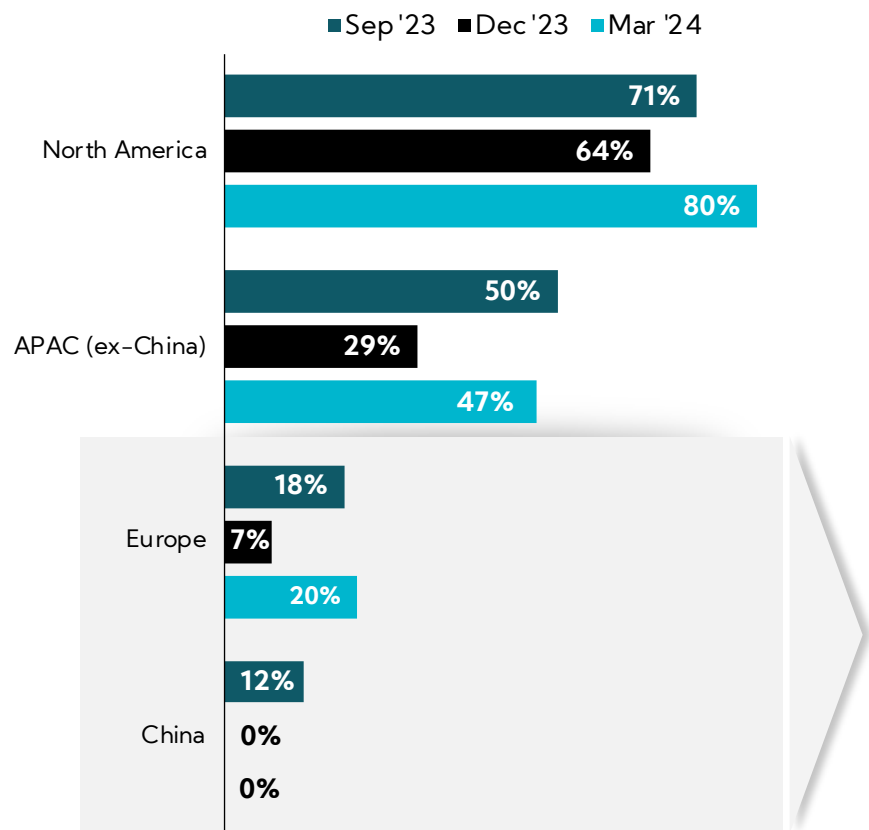
"Global peace, labor market, cautious banking." **Buy Side, Industrials**

"Stickier inflation, higher rates, trade war." **Buy Side, Generalist**

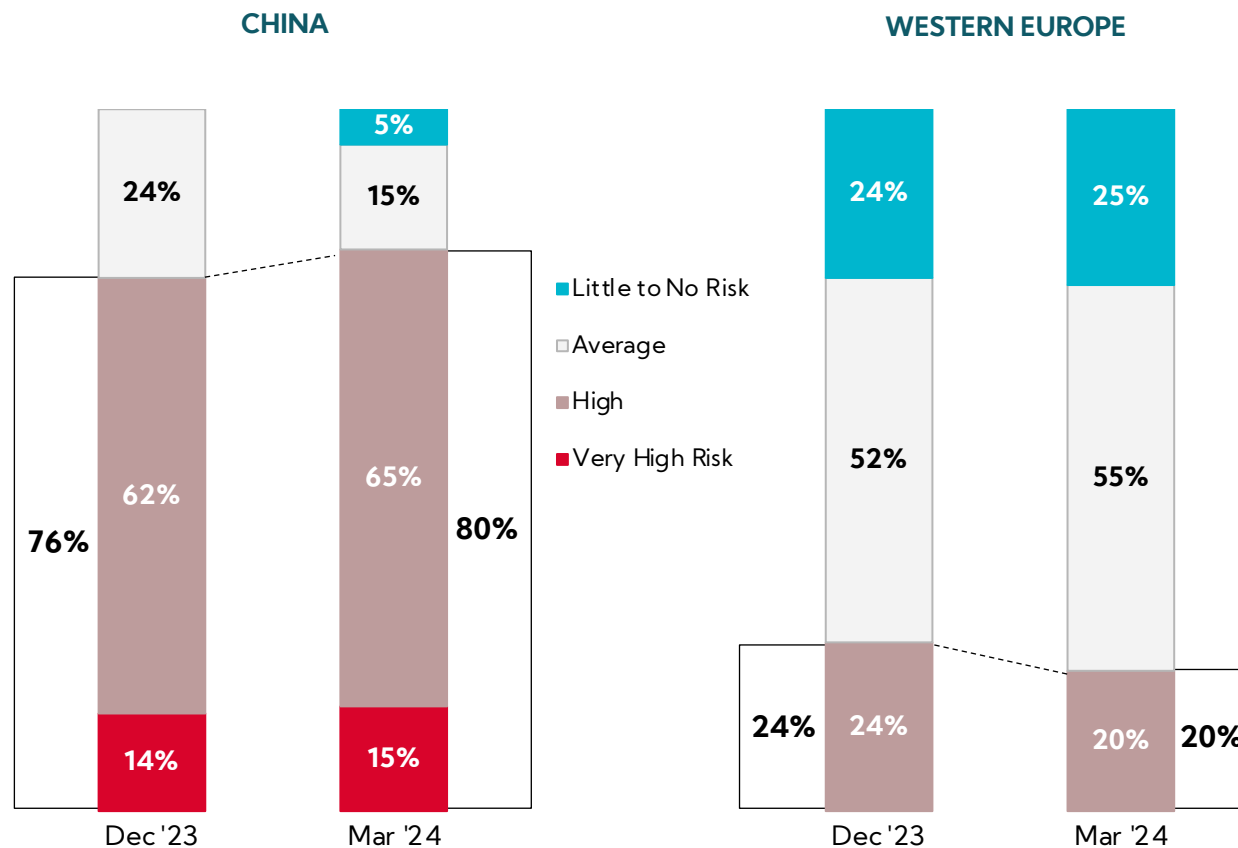
Exposure to North America Continues to Win Hearts, While Expectations for China Remain Downbeat

70% Exhibit *More Concern* or a *Continued Level of High Concern* over U.S./China Relations, up from 32% QoQ

MOST COMPELLING REGIONAL EXPOSURE WITHIN INDUSTRIAL UNIVERSE



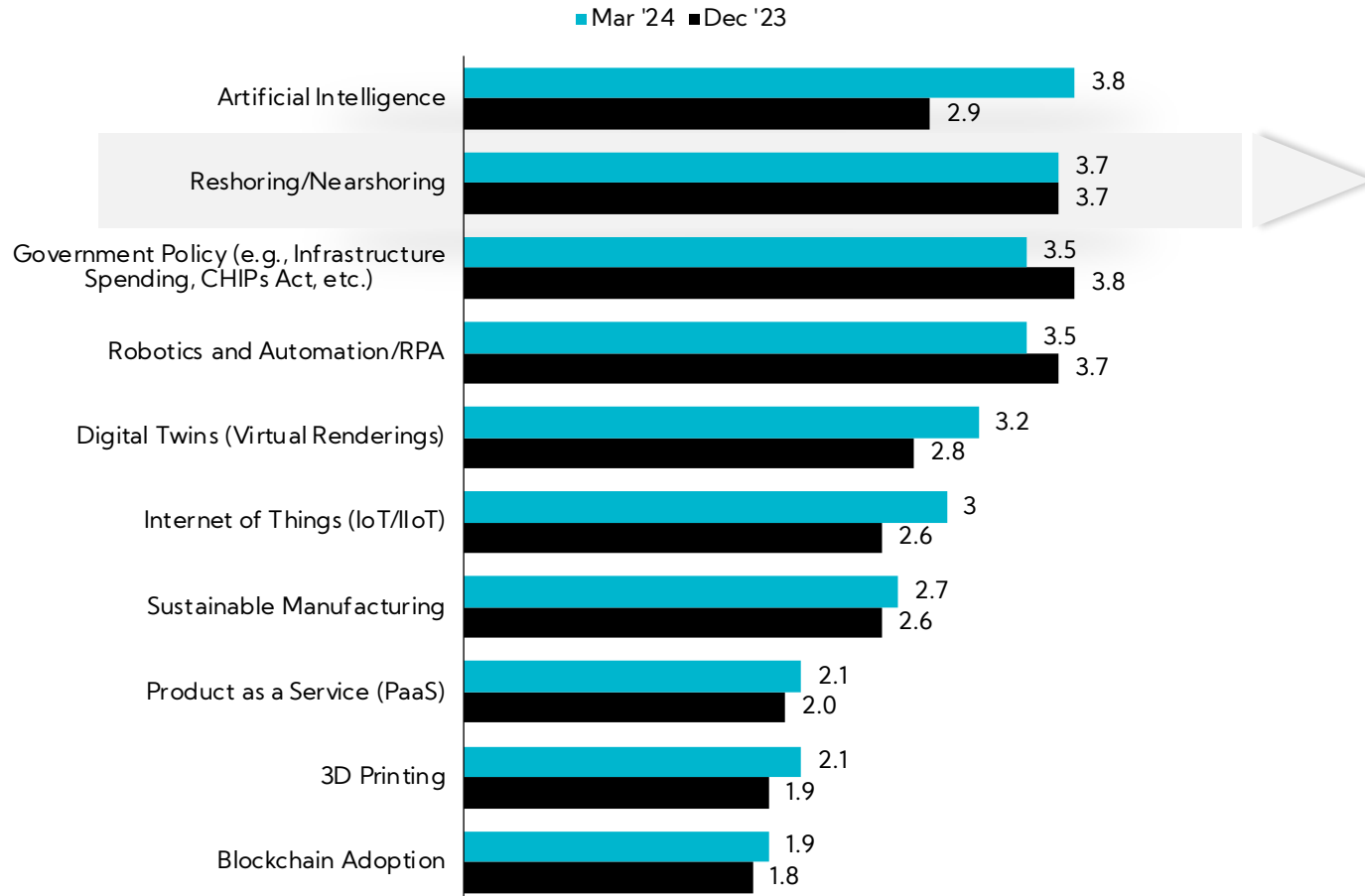
LEVEL OF RISK ASSIGNED TO COMPANIES WITH BUSINESS/OPERATIONAL EXPOSURE TO:



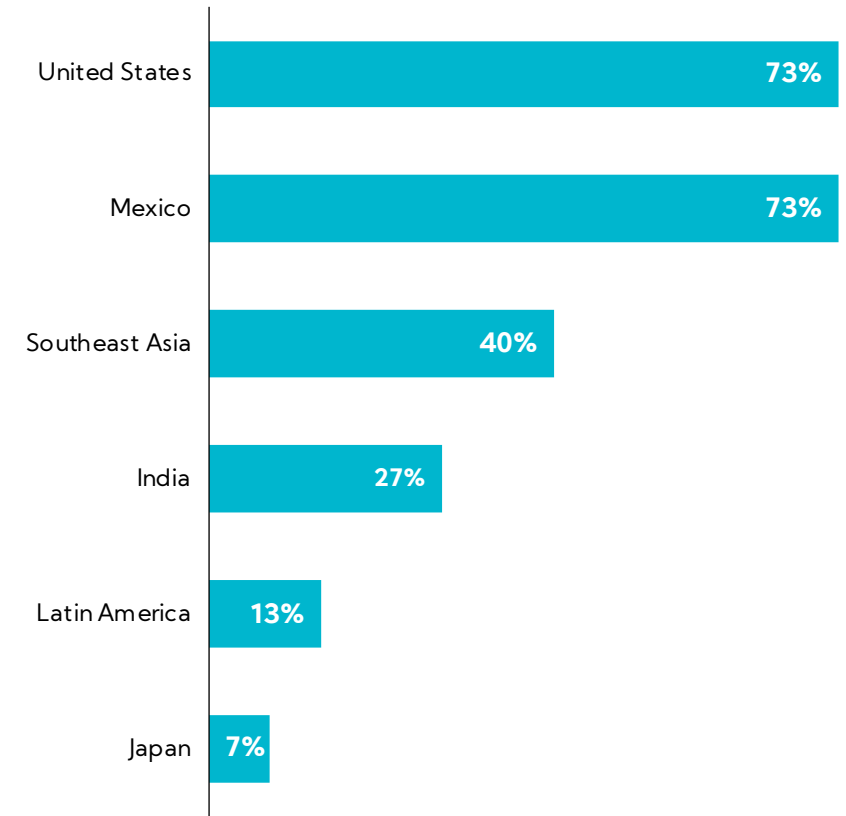
Artificial Intelligence Seen as Most Compelling Investment Theme While Nearshoring Registers a Close Second

Investors point to the U.S. and Mexico as seeing the most reshoring and nearshoring activity, though Southeast Asia and India garner notable percentages

MOST COMPELLING INDUSTRIAL THEMES
(Aided, 1.0 – 5.0 Scale, 5.0 Highest)

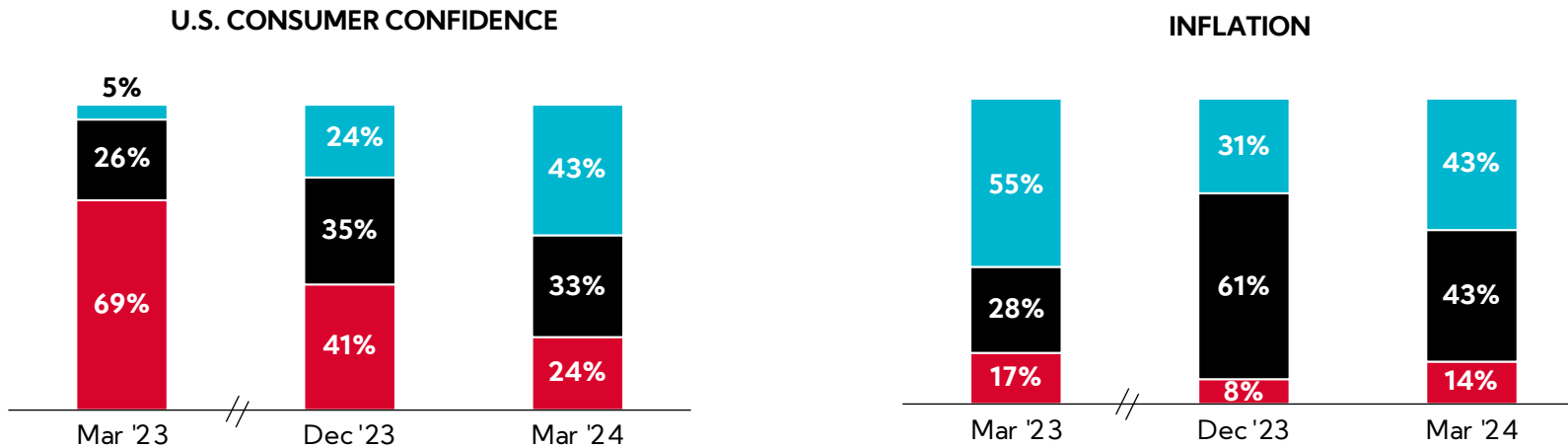
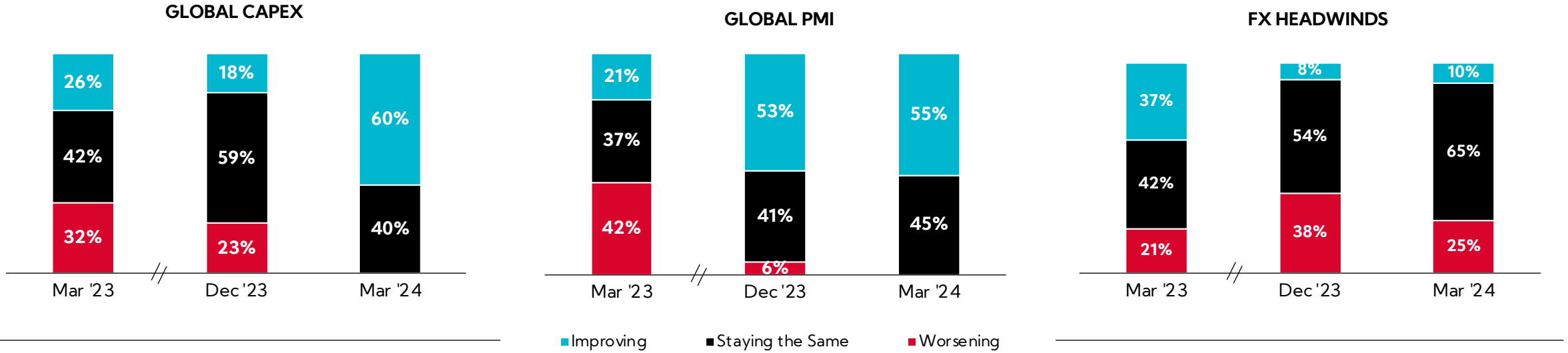


REGIONS OBSERVING MOST SIGNIFICANT RESHORING/NEARSHORING ACTIVITY



Views on Key Economic Indicators Over the Next Six Months

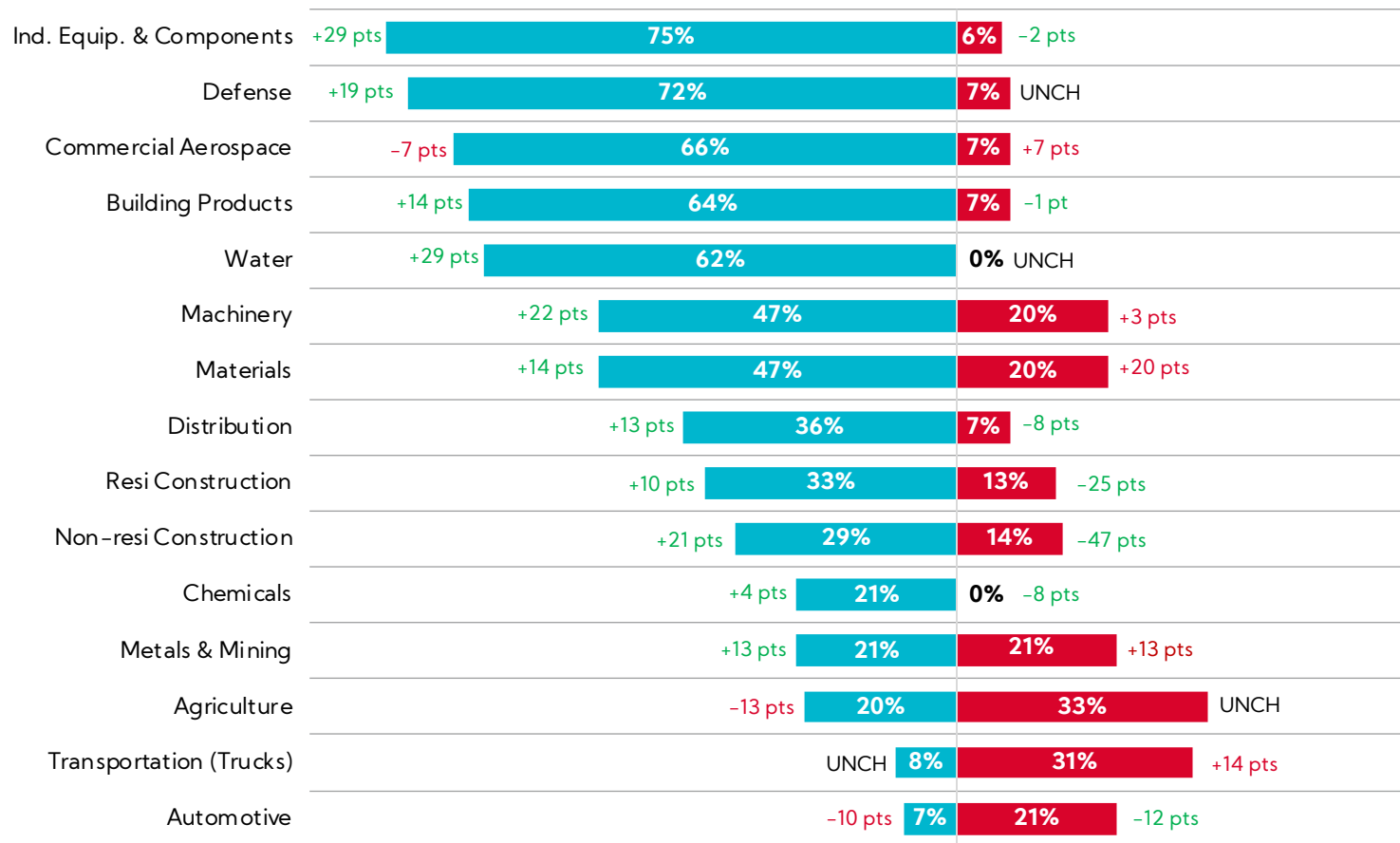
Less downbeat views identified across nearly all measures, with Global Capex seeing the biggest boost in positive outlooks



Bullish Bets Outweigh Bears across the Sector, Particularly in Industrial Equipment and Defense; Only Three Industries — Ag, Transportation, and Automotive — Are Out of Favor

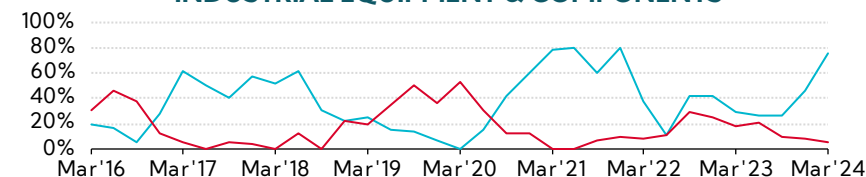
BULLS VS BEARS

■ Bulls ■ Bears

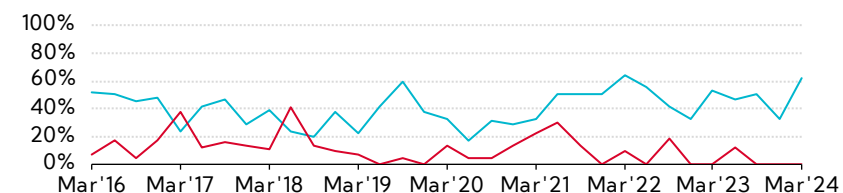


LARGEST BULL AND BEAR SENTIMENT GAINERS

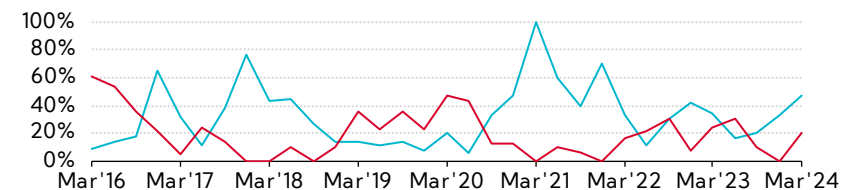
INDUSTRIAL EQUIPMENT & COMPONENTS



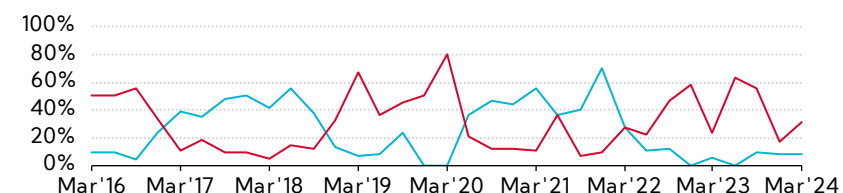
WATER



MATERIALS



TRANSPORTATION (TRUCKS)





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.

With a proven track record of driving breakthrough thinking and impact, pre-IPO and public companies globally – across all sectors and sizes – trust and partner with us.



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- Executive Coaching
- Sustainability / ESG
- IPO Preparedness
- Strategic Financial Communication

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