INDUSTRIAL CONFERENCE TAKEAWAYS – EXECUTIVE SUMMARY

November 2023

BAIRD

TOP OF MIND FOR INDUSTRIAL CEOs

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Publicly listed industrial companies are generally outperforming manufacturing PMI

1 Mixed end market demand

- **Record backlogs** from 2022 drive **mid / long cycle revenue** in 2023
- **Commercial aerospace** strength as **OEM production ramps up** and flight time drives **aftermarket**
- **Robust defense spending** driven by geopolitics, war and conflict
- **Weak consumer-facing subsectors** e.g. residential building products, food & beverage packaging

2 Mixed regional demand

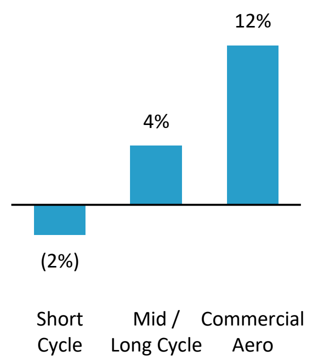
- **Onshoring** / reshoring in the **US**, supported by CHIPS Act and IRA (extends tax credits for a decade)
- **US driving** marginal **growth**, while **Europe** and **China** are **contracting**
- Germany's exports impacted by lackluster recovery in China
- **Middle East capex projects** generating multiyear demand growth e.g. **Saudi Vision 2030**

3 Secular growth themes

Secular trends **integral** to organic growth **in recessionary environment**:

- Electrical **grid infrastructure**
- **Electrification** / energy transition
- **ESG**, sustainability and **efficiency**
- **Data centers**, also to support **AI**
- **Automation, IoT** and **RFID**
- Specialty **materials substitution**
- Renewal of **aging infrastructure**

2023F Revenue Growth
(average for presenting companies)



4 Supply chains and pricing

- **Normalization of supply chain** issues, **inflation** and **pricing**
- **Shorter** component **lead-times**
- **Lower raw material prices**
- Temporary **inventory destocking** during 2023, a transitional year
- **Freight costs 85% down** from peak, back to pre-Covid levels

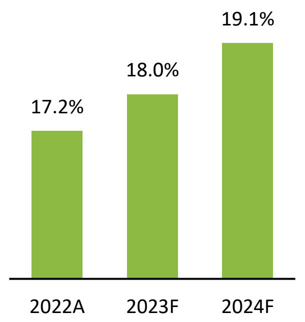
5 Operational improvement

- **Record EBITDA margins** across most industrial subsectors – not Distribution given select deflation
- Shift to more **holistic solutions**
- Investments in **single ERP / CRM** system across entire business unit
- Shortage and increasing **cost of labor drive automation capex**

6 Strong M&A appetite

- **Portfolio optimization** through divestitures, spin-offs and M&A
- Corporates taking advantage of **lower competition from PE**
- Focus on cost / revenue **synergies**
- **Strong balance sheets**, though **2.5x+ PF net leverage** of concern now given **higher interest rates**

EBITDA Margin
(average for presenting companies)



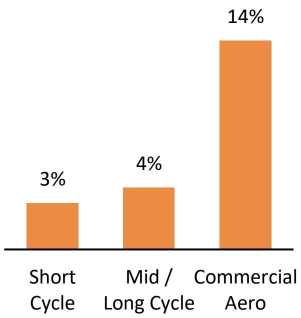
Note: Further detail on each of the 6 themes above are on pages 7 to 12. CHIPS (Creating Helpful Incentives to Produce Semiconductors) Act, IRA (Inflation Reduction Act), PF (pro forma).
Source: Baird equity research for organic revenue growth, CapIQ for revenue growth partially adjusted for M&A, CapIQ for EBITDA margin, using publicly listed presenters on page 4.

2024 OUTLOOK FOR CEOs

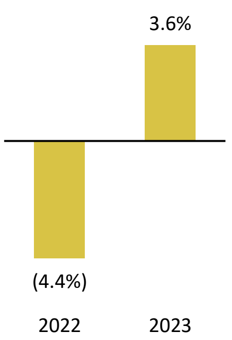
CEOs are cautiously optimistic and focused on what is in their control

A	**Start of short cycle / consumer-facing end market recovery**	Some consumer-facing end markets bottoming in Q4 2023 / Q1 2024 – revenue growth averaging 3% for short cycle players in 2024F, half from pricing and half from volume
B	**Flat / declining order backlogs for many, but levels still elevated**	Order backlogs decreasing for those with <1 book-to-bill ratio, but backlogs substantially above 2019 levels, driving revenue growth in 2024F for most mid / long cycle players
C	**Bifurcated demand with numerous pockets of strength**	Strength across US municipal / infrastructure, defense electronics, commercial aero and datacenter construction vs. weakness in off-highway and agriculture equipment in 2024F
D	**Close monitoring of supply chains, where de-risking is not possible**	Corporates staying alert to rising geopolitical tensions which could impact specific supply chains where raw materials or initial processing are concentrated in certain countries
E	**Increase quality of revenue in low growth environment**	Shift from discrete products to more holistic solutions to increase customer stickiness and drive recurring / re-occurring revenues – aftermarket, replacement, consumables, software
F	**Corporates prioritising M&A, increasingly with investor support**	Relatively robust pipeline of acquisition opportunities for corporates – investor reaction to sizeable industrial M&A deals by publicly listed buyers were positive in 2023 vs. 2022

2024F Revenue Growth
(average for presenting companies)



Buyer Share Price Change Day After Announcement
(median for selected M&A deals)



Note: Further detail on investor reaction to selected M&A deals is on page 21.

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