

INDUSTRIAL COMPANIES: EVOLVING IN A HYBRID WORLD

THE MONTHLY RESEARCH CONFERENCE CALL

MODERATOR:

Jim Kelleher, CFA

Director of Research

Wednesday, September 1, 2021

11:00 a.m. ET

61 Broadway • NYC, N.Y. 10006

Telephone: (212) 425-7500

■ **Industrial Companies: Evolving in a Hybrid World**

- Jim Kelleher, CFA, Director of Research
- Argus President John Eade

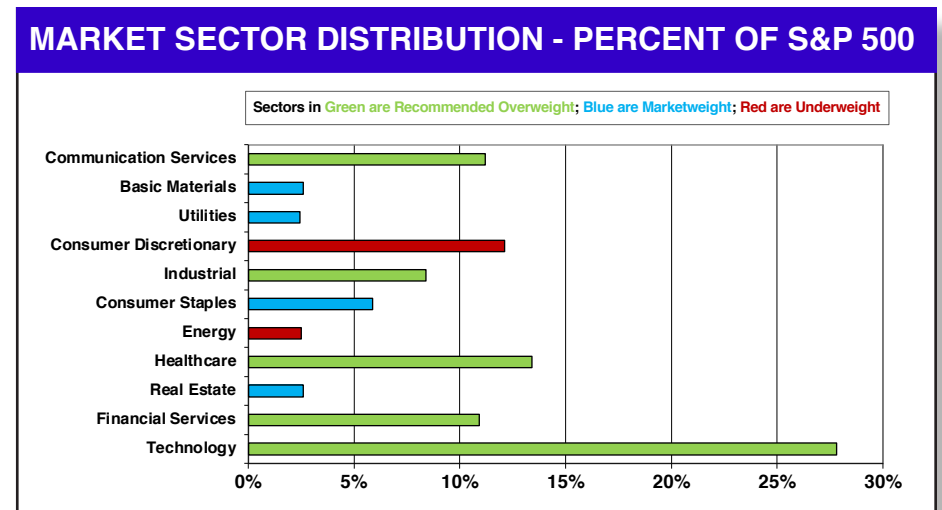
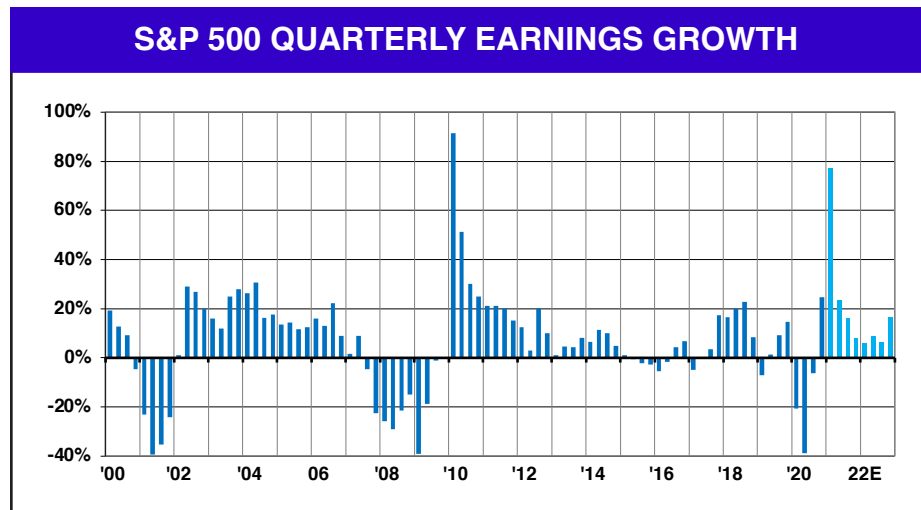
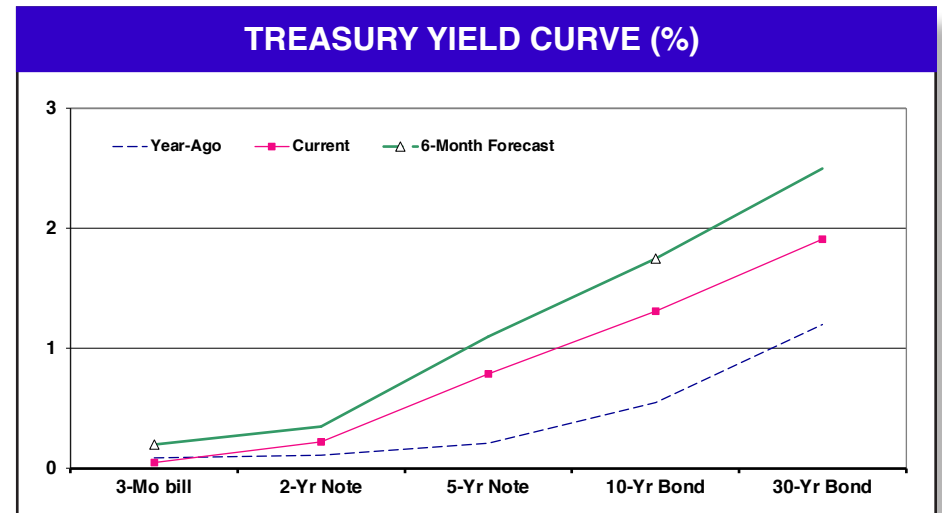
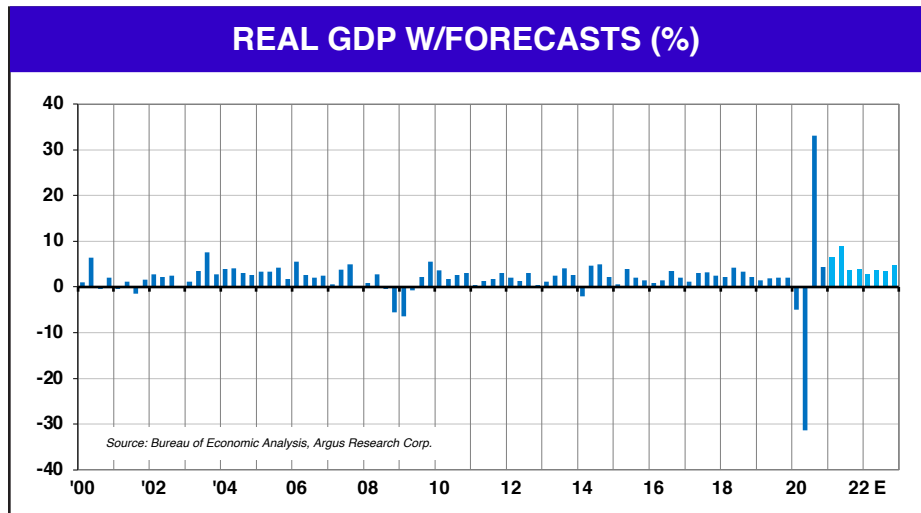
■ **Argus Quick Notes**

- High Yield Stocks
- Activist Stocks
- Companies Raising Guidance
- Analysts Raising Target Prices
- Find these on the homepage of our website

■ **The Argus High Yield Portfolio**

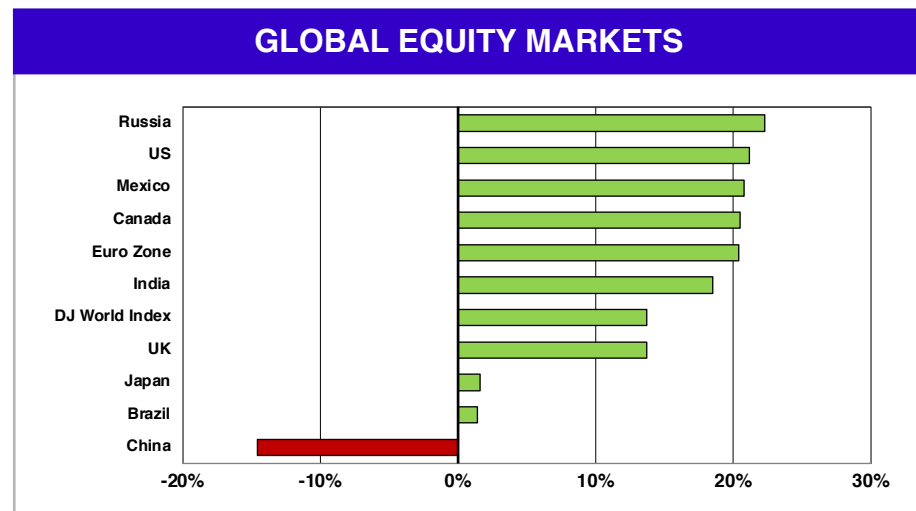
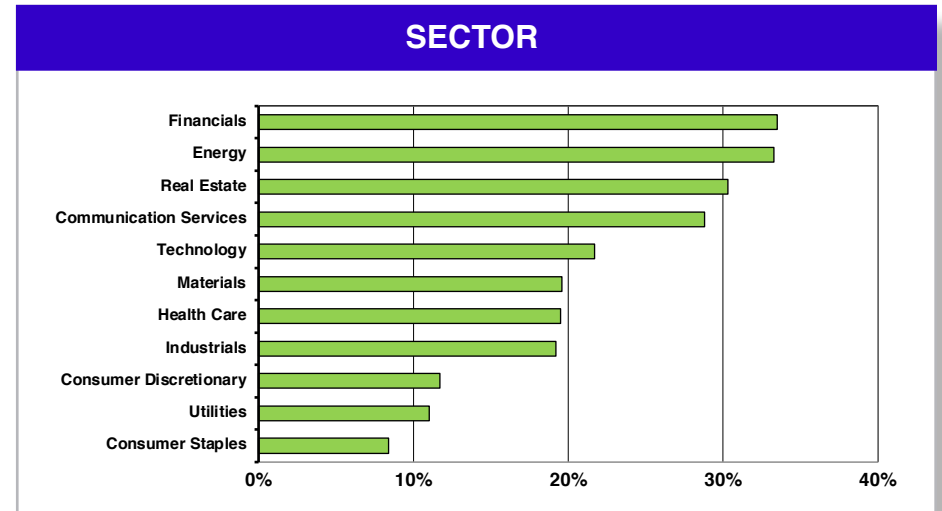
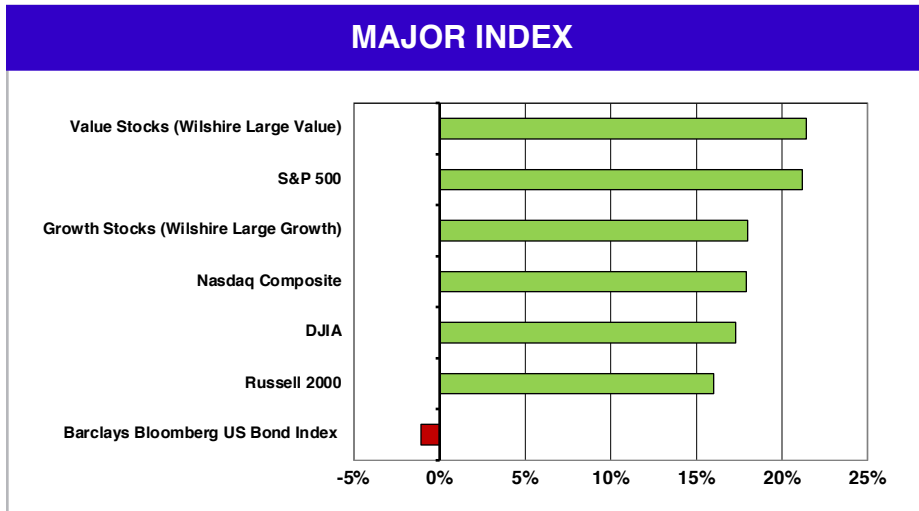
- Still-low bond yields are pushing investors toward high-yielding stocks
- Many income stocks are value stocks, with low P/S, P/BV, P/E
- We prioritize clean balance sheets, experienced management, quality earnings
- We avoid companies in secular decline or with too-high payouts
- Find information on the homepage of our website

MACRO FORECASTS



MARKET PERFORMANCE

DATA AS AUGUST 27, 2021



The Industrial sector accounts for 8% of the S&P 500

Our Recommendation is Over-Weight

Performance

- Sector up 16% through August vs 18% gain for broad market
- Trucking, Electrical Equipment, Building Products, Ag Equipment lead performance
- Air Freight, Conglomerates, Rails, Aerospace & Defense lag

Historical Perspective

- Sector lagged in 2019 as well.
- Headwinds have included trade wars, strong dollar, low oil prices, off-on Infrastructure plans.
- Sector, which includes many leading companies, at low end of historical market cap range of 7-12%.

Looking Ahead

- Weaker dollar could help export business
- Many companies raised guidance in 2Q; cost cuts becoming permanent
- Our focus is on clean balance sheets, dividend growth and experienced management teams

Old Dominion Freight Lines Inc. (ODFL: BUY)

- Macro view: Trucking has largest share of transport options.
- ODFL is a leader in the fragmented LTL segment of Trucking industry.
- Competitive advantage is delivery record & timeliness.
- Quality reputation allows it to charge a premium & then reinvest in business.
- 2Q EPS up 85%, revenue up 47%.
- Operating margin improved 550 bps to 27.7%.
- We once again raised our EPS estimates.
- Company raised dividend 33% in February.
- Bullish technical pattern.
- Also on BUY list: JBHT, CSX, NSC, UNP, UPS, FDX

L3Harris Technologies Inc. (LHX: BUY)

- Better growth profile than peer group.
- Communications & electronic systems for government & commercial clients.
- Wrapping up merger integration of L3 Systems.
- 2Q EPS up 15%, revenue up 6%.
- Operating margin improved 40 bps to 18.6% -- high for military contractor.
- Management raised guidance for 2nd time.
- Still conservative – our estimate is above range.
- Company raised dividend 20% in February.
- Bullish technical pattern.
- Also on BUY list: RTX, GD, NOC, LMT, BA

Carrier Corp. (CARR: BUY)

- Split off last year from old United Technologies.
- Stock price never looked back; up 30% in past quarter, 108% in past year.
- 2Q earnings rose 94% as net sales rose 31%.
- Operating margin widened to 15.1%.
- Management once again raised guidance.
- Note that company was transparent throughout pandemic.
- Company raised dividend 50% in December.
- Management's goals are MSD sales growth and HSD EPS growth.
- Bullish technical pattern.
- Also on BUY list: TT, EMR, JCI, HON, OTIS

3M Corp. (MMM: BUY)

- Businesses include Safety & Industrial, Transportation & Electronics, Healthcare, Consumer.
- \$112 billion market cap.
- Upgraded in February 2021, as we noted management making progress on improving earnings quality – stock had started struggling in 2108.
- 2Q EPS up 44% on 21% organic revenue growth.
- Operating margin widened 240 basis points to 22.0%.
- FCF = 103% of net income.
- Management once again raised guidance.
- Also on BUY list: HON, ITW, ROP
- Special Situation: GE

Xylem Inc. (XYL: BUY)

- New to Argus coverage.
- Mid-cap company focused on solving water issues.
- Water Infrastructure (transport, treatment, delivery); Applied Water (residential, commercial services); Measurement & Control Solutions (smart meters).
- 2Q EPS up 144% on 11% revenue increase.
- EBIT margin widened 200 bps to 17.3%.
- Management once again raised guidance.
- Bullish technical pattern since May 2020.
- Also on BUY list: BMI, ROP, WMI, RSG, ECL

Recent Ratings Changes

- MMM, GD, RTX, VNT, XYL, CP, LDOS

Recent Target Price Changes

- MMM, CARR, CFX, ETN, EMR, GNRC, JCI, LHX, ODFL, OTIS, ROP, TT, UNP, XYL

Top ESG

- LMT, RTX, NOC, OC, DE, TT, CAT, CMI, EMR, MMM, UPS

Dividend Growth

- CTAS, FAST, ITW, LHX, NOC, NSC, ODFL, PH, ROP, TT, UNP

Dividend Yield/Value

- MMM, LMT, CMI, DG, RTX, CAT, ITW, UPS, FAST

Texas Instruments (TXN)

- Target Price \$225
- Industrial and Automotive will represent up to 63% of 2021 sales, vs 57% for 2020
- Leading provider of analog chips, including signal chain and power, to global industrial customers.
- TI products enable factory automation, advanced sensing, M2M communications.
- Industry leading FCF generation and relentless focus on shareholder return.

Analog Devices (ADI)

- Target Price \$180.
- Industrial and Automotive represented 73% of 3Q21 sales, vs 64% a year ago.
- Recently completed acquisition of Maxim Integrated, increasing market breadth in the high-performance analog semiconductor market.
- ADI's two key markets of industrial and automotive feature long product life-cycles, "sticky" customer relationships and high margins for mission-critical products.

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