Industrial Insights: Early-Cycle and Secular Growth Ideas

The Baird Industrial Insights publication is intended to provide a current reference for relevant industrial themes and trends impacting the sector. In this publication, Baird's industrial analysts highlight investment ideas aimed at the early recovery portion of the economic cycle, while also delineating investable secular growth themes likely to drive longer-term outperformance. Please contact the appropriate Baird senior analyst for additional information on respective topics.

- With a COVID-19 recession developing, Baird industrial analysts highlight the opportunity set into the early portion of a future recovery...
  - "Despite weakening trends, historically freight transportation models tend to broadly outperform during periods of economic recession, most notably the cyclical truckers." (Transports)
  - "Industrial Supply distributors have historically outperformed the market into and during recessions (and for several years thereafter), making the current ugly economic setup favorable for the stocks overall." (Industrial Distribution & Services)
  - "Expect investor sentiment to turn most favorably toward new residential construction and professional tools; conversely, areas such as high-ticket discretionary repair/remodeling and nonresidential construction will lag the recovery." (Building Products)
  - "We are more bullish on the Packaging sector (consumer behavior is likely to benefit the food packagers through prolonged higher growth rates that could eventually yield valuation multiple expansion) while staying highly selective on the Coaters." (Packaging & Coating)
  - "The automotive suppliers typically track in line with the market through early cycle. Commercial vehicle stocks are mostly driven by mid-cycle demand from fleet replacement; for freight-hauling trucks, rising freight activity drives up utilization/pricing which supports fleet expansion." (Auto & Truck)
  - "The short-cycle opportunity set is limited in Machinery but more prevalent for industrial component and consumable suppliers (quick changes in orders and production given book-and-ship nature of the business) in the Diversified Industrial portion of our coverage." (Diversified Industrial & Machinery)
  - "In an early-cycle environment, we view aerospace aftermarket companies with a cost savings value proposition as most likely to benefit as traffic recovers coming out the other side of the pandemic." (Aerospace & Defense)
  - "We think utility-scale solar demand will be relatively resilient in 2020, as it is largely insulated from fluctuations in oil pricing with most manufacturing viewed as essential; residential installations have slowed though we think headwinds are priced in." (Energy Technology & Resource Management)

- ...while also pointing out secular growth themes likely to drive longer-term outperformance.
  - "The COVID-19 crisis will result in adjustments to business practices while adding urgency to reprioritize investment in 5G rollouts and automation, e-commerce fulfillment, supply chain and manufacturing." (Advanced Industrial Equipment)
  - "A U.S. Industrial Renaissance is plausible though not guaranteed. Several structural winners likely come out of this recession, including regionalization (localized/tighter supply chains, risk management), remote connectivity/IoT, automation and network support while quality balance should provide differentiation given increased optionality." (Process Controls)
Current Insights and Trends by Industrial Research Sector

We summarize recent industrial trends across Baird’s Industrial Research platform.

To add additional context, we organize commentary by each sector’s general positioning within the business cycle, starting with early-cycle industrials (Transports) and ending with late-cycle industrials (Construction).

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Industry Thoughts

- **Supply chain volatility and economic uncertainty should support outperformance for transports, broadly.** Recent channel work has reflected what appears to be the beginning of the transition from recent strength in more spot/expedited modes since the onset of COVID-19-related supply chain disruptions to broadly weakening volume trends given the destruction in aggregate demand. We expect expedited transportation modes (i.e., airfreight, truckload) to see outsized benefit from elevated supply chain volatility created by COVID-19. Despite weakening trends in recent days, expectations for material deterioration in 2Q20, and no visibility to the timing or pace of recovery, historically freight transportation models tend to broadly outperform during periods of economic recession, which we expect supports relative performance of our covered companies in coming months (most notably among cyclical truckers). Volume weakness should not be a surprise in the context of deteriorating economic fundamentals in recent days, but we continue to assert that an early-cycle environment provides opportunity for investors among quality transports.

Stock Ideas

- **KNX.** We continue to view expedited freight modes (including truckload) as the best way to position for elevated supply chain volatility and a trough in fundamentals during 2020 (likely 3Q/4Q, though visibility is obviously limited). Cyclically, truckers (including KNX) tend to outperform during US recession, and we believe scaled, hybrid (asset-based and asset-light sources of revenue) models are well-positioned to take share during periods of economic stress as smaller carriers are pressured by the difficult operating environment. We suspect industry capacity rationalization to accelerate in coming months, which should provide a backstop to contractual pricing negotiations later in 2020, favoring scaled truckload carriers. KNX’s outsized exposure to spot truckload fundamentals provides an additional catalyst relative to other truckers when volumes do recover, supporting above-market EPS growth as fundamentals improve.

- **WERN.** Similar to KNX, WERN is well positioned to benefit from rising supply chain volatility and a trough in economic fundamentals during 2020 for the reasons stated above. Additionally, WERN’s outsized exposure to more contractual, dedicated arrangements and off-price/discount retail customers creates a unique source of earnings resilience during a downturn. Though eventual destruction to aggregate demand trends remains largely unknown, we continue to believe the supply chain disruptions related to this crisis will be most directly beneficial, among surface transportation modes, to truckload fundamentals -- with quality truckload models such as WERN well-positioned to weather the current crisis and serve customers amid the expected continuation of dislocations across supply chains.

- **FDX.** We believe FDX is well positioned to benefit from a reacceleration in global airfreight trends as well as the current capacity-constrained airfreight environment given reductions in global supply as a result of COVID-19. Calling the precise trough in this pandemic is obviously impossible and negative mix shift from deteriorating B2B volumes/associated margin degradation will be a headwind to bottom-line improvement in the near term (but we believe these risks are increasingly well known among investors). Notably, AMZN-related noise has been meaningfully reduced given actions taken over the last year to reduce exposure and AMZN’s recent suspension of its “Shipping with Amazon” program. We believe FDX offers the most leverage among our coverage universe to any global economic recovery if/when the COVID-19 pandemic is contained – however, FDX’s leverage (and associated covenants) and near-term pressure to EBITDA/cash flow are risks to near-term relative outperformance.
Industry Thoughts

- **We have taken a more constructive view on Industrial Supply distributors** as the US economy tips into recession and cyclical relative performance factors align positively. We are favorably inclined nearly across the board, as the stocks have all underperformed the market by recession-like amounts.
- **Industrial Supply distributors have historically outperformed the market into and during recessions** (and for several years thereafter), making the current ugly economic setup favorable for the stocks overall.
- **We expect episodes of weakness to provide opportunities** as the recession unfolds and estimates fall but recommend scaling into the group as economic conditions worsen.

Stock Ideas

- **FAST.** Fastenal is emblematic of the group and should continue to outperform during and after recession. With no debt, high-touch value-add strategy, trading liquidity and 3%+ dividend yield, we view FAST as a best-in-class company with low long-term risk.
- **MSM.** Smaller capitalization and among the highest “industrial beta” stocks on our coverage list, MSM has underperformed the market by more than 40% over the past three years, resulting in a 5%+ dividend yield at current levels, with very little net debt. While we expect EBITDA to fall by nearly half, under pressure from weak metalworking industries (many feeding aerospace, automotive and heavy equipment), the stock has underperformed by more than a typical recession-like amount, which we think sets up a favorable risk/reward from here.
- **GWW.** “Dividend Aristocrat” Grainger has a mixed, but overall in-line stock performance track record over the past decade, despite management change, acquisitions, pricing adjustments and digital investments, among other disruptive initiatives. With manufacturing mix <30% and best-in-class digital platforms, GWW could benefit if some customers gravitate to low-touch ecommerce platforms during and after the crisis.

Industry Thoughts

- **Packaging.** The consumer facing end markets are booming, driven by a substantial ramp in consumer product purchasing, customer inventory ramps, and a shift towards at-home consumption, creating a dynamic that disproportionately favors packaged food—noting that we believe that while the current volume surge is unsustainable, the inherent stickiness of consumer behavior is likely to benefit the food packagers in terms of prolonged higher growth rates that could eventually yield valuation multiple expansion (as seen in the metal beverage can niche).
- **Coaters.** Operating backdrop is materially more mixed given that the likelihood of a global recession will further weigh on already weak industrial end markets (as seen in auto OEM/machinery/general industrial / construction), noting that although the impacted end markets could reaccelerate rapidly in the scenario that a therapeutic solution quells the ongoing health risks from COVID-19, lower raw material costs, depressed interest rates, and fiscal/monetary stimulus are likely to only partially offset the ongoing demand degradation from large scale economic shutdowns.
- **As such, we are incrementally more bullish on the Packaging sector while staying highly selective on the Coaters,** with both Ball Corporation and Berry Global likely to outperform given the current operating backdrop on the Packaging side, which includes an oversold North American beverage can market (benefitting BLL) and strong demand within the consumer staples/healthcare product categories (70% of BERY revenue base), while the franchise strength of Sherwin-Williams across the North American architectural coatings market underlies its backing of our top pick amongst the Coaters.
Stock Ideas

- **BLL.** Ball is particularly well positioned within the current operating environment, noting that the company’s entire product portfolio (beverage cans / aerospace) has been deemed “essential goods and services.” As such, recent check-ins with the company have revealed that all plants and facilities are running, noting that employee absenteeism does not appear to be a significant issue either. From a demand perspective, we note that beverage demand has boomed over the last two years and continues to do so, particularly as at-home consumption has accelerated over the past month. Specifically, our team estimated that prior to the COVID-19 outbreak, 60% of beer was consumed “off-premise,” with the outbreak serving as a catalyst driving that number much higher. On the CSD side of the portfolio, we note that stay-at-home orders offer an additional opportunity as consumers turn to packaged beverages amidst bar/restaurant closures. Lastly, we highlight that the significant capacity additions Ball has undertaken in the last 18 months have prepared the company well for the current scenario, noting that Ball will be more insulated from “growing pains” (i.e. operational issues / ramp up complexity) relative to the rest of the group given that many of these issues are largely behind the company and thus will offer opportunities to generate favorable operating leverage.

- **BERY.** With 70% of its portfolio exposed directly to consumer staple end markets, Berry sits in a favorable position from a demand perspective, noting that items such as rigid food containers, sanitizer bottles, and wipes should continue to see outsized growth. Moreover, the company’s organic volume targets across its business remain on track, remembering that concerns over organic improvement have been a key factor in the stock’s de-rating over the past year. Additionally, resin prices remain biased lower and while the raw material cost basket is not necessarily declining at the pace at which oil is, deflation off already low levels should sum to a favorable cost basket and also place the company in an attractive spot as it comes to realizing its FCF target. Meanwhile, the other area of investor concern, leverage, does not appear to pose any major issues at current, noting that Berry has ample liquidity and no financial covenants at current. With the stock currently trading at ~7x ’20E EV/EBITDA (versus the Packagers at ~9x) and a FCF yield of 16% (Packagers at 8.5%), Berry is clearly poised for multiple expansion that should come to fruition as progress on organic improvement continues to be made and demand remains resilient in the face of significant uncertainty and waning sentiment.

- **SHW.** Given its strong franchise and leading position in the North American architectural Coatings market, Sherwin-Williams remains a top pick across our Coatings coverage. In terms of catalysts that will prove beneficial in the current environment, the company has commented that DIY project demand is booming and we note that while Sherwin is a leader in serving the Pro painter, its strong DIY business offered via its exclusive partnership with Lowe’s will fare well in the current environment. As it pertains to servicing Pros, the company is keeping stores open for pickups and deliveries, noting that its company owned fleet of vans and trucks across the U.S. will effectively serve customers in these unprecedented times. Additionally, construction activity has been deemed essential in most of the U.S., noting that while precautions are being put in place to ensure distancing, activity is nonetheless proceeding. These dynamics, coupled with a much more favorable interest rate environment and a counter-cyclical raw material cost basket should all prove favorable for Sherwin in the near term, underlying our top pick designation on the name.

### IV. Global Auto & Truck

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#### Industry Thoughts

- **Automotive suppliers.** The automotive suppliers typically track in line with the market through early-cycle and intra-cycle moves. The stocks tend to be early discounting cyclical downturns before the broader market; the higher-risk stocks (balance sheet, business model, etc.) typically discount the upcycles and downcycles more quickly than the group as a whole. Demand for autos is driven by replacement demand (80-85% on average that can be postponed), household formation, income, rising employment, and, in less mature markets, growing vehicle penetration. Inflections in consumer confidence, income, and employment are classic macro-economic data points for tracking auto demand…these are mostly “early-cycle” economic indicators. Secular growth opportunities focus on electronic content, safety/self-driving technologies, and fuel efficiency (electric and combustion powertrains) (Recent Thoughts on Suppliers – [link](#)).
• **Commercial vehicles.** Commercial vehicle stocks are mostly driven by mid-cycle demand from fleet replacement, with incremental demand driven by strengthening economic indicators, especially housing, automotive, and energy. For freight-hauling trucks, rising freight activity drives up utilization/pricing which supports fleet expansion. This “boom/bust” cycle has been seen multiple times over the course of recent economic cycles. Demand is also driven by tax-supported entities (local, state) which tend to drive mid/late cycle demand for medium-duty/service vehicles (busses, utility, refuse) along with package delivery. Also, many companies have exposure to construction, mining, and energy demand.

**Stock Ideas**

• **ALSN.** Among the best business model in the “industrial” space, with over 60% global market share, near 20% after-tax ROIC, and FCF margin in excess of 20%. Has less exposure to the more-cyclical parts of the truck market (long-haul freight), with exposure to vocational applications (package delivery, refuse, bus, emergency). There is exposure to construction, mining, and energy, but those end markets are already meaningfully lower. Additionally, rock-solid capital structure reduces financial risk (link).

• **APTV.** The company has exposure to most every secular theme across the automotive, commercial vehicle and industrial end markets. In auto, active safety is moving to autonomous driving and robo-taxis. Also, well positioned for electrification and next-gen signal/data/power distribution systems through vehicles. Growing non-auto market exposure moderates some of the cyclical elements of the business.

• **CMI.** The company has a strong track record of delivering market share gains and high returns/cash flow over time. We believe near-term concerns regarding electrification are misplaced (strong portfolio of technologies for electrification), while diesel engines continue to drive growth (increasingly stringent emissions regulations, scale in diesel, technology).

• **GNTX.** This is the best business model in the auto supplier space – dominant market share (>90%), group-leading after-tax ROIC (near 30%) and secular growth drivers (higher content per vehicle driven by next-gen technologies) and debt-free balance sheet with $2/share in cash.

• **LFUS.** Broadest exposure to next-gen technologies moving into auto, truck and industrial applications. In autos, an internal combustion vehicle has $4 of content, a hybrid has $10 and an EV has $20. Investments in next-gen technologies (power semiconductors) further expand the breadth of the growth opportunity.

• **PCAR.** We believe PACCAR’s strong business model and capital structure (sometimes called “too conservative”) serves the company well through this period. We are attracted to the sector-leading ROIC, debt-free balance sheet, and PACCAR’s ability to steadily gain share cycle to cycle.

**Industry Thoughts**

• **Early cycle in building products: residential new construction, professional tools.** In an early-cycle environment, we expect investor sentiment to turn most favorably toward new residential construction within our coverage universe, which offers the most cyclical growth opportunity. Generally, lower price points should see a recovery first although this wasn’t the case from the Great Recession and might not be the case with COVID-19 particularly should lower-income families face the brunt of this recession again. Another area of related opportunity is products serving builders and contractors, such as professional tools. On the other hand, we think areas such as high-ticket discretionary repair/remodeling will lag the recovery. Furthermore, given the historical relationship, nonresidential construction should also lag any recovery in residential construction.

• **Secular opportunities in building products: energy efficiency, batteries.** While the building products market doesn’t typically offer extensive secular growth potential, several themes exist including the push for energy efficiency and the emergence of battery technologies. Energy efficiency is consistent with the broader social responsibility push while also offering financial payback. Areas that could benefit include building envelope, HVAC, and lighting. The emergence of battery technologies has also expanded into areas such as power tools and outdoor power equipment.
Stock Ideas

- **SWK.** Tools business should benefit from early-cycle dynamics as contractors purchase tools in anticipation of stronger business conditions, with retailers also possibly restocking the channel. SWK also has modest exposure into industrial tools and automotive fasteners, both of which are also early-cycle markets. From a secular perspective, SWK should benefit from its expertise in battery technology as the company pushes this technology from power tools into outdoor products. Lastly, we expect SWK’s historical track record of relatively fast restructuring and streamlining to help drive leverage as demand improves.

- **CSL.** Carlisle offers exposure toward secular growth through its Construction Materials business (~70% of sales, ~90% of EBIT), which provides membranes and insulation for commercial buildings. Both products are compatible with increasing energy efficiency of buildings, and the market has benefitted both from this dynamic and an ongoing roof replacement cycle. While the company is not immune to macro challenges (deferrals of roof replacements, non-Construction businesses), raw material deflation (oil-based) and FCF generation offer strong buffers.

- **TTC.** Toro could benefit from early-cycle dynamics as the company’s Professional business offers equipment for landscape contractors, golf courses, and construction jobsites. TTC is also positioned to benefit from the secular shift towards battery technology, given the company’s scale and commitment to R&D, which likely position the company better than its many privately-held competitors.

Industry Thoughts

- **We see the global COVID-19 pandemic and response to it, reinforcing, if not acting as an incremental catalyst, to secular themes underlying our Advanced Industrial Equipment coverage.** We believe the COVID crisis will permanently result in adjustments to certain business practices, add urgency and alter strategies to re-prioritize investment in: 5G rollouts and automation investment in e-commerce fulfillment, supply chain, and manufacturing.

- **5G investment.** As a response to global COVID-19 “social distancing” mandates, increased network volume, expanding use-cases for network capacity, accelerated on-line project collaboration have resulted in network congestion, heightened demand for bandwidth and speed for communication networks. The global COVID response has interrupted the pacing of infrastructure development, deployment and the supply chain for components for both infrastructure and 5G IoT device introductions. However, we expect investment in fifth generation communications infrastructure (sub-6 and mmW) as well as device introductions to remain a global priority and reaccelerate with heightened urgency as global COVID curves flatten/fade.

- **Increase investment in logistics.** A recent “Logistics” expert call hosted by Baird analysts Sebastian and Hartford reinforced the potential paradigm shift in e-commerce fulfillment post the COVID pandemic suggesting: “increased investment in robotics as labor is a key constraint since humans can get sick and robots cannot”; b) also, investments to make the supply chain more “responsive” rather than “a singular focus on efficiency.” These investments entail more square footage, more automation and inventory (to track). Further, accelerated automation investment in “grocery” was singled out.

- **Investment in re-shoring.** The fiscal policy response to COVID-19 initiated by Congress of $2.2T may have strings attached, but we expect political pressure to require or encourage “re-shoring of manufacturing,” with possible early emphasis on medical/pharmaceutical production. In re-shoring, automation would be required to be economically competitive.

Stock Ideas

- **KEYS.** Global leader in electronic test, including ~25% market share in Communications test. KEYS has expanded its “solutions” offering across the 5G eco-system where its early leadership in R&D design/simulation is being leveraged into validation/manufacturing and eventually into operations test. KEYS is also investing to support customer nascent development efforts in next generation technology advances in 6G and quantum computing.
**NATI.** NATI’s technology portfolio and sales organization is increasingly well situated to benefit as the 5G investment cycle migrates toward validation/manufacturing test (infrastructure and device). We expect the 5G investment cycle to accelerate NATI’s revenue growth rate over the next few years.

**ZBRA.** ZBRA possesses significant footprint in logistics space with its existing portfolio; no warehouse robots today (recently introduced a robot for storefront applications). Also has minority (small) investments in Fetch and Locus Robotics (two leading startup warehouse robot companies).

See here for broader discussion of relevant AIE companies.

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**Industry Thoughts**

- Several structural winners from a thematic perspective likely come out of this recession, including regionalization (localized/tighter supply chains, risk management), remote connectivity/IoT (accelerating a core theme already in place. Best-in-class products with connectivity capabilities are clear winners), automation (worsening global demographics, onshoring potential, returns focused, etc., all supporting a greater automation push), network support (5G, distributed demand generation, alternative energy, data centers), and quality/balance sheets (increased optionality). We strongly believe that there will be greater winners and losers emerging this upcoming cycle, with quality and exposure to attractive themes/secular drivers as key points of differentiation.

- A U.S. Industrial Renaissance is plausible (though not guaranteed). China manufacturing concentration (which companies were already diversifying away from on our coverage list), negative sentiment around China supply chain exposure, increased tariffs, and shifting risk management parameters (i.e., more regionalization) could push more manufacturing to the States. This could also be bullish for Mexico. An industrial renaissance in the U.S. is a real possibility, and capex to support this would likely include significant automation, IoT/connectivity, and network support. We recognize that near-China approach is another plausible scenario, though we do not believe this is a binary decision (i.e., many regions could be net beneficiaries, to China’s detriment).

- Attractive cycle potentially ahead beyond next ~6-18 months of choppiness; alpha in part lies within timing end-market/cycle recoveries. The past ~10 years can be largely characterized as a margin cycle with more limited volume gains. The reality is that a recession could in a sense reset the table for a much more favorable investment cycle for the industrial complex and serve as a potential catalyst to provide incremental confidence to drive real capex decisions (following a prolonged period of underinvestment and significant uncertainty constraining capex decisions) that are return enhancing, necessary, and ultimately create an avenue toward a multi-year growth cycle. To that end, we do not expect the recovery to be even across end markets from a timing perspective over the next ~6-18 months. We expect early-cycle industrial to lead out of the recession, followed by residential, municipal/commercial lagging further, and finally a true late-cycle rally materializing (more commodity centric, where we remain cautious for now on the timing/demand outlook).

- PC stocks stand to be key beneficiaries of these themes and our current ratings are aligned accordingly with a barbell approach toward early/short-cycle industrial companies (significant outperformance off of the bottom, but greater risk) and secular/quality growth themes (winners through a cycle). This is consistent with Stage 2 investing of our PC Recessionary Playbook (see notes Here and Here).

**Stock Ideas**

- **GNRC.** The combination of relative defensibility of the portfolio, exceptional balance sheet, and significant long-term earnings power potential from clear secular drivers (clean energy, CA HSB, 5G, distributed generation, etc.) leave us bullish on the name and it remains our top idea. More recently, the massive shift toward WFH and shelter-in-place policies potentially creates a compelling dynamic in what logically could result in an increase in the importance of reliable continuous power (security of power) and connectivity (5G/communications) at home, all of which support the ongoing distributed generation theme that GNRC sees as secular drivers long term. For perspective, GNRC is one of two companies on our coverage list where 2021 earnings have a chance to reach/exceed previous peak, in our view.
• **NDSN.** NDSN is a rare combination of defensive (~55% aftermarket/consumables, ties to more stable markets, timing of semi recovery) and offensive (1.5-2x GDP grower long term) capabilities. Further, NDSN fits squarely within the attractive automation theme mentioned above, given leading technological positions in various precision adhesive dispensing, processing, and coating applications across a wide/diversified array of end markets. Additionally, their exposure to electronics/semi (specifically new product cycles, many of which are tied to 5G investment themes) is a key piece to our bullish thesis/ability to outperform over the next -12+ months. All-in, NDSN is a high quality/cash-compounding industrial trading at an attractive entry point for outperformance through a cycle and we would note that, similar to GNRC, NDSN also has a chance to exceed/meet previous peak in 2021.

• **AIMC.** AIMC is our top idea that plays on our thesis of early/short-cycle stocks leading/outperforming out of a recession. Elevated leverage and cyclicality have resulted in sharp underperformance (though has clawed back some on recent rally) creating a highly attractive risk/reward setup on an intermediate-to-long-term horizon (recognizing near-term volatility likely persists). Further, AIMC has the cleanest and most direct exposure to increased investment in factory automation and specialty machinery (warehouse automation, robotics, advanced material handling; largely in the A&S segment). We see long-term upside in the $50-65/share range based on realistic 2023 EBITDA of +/- $430-470 million EBITDA at ~10-12x EV/EBITDA assuming a reasonable industrial backdrop beyond 2020 and as debt pay-down progresses.

### Industry Thoughts

**Short-cycle opportunity limited for Machinery names.** Most of our coverage generally operates with 3-6 months of backlog with changes in production aimed at appropriate lead time management and generally driven by multiple months of order intake. “Short-cycle” exposure in the traditional sense (meaning quick changes in orders and production given book-and-ship nature of the business) exists primarily in the Diversified Industrial portion of our coverage, with industrial component and consumable suppliers.

**In an “early-cycle” setting the companies most likely to see rapid sequential improvement in demand vs. recessionary lows would include PH, LECO and ITW.** From a near-term perspective, all three companies will experience sharp deterioration in demand and meaningful earnings pressure. That being said, all three stocks should react positively to sequential stabilization (declines getting “less bad”) as customer production schedules eventually stabilize.

**Stock ideas**

• **LECO.** Historically, LECO stock has outperformed by a wide margin in the early portions of the business cycle (2002-2003, 2009-2010, 2016). High consumables exposure (wires, electrodes) results in quick reaction to end-market changes. Good balance sheet (exited 2019 with net debt/adjusted EBITDA of 1.5x, minimal long-term debt due until 2023-2024), strong history of free cash flow generation and through-the-cycle execution provide credibility in uncertain market. The automation business is seeing near-term cyclical compression, but we see good potential in a recovery scenario.

• **PH.** Stock has a well-established pattern of outperformance in the early portions of the business cycle (2002-2003, 2009-2010, 2016). Aerospace is likely to remain a drag in the early portion of the recovery, but the relative size of the Industrial business, which reacts quickly to changes to cap goods activity (PMI, industrial production), should be able to drive meaningful earnings growth in a recovery. The company has good liquidity and ability to cover dividend, but the stock has lagged given higher leverage due to recent acquisitions which can provide additional room for outperformance as fundamentals bottom with manageable debt.
Early cycle in commercial aerospace: Aftermarket Parts Manufacturer Approved (PMA). In an early-cycle environment, we view aftermarket companies with a cost savings value proposition as most likely to benefit as traffic recovers coming out the other side of the pandemic. PMA parts offer significant cost savings to airline customers that have taken the brunt of the hit from the economic shut down and we see the aftermarket recovering first within commercial aerospace as the OEM cycle will be structurally damaged for at least 24 months and aircraft production down by more than 30% in 2020. With prior downturns such as 2001 and 2009 as an example, market share was gained by companies with a cost savings proposition to airlines in periods of increased attentiveness to costs.

Stock Ideas

- HEI. Coming out the other side of the COVID-19 pandemic, we see opportunities for long-term investors to add at current levels as HEI is well positioned to handle increased headwinds to the commercial aerospace industry and increase market share as traffic recovers.
  - HEI structural winner in post COVID-19. We view HEI to be the long-term structural winner post COVID-19 as airlines will remain under pressure to cut costs and HEI remains a key partner that works with 200 airlines globally. HEI currently has 11,500 parts and develops 300-500 new parts per year, which should grow as customers engage HEI to help reduce costs. Additionally, while robust traffic is the key for aftermarket demand, fleet age is less of a driver as HEI’s parts start to be consumed as soon as aircraft are off warranty in year six so fleet age concerns are overblown in our opinion.
  - Share gains in prior downturns. After previous downturns in 2001 and 2009, HEI grew its market share in PMA parts and we expect that to happen in 2021 and beyond as traffic begins to recover. Following the 9/11 attacks in late 2001, the HEI stock declined 26% in 2002, but was up 67% in 2003 and another 38% in 2004. In 2009, HEI declined by 17% following the Great Recession but rebounded, up 31% in 2010 and 40% in 2011. We expect a similar result as HEI is able to gain market share in periods that airlines are especially cognizant of costs.
  - Limited OEM and significant defense exposure paired with low leverage limits the downside. HEI has low-single-digit exposure to the aerospace OEM cycle, which will be structurally damaged for the next 24 months, making it positioned for growth as air traffic returns. Almost 50% of HEI’s revenue base is defense oriented and is expected to grow organically in the mid-single digits, unaffected by the pandemic. Finally, HEI’s net leverage is less than 1.0x EBITDA and its cash on hand along with a credit facility allows for over $800 million of liquidity. This allows the company to take advantage of M&A opportunities that management has indicated remain active in the defense space.

Industry Thoughts

- Limited “early-cycle” exposure across facility/industrial service stocks. The global Facility & Industrial Services market includes providers of outsourced business-to-business service solutions operating across an array of fragmented industries. The sectors under our Facility Services coverage universe include uniform rental services, mobile storage, commercial cleaning and sanitation solutions, commercial landscaping, pest elimination and other integrated building management solutions. Our industrial services coverage includes engineering and consulting (E&C) companies which provide engineering, design and consulting services as well as a subset of contractors providing specialty construction and other services. In general, our coverage is “late cycle,” tied to either construction activity or employment levels broadly (both of which are lagging economic indicators) and see service demand levels “cut” earlier in the economic cycle. Companies across our coverage list also generally employ variable cost structures and generally “scale” their operations to match expected revenue levels, with margins remaining generally consistent across the economic cycle. Similarly, our coverage offers little “secular” opportunity, with limited risk and/or benefit from innovation over time (e.g., “cleaning services”).
Stock Ideas

- **MINI.** Mobile Mini provides best “early-cycle” exposure. Mobile Mini is the No. 1 lessor of portable storage containers in the US with an estimated 25%+ market share, and also has operations in the UK. The company serves approximately 80,000 customers through its 155 branch network locations and leasing fleet of approximately ~200,000 storage solution units. The company’s core product is steel ocean-shipping containers, refurbished for secure mobile storage. Customers lease these products to store retail and manufacturing inventory, construction materials and equipment, household goods and for a variety of other applications. In addition, MINI also provides specialty containment tank and pump solutions, primarily for energy/industrial applications, through a fleet of ~13,000 pieces of specialty equipment.
  - Storage containers generally have long lives (30+ years) with low risk of obsolescence and minimal ongoing capital maintenance needs. Cash-on-cash returns for storage rental units are in the ~30% range with a ~three-year pay-back window. FCF is counter-cyclical (improves in a downturn) and boxes can be economically stored (stacked on top of each other at storage yards) and rapidly deployed across branches as demand recovers. True “economic” depreciation costs of storage assets are minimal and incremental margins on re-deployment of unutilized boxes can be in the 60%+ range, particularly at lower levels of utilization, where incremental capital investment needs are limited. Last cycle, shares of MINI outperformed the broader S&P 500 by ~60% from cyclical stock market lows in March 2009 and over the following two years as boxes were redeployed to the field as the economy recovered. Depending on depth and shape of recovery, we would expect similar early-cycle stock performance gains this cycle.
  - Further, we would highlight that the construction sector comprises ~40% of MINI’s revenue with industrial/commercial activity accounting for an additional 25%. Cyclical activity in these verticals could (and likely will) materially impact the company’s utilization rates and results.
  - MINI’s pending merger (announced in early March 2020) with mobile office leader WSC (all-stock merger of equals) is unlikely to impact the “early-cycle” nature of the stock, given similar industry/economic dynamics in mobile office rentals.

- **BBCP.** Concrete Pumping Holdings is another potential early-cycle opportunity across our coverage list, although the model is untested in the public markets during an economic downturn.

Industry Thoughts

- Broader agriculture market seems relatively favorable, with strong crush margins, the return of China to agriculture purchases, and a weaker Brazilian Real encouraging farmer selling. Strong soybean meal demand has helped support crush margins despite declines in soybean oil pricing, primarily driven by 1) Volatility in Argentina, which generally drives higher margins in RoW, and 2) strong meal pricing, potentially driven by DDG supply concerns (as ethanol production falls). Additionally, China has returned to the market with substantial agriculture purchases and falling FX rates in Brazil appears to be encouraging farmer selling. We think these factors should create a favorable earnings environment for the ag processors.
- We also think the solar market could fare well in a recession; manufacturing has continued, we expect utility-scale solar demand to be resilient in 2020, and the tax equity market appears healthy. We think utility-scale solar demand will be relatively resilient in 2020, as it is largely insulated from fluctuations in oil pricing and most manufacturing is viewed as essential. Importantly, our checks indicate the tax equity market is healthy (despite some investor concerns about availability of financing) which we view favorably. Residential installations have seen a slowdown, though we think headwinds are priced into stocks at current levels and we expect demand will rebound as shelter-in-place notices are lifted. In our view, residential stocks have fully priced in headwinds, as highlighted by RUN’s (not covered) positive stock reaction after withdrawing 2020 guidance.
- We also think utility investments will continue relatively uninterrupted, which is favorable for ITRI. Given the long utility capex planning cycle (and opportunity for
stimulus and/or replacement demand), we think investments will continue which is favorable for both ITRI and water utilities under our coverage. Since 2009, utility capex (measured using the sum of 56 U.S. water, gas, and electric utility disclosures) has grown at a ~5% CAGR, and we think publicly announced investment targets for 2020+ provides some out-year revenue visibility. Additionally, we think there is opportunity for replacement meter demand (~28% of the ~85M smart meters deployed in the United States are over 10 years old and nearing the end of useful life) and potential stimulus (similar to 2008/2009 time frame) could support top-line growth despite impacts of a potential recession.

Stock Ideas
- **ITRI.** We think ITRI is well positioned to weather virus-related headwinds, given stable (and growing) end-market demand, our belief there will be minimal disruptions to the supply chain/production, and longer-term demand visibility (utility capex targets and replacement demand). Additionally, we think ITRI’s balance sheet is solid, particularly following the recent ~$400M revolver draw down. We remain buyers at current levels and recommend shares for investor looking for exposure to secular growth in the smart grid space.
- **ADM and BG.** We think both ADM and BG are positioned to weather macro uncertainty from COVID-19: crush margins have been strong, China has restarted agriculture purchases, and Brazilian Real weakness should support farmer selling. We think both names have healthy balance sheets and durable cash flows, which should support solid dividends (3.9% and 4.9% yield for ADM/BG, respectively) and we believe valuation is extremely attractive at current levels. We would use YTD weakness as a buying opportunity for the sector.
Best ideas across Baird's Industrial Research platform are summarized below.

Please contact the respective analyst(s) for additional details.

**Early Cycle Ideas**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Ticker</th>
<th>Market Cap ($M)</th>
<th>Key Investment Points</th>
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</thead>
<tbody>
<tr>
<td>Baird Industrial Research – April 2020</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FedEx Corporation</td>
<td>FDX</td>
<td>$31,948</td>
<td>We believe FDX is well positioned to benefit from a reacceleration in global airfreight trends as well as the current capacity-constrained airfreight environment given reductions in global supply as a result of COVID-19. Calling the precise trough in this pandemic is obviously impossible and negative mix shift from deteriorating B2B volumes associated margin degradation will be a headwind to bottom-line improvement in the near term (but we believe these risks are increasingly well-known among investors). Notably, AIAZV-related noise has been meaningfully reduced given actions taken over the last year to reduce exposure and AIAZV’s recent suspension of its “Shipping with Amazon” program. We believe FDX offers the most leverage among our coverage universe to any global economic recovery, even in the COVID-19 pandemic is contained – however, FDX’s leverage (and associated covenants) and near-term pressure to EBITDA/ACF low are risks to near-term relative outperformance.</td>
</tr>
<tr>
<td>Knight-Swift Transportation Holdings Inc.</td>
<td>KNX</td>
<td>$5,947</td>
<td>Similar to KNX, WERN is well positioned to benefit from rising supply chain volatility and a trough in fundamentals for 2020 for the reasons stated above. Additionally, WERN’s outsized exposure to more contractual, dedicated arrangements and off-price/discount retail customers creates a unique source of earnings resilience during a downturn. Though eventual destruction to aggregate demand trends remains largely unknown, we continue to believe the supply chain disruptions related to this crisis will be most directly beneficial, among surface transportation modes, to truckload fundamentals – with quality truckload models such as WERN well positioned to weather the current crisis and some customers amid the expected continuation of dislocations across supply chains.</td>
</tr>
<tr>
<td>Werner Enterprises, Inc.</td>
<td>WERN</td>
<td>$2,685</td>
<td>Similar to KNX, WERN is well positioned to benefit from rising supply chain volatility and a trough in fundamentals for 2020 for the reasons stated above. Additionally, WERN’s outsized exposure to more contractual, dedicated arrangements and off-price/discount retail customers creates a unique source of earnings resilience during a downturn. Though eventual destruction to aggregate demand trends remains largely unknown, we continue to believe the supply chain disruptions related to this crisis will be most directly beneficial, among surface transportation modes, to truckload fundamentals – with quality truckload models such as WERN well positioned to weather the current crisis and some customers amid the expected continuation of dislocations across supply chains.</td>
</tr>
<tr>
<td>Fastenal Company</td>
<td>FAST</td>
<td>$19,311</td>
<td>Fastenal is emblematic of the group and should continue to outperform during and after recession. With no debt, high tech value-add strategy, trading liquidity and 5+ year dividend yield, we view FAST as a best-in-class company with low long-term risk.</td>
</tr>
<tr>
<td>Grainger, W.W., Inc.</td>
<td>GWW</td>
<td>$15,021</td>
<td>&quot;Dividend Aristocrat&quot; Grainger has a mixed, but overall in-line stock performance track record over the past decade, despite management change, acquisitions, pricing adjustments and digital investments, among other disruptive initiatives. With manufacturing mix &lt;30% and best-in-class digital platforms, GWW could benefit if some customers gravitate to low-touch e-commerce platforms during and after the crisis.</td>
</tr>
<tr>
<td>MSC Industrial Direct Co., Inc.</td>
<td>MMB</td>
<td>$3,345</td>
<td>Smaller capitalization and among the highest &quot;Industrial beta&quot; stocks on our coverage list, MSM has underperformed the market by more than 40% over the past three years, resulting in a 5+ year dividend yield at current levels, with very little net debt. While we expect EBITDA to fall by nearly half, under pressure from weak metal working industries (many leading aerospace, automotive and heavy equipment), the stock has underperformed by more than a typical recession-like amount, which we think sets up a favorable risk/reward from here.</td>
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**Ghandham Panjabi, PhD - Packaging & Coatings**

<table>
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<tr>
<td>Bery Global Group, Inc.</td>
<td>BERY</td>
<td>$4,965</td>
<td>With 70% of its portfolio exposed directly to consumer staple end markets, Bery sits in a favorable position from a demand perspective, noting that items such as rigid food containers, sanitizer bottles, and wipes should continue to see outsized growth. Moreover, the company’s organic volume targets across its business remain on track, remembering that concerns over organic improvement have been a key factor in the stock’s de-rating over the past year. Additionally, resin prices remain biased lower and while the raw material cost basket is not necessarily declining at the pace at which oil is, deflation off already low levels should sum to a favorable cost basket and also place the company in an attractive spot as it comes to realizing its FCF target. Meanwhile, the other area of investor concern, leverage, does not appear to pose any major issues at current, noting that Bery has ample liquidity and no financial covenants at current. With the stock currently trading at ~7x 20E EBITDA (versus the Packaging at ~9x) and a FCF yield of 16% (Packagers at 8.5%), Bery is clearly poised for multiple expansion that should come to fruition as progress on organic improvement continues to be made and demand remains resilient in the face of significant uncertainty and waning sentiment.</td>
</tr>
</tbody>
</table>
**Tools business should benefit from early-cycle dynamics as contractors purchase tools in anticipation of stronger business conditions, with retailers also possibly restocking the channel. SWK also has modest exposure into industrial tools and automotive fasteners, both of which are also early-cycle markets. From a secular perspective, SWK should benefit from its expertise in battery technology as the company pushes this technology from power tools into outdoor products. Lastly, we expect SWK’s historical track record of relatively fast restructuring and streamlining to help drive leverage as demand improves.**

**The Toro Company**

Toro could benefit from early-cycle dynamics as the company’s Professional business offers equipment for landscape contractors, golf courses, and construction jobsites. TTC is also positioned to benefit from the secular shift towards battery technology, given the company’s scale and commitment to R&D, which likely position the company better than its many privately-held competitors.

**Altra Industrial Motion Corp.**

AIMC is our top idea that plays on our thesis of early/short-cycle stocks leading outperforming out of a recession. Elevated leverage and cyclicality have resulted in sharp underperformance (though has clawed back some on recent rally) creating a highly attractive risk/reward setup on an intermediate-to-long-term horizon (recognizing near-term volatility likely persists). Further, AIMC has the cleanest and most direct exposure to increased investment in factory automation and specialty machinery (warehouse automation, robotics, advanced material handling largely in the ACS segment). We see long-term upside in the $50-65/share range based on realistic 2023 EBITDA of +/- $430-470 million EBITDA at ~10.1x EV/EBITDA assuming a reasonable industrial backdrop beyond 2020 and as debt pay-down progresses.

**Lincoln Electric**

Historically, LECO stock has outperformed by a wide margin in the early portions of the business cycle (2002-2003, 2009-2010, 2016). High consumables exposure (wires, electrodes) results in quick reaction to end-market changes. Good balance sheet (exited 2019 with net debt/EBITDA of 1.5x, minimal long-term debt due until 2023-2024), strong history of free cash flow generation and through-the-cycle execution provide credibility in an uncertain market. The automation business is seeing near-term cyclical compression, but we see good potential in a recovery scenario.

**Parker Hannifan**

Stock has a well-established pattern of outperformance in the early portions of the business cycle (2002-2003, 2009-2010, 2016). Aerospace is likely to remain a drag in the early portion of the recovery, but the relative size of the Industrial business, which reacts quickly to changes to cap goods activity (PMI, industrial production), should be able to drive meaningful earnings growth in a recovery. The company has good liquidity and ability to cover dividend, but the stock has lagged given higher leverage due to recent acquisitions which can provide additional room for outperformance as fundamentals bottom with manageable debt.

**Mobile Mini, Inc.**

Mobile Mini provides best “early-cycle” exposure. Mobile Mini is the No. 1 lessor of portable storage containers in the US with an estimated 25%+ market share, and also has operations in the UK. The company serves approximately 60,000 customers through its 155 branch network locations and leasing fleet of approximately ~200,000 storage solution units. The company’s core product is steel ocean-shipping containers, refurbished for secure mobile storage. Customers lease these products to store retail and manufacturing inventory, construction materials and equipment, household goods and for a variety of other applications. In addition, MINI also provides specialty containment tank and pump solutions, primarily for energy/industrial applications, through a fleet of ~13,000 pieces of specialty equipment. Cyclical activity in these verticals could (and likely will) materially impact the company’s utilization rates and results. MINI’s pending merger (announced in early March 2020) with mobile office leader WISC (all-stock merger of equals) is unlikely to impact the “early-cycle” nature of the stock, given similar industry/segment dynamics in mobile office rentals.

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Source: Baird Research and FactSet
Secular Growth Ideas

Baird Industrial Research – April 2020

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<th>Company Name</th>
<th>Ticker</th>
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<tbody>
<tr>
<td>Ball Corporation</td>
<td>BLL</td>
<td>$22,785</td>
<td>Ball is particularly well positioned within the current operating environment, noting that the company's entire product portfolio (beverage cans / aerospace) has been deemed &quot;essential goods and services.&quot; As such, recent check-ins with the company have revealed that all plants and facilities are running, noting that employee absenteism does not appear to be a significant issue either. From a demand perspective, we note that beverage demand has boomed over the last two years and continues to do so, particularly as at-home consumption has accelerated over the past month. Specifically, our team estimated that prior to the COVID-19 outbreak, 60% of beer was consumed &quot;off-premise,&quot; with the outbreak serving as a catalyst driving that number much higher. On the CSD side of the portfolio, we note that stay-at-home orders offer an additional opportunity as consumers turn to packaged beverages amidst bar/restaurant closures. Lastly, we highlight that the significant capacity additions Ball has undertaken in the last 18 months have prepared the company well for the current scenario, noting that Ball will be more insulated from &quot;growing pains&quot; (i.e., operational issues / ramp up complexity) relative to the rest of the group given that many of these issues are largely behind the company and thus will offer opportunities to generate favorable operating leverage.</td>
</tr>
<tr>
<td>Sherwin-Williams Company</td>
<td>SHW</td>
<td>$45,181</td>
<td>Given its strong franchise and leading position in the North American architectural coatings market, Sherwin-Williams remains a top pick across our Coatings coverage. In terms of catalysts that will prove beneficial in the current environment, the company has commented that DIY project demand is booming and we note that while Sherwin is a leader in serving the Pro painter, its strong DIY business offered via its exclusive partnership with Lowe's will fare well in the current environment. As it pertains to servicing Pros, the company is keeping stores open for pickups and deliveries, noting that its company owned fleet of vans and trucks across the U.S. will effectively serve customers in these unprecedented times. Additionally, construction activity has been deemed essential in most of the U.S., noting that while precautions are being put in place to ensure distancing, activity is nonetheless proceeding. These dynamics, coupled with a much more favorable interest rate environment and a counter-cyclical raw material cost basket should all prove favorable for Sherwin in the near-term, underlying our top pick designation on the name.</td>
</tr>
<tr>
<td>Aptiv</td>
<td>APTV</td>
<td>$15,882</td>
<td>The company has exposure to most every secular theme across the automotive, commercial vehicle and industrial end markets. In auto, active safety is moving to autonomous driving and rob-loops. Also, well positioned for electrification and next-gen signal/data/power distribution systems through vehicles. Growing non-auto market exposure moderates some of the cyclical elements of the business.</td>
</tr>
<tr>
<td>Allison Transmission Holdings Inc.</td>
<td>ALSN</td>
<td>$4,086</td>
<td>Among the best business models in the &quot;industrial&quot; space, with over 60% global market share, near 20% after-tax ROIC, and FCf margin in excess of 25%). Has less exposure to the more-cyclical parts of the truck market (long-haul freight), with exposure to vocational applications (package delivery, refuse, bus, emergenre). There is exposure to construction, mining, and energy, but those end markets are already meaningfully lower. Additionally, non-core capital structure reduces financial risk.</td>
</tr>
<tr>
<td>Cummins</td>
<td>CM</td>
<td>$22,322</td>
<td>The company has a strong track record of delivering market share gains and high returns/cash flows over time. We believe near-term concerns regarding low oil prices. We believe exposure to next-gen technologies (power semiconductors) and debt-free balance sheet with ~2/share in cash. This is the best business model in the auto supplier space – dominant market share (~90% or more of market share (~90%), group-leading after-tax ROIC (near 30%) and secular growth drivers (higher content per vehicle driven by next-gen technologies) and debt-free balance sheet with ~2/share in cash.</td>
</tr>
<tr>
<td>Gentex Corporation</td>
<td>QNTX</td>
<td>$5,898</td>
<td>This is the best business model in the auto supplier space – dominant market share (~90%), group-leading after-tax ROIC (near 30%) and secular growth drivers (higher content per vehicle driven by next-gen technologies) and debt-free balance sheet with ~2/share in cash.</td>
</tr>
<tr>
<td>Littelfuse</td>
<td>LFUS</td>
<td>$3,372</td>
<td>Broadest exposure to next-gen technologies moving into auto, truck and industrial applications. In auto, internal combustion vehicle has ~4 of content, a hybrid has ~10 and an EV has ~20. Investments in next-gen technologies (power semiconductions) further expand the breadth of the growth opportunity.</td>
</tr>
<tr>
<td>PACCAR Inc.</td>
<td>PCAR</td>
<td>$23,362</td>
<td>We believe PACCAR’s strong business model and capital structure (sometimes called “too conservative”) serves the company well through this period. We are attracted to the sector-leading ROIC, debt-free balance sheet, and PACCAR’s ability to steadily gain share cycle to cycle.</td>
</tr>
<tr>
<td>Carlisle Companies Inc.</td>
<td>CSL</td>
<td>$7,055</td>
<td>Carlisle offers exposure toward secular growth through its Construction Materials business (~70% of sales, ~90% of EBIT), which provides membranes and insulation for commercial buildings. Both products are compatible with increasing energy efficiencies in buildings, and the market has benefited both from this dynamic and an ongoing roof replacement cycle. While the company is not immune to macro challenges (deferrals of roof replacements, non-Construction businesses), raw material deflation (oil-based) and FCF generation offer strong buffers.</td>
</tr>
<tr>
<td>Stanley Black &amp; Decker, Inc.</td>
<td>SWK</td>
<td>$18,386</td>
<td>Tools business should benefit from early-cycle dynamics as contractors purchase tools in anticipation of stronger business conditions, with retailers also possibly restocking the channel. SWK also has modest exposure into industrial tools and automotive lavinets, both of which are also early-cycle markets. From a secular perspective, SWK should benefit from its expertise in battery technology as the company pushes this technology from power tools into outdoor products. Lastly, we expect SWK’s historical track record of relatively fast restructuring and streamlining to help drive leverage as demand improves.</td>
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<tr>
<td>The Toro Company</td>
<td>TTC</td>
<td>$6,959</td>
<td>Toro could benefit from early-cycle dynamics as the company’s Professional business offers equipment for landscape contractors, golf courses, and construction jobsites. TTC is also positioned to benefit from the secular shift towards battery technology, given the company’s scale and commitment to R&amp;D, which likely position the company better than its many privately-held competitors.</td>
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</table>

David Leiker, CFA - Global Auto & Truck

Timothy Wojs, CFA - Building Products & General Industrial
### Richard C. Eastman, CFA - Advanced Industrial Equipment

**Keystone Technologies, Inc.**

Keystone Technologies, Inc. KEYS $17,259

Global leader in electronic test, including ~25% market share in Communications test. KEYS has expanded its "solutions" offering across the 5G eco-system where its early leadership in R&D/design/simulation is being leveraged into validation/manufacturing and eventually into operating test. KEYS is also investing to support customer nascent development efforts in new generation technology advances in 6G and quantum computing.

**National Instruments Corporation**

National Instruments Corporation NATH $4,663

NATI's technology portfolio and sales organization is increasingly well suited to benefit as the 5G investment cycle migrates toward validation/manufacturing test (infrastructure and device). We expect the 5G investment cycle to accelerate NATI's revenue growth rate over the next few years.

**Zebra Technologies Corporation**

Zebra Technologies Corporation ZBRA $10,678

ZBRA possesses significant footprint in logistics space with its existing portfolio; no warehouse robots today recently introduced a robot for storefront applications. Also has minority (small) investments in Fisch and Louco Robotics (two leading startup warehouse robot companies).

### Michael Halloran, CFA - Process Controls

**Nordson Corporation**

Nordson Corporation NDSN $8,829

NDSN is a rare combination of defensive (~55% aftermarket/consumables, ties to more stable markets, timing of semi recovery) and offensive (1.5-2x GDP grower long-term) capabilities. Further, NDSN fits squarely within the attractive automation theme mentioned above, given leading technological positions in various precision adhesive dispensing, processing, and coating applications across a wide/diversified array of end markets. Additionally, their exposure to electronics/kems (specifically new product cycles, many of which are tied to 5G investment themes) is a key piece to our bullish thesis/lability to outperform over the next 12+ months. All in, NDSN is a high quality/high-compounding industrial leader at an attractive entry point for outperformance through a cycle and we would note that, similar to GNRC, NDSN also has a chance to exceed/meet previous peak in 2021.

**Generac Holdings Inc.**

Generac Holdings Inc. GNRC $6,341

The combination of relative defensibility of the portfolio, exceptional balance sheet, and significant long-term earnings power potential from clear secular drivers (clean energy, CA HISP, 5G, distributed generation, etc.) leaves us bullish on the name and it remains our top idea. More recently, the massive shift toward WFH and shelter-in-place policies potentially creates a compelling dynamic in what logically could result in an increase in the importance of reliable continuous power (security of power) and connectivity (5g/communications) at home, all of which support the ongoing distributed generation theme that GNRC sees as secular drivers long-term. For perspective, GNRC is one of two companies on our coverage list where 2021 earnings have a chance to reach/exceed previous peak, in our view.

### Peter Arment - Aerospace & Defense

**HEICO Corporation**

HEICO Corporation HEI $11,042

Coming out the other side of the COVID-19 pandemic, we see opportunities for long-term investors to add at current levels as HEI is well positioned to handle increased headwinds to the commercial aerospace industry and increase market share as traffic recovers. Additionally, while robust traffic is the key for aftermarket demand, fleet age is less of a driver as HEI's parts start to be consumed as soon as aircraft are off warranty in year six/seven fleet age concerns are overstated in our opinion. Following the 9/11 attacks, HEI declined 26% in 2002, but was up 67% in 2003 and another 38% in 2004. In 2009, HEI declined by 17% following the Great Recession but rebounded, up 31% in 2010 and 40% in 2011. We expect a similar result as HEI is able to gain market share in periods that airlines are especially cognizant of costs. HEI has low-single-digit exposure to the aerospace OEM cycle, which will be structurally damaged for the next 24 months, making it positioned for growth as air traffic returns. Almost 50% of HEI’s revenue base is defense oriented and is expected to grow organically in the mid-single digits, unaffected by the pandemic. Finally, HEI’s net leverage is less than 1x EBITDA and its cash on hand along with a credit facility allows for over $800 million of liquidity. This allows the company to take advantage of M&A opportunities that management has indicated remain active in the defense space.

### Ben Kallo, CFA - Energy Technology & Resource Management

**Archer Daniels Midland Company**

Archer Daniels Midland Company ADM $20,940

We think both ADM and BG are positioned to weather macro uncertainty from COVID-19: crush margins have been strong, China has restarted agriculture purchases, and Brazilian Real weakness should support firmer soy prices. We think both names have healthy balance sheets and durable cash flows, which should support solid dividends (3.9% and 4.9% yield for ADM/BG, respectively) and we believe valuation is extremely attractive at current levels. We would use YTD weakness as a buying opportunity for the sector.

**ITRON Inc.**

ITRON Inc. ITRI $2,543

We think ITRI is well positioned to weather virus-related headwinds, given stable (and growing) end-market demand, our belief there will be minimal disruptions to the supply chain/production, and longer-term demand visibility (utility capex targets and replacement demand). Additionally, we think ITRI’s balance sheet is solid, particularly following the recent ~$400M revolver draw down. We remain buyers at current levels and recommend shares for investor looking for exposure to secular growth in the smart grid space.

**Bunge Limited**

Bunge Limited BG $5,804

We think both ADM and BG are positioned to weather macro uncertainty from COVID-19: crush margins have been strong, China has restarted agriculture purchases, and Brazilian Real weakness should support firmer soy prices. We think both names have healthy balance sheets and durable cash flows, which should support solid dividends (3.9% and 4.9% yield for ADM/BG, respectively) and we believe valuation is extremely attractive at current levels. We would use YTD weakness as a buying opportunity for the sector.

**Source: Baird Research and FactSet**

April 14, 2020 | Industrial
Price Target, Valuation/Justification, and Risks for Highlighted Baird Industrial Ideas

Transportation/Logistics

- **FDX.** Our $140 price target reflects 12x our NTM+1 EPS estimate, below FDX's average multiple of 13.8x over the past ten years reflecting continued risk to global macroeconomic conditions, but partially offset by the view that expedited (notably airfreight) modes are likely to benefit from ongoing supply chain disruption. FDX risks include economic sensitivity, competes in highly competitive markets, secular decline in domestic express market, potential return on capital volatility, acquisition integration risk, and potential driver lawsuits against its ground independent contractor model.

- **KNX.** Our $44 price target reflects ~20x our NTM+1 P/E, a multiple below KNX's 20-year representative peak of 25x+, reflecting a trough in industry pricing growth in 2020 and continued successful integration of Swift and related above-market yield growth. Risks: KNX competes in a highly fragmented industry subject to cyclical exposure; driver availability, self-insured liability expenses, and rising costs are potential risks to margins; sustained growth depends on qualified personnel able to replicate KNX's model.

- **WERN.** Our $42 price target reflects ~18x NTM+1 EPS estimates, above its 20-year average multiple (16.5x), appropriate and consistent with prior cycles as we near a trough and subsequent reacceleration in freight dynamics likely in 2H20. Risks: WERN operates in a highly fragmented, cyclically sensitive and capital-intensive business. The truckload market has historically earned limited real pricing growth, and WERN is subject to numerous cost pressures and self-insurance liabilities.

Industrial Distribution & Services

- **FAST.** Our $38 price target is based on 30x 2021E EPS, a slight premium to the stock's ~28x average NTM PE in 2010-2011 due to subdued earnings power in 1Q21, before recovery in 2Q21 and beyond. Fundamental risks include economic sensitivity, pricing power, relatively high valuation, secular gross margin pressures, success of vending and on-site initiatives, and ability to sustain historical growth.

- **GWW.** Our $300 price target is based on 18x 2021E EPS, a slight premium to the stock's ~17x average NTM PE in 2010-2011. Fundamental risks include macroeconomic conditions, ability to expand margins, pricing power, benefits from product expansion, sales force additions, and global sourcing.

- **MSM.** Our $70 price target represents 13x EV/2021E EBITDA, in line with the long-term 13x TTM average, and also represents a ~4% target dividend yield. Fundamental risks include economic sensitivity, pricing power, relatively high valuation, high exposure to durable goods OEMs, sustainability of historical growth/margin trends, and two classes of stock.

Packaging & Coatings

- **BLL.** Our $85 price target is based on 17.0x '20E EV/EBITDA noting that historically Ball has traded roughly in line with its packaging peers at ~11x. Given the significant FCF generation and synergy capture (Rexam acquisition), we believe a premium to the historical EV/EBITDA multiple (~10x) is warranted. Primary risks include macroeconomic sensitivity (Europe/Emerging Markets), volatile raw material costs, the potential for investors to favor macro cyclical, and customer consolidation.

- **BERY.** With the shares trading at a 14.3% free cash flow yield and 7.3x FY20E EV/EBITDA, we believe valuation is attractive at current levels, underlying our Outperform rating. Our $60 price target is based on 8.5x FY20E EV/EBITDA (versus Packaging target at ~11x/BERY historical average of 9x). Primary risks include significant leverage, raw material cost volatility, an acquisition-heavy strategy, the reliance on innovation/trademarks, pricing pressures from the competitive landscape, and a large concentration of insider ownership.

- **SHW.** Our $650 price target is based on 21x '20E EV/EBITDA, above the company's historical average of 11x LTM EV/EBITDA and our ~13x Coatings target, which we believe is justified given the Sherwin's strong brand equity, significant free cash flow generation, pricing power, and cash flow allocation track record. Primary risks include lead litigation risk, outsized exposure to the U.S. housing market, volatile raw material costs, and significant operating leases.
Global Auto & Truck

- **ALSN.** Our $58 target price is based on shares trading at 10.0x estimated 2022E EBITDA, equal to the valuation observed at prior cyclical recoveries, discounted by 15%. Key risks include cyclical end markets, budgetary conditions at tax-funded entities, material costs, warranty spending, competition against alternative transmission technologies, foreign exchange.

- **APTV.** Our $110 price target is based on the stock trading at 10.8x our 2022 EBITDA estimate, the median valuation of the current-cycle range post-spin but prior to the announcement of the formation of the autonomous driving joint venture with Hyundai, discounted by 10%. Additionally, our price target includes Aptiv’s 50% stake in the autonomous driving JV, valued at $4.0 billion, which adds $2 billion to Aptiv’s equity value ($8/share). We believe the median valuation is appropriate given potential for stabilizing/improving end market volumes over the next 12 months. Key risks include global automotive markets, exposure to key customers, timing of new business and launches, commodity/FX price fluctuations (particularly copper), and the technology landscape, pace of development/Adoption, and execution.

- **CMI.** Our $188 target price is based on 9.3x 2022E EBITDA, equal to the median valuation observed at mid-cycle EBITDA during prior cycles, plus equity income net of minority interest at 14.0x earnings, discounted by 10%. Our model assumes truck markets return to mid-cycle levels in 2022. Key risks include end markets, share shifts, joint venture performance, and foreign currency.

- **GNTX.** Our $29 price target is based on 10.0x 2022E EBITDA, the median valuation during prior periods of high-single-digit organic growth above market, discounted by 10%. We believe the median valuation of this range is appropriate given expectations for comparable levels of outgrowth over the next 12 months. Key risk factors include pace/slope of end-market recovery, adoption of auto-dimming mirrors, a shift in mix between interior/exterior mirrors and different features, investor sentiment over “cameras replacing mirrors,” and costs bringing concepts to market.

- **LFUS.** Our $202 price target is based on 14.1x calendar 2022E EBITDA, the median valuation of electronic equipment peers, discounted by 10% to arrive at a 12-month time horizon. We believe the median valuation is appropriate given expectations for a second half recovery in electronics end markets and stabilizing auto demand. Risks include exposure to cyclical markets, limited visibility in Electronics business, potential pricing pressure, increasing and/or volatile commodity costs, low-cost competition, foreign currency fluctuations, and ability to find and successfully integrate acquisitions.

- **PCAR.** Our $85 price target is based on 9.5x 2022E EBITDA, equal to the median multiple observed at mid-cycle EBITDA during prior cycles, discounted by 10%. Our model assumes truck markets return to mid-cycle levels in 2022. Risks include cyclical end markets, raw material prices, credit markets and credit availability, loan portfolio performance, post-retirement liabilities, foreign exchange, premium market position, new emissions regulations, major shareholders, and a potential for mid-cycle reacceleration in orders.

Building Products & General Industrial

- **SWK.** Our $185 price target reflects a 19X multiple on our 2021E EPS estimate. The multiple is at a slight premium to the S&P multiple (18.4X), which we believe is appropriate given SWK’s reaccelerating EBIT growth in 2020. Risks include cyclical construction, consumer, and industrial demand, rising and/or volatile raw material costs, tariff exposure, foreign currency movements, customer concentration, private label competition, execution surrounding Security profitability improvement, and ability to find and successfully integrate acquisitions.

- **CSL.** Our $142 price target reflects 19X 2021E EPS and 10.7X 2021E EBITDA. The P/E multiple represents a ~15% premium to the S&P (~16.5X), modestly above the company’s five-year average premium of +2% vs. the market, as we account for a more stable business profile. We also note the average P/E premium in 2009/2010 was ~10% vs. the S&P. Risks include cyclical nonresidential construction, industrial, and aerospace end markets, rising and/or volatile commodity costs, ability to find and successfully integrate acquisitions, ongoing restructuring activity, and seasonality and weather sensitivity.
• **TTC.** Our $78 price target reflects 21X our C2021E EPS, a 15-20% premium vs. the NTM S&P, below the historical 25-30% premium over the last five years given choppier recent organic growth trajectory and uncertain macro environment. Risks include cyclical end markets, weather fluctuations, rising and/or volatile commodity costs, foreign currency exposure, exposure to golf rounds played, major customers, and ability to find and successfully integrate acquisitions.

**Advanced Industrial Equipment**

• **KEYS.** Our $107 price target assumes 14X CY21E EV/EBITDA; also 19X FY21E adjusted EPS ($5.59). Target EBITDA reflects upper end of KEYS historical 9X-14X range, supported, in our view, by the accelerating test demand to support a number of long-cycle technology investment trends. Risks include cyclical end markets, tech spending trends, ability to maintain operating leverage, integrate acquisitions.

• **NATI.** Our $30 price target assumes shares trade at 16X our CY21E EBITDA, or 26X our CY21E adjusted EPS. Both ranges within NATI's six-year average EV/EBITDA and adjusted P/E ranges of 13X-19X and 20X-30X, respectively, assuming CY20E reflects trough EPS. Risks include economic sensitivity, currency fluctuations Timing of a sales recovery, inability of NATI to capture its share of 5G/derivative validation/production test markets, sales execution.

• **ZBRA.** Our $202 price target assumes 12X CY21E EV/EBITDA (or 16X CY21E adj. EPS), within ZBRA's historical 10X-13X EV/EBITDA range and gives consideration to continued execution/demonstration on strategic objectives (FCF generation/debt reduction, sales growth) plus our expectation that continued operating leverage/efficiencies can be gained in the out years. Risks include limited revenue visibility, maintaining good channel partner relationships and revenue volatility from episodic large deals, e.g., USPS.

**Process Controls**

• **AIMC.** Our $33 price target assumes 10.0x forward EV/EBITDA and 12.3x forward earnings, compared to historical averages of 7.9x and 14.4x, respectively, consistent with the company's improving current business profile. Risks: exposure to cyclical markets (~60% of sales are tied to NA industrial spending), execution on internal margin improvement initiatives, raw materials and pricing, and integration of recent and future acquisitions.

• **GNRC.** Our $116 price target assumes 16.0x forward EV/EBITDA plus the present value of the tax asset (estimated $1/share), above the historical average of 11.1x, given the numerous differentiated growth drivers and less cyclical nature of the portfolio relative to history. Risks: significant exposure to power outage levels across the U.S., raw materials exposure and commodity inflation, competitive industrial markets, and elevated debt levels.

• **NDSN.** Our $171 price target assumes forward multiples of 18.0x EV/EBITDA and 26.7x earnings, above historical average multiples of 13.9x and 19.6x respectively given premium for high quality late in the cycle and potential upside levers to earnings over the next 6-18 months. Risks: global macroeconomic conditions, cyclical end-market exposure, integration of recent and future acquisitions, uncertainty around raw material costs, and significant movements in foreign exchange rates.

**Diversified Industrial & Machinery**

• **LECO.** Our $86 price target assumes LECO can achieve a 27.0x P/E multiple of our 2020 EPS estimate ($3.15) and/or a 17.0x EV/EBITDA multiple of our 2020 EBITDA estimate ($344 million), at the high end of the historical range (P/E: 12-27x; EV/EBITDA: 7.5-17x) due to cyclically compressed end markets. Risks include commodity prices, global industrial production, OEM production schedule changes, acquisition availability and integration, foreign exchange rates.

• **PH.** Our $150 price target assumes PH can achieve a 25x P/E multiple (CY20E EPS: $5.98) and/or a 14.0x EV/EBITDA multiple (CY20E EBITDA: $2.03 billion) toward the high end of the range (P/E ~8-22x; EV/EBITDA ~6-14x) given cyclically compressed end markets. Risks include high financial leverage, global economic growth; automotive, commercial vehicle, mobile equipment, industrial machinery, and commercial and military aerospace fundamentals; acquisition pricing and integration; foreign exchange rates.
Aerospace & Defense

- **HEI.** Our $132 price target is based on a DCF analysis including a reduced growth outlook of 3.8%. With trough analysis supporting a range of $50-$72 per share, we see a compelling risk/reward. Key risks for HEI include near term headwinds to the aerospace industry from COVID-19, a premium valuation, limited margin expansion opportunity near term, cyclical end markets, uncertainty predicting product demand, competitive environment, PMA perception, M&A integration, and regulatory developments. Refer to our [most recent company note](#) for more details.

Engineering & Construction

- **MINI.** Our $42 MINI price target reflects the implied equity value of WSC’s 2.405/1.0 stock offer at time of deal announcement (not updated for recent market sell off). Both company boards have approved the transaction and we expect no antitrust issues. Deal is subject to customary closing conditions and shareholder vote with WSC’s largest shareholder supporting. Risks to our price target include non-residential construction trends, high debt service levels, and container cost fluctuations/availability. Also WSC merger deal closing.
- **BBCP.** Our $3 target price assumes 5.75x FTM EBITDA one year from today, a premium to construction rental peer URI at mid-single digits and a discount to construction-levered specialty rental company MINI at high single-digits. Risks include business cycle, seasonality/weather, acquisition integration risks, high capital needs, and an unseasoned public tract record.

Energy Technology & Resource Management

- **ITRI.** Our $66 price target is based on an ~9.5x EV/EBITDA multiple on our 2021 estimate. This is in line with prior transactions in the space (ranging from 10x-12x with a median of ~11x), which we believe is justified given ITRI's leading position as a pure-play smart grid company. Risks include delays in project rollouts, FX headwinds, increasing international competition, and slow pace of utility decision-making.
- **ADM.** Our $41 price target is based on a ~12x P/E multiple using our 2021 estimate. This is in line with ADM’s comps which are currently trading at a ~11x mean multiple, which we believe is justified given ADM's scale and strong cash flows. Risks include: (1) Unfavorable commodity prices, (2) exchange rate volatility, (3) competition, and (4) international political and economic risk.
- **BG.** Our $46 price target is based on a ~11x P/E multiple using our 2021 estimate. This is in line with BG’s comps which are currently trading at a ~11x mean multiple. We believe this is justified as BG negotiates a challenging macro environment. Risks include: (1) Unfavorable commodity prices, (2) exchange rate volatility, (3) competition, and (4) international political and economic risk.
Appendix - Important Disclosures and Analyst Certification

Approved on 13 April 2020 19:27EDT/ Published on 14 April 2020 01:05EDT.

Covered Companies Mentioned
All stock prices below are the 4/13/2020 closing price.

A.O. Smith Corp. (AOS - $39.63 - Neutral)
AECOM (ACM - $32.79 - Outperform)
AMETEK, Inc. (AME - $76.97 - Neutral)
Abraxas Petroleum Corporation (AXAS - $0.15 - Outperform)
Acuity Brands, Inc. (AYI - $87.99 - Neutral)
Advanced Drainage Systems, Inc. (WMS - $32.70 - Outperform)
Agilent Technologies, Inc. (A - $76.21 - Outperform)
Albemarle Corporation (ALB - $63.31 - Neutral)
Allegion plc (ALLE - $95.77 - Neutral)
Altra Industrial Motion Corp. (AIMC - $20.13 - Outperform)
American Water Works Company, Inc. (AWK - $127.24 - Outperform)
American Woodmark Corporation (AMWD - $51.05 - Outperform)
Anixter International Inc. (AXE - $90.60 - Neutral)
Antero Midstream Corporation (AM - $2.78 - Neutral)
Antero Resources Corporation (AR - $1.42 - Outperform)
AptarGroup, Inc. (ATR - $102.35 - Outperform)
Aptiv PLC (APTV - $60.74 - Outperform)
Archer Daniels Midland Company (ADM - $36.07 - Outperform)
Astec Industries, Inc. (ASTE - $37.98 - Outperform)
Autoliv, Inc. (ALV - $56.07 - Neutral)
Avery Dennison Corporation (AVY - $108.78 - Outperform)
Axalta Coating Systems (AXTA - $18.19 - Outperform)
BMC Stock Holdings, Inc. (BMCH - $18.67 - Neutral)
BWX Technologies, Inc. (BWXT - $50.36 - Outperform)
Badger Meter, Inc. (BMI - $53.56 - Neutral)
Ball Corporation (BLL - $67.32 - Outperform)
Barnes Group Inc. (B - $40.35 - Neutral)
Beacon Roofing Supply, Inc. (BECN - $17.92 - Neutral)
Berry Global Group, Inc. (BERY - $36.49 - Outperform)
BorgWarner Inc. (BWA - $26.16 - Outperform)
Briggs & Stratton Corp. (BGG - $2.29 - Neutral)
BrightView Holdings, Inc. (BV - $10.41 - Outperform)
Bunge Limited (BG - $38.95 - Neutral)
CNX Midstream Partners LP (CNXM - $9.60 - Neutral)
CNX Resources Corporation (CNX - $9.56 - Outperform)
CSX Corporation (CSX - $61.57 - Outperform)
Cabot Corporation (CBT - $30.23 - Neutral)
California Water Service Group (CWT - $52.87 - Outperform)
Carlisle Companies Inc. (CSL - $122.13 - Outperform)
Caterpillar Inc. (CAT - $114.14 - Outperform)
Celanese Corporation (CE - $82.10 - Outperform)
Cimarex Energy Co. (XEC - $19.04 - Outperform)
Clean Harbors, Inc. (CLH - $52.74 - Outperform)
Cognex Corporation (CGNX - $45.41 - Neutral)
Colfax Corporation (CFX - $22.50 - Outperform)
Concrete Pumping Holdings, Inc. (BBCCP - $2.49 - Neutral)
Construction Partners, Inc. (ROAD - $16.73 - Outperform)
Continental Resources, Inc. (CLR - $12.36 - Outperform)
CrossAmerica Partners LP (CAPL - $10.73 - Neutral)
Crown Holdings, Inc. (CCK - $61.06 - Outperform)
April 14, 2020 | Industrial

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<th>Ticker</th>
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Mercury Systems, Inc. (MRCY - $75.22 - Outperform)
Methode Electronics, Inc. (MEI - $27.83 - Outperform)
Mettler-Toledo International Inc. (MTD - $690.78 - Neutral)
Middleby Corporation (MIDD - $52.35 - Outperform)
Mobile Mini, Inc. (MINI - $25.06 - Neutral)
Modine Manufacturing Co. (MOD - $4.39 - Neutral)
Mueller Water Products, Inc. (MWA - $9.13 - Neutral)
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Nordson Corporation (NDSN - $141.41 - Outperform)
Norfolk Southern Corporation (NSC - $154.29 - Neutral)
Northrop Grumman Corporation (NOC - $338.85 - Outperform)
ONEOK Inc. (OKE - $29.22 - Neutral)
Old Dominion Freight Line, Inc. (ODFL - $129.89 - Neutral)
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PACCAR Inc. (PCAR - $65.93 - Outperform)
PPG Industries, Inc. (PPG - $93.68 - Outperform)
Parker Hannifin Corporation (PH - $138.91 - Outperform)
Parsley Energy Inc. (PE - $7.12 - Outperform)
Pentair plc (PNR - $31.46 - Neutral)
Pioneer Natural Resources Co. (PXD - $78.55 - Outperform)
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Plains GP Holdings, LP (PAGP - $6.55 - Neutral)
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Pool Corporation (POOL - $190.51 - Outperform)
Quanta Services Inc. (PWR - $32.32 - Outperform)
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Rexnord Corporation (RXN - $25.73 - Outperform)
Ryder System, Inc. (R - $30.73 - Outperform)
SM Energy Co. (SM - $2.23 - Outperform)
SPX FLOW, Inc. (FLOW - $30.28 - Outperform)
Schneider National, Inc. (SNDR - $19.65 - Outperform)
Sherwin-Williams Co. (SHW - $489.20 - Outperform)
Silgan Holdings Inc. (SLGN - $31.16 - Neutral)
Simpson Manufacturing (SSD - $63.53 - Neutral)
SiteOne Landscape Supply, Inc. (SITE - $74.24 - Neutral)
Snap-on Incorporated (SNA - $114.16 - Neutral)
Sonoco Products Co (SON - $49.35 - Neutral)
Spirit AeroSystems Holdings, Inc. (SPR - $20.65 - Neutral)
Stanley Black & Decker, Inc. (SWK - $114.05 - Outperform)
SunPower Corporation (SPWR - $6.41 - Neutral)
Sunoco LP (SUN - $17.68 - Neutral)
TE Connectivity Ltd. (TEL - $69.12 - Neutral)
Tallgrass Energy LP (TGE - $19.15 - Neutral)
Targa Resources Corp (TRGP - $8.55 - Neutral)
Tecnoglass Inc. (TGLS - $3.43 - Outperform)
Tellurian Inc. (TELL - $1.76 - Neutral)
Terex Corporation (TEX - $15.69 - Outperform)
Tesla, Inc. (TSLA - $650.95 - Neutral)
Tetra Tech, Inc. (TTEK - $76.72 - Neutral)
The Boeing Company (BA - $147.33 - Neutral)
The Home Depot, Inc. (HD - $198.79 - Outperform)
Titan Machinery Inc. (TITN - $9.19 - Outperform)
Trimble Inc. (TRMB - $32.19 - Outperform)
Visteon Corporation (VC - $49.87 - Outperform)
W.R. Grace & Co. (GRA - $40.13 - Outperform)
WPX Energy, Inc. (WPX - $4.32 - Outperform)
Watso, Inc. (WSO - $154.00 - Neutral)
Welbilt, Inc. (WBT - $4.48 - Outperform)
Werner Enterprises, Inc. (WERN - $37.36 - Outperform)
Whiting Petroleum Corporation (WLL - $0.36 - Outperform)
Xylem Inc. (XYL - $68.19 - Neutral)
Zebra Technologies Corporation (ZBRA - $197.91 - Outperform)
(See recent research reports for more information)

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