Industrials Sector

The Ohio State University

Meet the Team

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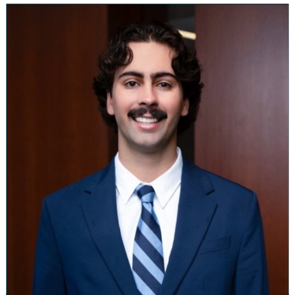

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Agenda

Executive Overview

Market Capitalization

$5.15 Trillion

Total of 79 Companies

S&P 500 Weight

8.89%

6th Largest Sector

Number of Industries

13

Across three different sector groups

Top 5 Concentration

CAT, GE, RTX, GEV, and BA account for ~25% of sector market cap

Dominant Industry Group

Capital Goods is the largest sub-group, driven by Aerospace & Defense names like GE, RTX, LMT, and NOC

Sector Characteristics

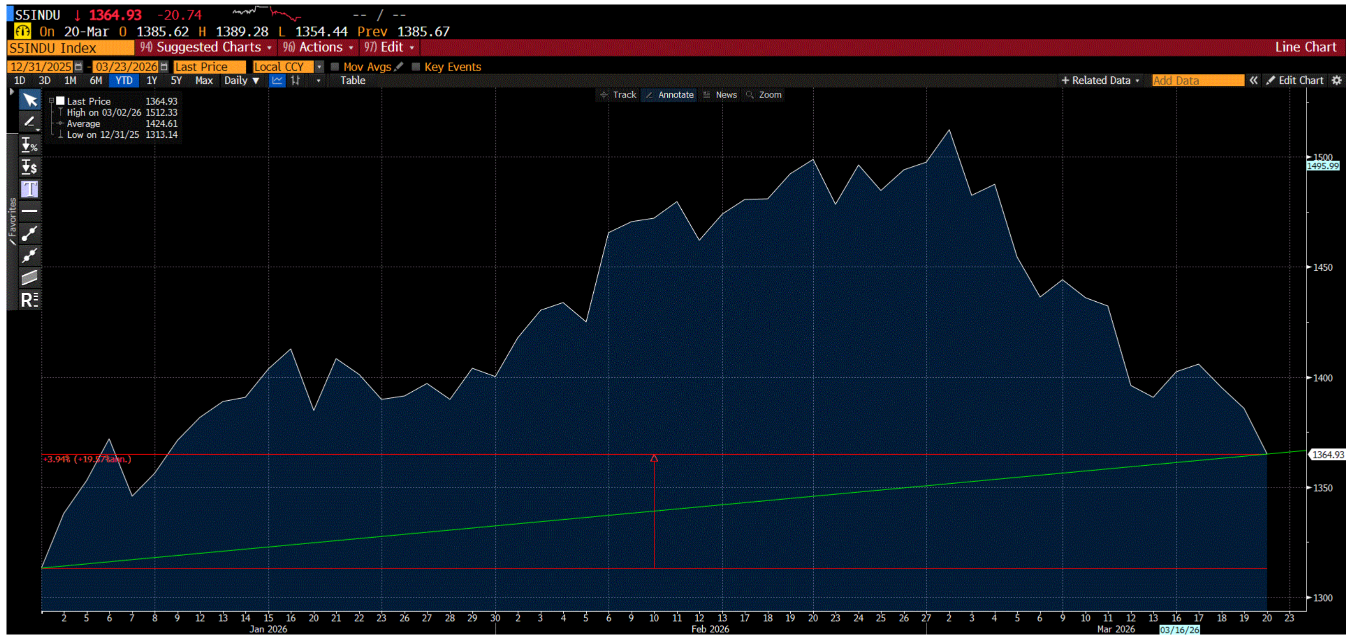
Signal for economic health. Highly sensitive to GDP growth, interest rates, capex cycles, and trade policy

Sector Performance

Year-To-Date Return: 3.94%

Quarter-To-Date Return: 3.94%

1 Year Return: 22.22%



Sector Breakdown

Capital Goods

- Aerospace & Defense
- Building Products
- Construction & Engineering
- Electrical Equipment
- Industrial Conglomerates
- Machinery

Commercial & Professional Services

- Commercial Services & Supplies
- Professional Services

Transportation

- Air Freight & Logistics
- Passenger Airlines
- Ground Transportation
- Marine Transportation
- Transportation Infrastructure

Largest Companies

- CAT, GE, RTX, GE Vernova, and Boeing are largest companies in the sector

- The top 5 companies account for ~25% of the sector

- Capital Goods:
  - CAT, GE, RTX
- Commercial Services:
  - WM, ADP
- Transportation:
  - UNP, FDX, UPS

Industrials Demand

Government Demand

- National defense
  - $900B spent on U.S. defense
- IIJA, OBBBA
  - Tax incentives
  - 5% spend increase '24-'25
- Infrastructure projects
  - Water, power, transportation, clean energy

Who:
State, local, and federal

Private Demand

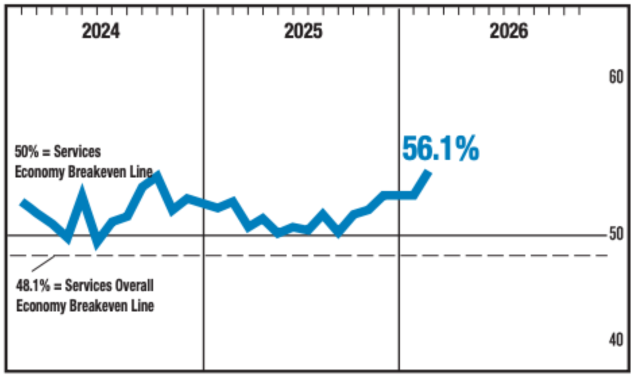
- AI & Data Centers
  - 25% future growth in data center-related revenue
- Manufacturing automation
  - 80% of manufacturers demand operational efficiency
- Emerging markets

Who:
Manufacturers, construction, airline and transportation, energy, mining

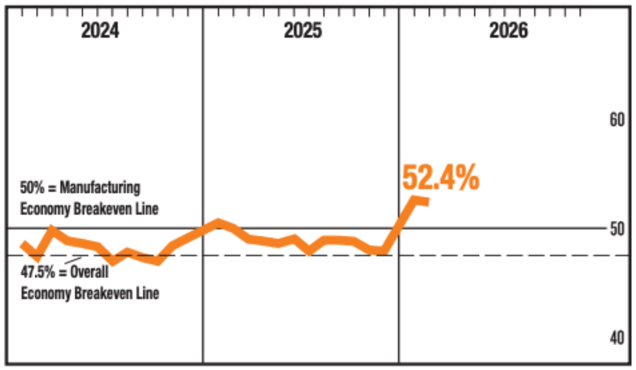
Industrials Life Cycle

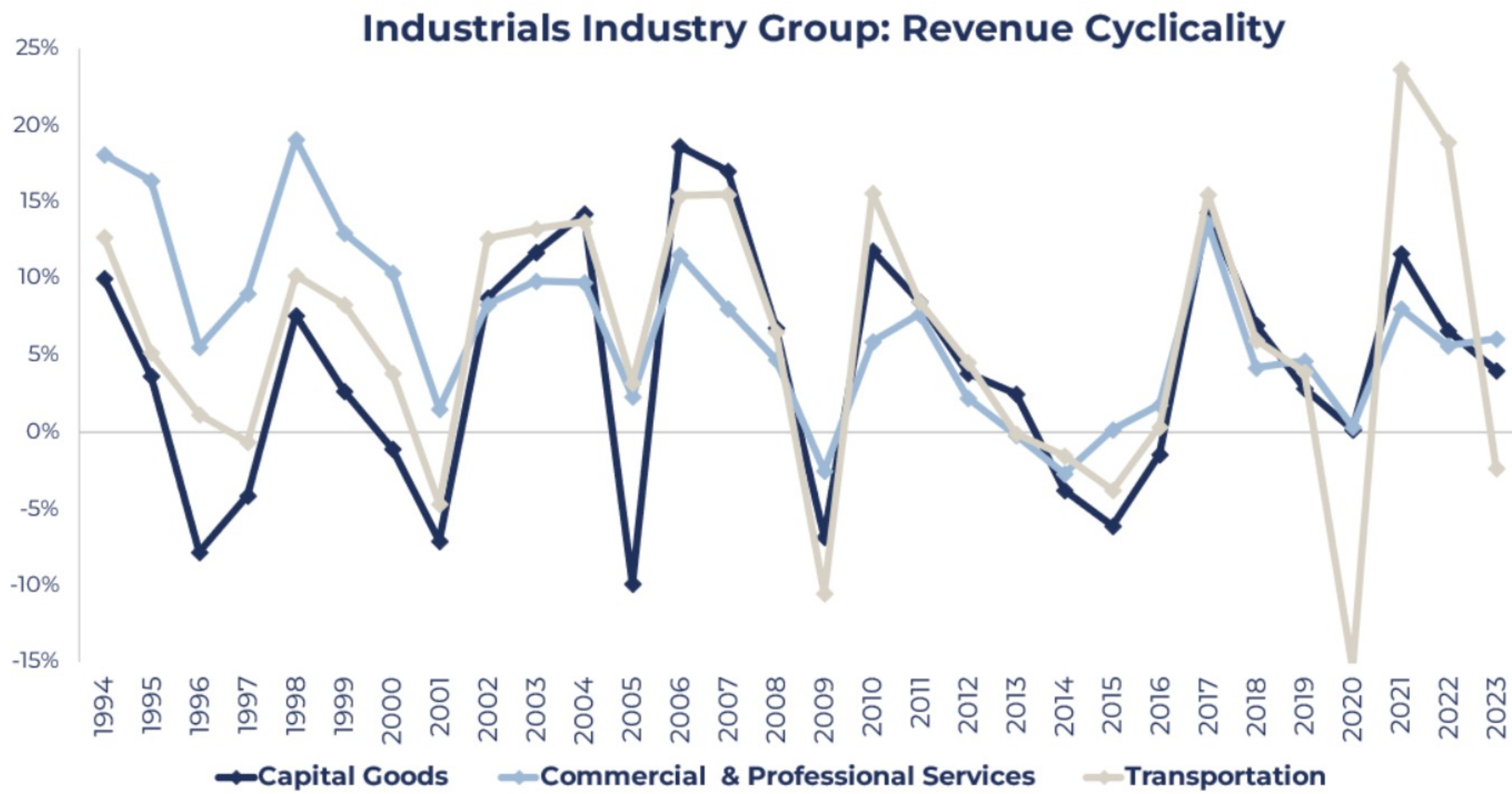
- Growth phase – rise of AI, infrastructure spend, tech, emerging markets
- Highly cyclical
- Highly dependent on global economic growth
- Demand increases in expansionary periods, slows in recessions
  - Industrials performance indicates economic activity

Services PMI



Manufacturing PMI





Industrials Industry Group: Revenue Cyclicality
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
1994
1995
1996
1997
1998
1999
2000
2001
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2016
2017
2018
2019
2020
2021
2022
2023
Capital Goods
Commercial & Professional Services
Transportation

Industrials Economic Influences

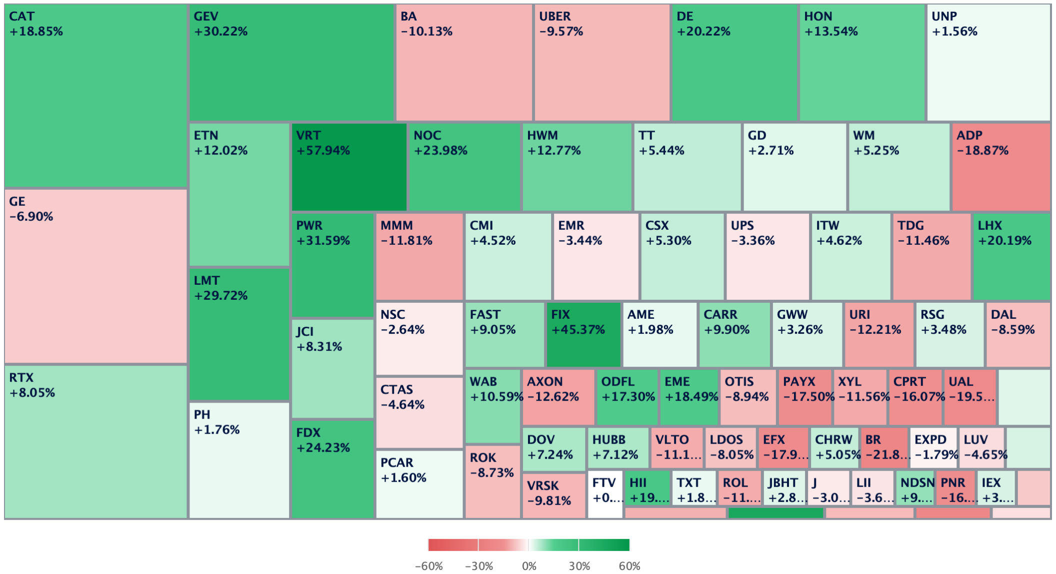
- ↑ Global trade volume
- ↑ U.S./Government infrastructure spending
- ↑ Manufacturing output
- ↑ GDP
- ↑ PMI

- ↓ Interest rates
- ↓ Tariffs
- ↓ Input prices

Key Industrials Markets

- Aerospace & defense, machinery, tech infrastructure stay strong
- Chemicals, freight, materials experiencing difficulty

Stock	3mo.	6mo.	1yr.
Caterpillar Inc. (CAT)	+18.16%	+45.94%	+102.49%
RTX Corp. (RTX)	+8.87%	+25.23%	+47.36%
General Electric (GE)	-6.65%	-4.77%	+40.63%
FedEx (FDX)	+24.26%	+54.84%	+45.75%
Deere & Co. (DE)	+18.95%	+19.19%	+17.34%
Waste Management (WM)	+6.89%	+6.86%	+1.91%



Industrials Structure: Porter's 5 Forces

Threat of new entrants: LOW

- High barriers to entry
- Large capital requirements
- Expertise required

Bargaining power of suppliers: MODERATE

- Input costs highly volatile
- Steel, aluminum, energy affect costs
- Industrial firms have purchasing power

Rivalry among existing competitors: MODERATE

- Compete on innovation, pricing, service quality, and reliability

Bargaining power of buyers: HIGH

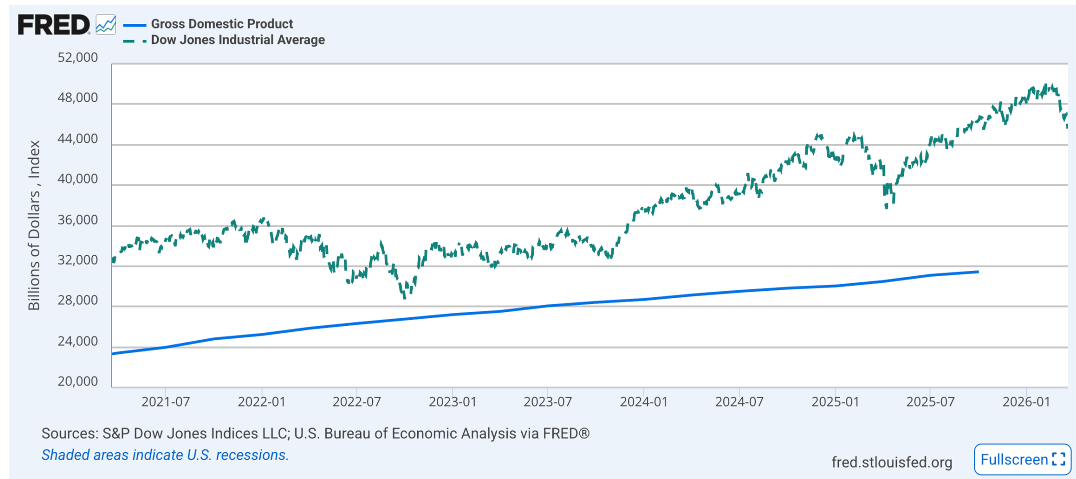
- Large buyers set price
- Long-term contract negotiation

Threat of substitutes: LOW

- Highly specialized products and services
- Limited alternatives

Key Drivers of Profitability for Industrials Firms

- Increased infrastructure spending across the globe
- Surge in AI and technology infrastructure demand
- Increased demand for manufacturing automation
- Cost of inputs (energy, steel, aluminum, tariffs)
- GDP (economic growth)



Financial Analysis

Total sector return
+19.5%
(3rd best in S&P 500)

Q4 2025 Earnings Growth Rate
+5.6%
(S&P 10 yr avg earnings growth 8.6%)

Q4 2025 Revenue Growth Rate
+12.1%
(Q4 2024 –11%)

Net Profit Margin Q4 2025
12.5%
(5-year average 9.3%)

Aerospace & Defense
CAGR: 11.10%
Net Income CAGR: 19.56%
(Historical 5 year)

Electrical Equipment
CAGR: 19.17%
Net Income CAGR: 16.18%
(Historical 5 year)

Engineering/ Const.
CAGR: 11.70%
Net Income CAGR: 25.73%
(Historical 5 year)

Air Transport margins look strong but are heavily distorted due to Covid rebound

Industrials is a net free cash flow generator. The top 5 companies generated nearly $40B in FCF in 2025. This sector broadly returns cash through buy backs and increase in dividends.

Industrials margins in Q4 2025 was 12.5% and in Q4 of 2024 10.7%. This shows that margins are expanding and they are expanding faster than the S & P 500.

Industrials was one of only sectors to have negative revenue decline in Q1 2025. This was due to the uncertainty of tariffs and policy changes.

GE Aerospace
YoY Rev. Growth: +18.5%
2025: $45.9B
YoY EPS Growth: +35.9%
2025 EPS: $8.14

Caterpillar
YoY Rev. Growth: +4.3%
2025: $67.6B
YoY EPS Growth: -14.7%
2025 EPS: $18.81

UPS
YoY Rev. Growth: -2.6%
2025: $88.7B
YoY EPS Growth: -2.8%
2025 EPS: $6.56

Financial Analysis – Headline Metrics

Total Sector Return	Q4 2025 Earnings Growth Rate	Q4 2025 Revenue Growth Rate	Net Profit Margin Q4 2025
+19.5% (3rd best in S&P 500)	**+5.6%** (S&P 10 yr avg earnings growth 8.6%)	**+12.1%** (Q4 2024 –11%)	**12.5%** (5-year average 9.3%)
Industrials ranked 3rd in the S&P 500 for total return in 2025 (+19.5%), outpacing the broad index on the strength of Aerospace & Defense and electrical equipment demand.	Q4 earnings growth of +5.6% trails the S&P 10-year average of 8.6% but marks a meaningful recovery off the prior year's depressed base. Momentum is also accelerating.	Revenue swung from –11% in Q4 2024 to +12.1% in Q4 2025, driven by defense contract wins, data center buildout, and sustained infrastructure spending under IIJA.	Net margin expanded 320 bps above the 5-year average (9.3%→12.5%), reflecting improved pricing power and operating leverage, particularly across Capital Goods.

Financial Analysis – Industry Growth Rates

5-Year Revenue & Net Income CAGRs | vs. Historical Average

Industry	vs. Hist. Avg
Aerospace & Defense Revenue CAGR: **11.10%** Net Income CAGR: **19.56%**	vs. Hist. Avg **Revenue: ~6–8%** **Net Income: ~12–14%**
Electrical Equipment Revenue CAGR: **19.17%** Net Income CAGR: **16.18%**	vs. Hist. Avg **Revenue: ~8–10%** **Net Income: ~10–12%**
Engineering & Construction Revenue CAGR: **11.70%** Net Income CAGR: **25.73%**	vs. Hist. Avg **Revenue: ~5–7%** **Net Income: ~8–10%**

Aerospace & Defense — Key Driver

Driven by the record $900B U.S. defense budget and NATO allies ramping to 2%+ of GDP. Long-duration backlogs provide multi-year revenue visibility well above historical rates.

Electrical Equipment — Key Driver

The sector's strongest grower. AI data center buildout, grid modernisation, and manufacturing electrification are pushing revenue to nearly 2× its prior-cycle pace.

Engineering & Construction — Key Driver

Net income CAGR of 25.73% is the highest of the three, reflecting margin expansion from high-value IIJA infrastructure wins and improved project mix.

Takeaway: All three industries are growing above their 5-year historical averages. Electrical Equipment is the clear standout at nearly 2x its prior-cycle pace. Net income growth outpaces revenue across the board, signaling improving operating leverage sector-wide.

Financial Analysis – Margins and Free Cash Flow

Metric	Industrials	S&P 500	VS. S&P 500	Signal
Net Profit Margin (Q4 '25)	12.5%	12.3%	+0.2%	↑ Expanding above S&P
5yr Avg Net Margin	9.3%	11.8%	-2.5%	Historical gap closing
Operating Margin	9.8%	15.2%	-5.4%	Tech / fin drag on S&P
EPS Growth (Q4 2025)	+5.6%	+8.6%	-3.0%	10yr avg; trending up

Profitability vs. S&P 500 | Free Cash Flow | Capital Return

FREE CASH FLOW & CAPITAL RETURN

Top 5 Companies — 2025 FCF

~$40 Billion

Sector is a net FCF generator

Share Buybacks

Major industrials (CAT, GE, RTX, HON) consistently return excess cash through buyback programs, reducing share counts and supporting EPS growth. CAT alone repurchased ~$5B in 2025.

Dividend Growth

Industrials are reliable dividend growers. Many names carry multi-decade dividend growth streaks. RTX, HON, and WM all raised dividends in the last 12 months.

Valuation Analysis (Net Advantage)

VALUATION MULTIPLES

Metric	XLI (Industrials)	S&P 500	Difference (XLI - S&P)	Premium / Discount	Notes
P/E (LTM)	29.0x	27.0x	2.0x	+7.4%	XLI trades at a premium to S&P 500; elevated on AI/defense tailwinds
P/BV	6.8x	5.0x	1.8x	+36.0%	Asset-heavy industrials command less vs. tech-heavy S&P
Mkt Cap / EBT Excl. Unusual	24.3x	20.7x	3.6x	+17.4%	XLI slightly more expensive on pre-tax earnings basis
Mkt Cap / Total Revenue	2.9x	3.3x	-0.4x	-12.1%	XLI cheaper on revenue industrials are lower-margin, higher-revenue businesses

PROFITABILITY & RETURNS

Metric	XLI (Industrials)	S&P 500	Difference (XLI - S&P)	Premium / Discount	Notes
Earnings from Cont. Ops Margin	10.2%	12.5%	-2.3%	-18.4%	S&P 500 more profitable, tech/financials drag XLI margins lower
Net Income Margin %	10.3%	12.3%	-2.0%	-16.3%	Similar gap, XLI ~200bps below S&P 500 on net margin
Return on Assets (ROA) %	5.7%	3.5%	+2.2%	+62.9%	Industrials deploy assets efficiently vs. fin-heavy S&P
Return on Equity (ROE) %	24.2%	19.1%	+5.1%	+26.7%	Leveraged capital structures increases equity returns

Recommendation

Invest

- Electrical and Power Equipment
  - Vertiv, Emerson
- Aerospace and Defense
  - L3Harris, Lockheed
- Machinery & Construction Equipment
  - Eaton, Caterpillar

Average Debt Rating

A-/BBB+

All investment grade besides Uber BB+

BBB+	**A-**
~1.11%	**~0.90%**

Do Not Invest

- Building products / residential & commercial construction related
  - Builders FirstSource, Trex
- Freight / Trucking
  - J.B. Hunt, Old Dominion

(XLI S&P500) ETF we recommend maintaining our position.

Sources

- https://www.ismworld.org/globalassets/pub/research-and-surveys/rob/nmi/m00nrob202602svcs.pdf
- https://www.ismworld.org/globalassets/pub/research-and-surveys/rob/pmi/blud202602pmi.pdf
- https://www.guinnessgi.com/insights/industrials-sector-stocks
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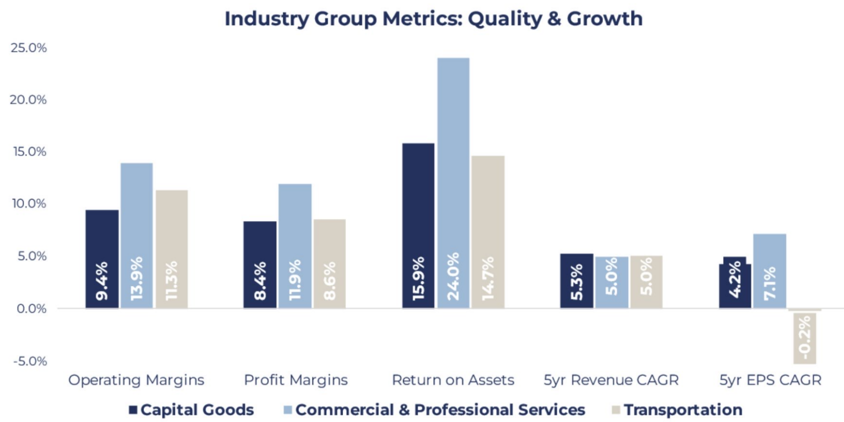
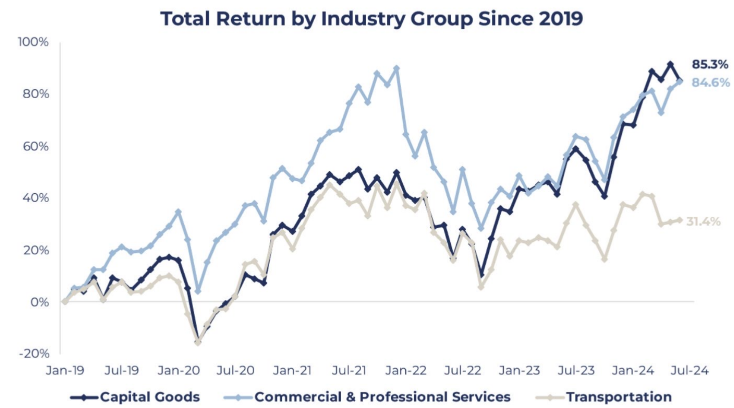
Appendix:



Industry Group Metrics: Quality & Growth
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
-5.0%
9.4%
13.9%
11.3%
8.4%
11.9%
8.6%
15.9%
24.0%
14.7%
5.3%
5.0%
5.0%
4.2%
7.1%
-0.2%
Operating Margins
Profit Margins
Return on Assets
5yr Revenue CAGR
5yr EPS CAGR
Capital Goods
Commercial & Professional Services
Transportation



Total Return by Industry Group Since 2019
100%
80%
60%
40%
20%
0%
-20%
85.3%
84.6%
31.4%
Jan-19
Jul-19
Jan-20
Jul-20
Jan-21
Jul-21
Jan-22
Jul-22
Jan-23
Jul-23
Jan-24
Jul-24
Capital Goods
Commercial & Professional Services
Transportation

Appendix

SPX ↓ 6506.48 -100.01 6487.92 / 6560.26
On 20-Mar d O 6594.66 H 6594.66 L 6473.52 Prev 6606.49
SPX Index Display Alert Export Save Defaults Restore Defaults
S&P 500 ECO SECTORS IDX
Members | Historical Summary | Data Access
Stats Group by Index Sectors Fields As of 03/22/2026

Ticker	Name	Weight (%)
S5INFT	S&P 500 Information Technology Sector GICS Level 1 Index	33.223287
S5TELS	S&P 500 Communication Services Sector GICS Level 1 Index	10.604405
S5FINL	S&P 500 Financials Sector GICS Level 1 Index	12.594299
S5COND	S&P 500 Consumer Discretionary Sector GICS Level 1 Index	9.782035
S5HLTH	S&P 500 Health Care Sector GICS Level 1 Index	9.425589
S5INDU	S&P 500 Industrials Sector GICS Level 1 Index	8.892757
S5CONS	S&P 500 Consumer Staples Sector GICS Level 1 Index	5.205886
S5ENRS	S&P 500 Energy Sector GICS Level 1 Index	3.896210
S5UTIL	S&P 500 Utilities Sector GICS Level 1 Index	2.461130
S5MATR	S&P 500 Materials Sector GICS Level 1 Index	1.975987
S5RLST	S&P 500 Real Estate Sector GICS Level 1 Index	1.938414

Industrials (79 members)				5.15T
CAT	UN	Caterpillar Inc	688.6500	320.42B
GE	UN	General Electric Co	291.6100	304.68B
RTX	UN	RTX Corp	200.7300	270.18B
GEV	UN	GE Vernova Inc	877.3900	236.48B
BA	UN	Boeing Co/The	201.1800	158.10B
UBER	UN	Uber Technologies Inc	75.3400	155.06B
DE	UN	Deere & Co	567.5800	153.31B
LMT	UN	Lockheed Martin Corp	637.5100	146.68B
HON	UW	Honeywell International Inc	229.0300	145.59B
ETN	UN	Eaton Corp PLC	360.2300	139.76B
UNP	UN	Union Pacific Corp	234.1800	138.96B
PH	UN	Parker-Hannifin Corp	900.0100	113.60B
NOC	UN	Northrop Grumman Corp	714.1500	101.35B
GD	UN	General Dynamics Corp	349.6300	94.54B
WM	UN	Waste Management Inc	233.8300	94.31B
TT	UN	Trane Technologies PLC	423.0300	93.63B
HWM	UN	Howmet Aerospace Inc	232.9400	93.39B
PWR	UN	Quanta Services Inc	577.9500	86.47B
FDX	UN	FedEx Corp	356.1100	84.97B
ADP	UW	Automatic Data Processing Inc	210.6600	84.82B
UPS	UN	United Parcel Service Inc	96.5600	82.04B
JCI	UN	Johnson Controls International	133.2500	81.56B
MMM	UN	3M Co	142.7100	75.17B
ITW	UN	Illinois Tool Works Inc	260.6200	75.11B
CMI	UN	Cummins Inc	540.2400	74.64B
EMR	UN	Emerson Electric Co	129.9000	73.00B
CTAS	UW	Cintas Corp	181.8300	72.71B
CSX	UW	CSX Corp	38.4900	71.57B
RSG	UN	Republic Services Inc	223.0200	68.87B
LHX	UN	L3Harris Technologies Inc	363.7000	67.93B
TDG	UN	TransDigm Group Inc	1,191.9400	67.31B
NSC	UN	Norfolk Southern Corp	278.1900	62.47B
PCAR	UW	PACCAR Inc	112.8500	59.39B