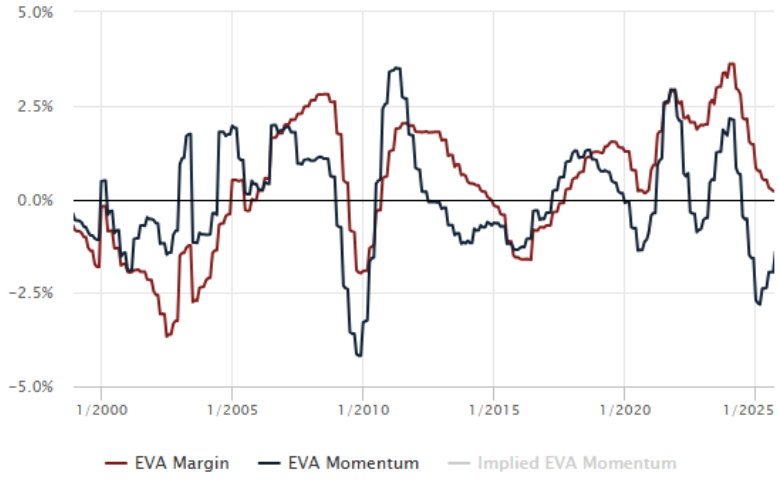
DM Machinery: Can the V-Shaped Recovery Continue?

The global Machinery industry aggregate has seen economic profitability erode to the lowest level in eight years. EVA Momentum (**Figure 1**) bottomed out in January this year and positively inflected in March. The improvement has continued through October, although it remains negative. As the level of current Profitability has continued to contract, investors have expanded the bullish outlook for value creation to record-high levels of embedded expectations. When we convert that to our P/E ratio equivalent, Future Growth Reliance (FGR), it shows that over half of the current market value is dependent on growth going forward. This is around the GFC (2009) levels of premium. EVA Margin at that time was -1.9% compared to 0.2% at the end of October. During that recovery, the industry saw a continuation in performance until the peaking in Profitability 8 months later.

All three EVA Drivers (not shown), measuring Sales, Margins, and Asset Efficiency, have pressured EVA Profitability for 21 months. Sales growth has started to improve from Q2 this year but is yet to turn positive as of the latest print. The Productive Capital charge has also changed to being less of a negative drag.

Amidst improving EVA growth trends in the industry, we search for attractive firms (Developed Markets) that have released their Q3 numbers and have seen EVA Momentum accelerating over the last one-to-two quarters. These 10 firms (page 2) are worth exploring as economic profitability for the industry potentially approaches a bottom.

Figure 1: EVA Fundamentals – Global Machinery



In **Figure 2**, we highlight the Large Cap names from our screen (Market Cap >= $10B). The firms have positive EVA Fundamentals as of the quarter ending in September. All four firms are based in the United States and have very strong Risk-Adjusted Profitability, offset by a very high Valuation score, placing all the firms in our 'Expensive but Worth It' HEAT Map zone.

Figure 2: EVA Fundamentals and PRVit Metrics – ITW, OTIS, ITT, and CR

Name	Ticker	Mkt Cap ($mm)	EVA Margin (%)	EVA Momentum (%)	PRVit Score	Quality (P-R)	Valuation Score (V)	Returns YTD (%)
ILLINOIS TOOL WORKS	ITW	70,898	16.86%	0.74%	67	97	90	-1.98%
OTIS WORLDWIDE CORP	OTIS	36,283	10.50%	0.62%	68	97	89	1.49%
ITT INC	ITT	14,435	7.34%	0.30%	65	94	84	30.27%
CRANE CO	CR	11,052	3.43%	2.01%	60	89	80	25.66%

Key Summary

- The global Machinery industry aggregate has seen economic profitability erode to the lowest level in eight years. EVA Momentum bottomed out in January this year and positively inflected in March.
- Amidst improving EVA growth trends in the industry, we search for attractive firms (Developed Markets) that have released their Q3 numbers and have seen EVA Momentum accelerating over the last one-to-two quarters.

EVA Primer

1. EVA measures the true economic profit of a business after compensating shareholders for use of their capital and is therefore superior to standard accounting measures.

2. The value of a company is the capital invested plus the present value of future EVA generation. The math is like a DCF: Market Value = Capital + PV(EVA).

3. Therefore, more Economic Value Added (EVA) is better.

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Global Director of Fundamental Research

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About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +29,000 stock universe.

Visit our website www.EVAexpress.com

Figure 3 shows the complete list of the screened firms along with their EVA Fundamentals, PRVit Metrics, YTD Returns, and ESG Performance Scores. Of these firms, 90% are based in the United States and one firm, **6305 JP**, is based in Japan. **6305 JP** has strong Quality (P-R), the lowest (lower is more favorable) Valuation score in the cohort, and the highest YTD return, at 48%. **OSK** is the most attractive name in the list, from a PRVit perspective, with a PRVit Score of 92, driven by a very attractive Quality-Value tradeoff.

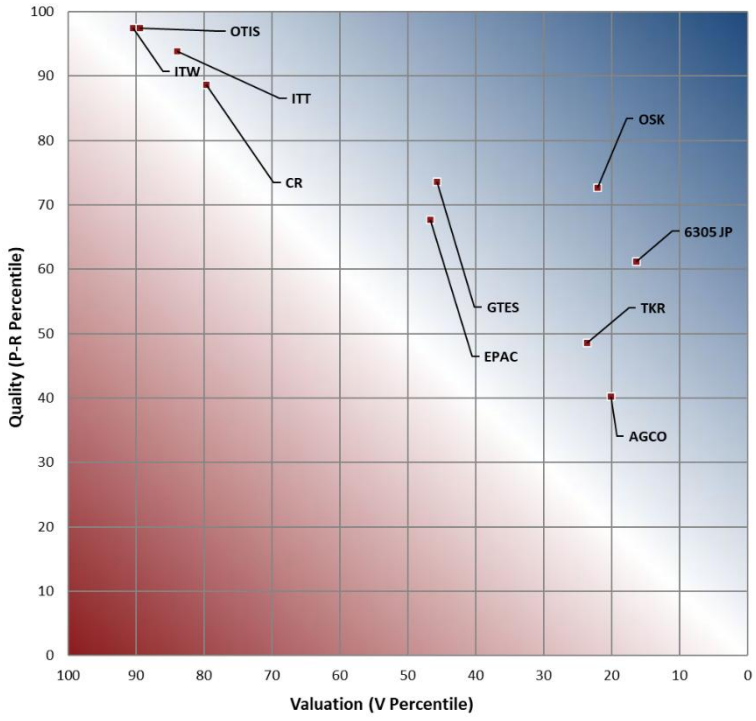
Screen Criteria:

- Market cap >= $2B
- Economic Development: Developed Markets
- PRVit Score >= 60
- EVA Momentum Post-Inflection Count: 1 or 2

Figure 3: DM Machinery Attractive PRVit Names – EVA Fundamentals, PRVit Metrics, YTD Returns

Name	Ticker	Country	Mkt Cap ($mm)	EVA Margin (%)	EVA Momentum (%)	EVA Mo Post-Inflection Count	PRVit Score	Quality (P-R)	Valuation Score (V)	Returns YTD (%)	ESG Perf Score
ILLINOIS TOOL WORKS	ITW	U.S.	70,898	16.86%	0.74%	1	67	97	90	-1.98%	44.49
OTIS WORLDWIDE CORP	OTIS	U.S.	36,283	10.50%	0.62%	1	68	97	89	1.49%	56.81
ITT INC	ITT	U.S.	14,435	7.34%	0.30%	1	65	94	84	30.27%	39.41
CRANE CO	CR	U.S.	11,052	3.43%	2.01%	1	60	89	80	25.66%	31.29
OSHKOSH CORP	OSK	U.S.	7,818	1.61%	-0.95%	1	92	73	22	31.29%	53.34
AGCO CORP	AGCO	U.S.	7,698	-2.46%	-2.81%	2	67	40	20	11.29%	56.52
HITACHI CONSTR MACHINERY CO	6305 JP	Japan	7,022	-0.09%	-0.70%	2	76	61	16	48.31%	54.31
GATES INDUSTRIAL CORP PLC	GTES	U.S.	5,790	0.01%	-0.01%	1	77	74	46	7.34%	48.94
TIMKEN CO	TKR	U.S.	5,477	-3.46%	-1.88%	2	73	49	24	11.46%	49.09
ENERPAC TOOL GROUP CORP	EPAC	U.S.	2,176	-3.85%	-1.75%	1	70	68	47	-0.02%	34.90

Figure 4: DM Machinery Attractive PRVit Names – PRVit HEAT Map



ITW, **OTIS**, **OTT**, and **CR** lie in the 'Expensive but Worth It' HEAT Map zone, demonstrating very strong Quality and elevated Valuation levels.

6305 JP and **OSK** are in the 'High Quality and Cheap' zone. Firms in this zone report attractive Quality levels and favorable Valuations.

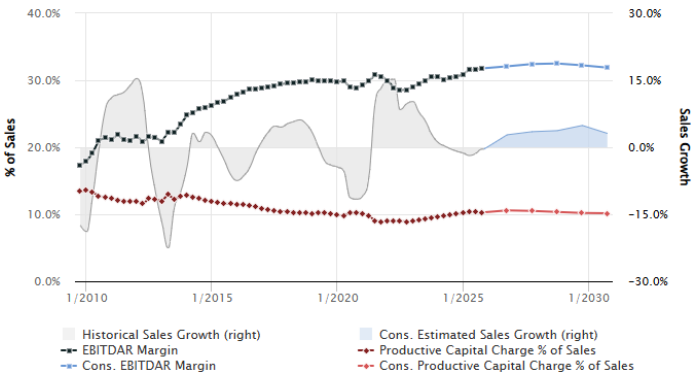
AGCO is currently in the 'Attractive Value' HEAT Map zone, demonstrating relatively weak Risk-Adjusted Profitability but attractive Valuation levels.

Summary Firm-Level Commentary in the following pages

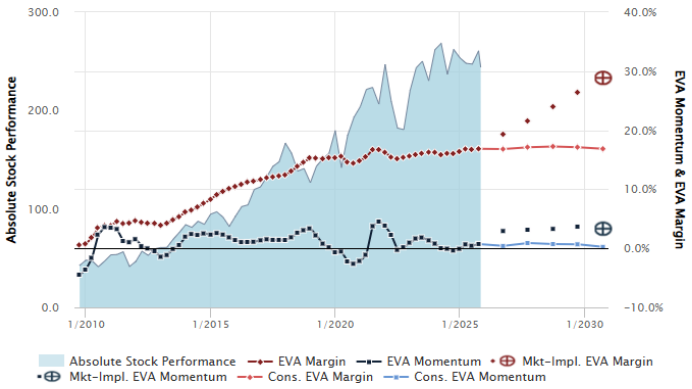
Illinois Tool Works Inc.

Illinois Tool Works Inc. (**ITW**, rated '**Overweight**')**:** EVA Momentum (growth) for **ITW** has trended positively through 2025, seeing an acceleration as of the latest quarter. This is supported by improving top-line growth (becoming less negative, TFQ), a sustained expansion in EBITDAR Margin that is currently trending at record highs of 31.8%, and asset efficiency showing signs of improvement on the increase in sales. EVA Margin has expanded to an all-time high of 16.9% as of September. Embedded expectations for growth have increased sequentially compared to the previous quarter and are currently near historically high levels. FGR is trading near the upper end of the historical range, at 41% as of 3rd November. While Valuations remain very high for **ITW**, we maintain a positive outlook on the firm amidst very strong levels of economic profitability and attractive EVA growth trends.

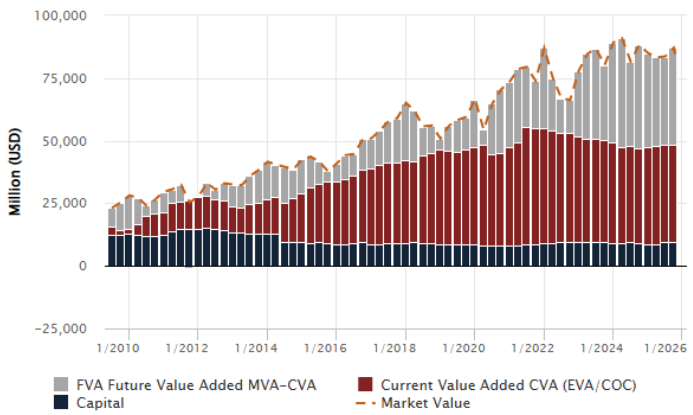
EVA Drivers: Sales, Margins, and Turns



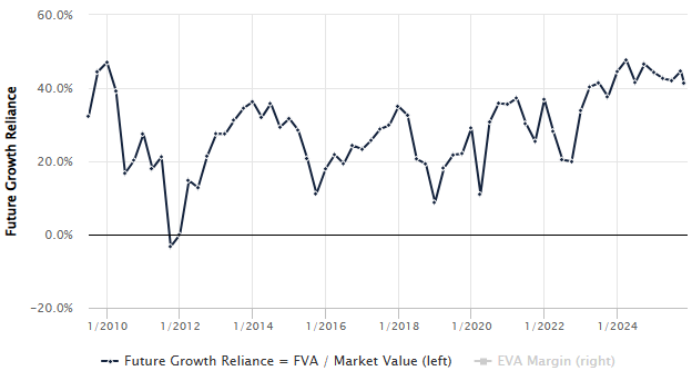
EVA Fundamentals: Profitability Level and Growth



Enterprise Value Components: Capital, CVA, and FVA



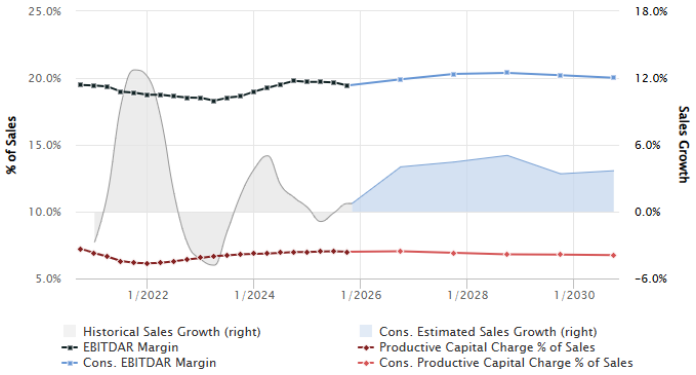
Future Growth Reliance (FGR): Market Expectations



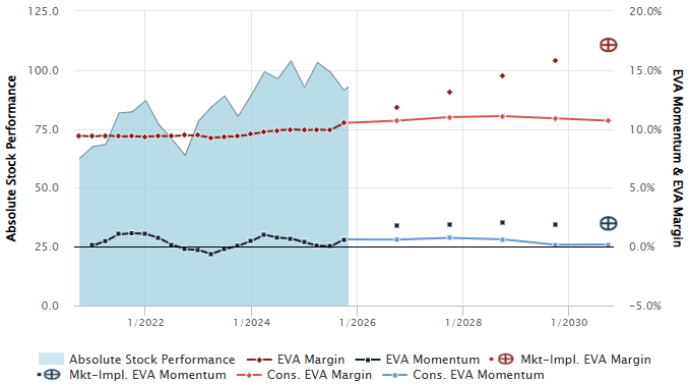
Otis Worldwide Corporation

Otis Worldwide Corporation (**OTIS**, rated '**Overweight**'): The firm was upgraded to Overweight at the end of October on higher Profitability. EVA Momentum (growth) has inflected up, to 0.6%, after five sequential quarters of deceleration. EVA Margin has expanded to record highs of 10.5% as of the quarter ending September, after plateauing for the previous four quarters. While EBITDAR Margin for **OTIS** has plateaued at high levels, top-line growth has turned positive as of the latest print and the Productive Capital Charge (lower is more favorable) has peaked out, supported by a moderating R&D charge, as a % of sales. Embedded expectations for growth (Future Value Added, FVA) have turned slightly less bullish but remain at historically elevated levels. Future Growth Reliance (FGR), our P/E equivalent, is currently at 44%, lower than the 50% seen in March this year, but still closer to the upper end of the 5-year range. We are bullish on the firm given its very strong Quality and accelerating EVA Momentum trends but remain cognizant of elevated Valuation levels.

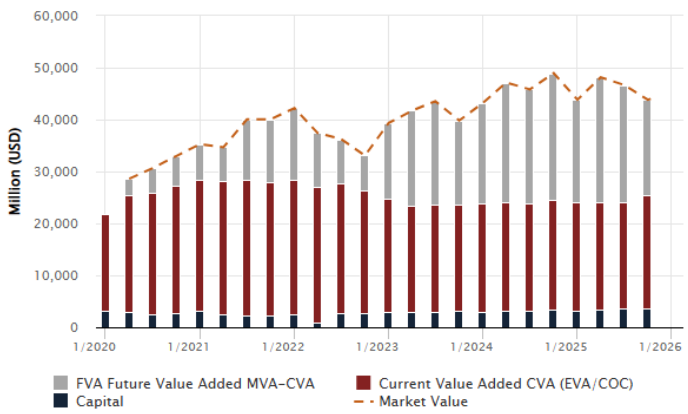
EVA Drivers: Sales, Margins, and Turns



EVA Fundamentals: Profitability Level and Growth



Enterprise Value Components: Capital, CVA, and FVA



Future Growth Reliance (FGR): Market Expectations



About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework.
EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +29,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + PV of EVA
If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

EVA = NOPAT - Capital Charge
EVA is profit after all costs, including the cost of giving shareholders a decent return.

EVA Margin = EVA / Sales
A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line item drivers and offers key insights into business profitability.

EVA Momentum = Δ EVA / Sales
An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

EVA Shock = Δ EVA Momentum
Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)
The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV
Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

Additional Resources

evaExpress.com (link): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework
EVA for Investors (link): A full introduction to the key EVA concepts and metrics

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