

A background image showing a rowing team in a boat, with several oars visible. The image is slightly blurred and has a dark overlay.

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Inside^{The}
BUY-SIDE[®]

2Q19 Earnings Primer
Industrial Sentiment Survey

July 18, 2019

For over a decade, we have surveyed global investors and analysts on the equity markets, world economies and business climate. We share our research broadly with corporate executives, investor relations (IR) professionals and the financial community.¹

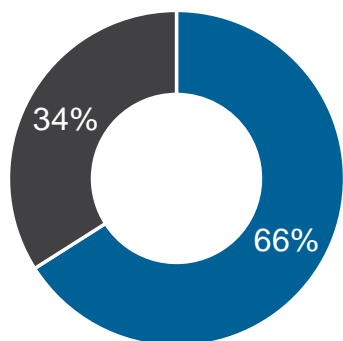
Scope: 35 sector-dedicated investors and analysts globally; buy-side firms manage \$978 billion in assets and have ~\$101 billion invested in Industrials.

Timeframe: June 17 – July 8, 2019

Market Performance		
	<u>2Q19</u>	<u>YTD*</u>
DJIA	2.6%	14.0%
NASDAQ	3.6%	20.7%
S&P 500	3.8%	17.3%
S&P Industrial	3.4%	17.8%
Russell 2000	1.7%	16.2%

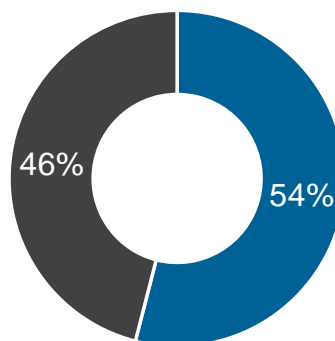
* As of 6/28/19

Role



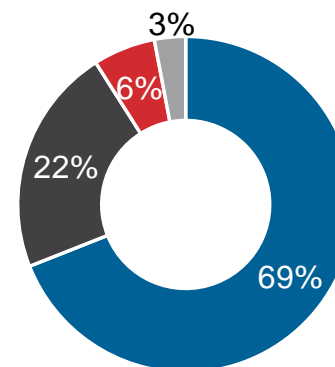
■ Buy Side ■ Sell Side

Sector Focus



■ Industrials
■ Multi-Industry Incl. Industrials

Region



■ N. America ■ EMEA ■ APAC ■ LatAm

¹ The Industrial Sentiment Survey was first published in June 2015

Trade War Concerns, as well as Slowing Growth in China and Europe, Drive Continued Cautious Views

1Q 2019



2Q 2019



Key: Underlying Sentiment

- Positive
- Neutral
- Negative

#1 Investor Sentiment and Perceived Management Tone Register at the Most Downbeat Levels in Over Three Years as Tough Comps and Headwinds Mount

- *Neutral to Bearish* and *Bearish* investor sentiment more than doubled QoQ, while those classifying management tone as such jumped to 37% from 4% last quarter
- More than half believe earnings will *Decrease* sequentially and come in *Worse Than* consensus, tripling QoQ and the highest level registered since Dec. 2015
- All KPIs – Revenue Growth, EPS, Margins and Cash Flow – are expected to *Stay the Same* or *Worsen* QoQ
- Growth outlook and strategies, cost containment and geographic trends are key focus areas for upcoming earnings calls
- 49% expect 2019 Industrial organic growth rates to be 2.5% or lower, on average, compared to 39% last quarter

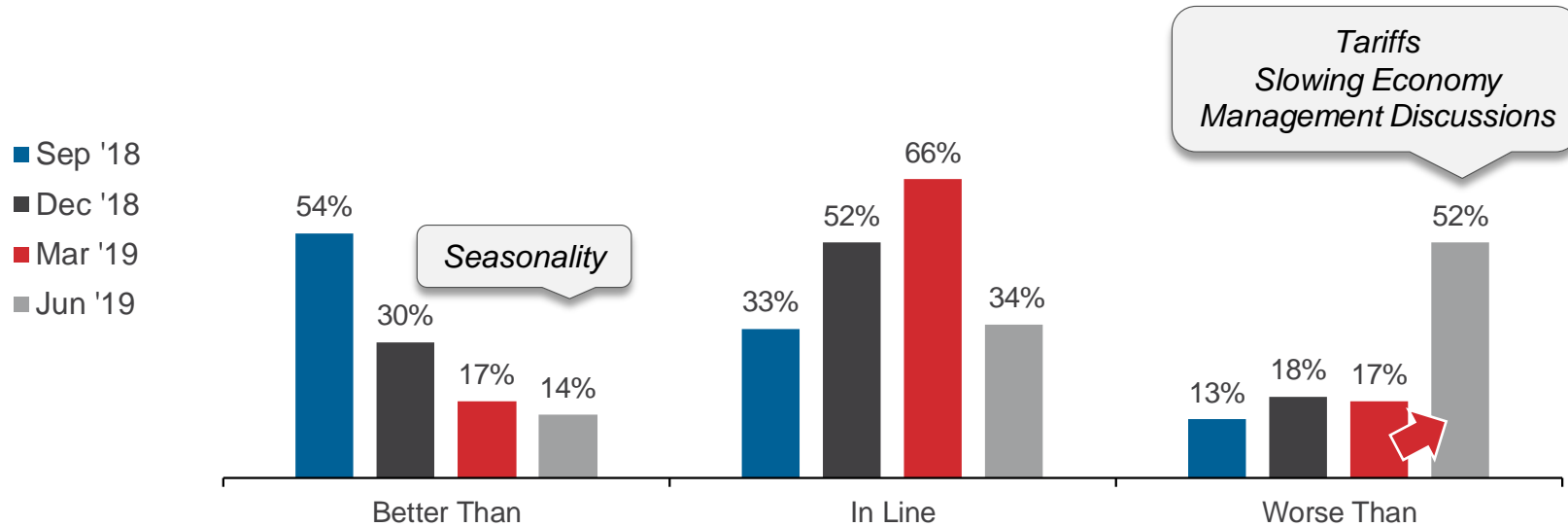
#2 Significant Uncertainty with Tariffs and the Extent to which Growth Will Slow Weighs on Industrials; A Recession not Expected but Regional Trends are in Focus

- Trade conflict is cited as the top concern for the fourth consecutive quarter; 81% express *High* concern and 64% believe a favorable resolution to the U.S./China trade dispute over the next six months is only *Somewhat* likely
- 65% note the U.S. economy is *Losing Steam*, though 63% *Do Not* believe we will enter a recession in the next 12 months
- When asked where they are seeing economic weakness, 45% and 41% cite China and Europe, respectively
- Views on peak Industrial earnings are divided; nearly one-third believes Industrials have *Already Peaked*, though a slightly higher number, 42%, anticipate 2020 or later

#3 Investors Engaging in Stock Picking and Pruning as Pockets of Weakness Grow; Financial Wherewithal Plus Cycle-tested Management a Competitive Advantage

- 27% report *Selling* investments, an increase from 18% QoQ; *Net Buyers* fell to 9% from 27% last quarter
- Resi Construction, Building Products and Water see the most significant spikes in bullish sentiment, while Machinery and Ag bears proliferate
- Conservative balance sheets remain in focus: 57% of Industrial investors prefer Net Debt-to-EBITDA levels of less than 2.0x, compared to only 32% of all investors in our broader, multi-sector *Earnings Primer*

Expectations Regarding 2Q19 Earnings Performance vs. Consensus



53% Expect Earnings to *Decrease* Sequentially
vs. 54% Last Quarter

58% Sell-side Respondents Who Expect Earnings to be *Worse Than* Consensus
vs. 8% Last Quarter

Better Than – 14%

“Tariff and economic fears have somewhat eased, which should mean an uptick in corporate and personal consumption.” **Buy Side, Industrials, N. America**

“Seasonality should help Q2 but extremely wet weather affecting construction and ag markets and tariff/trade uncertainty impacting nearly every end market. Slowing LEIs, PMI, Philly Fed, etc.” **Buy Side, Generalist, N. America**

“Timing and seasonality.” **Sell Side, REIT, N. America**

In Line – 34%

“The slowing economy as well as rising input costs due to tariffs.” **Buy Side, Generalist, N. America**

“2Q trends seem to be below prior expectations.” **Sell Side, Industrials, N. America**

“Discussions with CFOs.” **Sell Side, Industrials, Asia**

Worse Than – 52%

“Weakening demand globally brought on by trade war.” **Buy Side, Industrials, N. America**

“Loss of benefit from tax cuts on a YoY basis.” **Buy Side, Generalist, N. America**

“Manufacturing vs. services, international exposure.” **Buy Side, Generalist, Europe**

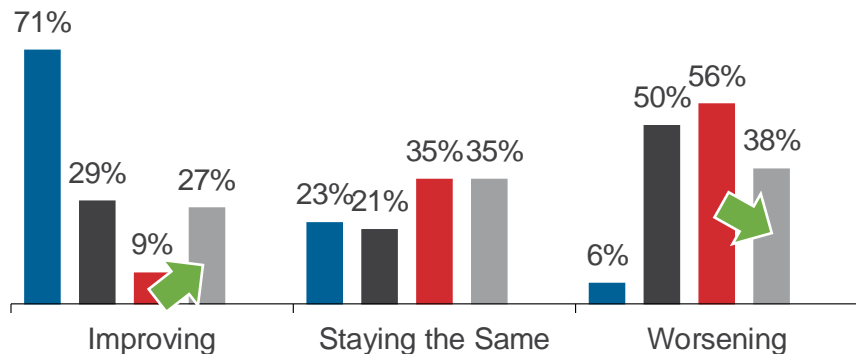
“Companies are talking down numbers so they can beat them.” **Sell Side, Multi-sector, Australia**

“U.S./China conflict.” **Sell Side, Industrials, Asia**

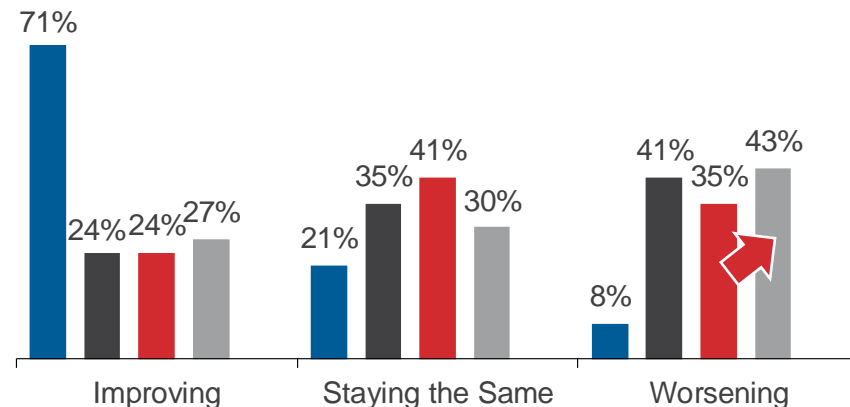
¹ Better Than – 17%; no comments provided

KPI Trends – Expectations

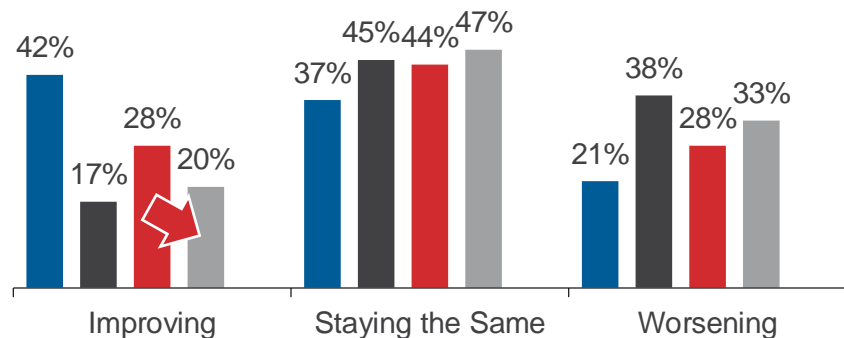
Revenue Growth



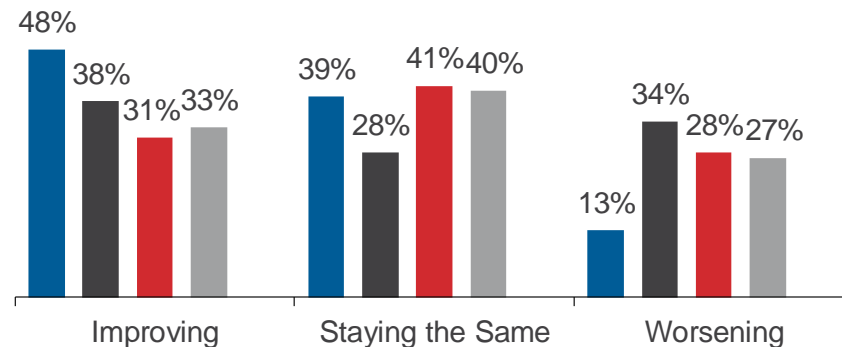
EPS Growth



Operating Margin Expansion



Cash Flow Growth



■ Sep '18 ■ Dec '18 ■ Mar '19 ■ Jun '19

1 Growth outlook and strategies

2 Cost containment

3 Geographic trends

Out of N. America

"I want to know in general the assumptions that underlie guidance." **Buy Side, Industrials**

"Commercial Aerospace and Defense spending outlooks." **Buy Side, Industrials**

"FCF." **Buy Side, Industrials**

"What are they doing to free themselves from the chain of macro malaise?" **Buy Side, Generalist**

"Growth cycle." **Buy Side, Generalist**

"Trade and currency effects." **Buy Side, Generalist**

"What will spur capex to improve productivity?" **Buy Side, Generalist**

"Leverage, tone of biz." **Sell Side, Industrials**

"Inflation, pricing, labor availability/cost." **Sell Side, Industrials**

"Growth expectations for 2H19, how to maintain margins in moderating growth environment, contingency plans around escalation/de-escalation for trade/tariff, cap deployment strategy in current environment." **Sell Side, Industrials**

"Relative strength of major geographies (N. America, EMEA, APAC, LatAm)." **Sell Side, Multi-sector**

Out of EMEA

"Input costs, Auto sector." **Buy Side, Generalist**

"Wages." **Buy Side, Generalist**

"Regional development, client activity, production capacity." **Sell Side, Industrials**

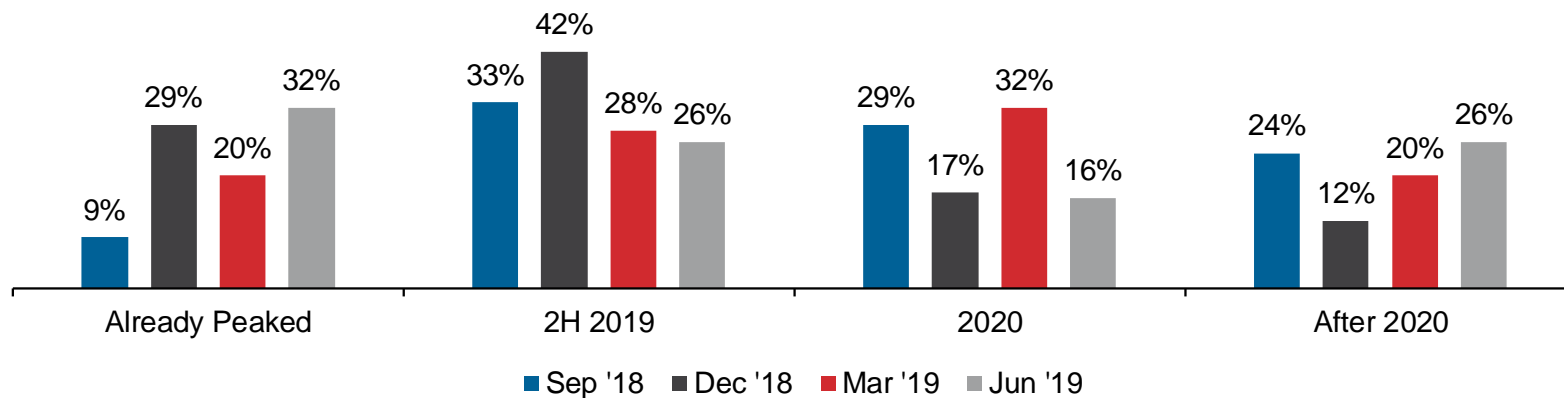
"Economic outlook." **Sell Side, Multi-sector**

Out of APAC

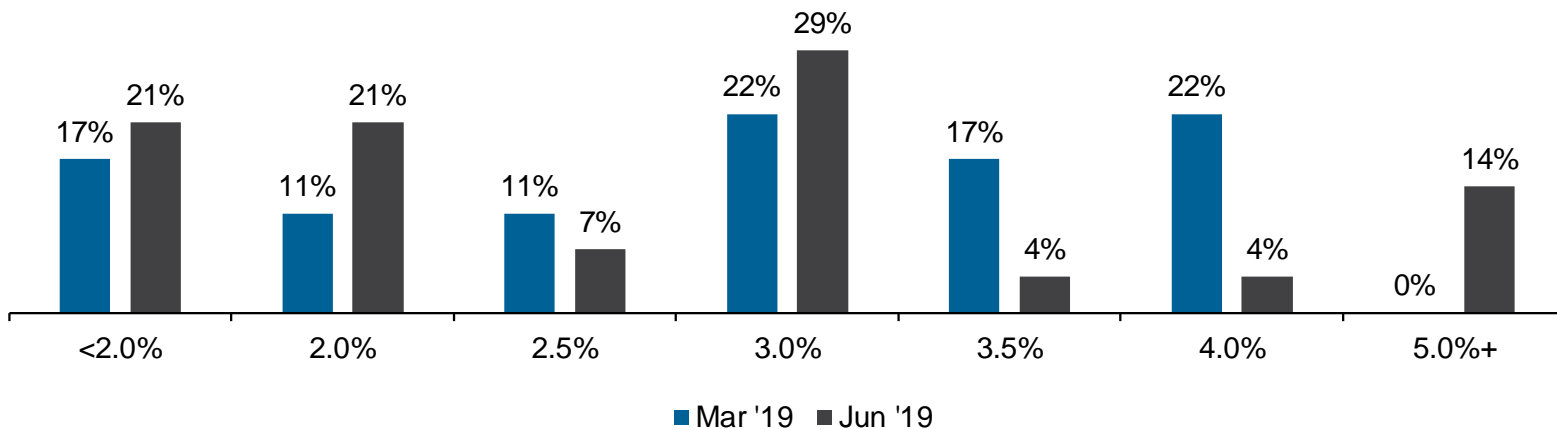
"2H guidance and assumptions." **Sell Side, Industrials**

"Growth strategies." **Sell Side, Multi-sector**

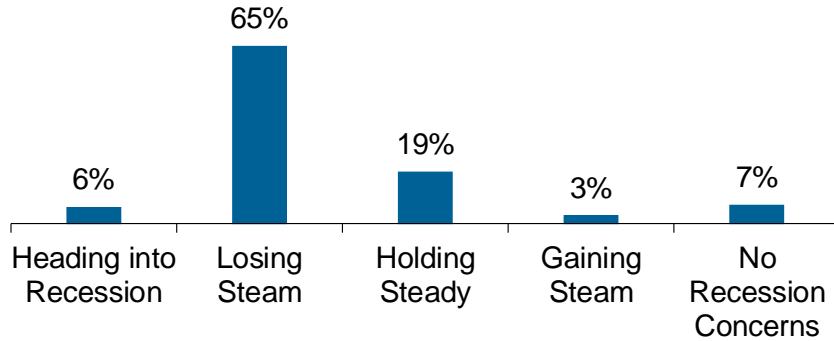
Industrial Earnings Peak Outlooks



Expectations for 2019 Industrial Organic Growth



Views on the Economy Following 1Q19 Earnings



Areas of Economic Slowdown

Regions

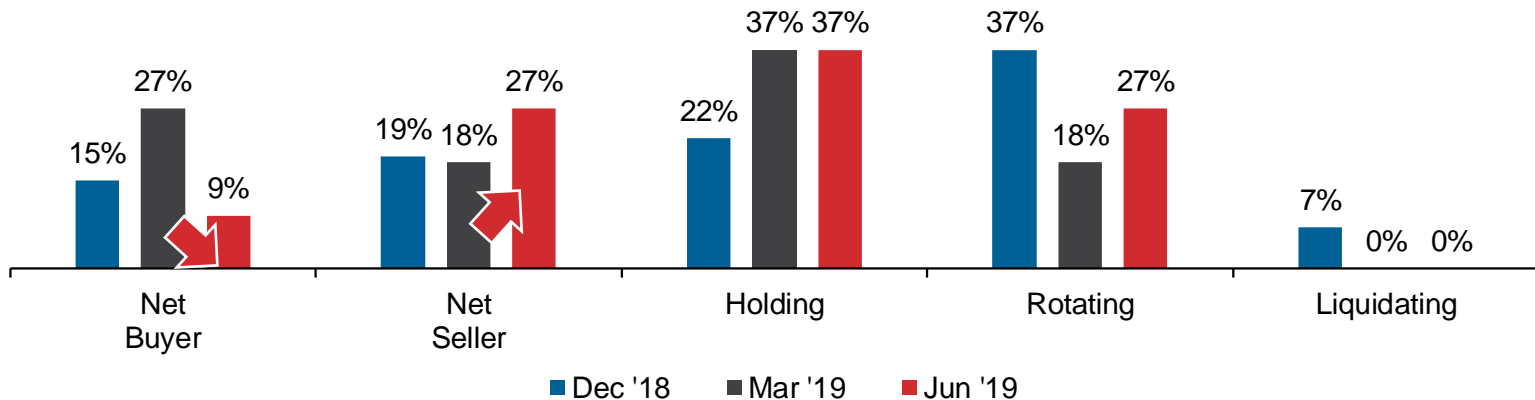
- 45% | China
- 41% | Europe
- 9% | U.S.
- 9% | Japan

End Markets

- 41% | Auto
- 18% | Semi
- 18% | Ag
- 18% | Electronics

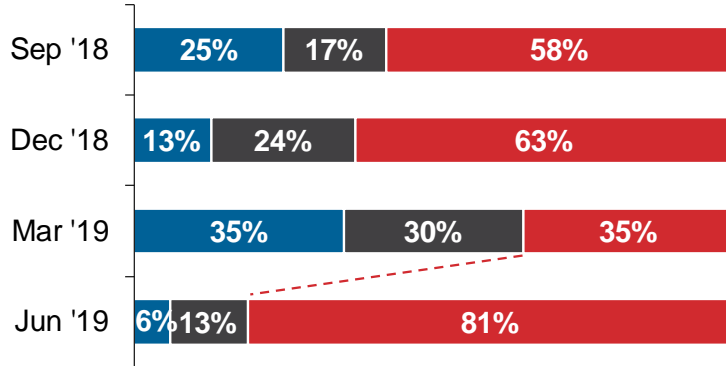
63% Do Not Believe We Will Enter a Recession in the Next 12 Months

QoQ Investment Trends

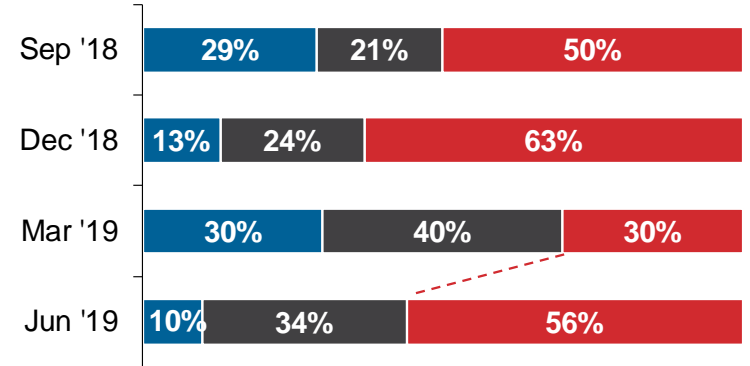


Concern Levels

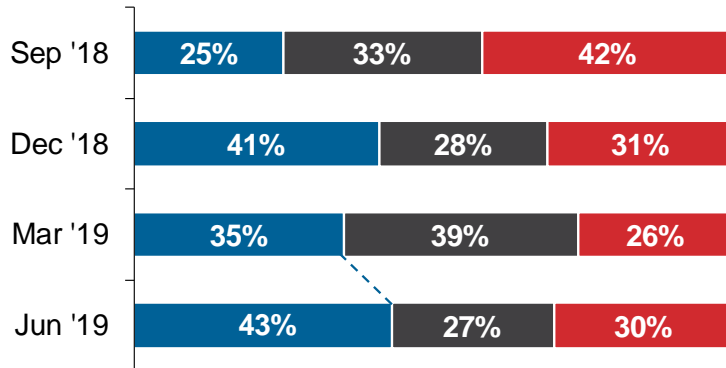
Trade Wars



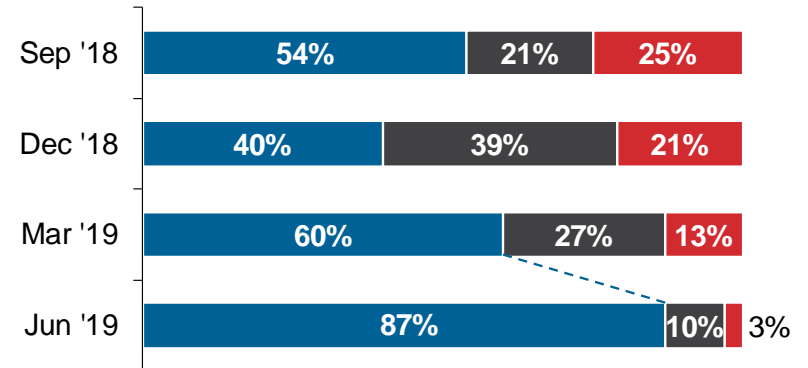
Tariff Impact



Rising Input Costs



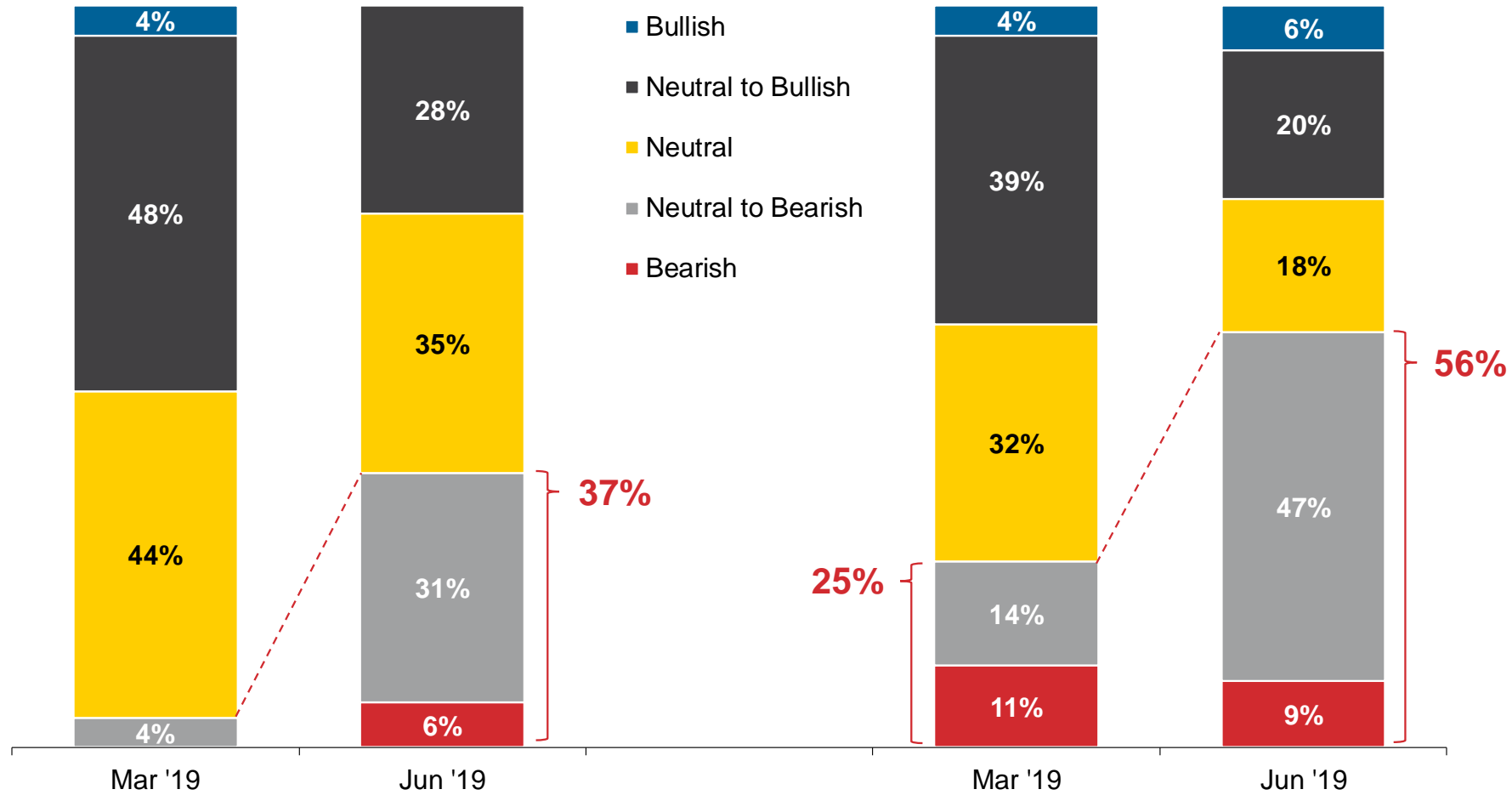
Rising Interest Rates



■ No Concern ■ Moderate ■ High

Management Tone

Investor Sentiment



1 Trade conflict

2 Slowing global demand

3 Political environment

4 Auto

5 Input costs

6 Debt levels

Out of N. America

“Global warming, nuclear proliferation, that the Dems mess up and Trump wins another term.” **Buy Side, Industrials**

“Global demand, pricing, costs.” **Buy Side, Industrials**

“Tariffs, China, Auto.” **Buy Side, Industrials**

“Weakening demand, tariffs.” **Buy Side, Industrials**

“Tariffs/trade, rising global debt levels, nationalism.” **Buy Side, Generalist**

“Length of cycle, geopolitical, political pressure on U.S. Fed.” **Buy Side, Generalist**

“Trade, labor, input costs.” **Buy Side, Generalist**

“The Fed will help us through 2019 and politicians in 2020. Then, all bets are off.” **Buy Side, Generalist**

“Trade issues, federal debt and deficits, slowing consumer.” **Buy Side, Generalist**

“Political relations, interest rates, consumer market robustness.” **Sell Side, Multi-sector**

Out of EMEA

“Macro, inflation, interest.” **Buy Side, Generalist**

“Global slowdown, Brexit, Auto sector.” **Buy Side, Generalist**

“Short sellers, leveraged loans, deflation.” **Buy Side, Generalist**

“Trade wars.” **Buy Side, Generalist**

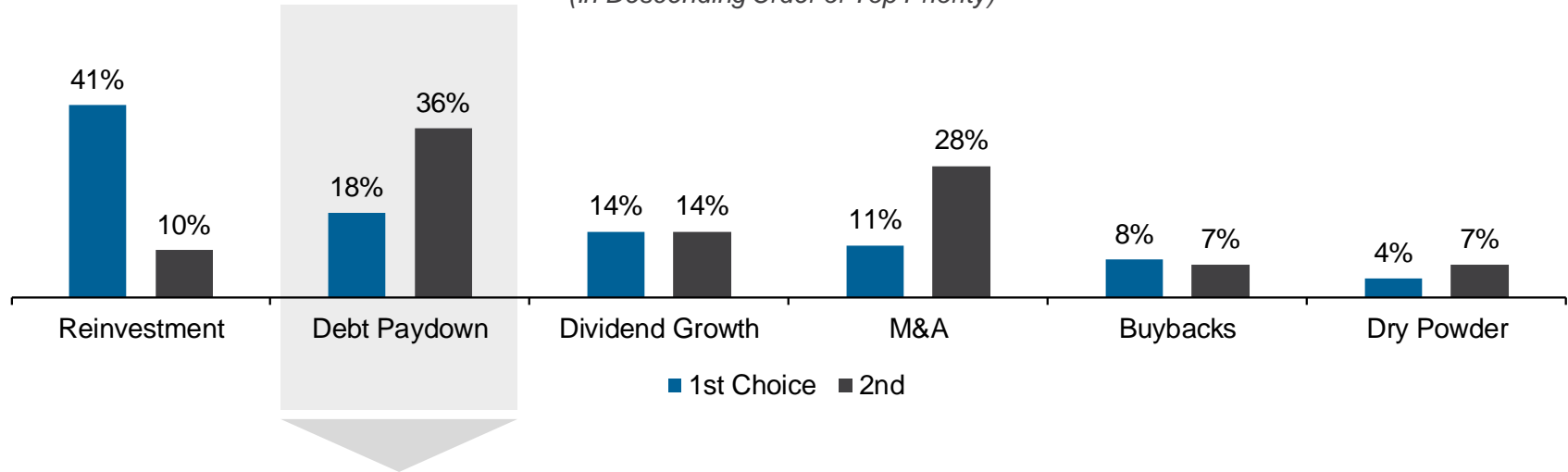
“Trade wars, economic slowdown, rising rates.” **Sell Side, Multi-sector**

Out of APAC

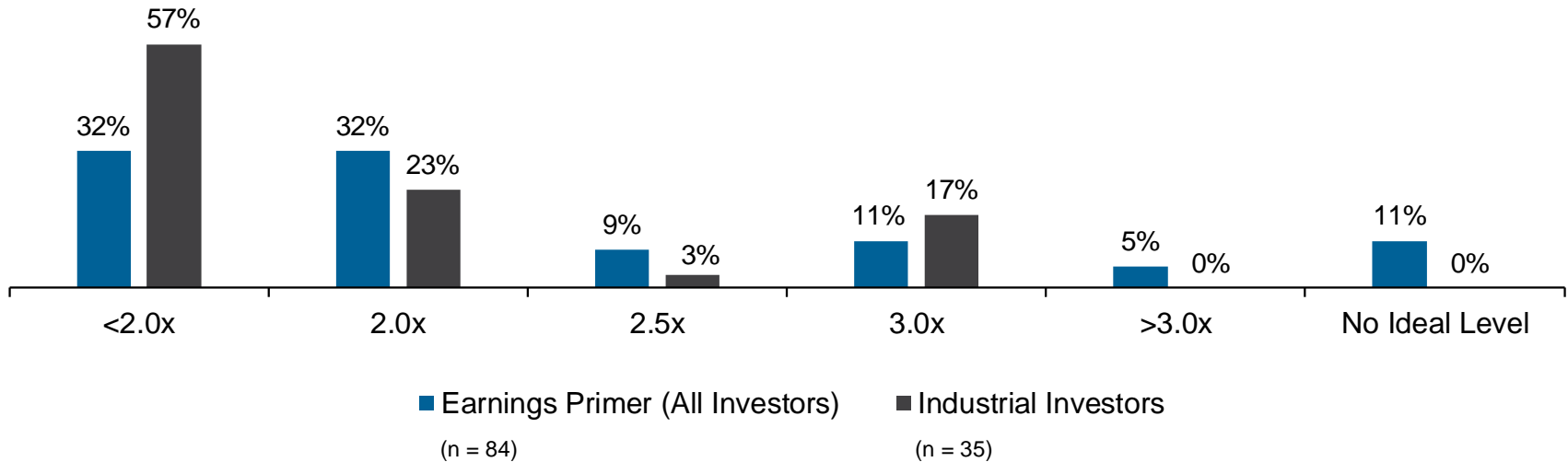
“U.S.-China, too much inventory, likelihood of recession.” **Sell Side, Industrials**

“Growth, valuation, trade.” **Sell Side, Multi-sector**

Preferred Uses of Cash
(In Descending Order of Top Priority)



Preferred Net Debt-to-EBITDA Levels



Most Compelling Investment Themes in the Industrial Universe
(unaided)

1 Consolidation

“Reduction of global warming trends, adoption of Lean manufacturing and management.” **Buy Side, Industrials, N. America**

“Automation, software, productivity.” **Buy Side, Industrials, N. America**

“Aerospace aftermarket.” **Buy Side, Industrials, N. America**

“M&A.” **Buy Side, Generalist, N. America**

“Self-help stories, innovation stories.” **Buy Side, Generalist, N. America**

2 Innovation stories

“Homebuilders / housing, semiconductors, healthcare delivery.” **Buy Side, Generalist, N. America**

3 Energy efficiency

“Emerging markets.” **Buy Side, Generalist, N. America**

“Energy efficiency.” **Buy Side, Generalist, Europe**

4 Aerospace

“Aeronautics, microelectronics.” **Buy Side, Generalist, Europe**

“Consolidation, technology.” **Sell Side, Industrials, N. America**

“Acquisitions/consolidation.” **Sell Side, Industrials, N. America**

5 Resi construction

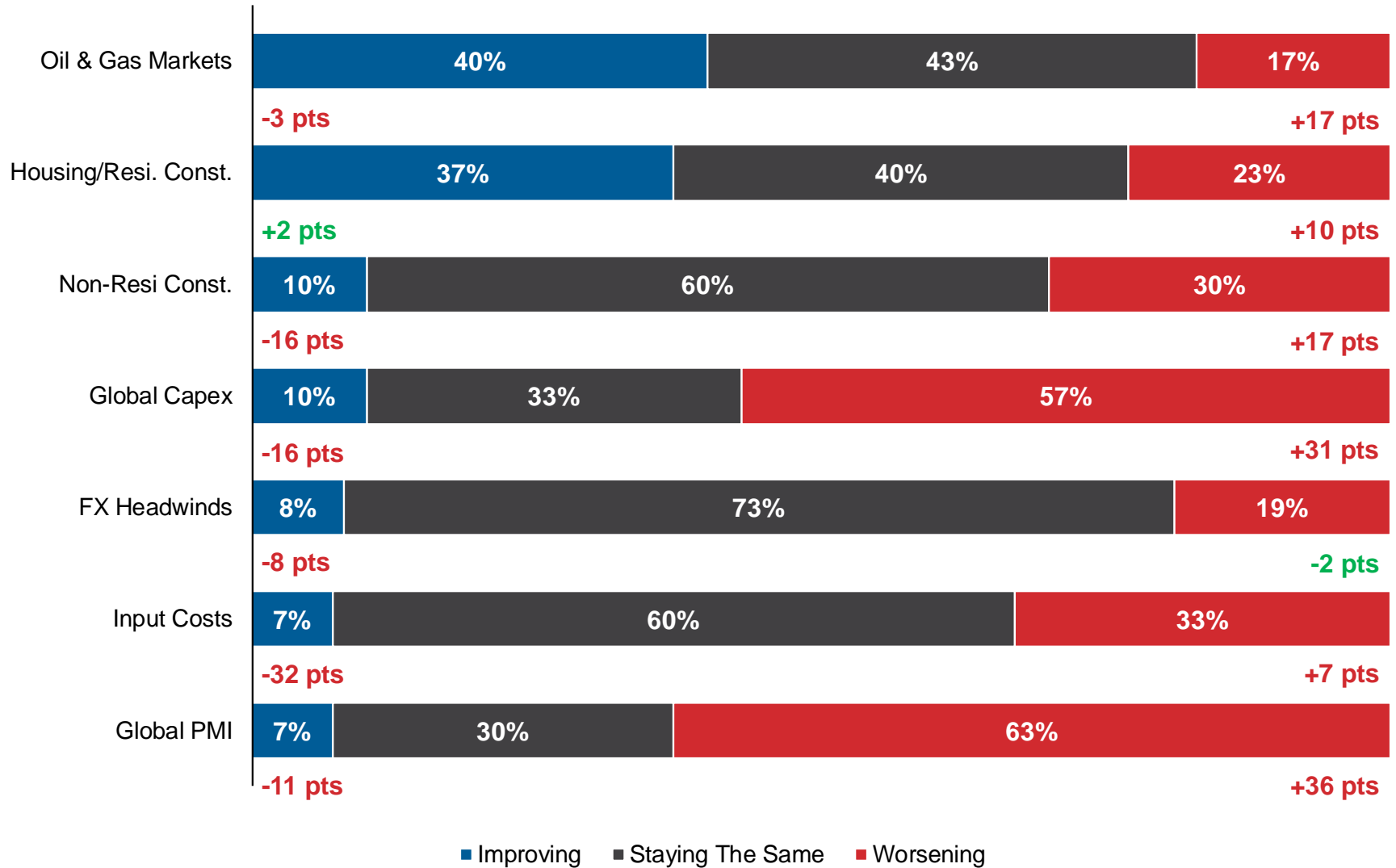
“Cybersecurity.” **Sell Side, Multi-sector, N. America**

“Business leadership and performance.” **Sell Side, Multi-sector, N. America**

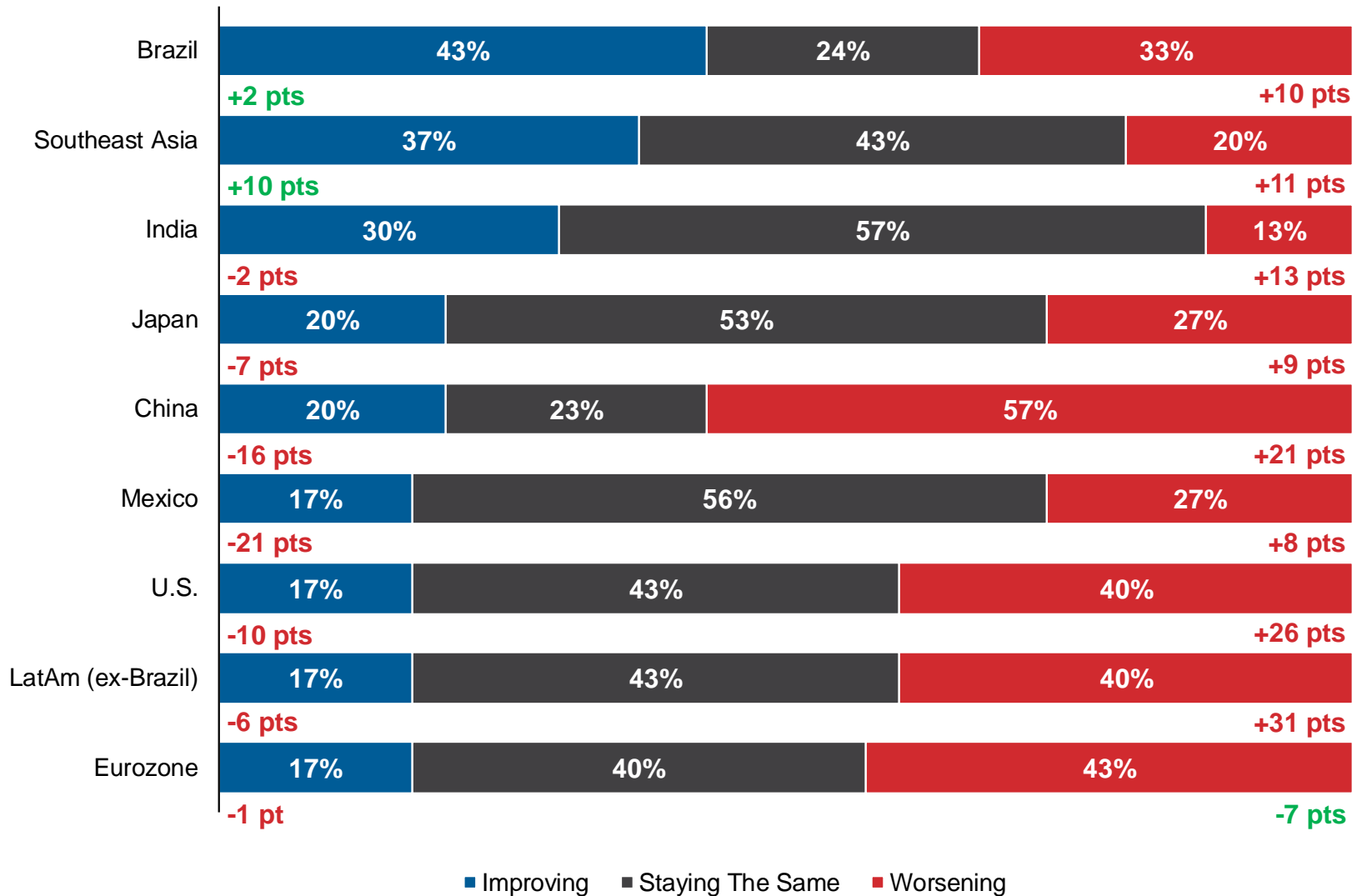
“Rebound in Residential Construction thanks to low rates.” **Sell Side, Multi-sector, Australia**

“Companies focused on domestic economy, no debt and demand exceeding supply (i.e., Swiss construction market).” **Sell Side, Industrials, Europe**

Expectations over the Next Six Months

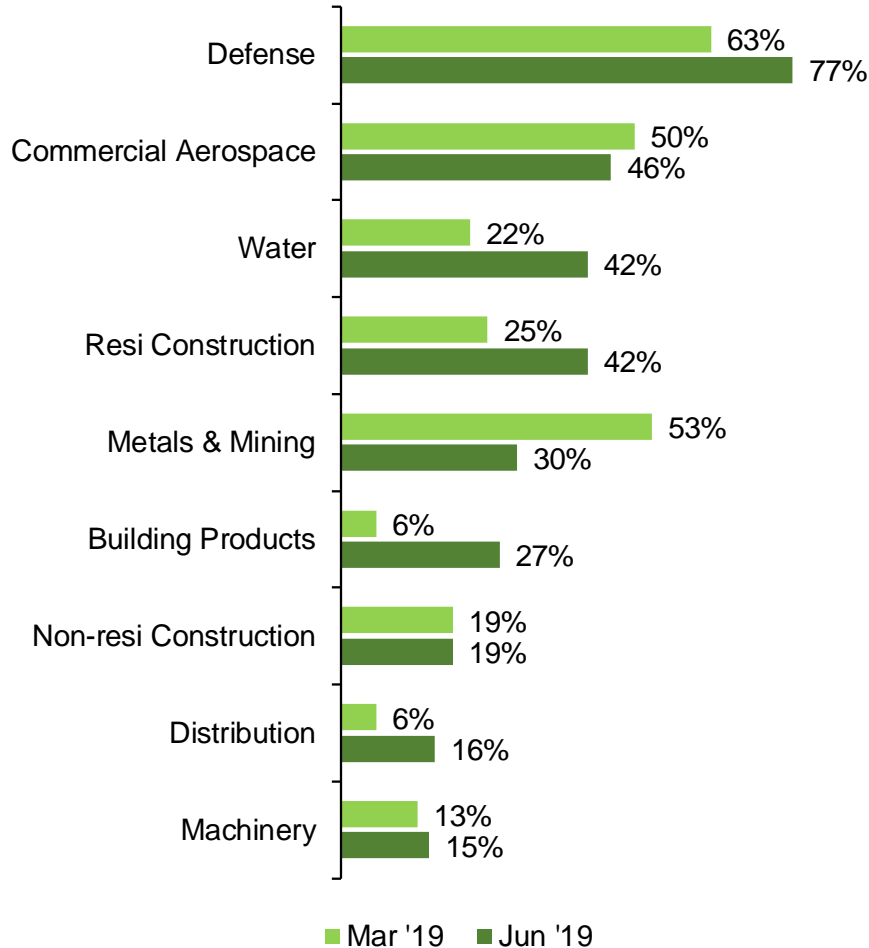


Global Economy Expectations over the Next Six Months





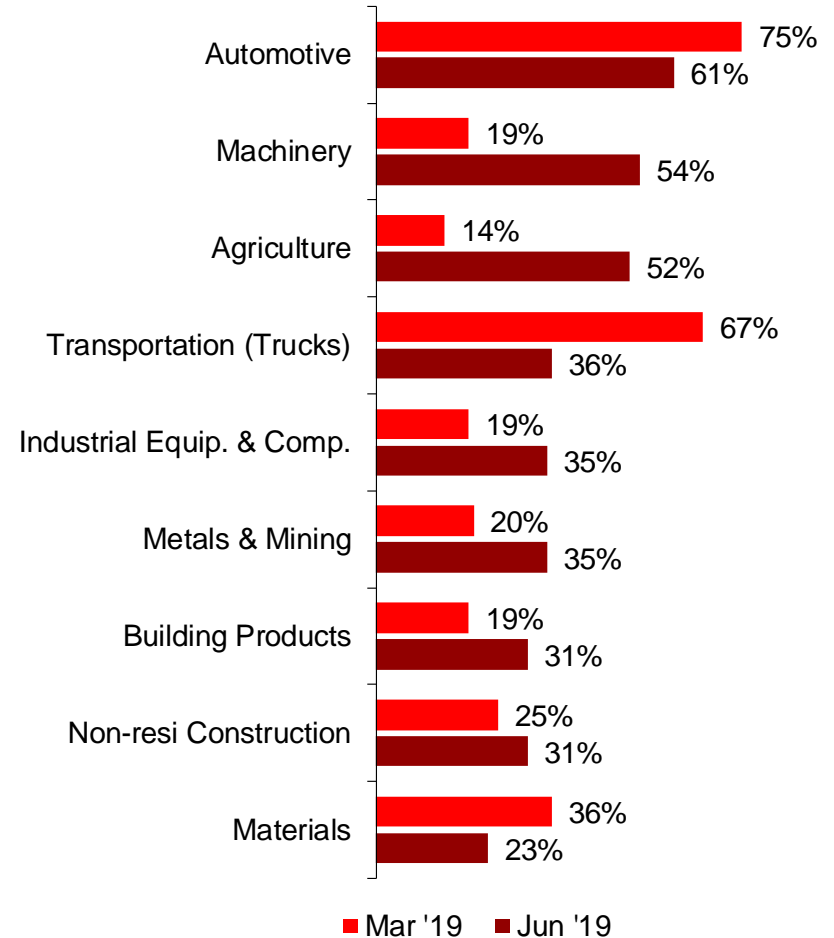
Predicted to *Grow Faster* than GDP



Several Industries See Big Spikes in Bullish Sentiment; Investors More Bullish on Resi, Building Products and Water

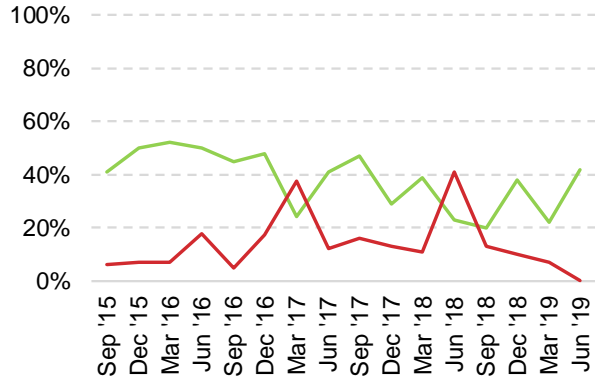


Predicted to *Grow Slower* than GDP

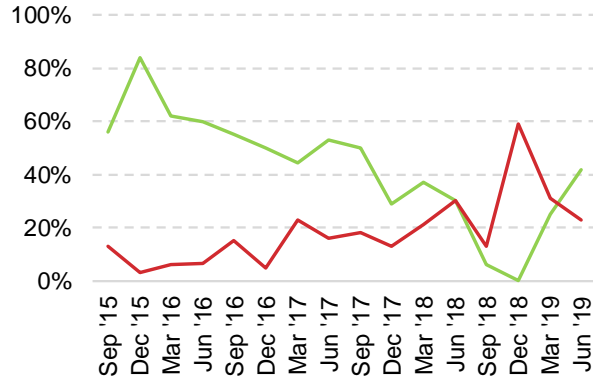


Transportation Rebounds While Machinery and Ag Falter

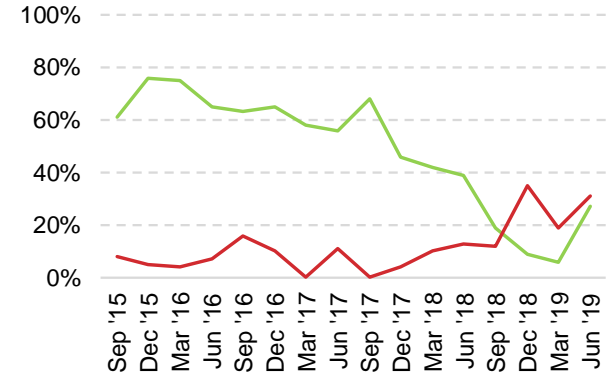
Water



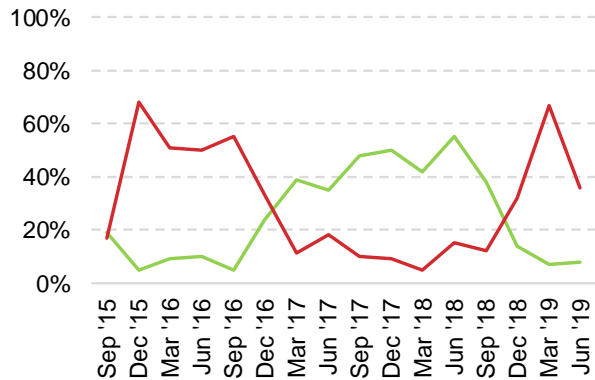
Resi Construction



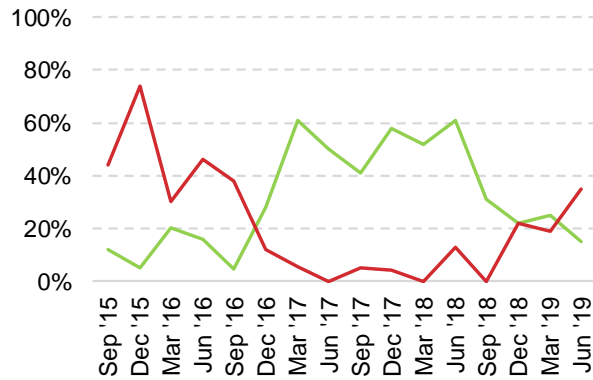
Building Products



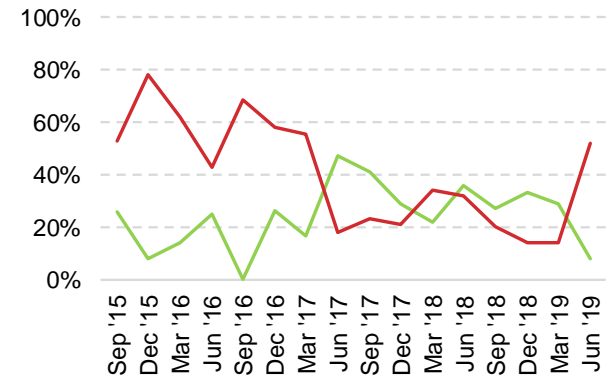
Transportation (Trucks)



Industrial Equip. & Comp.



Agriculture



■ Bulls ■ Bears

A rowing team in a boat on water, with the text "ABOUT US" overlaid in the center. The image shows several rowers in blue and white uniforms, each holding a black oar with a yellow handle. The oars are positioned in a row, extending from the boat towards the water. The background is a blurred view of the water and the sky.

ABOUT US

We are **Trusted Partners** that Consistently Deliver Results

Our proprietary approach combines stakeholder research, investor engagement and communication strategies to unlock embedded value.

Leveraging deep experience across sectors, market-caps and various company situations, we engage with public companies on both high-level strategy and tactical execution.

Our candid advice and actionable recommendations consistently result in value creation.

