



# Q2'21 Inside The Buy-side®

Earnings Primer®

July 15, 2021

# Inside The Buy-side® Q2'21 Earnings Primer®

For 13+ years, we have surveyed global investors quarterly on the equity markets, world economies and business climate. At the start of every earnings season, we publish our leading-edge research, *Inside The Buy-side®*, which captures real-time Voice of Investor® sentiment and trends.

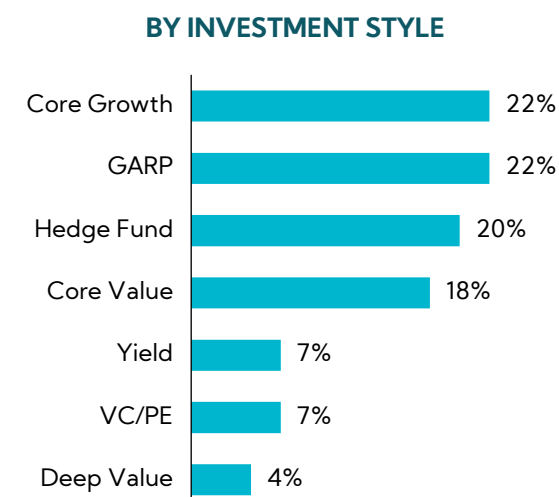
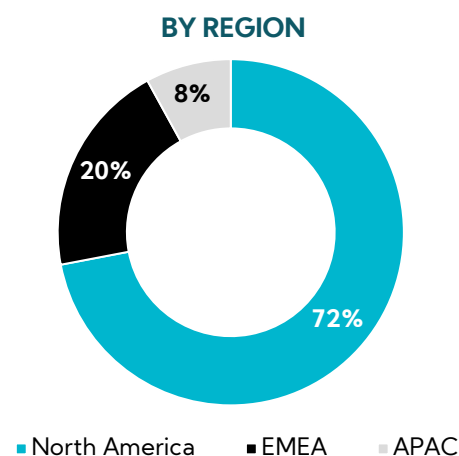
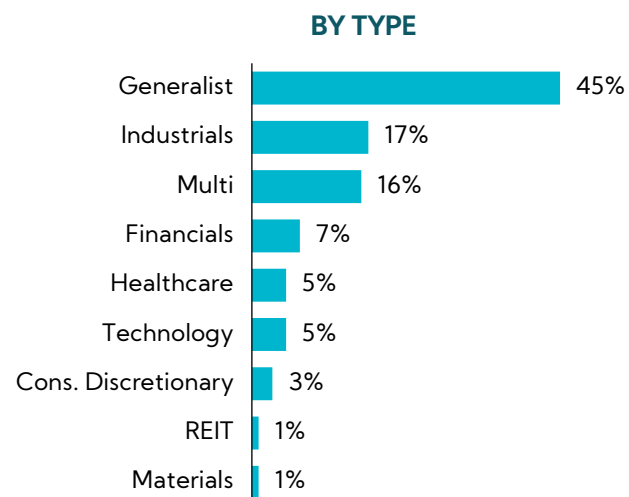
Leveraging our deep understanding of capital markets, cutting-edge technology and best practice knowledge, our research demonstrates the value we add by remaining at the forefront of global market trends, investor sentiment and effective communication strategies.

**Survey Scope:** 75 participants globally, comprising 75% buy side and 25% sell side; equity assets under management total ~\$4.8 trillion

**Survey Timeframe:** June 9 – July 7, 2021

| Market Performance | Q2'21  | YTD <sup>1</sup> |
|--------------------|--------|------------------|
| <b>U.S.</b>        |        |                  |
| DJIA               | 4.1%   | 11.9%            |
| NASDAQ             | 7.6%   | 10.4%            |
| S&P 500            | 6.9%   | 12.7%            |
| Russell 2000       | 2.5%   | 14.9%            |
| <b>Europe</b>      |        |                  |
| FTSE 100           | 4.5%   | 8.4%             |
| Stoxx 600          | 4.8%   | 12.5%            |
| <b>Asia</b>        |        |                  |
| Hang Seng          | (0.4%) | 3.8%             |
| Shanghai           | 3.6%   | 2.7%             |

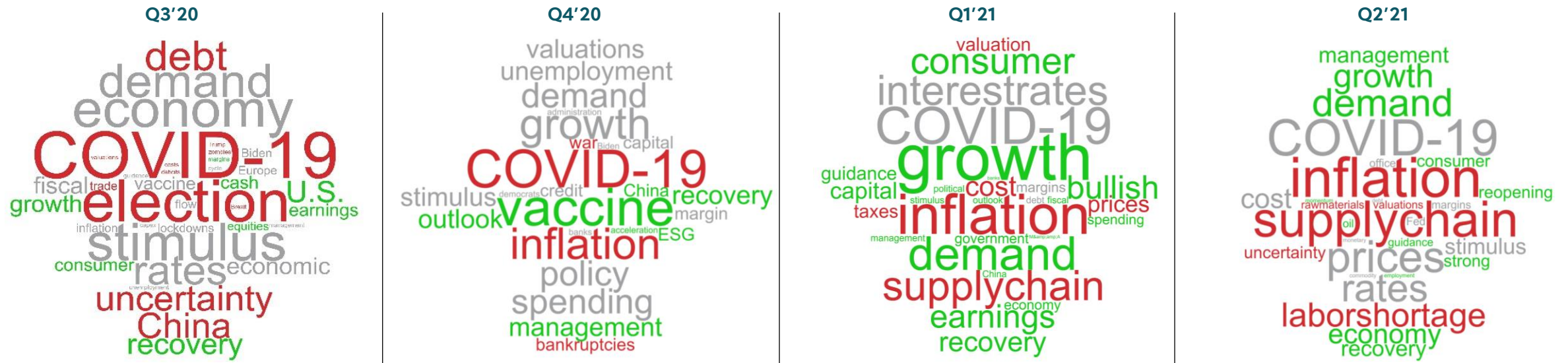
<sup>1</sup> As of Jun. 30, 2021



## Word Cloud: Frequency of Occurrence

***Visual representation of investment community focus areas, trends in frequency of word occurrence and underlying tone***

## Inflation and Supply Chain Concerns Continue with Pricing Now in Focus



| Top Mentions | Q3'20 | Q4'20 | Q1'21 | Q2'21 | Q/Q   |
|--------------|-------|-------|-------|-------|-------|
| Inflation    | 4     | 11    | 32    | 40    | ⬆️ 8  |
| Supply Chain | 9     | 7     | 16    | 24    | ⬆️ 8  |
| COVID-19     | 42    | 36    | 21    | 24    | ⬆️ 3  |
| Prices       | 0     | 0     | 9     | 22    | ⬆️ 13 |
| Demand       | 10    | 7     | 20    | 20    | UNCH  |

**Key: Underlying Sentiment**

- Positive
- Neutral
- Negative

# Record Earnings Beats and Revenue Guidance Raises Expected but Bullish Investor Sentiment Pulls Back Slightly

## Earnings Beats and Guidance Raises Baked In amid “Easy” YoY Comps and Reopening Economies

- **87%** of surveyed investors and analysts expect *Better Than* sequential earnings, exceeding last quarter’s record high (75%)
- **60%** believe Q2’21 earnings will be *Better Than* consensus, in line with last quarter’s record number
- **77%** see EPS growth *Improving* this quarter, also the highest percentage ever recorded
- **71%** expect companies to *Raise* annual revenue guidance this quarter, while 23% believe they will *Maintain*

## Executives Perceived as More Upbeat than Investors as Inflation and Supply Chain Disruptions Give Some Pause

- **86%** describe executive tone as upbeat, in line with last quarter’s record; moreover, over 40% perceive management as outright *Bullish*, up slightly QoQ
- **68%** describe themselves as *Neutral to Bullish* or *Bullish*, down from a record 75% last quarter, with commentary emphasizing inflation, supply chain disruption and uncertainty with the sustainability of revenue growth and tougher comps in 2H’21 and 2022
- **69%** identify inflation as the leading topic for executives to address on upcoming earnings calls, 3x higher than last quarter
- **66%** identify inflation as the most significant concern, with 69% expecting inflation to raise in the back half of 2021
- **43%** encourage executives to address supply chain disruption on upcoming earnings calls and – a new theme this quarter – more than 20% encourage labor shortage updates
- Despite these concerns, **87%** expect margins to have remained at the *Same Level* as Q1 or *Expanded*

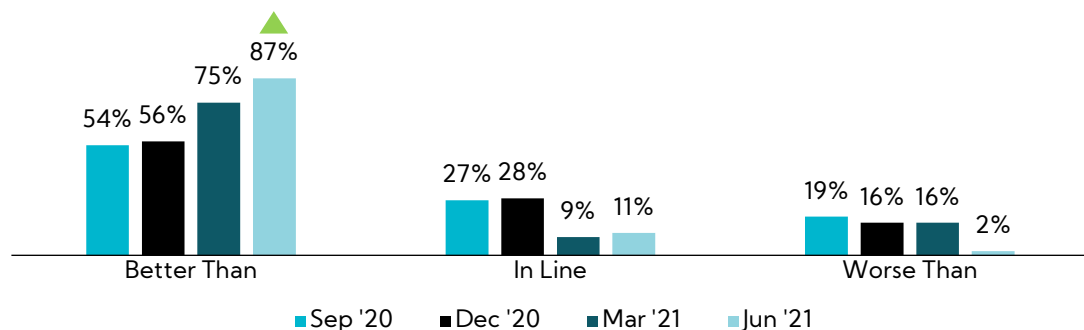
## FCF and Growth Expectations Remain Elevated with U.S. GDP Forecasts on the Rise

- **69%** expect organic growth and FCF will each *Improve* sequentially, the latter of which registers as another record after falling to 45% last quarter
- **76%** cite reinvestment as the leading use of cash, in line with the record set last quarter and exceeding all other preferences by a meaningful margin
- Average 2021 U.S. GDP forecasts **increase to 6.5%** on average from 5.5% last quarter
- **73%** expect global capex to continue to *Improve* over the next six months
- **Majority of sectors see a pullback in bullish sentiment from last quarter’s exuberance;** Financials, Technology and Industrials are the top bulls, while Energy, REITs and Utilities see the most bears

# Record Number Expecting Sequential Earnings Growth and Positive Surprises for the 2<sup>nd</sup> Consecutive Quarter

*Amid the continued reopening of economies, 71% of investors and analysts believe companies will raise annual guidance in 2021*

Q2'21 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



## Better Than

*"Strength of the reopening."* Buy Side, Generalist, N. America

*"Progress against pandemic."* Buy Side, Generalist, N. America

*"Comparisons and vaccinations opening the economy."* Buy Side, Generalist, N. America

*"Momentum and trend."* Buy Side, Generalist, N. America

*"Much stronger volume growth to overcome inflation risk."* Buy Side, Generalist, N. America

*"The reopening of the U.S."* Buy Side, Generalist, N. America

*"As we move beyond the pandemic, I expect better earnings across the board."* Sell Side, Industrials, N. America

*"Reopening the economy."* Buy Side, Generalist, Europe

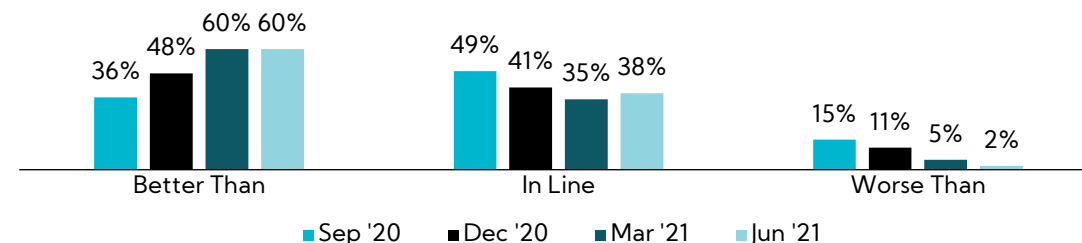
*"High PMIs."* Buy Side, Generalist, Europe

*"Fiscal accommodation."* Buy Side, Generalist, Europe

*"Elevated in-home remains, out-of-home picking up."* Sell Side, Multi, Europe

*"Return to normal."* Buy Side, Generalist, APAC

Q2'21 EARNINGS EXPECTATIONS VS. CONSENSUS



## In Line

*"Recovery and stimulus."* Buy Side, Generalist, N. America

*"A lot of conflicting data have led me to a flat consensus expectations."* Buy Side, Generalist, N. America

*"In Q1'20, all pharma companies had major stocking orders because the pharmacies and distributors were preparing for COVID-19, so they stocked up in Q1 last year. They had a headwind this year and a tailwind last year. Some of those headwinds reversed in the Q2 this year and that should make for a less messy quarter. In line with consensus. I don't think there will be much surprise."* Buy Side, Healthcare, N. America

*"Recovery activity."* Buy Side, Healthcare, N. America

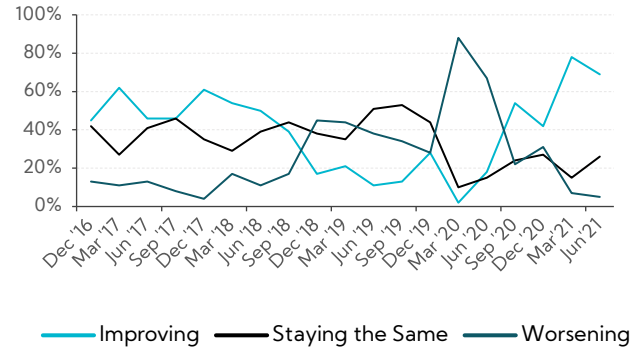
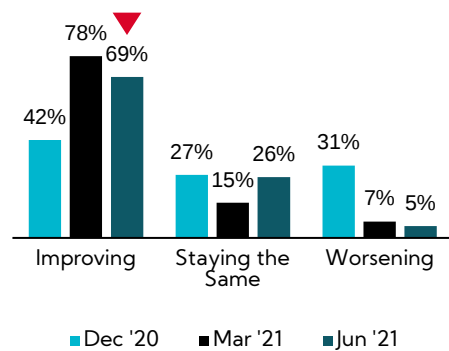
*"Pent up demand."* Buy Side, REIT, N. America

*"Broad reopening of economy generally and continued industry drivers specific to sector I follow."* Sell Side, Technology, N. America

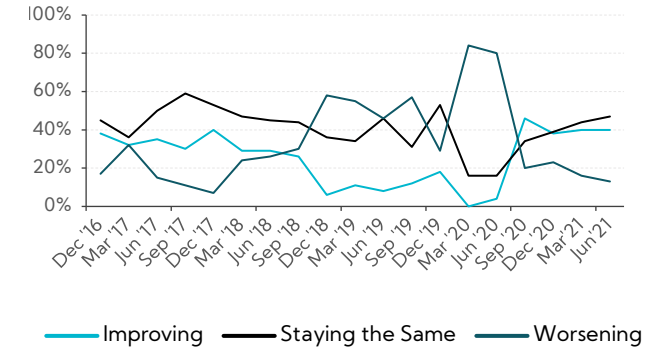
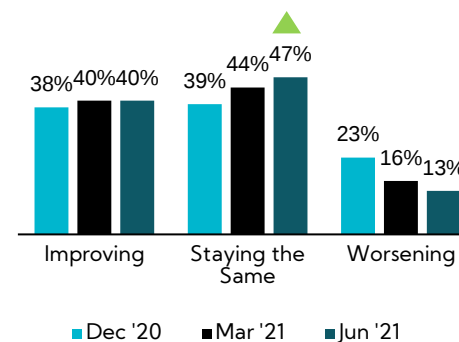
*"Continuing demand from Q1 and COVID-19 opening (vaccinations)."* Buy Side, Multi, Europe

# FCF and EPS Growth Expectations Register at All-time Highs, While Margins Are Expected to *Stay the Same* or *Improve* Despite Pervasive Inflation

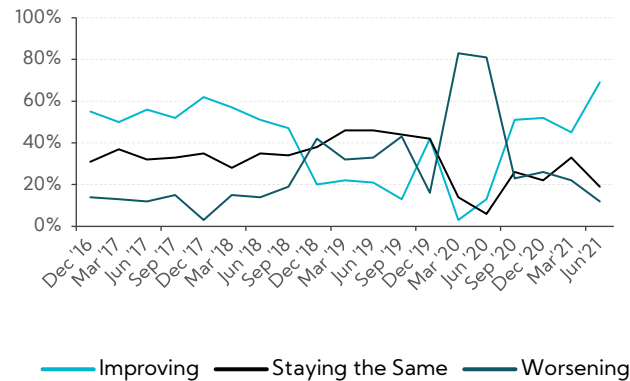
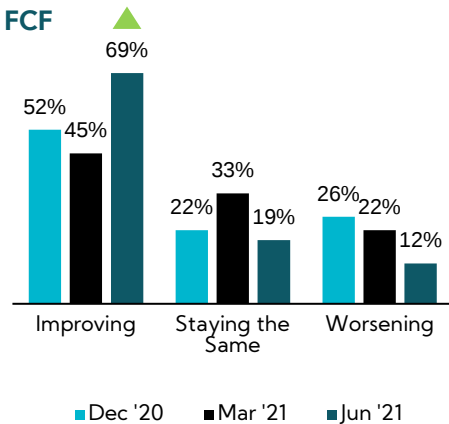
## ORGANIC GROWTH



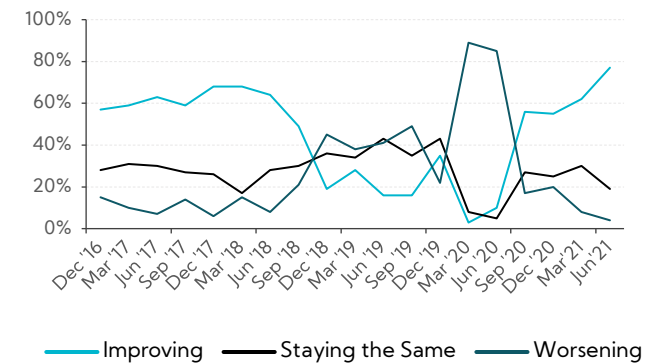
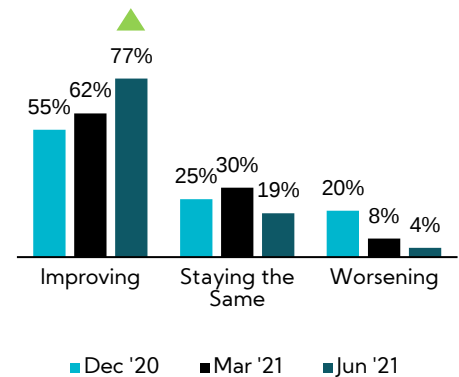
## OPERATING MARGINS



## FCF

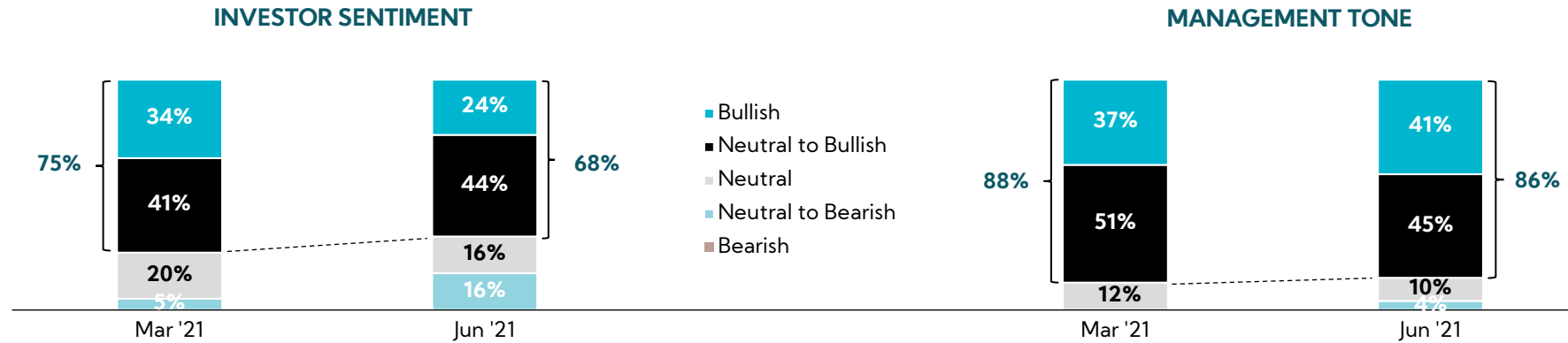


## EPS



# Perceived Positive Management Tone Remains at Near Record Levels but Bullish Investor Sentiment Softens Somewhat

Concerns over inflation, supply chain disruptions and labor shortages serve to temper exuberance on growth



## Bullish

"Comparisons and openings." **Buy Side, Generalist, N. America**

"Reopening." **Buy Side, Generalist, N. America**

"Strong demand trends." **Buy Side, Generalist, N. America**

"In the last two weeks, I have met with two dozen bankers and they are bullish about the outlook. The bankers are reporting lending activity is beginning to improve in Q2, which is ahead of guidance. That is scope for an upside surprise in Q2." **Buy Side, Financials, N. America**

"It is a combination of valuation, underappreciated growth prospects and there has been an overhang with concerns about legislative change by the U.S. government that might impact pricing." **Buy Side, Healthcare, N. America**

## Neutral to Bullish

"Ongoing supply chain challenges keeps me from being outright bullish." **Buy Side, Generalist, N. America**

"Seeing demand for many things – consumer and business buyers alike." **Buy Side, Generalist, N. America**

"Management is bullish but some of that seems already reflected in the share prices." **Sell Side, Industrials, N. America**

"Strong consumer sentiment." **Sell Side, Multi, Europe**

## Neutral

"Momentum in most businesses has been somewhere between strong and robust, with a blindingly obvious callout/concern around supply chain and inflation." **Buy Side, Generalist, N. America**

"I can see with all of the stimulus and if they get the infrastructure bill in and reopen. I can also see where inflation is worse than people think and the Fed has to start messing with the rates and the economy is financed at a super low rate. There is so much uncertainty, it is hard to know either direction. Management tone is generally positive. The consumer wants to come back and spend and they have a balance sheet." **Buy Side, Generalist, N. America**

"With the reopening, in Q1, everyone had great results in almost every industry. It is a question of 'Does this carry over into '22 or is it a one-time sugar high that everyone has from reopening and stimulus and, all of a sudden, you get a more inflationary environment and rising rates.'" **Buy Side, Generalist, N. America**

## Neutral to Bearish

"Valuations and inflation." **Buy Side, Generalist, N. America**

"I would say management is a little more optimistic about the economy. They're usually speaking to what they're seeing in their end markets. For the most part, that's been relatively optimistic. Our concern is valuation and whether inflation is truly transitory and when does the Fed have to taper? It seems like company end market discussions are very positive. How sustainable is all of this? '21 still looks good from an earnings standpoint but I think as we round the corner to '22, the comps are going to get hard and that's where we may get an adjustment in the market." **Buy Side, Generalist, N. America**

"Withdrawal of stimulus." **Buy Side, Multi, N. America**

"The increasing prospect of inflation. Significant COVID-19 incidence in poorer countries." **Buy Side, Industrials, N. America**

"Continued lockdown." **Sell Side, Multi, Asia**

"Spread of vaccine." **Sell Side, Technology, Asia**



69% (↑ 48pts QoQ)

Inflation

43% (↑ 8pts)

Supply chain disruptions

27% (↓ 54pts)

Growth outlooks

22% (↑ 22pts)

Labor shortages

16% (↓ 14pts)

Capital allocation

## Topics of Interest for Upcoming Earnings Calls

*Inflation concerns catapult, along with supply chain disruptions and labor shortages*

### Views from N. America

*"Supply chain, inflation, capital deployment."*  
Buy Side, Generalist

*"Results vs. 2019, sustainability of momentum."*  
Buy Side, Generalist

*"Pricing, COVID-19, supply lines."* Buy Side,  
Generalist

*"Sustainability of profit uptick, sustainability of net margins."* Buy Side, Generalist

*"Short-term demand pop vs. sustainable growth, supply chain constraints and how long term is the impact, price vs. cost split."* Buy Side, Generalist

*"Inflation, demand, supply bottlenecks."* Buy Side,  
Generalist

*"Pipeline for the end of the year, ease of getting needed components, new hire availability – retaining current workers."* Buy Side, Generalist

*"Profitable wins, new customer relationships."*  
Buy Side, Generalist

*"Supply chain challenges, inflation concerns, labor concerns."* Buy Side, Generalist

*"Inflation expectations, ability to fill labor vacancies, growth expectations."* Buy Side, Multi

*"Effect of stimulus, inflation, supply chain strategy."* Buy Side, Multi

*"Any lingering COVID-19 impacts to the business and how they see the second half of the year, any COVID-19 impact-related to the FDA and the regulatory impact and clinical trials."* Buy Side,  
Healthcare

*"Cost inflation, pricing, supply chain."* Buy Side,  
Industrials

*"Organic growth, margin preservation, improvement in an inflationary world, reinvestment opportunities."* Buy Side, Industrials

*"What is the ability to pass through price to mitigate cost inflation? Are customer capex decisions improving? How far below normal are customer and channel inventories?"* Buy Side,  
Industrials

*"Materials and labor cost increases."* Buy Side,  
Industrials

*"Freight and cost inflation, strength of low-end consumer after stimulus."* Sell Side, Con. Discretionary

*"Labor shortage, organic growth."* Sell Side, Industrials

*"Labor market shortages, outlook for oil prices, capacity growth."* Sell Side, Industrials

*"Impact of reopening of economies, sustainability of core drivers in end markets, any increase in investments in future growth and product innovation."* Sell Side, Technology

### Views from EMEA

*"Price setting power; margins, future orders, supply chains."* Buy Side, Generalist

*"Margin, buybacks."* Buy Side, Generalist

*"Margins, order momentum."* Buy Side, Generalist

*"Supply squeezes, inflationary trends, margins."*  
Buy Side, Generalist

*"Development of input prices, pricing power, ESG issues regarding CO<sub>2</sub>."* Buy Side, Financials

*"Signs of any slowdown, inflationary pressure."*  
Sell Side, Multi

### Views from APAC

*"Lockdown impact, rising raw material cost, capex plan."* Sell Side, Multi

*"Semiconductor shortage, logistics, raw material price increase."* Sell Side, Technology

# Top Concerns from Around the Globe

*Inflation again time of mind and concerns with the Fed's response continuing to increase*

|                 |                 |                 |                   |                  |                         |
|-----------------|-----------------|-----------------|-------------------|------------------|-------------------------|
| 66%<br>(↑ 2pts) | Inflation       | 38%<br>(↑ 7pts) | COVID-19 variants | 27%<br>(↑ 14pts) | Geopolitics             |
| 26%<br>(↑ 7pts) | Monetary policy | 22%<br>(↓ 1 pt) | Lofty valuations  | 17%<br>(↑ 2pts)  | Supply chain disruption |

## Views from N. America

*"Equity valuations, corporate debt, inflation."* **Buy Side, Generalist**

*"Pandemic, inflation, political."* **Buy Side, Generalist**

*"Valuation, debt, political upheaval."* **Buy Side, Generalist,**

*"COVID-19 variants permanently limit reopening economy, inflation getting out of control, persistent labor shortages."* **Buy Side, Generalist**

*"Other investors' inflation fears, changing tax policy."* **Buy Side, Generalist**

*"Complacency, speculation, valuation."* **Buy Side, Generalist**

*"Inflation, consumer health."* **Buy Side, Generalist**

*"Supply chain, inflation, global geopolitics and economics."* **Buy Side, Generalist**

*"Inflation, excessive government spending, excessive national debt."* **Buy Side, Multi**

*"Inflation, supply chain, valuations if rates rise."* **Buy Side, Industrials**

*"Margins, 2022 revenue growth, the Fed."* **Buy Side, Industrials**

*"Cost inflation, supply chain constraints, COVID-19 variants."* **Buy Side, Industrials**

*"Inflation, cost increases, COVID-19 incidence outside the U.S."* **Buy Side, Industrials**

*"Pandemic related shutdowns; the constant starting and stopping, declines in personal spending on travel after Labor Day, the economy in 2H21."* **Sell Side, Industrials**

*"Labor inflation, tough compares into 2020, price/cost."* **Sell Side, Industrials**

*"COVID-19 re-manifestation, geopolitics instability, increased leanings toward authoritarianism."* **Sell Side, Technology**

## Views from EMEA/APAC

*"COVID-19 mutations, political uncertainty (USA, EU, Russia), too much ESG driven."* **Buy Side, Generalist**

*"Higher real rates, higher commodities prices, monetary political errors."* **Buy Side, Generalist**

*"Rising rates, overshooting inflation."* **Buy Side, Generalist**

*"Consumer behavior, inflation, interest rates."* **Buy Side, Multi**

*"Capex cycle, COVID-19 waves, ultra-easy monetary policies."* **Sell Side, Generalist**

*"Overvalued market, slowdown in growth, inflation."* **Sell Side, Multi**

*"Inflation, monetary policy, supply chain bottlenecks."* **Buy Side, Generalist**

*"Extreme accommodative monetary policy, expansive fiscal debt, speculative bubble in financial market."* **Sell Side, Multi**

*"Spread of delta variant, environmental problems, delay in decarbonization (XEV, Solar, hydrogen, etc.), intensifying trade tensions between the U.S. and China."* **Sell Side, Technology**

# Tying It Altogether...While Inflation is Anticipated to Rise, Majority Do Not Yet Expect Margins To Worsen

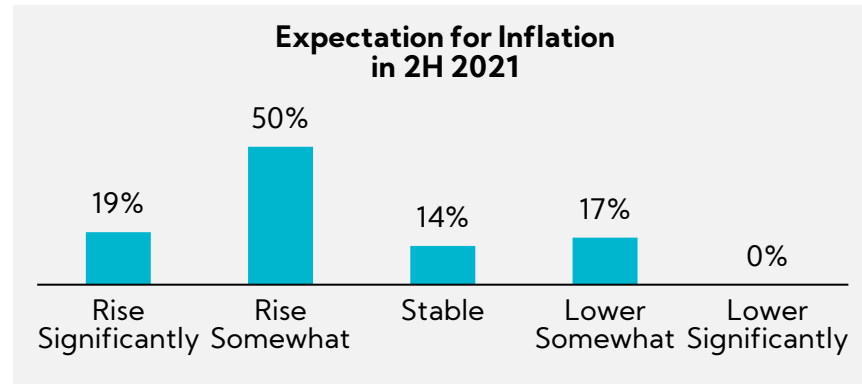
Half believe inflation will Rise Somewhat in the Second Half of 2021

## TOP INVESTOR CONCERN

66% Inflation

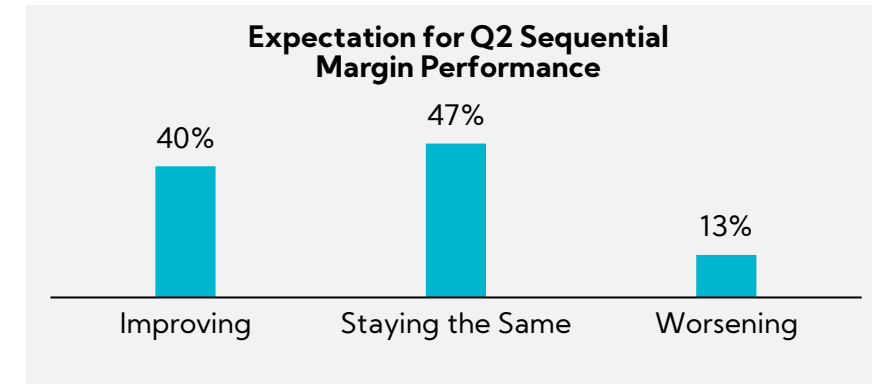
69%

Expect inflation to continue to rise in 2H'21

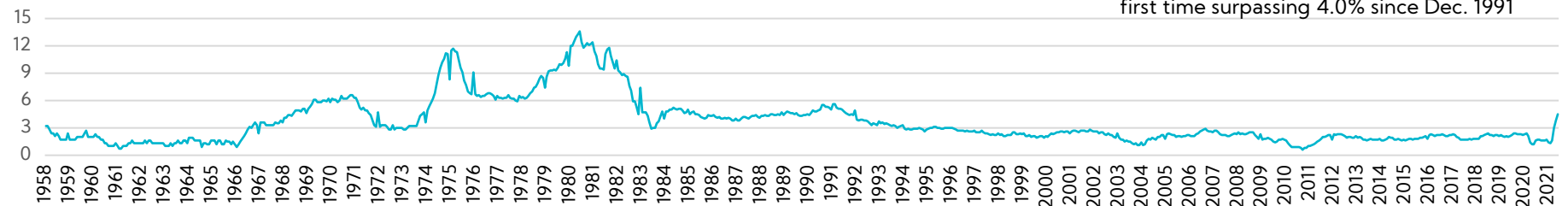


87%

Expect margins to have remained at the same level as Q1 or expanded



## U.S. CORE INFLATION RATES (1958-2021)<sup>1</sup>

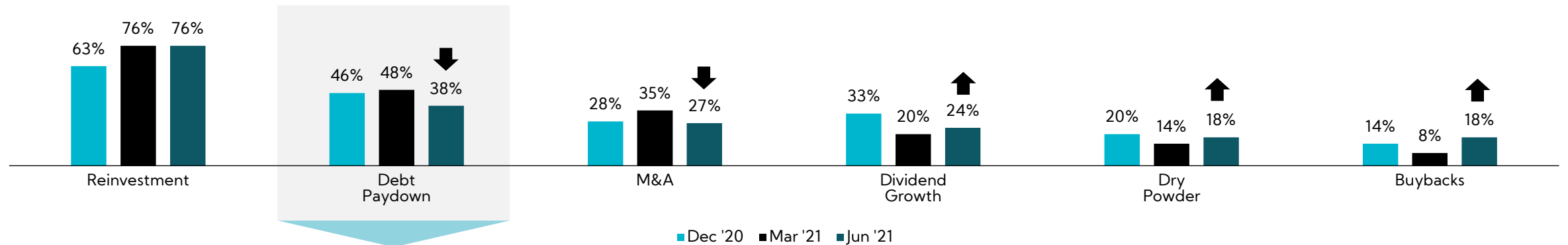


# Preference for Reinvestment Remains at Record Highs, While An Increasing Percentage Favor Shareholder Returns

*Debt paydown remains the second preferred use of cash, with conservatism on Net Debt to EBITDA levels easing somewhat*

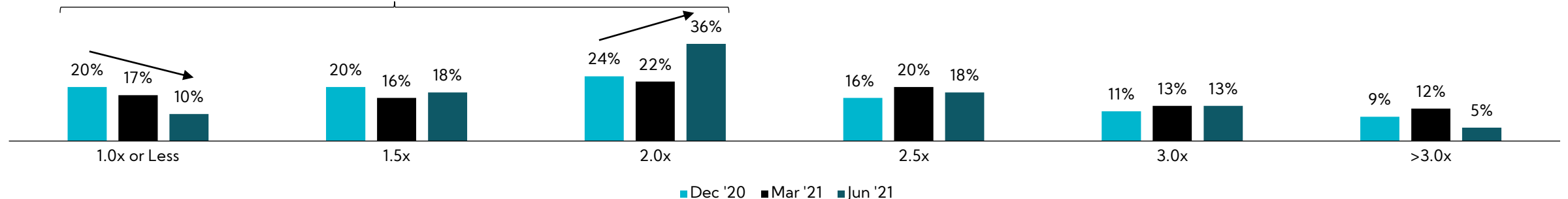
## PREFERRED USES OF CASH

In Descending Order of Top Two Preferences



## IDEAL NET DEBT-TO-EBITDA LEVEL

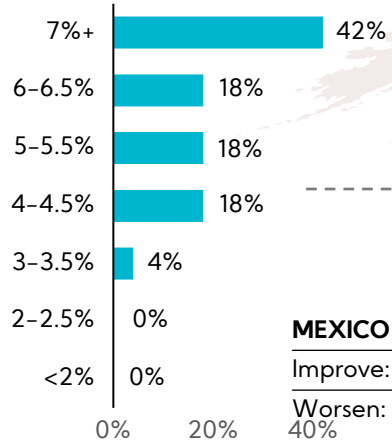
64% prefer  $\leq 2.0x$ ,  
up from 55% in Q1'21



# After Most Geographies Saw Significant Upbeat Sentiment Last Quarter amid Reopening Economies, the Majority Are Expected to Improve but at Less Rosy Levels

2021 U.S. GDP forecasts increase 100 bps to 6.5% on average; no one expects Eurozone to worsen from here

## 2021 U.S. GDP EXPECTATIONS



### Canada

|          |     |        |
|----------|-----|--------|
| Improve: | 55% | -16pts |
| Worsen:  | 6%  | +4pts  |

2<sup>nd</sup>

### U.S.

|          |     |        |
|----------|-----|--------|
| Improve: | 51% | -39pts |
| Worsen:  | 6%  | +2pts  |

### MEXICO

|          |     |        |
|----------|-----|--------|
| Improve: | 38% | -21pts |
| Worsen:  | 7%  | -4pts  |

### LATIN AMERICA

|          |     |        |
|----------|-----|--------|
| Improve: | 19% | -30pts |
| Worsen:  | 19% | +10pts |

### BRAZIL

|          |     |       |
|----------|-----|-------|
| Improve: | 35% | UNCH  |
| Worsen:  | 26% | -4pts |

### EUROZONE

|          |     |       |
|----------|-----|-------|
| Improve: | 79% | +1pts |
| Worsen:  | 0%  | -4pts |

1<sup>st</sup>

### CHINA

|          |     |        |
|----------|-----|--------|
| Improve: | 32% | -25pts |
| Worsen:  | 21% | +17pts |

### JAPAN

|          |     |        |
|----------|-----|--------|
| Improve: | 30% | -21pts |
| Worsen:  | 6%  | +4pts  |

### INDIA

|          |     |        |
|----------|-----|--------|
| Improve: | 38% | -28pts |
| Worsen:  | 9%  | +3pts  |

### SOUTHEAST ASIA

|          |     |        |
|----------|-----|--------|
| Improve: | 53% | -27pts |
| Worsen:  | 0%  | UNCH   |

3<sup>rd</sup>

### AUSTRALIA

|          |     |        |
|----------|-----|--------|
| Improve: | 45% | -29pts |
| Worsen:  | 3%  | +1pts  |

## TOP 3 – IMPROVING



## TOP 3 – WORSENING



# Views on Key Economic Indicators Over the Next Six Months

**Global capex and oil & gas expected to see the most improvement, while investors see Resi and Non-resi Construction steady to improving**

## GLOBAL CAPEX



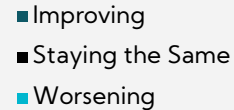
"Improving: Companies will spend to make changes or improvements for returning staff, starting in the U.S." **Buy Side, Generalist, N. America**

"Improving: President Biden plans to invest \$1.2T in infrastructure." **Sell Side, Technology, Asia**

## GLOBAL PMI



"Improving: Advance arrangements in the midst of economic recovery and shortage of goods." **Sell Side, Technology, Asia**



## CONSUMER CONFIDENCE



"Improving: Rising wages and return to school and work should buoy consumers' confidence." **Buy Side, Generalist, N. America**

"Improving: Pent-up demand." **Sell Side, Technology, Asia**

"Staying the Same: Lowering unemployment may be offset by inflationary concerns." **Buy Side, Generalist, N. America**

"Staying the Same: Really depends on employment and who has money to spend." **Buy Side, Generalist, N. America**

## OIL & GAS MARKETS



"Improving: Temporary improvement as travel increases demand." **Buy Side, Generalist, N. America**

"Improving: Tempered though by increasing need to diversify to sustainable energy sources." **Sell Side, IT, N. America**

"Staying the Same: ESG and increased regulation is capping output, at least in the U.S." **Buy Side, Generalist, N. America**

## NON-RESI CONSTRUCTION



"Improving: Working remotely will continue in part but workers will return to offices and may look for more space to allow greater social distancing." **Buy Side, Generalist, N. America**

"Improving: Demand recovery from COVID-19." **Sell Side, Technology, Asia**

"Staying the Same: We have an abundance of available office space." **Buy Side, Generalist, N. America**

"Worsening: Will there be a glut of retail and commercial real estate?" **Buy Side, Generalist, N. America**

## RESI CONSTRUCTION



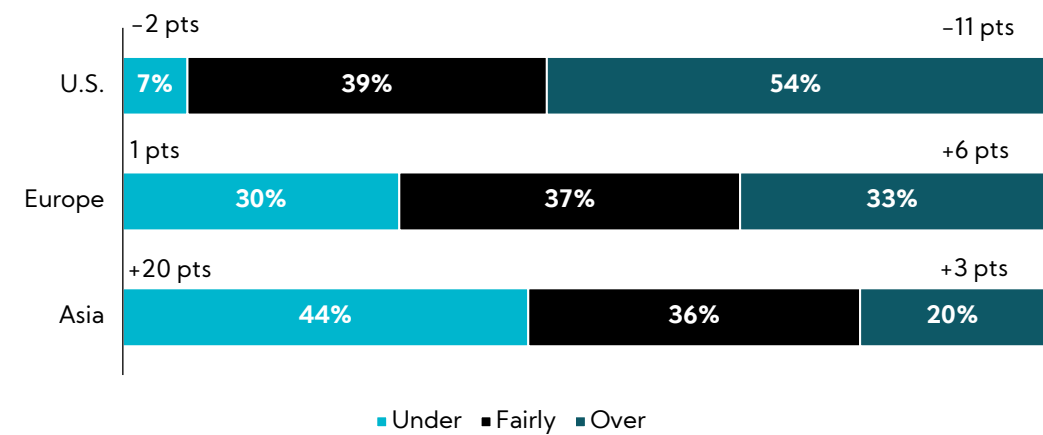
"Improving: Low interest rates for mortgages and a wave of people hitting the family formation stage of life are driving housing demand." **Buy Side, Generalist, N. America**

"Improving: Hopefully as lumber prices come down and hopefully interest rates will remain low." **Buy Side, Generalist, N. America**

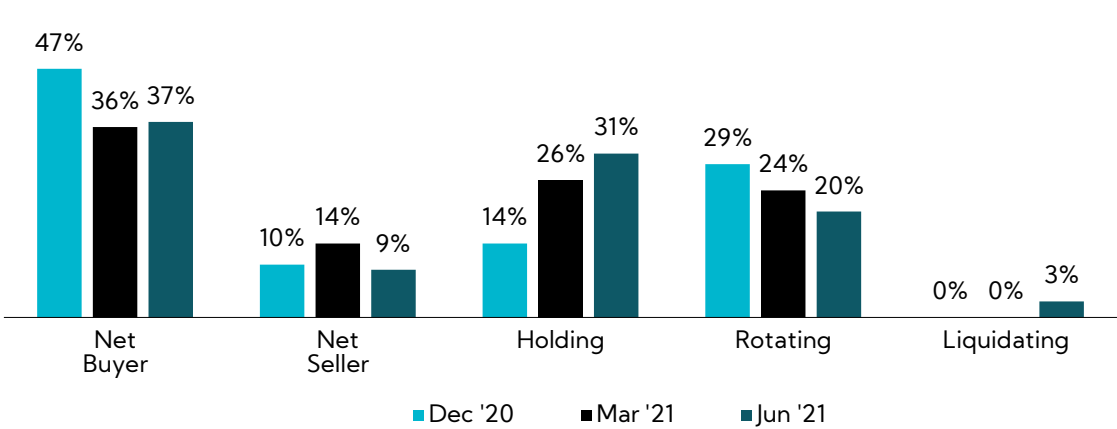
"Worsening: Inflation and challenges with building materials will dampen movement to single-family homes." **Buy Side, Generalist, N. America**

# U.S. Equities Still Considered Overvalued With Increasingly More Investors Holding at These Levels

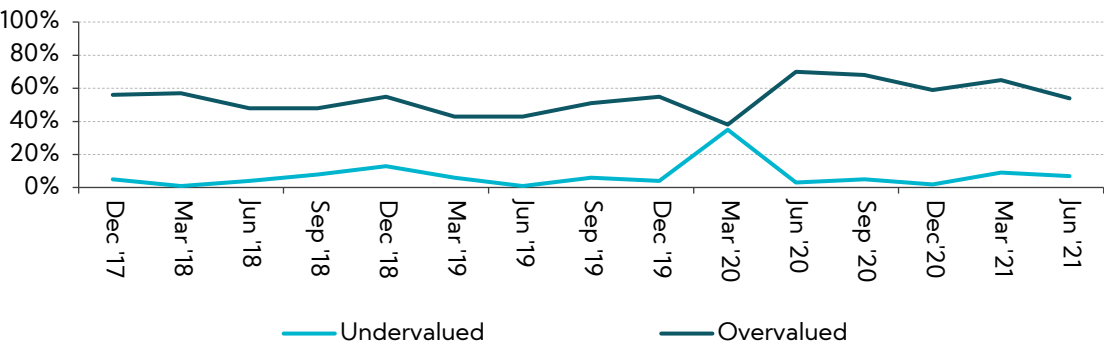
GLOBAL EQUITY VALUATION CLASSIFICATION



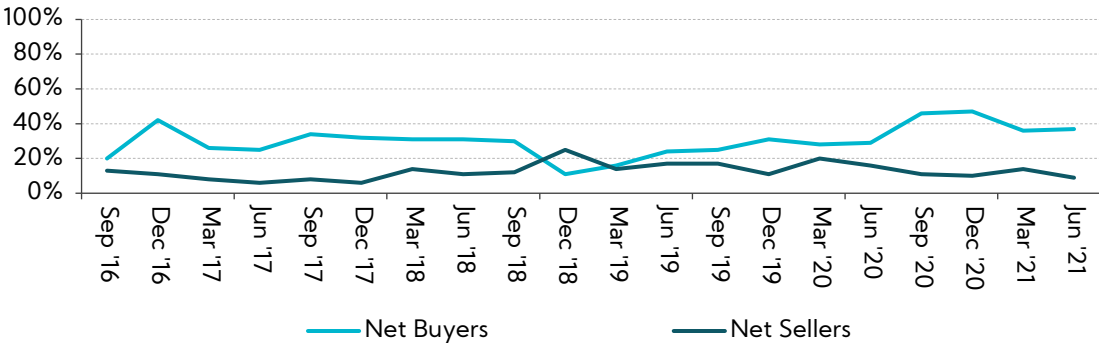
QoQ INVESTMENT TRENDS



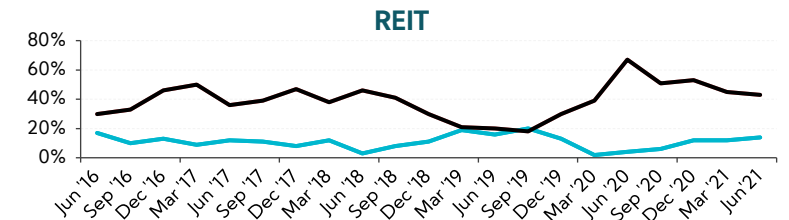
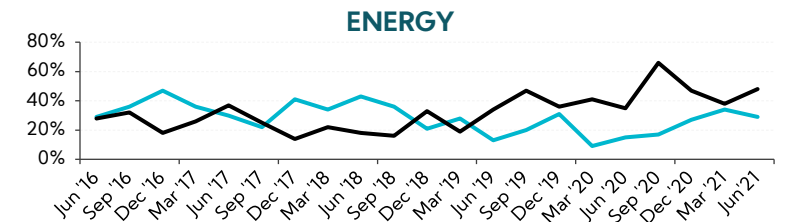
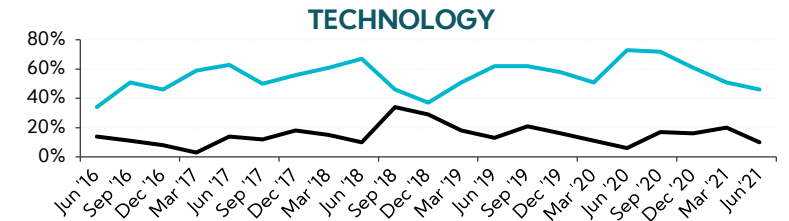
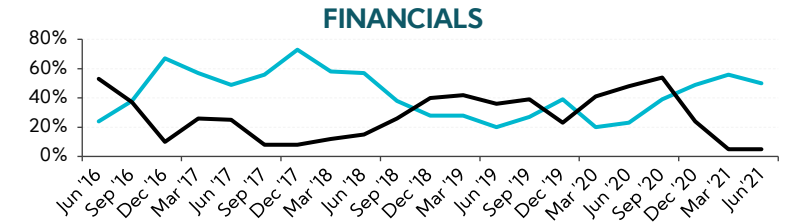
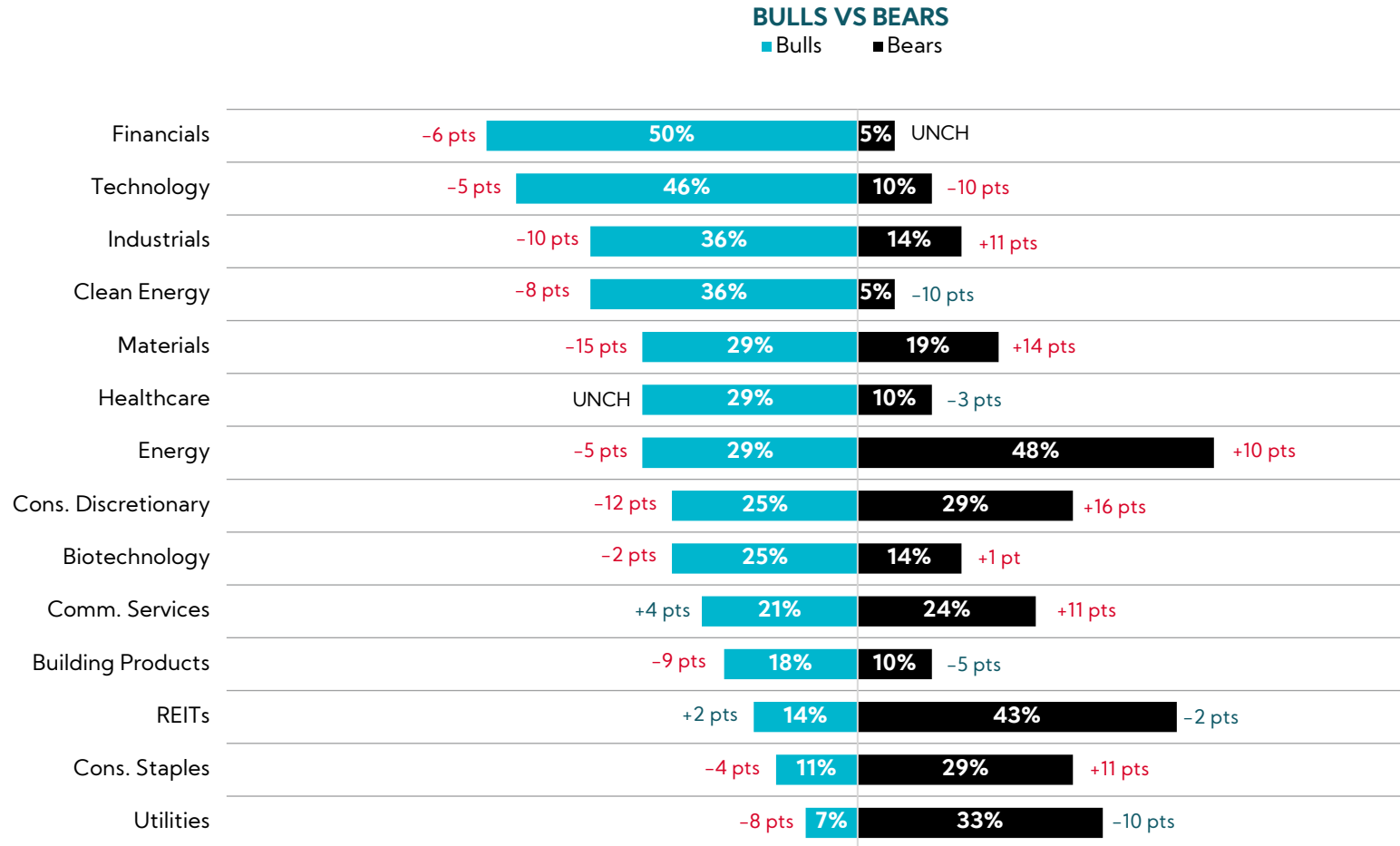
UNDERVALUED VS. OVERVALUED (U.S. EQUITIES)



NET BUYERS VS. NET SELLERS



# Majority of Sectors See a Pullback in Bullish Sentiment; Financials Sees the Highest Number of Bulls for the 2<sup>nd</sup> Consecutive Quarter

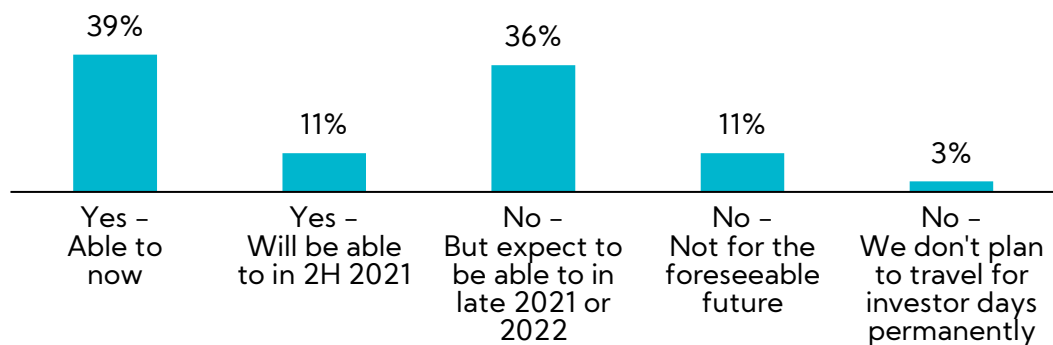


## Spotlight: In-person Investor Days

# 50%

Investors able to travel to in-person investor days in 2H 2021, with 86% expecting to do so in 2022

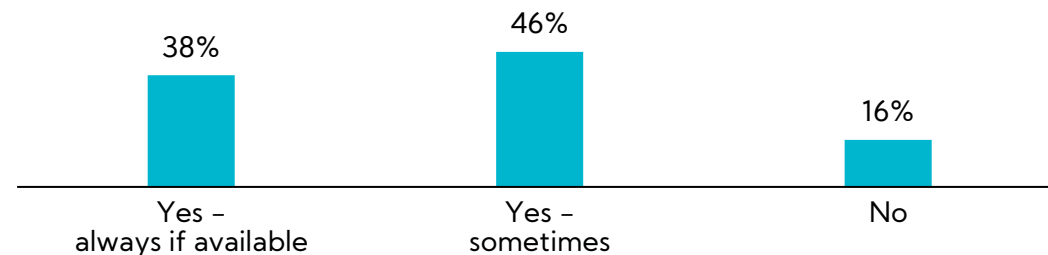
Are You Able to Physically Attend Investor Days Relative to Your Company's Policy?



# 84%

Investors who expect to physically attend investor days for high-priority investments/companies once able to

Once Able, Do You Plan to Physically Attend Investor Days for High-priority Investments/Companies?



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A person in a red jacket is standing in a cave, illuminated by a bright blue light source. The cave walls are textured and the floor is covered in dark rocks. The overall atmosphere is mysterious and adventurous.

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# Contact Us

[research@corbinadvisors.com](mailto:research@corbinadvisors.com)

270 Farmington Ave, Suite 260  
Farmington, CT 06032

[corbinadvisors.com](http://corbinadvisors.com)