

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

*corbin*

# Q4'21

## Inside The Buy-side<sup>®</sup>

Earnings Primer<sup>®</sup>

January 13, 2022

# Inside The Buy-side® Q4'21 Earnings Primer®

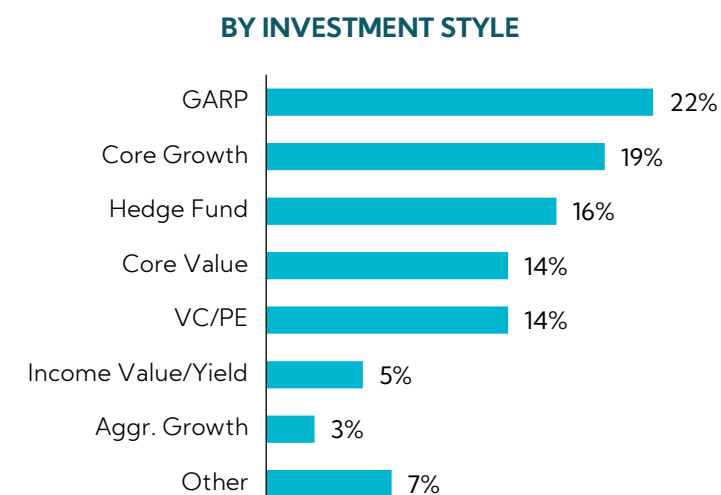
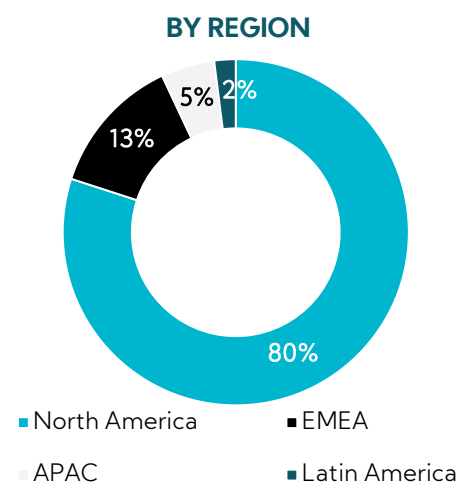
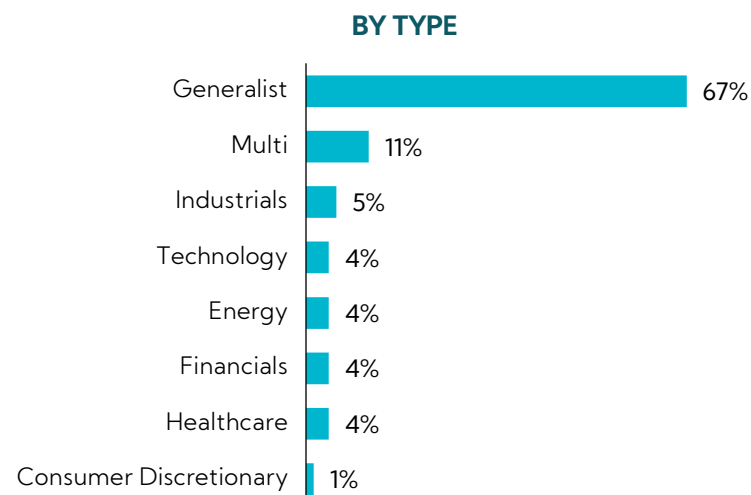
For 14+ years, we have surveyed global investors quarterly on the equity markets, world economies and business climate. At the start of every earnings season, we publish our global *Inside The Buy-side Earnings Primer®*, which captures real-time *Voice of Investor®* sentiment and trends.

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 ~\$6.9 trillion

**Survey Timeframe:** November 30, 2021 – January 7, 2022

Market Performance	Q4'21	2021
<b>U.S.</b>		
DJIA	5.9%	20.2%
NASDAQ	7.4%	23.2%
S&P 500	9.4%	28.8%
Russell 2000	0.2%	15.4%
<b>Europe</b>		
FTSE 100	5.1%	12.4%
Stoxx 600	7.7%	21.4%
<b>Asia</b>		
Hang Seng	(2.7%)	(14.8%)
Shanghai	0.0%	5.2%





## Word Cloud: Frequency of Occurrence

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

## Interest Rates Now Top of Mind amid Rampant Inflation; Supply Chain Concerns Ease Somewhat



Top Mentions	Q1'21	Q2'21	Q3'21	Q4'21	Q/Q
Inflation	32	40	50	65	⬆️ 15
Rates	16	17	16	40	⬆️ 24
Supply Chain	16	24	64	37	⬇️ 27
COVID-19	21	24	19	34	⬆️ 15
Demand	20	20	18	32	⬆️ 14

**Key: Underlying Sentiment**

●	Positive
●	Neutral
●	Negative

# Investor Sentiment Upbeat Despite Companies Contending with Continued Headwinds

## Investor Sentiment, After Meaningful Softening Last Quarter, Has Rebounded and Inflected More Favorably Heading into 2022 Amid Strong Demand and Despite Continued Headwinds

- **52%** describe their views as *Neutral to Bullish* or *Bullish*, up from 45% last quarter; only 20% are *Neutral to Bearish* or *Bearish*, down from 28%
- **69%** describe executive tone as *Neutral to Bullish* or *Bullish*, up from 55% last quarter
- **82%** expect strong demand levels to continue in 2022, an increase from 62% last quarter
- Still, **86%** report more concern (aided) or a continued high level of concern with inflation, up from 78%, followed by labor availability (79%); supply chain disruption still in focus but at lower levels
- **93%** identify inflation as the leading topic for executives to address on upcoming earnings calls, including wage inflation, followed by supply chain disruptions (51%) and labor availability (37%)

## Most KPIs for Q4 – EPS, FCF and Organic Growth – Expected to Improve with 2022 Guides Anticipated to be In Line to Better Than 2021 Results

- **50%+** believe earnings will *Improve* sequentially, up from 35% last quarter, with 92% expecting meet or beats
- **50%+** see EPS, FCF and Organic Growth *Improving* this quarter, with fewer than 20% expecting *Worsening* results, an improvement from 35%+
- **45%+** expect 2022 guides for FCF and EPS to be stronger than 2021 results, with organic growth anticipated to be in line to better
- Q4 margin results and 2022 guides expected to be mixed but less concerning than last quarter
  - **37%** expect *Worsening* sequential margins, down from 60%, while 25% expect *Improving*, up from 21%
  - **46%** believe margin guides for 2022 will be in line with 2021 results

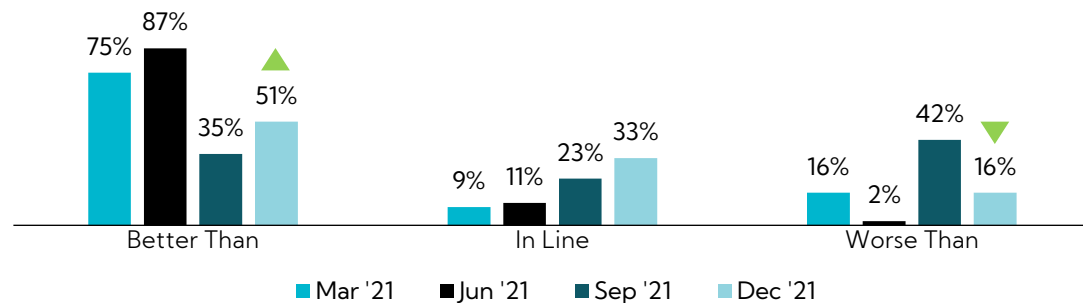
## Growth Investments Remain in Focus, with M&A the Second Leading Use of Cash for the First Time in More Than Five Years, though Fed Policy a Key Concern for 2022

- **59%** believe global capex will *Improve* over the next six months, up from 49% last quarter
- 2022 U.S. GDP forecasts are for **3.6%** growth on average versus expectations for 5.3% in 2021
- Reinvestment is cited as the leading preferred use of cash by **47%** of investors, up from 38% last quarter, followed by M&A (37%)
- **52%** cite rising interest rates as a top area of concern, doubling from the prior quarter amid the current hyper inflationary environment
- **62%** express more concern (aided) or a continued high level of concern with Fed policy, up from 48%
- With looming interest rate increases on the horizon, Financials see the highest percentage of bulls this quarter (**56%**, up from 44%)

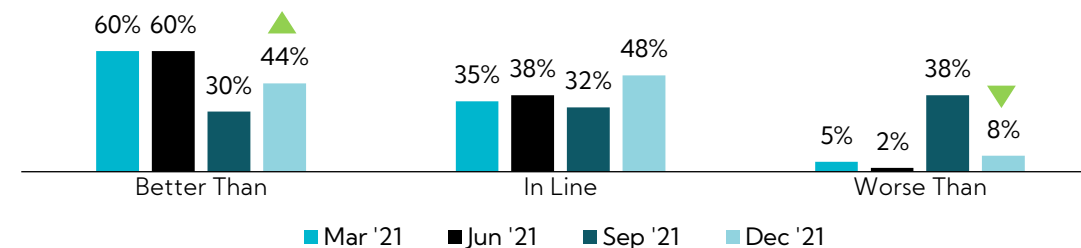
# With Q3 Earnings Surprising to the Upside, Investors Exhale and Largely Expect Sequential Improvement This Quarter

*Amid continued strong demand, earnings are expected to meet or beat consensus*

Q4'21 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



Q4'21 EARNINGS EXPECTATIONS VS. CONSENSUS



## Better Than

*"Companies set the bar too low."* Buy Side, Generalist, N. America

*"Continued economic recovery."* Buy Side, Generalist, N. America

*"Still have pent-up demand from pandemic."* Buy Side, Generalist, N. America

*"Nominal GDP growth."* Buy Side, Generalist, N. America

*"I expect them to be sequentially better, pure seasonality."*  
Buy Side, Generalist, N. America

*"Pent-up holiday season demand."* Buy Side, Multi, N. America

*"Employment growth."* Buy Side, Multi, N. America

*"Margin expansion and volume surge."* Buy Side, Generalist, Europe

*"Rising consumer sentiment."* Sell Side, Generalist, Asia

## In Line

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

*"Some areas of good business but moderated with others that are still affected by COVID."* Buy Side, Generalist, N. America

*"COVID."* Buy Side, Healthcare, N. America

*"The markets have started to price in uncertainty due to projected increases in COVID (due to holiday gatherings), labor shortages, continued supply chain issues, inflation, potential interest rate increases and increased tension with China, Russia, North Korea and Iran."* Buy Side, Generalist, N. America

*"Data has been plentiful and analysts have been able to adjust their expectations."* Buy Side, Generalist, N. America

## Worse Than

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

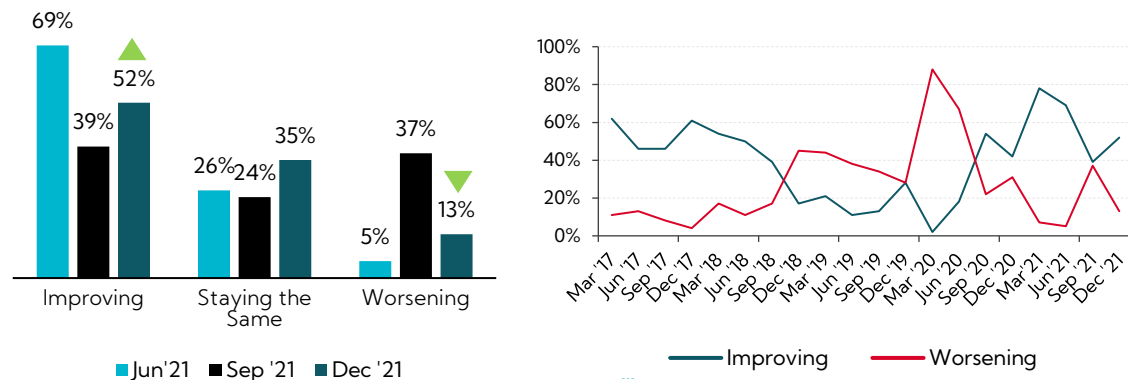
*"They will come in slightly worse."* Buy Side, Multi, N. America

*"Decent recovery to economic activity but headwinds from bottlenecks."* Sell Side, Financials, Europe

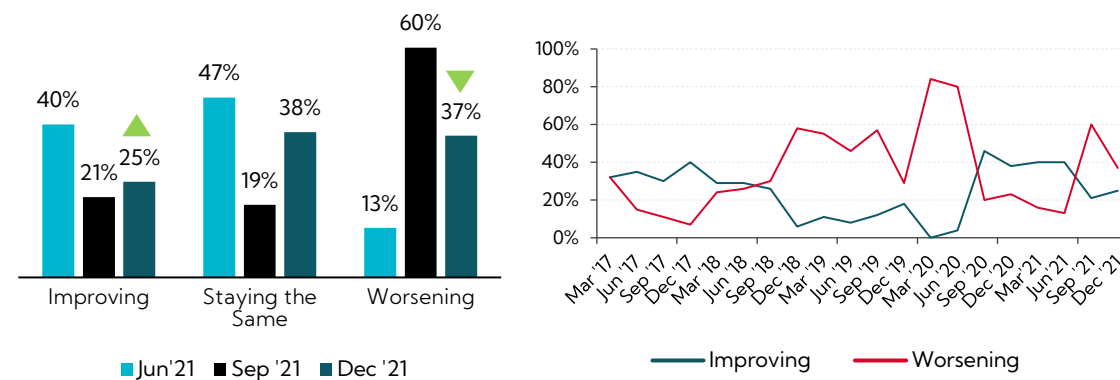
*"Input cost inflation."* Sell Side, Multi, Australia

# Nearly All KPIs – EPS, FCF and Organic Growth – Expected to Improve QoQ, with Margin Views Mixed but Meaningfully Less Downbeat

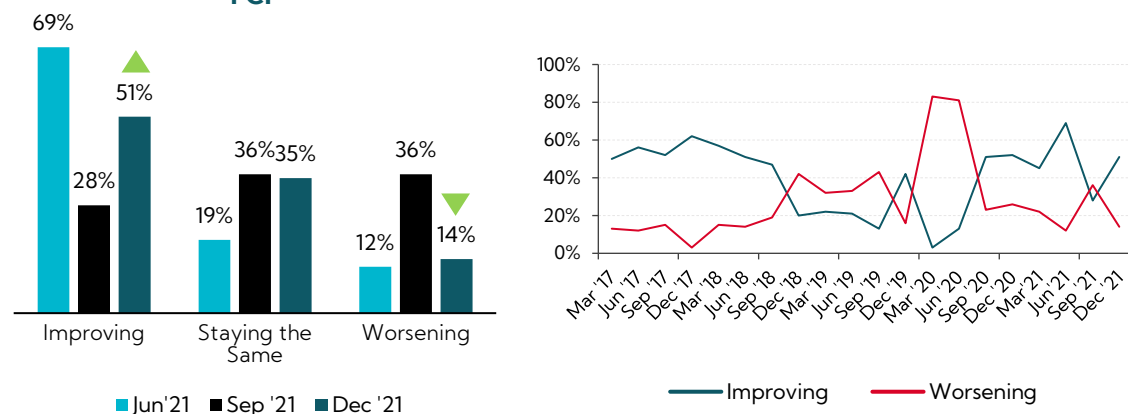
## ORGANIC GROWTH



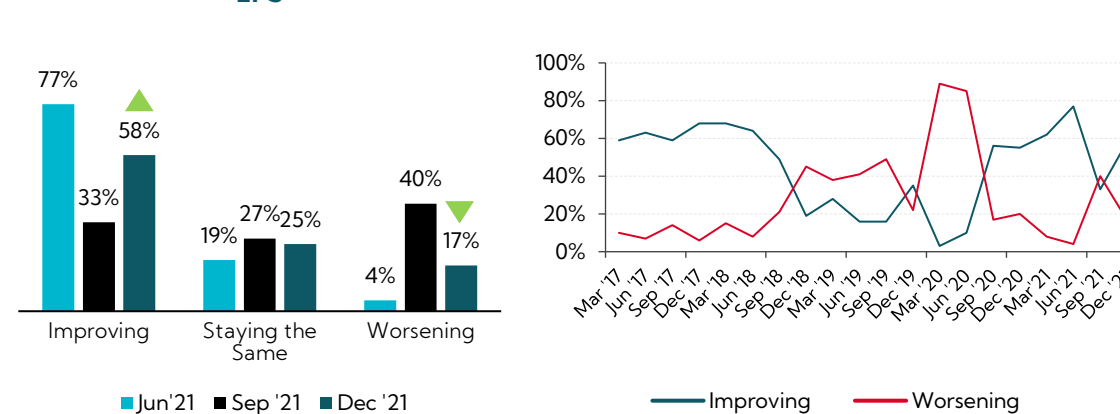
## OPERATING MARGINS



## FCF

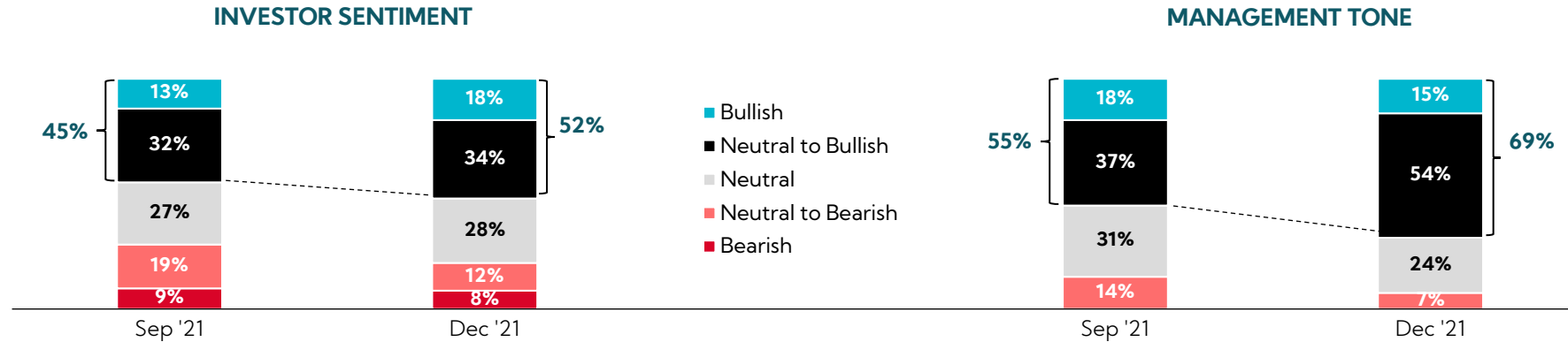


## EPS



# Investor Sentiment and Management Tone Reverse Trend, Reflecting a Bounce Back from Last Quarter's More Mixed Views

*Concerns over inflation, labor shortages, supply chain disruption and interest rates not enough to offset positive demand trends*



## Bullish

"Still have re-opening pent-up demand in near term." **Buy Side, Generalist, N. America**

"There is some increased demand from pandemic shutdown that will begin to fade in the 2<sup>nd</sup> half of 2022." **Buy Side, Generalist, N. America**

"Corporate earnings growth and low nominal interest rates." **Buy Side, Generalist, N. America**

"Outbreak of COVID-19 variant Omicron." **Sell Side, Technology, Asia**

"There seems to be some rationality coming into the market and a lot of highly valued stocks are selling off." **Buy Side, Generalist, N. America**

## Neutral to Bullish

"I don't see the market totally collapsing, but I don't see it going up at the levels we saw this year. It is going to be hard to maintain that. Interest rates can go up. It will have an impact on the stock market but won't collapse it. There's a natural need for rates to go up because of inflation, at least in the long end of the curve, to recognize the fact that we are in a slightly higher inflationary environment. I think the markets have already anticipated that." **Buy Side, Generalist, N. America**

"Many businesses are still going strong and bringing the related sectors along with them." **Buy Side, Generalist, N. America**

"Confusion over where we are: pandemic or endemic." **Buy Side, Healthcare, N. America**

"People are spending and business is robust." **Buy Side, REIT, N. America**

"Positive on earnings growth, but worried that interest rates will be pushed much higher by persistently high inflation." **Sell Side, Energy, N. America**

## Neutral

"Valuation levels, expected higher rates." **Buy Side, Generalist, N. America**

"Concern over geopolitical issues and mass monetary policy offset by technological improvements and consumer demand." **Buy Side, Multi, N. America**

"Fed in a tough spot." **Sell Side, Generalist, N. America**

"Over-extended market and higher input costs." **Sell Side, Multi, Australia**

## Neutral to Bearish/Bearish

"The era of 'free' money seems to be coming to an end, and common sense says that a correction to inflated equity valuations will soon follow." **Buy Side, Generalist, N. America**

"Productivity." **Sell Side, REIT, N. America**


"All coming to a head: COVID, logistics, inflation, etc." **Sell Side, Generalist, Europe**

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

"I would love to be bullish, but we have to come down at some point, so it feels like the smart thing to do is to be bearish because the market should correct at some point, but it keeps on going up." **Buy Side, Generalist, N. America**

"I am slightly bearish. I am concerned about rising rates and inflation. The consumer is not going to be that strong, particularly in the first half of the year. The second half might be better. Management teams are neutral. They are more bullish on getting past COVID but a lot of them have not talked much about next year given the environment. There is a lot of uncertainty." **Buy Side, Generalist, N. America**





93% (↑ 27pts)  
Inflation

51% (↑ 5pts)  
Supply chain disruption

37% (↑ 18pts)  
Labor availability

37% (↓ 14pts)  
Demand/growth outlook

24% (↑ 8pts)  
Margins

## Topics of Interest for Upcoming Earnings Calls

*For the third consecutive quarter, inflation remains top of mind, with labor challenges increasing meaningfully QoQ*

### Views from N. America

*"Drivers of the pipeline, costs, availability of labor."*  
Buy Side, Generalist

*"Margins."* Buy Side, Generalist

*"Inflation, Omicron, underlying market."* Buy Side, Generalist

*"Supply chain issues, effects of inflation, labor supply."* Buy Side, Generalist

*"Interest rates impact, cost inflation, workforce retention and COVID mandates."* Buy Side, Generalist

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

*"Costs, labor shortage, inventory management."*  
Buy Side, Generalist

*"Supply chains, inflation, workforce."* Buy Side, Generalist

*"Margins, demand, wages."* Buy Side, Generalist

*"Wage inflation's effect on margins, discussion of the nature of labor shortages, at what point will higher interest rates matter?"* Buy Side, Generalist

*"Inflation, supply chain, China."* Buy Side, Generalist

*"Margins, cost inputs, top-line growth."* Buy Side, Generalist

*"Pipeline, changes in customer demand, input and labor price and availability."* Buy Side, Generalist

*"Price initiatives versus cost inflation, supply chain and access to key components, growth opportunities."*  
Buy Side, Generalist

*"Outlook for 2022, challenges from COVID and plans to deal with many sick employees, investment and research spend."* Buy Side, REIT

*"Margins, supply chain, capital investment."* Buy Side, Multi

*"Omicron, Build Back Better Broke, inflation."* Buy Side, Multi

*"With retailers, to what extent are you enjoying full gross margin selling at the unit level? Where there was cramped supply and high demand, did they over earn on the gross margin for CY 2021 and how will that look for 2022? How long will the supply chain challenges last, whether that is freight or ocean. Are those inflationary inputs weighing on operating margins? Consumer spending trends as Biden's plans fade and lessen. Inflation and how that impact consumers at the pump and miles driven if gas goes nuts."* Buy Side, Multi

*"Pricing power, supply chain normalization, onshoring."*  
Buy Side, Multi

*"Supply chain issues, wage inflation, buybacks."* Sell Side, Generalist

*"2022 outlook, price gains after many years of weakness, response to wage inflation."* Sell Side, Energy

### Views from EMEA

*"Omicron, commodity prices."* Sell Side, Generalist

*"Pricing power versus cost pressure, labor costs, logistics bottlenecks easing?"*  
Sell Side, Generalist

*"Offer bottlenecks developments, cost inflation management, pricing power."*  
Sell Side, Financials

### Views from APAC

*"Growth declining."* Sell Side, Generalist

*"Inflation impact, margin and demand trends, supply chain impact."* Sell Side, Generalist

*"Semiconductor shortage, labor shortage, logistics."* Sell Side, Technology

*"Costs, labor availability."* Sell Side, Multi

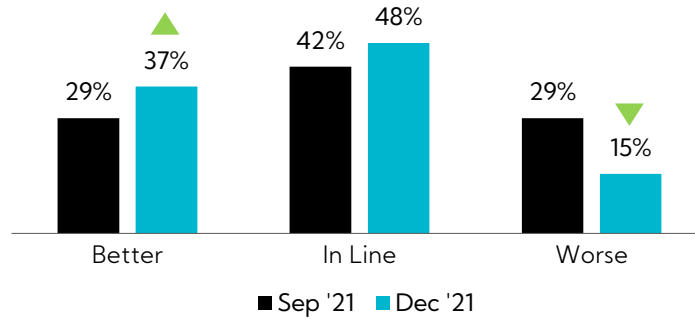


# Despite Continued High Levels of Concern with Inflation, Labor and Supply Chain, 2022 Guides Expected to Be In Line to Better than 2021 Results

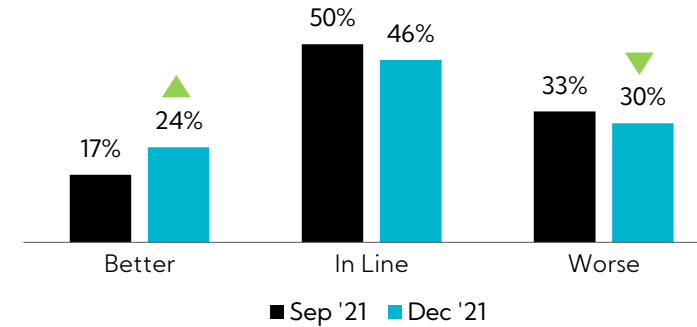
*82% expect strong demand levels to continue in 2022, an increase from 62% last quarter*

## EXPECTATIONS FOR 2022 GUIDANCE RELATIVE TO 2021

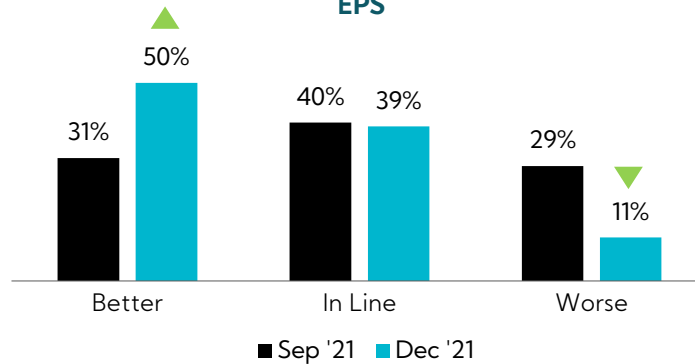
### ORGANIC GROWTH



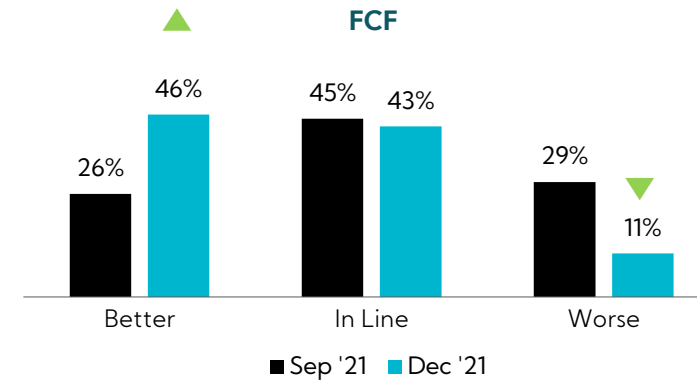
### MARGINS



### EPS



### FCF



# Top Concerns from Around the Globe (*Unaided*)

*Amid rampant inflation, the number of investors expressing concern with monetary policy doubles*

73% (↑ 7pts)	Inflation	52% (↑ 26pts)	Monetary policy	34% (↑ 18pts)	Labor availability
33% (↓ 5 pts)	COVID-19 variants	26% (↑ 9pts)	Supply chain disruption	24% (↑ 8pts)	U.S. administration

## Views from N. America

"Fed doing too much, COVID lockdowns creating supply chain woes in other countries spilling over into the global supply chain, such as China and Taiwan." **Buy Side, Generalist**

"Inflation, taxes, COVID." **Buy Side, Generalist**

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

"Monetary inflation/interest rates, labor costs and availability, clumsy governmental COVID policy." **Buy Side, Generalist**

"Interest rate policy error, inflation narrative entrenched, Delta and Omicron have a baby." **Buy Side, Generalist**

"Inflation, labor participation, sentiment around Omicron." **Buy Side, Generalist**

"Inflation, labor costs, government spending." **Buy Side, Generalist**

"Continued rise of authoritarian rule in the U.S., inflation spike that surprises the markets, COVID spawns an even deadlier variant." **Buy Side, Generalist**

"Inflation, fiscal policy, Fed policy." **Buy Side, Generalist**

"Overvaluation, inflation, recession." **Buy Side, Generalist**

"Inflation, logistics capacity, COVID evolution." **Buy Side, Generalist**

"Medium- to long-term gross margin outlooks, labor shortages, companies not giving visibility on 2022 full-year guidance." **Buy Side, Healthcare**

"Supply chain." **Buy Side, Industrials**

"Inflation, supply chain, interest rates." **Buy Side, Industrials**

"Monetary policy, capital investment and cash flow generation, labor market tightness." **Buy Side, Multi**

"Inflation, labor, government." **Sell Side, Industrials**

"Persistently higher-than-expected inflation, a sharp raise required by Fed to combat inflation, geopolitical blow-ups, including Russia invading Ukraine and possibly cutting off exports of natural gas to Western Europe." **Sell Side, Energy**

"Geopolitics, inflation, talent shortage." **Sell Side, Multi**

## Views from EMEA/APAC

"In the UK, if the Bank of England tightens just as inflation peaks and when growth hits an air pocket, wage inflation, another outbreak of Omicron." **Buy Side, Generalist**

"Omicron." **Sell Side, Generalist**

"Inflation, logistics bottlenecks need to ease, Central Bank incontinence." **Sell Side, Generalist**

"Restrictive monetary policy, cost inflation." **Sell Side, Financials**

"Inflation, President Biden's approval rating, softening of the Chinese economy." **Sell Side, Technology**

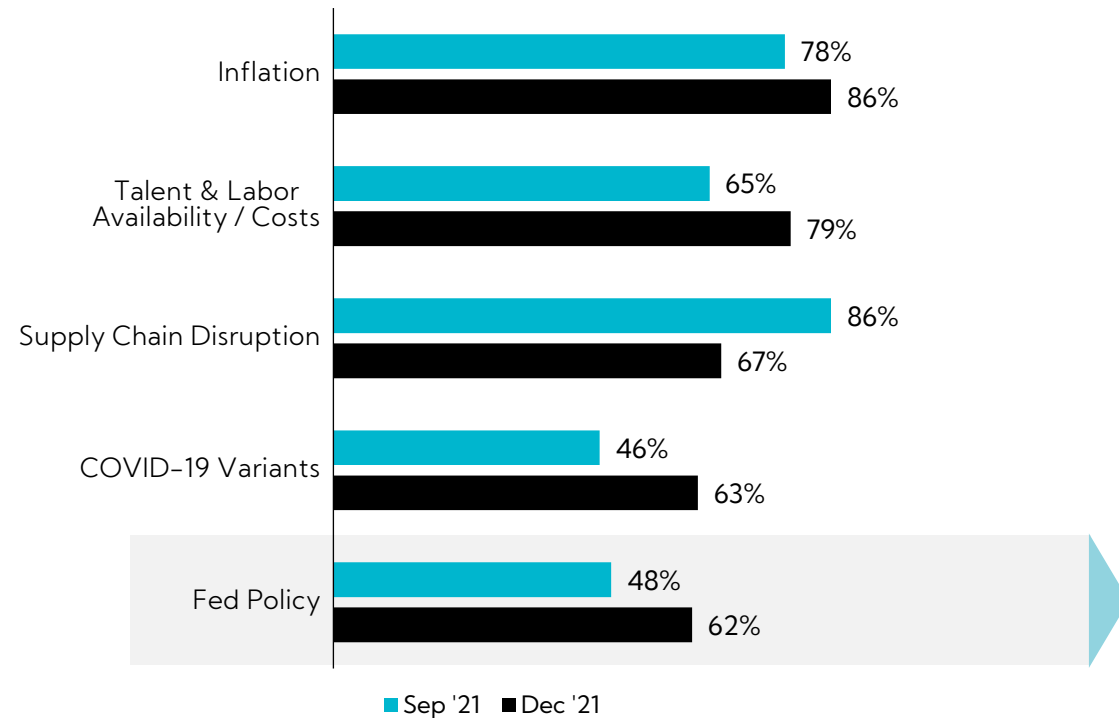
"Inflation, political instability, labor distortions." **Sell Side, Multi**

# Nearly 9 in 10 Investors Express a High Level of Concern with Inflation; Labor Availability Also Seen as a More Significant Risk this Quarter

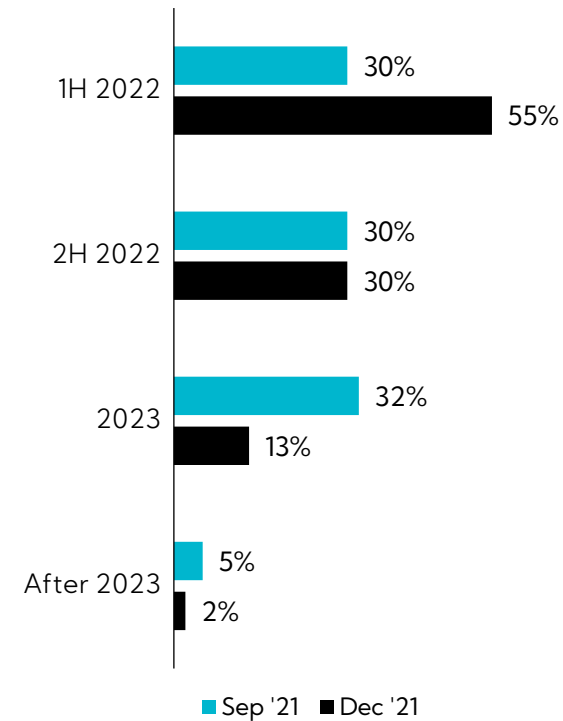
*55% expect the Fed to raise rates in the first half of 2022, up from just 30% last quarter*

## LEVEL OF CONCERN RELATIVE TO LAST QUARTER (AIDED)

*More Concerned or Continued High Level of Concern*



## EXPECTATION ON TIMING OF FED RATE HIKE

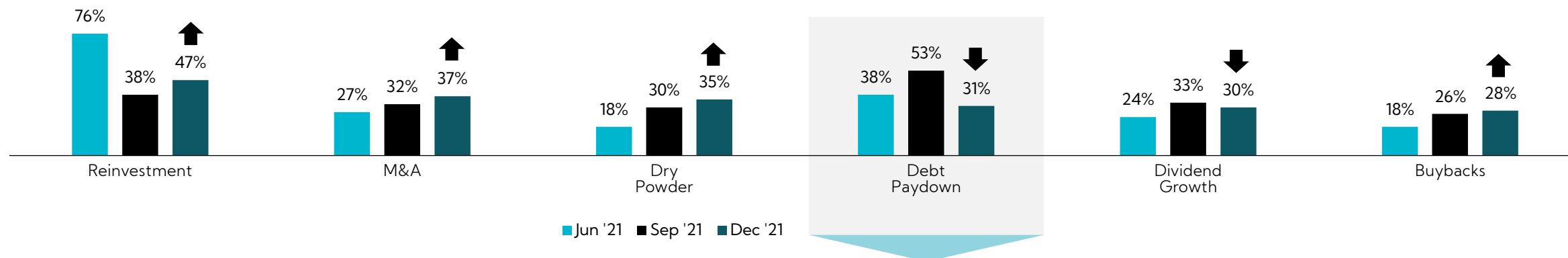


# Investors in Favor of Growth Investments, With Fewer Focused on Debt Reduction

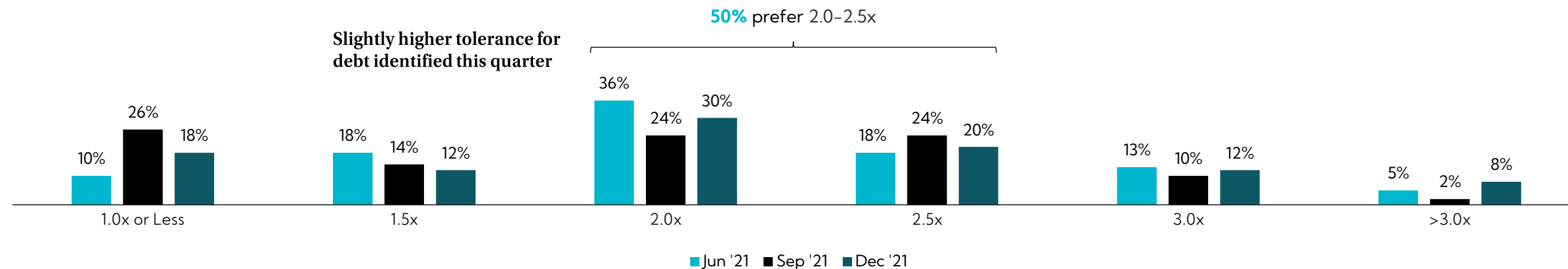
*As the value of M&A topped \$5T for the first time ever in 2021, surpassing the previous record of \$4.4T in 2007<sup>1</sup>, M&A ranks as the leading second use of cash for the first time since Q2 2016*

## PREFERRED USES OF CASH

In Descending Order of Top Two Preferences



## IDEAL NET DEBT-TO-EBITDA LEVEL





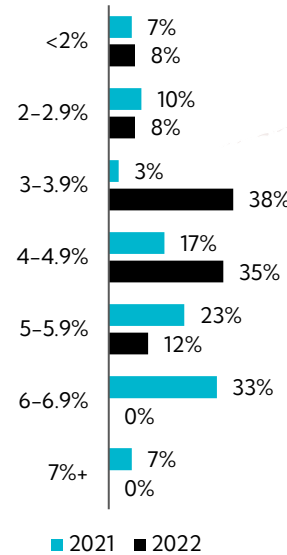
# After a Broad-based Pullback In Sentiment Last Quarter, Geographies See More Mixed Views

2022 U.S. GDP forecasts are for 3.6% growth, on average

## GDP EXPECTATIONS

2021 avg: 5.3%

2022 avg: 3.6%



### CANADA

Improve:	32%	-8pts
Worsen:	11%	-3pts

### U.S.

Improve:	54%	+15pts
Worsen:	13%	-12pts

### MEXICO

Improve:	34%	UNCH
Worsen:	19%	+10pts

### LATIN AMERICA

Improve:	19%	-7pts
Worsen:	35%	+21pts

### BRAZIL

Improve:	34%	+4pts
Worsen:	32%	+7pts

### EUROZONE

Improve:	51%	-2pts
Worsen:	18%	+2pts

### CHINA

Improve:	34%	+1pt
Worsen:	32%	-17pts

### JAPAN

Improve:	38%	+9pts
Worsen:	16%	+9pts

### INDIA

Improve:	47%	-1pt
Worsen:	8%	-1pt

### SOUTHEAST ASIA

Improve:	62%	+22pts
Worsen:	8%	-2pts

### AUSTRALIA

Improve:	30%	-7pts
Worsen:	19%	-5pts

## TOP 3 – IMPROVING (NEXT SIX MONTHS)

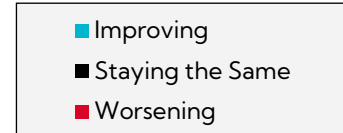


## TOP 3 – WORSENING (NEXT SIX MONTHS)



# Views on Key Economic Indicators Over the Next Six Months

*Positive shifts in sentiment identified, particularly Oil & Gas and Global Capex*



## GLOBAL CAPEX



*"Improving: Capital and labor are fungible. If people are too expensive, some can be replaced by machines/computers."*  
Buy Side, Generalist, N. America

*"Improving: More digitization/technology productivity enhancements."* Buy Side, Generalist, N. America

*"Worsening: Less free money and higher rates."* Buy Side, Generalist, N. America

## GLOBAL PMI



*"Improving: People with cash in their pockets typically spend it."*  
Buy Side, Generalist, N. America

*"Staying the Same: Activity levels should remain at a high level."*  
Buy Side, Generalist, N. America

## CONSUMER CONFIDENCE



*"Improving: Wages are likely to drift upwards and people should be returning to work."* Buy Side, Generalist, N. America

*"Improving: COVID becomes endemic."* Buy Side, Generalist, N. America

*"Worsening: If inflation continues, people will lose confidence."*  
Buy Side, Generalist, N. America

## OIL & GAS MARKETS



*"Improving: Less hostile policy."* Buy Side, Generalist, N. America

*"Improving: Release of pent-up demand from economy reopening."* Sell Side, Generalist, Asia

*"Improving: Underinvestment in exploration and production."*  
Sell Side, Generalist, Europe

*"Worsening: It's very difficult for energy companies not to pump the product when pricing is favorable. See history for examples of this!"* Buy Side, Generalist, N. America

## NON-RESI CONSTRUCTION



*"Improving: Demand for warehouse space and repurposed retail."*  
Buy Side, Generalist, N. America

*"Improving: Long lead times from COVID soft patch will show improvement next year."* Buy Side, Generalist, N. America

*"Staying the Same: Infrastructure bill a positive, but office occupancy likely remains below prior norm."* Sell Side, Energy, N. America

*"Worsening: Companies are not going back to the office yet."*  
Buy Side, Generalist, N. America

## RESI CONSTRUCTION



*"Improving: Millennial household formation and resorting of where people want to live."* Buy Side, Generalist, N. America

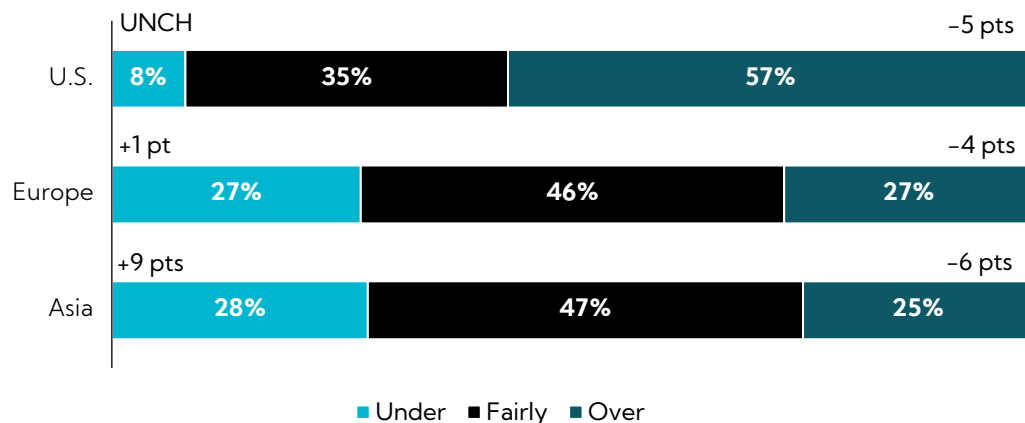
*"Improving: Low rates and strong demand."* Buy Side, Generalist, N. America

*"Staying the Same: Positive demographics and more mobility with the ability to work from home. Don't expect interest rates to rise enough to suppress demand."* Sell Side, Energy, N. America

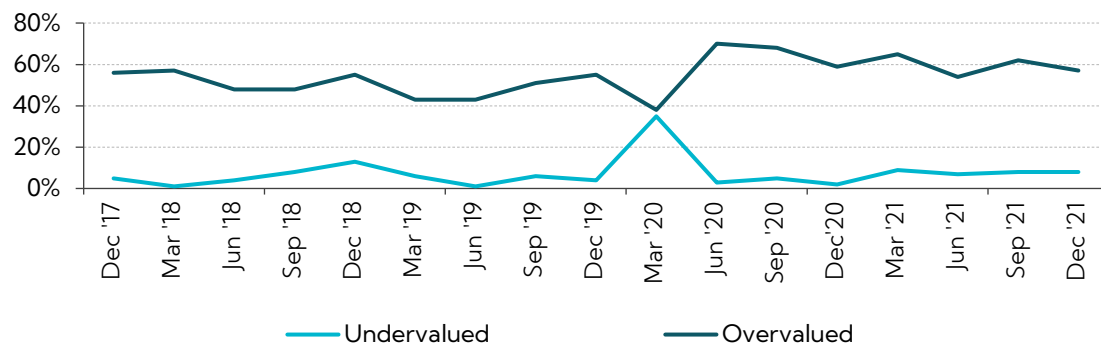
*"Worsening: Higher rates following a booming market in '20-'21."*  
Buy Side, Generalist, N. America

# Despite U.S. Equities Continuing to be Viewed as Overvalued, An Increasing Percentage Report Buying this Quarter

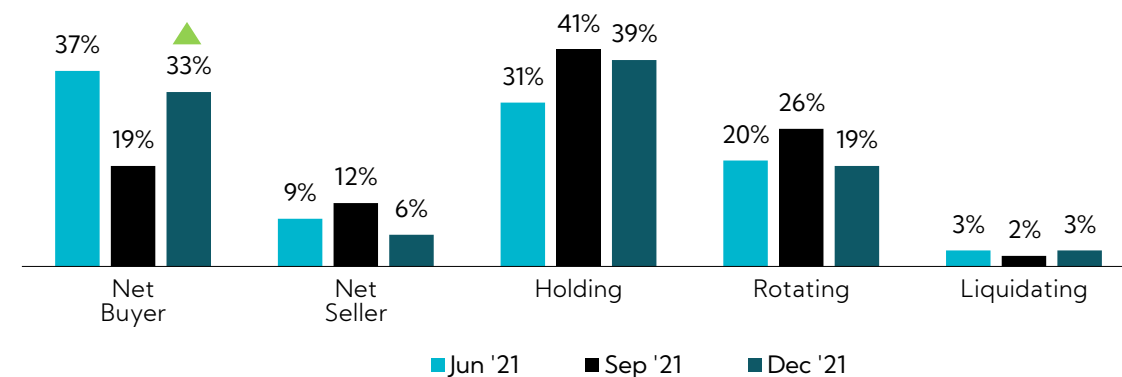
GLOBAL EQUITY VALUATION CLASSIFICATION



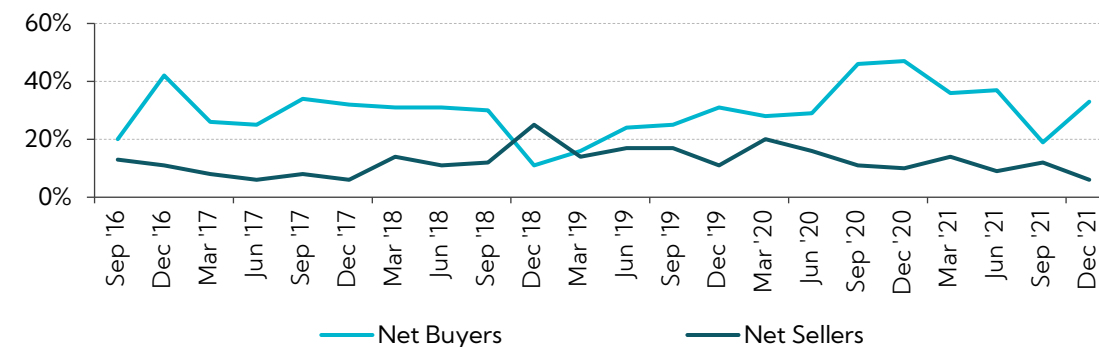
UNDERVALUED VS. OVERVALUED (U.S. EQUITIES)



QoQ INVESTMENT TRENDS

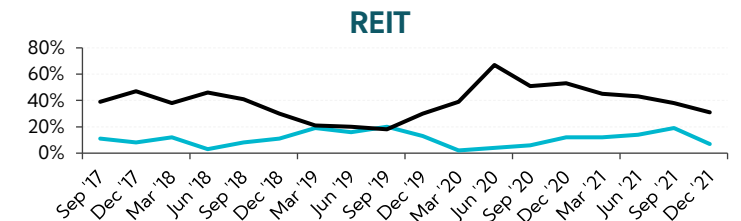
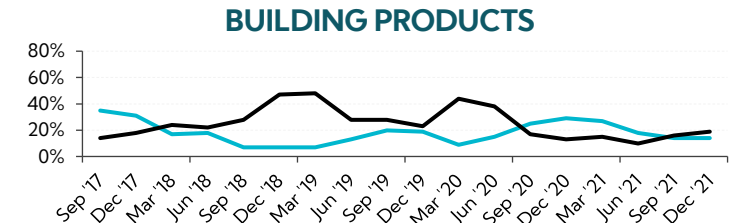
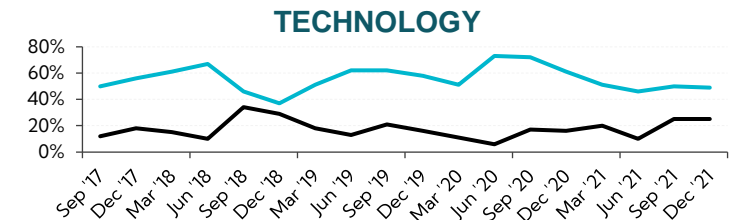
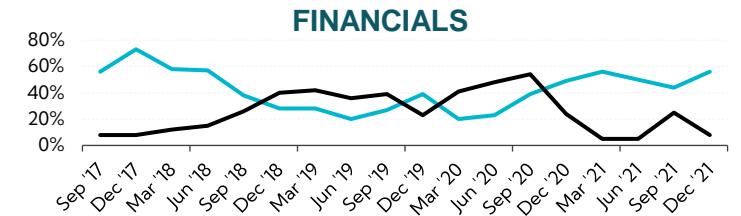
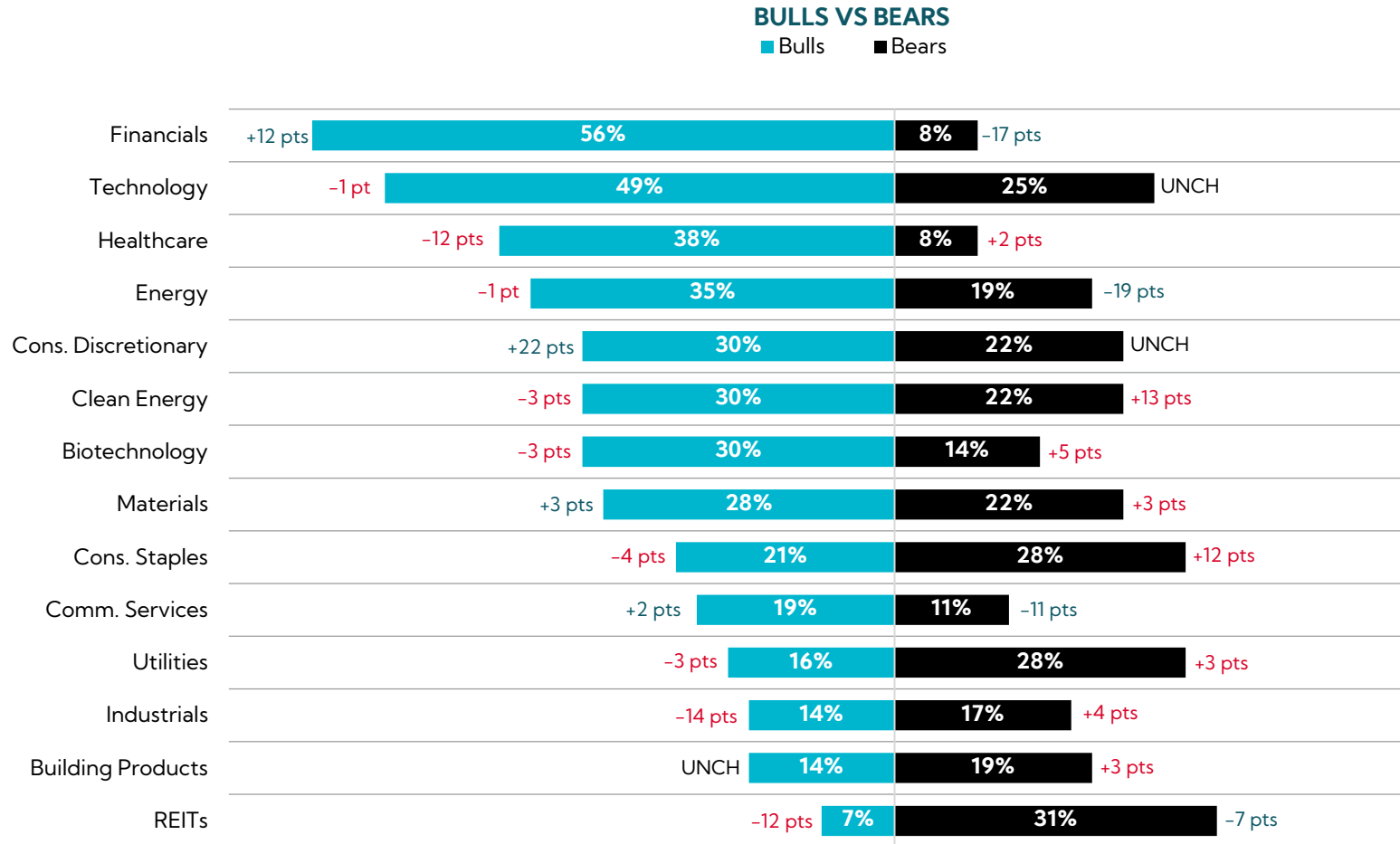


NET BUYERS VS. NET SELLERS



# More Bulls than Bears with Financials Expected to See the Most Buying Activity

*Technology continues to bump along while defensive sectors – Consumer Staples, Utilities and REITs – see fair share of bears*





# We are a Specialized Research and Advisory Firm

## Focused on Helping Public Companies Realize Their Value



### TRANSFORMATIONAL INSIGHT

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Our proprietary research and unparalleled analytics database powers our unique insights and benchmarking capabilities.



### TRUSTED PARTNERS

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We bring extensive experience, passion, and commitment to every engagement, always putting our clients' best interests first.



### IMPACTFUL EXECUTION

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We simplify the complex to deliver positive outcomes with agility, precision, and excellence.



### PURPOSEFUL CANDOR

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Our clients trust us. We provide explicit, no-nonsense counsel with objectivity and candor.

A person in a red jacket stands in a cave, illuminated by a bright blue light source. The cave walls are textured and layered, creating a sense of depth and mystery. The floor is covered in dark, wet rocks.

*corbin*

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