

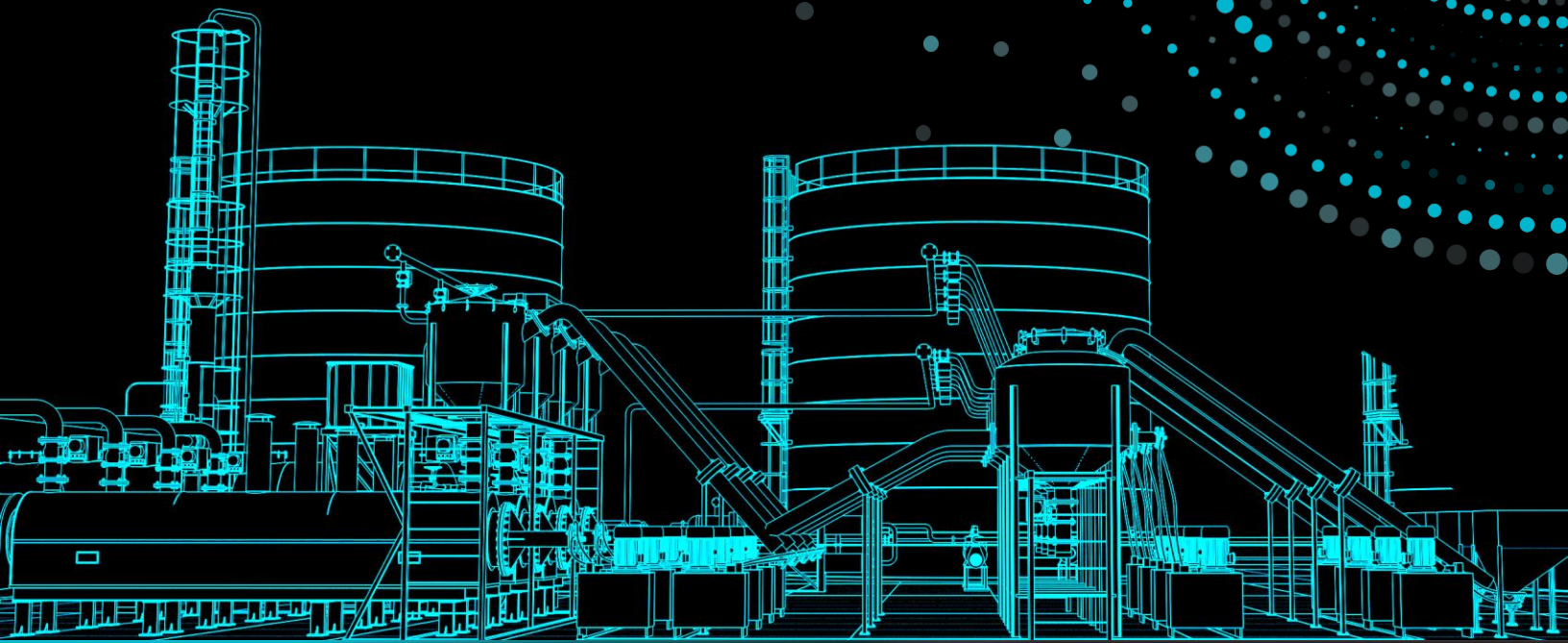


Sector Spotlight:

Commodity Chemicals

Voice of Investor® Sentiment
and Recommended
Communication Strategies

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In advance of the publication of our **Q2'24 Earnings Primer®** on July 11 and subsequent earnings season, we **interviewed 25 commodity chemicals investors and analysts**, whose firms collectively have \$1.6 trillion equity assets under management.

In this Commodity Chemicals Sector Spotlight, we cover **investor sentiment**, as well as **recommended communication strategies to differentiate your company** as an investment and attract both commodity chemicals and generalist investors. **Are Chemicals at an inflection point and poised to stand out more favorably in the current economic backdrop?**

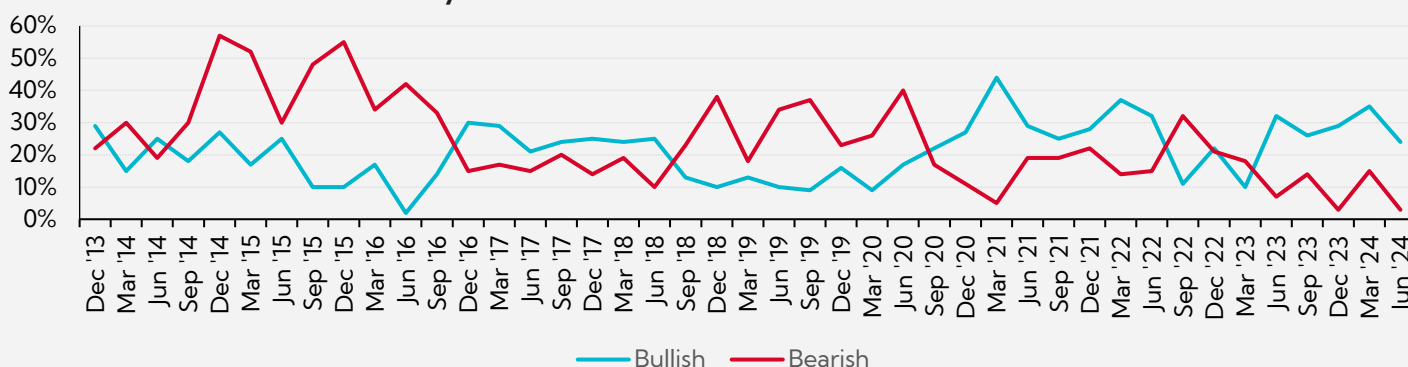
Sector Spotlight: Commodity Chemicals

In the last decade of Corbin's quarterly **Inside The Buy-Side®** survey that tracks investor sentiment toward Basic Materials, the sector has been challenged with high volatility, with 48% of the last 42 quarters seeing more bears than bulls (and 52% more bulls than bears), and sentiment flipping roughly every 1.5 to 2 years¹.

Despite more recent sluggish economic growth broadly, we have seen more Basic Materials bulls than bears each quarter since June 2023, with our upcoming survey finding the fewest bears in survey history for Basic Materials. Still, the percentage of bulls slipped with investors not outright upbeat on the sector yet, but they are increasingly less downbeat. For Commodity Chemicals in our recent interviews, the trend is similar but even more favorable with 52% neutral and 43% upbeat, and only 4% bearish.

Following a challenging operating environment in the early 2020s driven by the COVID-19 onset, subsequent interest rate hikes for the last two years, and concentrated focus on destocking over the last 12-18 months, Commodity Chemicals are seemingly poised to attract more investment in the back half of 2024 and early 2025. Despite global macroeconomic uncertainty, there is a strong belief that Commodity Chemicals have reached their trough and demand is poised to reignite. That said, it will still be important to navigate continued pressures from Europe and China, shifting consumer preferences towards sustainable production, and managing production capacity.

Inside The Buy-Side® Investor Sentiment: Basic Materials Sector



As it relates to Commodity Chemicals industry sentiment:



- **Bullish** and **Neutral to Bullish** views driven by the belief we are at the "trough" of the most recent downturn along with expectations demand will return after the most recent destocking efforts and amid improving global economies

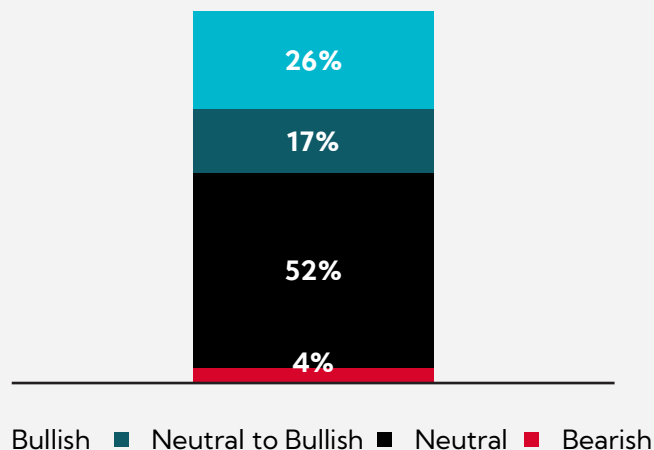


- **Neutral** sentiment driven by cyclical nature of the business and global macro uncertainty

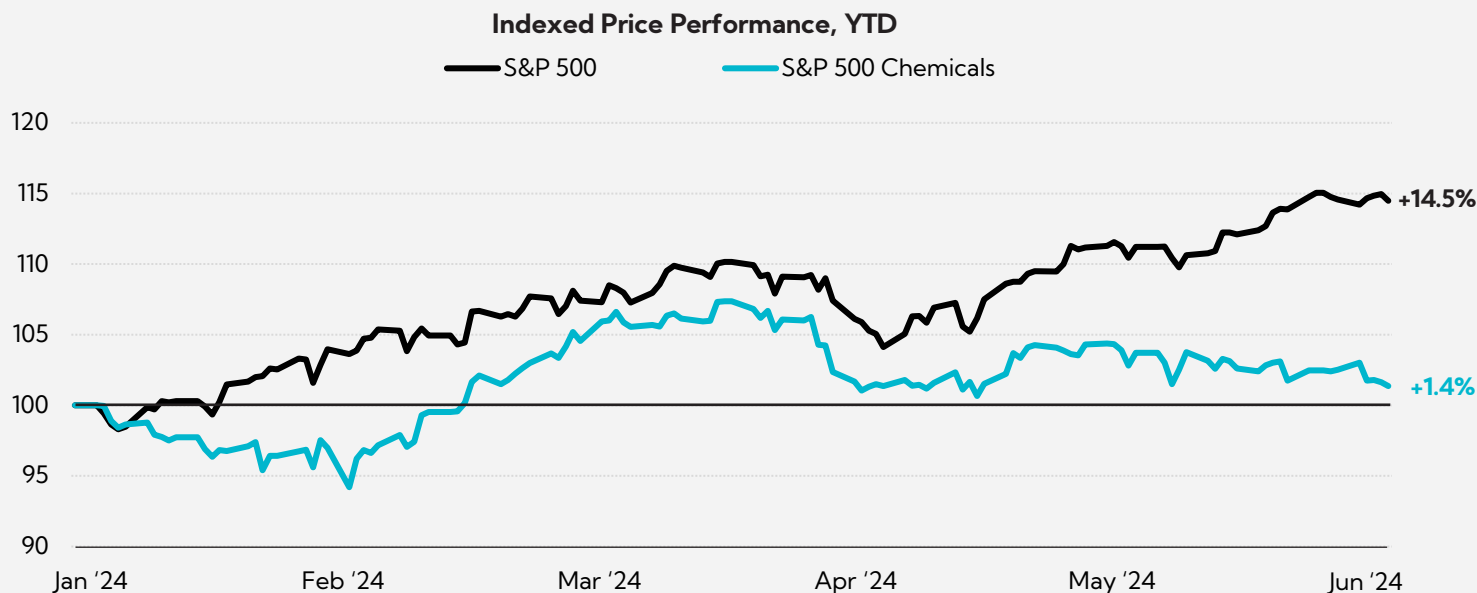


- **Bearish** sentiment driven by global economic threats worsening, including China's impact on the market

Commodity Chemicals Industry Sentiment



¹ Inside The Buy-Side® launched in 2007; Basic Materials sector sentiment commenced in 2013.



Bullish

"There was a **large destocking that occurred over the last 12 to 18 months** depending on which commodity or chemical it was. Ultimately, **that demand will return.**"

"I am bullish toward the Commodity sector because the **valuations are now washed out and there is good potential for a return to significant growth as soon as we start getting better global growth** and start seeing Europe turn and China begin to bottom, supporting its housing market. The Commodity Chemical stocks should be good over the next couple years."

"I am bullish toward the Commodity Chemical sector because **after having a multiyear downturn, we are very close to the trough and at the end of this year and early '25, we are going to start to see the beginning of an upcycle.**"

"I am selectively bullish toward the Commodity Chemical sector. **We are at the bottom of the cycle but there are structural problems related to overcapacity and a weaker long-term demand.**"

"My sentiment toward the Commodity Chemical sector is bullish. The **global economies seem to be emerging from a period of weakness** and that makes commodity demand growth stronger and the commodity companies more valuable."

"I am bullish toward the Commodity Chemical sector because of the U.S. cost advantage, because **commodity chemical pricing and shares work during the early cycle recovery of an economy and we are there.**"

Neutral

"Broadly, my sentiment is neutral toward the Commodity Chemical sector because capacity generally seems to be a negative across most commodity chains. **Broadly, capacity, unfavorable supply trends, demand trends bottoming, and valuations not very low but also not very high** leads me to be neutral."

"In general, my sentiment toward the Commodity Chemical space is okay. **Ultimately, it is a GDP+ business, so you need GDP to be positive.**"

"My sentiment toward the Commodity Chemical sector is neutral. **I am never better than neutral because of the nature of the business.** It is not a great business to be in; it is cyclical and capital intensive."

"We are **bullish depending on the commodity chemical.** There are **some commodity chemicals where we are bearish.**"

"I am neutral toward the Commodity Chemical sector with the caveat I am more bullish on the PVC and Chlor Alkali chains than I am the other commodity chemicals. I am bearish other commodity chemicals and bullish PVC and Chlor Alkali, so together that means it is neutral. **The PVC and Chlor Alkali supply and demand are in a far more superior position globally than polyethylene or polypropylene or some of the other commodity chemicals.**"

"My sentiment toward the Commodity Chemical sector is **neutral because of the cyclical nature of the sector and the exposure to the construction market, which is very weak.**"

"My sentiment toward the Commodity Chemical sector is **neutral because of macro factors and uncertainty as to what is going to happen in China and Europe.**"

Bearish

"I am bearish toward the sector because at a very high level, **China is a net exporter of everything this space produces, and if it is not, it is moving to a net exporter position like in polyethylene.** It is all about the oil to gas spread and it is **going to tighten in '25 and '26** relative to what they enjoyed in '21 through '23. "

"**The bet is in terms of China improving its economy and the Fed starting to cut rates** in the second half of this year."

THE *Big* SO WHAT™

With Commodity Chemicals seeing more optimistic sentiment after a challenging period for share price performance, companies have the opportunity to control their narratives and leverage strategic communications to rise above the pack as more investor eyes turn to the sector.

For a volatile industry, it is critical to start with a **well-defined, differentiated investment thesis** – the case for why to invest – while underpinning confidence in the *Corbin Critical Five* investment factors:

Management Quality

- **Position management as cycle-tested**, including proof points for why execution through Covid and the following years in a challenging backdrop led to better-than-expected performance, or lessons learned
- Acknowledge the uncertainty of the market and larger macro concerns — investors want **open and transparent communication** — but avoid overstating the uncertainty given your **focus should be on what is within your control**

Long-term Strategy

- **Keep investors focused on the long-term vision**, and highlight any changes or acceleration to strategic initiatives in support of that vision; for example:
 - Is your business pivoting toward specialty and value-add through acquisition and/or a change in the business mix, and does the investment community have a clear roadmap to appropriately assess the value of the portfolio changing and over what time period?
 - Are efforts around differentiated ESG/sustainability and advancement in technology and digitization accelerating efforts to improve production efficiency, reduce costs, or open new market opportunities that enhance your competitive edge?

Execution Track Record

- **Highlight operating fundamental and financial strengths**; for example, low-cost operational execution and balance sheet strengthening

Sustainable Competitive Advantages

- Communicate **what is unique and different** about the Company; for example:
 - Is your company appreciated for leveraging superior asset quality and consistently high utilization rates to produce above-average industry margins, including through downturns?
 - If applicable, are the benefits of vertical integration well understood, and can you demonstrate how this has helped to manage the cost curve through inflation and a challenging backdrop?

Capital Allocation

- Articulate a **comprehensive capital allocation framework**, including any shifts in prioritization between growth investments and shareholder returns, including capex levels and focus areas; for example:
 - Does the investment community appreciate the cash generation and shareholder returns potential?
 - Is your company reprioritizing growth investments to capitalize on the future market opportunity?
 - Is management's M&A track record well understood and seen as means to compound value over time?



Let Corbin help you cut through the noise and develop a differentiated investment thesis that serves to educate and capture investor mindshare.



Contact us today:

<https://www.corbinadvisors.com/contact/>

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