

# Industrial Sentiment Survey

## 3Q16 Earnings Primer

October 13, 2016



**CORBIN**  
**PERCEPTION**  
*Making Insight Actionable®*

# INDUSTRIAL SENTIMENT SURVEY

3Q EARNINGS PRIMER

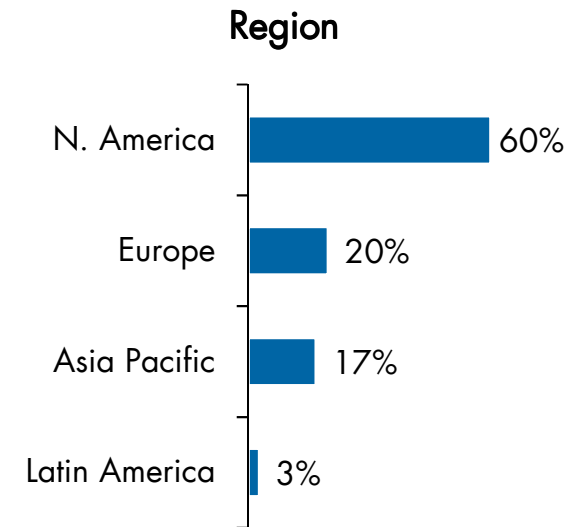
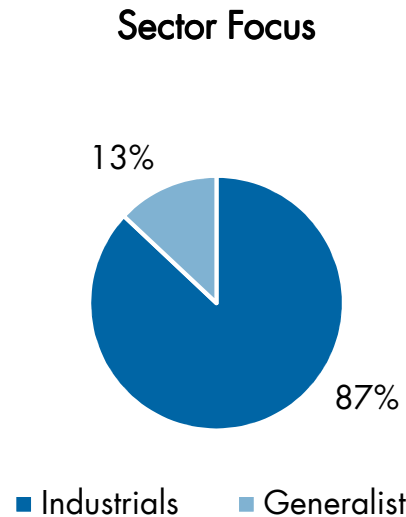
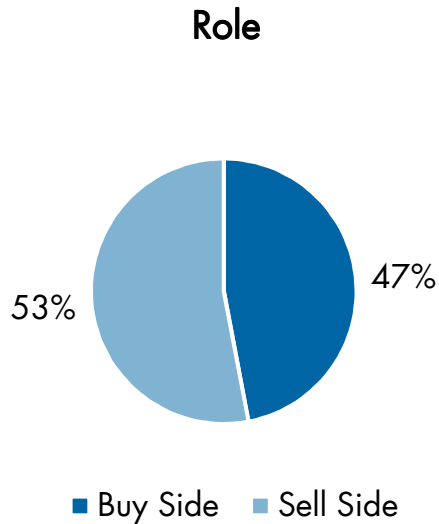
ISSUE DATE: OCTOBER 13, 2016

- We survey institutional investors and analysts quarterly to gauge and track sentiment on topics pertaining to the earnings season, business climate, global economy and market drivers
- Survey scope: 30 investors and analysts; buy-side firms manage \$502.1B in assets and have \$49.4B invested in Industrials
- Survey timeframe: September 9 to October 11, 2016

## Market Performance

	3Q16	One-Year <sup>1</sup>
S&P 500	3.3%	12.9%
S&P Industrial	3.6%	16.9%

<sup>1</sup> As of 9/30/16



# WORD CLOUD: FREQUENCY OF OCCURRENCE



Note: Almost all comments were communicated in a negative context

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# KEY FINDINGS: STABILIZATION LARGELY EXPECTED THIS QUARTER BUT FUNDAMENTAL CONCERNS LOOM LARGE

#1

Neutral Sentiment En Vogue Though Investors Describe Their Stance As More Cautious Relative To What They Are Hearing From Management; Earnings Largely Expected To “Meet”

- Trends in executive tone have warmed somewhat with nearly half of investors and analysts describing management as *neutral* and fewer as *bearish* this quarter
- Investor sentiment is tightening – no outright bears or bulls BUT those asserting they are *neutral* or *neutral to bearish* have nearly doubled QoQ
- 58% expect this quarter’s earnings to be *in line* with consensus; fewer are expecting misses
- 3Q KPIs are largely predicted to be in line with 2Q results; notably, those expecting an improvement in revenue ticked up while fewer expect an improvement in margins QoQ

#2

Sentiment On Global Economies Shifting While Mixed Sentiment On China’s Health Makes It A Wildcard

- While views that China’s economy will improve in the near-term increased this quarter, China topped unaided concerns (our separate channel checks suggest Asia-based investors are concerned about a “hard landing”)
- Investors and analysts report being more positive on several emerging market economies while those expecting the Eurozone to worsen declined significantly

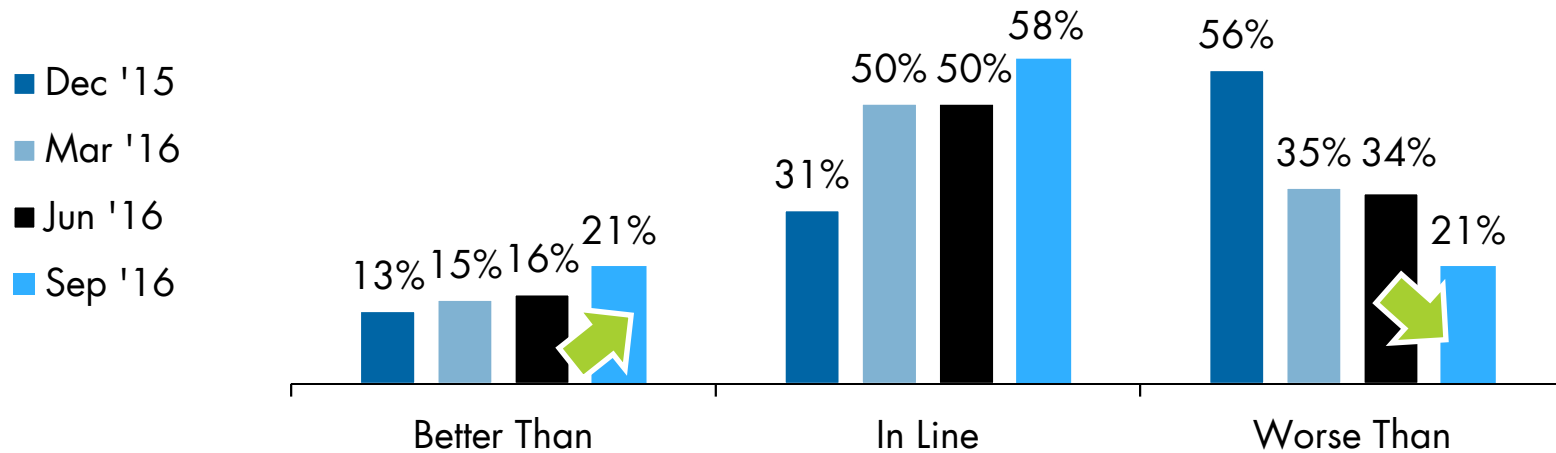
#3

Industrial Valuations Seen As Frothy While Certain Shifts In Subsector Sentiment Are Notable

- 92% believe Industrial valuations are *fairly* or *over valued*; those describing their investment activity as “holding” climbed QoQ
- Ag sees largest spike in bearish sentiment while concerns around Non-resi Construction are pronounced, a major erosion in sentiment QoQ, and views on O&G markets deteriorate somewhat

# EARNINGS EXPECTED TO MEET CONSENSUS; FEWER MISSES PREDICTED IN THE POST-1Q RESET... "NEW NORMAL"

Expectations Regarding 3Q Earnings Performance Relative To Consensus



## Better Than

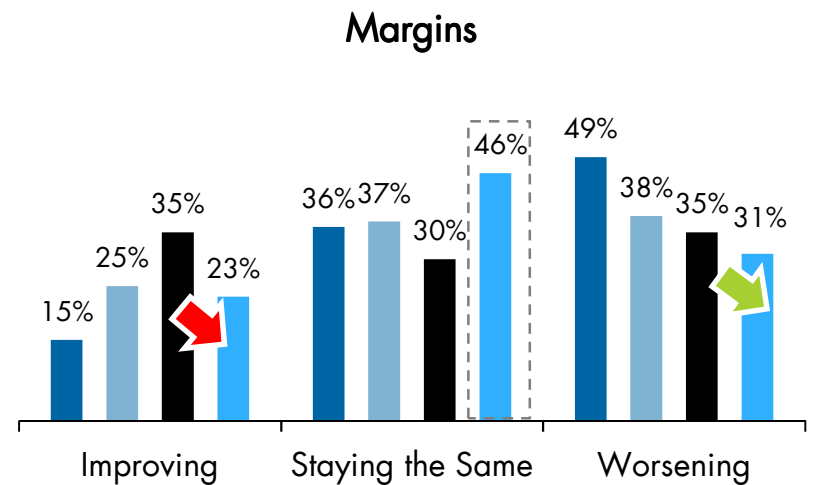
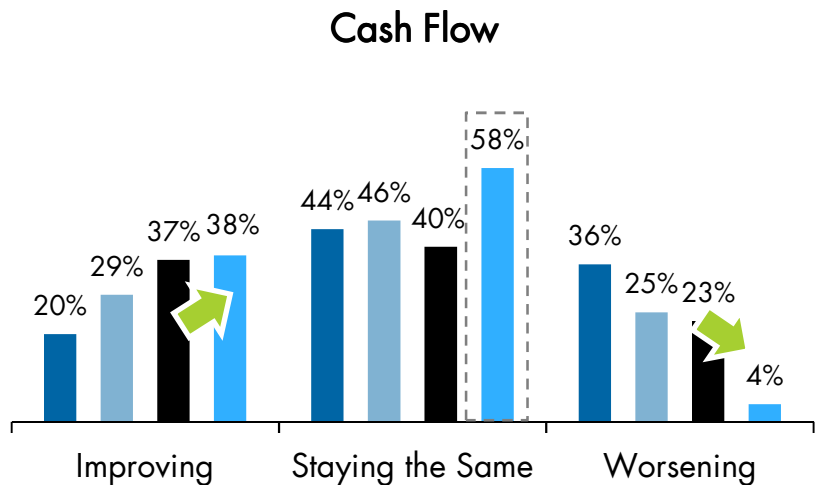
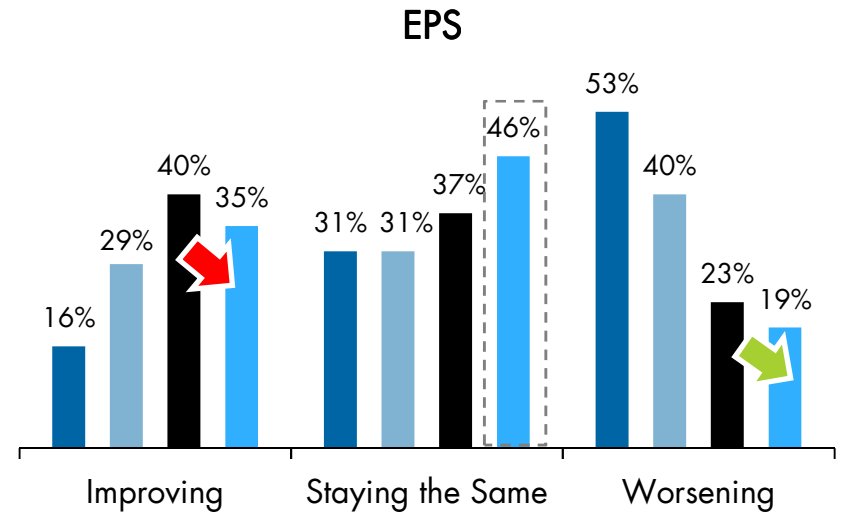
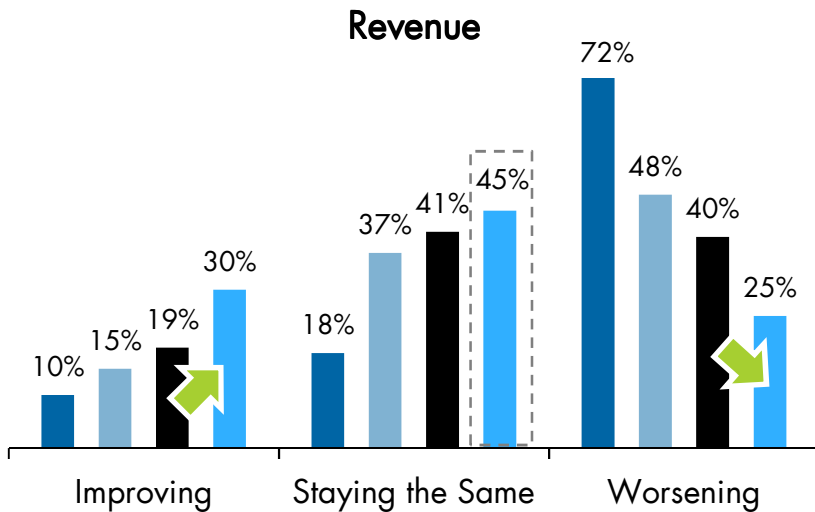
*"3Q trends seem in-line with 2Q exit rate across most end markets, with Oil & Gas capex seemingly the only outlier, which continued to decelerate."* Buy Side | N.A.

*"Good momentum continuing from 2Q16."* Sell Side | Europe

*"All forex."* Sell Side | Europe

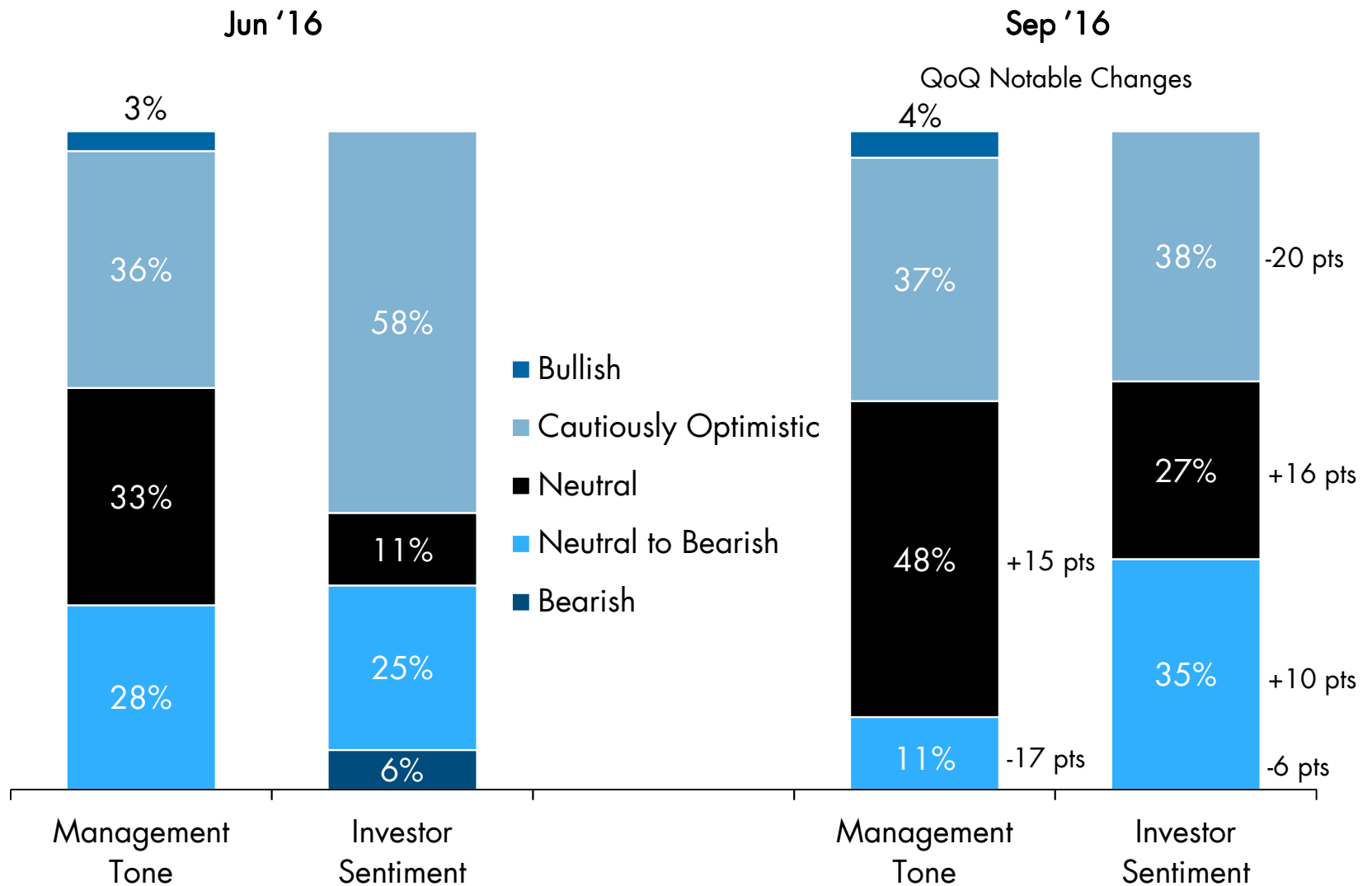
*"Ongoing operating leverage of companies will continue to drive results, upside for further price recovery of materials."* Sell Side | Europe

# 3Q KPIs LARGELY PREDICTED TO STABILIZE THOUGH VIEWS ON EPS AND MARGIN IMPROVEMENT REVERSED COURSE



■ Dec '15 ■ Mar '16 ■ Jun '16 ■ Sep '16

# THINGS THAT MAKE US GO HMMMMM...MANAGEMENT TONE CHARACTERIZED AS "NEUTRAL" AND LESS DOWNBEAT QOQ



## STRAIGHT FROM THE BUY / SELL SIDE: ON SENTIMENT

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### Bullish

*"Forex."* Sell Side | Europe

*"Restructuring during the last few years has prepared companies and increased operating leverage."*  
Sell Side | Europe

*"Belief in management."* Sell Side | Europe

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### Neutral

*"Slowing GDP worldwide."* Sell Side | N.A.

*"End market trends."* Buy Side | N.A.

*"Sector rotation out of defensive dividend stocks into cyclicals."* Buy Side | N.A.

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### Bearish

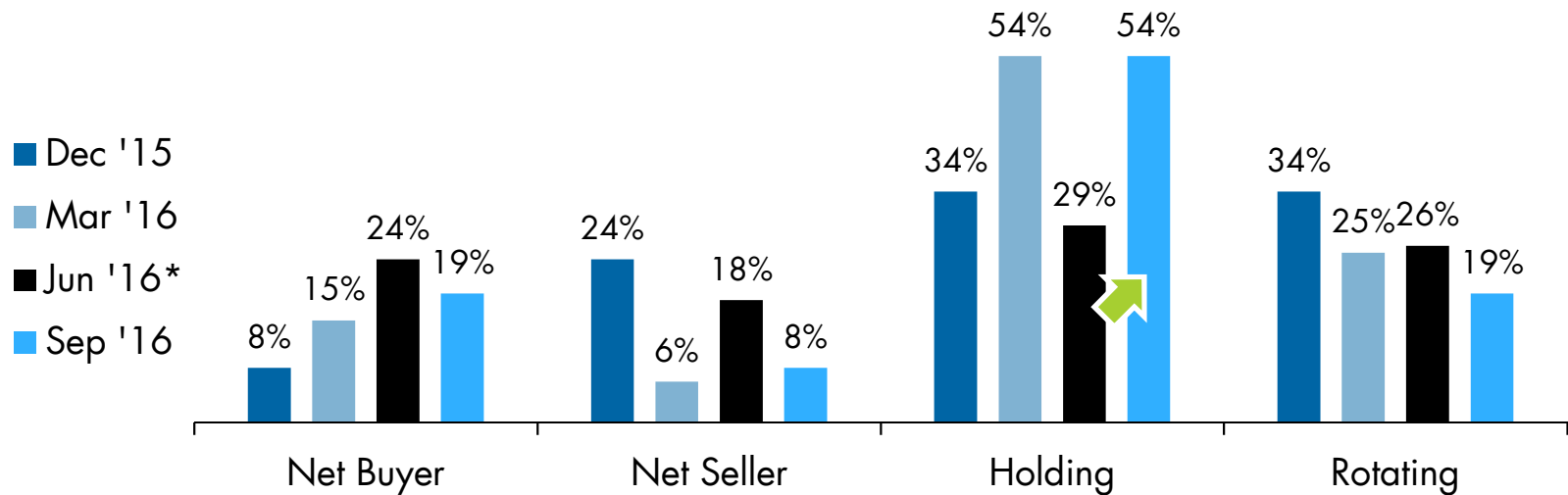
*"ISM, short cycle orders, and declining plateau in autos."* Buy Side | N.A.

*"Lack of productivity improvement."* Buy Side | N.A.



# INVESTORS REVERT TO HOLDING PATTERN AFTER MAKING SOME MOVES LAST QUARTER

How Would You Describe Your Recent Activity In Industrials?



## Holding

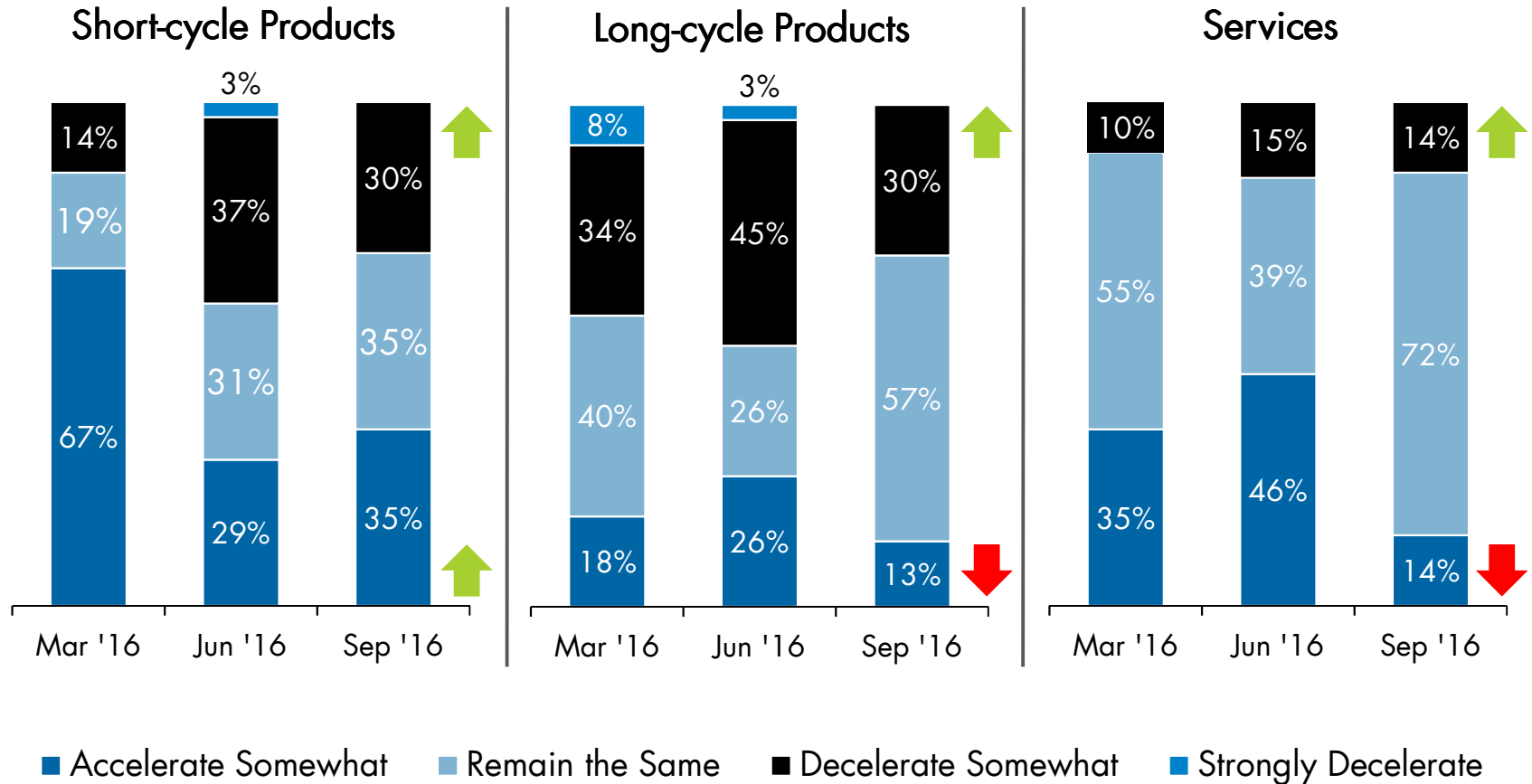
*"Already bearishly positioned."* Buy Side | N.A.

*"We have a service-related bias in Industrials. Will look selectively to take more cyclical risk if valuation multiples compress sufficiently."* Buy Side | N.A.

*"Asset mix decisions."* Buy Side | N.A.

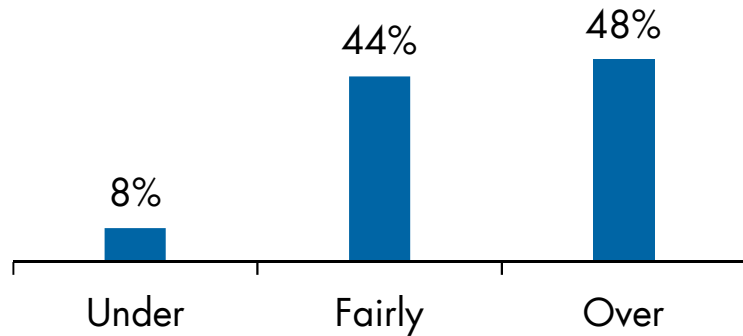
\*June 2016 values do not equal 100% due to 3% "Liquidating" not displayed on chart

TREND: PRODUCT AND SERVICE ORDER RATES SHOULD "REMAIN THE SAME" QOQ; ANOTHER "STABILIZATION" DATA POINT



# 92% CLASSIFY INDUSTRIALS AS FAIRLY TO OVERVALUED; A STOCK PICKER'S MARKET IS UPON US

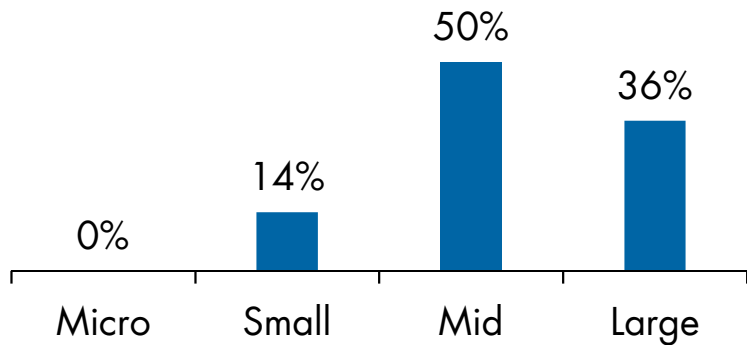
How Would You Classify Industrial Valuations In General?



67%

Believe Share Buybacks Are Not A Good Use Of Excess Free Cash Given Current Valuations

Which Market-cap Theme Is Currently Most Appealing?



48%

Assert the Industrial Sector Is In A Recession (up from 46% QoQ But Down From 69% In Dec '15)

84%

Are Placing More Emphasis On Balance Sheet Strength When Making An Investment Decision (up from 74% QoQ)

## STRAIGHT FROM THE BUY / SELL SIDE: ON MARKET-CAP THEMES

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### Large-cap

*"Are generally more stable, diverse earnings streams."* Buy Side | N.A

*"Most appealing because mid-cap valuations are most extended and I expect increasing volatility for small-caps. For large-caps, valuations are pretty comparable to history, so I'd give the nod to large-caps at the moment."* Buy Side | N.A.

*"Have access to the most financing options."* Sell Side | N.A

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### Mid-Cap

*"There is more growth coming from mid-cap names."* Buy Side | N.A

*"More self-help opportunities in slow-growing environment."* Sell Side | N.A.

*"Forex benefit."* Sell Side | Europe

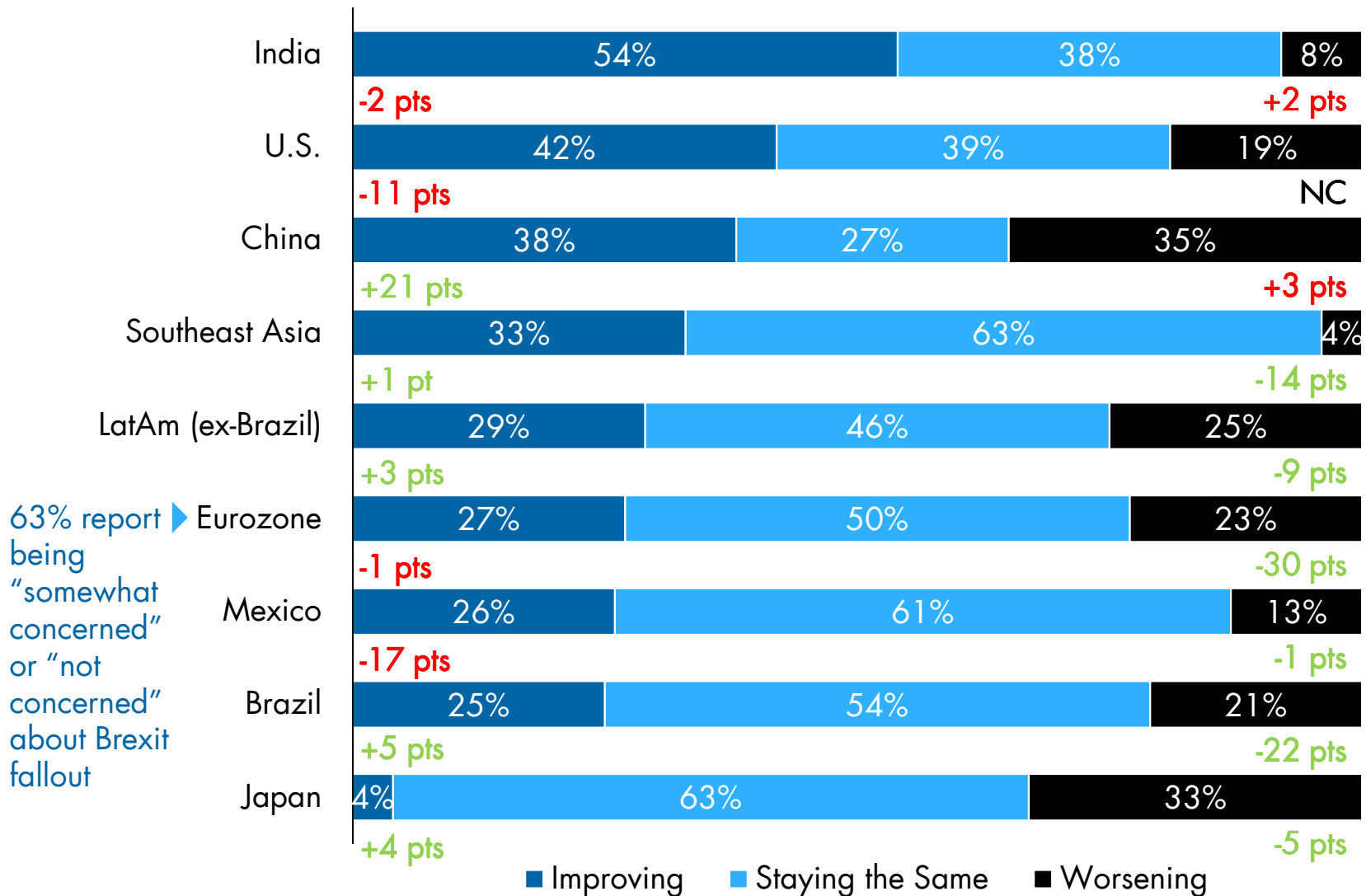
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### Small-cap

*"Management decisions come through to the bottom line more effectively and quickly."* Sell Side | Europe

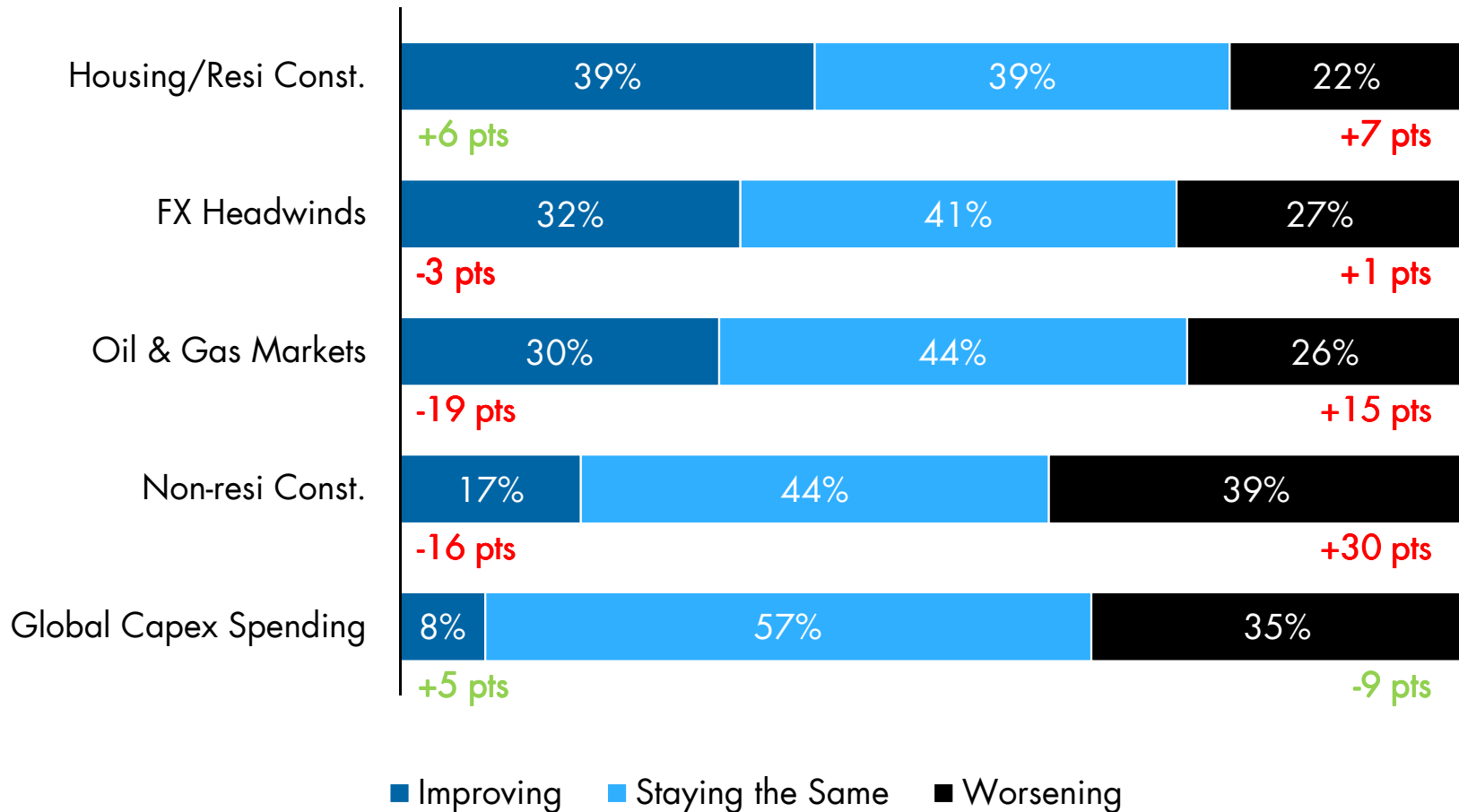
# SENTIMENT ON INDIA REMAINS STRONG WHILE CHINA SEEN AS IMPROVING (OUR CHANNEL CHECKS WOULD SUGGEST OTHERWISE)

Over The Next 6 Months, What Are Your Expectations For The Following Economies?



# AROUND THE WORLD: CONCERN ON NON-RESI CONSTRUCTION SPIKES

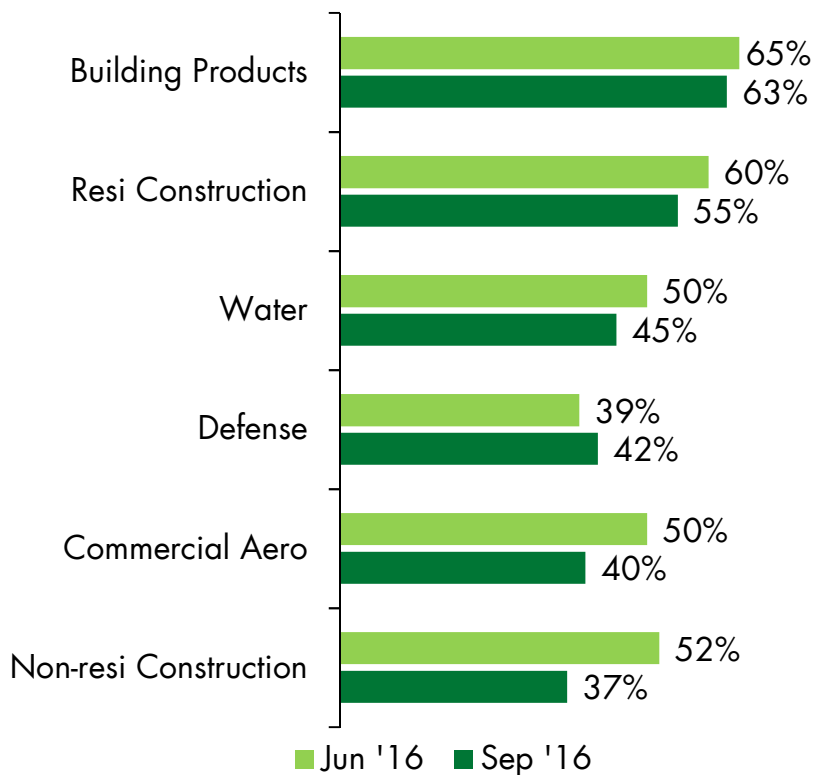
Over The Next 6 Months, What Are Your Expectations For The Following Economies?



# SOME SIGNIFICANT SHIFTS IN SUBSECTOR SENTIMENT TAKING PLACE



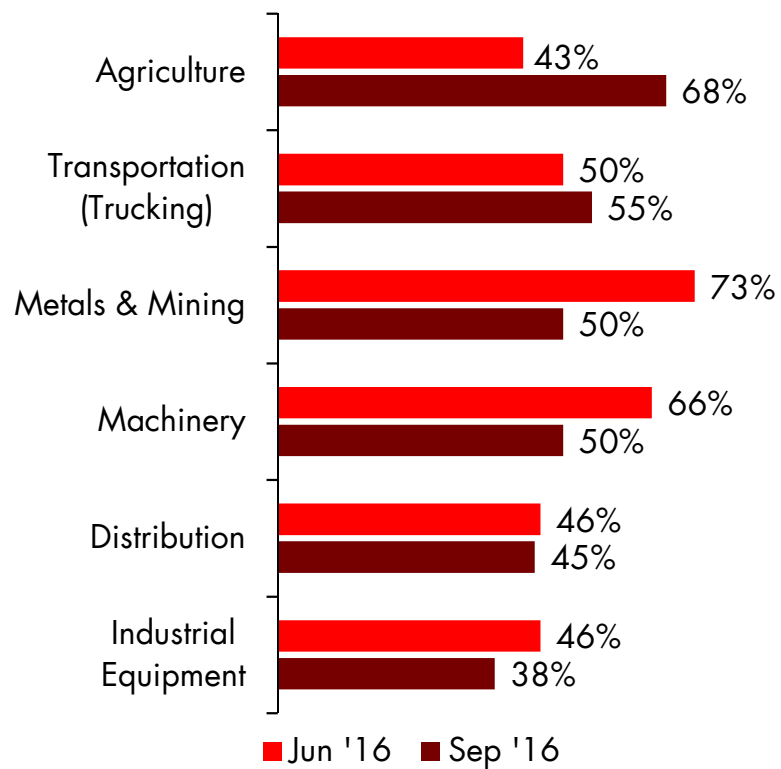
## Predicted To Grow Faster Than GDP



Sentiment On Building Products And Resi Construction Remain Strong While Bulls Retreat On Non-resi Construction



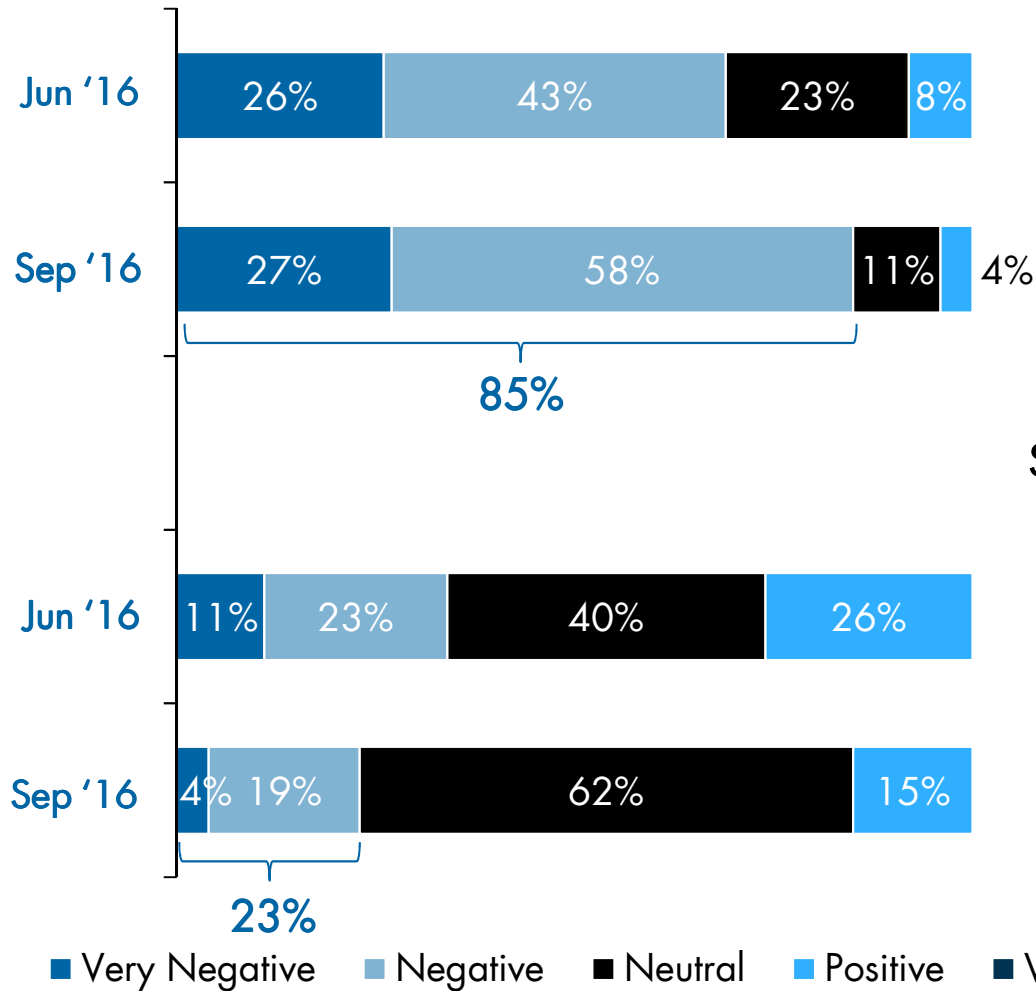
## Predicted To Grow Slower Than GDP



Ag Moving Back Into The Top 6 (With The Biggest Spike In Bearishness) And Metals & Mining Seeing Some Love

# MARKET TO TRUMP: GET OFF YOUR STUMP

Who Will Have The ~~Most Positive~~-Least Negative Impact On Markets?



Survey Says:  
The Hillster  
(2 for 2)





## ABOUT US

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# CORBIN

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