

A photograph of a rowing team in action, with several rowers in blue and red uniforms pulling their oars. The image is overlaid with a semi-transparent dark grey box containing the Corbin Advisors logo and tagline.

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Inside^{The}
BUY-SIDE[®]

3Q18 Earnings Primer
Industrial Sentiment Survey

October 18, 2018

CORBINADVISORS.COM

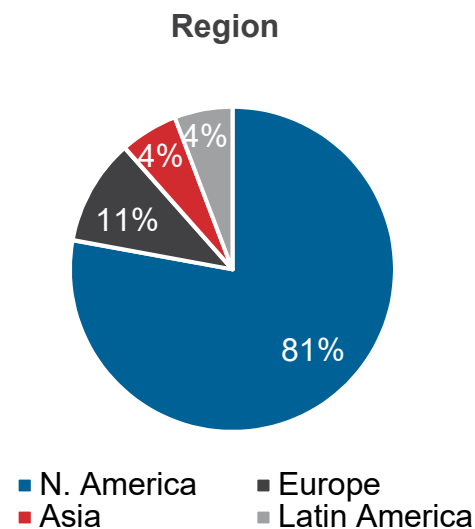
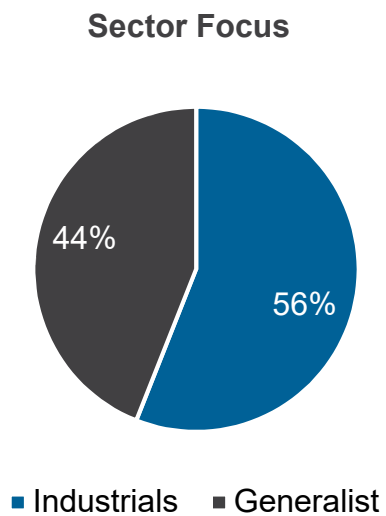
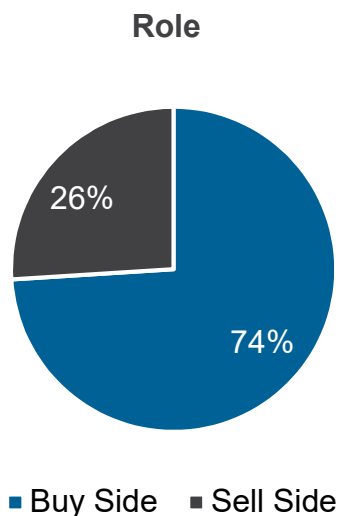
For over a decade, we have surveyed global investors and analysts on the equity markets, world economies and business climate. We share our research broadly with corporate executives, investor relations (IR) professionals and the financial community.¹

Scope: 27 investors and analysts globally; buy-side firms manage \$432 billion in assets and have \$58 billion invested in Industrials

Timeframe: September 11 – October 2, 2018

Market Performance		
	<u>3Q18</u>	<u>YTD*</u>
DJIA	9.0%	2.5%
NASDAQ	7.1%	8.6%
S&P 500	7.2%	3.5%
S&P Industrial	9.5%	(2.5%)
Russell 2000	3.3%	0.7%

* As of October 12, 2018



¹ The Industrial Sentiment Survey was first published in June 2015



Key: Underlying Sentiment

- Positive
- Neutral
- Negative

¹ Most frequently cited words: 1) **trade wars** (negative); 2) **tariffs** (negative); 3) **Democrats** (negative); 4) **growth** (positive); and 5) **economy** (positive)

Key Findings: Significant Headwinds Temper Outlook but Near-term Growth Forecasts Remain Intact

#1 Bullish Sentiment Deteriorates around the Edges as Headwinds Dominate Headlines but No One Is Downright Draconian; 3Q Expected to Come in Hot

- 75% express *Moderate* to *High* concern with trade wars and rising input costs, marking the second consecutive quarter in which both were cited as leading, unaided concerns
- Against that backdrop, sentiment saw a dip in overall bullishness this quarter but remains positive
 - 84% describe management tone as *Neutral to Bullish* or *Bullish*, down from 92% last quarter, while only 29% characterize executives as outright *Bullish*, a significant decrease from 64% QoQ
 - No one classifies their sentiment or management tone as *Bearish*
- 54% expect earnings to beat consensus, with 67% predicting sequential improvement, a slight increase QoQ; forecasts for negative surprises more than double but off a low base
- An increase from 18% last quarter, nearly 40% of investors now expect 2018 organic growth of at least 5.5%
- More than 70% expect revenue growth to improve sequentially; all other KPIs – EPS, FCF, Margins – are also largely expected to improve...the stakes are high

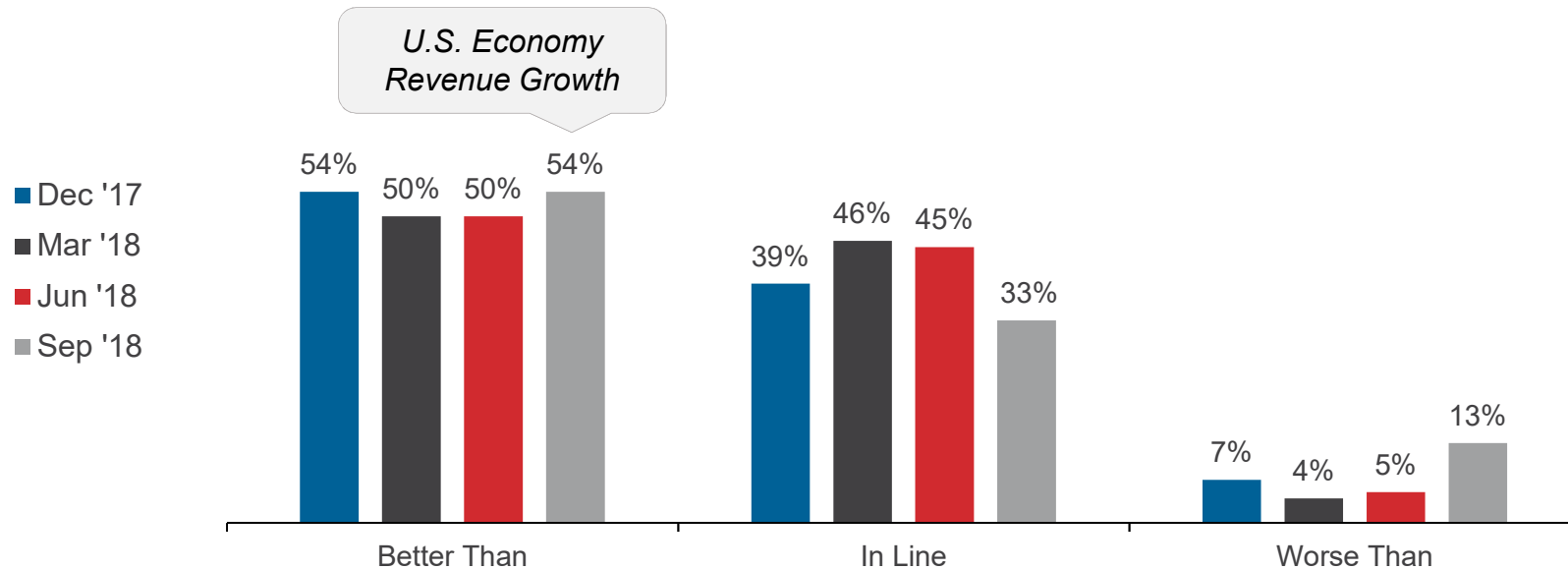
#2 2019 Looking Like the Peak Year but Investors Remain in the Here and Now

- 61% report having a low level of concern about a recession, though one-third expect Industrial earnings to peak in 2019, more than double QoQ
- While half the group classifies Industrials as *Fairly Valued*, *Net Buyers* nearly double QoQ while *Net Sellers* decline to zero

#3 More Bulls than Bears When it Comes to Sub-Sector Sentiment but All See A Pullback in Confidence

- All sectors see a drop in those expecting growth to outpace GDP; Defense remains most favored but at more muted levels, while Industrial Equipment sees sharpest decline in bullish sentiment
- Auto remains the top laggard for the eighth consecutive quarter, while Metals & Mining bears explode to 31% from 4% last quarter; Water sees the largest reduction in bears QoQ

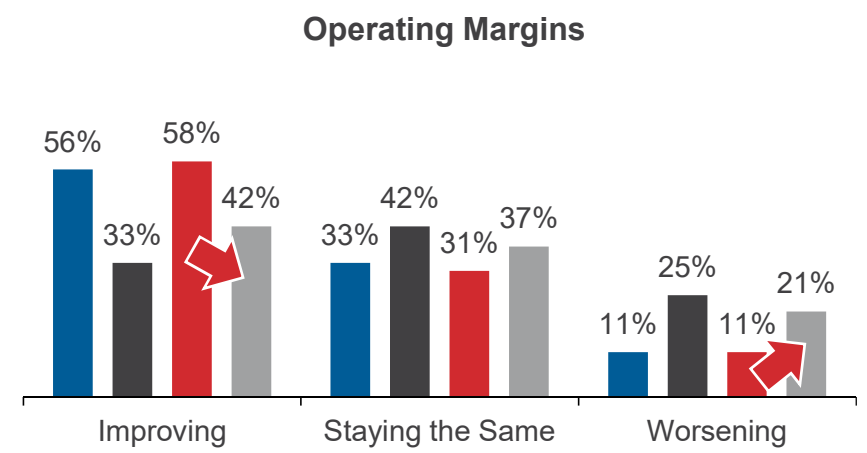
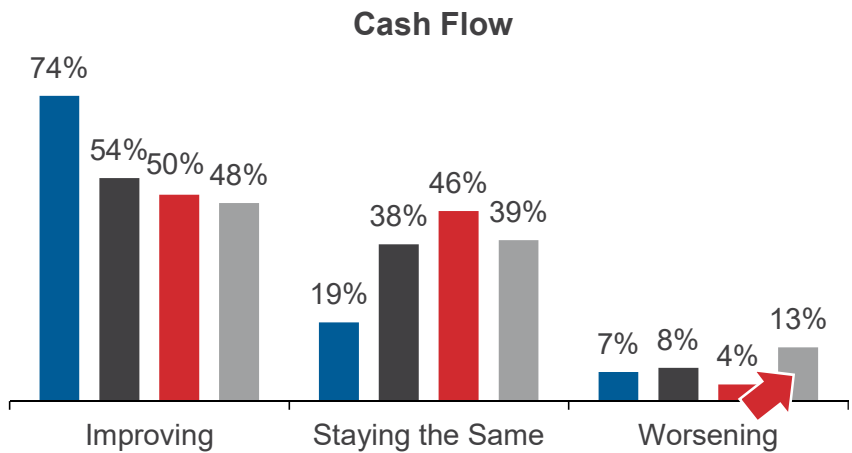
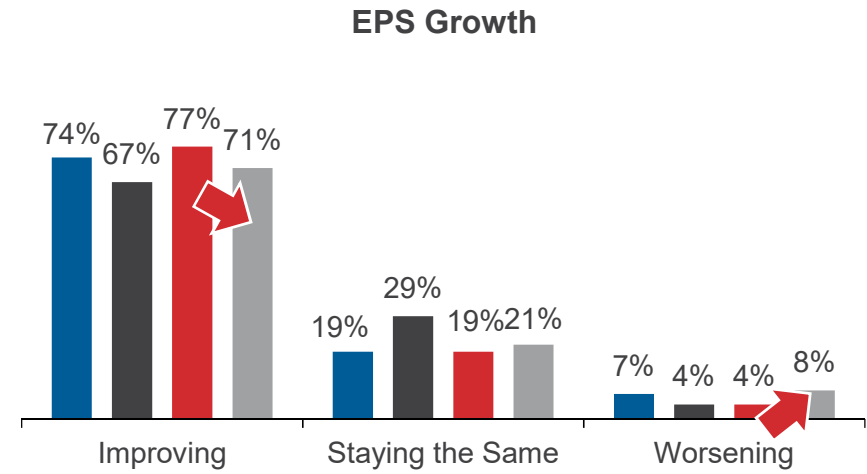
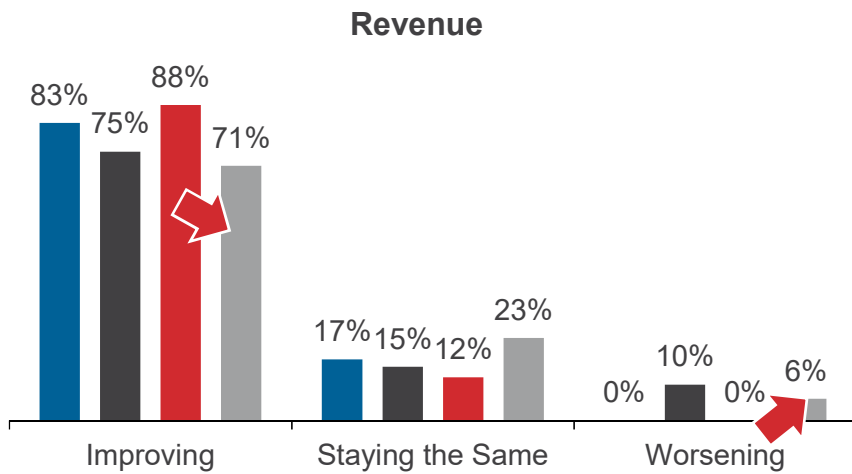
**Expectations Regarding 3Q18 Earnings Performance
Relative to Consensus**



67% Expect Sequential Earnings Growth vs. 65% Last Quarter

87% Expect *In Line* to *Better Than* Consensus Results vs. 95% Last Quarter

KPI Trends – Expectations



■ Dec '17 ■ Mar '18 ■ Jun '18 ■ Sep '18

Better Than – 54%

“Confidence in Trump’s leadership and the response of the general economy.” Buy Side, Generalist, N. America

“Strength of U.S. economy. Global growth stabilizing. Tariffs not having major impact yet.” Buy Side, Generalist, N. America

“Strength in the U.S. economy, increased business confidence, increase in capital investment. End markets remain strong.” Buy Side, Industrials, N. America

“Macro data.” Sell Side, Industrials, N. America

“Healthy Industrial economy.” Sell Side, Industrials, N. America

In Line – 33%

“Stable end markets / macro environment. Estimates reasonable and beatable.” Buy Side, Generalist, N. America

“Supply chain pressure.” Sell Side, Industrials, N. America

1 Price/Cost Dynamics, Impact on Margins

2 Trade War

3 Pricing Actions

Buy Side

“Cost inflation, ability to get pricing. Are tariffs having a negative impact on growth?” **Generalist, N. America**

“Trade, input costs, geographic performance, end market performance.” **Generalist, N. America**

“Trade impact.” **Generalist, N. America**

“Buybacks.” **Generalist, Europe**

“Money flows, central banks, trade war effects.” **Generalist, Latin America**

“Confidence to make long-term capital investments, impact of tariffs and trade conflicts, tightening labor markets.” **Industrials, N. America**

“Capex outlook, price/cost.” **Industrials, N. America**

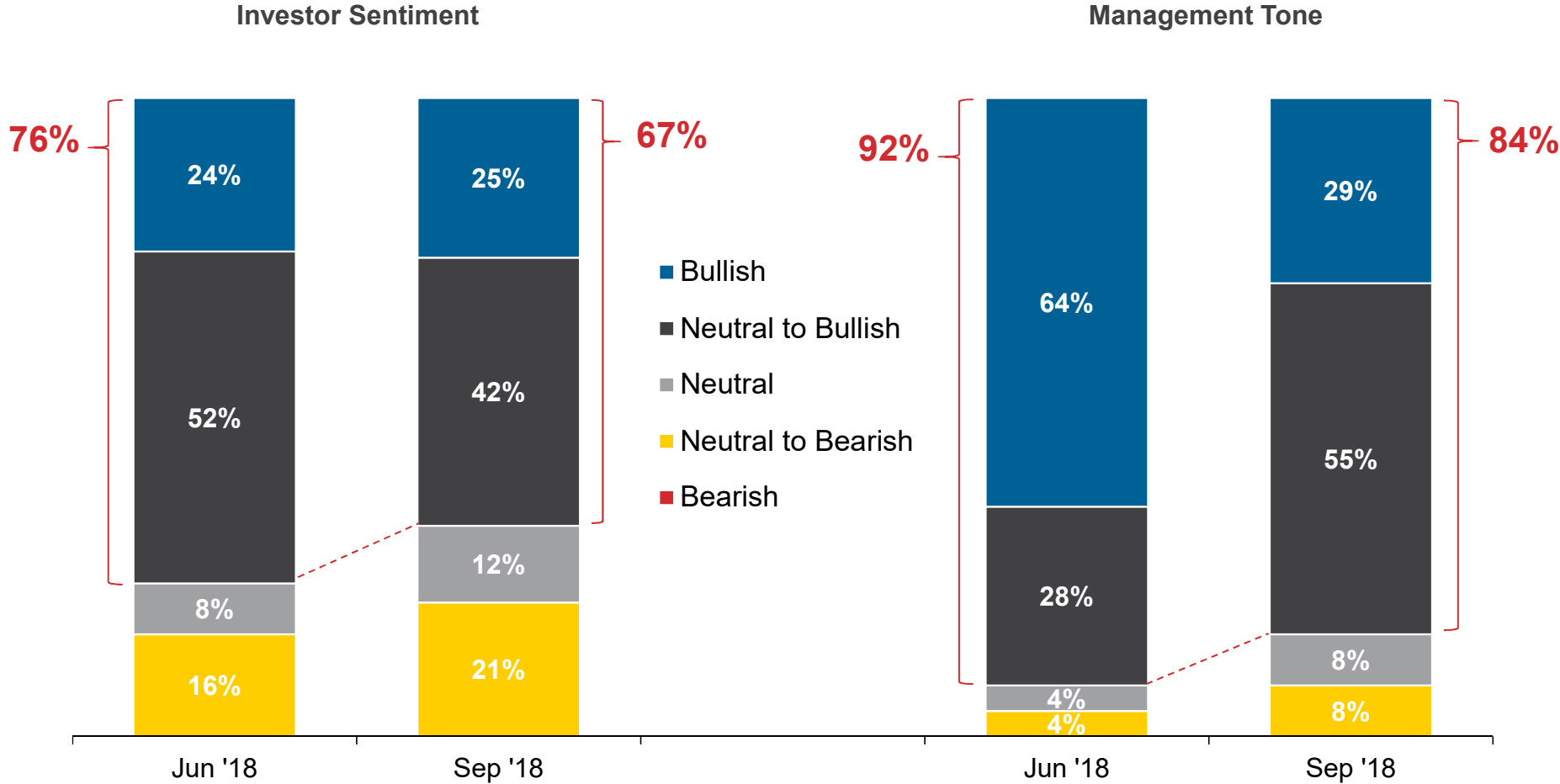
“Price/cost differential and underlying demand.” **Industrials, N. America**

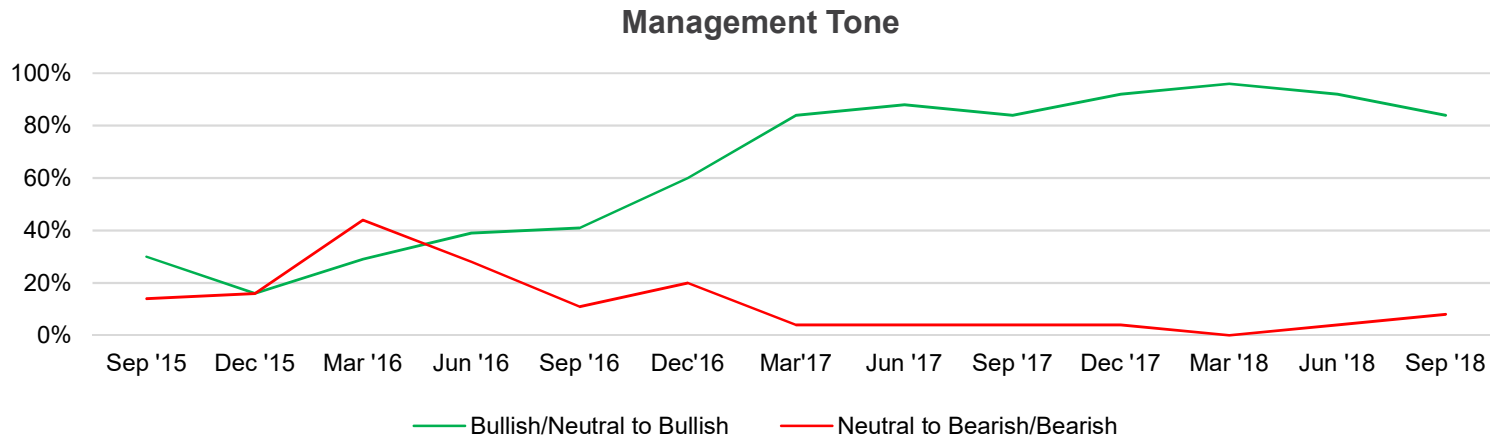
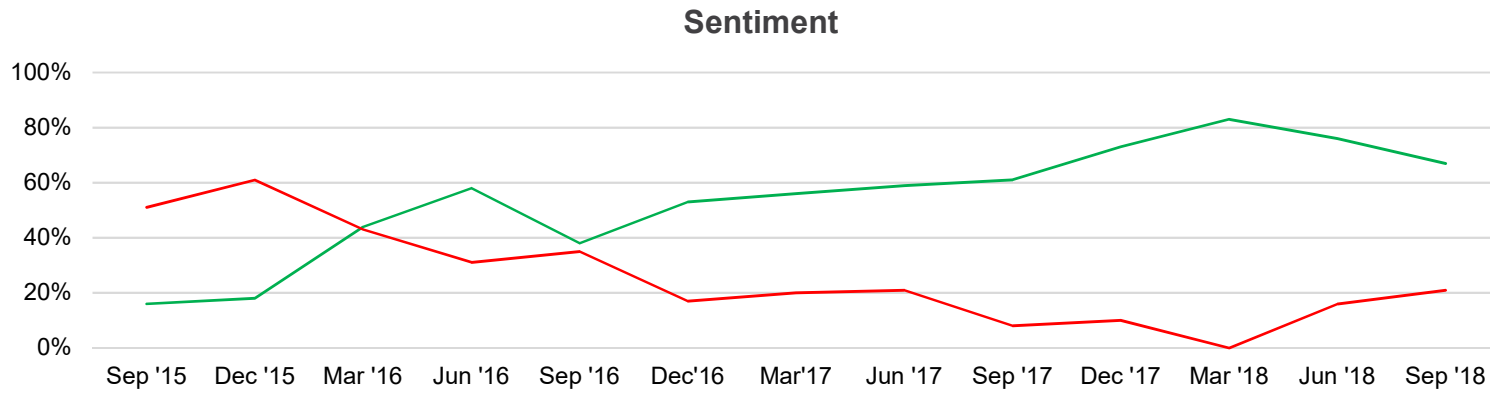
Sell Side

“Labor, pricing, growth rate inflection.” **Industrials, N. America**

“What are their hedging/countering strategies for the next three years?” **Industrials, Asia**

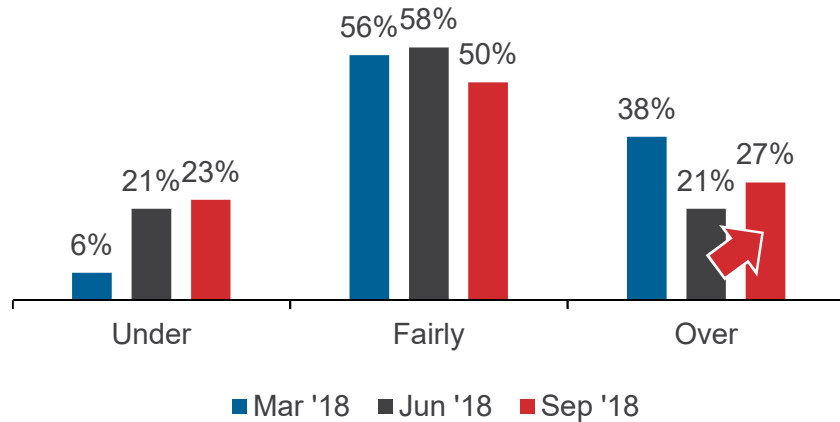
Management Tone Remains Elevated but Off Record Levels; Still No Outright Bears in Sight



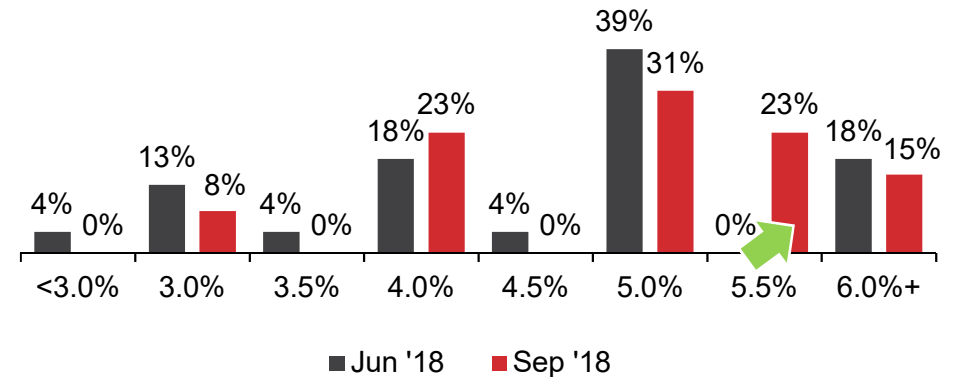


With 5.5% - 6.0% Organic Growth Now Anticipated, Net Buyers Nearly Double QoQ and Portfolio Cash Holdings Remain Steady

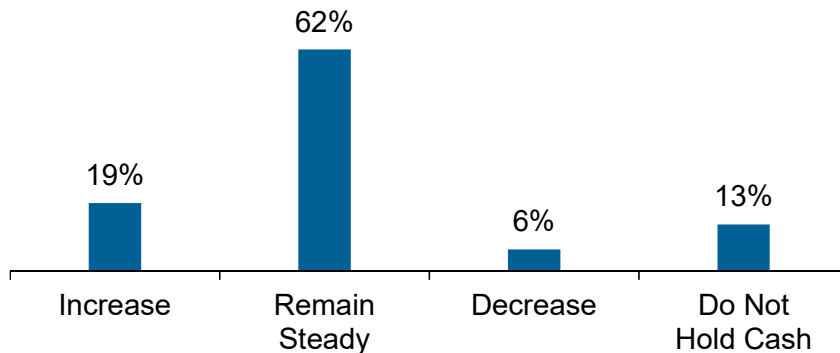
Industrial Equity Valuation Classification



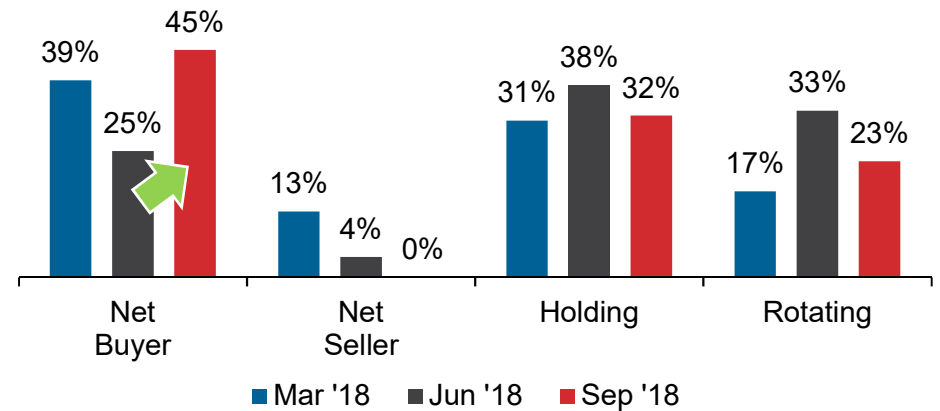
Expectations for 2018 Industrial Organic Growth



QoQ Portfolio Cash Holding

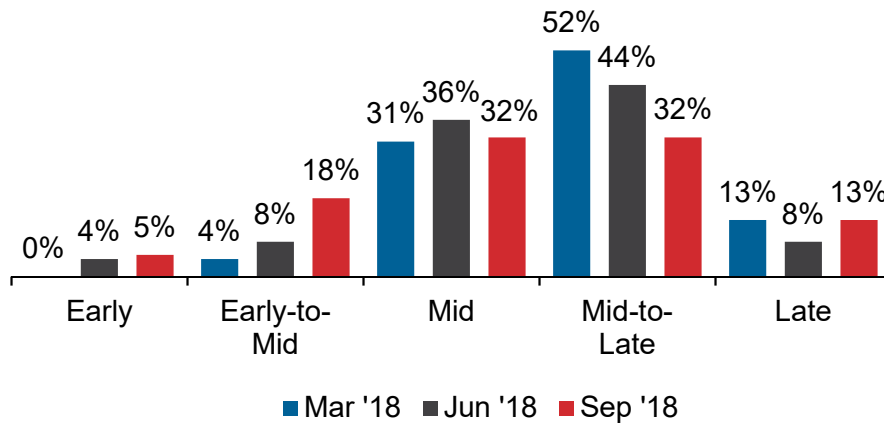


How Would You Describe Your Current Investment Activity?

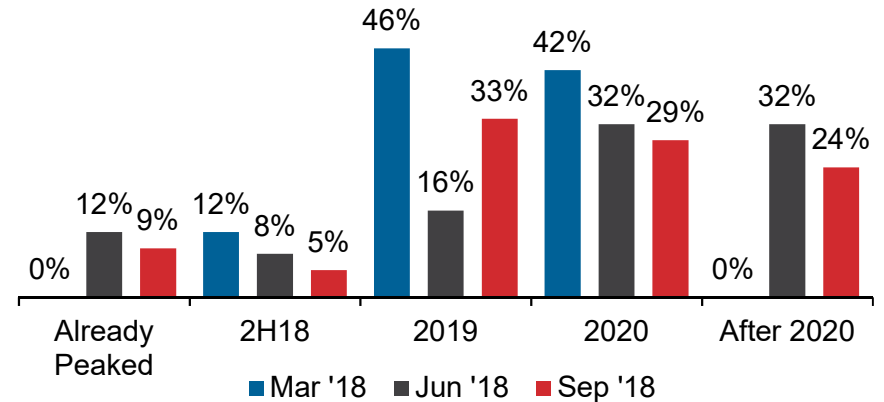


Investors Expect Industrial Earnings to Peak in 2019, More than Double QoQ but Recession Concerns Remain in Check

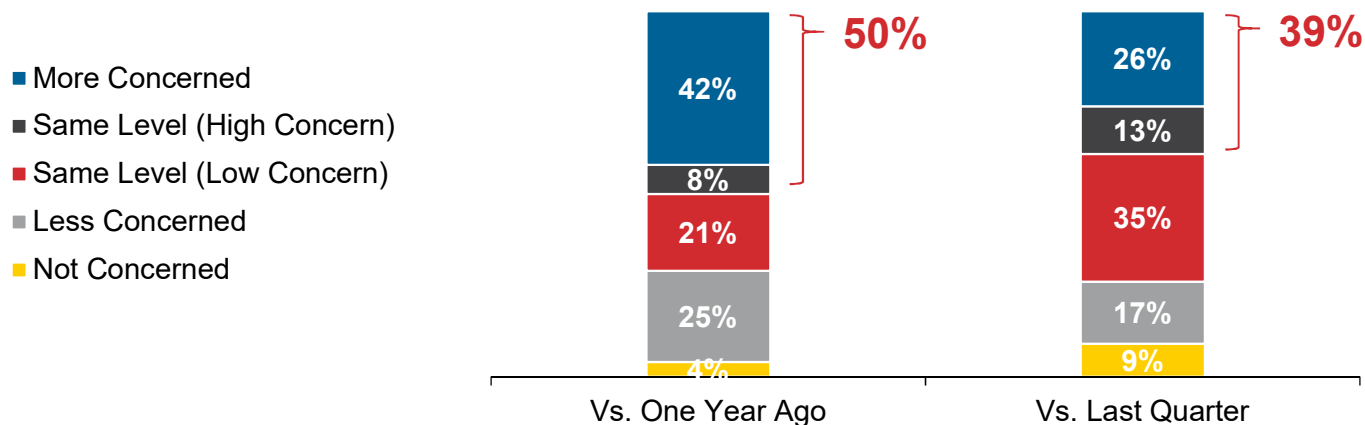
Where Are We in the Industrial Cycle?



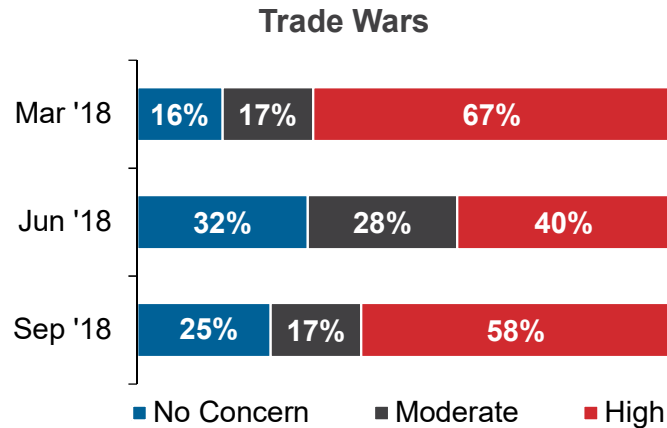
When Do You Think Industrial Earnings Will Peak?



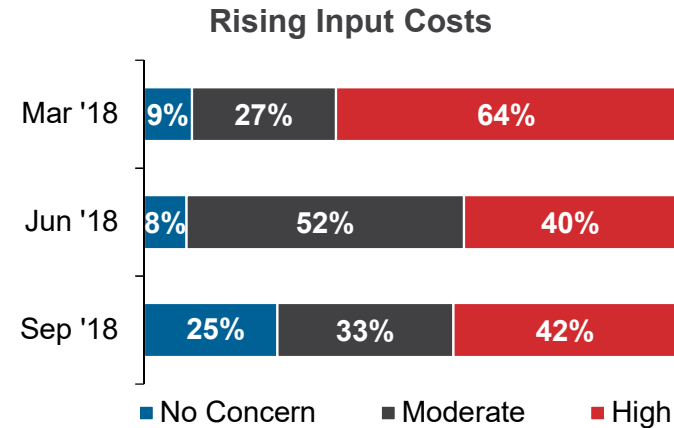
How Concerned Are You About A Recession?



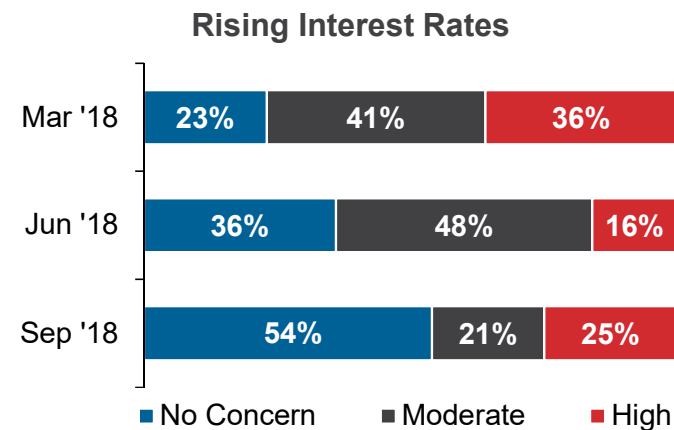
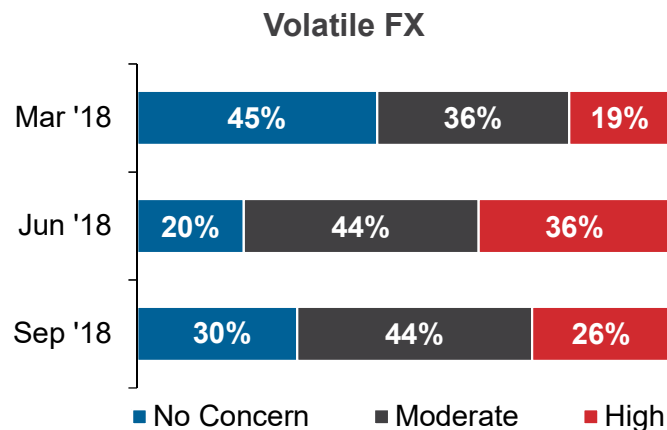
Concern Levels on Positive Growth Momentum



50% Express *High* Concern about Tariffs vs. 60% Last Quarter



83% Are *Somewhat* to *Very* Confident in Companies' Ability to Largely Offset Cost Inflation and/or Tariff Impacts through Pricing Actions



1 Trade Wars

2 Mid-term Elections

3 Interest Rates

Buy Side

“Trade, rising interest rates and central banks becoming more restrictive, slowing global growth.” **Generalist, N. America**

“Trade war escalation, Europe slowing, autos and semis slowing.” **Generalist, N. America**

“Trade, labor, input costs.” **Generalist, N. America**

“Valuation and rates, trade wars, emerging markets weaknesses.” **Generalist, Europe**

“Trade war effects, global politics, U.S. consumer capacity.” **Generalist, Latin America**

“Tariffs/trade wars, high government debt levels, high corporate debt levels.” **Industrials, N. America**

“Tariffs, FX, capex downturn.” **Industrials, N. America**

“Inflation, sovereign debt crisis, geopolitical errors.” **Industrials, N. America**

“Trade war, mid-term elections, rising interest rates.” **Industrials, N. America**

“Earnings, valuation, Fed hikes.” **Industrials, N. America**

“Margins, trade war, incremental demand.” **Industrials, N. America**

Sell Side

“Good as it gets, yield curve; call me old-fashioned.” **Industrials, N. America**

“Tariffs, Chinese debt.” **Industrials, N. America**

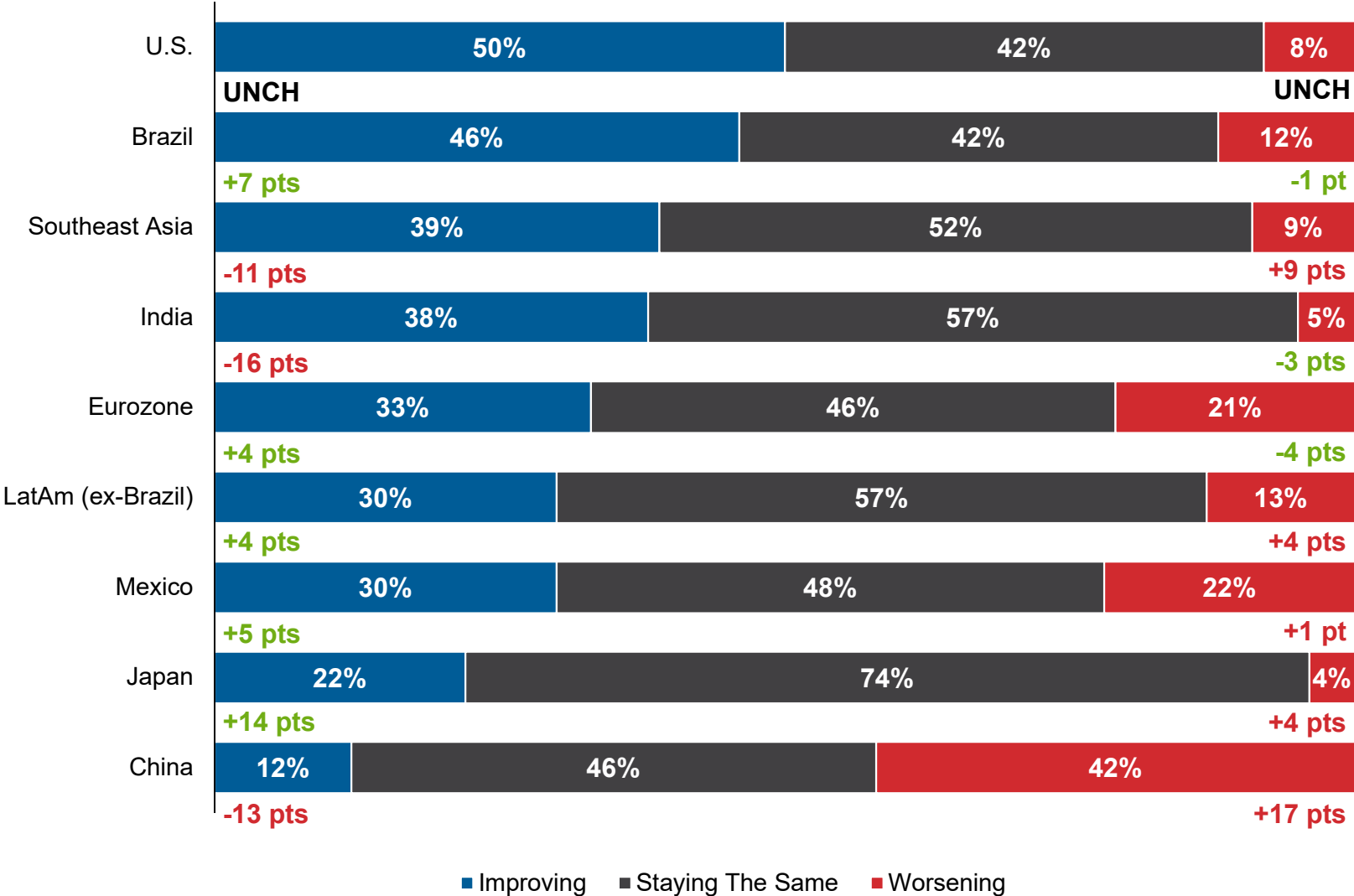
“PMI has peaked, tariffs, input costs.” **Industrials, Europe**

“Fuel prices, interest rates, inflation, globalization.” **Industrials, Asia**

“Mid-terms, immigration, Fed.” **Industrials, N. America**

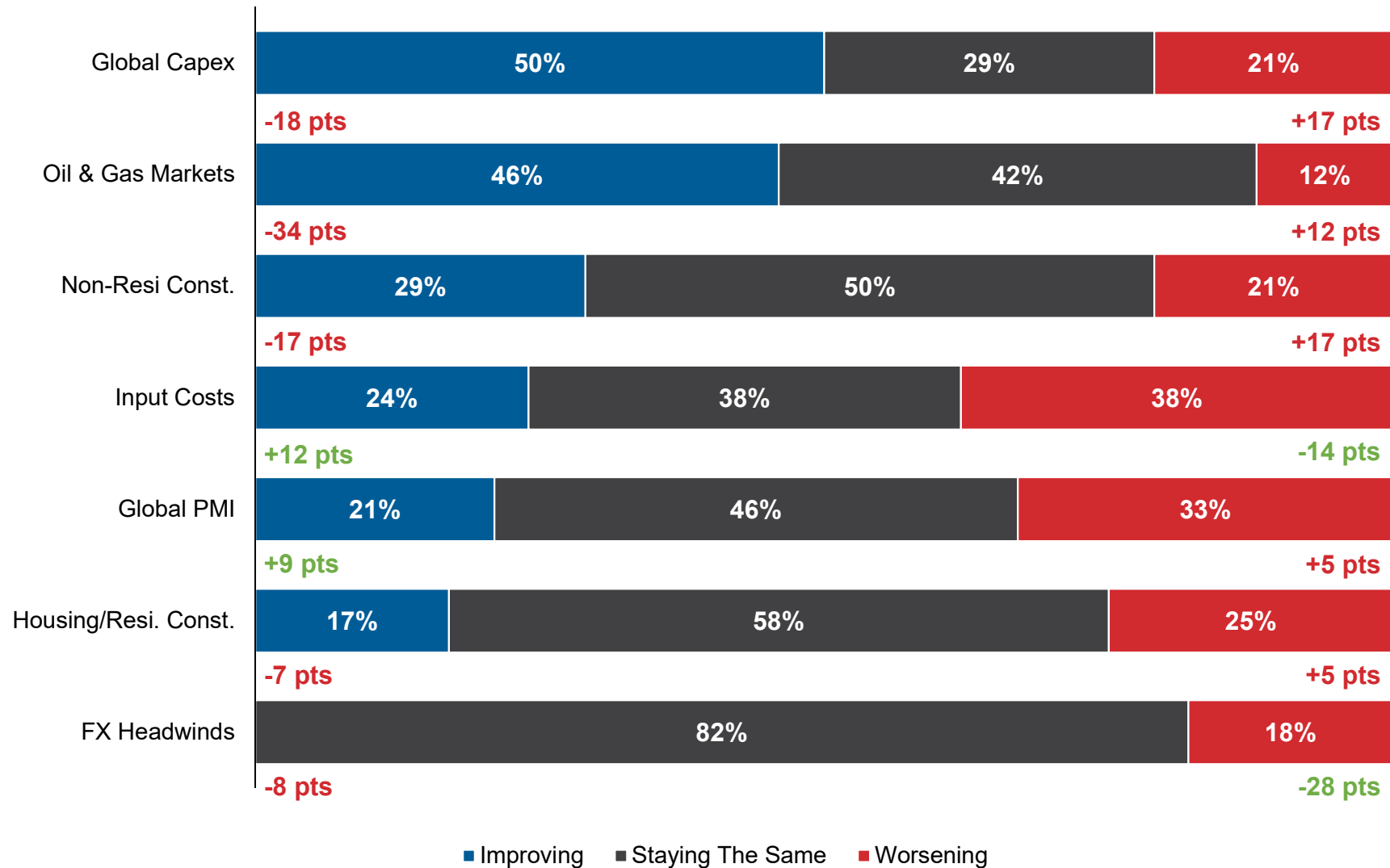
Around the World: U.S. Expected to Remain Strong Despite Trade War Tensions; China Views Worsen

Global Economy Expectations over the Next Six Months



Nearly All Key Measures Expected to *Stay the Same*; While Global Capex and Oil & Gas Are Expected to Improve, Both See Haircut in Positive Sentiment

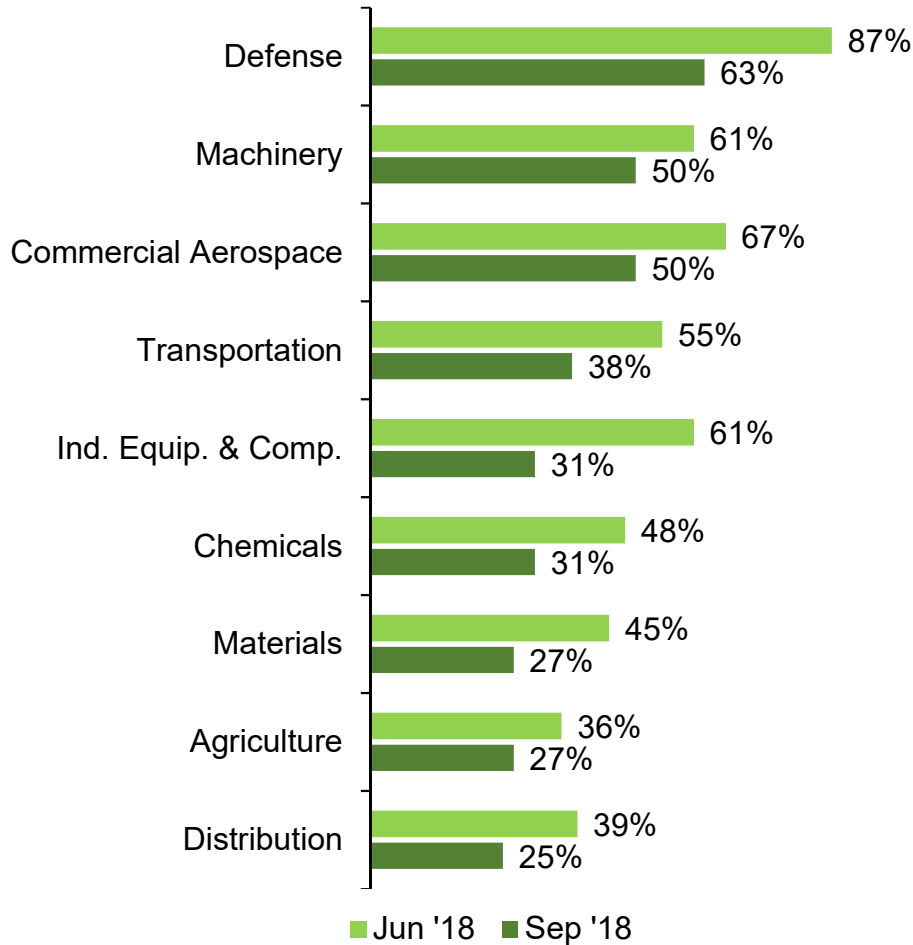
Expectations over the Next Six Months



Headwinds Weigh on Positive Sentiment but Bulls Still Dominate Bears



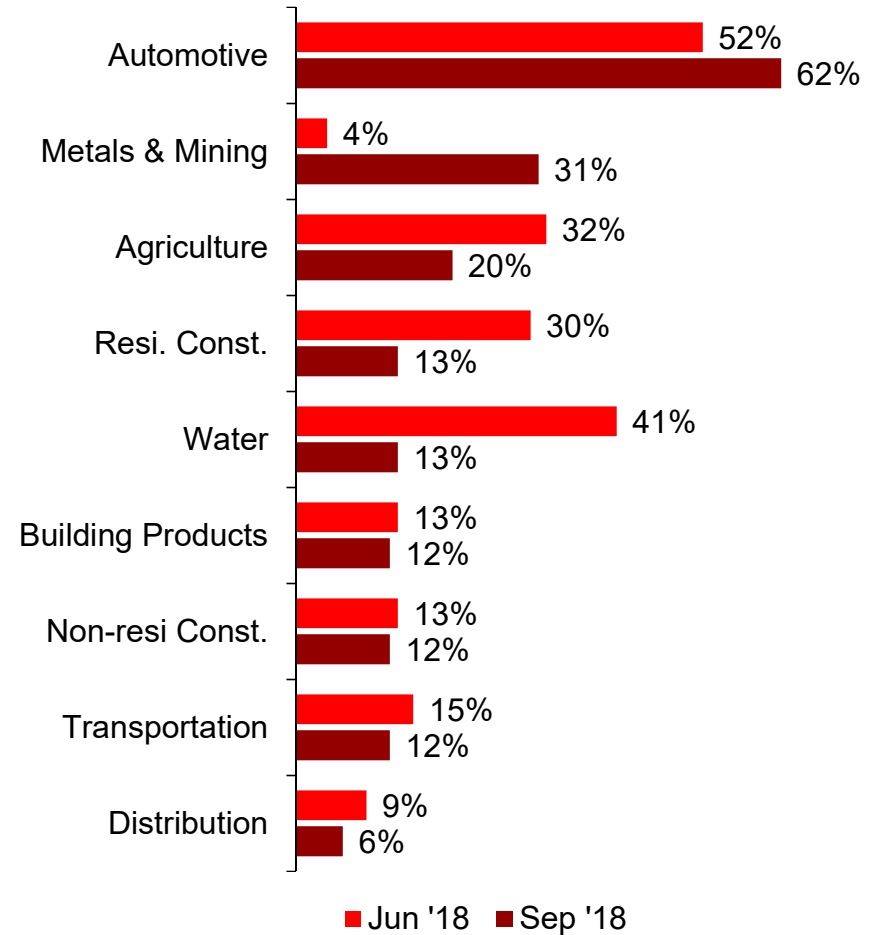
Predicted to *Grow Faster* than GDP



All Sub-Sectors See A Pullback in Optimism



Predicted to *Grow Slower* than GDP



Auto the Biggest Laggard for Nearly Two Consecutive Years; Bears Materialize in Metals & Mining

A rowing team in a boat on water, with the text "ABOUT US" overlaid in the center. The image is a close-up of the rowers' hands and oars, showing a sense of teamwork and effort. The background is a blurred view of the water and the sky.

ABOUT US

CORBIN ADVISORS

Our **Passion** Is Creating Value for Public Companies

We are a catalyst – an investor relations (IR) advisory firm that partners with management teams to drive long-term shareholder value. We bring third-party objectivity as well as deep best practice knowledge and collaborate with our clients to execute a sound, effective investor communication and engagement strategy.

Our proven methodology, proprietary analytics database, trusted reputation and in-depth experience generate unique insights. This marriage of research and rigor delivers comprehensive, actionable recommendations for internal and external value creation. We tailor strategies that enable high-impact decision making, secure maximum investor mindshare and ultimately create long-term shareholder value.

From research-based insights to actionable strategies that differentiate our clients, Corbin unlocks thoughtful, positive change. We start by asking the right questions and end with providing actionable counsel that drives results.

If it's **Corbin**, it's **Actionable**.

