

A blue-tinted photograph of an ice cave. The cave's interior is illuminated with a strong blue light, highlighting the intricate, layered textures of the ice walls and ceiling. The floor is covered in dark, rounded rocks. In the distance, a person wearing a red jacket and dark pants stands at the cave's entrance, which is brightly lit from the outside, creating a silhouette effect. The overall atmosphere is mysterious and cold.

*corbin*

# Q2'20 Earnings Primer

Investor Sentiment Survey

July 9, 2020

# Inside The Buy-side® Q2'20 Earnings Primer

For 12+ 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, proprietary research, 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.

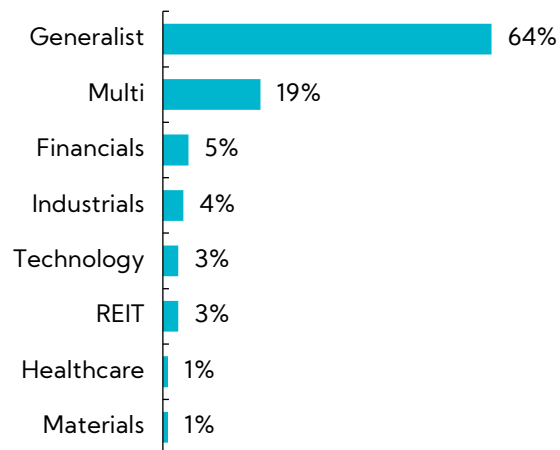
**Survey Scope:** 86 participants globally, comprising 76% buy side and 24% sell side; equity assets under management total ~\$2.1 trillion

**Survey Timeframe:** Jun. 5 – Jul. 2, 2020

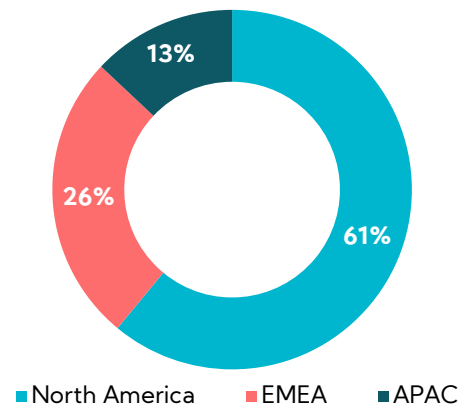
Market Performance	Q2'20	YTD <sup>1</sup>
<b>U.S.</b>		
DJIA	17.8%	(9.6%)
NASDAQ	30.6%	12.1%
S&P 500	20.0%	(4.0%)
Russell 2000	25.0%	(13.6%)
<b>Europe</b>		
FTSE 100	8.8%	(18.2%)
Stoxx 600	12.6%	(13.3%)
<b>Asia</b>		
Hang Seng	3.5%	(13.3%)
Shanghai	8.5%	(2.1%)

<sup>1</sup> As of Jun. 30, 2020

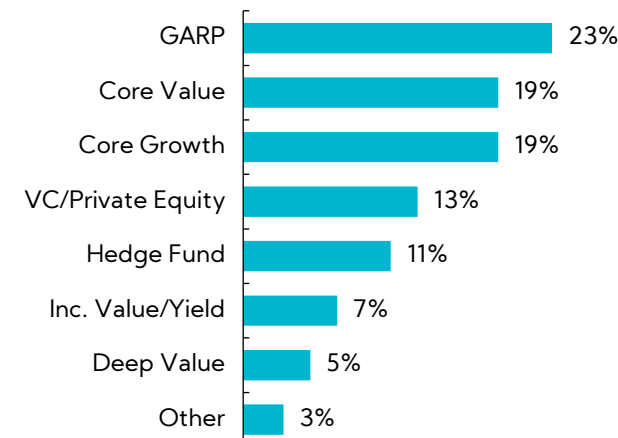
BY TYPE



BY REGION



BY INVESTMENT STYLE

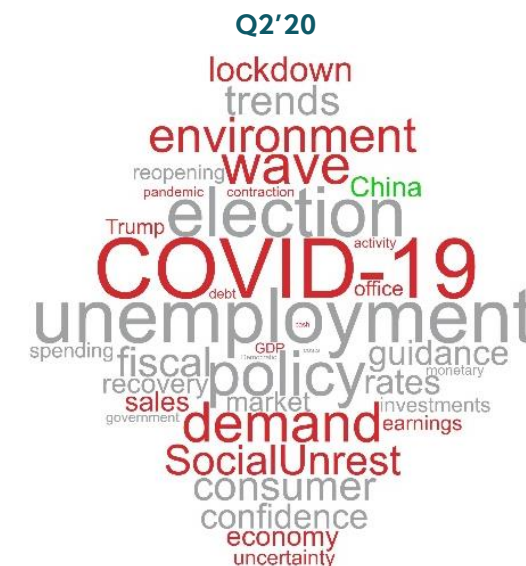
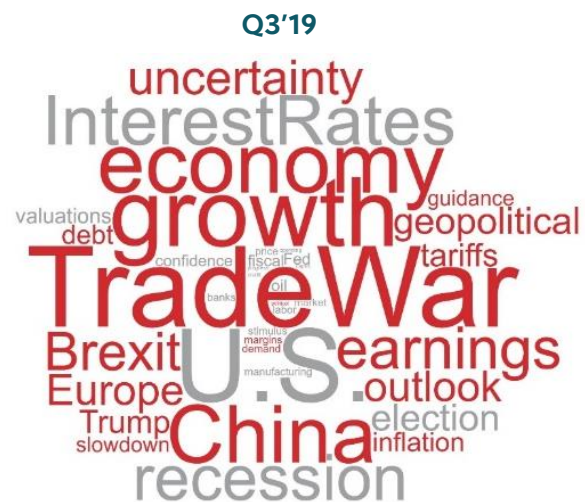




# Word Cloud: Frequency of Occurrence

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

## LESS DOWNBEAT VIEWS BUT SIGNIFICANT CONCERN REMAINS



Top Mentions	Q3'19	Q4'19	Q1'20	Q2'20	Q/Q
COVID-19	0	0	98	56	↓ 42
Unemployment	2	0	3	21	↑ 18
Policy	0	0	3	13	↑ 10
Election	0	9	7	13	↑ 6
Demand	5	5	12	11	↓ 1

### Key: Underlying Sentiment

- Positive
- Neutral
- Negative

# Survey Findings: With Q2 Collapse Baked In & the Belief that “the Worst is Behind Us”, Investor Sentiment Significantly Less Bearish – Buy on the Rumor, Sell on the News?

## Almost Everyone Expects Q2 Cratering; Amid the Perceived “Reset,” Investors Feeling Better About 2H20

- 80% of surveyed investors and analysts expect *Worse Than* sequential earnings
- Greater than 80% expect EPS, Margins and FCF to have *Worsened* QoQ; notably, 67% anticipate Organic Growth deterioration this quarter
- While 75% are concerned with the economic fallout due to COVID-19, more than 50% believe U.S., China and Europe economies will *improve* over the next six months, and nearly 60% expect U.S. unemployment levels to *improve* over the same time period
- 44% are *More Positive* or *Cautiously Optimistic* relative to their expectations at the onset of COVID-19; importantly, less than 25% are *More Negative*
- 48% describe themselves as *Bearish* or *Neutral to Bearish*, down from a record high of 77% last quarter; 46% characterize executives as downbeat, a significant improvement from 83% QoQ

## Majority Do Not Expect Companies to Reinstate Formal Guidance But Expectations on Forward-looking Color and Capital Uses Are Clear

- 84% *Do Not Expect* companies to reinstate guidance; instead, 50% note the most helpful commentary is scenario analyses and monthly trends
- Leading earnings call topics of interest include demand trends and outlook, financial state, including balance sheet resiliency and free cash flow generation, and plans to adapt to changing customer needs
- Top preference for cash deployment include debt reduction and reinvestment; investors are seeking companies that can reinvigorate growth and adapt their product / services portfolio to address shifts in customer behavior
- Notably, 30% are now in favor of M&A, more than doubling QoQ; to that end, nearly 60% prefer bolt-ons, while nearly one-quarter are open to transformational acquisitions

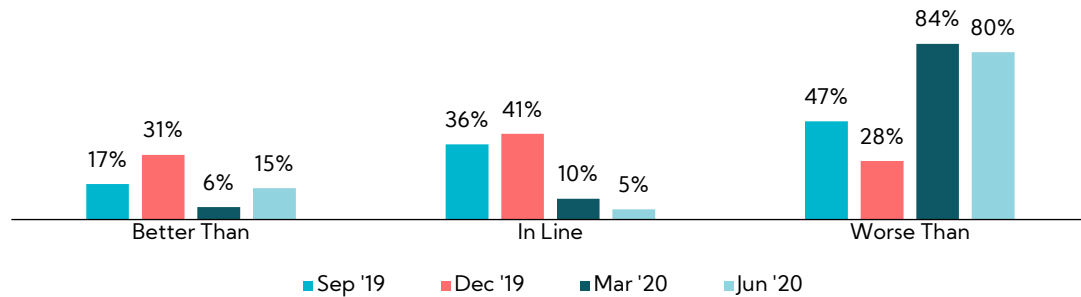
## Despite Receding Bearishness, Equity Markets Perceived As Overvalued and More Than Half Predict a Contraction

- 70% report U.S. equities are *Overvalued*, while 60% and nearly half believe Europe and Asia stocks, respectively, are lofty
- 54% believe valuations will *Contract from Here* in 2020, while fewer than 20% expect *Expansion*; nonetheless, 60% report *Net Buying* or *Rotating*, with fewer than 20% *Net Selling*
- Despite the exuberance, most sectors are seeing more bears than bulls with REITs experiencing a record level of bearish sentiment; bulls pile into “safe” market bets, including biotech, tech, healthcare and communication services

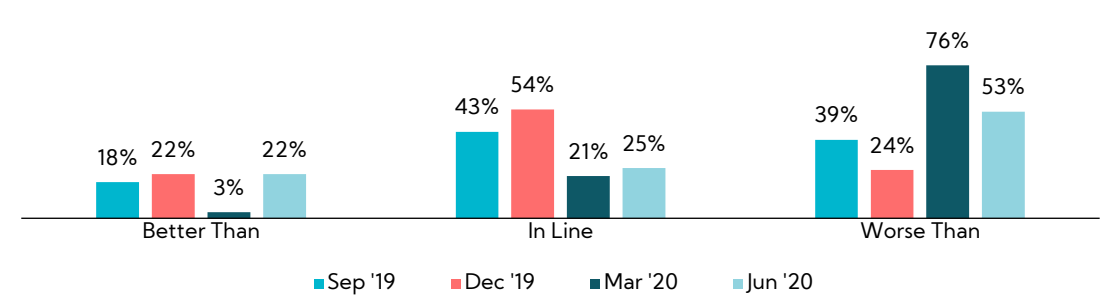
# Low Bar Investor Expectations Provide Opportunity for Handy Beats; Corporate Sneak Peeks In Focus

84% do not expect companies to reinstate formal guidance; 50% seek scenario analysis and monthly sales trends

Q2'20 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



Q2'20 EARNINGS EXPECTATIONS VS. CONSENSUS



## Better Than

*"Possibly somewhat better given the write-down in analyst estimates."* Buy Side, Generalist, N. America

*"A faster-than-expected economic rebound."* Buy Side, Generalist, Europe

*"Growth in e-commerce cloud and software."* Buy Side, Generalist, Europe

*"Business will return quicker and with better demand than predicted."* Buy Side, Generalist, Asia

*"Recovery from COVID-19 for different industries."* Sell Side, Generalist, Asia

## In Line

*"Effect of government economic measures."* Sell Side, Multi, Asia

*"Main street' still bad, will take a few more months to get back."* Sell Side, Materials, Asia

## Worse Than

*"The uneven ramp-up of the economy after the COVID-19 shutdown."* Buy Side, Generalist, N. America

*"Effects of shutdown underestimated."* Buy Side, Generalist, N. America

*"COVID-19 shutdown hit all retail hard. Hoping the worst is over."* Buy Side, Generalist, N. America

*"The world is in meltdown mode. I see increased periods of volatility through the end of the year."* Buy Side, Multi, N. America

*"COVID-19, sell side and corporates struggling to quantify impact."* Buy Side, Generalist, Europe

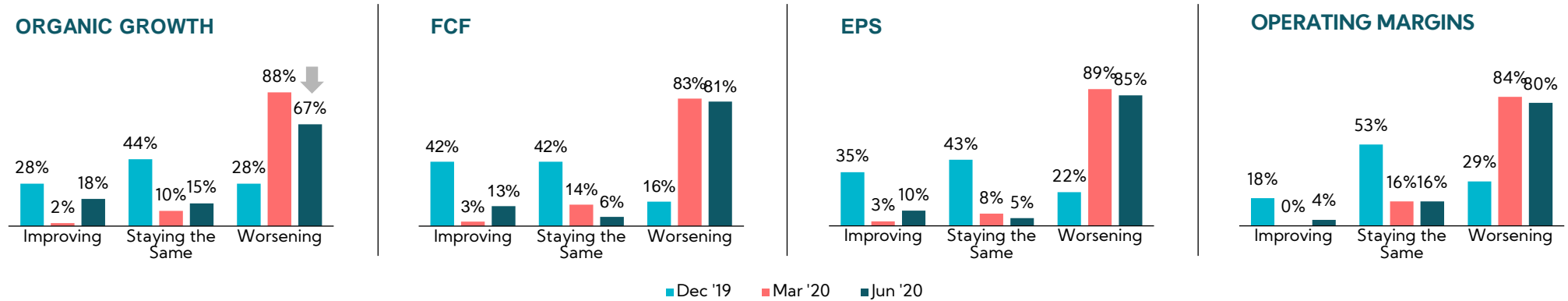
*"Market participants are lulled into a false sense of security by the behavior of stock prices and a lack of guidance by companies."* Buy Side, Generalist, Australia

*"Significant levels of increased unemployment and dramatic drop in GDP and level of economic activity in April and May."* Buy Side, Financial, N. America

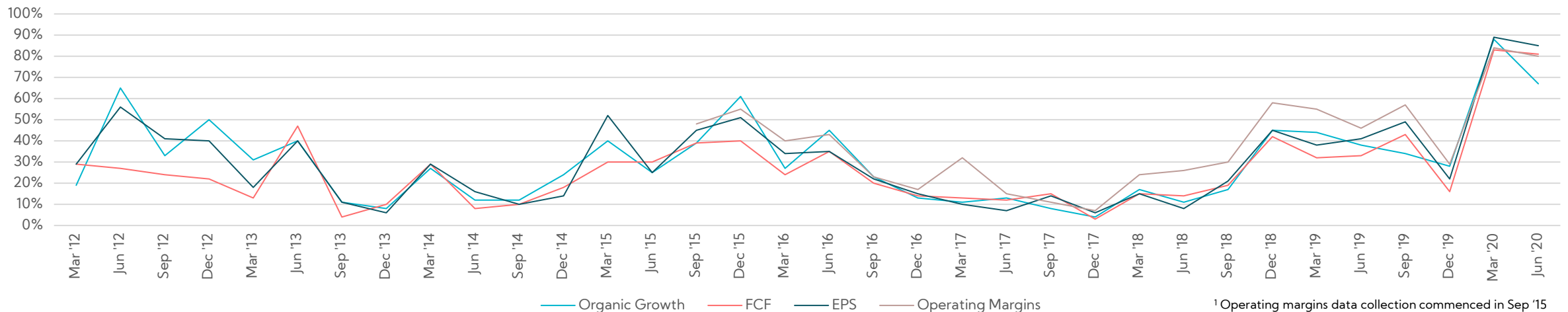
*"Pent up demand and stocking up during pandemic."* Sell Side, Generalist, N. America

# All KPIs Improve Slightly from Record Lows, with Organic Growth Seeing the Most Improvement

Companies likely to surprise to the upside on FCF and prove the effectiveness of cash preservation actions taken amid the crisis; the big question will be “What is sustainable in terms of recent expense reductions?”



## PERCENTAGE OF RESPONDENTS EXPECTING WORSENING KPIS





1. Demand trends and outlook
2. Financial condition (balance sheet, cash flow generation)
3. Plans for adapting long-term to changing customer needs
4. Capital deployment priorities, including capex outlook
5. Margin outlook
6. Growth opportunities

# Topics of Interest for Upcoming Earnings Calls

*Investors focused on near-term visibility and dynamics and long-term positioning*

## Views from N. America

*"Be forthright and provide color." Buy Side, Generalist*

*"Current demand, right-sizing, capex plans, product directions." Buy Side, Generalist*

*"Defining efficient and viable allocations of human and financial capital, cash flow scenario & stress analysis; sustainability, understanding how they will sustain their business model going forward." Buy Side, Generalist*

*"Demand trends, cash flow generation, long-term benefit of COVID-19 developments." Buy Side, Generalist*

*"Near-term outlook, balance sheet, long-term strategy." Buy Side, Generalist*

*"Opportunities created by market dislocations, growth opportunities, margin expansion opportunities." Buy Side, Generalist*

*"Pandemic effects, cost controls, order activity." Buy Side, Generalist*

*"Visibility, sales, margins." Buy Side, Multi*

*"Ability and specific plans to stay in business, risks continued COVID-19 may bring, employment levels." Buy Side, Multi*

*"COVID-19 prevention measures taken at companies." Buy Side, Multi*

## Views from EMEA

*"Business transformation, future investments, capital expenditure, global trading trends." Buy Side, Generalist*

*"How companies will change in response to the permanent changes in the marketplace, how they will respond to a more interventionist government, disrupted supply chains increasing costs." Buy Side, Generalist*

*"Impact of COVID-19, financial and operational resilience, positioning for new reality." Buy Side, Generalist*

*"Liquidity, solvability, guidance." Buy Side, Multi*

*"Demand, margins, balance sheet." Sell Side, Generalist*

*"Demand environment, how customers needs are changing, how they are thinking about 2021." Sell Side, Information Technology*

## Views from APAC

*"Changes to consumer spending patterns, cash burn and liquidity on hand." Buy Side, Generalist*

*"Capex, re-hiring, capital structure." Buy Side, Generalist*

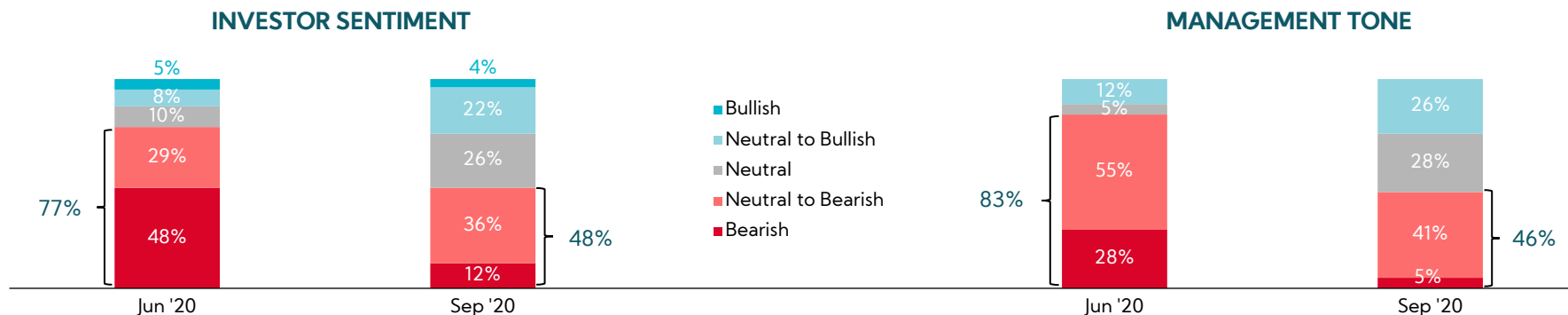
*"New guidance." Sell Side, Generalist*

*"5G-related demand strength, U.S. Department of Commerce regulations for Huawei, consumption from staying at home." Sell Side, Multi*

*"Revenue performance, drivers and expectation/ scenarios usually of interest, cost-cutting strategy, access to credit." Sell Side, Materials*

# Notably Less Downbeat Investor Sentiment Aligned with Perceived Less Bearish Executive Tone

After tripling in bearishness last survey, fewer than 50% now describe their sentiment and management tone as Neutral to Bearish or Bearish; notably, this is the most aligned investor sentiment and perceived management tone have been in more than four years



## Neutral to Bullish

*"Meeting a lot of management teams and they are coping with the situation."*  
Buy Side, Generalist, Europe

*"I believe consumer spending will hold up due to government intervention."*  
Sell Side, Multi, N. America

*"While cutting costs, they are actively making strategic investments and developments."* Sell Side, Multi, Asia

## Neutral

*"The tone of executives is more so geared to setting a floor regarding expectations. They've followed the sentiment exhibited by analysts regarding downward revisions. Upside surprise is acceptable versus executives having to explain what they may have missed should surprise be downward. This latter aspect will resonate with companies being penalized in price movement given that management (and analysts and investors) have regeared their expectations during the last 32-months."* Buy Side, Generalist, N. America

*"Relationship between China and U.S."* Sell Side, Generalist, Asia

*"Unpredictability."* Sell Side, Multi, Europe

## Neutral to Bearish

*"Overall market is not reflecting what I'm seeing in the companies I follow. It's way too rosy."* Buy Side, Generalist, N. America

*"The lack of clarity on social policy."* Buy Side, Generalist, N. America

*"Market valuations too optimistic for the reality. It will take longer to rebuild confidence across the economy given the uncertainty. Consumers are still very cautious."* Buy Side, Generalist, Europe

*"Management is very nervous."* Buy Side, Generalist, Australia

*"Continued uncertainty of U.S. leadership, increasing unemployment, corporate solvency, consumer confidence, COVID-19, social unrest, increased hostilities from Russia, China, Iran & N. Korea (the new evil axis)."* Buy Side, Multi, N. America

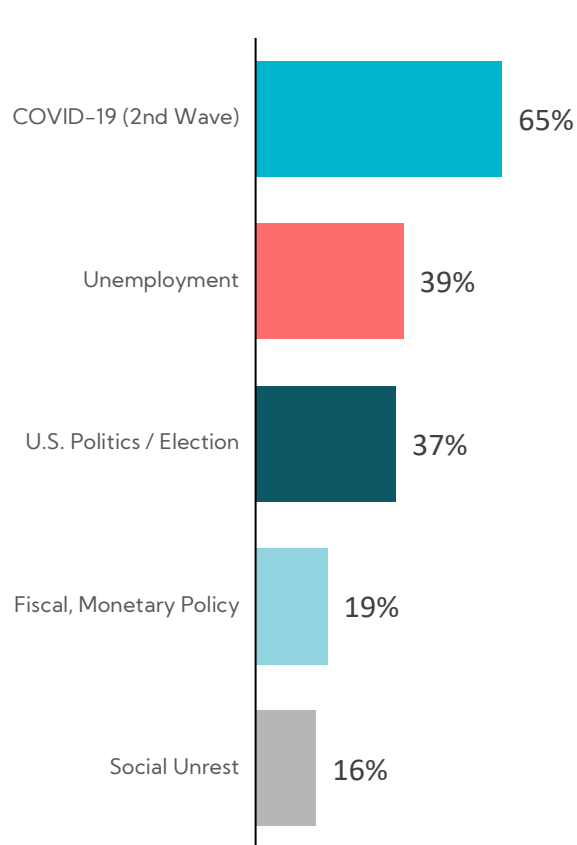
## Bearish

*"Fundamental deterioration."*  
Buy Side, Generalist, N. America



# Top Concerns from around the Globe

COVID-19 2<sup>nd</sup> Wave and related unemployment fall-out lead investor concerns, while attention also turns to the U.S. Presidential election



## Views from N. America

*"2nd wave of COVID-19, unemployment, underwhelming stimulus."* Buy Side, Generalist

*"COVID-19 continues to dampen all economic indicators, unreliable U.S. president, economic disparity worldwide."* Buy Side, Generalist

*"Fiscal policy, monetary policy, political unrest."* Buy Side, Generalist

*"GDP, unemployment, U.S. elections."* Buy Side, Generalist

*"Overvalued market, rioting in the U.S. - makes transacting business more difficult, election. Yikes."* Buy Side, Generalist

*"Pandemic, social unrest, U.S. election."* Buy Side, Generalist

*"Politics in U.S., unemployment, fiscal policy."* Buy Side, Generalist

*"2nd wave, high unemployment, trade."* Buy Side, Generalist

*"Social policy, inflation, social unrest."* Buy Side, Generalist

*"Recovery in jobs and employment, consumers willing to spend, travel and start to resume normal activities, 2nd or 3rd wave with no effective vaccine or treatment protocols"* Buy Side, Financials

## Views from EMEA

*"2nd wave, trade war with U.S.-China, U.S. election."* Buy Side, Generalist

*"COVID-19, unemployment, debt."* Buy Side, Generalist

*"COVID-19, lockdown, military war."* Buy Side, Generalist

*"Funding, governmental measures, demand."* Buy Side, Generalist

*"Trade wars, COVID-19, unemployment."* Buy Side, Generalist

*"Unemployment, commercial real state, reverse tax cuts in U.S."* Buy Side, Generalist

*"Unemployment, rise in savings, long-term inflation (money supply on steroids)."* Buy Side, Generalist

*"Second lockdown, employment."* Buy Side, Multi

*"Impact of lockdown, corporate solidity, corporate and government debt."* Buy Side, Multi

*"COVID-19 2nd wave, solvability, employment."* Buy Side, Multi

*"Unemployment, health, social unrest."* Sell Side, Multi

## Views from APAC

*"2nd wave of lockdowns, hit to consumer spending power and onset of saving mentality, property prices."* Buy Side, Generalist

*"Valuations, earnings, U.S. Presidential election."* Buy Side, Generalist

*"2nd wave of COVID-19, UK unemployment, negative interest rates."* Buy Side, Generalist

*"Unemployment, inflated non-fundamental asset prices, central banks naive belief in money supply - the more the merrier."* Buy Side, Generalist

*"COVID-19, consumer confidence, unemployment."* Sell Side, Generalist

*"Optimism, unemployment, systemic shocks leading to lower consumption."* Sell Side, Generalist

*"The extent of the investment recession, subsequent bank credit contraction, negative effects of central bank money printing on profitability."* Sell Side, Generalist

*"U.S. employment statistics, FOMC monetary policy stance, Fed asset size."* Sell Side, Multi

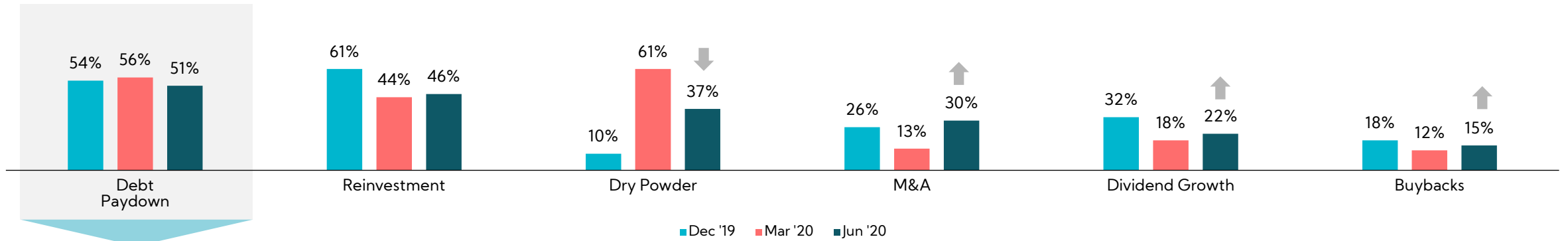
*"De-globalization/trade tensions/protectionism, systemic risks due to extent of the monetary and fiscal interventions."* Sell Side, Materials

# Shoring Up Balance Sheets Still Top Priority But Threshold for Net Debt Levels Loosening a Skosh

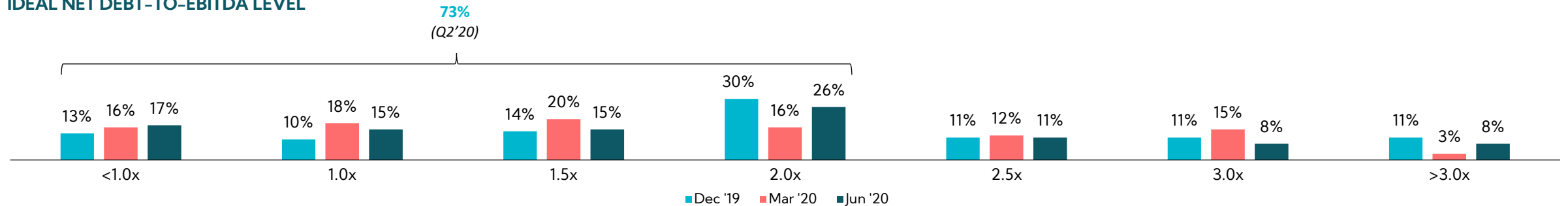
*With optimism on the rise, cash conservation (“dry powder”) sees most significant decrease, moving from top priority last quarter to third; reinvesting for growth remains a key priority while M&A gets a shot in the arm*

## PREFERRED USES OF CASH

In Descending Order of Top Two Preferences

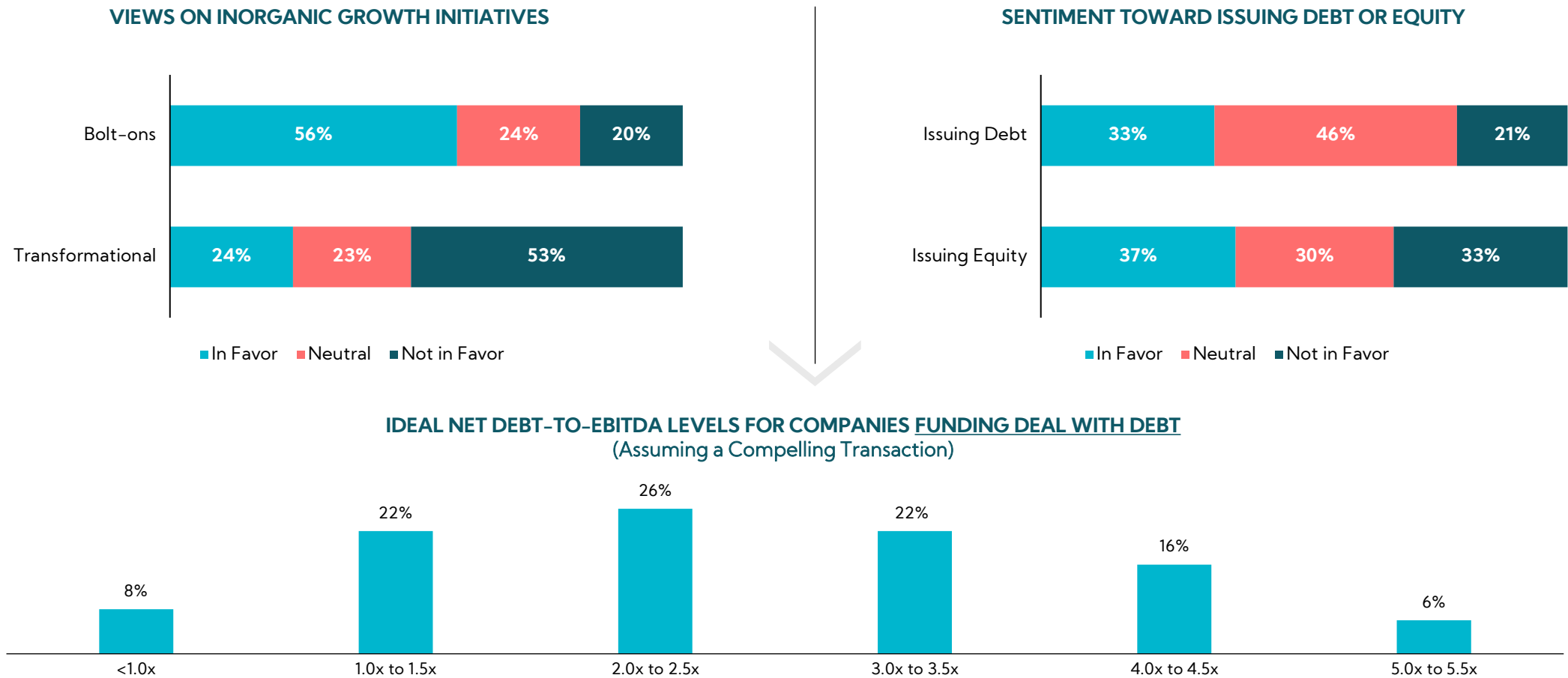


## IDEAL NET DEBT-TO-EBITDA LEVEL



# Investors Largely Prefer Bolt-ons While Nearly a Quarter Are Open to Transformational M&A

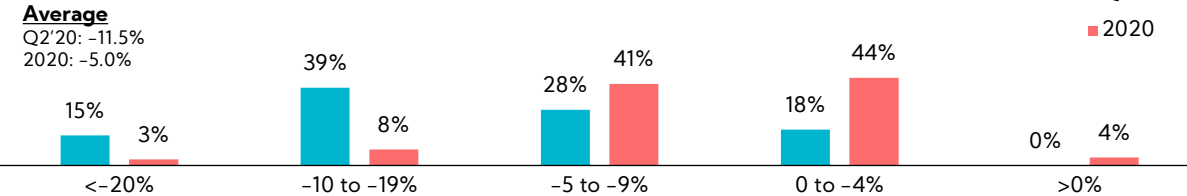
*Still, investor appetite for leveraging up to fund a deal remains conservative*



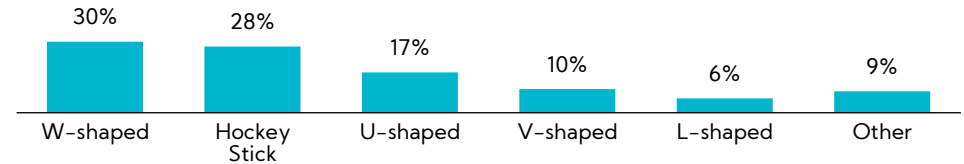
# Alphabet Soup Recovery Expectations: More are Calling for a W- or Hockey Stick-shaped Recovery

Q2 2020 U.S. GDP anticipated to contract 11.5%, while 2020 estimates average ~5.0% decline...  
all eyes will be on key economic indicators, which have largely come in above expectations for May and June

## U.S. GDP PREDICTION



## TYPE OF RECOVERY EXPECTED IN U.S.



## PROPRIETARY RESEARCH

Investors most focused on the following Economic indicators

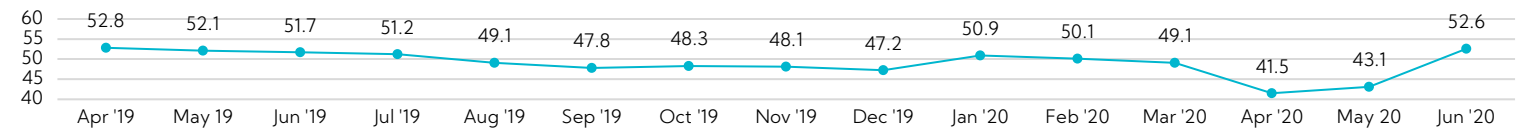
1	Manufacturing ISM <sup>®</sup>	51%
2	Consumer Confidence	43%
3	Unemployment	40%
4	Yield Curve	26%
5	Interest Rates	18%
6	GDP	14%
7	Capex Level	8%
8	Inflation	7%
9	Stock Market	4%
10	Housing Starts	6%

<sup>1</sup> Source: Institute for Supply Management

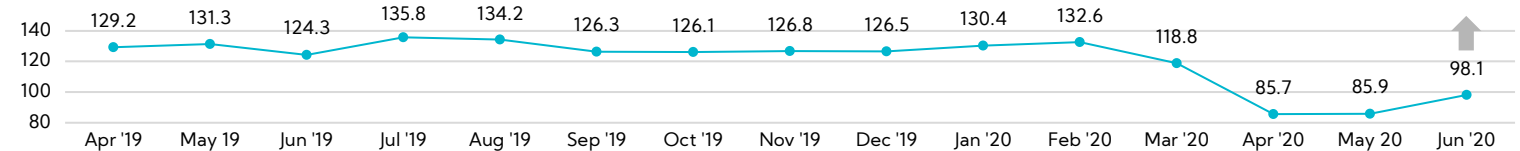
<sup>2</sup> Source: The Conference Board

<sup>3</sup> Source: U.S. Bureau of Labor Statistics

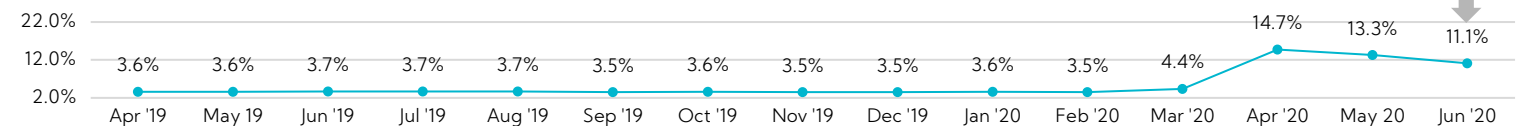
## MANUFACTURING ISM<sup>®</sup> REPORT ON BUSINESS<sup>1</sup>



## CONSUMER CONFIDENCE<sup>2</sup>



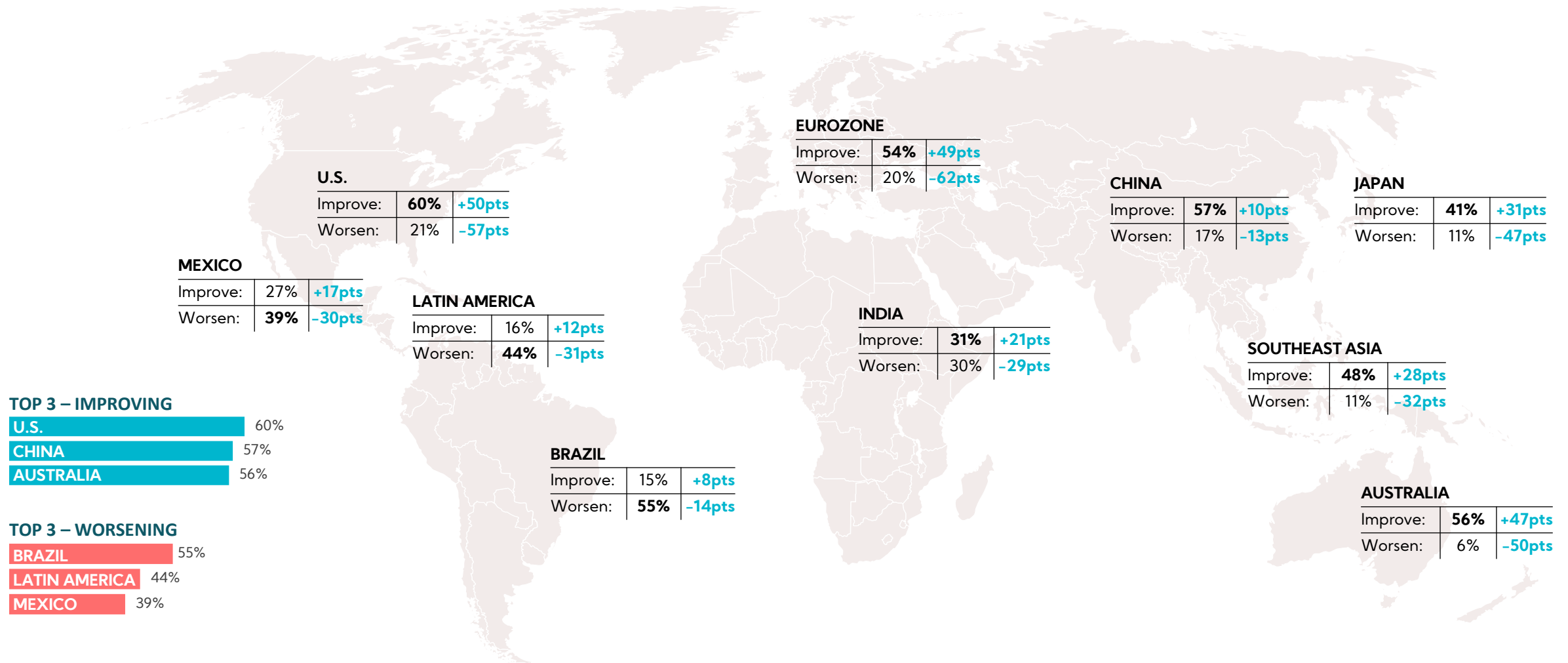
## U.S. UNEMPLOYMENT RATE<sup>3</sup>





# Developed Economies Believed to Have Turned the Corner

India sees the most divergent views while South America expected to remain under pressure



## TOP 3 – IMPROVING



## TOP 3 – WORSENING

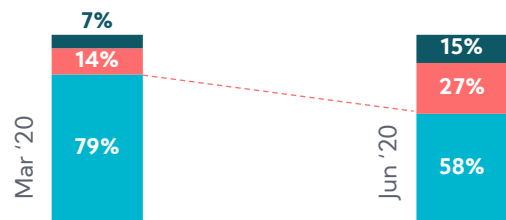


# Views on Key Economic Indicators Over the Next Six Months

Again, views are less downbeat across the board; big bets on Consumer Confidence, Oil & Gas, Global PMI and Resi. Construction

■ Improving  
■ Staying the Same  
■ Worsening

## GLOBAL CAPEX

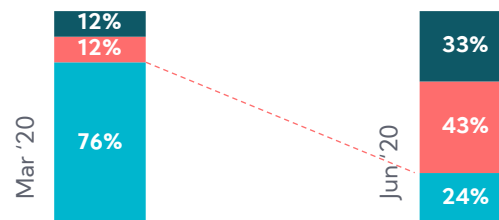


"Staying the Same: Re-gearred after Q1." Buy Side, Generalist, N. America

"Worsening: General belt tightening." Buy Side, Generalist, Europe

"Worsening: Caution returns to boardrooms." Buy Side, Generalist, Australia

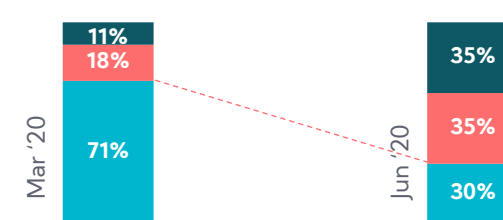
## GLOBAL PMI



"Improving: From low base" Buy Side, Generalist, Asia

"Staying the same: Bounce around 50." Buy Side, Generalist, Australia

## CONSUMER CONFIDENCE

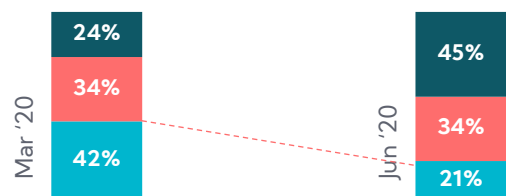


Improving: "People want to get back to normal." Buy Side, Generalist, Australia

"Staying the Same: [Given] the reopening of economic regions, states." Buy Side, Generalist, N. America

"Worsening: 40M+ unemployed with little savings is going to make for a lousy holiday season." Buy Side, Multi, N. America

## OIL & GAS MARKETS

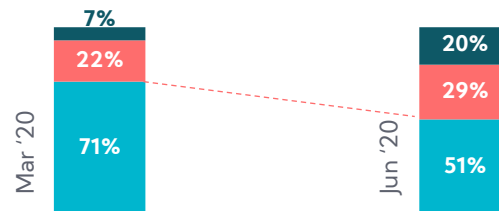


"Improving: We will increase utilization of fuel." Buy Side, Multi, N. America

"Improving: Demand recovering." Buy Side, Generalist, Australia

"Staying the Same: Given the recent rise in oil prices, a headwind attributed to the reopening of economic regions (thus demand)." Buy Side, Generalist, N. America

## NON-RESI CONSTRUCTION

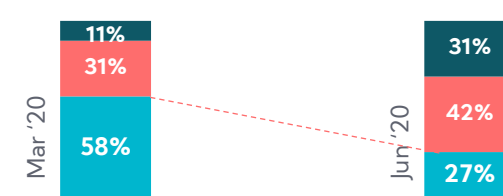


"Worsening: Companies are going to reduce the footprint of real estate. COVID-19 has proven out the work-at-home scenario." Buy Side, Generalist, N. America

"Worsening: Companies are finding less need for office space as we work at home." Buy Side, Multi, N. America

"Worsening: No new offices or malls for a while." Buy Side, Generalist, Australia

## RESI CONSTRUCTION



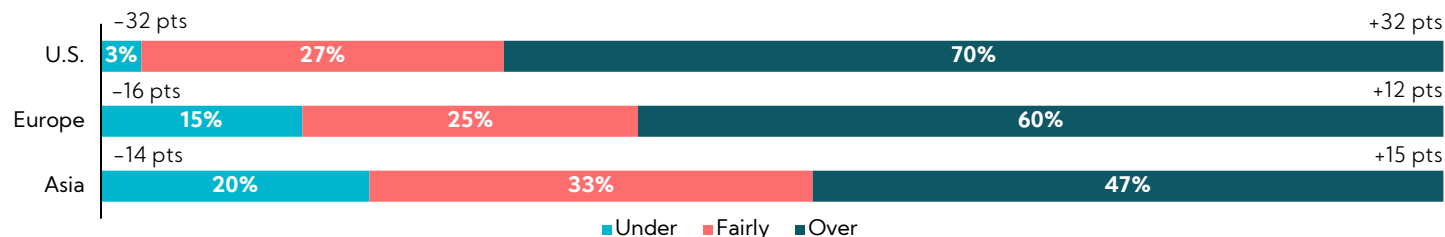
"Improving: Demographics driven. Household formation of the Millennials is driving this." Buy Side, Generalist, N. America

"Staying the same: While interest rates remain low, demand may be constrained by the current environment, specifically return to work. Millennials were slow to enter given their experience in the last two market downturns." Buy Side, Generalist, N. America

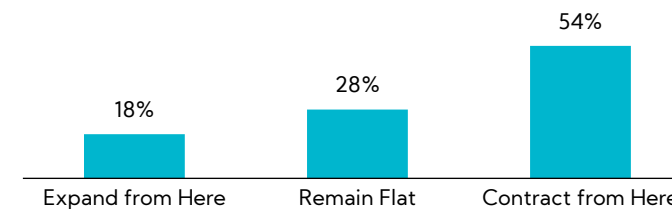
# Expectations Are for Equity Valuations to Contract from Here

While 60% of investors report Buying or Rotating, more than half believe valuations will Contract from Here; this comes on the heels of the best quarter for U.S. stocks since 1998

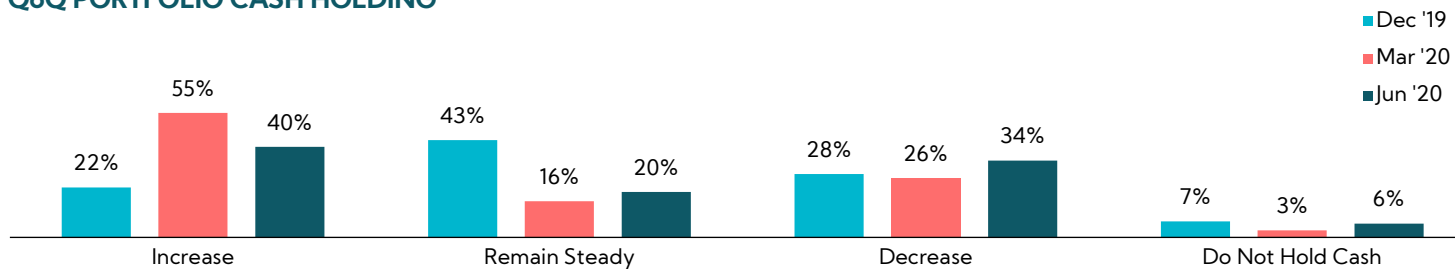
## GLOBAL EQUITY VALUATION CLASSIFICATION



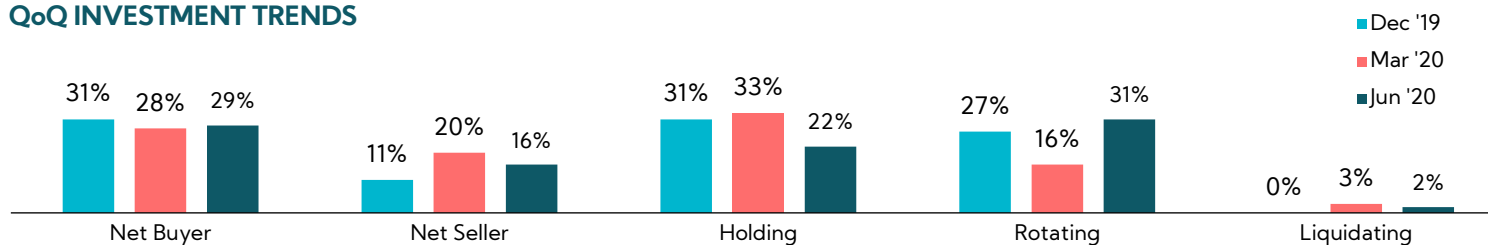
## 2020 EQUITY VALUATION EXPECTATIONS



## QoQ PORTFOLIO CASH HOLDING



## QoQ INVESTMENT TRENDS



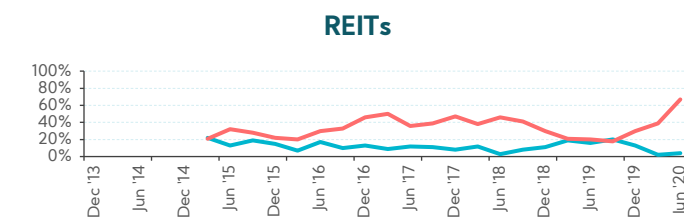
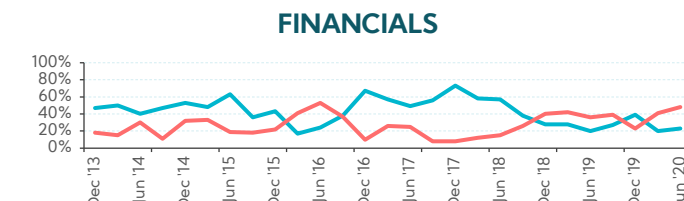
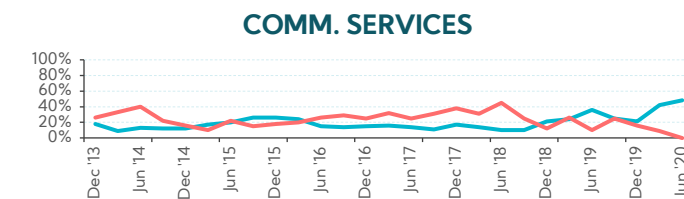
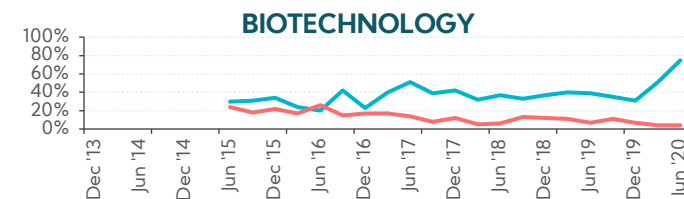
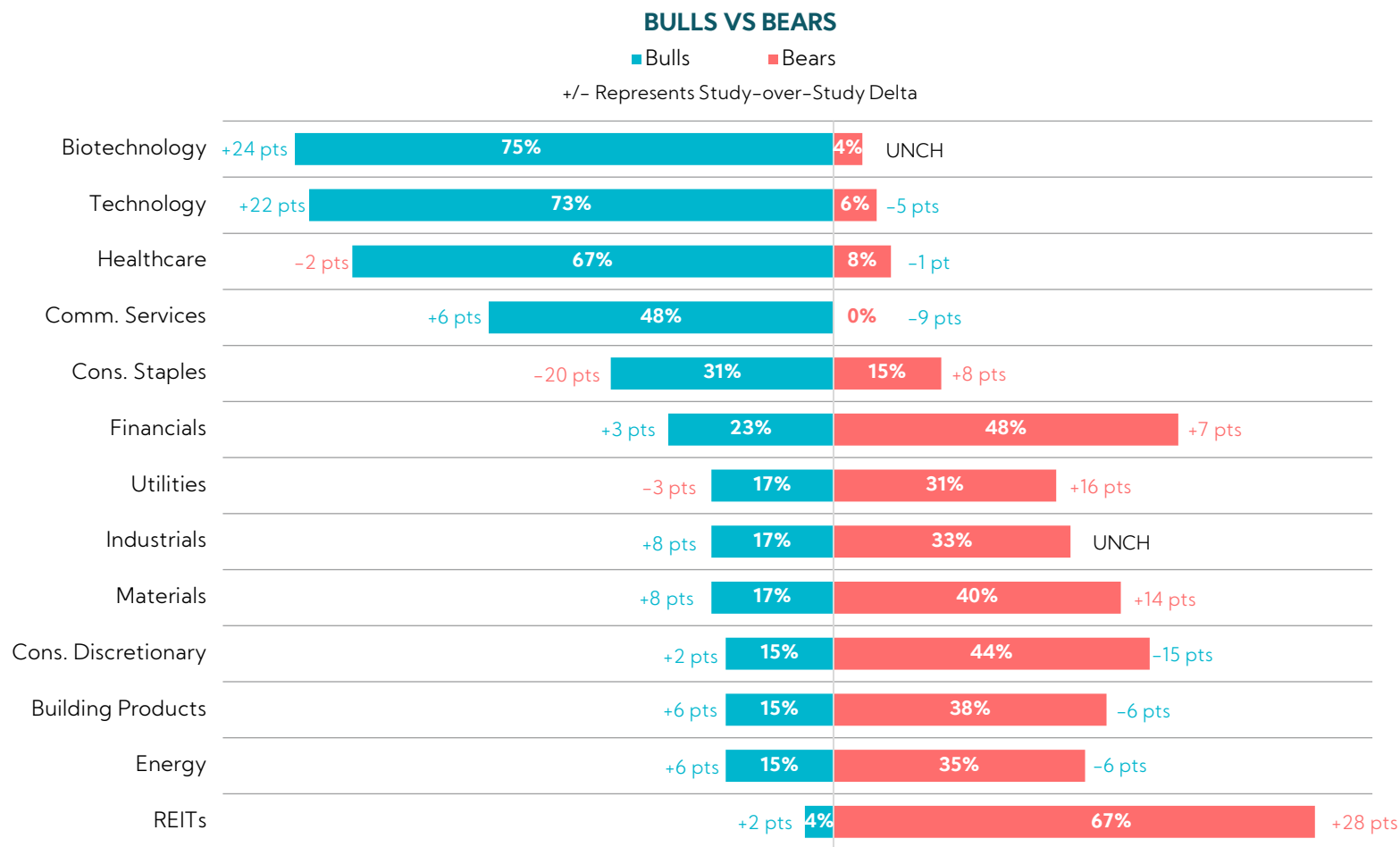
## MARKET PERFORMANCE YTD<sup>1</sup>

S&P 500 Sectors	YTD <sup>1</sup>
Technology	14.2%
Consumer Discretionary	6.6%
Communication Services	(1.0%)
Healthcare	(1.7%)
Consumer Staples	(7.1%)
Materials	(8.0%)
REIT	(10.0%)
Utilities	(12.6%)
Industrials	(15.5%)
Financials	(24.6%)
Energy	(37.0%)

<sup>1</sup> As of Jun. 30, 2020

# Sector Bets Remain Clear-cut with Biotech and Tech Claiming Top Spots

Amid commercial real estate concerns, REITs see record level of bearish sentiment (67% vs. 50% in Mar. 2017)

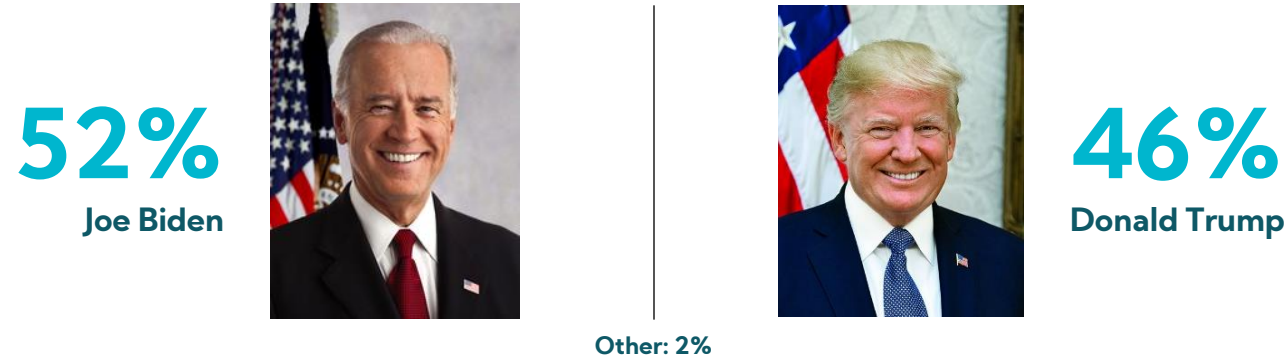




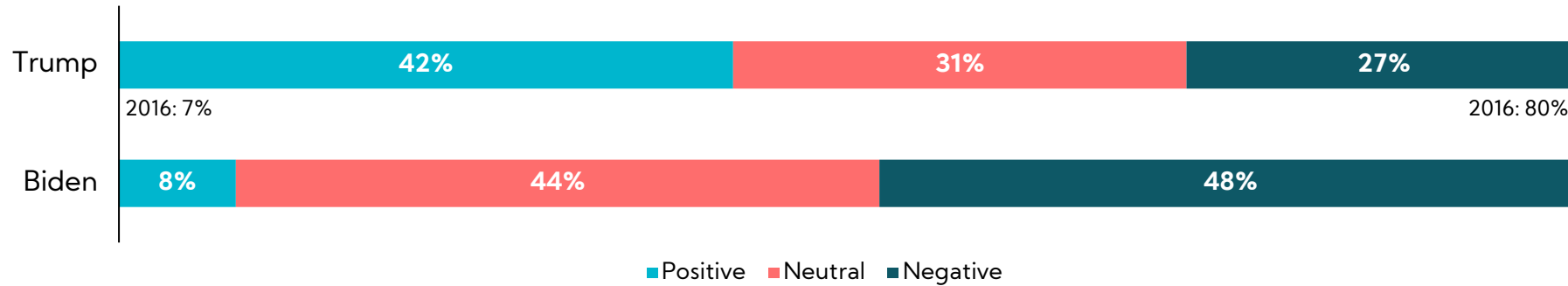
# Survey Says: Joe Biden for President (By a Slim Margin)

*Institutional investors believe Joe Biden will become the 46<sup>th</sup> President of the U.S. but expect that result would have a Neutral to Negative impact on markets*

## PREDICTION FOR WINNER OF 2020 U.S. PRESIDENTIAL ELECTION



## IMPACT OF U.S. PRESIDENTIAL CANDIDATE ON MARKETS, IF ELECTED



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