

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

corbin

Q3'20 Earnings Primer

Investor Sentiment Survey

October 8, 2020

Inside The Buy-side® Q3'20 Earnings Primer

For 13 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, 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.

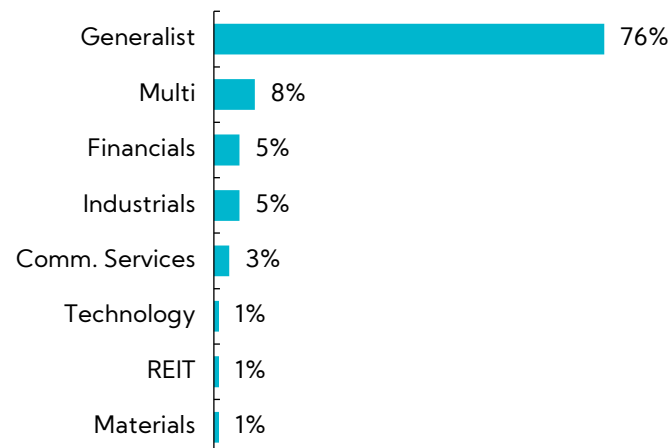
Survey Scope: 83 participants globally, comprising 65% buy side and 35% sell side; equity assets under management total ~\$3.4 trillion

Survey Timeframe: Sep. 10 – Oct. 1, 2020

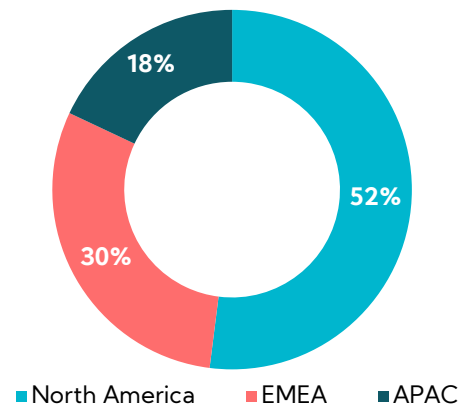
Market Performance	Q3'20	YTD ¹
U.S.		
DJIA	7.6%	(2.7%)
NASDAQ	11.0%	24.5%
S&P 500	8.5%	4.1%
Russell 2000	4.6%	(9.6%)
Europe		
FTSE 100	(4.9%)	(22.2%)
Stoxx 600	0.2%	(13.2%)
Asia		
Hang Seng	(4.0%)	(16.8%)
Shanghai	7.8%	5.5%

¹ As of Sep. 30, 2020

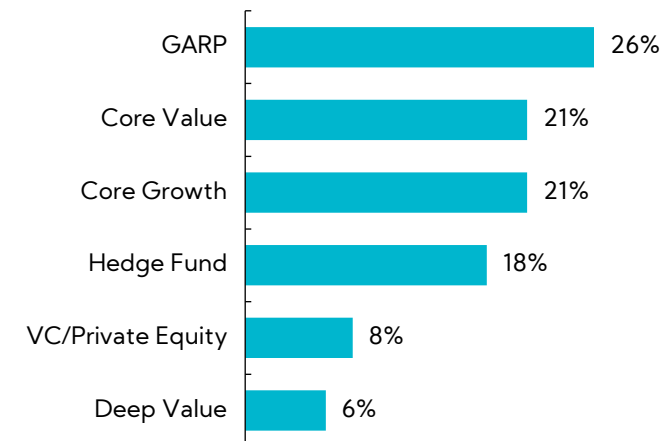
BY TYPE



BY REGION



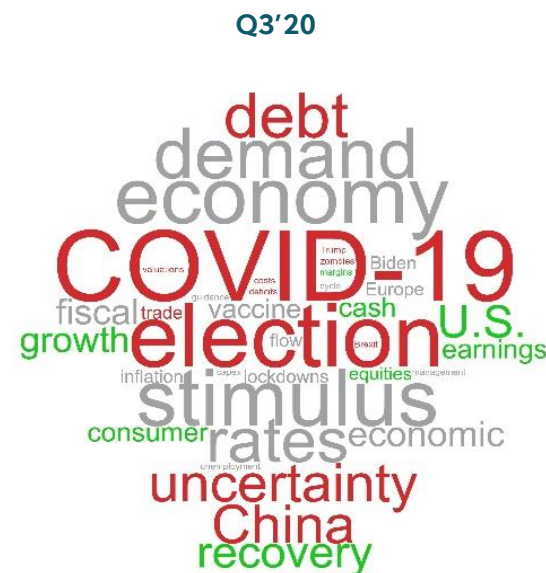
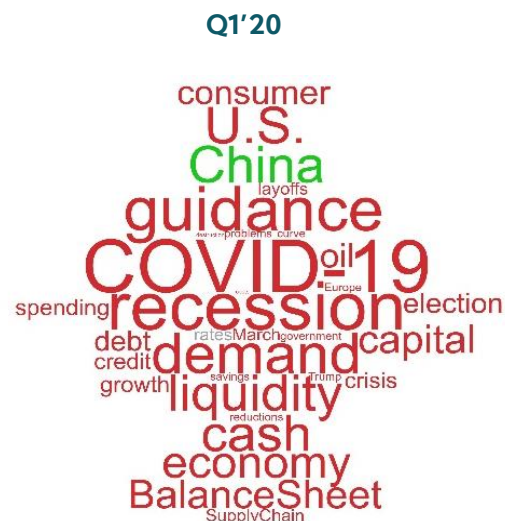
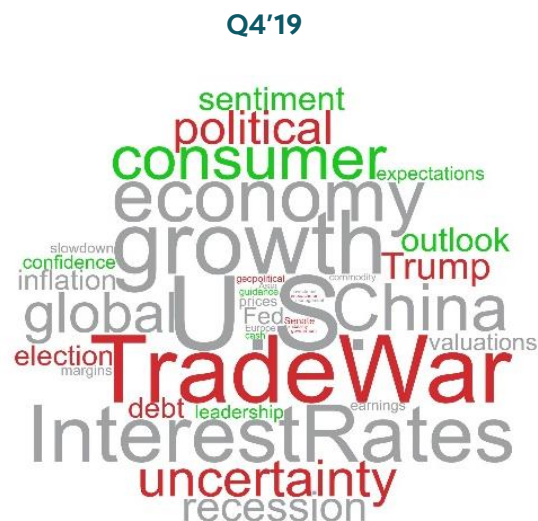
BY INVESTMENT STYLE



Word Cloud: Frequency of Occurrence

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

THOUGH UNCERTAINTY REMAINS, TRENDS POINT TO MORE UPBEAT VIEWS



Top Mentions	Q4'19	Q1'20	Q2'20	Q3'20	Q/Q
COVID-19	0	98	56	42	↓ 14
Election	9	7	13	34	↑ 21
Economy	22	10	6	12	↑ 6
Debt	9	7	4	11	↑ 7
Demand	5	12	11	10	↓ 1

Key: Underlying Sentiment

- Positive
- Neutral
- Negative

Survey Findings:

Investor Sentiment Continues to Climb and the “TINA Effect” is in Full Swing

Following Last Quarter’s Earnings Results, which Exceeded Consensus at Record Levels, the Worst is Believed to Be Behind and Expectations Are For Continued Recovery

- 62% of surveyed investors and analysts affirm last quarter’s earnings were better than they had expected, the first time ever in our survey that contributors did not report earnings were *In Line* with expectations, dispelling the phenomenon of investor illusory superiority
- 36% believe Q3’20 earnings will be *Better Than* consensus, up from 22% last quarter
- More investors believe key metrics – EPS, Organic Growth, FCF and Margins – will *Improve* QoQ; fewer than one-quarter of the group expect these KPIs to worsen
- 40% describe themselves as *Neutral to Bullish* or *Bullish*, up from 26% last quarter; 37% also describe executive tone as upbeat, an increase from 26% in Q2
- 71% believe we are in an economic recovery, with 30% suggesting a W-shape and 23% a hockey stick; China is cited as the economy most expected to *Improve* over the next six months, followed by the U.S. (62%) and India (47%); only Latin America has more investors expecting worsening conditions

Investors Shrug Off Lofty Valuations and Report Net Buying at a Record Level Amid the TINA Effect (There is No Alternative)

- Despite 68% classifying U.S. equities as *Overvalued*, marking the 12th consecutive quarter in which valuations are described as “rich” and the best two-quarter performance for the S&P 500 and NASDAQ since 2009, 41% believe equity valuations will Expand for the remainder of 2020, up from 18% last quarter
- Furthermore, 46% report *Net Buying*, the highest percentage ever recorded in our survey, while only 11% are *Net Selling*, a decrease from 16% last quarter
- Clear sector bets emerge, with Technology, Biotechnology and Healthcare remaining the top picks, while Energy bears nearly double and Financials and REITs remain in the doghouse
- 54% note companies that took a stand on racial injustice on earnings calls last quarter had a *Positive* impact on their investment decisions in the context of ESG; none report a *Negative* impact
- Of note, 64% of investors are in favor of a traditional IPO, compared to just 27% for direct listings, while the remainder assert “It Depends”

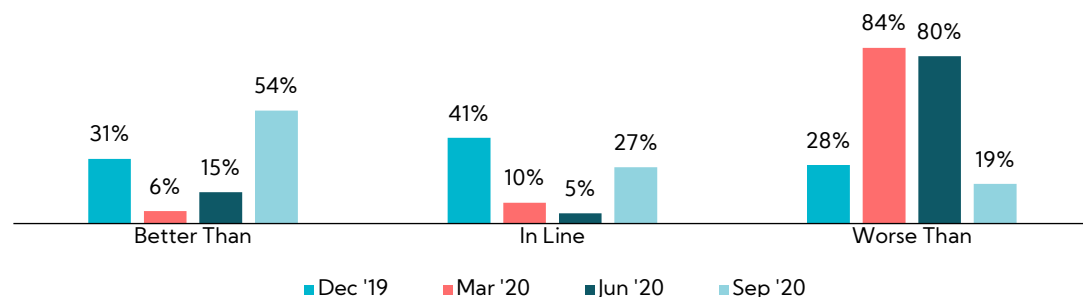
All Eyes on Earnings Season and the U.S. Presidential Election

- The U.S. Presidential election (63%), COVID-19 (43%) and fiscal/monetary policy (32%) are the leading investor concerns heading into the final quarter of 2020
- With a tumultuous election season underway, investors are bracing for continued volatility in the months ahead; 64% believe former Vice President Joe Biden will win and Energy, Financials, Communication Services and Healthcare sectors are believed to have the most at stake
- FCF generation and capital deployment uses are the leading topics of interest for upcoming earnings calls, ahead of demand trends and margin outlook
- Corporate debt levels remain in focus; nearly 60% of contributors still cite debt paydown as the preferred use of cash, with the ideal Net Debt-to-EBITDA level remaining at 2.0x or below, followed by reinvestment (48%) and dividend growth (40%), the latter of which nearly doubled QoQ
- With a recovery unfolding, few prefer M&A / consolidation relative to organic growth stories; of those who encourage M&A, more than 60% favor bolt-ons

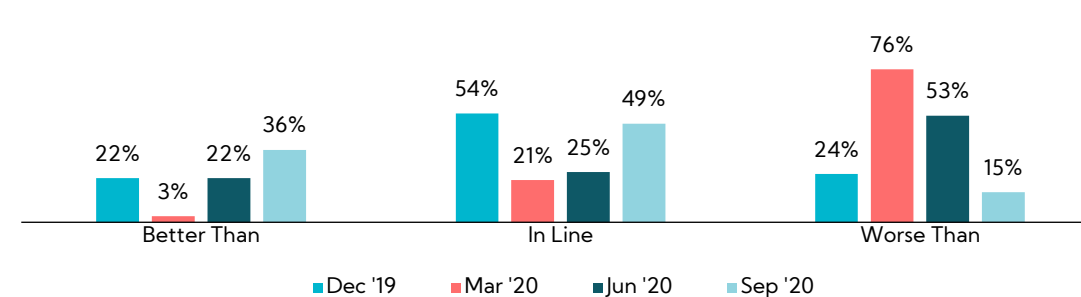
Sequential Earnings Momentum Baked In with Consensus Viewed as Being More In Line with Reality

Following a record number of S&P 500 earnings beats last quarter (and at a record level above consensus), nearly half believe Q3 results will be In Line with consensus; 36% are expecting more beats despite recent upward revisions

Q3'20 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



Q3'20 EARNINGS EXPECTATIONS VS. CONSENSUS



Better Than

"Strength of earnings in many industries." Buy Side, Generalist, N. America

"Strong consumer income." Buy Side, Generalist, N. America

"Cybersecurity continues to be very strong." Sell Side, Comm. Services, N. America

"Pickup from weak Q2." Buy Side, Generalist, Europe

"Economy emerging from the thaw of lockdowns, a lot of personal savings." Buy Side, Generalist, Australia

"Better news flow from D.C." Sell Side, Generalist, N. America

"Demand recovery in various customer segments." Sell Side, Materials, Europe

In Line

"Cost-out very strong theme." Buy Side, Generalist, Australia

"A slow reopening but faster than expected." Buy Side, Generalist, N. America

"Analysts have been revising their estimates upward for both earnings and revenue. Also, it appears that company guidance has been skewed to the positive." Buy Side, Generalist, N. America

"Even in the face of upward revisions by analysts, which began in June, final earnings exceeded the revamp in estimates. This was more so evidenced by the breadth of the spread between the number of companies beating versus those companies that missed estimates. I expect more in line this quarter." Buy Side, Generalist, N. America

"For most companies, lower revenues than last year." Buy Side, Generalist, N. America

"Better PMI than expected in July and August." Buy Side, Generalist, Europe

"The economic recovery will help firms to generate higher earnings." Sell Side, Generalist, Europe

Worse Than

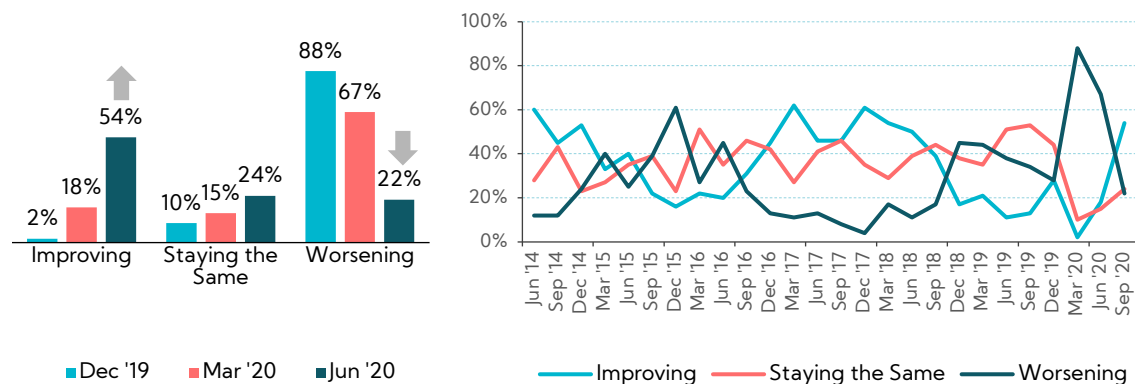
"More uncertainty on rebound of activities." Buy Side, Generalist, Europe

"We expect a freefall." Buy Side, Generalist, Europe

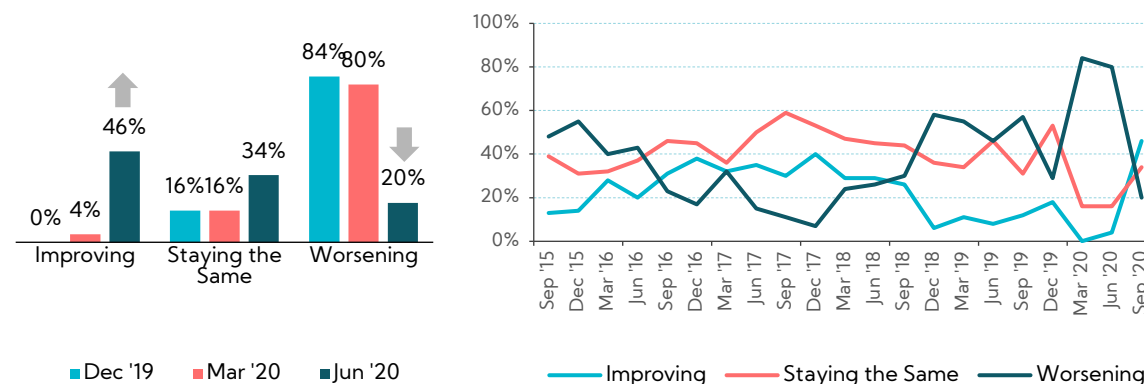
All KPIs Trending More Positive as Investors Believe the Worst is Behind Us

More than 50% believe EPS, organic growth and FCF will Improve sequentially, while 46% believe the same for operating margins

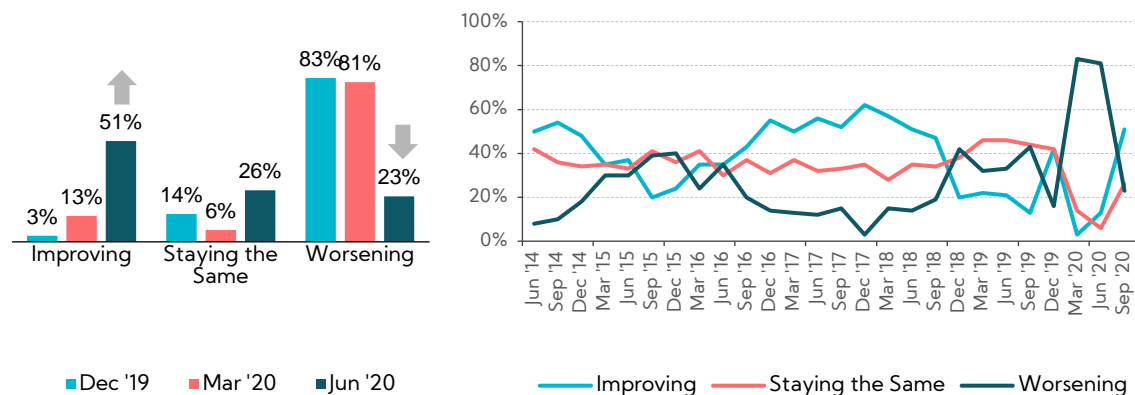
ORGANIC GROWTH



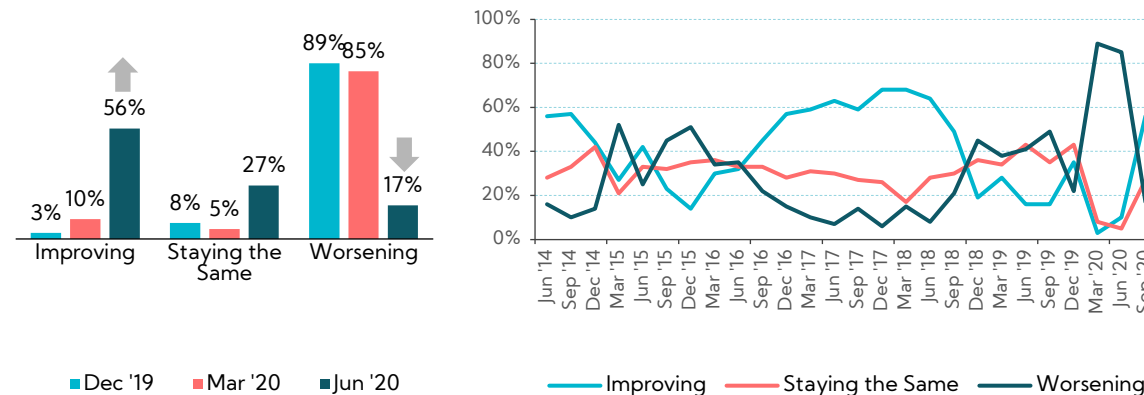
OPERATING MARGINS



FCF



EPS





1. FCF generation and uses
2. Demand trends
3. Margin outlook, cost containment
4. Organic growth opportunities
5. Talent management: work-from-home productivity
6. Supply chain management

Topics of Interest for Upcoming Earnings Calls

Cash is King; demand outlook dethroned as the leading topic as investors shift their focus to FCF generation and uses

Views from N. America

"Capex, margins, COVID-19." Buy Side, Generalist

"COVID-19, competitive environment, durability of earnings." Buy Side, Generalist

"Cash flow, margins, growth." Buy Side, Generalist

"Future clarity, stability in business, productivity increases." Buy Side, Generalist

"Near-term outlook and response, permanent changes beyond the virus, opportunities." Buy Side, Generalist

"Pipeline, productivity improvements, acquisitions." Buy Side, Generalist

"Sustainability within current environment, margins, organic or inorganic growth and cost-cutting, cash return to shareholders." Buy Side, Generalist

"Demand, difficulty in acquiring new logos, 2021 outlook assuming vaccine widely available." Buy Side, Multi

"Sustainability, growth, use for cash." Sell Side, Multi

"How to supervise employees at home, how to get teams back into the office, what happens with Biden as president." Sell Side, Multi

Views from EMEA

"Next six-month forecasts, cash cycle management, supply chain management." Buy Side, Generalist

"Sector strength, margins." Buy Side, Generalist

"Development of end market demand, FCF generation, potential impact from major macro or geopolitical events (e.g., energy transition, digital disruption, U.S. election, U.S./China trade war)." Sell Side, Multi

"Outlook, digital, cost cuts." Sell Side, Multi

"Volume and price development in Q3 and beyond, outlook, risks." Sell Side, Materials

Views from APAC

"Permanent changes to operating model/cost structure, real-time demand data, growth opportunities." Buy Side, Generalist

"Cost containment, R&D, organic growth." Buy Side, Generalist

"Next quarter guidance, impact of COVID-19, global environment." Buy Side, Information Technology

"Impact from oil prices." Sell Side, Industrials

"COVID-19, WFH/changes to structure of doing business." Sell Side, Generalist

"Strategies to improve earnings, how much will be invested for capex, how much budget will be spent for M&A." Sell Side, Multi

Most Companies Expected to Return to Pre-COVID Guidance Practices in 2021

Overarching Investor preference is reporting on a fiscal or calendar year, provide both annual and quarterly guidance

Methodology

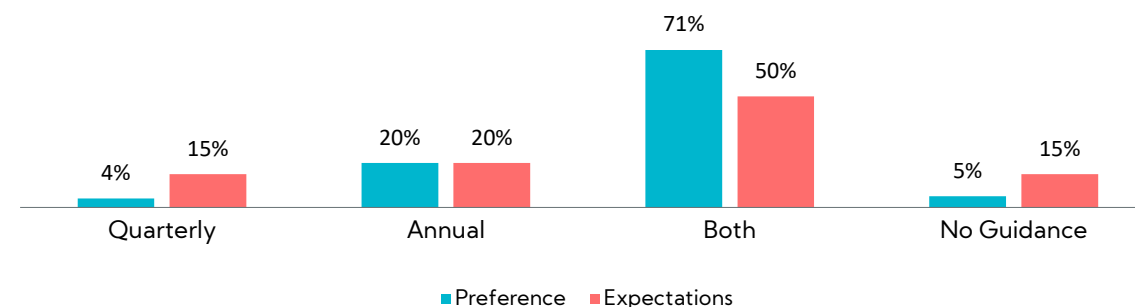
To assess company and investor alignment on 2021 guidance, we surveyed:

- 81 investors and analysts on their preference and expectations for 2021 guidance – for companies entering fiscal year 2021 this quarter and those that will report full year 2021 early next year
- 59 IROs across market caps and sectors on their initial expectations for 2021 guidance

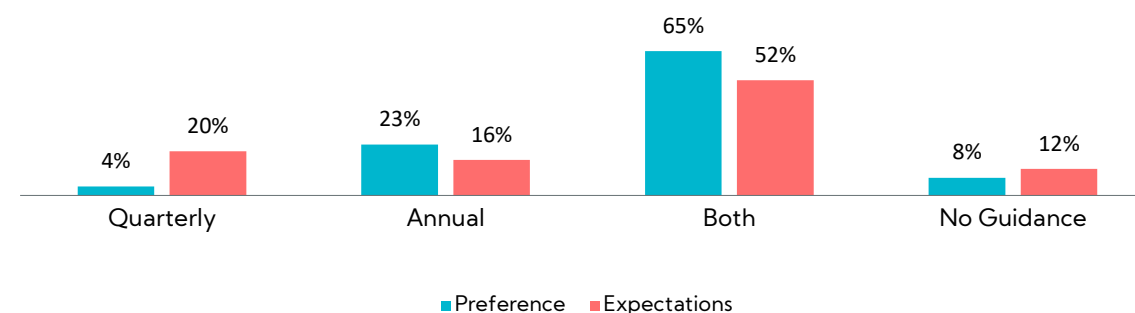
Key Insights

- To baseline preferences, pre-COVID, ~70% of investors preferred companies' issue both quarterly and annual guidance, in line with our historical averages
- For companies reporting fourth quarter and fiscal year 2020 earnings this quarter, as well as those reporting fourth quarter and full year 2020 earnings next quarter, investors largely prefer (and ~50% expect) companies to provide both quarterly and annual 2021 guidance
- 48% of IROs believe their companies will provide annual 2021 guidance (compared to 58% last year), while 14% believe they will give quarterly only (compared to 7%) and 16% will provide no formal guidance (compared to 9%)
- Early indications reveal the majority of investors expect companies to return to pre-COVID guidance practices, and most IROs suggest the same, though many caveat that the situation remains fluid and "nothing is set in stone"

2021 INVESTOR GUIDANCE PREFERENCE / EXPECTATIONS FOR COMPANIES REPORTING Q4 AND FISCAL YEAR EARNINGS THIS QUARTER

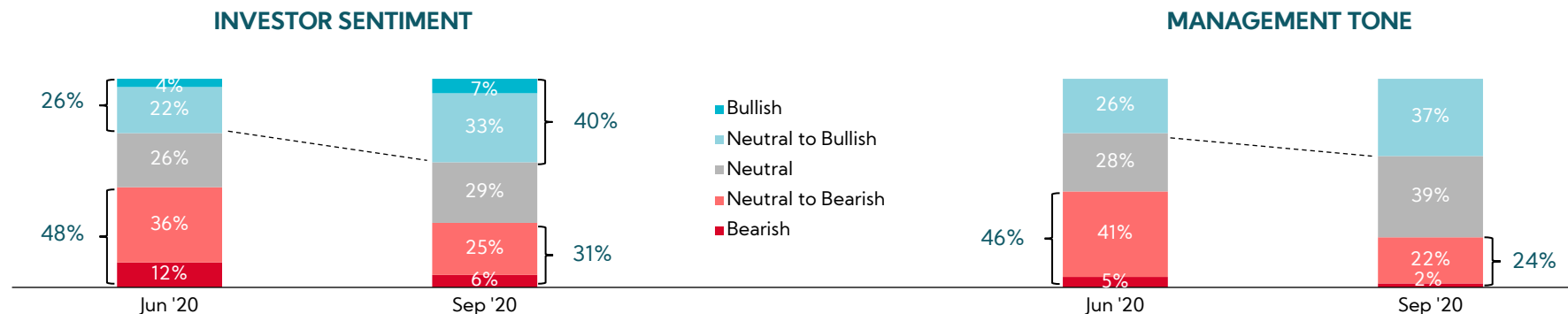


2021 INVESTOR GUIDANCE PREFERENCES / EXPECTATIONS FOR COMPANIES REPORTING Q4 AND FULL-YEAR EARNINGS NEXT QUARTER



More Upbeat Management Tone Drives Bullish Investor Sentiment to Pre-COVID Levels

After improving last quarter from March's record bearishness, 40% of investors are Neutral to Bullish or Bullish, largely in line with perceived management tone



Neutral to Bullish

"Consumption has held up better than I expected given unemployment levels and lack of additional stimulus." Buy Side, Generalist, N. America

"Market momentum plus large cash on sidelines." Buy Side, Generalist, N. America

"Uncertainty is slowly fading." Buy Side, Generalist, Europe

"Reopening trade, zero rates, fiscal stimulus, countered by election, COVID-19 spike in EU, CARES 2 stall." Buy Side, Generalist, N. America

"Hope that the prevailing party remains in office and economic policies continue." Sell Side, Multi, N. America

"Most companies I talked to see their business picking up versus Q2, but all admit visibility is still very low as nobody knows how the COVID-19 pandemic will evolve." Sell Side, Multi, Europe

Neutral

"The headwind of uncertainty on a number of fronts. Upcoming election, ongoing concerns regarding COVID-19 and the potential fiscal stimulus (lack thereof) to mitigate, continuation of restrained capex. On a positive note, the consumer continues to surprise via spending, housing, etc." Buy Side, Generalist, N. America

"Incompetence of the Congress and President." Buy Side, Generalist, N. America

"Eventual success managing COVID-19." Buy Side, Generalist, N. America

"Stimulus is ending." Buy Side, Multi, N. America

"Uncertainty." Buy Side, Generalist, Europe

"COVID-19." Buy Side, Generalist, Europe

Neutral to Bearish

"Hope but the uncertainty of a solution to the virus and the behavior of people in returning to normal." Buy Side, Generalist, N. America

"Too much debt." Buy Side, Generalist, N. America

"Weak underlying demand with further prospect for recovery weakening, concern over prospect of U.S. election violence distracting from economic management efforts." Buy Side, Generalist, Europe

"Next wave of COVID-19." Sell Side, REIT, N. America

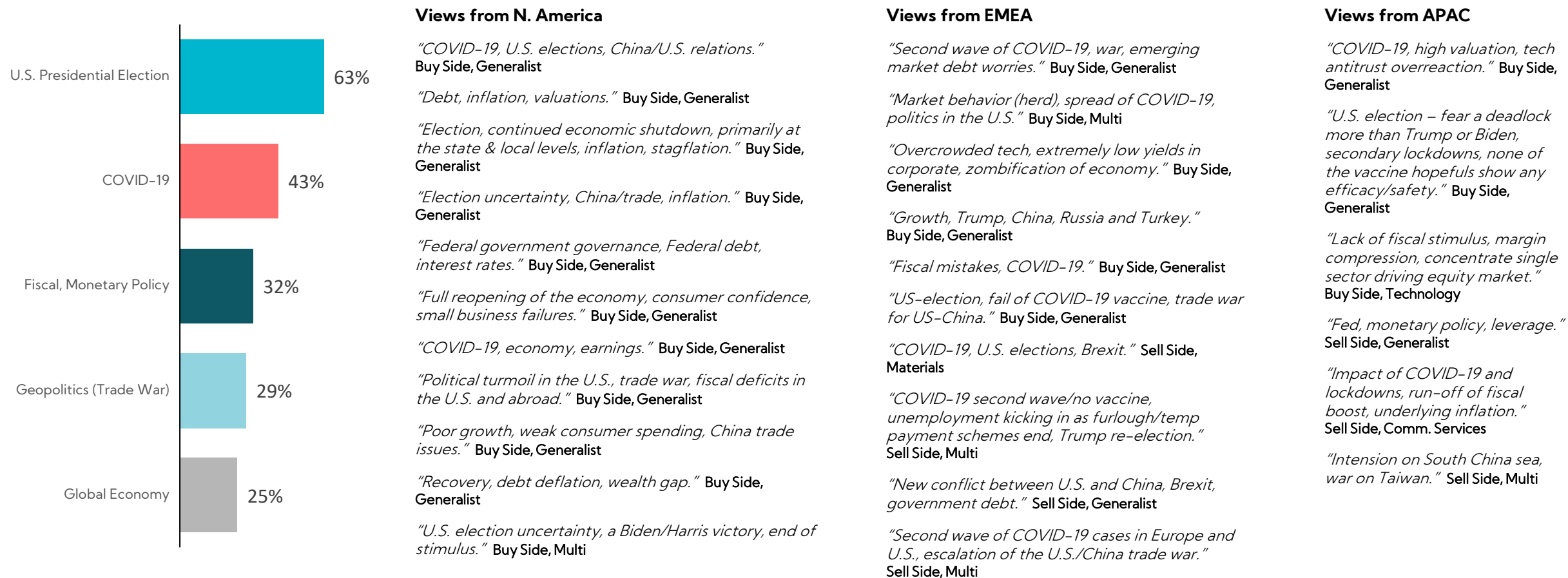
"Markets are up on stimulus and QE, overbought." Sell Side, Generalist, Europe

"Soaring joblessness and social distancing." Sell Side, Generalist, Europe

"The end of central banker infallibility." Sell Side, Comm. Services, Asia

Top Concerns from around the Globe

It's that time again! U.S. Presidential election front-and-center, while COVID-19 and policy remain in focus

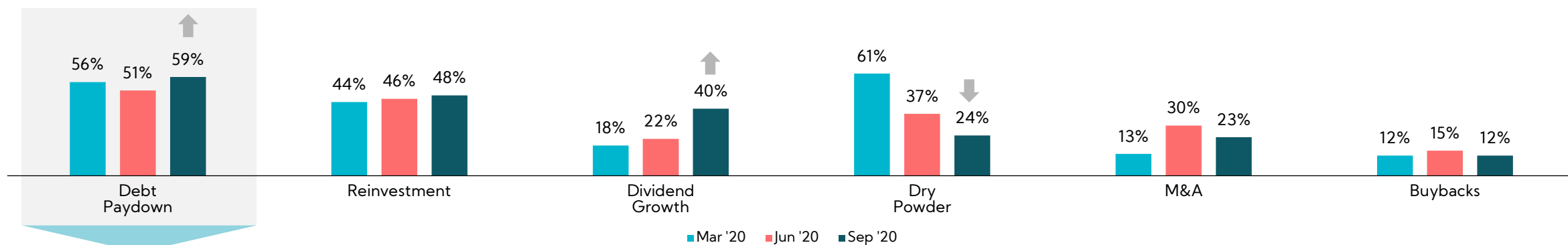


Debt Paydown and Reinvestment Still Preferred Uses of Cash, While Dividend Appetite Nearly Doubles

Cash conservation (“dry powder”) continues to see a precipitous decline amid positive economic trends, while 40% now favor dividend growth, more than doubling since March; strong balance sheets still top of mind, though preferred debt levels ease slightly

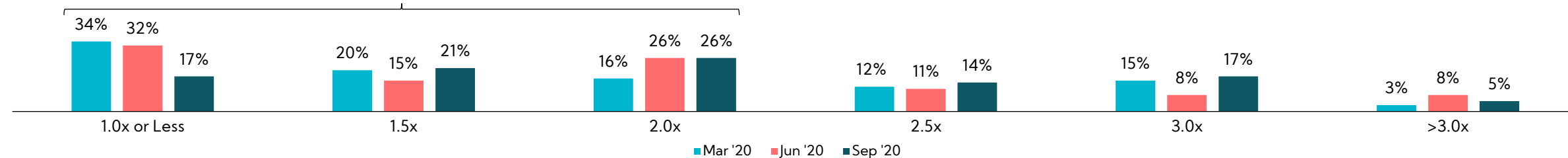
PREFERRED USES OF CASH

In Descending Order of Top Two Preferences



IDEAL NET DEBT-TO-EBITDA LEVEL

64%
(Q3'20)



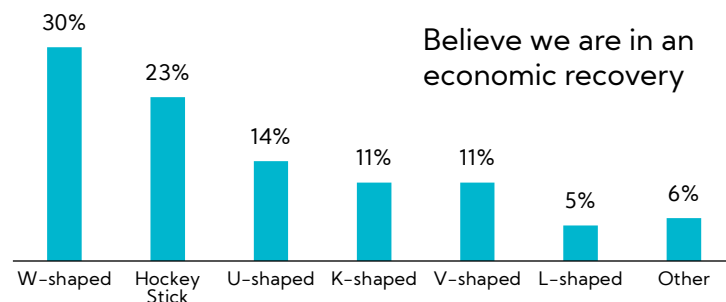
Most Believe We are in an Economic Recovery, But the Shape Taking Hold is Anyone's Guess

With Manufacturing ISM® stabilizing, U.S. unemployment improving, and the highest month-over-month increase for U.S. consumer confidence in 17 years, investors anticipate a W- or hockey stick-shaped recovery

TYPE OF RECOVERY

71%

Believe we are in an economic recovery

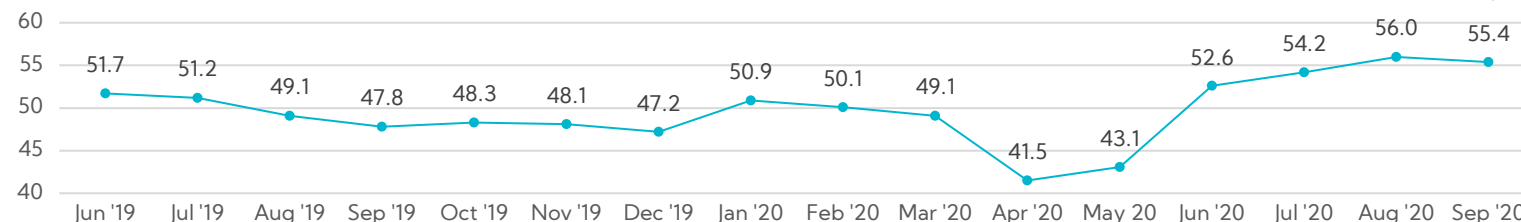


PROPRIETARY RESEARCH

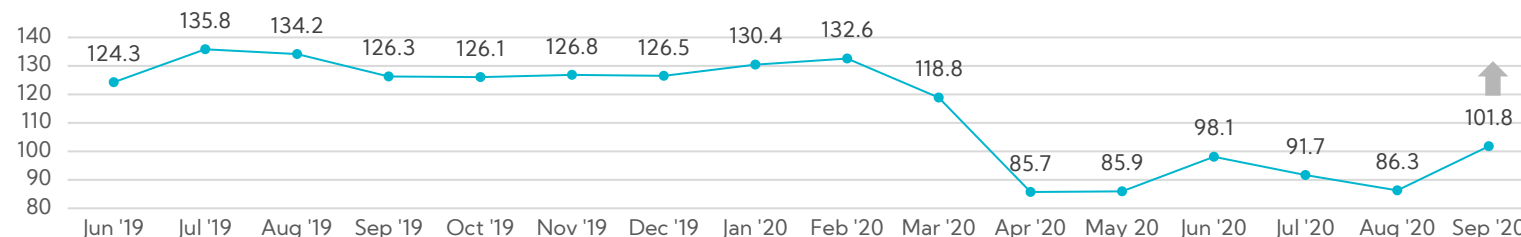
Investors most focused on the following Economic indicators

1	Manufacturing ISM®	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%

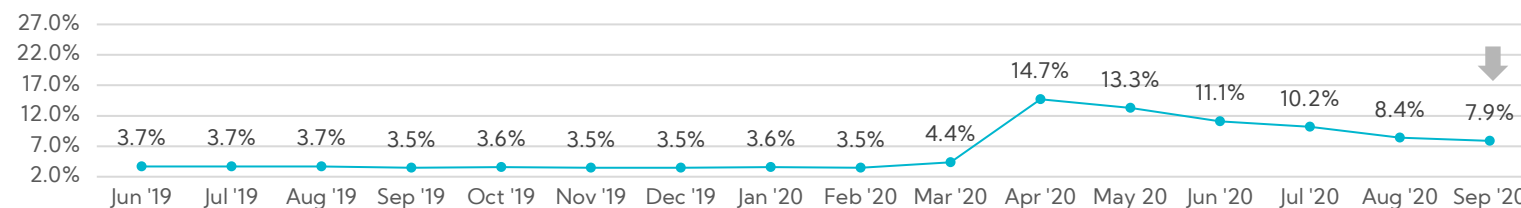
MANUFACTURING ISM® REPORT ON BUSINESS¹



CONSUMER CONFIDENCE²



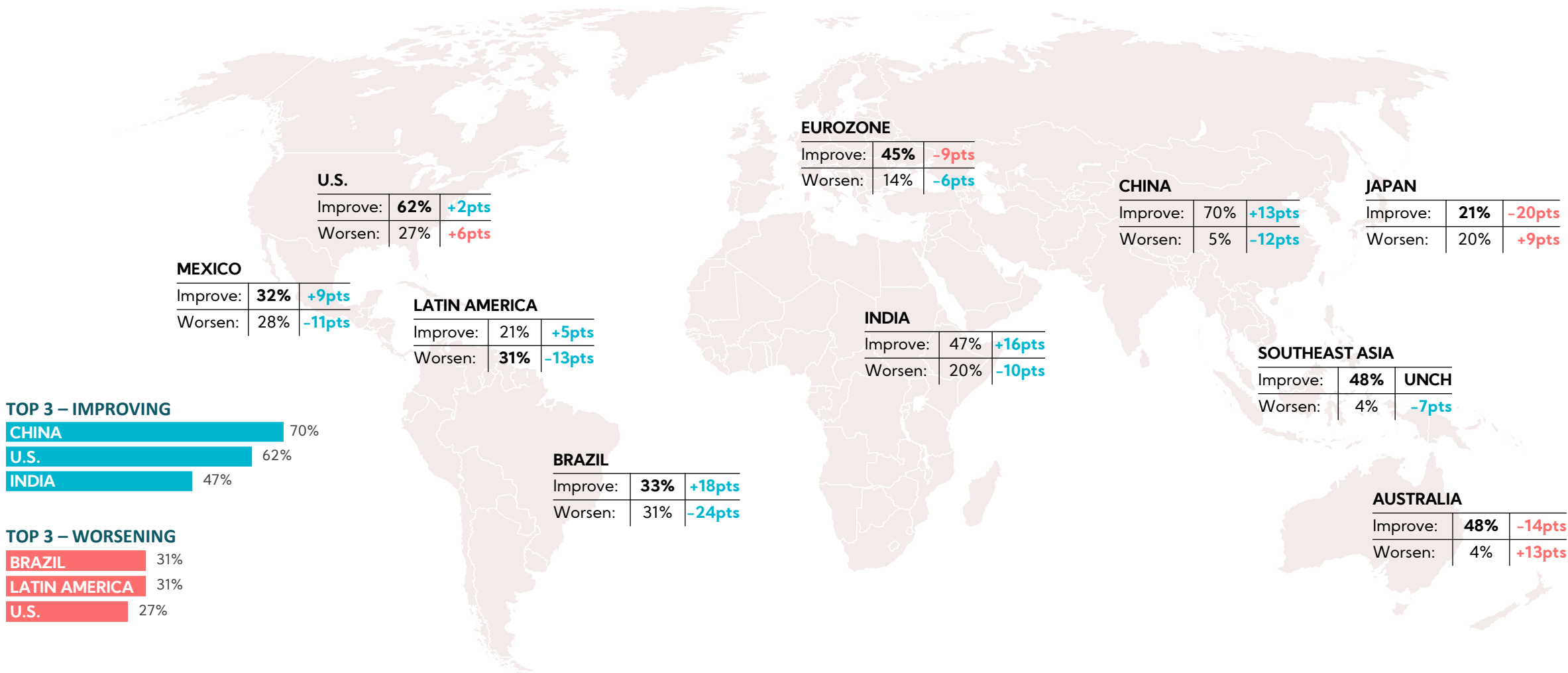
U.S. UNEMPLOYMENT RATE³



The Trend is Your Friend:

Most Economies See More Investors Expecting Improvement

China and the U.S. remain top picks for the second consecutive quarter, while Latin America sees the most downbeat outlook



Views on Key Economic Indicators Over the Next Six Months

Consumer Confidence expected to Improve, while the remainder of indicators are expected to Stay the Same or Improve, except for Non-Resi Construction

■ Improving
■ Staying the Same
■ Worsening

GLOBAL CAPEX



"Improving: Move toward more automation." Buy Side, Generalist, N. America

"Staying the same: Restrained primarily due to uncertainty relating to COVID-19, impact on a traditional economic infrastructure." Buy Side, Generalist, N. America

"Staying the same: Election uncertainty hard to predict." Sell Side, Multi, N. America

GLOBAL PMI



"Improving: As per capex." Buy Side, Generalist, Australia

"Staying the same: Recovered well but need full reopening to get better." Buy Side, Generalist, N. America

"Staying the same: Will normalize at current levels." Buy Side, Generalist, Africa

CONSUMER CONFIDENCE



"Improving: Assuming no second wave of lockdowns and prospect for a vaccine in H1 2021." Sell Side, Multi, Europe

"Worsening: Election uncertainty hard to predict – disposable income and credit card debt makes economy susceptible." Sell Side, Generalist, N. America

OIL & GAS MARKETS



"Improving: As the economy slowly recovers, oil & gas markets will also recover somewhat." Sell Side, Multi, Europe

"Worsening: Incremental increase in demand and/or pricing will be met with capacity increases. The latter will constrain pricing. Also, continued balance sheet deterioration will impact this sector/market." Buy Side, Generalist, N. America

NON-RESI CONSTRUCTION



"Staying the same: At best, in a holding pattern pending the election and fiscal policy outcomes." Buy Side, Generalist, N. America

"Worsening: The U.S. has been over-stored for decades and commercial real estate is not in demand." Buy Side, Generalist, N. America

"Worsening: Office demand to plummet." Buy Side, Generalist, Australia

RESI CONSTRUCTION



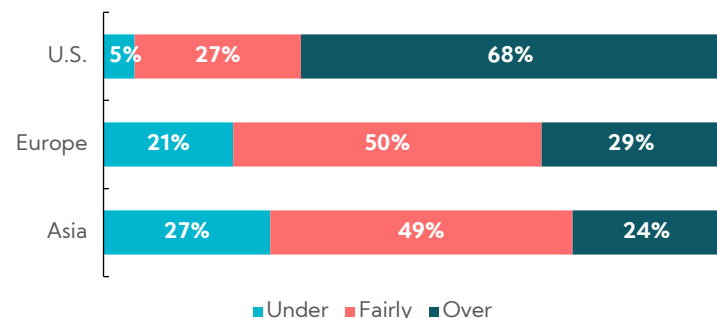
"Improving: Given low interest rates coupled with the motivation to exit population centers, this should be an area that may continue to exhibit positive growth." Buy Side, Generalist, N. America

"Staying the same: Construction may recover as GDP recovers, but there is a risk of delayed impact as unemployment increases." Sell Side, Generalist, Europe

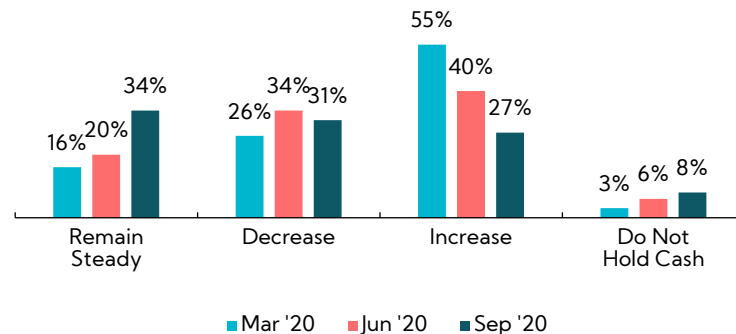
Record Number of Net Buyers Identified for Equities

Despite the 12th consecutive quarter of U.S. stocks being viewed as overvalued, nearly half of investors report Net Buying and 41% believe valuations will expand for the remainder of 2020

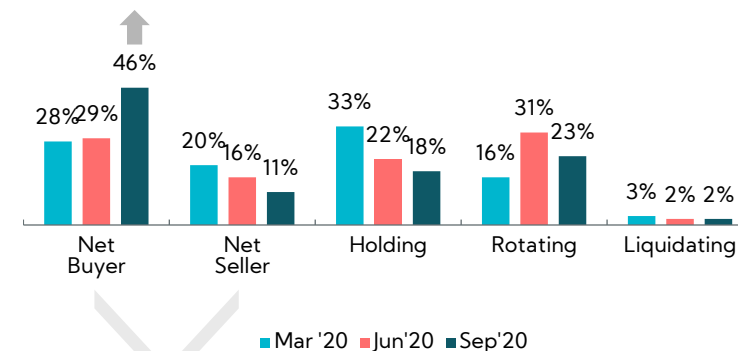
GLOBAL EQUITY VALUATION CLASSIFICATION



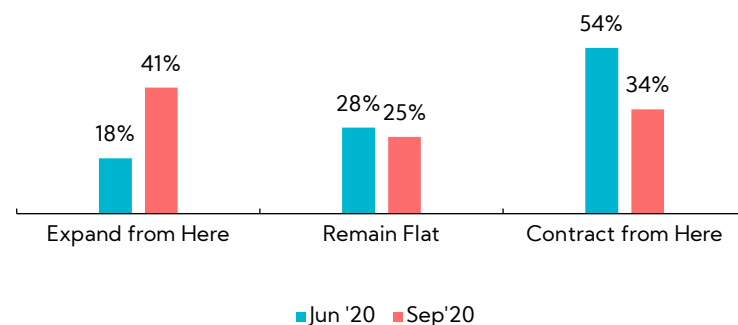
QoQ PORTFOLIO CASH HOLDING



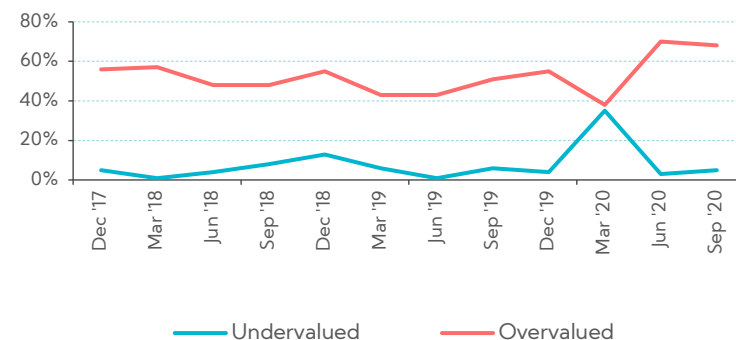
QoQ INVESTMENT TRENDS



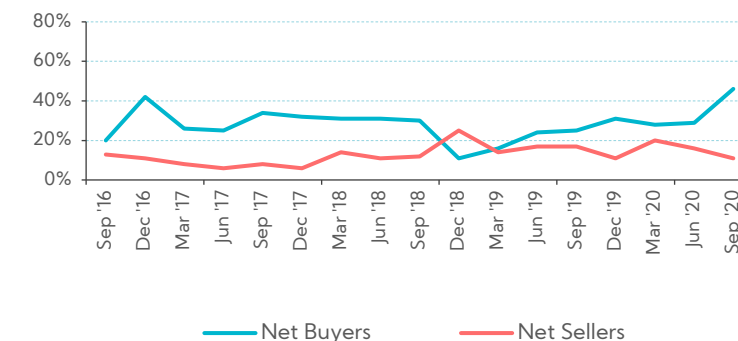
2020 EQUITY VALUATION EXPECTATIONS



UNDERVALUED VS. OVERVALUED (U.S. EQUITIES)



NET BUYERS VS. NET SELLERS

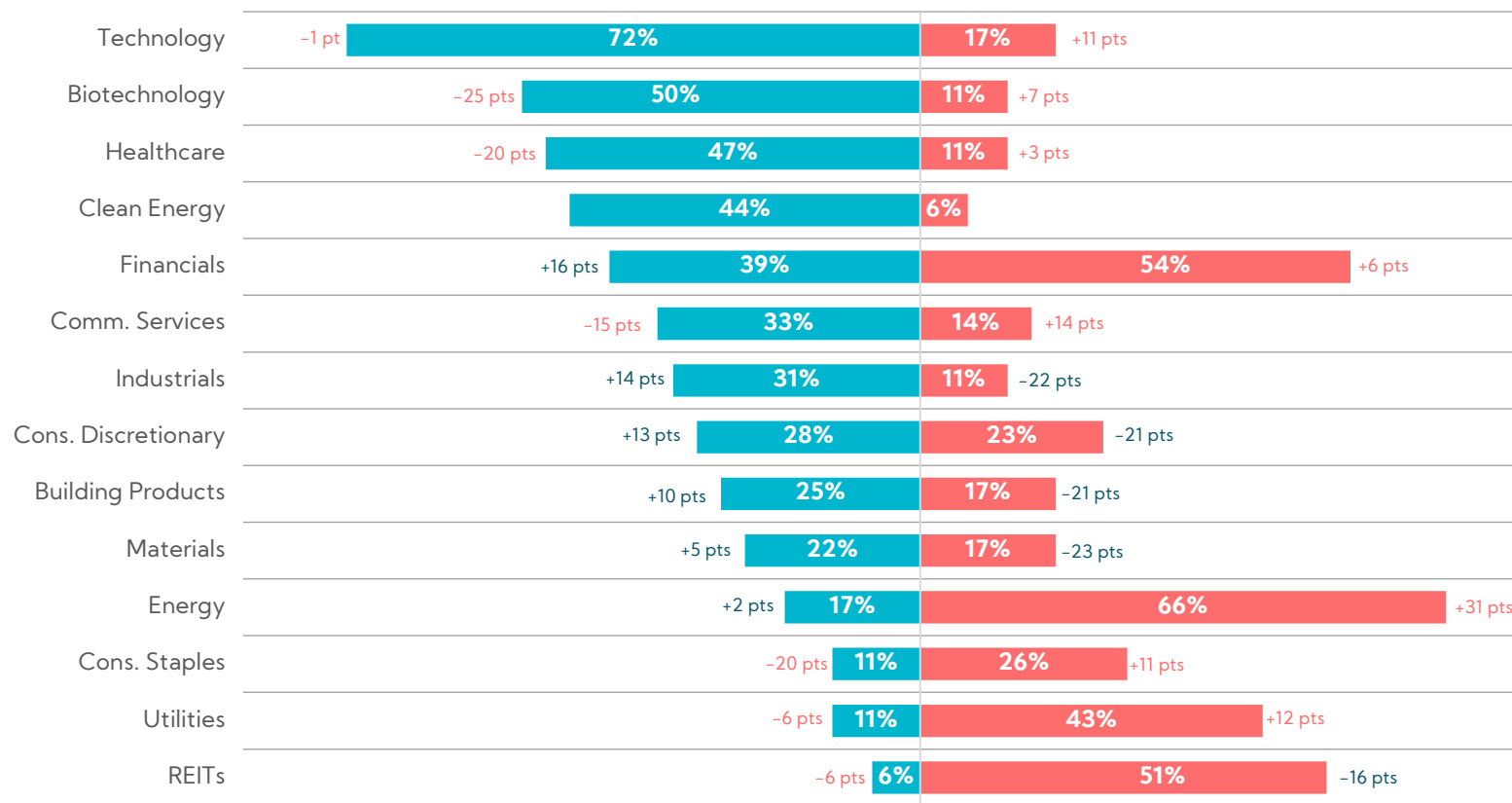


As Time Ticks on, Sector Winners and Losers Become Clearer

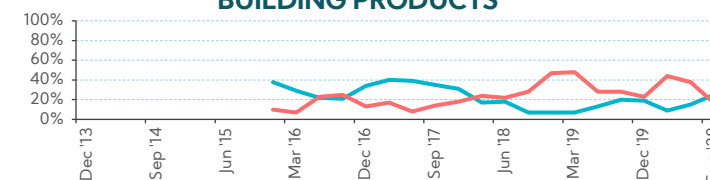
Tech, Biotech and Healthcare remain top bets, albeit at more moderate levels as other sectors kick into gear, while Energy, Financials and REITs are the laggards

BULLS VS BEARS

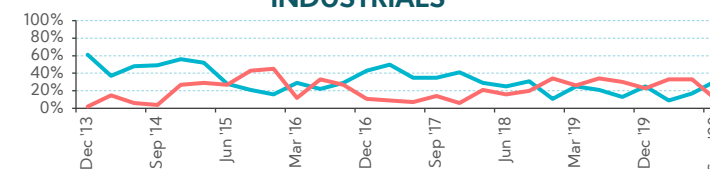
■ Bulls ■ Bears



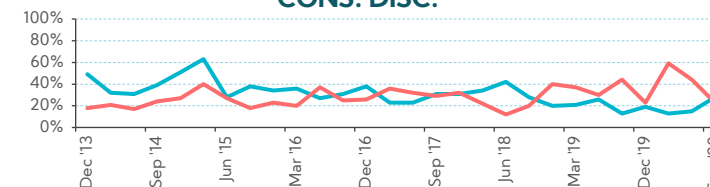
BUILDING PRODUCTS



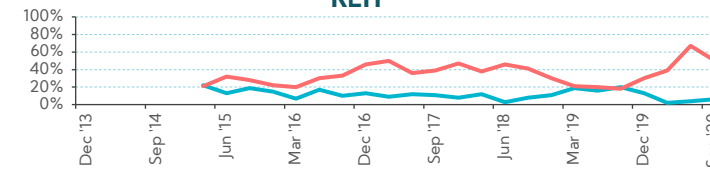
INDUSTRIALS



CONS. DISC.



REIT



Survey Says: Joe Biden for President! (Though Investors Got It Wrong Last Time)

Energy, Financials, Communication Services and Healthcare believed to have the most at stake in the U.S. Presidential election

PREDICTED WINNER OF 2020 U.S. PRESIDENTIAL ELECTION

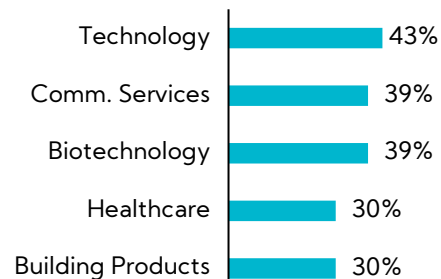
64%
Joe Biden



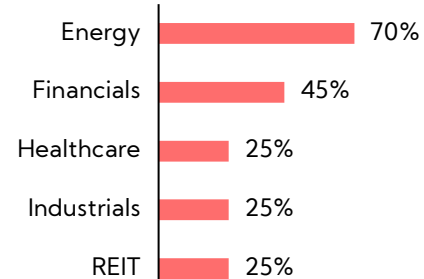
36%
Donald Trump

TOP 5 MOST POSITIVELY AND NEGATIVELY IMPACTED SECTORS IF ELECTED

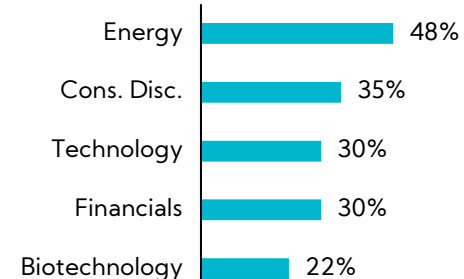
POSITIVE



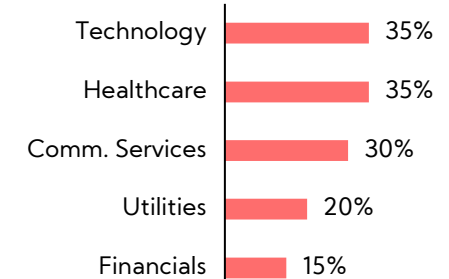
Negative



Positive



NEGATIVE



Results Are In and the Evidence is Clear: The “S” (Social) is Meaningfully Impacting Investment Decisions

The percentage of investors noting “Social” is important to their investment thesis has increased to 45% from 28% just two years ago, proliferated by COVID-19; more than half say companies that took a stand on racial injustice positively impacted decisions

45%

2020: Note the “S” is *Very Important* to *Critical* to their Investment Thesis

62%

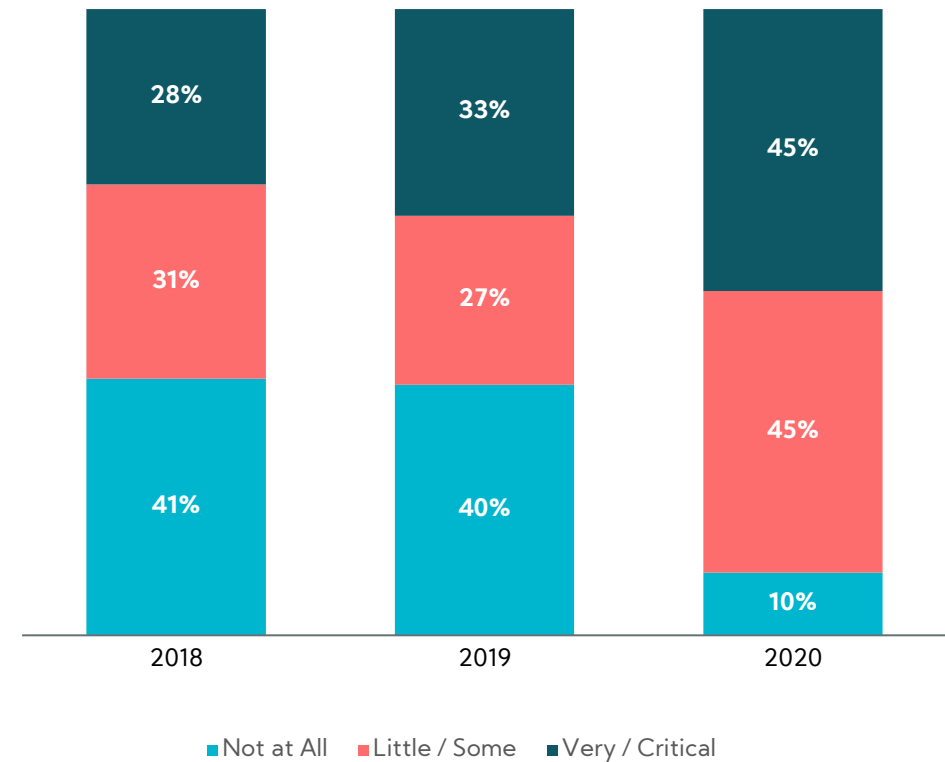
Q2'20: Are Placing *More* or Continued *High Emphasis* on Social as a Result of COVID-19

54%

Q3'20: Note Companies that Took a Stand on Racial Injustice on Earnings Calls Last Quarter Had a Positive Impact on Their Investment Decisions in the Context of ESG

0% Believe This Had a *Negative* Impact on Their Investment Decisions

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A person in a red jacket is standing in a cave, illuminated by a bright blue light source. The cave walls are covered in intricate, wavy patterns, and the floor is rocky. The overall atmosphere is mysterious and ethereal.

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