CORBIN ADVISORS
INSIGHTS • STRATEGY • RESULTS

Inside The BUY-SIDE®

3Q19 Industrial Sentiment Survey

October 17, 2019

| IF IT'S **CORBIN**, IT'S **ACTIONABLE** |

For over a decade, we have surveyed global industrial 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 Industrial Sentiment Survey®*, which captures real-time Voice of Investor™ sentiment and trends.[1]

Leveraging our deep understanding of capital markets, proprietary research, powerful 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.

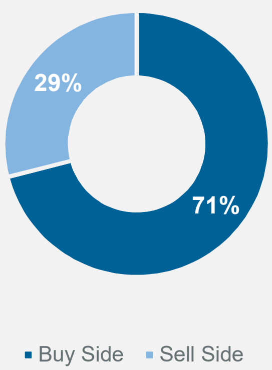
Survey Scope: 34 sector-dedicated investors and analysts globally; buy-side firms manage ~$896 billion in assets and have ~$107 billion invested in Industrials.[2]

Survey Timeframe: Sep. 9 – Oct. 10, 2019

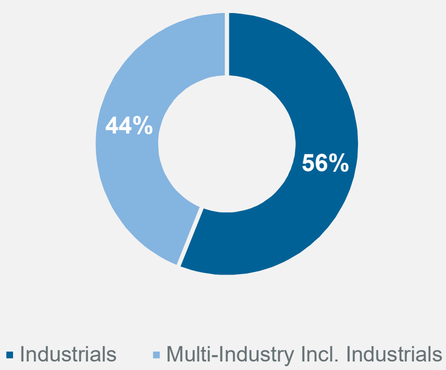
Market Performance	YTD*	3Q19
DJIA	11.8%	(2.9%)
NASDAQ	18.5%	(3.8%)
S&P 500	15.2%	(3.1%)
S&P Industrial	18.6%	0.7%
Russell 2000	9.8%	(5.5%)

* As of 9'30'19

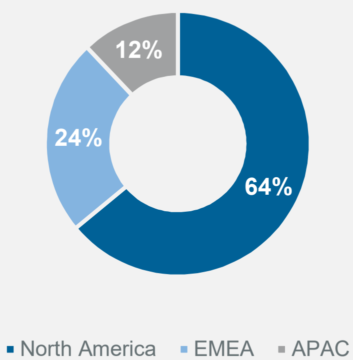
ROLE



SECTOR FOCUS



REGION



[1] The Industrial Sentiment Survey was first published in June 2015
[2] As of 9'30'19

Word Cloud: Frequency of Occurrence

We developed a word cloud to visually demonstrate the investment community's focus areas, trends in frequency of word occurrence, as well as the underlying tone

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Investor Feedback Indicates Downbeat Sentiment across the Board, with Trade War and Resulting Slowing Demand Driving Views

2Q 2019

3Q 2019

Top Mentions	2Q19	3Q19	
Trade War	14	17	↑ 3
U.S.	6	12	↑ 6
Demand	6	8	↑ 2
Recession	6	7	↑ 1
Growth	6	7	↓ 1
Brexit	6	6	←→
Europe	7	6	↓ 1
Cycle	5	6	↓ 1

Key: Underlying Sentiment

- ● Positive
- ● Neutral
- ● Negative

Slowing Global Growth and Continued Earnings Deceleration are Expected, as are Lowered 2019 Outlooks; Cost-cutting initiatives and Strong Balance Sheets in Focus

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#1 Investor Sentiment Remains Downbeat, with Several Key Performance Indicators Receiving the Most Pessimistic Views in Our Survey's History

- Following the most downbeat investor sentiment and perceived management tone in over three years, *Neutral to Bearish* and *Bearish* sentiment remained muted; those classifying themselves as outright *Bearish* nearly doubled to 16% from 9% QoQ, though some contrarians have emerged
- 56% predict continued sequential earnings deceleration and a similar percentage expect results to be *Worse Than* consensus, registering near the highest level since Dec. 2015, when outsized concerns around Oil & Gas, China and emerging market growth spiked
- For companies that reaffirmed 2019 guidance last quarter, 50% of investors expect companies to *Lower*, while the same number expect those who raised to *Maintain*
- Those expecting EPS to *Worsen* register at the highest level in survey history, with 54% expecting sequential decreases
- Views on FCF are mixed; while 37% expect levels to *Worsen* QoQ, the highest level in survey history, 41% predict levels will look similar to last quarter

#2 Expectations are Nearly Ubiquitous for Slowing Growth but Majority Do Not Anticipate a U.S. Recession in the Next 6 Months

- 63% believe Industrials earnings have peaked, nearly doubling from 32% last quarter, when views were more divided
- For the fourth consecutive quarter, focus remains on the global economy and tariff impact; a new theme emerging this quarter is apprehension toward monetary and fiscal policy shifts
- 44% *Do Not Believe* a favorable resolution to the U.S./China tariff dispute will happen by year-end 2019, with the same percentage considering a deal only *Somewhat Likely*
- Nearly 60% expect global capex and global PMI to *Worsen* over the next six months, the latter of which is cited as the top recession indicator by 79% of investors
- Expectations are nearly universal for slowing growth, with 53% anticipating 2019 industrial organic growth to be less than 2.5%; still, only one-quarter believes we will enter a recession in the next 6 months while a much greater percentage, or 67%, expect a contraction to push out to within 24 months

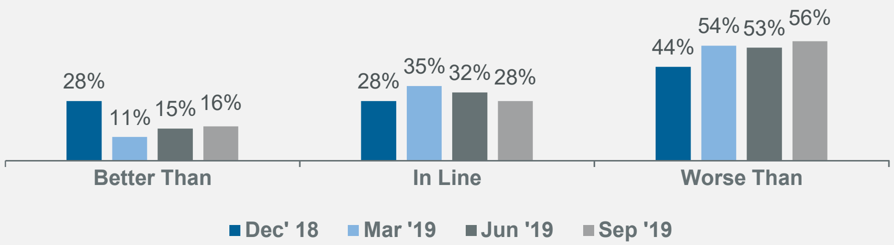
#3 Amid the Turbulence, Investors Turn to Three Key Competitive Advantages: Cost-cutting, Balance Sheet Strength and Above-average Organic Growth

- Nearly 50% report Industrial stocks are *Overvalued*, with 41% *Holding* QoQ; still, 38% report *Rotating* or being *Net Buyers* versus last quarter and only 17% report *Net Selling,* with Defense and Water the top bullish sectors and Automotive and Machinery seeing the highest level of bearish sentiment
- Investors are focusing on three key investment themes:
  - **Cost-cutting**: 90% expect cost-cutting actions this quarter, an increase from 67% last quarter, and 68% describe cost-cutting as the most compelling investment theme in the Industrial universe
  - **Balance sheet strength**: 60% report increased emphasis on balance sheet strength to evaluate downside risk; sensitivity around debt remains at 2.0x or below, consistent with last survey
  - **Organic growth traction**: With growth expectations tempering, sentiment remains "capture if you can"; 57% cite reinvestment as their *preferred* use of cash, the highest among all choices; organic growth initiatives, including new product development, are the most-oft cited topics to address on upcoming earnings calls

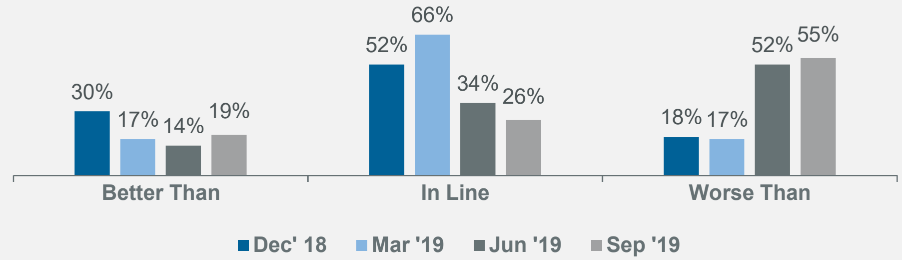
Expectations Heading into 3Q Earnings Season Are for "More of the Same" – Deceleration

52% report weakening 2Q earnings results were "as expected" and for the third consecutive quarter, the majority anticipate earnings to *Worsen*; annual guidance outlook expectations are also gloomy, with those that reaffirmed last quarter projected to largely lower

EXPECTATIONS REGARDING 3Q19 EARNINGS VS. PRIOR QUARTER

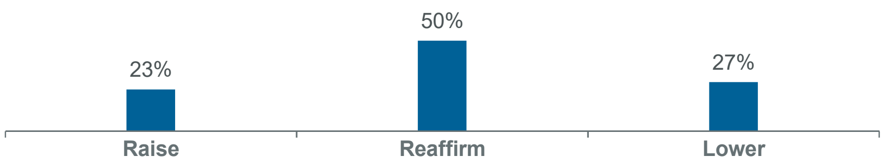


EXPECTATIONS REGARDING 3Q19 EARNINGS PERFORMANCE VS. CONSENSUS

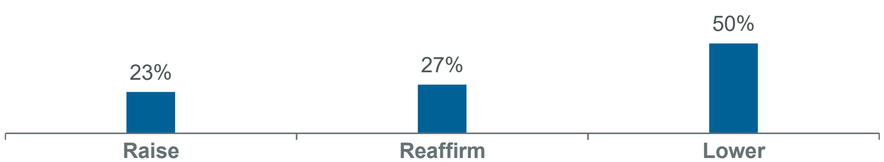


2019 Annual Guidance Expectations

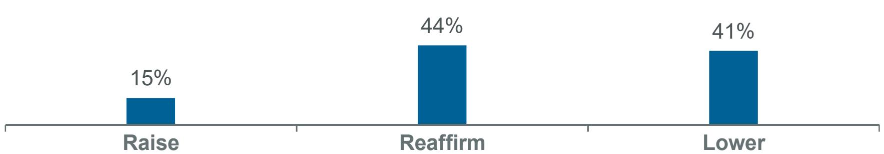
FOR COMPANIES THAT <u>RAISED</u> GUIDANCE IN 2Q, THEY ARE EXPECTED TO…



FOR COMPANIES THAT <u>REAFFIRMED</u> GUIDANCE IN 2Q, THEY ARE EXPECTED TO…



FOR COMPANIES THAT <u>LOWERED</u> GUIDANCE IN 2Q, THEY ARE EXPECTED TO…



Better Than

"As I am looking at the building-related industries, Q3 is always the best quarter." **Sell Side, Industrials, Europe**

In Line

"It is going to be kind of similar. A lot of fits and starts, not massive moves either way, so kind of neutral relative to the second quarter, not building or detracting a lot." **Buy Side, Industrials, N. America**

"The U.S. macroeconomic environment will not be as bad as some investors seem to believe (and as the U.S. yield curve might suggest)." **Sell Side, Industrials, Europe**

Worse Than

"European and American PMI, manufacturing data is starting to slow. It is because of the China-U.S. trade war. That can easily change at the drop of a hat if we were to strike a trade deal." **Buy Side, Industrials, N. America**

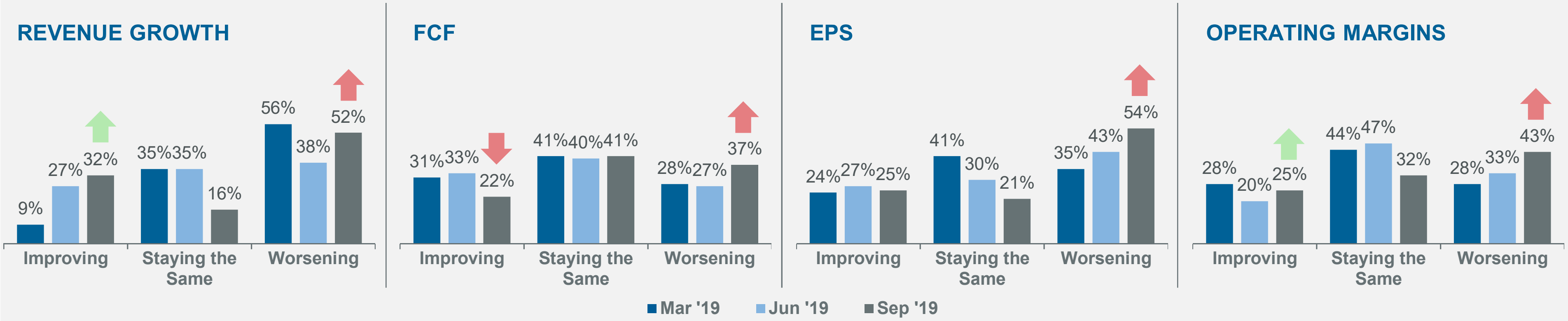
"Q3 underlying fundamentals were solid except for normal seasonality in Europe." **Buy Side, Industrials, N. America**

"Worse PMI data, trade war effects." **Buy Side, Generalist, Europe**

"Global trade declines, weak economy in Germany, continued issues with Brexit, U.S.-China trade dispute." **Sell Side, Industrials, N. America**

Revenue Growth, EPS and Operating Margins Expected to Decelerate QoQ, While FCF Views are Mixed

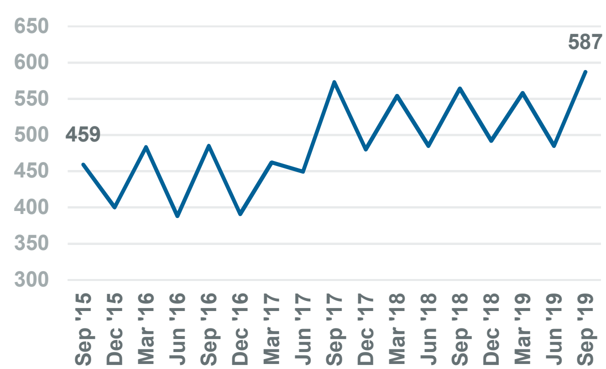
Those expecting EPS and FCF to *Worsen* registers at the highest level in survey history; margins are expected to *Worsen*, with 90% expecting cost-cutting actions this quarter, an increase from 67% last quarter, as 88% do not consider a trade resolution likely in 2019



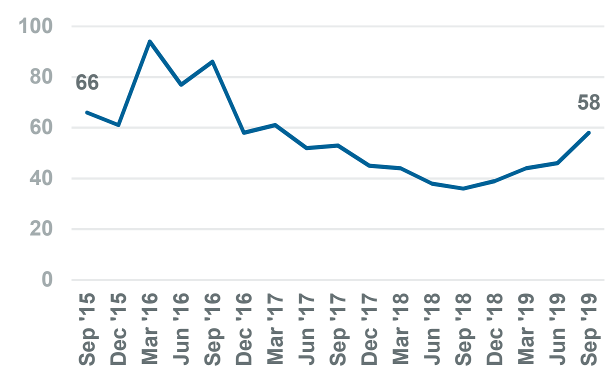
Total Number of Mentions on Quarterly Earnings Calls by Industrial Companies Globally[1]

TARIFFS

COST ACTIONS



HEADCOUNT REDUCTION



	QoQ	YoY
Change (Δ)	+38.4%	-11.9%

QoQ	YoY
+21.0%	+4.1%

QoQ	YoY
+26.1%	+61.1%

[1] Source: Corbin Advisors research

Sentiment Remains Downbeat with Bears Nearly Doubling QoQ; Still, Some Hopeful Contrarians Emerge

Perceived management tone largely characterized as neutral to tempered; investors most focused on organic growth initiatives, inventory trends and price leverage on upcoming earnings calls

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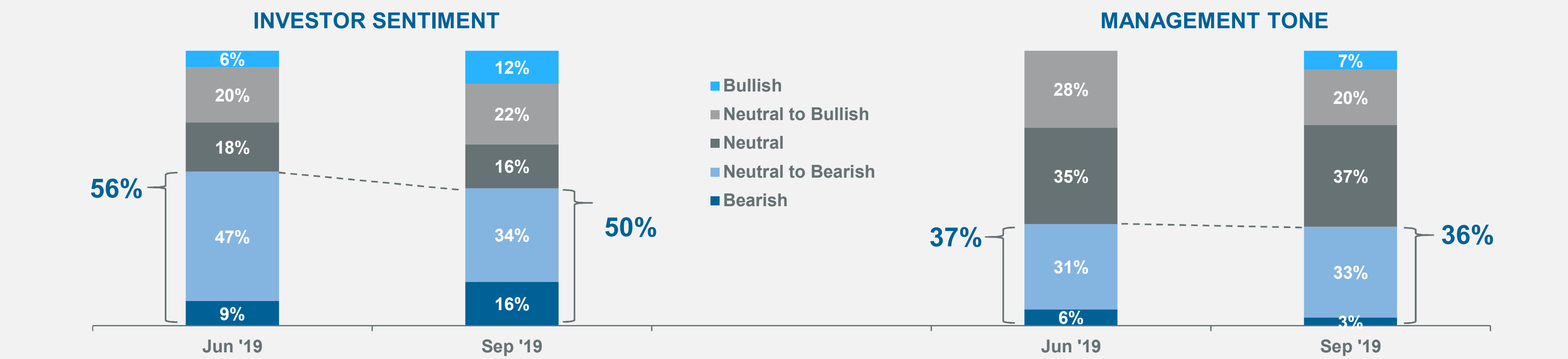

TOPICS OF INTEREST FOR UPCOMING EARNINGS CALLS

1	Organic growth initiatives	2	Inventory destocking	3	Price leverage
4	Trade war	5	Cost-cutting initiatives	6	Customer behavior, trends

Views from N. America

"Any underlying shifts in fundamentals is important. Also, most investors will be focused on inventory in the supply chain to avoid similar pressures that occurred in 2018." **Buy Side, Industrials**

"Inventory destocking." **Buy Side, Generalist**

"Trade, dollar strength." **Buy Side, Generalist**

"New products and sales, new accounts." **Buy Side, Generalist**

"Price leverage." **Sell Side, Industrials**

Views from Europe

"Are they seeing signs of weakening demand? Are competitors reducing prices? Have banks' attitudes to lending changed?" **Buy Side, Generalist**

"Future outlook." **Buy Side, Generalist**

"How to find long-term organic growth in sectors and by own initiatives." **Sell Side, Industrials**

"Growth, growth and growth. With new products, clients or markets. If I have to discuss debt levels, it is mostly a futile discussion." **Sell Side, Industrials**

"Risk management strategies: What are you going to do when there is no trade deal with China?" **Sell Side, Industrials**

Views from Asia-Pacific

"Cost control initiatives." **Sell Side, Industrials**

Top Concerns from Around the Globe *(unaided)*

For the fourth consecutive quarter, focus remains on the global economy, tariff impact, the U.S. election and Brexit; new themes emerging this quarter include apprehension toward monetary and fiscal policy shifts

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60%	59%	32%	23%	19%	14%
Global economy	Trade war	Trump/U.S. election	Brexit	Monetary/fiscal policy	Recession

Views from N. America

"No second half rebound, when implicit in certain guidance figures, continued uncertainty, auto/semi exposure." **Buy Side, Generalist**

"Political risks, China trade, Iran tensions." **Buy Side, Generalist**

"Trade, inventories, capex spending." **Buy Side, Generalist**

"Trade, business confidence, business investment." **Buy Side, Generalist**

"Talking ourselves into a recession, unemployment, election." **Buy Side, Generalist**

"Impact of U.S.-China economic slowdown on rest of world, lack of fiscal stimulus in face of negative rates, end of cycle." **Buy Side, Generalist**

"Business uncertainty from tariffs, China, Europe." **Buy Side, Generalist**

"Trump, slower growth outside U.S., labor." **Buy Side, Generalist**

"Tariffs, Brexit, geopolitical fallout." **Buy Side, Generalist**

"Trade war." **Buy Side, Industrials**

"Labor, inflation, immigration." **Sell Side, Industrials**

"U.S.-China, European economic weakness, Brexit." **Sell Side, Industrials**

Views from Europe

"Recession in Germany and the rest of Europe, further PMI declines in the U.S., deterioration in U.S. consumer confidence." **Buy Side, Generalist**

"Not-predictable shocks, Trump's tweets, populism." **Buy Side, Generalist**

"Global recession, trade war, Brexit." **Buy Side, Generalist**

"Trade, slowing growth, credit." **Sell Side, Industrials**

"Interest rates / finance industry, Trump and Iran." **Sell Side, Industrials**

"Hong Kong / Taiwan / trade deal, Brexit, too much monetary easing in the U.S." **Sell Side, Industrials**

Views from Asia-Pacific

"No new demand, U.S.-China conflict, Brexit." **Sell Side, Industrials**

"Growth, inflation, monetary policy error." **Sell Side, Industrials**

More than Half Expect Flat to 2% Organic Growth in 2019; Small Percentage Remain Hopeful for 3%

Despite tempered organic growth expectations, most don't expect a U.S. recession for 24 months; investors overwhelmingly place the most emphasis on Manufacturing ISM as the top economic indicator and, to a lesser extent, unemployment and CPI

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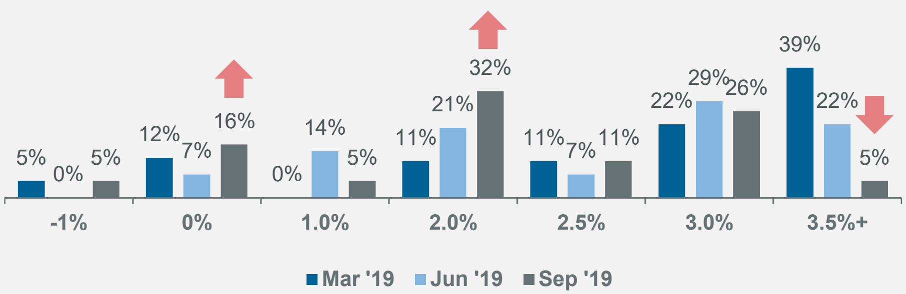
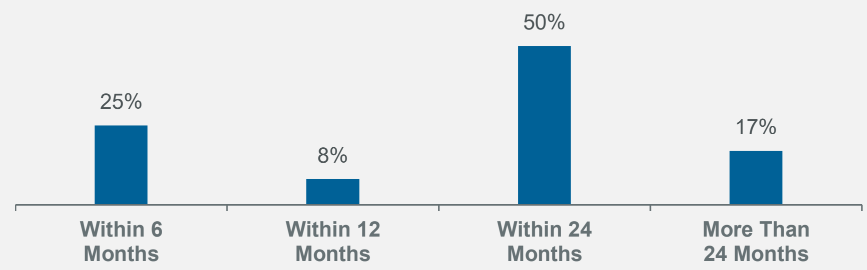
2019 ORGANIC GROWTH EXPECTATIONS



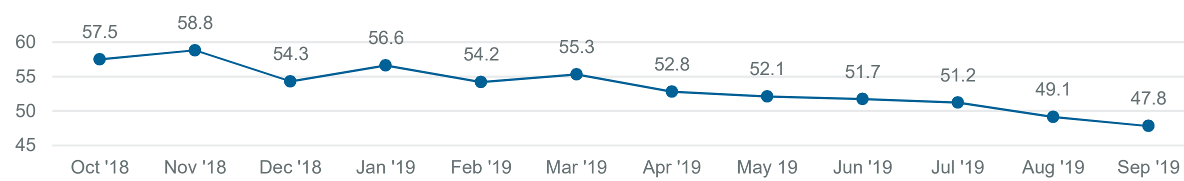
U.S. RECESSION PREDICTION



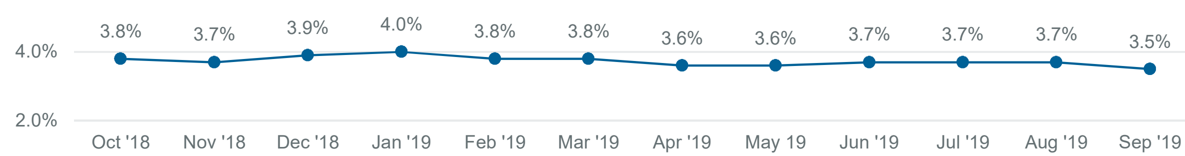
Proprietary Research: According to our survey, investors most focused on the following economic indicators

1	Manufacturing ISM®	79%
2	Unemployment	37%
3	Consumer Price Index	16%
4	Cass Freight Index	11%
5	Consumer Confidence	11%
6	Copper Prices	11%
7	EPS	11%
8	GDP	11%
9	Housing Starts	11%
10	Stock Market	11%

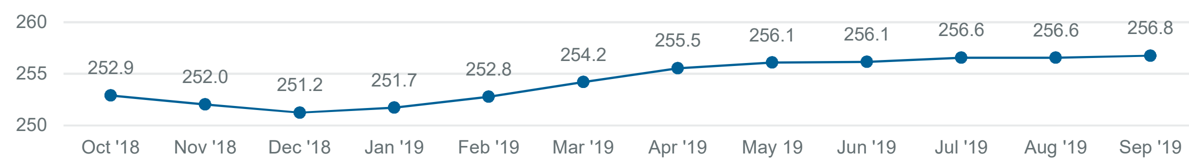
Manufacturing ISM® Report on Business[1]



U.S. Unemployment Rate[2]



Consumer Price Index[2]

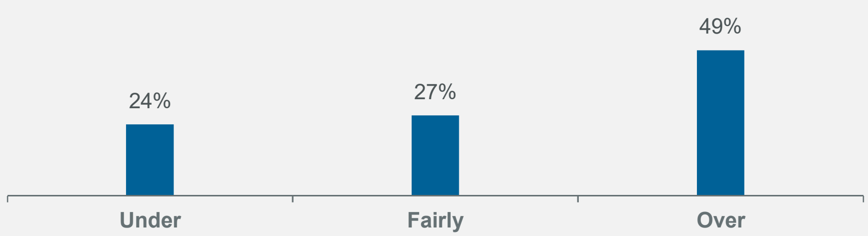


[1] Source: Institute for Supply Management
[2] Source: U.S. Bureau of Labor Statistics

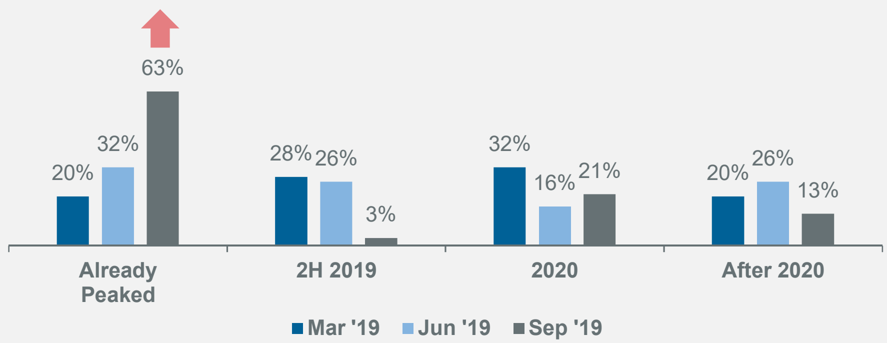
Broad-based Agreement that the Best Days are Behind Us and Industrials are Overvalued

Investors largely report *Holding* or *Rotating* within the Industrial universe and are most looking for companies adept at cost-cutting, those who have meaningful North American exposure, are pure plays or have a strong aftermarket component

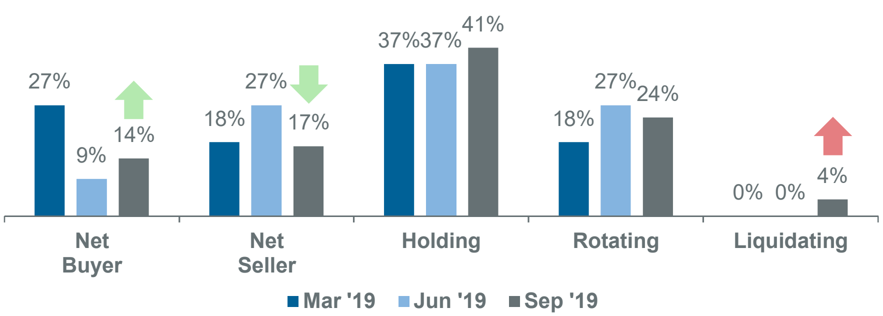
GLOBAL INDUSTRIAL VALUATIONS



INDUSTRIAL EARNINGS OUTLOOKS



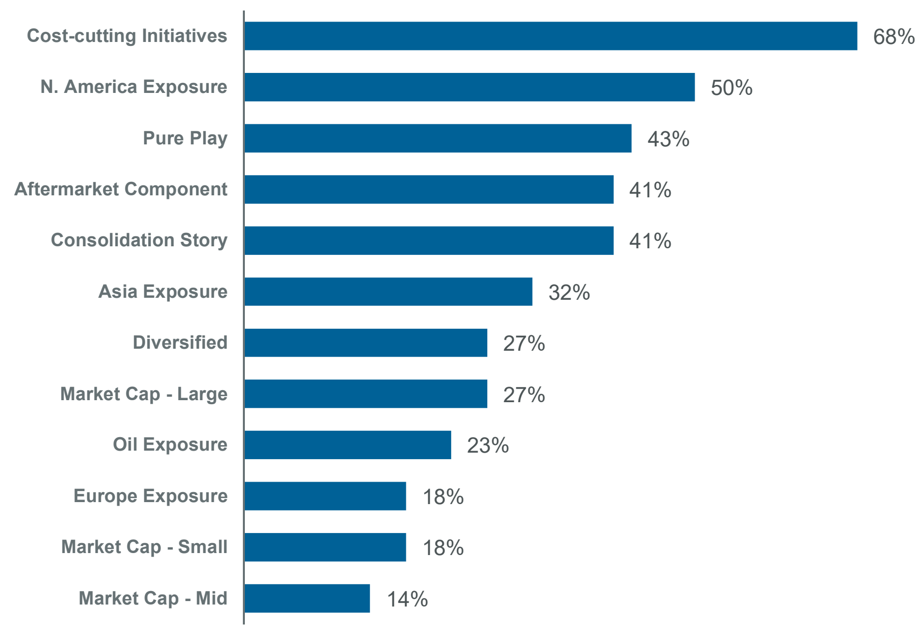
QoQ INVESTMENT TRENDS



Top Measures to Evaluate Downside Risk

1	Balance Sheet Strength	60%
2	Sensitivity Analyses	45%
3	Recurring Revenue	30%
4	Operating Leverage	30%
5	Multiple Compression	20%

MOST COMPELLING INVESTMENT THEMES WITHIN INDUSTRIALS

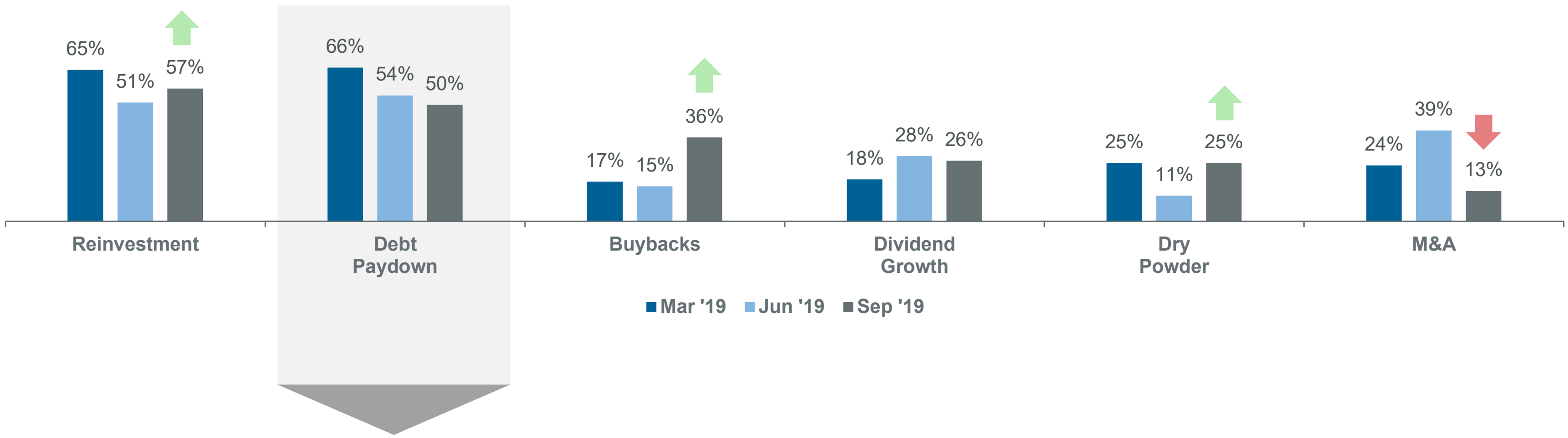


Organic Growth Investments Favored, while Sensitivity around Debt Remains at 2.0x or Below

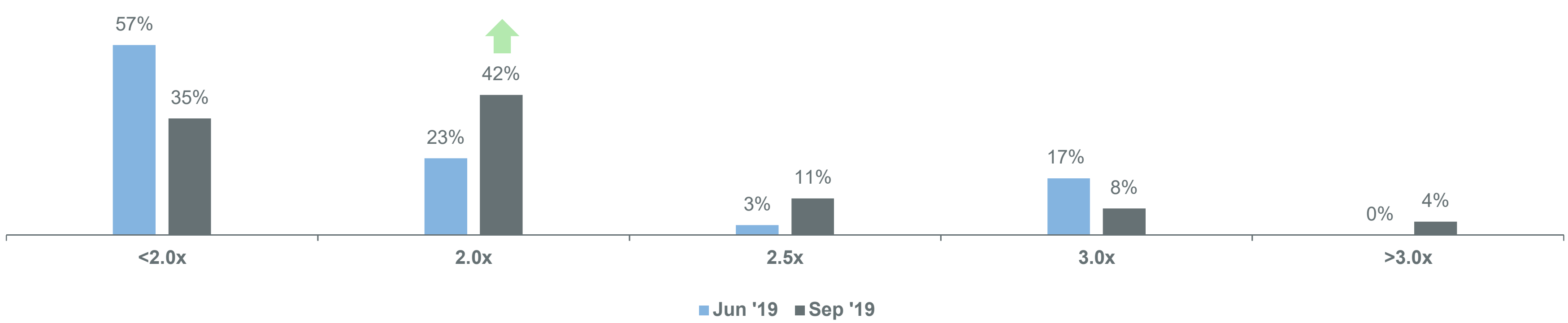
An increasing percentage also favor buybacks or dry powder; while 40% note consolidation is a compelling investment theme, appetite for M&A at this point in the cycle is significantly lower

PREFERRED USES OF CASH FOR INDUSTRIALS

In Descending Order of Top Two Preferences



PREFERRED NET DEBT-TO-EBITDA LEVELS FOR INDUSTRIALS



Global Economies Largely Expected to Worsen Over the Next Six Months

Europe and Brazil see record-low sentiment, while India and Japan are the only two regions with more expecting an improving economy than worsening; future U.S. economy sentiment is decidedly mixed

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GLOBAL ECONOMY EXPECTATIONS OVER THE NEXT SIX MONTHS

80% Are *Not* Concerned or Only *Somewhat* Concerned about Brexit
vs. 74% last quarter

U.S.

Improve	Worsen
36%	40%
+19 pts	UNCH

MEXICO

Improve	Worsen
20%	32%
+3 pts	+5 pts

LATIN AMERICA *(EXCL. BRAZIL)*

Improve	Worsen
16%	44%
-1 pt	+4 pts

BRAZIL

Improve	Worsen
28%	52%
-15 pts	+19 pts

EUROZONE

Improve	Worsen
16%	60%
-1 pt	+17 pts

CHINA

Improve	Worsen
28%	48%
+8 pts	-9 pts

JAPAN

Improve	Worsen
24%	20%
+4 pts	-7 pts

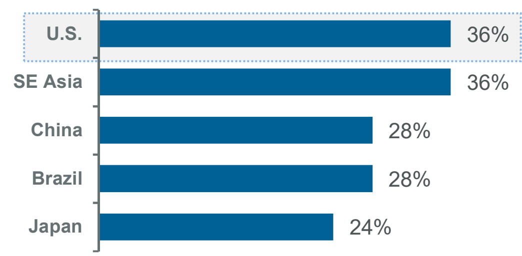
INDIA

Improve	Worsen
24%	20%
-6 pts	+7 pts

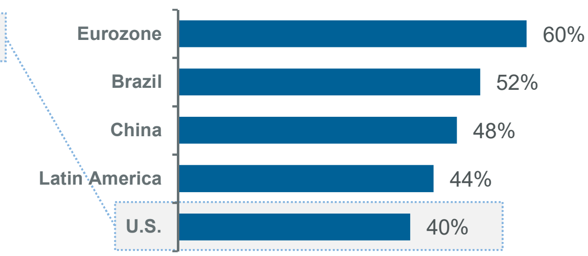
SOUTHEAST ASIA

Improve	Worsen
36%	32%
-1 pt	+12 pts

TOP 5 – IMPROVING



TOP 5 – WORSENING



Expectations Over the Next Six Months

Continued downbeat expectations for global capex and global PMI, the top cited recession indicator; notable negative changes in sentiment toward Oil & Gas and Construction identified

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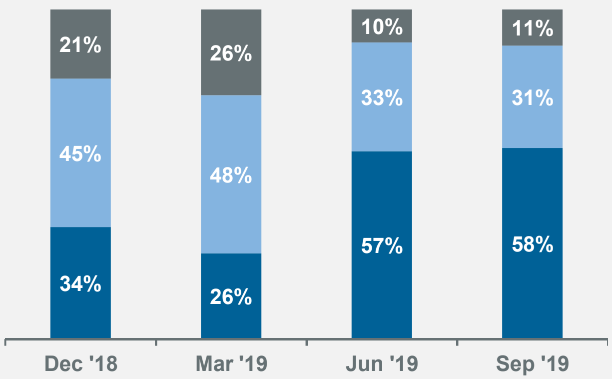
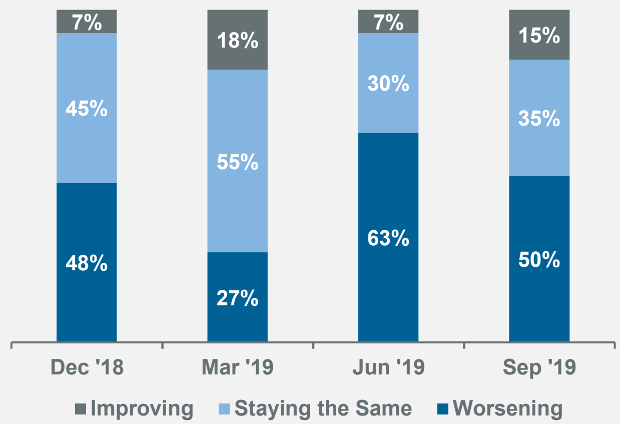
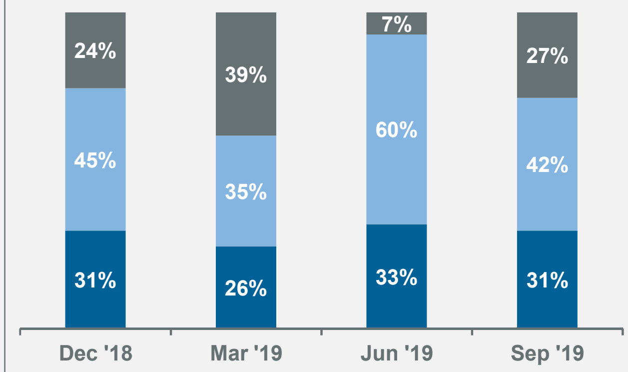
GLOBAL CAPEX



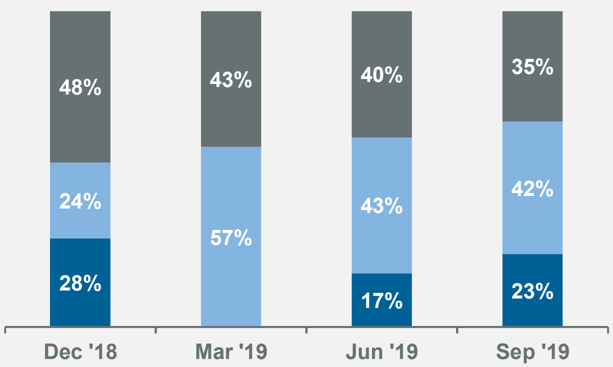
GLOBAL PMI



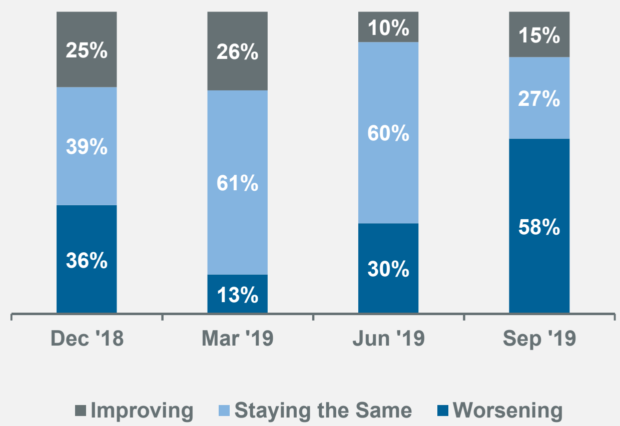
COMPANY INPUT COSTS



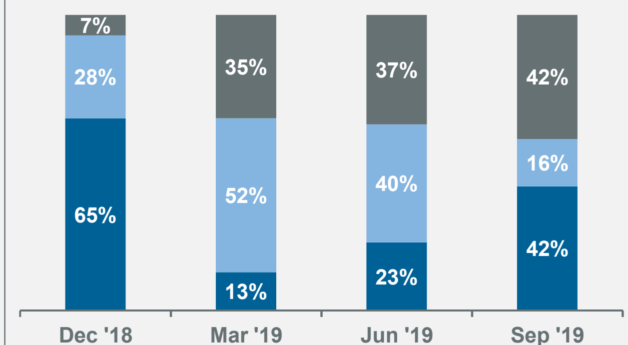
OIL & GAS MARKETS



NON-RESI. CONSTRUCTION

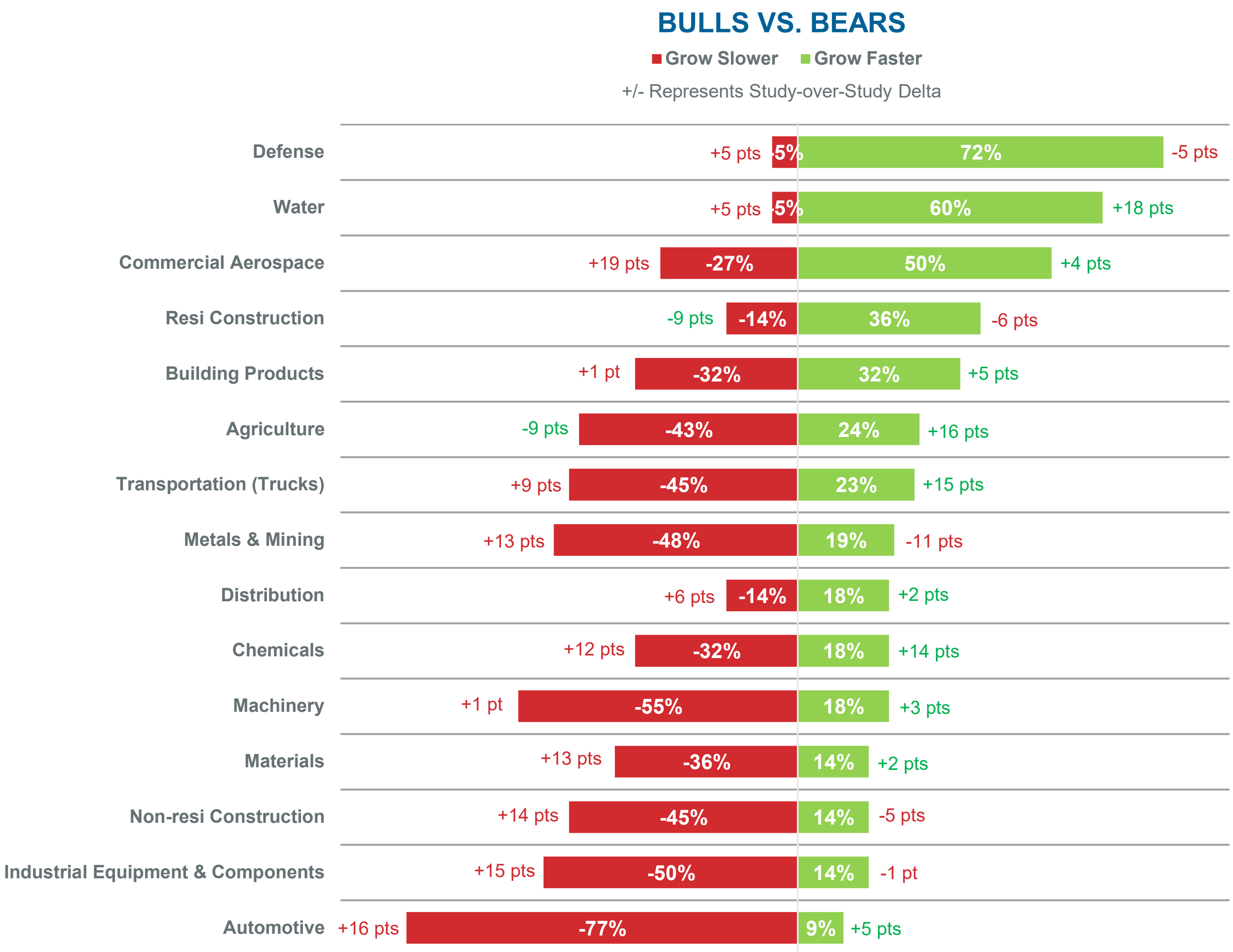


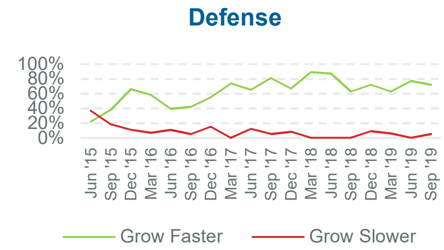
RESI. CONSTRUCTION

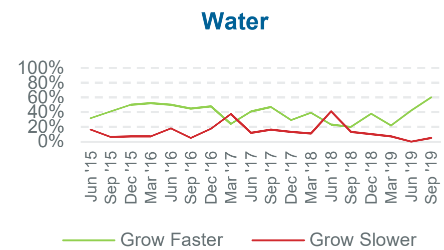


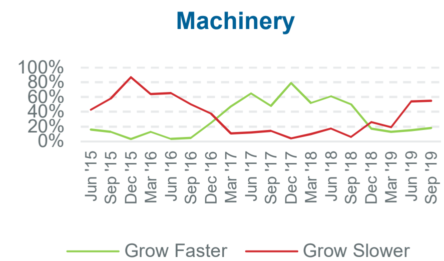
Defense Continues to Fly High, While Auto Remains in Reverse

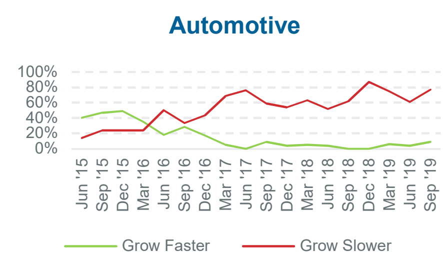
For the 8th consecutive quarter, Defense remains the top pick among industries; Auto continues its record-losing streak, representing the 14th consecutive quarter with the most bearish sentiment











Recommended Communication Strategies

Inside The BUY-SIDE®

Key to more effectively communicating your story is understanding the perceptions and expectations of the financial community globally, as well as maintaining a strong pulse on executive commentary during and following earnings season to help ensure your tone and messaging is appropriate for your company's performance within the context of broad-based market trends and sentiment.

Companies must be aware of increasingly bearish views amid slowing growth and heightened sensitivity around the cycle. Effectively communicating the initiatives you are taking to position your company amid slowing growth, including capex reprioritization, cost controls and capital allocation changes, is critical to minimizing downside risk.

When faced with uncertainty and cycle-driven concerns, investors fear the worst and look for investments with defensive, stable characteristics, including portfolio and geographic diversity, high recurring revenue, and balance sheet strength. Management teams with experience navigating downcycles can lead to increased investor conviction. To ensure you are effectively positioning your company this earnings season and beyond, a few recommendations to consider:

Leverage the earnings call to tell your story

The earnings call is one of the most powerful tools within a company's control to broadly and clearly disseminate essential information. Four times a year, management has the ability to leverage this platform to reinforce strategy, address knowledge gaps and misperceptions, educate the financial community on fundamentals and control the narrative. We recommend linking quarterly performance to long-term strategy and near-team initiatives, incorporating rich content on execution against plan.

Provide scenario/sensitivity analyses to better frame your story

According to proprietary research, investors are most focused on the impact decelerating growth will have on profitability, EPS and free cash flow. Communicating sensitivity cases based on a bull, base and bear case scenario is best practice. We recommend companies analyze historical revenue sensitivity to GDP to construct and communicate an analysis that explores the resulting impacts on margins, free cash flow generation, net income and leverage, as well as potential actions your company would take under various scenarios; by providing guardrails, investors can better align with company performance.

Recognize the importance investors place on strong FCF generation

Across over 11,000 interviews, free cash flow is ***the*** leading metric investors use to evaluate companies irrespective of industry. Notably, in our ongoing analysis of investor communication materials, this is an oft under-highlighted theme. Should your company generate strong, consistent and/or recurring FCF, we recommend developing a narrative around this capability, highlighting balance sheet strength, working capital effectiveness and strong cash conversion, as appropriate, while also emphasizing the link to impactful capital deployment.

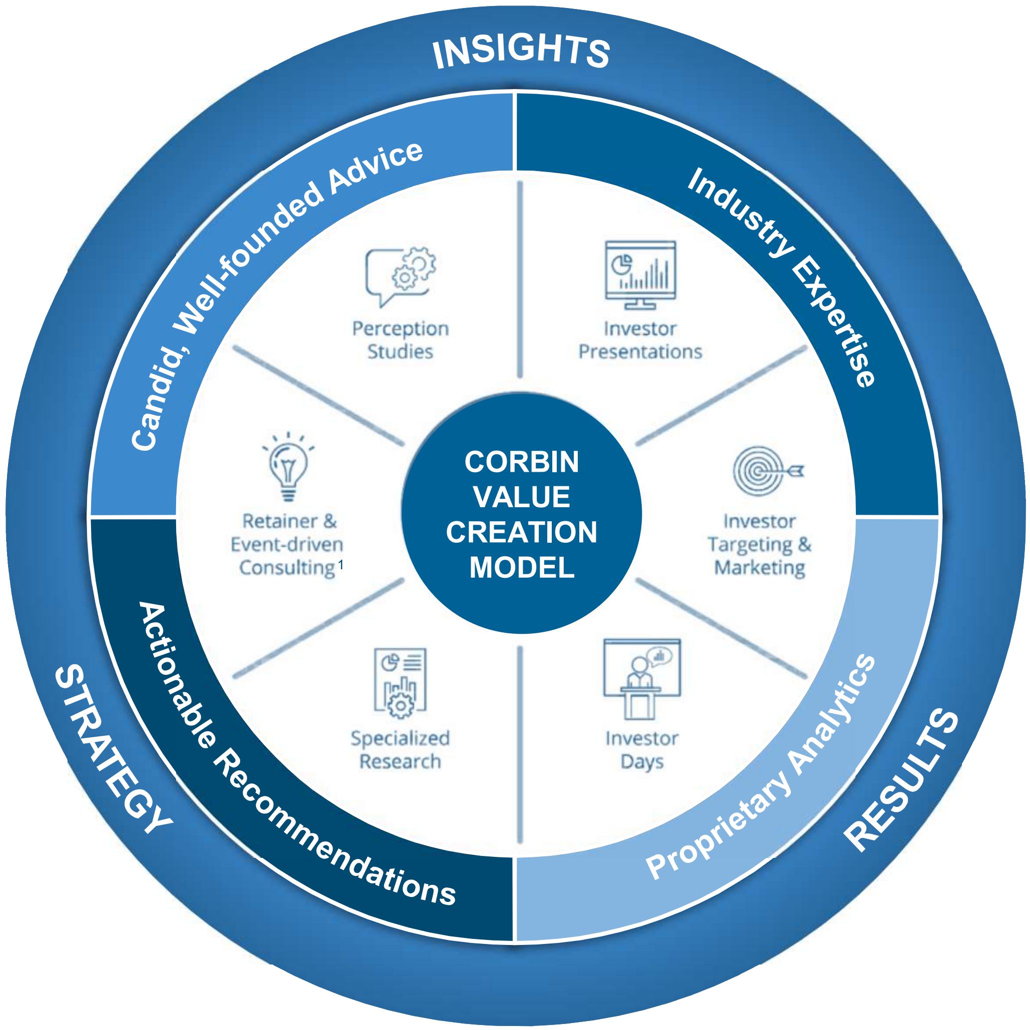
Be aware of cautious investor sentiment toward elevated debt levels

Notably, investors sensitivity to debt levels has grown commensurate with views that we are late cycle. According to our research, investors were comfortable with 3.0x Net Debt-to-EBITDA levels in 2016 but are now reporting that sub-2.0x is ideal. Valuation discounts are more pronounced for companies with elevated debt levels. At this point in the cycle, we recommend companies prioritize debt paydown, as appropriate, and communicate a long-term target range. As well, communicating debt maturity schedules is also a recommended best practice.

Our proprietary approach combines stakeholder research, investor engagement and communication strategies to unlock embedded value.

Leveraging deep experience across sectors, market-caps and various company situations, we engage with public companies on both high-level strategy and tactical execution.

Our candid advice and actionable recommendations consistently result in value creation.



[1] Underperformance; Earnings; Large-Platform M&A; Transformations