

INSIDE THE BUY-SIDE®

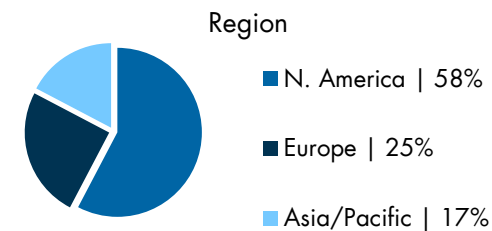
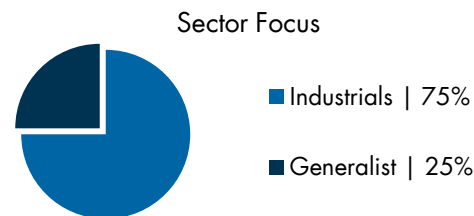
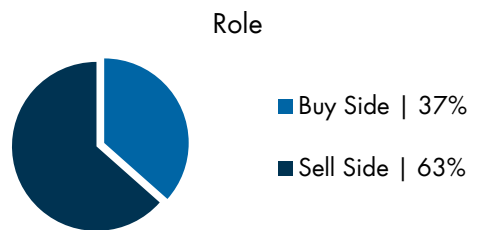
INDUSTRIAL SECTOR SENTIMENT SURVEY | ISSUE DATE: OCTOBER 1, 2015

In the second installment of Corbin Perception's Industrial Sector Sentiment Survey, we pulsed investor and analyst views heading into the third quarter earnings season.

Our survey², comprising input from 52 investors and analysts globally who follow the industrial sector, reveals a significant reversal in sentiment; from neutral/bullish in June to categorically bearish in September, as concerns about China contagion and the continued negative impact of oil and gas intensify. While contributors have seemingly priced in an earnings recession, they largely remain in a holding pattern, with some interesting sector trends emerging.

Participant Stats

Contributing buy side firms manage \$1.8 trillion in total assets and have \$97 billion invested in industrials as of June 30, 2015³.



¹ As of September 30, 2015

² Timeframe: September 1 - 16, 2015

³ Source: Thomson Reuters

	Price Performance ¹	
	S&P Industrials	S&P 500
Month-to-date	(2.0%)	(2.6%)
Year-to-date	(11.2%)	(6.7%)
One-year	(5.8%)	(2.9%)

About Corbin Perception

Corbin Perception is a leading investor research and integrated IR advisory firm assisting public companies with creating long-term shareholder value.

We leverage our broad company and industry experience, knowledge of best practices and benchmarking capabilities to provide research-driven counsel that enables our clients, mega-caps to micro-caps worldwide across diverse sectors, to differentiate their company as an investment.

Our industry-leading research, Inside The Buy-side®, which tracks changes in investor sentiment, is covered by news affiliates worldwide and featured regularly on CNBC's Squawk on the Street.

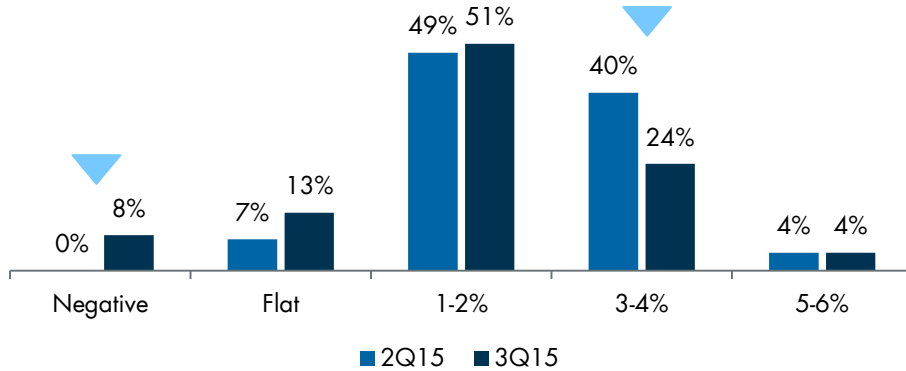
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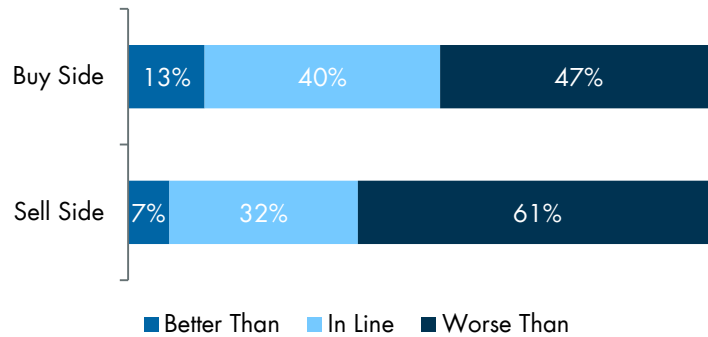
Our Survey Yields Four Key Industrial Sector Findings:

#1: Industrial Sentiment Has Significantly Deteriorated Amid Intensified Global Growth Concerns; Negative Views Largely Correlated With Increasingly Bearish Management Tone

What Are You Looking For Industrials To Achieve For FY15 Organic Growth?



What Do You Expect For 3Q15 Earnings?



Representative Quotes

Better Than

"China's problems are overestimated." Buy Side | N.A.

In line

"There are negatives in China but positives out of Europe." Sell Side | Europe

"The expectations are already coming down ahead of reports." Sell Side | Europe

"Lower commodity prices will help." Sell Side | Asia

Worse Than

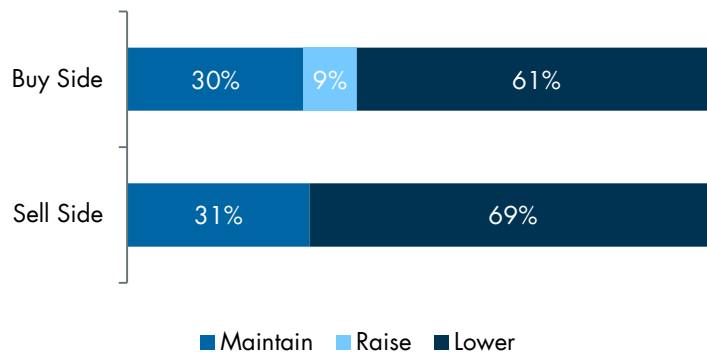
"We see continued weakness in short-cycle indicators plus uncertainty caused by volatile oil prices and China headlines." Buy Side | N.A.

"China, industrial distribution de-stocking and energy capex are driving down expectations." Sell Side | N.A.

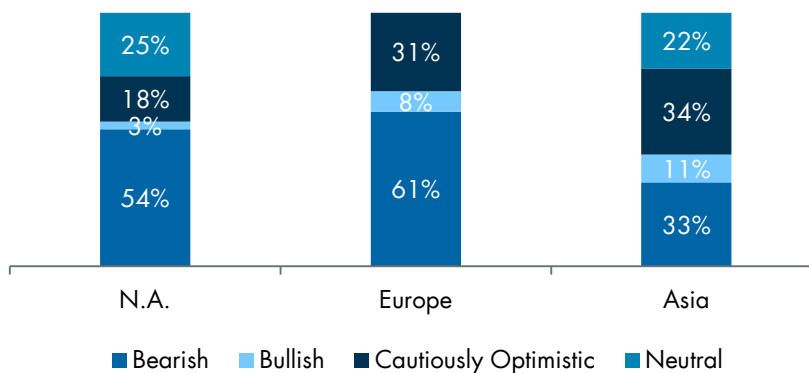
"Slow growth in emerging economies, currency and oil prices." Sell Side | Europe

"Asian de-stocking in wake of China's weakness." Sell Side | Europe

Regarding 2015 Guidance Updates, What Do You Expect The Bias To Be?

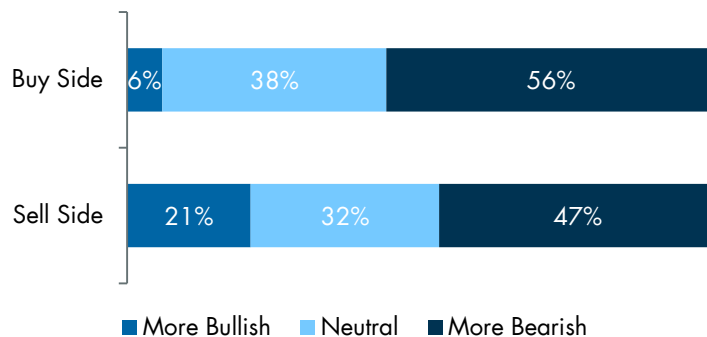


How Would You Describe Management Tone?



- Notably, 39% describe management tone as "more bearish" quarter-over-quarter; 56% of the buy side report this trend compared with only 31% of the sell side

How Would You Characterize Your General Sentiment Toward Industrials?



- In total, greater than half of survey participants describe their view as “more bearish”, citing:
 - 67% | China growth and potential contagion
 - 50% | Oil & Gas headwinds
 - 38% | Slowing demand
 - 38% | Emerging market growth (ex-China)
 - 38% | Expectations for additional negative earnings revisions
- Of note, concerns around monetary policy tightening are subdued with less than 15% identifying it as a factor in their negative outlook

Representative Quotes

More Bullish

“Cheaper valuations, depressed levels.” Buy Side | Europe

Neutral

“The stocks already reflect the more bearish sentiment that is already out there.” Buy Side | N.A.

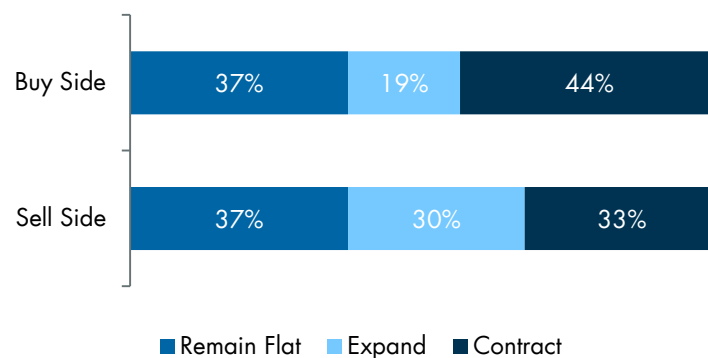
More Bearish

“I am becoming more cautious overall; some areas within industrials may do okay.” Buy Side | N.A.

“Commodity prices are low and capex needs to adjust to where commodities prices are.” Buy Side | N.A.

#2: Investors Bracing For Valuation Stagnation And Largely Holding Steady; Sector Trends Remain Intact With Some New Bright Spots

For The Remainder Of 2015, What Do You Expect Industrial Valuations To Do?



Representative Quotes

Remain Flat

“I expect the multiple will be flat. Overall, company values will get lower. Earnings will decrease because industrials as a whole have been hanging on to the oil and gas business for growth for the last several years and that is not sustainable.” Buy Side | N.A.

"We expect an increasing polarisation between the stocks with any top-line momentum and those who are going backwards, particularly in Mining and Oil & Gas. In a no-growth environment, cash-rich companies will buy growth and synergies and we expect much more M&A." Sell Side | Europe

Expand

"Considering the recent setback, valuations are compelling in particular considering next year's accelerated growth in the Eurozone, which should overcompensate soft patches in emerging economies." Sell Side | Europe

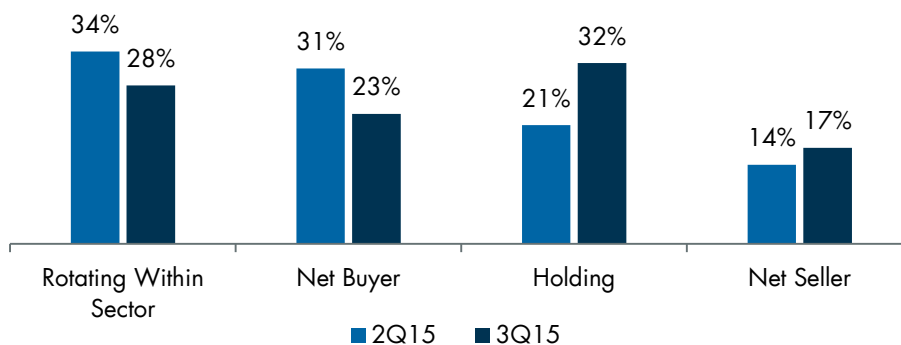
"Industrials will perform well on the back of lower oil prices and other commodity prices and thereby improve valuations." Sell Side | Asia

Contract

"Oil & Gas second derivative effects on non-residential construction are larger than expected. China is still softening. Organic growth is spotty and decelerating. I don't expect the stocks to trade down significantly from here but with 4Q guidance probably coming in, 2016 guidance will probably be lower than investors currently believe and multiples are not compellingly cheap. There doesn't seem to be many catalysts yet to bring investors' money back to the industrial names near term. At least the FX headwind neutralizes itself in 2016." Buy Side | N.A.

"Investors continue to expect a revival in the investment climate, which would in turn translate into order book improvement. Since this is expected to be delayed, the anticipated margin recovery would also be impacted." Sell Side | Asia

How Would You Describe Your Recent Investment Activity?

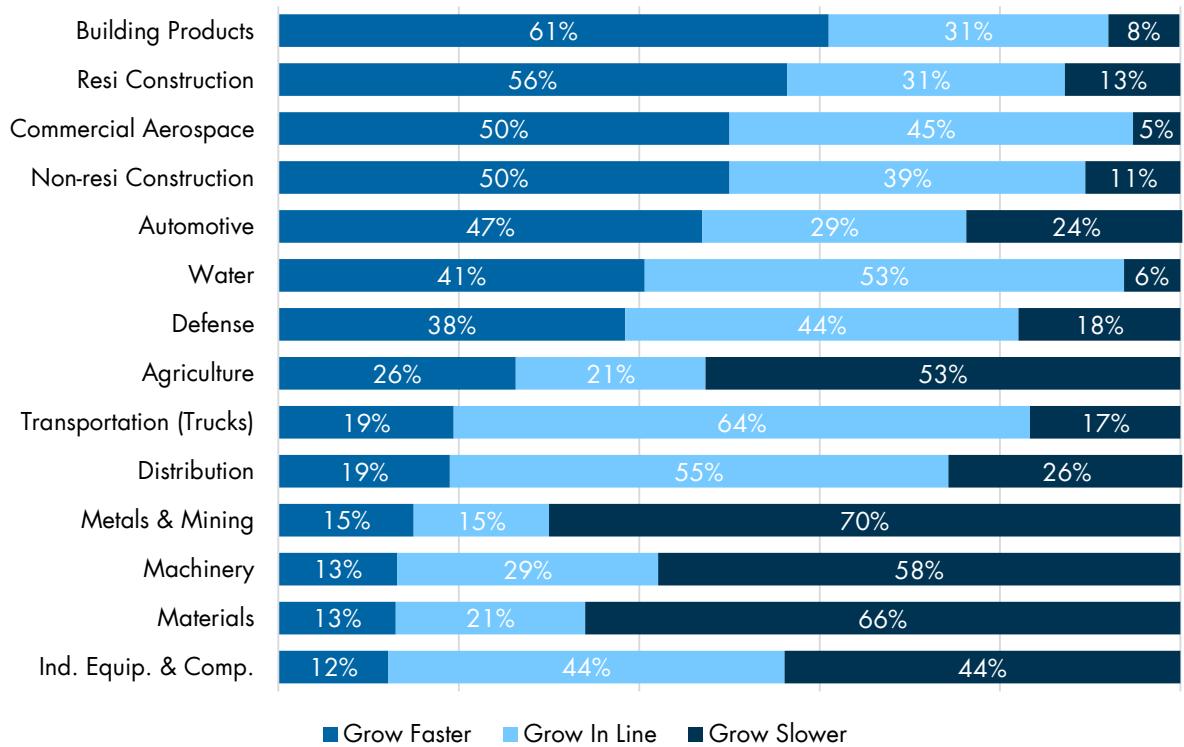


Representative Quotes

"We sold out of 95% of our Industrials holdings by early spring 2015. We are waiting for entry points back in but are not there yet." Buy Side | N.A.

"No new good investment opportunity in sight as well as I don't want to sell in case of sector recovery, the alpha can be generated. Thus, holding on to what is there in the portfolio." Buy Side | Asia

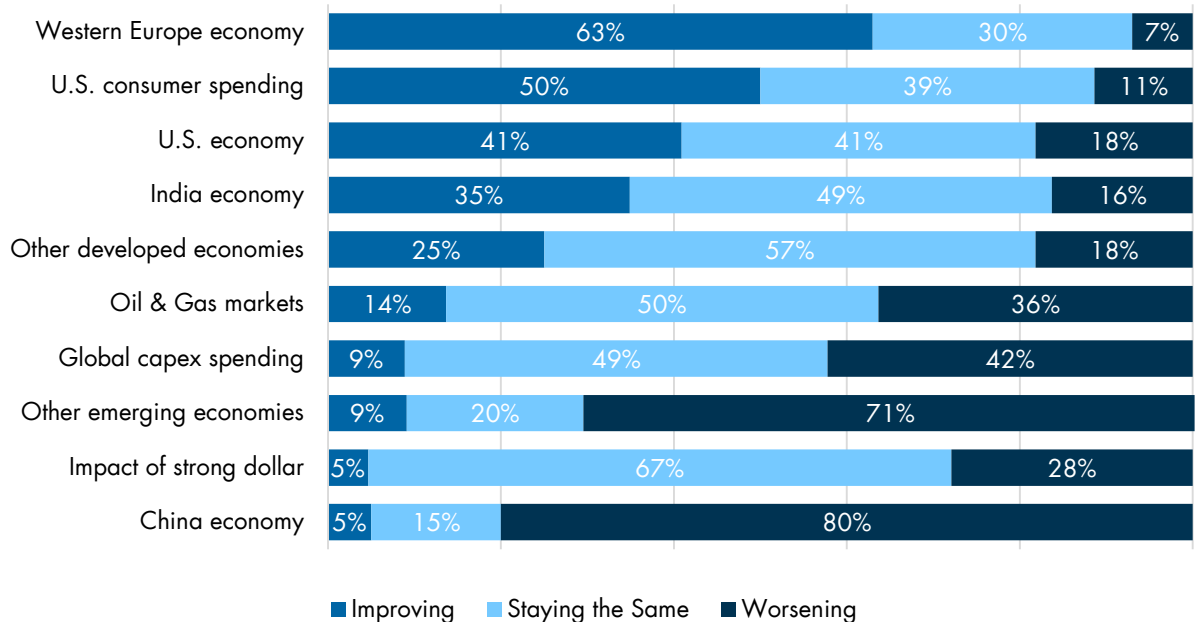
How Do You See End Markets Performing Relative To Global GDP Over 12 Months?



- Building Products and Construction maintain their dominance while Metals & Mining, Materials and Machinery are seen as the most challenged
- Defense and Water witnessed the largest increases in positive sentiment quarter-over-quarter

#3: China Concerns Real And Dominating Sentiment; Fears Are Playing Out

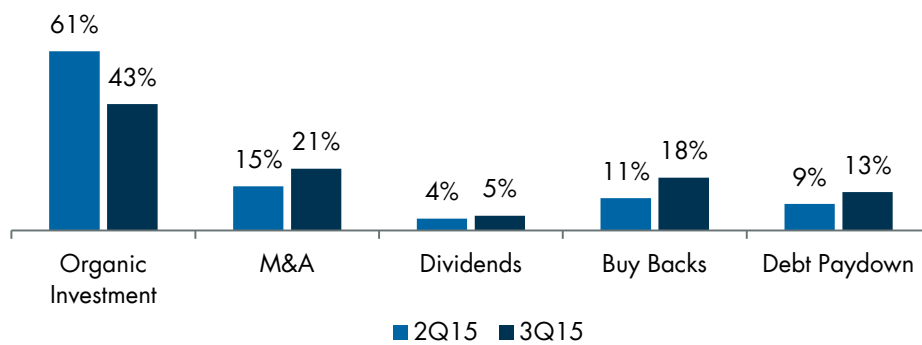
Looking Out Over The Next Six Months, How Do You See These Issues Progressing?



- First reported in the June survey, contributors are even more concerned about China growth; last quarter nearly 60% forecasted that the world's second-largest economy would worsen over the next six months
- 95% of contributors report being *moderately* to *very concerned* about contagion risk while concerns around global capex spend have doubled quarter-over-quarter
- Asia-based investors are most apprehensive about GDP and FX headwinds, more so than U.S. and European counterparts

#4: Capital Allocation Preferences By Region Underscore Significant Differences

For Industrials Generally, What Is Your Preferred Use Of Excess Cash?



- U.S. and European contributors favor organic investment while Asia counterparts largely rate debt reduction their first priority
- M&A is chiefly supported by U.S. contributors

In closing, as companies prepare for a highly anticipated earnings season, our ongoing best practice research indicates the financial community is most interested in management addressing the following elements on the earnings call:

