

A background image showing a rowing team in a boat, with several oars visible. The oars have yellow and blue handles. The image is slightly blurred and has a dark overlay.

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Inside the
BUY-SIDE®

3Q16 Earnings Primer

October 6, 2016

Inside The Buy-side® 3Q Earnings Primer

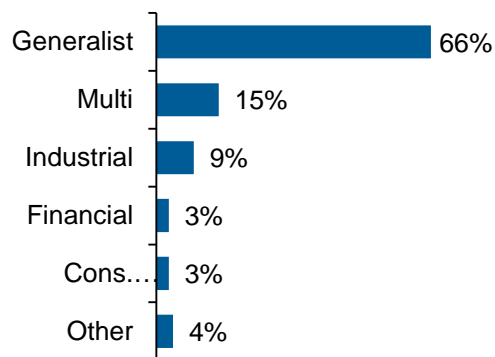
- We survey institutional investors and sell-side analysts quarterly to gauge and track sentiment on topics pertaining to the earnings season, global economy and market drivers
- We share our research broadly with corporate executives, investor relations (IR) professionals and investors
- Survey scope: 89 investors globally managing over \$1.1 trillion in assets
- Survey timeframe: September 20 to October 3, 2016

Market Performance¹

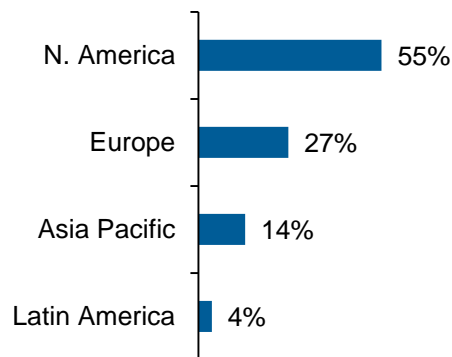
	<u>3Q16</u>	<u>One-Year</u>
DJIA	2.1%	12.4%
NASDAQ	9.7%	15.0%
S&P 500	3.3%	12.9%
Russell 2000	8.7%	13.7%

¹ As of 9'30'16

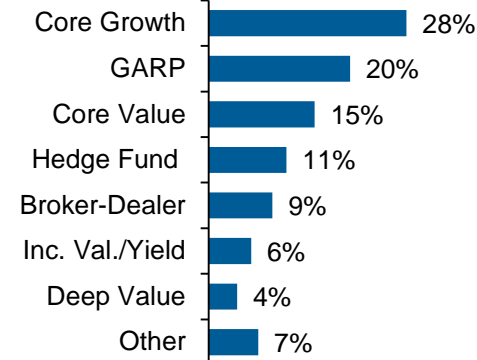
By Sector



By Region



By Style





Note: Almost all comments were communicated in a negative context

Market Psychology Is A Major Factor In Understanding The Current Environment

In June 2015, our survey identified that Asia-based investors were roughly 3.5x more concerned about earnings of China corporations than their regional counterparts. In late August that year, markets witnessed the first of many seismic tremors, as Asia markets tumbled and raised serious concerns about slowing global growth as the 3Q15 earnings season got underway.

Our December survey captured the highest and broadest level of concern about earnings, what we described as the “Wall of Worry”. Investor fears about a slowdown were subsequently confirmed by management’s downbeat tone and relatively subdued 2016 guidance provided in January. This led to equity markets reaching a nadir in mid-February. But, as is the case with market psychology, investors were relieved when that uncertainty became instead the reality, leading to a much-needed reset in expectations and consensus. Ahead of first quarter earnings results, a “new normal” was established.

Second quarter earnings were a breath of fresh air, as a significant number of companies handily beat [“low bar”] expectations and the din of slowing growth was somewhat pushed to the side. Where 2H15 was plagued by massive shocks to the markets, 2H16 has seen relatively low volatility save for the Brexit surprise.

Heading into 3Q16 earnings season, we remain in a slow[ing] growth environment -- one that we describe as “slow-motion,” with every quarter providing more evidence that we are indeed falling. Certain industries have been operating in a recessionary environment for years while investors as of late are calling for a cycle roll-over in other industries (auto, housing and trucking, to name a few). All the while, equity markets are at all time highs because of a lack of other investment alternatives. A stock picker’s market will again emerge when the dust settles as it gets harder and harder for companies to eek out growth. Thus, the stage is set for our survey findings this quarter.

#1

“New Normal” In Effect As Investors Expect (“Low-ball”) Earnings To Be In Line To Better Than Consensus

- Margin and growth outlooks have largely stabilized and 45% expect EPS growth to improve QoQ
- The number of investors expecting worse than consensus results is about half that of 2Q16

#2

Majority Of Investors View Markets As Fairly Or Overvalued; Are We In For A Correction This Earnings Season Or Is It Priced In?

- Concerns mount around global growth, central bank policy, debt levels (both private and public) and deteriorating consumer confidence (the latter two being new)
- Fears about Trump in the White House are prominent and findings continue to indicate that a Trump win would be negative for markets
- Management tone is described as more cautious; notably, the number of companies lowering annual guidance is typically highest in the third quarter

#3

Interestingly, Sentiment On Emerging Markets (ex-China) Is Much Improved

- Investors more optimistic on emerging market economies following several quarters of bearishness
- Most bullish: SE Asia & India (survey prior to India’s CB rate cut, which cited cooling global growth)
- Most bearish: China & Japan

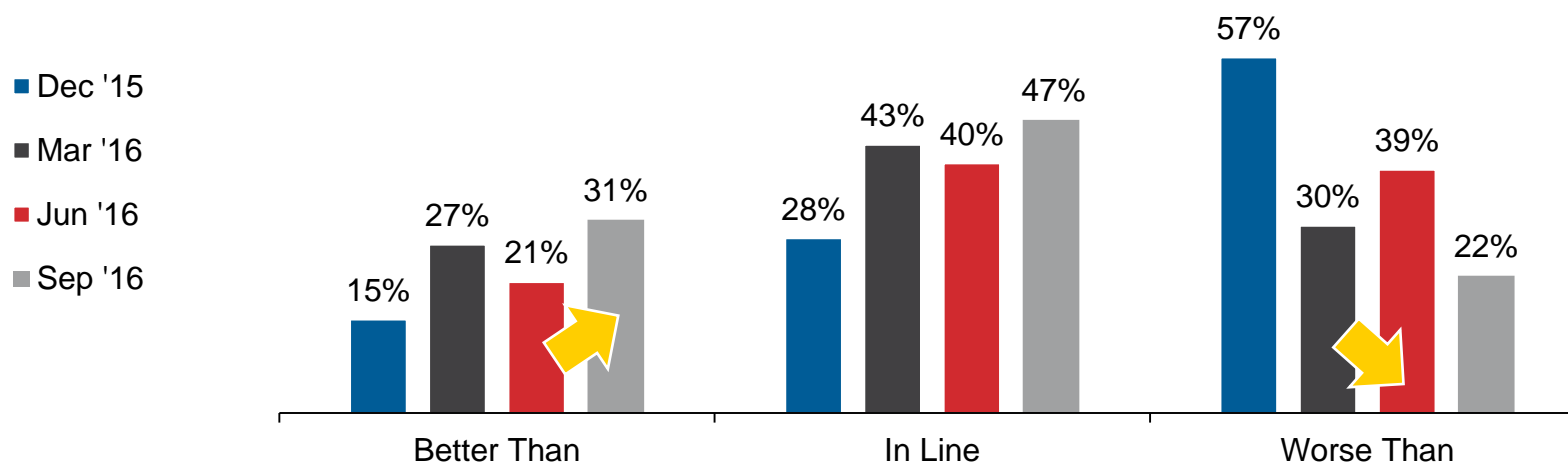
#4

Risk On – High Beta Sectors Make A Comeback

- Investors are once again bullish on Tech and Healthcare while Biotech saw the biggest spike in sentiment
- Views are divided on Financials, Energy and Industrials

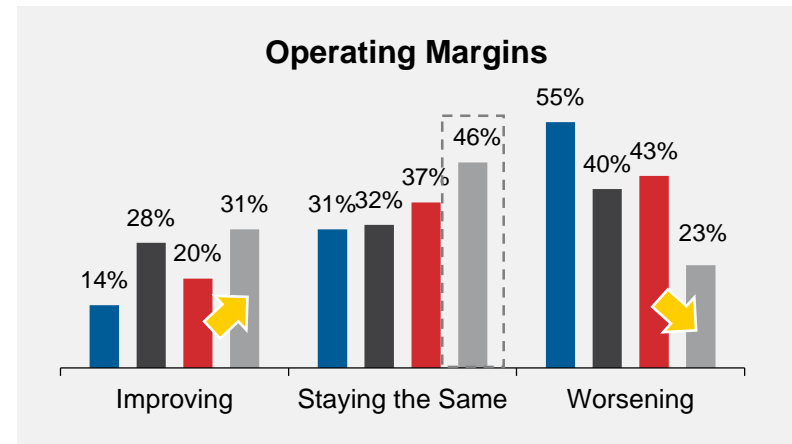
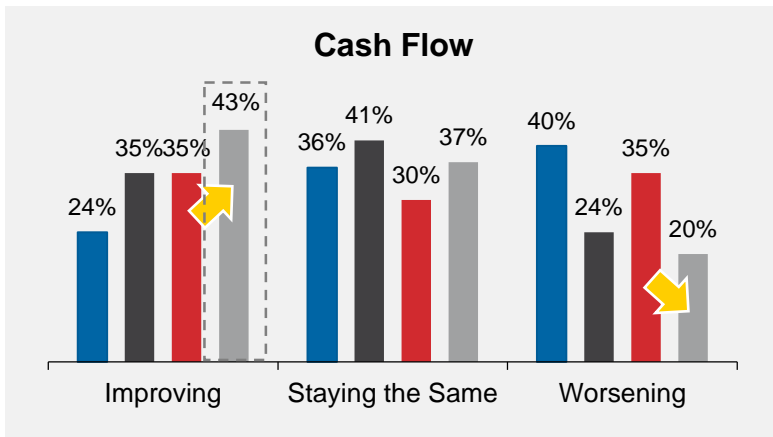
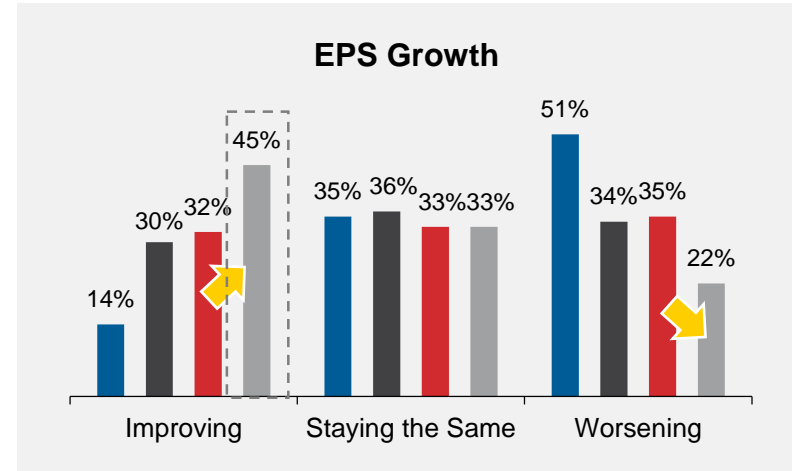
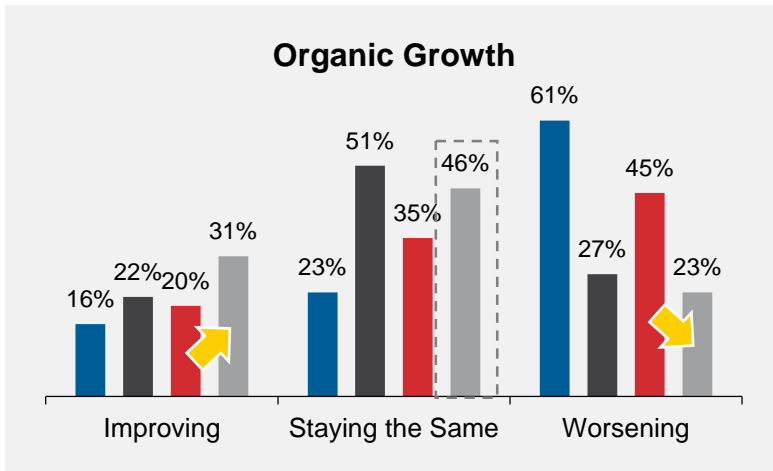
Investor Sentiment Rises To **Highest Level In A Year** But Off Reset Expectations

Expectations Regarding 3Q Earnings Performance Relative To Consensus



- 3Q earnings predicted to largely be in line to better than consensus, albeit based on “low bar” expectations
- 49% expect results to improve QoQ, in a period that saw expectations reset
- Across the globe, expectations for in line performance are prevalent except for Europe, where results are predicted to be ahead of consensus

As Organic Growth And Margin Outlooks Stabilize, EPS Growth Expectations Trending More Positive



■ Dec '15 ■ Mar '16 ■ Jun '16 ■ Sep '16

Straight From The Buy Side: **Earning Expectations**

Better Than

“Typical beat and raise vs. low-ball expectations. Absolute ROA growth will be low.” **Buy Side, Generalist, N. America**

“Companies always reset the bar lower and then beat by a few percentage points.” **Sell Side, Consumer Discretionary, N. America**

“Stable economic conditions and loose monetary policy.” **Sell Side, Generalist, Europe**

“Cost cutting and liquidity.” **Buy Side, Generalist, Asia**

“Currency, oil prices and inventory restocking.” **Buy Side, Generalist, Asia**

In Line

“Declining revenue trend and increasing costs.” **Buy Side, Generalist, N. America**

“In line is actually pretty poor but should be manageable.” **Sell Side, Generalist, N. America**

“Seasonal sequential factors. Generally speaking, 3Q should be similar to 2Q which was fine but not incrementally positive.” **Sell Side, Consumer Discretionary, N. America**

Worse Than

“Slower consumer growth.” **Buy Side, Generalist, N. America**

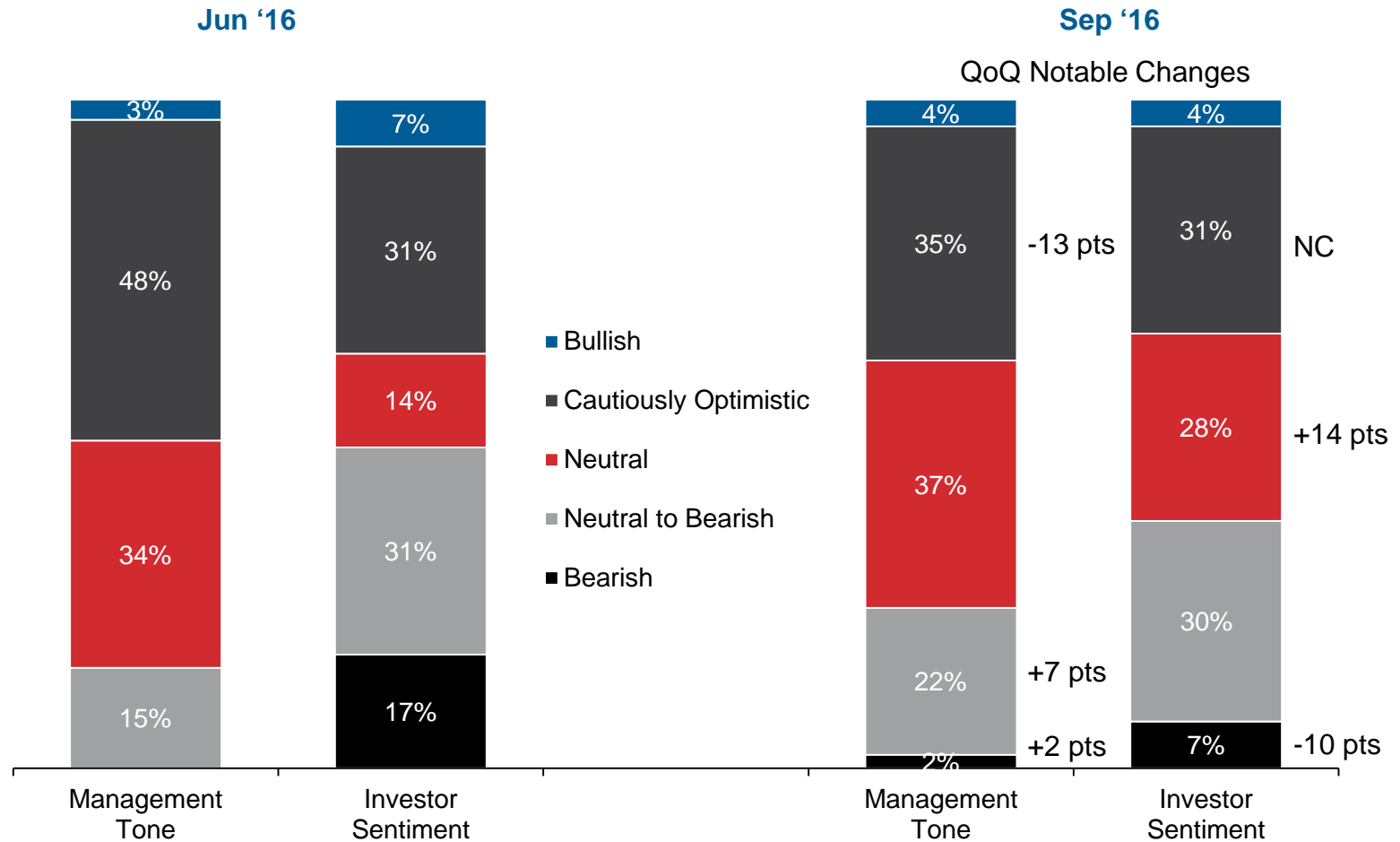
“With increasing wages due to the recovery of the U.S. labor market, U.S. firms will have some problems to pass on higher prices to their customers.” **Sell Side, Generalist, N. America**

“Profit margins narrowing and weak growth.” **Buy Side, Generalist, Europe**

“Weak operating development in July and August.” **Sell Side, Generalist, Europe**

“Higher commodity prices, greater cost out but lower overall demand/growth than consensus.” **Sell Side, Financials, Asia**

Investor Sentiment Ticks Higher Although Executive Tone Is Increasingly Cautious



On Investor Sentiment Drivers

Cautiously Optimistic

"I'm looking for the market to drift higher because there is no real alternative to stocks right now." **Buy Side, Multi, N. America**

"I think U.S. growth is okay." **Buy Side, Energy, N. America**

"It's a low bar." **Sell Side, Generalist, N. America**

"Household financial strength, firming labor market, rising wages and lower commodity prices." **Buy Side, Generalist, Europe**

"Mild signs of economic improvement in Italy, such as an increase in toll road traffic, especially heavy vehicles, real estate mortgages are up and an increase in broadband subscriptions." **Sell Side, Industrials & Telecommunications, Europe**

"Better government support toward the business environment and better infrastructure." **Sell Side, Generalist, Asia**

Neutral to Bearish

"Slow growth, high valuations." **Buy Side, Generalist, N. America**

"Valuations are not excessive but are fair to full in an environment where core growth is very weak and costs are becoming net headwinds (e.g., labor, healthcare, some commodities, etc.)." **Buy Side, Multi, N. America**

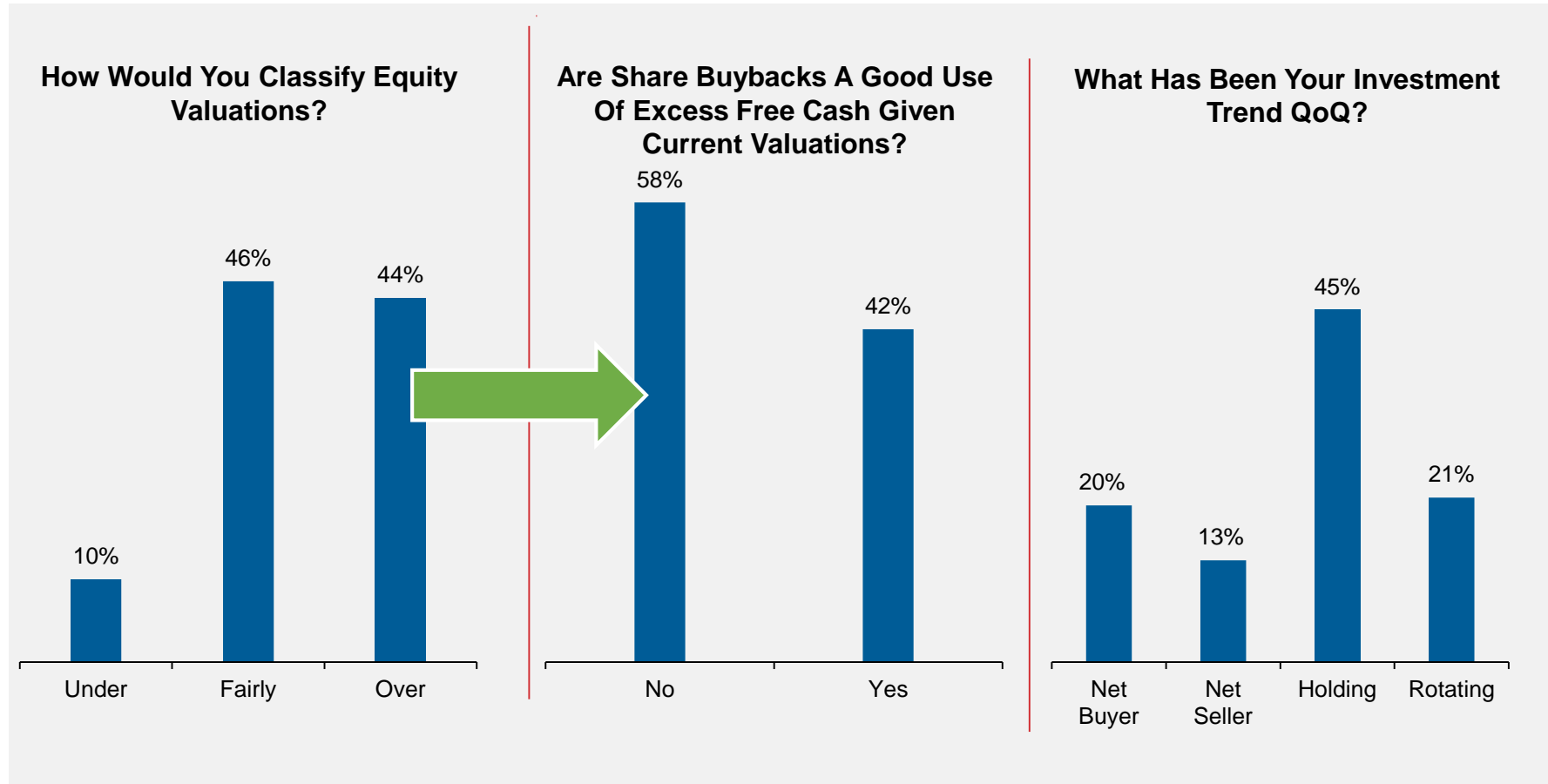
"High valuation and low VIX." **Buy Side, Generalist, N. America**

Bearish

"Lack of organic growth or consumer demand globally, China leverage and high valuations." **Buy Side, Generalist, N. America**

"Expectations of recession." **Buy Side, Generalist, Europe**

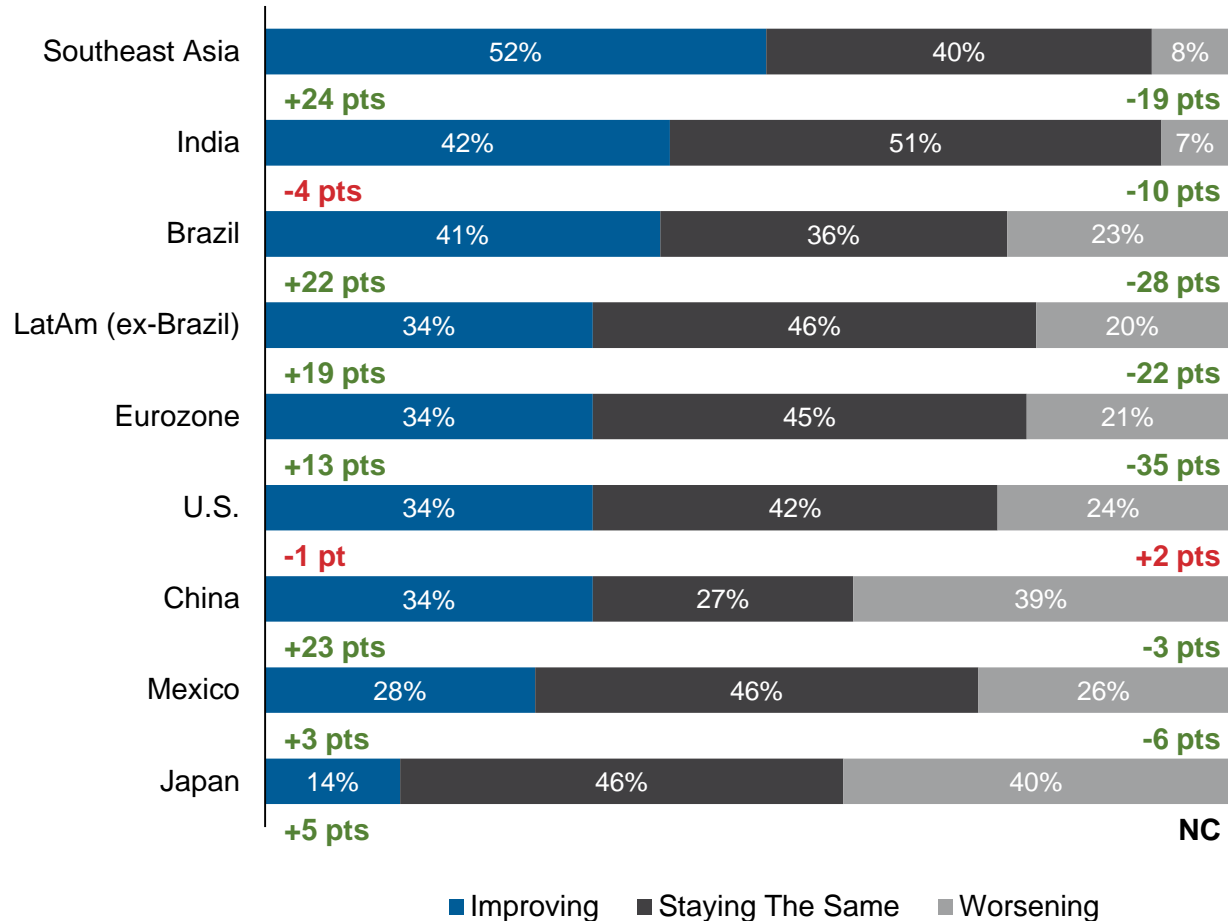
90% See Equity Valuations As Fairly Or Over Valued; Largely Taking A **Wait-and-see Approach**



- 81% report either maintaining or increasing their cash position QoQ

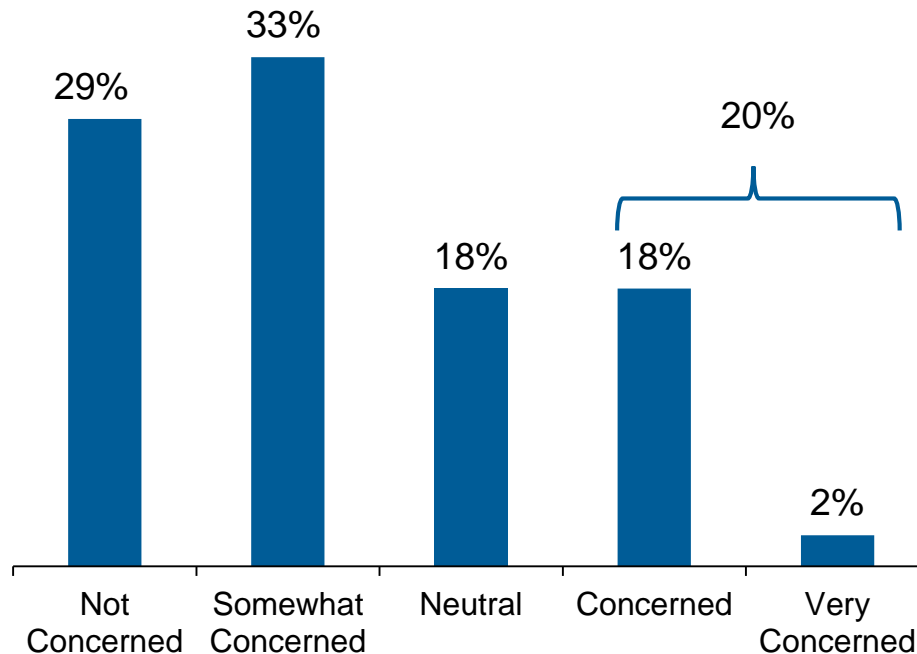
Views On Global Economies Over The Next Six Months: Emerging Markets

Ex-China Seen As **Strengthening**



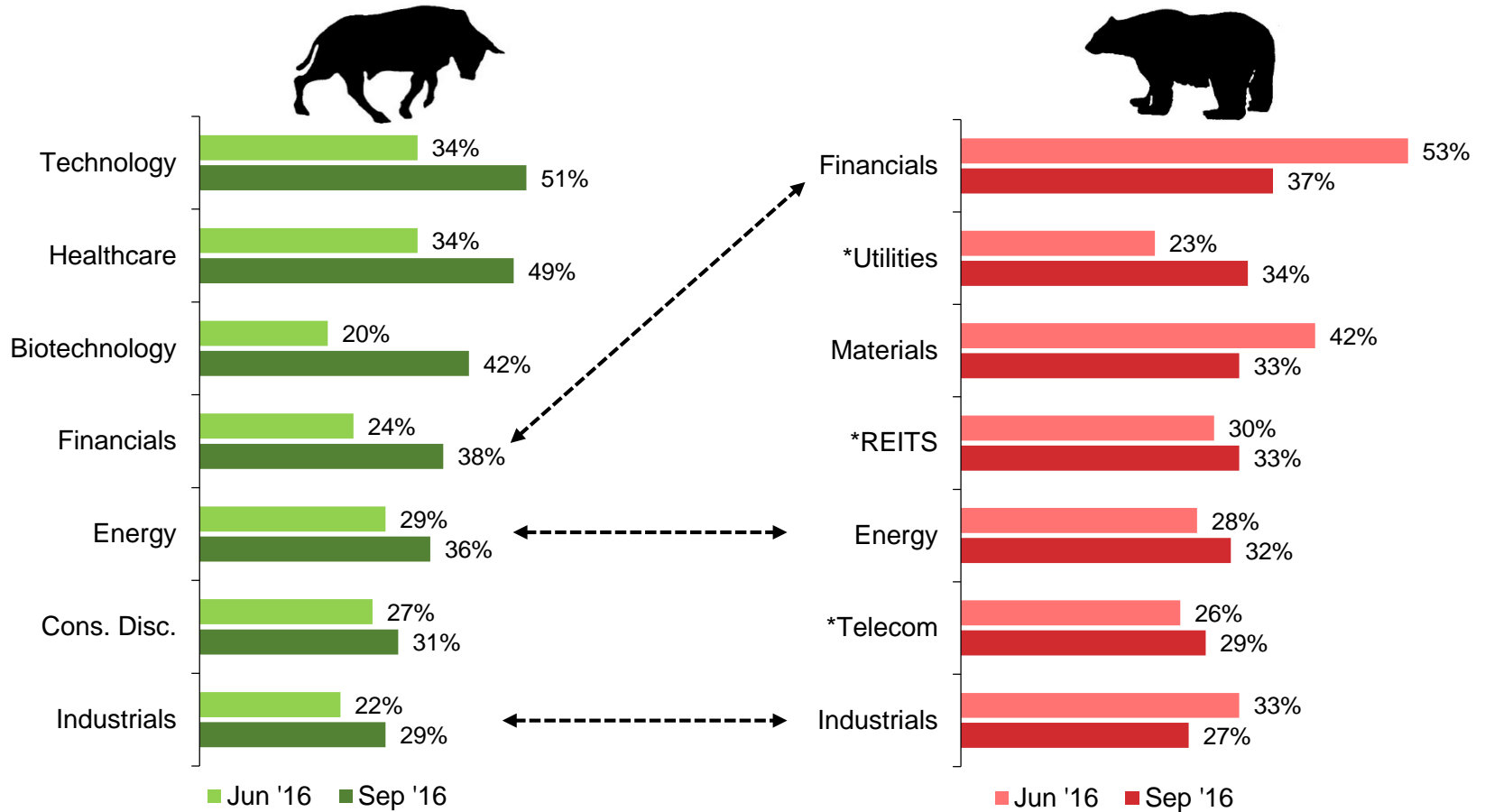
The Aftermath Of **Brexit**: Not Much To Report...Yet

How Concerned Are You About The Brexit Fallout?



“Turmoil of Brexit is gone; I see problems in German and Italian banks but economy is slightly improving thanks to low interest rate environment.” **Sell Side, Generalist, Europe**

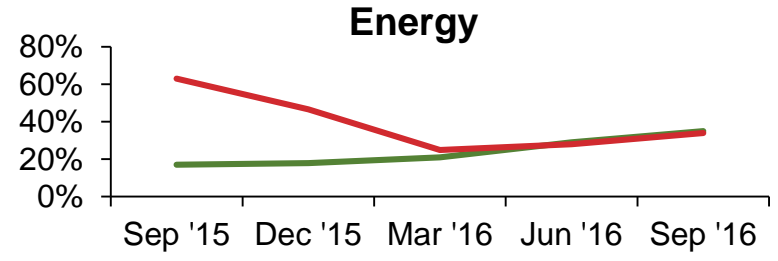
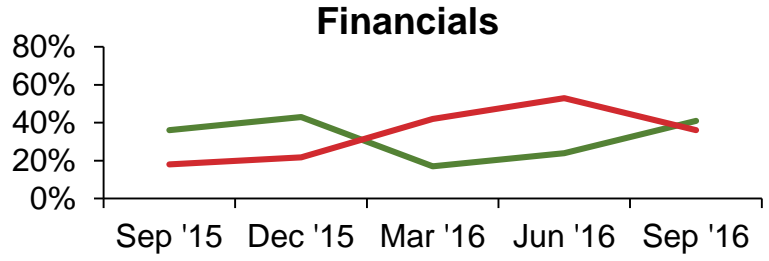
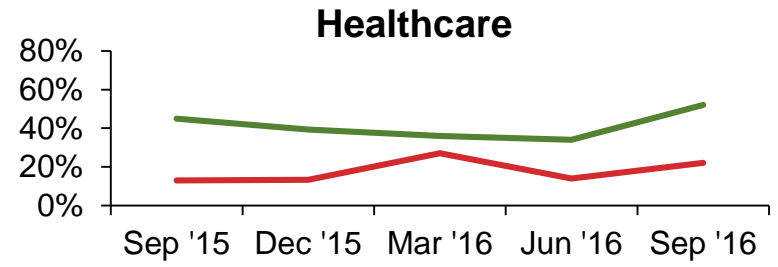
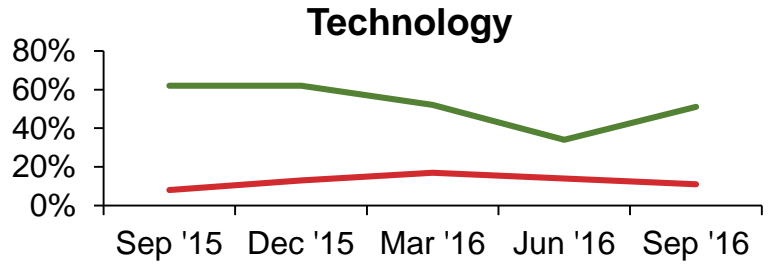
Technology Takes Its Place Again At The Top While Tug o' War Over Financials, Energy & Industrials Ensues



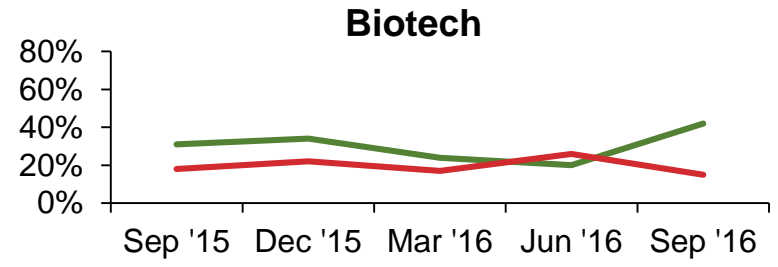
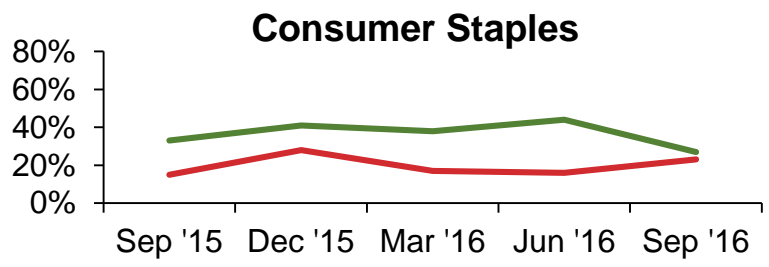
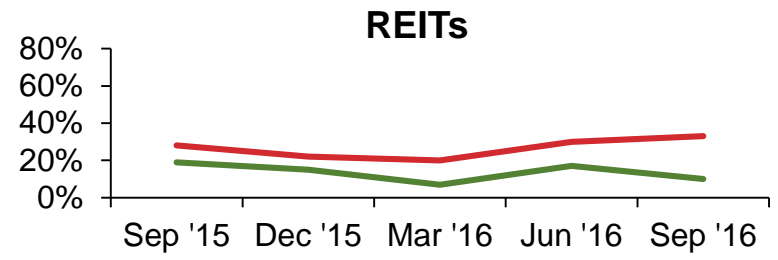
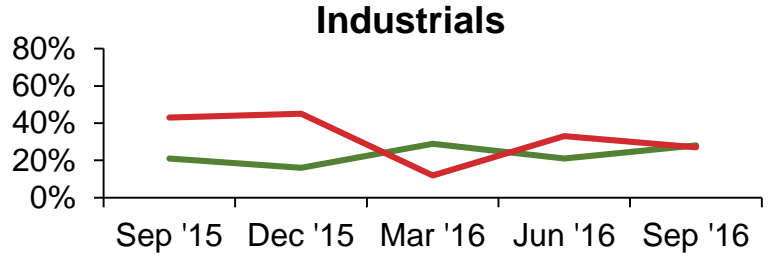
Big Shifts In Bullishness With A Break Out By Biotech; Staples And Utilities Drop Off

Yo-Yo Effect In Effect: Hints Of A Hike Spur Financials And Weigh On Rate-Sensitive Sectors

A Year In Review: Some Interesting Trends In Surveyed Sector Sentiment With Bullish Breakouts And Inflections Abounding



— Bullish
— Bearish



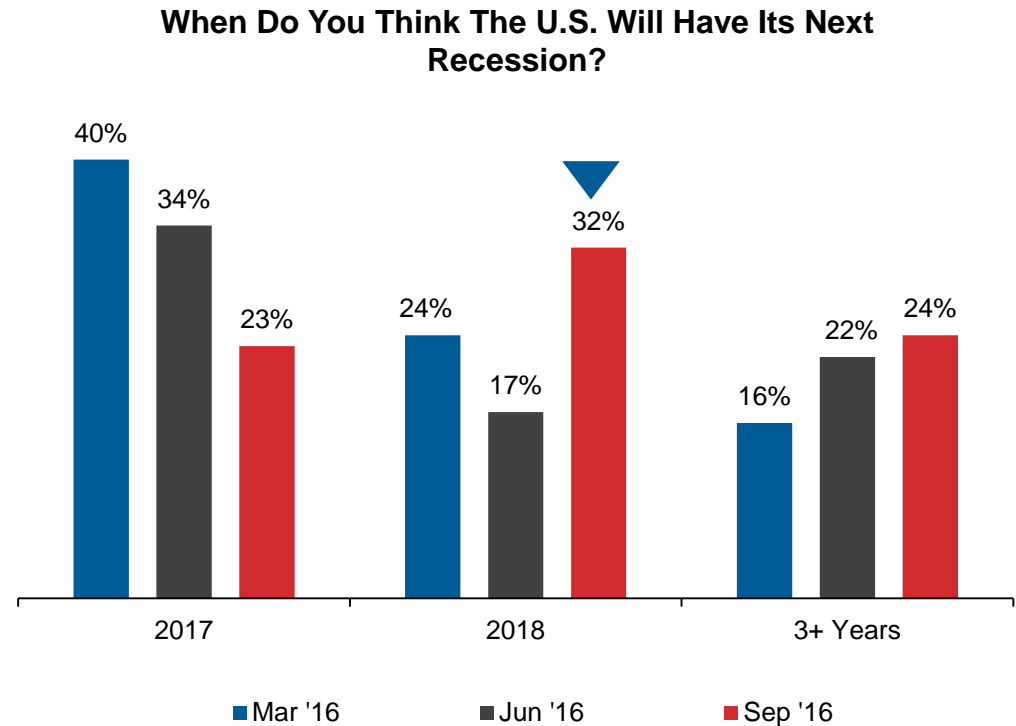
Recession Concerns Remain Intact Just As The Fed Is Likely To Raise Rates...A Day Late And A Dollar Short

73%

Surveyed Investors Who Believe The Fed Will Continue To Raise Interest Rates In 2017

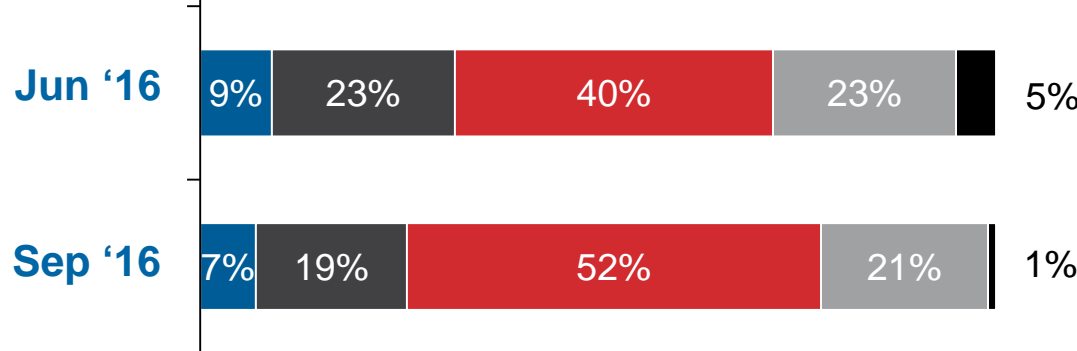
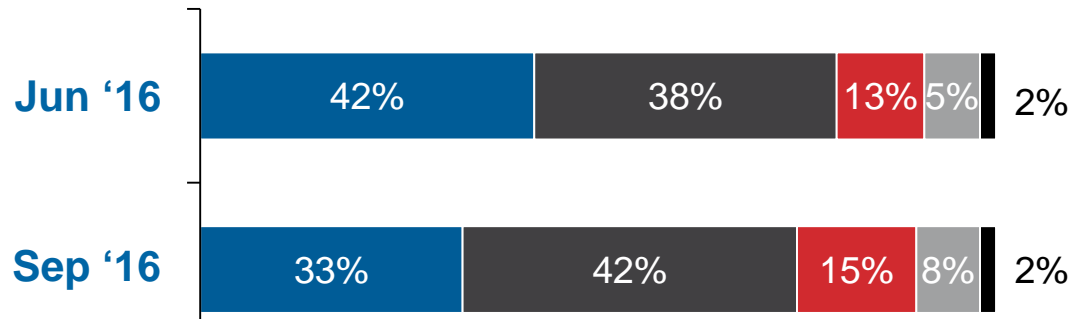
70%

Surveyed Investors Who Are Placing Emphasis On Balance Sheet Strength When Making An Investment Decision



Only 20% Report Election Is Impacting Asset Allocation (More Risk Averse)...Market To Trump: Get Off Your Stump

Who Will Have The ~~Most Positive~~ Least Negative Impact On Markets?



**Survey Says:
The Hillster
(2 for 2)**



■ Very Negative ■ Negative ■ Neutral ■ Positive ■ Very Positive

Guidance

There have been recent dissertations from well-known financial powerhouses about the negative effects of guidance, essentially encouraging companies to withdraw from issuing quarterly and even annual estimates.

While the argument theoretically suggests that this would reduce volatility and shift both corporate and investor focus to the long term (we agree, that is always the end goal), the reality is that investors are not all rational and not all corporations are created equally.

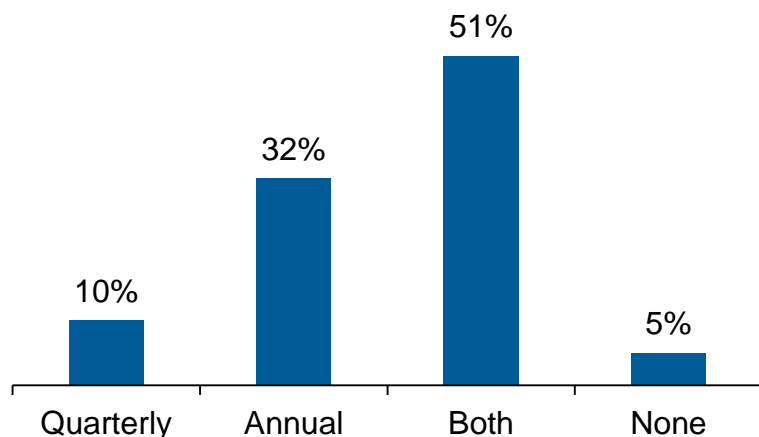
To be clear, this information is critical, company-generated input for developing the base case for company performance. Not providing this information will result in investors and analysts making their own assumptions that may deviate substantially, thus increasing volatility. To that end, eliminating guidance does not eliminate consensus estimates.

Providing guidance, either quantitative or qualitative, is best practice. Recognizing that not all companies have the wherewithal to accurately forecast performance and that some are challenged with visibility of more than one to two quarters, we believe it is in a company's best interest to strive to provide half-year or annual, and in special cases, quarterly guidance

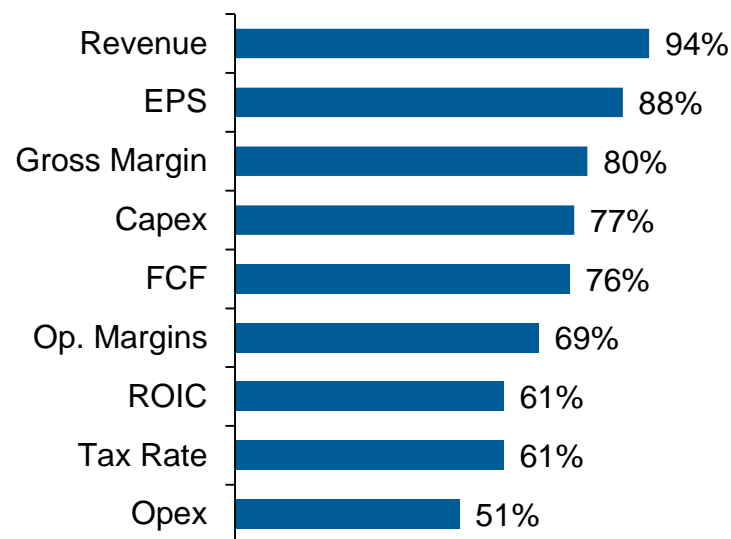
Guidance

What Is Your Preference Regarding
Company-issued Guidance?

(n = 188)

On What Metrics Are You Most Keen
On Companies Providing Guidance?

(n = 87)



Buy Side Comments

"I prefer annual guidance or none at all."

"If the company has visibility through the year, then it would be helpful to get annual guidance. A lot of companies will give annual guidance but they cannot see that far out, so it results in a lot of guidance revisions and that doesn't help anyone."

"I prefer annual guidance. We are long-term investors with a very long turnover rate, so the quarterly stuff does not weigh into our thinking as much as it does for most investors."

Our **passion** is creating value for public companies.

We are a catalyst – an investor relations (IR) advisory firm that partners with IR and C-suite executives to drive long-term shareholder value. We bring third-party objectivity as well as a best practice knowledge and collaborate with our clients to execute a sound, effective IR communications 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**.

“**Professional, analytical, creative and decisive...Corbin is everything I needed in a consulting partner.**”

- SVP, Investor & Corporate Communications, Small-cap Healthcare IT

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