

A photograph of a cave interior, illuminated with a strong blue light. The cave walls are textured and layered, creating a sense of depth. In the distance, a person is visible, standing near a bright opening or light source, which creates a silhouette effect. The overall atmosphere is mysterious and dramatic.

*corbin*

# Q4'20 Inside The Buy-side<sup>®</sup>

Earnings Primer™

January 14, 2021

# Inside The Buy-side® Q4'20 Earnings Primer™

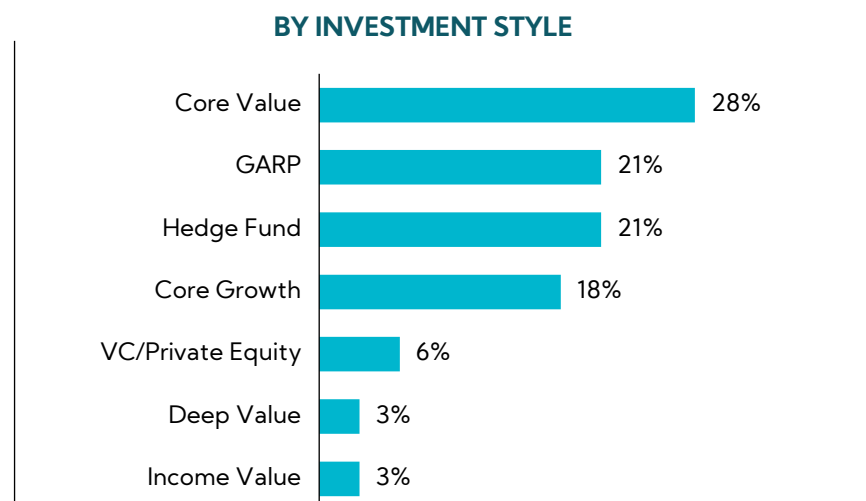
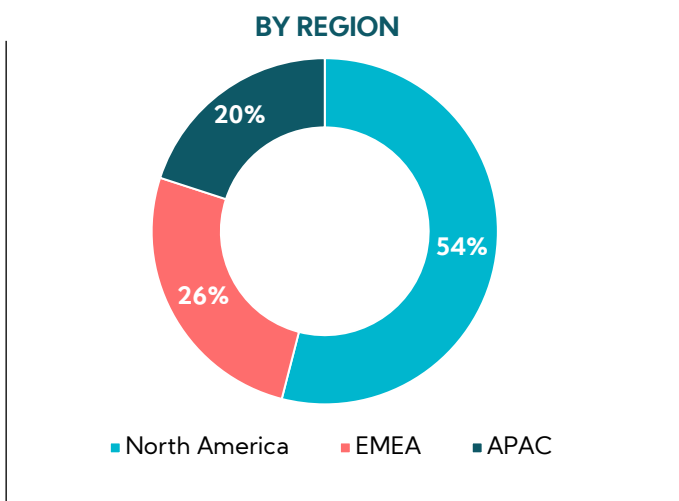
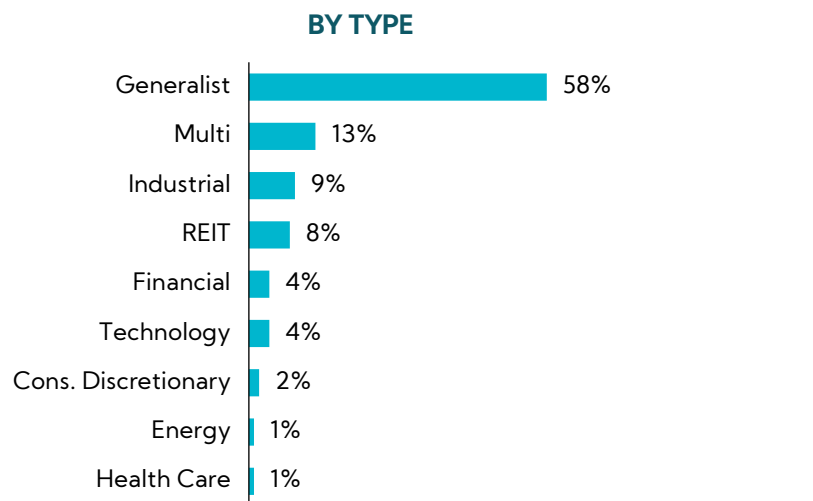
For 13+ years, we have surveyed global investors quarterly on the equity markets, world economies and business climate. At the start of every earnings season, we publish our leading-edge research, *Inside The Buy-side®*, which captures real-time Voice of Investor® sentiment and trends.

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:** 80 participants globally, comprising 69% buy side and 31% sell side; equity assets under management total ~\$2.6 trillion

**Survey Timeframe:** December 3, 2020 – January 6, 2021

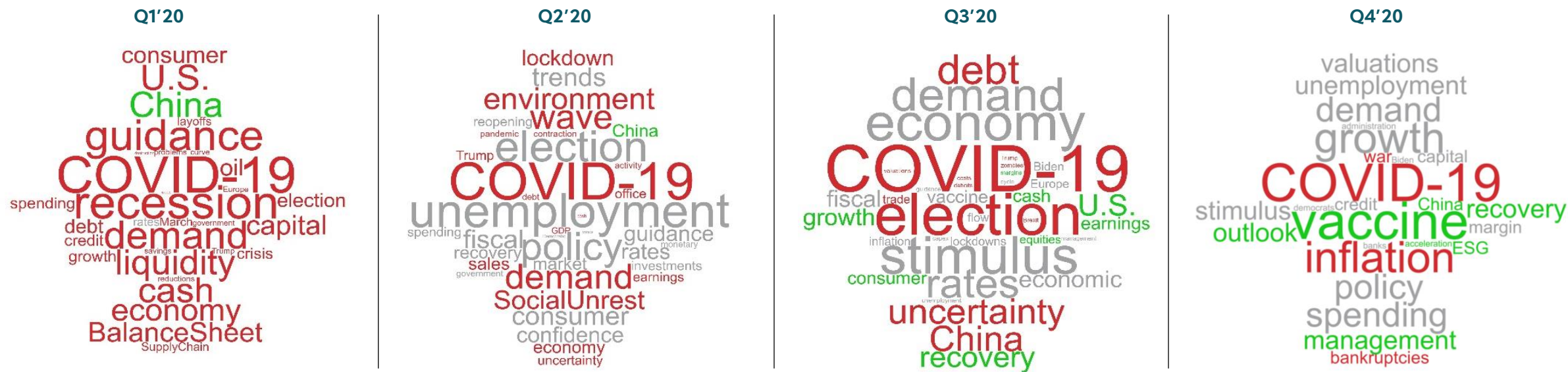
Market Performance	Q4'20	2020
<b>U.S.</b>		
DJIA	10.0%	7.2%
NASDAQ	13.8%	43.6%
S&P 500	11.1%	16.3%
Russell 2000	29.0%	18.4%
<b>Europe</b>		
FTSE 100	9.9%	(14.3%)
Stoxx 600	10.3%	(4.0%)
<b>Asia</b>		
Hang Seng	14.6%	(3.4%)
Shanghai	6.1%	13.9%



# Word Cloud: Frequency of Occurrence

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

## Promise of Vaccine Driving Green



Top Mentions	Q1'20	Q2'20	Q3'20	Q4'20	Q/Q
COVID-19	98	56	42	36	↓ 6
Vaccine	-	-	7	16	↑ 9
Growth	6	4	8	12	↑ 4
Inflation	-	-	4	11	↑ 7
Demand	12	11	10	7	↓ 3

### Key: Underlying Sentiment

- Positive
- Neutral
- Negative

# Survey Findings: Confidence on the Rise with High Expectations for 2021 Guidance

## Expectations Suggest a Strong Q4 with the Majority of Companies Indicating They Will Provide 2021 Guidance, a Sign of Stability

- 58% of surveyed investors and analysts affirm last quarter's earnings were better than expected, the second consecutive quarter of upside surprises
- 48% believe Q4'20 earnings will be *Better Than* consensus, up from 36% last quarter
- More than half believe EPS and FCF will *Improve* QoQ
- 64% describe themselves as *Neutral to Bullish* or *Bullish*, up from 40% last quarter and quadruple since the onset of the pandemic; even more, 73%, describe executive tone as upbeat, an increase from 37% last quarter and just 12% in Q2
- Nearly 80% of investors suggest companies should reinstate guidance and a similar percentage of IROs, or 75%, expect to issue outlooks this upcoming quarter
- For the second consecutive quarter, we identify a record number of net buyers

## Economic Indicators Expected to Continue to Strengthen, While Investors Voice Concern About Perceived Inflation

- Most metrics see a continuation of last quarter's positive trends
  - 74% expect Consumer Confidence to *Improve* over the next six months
  - More than 50% believe Oil & Gas, Global PMI and Global Capex will continue to strengthen
  - All geographies see a higher percentage of investors expecting improvement, led by the U.S., Southeast Asia and Eurozone
  - 2021 U.S. GDP forecasts are at 4.0%, on average
- Inflation is the most notable identified risk – a concern raised by nearly one-third of respondents, more than double a quarter ago; this has led to a slight pullback in those expecting margins to improve

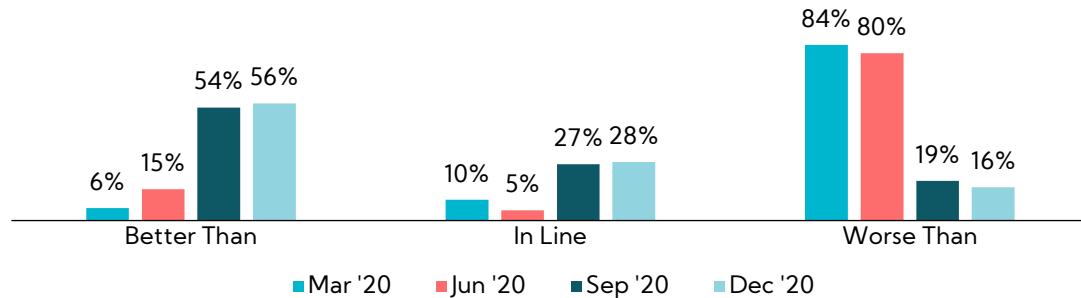
## Human Capital Management is Gaining Momentum in 2021

- Following last year's momentous acceleration in focus on the Social component of ESG, our survey finds HCM is identified as the top ESG focus area
- Last years' research demonstrates continued increasing conviction in the 'S'
  - Nearly double the number of investors in 2020 now report placing greater emphasis on the Social component when making investment decisions, with 62% of this group citing the pandemic as the leading factor
  - In Q2'20, 54% reported that CEOs globally who took a public stand against racism and racial inequality positively influenced their investment decisions
  - In Q3'20, investors identified talent management among the top five topics of interest on earnings calls for the first time in our survey's 13-year history
- Heading into 2021, our research finds one-third cite HCM as the leading ESG focus topic when evaluating investments

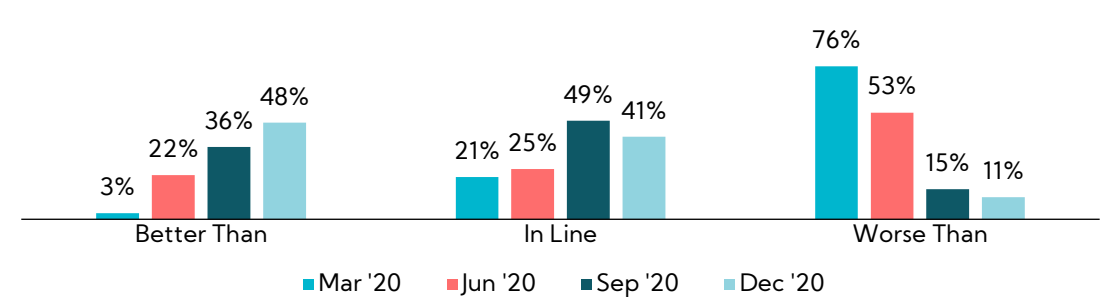
# Investors Expecting Beats and Baking in Improvement QoQ

Q4 earnings expected to improve sequentially and nearly half expect beats after another near-record number of upside surprises last quarter

Q4'20 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



Q4'20 EARNINGS EXPECTATIONS VS. CONSENSUS



## Better Than

"The consumer is set up for holiday spending." **Buy Side, Generalist, N. America**

"Very loose fiscal / monetary policy." **Buy Side, Generalist, N. America**

"Better productivity." **Buy Side, Generalist, Europe**

"Global growth acceleration." **Buy Side, Generalist, Europe**

"Cover banks – assuming credit losses lower than consensus." **Sell Side, Financials, N. America**

"High liquidity, not only in developed economies." **Sell Side, Generalist, Europe**

## In Line

"Reimplementation of shutdowns." **Buy Side, Generalist, N. America**

"More of the same." **Sell Side, Generalist, N. America**

"Restrictions will have impacts vs. Q3." **Sell Side, Multi, Europe**

"It should be a little bit better QoQ with improvements in October and November; we did not go into too many lockdowns. Consensus is not expected to be much in Q4'20. The bigger risk is consensus for 2022 – the more normalized numbers and how quickly we get back to that." **Sell Side, Financials, Europe**

"Continued opening up of the economy." **Sell Side, Generalist, Asia**

"Higher oil prices." **Sell Side, Generalist, Asia**

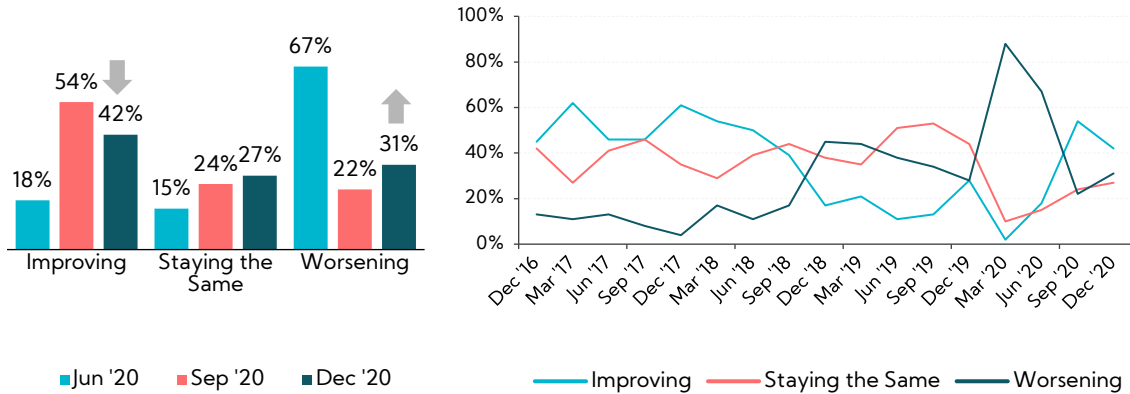
## Worse Than

"COVID-19 lockdown vs. government spending." **Buy Side, Generalist, N. America**

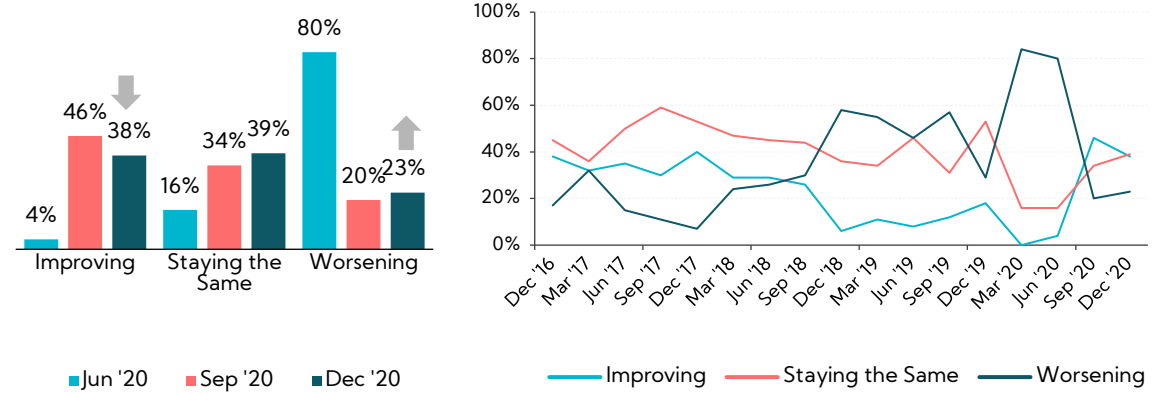
"COVID-19 will continue to impact the first half of 2021, unemployment leading to a wave of foreclosures, bankruptcies, etc." **Buy Side, Multi, N. America**

# More Continue to Expect KPIs to Strengthen; Heady Views on Growth Ease Somewhat

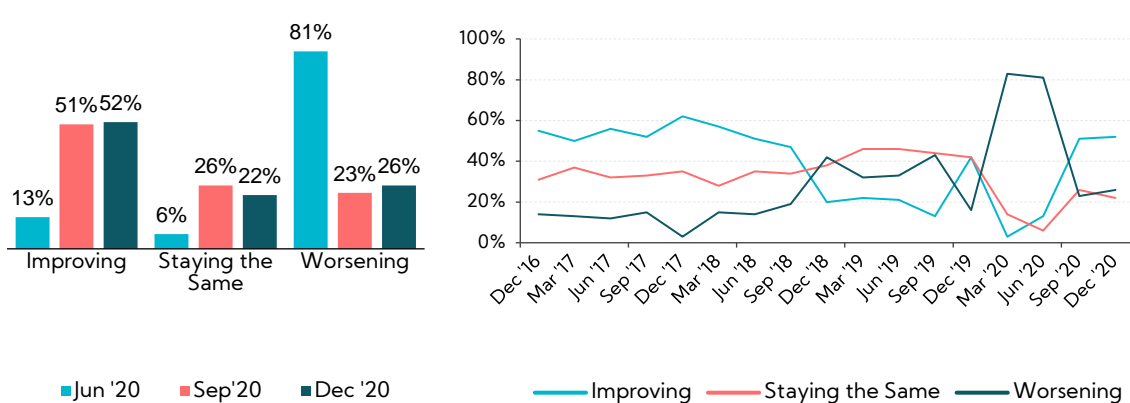
## ORGANIC GROWTH



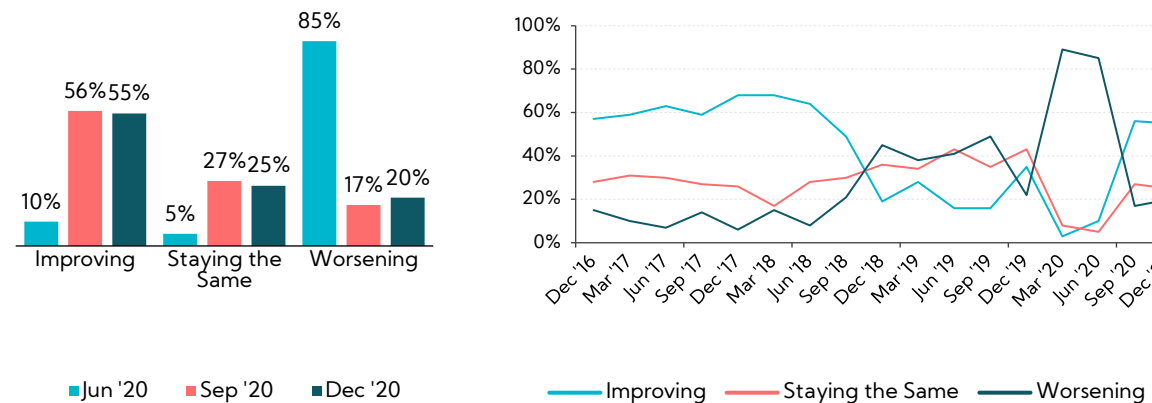
## OPERATING MARGINS



## FCF

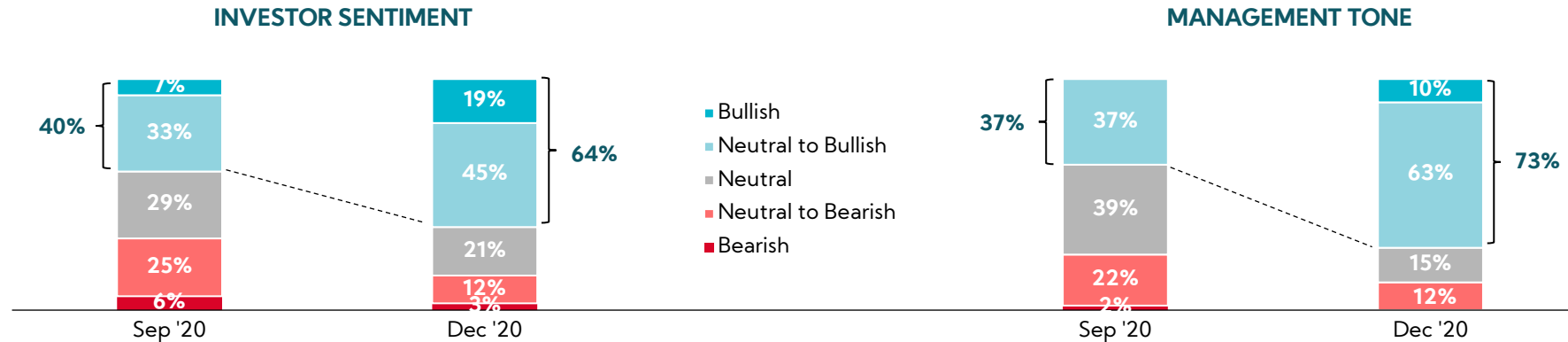


## EPS



# Management Tone Perceived as More Upbeat; Almost Double QoQ and Near-record Highs

Nearly three-quarters of investors describe executive tone as Neutral to Bullish or Bullish, the highest level seen since December 2018



## Bullish

"Vaccine." **Buy Side, Generalist, N. America**

"As the vaccines roll out, as we start to open up, we should get a lot more stimulus results based on the Georgia results. Government is not looking to pull back on spending in the short-term. Further lockdowns hopefully become a thing of the past. Some savings that people have made over the past 12 months can get deployed into spending. Management is cautiously optimistic. There is a lot of caveating. The outlook they think they have is fairly optimistic. The risks are higher than they normally would be." **Sell Side, Financials, Europe**

## Neutral to Bullish

"Q4 appears to be shaping up well but cautiously optimistic on 2021." **Buy Side, Multi, N. America**

"Assuming Brexit isn't chaotic, then the recovery potential of the UK stock market is much greater than most others." **Buy Side, Generalist, Europe**

"Global growth acceleration and a vaccine." **Buy Side, Generalist, Europe**

"Vaccine." **Buy Side, Generalist, Australia**

"Central bank liquidity." **Sell Side, Generalist, N. America**

"Management tone is very mixed right now for my space (retail)." **Sell Side, Cons. Disc., N. America**

"Expectations of economic reopening, support from fiscal and monetary policies." **Sell Side, Multi, Europe**

"Despite the spike in cases, people have continued to go out more and spend." **Sell Side, Generalist, Asia**

## Neutral / Neutral to Bearish

"Valuations and lower economic activity." **Buy Side, Generalist, N. America**

"COVID-19 effect." **Buy Side, Generalist, N. America**

"Prolonged coronavirus shutdown, lack of widespread vaccine availability." **Buy Side, Health Care, N. America**

"Lack of transparency." **Sell Side, REIT, N. America**



# Topics of Interest for Upcoming Earnings Calls

*2021 outlooks and growth initiatives top of mind; HCM makes the list for the 2<sup>nd</sup> consecutive quarter*

1. COVID-19 impact, “return to normalcy” expectations
2. 2021 outlook, assumptions and color
3. Growth initiatives and trends
4. Capital deployment strategy
5. Margins, cost structure evolution
6. ESG risks, including human capital management

## Views from N. America

*“Debt Paydown, end demand / revenue, capital structure.” **Buy Side, Generalist***

*“Reopening progress, permanent changes to business, supply chain bottlenecks.” **Buy Side, Generalist***

*“Expected trends that will accelerate or change after virus, management strategy going forward (change), risks.” **Buy Side, Generalist***

*“Debt, trends, margins.” **Buy Side, Generalist***

*“Guidance is based on what specific assumptions, post-vaccine, how does your behavior change, go back to normal, real estate footprint needs.” **Buy Side, Multi***

*“Outlook, lessons learned from pandemic.” **Buy Side, Multi***

*“Forward growth, return to normalcy, long-term impacts on their business.” **Buy Side, Health Care***

*“Anything to do with the outlooks, ESG – because we are hearing about that from clients, HCM.” **Sell Side, Technology***

*“Return to normalcy expectations, impact of second wave, capital allocation.” **Sell Side, REIT***

## Views from EMEA

*“COVID-19, capex, Asia.” **Buy Side, Generalist***

*“COVID-19, earnings recovery, sector trends.” **Buy Side, Generalist***

*“Adjusting to a Biden presidency, development of online business, ESG issues.” **Buy Side, Generalist***

*“Acceleration of the business, margin expansion, cost reduction.” **Buy Side, Generalist***

*“2021 outlook, development plans, what they expect in pandemic outcome.” **Sell Side, Generalist***

*“Cost structure evolution, margins outlook, human capital management.” **Sell Side, Multi***

## Views from APAC

*“Travel restrictions, vaccine success, business failures.” **Buy Side, Generalist***

*“Control of costs, impact of supply chain disruptions on production.” **Buy Side, Energy***

*“Outlook.” **Buy Side, Generalist***

*“COVID-19.” **Buy Side, Multi***

*“2021 outlook, trends, margins.” **Sell Side, Generalist***

*“Post-pandemic demand, end of expansionary policy, industry consolidation.” **Sell Side, Generalist***

*“Capital expenditure.” **Sell Side, Generalist***



# Majority of Surveyed Companies Intend to Reinstate Guidance

## Investors looking for companies to issue 2021 outlooks

### Methodology

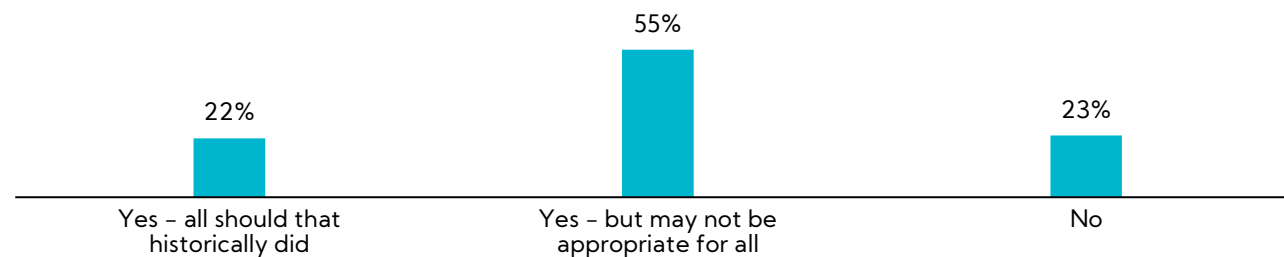
To assess company and investor alignment on 2021 guidance, we surveyed:

- 80 investors and analysts
- 77 IROs across market caps and sectors

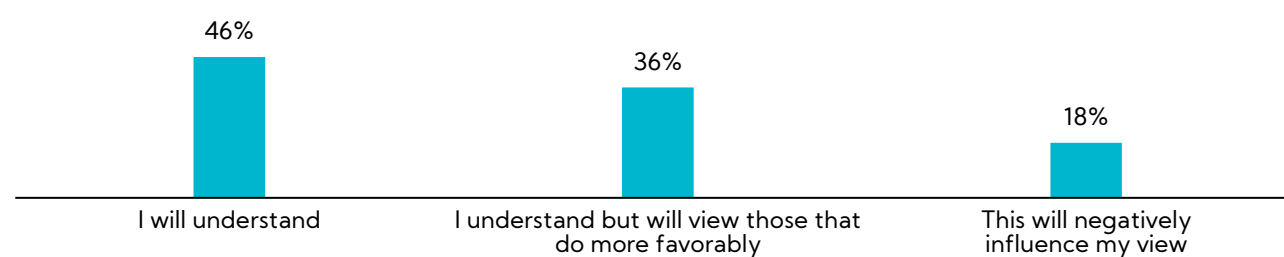
### Key Insights

- Nearly 80% of investors agree companies that historically provided guidance should reinstate that practice, though the majority recognize it may still be challenging for certain companies
- Investors will understand if a company that historically gave guidance elects not to at the start of 2021, as long as "there is clear rationale"; some will view companies that do provide guidance more favorably
- 75% of IROs expect to give guidance this upcoming quarter
- In the absence of annual guidance, 60% of investors prefer qualitative color (similar to what has been provided during the last several quarters) over quarterly guidance

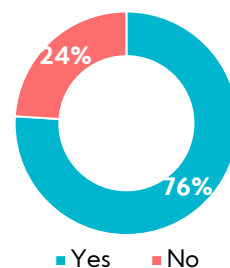
### INVESTORS: ARE YOU EXPECTING COMPANIES THAT HISTORICALLY GAVE GUIDANCE TO DO SO IN 2021?



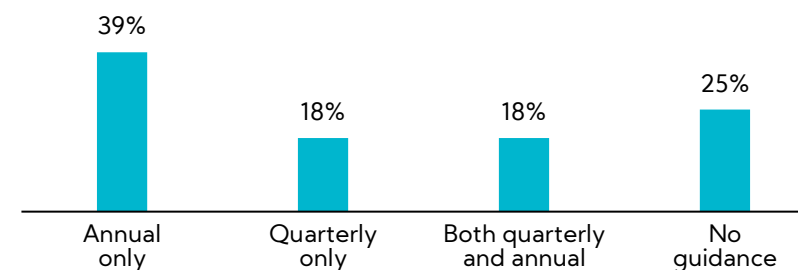
### INVESTORS: HOW WOULD YOU REACT IF A COMPANY THAT HISTORICALLY GAVE GUIDANCE ELECTS NOT TO FOR 2021 GIVEN THE UNCERTAINTY?



### DO YOU EXPECT TO GIVE GUIDANCE?



### IRO: WHAT GUIDANCE DO YOU EXPECT TO GIVE?



# Our Perspective on Guidance

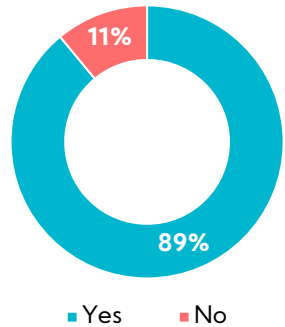
## Pre-COVID S&P 500 Guidance Practices

Prior to the onset of COVID-19, our proprietary research found 89% of S&P 500 companies provided quantitative guidance, with the majority providing annual.

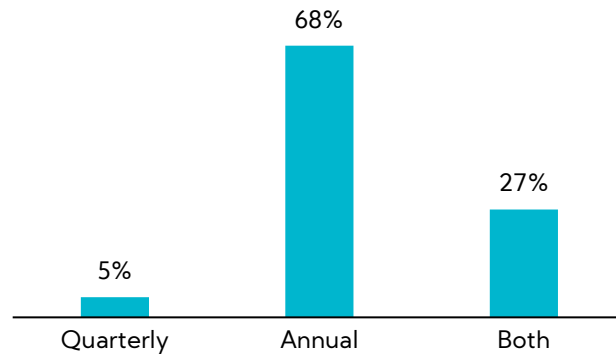
With a heightened focus on 2021 outlooks and nearly 80% of investors expecting companies to reinstate guidance this earnings season, significant consideration must be given to this very important topic, as it is not a one-size-fits-all strategy.

While guidance setting can serve to minimize stock price volatility, support more reasonable sell side consensus and market expectations and establish / build management credibility – when best practice is deployed – providing guidance based on low confidence levels can lead to the opposite outcome and significantly erode management credibility.

QUANTITATIVE GUIDANCE  
S&P 500 (Pre-COVID)



GUIDANCE POLICY  
S&P 500 (Pre-COVID)



## Corbin Guidance Recommendations – 7 Key Factors for Success

- 1 Build in a healthy amount of error** to account for exogenous factors and inherent optimism
- 2 Provide a wider range**, which gives you more flexibility and the ability to narrow throughout the year – this is especially true for 2021 outlooks
- 3 Give detailed assumptions** linked to economic indicators and business drivers
- 4 Air on the side of conservatism** and reset expectations, if necessary, to be able to deliver value throughout the year
- 5 Communicate robust qualitative color** on the cadence between the first and second half of 2021
- 6 Remind the Street of any discrete / one-time items** that will impact any given quarter in terms of YoY performance
- 7 If you don't feel confident in providing quantitative guidance**, continue to **provide a deep level of transparency** for the investment community, including scenario analyses, customer behavior trends and, if appropriate, monthly sales trends

# Top Concerns from Around the Globe

## Views from N. America

"COVID-19, trade wars, monetary policy failure." **Buy Side, Generalist**

"Heard immunity takes much longer to achieve in 2021, bankruptcies and permanently lost jobs will be difficult to refill, China's extreme shift towards authoritarian regime moving to other countries." **Buy Side, Generalist**

"Massive increase in COVID-19 before vaccinations spread, political confusion and tensions, civil war." **Buy Side, Generalist**

"Pandemic, politicians, valuations in certain sub-sectors." **Buy Side, Generalist**

"Vaccination rollout and consumer activity, debt and deficits, geopolitical pressure on new administration with China and Russia." **Buy Side, Generalist**

"Vaccine doesn't work and no good cure for COVID-19, higher taxes, total healthcare restructuring to a 'single payer' model." **Buy Side, Generalist**

"Re-regulations from the new administration that burdens the economy, pandemic variants keep the virus around longer than expected, municipal bond market cracks as townships draw too deeply on their reserves." **Buy Side, Multi,**

## Views from EMEA

"COVID-19, inflation, rising yields," **Buy Side, Generalist**

"Global inflation, bond yields rise, insolvency." **Buy Side, Generalist**

"Inflation, debts." **Buy Side, Generalist**

"New virus strains for which current vaccines don't work, democrats take both Georgia senate seats, China flexing its muscles." **Buy Side, Generalist,**

"Vaccine is not working, trade tensions, inflation." **Buy Side, Generalist**

"Faster-than-expected pick-up in inflation, delay in pandemic slowdown, political tensions." **Sell Side, Generalist**

"Lower-than-expected fiscal support, delays in vaccine rollout, tightening credit conditions." **Sell Side, Multi**

## Views from APAC

"COVID-19, monetary policy, bad government." **Buy Side, Generalist**

"COVID-19, consumer growth slowing, unemployment." **Buy Side, Generalist**

"Asset price inflation, wealth and income disparity, racism." **Buy Side, Multi**

"COVID-19, war-like situation in various regions, human rights violations based on religion and racism." **Buy Side, Energy**

"Profit outlook, central banks printing even more money, growth in advanced economies." **Sell Side, Generalist,**

"Quick, efficient and wide distribution of the vaccine, government stimulus, inflation." **Sell Side, Generalist**

"Vaccine, structural unemployment, resumed trade war." **Sell Side, Generalist**

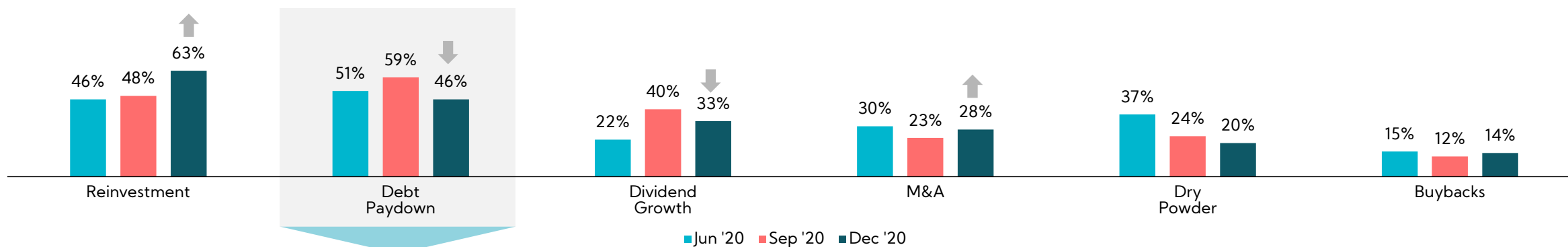


# Reinvestment Gains Steam While Low Debt Levels Remain in Focus

*Conservative balance sheets are the new normal while investor preference for organic growth reaches the highest point since December 2017*

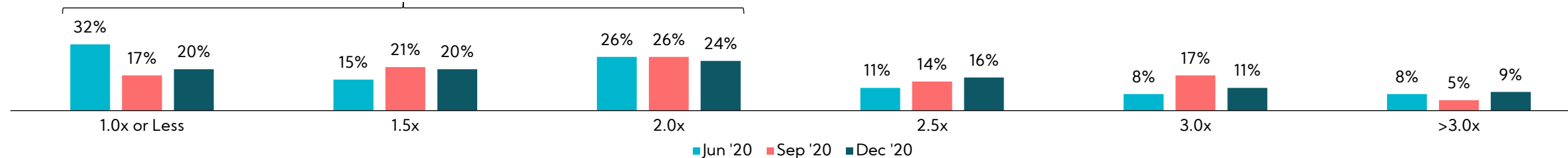
## PREFERRED USES OF CASH

In Descending Order of Top Two Preferences



## IDEAL NET DEBT-TO-EBITDA LEVEL

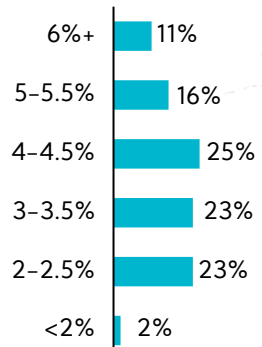
64% prefer  $\leq 2.0x$  (Q4'20)



# Investors Universally Still Anticipate Continued Global Recovery; Average 2021 U.S. GDP Forecasted at 4.0%

All geographies continue to rebound, with the U.S., Southeast Asia and Eurozone leading the pack; no economy sees more than 15% of investors expecting Worsening conditions

## 2021 U.S. GDP EXPECTATIONS



### Canada<sup>1</sup>

Improve:	62%	-
Worsen:	34%	-

### U.S.

Improve:	70%	+8pts
Worsen:	13%	-14pts

### MEXICO

Improve:	39%	+3pts
Worsen:	14%	-14pts

### LATIN AMERICA

Improve:	34%	+13pts
Worsen:	14%	-17pts

### BRAZIL

Improve:	48%	+15pts
Worsen:	14%	-17pts

### EUROZONE

Improve:	62%	+17pts
Worsen:	13%	-1pts

### CHINA

Improve:	60%	-10pts
Worsen:	8%	+3pts

### JAPAN

Improve:	45%	+25pts
Worsen:	4%	-16pts

### SOUTHEAST ASIA

Improve:	68%	+20pts
Worsen:	4%	UNCH

### AUSTRALIA

Improve:	50%	+8pts
Worsen:	8%	-11pts

## TOP 3 – IMPROVING



## TOP 3 – WORSENING



# Views on Key Economic Indicators Over the Next Six Months

Consumer confidence and oil & gas expected to see the most improvement

## GLOBAL CAPEX



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

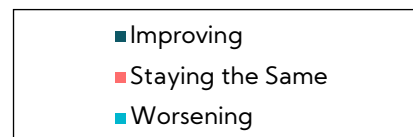
"Staying the same: 'Let's get through COVID-19' is probably what the world is thinking." Buy Side, Multi, N. America

"Worsening: Excess capacity." Sell Side, Generalist, Asia

## GLOBAL PMI



"Staying the same: Inventory restocking." Sell Side, Generalist, Asia



## CONSUMER CONFIDENCE



"Improving: Pandemic receding will help spending on goods / services that suffered during the pandemic." Buy Side, Multi, N. America

"Staying the same: Consumer savings are at a multidecade high." Buy Side, Generalist, Europe

"Worsening: \$600 stimulus won't buy all that much. Unemployment will dampen consumer spending." Buy Side, Multi, N. America

## OIL & GAS MARKETS



"Improving: Demand to outstrip supply." Buy Side, Multi, N. America

"Improving: Consumer demand could be much stronger than expected." Buy Side, Generalist, Europe

"Improving: More demand as people start driving and flying." Sell Side, REIT, N. America

"Staying the Same: Needs demand to pick up and it looks like commuting is dead in 1H21." Buy Side, Generalist, N. America

## NON-RESI CONSTRUCTION



"Improving: Governments will spend without constraint." Buy Side, Generalist, Europe

"Improving: Only for certain sectors - industrial, data centers, life science." Sell Side, REIT, N. America

"Staying the Same: Commercial real estate seems soft." Buy Side, Generalist, N. America

"Worsening: Companies may be dumping office space, retailers going out of business." Buy Side, Multi, N. America

## RESI CONSTRUCTION



"Improving: Pent-up demand, movement away from urban centers, rates." Buy Side, Generalist, N. America

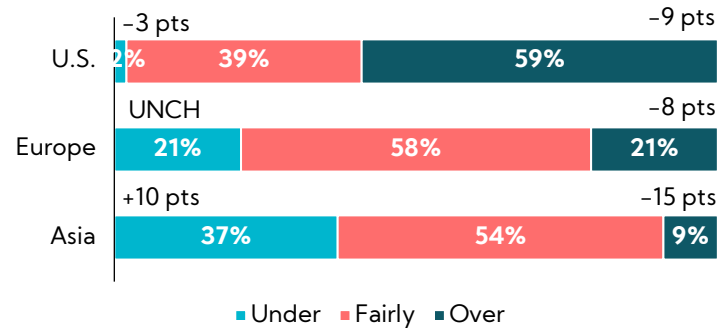
"Improving: Cheap interest rates but takes longer to close." Buy Side, Multi, N. America

"Staying the Same: Not sure if 2021 will be a year for existing housing stock or new housing. Low interest rates will keep it going." Buy Side, Multi, N. America

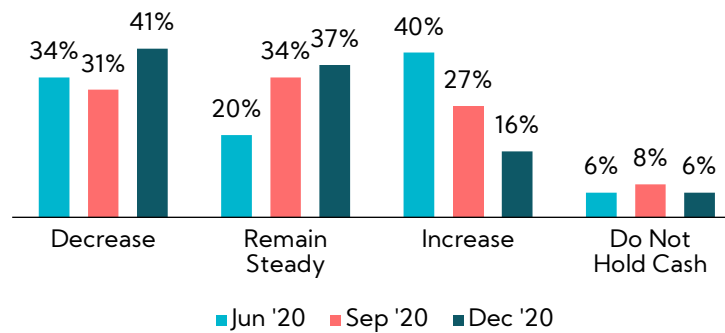
# Record Number of Net Buyers Identified for the 2<sup>nd</sup> Consecutive Quarter

While equities see as overvalued, investors continue to buy

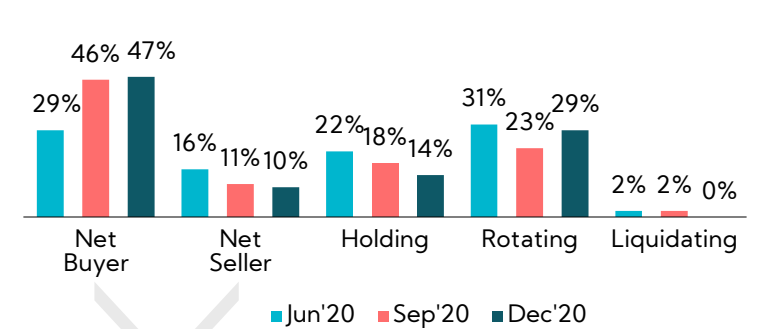
### GLOBAL EQUITY VALUATION CLASSIFICATION



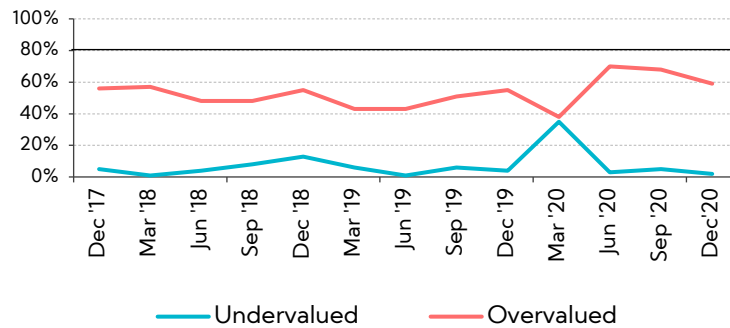
### QoQ PORTFOLIO CASH HOLDING



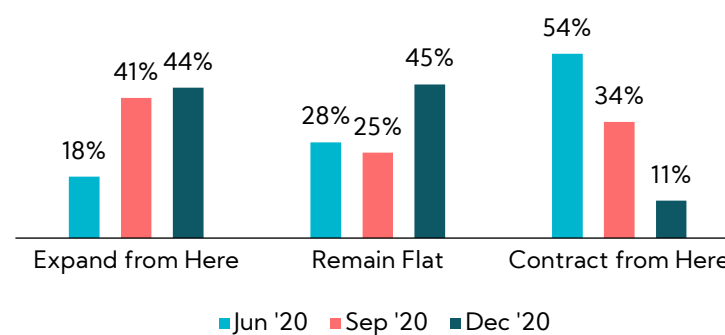
### QoQ INVESTMENT TRENDS



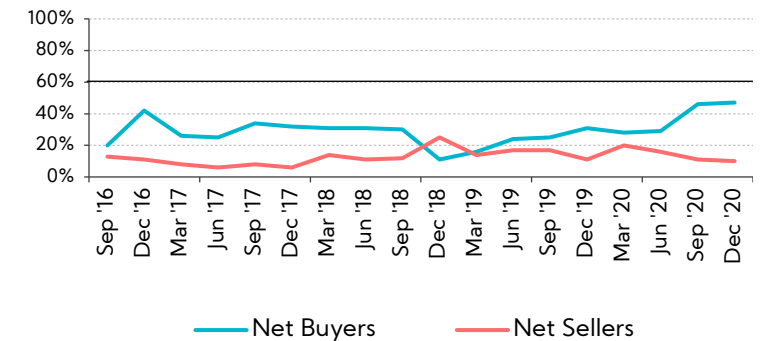
### UNDERVALUED VS. OVERVALUED (U.S. EQUITIES)



### 1H 2021 EQUITY VALUATION EXPECTATIONS



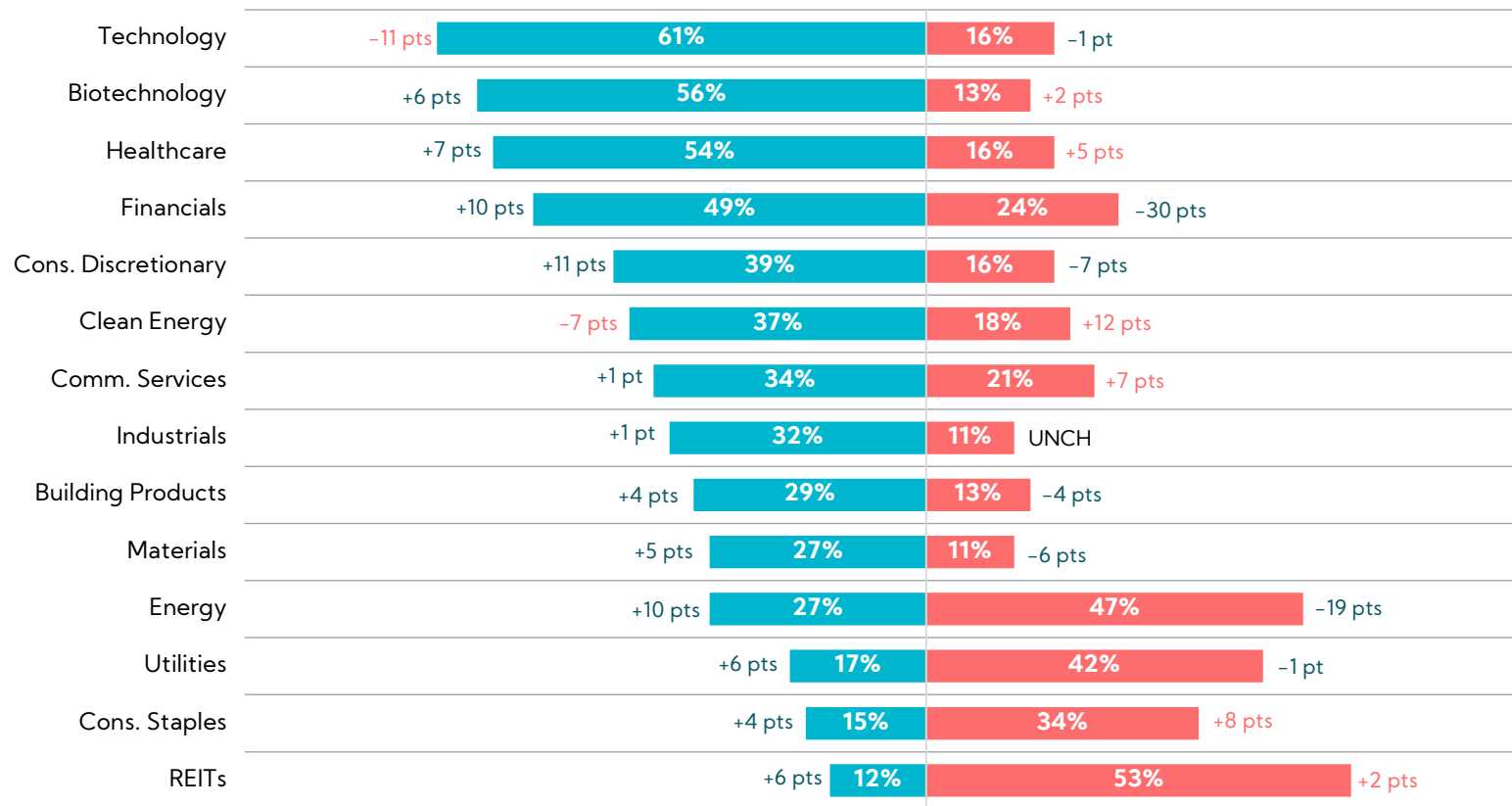
### NET BUYERS VS. NET SELLERS



# Energy, Financials and Consumer Discretionary See the Most Favorable Shifts in Sentiment

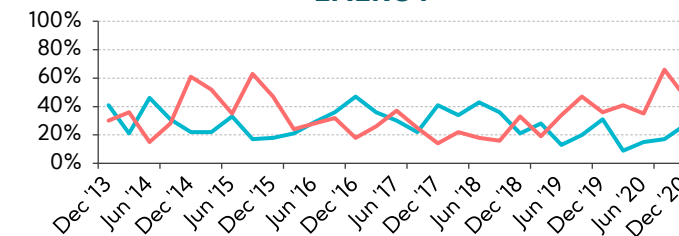
## BULLS VS BEARS

■ Bulls ■ Bears

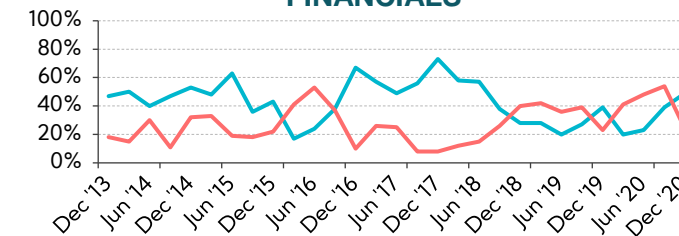


## Largest Bull Gainers

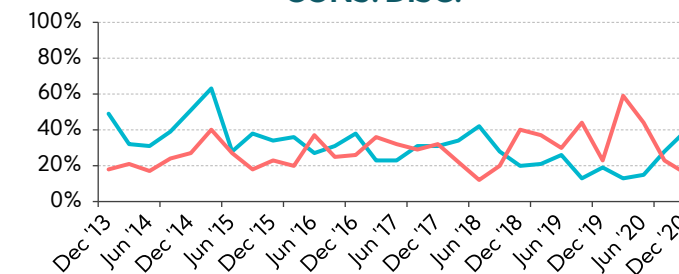
### ENERGY



### FINANCIALS



### CONS. DISC.



■ Bulls ■ Bears





# Insights

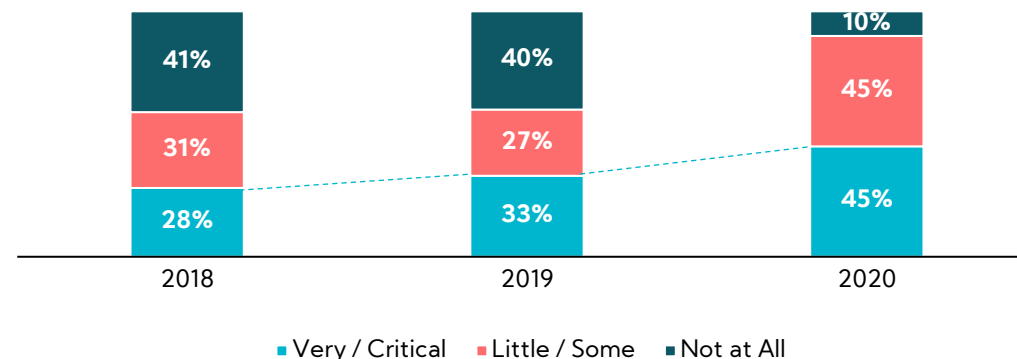
# Spotlight on Human Capital Management

## HCM Emerges as the Leading Social Focus for Investors

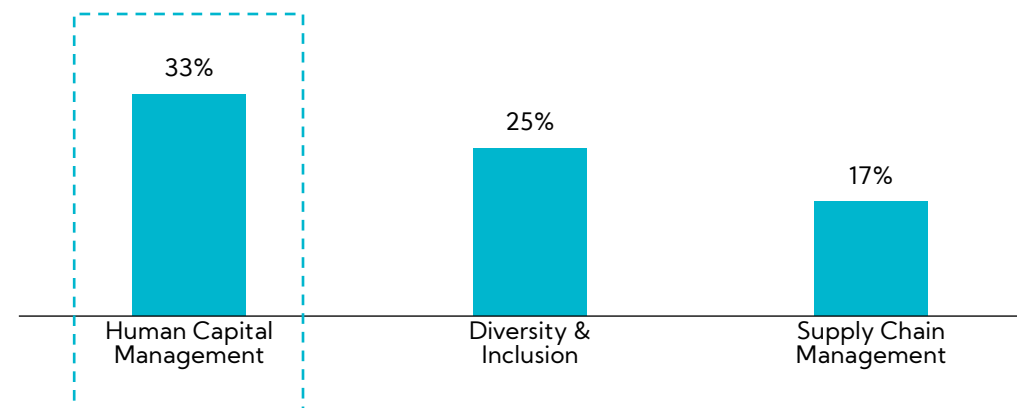
### Corbin Proprietary Research

- Within the last year, the Social component’s importance has increased at an exceptional rate amid a myriad of events, beginning with the 2020 World Economic Forum’s overwhelming focus on stakeholder capitalism, Industry 4.0, and upskilling and reskilling the global workforce
  - The COVID-19 pandemic and along with it, concerns about employee health and safety and a continued championing of diversity and inclusion in the workplace, have led to increased investor focus on human capital management
- Following the SEC’s amendments to “modernize” disclosures of business, legal proceedings and risk factors under Regulation S-K, our September Earnings Primer survey found, for the first time, **investors identifying talent management among the top five topics of interest on earnings calls**
- As the construct of HCM evolves, with trailblazing public companies proactively and transparently communicating facts and figures about what they are doing to keep their employees safe, engaged, innovative, and happy, investors focused on ESG – a rapidly growing number – will seek increased disclosure across their portfolio, as they have done with the ‘E’ and ‘G’ sub-factors
- A best in class approach to HCM and well-executed action plan to meet or exceed specific goals can create a powerful edge, as **67% of surveyed investors cited company culture as one of the most important competitive advantages they seek when making an investment decision**
- As you prepare for earnings, investors will be focused on three specific aspects of HCM
  - 1) Employee health and safety amid the precipitous increase in COVID-19 cases
  - 2) Diversity and inclusion given a spate of decrees, proposals and actions by the State of California, ISS, NASDAQ, Business Roundtable and OneTen
  - 3) Training and development amid the acceleration of Industry 4.0, IoT, digital, and automation

“S” IMPORTANCE TO INVESTMENT THESES



TOP 3 AREAS OF FOCUS FOR SOCIAL HEADING INTO 2021



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Our clients trust us. We provide explicit, no-nonsense counsel with objectivity and candor.

A photograph of a cave interior, illuminated with a strong blue light. The cave walls are textured and layered, creating a sense of depth. In the distance, a person is visible, standing near a bright opening, possibly an entrance or a light source. The overall atmosphere is mysterious and adventurous.

*corbin*

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