

COVID-19 Investor Pulse Check #9

Conducted August 7–9, 2020

BCG's COVID-19 Investor Pulse Check

BCG surveyed leading investors to understand their perspectives on the US economy, the US stock market, and the critical decisions and actions that senior executives and boards of directors are considering and making. The COVID-19 Investor Pulse Check has been conducted since March 22.

This COVID-19 Investor Pulse Check, conducted August 7–9, is the ninth in a series of periodic surveys that BCG is conducting to help corporate executives and boards of directors understand investors' perspectives in this rapidly changing environment.

- The eighth survey was conducted July 17–19; roughly 90% of the respondents to that survey participated in the August 7–9 survey
- Across the three most recent surveys (June 26–28, July 17–19, and August 7–9), the overlap in respondents is about 80%

About the respondents:

- They represent investment firms that have more than \$4 trillion in combined assets under management
- About 80% are portfolio managers and senior analysts who are directly responsible for making buy, sell, and hold decisions
- They cover a broad spectrum of investing types or styles, including deep value, income, growth at a reasonable price, and core growth; they also include some quantitative, technical, and special situation investors

The survey focused on two key topics:

1

Investor expectations for the US economy and stock market as well as the shape of the recovery

2

Investor perspectives on critical moves that corporate executives and boards of directors are considering and making

The analysis shared in this document represents an aggregated view that is not segmented by investor type; it is important for corporate executives and boards of directors to keep in mind their current and target investor mix while interpreting the results.

- Results by investor type can be made available upon request

The results represent the views of surveyed investors only; to understand BCG's point of view, please click [here](#) to visit BCG's microsite on the COVID-19 crisis.

Executive summary | BCG's COVID-19 Investor Pulse Check #9

August 9 vs. July 19

Since the previous pulse check three weeks ago, investors surveyed indicate they are slightly less bearish on the economy and remain bearish on the stock market in 2020 and 2021:

- On average, investors believe COVID-19's impact on the US economy will last through Q2 2021
- 43% of investors (up from 28%) are more bullish on the economy than they were three weeks ago, implying a more balanced outlook
- 64% of investors anticipate a W- or U-shaped recovery (up from 56%), with the W shape seen as the most likely shape (34% of investors, up from 31%)
- The amount of fiscal stimulus believed to be needed to support the economy through the crisis is now \$4.1 trillion (down from \$4.25 trillion)
- Although 36% of investors are slightly more bullish on the stock market (up from 31%), most remain bearish; the investor outlook for 2021 also remains bearish, with only 36% of investors bullish on 2021
- Although investors still expect a return to S&P earnings growth in Q2 2021, only 51% of investors believe this will occur (down from 64%)

Investors' priorities for financially healthy companies remain far from historical norms:¹

- Investors remain focused on liquidity and financial resilience through the crisis, with 67% of investors (down from 72%) believing it is important for companies to intensely focus on preserving liquidity
 - 67% of investors (down from 69%) believe companies should quickly access all available sources of debt financing
 - 55% of investors (down from 59%) believe that raising capital by issuing equity is a reasonable move
 - Only 36% of investors think it is important for companies to maintain the dividend per share (same as the previous survey)
 - Only 37% of investors (down from 44%) think it is important for companies to aggressively repurchase shares
- While 85% of investors (up from 83%) continue to understand why companies have withdrawn guidance, 70% of investors (up from 69%) want companies to provide or revise guidance within the next 90 days, and 81% want additional disclosures in the interim (down from 87%)
- Investors remain focused on long-term advantage—89% support prioritizing building capabilities at the expense of EPS (down from 91%)
 - 71% of investors (up from 69%) support acquisitions, and 73% (up from 67%) support divestitures to strengthen the business
 - 49% of investors are comfortable with both transformational and tuck-in acquisitions, but many investors show a clear preference for tuck-in deals over transformational ones (33%, compared with 7%, respectively)
 - 64% of investors (up from 61%) think healthy companies should not prioritize margins at the expense of investing in the business

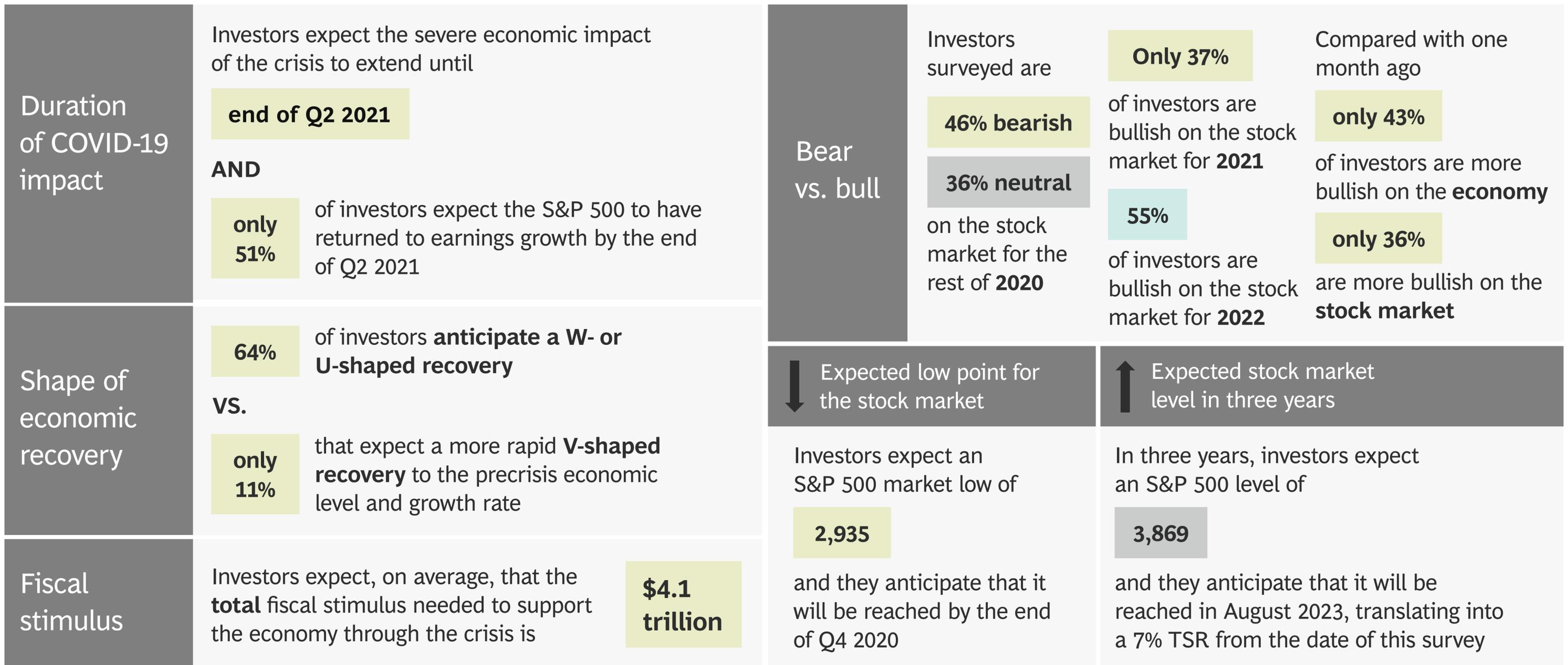
Source: BCG's COVID-19 Investor Pulse Check, July 19, 2020, and August 9, 2020; n = 150 for each survey.

Note: Investors' responses were compared with those from COVID-19 Investor Pulse Check #8 to determine the trajectory (that is "up from," "down from," or "same as").

¹Financially healthy companies were defined as companies with relatively strong and resilient free cash flow and a healthy balance sheet.

Overview of US investors' current perspectives on the US economy and stock market

August 9

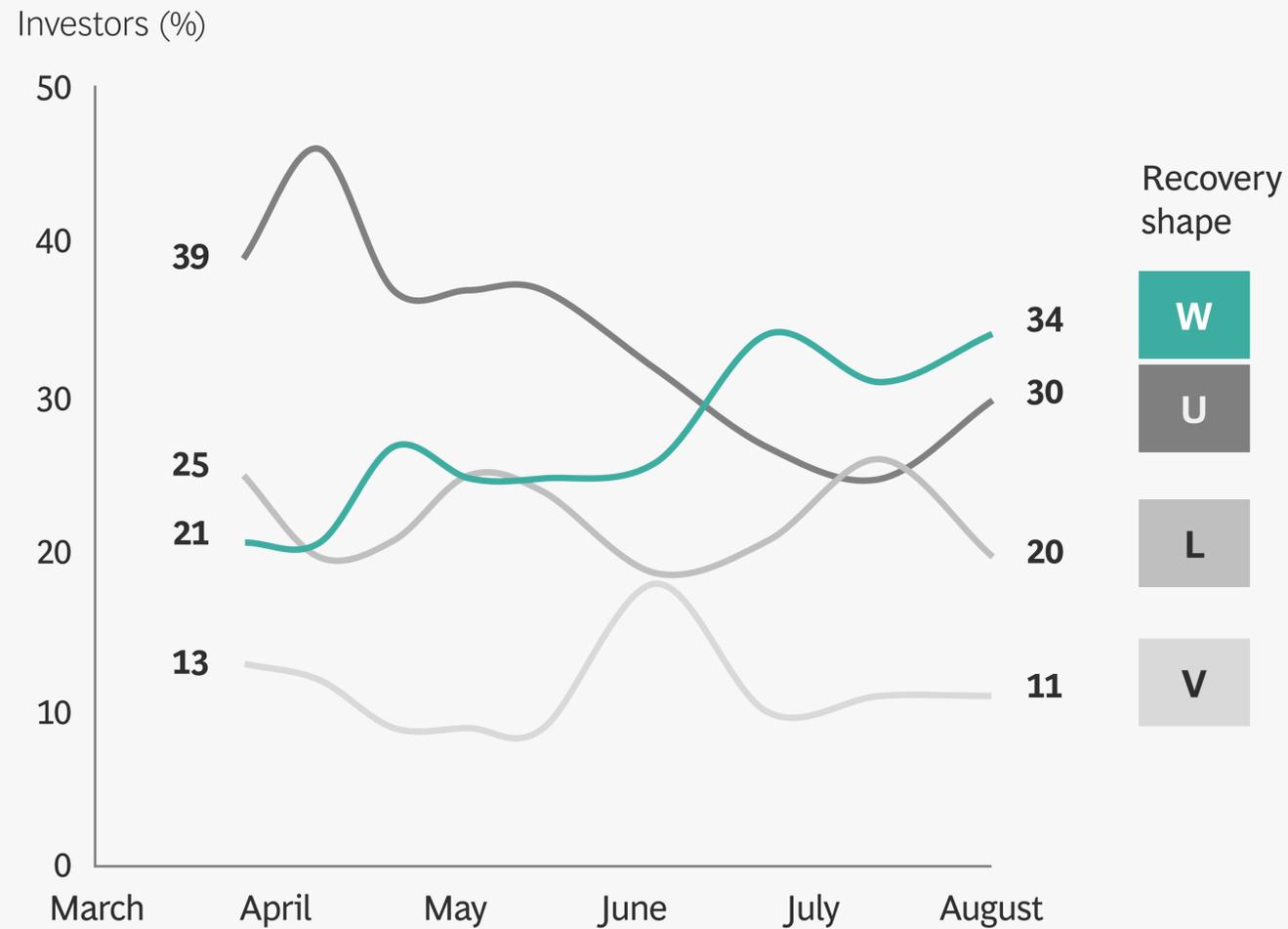


■ Bullish ■ Bearish ■ Neutral

Investors' perspectives on the US economy have evolved since the start of the crisis

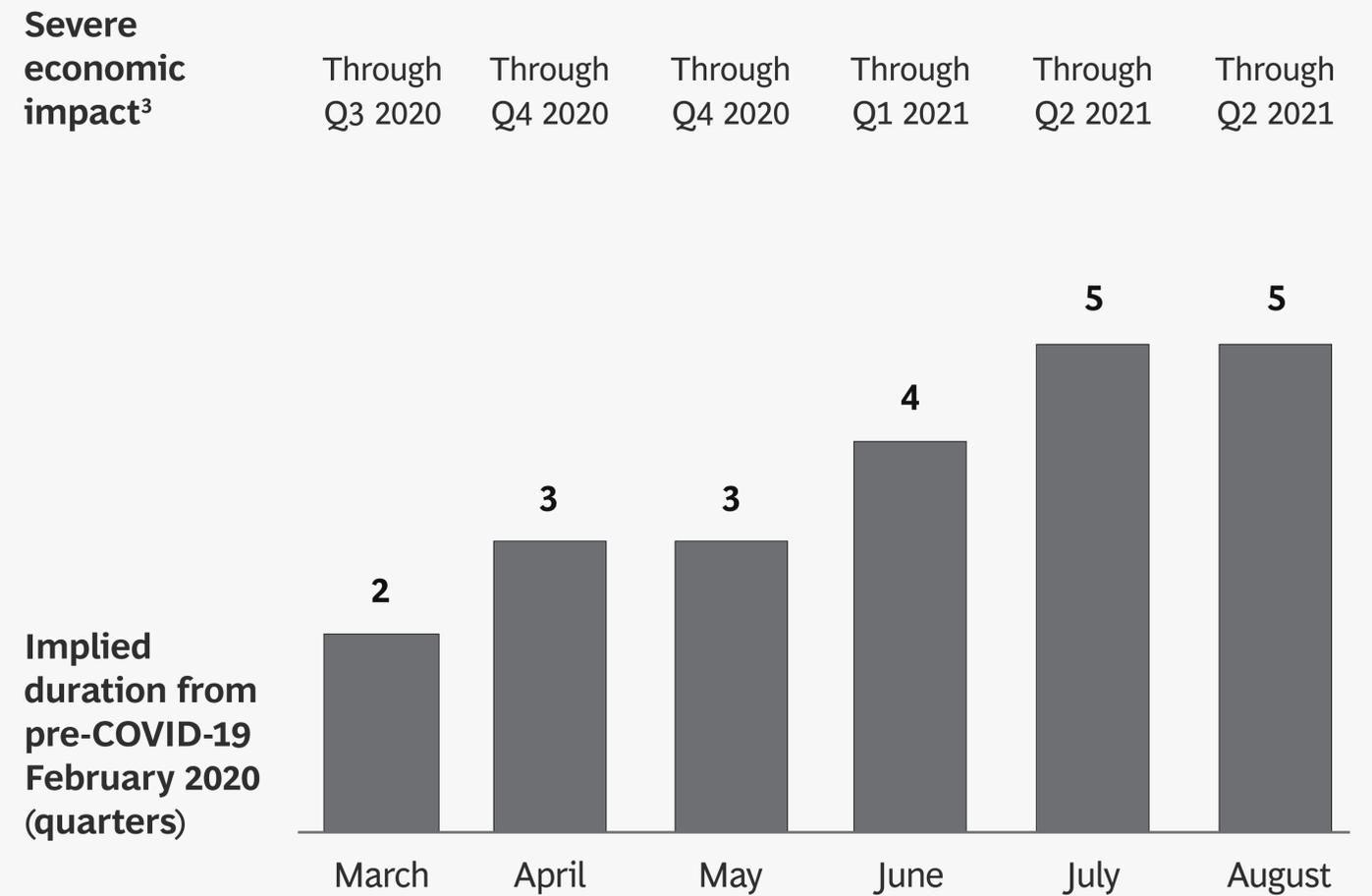
August 9

Investors see a W-shaped recovery as most likely¹



COVID-19 Investor Pulse Check

Investors expect the economic recovery to take longer²



COVID-19 Investor Pulse Check³

Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020; April 5, 2020; April 19, 2020; May 3, 2020; May 17, 2020; June 7, 2020; June 28, 2020; July 19, 2020; and August 9, 2020; n = 150 for each survey.

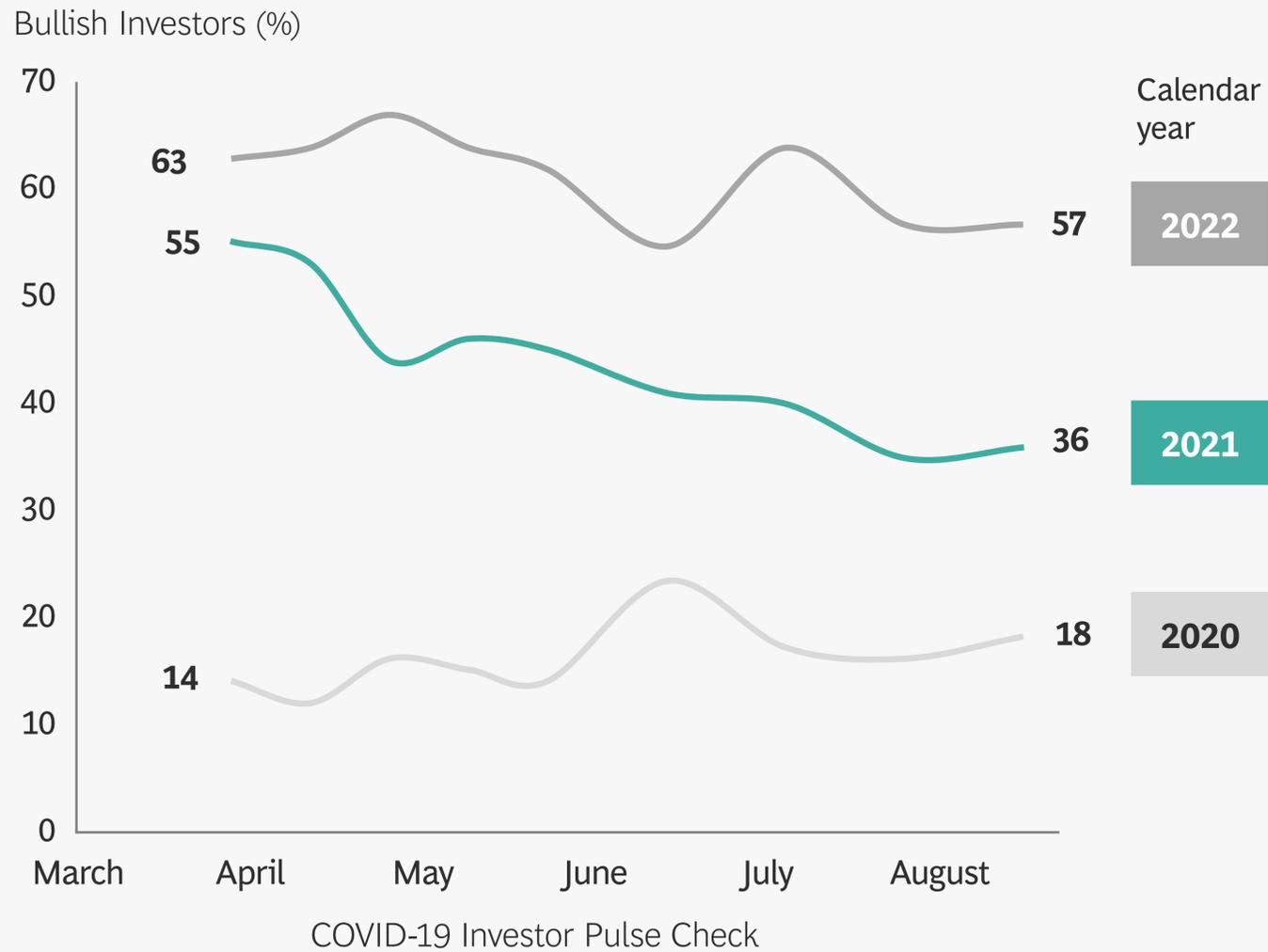
¹In each COVID-19 Investor Pulse Check, a small proportion of the investors surveyed indicated an alternate recovery shape; therefore, the percentages do not add up to 100. ²Based on the median of responses of the investors surveyed.

³For the months in which multiple surveys were conducted, the most recent data point was used.

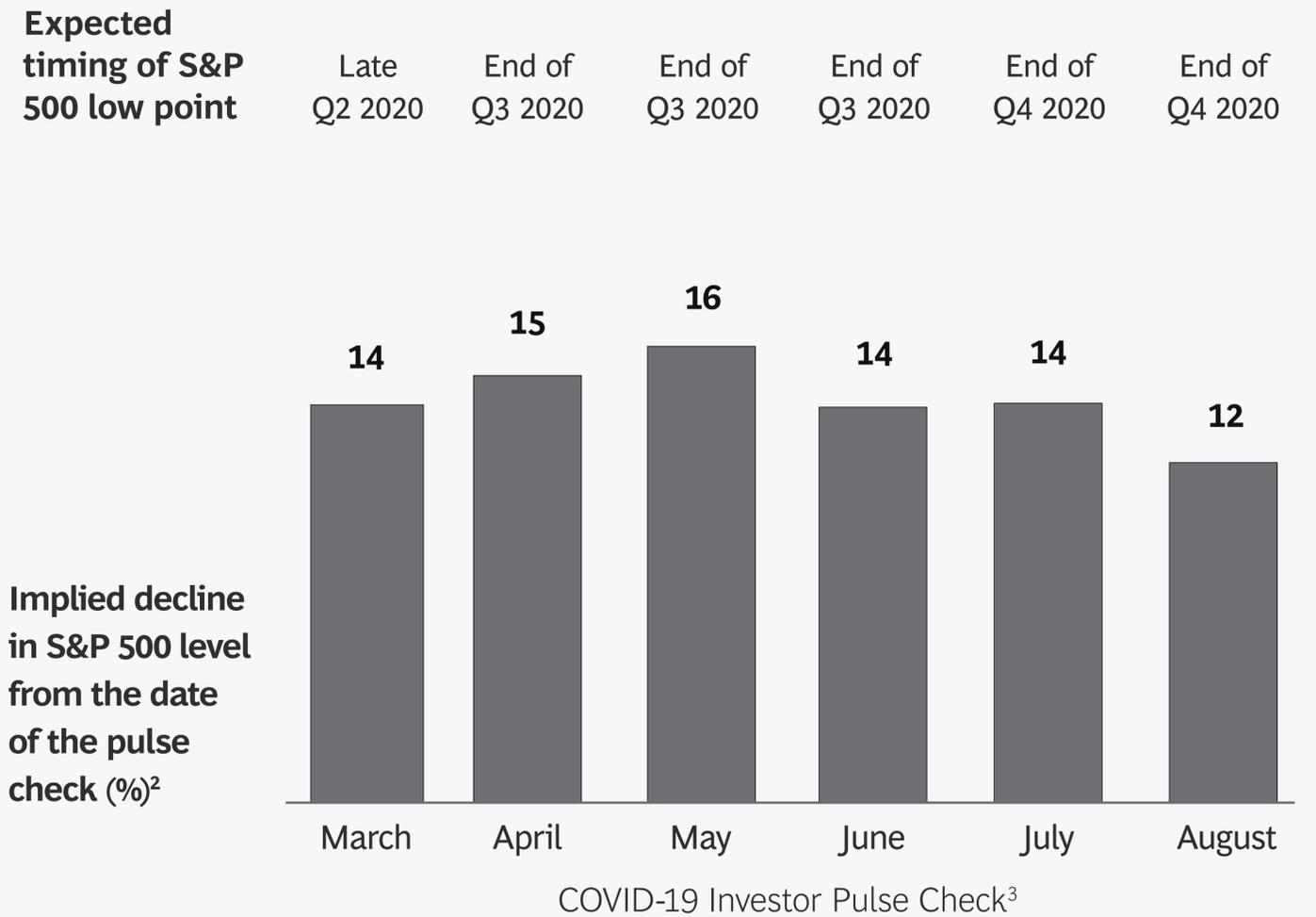
Investors' perspectives on the US stock market have evolved since the start of the crisis

August 9

Investors are far less bullish about 2021



Investors expect a decline in equity markets¹



Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020; April 5, 2020; April 19, 2020; May 3, 2020; May 17, 2020; June 7, 2020; June 28, 2020; July 19, 2020; and August 9, 2020; n = 150 for each survey.

¹Based on the median of responses of the investors surveyed. ²The S&P 500 level used for each survey is as follows: March 22 survey = ~2,400 (based on March 19 market close); April 5 survey = ~2,530 (based on April 2 market close); April 19 survey = ~2,800 (based on April 16 market close); May 3 survey = ~2,900 (based on April 30 market close); May 17 survey = ~2,850 (based on May 14 market close); June 7 survey = ~3,110 (based on June 4 market close); June 28 survey = ~3,080 (based on June 25 market close); July 19 survey = ~3,220 (based on July 16 market close); and August 9 survey = ~3,350 (based on August 6 market close). ³For the months in which multiple surveys were conducted, the most recent data point was used.

Investors view liquidity and financial resilience through the crisis as a high priority for financially healthy companies

August 9

Preserving liquidity

67%

Investors that believe it is important for healthy companies to **intensely focus on preserving liquidity**

Maintaining the dividend

Only 36%

Investors that think it is important for healthy companies to **maintain the dividend per share**

Issuing debt

67%

Investors that believe healthy companies should **quickly access all available sources of debt financing**

Repurchasing shares

Only 37%

Investors that think it is important for healthy companies to **aggressively repurchase shares at today's low valuations**

Issuing equity

55%

Investors that believe **raising capital by issuing equity** is a reasonable move for healthy companies

Investors' views regarding guidance from financially healthy companies appear to have been turned upside down because of the crisis

August 9

Providing, revising, and delivering on guidance

70%

Investors that think it is important for healthy companies to **provide or revise guidance within the next 90 days**

81%

Investors that think it is important for healthy companies that have **withdrawn guidance to provide additional disclosures** in the interim

85%

Investors that **understand why** many healthy companies **have decided to withdraw earnings guidance** for 2020

Only 57%

Investors that will **hold healthy companies to delivering on their revised guidance or the consensus EPS**

Investors want financially healthy companies to build long-term advantage

August 9

Investing in the business

89%

Investors that believe it is important for healthy companies to **prioritize building business capabilities, even at the expense of delivering EPS**

64%

Investors that think healthy companies **should not prioritize margins at the expense of investing in the business**

Reshaping the portfolio

71%

Investors that believe healthy companies should **actively pursue acquisitions to strengthen the business** at today's low valuations

73%

Investors that believe healthy companies should **actively consider exiting or divesting lines of business to strengthen the overall company** given current market conditions

While investors are broadly comfortable with both tuck-in and transformational acquisitions, tuck-in deals are preferred

August 9

	All investors surveyed N = 150	Investors that are more supportive of companies pursuing acquisitions ¹ N = 107 (71%)	Investors that are less supportive of companies pursuing acquisitions ¹ N = 43 (29%)
Comfortable with both tuck-in and transformational acquisitions	49%	58% ↑	26% ↓
Prefer tuck-in acquisitions over transformational deals	33%	30% ↓	42% ↑
Prefer transformational acquisitions over tuck-in deals	Only 7%	Only 7%	Only 7%
Do not believe the time is right to pursue acquisitions	11%	5% ↓	26% ↑

Investors expect M&A activity to return to historically normal levels during the second half of 2021²

Source: BCG's COVID-19 Investor Pulse Check, August 9, 2020; n = 150 for overall survey.

¹More supportive = strongly agree or somewhat agree; less supportive = strongly disagree or somewhat disagree. Participants responded to this statement: "At current valuations, healthy companies should actively pursue acquisitions to strengthen their business."

Directional arrows show the trajectory of investors' responses, compared with all investors surveyed. ²Participants were asked to respond to this question: "M&A activity in North America has been low since the start of the pandemic, with about 1,700 deals worth \$230 billion over the past three months (through the end of July 2020), compared with about 2,350 deals worth about \$310 billion in the same period in 2019. By when do you think M&A activity will return to more normal conditions with less economic and market uncertainty?"

Three additional priority areas for investors stand out

August 9

“Reopening”

87%

Investors that believe it is important for healthy companies that have “closed” their businesses to **“reopen” with caution and prioritize the health and safety of their employees**, even if it results in weaker P&L performance over the next 6 to 12 months

Mitigating activism risk

63%

Investors that believe healthy companies should expect an increase in activist activity given today’s low valuations and, therefore, **take proactive steps to mitigate activism risk** by strengthening their businesses’ near-term and medium-term fundamentals

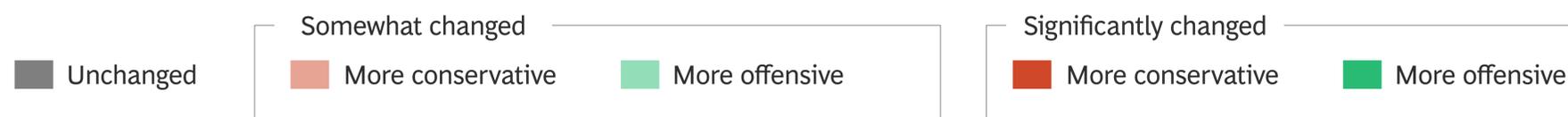
Pursuing an ESG agenda

51%

Investors that think it is important for healthy companies to continue to **fully pursue their ESG agenda and priorities** as they navigate the crisis, even if it means guiding to lower EPS or delivering below consensus

Comparison of BCG's COVID-19 Investor Pulse Checks (1/2)

What are your expectations for...	March 22 #1	April 5 #2	April 19 #3	May 3 #4	May 17 #5	June 7 #6	June 28 #7	July 19 #8	August 9 #9	Difference July 19 vs. August 9
Duration of COVID-19's impact on the US economy	Through Q3 2020	Through Q3 2020	Through Q4 2020	Through Q4 2020	Through Q4 2020	Through Q4 2020	Through Q1 2021	Through Q2 2021	Through Q2 2021	None
Likely shape of the US economy's recovery:										
▪ V shape	13%	12%	9%	9%	9%	18%	10%	11%	11%	None
▪ U shape	39%	46%	37%	37%	37%	32%	27%	25%	30%	+5 p.p.
▪ L shape	25%	20%	21%	25%	24%	19%	21%	26%	20%	-6 p.p.
▪ W shape	21%	21%	27%	25%	25%	26%	34%	31%	34%	+3 p.p.
Fiscal stimulus that is needed	Not asked	Not asked	\$3.75 trillion	\$4.0 trillion	\$4.5 trillion	\$3.9 trillion	\$4.0 trillion	\$4.25 trillion	\$4.1 trillion	-\$150 billion
Bear vs. bull:										
▪ For CY 2020	14% bullish	12% bullish	16% bullish	15% bullish	14% bullish	23% bullish	17% bullish	16% bullish	18% bullish	+2 p.p.
▪ For CY 2021	55% bullish	53% bullish	44% bullish	46% bullish	45% bullish	41% bullish	40% bullish	35% bullish	36% bullish	+1 p.p.
▪ For CY 2022	63% bullish	64% bullish	67% bullish	64% bullish	62% bullish	55% bullish	64% bullish	57% bullish	57% bullish	None
▪ For the next three years	65% bullish	68% bullish	69% bullish	69% bullish	64% bullish	61% bullish	61% bullish	57% bullish	60% bullish	+3 p.p.
More bullish vs. last month: economy	Not asked	Not asked	34% agree	35% agree	30% agree	64% agree	35% agree	28% agree	43% agree	+15 p.p.
More bullish vs. last month: stock market	Not asked	Not asked	45% agree	40% agree	33% agree	53% agree	30% agree	31% agree	36% agree	+5 p.p.
Timing for the S&P 500 to return to earnings growth	End of 1H 2021	End of 1H 2021	Early Q2 2021	Early Q2 2021	End of Q2 2021	End of Q2 2021	End of Q2 2021	End of Q2 2021	End of Q2 2021	None
S&P 500 low-point expectation: level	S&P at 2,062	S&P at 2,158	S&P at 2,393	S&P at 2,382	S&P at 2,449	S&P at 2,676	S&P at 2,664	S&P at 2,765	S&P at 2,935	+170
S&P 500 low-point expectation: timing	End of May 2020	End of June (Q2) 2020	Early Q3 2020	End of Q3 2020	End of Q3 2020	End of Q3 2020	End of Q3 2020	End of Q4 2020	End of Q4 2020	None
Three-year S&P 500 level expectation ¹	3,075 (11% TSR)	3,165 (10% TSR)	3,411 (9% TSR)	3,591 (9% TSR)	3,525 (9% TSR)	3,717 (8% TSR)	3,685 (8% TSR)	3,727 (7% TSR)	3,869 (7% TSR)	+142 (TSR unchanged)



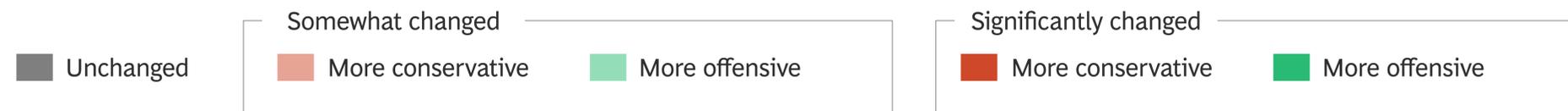
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Note: This slide spotlights key differences between pulse checks. Color coding is based on consideration of absolute and percentage change. CY = calendar year; p.p. = percentage point; 1H = first half; TSR = total shareholder return. ¹The S&P 500 level used for each survey is as follows: March 22 survey = ~2,400 (based on March 19 market close); April 5 survey = ~2,530 (based on April 2 market close); April 19 survey = ~2,800 (based on April 16 market close); May 3 survey = ~2,900 (based on April 30 market close); May 17 survey = ~2,850 (based on May 14 market close); June 7 survey = ~3,110 (based on June 4 market close); June 28 survey = ~3,080 (based on June 25 market close); July 19 survey = ~3,220 (based on July 16 market close); and August 9 survey = ~3,350 (based on August 6 market close). TSR is implied through the CAGR of S&P level and an assumed 2% dividend yield.

Comparison of BCG's COVID-19 Investor Pulse Checks (2/2)

Investors that agree with the following statements about financially healthy companies (%)¹

It is important for financially healthy companies to... ¹	March 22 #1	April 5 #2	April 19 #3	May 3 #4	May 17 #5	June 7 #6	June 28 #7	July 19 #8	August 9 #9	Difference July 19 vs. August 9
Provide or revise guidance	79%	77%	78%	74%	66%	72%	67%	69%	70%	+1 p.p.
Deliver EPS that at least meets revised guidance or consensus	56%	64%	56%	51%	54%	56%	58%	57%	57%	None
• Investors understand why companies have withdrawn 2020 earnings guidance ²	Not asked	Not asked	Not asked	85%	81%	79%	79%	83%	85%	+2 p.p.
Make additional temporary disclosures	Not asked	Not asked	Not asked	83%	77%	76%	85%	87%	81%	-6 p.p.
Prioritize building key business capabilities	89%	91%	92%	95%	88%	91%	90%	91%	89%	-2 p.p.
Continue to fully pursue their ESG agenda and priorities	Not asked	56%	46%	48%	45%	51%	48%	53%	51%	-2 p.p.
Prioritize maintaining their margin levels	Not asked	41%	33%	32%	33%	45%	38%	39%	36%	-3 p.p.
Intensely focus on preserving liquidity	73%	79%	77%	68%	75%	76%	69%	72%	67%	-5 p.p.
Quickly access all available sources of debt financing	Not asked	71%	73%	73%	72%	71%	65%	69%	67%	-2 p.p.
Consider significant equity issuance a reasonable move	Not asked	48%	56%	55%	53%	53%	61%	59%	55%	-4 p.p.
Aggressively repurchase shares	39%	44%	38%	36%	42%	43%	34%	44%	37%	-7 p.p.
Maintain the dividend per share	41%	43%	35%	29%	36%	43%	33%	36%	36%	None
Actively pursue acquisitions	58%	64%	65%	66%	70%	68%	68%	69%	71%	+2 p.p.
Actively consider exiting or divesting lines of business	Not asked	Not asked	Not asked	Not asked	65%	64%	75%	67%	73%	+6 p.p.
Expect an increase in activist activity and take proactive steps to mitigate risk	59%	66%	64%	70%	61%	65%	63%	66%	63%	-3 p.p.
“Reopen” with caution and prioritize employees’ health and safety	Not asked	Not asked	Not asked	Not asked	84%	87%	89%	88%	87%	-1 p.p.



Source: BCG's COVID-19 Investor Pulse Check, March 22, 2020; April 5, 2020; April 19, 2020; May 3, 2020; May 17, 2020; June 7, 2020; June 28, 2020; July 19, 2020; and August 9, 2020; n = 150 for each survey.

Note: This slide spotlights key differences between pulse checks. Color coding is based on consideration of absolute and percentage change. EPS = earnings per share; p.p. = percentage point; ESG = environmental, social, and governance.

¹Financially healthy companies were defined as companies with relatively strong and resilient free cash flow and a healthy balance sheet. ²Participants were subsequently asked to respond to this statement: “Given COVID-19’s impact on corporate visibility, I understand why many healthy companies have decided to withdraw earnings guidance for 2020.”

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