



Earnings Call Transcripts Analysis, Q3 2018

January 2019

Executive Summary

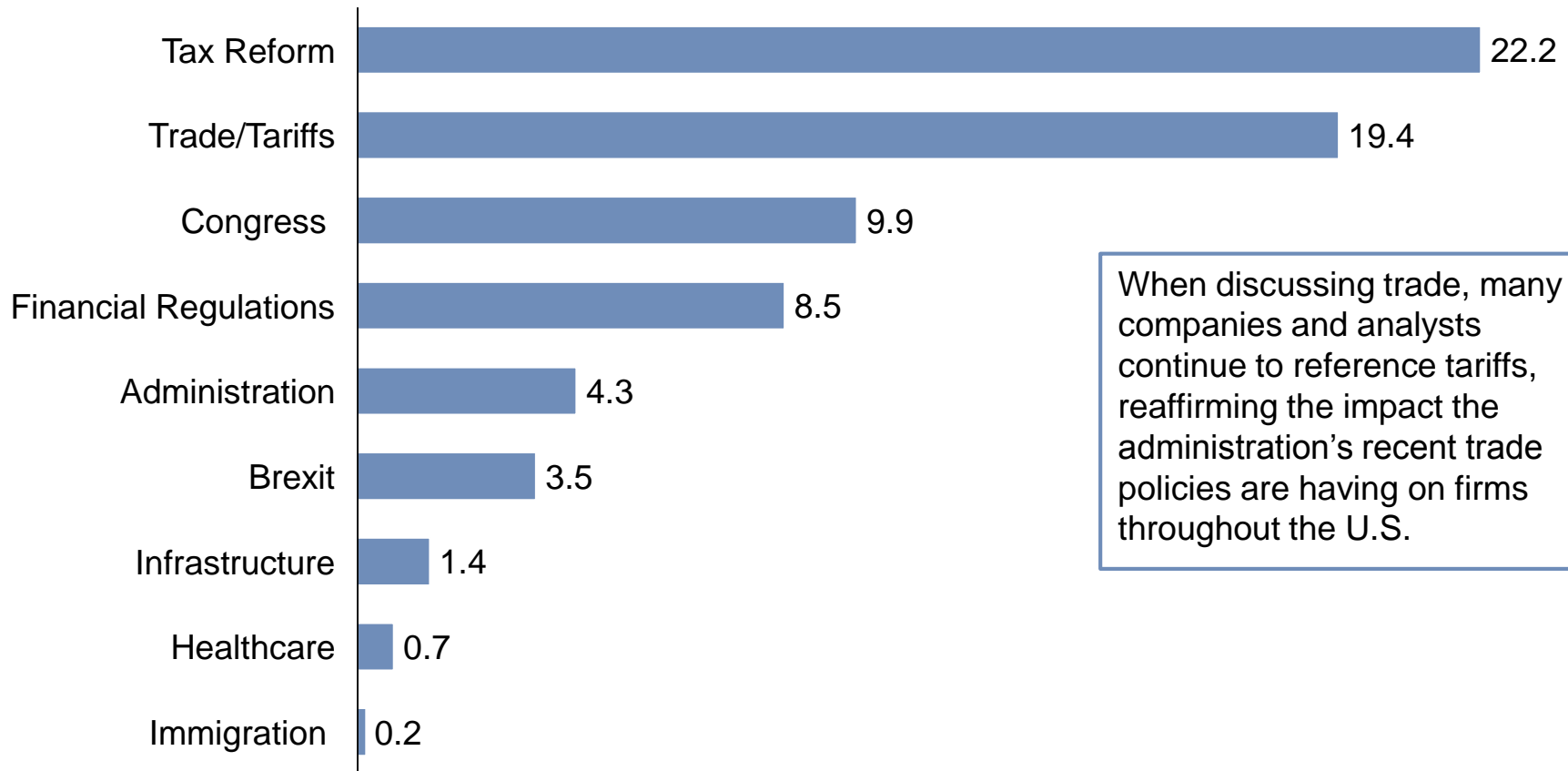
Hamilton Place Strategies (HPS) analyzed quarterly earnings call transcripts of U.S. public companies to identify key issues influencing the business community's decision making. This report contains our analysis of Q3 earnings call transcripts of U.S. domiciled companies listed on the Russell 3000 index. The calls included in this analysis took place from October-December 2018.

Key Findings:

- **Tax reform was the dominant policy topic discussed on earnings calls in Q3**, though mentions of U.S. trade and tariff policy remained high.
- As the administration expanded its tariff policies and the rhetoric around a U.S./China trade war heated up, **a growing portion of consumer discretionary and internet technology companies mentioned trade on their earnings calls**. Of all the conversations happening about trade, companies in the industrial sector made up approximately one-third of all mentions.
 - Of all trade topics, tariffs were mentioned most frequently, followed by China.
- While nearly all firms mentioned labor and hiring dynamics on earnings calls, only a small percentage of companies discussed the skills gap or workforce training.
- **There was a significant spike in conversations on tightness in the labor market between Q2 and Q3 by industrial companies**, which often oversee large workforces.

Tax Reform And Trade Headlined Policy Conversations On Russell 3000 Companies' Q3 2018 Earnings Calls

Percent Of Total Q3 '18 Calls Mentioning Select Policy Topics

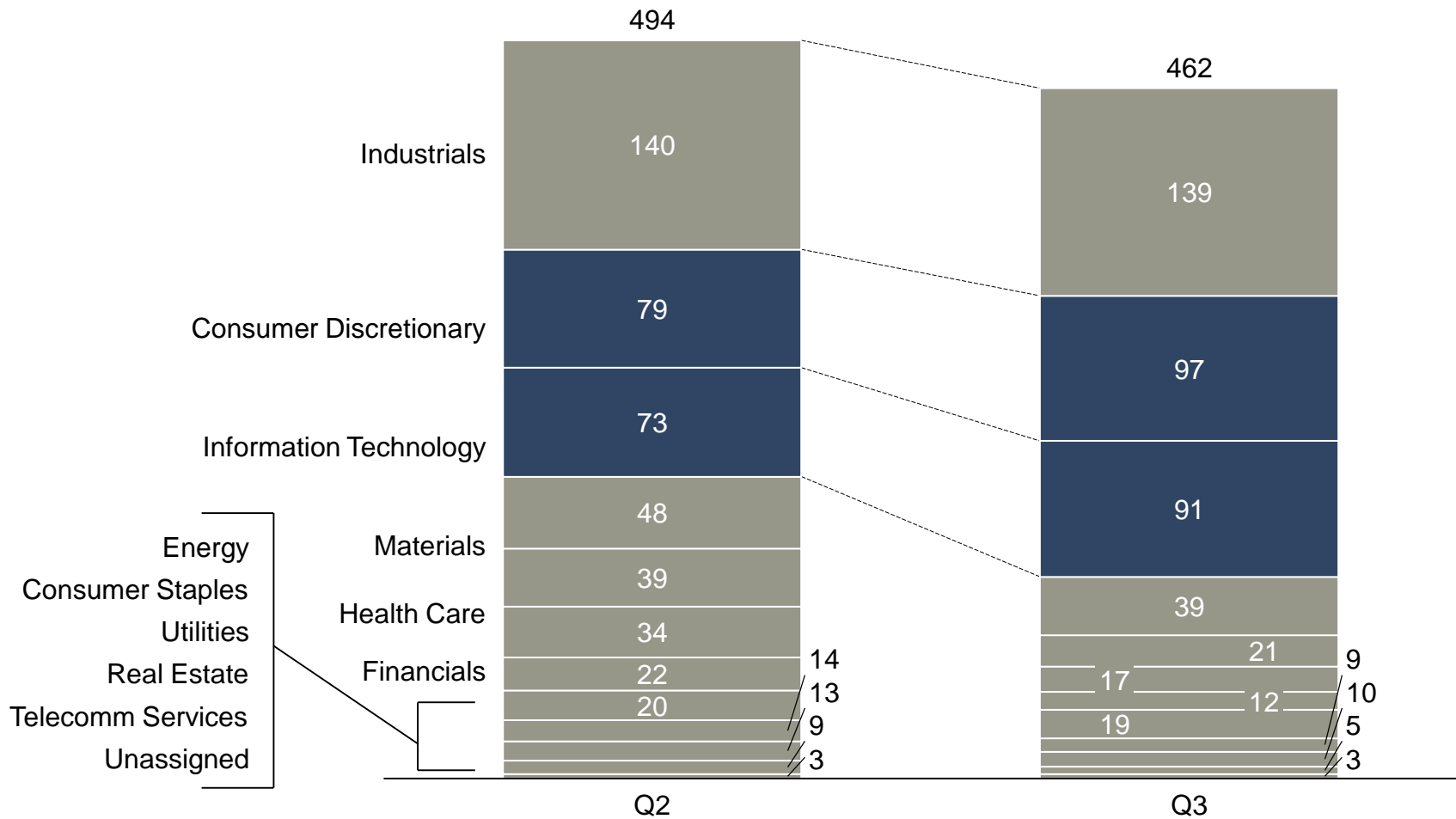


Source: Bloomberg, HPS

Note: Categories are not mutually exclusive.

There Was A Significant Uptick In IT And Consumer Discretionary Firms Discussing Trade In Q3

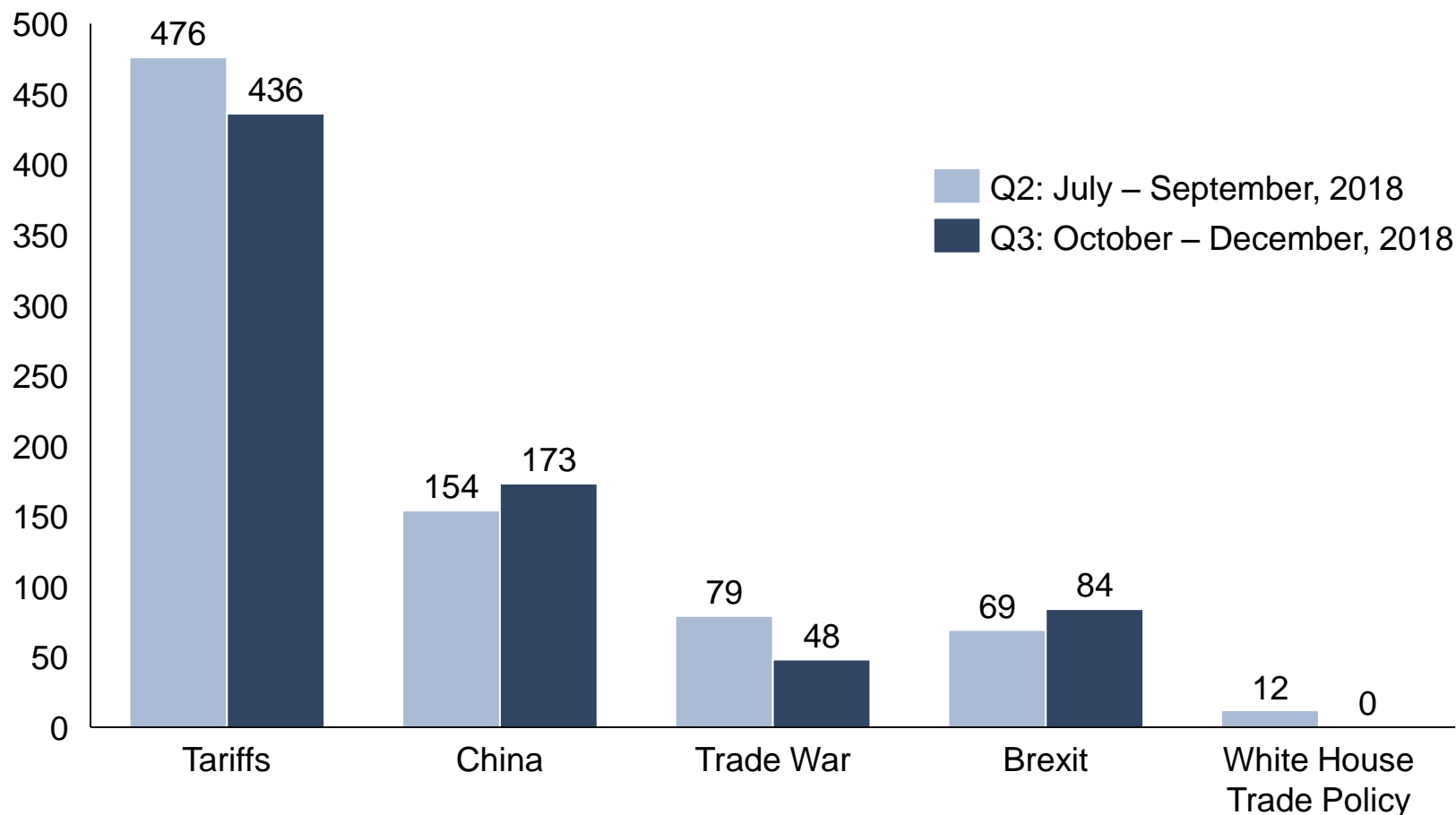
Russell 3000 Companies Discussing Trade On Earnings Calls By Financial Quarter



Source: Bloomberg, HPS

Compared To Q2 2018, Overall Mentions Of Tariffs Dipped While Conversations On China Rose

Number Of Calls Mentioning Select Trade Topics

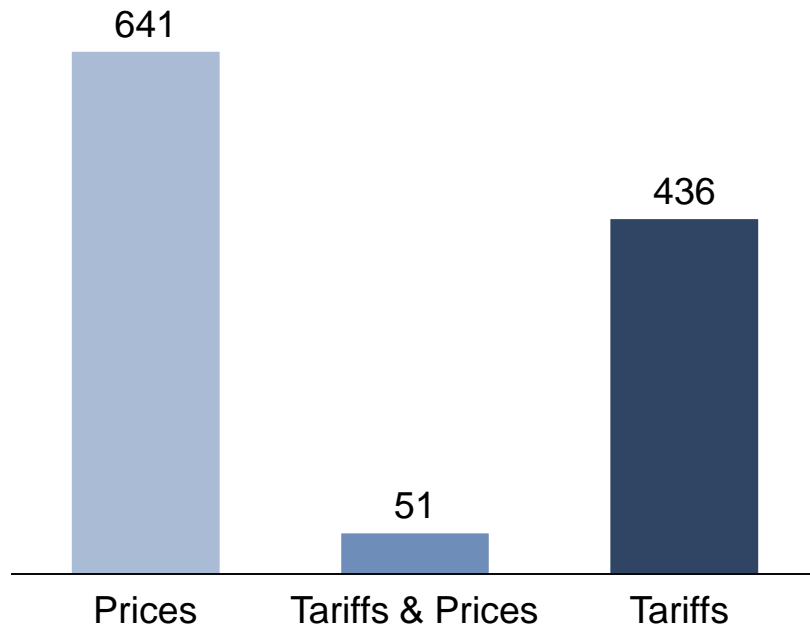


Source: Bloomberg, HPS

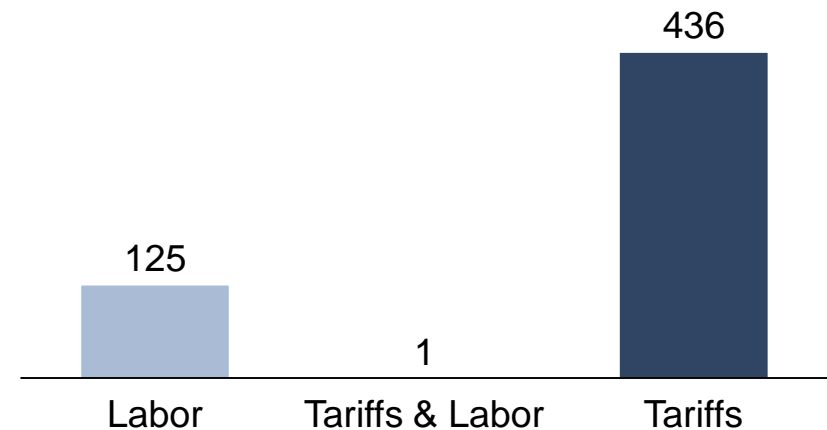
Note: Categories are not mutually exclusive.

Russell 3000 Companies Discussed Tariffs In The Context Of Prices More Than In The Context Of Labor

Number Of Q3 Calls Mentioning Price And Tariff Topics



Number Of Q3 Calls Mentioning Labor And Tariff Topics



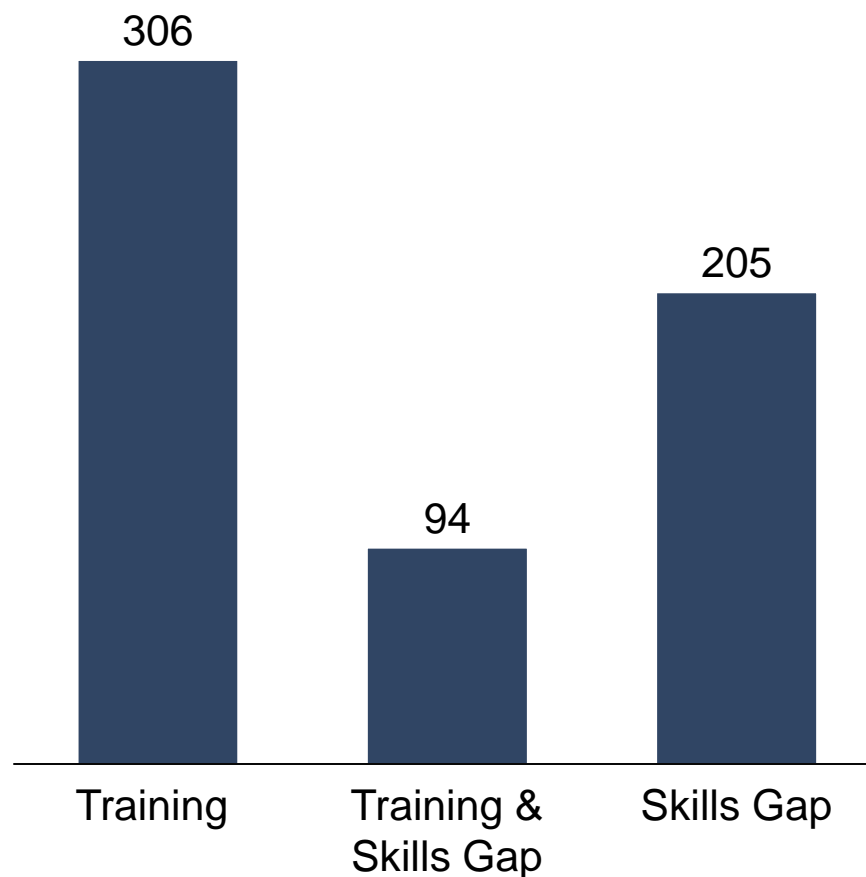
- Roughly five percent of earnings calls mentioning rising prices or tariffs discussed the two topics jointly.
- While there were a significant number of discussions on the U.S. workforce and tariffs independently, there were almost no conversations on earnings calls that discussed the two issues in tandem.

Hiring Discussions On Earnings Calls Focused More On Workforce Training Than The Skills Gaps In Q3

2,089

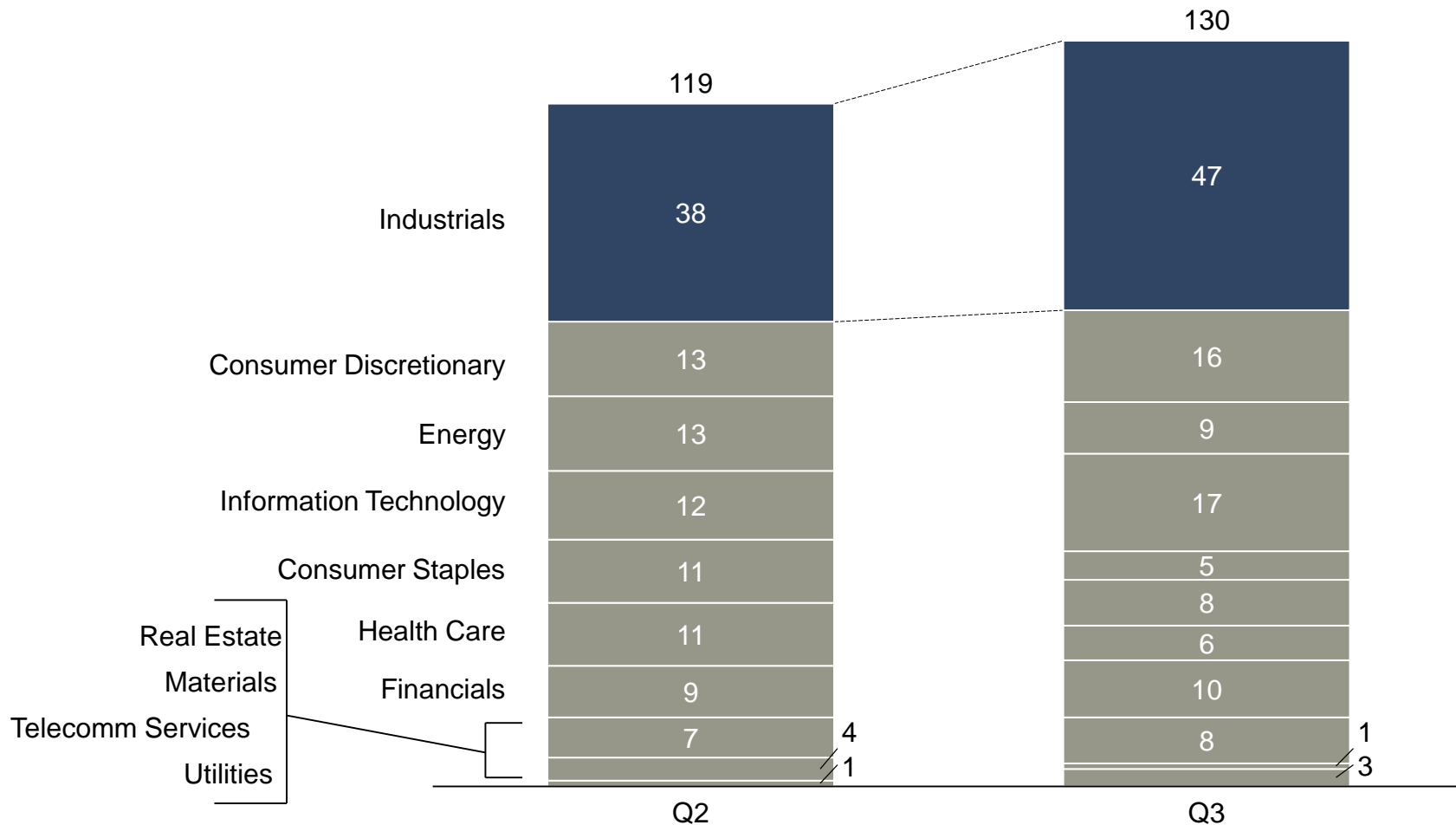
Roughly 88 percent of all Russell 3000 earnings calls in Q3 discussed labor, workforce, and hiring topics. Of these, approximately four percent discussed training and skills gaps.

Number Of Q3 Calls Mentioning Select Labor Topics



A Greater Number Of Industrial Companies Discussed A Tightening Labor Market From Q2 To Q3

Russell 3000 Companies Discussing Labor Market Dynamics On Earnings Calls, By Financial Quarter



Source: Bloomberg, HPS

Note: There were no mentions of labor market dynamics by utility companies during Q2 2018.

Corporate Comments On U.S. Tariffs Have Focused Largely On Supply Chain Exposure



*Engine and Power Generation Manufacturer
Based In Columbus, OH*

“Tariffs have not been good for Cummins. ... They've just driven up cost or just more taxes to Cummins. Again, we generally build in the regions that we sell. So we're not moving most of our products but there is some number that we're better to build it in one place than all places. And of course as we increase tariffs, it just means that we have less markets that we can serve from one place.”

– Tom Linebarger, CEO, 10/30/18



*Semiconductor Manufacturer
Based In Camarillo, CA*

“From a tariff standpoint, at this moment, I don't think there's any real impact to us. I mean there's a lot of nervousness, uncertainty, customers are not sure about things... But in terms of a direct impact, at this point, I don't think I can point to anything that's specifically impacting our business. That could change.”

– Mohan Maheswaran, CEO, 11/28/18



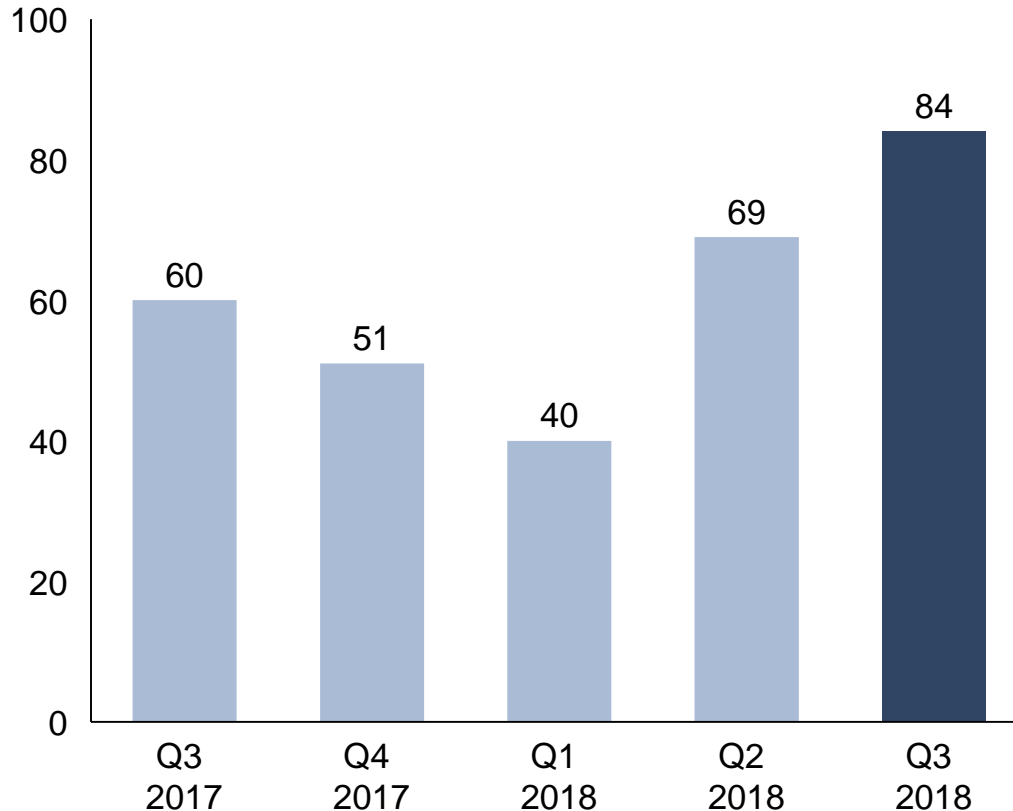
*Department Store Conglomerate
Based In Framingham, MA*

“On the tariffs, it's early and so there's a little lack of clarity right now, including the potential impact on vendor and competitor pricing. I would say our flexible business model will help insulate us.”

– Ernie Herrman, CEO, 11/20/18

Mentions Of Brexit In Q3 Continued To Climb As Brexit Deadline Approaches

Number Of Earnings Calls Mentioning Brexit, By Quarter



*Multinational Engineering Firm
Based In Los Angeles, CA*

“Volumes in our largest market, the UK, were below our expectations. **Uncertainty around the mid and long-range impacts of Brexit continue to impact the market ahead of the key March 29th separation date from the European Union.** We have taken decisive actions to prepare for this slowdown. As a result, we have a better cost structure today and we have maintained the key capabilities to respond as market conditions improve.”

- Michael Burke, CEO, 11/12/18

Glossary

- **Consumer Discretionary Sector:** The Consumer Discretionary Sector encompasses those businesses that tend to be the most sensitive to economic cycles. Its manufacturing segment includes automotive, household durable goods, leisure equipment, textiles, and apparel. The services segment includes hotels, restaurants and other leisure facilities, media production and services, and consumer retailing and services.
- **Consumer Staples Sector:** The Consumer Staples Sector comprises companies whose businesses are less sensitive to economic cycles. It includes manufacturers and distributors of food, beverages, and tobacco, and producers of non-durable household goods and personal products. It also includes food and drug retailing companies as well as hypermarkets and consumer super centers.
- **Energy Sector:** The Energy Sector comprises companies engaged in exploration and production, refining and marketing, and storage and transportation of oil, gas, coal, and consumable fuels. It also includes companies that offer oil and gas equipment and services.
- **Financials Sector:** The Financials Sector contains companies involved in banking, thrifts and mortgage finance, specialized finance, consumer finance, asset management and custody banks, investment banking and brokerage and insurance. It also includes Financial Exchanges & Data and Mortgage REITs.
- **Health Care Sector:** The Health Care Sector includes health care providers and services, companies that manufacture and distribute health care equipment and supplies, and health care technology companies. It also includes companies involved in the research, development, production and marketing of pharmaceuticals and biotechnology products.

Glossary Cont.

- **Industrials Sector:** The Industrials Sector includes manufacturers and distributors of capital goods such as aerospace and defense, building products, electrical equipment and machinery, and companies that offer construction and engineering services. It also includes providers of commercial and professional services including printing, environmental and facilities services, office services and supplies, security and alarm services, human resource and employment services, and research and consulting services. It also includes companies that provide transportation services.
- **Information Technology Sector:** The Information Technology Sector comprises companies that offer software and information technology services, manufacturers and distributors of technology hardware and equipment such as communications equipment, cellular phones, computers and peripherals, electronic equipment and related instruments, and semiconductors.
- **Materials Sector:** The Materials Sector includes companies that manufacture chemicals, construction materials, glass, paper, forest products and related packaging products, and metals, minerals and mining companies, including producers of steel.
- **Real Estate Sector:** The Real Estate Sector contains companies engaged in real estate development and operation. It also includes companies offering real estate-related services and Equity Real Estate Investment Trusts (REITs).
- **Telecommunication Services Sector:** The Telecommunication Services Sector contains companies that provide communications services primarily through a fixed-line, cellular or wireless, high bandwidth and/or fiber optic cable network.
- **Utilities Sector:** The Utilities Sector comprises utility companies such as electric, gas, and water utilities. It also includes independent power producers and energy traders, and companies that engage in generation and distribution of electricity using renewable sources.