

January 22, 2016

Dear clients and colleagues,

We recently had a chance to meet with over 45 companies located in France, Germany, Switzerland and the rest of Europe. While many companies seemed cautiously confident about the short-term outlook, management's tone varied quite substantially from industry to industry. In the end we came across several interesting companies despite current economic uncertainty and headwinds coming from emerging markets. Here are some of our observations:

- Several companies outlined numerous growth opportunities for their product portfolios. In the technology space, for example, applications within Smart Mobility, Communication, Medical Enhancement, Smart Energy and Internet of Things continue to be very promising.
- Hardware-related technology companies are running close to full capacity. Although Europe remains an important hub for design and engineering, capacity in Asia, and to a lesser extent in Eastern Europe, continue to develop favourably.
- Industrial companies continue to see good demand in Europe and in the US, while Southern Europe is in recovery mode. For some, order intakes observed in Q4 were at similar levels to previous quarters in 2015. Many companies intend to make working capital management more efficient to support free cash flow. Cost-cutting measures implemented a few years ago should have a positive impact in 2016.
- Within the auto supplier segment, tougher emission regulations, technology enhancement and weight reduction efforts should continue to provide plenty of opportunities.
- Within aerospace, both Boeing and Airbus have order backlogs representing between 7 and 9 years of production at their current production rate. Production should intensify within the next 2-3 years, and we expect subcontractors and suppliers to benefit from that ramp-up.
- Despite decent growth in Europe, apparel companies that are exposed to Chinese consumers are facing tougher pricing conditions. Ready-to-wear seems to be the most impacted segment. Companies continue to look for ways to keep their prices competitive and to invest in product range, brand image, store network and internet sales. It is worth mentioning that companies exposed to leisure, travel and durable goods are adopting a more optimistic tone.

Overall we found that mid-term objectives provided by companies continue to be reassuring. Management teams remain on course to further grow their businesses in a profitable way. In order to enhance their long-term earnings potential, most of the companies interviewed remain focused

on their investment programs. Healthy balance sheets should provide strategic flexibility for further bolt-on acquisitions. In a nutshell, we believe that innovative companies operating in niche industries should continue to outpace their peers within their specific markets.

Have a good weekend.

The Global Alpha Team