

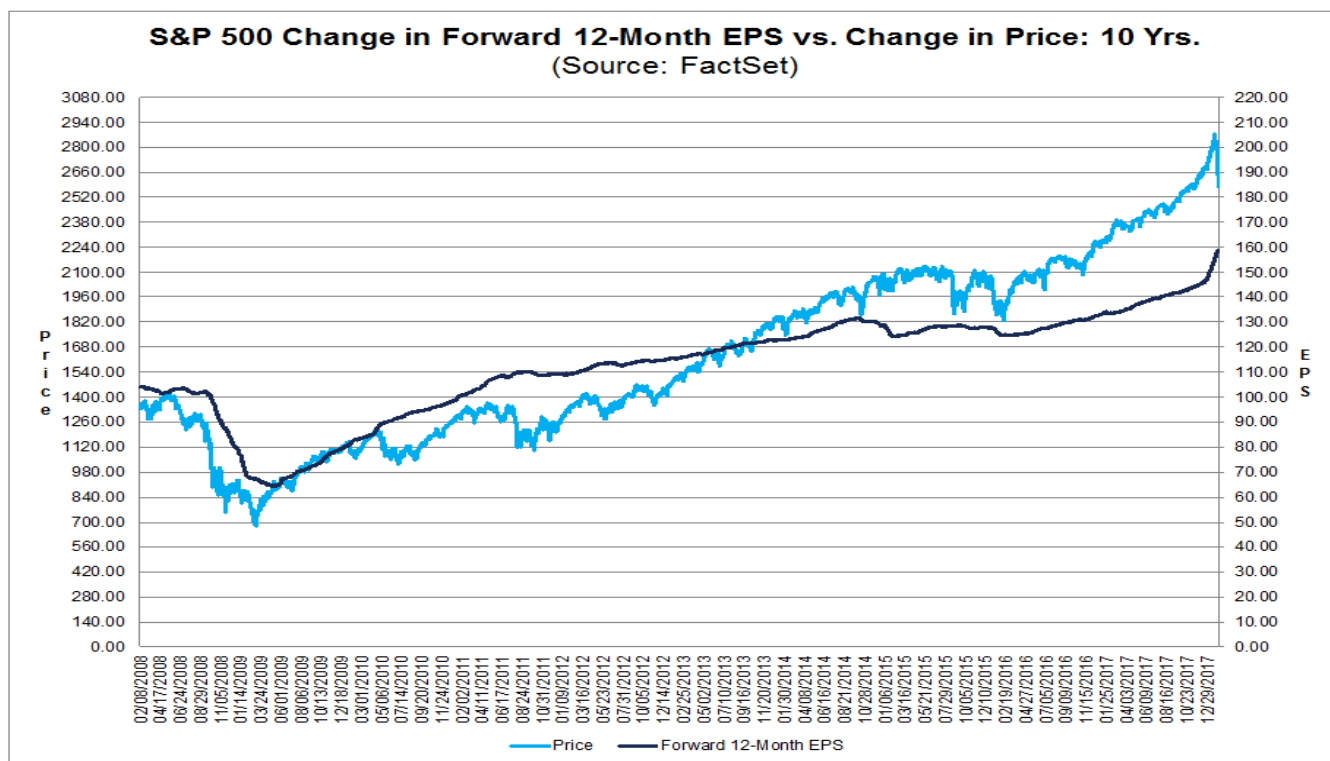
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February 9, 2018

## Key Metrics

- Earnings Scorecard:** For Q4 2017 (with 68% of the companies in the S&P 500 reporting actual results for the quarter), 74% of S&P 500 companies have reported positive EPS surprises and 79% have reported positive sales surprises. If 79% is the final number for the quarter, it will mark the highest percentage since FactSet began tracking this metric in Q3 2008.
- Earnings Growth:** For Q4 2017, the blended earnings growth rate for the S&P 500 is 14.0%. All eleven sectors are reporting earnings growth for the quarter, led by the Energy sector.
- Earnings Revisions:** On December 31, the estimated earnings growth rate for Q4 2017 was 11.0%. Eight sectors have higher growth rates today (compared to December 31) due to upward revisions to estimates and positive earnings surprises.
- Earnings Guidance:** For Q1 2018, 33 S&P 500 companies have issued negative EPS guidance and 32 S&P 500 companies have issued positive EPS guidance.
- Valuation:** The forward 12-month P/E ratio for the S&P 500 is 16.3. This P/E ratio is above the 5-year average (16.0) and above the 10-year average (14.3).



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## Topic of the Week:

### S&P 500 Companies with More Global Exposure Reporting Higher Earnings Growth in Q4

*“The global economy is now growing at its fastest pace since 2010, with the upturn becoming increasingly synchronised across countries. This long awaited lift to global growth, supported by policy stimulus, is being accompanied by solid employment gains, a moderate upturn in investment and a pick-up in trade growth. Global GDP growth is projected to be just over 3½ per cent this year, strengthening further to 3¾ per cent in 2018 before easing slightly in 2019” –OECD Economic Outlook (November 28)*

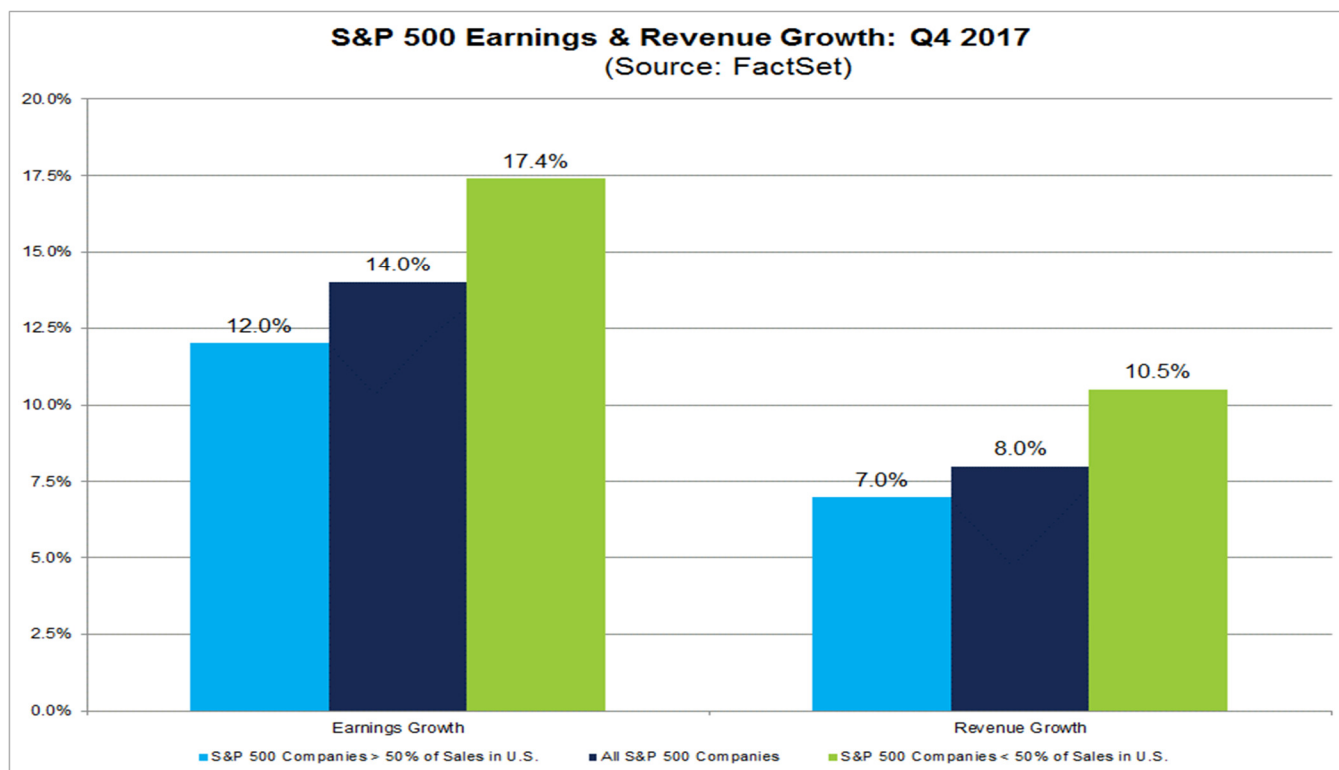
Coming into the Q4 earnings season, companies in the S&P 500 with higher global exposure were expected to benefit from the tailwinds of a weaker U.S. dollar and higher global GDP growth. Now that more than 65% of the companies in the index have reported results for Q4, are S&P 500 companies with higher global revenue exposure outperforming S&P 500 companies with lower global revenue exposure in terms of earnings growth and sales growth for Q4 2017?

The answer is yes. FactSet Geographic Revenue Exposure data (based on the most recently reported fiscal year data for each company in the index) can be used to answer this question. For this particular analysis, the index was divided into two groups: companies that generate more than 50% of sales inside the U.S. (less global exposure) and companies that generate less than 50% of sales inside the U.S. (more global exposure). Aggregate earnings and revenue growth rates were then calculated based on these two groups. The results are listed below.

The (blended) earnings growth rate for the S&P 500 for Q4 2017 is 14.0%. For companies that generate more than 50% of sales inside the U.S., the earnings growth rate is 12.0%. For companies that generate less than 50% of sales inside the U.S., the earnings growth rate is 17.4%.

The (blended) sales growth rate for the S&P 500 for Q4 2017 is 8.0%. For companies that generate more than 50% of sales inside the U.S., the sales growth rate is 7.0%. For companies that generate less than 50% of sales inside the U.S., the sales growth rate is 10.5%.

What is driving the outperformance of S&P 500 companies with higher global revenue exposure? At the sector level, the Information Technology is the largest contributor to earnings and revenue growth in Q4 for S&P 500 companies with more global exposure.



## Q4 2017 Earnings Season: By the Numbers

### Overview:

To date, 68% of the companies in the S&P 500 have reported actual results for Q4 2017. In terms of earnings, more companies are reporting actual EPS above estimates (74%) compared to the 5-year average. In aggregate, companies are reporting earnings that are 4.1% above the estimates, which is below the 5-year average. In terms of sales, more companies (79%) are reporting actual sales above estimates compared to the 5-year average. If 79% is the final number for the quarter, it will mark the highest percentage of S&P 500 companies reporting positive sales surprises since FactSet began tracking this metric in Q3 2008. In aggregate, companies are reporting sales that are 1.6% above estimates, which is also above the 5-year average. If 1.6% is the final number for the quarter, it will mark a tie with Q1 2011 and Q4 2014 for the highest revenue surprise percentage since FactSet began tracking this metric in Q3 2008.

The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) earnings growth rate for the fourth quarter is 14.0% today, which is above the earnings growth rate of 13.2% last week. Positive earnings surprises reported by companies in multiple sectors were responsible for the increase in the earnings growth rate for the index during the week. All eleven sectors are reporting year-over-year earnings growth. Five sectors are reporting double-digit earnings growth.

The blended sales growth rate for the fourth quarter is 8.0% today, which is above the sales growth rate of 7.6% last week. Positive revenue surprises reported by companies in multiple sectors were responsible for the increase in the revenue growth rate for the index during the week. All eleven sectors are reporting year-over-year growth in revenues. Three sectors are reporting double-digit growth in revenues: Energy, Materials, and Information Technology.

All eleven sectors are reporting both earnings and revenue growth for the fourth quarter. The last time all of the sectors in the index reported both earnings and revenue growth for a quarter was Q3 2011.

Looking at future quarters, analysts currently project earnings to grow at double-digit levels through 2018.

The forward 12-month P/E ratio is 16.3, which is above the 5-year average and the 10-year average.

During the upcoming week, 59 S&P 500 companies (including two Dow 30 components) are scheduled to report results for the fourth quarter.

### Scorecard: Record-High Percentage of Companies Beating Revenue Estimates

#### Percentage of Companies Beating EPS Estimates (74%) is Above 5-Year Average

Overall, 68% of the companies in the S&P 500 have reported earnings to date for the fourth quarter. Of these companies, 74% have reported actual EPS above the mean EPS estimate, 9% have reported actual EPS equal to the mean EPS estimate, and 17% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is above the 1-year (72%) average and above the 5-year (69%) average.

At the sector level, the Materials (88%) and Health Care (87%) sectors have the highest percentages of companies reporting earnings above estimates, while the Real Estate (42%) sector has the lowest percentages of companies reporting earnings (FFO) above estimates.

#### Earnings Surprise Percentage (+4.1%) is Below 5-Year Average

In aggregate, companies are reporting earnings that are 4.1% above expectations. This surprise percentage is below the 1-year (+4.6%) average and below the 5-year (+4.3%) average.

The Materials (+10.5%) and Consumer Discretionary (+10.1%) sectors are reporting the largest upside aggregate differences between actual earnings and estimated earnings. On the other hand, the Energy sector (-15.8%) is reporting the largest downside aggregate difference between actual earnings and estimated earnings.

## Market Not Rewarding Earnings Beats and Punishing Earnings Misses

To date, the market is rewarding positive earnings surprises less than average and punishing negative earnings surprises more than average.

Companies that have reported positive earnings surprises for Q4 2017 have seen an average price decrease of -1.3% two days before the earnings release through two days after the earnings. This percentage change is well below the 5-year average increase of 1.2% during this same window for companies reporting upside earnings surprises.

Companies that have reported negative earnings surprises for Q4 2017 have seen an average price decrease of -2.8% two days before the earnings release through two days after the earnings. This percentage decrease is larger than the 5-year average decrease of -2.4% during this same window for companies reporting downside earnings surprises.

## Percentage of Companies Beating Revenue Estimates (79%) is at Record-High Level

In terms of revenues, 79% of companies have reported actual sales above estimated sales and 21% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is well above the 1-year average (64%) and well above the 5-year average (56%).

If 79% is the final number for the quarter, it will mark the highest percentage of S&P 500 companies reporting positive sales surprises since FactSet began tracking this metric in Q3 2008.

At the sector level, the Telecom Services (100%), Energy (93%), Information Technology (91%), and Health Care (89%) sectors have the highest percentages of companies reporting revenues above estimates, while the Utilities (33%) sector has the lowest percentage of companies reporting revenues above estimates.

## Revenue Surprise Percentage (+1.6%) is at Record-High Level

In aggregate, companies are reporting sales that are 1.6% above expectations. This surprise percentage is above the 1-year (+0.8%) average and above the 5-year (+0.6%) average.

If 1.6% is the final number for the quarter, it will mark a tie with Q1 2011 and Q4 2014 for the highest revenue surprise percentage since FactSet began tracking this metric in Q3 2008.

The Energy (+3.3%), Materials (+2.2%) and Real Estate (+2.2%) sectors are reporting the largest upside aggregate differences between actual sales and estimated sales, while the Utilities (-2.3%) sector is reporting the largest downside aggregate difference between actual sales and estimated sales.

## Increase in Blended Earnings Growth This Week

### Increase in Blended Earnings Growth This Week

The blended earnings growth rate for the fourth quarter is 14.0% today, which is higher than the earnings growth rate of 13.2% last week. Positive earnings surprises reported by companies in multiple sectors were responsible for the increase in the earnings growth rate for the index during the past week.

### Increase in Blended Revenue Growth This Week

The blended sales growth rate for the third quarter is 8.0% today, which is above the sales growth rate of 7.6% last week. Positive revenue surprises reported by companies in multiple sectors were responsible for the increase in the revenue growth rate for the index during the week.

## Materials Sector Has Seen Largest Increase in Earnings Growth since December 31

The blended earnings growth rate for Q4 2017 of 14.0% is above the estimate of 11.0% at the end of the fourth quarter (December 31). Eight sectors have recorded an increase in earnings growth since the end of the quarter due to upward revisions to earnings estimates and positive earnings surprises, led by the Materials (to 41.2% from 28.5%) sector. Two sectors have recorded a decrease in earnings growth since the end of the quarter due to downside earnings surprises, led by the Energy (to 103.7% from 132.1%) sector. The Real Estate sector has the same growth rate today (4.3%) as it did on December 31.

## Energy and Materials Sectors Have Seen Largest Increases in Revenue Growth since December 31

The blended sales growth rate for Q4 2017 of 8.0% is larger than the estimate of 6.7% at the end of the fourth quarter (December 31). Ten sectors have recorded an increase in sales growth since the end of the quarter due to upward revisions to revenue estimates and upside revenue surprises, led by the Energy (to 20.3% from 17.3%) and Materials (to 19.5% from 16.7%) sector. The Utilities (to 4.3% from 6.4%) sector is the only sector that has recorded a decrease in sales growth during this time due to downward revisions to estimates and downside revenue surprises.

## Double-Digit Earnings Growth (14.0%) in 3 of Last 4 Quarters

The blended (year-over-year) earnings growth rate for Q4 2017 is 14.0%. If the final earnings growth rate for the quarter is 10% (or higher), it will mark the third time in the past four quarters that the index has reported double-digit earnings growth. All eleven sectors are reporting year-over-year growth in earnings. Five sectors are reporting double-digit earnings growth, led by the Energy, Materials, Information Technology, and Financials sectors.

### Energy: Highest Earnings Growth on Easy Comparison to Low Year-Ago Earnings

The Energy sector is reporting the highest (year-over-year) earnings growth of all eleven sectors at 103.7%. At the sub-industry level, all six sub-industries in the sector are reporting earnings growth for the quarter: Oil & Gas Exploration & Production (N/A due to year-ago loss), Oil & Gas Drilling (N/A due to year-ago loss), Oil & Gas Equipment & Services (254%), Oil & Gas Refining & Marketing (154%), Integrated Oil & Gas (35%), and Oil & Gas Storage & Transportation (32%).

The unusually high growth rate for the sector is mainly due to unusually low earnings in the year-ago quarter. On a dollar-level basis, the Energy sector is reporting earnings of \$10.8 billion in Q4 2017, compared to earnings of \$5.3 billion in Q4 2016. If the Energy sector were excluded, the blended earnings growth rate for the remaining ten sectors would decrease to 12.2% from 14.0%.

### Materials: 3 of 4 Industries Reporting Double-Digit Growth

The Materials sector is reporting the second highest (year-over-year) earnings growth of all eleven sectors at 41.2%. At the industry level, all four industries are reporting earnings growth. Three industries are reporting double-digit earnings growth: Metals & Mining (97%), Containers & Packaging (48%), and Chemicals (34%).

### Information Technology: Semiconductor Industry Leads Growth

The Information Technology sector is reporting the third highest (year-over-year) earnings growth of all eleven sectors at 19.1%. At the industry level, all seven industries in this sector are reporting earnings growth. Five industries are reporting double-digit earnings growth: Semiconductor & Semiconductor Equipment (49%), Internet Software & Services (18%), IT Services (14%), Software (14%), and Technology Hardware, Storage, & Peripherals (13%).

### Financials: AIG Leads Growth on Easy Comparison to Year-Ago Loss

The Financials sector is reporting the fourth highest (year-over-year) earnings growth of all eleven sectors at 15.1%. At the industry level, all five industries in this sector are reporting earnings growth. Four industries are reporting double-digit earnings growth: Insurance (38%), Consumer Finance (12%), Capital Markets (11%), and Banks (11%). At the company level, AIG is the largest contributor to earnings growth for the sector, mainly due to an easy comparison to a substantial loss in the year-ago quarter. AIG reported actual EPS of \$0.57 for Q4 2017, compared to actual EPS of -\$2.72 for Q4 2016. In the company's earnings release for Q4 2016, AIG noted, "*The fourth quarter included a \$5.6 billion or (\$3.56) per share impact from prior year adverse reserve development.*" If AIG were excluded, the blended earnings growth rate for the Financials sector would decline to 7.5% from 15.1%.

## Highest Revenue Growth (8.0%) Since Q4 2011

The blended (year-over-year) revenue growth rate for Q4 2017 is 8.0%. If 8.0% is the final growth rate for the quarter, it will mark the highest revenue growth reported by the index since Q4 2011 (8.1%). All eleven sectors are reporting year-over-year growth in revenues. Three sectors are reporting double-digit growth in revenues: Energy, Materials, and Information Technology.

### Energy: 5 of 6 Sub-Industries Reporting Double-Digit Growth

The Energy sector is reporting the highest (year-over-year) revenue growth of all eleven sectors at 20.3%. At the sub-industry level, all six sub-industries in the sector are reporting revenue growth: Oil & Gas Drilling (53%), Oil & Gas Equipment & Services (35%), Oil & Gas Refining & Marketing (32%), Integrated Oil & Gas (13%), Oil & Gas Exploration & Production (10%), and Oil & Gas Storage & Transportation (9%).

### Materials: DowDuPont Leads Growth on Easy Comparison to Standalone Revenue for Dow Chemical

The Materials sector is reporting the second highest (year-over-year) revenue growth of all eleven sectors at 19.5%. At the industry level, all four industries in this sector are reporting revenue growth, led by the Chemicals (25%) and Metals & Mining (19%) industries. At the company level, DowDuPont is the largest contributor to revenue growth for the sector. However, the actual revenues for Q4 2017 (\$20.1 billion) reflect the combined DowDuPont company, while the actual revenues for Q4 2016 (\$13.0 billion) reflect the standalone Dow Chemical company. This apple-to-orange comparison is the main reason DowDuPont is the largest contributor to revenue growth for the sector. If this company were excluded, the blended revenue growth rate for the sector would fall to 12.0% from 19.5%.

### Information Technology: Internet Software Leads Growth

The Information Technology sector is reporting the third highest (year-over-year) revenue growth of all eleven sectors at 12.8%. At the industry level, all seven industries in this sector are reporting revenue growth. Five of these seven industries are reporting double-digit revenue growth: Internet Software & Services (25%), Semiconductor & Semiconductor Equipment (18%), IT Services (16%), Electronic Equipment, Instruments, and Components (12%), and Software (10%).

## Looking Ahead: Forward Estimates and Valuation

### Earnings Guidance: Negative EPS Guidance Well Below Average For Q1

The term “guidance” (or “preannouncement”) is defined as a projection or estimate for EPS provided by a company in advance of the company reporting actual results. Guidance is classified as negative if the estimate (or mid-point of a range estimates) provided by a company is lower than the mean EPS estimate the day before the guidance was issued. Guidance is classified as positive if the estimate (or mid-point of a range of estimates) provided by the company is higher than the mean EPS estimate the day before the guidance was issued.

At this point in time, 65 companies in the index have issued EPS guidance for Q1 2018. Of these 65 companies, 33 have issued negative EPS guidance and 32 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 51% (33 out of 65), which is below the 5-year average of 74%.

### Double-Digit Earnings Growth Expected to Continue in 2018

For the fourth quarter, companies are reporting earnings growth of 14.0% and revenue growth of 8.0%. Analysts currently expect earnings to grow at double-digit levels in 2018. However, they are also projecting lower year-over-year revenue growth in the second half of 2018.

For Q1 2018, analysts are projecting earnings growth of 16.9% and revenue growth of 7.4%.

For Q2 2018, analysts are projecting earnings growth of 18.7% and revenue growth of 7.8%.

For Q3 2018, analysts are projecting earnings growth of 20.3% and revenue growth of 6.5%.

For Q4 2018, analysts are projecting earnings growth of 17.3% and revenue growth of 5.0%.

For all of 2018, analysts are projecting earnings growth of 18.5% and revenue growth of 6.5%.

### Valuation: Forward P/E Ratio is 16.3, above the 10-Year Average (14.3)

The forward 12-month P/E ratio is 16.3. This P/E ratio is above the 5-year average of 16.0 and above the 10-year average of 14.3. However, it is below the forward 12-month P/E ratio of 18.2 recorded at the start of the first quarter (December 31). Since the start of the first quarter, the price of the index has decreased by 3.5%, while the forward 12-month EPS estimate has increased by 7.9%.

At the sector level, the Energy (19.8) and Consumer Discretionary (19.7) sectors have the highest forward 12-month P/E ratios, while the Telecom Services (10.5) sector has the lowest forward 12-month P/E ratio. Nine sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Information Technology (17.3 vs. 14.4) sector. One sector (Telecom Services) has a forward 12-month P/E ratio that is below the 10-year average (10.5 vs. 14.1). Historical averages are not available for the Real Estate sector.

### Targets & Ratings: Analysts Project 20% Increase in Price Over Next 12 Months

The bottom-up target price for the S&P 500 is 3088.93, which is 19.7% above the closing price of 2581.00. At the sector level, the Information Technology (+23.7%) and Energy (+21.8%) sectors are expected to see the largest price increases, as these sectors have the largest upside differences between the bottom-up target price and the closing price. On the other hand, the Telecom Services (+14.7%) sector is expected to see the smallest price increase, as this sector has the smallest upside difference between the bottom-up target price and the closing price.

Overall, there are 11,129 ratings on stocks in the S&P 500. Of these 11,129 ratings, 50.8% are Buy ratings, 44.1% are Hold ratings, and 5.1% are Sell ratings. At the sector level, the Information Technology (59%), Health Care (59%), and Energy (56%) sectors have the highest percentages of Buy ratings, while the Telecom Services (29%) and Utilities (38%) sectors have the lowest percentages of Buy ratings.

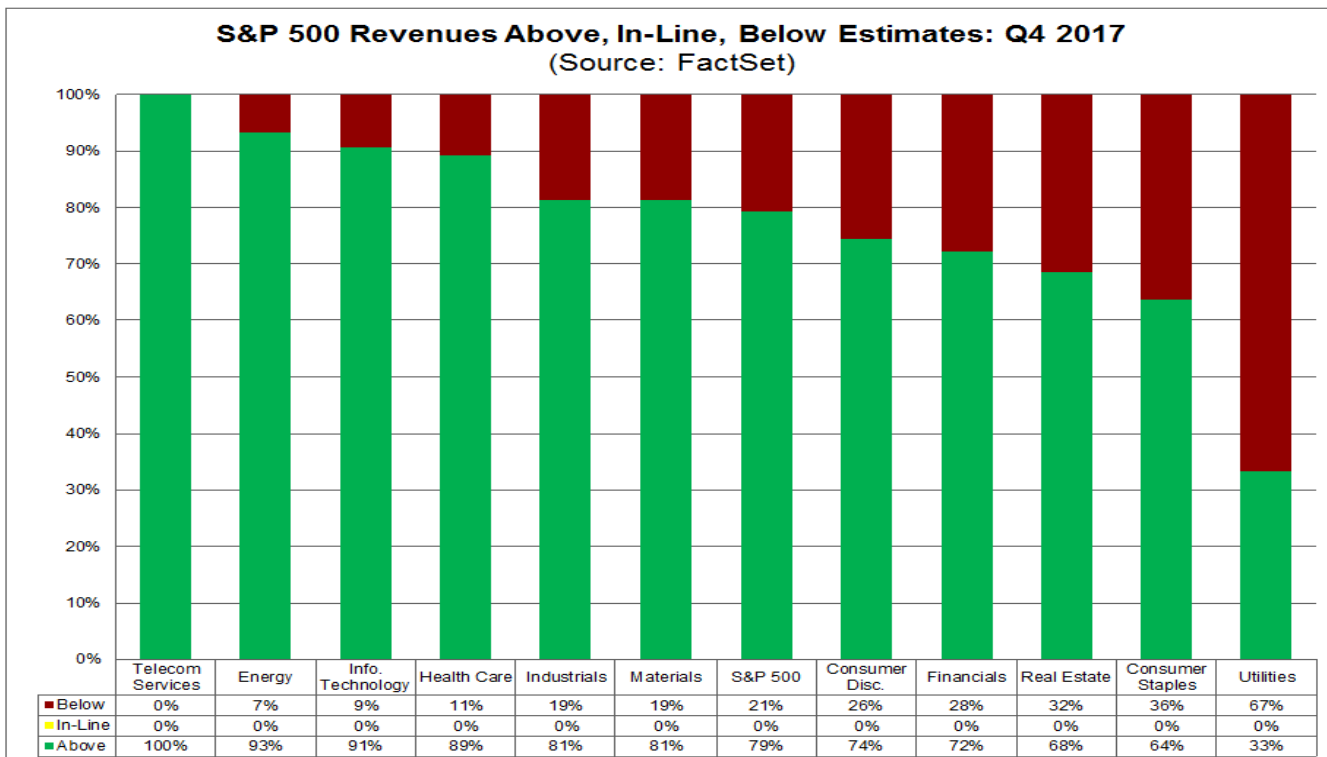
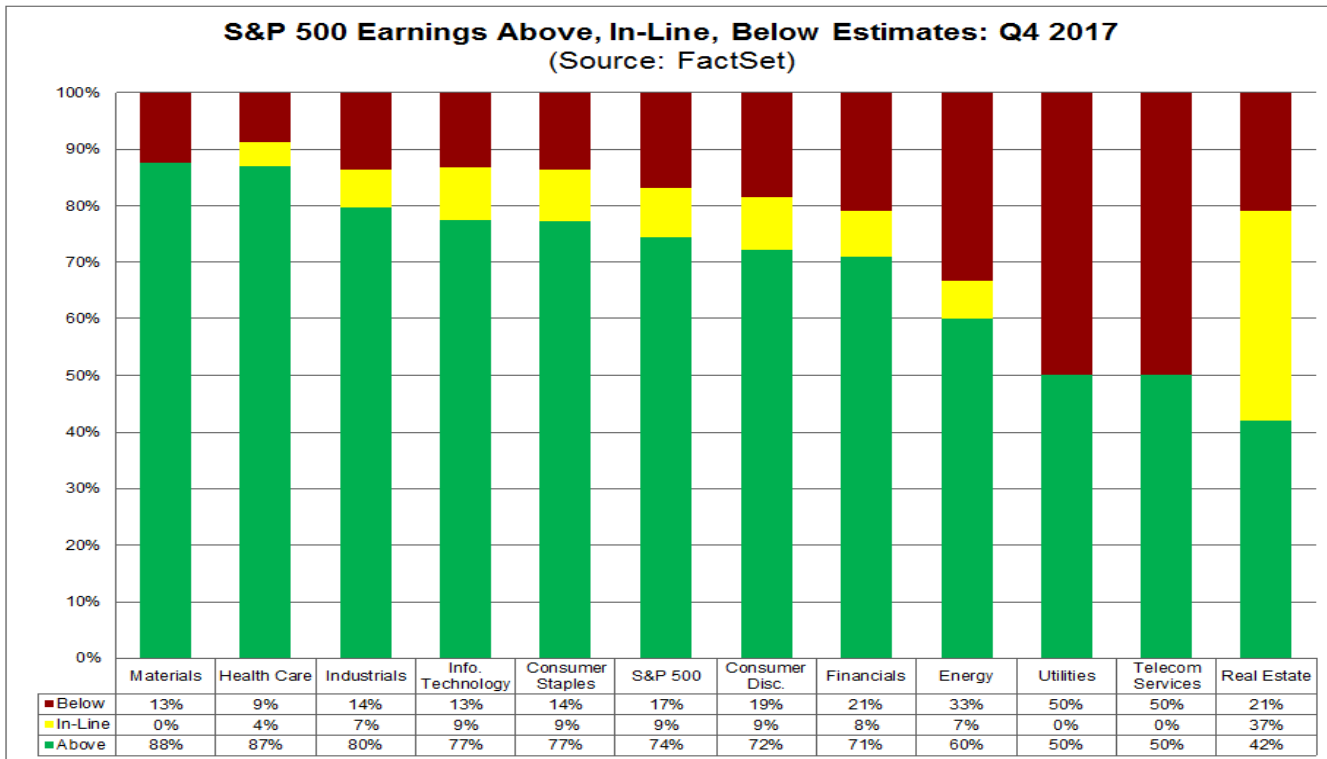
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## Companies Reporting Next Week: 59

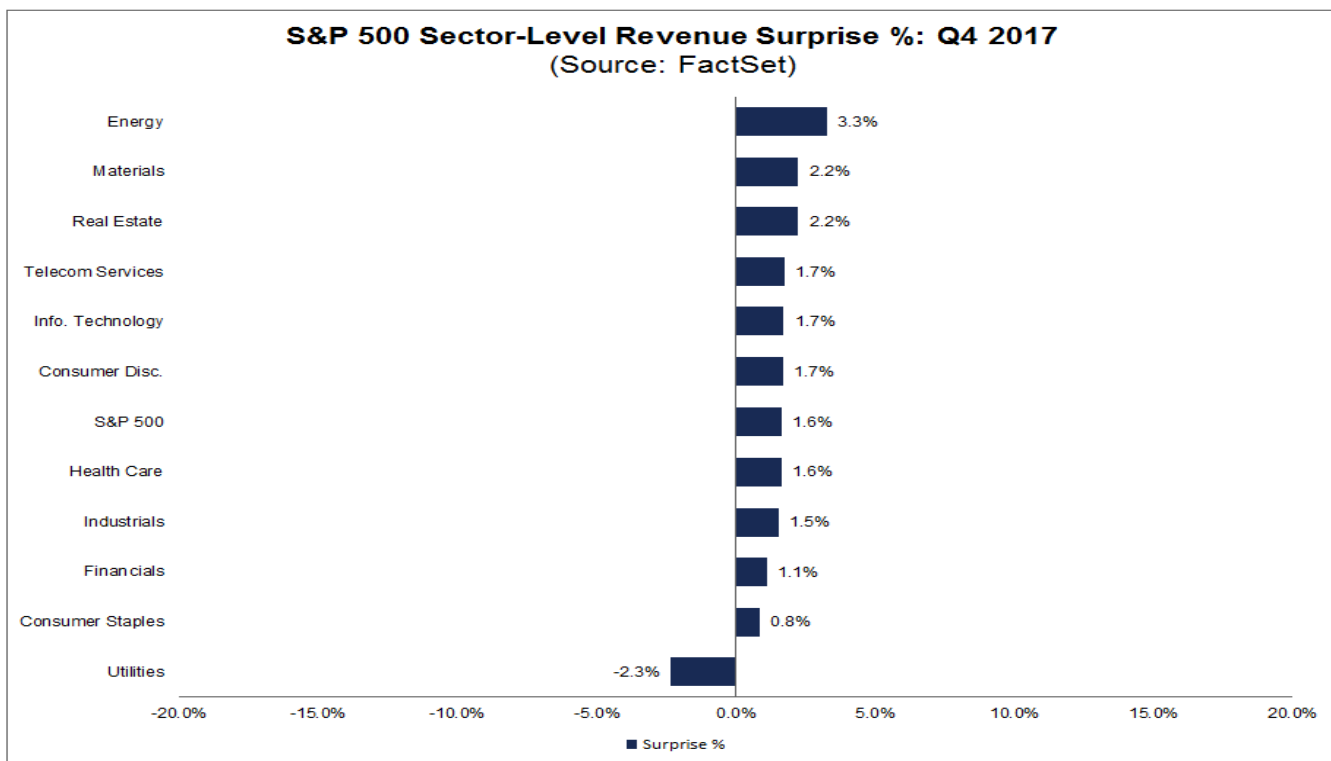
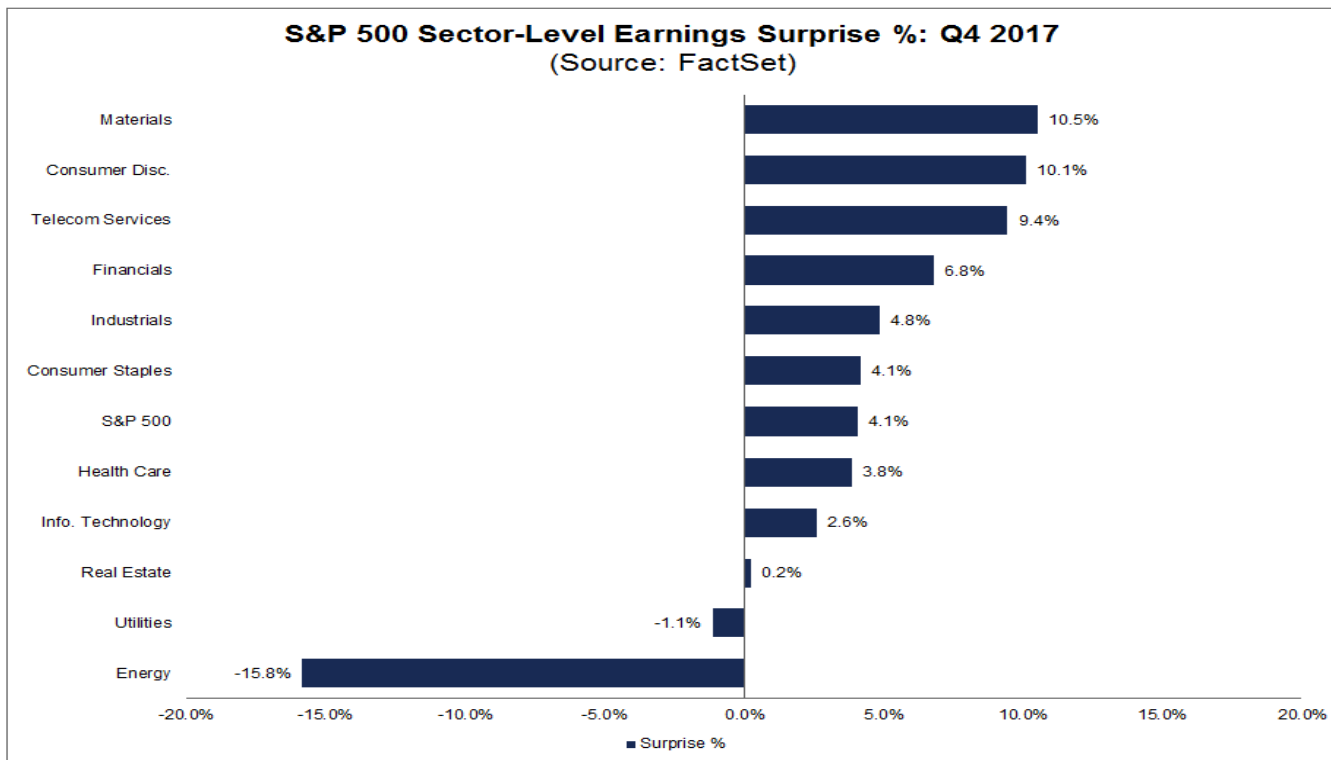
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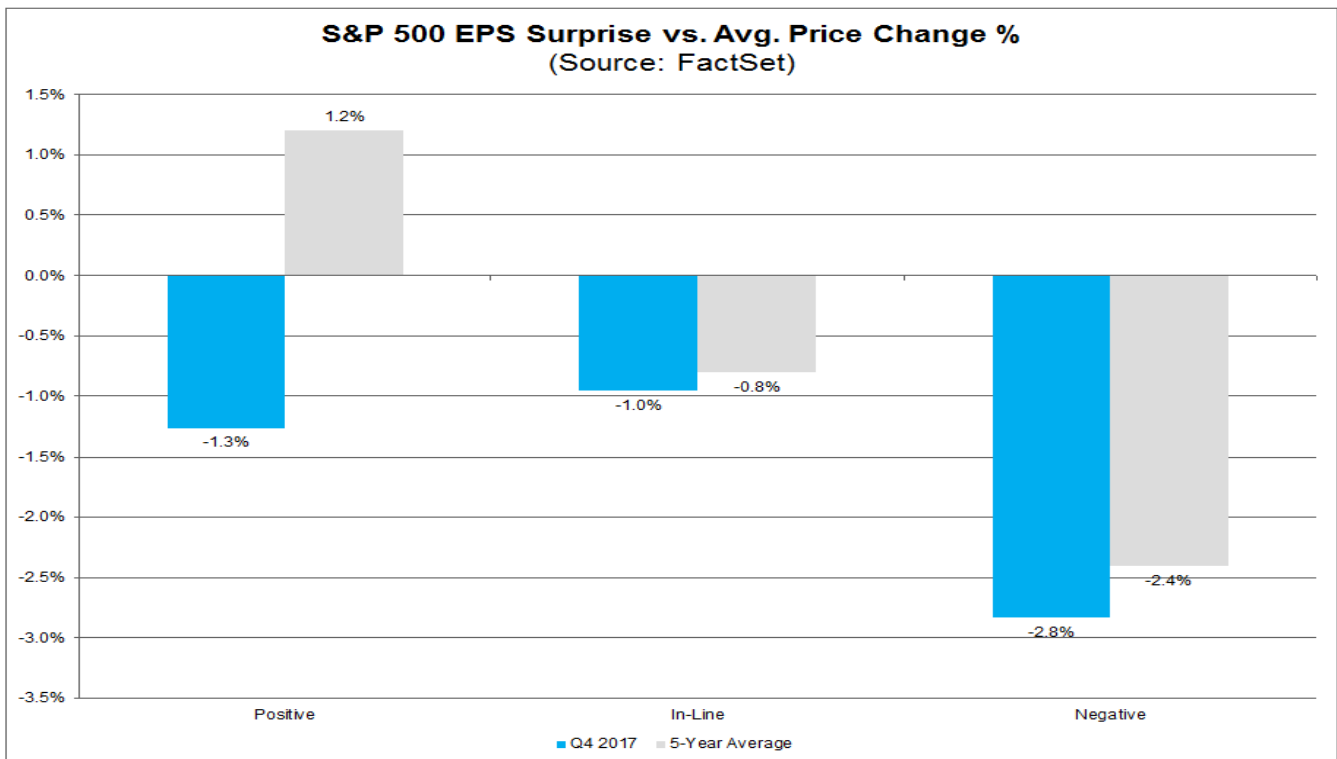
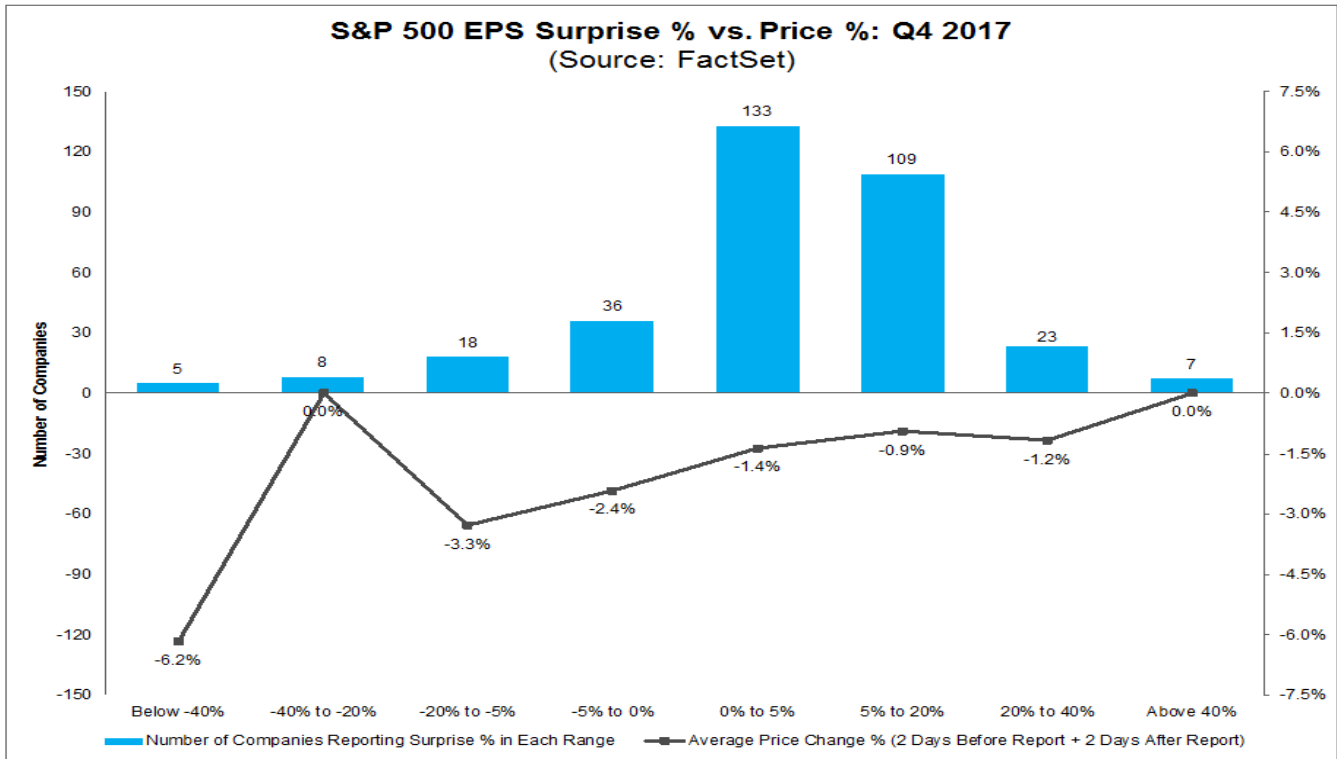
# Q4 2017: Scorecard



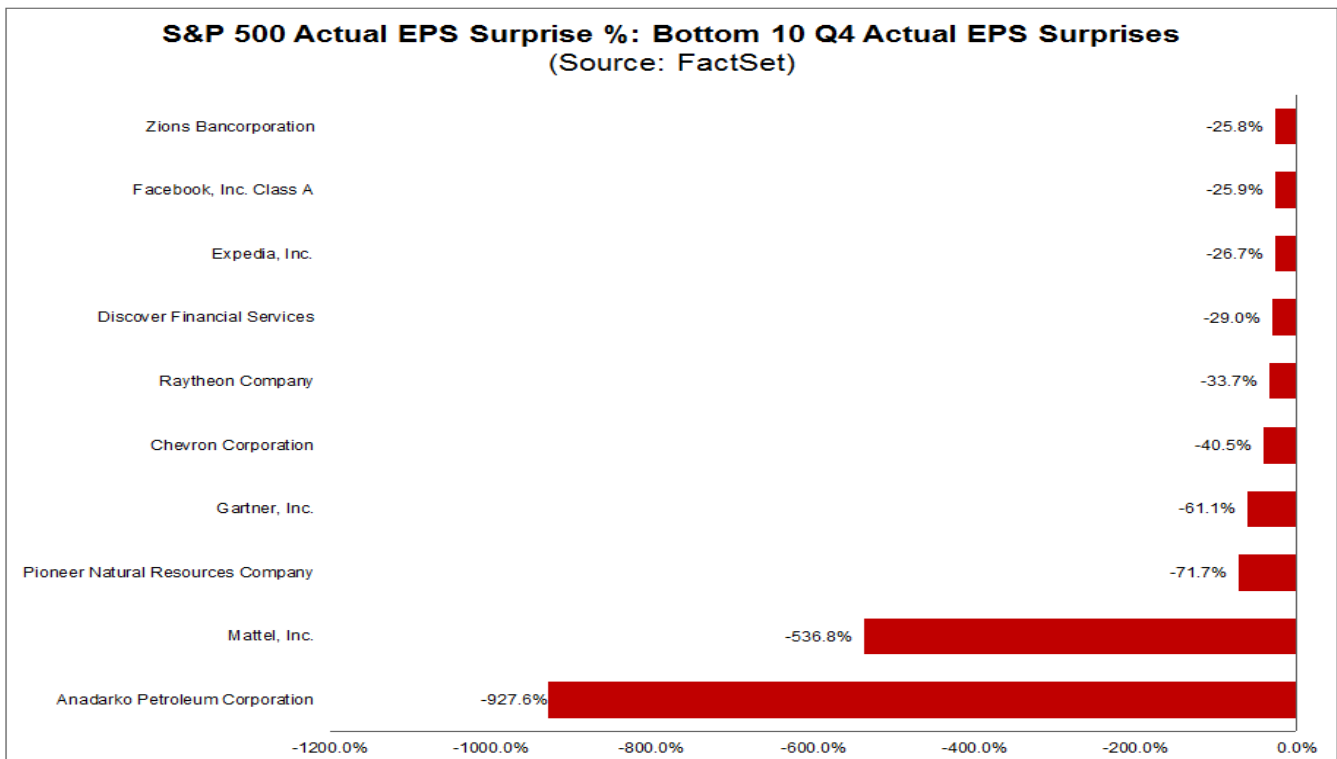
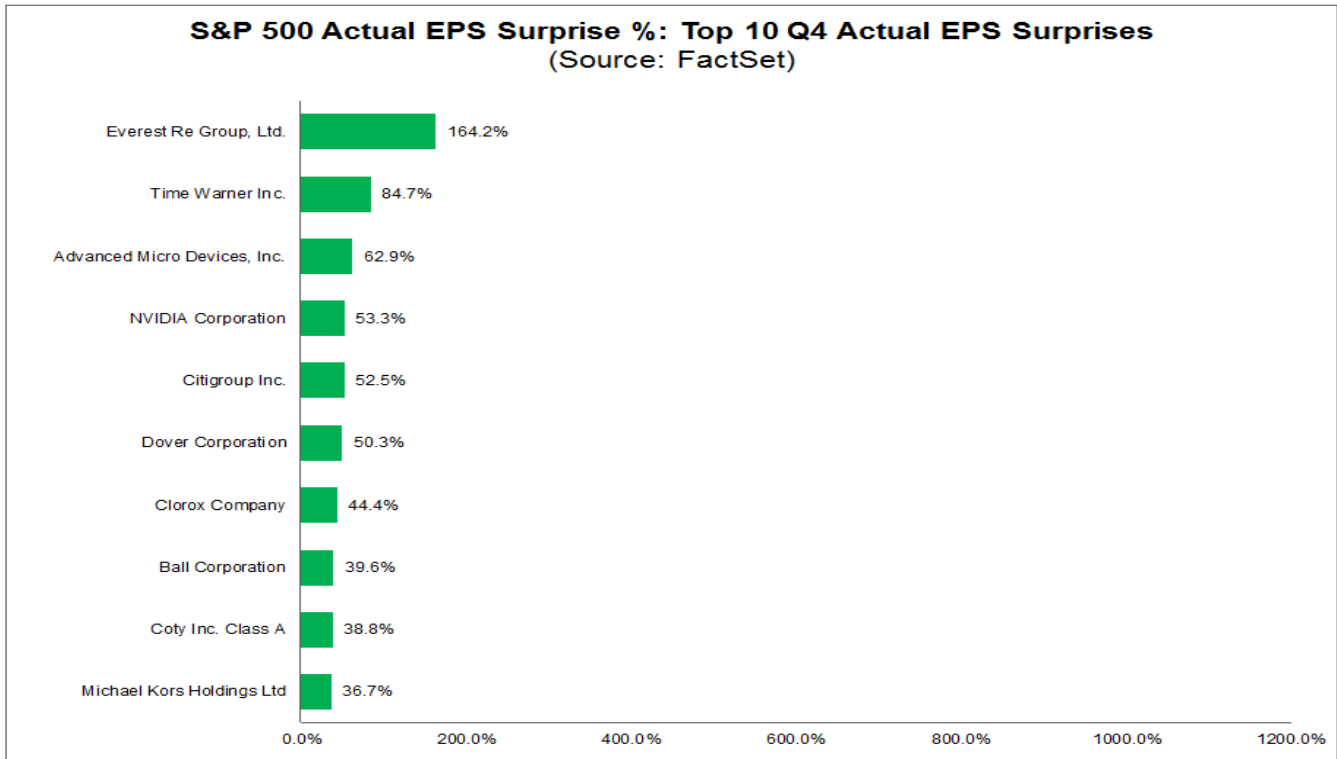
## Q4 2017: Scorecard



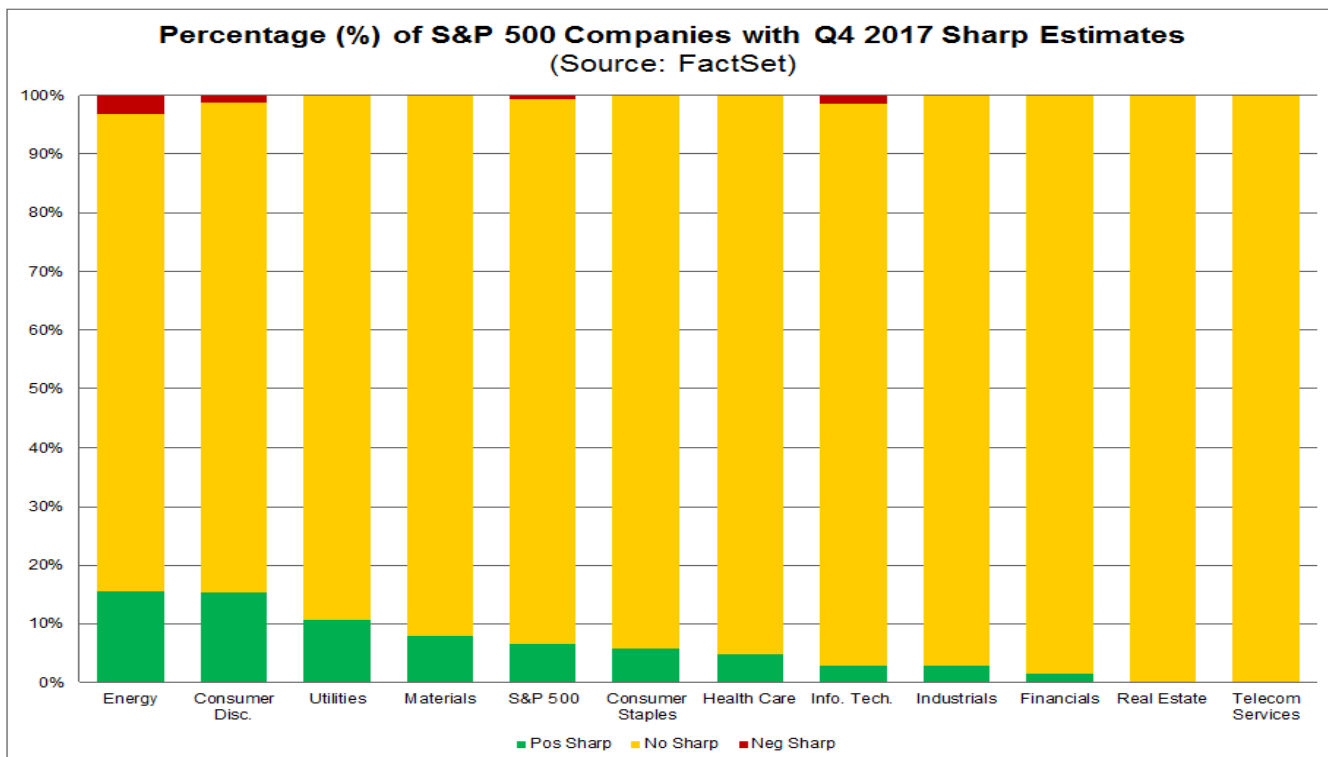
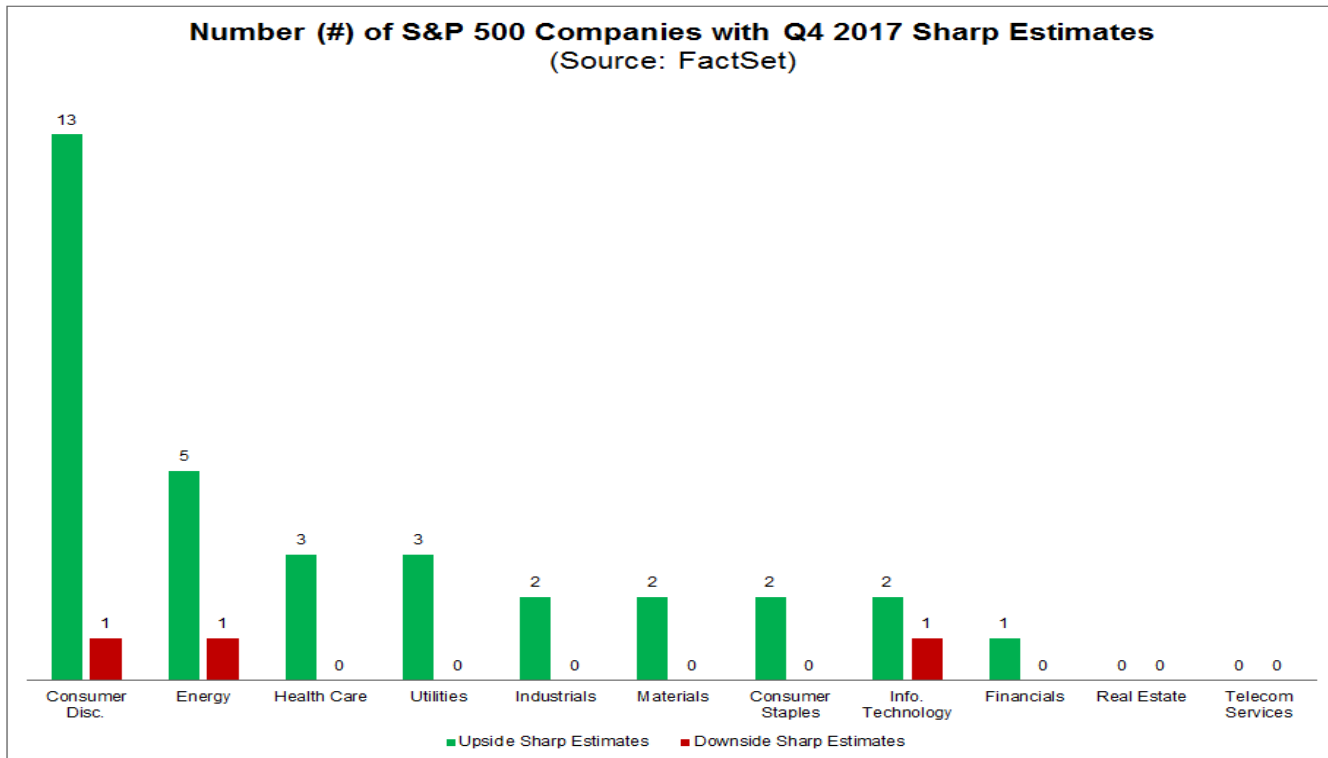
# Q4 2017: Scorecard



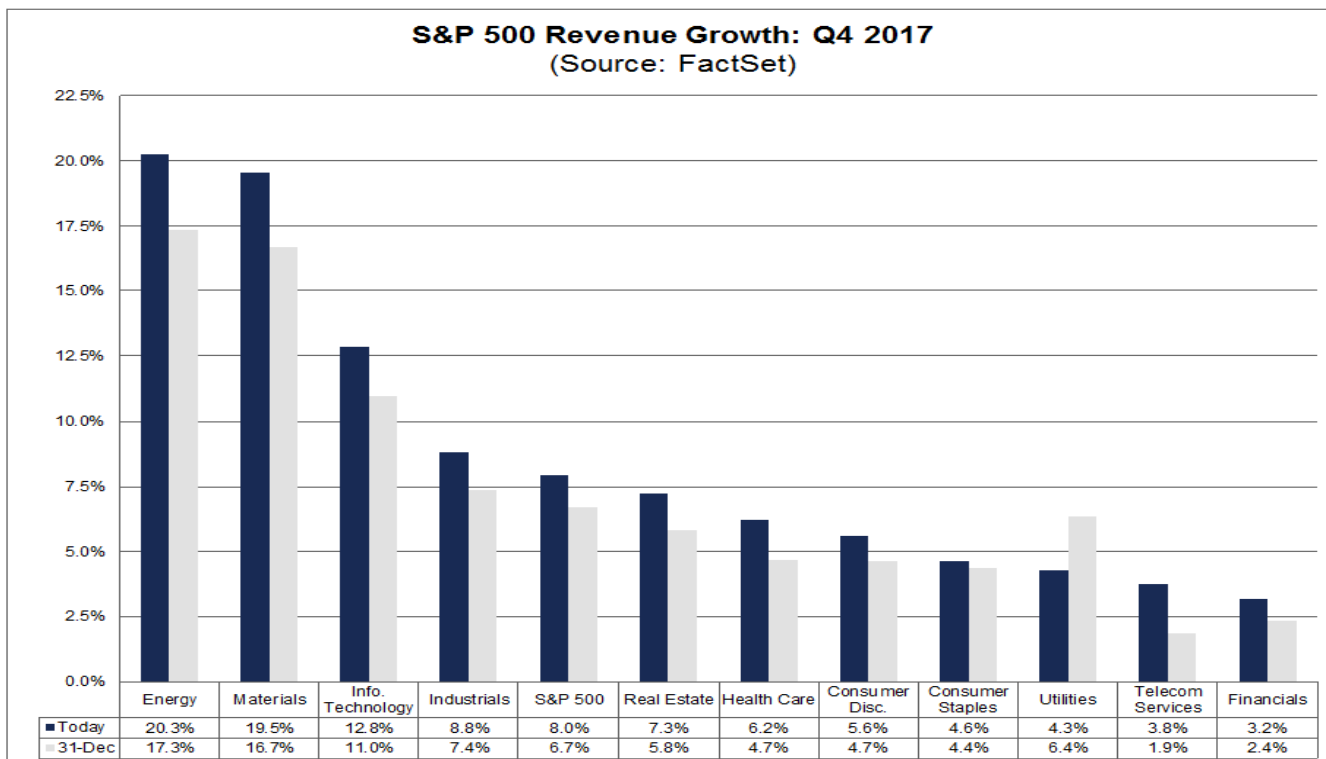
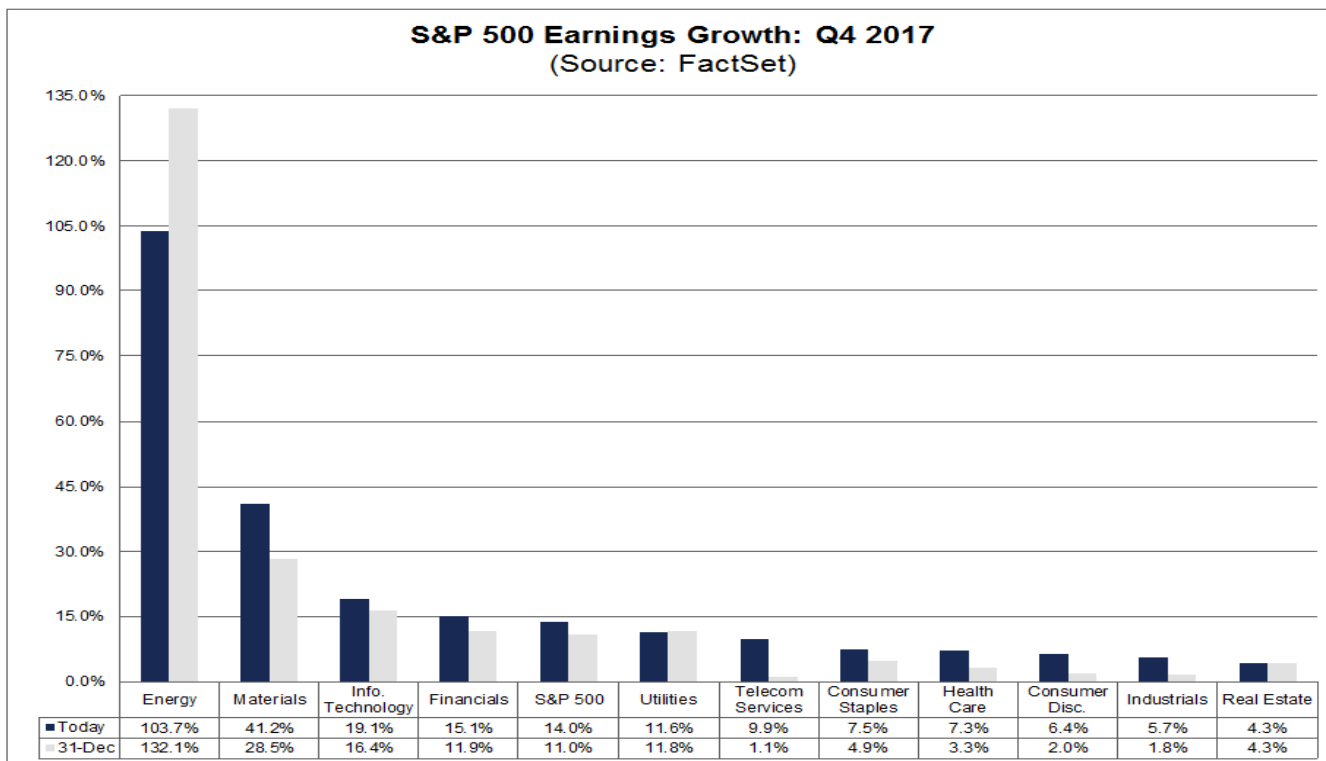
## Q4 2017: Scorecard



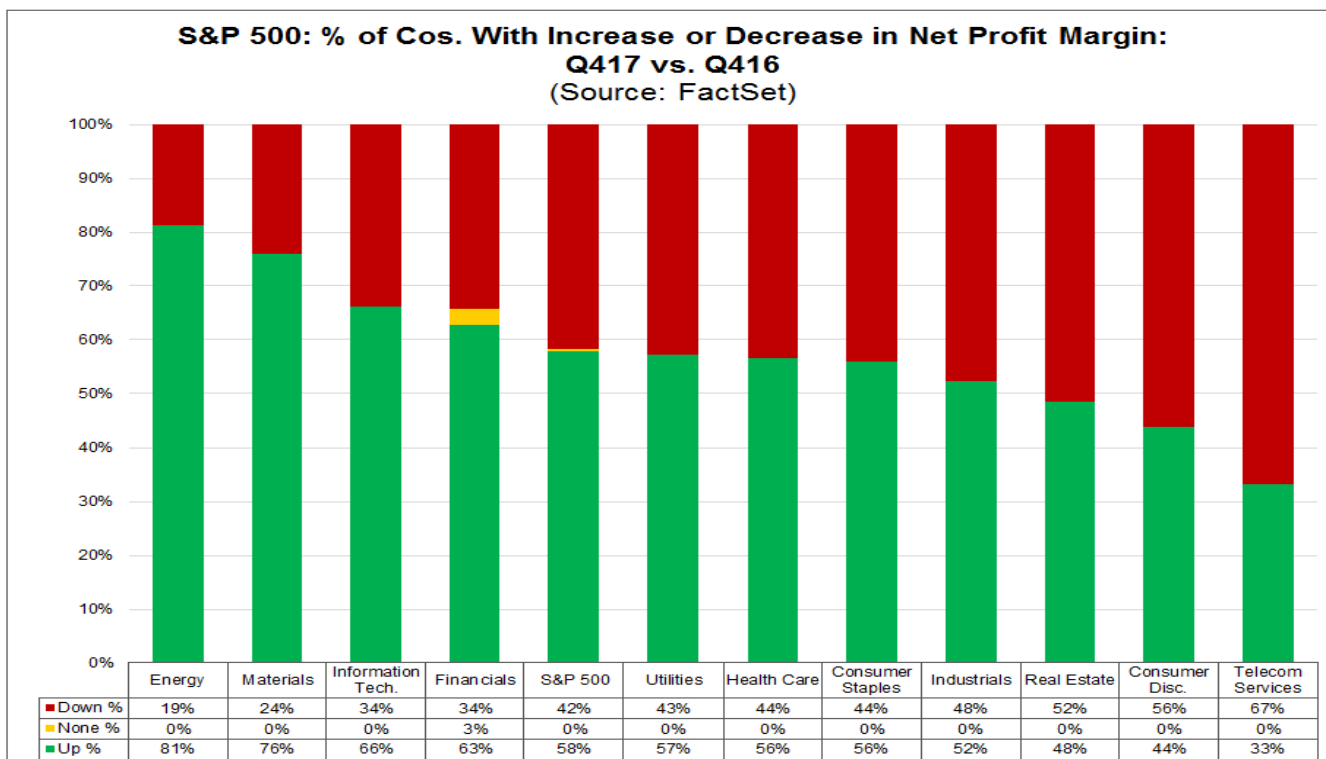
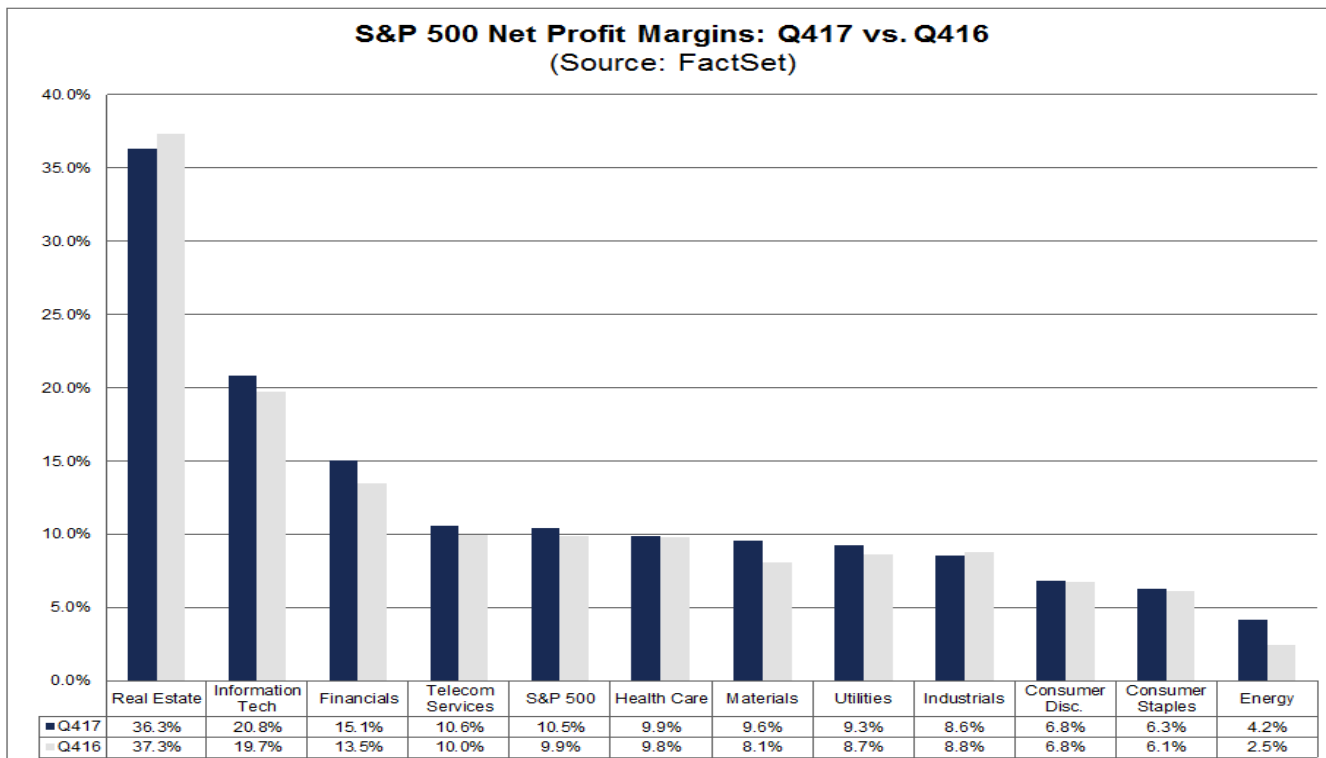
## Q4 2017: Projected EPS Surprises (Sharp Estimates)



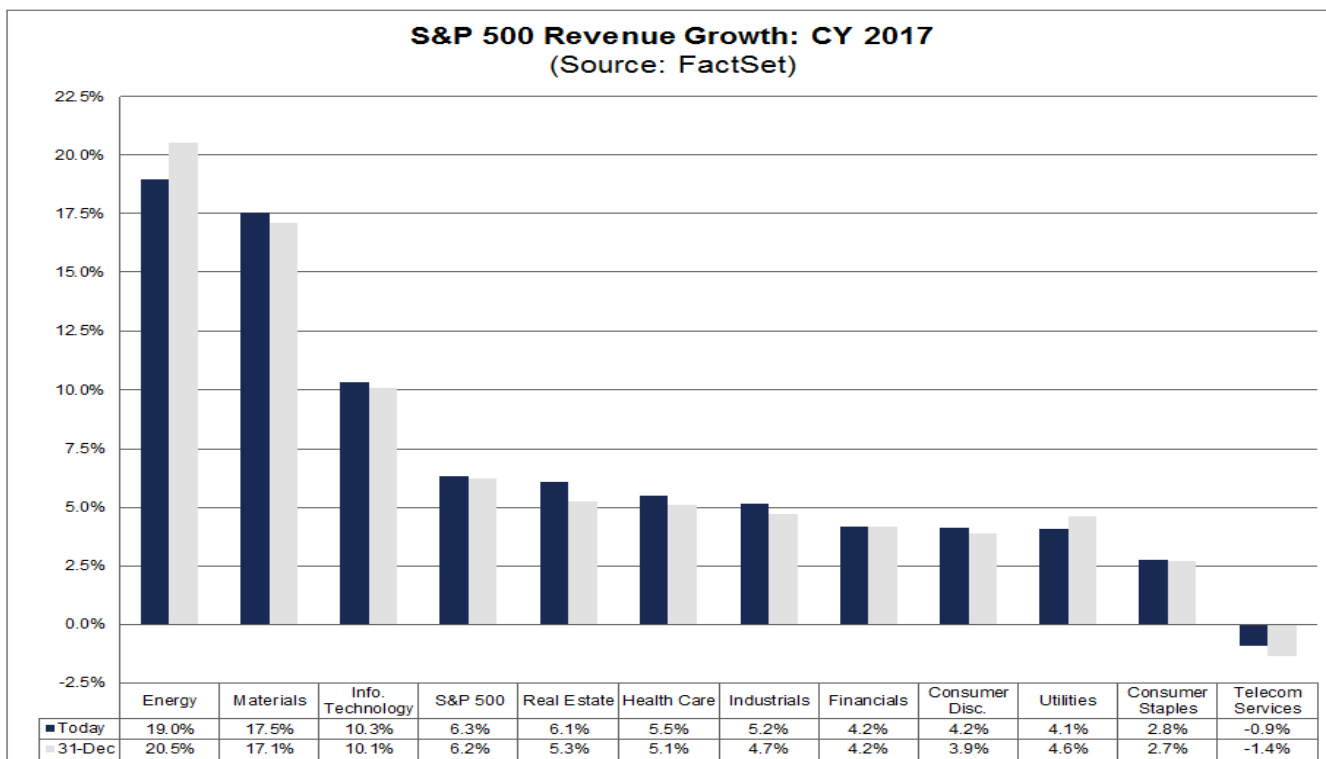
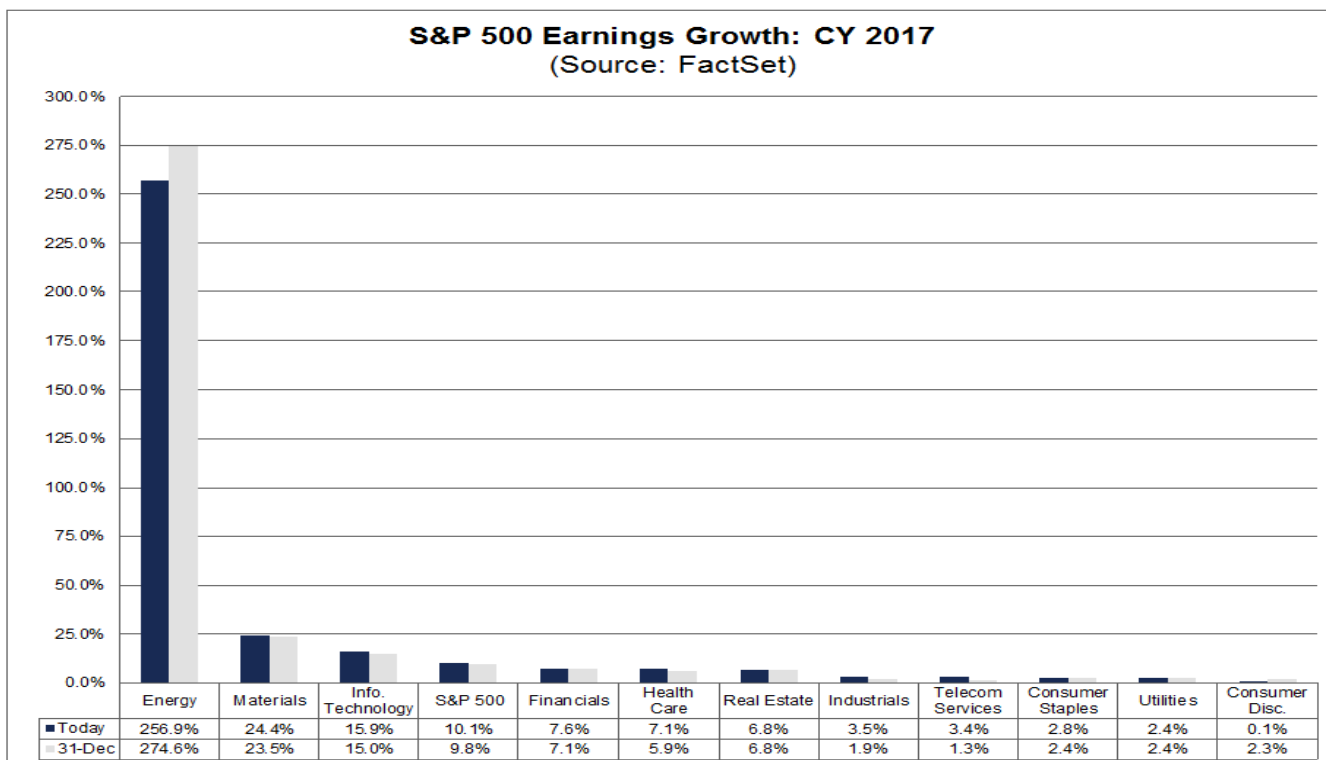
## Q4 2017: Growth



## Q4 2017: Net Profit Margin

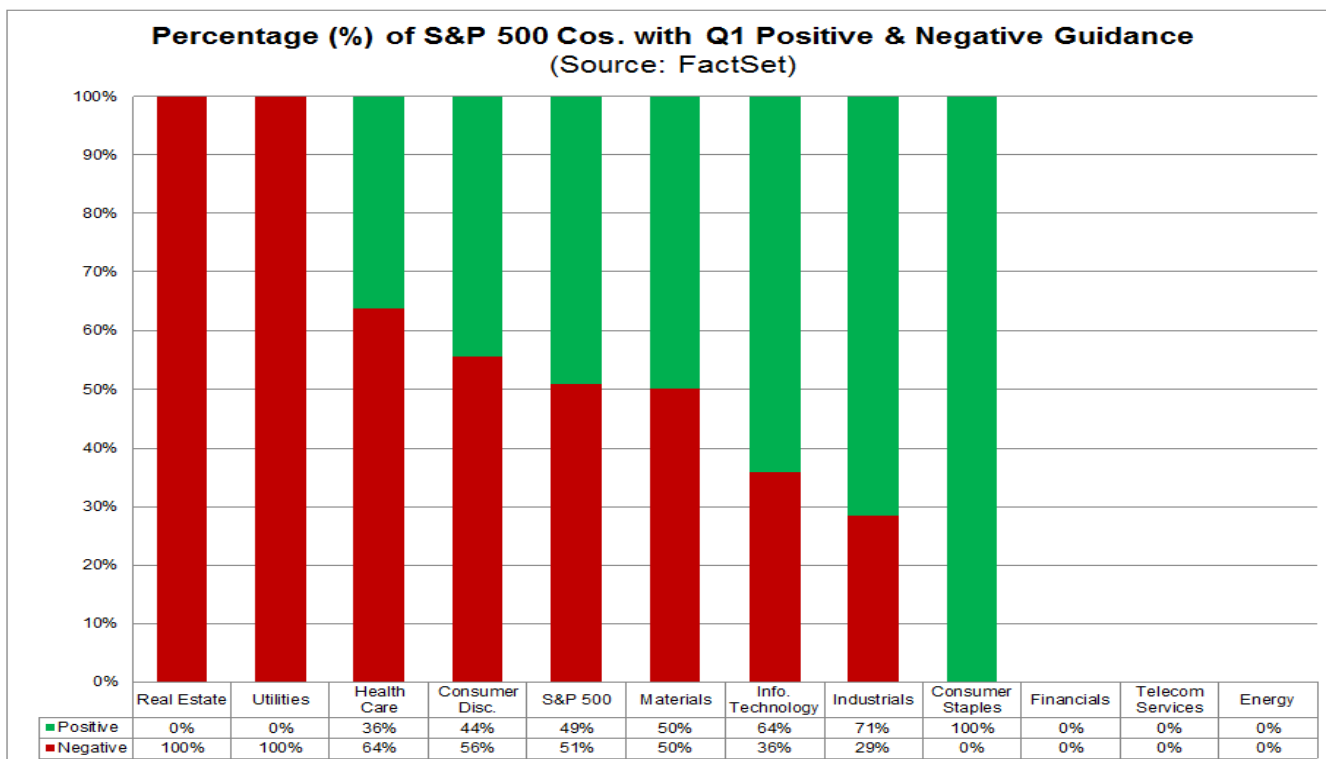
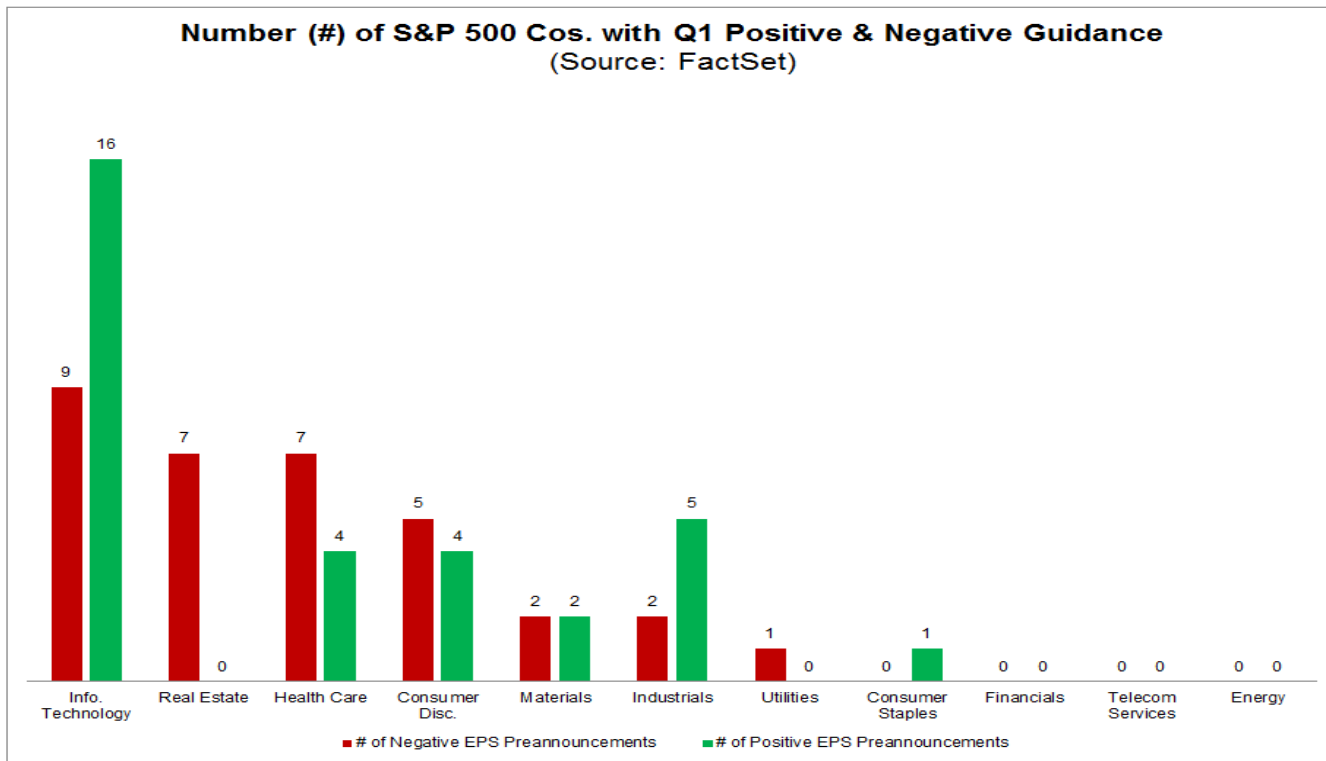


## CY 2017: Growth

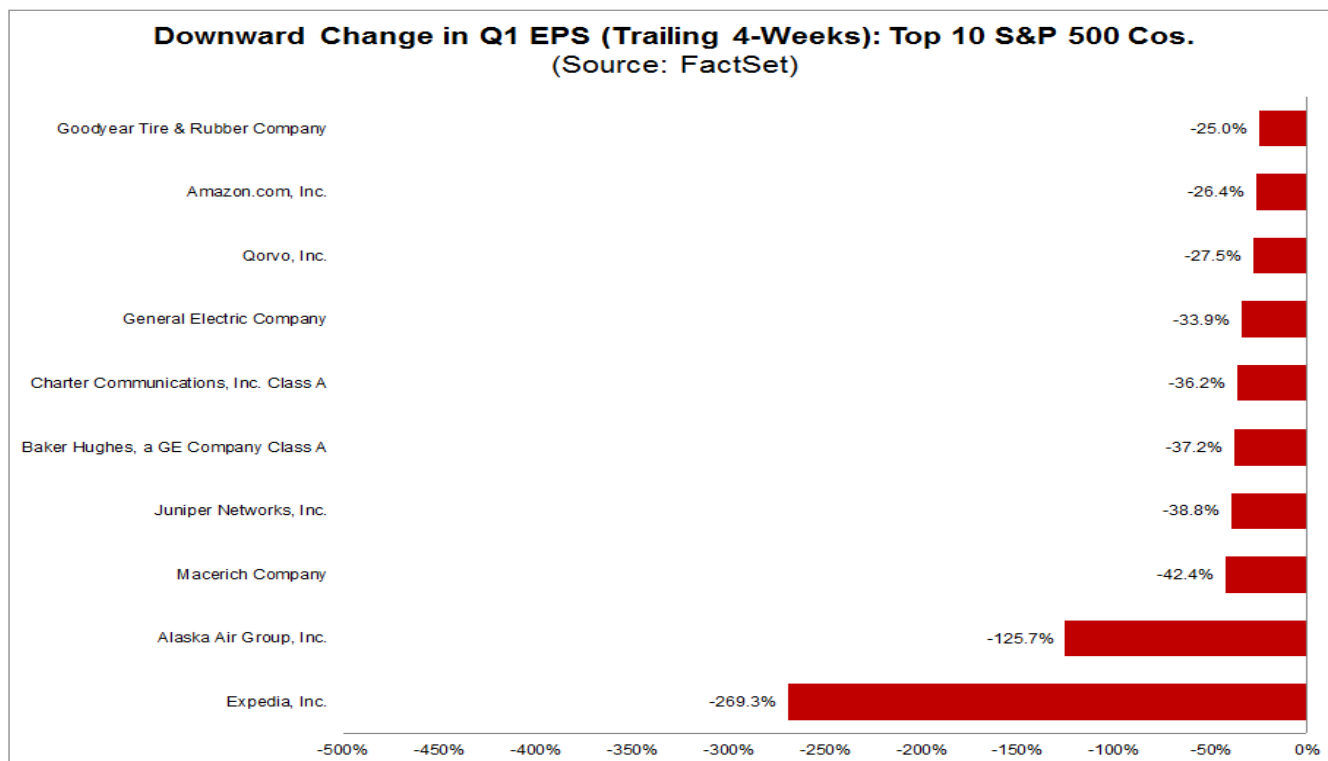
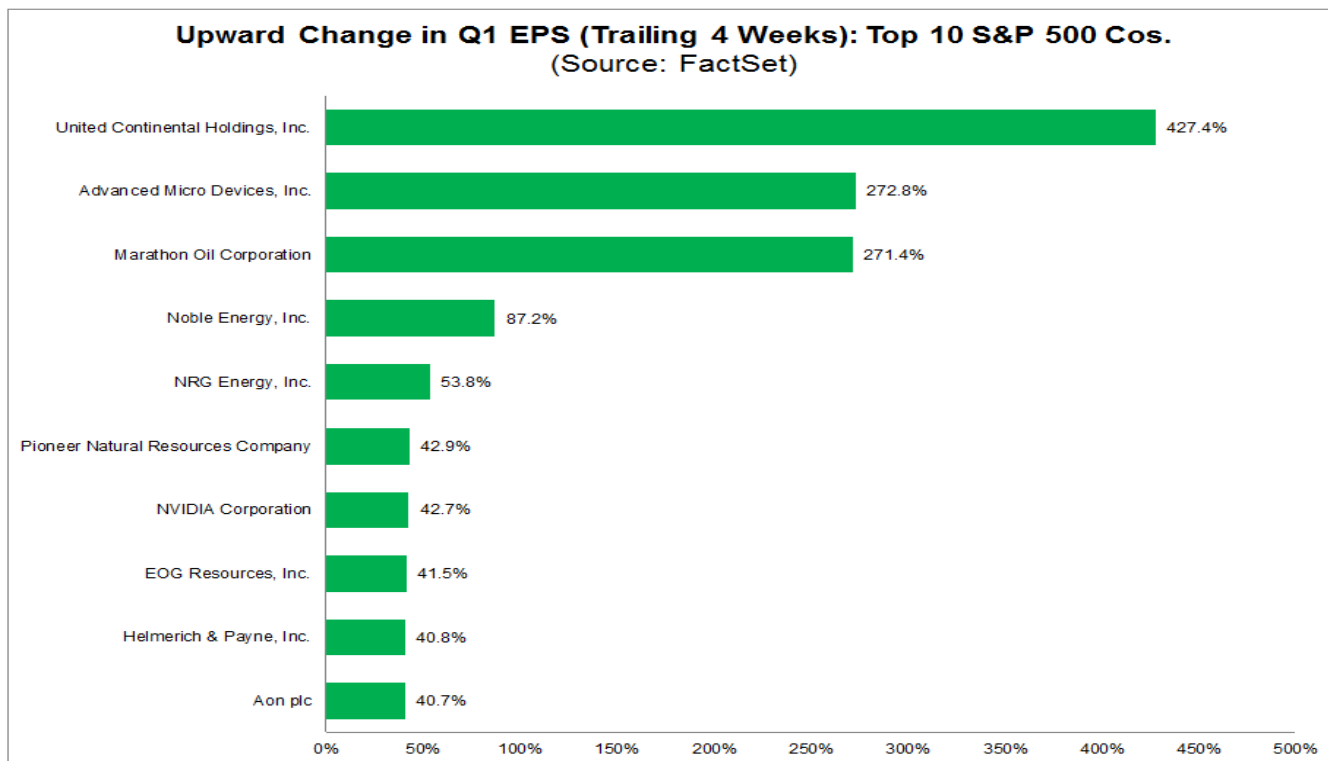




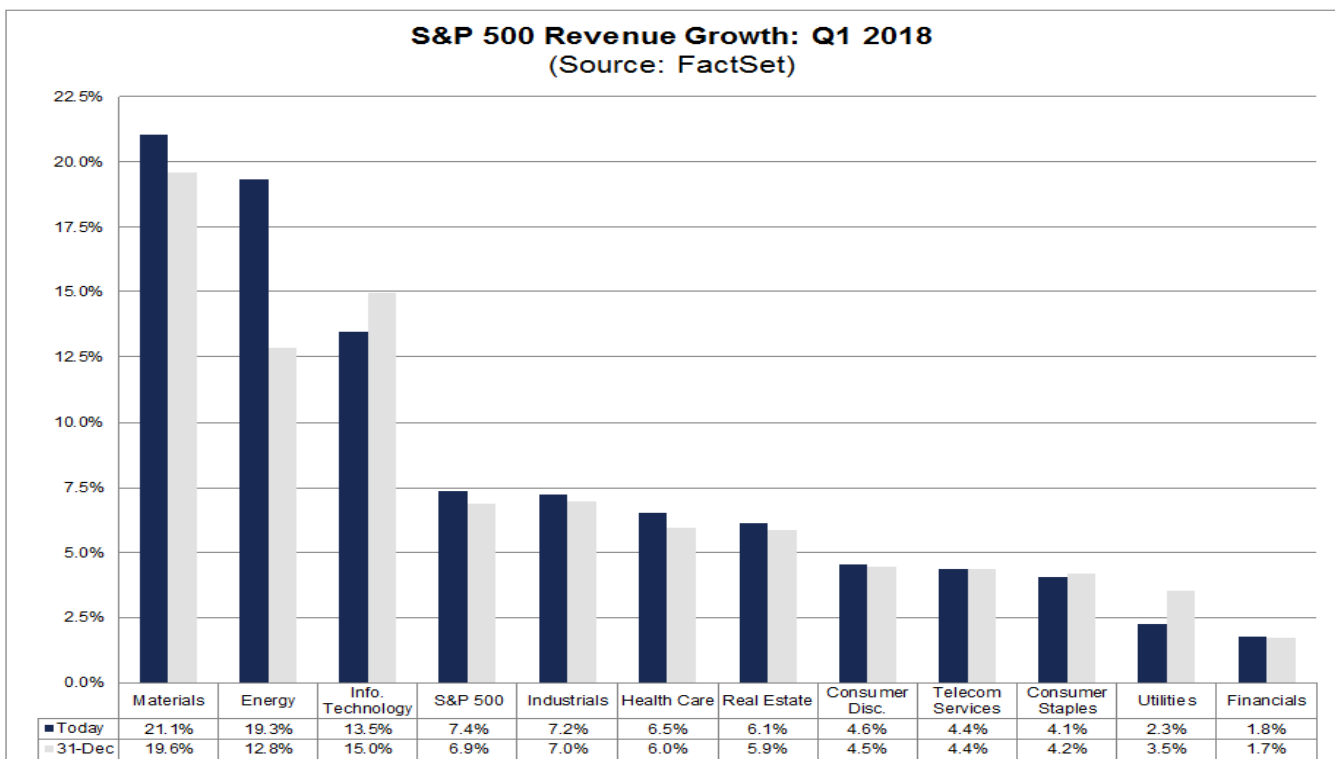
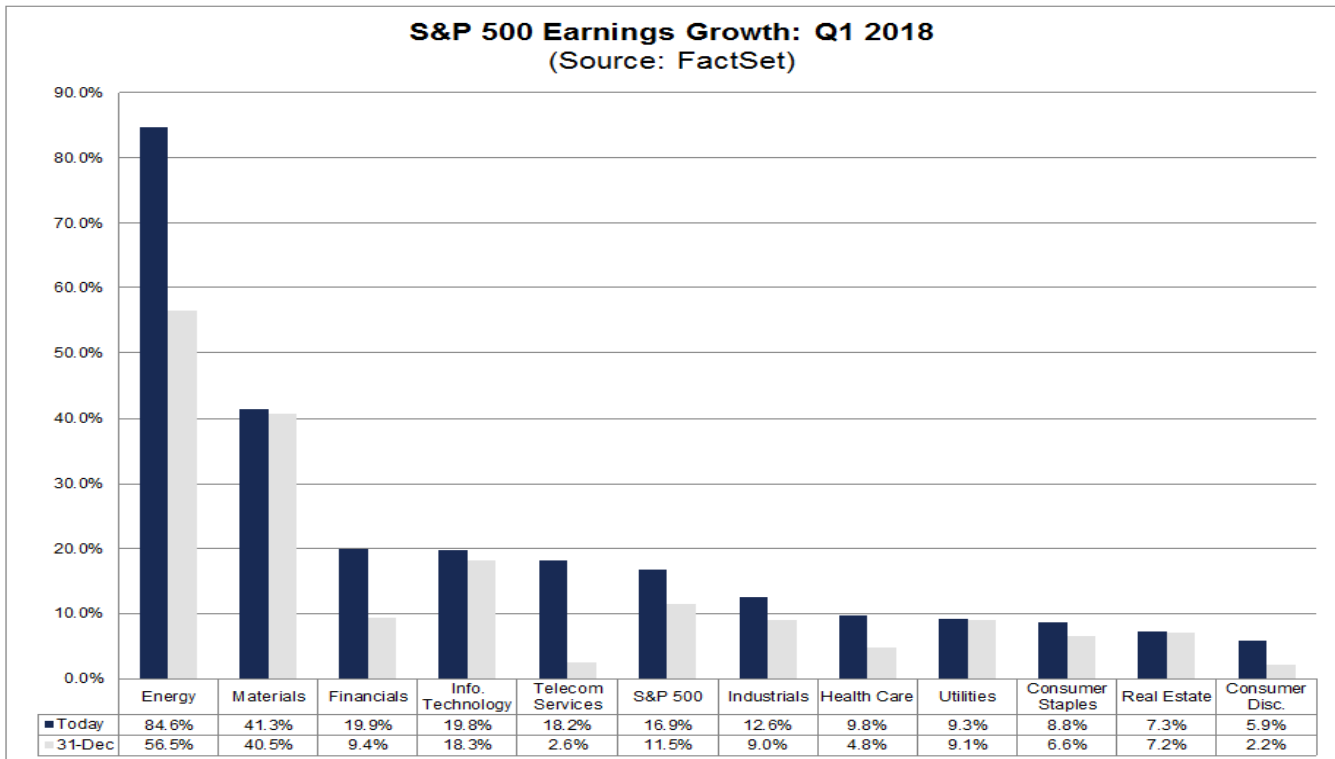
## Q1 2018: Guidance



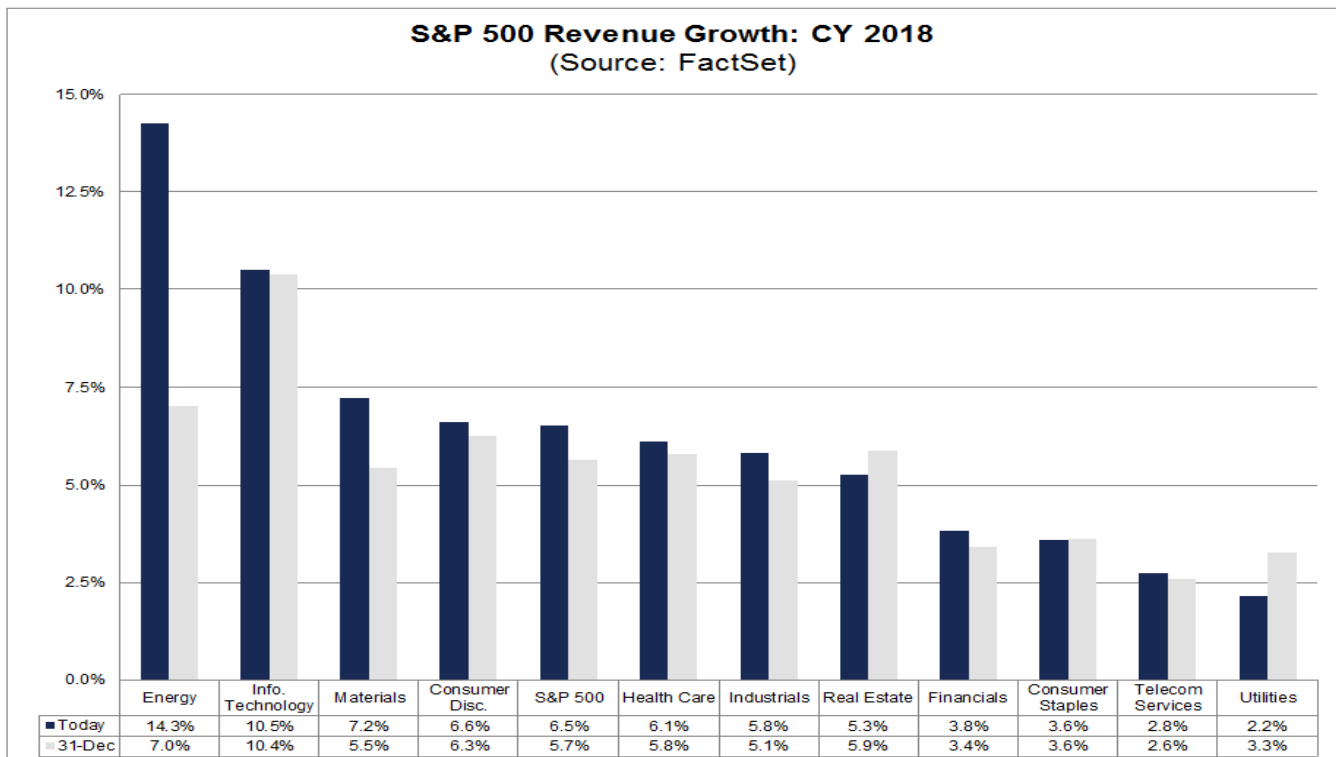
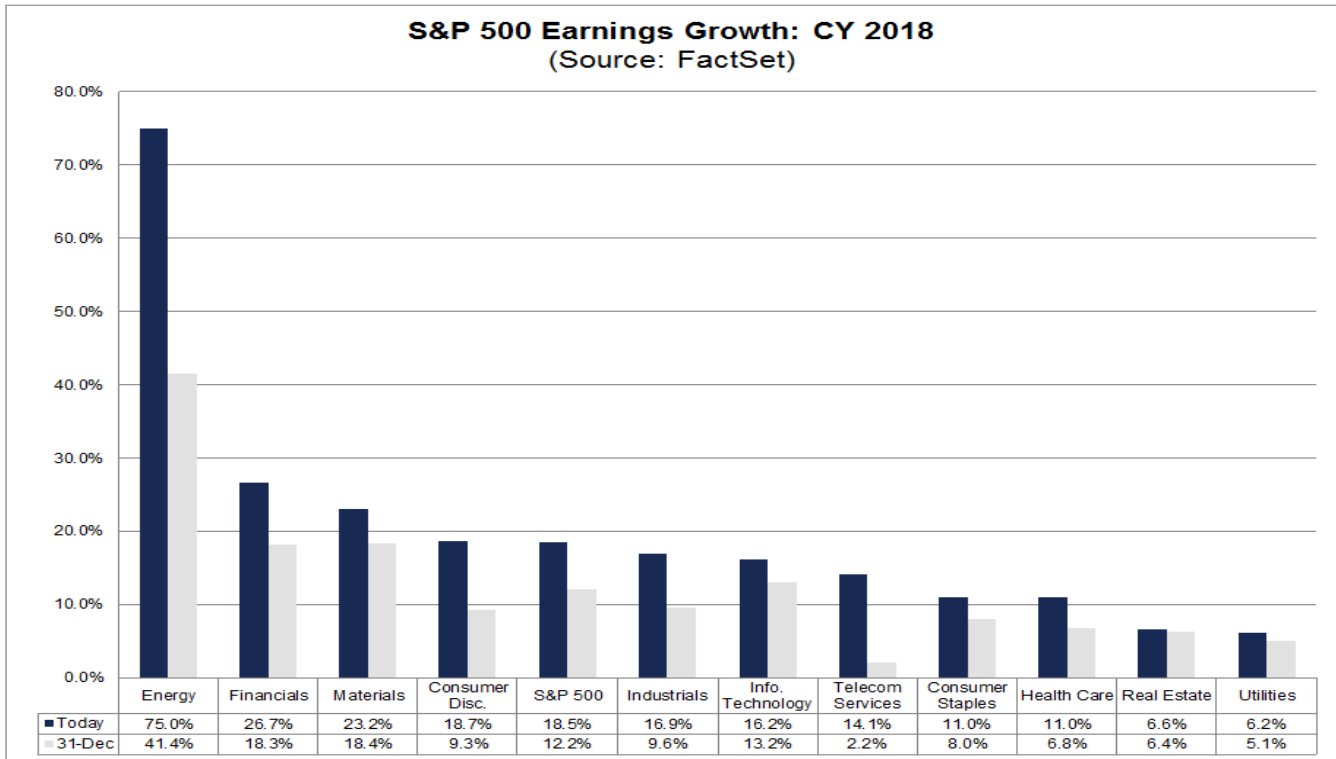
## Q1 2018: EPS Revisions



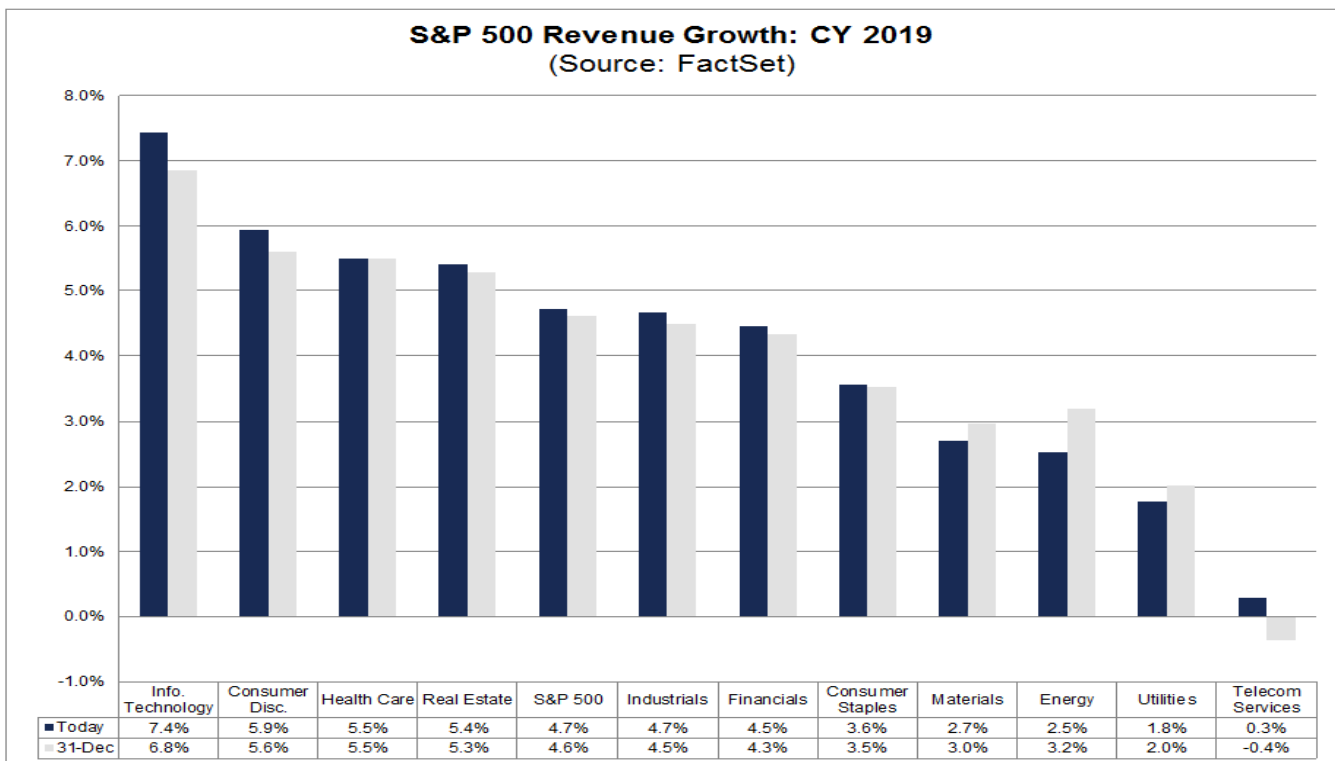
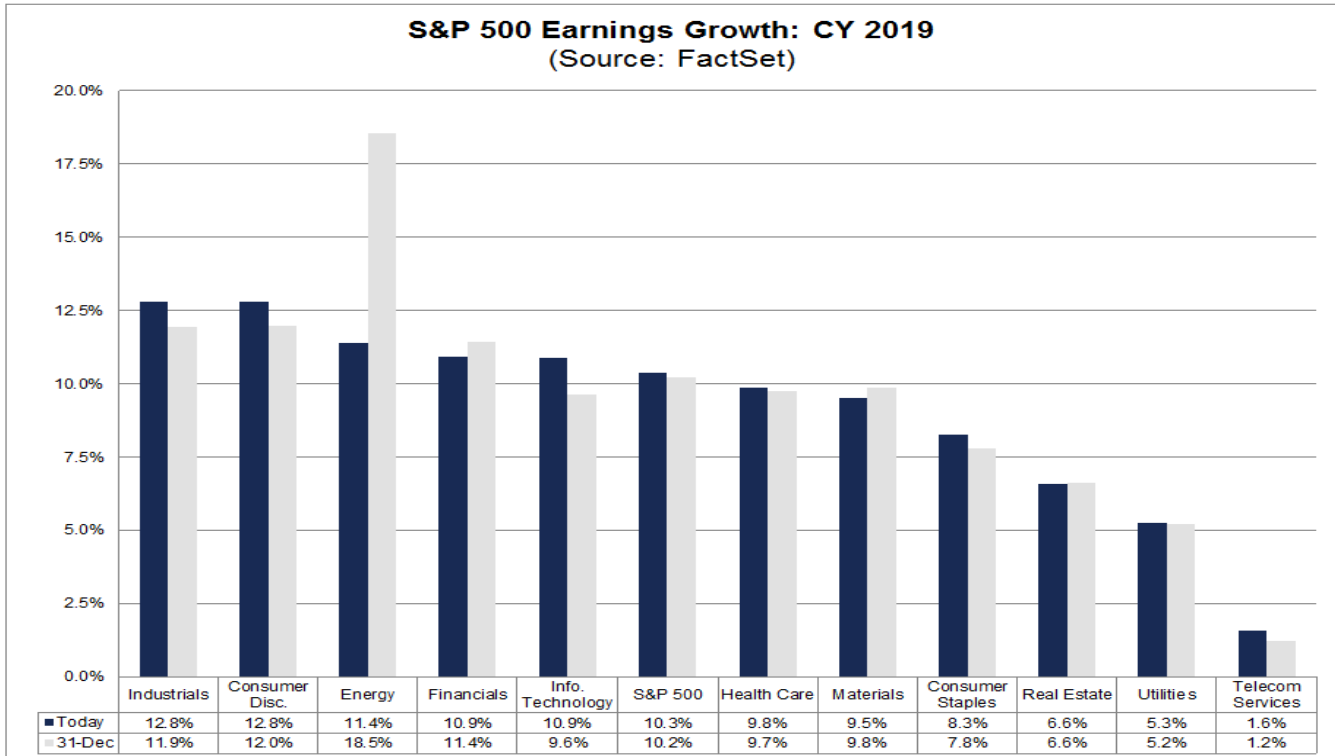
## Q1 2018: Growth



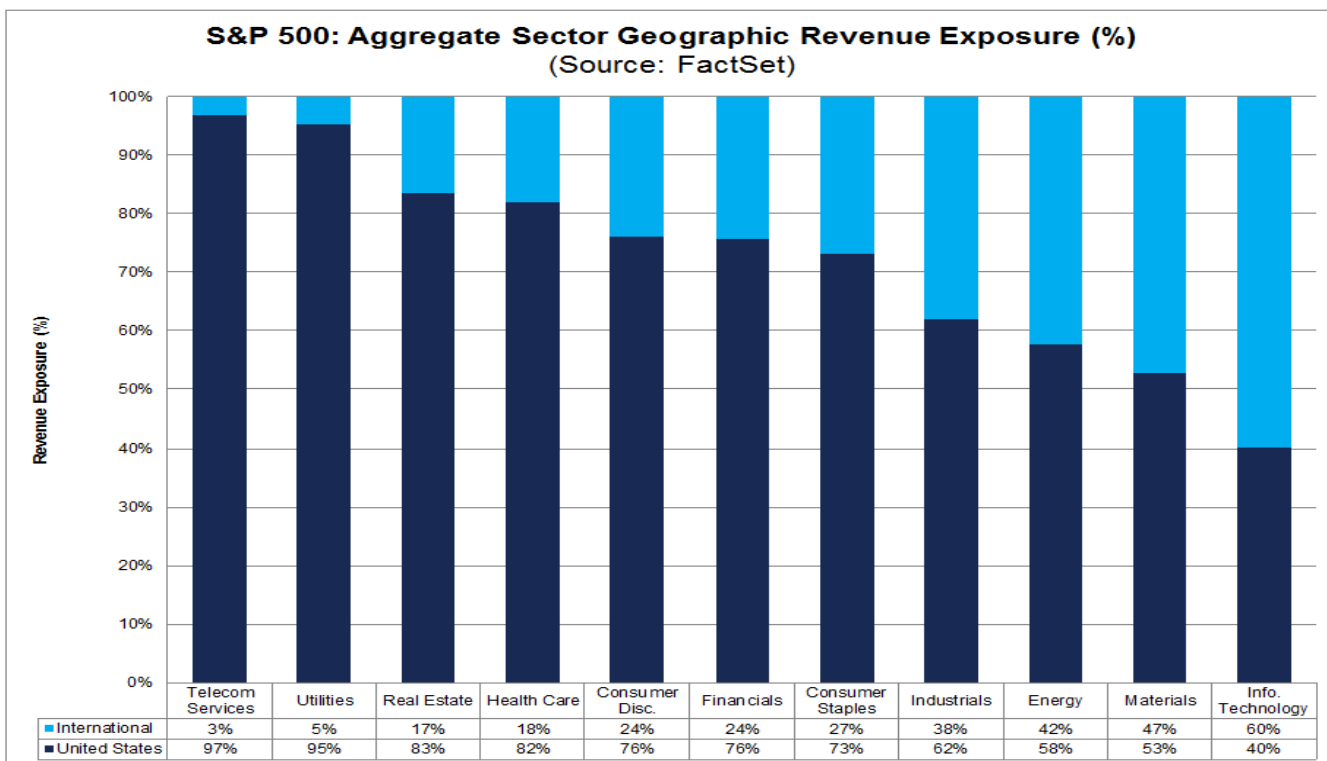
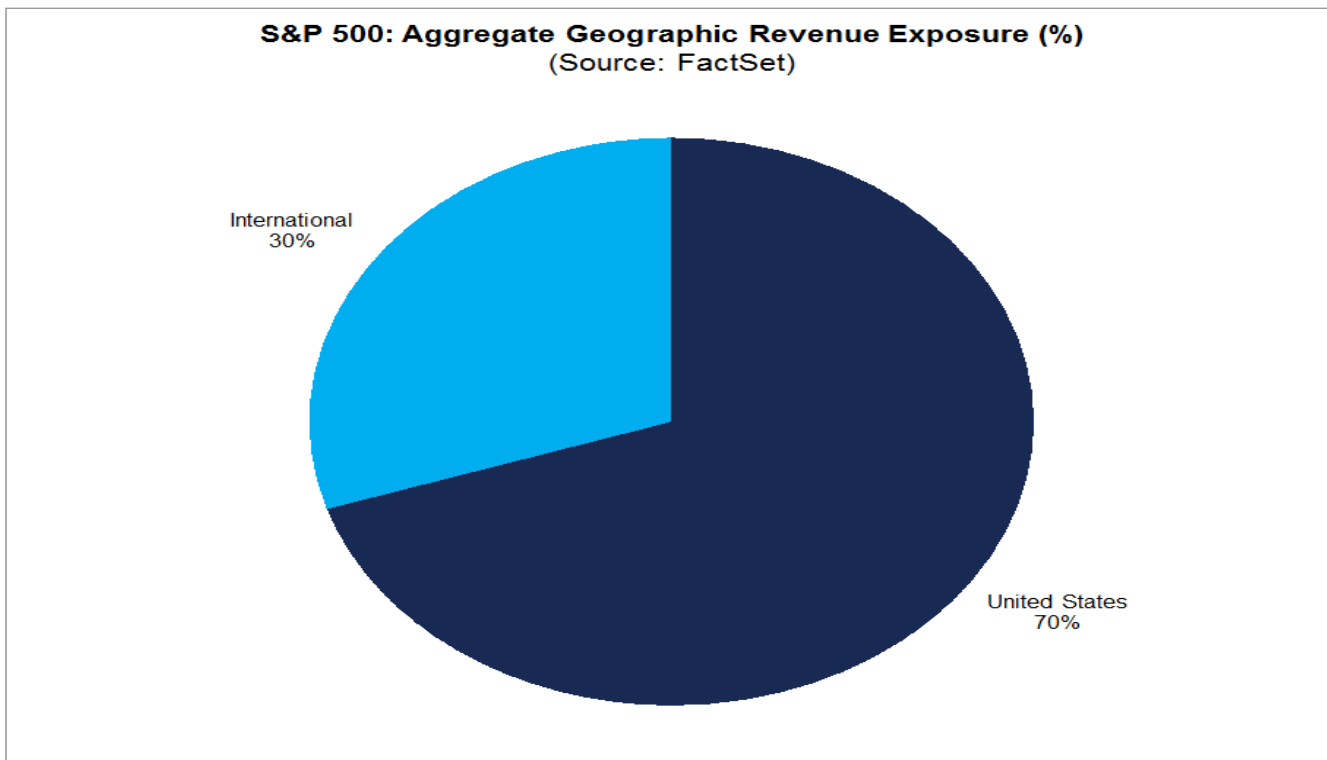
## CY 2018: Growth



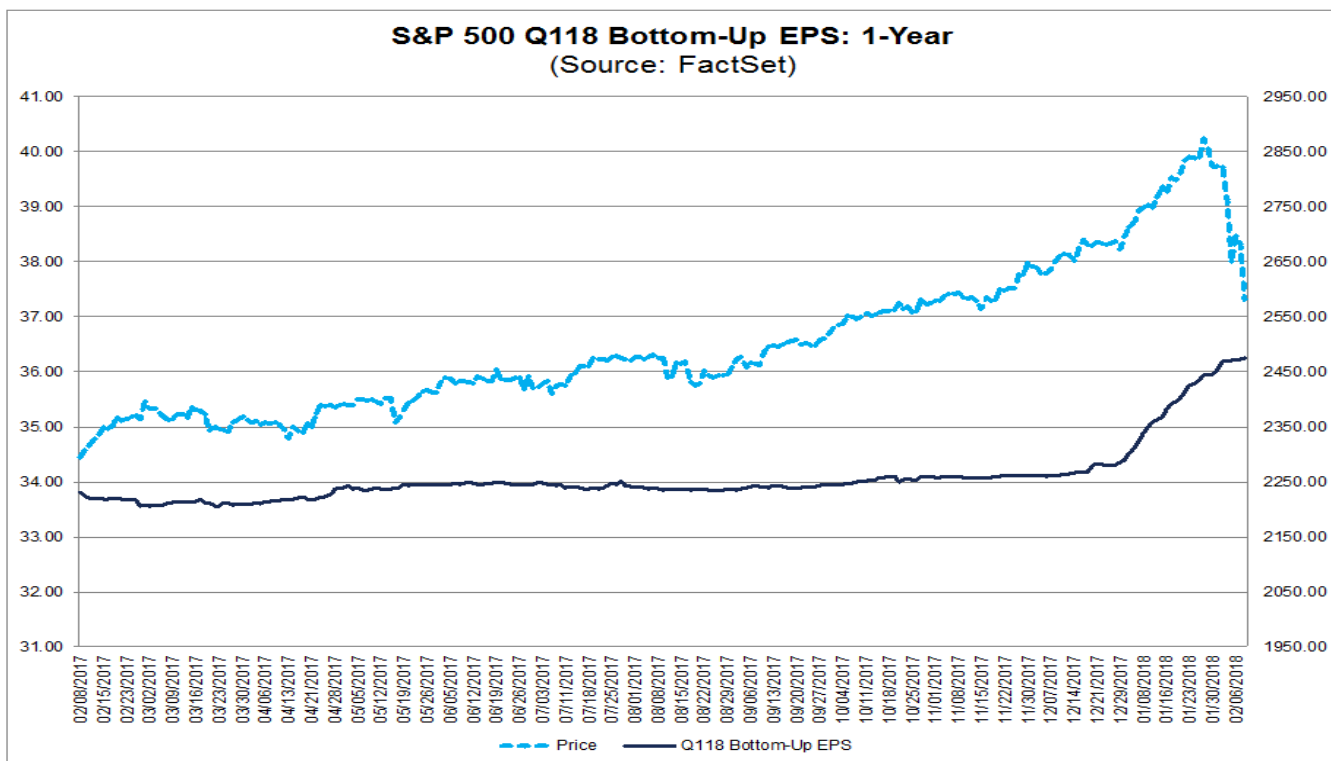
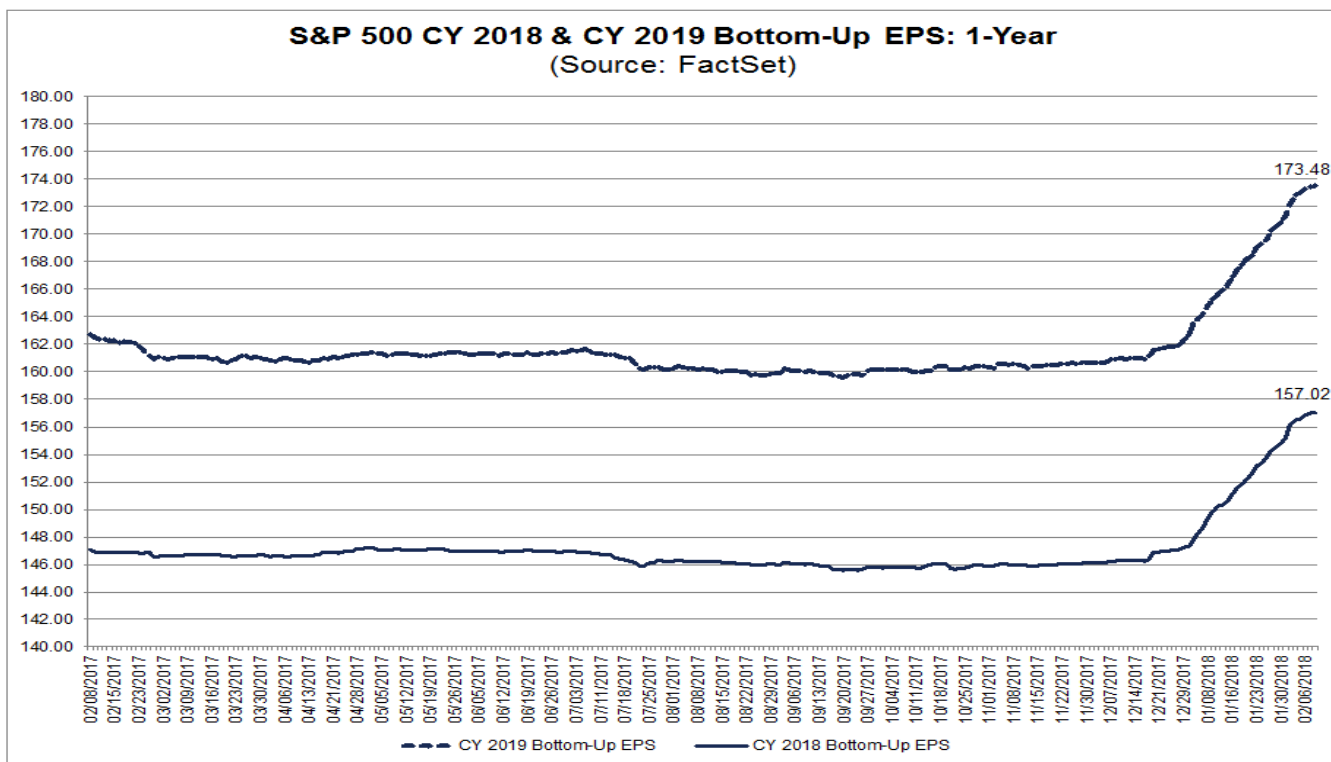
## CY 2019: Growth



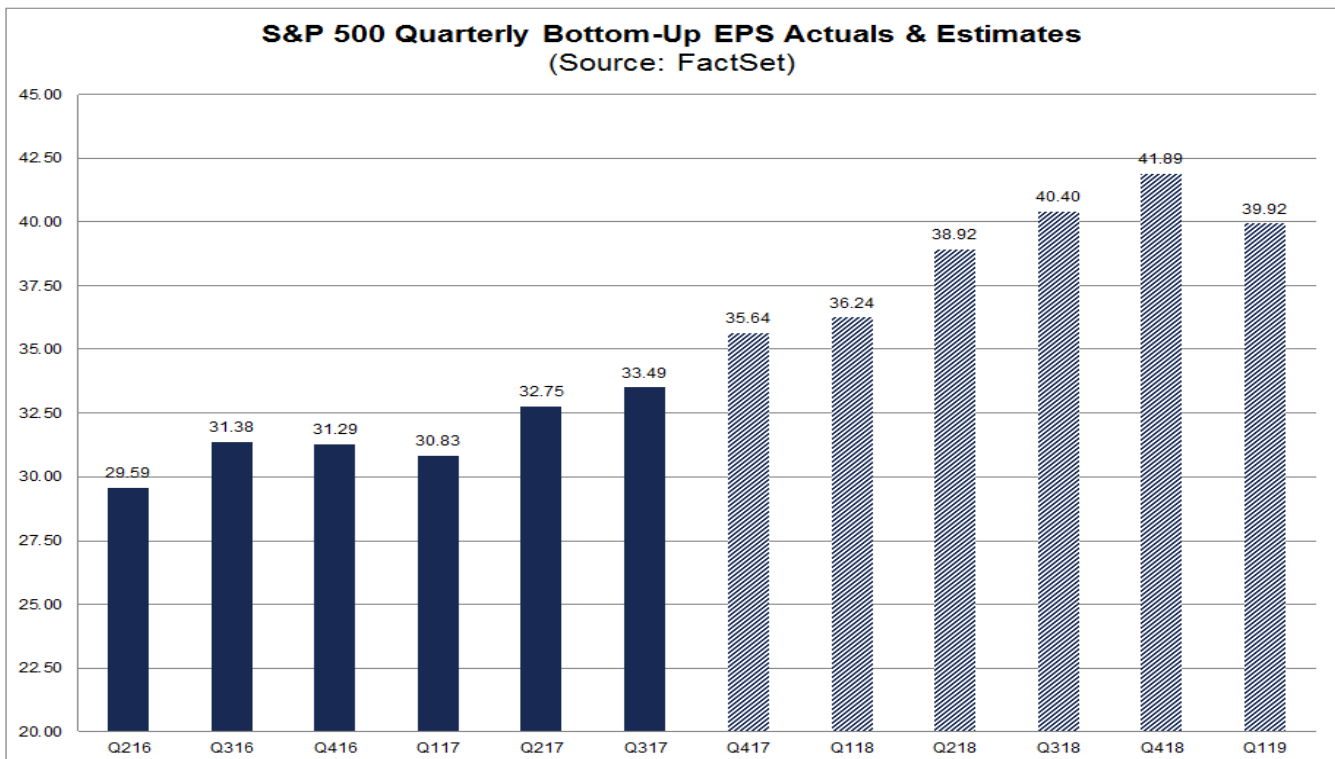
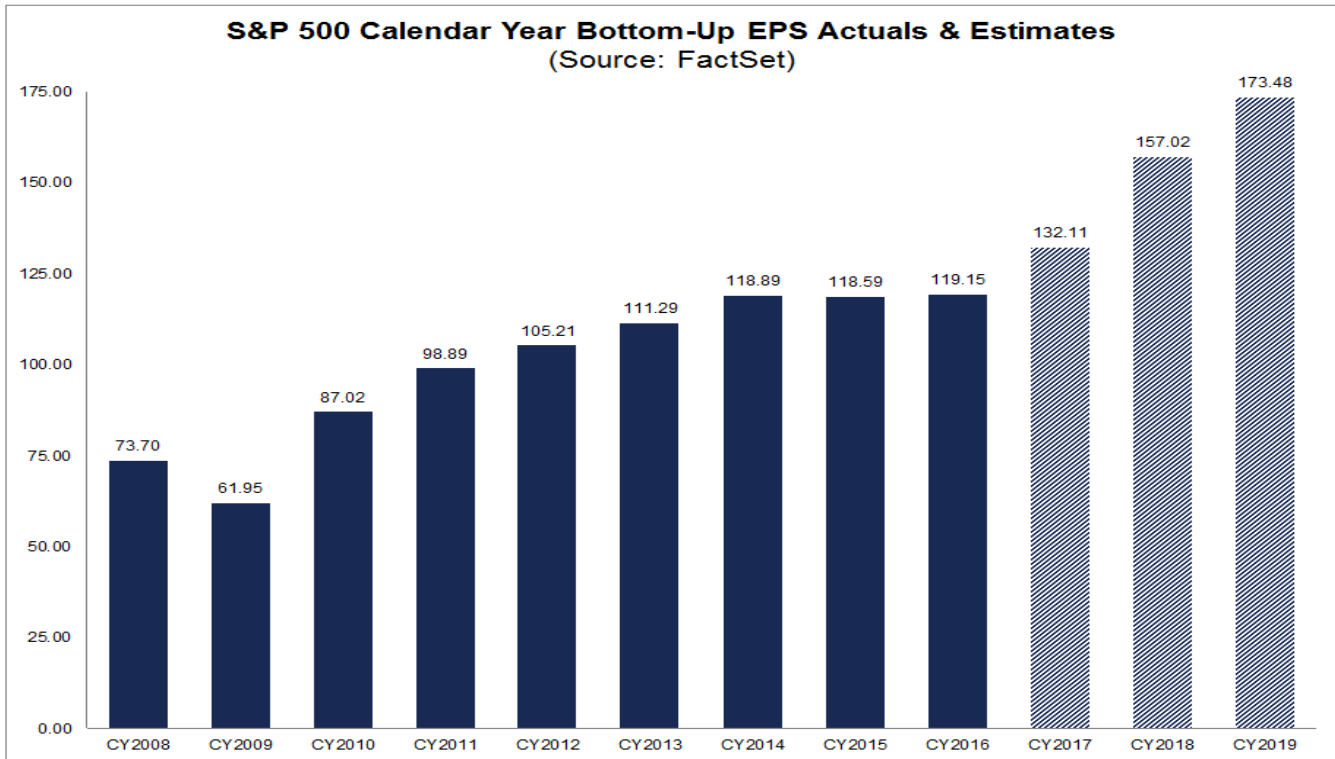
## Geographic Revenue Exposure



## Bottom-up EPS Estimates: Revisions

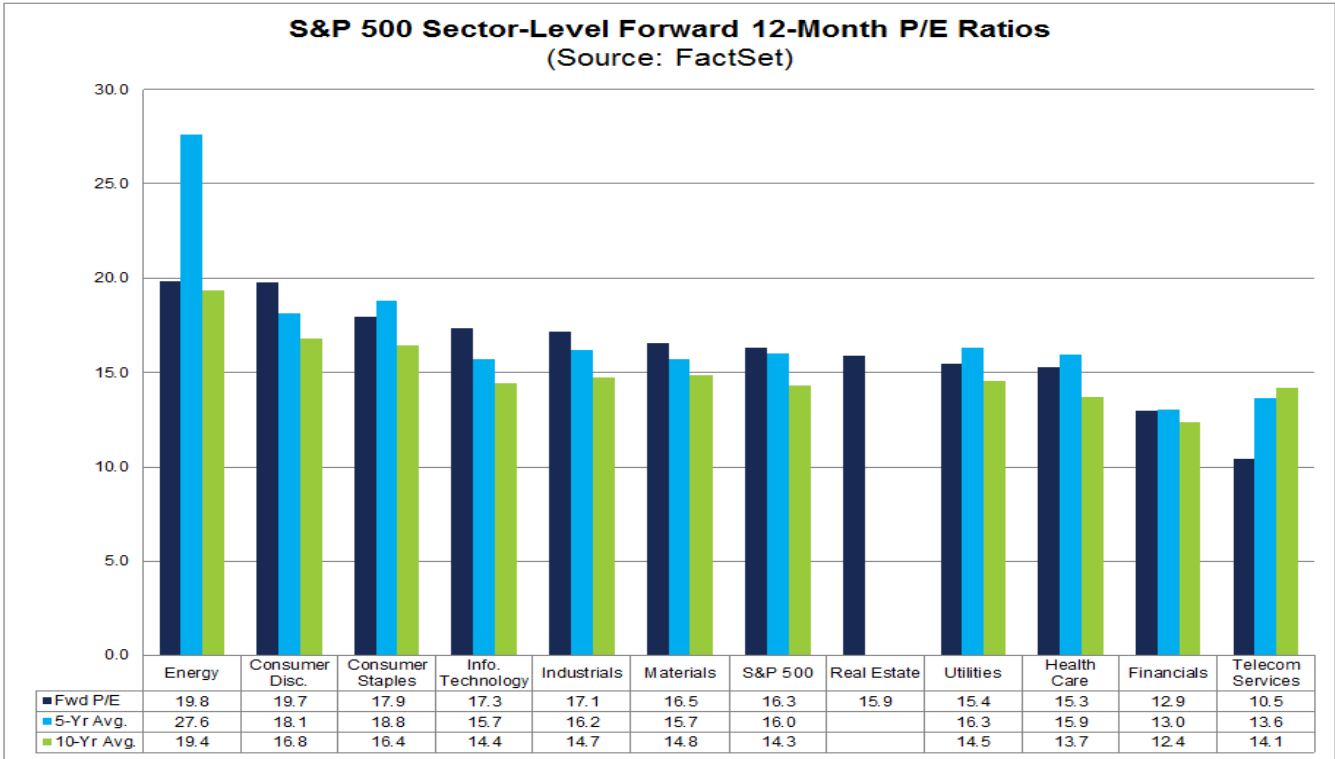


## Bottom-up EPS Estimates: Current & Historical



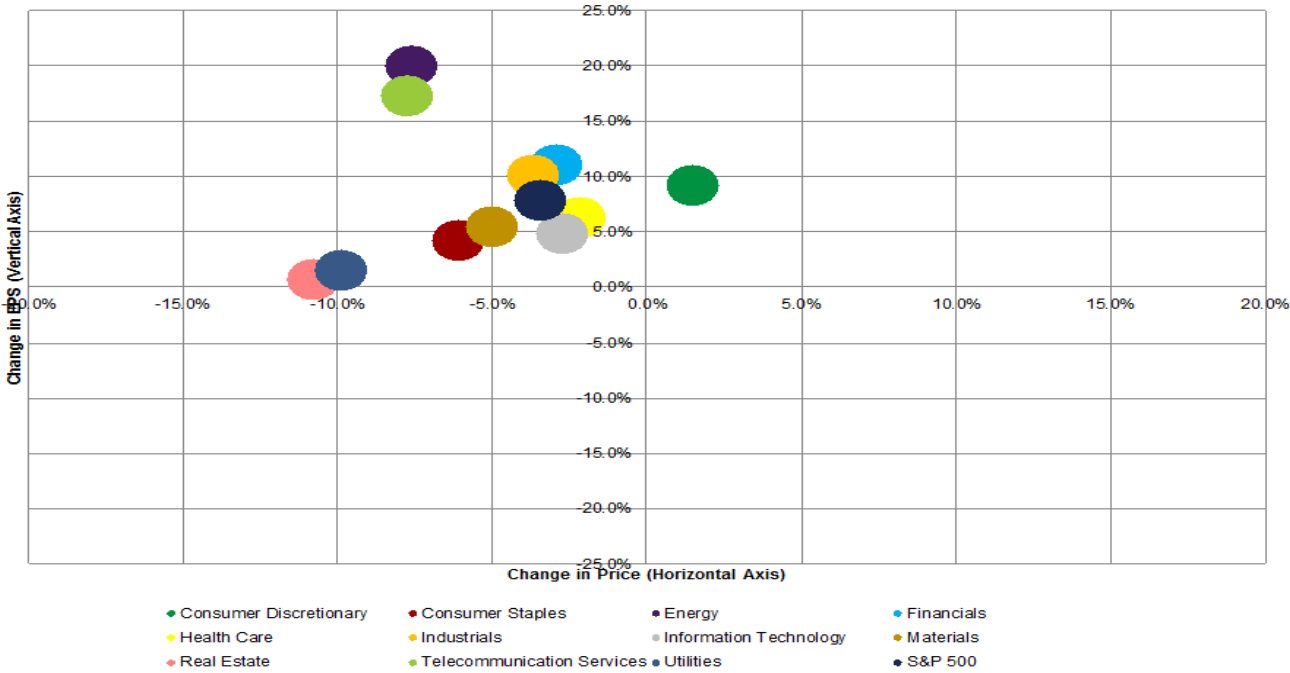


# Forward 12M P/E Ratio: Sector Level

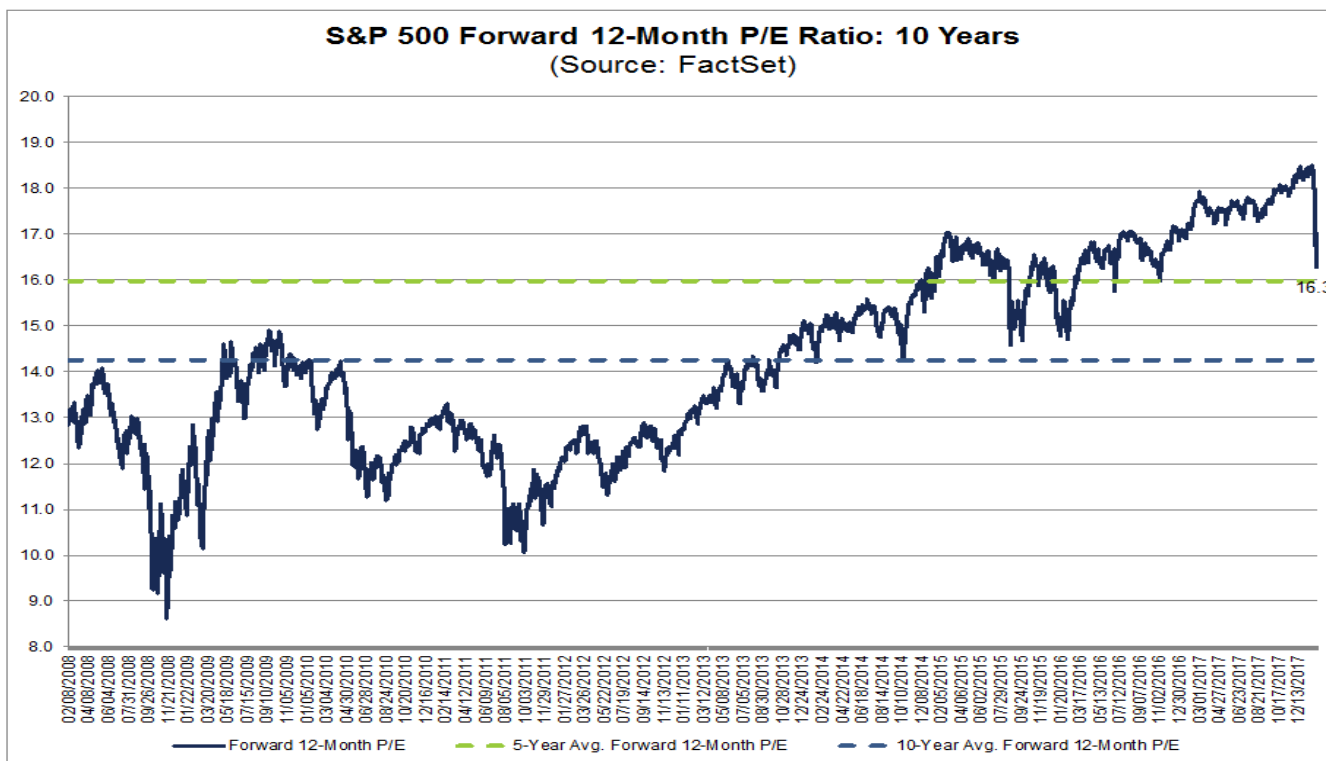
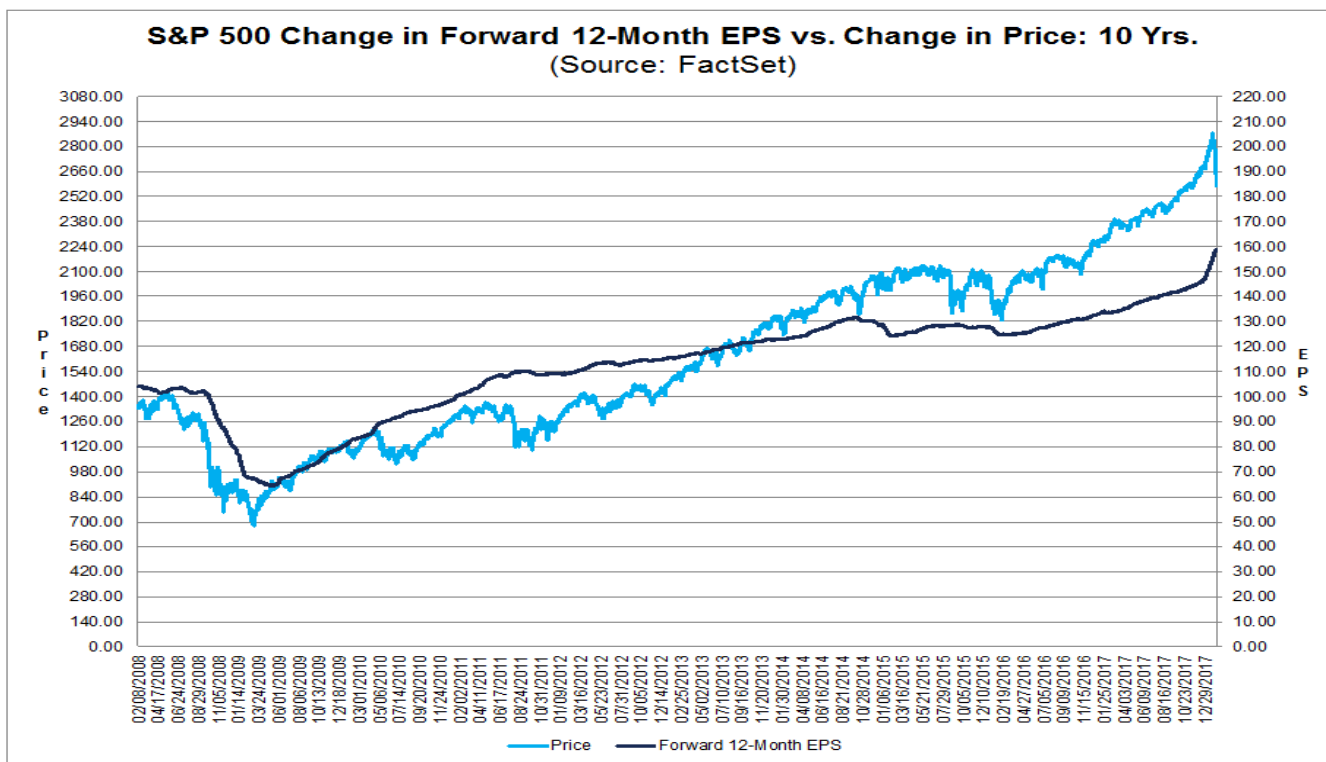


## Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Dec 31

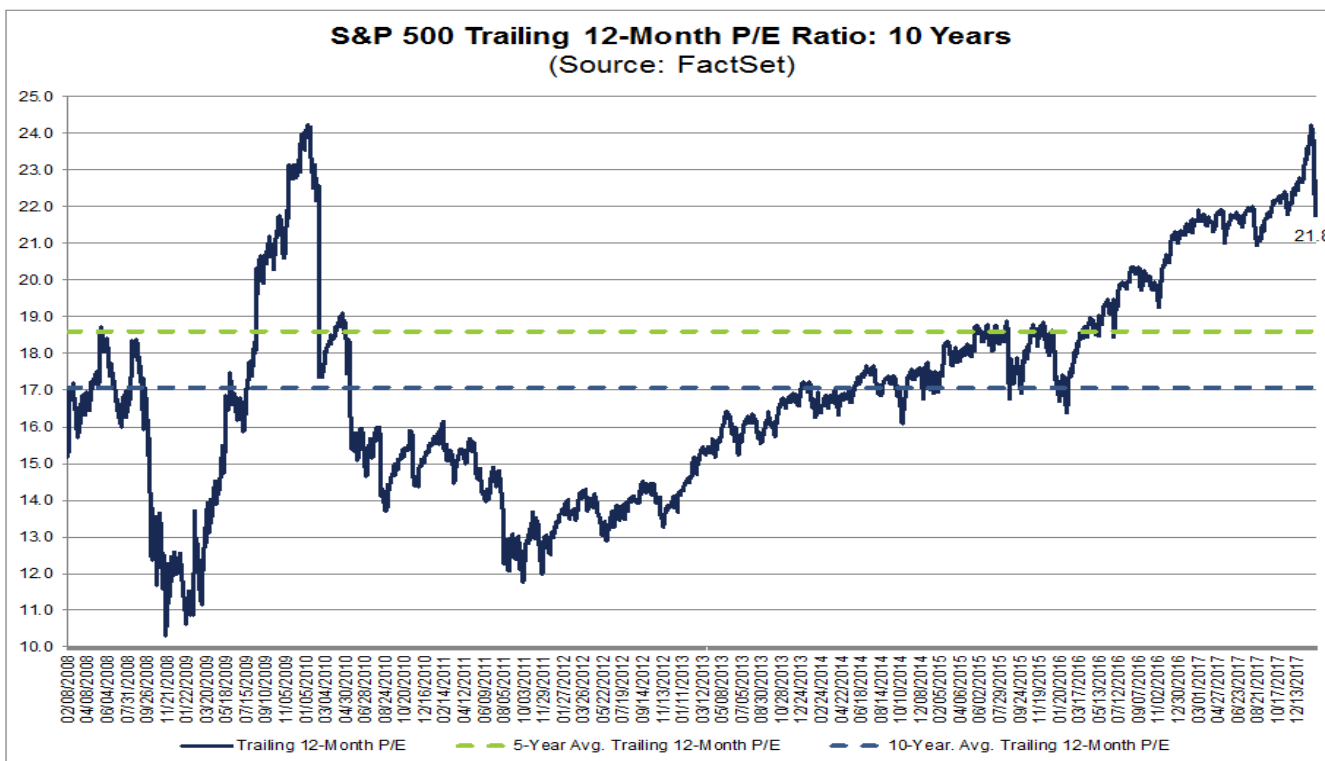
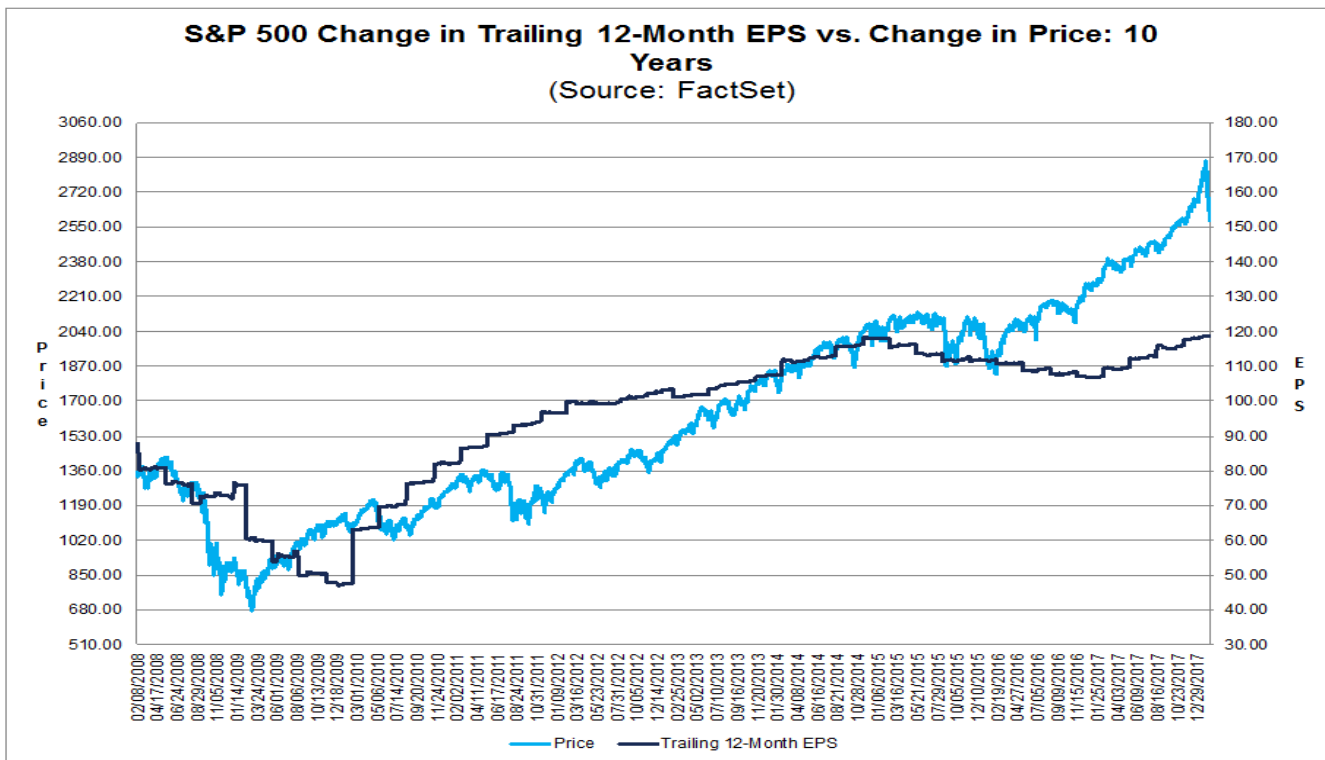
(Source: FactSet)



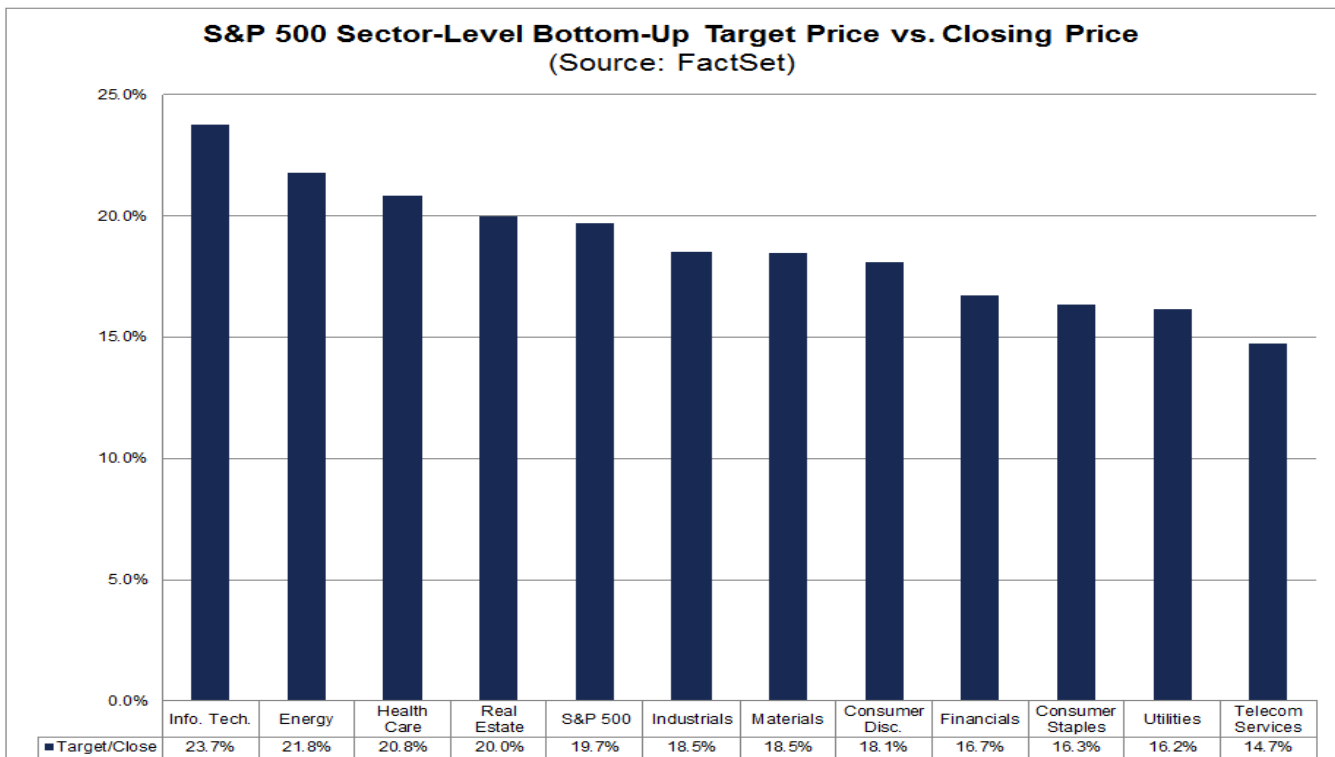
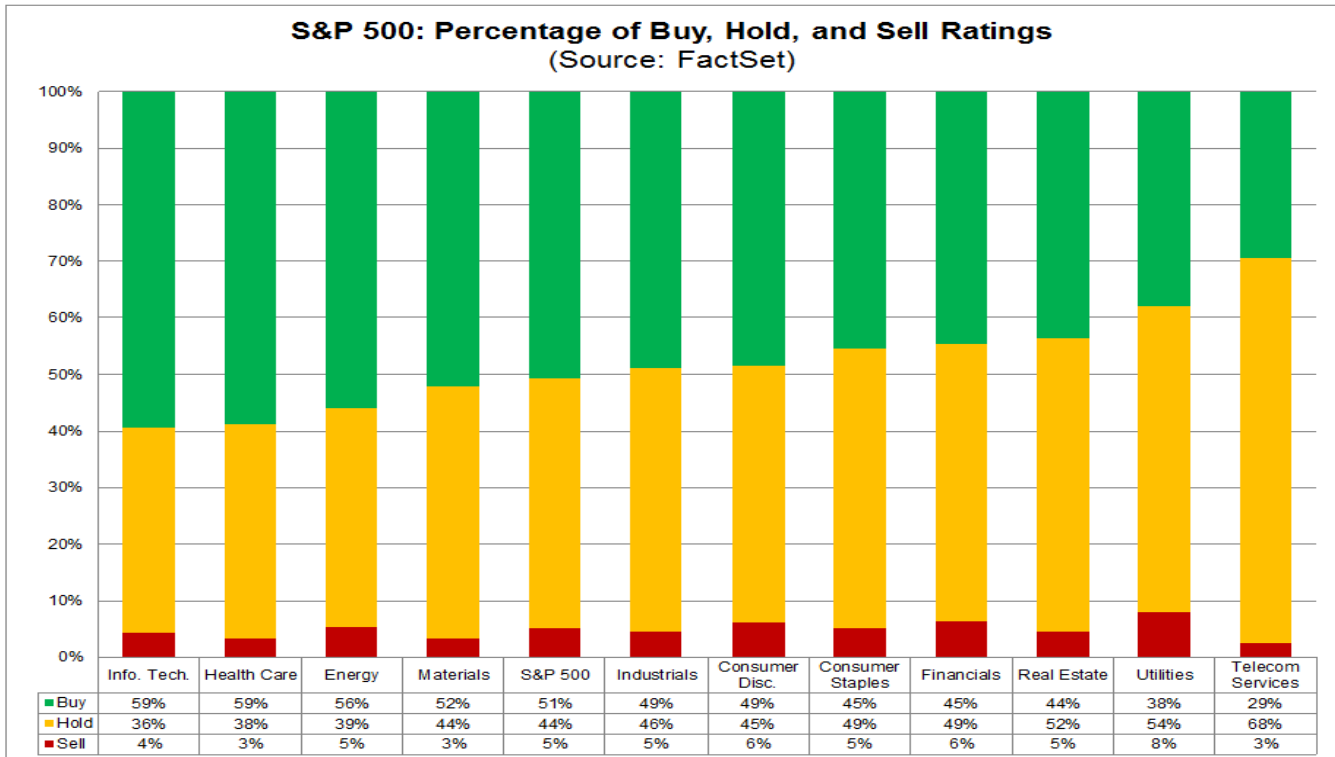
# Forward 12M P/E Ratio: Long-Term Averages



# Trailing 12M P/E Ratio: Long-Term Averages



## Targets & Ratings



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