

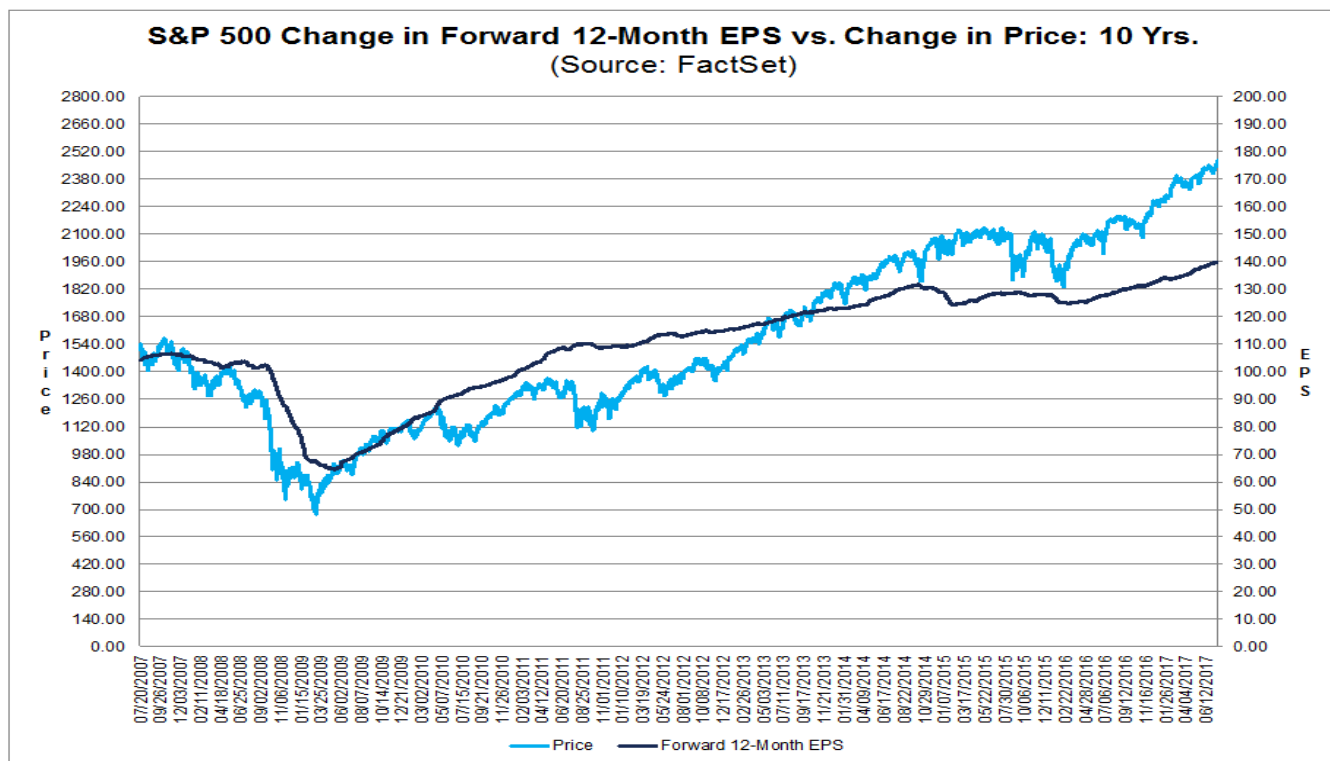
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Key Metrics

- **Earnings Scorecard:** As of today (with 19% of the companies in the S&P 500 reporting actual results for Q2 2017), 73% of S&P 500 companies have beat the mean EPS estimate and 77% of S&P 500 companies have beat the mean sales estimate.
- **Earnings Growth:** For Q2 2017, the blended earnings growth rate for the S&P 500 is 7.2%. Nine sectors are reporting or are expected to report earnings growth for the quarter, led by the Energy sector.
- **Earnings Revisions:** On June 30, the estimated earnings growth rate for Q2 2017 was 6.6%. Four sectors have higher growth rates today (compared to June 30) due to upside earnings surprises, led by the Financials sector.
- **Earnings Guidance:** For Q3 2017, 7 S&P 500 companies have issued negative EPS guidance and 7 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 17.8. This P/E ratio is above the 5-year average (15.4) and above the 10-year average (14.0).



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Topic of the Week: 1

Energy Sector Earnings Expectations Continue to Plunge

Exxon Mobil and Chevron will also be focus companies for the market next week, as both companies are scheduled to report earnings on July 28. The current mean EPS estimate for Exxon Mobil for Q2 2017 is \$0.84, which is below the mean EPS estimate of \$0.89 on June 30 and below the mean EPS estimate of \$0.99 on March 31. The current mean EPS estimate for Chevron for Q2 2017 is \$0.86, which is below the mean EPS estimate of \$0.98 on June 30 and below the mean EPS estimate of \$1.13 on March 31.

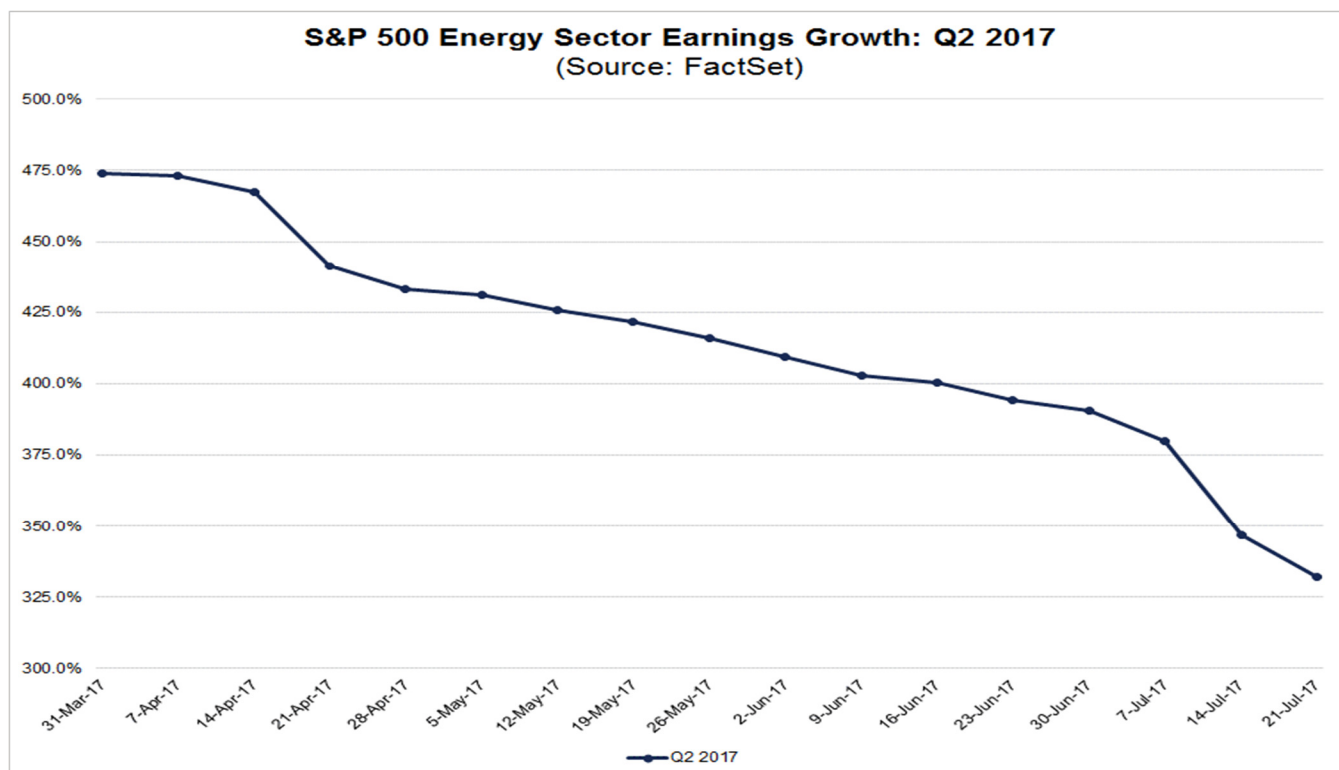
Exxon Mobil and Chevron are not the only companies in the S&P 500 Energy sector that have seen EPS estimates for the second quarter decrease since the end of the second quarter. In fact, 25 of the 34 companies in the sector (74%) have recorded a decline in their mean EPS estimate for the second quarter since June 30. As a result, the earnings growth rate for this sector has fallen to 332.1% today from 390.5% on June 30. This marks the largest drop in earnings growth of all eleven sectors since the end of the second quarter.

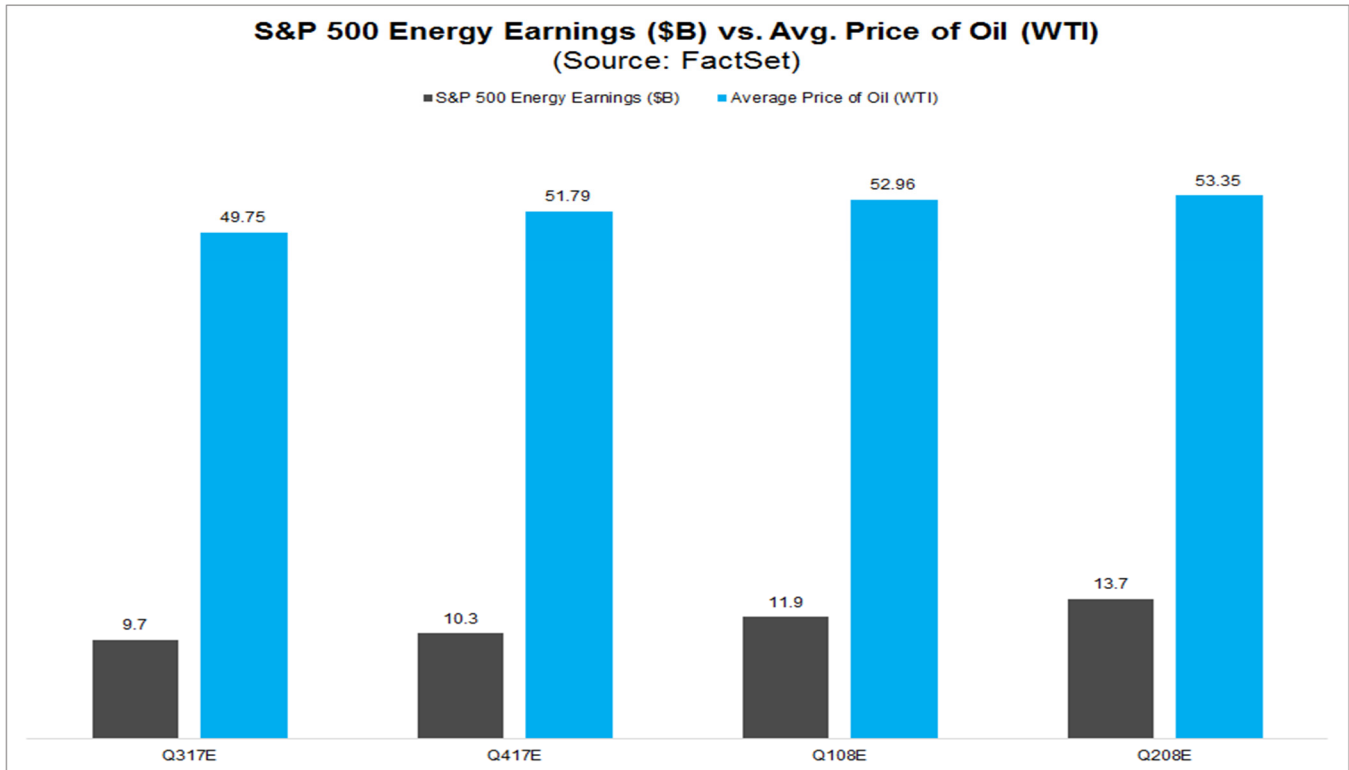
Despite the drop in earnings growth, the Energy sector is still expected to be the largest contributor to earnings growth for the S&P 500 as a whole. Excluding the Energy sector, the blended earnings growth rate for the S&P 500 falls to 4.8% from 7.2%.

However, upside earnings surprises reported by companies in other sectors (particularly the Financials sector) have more than offset the impact of the decrease in earnings in the Energy sector over the past few weeks. Since June 30, the blended earnings growth rate for the S&P 500 for Q2 has increased to 7.2% from 6.6%.

Analysts have also cut full-year EPS estimates for the Energy sector during this time. Overall, 29 of the 34 companies in this sector (85%) have recorded a decline in their mean EPS estimate for CY 2017 since June 30. As a result, the estimated earnings growth rate for this sector for CY 2017 has fallen to 236.4% today from 275.6% on June 30. The estimated earnings growth rate for the S&P 500 for CY 2017 has fallen to 9.3% from 9.8% during this same time frame.

It is interesting to note that the price of oil closed at \$46.92 yesterday. Analysts are still calling for the average price of oil to be above this closing price in the second half of 2017. If oil prices do not increase as expected, analysts will likely continue to lower earnings estimates for this sector for all of 2017 (as they have already done this month).





Topic of the Week: 2

Record-High Percentage of S&P 500 Companies Beating Revenue Estimates to Date for Q2

As of today, 97 companies in the S&P 500 have reported actual earnings and sales numbers for the second quarter. Of these 97 companies, 77% have reported sales above estimates and 23% have reported sales below estimates. How does this 77% number compare to recent averages?

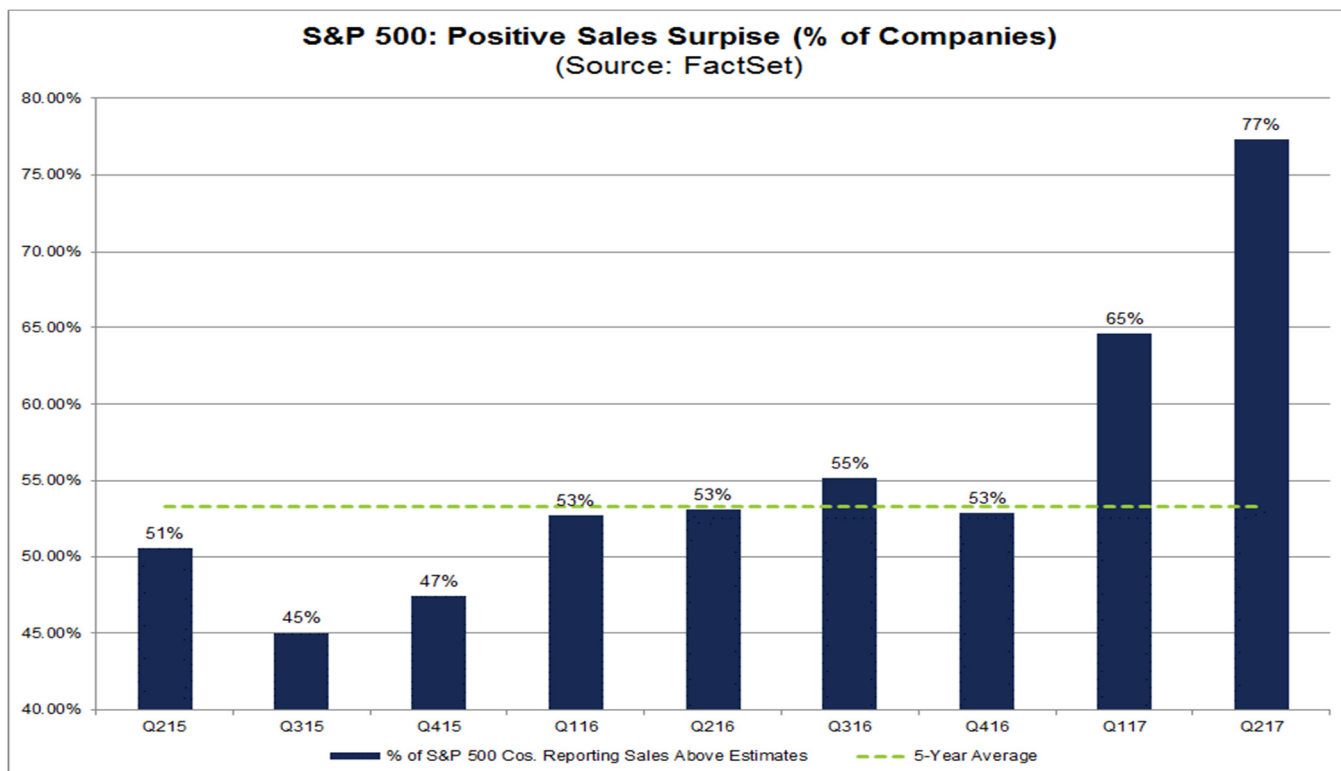
During the past year (4 quarters), 56% of the companies in the S&P 500 have reported sales above the mean estimate on average. During the past five years (20 quarters), 53% of companies in the S&P 500 have reported sales above the mean estimate on average. Thus, the percentage of companies reporting sales above estimates to date for Q2 2017 is running well above both the trailing 1-year average and the trailing and 5-year average.

If 77% is the final percentage for the quarter, it will mark the highest percentage of companies reporting sales above estimates for a quarter since FactSet began tracking the data in Q3 2008. The current record for the highest percentage for a quarter is 72%, set in Q2 2011.

Companies are also beating revenue estimates by wider margins than average. In aggregate, companies are reporting actual sales that are 1.3% above expectations. This percentage is well above the 1-year average (+0.5%) and the 5-year average (+0.5%).

Despite the high number of upside surprises, there has been little improvement in the overall revenue growth rate for the S&P 500 since the beginning of the earnings season. On June 30, the estimated revenue growth rate for Q2 was 4.9%. As of today, the blended revenue growth rate stands at 5.0%.

The revenue growth rate has remained stagnant because downward revisions to revenue estimates for companies in the Energy and Utilities sectors have mostly offset the increases in revenue growth rates in other sectors (particularly in the Financials and Information Technology sectors) due to upside sales surprises. Please see page 15 for more details on the sector-level changes in revenue growth rates since June 30.



Q2 2017 Earnings Season: By the Numbers

Overview

To date, 19% of the companies in the S&P 500 have reported actual results for Q2 2017. In terms of earnings, more companies (73%) are reporting actual EPS above estimates compared to the 5-year average. In aggregate, companies are reporting earnings that are 7.8% above the estimates, which is also above the 5-year average. In terms of sales, more companies (77%) are reporting actual sales above estimates compared to the 5-year average. In aggregate, companies are reporting sales that are 1.3% above estimates, which is also above the 5-year average.

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 second quarter is 7.2% today, which is higher than the earnings growth rate of 6.8% last week. Upside earnings surprises reported by companies in the Financials sector were mainly responsible for the increase in the earnings growth rate for the index during the past week. Overall, nine sectors are reporting or are predicted to report year-over-year earnings growth, led by the Energy, Information Technology, and Financials sectors. Two sectors are reporting or are projected to report a year-over-year decline in earnings, led by the Consumer Discretionary sector.

The blended sales growth rate for the second quarter is 5.0% today, which is equal to the sales growth rate of 5.0% last week. During the past week, upside sales surprises reported by companies in the Financials sector were mainly offset by downward revisions to sales estimates for companies in the Energy sector, resulting in no change in the revenue growth rate for the index. Overall, ten sectors are reporting or are projected to report year-over-year growth in revenues, led by the Energy sector. The only sector predicted to report a year-over-year decline in revenues is the Telecom Services sector.

During the upcoming week, 191 S&P 500 companies (including 13 Dow 30 components) are scheduled to report results for the second quarter.

For Q3 2017, seven S&P 500 companies have issued negative EPS guidance and seven S&P 500 companies have issued positive EPS guidance.

The forward 12-month P/E ratio is 17.8, which is above the 5-year average and the 10-year average.

Scorecard: More Companies Beating EPS and Revenue Estimates than Average

Percentage of Companies Beating EPS Estimates (73%) is Above 5-Year Average

Overall, 19% of the companies in the S&P 500 have reported earnings to date for the second quarter. Of these companies, 73% have reported actual EPS above the mean EPS estimate, 11% have reported actual EPS equal to the mean EPS estimate, and 15% 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 (70%) average and above the 5-year (68%) average.

At the sector level, the Health Care (100%), Information Technology (85%), and Industrials (80%) sectors have the highest percentages of companies reporting earnings above estimates, while the Materials (25%) and Energy (50%) sectors have the lowest percentage of companies reporting earnings above estimates.

Earnings Surprise Percentage (+7.8%) is Above 5-Year Average

In aggregate, companies are reporting earnings that are 7.8% above expectations. This surprise percentage is above the 1-year (+4.7%) average and above the 5-year (+4.2%) average.

The Information Technology (+16.7%) sector is reporting the largest upside aggregate differences between actual earnings and estimated earnings. On the other hand, the Consumer Staples (+2.2%), Materials (+2.2%), and Health Care (+2.6%) sectors are reporting the smallest upside aggregate differences between actual earnings and estimated earnings.

Market Not Rewarding Earnings Beats Or Punishing Earnings Misses

To date, the market is rewarding upside earnings surprises less than average, but also punishing downside earnings surprises less than average.

Companies that have reported upside earnings surprises for Q2 2017 have seen an average price increase of +0.2% two days before the earnings release through two days after the earnings. This percentage increase is below the 5-year average price increase of +1.4% during this same window for companies reporting upside earnings surprises.

Companies that have reported downside earnings surprises for Q2 2017 have seen an average price decrease of -1.4% two days before the earnings release through two days after the earnings. This percentage decrease is smaller than the 5-year average price decrease of -2.4% during this same window for companies reporting downside earnings surprises.

Percentage of Companies Beating Revenue Estimates (77%) is Above 5-Year Average

In terms of revenues, 77% of companies have reported actual sales above estimated sales and 23% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is well above the 1-year average (56%) and well above the 5-year average (53%).

At the sector level, the Energy (100%), Industrials (85%), and Information Technology (85%) sectors have the highest percentages of companies reporting revenues above estimates, while the Real Estate (67%) and Consumer Staples (67%) sectors have the lowest percentages of companies reporting revenues above estimates.

Revenue Surprise Percentage (+1.3%) is Above 5-Year Average

In aggregate, companies are reporting sales that are 1.3% above expectations. This surprise percentage is above the 1-year (+0.5%) average and above the 5-year (+0.5%) average.

The Energy (+4.4%) and Financials (+2.3%) sectors are reporting the largest upside aggregate differences between actual sales and estimated sales, while the Health Care (0.0%) and Real Estate (0.0%) sectors are reporting the smallest aggregate difference between actual sales and estimated sales.

Increase in Blended Earnings Growth This Week Due to Financials

Increase in Blended Earnings Growth This Week Due to Financials

The blended earnings growth rate for the S&P 500 for the second quarter is 7.2% today, which is higher than the earnings growth rate of 6.8% last week. Upside earnings surprises reported by companies in the Financials sector were mainly responsible for the increase in the overall earnings growth rate for the index during the past week.

In the Financials sector, the upside earnings surprises reported by Bank of America (\$0.46 vs. \$0.43), Goldman Sachs (\$3.95 vs. \$3.38), and Morgan Stanley (\$0.87 vs. \$0.76) were substantial contributors to the increase in the overall earnings growth rate for the index during the past week. As a result, the blended earnings growth rate for the Financials sector increased to 10.1% from 8.2% during this period.

In the Information Technology, the upside earnings surprise reported by Microsoft (\$0.98 vs. \$0.71) was offset by downward revisions to EPS estimates for Alphabet (to \$4.41 from \$8.22) to reflect the inclusion of a \$2.74 billion fine imposed on Alphabet by the European Commission. As a result, the blended earnings growth rate for the Information Technology sector decreased slightly to 10.4% from 10.5% during the week.

No Change in Blended Revenue Growth This Week

The blended sales growth rate for the S&P 500 for the second quarter is 5.0% today, which is equal to the sales growth rate of 5.0% last week. Upside sales surprises reported by companies in the Financials sector were mainly offset by downward revisions to sales estimates for companies in the Energy sector, resulting in no change in the revenue growth rate for the index during the past week.

Financials Sector Has Seen Largest Increase in Earnings Growth since June 30

The blended earnings growth rate for Q2 2017 of 7.2% is higher than the estimate of 6.6% at the end of the second quarter (June 30). Only four sectors have recorded an increase in earnings growth since the end of the quarter due to upward revisions to earnings estimates and upside earnings surprises, led by the Financials (to 10.1% from 6.1%) sector. Seven sectors have recorded a decrease in earnings growth during this time due to downward revisions to estimates and downside earnings surprises, led by the Energy (to 332.1% from 390.5%) sector.

Earnings Growth: 7.2%

The blended (year-over-year) earnings growth rate for Q2 2017 is 7.2%. Nine sectors are reporting or are projected to report year-over-year growth in earnings, led by the Energy, Information Technology, and Financials sectors. Two sectors are reporting or are projected to report a year-over-year decline in earnings, led by the Consumer Discretionary sector.

Energy: Largest Contributor to Earnings Growth for Q2

The Energy sector is reporting the highest (year-over-year) earnings growth of all eleven sectors at 332.1%. 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 \$8.2 billion in Q2 2017, compared to earnings of 1.9 billion in Q2 2016. Due to this \$6.3 billion year-over-year increase in earnings, the Energy sector is the largest contributor to earnings growth for the S&P 500 as a whole. If this sector is excluded, the blended earnings growth rate for the remaining ten sectors would fall to 4.8% from 7.2%.

At the sub-industry level, five of the six sub-industries in the sector are reporting or are projected to report earnings growth: Oil & Gas Exploration & Production (N/A due to year-ago loss), Oil & Gas Equipment & Services (N/A due to year-ago loss), Integrated Oil & Gas (138%), Oil & Gas Refining & Marketing (4%), and Oil & Gas Storage & Transportation (3%). On the other hand, the Oil & Gas Drilling (-682%) sub-industry is the only sub-industry predicted to report a year-over-year decline in earnings.

Information Technology: Semiconductor Industry Leads Growth

The Information Technology sector is reporting the second highest (year-over-year) earnings growth of all eleven sectors at 10.4%. At the industry level, five of the seven industries in this sector are reporting or are predicted to report earnings growth. Two of these five industries are reporting double-digit earnings growth: Semiconductor & Semiconductor Equipment (41%) and Software (24%). The Semiconductor & Semiconductor Equipment industry is also the largest contributor to earnings growth for the sector. If this industry is excluded, the blended earnings growth rate for the Information Technology sector would fall to 4.3% from 10.4%. At the company level, Microsoft and Micron Technology are the largest contributors to earnings growth for the sector.

Financials: Insurance Industry Leads Growth

The Financials sector is reporting the third highest (year-over-year) earnings growth of all eleven sectors at 10.1%. At the industry level, four of the five industries in this sector are reporting or are predicted to report earnings growth. Three of these four industries are reporting double-digit earnings growth: Insurance (18%), Banks (12%), and Capital Markets (10%). The Insurance and Banks industries are also the largest contributors to earnings growth for the sector. If these two industries are excluded, the blended earnings growth rate for the Financials sector would fall to 3.2% from 10.1%.

Consumer Discretionary: Automobiles Industry Leads Decline

The Consumer Discretionary sector is reporting the largest (year-over-year) earnings decline of all eleven sectors at -2.1%. At the industry level, eight of the twelve industries in this sector are reporting or are predicted to report an earnings decline, led by the Leisure Products (-42%), Automobiles (-13%), and Auto Components (-12%) industries. The Automobiles industry is also the largest contributor to the year-over-year decline in earnings for this sector. If this industry is excluded, the blended earnings growth rate for the Consumer Discretionary sector would improve to 0.0% from -2.1%. At the company level, Ford Motor and General Motors are predicted to be the largest contributors to the earnings decline for this sector. The mean EPS estimate for Ford Motor for Q2 2017 is \$0.43, compared to year-ago EPS of \$0.52. The mean EPS estimate for General Motors for Q2 2017 is \$1.67, compared to year-ago EPS of \$1.86.

Revenue Growth: 5.0%

The blended (year-over-year) revenue growth rate for Q2 2017 is 5.0%. Ten sectors are reporting or are projected to report year-over-year growth in revenues, led by the Energy sector. The only sector projected to report a decline in revenues is the Telecom Services sector.

Energy: Largest Contributor to Revenue Growth for Q2

The Energy sector is reporting the highest (year-over-year) revenue growth of all eleven sectors at 17.1%. At the sub-industry level, five of the six sub-industries in the sector are reporting or are projected to report revenue growth: Oil & Gas Equipment & Services (43%), Oil & Gas Refining & Marketing (24%), Oil & Gas Storage & Transportation (16%), Oil & Gas Exploration & Production (13%), and Integrated Oil & Gas (9%). On the other hand, the Oil & Gas Drilling (-11%) sub-industry is the only sub-industry predicted to report a year-over-year decline in earnings.

This sector is also the largest contributor to revenue growth for the S&P 500. If the Energy sector is excluded, the blended revenue growth rate for the index would fall to 4.0% from 5.0%.

Telecom Services: 3 of 4 Companies To Report Decline

The Telecom Services sector is the only sector expected to report a (year-over-year) decline in revenues at -2.2%. Overall, three of the four companies in the sector are projected to report a decline in sales for the quarter, led by CenturyLink (-7%).

Looking Ahead: Forward Estimates and Valuation

Earnings Guidance: Fewer Companies Issuing Negative EPS Guidance for Q3 than Average

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, 14 companies in the index have issued EPS guidance for Q3 2017. Of these 14 companies, 7 have issued negative EPS guidance and 7 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 50% (7 out of 14), which is below the 5-year average of 75%.

Growth Expected to Continue for Remainder of 2017

For the second quarter, companies are reporting earnings growth of 7.2% and revenue growth rate of 5.0%. Analysts currently expect earnings and revenue growth to continue in 2017.

For Q3 2017, analysts are projecting earnings growth of 6.4% and revenue growth of 5.0%.

For Q4 2017, analysts are projecting earnings growth of 11.7% and revenue growth of 5.0%.

For all of 2017, analysts are projecting earnings growth of 9.3% and revenue growth of 5.4%.

Valuation: Forward P/E Ratio is 17.8, above the 10-Year Average (14.0)

The forward 12-month P/E ratio is 17.8. This P/E ratio is above the 5-year average of 15.4, and above the 10-year average of 14.0. It is also above the forward 12-month P/E ratio of 17.5 recorded at the start of the third quarter (June 30). Since the start of the third quarter, the price of the index has increased by 2.1%, while the forward 12-month EPS estimate has increased by 0.1%.

At the sector level, the Energy (29.3) sector has the highest forward 12-month P/E ratio, while the Telecom Services (12.3) 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 Energy (29.3 vs. 18.5) sector. One sector (Telecom Services) has a forward 12-month P/E ratio that is below the 10-year average (12.3 vs. 14.2). Historical averages are not available for the Real Estate sector.

Targets & Ratings: Analysts Project 8% Increase in Price Over Next 12 Months

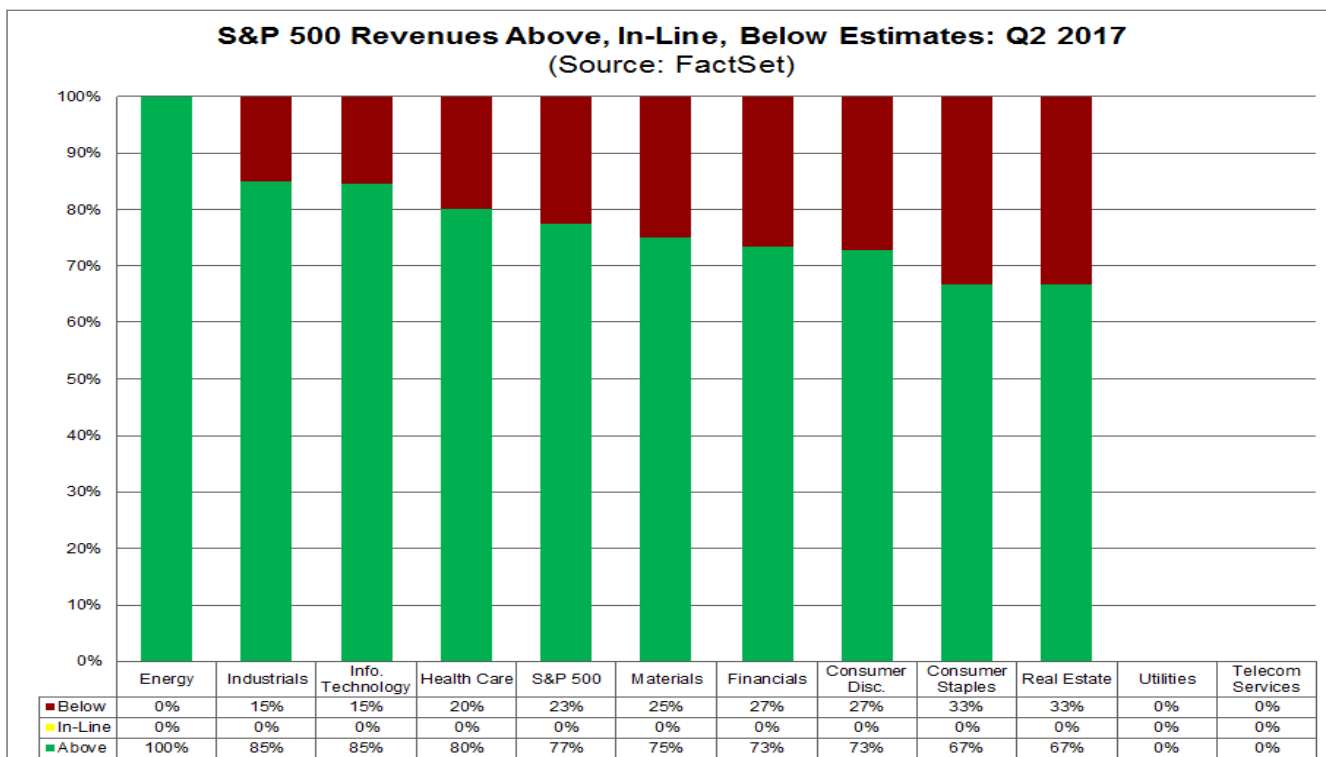
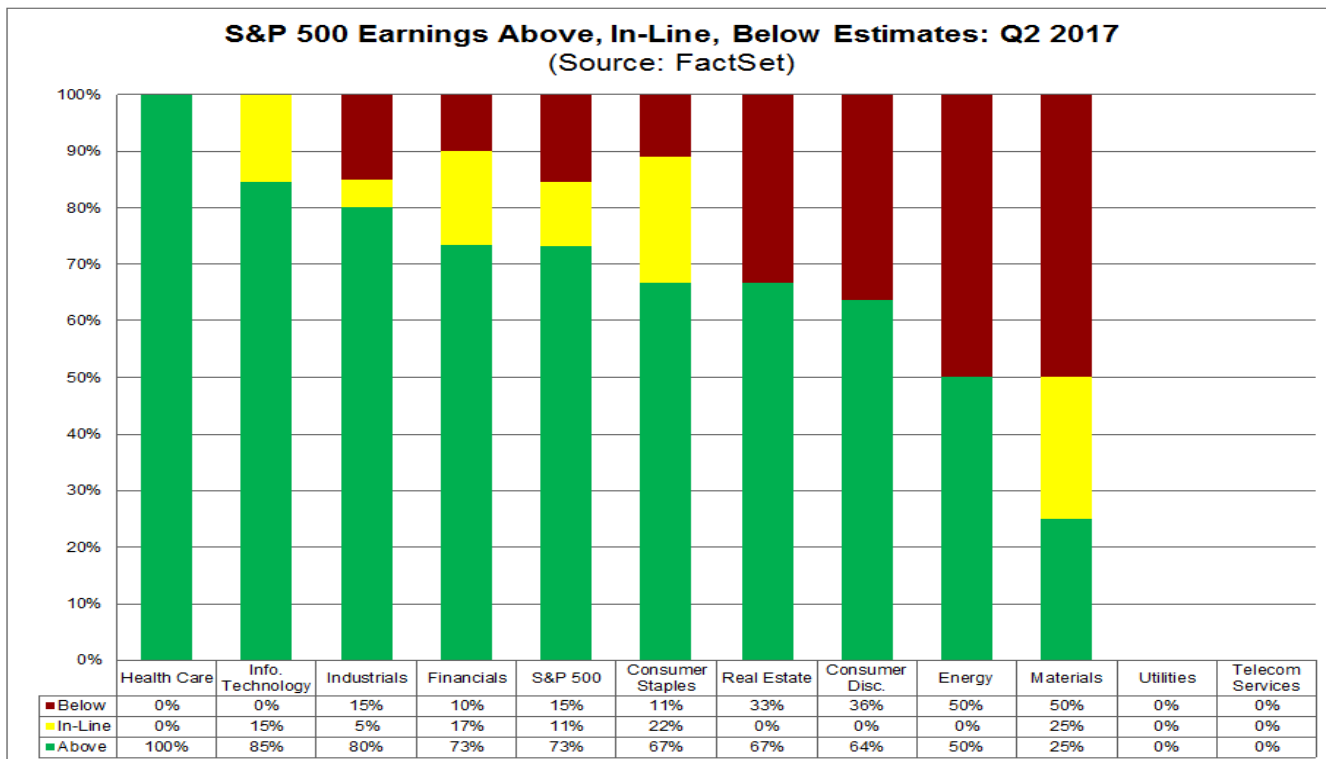
The bottom-up target price for the S&P 500 is 2663.48, which is 7.7% above the closing price of 2473.45. At the sector level, the Telecom Services (+13.4%) and Energy (+13.0%) sectors have the largest upside differences between the bottom-up target price and the closing price, while the Utilities (+2.0%) sector has the smallest upside difference between the bottom-up target price and the closing price.

Overall, there are 11,190 ratings on stocks in the S&P 500. Of these 11,190 ratings, 49.1% are Buy ratings, 45.3% are Hold ratings, and 5.6% are Sell ratings. At the sector level, the Information Technology sector has the highest percentage of Buy ratings at 57%, while the Utilities, Consumer Staples, and Energy sectors have the highest percentages of Sell ratings at 7%.

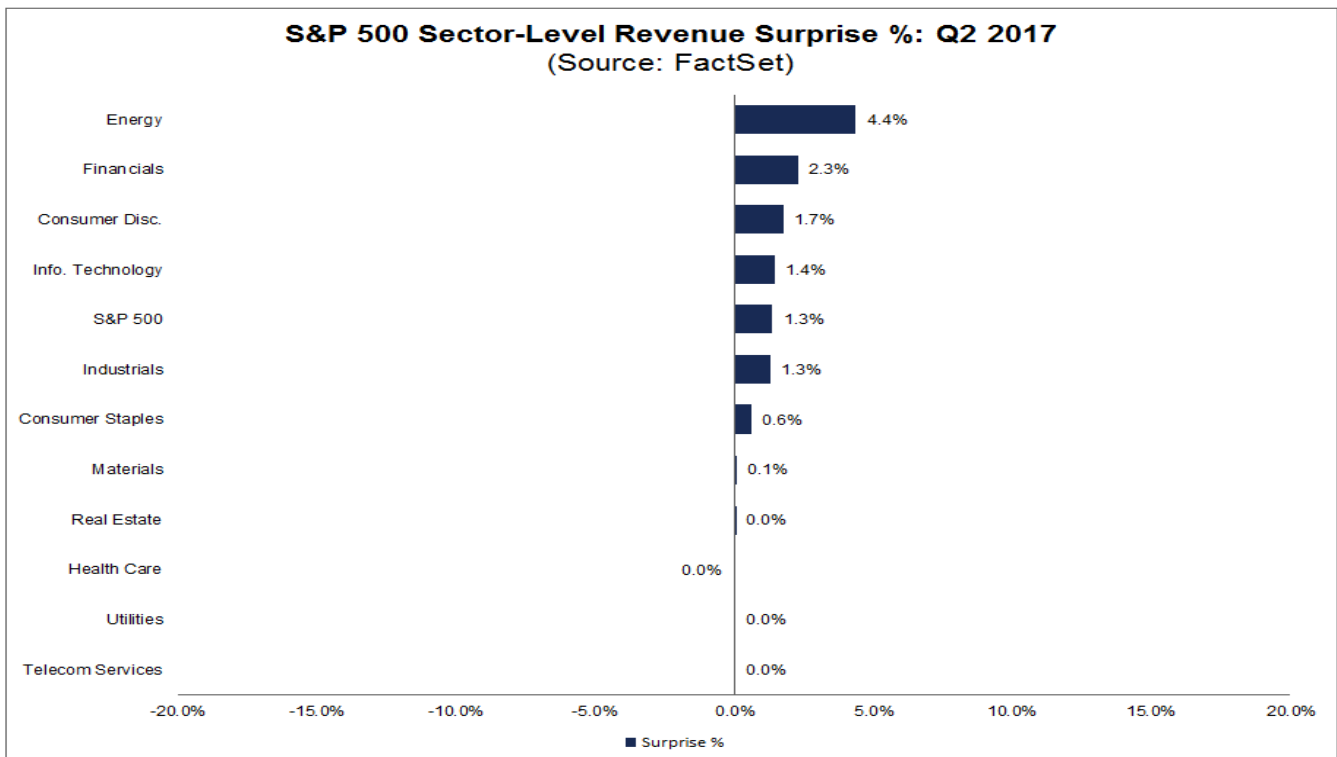
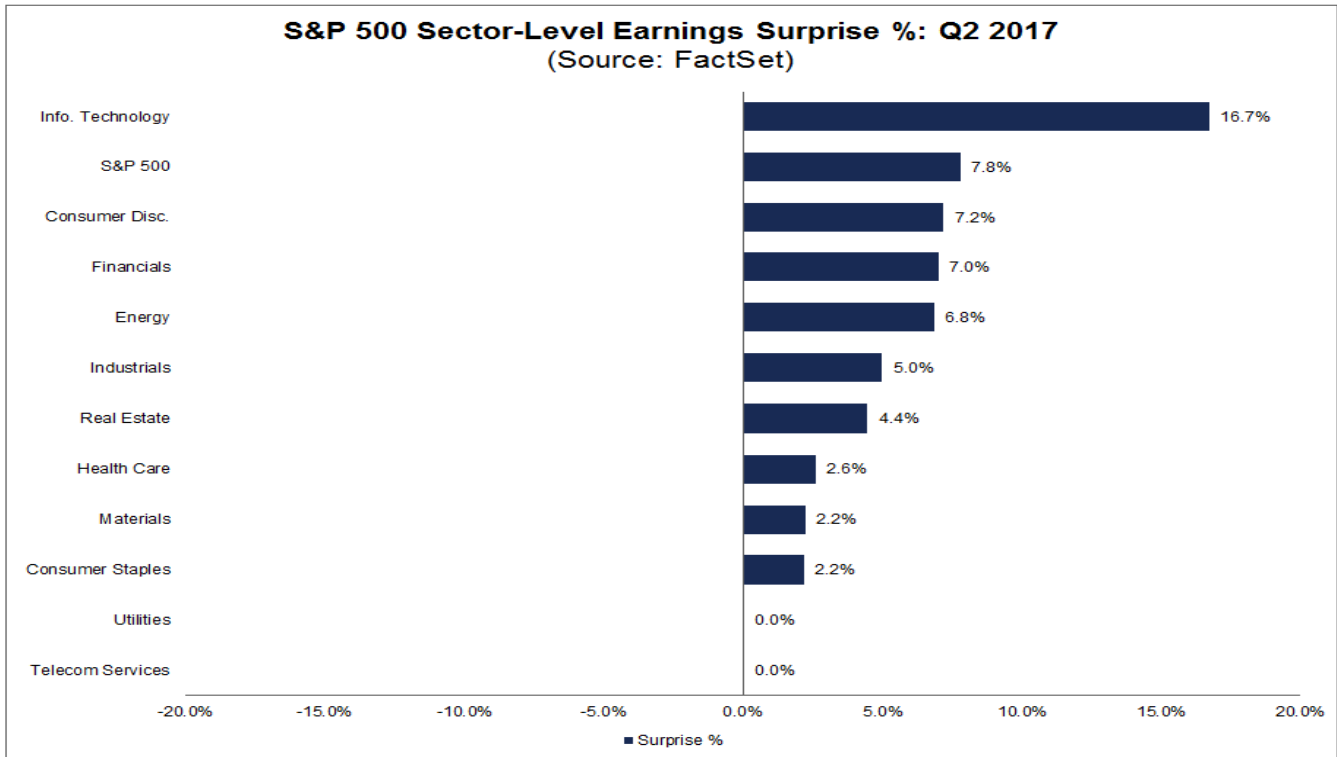
Companies Reporting Next Week: 191

During the upcoming week, 191 S&P 500 companies (including 13 Dow 30 components) are scheduled to report results for the second quarter.

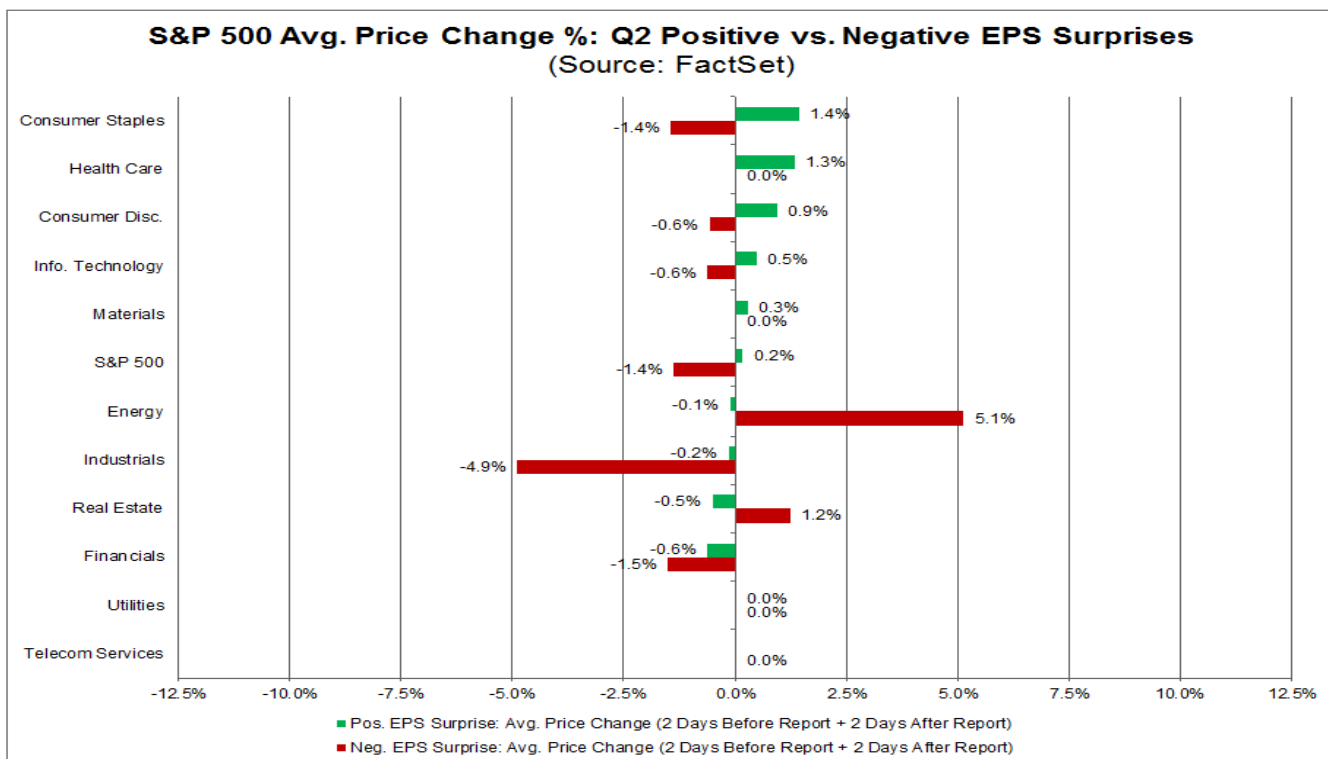
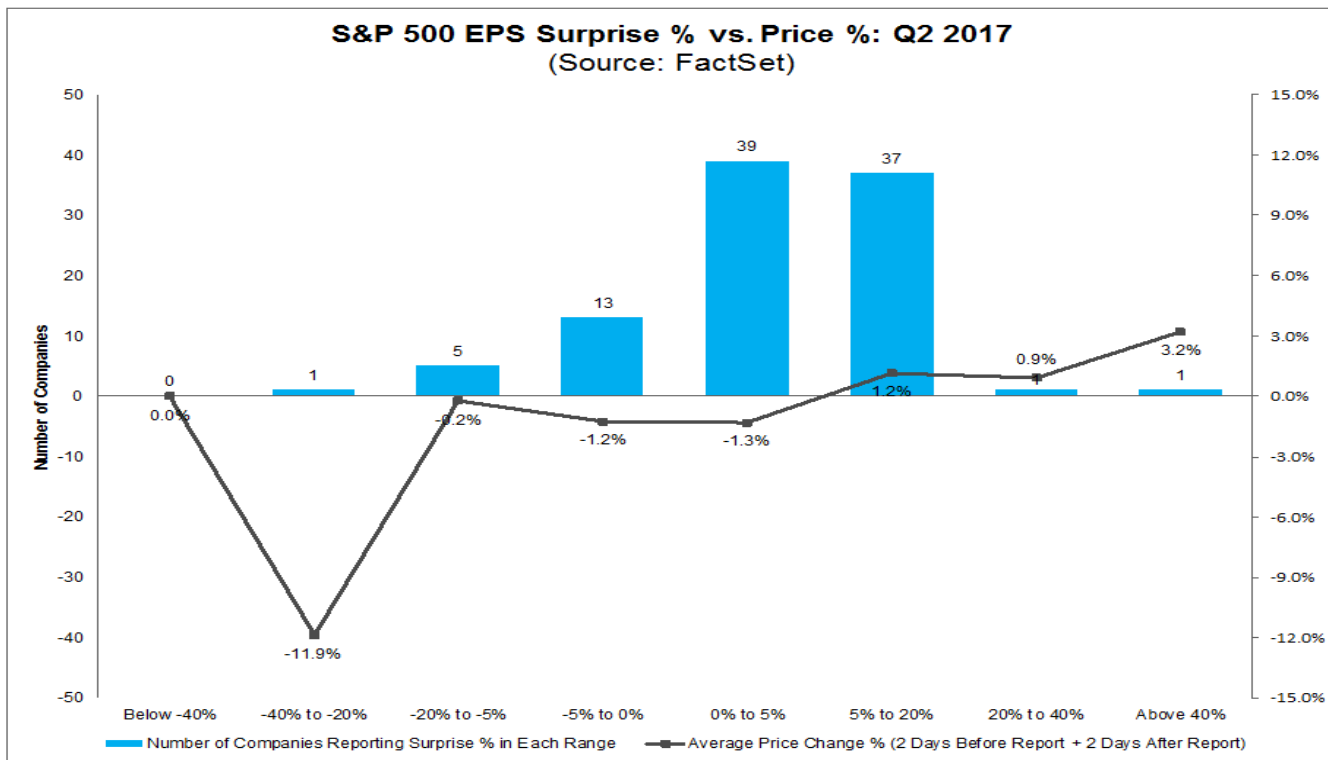
Q2 2017: Scorecard



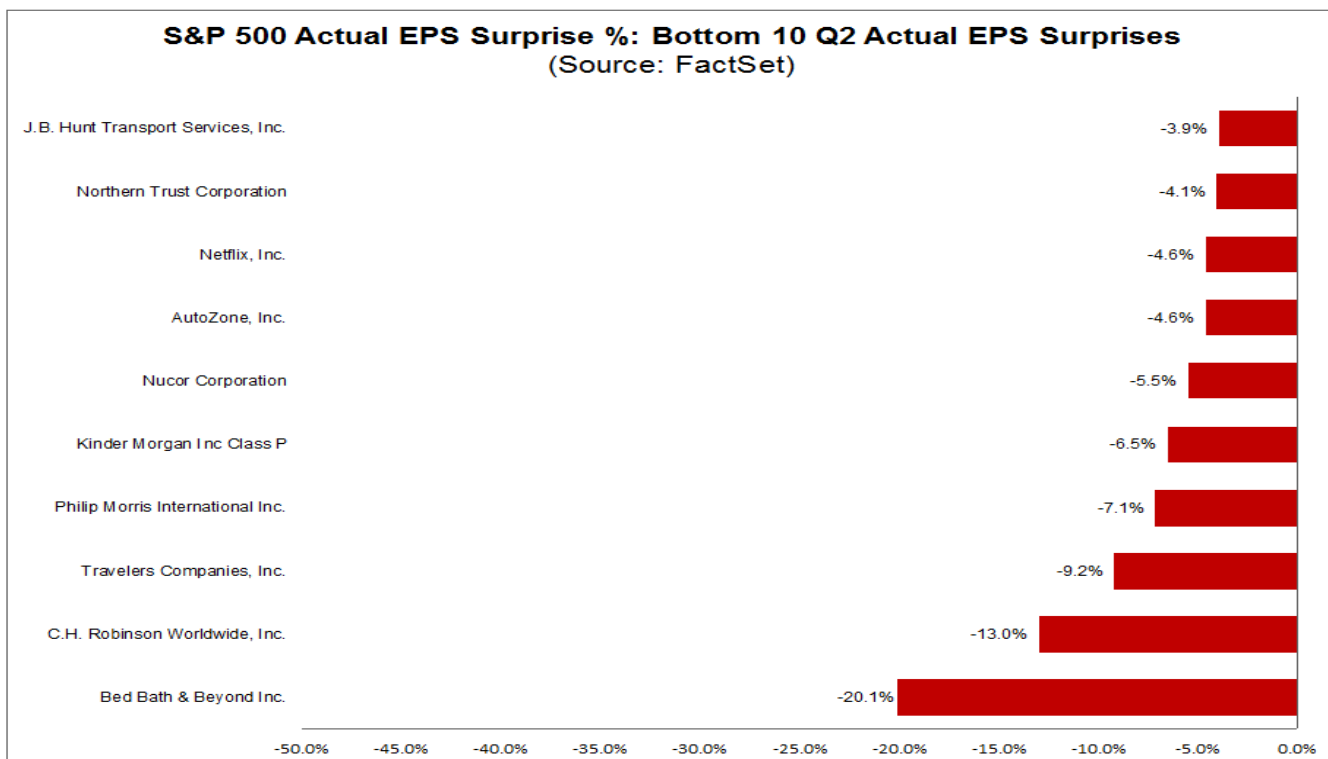
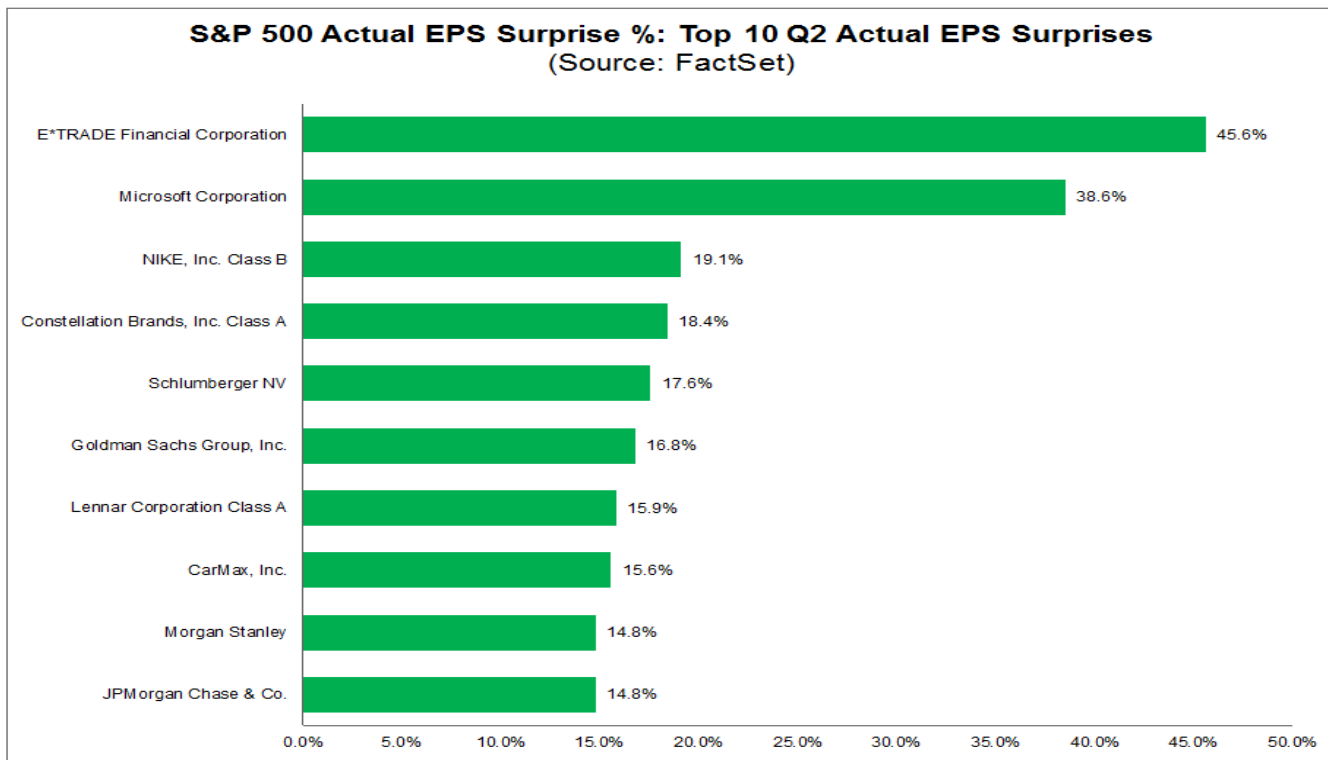
Q2 2017: Scorecard



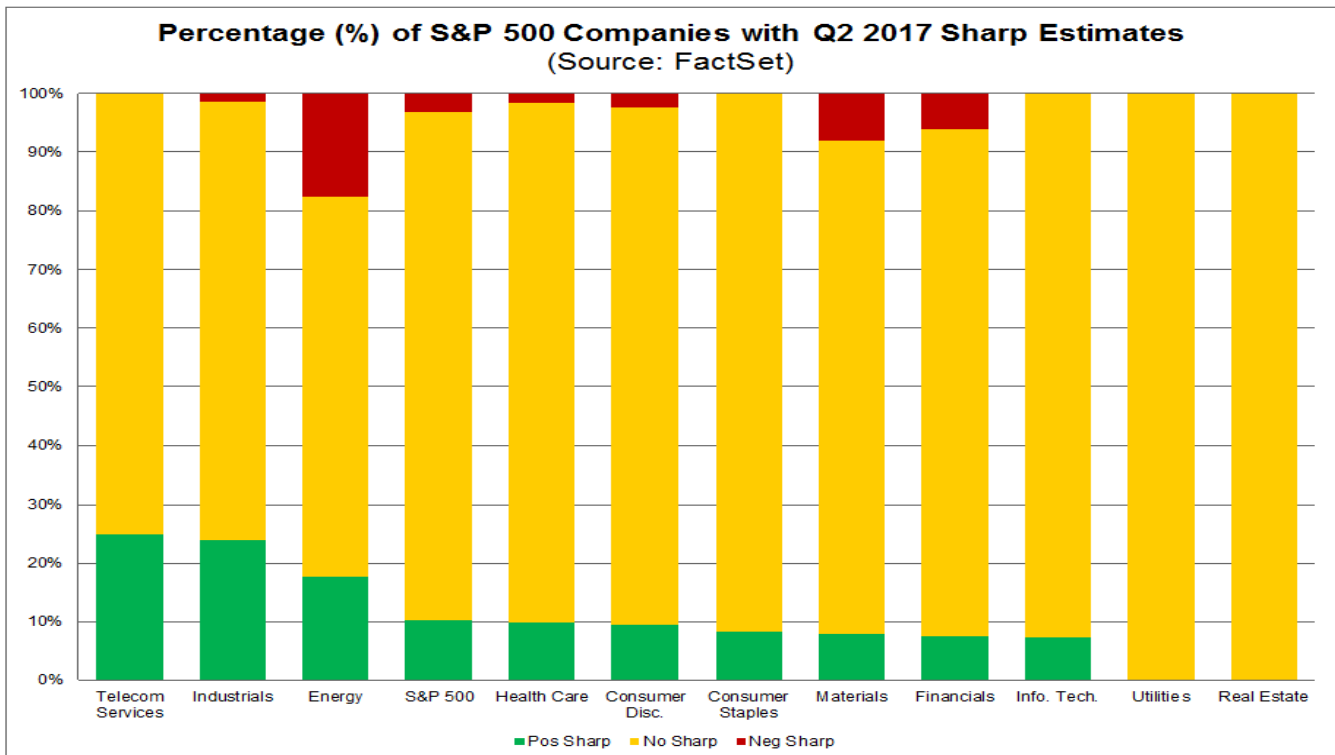
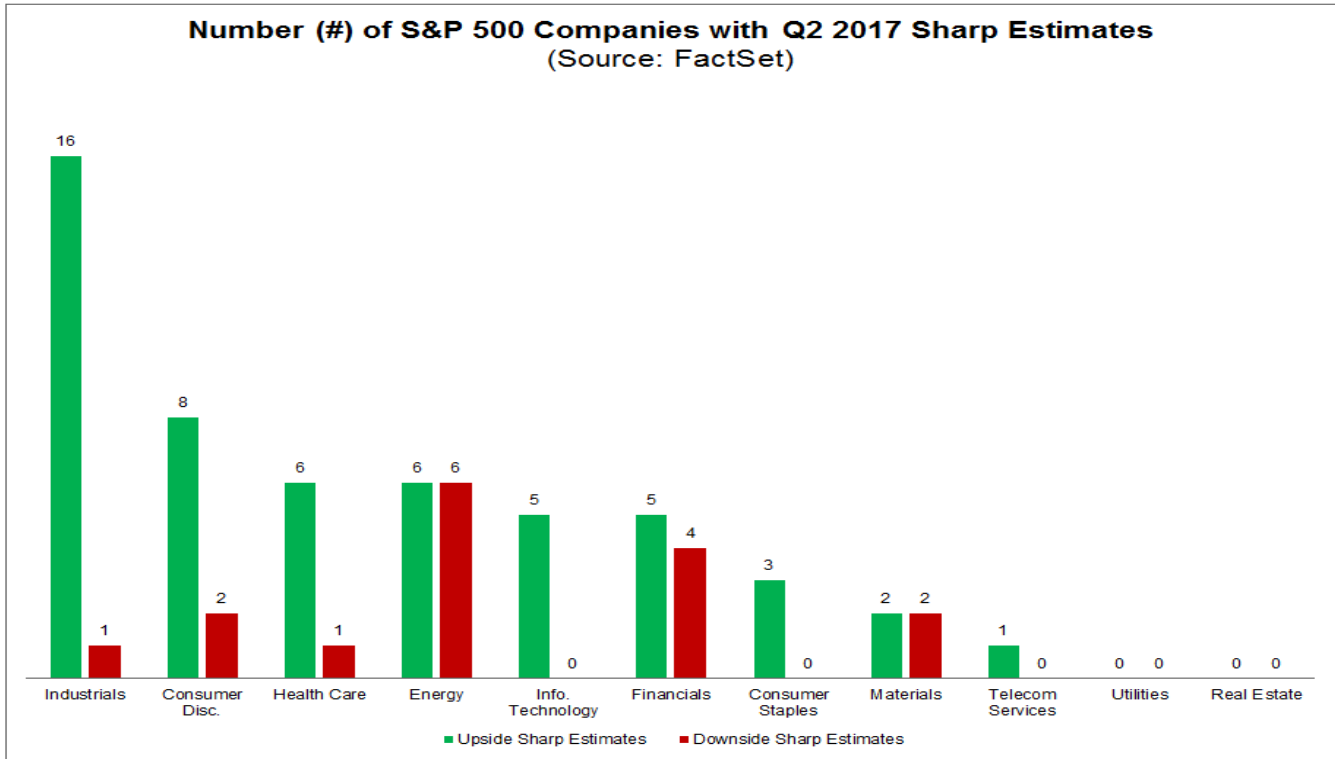
Q2 2017: Scorecard



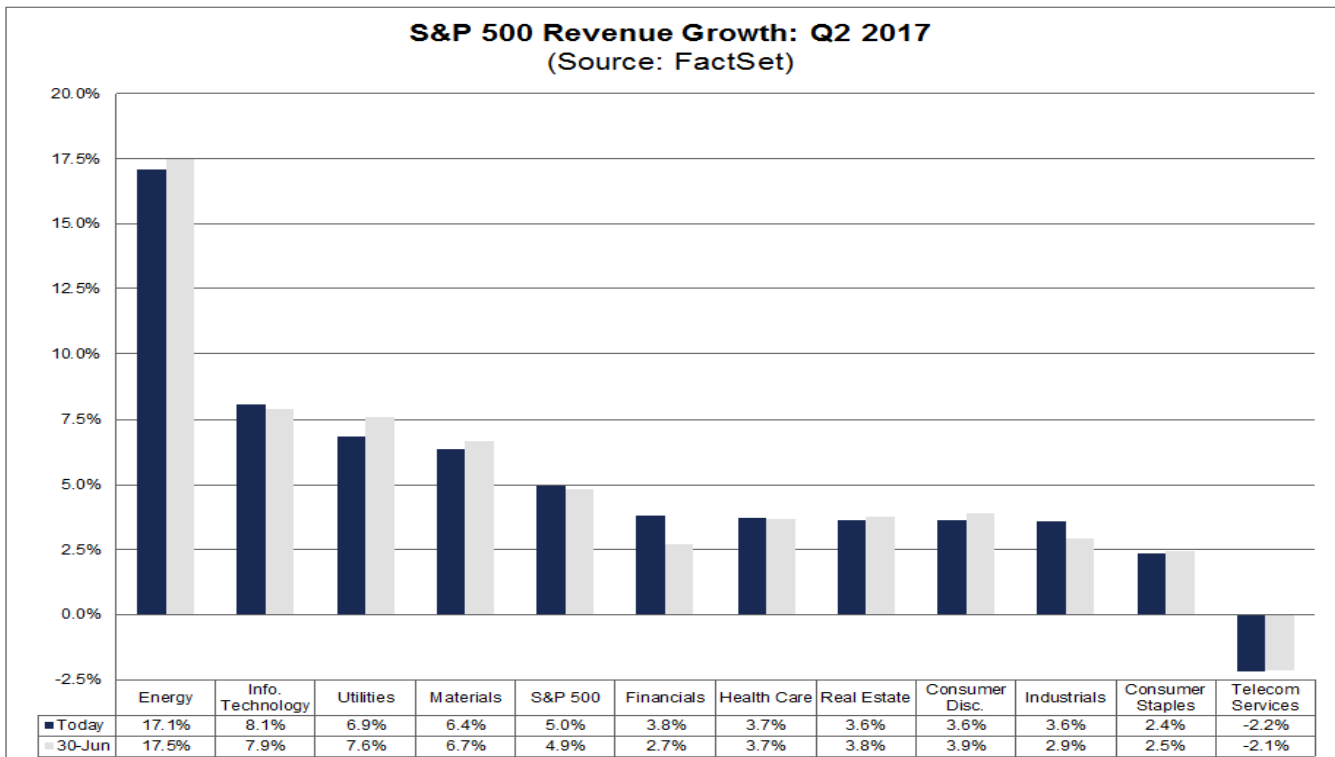
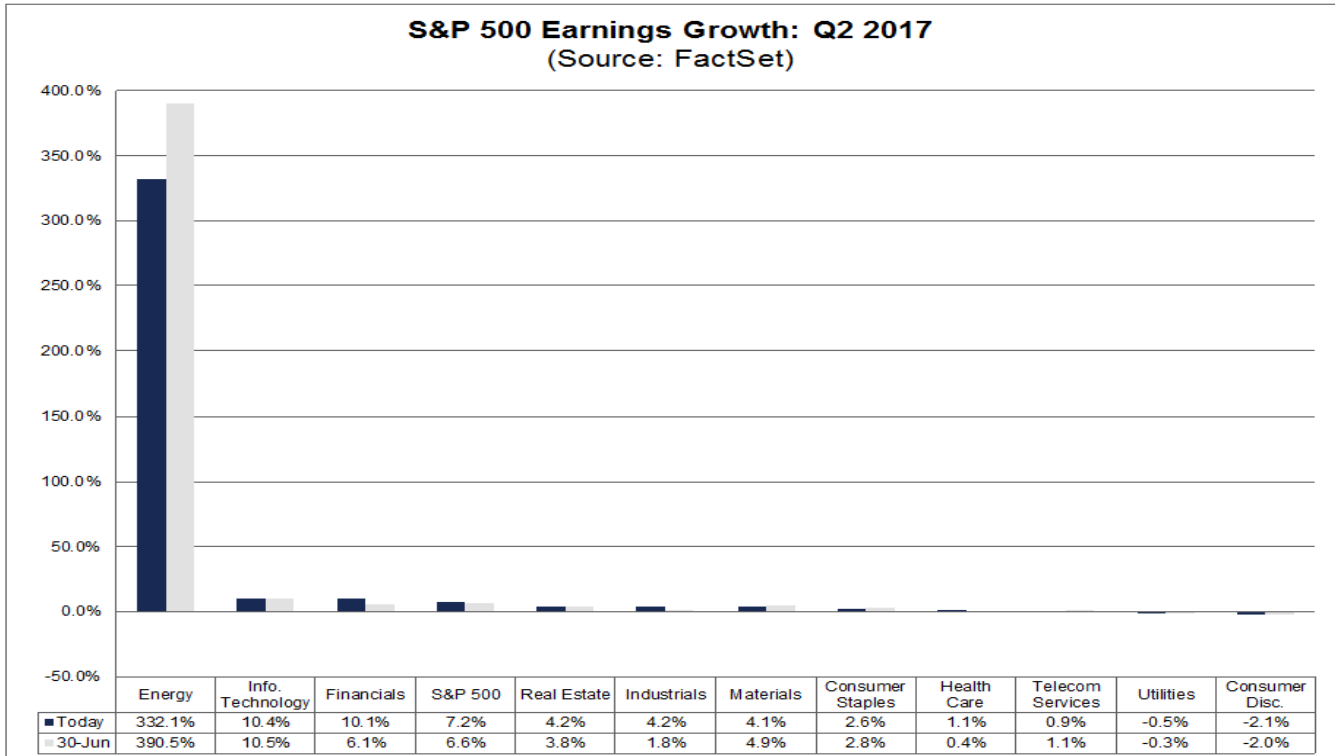
Q2 2017: Scorecard



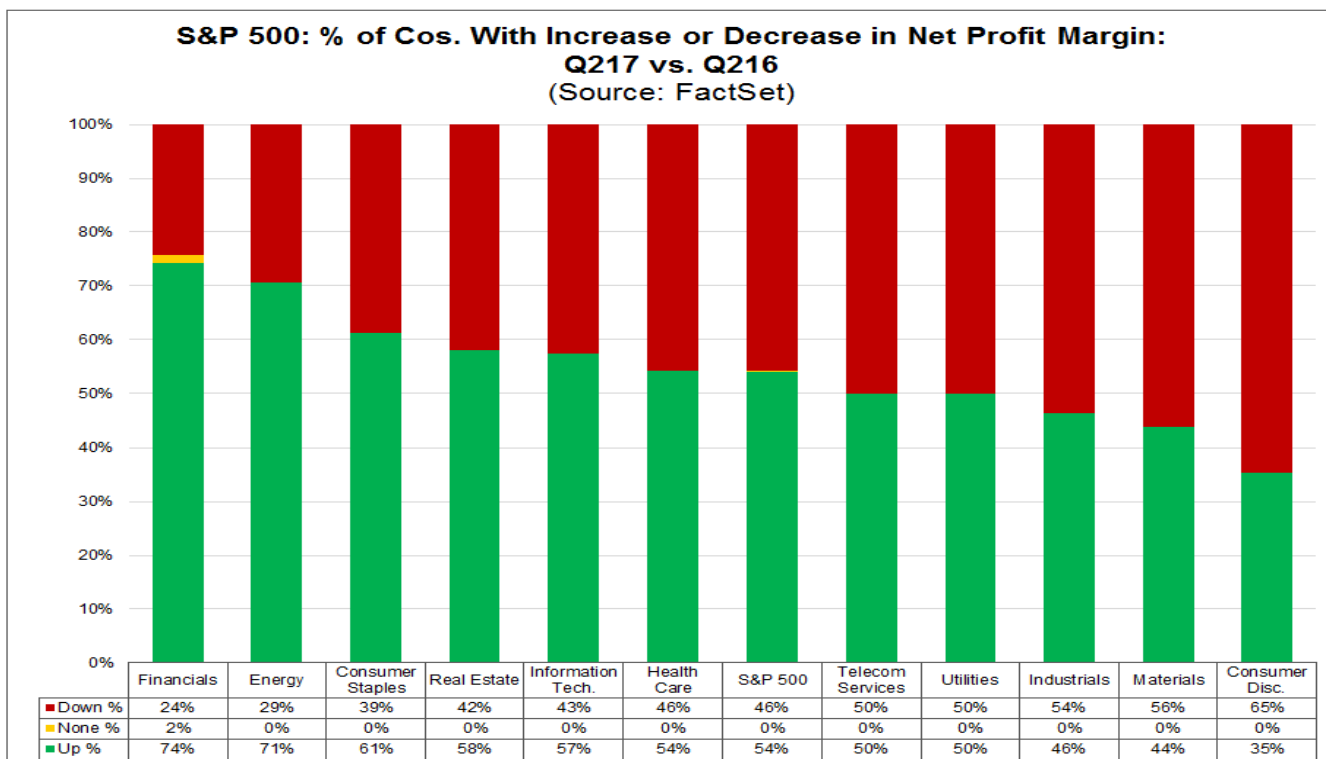
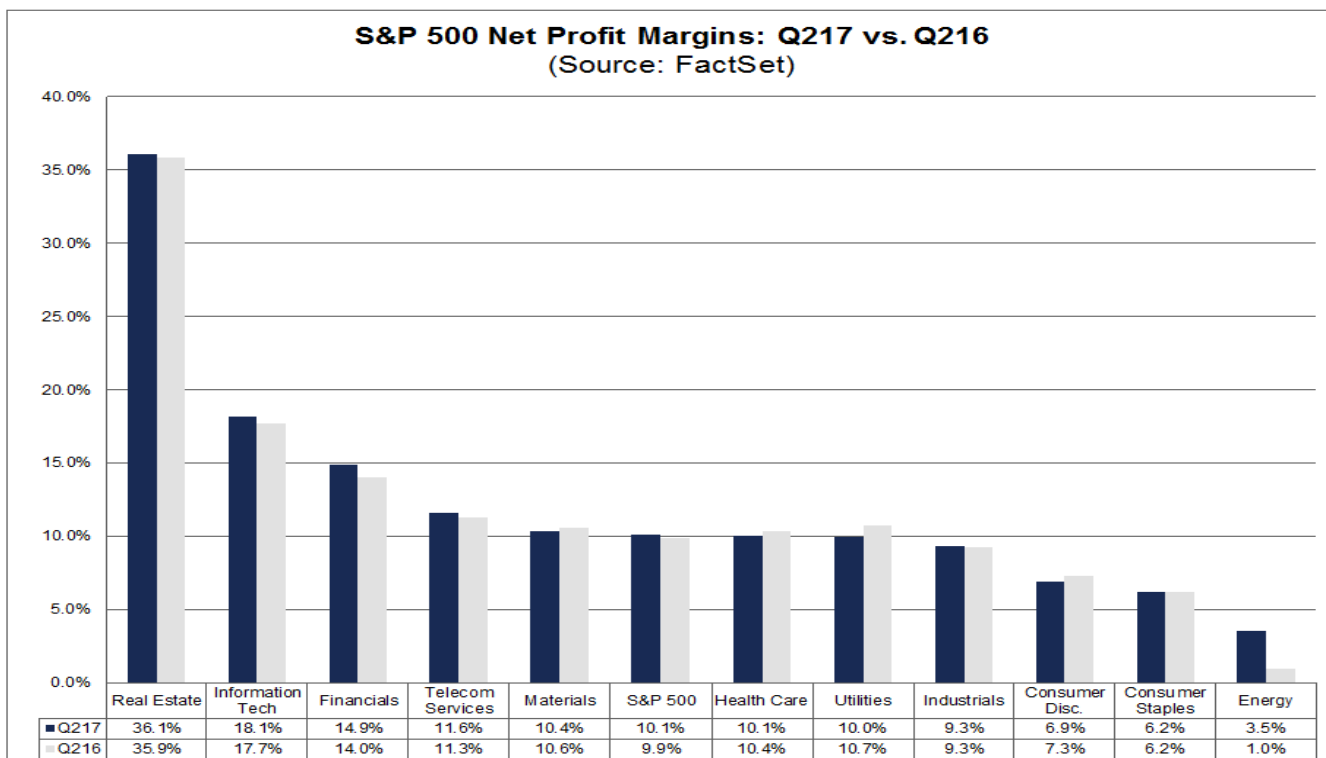
Q2 2017: Projected EPS Surprises (Sharp Estimates)



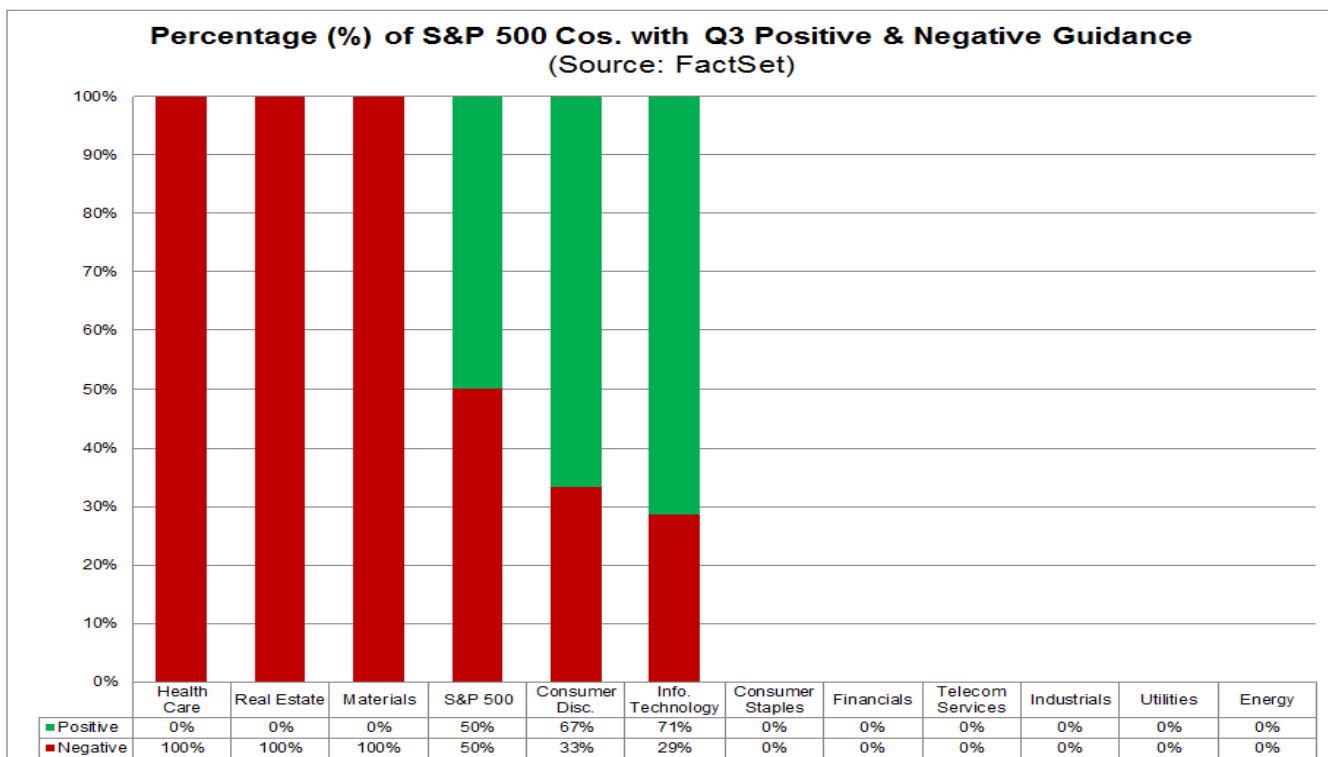
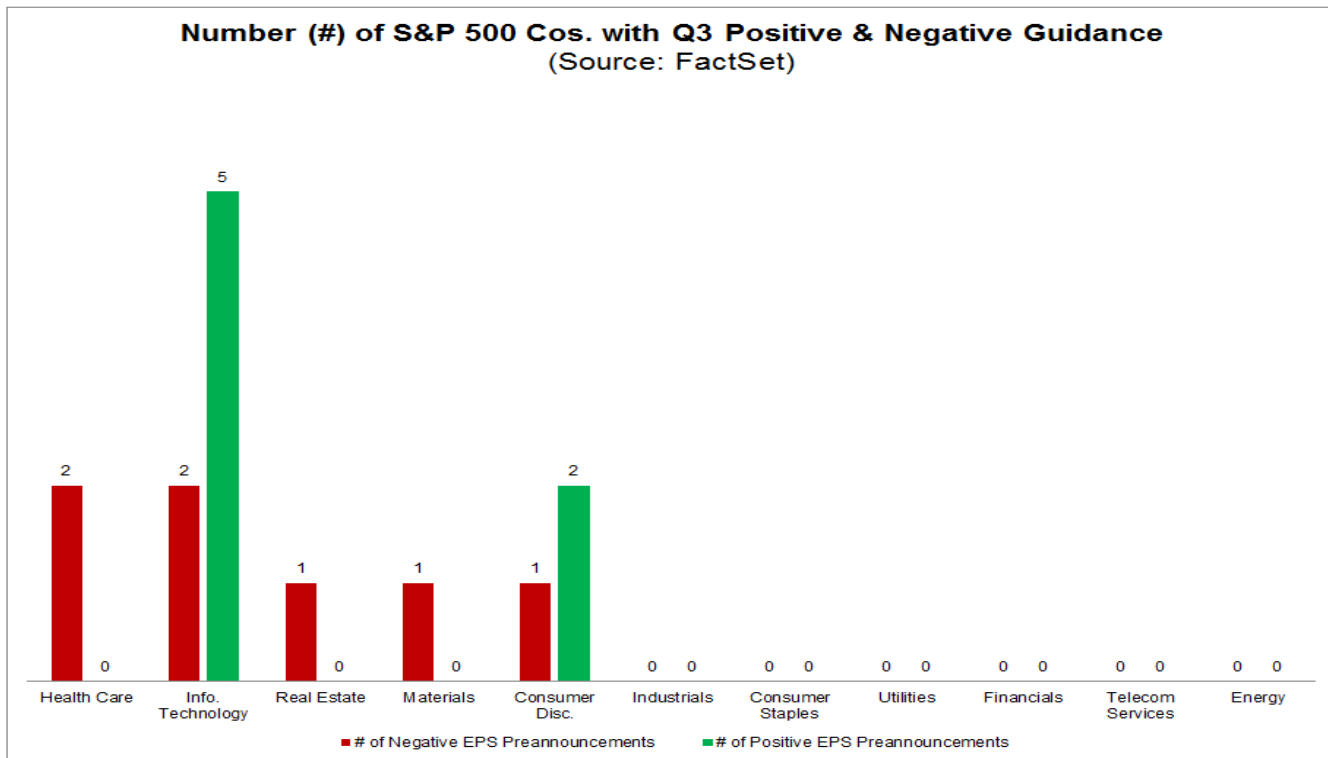
Q2 2017: Growth



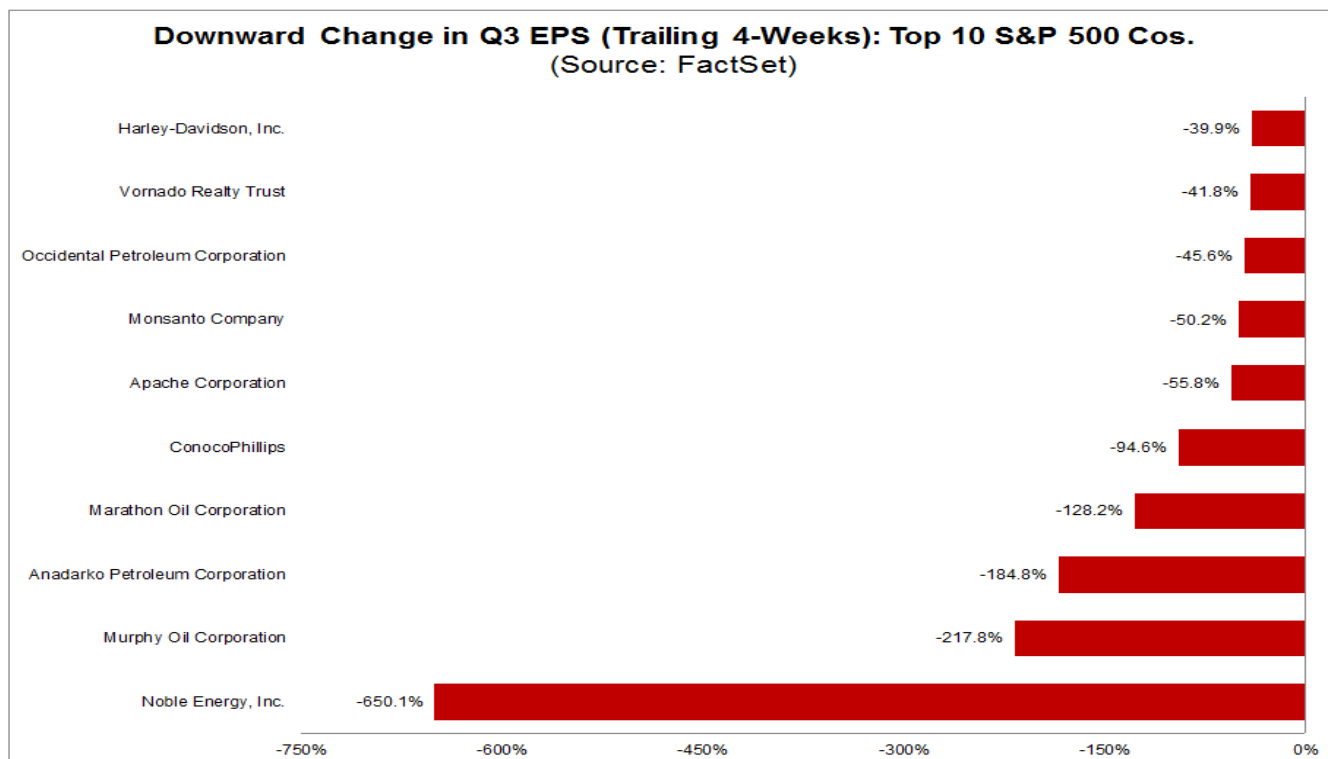
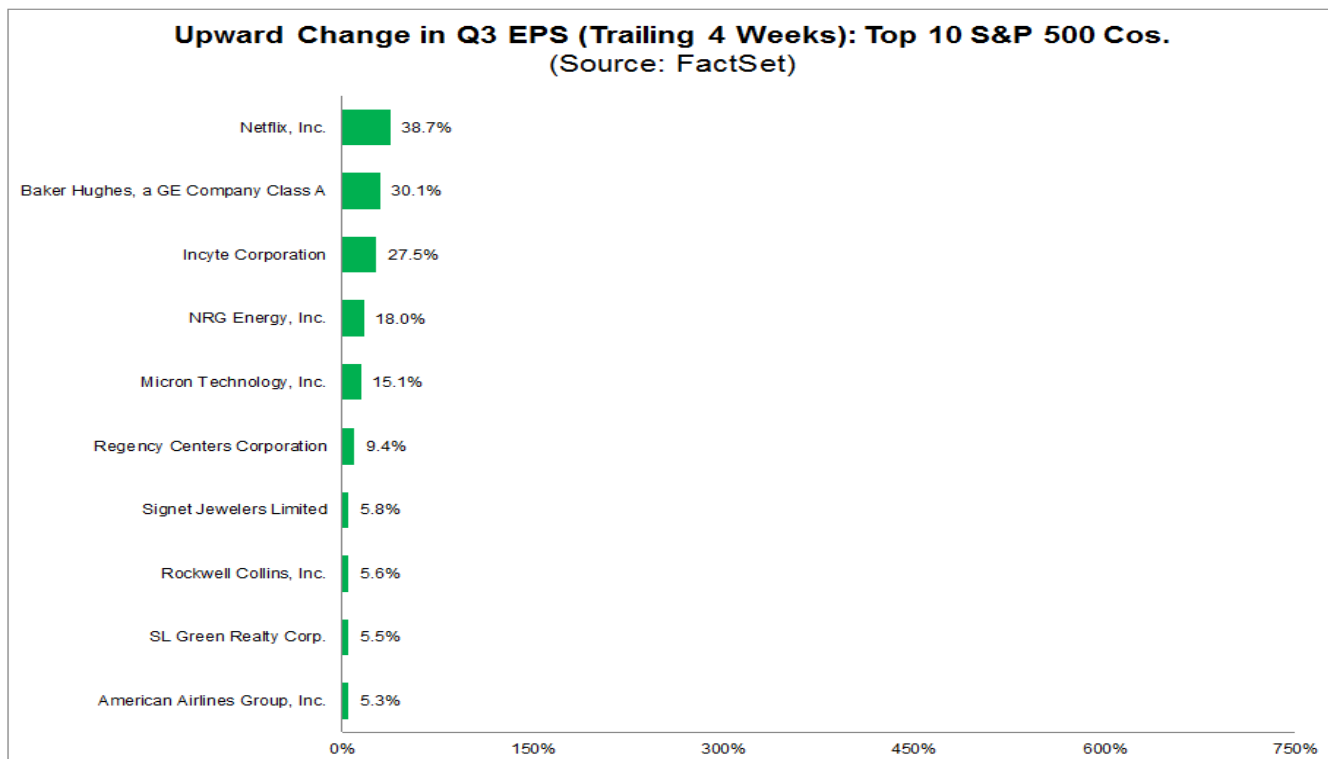
Q2 2017: Net Profit Margin



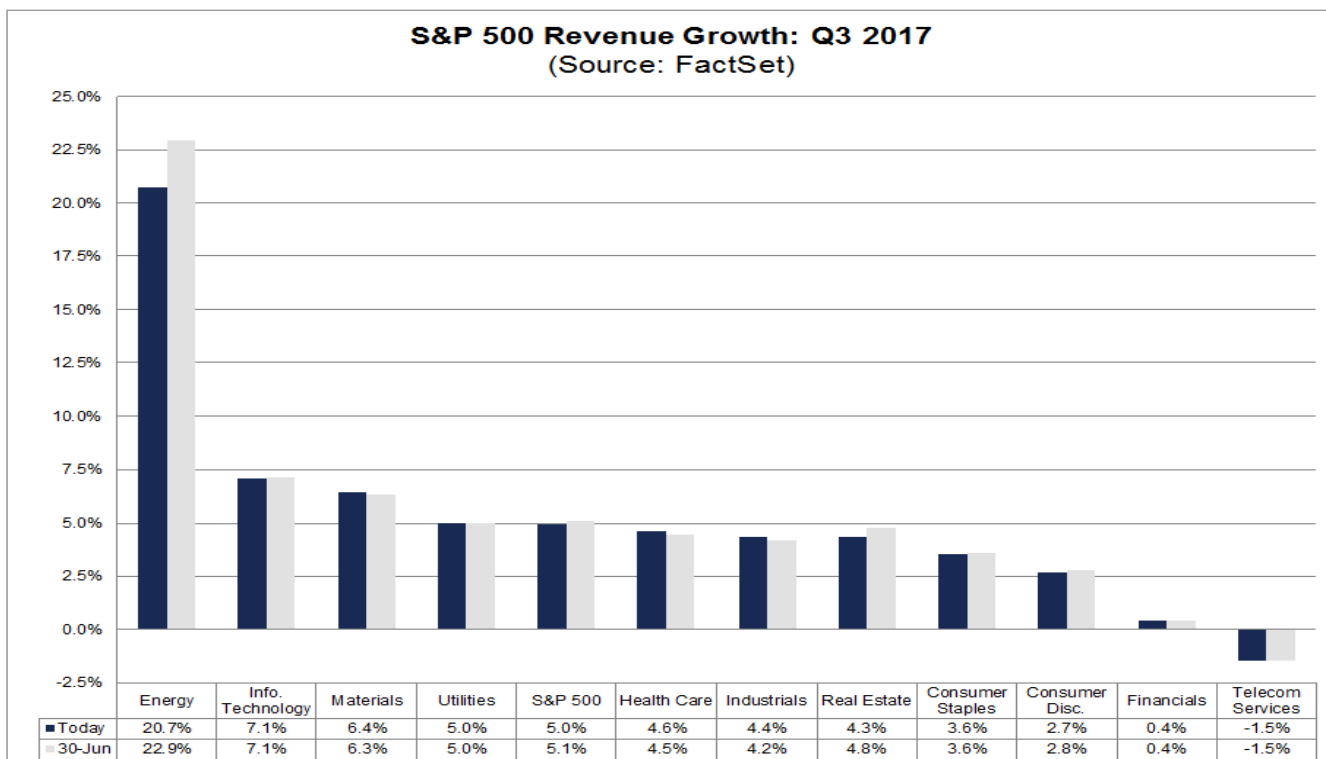
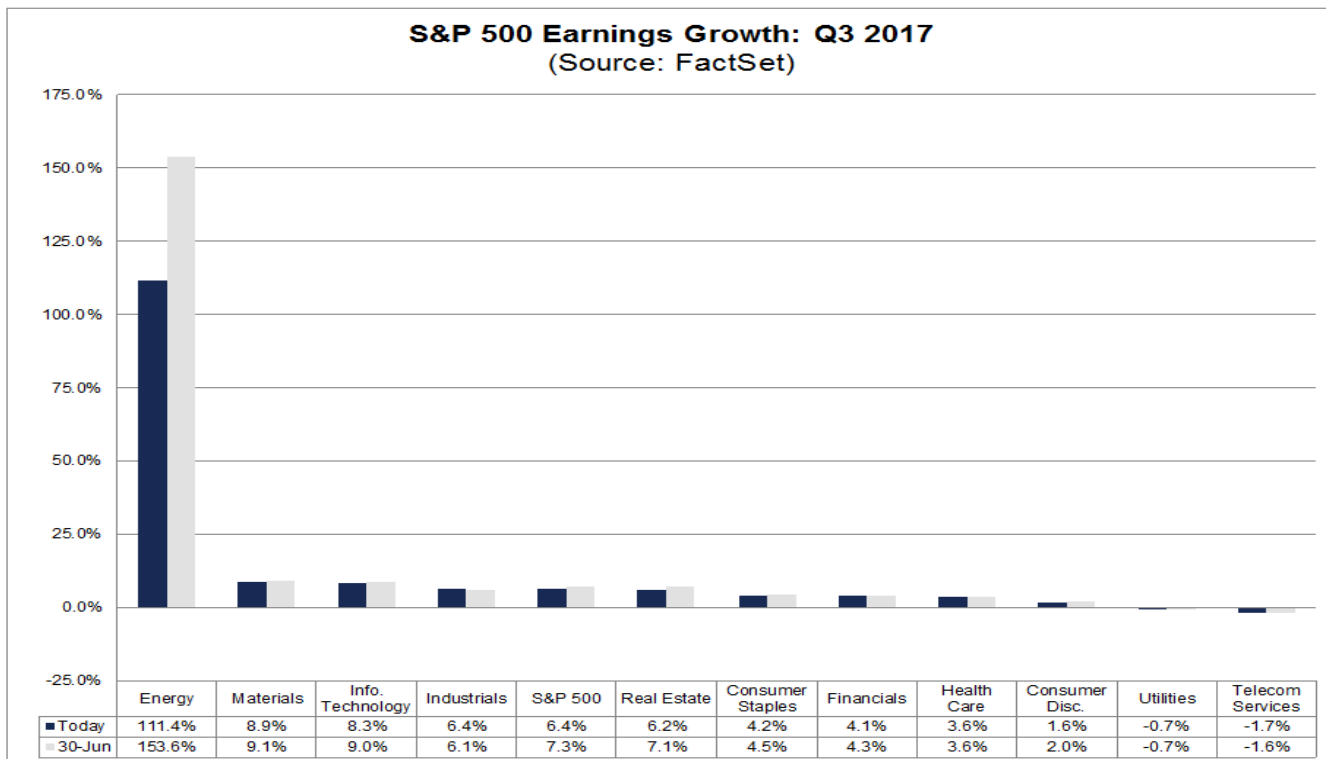
Q3 2017: Guidance



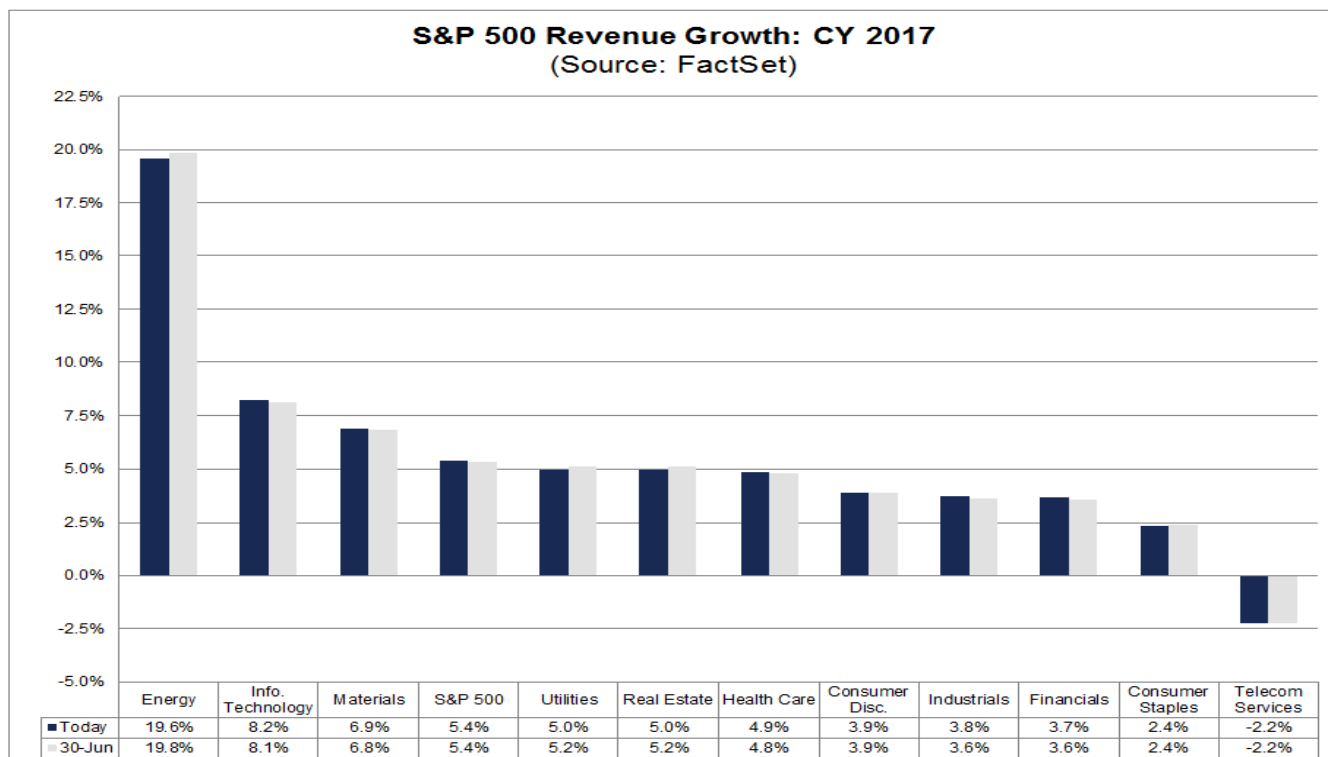
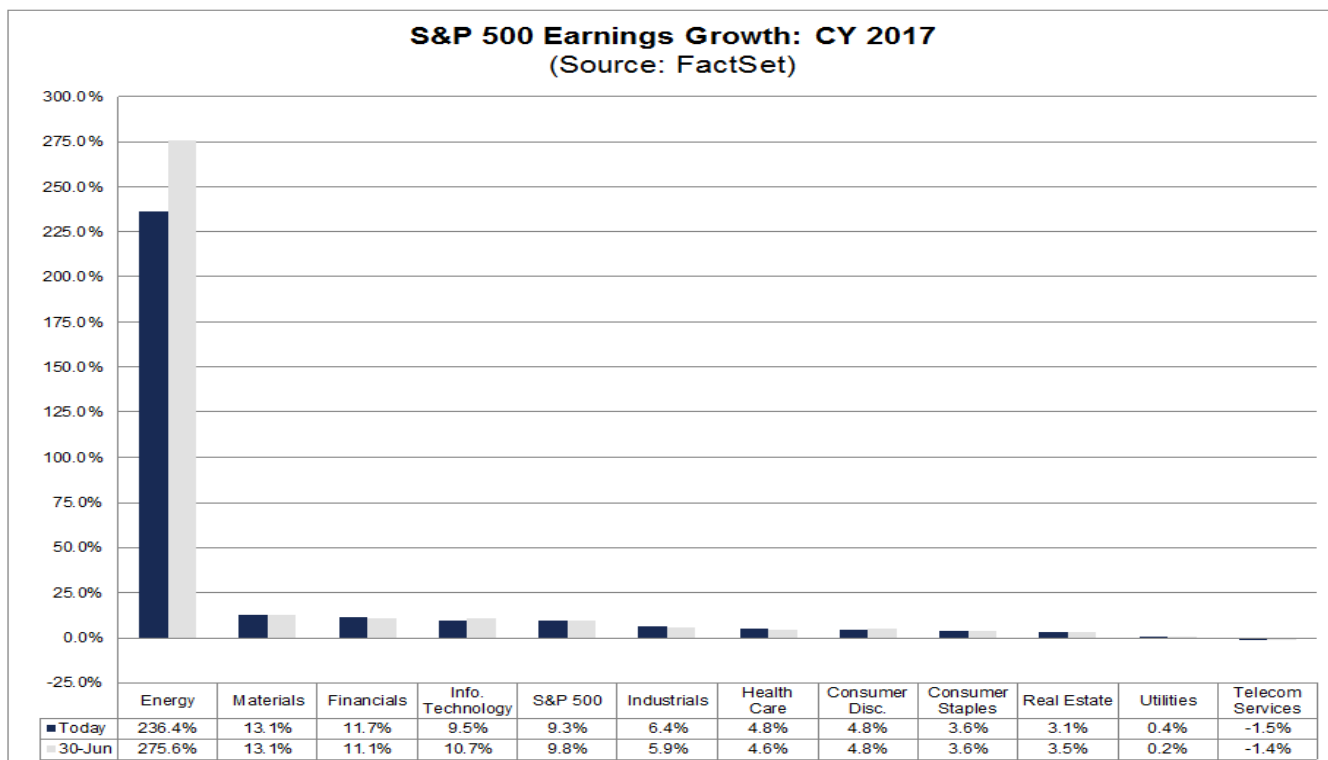
Q3 2017: EPS Revisions



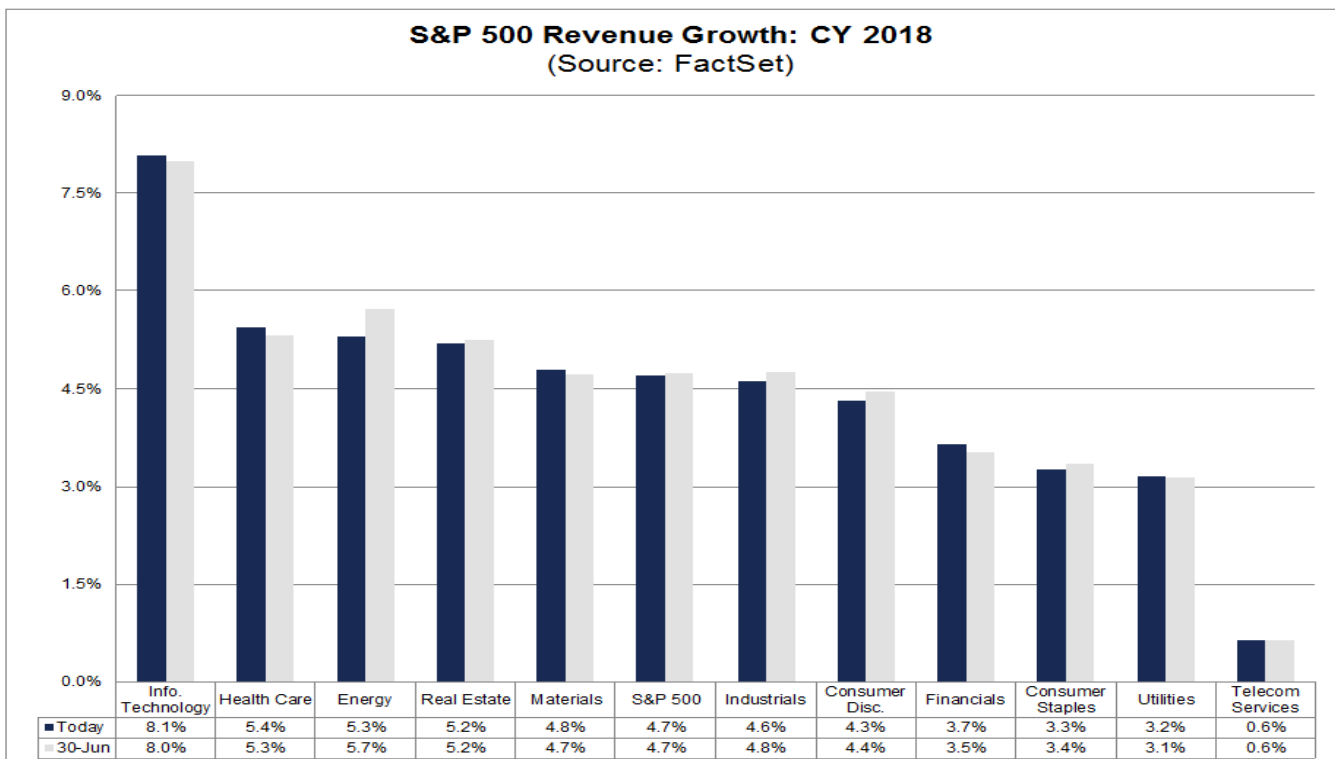
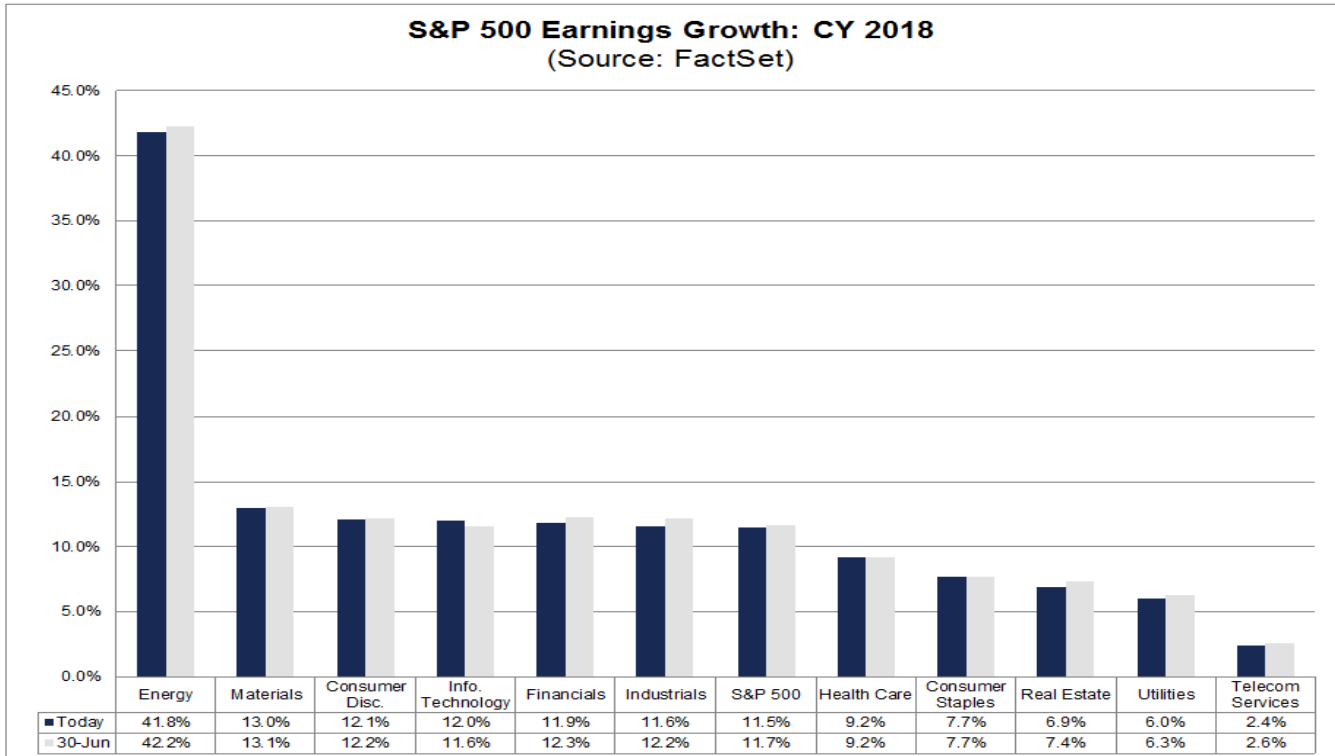
Q3 2017: Growth



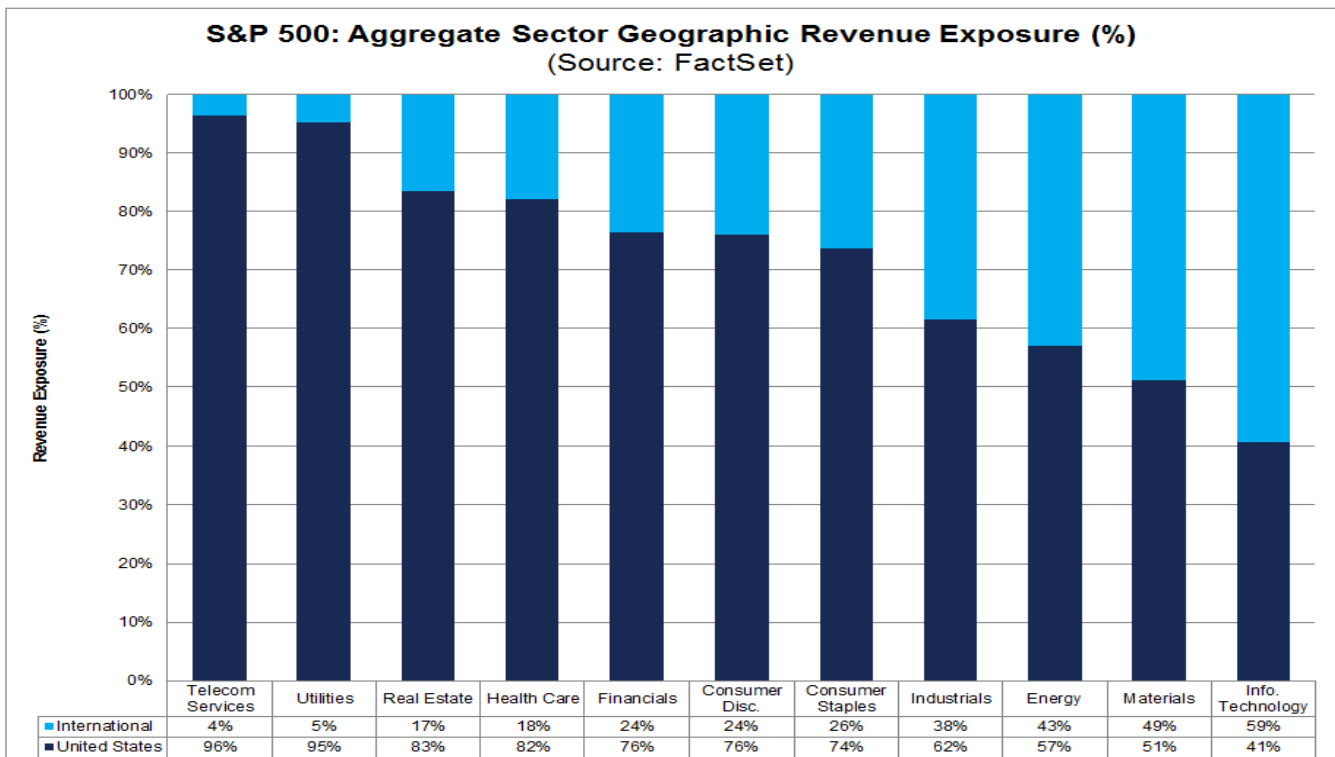
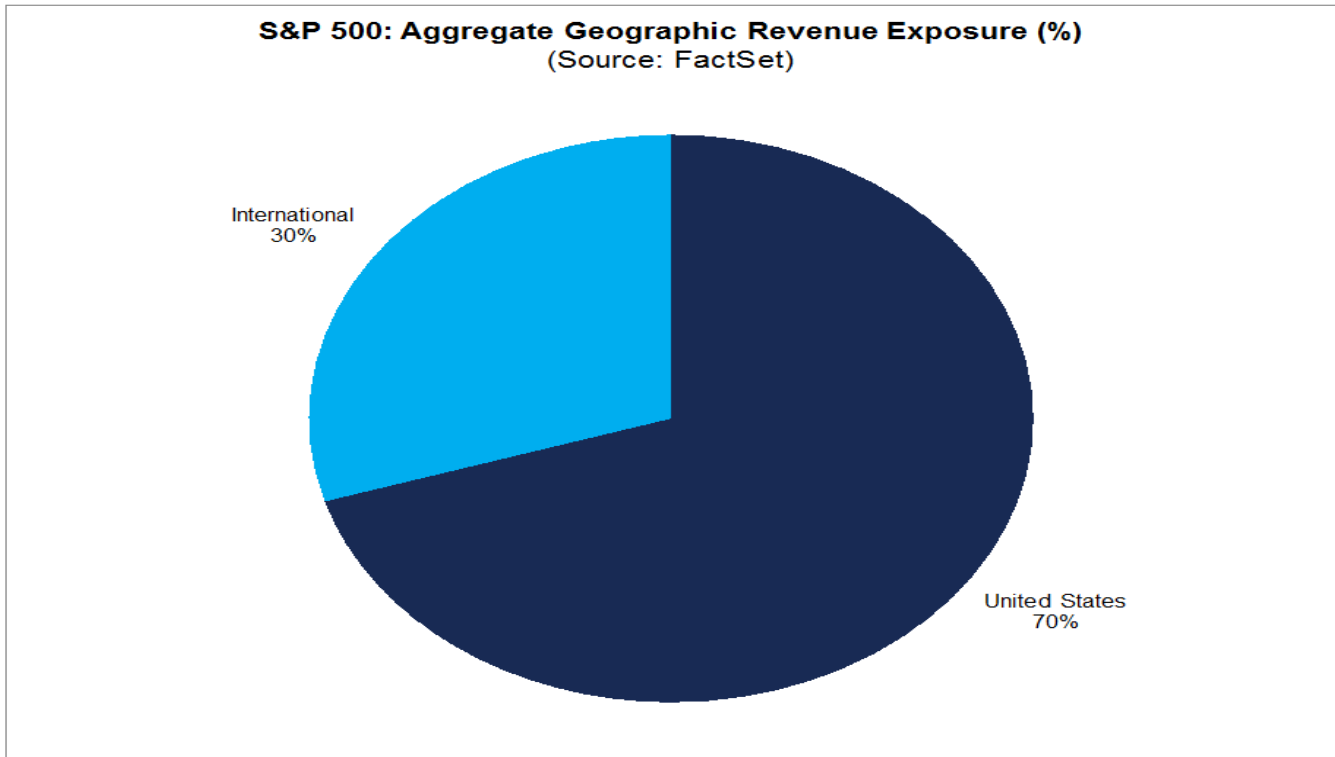
CY 2017: Growth



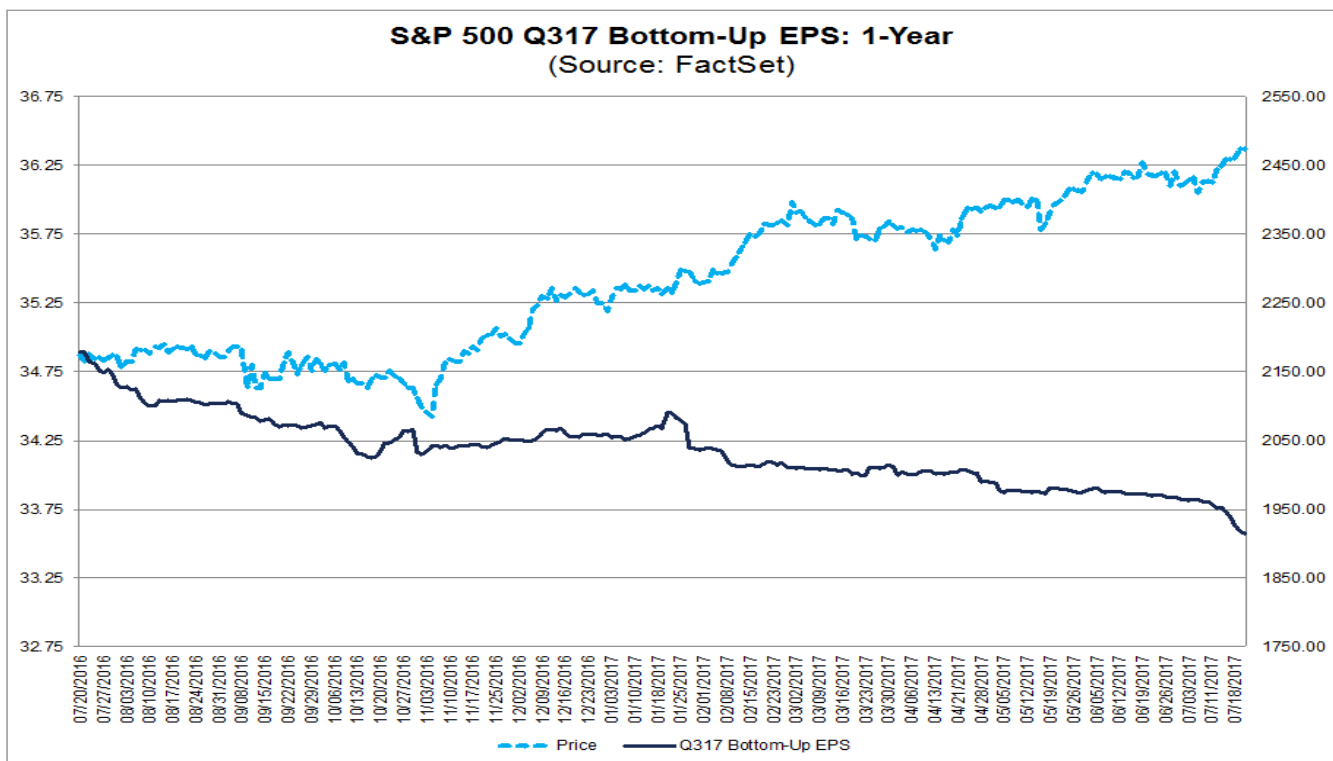
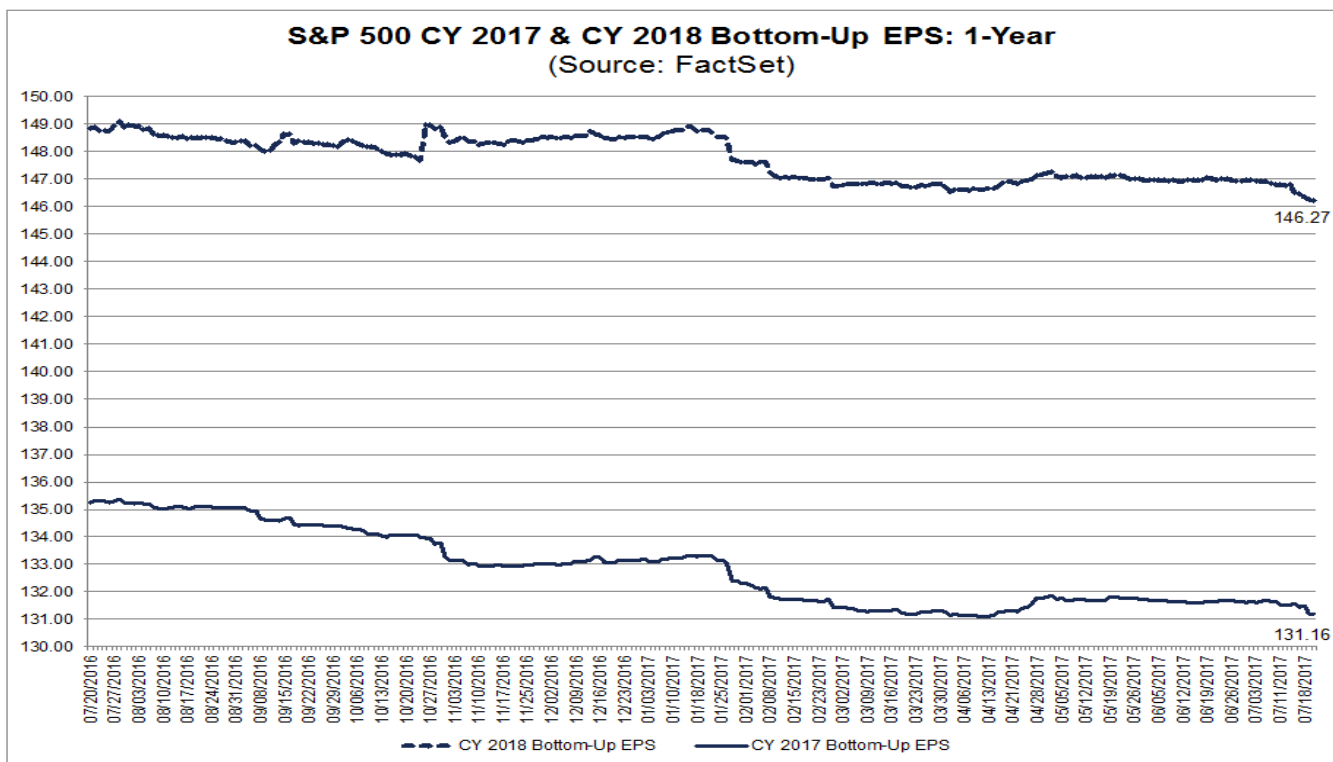
CY 2018: Growth



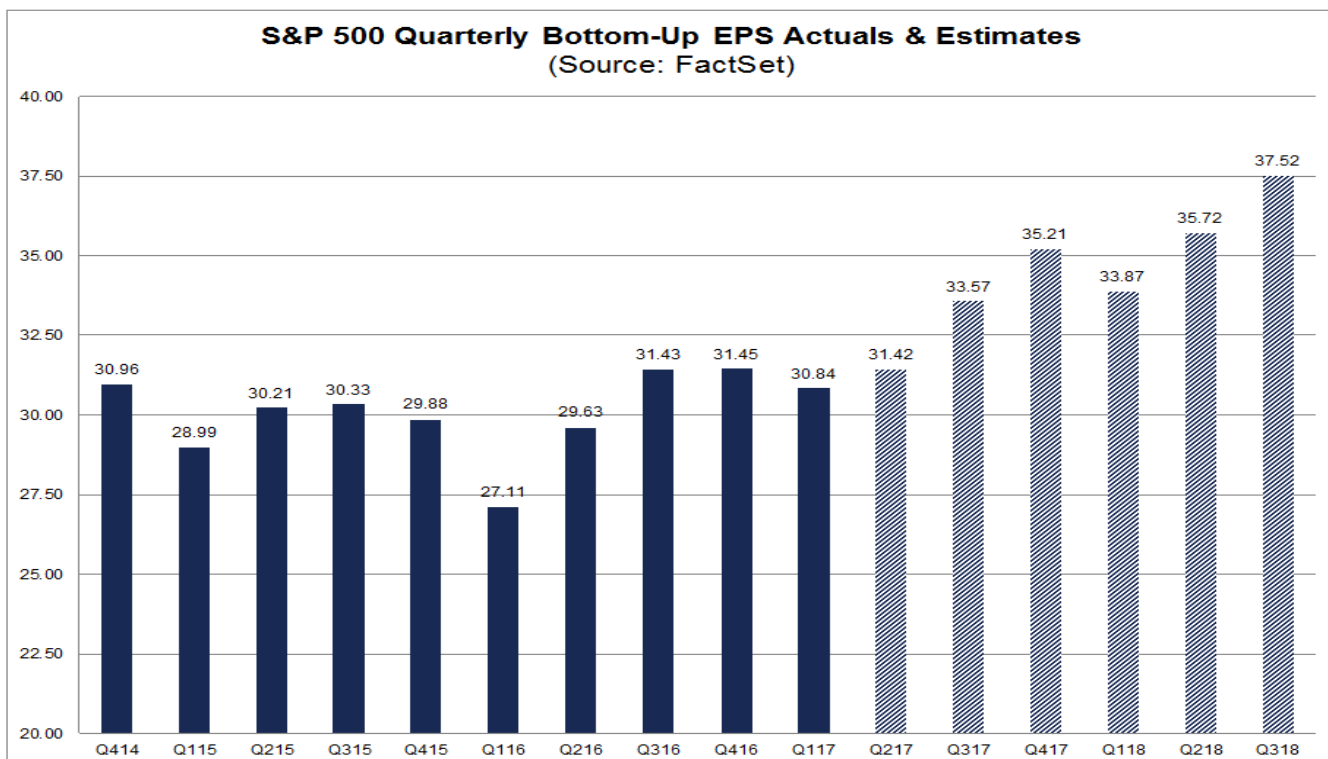
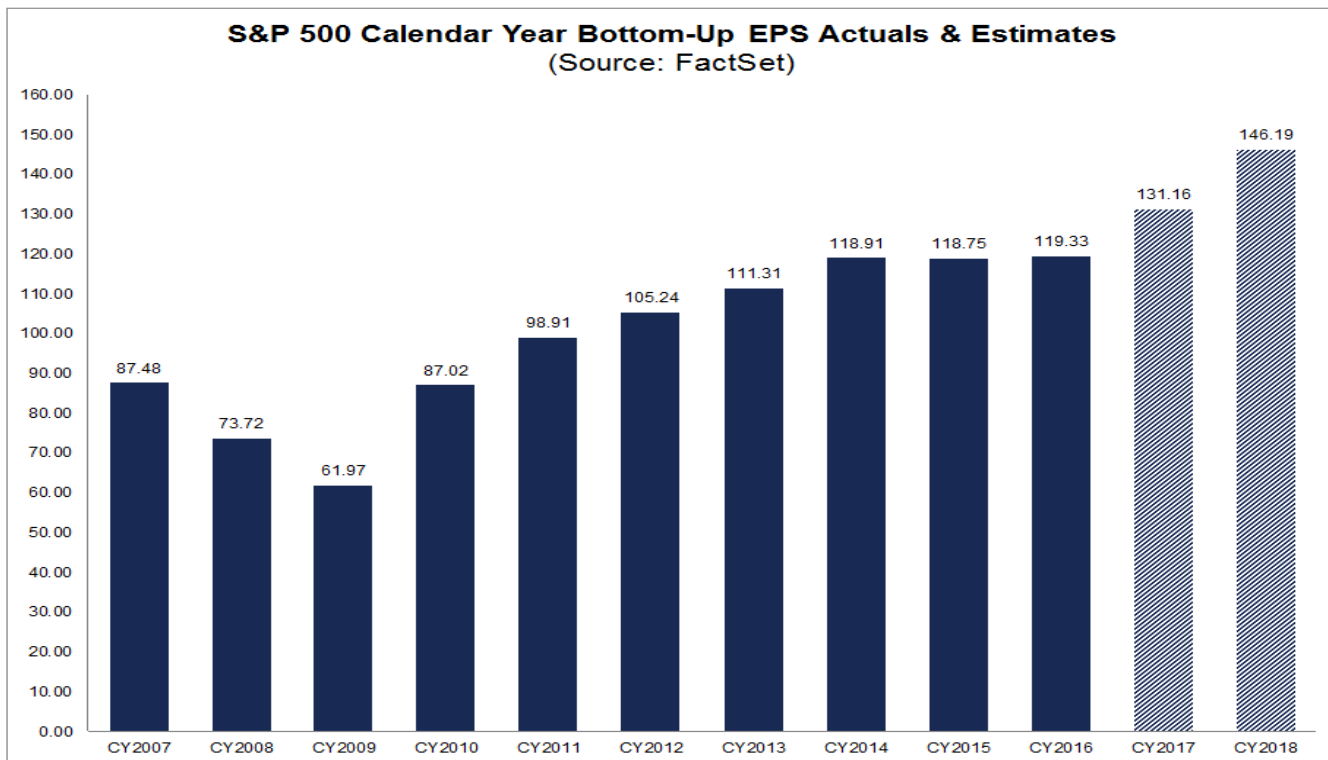
Geographic Revenue Exposure



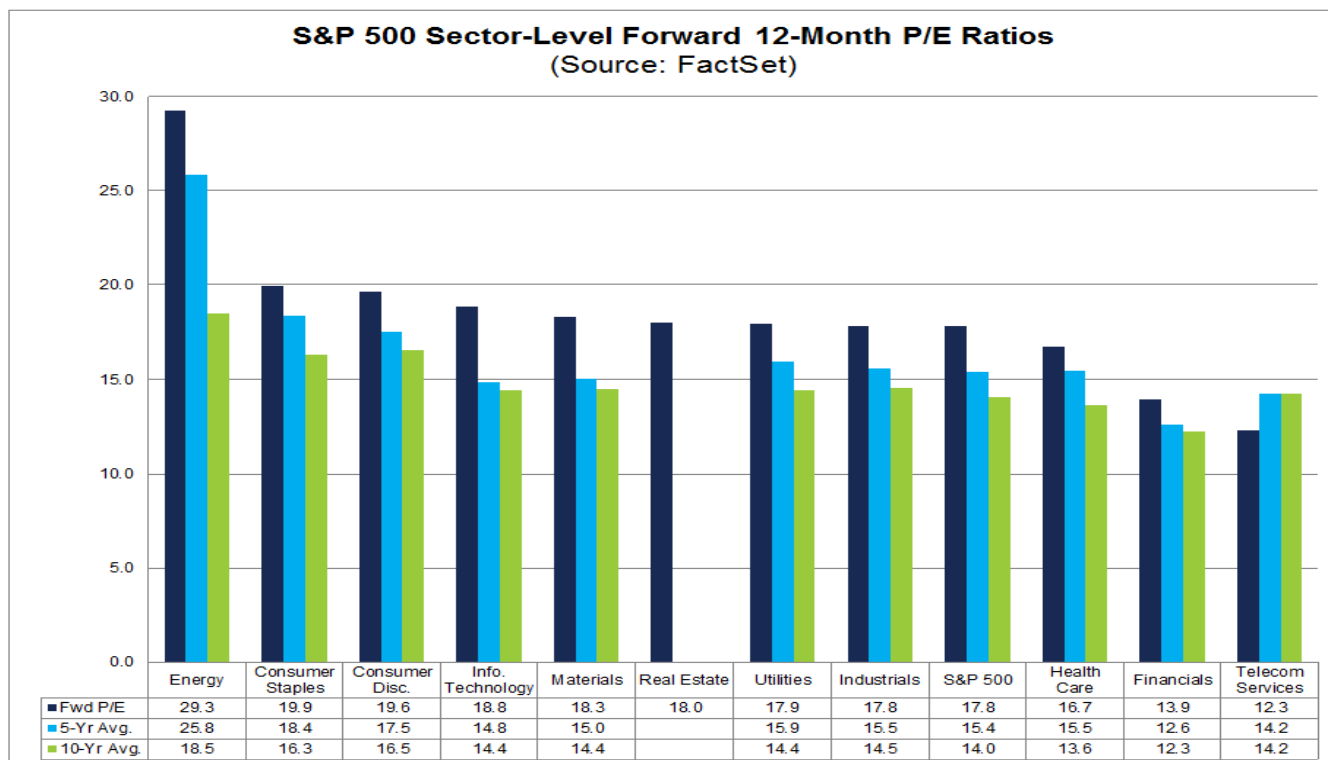
Bottom-up EPS Estimates: Revisions



Bottom-up EPS Estimates: Current & Historical

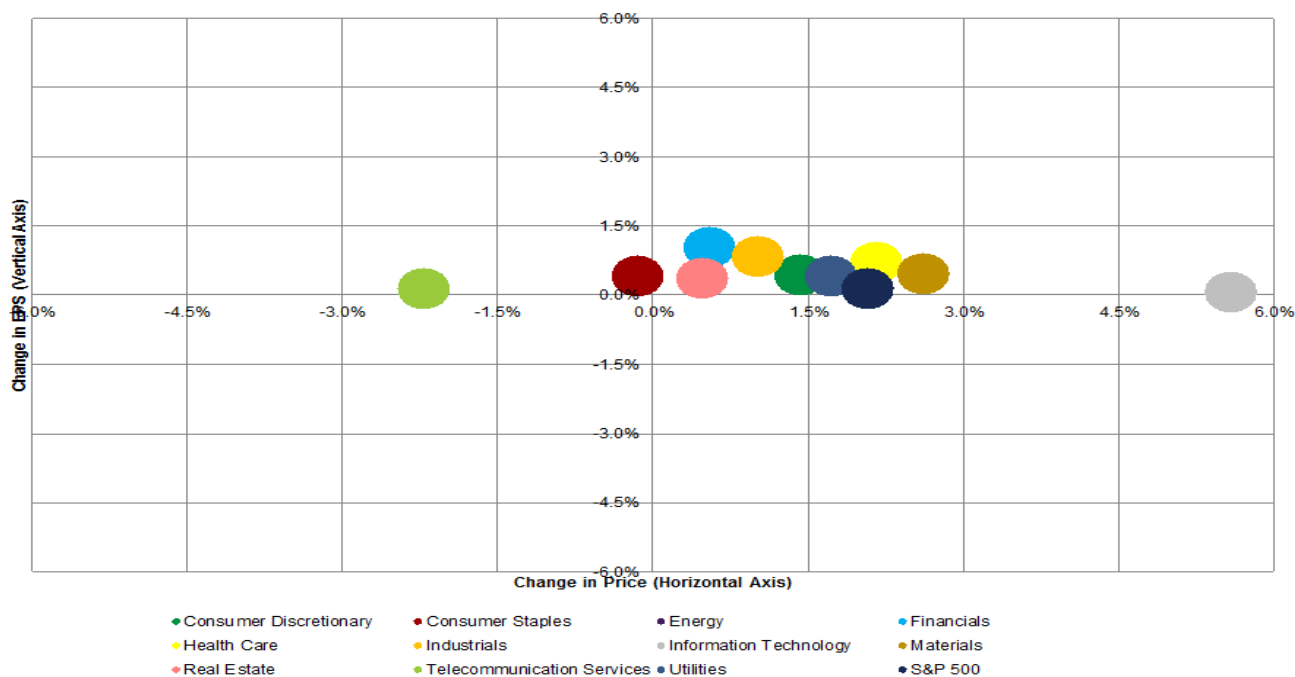


Forward 12M P/E Ratio: Sector Level

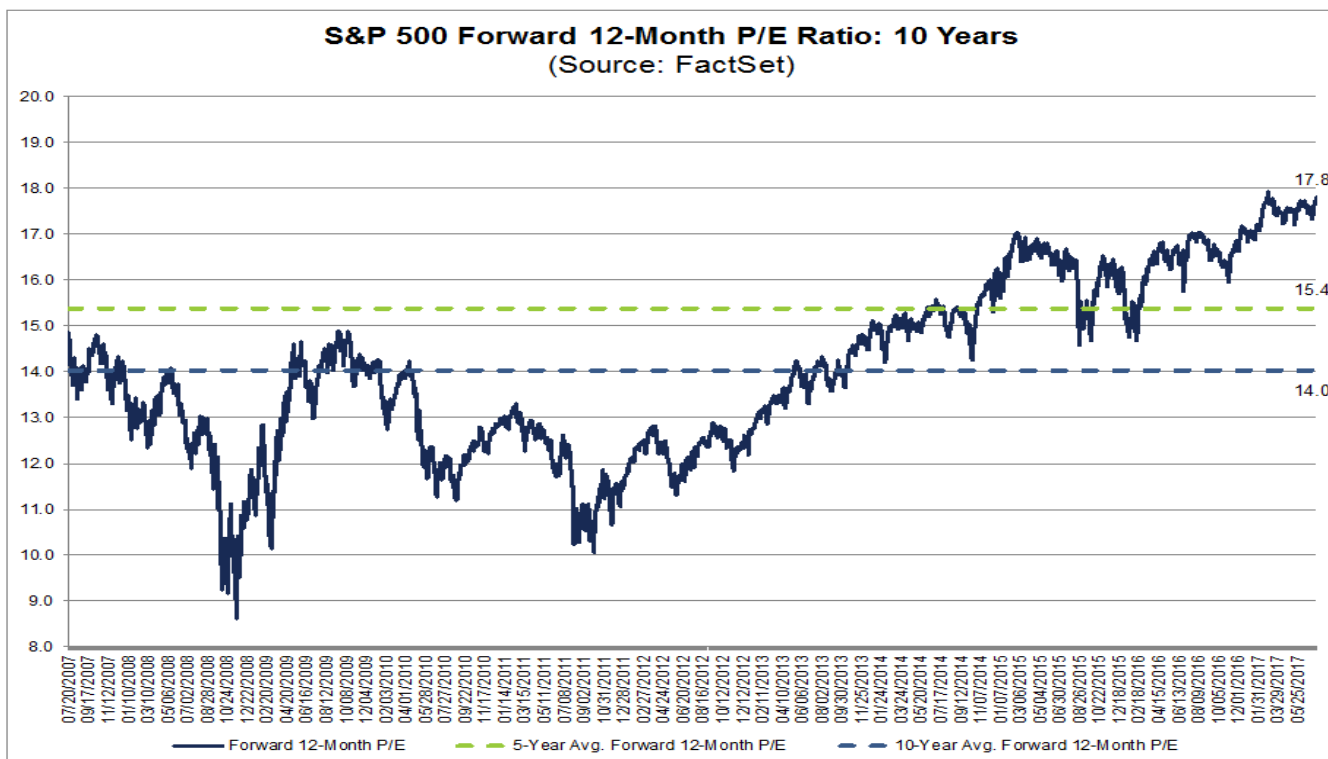
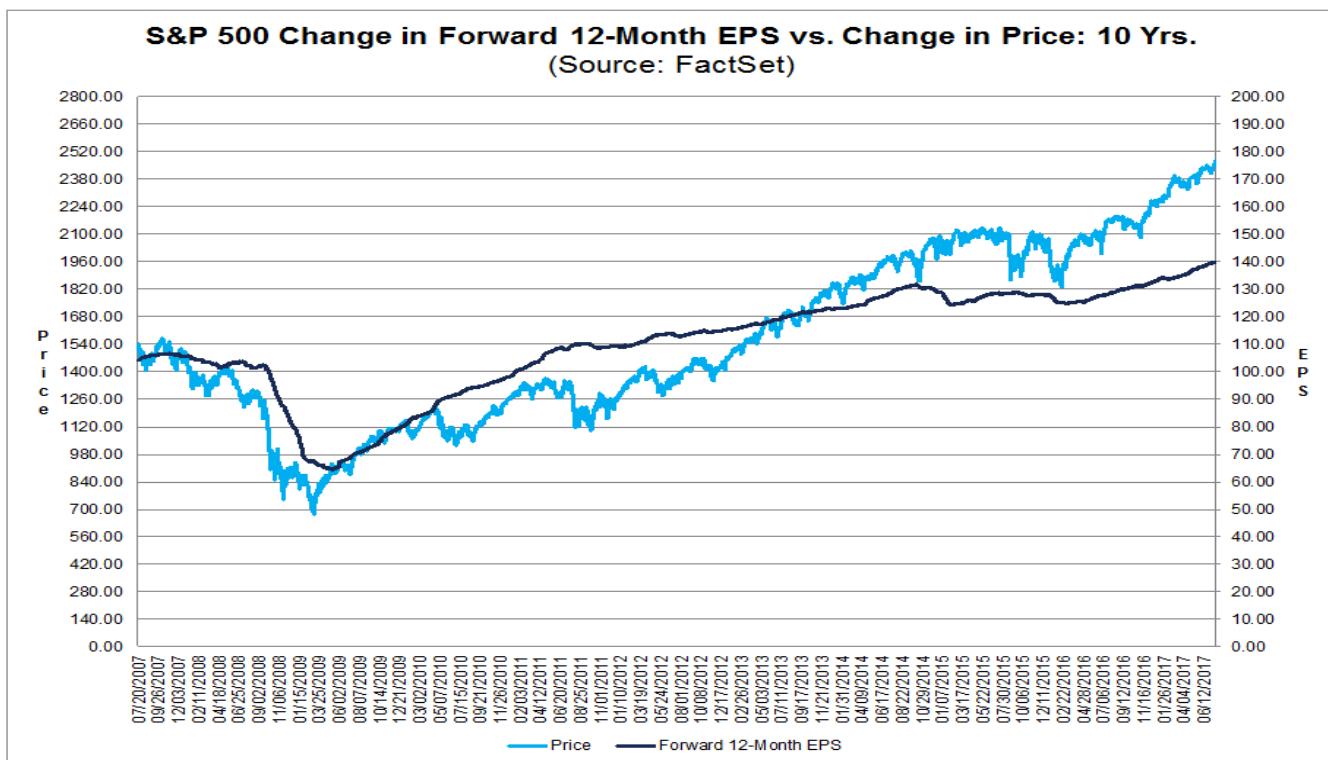


Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Mar. 31

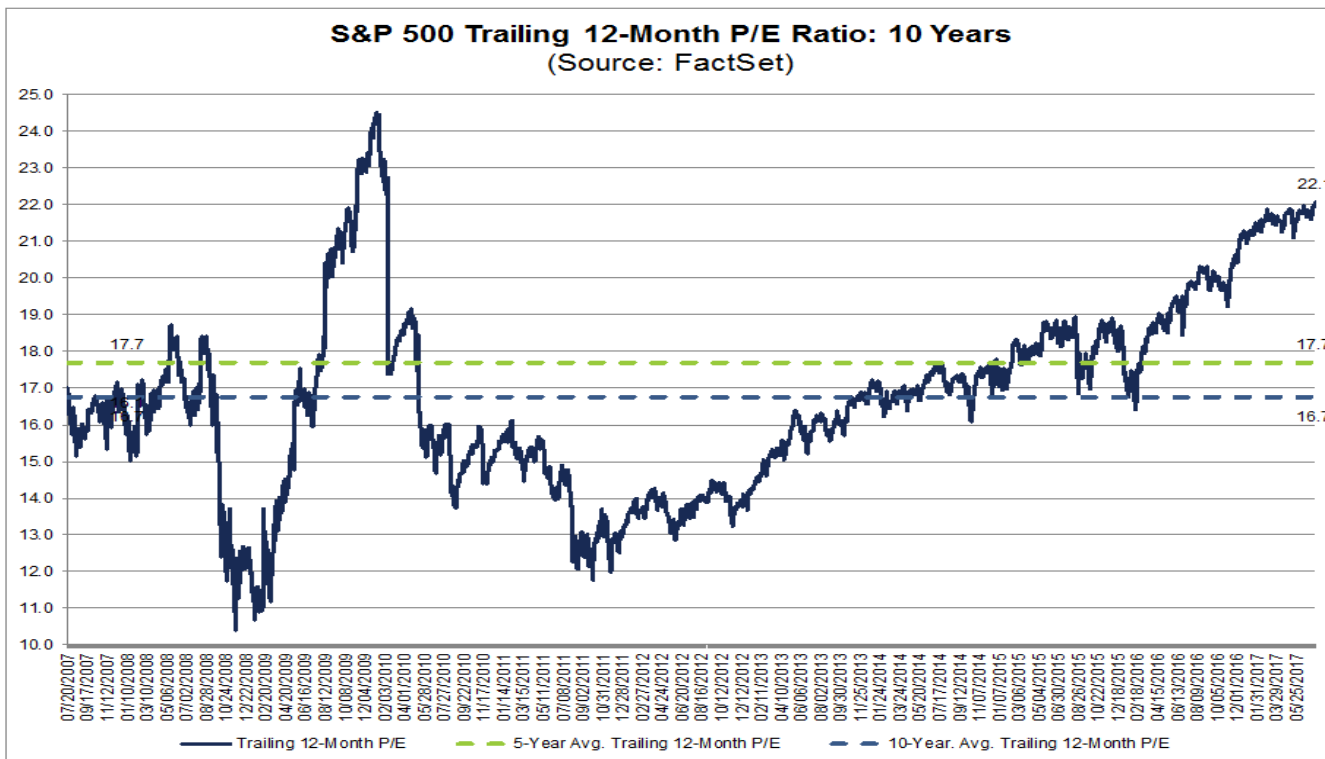
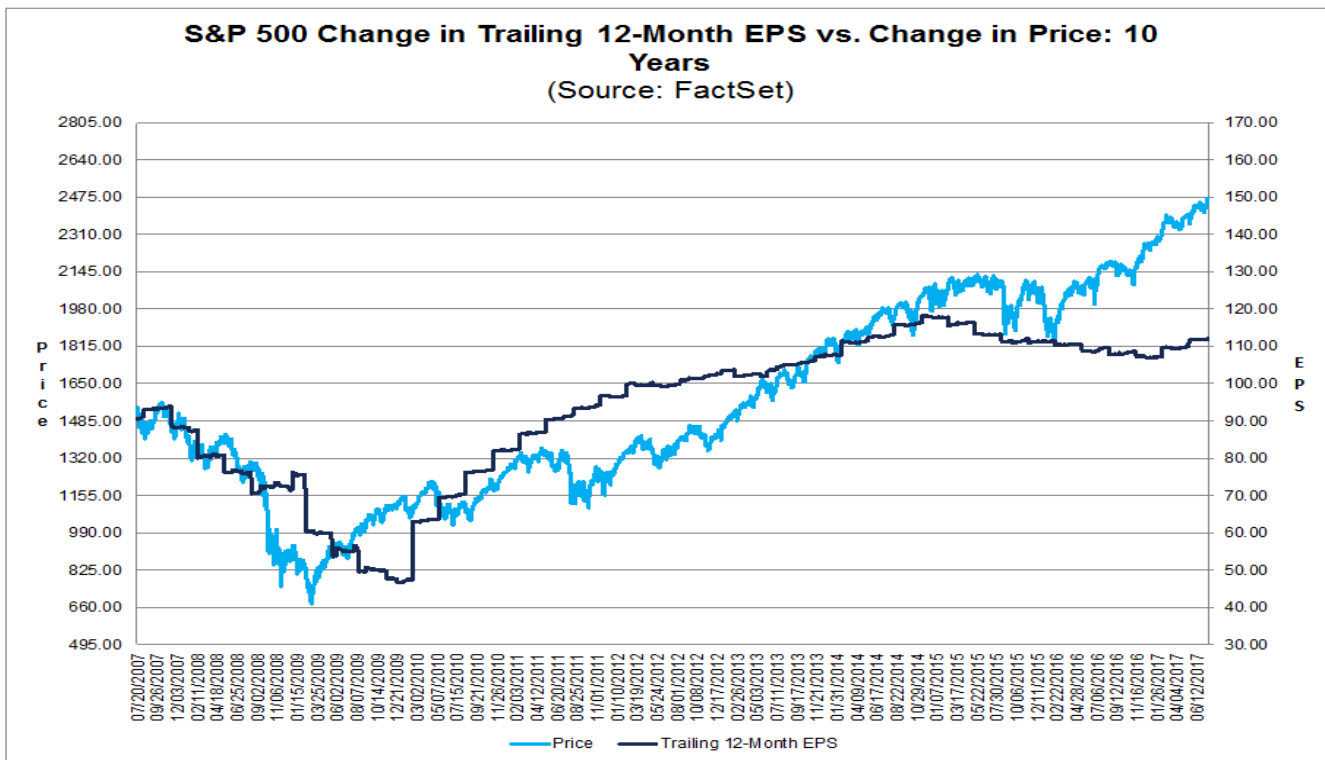
(Source: FactSet)



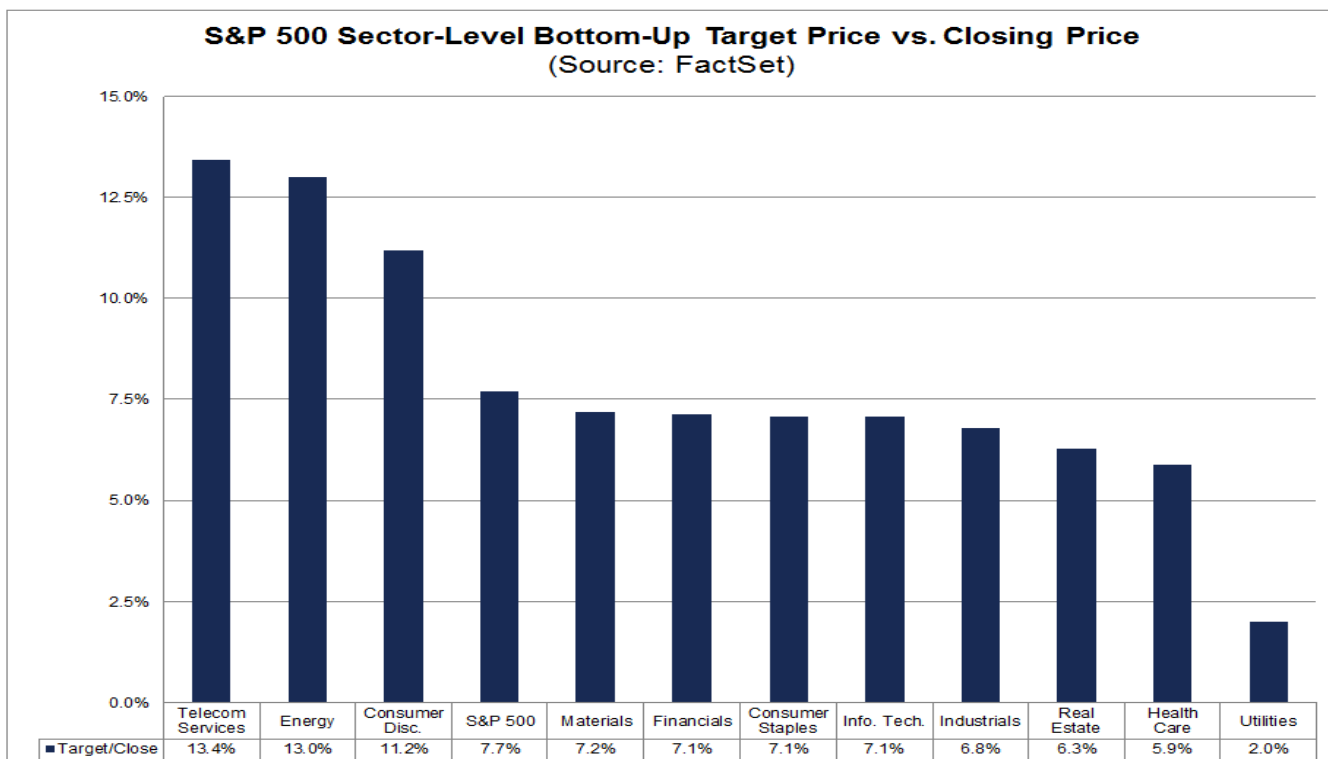
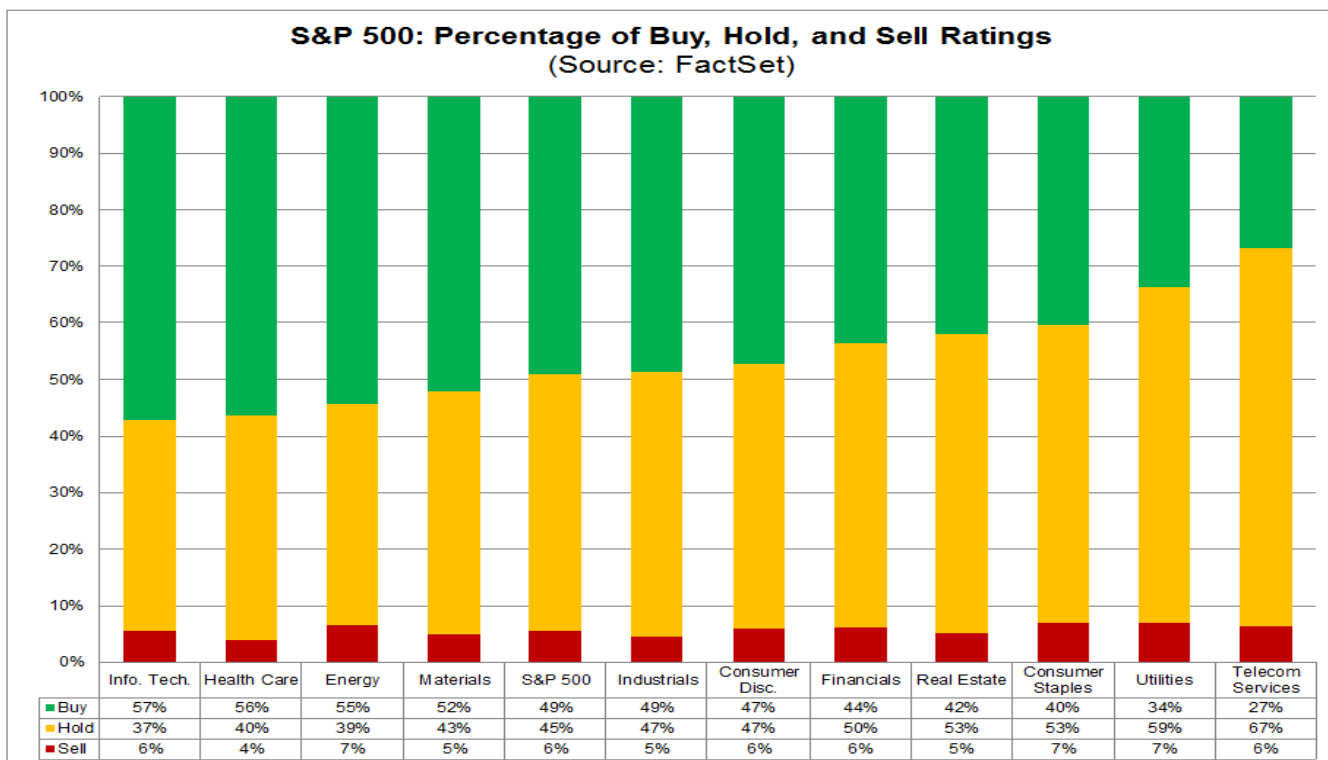
Forward 12M P/E Ratio: Long-Term Averages



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



Targets & Ratings



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