

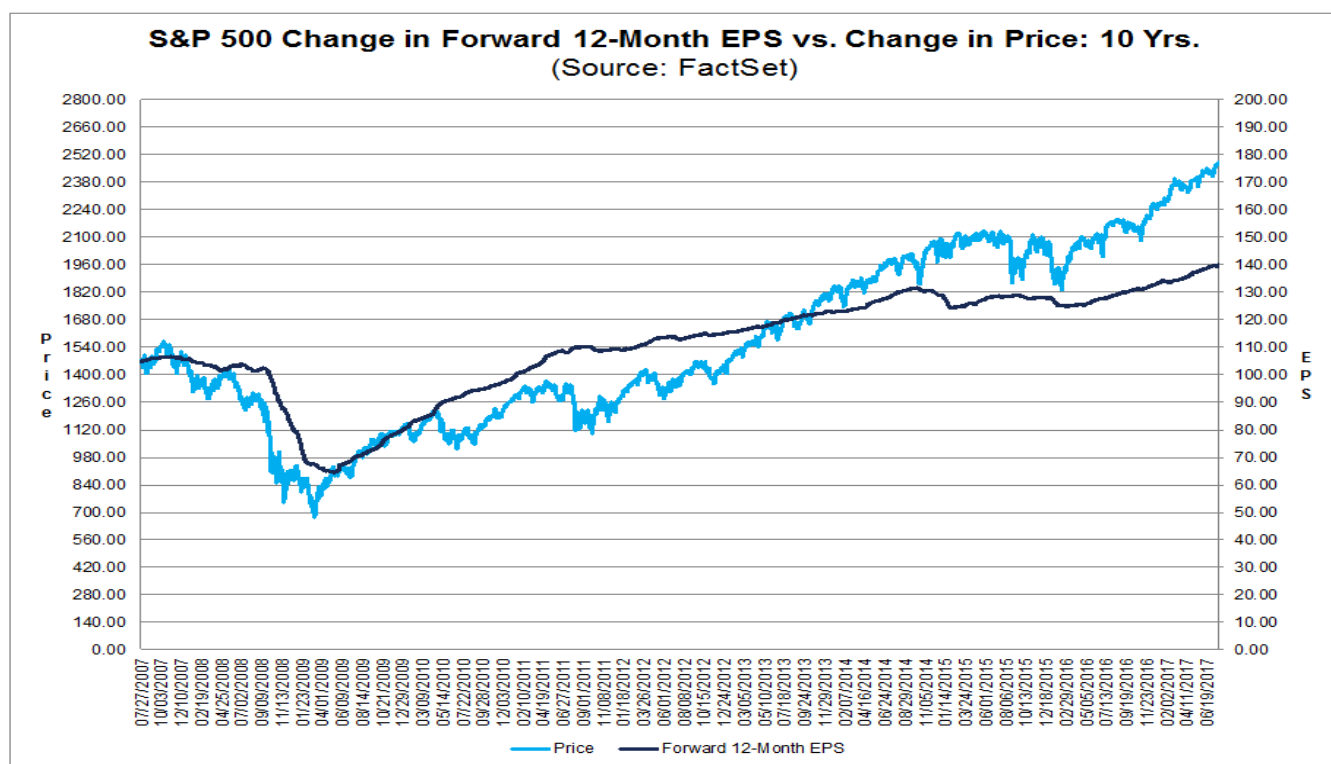
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July 28, 2017

Key Metrics

- **Earnings Scorecard:** As of today (with 57% 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 73% 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 9.1%. Ten sectors are reporting earnings growth for the quarter, led by the Energy sector.
- **Earnings Revisions:** On June 30, the estimated earnings growth rate for Q2 2017 was 6.5%. Ten sectors have higher growth rates today (compared to June 30) due to upside earnings surprises, led by the Industrials and Financials sectors.
- **Earnings Guidance:** For Q3 2017, 28 S&P 500 companies have issued negative EPS guidance and 26 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 17.7. 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:

Record-High Percentage of S&P 500 Companies Beating Sales Estimates for Q2

As of today, 57% of the companies in the S&P 500 have reported actual earnings and sales numbers for the second quarter. Of these companies, 73% have reported sales above estimates and 27% have reported sales below estimates. How does this 73% 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 5-year average.

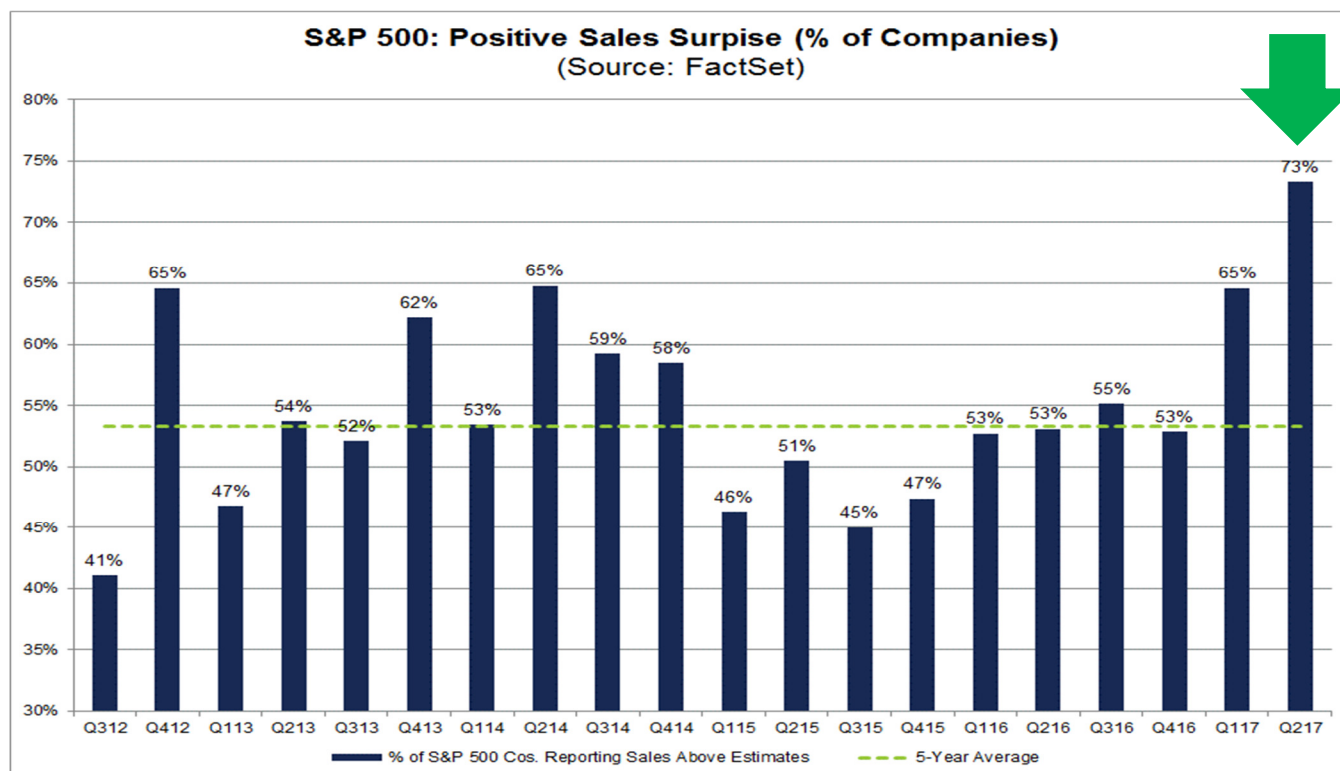
If 73% is the final percentage for the quarter, it will mark the highest percentage of companies reporting sales above estimates for a quarter since FactSet began tracking the data in Q3 2008. The current record for the highest percentage for a quarter is 72%, set in Q2 2011.

At the sector level, the Telecom Services (100%), Energy (88%), Materials (85%), and Information Technology (84%) sectors have the highest percentages of companies reporting revenues above estimates to date.

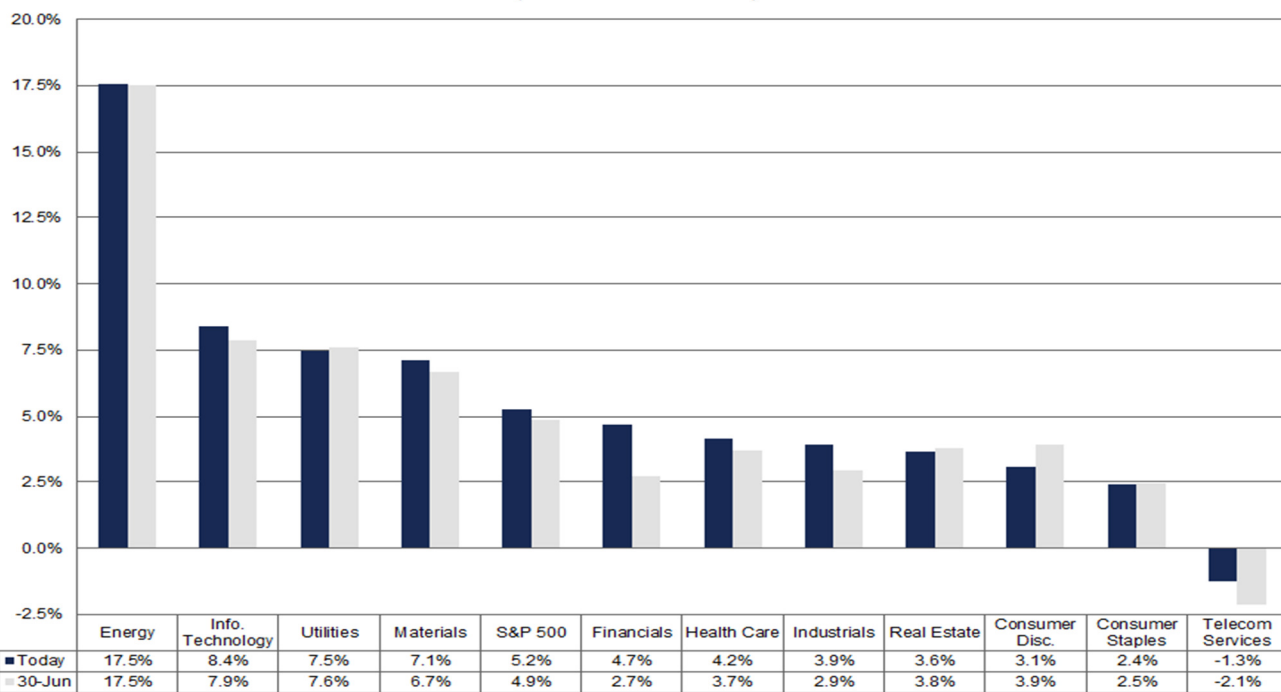
Companies are also beating revenue estimates by wider margins than average for the second quarter. In aggregate, companies are reporting actual sales that are 1.2% above expectations. This percentage is well above the trailing 1-year average (+0.5%) and the trailing 5-year average (+0.5%).

At the sector level, the Energy (+4.2%) and Financials (+2.3%) sectors are reporting the largest upside aggregate differences between actual sales and estimated sales.

Because of the number and magnitude of these upside surprises, the blended revenue growth rate for the quarter has increased to 5.2% today from 4.9% on June 30. The chart on the following page provides a breakdown of the revenue growth rates as of today and as of June 30 by sector.



S&P 500 Revenue Growth: Q2 2017
(Source: FactSet)



Q2 2017 Earnings Season: By the Numbers

Overview

To date, 57% 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 6.4% above the estimates, which is also above the 5-year average. In terms of sales, more companies (73%) are reporting actual sales above estimates compared to the 5-year average. In aggregate, companies are reporting sales that are 1.2% 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 9.1% today, which is higher than the earnings growth rate of 7.1% last week. Upside earnings surprises reported by companies in multiple sectors (including Health Care and Information Technology) were mainly responsible for the increase in the earnings growth rate for the index during the past week. Overall, ten sectors are reporting year-over-year earnings growth, led by the Energy, Information Technology, and Financials sectors. The only sector reporting a year-over-year decline in earnings is the Consumer Discretionary sector.

The blended sales growth rate for the second quarter is 5.2% today, which is above the sales growth rate of 4.8% last week. During the past week, upside sales surprises reported by companies in the multiple sectors (including Energy, Health Care, Industrials, and Information Technology) were mainly responsible for the increase in the revenue growth rate for the index during the past week. Overall, ten sectors are reporting year-over-year growth in revenues, led by the Energy sector. The only sector reporting a year-over-year decline in revenues is the Telecom Services sector.

During the upcoming week, 133 S&P 500 companies (including two Dow 30 components) are scheduled to report results for the second quarter.

For Q3 2017, 28 S&P 500 companies have issued negative EPS guidance and 26 S&P 500 companies have issued positive EPS guidance.

The forward 12-month P/E ratio is 17.7, 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, 57% 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 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 (70%) average and above the 5-year (68%) average.

At the sector level, the Information Technology (84%), Health Care (83%), and Utilities (80%) sectors have the highest percentages of companies reporting earnings above estimates, while the Telecom Services (50%), Energy (50%), and Consumer Discretionary (53%) sectors have the lowest percentages of companies reporting earnings above estimates.

Earnings Surprise Percentage (+6.4%) is Above 5-Year Average

In aggregate, companies are reporting earnings that are 6.4% above expectations. This surprise percentage is above the 1-year (+4.7%) average and above the 5-year (+4.2%) average.

The Information Technology (+12.9%) sector is reporting the largest upside aggregate difference between actual earnings and estimated earnings. On the other hand, the Energy (-0.5%) sector is reporting the largest downside aggregate difference between actual earnings and estimated earnings.

Market Not Rewarding Earnings Beats Nor 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 decrease of -0.1% two days before the earnings release through two days after the earnings. This percentage decrease is well 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 -0.9% 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 (73%) is Above 5-Year Average

In terms of revenues, 73% of companies have reported actual sales above estimated sales and 27% 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 Telecom Services (100%), Energy (88%), Materials (85%), Information Technology (84%) sectors have the highest percentages of companies reporting revenues above estimates, while the Utilities (44%) sector has the lowest percentage of companies reporting revenues above estimates.

Revenue Surprise Percentage (+1.2%) is Above 5-Year Average

In aggregate, companies are reporting sales that are 1.2% above expectations. This surprise percentage is above the 1-year (+0.5%) average and above the 5-year (+0.5%) average.

The Energy (+4.2%) and Financials (+2.3%) sectors are reporting the largest upside aggregate differences between actual sales and estimated sales, while the Consumer Discretionary (-0.5%) sector is reporting the largest downside aggregate difference between actual sales and estimated sales.

Increase in Blended Earnings Growth This Week Due to Multiple Sectors

Increase in Blended Earnings Growth This Week Due to Multiple Sectors

The blended earnings growth rate for the S&P 500 for the second quarter is 9.1% today, which is higher than the earnings growth rate of 7.1% last week. Upside earnings surprises reported by companies in multiple sectors (including Health Care and Information Technology) were mainly responsible for the increase in the overall earnings growth rate for the index during the past week.

In the Health Care sector, the upside earnings surprises reported by Gilead Sciences (\$2.56 vs. \$2.16) and Merck (\$1.01 vs. \$0.87) 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 Health Care sector increased to 4.4% from 1.0% during this period.

In the Information Technology, the upside earnings surprises reported by Facebook (\$1.32 from \$1.12), Alphabet (\$5.01 vs. \$4.44), and Intel (\$0.72 vs. \$0.68) were significant 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 Information Technology sector increased to 12.9% from 10.4% during the week.

Industrials and Financials Sectors Have Seen Largest Increases in Earnings Growth since June 30

The blended earnings growth rate for Q2 2017 of 9.1% is higher than the estimate of 6.5% at the end of the second quarter (June 30). Ten sectors have recorded an increase in earnings growth since the end of the quarter due to upside earnings surprises, led by the Industrials (to 6.7% from 1.8%) and Financials (to 10.7% from 6.0%) sectors. The only sector that has recorded a decrease in earnings growth during this due to downward revisions to estimates and downside earnings surprises is the Energy (to 322.8% from 389.7%) sector.

Increase in Blended Revenue Growth This Week Due to Multiple Sectors

The blended sales growth rate for the S&P 500 for the second quarter is 5.2% today, which is above the sales growth rate of 4.8% last week. During the past week, upside sales surprises reported by companies in the multiple sectors

(including Energy, Health Care, Industrials, and Information Technology) were mainly responsible for the increase in the revenue growth rate over this period.

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

The blended revenue growth rate for Q2 2017 of 5.2% is higher than the estimate of 4.9% at the end of the second quarter (June 30). Six sectors have recorded an increase in revenue growth since the end of the quarter due to upside revenue surprises, led by the Financials (to 4.7% from 2.7%) sector. One sector (Energy) has the same revenue growth rate today (17.5%) compared to June 30. Four sectors have recorded a decrease in revenue growth during this time frame due to downward revisions to estimates and downside revenue surprises, led by the Consumer Discretionary (to 3.1% from 3.9%) sector.

Earnings Growth: 9.1%

The blended (year-over-year) earnings growth rate for Q2 2017 is 9.1%. Ten sectors are reporting year-over-year growth in earnings, led by the Energy, Information Technology, and Financials sectors. The only sector reporting a year-over-year decline in earnings is the Consumer Discretionary sector.

Energy: Highest Earnings Growth

The Energy sector is reporting the highest (year-over-year) earnings growth of all eleven sectors at 322.8%. 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 \$8.0 billion in Q2 2017, compared to earnings of 1.9 billion in Q2 2016. If this sector is excluded, the blended earnings growth rate for the remaining ten sectors would fall to 6.8% from 9.1%.

At the sub-industry level, five of the six sub-industries in the sector are reporting 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 (132%), Oil & Gas Refining & Marketing (6%), and Oil & Gas Storage & Transportation (4%). On the other hand, the Oil & Gas Drilling (-653%) sub-industry is the only sub-industry reporting 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 12.9%. At the industry level, five of the seven industries in this sector are reporting earnings growth. Three of these five industries are reporting double-digit earnings growth: Semiconductor & Semiconductor Equipment (45%), Software (24%), and IT Services (11%). 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 6.5% from 12.9%. 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 10.7%. At the industry level, four of the five industries in this sector are reporting earnings growth. Three of these four industries are reporting double-digit earnings growth: Insurance (20%), Capital Markets (12%), and Banks (12%).

Consumer Discretionary: Amazon.com Leads Decline

The Consumer Discretionary sector is the only sector reporting a (year-over-year) decline in earnings at -1.0%. At the industry level, seven of the twelve industries in this sector are reporting or are predicted to report a decline in earnings, led by the Leisure Products (-59%), Internet & Direct Marketing Retail (-36%), and Auto Components (-11%) industries. At the company level, Amazon.com is the largest contributor to the earnings decline for the sector. The company reported actual EPS of \$0.40 for Q2 2017, compared to actual EPS of \$1.78 in the year-ago quarter. If Amazon.com is excluded, the blended earnings growth rate for this sector improves to 1.0% from -1.0%.

Revenue Growth: 5.2%

The blended (year-over-year) revenue growth rate for Q2 2017 is 5.2%. Ten sectors are reporting year-over-year growth in revenues, led by the Energy sector. The only sector reporting a decline in revenues is the Telecom Services sector.

Energy: Highest Revenue Growth

The Energy sector is reporting the highest (year-over-year) revenue growth of all eleven sectors at 17.5%. At the sub-industry level, five of the six sub-industries in the sector are reporting revenue growth: Oil & Gas Equipment & Services (25%), Oil & Gas Refining & Marketing (23%), Oil & Gas Exploration & Production (19%), Oil & Gas Storage & Transportation (17%), and Integrated Oil & Gas (12%). On the other hand, the Oil & Gas Drilling (-11%) sub-industry is the only sub-industry reporting 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 4.2% from 5.2%.

Telecom Services: 2 of 4 Companies Reporting Sales Decline

The Telecom Services sector is the only sector reporting a (year-over-year) decline in revenues at -1.3%. Overall, two of the four companies in the sector are reporting or 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, 54 companies in the index have issued EPS guidance for Q3 2017. Of these 54 companies, 28 have issued negative EPS guidance and 26 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 52% (28 out of 54), which is below the 5-year average of 75%.

In the Information Technology sector, twice as many companies have issued positive EPS guidance (12) than negative EPS guidance (6) to date for the third quarter.

Growth Expected to Continue for Remainder of 2017

For the second quarter, companies are reporting earnings growth of 9.1% and revenue growth rate of 5.2%. Analysts currently expect earnings and revenue growth to continue in 2017.

For Q3 2017, analysts are projecting earnings growth of 6.1% and revenue growth of 4.8%.

For Q4 2017, analysts are projecting earnings growth of 11.7% and revenue growth of 5.2%.

For all of 2017, analysts are projecting earnings growth of 9.5% and revenue growth of 5.5%.

Valuation: Forward P/E Ratio is 17.7, above the 10-Year Average (14.0)

The forward 12-month P/E ratio is 17.7. 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 0.5%.

At the sector level, the Energy (29.8) sector has the highest forward 12-month P/E ratio, while the Telecom Services (13.2) 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 (29.8 vs. 18.5) sector. One sector (Telecom Services) has a forward 12-month P/E ratio that is below the 10-year average (13.2 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 2679.87, which is 8.3% above the closing price of 2475.42. At the sector level, the Energy (+10.5%) and Consumer Discretionary (+10.1%) sectors have the largest upside differences between the bottom-up target price and the closing price, while the Utilities (+1.8%) sector has the smallest upside difference between the bottom-up target price and the closing price.

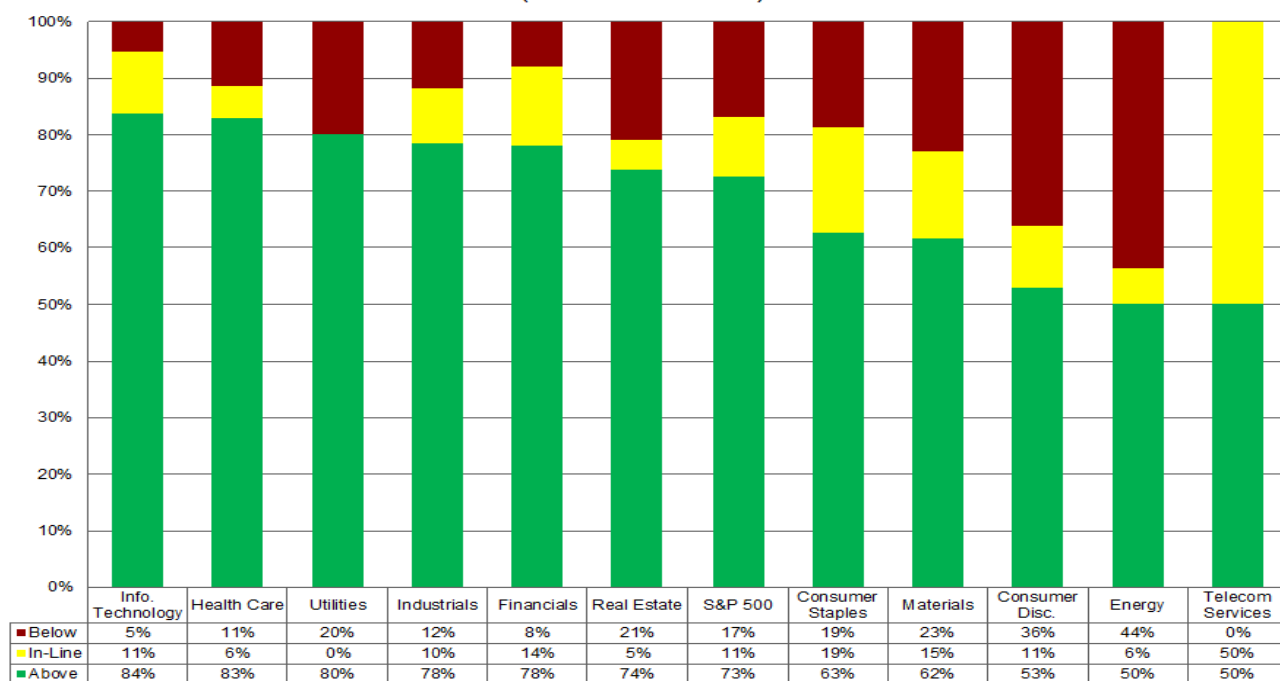
Overall, there are 11,175 ratings on stocks in the S&P 500. Of these 11,175 ratings, 49.2% are Buy ratings, 45.3% are Hold ratings, and 5.5% are Sell ratings. At the sector level, the Information Technology and Energy sectors have the highest percentage of Buy ratings at 57%, while the Utilities and Consumer Staples sectors have the highest percentages of Sell ratings at 7%.

Companies Reporting Next Week: 133

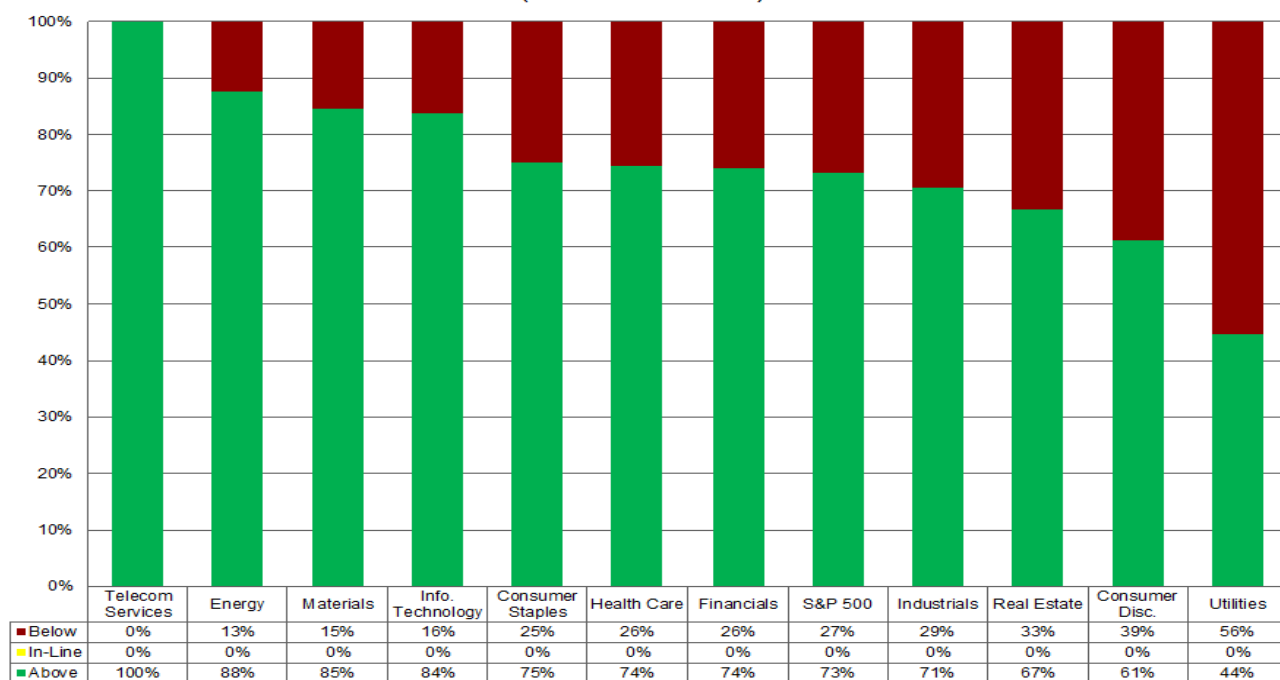
During the upcoming week, 133 S&P 500 companies (including two Dow 30 components) are scheduled to report results for the second quarter.

Q2 2017: Scorecard

S&P 500 Earnings Above, In-Line, Below Estimates: Q2 2017
(Source: FactSet)

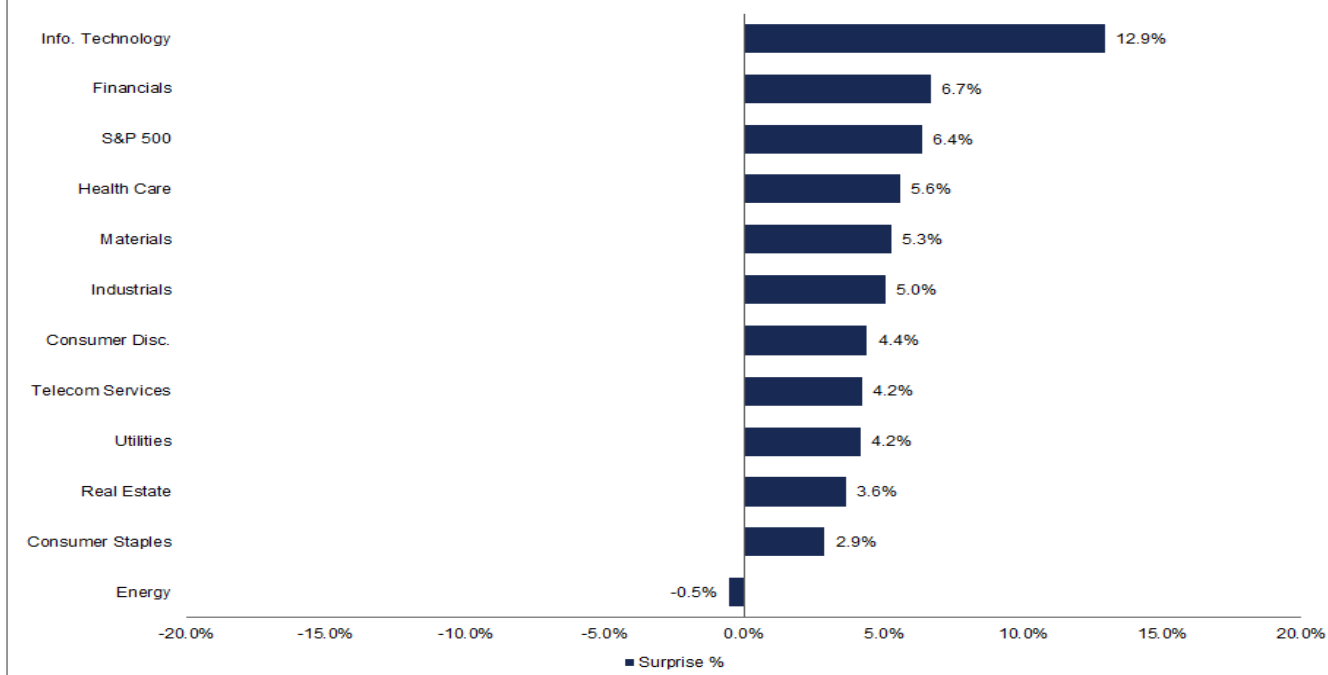


S&P 500 Revenues Above, In-Line, Below Estimates: Q2 2017
(Source: FactSet)

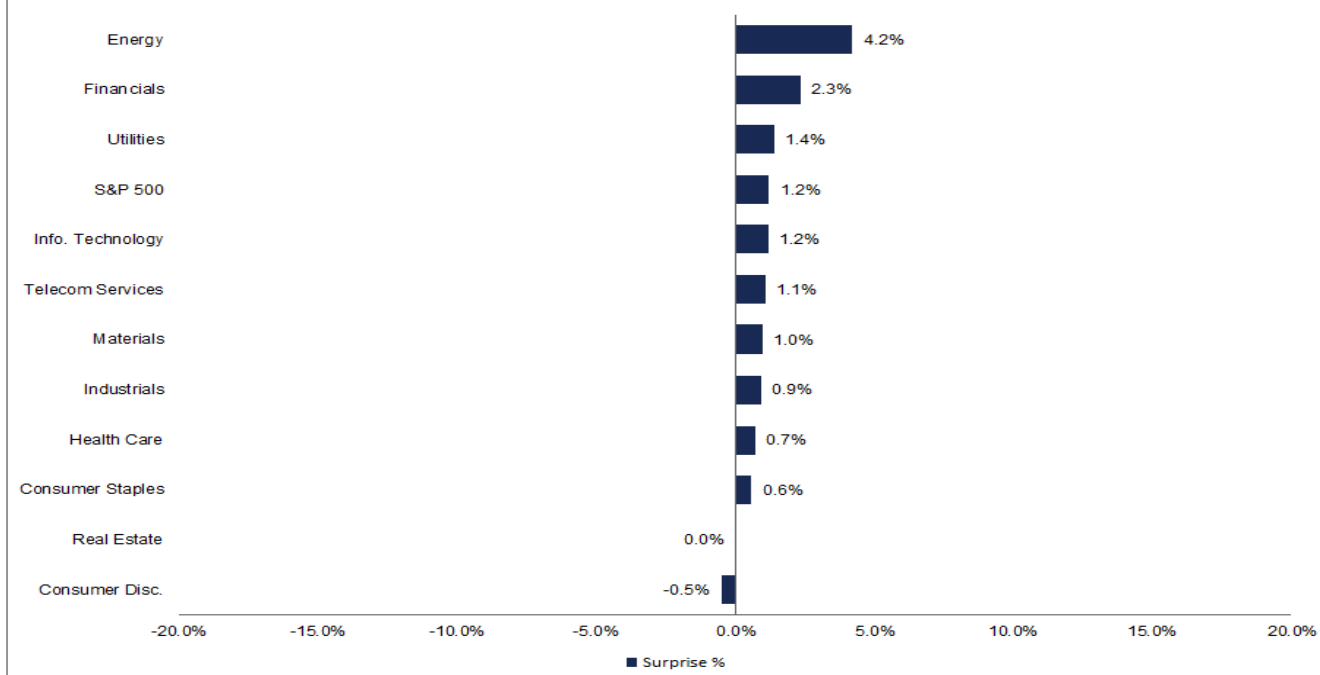


Q2 2017: Scorecard

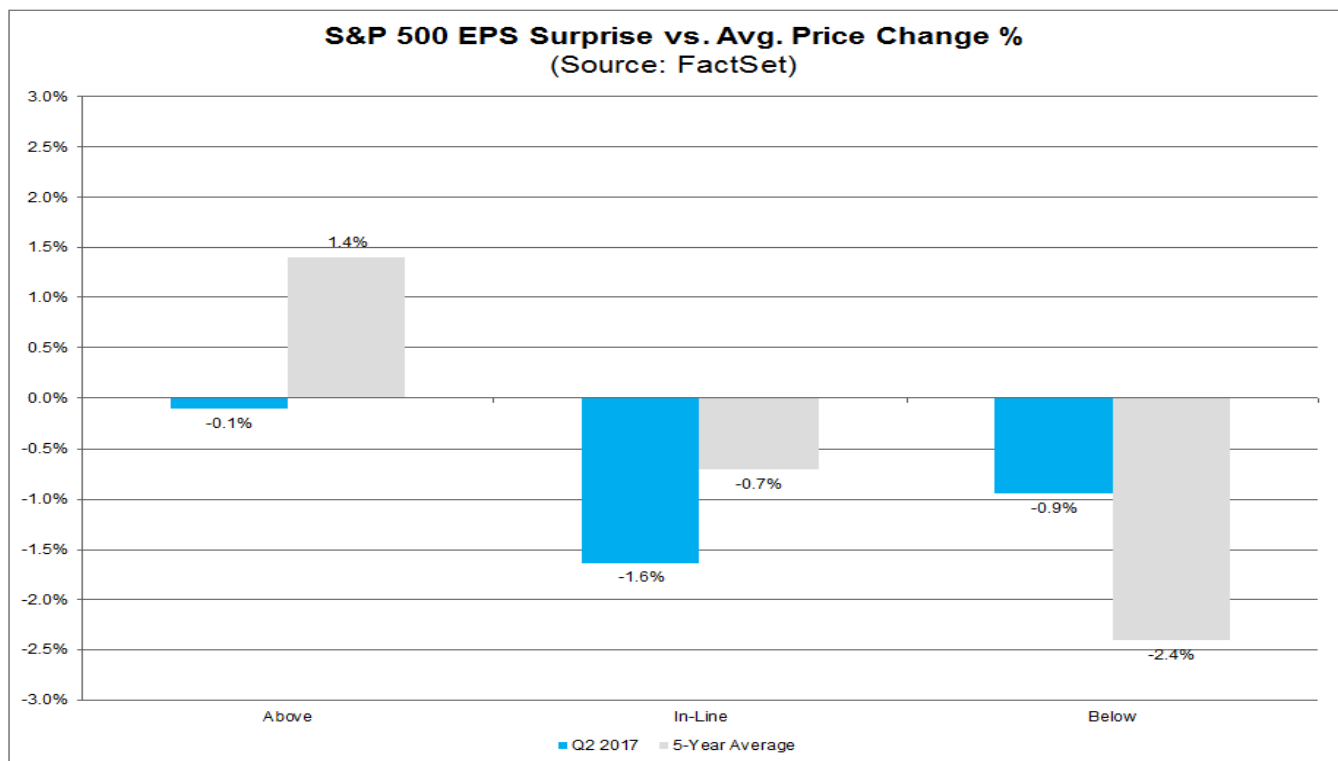
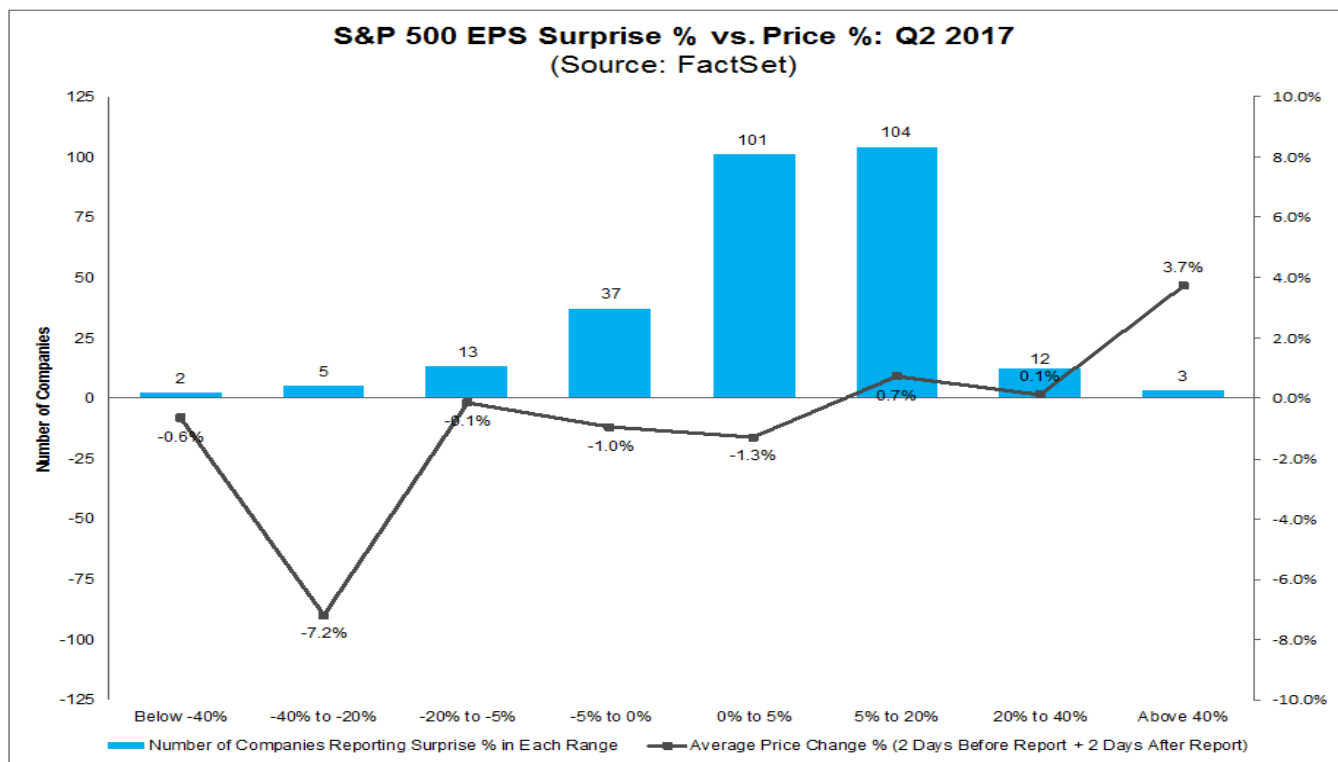
S&P 500 Sector-Level Earnings Surprise %: Q2 2017
(Source: FactSet)



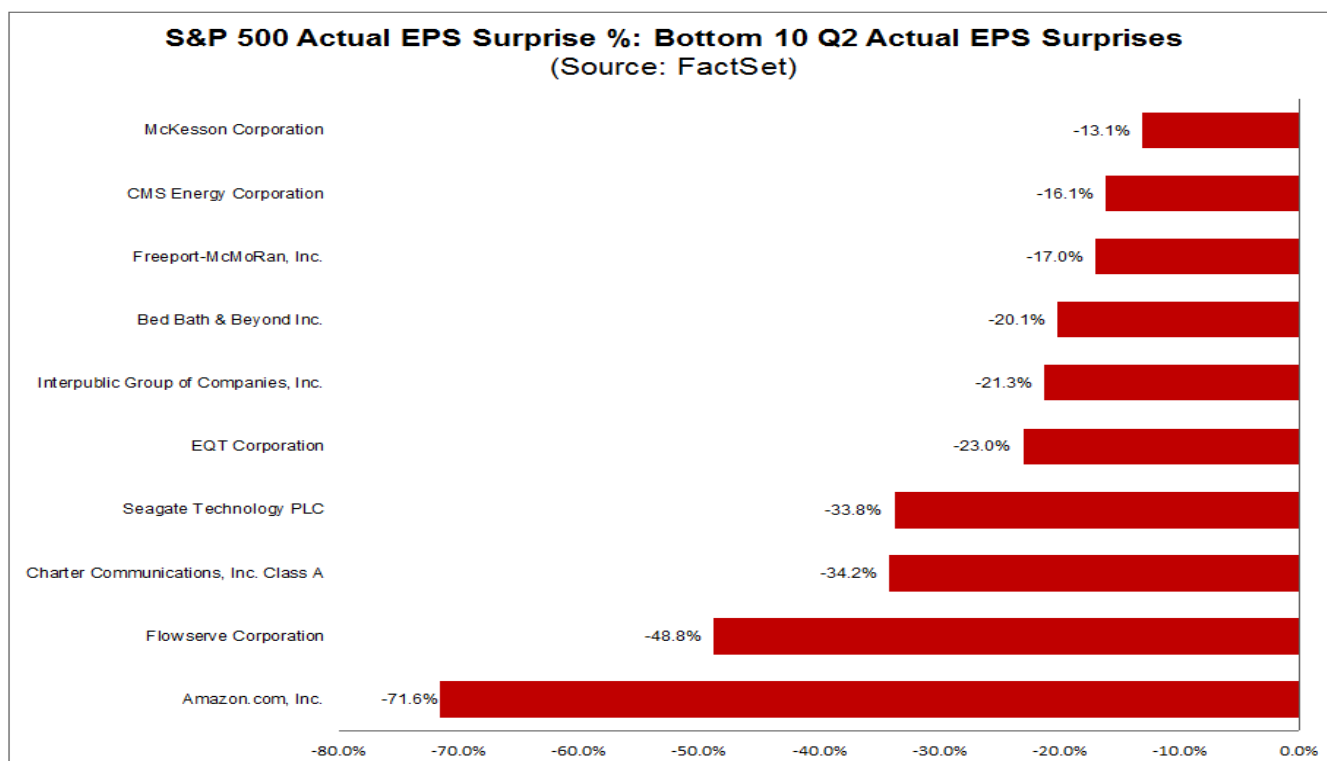
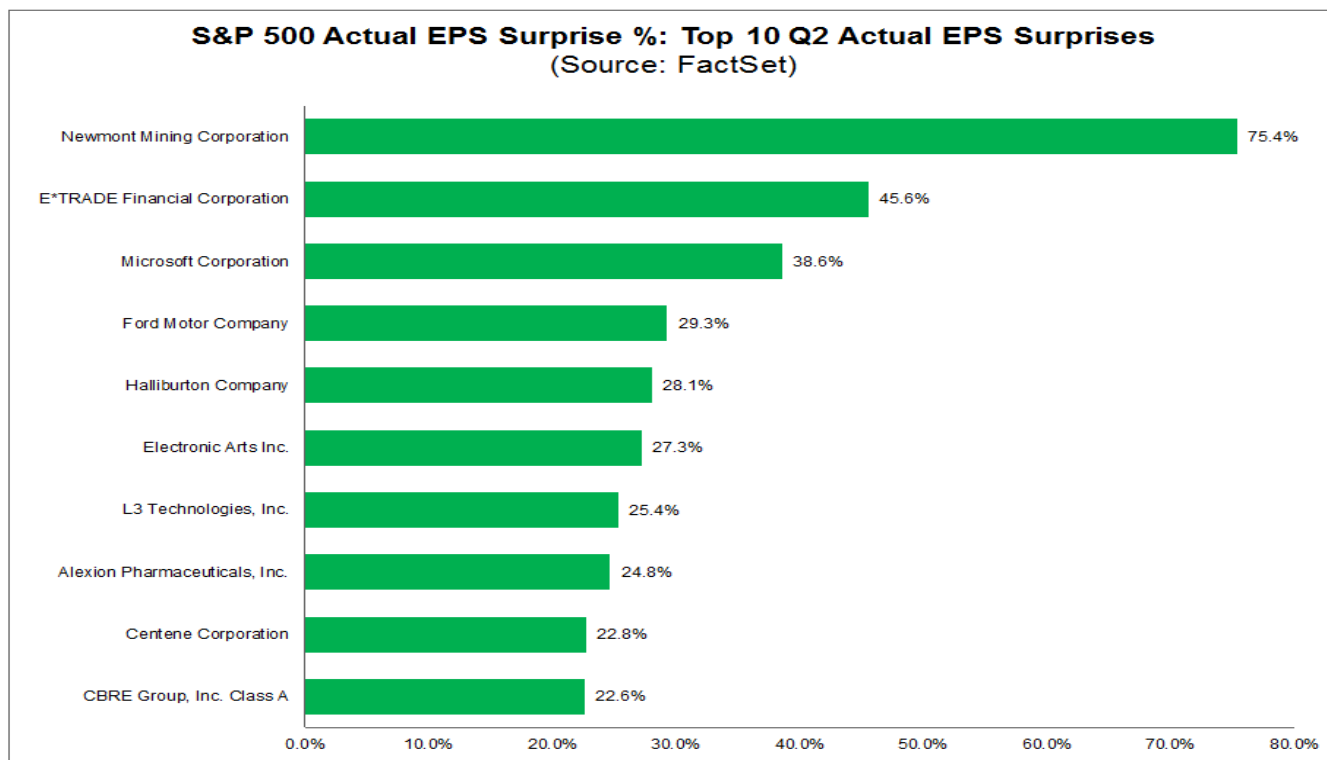
S&P 500 Sector-Level Revenue Surprise %: Q2 2017
(Source: FactSet)



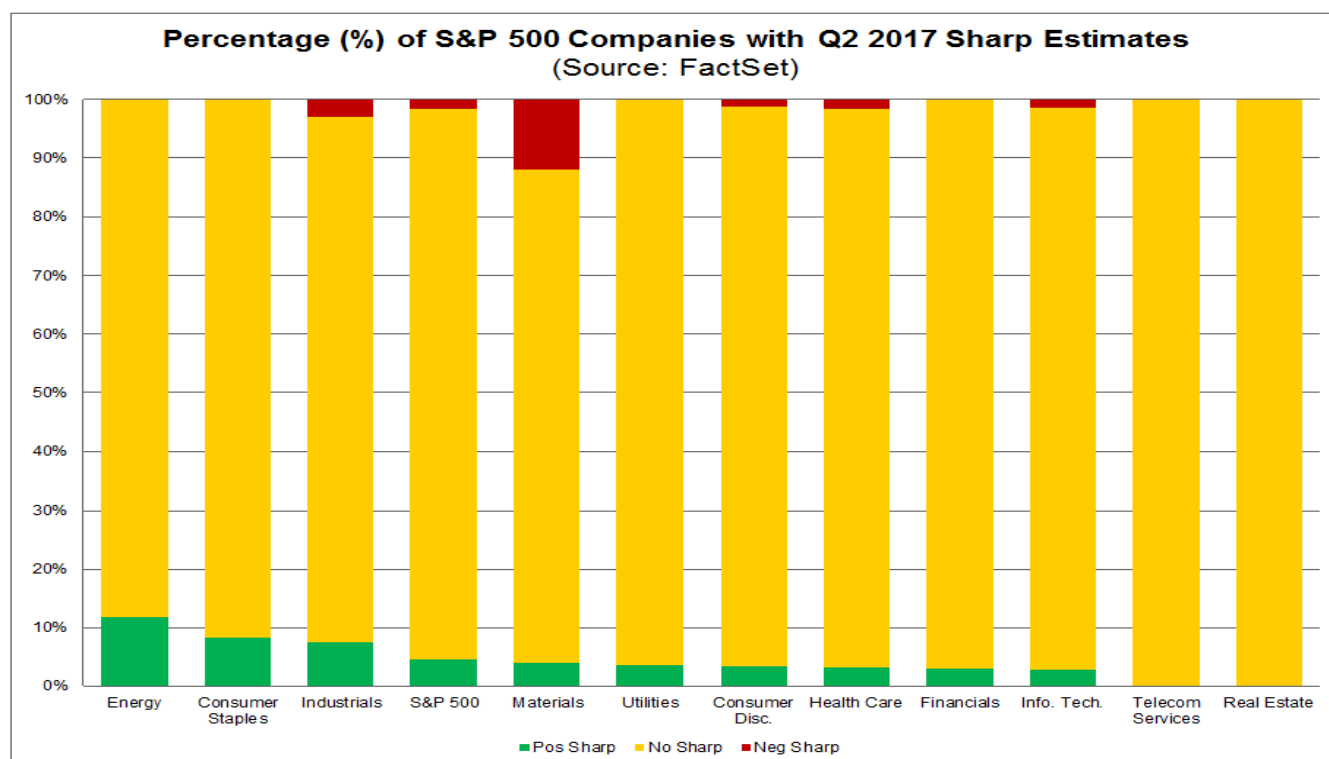
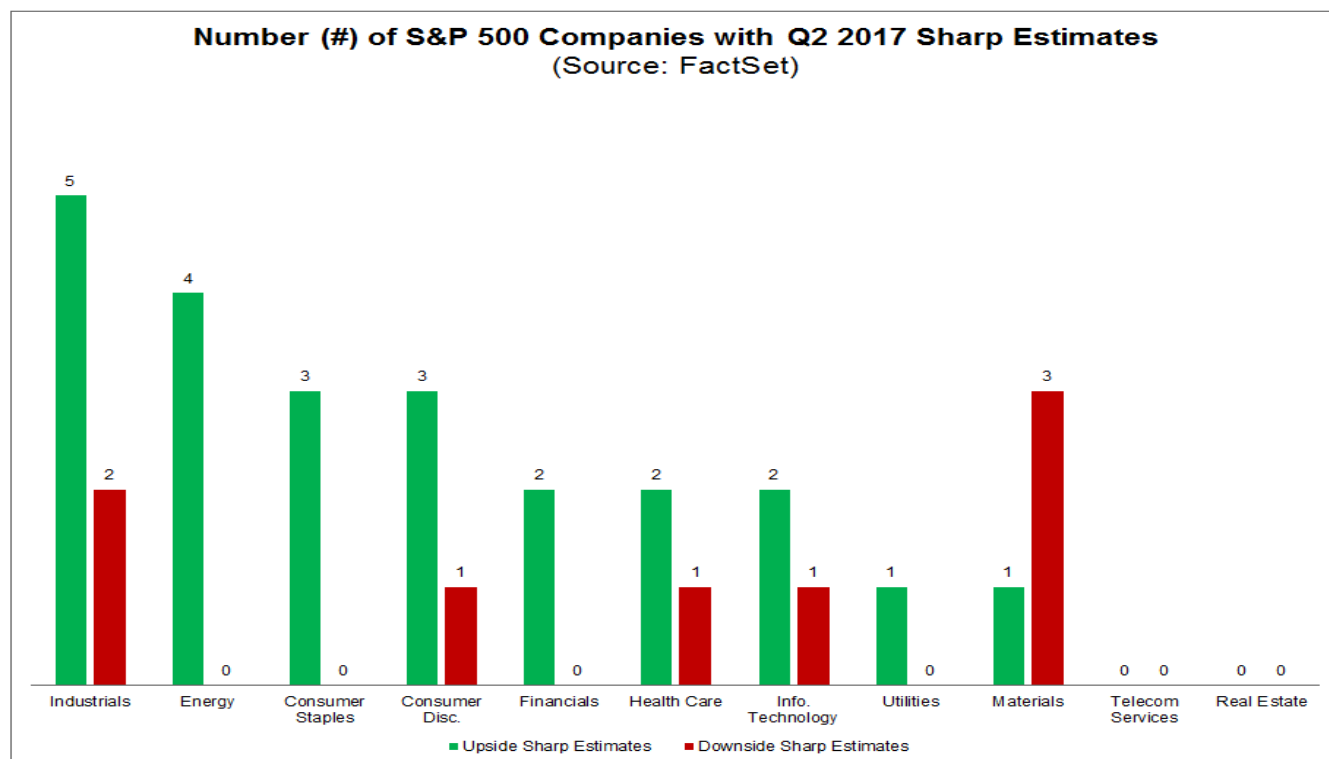
Q2 2017: Scorecard



Q2 2017: Scorecard

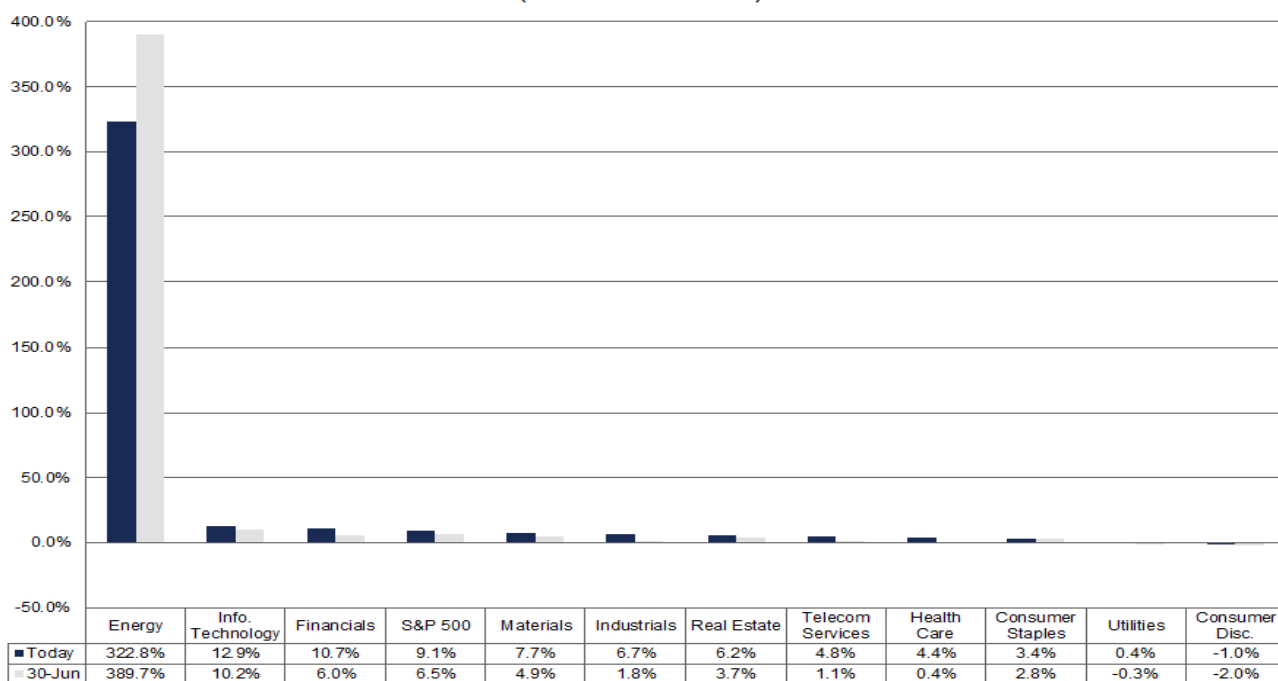


Q2 2017: Projected EPS Surprises (Sharp Estimates)

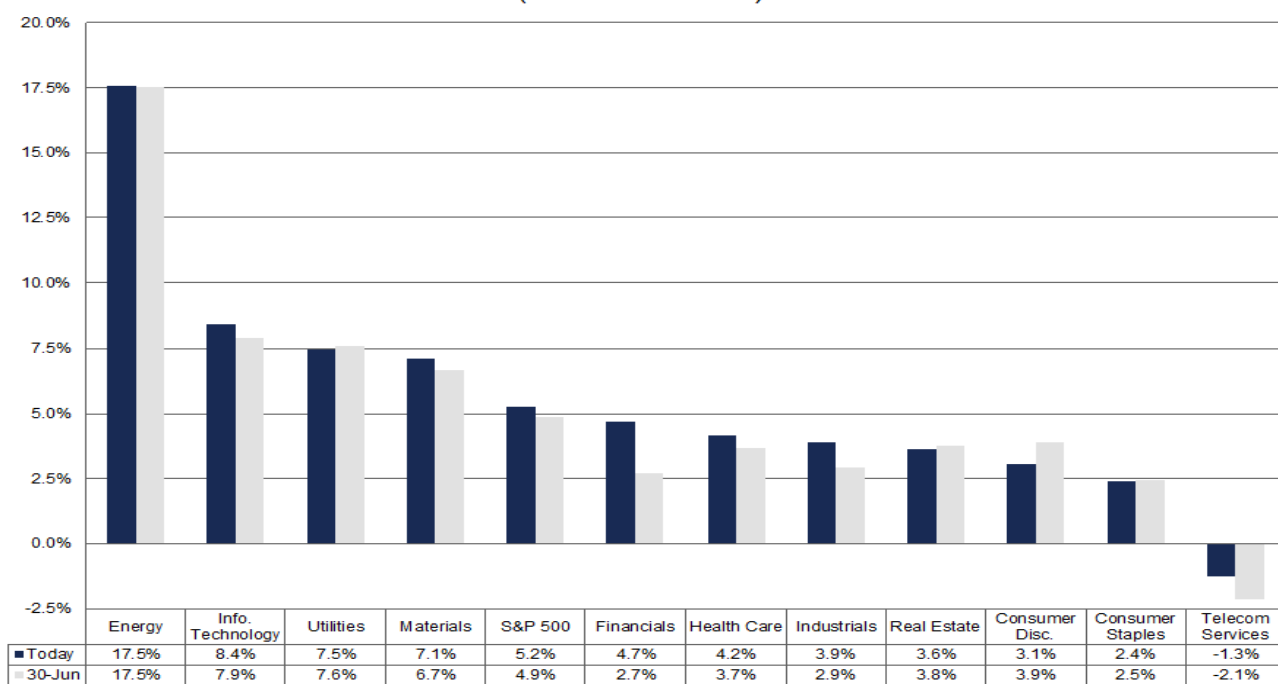


Q2 2017: Growth

S&P 500 Earnings Growth: Q2 2017
(Source: FactSet)

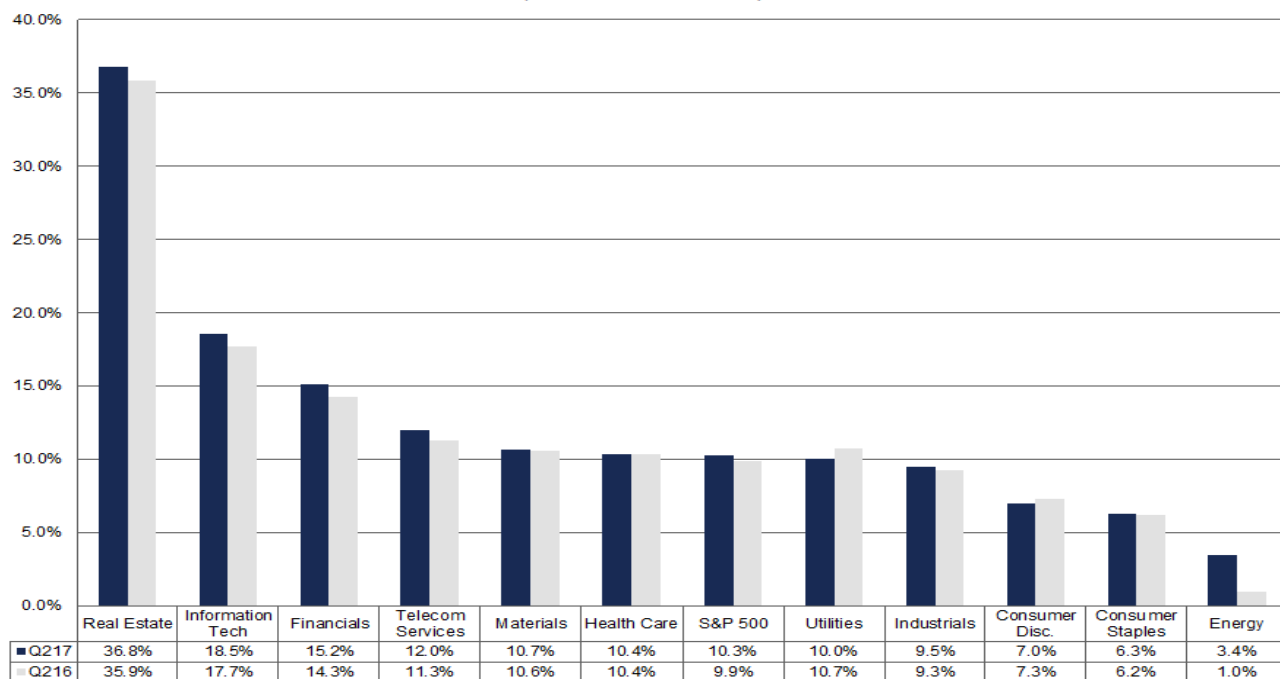


S&P 500 Revenue Growth: Q2 2017
(Source: FactSet)

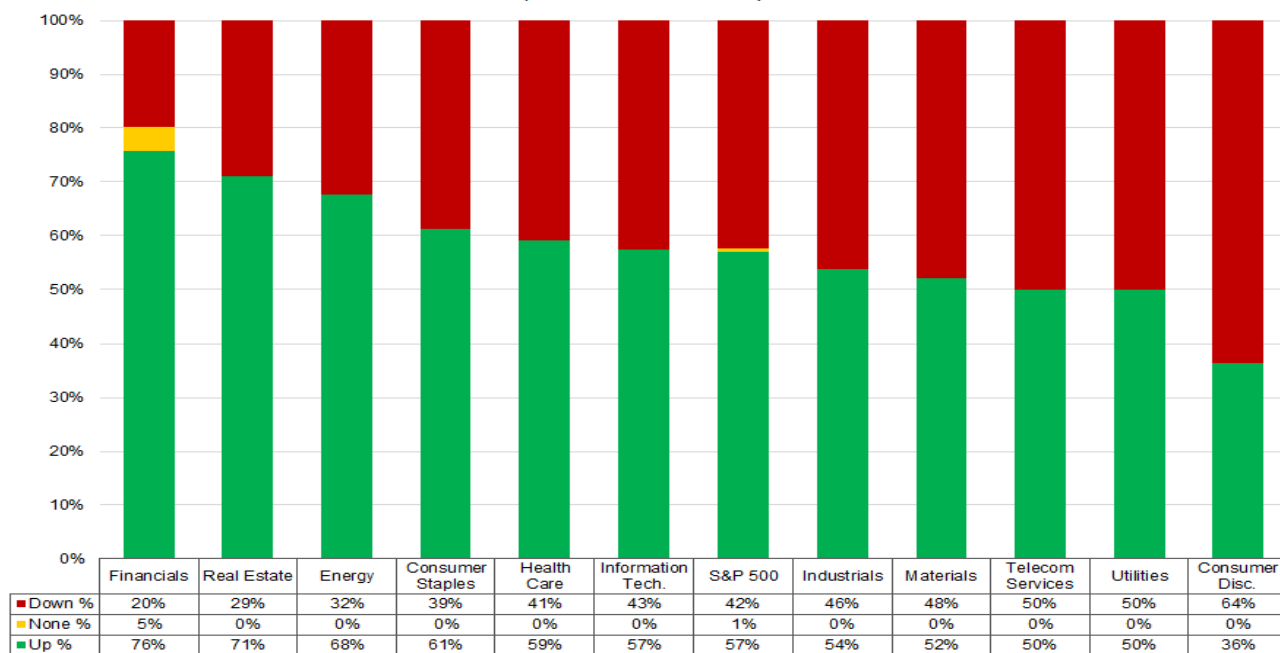


Q2 2017: Net Profit Margin

S&P 500 Net Profit Margins: Q217 vs. Q216
(Source: FactSet)

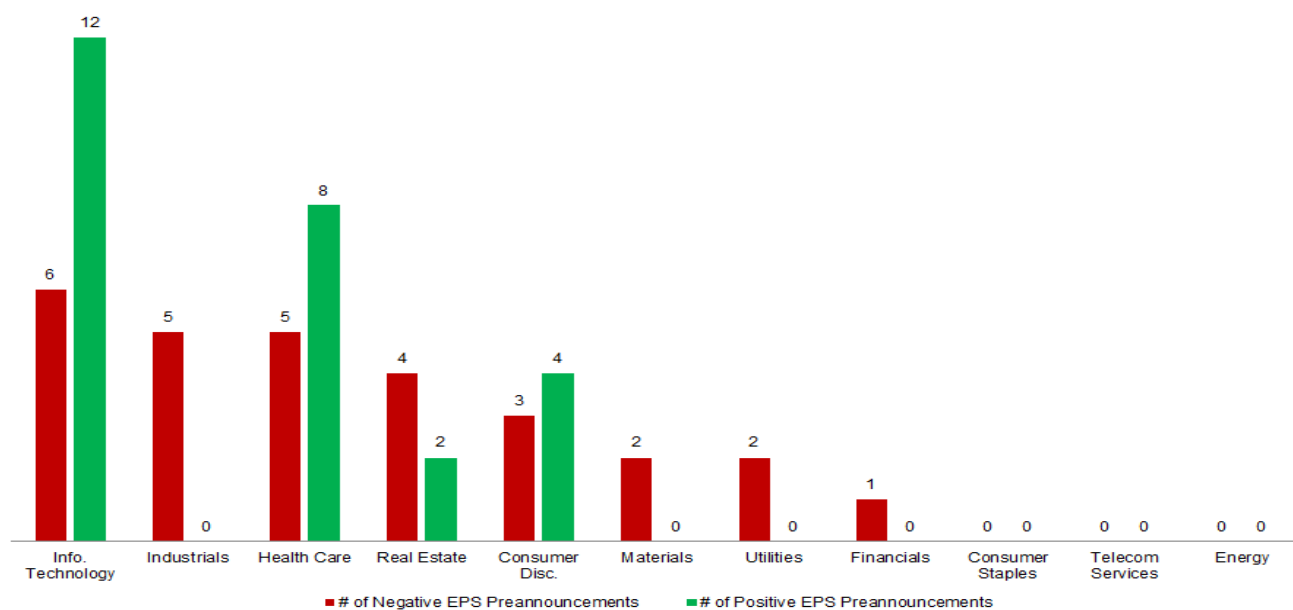


S&P 500: % of Cos. With Increase or Decrease in Net Profit Margin: Q217 vs. Q216
(Source: FactSet)

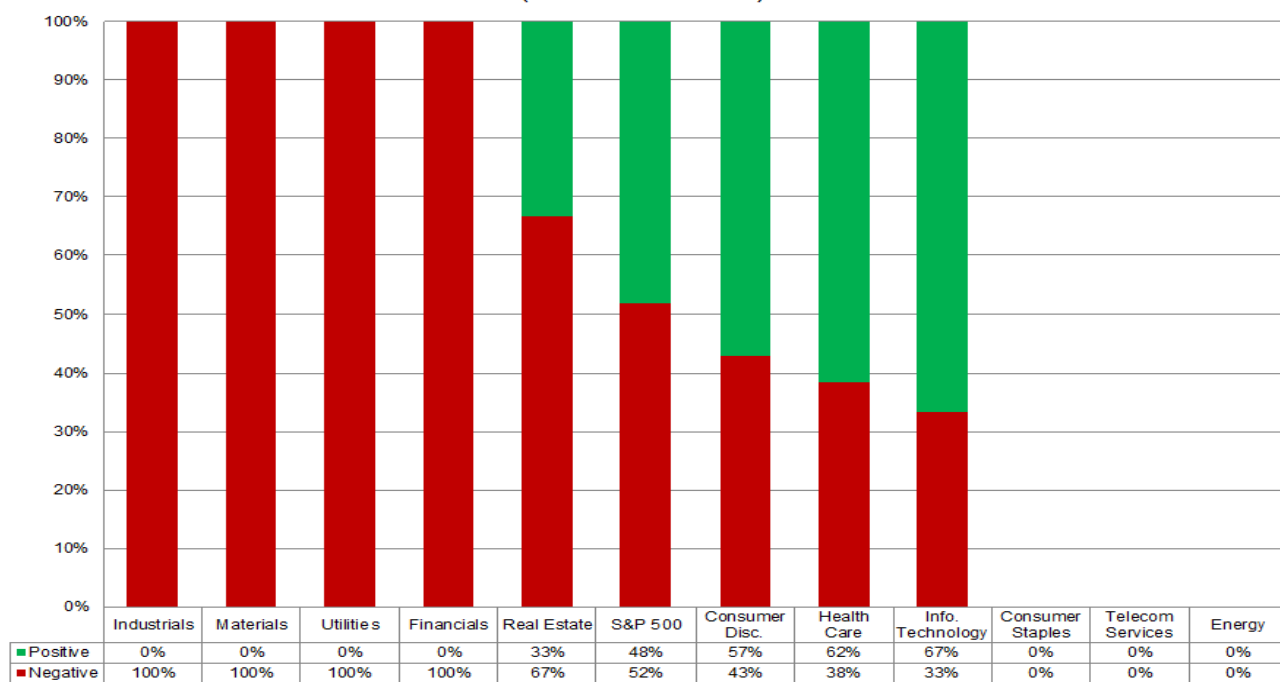


Q3 2017: Guidance

Number (#) of S&P 500 Cos. with Q3 Positive & Negative Guidance
(Source: FactSet)

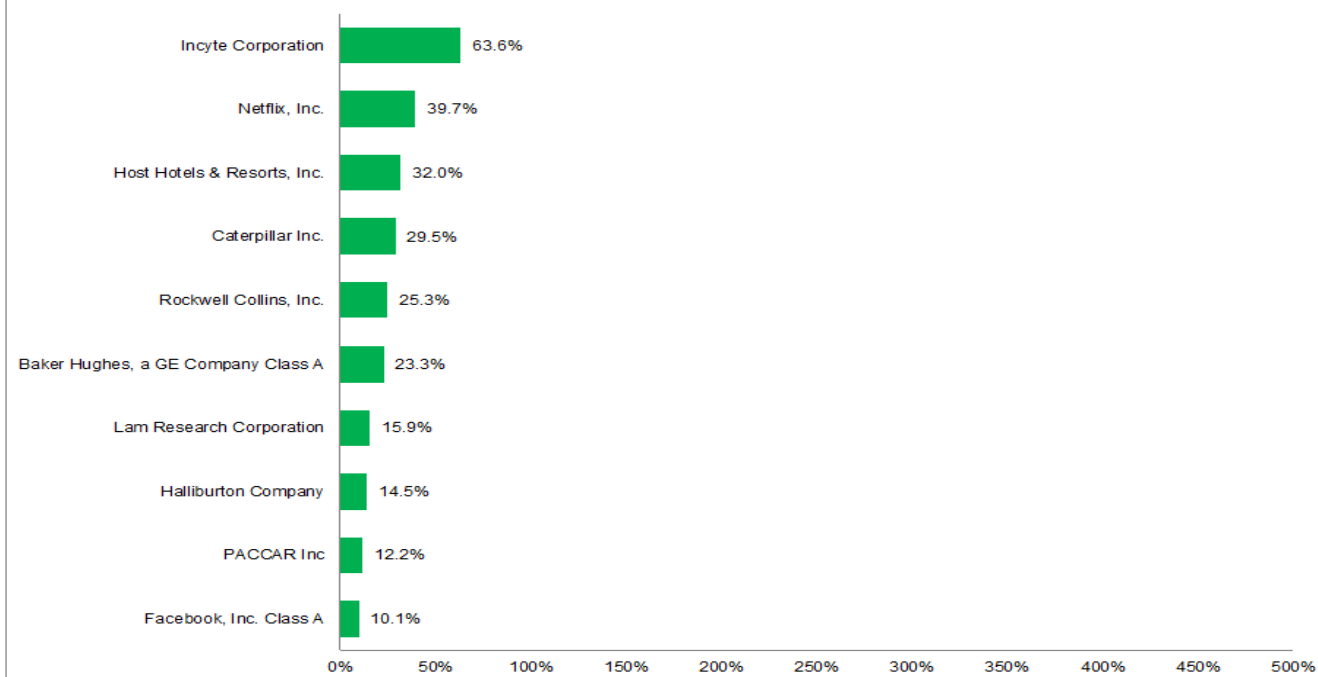


Percentage (%) of S&P 500 Cos. with Q3 Positive & Negative Guidance
(Source: FactSet)

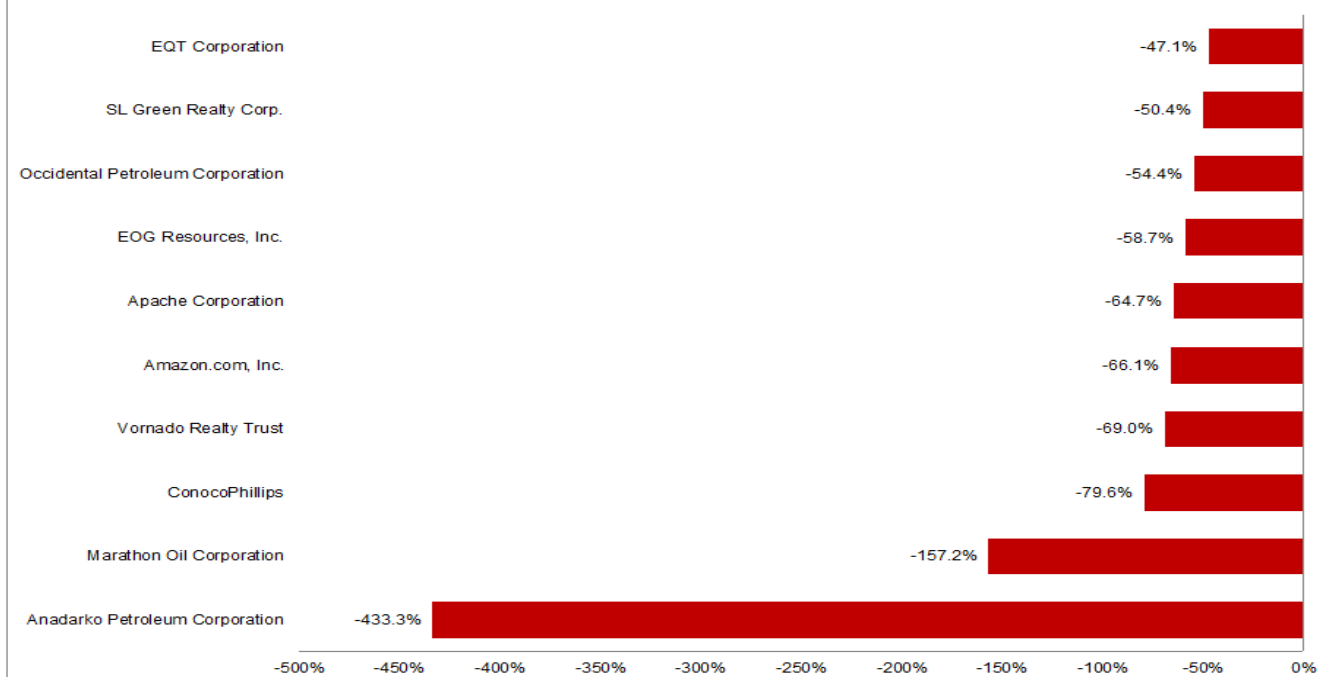


Q3 2017: EPS Revisions

Upward Change in Q3 EPS (Trailing 4 Weeks): Top 10 S&P 500 Cos.
(Source: FactSet)

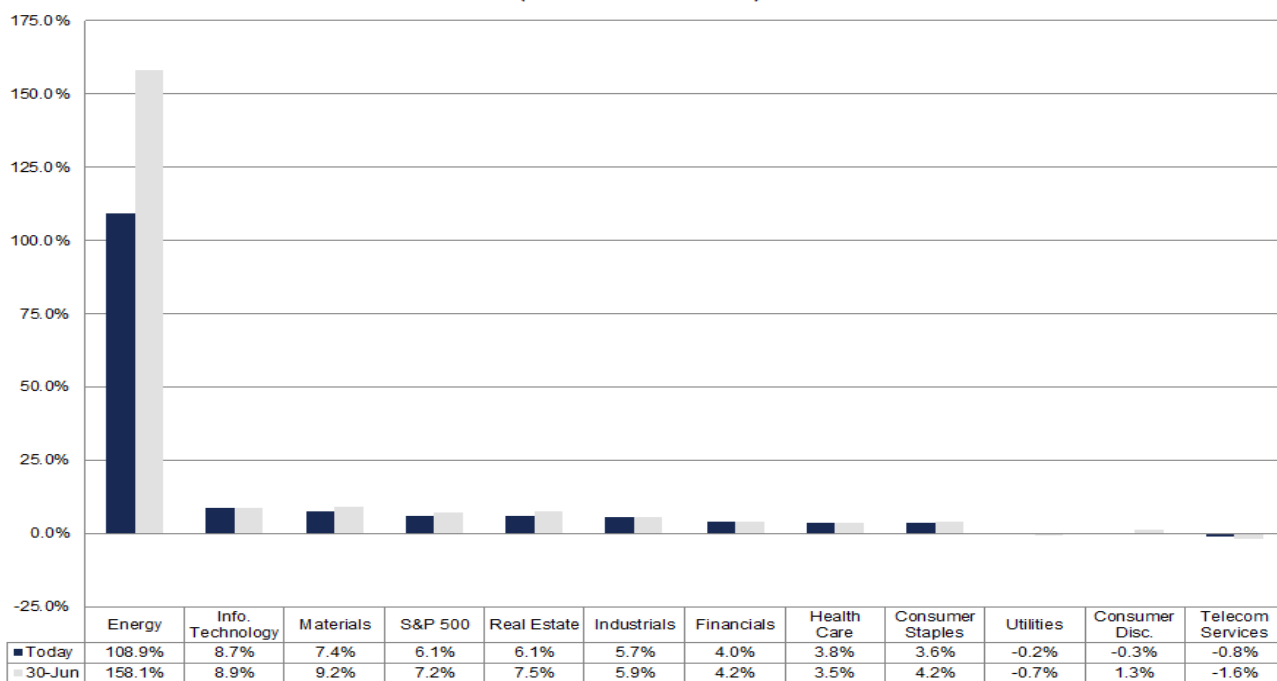


Downward Change in Q3 EPS (Trailing 4-Weeks): Top 10 S&P 500 Cos.
(Source: FactSet)

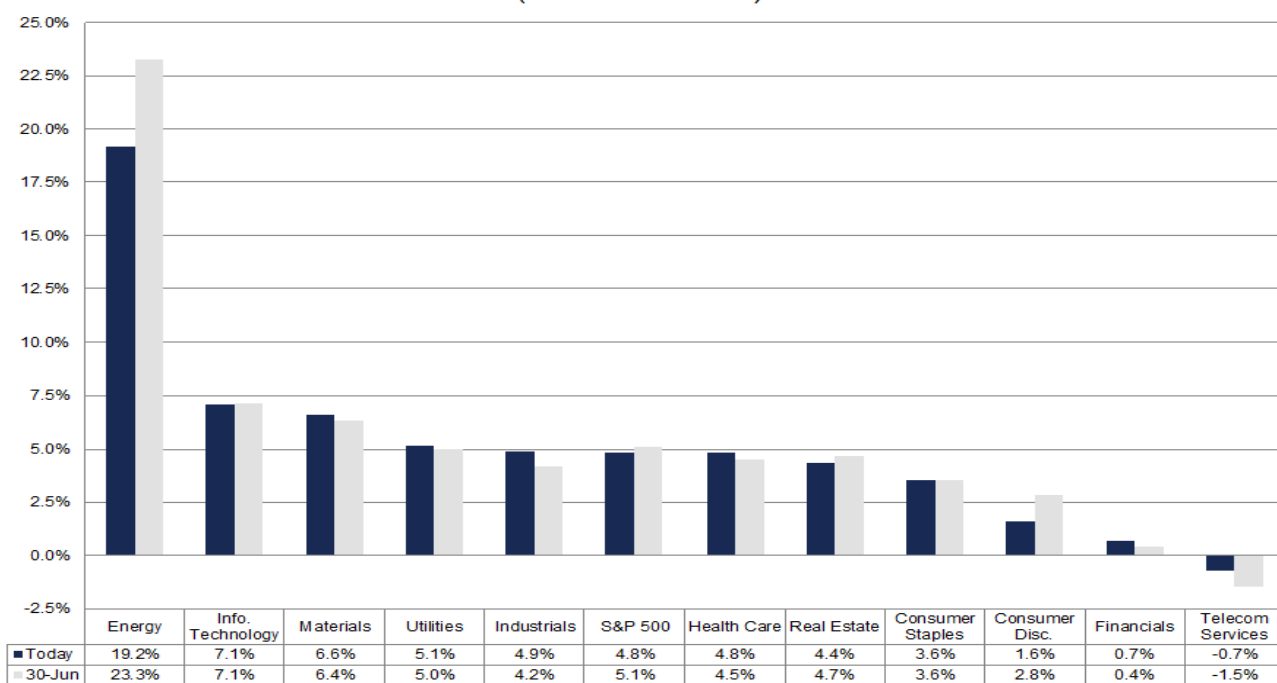


Q3 2017: Growth

S&P 500 Earnings Growth: Q3 2017
(Source: FactSet)

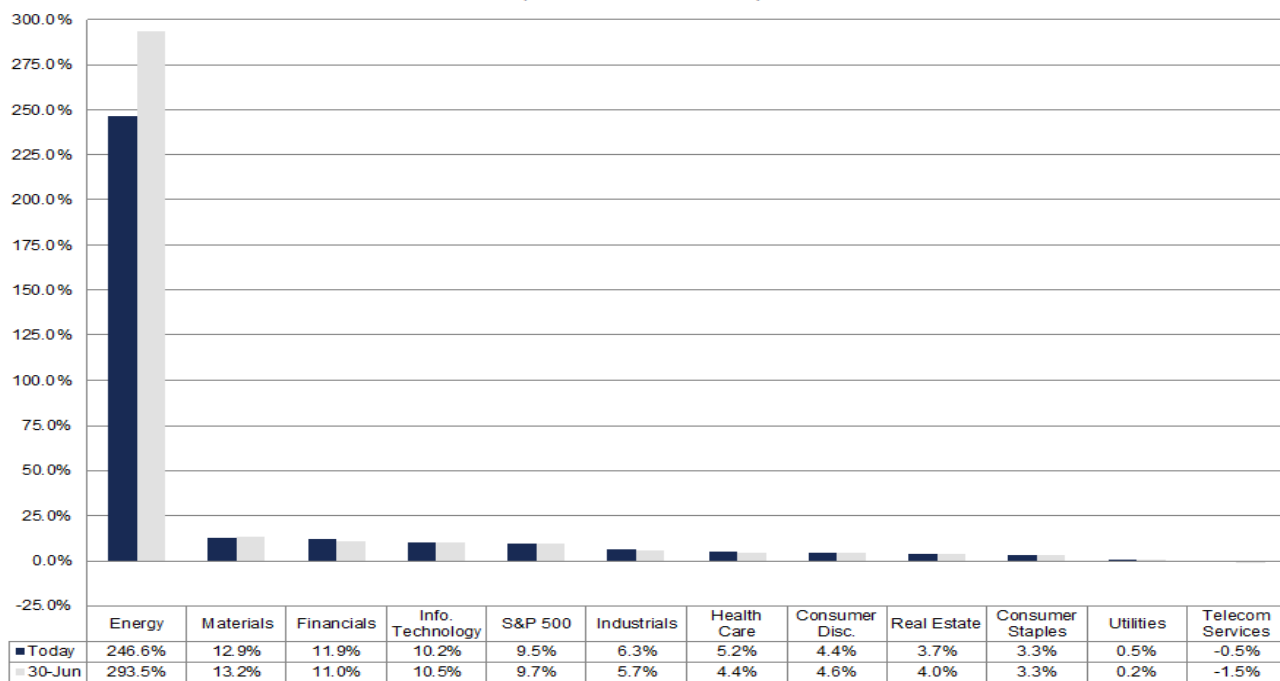


S&P 500 Revenue Growth: Q3 2017
(Source: FactSet)

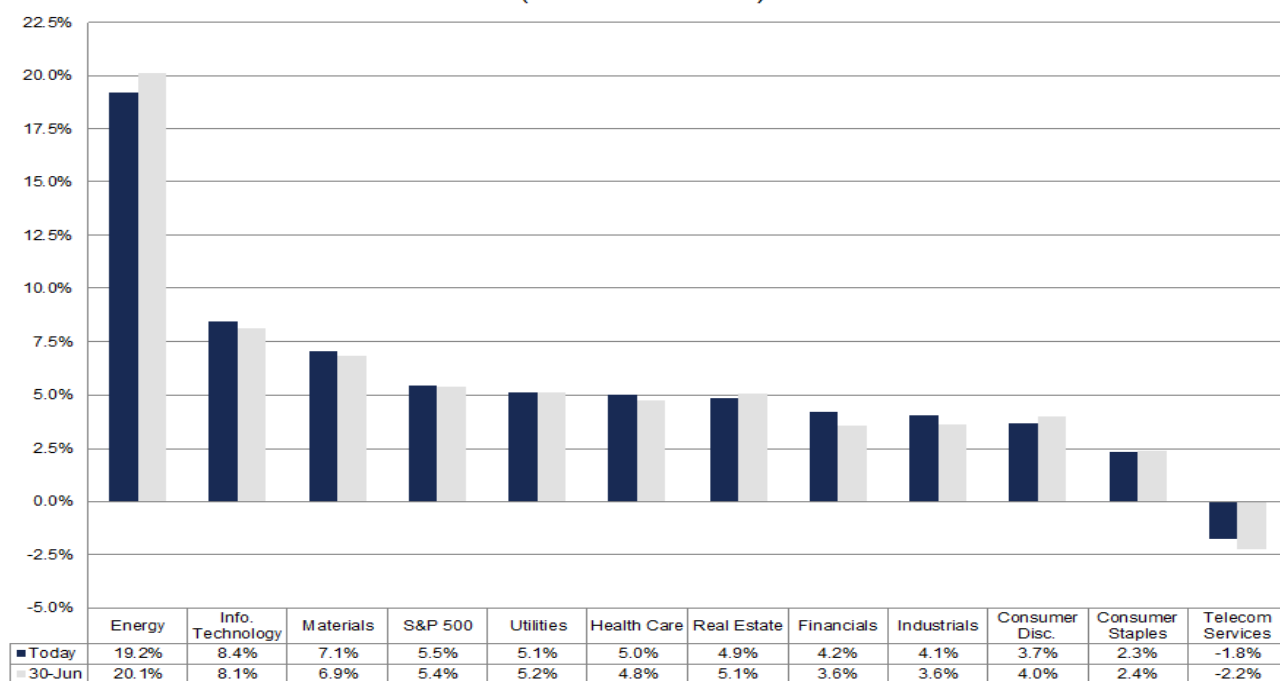


CY 2017: Growth

S&P 500 Earnings Growth: CY 2017
(Source: FactSet)

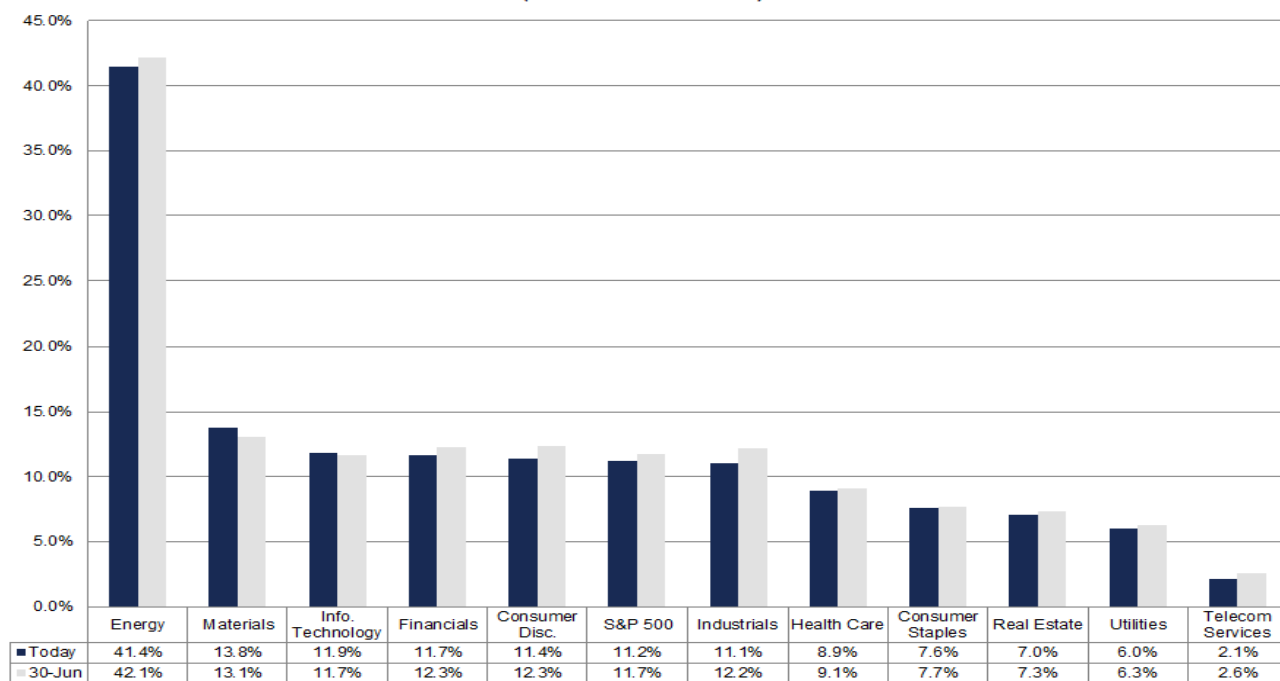


S&P 500 Revenue Growth: CY 2017
(Source: FactSet)

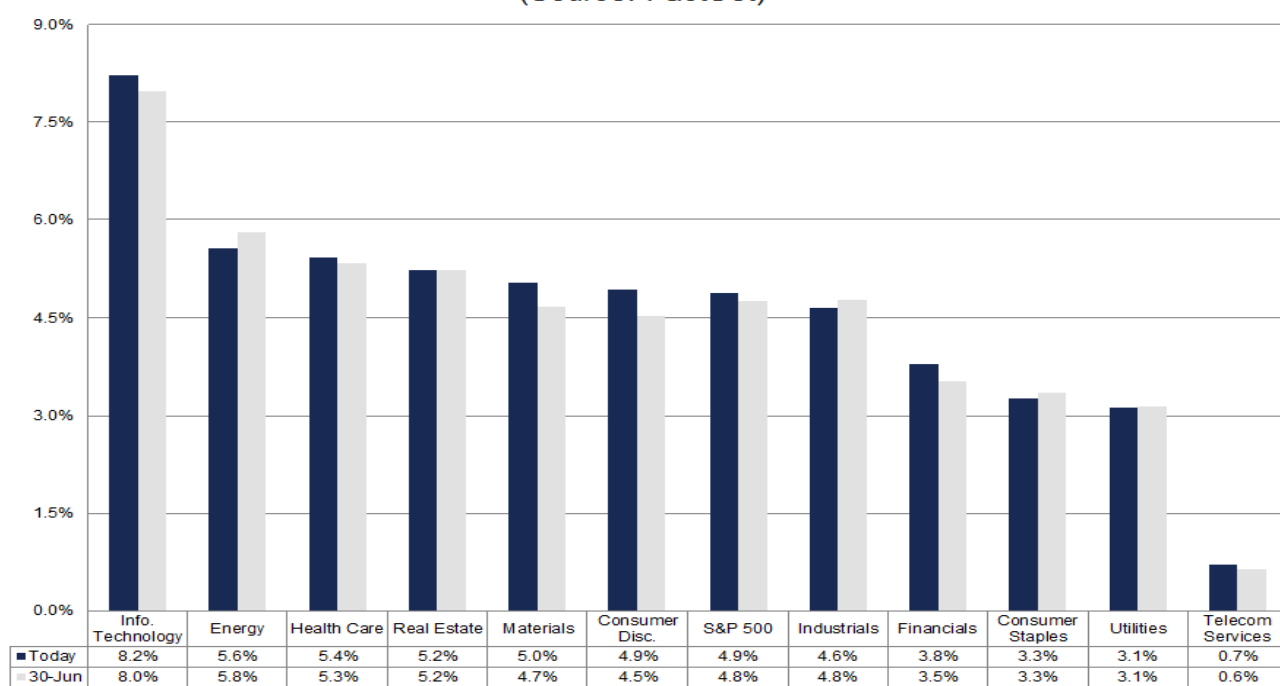


CY 2018: Growth

S&P 500 Earnings Growth: CY 2018
(Source: FactSet)

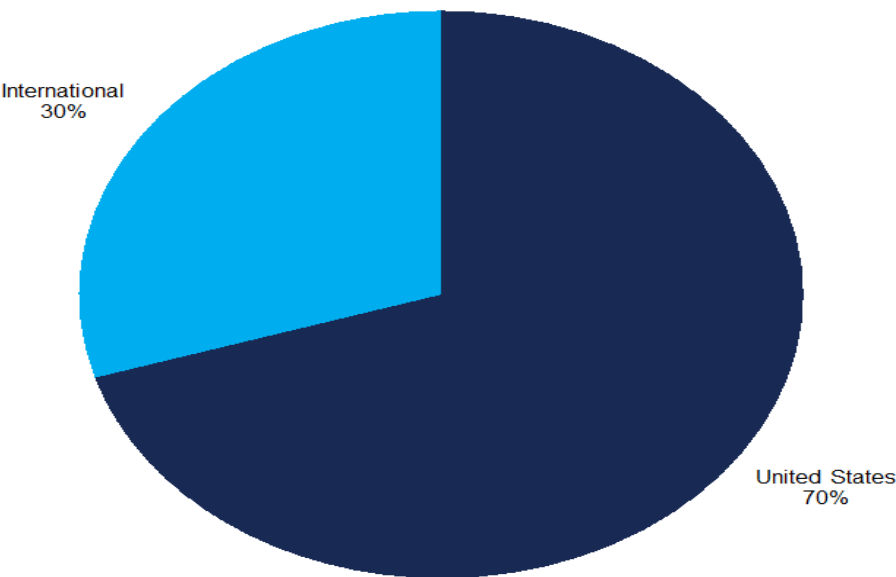


S&P 500 Revenue Growth: CY 2018
(Source: FactSet)

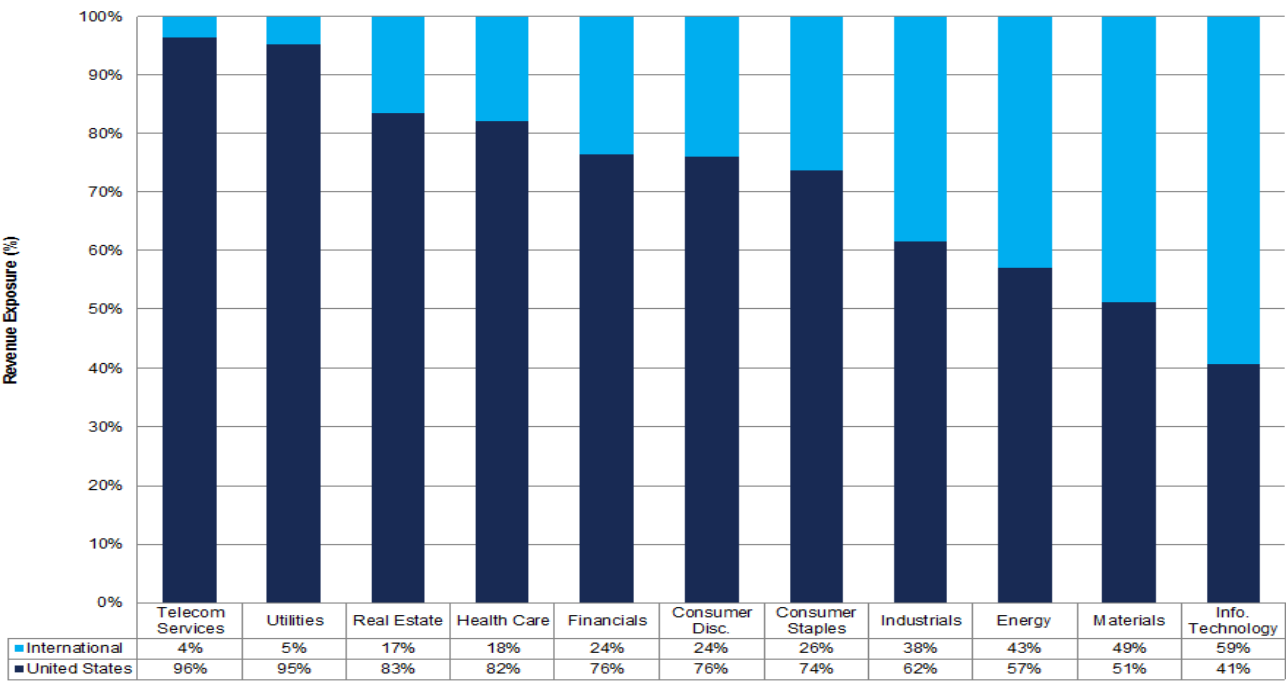


Geographic Revenue Exposure

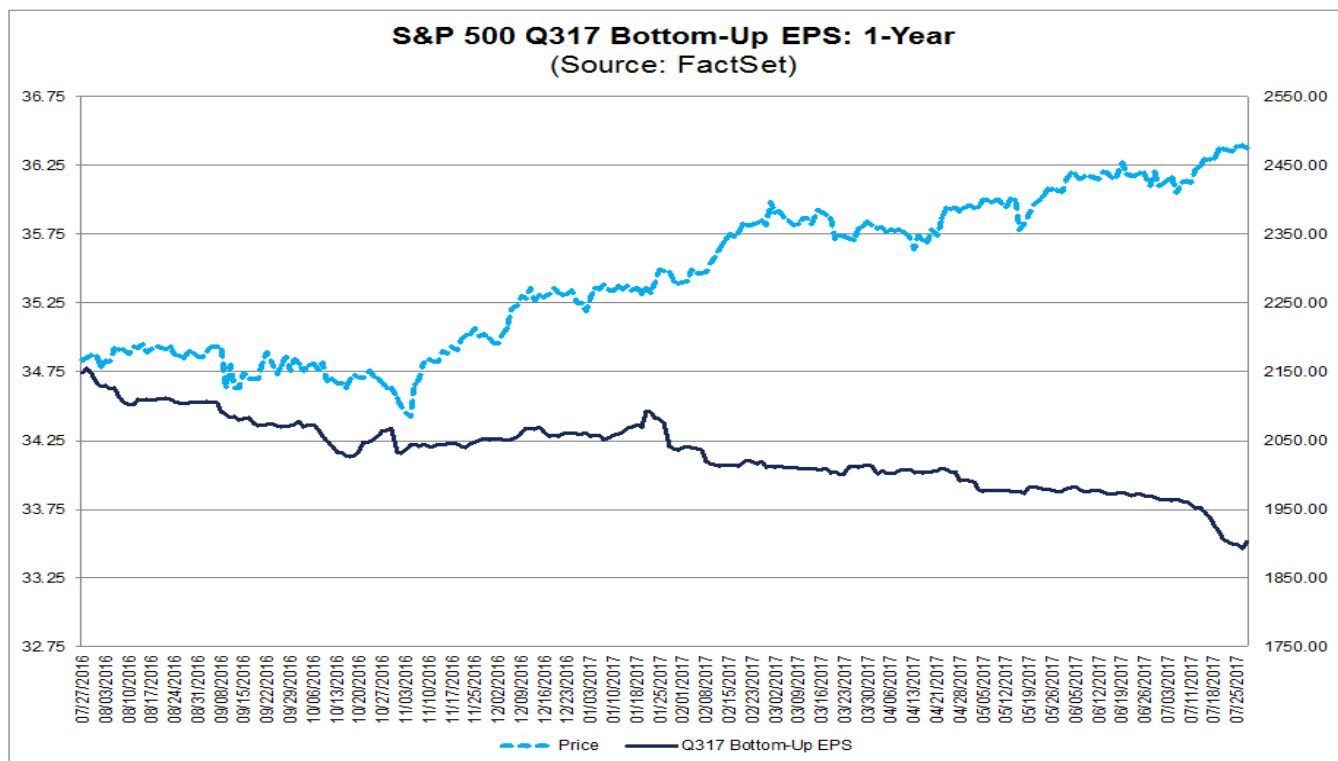
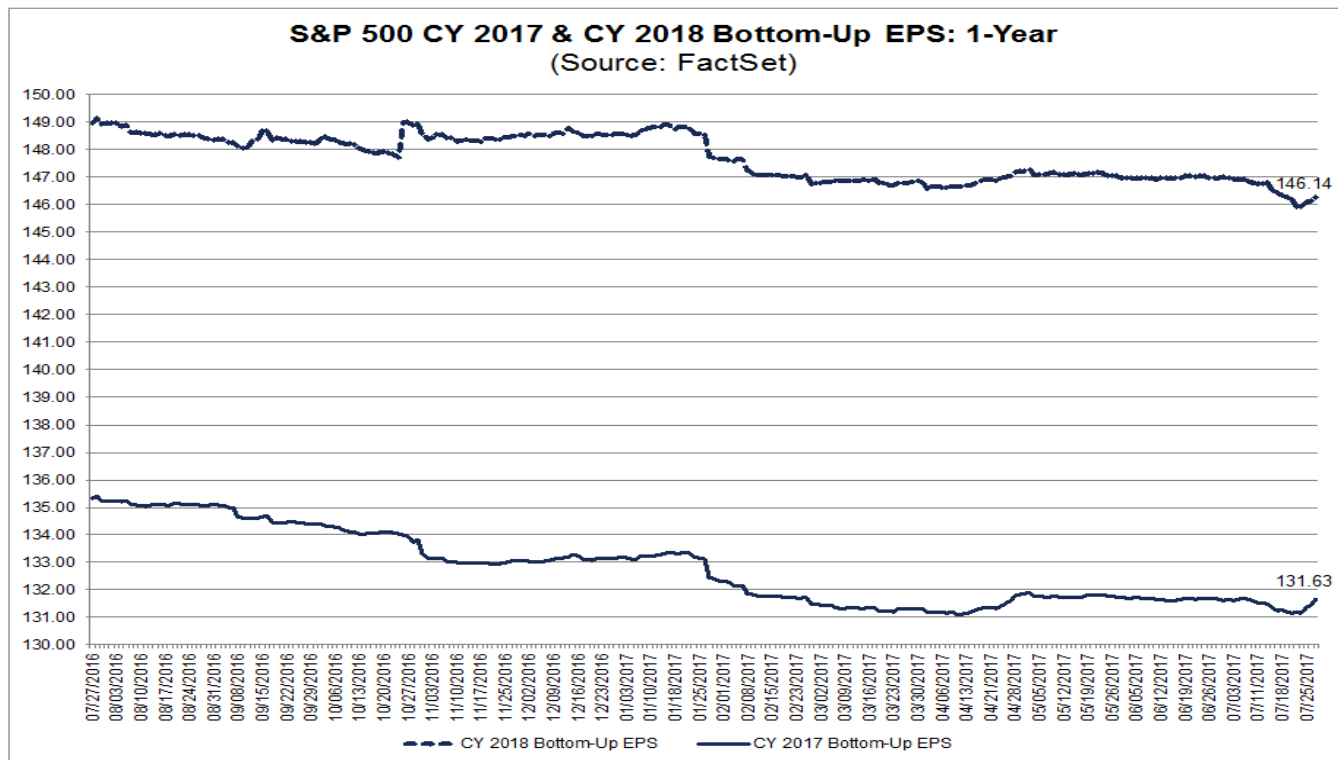
S&P 500: Aggregate Geographic Revenue Exposure (%)
(Source: FactSet)



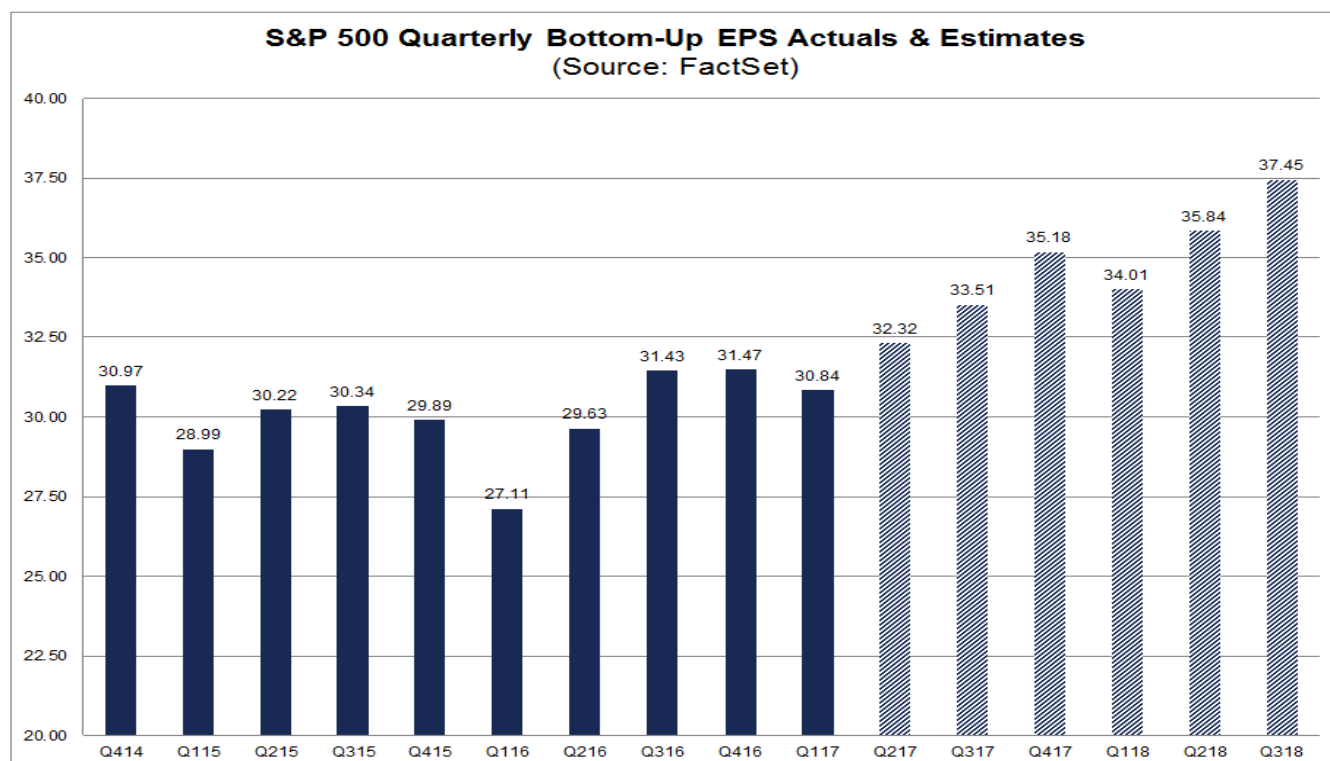
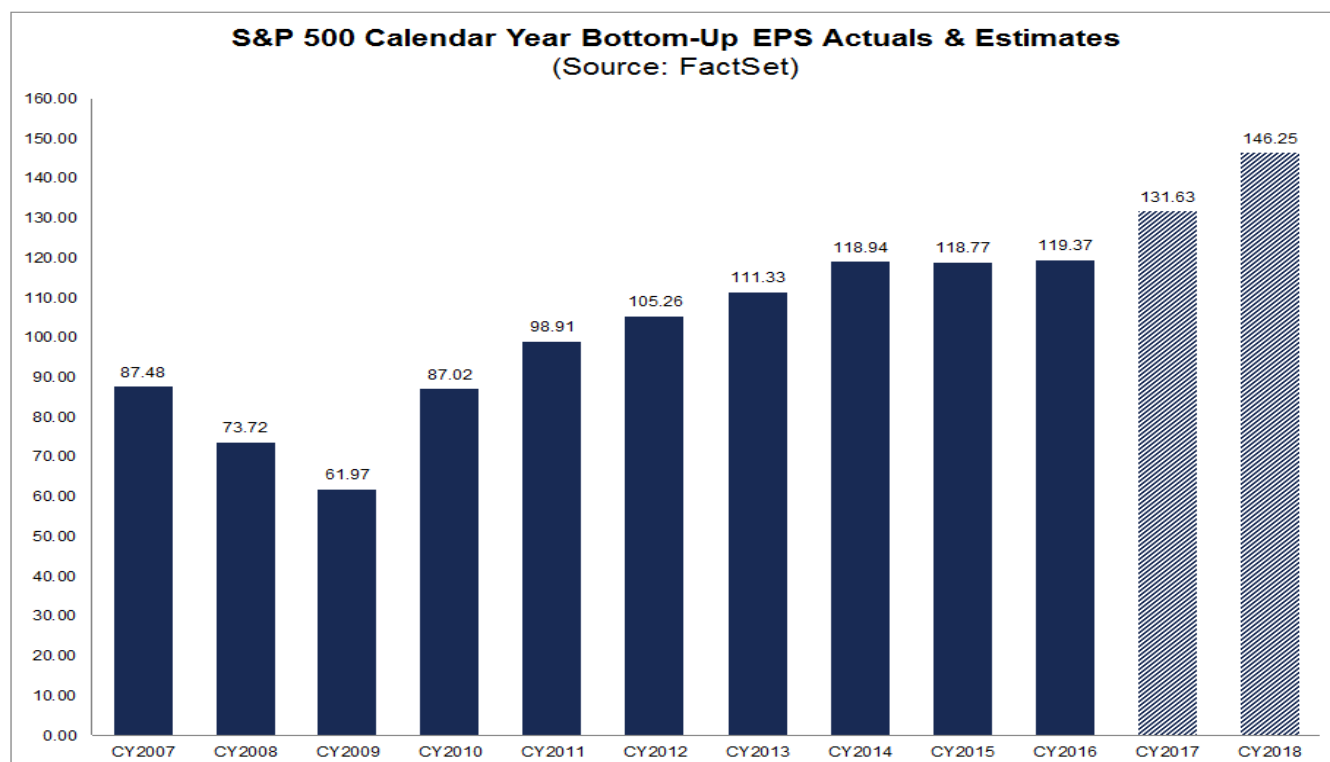
S&P 500: Aggregate Sector Geographic Revenue Exposure (%)
(Source: FactSet)



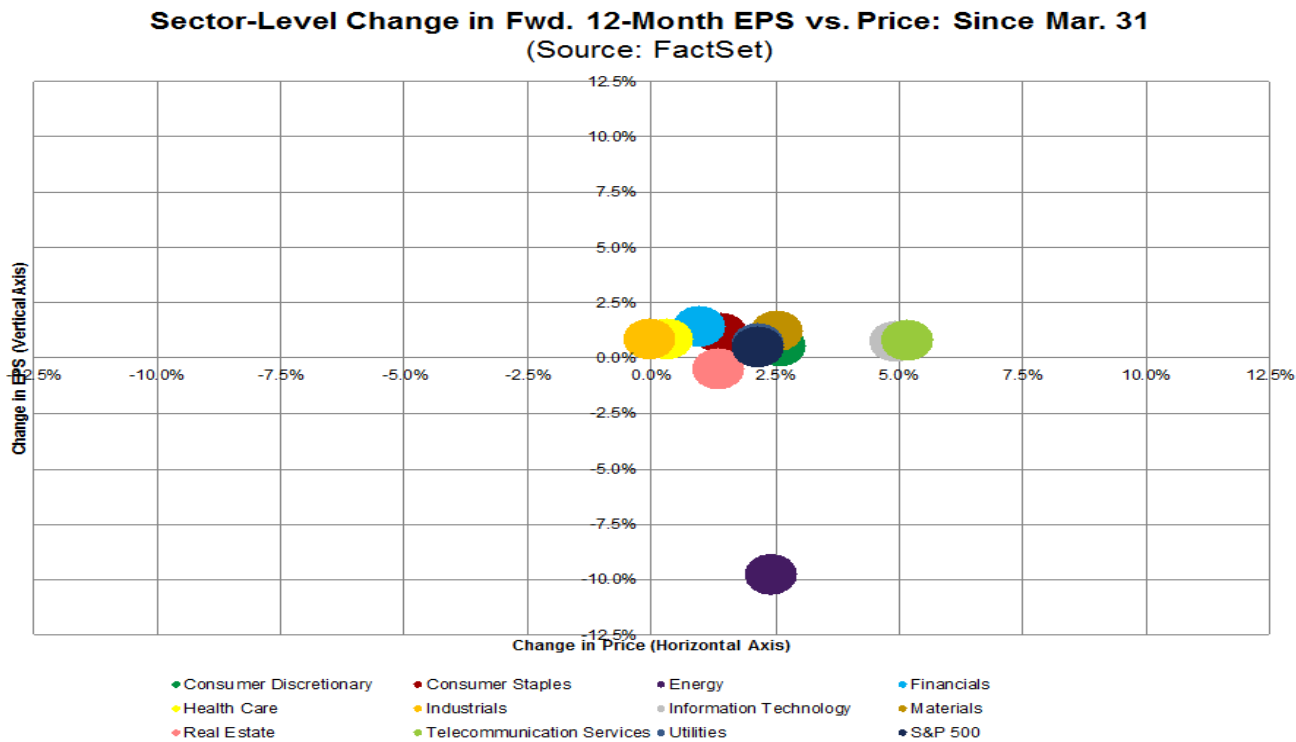
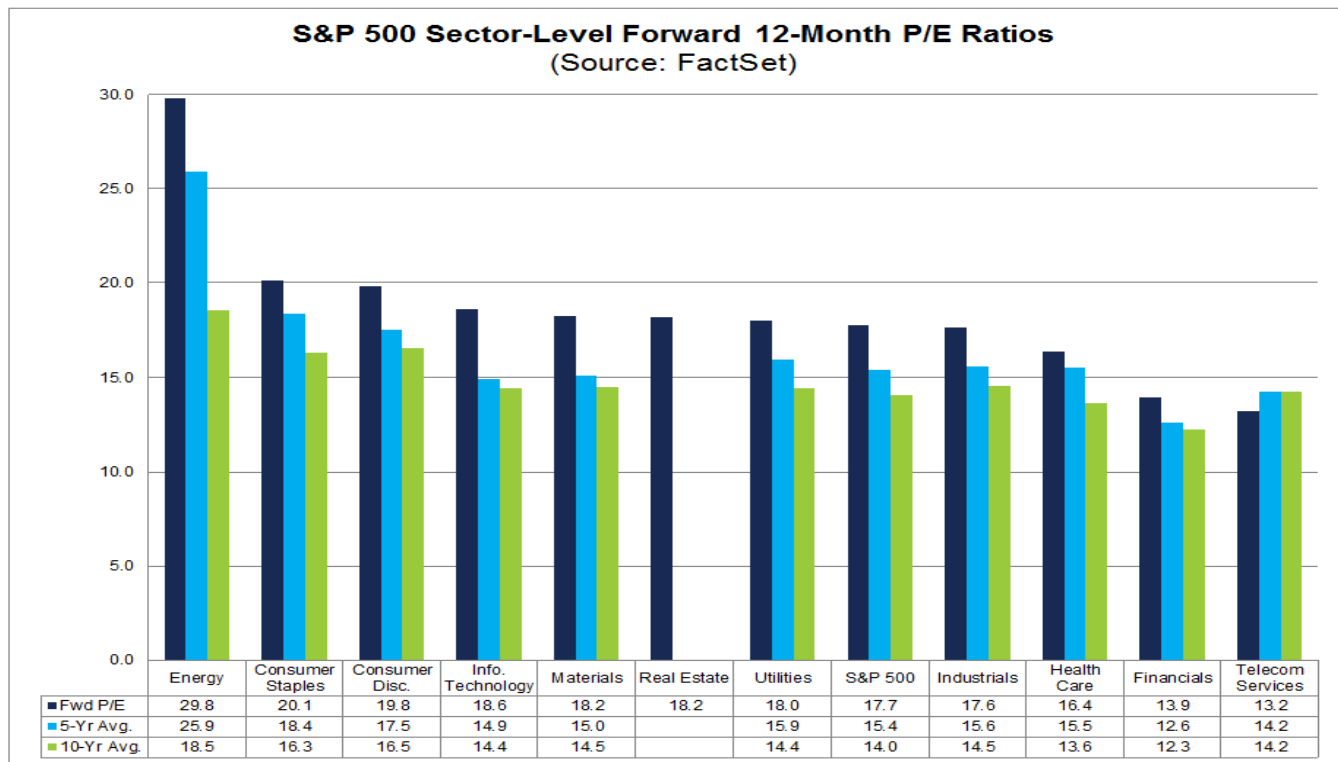
Bottom-up EPS Estimates: Revisions



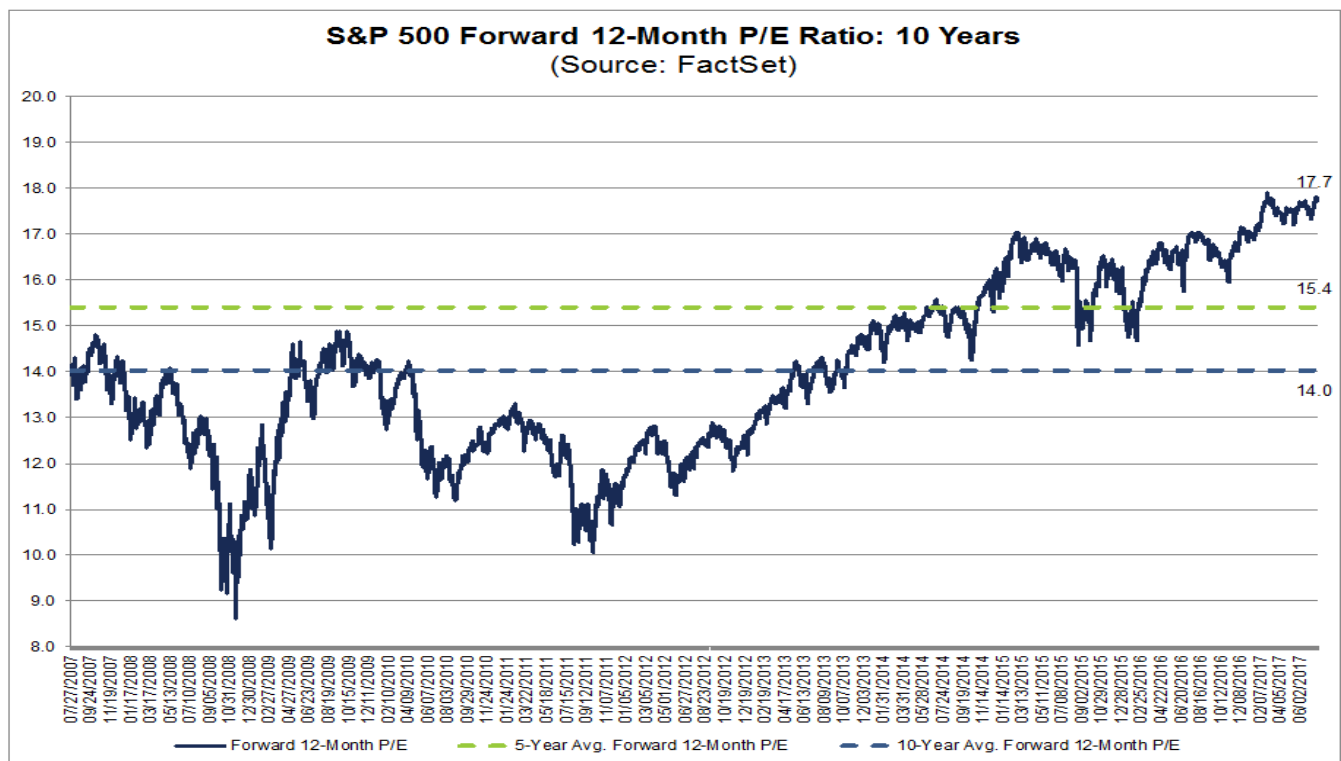
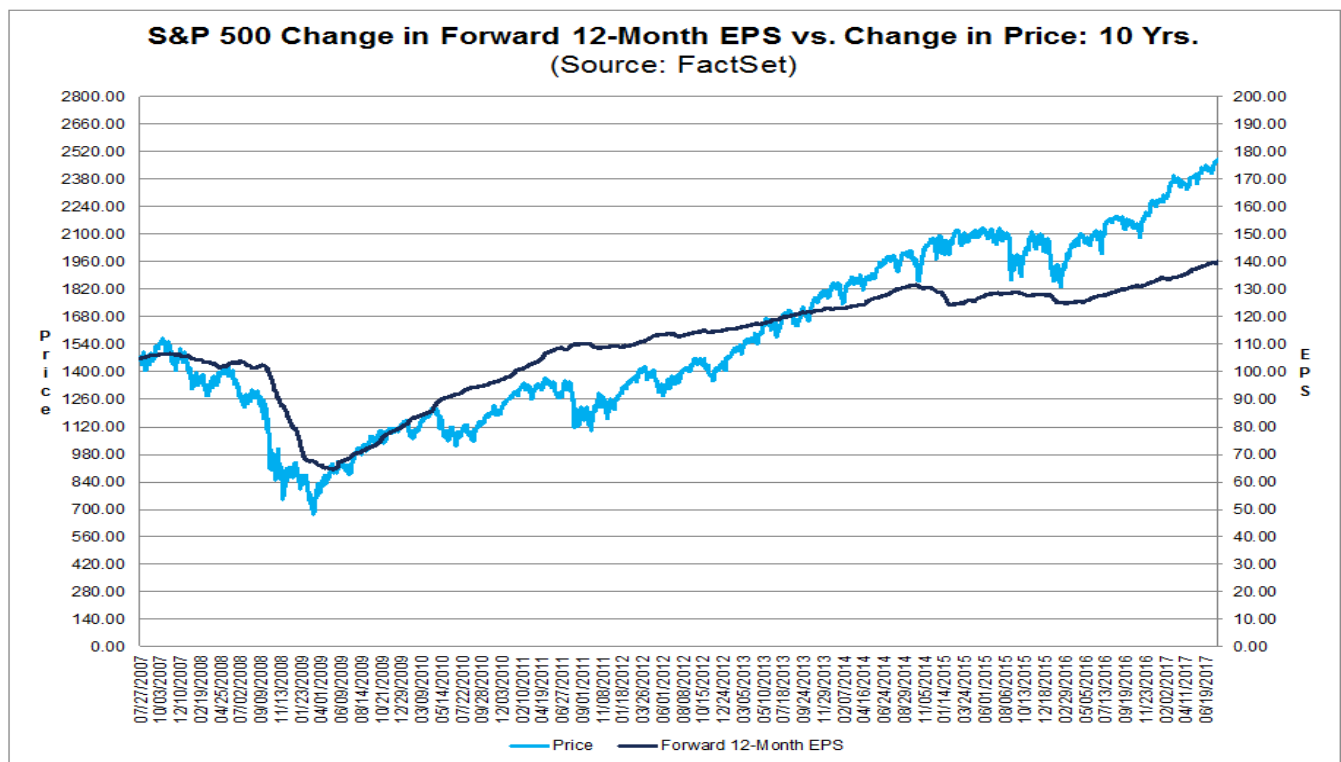
Bottom-up EPS Estimates: Current & Historical



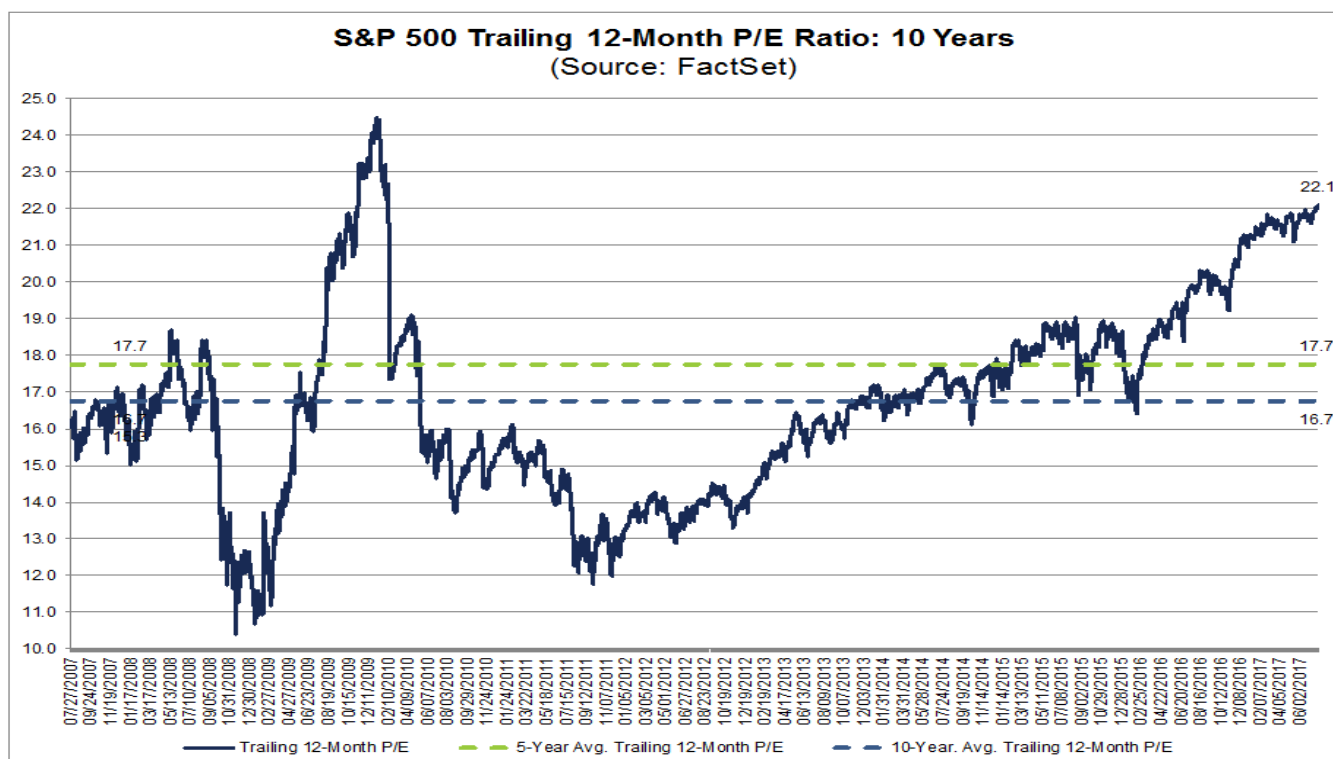
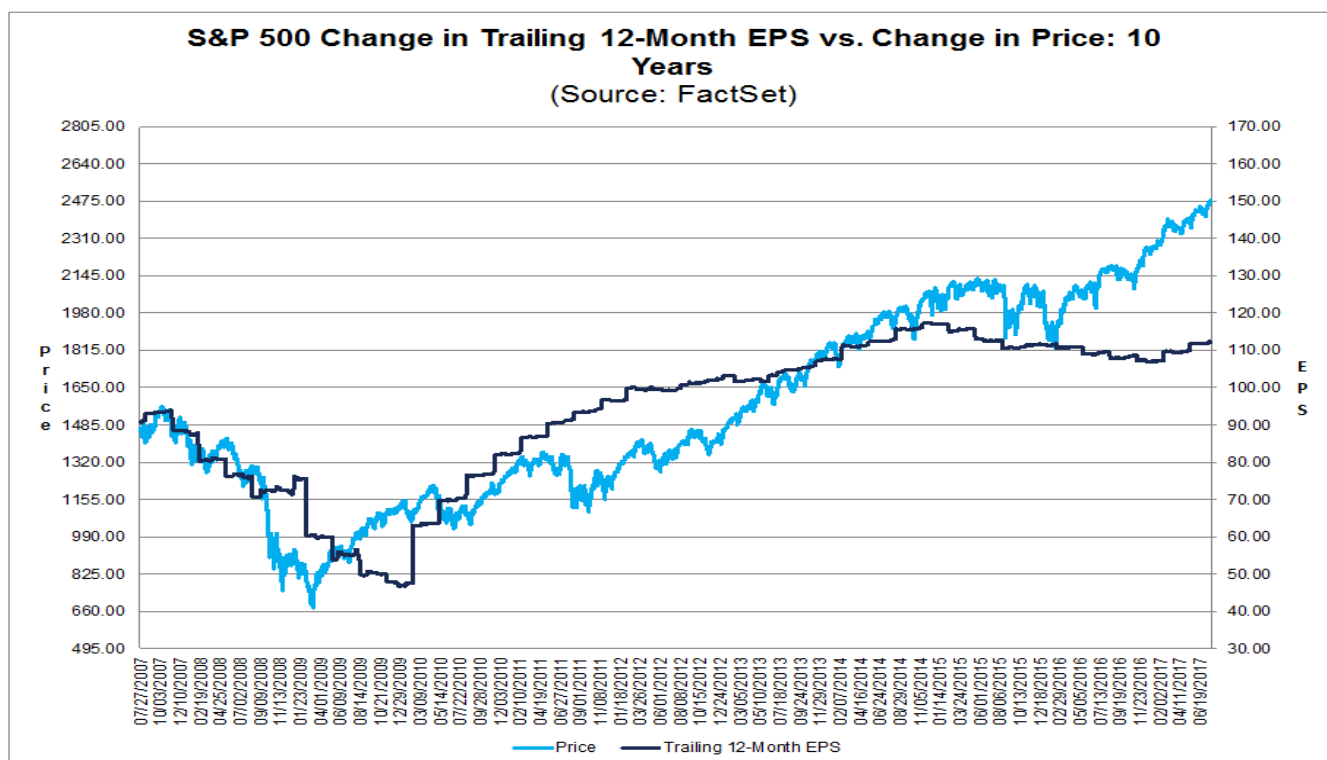
Forward 12M P/E Ratio: Sector Level



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

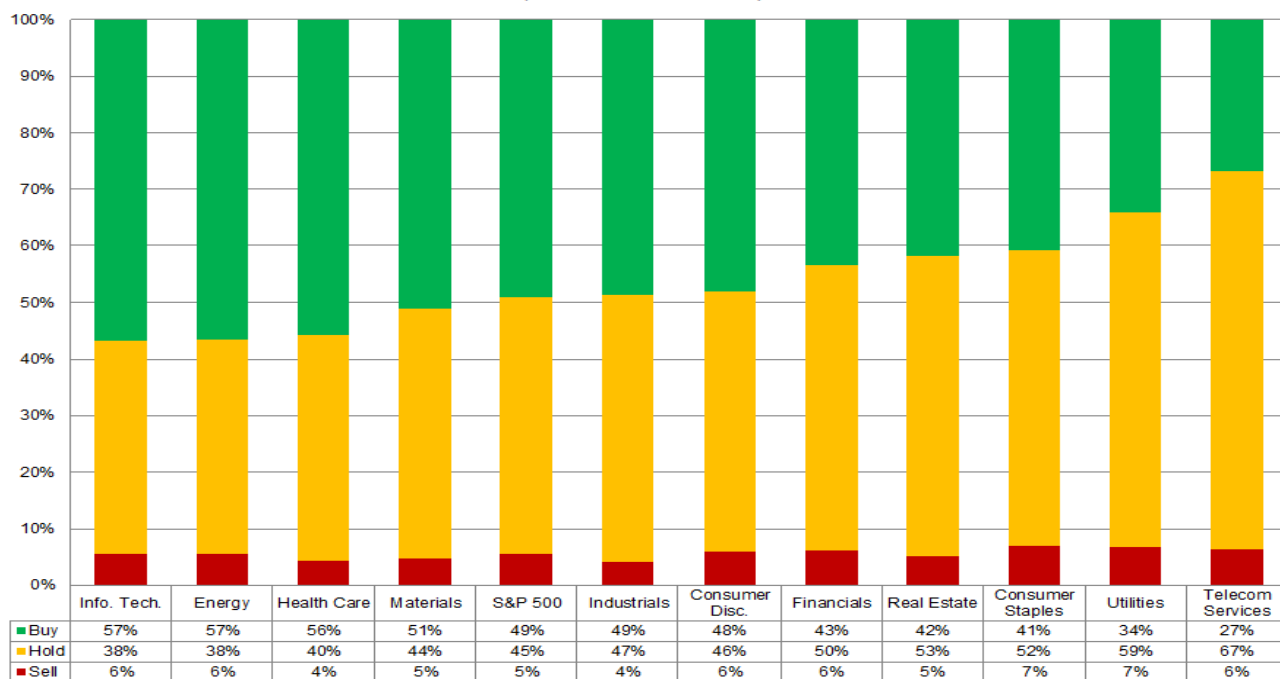


Trailing 12M P/E Ratio: Long-Term Averages

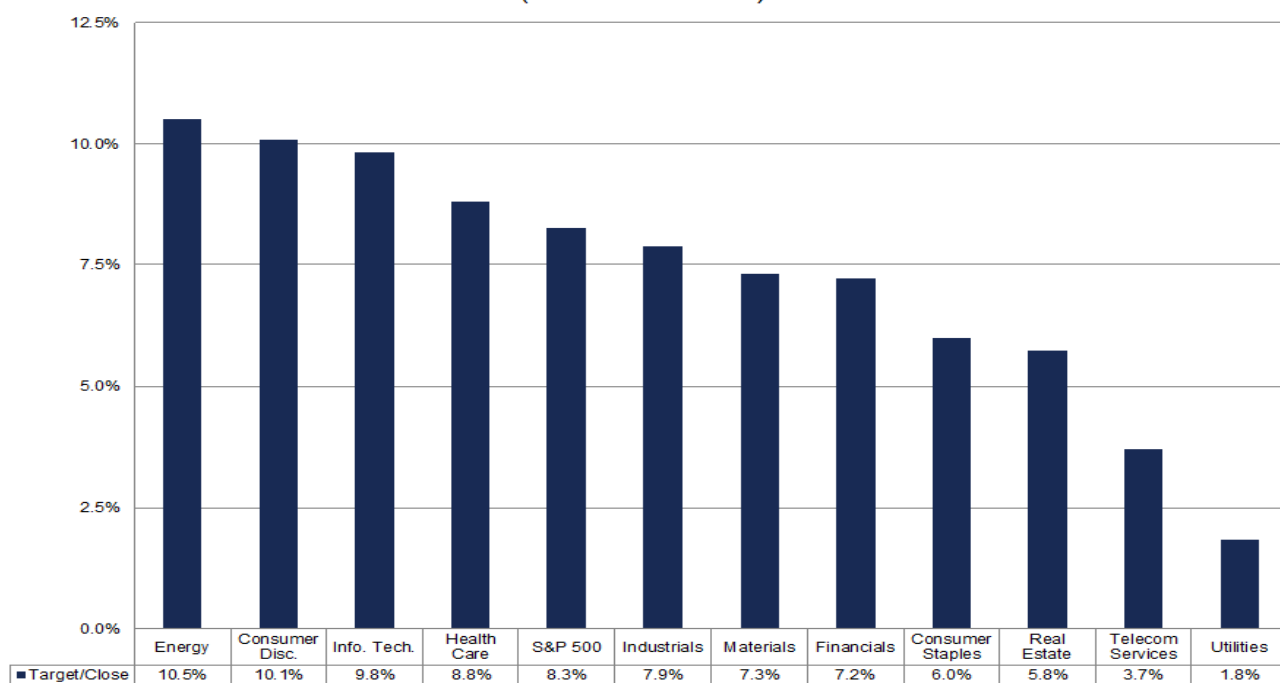


Targets & Ratings

S&P 500: Percentage of Buy, Hold, and Sell Ratings
(Source: FactSet)



S&P 500 Sector-Level Bottom-Up Target Price vs. Closing Price
(Source: FactSet)



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