

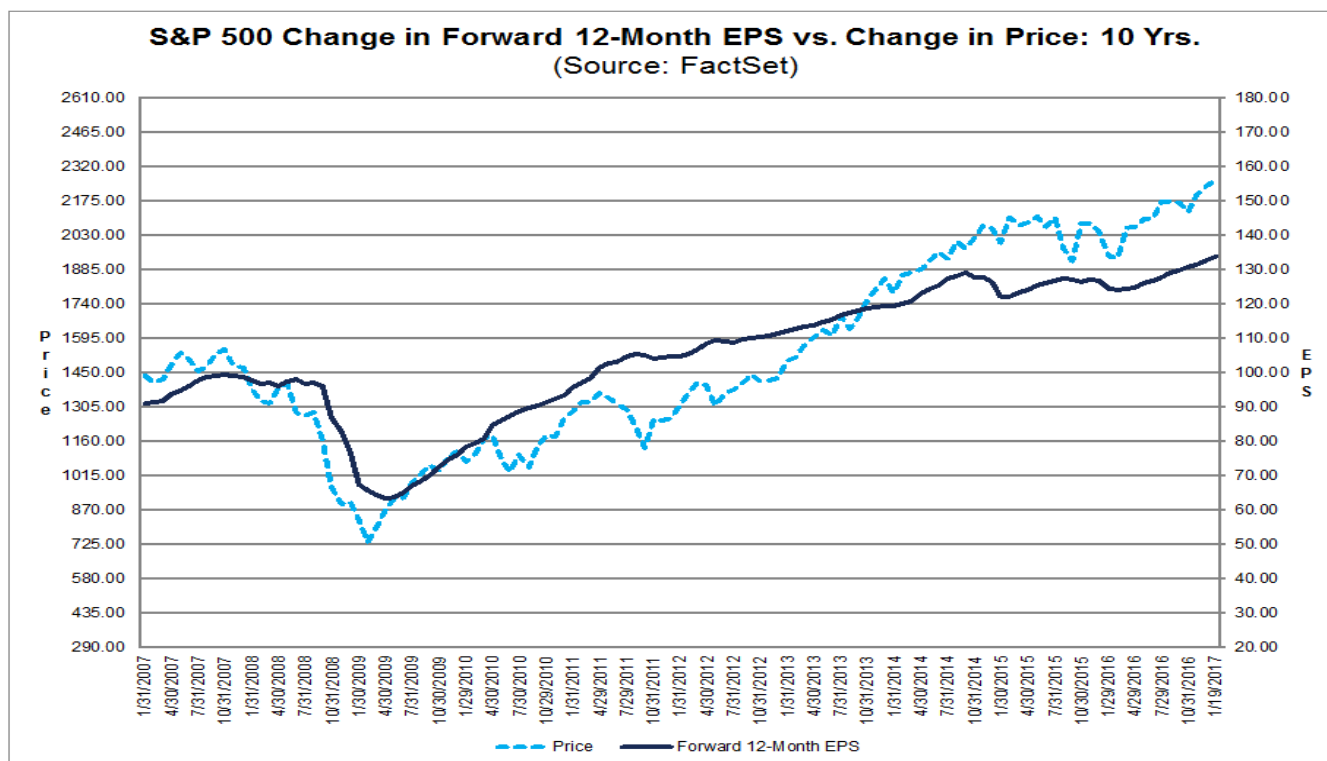
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January 20, 2017

## Key Metrics

- Earnings Scorecard:** As of today (with 12% of the companies in the S&P 500 reporting actual results for Q4 2016), 61% of S&P 500 companies have beat the mean EPS estimate and 47% of S&P 500 companies have beat the mean sales estimate.
- Earnings Growth:** For Q4 2016, the blended earnings growth rate for the S&P 500 is 3.4%. If the index reports earnings growth for Q4, it will mark the first time the index has seen year-over-year growth in earnings for two consecutive quarters since Q4 2014 and Q1 2015.
- Earnings Revisions:** On December 31, the estimated earnings growth rate for Q4 2016 was 3.0%. Six of the eleven sectors have higher growth rates today (compared to December 31) due to upside earnings surprises and upward revisions to earnings estimates, led by the Financials sector.
- Earnings Guidance:** For Q1 2017, 3 S&P 500 companies have issued negative EPS guidance and 6 S&P 500 companies have issued positive EPS guidance.
- Valuation:** The forward 12-month P/E ratio for the S&P 500 is 16.9. This P/E ratio is based on Thursday's closing price (2263.69) and forward 12-month EPS estimate (\$133.84).



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## Topic of the Week:

### What Potential Policy Changes of Trump Administration Are S&P Companies Citing in Q4 Calls?

With Inauguration Day today, politics and government policy will continue to be a focus area for the markets. Over the past few months, President Trump has outlined a number of areas for potential changes in government policy.

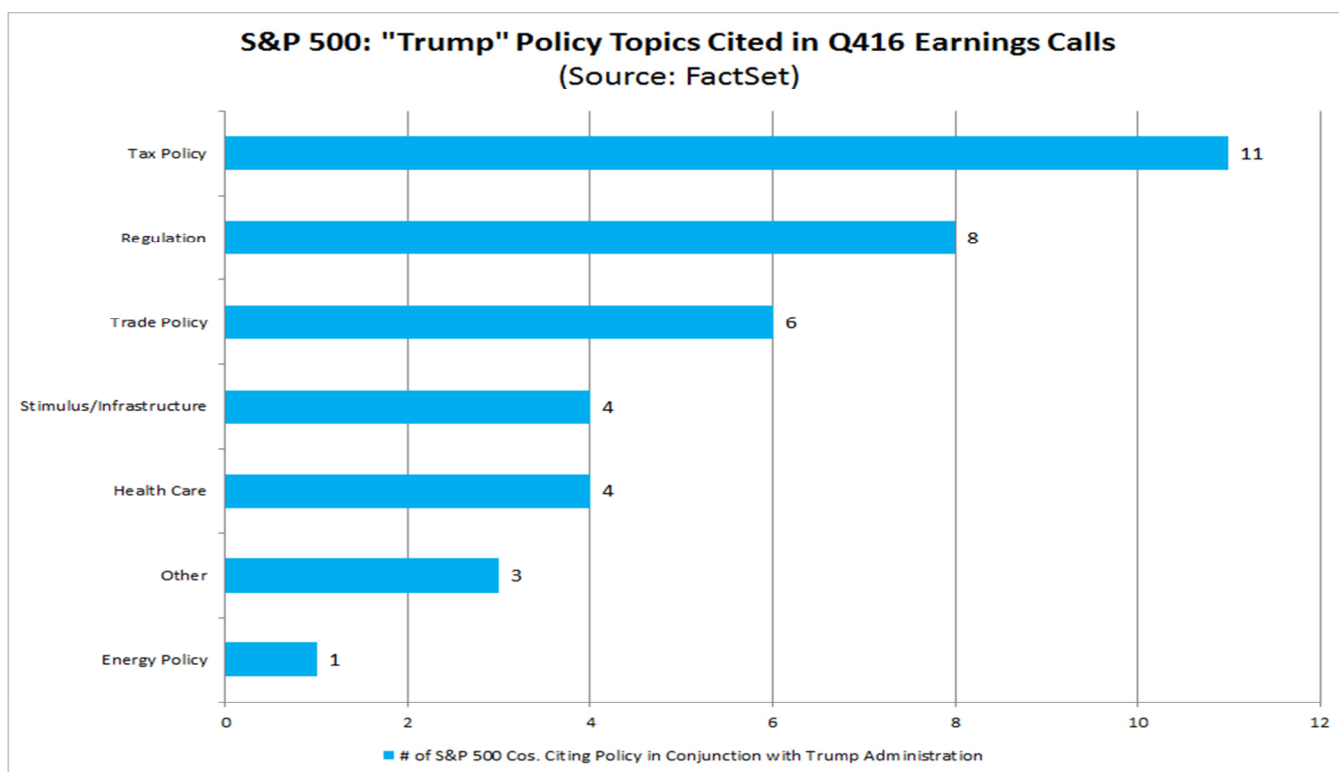
During each corporate earnings season, it is not unusual for companies to comment on subjects that had an impact on their earnings and revenues for a given quarter, or may have an impact on earnings and revenues for future quarters. While the majority of S&P 500 companies will report earnings results for Q4 2016 over the next few weeks, approximately 8% of the companies in the index (42 companies) reported earnings results for the fourth quarter through Wednesday (January 18). Have companies in the S&P 500 been commenting on government policies that may change under the Trump administration during their earnings conference calls for the fourth quarter?

To answer this question, FactSet searched for the terms “Trump” and “administration” in the conference call transcripts of the 42 S&P 500 companies that have conducted fourth quarter earnings conference calls through January 18 to see how many companies discussed these terms. FactSet then looked to see if the company cited or discussed a policy topic in conjunction with the citation of “Trump” or “administration.” The results are shown below.

Of the 42 S&P 500 companies, 27 cited the term “Trump” or “administration” during their Q4 earnings calls. The term “administration” was only counted if it was used to reference the Trump administration.

In terms of government policies in conjunction with the new administration, tax policy was cited or discussed by the highest number of S&P 500 companies at eleven. Six of these eleven companies stated that if taxes were lowered, it would benefit their clients or themselves. A list of these six companies and their quotes is provided on the next page.

Please note that companies that cited or discussed a potential border tariff or tax were counted under “Trade Policy” and not “Tax Policy” in the chart below. Please also note the numbers below will not total to 27, as a number of companies discussed multiples policy topics, while others did not discuss any specific policy topics.



*"I think when you say indirect and direct, you mean direct, obviously, we've been a relatively high taxpayer. And so to the extent to which tax rates come down, we're a beneficiary. But obviously, changes in tax policy can be a huge catalyst for how all of our clients think about deploying their capital, strategic decisions." –Goldman Sachs (Jan. 18)*

*"Well, I just want to echo what you just said that we are starting to have conversations with clients that are indicating they are more optimistic business owners around possibilities of increased economic growth and maybe some tax relief or other things that might come with the new administration yet to be determined." –Comerica (Jan. 17)*

*"And then the other item that I mentioned is the tax reform that's being discussed. I see Delta certainly being a beneficiary of that, though it's hard to speculate as to the form it will take, given its very early." –Delta Air Lines (Jan. 12)*

*"Well, certainly, we've seen a lot of positive sentiment. And at this point in time, it's just sentiment. And so we've got a ways to go before we see anything impactful. But having said that, look, if we see lower corporate income tax rates that will be certainly beneficial for us because we're mostly a U.S.-based company." –Cintas (Dec. 22)*

*"We haven't started doing modeling at this point because at that point, the benefit – okay, so that's coupled with a bigger discussion about whether corporate tax rates go down. If that happens then, even if we face some drag from personal income taxes, the corporate tax impact simply dwarfs everything else so that we'd look at both. So if tax reform occurs, it's pretty obvious that we would be a pretty significant beneficiary. By significant, I mean very significant. So we're waiting to hear like everyone else is waiting to hear." –Paychex (Dec. 21)*

*"The bigger issue for all of you to look at longer term for us is the features that are in the GOP blueprint and President-elect Trump's plans that we like a lot, and those include materially lowering the tax rate, the effective territorial treatment of foreign earnings, and current expensing of CapEx. We think that will positively impact our top line through stronger economic growth and, of course, the bottom line potentially in a very big way through the lower tax rate." –FedEx (Dec. 20)*

## Q4 2016 Earnings Season: By The Numbers

### Overview

To date, 12% of the companies in the S&P 500 have reported actual results for Q4. In terms of earnings, fewer companies (61%) are reporting actual EPS above estimates compared to the 5-year average. In aggregate, companies are reporting earnings that are 4.2% above the estimates, which is also below the 5-year average. In terms of sales, fewer companies (47%) are reporting actual sales above estimates compared to the 5-year average. In aggregate, companies are reporting sales that are 0.4% below estimates, which is also below the 5-year average.

The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) year-over-year earnings growth rate for Q4 2016 is 3.4% today, which is above the estimated earnings growth rate of 3.0% on December 31. Six sectors are reporting or are predicted to report year-over-year earnings growth, led by the Utilities and Financials sectors. Five sectors are reporting or are projected to report a year-over-year decline in earnings, led by the Telecom Services, Energy, and Industrials sectors.

The blended sales growth rate for Q4 2016 is 4.6%, which is below the estimated sales growth rate of 4.9% on December 31. Ten sectors are reporting or are projected to report year-over-year growth in revenues, led by the Utilities sector. The only sector predicted to report a year-over-year decline in revenues is the Telecom Services sector.

Looking at future quarters, analysts currently project earnings growth to continue through 2017.

The forward 12-month P/E ratio is now 16.9, which is above the 5-year average and the 10-year average.

During the upcoming week, 70 S&P 500 companies (including 12 Dow 30 components) are scheduled to report results for the fourth quarter.

### Scorecard: Fewer Companies Beating EPS Estimates and Revenue Estimates

#### Percentage of Companies Beating EPS Estimates (61%) is Below 5-Year Average

Overall, 12% of the companies in the S&P 500 have reported earnings to date for the fourth quarter. Of these companies, 61% have reported actual EPS above the mean EPS estimate, 15% have reported actual EPS equal to the mean EPS estimate, and 24% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is below the 1-year (71%) average and below the 5-year (67%) average.

At the sector level, the Health Care (100%) and Materials (100%) sectors have the highest percentages of companies reporting earnings above estimates, while the Energy (0%) and Industrials (36%) sectors have the lowest percentages of companies reporting earnings above estimates.

#### Earnings Surprise Percentage (+4.2%) is Below 5-Year Average

In aggregate, companies are reporting earnings that are 4.2% above expectations. This surprise percentage is below the 1-year (+5.0%) average and below the 5-year (+4.5%) average.

The Materials (+28.5%) sector is reporting the largest upside aggregate difference between actual earnings and estimated earnings. In this sector, Monsanto (\$0.21 vs. \$0.01) has reported the largest upside earnings surprise.

#### Percentage of Companies Beating Revenue Estimates (47%) is Below 5-Year Average

In terms of revenues, 47% of companies have reported actual sales above estimated sales and 53% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is below the 1-year average (52%) and below the 5-year average (53%).

At the sector level, the Health Care (100%) sector has the highest percentage of companies reporting revenues above estimates, while the Consumer Staples (17%) sector has the lowest percentage of companies reporting revenue above estimates.

## Revenue Surprise Percentage (-0.4%) is Below 5-Year Average

In aggregate, companies are reporting sales that are 0.4% below expectations. This surprise percentage is below the 1-year (+0.1%) average and below the 5-year (+0.5%) average.

The Energy (-1.2%), Consumer Staples (-1.1%), and Industrials (-0.8%) sectors are reporting the largest downside aggregate differences between actual sales and estimated sales.

## Slight Increase in Blended Earnings Growth This Week Due to Financials

### Slight Increase in Blended Earnings Growth This Week Due to Financials

The blended earnings growth rate for the fourth quarter is 3.4% this week, which is slightly higher than the earnings growth rate of 3.2% last week. Upside earnings surprises reported by companies in the Financials sector were mainly responsible for the small increase in the overall earnings growth rate for the index during the past week.

In the Financials sector, the upside earnings surprises reported by Morgan Stanley (\$0.81 vs. \$0.65) and Goldman Sachs (\$5.08 vs. \$4.76) were the largest contributors to the small 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 17.4% from 16.3% during this period.

### Financial Sector Has Seen Largest Increase in Earnings since December 31

The blended earnings growth rate for Q4 2016 of 3.4% is slightly higher than the estimate of 3.0% at the end of the fourth quarter (December 31). Six sectors have recorded an increase in earnings growth since the end of the quarter due to upside earnings surprises and upward revisions to earnings estimates, led by the Financials (to 17.4% from 14.4%) sector. One sector (Health Care) has seen no change in earnings growth (3.9%) since December 31. Four sectors have recorded a decrease in earnings growth during this time due to downside earnings surprises and downward revisions to estimates, led by the Energy (to -8.2% from -5.4%) sector.

## Earnings Growth: Second Straight Quarter of Year-Over-Year Earnings Growth (3.4%)

The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) earnings growth rate for Q4 2016 is 3.4%. If the index reports earnings growth for Q4, it will mark the first time the index has seen year-over-year growth in earnings for two consecutive quarters since Q4 2014 (4.6%) and Q1 2015 (0.5%). Six sectors are reporting or are projected to report year-over-year growth in earnings, led by the Utilities and Financials sectors. Five sectors are reporting or are projected to report a year-over-year decline in earnings, led by the Telecom Services, Energy, and Industrials sectors.

### Utilities: Three Companies Lead Growth

The Utilities sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 19.9%. Overall, 21 of the 28 companies (75%) in the sector are projected to report EPS growth for the quarter. However, three companies are driving the earnings growth for the entire sector: NRG Energy, PG&E, and Dominion. The mean EPS estimate for NRG Energy for Q4 2016 is -\$0.28, compared to year-ago EPS of -\$1.35. The mean EPS estimate for PG&E for Q4 2016 is \$1.34, compared to year-ago EPS of \$0.50. The mean EPS estimate for Dominion for Q4 2016 is \$1.01, compared to year-ago EPS of \$0.70. If these three companies are excluded, the estimated earnings growth rate for the Utilities sector would drop to -0.1% from 19.9%.

### Financials: Four Companies Lead Growth

The Financials sector is reporting the second highest (year-over-year) earnings growth of all eleven sectors at 17.4%. At the industry level, three of the five industries in this sector are reporting or are predicted to report earnings growth: Insurance (45%), Capital Markets (29%), and Banks (10%). At the company level, AIG, Goldman Sachs, JPMorgan Chase, and Bank of America are the largest contributors to earnings growth for this sector. The mean EPS estimate for AIG for Q4 2016 is \$1.18, compared to year-ago EPS of -\$1.10. Goldman Sachs reported actual EPS of \$5.08 for Q4 2016, compared to year-ago EPS of \$1.27. JPMorgan Chase reported actual EPS of \$1.71 for Q4 2016, compared to year-ago EPS of \$1.32. Bank of America reported actual EPS of \$0.40 for Q4 2016, compared to year-ago EPS of

\$0.28. If these four companies are excluded, the blended earnings growth rate for the Financials sector would drop to 2.4% from 17.4%.

### Telecom Services: Level 3 Communications Leads Decline on Comparison to High Year-Ago EPS

The Telecom Services sector is expected to report the largest (year-over-year) earnings decline of all eleven sectors at -28.3%. Overall, 3 of the 5 companies (60%) in the sector are projected to report a decrease in EPS for the quarter. The one company that is driving the earnings decline for this sector is Level 3 Communications. However, the EPS decrease for this company is exacerbated by a comparison to unusually high earnings in Q4 2015. The mean EPS estimate for Level 3 Communications for Q4 2016 is \$0.44, compared to year-ago EPS of \$9.24. In the company's earnings release from Q4 2015, Level 3 Communications stated (regarding EPS for the quarter), "This includes a non-cash benefit to the fourth quarter Income Tax Expense of approximately \$3.3 billion related to the release of the company's valuation allowance against U.S. federal and state deferred tax assets..." If this company is excluded, the estimated earnings decline for the Telecom Services sector would drop to -0.8% from -28.3%.

### Energy: Wide Variations in Growth Among Sub-Industries

The Energy sector is reporting the second largest (year-over-year) earnings decline of all eleven sectors at -8.2%. At the sub-industry level, three of the six industries in this sector are reporting or are predicted to report an earnings decline: Oil & Gas Drilling (-101%), Oil & Gas Equipment & Services (-73%), and Oil & Gas Refining & Marketing (-66%). On the other hand, three sub-industries in this sector are expected to report earnings growth: Oil & Gas Exploration & Production (N/A), Integrated Oil & Gas (32%), and Oil & Gas Storage & Transportation (28%).

### Industrials: Airlines Industry Leads Decline

The Industrials sector is reporting the third largest (year-over-year) earnings decline of all eleven sectors at -7.1%. At the industry level, five of the twelve industries in this sector are reporting or are predicted to report an earnings decline, led by the Airlines (-42%), Industrial Conglomerates (-13%), and Electrical Equipment (-12%) industries. The Airlines 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 decline for the Industrials sector would drop to -1.6% from -7.1%.

### Revenues: Second Straight Quarter of Year-Over-Year Earnings Growth (4.6%)

The blended revenue growth rate for Q4 2016 is 4.6%. If the index reports revenue growth for Q4, it will mark the first time the index has seen year-over-year growth in sales for two consecutive quarters since Q3 2014 (4.0%) and Q4 2014 (2.0%). If 4.6% is the actual revenue growth rate for the quarter, it will mark the highest year-over-year revenue growth reported by the index since Q1 2012 (5.3%). Ten sectors are reporting or are projected to report year-over-year growth in revenues, led by the Utilities sector. The only sector projected to report a decline in revenues is the Telecom Services sector.

### Utilities: Broad-Based Growth

The Utilities sector is expected to report the highest (year-over-year) revenue growth of all eleven sectors at 20.4%. At the industry level, all four industries in the sector are predicted to report sales growth. Three of these four industries are expected to report double-digit sales growth: Independent Power & Renewable Energy Producers (50%), Multi-Utilities (22%), and Electric Utilities (16%). At the company level, 27 of the 28 companies (96%) in the sector are projected to report sales growth for the quarter. AES Corporation (53%) is projected to report the highest revenue growth for the quarter.

### Telecom Services: Verizon Leads Decline

The Telecom Services sector is expected to report the largest (year-over-year) sales decline of all eleven sectors at -1.5%. Overall, 3 of the 5 companies in the sector (60%) are projected to report a decline in sales for the quarter. Verizon is expected to report the largest decline (-6%) in the sector.

## Looking Ahead: Forward Estimates and Valuation

### Guidance: Negative EPS Guidance (33%) for Q1 below Average

At this point in time, 9 companies in the index have issued EPS guidance for Q1 2017. Of these 9 companies, 3 have issued negative EPS guidance and 6 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 33% (3 out of 9), which is below the 5-year average of 74%.

### Growth Expected to Continue in 2017

For the fourth quarter, companies are reporting earnings growth of 3.4% and revenue growth of 4.6%. For all of 2016, companies are reporting earnings growth of 0.2% and revenue growth of 2.0%.

Analysts currently expect earnings and revenue growth to continue in 2017.

For Q1 2017, analysts are projecting earnings growth of 10.9% and revenue growth of 7.7%.

For Q2 2017, analysts are projecting earnings growth of 10.6% and revenue growth of 5.7%.

For all of 2017, analysts are projecting earnings growth of 11.4% and revenue growth of 6.0%.

### Valuation: Forward P/E Ratio is 16.9, above the 10-Year Average (14.4)

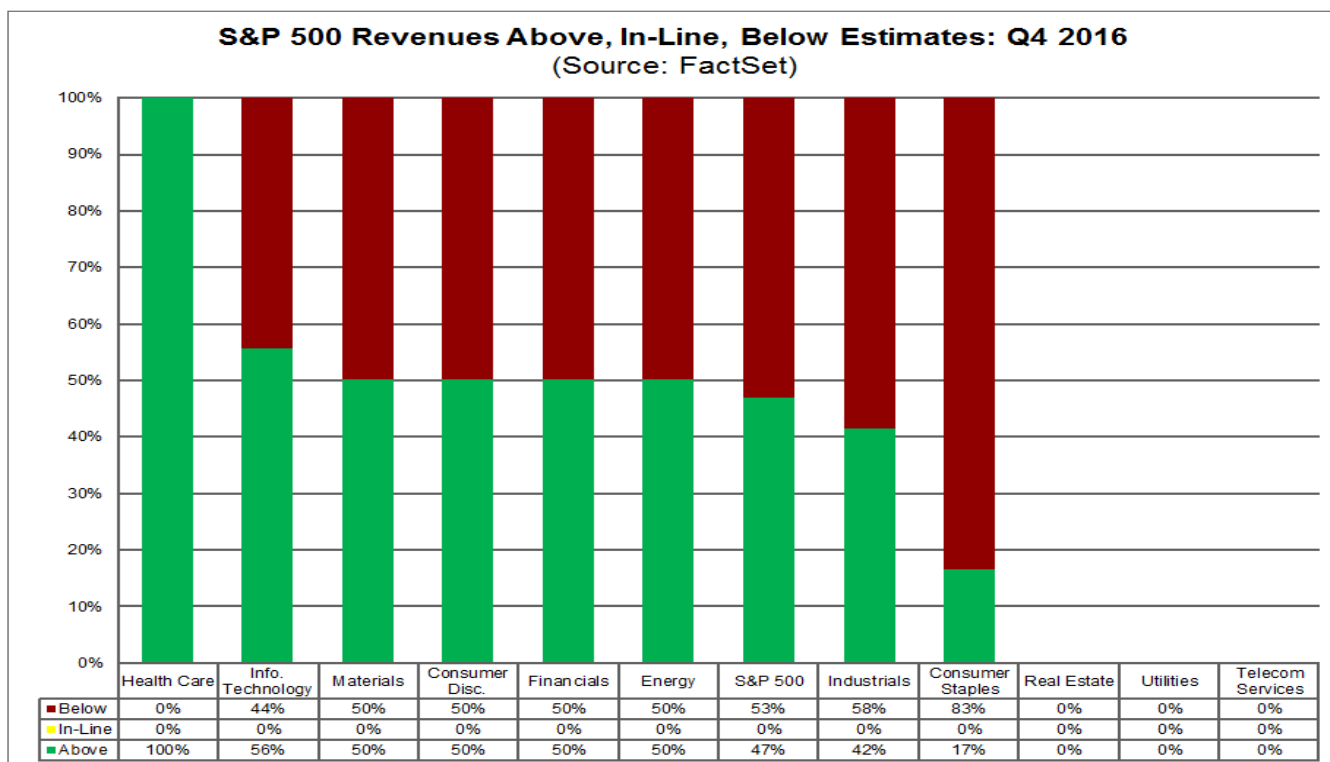
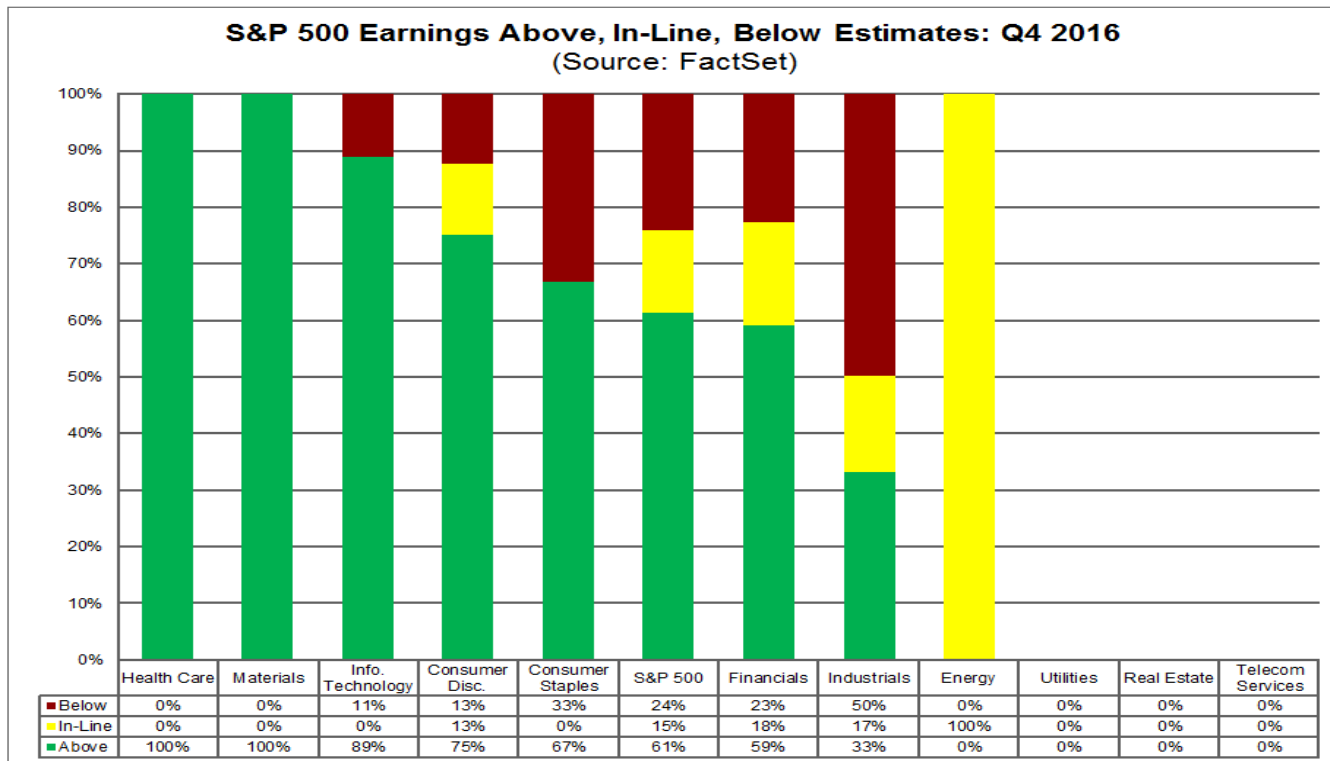
The forward 12-month P/E ratio is 16.9. This P/E ratio is based on Thursday's closing price (2263.69) and forward 12-month EPS estimate (\$133.84). It is above the 5-year average of 15.1, and above the 10-year average of 14.4. It is equal to the forward 12-month P/E ratio of 16.9 recorded at the start of the first quarter (December 31). Since the start of the first quarter, the price of the index has increased by 1.1%, while the forward 12-month EPS estimate has increased by 0.8%.

At the sector level, the Energy (31.3) sector has the highest forward 12-month P/E ratio, while the Financials (13.7) and Telecom Services (13.7) sectors have the lowest forward 12-month P/E ratios. Nine sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Energy (31.3 vs. 17.9) sector. One sector (Telecom Services) has a forward 12-month P/E ratio that is below the 10-year average (13.7 vs. 14.6). Historical averages are not available for the Real Estate sector.

### Companies Reporting Next Week: 70

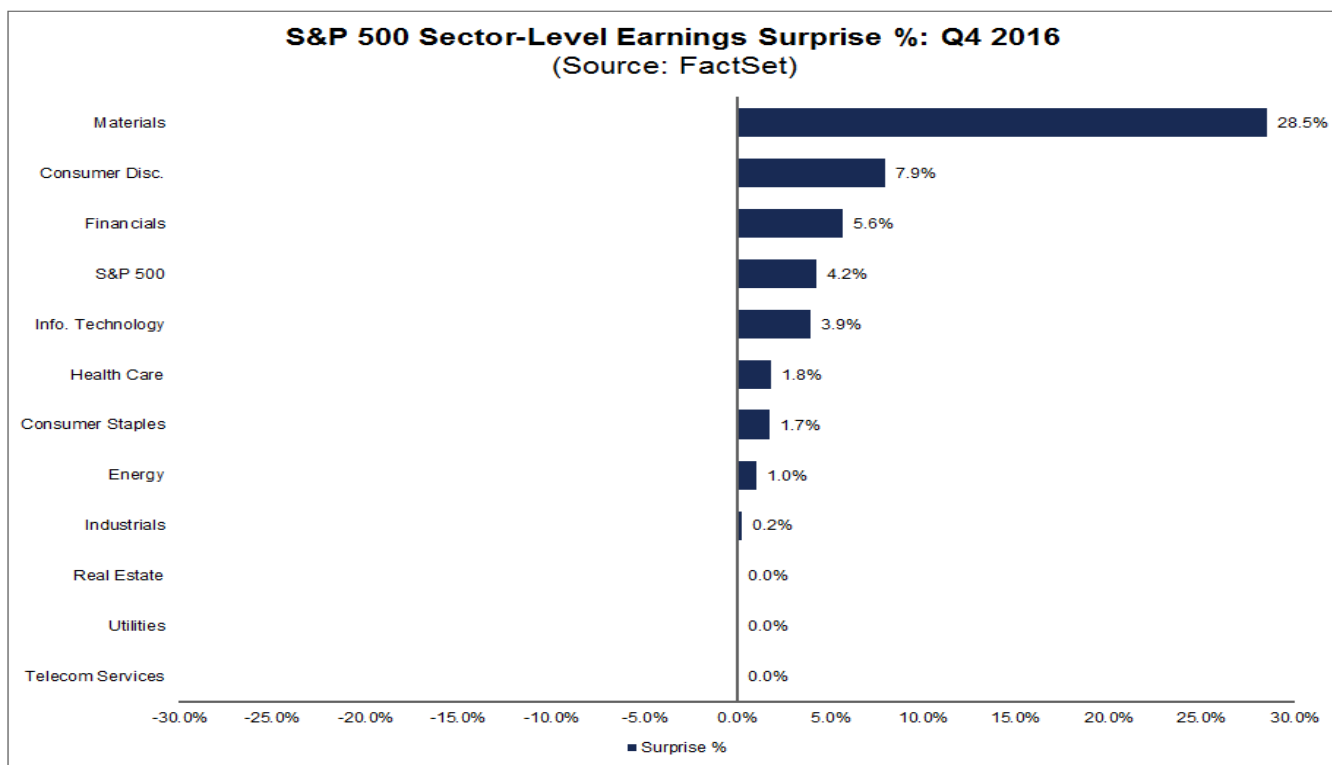
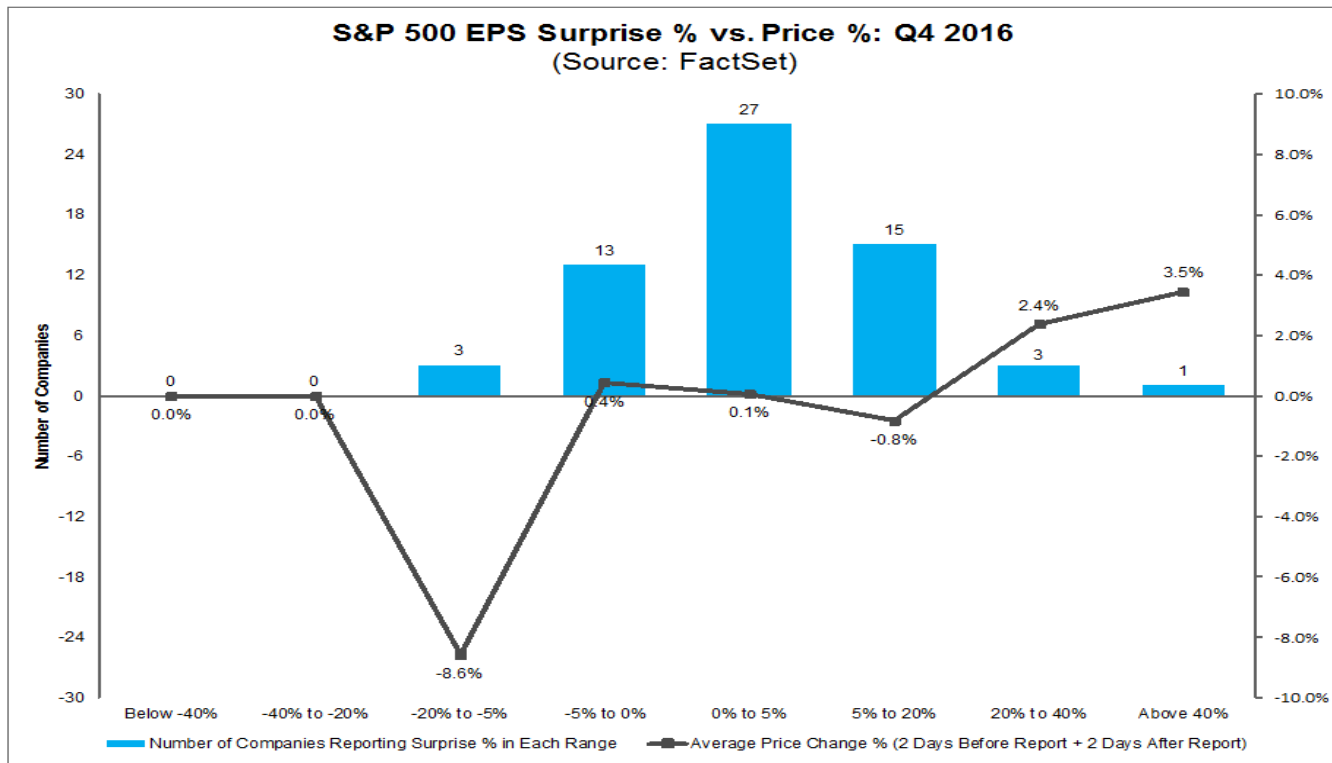
During the upcoming week, 70 S&P 500 companies (including 12 Dow 30 components) are scheduled to report results for the fourth quarter.

# Q4 2016: Scorecard

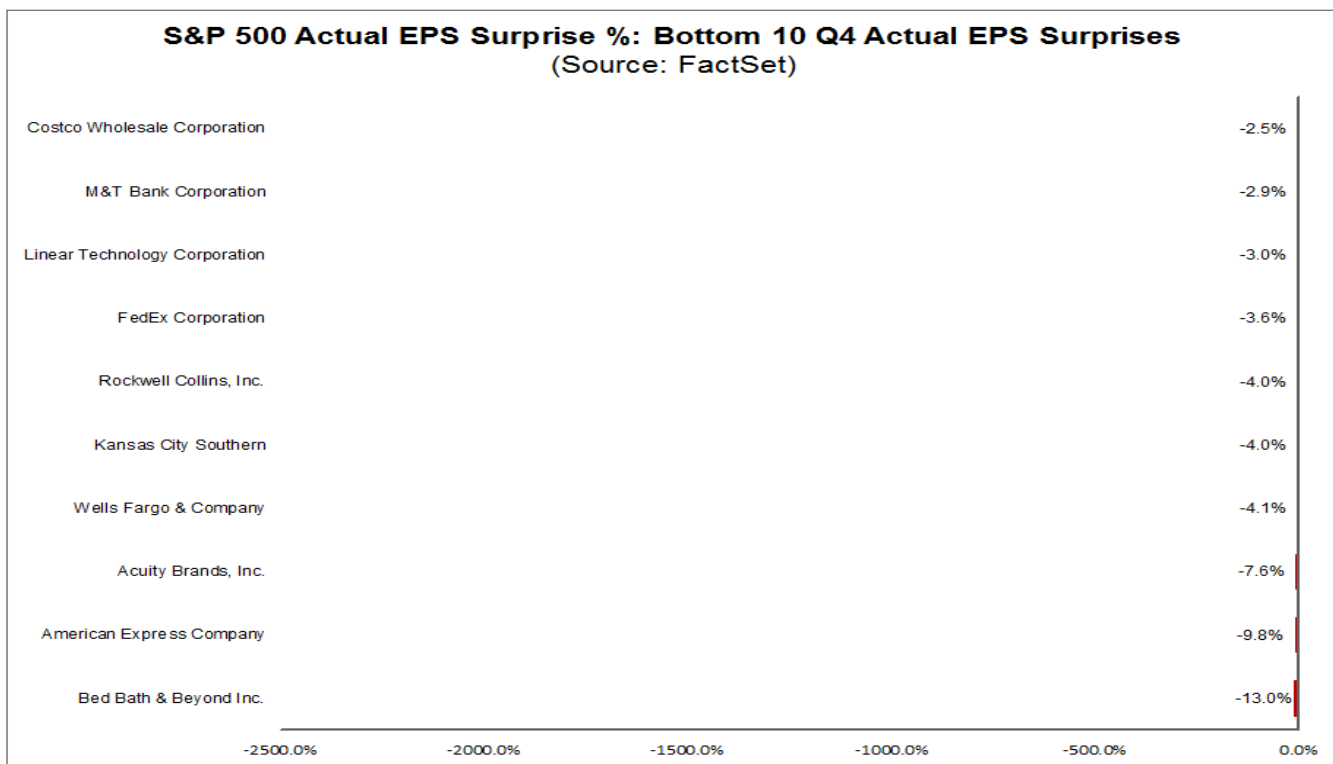
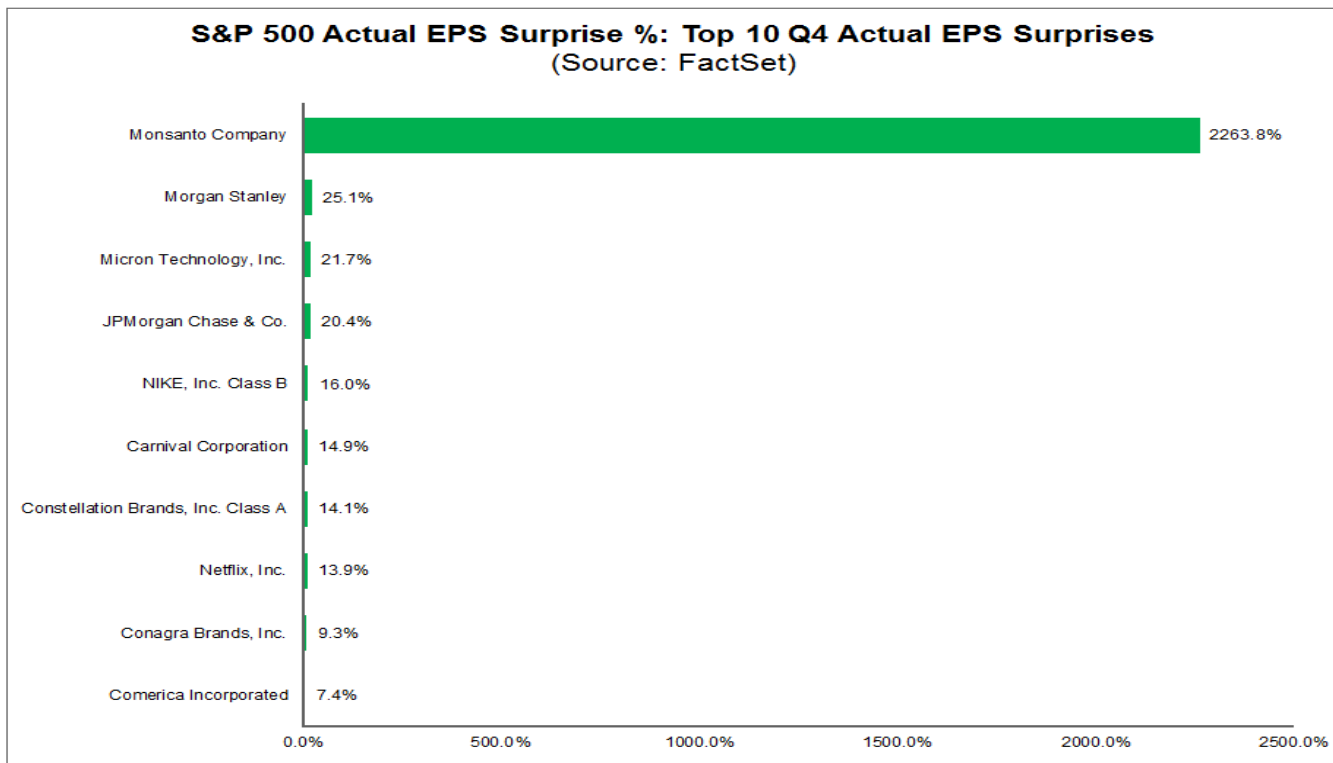




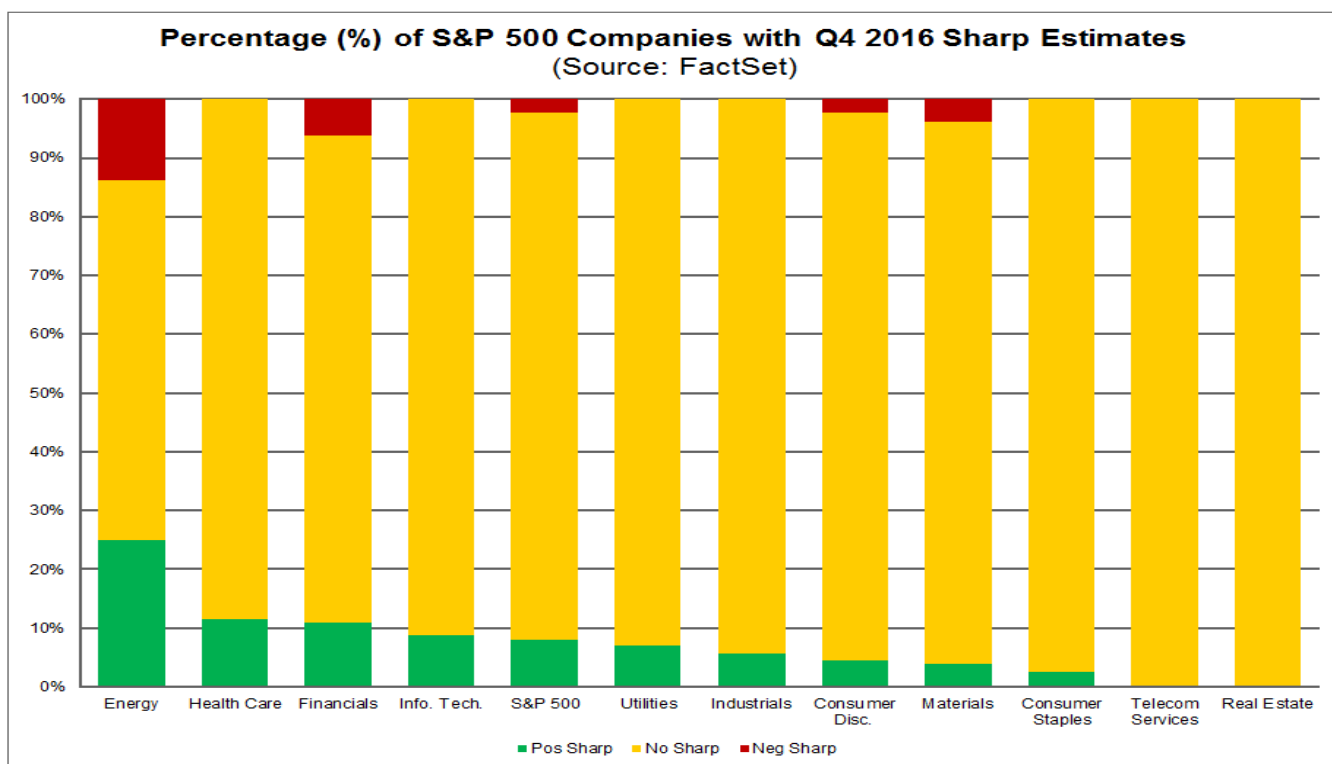
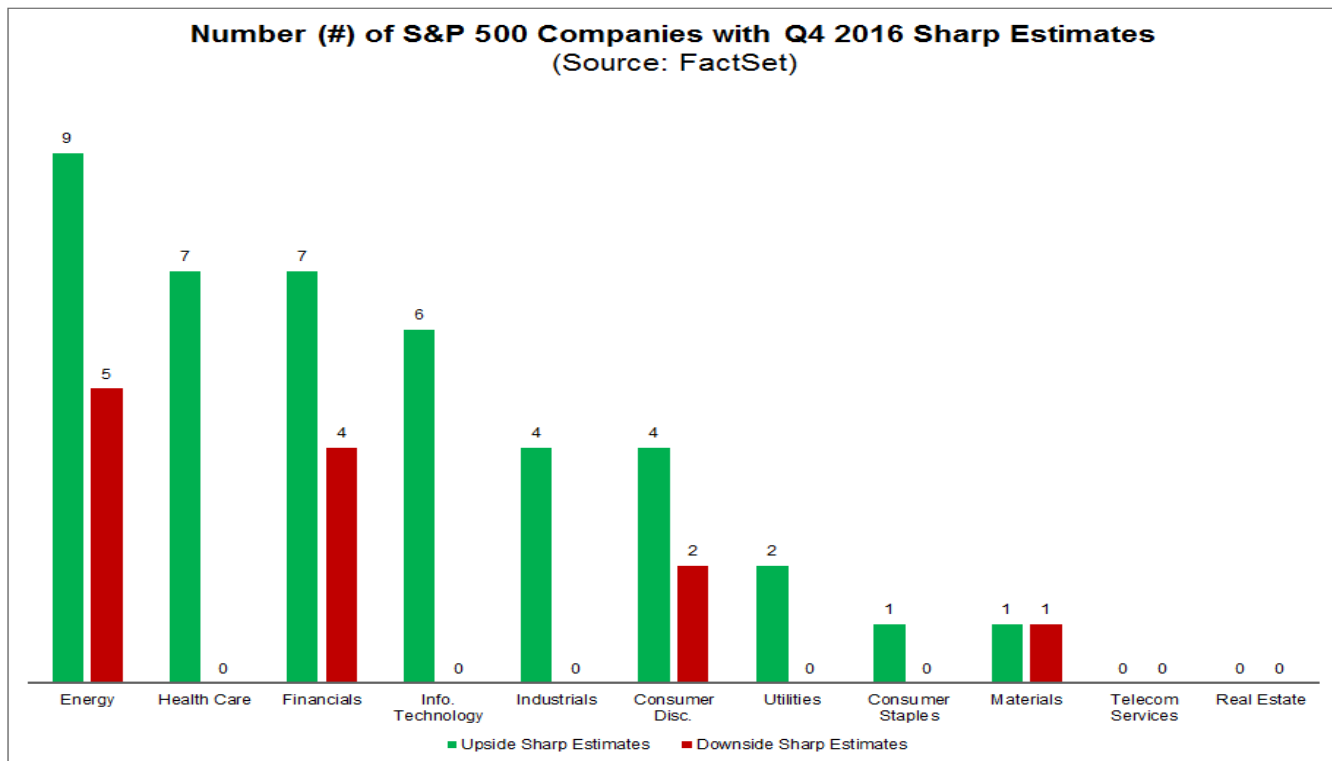
# Q4 2016: Scorecard



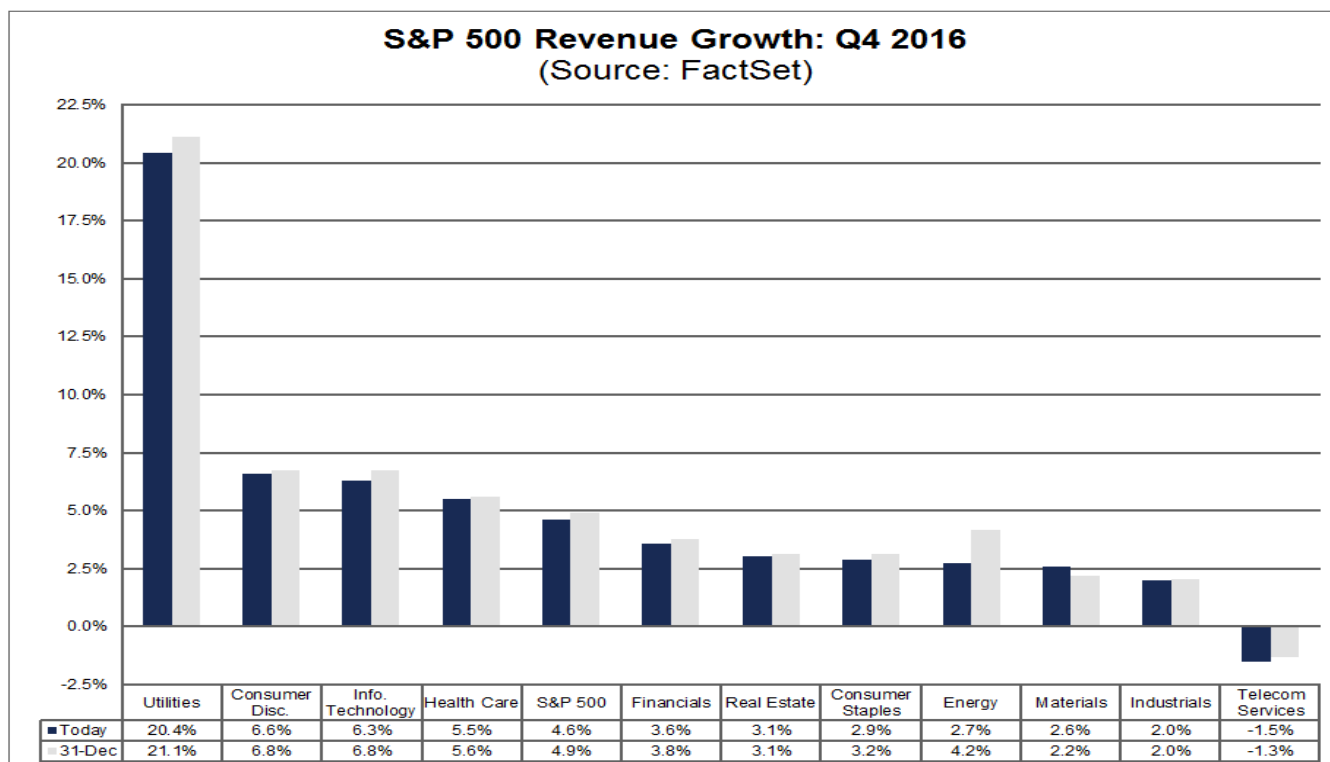
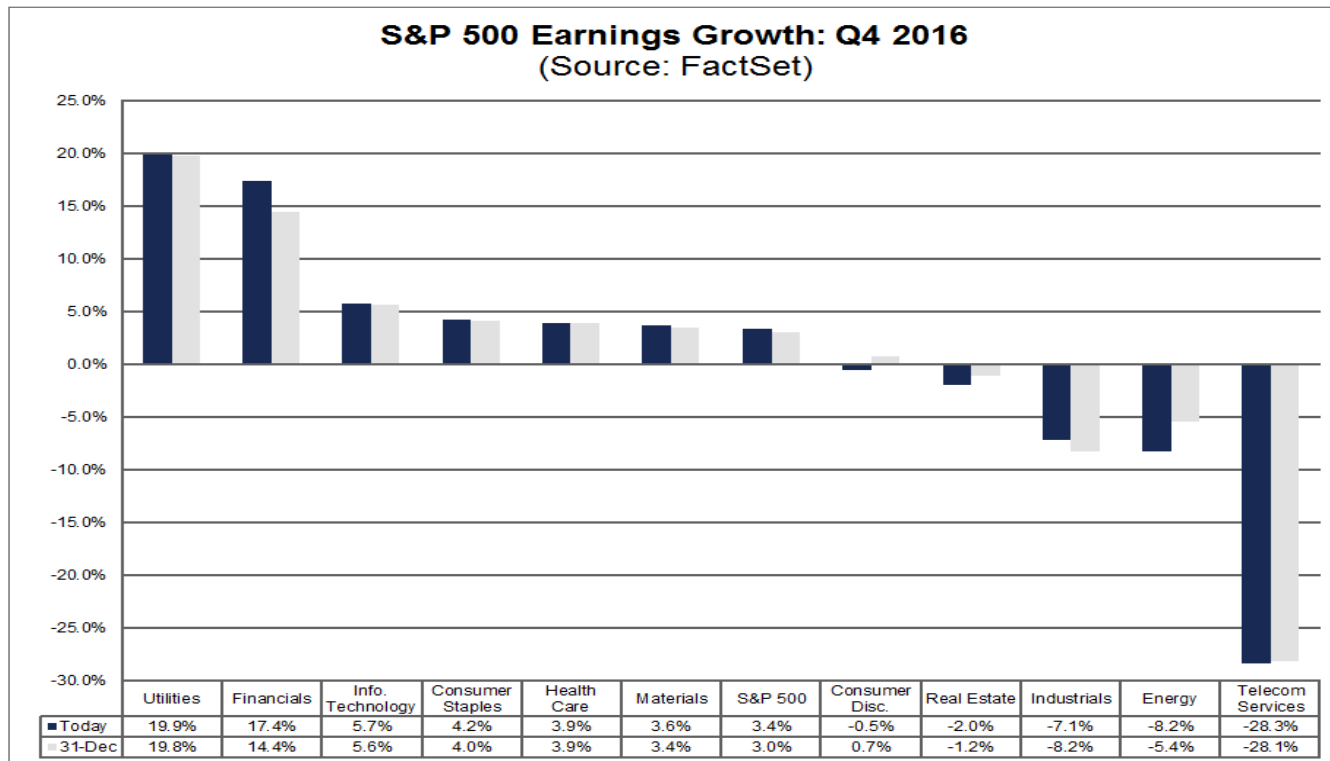
## Q4 2016: Scorecard



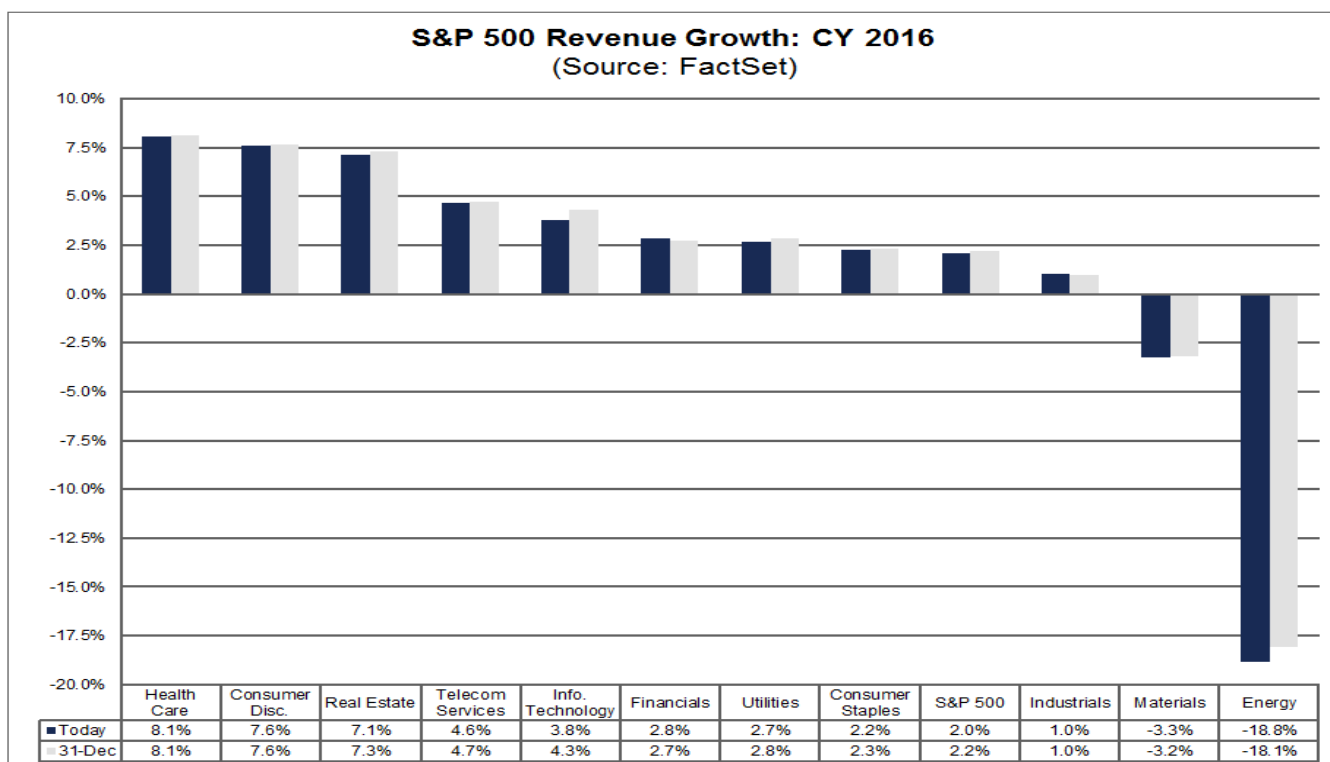
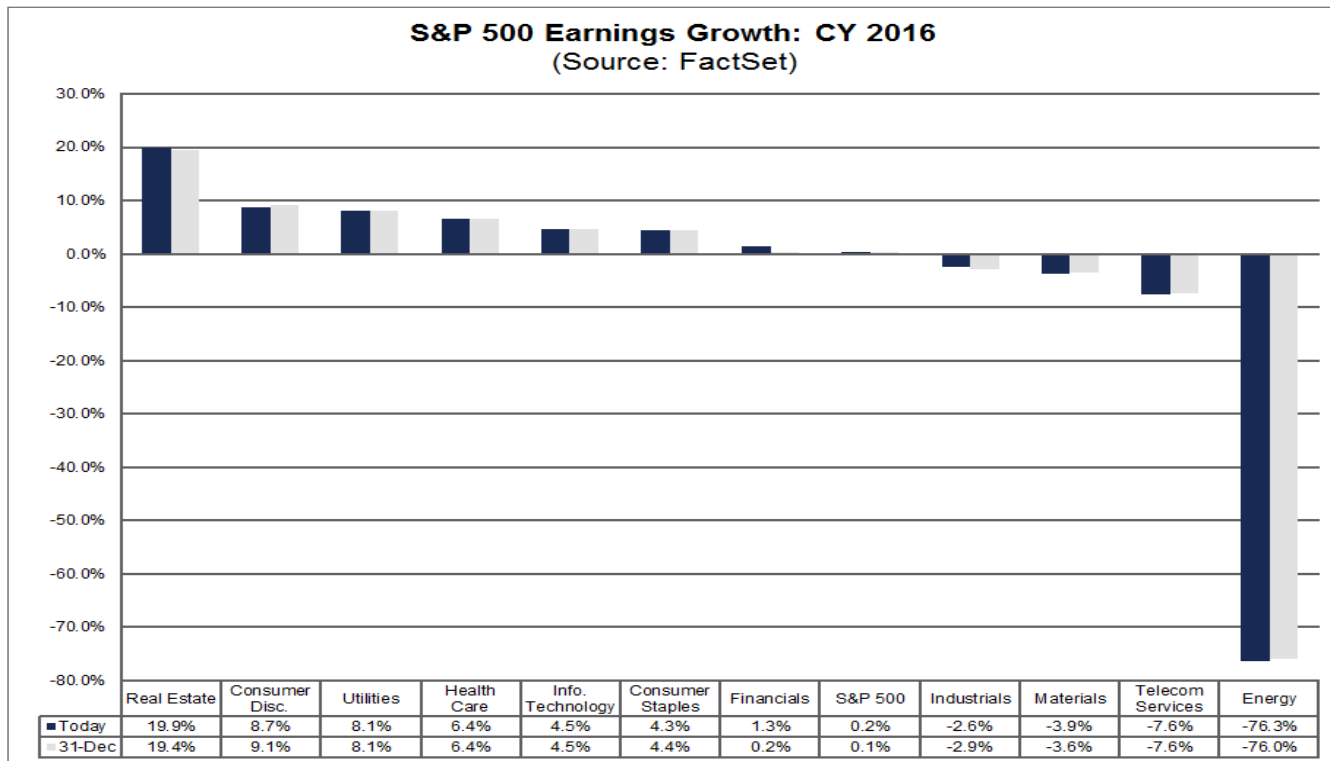
## Q4 2016: Projected EPS Surprises (Sharp Estimates)



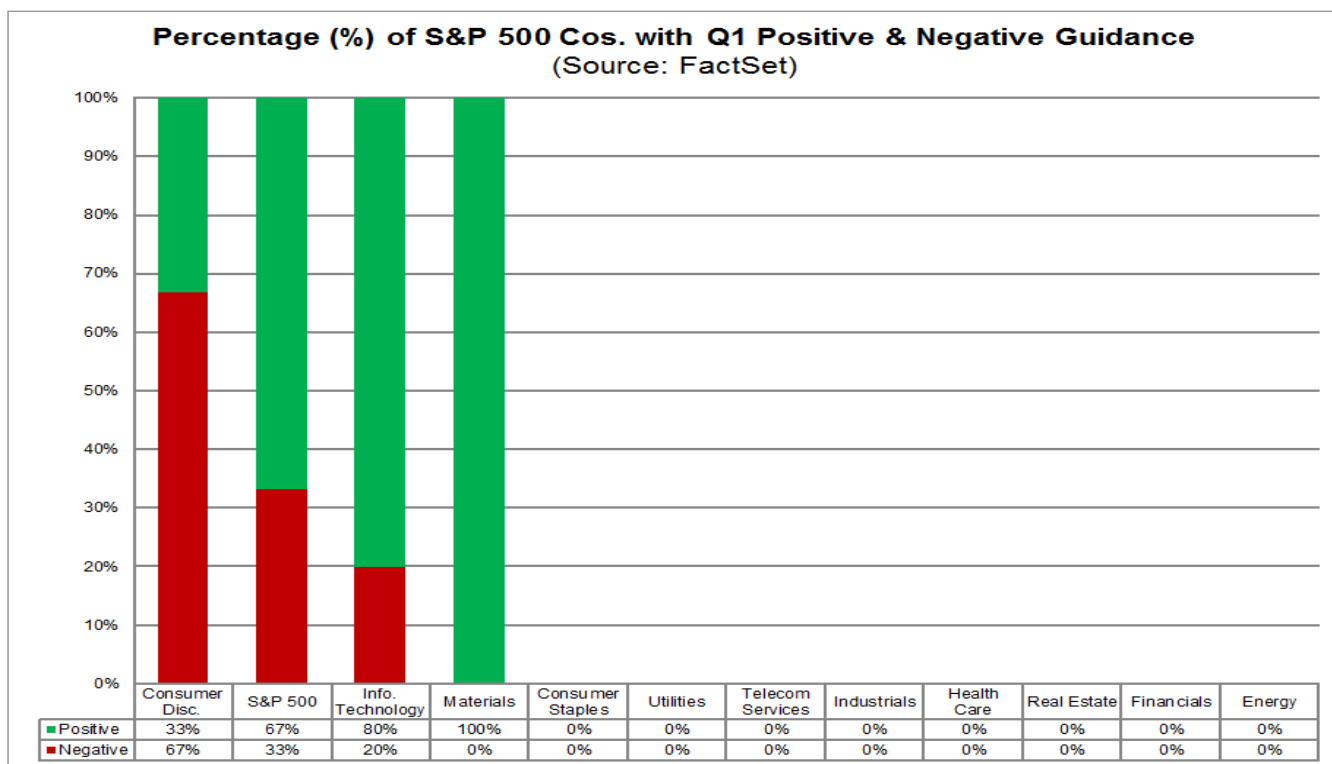
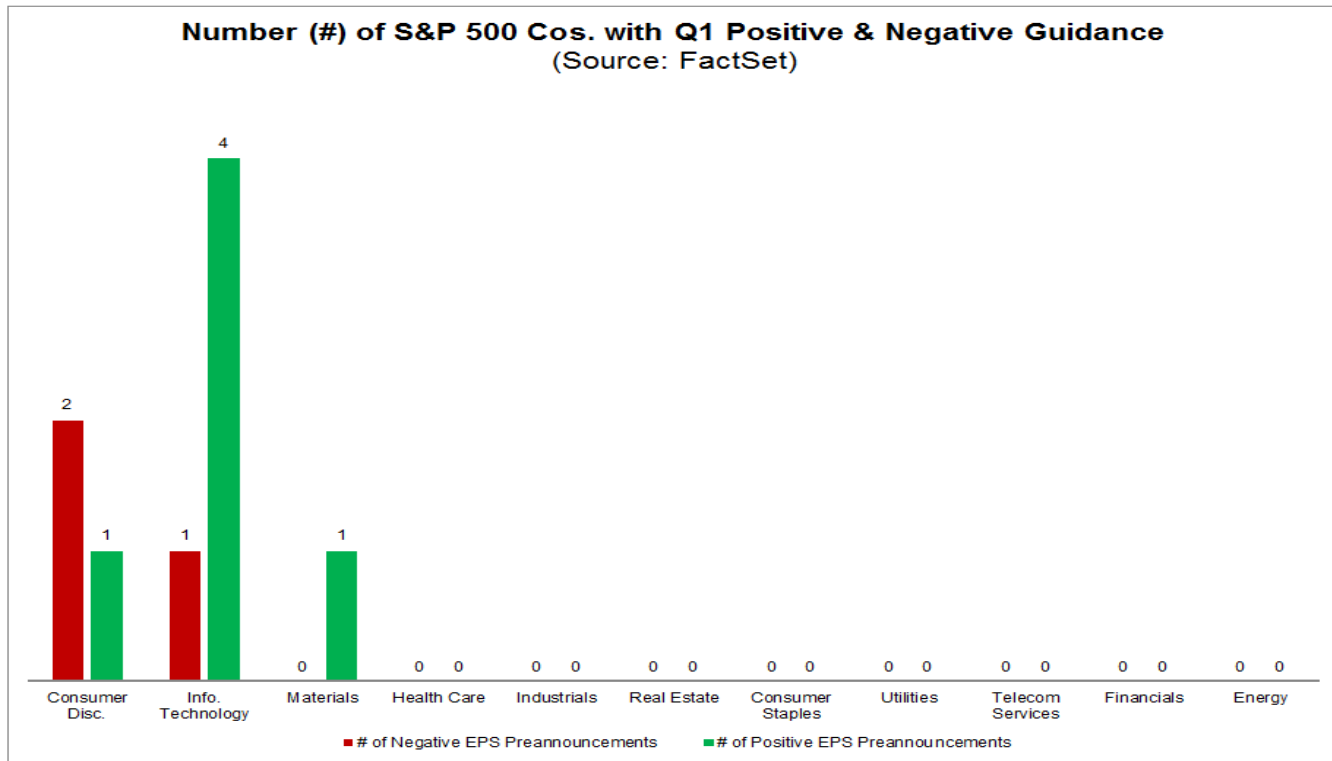
## Q4 2016: Growth



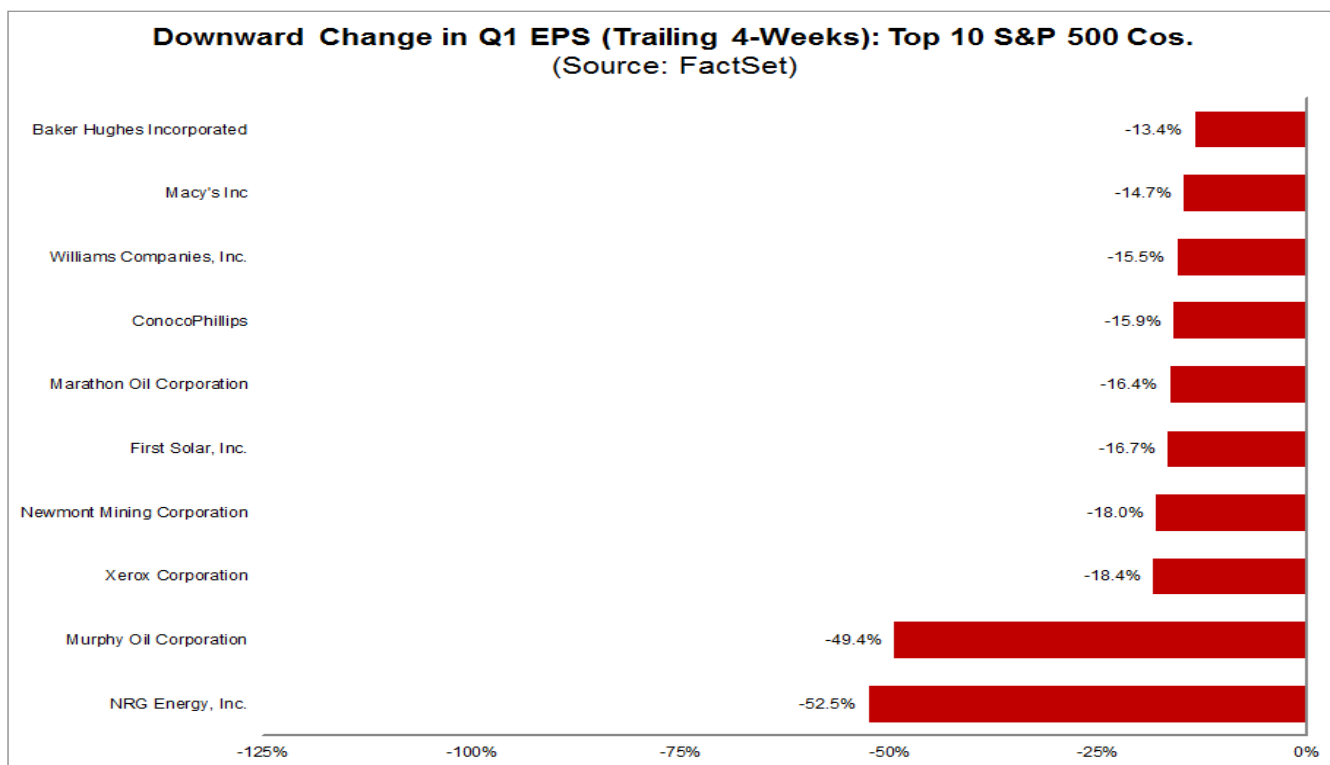
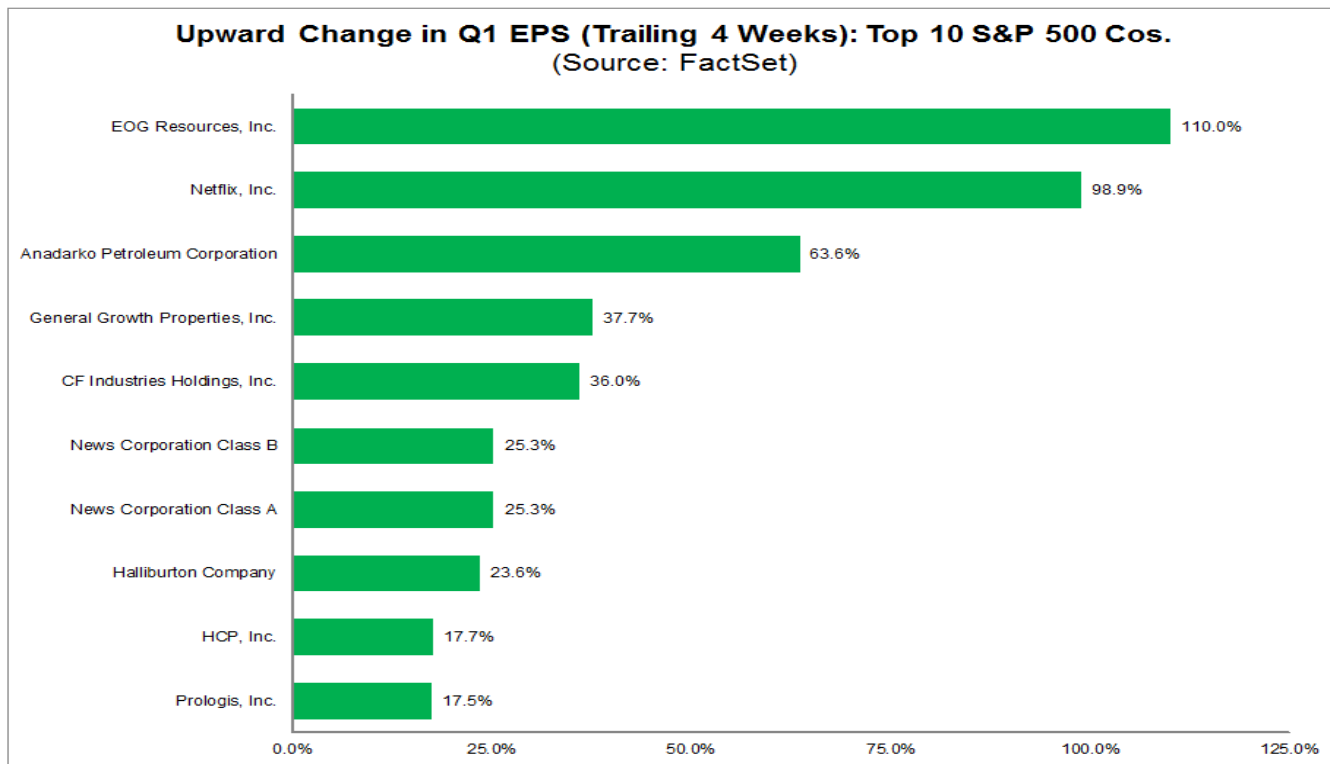
# CY 2016: Growth



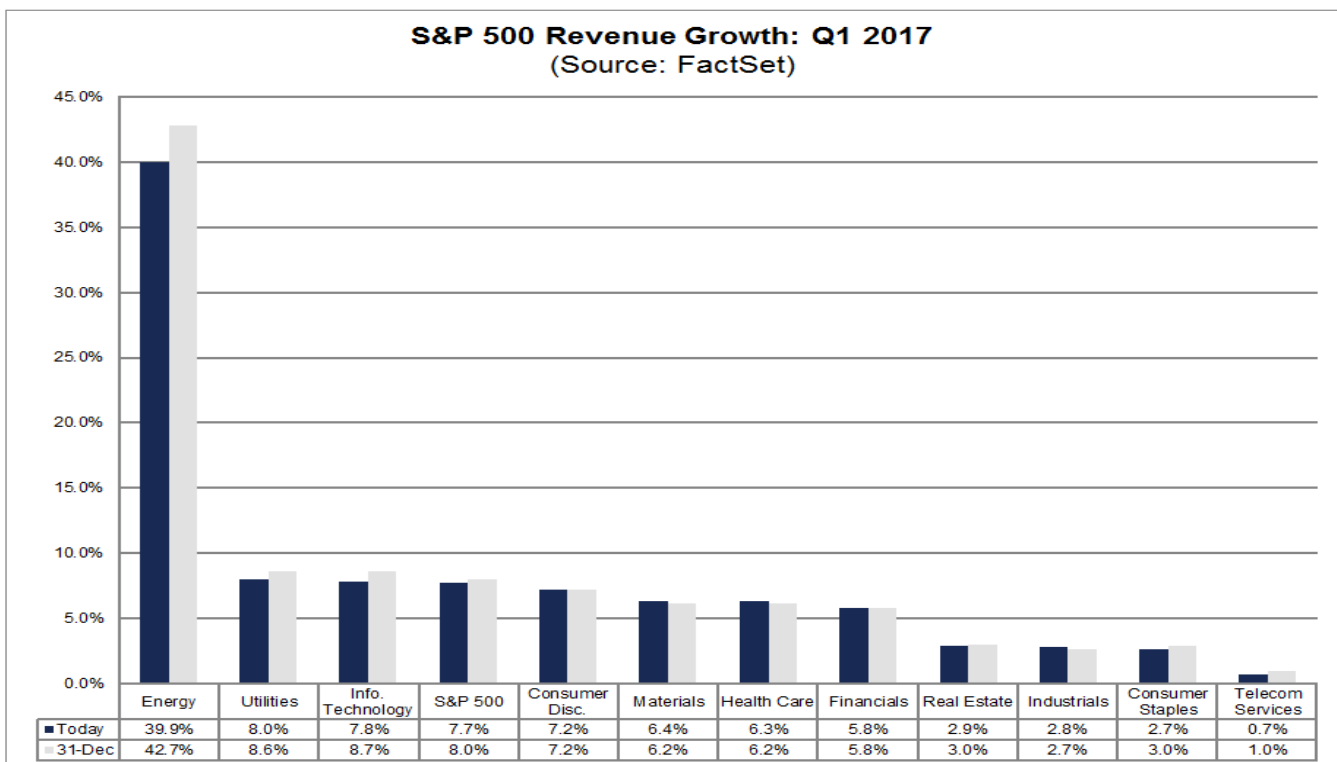
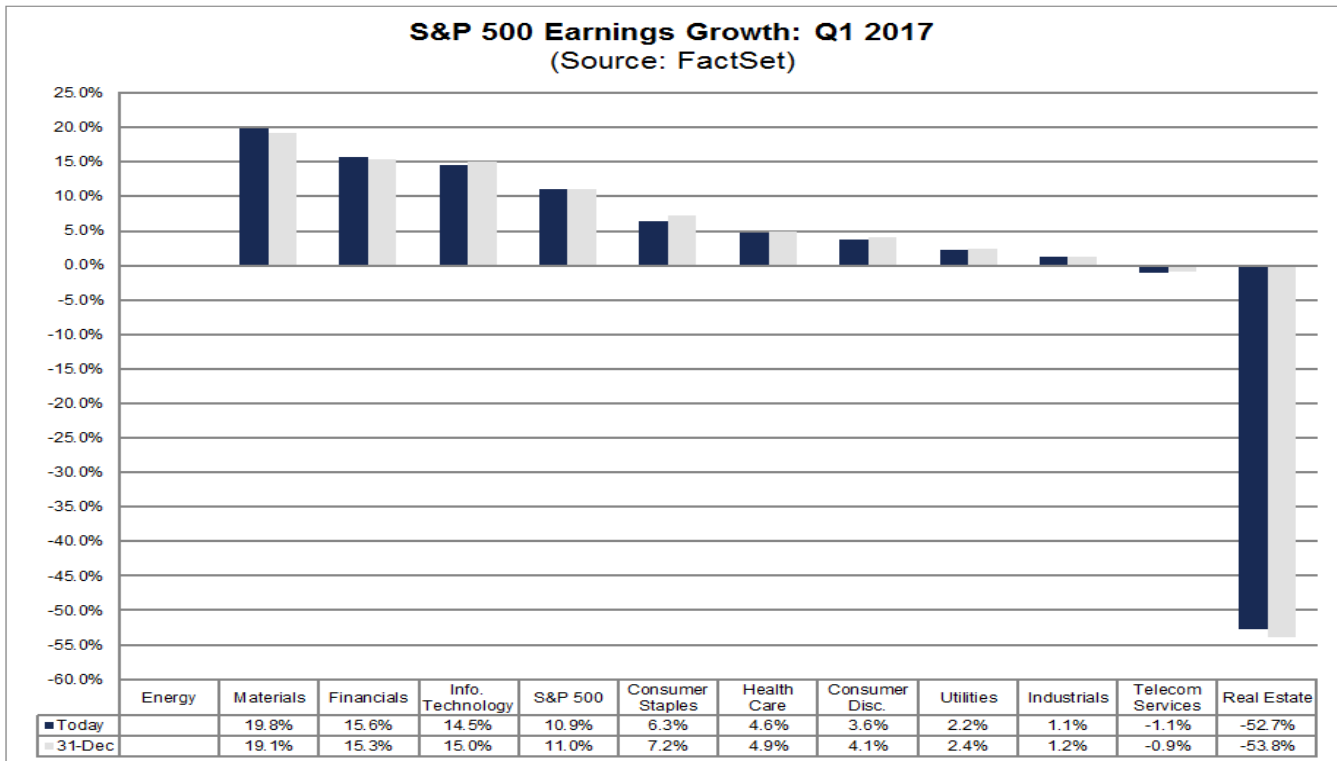
# Q1 2017: Guidance



## Q1 2017: EPS Revisions

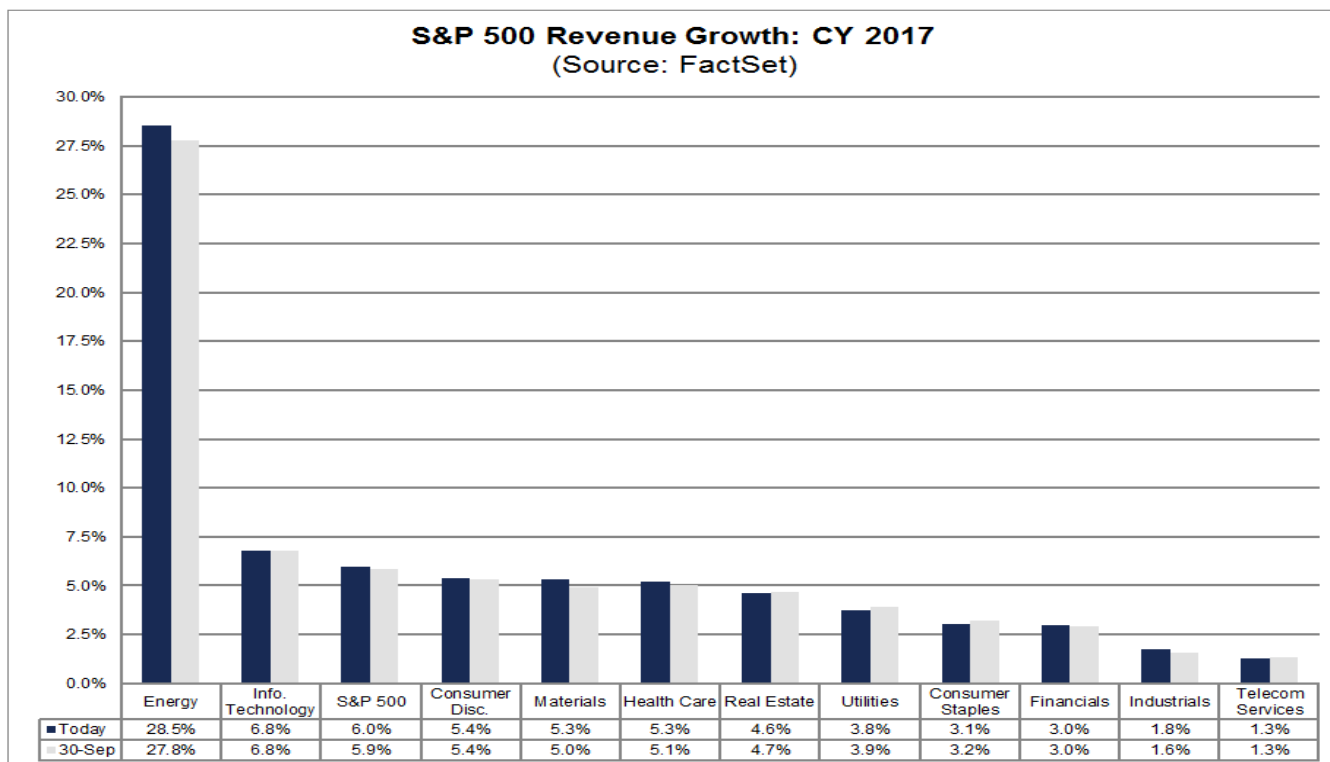
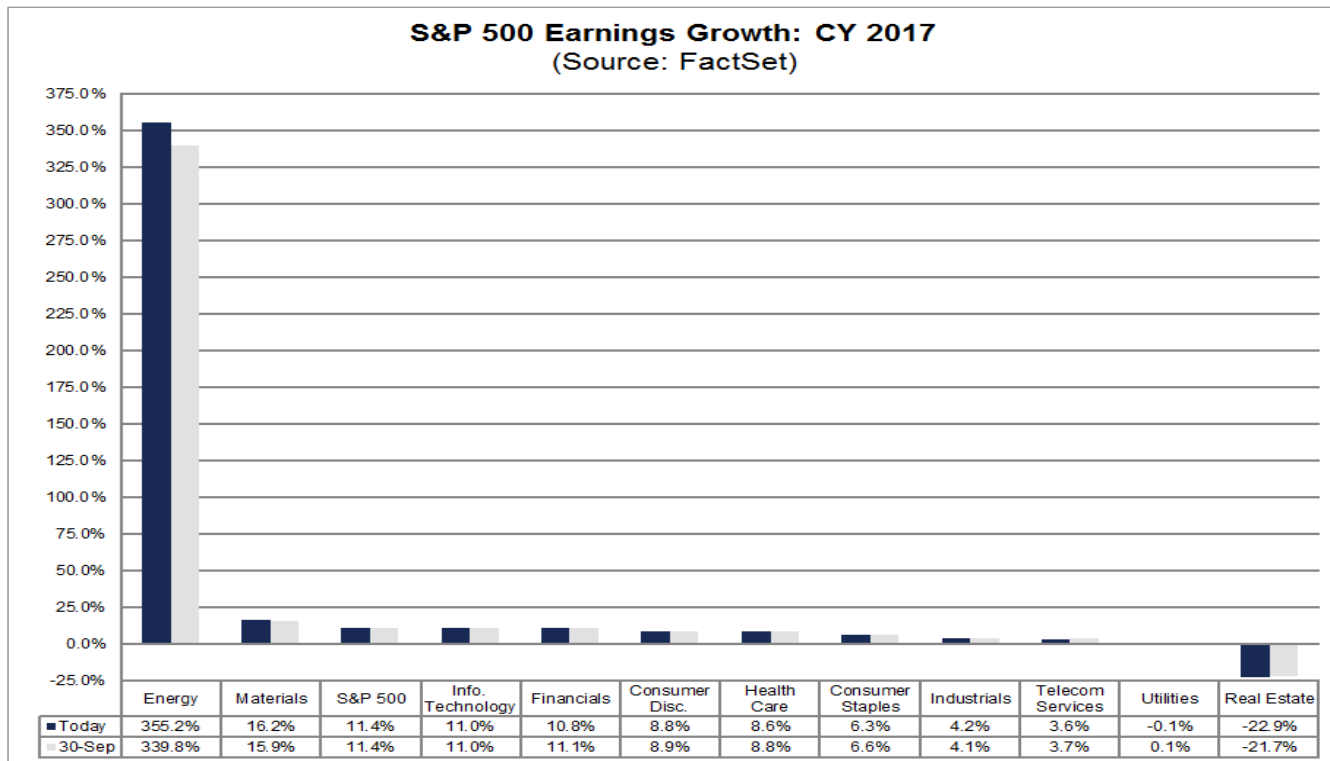


## Q1 2017: Growth

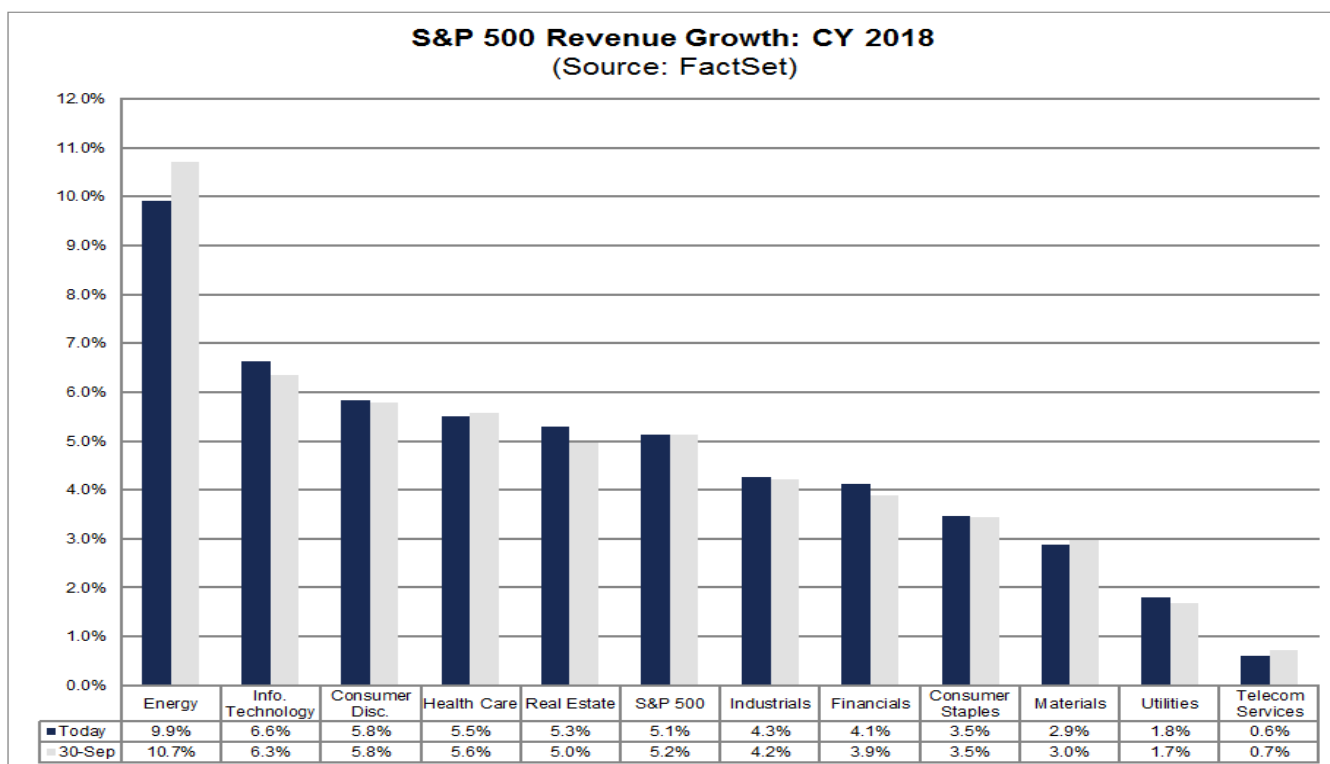
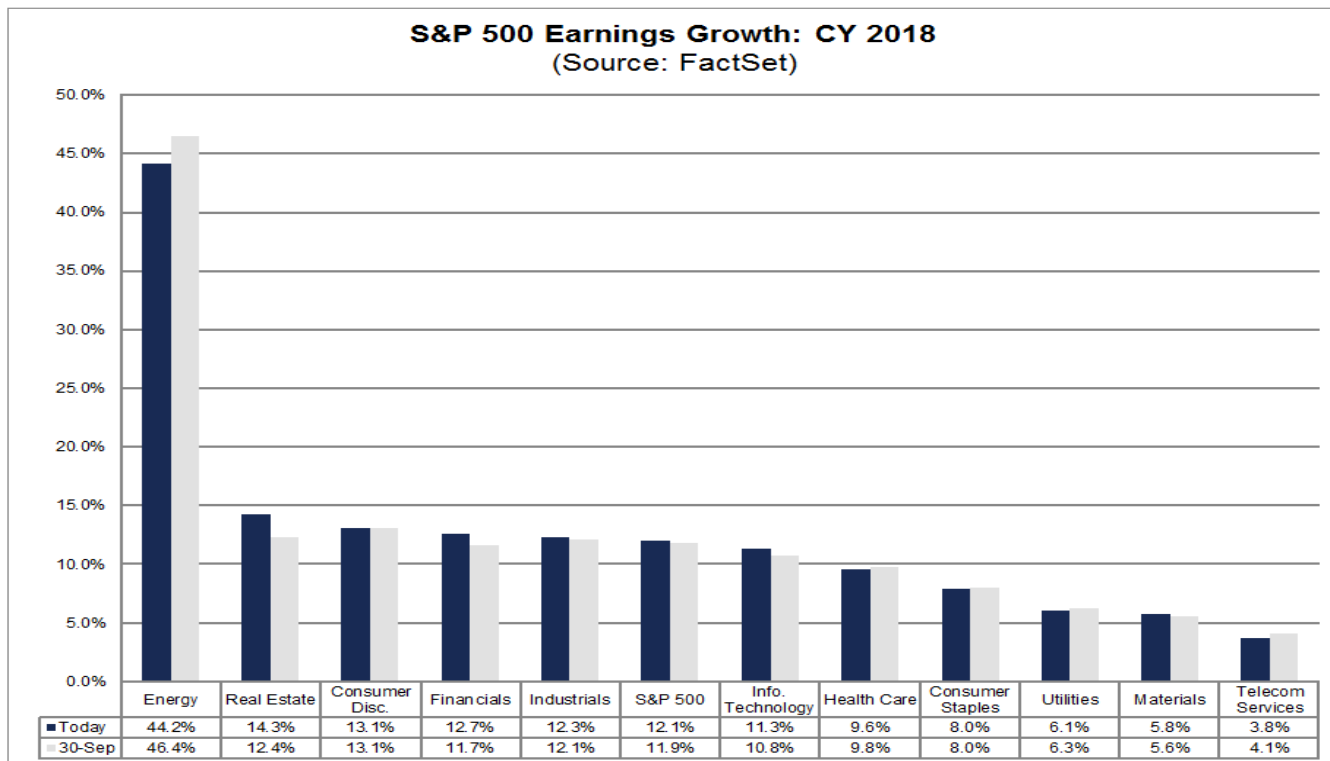




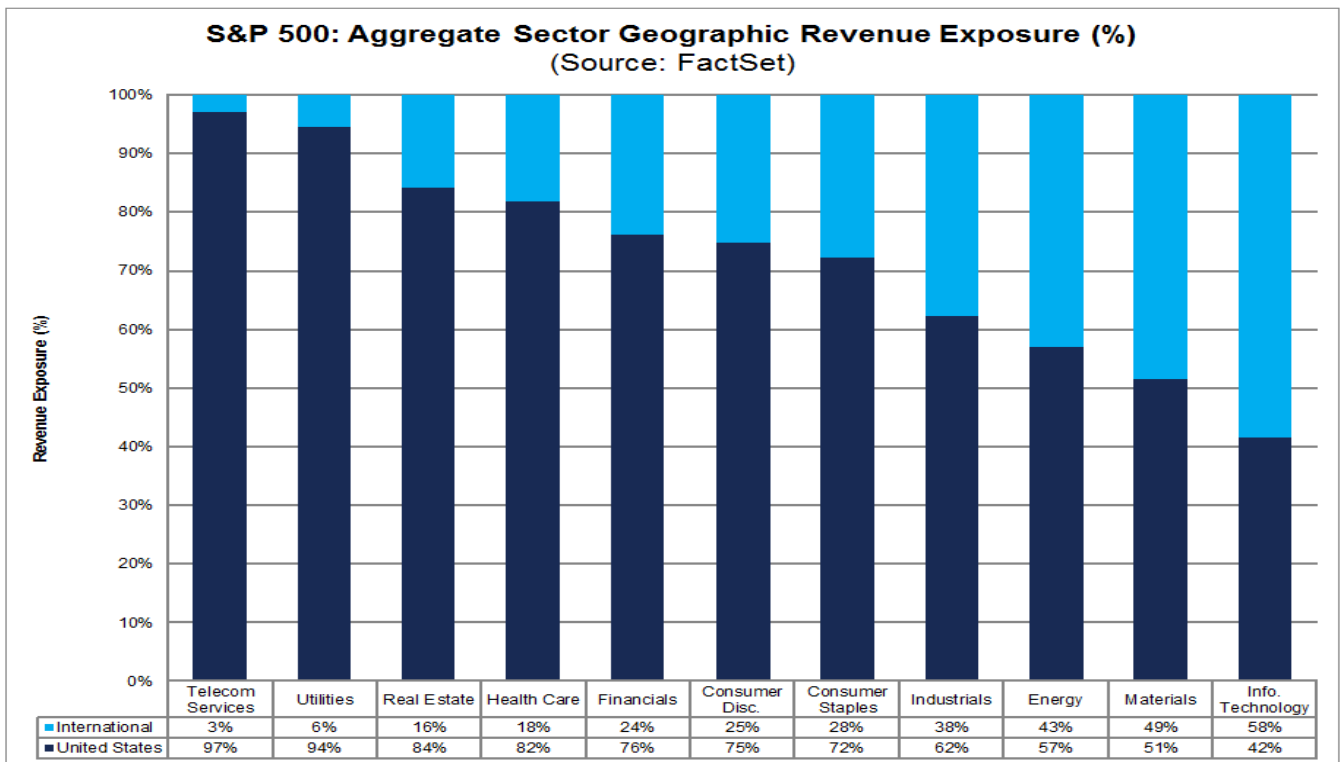
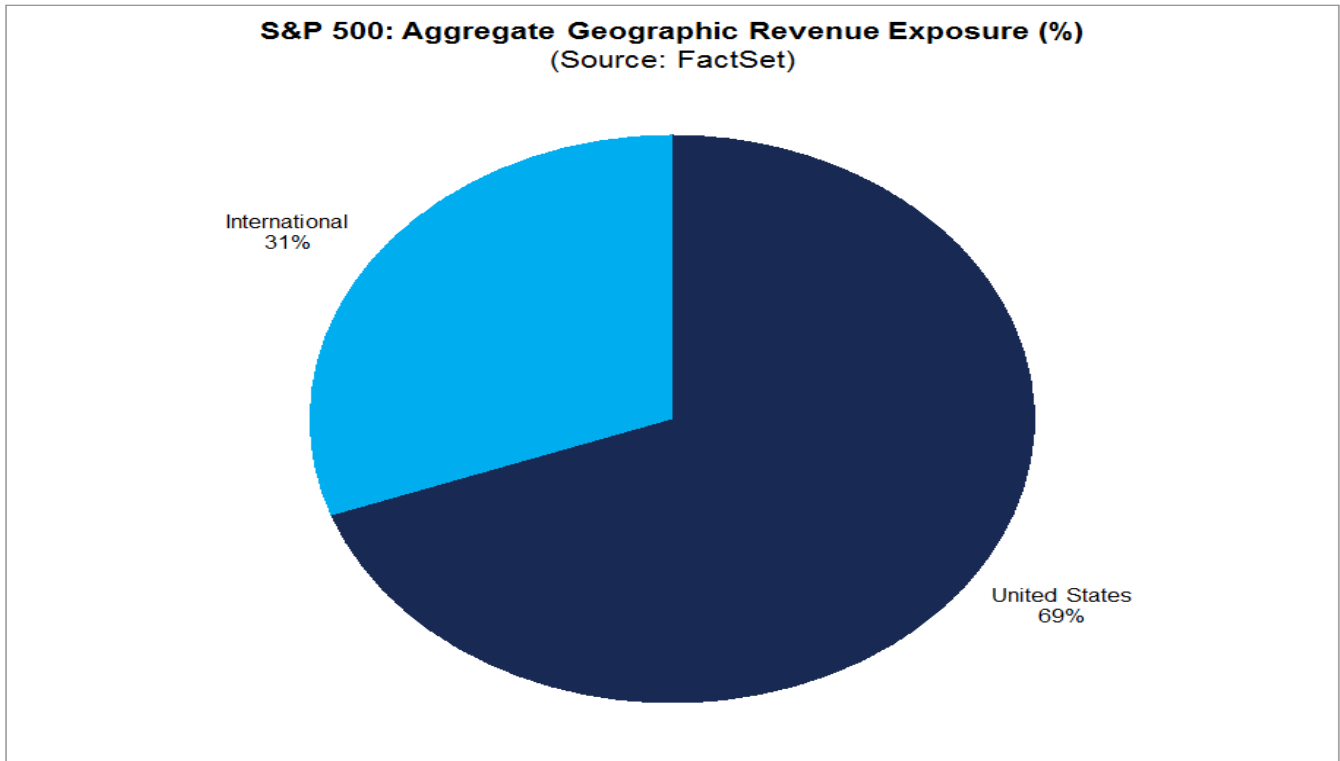
## CY 2017: Growth



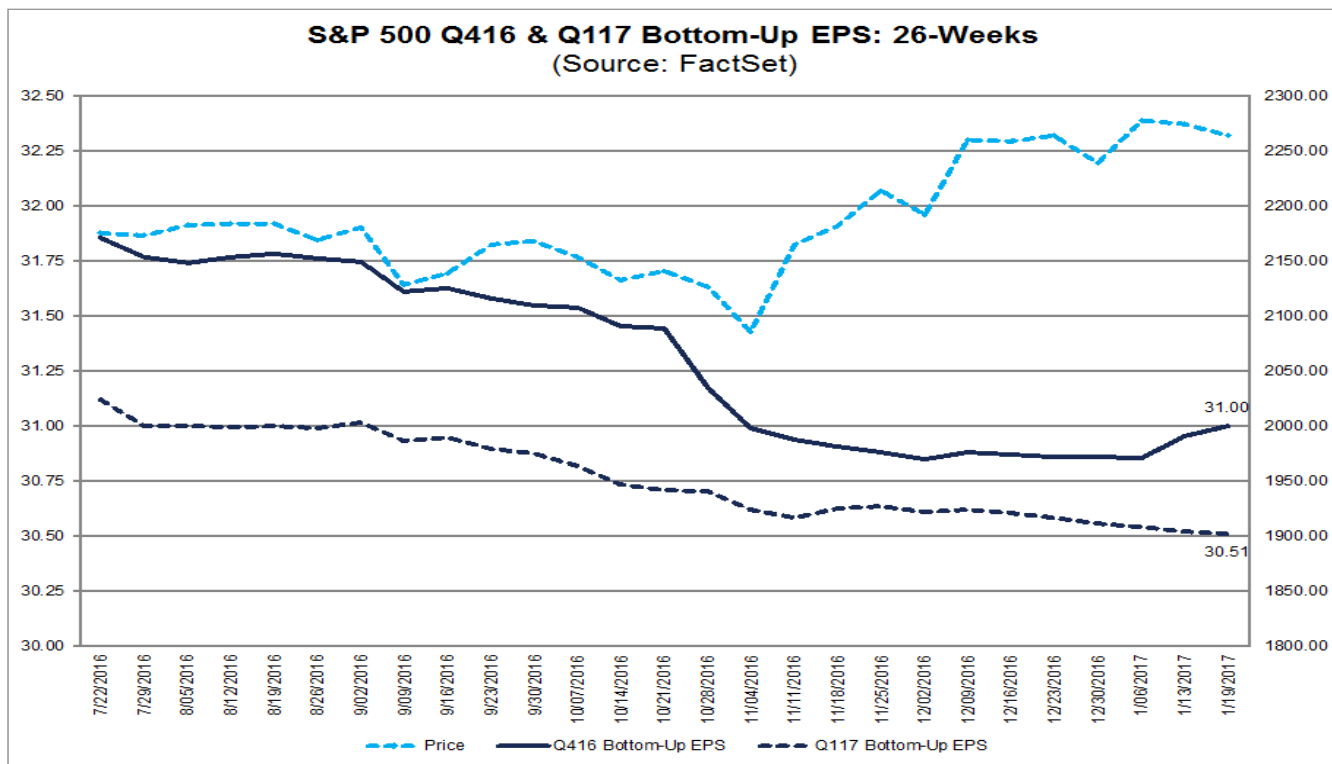
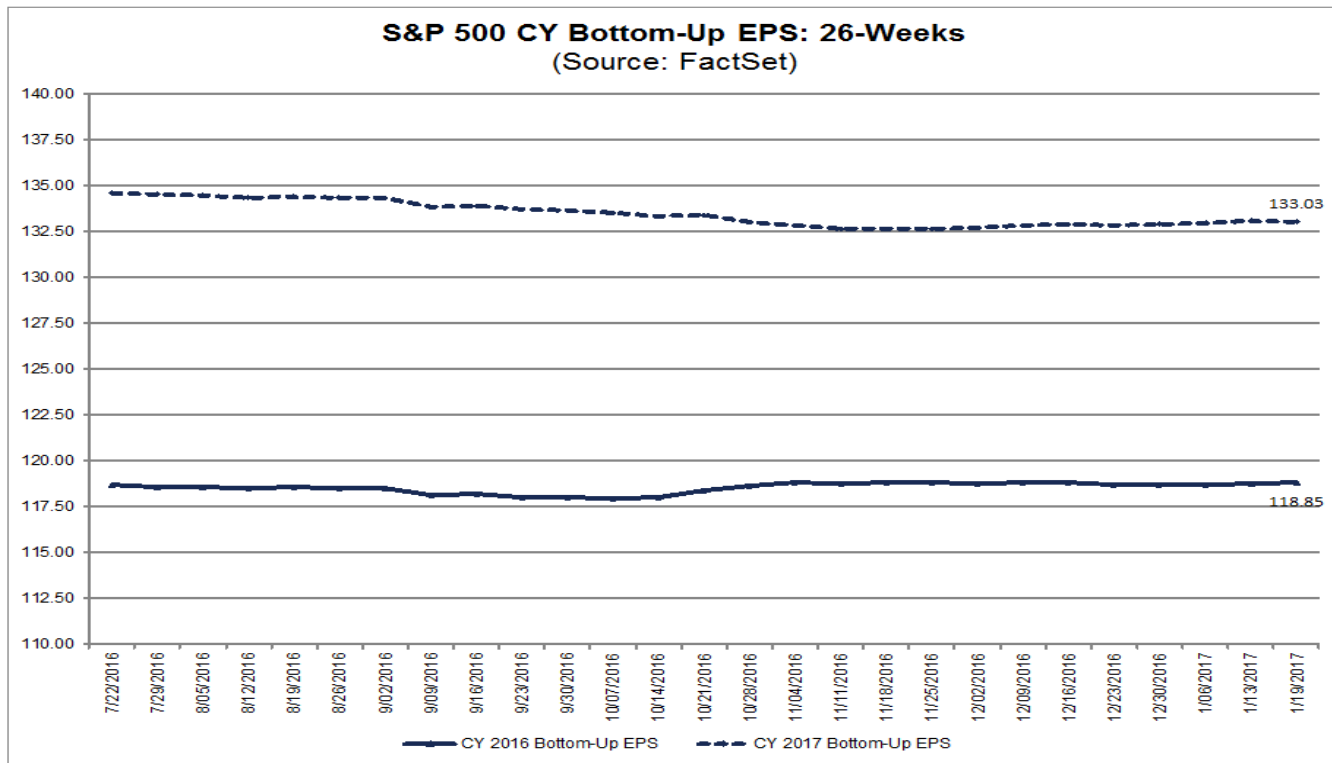
## CY 2018: Growth



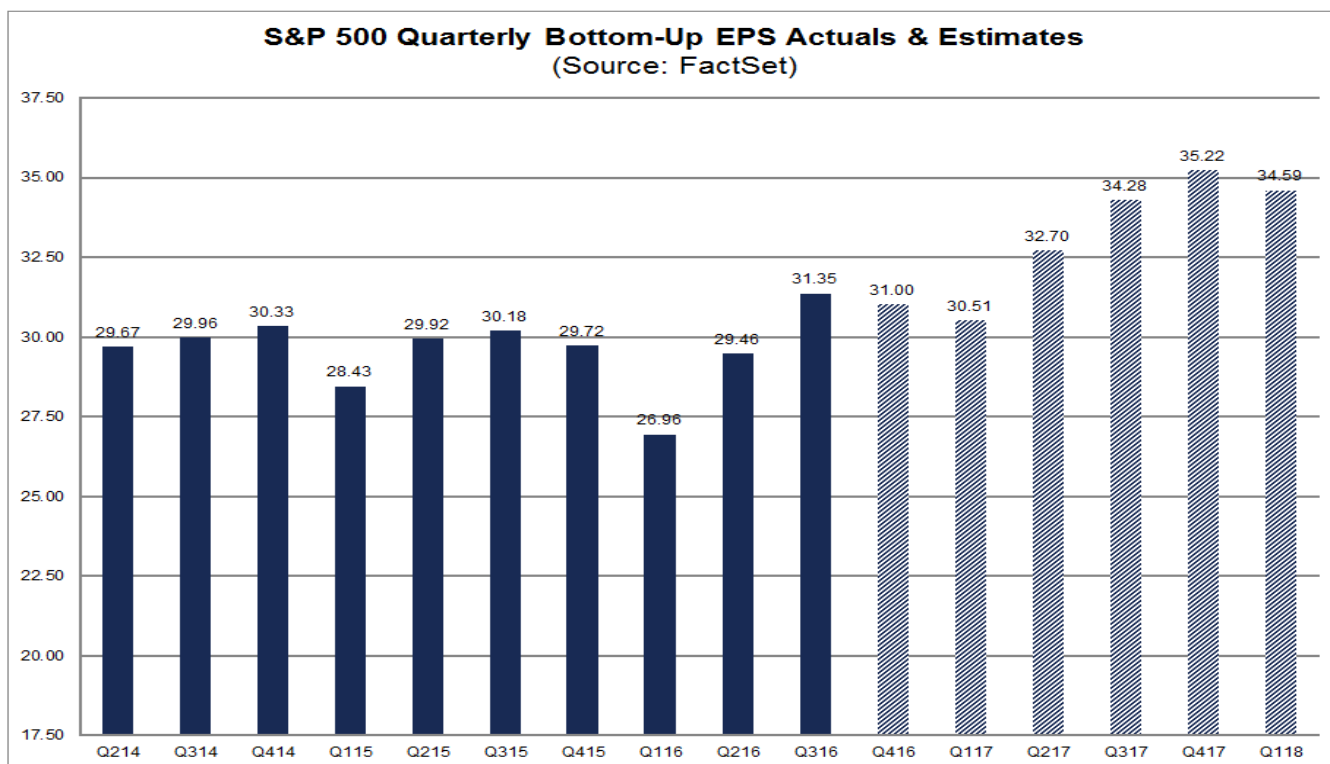
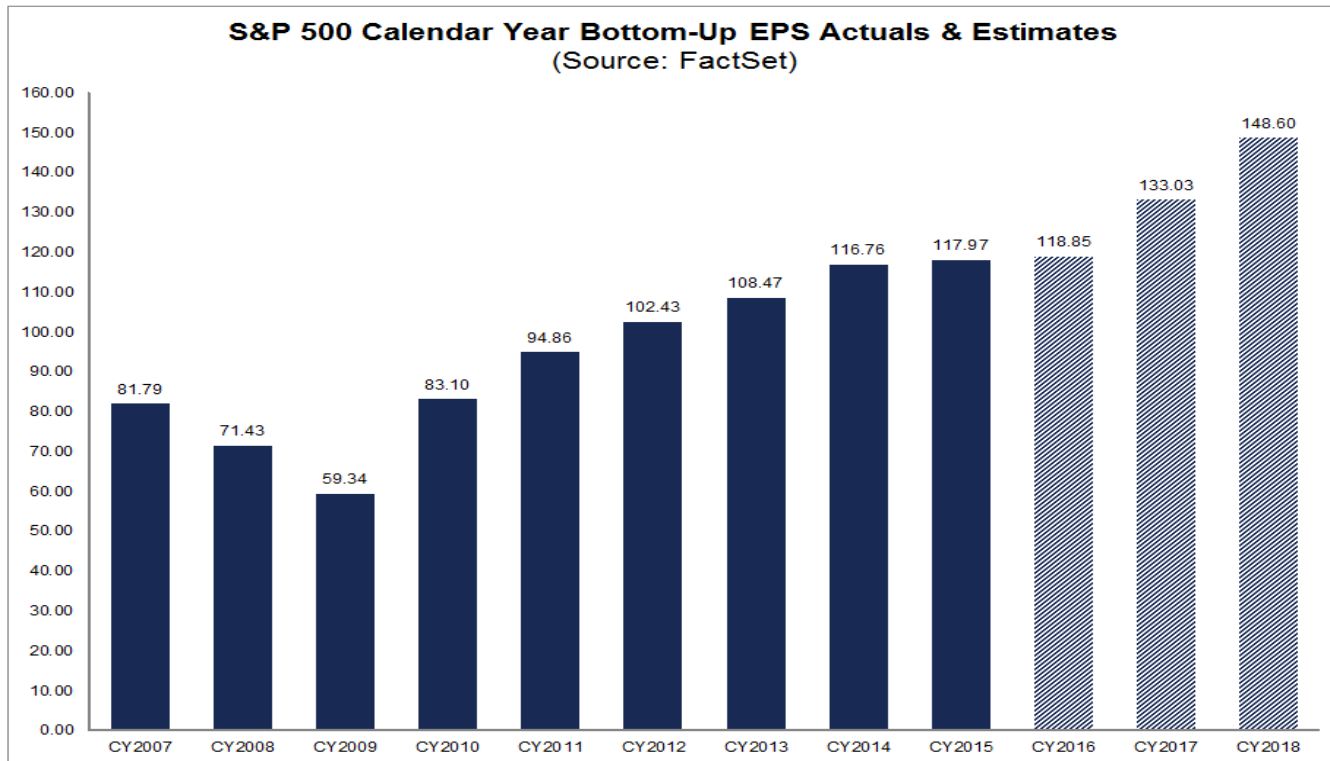
## Geographic Revenue Exposure



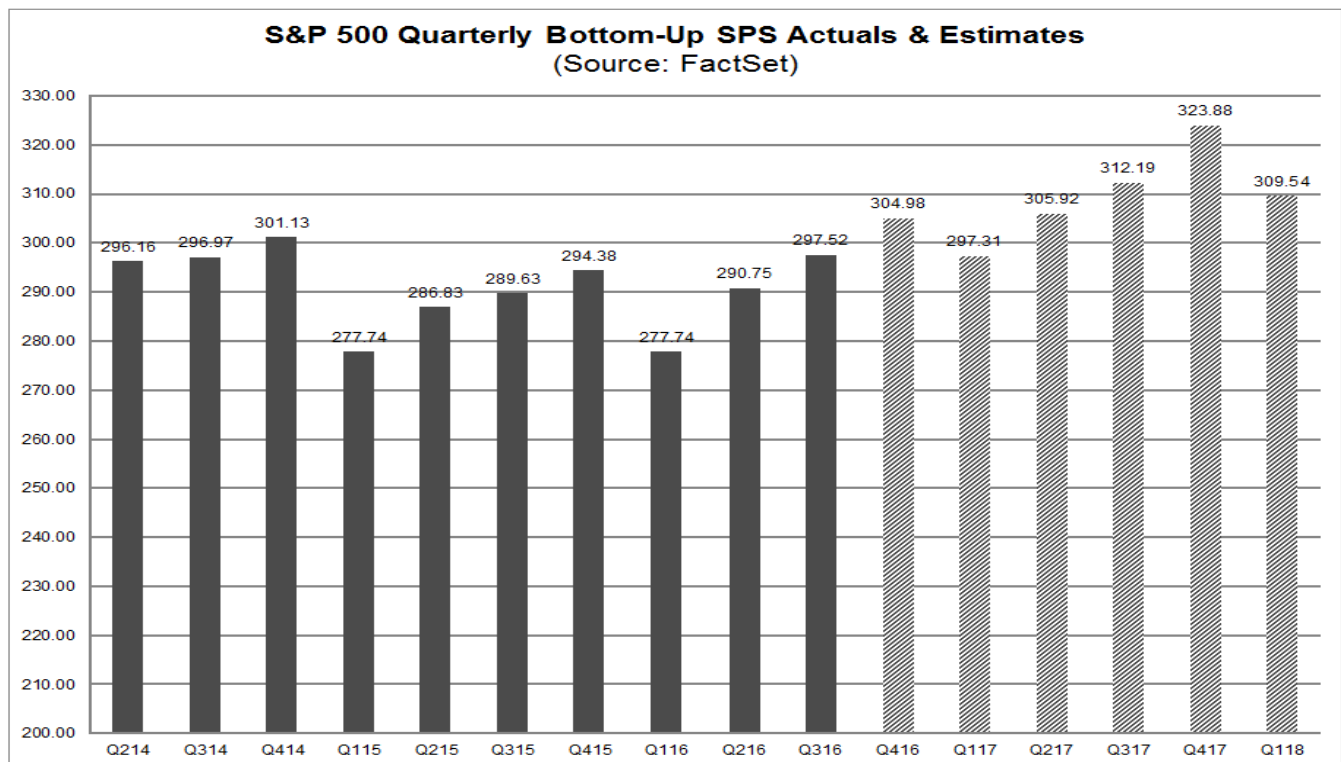
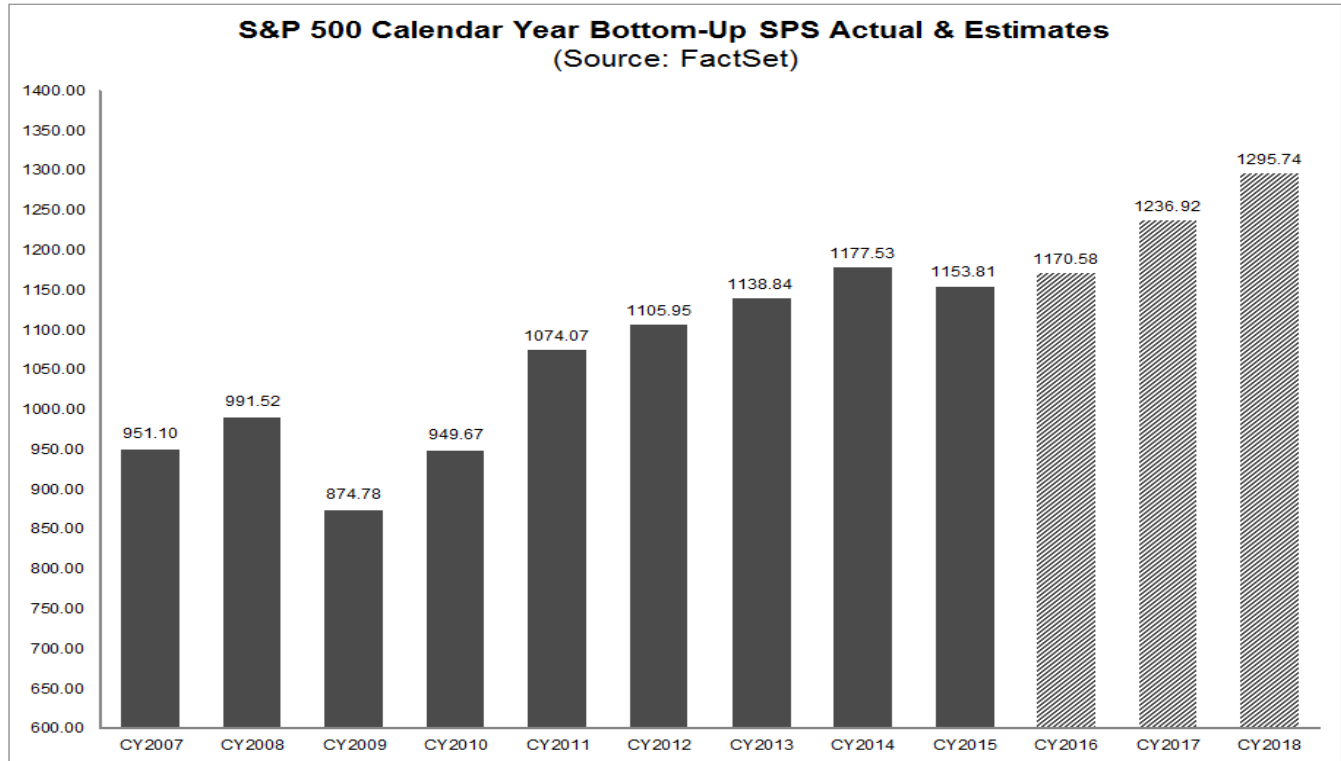
## Bottom-up EPS Estimates: Revisions



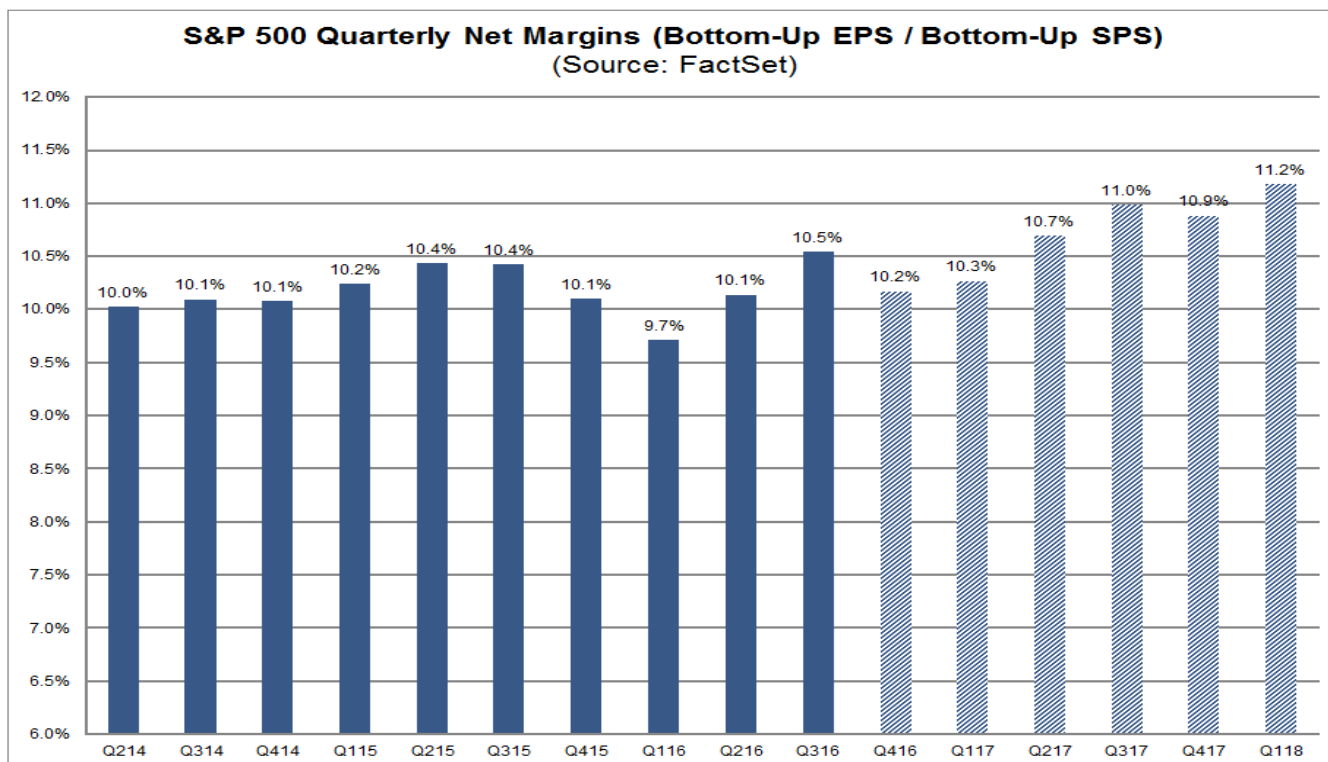
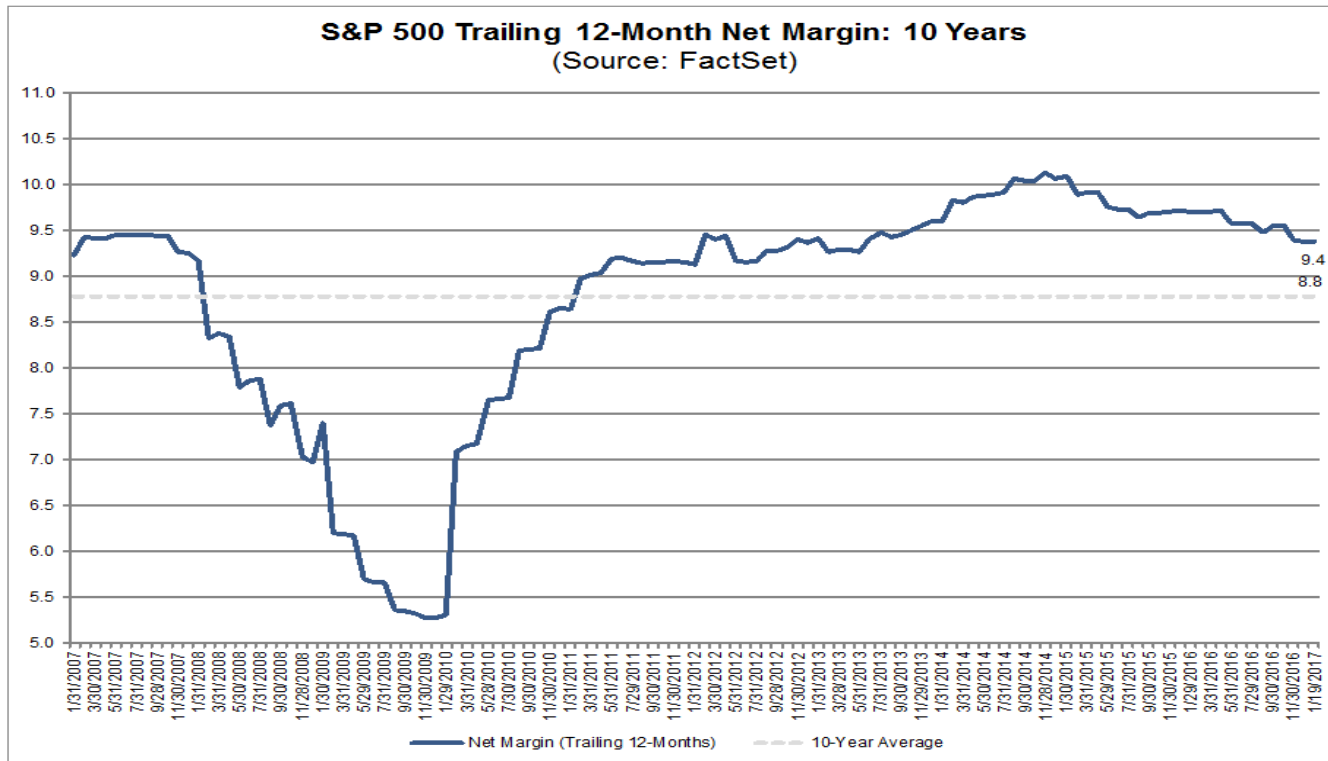
## Bottom-up EPS Estimates: Current & Historical



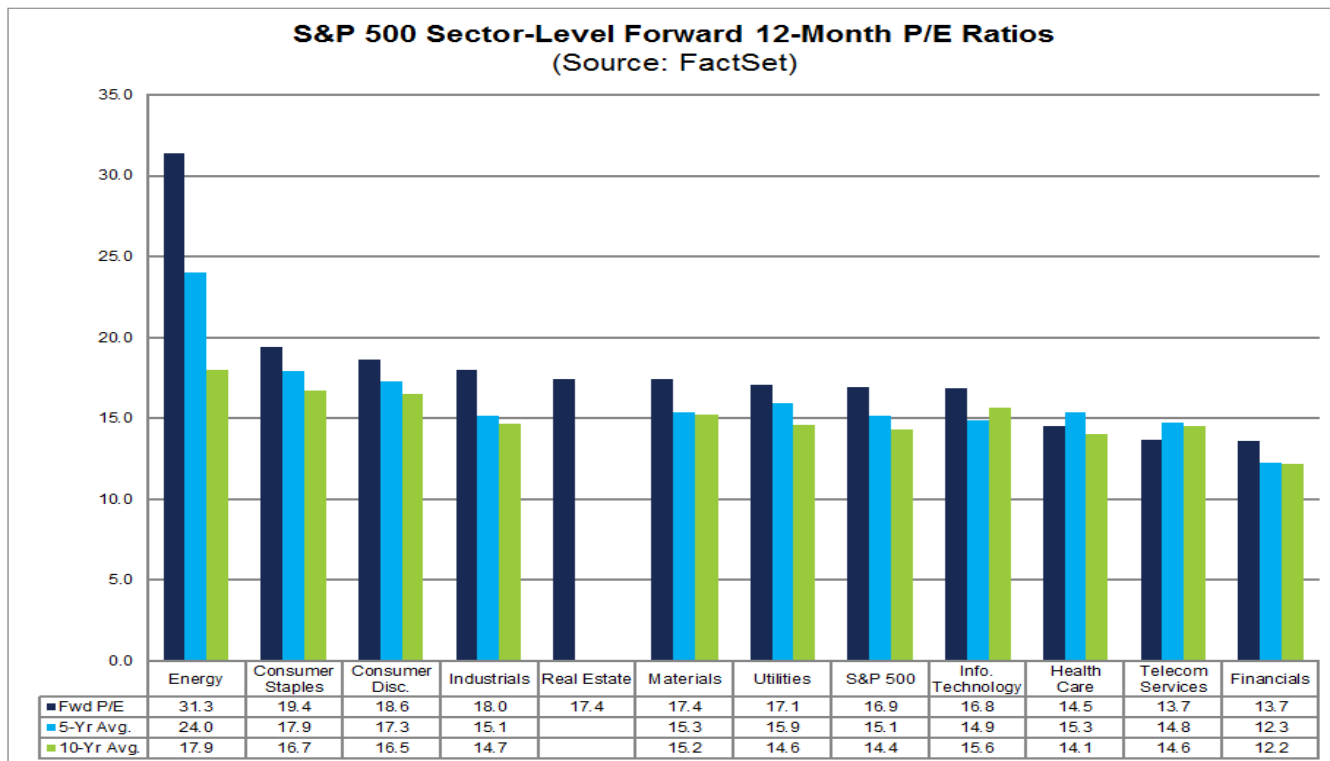
## Bottom-up SPS Estimates: Current & Historical



# Net Margins: Current & Historical

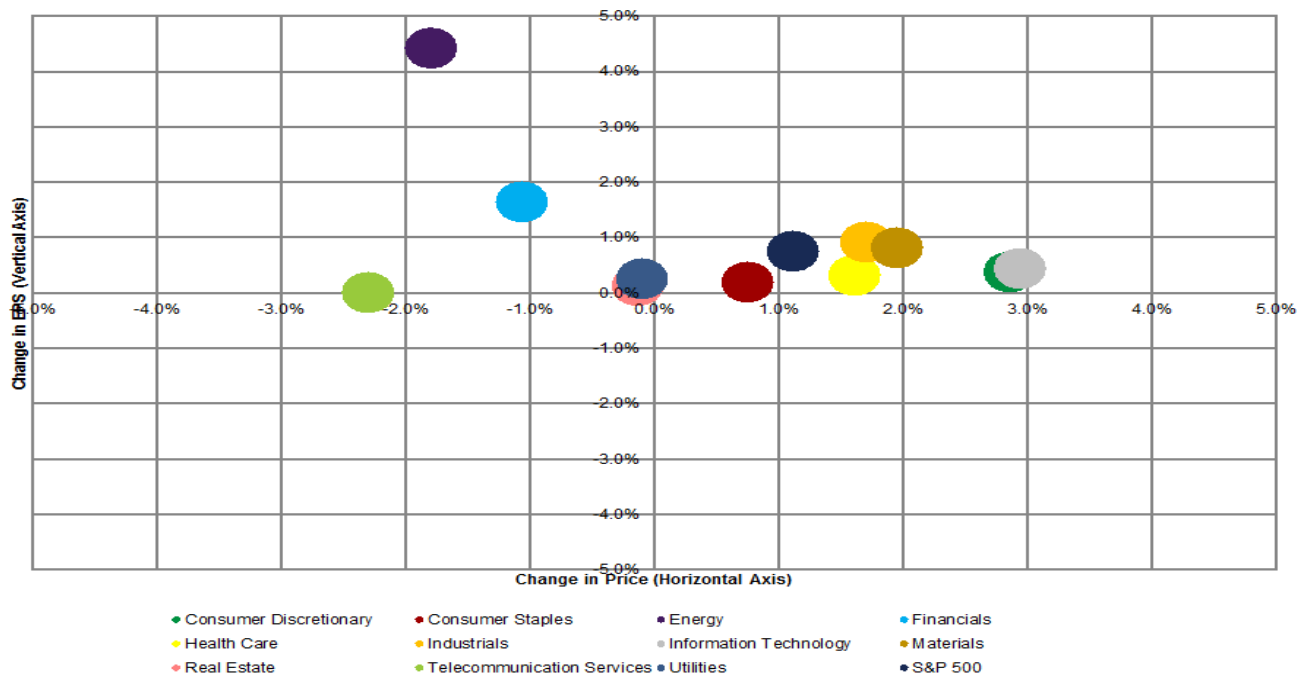


## Forward 12M P/E Ratio: Sector Level



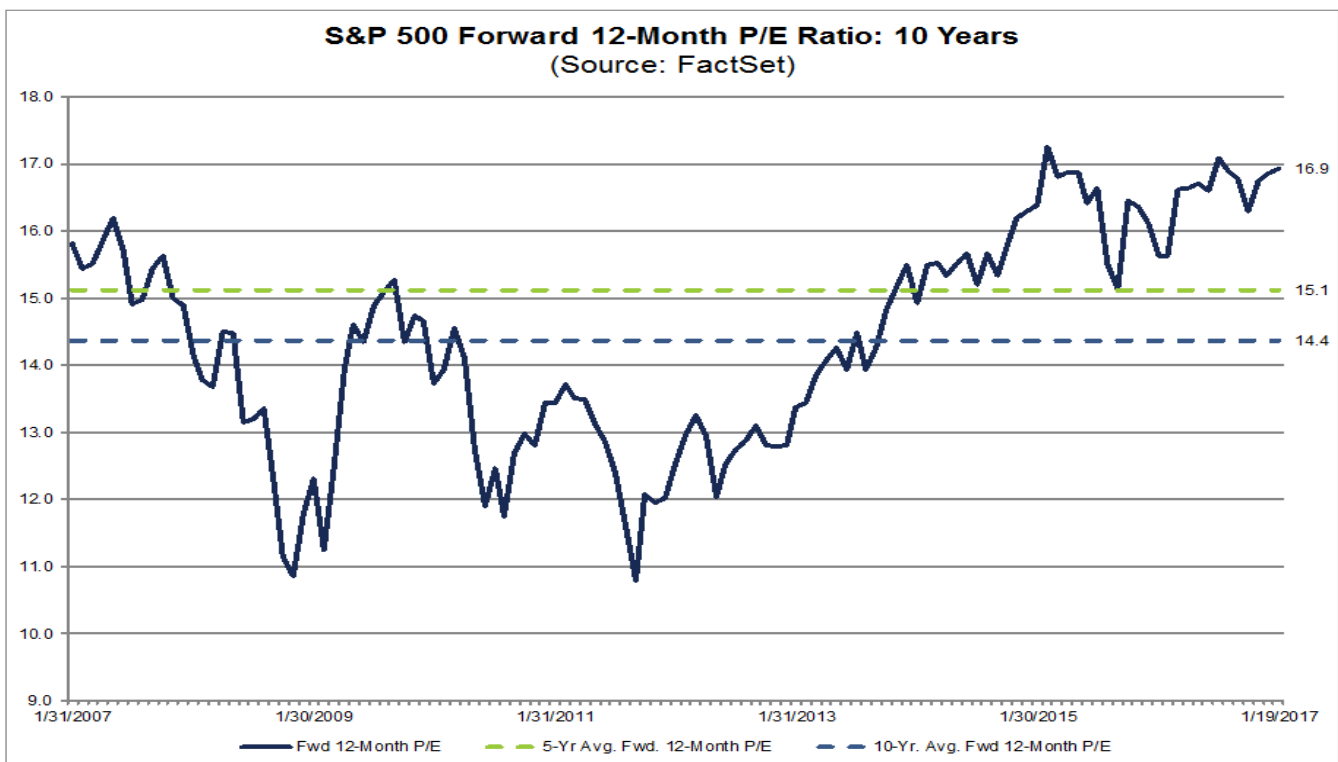
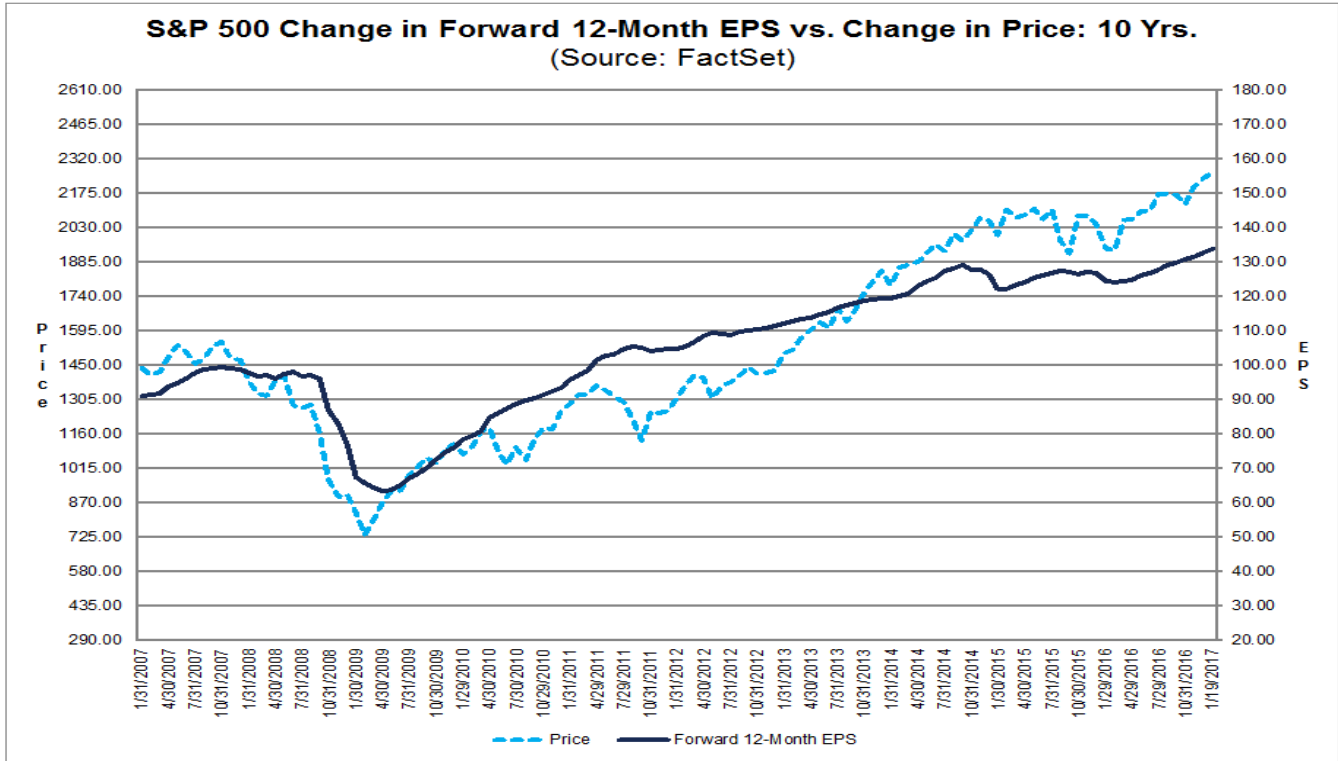
## Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Dec. 31

(Source: FactSet)

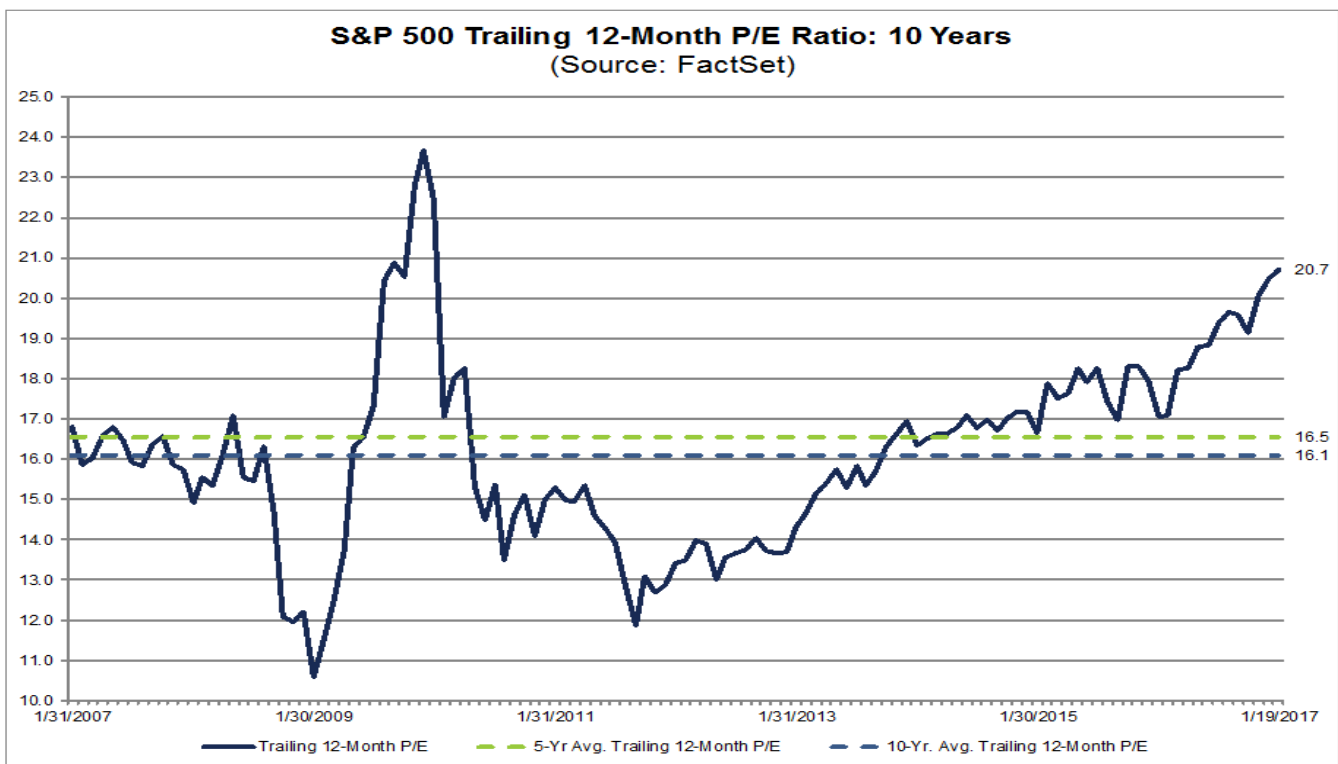
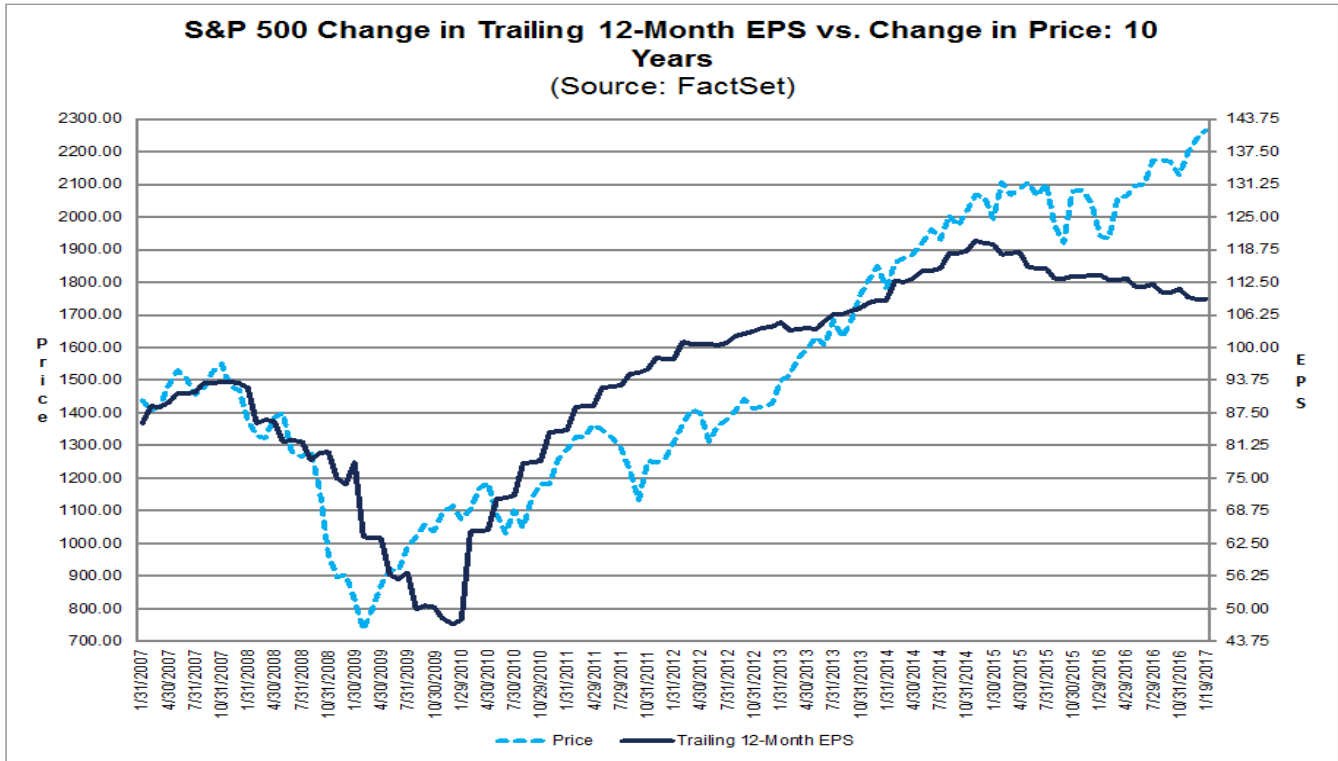




## Forward 12M P/E Ratio: Long-Term Averages



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



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