

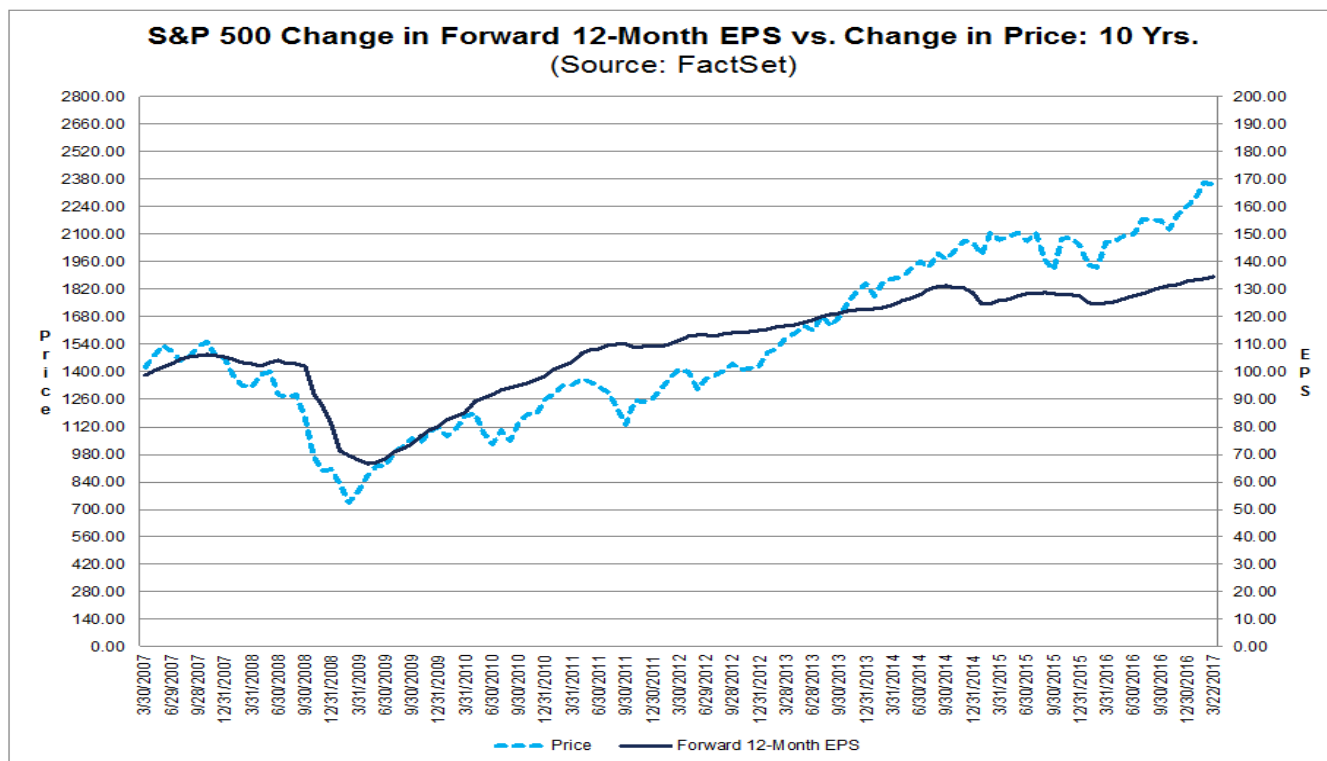
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March 24, 2017

## Key Metrics

- Earnings Growth:** For Q1 2017, the estimated earnings growth rate for the S&P 500 is 9.1%. If 9.1% is the actual growth rate for the quarter, it will mark the highest (year-over-year) earnings growth for the index since Q4 2011 (11.6%).
- Earnings Revisions:** On December 31, the estimated earnings growth rate for Q1 2017 was 12.5%. Nine of the eleven sectors have lower growth rates today (compared to December 31) due to downward revisions to earnings estimates, led by the Materials sector.
- Earnings Guidance:** For Q1 2017, 79 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 17.5. This P/E ratio is based on Wednesday's closing price (2348.45) and forward 12-month EPS estimate (\$134.50).
- Earnings Scorecard:** As of today (with 12 companies in the S&P 500 reporting actual results for Q1 2017), 9 S&P 500 companies have beat the mean EPS estimate and 6 S&P 500 companies have beat the mean sales estimate.



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## Topic of the Week:

### Energy Sector Projected to be Largest Contributor to Earnings Growth for S&P 500 for Q1

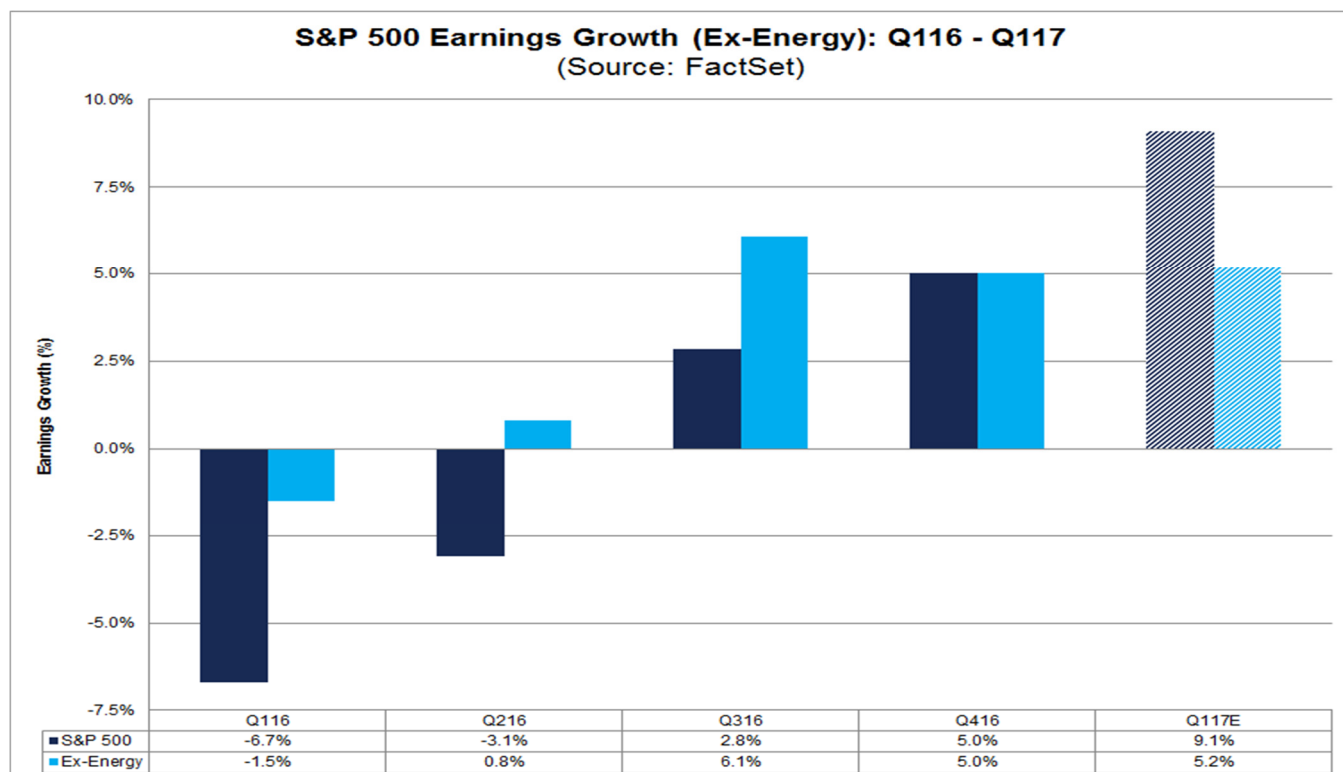
For Q1 2017, the estimated earnings growth rate for the S&P 500 is 9.1%. If 9.1% is the actual earnings growth rate for the quarter, it will mark the highest year-over-year earnings growth reported by the index since Q4 2011 (11.6%).

At the sector level, eight sectors are projected to report year-over-year growth in earnings for Q1. However, the sector that is expected to be the largest contributor to earnings growth for the S&P 500 is the Energy sector. What is driving the projected positive contribution of the Energy sector to the overall earnings growth for the index in Q1 2017? It is due to a combination of higher oil prices in Q1 2017 and easier comparisons to lower earnings in Q1 2016.

Although the price of oil has declined over the past few weeks, the average price of oil (\$/bbl.) to date for Q1 2017 is \$52.07. This figure is more than 50% higher than the average price of oil in Q1 2016 (\$33.69).

In terms of earnings comparisons, the Energy sector reported an aggregate loss in the year-ago quarter. Because of this loss, a growth rate is not being calculated for the Energy sector for Q1 2017. On a dollar-level basis, the Energy sector is projected to report earnings of \$7.7 billion in Q1 2017, compared to a loss of -1.5 billion in Q1 2016. Due to this projected \$9.2 billion year-over-year increase in earnings, the Energy sector is expected to be the largest contributor to earnings growth for the S&P 500 as a whole for Q1 2017.

If the Energy sector is excluded, the estimated earnings growth rate for the index for Q1 2017 would fall to 5.2% from 9.1%.



## Q1 2017 Earnings Season: By The Numbers

### Overview

In terms of estimate revisions for companies in the S&P 500, analysts have made smaller cuts than average to earnings estimates for Q1 2017 to date. On a per-share basis, estimated earnings for the first quarter have fallen by 3.4% since December 31. This percentage decline is smaller than the trailing 5-year average (-4.5%) and the trailing 10-year average (-5.8%) for a quarter.

In addition, a smaller percentage of S&P 500 companies have lowered the bar for earnings for Q1 2017 relative to recent averages. Of the 111 companies that have issued EPS guidance for the first quarter, 79 have issued negative EPS guidance and 32 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 71% (79 out of 111), which is below the 5-year average of 74%.

Because of the downward revisions to earnings estimates, the estimated year-over-year earnings growth rate for Q1 2017 is 9.1% today. On December 31, the expected earnings growth rate was 12.5%. Eight sectors are predicted to report year-over-year earnings growth, led by the Energy, Financials, Information Technology, and Materials sectors. Three sectors are projected to report a year-over-year decline in earnings, led by the Industrials sector.

Because of downward revisions to sales estimates, the estimated sales growth rate for Q4 2016 is 7.2%. On December 31, the expected revenue growth rate was 8.0%. Ten sectors 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.

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

The forward 12-month P/E ratio is 17.5, which is above the 5-year average and the 10-year average.

During the upcoming week, five S&P 500 companies are scheduled to report results for the first quarter.

### Earnings Revisions: Materials Sector Has Recorded Largest Drop in Expected Earnings Growth

#### Small Decrease in Estimated Earnings Growth Rate for Q1 This Week

The estimated earnings growth rate for the first quarter is 9.1% this week, which is slightly below the estimated earnings growth rate of 9.2% last week. Small downward revisions to EPS estimates for companies in multiple sectors were mainly responsible for the slight decrease in the overall earnings growth rate for the index during the week.

Overall, the estimated earnings growth rate for Q1 2017 of 9.1% today is below the estimated earnings growth rate of 12.5% at the start of the quarter (December 31). Nine sectors have recorded a decline in expected earnings growth since the beginning of the quarter due to downward revisions to earnings estimates, led by the Materials and Industrials sectors.

#### Materials: Largest Decline in Expected Earnings Growth since December 31, Led By Freeport-McMoRan

The Materials sector has recorded the largest decrease in expected earnings growth since the start of the quarter (to 11.0% from 19.9%). Despite the decline in estimated earnings, the sector has witnessed an increase in price of 4.4% during this same period. Overall, 19 of the 25 companies (76%) in the Materials sector have seen a decline in their mean EPS estimate during this time. Of these 19 companies, 11 have recorded a decrease in their mean EPS estimate of more than 10%, led by Freeport-McMoRan (to \$0.19 from \$0.41). This company is also the largest contributor to the decrease in earnings growth for this sector since December 31. The price of the stock has decreased by 2.5% over this same period.

#### Industrials: 2nd Largest Decrease in Expected Earnings Growth, Led by GE

The Industrials sector has recorded the second largest decrease in expected earnings growth since the start of the quarter (to -7.0% from 0.3%). Despite the decrease in estimated earnings, this sector has witnessed an increase in price of 3.5% since the start of the quarter. Overall, 49 of the 68 companies (72%) in this sector have seen a decline in their mean EPS estimate during this time. Of these 49 companies, 13 have recorded a drop in their mean EPS

estimate of more than 10%, led by Flowserve (to \$0.19 from \$0.40) and General Electric (to \$0.18 from \$0.29). General Electric is also the largest contributor to the decrease in earnings growth for this sector since December 31. The price of the stock has decreased by 6.0% over this same period.

#### Index-Level (Bottom-Up) EPS Estimate: Below Average Decline to Date

Downward revisions to earnings estimates in aggregate for the first quarter to date have been below recent averages. The Q1 bottom-up EPS estimate (which is an aggregation of the earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings for the index) has fallen by 3.4% (to \$29.56 from \$30.59) since December 31. This decline in the EPS estimate for Q1 2017 is below the trailing 1-year (-4.8%) average, the trailing 5-year (-4.5%), and the trailing 10-year average (-5.8%) for the bottom-up EPS estimate for a quarter.

#### Guidance: Negative EPS Guidance (71%) for Q1 Below Average

At this point in time, 111 companies in the index have issued EPS guidance for Q1 2017. Of these 111 companies, 79 have issued negative EPS guidance and 32 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 71% (79 out of 111), which is below the 5-year average of 74%.

In the Information Technology sector, more companies have issued positive EPS guidance (19) than negative EPS guidance (18).

#### Earnings Growth: Highest Estimated Earnings Growth (9.1%) since Q4 2011 (11.6%)

The estimated earnings growth rate for Q1 2017 is 9.1%. If the index reports earnings growth for Q1, it will mark the first time the index has seen year-over-year growth in earnings for three consecutive quarters since Q3 2014 through Q1 2015 (0.5%). If 9.1% is the actual earnings growth rate for the quarter, it will mark the highest year-over-year earnings growth reported by the index since Q4 2011 (11.6%). Eight sectors are projected to report year-over-year growth in earnings, led by the Energy, Financials, Information Technology, and Materials sectors. Three sectors are projected to report a year-over-year decline in earnings, led by the Industrials sectors.

#### Energy: Largest Contributor to Earnings Growth for Q1

A growth rate is not being calculated for the Energy sector because the sector reported a loss in the year-ago quarter. On a dollar-level basis, the Energy sector is projected to report earnings of \$7.7 billion in Q1 2017, compared to a loss of -1.5 billion in Q1 2016. Due to this projected \$9.2 billion year-over-year increase in earnings, the Energy sector is expected to be the largest contributor to earnings growth for the S&P 500 as a whole. If this sector is excluded, the estimated earnings growth rate for the remaining ten sectors would fall to 5.2% from 9.1%

At the sub-industry level, four of the six sub-industries in the sector are projected to report earnings growth: Oil & Gas Exploration & Production (N/A), Integrated Oil & Gas (479%), Oil & Gas Storage & Transportation (25%), and Oil & Gas Equipment & Services (12%). On the other hand, the Oil & Gas Drilling (-258%) and Oil & Gas Refining & Marketing (-26%) sub-industries are predicted to report a year-over-year decline in earnings.

#### Financials: Balanced Growth Across Sector

The Financials sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 14.8%. At the industry level, four of the five industries in this sector are predicted to report earnings growth. All four of these industries are expected to report double-digit earnings growth: Diversified Financial Services (56%), Capital Markets (25%), Insurance (13%), and Banks (12%). At the company level, Bank of America and Goldman Sachs are the largest contributors to earnings growth for this sector. The mean EPS estimate for Bank of America for Q1 2017 is \$0.35, compared to year-ago EPS of \$0.21. The mean EPS estimate for Goldman Sachs for Q1 2017 is \$5.03, compared to year-ago EPS of \$2.68.

#### Information Technology: Balanced Growth Across Sector, Led by Semiconductor Industry

The Information Technology sector is expected to report the second highest (year-over-year) earnings growth of all eleven sectors at 13.2%. At the industry level, all seven industries in this sector are predicted to report earnings growth. Three of these seven industries are expected to report double-digit earnings growth: Semiconductor &

Semiconductor Equipment (48%), Internet Software & Services (12%), and Electronic Equipment, Instruments, & Components (11%). The Semiconductor and Semiconductor Equipment industry is also the largest contributor to earnings growth for the sector. If this industry is excluded, the estimated earnings growth rate for the Information Technology sector would fall to 7.1% from 13.2%. At the company level, Micron Technology and Facebook are the largest contributors to earnings growth for this sector. The mean EPS estimate for Micron Technology for Q1 2017 is \$0.90, compared to year-ago EPS of -\$0.05. The mean EPS estimate for Facebook for Q1 2017 is \$1.12, compared to year-ago EPS of \$0.77.

#### Materials: Metals & Mining Industry Leads Growth

The Materials sector is expected to report the third highest (year-over-year) earnings growth of all eleven sectors at 11.0%. At the industry level, two of the four industries in this sector are predicted to report earnings growth, led by the Metals & Mining (749%) industry. The Metals & Mining industry is also the largest contributor to earnings growth for the sector. If this industry is excluded, the estimated earnings growth rate for the Information Technology sector would fall to 2.5% from 11.0%. At the company level, Freeport-McMoRan is the largest contributor to earnings growth for the sector. The mean EPS estimate for this company for Q1 2017 is \$0.19, compared to year-ago EPS of -\$0.16. If this company alone is excluded, the estimated earnings growth rate for the Materials sector would fall to 4.6% from 11.0%.

#### Industrials: Airlines Industry Leads Decline

The Industrials sector is expected to report the largest (year-over-year) earnings decline of all eleven sectors at -7.0%. At the industry level, eight of the twelve industries in this sector are predicted to report an earnings decline, led by the Airlines (-52%) industry. The Airlines industry is also the largest contributor to the projected year-over-year decline in earnings for this sector. If this industry is excluded, the estimated earnings decline for the Industrials sector would drop to -0.5% from -7.0%. At the company level, American Airlines Group and Delta Air Lines are the largest contributors to the earnings decline for this sector. The mean EPS estimate for American Airlines Group for Q1 2017 is \$0.49, compared to year-ago EPS of \$1.25. The mean EPS estimate for Delta Air Lines for Q1 2017 is \$0.75, compared to year-ago EPS of \$1.32.

#### Revenues: Highest Estimated Revenue Growth (7.2%) since Q4 2011 (8.1%)

The estimated revenue growth rate for Q1 2017 is 7.2%. If the index reports revenue growth for Q1, it will mark the first time the index has seen year-over-year growth in sales for three consecutive quarters since Q2 2014 through Q4 2014. If 7.2% is the actual revenue growth rate for the quarter, it will mark the highest year-over-year revenue growth reported by the index since Q4 2011 (8.1%). Ten sectors 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 Q1

The Energy sector is expected to report the highest (year-over-year) revenue growth of all eleven sectors at 35.8%. At the sub-industry level, five of the six sub-industries in the sector are projected to report revenue growth: Oil & Gas Exploration & Production (46%), Integrated Oil & Gas (43%), Oil & Gas Refining & Marketing (35%), Oil & Gas Storage & Transportation (18%), and Oil & Gas Equipment & Services (10%). On the other hand, the Oil & Gas Drilling (-37%) sub-industry is the only sub-industry predicted to report a year-over-year decline in earnings.

This sector is also predicted to be the largest contributor to revenue growth for the S&P 500. If the Energy sector is excluded, the estimated earnings growth rate for the index would fall to 5.2% from 7.2%.

#### 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 -1.6%. Overall, two of the four companies in the sector (50%) are projected to report a decline in sales for the quarter, led by Verizon (-4%).

## Looking Ahead: Forward Estimates and Valuation

### Growth Expected to Continue in 2017

For the first quarter, the estimated earnings growth is 9.1% and the estimated revenue growth is 7.2%. Analysts currently expect earnings and revenue growth to continue in 2017.

For Q2 2017, analysts are projecting earnings growth of 8.9% and revenue growth of 5.3%.

For Q3 2017, analysts are projecting earnings growth of 8.2% and revenue growth of 5.2%.

For Q4 2017, analysts are projecting earnings growth of 12.4% and revenue growth of 5.2%.

For all of 2017, analysts are projecting earnings growth of 9.9% and revenue growth of 5.4%.

### Valuation: Forward P/E Ratio is 17.5, above the 10-Year Average (13.9)

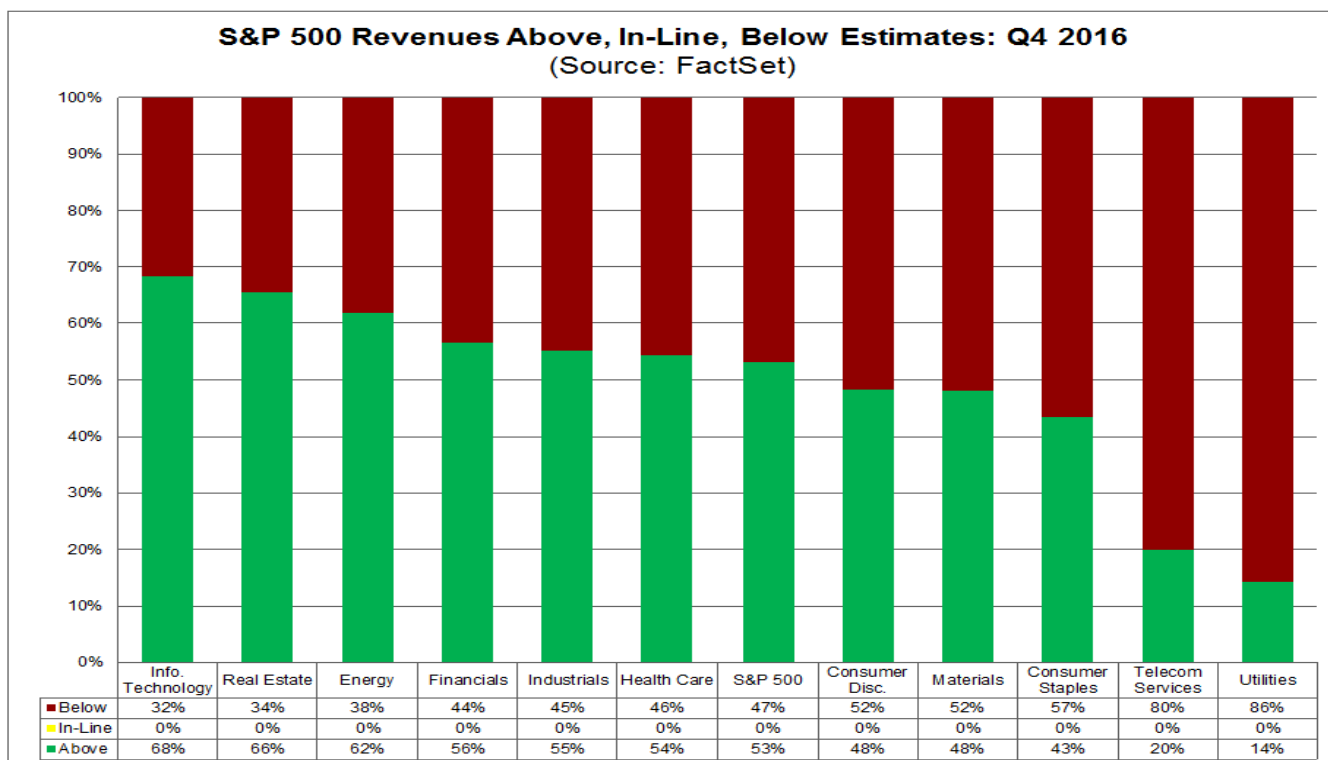
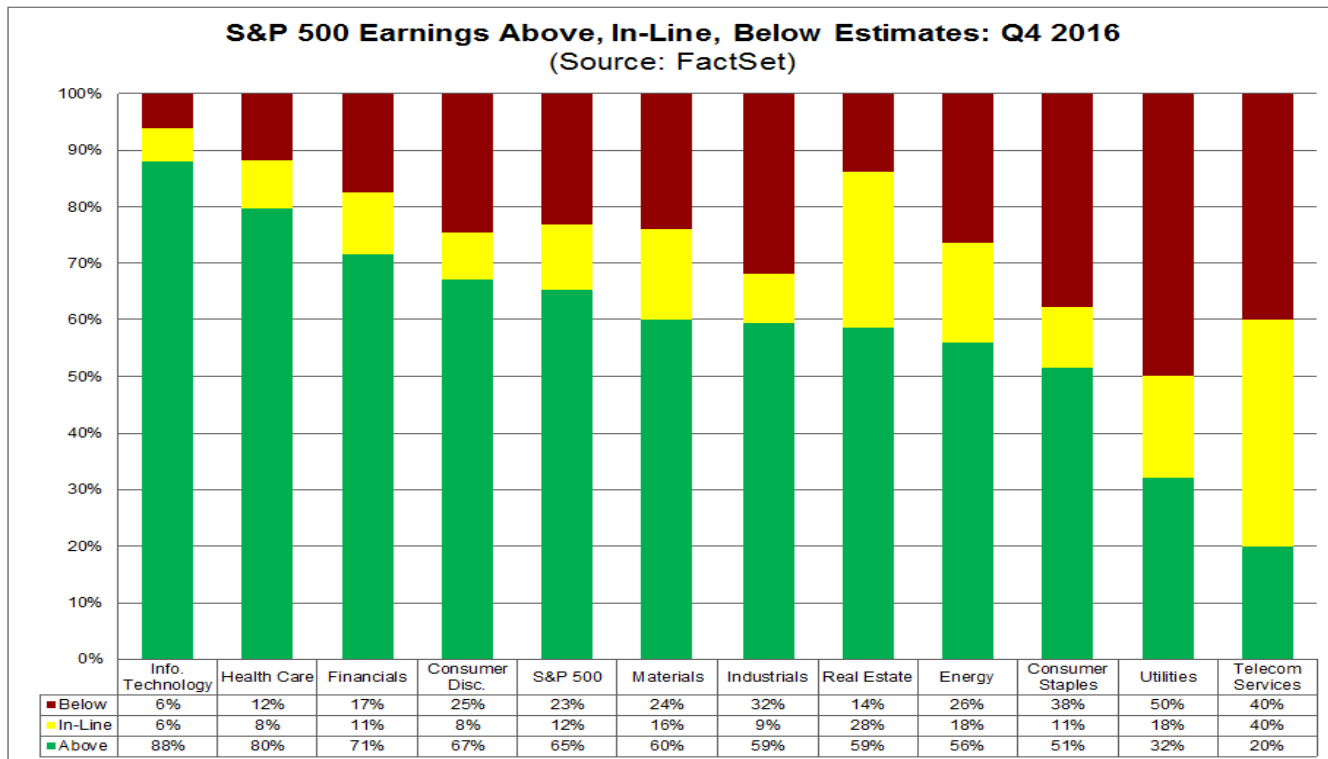
The forward 12-month P/E ratio is 17.5. This P/E ratio is based on Wednesday's closing price (2348.45) and forward 12-month EPS estimate (\$134.50). It is above the 5-year average of 15.0, and above the 10-year average of 13.9. It is also above the forward 12-month P/E ratio of 16.8 recorded at the start of the first quarter (December 31). Since the start of the first quarter, the price of the index has increased by 4.9%, while the forward 12-month EPS estimate has increased by 1.2%.

At the sector level, the Energy (28.3) sector has the highest forward 12-month P/E ratio, while the Telecom Services (13.6) 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 (28.3 vs. 17.9) sector. One sector (Telecom Services) has a forward 12-month P/E ratio that is below the 10-year average (13.6 vs. 14.4). Historical averages are not available for the Real Estate sector.

### Companies Reporting Next Week: 5

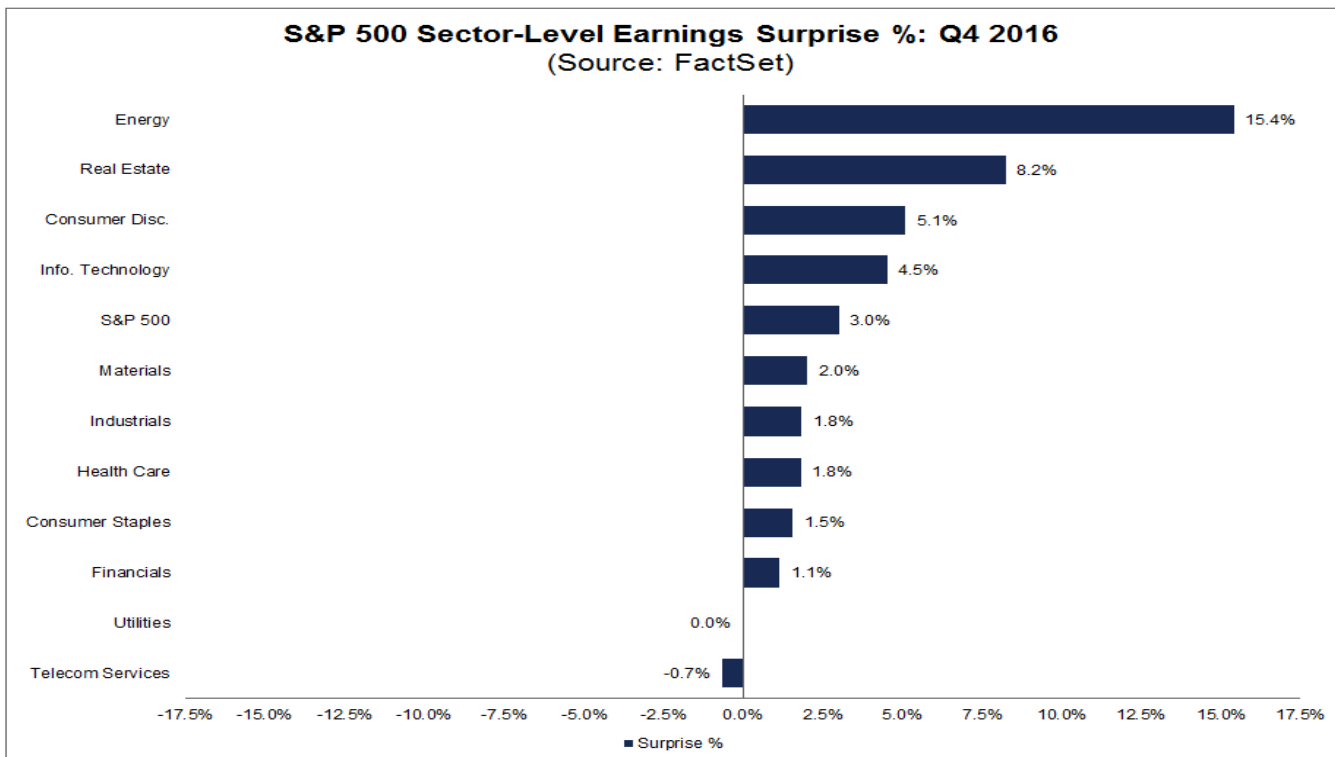
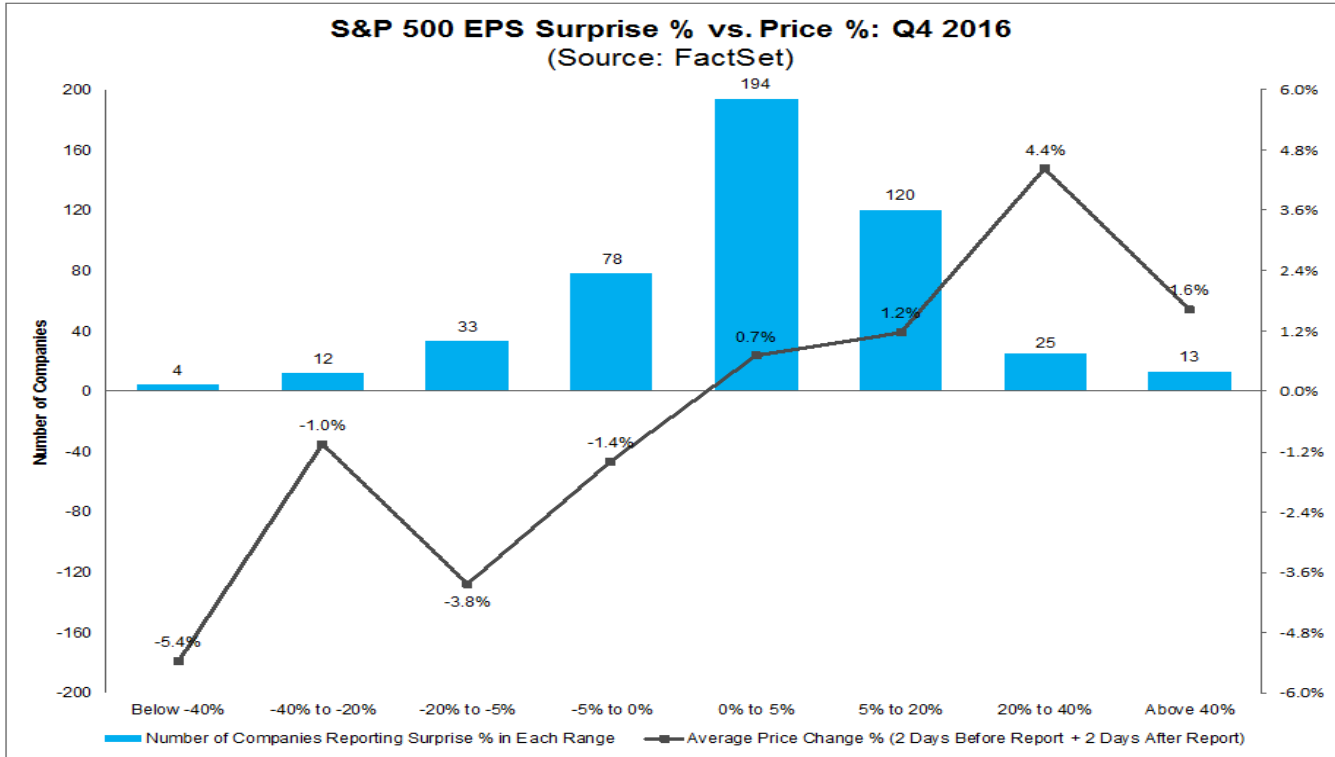
During the upcoming week, five S&P 500 companies are scheduled to report results for the first quarter.

# Q4 2016: Scorecard



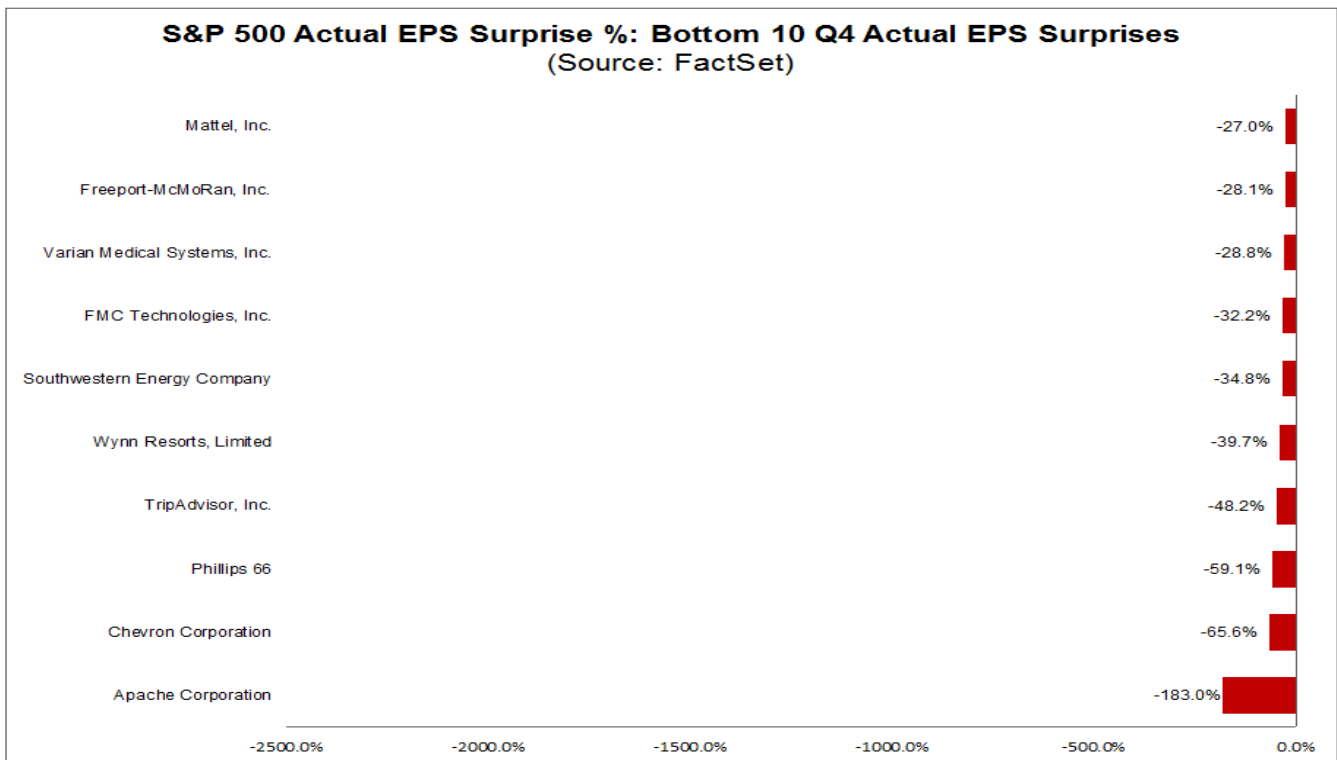
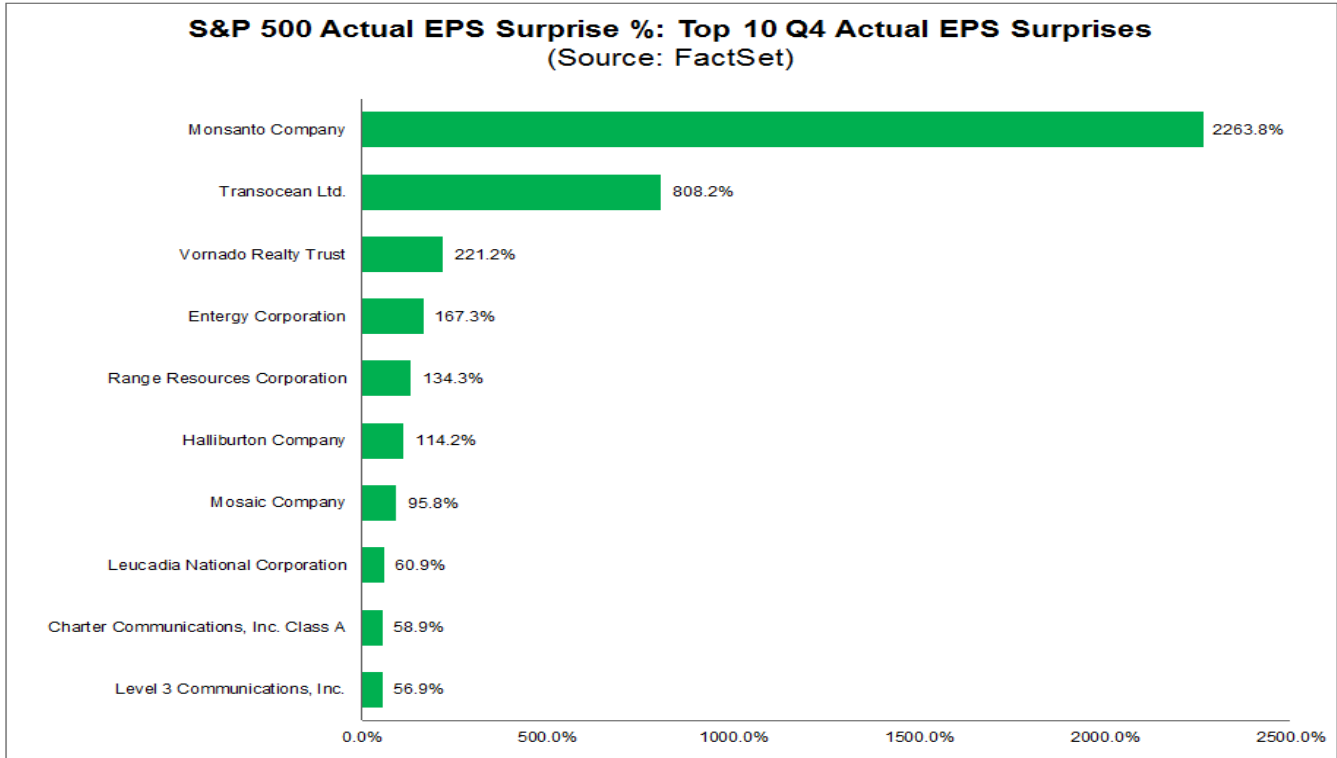


# Q4 2016: Scorecard

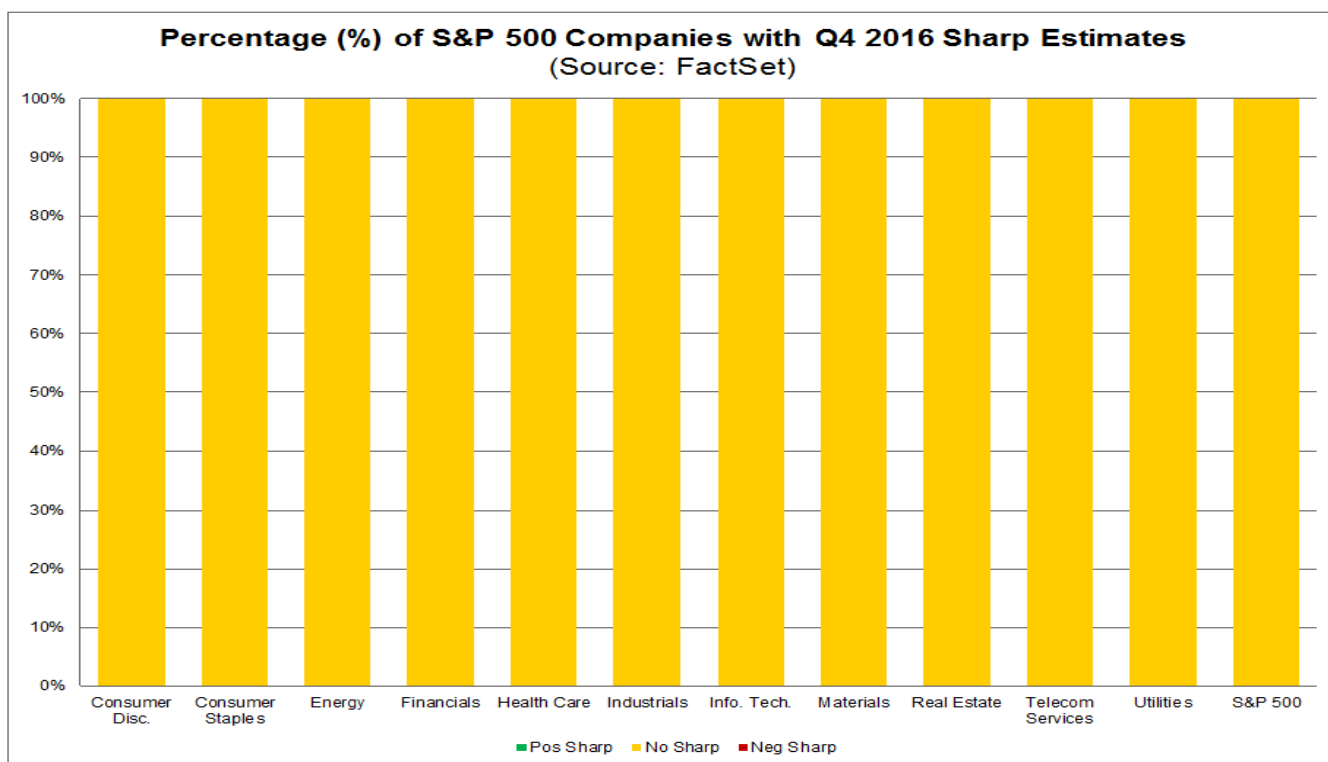
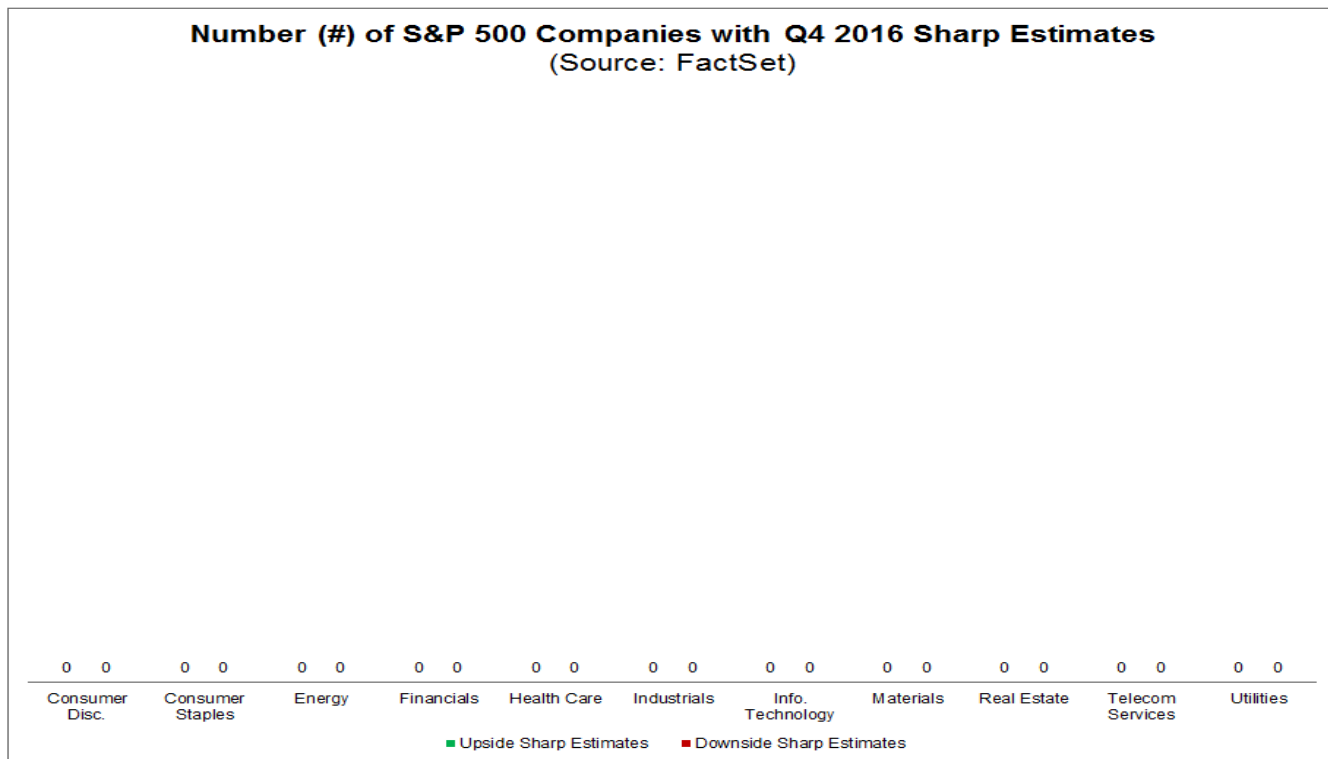




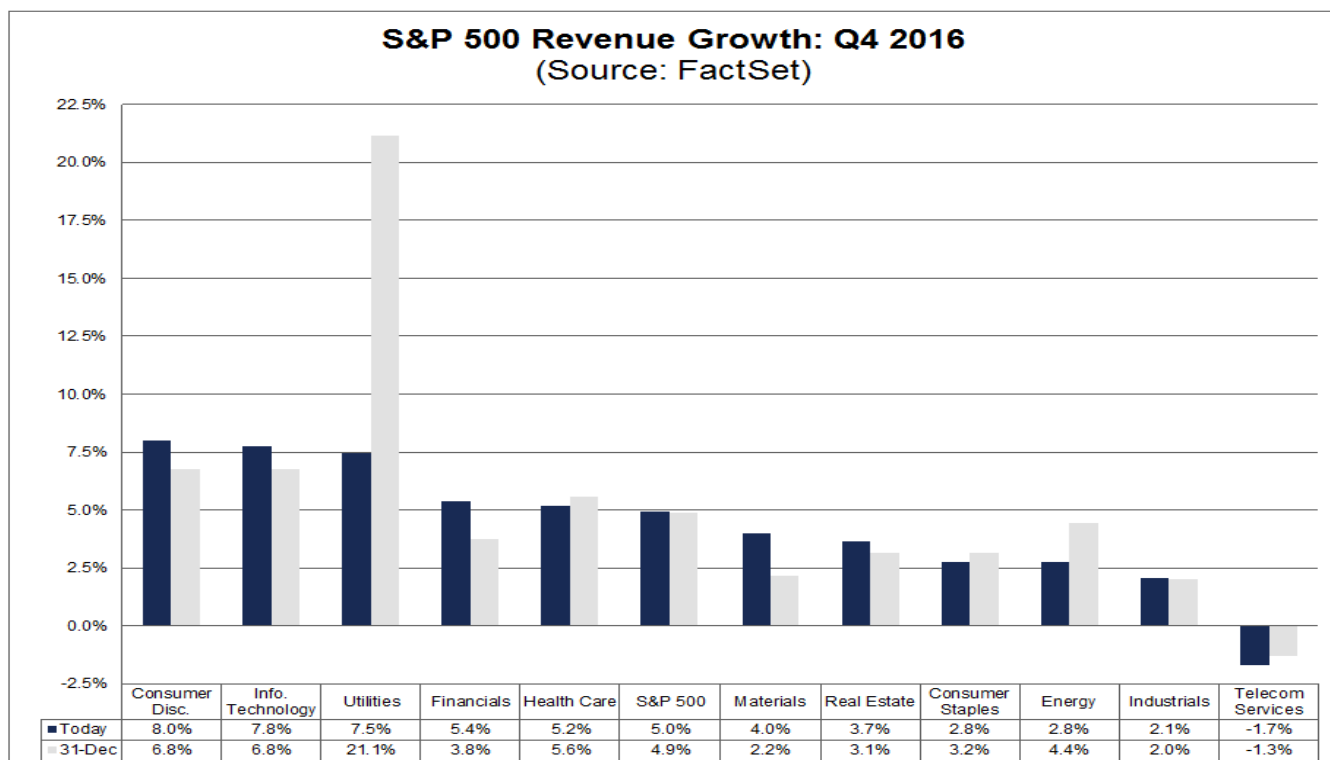
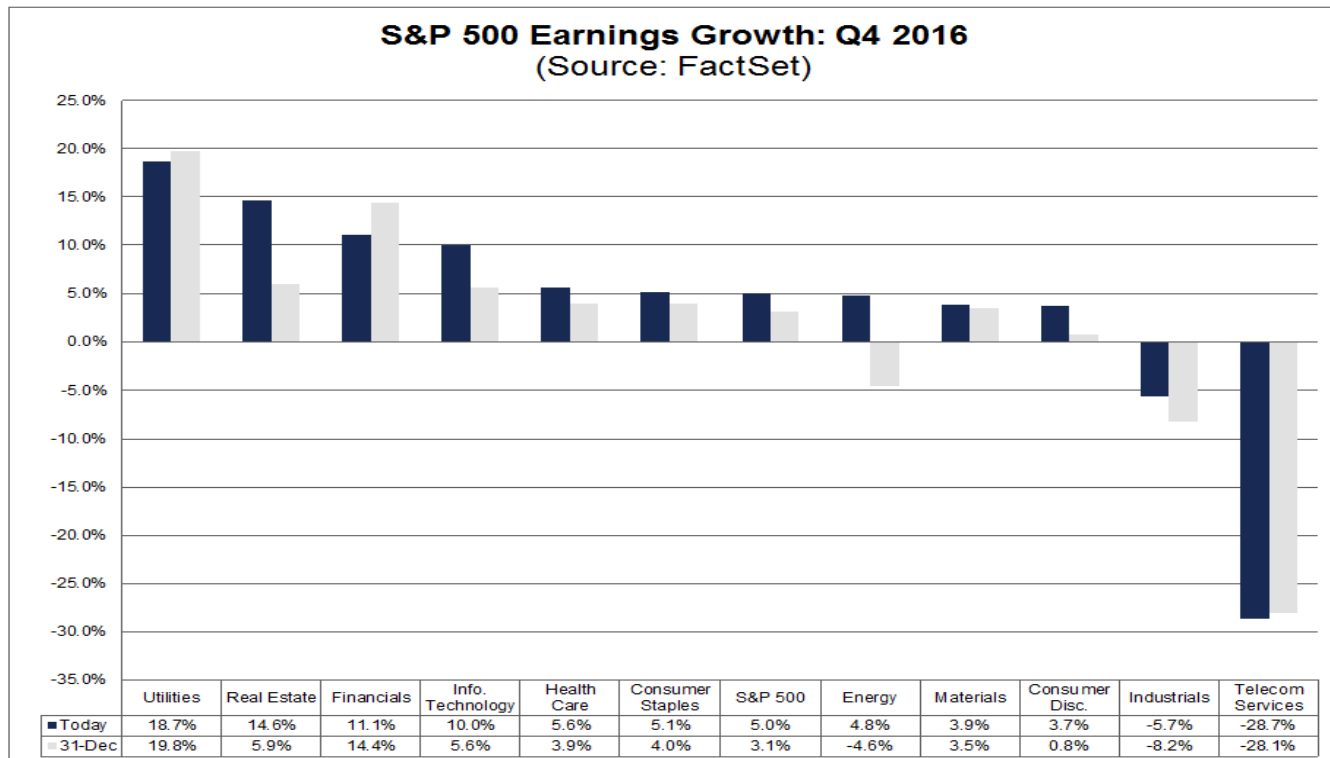
# Q4 2016: Scorecard



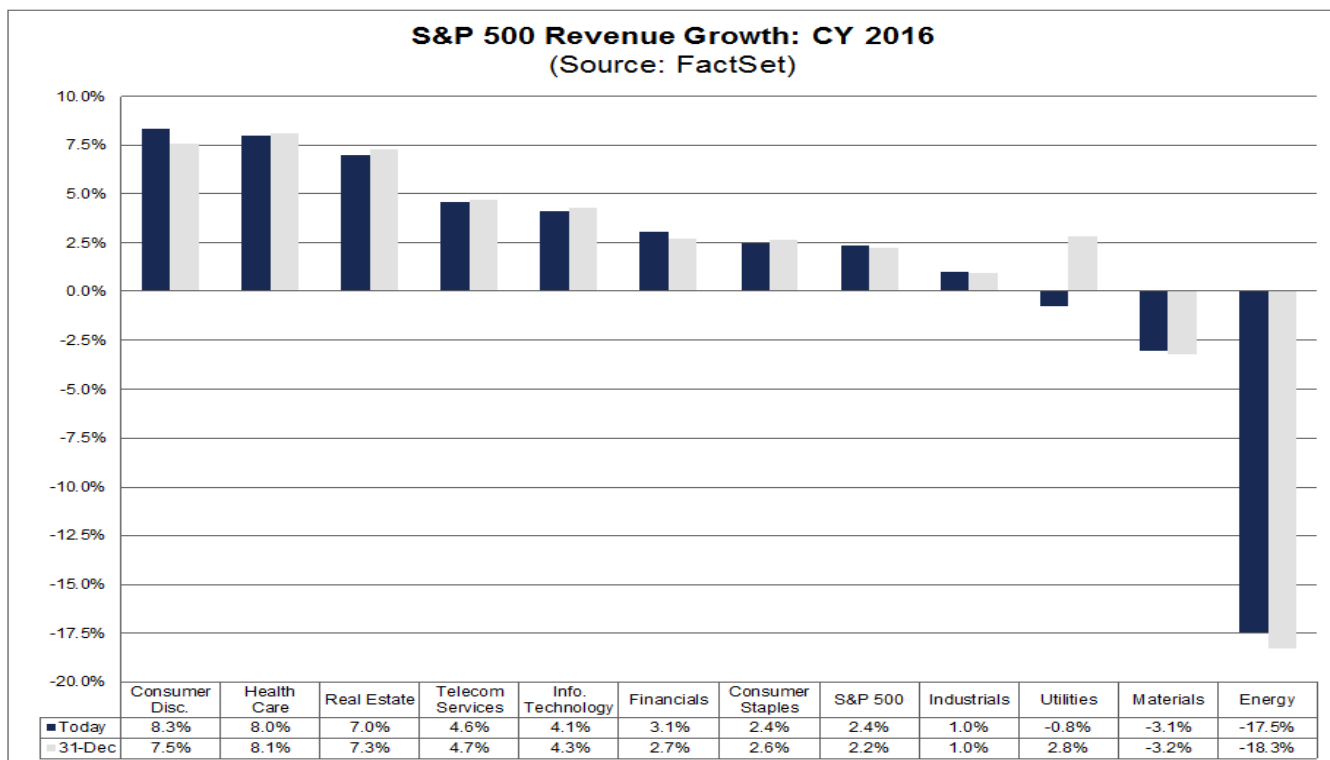
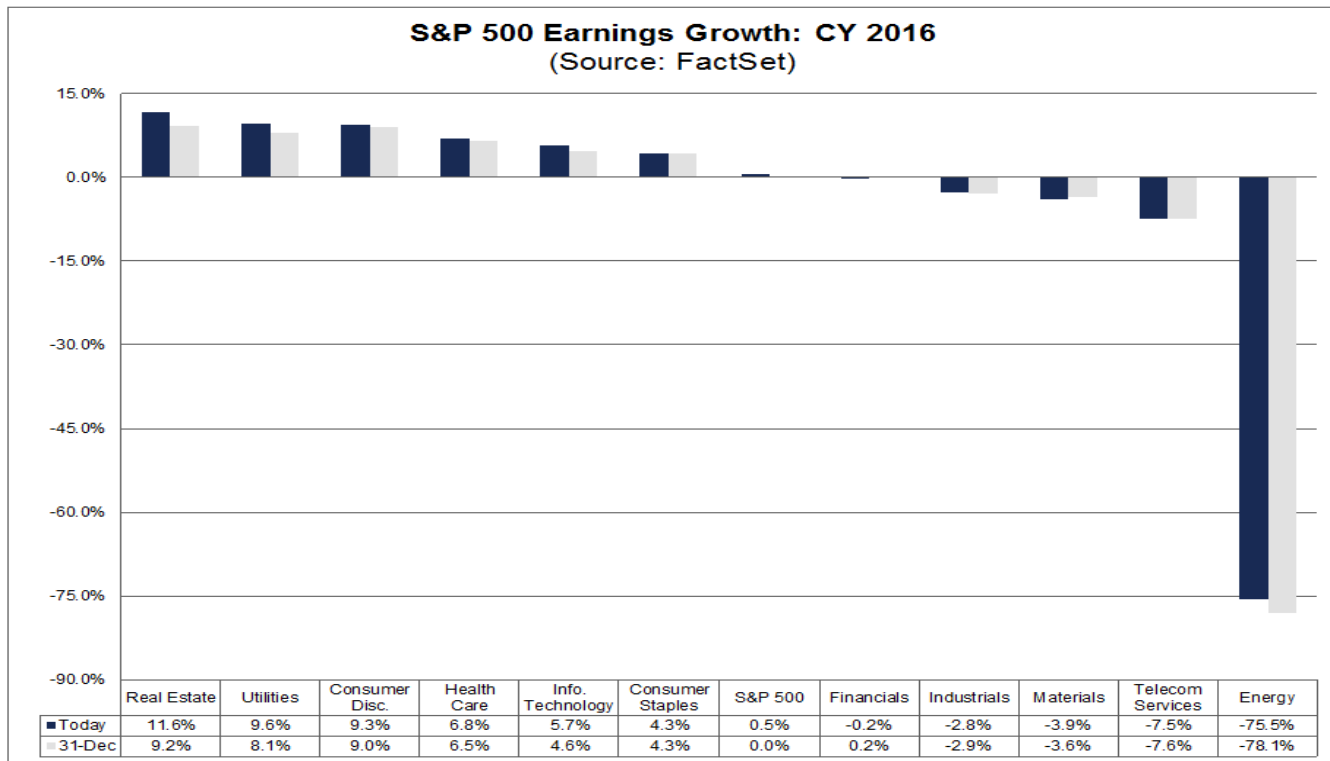
## Q4 2016: Projected EPS Surprises (Sharp Estimates)



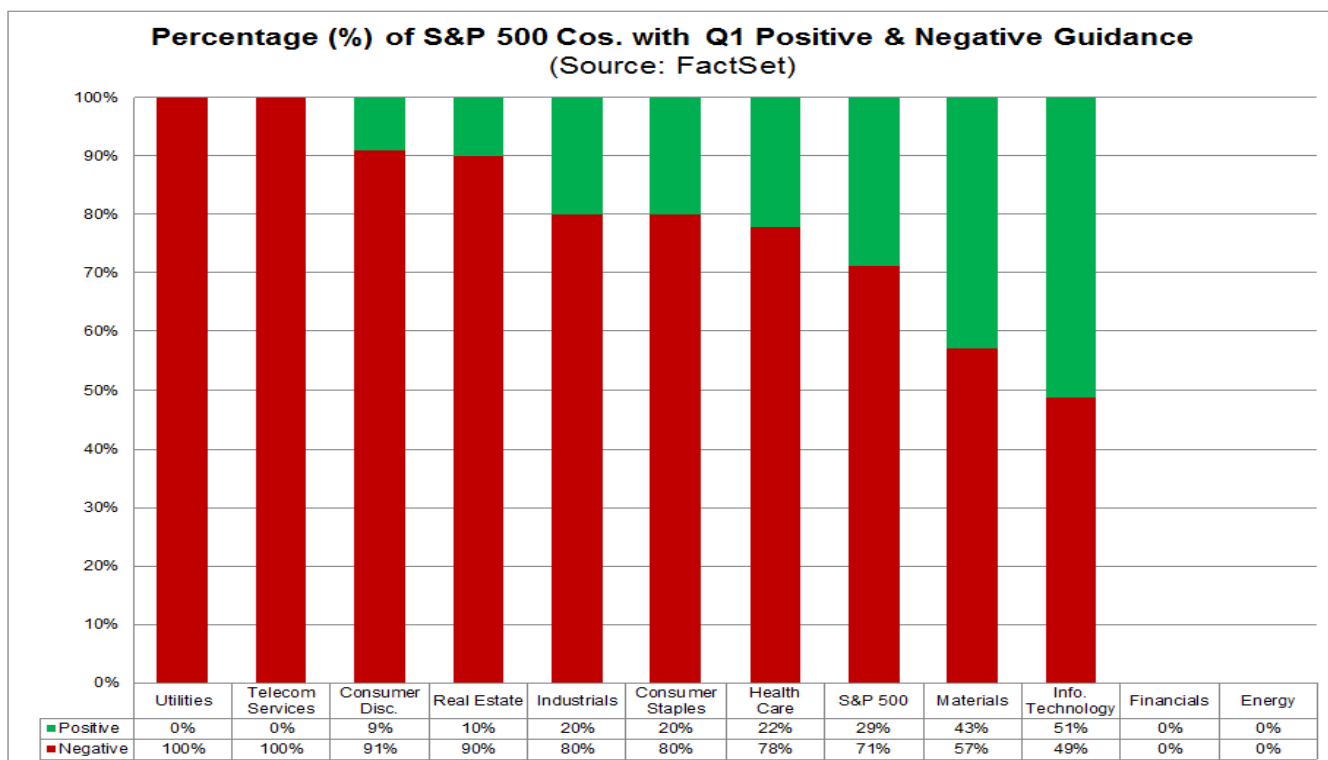
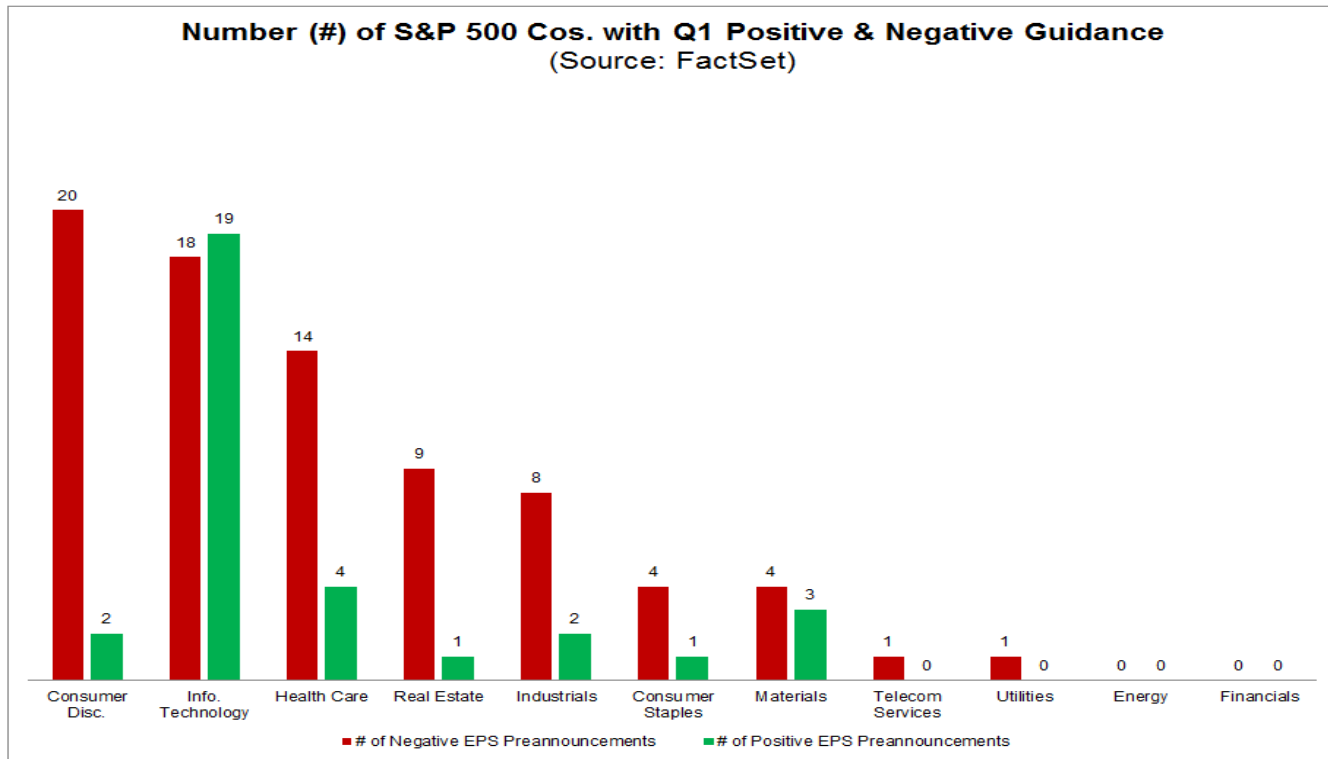
## Q4 2016: Growth



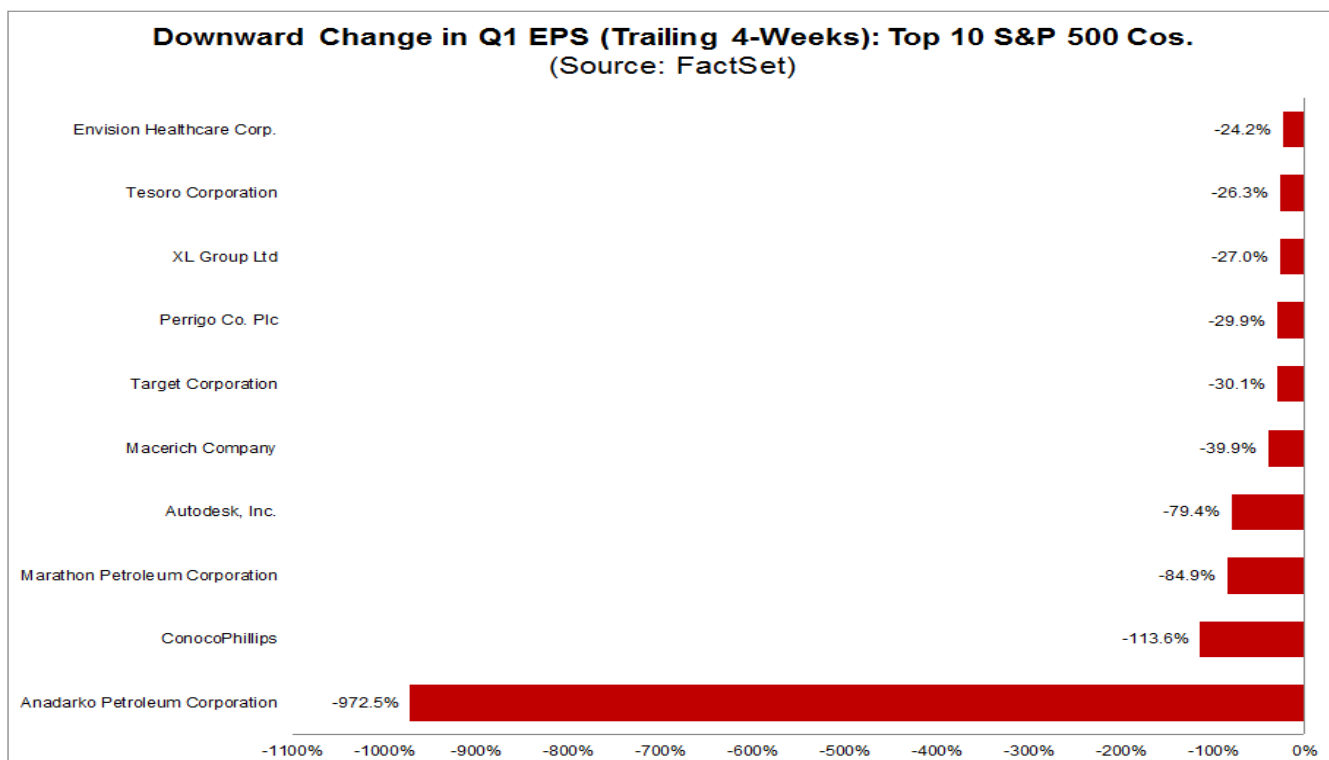
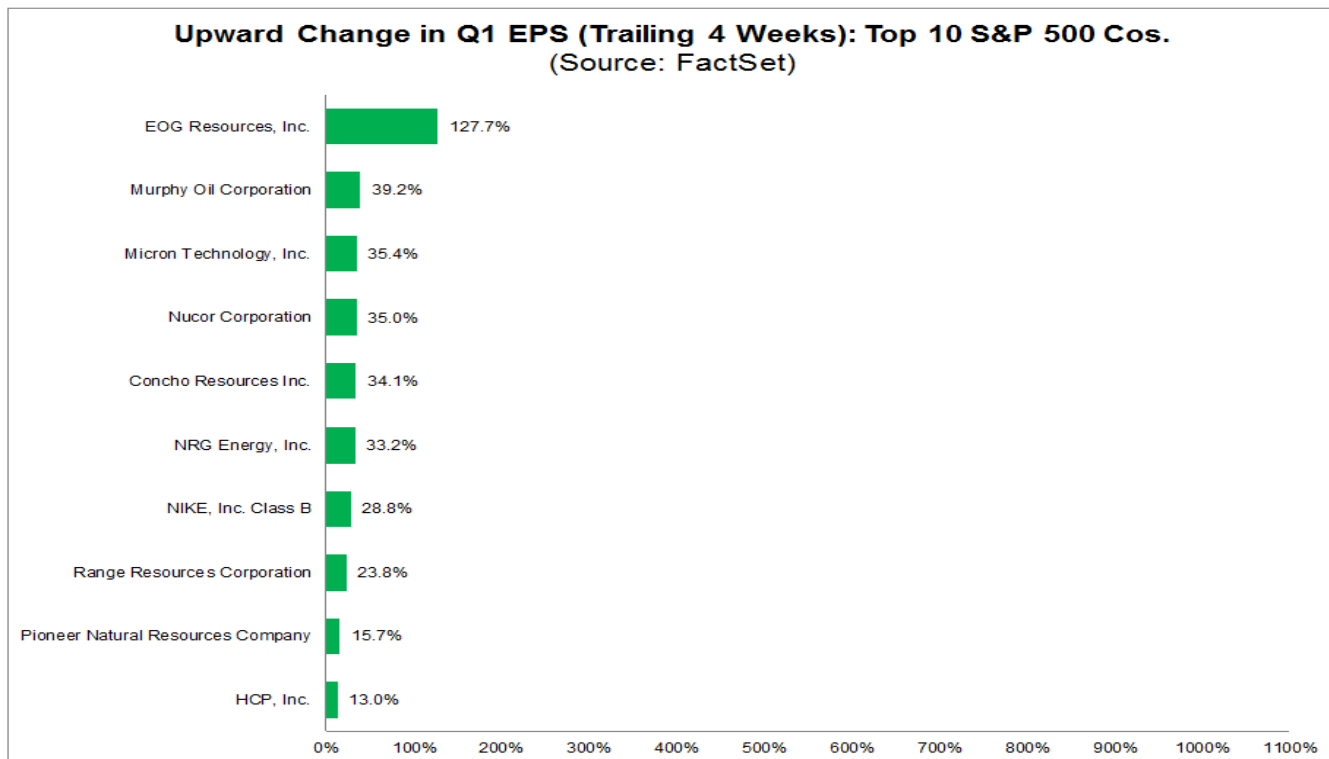
# CY 2016: Growth



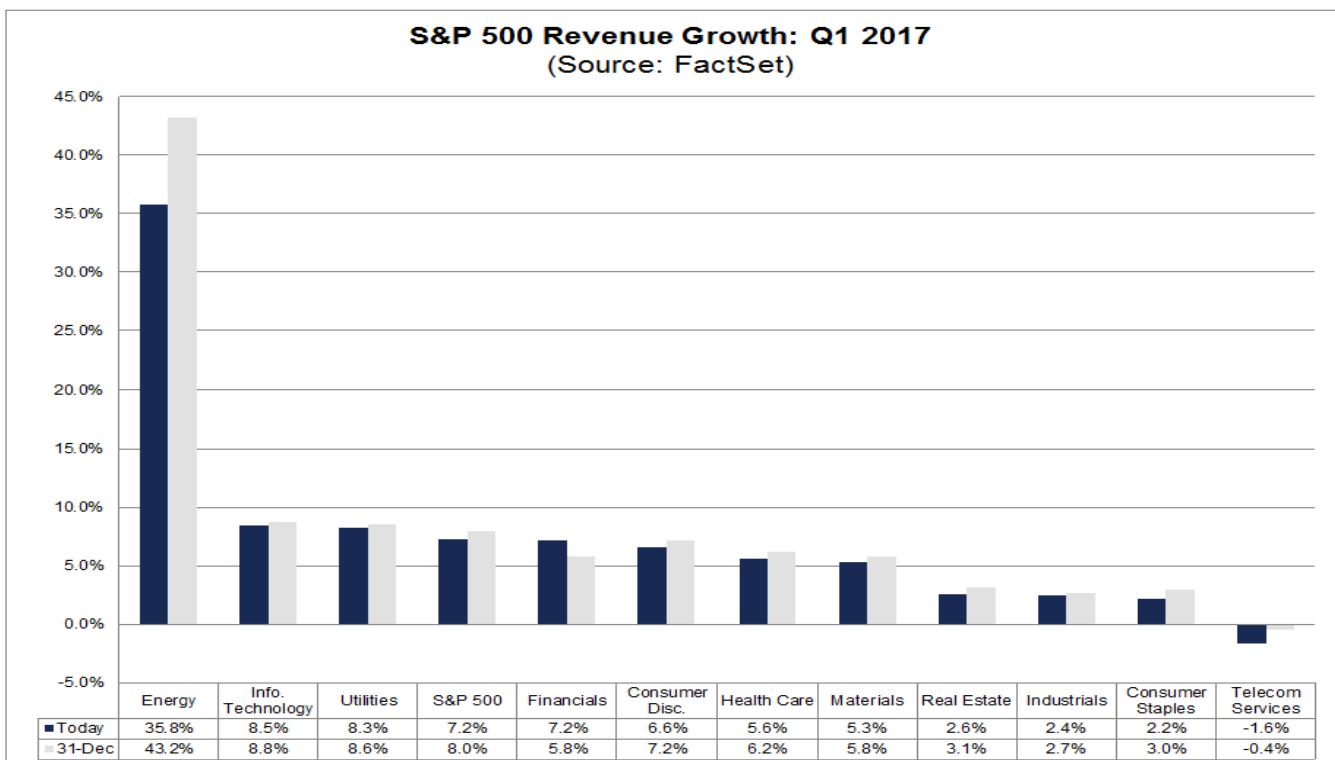
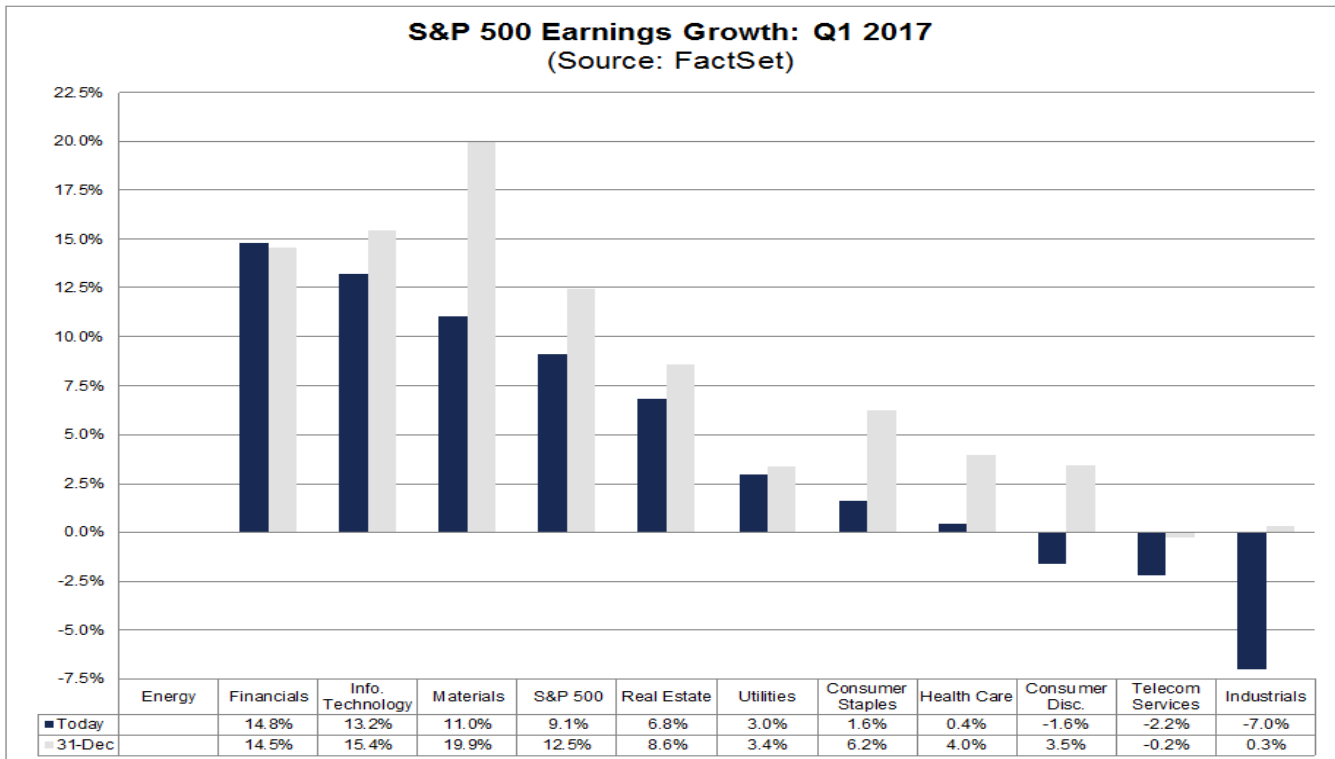
# Q1 2017: Guidance



## Q1 2017: EPS Revisions

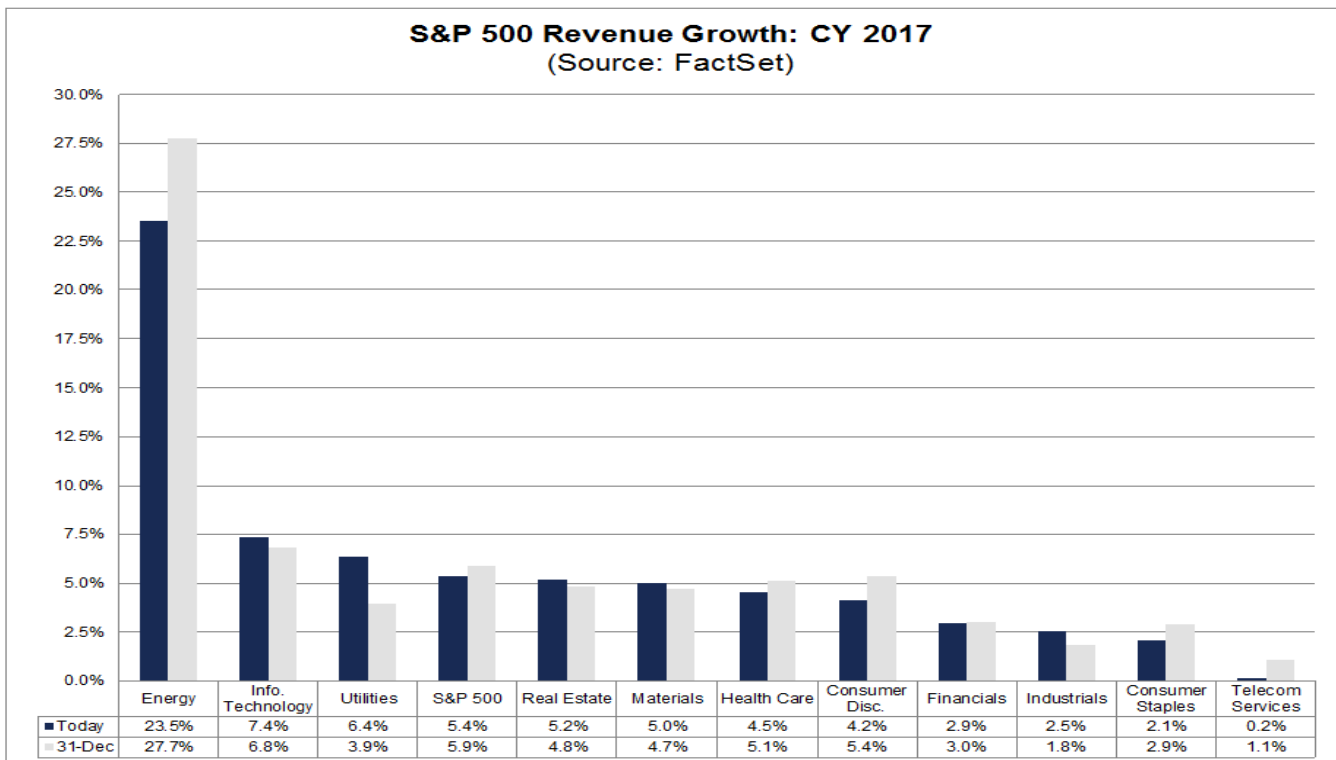
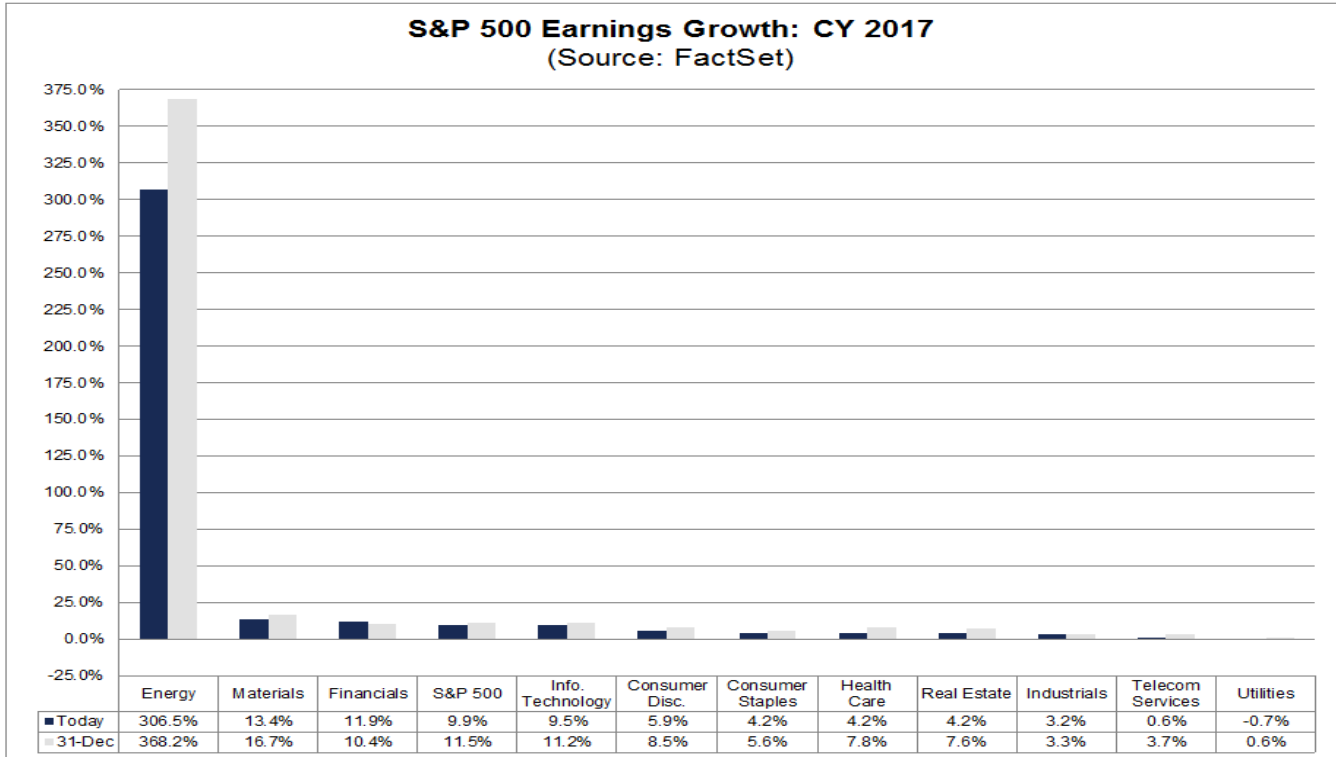


# Q1 2017: Growth

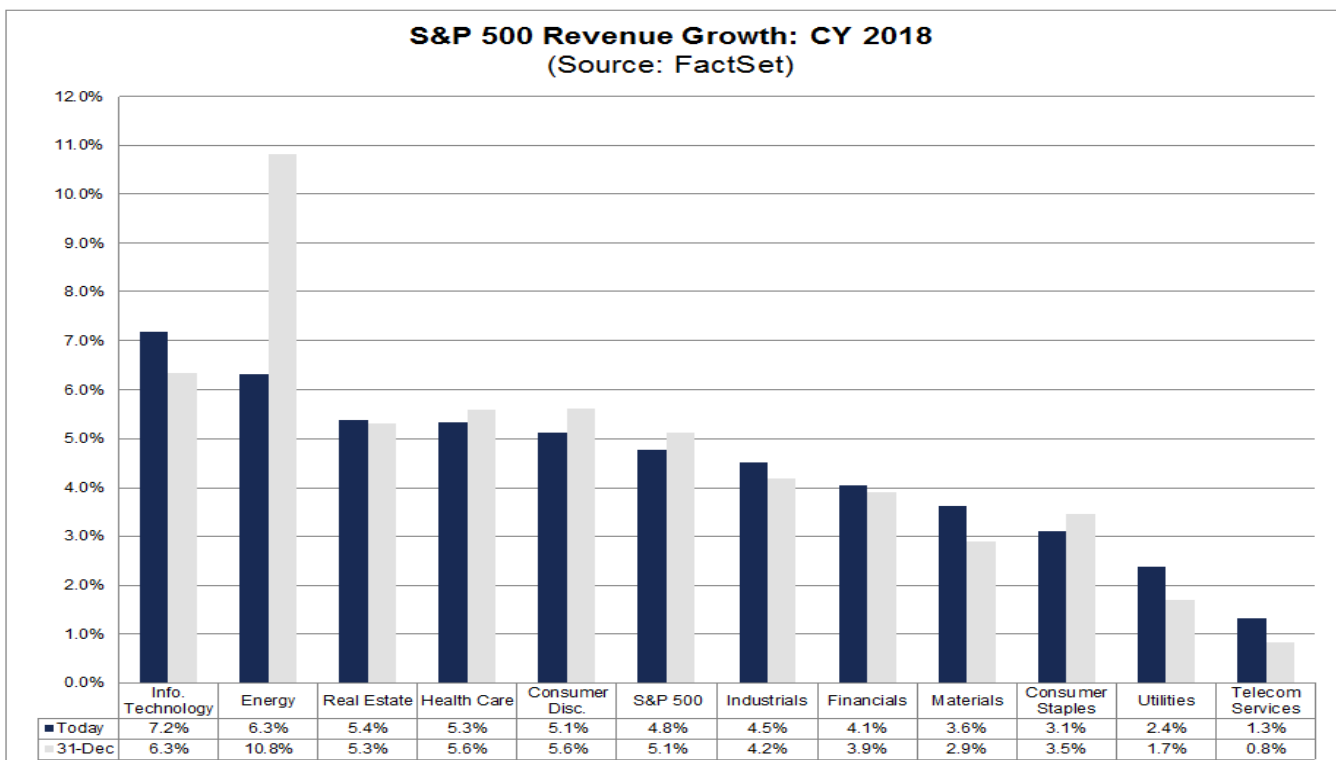
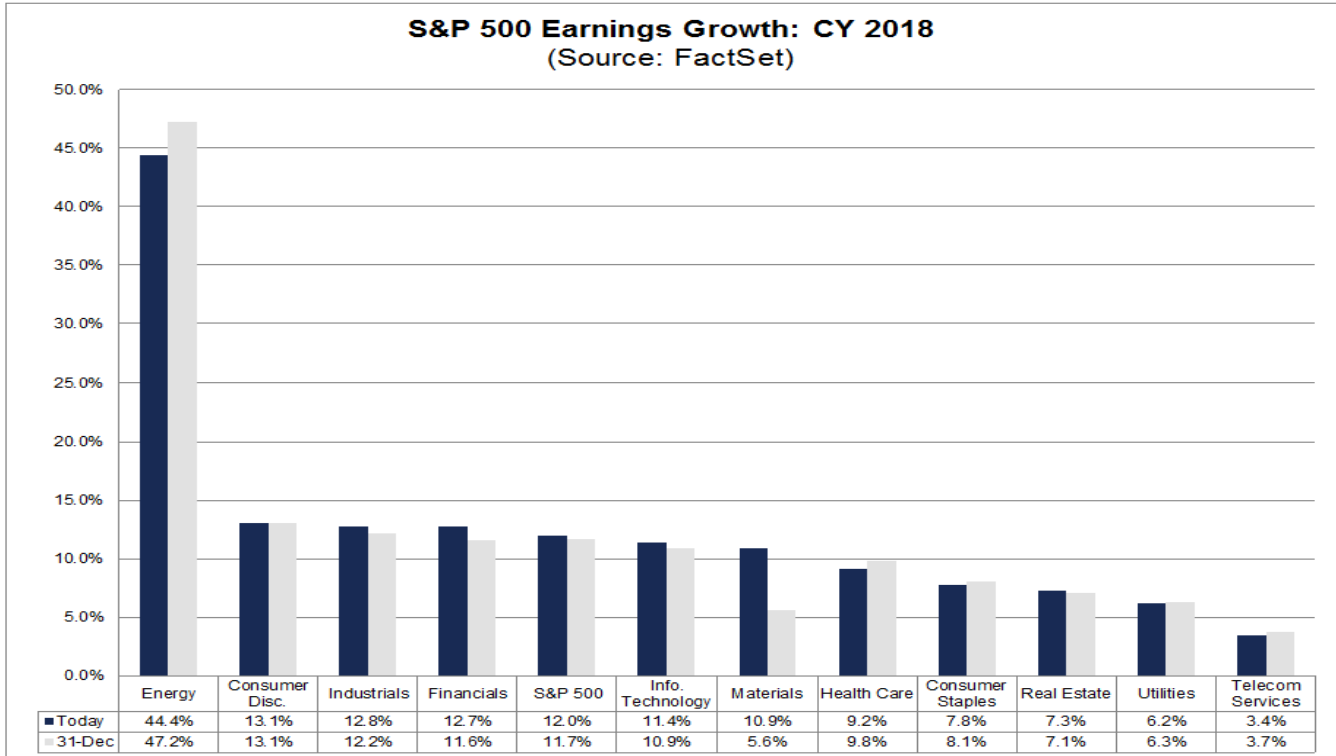




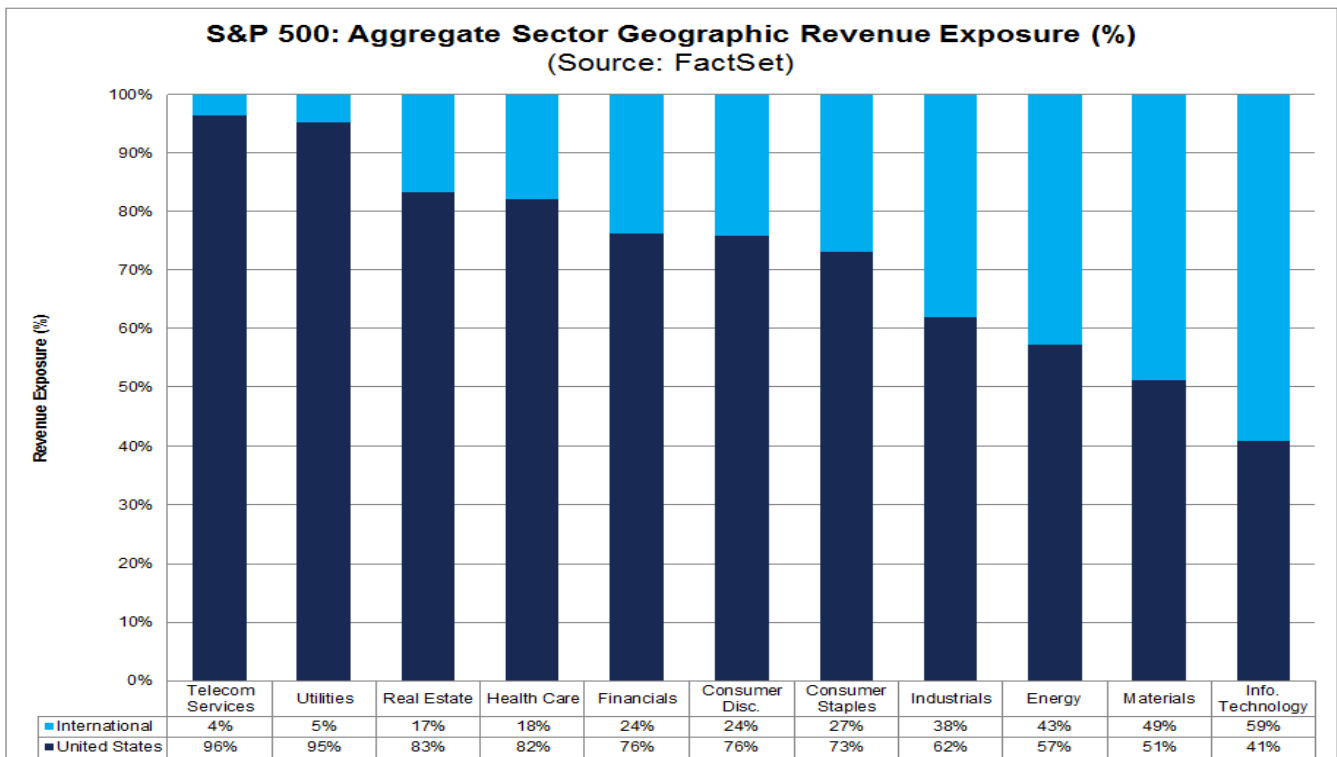
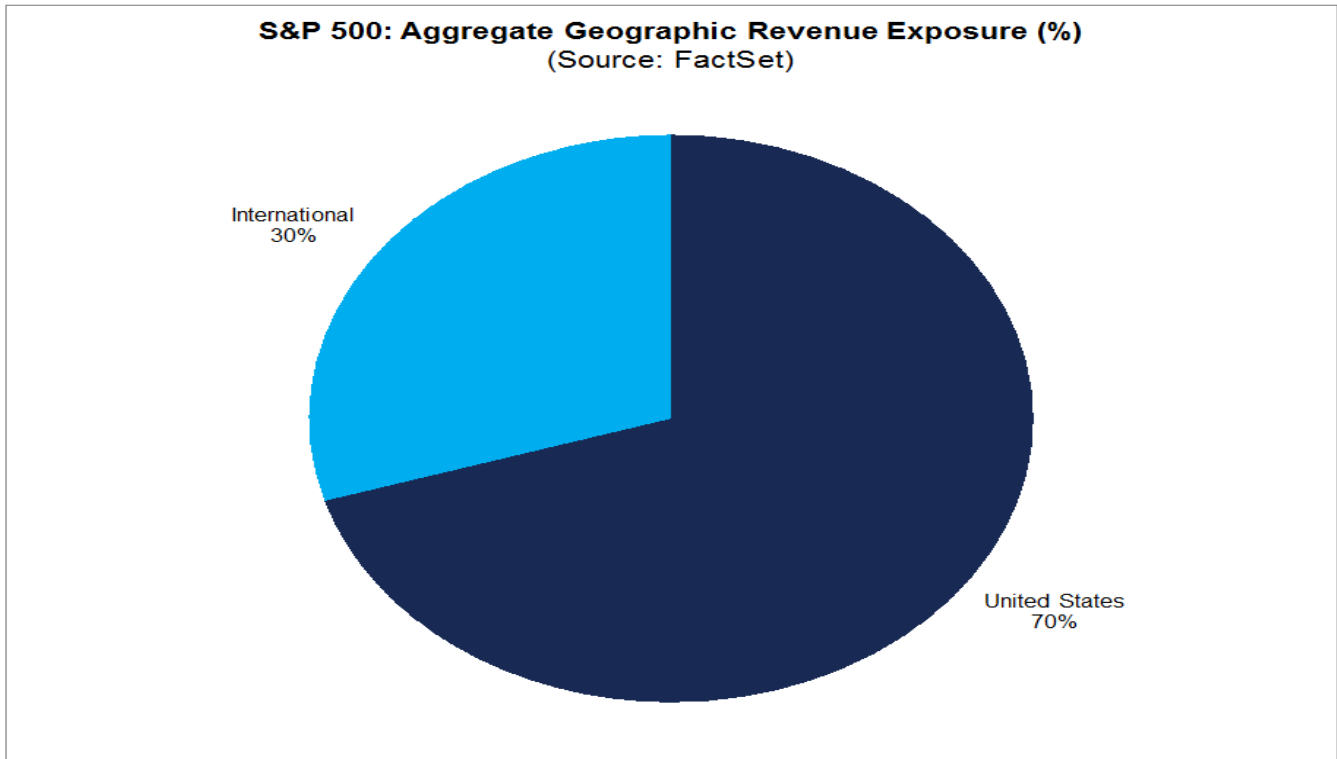
## CY 2017: Growth



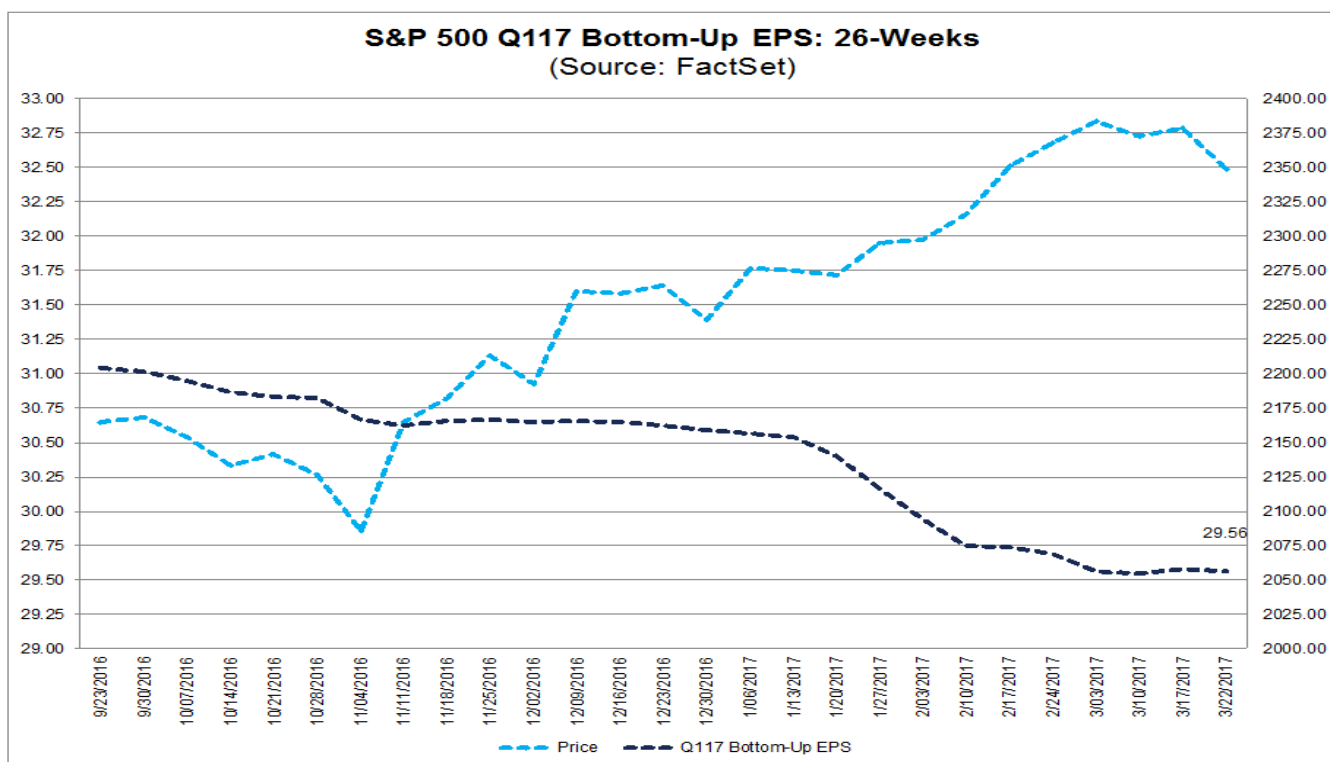
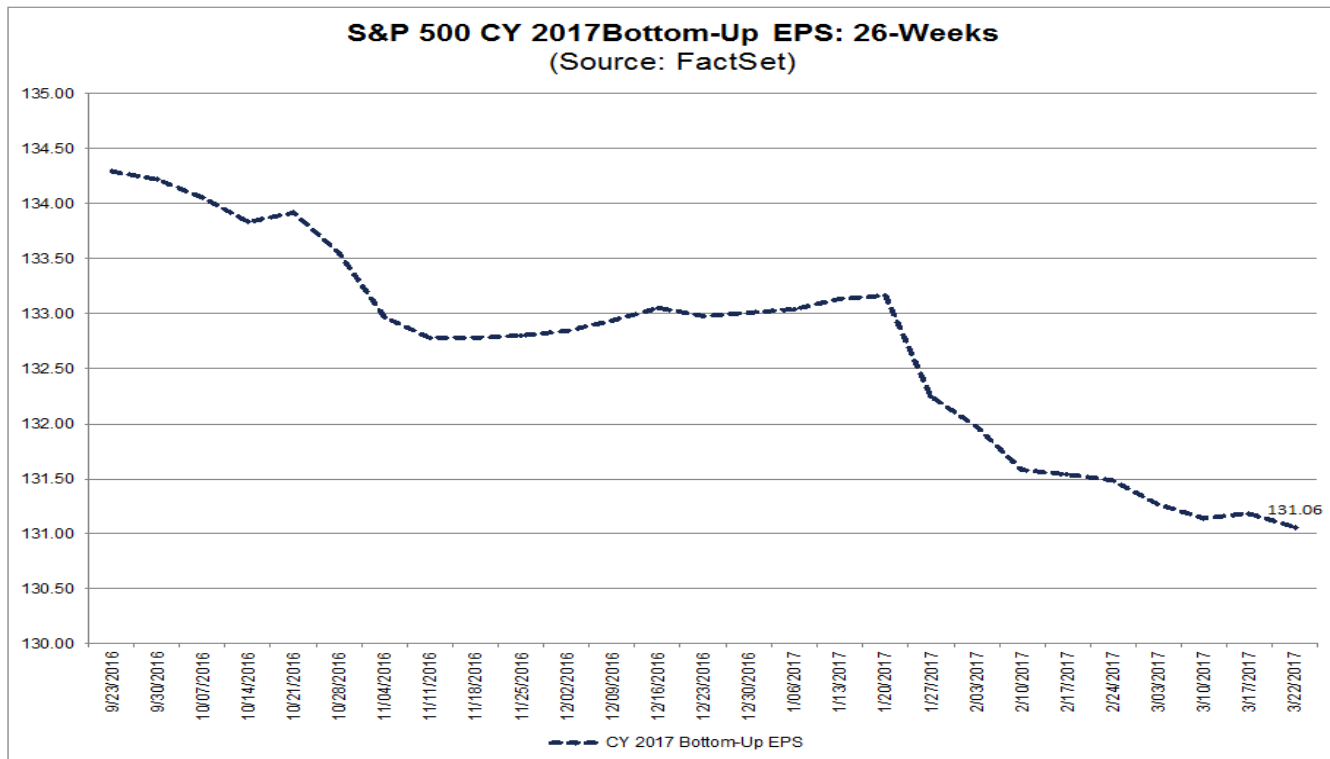
## CY 2018: Growth



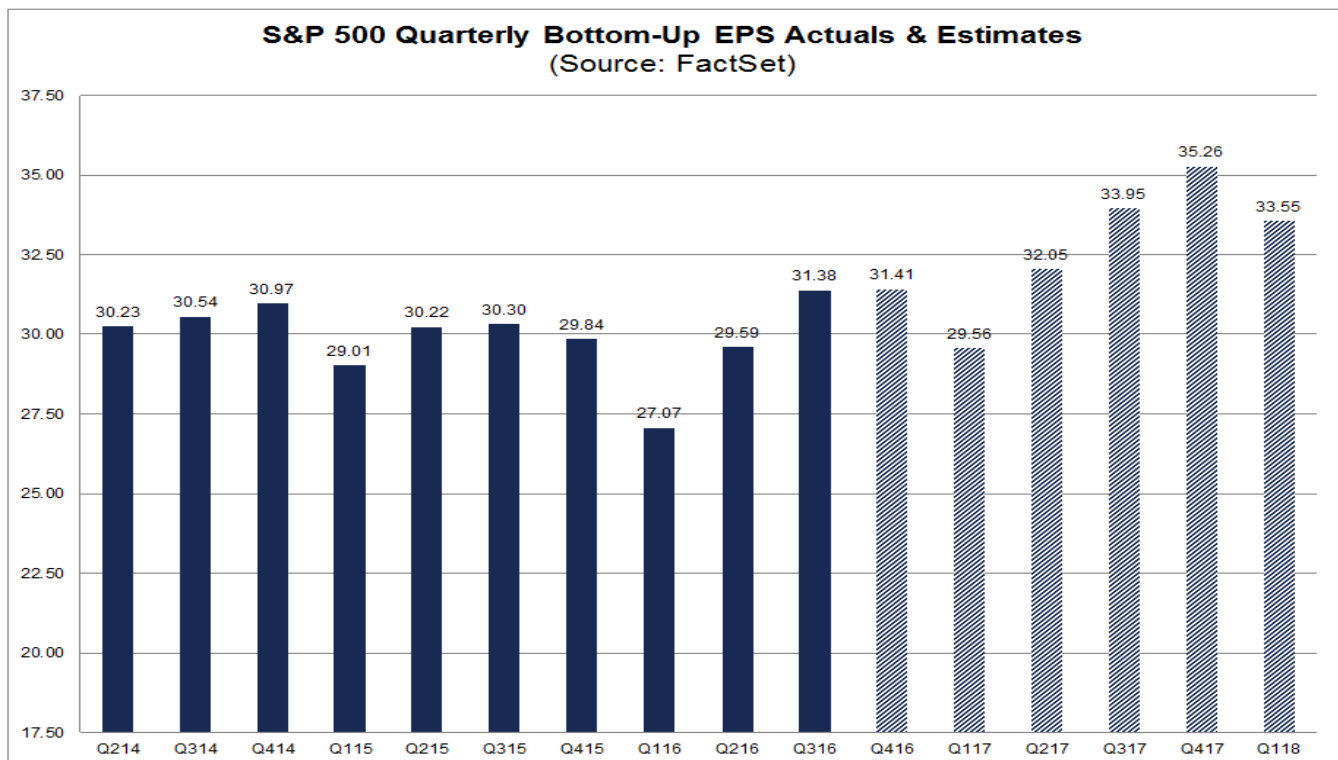
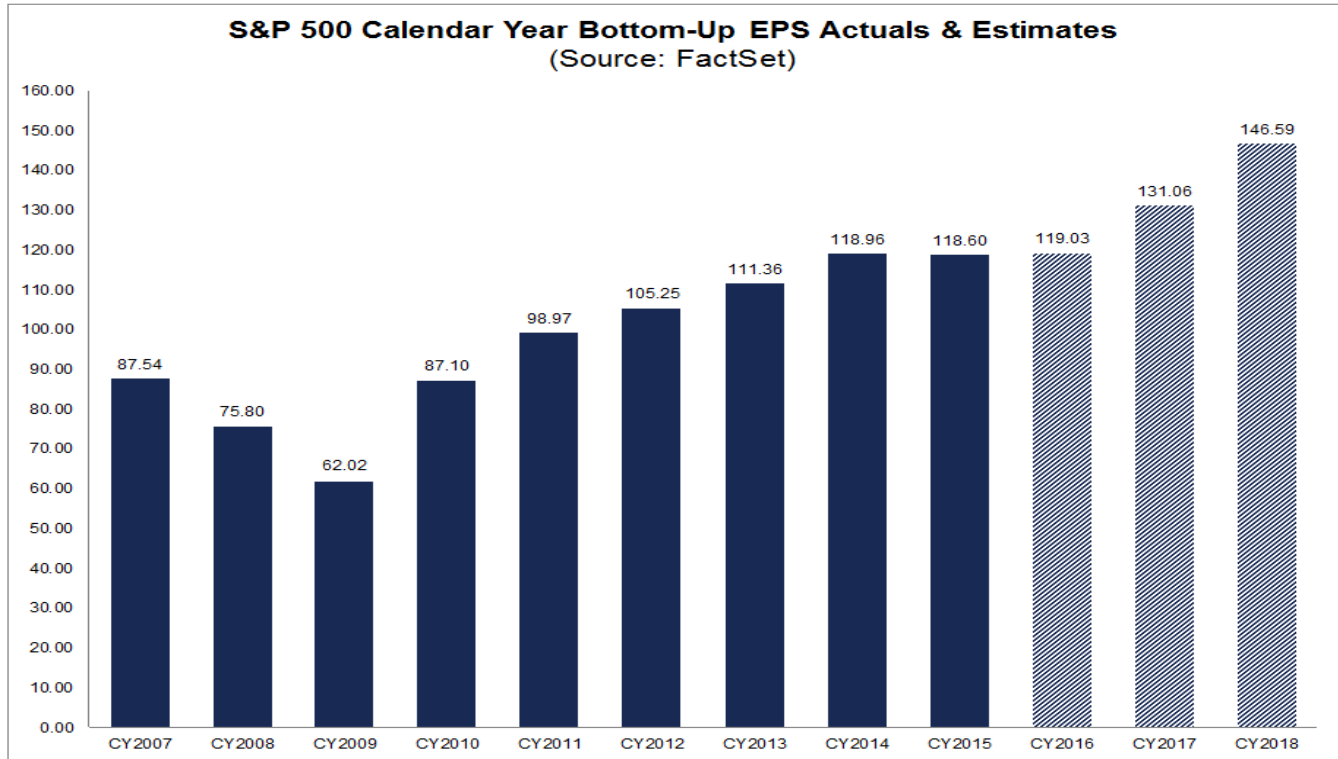
## Geographic Revenue Exposure



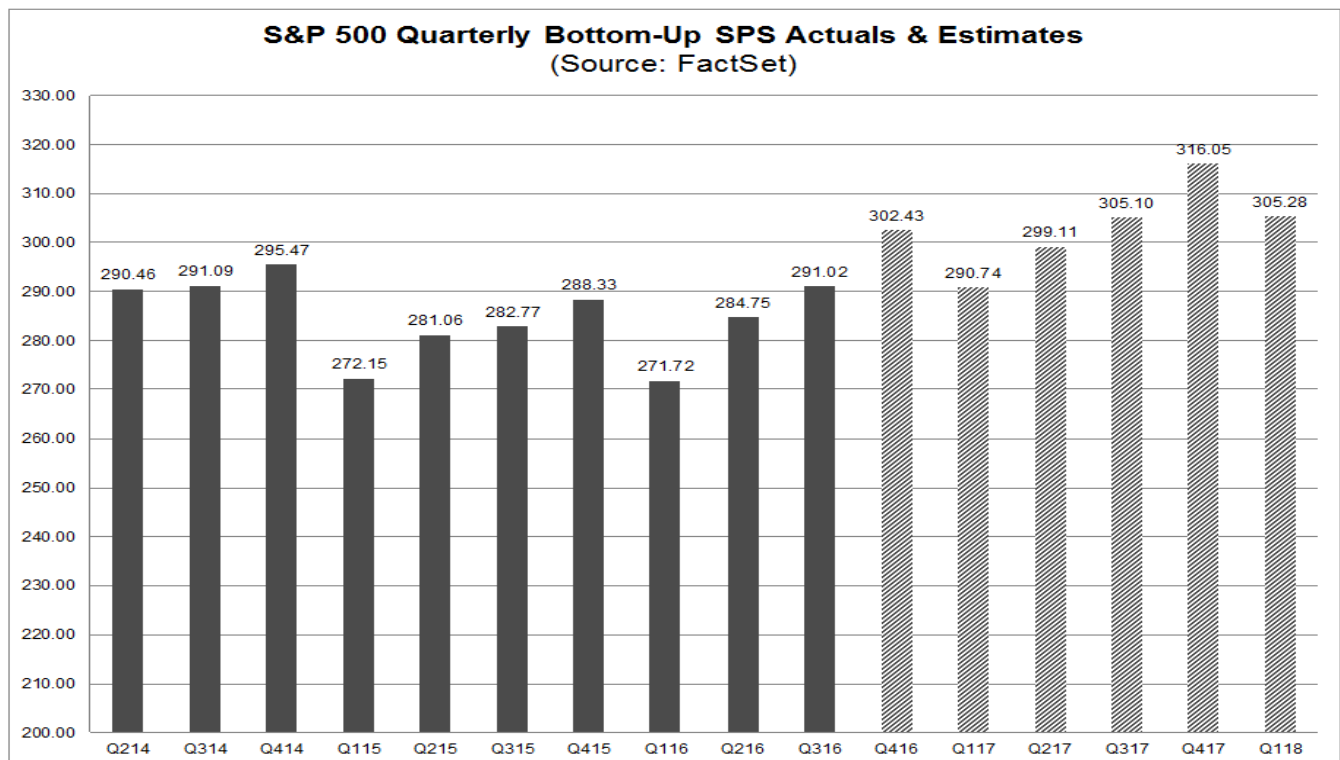
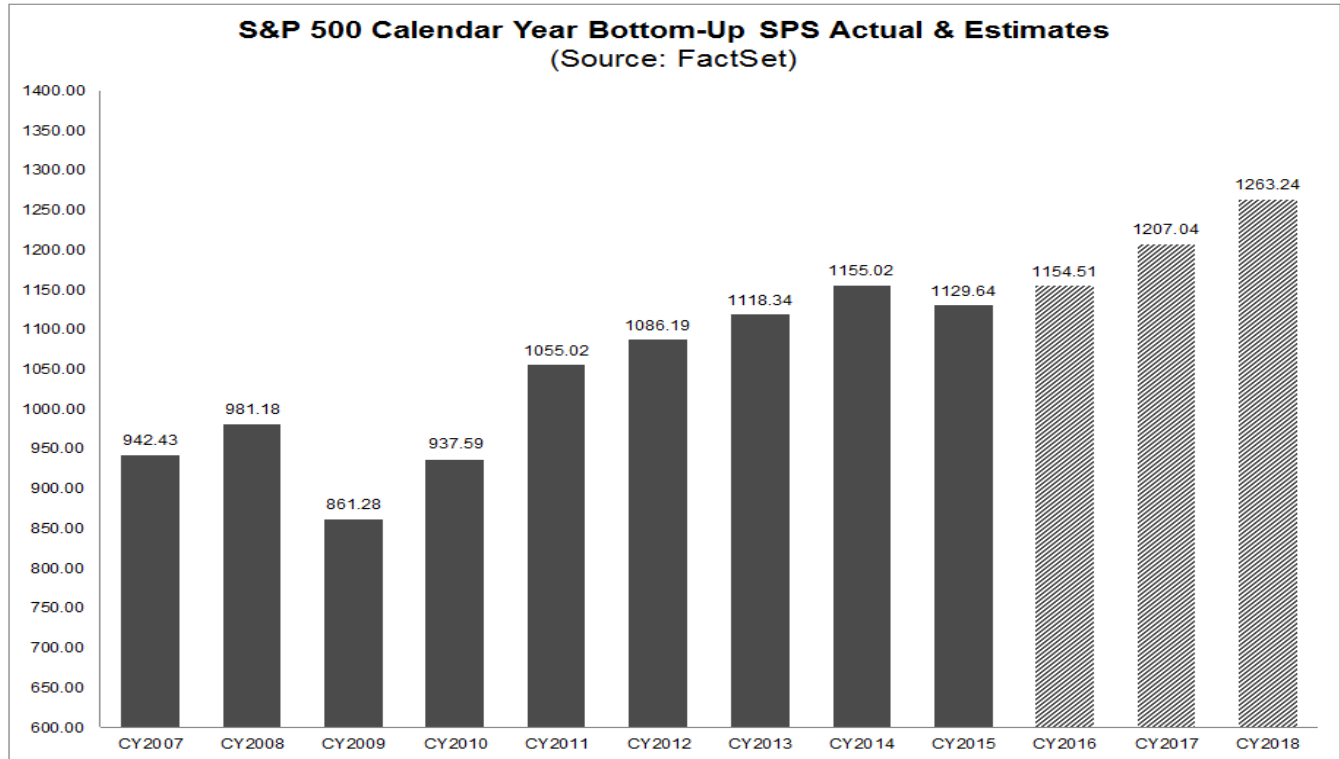
## Bottom-up EPS Estimates: Revisions



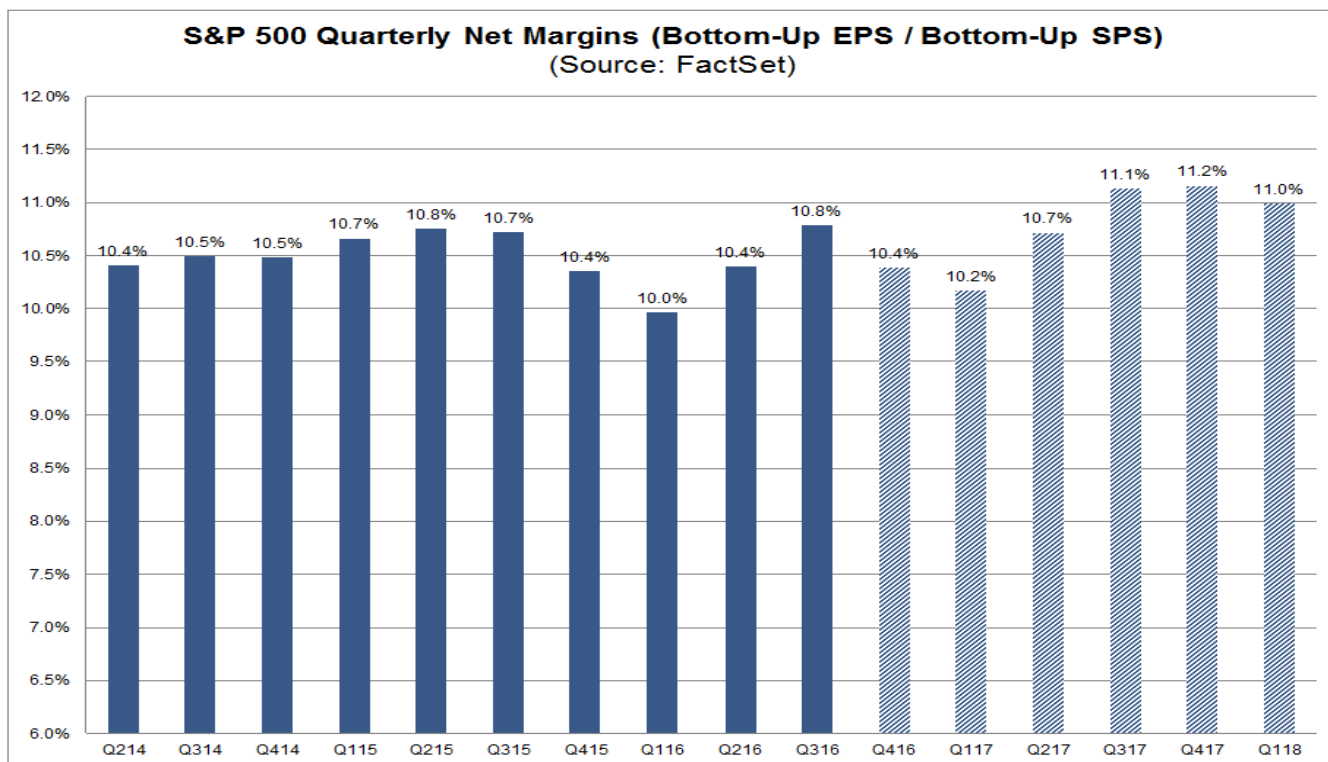
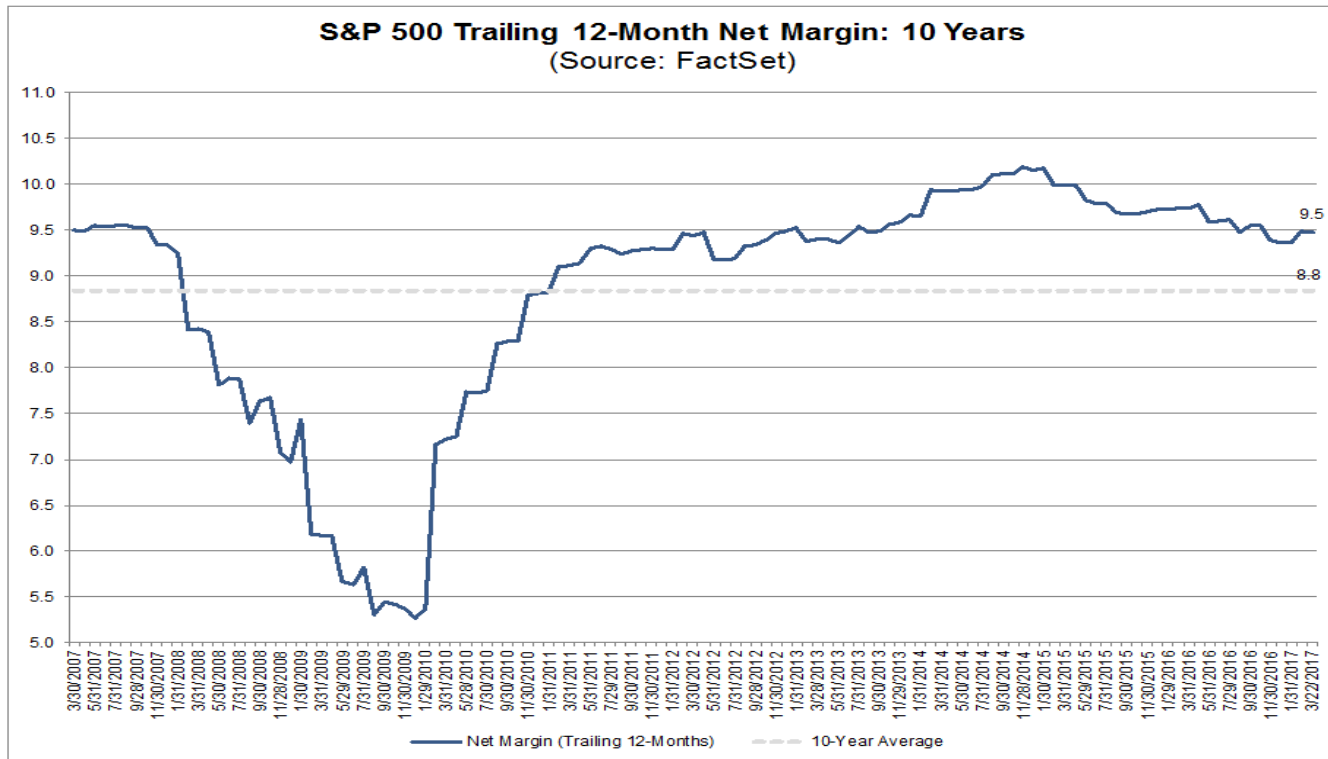
## Bottom-up EPS Estimates: Current & Historical



## Bottom-up SPS Estimates: Current & Historical

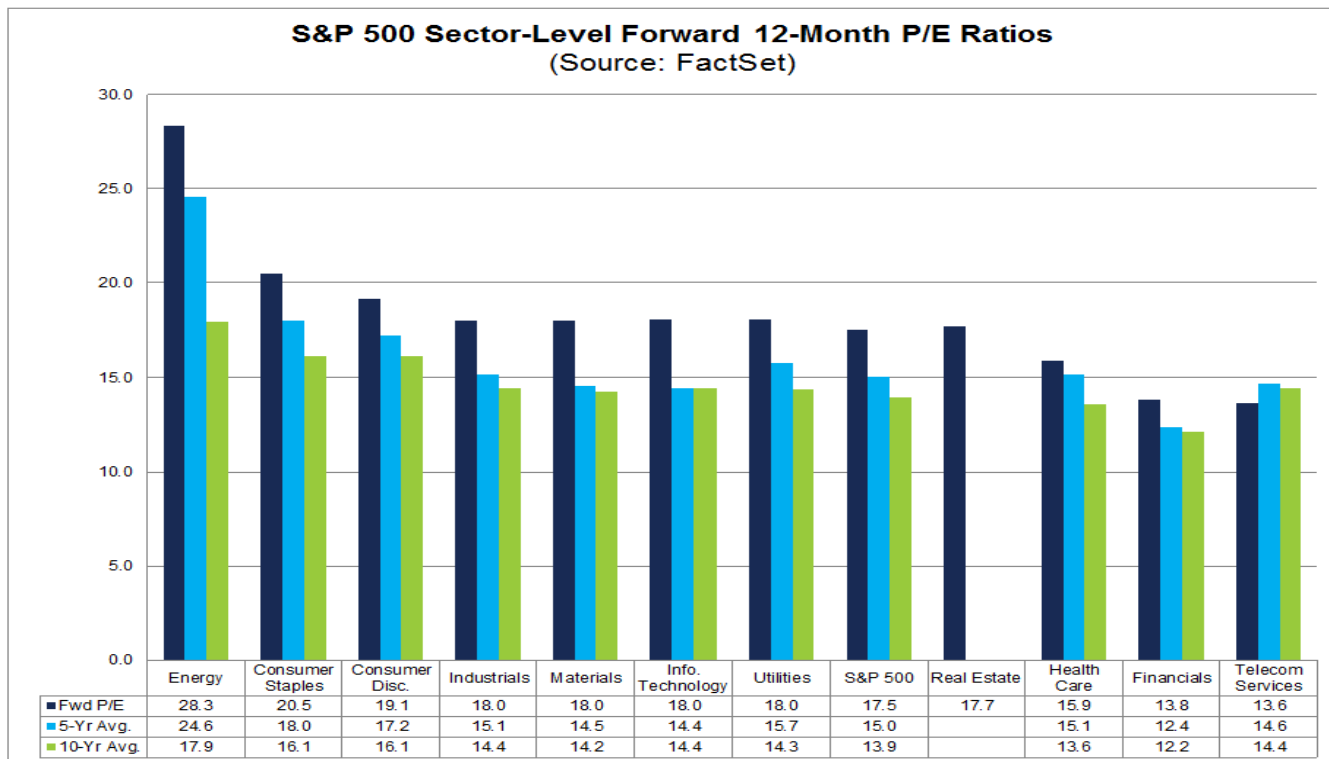


# Net Margins: Current & Historical



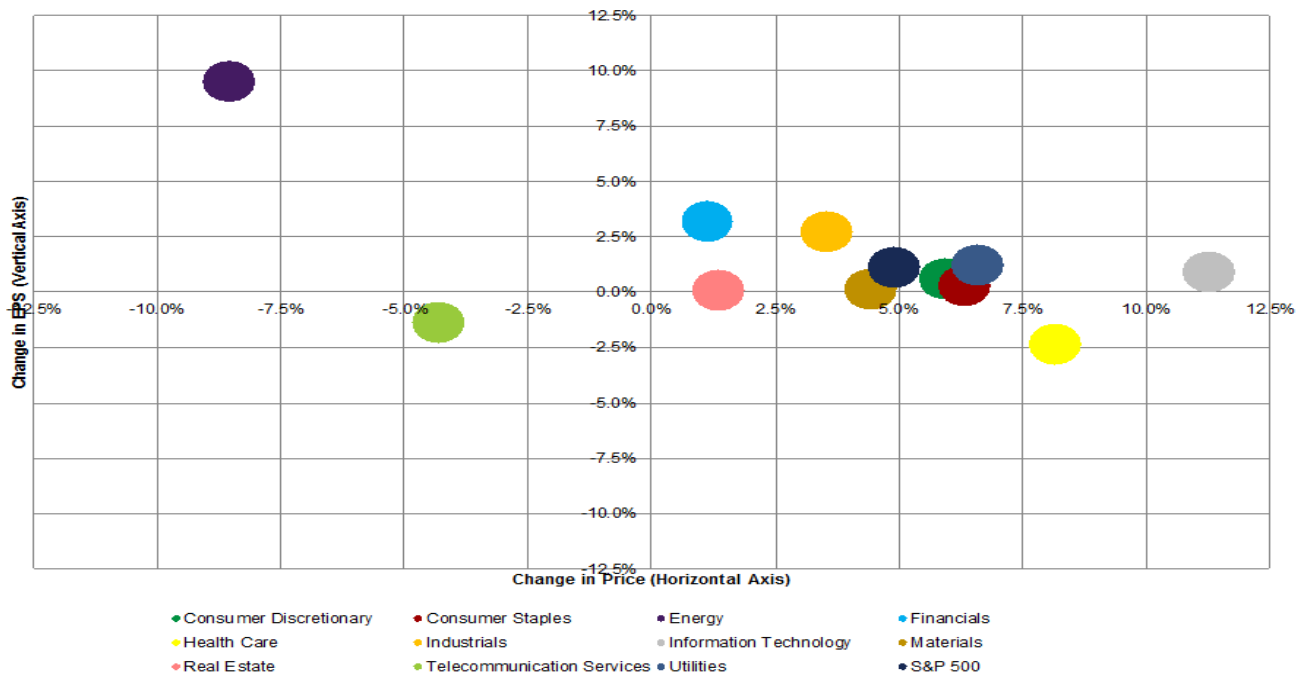


## Forward 12M P/E Ratio: Sector Level

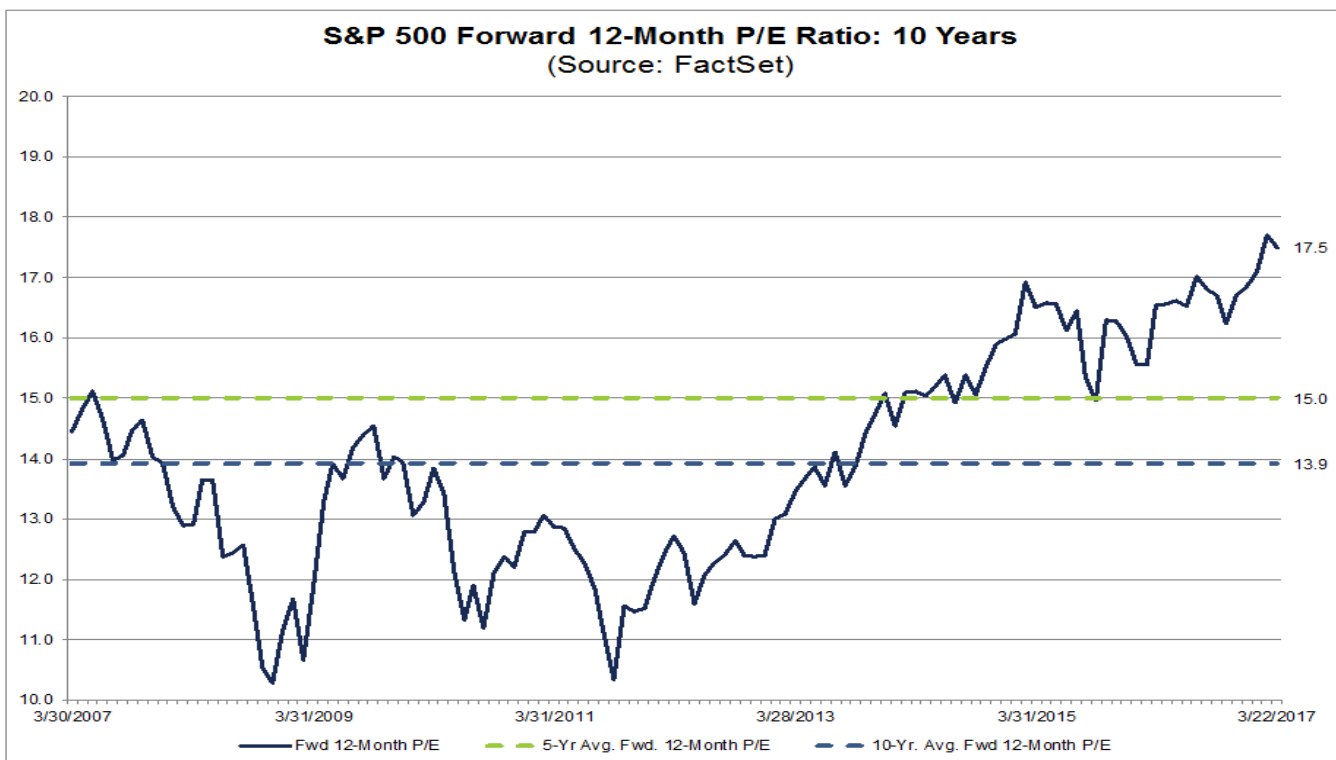
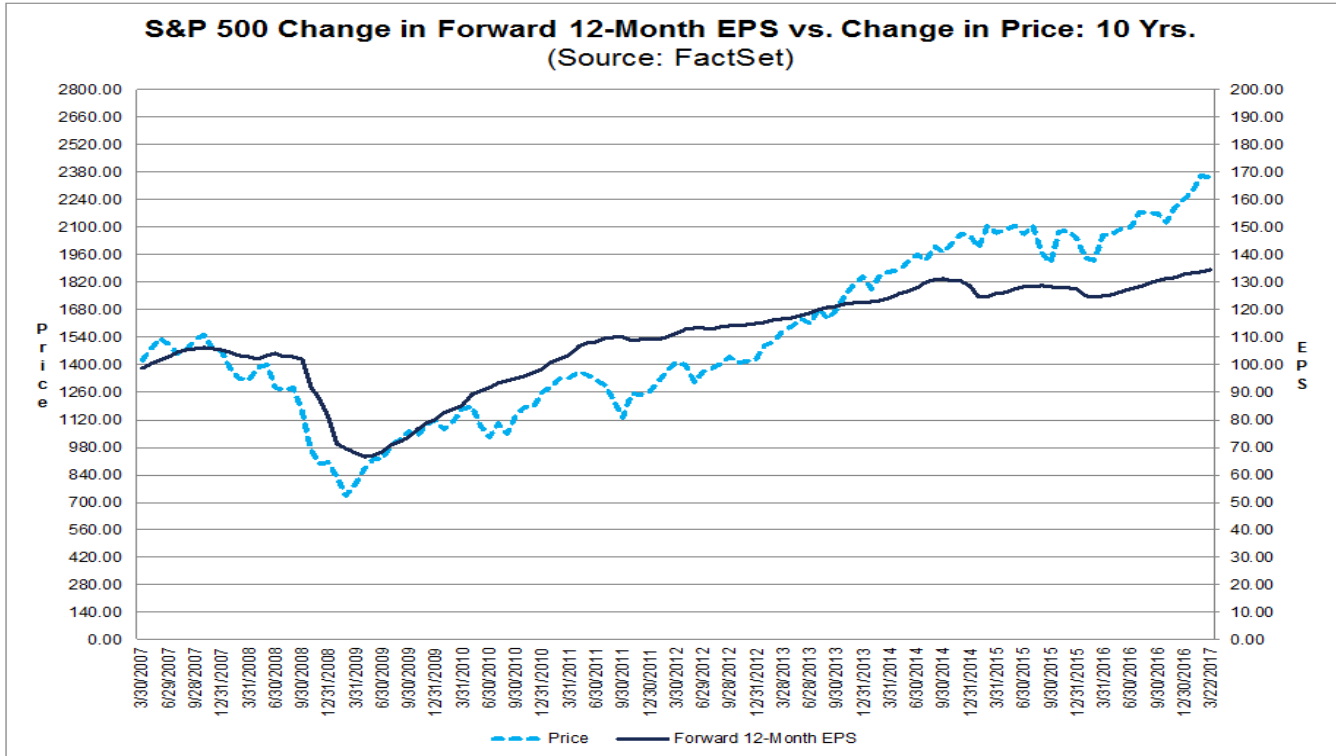


## Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Dec. 31

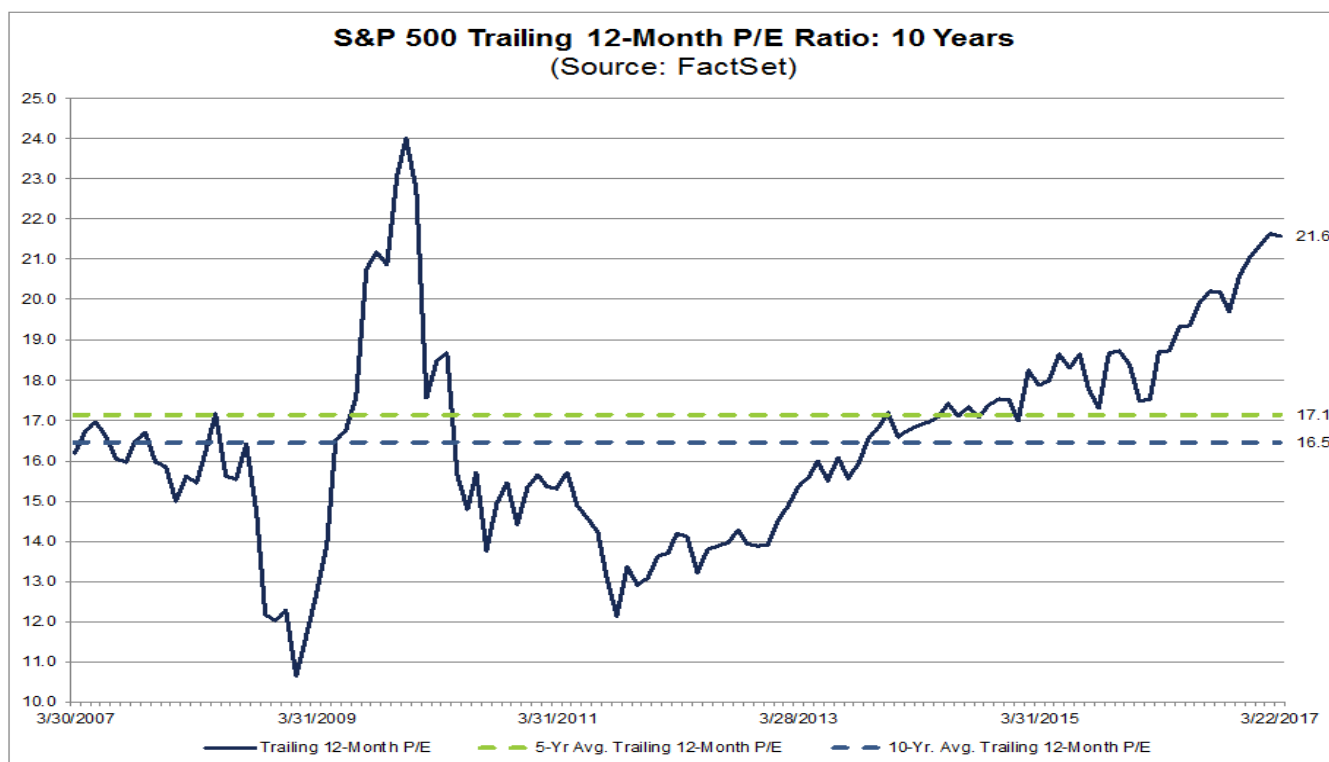
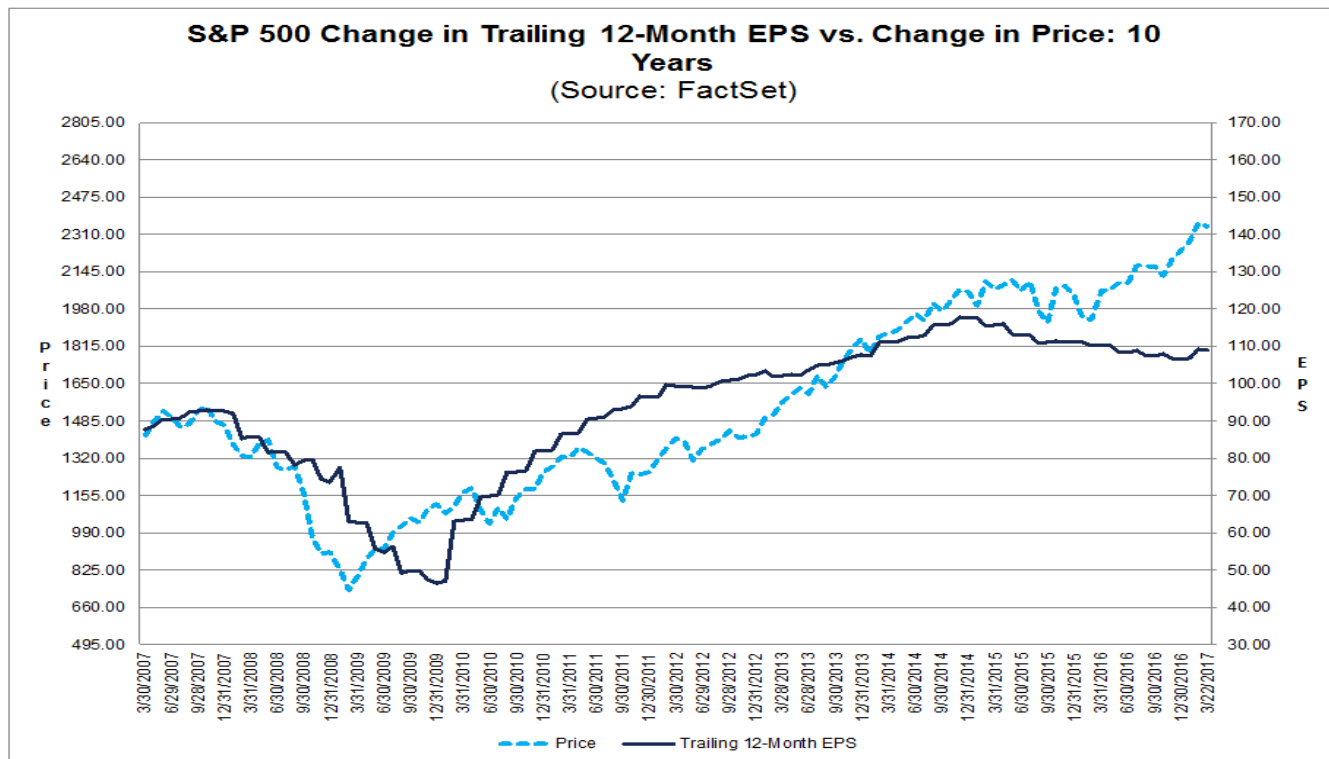
(Source: FactSet)



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



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



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