

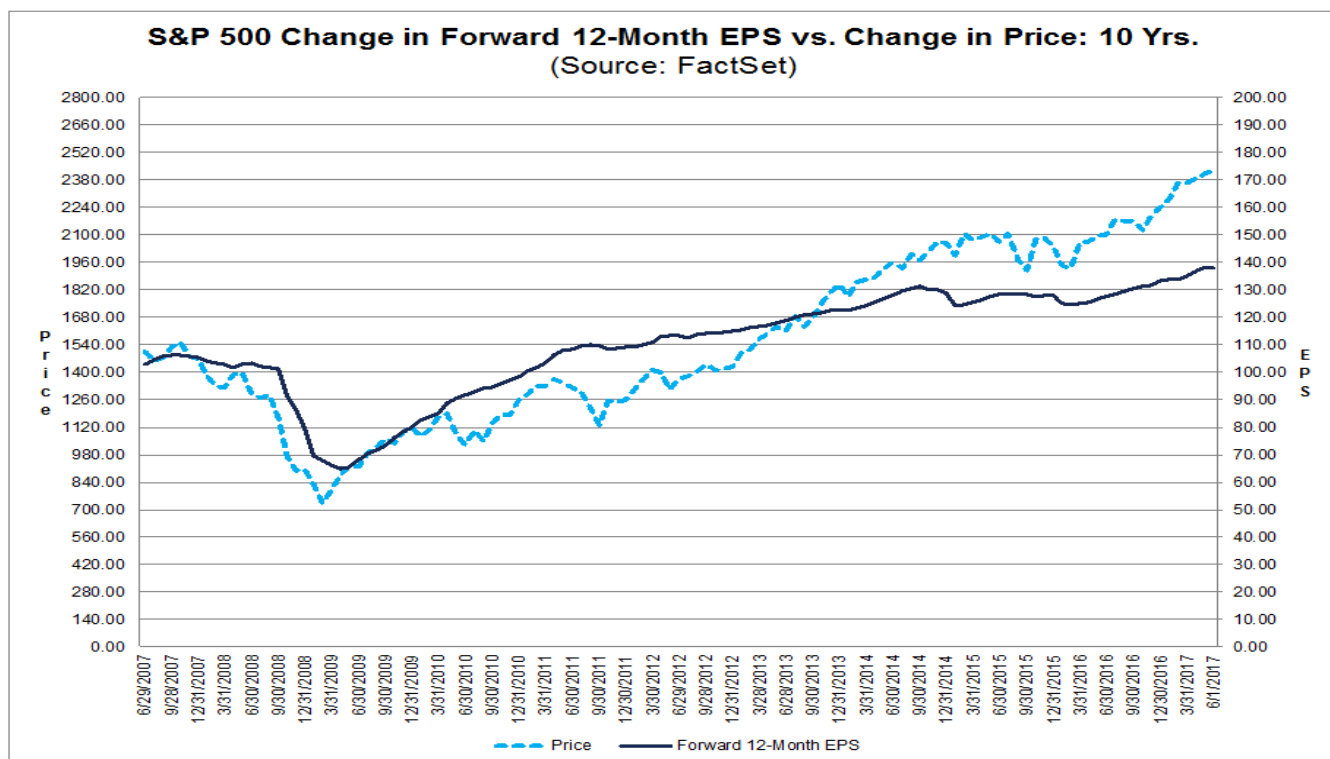
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Key Metrics

- Earnings Scorecard:** As of today (with 99% of the companies in the S&P 500 reporting actual results for Q1 2017), 75% of S&P 500 companies have beat the mean EPS estimate and 64% of S&P 500 companies have beat the mean sales estimate.
- Earnings Growth:** For Q1 2017, the blended earnings growth rate for the S&P 500 is 14.0%. This growth rate marked the highest (year-over-year) earnings growth rate for the index since Q3 2011 (16.7%).
- Earnings Revisions:** On March 31, the estimated earnings growth rate for Q1 2017 was 9.0%. Nine sectors have higher growth rates today (compared to March 31) due to upward revisions to earnings estimates and upside earnings surprises, led by the Industrials sector.
- Earnings Guidance:** For Q2 2017, 75 S&P 500 companies have issued negative EPS guidance and 37 S&P 500 companies has 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 (15.3) and the 10-year average (14.0).



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Topic of the Week:

Smallest Cuts to S&P 500 EPS Estimates for Q2 since Q2 2014

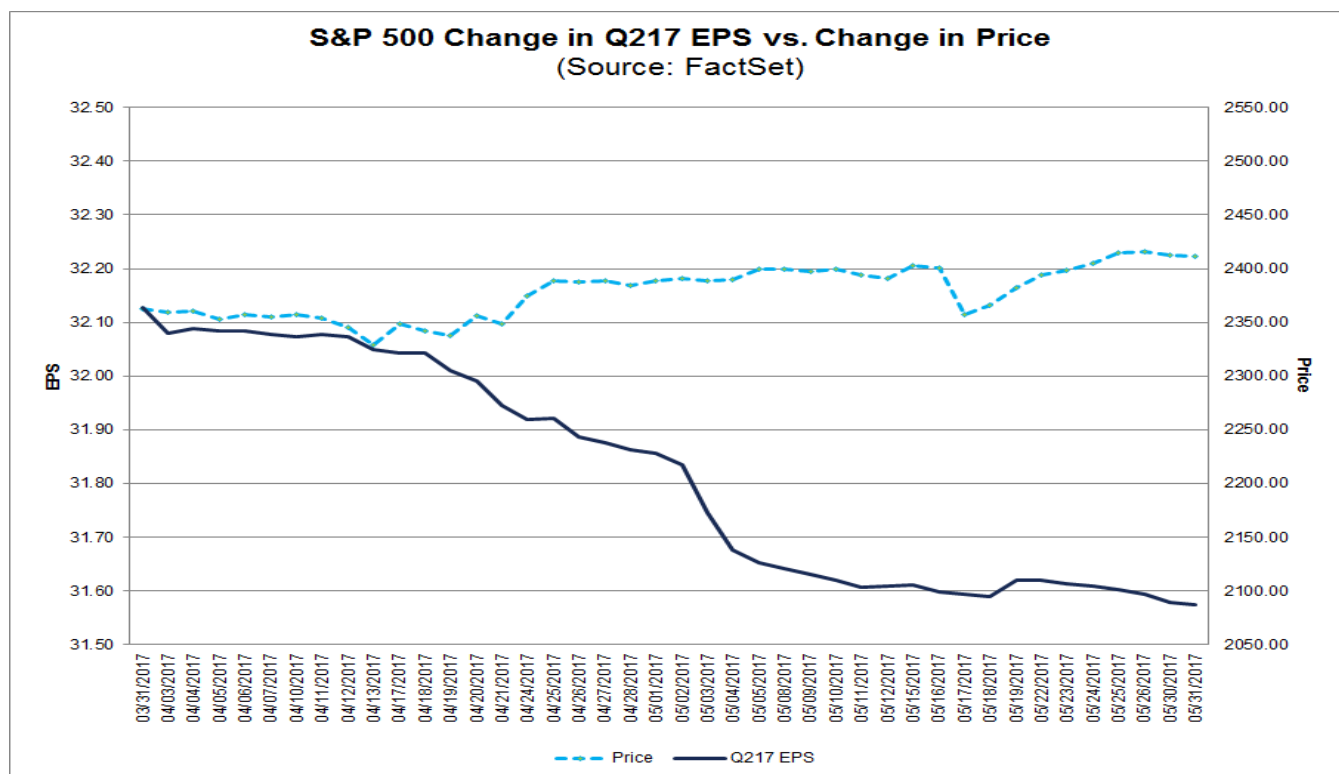
During the first two months of the second quarter, analysts lowered earnings estimates for companies in the S&P 500 for the second quarter. The Q2 bottom-up EPS estimate (which is an aggregation of the EPS estimates for all the companies in the index) dropped by 1.7% (to \$31.58 from \$32.13) during this period. How significant is a 1.7% decline in the bottom-up EPS estimate during the first two months of a quarter? How does this decrease compare to recent quarters?

During the past year (4 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 2.5%. During the past five years (20 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 3.5%. During the past ten years, (40 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 4.2%. Thus, the decline in the bottom-up EPS estimate recorded during the first two months of the second quarter was smaller than the 1-year, 5-year, and 10-year averages.

In fact, this marks the smallest decline in the bottom-up EPS estimate for the index for the first two months of a quarter since Q2 2014 (-1.0%).

Seven sectors recorded a decline in their bottom-up EPS estimate during the first two months of the quarter that was smaller than the 5-year average and the 10-year average for that sector. One sector that stands out from the pack in terms of below-average cuts to estimates is the Industrials sector. This sector recorded an increase in the bottom-up EPS estimate of 0.4% (to \$7.73 from \$7.71) during the first two months of the second quarter. This 0.4% increase is an improvement relative to the average decline of 3.7% over the past five years and the average decline of 3.7% over the past ten years in the bottom-up EPS estimate for this sector during the first two months of the quarter.

As the bottom-up EPS estimate for the index declined during the first two months of the quarter, the value of the S&P 500 increased during this same period. From March 31 through May 31, the value of the index increased by 2.1% (to 2411.80 from 2362.72). This quarter marked the 17th time in the past 20 quarters in which the bottom-up EPS estimate decreased during the first two months of the quarter while the value of the index increased over this same period.



Q1 2017 Earnings Season: By the Numbers

Overview

To date, 99% of the companies in the S&P 500 have reported actual results for Q1 2017. In terms of earnings, more companies (75%) reported actual EPS above estimates compared to the 5-year average. In aggregate, companies reported earnings that were 5.9% above the estimates, which was also above the 5-year average. In terms of sales, more companies (64%) reported actual sales above estimates compared to the 5-year average. In aggregate, companies reported sales that were 0.7% above estimates, which was 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) year-over-year earnings growth rate for Q1 2017 is 14.0% today. Ten sectors are reporting or have reported year-over-year earnings growth, led by the Energy, Financials, Materials, and Information Technology sectors. The only sector that reported a year-over-year decline in earnings was the Telecom Services sector.

The blended sales growth rate for Q1 2017 is 7.6%. Ten sectors are reporting or have reported year-over-year growth in revenues, led by the Energy sector. The Telecom Services sector was the only sector that reported a year-over-year decline in revenues.

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

The forward 12-month P/E ratio is 17.7, which is above the 5-year average and the 10-year average.

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

Scorecard: More Companies Beat EPS and Revenue Estimates than Average

Percentage of Companies that Beat EPS Estimates (75%) was Above 5-Year Average

Overall, 99% of the companies in the S&P 500 have reported earnings to date for the first quarter. Of these companies, 75% reported actual EPS above the mean EPS estimate, 7% reported actual EPS equal to the mean EPS estimate, and 18% reported actual EPS below the mean EPS estimate. The percentage of companies that reported EPS above the mean EPS estimate was 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 Financials (82%) sectors had the highest percentages of companies that reported earnings above estimates, while the Telecom Services (0%), Real Estate (58%), and Consumer Staples (59%) sectors had the lowest percentages of companies that reported earnings (FFO for the Real Estate sector) above estimates.

Earnings Surprise Percentage (+5.9%) was Above 5-Year Average

In aggregate, companies reported earnings that were 5.9% above expectations. This surprise percentage was above the 1-year (+4.3%) average and above the 5-year (+4.1%) average.

The Energy (+21.6%), Consumer Discretionary (+9.5%), and Industrials (+9.2%) sectors reported the largest upside aggregate differences between actual earnings and estimated earnings, while the Telecom Services (-0.8%) sector reported the largest downside aggregate difference between actual earnings and estimated earnings.

Percentage of Companies that Beat Revenue Estimates (64%) was Above 5-Year Average

In terms of revenues, 64% of companies reported actual sales above estimated sales and 36% reported actual sales below estimated sales. The percentage of companies that reported sales above estimates was above the 1-year average (53%) and above the 5-year average (53%).

At the sector level, the Industrials (79%), Information Technology (76%), and Materials (76%) sector had the highest percentages of companies that reported revenues above estimates, while the Telecom Services (25%) and Consumer Staples (32%) sectors had the lowest percentages of companies that reported revenues above estimates.

Revenue Surprise Percentage (+0.7%) was Above 5-Year Average

In aggregate, companies reported sales that were 0.7% above expectations. This surprise percentage was above the 1-year (0.0%) average and above the 5-year (+0.1%) average.

The Materials (+2.8%) sector reported the largest upside aggregate difference between actual sales and estimated sales, while the Telecom Services (-2.4%) sector reported the largest downside aggregate difference between actual earnings and estimated earnings.

Slight Increase in Blended Earnings Growth This Week

Slight Increase in Blended Earnings Growth This Week

The blended earnings growth rate for the first quarter is 14.0% this week, which is slightly above the earnings growth rate of 13.9% last week. Upside earnings surprises reported by companies in the Information Technology sector were mainly responsible for the overall increase in the earnings growth rate for the index during the past week.

Industrials Sector Recorded Largest Increase in Earnings after March 31

The blended earnings growth rate for Q1 2017 of 14.0% is higher than the estimate of 9.0% at the end of the first quarter (March 31). Nine sectors recorded an increase in earnings growth after the end of the quarter due to upward revisions to earnings estimates and upside earnings surprises, led by the Industrials (to 1.8% from -7.2%), Consumer Discretionary (to 5.7% from -1.9%), and Materials (to 17.8% from 10.7%) sectors. The only sector that recorded a decrease in earnings growth after the end of the quarter due to downward revisions to estimates and downside earnings surprises was the Telecom Services (to -5.0% from -2.8%) sector. A growth rate was not calculated for the Energy sector for the first quarter.

Earnings Growth: Highest Earnings Growth (14.0%) since Q3 2011 (16.7%)

The blended earnings growth rate for Q1 2017 is 14.0%. The first quarter growth rate of 14.0% marked the highest year-over-year earnings growth rate reported by the index since Q3 2011 (16.7%). The first quarter also marked the first time the index reported year-over-year growth in earnings for three consecutive quarters since Q3 2014 through Q1 2015. Ten sectors are reporting or have reported year-over-year growth in earnings, led by the Energy, Financials, Materials, and Information Technology sectors. The only sector that reported a year-over-year decline in earnings was the Telecom Services sector.

Energy: Largest Contributor to Earnings Growth for Q1

A growth rate was not calculated for the Energy sector for Q1 because the sector reported a loss in the year-ago quarter. On a dollar-level basis, the Energy sector reported earnings of \$8.5 billion in Q1 2017, compared to a loss of -1.5 billion in Q1 2016. Due to this \$10.0 billion year-over-year increase in earnings, the Energy sector was 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 9.8% from 14.0%

At the sub-industry level, four of the six sub-industries in the sector reported earnings growth: Oil & Gas Exploration & Production (N/A due to year-ago loss), Integrated Oil & Gas (558%), Oil & Gas Equipment & Services (41%), and Oil & Gas Storage & Transportation (14%). On the other hand, the Oil & Gas Drilling (-210%) and Oil & Gas Refining & Marketing (-13%) sub-industries were the only two sub-industries that reported a year-over-year decline in earnings.

Financials: Balanced Growth Across Sector, Led by Capital Markets Industry

The Financials sector reported the highest (year-over-year) earnings growth rate of all eleven sectors at 19.9%. At the industry level, four of the five industries in this sector reported earnings growth. All four of these industries reported double-digit earnings growth: Capital Markets (37%), Diversified Financial Services (28%), Banks (19%), and Insurance (19%). At the company level, Bank of America was the largest contributor to earnings growth for this sector. The company reported actual EPS of \$0.41 for Q1 2017, compared to year-ago EPS of \$0.21.

Materials: Metals & Mining Industry Led Growth

The Materials sector reported the second highest (year-over-year) earnings growth rate of all eleven sectors at 17.8%. At the industry level, three of the four industries in this sector reported earnings growth, led by the Metals & Mining (792%) industry. The Metals & Mining industry was also the largest contributor to earnings growth for the sector. If this industry is excluded, the blended earnings growth rate for the Materials sector would fall to 9.4% from 17.8%. At the company level, Freeport-McMoRan was the largest contributor to earnings growth for the sector. The company reported actual EPS of \$0.15 for Q1 2017, compared to year-ago EPS of -\$0.16. If this company alone is excluded, the blended earnings growth rate for the Materials sector would fall to 11.9% from 17.8%.

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

The Information Technology sector reported the third highest (year-over-year) earnings growth rate of all eleven sectors at 17.6%. At the industry level, all seven industries in this sector reported earnings growth. Four of these seven industries reported double-digit earnings growth: Semiconductor & Semiconductor Equipment (59%), Electronic Equipment, Instruments, & Components (21%), Software (14%), and Internet Software & Services (13%). The Semiconductor and Semiconductor Equipment industry was 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 10.5% from 17.6%. At the company level, Micron Technology was the largest contributor to earnings growth for this sector. Micron Technology reported actual EPS of \$0.90 for Q1 2017, compared to year-ago EPS of -\$0.05.

Telecom Services: Verizon Led Decline

The Telecom Services sector was the only sector that reported a (year-over-year) decline in earnings at -5.0%. Three of the four companies in this sector reported a year-over-year decline in EPS. Of these three companies, Verizon was the largest contributor to the decline in earnings. The company reported actual EPS of \$0.95 for Q1 2017, compared to year-ago EPS of \$1.06. If this company is excluded, the actual earnings decline for the Telecom Services sector would improve to -0.4% from -5.0%.

Revenues: Highest Revenue Growth (7.6%) since Q4 2011 (8.1%)

The blended revenue growth rate for Q1 2017 is 7.6%. The revenue growth rate of 7.6% for the first quarter marked the highest year-over-year revenue growth rate reported by the index since Q4 2011 (8.1%). The first quarter also marked the first time the index reported year-over-year growth in sales for three consecutive quarters since Q2 2014 through Q4 2014. Ten sectors are reporting or have reported year-over-year growth in revenues, led by the Energy sector. The only sector that reported a decline in revenues was the Telecom Services sector.

Energy: Largest Contributor to Revenue Growth for Q1

The Energy sector reported the highest (year-over-year) revenue growth of all eleven sectors at 33.5%. At the sub-industry level, five of the six sub-industries in the sector reported revenue growth: Oil & Gas Exploration & Production (55%), Oil & Gas Refining & Marketing (36%), Integrated Oil & Gas (34%), Oil & Gas Storage & Transportation (23%), and Oil & Gas Equipment & Services (11%). On the other hand, the Oil & Gas Drilling (-33%) sub-industry was the only sub-industry that reported a year-over-year decline in earnings.

This sector was 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 5.8% from 7.6%.

Telecom Services: Verizon Led Decline

The Telecom Services sector was the only sector that reported a (year-over-year) decline in sales at -4.7%. All four companies in the sector reported a decline in sales, led by Verizon (-7%).

Looking Ahead: Forward Estimates and Valuation

Guidance: Negative EPS Guidance (67%) for Q2 Below Average

At this point in time, 112 companies in the index have issued EPS guidance for Q2 2017. Of these 112 companies, 75 have issued negative EPS guidance and 37 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 67% (75 out of 112), which is below the 5-year average of 74%.

Growth Expected to Continue for Remainder of 2017

For the first quarter, companies reported earnings growth of 14.0% and revenue growth rate of 7.6%. Analysts currently expect earnings and revenue growth to continue in 2017.

For Q2 2017, analysts are projecting earnings growth of 6.6% and revenue growth of 4.9%.

For Q3 2017, analysts are projecting earnings growth of 7.5% and revenue growth of 5.1%.

For Q4 2017, analysts are projecting earnings growth of 12.5% and revenue growth of 5.3%.

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

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

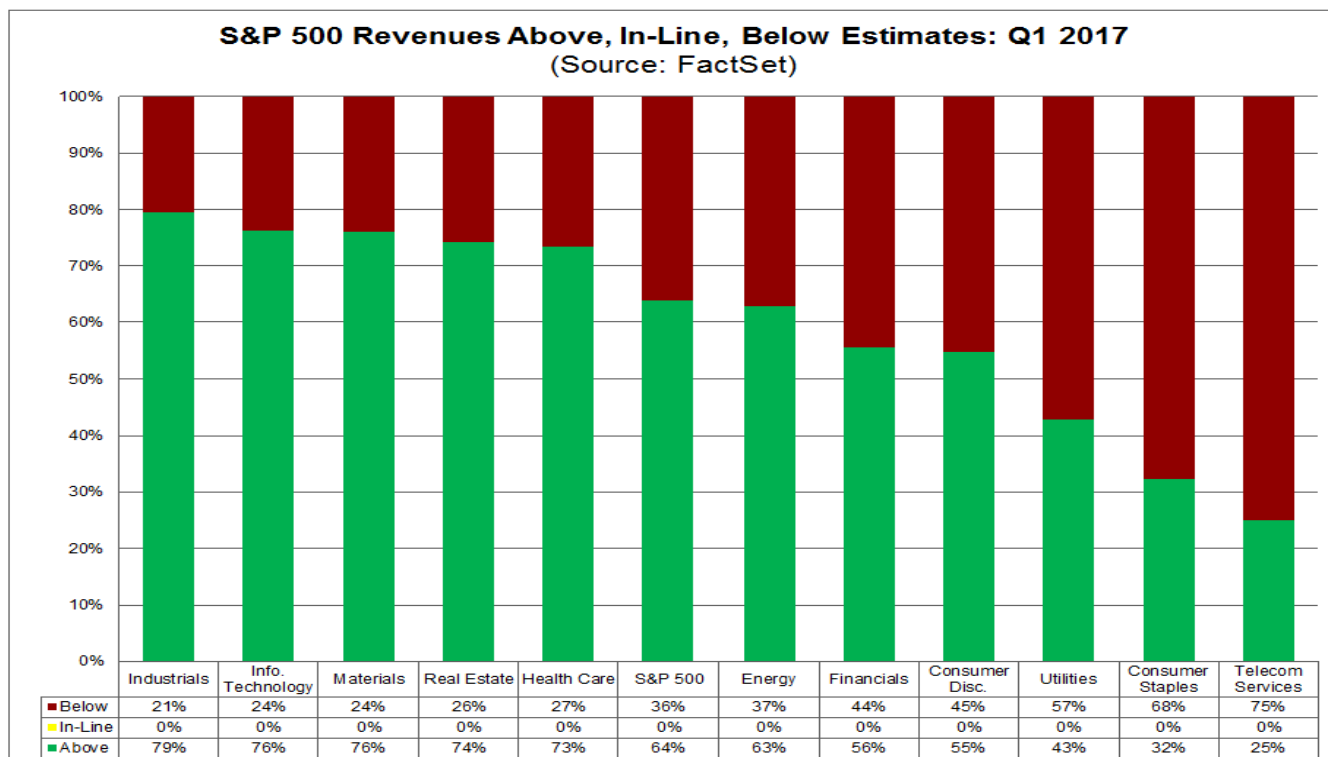
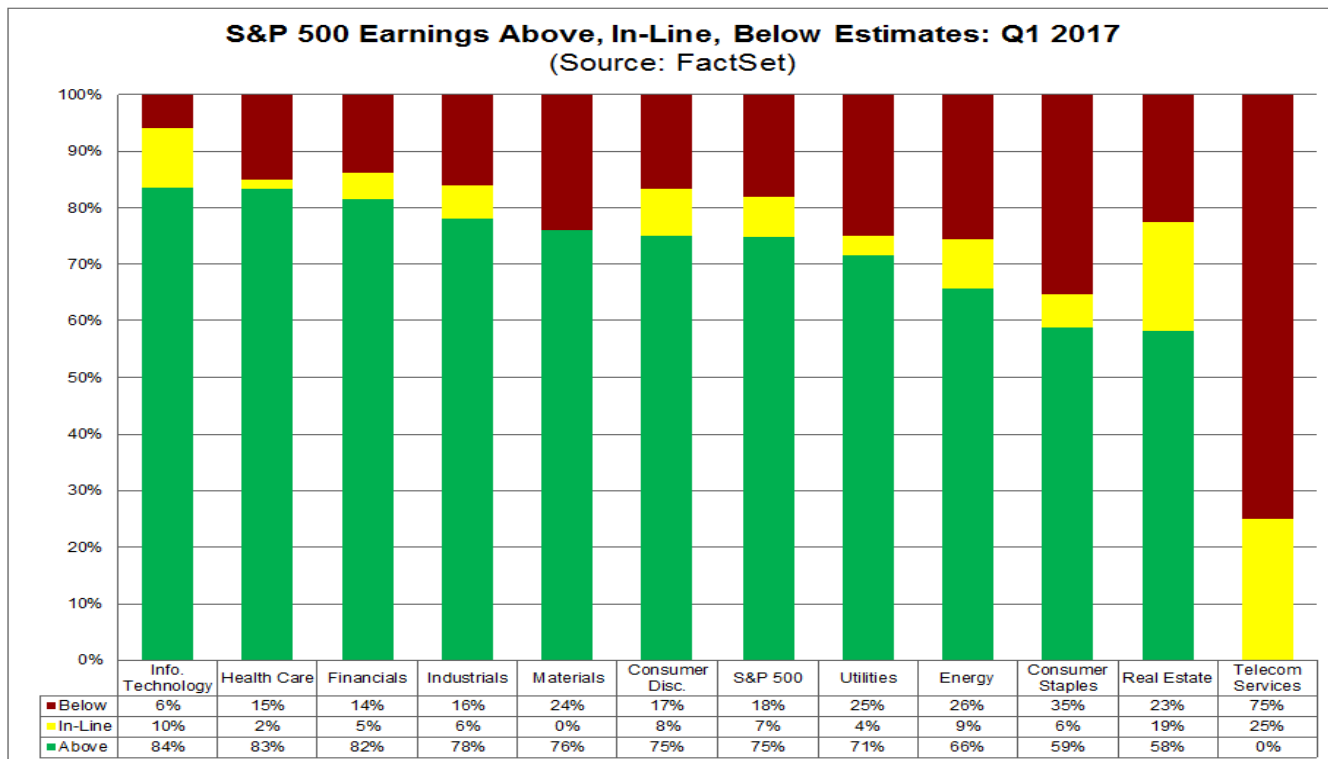
The forward 12-month P/E ratio is 17.7. This P/E ratio is above the 5-year average of 15.3, and above the 10-year average of 14.0. It is also above the forward 12-month P/E ratio of 17.5 recorded at the start of the second quarter (March 31). Since the start of the second quarter, the price of the index has increased by 2.9%, while the forward 12-month EPS estimate has increased by 2.2%.

At the sector level, the Energy (26.5) sector has the highest forward 12-month P/E ratio, while the Telecom Services (13.1) 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 (26.5 vs. 18.3) sector. One sector (Telecom Services) has a forward 12-month P/E ratio that is below the 10-year average (13.1 vs. 14.3). Historical averages are not available for the Real Estate sector.

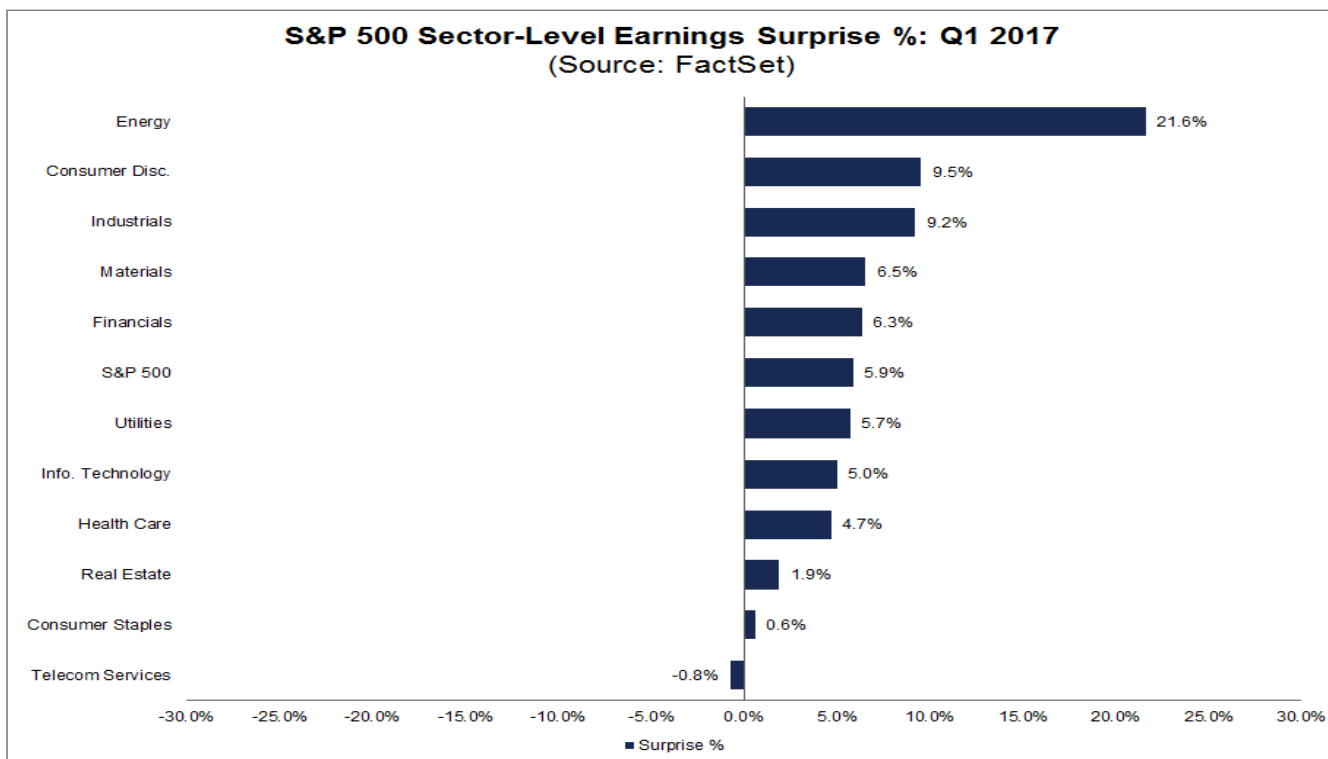
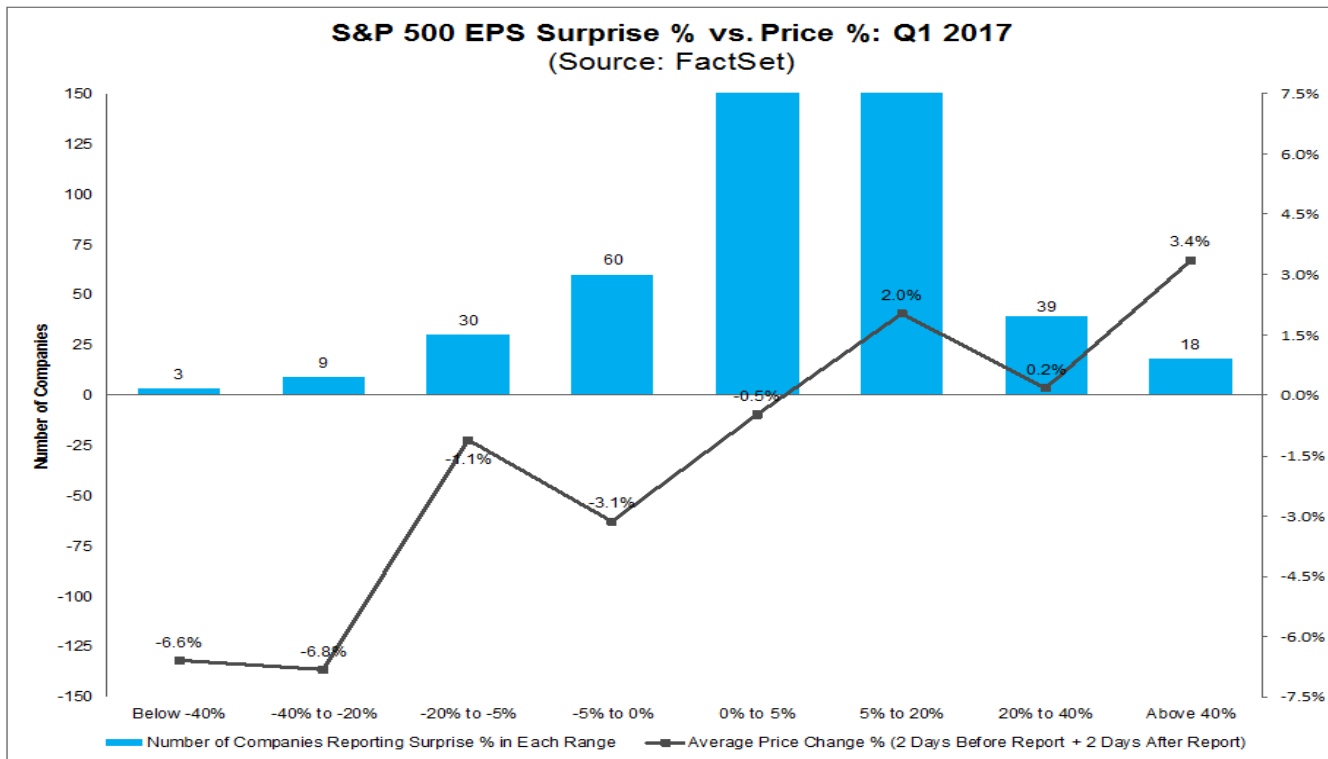
Companies Reporting Next Week: 2

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

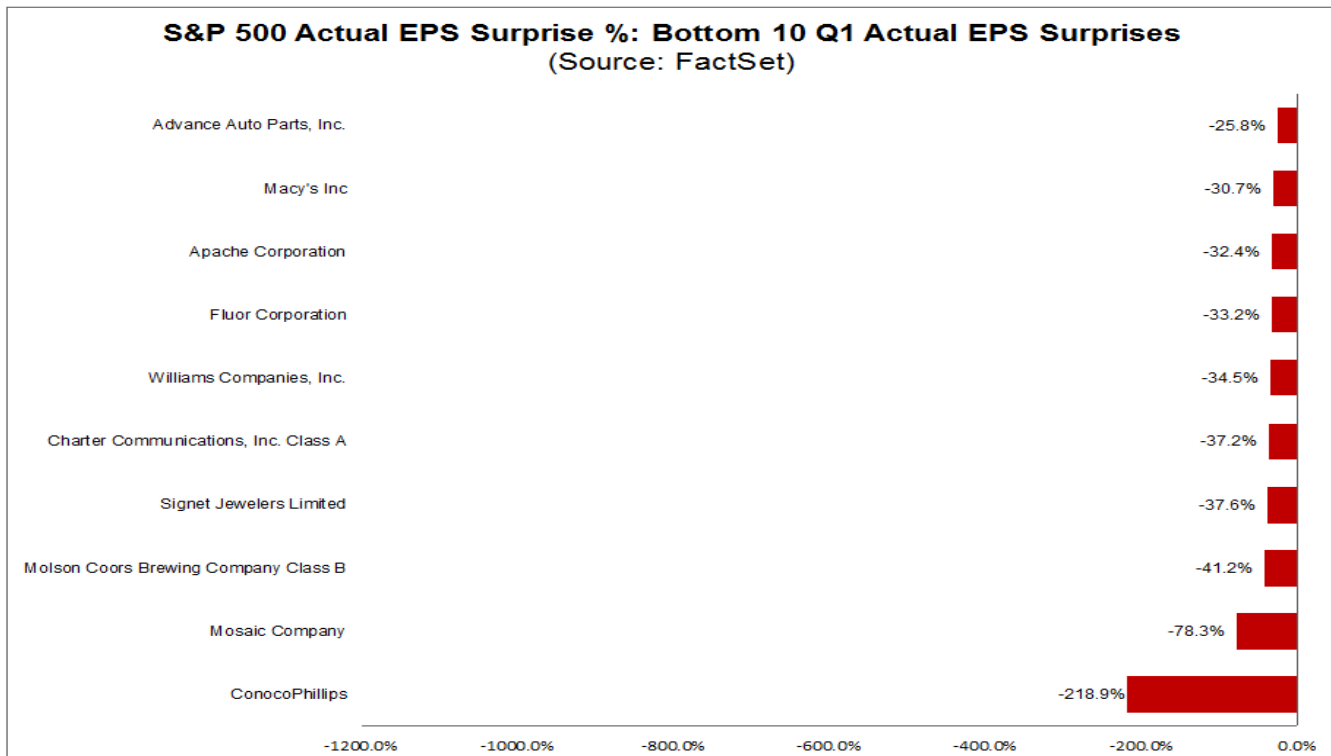
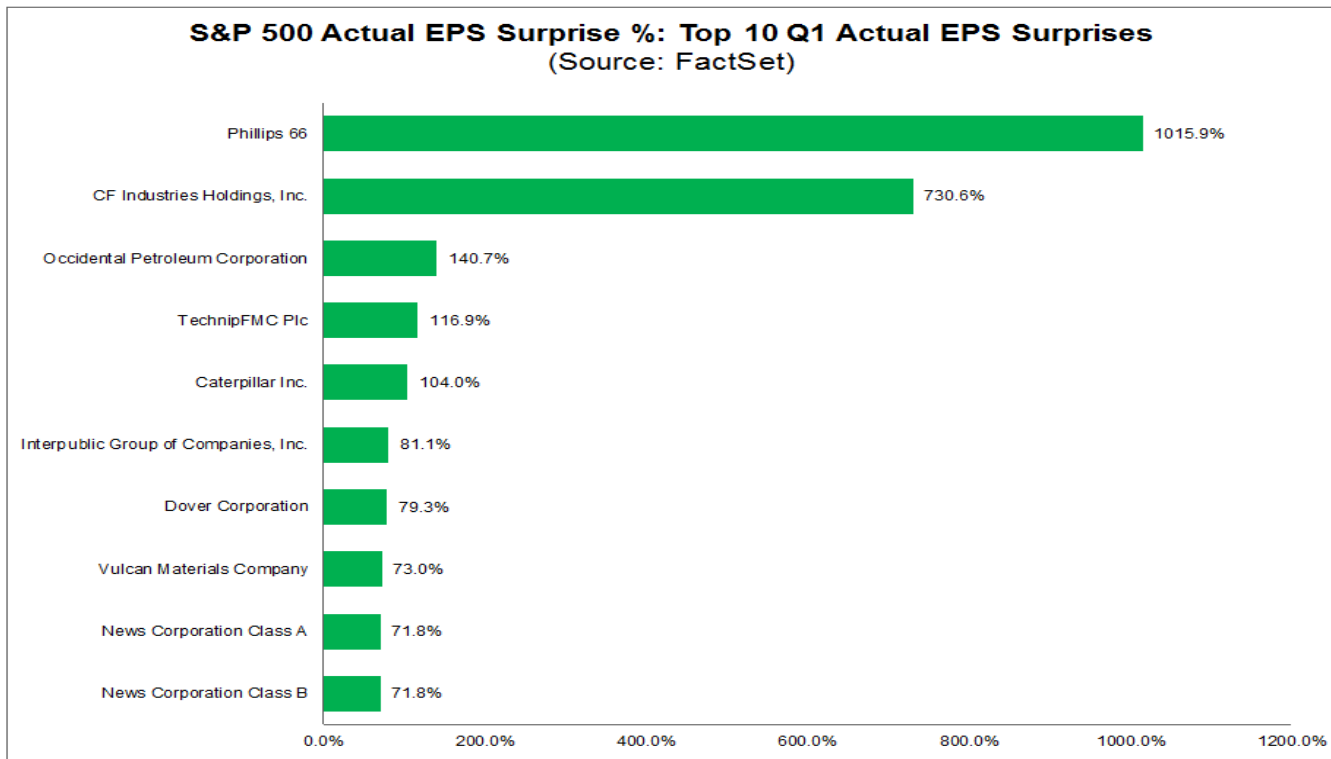
Q1 2017: Scorecard



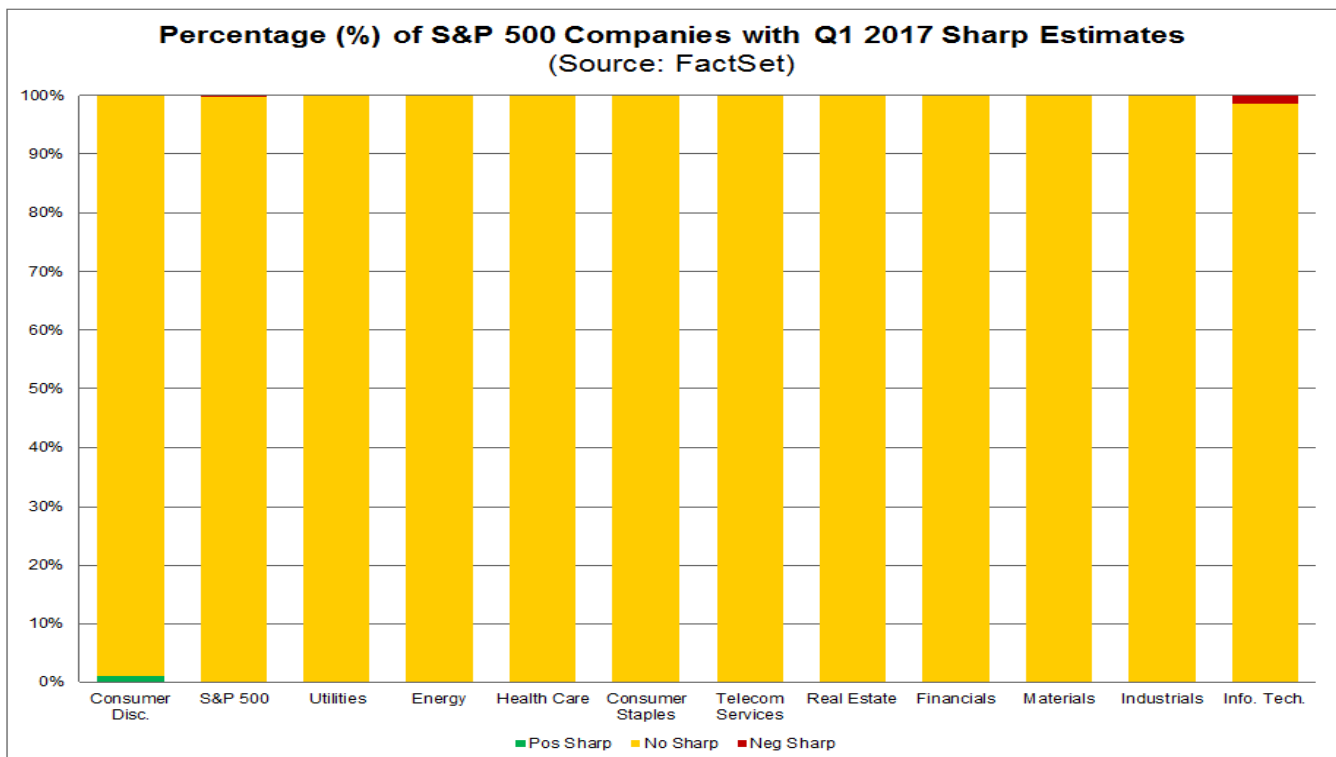
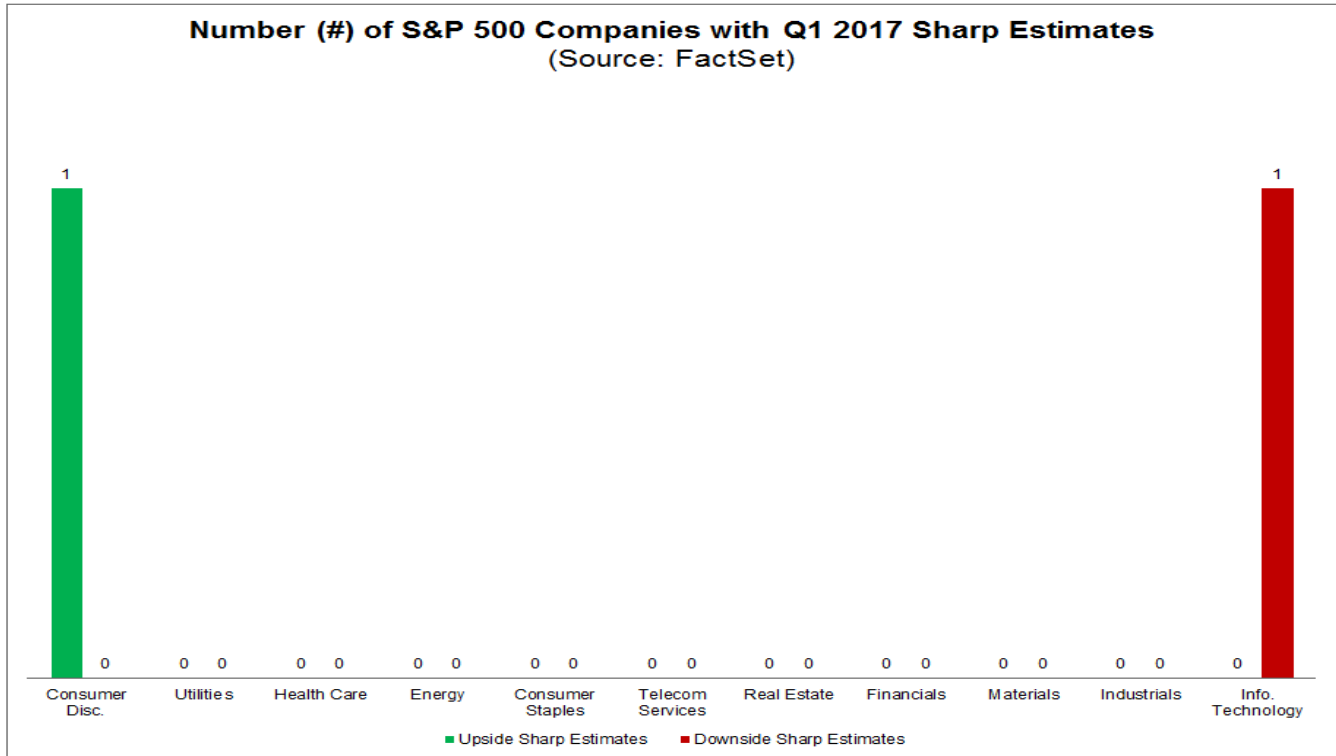
Q1 2017: Scorecard



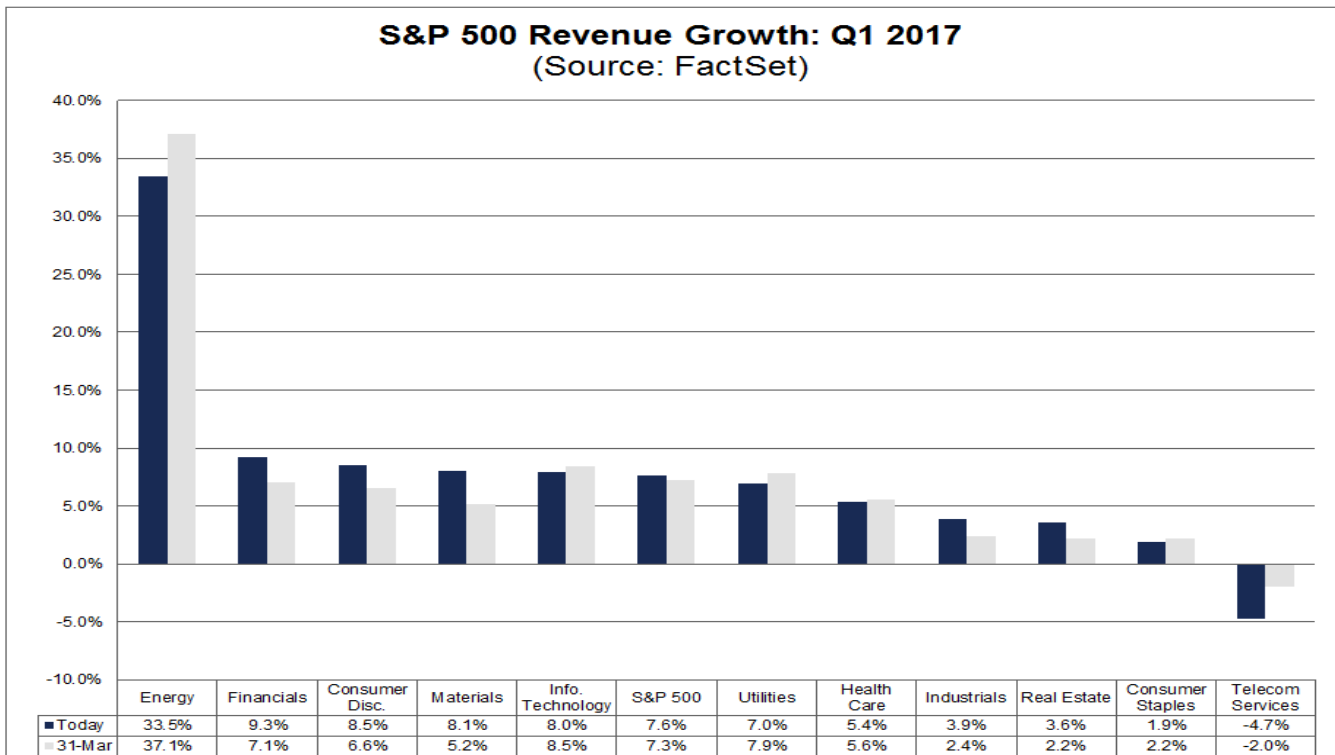
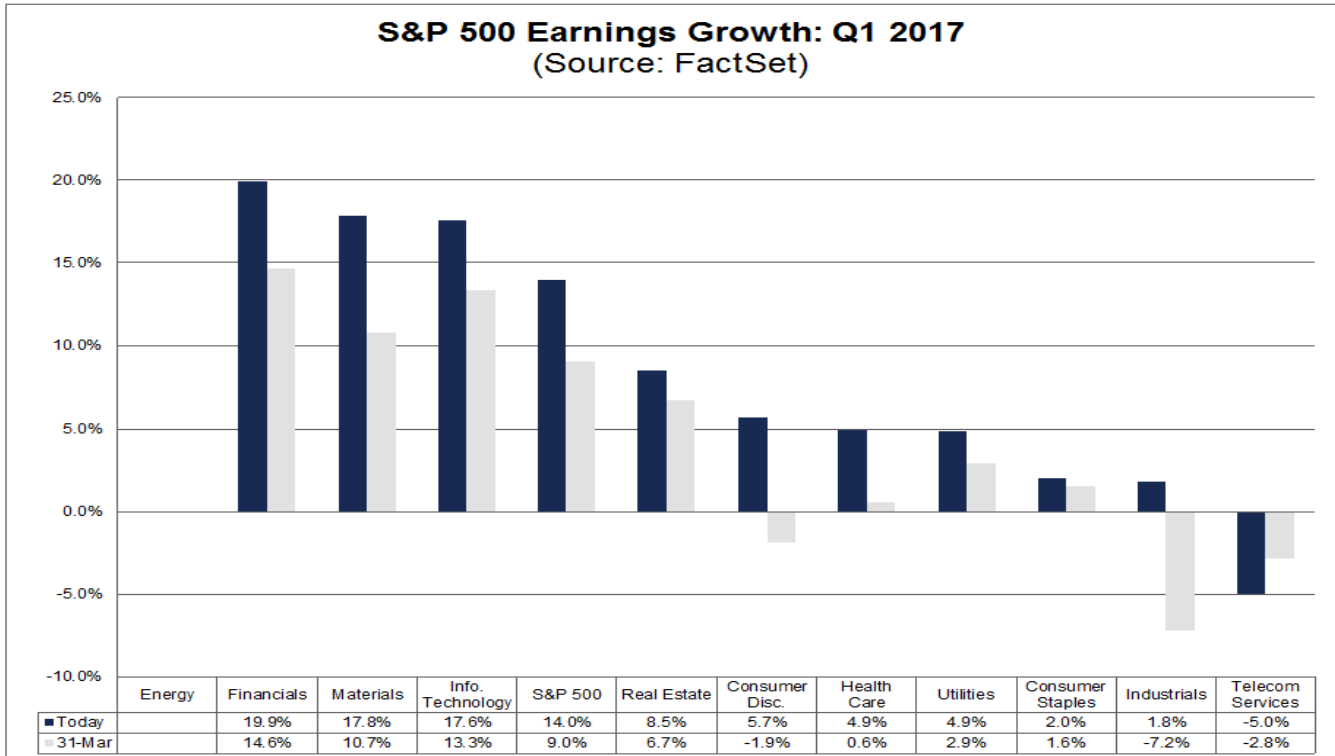
Q1 2017: Scorecard



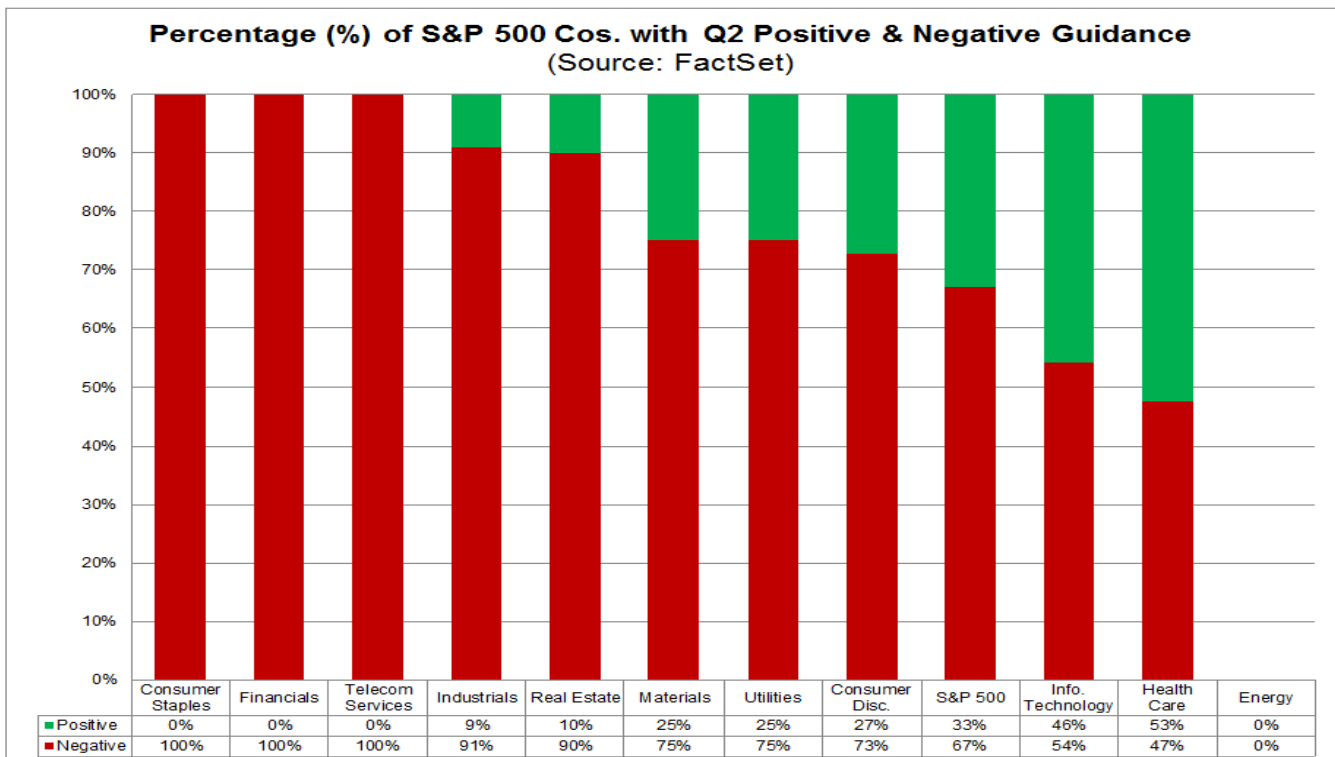
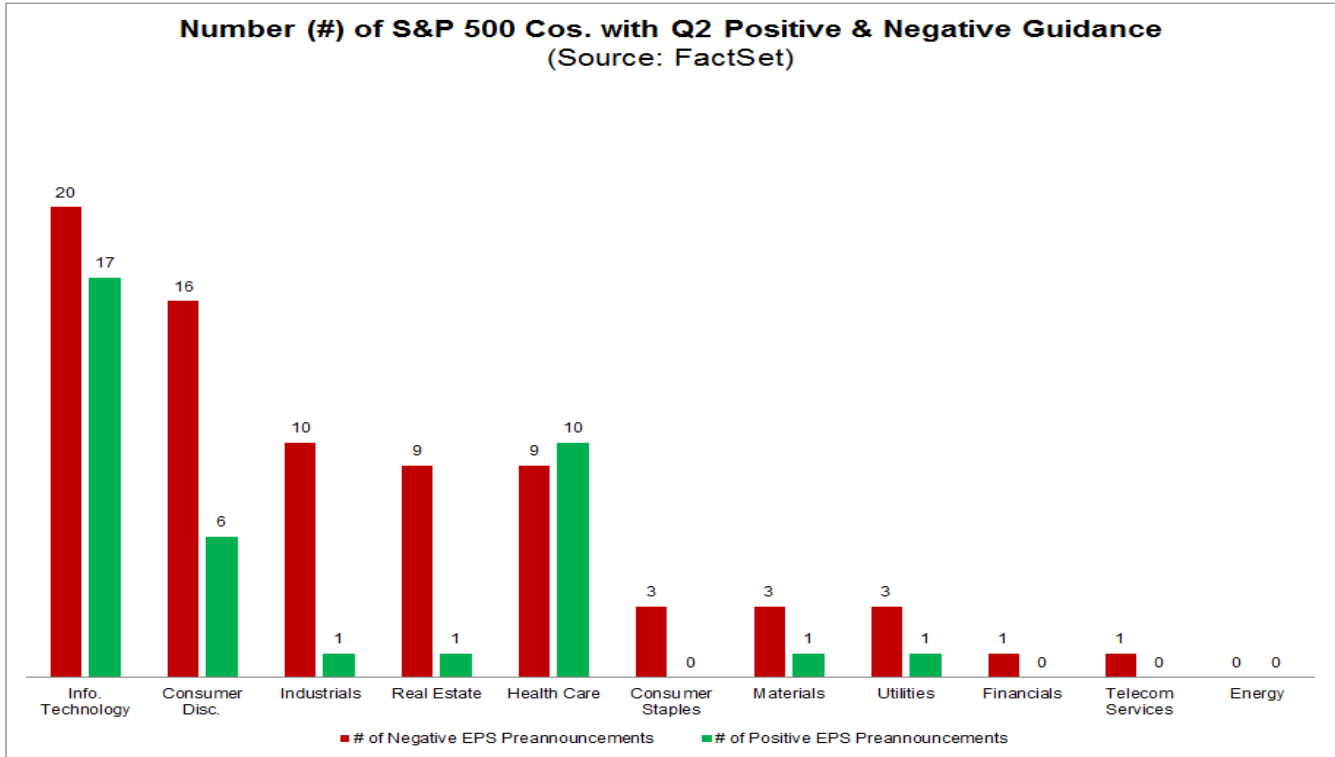
Q1 2017: Projected EPS Surprises (Sharp Estimates)



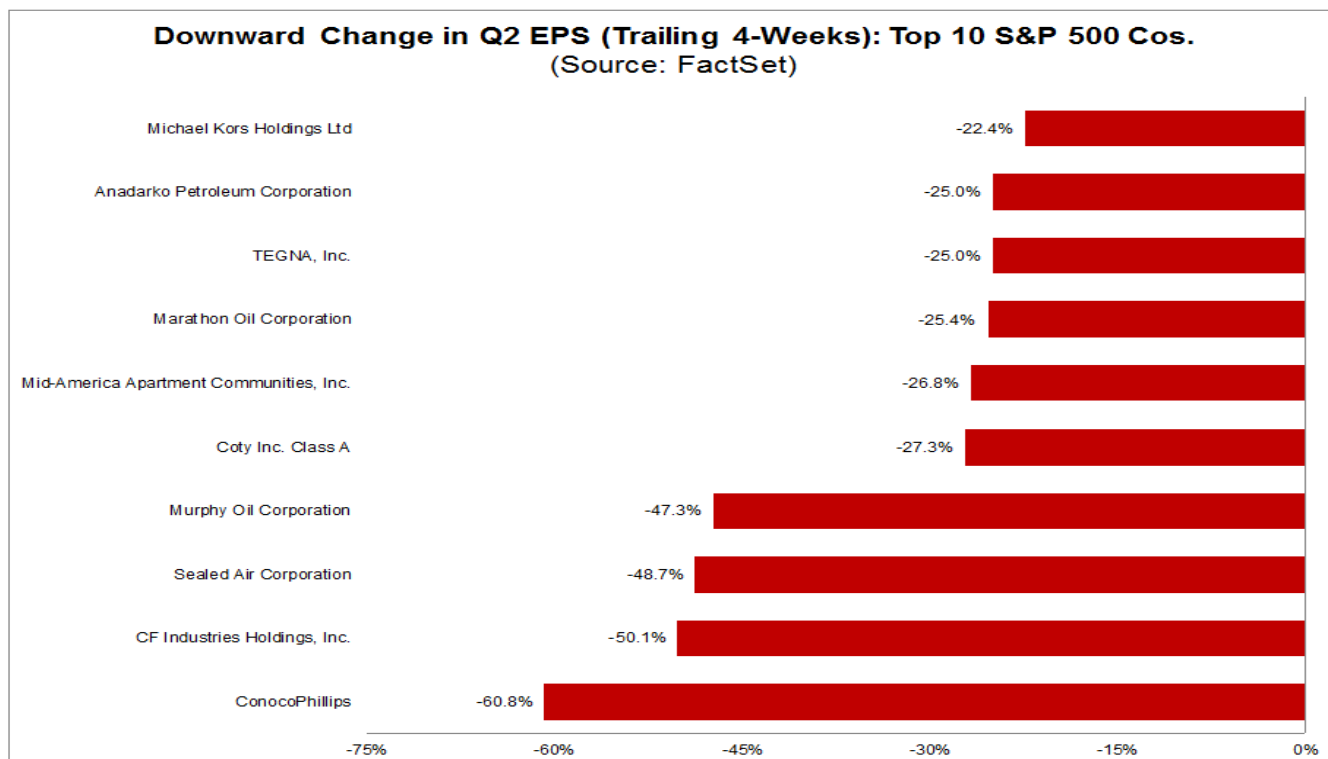
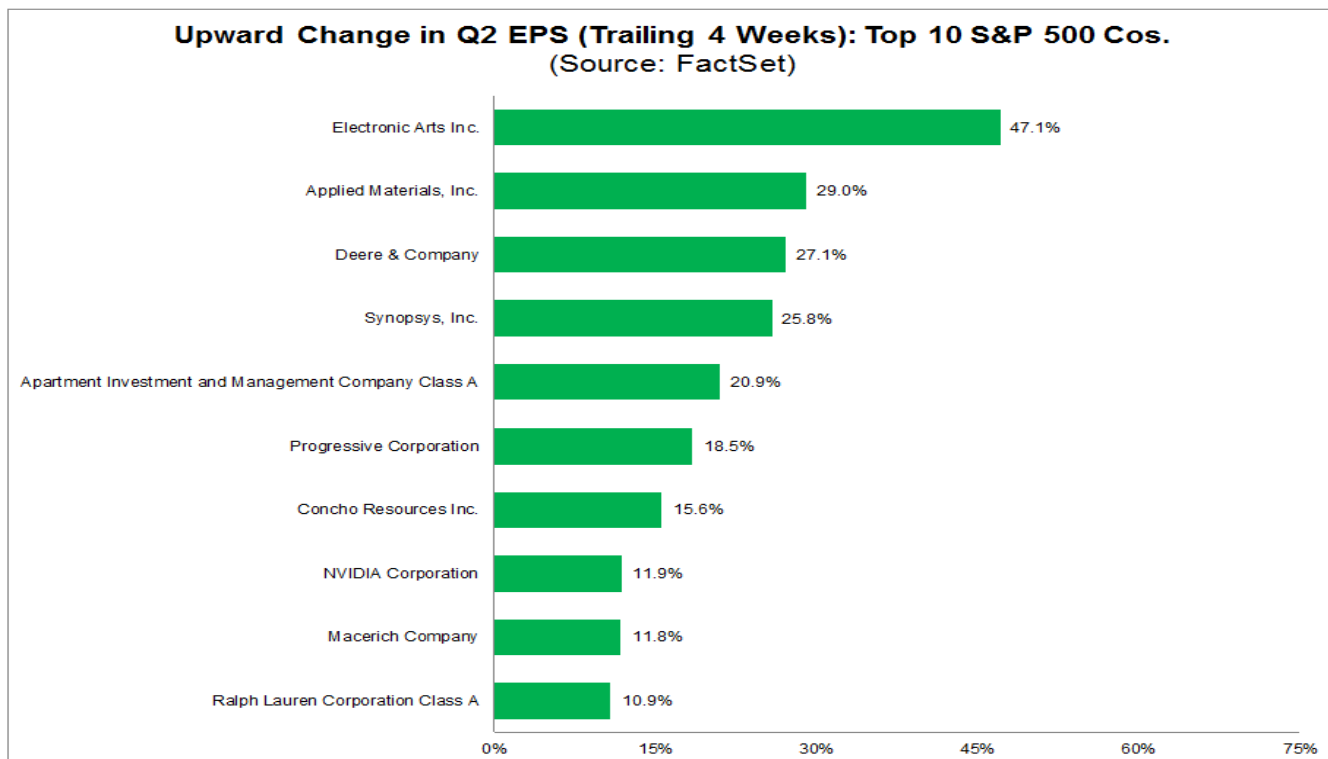
Q1 2017: Growth



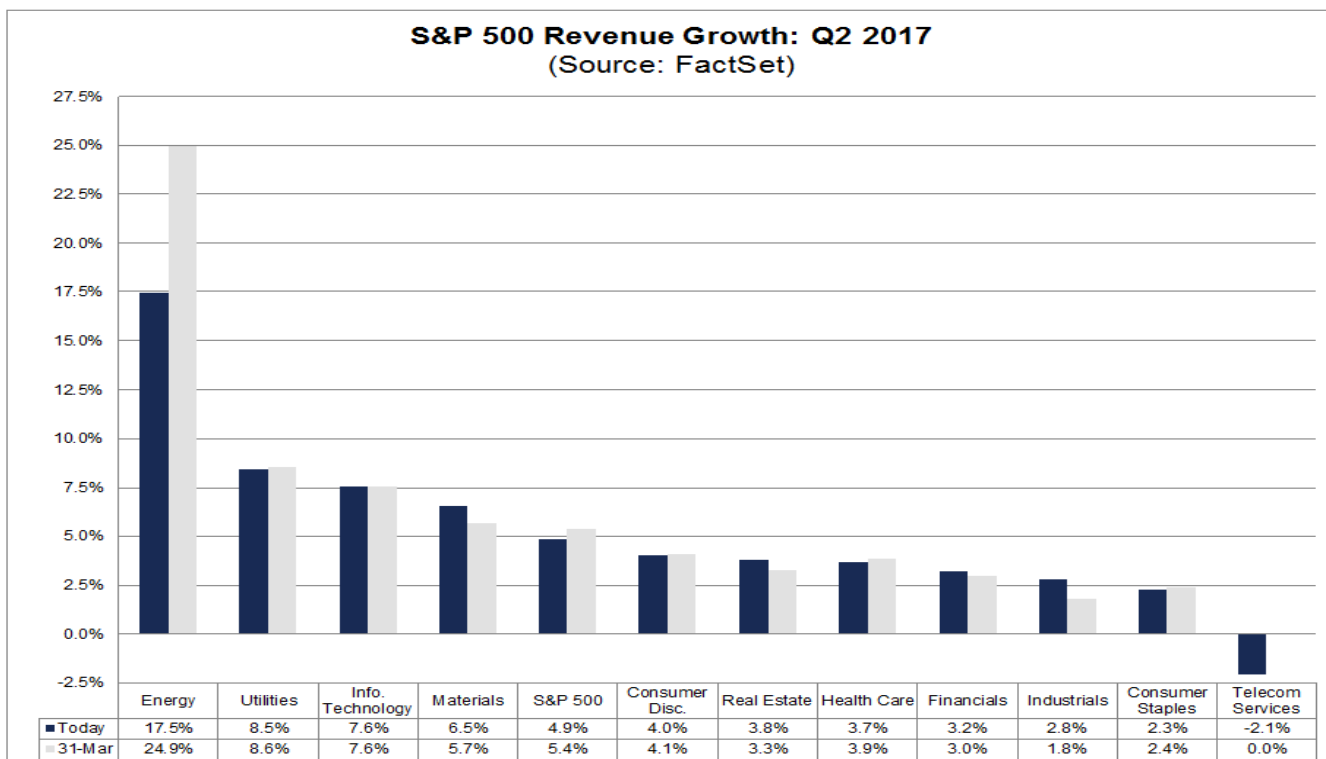
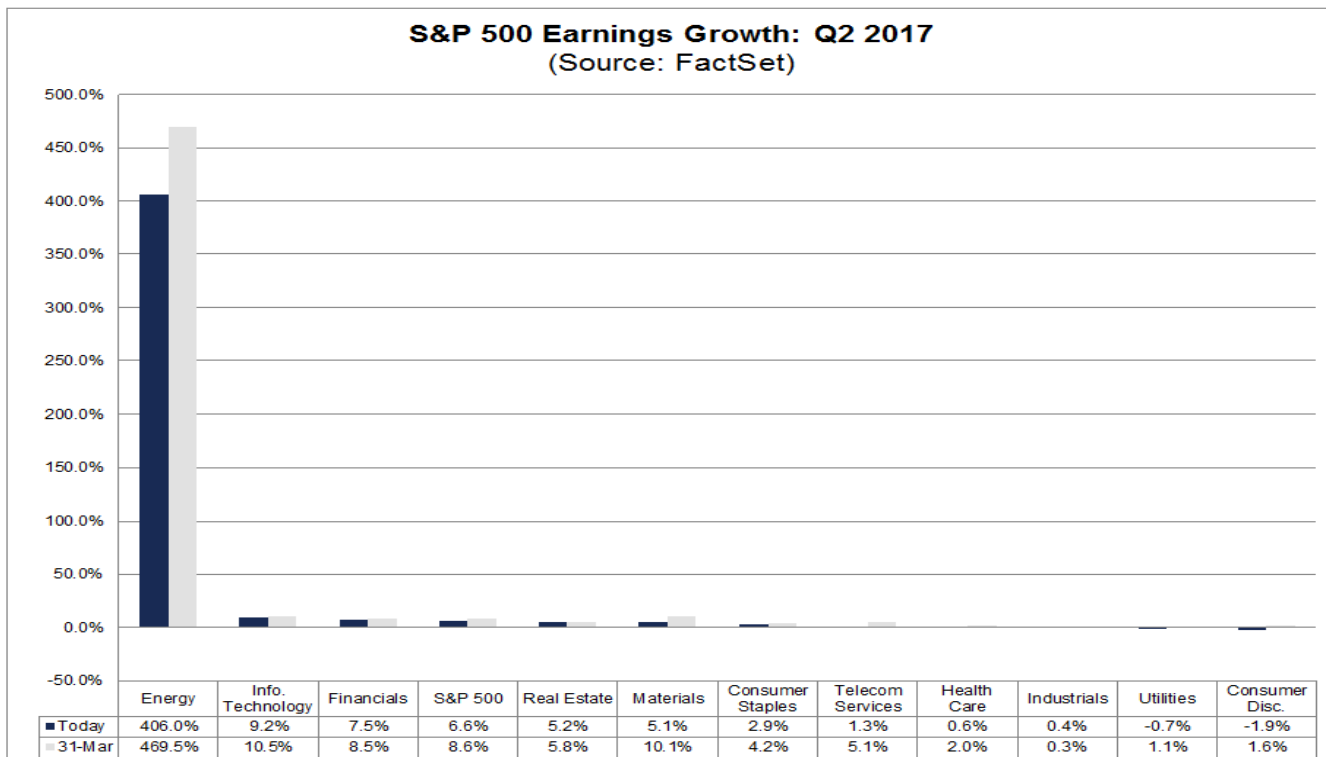
Q2 2017: Guidance



Q2 2017: EPS Revisions

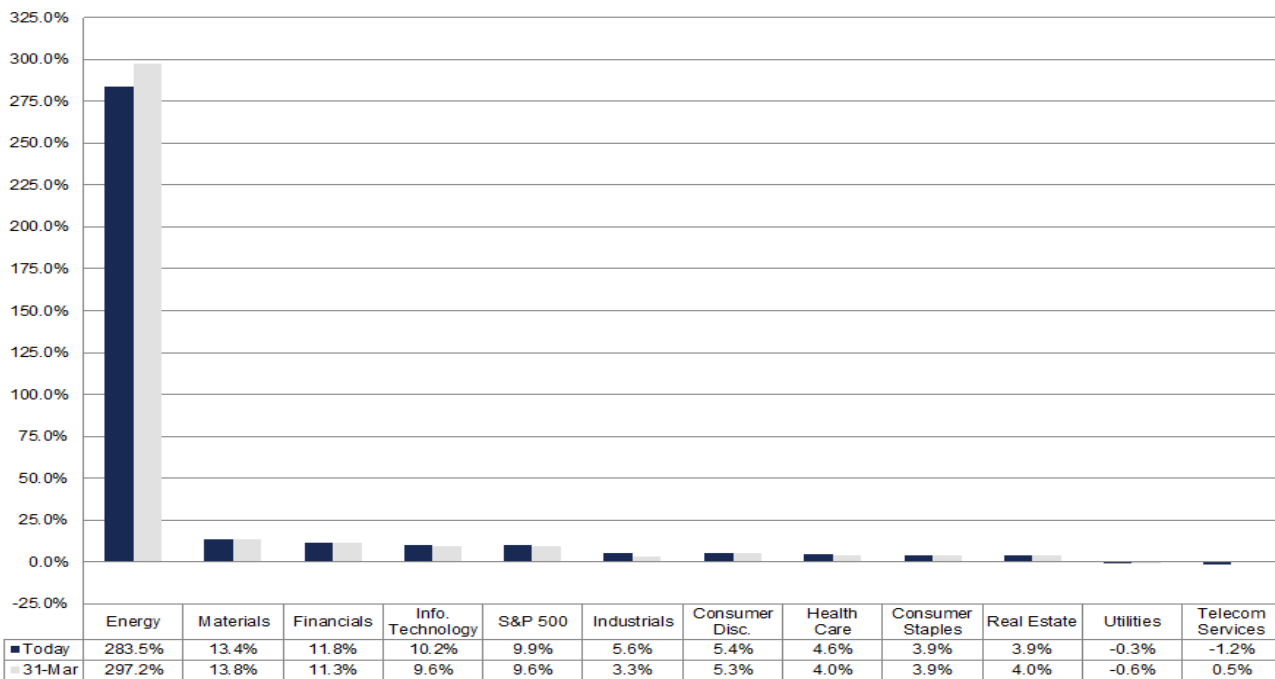


Q2 2017: Growth

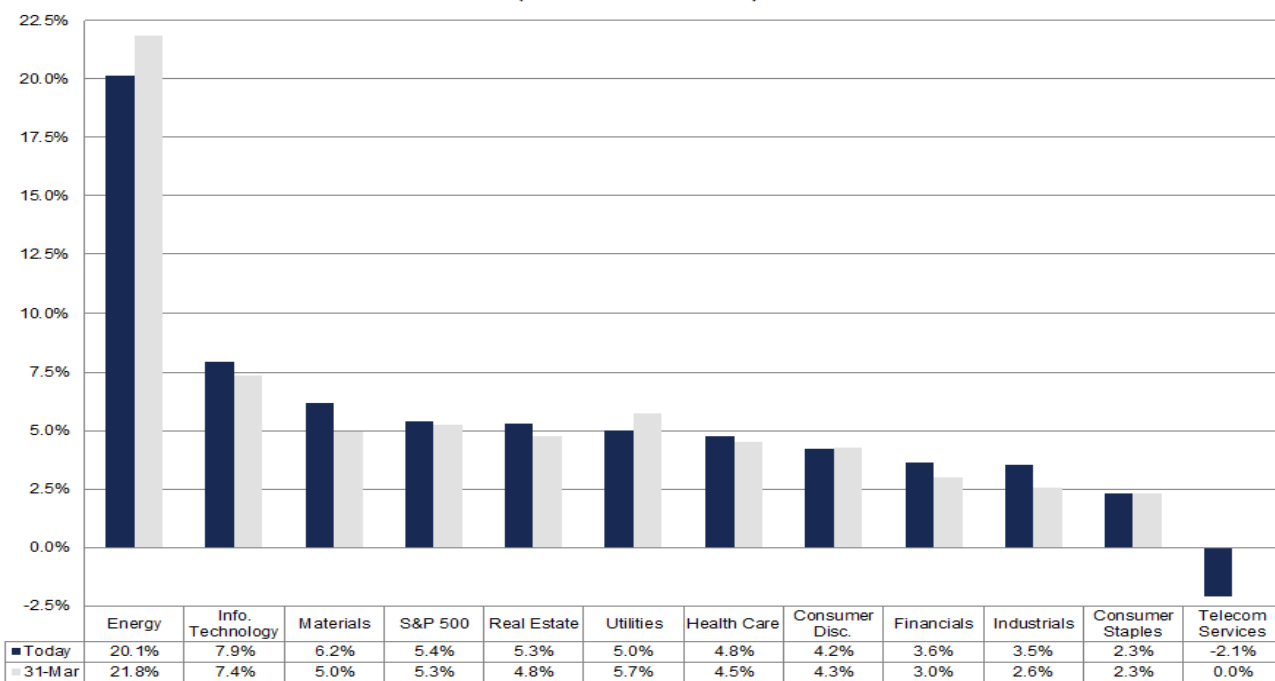


CY 2017: Growth

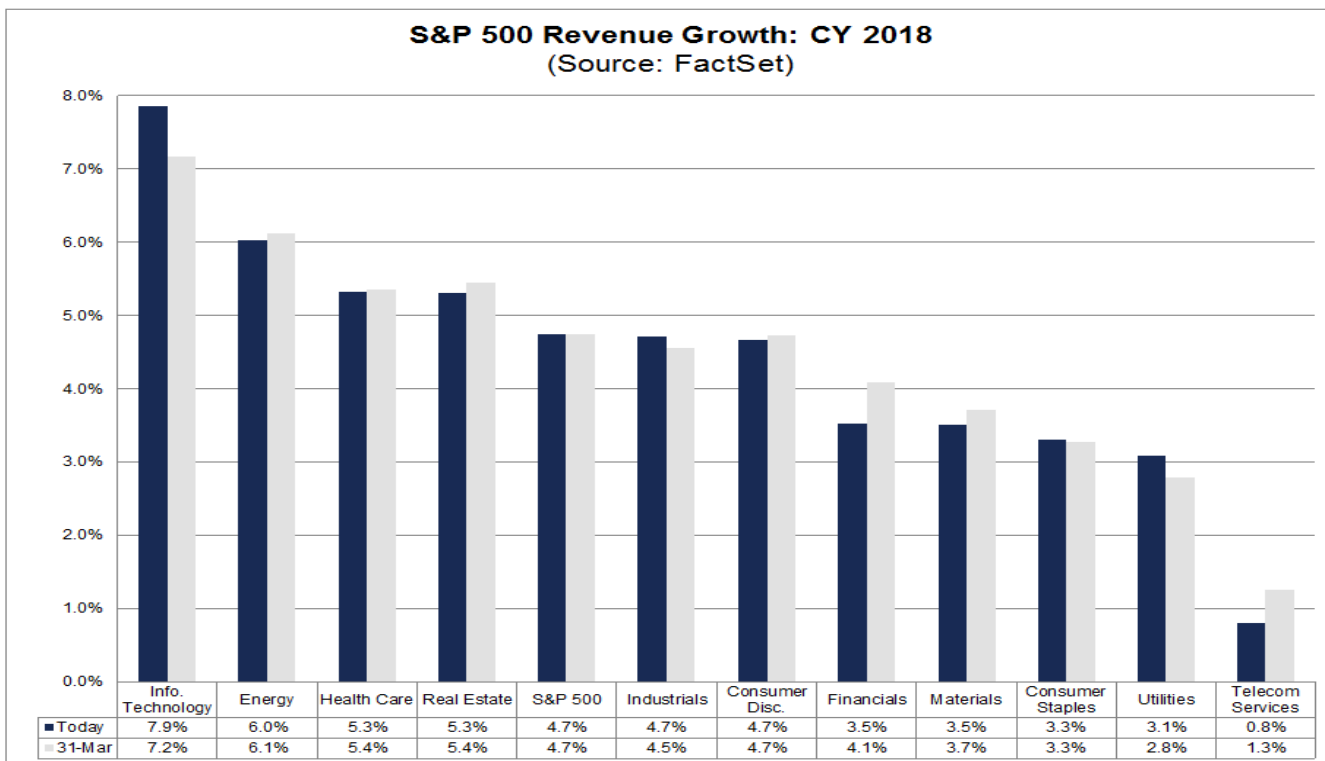
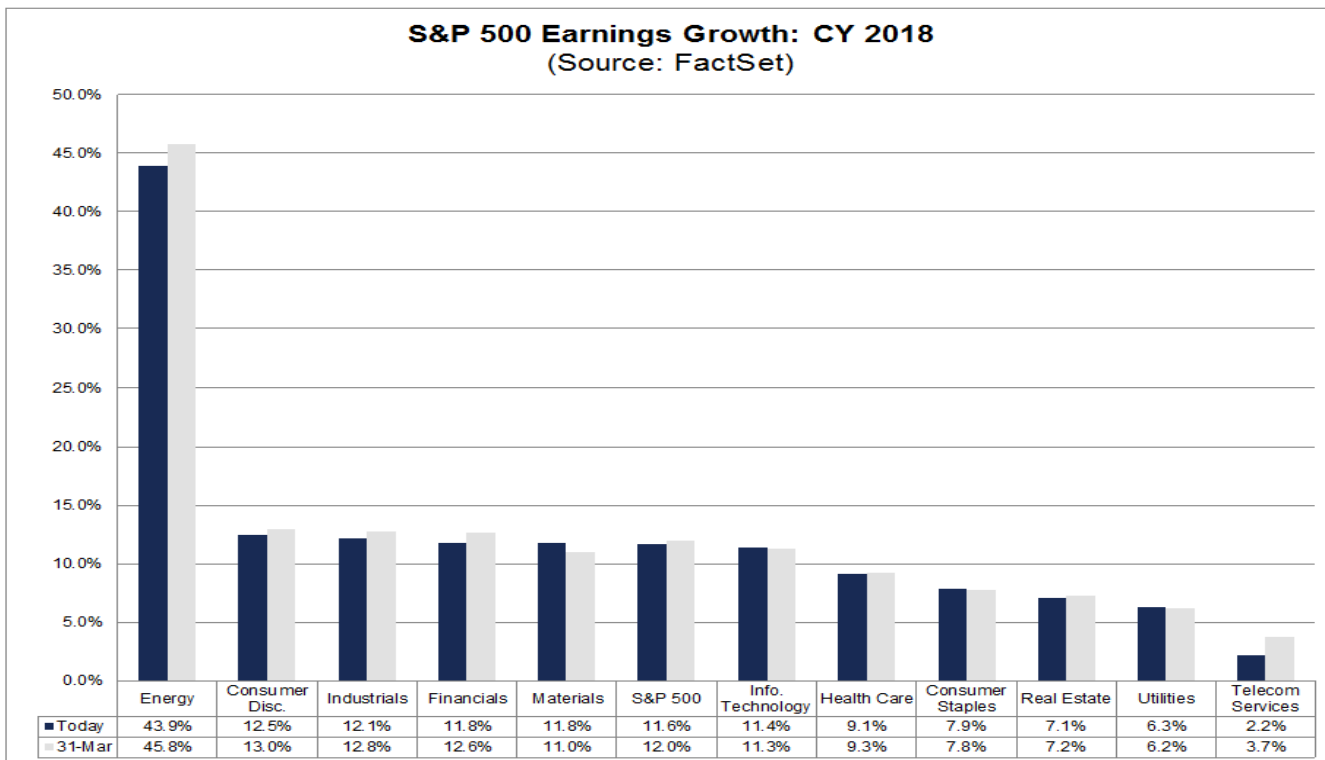
S&P 500 Earnings Growth: CY 2017
(Source: FactSet)



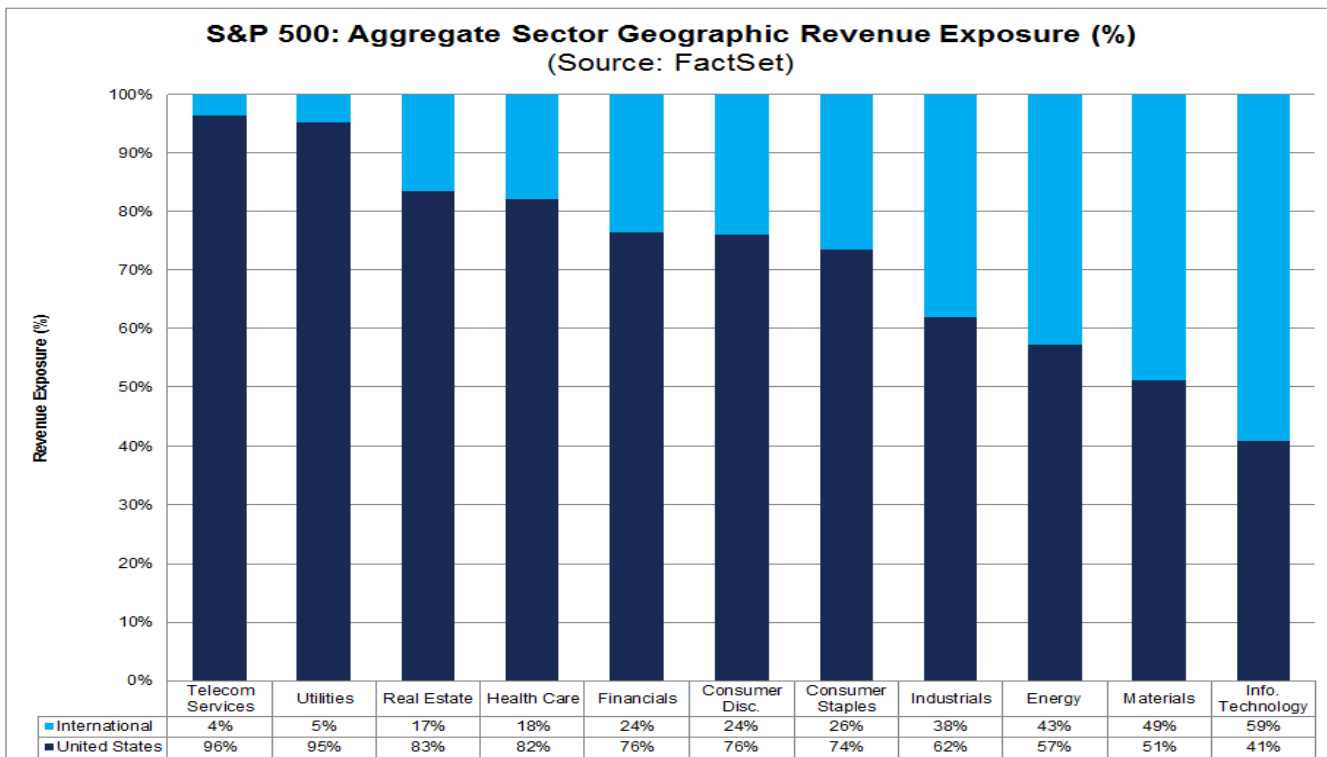
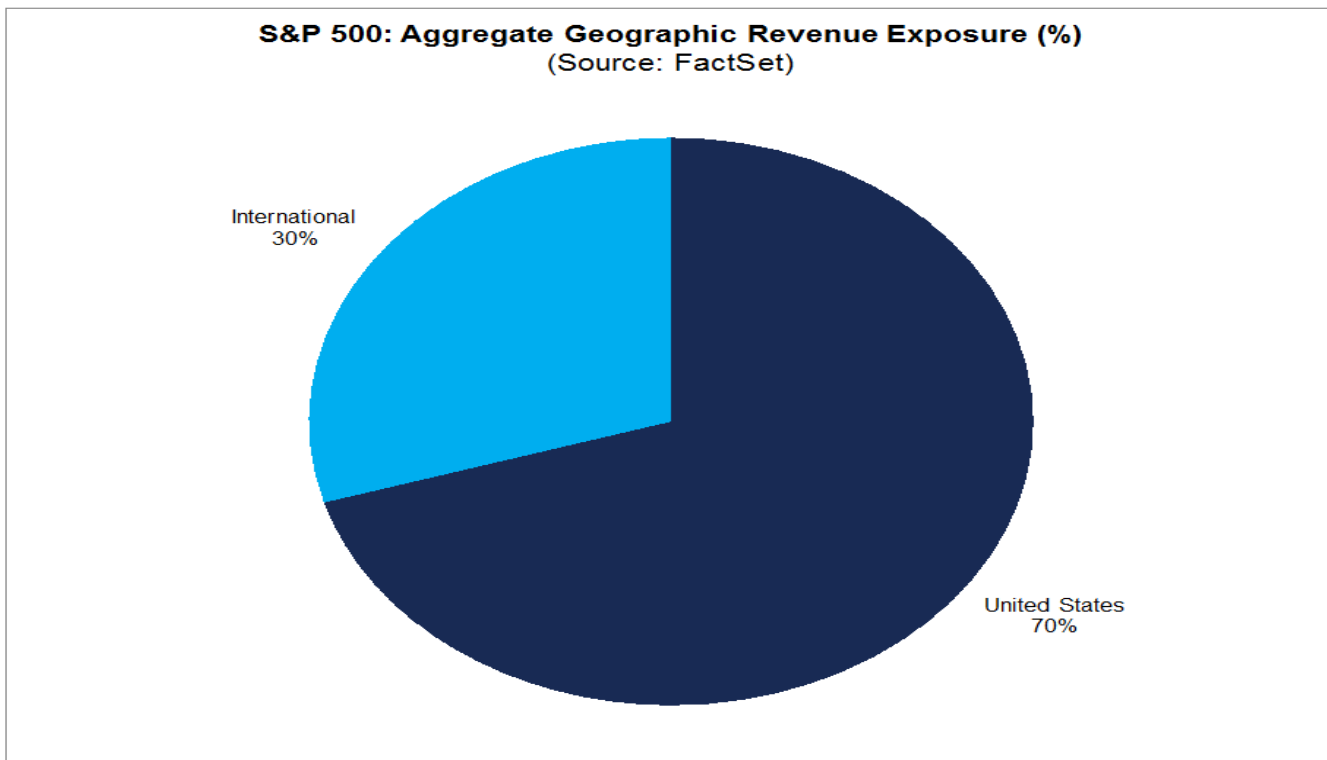
S&P 500 Revenue Growth: CY 2017
(Source: FactSet)



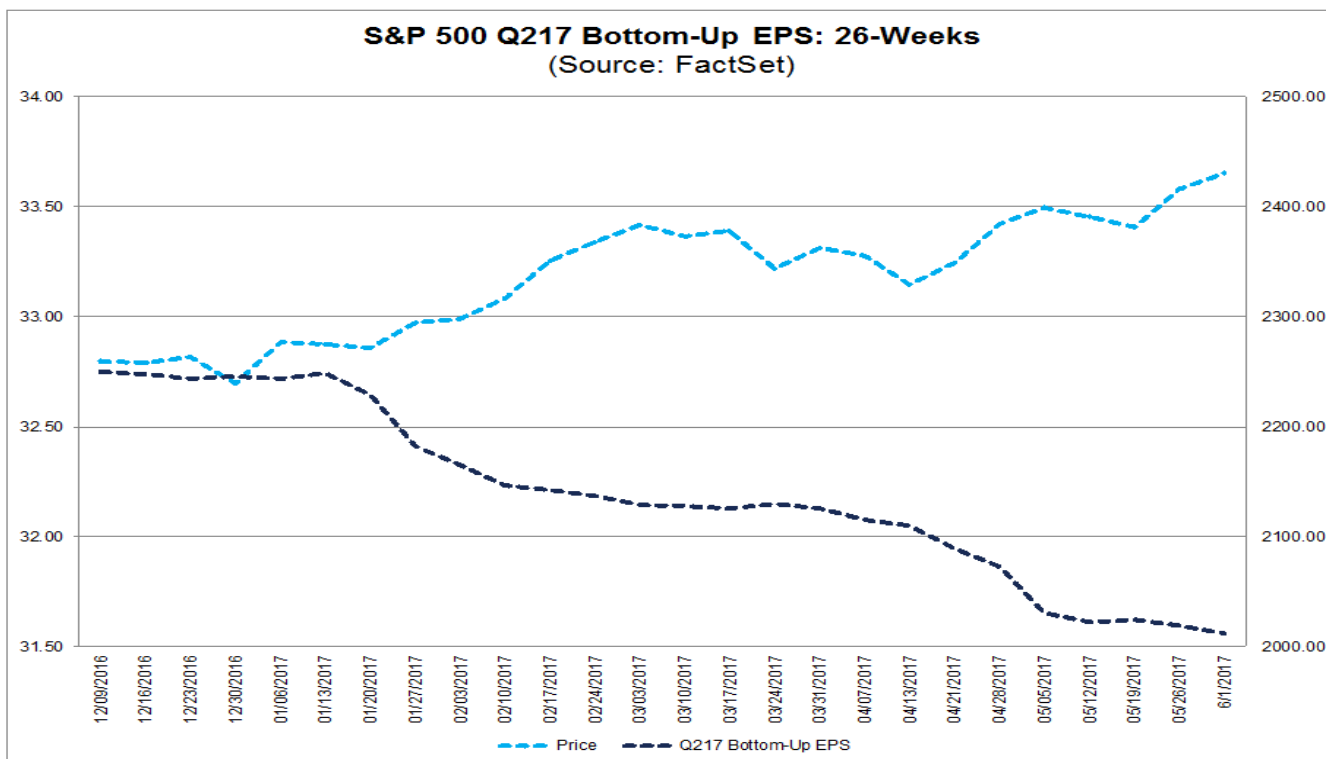
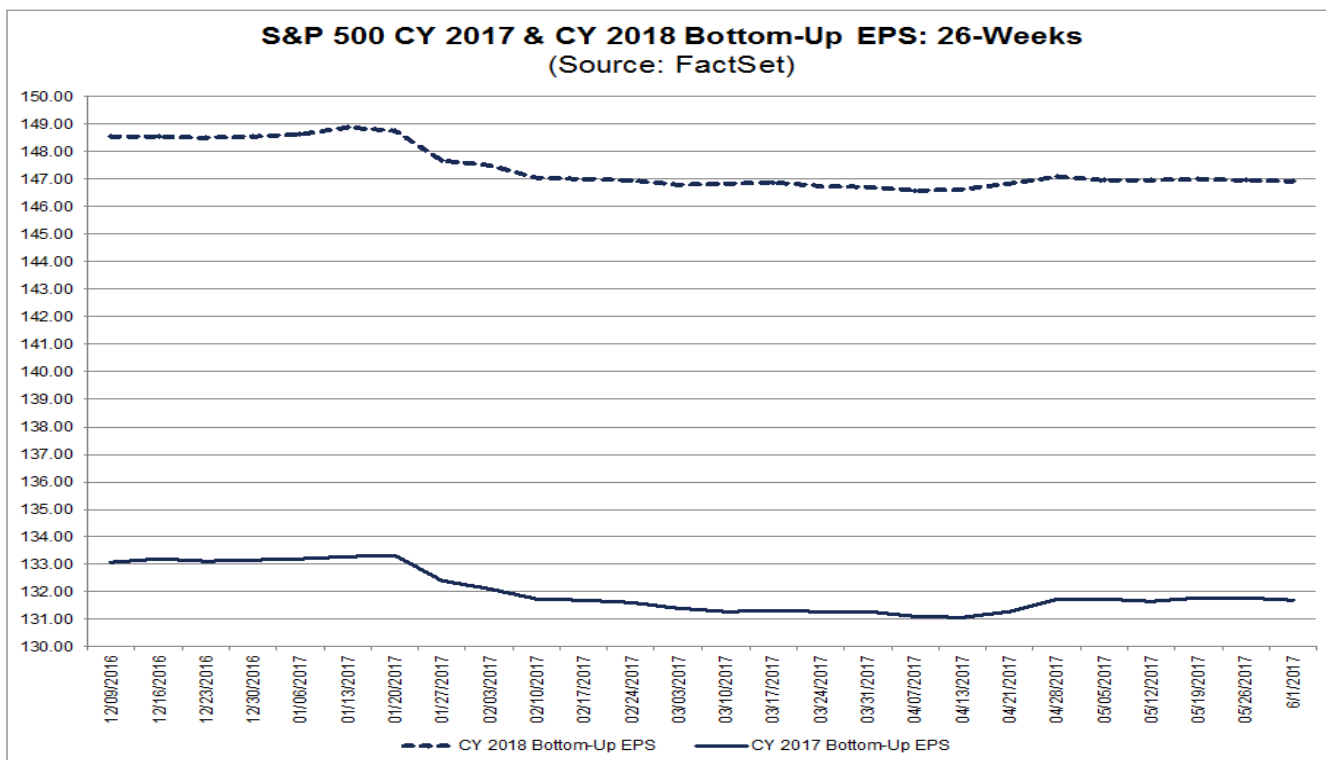
CY 2018: Growth



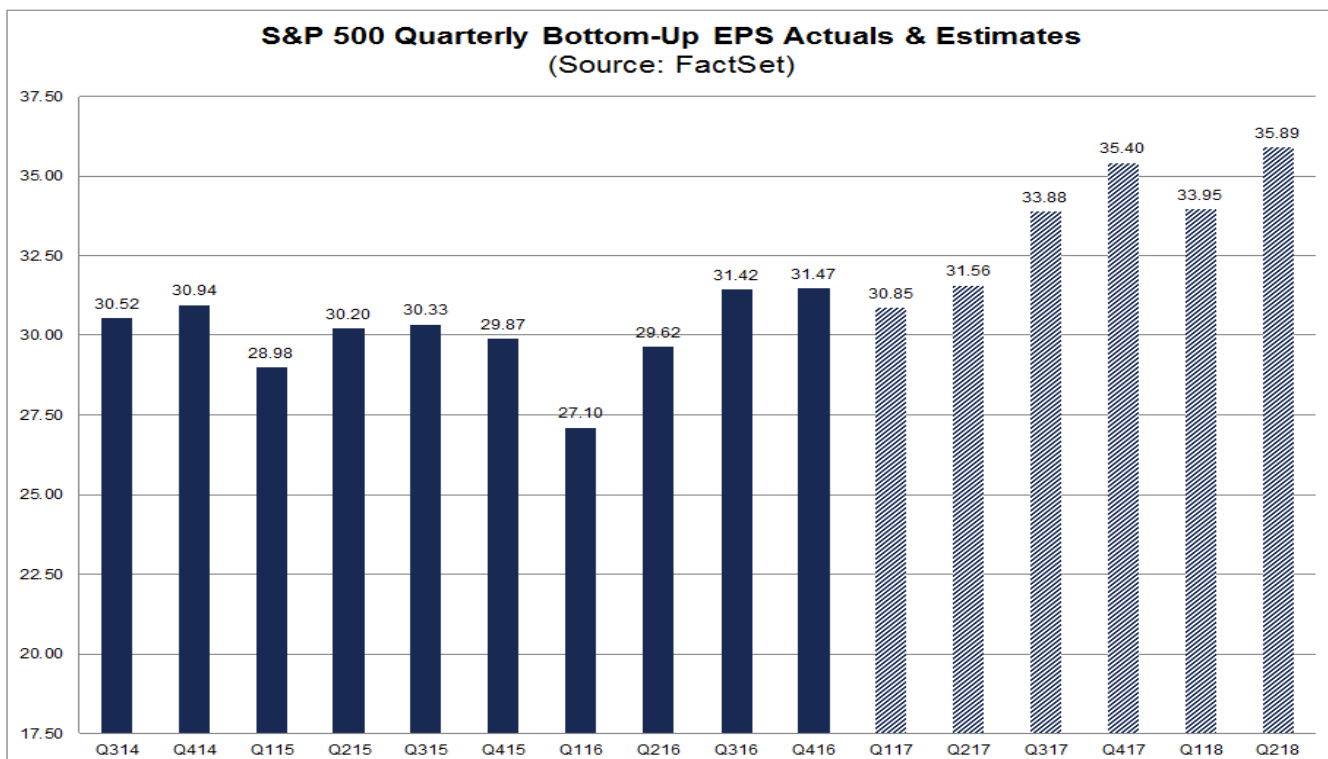
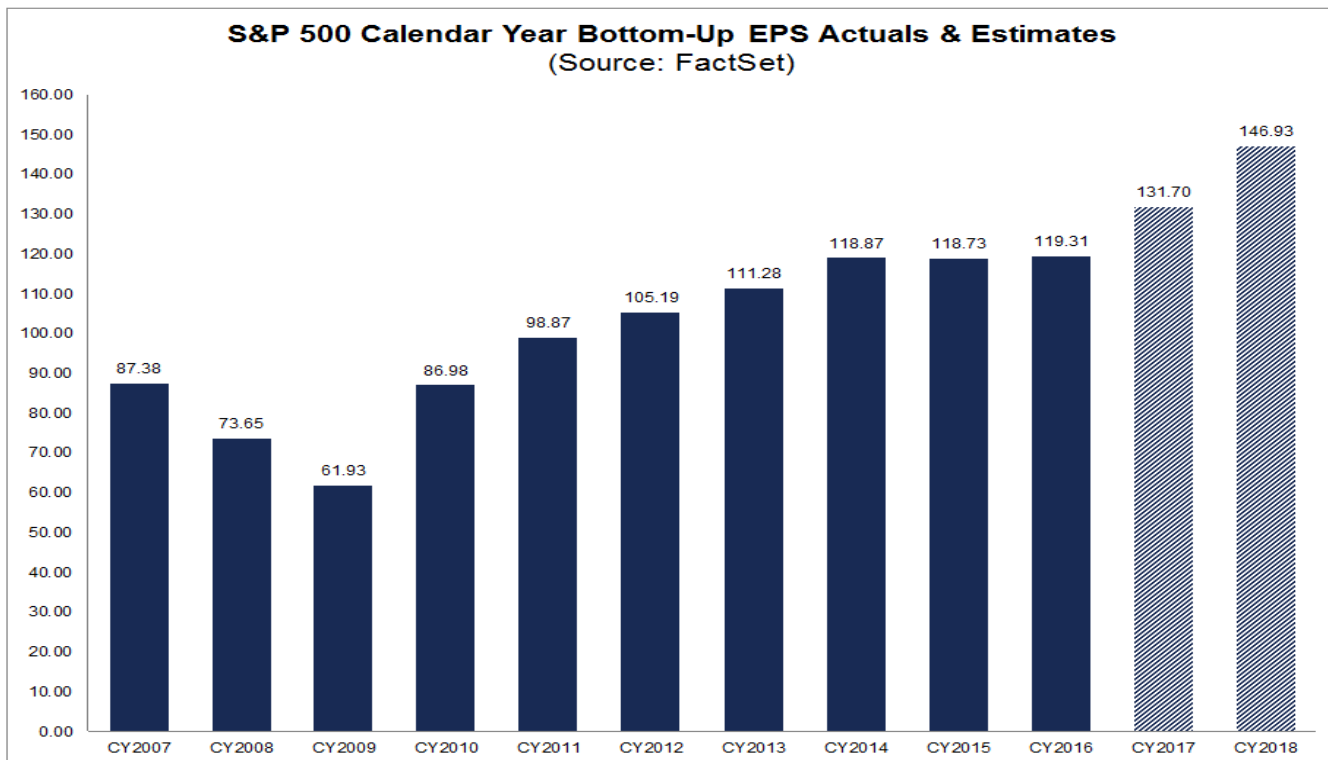
Geographic Revenue Exposure



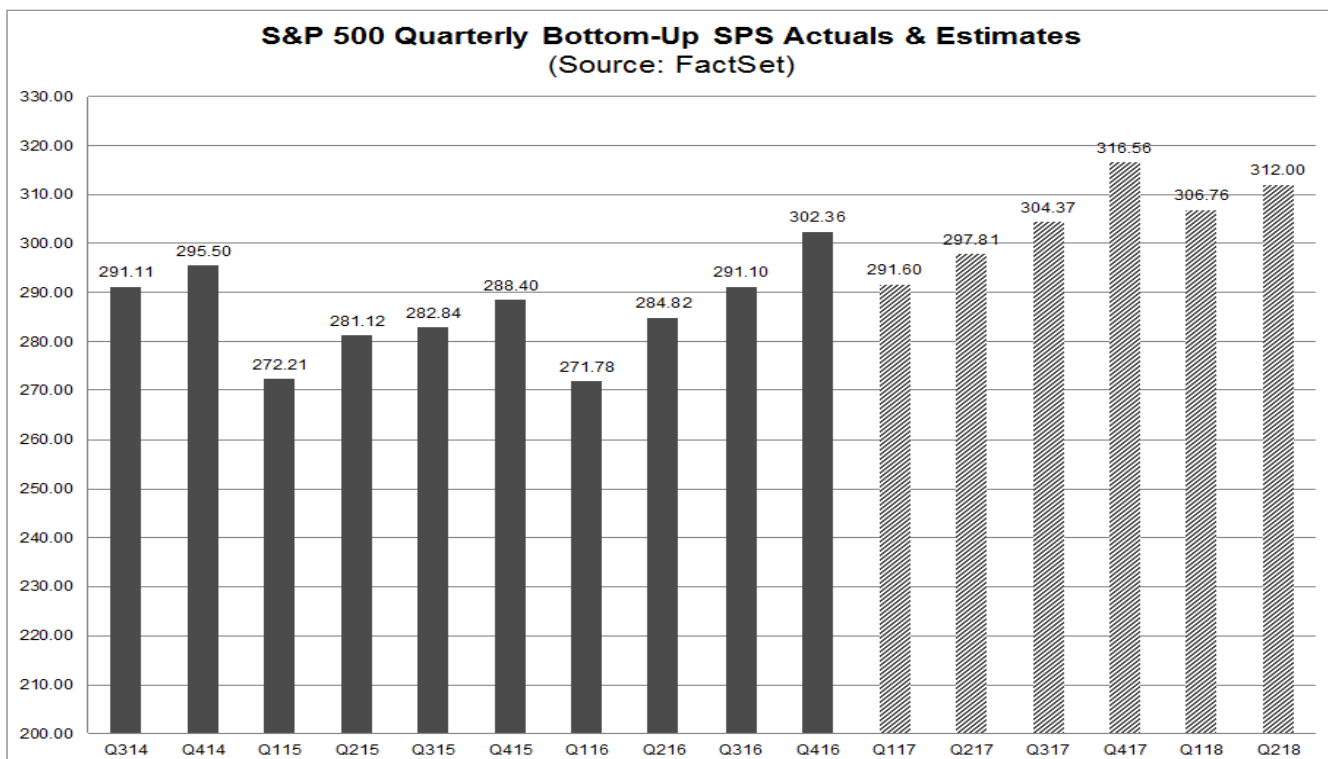
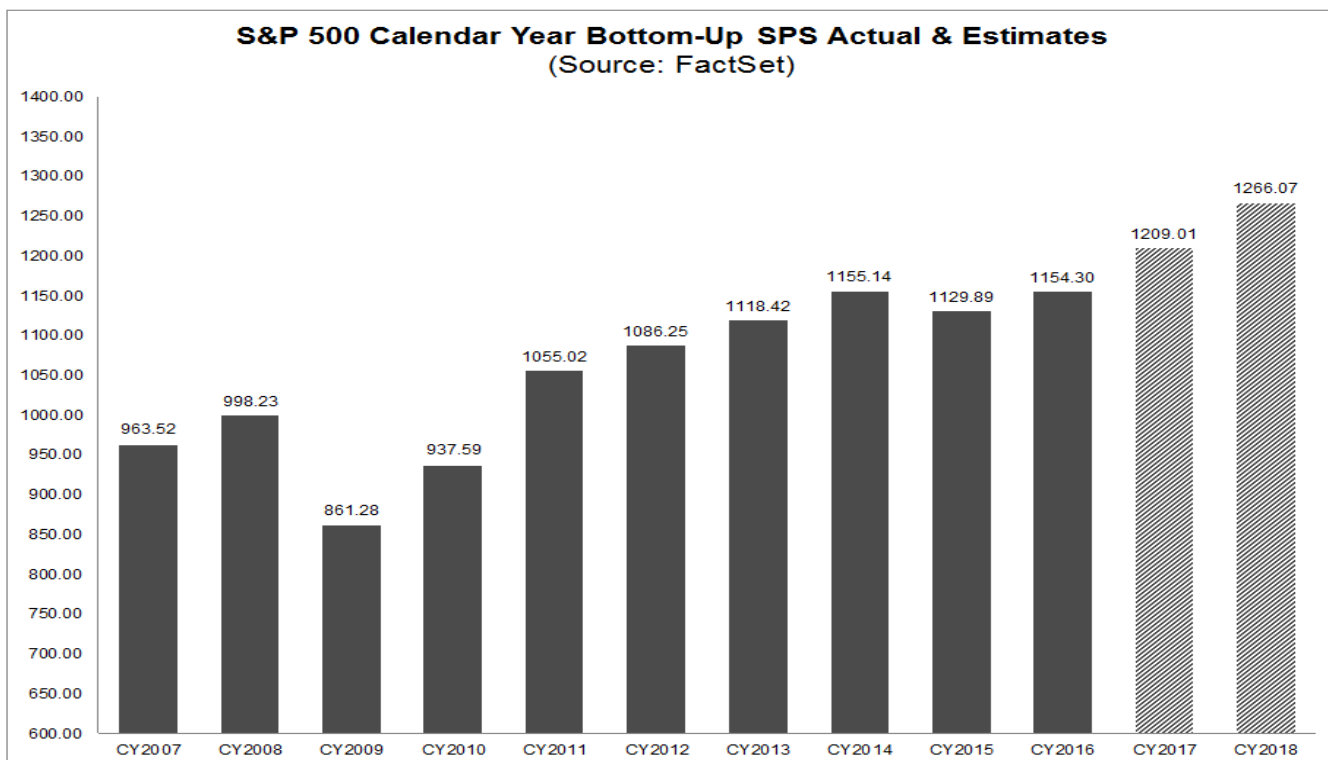
Bottom-up EPS Estimates: Revisions



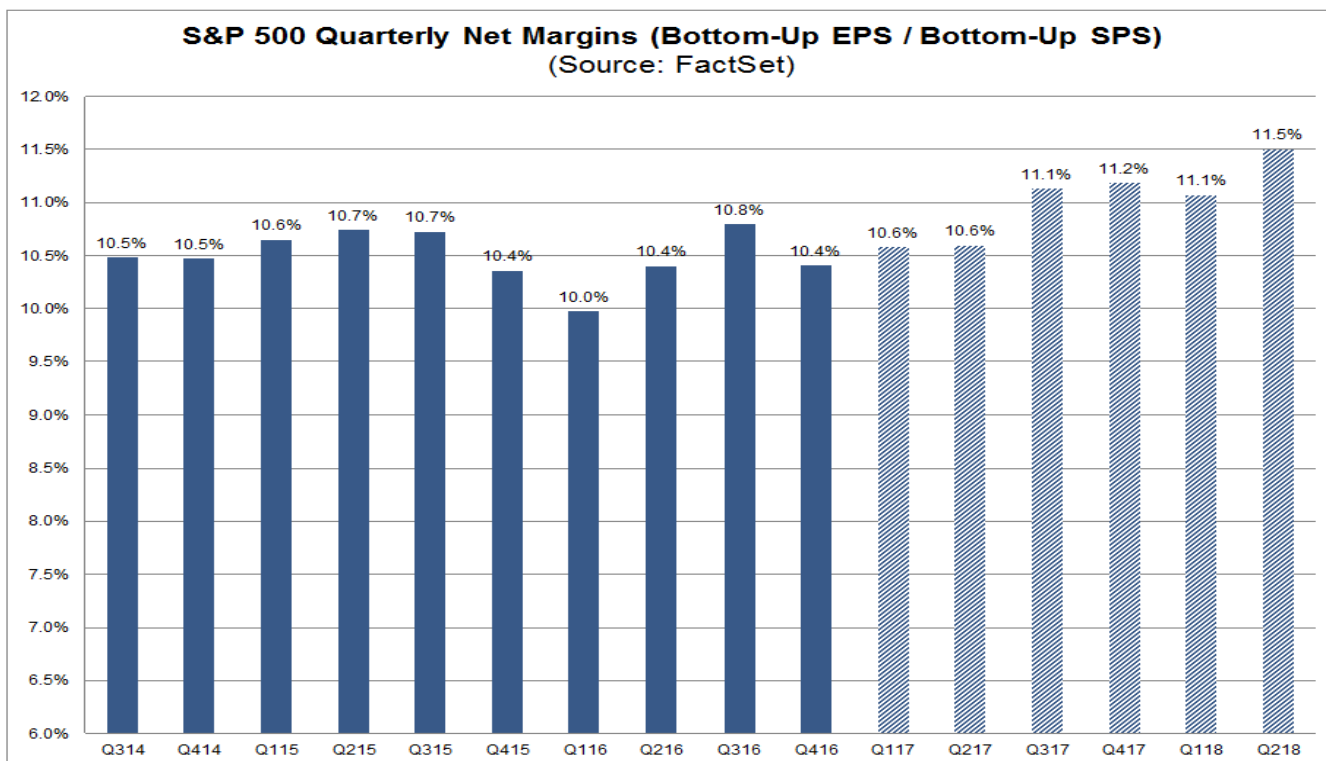
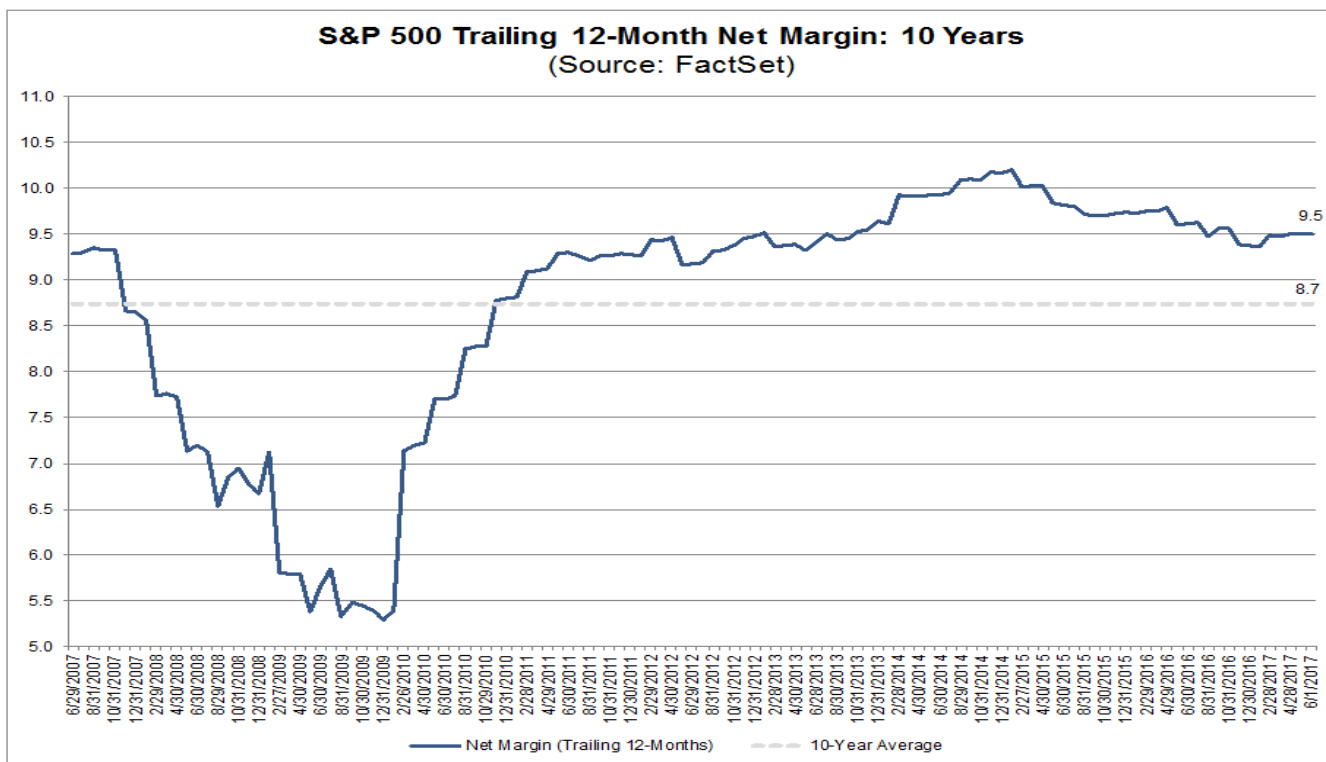
Bottom-up EPS Estimates: Current & Historical



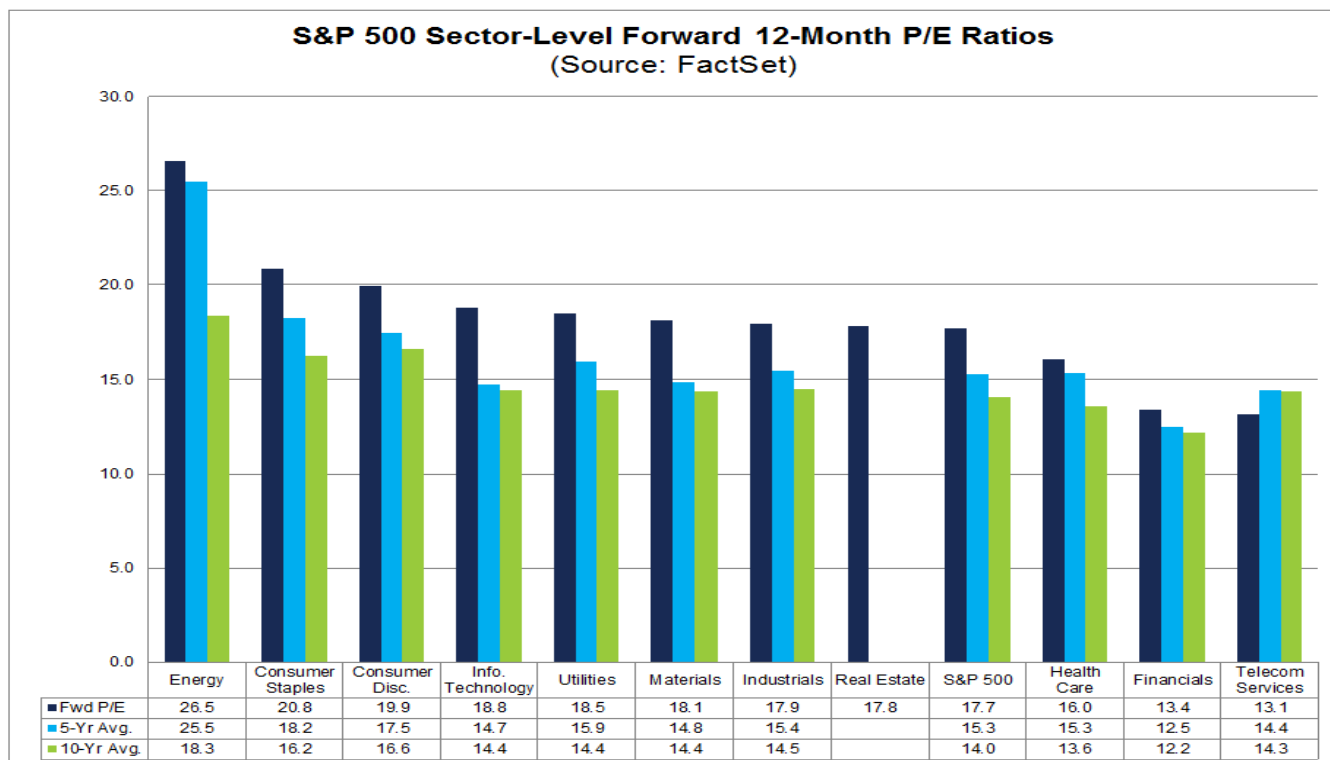
Bottom-up SPS Estimates: Current & Historical



Net Margins: Current & Historical

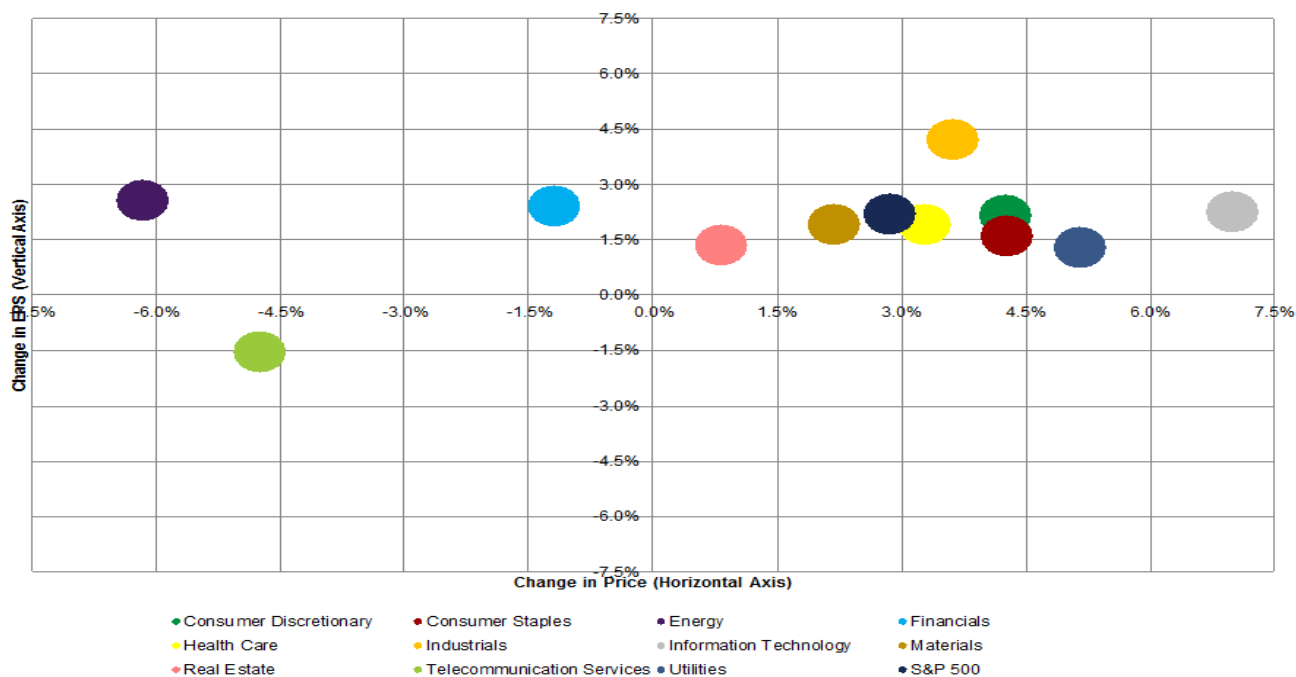


Forward 12M P/E Ratio: Sector Level

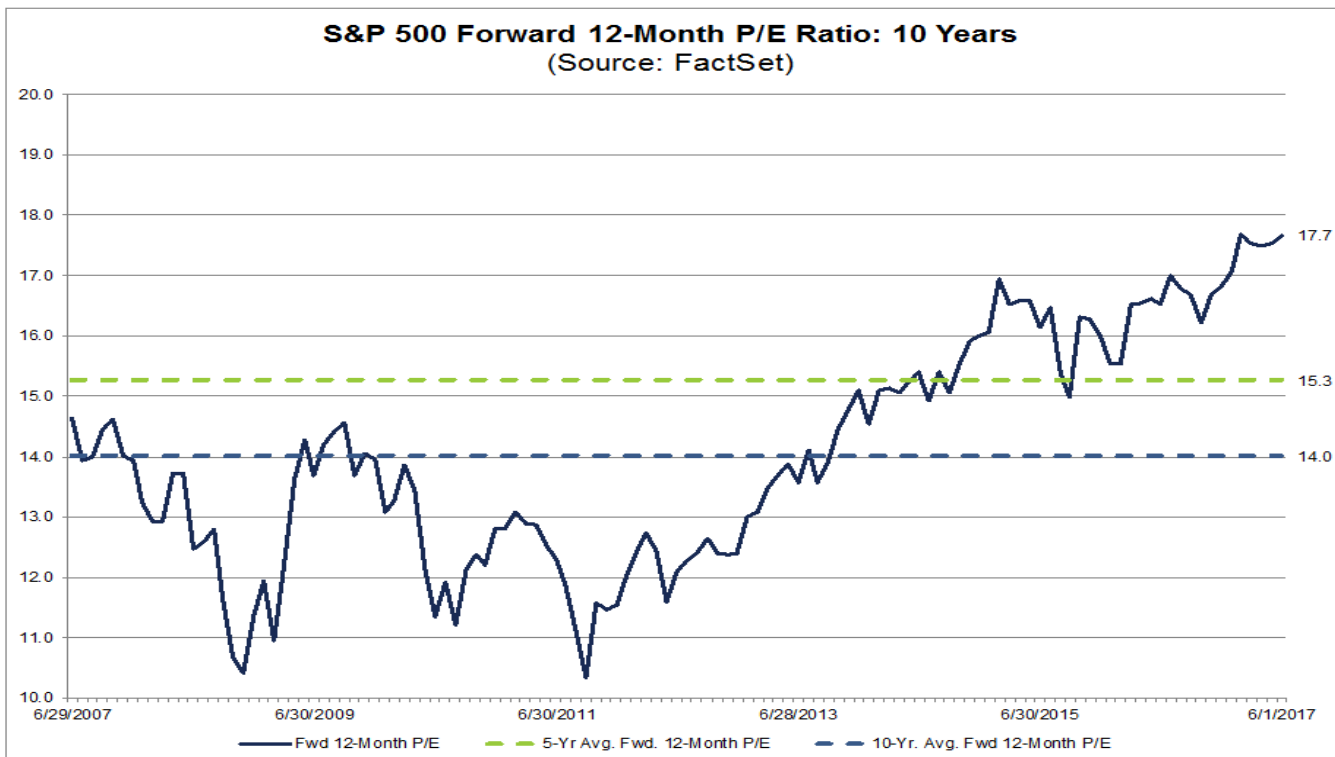
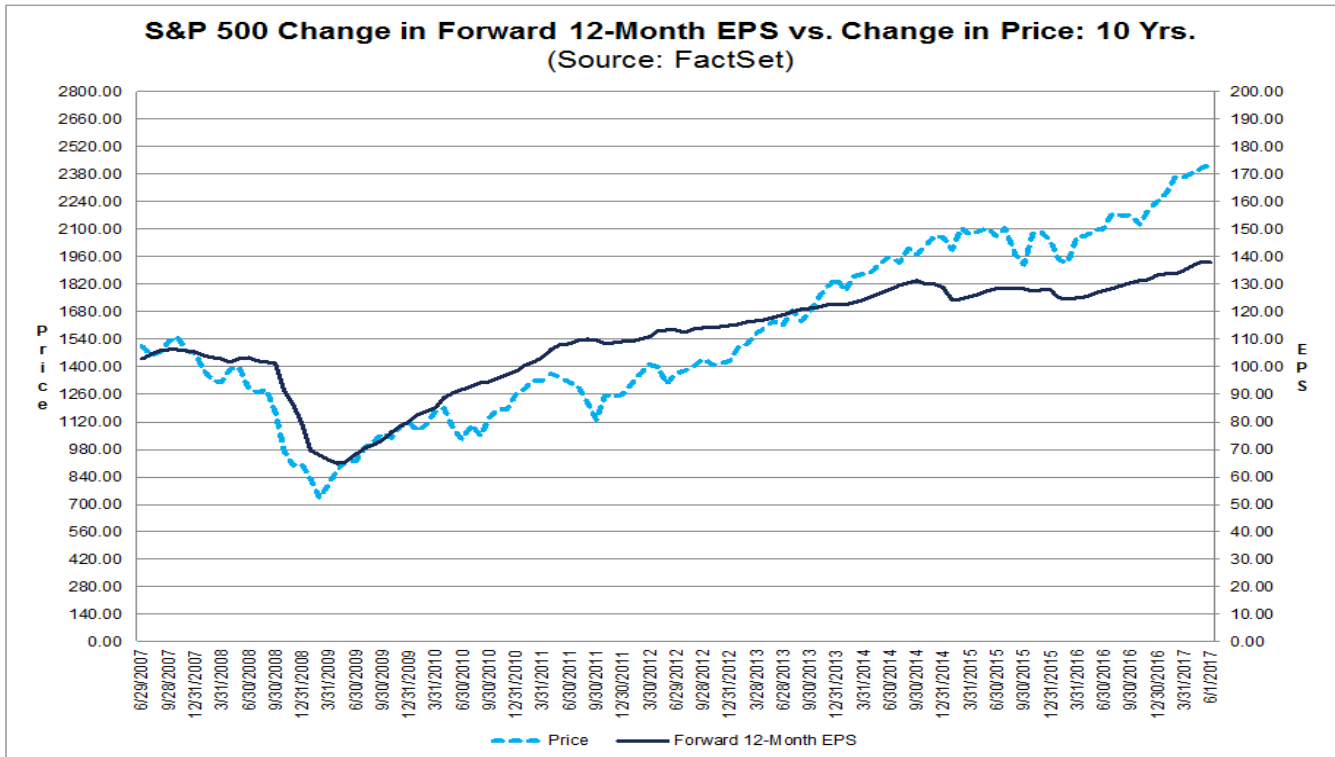


Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Mar. 31

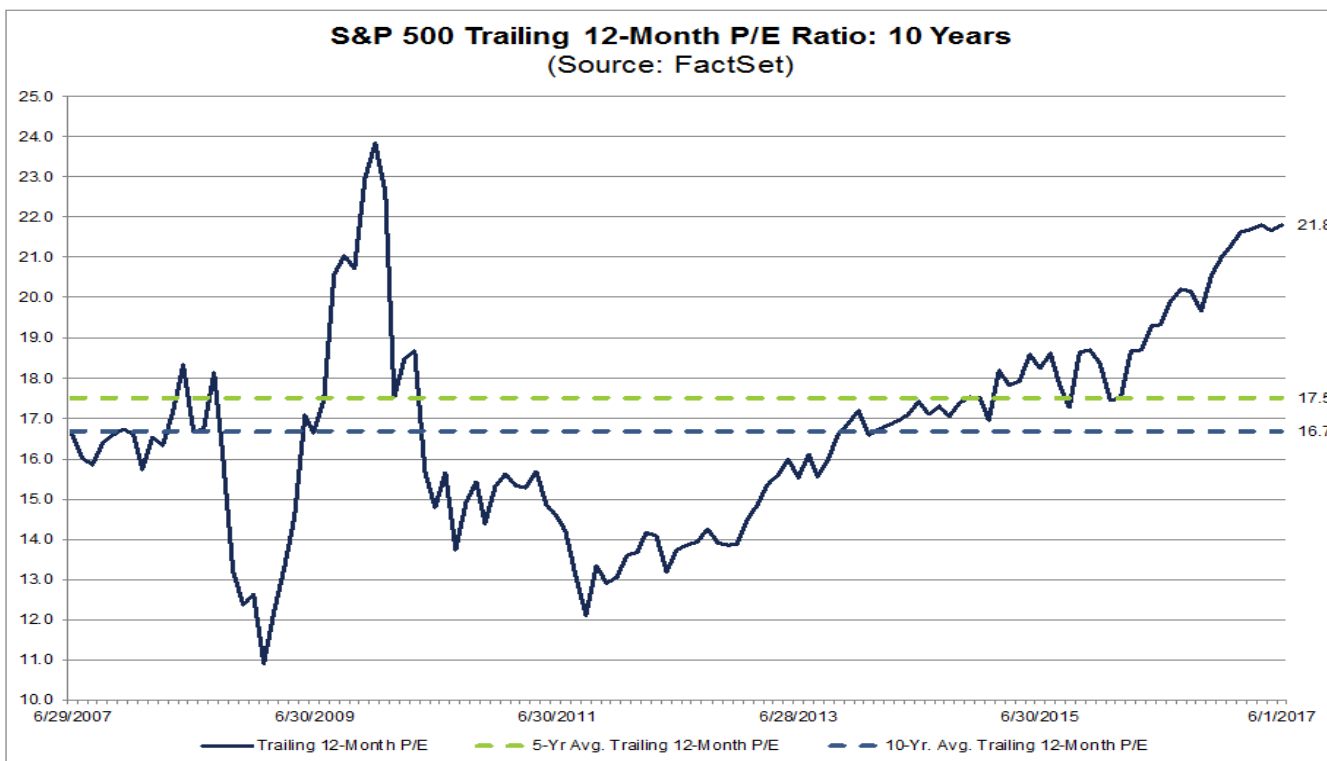
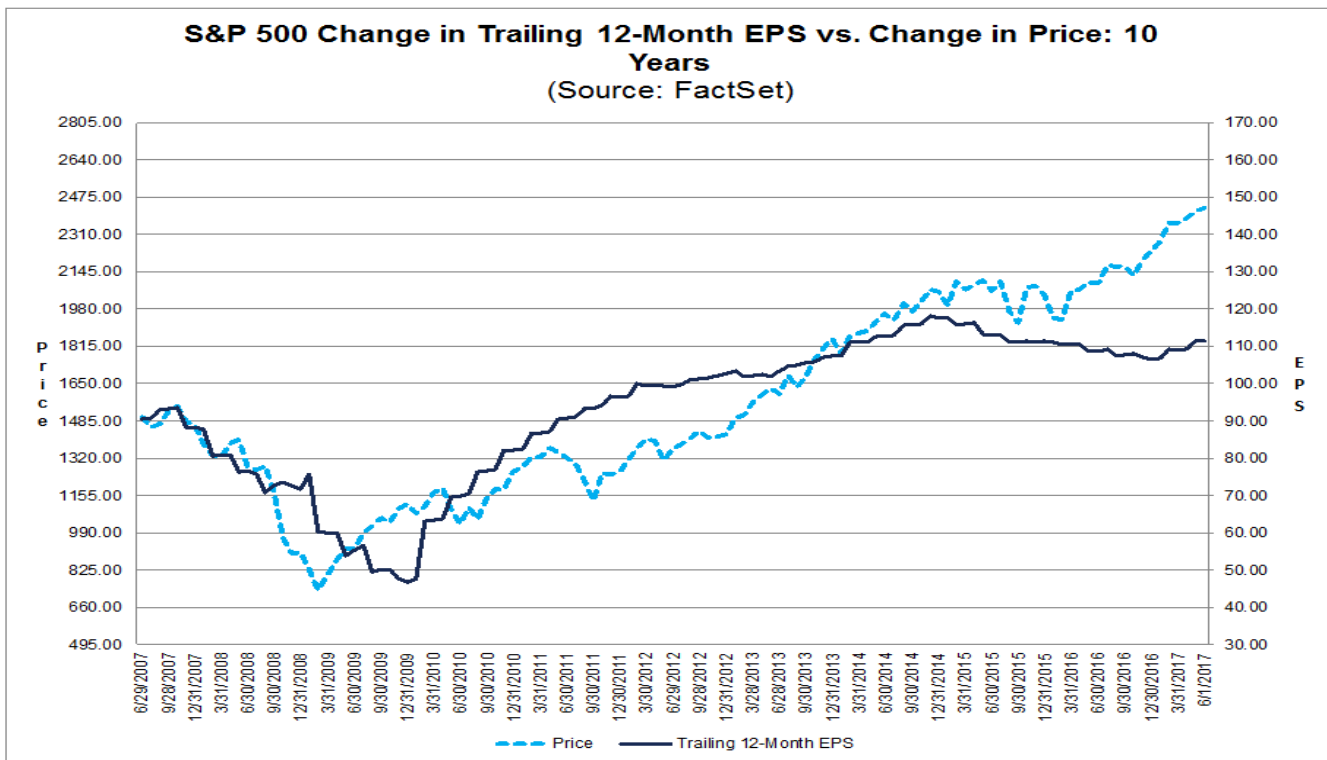
(Source: FactSet)



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



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



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