FACTSET
BUYBACK QUARTERLY

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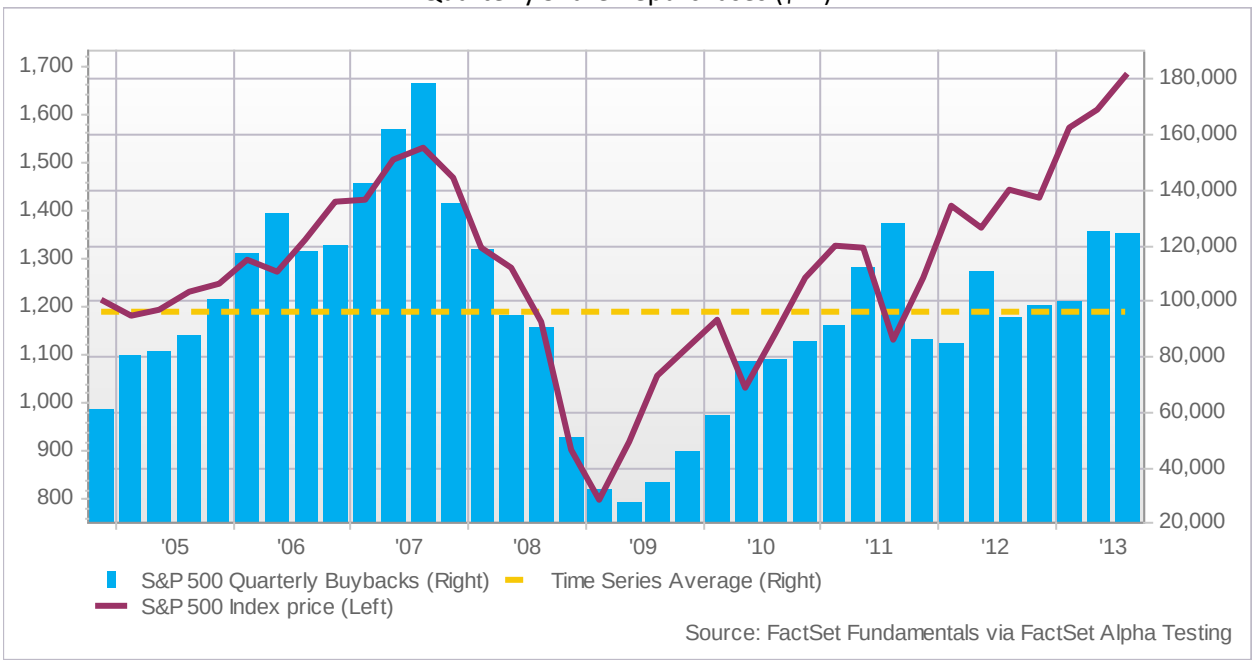
S&P 500 December 17, 2013

Key Metrics:

- **Coordinated Distributions Reach Multi-Year Highs:** Just 16 stocks in the S&P 500 (3.2% of the index) did not pay either a dividend or make a share repurchase over the trailing year. This is the lowest number since at least 2005, and is down from 49 companies in Q1 2010. Concurrently, the number of companies engaging in both a dividend and a buyback over the trailing twelve-month period has reached its highest level (369, or 74% of the S&P 500 index) over the same timeframe.
- **Quarterly Buybacks Grow 32% Year-over-Year:** Dollar-value share repurchases amounted to $123.9 billion over the third quarter and $448.1 billion for the trailing twelve months. The third quarter sum is down 0.1% from Q2 2013, but represented year-over-year growth of 32.0%.
- **Information Tech, Energy, & Industrials Increase Buybacks >65%:** The Information Technology sector spent the most on quarterly repurchases ($30.7 billion) in Q3, which amounted to one of the highest year-over-year growth rates (+78.5%) in the S&P 500. The Energy and Industrials sectors also registered impressive growth at 68.9% and 79.1%, respectively.
- **Buyback Conviction:** Dollar-value buybacks amounted to 68.0% of free cash flow minus dividends and 3.0% of average shares outstanding on a trailing twelve month basis. The Telecommunications Services sector led the index by repurchasing shares that amounted to 4.5% of the sectors' average shares outstanding over the year.

Quarterly Share Repurchases ($M)



"Buyback Quarterly" is one part of three reports ("Dividend Quarterly" and "Cash & Investments Quarterly") analyzing cash and discretionary spending within the S&P 500. The other reports can be found at http://www.factset.com/insight or within the FactSet Market News application of your FactSet workstation. All data published in this report is available on FactSet. Please contact media_request@factset.com of 1-877-FACTSET for more information.

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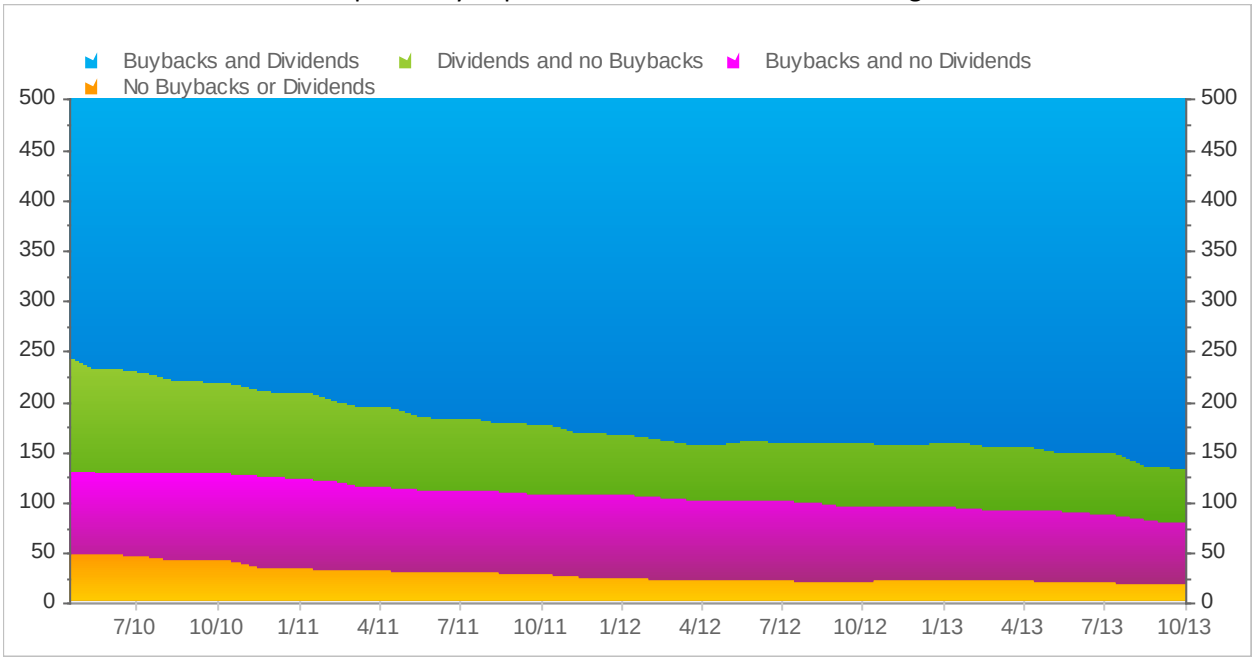
2013 Buybacks Advance to Pre-Crisis Highs

Aggregate share buybacks in the S&P 500 grew 32.0% year-over-year to $123.9 billion in Q3. While this represents a sequential decline of 0.1% from Q2, S&P 500 companies have been more active over the trailing year than in any period since the financial crisis. The trailing twelve-month sum of $448.1 billion is the highest since Q2 2008 ($526.9 billion).

The third quarter also marked the highest number of companies engaging in a buyback over a trailing twelve-month period (431, or 86%) since Q4 2008. Even though the number of dividend-payers in the S&P 500 index is at a 17 year high, this represented a higher number of companies than those paying a dividend (417).

The rise in both dividend payers and companies engaging in buybacks has contributed to a trend where very few companies do not engage in either form of shareholder distribution. In fact, just 16 companies in the S&P 500 (3.2%) did not pay a dividend or engage in a share buyback over the trailing twelve-month period. As recently as Q1 2010, more than three times as many companies (49, or 9.8%) did not make either form of distribution. Concurrently, the number of companies engaging in both forms of shareholder distribution reached the highest level since at least 2005 (369, or 73.8%).

Count of S&P 500 Companies by Capital Distribution Practice – Trailing Twelve-Month Basis



The companies that do not engage in buybacks or dividends are typically smaller than those in the other groups. But there are exceptions, including amazon.com and Google. Amazon.com has cash and short-term investments amounting to nearly $8 billion, but its free cash flow (operating cash flow less fixed capital expenditures) was less than $0.4 billion over the trailing four quarters. Google, on the other hand, had free cash flow just shy of $12 billion over the trailing four quarters. The company also has cash and short-term investments of $57 billion, which grew 23.6% year-over-year.

Information Technology, Energy, and Industrials Sectors Increase Buybacks >65%

Three sectors in particular drove the index-level, year-over-year growth in share buybacks: Information Technology (+78.5%), Energy (+68.9%), and Industrials (+79.1%). Excluding these three sectors, the year-over-year growth rate for the S&P 500 would fall from 32.0% to 8.8%.

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7 Information Technologies Companies Increase Buybacks by at least $1 Billion, Led by AAPL & QCOM

In the Information Technology sector, Apple, QUALCOMM, Cisco Systems, Yahoo!, Visa, SanDisk, and Intuit each increased their share repurchases by $1 billion or more year-over-year. Some of these companies accelerated buybacks heavily in the third quarter, like Intuit and Yahoo!, whereas others accelerated their buyback activity several quarters ago, like Visa.

However, Apple and QUALCOMM made the largest contribution by increasing their activity $5 billion and $2.5 billion, respectively, year-over-year. Apple's capital distribution policies are having a material impact both on index-level buyback metrics (its $16 billion buyback in Q2 amounted to nearly 13% of all repurchases in the S&P 500), and to the company's share count and massive cash stockpile. Apple retired 44 million shares in the past two quarters alone, which amounted to nearly 5% of the total shares outstanding at the start of the buyback period. In addition, the company's domestic cash fell by $5.2 billion sequentially to $35.5 billion. However, the majority of Apple's total cash remained offshore ($111.3 billion, or 76%) and unavailable for share repurchases without tax consequences.

QUALCOMM, on the other hand, stated that it is committed to distributing 75% of free cash flow and repurchasing a minimum of $4 billion in fiscal 2014, which shouldn't be difficult given that the company repurchased $3.3 billion in their most recent quarter and generated $7.7 billion in free cash flow in fiscal 2013.

Looking forward, Cisco ($15B), IBM ($15B), Yahoo! ($5B), Corning ($2B), MasterCard ($3.5B), and Visa ($5B) have all announced significant buyback authorizations since the end of the previous quarter. Visa and MasterCard also recently announced significant increases to their dividend (21% and 83%, respectively).

Halliburton Ramps up Share Repurchases

In the Energy sector, Halliburton, Marathon Petroleum, Schlumberger, Phillips 66, Marathon Oil, and Hess also increased buybacks by over $500 million year-over-year. Halliburton has been particularly aggressive in returning capital in 2013. After maintaining a constant $0.09 quarterly dividend since the summer of 2007, Halliburton increased its payout by 66.7% year-over-year (a $0.15 distribution is set for the end of this month). In addition, the company's share repurchases increased from less than $2 million to $3.3 billion year-over-year, and Halliburton's combined $4.3 billion in share repurchases over the past two quarters have resulted in the retirement of 10% of its beginning share count. CFO Mark McCollum further stated on its November 6th analyst day that "…we're now poised to convert a much higher percentage of our earnings into cash flow, which will in turn allow us to distribute greater amount [sic] of cash to our shareholders." Looking forward in the Energy sector, Phillips 66 ($2B), Marathon Oil ($1.2B), and Marathon Petroleum ($2B) have all announced significant buyback authorizations since the last quarter.

Industrials Aggressive on Strong Growth in Free Cash Flows

The Industrials sector led all groups that have traditionally engaged in share buybacks (the Materials, Telecommunication Services, and Utilities sectors have all averaged less than $2 billion worth of buybacks per quarter since 2005) in year-over-year growth of dollar-value buybacks. On the security-level, Boeing, Caterpillar, 3M Companies, and UPS have all accelerated share repurchases in recent quarters. The sum of these four company's buybacks in the most recent quarter ($4.4 billion) amounted to 400% more than their repurchases in the year prior. In addition, six companies that did not engage in share buybacks in Q3 2012 repurchased more than $100 million in Q3 2013: United Technologies, Precision Castparts, Joy Global, The ADT Corporation, Honeywell International, and General Dynamics.

Caterpillar and Boeing have been particularly aggressive in accelerating share repurchases over the past two quarters. The two companies averaged $0.9 billion and $1 billion, respectively, in buybacks over the past two quarters after averaging $11 million and $16 million, respectively, in the previous four. Boeing

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also made headlines yesterday when it announced a $10 billion buyback authorization in conjunction with a 50% increase to its dividend.

In addition, last quarter's buyback report examined Caterpillar's quick reversal from being pessimistic about the prospect of buying back shares during CEO Douglas Oberhelman's tenure to engaging in material share repurchases in less than one year. During the last two quarters, Caterpillar repurchased $2 billion, and, though only $1.7 billion remains under authorization through 2015, the company has maintained its vocal support of a share buyback. During the Credit Suisse Global Industrials Conference on December 4th, Michael DaWalt, Vice President of the Strategic Services Division stated that "…investment for growth at this kind of stage of a cycle is coming down, and that frees up money that you can spend for things like buyback". Mr. DeWalt also reiterated Caterpillar's strong balance sheet and the company's lowered expectations for increases in capital expenditures and acquisition spending.

Overall, growth in free cash inflows supported the rise in capital distributions in the Industrials sector. The sector grew trailing twelve-month free cash flow minus dividends ("adjusted free cash flow") at the fastest pace of any group (27.2% year-over-year) in the S&P 500. In fact, it was the only sector of the seven most active buyback sectors to grow adjusted free cash flow year-over-year. Looking to the potential for more buyback activity, Boeing ($10B), Honeywell International ($5B), Lockheed Martin ($3B), Deere & Company ($8B), FedEx ($4B), and Raytheon ($2B) have all announced significant buyback authorizations since the last quarter.

Buyback Conviction: Low Relative to Shares Outstanding, High Relative to Free Cash Flow

Telecom Leads in "Buyback Yield"

Relative to shares outstanding, the Telecommunication Services sector was the most active buyer of its own shares in Q3. The sector's trailing twelve-month ("TTM") share repurchases amounted to 4.5% of average shares outstanding over the period. This elevated "buyback yield" was primarily due to AT&T, which repurchased 8.1% of its average shares outstanding over the trailing year. However, AT&T's buyback yield was not the highest in the S&P 500. Dun & Bradstreet and Yahoo! both repurchased more than 15% of their average shares over the year (see page 10).

Overall, TTM shares repurchased represented 3.0% of average shares outstanding in the S&P 500, and the index's shares outstanding grew 1.3% year-over-year. However, growth in shares outstanding could be a product of acquisitions, which does not result in the same earnings dilution as share issuance. On the other hand, more mature companies in the S&P 500 (those that have been in the index since Q4 2004) have been reducing shares overall. Shares outstanding in these companies have dropped for the ninth consecutive quarter (-1.4% year-over-year in Q3) after companies stopped raising large amounts of equity capital following the financial crisis. The current share count for this group is 3.5% below the recent peak in Q1 2011, but shares still need to fall an additional 3.7% to reach the lowest levels since 2005 (see chart on page 11).

Buybacks Relative to Free Cash Flow Grow

Share purchases in terms of cash generation increased in Q3. Over the trailing twelve-month period, buybacks grew 20.4%, and adjusted free cash flow declined 5.5%. This led to 27.4% year-over-year growth in the buyback to adjusted free cash flow ratio to 0.68, which marks the highest ratio since the financial crisis (when buybacks were frequently larger than adjusted free cash flow).

Consistent with the past four quarters, the Energy, Utilities, Consumer Discretionary, and Consumer Staples sectors spent more on share repurchases than they generated in adjusted free cash flow. However, all four of these sectors have averaged buyback to adjusted free cash flow ratios of greater than 1.0 since 2005, and have managed to generate additional cash through other means, including asset sales, debt issuance, and other investing and financing activities.

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Repurchasing Shares at a Relative Discount (Price and P/E): EA, TMO, CHRW, DTV

In an attempt to find companies that have made share buybacks during periods when stock prices were depressed, this report examines companies' average price paid for repurchases over the trailing twelve months and compares that to their 52-week average share price over the same period. Using this metric, Electronic Arts and Thermos Fisher Scientific topped the list of companies with the "cheapest" buybacks. Both companies rose to the top of the list (page 9) by stopping their share repurchase activity prior to increases in their stock prices in the second half of 2013. Thermo Fisher may also have stopped repurchasing shares leading up to its $13.1 billion acquisition of Life Technologies Corp.

Another way to uncover seemingly prudent share repurchase activity is to compare the valuations at which firms repurchase their own shares to the stock's historical, median valuation. In this sense, we've calculated a "buyback price-to-earnings ratio", which represents the average price paid for share buybacks over the quarter divided by trailing twelve-month earnings per share. This "buyback P/E" is then compared to each company's seven-year median price-to-earnings ratio (on a monthly frequency and excluding periods of negative earnings). Using this reference point, C.H. Robinson Worldwide and DIRECTV rose near the top of the list due to steadily declining P/E valuations over several years. C.H. Robinson, in particular, ramped up buybacks in the most recent quarter; a period in which its P/E valuation dipped to a ten-year low. The company repurchased more shares in Q3 than it had over the six prior quarters combined.

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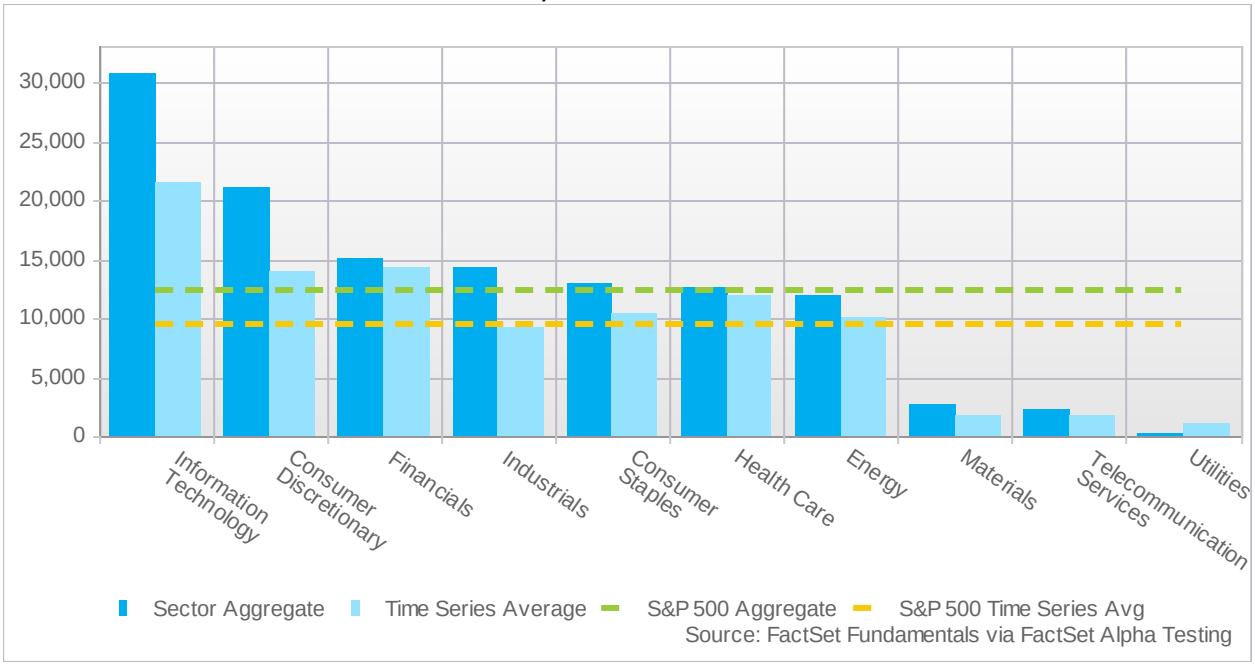
Dollar-Value Buybacks: Quarterly

All aforementioned and forthcoming values are in millions, unless otherwise designated. Quarterly data is organized by adjusted calendar quarters. Adjusted calendar quarters are mapped in three month denominations with Q3 capturing quarters ending in August, September, and October.

Dollar Value Buybacks – Most Recent Quarter



Top 10 Companies by Dollar-Value Buybacks – Most Recent Quarter

Company	Sector	Quarter's Buybacks ($M)	% Change in Shares (Qtr)	Dividend Outflows	1 Year Total Return
Apple Inc.	Information Technology	$5,000	(1.0%)	$2,769	12.1%
Pfizer Inc.	Health Care	$3,758	(2.1%)	$1,590	24.2%
QUALCOMM Incorporated	Information Technology	$3,321	(2.1%)	$592	24.0%
Halliburton Company	Energy	$3,308	(7.1%)	$106	51.9%
Oracle Corporation	Information Technology	$3,051	(1.7%)	$554	5.7%
Exxon Mobil Corporation	Energy	$3,045	(0.7%)	$2,770	13.4%
Procter & Gamble	Consumer Staples	$2,766	(0.9%)	$1,708	20.5%
Viacom Inc. Class B	Consumer Discretionary	$2,700	(6.0%)	$144	57.3%
Wells Fargo & Company	Financials	$2,142	(0.5%)	$1,886	36.6%
General Electric Company	Industrials	$2,077	(0.7%)	$1,940	29.0%
S&P 500	**-**	**$123,866**	**(0.4%)**	**$84,338**	**28.6%**

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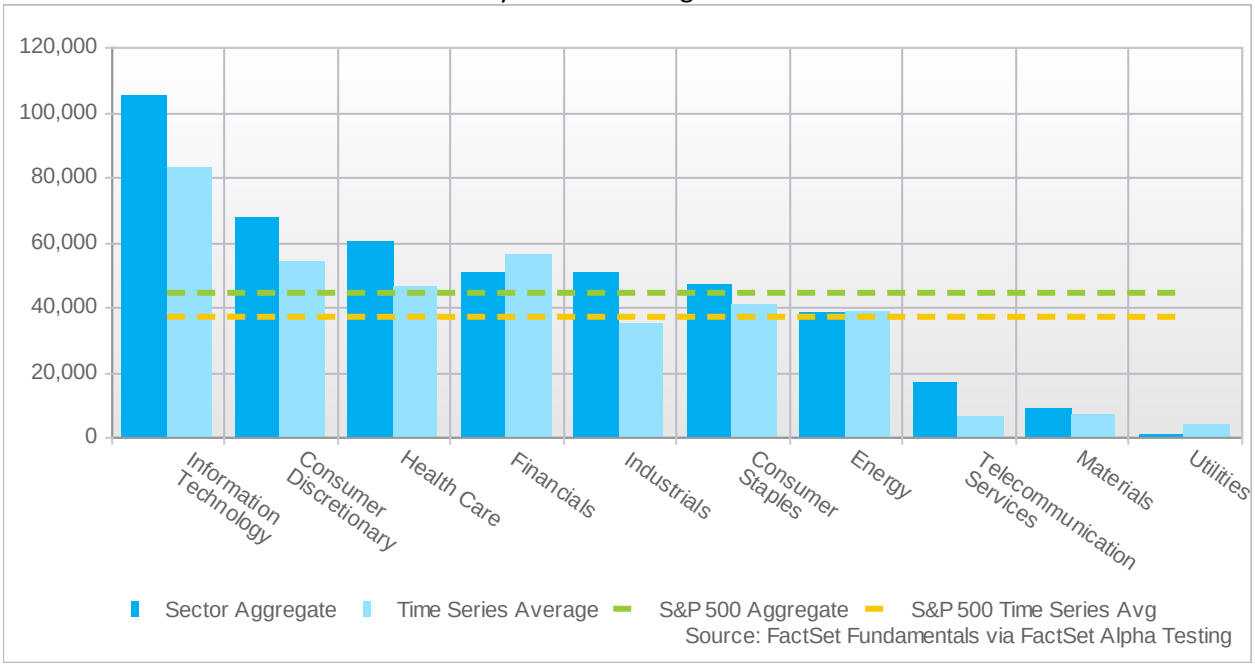
Dollar-Value Buybacks: Trailing Twelve Months

Dollar Value Buybacks – Trailing Twelve Month Basis



Top 10 Companies by Dollar-Value Buybacks – Trailing Twelve Months

Company	Sector	TTM Buybacks ($M)	% Change in Shares (TTM)	Dividend Outflows	1 Year Total Return
Apple Inc.	Information Technology	$22,950	(4.3%)	$10,564	12.1%
Exxon Mobil Corporation	Energy	$17,951	(4.2%)	$10,717	13.4%
AT&T Inc.	Telecom Services	$15,540	(7.5%)	$9,828	5.7%
Pfizer Inc.	Health Care	$15,224	(10.1%)	$6,645	24.2%
IBM Corporation	Information Technology	$11,005	(3.9%)	$3,990	(5.5%)
Oracle Corporation	Information Technology	$10,969	(5.4%)	$1,695	5.7%
General Electric Company	Industrials	$10,213	(3.5%)	$7,683	29.0%
Wal-Mart Stores, Inc.	Consumer Staples	$8,750	(3.1%)	$5,952	15.9%
The Home Depot, Inc.	Consumer Discretionary	$6,974	(5.9%)	$2,130	30.1%
Philip Morris International	Consumer Staples	$6,493	(4.2%)	$5,633	0.5%
S&P 500	**-**	**$448,097**	**1.4%**	**$339,322**	**28.6%**

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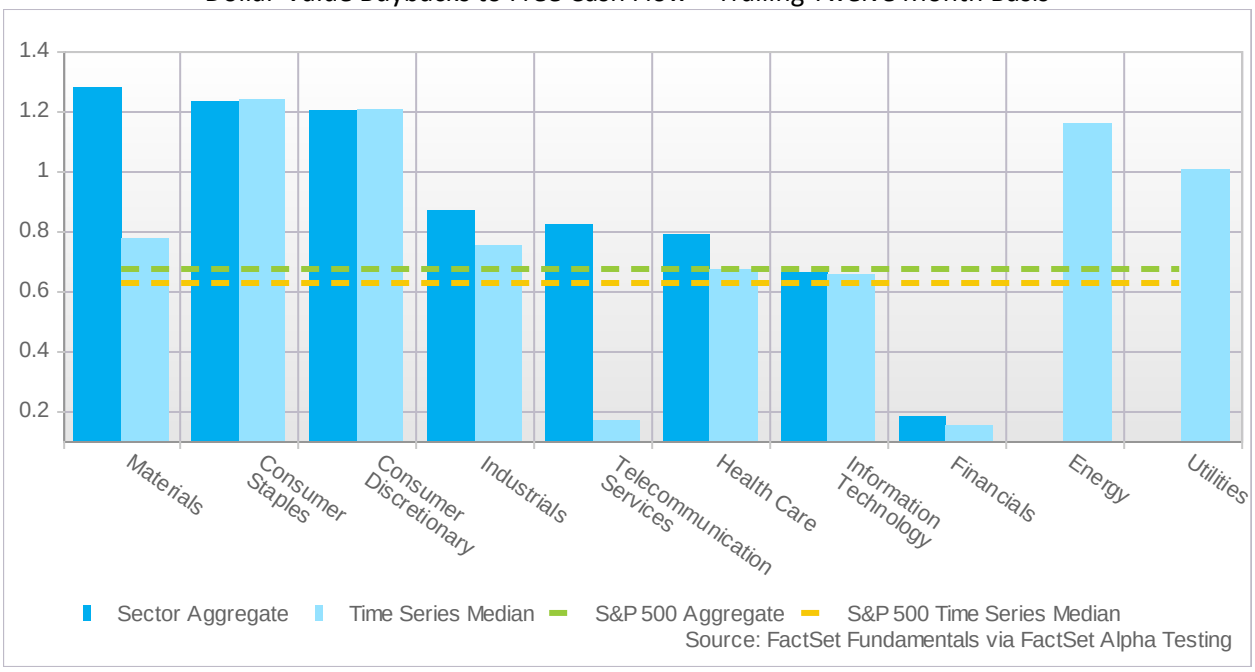
Buybacks to Adjusted Free Cash Flow: Trailing Twelve Months

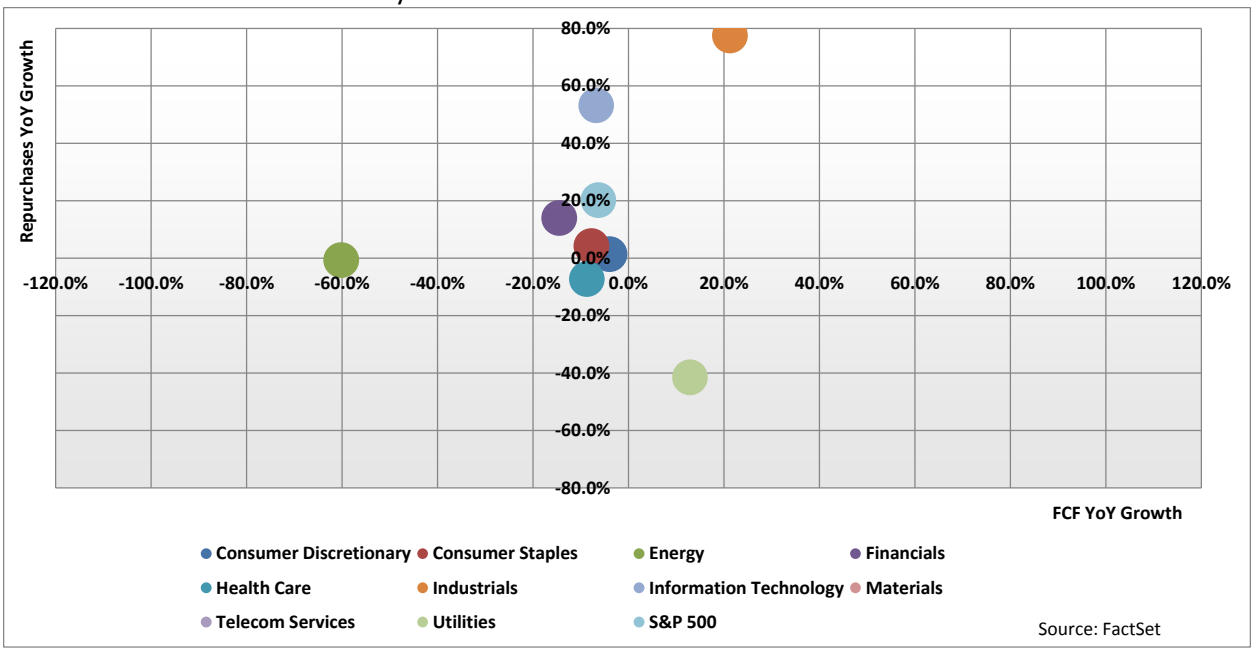
Adjusted free cash flow to equity is defined as cash from operating activities minus capital expenditures from fixed assets and cash dividends paid. Periods where aggregate free cash flow is negative have been removed from the charts below.

Dollar-Value Buybacks to Free Cash Flow – Trailing Twelve Month Basis



The following chart shows sector-level year-over-year growth in trailing twelve months of adjusted free cash flow (x-axis) and dollar-value buybacks (y-axis).

Growth in Buybacks versus Growth in Free Cash Flow – TTM Basis



**Note that the Telecommunications sector is not shown because it's Q3 2011 TTM buybacks were extremely low, resulting in an outlier for the growth rate.*

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Share Repurchase Discounts: Company-Level

The following list examines a company's average repurchase price over 52-weeks and compares that to the company's average share price over the same period. Companies with small repurchase programs (under $50 million over the period), are excluded from this screen.

Top 10 Stocks by Average Share Buyback Price Discount Relative to Average Stock Price – TTM*

Company	Sector	Average Buyback Price	Average Stock Price	Buyback Price / Avg Price	1 Year Total Return
Electronic Arts Inc.	Information Technology	$12.98	$19.24	67.5%	44.2%
Thermo Fisher Scientific Inc.	Health Care	$63.01	$77.19	81.6%	60.3%
IntercontinentalExchange Group	Financials	$128.48	$156.64	82.0%	74.0%
Starbucks Corporation	Consumer Discretionary	$50.52	$60.15	84.0%	45.2%
Regeneron Pharmaceuticals	Health Care	$179.13	$208.48	85.9%	49.4%
Seagate Technology PLC	Information Technology	$30.73	$36.24	84.8%	90.9%
Gilead Sciences, Inc.	Health Care	$41.36	$47.47	87.1%	92.4%
Chipotle Mexican Grill, Inc.	Consumer Discretionary	$294.73	$338.15	87.2%	85.9%
The NASDAQ OMX Group, Inc.	Financials	$25.05	$29.12	86.0%	62.5%
Danaher Corporation	Industrials	$51.96	$61.00	85.2%	38.3%
S&P 500	**-**	**$66.17**	**$63.22**	**99.8%**	**28.6%**

The following list calculates the price to earnings ratio (P/E) at which a company made its share repurchase by dividing the company's average repurchase price over the quarter by its trailing twelve month earnings per share. This "buyback P/E" is then compared to the company's median monthly P/E ratio over seven years (or maximum company history). The companies with the largest percentage spread between their buyback P/E and historical median P/E are presented in the list below. Companies with small repurchase programs (under $50 million over the period), are excluded from this screen.

Top 10 Stocks by "Share Repurchase P/E" Discount Relative to 7-Year Median P/E*

Company	Sector	Buyback PE / 7Yr Med. PE	"Buyback PE" ratio	Median 7Yr PE ratio	1 Year Total Return
BorgWarner Inc.	Consumer Discretionary	49.7%	9.2	18.4	65.4%
The ADT Corporation	Industrials	56.5%	12.4	21.9	(12.9%)
C.H. Robinson Worldwide, Inc.	Industrials	57.9%	15.3	26.5	(6.4%)
DIRECTV	Consumer Discretionary	61.2%	10.9	17.7	32.0%
Apple Inc.	Information Technology	61.3%	12.0	19.7	12.1%
Intuitive Surgical, Inc.	Health Care	61.5%	23.0	37.4	(32.0%)
Motorola Solutions, Inc.	Information Technology	64.1%	12.8	20.0	23.2%
CF Industries Holdings, Inc.	Materials	64.9%	6.3	9.8	11.2%
Deere & Company	Industrials	69.0%	9.8	14.2	5.9%
Lorillard, Inc.	Consumer Staples	71.2%	8.8	12.4	31.4%

**Tables exclude companies with Accelerated Share Repurchase ("ASR") programs, where final prices for shares repurchased are not known or are estimated at the time of the periodic filing.*

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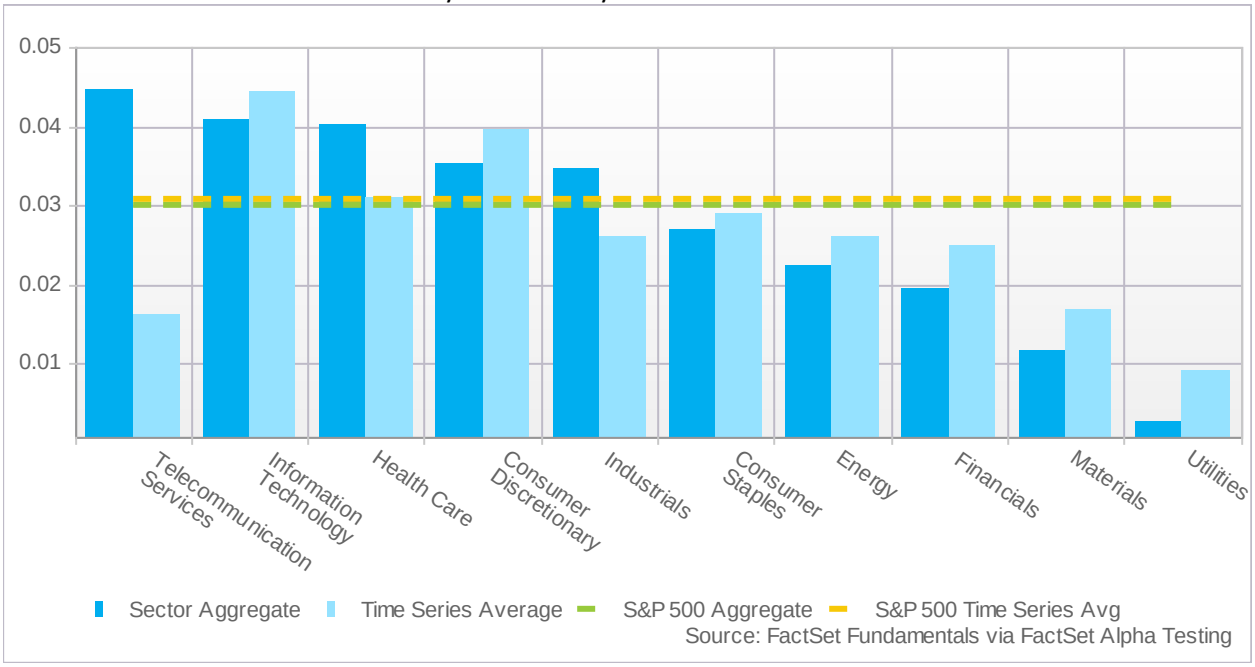
Buyback Yield

Buyback yield is calculated by dividing the TTM share repurchases by the company's average shares outstanding over the year. It's also important to note the relationship between dividend and share yields. Share repurchases decrease the dividend burden of a company by reducing shares outstanding, and can reduce dividend yield by increasing a stock's price.

Buyback Yield by Sector – TTM Basis



Top 10 Companies by Buyback Yield

Company	Sector	Buyback Yield	Shs Repurch - TTM	Avg Shs Out - TTM	1 Year Total Return
Dun & Bradstreet	Industrials	18.3%	7	40	46.3%
Yahoo! Inc.	Information Technology	15.7%	170	1,084	102.3%
DIRECTV	Consumer Discretionary	14.7%	83	565	32.0%
Viacom Inc. Class B	Consumer Discretionary	14.3%	69	482	57.3%
VeriSign, Inc.	Information Technology	13.0%	19	148	60.9%
The ADT Corporation	Industrials	12.8%	28	220	(12.9%)
Marathon Petroleum	Energy	12.1%	39	323	40.2%
Northrop Grumman	Industrials	11.9%	28	234	68.8%
St. Jude Medical, Inc.	Health Care	11.9%	35	290	70.9%
L-3 Communications	Industrials	11.5%	10	90	40.3%
S&P 500	**-**	**3.0%**	**9,178**	**305,087**	**28.6%**

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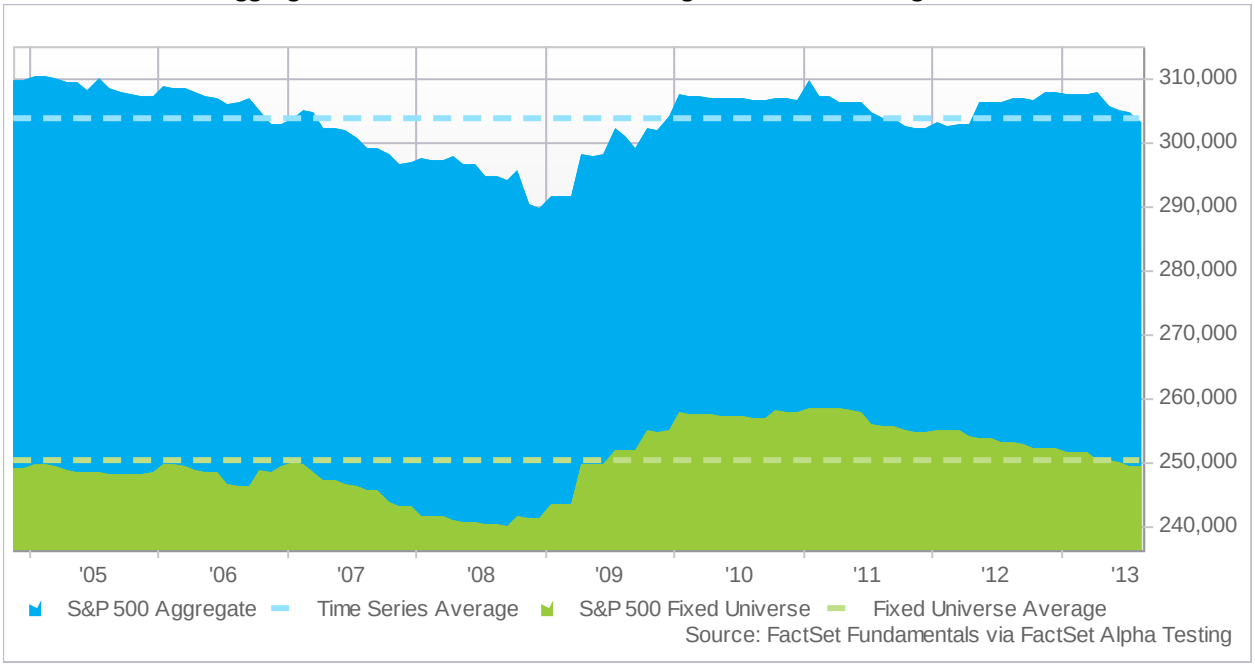
Trends in Common Shares Outstanding

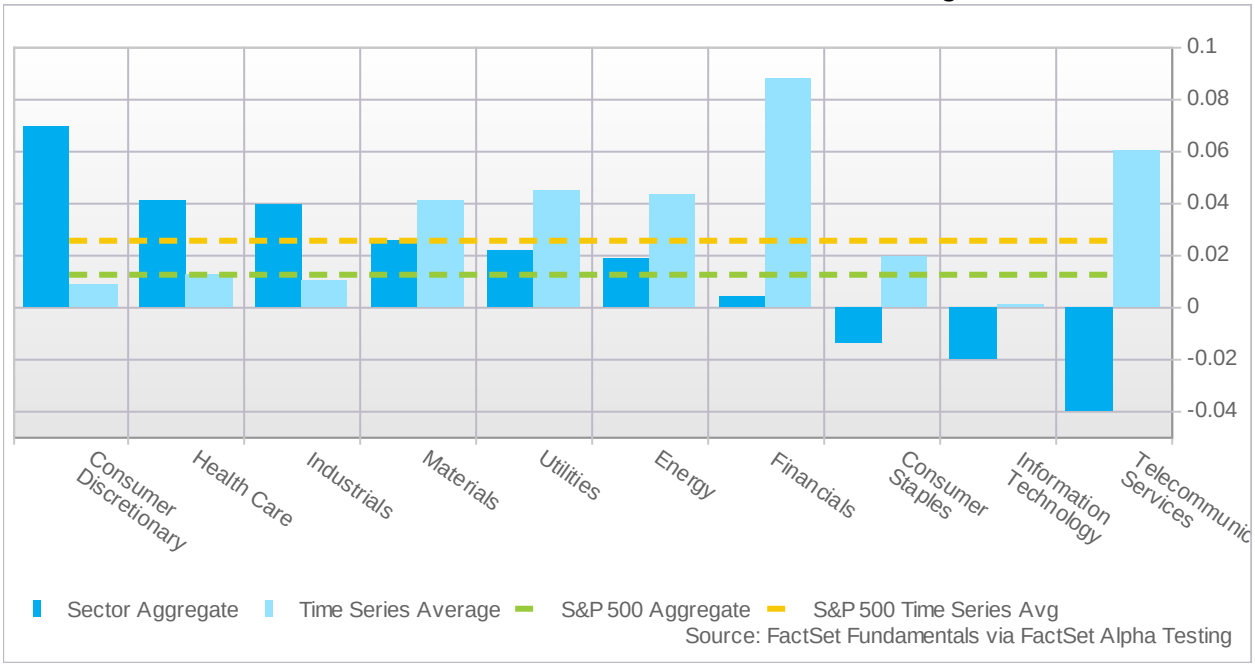
While share repurchases are a large factor in determining the change in share count of a company, they do not capture such activities as exchange of common stock for debentures, conversion of preferred stock, convertible securities, or stock options, or the issuance of stock for acquisitions. Therefore, the charts below are included to show the aggregate change in shares outstanding.

The first chart shows aggregate common shares outstanding in the S&P 500 using a rolling universe and a universe of only the companies that were in the index throughout the time series. The latter view is intended to isolate the trend in share count from constituent changes. The number of companies included in this fixed universe is 319.

Aggregate Common Shares Outstanding – Fixed and Rolling Universe



Year-over-Year Growth in Common Shares Outstanding



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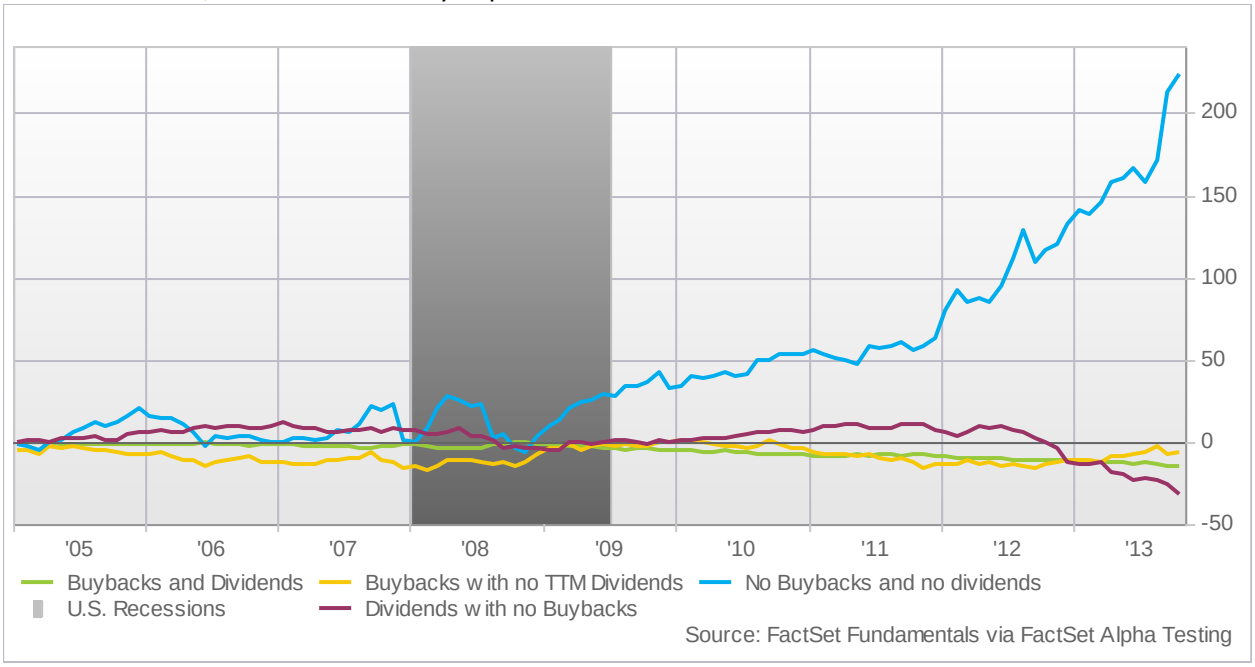
Historical, Forward Performance: Capital Distribution Practices

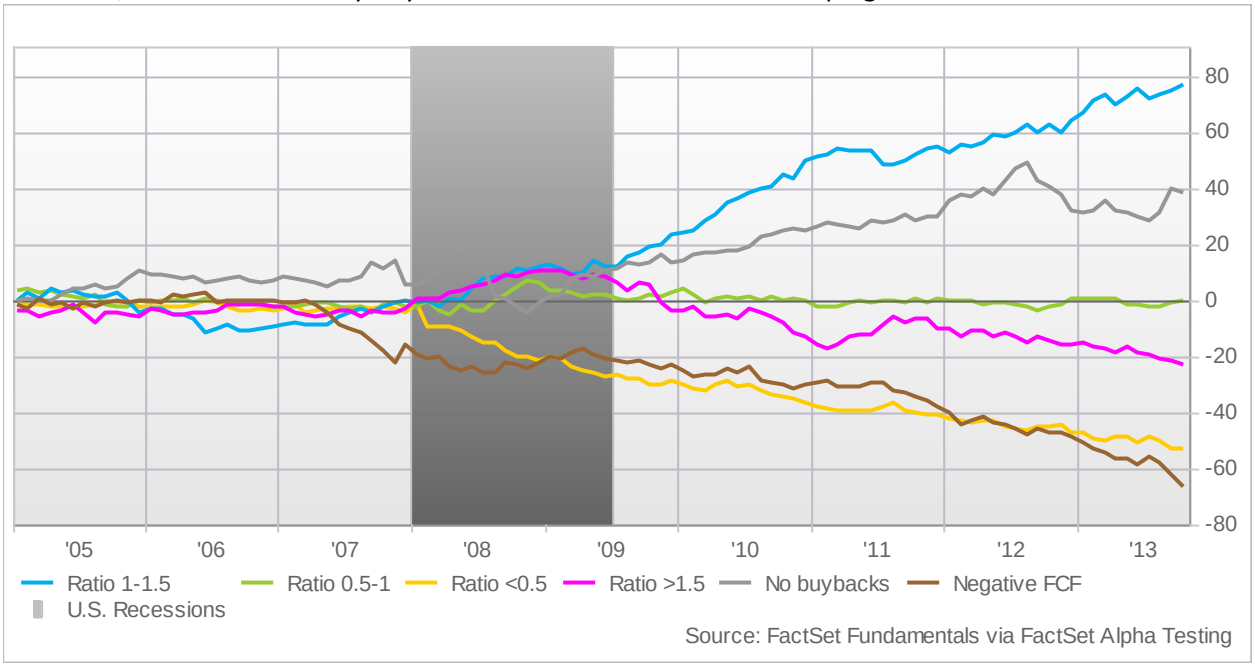
For this back test, S&P 500 companies were broken into groups by their methods of capital distribution.

Historical, Forward Returns by Capital Distribution Practice – Relative to S&P 500 TR Index



For this back test, S&P 500 companies were broken into groups by their buyback to adjusted free cash flow ratio on a trailing twelve month bases.

Historical, Forward Returns by Buyback to Free Cash Flow Ratio Grouping – Relative to S&P 500 TR Index



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