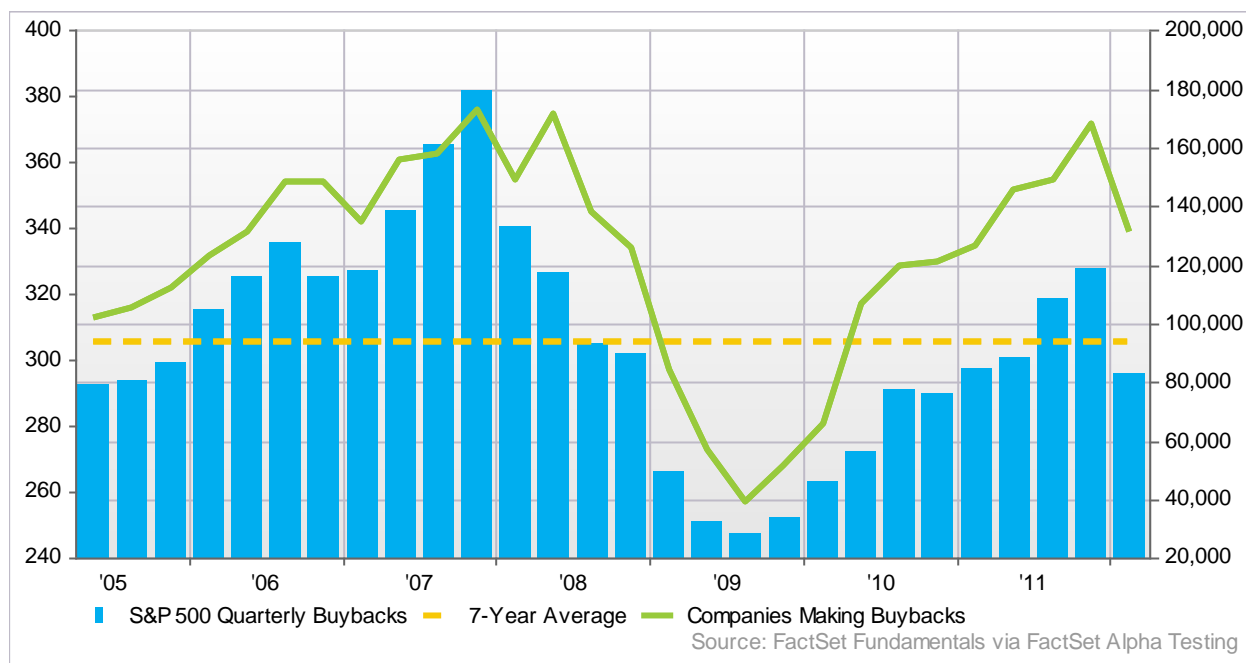


Key Metrics:

- + **Aggregate Buybacks:** Dollar-value share repurchases amounted to \$82.8 billion over the fourth quarter and \$401.2 billion over the trailing twelve months. On a quarterly basis, this represents a sequential decline of 31% and year-over-year decline of 2%.
- + **Sector Trends:** Of the sectors that spent more than \$1 billion on share repurchases, the Health Care sector led all sectors in year-over-year growth in quarterly share repurchases (37%). Its quarterly repurchase activity is now the second-largest in the S&P 500, surpassing the Consumer Discretionary sector and Consumer Staples sectors for only the second time in seven quarters.
- + **Conviction and Concentration:** The most active sector in regards to buybacks relative to free cash flow was the Energy sector. Its trailing twelve month buybacks amount to more than 4.6 times free cash flow, but this ratio is inflated due to the activity of three companies. Chevron, Exxon Mobil, and Conoco Philips made more than 87% of the sector's dollar-value share repurchases in Q4 2011.
- + **Historical, Forward Performance:** Since 2005, companies that distributed capital to shareholders from both buybacks and dividends over the trailing twelve months outperformed those which distributed capital in the form of buybacks alone (cumulative return of 29.2% versus 21.8%).



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 www.factset.com/insider/product_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 or 1-877-FACTSET for more information.

Quarterly Buybacks Decline by Largest Margin since Q2 2009

Share repurchases in Q4 2011 totaled \$82.8 billion dollars, representing the largest sequential decline (-31%) since Q2 2009 (-34%). Despite index-level (ex-Financials) cash balances growing to \$1.2 trillion and quarterly free cash flow amounting to its second-highest level in ten years, average dollar-value share repurchases per participating company fell from \$320 million in Q3 2011 to only \$244 million in Q4 2011.

This decline in buyback activity has contributed to the first quarterly dip in dollar-value shares available for repurchase (-4.3%) in one year. Despite some large buyback announcements, including Pfizer (\$10 billion) and Target (\$5 billion), only two sectors—Energy and Materials—experienced an increase in shares available for repurchase.

Has strong market performance and higher stock valuations contributed to the dip in buyback activity? While the S&P 500 returned 12.6% and the trailing P/E rose from 12.6 to 13.6 from October 1st to December 31st, large quarterly declines in buyback activity have occurred in both “up” and “down” markets. Other quarters that have experienced similar declines in quarterly buyback activity include Q1 2009 (-34%), Q4 2008 (-44%), and Q4 2007 (-26%). The S&P 500 declined during two of these periods (Q4 2008 and Q4 2007), while the index increased during the other (Q1 2009). Further analysis of the returns of companies making repurchases during “up” and “down” markets can be found at the end of this commentary.

Nine Sectors Experience Sequential Declines in Buyback Activity

Five of the nine sectors that decreased quarterly share repurchase activity showed significant sequential dollar-value declines (greater than \$4.5 billion). In terms of percentage declines, the Industrials sector (-53%) recorded the steepest fall, followed by the Financials sector (-52%), the Consumer Staples sector (-38%), the Consumer Discretionary sector (-33% decline), and the Information Technology sectors (-22%).

Within these five sectors, several large companies pulled back on share repurchase activity compared to last quarter. JPMorgan Chase led the pack by spending just 20% of its Q3 2011 buyback expenditure in Q4 (amounting to a decline \$3.4 billion). In addition, Coca-Cola, Goldman Sachs, Cisco, Walt Disney, CVS Caremark, Procter & Gamble, and CSX Corp. each spent \$1 billion less on buybacks than they did in the previous quarter. Furthermore, Bank of America and Citigroup, partly as a result of stricter capital requirements, continued to have limited participation in share repurchases. Despite being large buyers of their own stock prior to the market downturn (both companies averaged more than \$2.5 billion in quarterly share repurchases in 2005 and 2006), Bank of America averaged less than \$15 million and Citigroup less than \$0.5 million in quarterly share repurchases during 2011.

On the other hand, several companies heavily increased sequential buyback activity in Q4 2011. Amgen increased quarterly share repurchases by \$2.7 billion (+113%), Pfizer by \$1.1 billion (+52%), Philip Morris International by \$1.1 billion (compared to less than \$1 million in Q3 2011), and Travelers by \$1.2 billion (+217%).

Health Care Close to Becoming Largest Sector by Dollar-Value Share Repurchases

Due in part to the repurchase activity from Amgen and Pfizer, the Health Care sector had the highest growth of any sector (that spent at least \$1 billion in buybacks) in year-over-year dollar-value buybacks (37%). Despite the fact that its total market value is just over half of that of the Information Technology sector, the Health Care sector's dollar-value buybacks (\$16.1B) are close to passing the Information Technology sector (\$17.2B) as the largest in the S&P 500. The Information Technology sector, which has been the largest sector by quarterly buybacks for eleven straight quarters, experienced a 10% year-over-year decline in dollar-value share repurchases.

The share repurchase trend in these two sectors is especially interesting when viewed in conjunction with trends in dividend activity. As previously reported in the latest [“Dividend Quarterly”](#), the

percentage of dividend-payers in the Information Technology sector has risen from 18% in 2002 to 54% in Q4 2011, while the percentage in the Health Care sector has fallen from 68% in 1999 to 54% in 2011.

Energy Leads All Sectors in Buybacks Relative to Free Cash Flow

The Energy sector continued to see growth in share repurchases outpace growth in free cash flow (defined as cash from operating activities minus capital expenditures from fixed assets and cash dividends paid). In the trailing twelve months from Q4 2011, sector-wide share repurchases increased 109%, while free cash flow (FCF) grew only 31%. In addition, four quarters out of the last six showed at least double-digit growth in sequential dollar-value share repurchases in the Energy sector, including growth of 57% in Q3 2010 and 93% in Q4 2010.

As a result, the ratio of TTM buybacks to free cash flow for the sector may look unusually high at more than 4.6x. However, increased capital expenditures and a relatively concentrated share repurchase activity are having a significant influence on this ratio. Within the sector, Q4 2011 was the second-largest quarter by fixed capital expenditures and only one of five quarters over the past ten years where capital investment amounted to more than operating cash flows. Furthermore, only three companies are responsible for most of the repurchase activity in the Energy sector—Chevron, Exxon Mobil, and Conoco Phillips. These three companies were responsible for 87% of the share repurchases in Q4 2011 but only 37% of the fixed capital expenditures. While Chevron and Exxon Mobil's quarterly buybacks were in-line with their seven-year quarterly averages, Conoco Phillips made more than \$3 billion in share repurchases for the third consecutive quarter—almost triple its seven-year quarterly average.

Companies with Buybacks and Dividends Outperform Companies with Buybacks Alone

Since 2005, FactSet's Alpha Testing application (a back testing program) shows that companies that distributed capital to shareholders in the form of both buybacks and dividends outperformed those companies that utilized buybacks alone (cumulative return of 29.2% versus 21.8%). However, the cumulative returns of the dynamic universe of companies that paid both buybacks and dividends heavily underperformed companies that did not engage in buybacks at all (78.8%). Apple does have a strong impact on this latter group. But even excluding Apple, this group still had the best returns at 41.2%.

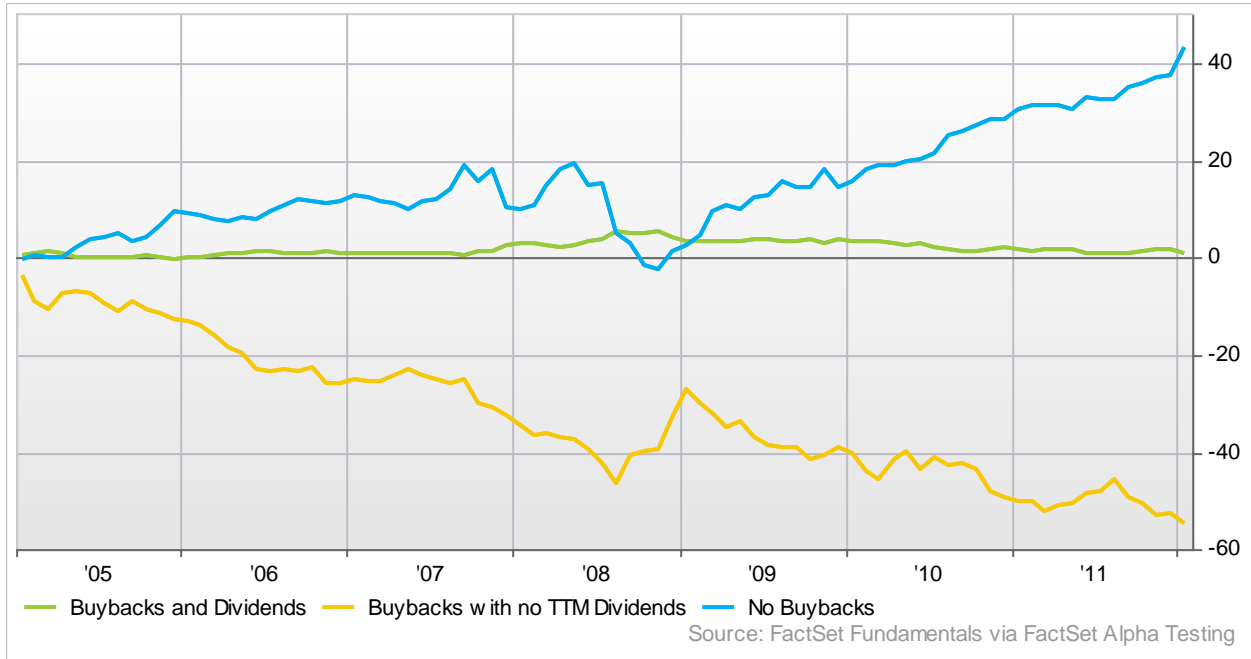
While this Alpha Test result seems to suggest that companies that have not engaged in buybacks have experienced the best performance, a second back test examining buybacks relative to free cash flow provides more nuanced results. Over the same time series, companies that utilized 100 to 150% of their trailing twelve month free cash flow for share repurchases outperformed those companies that did not engage in buybacks at all. Furthermore, the groups with little or no buybacks performed poorly in late 2008—a period when it might have been advantageous for companies to repurchase their stock at low valuations. In the four months from September 2008 through December 2008, the S&P 500 Total Return index had a cumulative return of -28.9%. Over that period, the groups with no buybacks underperformed the index by an additional 9.9%, while the group with the most buybacks relative to free cash flow outperformed by 6.9%. Overall, the three groups with the highest buybacks relative to FCF outperformed in more than 60% of the months since 2005 when the S&P 500 Total Return index declined, but outperformed in less than 50% when the index was "up".

In addition, Alpha Testing shows that companies that have repurchased their shares at a discount to their 52-week average daily price have outperformed the S&P 500 Total Return index by 7.4% since 2005. This compares to an underperformance of -10.8% for companies that repurchased their shares at a premium to their 52-week average daily price. Over the past year, the companies that have been most successful at repurchasing their shares at a discount have included Boston Scientific (with an average repurchase price at 55.3% of the 52-week average price), Ecolab (61.2%), and AIG (75.9%).

10-Year Forward Performance – Buybacks to Free Cash Flow:

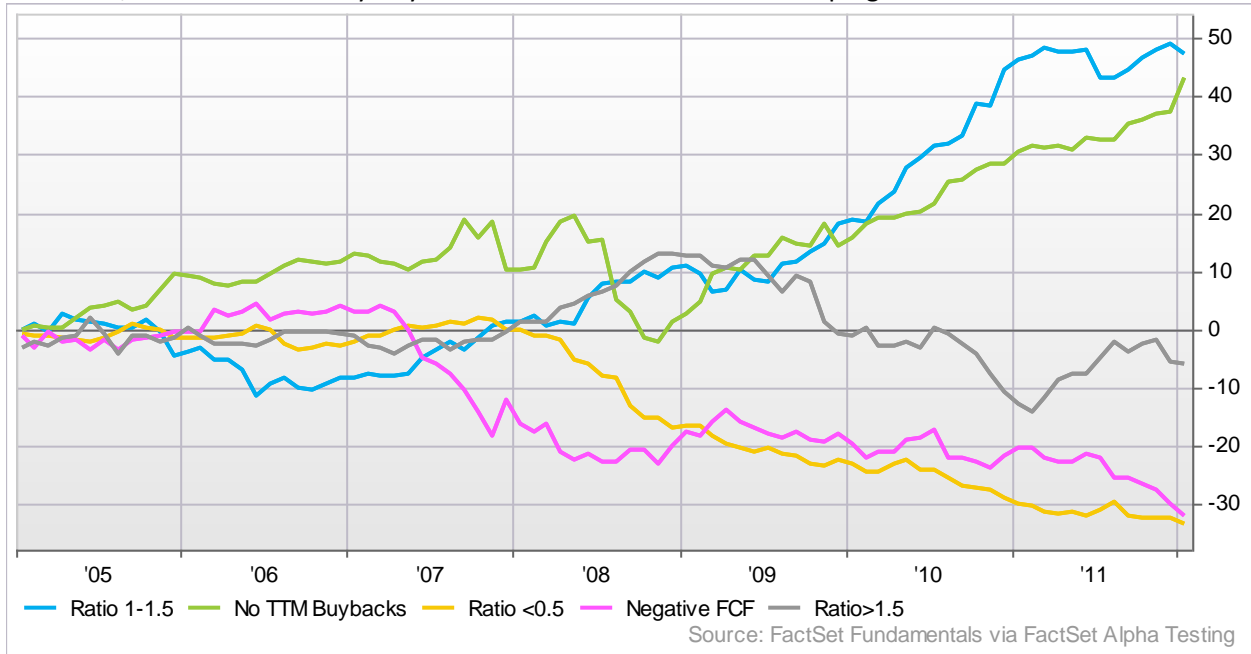
For this back test, S&P 500 companies were broken into groups by their trailing twelve month capital distribution practices. For all back tests, securities are rebalanced monthly and are market cap weighted to ensure that historic, forward returns are not affected by differences in security weighting between the model and the benchmark.

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 free cash flow ratio on a trailing twelve month bases.

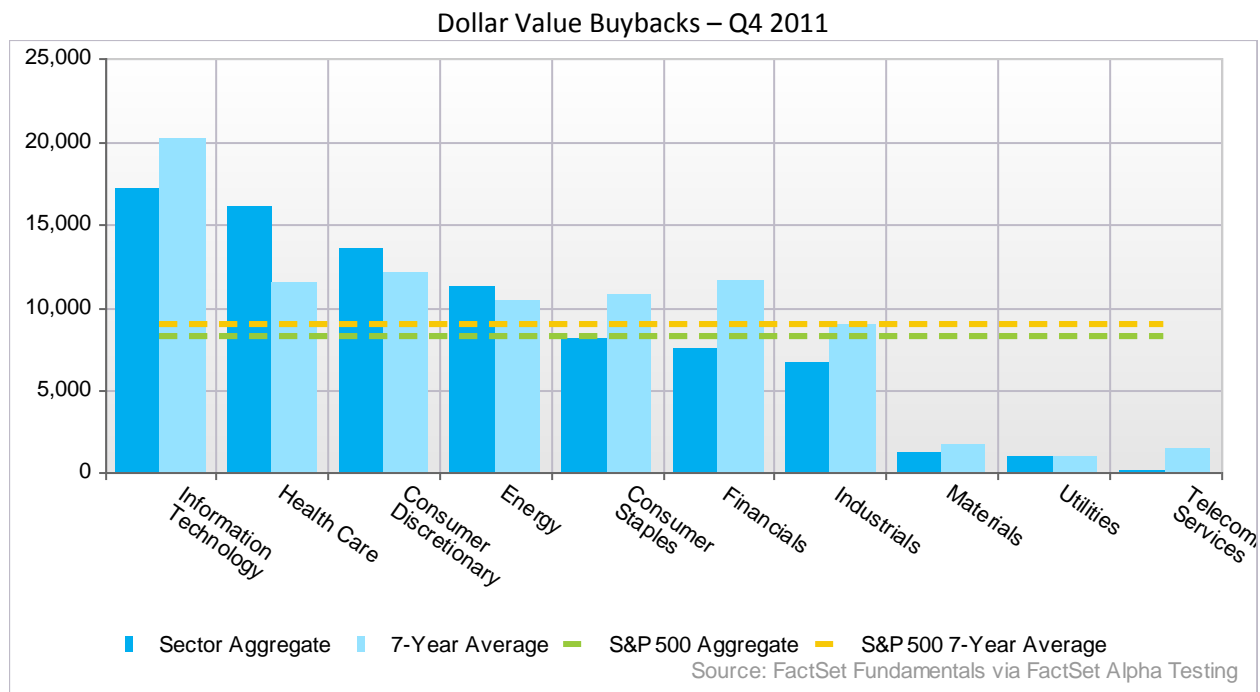
Historical, Forward Returns by Buyback to Free Cash Flow Ratio Grouping – Relative to S&P 500 TR Index



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 4C capturing quarters ending in November, December, and January.

Company-level EPS figures using prior quarter's shares are calculated using the current quarter's net income and dividing that by the corresponding quarter-end diluted shares outstanding. S&P aggregate earnings per share (EPS) figures utilize float shares in their calculation (as of the last trading day for Q4 2011 and as of three months ago for "EPS using last quarter's shares"). Due to the aggregation methodology of the index, an aggregate decrease in share count may not correspond to an increase in index-level EPS.

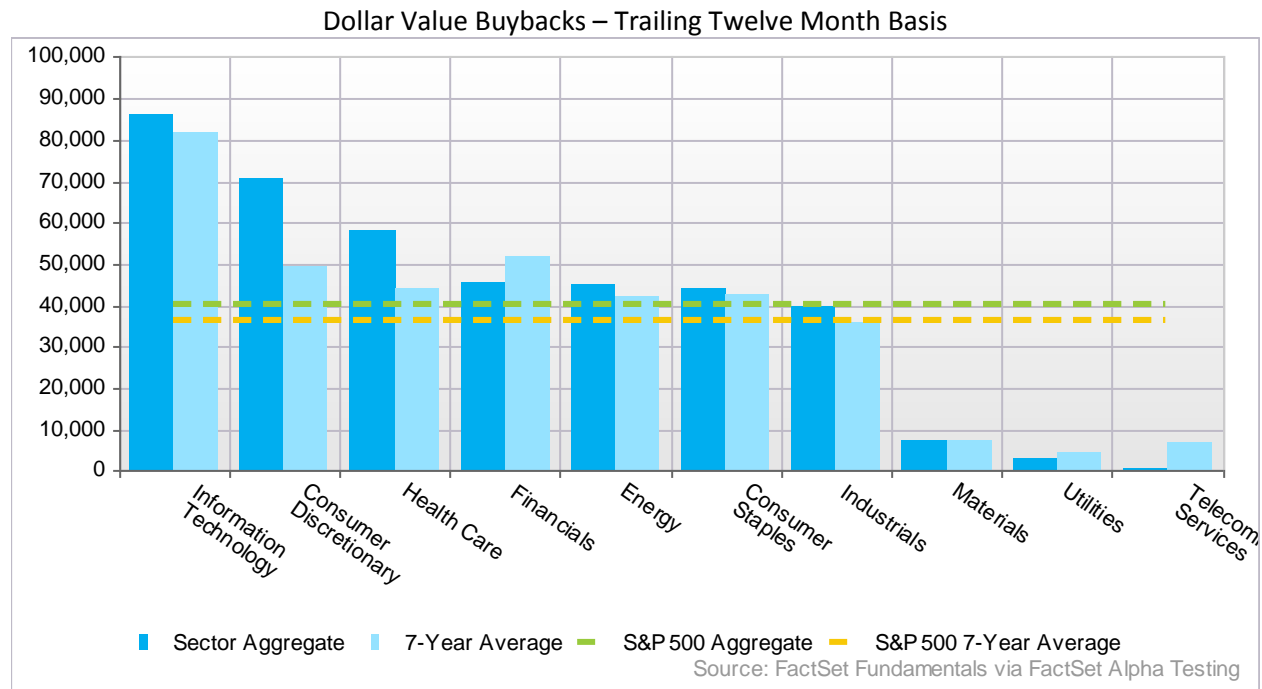


Top 10 Companies by Dollar-Value Buybacks – Q4 2011

Company	Sector	Quarter's Buybacks (\$M)	% Change in Shares (Qtr)	EPS (Q3 2011)	EPS using Last Qtr's Shares
Exxon Mobil Corp.	Energy	\$5,422	0.7%	\$1.93	\$1.94
Amgen, Inc.	Health Care	\$5,154	-0.2%	\$1.02	\$1.02
Intel Corp.	Information Technology	\$4,134	1.3%	\$0.62	\$0.63
IBM Corp.	Information Technology	\$3,569	0.7%	\$4.52	\$4.56
Pfizer, Inc.	Health Care	\$3,215	0.8%	\$0.18	\$0.19
ConocoPhillips	Energy	\$3,151	1.3%	\$2.44	\$2.48
Time Warner, Inc.	Consumer Discretionary	\$1,457	1.1%	\$0.73	\$0.73
Chevron Corp.	Energy	\$1,251	0.1%	\$2.56	\$2.56
News Corp.	Consumer Discretionary	\$1,204	-3.7%	\$0.42	\$0.40
The Travelers Cos., Inc.	Financials	\$1,188	0.5%	\$1.46	\$1.46
S&P 500	-	\$83,169	-1.3%	\$20.32	\$20.26

Dollar-Value Buybacks: Trailing Twelve Months

Company-level EPS figures using prior year’s shares are calculated using the trailing twelve month’s net income and dividing that by the corresponding quarter-end diluted shares outstanding. S&P aggregate earnings per share (EPS) figures utilize float shares in their calculation (as of the last trading day for TTM and as of twelve months ago for “EPS using last year’s shares”). Due to the aggregation methodology of the index, an aggregate decrease in share count may not correspond to an increase in index-level EPS.



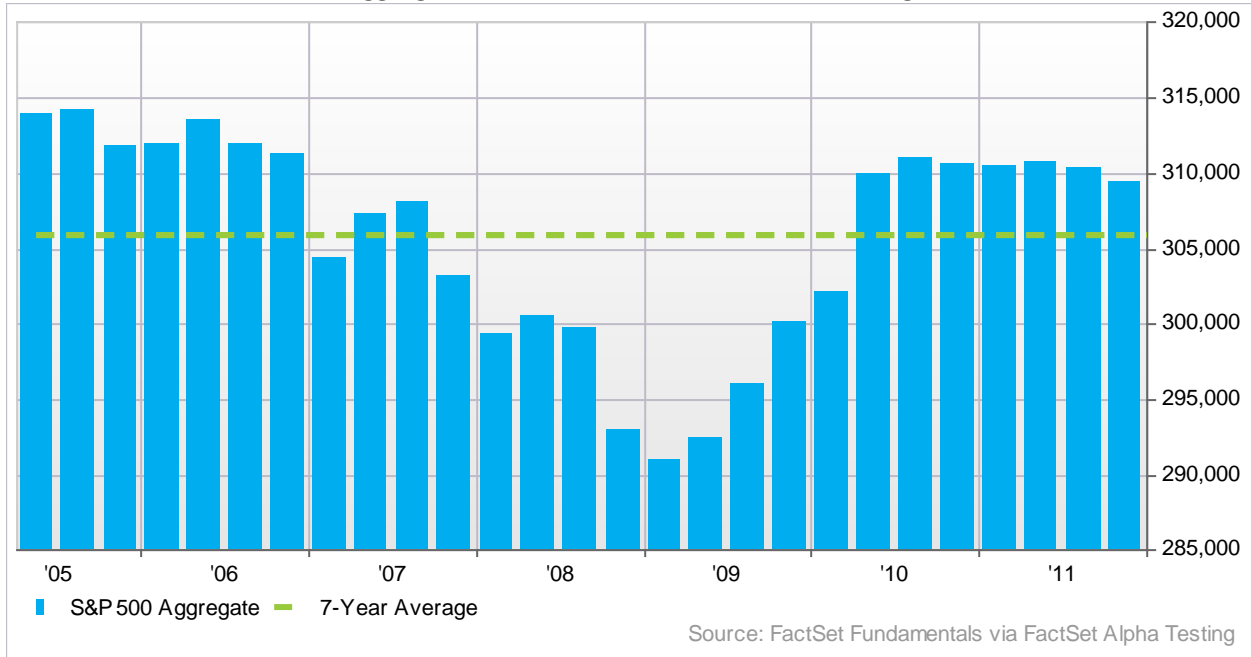
Top 10 Companies by Dollar-Value Buybacks – Trailing Twelve Months

Company	Sector	TTM Buybacks (\$M)	% Change in Shares (TTM)	EPS (TTM)	EPS Using Last Yr's Shares
Exxon Mobil Corp.	Energy	\$22,055	-3.1%	\$8.37	\$8.16
IBM Corp.	Information Technology	\$15,034	-3.5%	\$13.02	\$12.60
Intel Corp.	Information Technology	\$14,133	-5.0%	\$2.37	\$2.27
ConocoPhillips	Energy	\$11,138	-5.4%	\$8.85	\$8.48
Pfizer, Inc.	Health Care	\$9,094	-2.2%	\$1.27	\$1.25
JPMorgan Chase & Co.	Financials	\$8,745	-0.4%	\$4.44	\$4.46
Hewlett-Packard Co.	Information Technology	\$8,606	-10.2%	\$2.83	\$2.67
Amgen, Inc.	Health Care	\$8,307	-3.6%	\$3.97	\$3.89
The Goldman Sachs Group	Financials	\$6,048	-5.2%	\$4.33	\$4.27
Procter & Gamble Co.	Consumer Staples	\$5,556	-1.7%	\$3.40	\$3.37
S&P 500	-	\$401,072	-1.1%	\$87.19	\$87.48

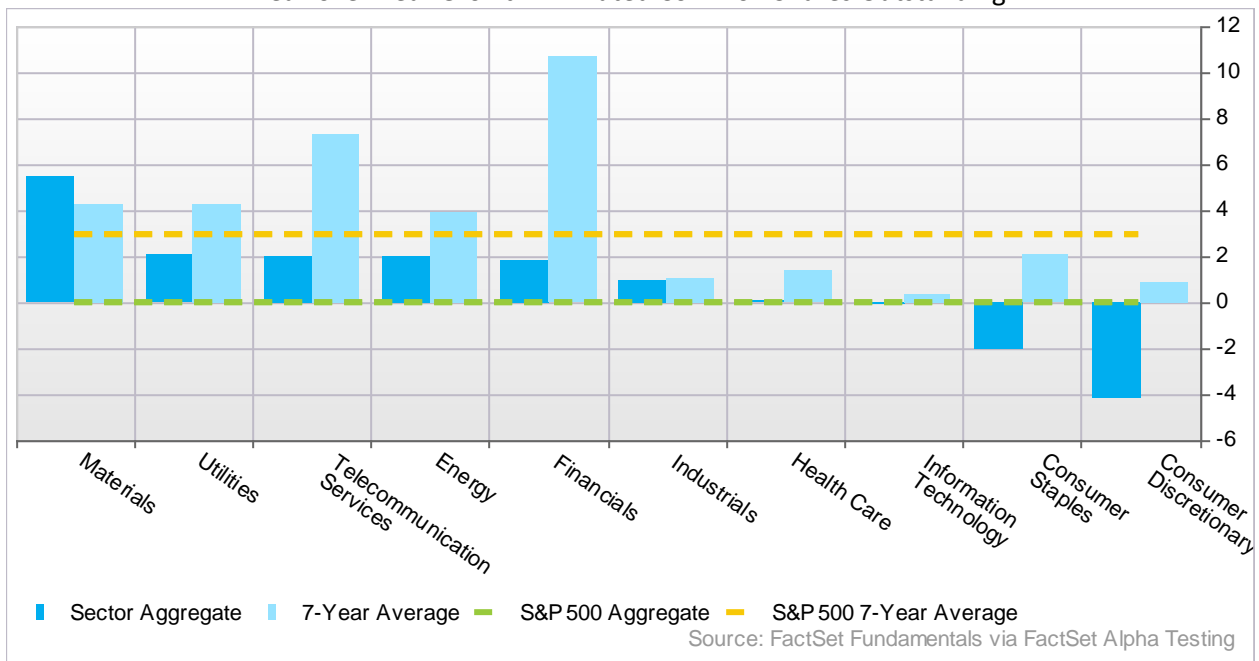
Trends in Diluted Common Shares Outstanding:

Aggregate diluted common shares use the latest S&P 500 constituents throughout the chart's time series to prevent the trend from being influenced by constituent changes.

Aggregate Diluted Common Shares Outstanding

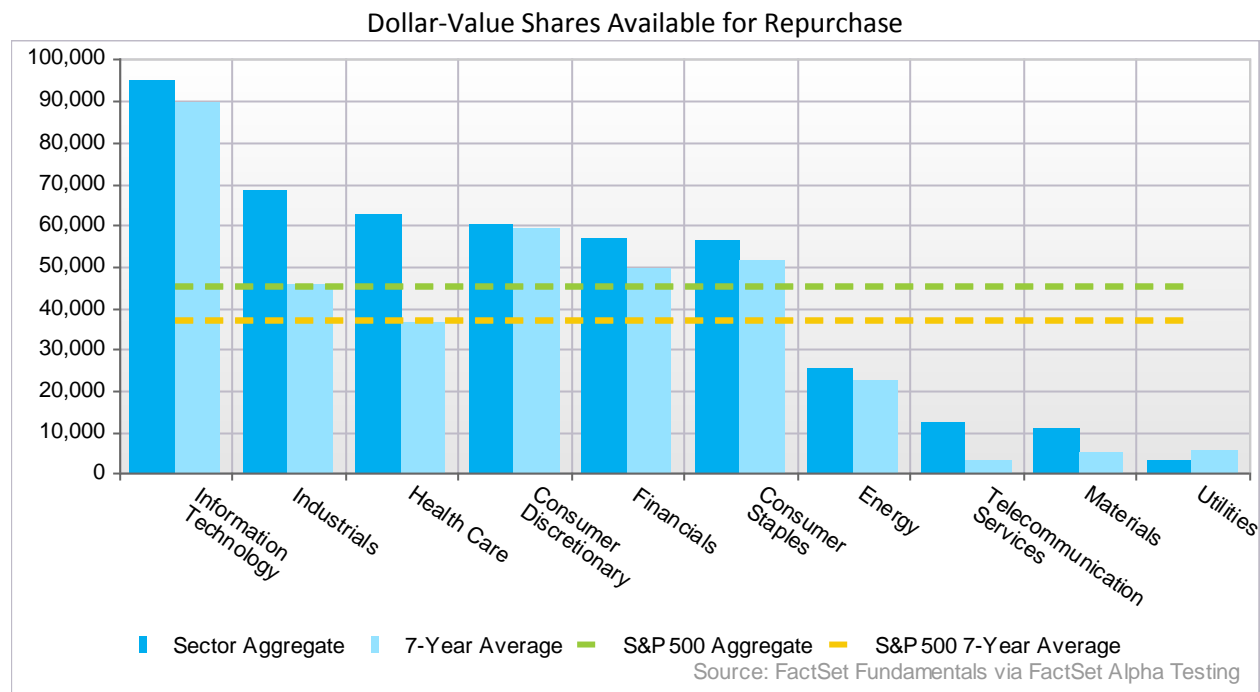


Year-over-Year Growth in Diluted Common Shares Outstanding



Dollar-Value Shares Available for Repurchase:

Some companies do not make buyback program announcements, while other companies' announced programs may not disclose closing, completing, or abandoning the program. Therefore, the following chart tracks dollar-value shares available for repurchase as disclosed in 10-Q's and 10-K's. This metric can either be presented in dollars or shares (in which case shares are converted to dollars by multiplying them by the stock's quarter-end price).

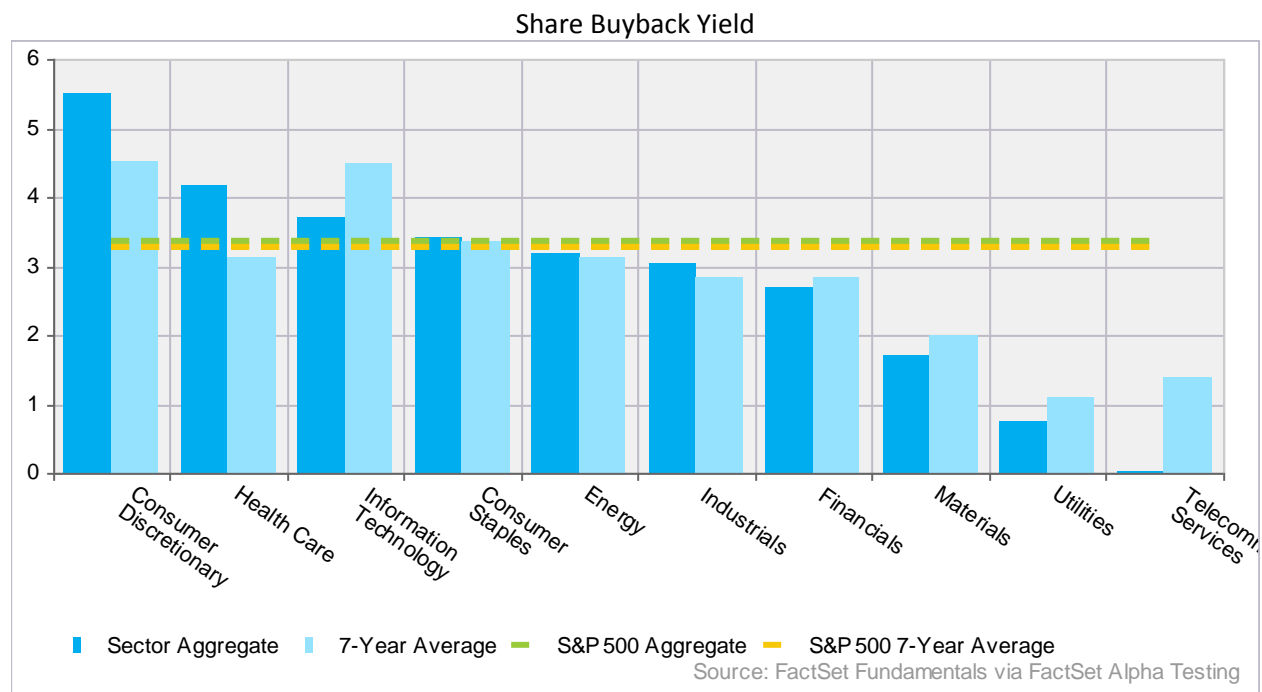


Top 10 Companies by Dollar-Value Shares Available for Repurchase

Company	Sector	Shares Available (\$M)	Quarter's Buybacks (\$M)	TTM Buybacks (\$M)	1 Year Total Return
PepsiCo, Inc.	Consumer Staples	\$11,047	\$517	\$2,486	5.0%
Microsoft Corp.	Information Technology	\$10,221	\$1,000	\$4,458	28.7%
Intel Corp.	Information Technology	\$10,098	\$4,134	\$14,133	42.1%
Hewlett-Packard Co.	Information Technology	\$10,016	\$779	\$8,606	-42.8%
Cisco Systems, Inc.	Information Technology	\$8,217	\$482	\$4,709	18.5%
General Electric Co.	Industrials	\$7,968	\$43	\$2,017	4.9%
Citigroup, Inc.	Financials	\$6,739	\$0	\$61	-15.5%
The Home Depot, Inc.	Consumer Discretionary	\$6,410	\$404	\$3,598	39.2%
JPMorgan Chase & Co.	Financials	\$6,137	\$868	\$8,745	1.7%
Dell, Inc.	Information Technology	\$6,002	\$557	\$2,735	9.3%
S&P 500	-	\$470,201	\$83,169	\$401,072	7.7%

Buyback Yield:

Buyback yield is calculated by dividing the TTM dollar-level repurchases by the security's latest market value at close. Here, it's important to note the relationship between dividend and buyback 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.



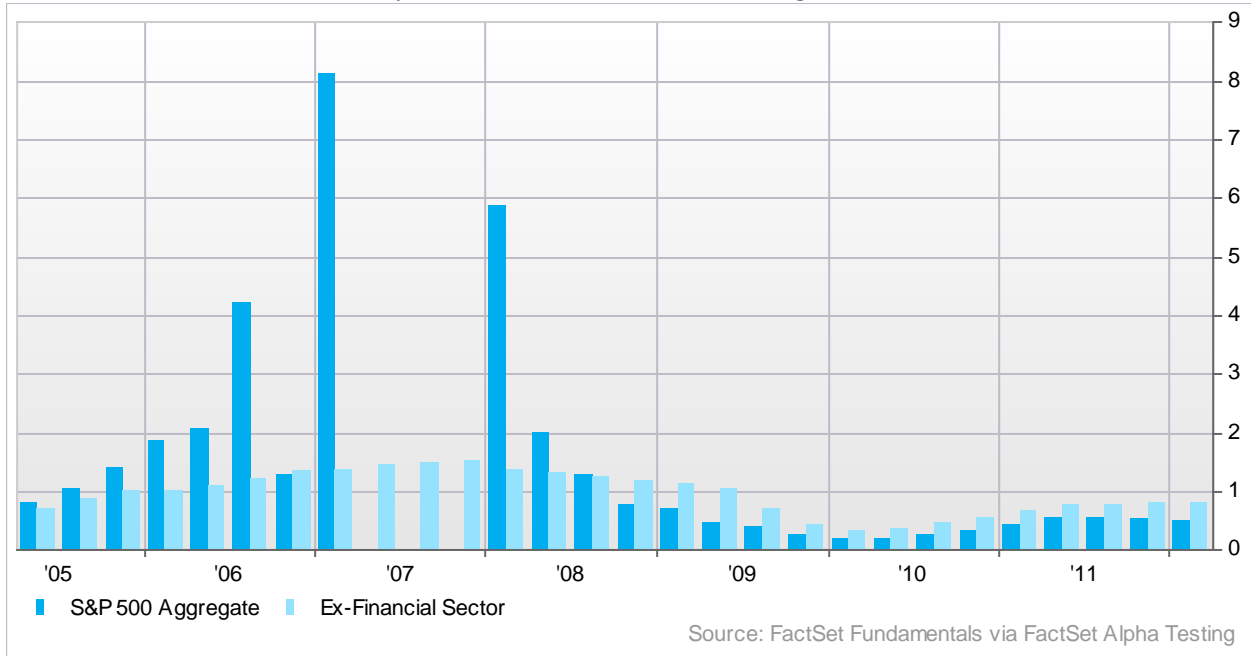
Top 10 Companies by Share Buyback Yield

Company	Sector	Buyback Yield	TTM Buybacks (\$M)	Security MV	1 Year Total Return
Molex, Inc.	Information Technology	82.9%	\$2,191	\$2,642	15.8%
DeVry, Inc.	Consumer Discretionary	30.4%	\$709	\$2,332	-33.9%
Novellus Systems, Inc.	Information Technology	28.3%	\$976	\$3,451	35.6%
R.R. Donnelley & Sons Co.	Industrials	25.2%	\$570	\$2,267	-25.0%
Safeway, Inc.	Consumer Staples	24.6%	\$1,394	\$5,663	-3.4%
Kohl's Corp.	Consumer Discretionary	20.4%	\$2,385	\$11,700	-6.2%
Iron Mountain, Inc.	Industrials	20.3%	\$988	\$4,878	-4.7%
Torchmark Corp.	Financials	19.7%	\$973	\$4,941	15.2%
Hewlett-Packard Co.	Information Technology	18.4%	\$8,606	\$46,725	-42.8%
Tenet Healthcare Corp.	Health Care	17.4%	\$374	\$2,152	-25.4%
S&P 500	-	3.2%	\$401,072	12,627,570	7.7%

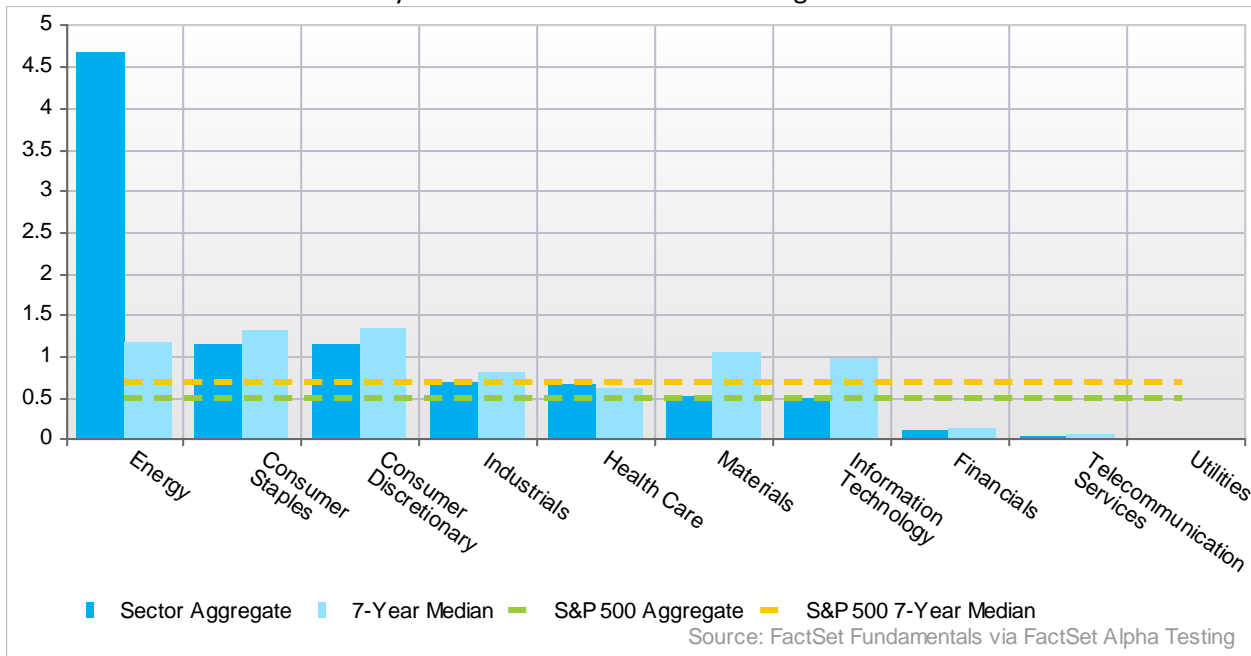
Buybacks to Free Cash Flow: Trailing Twelve Months

Free cash flow 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

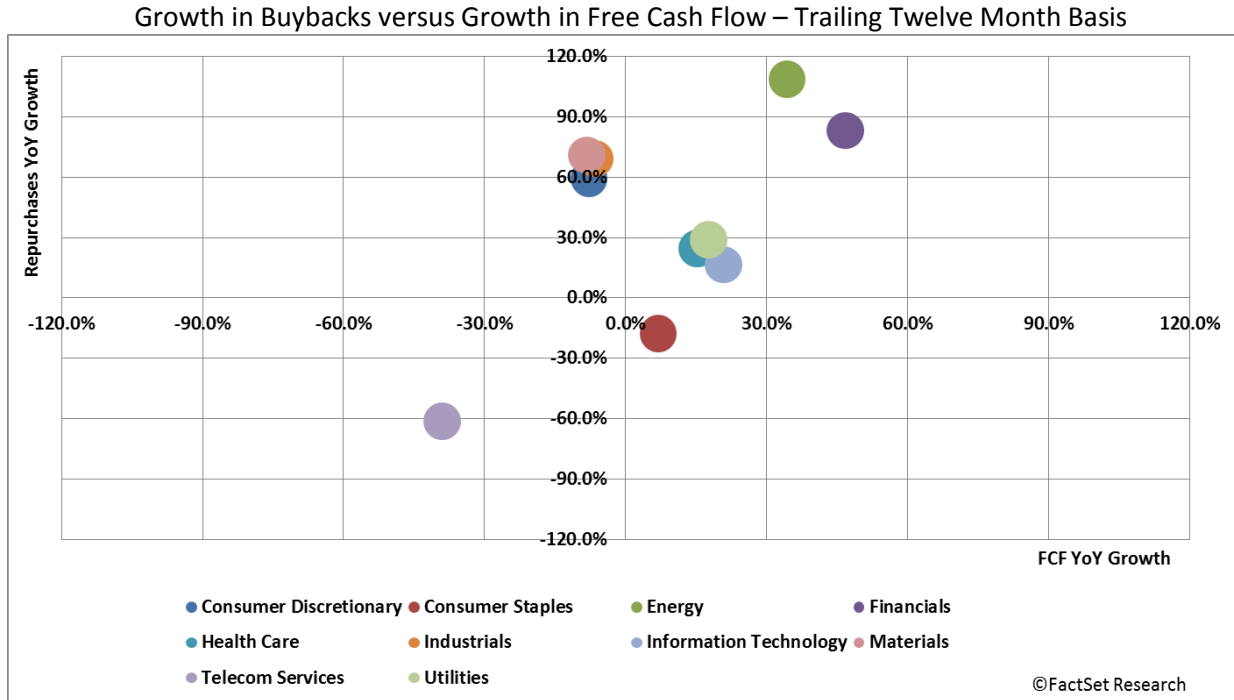


Dollar-Value Buybacks to Free Cash Flow – Trailing Twelve Month Basis



Growth in Buybacks versus Free Cash Flow: TTM Basis

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



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.

Average Share Repurchase Price Relative to Average Stock's Price – Trailing Twelve Months

Company	Sector	Average Buyback Price	Average Stock Price	Buyback Price / Average Price	1 Year Total Return
Boston Scientific Corp.	Health Care	\$3.65	\$6.60	55.3%	-14.7%
Ecolab, Inc.	Materials	\$31.72	\$51.84	61.2%	23.7%
Ball Corp.	Materials	\$24.73	\$35.90	68.9%	17.7%
Eastman Chemical Co.	Materials	\$31.36	\$44.48	70.5%	8.4%
Alpha Natural Resources, Inc.	Energy	\$29.02	\$41.15	70.5%	-72.7%
The Hartford Fin'l Services Group	Financials	\$16.61	\$23.06	72.0%	-17.1%
Expeditors Int'l of WA, Inc.	Industrials	\$34.60	\$47.59	72.7%	-1.5%
Denbury Resources, Inc.	Energy	\$14.09	\$18.60	75.7%	-23.4%
AIG, Inc.	Financials	\$22.75	\$29.99	75.9%	-22.7%
McGraw-Hill Cos., Inc.	Consumer Discretionary	\$32.00	\$40.80	78.4%	25.0%
S&P 500	-	\$303.47	\$52.56	577.4%	7.7%

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