FACTSET
BUYBACK QUARTERLY

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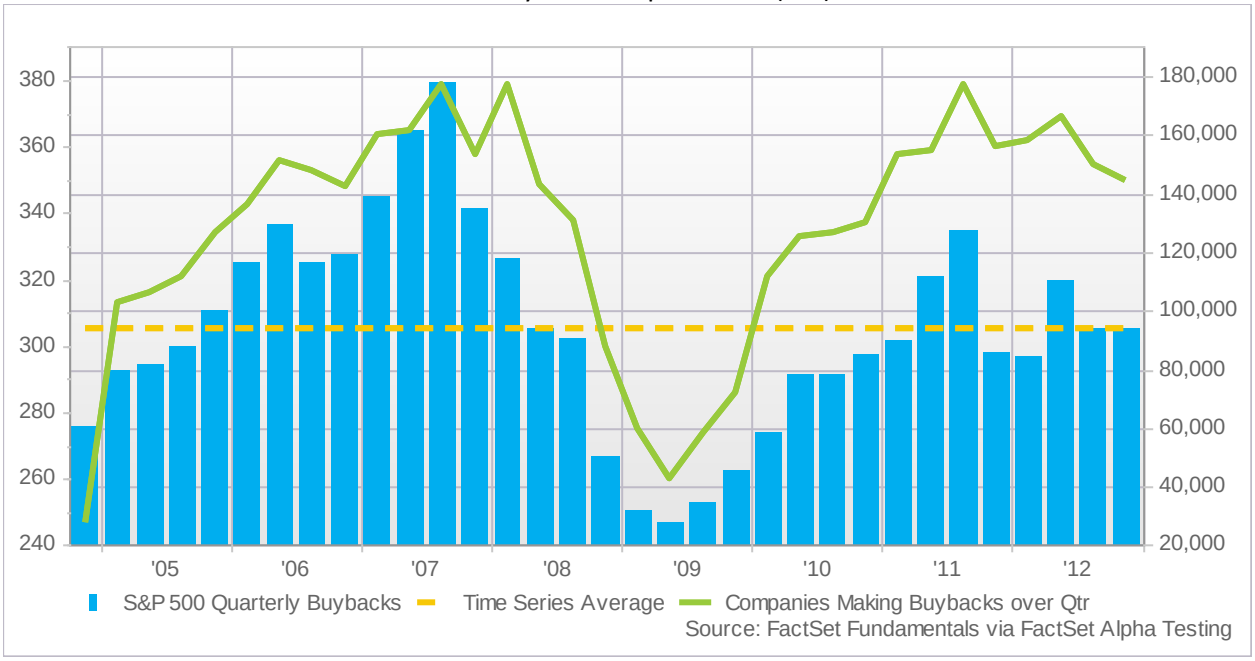
Key Metrics:

+ **Aggregate Buybacks:** Dollar-value share repurchases amounted to $93.8 billion over the fourth quarter and $384.3 billion for 2012. The fourth quarter total is in-line with that of Q3, but represented year-over-year growth of 9.6%.

+ **Sector Trends:** The Information Technology and Health Care sectors spent the most on quarterly repurchases ($19.8 billion and $14.4 billion, respectively) in Q4 2012. However, of the sectors that averaged $2 billion or more in quarterly share repurchases since 2005, the Industrials sector showed the largest sequential and year-over-year growth (30.6% and 59.4%) in dollar-value buybacks.

+ **Buyback Conviction:** Dollar-value buybacks amounted to 79.1% of free cash flow on a trailing twelve month basis, which is the largest value since Q3 2008. The Consumer Discretionary and Consumer Staples sectors both spent more than 100% of their free cash flow (116.7% and 114.2%, respectively). The Energy and Utilities sectors spent $35.8 billion and $1.4 billion, respectively, on buybacks, despite generating negative free cash flow (-$25.7 billion and -$23.5 billion). The Consumer Discretionary sector also led all sectors in repurchasing the most shares relative to its size. Over the trailing twelve months, the sector repurchased shares that amounted to 4.5% of the sector's 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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Buyback Activity Flat Quarter-over-Quarter

Aggregate dollar-value share repurchases amounted to $93.8 billion in Q4 2012. This amount was in-line with activity in Q3 2012 and represented an increase of 9.6% year-over-year. However, the fourth quarter also showed the lowest number of companies engaging in quarterly share repurchases since Q4 2010 (350 companies, or 70% of the index). In addition, the $384.3 billion repurchased in 2012 represented a 6.4% decline from 2011, and total shares outstanding in the S&P 500 grew at the highest year-over-year rate since Q1 2011 (+1.5%).

Sector Trends

The Information Technology sector led all groups in dollar-value share repurchases in Q4 2012 with $19.8 billion in share repurchases. While the Information Technology sector usually leads the index in dollar-value buybacks, the sector's buyback total also grew 16.0% year-over-year and was supported by activity from a long dormant constituent: Apple Inc. Apple repurchased its first shares since announcing a $10 billion buyback program in March of 2012. The company purchased up to $1.95 billion in stock through an accelerated share repurchase ("ASR") program that delivered 2.6 million shares back to the company during the month of October 2012. Prior to Q4 2012, Apple last disclosed share repurchases more than six years ago: $0.3 billion in Q1 2006.

In terms of both sequential and year-over-year growth in share buybacks, the Industrials sector led the S&P 500 index. The Industrials sector bought back $10.4 billion in shares in Q4, which was the sector's highest total since Q3 2011 and represented year-over-year growth of 59.4%. On a security-level, Stanley Black & Decker Inc. (SWK), Pentair Ltd. (PNR), Honeywell International Inc. (HON), and Textron (TXT) all repurchased at least $200 million more shares in Q4 than were purchased in either Q3 2012 or Q4 2011. In addition, General Electric Co. (GE) repurchased $2.2 billion in Q4 2012, which was more than the company spent in all of 2011 ($2.0 billion). Going forward, CEO Jeffrey Immelt stated on the Q3 earnings call that "…we like the buyback pace in the quarter, a little over $2 billion…our objective is to retire the shares that we issued before the financial crisis over the next several years." On the Q4 call, he also reiterated that: "…we plan to return substantial cash to investors through dividend and buyback."

Buyback Conviction: Consumer Discretionary Leads in Buyback Yield

Relative to sector size, however, the Consumer Discretionary sector was the most active group for the sixth consecutive quarter. The Consumer Discretionary sector's trailing twelve-month ("TTM") share repurchases amounted to 4.5% of the sector's average shares outstanding over the period. However, the company with the highest buyback yield came from the Information Technology sector. Seagate Technology Inc. repurchased 35.2% of its average, quarterly shares outstanding in 2012, and reduced its share count from 465.0 million in Q4 2011 to 358.9 million in Q4 2012.

Share retirement in terms of cash generation also increased in 2012. Over the year, TTM share buybacks declined 6.4%, but adjusted free cash flow to equity (operating cash flow less fixed capital expenditures and dividends) fell at an even faster clip (-40.8%). This led to year-over-year growth of 58.1% in the ratio of buybacks to free cash flow. The S&P 500 ratio ended Q4 2012 at 0.79, which was the highest value since Q3 2008—when the index constituents were spending more on share buybacks than they were generating in 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 enough cash through other means, including asset sales, debt issuance, and other investing and financing activities. Of all ten sectors, however, the Consumer Staples sector was the only one to exhibit relatively balanced growth in both trailing twelve-month share repurchases and adjusted free cash flow.

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Repurchasing Shares at a Relative Discount (Price and P/E): CMG, CF, PCS, PBCT, WDC

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, Expedia (EXPE), Constellation Brands (STZ), and Amazon.com (AMZN) topped the list of companies with the "cheapest" share repurchases by purchasing shares at an average price of 80-82% of their respective 52-week average price. However, these three companies rose to the top by slowing or stopping their activity after dramatic increases to their share prices. Chipotle Mexican Grill (CMG) and CF Industries Holdings (CF), on the other hand, both capitalized on dips in their share prices. CF Industries purchased over 99% of its total 2012 buybacks in the month of May—a month when the company's shares show a distinct valley in the year—and Chipotle accelerated its buybacks after its shares had fallen in the second half of the year.

Another way to uncover prudent share repurchase activity would be 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" was 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 examination, the two names appearing at the top of the list in Q3 were Yahoo! Inc. (YHOO)—largely due to a strengthened denominator from strong earnings in the third quarter—and Electronic Arts (EA)—due to an extended history of negative EPS. However, other companies on the top ten list bought back shares following years of declining valuations, including MetroPCS Communications (PCS), People's United Financial (PBCT), and Western Digital Corp. (WDC). All three companies repurchased shares at valuations that were less than 46% of the companies' seven-year median P/E ratio.

Looking Forward: Program Announcements & Buyback Potential

Going forward, several companies in the S&P 500 have authorized new programs or additions of $1 billion or more since December 31st, including Gap (GPS), Blackrock (BLK), Marathon Petroleum (MPC), L-3 Communications (LLL), Visa (V), Allstate (ALL), Moody's (MCO), CBS Corporation (CBS), Dow Chemical (DOW), and AbbVie (ABBV). In addition, even larger authorizations were made by United Technologies Corp. (UTX), 3M Co. (MMM), and Lowe's (LOW), which all announced replacement programs worth approximately $5.4 billion, $7.5 billion, and $5 billion, and Hess Corporation (HES), which announced a $4 billion buyback program on March 4th. Finally, a number of banks were approved to buy back large amounts of common and preferred shares in 2013. JPMorgan Chase (JPM) which was approved for $6 billion in share repurchases, Bank of America (BAC) was approved for $5 billion in share repurchases plus $5.5 billion in redemption of preferred shares, and Bank of New York Mellon (BK), U.S. Bancorp (USB), State Street Corp (STT), and American Express (AXP) were also approved to repurchase greater than $1 billion worth of shares.

Share authorizations are indicative of future buyback activity, but predicting the timing of these buybacks can be difficult. However, a prior "Buyback Quarterly" report found that the relative size of a company's diluted share count had a correlation with the relative size of its share repurchases in the subsequent period. S&P 500 constituents with a recent history of significant buybacks and relatively large diluted share counts include Accenture PLC (ACN) and Interpublic Group of Cos. (IPG).

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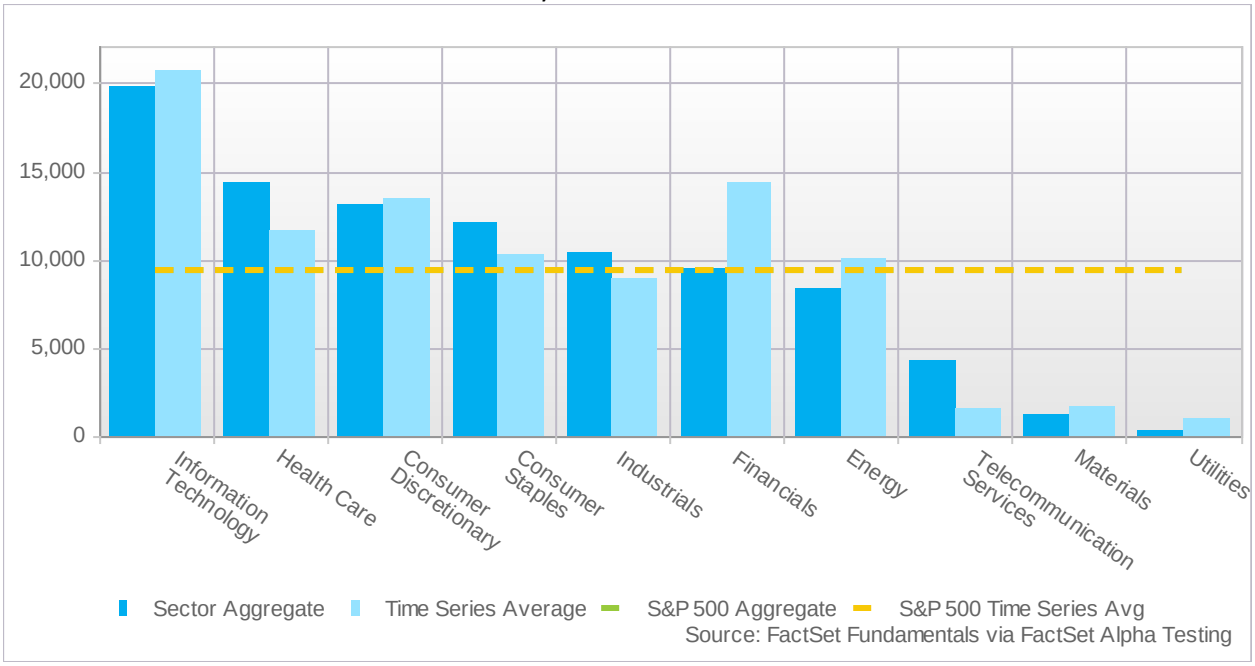
Dollar-Value Buybacks: Quarterly

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 Q2 capturing quarters ending in May, June, and July.

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 Q1 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.

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
Exxon Mobil Corp.	Energy	$5,254	(1.3%)	$2,592	7.4%
AT&T Inc.	Telecom Services	$4,381	(2.2%)	$2,503	25.5%
Pfizer Inc.	Health Care	$3,422	(1.2%)	$1,619	32.1%
Oracle Corp.	Information Technology	$3,011	(1.7%)	$291	12.5%
IBM Corp.	Information Technology	$3,001	(1.1%)	$957	3.5%
Wal-Mart Stores Inc.	Consumer Staples	$2,943	(0.9%)	$1,327	26.2%
General Electric Co.	Industrials	$2,167	(0.8%)	$1,788	18.9%
Philip Morris Int'l Inc.	Consumer Staples	$1,961	(1.3%)	$1,431	8.7%
Apple Inc	Information Technology	$1,950	(1.3%)	$2,592	7.4%
Microsoft Corp.	Information Technology	$1,607	(0.6%)	$1,933	(8.6%)
S&P 500	**-**	**$94,795**	**(4.8%)**	**$92,183**	**13.1%**

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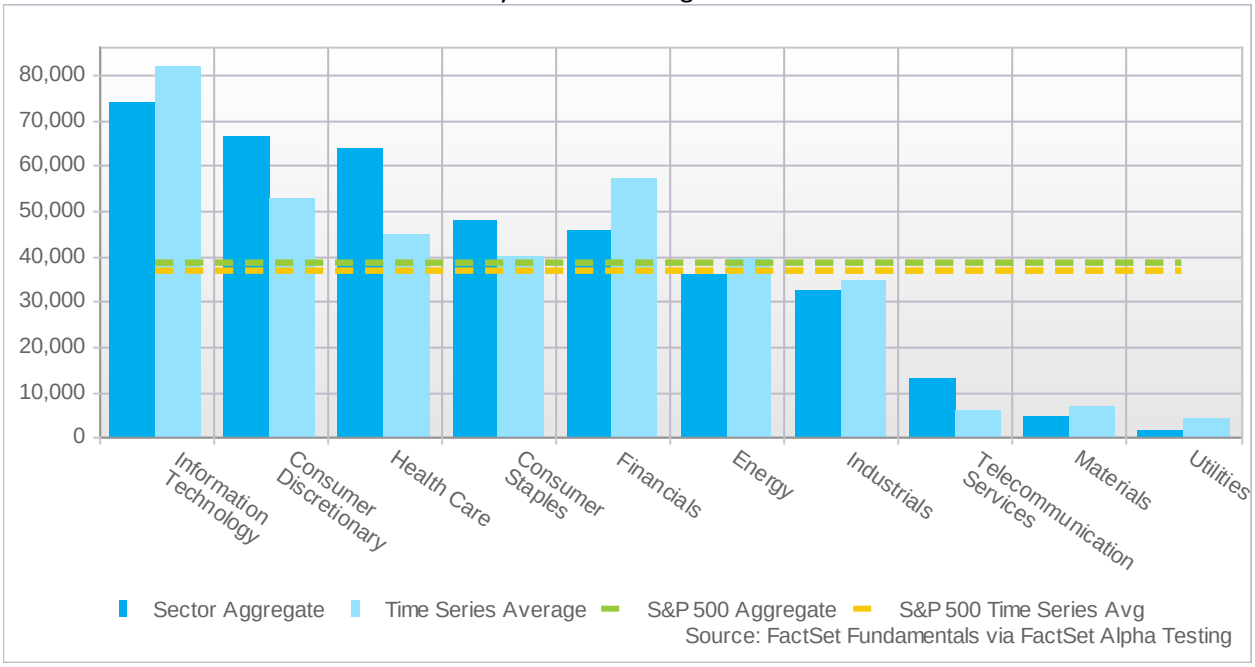
Dollar-Value Buybacks: Trailing Twelve Months

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.

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
Exxon Mobil Corp.	Energy	$21,069	(4.9%)	$10,092	$0.07
AIG Inc.	Financials	$13,000	(22.2%)	$0	$0.24
Johnson & Johnson	Health Care	$12,919	2.0%	$6,614	$0.29
AT&T Inc.	Telecom Services	$12,755	(5.8%)	$10,241	$0.26
IBM Corp.	Information Technology	$12,008	(3.9%)	$3,773	$0.04
Oracle Corp.	Information Technology	$10,229	(5.6%)	$1,181	$0.12
Pfizer Inc.	Health Care	$8,343	(3.9%)	$6,534	$0.32
Wal-Mart Stores Inc.	Consumer Staples	$7,600	(3.0%)	$5,282	$0.26
Philip Morris Int'l Inc.	Consumer Staples	$6,552	(4.2%)	$5,404	$0.09
Procter & Gamble Co.	Consumer Staples	$6,547	(0.8%)	$6,332	$0.20
S&P 500	**-**	**$384,212**	**(5.0%)**	**$310,664**	**13.1%**

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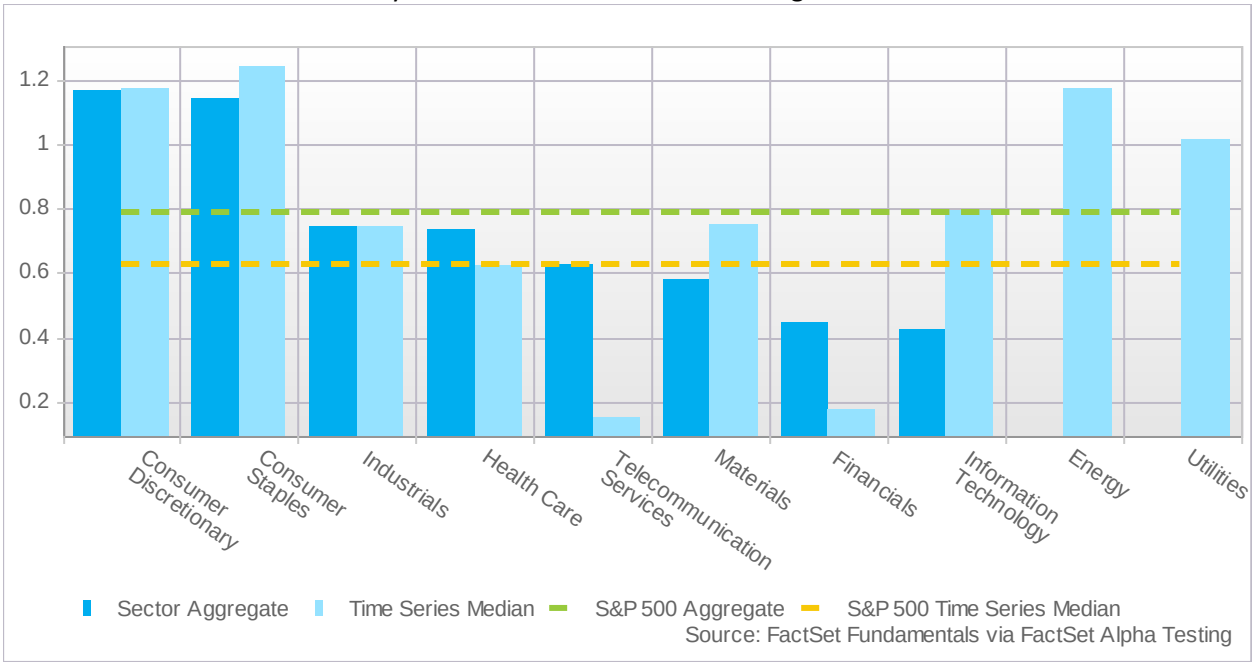
Buybacks to Adjusted Free Cash Flow: Trailing Twelve Months

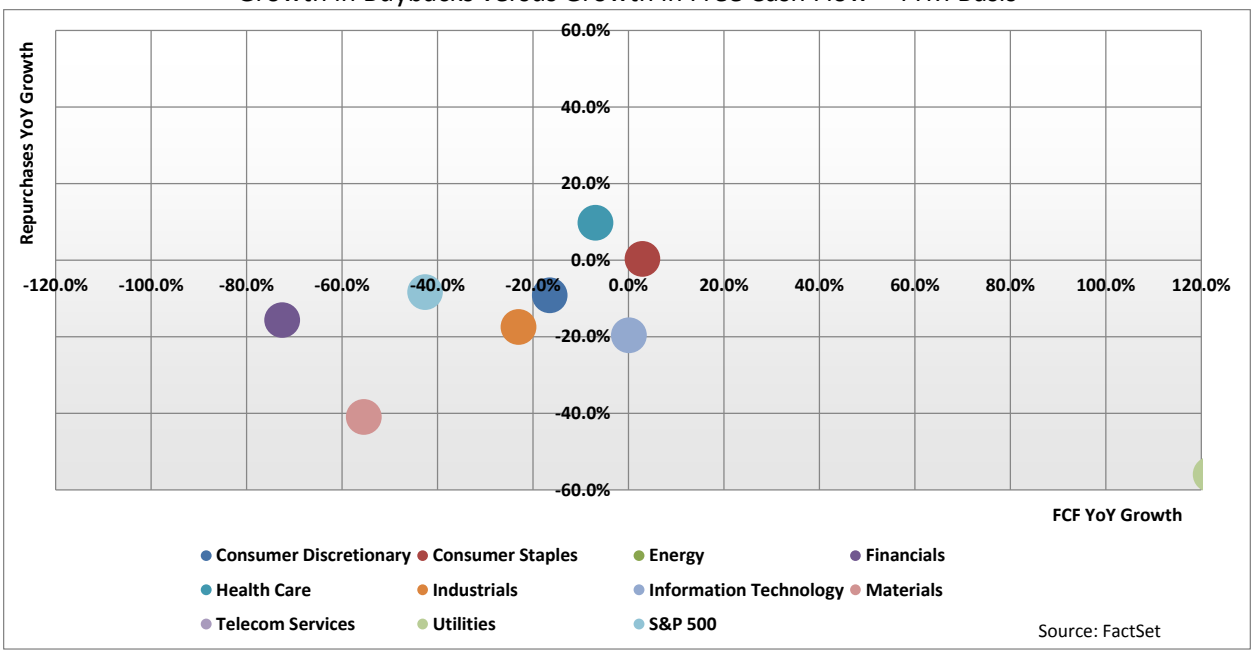
Adjusted free cash flow to equity is defined as cash from operating activities minus capital expenditures from fixed assets and cash dividends paid. Periods where aggregate free cash flow is negative have been removed from the charts below.

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
Expedia Inc.	Consumer Discretionary	$37.15	$45.95	80.8%	84.1%
Constellation Brands Cl A	Consumer Staples	$21.24	$25.81	82.3%	100.5%
Amazon.com Inc.	Consumer Discretionary	$181.38	$220.12	82.4%	29.2%
Chipotle Mexican Grill	Consumer Discretionary	$293.93	$347.65	84.5%	(23.2%)
CF Industries Holdings	Materials	$163.89	$192.66	85.1%	4.9%
Devon Energy Corp.	Energy	$53.40	$61.66	86.6%	(20.8%)
PPG Industries Inc.	Materials	$92.14	$106.06	86.9%	42.9%
H&R Block Inc.	Consumer Discretionary	$14.83	$16.95	87.5%	85.5%
Helmerich & Payne Inc.	Energy	$45.09	$51.30	87.9%	11.6%
Harman Int'l Industries	Consumer Discretionary	$38.14	$43.37	87.9%	(3.6%)
S&P 500	**-**	**$57.79**	**$55.97**	**99.6%**	**13.1%**

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.

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
Yahoo! Inc.	Information Technology	20.1%	5.4	26.8	54.4%
Electronic Arts Inc.	Information Technology	37.0%	28.0	75.7	8.7%
XL Group PLC	Financials	42.4%	11.8	27.8	42.2%
MetroPCS Communications	Telecom Services	42.6%	9.7	22.8	22.5%
Harman Int'l Industries	Consumer Discretionary	43.3%	8.1	18.8	(3.6%)
People's United Financial	Financials	43.8%	16.6	37.9	6.1%
Lincoln National Corp.	Financials	43.9%	5.4	12.3	24.1%
Western Digital Corp.	Information Technology	45.5%	4.1	9.0	24.0%
Symantec Corp.	Information Technology	47.2%	11.5	24.4	30.8%
SAIC Inc.	Information Technology	48.2%	7.4	15.5	8.5%

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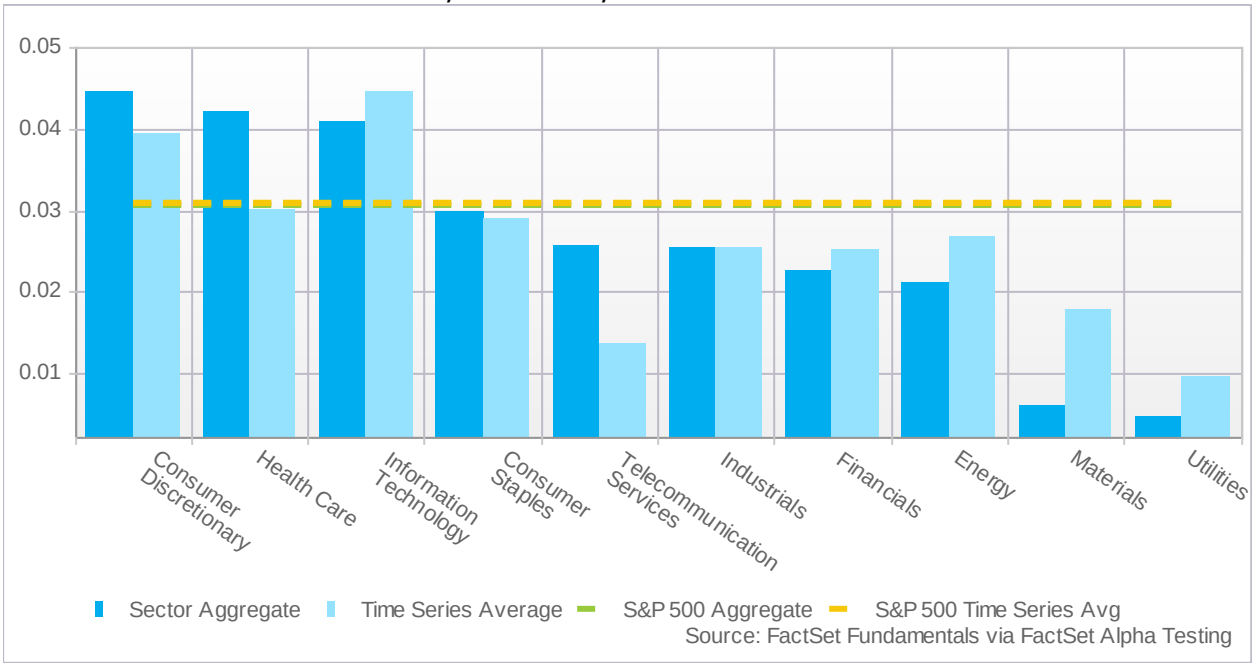
Buyback Yield

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
Seagate Technology Inc.	Information Technology	35.2%	$138	$391	42.1%
Lam Research Corp.	Information Technology	24.3%	$39	$162	(8.6%)
Safeway Inc.	Consumer Staples	23.9%	$58	$242	32.0%
BMC Software Inc.	Information Technology	17.9%	$28	$155	14.6%
Motorola Solutions Inc.	Information Technology	17.5%	$50	$284	27.7%
DIRECTV	Consumer Discretionary	17.1%	$107	$625	15.0%
AIG Inc.	Financials	15.6%	$252	$1,619	24.0%
Dun & Bradstreet Corp.	Industrials	15.5%	$7	$45	0.9%
AmerisourceBergen	Health Care	14.0%	$34	$243	32.4%
AutoNation Inc.	Consumer Discretionary	13.7%	$17	$122	26.6%
S&P 500	**-**	**3.1%**	**$9,490**	**$307,657**	**13.1%**

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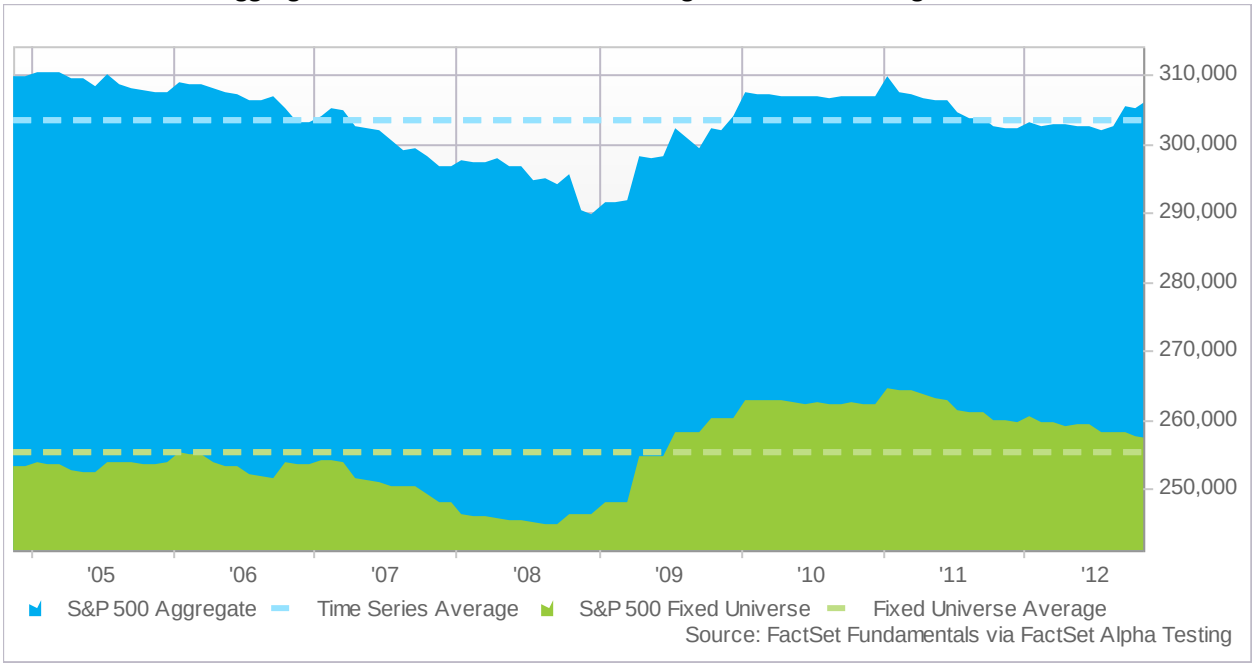
Trends in Common Shares Outstanding

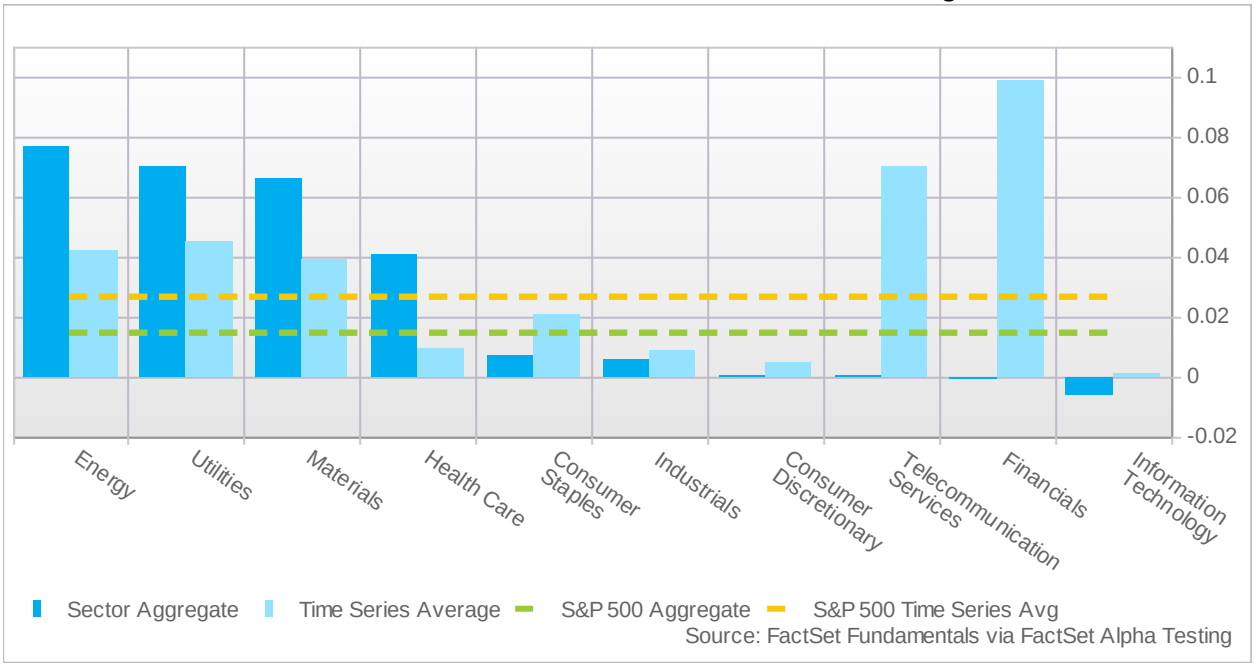
While share repurchases are a large factor in determining the change in share count of a company, they do not capture such activities as exchange of common stock for debentures, conversion of preferred stock, convertible securities, or stock options, or the issuance of stock for acquisitions. Therefore, 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 327.

Aggregate Common Shares Outstanding – Fixed and Rolling Universe



Year-over-Year Growth in Common Shares Outstanding



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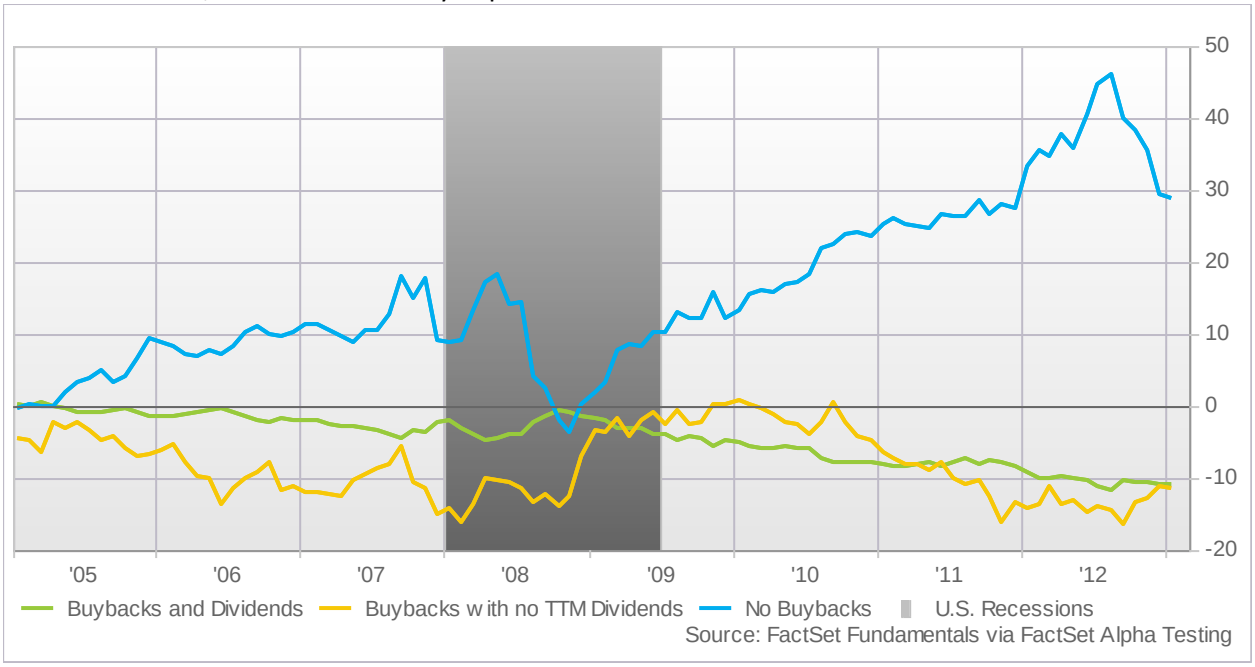
Historical, Forward Performance: Capital Distribution Practices

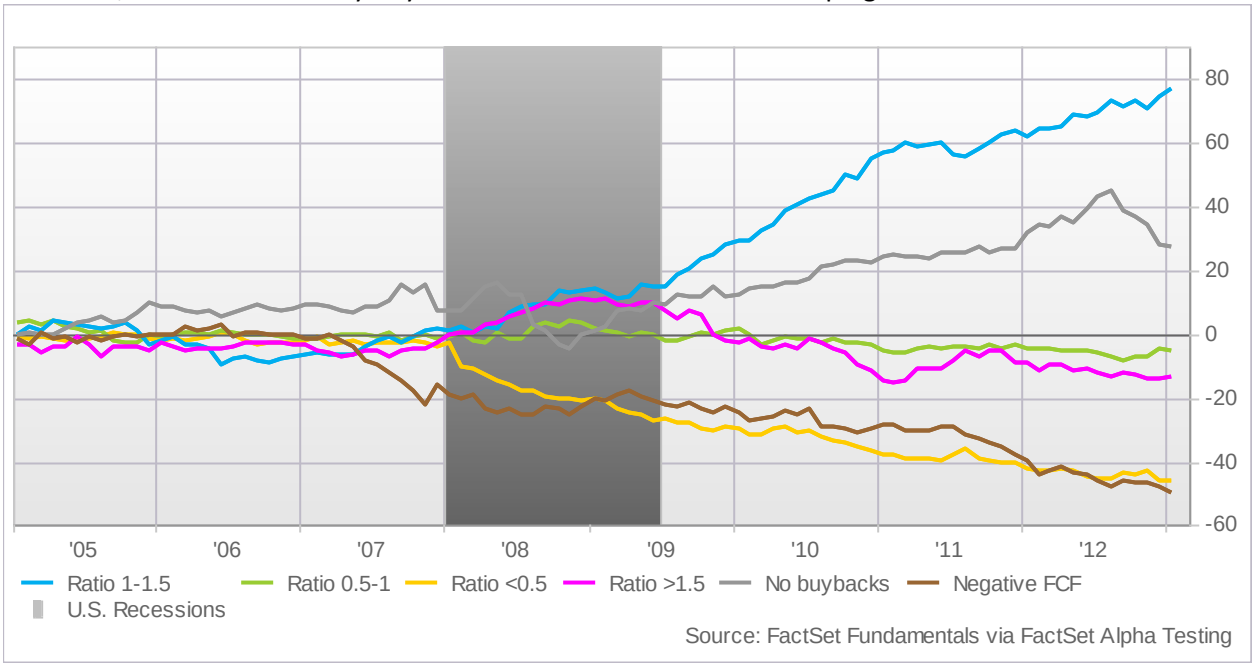
For this back test, S&P 500 companies were broken into groups by their methods of capital distribution.

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 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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