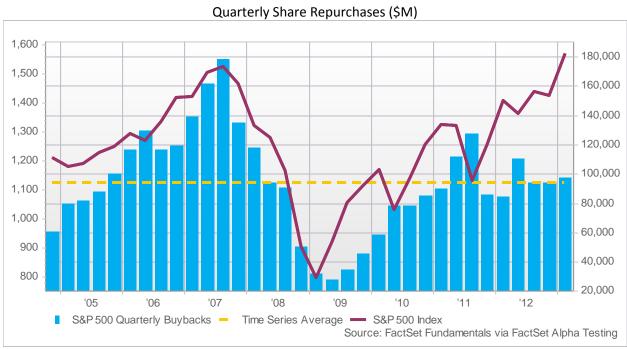




S&P 500 June 19, 2013

Key Metrics:

- + Aggregate Buybacks: Dollar-value share repurchases amounted to \$97.8 billion over the first quarter and \$399.9 billion for the trailing twelve months. The first quarter total is up 4.3% from Q4 2012, and represented year-over-year growth of 17.2%.
- + Sector Trends: The Information Technology and Health Care sectors spent the most on quarterly repurchases (\$17.2 billion and \$16.9 billion, respectively) in Q1 2013. However, of the sectors that have averaged \$2 billion or more in quarterly share repurchases since 2005, the Financials sector showed the largest sequential and year-over-year growth (30.6% and 76.4%) in dollar-value buybacks.
- + **Buyback Conviction:** Dollar-value buybacks amounted to 71.0% of free cash flow and 3.1% of average shares outstanding on a trailing twelve month basis. The Health Care sector led the index by repurchasing shares that amounted to 4.5% of the sector's average shares outstanding over the year.



"Buyback Quarterly" is one part of three reports ("<u>Dividend Quarterly</u>" and "<u>Cash & Investments Quarterly</u>") 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.



Buyback Activity Shows Moderation during Market Run

Aggregate dollar-value share repurchases amounted to \$97.8 billion in Q1 2013. This amount was 4.3% above the value in Q4 2012, and represented an increase of 17.2% year-over-year. However, the \$399.9 billion repurchased over the trailing twelve months represented a 1.1% decline from the prior twelve-month period, as only the Health Care and Telecommunications Services sectors showed year-over-year growth on this basis (10.2% and 620.9%, respectively). The Telecommunications Services sector has been boosted by AT&T's increasing activity over five quarters (the company led the index with \$5.9 billion in buybacks in Q1) though future repurchase decisions are expected to be made opportunistically, according to CEO John Stephens. Overall, the slowdown in share repurchases in the S&P 500 has partially contributed to the highest year-over-year growth in the index's shares outstanding (+1.9%) since Q4 2010. 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 outstanding. Shares in these companies dropped by 1.1% year-over-year, which marks the seventh consecutive quarter of declines for the group (see chart on page 10).

The overall moderation in buyback growth since Q4 2011 is a departure from the activity in the latter half of the previous decade. Counter intuitively, aggregate share buyback activity had tracked the performance of the stock market from 2005 into 2011, indicating that many companies were repurchasing their shares at higher prices and decelerating purchases when their shares were cheap. However, one of the few exceptions was Oracle. The company accelerated its buybacks and was one of the five most active buyers of its own shares in both the calendar fourth quarter of 2008 and the calendar first quarter of 2009. During that time, Oracle's price-to-earnings ratio ("P/E") averaged 15.6, compared to the average ratio of 24.4 over the previous eleven quarters. Oracle subsequently slowed its activity from mid-2009 to mid-2011, but then accelerated repurchases again after its P/E ratio fell below 18 in late 2011. With a current P/E ratio of 16.1, Oracle remains one of the most active buyback companies in the S&P 500. Over the trailing twelve-months, Oracle has repurchased \$10.65 billion, the sixth highest value in the S&P 500.

Quarterly Sector Trends: Information Technology Leads in Activity, Financials Leads in Growth

The Information Technology sector led all groups in dollar-value share repurchases in Q1 2013 (\$17.2 billion). While the Information Technology sector usually leads the index in dollar-value buybacks, the sector's buyback total also grew 20.7% year-over-year. One of the reasons for this growth was accelerated activity from Visa. Visa repurchased \$1.7 billion worth of shares in the calendar first quarter and \$1.4 billion in calendar fourth quarter of 2012, compared to \$0 and \$0.1 billion in the prior year's periods. This contributed to the company's trailing twelve-month buybacks being 135% greater than last year. Interestingly, the activity of Visa and other companies hid the fact that Apple was not active in Q1, despite its shares dropping 16.8% over the quarter. Following a \$1.95 billion accelerated share repurchase in the calendar fourth quarter, Apple still has \$8.05 billion remaining in its original \$10 billion buyback program announced in March of 2012, plus an additional \$50 billion authorized in April.

In terms of both sequential and year-over-year growth in quarterly share buybacks, the Financials sector led the S&P 500 index. However, repurchases in the Financials sector have been volatile over the past two years, primarily due to intermittent participation from JPMorgan Chase & Co. When JPMorgan participates in share buybacks, it is usually one of the most active buyers. The company repurchased \$2.6 billion in Q1 2013, \$1.2 billion in Q2 2012, and \$4.3 billion in Q3 2011. However, JPMorgan did not purchase any shares in Q3 2012 or Q2 2012, and purchased \$200 million in Q1 2012. The company recently announced a \$6 billion buyback authorization following the release of its "stress test" results.

Buyback Conviction: Health Care Leads in Buyback Yield

Relative to shares outstanding, the Health Care sector was the most active buyer of its own shares in Q1. The sector's trailing twelve-month ("TTM") share repurchases amounted to 4.5% of the sector's average



shares outstanding over the period, which marked the first quarter in the previous seven in which the Consumer Discretionary sector did not have the highest "buyback yield." However, the two individual companies with the highest buyback yields came from the Information Technology sector. Lam Research and Seagate Technology repurchased more than 25% of their average shares outstanding over the trailing twelve-months. While the share impact was muted for Lam Research due to a stock acquisition of Novellus Systems, Seagate's shares outstanding fell by 17.3% year-over-year.

Share purchases in terms of cash generation increased in Q1. Over the trailing twelve-month period, buybacks declined 1.1%, but adjusted free cash flow to equity (operating cash flow less fixed capital expenditures and dividends) fell at an even faster clip (-25.9%), as all ten sectors showed year-over-year declines. This led to year-over-year growth of 33.4% in the ratio of buybacks to free cash flow. The S&P 500 ratio ended Q1 2013 at 0.71, which was the second-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, but have managed to generate additional cash through other means, including asset sales, debt issuance, and other investing and financing activities.

Repurchasing Shares at a Relative Discount (Price and P/E): STZ, HRB, CMG, JBL, YHOO, PBCT

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, Constellation Brands and H&R Block topped the list of companies with the "cheapest" buybacks. Both companies purchased shares at an average price that was less than 80% of their respective 52-week average price. However, these two companies rose to the top by drastically slowing or stopping their activity after dramatic increases to their share prices. Chipotle Mexican Grill and Jabil Circuit, on the other hand, both capitalized on dips in their share prices. Jabil Circuit purchased over 85% of its total 2012 buybacks in the months of October and November—which followed a dip in the company's shares—and Chipotle repurchased the majority of its buybacks during a trough in its share price in Q4.

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 examination, the two names appearing at the top of the list in Q1 were Yahoo! and People's United Financial. Both companies repurchased shares at valuations that were less than 50% 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 to \$6 billion since March 31st, including Citigroup, CSX Corp., Caterpillar, Corning, priceline.com, Monsanto, Abbott Laboratories, Celgene Corp., Northrop Grumman, IBM, and EMC Corp. In addition, even larger authorizations were made by Apple, Wal-Mart and Merck. Both Wal-Mart and Merck authorized \$15 billion, but Merck wasted no time in announcing a \$5 billion accelerated repurchase agreement twenty days after its May 1st authorization. Exxon Mobil was also notable for announcing that share buybacks in the second quarter would be reduced to \$4 billion. The company repurchased \$5.6 billion in Q1 and had bought back at least \$5 billion in ten consecutive quarters (with a quarterly average of \$5.4 billion).

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



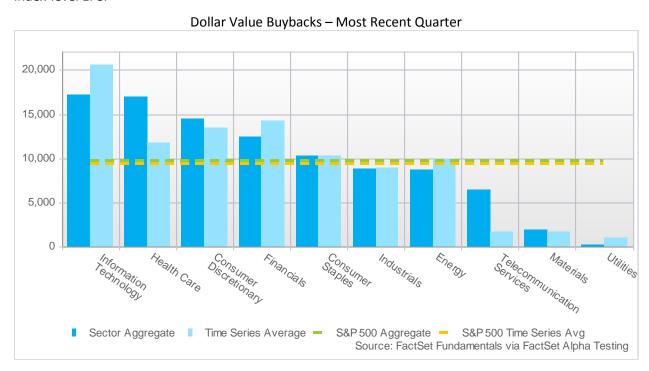
company's diluted share count had a correlation with the relative size of its share repurchases in the subsequent period. S&P 500 constituents with a recent history of significant buybacks and relatively large and increasing diluted share counts include Gilead Sciences and Verisign.



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.



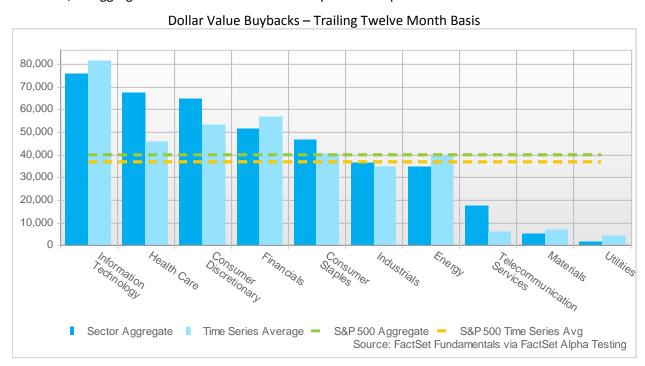
Top 10 Companies by Dollar-Value Buybacks – Most Recent Quarter

		Quarter's	% Change		1 Year
Company		Buybacks	in Shares	Dividend	Total
	Sector	(\$M)	(Qtr)	Outflows	Return
AT&T Inc.	Telecom Services	\$5,935	(2.8%)	\$2,502	6.6%
Exxon Mobil Corp.	Energy	\$5,621	(1.2%)	\$2,561	13.6%
Pfizer Inc.	Health Care	\$4,766	(2.5%)	\$1,735	34.6%
JPMorgan Chase & Co.	Financials	\$2,578	(0.4%)	\$1,242	60.9%
International Business Machines	Information Technology	\$2,493	(0.8%)	\$948	5.1%
Wal-Mart Stores Inc.	Consumer Staples	\$2,246	(0.8%)	\$1,549	13.8%
Oracle Corp.	Information Technology	\$2,080	(0.6%)	\$850	28.1%
Home Depot Inc.	Consumer Discretionary	\$2,035	(1.5%)	\$577	50.5%
General Electric Co.	Industrials	\$1,901	(0.6%)	\$1,983	27.4%
Visa Inc.	Information Technology	\$1,704	(1.7%)	\$217	54.4%
S&P 500	-	\$97,650	(0.1%)	\$76,556	25.2%



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.



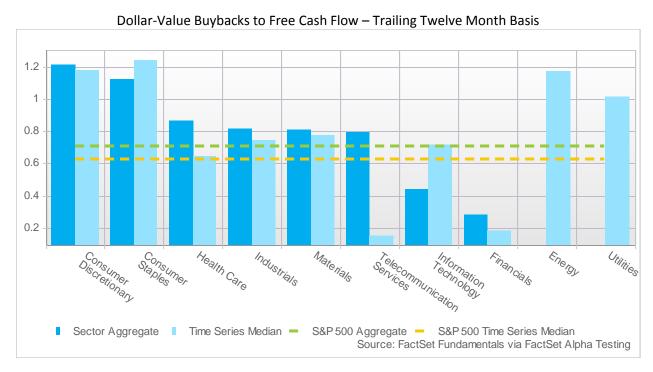
Top 10 Companies by Dollar-Value Buybacks – Trailing Twelve Months

		TTM	% Change		1 Year
Company		Buybacks	in Shares	Dividend	Total
Company	Sector	(\$M)	(TTM)	Outflows	Return
Exxon Mobil Corp.	Energy	\$20,986	(4.9%)	\$10,432	13.6%
AT&T Inc.	Telecom Services	\$16,624	(7.7%)	\$10,137	6.6%
Johnson & Johnson	Health Care	\$12,882	2.1%	\$6,755	34.7%
International Business Machines	Information Technology	\$11,499	(3.9%)	\$3,851	5.1%
Pfizer Inc.	Health Care	\$11,375	(5.3%)	\$6,619	34.6%
Oracle Corp.	Information Technology	\$10,650	(5.2%)	\$1,729	28.1%
American International Group	Financials	\$10,000	(17.7%)	\$0	43.3%
Wal-Mart Stores Inc.	Consumer Staples	\$8,258	(3.2%)	\$5,558	13.8%
General Electric Co.	Industrials	\$7,095	(2.3%)	\$7,373	27.4%
Philip Morris International Inc.	Consumer Staples	\$6,533	(4.2%)	\$5,480	9.2%
S&P 500	-	\$398,819	(1.0%)	\$320,501	25.2%

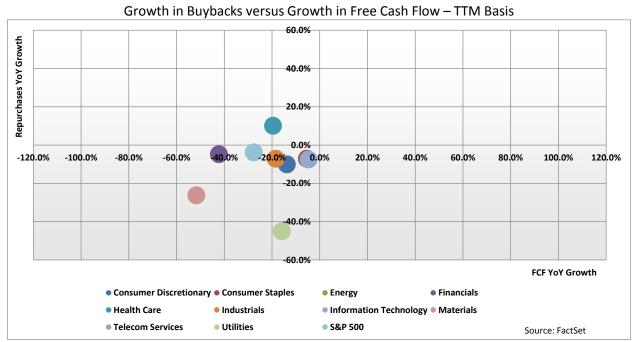


Buybacks to Adjusted Free Cash Flow: Trailing Twelve Months

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.



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).



^{*}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.



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

		Average Buyback	Average Stock	Buyback Price /	1 Year Total
Company	Sector	Price	Price	Avg Price	Return
Constellation Brands Inc. Cl A	Consumer Staples	\$21.28	\$29.69	71.7%	167.4%
H&R Block Inc.	Consumer Discretionary	\$14.83	\$19.42	76.4%	95.6%
Discovery Communications Inc.	Consumer Discretionary	\$49.52	\$59.12	83.8%	52.1%
Equifax Inc.	Industrials	\$42.53	\$49.88	85.3%	31.9%
Helmerich & Payne Inc.	Energy	\$45.09	\$51.85	87.0%	44.5%
Cognizant Technology Solutions	Information Technology	\$59.82	\$68.47	87.4%	6.9%
AutoNation Inc.	Consumer Discretionary	\$35.40	\$40.48	87.5%	20.5%
Chipotle Mexican Grill	Consumer Discretionary	\$290.44	\$330.93	87.8%	(10.1%)
Jabil Circuit Inc.	Information Technology	\$18.08	\$20.56	87.9%	6.5%
GameStop Corp.	Consumer Discretionary	\$20.18	\$22.91	88.1%	120.2%
S&P 500	-	\$58.60	\$57.27	99.1%	25.2%

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.

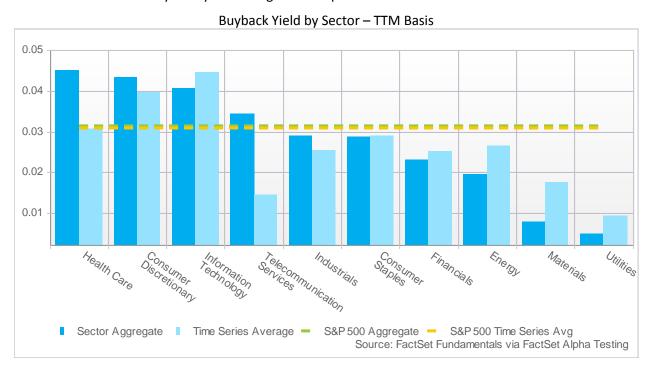
Top 10 Stocks by "Share Repurchase P/E" Discount Relative to 7-Year Median P/E

		Buyback PE		Median	1 Year
Company		/ 7Yr Med.	"Buyback	7Yr PE	Total
	Sector	PE	PE" ratio	ratio	Return
Yahoo! Inc.	Information Technology	21.5%	5.4	25.0	72.1%
Harris Corp.	Information Technology	48.4%	5.6	11.5	24.0%
People's United Financial	Financials	48.6%	17.6	36.2	28.7%
Abbott Laboratories	Health Care	50.9%	8.6	16.9	27.9%
Wynn Resorts Ltd.	Consumer Discretionary	51.8%	19.8	38.3	51.9%
SAIC Inc.	Information Technology	53.8%	8.6	16.0	28.7%
DIRECTV	Consumer Discretionary	54.2%	10.2	18.8	40.3%
Crown Castle International	Telecom Services	55.0%	60.1	109.2	21.3%
Electronic Arts Inc.	Information Technology	57.7%	42.5	73.7	85.3%
Jabil Circuit Inc.	Information Technology	58.8%	10.7	18.1	6.5%



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.



Top 10 Companies by Buyback Yield

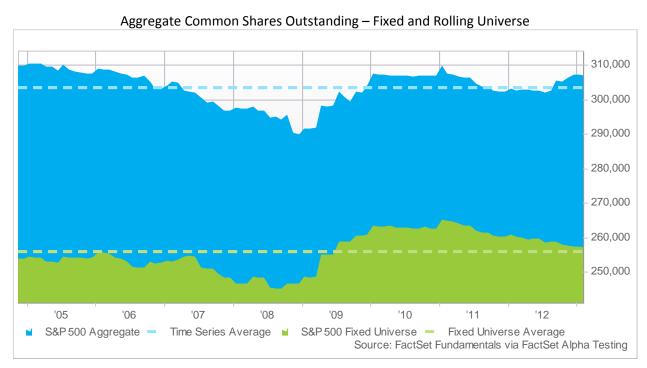
			Shs		1 Year
Company		Buyback	Repurch -	Avg Shs	Total
	Sector	Yield	TTM	Out - TTM	Return
Lam Research Corp.	Information Technology	26.3%	\$44	169	26.9%
Seagate Technology Inc.	Information Technology	25.7%	\$98	379	97.1%
Dun & Bradstreet Corp.	Industrials	19.4%	\$8	43	49.1%
DIRECTV	Consumer Discretionary	17.3%	\$105	608	40.3%
American International Group	Financials	16.1%	\$252	1,566	43.3%
BMC Software Inc.	Information Technology	15.6%	\$24	152	2.7%
O'Reilly Automotive Inc.	Consumer Discretionary	14.5%	\$17	117	11.4%
Mylan Inc.	Health Care	14.4%	\$58	401	51.3%
Tenet Healthcare Corp.	Health Care	14.4%	\$15	104	137.2%
Flowserve Corp.	Industrials	14.3%	\$7	50	54.6%
S&P 500	-	3.1%	\$9,657	308,109	25.2%

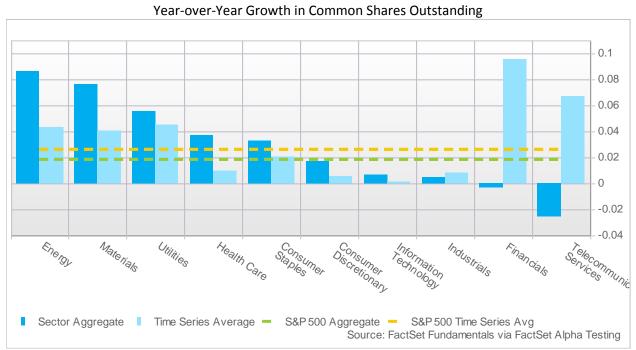


Trends in Common Shares Outstanding

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 326.

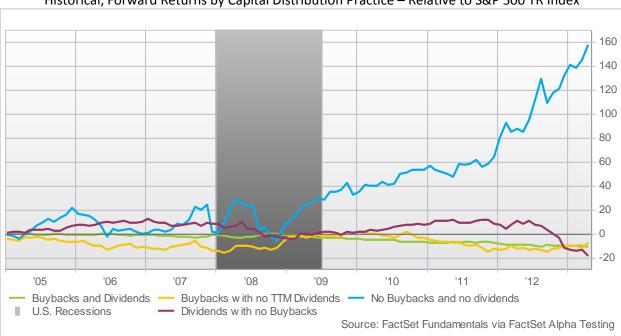






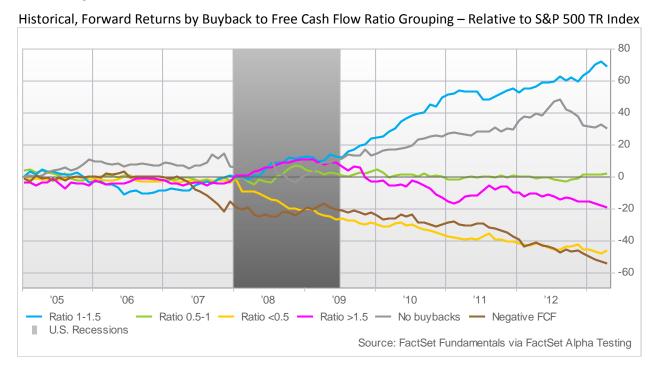
Historical, Forward Performance: Capital Distribution Practices

For this back test, S&P 500 companies were broken into groups by their methods of capital distribution. The relatively small number of stocks that have not made repurchases or paid trailing twelve-month dividends include the high-flying names of Netflix, salesforce.com, Google, TripAdvisor, DaVita HealthCare Partners, Express Scripts Holdings, and Apple (prior to October 2012).



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.





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