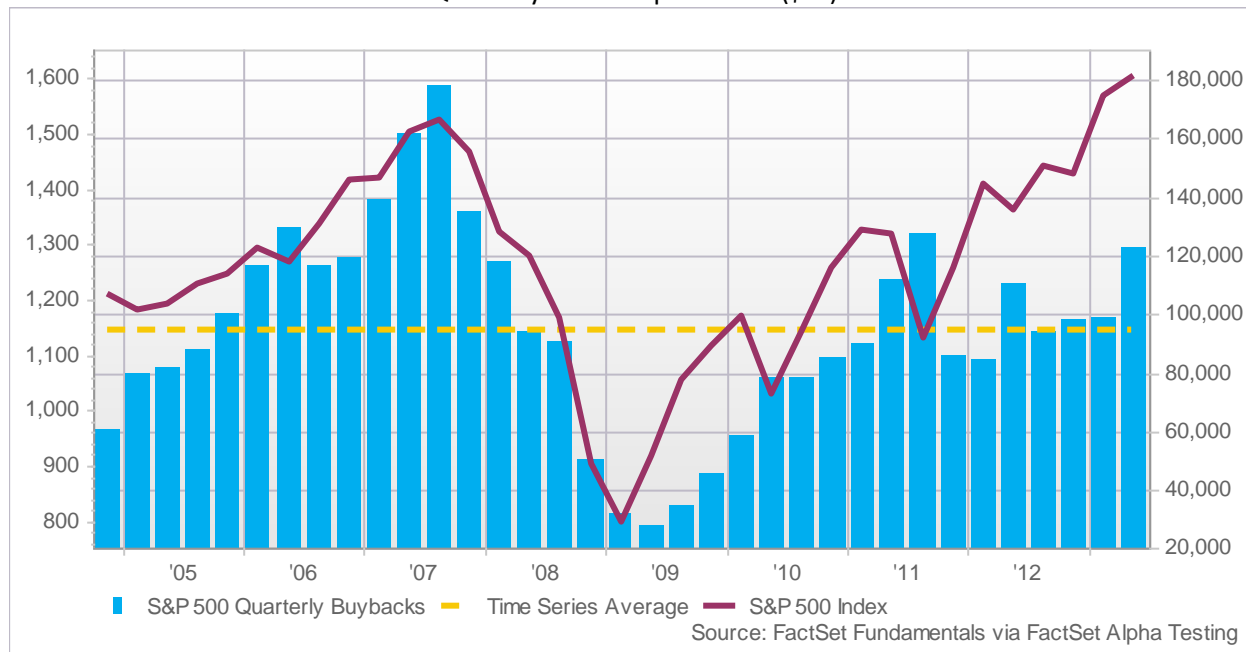


### Key Metrics:

- + **Coordinated Distribution Strategies:** The number of companies engaging in both a dividend and a buyback over the trailing twelve-month period has reached its highest level since at least 2005 (353, or 71% of the S&P 500 index). However, the count of companies that have repurchased shares without paying a dividend over a twelve month period have declined to the lowest level since 2005.
- + **Aggregate Buybacks:** Dollar-value share repurchases amounted to \$122.8 billion over the second quarter (which is the highest amount since Q3 2011) and \$415.0 billion for the trailing twelve months. The second quarter total is up 24.2% from Q1 2013, and represented year-over-year growth of 12.3%. However, year-over-year growth would have been negligible without Apple's contribution to the total value.
- + **Sector Trends:** The Information Technology and Health Care sectors spent the most on quarterly repurchases (\$37.5 billion and \$17.4 billion, respectively) in Q2 2013. However, of the sectors that have averaged \$2 billion or more in quarterly share repurchases since 2005, the Industrials sector showed the largest year-over-year growth (83.4%) in dollar-value buybacks.
- + **Buyback Conviction:** Dollar-value buybacks amounted to 63.3% of free cash flow and 3.0% of average shares outstanding on a trailing twelve month basis. The Telecommunications Services and Health Care sectors led the index by repurchasing shares that amounted to 4.7% and 4.2%, respectively, 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](mailto:media_request@factset.com) or 1-877-FACTSET for more information.

## Apple Executes Historic Share Buyback

Aggregate share buybacks in the S&P 500 grew 12.3% to \$122.8 billion in Q2, which is the highest quarterly amount since Q3 2011. However, growth would have been negligible had Apple not contributed 13% to the total value. In repurchasing \$16 billion worth of shares, the company completed the largest quarterly share repurchase activity since at least 2000. The buyback included \$4 billion in open share transactions and a \$12 billion accelerated share repurchase (“ASR”) program executed in April. As a result, Apple’s share count declined by 3.4% quarter-over-quarter. Prior to Q2, only three companies repurchased more than \$10 billion in common shares outstanding in a quarter since 2000: IBM repurchased \$14.6 billion in Q2 2007, Johnson & Johnson bought \$12.9 billion in Q2 2012, and Home Depot retired \$10.7 billion worth of shares in Q3 2007.

Apple’s increased activity also preceded rival Microsoft’s September 17<sup>th</sup> announcement of a \$40 billion share repurchase authorization with no expiration date. While the size of the program is substantial, this news is consistent with Microsoft’s recent buyback authorization practices. The company authorized a \$40 billion program in 2008 (which would have expired on September 30<sup>th</sup> of this year) that replaced a prior \$40 billion program. However, the authorization is interesting in light of Apple’s increased activity. While Microsoft has averaged just over \$1 billion in share repurchases per quarter over two years, it has a history of being more aggressive. The company previously averaged nearly \$4 billion in quarterly repurchases in the six years prior to the most recent two. Microsoft also announced a 22% increase to its dividend in the same press release.

### Industrials Rev up Share Buyback Activity on Higher Financial Strength, Confidence

The Industrials sector led all of the major buyback sectors (excluding the Materials, Telecommunication Services, and Utilities sectors, which have all averaged less than \$2 billion in quarterly buybacks since 2005) in terms of year-over-year growth (+83.4%) in share repurchases in Q2. Growth in the Industrials sector edged that of the Information Technology sector (+77.1%), which was largely aided by Apple’s historic buyback. However, the significant growth in these two groups contrasts with the rest of the index. Four of the five other major buyback sectors showed year-over-year declines in share repurchase activity. The Consumer Staples sector was the other sector to show year-over-year growth in Q2 (6.8%)

Within the Industrials sector, General Electric, The Boeing Company, Caterpillar and 3M Companies have all accelerated share repurchases in recent quarters. The sum of these four companies’ buybacks in the most recent quarter (\$7.3 billion) amounted to 377.4% more than their repurchases in the year prior. Caterpillar and Boeing each spent \$1 billion in buybacks in Q2 after averaging \$11 million and \$16 million, respectively, in the previous four quarters. 3M and General Electric, on the other hand, merely doubled their average output from the previous four quarters. GE spent \$4.1 billion in Q2, while 3M spent \$1.2 billion. In addition, General Dynamics Corporation spent \$513 million on share repurchases in Q2 after spending just \$97 million in the three previous periods combined. General Dynamics CEO Jay Johnson had previously expressed apprehension towards share buybacks on the Q3 2012 earnings call due to the threat of sequestration.

Growth in cash inflows supported the rise of capital distribution in the Industrials sector. The sector was one of only two to grow trailing twelve-month free cash flow (operating cash flow less dividends) year-over-year (the Telecommunications Services sector grew free cash flow at a faster pace—24.5% vs. 4.4% for Industrials), and several companies in the Industrials sector cited improved financial health when discussing repurchase activity. In particular, Caterpillar CEO Douglas Oberhelman noted the company’s priority of a “rock solid, impenetrable” balance sheet and the fact that the buyback is an indication of the company’s confidence in the longer term: “...because I know we have a lot of questions about mining and where is all that going and I still firmly believe long-term...we’ll view our moves into mining and what we’ve done the last few years as really changing the company for the better.” This optimism stood in contrast to comments made on the Q2 2012 earnings call when Mr. Oberhelman dismissed the

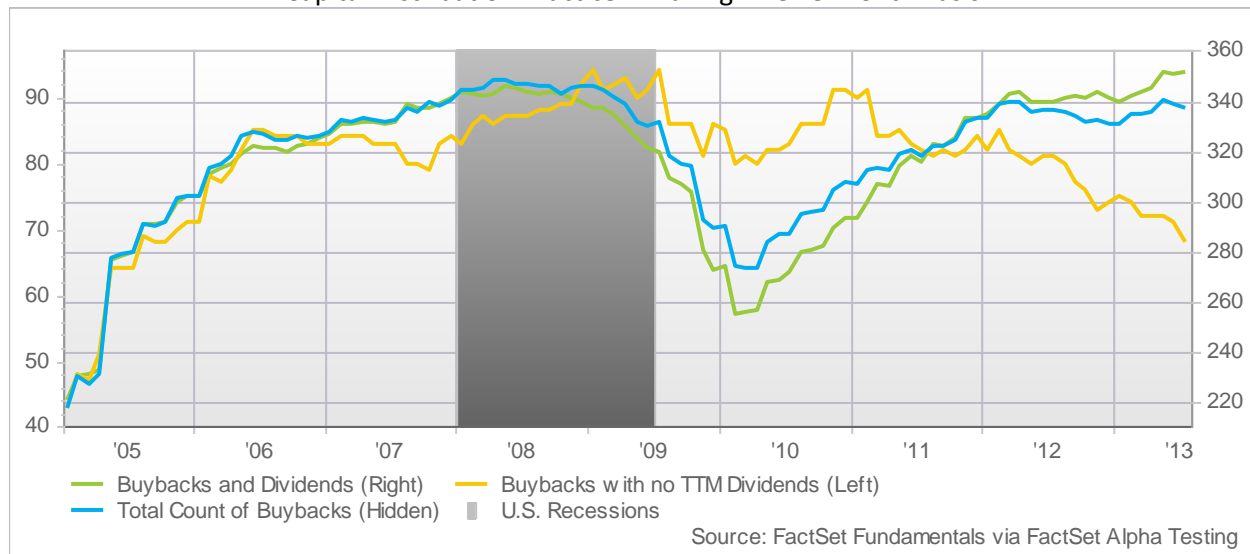
possibility of a repurchase: "...Share repurchase is not on our radar screen today. It's the last of our priorities...I hope in my career, which has a few years to go, I can buy one share back, but right now we have got other priorities..." During the Q2 2013 earnings call, the company projected another \$1 billion in share repurchases for the third quarter. Caterpillar now has only \$1.7 billion remaining under current authorization.

Another industrials company that has indicated intent to maintain aggressive buyback activity is GE. On the February 13<sup>th</sup> NBCUniversal divestment call, CEO Jeffrey Immelt announced an increase to its buyback program from \$25 billion to \$35 billion through 2015 and projected \$10 billion in buybacks for 2013. The company is slightly ahead of pace at \$6.0 billion through the first two quarters, and buybacks over the trailing four quarters have outpaced dividend payments for the first time since Q2 2008. Mr. Immelt later stated at the May 22<sup>nd</sup> Electrical Products Group Spring Conference that he expected the company's share count to be reduced to 9 or 9.5 million shares by the end of 2015. Relative to the most recent share count of 10.2 million, this would represent a further share reduction of 6.7% to 11.6%.

### More Companies Engage in Coordinated Distribution Practices

Large, individual buyback programs tend to dominate trends within the S&P 500 index, but there's also been a widespread trend towards companies taking a more balanced approach to shareholder distributions. The number of companies engaging in both a dividend and a buyback over the trailing twelve-month period has reached its highest level since at least 2005 (353, or 71% of the S&P 500 index). Meanwhile, the count of companies that have repurchased shares without paying a dividend over a twelve month period have declined to the lowest level since 2005. In addition, the number of companies engaging in only one form of shareholder distribution (dividends or share repurchases) over a trailing twelve-month period has fallen over 25% since Q4 2010. Companies that previously only repurchased shares included Citigroup, St. Jude Medical and Intuit, while companies that previously only paid dividends included Wynn Resorts, Honeywell International, Fifth Third Bancorp, NYSE Euronext, AT&T, Carnival Corporation, Southwest Airlines, Whole Foods Market, Murphy Oil, and MasterCard.

Capital Distribution Practice – Trailing Twelve-Month Basis



### 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 Q2. The sector's trailing twelve-month ("TTM") share repurchases amounted to 4.7% of average shares outstanding over the period. This elevated "buyback yield" was primarily due to AT&T, which repurchased 8.8% 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, Lam Research Corporation and Tenet Healthcare all repurchased more than 16% of their average shares over the year (see page 9).

Overall, TTM shares repurchased represented 3.0% of average shares outstanding in the S&P 500. This represents the smallest buyback yield since Q1 2011, and partially contributed to a year-over-year growth in the index's shares outstanding (+1.4%). However, 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 eighth consecutive quarter (-1.4% year-over-year in Q2) after companies stopped raising large amounts of equity capital following the financial crisis. The current share count for this group is 3.4% below the recent peak in Q1 2011, but shares still need to fall an additional 4.2% to reach the lowest levels since 2005 (see chart on page 10).

#### **Buybacks Relative to Free Cash Flow Grow**

Share purchases in terms of cash generation increased in Q2. Over the trailing twelve-month period, buybacks grew 2.4%, and adjusted free cash flow to equity (operating cash flow less fixed capital expenditures and dividends) declined 10.3%. This led to 14.1% year-over-year growth in the buyback to free cash flow ratio to 0.63, which marks the third highest ratio since the financial crisis.

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.

#### **Repurchasing Shares at a Relative Discount (Price and P/E): DISCA, NYX, YHOO, GM**

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, Discovery Communications (Class A) and NYXE Euronext topped the list of companies with the "cheapest" buybacks. Both companies purchased shares at an average price that was approximately 80% of their respective 52-week average price. These two companies and most of the other companies on the top ten list (page 8) rose to the top by drastically slowing or stopping their activity after increases to their share prices.

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, the two names appearing at the top of the list in Q2 were Yahoo! and General Motors. Both Yahoo! and GM repurchased shares at valuations that were less than 50% of the companies' seven-year median P/E ratio. GM has been making modest share repurchases following its \$5.5 billion buyback in Q4 2012 of shares held by the U.S. Treasury.

#### **Looking Forward: Program Announcements**

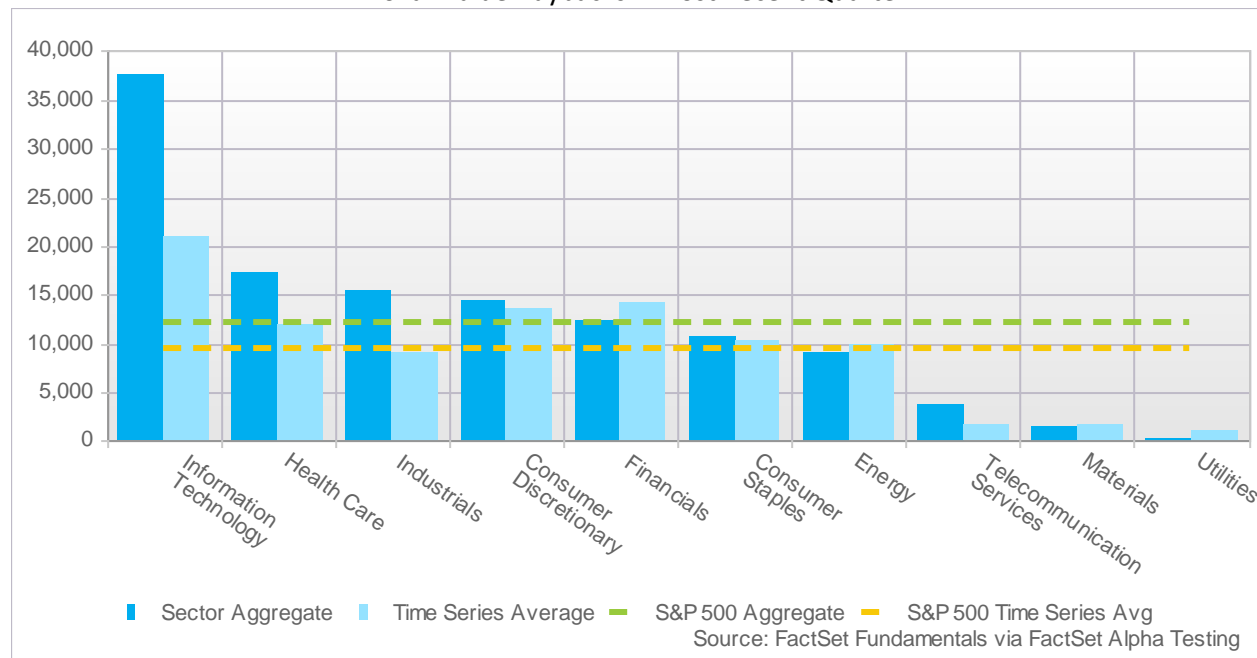
Going forward, several companies in the S&P 500 have authorized new programs or additions over \$1 billion since June 30<sup>th</sup>. These specific company announcements were tracked using a StreetAccount news alert and included Pfizer, Halliburton Company, Visa, Time Warner Cable, CBS Corporation, Intuitive Surgical, SanDisk Corporation, Illinois Tool Works, Mondelez International, International Paper, QUALCOMM, Dollar Tree and Microsoft's aforementioned announcement. Disney was also noteworthy for announcing that its annual spending on share repurchases would increase from \$4 billion in recent years to within the range \$6 to \$8 billion in fiscal 2014.

## 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



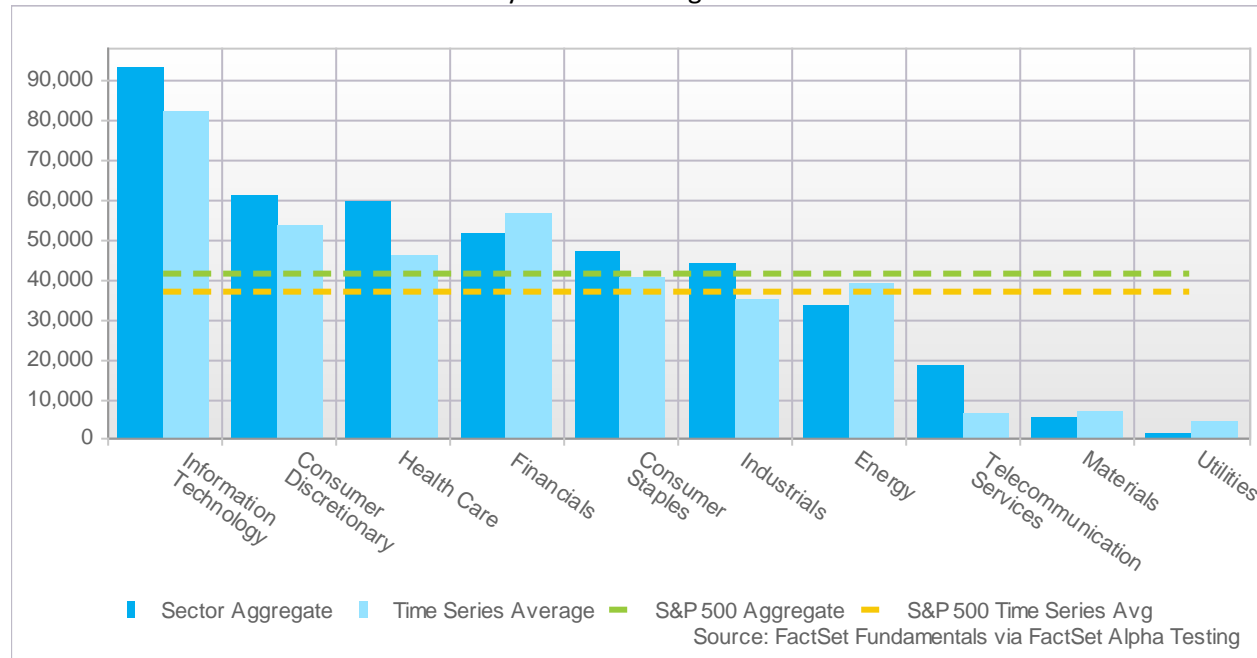
Top 10 Companies by Dollar-Value Buybacks – Most Recent Quarter

Company	Sector	Quarter's Buybacks (\$M)	% Change in Shares (Qtr)	Dividend Outflows	1 Year Total Return
Apple Inc.	Information Technology	\$16,000	(3.4%)	\$2,811	(31.5%)
Merck & Co., Inc.	Health Care	\$5,025	(3.0%)	\$1,332	11.0%
General Electric Company	Industrials	\$4,068	(1.5%)	\$1,972	10.6%
Exxon Mobil Corporation	Energy	\$4,030	(1.0%)	\$2,794	(0.5%)
IBM Corporation	Information Technology	\$3,501	(1.2%)	\$1,048	(6.1%)
AT&T Inc.	Telecom Services	\$3,307	(1.6%)	\$2,428	(5.0%)
Pfizer Inc.	Health Care	\$3,277	(6.7%)	\$1,701	22.8%
Oracle Corporation	Information Technology	\$2,827	(1.5%)	\$0	6.8%
The Home Depot, Inc.	Consumer Discretionary	\$2,126	(1.8%)	\$566	32.6%
Wal-Mart Stores, Inc.	Consumer Staples	\$1,850	(0.6%)	\$1,543	3.9%
<b>S&amp;P 500</b>	-	<b>\$122,752</b>	<b>(0.4%)</b>	<b>\$82,728</b>	<b>19.2%</b>

## 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



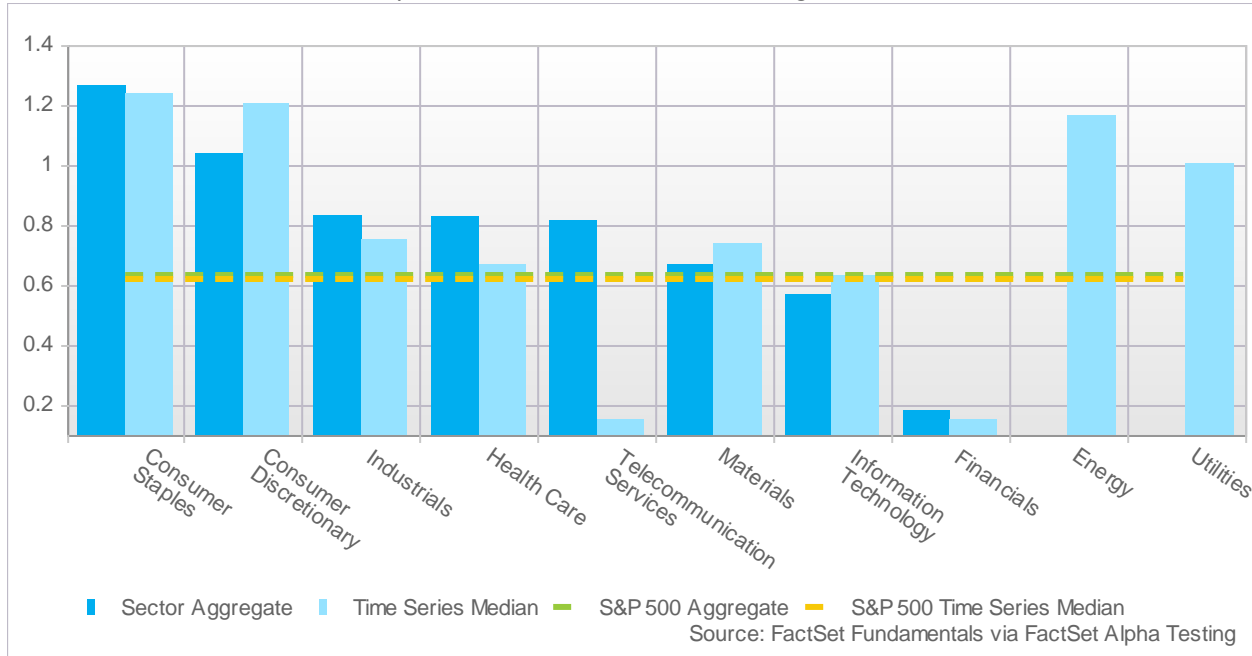
Top 10 Companies by Dollar-Value Buybacks – Trailing Twelve Months

Company	Sector	TTM Buybacks (\$M)	% Change in Shares (TTM)	Dividend Outflows	1 Year Total Return
Exxon Mobil Corporation	Energy	\$20,004	(4.6%)	\$10,569	(0.5%)
Apple Inc.	Information Technology	\$17,950	(3.1%)	\$10,283	(31.5%)
AT&T Inc.	Telecom Services	\$17,373	(8.1%)	\$9,984	(5.0%)
Pfizer Inc.	Health Care	\$13,306	(11.4%)	\$6,687	22.8%
IBM Corporation	Information Technology	\$11,996	(4.1%)	\$3,921	(6.1%)
Oracle Corporation	Information Technology	\$10,993	(5.3%)	\$1,433	6.8%
General Electric Company	Industrials	\$10,270	(3.6%)	\$7,543	10.6%
Wal-Mart Stores, Inc.	Consumer Staples	\$8,267	(3.1%)	\$5,755	3.9%
AIG Inc.	Financials	\$8,000	(14.6%)	\$0	48.0%
Philip Morris International	Consumer Staples	\$6,543	(4.1%)	\$5,556	2.1%
<b>S&amp;P 500</b>	-	<b>\$415,082</b>	<b>1.4%</b>	<b>\$329,228</b>	<b>19.2%</b>

## Buybacks to Adjusted Free Cash Flow: Trailing Twelve Months

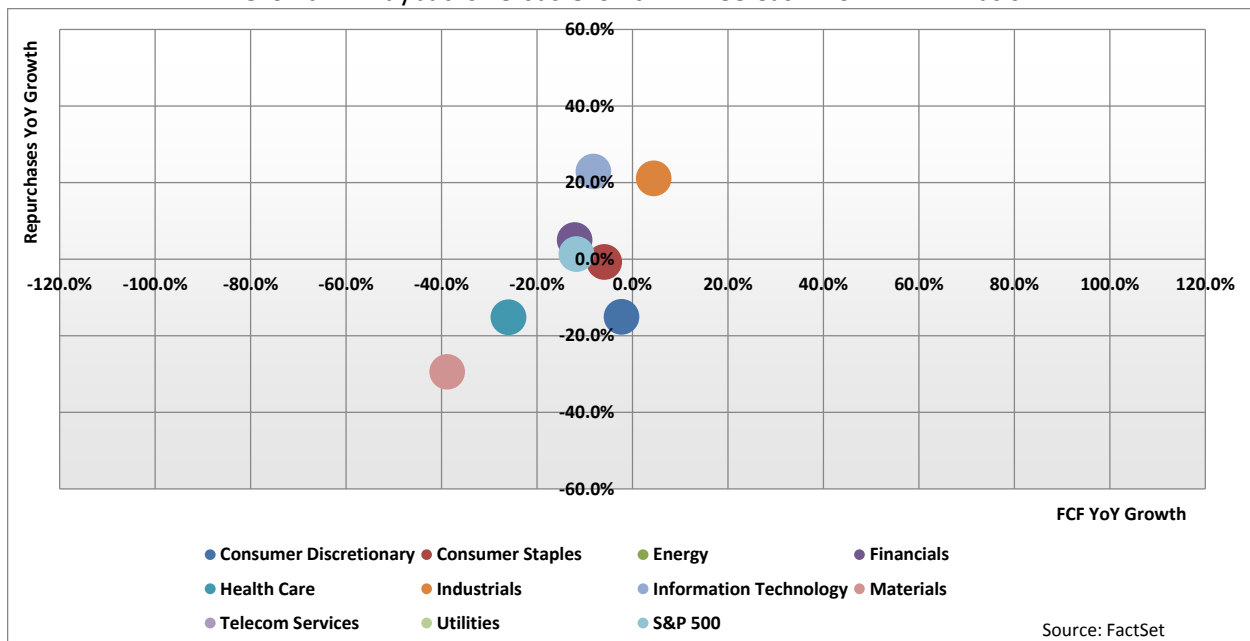
Adjusted free cash flow to equity is defined as cash from operating activities minus capital expenditures from fixed assets and cash dividends paid. Periods where aggregate free cash flow is negative have been removed from the charts below.

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.

## 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
Discovery Communications (A)	Consumer Discretionary	\$53.14	\$65.89	80.7%	37.3%
NYSE Euronext	Financials	\$25.34	\$31.41	80.7%	68.4%
Gilead Sciences, Inc.	Health Care	\$32.08	\$39.55	81.1%	89.7%
Electronic Arts Inc.	Information Technology	\$12.92	\$15.87	81.4%	96.9%
Biogen Idec Inc.	Health Care	\$142.17	\$167.62	84.8%	59.0%
AIG, Inc.	Financials	\$31.72	\$36.87	86.0%	48.0%
Life Technologies Corporation	Health Care	\$49.20	\$57.01	86.3%	52.4%
Thermo Fisher Scientific Inc.	Health Care	\$59.44	\$68.45	86.8%	57.7%
Starwood Hotels & Resorts	Consumer Discretionary	\$51.82	\$58.79	88.1%	18.4%
Ventas, Inc.	Financials	\$60.06	\$68.02	88.3%	4.1%
<b>S&amp;P 500</b>	-	<b>\$63.04</b>	<b>\$59.28</b>	<b>99.5%</b>	<b>19.2%</b>

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\*

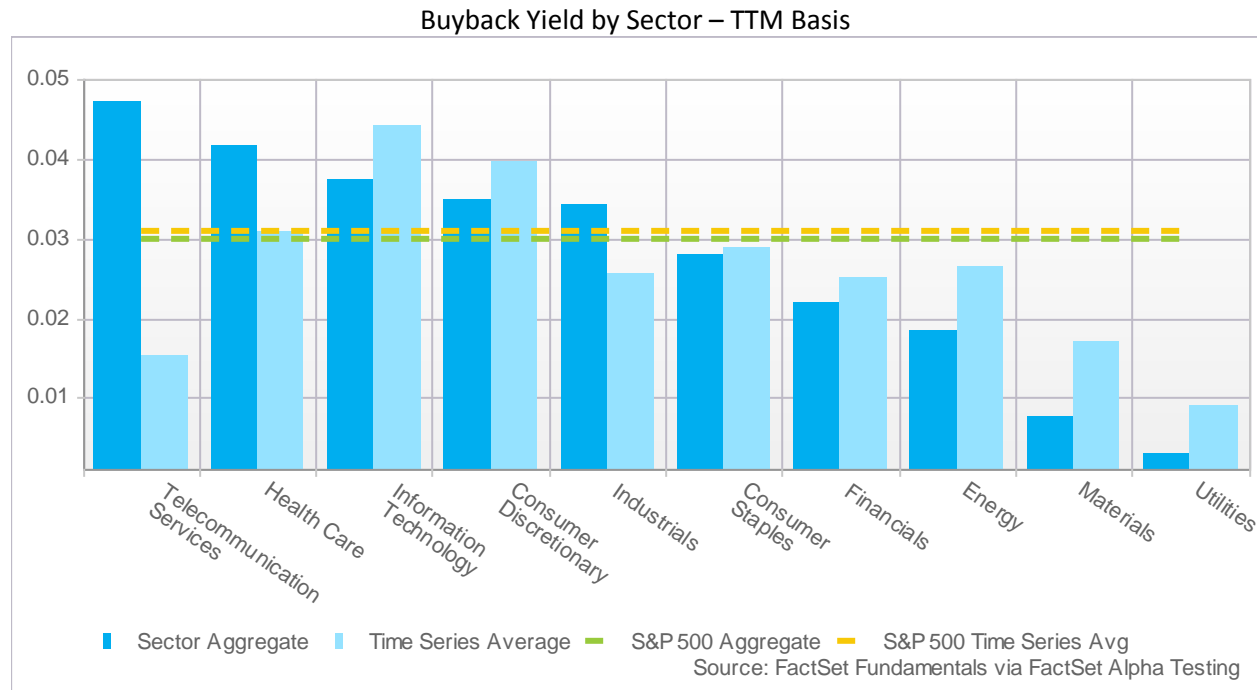
Company	Sector	Buyback PE / 7Yr Med. PE	"Buyback PE" ratio	Median 7Yr PE ratio	1 Year Total Return
Yahoo! Inc.	Information Technology	31.6%	6.7	21.1	95.9%
General Motors Company	Consumer Discretionary	34.6%	2.0	5.7	50.8%
People's United Financial, Inc.	Financials	51.2%	18.0	35.2	24.3%
C.H. Robinson Worldwide, Inc.	Industrials	57.6%	15.3	26.6	10.5%
DIRECTV	Consumer Discretionary	61.5%	11.5	18.7	21.1%
Cognizant Technology Solutions	Information Technology	62.8%	16.1	25.6	20.6%
CF Industries Holdings	Materials	68.4%	6.3	9.1	(4.6%)
Deere & Company	Industrials	69.7%	9.9	14.3	4.2%
Abbott Laboratories	Health Care	70.4%	11.6	16.5	7.6%
SLM Corporation	Financials	70.4%	7.6	10.8	56.6%

\*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.



## 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

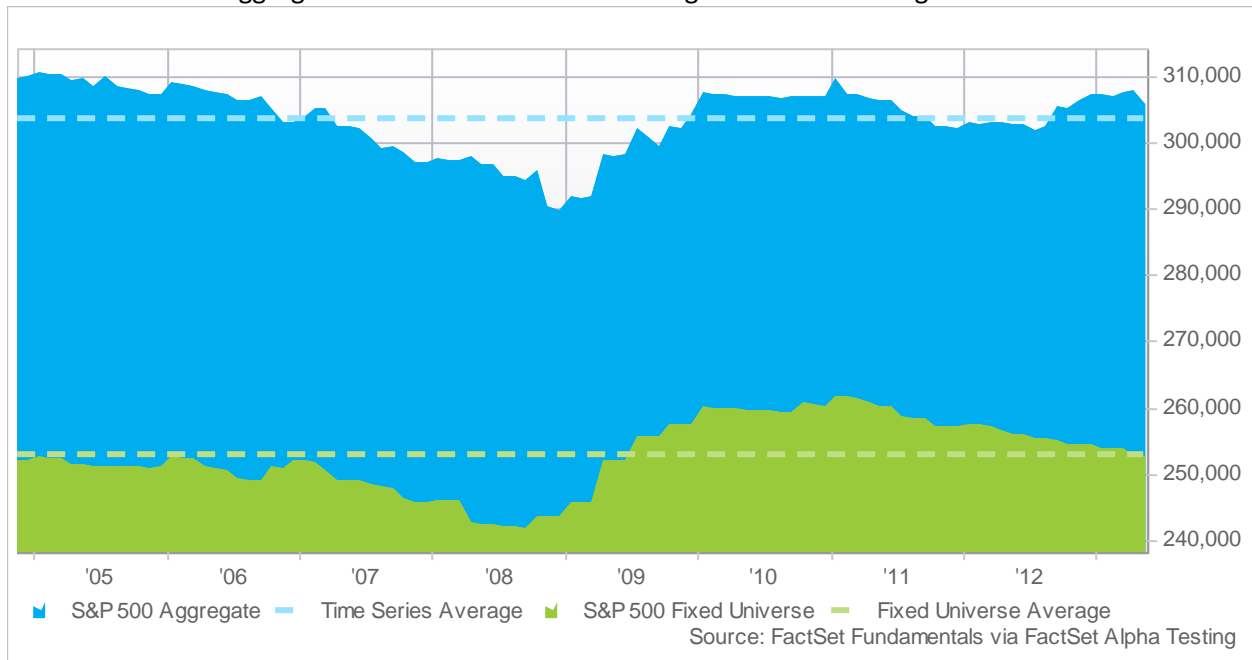
Company	Sector	Buyback Yield	Shs Repurch - TTM	Avg Shs Out - TTM	1 Year Total Return
The Dun & Bradstreet Corp	Industrials	16.9%	7	42	26.5%
Lam Research Corporation	Information Technology	16.7%	28	168	51.0%
Tenet Healthcare Corporation	Health Care	16.3%	17	104	69.2%
Seagate Technology PLC	Information Technology	14.9%	55	366	44.0%
DIRECTV	Consumer Discretionary	14.9%	87	585	21.1%
O'Reilly Automotive, Inc.	Consumer Discretionary	13.2%	15	113	49.5%
Ameriprise Financial, Inc.	Financials	12.0%	25	204	64.9%
St. Jude Medical, Inc.	Health Care	11.6%	35	297	28.3%
Coca-Cola Enterprises, Inc.	Consumer Staples	11.2%	31	280	32.8%
Yahoo! Inc.	Information Technology	11.1%	123	1,113	95.9%
<b>S&amp;P 500</b>	-	<b>3.0%</b>	<b>9,152</b>	<b>307,290</b>	<b>19.2%</b>

## 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 322.

Aggregate Common Shares Outstanding – Fixed and Rolling Universe



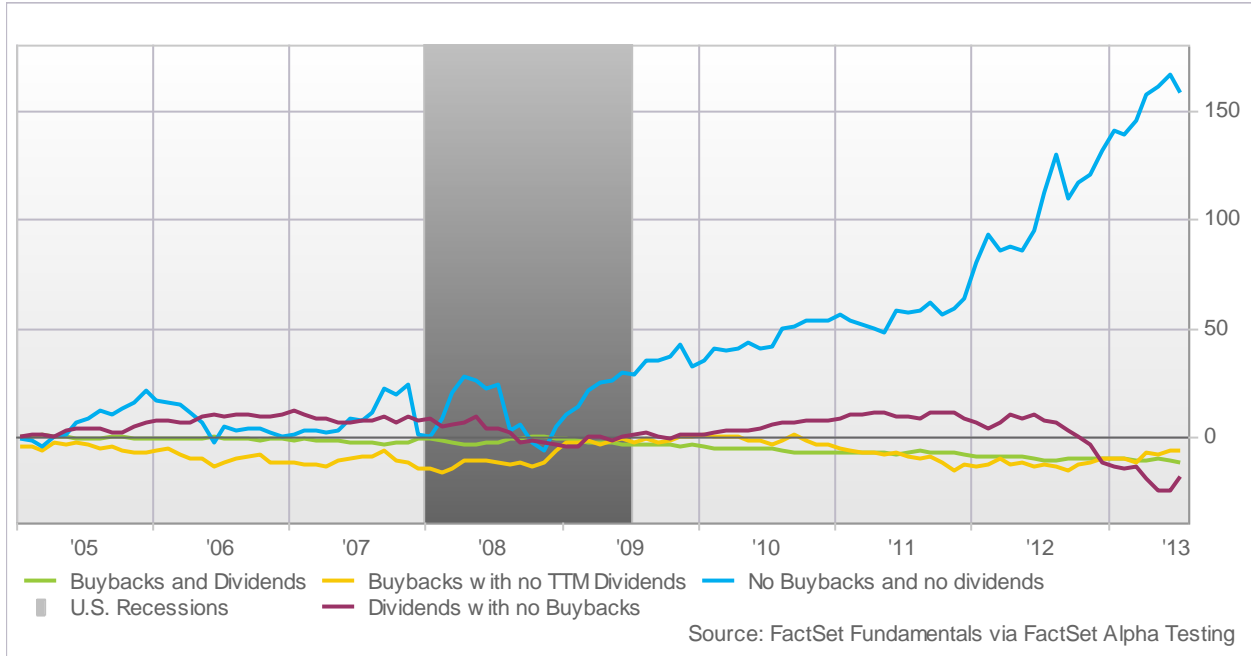
Year-over-Year Growth in Common Shares Outstanding



## Historical, Forward Performance: Capital Distribution Practices

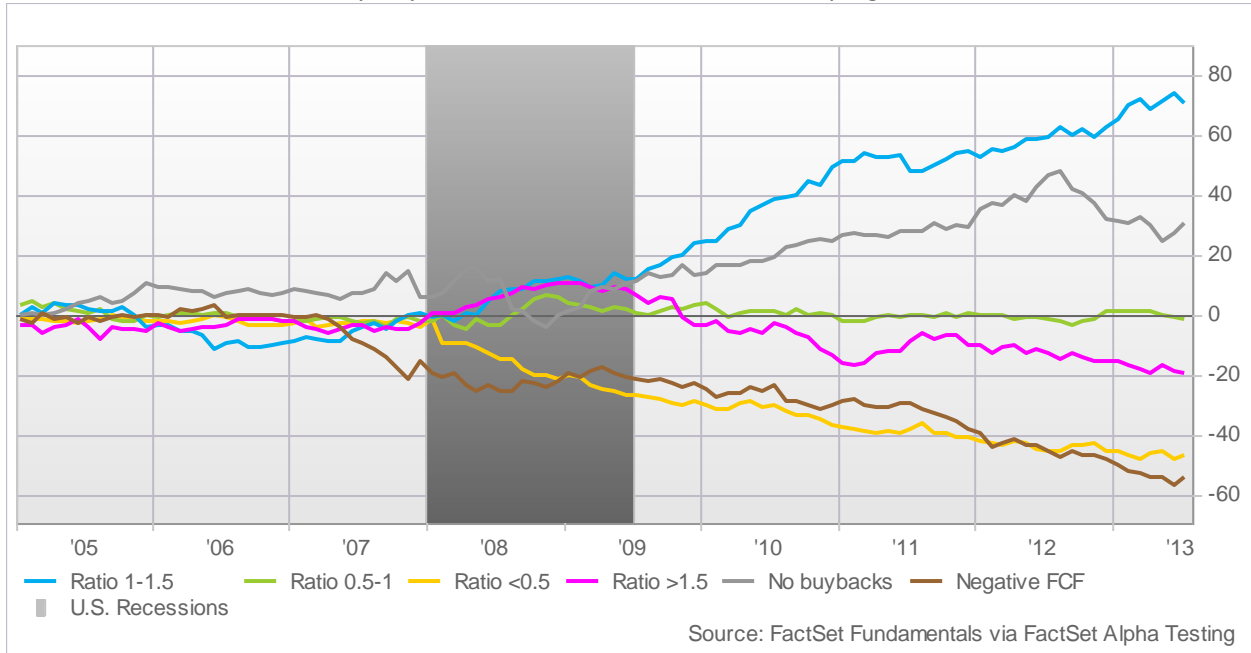
For this back test, S&P 500 companies were broken into groups by their methods of capital distribution. The relatively small number of stocks that have not made repurchases or paid trailing twelve-month dividends include the high-flying names of Netflix, salesforce.com, Google, TripAdvisor, DaVita HealthCare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

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



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