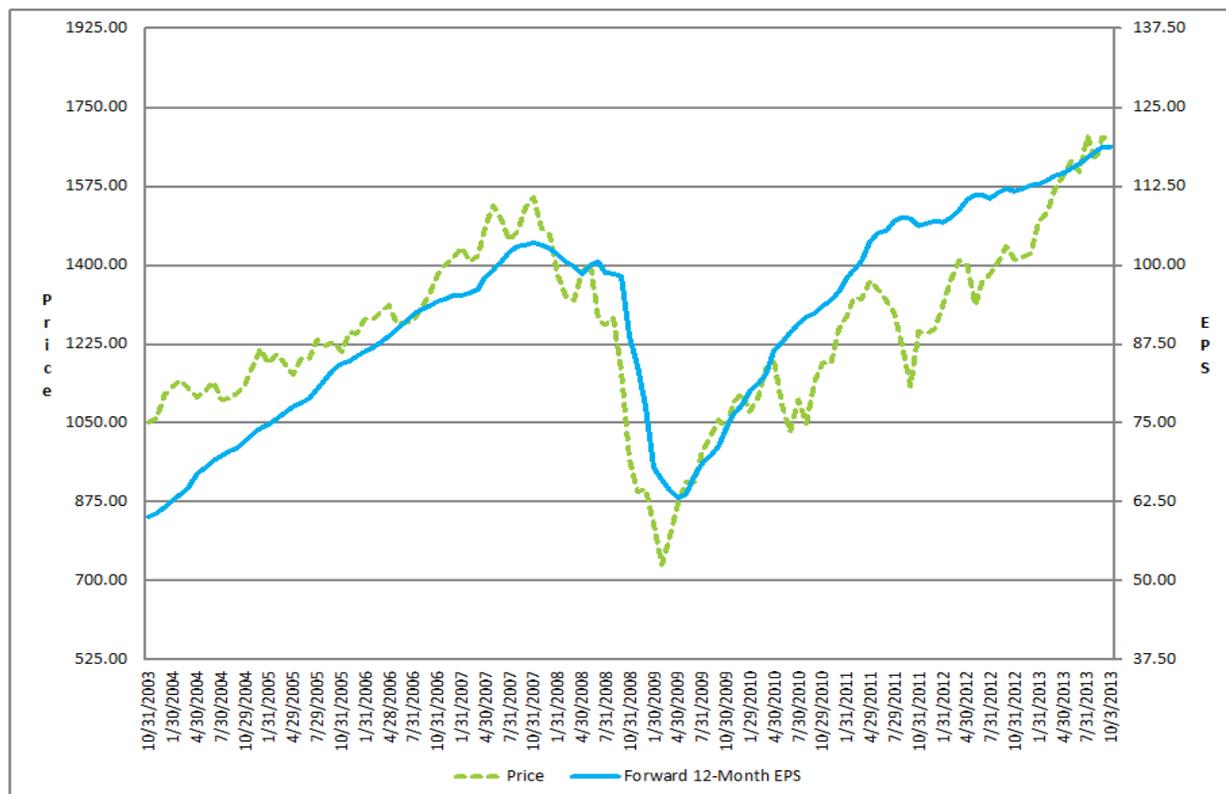


Key Metrics

- + **Earnings Growth:** The estimated earnings growth rate for Q3 2013 is 3.0%. The Financials sector is predicted to report the highest earnings growth for the quarter, while the Energy sector is predicted to report the lowest earnings growth for the quarter.
- + **Earnings Revisions:** On June 30, the earnings growth rate for Q3 2013 was 6.5%. All ten sectors have recorded a decline in expected earnings growth over this time frame, led by the Materials sector.
- + **Earnings Guidance:** For Q3 2013, 90 companies have issued negative EPS guidance and 19 companies have issued positive EPS guidance.
- + **Valuation:** The current 12-month forward P/E ratio is 14.2. This P/E ratio is well above the 5-year (12.9) and 10-year (14.0) averages.
- + **Earnings Scorecard:** Of the 21 companies that have reported earnings to date for Q3 2013, 71% have reported earnings above the mean estimate and 57% have reported sales above the mean estimate.

S&P 500 Forward 12-Month EPS vs. Price: 10-Year



All data published in this report is available on FactSet. Please contact media_request@factset.com or 1-877-FACTSET for more information.

Topic of the Week

Energy Sector Earnings Growth for Q3: A Tale of Two Companies

For the third quarter, the Energy sector is now projected to report the lowest earnings growth of all ten sectors at -2.2%. Two companies within the sector are having significant and opposite influences on the earnings growth rate for the sector: Exxon Mobil and Chevron.

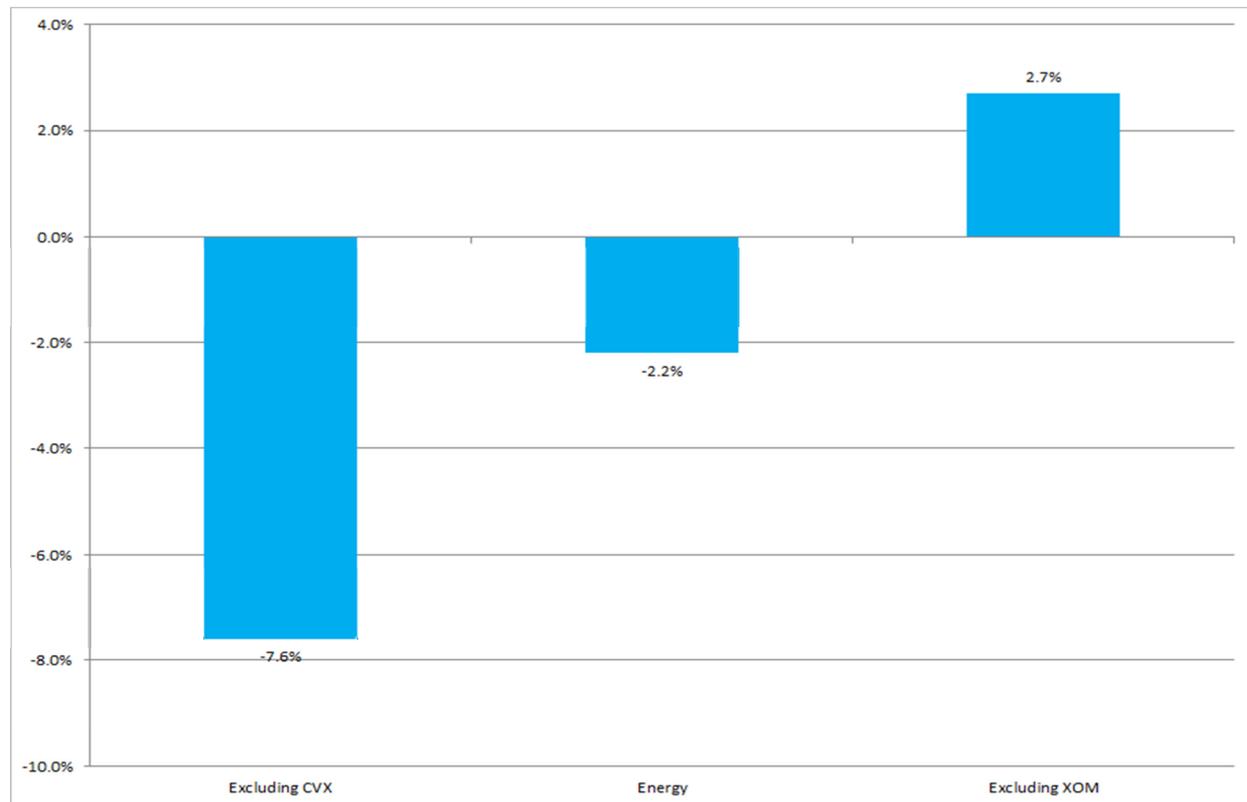
Exxon Mobil is expected to be the largest detractor to earnings growth for the sector in the third quarter, as the company is projected to report a 9% year-over-year decline in EPS. The mean EPS estimate for Exxon Mobil is \$1.91, relative to year-ago actual EPS of \$2.09. If Exxon Mobil is excluded, the estimated earnings growth rate for the sector would improve to 2.7%.

Chevron is the expected to be the largest contributor to earnings growth for the sector in the third quarter, as the company is projected to report a 29% year-over-year increase in EPS. The mean EPS estimate for Chevron is \$3.09, relative to year-ago actual EPS of \$2.38. If Chevron is excluded, the estimated earnings growth rate for the sector would fall to -7.6%.

It is interesting to note that despite the contrast in expected earnings growth for the two companies in Q3, analysts foresee relatively similar earnings growth rates for both companies in 2014. The estimated EPS growth rate for Exxon Mobil in 2014 is 5%, while the estimated EPS growth rate for Chevron in 2014 is 2%.

However, analysts have differing opinions on the two companies in terms of their ratings. For Exxon Mobil, just 29% (7 out of 24) of the analysts covering the company have a "Buy" rating on the stock. For Chevron, 54% (13 out of 24) of the analysts covering the company have a "Buy" rating on the stock.

S&P 500 Energy Sector: Estimated Earnings Growth for Q3



Q3 2013 Earnings Season: Overview

Little Change in Earnings Growth This Week, But Is Down by More Than Half since June 30

Little Change in Earnings Growth Rate This Week

The estimated earnings growth rate for the third quarter is 3.0% this week, down from the estimated growth rate of 3.1% last week. During the week, downward revisions to estimates for companies in the Energy sector (including Valero Energy, Phillips 66, and Exxon Mobil) were mainly responsible for the decline in the overall growth rate. As a result, the earnings growth rate for the Energy sector dropped to -2.2% from -1.0% during the week.

Materials Sector Has Seen Largest Cuts to Earnings Estimates since June 30

The estimated earnings growth rate for Q3 2013 of 3.0% is also below the estimate of 6.5% at the start of the quarter (June 30). All ten sectors have recorded a decline in expected earnings growth during this time frame. The Materials sector has witnessed the largest decrease in predicted earnings growth since June 30, followed by the Energy, Consumer Staples, Consumer Discretionary, and Information Technology sectors.

The Materials sector has seen the largest drop in expected earnings growth (to 1.3% from 15.0%) since the start of the quarter. Companies in the Metals & Mining industry have witnessed the largest cuts to estimates during this time, including U.S. Steel (to -\$0.44 from -\$0.18), Allegheny Technologies (to \$0.00 from \$0.29), Newmont Mining (to \$0.31 from \$0.60), and Alcoa (to \$0.06 from \$0.10).

The Energy sector has recorded the second largest decrease in expected earnings growth (to -2.2% from 3.3%) since the beginning of the quarter. Companies that have seen significant reductions in EPS estimates include CONSOL Energy (to \$0.08 from \$0.21), Marathon Petroleum (to \$1.13 from \$2.92), and Tesoro (to \$0.86 from \$2.17).

The Consumer Staples sector has seen the third largest drop in expected earnings growth (to 3.2% from 7.4%) since the start of the quarter. Companies that have recorded substantial cuts to estimates during this time include Safeway (to \$0.16 from \$0.45), Avon Products (to \$0.19 from \$0.25), Archer-Daniels-Midland Company (to \$0.46 from \$0.62), and Estee Lauder Companies (to \$0.73 from \$0.91).

The Consumer Discretionary sector has recorded the fourth largest decline in expected earnings growth (to 6.6% from 10.4%) since the beginning of the quarter. Companies in retail industries have seen the largest cuts to estimates during this time, including Amazon.com (to -\$0.10 from \$0.07), J. C. Penney (to -\$1.68 from -\$0.75), Abercrombie & Fitch (to \$0.44 from \$1.08), and Target (to \$0.64 from \$0.91).

The Information Technology sector has witnessed the fifth largest decrease in expected earnings growth (to 1.2% from 5.0%) since June 30. Companies that have recorded substantial reductions in EPS estimates include Intuit (to -\$0.10 from -\$0.02), Teradyne (to \$0.44 from \$0.60), KLA-Tencor (to \$0.66 from \$0.86), Autodesk (to \$0.39 from \$0.51), and Microsoft (to \$0.55 from \$0.68).

Record High Number of Companies Issuing Negative EPS Guidance (90) for Q3

At this point in time, 109 companies in the index have issued EPS guidance for the third quarter. Of these 109 companies, 90 have issued negative EPS guidance and 19 have issued positive EPS guidance.

If 90 is the final number of companies issuing negative EPS guidance for the quarter, it will mark the highest number of companies issuing negative EPS guidance since FactSet began tracking guidance data in 2006. The current record is 88, which was recorded in Q2 2013. If 19 is the final number of companies issuing positive EPS guidance, it will mark the lowest number of companies issuing positive EPS guidance for a quarter. The current record is 22, which was also recorded in Q2 2013.

The percentage of companies issuing negative EPS guidance is 83% (90 out of 109). If this is the final percentage for the quarter, it will mark the highest percentage of companies issuing negative EPS guidance for a quarter since FactSet began tracking the data in 2006.

For more details on guidance, please see the most recent edition of our *Guidance Quarterly* report, which was published on Monday (September 30).

Estimated Earnings Growth: 3.0%

The estimated earnings growth rate for Q3 2013 is 3.0%. Eight of the ten sectors are expected to report higher earnings relative to a year ago, led by the Financials and Consumer Discretionary sectors. On the other hand, the Energy and Health Care sectors are the only two sectors predicted to report a year-over-year decrease in earnings for the quarter.

Financials: Bank of America and Morgan Stanley Lead Growth

The Financials sector is projected to have the highest earnings growth rate (9.1%) of any sector for the third consecutive quarter. It is also expected to be the largest contributor to earnings growth for the entire index. If the Financials sector is excluded, the earnings growth rate for the S&P 500 falls to 1.7%.

Four of the eight industries in the sector are predicted to report earnings growth for the quarter, led by the Capital Markets (56%) industry. Four of the eight industries are expected to report a year-over-year decline in earnings, led by the Thrift & Mortgage Finance (-11%) industry.

At the company level, Bank of America and Morgan Stanley are the key drivers of growth in the sector, due in part to comparisons to weak earnings in the third quarter of 2012. The mean EPS estimate for Bank of America is \$0.20, relative to year-ago EPS of \$0.00. The mean EPS estimate for Morgan Stanley is \$0.42, compared to year-ago EPS of -\$0.55. If both of these companies are excluded, the growth rate for the sector would fall to -0.6%.

Consumer Discretionary: Broad-Based Growth across Sector

The Consumer Discretionary sector is expected to have the second highest earnings growth rate at 6.6%. Growth is predicted to be broad-based across the sector. Nine of the twelve industries in the sector are projected to see earnings growth, led by the Internet & Catalog Retail (82%), Household Durables (17%), and Auto Components (16%) industries. At the other end of the spectrum, the Multiline Retail (-23%) and Automobiles (-7%) industries are expected to have the lowest earnings growth rates for the quarter.

Energy: Chevron vs. Exxon Mobil

The Energy sector is expected to have the lowest earnings growth of any sector at -2.2%. However, only two of the seven sub-industries in this sector are expected to report a decline in earnings: Coal & Consumable Fuels (-93%) and Oil & Gas Refining & Marketing (-59%). On the other end of the spectrum, the Oil & Gas Storage & Transportation (51%) and Oil & Gas Exploration & Production (22%) sub-industries have the highest earnings growth rates.

At the company level, Chevron is the largest contributor to earnings growth for the sector, while Exxon Mobil is the largest detractor to earnings growth. The mean EPS estimate for Chevron is \$3.09, relative to year-ago actual EPS of \$2.38. If Chevron is excluded, the growth rate for the sector would drop to -7.6%. On the other hand, the mean EPS estimate for Exxon Mobil is \$1.91, compared to year-ago EPS of \$2.09. If Exxon Mobil is excluded, the growth rate for the Energy sector would improve to 2.7%.

Health Care: Lowest Growth Expected

The Health Care sector is predicted to have the second lowest earnings growth rate of all ten sectors at -1.4%. Four of the six industries in the sector are expected to report a year-over-year decrease in earnings, led by the Health Care Equipment & Supplies (-4%) and Pharmaceuticals (-2%) industries.

Estimated Revenue Growth: 2.6%

The estimated revenue growth rate for Q3 2013 is 2.6%, below the growth rate of 3.0% estimated at the end of the second quarter (June 30). Nine of the ten sectors are predicted to report revenue growth for the quarter, led by the Utilities and Consumer Discretionary sectors. The Energy sector is the only sector expected to report a year-over-year decline in sales in the quarter.

The Utilities sector is expected to report the highest revenue growth at 6.8%. While all four industries are predicted to report growth, the Independent Power Producers & Energy Traders (34%) and Gas Utilities (17%) industries have the highest expected sales growth rates in the sector.

The Consumer Discretionary sector has the second highest revenue growth rate at 5.3%. Growth is predicted to be broad-based across the sector. At the industry level, eleven of the twelve industries in the sector are expected to report earnings growth, led by the Internet & Catalog Retail (22%), Distributors (12%), and Household Durables (12%) industries.

The Energy sector has the lowest revenue growth rate of all ten sectors at -1.4%. At the sub-industry level, three of the seven sub-industries are predicted to report a decrease in revenues: Coal & Consumable Fuels (-7%), Oil & Gas Refining & Marketing (-5%), and Integrated Oil & Gas (-4%). At the company level, Hess Corporation is the largest detractor to growth in the sector. The mean sales estimate for Hess Corporation is \$2.4 billion, compared to sales of \$9.6 billion in the year-ago quarter. If Hess is excluded, the revenue growth rate for the sector improves to 0.5%.

Global Concerns: F/X Rates, Europe and Emerging Markets

Less Favorable F/X Rates

The U.S. dollar has strengthened relative to the Japanese yen and other foreign currencies over the past year. In the year-ago quarter (Q3 2012), one dollar was equal to about \$78.62 yen on average. For Q3 2013 on average, one dollar was equal to about \$98.90 yen on average. A number of companies commented on the negative impact of F/X rates on revenues and earnings for the second quarter. Will this trend continue in Q3?

"For example, the year-over-year exchange rates for the yen for both the spot rate and the average rate have weakened 20% against the dollar. Other major FX moves occurred in India, Australia, Argentina and Brazil. These were somewhat offset by a slight strengthening of the euro. Overall, FX rates had a negative impact on our revenue and billings growth for the quarter although the impact on profitability was less pronounced." –Red Hat (Sep. 23)

"I want to start by letting you know that currency in Q1 gave us a 2% headwind for new software license and total revenue which was more than my guidance last quarter." –Oracle (Sep. 18)

"Year-over-year, FX rate changes had an \$18 million negative impact on reported revenue." –Adobe Systems (Sep. 17)

Europe

Europe has been reporting a decline in economic growth relative to last year. According to FactSet Economics, the European Union recorded a decrease in GDP of 0.2% in Q2 2013, which marked the sixth consecutive quarter of year-over-year declines in GDP. A number of companies stated that economic conditions were still weak in Europe in the second quarter. However, some companies stated that conditions may have reached a bottom or improved slightly. Will companies see any improvement in Europe in the third quarter?

"I think so from a macroeconomic situation, the one area that I called out was in particular the EMEA region had its lowest percentage of total bookings or total company bookings that they've had in some time. Having said that, I think their Q3 and Q4 is shaping up better and I'm hopeful that we're going to see some improvement there." –Red Hat (Sep. 23)

"In Europe, first quarter sales in constant currency declined 3%, reflecting the tough operating environment in the region." –General Mills (Sep. 18)

Emerging Markets

Economic growth for some countries in emerging markets regions has also been decreasing over the past year. According to FactSet Economics, two of the four "BRIC" countries recorded slower GDP growth in the most recent quarter. For Q2 2012, China and India recorded GDP growth of 7.6% and 3.4%, respectively. By Q2 2013, GDP growth rates for China and India had fallen to 7.5% and 2.4%.

On the other hand, Brazil has recorded an increase in GDP growth over the past year. For Q2 2013, Brazil reported GDP growth of 3.3%, above the 0.5% recorded in Q1 2012.

As a result, comments on business conditions in China and emerging markets continued to be mixed for Q2. Some companies reported weak conditions, while others saw strength. Will this trend continue in the third quarter?

"And by the way, while many of you have commented on the softening in emerging market economies overall, I mean, I do want to point out that our business continues to be very strong in emerging markets. We had a very strong quarter in China and we're seeing terrific growth in Brazil." –General Mills (Sep.18)

Earnings Growth Rebound Still Projected for Q413, But Little Revenue Growth

Although analysts have reduced earnings growth expectations for Q4 2013 (to 10.0% from 11.8%) since June 30, they still expect a significant improvement in earnings growth in the fourth quarter of 2013 relative to recent quarters. For Q4 2013, five of the ten sectors are predicted to see double-digit earnings growth: Financials (26.7%), Industrials (18.5%), Telecom Services (14.8%), Materials (14.2%), and Consumer Discretionary (11.5%).

The estimated revenue growth rate for Q4 2013 of 1.0% is expected to be well below estimated earnings growth rate. The Financials sector accounts for much of this gap between expected earnings and revenue growth for the index, as the sector is projected to report the highest earnings growth of all ten sectors at 26.7%, but also the lowest revenue growth of all ten sectors at -9.4%. For more details on this dichotomy, please see our most recent *Market Insight* report titled, "Growth Divide in EPS & Sales in Q4," which was published on September 25.

Valuation: Forward P/E Ratio is 14.2, above the 10-Year Average (14.0)

The current forward 12-month P/E ratio for the index is 14.2. At the sector level, the Consumer Discretionary (17.3) and Consumer Staples (16.1) sectors have the highest forward 12-month P/E ratios, while the Financials (11.9) and Energy (12.3) sectors have the lowest forward 12-month P/E ratios.

The P/E ratio of 14.2 for the index as a whole is above the prior 5-year average forward 12-month P/E ratio of 12.9, and above the prior 10-year average forward 12-month P/E ratio of 14.0.

It is also above the forward 12-month P/E ratio of 13.9 recorded one month ago. During the past month, the price of the index rose by 2.4%, while the forward 12-month EPS estimate increased by 0.6%.

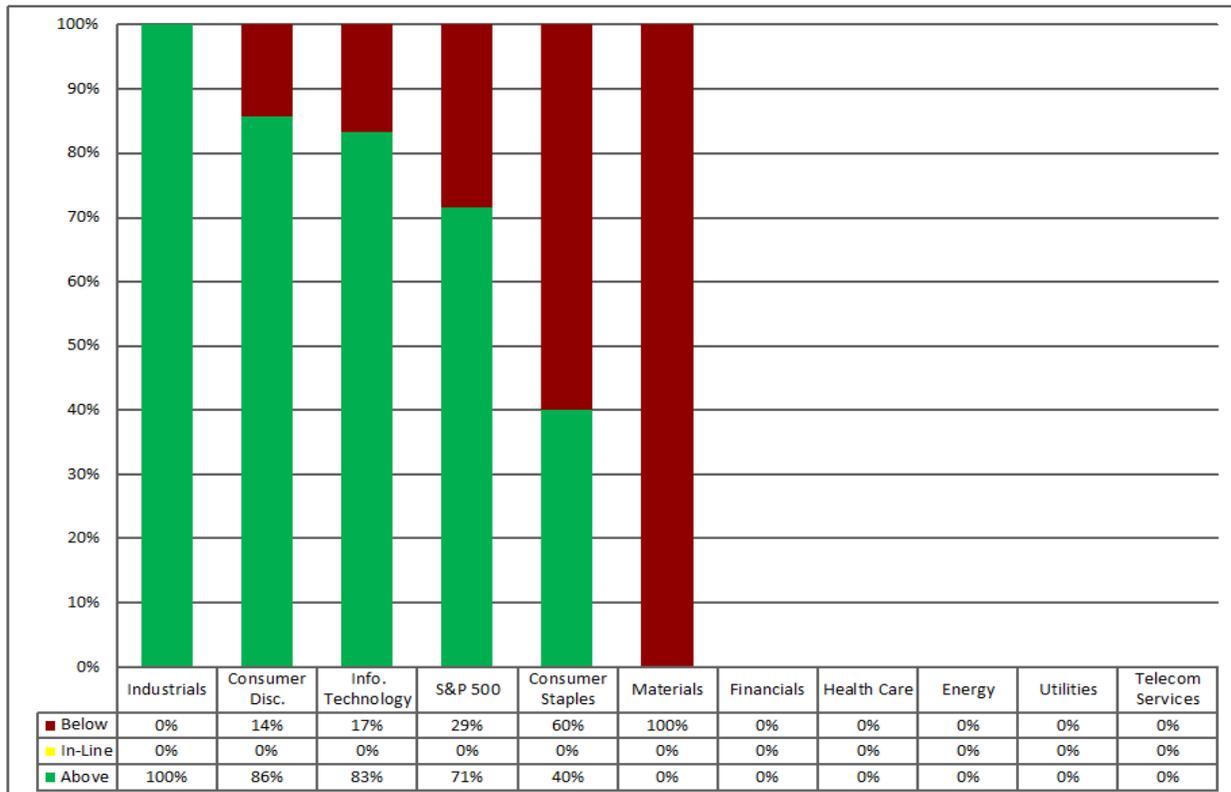
At the sector level, the Consumer Discretionary (to 17.3 from 16.7) sector witnessed the largest increase in the forward 12-month P/E ratio over the past month. The Telecom Services sector (to 13.7 from 13.8) was the only sector that recorded a decrease in the forward 12-month P/E ratio during this time frame.

Companies Reporting Next Week: 10

During the upcoming week, one Dow 30 component (JPMorgan Chase) and ten S&P 500 companies are scheduled to report earnings for the third quarter.

Q3 2013: Scorecard

Q3 2013 Earnings: Above, In-Line, Below Estimates

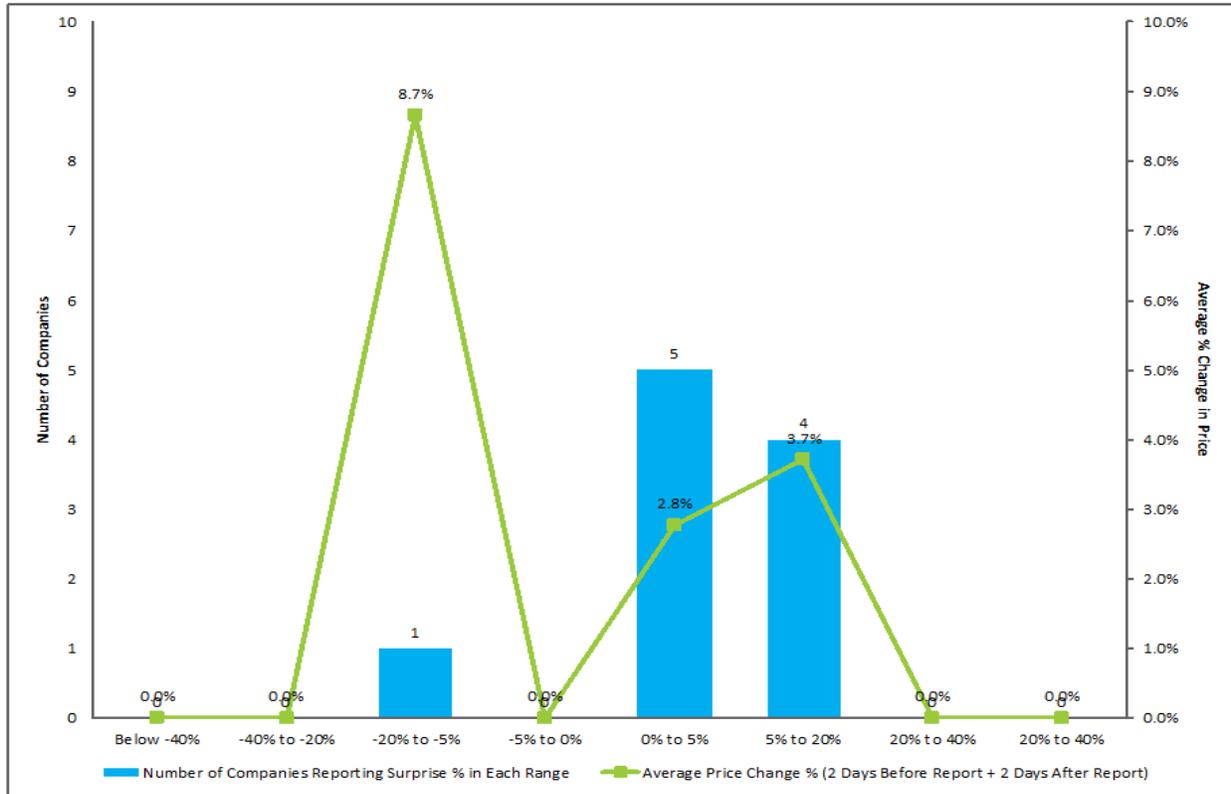


Q3 2013 Revenues: Above, In-Line, Below Estimates

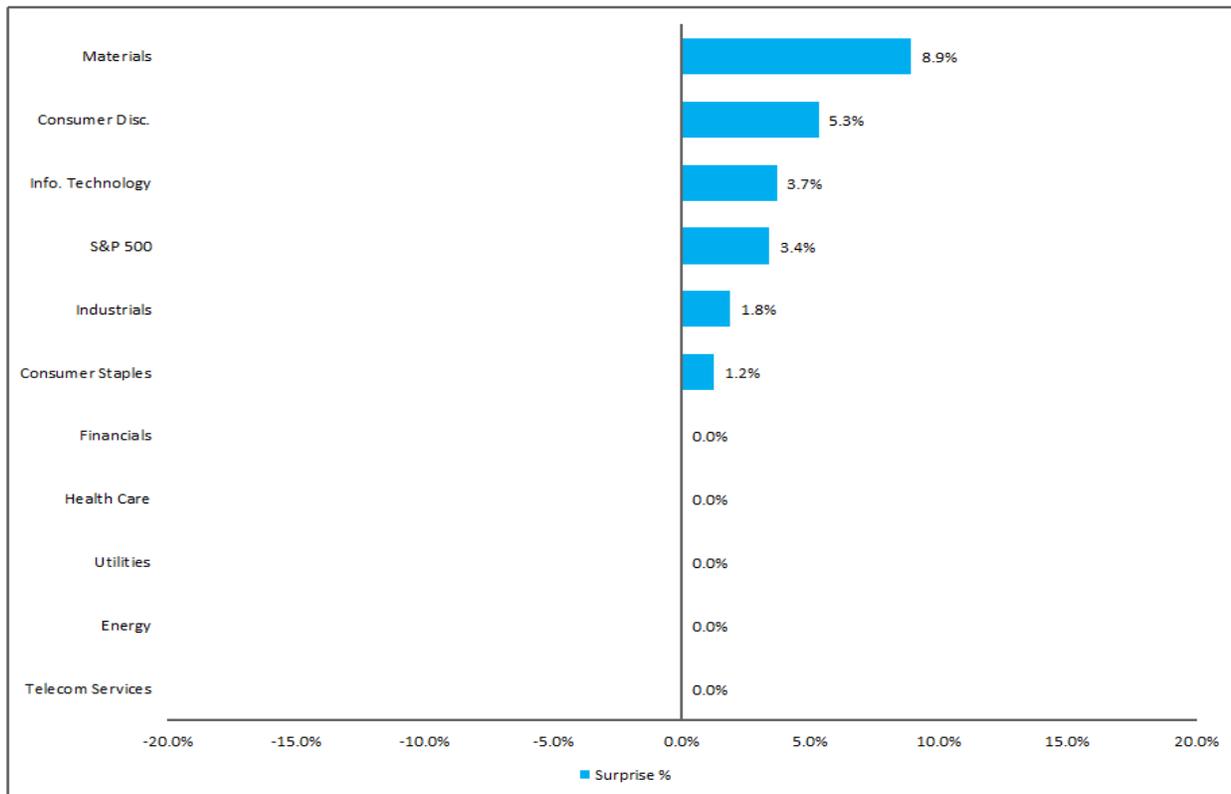


Q3 2013: Scorecard

Q3 2013: Surprise % vs. Average Price Change %

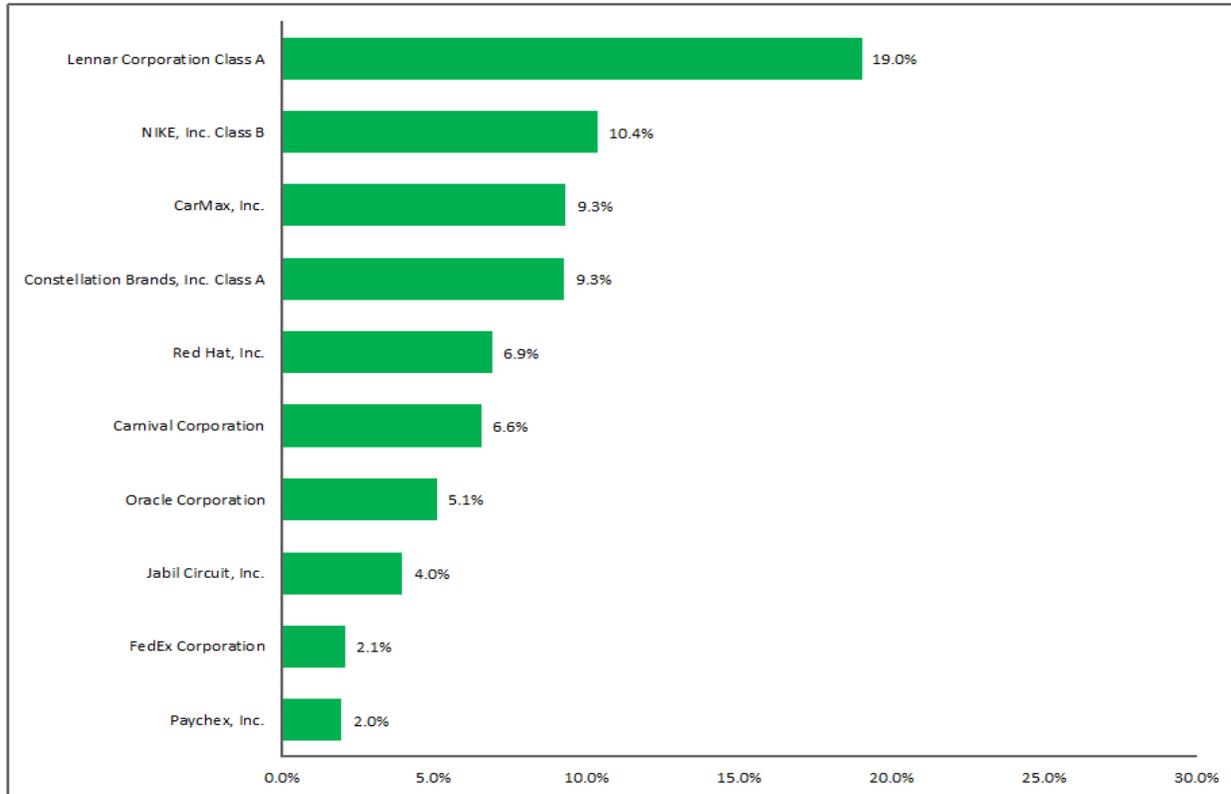


Q3 2013: Sector Level Surprise %

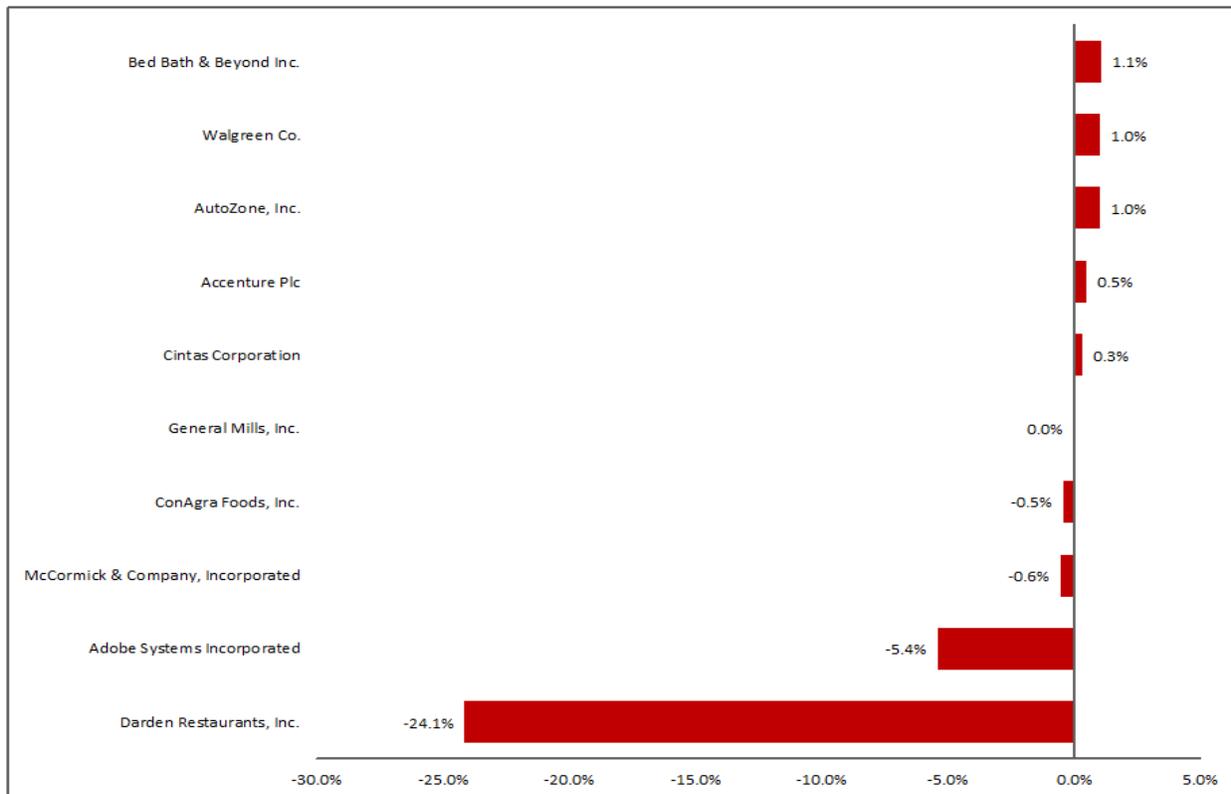


Q3 2013: Scorecard

EPS Surprise %: Top 10 Companies

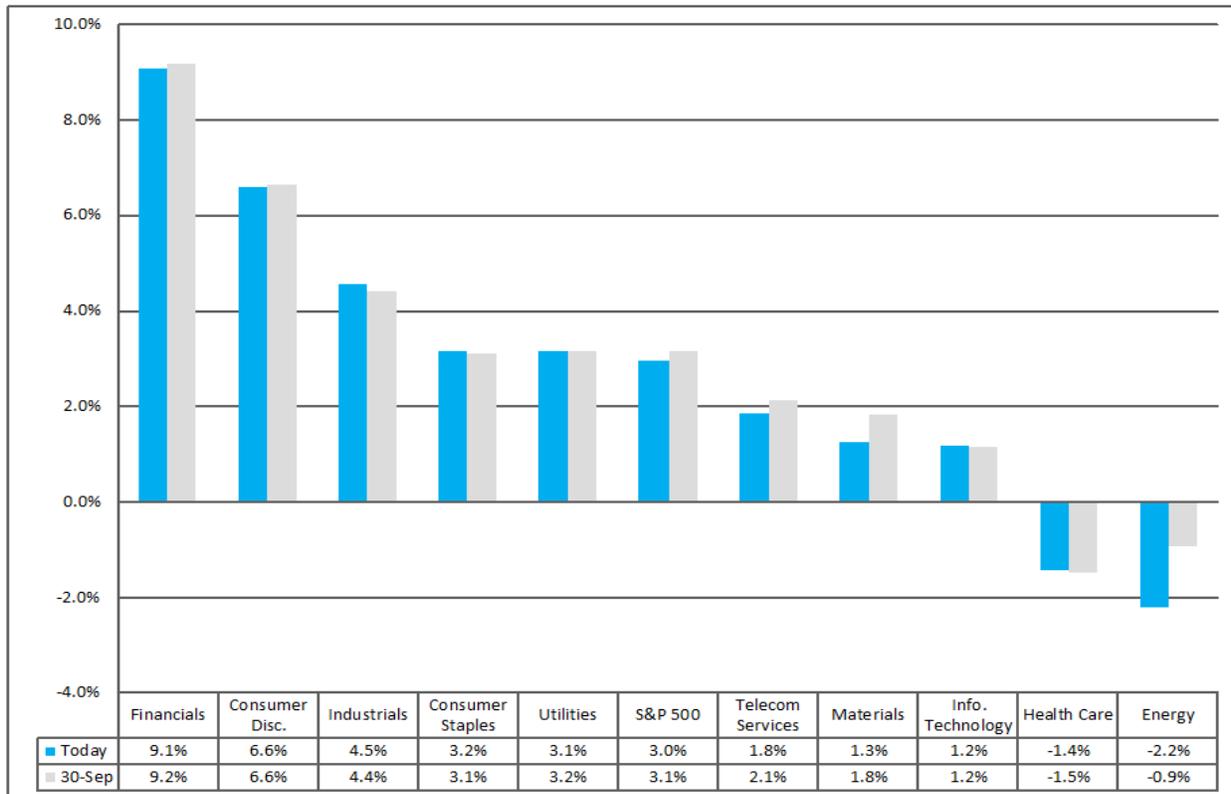


EPS Surprise %: Bottom 10 Companies

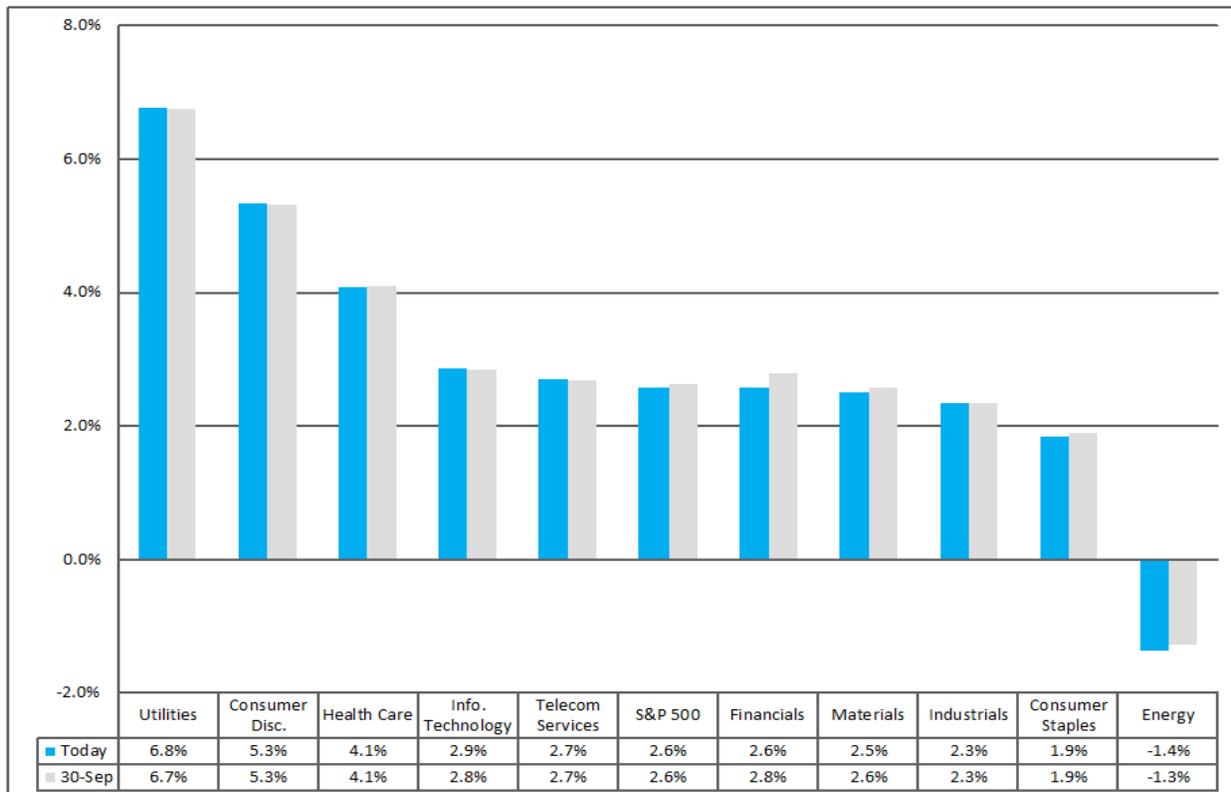


Q3 2013: Growth

Q3 2013 Earnings Growth

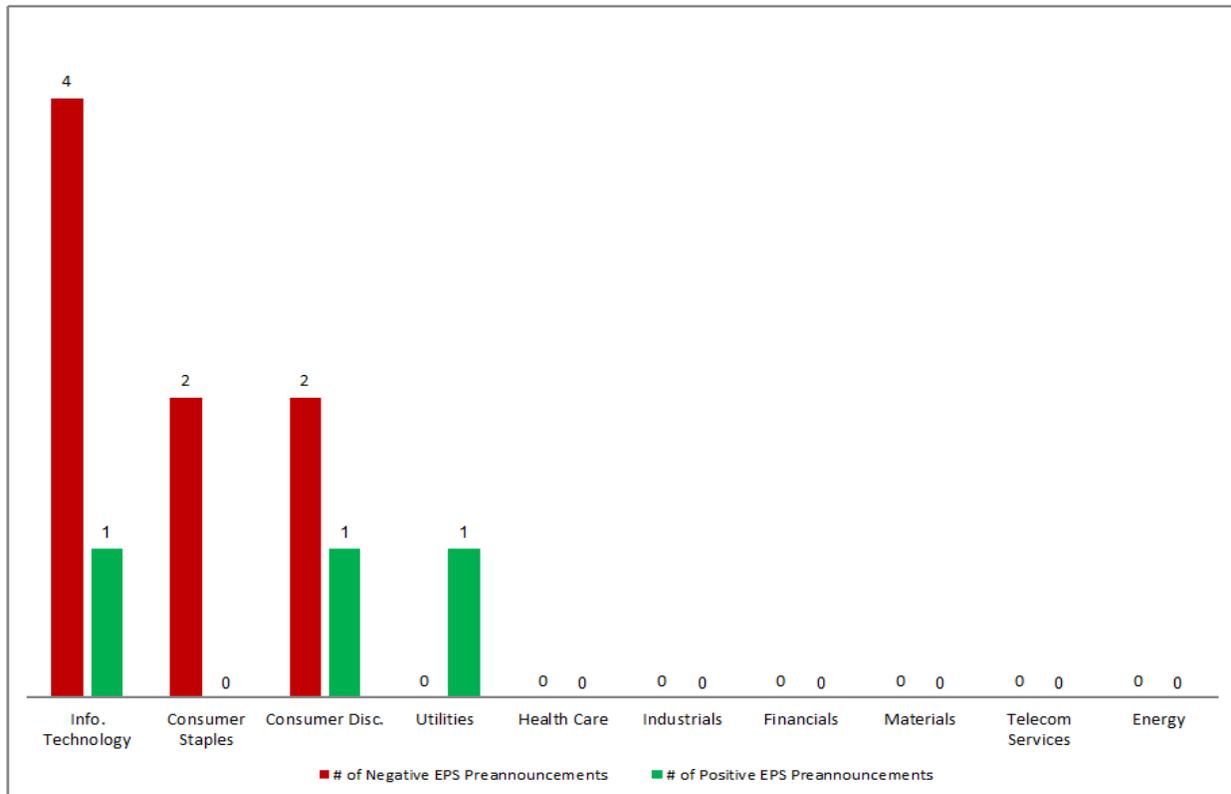


Q3 2013 Revenue Growth



Q4 2013: Guidance

Number of Positive & Negative EPS Preannouncements: Q4 2013

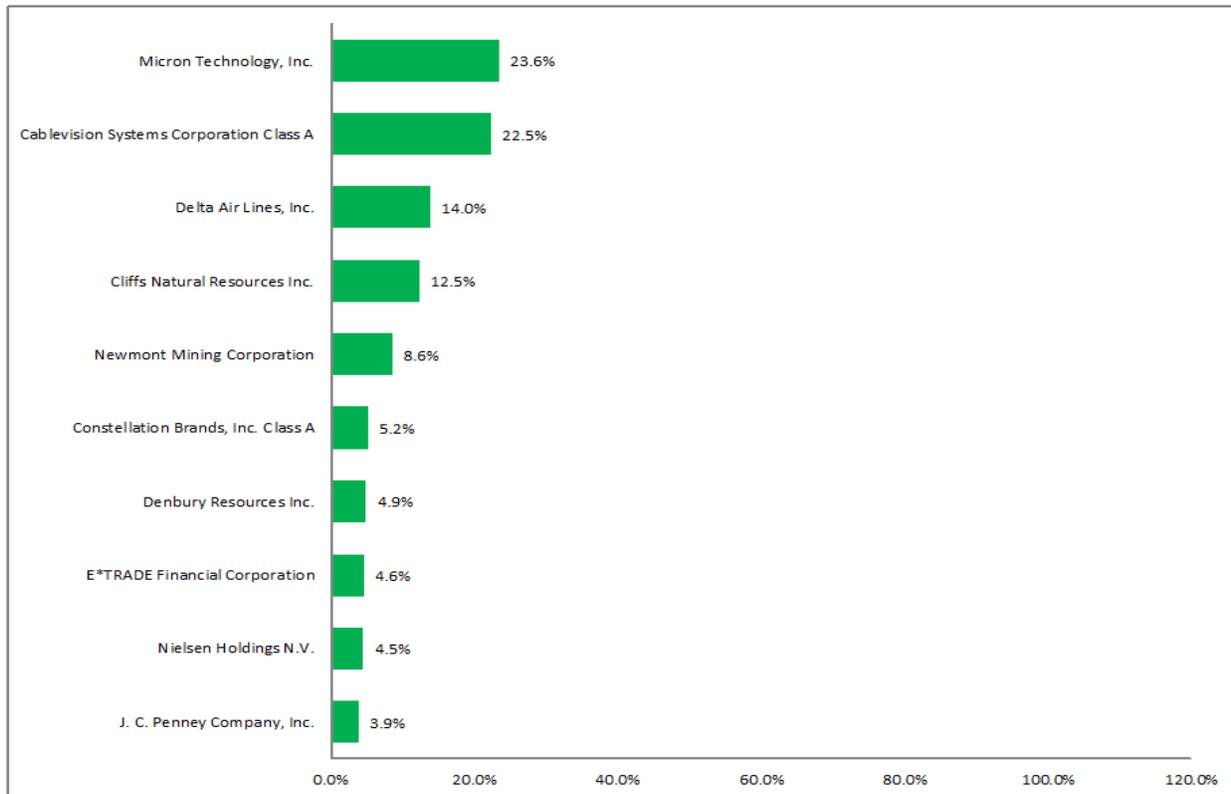


Percentage of Positive & Negative EPS Preannouncements: Q4 2013

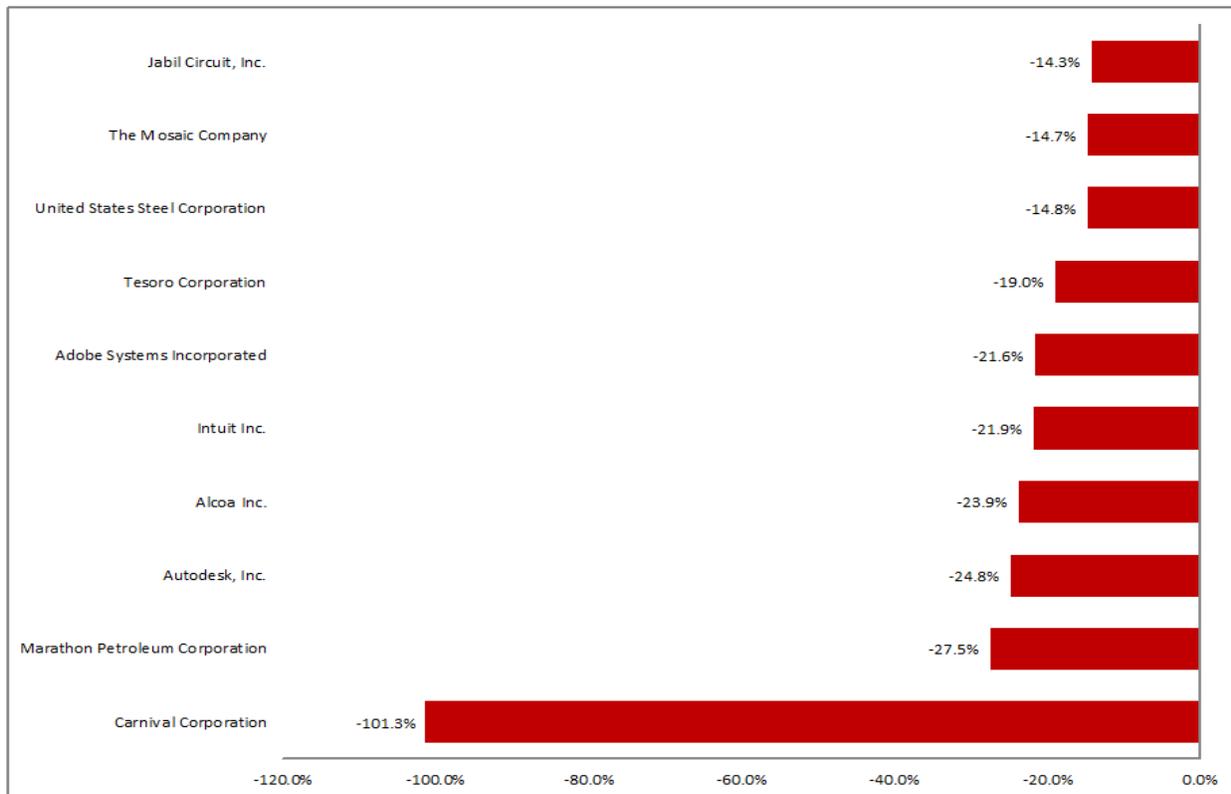


Q4 2013: EPS Revisions

Highest Upward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies

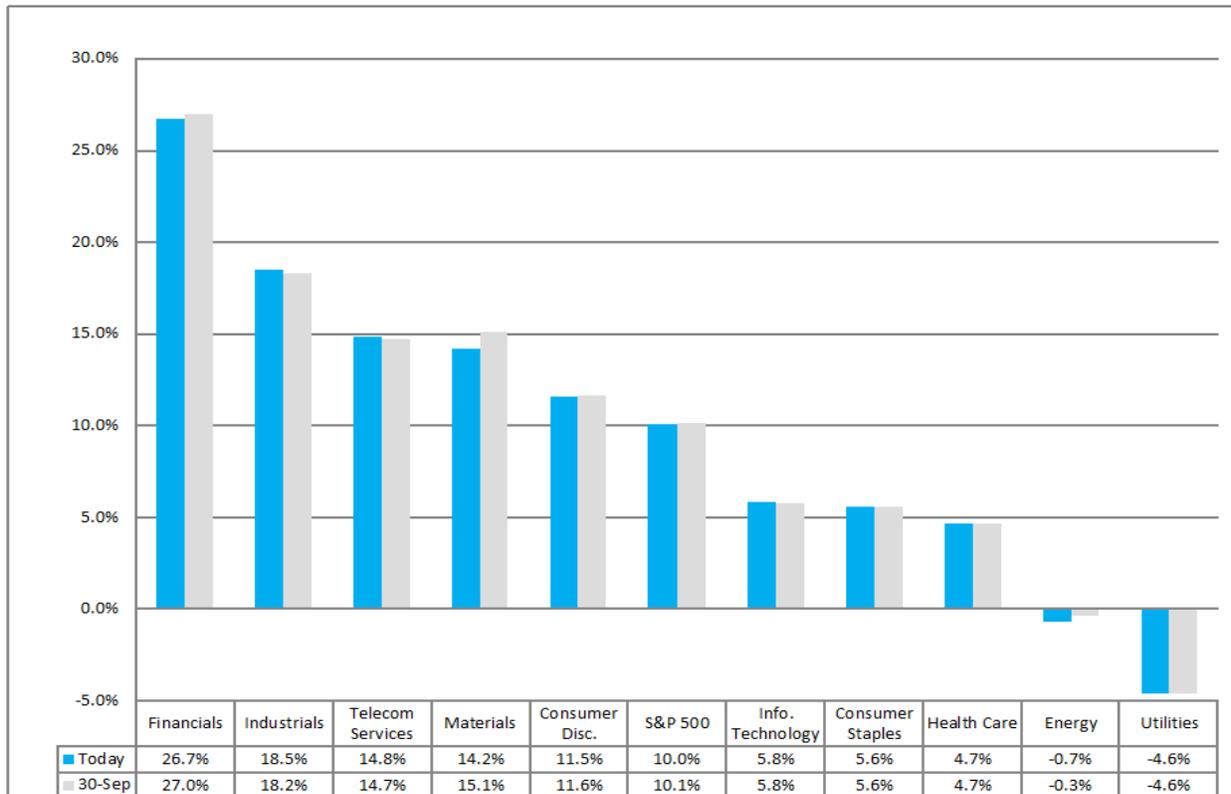


Highest Downward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies

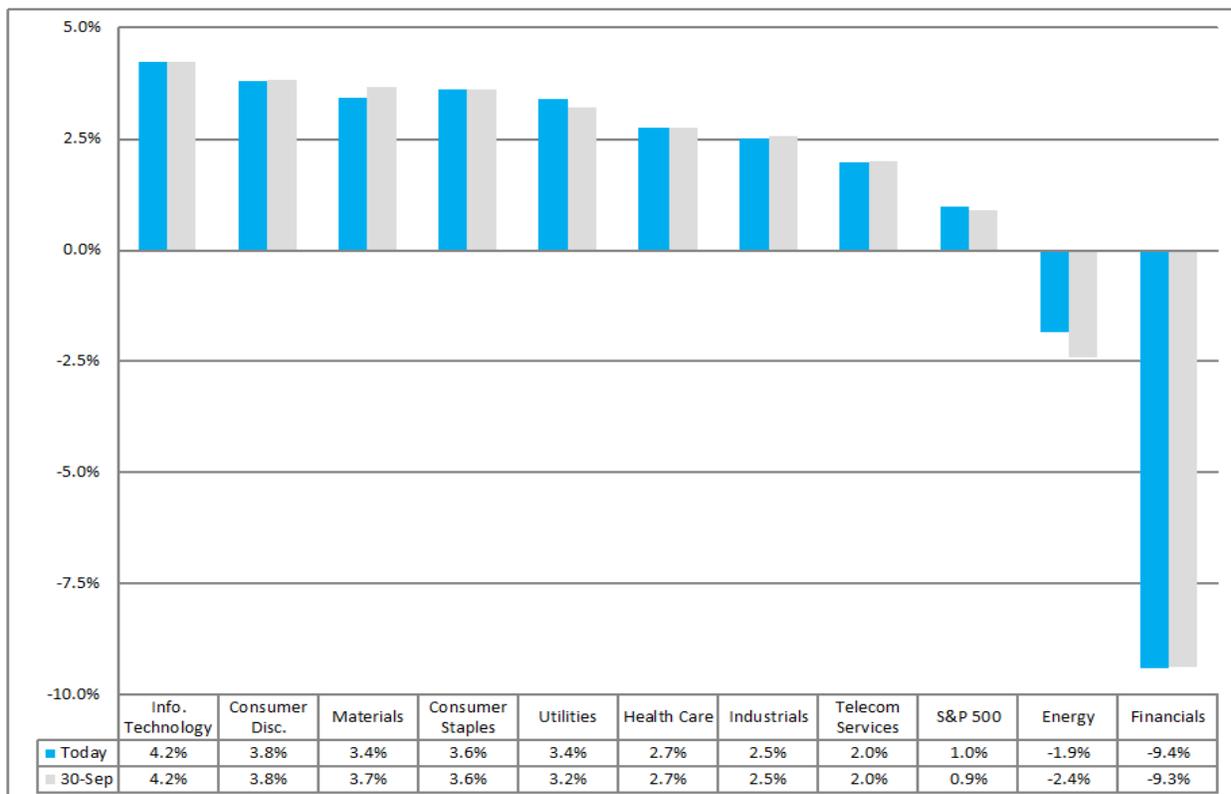


Q4 2013: Growth

Q4 2013 Earnings Growth

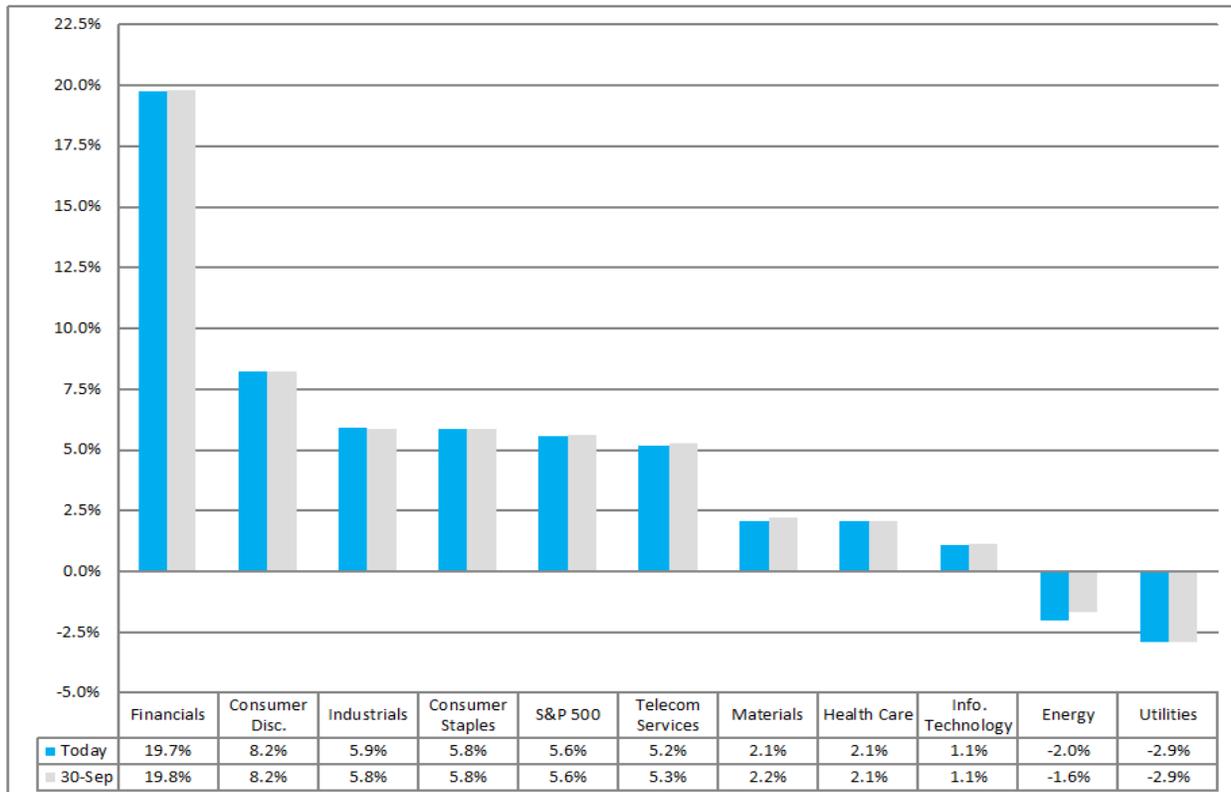


Q4 2013 Revenue Growth

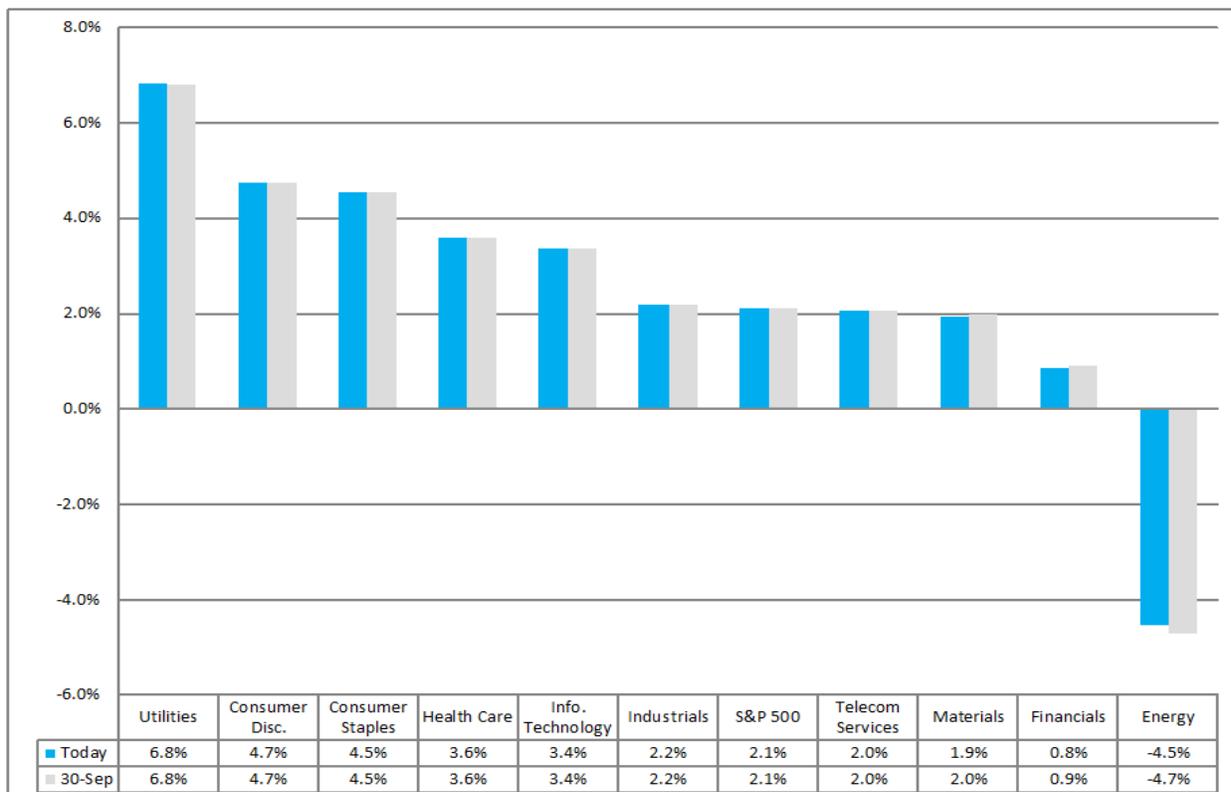


CY 2013: Growth

CY 2013 Earnings Growth

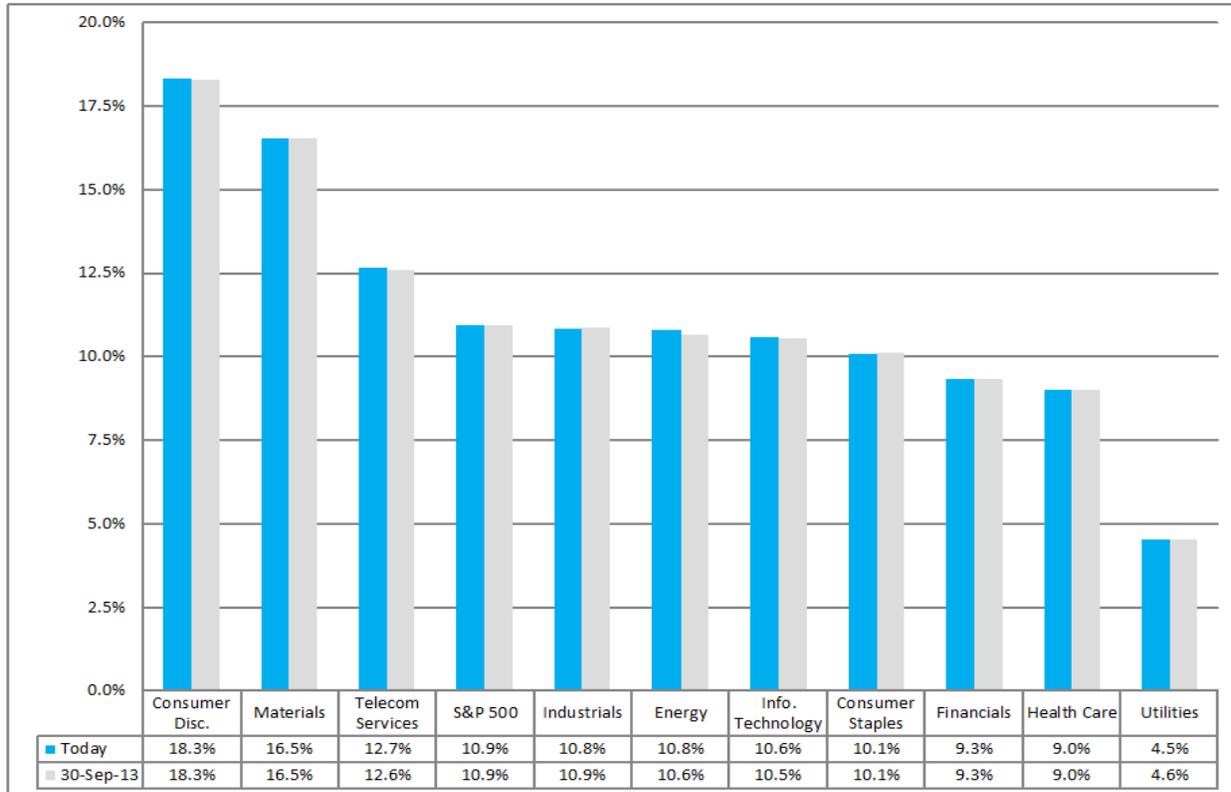


CY 2013 Revenue Growth

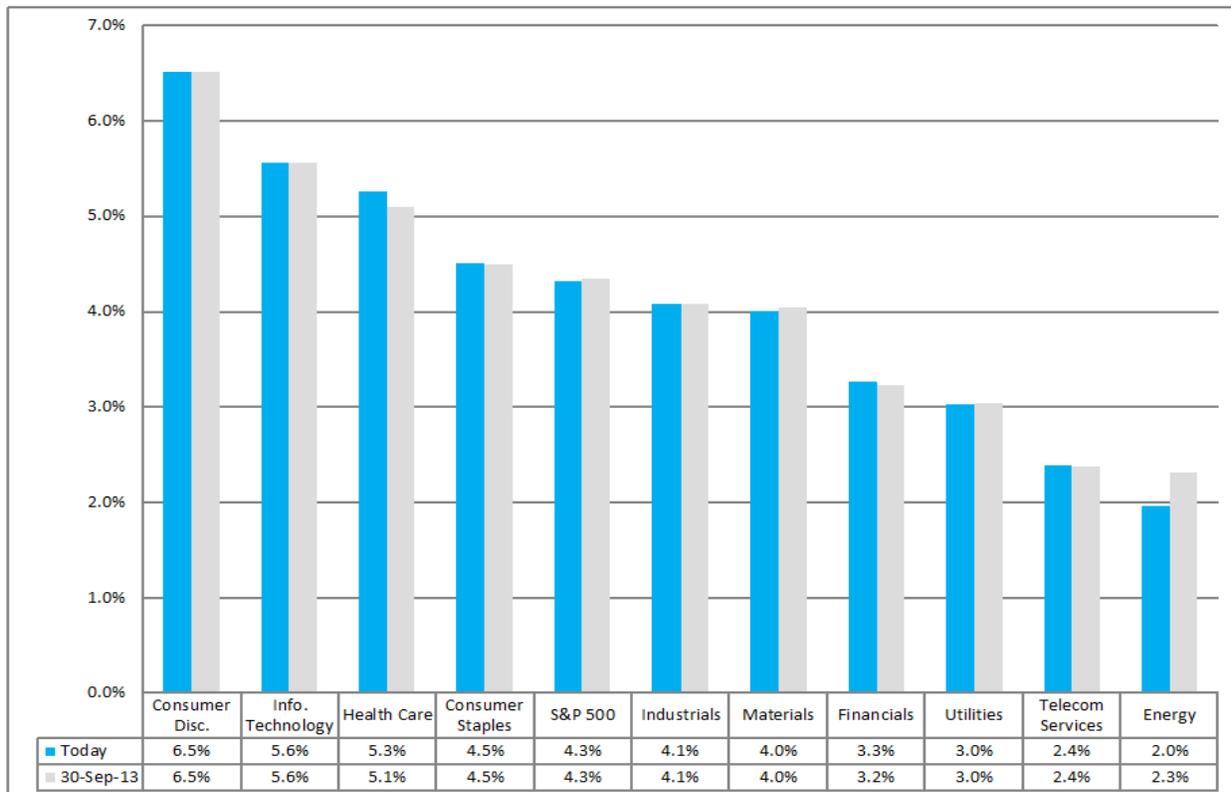


CY 2014: Growth

CY 2014 Earnings Growth

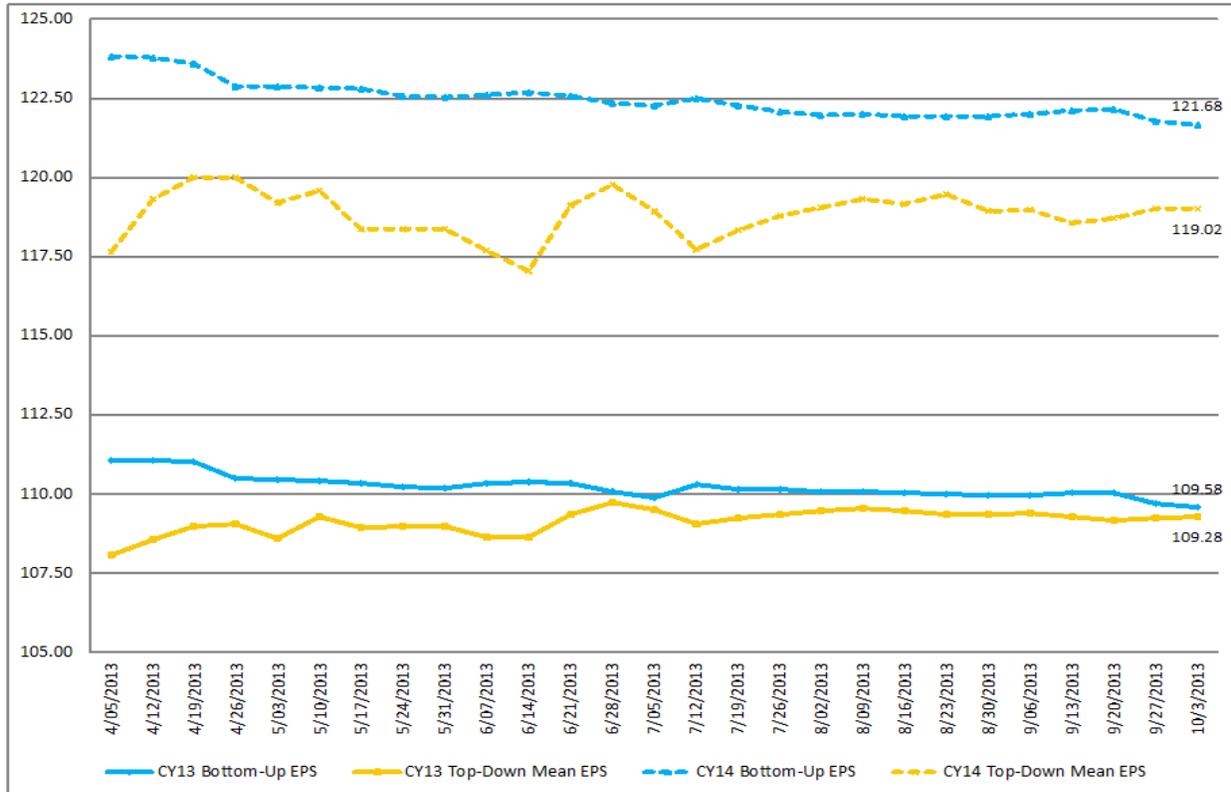


CY 2014 Revenue Growth

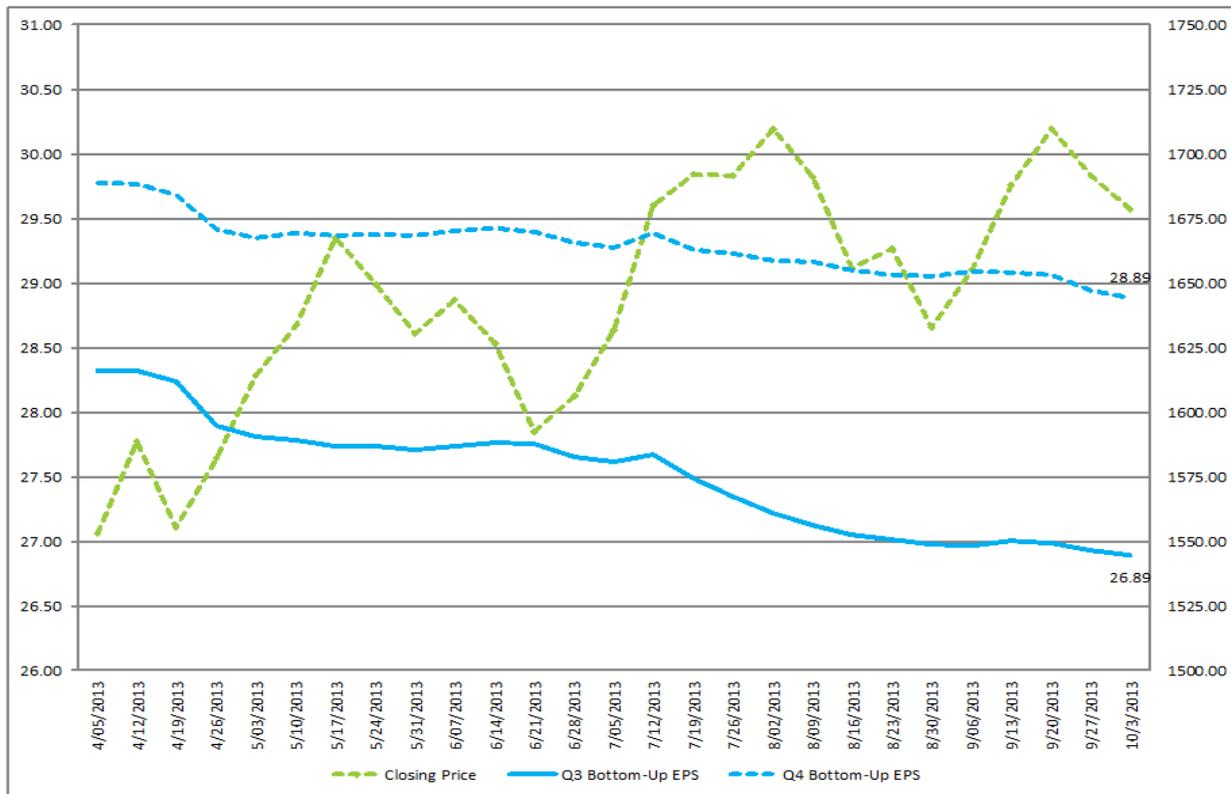


Bottom-up EPS Estimates: Revisions

CY Bottom-Up EPS vs. Top-Down Mean EPS (Trailing 26-Weeks)

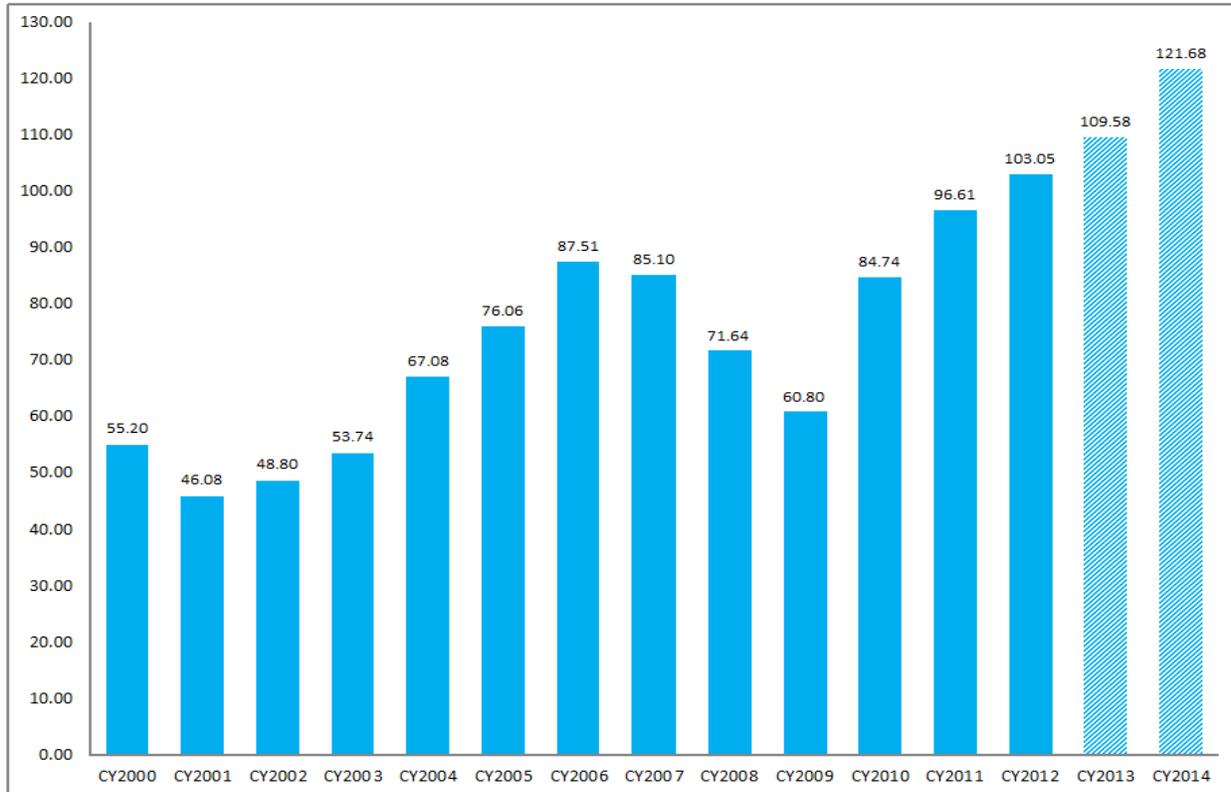


Change in Q213 Bottom-Up EPS vs. Price (Trailing 26-Weeks)

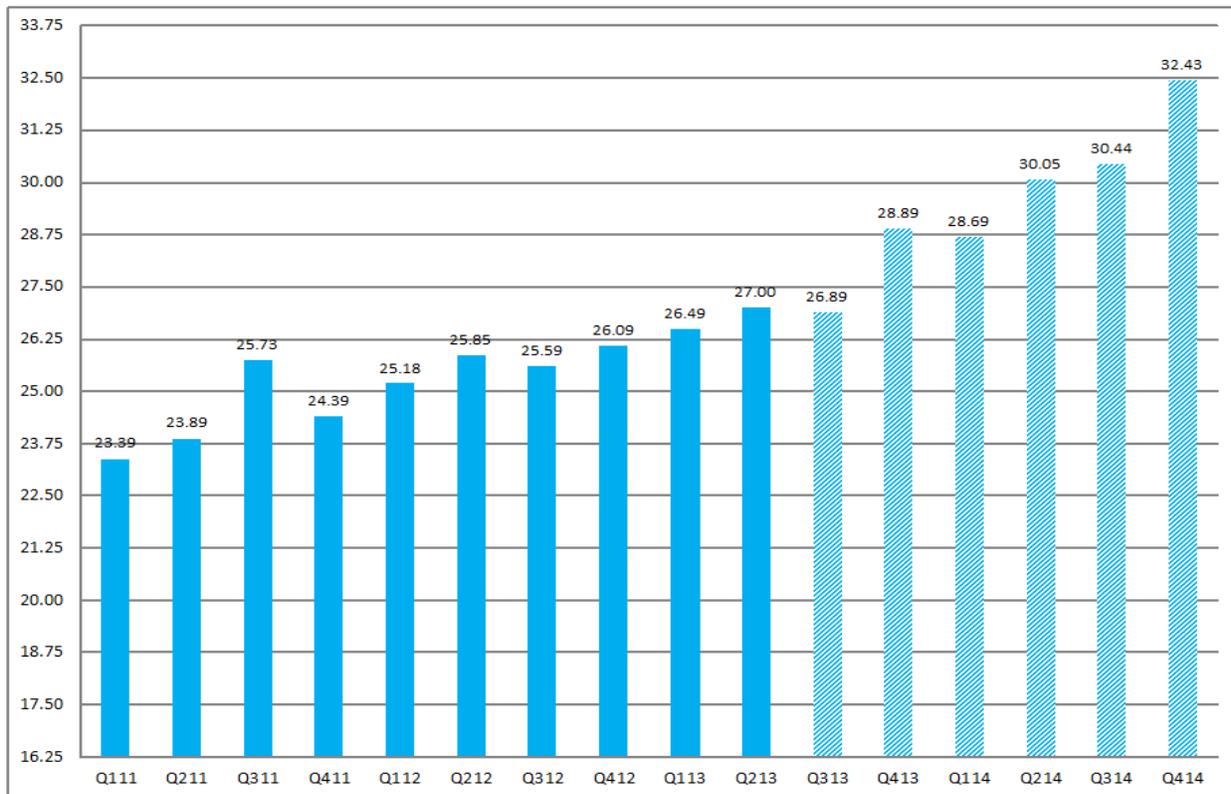


Bottom-up EPS Estimates: Current & Historical

Calendar Year Bottom-Up EPS Actuals & Estimates

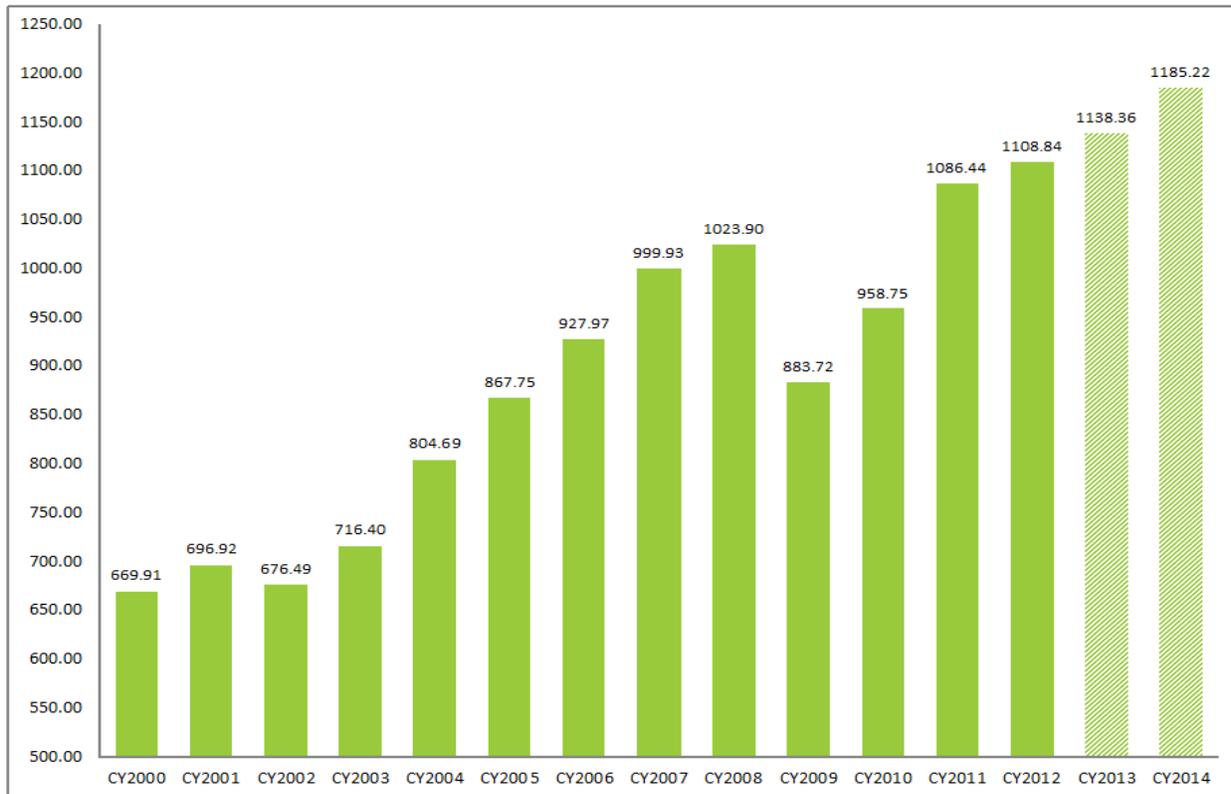


Quarterly Bottom-Up EPS Actuals & Estimates

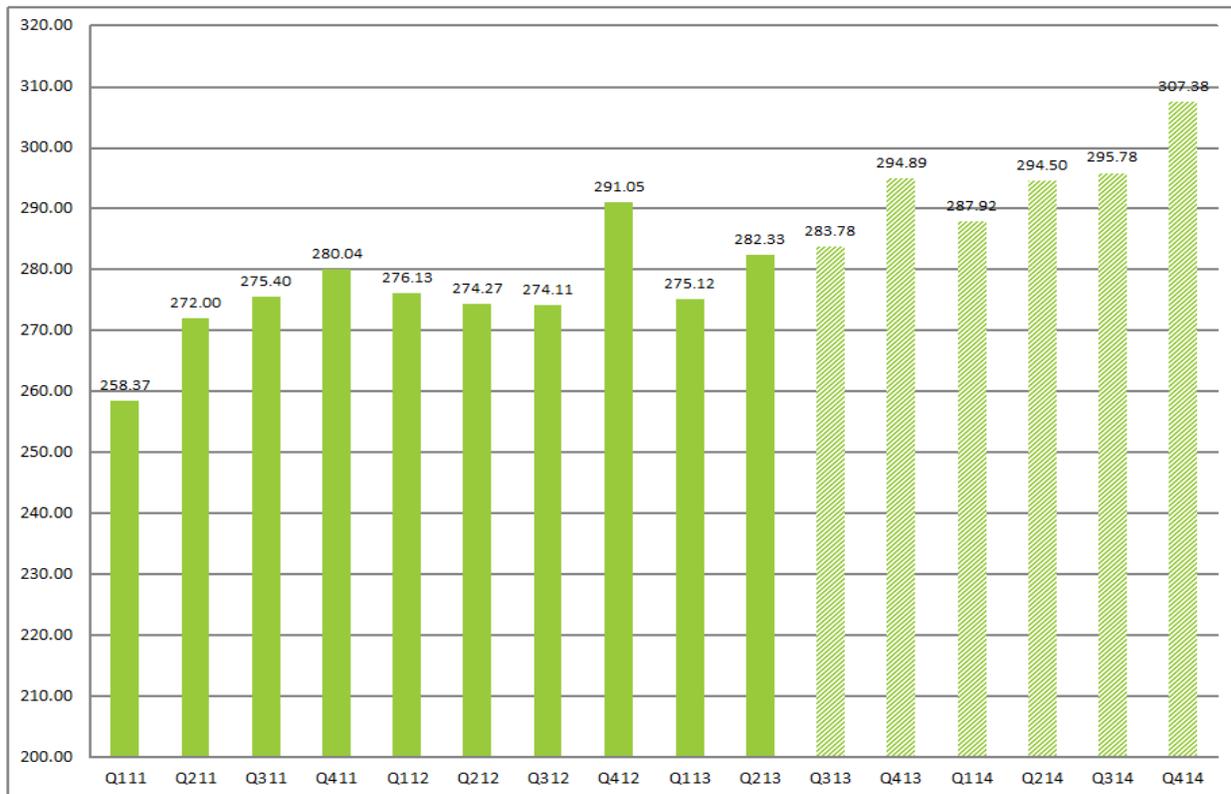


Bottom-up SPS Estimates: Current & Historical

Calendar Year Bottom-Up SPS Actuals & Estimates

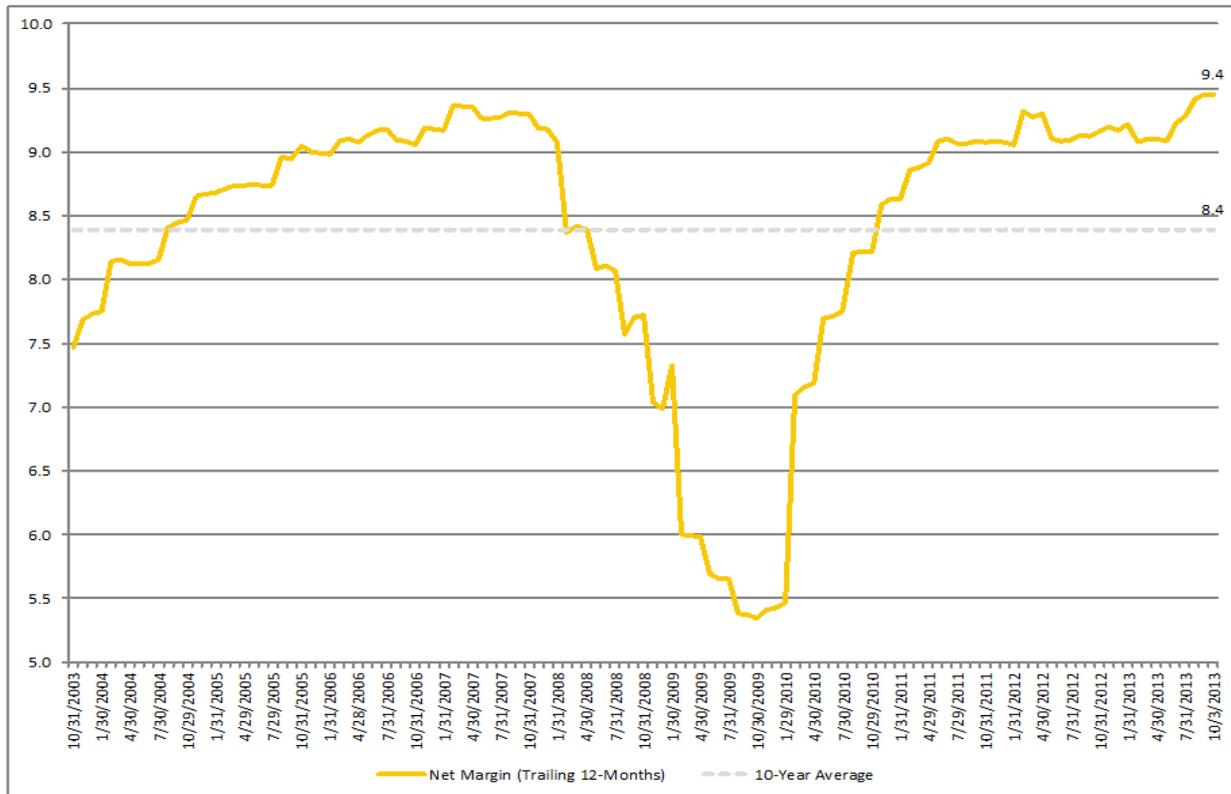


Quarterly Bottom-Up SPS Actuals & Estimates

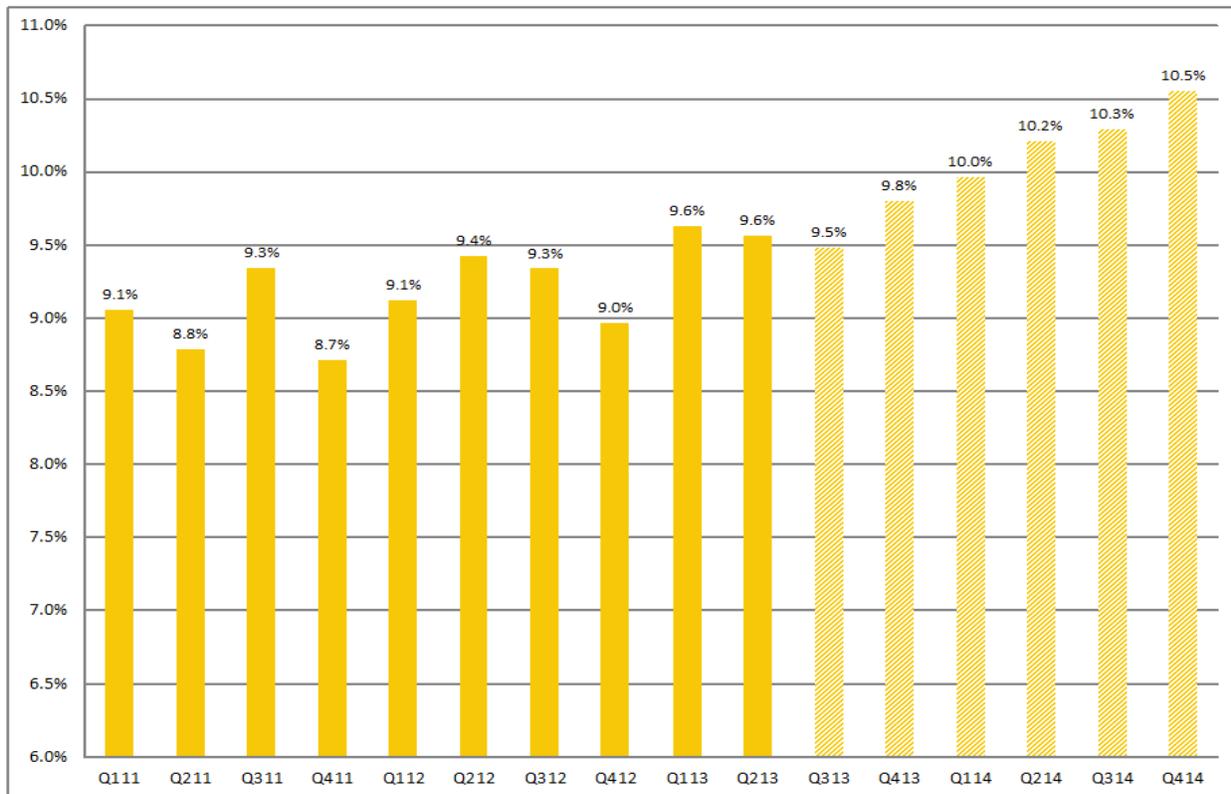


Net Margins: Current & Historical

Trailing 12M Net Margin: 10 Years

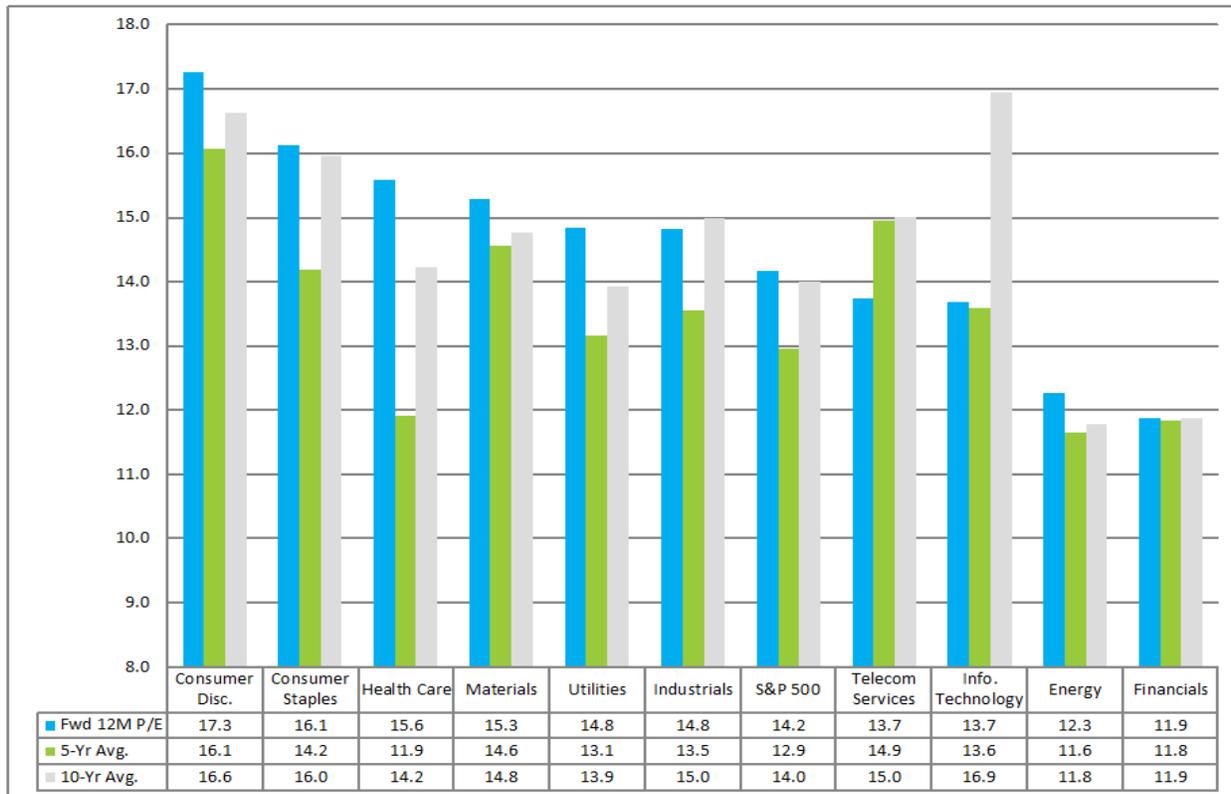


Quarterly Net Margins (Bottom-Up EPS / Bottom-Up SPS)

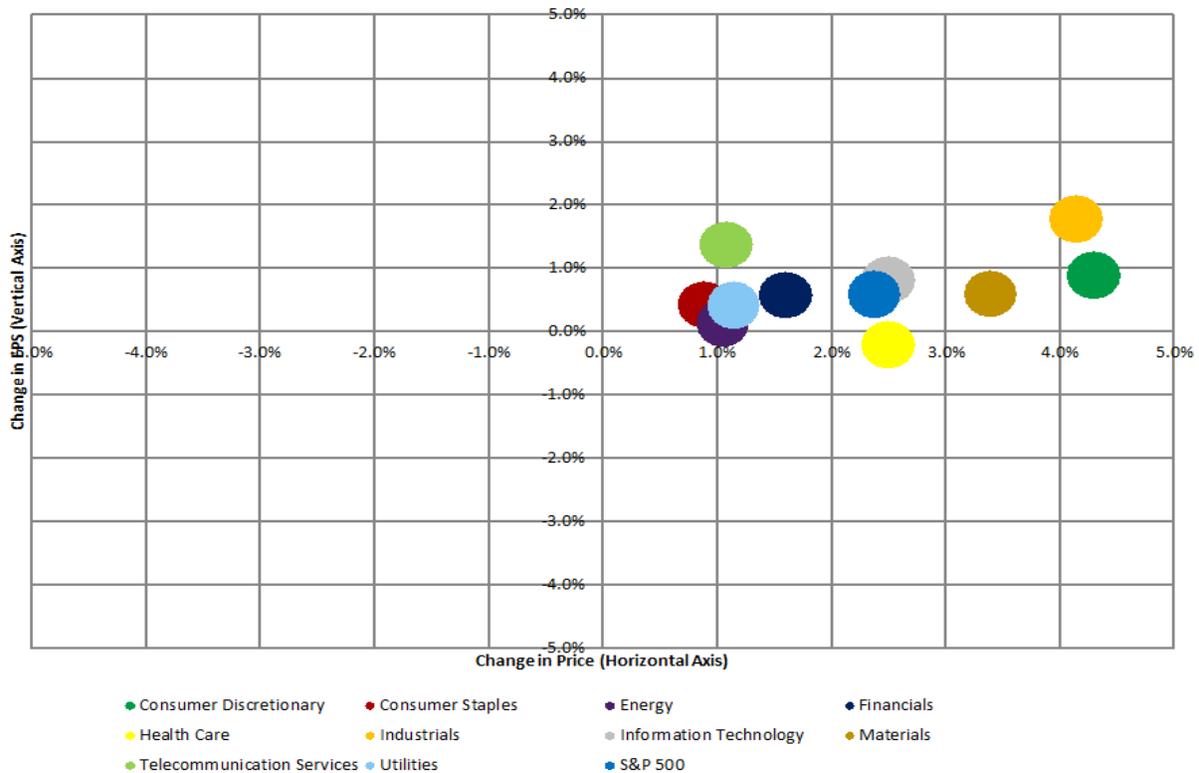


Forward 12M Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

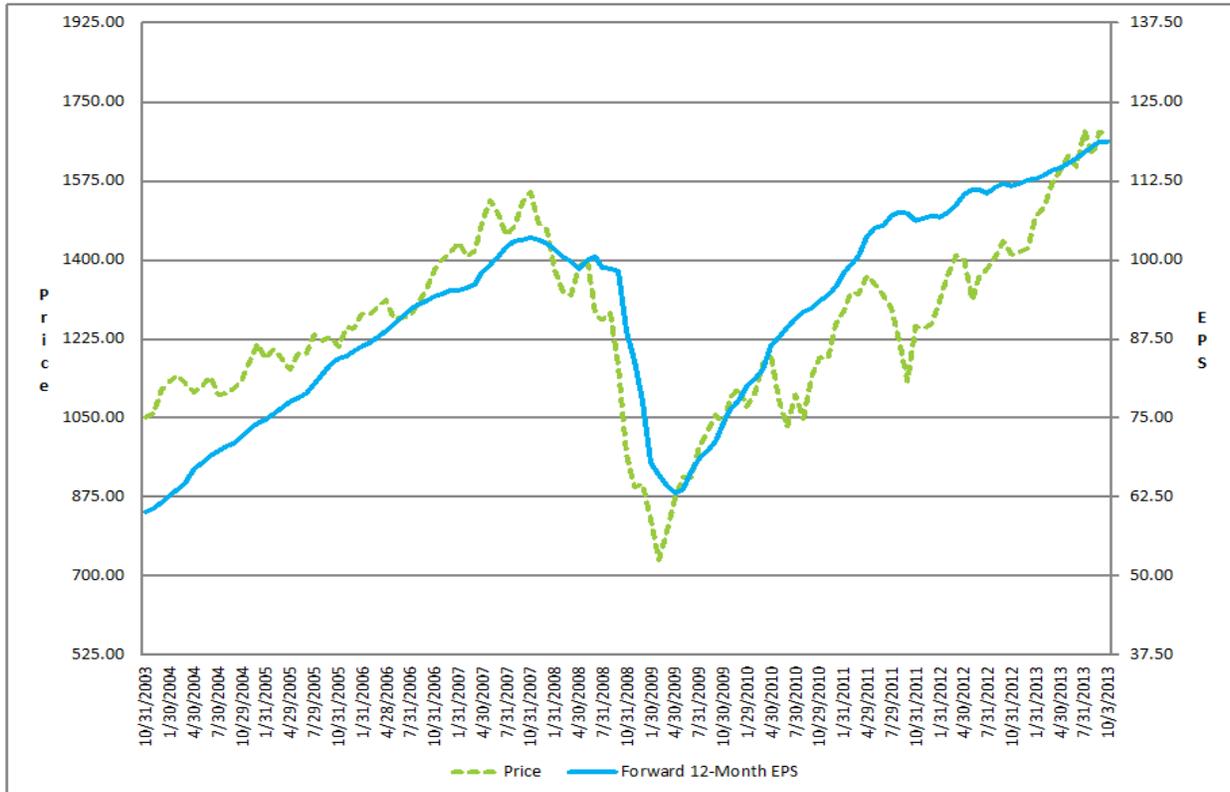


Sector-Level Change in Price vs. Change Forward 12M EPS: 1-Month

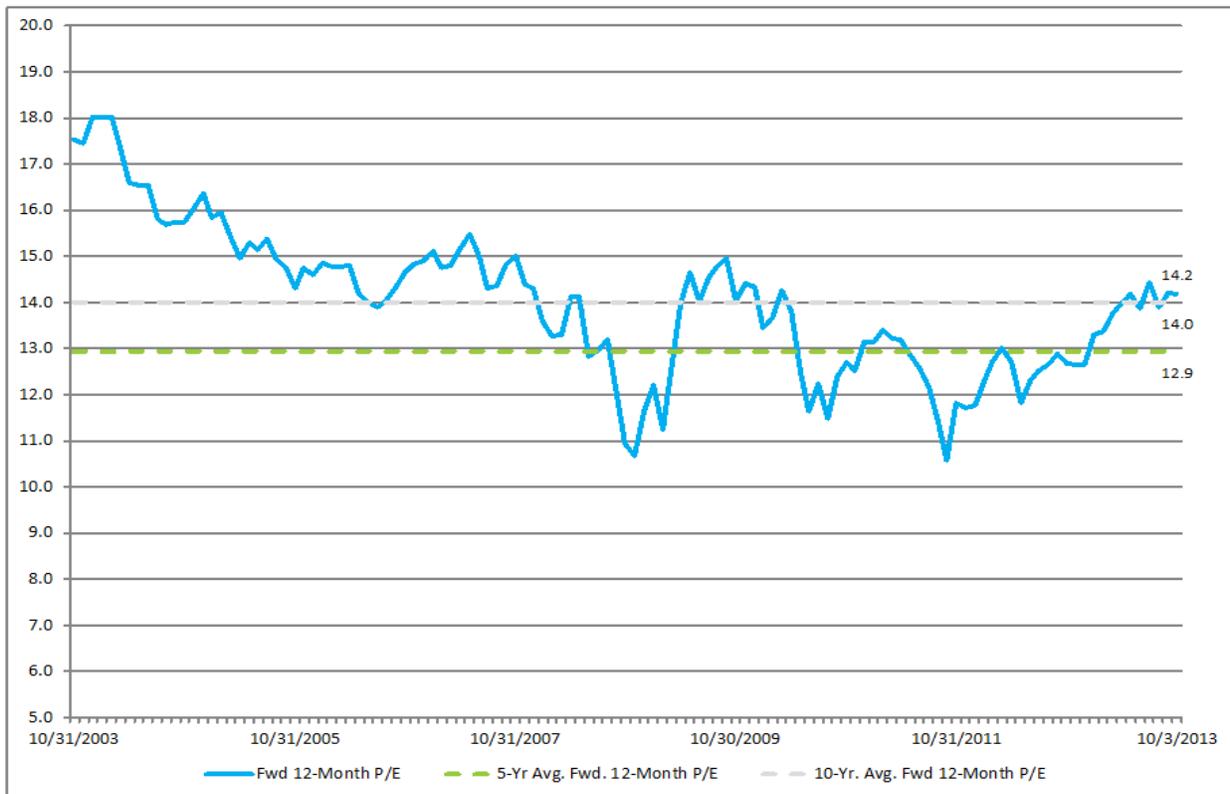


Forward 12M Price / Earnings Ratio: Long-Term Averages

Change in Price vs. Change in Forward 12M EPS: 10-Year

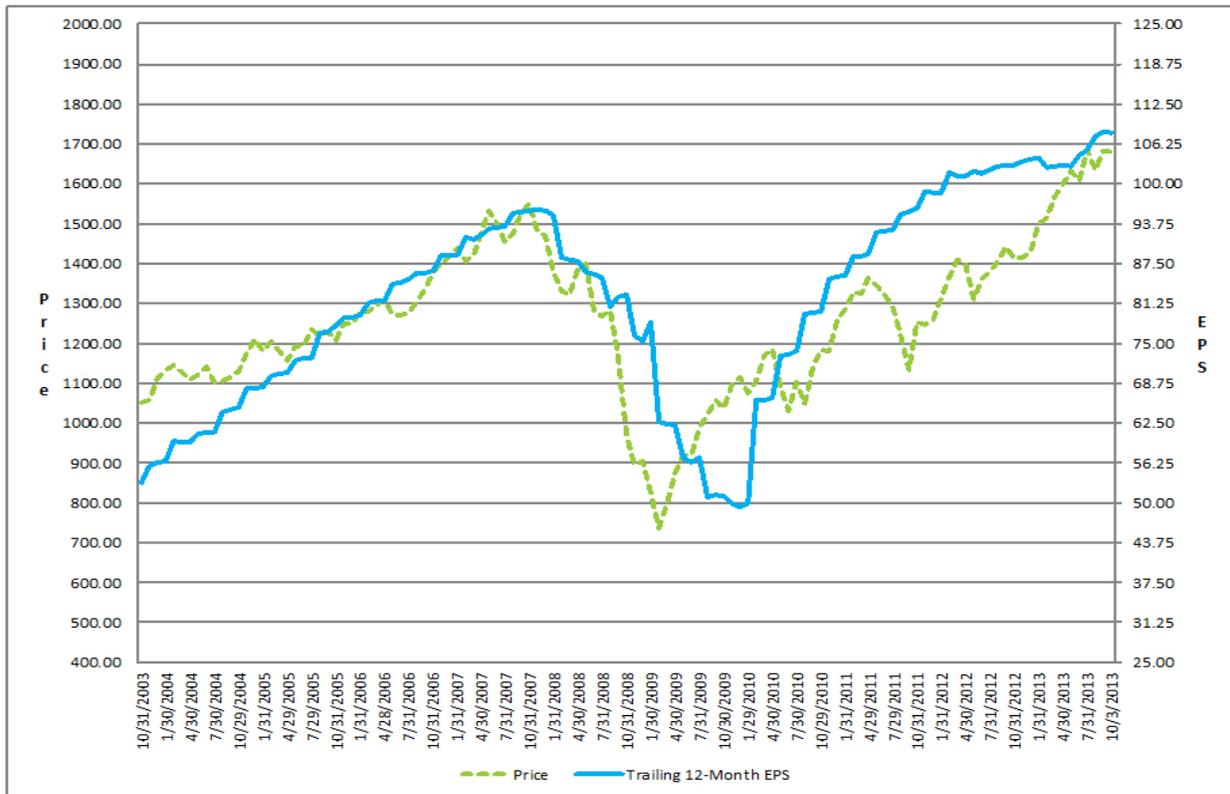


Forward 12M P/E Ratio: 10-Year

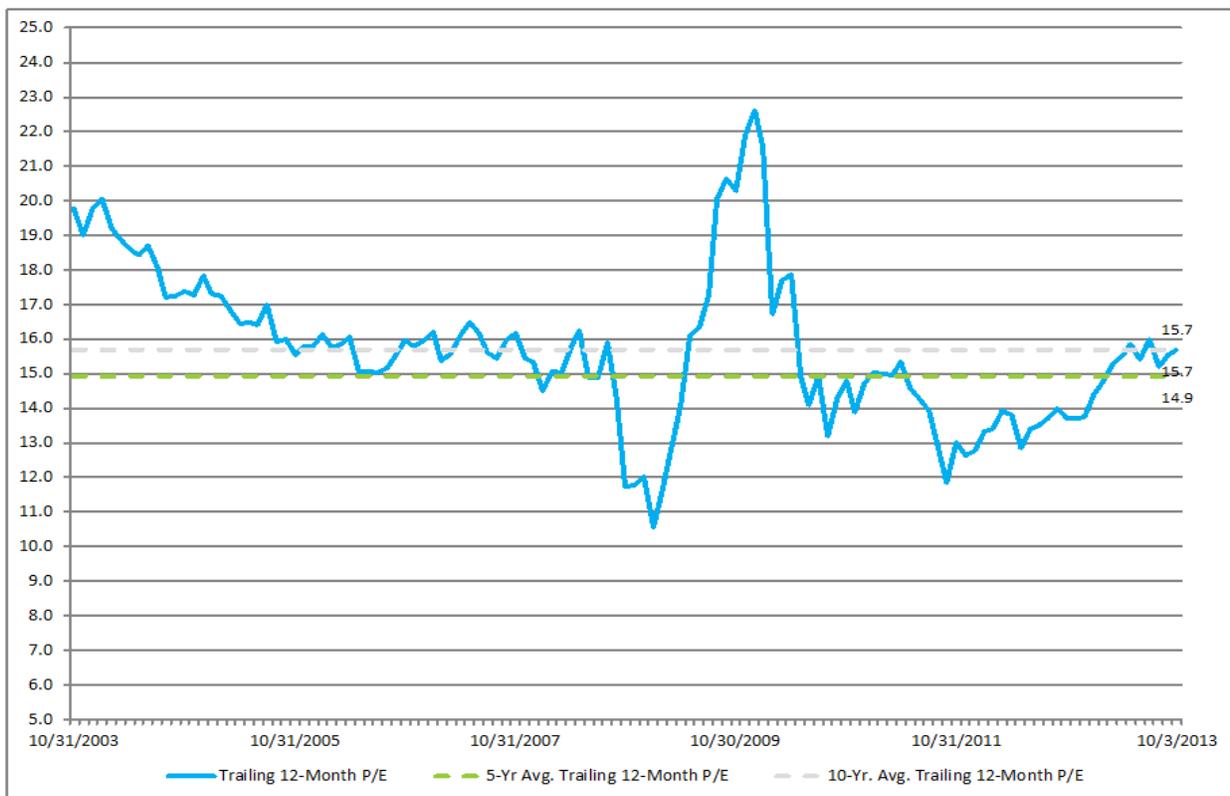


Trailing 12M Price / Earnings Ratio: Long-Term Averages

Change in Price vs. Change in Trailing 12M EPS: 10-Year



Trailing 12M P/E Ratio: 10-Year



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