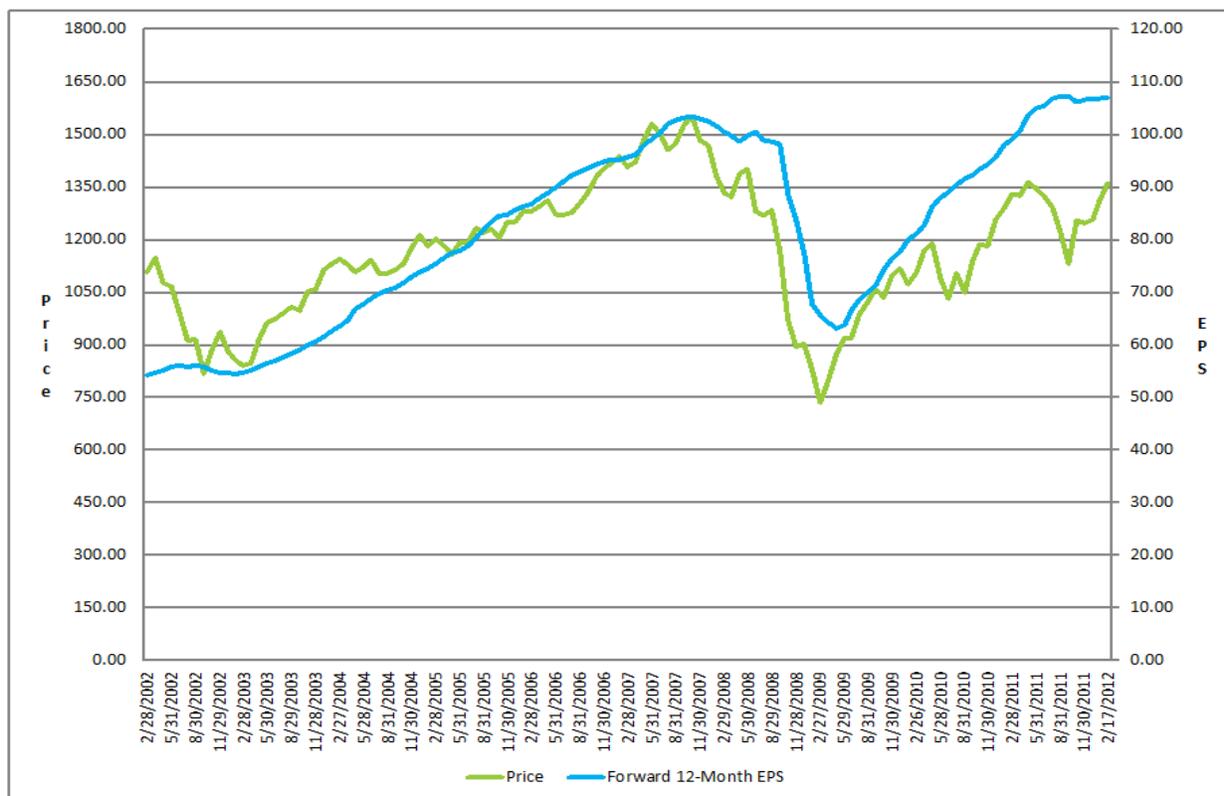


Key Metrics

- + **Earnings Scorecard:** Of the 401 companies that have reported earnings for Q4 2011 to date, 68% have reported earnings above the mean estimate.
- + **Earnings Growth:** The blended earnings growth rate for Q4 2011 is 5.5%. The Information Technology (13.1%) and Industrials (12.6%) sectors have the highest growth rates for the quarter, while the Telecommunications Services (-29.0%) and Materials (-13.8%) sectors have the lowest growth rates.
- + **Earnings Revisions:** The Q4 2011 earnings growth rate of 5.5% is slightly below the earnings growth rate on December 31 (5.7%). The Information Technology and Industrials sectors have seen the largest increases in earnings growth rates during this time, while the Telecom Services, Energy, and Financials sectors have recorded the largest declines in earnings growth rates during this time.
- + **Valuation:** The current 12-Month forward P/E ratio is 12.7. This P/E ratio is below the average forward 12-Month P/E ratio over the past 10 years (14.6).

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:

Industrials Sector Manufactures High Earnings Growth for 2012

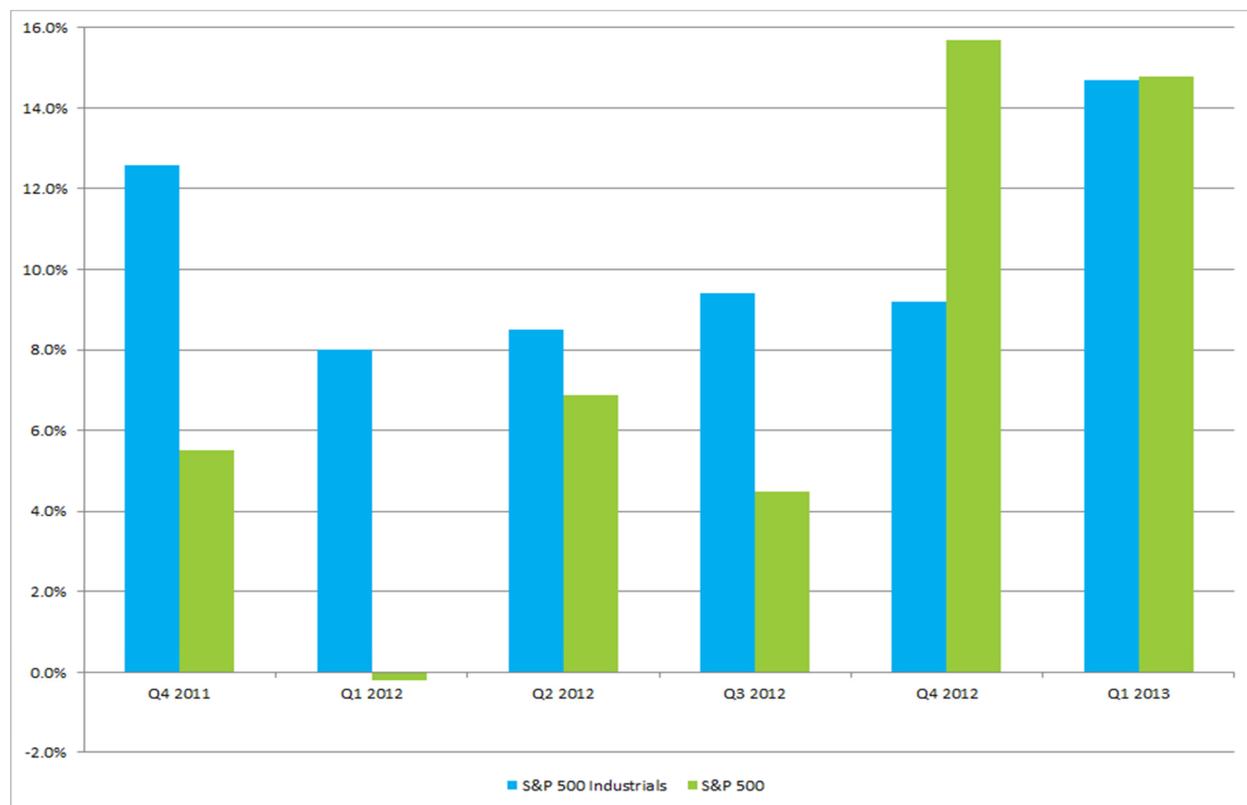
During the past week, Deere & Co. reported actual EPS of \$1.30, which was 5% above the mean analyst estimate (\$1.24) and 8% above year-ago actual EPS (\$1.20). Deere is a company in the Industrials sector, which has been one of the top sectors in Q4 2011 in terms of earnings growth. The blended earnings growth rate for the sector is 12.6%, which is the second-highest earnings growth rate for the quarter behind the Information Technology sector (13.1%).

Digging deeper into the sector at the industry level, ten of the twelve industries have double-digit blended earnings growth rates for the quarter, led by the Construction & Engineering (35.8%) and Machinery (32.0%) industries.

Looking ahead to the current and future quarters, the Industrials sector is projected to be one of the top three sectors in terms of earnings growth over the next three quarters. Although estimates have come down in recent weeks, the Industrial sector is predicted to have the highest earnings growth rate of any sector in Q1 2012 at 8.0%. For Q2 2012, the sector is expected to have the second highest earnings growth rate at 8.5%. For Q3 2012, the sector is expected to have the third highest earnings growth rate at 9.4%.

It is interesting to note that despite the consistent earnings growth expected for the sector for 2012, the current forward 12-month P/E ratio for the Industrials sector of 13.2 is below the sector's 5-year average P/E ratio (14.0) and 10-year average P/E ratio (15.7).

S&P 500 Earnings Growth: Industrials vs. S&P 500



Q4 2011 Earnings Season: Overview

No Change in Earnings Growth Rate This Week (Still 5.5%)

The blended (combines actual results for companies that have reported and estimates for companies yet to report) earnings growth rate for the fourth quarter remained unchanged from last week at 5.5%. Upside earnings surprises from companies in the Consumer Discretionary sector were offset by downside earnings surprises from companies in the Telecommunications Services sector, resulting in no change in the growth rate during the week.

In the Consumer Discretionary sector, companies such as Comcast (\$0.47 vs. \$0.41) and DIRECTV (\$1.02 vs. \$0.92) reported upside earnings surprises relative to estimates. Overall, the blended earnings growth rate for the sector rose from 3.5% to 4.5% during the week.

In the Telecommunications Services sector, CenturyLink (\$0.24 vs. \$0.61) reported actual earnings below the mean estimate. The blended earnings growth rate for the Telecom Services sector fell to -29.0% from -23.7% over this time.

Slightly Fewer Companies (68%) Than Average Have Beat EPS Estimates To Date

During the Q4 2011 earnings season, slightly fewer companies overall are reporting actual EPS above the mean EPS estimate relative to recent quarters.

Of the 401 companies that have reported earnings to date, 68% have reported actual EPS above estimates and 32% have reported actual EPS below estimates. Over the past four quarters, 73% of companies have reported actual EPS above estimates, on average.

The Industrials (81%), Information Technology (79%), and Health Care (76%) sectors have the highest percentages of companies reporting upside earnings surprises, while the Telecom Services (0%), Utilities (53%), and Financials (55%) sectors have the lowest percentages of companies reporting upside earnings surprises.

In aggregate, companies are reporting actual earnings that are 3.6% above estimates. Companies in the Information Technology (9.4%) and Industrials (8.1%) sectors are reporting the highest aggregate difference between actual and estimated earnings. Companies in four of the sectors in the index are reporting aggregate earnings that are below projections, led by the Telecom Services sector (-13.8%). The other three sectors are reporting aggregate downside surprises between 0% and -1%.

Overall S&P 500 Earnings Growth is 5.5%, But Drops to 0.8% excluding Apple and AIG

The blended (combines actual results for companies that have reported and estimates for companies yet to report) earnings growth rate for the fourth quarter currently stands at 5.5%. If the final earnings growth rate is 5.5%, it will mark the end of the streak of consecutive quarter of double-digit earnings growth at eight for the index.

Eight of the ten sectors are reporting earnings growth for the quarter, led by the Information Technology (13.1%) and Industrials (12.6%) sectors. The Telecommunications Services (-29.0%) and Materials (-13.8%) sectors are reporting the lowest growth rates for the quarter.

However, it is important to note that two companies in the index are responsible for most of the earnings growth in the S&P 500 for Q4 2011: Apple and AIG.

If Apple and AIG are excluded from the index, the blended earnings growth rate for the S&P 500 would drop to 0.8% from 5.5%.

Apple reported substantial growth in revenue and earnings for Q4 2011. On the earnings side, the company reported EPS for Q4 2011 of \$13.87, which was 116% above year-ago actual EPS (\$6.43). On the sales side, the company reported revenue of \$46.3 billion, which was 73.3% above year-ago actual revenue (\$26.7 billion).

For AIG, comparisons to weak year-ago earnings in Q4 2010 are driving the unusually high dollar-level growth. The current mean EPS estimate for AIG for Q4 2011 is \$0.60, relative to actual EPS of -\$16.20 reported for Q4 2010. In Q4 2010, the company recorded \$4.2 billion net charge to strengthen Chartis loss reserves, which accounted for much of the loss for the quarter.

Global Concerns: Uncertainty and Economic Weakness in Europe

During this earnings season, a number of companies have commented on their business conditions in Europe. Overall, companies have specifically expressed concerns about weaker sales and earnings in the region, headwinds to future growth due to less favorable foreign currency exchange rates, and general uncertainty about economic conditions.

Here are some comments from S&P 500 companies that discussing all three of these concerns:

"Let's now turn to the technology slide. Technology revenue was down 5%, or 4% at constant currency. The largest factor in this decline was the slowdown in Europe, where equipment revenue was down 15%." – Xerox (Jan. 25)

"Europe, of course, remains a question mark as we begin 2012, and we are seeing some pressure from the euro, which has traded as low as \$1.26 versus the dollar. We continue to keep a close eye on exchange rates, and we expect FX to be a significant headwind in the first half of 2012, as the euro averaged \$1.40 last year in the first half." –United Technologies (Jan. 25)

"Yeah, and again, I think it's a very good question. Because I think maybe one of the hardest calls from an economic perspective right now is, how long does the European weakness go on...." – Eaton (Jan 26)

Global Concerns: Some Slowdown In Emerging Markets Now, But Future Rebound Expected

On the other hand, countries in the Asia Pacific region (except Japan) and in "emerging markets" regions have reported high economic growth in recent quarters. According to FactSet Economics, nine of the top fifteen nations in terms of year-over-year real GDP growth in Q3 2011 were countries in the Asia Pacific and Latin American regions, including Argentina (10.0%), China (9.1%), and Ecuador (9.0%). Over the last few quarters, many corporations have reported their largest revenue growth in the Asia Pacific region and in emerging markets.

However, there have been concerns about slowing growth in developing countries. According to FactSet Economics, three of the four "BRIC" countries have recorded slower GDP growth over the last year. For Q3 2010, Brazil, China, and India recorded GDP growth of 7.1%, 9.6% and 9.1%, respectively. For Q3 2011, GDP growth rates for Brazil, China, and India had fallen to 2.4%, 9.1% and 6.4%.

A number of companies have stated that despite seeing some recent slowdown in growth, they expect strong sales growth in "emerging markets" regions to continue in the second half of 2012.

"Clearly, China was also a factor in the fourth quarter, as the Chinese government successfully slowed activity to stem inflation. Our China team anticipates continued below-trend growth in the first half of 2012, with stronger growth returning in the second half." –3M (Jan. 26)

"We expect government policy easing in China, which has already started, to continue and lead to modest recovery in machine sales in 2012." – Caterpillar (Jan. 26)

“On the positive side, however, growth rates in emerging geographies, regions that represented 35% of Dow’s revenues in the fourth quarter are expected to remain healthy, driven by needs for growing populations, needs such as agriculture, food packaging and water to name a few. Taken on the whole, we believe demand growth will begin to gain momentum as we move through the second quarter and the remainder of the year and we see meaningful improvements in Asia, Latin America, Eastern Europe, Middle East and Africa and the United States...” –Dow Chemical (Feb. 2)

Other companies have continued to see strong sales growth in emerging markets regions.

“Overall, our Pacific group volume was up 5% in both the quarter and the full-year. And these results were led by China, up double digits in the quarter and for the full-year, making this nine out of the last 10 years that our business in China has delivered double-digit growth.” –Coca-Cola (Feb. 7)

Q112 Earnings Decline Predicted, But Double-Digit Growth Projected for Q412 & Q113

In light of these predictions for stronger economic growth in emerging markets and the U.S. in the second-half of 2012, analysts are projecting double-digit earnings growth rates to resume in Q4 2012 after lower growth rates in the first three quarters of 2012.

Analysts are calling for a slight year-over-year decline in earnings (-0.2%) for Q1 2012, as six of the ten sectors are predicted to a decrease in earnings for the quarter. For Q2 2012 and Q3 2012, the estimated earnings growth rates are expected to be in the single-digit range at 6.9% and 4.5%.

However, the estimated earnings growth rates for Q4 2012 and Q1 2013 are predicted to jump to 15.8% and 14.8%. For Q4 2012, analysts currently believe seven of the ten sectors will report double-digit earnings growth, led by the Telecom Services (45.9%) and Materials (44.2%) sectors.

Valuation: Forward P/E Below 10-Year Average, But Up Since December 31

The current forward 12-month P/E ratio of 12.7 is well below the prior ten-year average forward 12-month P/E ratio of 14.6, but is higher than the 11.8 P/E ratio recorded at the start of the first quarter (December 31). The P/E ratio has increased during this time due to an increase in the price of the index (up 8.0% since December 31), while the forward 12-Month EPS estimate for the index has only slightly increased (to 106.97 from 106.72).

While this projection of over \$100 per share in earnings may seem high, it is important to note that more than 70% of companies have reported EPS above estimates over the last ten quarters.

Will there be a return to the 10-year average valuation for the market anytime soon? If there is going to be a return to this average P/E ratio of 14.6, either future estimates will need to continue to decrease, the price of the index will need to continue to increase, or a combination of the two will need to occur.

Companies Reporting Next Week

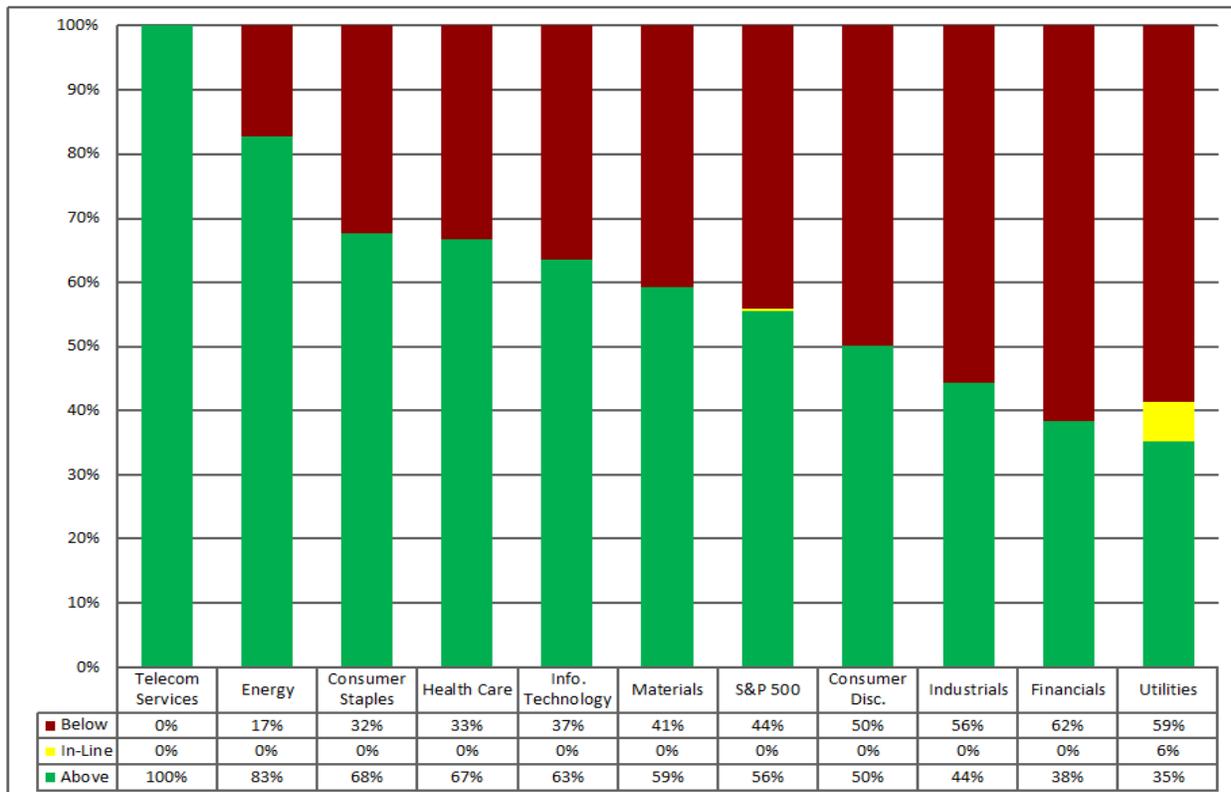
The upcoming week will mark the final “peak week” of the Q4 2011 earnings season, as the final four companies in the DJIA and 55 companies in the S&P 500 index are scheduled to release earnings results during the week.

Q4 2011: Scorecard

Q4 2011 Earnings: Above, In-Line, Below Estimates

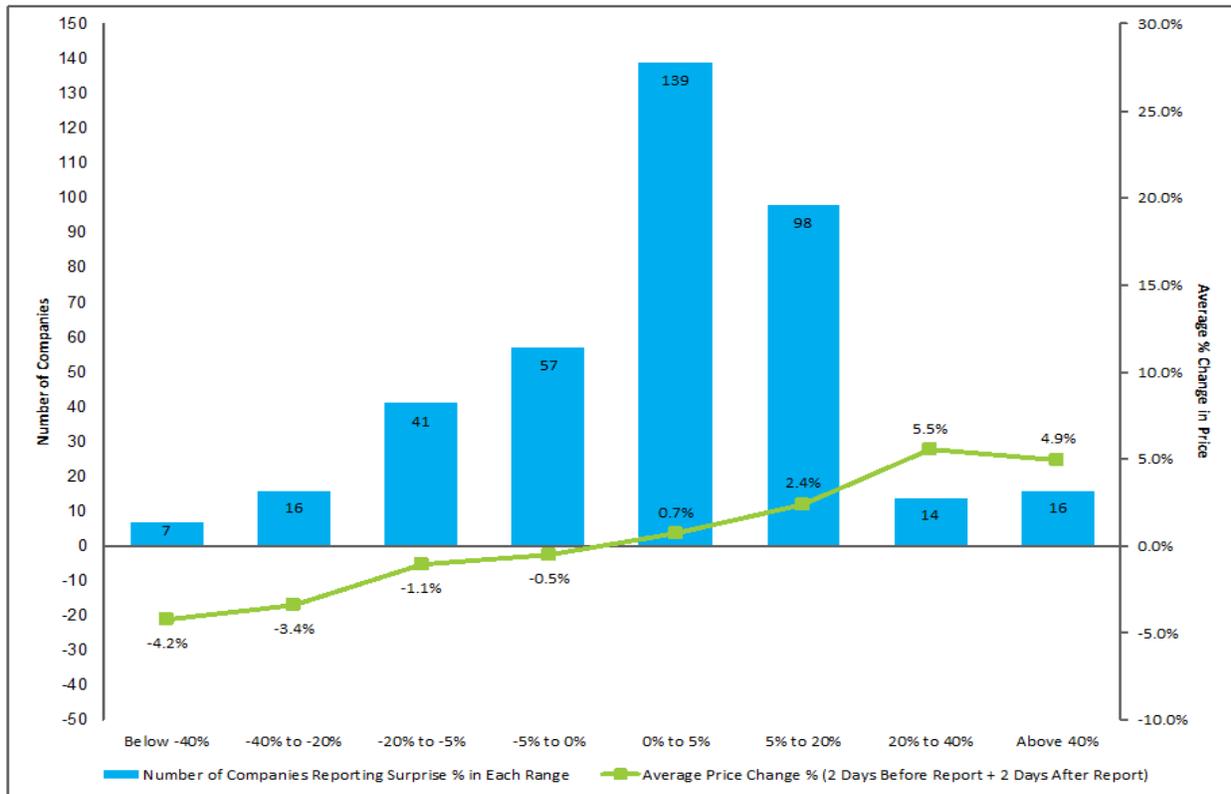


Q4 2011 Revenues: Above, In-Line, Below Estimates

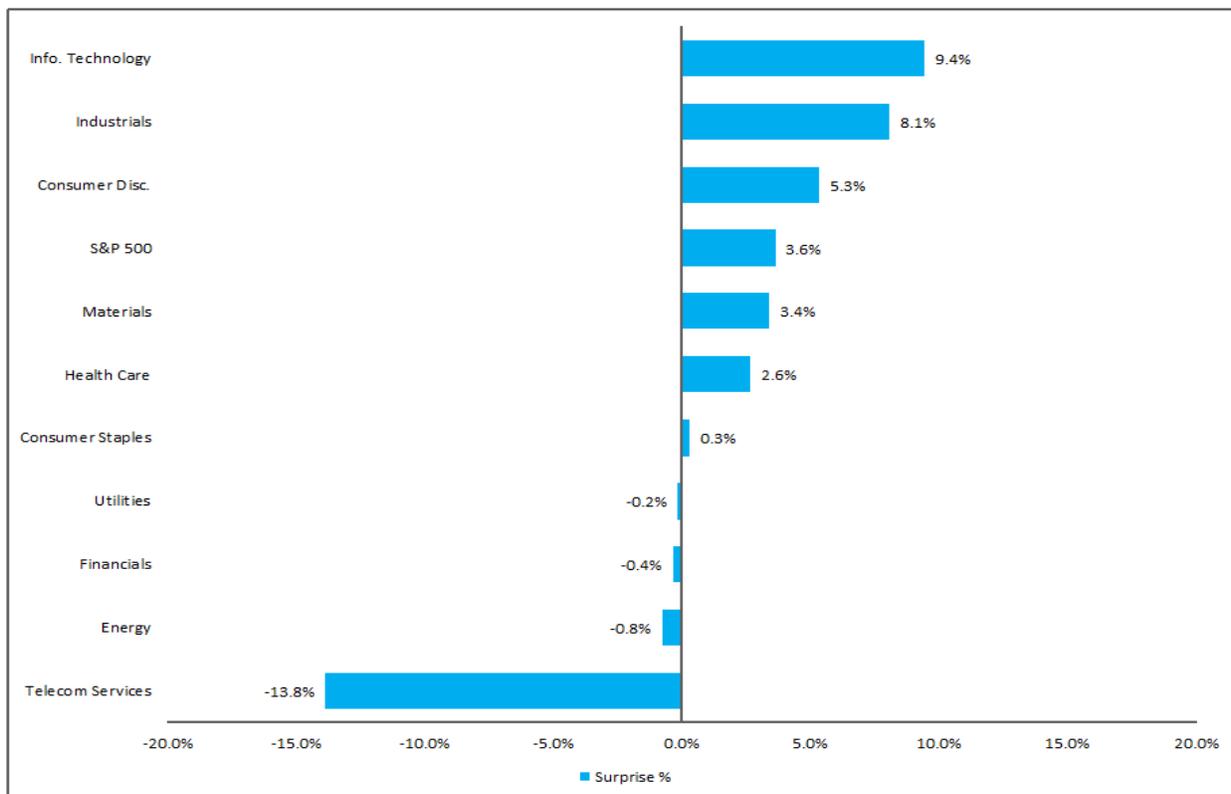


Q4 2011: Scorecard

Q4 2011: Surprise % vs. Average Price Change %

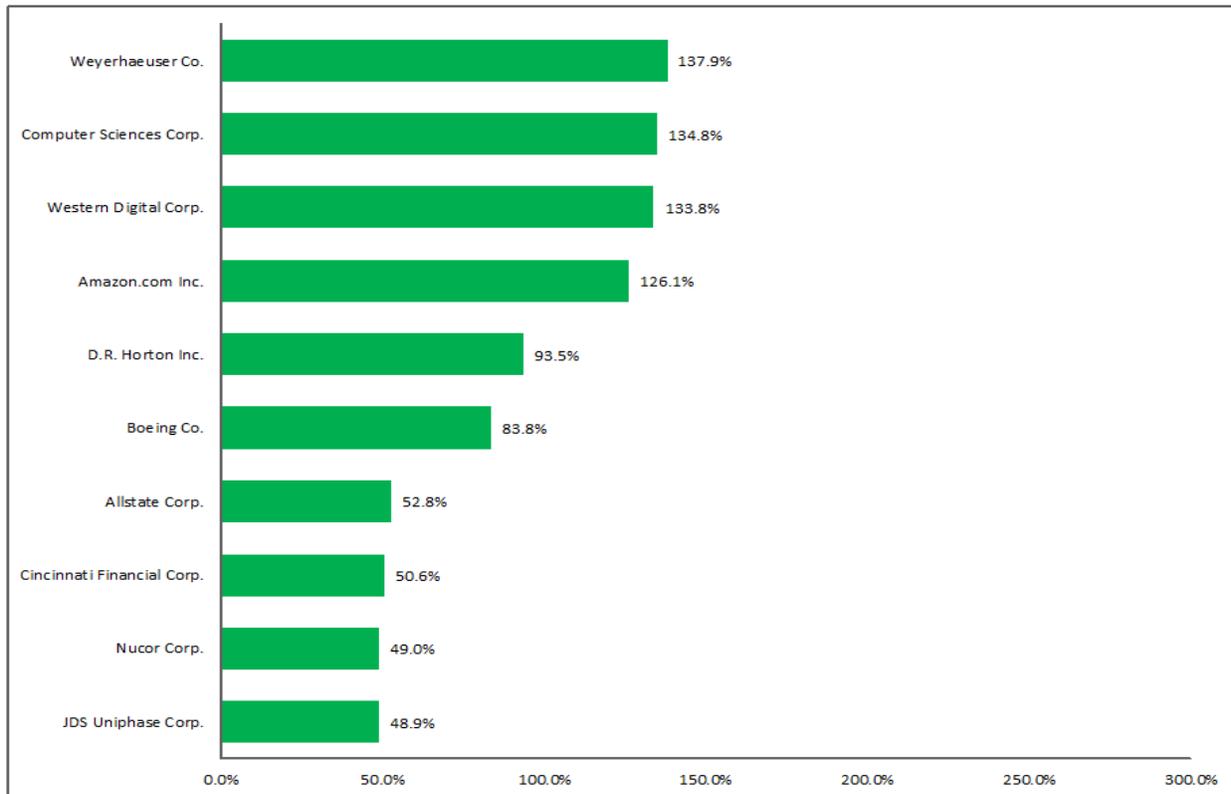


Q4 2011: Sector Level Surprise %

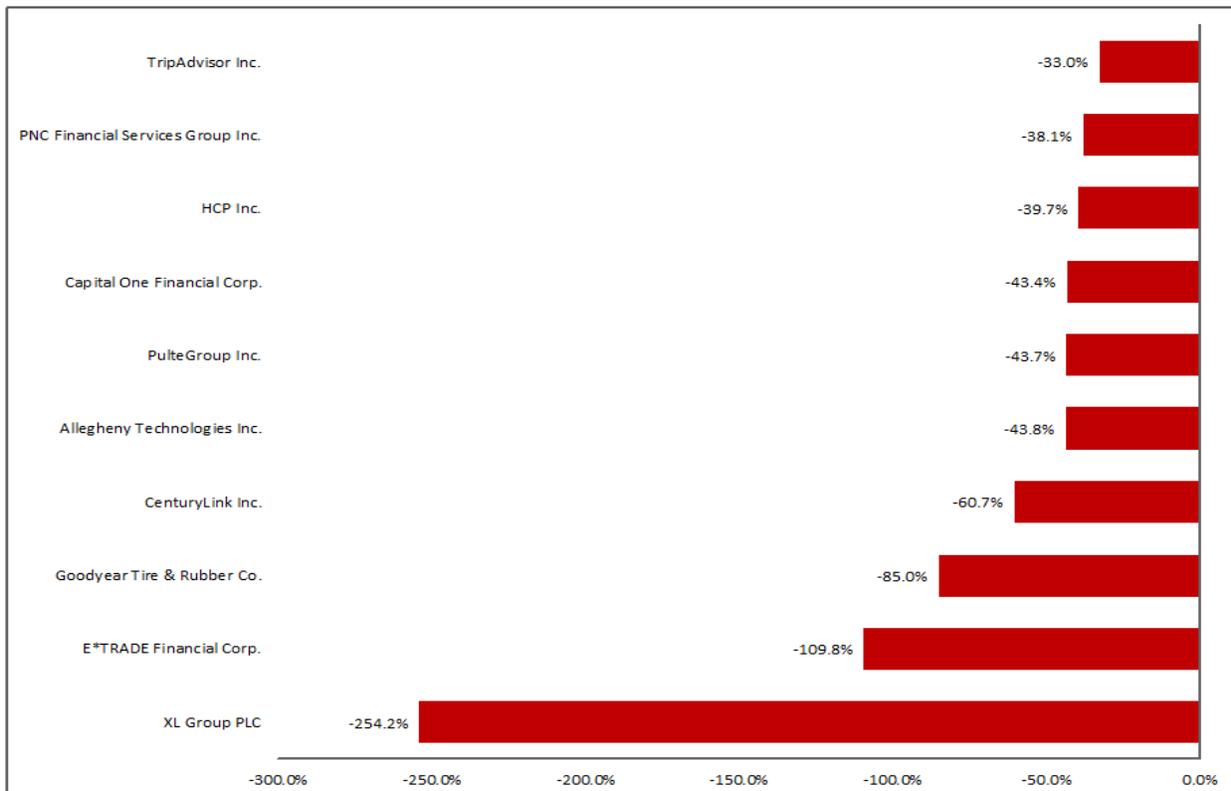


Q4 2011: Scorecard

Surprise %: Top 10 Companies

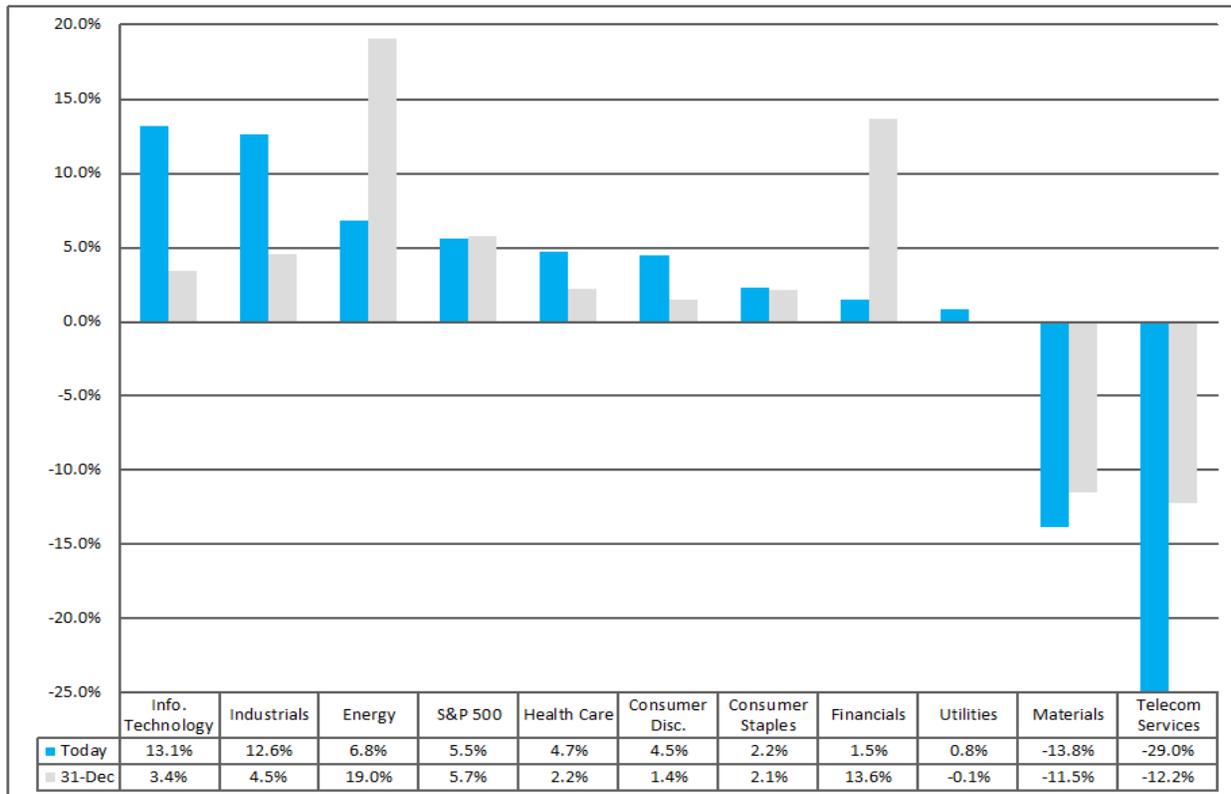


Surprise %: Bottom 10 Companies

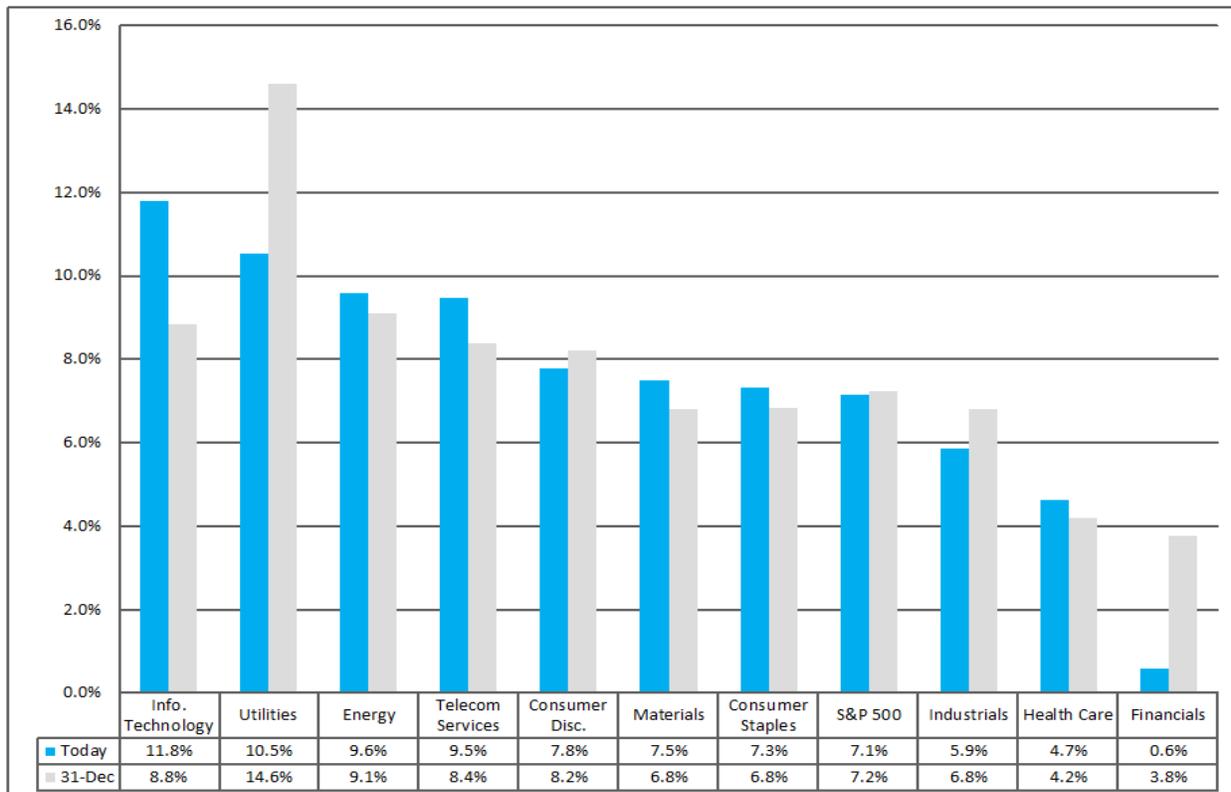


Q4 2011: Growth

Q4 2011 Earnings Growth

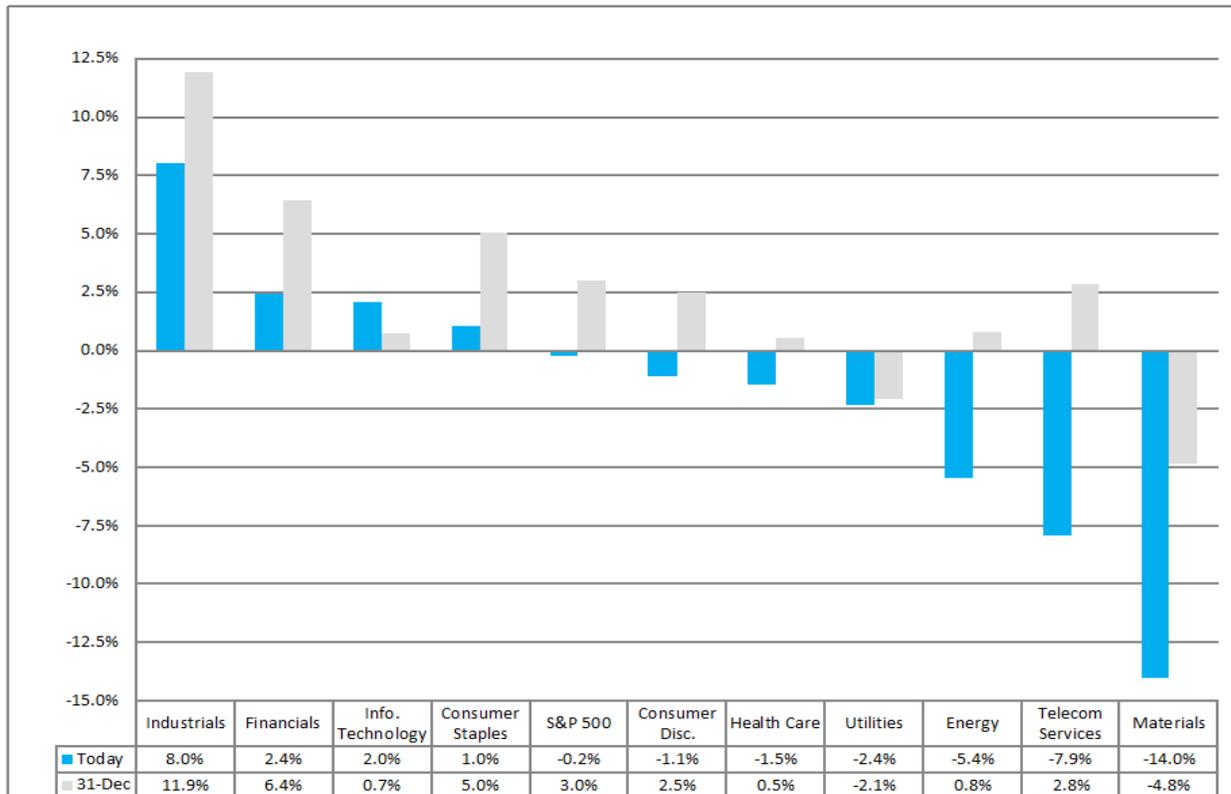


Q4 2011 Revenue Growth

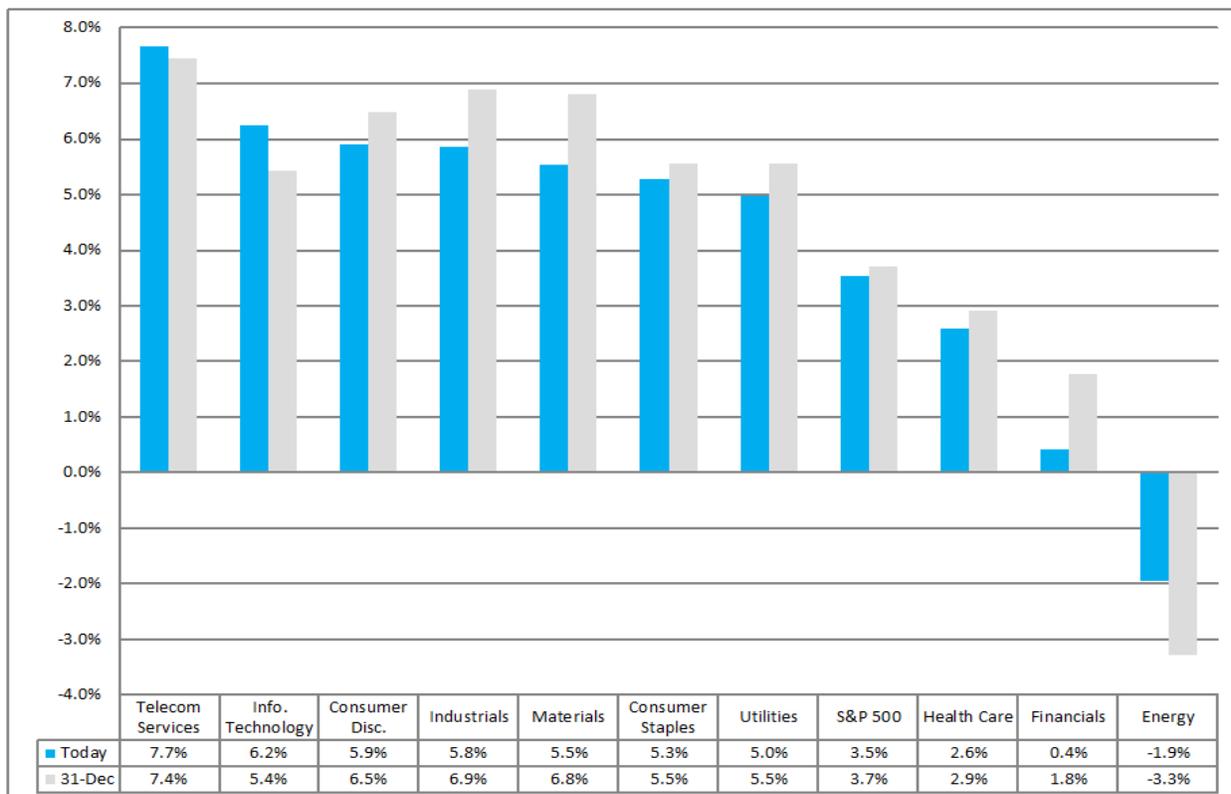


Q1 2012: Growth

Q1 2012 Earnings Growth

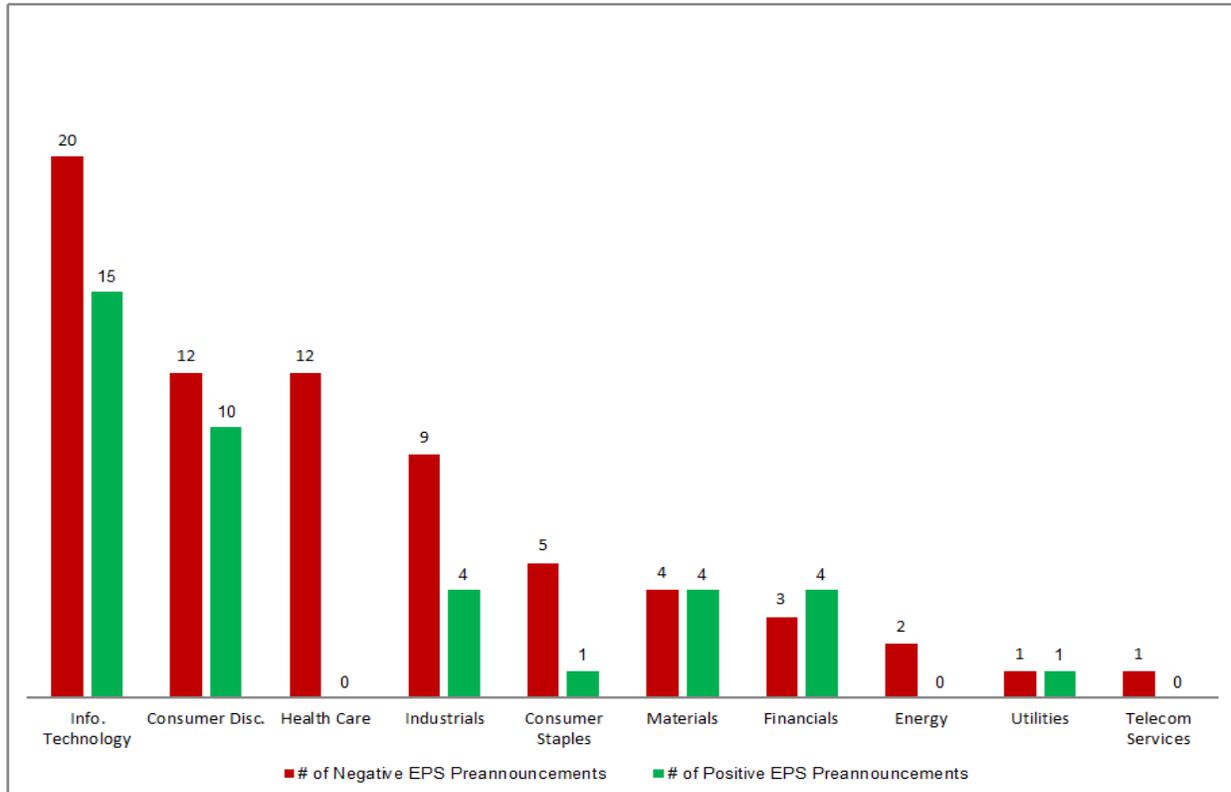


Q1 2012 Revenue Growth



Guidance: Current Fiscal Quarter

Number of Positive & Negative EPS Preannouncements: Current Fiscal Quarter

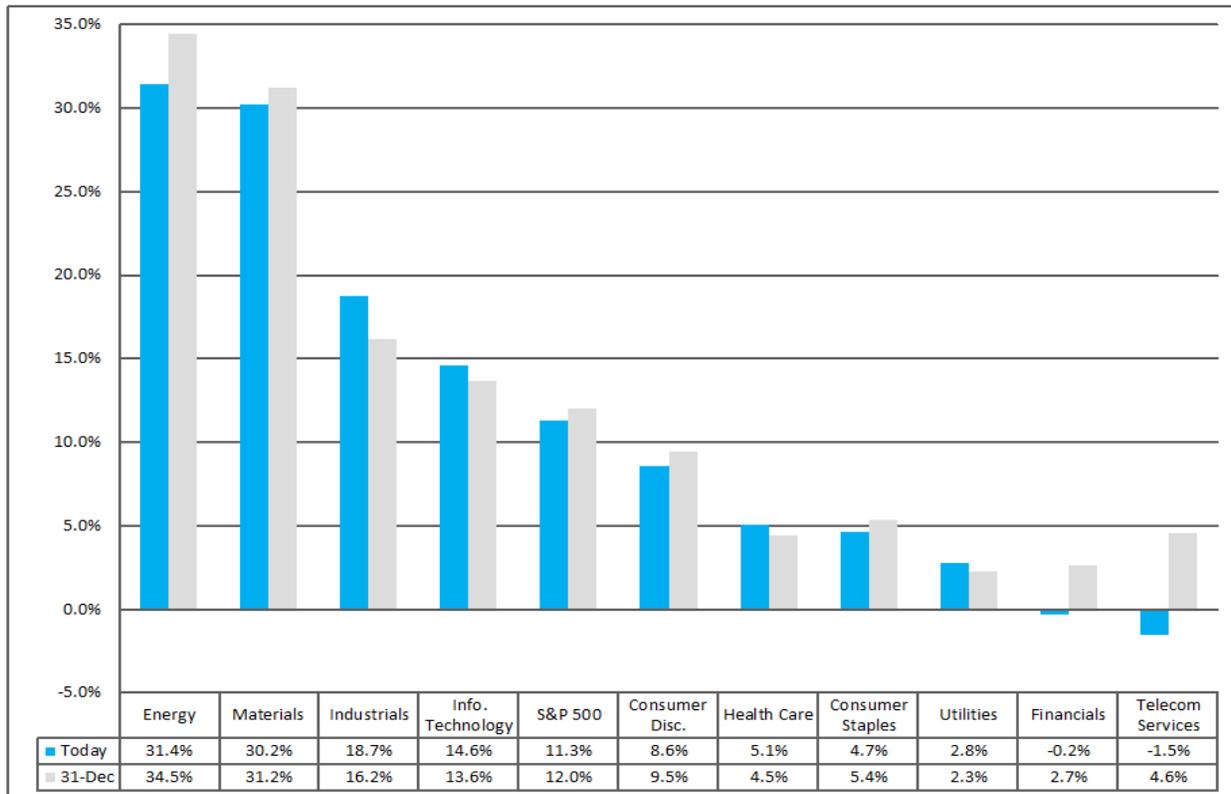


Percentage of Positive & Negative EPS Preannouncements: Current Fiscal Quarter

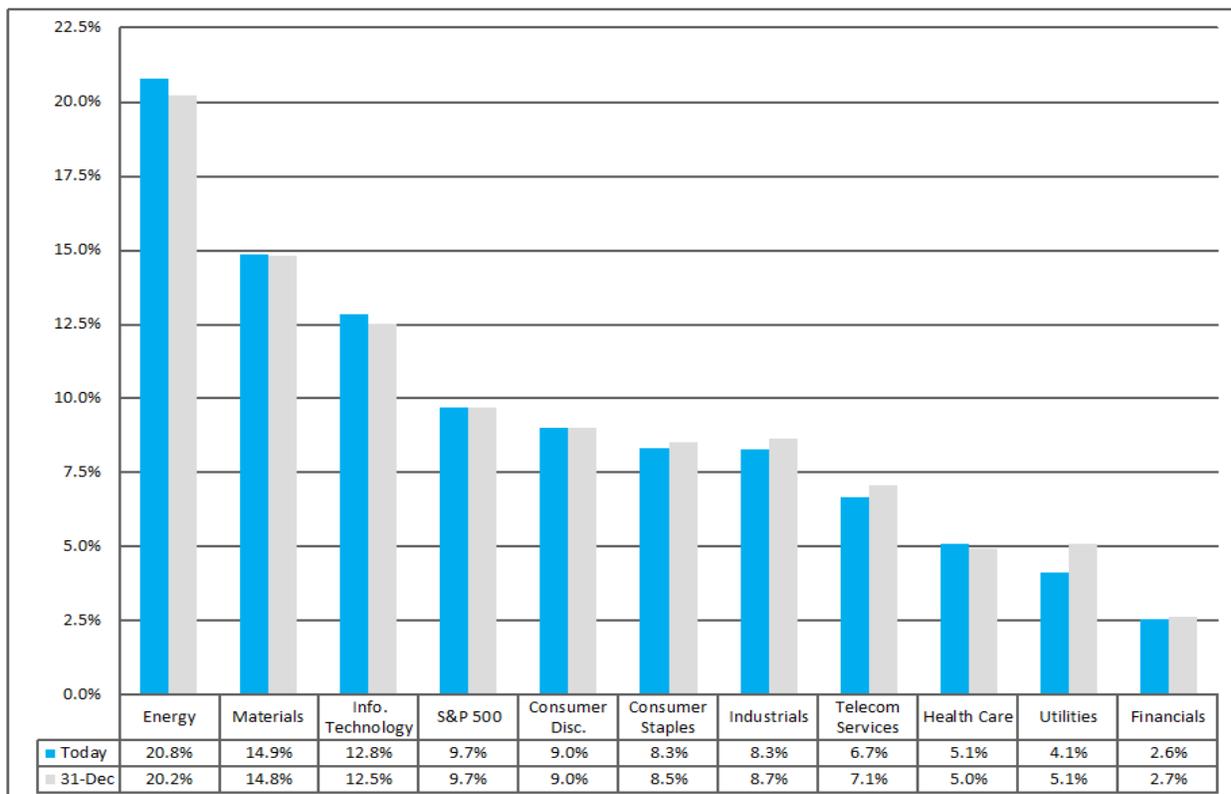


CY 2011: Growth

CY 2011 Earnings Growth

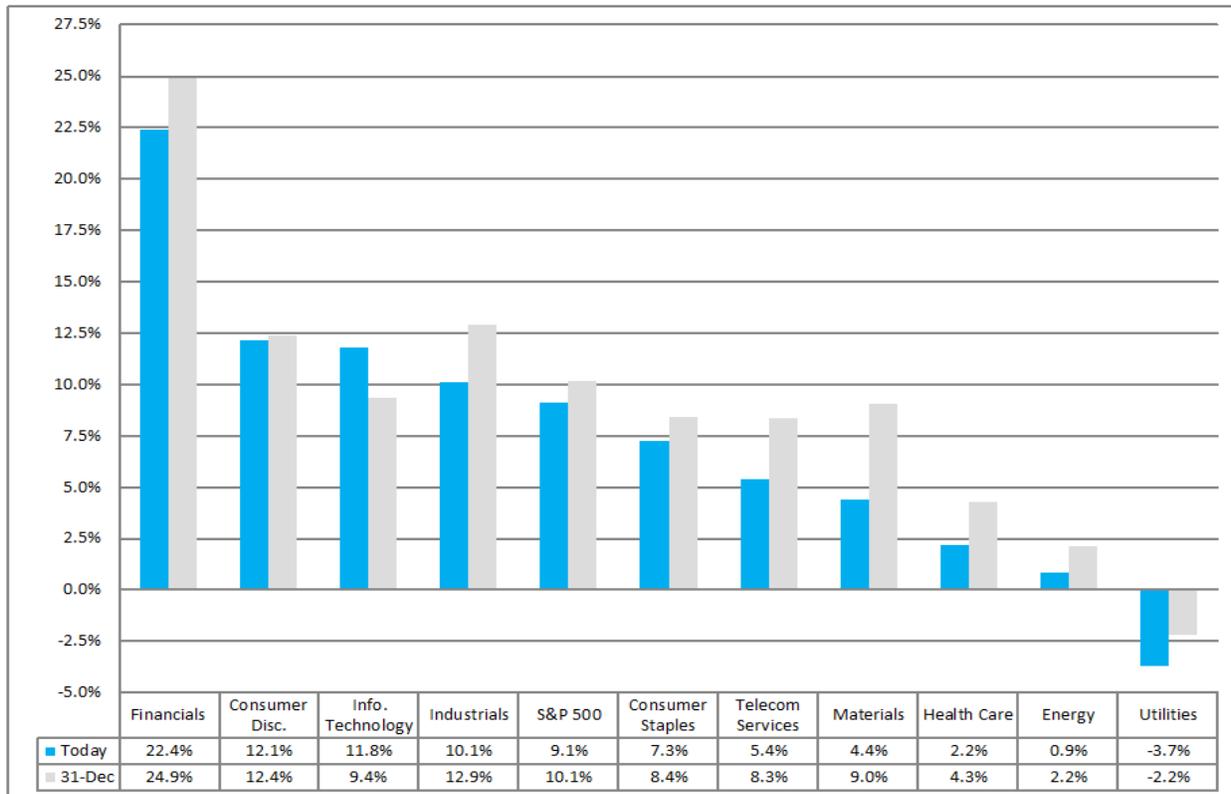


CY 2011 Revenue Growth

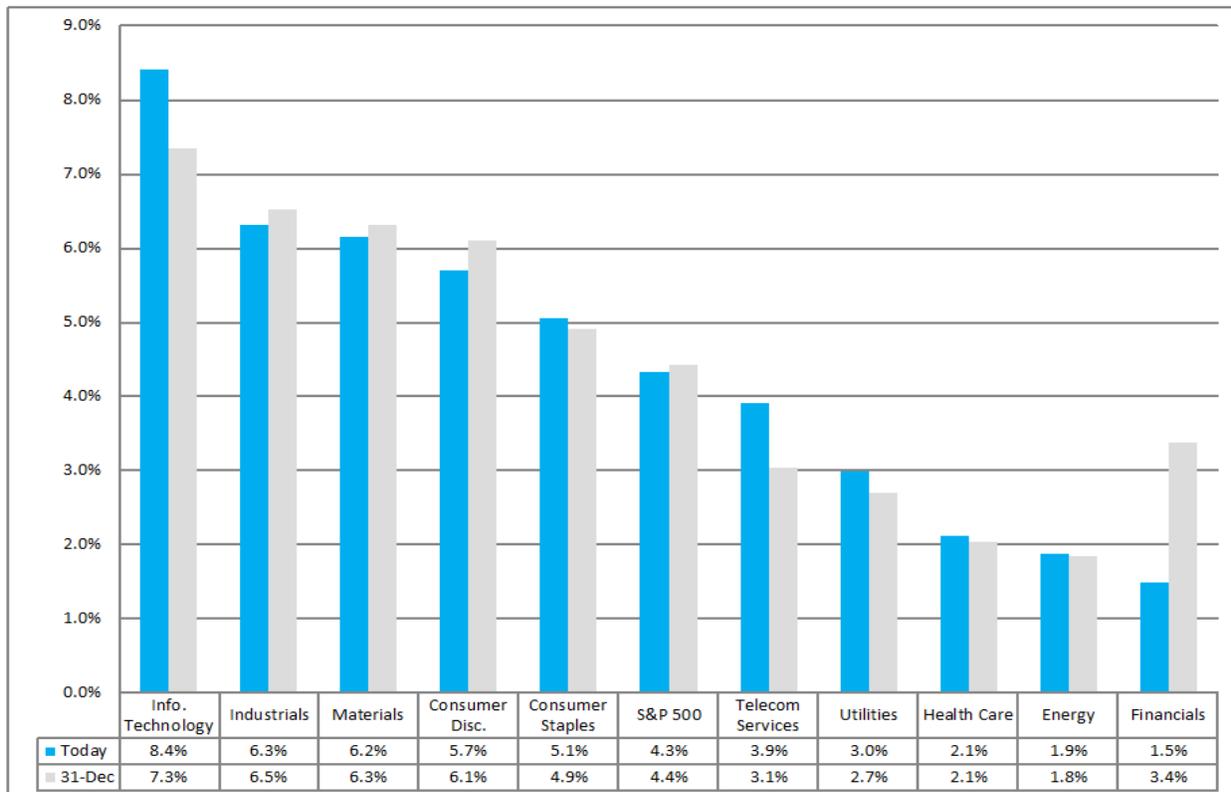


CY 2012: Growth

CY 2012 Earnings Growth

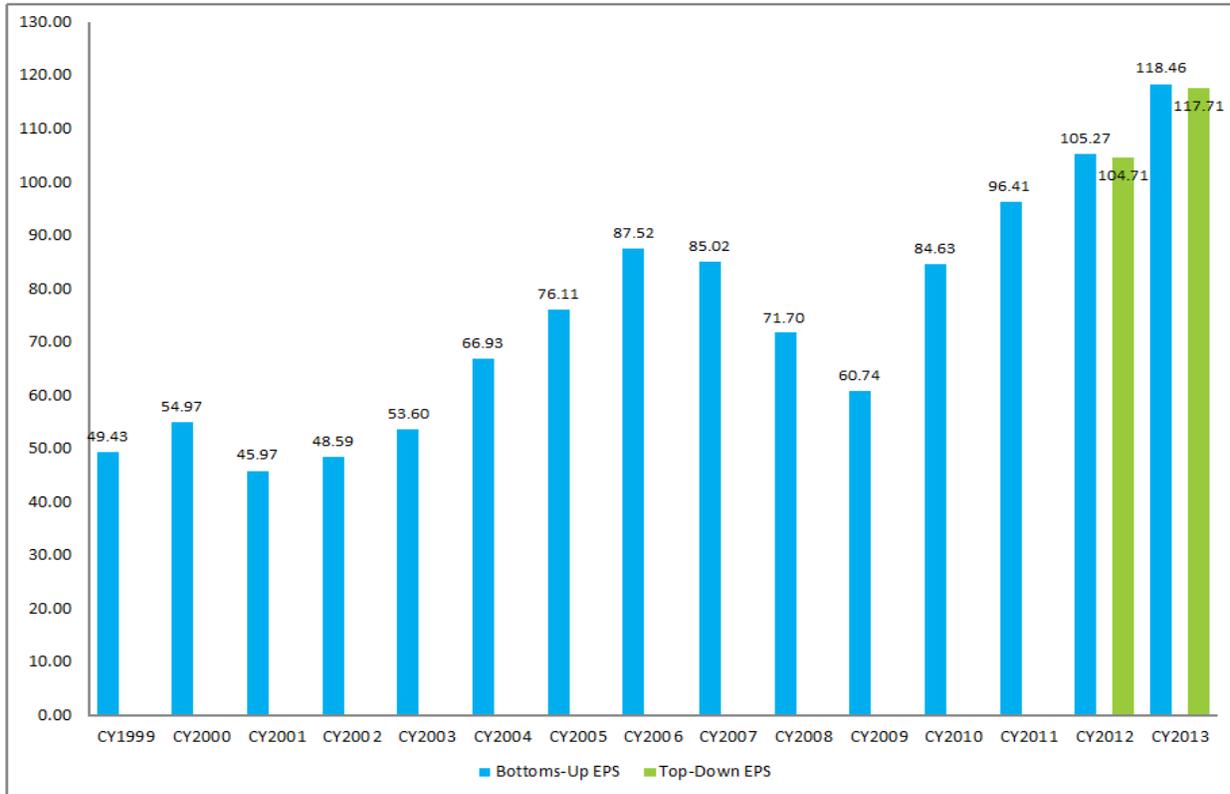


CY 2012 Revenue Growth

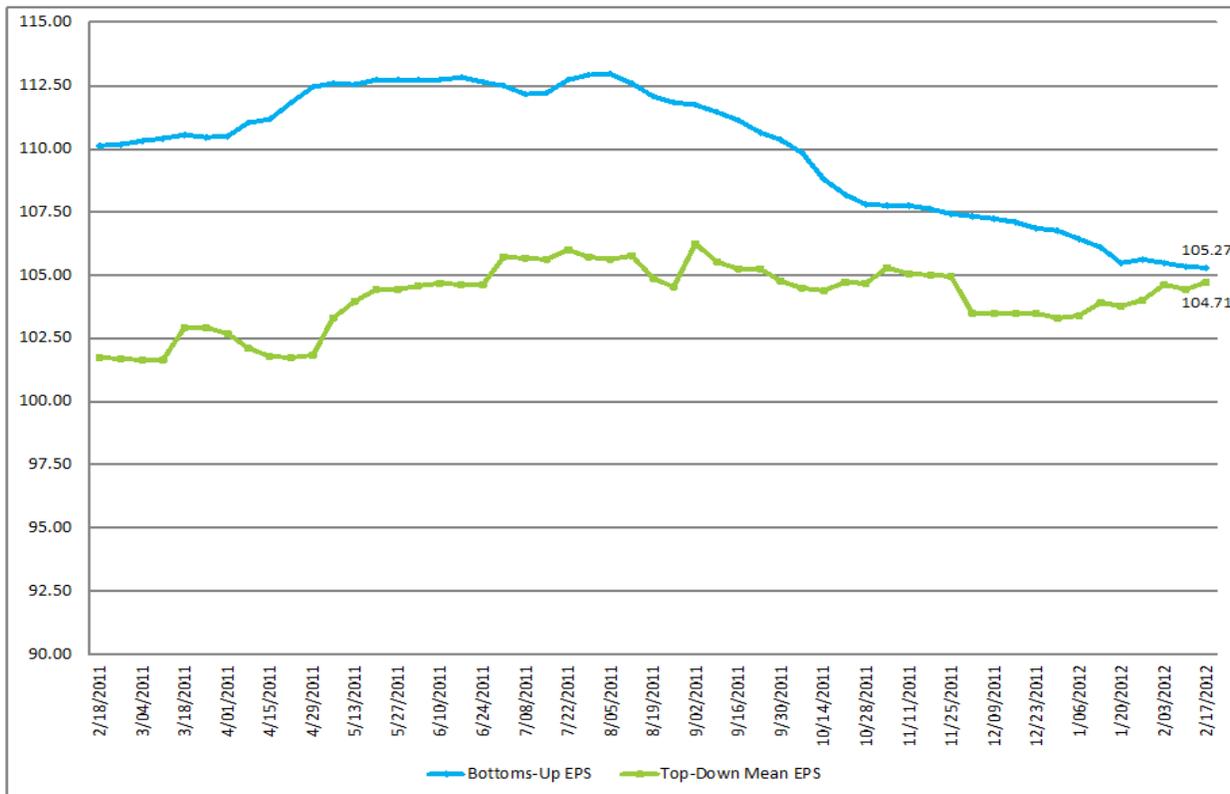


Bottoms-Up Estimates

Calendar Year Bottoms-Up EPS Actuals & Estimates

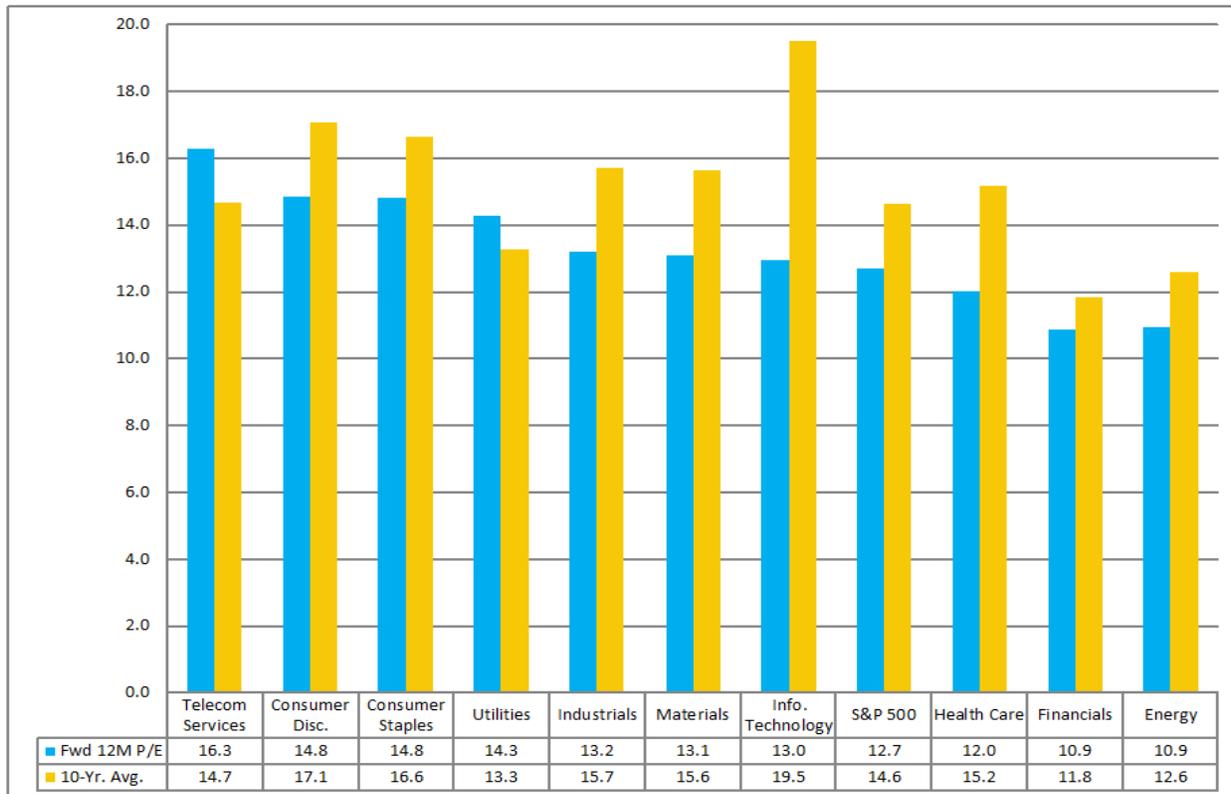


CY 2012 Estimates: Bottoms-Up EPS vs. Top Down EPS

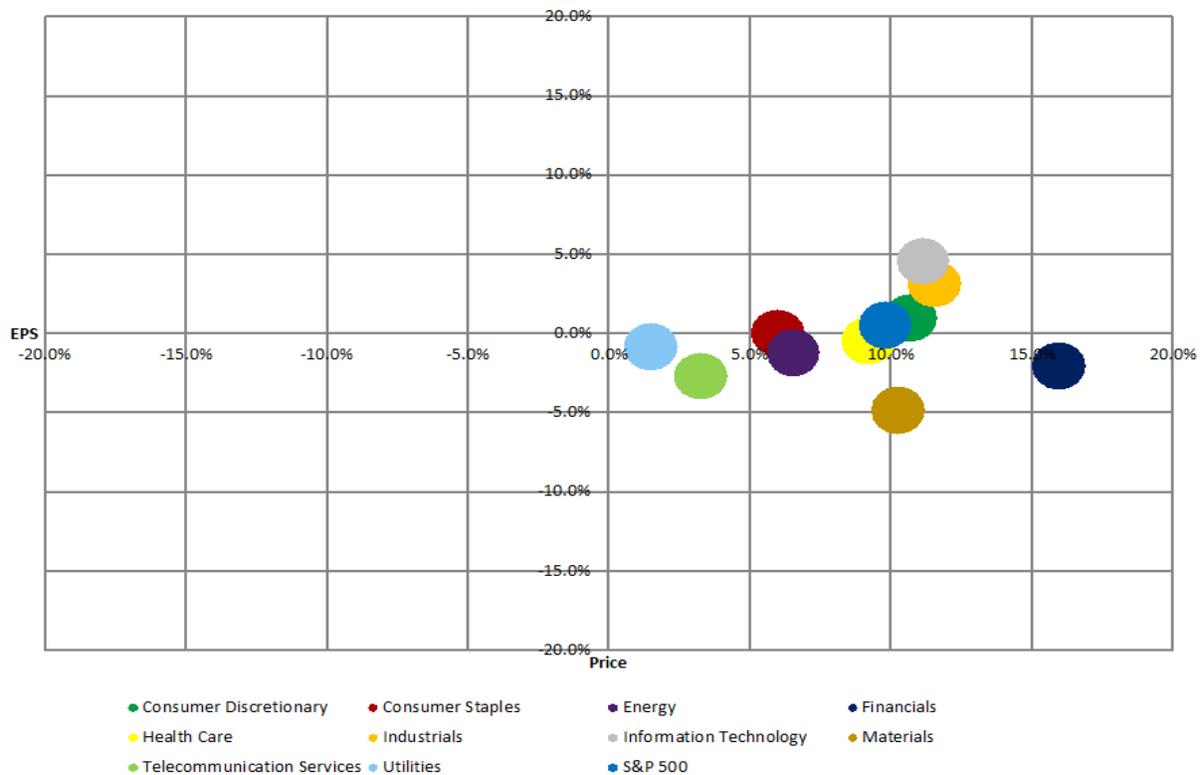


Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

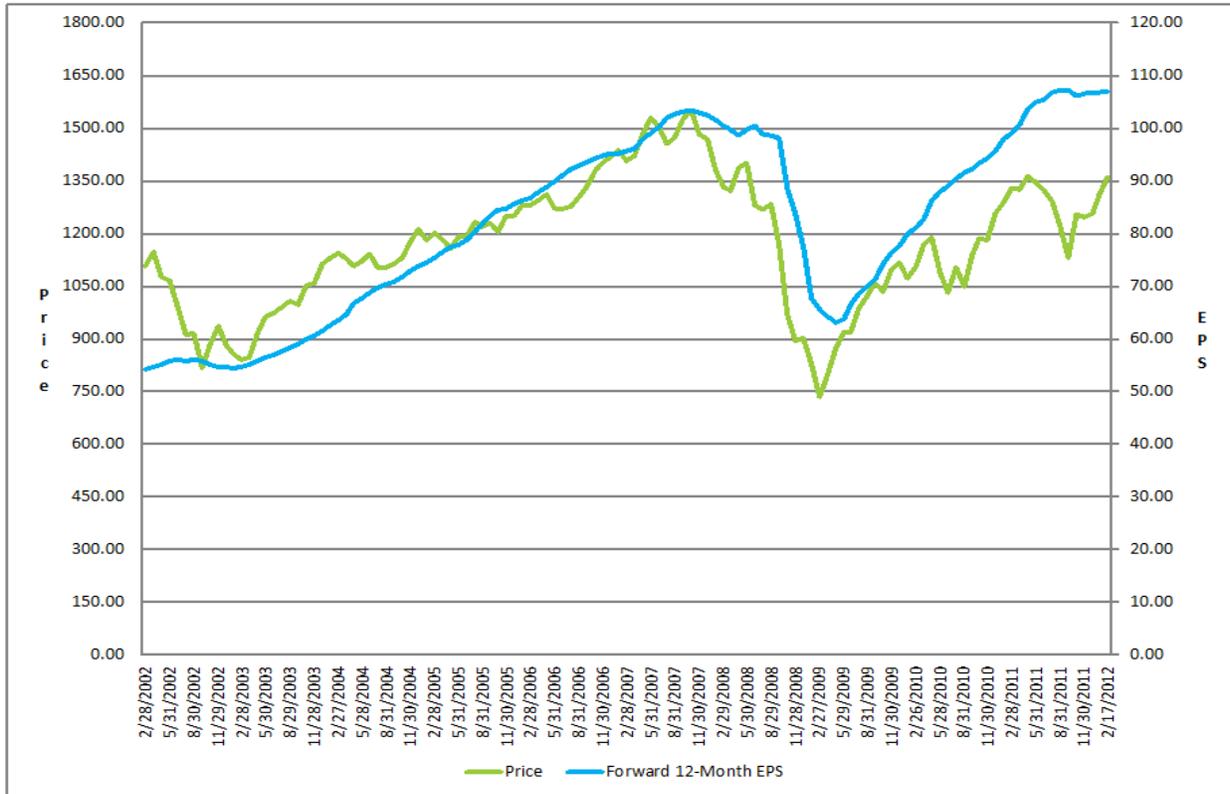


Sector-Level Change in Price vs. Change Forward 12M EPS: 3-Months

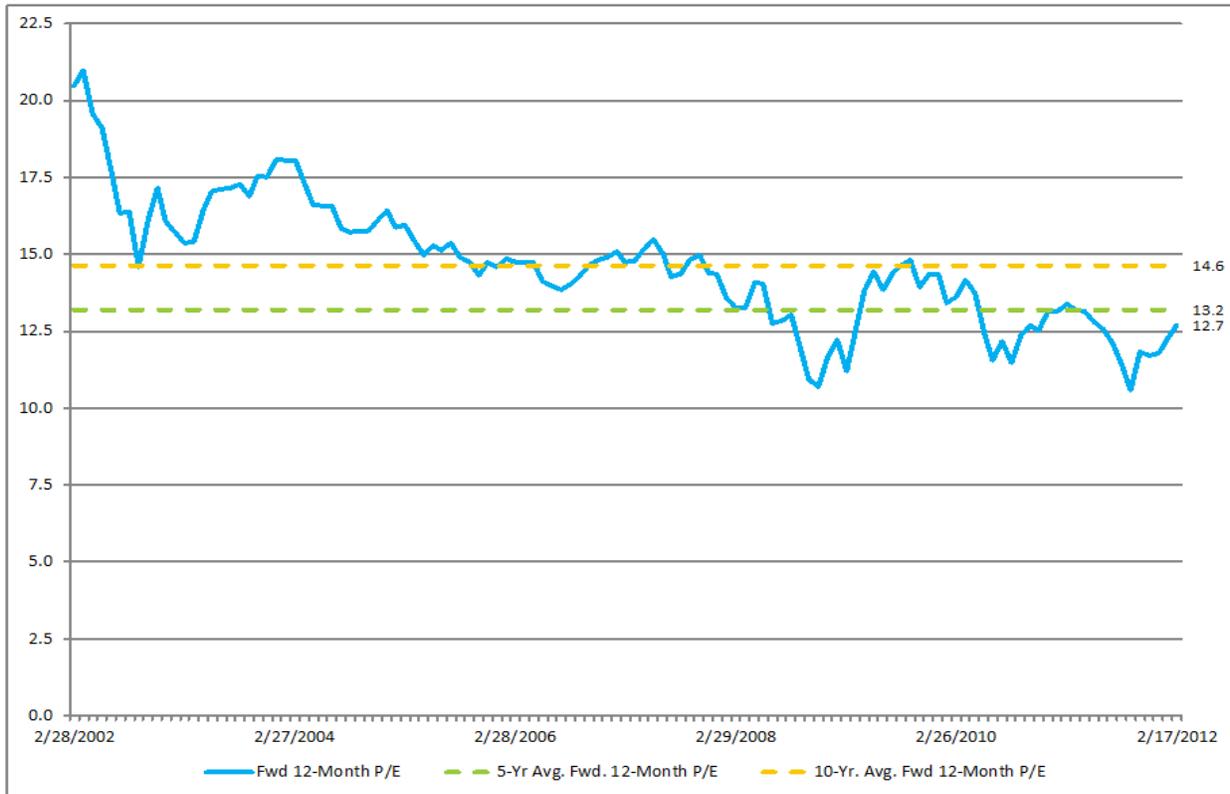


Price / Earnings Ratio: Long-Term Averages

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



Forward 12M P/E Ratio: 10-Years



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