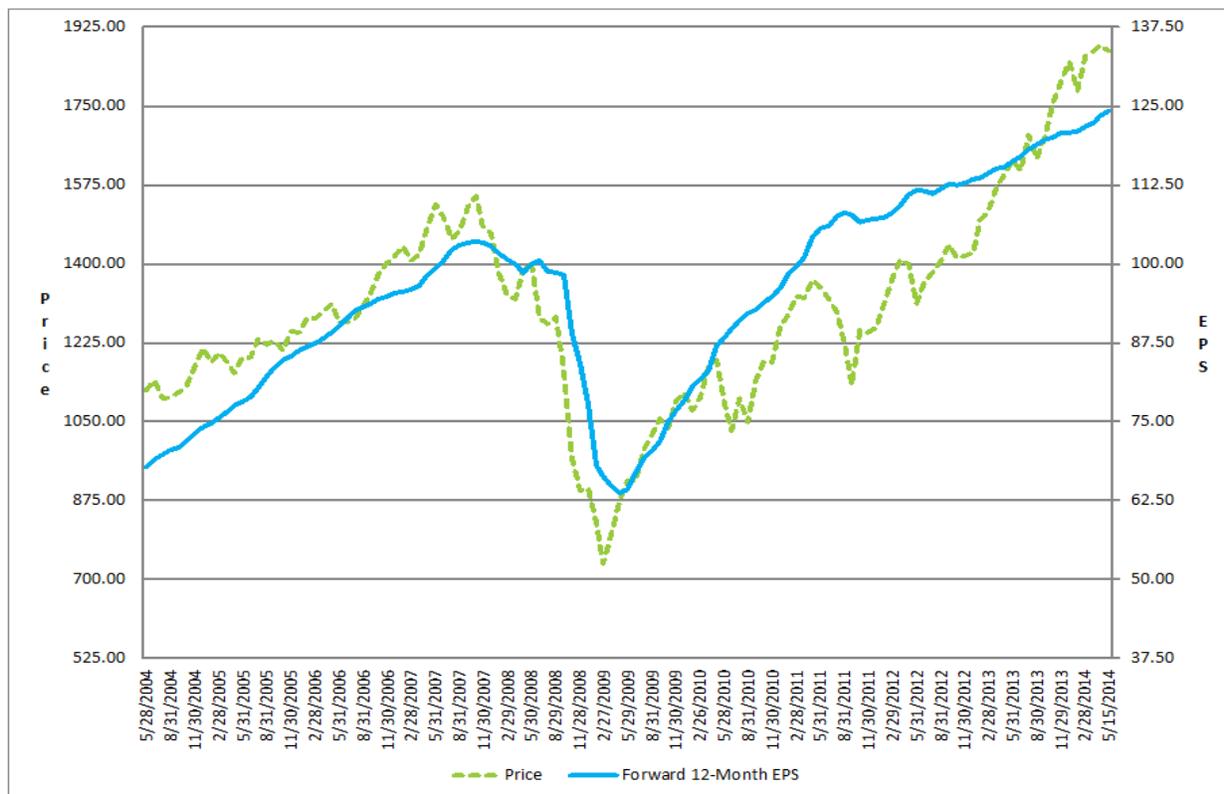


### Key Metrics

- + **Earnings Scorecard:** Of the 467 companies that have reported earnings to date for Q1 2014, 75% have reported earnings above the mean estimate and 54% have reported sales above the mean estimate.
- + **Earnings Growth:** The blended earnings growth rate for Q1 2014 is 2.1%. The Telecom Services and Utilities sectors reported the highest earnings growth for the quarter, while the Financials and Energy sectors reported the lowest earnings growth for the quarter
- + **Earnings Revisions:** On March 31, the estimated earnings decline for Q1 2014 was -1.3%. All ten sectors have higher earnings growth rates today (compared to March 31) due to upside earnings surprises and upward revisions to earnings estimates, led by the Utilities sector.
- + **Earnings Guidance:** For Q2 2014, 67 companies have issued negative EPS guidance and 26 companies have issued positive EPS guidance.
- + **Valuation:** The current 12-month forward P/E ratio is 15.1. This P/E ratio is based in Thursday's closing price (1870.85) and forward 12-month EPS estimate (\$124.25).

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

### Lowest Cuts to S&P 500 Earnings Estimates at the Mid-Point of a Quarter since Q2 2011

Over the course of the second quarter, analysts have lowered earnings estimates for companies in the S&P 500 for the quarter. The Q2 bottom-up EPS estimate (which is an aggregation of the estimates for all 500 companies in the index) dropped 1.0% (to \$29.13 from \$29.44) from March 31 through yesterday. How significant is a 1.0% decline in the aggregate EPS estimate during the quarter? How does this decrease compare to recent quarters?

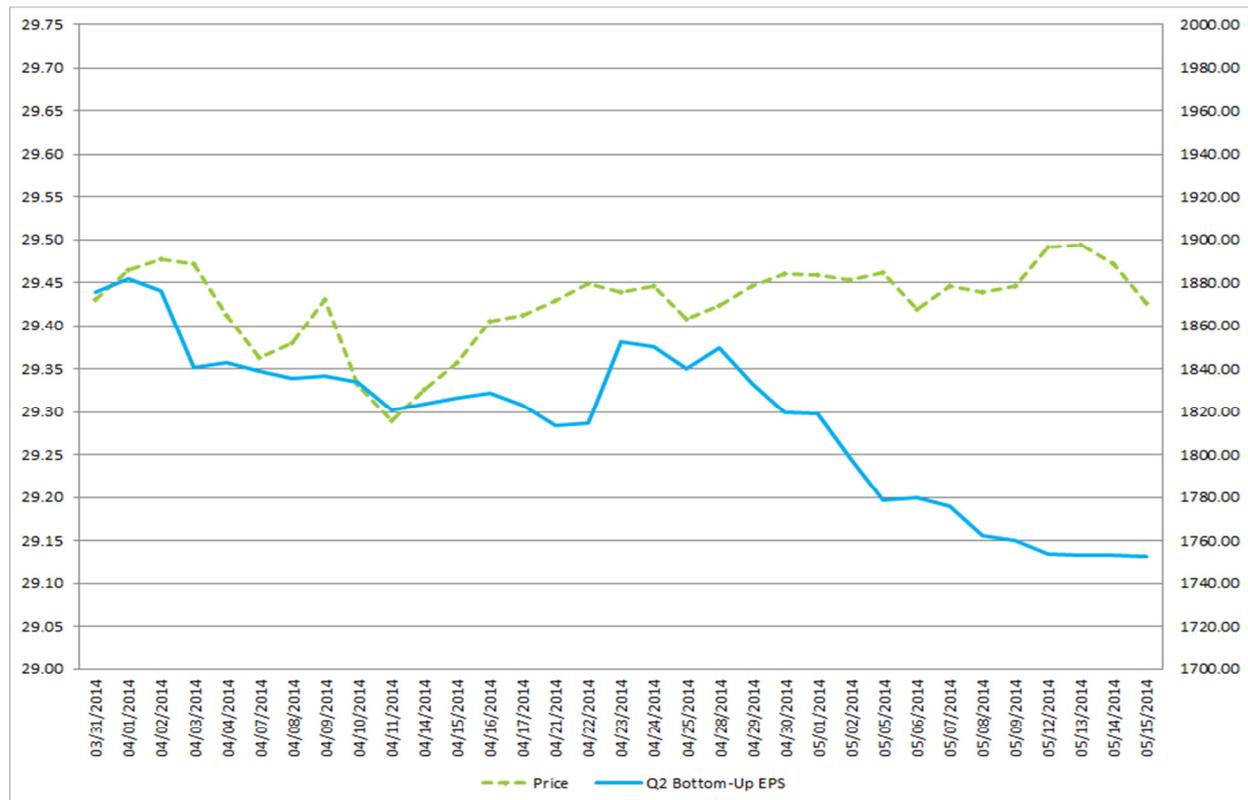
During the past year (4 quarters), the average decline in the EPS estimate through the mid-point of the quarter has been 2.7%. During the past five years (20 quarters), the average decline in the EPS estimate through the mid-point of the quarter has been 1.6%. During the past ten years, (40 quarters), the average decline in the EPS estimate through the mid-point of the quarter has been 2.7%. Thus, the decline in the EPS estimate recorded through the mid-point of the Q2 2014 quarter was lower than the trailing 1-year, 5- year, and 10-year averages.

In fact, this marks the lowest decline in the bottom-up EPS estimate during the first half of a quarter since Q2 2011, when the bottom-up EPS estimate actually increased by 1.5%.

During this same time frame, the value of the S&P 500 decreased by 0.1% (to 1870.85 from 1872.34). Is it unusual for both the earnings estimate for the index and for the value of the index to decline during the first half of a quarter?

In recent quarters, it has been unusual for the value of the index to decrease at the same time analysts are trimming earnings estimates through the first half of the quarter. It has only occurred in 5 of the past 20 quarters (including Q2 2014). During these 5 quarters, the average decrease in the bottom-up EPS estimate has been 2.3%, while the average decrease in the value of the index has been 4.2%.

S&P 500: Change in Q2 2014 EPS vs. Change in Price



## Q1 2014 Earnings Season: Overview

### More Companies Beat EPS Estimates than Average

With 93% of the companies in the S&P 500 reporting actual results for Q1 to date, the percentage of companies reporting EPS above estimates is above recent historical averages, while the percentage of companies reporting revenue above estimates is in line with recent historical averages.

#### Percentage of Companies Beating EPS Estimates (75%) is Above Recent Averages

Overall, 467 companies have reported earnings to date for the first quarter. Of these 467 companies, 75% have reported actual EPS above the mean EPS estimate and 25% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is above the 1-year (71%) average and above the 4-year (73%) average.

At the sector level, the Energy (84%), Utilities (80%), and Information Technology (80%) sectors have the highest percentages of companies reporting earnings above estimates, while Consumer Staples (56%) and Telecom Services (60%) sectors have the lowest percentages of companies reporting earnings above estimates.

#### Earnings Surprise Percentage (+5.3%) Above Recent Quarters

In aggregate, companies are reporting earnings that are 5.3% above expectations. This surprise percentage is above the 1-year (+3.1%) average, but below the 4-year (+5.8%) average. If this is the final percentage for the quarter, it will mark the highest earnings surprise percentage since Q1 2012 (5.3%).

Companies in the Utilities (+9.3%), Energy (+7.8%), Health Care (+7.8%), and Information Technology (+7.5%) sectors are reporting the largest upside aggregate differences between actual earnings and estimated earnings. In the Utilities sector, AGL Resources (+55%) and Entergy (+36%) have reported the highest positive earnings surprises. In the Energy sector, CONSOL Energy (+171%) has reported the largest EPS upside earnings surprise. In the Health Care sector, Forest Laboratories (+98%), Boston Scientific (+84%), and Gilead Sciences (+62%) have reported actual EPS above the mean EPS estimate by the widest margins. In the Information Technology sector, Electronic Arts (+348%) and First Solar (+113%) have surpassed the mean EPS estimate by the largest amounts.

On the other hand, companies in the Consumer Staples (+0.1%) sector are reporting the smallest upside aggregate differences between actual earnings and estimated earnings. In this sector, Safeway (-62%), Avon Products (-43%), and Archer-Daniels-Midland (-25%) have reported the largest downside earnings surprises.

#### Percentage of Companies Beating Revenue Estimates (54%) is In Line With Recent Averages

In terms of revenues, 54% of companies have reported actual sales above estimated sales and 46% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is equal to the 1-year (54%) average, but below the 4-year average (58%).

At the sector level, the Utilities (87%) and Energy (73%) sectors have the highest percentages of companies reporting revenue above estimates, while the Materials (32%) sector has the lowest percentage of companies reporting revenue above estimates.

#### Revenue Surprise Percentage (0.7%) Above Recent Quarters

In aggregate, companies are reporting sales that are 0.7% above expectations. This surprise percentage is above the 1-year (+0.3%) average and above the 4-year (+0.6%) average.

Companies in the Utilities (+11.1%) and Energy (+3.9%) sectors reported the largest upside aggregate differences between actual sales and estimated sales, while companies in the Financials (-1.7%) sector reported the largest downside aggregate differences between actual sales and estimated sales.

## Earnings Growth Improved For 4<sup>th</sup> Straight Week

### Upside Earnings Surprises Boost Growth This Week

The blended earnings growth rate for the first quarter is 2.1% this week, above the blended growth rate of 2.0% last week. During the past week, upside earnings surprises reported by Cisco Systems (+7%) and Deere & Company (+7%) were partially offset by the downside earnings surprise reported by Wal-Mart Stores (-5%), resulting in the small increase in the overall earnings growth rate for the index this week.

### Utilities Sector Has Seen Largest Jump in Earnings Growth since March 31

The blended earnings growth rate for Q1 2014 of 2.1% is above the estimate of -1.3% at the end of the quarter (March 31). All ten sectors have seen an increase in earnings growth over this period due to a combination of upside earnings surprises and upward revisions to earnings estimates, led by the Utilities sector (to 22.2% from 7.6%).

### Blended Earnings Growth: 2.1%

The blended earnings growth rate for Q1 2014 is 2.1%. Seven sectors have reported or are reporting higher earnings relative to a year ago, led by the Telecom Services and Utilities sectors. Three sectors have reported lower earnings relative to a year ago, led by the Financials and Energy sectors.

### Telecom Services: Ex-Verizon, Growth Rate Drops to 1.0%

The Telecom Services sector reported the highest earnings growth rate of all ten sectors at 30.9%. At the company level, Verizon Communications was the largest contributor to earnings growth for the sector. The company reported actual EPS of \$0.91 for Q1 2014, compared to \$0.68 in the year-ago quarter. If Verizon is excluded, the earnings growth rate for the sector would drop to 1.0%.

### Utilities: Broad Growth across the Sector

The Utilities sector reported the second highest earnings growth rate (22.2%) of any sector. At the company level, 24 of the 30 companies in the sector reported growth for the quarter. This sector has also seen the largest improvement in earnings growth (to 22.2% from 7.6%) since the end of the quarter, mainly due to significant upside earnings surprises. Thirteen companies in the Utilities surpassed EPS estimates by double-digit margins for the quarter.

### Financials: Bank of America and JPMorgan Chase Led Decline

The Financials sector reported the highest decrease in earnings of all ten sectors at -3.6%. Four of the eight industries in the sector reported a decline in earnings, led by the Banks (-14%) industry. At the company level, Bank of America and JPMorgan Chase were the largest contributors to the drop in earnings for the sector. Bank of America reported actual EPS of -\$0.05, compared to year-ago EPS of \$0.20. JPMorgan Chase reported actual EPS of \$1.28, relative to year-ago EPS of \$1.59. If these two companies are excluded, the growth rate for the Financials sector would improve to 5.2%.

### Energy: Chevron Led Decline

The Energy sector reported the second largest decline in earnings of any sector at -2.8%. However, only two of the seven sub-industries in this sector reported a decrease in earnings: Oil & Gas Refining & Marketing (-29%) and Integrated Oil & Gas (-13%). The other five sub-industries reported double-digit earnings growth for the quarter. At the company level, Chevron was the largest contributor to the drop in earnings for the sector. Chevron reported actual EPS of \$2.36, relative to year-ago EPS of \$3.18. If this company is excluded, the growth rate for the Energy sector would improve to 3.1%.

**Blended Revenue Growth: 2.7%**

The blended revenue growth rate for Q1 2014 is 2.7%, which is above the estimated growth rate of 2.4% at the end of the quarter (March 31). Nine of the ten sectors have reported or are reporting revenue growth for the quarter, led by the Utilities sector. On the other hand, the Financials sector is the only sector to date that has reported a decline in revenue for the quarter.

**Highest Sales Growth: Utilities**

The Utilities sector reported the highest revenue growth at 17.5%. All four industries in the sector reported double-digit growth in sales, led by the Gas Utilities (50%) industry.

**Lowest Sales Growth: Financials**

The Financials sector is the only sector that reported a decrease in revenue at -1.4%. However, only three of the eight industries in the sector reported a decline in revenue: Thrifts & Mortgage Finance (-6%), Insurance (-5%), and Banks (-4%).

**Domestic Concerns: Weather**

Much of the U.S. endured an unusually cold and stormy winter during the first quarter. According to the National Oceanic and Atmospheric Administration, *"Below-average temperatures dominated east of the Rockies, with the coldest conditions occurring across the Midwest. Numerous cold Arctic air outbreaks impacted the region during the winter season, particularly during January and February. Seven Midwestern states were much colder than average and had a top ten cold winter season, though no state was record cold....Above-average precipitation was observed in the Northern Rockies, and parts of the Midwest, Mid-Atlantic, and Northeast. Across these regions, numerous winter storms brought heavy snowfall. Detroit had its snowiest winter on record, while New York, Philadelphia, Chicago, and Boston each had one of their ten snowiest winters"*

A number of companies cited a negative impact from weather in their earnings releases or conference calls to date.

*"Unusually severe winter storms throughout the quarter disrupted operations, decreasing shipping volume and increasing costs, and impacted year-over-year operating income by an estimated \$125 million."* –FedEx (Mar. 19)

*"Severe winter weather resulted in weak sales trends across the food industry and our categories."* – General Mills (Mar. 19)

*"I now mention, which I haven't in a quite a while, weather. It's been all over, particularly in the U.S. Snow, rain, just crazy weather. We estimate that the weather impact to February sales results represented about a 1 percentage point hit to the four-week reporting period."* –Costco (Mar. 6)

**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 (Q1 2013), one dollar was equal to about \$92.20 yen on average. For Q1 2014, one dollar was equal to about \$102.76 yen on average. A number of companies in the S&P 500 cited a negative impact from foreign exchange activity in their earnings releases or conference calls.

*"This quarter, currency was a 1% headwind to new software license, and a 2% headwind to hardware and total revenue. In addition, EPS this year was reduced by \$0.02 due to a currency remeasurement non-operating loss for Venezuela that obviously had not been included in my guidance."* – Oracle (Mar. 19)

*“Foreign exchange translation reduced net sales growth by 1 percentage point.” – General Mills (Mar. 19)*

*“From a year-over-year currency perspective, FX decreased revenue by \$10.9 million.” –Adobe Systems (Mar. 18)*

### Europe

Europe reported an improvement in economic growth relative to last year. According to FactSet Economics, the European Union recorded an increase in GDP of 1.1% in Q4 2013, relative to the decline of 0.7% reported in Q4 2013.

While acknowledging difficult conditions still exist in the region, companies have been optimistic in their comments regarding Europe for Q1.

*“I also want to speak to our results in Europe, where our volume was down 4% as our business was adversely impacted due to the Easter shift and by ongoing macroeconomic challenges...As we look ahead, we are cautiously optimistic about our outlook in Europe, despite the continuing volatile operating environment.” –Coca-Cola (Apr. 15)*

*“Yeah, Costa has picked up as well, but Costa had the double-whammy of the disruption and then obviously the European economy. And the European economy is still choppy, but it's obviously strengthened.... And I would say in general, in Europe, we do, as I mentioned earlier on the call, with the booking curves being moved out, we see strength in Europe. And again, it's reflected in our guidance, but we actually see a strong performance collectively in Europe this year.” –Carnival Corp. (Mar. 25)*

### Emerging Markets

Economic growth for countries in emerging markets regions has been flat or slightly below year-ago levels in recent quarters. According to FactSet Economics, China, India, and Brazil recorded GDP growth of 7.9%, 5.6%, and 1.8% in Q4 2012, respectively. By Q4 2013, GDP growth rates for China, India, and Brazil stood at 7.7%, 4.6%, and 1.9%.

Comments on business conditions in China and emerging markets have generally been positive.

*“But also, importantly, we are driving not just volume growth, but we're driving immediate consumption growth, which is really important for our business. When you look at, say, in this past quarter, with top five countries growing at – China up 18% in IC growth, Indonesia up 9% in IC growth, Vietnam up 8%, Brazil up 5%. These are really important numbers, because it's sustainable growth, it's profitable growth, and it's growth in transactions, which is directly married to the health of the brands and health of our portfolio.” –Coca-Cola (Apr. 15)*

*“Well, certainly the Wuhan acquisition is emerging market. So we broke that out for you separately, and we talked about China being up 20% and also on the consumer side and then double digit on the industrial side. So we're talking double-digit type increases on the emerging market side, so it was a big help and that was one of the outperformers on the quarter relative to our expectation.” –McCormick & Co. (Mar. 25)*

*“In greater China we continue to see encouraging signs as our market reset actions take hold. In Q3, currency neutral revenue grew 7% led by expansion in sportswear, basketball and running. On a reported basis, greater China revenue grew 9% and EBIT increased 7% as revenue growth and gross margin expansion were partially offset by higher SG&A spending reflecting investments in our new China headquarters facility and DTC operations.” –NIKE (Mar. 20)*

**Q2 EPS Guidance: Negative Guidance (72%) Above Average**

At this point in time, 93 companies in the index have issued EPS guidance for the second quarter. Of these 93 companies, 67 have issued negative EPS guidance and 26 have issued positive EPS guidance. Thus, the percentage of companies issuing negative EPS guidance to date for the first quarter is 72% (67 out of 93). This percentage is above the 5-year average of 65%, but below the percentage recorded for Q1 2014 at the same point in time (81%).

**Near Double-Digit Earnings Growth Expected in 2<sup>nd</sup> Half of 2014**

Although companies are reporting slight earnings growth (2.1%) for Q1, earnings growth for the S&P 500 is projected to be much higher for the remainder of the year. For Q2 2014, Q3 2014, and Q4 2014, analysts are predicting earnings growth rates of 5.9%, 9.7%, and 10.1%. For all of 2014, the projected earnings growth rate is 7.8%.

**Valuation: Forward P/E Ratio is 15.1, above the 10-Year Average (13.8)**

The current 12-month forward P/E ratio is 15.1. This P/E ratio is based in Thursday's closing price (1870.85) and forward 12-month EPS estimate (\$124.25).

At the sector level, the Consumer Staples (17.5) and Consumer Discretionary (17.2) sectors have the highest forward 12-month P/E ratios, while the Financials (12.7) and Telecom Services (13.5) sectors have the lowest forward 12-month P/E ratios.

The P/E ratio of 15.1 for the index as a whole is above the prior 5-year average forward 12-month P/E ratio of 13.2, and above the prior 10-year average forward 12-month P/E ratio of 13.8. However, it is equal to the forward 12-month P/E ratio of 15.1 recorded one month ago. During the past month, the price of the index increased by 1.5%, while the forward 12-month EPS estimate increased by 1.6%.

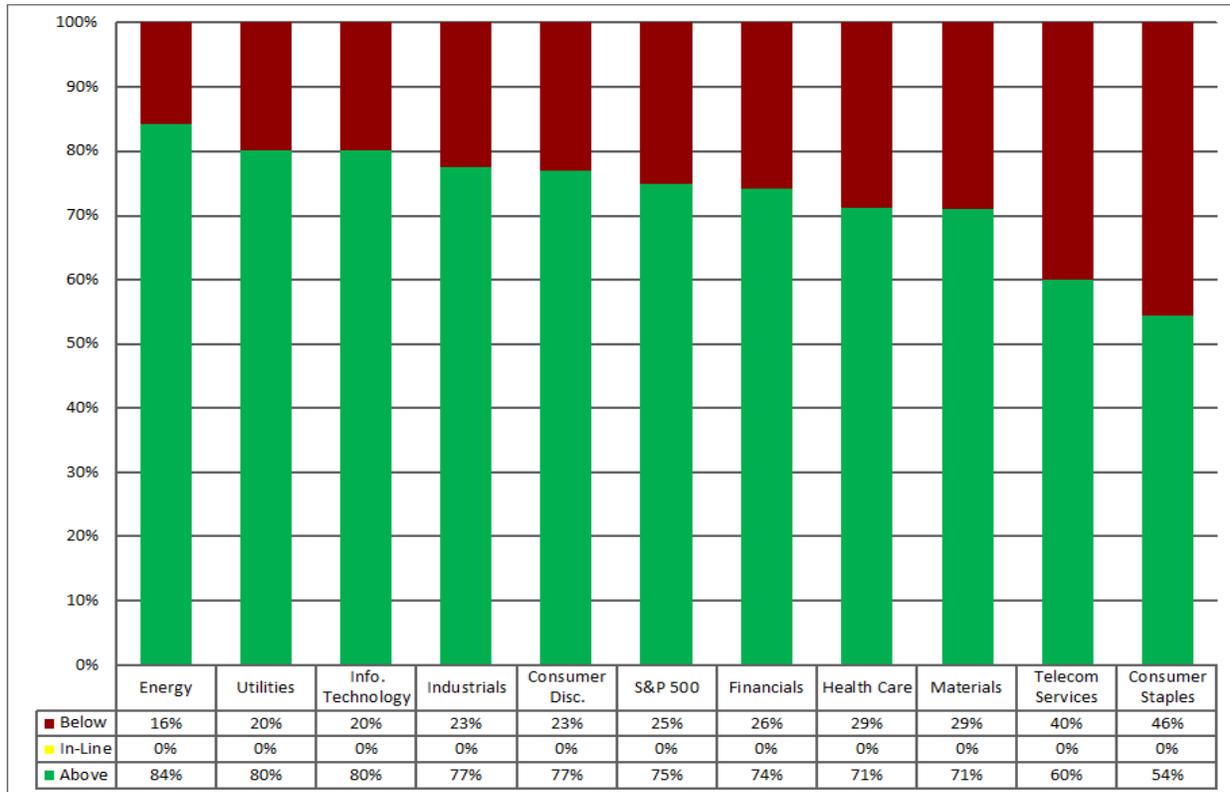
At the sector level, five sectors recorded an increase in the forward 12-month P/E ratio over the past month, led by the Telecom Services (to 13.5 from 13.2) sector. Two sectors witnessed a decrease in the forward 12-month P/E ratio over the past month, led by the Utilities (to 15.8 from 16.3) sector. The Consumer Discretionary (17.2), Financials (12.7) and Information Technology (14.7) sectors had no change in their forward 12-month P/E ratios over this time frame.

**Companies Reporting for Q1 Next Week: 24**

During the upcoming week, the final Dow 30 component (Home Depot) and 24 S&P 500 companies are scheduled to report earnings for the first quarter.

Q1 2014: Scorecard

Q1 2014 Earnings: Above, In-Line, Below Estimates

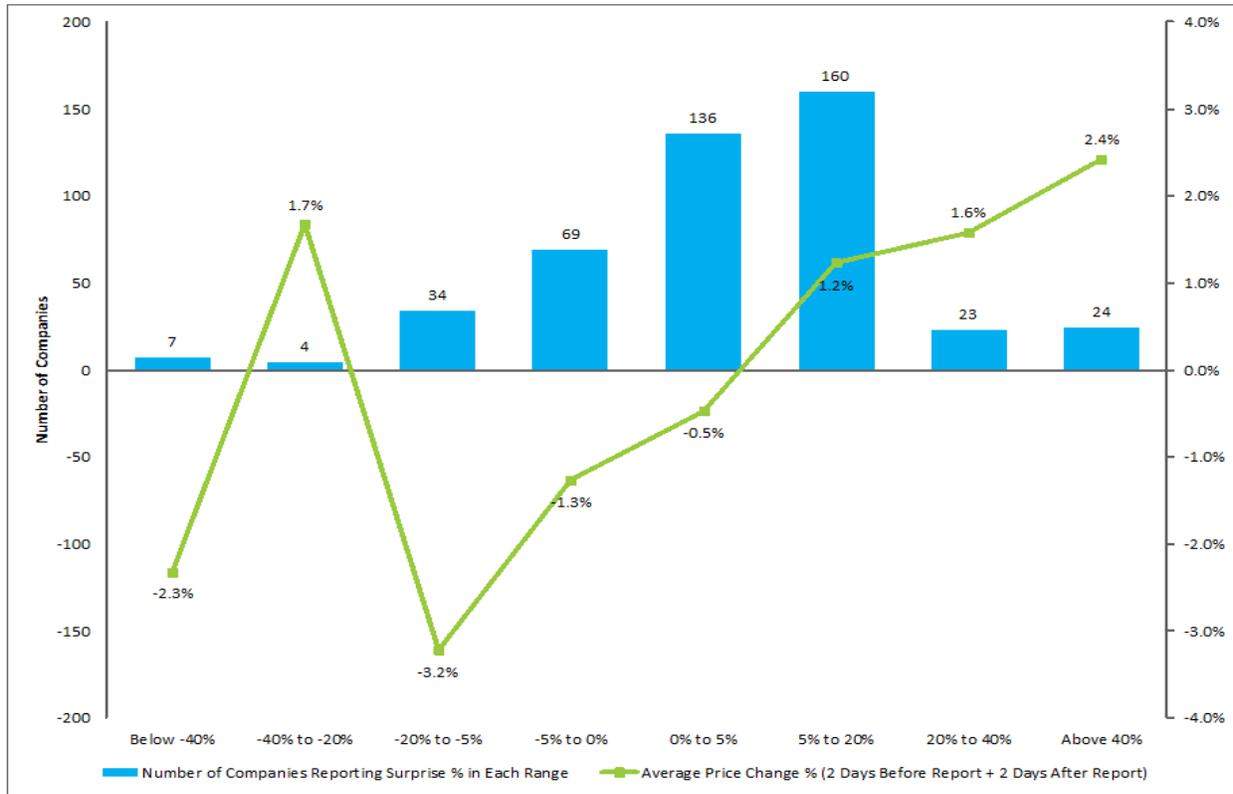


Q1 2014 Revenues: Above, In-Line, Below Estimates

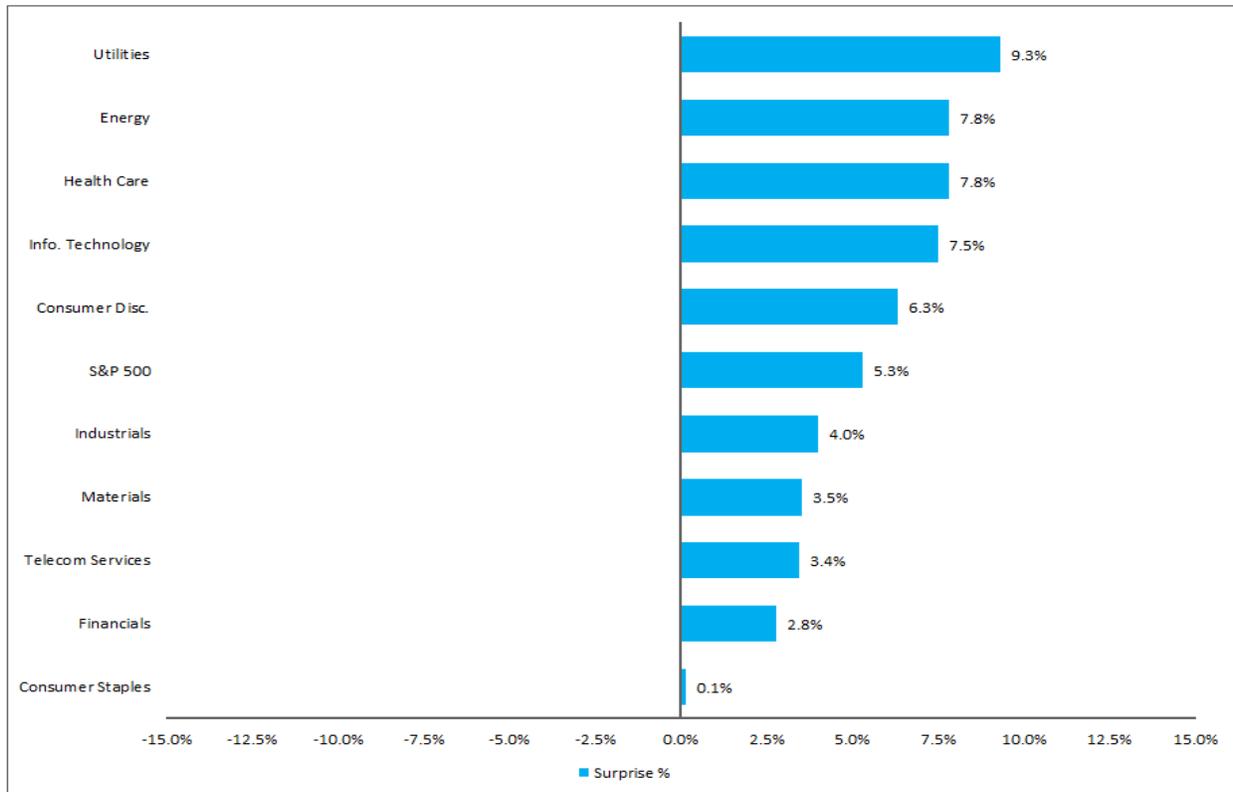


Q1 2014: Scorecard

Q1 2014: EPS Surprise % vs. Price %

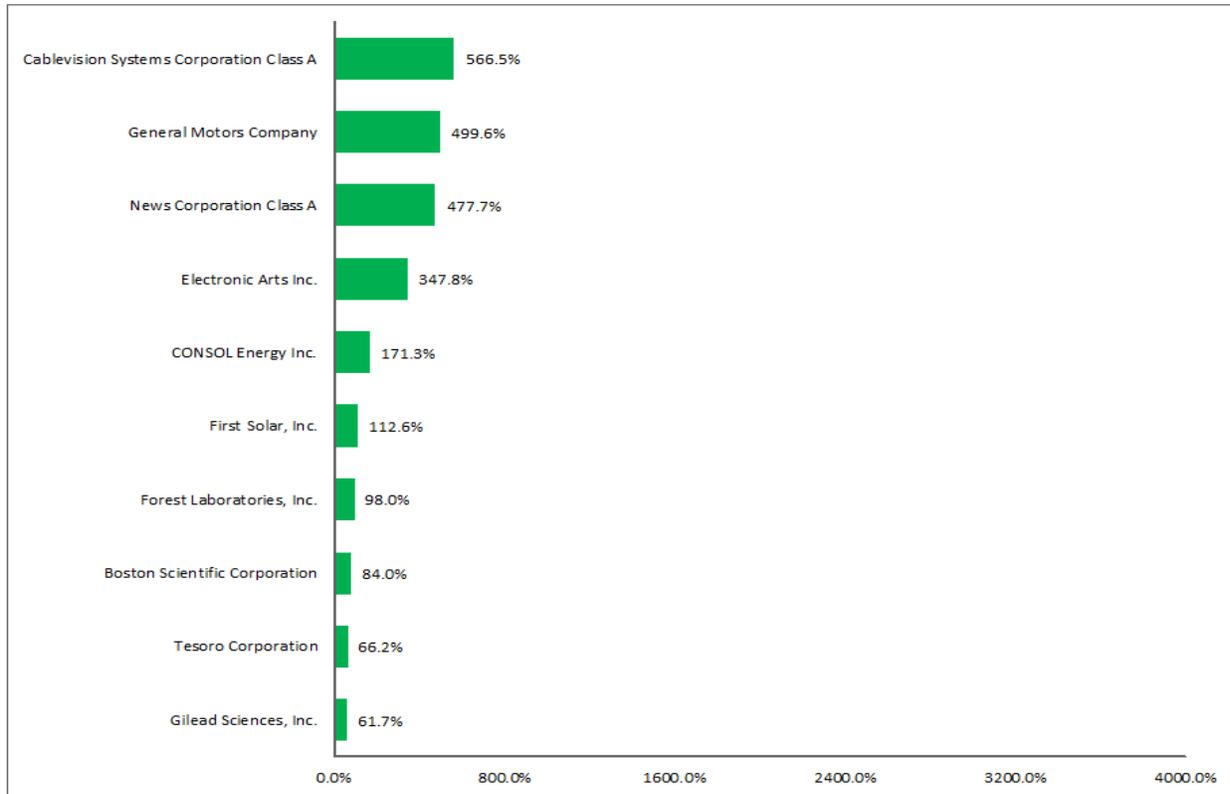


Q1 2014: Sector Level EPS Surprise %

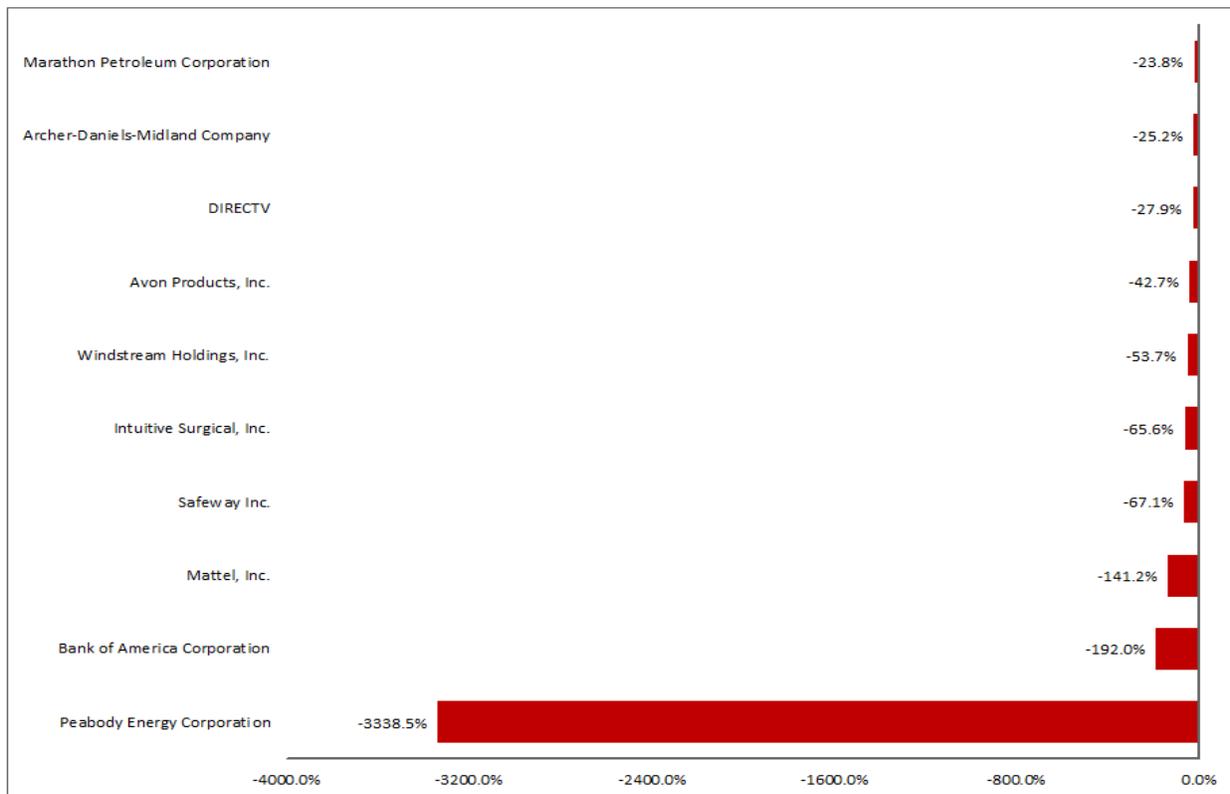


Q1 2014: Scorecard

EPS Surprise %: Top 10 Companies

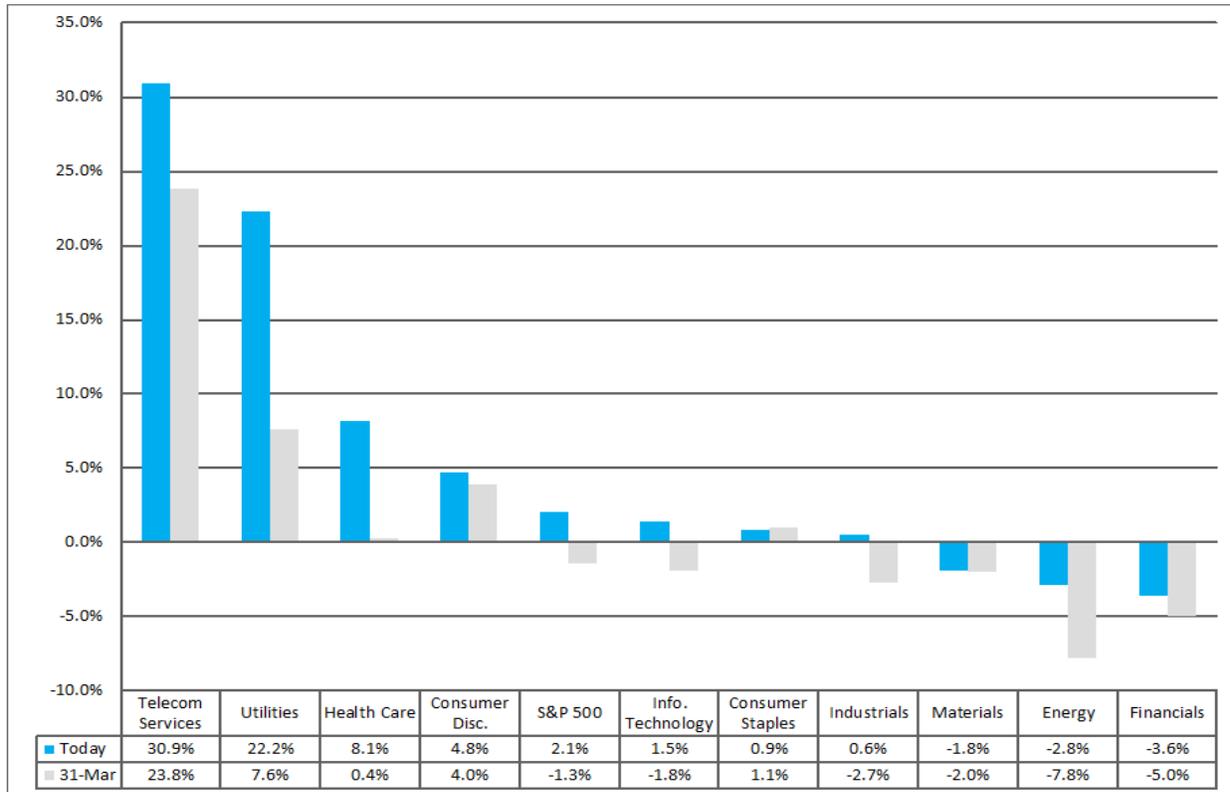


EPS Surprise %: Bottom 10 Companies

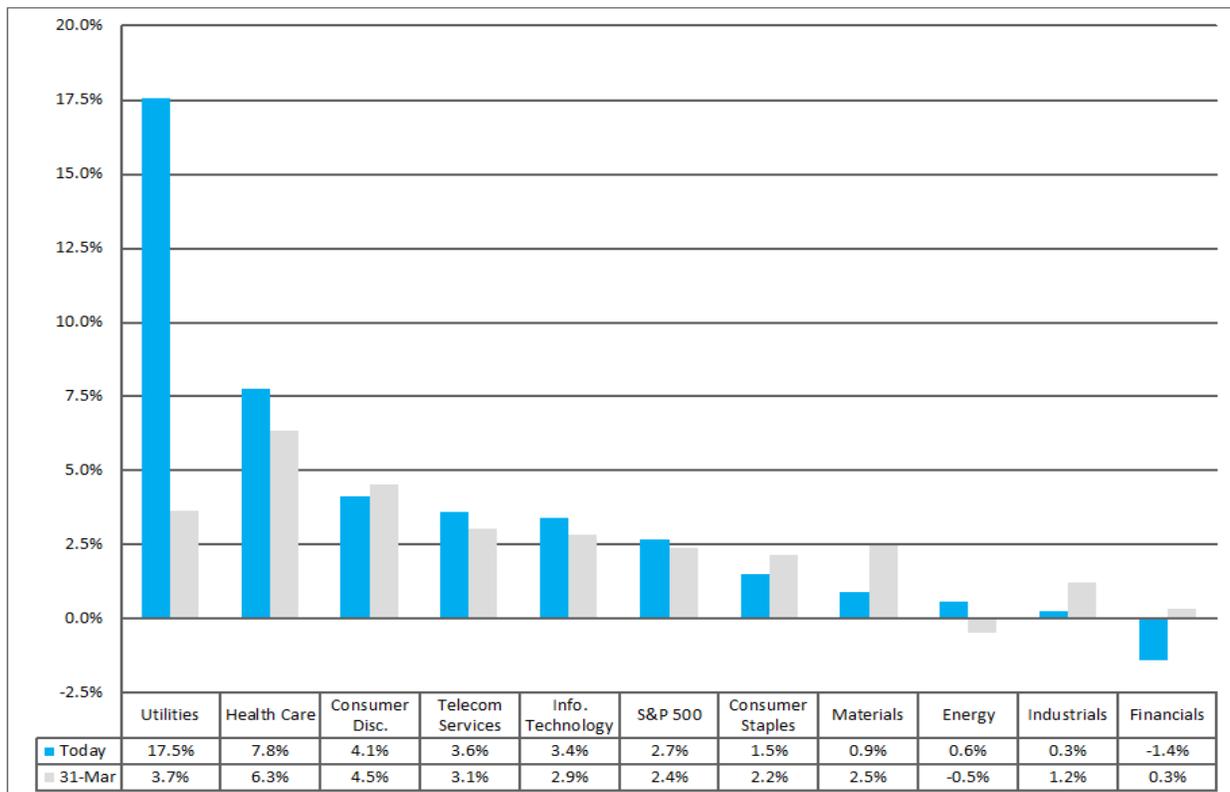


Q1 2014: Growth

Q1 2014 Earnings Growth

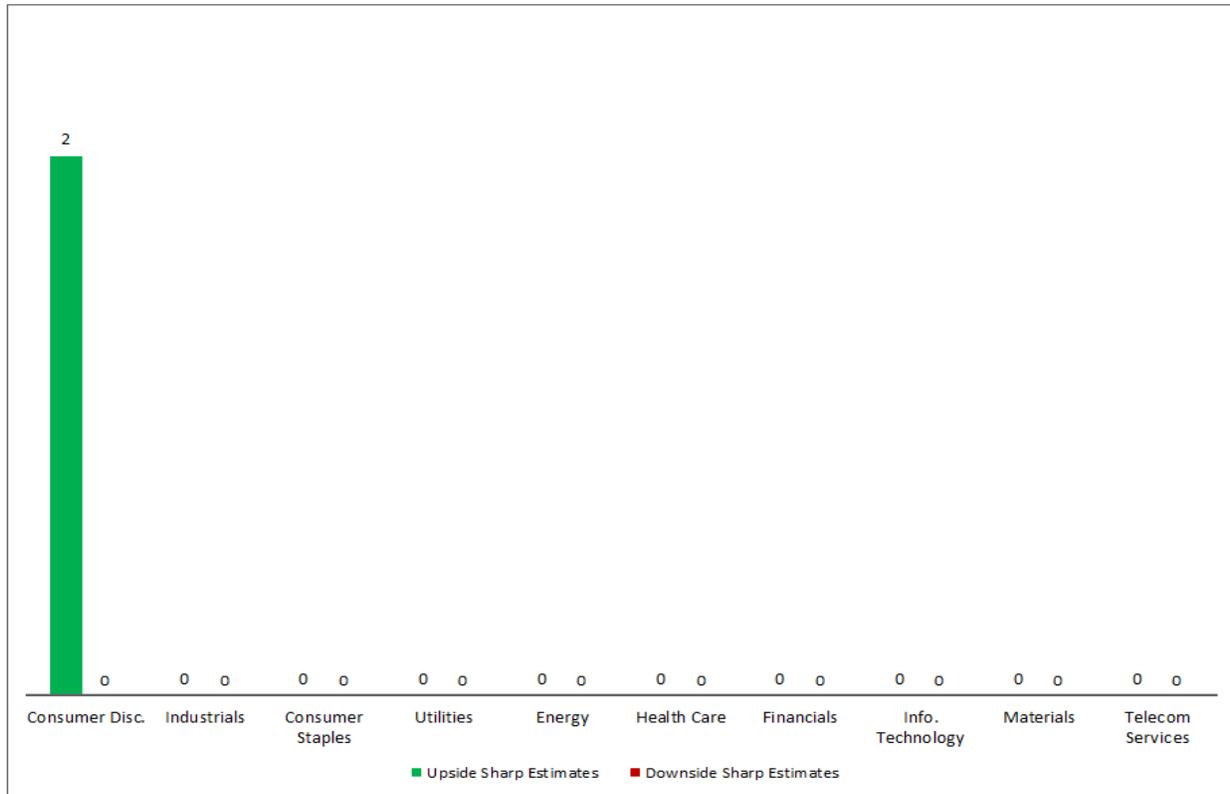


Q1 2014 Revenue Growth

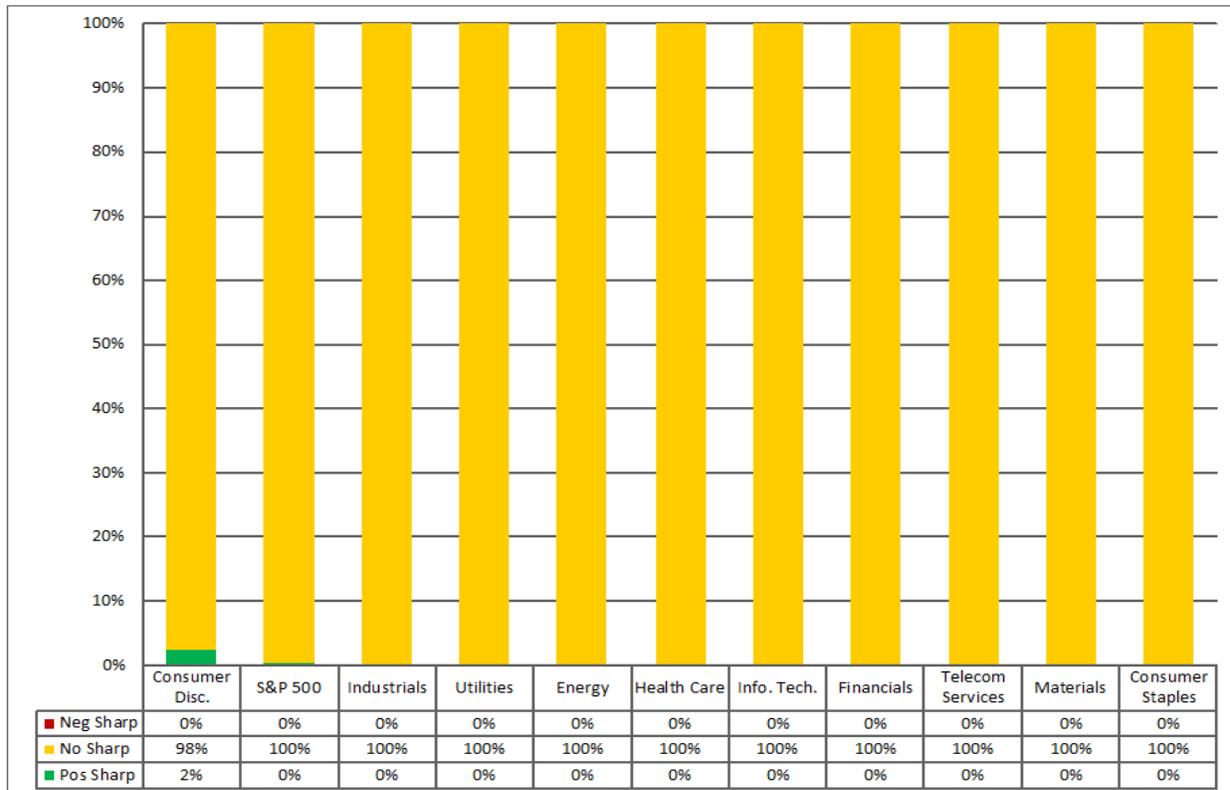


## Q1 2014: Projected EPS Surprises (Sharp Estimates)

Number (#) of Companies with Sharp Estimates

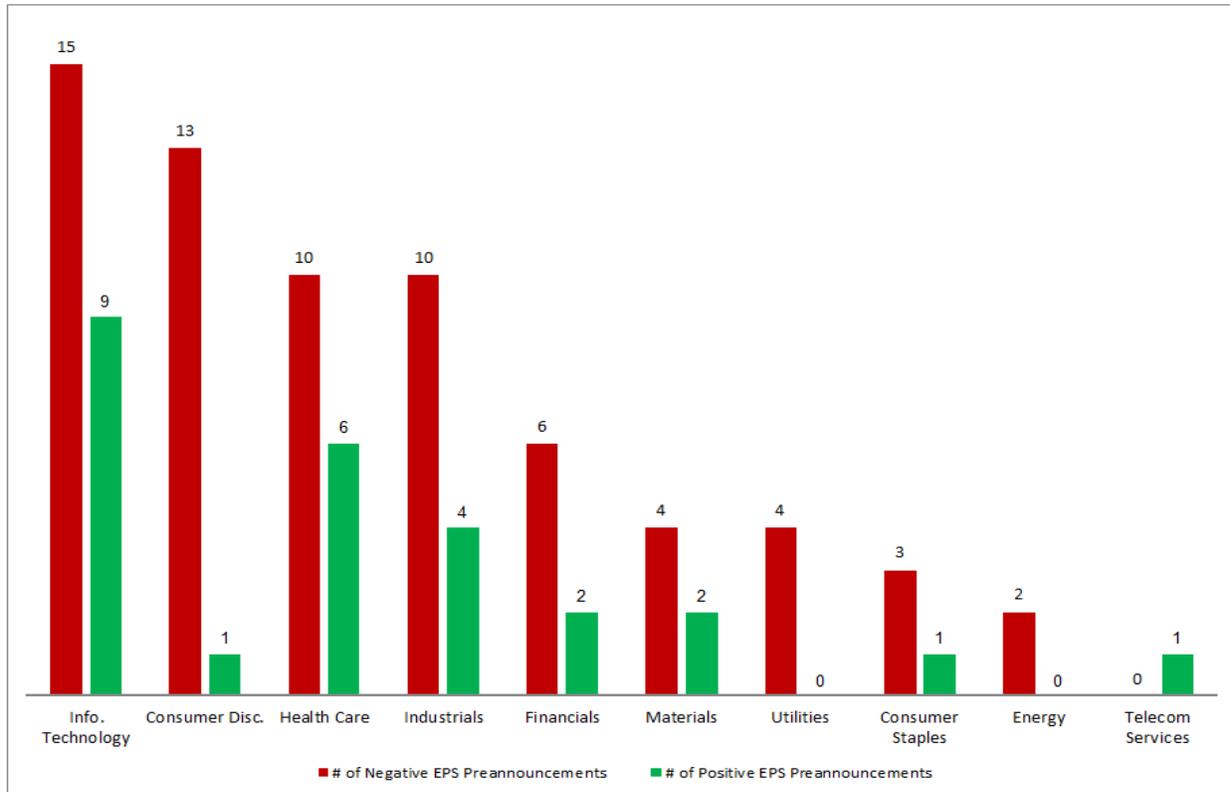


Percentage (%) of Companies with Sharp Estimates



## Q2 2014: EPS Guidance

Number of Positive & Negative EPS Preannouncements: Q2 2014

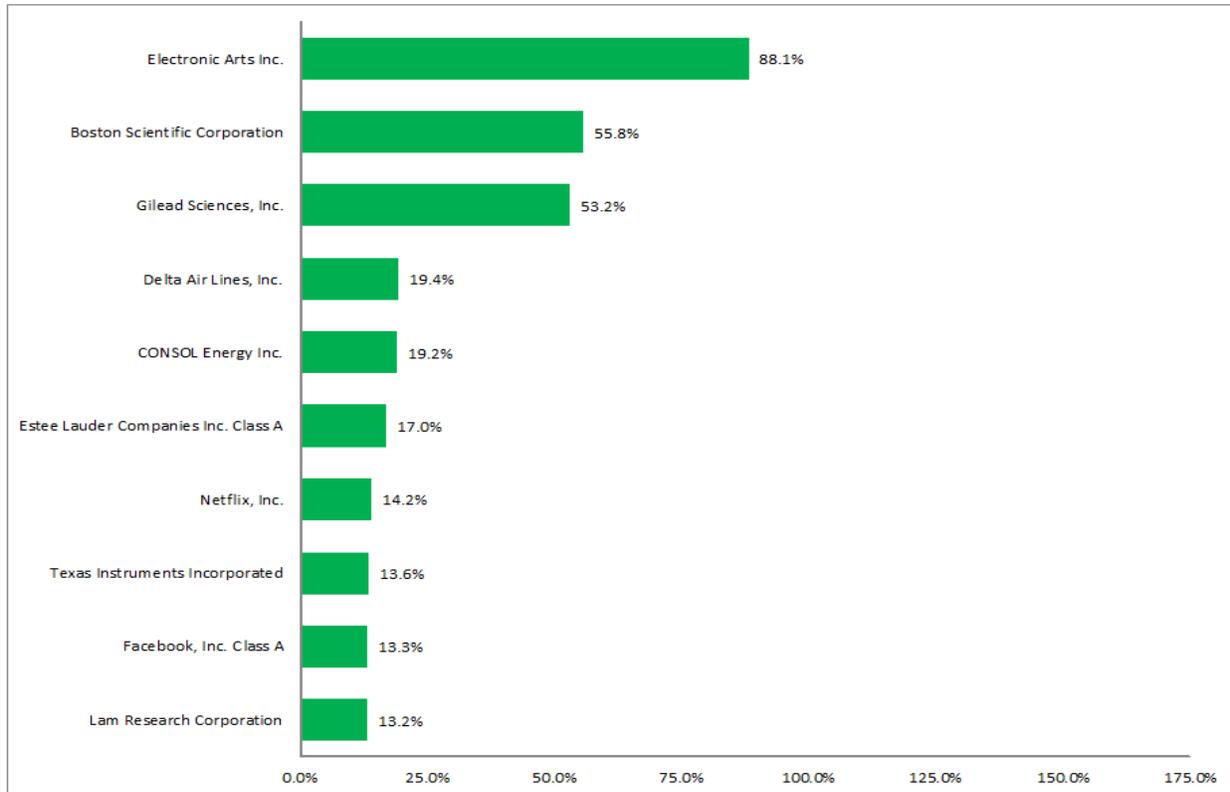


Percentage of Positive & Negative EPS Preannouncements: Q2 2014

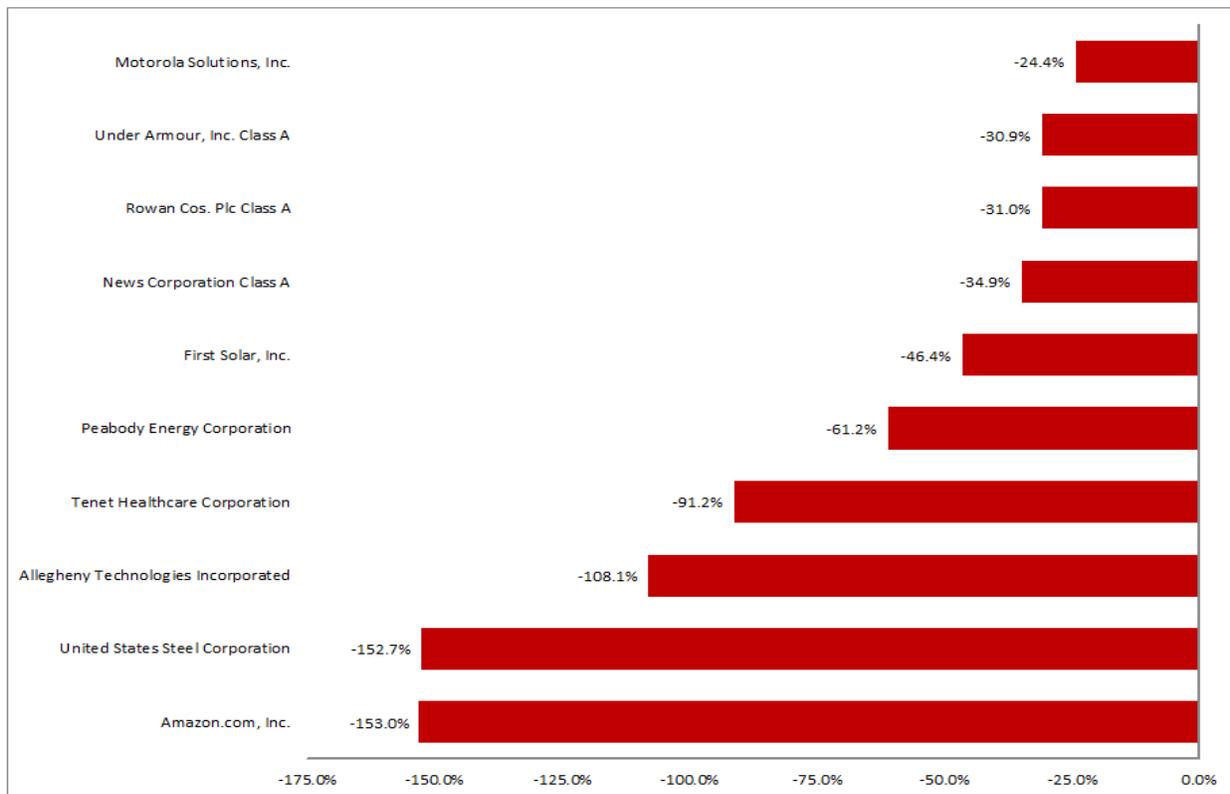


## Q2 2014: EPS Revisions

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

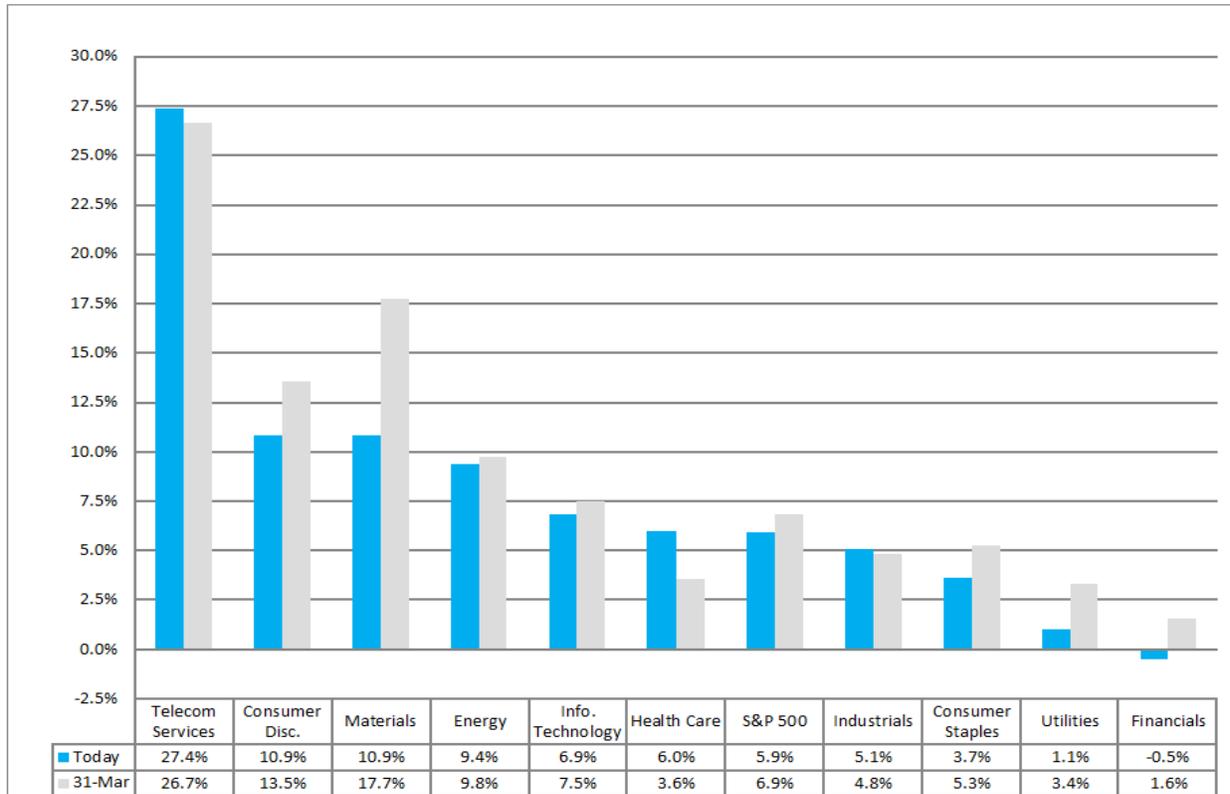


Highest Downward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies

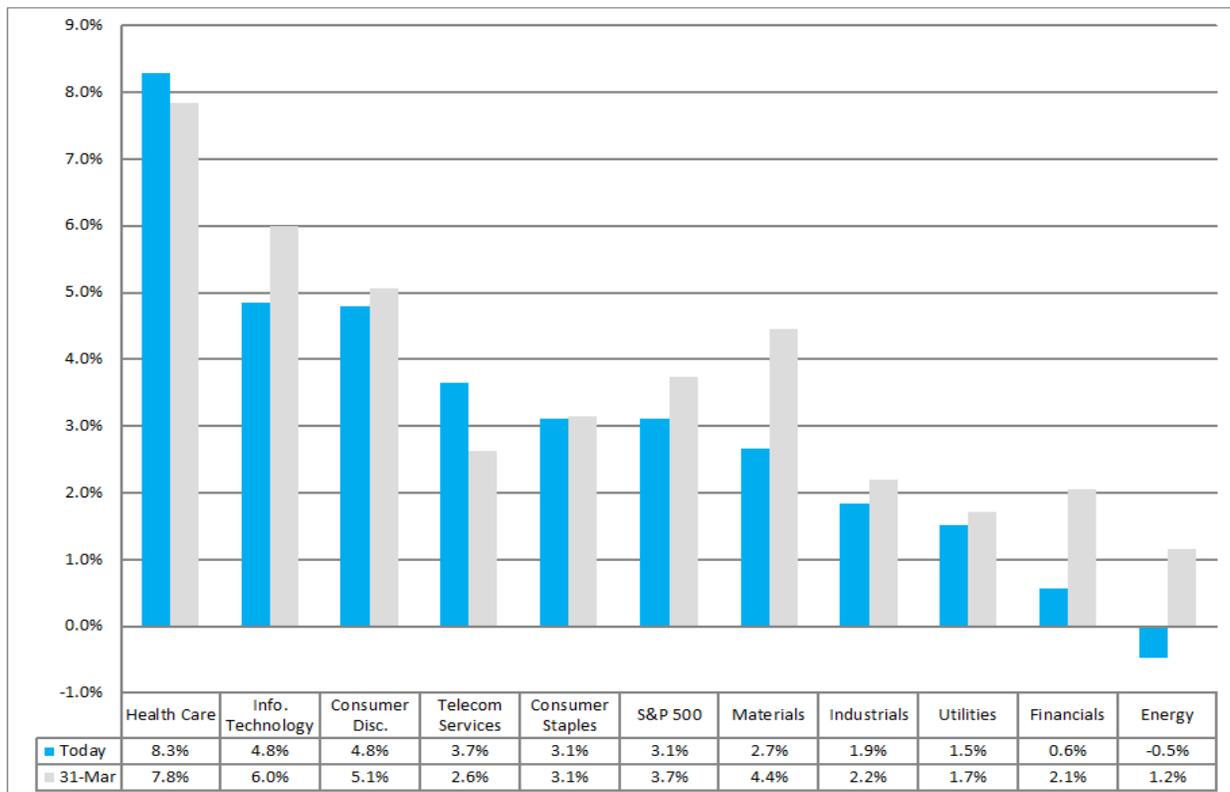


Q2 2014: Growth

Q2 2014 Earnings Growth

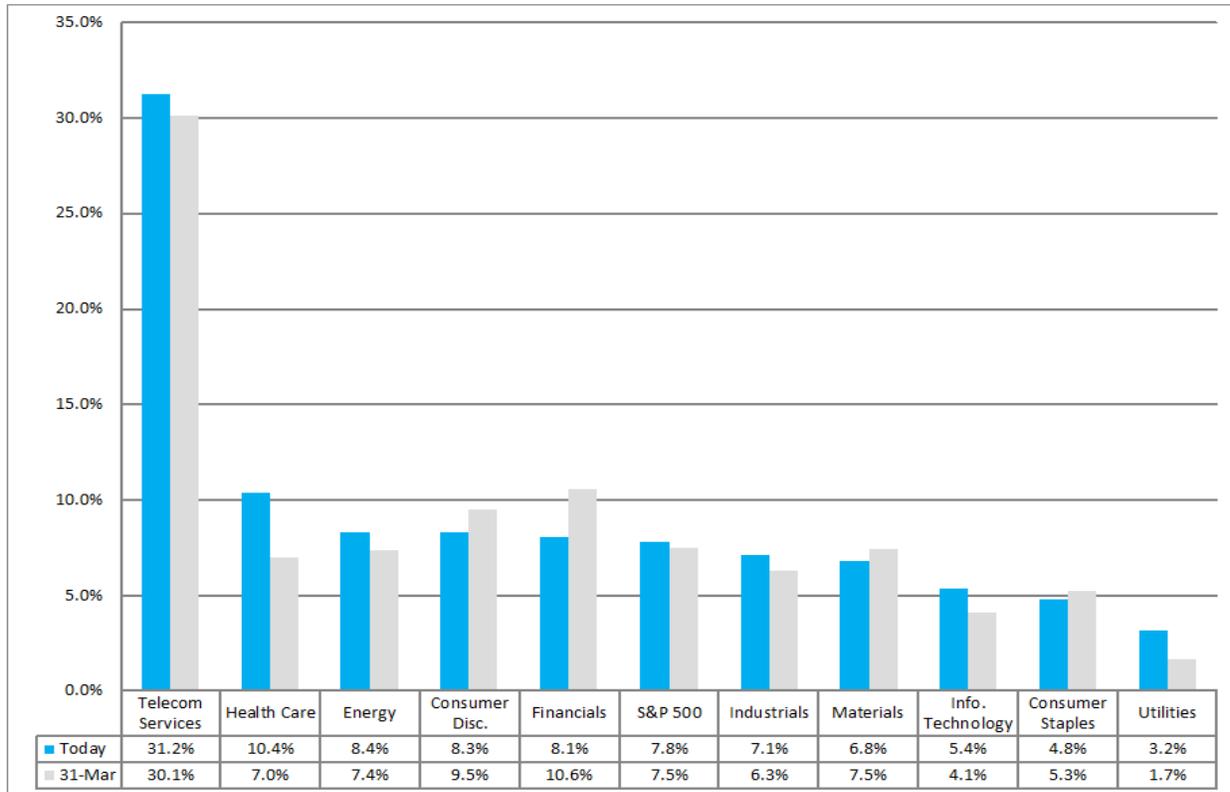


Q2 2014 Revenue Growth

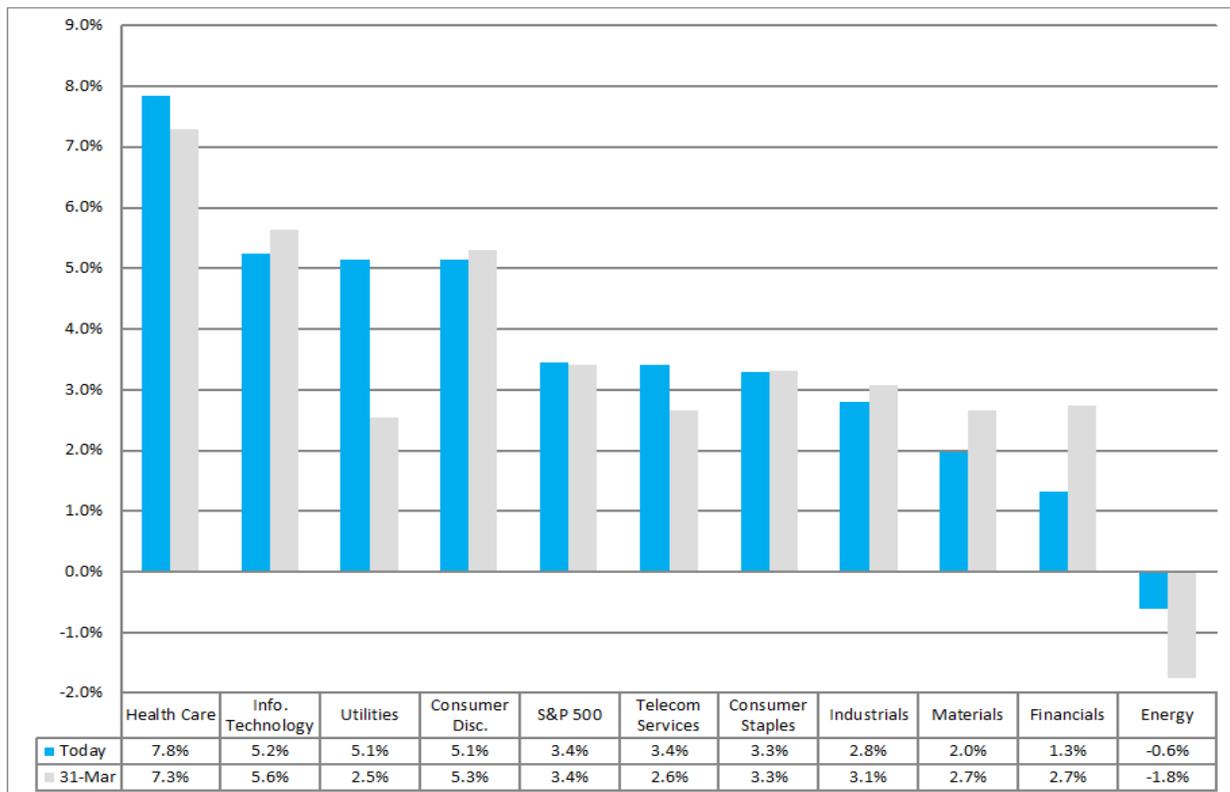


CY 2014: Growth

CY 2014 Earnings Growth

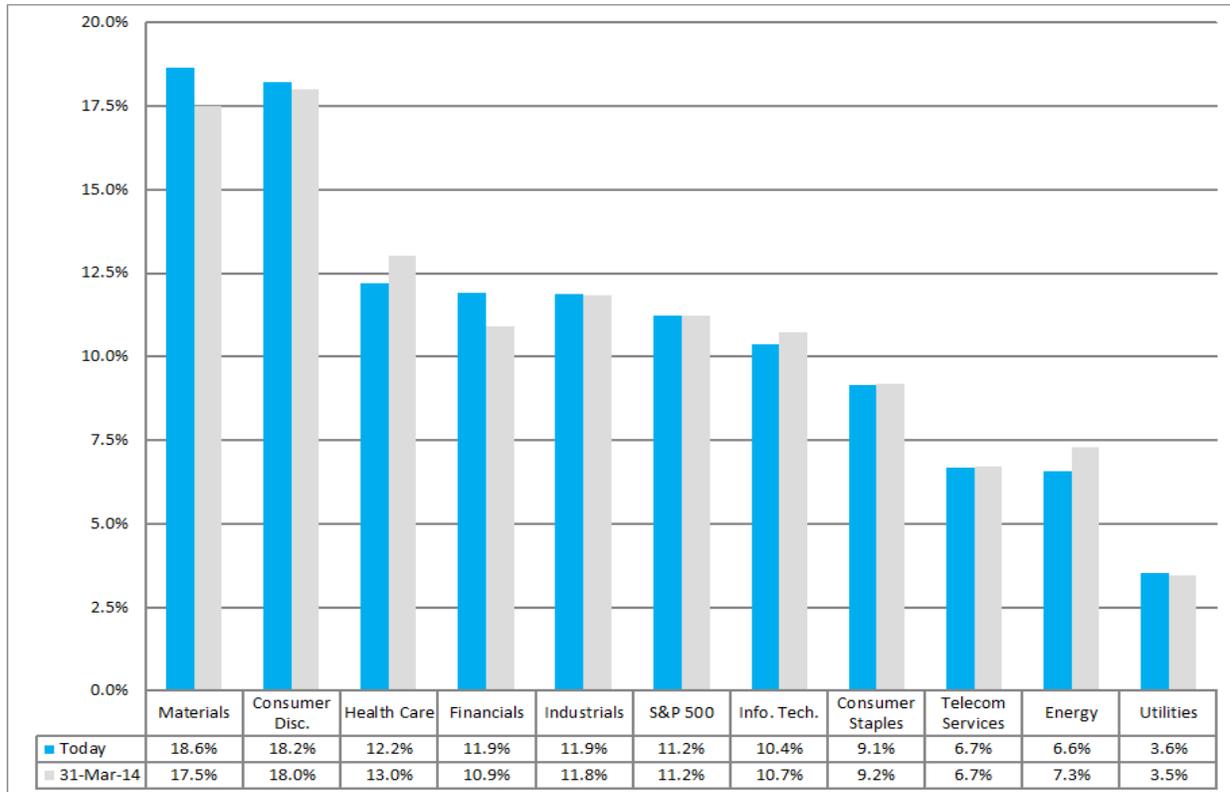


CY 2014 Revenue Growth

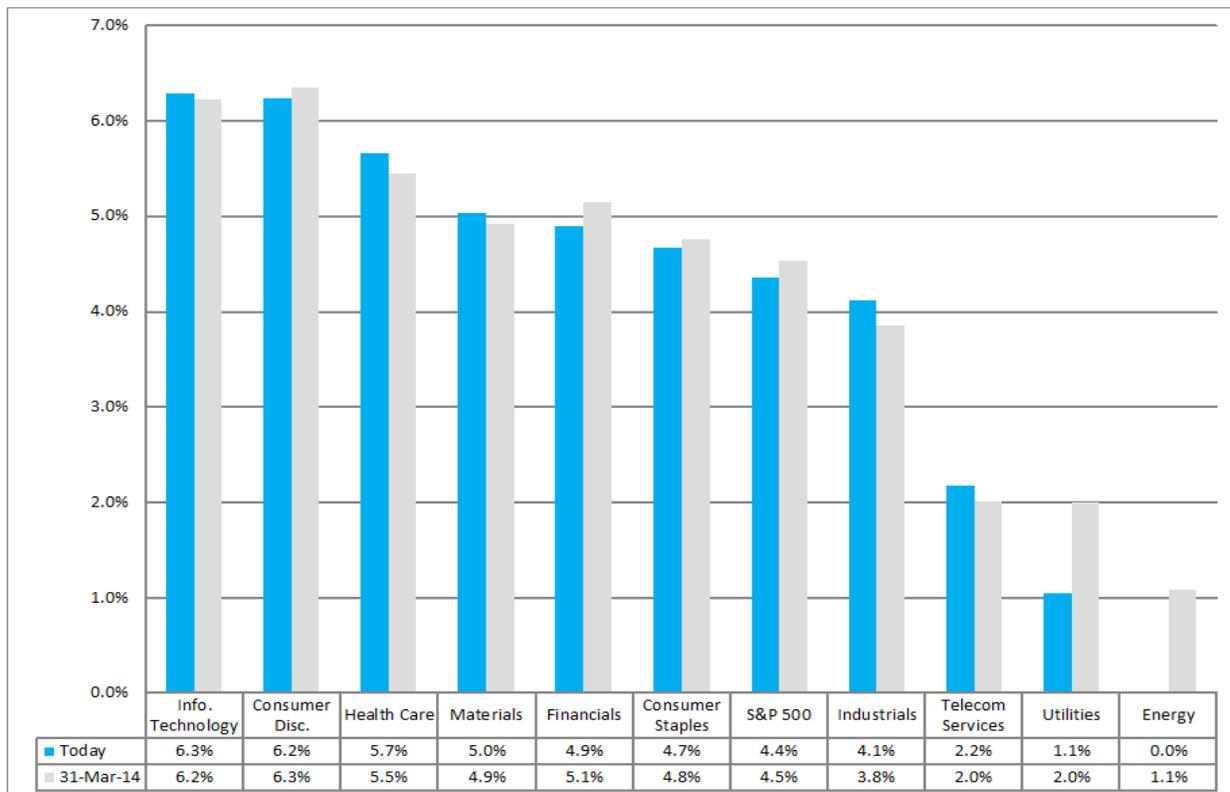


CY 2015: Growth

CY 2015 Earnings Growth

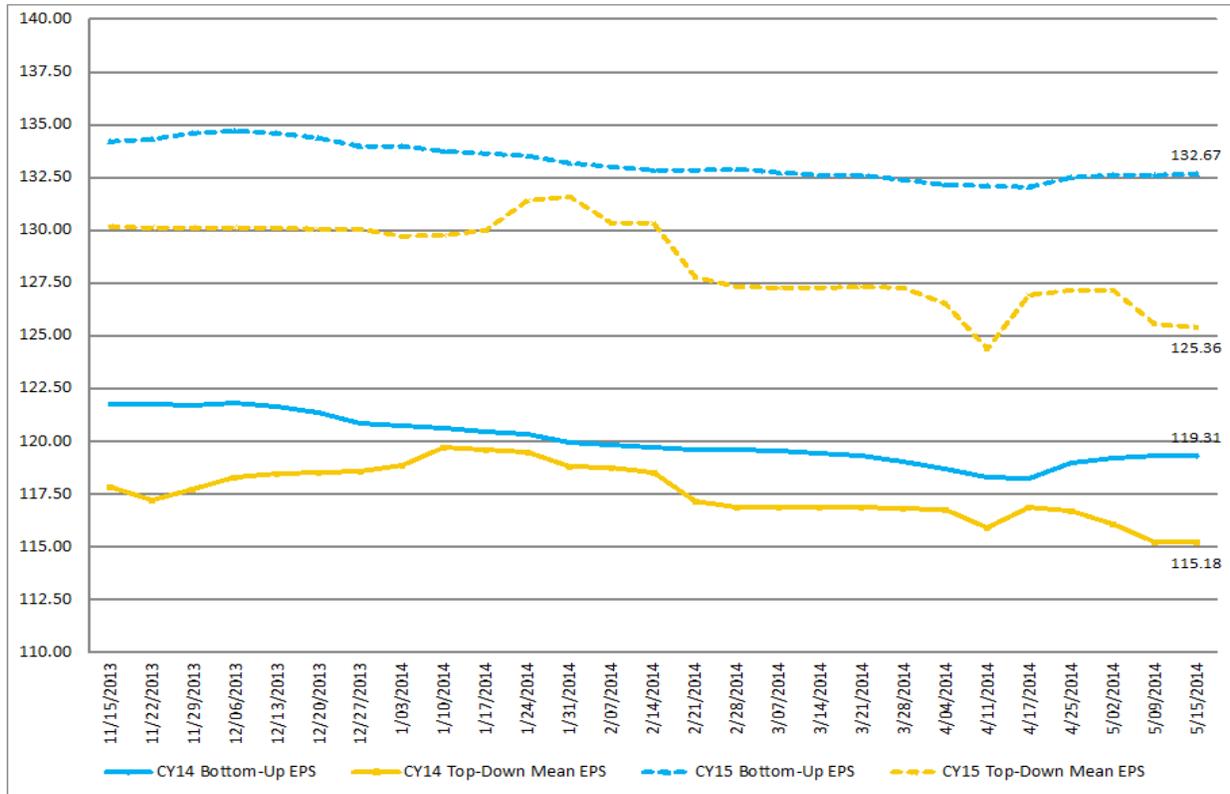


CY 2014 Revenue Growth



## Bottom-up EPS Estimates: Revisions

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

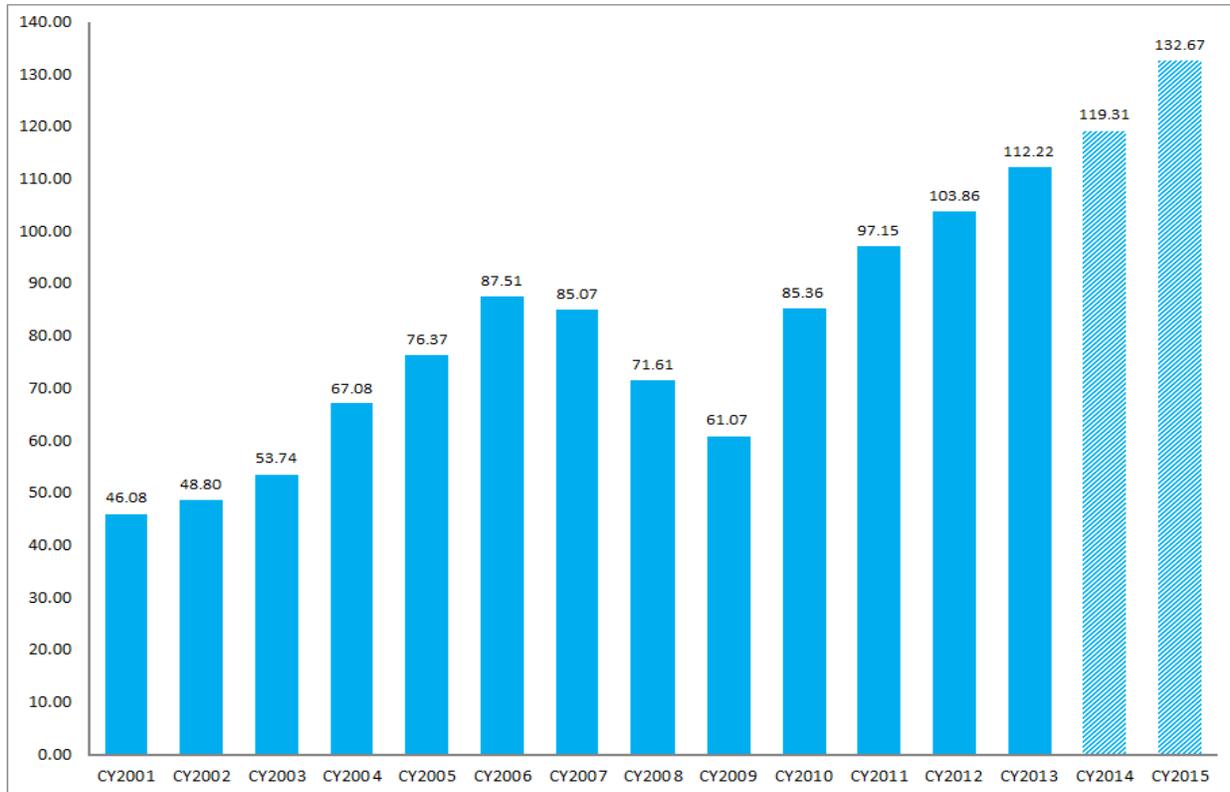


Change in Q114 & Q214 Bottom-Up EPS vs. Price (Trailing 26-Weeks)

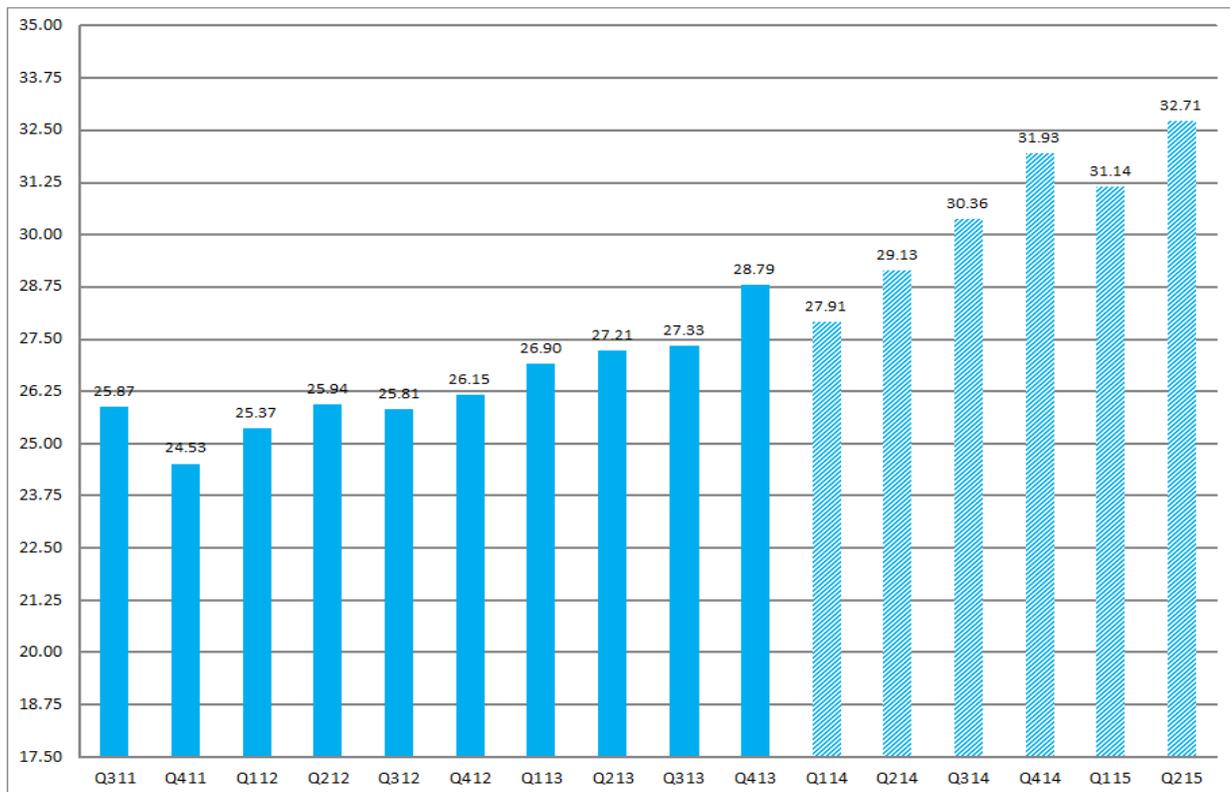


## Bottom-up EPS Estimates: Current & Historical

Calendar Year Bottom-Up EPS Actuals & Estimates

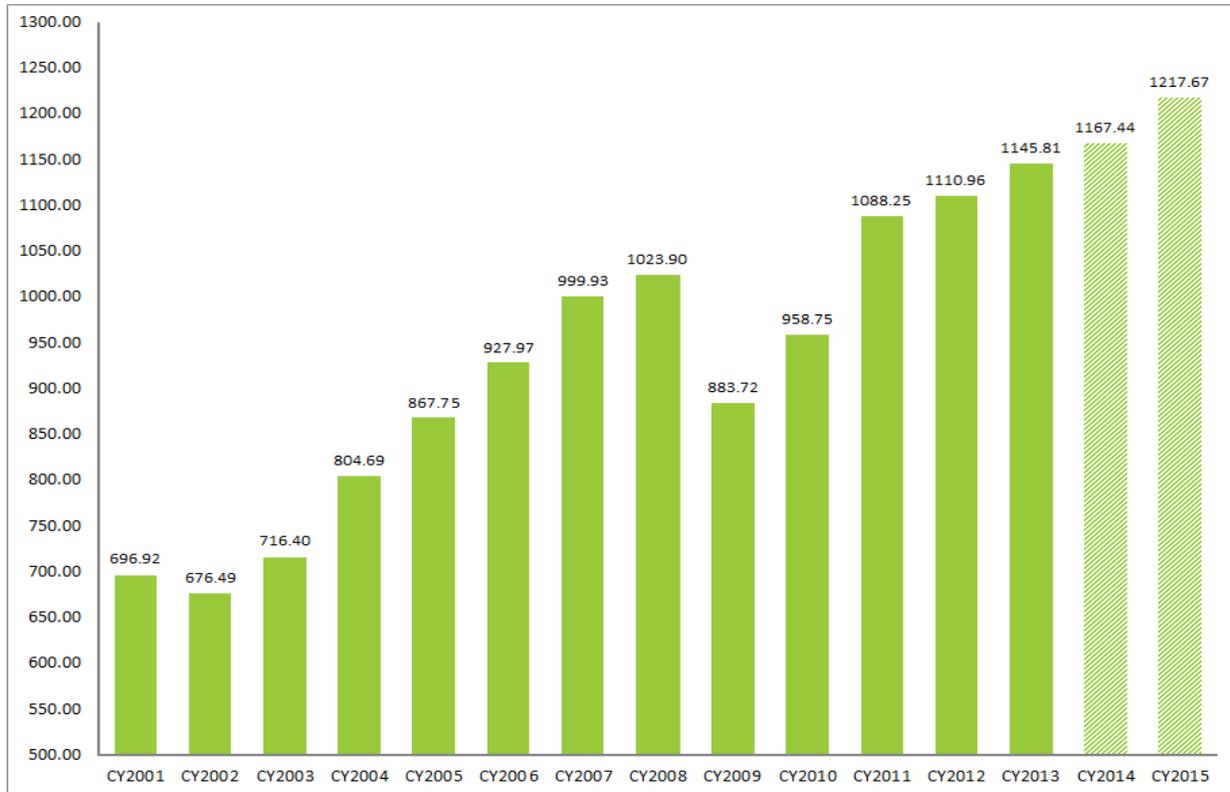


Quarterly Bottom-Up EPS Actuals & Estimates

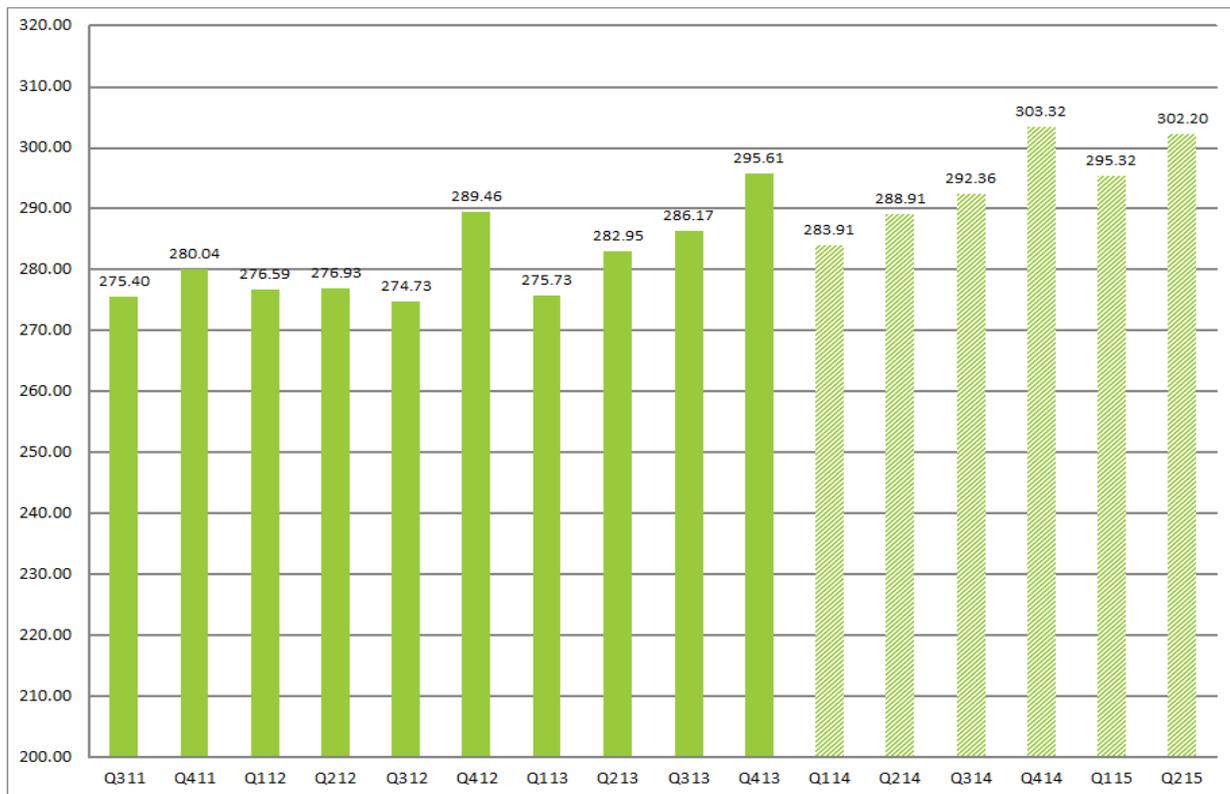


## Bottom-up SPS Estimates: Current & Historical

Calendar Year Bottom-Up SPS Actuals & Estimates

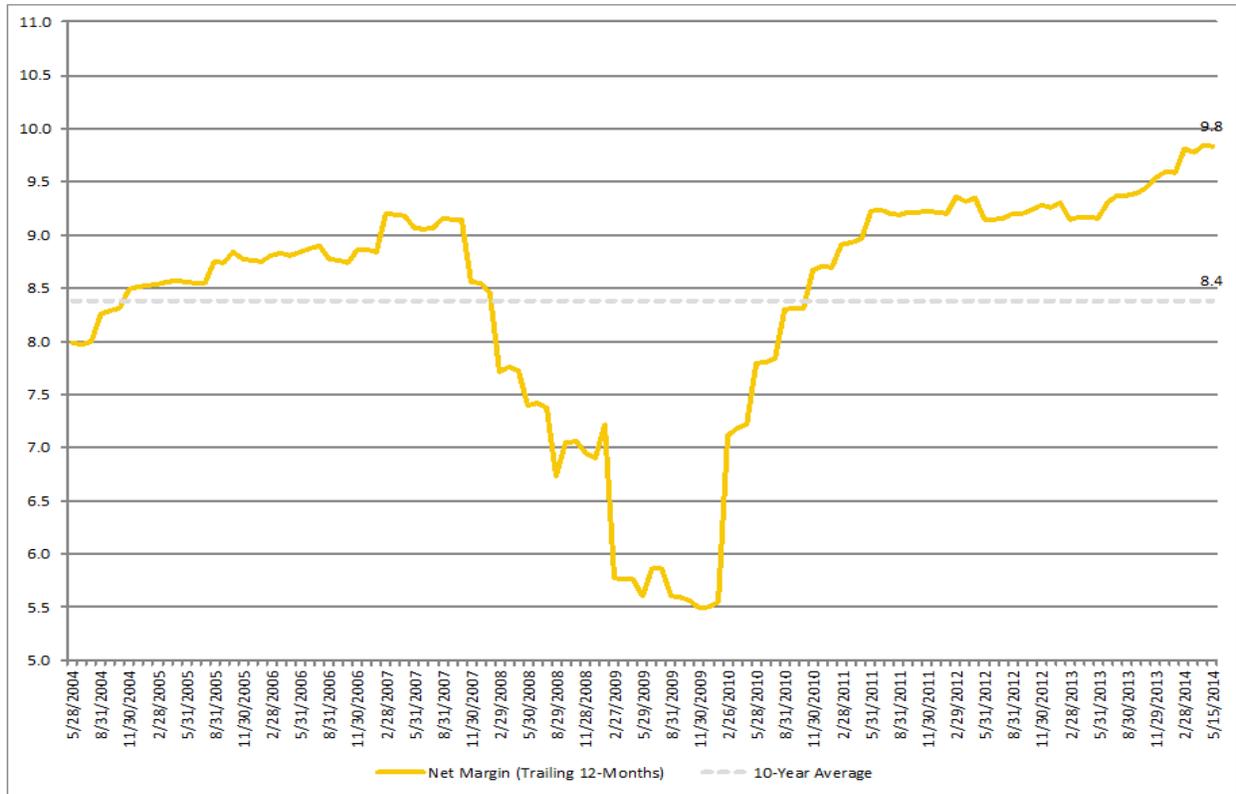


Quarterly Bottom-Up SPS Actuals & Estimates

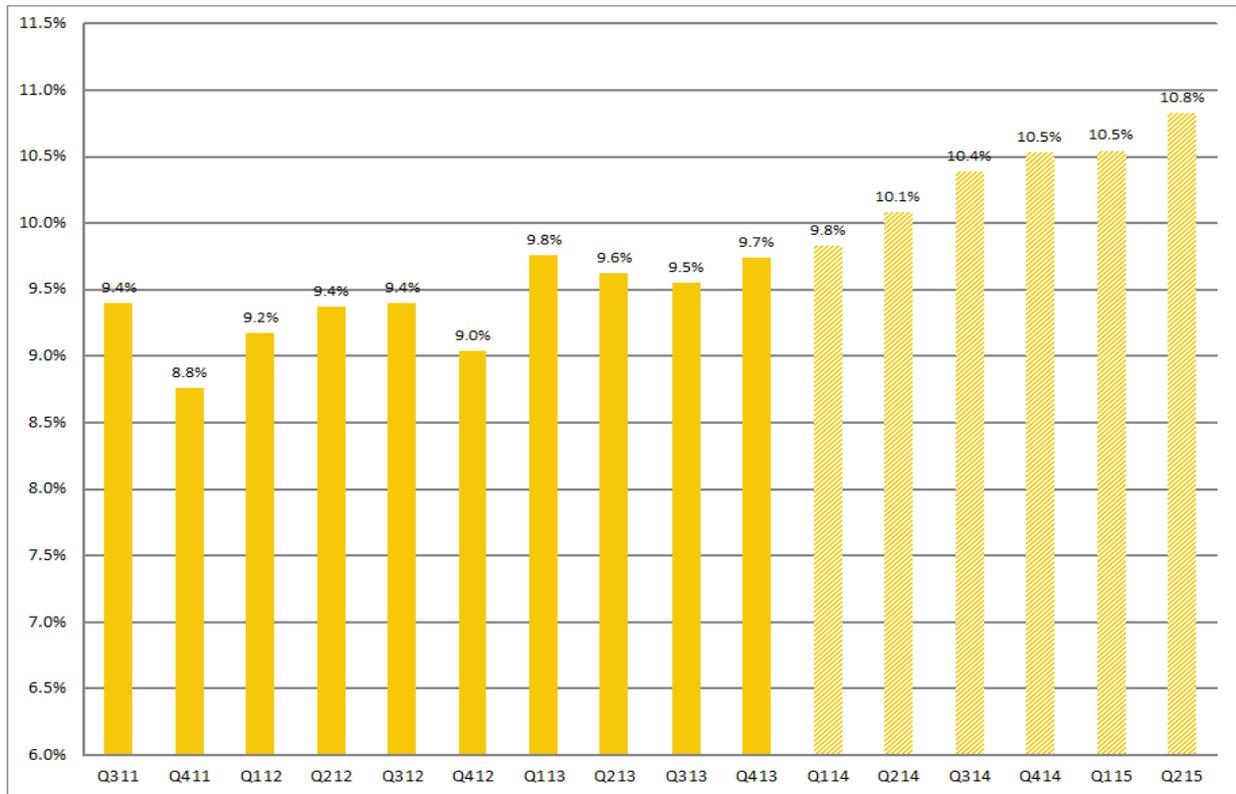


## Net Margins: Current & Historical

Trailing 12M Net Margin: 10 Years

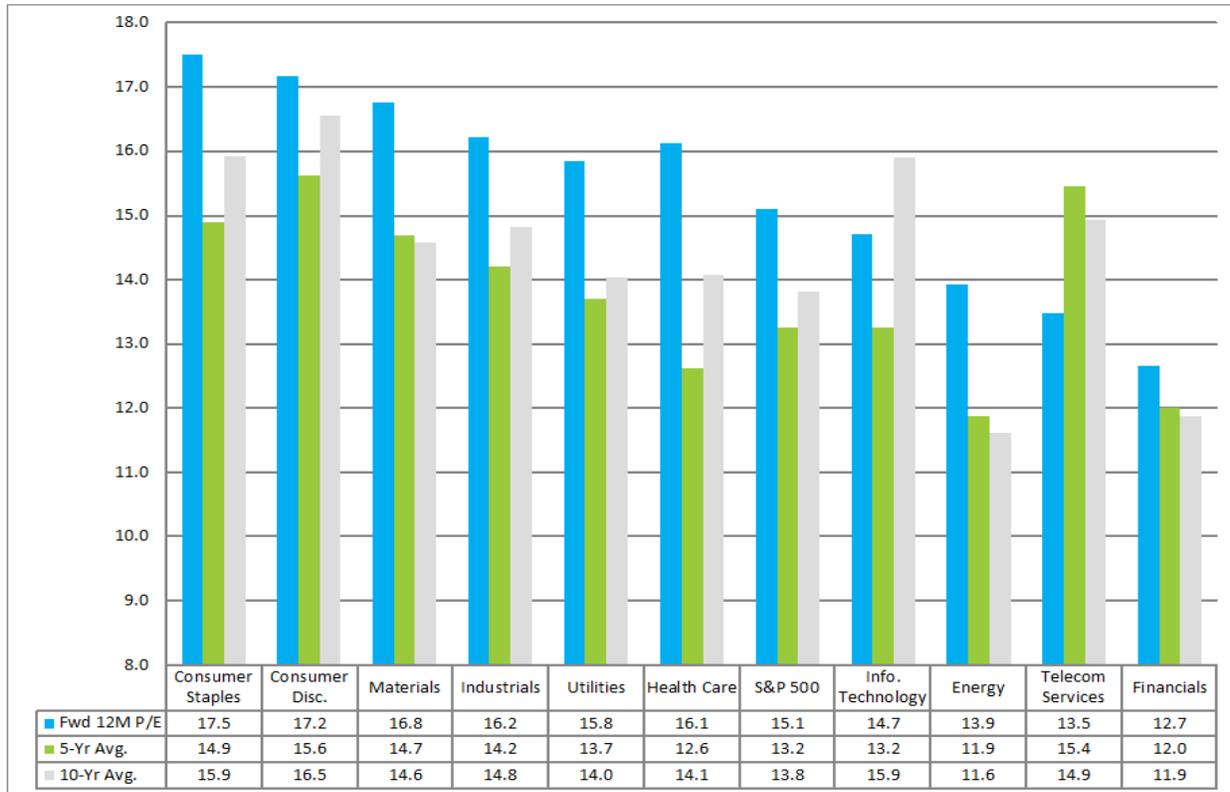


Quarterly Net Margins (Bottom-Up EPS / Bottom-Up SPS)

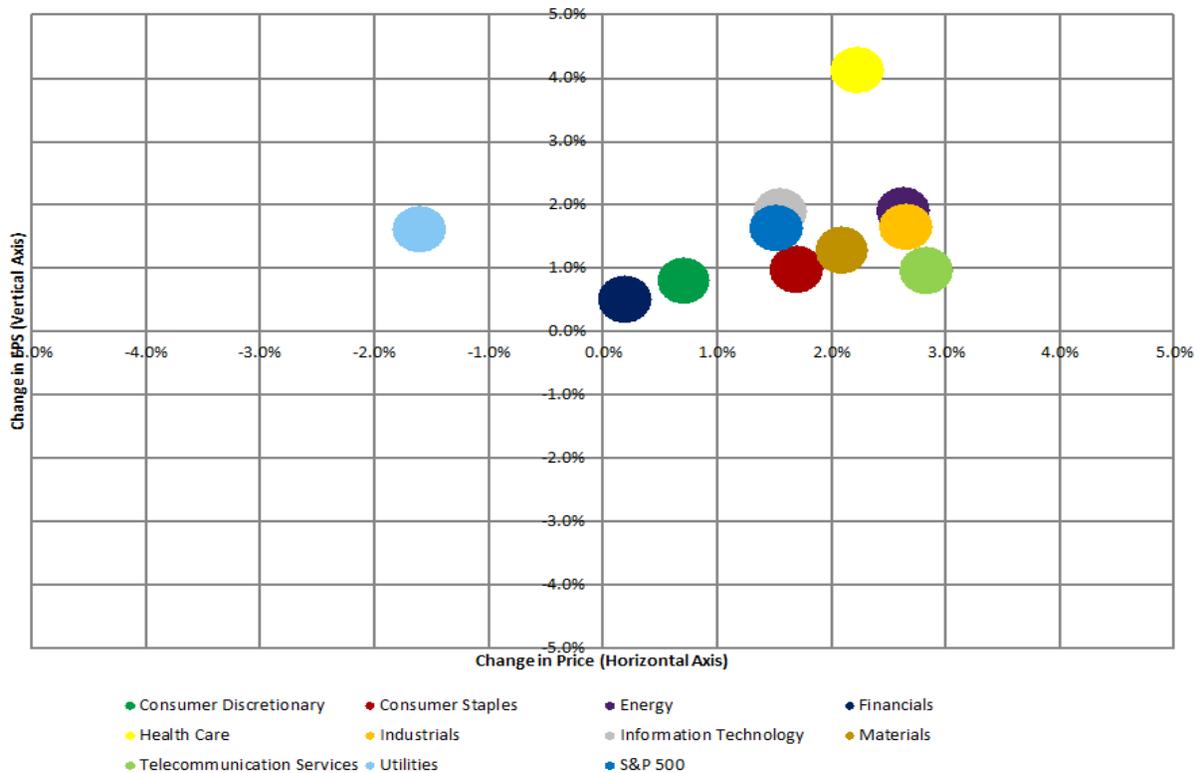


## Forward 12M Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

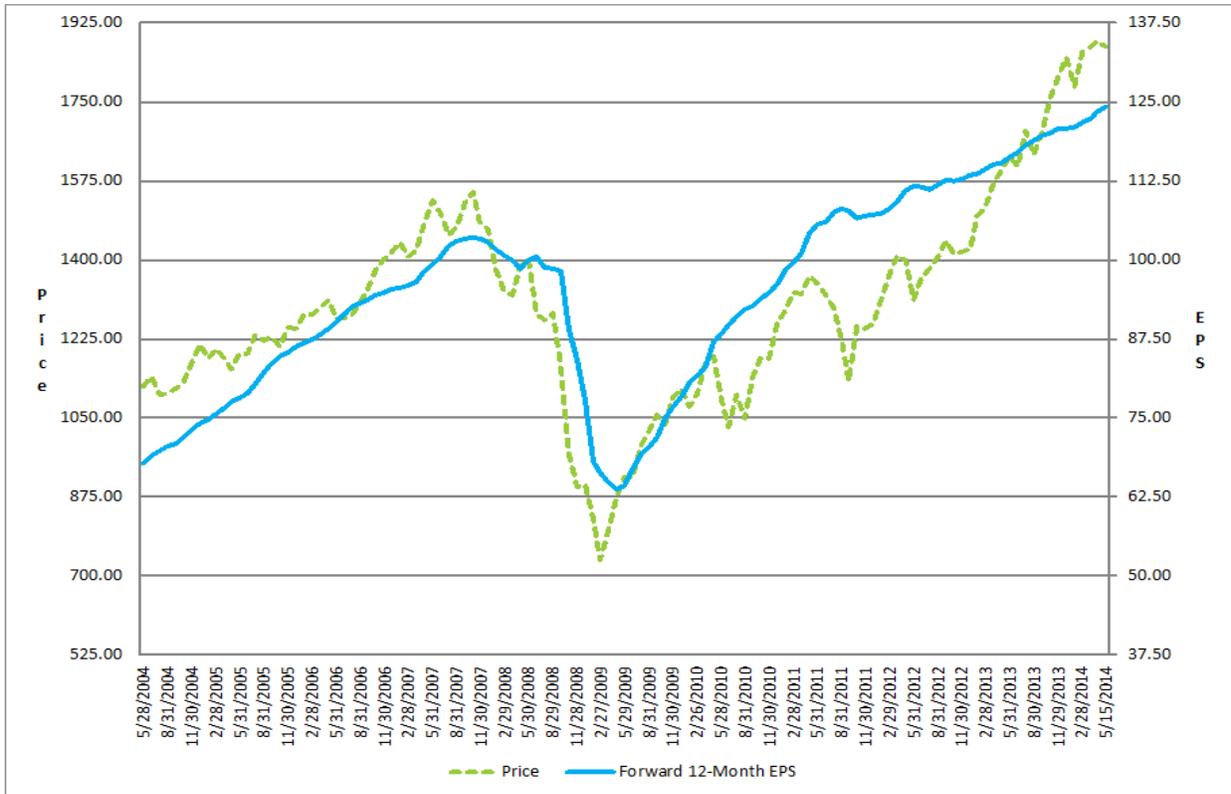


Sector-Level Change in Price vs. Change Forward 12M EPS: 1-Month

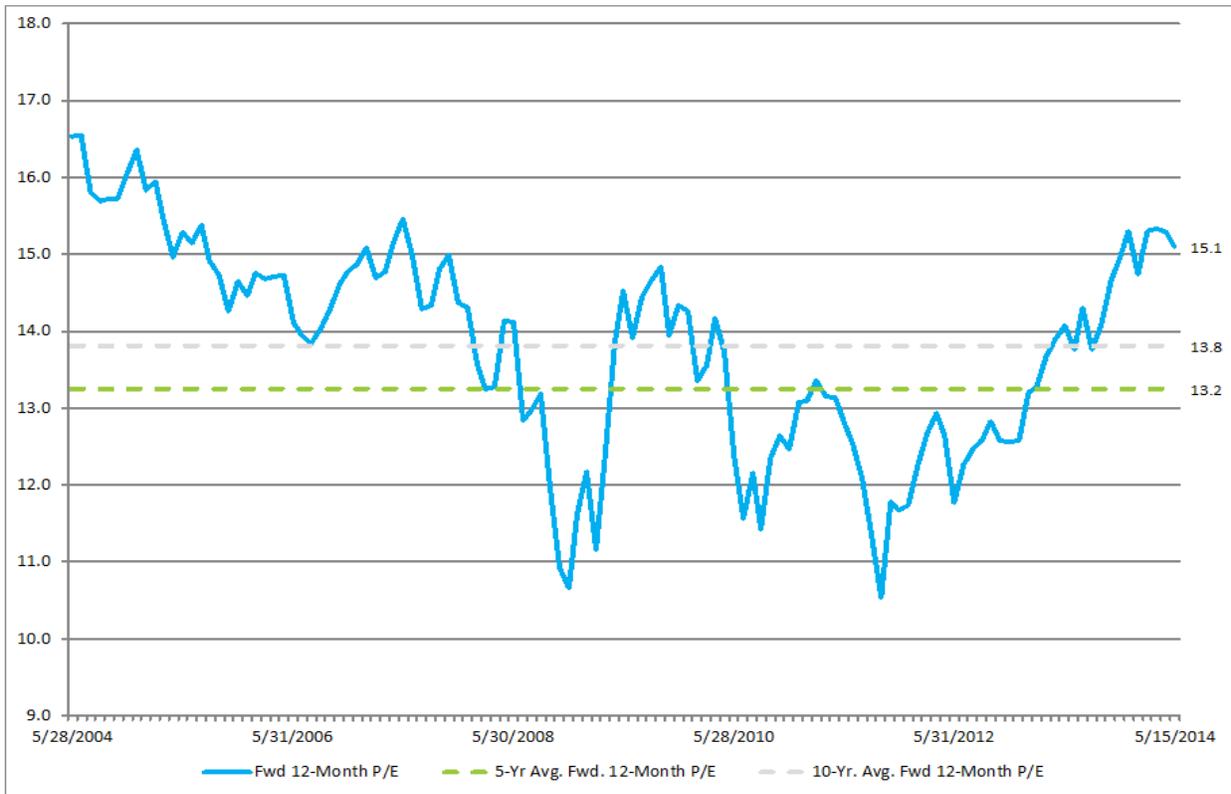


## Forward 12M Price / Earnings Ratio: Long-Term Averages

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

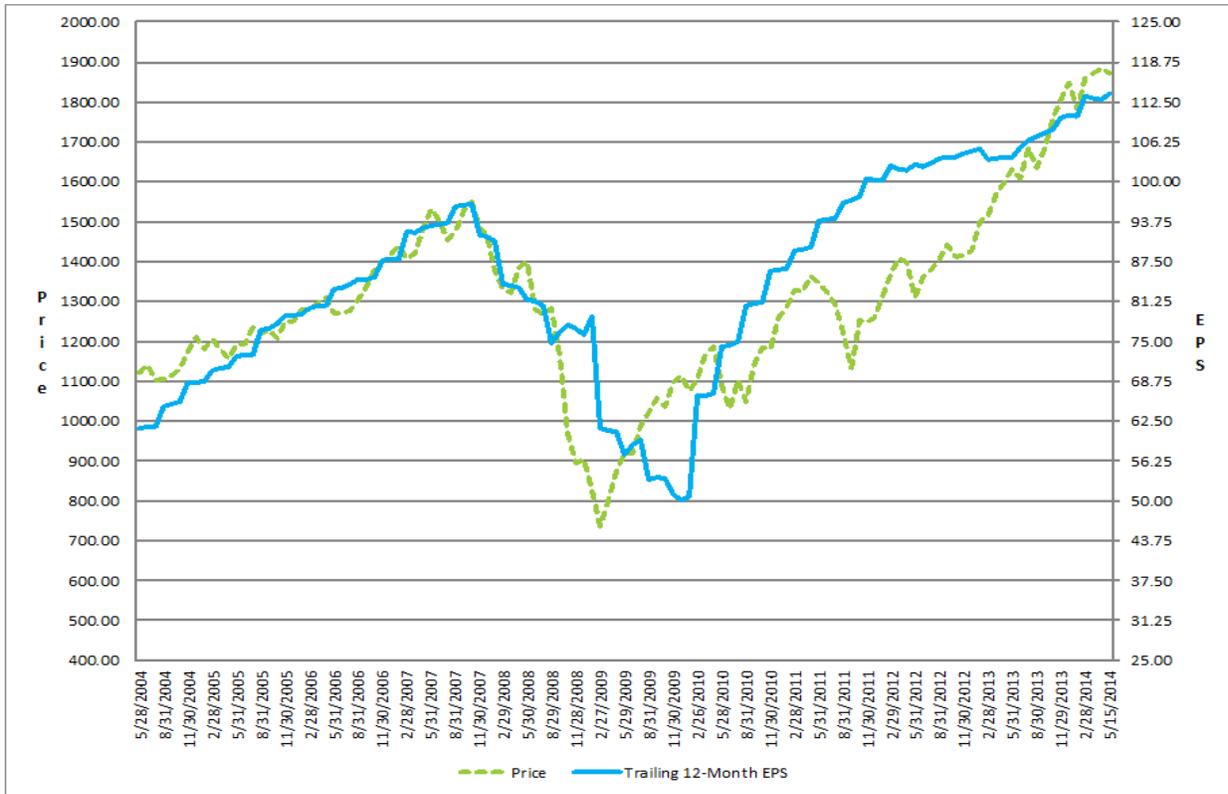


Forward 12M P/E Ratio: 10-Year

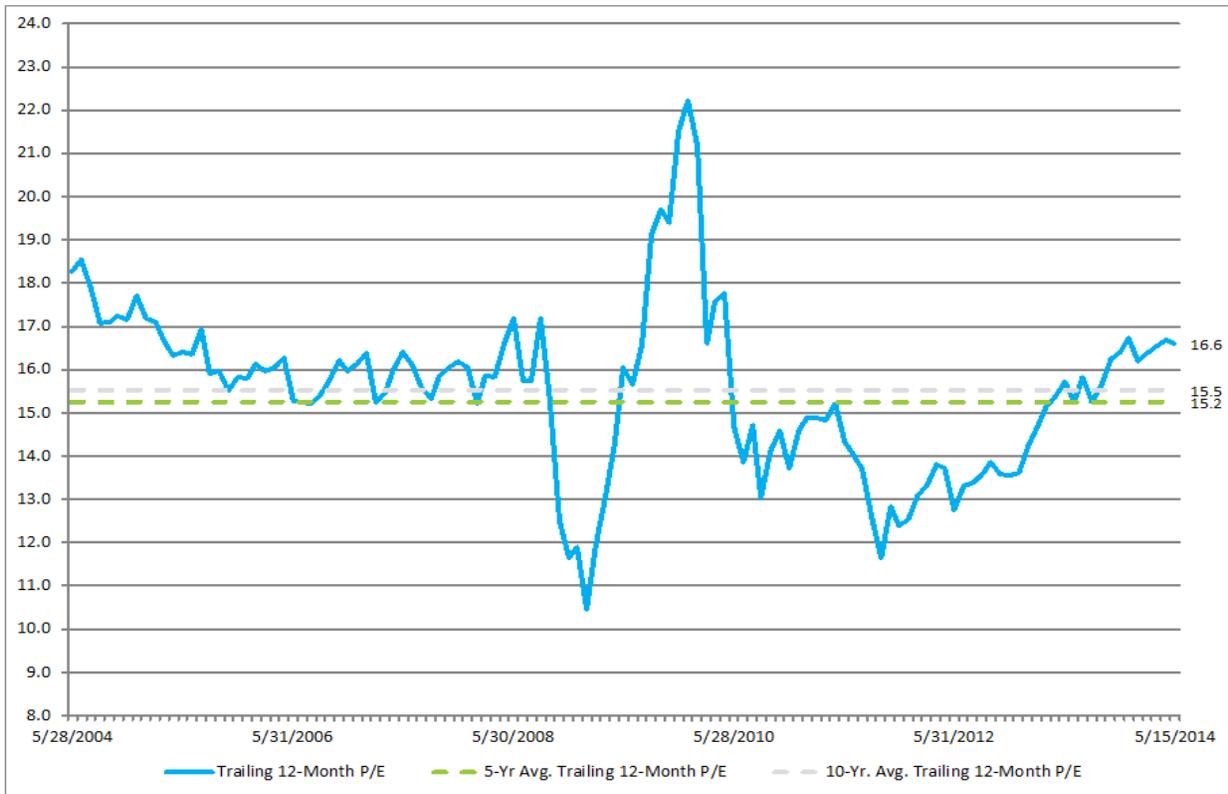


## Trailing 12M Price / Earnings Ratio: Long-Term Averages

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



Trailing 12M P/E Ratio: 10-Year



## Important Notice

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