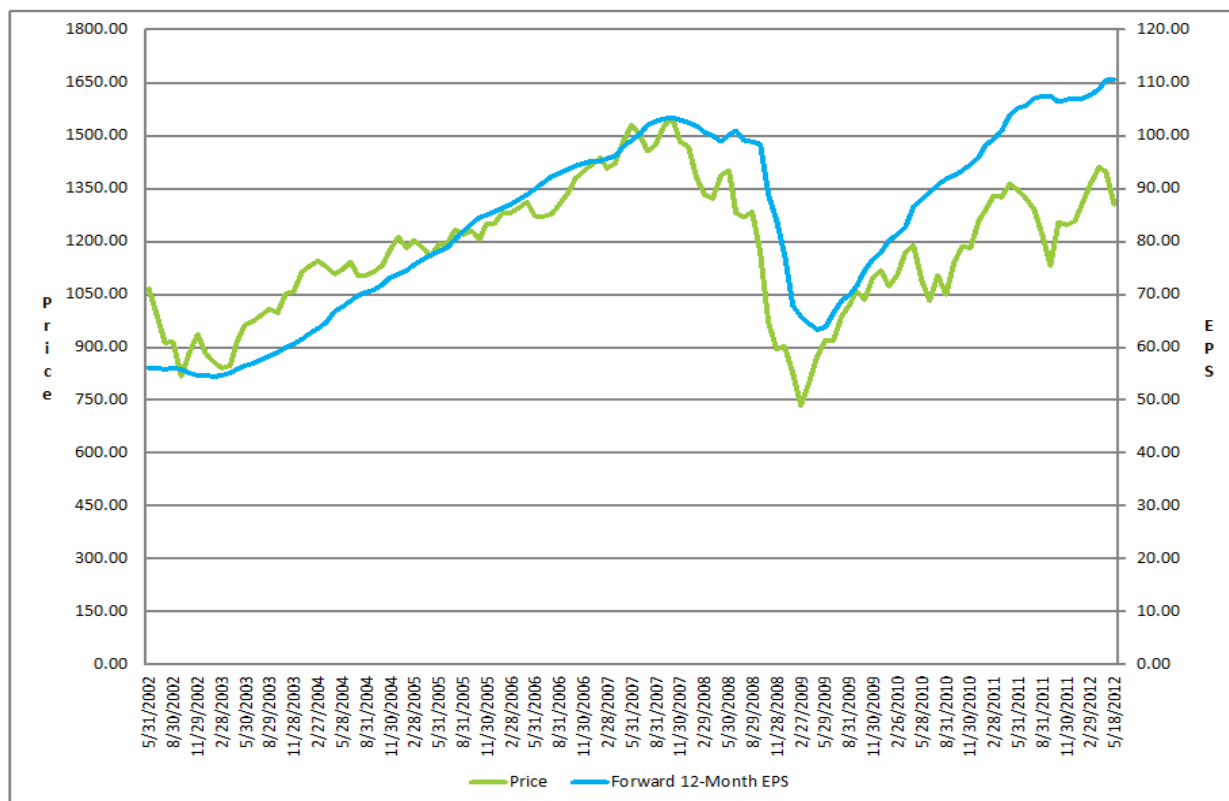


Key Metrics

- + **Earnings Scorecard:** Of the 473 companies that have reported earnings for Q1 2012 to date, 72% have reported earnings above the mean estimate.
- + **Earnings Growth:** The blended earnings growth rate for Q1 2012 is 7.3%. The Financials (27.6%), Industrials (14.4%), and Information Technology (11.1%) sectors are reporting the highest earnings growth rates for the quarter
- + **Earnings Revisions:** Since March 31, the blended earnings growth has increased to 7.3% from 0.1%. The Financials and Information Technology sectors have recorded the largest upside changes in earnings for the quarter.
- + **Earnings Guidance:** For the current fiscal quarter, 70 companies have issued negative EPS guidance and 31 companies have issued positive EPS guidance.
- + **Valuation:** The current 12-Month forward P/E ratio is 11.8. This P/E ratio is below the average forward 12-Month P/E ratio over the past 10 years (14.4).

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:

Facebook: Would Be Top 25 Market Cap Company in S&P 500 Based on Offering Price

The initial public offering (IPO) for shares of Facebook occurs today. Based on the offering price of \$38 per share and the projected number of shares outstanding after the offer, the market capitalization of the company is expected to be approximately \$104 billion.

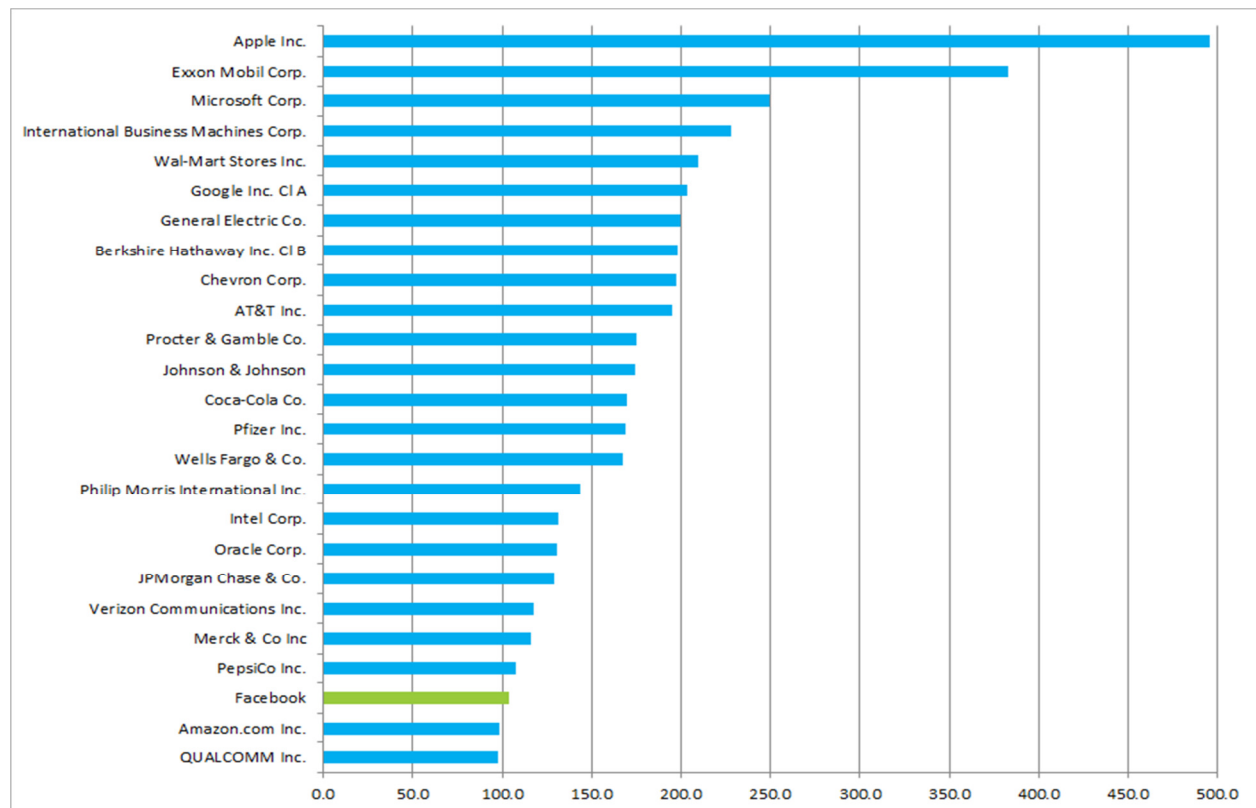
Facebook is not currently a constituent in the S&P 500 index. However, based on this expected market capitalization, where would the company rank if it were a member of the S&P 500?

Based on yesterday’s closing prices, Facebook would be one of the 25 largest companies in the S&P 500 by market capitalization. It would rank as the 23rd largest company in the index, just behind PepsiCo (\$107.6 billion) and just ahead of Amazon.com (\$98.4 billion).

Looking specifically at Information Technology companies in the S&P 500, Facebook would be the seventh largest Information Technology company in the index by market capitalization, behind Apple, Microsoft, IBM, Google, Intel and Oracle.

For more information on earnings expectations for Facebook, please see our recent Market Insight report “Facebook EPS Growth: Large Cap Tech or Social Media Stock” at the following link: www.factset.com/marketinsight.

S&P 500 Market Cap (\$B): Top 25 (including Facebook)



Q1 2012 Earnings Season: Overview

72% of Companies Report Upside Earnings Surprises

Overall, 473 companies in the S&P 500 have reported earnings to date. Of these 473 companies, 72% have reported actual EPS above the mean EPS estimate. This percentage is consistent with the average percentage of companies reporting upside earnings surprises over the last four quarters (72%).

At the sector level, the Consumer Discretionary (85%) and Consumer Staples (83%) sectors have the highest percentages of companies reporting upside earnings surprises, while the Utilities (50%), Telecom Services (50%), and Energy (51%) sectors have the lowest percentages of companies reporting upside earnings surprises.

In aggregate, companies are reporting earnings that are 6.6% above expectations. Over the past four quarters, actual earnings for the S&P 500 surpassed estimates by 5.1%. At the sector level, companies in the Financials (15.5%) and Telecom Services (13.2%) sectors reported the largest aggregate differences between actual earnings and estimated earnings.

In terms of revenues, 65% of companies have reported actual sales above estimated sales. Over the past four quarters, 63% of companies in the S&P 500 reported actual revenue above estimated revenue on average. At the sector level, the Health Care (76%), Information Technology (74%), and Consumer Staples (72%) sectors have the highest percentages of companies reporting upside revenue surprises, while the Utilities (31%) sector has the lowest percentage of companies reporting upside revenue surprises.

Slight Uptick in Earnings Growth Rate to 7.3%

The blended earnings growth rate for the first quarter currently stands at 7.3%, slightly above last week's growth rate of 7.2%. Better-than-expected earnings from Wal-Mart Stores and Target were partially offset by lower than expected earnings from Computer Sciences.

Since the end of the first quarter (March 31), the earnings growth rate for the index has improved to 7.3% from 0.1%. Nine of the ten sectors have reported an increase in earnings growth during this time. The Utilities sector is the only sector reporting a decline in earnings growth since the end of the quarter.

Since the start of the first quarter (December 31), the earnings growth rate for the index has increased to 7.3% from 3.0%. Six sectors have higher earnings growth rates today relative to the start of the quarter: Financials, Information Technology, Industrials, Consumer Discretionary, Health Care and Telecom Services.

Financials, Industrials and Technology (Apple) Are Key Drivers of Earnings Growth.

The Q1 2012 quarter marked the tenth consecutive quarter of earnings growth for the index. Overall, seven of the ten sectors are reporting year-over-year earnings growth for the quarter. Of these seven sectors, the Financials, Industrials, and Information Technology sectors are the main drivers of earnings growth for the index.

Financials Sector: Excluded Charges and Lower Loan Loss Provisions Help Boost Bottom Line.

The Financials sector reported the highest earnings growth (27.6%) of all ten sectors. However, this sector also reported the second lowest revenue growth (2.9%) as well. Many of the companies that reported a significant improvement in earnings growth for Q1 benefitted from the exclusion of valuation adjustment charges, lower provisions for loan losses, and comparisons to weak year-ago earnings.

In terms of valuation adjustments, companies such as Bank of America, Morgan Stanley, and Citigroup reported GAAP EPS that included high valuation adjustment (CVA/DVA) charges. However, most analysts elected to exclude these charges in their estimates in Q1 2012, resulting in higher non-GAAP EPS for all of these companies (and higher year-over-year EPS growth).

In terms of provisions for loan losses, a number of the companies that reported high EPS growth for the quarter (including Regions Financial, Bank of America, Hudson City Bancorp, and Fifth Third Bancorp) also reported substantial year-over-year declines in provisions for loan losses, which helped to boost the bottom line for these companies. For the 25 companies in the sector in which FactSet tracks this metric, the median year-over-year decline in these provisions was 31%.

Some companies (including Berkshire Hathaway and Goldman Sachs) in this sector also reported high EPS growth due to easier comparisons to weak year-ago earnings.

Industrials Sector: Strength across the Sector Led by Machinery and Aerospace

The Industrials sector has the second highest earnings growth rate at 14.4% and the third highest revenue growth rate at 6.8%. There has been balanced growth in earnings across multiple industries in this sector. Eleven of the twelve industries in this sector are reporting earnings growth. Seven of these eleven industries are reporting double-digit growth. Companies in the Machinery (such as Paccar, Cummins, and Caterpillar) and Aerospace (such as Textron, Boeing, and Lockheed Martin) industries are reporting some of the highest earnings growth rates in the sector. The only industry reporting a decrease in earnings for the quarter is the Airlines industry.

A number of companies in this sector cited a better than expected performance in the U.S as a reason for strong earnings growth for the quarter, offsetting weaker results globally.

“First quarter revenue of \$4.5 billion increased 16 percent from the same quarter in 2011. The increase year-over-year was driven by higher demand in truck, power generation and construction markets in North America and strong growth in global mining markets. Growth in these markets offset weaker demand in the truck market in Brazil, the construction market in China and construction and power generation markets in Europe.” –Cummins (May 1)

Information Technology Sector: Apple

The Information Technology has the third highest earnings growth rate (11.1%) and the highest sales growth rate (8.5%) of all ten sectors. However, almost all of this growth is due to Apple. Excluding Apple, the earnings growth rate for the Information Technology sector falls to -1.9% and the sales growth rate falls to 3.0%. Apple is part of the Computers & Peripherals industry, which has the highest earnings growth (44.9%) of any industry in the sector. In addition, the Internet & Software Services industry (YHOO, GOOG, EBAY, VRSN, and AKAM) also reported high earnings growth (21.1%). Most of the weakness in the sector is coming from the Semiconductors & Semiconductor Equipment industry, which is reporting a decline in earnings of 29%.

Ex-Apple, Earnings Growth Rate for S&P 500 Drops to 5.0%.

Not only is Apple the largest contributor to earnings growth for the Information Technology sector, it is the largest contributor to earnings growth by far for the entire S&P 500. Excluding Apple, the blended earnings growth rate for Q1 2012 would fall to 5.0% from 7.3%. Apple reported EPS of \$12.30 for Q1 2012, which was 92% above the year-ago actual EPS of \$6.40.

Revenue Growth: 9 of 10 Sectors Reporting Growth

In terms of revenues, the blended growth rate stands at 5.3%. The Q1 2012 quarter marked the tenth consecutive quarter of revenue growth for the index. Nine of the ten sectors are reporting sales growth for the quarter, led by the Information Technology (8.5%) and Telecom Services (7.9%) sectors. The only sector reporting a decline in sales is Utilities (-4.0%).

High Commodity Costs Impact Consumer Staples Earnings Growth

Seven of the ten sectors in the index are reporting higher revenue growth than earnings growth for the quarter, which indicates that companies had difficulty converting sales growth to earnings growth in Q1 2012. Higher costs have been one of the causes of this difficulty, particularly for companies in the Consumer Staples sector.

Revenue Increase, Earnings Decrease for 96 Companies

At the company level, 86 companies have reported and 8 companies are projected to report growth in sales but a decline in earnings in Q1 2012. If 94 is the final number of companies, it would be the highest number recorded since Q3 2008 (115), and would reflect a 38% increase compared to the number of companies recording this difference in the year-ago quarter (68). At the sector-level, the Consumer Staples (15) sector has the largest number of companies with this difference. Twelve of these fifteen companies have reported actual results.

The blended net profit margin (excluding Financials) for Q1 2012 is now 8.7%. If this is the final number, it will equal the net profit margin from the previous quarter. The Consumer Staples (5.5%) sector is reporting its lowest net profit margin since Q1 2009 (5.4%).

Higher Commodity Costs

One of the factors contributing to these rising costs is higher commodity costs, particularly food and energy costs. These costs typically detract from earnings for companies in the Consumer Staples sector, so it is not surprising to see this sector with the lowest net profit margin and highest number of companies seeing sales growth and earnings declines of all ten sectors.

Of the twelve companies that have reported actual sales growth and actual earnings declines in the Consumer Staples sectors, nine have cited the negative impact of higher energy or higher commodity costs.

“Gross margin decreased 180 basis points to 42.3 percent from 44.1 percent in the year-ago quarter. As anticipated, the decrease in the current quarter gross margin was primarily driven by higher commodity, manufacturing and logistics costs due to inflationary pressure.” –Clorox (May 2)

Emerging Markets (2nd Half Recovery Expected) and F/X Rates (Negative)

Emerging Markets

Over the last few years, companies in the index have reported their largest revenue growth rates in “emerging markets” regions, as these countries had been recording strong economic growth.

However, economic growth in countries in emerging markets has been decreasing over the past year. According to FactSet Economics, three of the four “BRIC” countries have recorded slower GDP growth during this time. For Q1 2011, China, India and Brazil recorded GDP growth of 9.7%, 9.7% and 4.1%, respectively. By Q4 2011, GDP growth rates for China, India, and Brazil had fallen to 8.9%, 6.3% and 1.4%. For Q1 2012, China recently announced that GDP growth was 8.1%.

Comments regarding results in emerging markets have been mixed. Generally speaking, companies in consumer (Yum! Brands) and technology (IBM) oriented sectors have been positive; while companies in manufacturing oriented sectors (Cummins) have been mixed. However, even the companies in sectors that saw slowing growth in Q1 2012 continue to expect these economies to improve later in 2012.

“Although it’s tough to predict the exact timing, we expect positive economic growth moving forward. China and Brazil took steps in 2011 to slow their economies and bring inflation under control. Both countries have realized inflation levels in their targeted range and have begun to move to more accommodative economic policies that should support improved growth later this year.” –Caterpillar (Apr. 25)

“As for China, we are expecting below trend growth in the second quarter with better growth rates returning in the second half of the year.....We will also invest more in emerging markets. For example, healthcare in Latin America and China and in personal safety everywhere, another high growth, high potential space.” -3M (Apr. 24)

“As you heard from the business unit presidents in March, much of the operating profit growth will come in the back half of the year. As the year progresses, we'll see more normal year-on-year comparisons across our businesses and we believe that the Chinese government will continue to pull back on some of the tightening measures which should lead to improvement in the high end residential construction market in China.” – United Technologies (Apr. 24)

Europe and F/X Rates

Economic growth in Europe has also fallen over the past year. In Q1 2011, the European Union recorded GDP growth of 2.4%. By Q4 2011, GDP growth in the European Union had fallen to 0.9%.

The continuing weakness in Europe is contributing to another factor that is having a negative impact on revenue and earnings growth in Q1 2012: less favorable foreign exchange rates. Over the past year, companies have recorded a boost to revenues due to the weakness of the dollar relative to the Euro and other currencies. However, the ongoing weakness in Europe has led to the dollar gaining strength relative to the Euro in recent months. In Q1 2011, one Euro was equal to about \$1.37 U.S. dollars on average (weekly basis). For Q1 2012, one Euro was equal to about \$1.31 U.S. dollars on average (weekly basis).

A number of companies have commented on the negative impact of foreign exchange rates on sales and earnings to date.

“Unfavorable foreign exchange reduced net sales growth by one percent.” –P&G (Apr. 27)

“Worldwide sales were \$11.7 billion for the first quarter of 2012, an increase of 1 percent compared with the first quarter of 2011, including a 1 percent negative effect from foreign exchange and a 2 percent unfavorable impact from the arbitration settlement agreement with Johnson & Johnson discussed below.” – Merck & Co. (Apr. 27)

Analysts Begin To Take Down Q2 Estimates; Double-Digit Growth Still Projected for Q4

During the month of April, there had been little change to the estimated earnings growth rate for the second quarter. On March 31, the estimated earnings growth rate for Q2 2012 was 6.2%. On April 27, the estimated earnings growth rate was 6.1%.

However, analysts have reduced estimates for Q2 2012 during the past few weeks. As of today, the estimated earnings growth rate stands at 4.8%. The Materials and Energy sectors have witnessed the highest percentage cuts to earnings estimates since the start of the second quarter.

Analysts also have lowered earnings growth expectations for Q3 2012 (to 3.1% from 4.0%) and Q4 2012 (to 15.2% from 15.5%) since March 31.

Despite the slight decline in earnings estimates for Q4 2012, analysts are still calling for double-digit growth (15.2%) for the quarter. Six of the ten sectors are predicted to report double-digit earnings growth, led by the Materials (34.8%) and Financials (30.2%) sectors.

Valuation: Forward P/E Below 10-Year Average, Down Since March 31

The current forward 12-month P/E ratio of 11.8 is well below the prior ten-year average forward 12-month P/E ratio of 14.4, and is below the 13.0 P/E ratio recorded at the start of the second quarter (March 31). The P/E ratio has decreased during this time due to a decline in the price of the index (down 7.4% since March 31), combined with an increase (1.8%) in the forward 12-Month EPS estimate for the index (to 110.63 from 108.68).

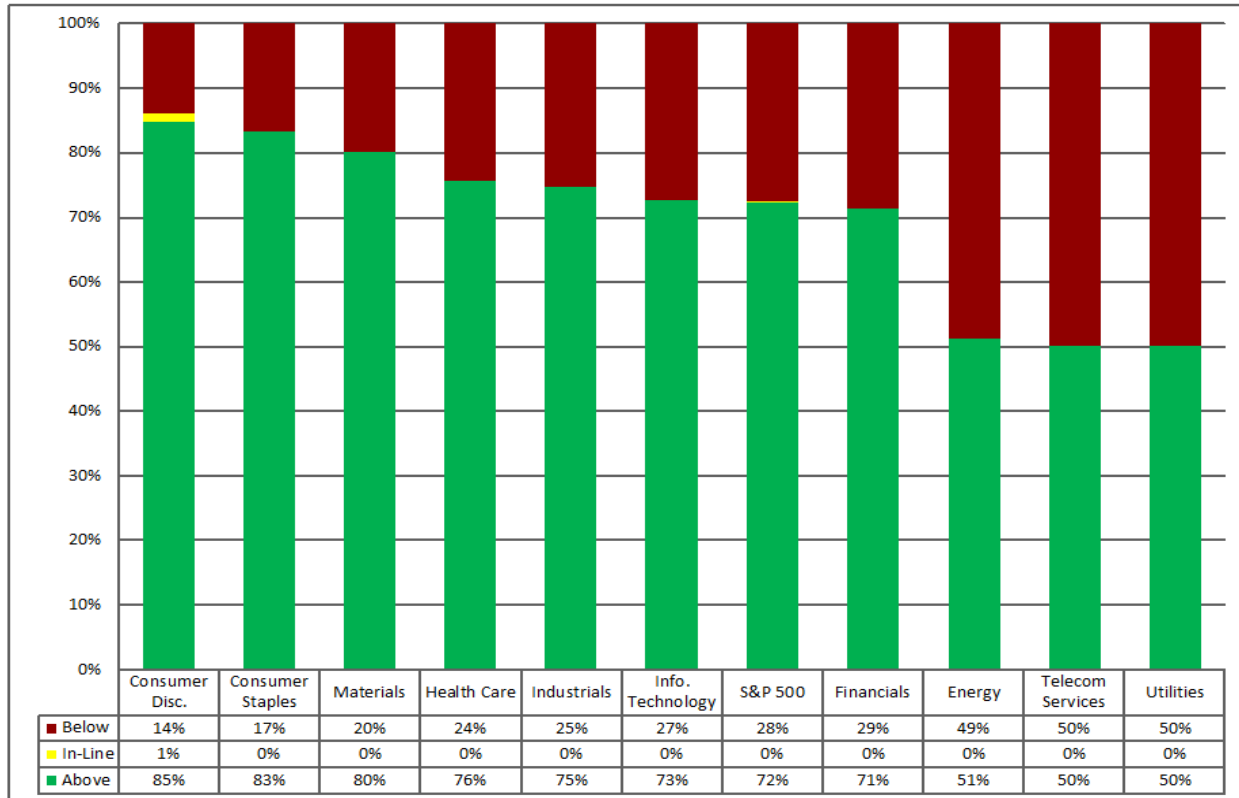
Will there be a return to the 10-year average valuation for the market anytime soon? If there is going to be a return to this average P/E ratio of 14.4, either future estimates will need to decrease, the price of the index will need to increase, or a combination of the two will need to occur.

Companies Reporting Next Week

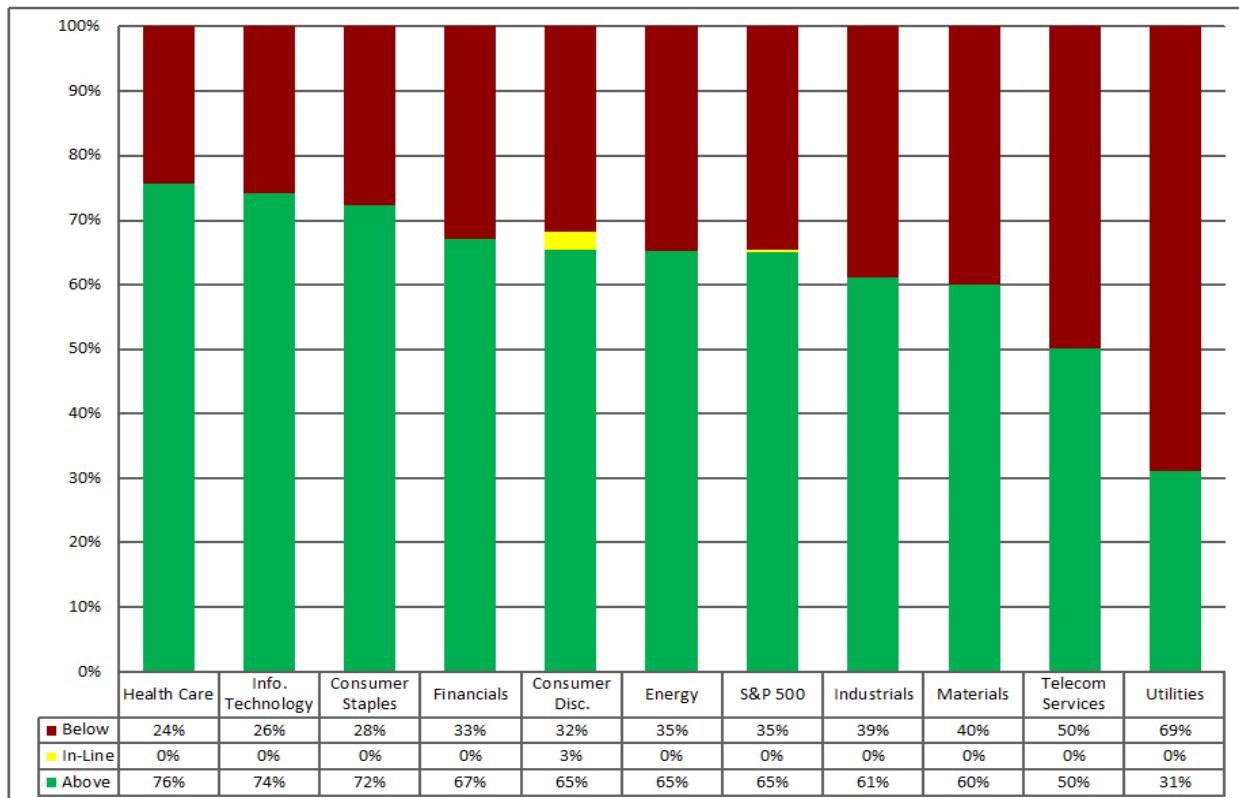
The “peak” weeks of the Q1 2012 earnings season are now finished. The remaining 5% of companies that have yet to report earnings for Q1 2012 will do so over the next six weeks. During the upcoming week, 14 companies in the S&P 500 and the last Dow 30 component (Hewlett-Packard) are scheduled to release results.

Q1 2012: Scorecard

Q1 2012 Earnings: Above, In-Line, Below Estimates

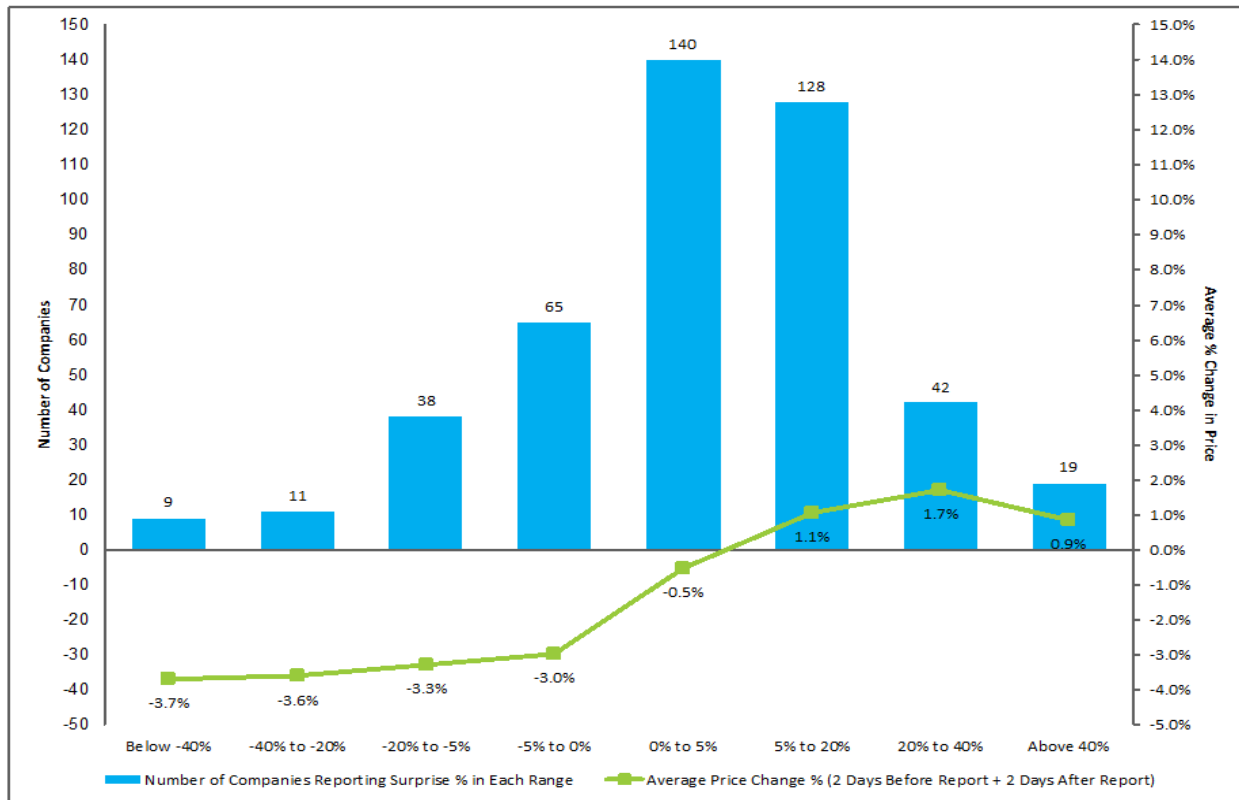


Q1 2012 Revenues: Above, In-Line, Below Estimates

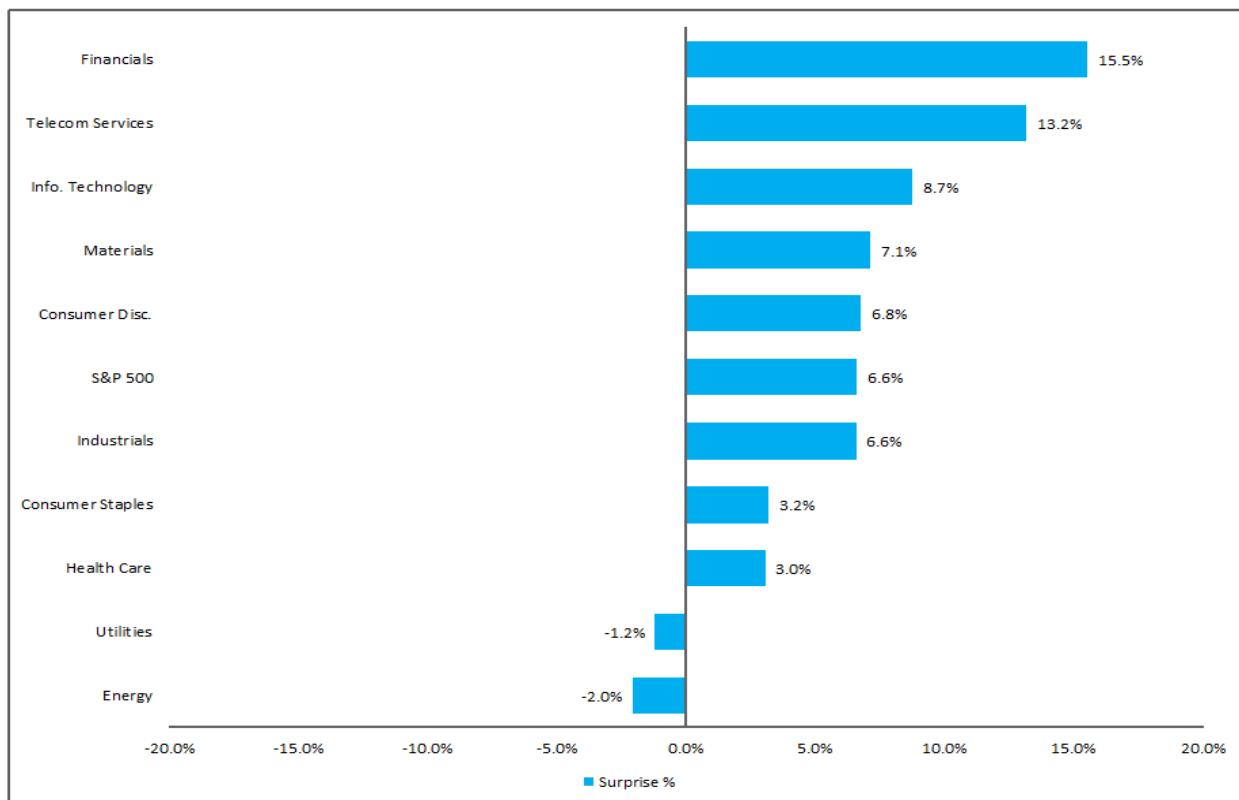


Q1 2012: Scorecard

Q1 2012: Surprise % vs. Average Price Change %

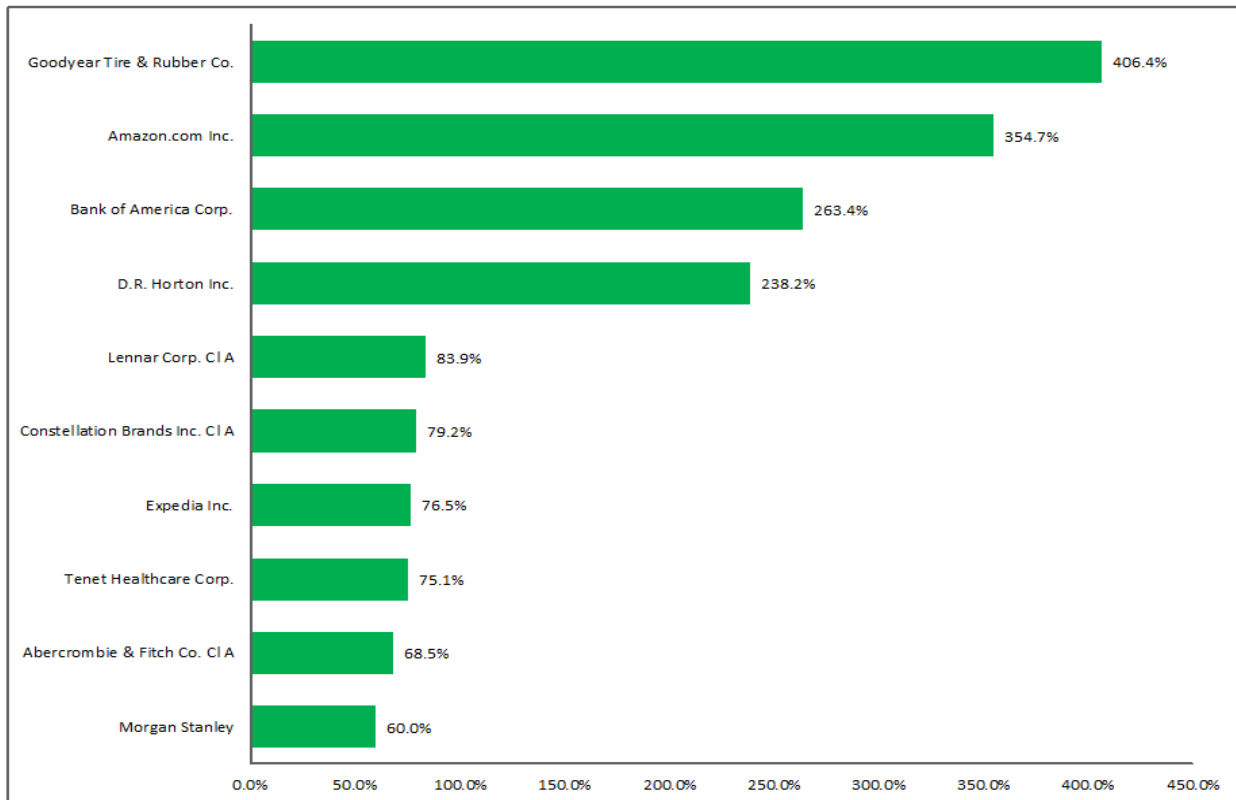


Q1 2012: Sector Level Surprise %

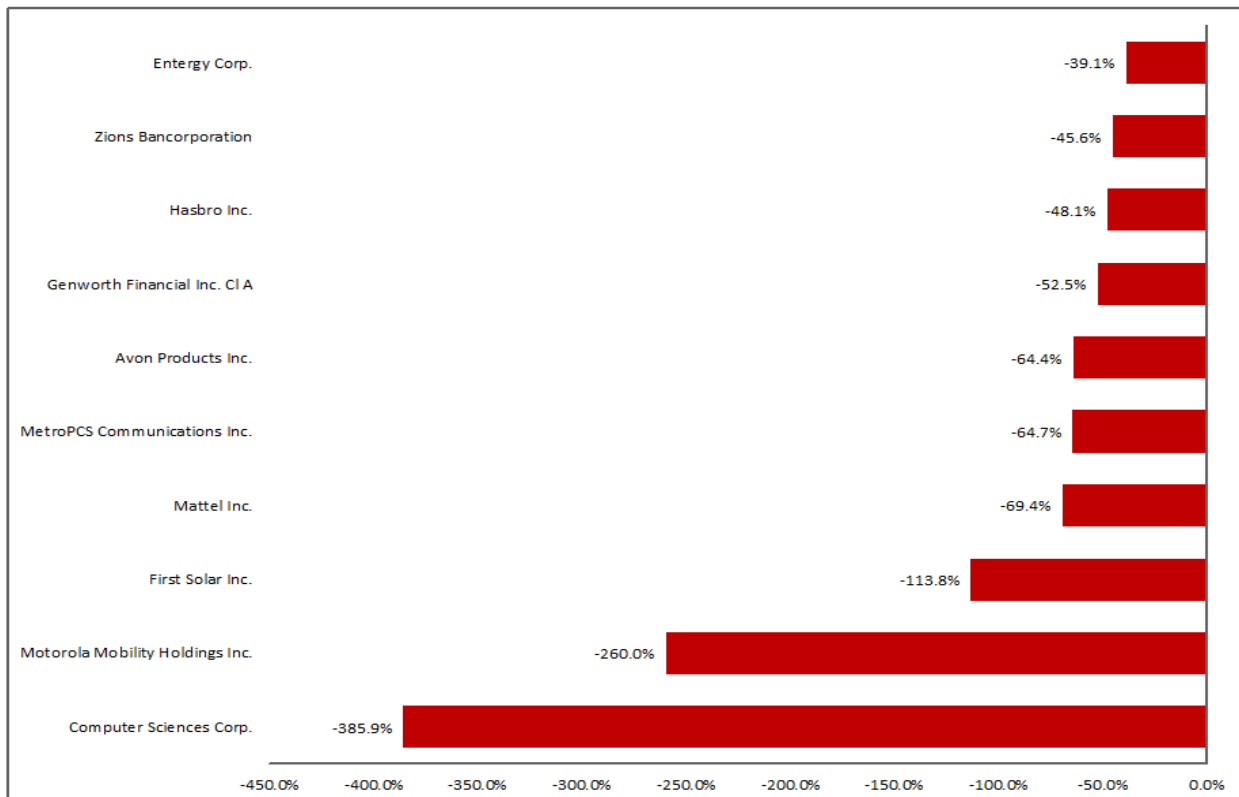


Q1 2012: Scorecard

Surprise %: Top 10 Companies

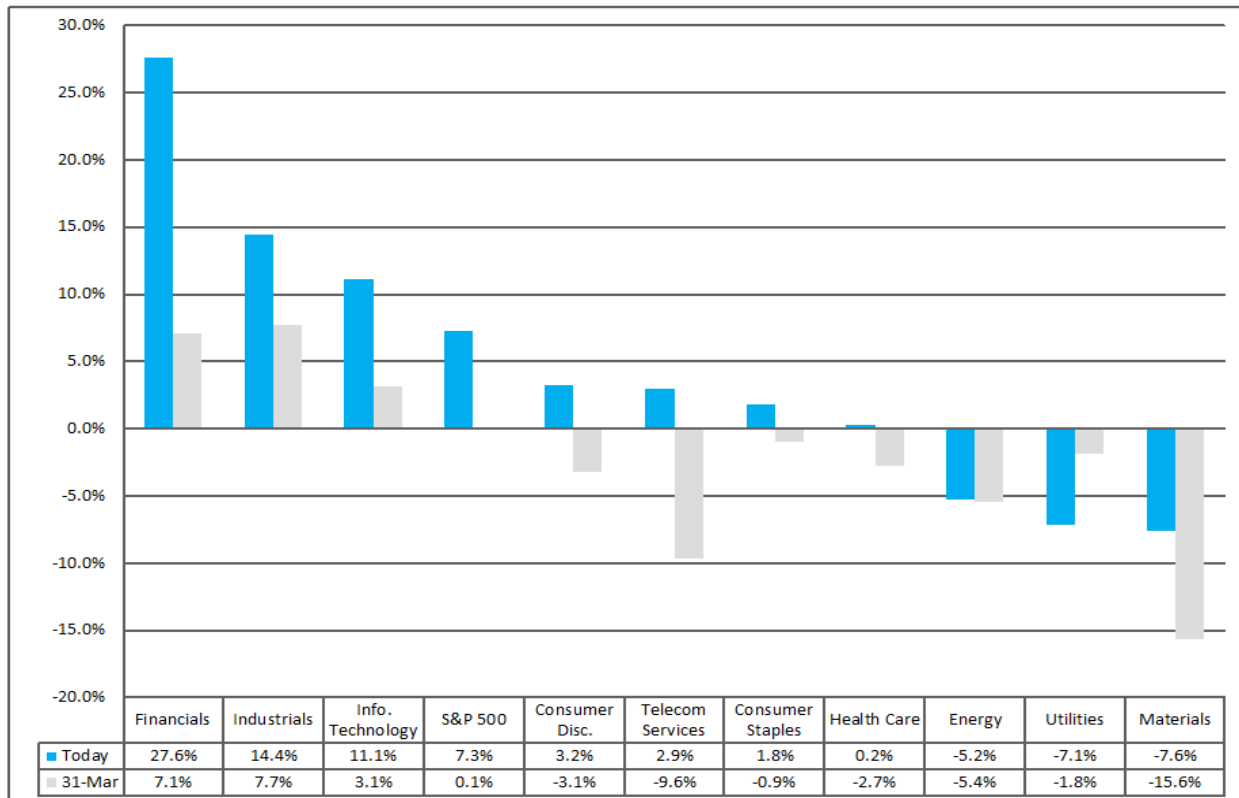


Surprise %: Bottom 10 Companies

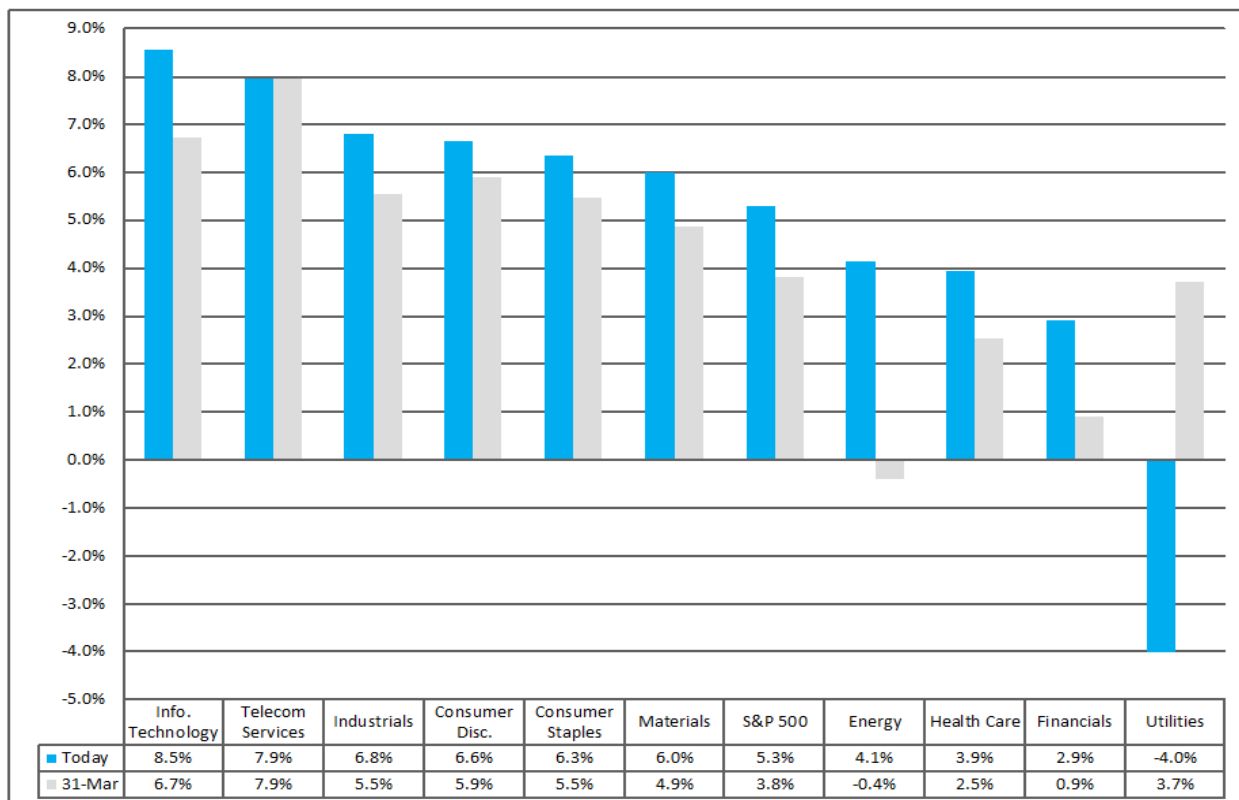


Q1 2012: Growth

Q1 2012 Earnings Growth

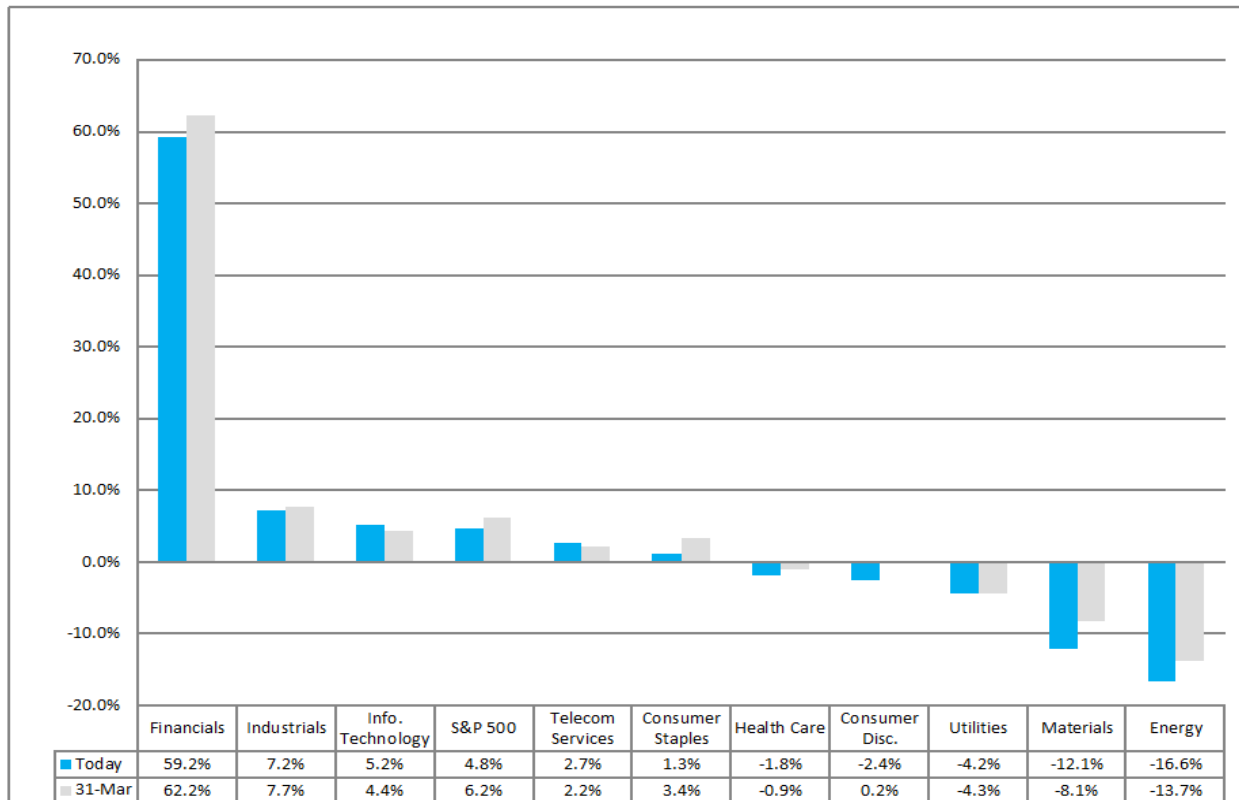


Q1 2012 Revenue Growth

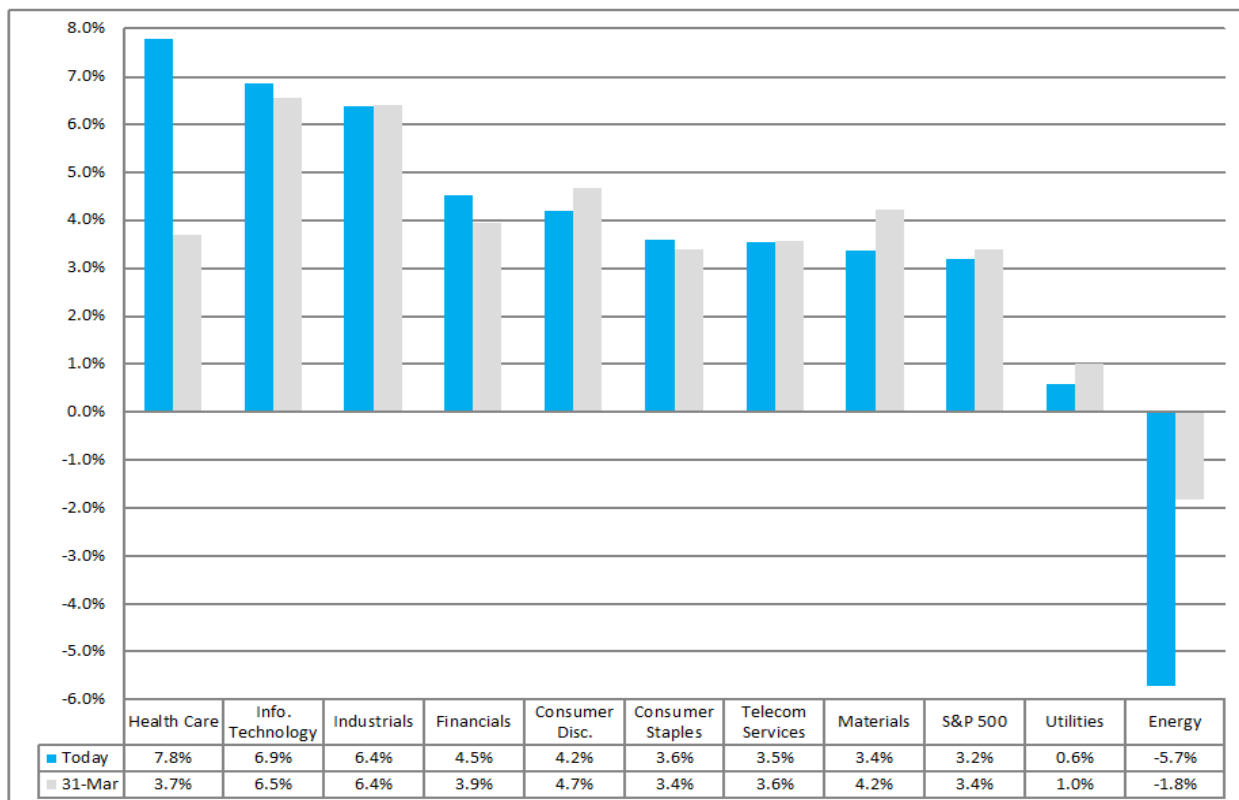


Q2 2012: Growth

Q2 2012 Earnings Growth

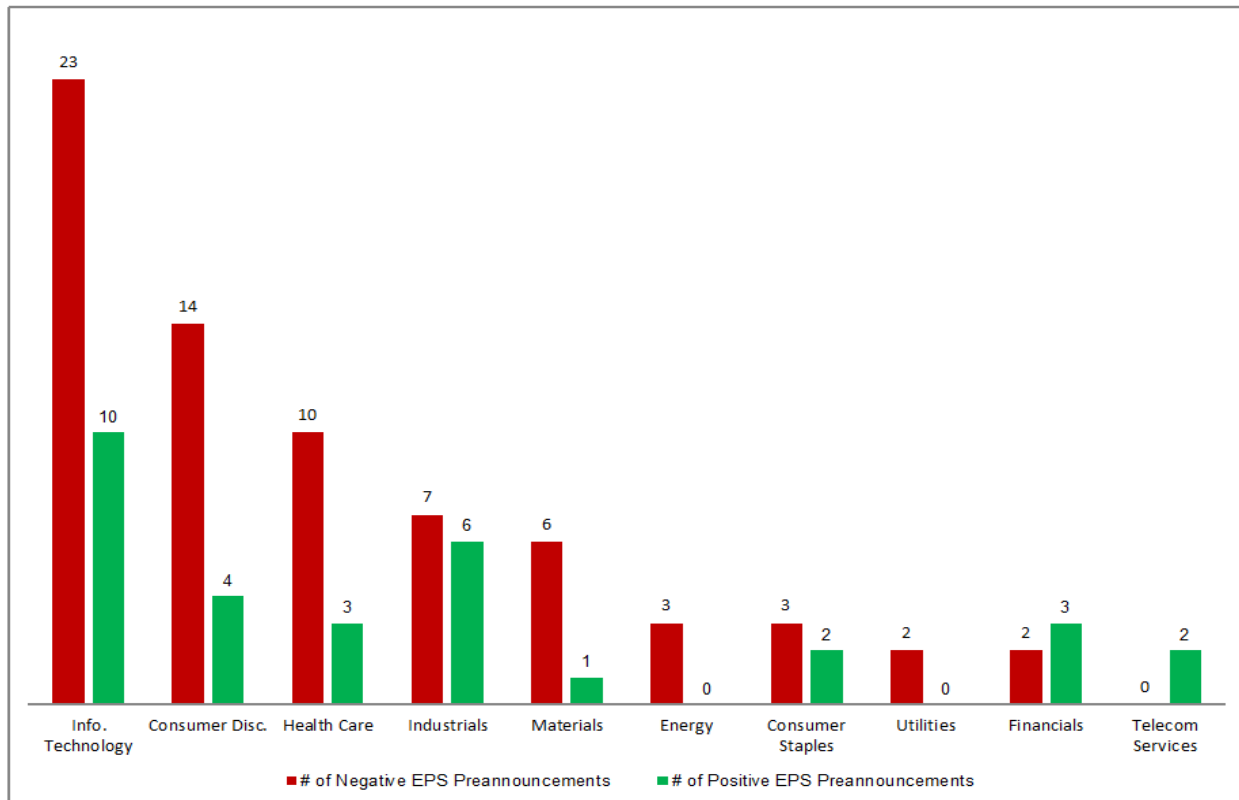


Q2 2012 Revenue Growth



Guidance: Current Fiscal Quarter

Number of Positive & Negative EPS Preannouncements: Current Fiscal Quarter

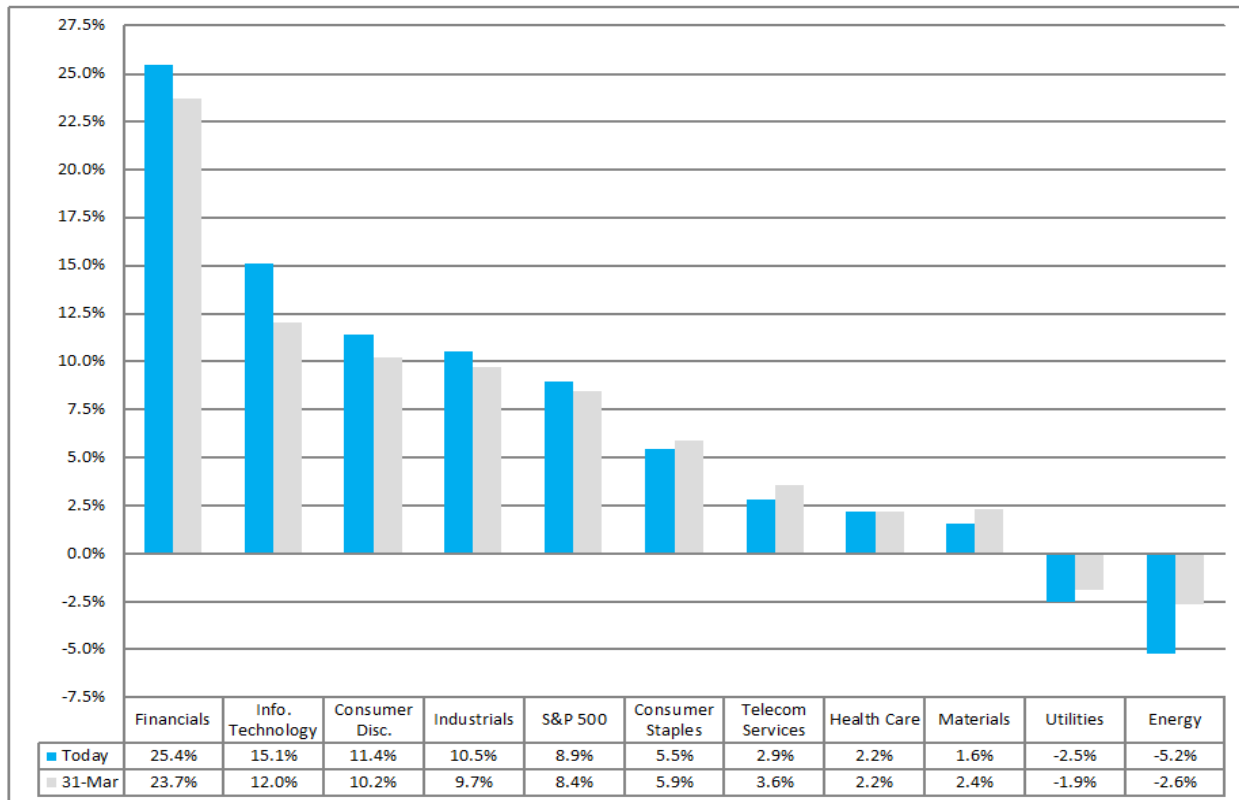


Percentage of Positive & Negative EPS Preannouncements: Current Fiscal Quarter



CY 2012: Growth

CY 2012 Earnings Growth

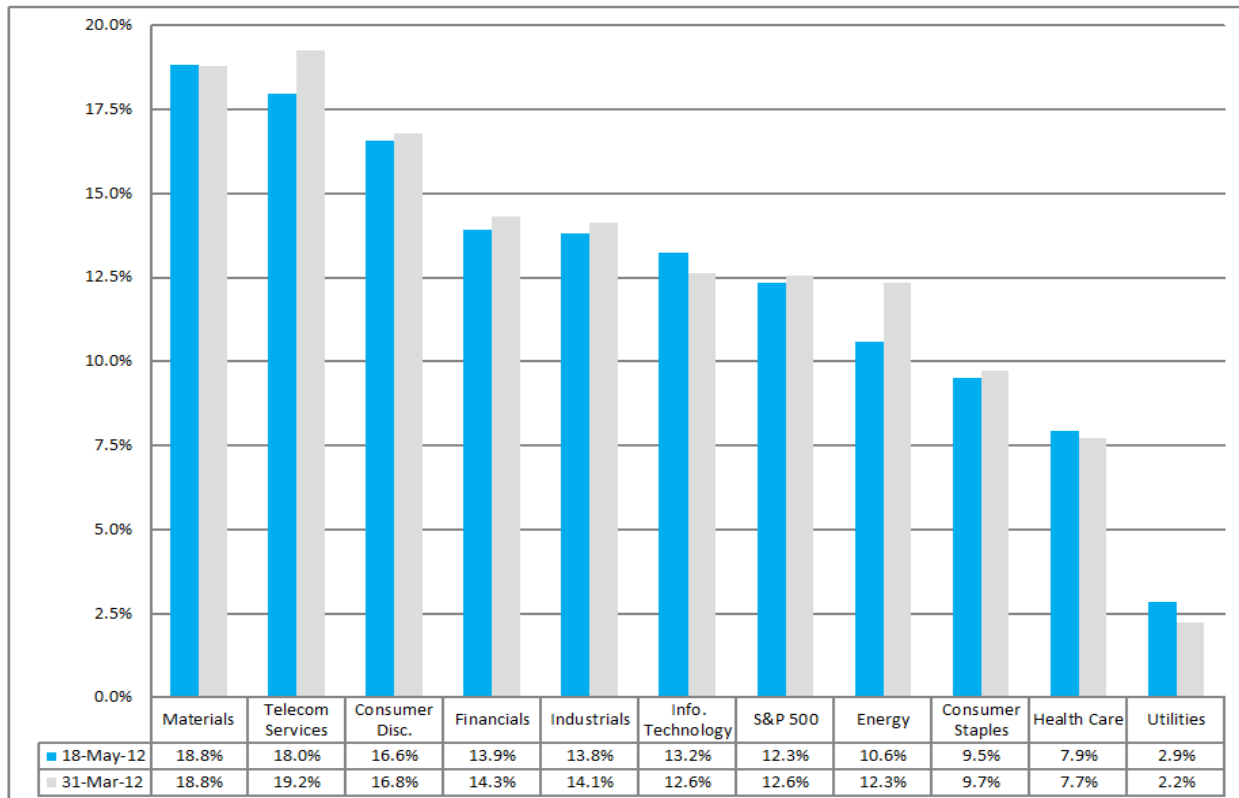


CY 2012 Revenue Growth

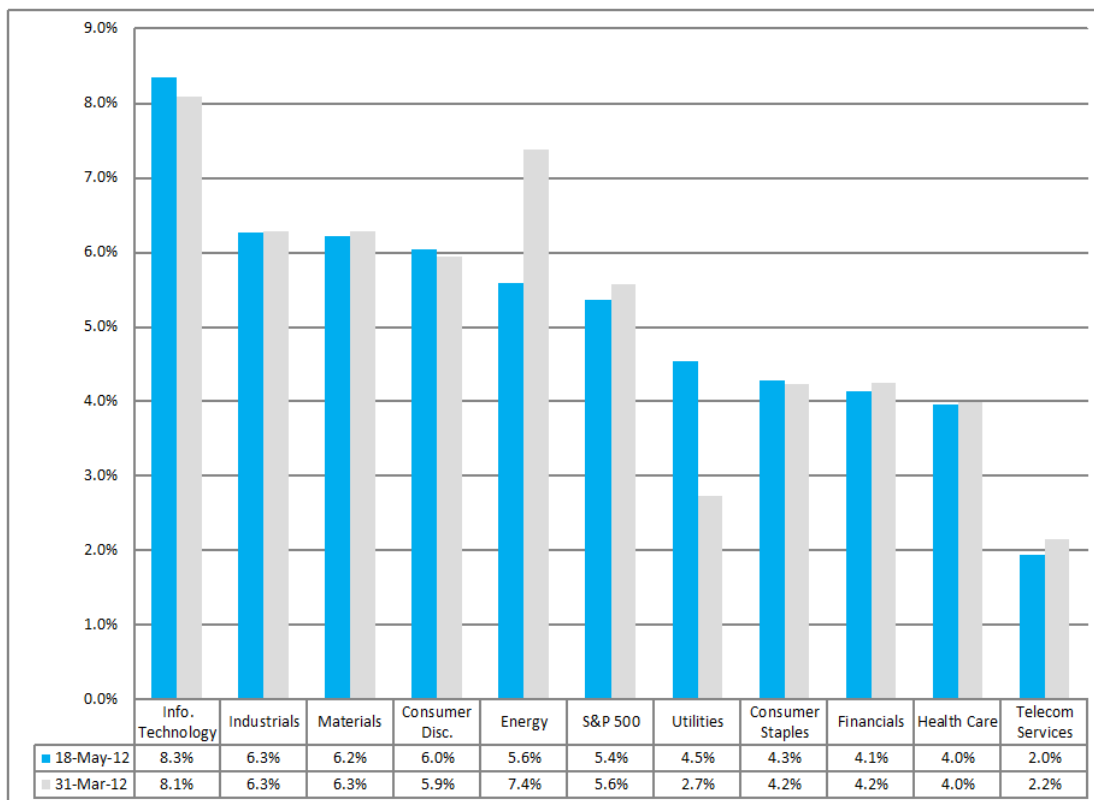


CY 2013: Growth

CY 2013 Earnings Growth

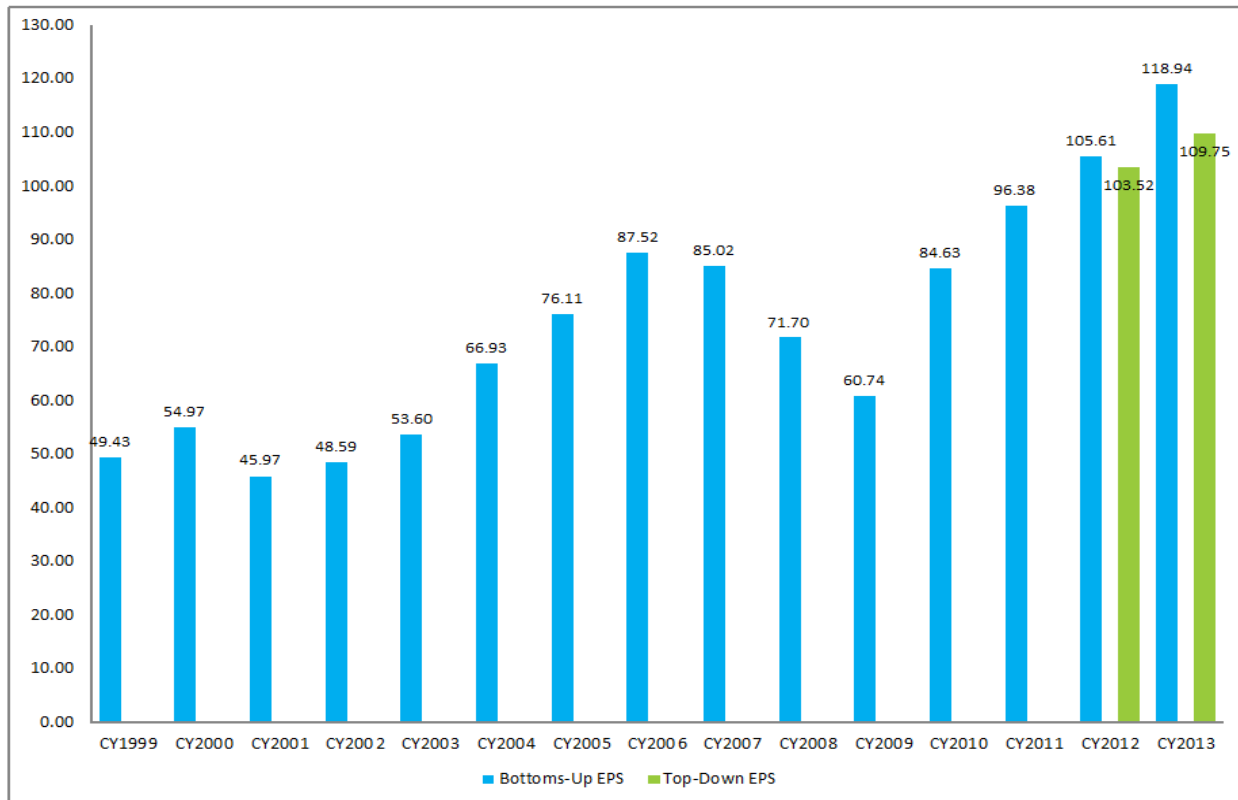


CY 2013 Revenue Growth

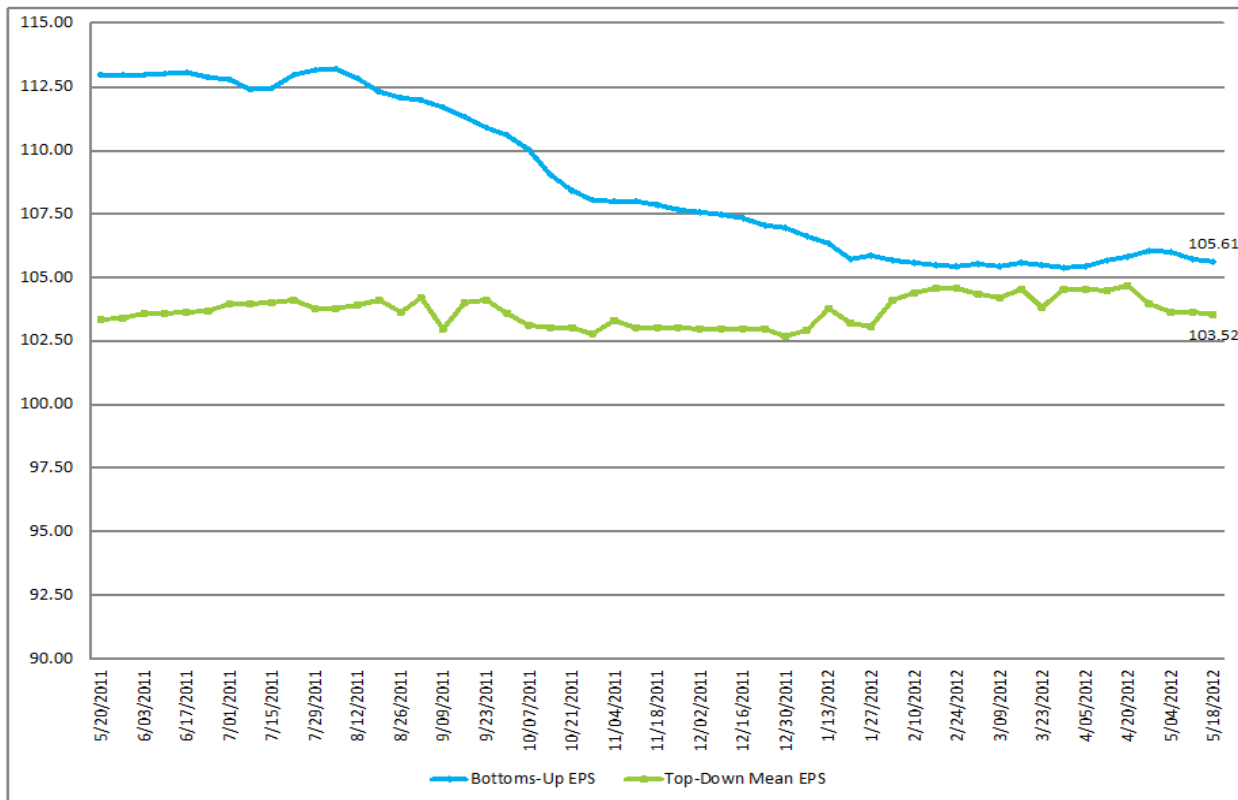


Bottom-up Estimates

Calendar Year Bottom-Up EPS Actuals & Estimates

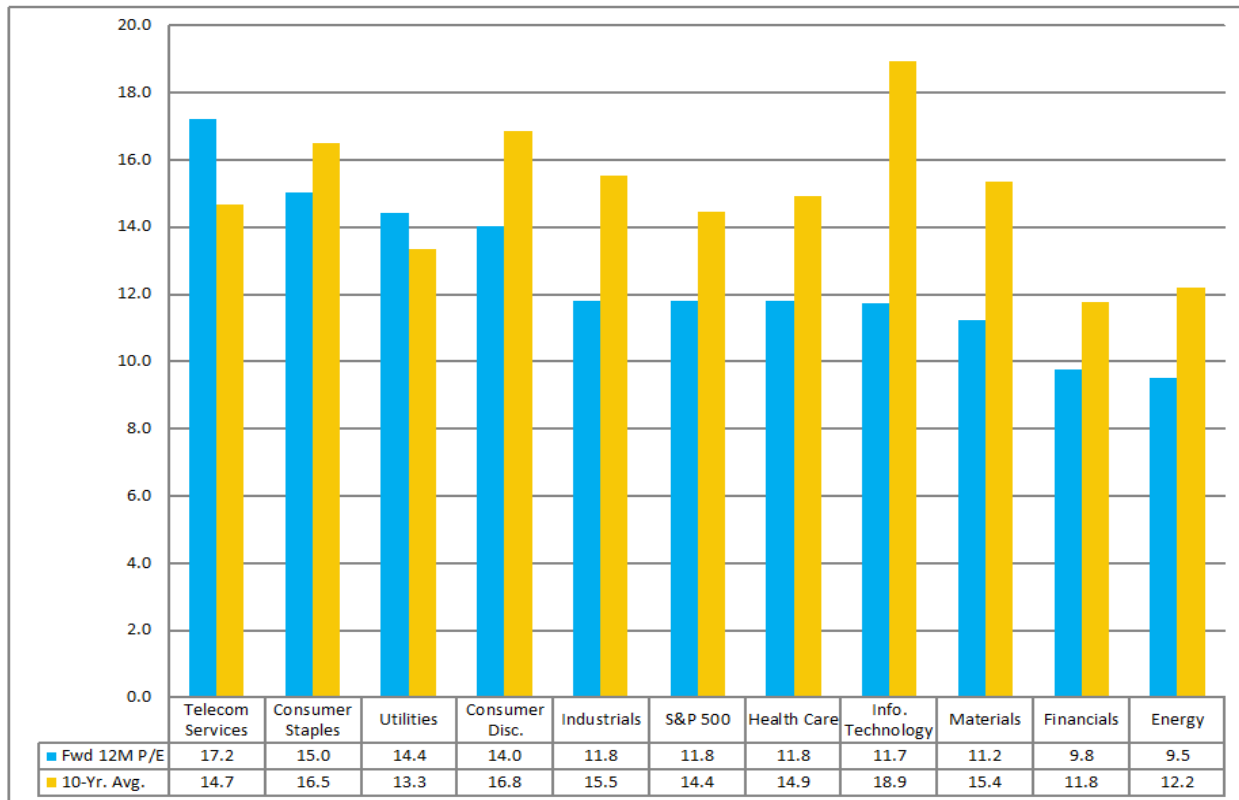


CY 2012 Estimates: Bottom-Up EPS vs. Top Down EPS

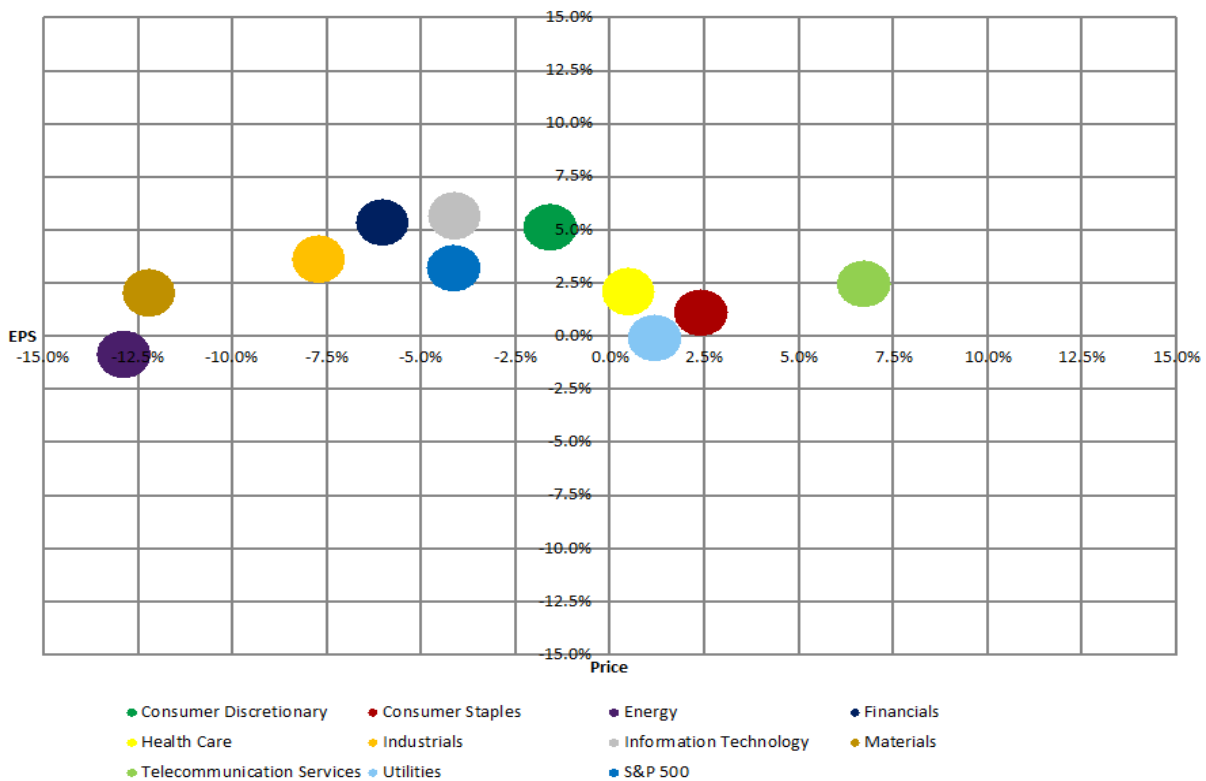


Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

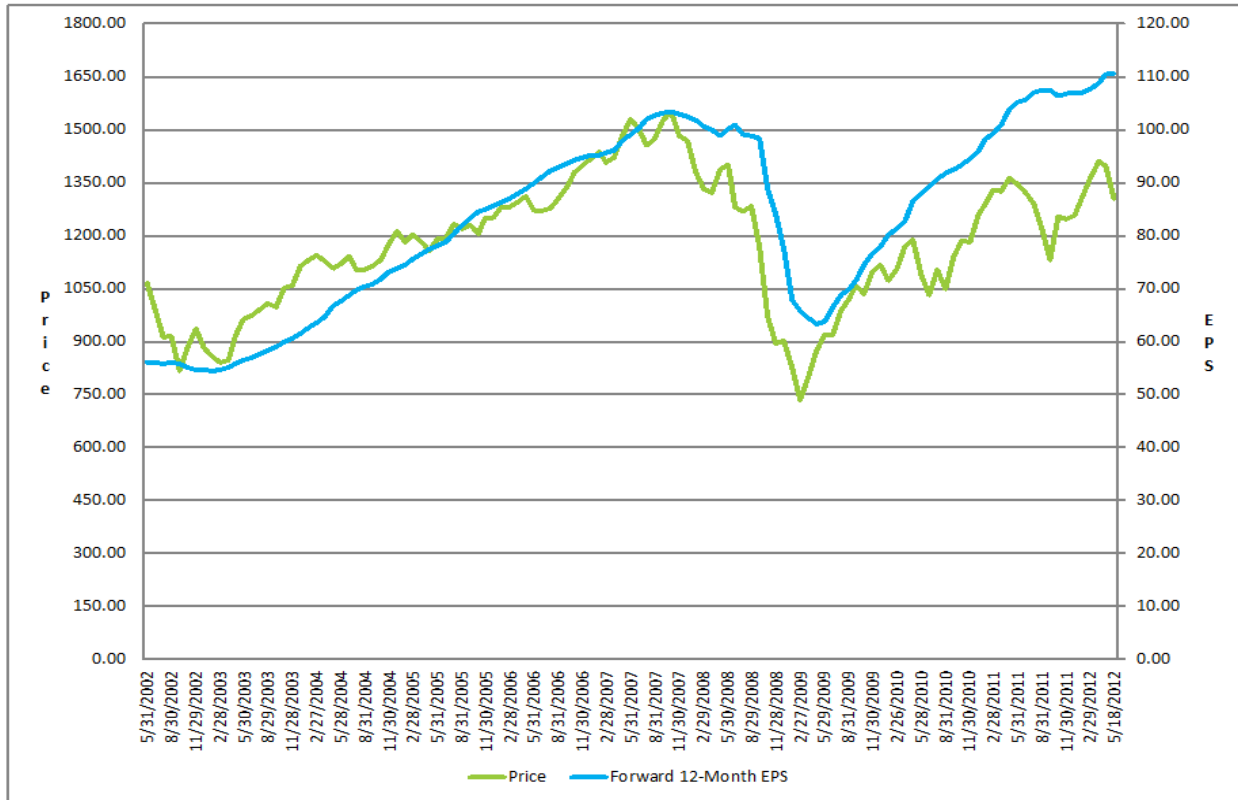


Sector-Level Change in Price vs. Change Forward 12M EPS: 3-Months

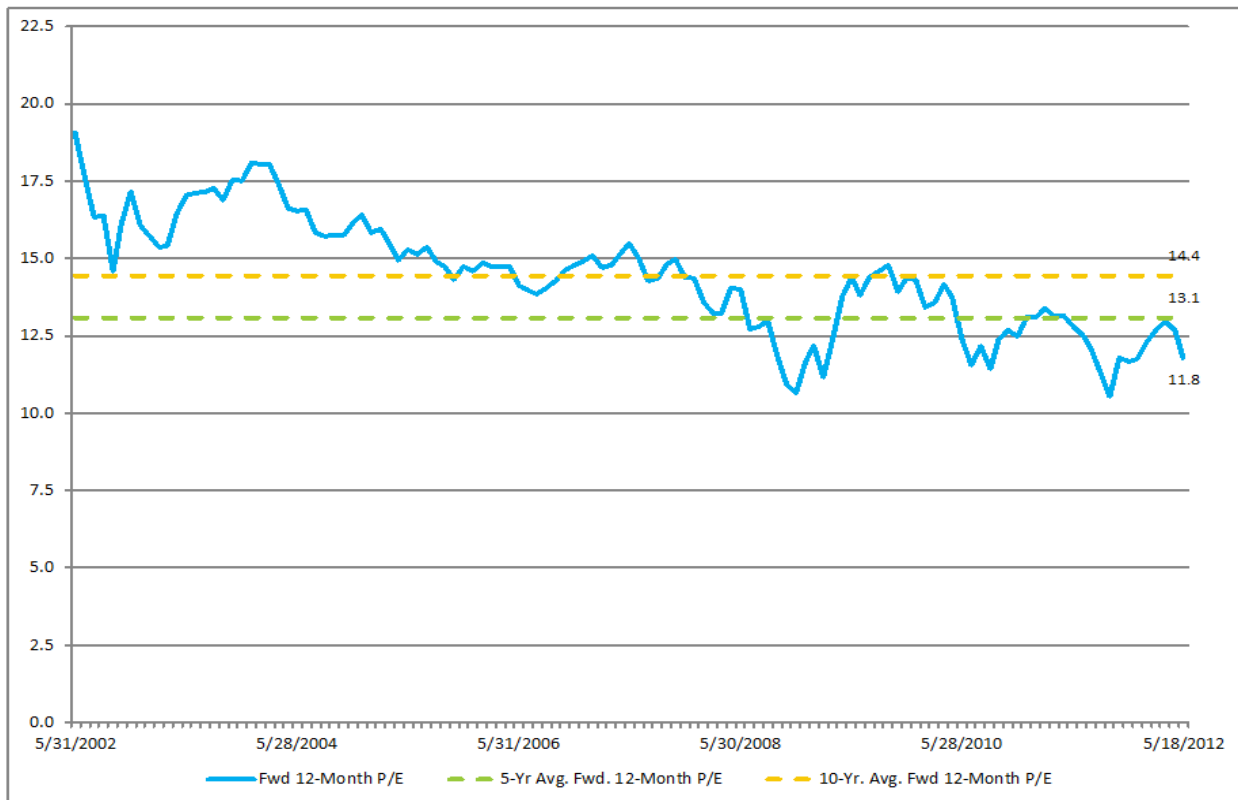


Price / Earnings Ratio: Long-Term Averages

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



Forward 12M P/E Ratio: 10-Years



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