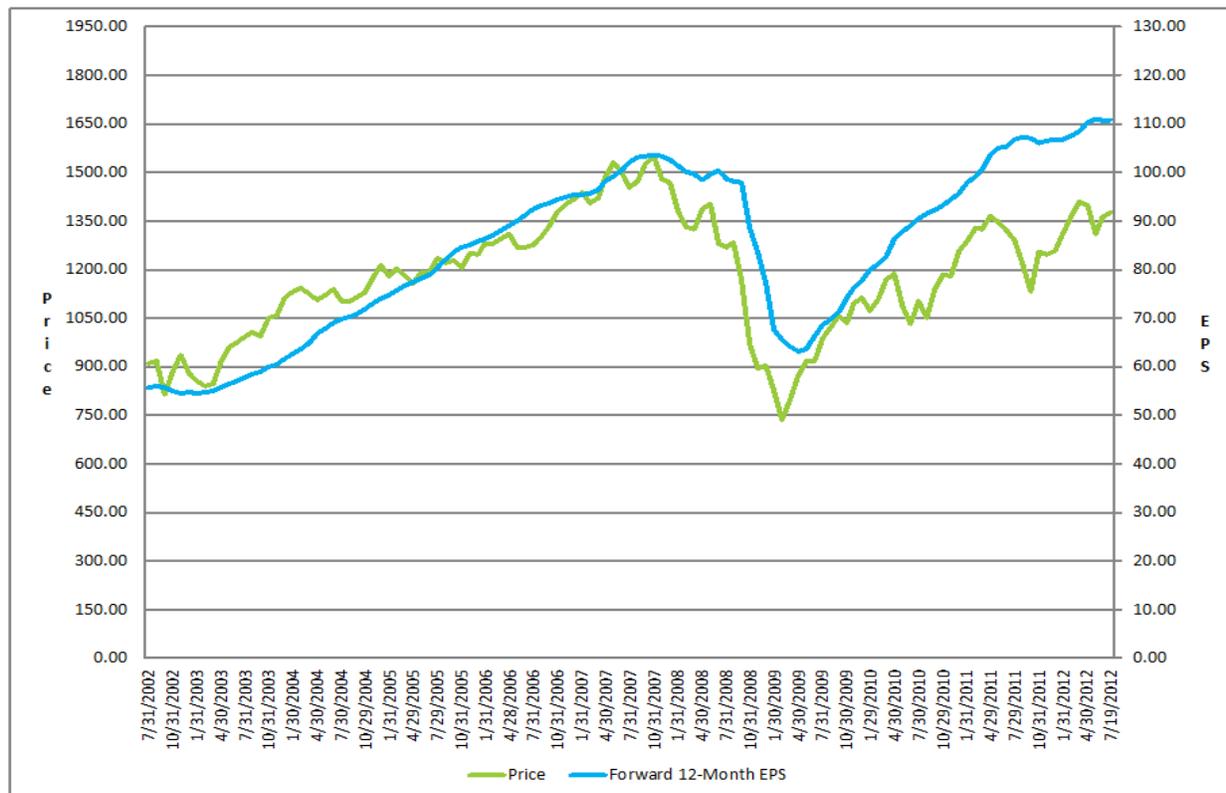


Key Metrics

- + **Earnings Scorecard:** Of the 104 companies that have reported earnings to date for Q2 2012, 74% have reported earnings above the mean estimate, but just 45% have reported sales above the mean estimate.
- + **Earnings Growth:** The blended earnings growth rate for Q2 2012 is 2.7%. The Financials (53.9%) sector is reporting the highest earnings growth rate for the quarter while the Energy (-22.0%) and Materials (-13.7%) sectors are reporting the lowest earnings growth rates.
- + **Earnings Revisions:** Since June 30, the blended earnings growth is unchanged at 2.7%. The Financials sector has recorded the largest upside movement in earnings growth while the Energy sector has recorded the largest downside movement in earnings growth during this time.
- + **Earnings Guidance:** For Q3 2012, 18 companies have issued negative EPS guidance and 4 companies have issued positive EPS guidance.
- + **Valuation:** The current 12-Month forward P/E ratio is 12.4. 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



Topic of the Week:

Lowest Percentage of Companies Beating Sales Estimates since Q1 2009

To date, 104 companies in the S&P 500 have reported revenues and earnings for the second quarter. Of these 104 companies, 74% have reported actual EPS above the mean estimate. This percentage is slightly higher than recent averages. Over the past four years on average, 68% of companies have reported actual EPS above the mean EPS estimate at this same point in time in the earning season.

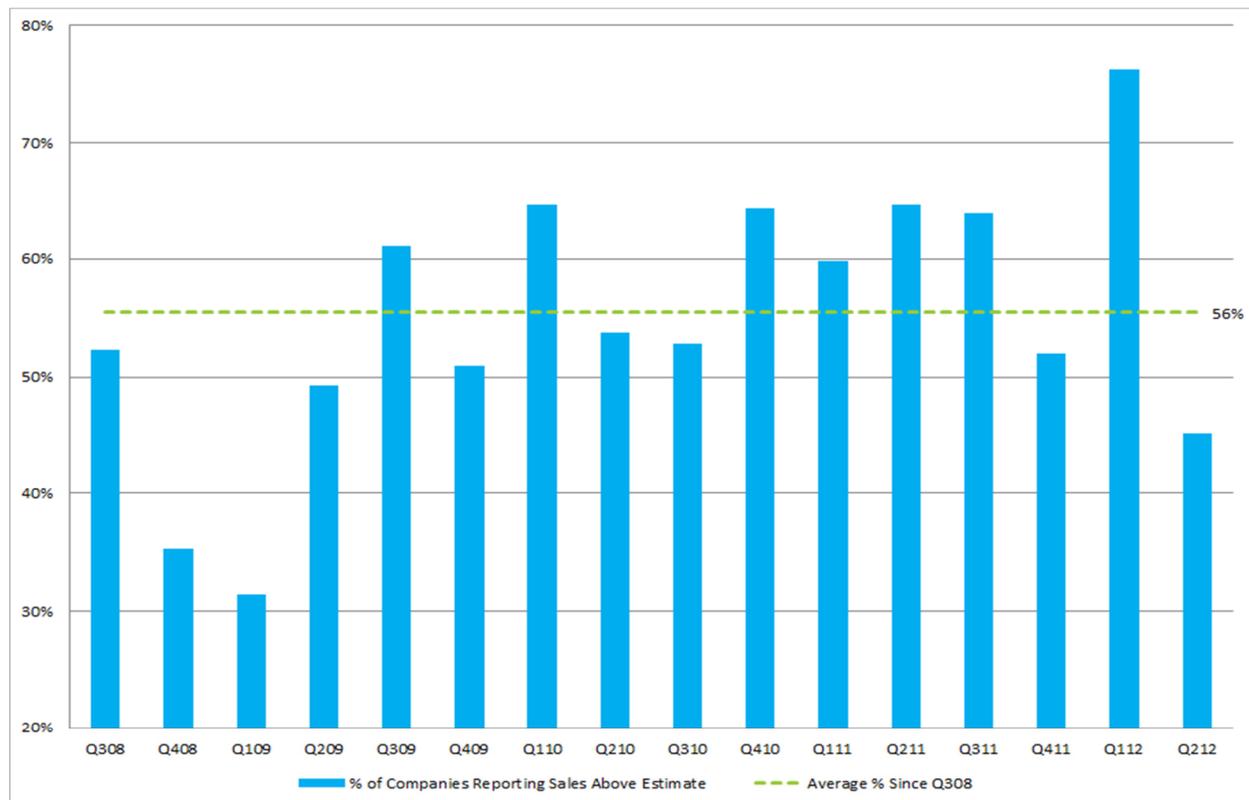
However, only 45% of companies have reported actual revenues above mean estimate. This percentage is well below recent averages. Over the past four years on average, 56% of companies reported actual sales above the mean sales estimate at this same point in time in earnings season.

In fact, this is the lowest percentage of companies to report actual sales above the mean sales estimate at this point in the earnings season (20 days after the end of the quarter) since Q1 2009 (31%).

Will this percentage improve? Over the past four years on average, the final percentage of companies reporting actual sales above the mean sales estimates has been 57%, just one percentage point higher than the average percentage at this point in the earnings season (56%).

It is interesting to note that the market has typically not reacted negatively in previous earnings seasons when the percentage of companies reporting sales above estimates has been below average. During the Q2 2009, Q4 2009, Q3 2010, Q4 2010, and Q4 2011 earnings seasons, the percentage of companies reporting sales above estimates was below the 56% average at this stage of the earnings season. However, the S&P 500 finished higher the month after the end of the quarter for four of these five earnings seasons. This trend has continued so far for the Q2 2012 earnings season, as the S&P 500 is currently up slightly (1.1%) to date for the month of July.

% of Companies Reporting Sales above Estimates through First 20 Days after End of Qtr.



Q2 2012 Earnings Season: Overview

Companies Beating EPS Estimates but Falling Short on Sales Estimates

Large Upside Earnings Surprises in the Consumer Discretionary and Financials Sectors

To date, 104 companies in the S&P 500 have reported earnings to date. Of these 104 companies, 74% have reported actual EPS above the mean EPS estimate, while 26% have reported actual EPS below the mean EPS estimate. Over the last four quarters, 72% of companies in the S&P 500 reported actual EPS above the mean EPS estimate on average.

At the sector level, the Industrials (92%) and Consumer Staples (89%) sectors have the highest percentages of companies reporting earnings above estimates (with at least five companies reporting results), while the Consumer Discretionary (65%) sector has the lowest percentage of companies reporting earnings above estimates.

In aggregate, companies are reporting earnings that are 5.3% above expectations. Over the past four quarters on average, actual earnings for the S&P 500 surpassed estimates by 4.8%. Companies in the Consumer Discretionary (11.3%) and Financials (11.0%) are reporting the largest aggregate differences between actual earnings and estimated earnings. Of the ten companies with the largest upside EPS surprises relative to estimates, eight are either in the Consumer Discretionary or Financials sectors (see page 10).

Fewest Companies Reporting Sales above Estimates since Q1 2009

In terms of revenues, just 45% 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 revenues on average. In fact, this is the lowest percentage of companies reporting sales above estimates at this stage of the earnings season since Q1 2009 (see page 2).

At the sector level, the Industrials (15%) and Health Care (22%) sectors have the lowest percentages of companies reporting sales above the mean estimate.

Blended Earnings Growth Rate Improved Slightly This Week to 2.7% from 2.5%.

The blended earnings growth rate for the second quarter currently stands at 2.7%, slightly above last week's estimate of 2.5%. Net upside earnings surprises from companies in the Financials (including Goldman Sachs) sector were partially offset by downward earnings surprises and estimate revisions for companies in the Energy sector.

In the Financials sector, upside earnings surprises from Goldman Sachs (53%), Bank of America (19%), and Citigroup (12%) were partially offset by downward earnings surprises from Capital One Financial (-70%) and Morgan Stanley (-50%). Overall, the blended earnings growth rate for the Financials sector increased to 53.9% from 52.1% during the week.

In the Energy sector, the blended earnings growth rate declined to -22.0% from -20.7% during the week. A downside earnings surprise from Kinder Morgan (-143%), and downward estimate revisions to Valero Energy and ConocoPhillips were the main contributors to the decline in the growth rate.

Since the end of the second quarter (June 30), the blended earnings growth rate for the index is unchanged at 2.7%. Six sectors have recorded an increase in earnings growth rates during this time (led by the Financials sector), while four sectors have recorded a decrease in earnings growth rates during this time (led by the Energy and Materials sectors).

Highest Earnings Growth: Financials, Industrials, and Information Technology

The blended earnings growth rate for Q2 2012 is 2.7%. If this is the final growth rate, it will mark the 11th consecutive quarter of earnings growth for the index. Overall, just five of the ten sectors are reporting

year-over-year earnings growth for the quarter. Of these five sectors, the Financials, Industrials, and Information Technology sectors have the highest earnings growth rates for the quarter.

Financials Sector: Easy Comparisons to Year-Ago Losses Boost Bottom-Line Growth.

The Financials sector has the highest earnings growth rate (53.9%) of all ten sectors. However, this sector is only reporting revenue growth of 1.4%. Most of the companies that had the highest dollar-level increases in earnings in this sector reported large losses in the year-ago quarter. Bank of America is the largest contributor to earnings growth in the sector. The company reported actual EPS of \$0.19, compared to a year-ago EPS loss (-\$0.90). If Bank of America is excluded, the estimated earnings growth rate for the Financials sectors falls to 8.1%. In addition to Bank of America, Morgan Stanley, Allstate, and Travelers all reported losses in the year-ago quarter, and as a result are top contributors to the earnings growth rate for the Financials sector as well in Q2 2012.

Industrials Sector: Solid Growth across the Sector Led by Machinery and Conglomerates

The Industrials sector has the second highest earnings growth rate at 6.9% and the third highest revenue growth rate at 5.5%. Ten of the twelve industries in this sector are reporting earnings growth, while six of these ten industries are reporting double-digit growth. Companies in the Machinery (such as Caterpillar, Deere, and Paccar), Industrial Conglomerates (such as General Electric and Danaher) industries are some of the largest contributors to dollar-level earnings growth for the sector.

Information Technology Sector: Apple

The Information Technology has the third highest earnings growth rate (3.5%) and the second highest sales growth rate (5.7%) 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 would fall to -2.2% and the sales growth rate would fall to 2.5%. Apple is part of the Computers & Peripherals industry, which has the highest earnings growth rate (18.0%) of any industry in the sector. The Semiconductor & Semiconductor Equipment industry has the lowest earnings growth (-20.6%) of all eight industries in the sector.

Excluding Bank of America, S&P 500 Earnings Growth Falls to -2.1%

Not only is Bank of America the largest contributor to earnings growth for the Financials sector, it is also the largest contributor to earnings growth for the entire S&P 500. Excluding Bank of America, the earnings growth rate for the index would fall to -2.1% from 2.7%. Bank of America reported actual EPS of \$0.19 compared to the year-ago actual EPS of -\$0.90.

Lowest Earnings Growth for Commodity-Based Sectors: Energy & Materials

The Energy and Materials sectors have the lowest earnings growth rates of all ten sectors in Q2 2012. It appears both sectors have been impacted by the overall decline in commodity prices from April through June. The weekly price for Brent Crude (ICE/\$bbl) declined 20.4% during the quarter (to \$97.80 from \$122.88), while the weekly price of the Reuters/Jefferies CRB Index fell 7.9% (to 284.19 from 308.46) during this time. Both the average weekly price of Brent Crude and the average weekly price of the Reuters/Jefferies CRB index for Q2 2012 finished below their average weekly prices in the year-ago quarter.

"Earnings per diluted share were \$1.19 in the quarter compared to \$1.45 last year. The year-over-year decline was primarily driven by lower phosphate pricing." Mosaic (Jul 17)

"Second quarter 2012 revenue was \$6.0 billion, steady sequentially and down 9 percent compared with second quarter 2011, primarily due to an 18 and 17 percent year-on-year decline in the realized metal price and realized alumina price, respectively." -Alcoa (Jul 9)

The Energy sector has the lowest earnings growth rate (-22.0%) and lowest sales growth rate (-16.3%) of all ten sectors. Within the sector, the Energy Equipment & Services industry is expecting to report

earnings growth of 7.2%, while the Oil, Gas, & Consumable Fuels industry is projected to report an earnings decline of 25.1%.

The Materials sector has the second lowest earnings growth rate (-13.7%) and the third lowest revenue growth rate (2.6%) of all ten sectors. Three of the five industries are reporting substantial decreases in earnings for the quarter. The Metals & Mining (-43.3%) industry has the lowest earnings growth rate and is the largest contributor to the earnings decline for the sector.

Revenue Growth: Less Than 1%

In terms of revenues, the blended growth rate stands at 0.7%, down from an estimate of 3.4% at the start of the quarter. The Energy sector has witnessed the largest cuts to sales estimates since March 31. In addition, the large percentage of companies reporting sales below estimates has also contributed to the decline in the growth rate since June 30 (to 0.7% from 1.4%). If 0.7% is the final growth rate for the quarter, it will mark the 11th consecutive quarter of revenue growth for the index.

Despite the low overall revenue growth rate for the index, nine of the ten sectors are reporting sales growth for the quarter. The only sector predicted a report decline in sales is Energy (-16.3%).

Companies Continue to Face Higher Costs

Eight 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 Q2 2012. Higher costs are a likely cause of this dichotomy.

Revenue Increase, Earnings Decrease for 102 Companies

At the company level, 102 companies have reported or are projected to report growth in sales but a decline in earnings in Q2 2012. If 102 is the final number of companies, it would be the highest number recorded since Q3 2008 (115), and would reflect a 42% increase compared to the number of companies recording this difference in the year-ago quarter (72). At the sector-level, the Consumer Discretionary (19) sector has the largest number of companies with this difference.

"Fourth quarter revenues rose 12 percent, or 14 percent on a currency neutral basis, to \$6.5 billion, the largest revenue quarter in NIKE, Inc.'s history...However, diluted EPS for the quarter was down 6 percent as a result of a lower gross margin, higher SG&A spending, an increase in the effective tax rate and a charge related to restructuring NIKE Brand Western Europe's operations to better realign resources against growth opportunities and drive efficiencies." –Nike (Jun 28)

Global Economic Slowdown

Many companies in the index are seeing lower revenue growth outside of the U.S. relative to recent years due to slowing economic growth in emerging markets and Europe.

"As expected, our short-cycle businesses posted slower growth this quarter with declines in Europe and slower growth in China." –Honeywell (Jul 18)

"Overall weakness in the global economy, softer consumer spending and lower channel demand for our desktop processors in China and Europe made the closing weeks of the quarter challenging" –AMD (Jul 19)

China and Emerging Markets

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 Q1 2012, GDP growth rates for China, India, and Brazil had fallen to 8.1%, 4.1% and 0.7%.

China recently announced that GDP growth for Q2 2012 was 7.6%, below the growth of 9.5% reported in Q2 2011.

“Order trends in the U.S. for trucks and power generation equipment have softened and demand in Brazil, China and India is not improving as we had previously expected.” –Cummins (Jul 10)

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 Q1 2012, GDP growth in the European Union had fallen to 0.1%.

“Volume performance was soft in regions of Europe such as Central and Southern Europe and Northwest Europe and Nordics, both down 5% in the quarter, as a result of the ongoing economic slowdown and unfavorable weather.” –Coca-Cola (Jul 17)

The continuing weakness in Europe is contributing to another factor that had a negative impact on revenue and earnings growth in Q2 2012: less favorable foreign exchange rates. In 2011, many companies 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 during the quarter. In Q2 2011, one Euro was equal to about \$1.44 U.S. dollars on average (weekly basis). For Q2 2012, one Euro was equal to about \$1.28 U.S. dollars on average (weekly basis).

Companies have commented on the negative impact of foreign exchange rates on revenues.

“In total, IBM’s revenue growth at constant currency was fairly consistent with the first quarter. We entered the quarter with a currency headwind, but it got even tougher over the last 90 days. When you look at the reported revenue, currency impacted our revenue growth by almost four points or \$1 billion of revenue.” –IBM (Jul 18)

“International sales decreased 0.4%, reflecting operational growth of 7.1% and a negative currency impact of 7.5%.” –Johnson & Johnson (Jul 17)

Q3 EPS Guidance: Negative Start

Of the 22 companies that have issued EPS guidance for the third quarter, 18 have issued projections below the mean EPS estimate and just 4 have issued projections above the mean EPS estimate. Thus, 82% of the companies issuing guidance to date for Q3 2012 have issued negative guidance. This percentage is well above the percentages recorded in Q2 2012 (70%) and Q1 2012 (60%).

Analysts Take Down 2nd Half Estimates

Since the start of the third quarter (June 30), analysts have reduced earnings growth expectations for Q3 2012 (to 0.0% from 1.7%) and Q4 2012 (to 12.2% from 13.8%).

“Taken together, these factors have led us to adjust our expectations for the second half. We are now expecting full-year revenue growth in the 3% to 5% range versus our prior expectation of high single-digits.” –Intel (Jul 17)

Despite the decline in earnings estimates for Q4 2012, analysts are still calling for double-digit growth (12.2%) for the quarter. Five of the ten sectors are predicted to report double-digit earnings growth, led by the Materials (28.3%) and Financials (27.0%) sectors.

Valuation: Forward P/E below 10-Year Average

The current forward 12-month P/E ratio of 12.4 is well below the prior ten-year average forward 12-month P/E ratio of 14.4, but is slightly above the 12.3 P/E ratio recorded at the start of the third quarter (June 30). The P/E ratio has increased during this time due to an increase in the price of the index (up

1.1% since June 30), combined with a slight decrease (0.1%) in the forward 12-Month EPS estimate for the index (to 110.68 from 110.82).

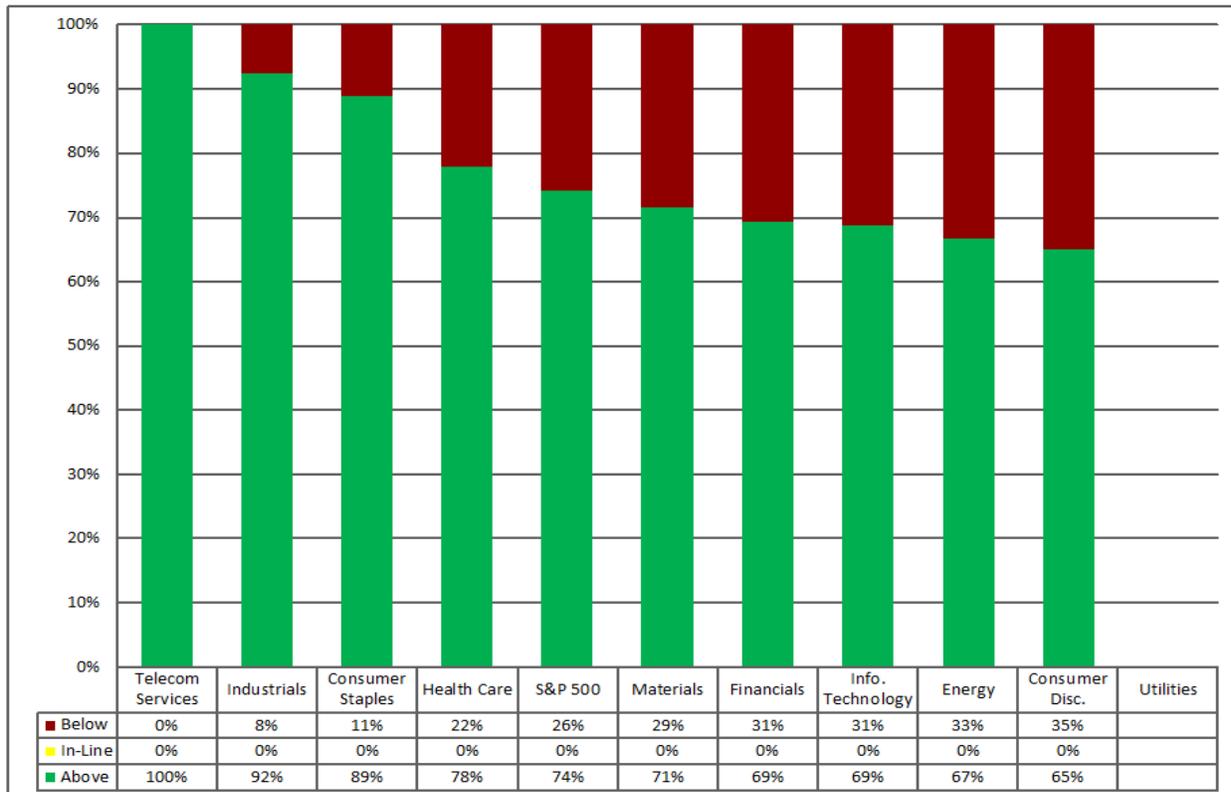
Will there be a return to the 10-year average valuation for the market anytime soon? If there is going to be a return to this average P/E ratio of 14.4, either future estimates will need to decrease, the price of the index will need to increase, or a combination of the two will need to occur.

Companies Reporting Next Week

The upcoming week marks the second “peak” weeks of the Q2 2012 earnings season. During the week, 172 companies in the S&P 500 and ten companies in the Dow 30 are scheduled to report earnings.

Q2 2012: Scorecard

Q2 2012 Earnings: Above, In-Line, Below Estimates

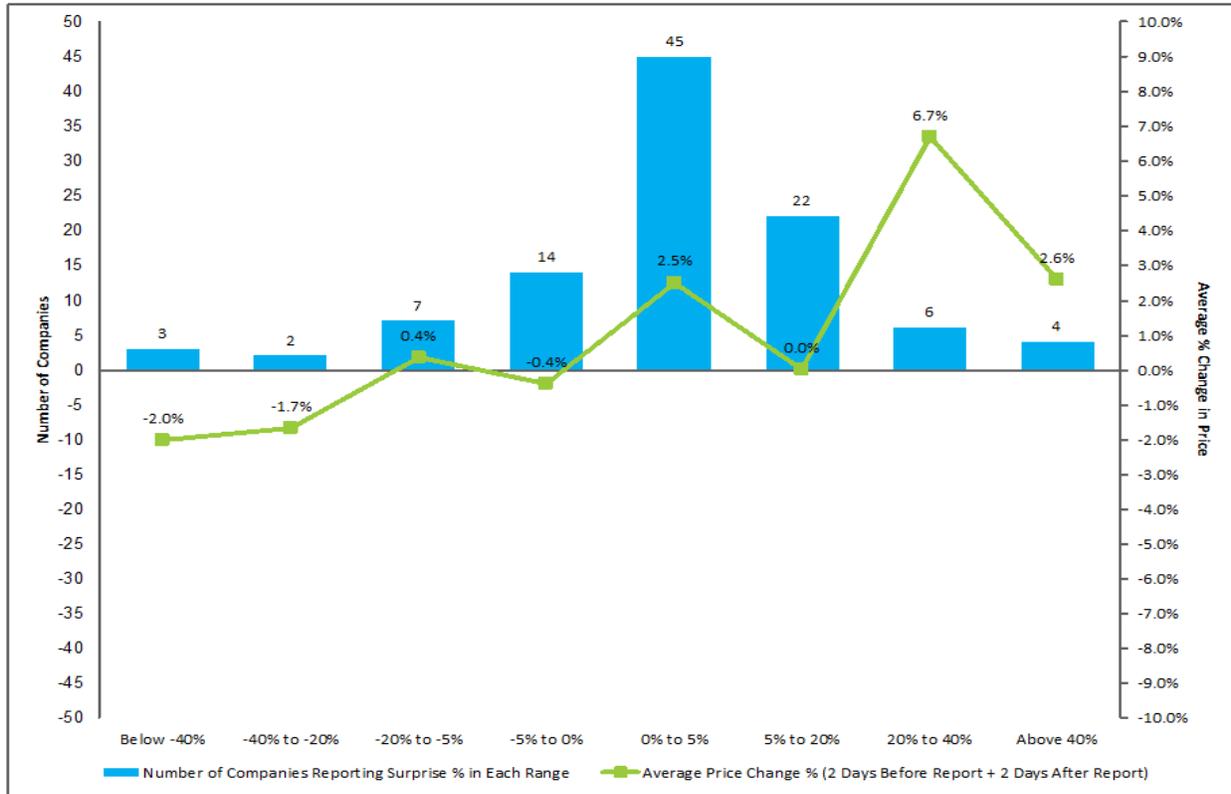


Q2 2012 Revenues: Above, In-Line, Below Estimates

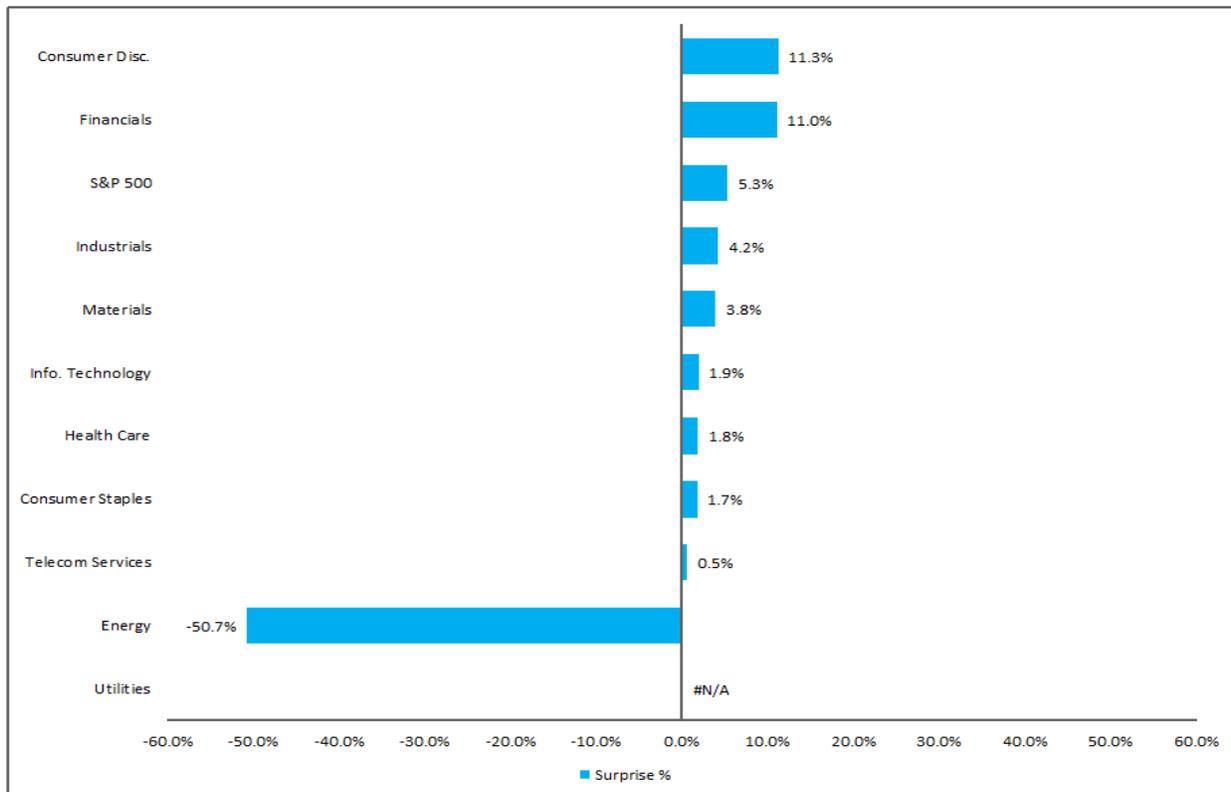


Q2 2012: Scorecard

Q2 2012: Surprise % vs. Average Price Change %

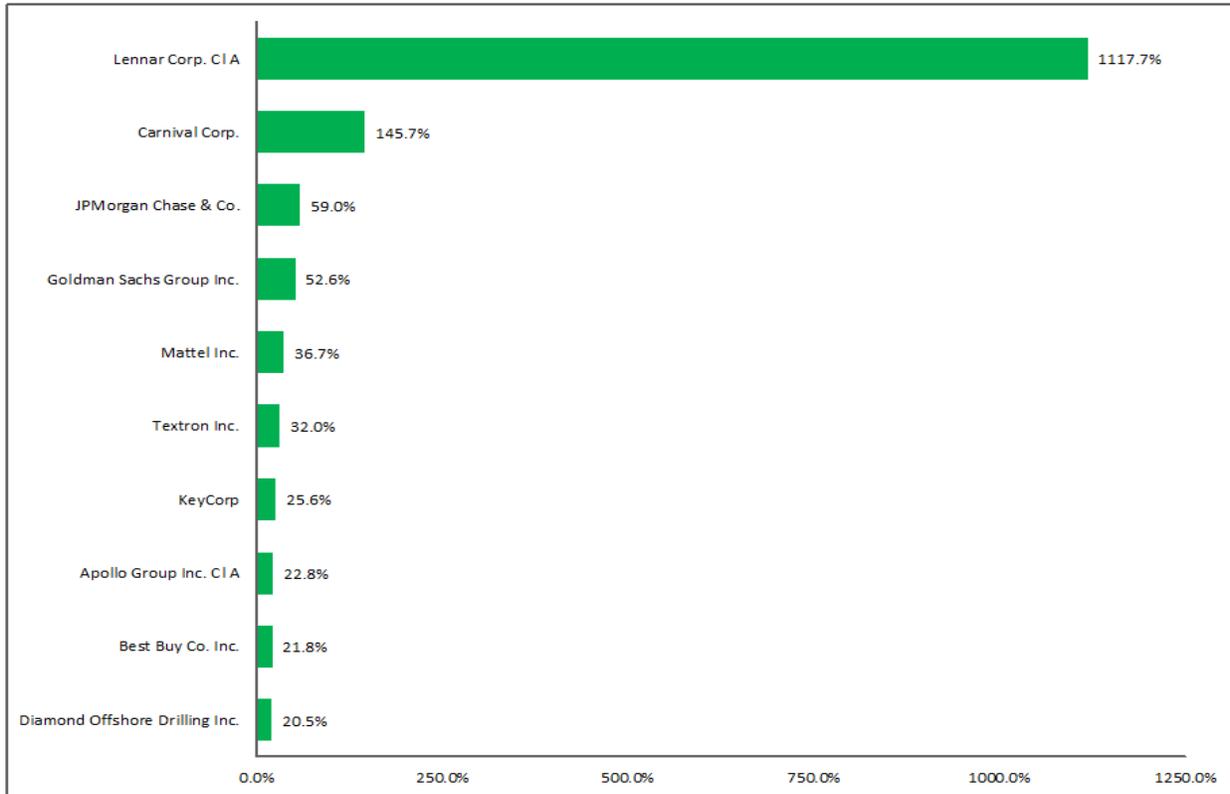


Q2 2012: Sector Level Surprise %

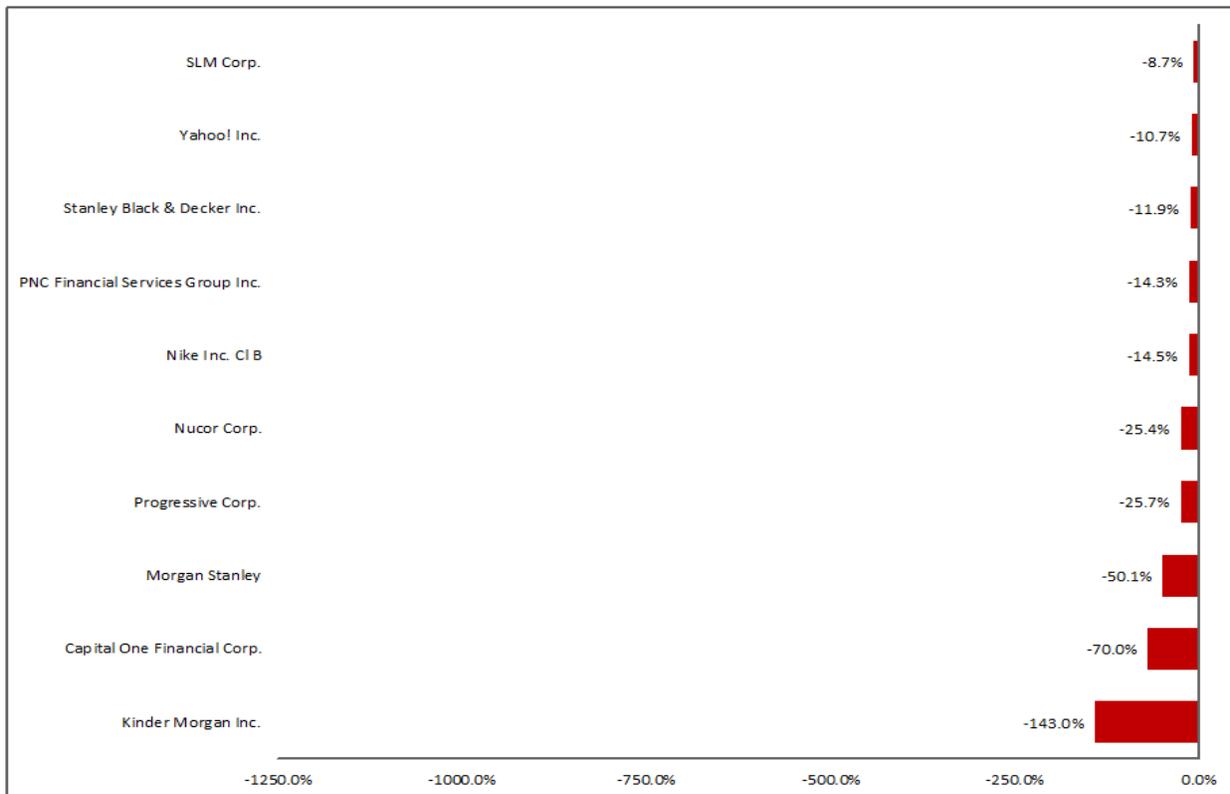


Q2 2012: Scorecard

Surprise %: Top 10 Companies



Surprise %: Bottom 10 Companies

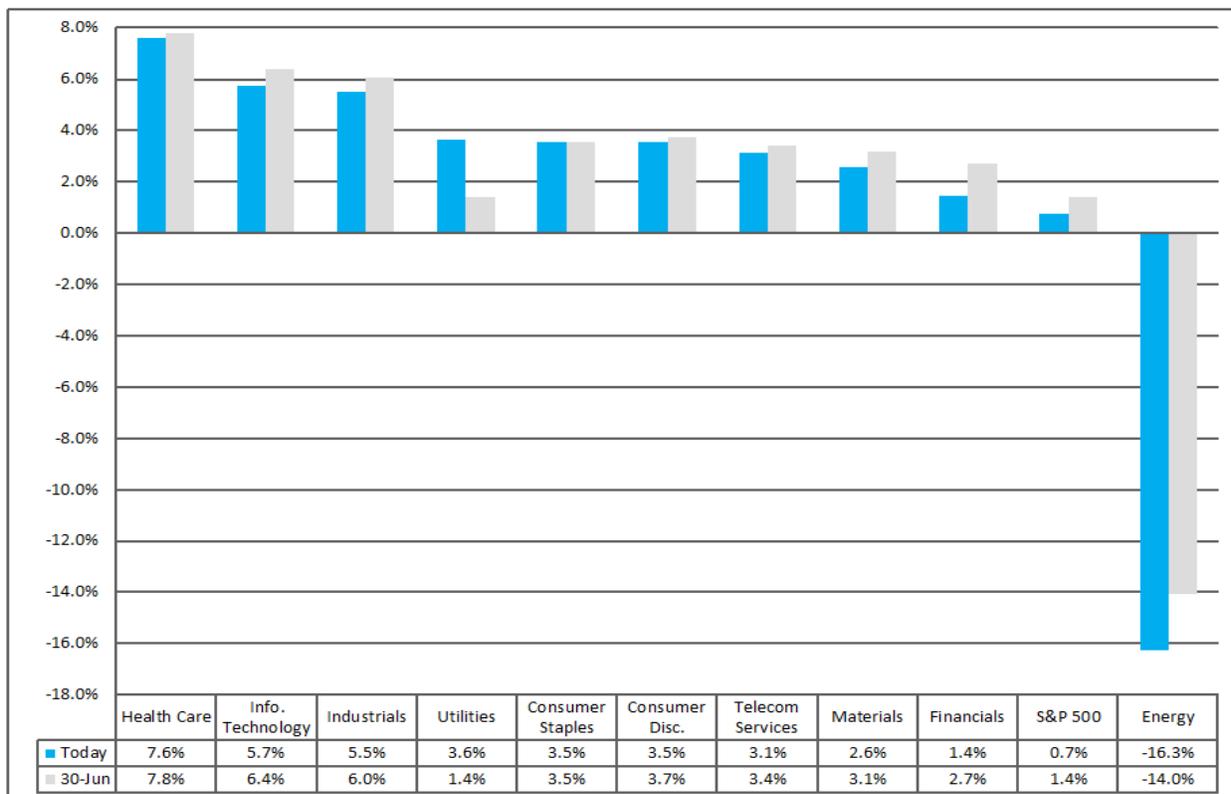


Q2 2012: Growth

Q2 2012 Earnings Growth

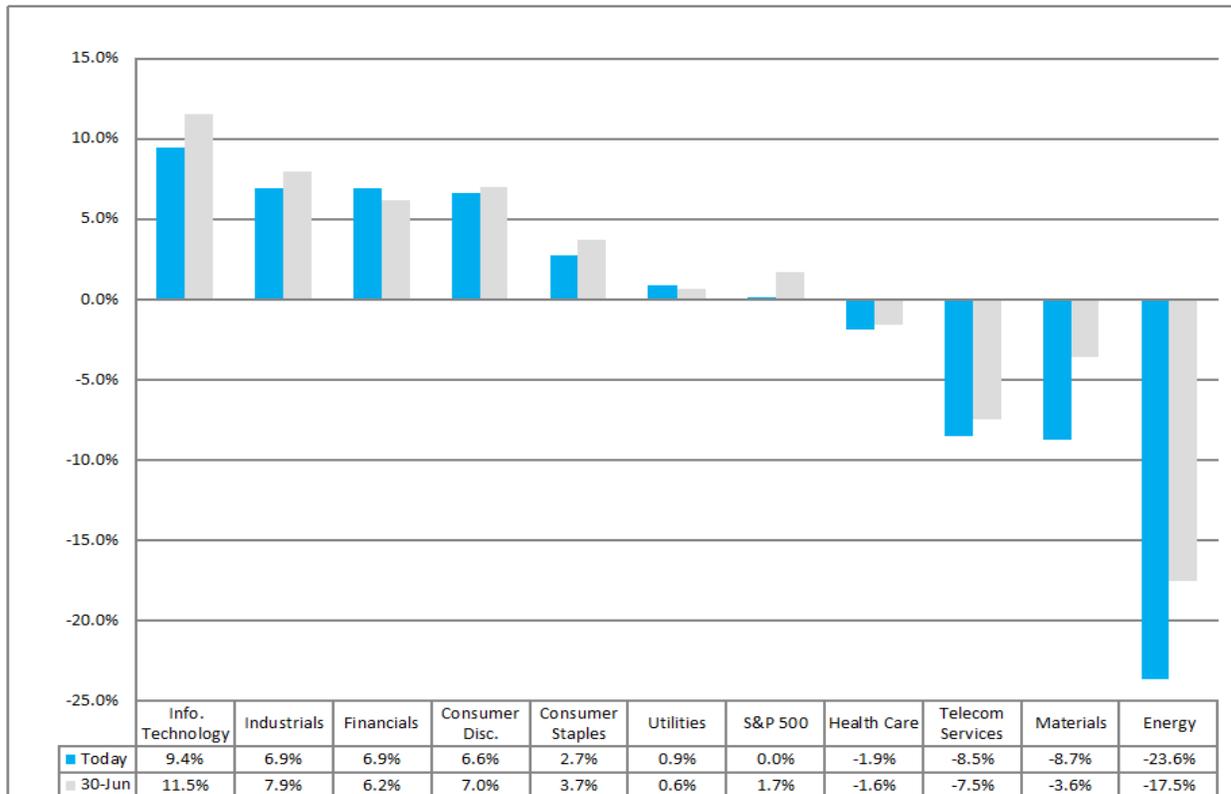


Q2 2012 Earnings Growth



Q3 2012: Growth

Q3 2012 Earnings Growth

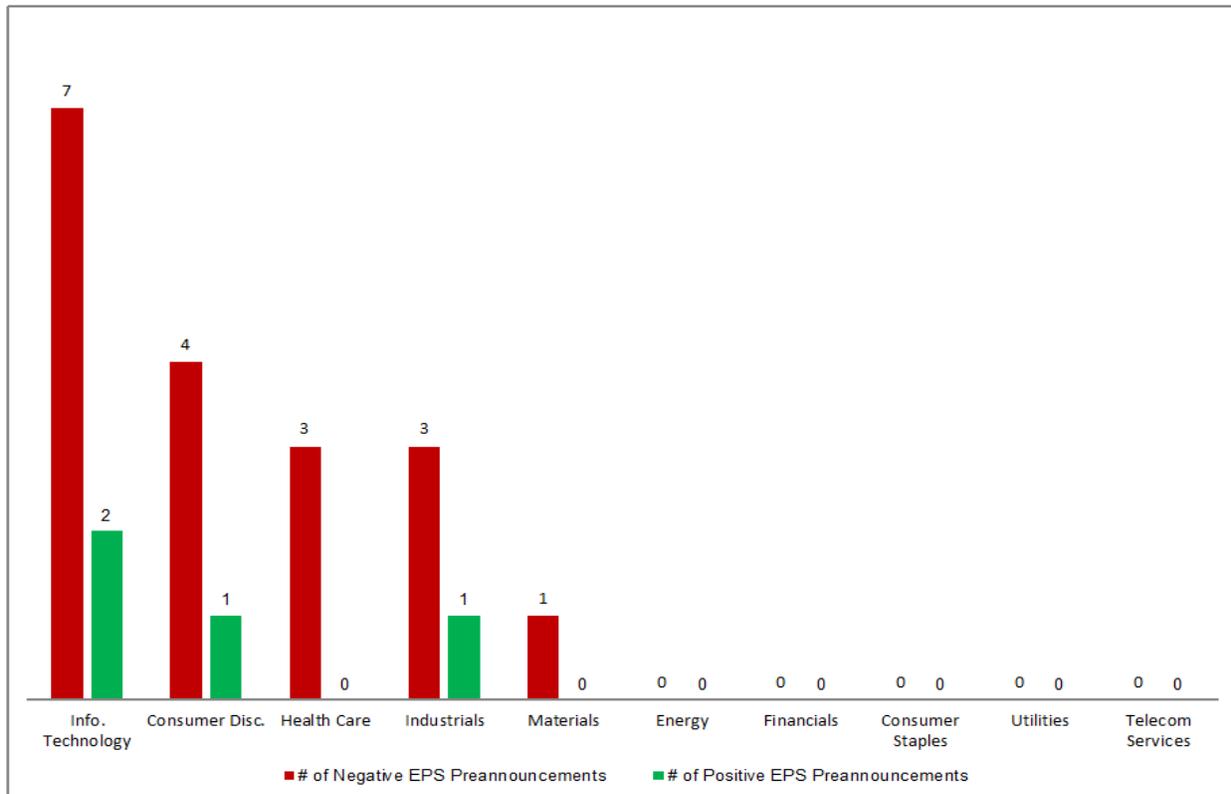


Q3 2012 Revenue Growth

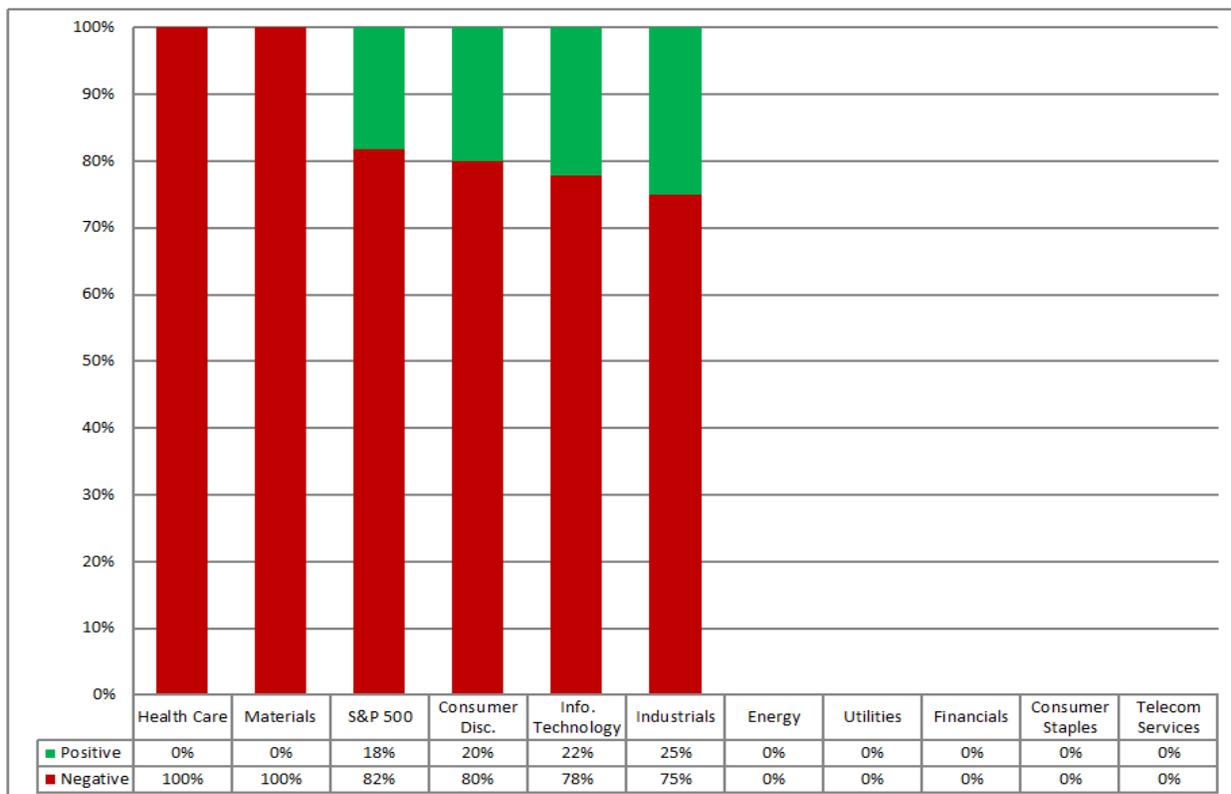


Q3 2012: Guidance

Number of Positive & Negative EPS Preannouncements: Current Fiscal Quarter



Percentage of Positive & Negative EPS Preannouncements: Current Fiscal Quarter

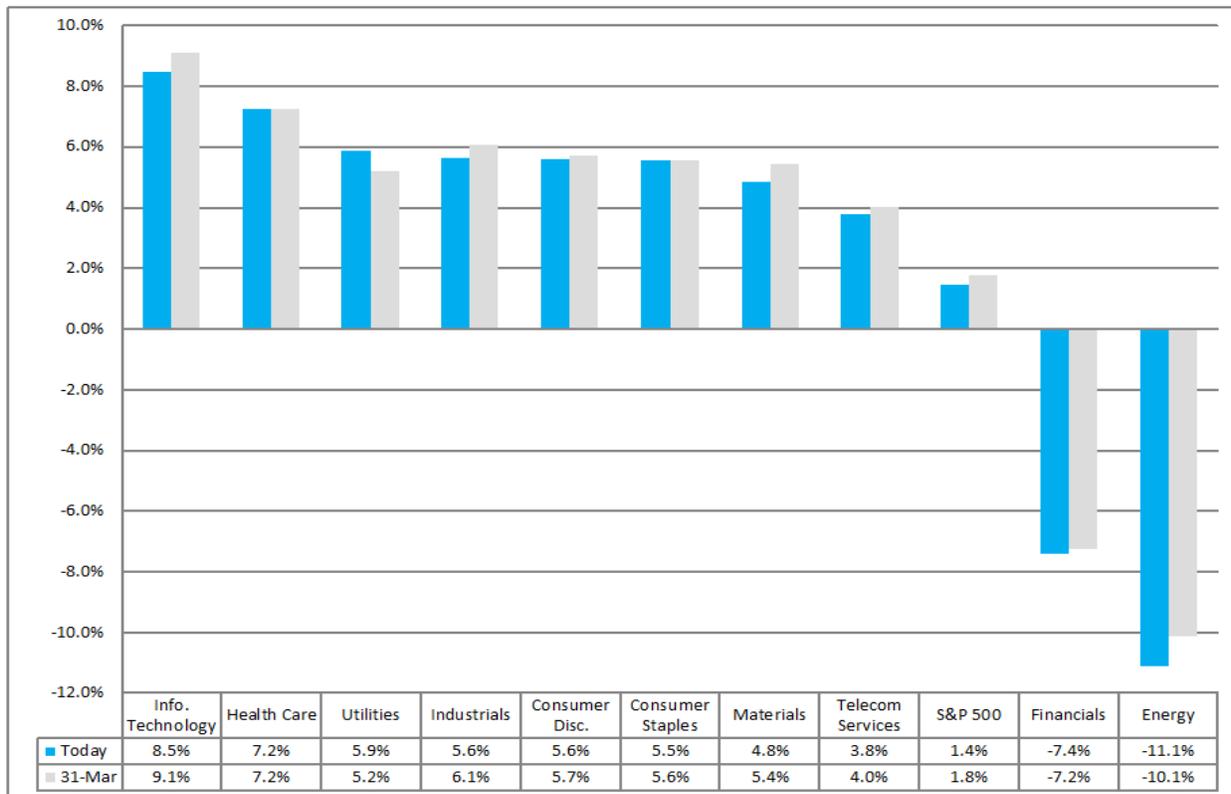


CY 2012: Growth

CY 2012 Earnings Growth

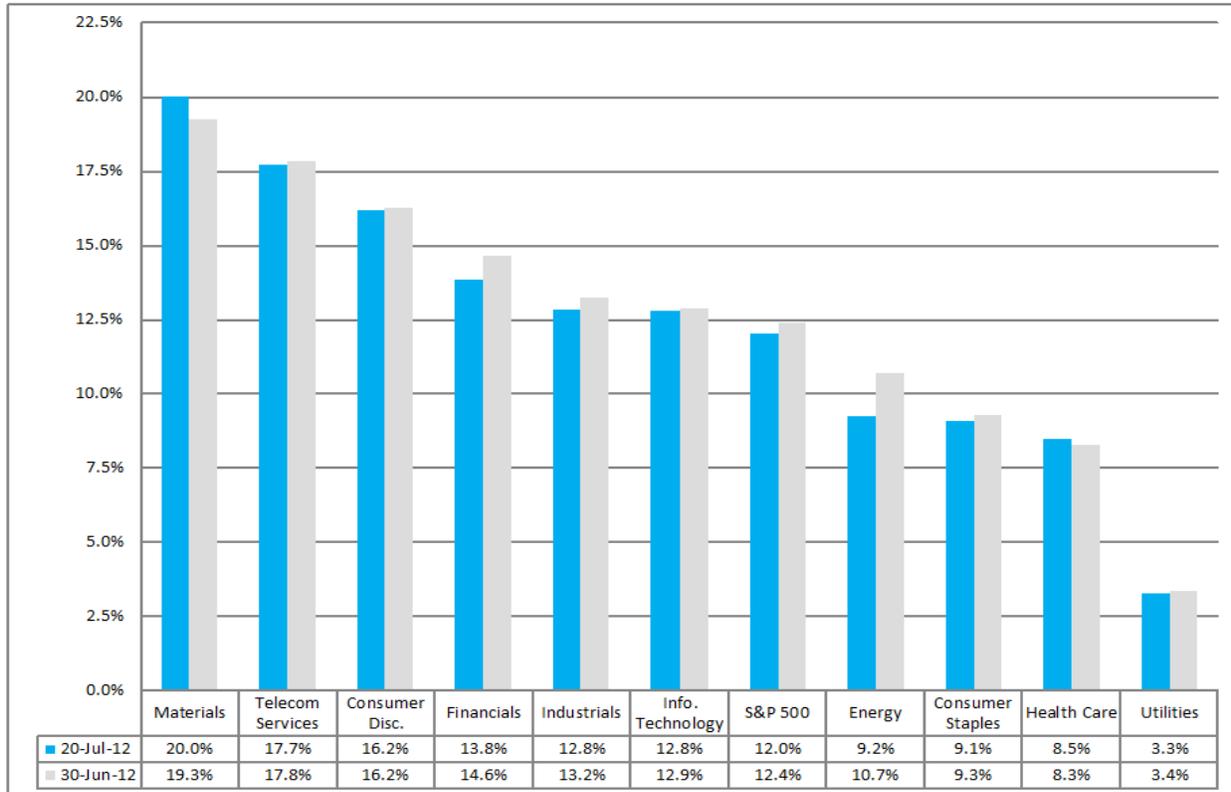


CY 2012 Revenue Growth

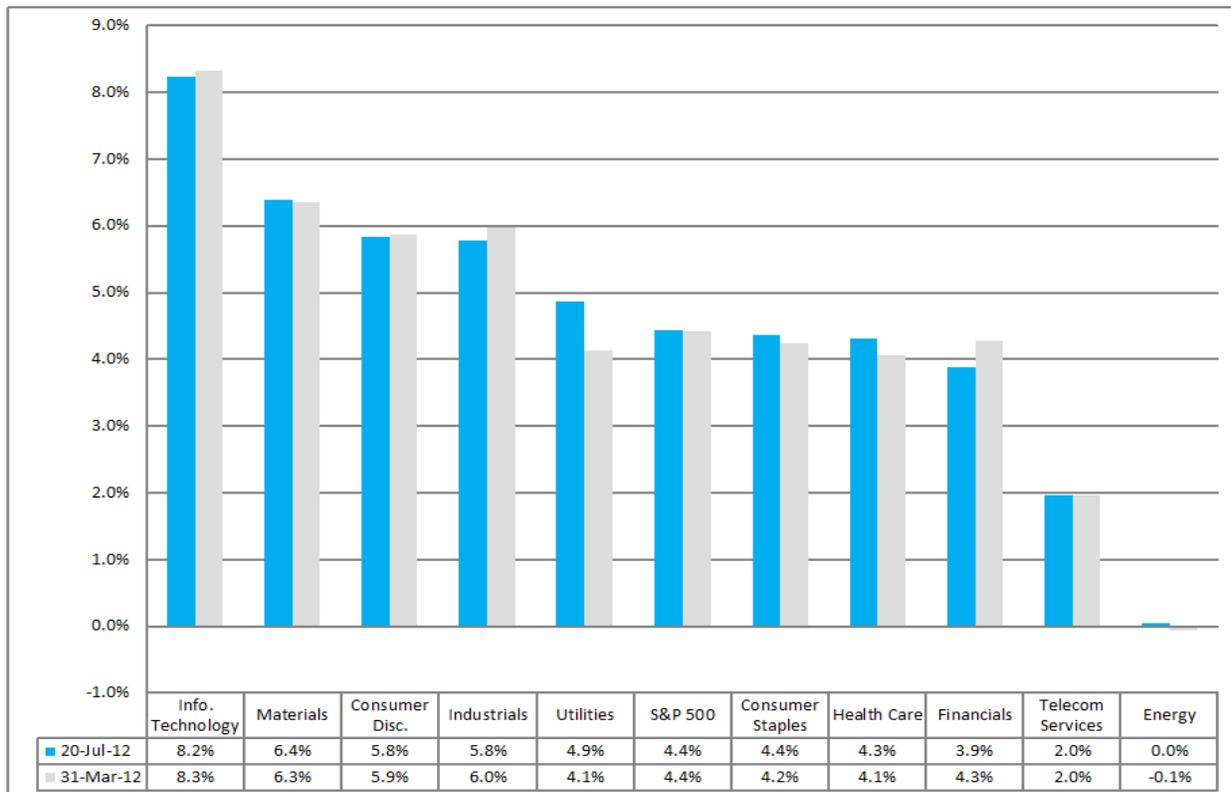


CY 2013: Growth

CY 2013 Earnings Growth

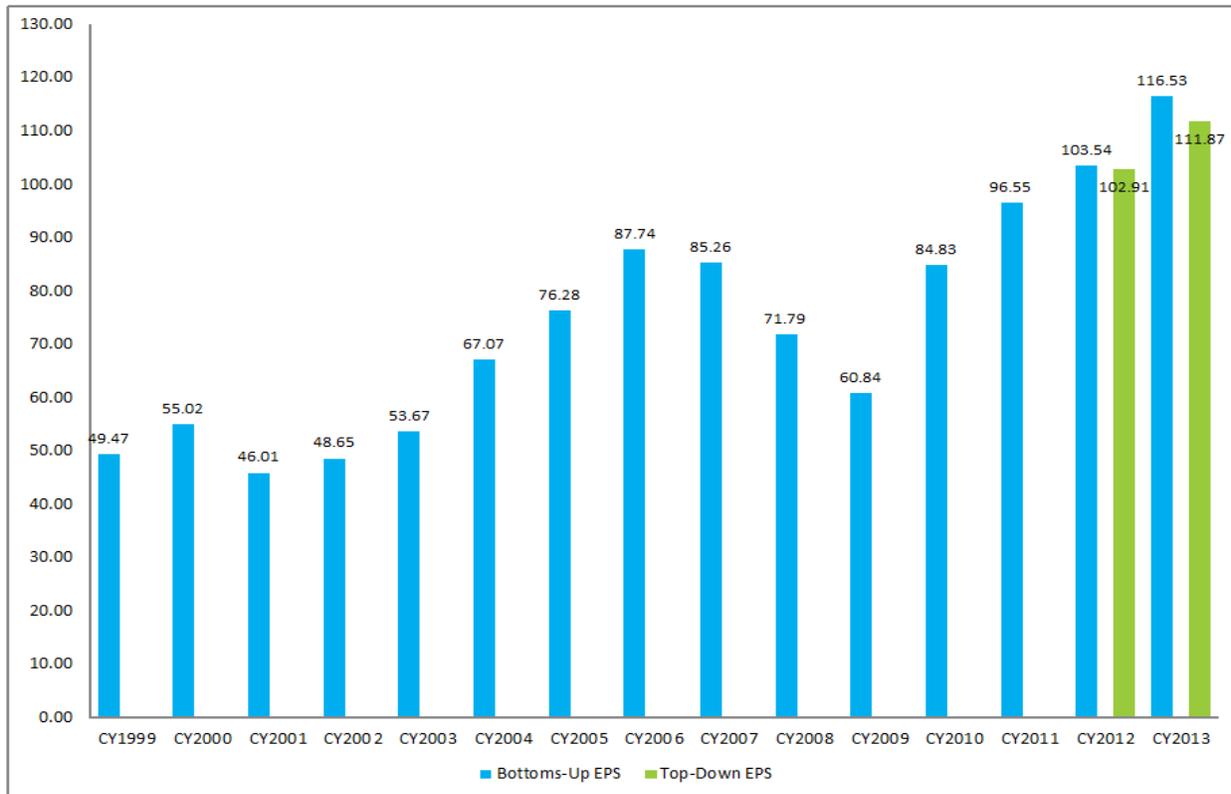


CY 2013 Revenue Growth

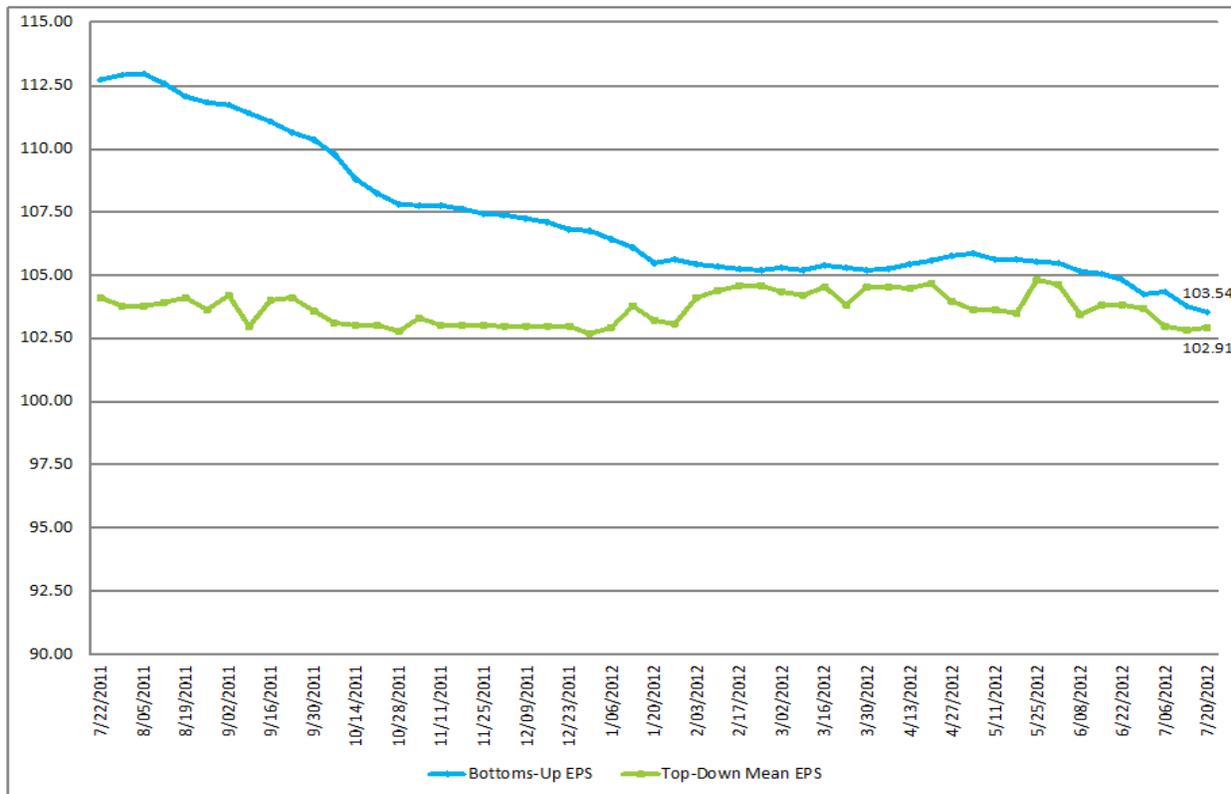


Bottom-up Estimates

Calendar Year Bottom-Up EPS Actuals & Estimates

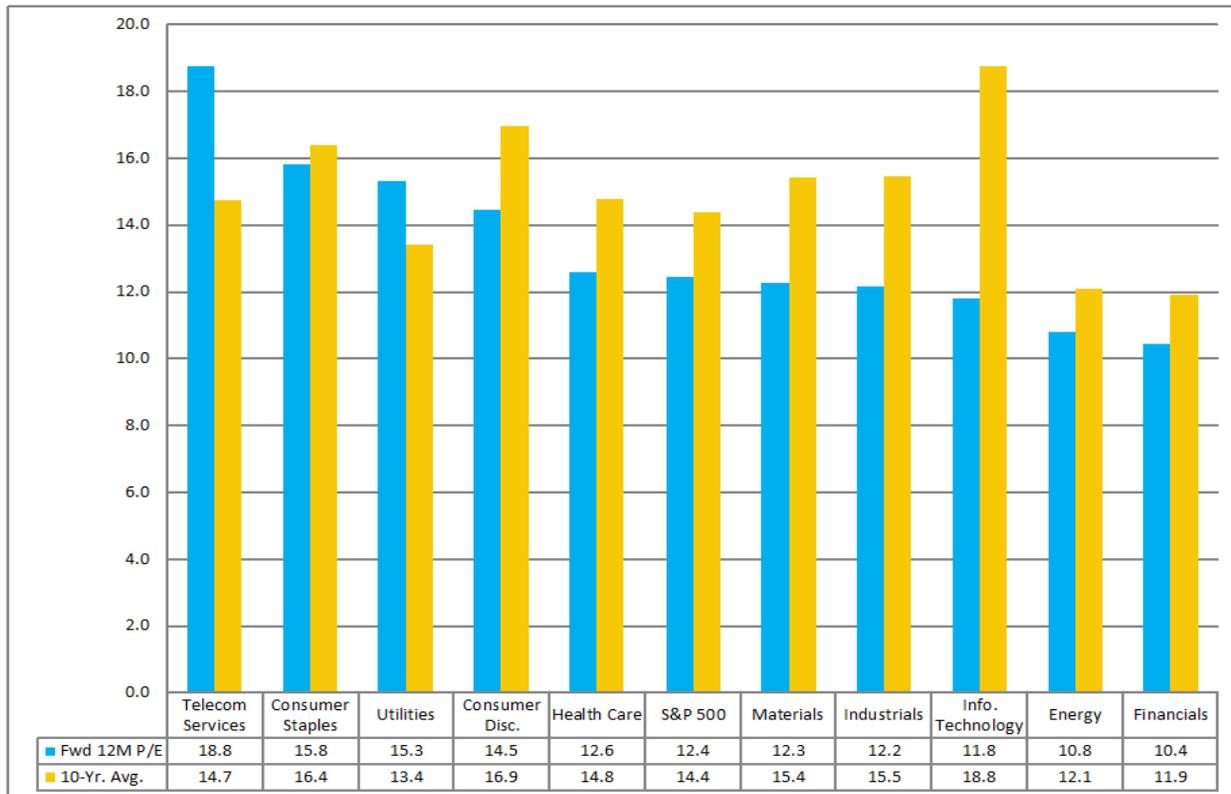


CY 2012 Estimates: Bottom-Up EPS vs. Top Down EPS

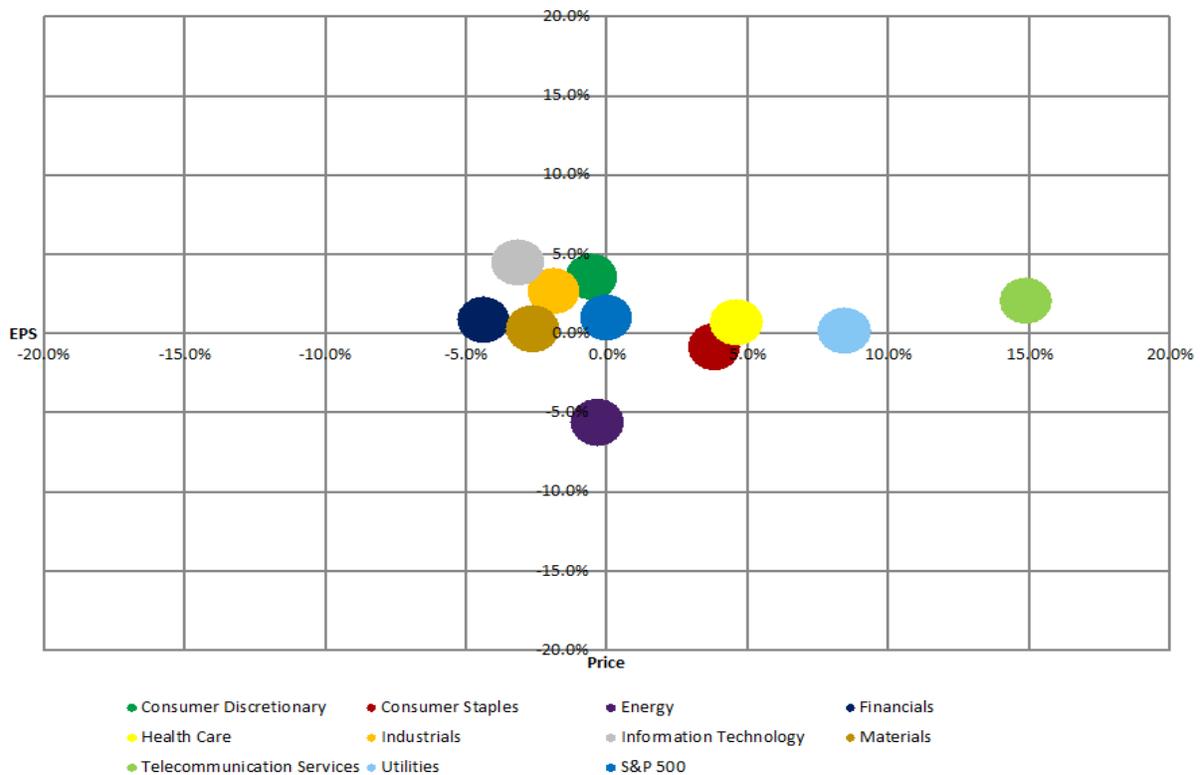


Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

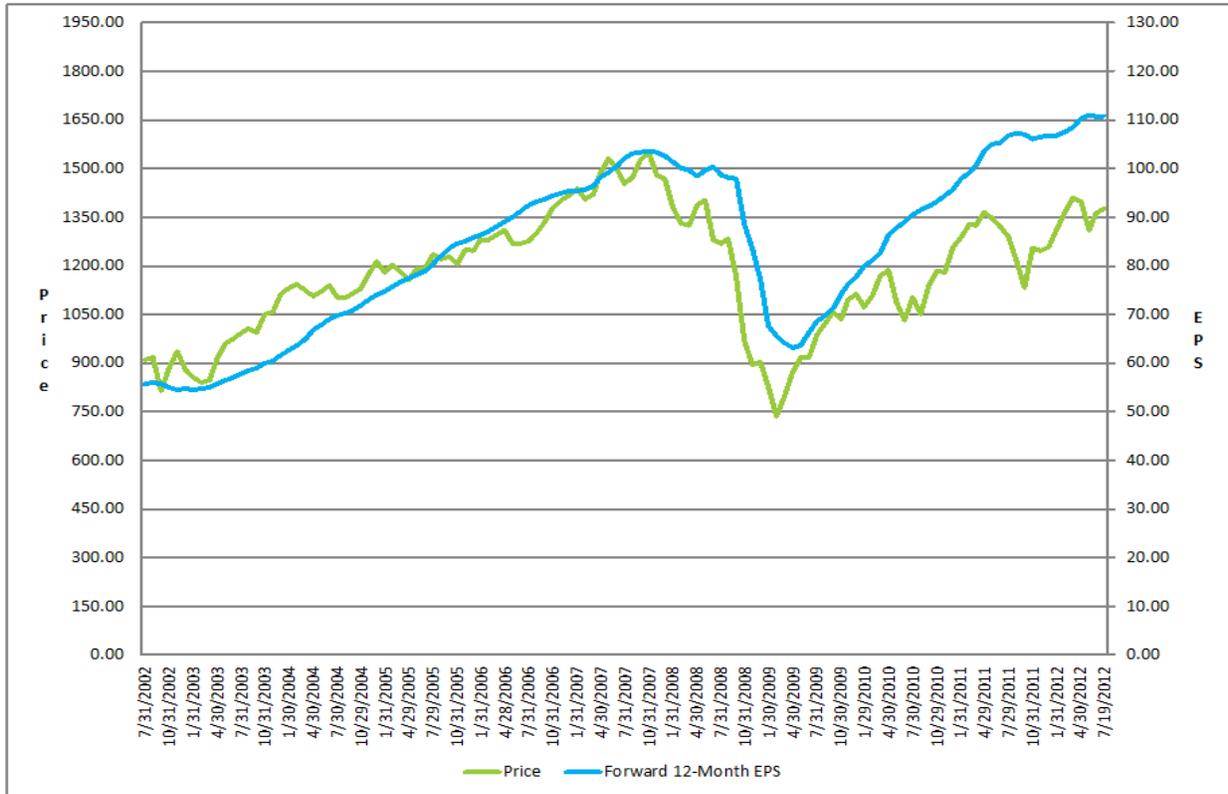


Sector-Level Change in Price vs. Change Forward 12M EPS: 3-Months

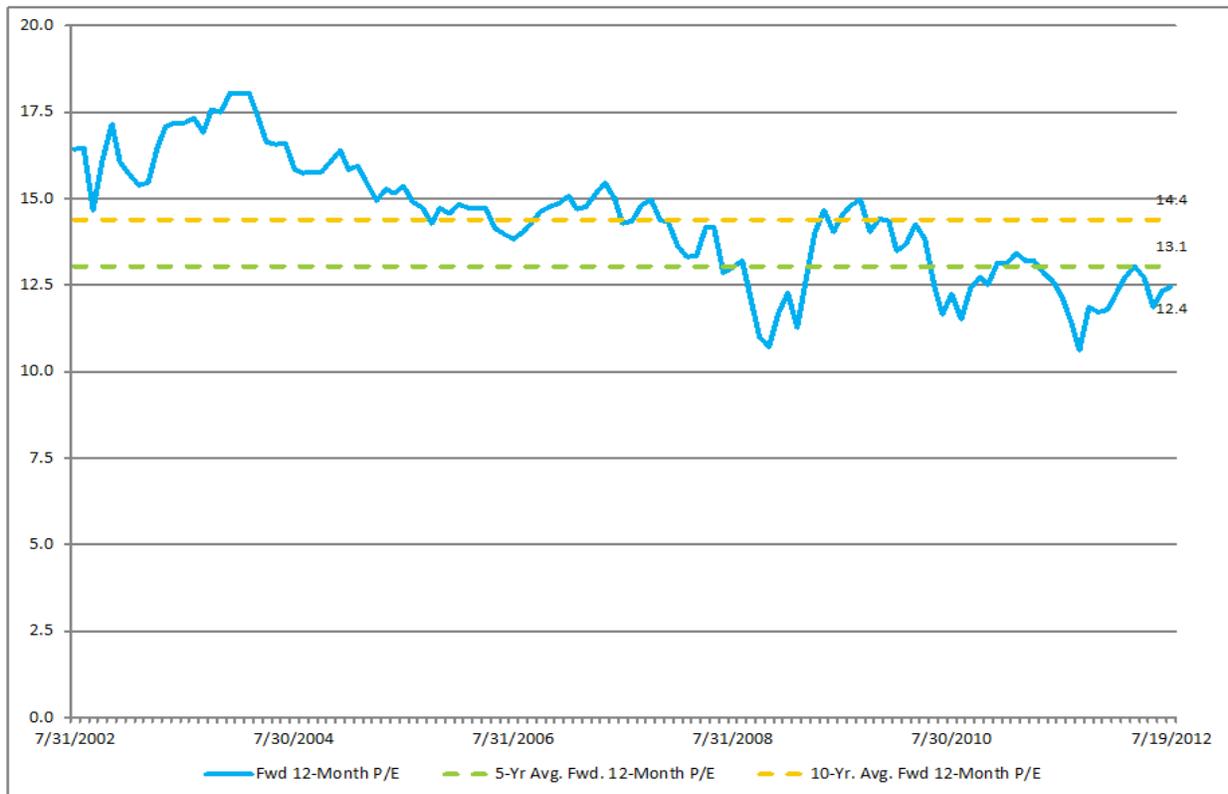


Price / Earnings Ratio: Long-Term Averages

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



Forward 12M P/E Ratio: 10-Years



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