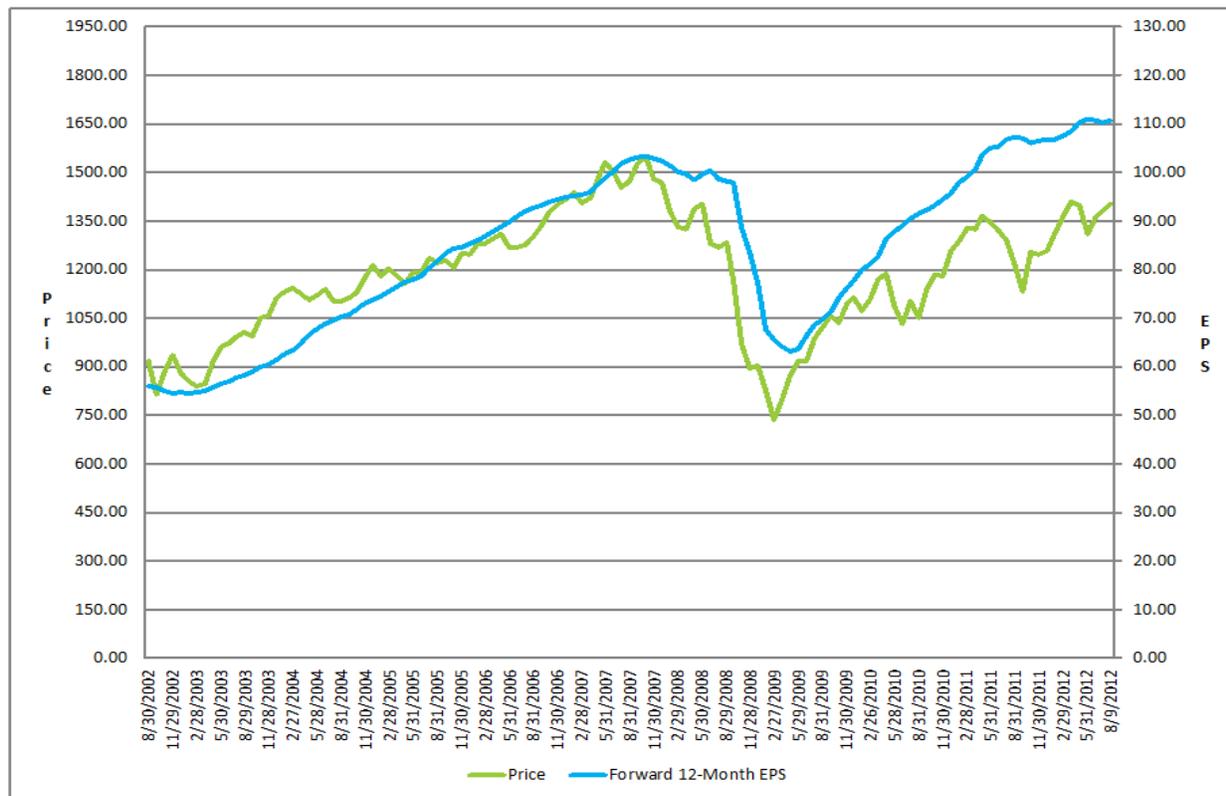


Key Metrics

- + **Earnings Scorecard:** Of the 447 companies that have reported earnings to date for Q2 2012, 70% have reported earnings above the mean estimate, but just 43% have reported sales above the mean estimate.
- + **Earnings Growth:** The blended earnings growth rate for Q2 2012 is 5.5%. The Financials (60.2%) sector is reporting the highest earnings growth rate for the quarter while the Energy (-22.1%) and Materials (-15.9%) sectors are reporting the lowest earnings growth rates.
- + **Earnings Revisions:** Since June 30, the blended earnings growth rate has increased to 5.5% from 2.7%. The Financials and Utilities sectors have recorded the largest increases in growth rates, while the Energy and Materials sectors have recorded the largest decreases in growth rates.
- + **Earnings Guidance:** For Q3 2012, 67 companies have issued negative EPS guidance and 17 companies have issued positive EPS guidance.
- + **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 (14.4).

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



Topic of the Week:

Energy Sector Reports High Upside Revenue Surprises vs. Sharply Lowered Estimates

Of the 447 companies that have reported earnings and revenue to date for Q2 2012, just 43% have reported sales above the mean estimate.

Given this low percentage, what has been the margin of difference between actual sales and estimated sales for S&P 500 companies in Q2? In other words, did companies miss revenue estimates by wide margins or narrow margins in aggregate for Q2 2012?

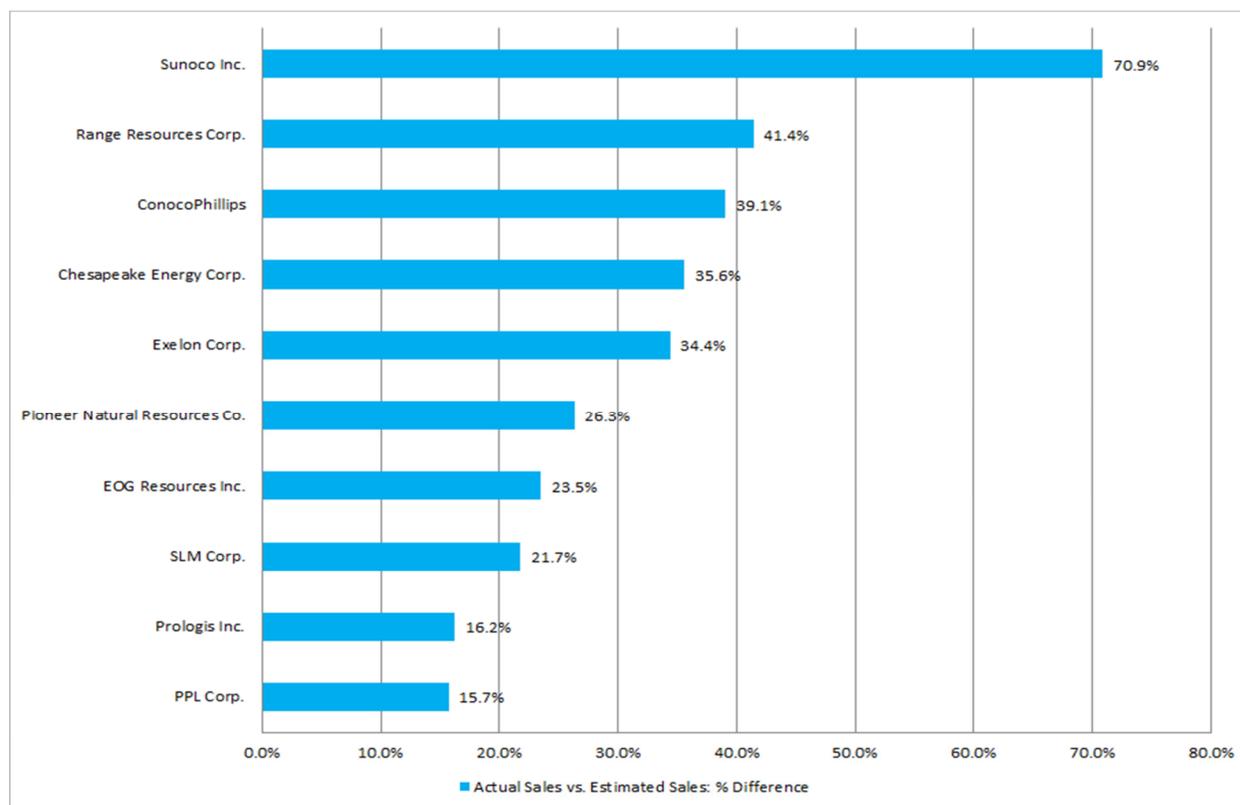
Looking at the aggregate surprise percentage for the S&P 500, it is somewhat surprising to see that the percentage is actually positive, at 0.3%. So while more companies have reported sales below estimates than above estimates for Q2, the aggregate actual revenues reported by these 447 companies have been slightly higher (+0.3%) than the aggregate estimated revenues.

Digging deeper into these numbers at the sector level, the Energy sector is the largest contributor to the 0.3% surprise percentage for the S&P 500. The sector is reporting the highest surprise percentage (4.2%) of all ten sectors. Six of the seven companies that reported the largest differences between actual revenues and estimated revenues are Energy sector companies: Sunoco, Range Resources, ConocoPhillips, Chesapeake Energy, Pioneer Natural Resources, and EOG Resources.

However, the Energy sector also saw largest cuts to revenue estimates of any sector during and after the second quarter. On March 31, the estimated revenue growth rate was -1.8%. By June 30 the estimated growth rate had fallen to -14.0%. On July 23, the growth rate bottomed at -16.3%. Due to the large upside surprises reported by Energy sector companies over the past three weeks, the growth rate has improved to -12.8% today.

Thus, companies in the Energy sector have reported high upside sales surprises compared to estimates that were cut sharply during and after the quarter.

S&P 500: Top Ten Upside Revenue Surprises for Q2



Q2 2012 Earnings Season: Overview

Lowest Percentage (43%) of Companies Beating Sales Estimates since Q1 2009

Large Upside Earnings Surprises in the Financials and Consumer Discretionary Sectors

To date, 447 companies in the S&P 500 have reported earnings for Q2 2012. Of these 447 companies, 70% have reported actual EPS above the mean EPS estimate, while 30% 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 Health Care (85%) and Industrials (82%) sectors have the highest percentages of companies reporting earnings above estimates, while the Energy (52%) sector has the lowest percentage of companies reporting earnings above estimates.

In aggregate, companies are reporting earnings that are 5.0% above expectations. Over the past four quarters on average, actual earnings for the S&P 500 surpassed estimates by 4.8%. Companies in the Financials (11.2%) and Consumer Discretionary (9.5%) sectors are reporting the largest aggregate differences between actual earnings and estimated earnings. Five of the ten companies that have reported the largest upside differences between actual earnings and estimated earnings are in the Consumer Discretionary sector (see page 9).

Lowest Percentage of Companies Reporting Sales above Estimates since Q1 2009

In terms of revenues, just 43% 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. If the final percentage of companies reporting sales above estimates is 43%, it will mark the lowest percentage for a quarter since Q1 2009 (37%).

At the sector level, the Utilities (23%), Materials (24%), and Industrials (28%) sectors have the lowest percentages of companies reporting sales above the mean estimate.

In aggregate, companies are reporting sales that are 0.3% above expectations. Over the past four quarters on average, actual sales for the S&P 500 surpassed estimates by 1.6%. Companies in the Energy (4.2%) sector are reporting the largest aggregate differences between actual sales and estimated sales (see page 2).

Blended Earnings Growth Rate Improved This Week to 5.5% from 4.9%.

The blended earnings growth rate for the second quarter currently stands at 5.5%, above last week's growth rate of 4.9%. An upside earnings surprise from Berkshire Hathaway (27%) in the Financials sector was mainly responsible for the improvement in the growth rate. The growth rate for the Financials sector increased to 60.2% from 57.2% during the week.

Since the end of the second quarter (June 30), the blended earnings growth rate for the index has improved to 5.5% from 2.7%. Eight sectors have recorded an increase in their earnings growth rates during this time (led by Financials sector), while two sectors (Energy and Materials sectors) have recorded a decrease in their earnings growth rates during this time.

Highest Earnings Growth: Financials and Industrials

The blended earnings growth rate for Q2 2012 is 5.5%. If this is the final growth rate, it will mark the 11th consecutive quarter of earnings growth for the index. Overall, eight of the ten sectors are reporting year-over-year earnings growth for the quarter. Of these eight sectors, the Financials and Industrials sectors have the highest earnings growth rates.

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

The Financials sector has the highest earnings growth rate (60.2%) of all ten sectors. However, this sector is only reporting revenue growth of 2.1%. Most of the companies that had the highest year-over-year increases in earnings in this sector reported large losses in the year-ago quarter. For example, 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 earnings growth rate for the Financials sectors falls to 12.8%. 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 industry

The Industrials sector has the second highest earnings growth rate at 11.8% and the third highest revenue growth rate at 5.3%. Eleven of the twelve industries in this sector are reporting earnings growth, while nine of these eleven industries are reporting double-digit growth. Companies in the Machinery (such as Caterpillar and Deere), Industrial Conglomerates (such as General Electric and Danaher), and Aerospace & Defense (Honeywell, Textron, and Raytheon) industries are some of the largest contributors to dollar-level earnings growth for the sector.

Excluding Bank of America, S&P 500 Earnings Growth Falls to 0.6%

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 0.6% from 5.5%. 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 were 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.

“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 (-22.1%) and lowest sales growth rate (-12.8%) of all ten sectors. Within the sector, the Energy Equipment & Services industry is reporting earnings growth of 14.1%, while the Oil, Gas, & Consumable Fuels industry is reporting an earnings decline of 26.0%.

The Materials sector has the second lowest earnings growth rate (-15.9%) and the third lowest revenue growth rate (-0.6%) of all ten sectors. Three of the five industries are reporting substantial decreases in earnings for the quarter. The Metals & Mining (-48.3%) industry has the second lowest earnings growth rate and is the largest contributor to the earnings decline for the sector.

Revenue Growth: Below 1%

In terms of revenues, the blended growth rate stands at 0.8%, down from an estimate of 3.4% at the start of the quarter. The Energy sector witnessed the largest cuts to sales estimates during the quarter. Since June 30, the large percentage of companies (57%) reporting sales below estimates has also contributed to the decline in the growth rate. If 0.8% 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, seven of the ten sectors are reporting sales growth for the quarter. The only three sectors reporting a decline in sales are the Energy (-12.8%), Utilities (-3.4%), and Materials (-0.6%) sectors.

Global Economic Slowdown: Europe, F/X Rates, and China

Many companies in the index are reporting lower revenue growth outside of the U.S. relative to recent years due to weak economic growth in Europe, slower economic growth in emerging markets (China), and less favorable foreign exchange rates.

"The uncertainty in Europe, as well as slower economic growth rates in China, India and Brazil, resulted in weakness in a number of our end markets." –Eaton (Jul 23)

"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)

Europe

Economic growth in Europe has also fallen sharply over the past year. According to FactSet Economics, the European Union recorded GDP growth of 2.4% in Q1 2011. By Q1 2012, GDP growth in the European Union had fallen to 0.1%.

"Second quarter 2012 tire unit volumes totaled 39.2 million, down 9 percent from 2011, primarily reflecting weaker replacement industry volumes, most notably in Europe." –Goodyear Tire & Rubber (Jul 31)

"The geography that did not perform well was Europe. Europe was essentially flat, slightly positive year-on-year and that really hampered our total results. Within Europe – now I'll switch from iPhone to talking about more of the gross revenue level. We see a marked difference between the countries. The U.K. was relatively solid at 30% growth, but France and Greece and Italy were particularly poor and Germany was also only a single digit positive growth for the quarter." –Apple (Jul 24)

Less Favorable F/X Rates

The continuing weakness in Europe contributed 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 sales and earnings.

"Second-quarter 2012 revenues were \$15.1 billion, a decrease of 9% compared with \$16.5 billion in the year-ago quarter, which reflects an operational decline of \$977 million, or 6%, and the unfavorable impact of foreign exchange of \$451 million, or 3%." –Pfizer (Jul 31)

"Revenue in the quarter increased 4% versus the prior year to \$4.5 billion and included a 4% decline reflecting the impact of foreign currency." –Tyco International (Jul 31)

"Worldwide sales were \$12.3 billion for the second quarter of 2012, an increase of 1 percent, or 5 percent excluding foreign exchange, compared with the second quarter of 2011." –Merck (Jul 27)

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

"Growth in North America offset weakness in international markets, particularly China and Brazil." – Cummins (Jul 31)

Q3 EPS Guidance: High Percentage (80%) of Negative Guidance

Of the 84 companies that have issued EPS guidance for the third quarter, 67 have issued projections below the mean EPS estimate and just 17 have issued projections above the mean EPS estimate. Thus, 80% of the companies issuing EPS guidance to date for Q3 2012 have issued negative guidance. This percentage is well above the final percentages recorded in Q2 2012 (68%) and Q1 2012 (60%).

Earnings Decline Projected for Q3 as 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 -2.9% from 1.5%) and for Q4 2012 (to 10.1% from 13.5%). For Q3 2012, analysts are now projecting a year-over-year decline in earnings. Some companies have also taken down their estimates for the second-half of the year.

"Entering the second half of 2012, the global macro environment is not improving at the rate previously anticipated, and we have structured our business plans accordingly." –Dow Chemical (Jul 26)

"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 reductions to earnings estimates for Q4 2012, analysts are still calling for double-digit growth (10.1%) for the quarter. Four of the ten sectors are predicted to report double-digit earnings growth, led by the Financials (26.9%) and Materials (19.9%) sectors. While some companies have taken down estimates, others have been more optimistic.

"As a result of this solid first-half performance, we have strengthened our outlook for the year, and our people remain focused on disciplined execution, quality and productivity, and meeting customer commitments." –Boeing (Jul 25)

"I am cautiously optimistic about the world economy in 2013, very positive on the long-term prospects for global growth and excited about the role Caterpillar will play in making that growth happen." – Caterpillar (Jul 25)

Valuation: Forward P/E below 10-Year Average

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 14.4, but above the 12.4 P/E ratio recorded at the start of the third quarter (June 30).

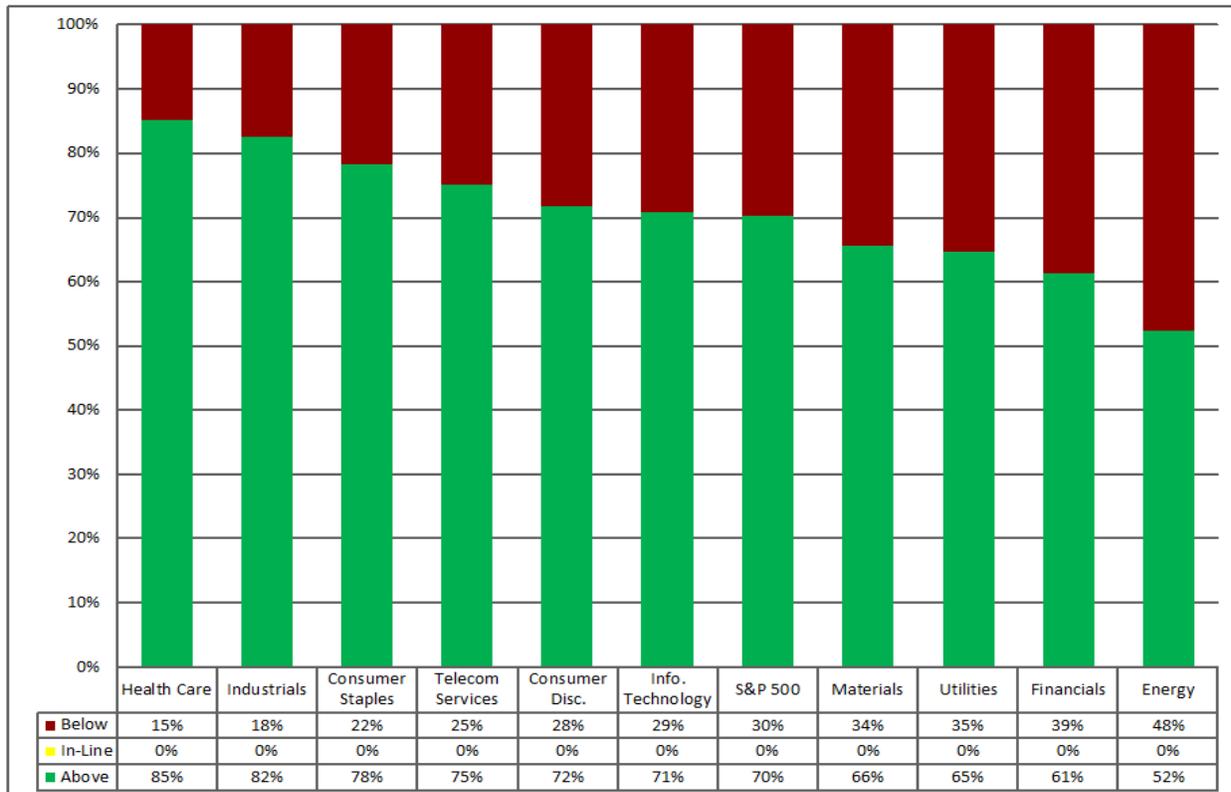
Will there be a return to the 10-year average valuation for the market anytime soon? If there is going to be a return to this average P/E ratio of 14.4, either future estimates will need to decrease, the price of the index will need to increase, or a combination of the two will need to occur.

Companies Reporting Next Week: 22

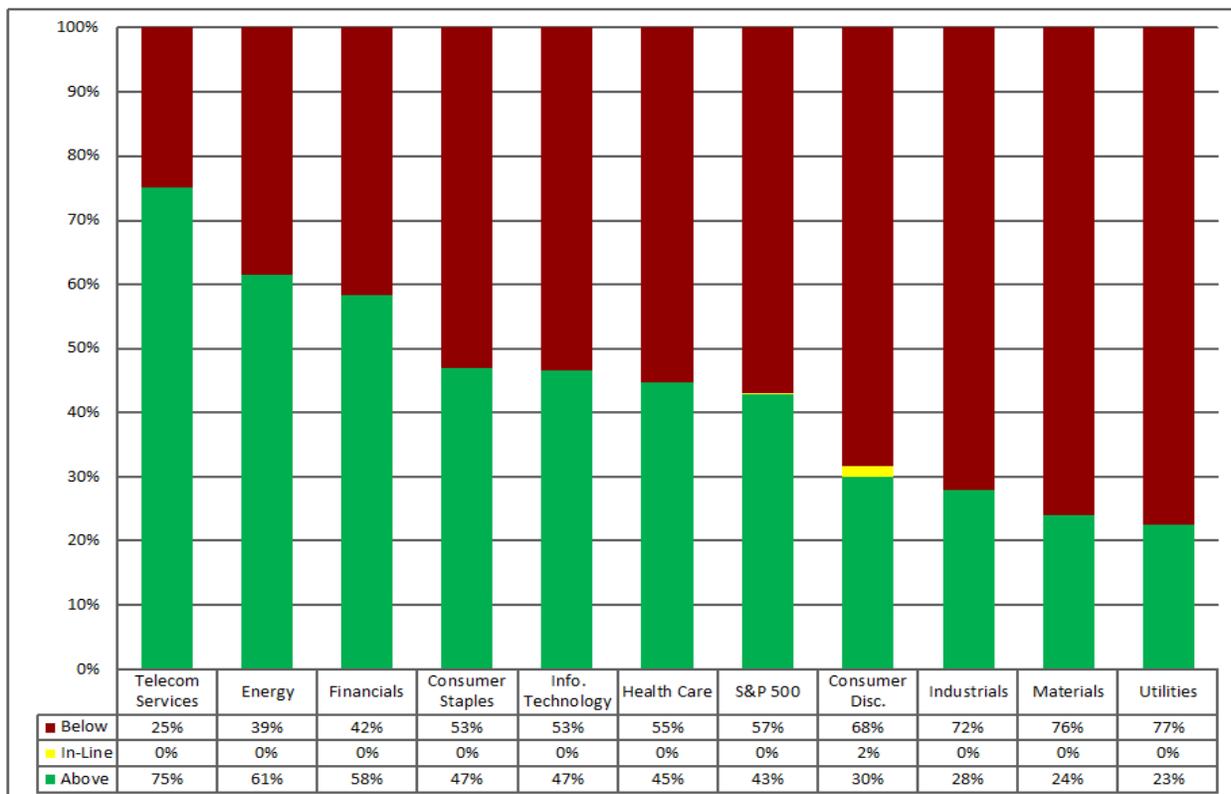
The "peak" weeks of the Q2 2012 earnings season are now finished. The remaining 11% of the companies in the index that haven't reported earnings yet will do over the next four weeks. During the upcoming week, 22 companies in the S&P 500 and 3 companies (Home Depot, Wal-Mart Stores, and Cisco Systems) in the Dow 30 are scheduled to report earnings.

Q2 2012: Scorecard

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

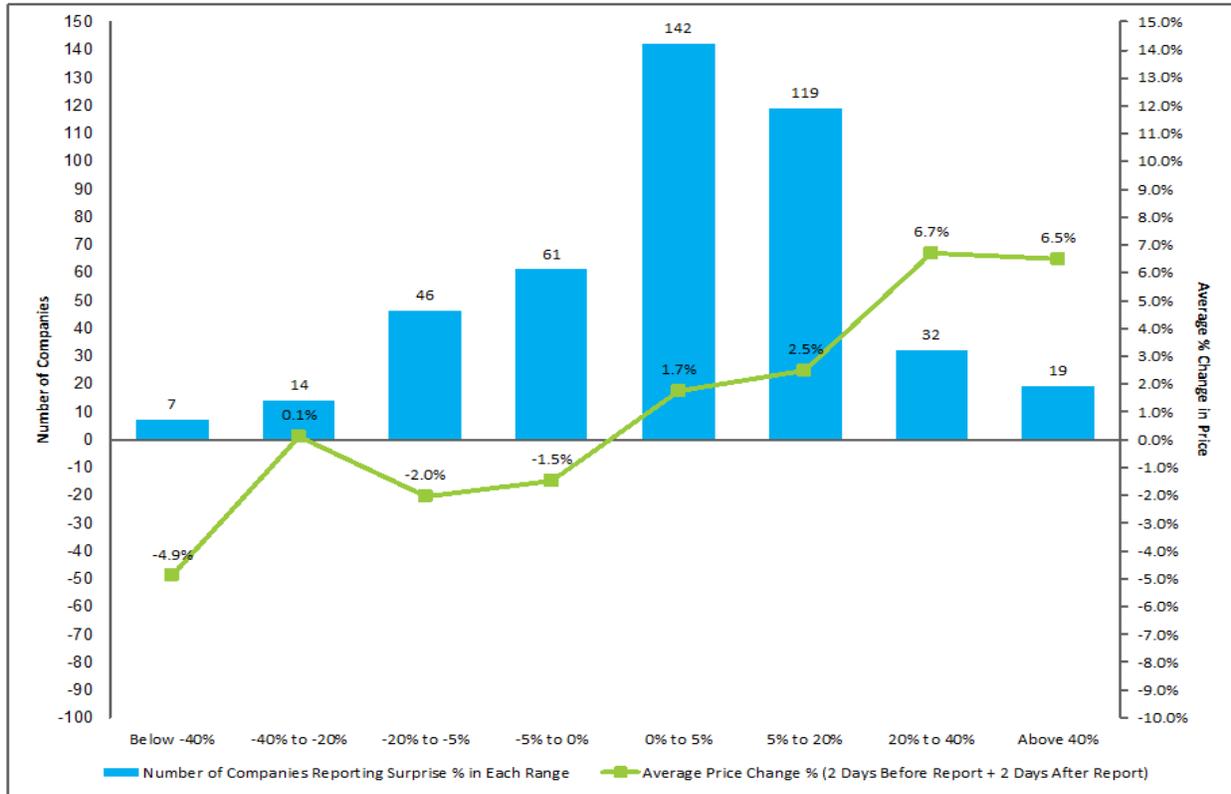


Q2 2012 Revenues: Above, In-Line, Below Estimates

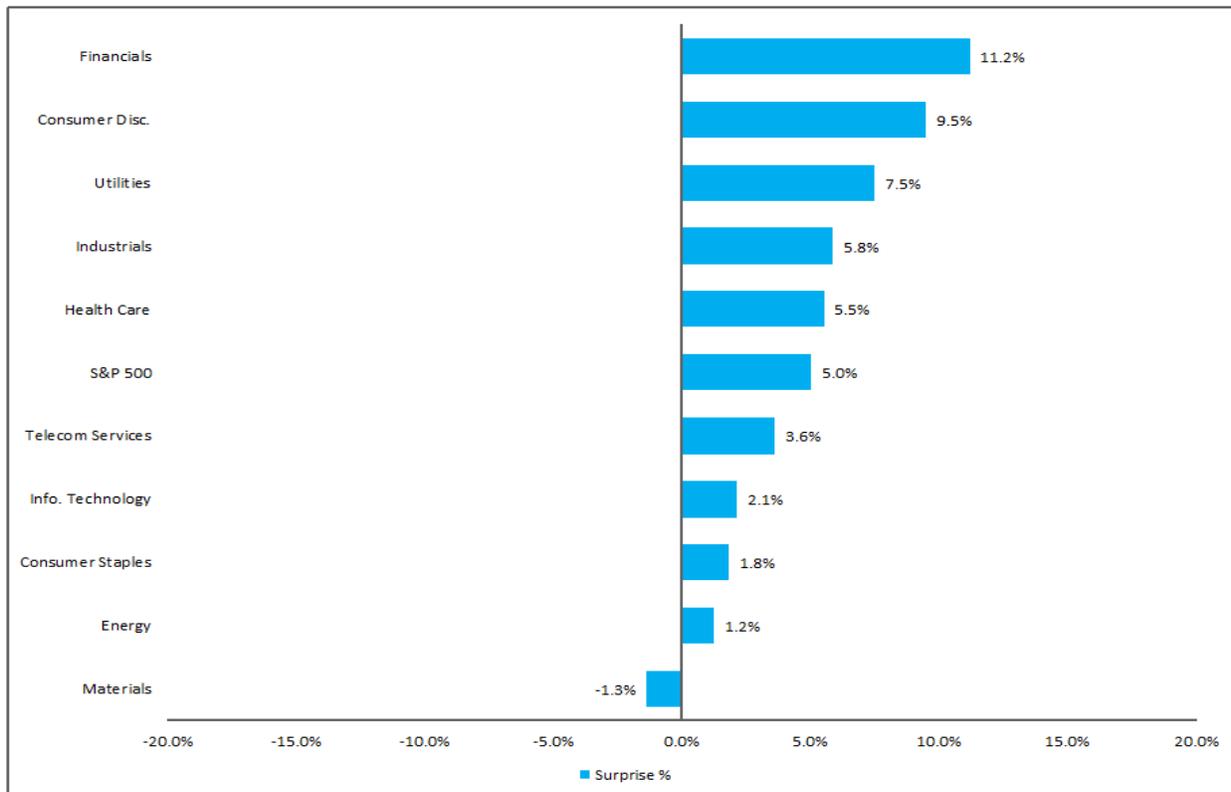


Q2 2012: Scorecard

Q2 2012: Surprise % vs. Average Price Change %

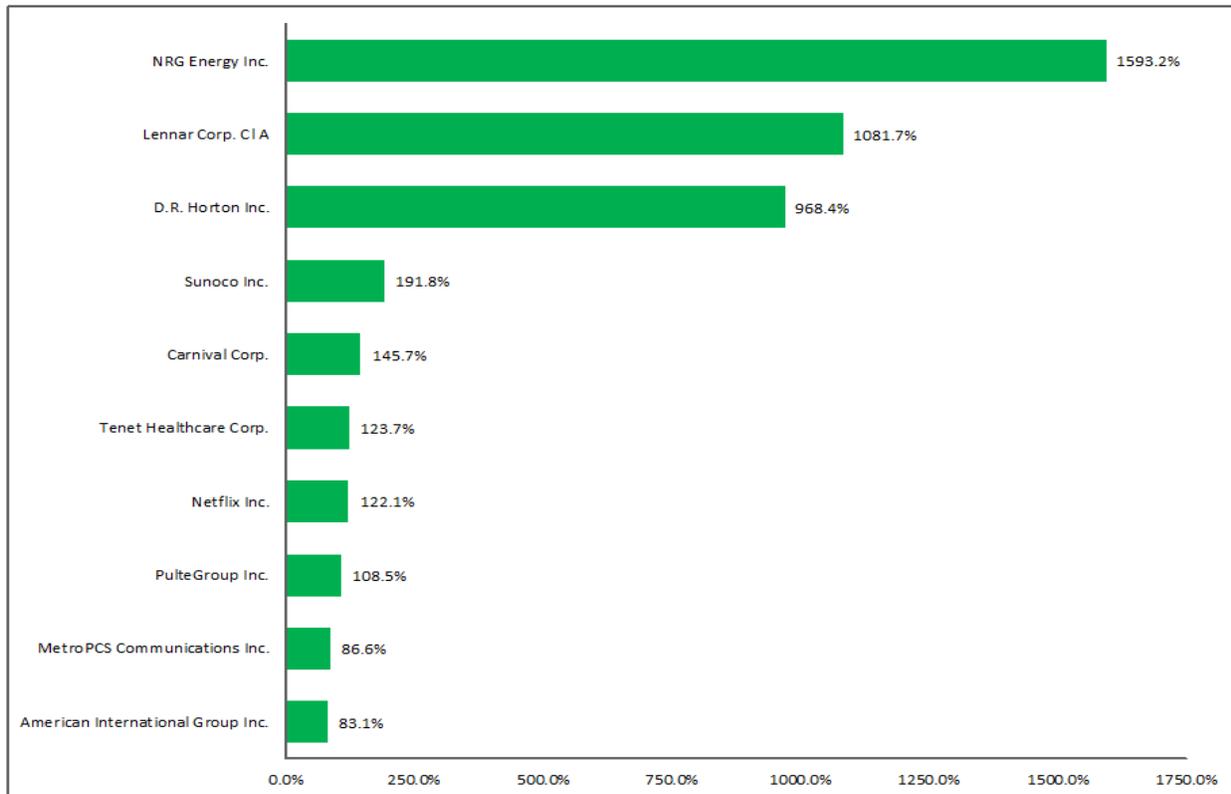


Q2 2012: Sector Level Surprise %

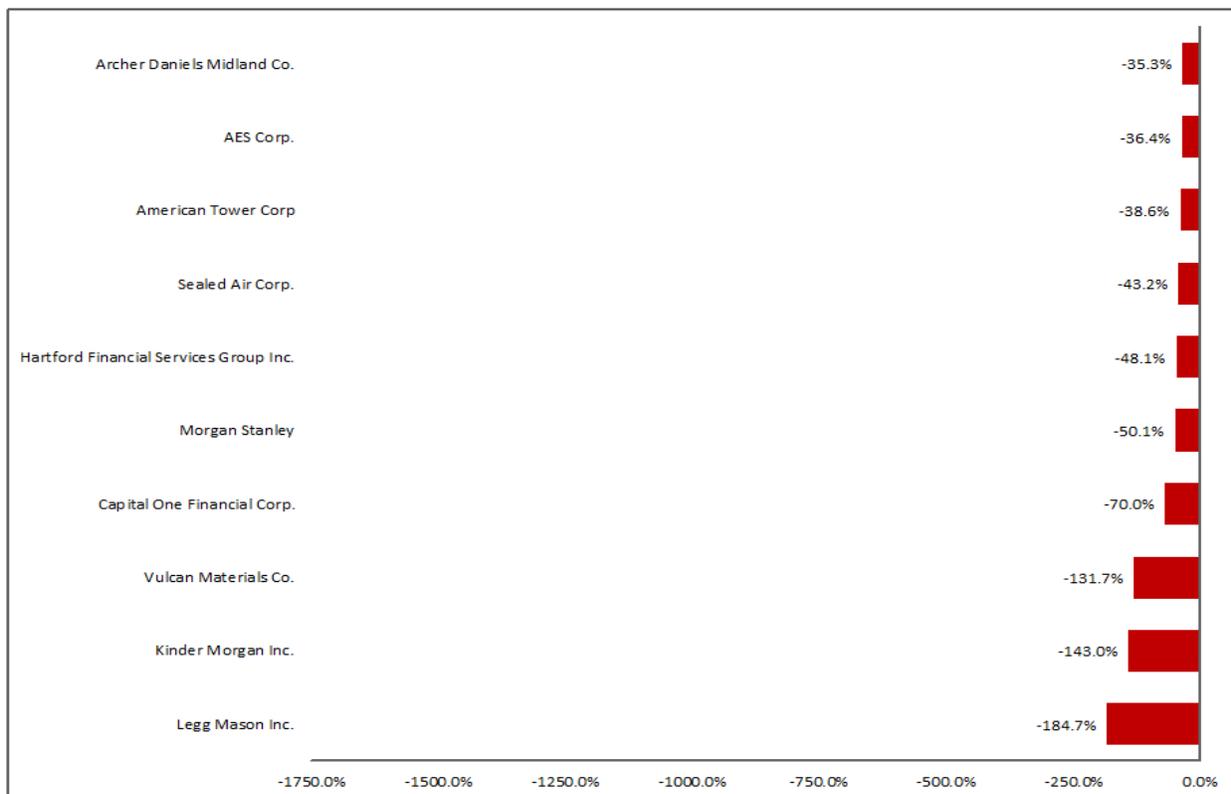


Q2 2012: Scorecard

Surprise %: Top 10 Companies

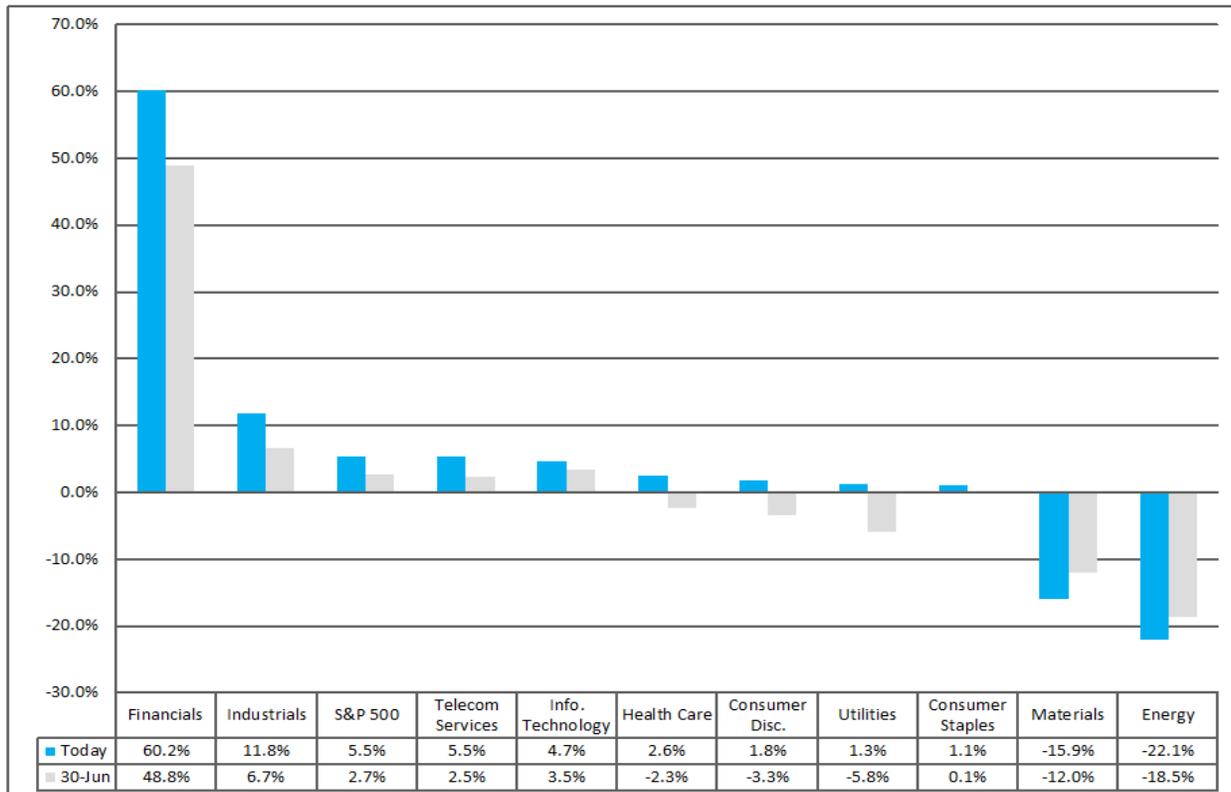


Surprise %: Bottom 10 Companies



Q2 2012: Growth

Q2 2012 Earnings Growth

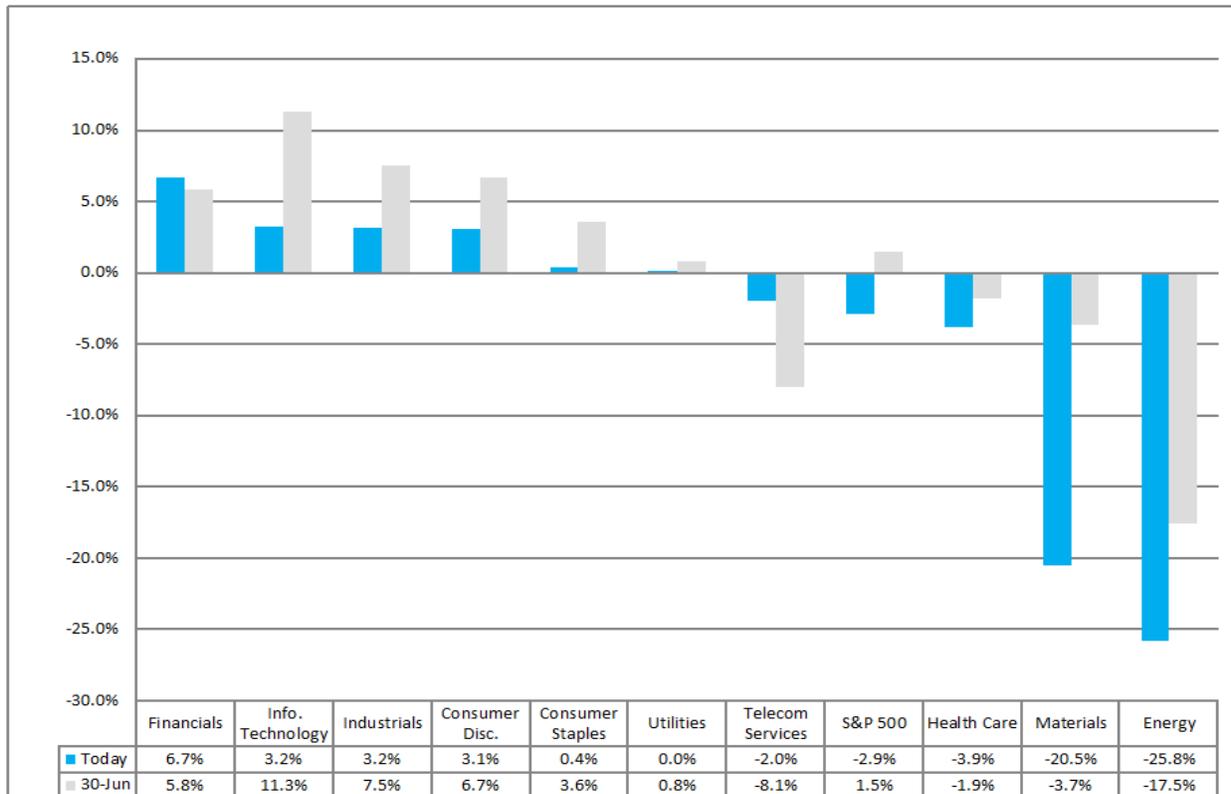


Q2 2012 Earnings Growth

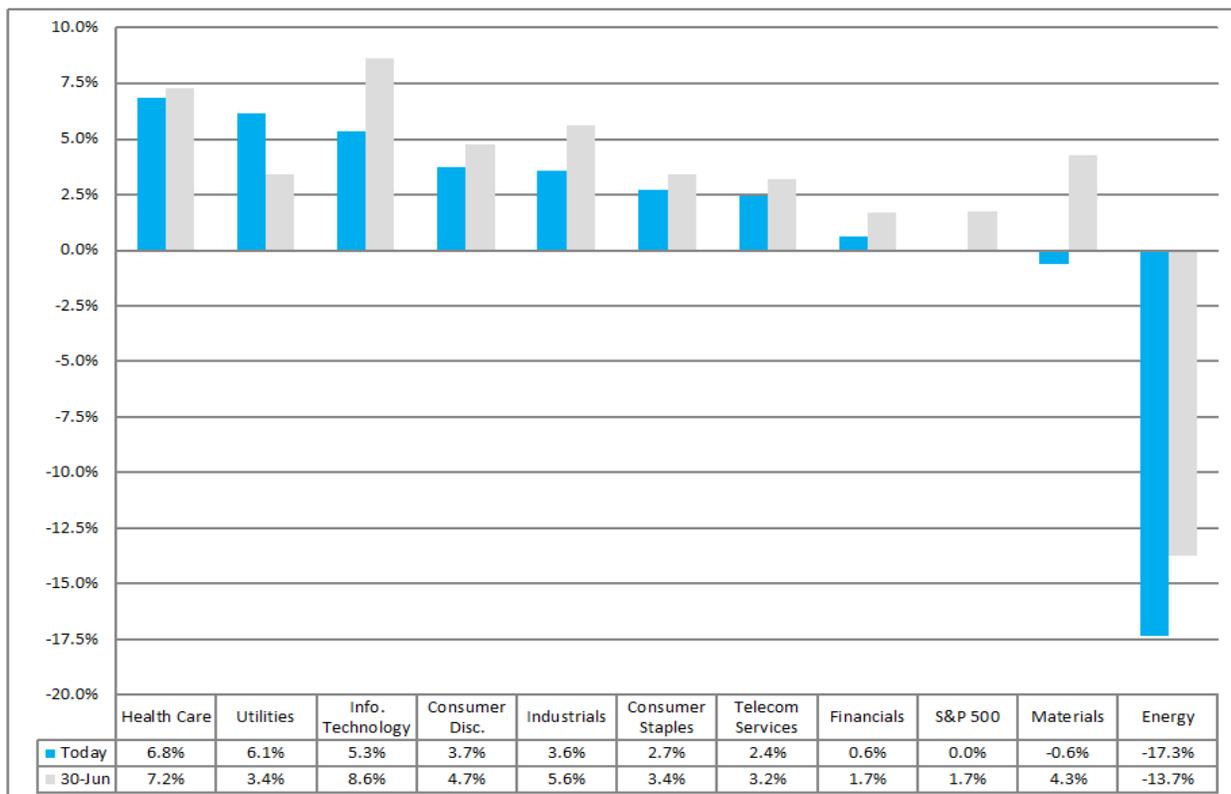


Q3 2012: Growth

Q3 2012 Earnings Growth

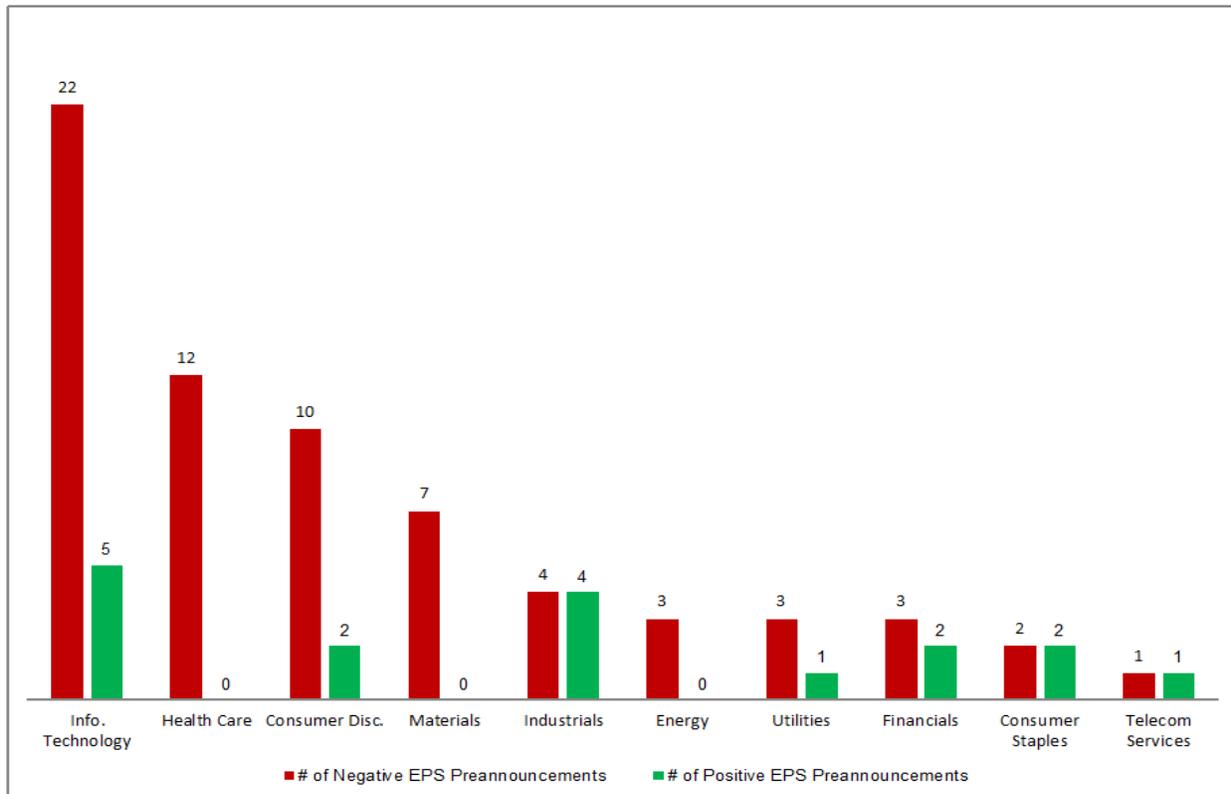


Q3 2012 Revenue Growth

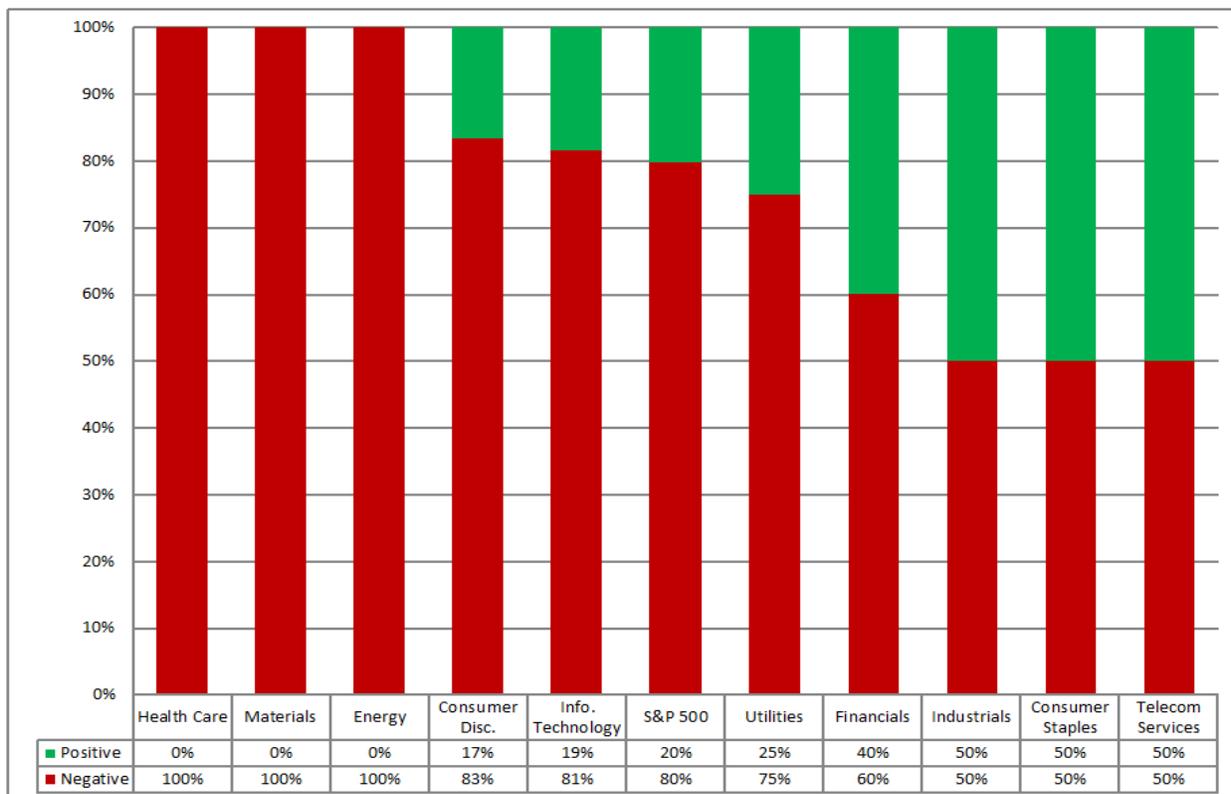


Q3 2012: Guidance

Number of Positive & Negative EPS Preannouncements: Current Fiscal Quarter



Percentage of Positive & Negative EPS Preannouncements: Current Fiscal Quarter

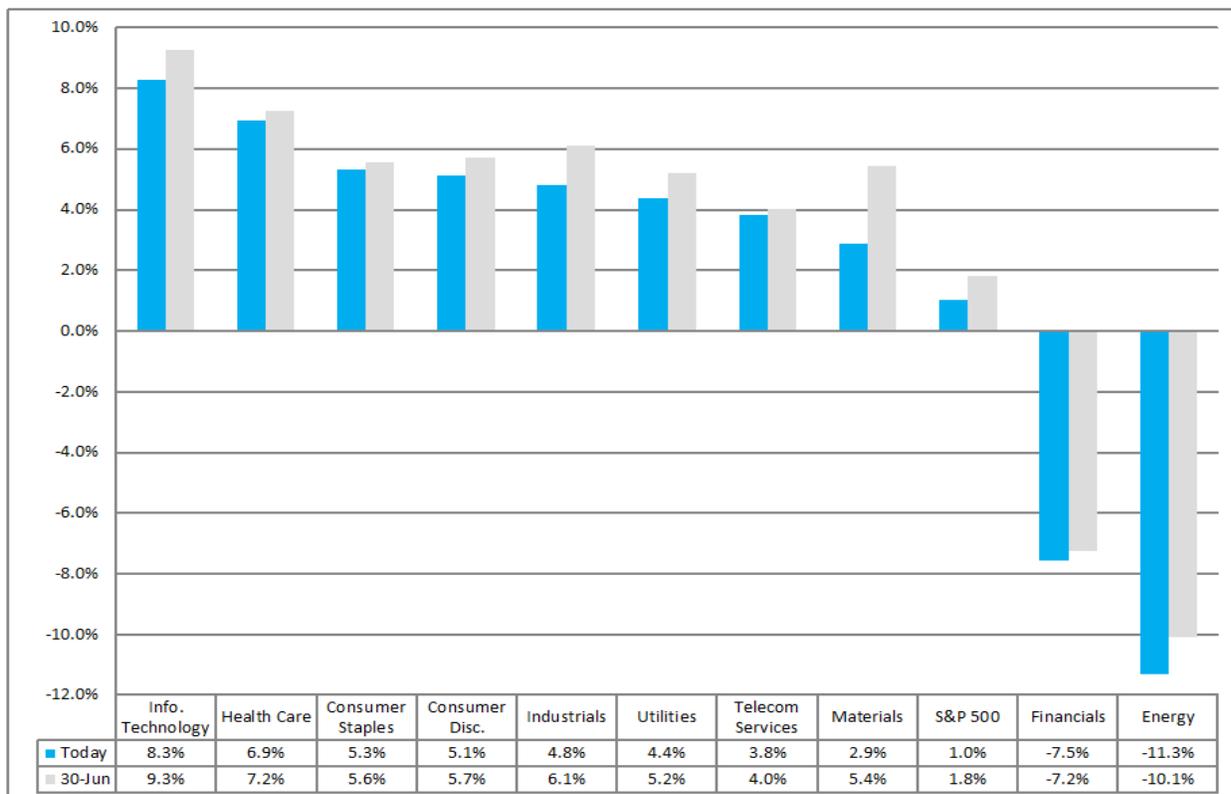


CY 2012: Growth

CY 2012 Earnings Growth

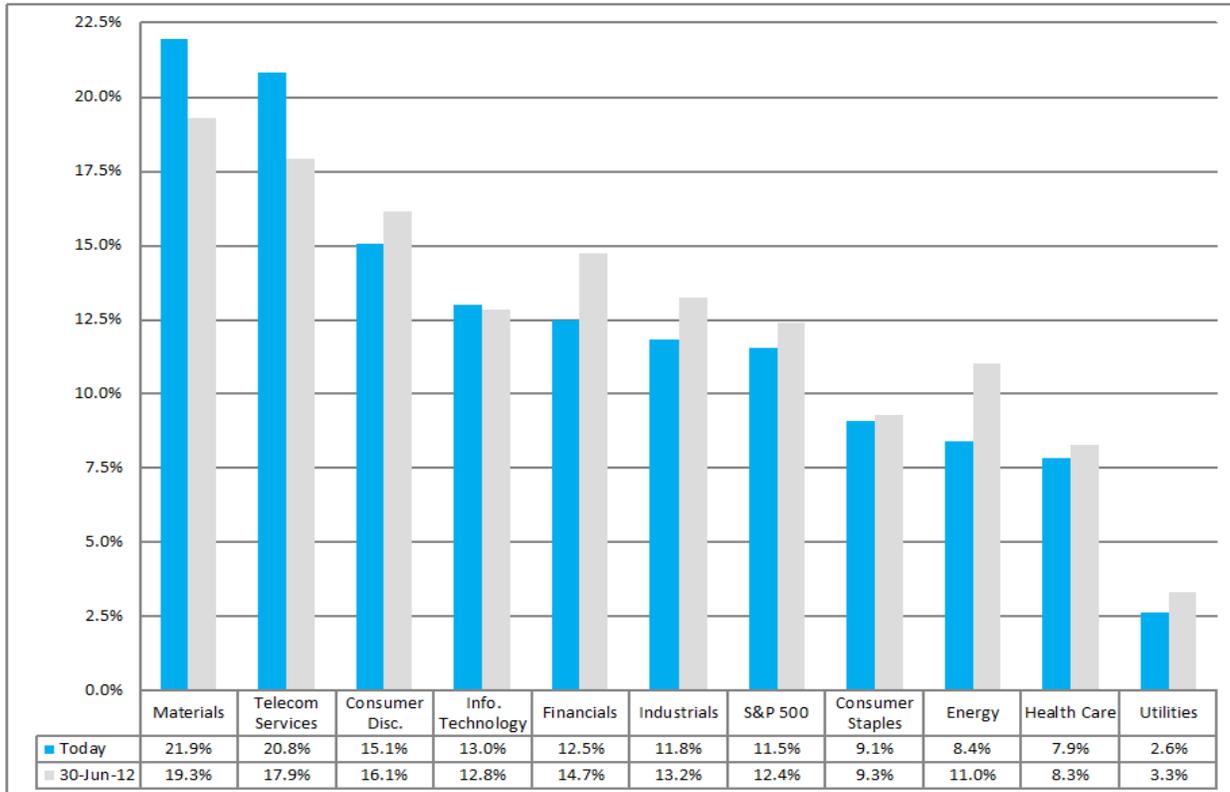


CY 2012 Revenue Growth

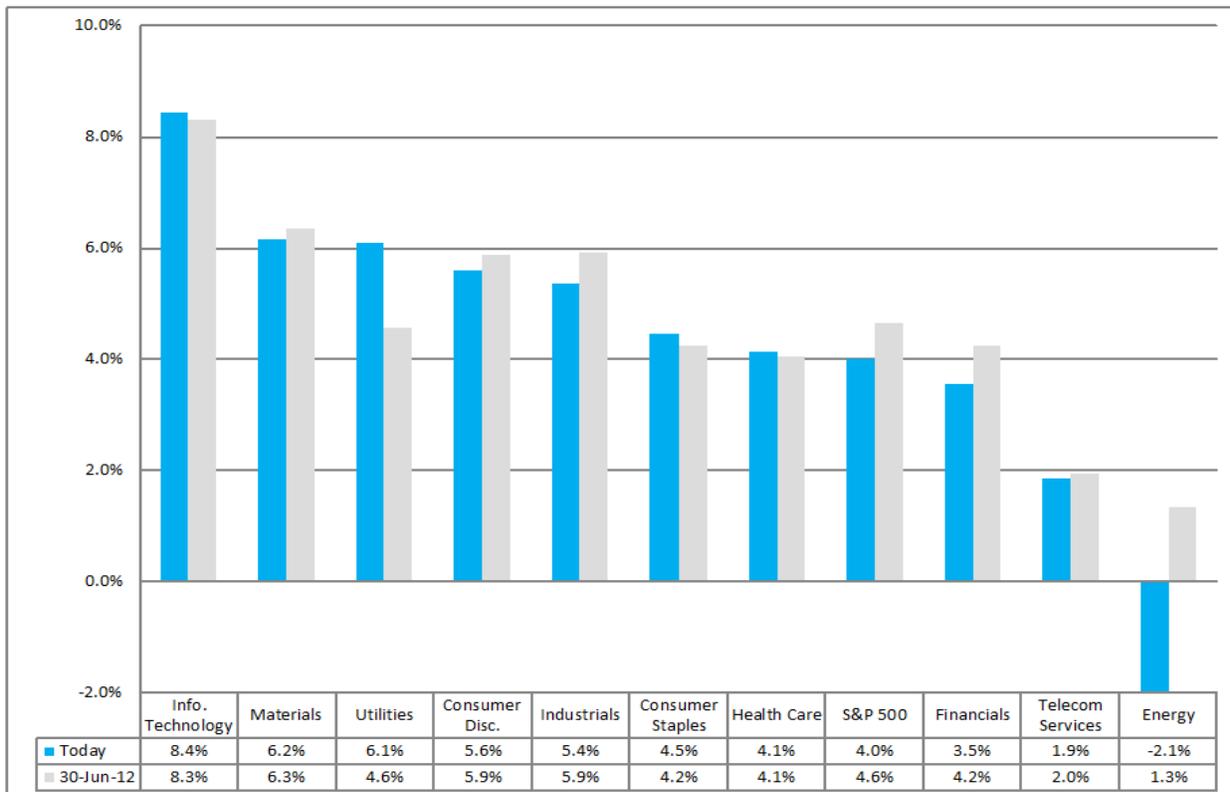


CY 2013: Growth

CY 2013 Earnings Growth

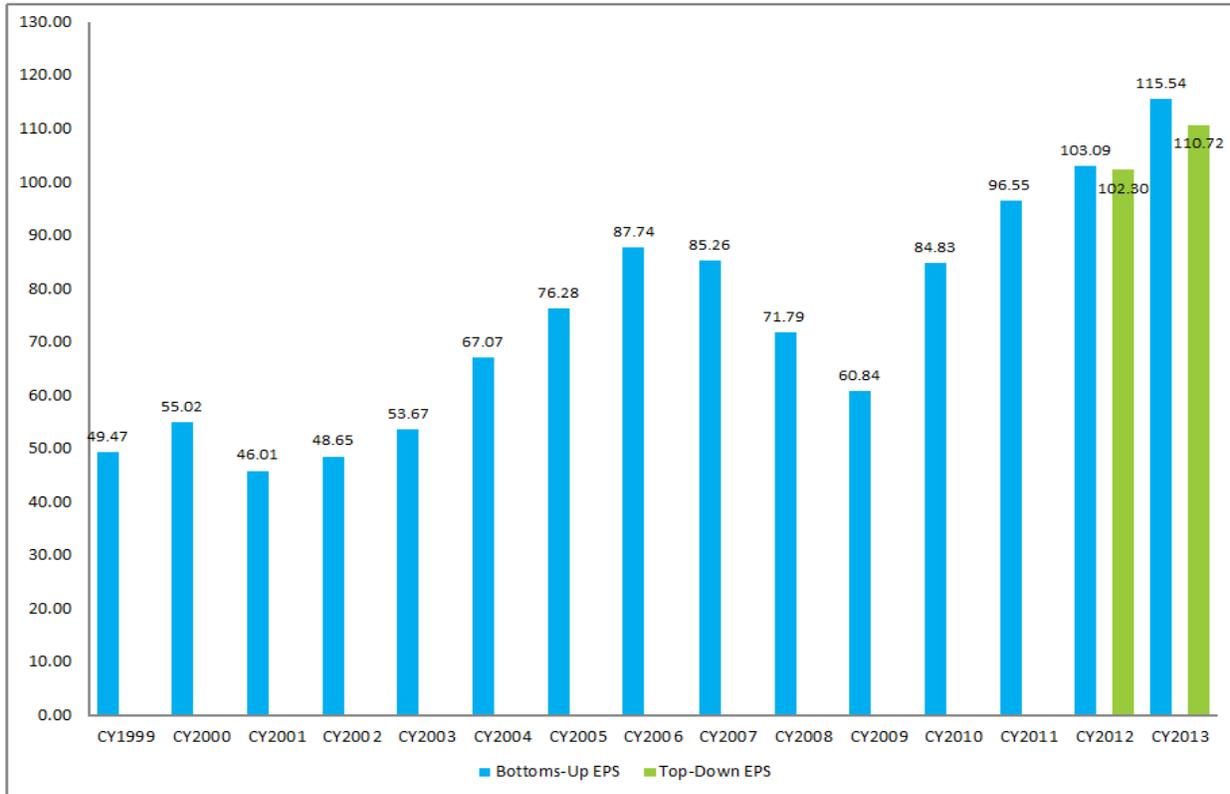


CY 2013 Revenue Growth

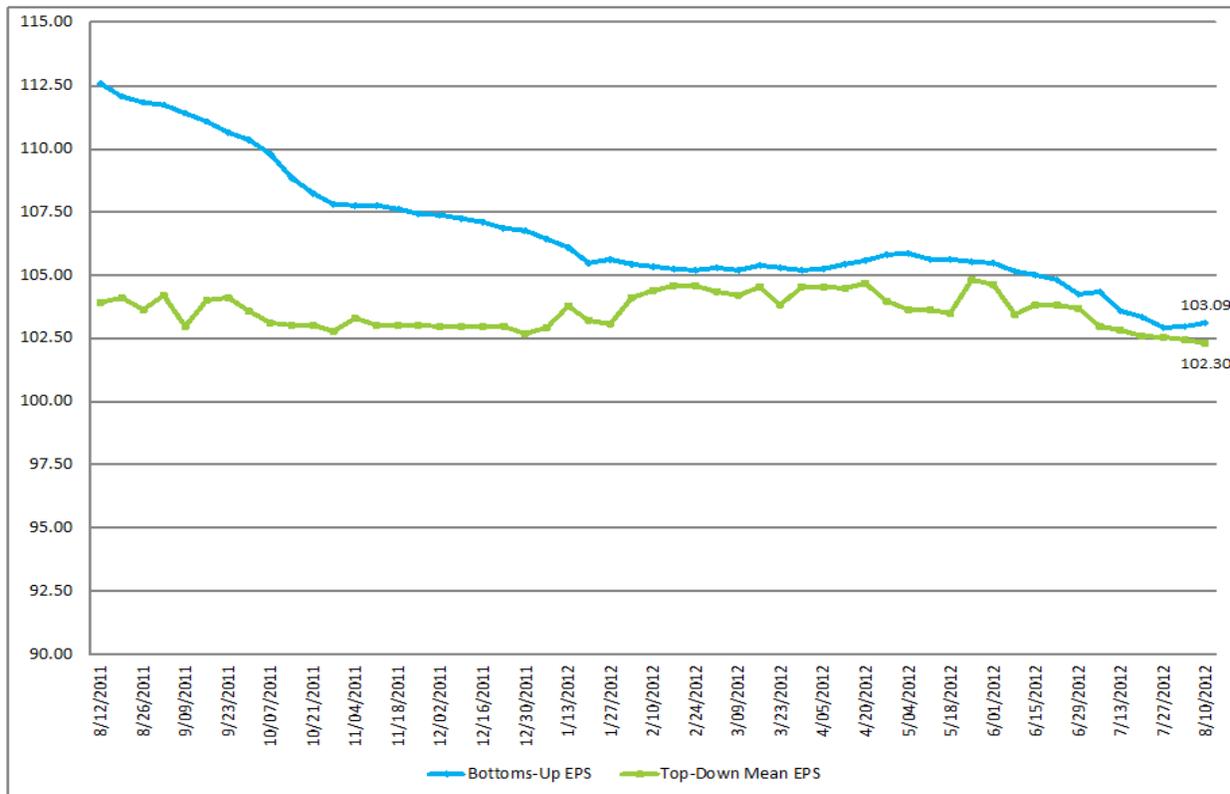


Bottom-up Estimates

Calendar Year Bottom-Up EPS Actuals & Estimates

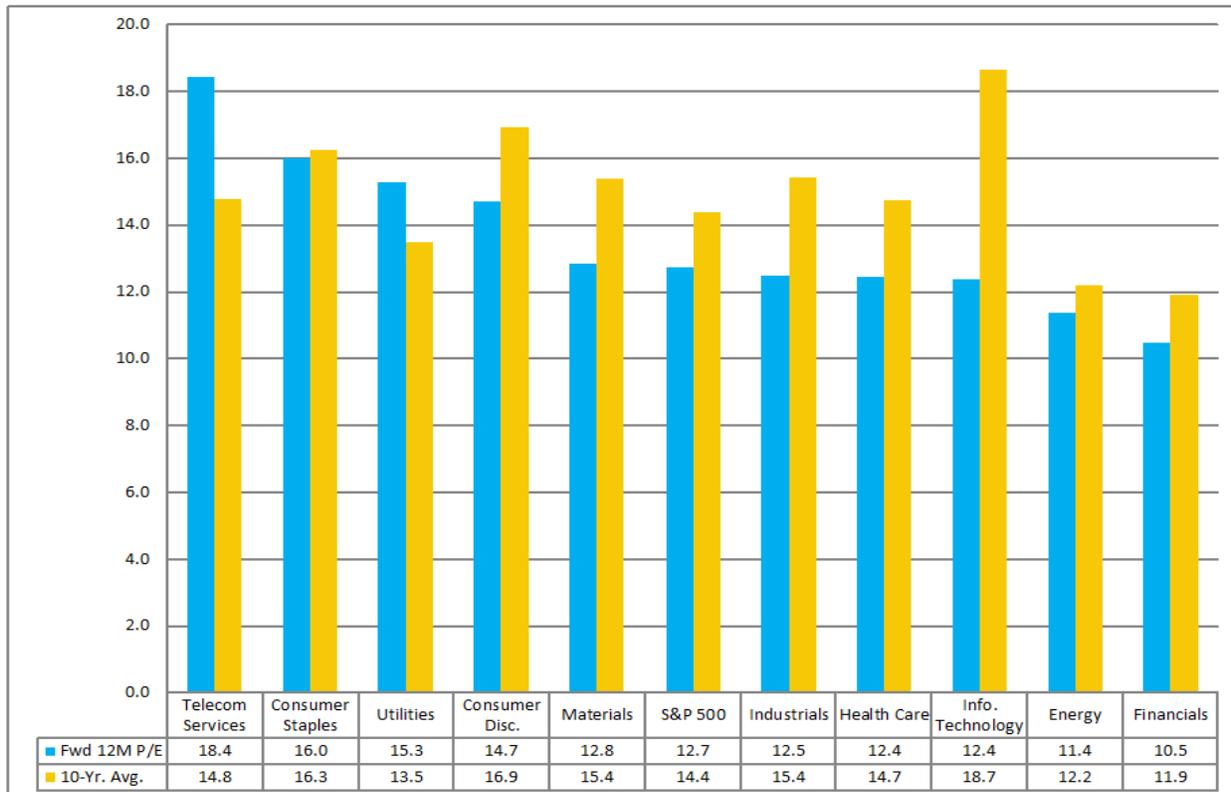


CY 2012 Estimates: Bottom-Up EPS vs. Top Down EPS

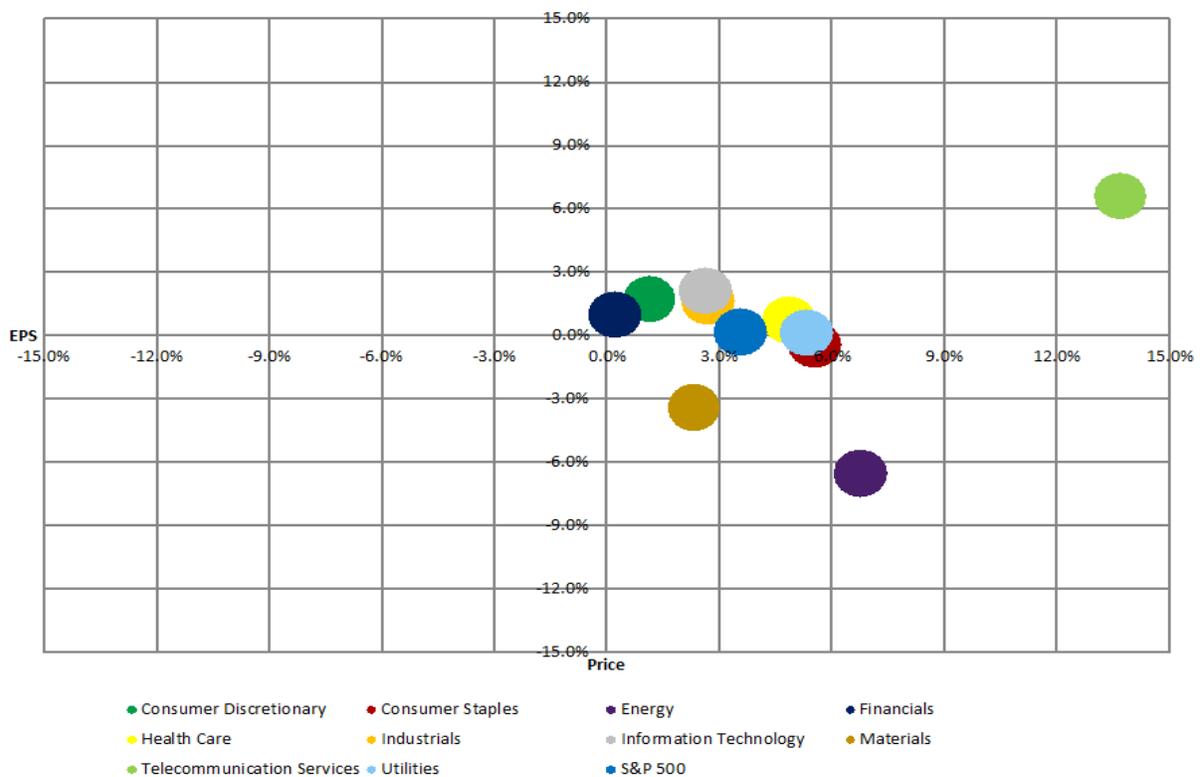


Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

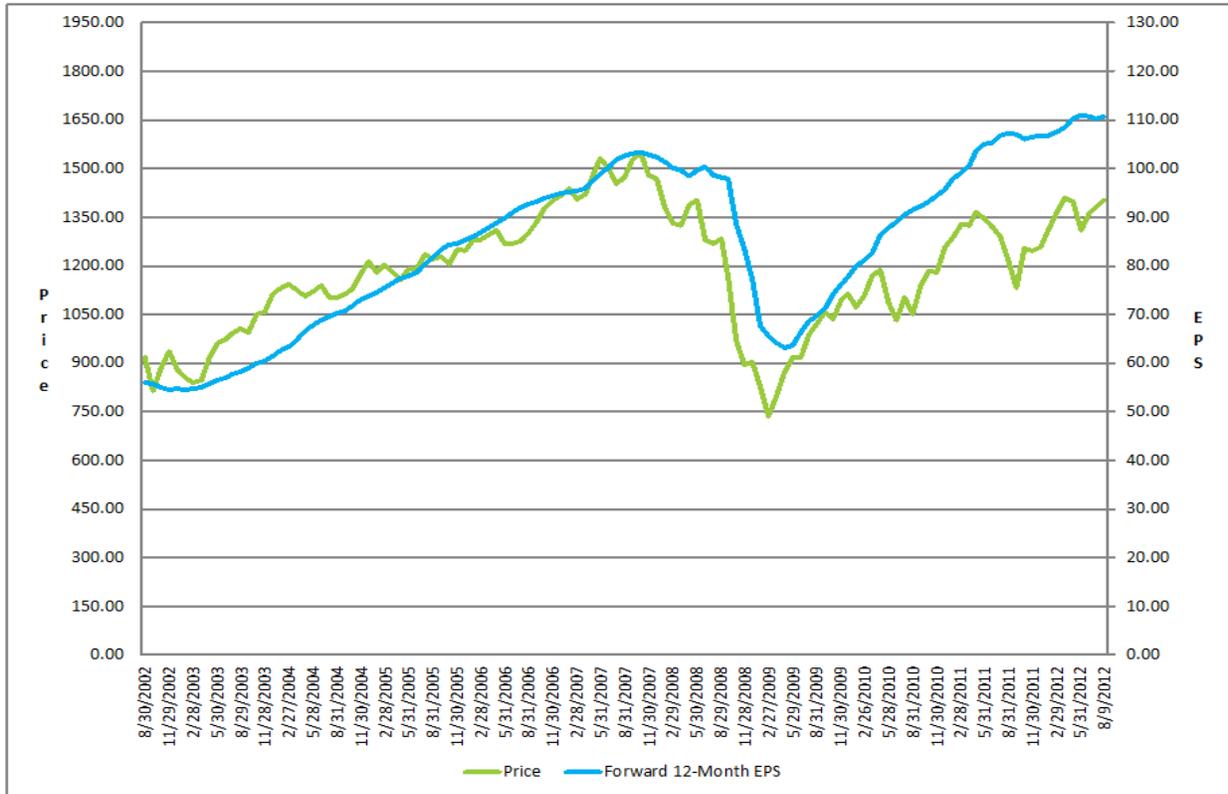


Sector-Level Change in Price vs. Change Forward 12M EPS: 3-Months

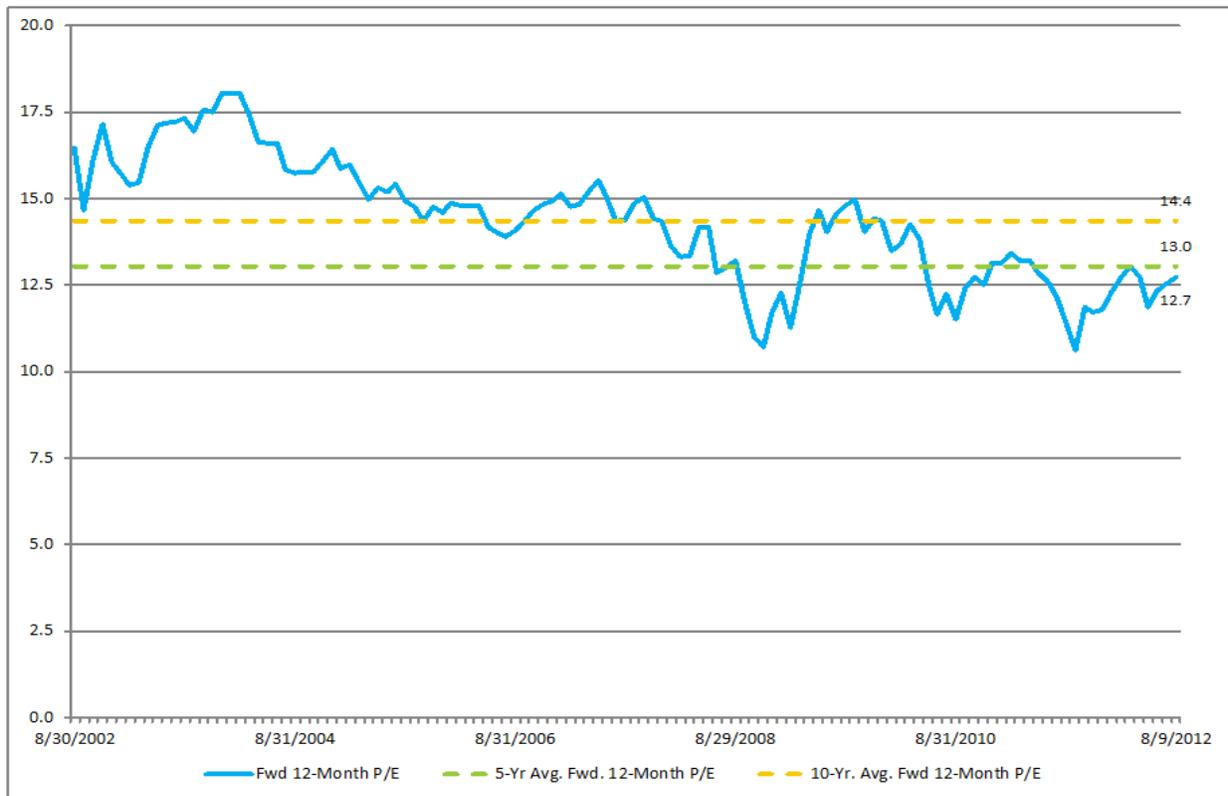


Price / Earnings Ratio: Long-Term Averages

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



Forward 12M P/E Ratio: 10-Years



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