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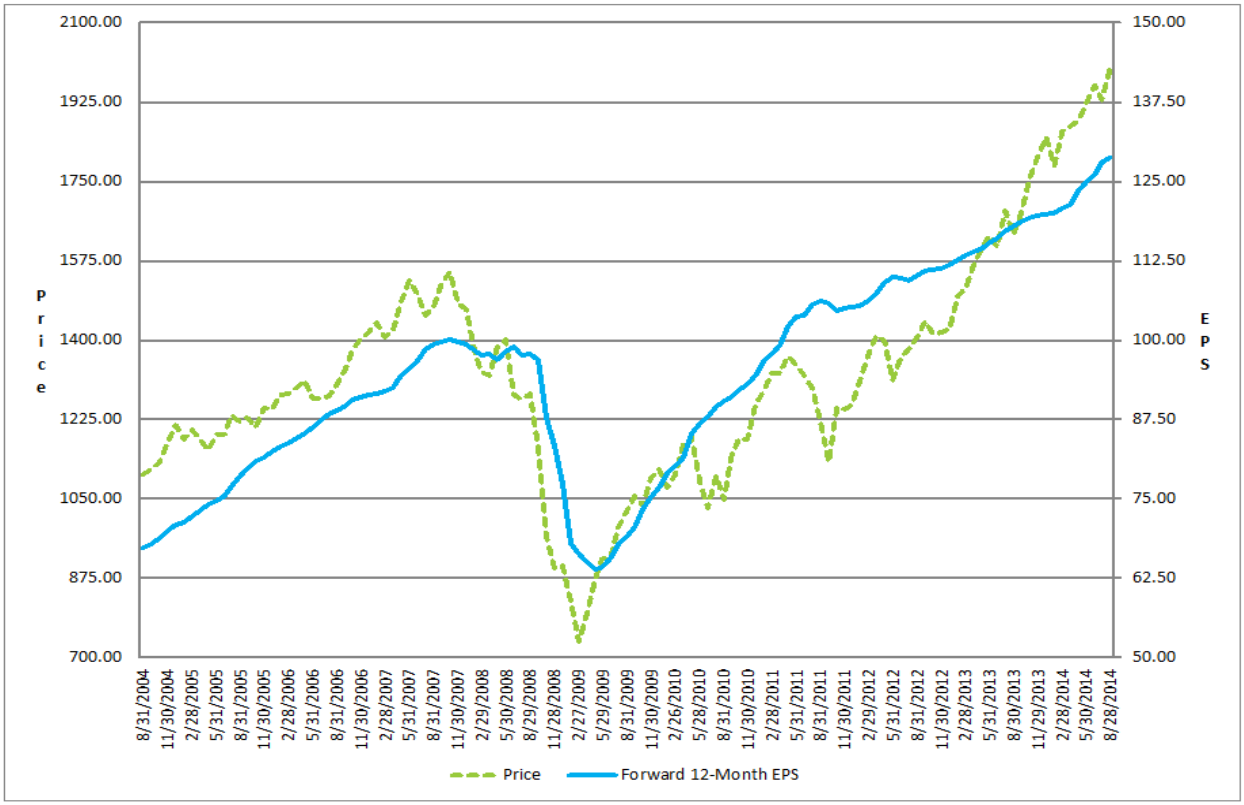
Key Metrics

- **Earnings Scorecard:** Of the 495 companies that have reported earnings to date for Q2 2014, 74% have reported earnings above the mean estimate and 65% have reported sales above the mean estimate.
- **Earnings Growth:** The blended earnings growth rate for Q2 2014 is 7.7%. The Telecom Services sector reported the highest earnings growth for the quarter, while the Financials and Utilities sectors reported the lowest earnings growth for the quarter.
- **Earnings Revisions:** On June 30, the estimated earnings growth rate for Q2 2014 was 4.9%. Eight of the ten sectors have higher growth rates today (compared to June 30) due to positive earnings surprises, led by the Health Care sector.
- **Earnings Guidance:** For Q3 2014, 75 companies have issued negative EPS guidance and 27 companies have issued positive EPS guidance.
- **Valuation:** The current 12-month forward P/E ratio is 15.6. This P/E ratio is above the 5-year average (13.5) and the 10-year average (14.1).

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



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Topic of the Week

Dow 30 Companies Continued to See Revenue Growth in Europe in Q2, Led by NIKE

"I think from our side, we're certainly seeing just broad-based growth across all of the Western European marketplace…And even in the Iberia, so the southern parts where it was struggling, we're certainly seeing strength in those zones coming back." –NIKE (June 26)

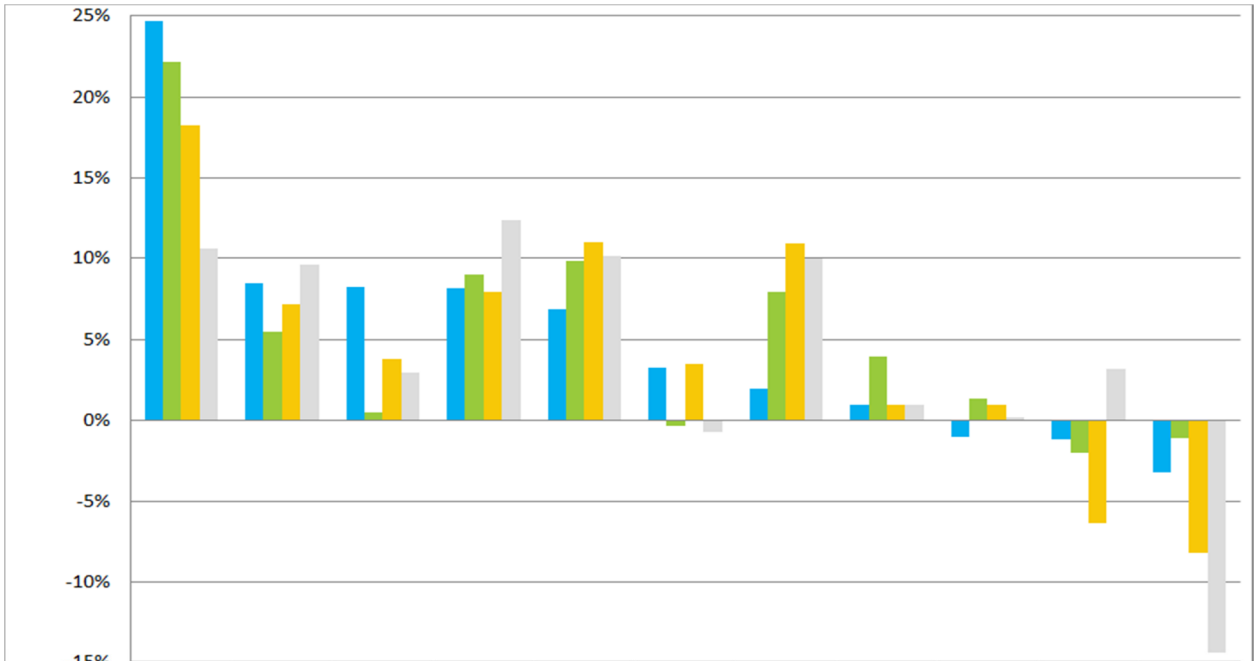
Although U.S. stock indices such as the DJIA and the S&P 500 approached or surpassed record high values this past week, Europe remains an area of concern for the markets, given the announcement of the increase in the terror level threat in the U.K. and the escalation of military tension in the Ukraine over the past few days. In terms of revenue growth from Europe, how did U.S. companies in the DJIA perform in the second quarter? How did the revenue numbers for Q2 2014 compare to prior quarters?

Overall, 11 of the 30 companies in the DJIA provided revenue growth numbers for Europe for the second quarter. Of these eleven companies, eight reported a year-over-year increase in revenues, which was consistent with the number reported in recent quarters. NIKE reported the highest revenue growth in Europe at 25%. On the other hand, three companies reported a year-over-year decrease in sales for the quarter, which was also consistent with the number reported in recent quarters. Caterpillar reported the largest revenue decline in Europe at -3%.

On a sequential basis, five of the eleven companies reported a higher sales growth rate in Q2 2014 relative to Q1 2014. For NIKE, the second quarter marked the fourth consecutive quarter of improvement in year-over-year revenue growth in Europe.

Thus, most companies that provided revenue numbers for Europe continued to see growth in Q2 2014, led by NIKE. Will these trends continue in the third quarter? NIKE will be the first DJIA company to provide an answer, as the company is scheduled to report earnings for Q3 on September 25.

Dow 30: Revenue Growth in Europe



	NKE	MMM*	MRK+	JNJ	KO	PFE	DD*	IBM*	MCD^	CSCO*	CAT*
Q2 2014	25%	9%	8%	8%	7%	3%	2%	1%	-1%	-1%	-3%
Q1 2014	22%	6%	1%	9%	10%	0%	8%	4%	1%	-2%	-1%
Q4 2013	18%	7%	4%	8%	11%	3%	11%	1%	1%	-6%	-8%
Q3 2013	11%	10%	3%	12%	10%	-1%	10%	1%	0%	3%	-14%

* EMEA (Europe, Middle East & Africa) ^Comparable Sales +Pharmaceutical Sales

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Q2 2014 Earnings Season: Overview

More Companies Beat Estimates than Average, Led by Health Care Sector

With 99% of the companies in the S&P 500 reporting actual results for Q2 to date, more companies have reported earnings and sales above estimates compared to recent averages.

Percentage of Companies Beating EPS Estimates (74%) is Above Recent Averages

Overall, 495 companies have reported earnings to date for the second quarter. Of these 495 companies, 74% have reported actual EPS above the mean EPS estimate and 26% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is above both the 1-year (72%) average and the 4-year (72%) average.

At the sector level, the Health Care (89%) and Information Technology (83%) sectors have the highest percentages of companies reporting earnings above estimates, while Consumer Staples (58%) sector has the lowest percentage of companies reporting earnings above estimates.

Earnings Surprise Percentage (+3.4%) Similar to Recent Quarters

In aggregate, companies are reporting earnings that are 3.4% above expectations. This surprise percentage is slightly above the 1-year (+3.2%) average, but below the 4-year (+5.1%) average.

Companies in the Health Care (+8.1%) sector are reporting the largest upside aggregate differences between actual earnings and estimated earnings. In this sector, Tenet Health Care ($0.17 vs. $0.01), Gilead Sciences ($2.36 vs. $1.79), Hospira ($0.72 vs. $0.57), and Biogen Idec ($3.49 vs. $2.83) have reported actual EPS above the mean EPS estimate by the widest margins on a percentage basis.

On the other hand, companies in the Energy (-1.7%) sector reported the largest downside aggregate difference between actual earnings and estimated earnings. In this sector, CONSOL Energy ($0.07 vs. $0.23) and EQT Corporation ($0.58 vs. $0.83) reported the largest downside earnings surprises.

Percentage of Companies Beating Revenue Estimates (65%) is Above Recent Averages

In terms of revenues, 65% of companies have reported actual sales above estimated sales and 35% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is well above both the 1-year (55%) average and the 4-year average (57%).

At the sector level, the Health Care (89%) has the highest percentage of companies reporting revenue above estimates, while the Consumer Staples (42%) sector has the lowest percentage of companies reporting revenue above estimates.

Revenue Surprise Percentage (+1.5%) Well Above Recent Quarters

In aggregate, companies are reporting sales that are 1.5% above expectations. This surprise percentage is well above the 1-year (+0.6%) average and the 4-year (+0.6%) average.

Companies in the Energy (+5.1%), Health Care (+3.6%), and Utilities (+3.0%) sectors are reporting the largest upside aggregate differences between actual sales and estimated sales, while companies in the Consumer Discretionary (-0.5%) sector are reporting the largest downside aggregate differences between actual sales and estimated sales.

No Change to Earnings Growth This Week

No Change to Earnings Growth This Week

The blended earnings growth rate for the second quarter is 7.7% this week, unchanged from the blended growth rate of 7.7% last week.

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Health Care Sector Has Seen Largest Jump in Earnings Growth since June 30

The blended earnings growth rate for Q2 2014 of 7.7% is above the estimate of 4.9% at the end of the quarter (June 30). Eight sectors have seen an increase in earnings growth over this period due to upside earnings surprises, led by the Health Care (to 16.0% from 5.7%) sector. Two sectors have recorded a decrease in earnings growth during this time due to a combination of downside earnings surprises and downward revisions to earnings estimates: Energy (to 4.7% from 8.1%) and Telecom Services (to 20.3% from 22.5%) sector.

Blended Earnings Growth: 7.7%

The blended earnings growth rate for Q2 2014 is 7.7%. This growth rate marks the second highest earnings growth rate for the index since the Q4 2011. All ten sectors are reporting or have reported higher earnings relative to a year ago. Four of the ten sectors are reporting or have reported double-digit earnings growth, led by the Telecom Services and Health Care sectors. On the other hand, the Financials and Utilities sectors reported the lowest earnings growth of all ten sectors.

Telecom Services: Ex-Verizon, Growth Rate Drops to -10%

The Telecom Services sector reported the highest earnings growth rate of all ten sectors at 20.3%. 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 Q2 2014, compared to actual EPS of $0.73 in Q2 2013. If Verizon is excluded, the earnings growth rate for the sector would drop to -10.3%.

Health Care: Gilead Sciences Driving Growth

The Health Care sector is reporting the second highest earnings growth rate of all ten sectors at 16.0%. At the company level, Gilead Sciences is the largest contributor to earnings growth for the sector. The company reported actual EPS of $2.34 for Q2 2014, compared to actual EPS of $0.50 in the year-ago quarter. If Gilead Sciences is excluded, the earnings growth rate for the sector would drop to 6.8%.

Financials: Weakness in Thrifts & Mortgage Finance and Banks

The Financials sector reported the lowest earnings growth rate (along with the Utilities sector) of all ten sectors at 1.0%. At the industry level, two of the eight industries in the sector reported a decrease in earnings for the quarter: Thrifts & Mortgage Finance (-12%) and Banks (-9%). On the other hand, the Capital Markets industry reported the highest earnings growth within the sector at 24%.

Utilities: Ex-NRG Energy, Growth Rate Improves to 4.4%

The Utilities sector reported the lowest earnings growth rate (along with the Financials sector) of all ten sectors at 1.0%. At the company level, NRG Energy was the largest detractor to earnings growth for the sector. The company reported a loss of $0.30 for Q2 2014, compared to EPS of $0.39 in the year-ago quarter. If NRG Energy is excluded, the earnings growth rate for the sector would jump to 4.4%.

Blended Revenue Growth: 4.4%

The blended revenue growth rate for Q2 2014 is 4.4%, which is above the estimated growth rate of 2.8% at the end of the quarter (June 30). Upside revenue surprises reported by companies in the Energy, Financials, and Health Care sectors have accounted for most of the improvement in the revenue growth rate for the index since the end of the quarter.

Overall, all ten sectors are reporting or have reported revenue growth for the quarter. The Health Care sector is reporting the highest revenue growth at 12.2%. All six industries in the sector are reporting or have reported sales growth for the quarter. Four of the six industries reported double-digit sales growth, led by the Biotechnology (46%) industry. On the other hand, the Industrials (1.7%) sector is reporting the lowest revenue growth rate. At the industry, two of the 12 industries in the sector are reporting year-over-year decreases in sales: Construction & Engineering (-12%) and Machinery (-3%).

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Domestic Themes: Cost Cutting

As seen in prior quarters, companies in Q2 2014 continued to discuss cost-cutting initiatives to maintain earnings growth rates and profit margins.

"The Company announced a restructuring plan today to invest in continuing innovation and the launch of its new pipeline molecules, while improving its cost structure. Initial efforts include streamlining the organization, reducing layers of management, increasing managerial spans of responsibility and beginning implementation of a revised geographic site plan. As a first step, the Company will reduce staff by 2,400-2,900, beginning later this year and continuing through 2015, predominantly in the U.S. This represents approximately 12 percent to 15 percent of Amgen's global workforce. The Company will also close its facilities in the states of Washington and Colorado." –Amgen (Jul. 29)

"The first step to building the right organization for our ambitions is to realign our workforce. With this in mind, we will begin to reduce the size of our overall workforce by up to 18,000 jobs in the next year." –Microsoft (Jul. 15)

"Alcoa continues to drive strong performance across all businesses, delivering $302 million in second quarter productivity gains across all segments and $556 million in year-over-year productivity gains in the first half of 2014 against an $850 million annual target. Productivity gains have been driven by process improvements and procurement savings across all businesses." –Alcoa (Jul. 8)

Global Themes: F/X Rates, Europe, and Emerging Markets

F/X Rates: Mixed Impact

The U.S. dollar has strengthened relative to number of currencies over the past year, particularly in emerging markets. Some companies in the S&P 500 cited a negative impact from foreign exchange activity in their earnings releases or conference calls in Q2.

"Johnson & Johnson (NYSE: JNJ) today announced sales of $19.5 billion for the second quarter of 2014, an increase of 9.1% as compared to the second quarter of 2013. Operational results increased 9.4% and the negative impact of currency was 0.3%." –Johnson & Johnson (Jul. 15)

"Despite the negative impact of changes in foreign exchange rates, diluted earnings per share for the quarter increased 3 percent…" –NIKE (Jun. 26)

"Non-GAAP earnings per share were up 6% to $0.92, but would have been $0.94 if not for the currency loss in Venezuela." –Oracle (Jun. 19)

Europe: Continued Improvement

Europe reported an improvement in economic growth relative to last year. According to FactSet Economics, the European Union recorded an increase in GDP of 1.4% in Q1 2014, relative to the decline of 0.7% reported in Q1 2013. Based on some of the early earnings reports and conference calls, a number of companies saw improving conditions in Europe in Q2.

"Now, turning to the geographic dimension of our business. Our growth in Q3 was broad-based and I'm particularly pleased that we delivered strong results in Europe." –Accenture (Jun. 26)

"We were pleased to see our European brands revenue yields turn positive in the second quarter and particularly encouraged by the favorable pricing trends emerging not only in Europe but in North America as well." –Carnival Corp. (Jun. 24)

However, other companies saw challenging conditions in Europe.

"I think obviously still a challenging environment in some of the countries throughout Europe. I think as I've said Stefano and his team, pretty solid team, they're managing through that. But they are indeed have had some challenges in some areas of the business." –Walgreen (Jun. 24)

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Emerging Markets: Strong Performances Despite Slowing Growth

Economic growth for countries in emerging markets regions has been flat or slightly below year-ago levels in recent quarters. For example, China recorded GDP growth of 7.5% in Q2 2014, according to FactSet Economics. This growth rate was flat with the 7.5% reported for Q2 2013. However, based on some of the early earnings reports and conference calls, a number of companies performed well in emerging markets and China.

"Operating profit grew 188% in China driven by strong sales and margin performance." –YUM! Brands (Jul.16)

"And we continue to see good solid growth in the developing markets. I mean, overall we had about 10% growth on an annual basis so far in BRIC, and we'll expect that to continue into the future as well." – Johnson & Johnson (Jul. 15)

"Now let's turn to the emerging markets which delivered exceptional Q4 results, with revenue up 25%. These results were very well balanced, with double-digit growth in almost every territory and increased revenues in nearly every key category." –NIKE (Jun. 26)

"Our base consumer business in China also achieved double-digit growth this period, continuing the momentum from previous quarters…China's on track to be our second largest country this year in terms of annual sales when both consumer and industrial businesses are included." –McCormick & Co. (Jun. 26)

"In the Asia-Pacific region, constant currency sales grew 9% to exceed $980 million driven by another year of double-digit growth in Greater China." – General Mills (Jun. 25)

However, other companies saw weakness in emerging markets.

"While there are some signs of renewed consumer interest and activity, the consumer segment remains challenging primarily in the emerging markets." –Intel (Jul. 15)

Q3 EPS Guidance: Negative Guidance (74%) Above Average

At this point in time, 102 companies in the index have issued EPS guidance for the third quarter. Of these 102 companies, 75 have issued negative EPS guidance and 27 have issued positive EPS guidance. Thus, the percentage of companies issuing negative EPS guidance to date for the third quarter is 74% (75 out of 102). This percentage is above than the 5-year average of 64%.

Mixed Earnings, but Lower Revenue Growth Rates Projected for 2H of 2014 Compared to Q2

Analysts currently expect earnings growth to dip in Q3 2014, before rebounding in Q4 2014. For Q3 2014, the projected earnings growth rate is 6.5%, which is below the 7.7% growth reported for Q2. For Q4 2014, however, the projected earnings growth rate is 9.5%. For all of 2014, the projected earnings growth rate is 7.4%.

Analysts expect revenue growth for the second half of the year to be below the 4.4% reported for Q2 2014. For Q3 2014 and Q4 2014, analysts are predicting revenue growth of 3.7% and 3.6%. For all of 2014, the projected revenue growth rate is 3.7%.

Valuation: Forward P/E Ratio is 15.6, above the 10-Year Average (14.1)

The current 12-month forward P/E ratio is 15.6. At the sector level, the Consumer Discretionary (18.1) and Consumer Staples (17.7) sectors have the highest forward 12-month P/E ratios, while the Financials (13.1) sector has the lowest forward 12-month P/E ratio.

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The P/E ratio of 15.6 for the index as a whole is above the prior 5-year average forward 12-month P/E ratio of 13.5, and above the prior 10-year average forward 12-month P/E ratio of 14.1. However, it is equal to the forward 12-month P/E ratio of 15.6 recorded at the start of the third quarter (June 30). During the quarter, the price of the index has increased by 1.9%, while the forward 12-month EPS estimate has increased by 2.1%.

At the sector level, three sectors have recorded an increase in the forward 12-month P/E ratio since the start of the third quarter, led by the Information Technology (to 15.6 from 15.2) sector. Six sectors have recorded a decrease in the forward 12-month P/E ratio since the start of the third quarter, led by the Utilities (to 15.9 from 16.6) sector. The Consumer Staples sector (17.7) is the only sector that has recorded no change in the forward 12-month P/E ratio since the start of the third quarter.

Companies Reporting Next Week: 3

During the upcoming week, three S&P 500 companies are scheduled to report earnings for the second quarter.

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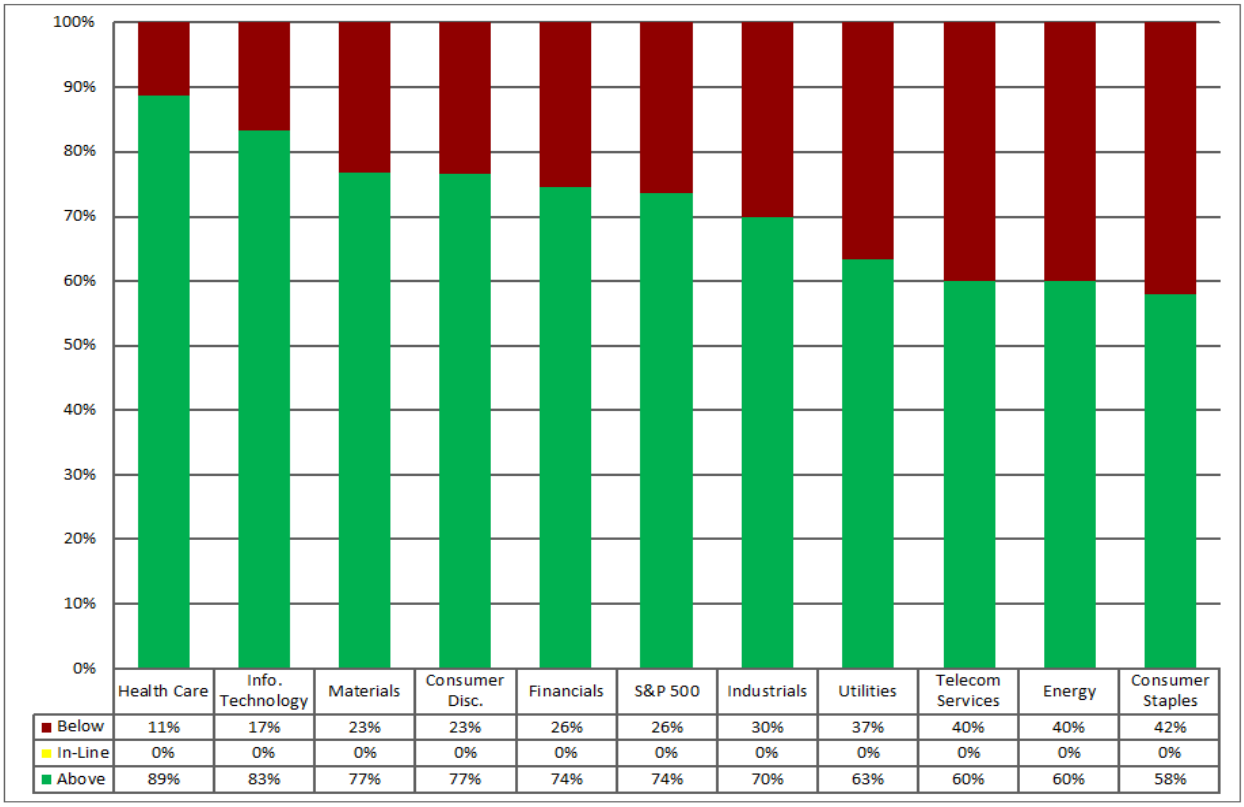
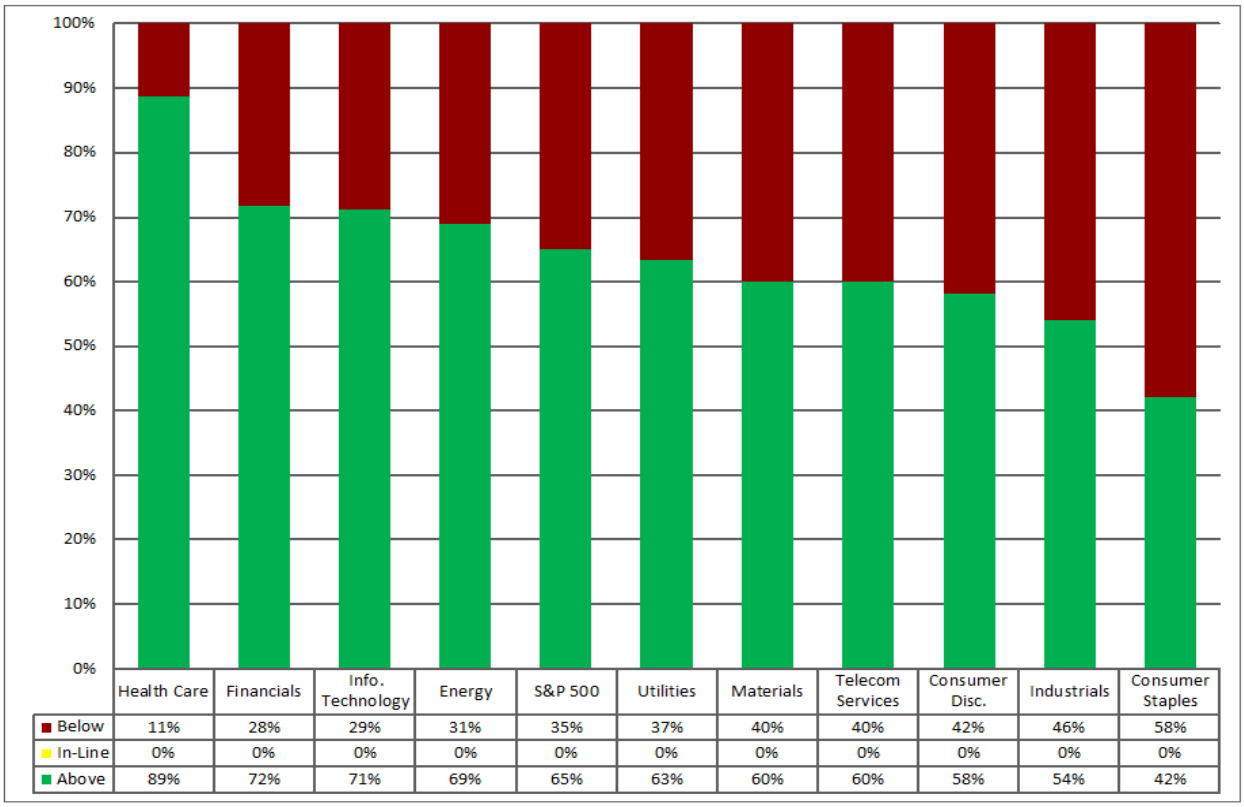
Q2 2014: Scorecard

Q2 2014 Earnings: Above, In-Line, Below Estimates



	Health Care	Info. Technology	Materials	Consumer Disc.	Financials	S&P 500	Industrials	Utilities	Telecom Services	Energy	Consumer Staples
Below	11%	17%	23%	23%	26%	26%	30%	37%	40%	40%	42%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	89%	83%	77%	77%	74%	74%	70%	63%	60%	60%	58%

Q2 2014 Revenues: Above, In-Line, Below Estimates



	Health Care	Financials	Info. Technology	Energy	S&P 500	Utilities	Materials	Telecom Services	Consumer Disc.	Industrials	Consumer Staples
Below	11%	28%	29%	31%	35%	37%	40%	40%	42%	46%	58%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	89%	72%	71%	69%	65%	63%	60%	60%	58%	54%	42%

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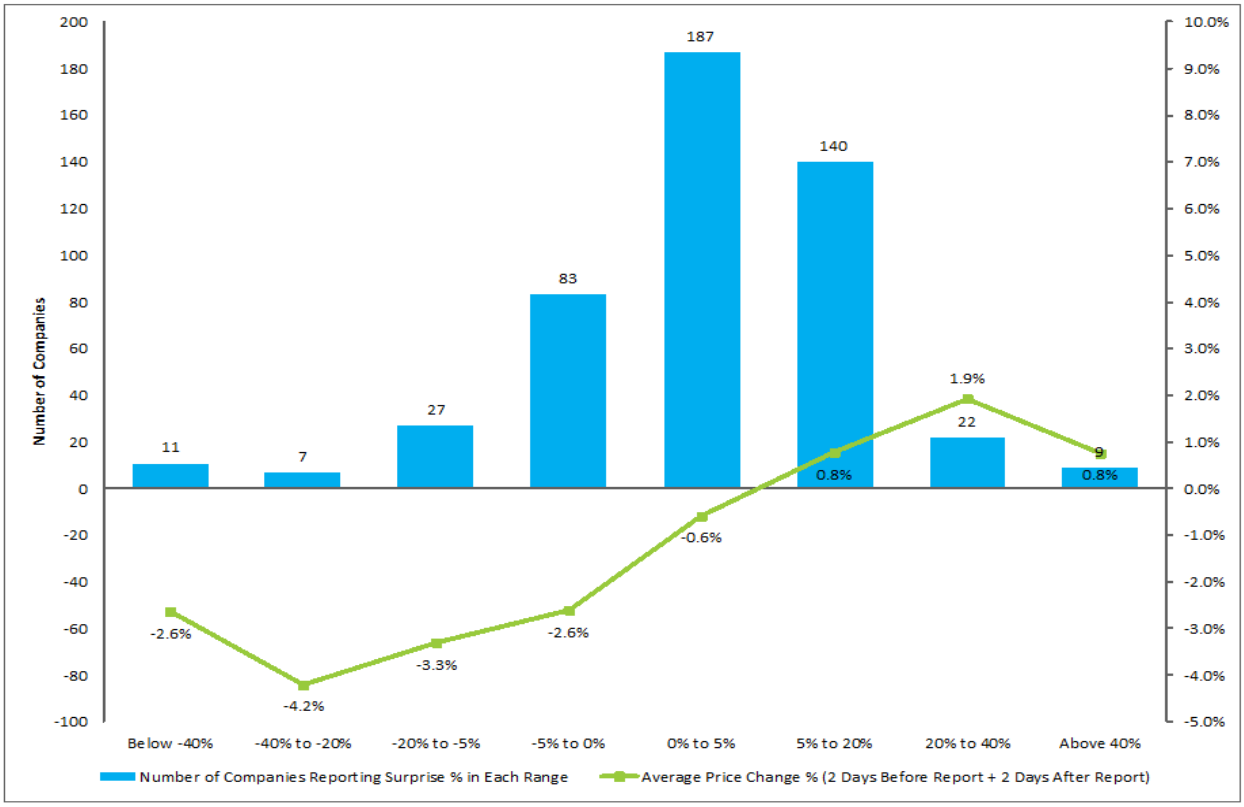
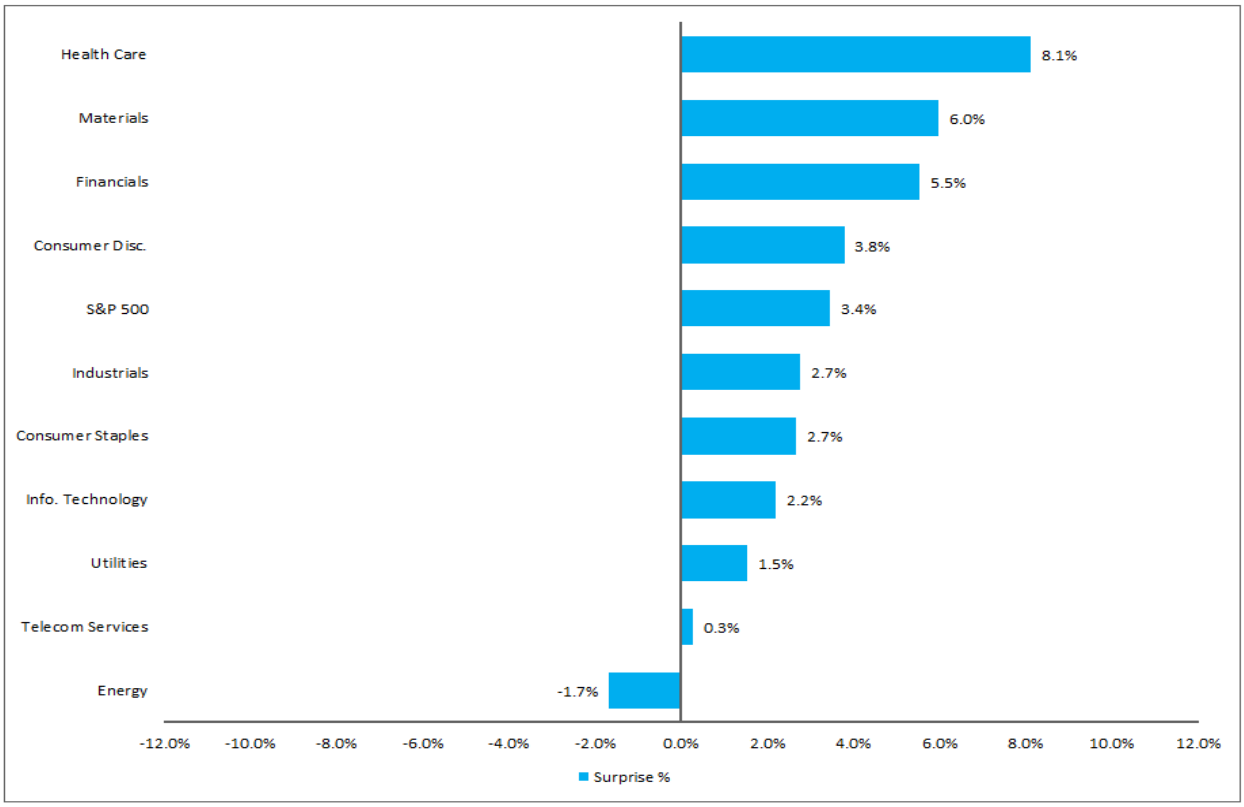
Q2 2014: Scorecard

Q2 2014: EPS Surprise % vs. Price %



Q2 2014: Sector Level EPS Surprise %



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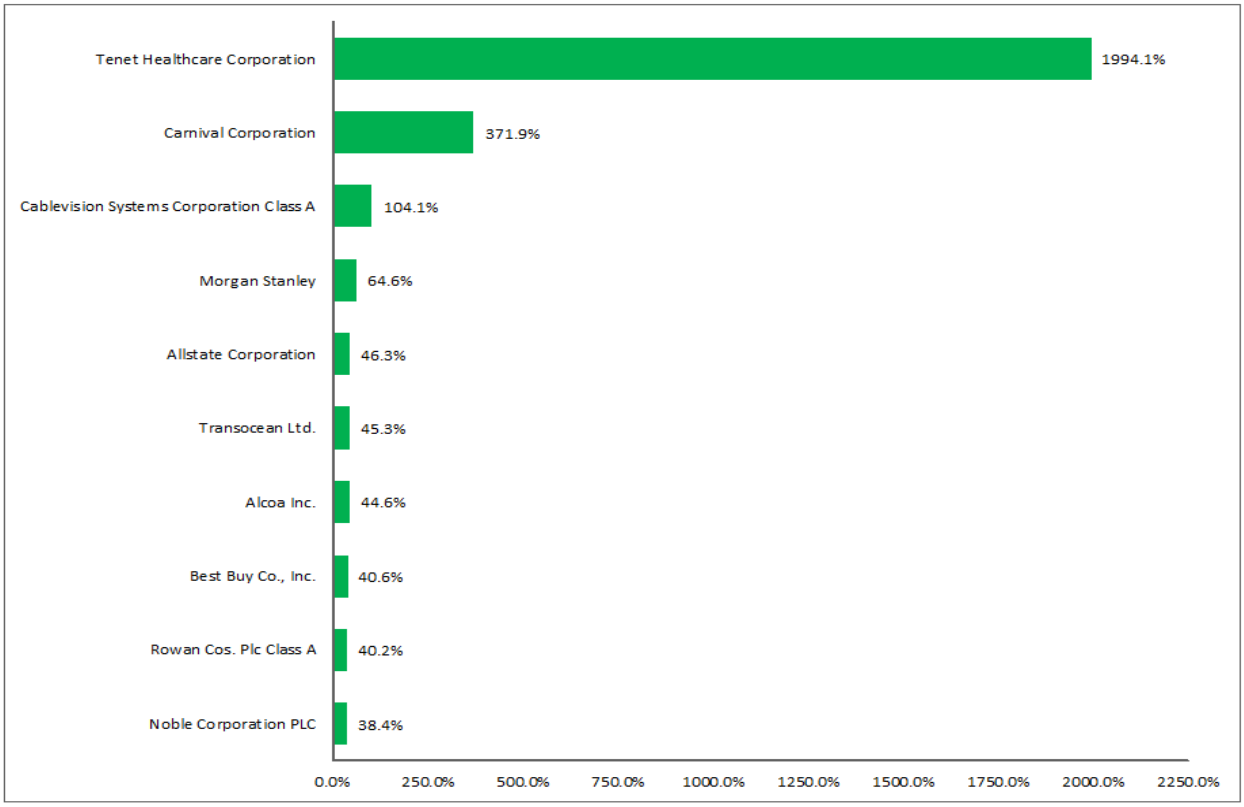
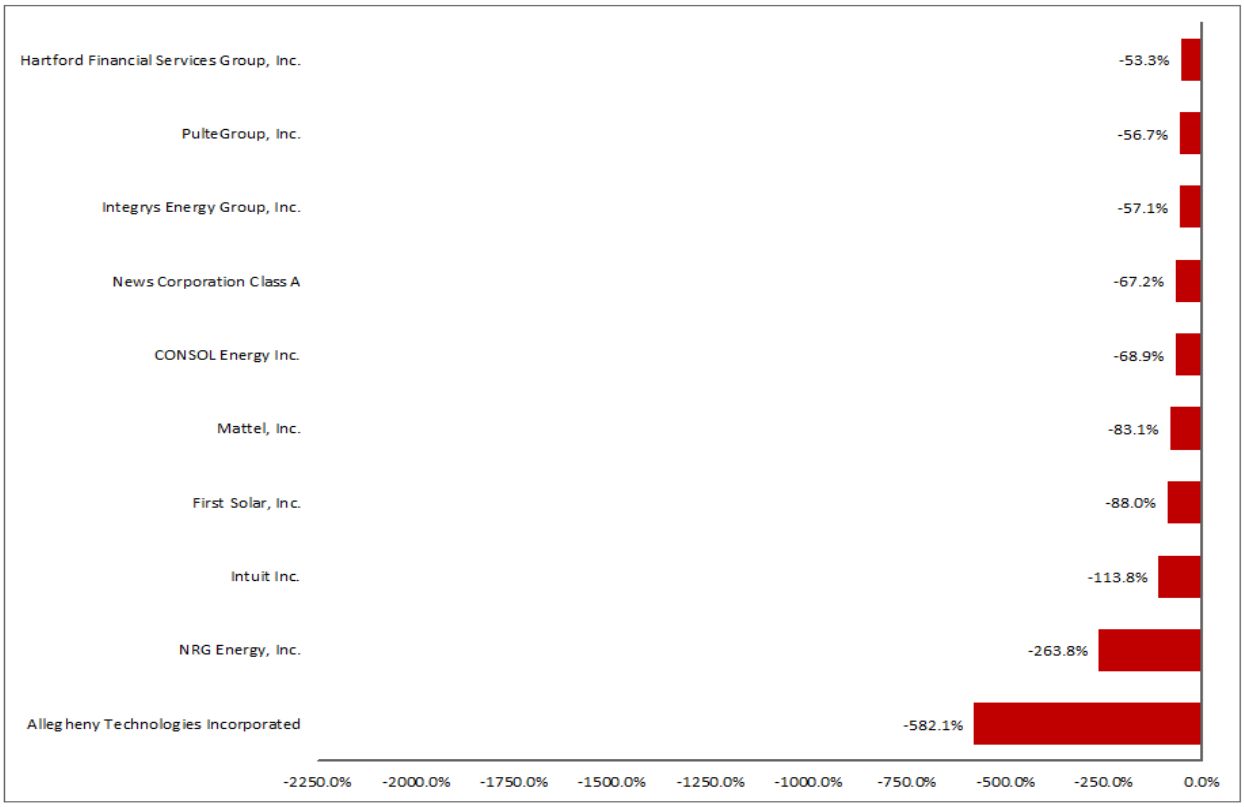
Q2 2014: Scorecard

EPS Surprise %: Top 10 Companies



EPS Surprise %: Bottom 10 Companies



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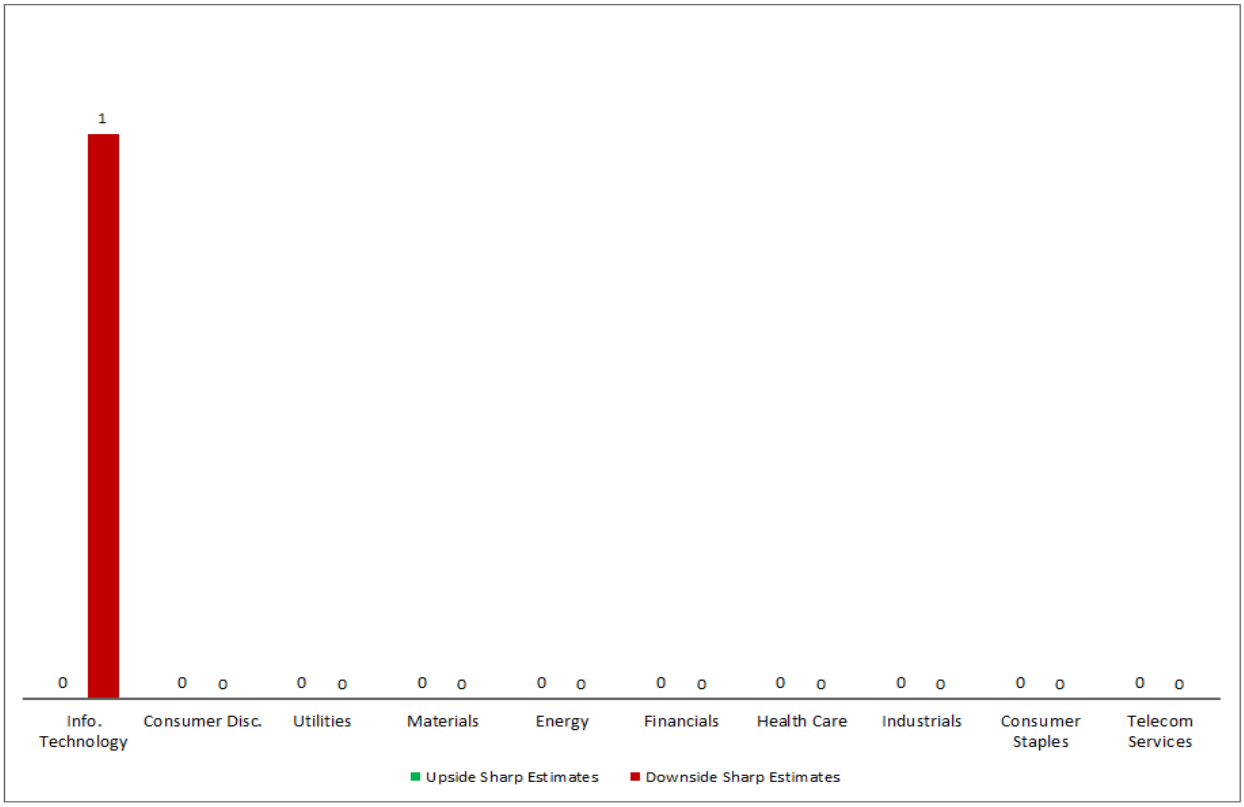
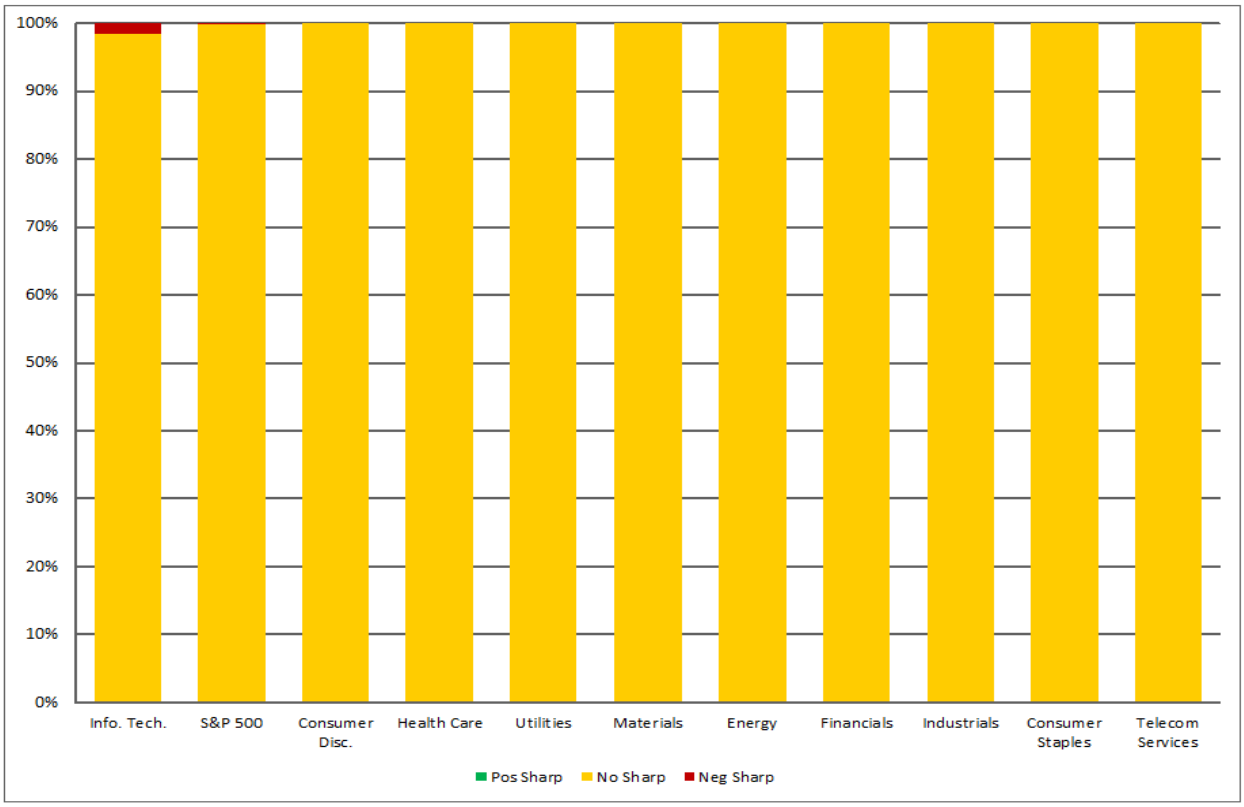
Q2 2014: Projected EPS Surprises (Sharp Estimates)

Number (#) of Companies with Sharp Estimates



Percentage (%) of Companies with Sharp Estimates



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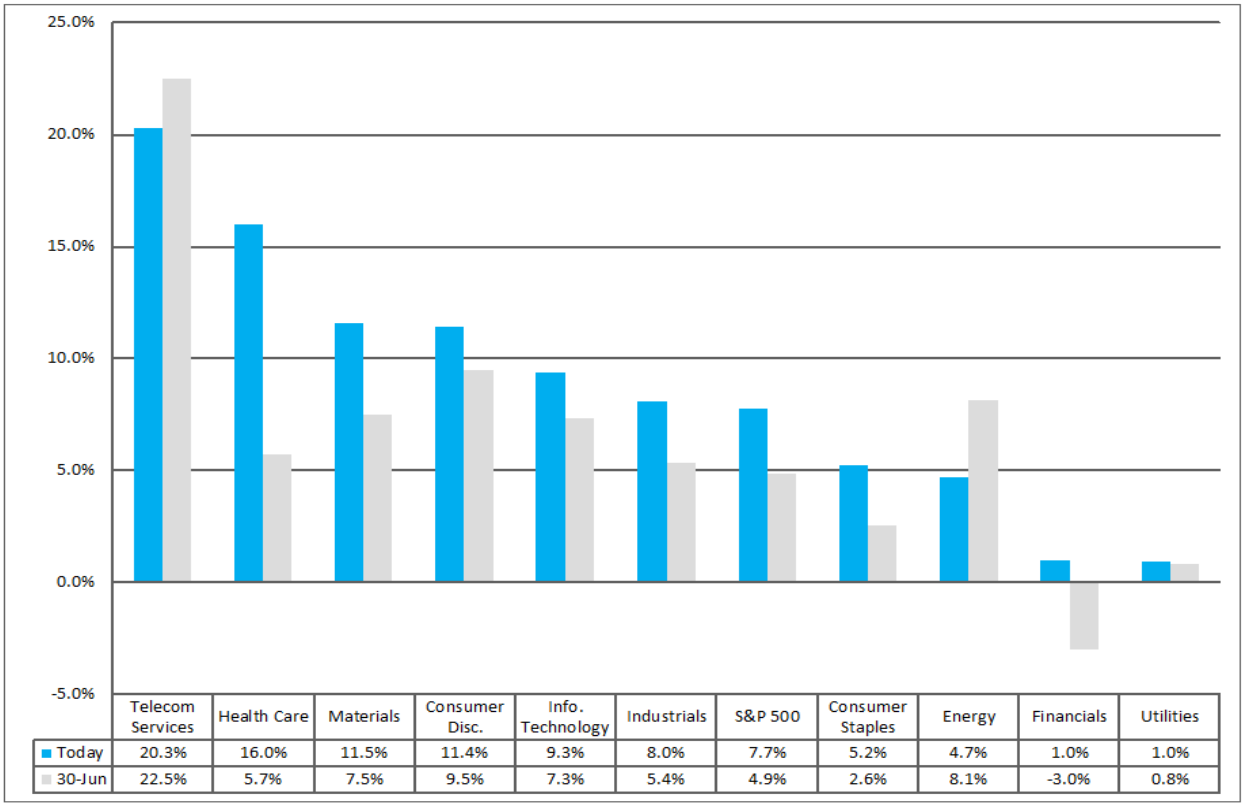
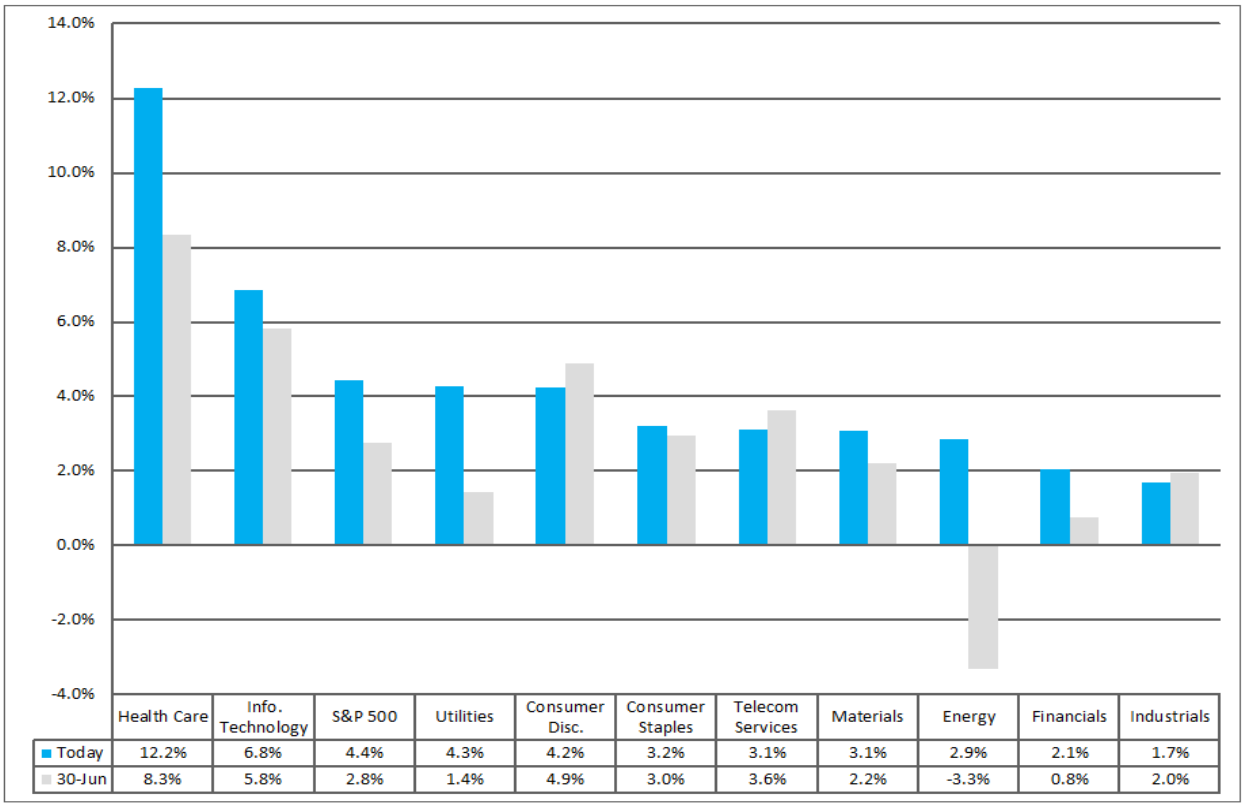
Q2 2014: Growth

Q2 2014 Earnings Growth



	Telecom Services	Health Care	Materials	Consumer Disc.	Info. Technology	Industrials	S&P 500	Consumer Staples	Energy	Financials	Utilities
Today	20.3%	16.0%	11.5%	11.4%	9.3%	8.0%	7.7%	5.2%	4.7%	1.0%	1.0%
30-Jun	22.5%	5.7%	7.5%	9.5%	7.3%	5.4%	4.9%	2.6%	8.1%	-3.0%	0.8%

Q2 2014 Revenue Growth



	Health Care	Info. Technology	S&P 500	Utilities	Consumer Disc.	Consumer Staples	Telecom Services	Materials	Energy	Financials	Industrials
Today	12.2%	6.8%	4.4%	4.3%	4.2%	3.2%	3.1%	3.1%	2.9%	2.1%	1.7%
30-Jun	8.3%	5.8%	2.8%	1.4%	4.9%	3.0%	3.6%	2.2%	-3.3%	0.8%	2.0%

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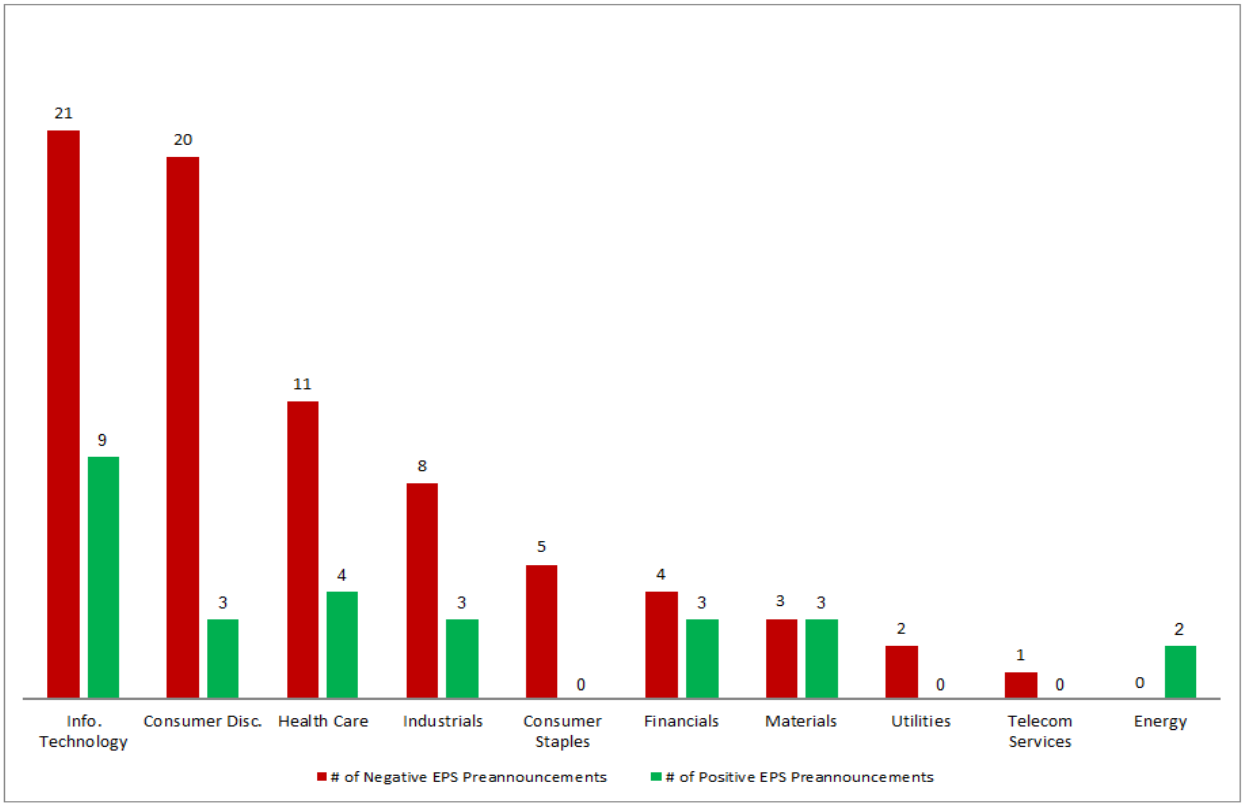
Q3 2014: EPS Guidance

Number of Positive & Negative EPS Preannouncements: Q3 2014



Percentage of Positive & Negative EPS Preannouncements: Q3 2014

	Consumer Staples	Utilities	Telecom Services	Consumer Disc.	S&P 500	Health Care	Industrials	Info. Technology	Financials	Materials	Energy
Positive	0%	0%	0%	13%	26%	27%	27%	30%	43%	50%	100%
Negative	100%	100%	100%	87%	74%	73%	73%	70%	57%	50%	0%

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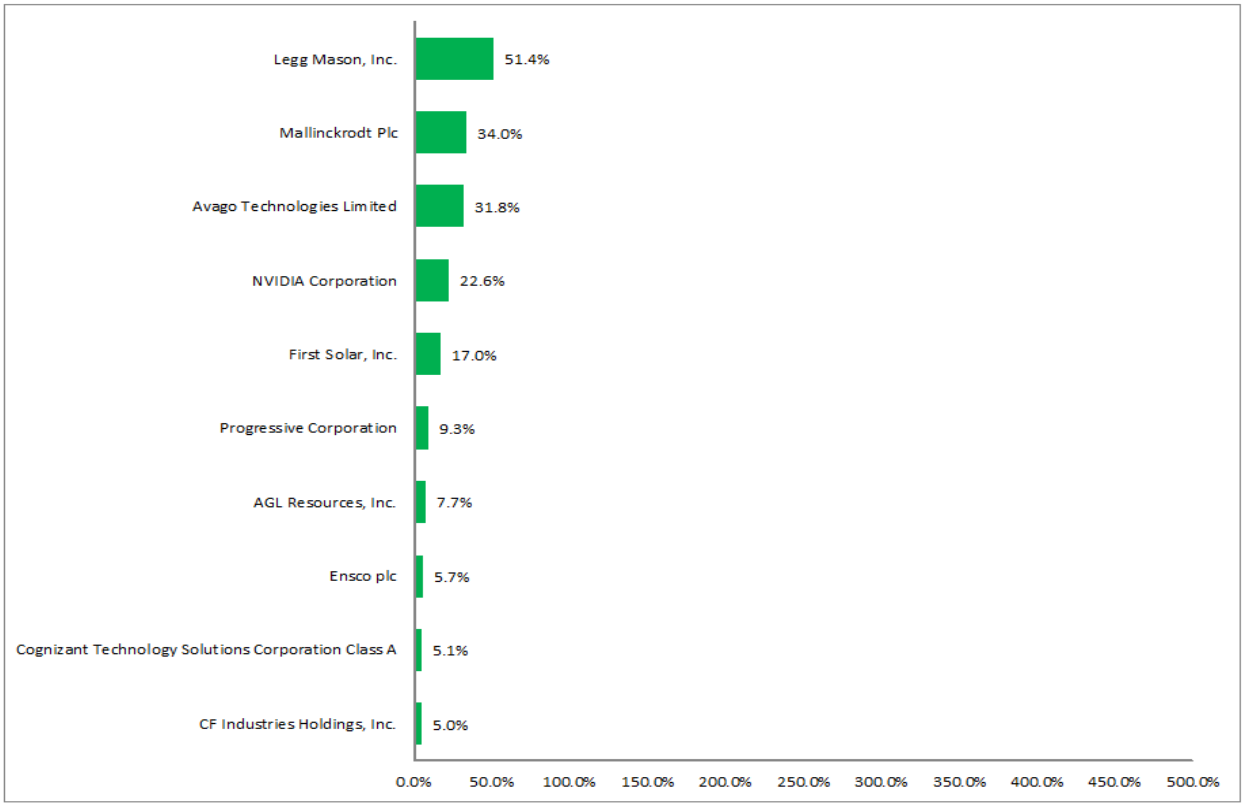
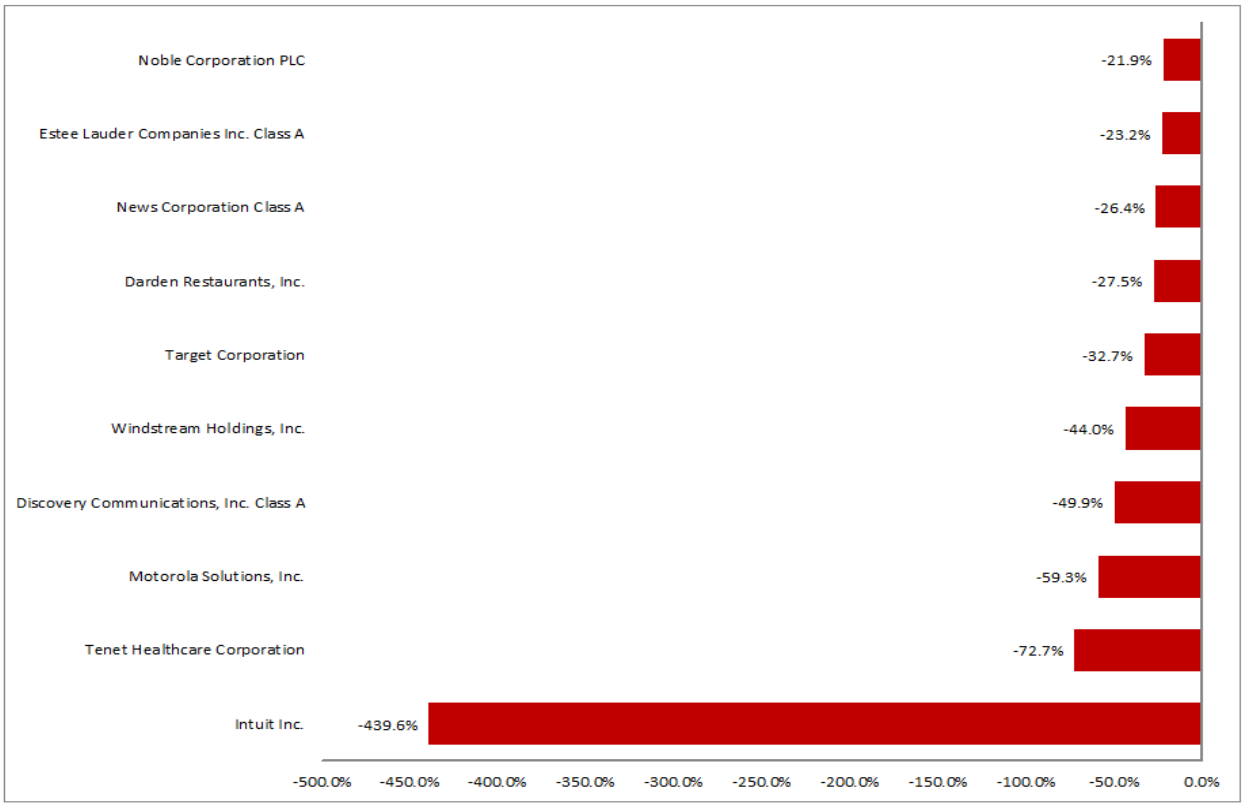
Q3 2014: EPS Revisions

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



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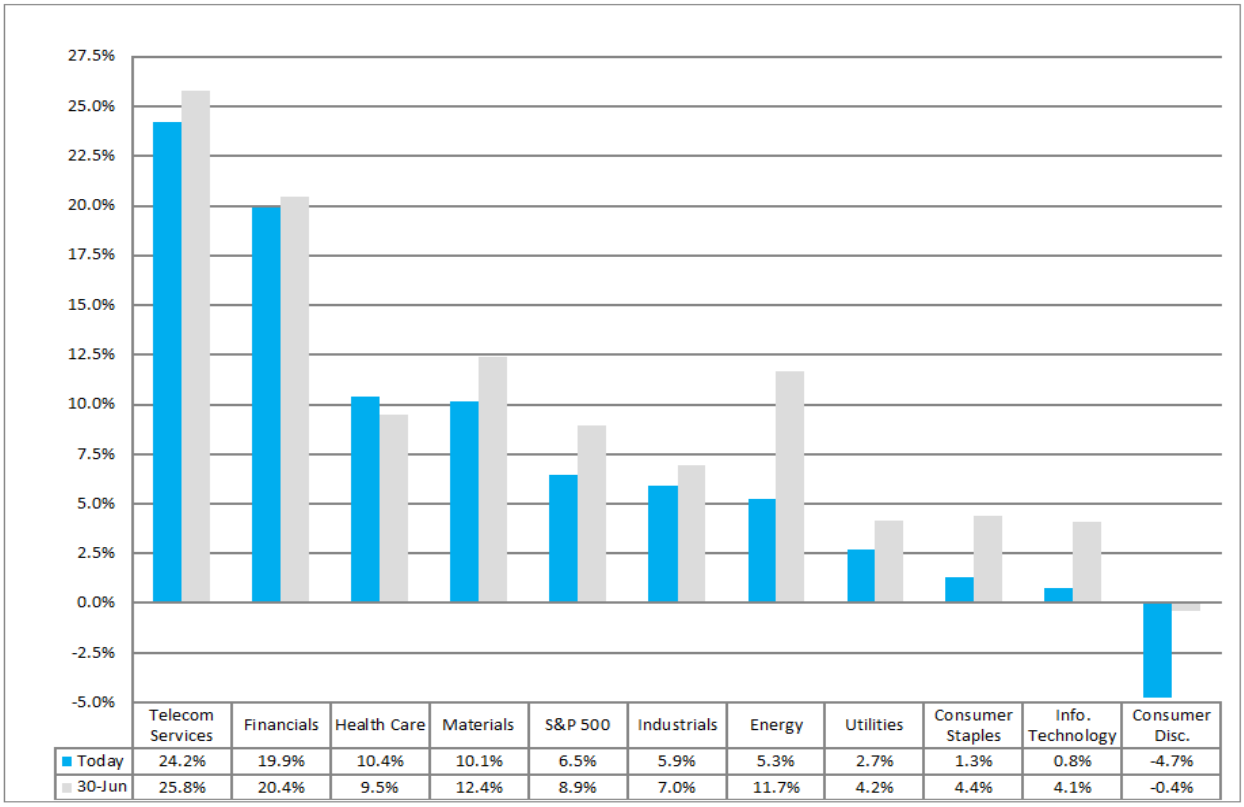
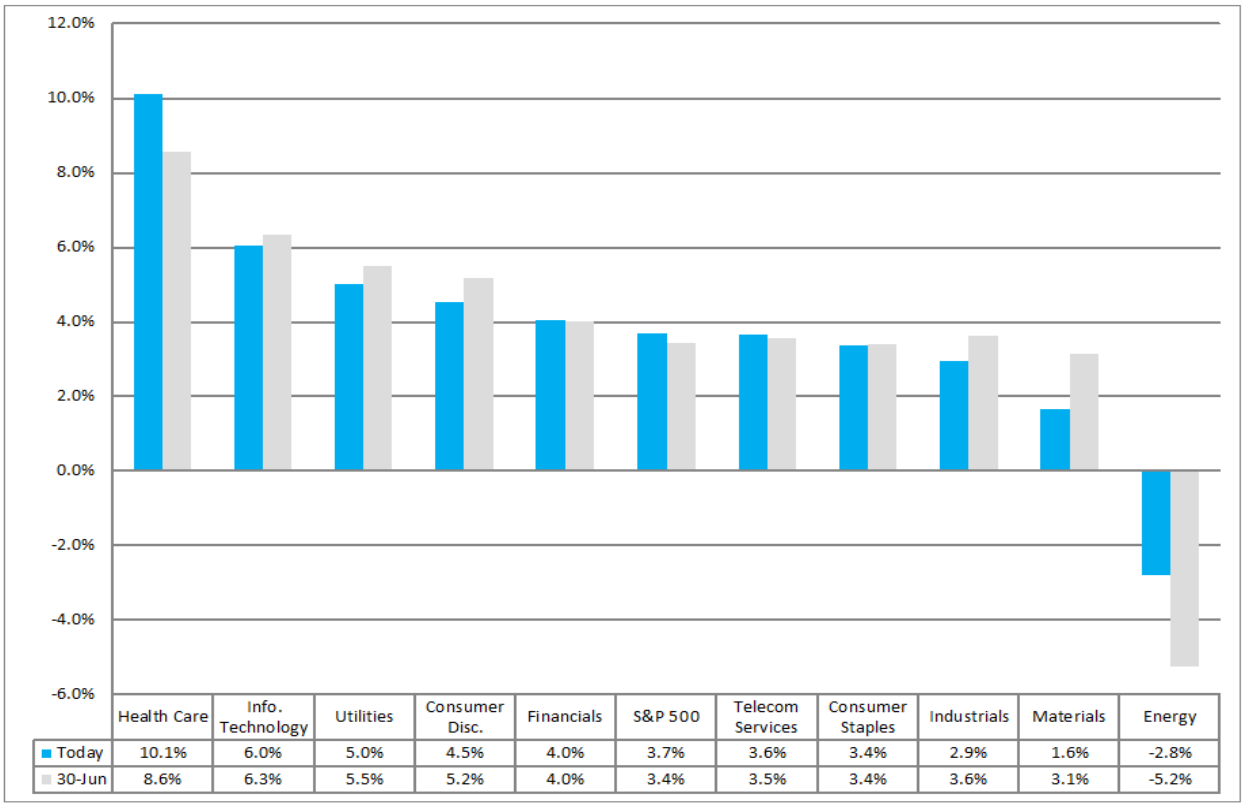
Q3 2014: Growth

Q3 2014 Earnings Growth



	Telecom Services	Financials	Health Care	Materials	S&P 500	Industrials	Energy	Utilities	Consumer Staples	Info. Technology	Consumer Disc.
Today	24.2%	19.9%	10.4%	10.1%	6.5%	5.9%	5.3%	2.7%	1.3%	0.8%	-4.7%
30-Jun	25.8%	20.4%	9.5%	12.4%	8.9%	7.0%	11.7%	4.2%	4.4%	4.1%	-0.4%

Q3 2014 Revenue Growth



	Health Care	Info. Technology	Utilities	Consumer Disc.	Financials	S&P 500	Telecom Services	Consumer Staples	Industrials	Materials	Energy
Today	10.1%	6.0%	5.0%	4.5%	4.0%	3.7%	3.6%	3.4%	2.9%	1.6%	-2.8%
30-Jun	8.6%	6.3%	5.5%	5.2%	4.0%	3.4%	3.5%	3.4%	3.6%	3.1%	-5.2%

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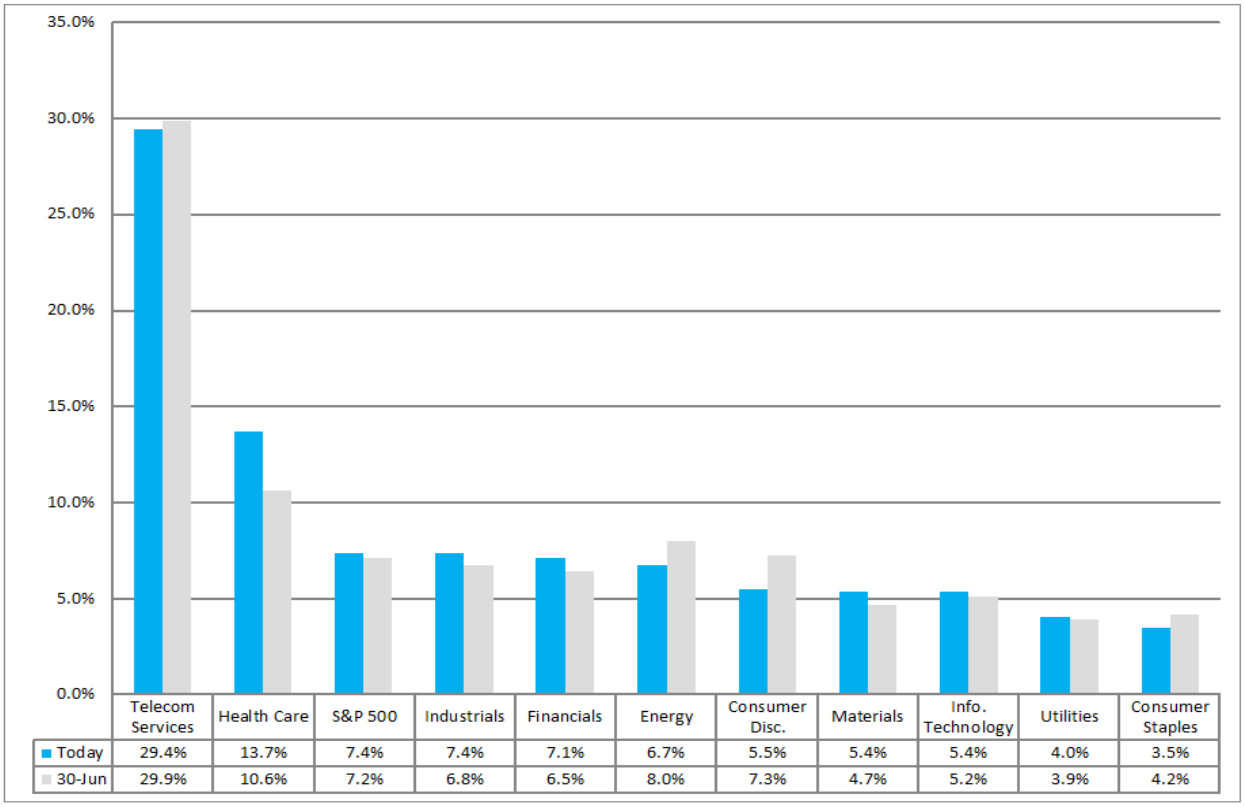
CY 2014: Growth

CY 2014 Earnings Growth



	Telecom Services	Health Care	S&P 500	Industrials	Financials	Energy	Consumer Disc.	Materials	Info. Technology	Utilities	Consumer Staples
Today	29.4%	13.7%	7.4%	7.4%	7.1%	6.7%	5.5%	5.4%	5.4%	4.0%	3.5%
30-Jun	29.9%	10.6%	7.2%	6.8%	6.5%	8.0%	7.3%	4.7%	5.2%	3.9%	4.2%

CY 2014 Revenue Growth

	Health Care	Info. Technology	Utilities	Consumer Disc.	S&P 500	Telecom Services	Consumer Staples	Industrials	Financials	Materials	Energy
Today	9.4%	5.9%	5.4%	4.5%	3.7%	3.6%	3.5%	2.5%	1.8%	1.2%	0.0%
30-Jun	7.9%	5.8%	5.1%	5.1%	3.3%	3.5%	3.2%	2.8%	1.8%	1.9%	-2.4%

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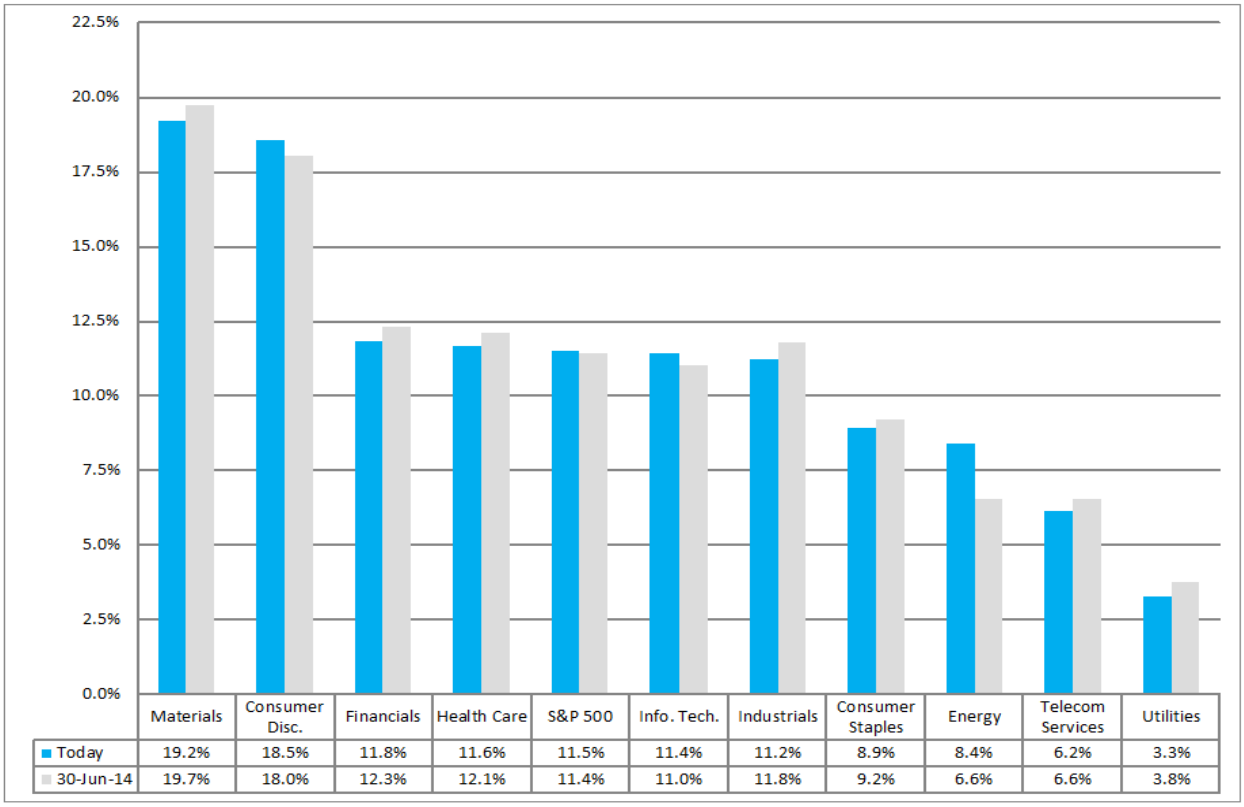
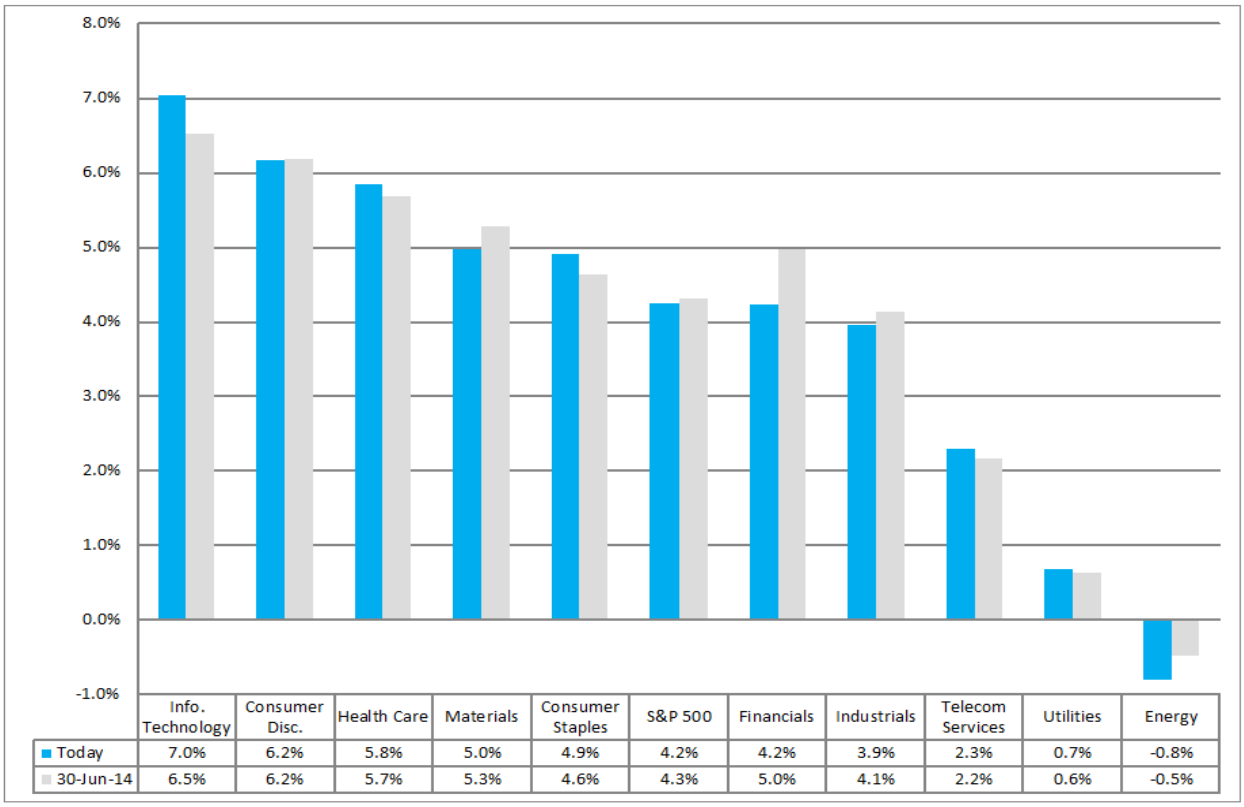
CY 2015: Growth

CY 2015 Earnings Growth



	Materials	Consumer Disc.	Financials	Health Care	S&P 500	Info. Tech.	Industrials	Consumer Staples	Energy	Telecom Services	Utilities
Today	19.2%	18.5%	11.8%	11.6%	11.5%	11.4%	11.2%	8.9%	8.4%	6.2%	3.3%
30-Jun-14	19.7%	18.0%	12.3%	12.1%	11.4%	11.0%	11.8%	9.2%	6.6%	6.6%	3.8%

CY 2015 Revenue Growth



	Info. Technology	Consumer Disc.	Health Care	Materials	Consumer Staples	S&P 500	Financials	Industrials	Telecom Services	Utilities	Energy
Today	7.0%	6.2%	5.8%	5.0%	4.9%	4.2%	4.2%	3.9%	2.3%	0.7%	-0.8%
30-Jun-14	6.5%	6.2%	5.7%	5.3%	4.6%	4.3%	5.0%	4.1%	2.2%	0.6%	-0.5%

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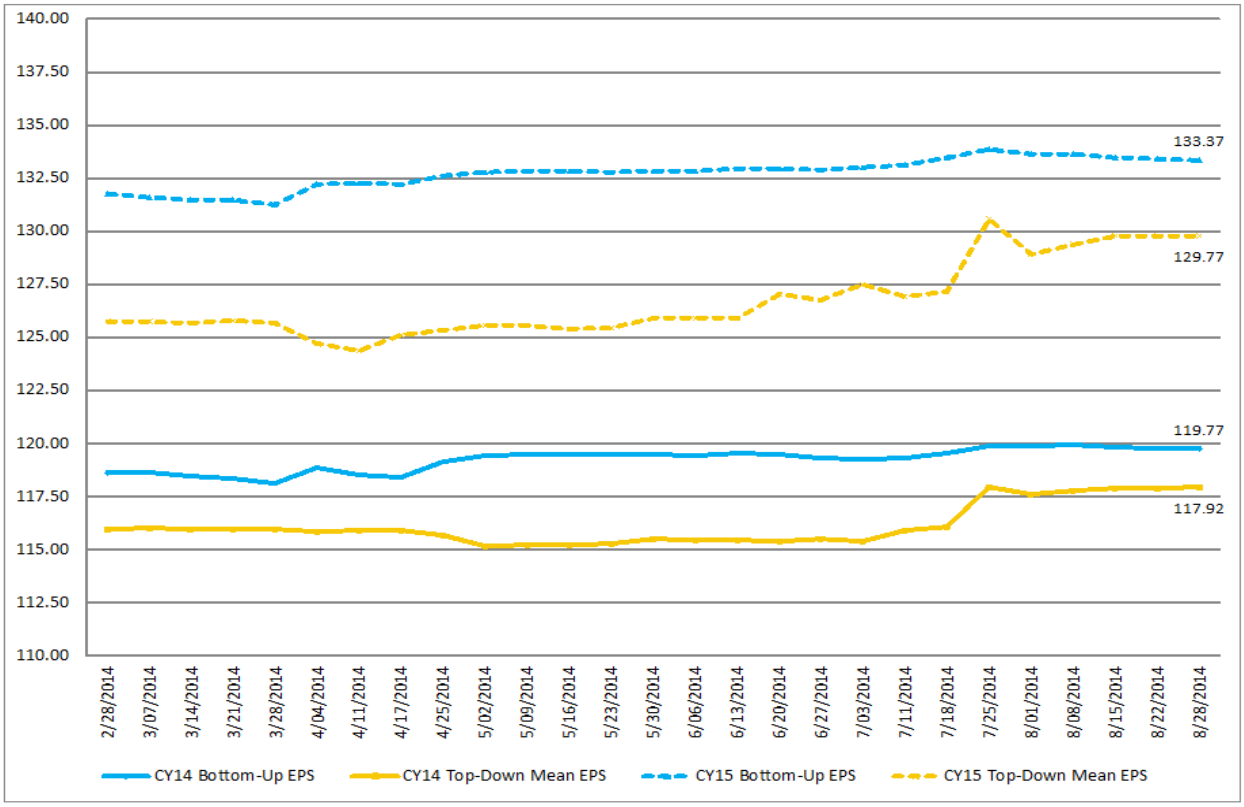
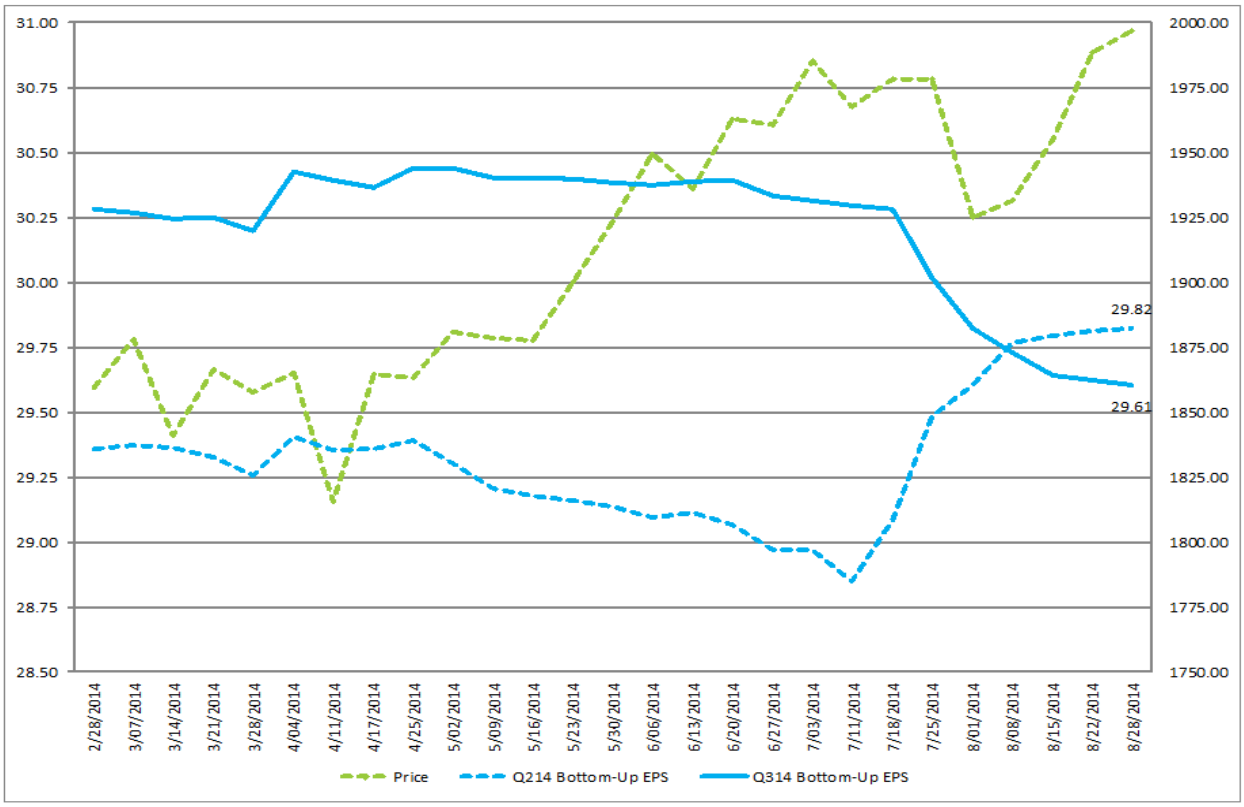
Bottom-up EPS Estimates: Revisions

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



Change in Q214 and Q314 Bottom-Up EPS vs. Price (Trailing 26-Weeks)



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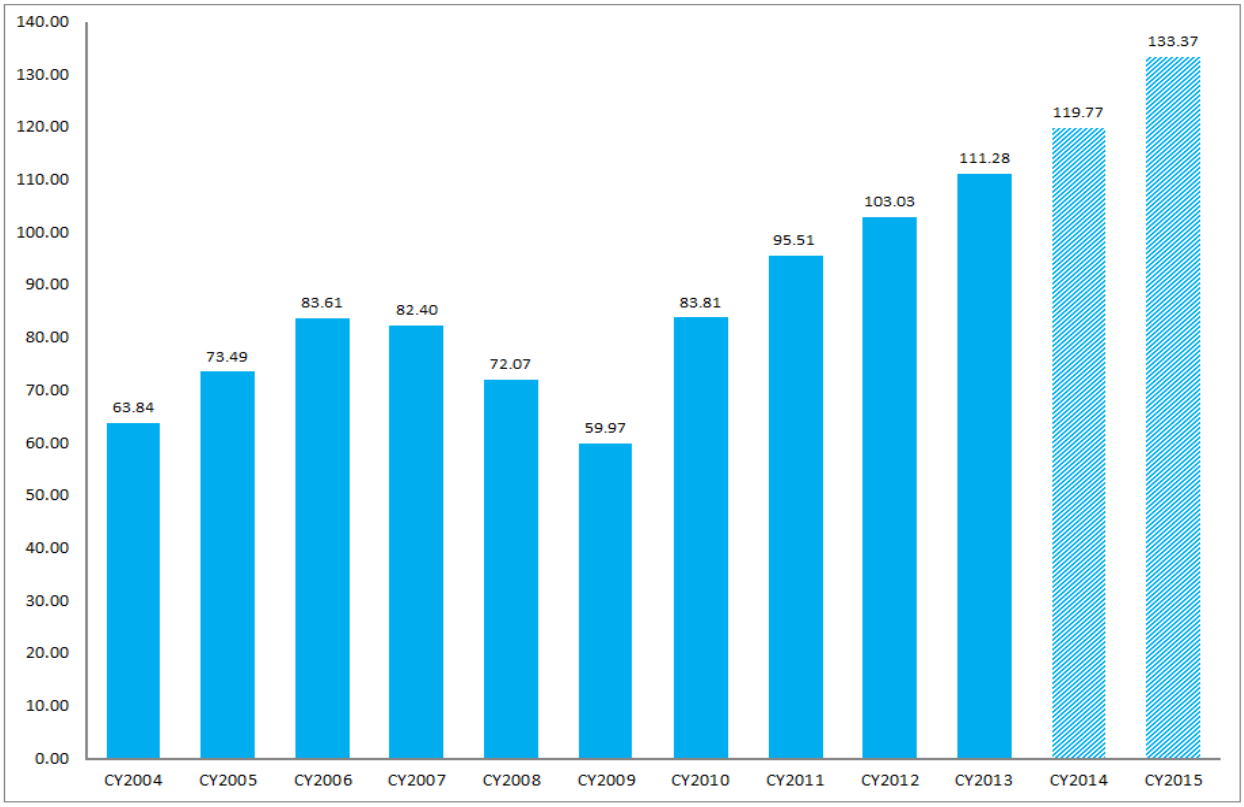
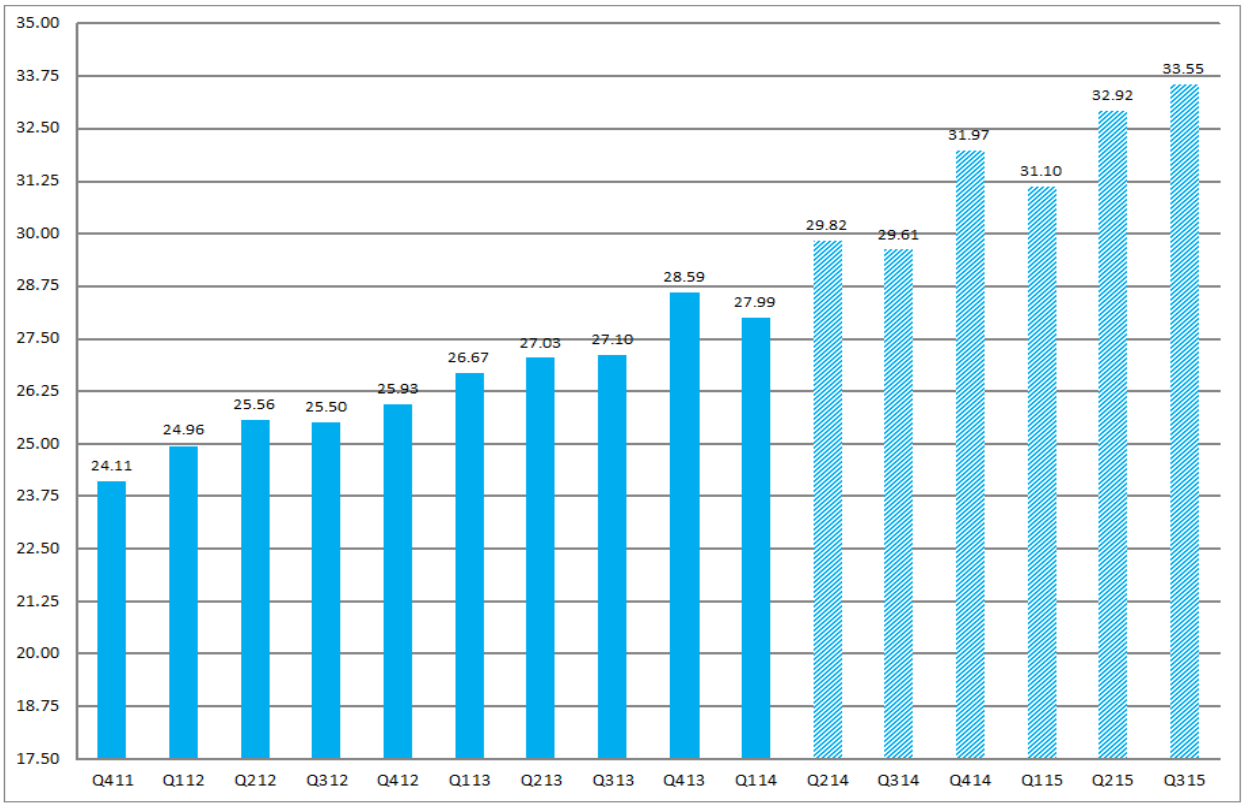
Bottom-up EPS Estimates: Current & Historical

Calendar Year Bottom-Up EPS Actuals & Estimates



Quarterly Bottom-Up EPS Actuals & Estimates



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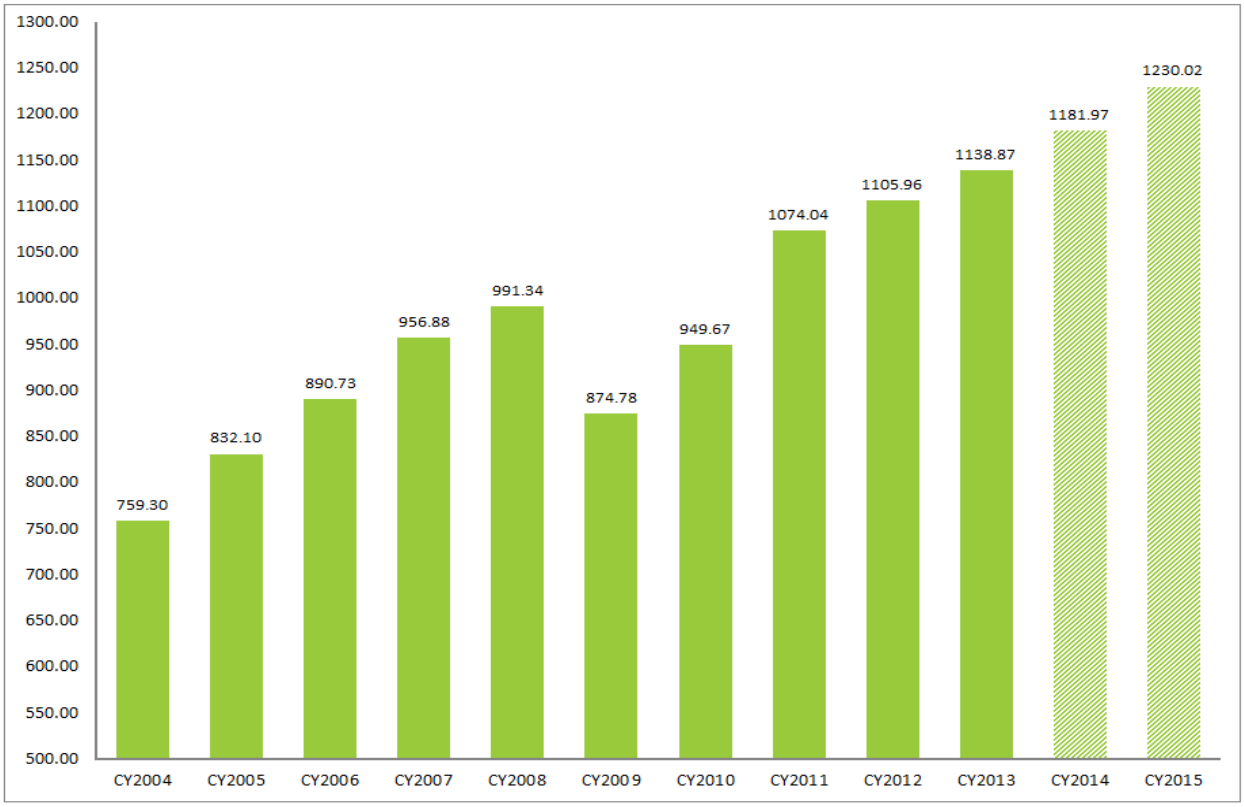
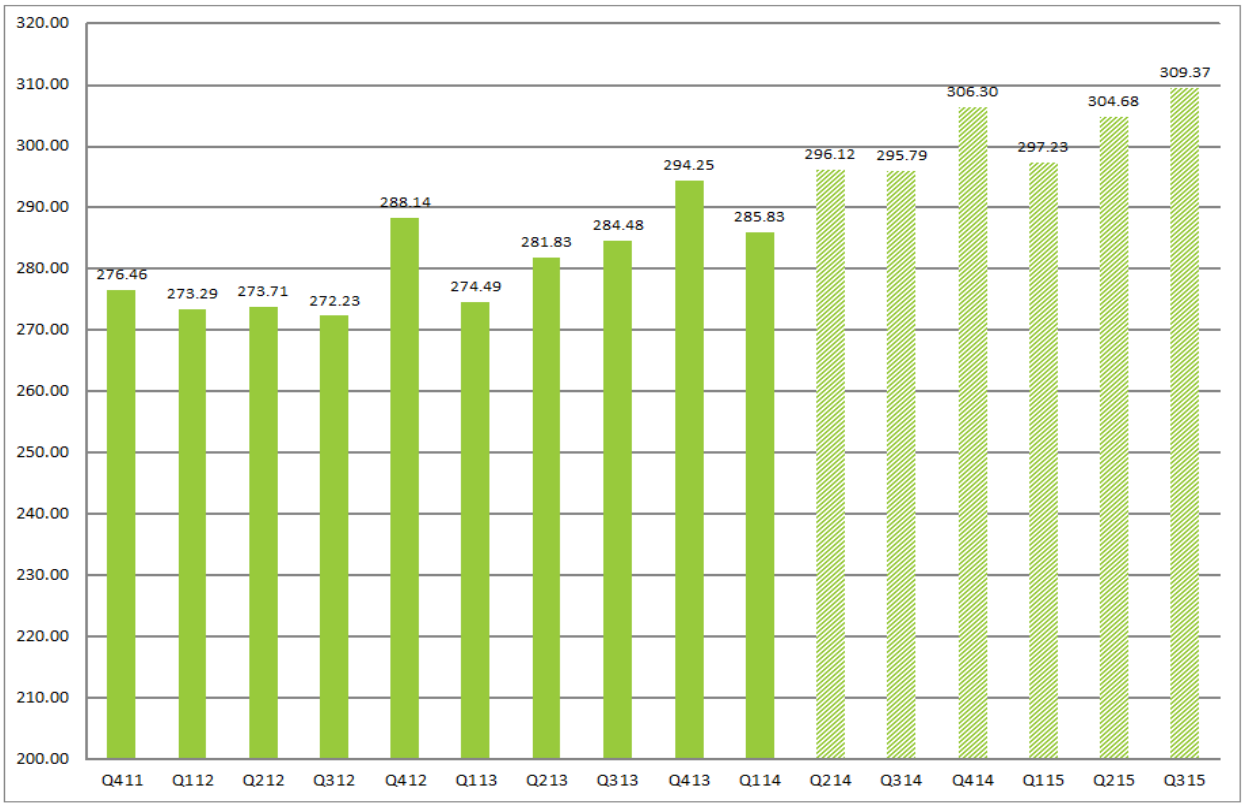
Bottom-up SPS Estimates: Current & Historical

Calendar Year Bottom-Up SPS Actuals & Estimates



Quarterly Bottom-Up SPS Actuals & Estimates



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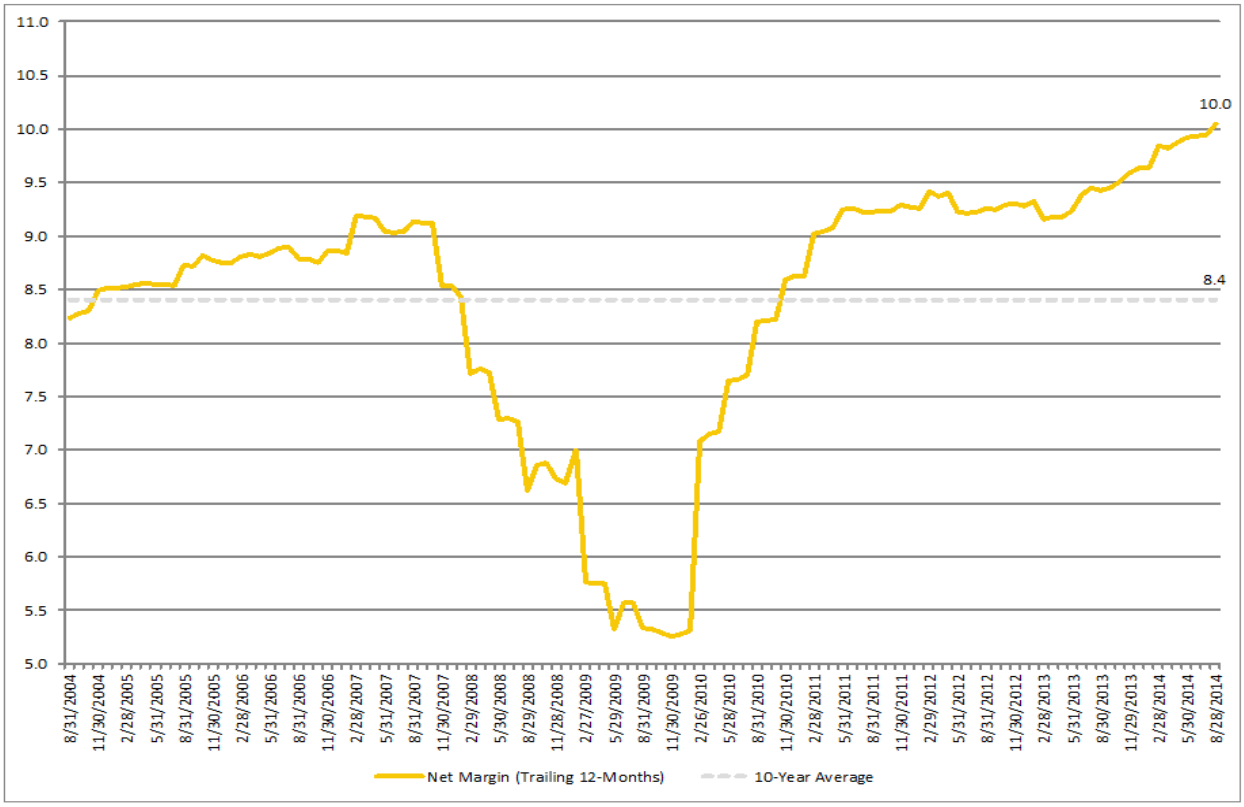
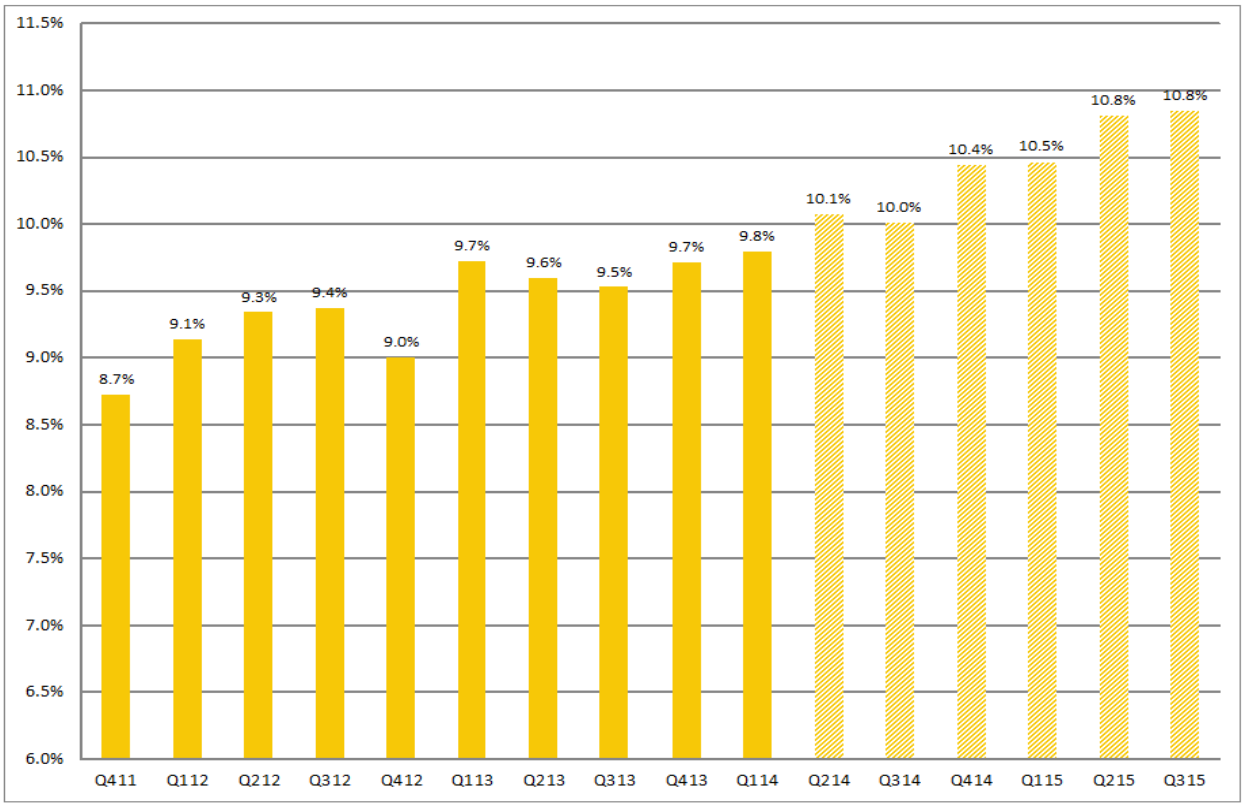
Net Margins: Current & Historical

Trailing 12M Net Margin: 10 Years



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



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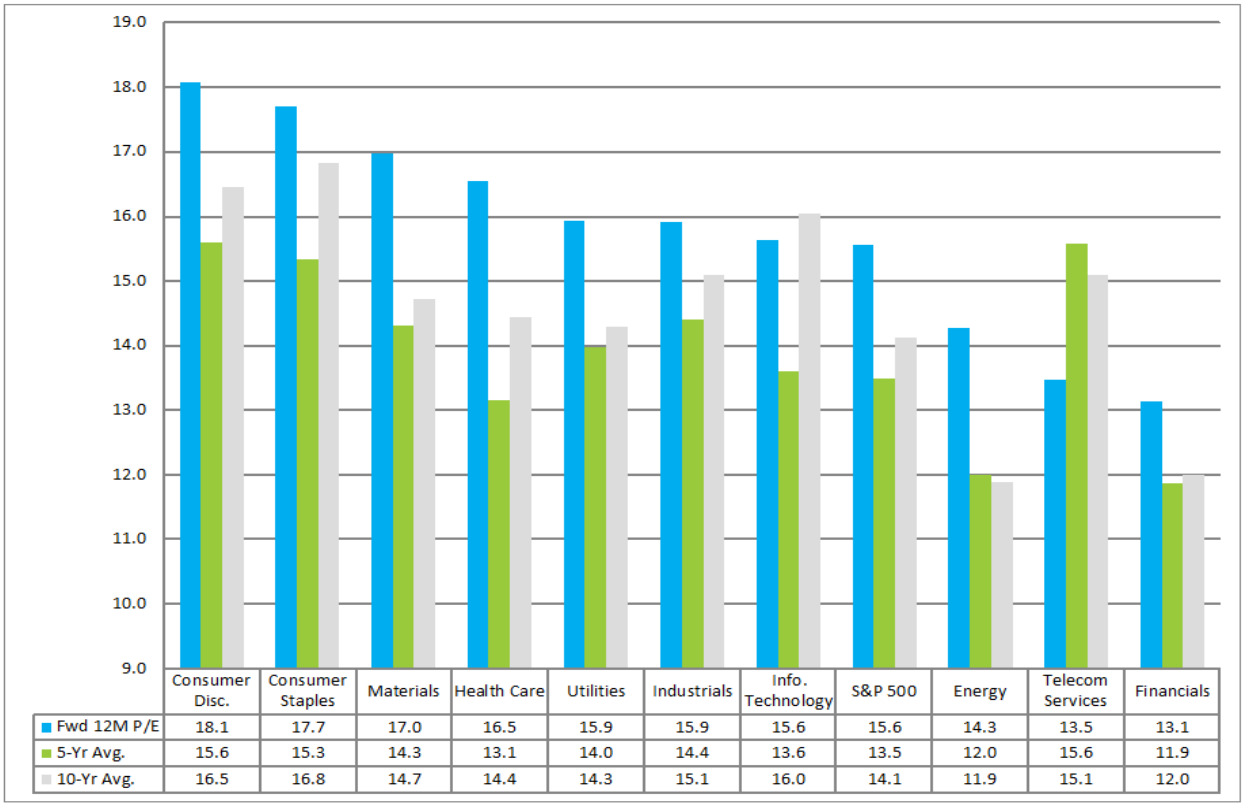
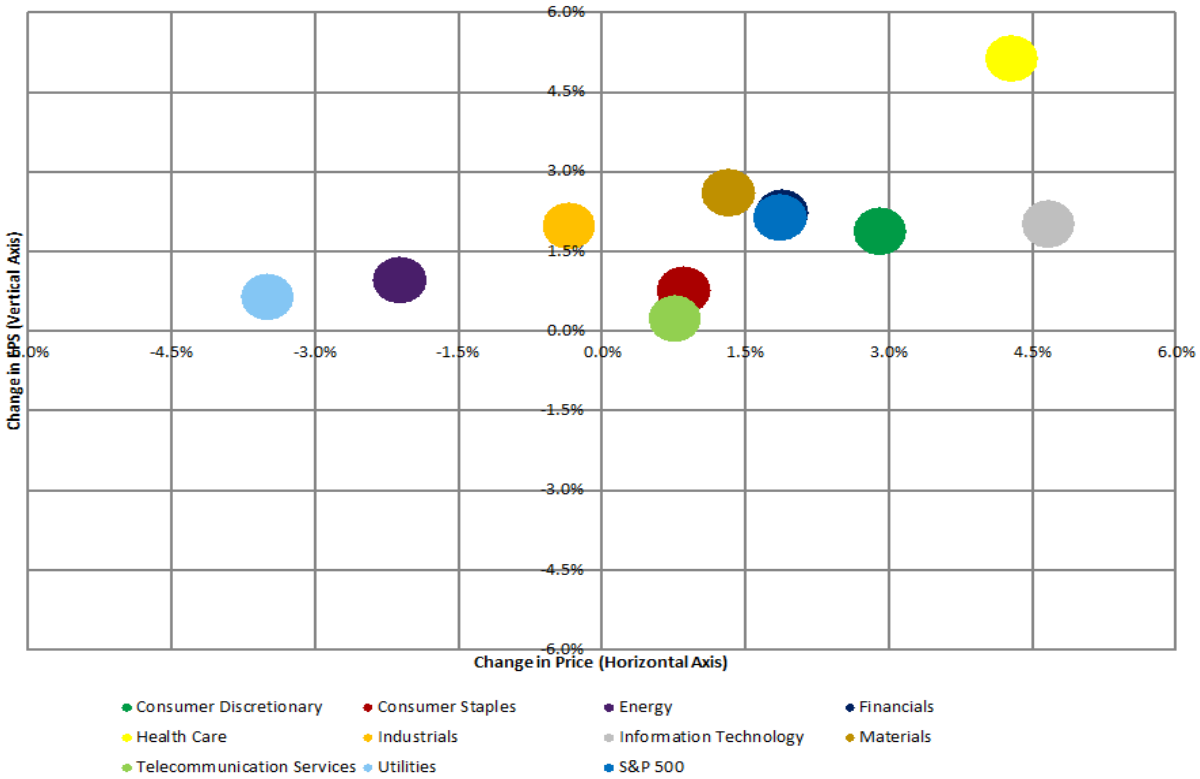
Forward 12M Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios



	Consumer Disc.	Consumer Staples	Materials	Health Care	Utilities	Industrials	Info. Technology	S&P 500	Energy	Telecom Services	Financials
Fwd 12M P/E	18.1	17.7	17.0	16.5	15.9	15.9	15.6	15.6	14.3	13.5	13.1
5-Yr Avg.	15.6	15.3	14.3	13.1	14.0	14.4	13.6	13.5	12.0	15.6	11.9
10-Yr Avg.	16.5	16.8	14.7	14.4	14.3	15.1	16.0	14.1	11.9	15.1	12.0

Sector-Level Change in Price vs. Change Forward 12M EPS: Since Jun. 30



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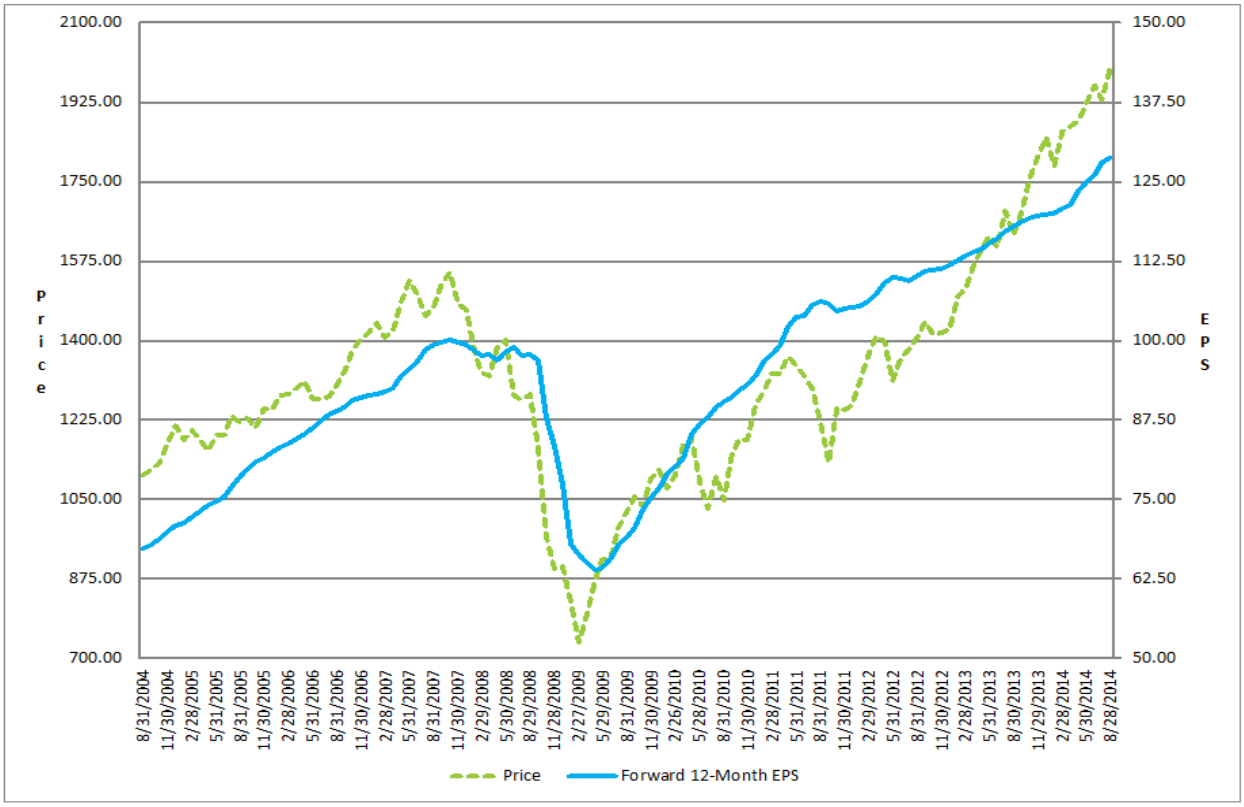
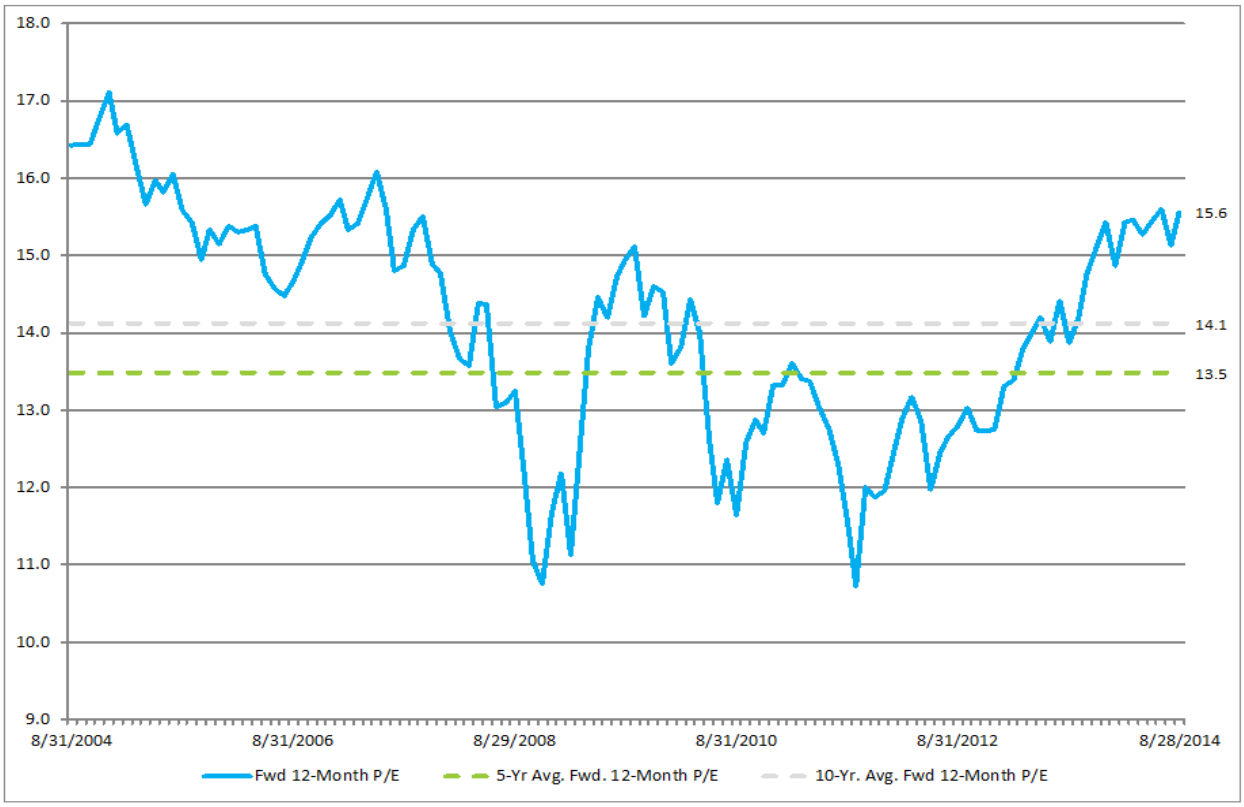
Forward 12M Price / Earnings Ratio: Long-Term Averages

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



Forward 12M P/E Ratio: 10-Year



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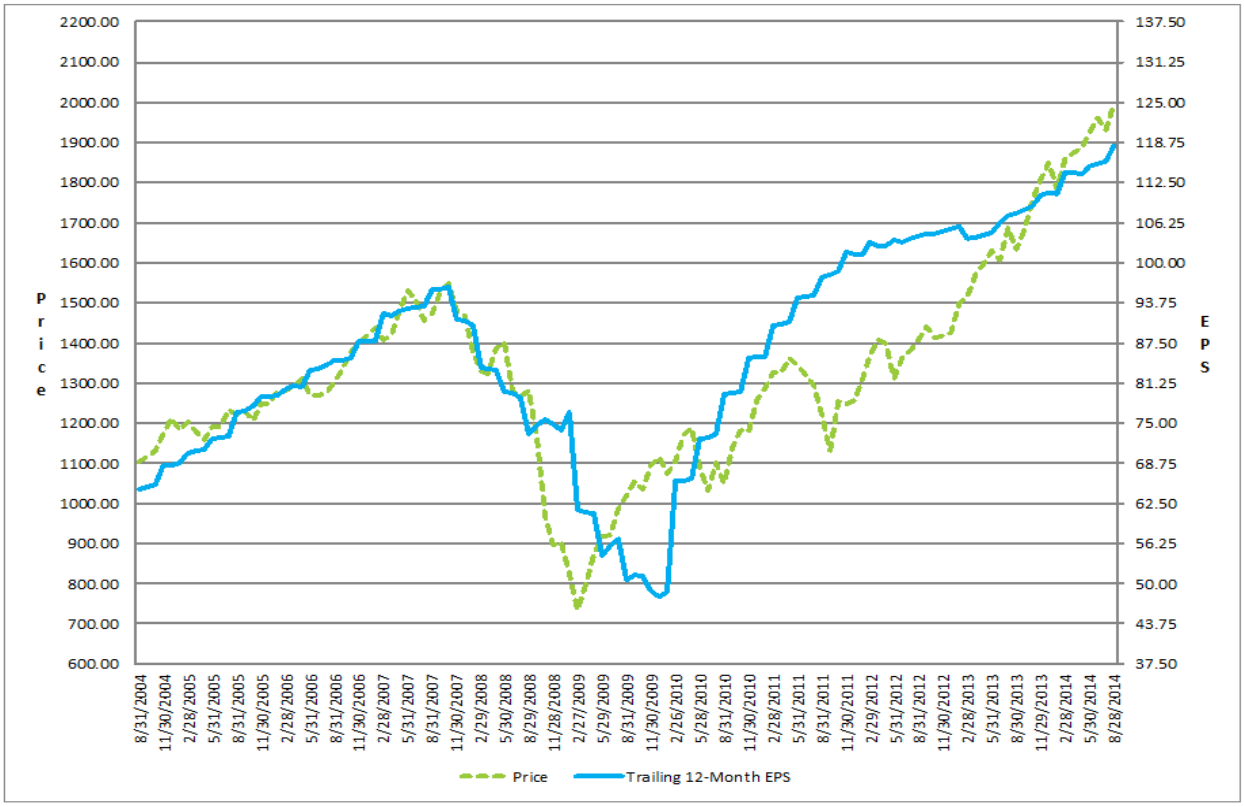
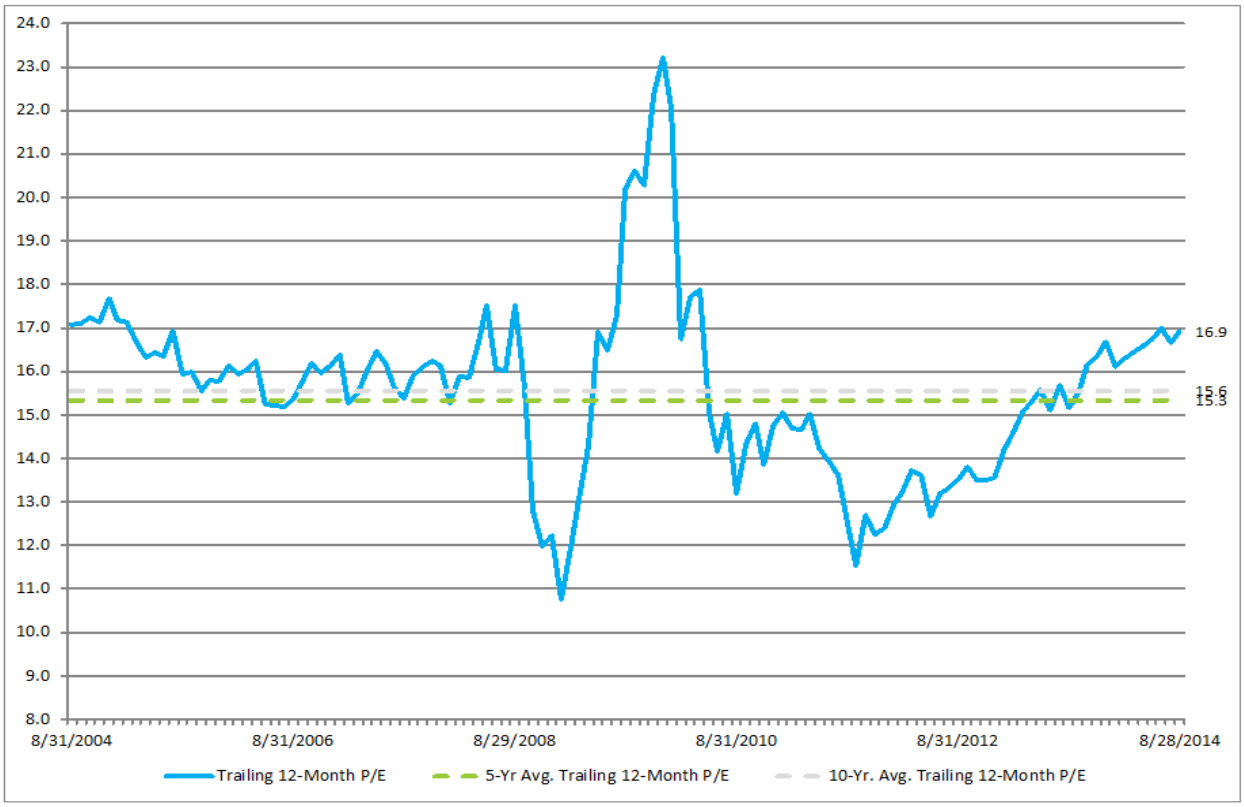
Trailing 12M Price / Earnings Ratio: Long-Term Averages

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



Trailing 12M P/E Ratio: 10-Year



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