

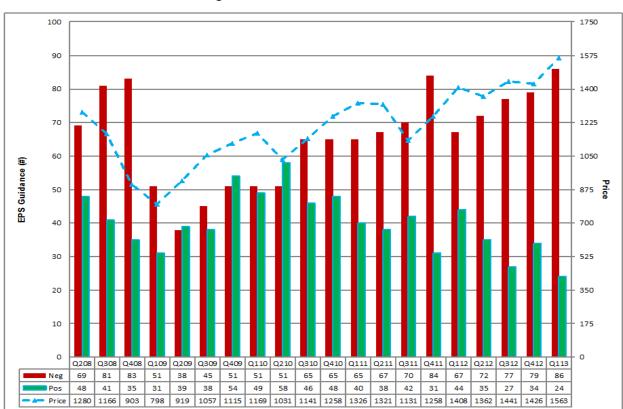


**S&P 500** 

March 28, 2013

### **Key Metrics:**

- + For Q1 2013, 86 companies have issued negative EPS guidance and 24 companies have issued positive EPS guidance. This marks the fourth consecutive quarter that the percentage of negative guidance has been above 70% at the end of the quarter.
- + For the current fiscal year, 168 companies have issued negative EPS guidance and 77 companies have issued positive EPS guidance. This marks the third consecutive month that the percentage of negative EPS guidance has increased, as many companies have transitioned to issuing annual guidance for 2013 (as the new current fiscal year) instead of 2012 over the past few months.
- + For Q4 2012, all 113 of companies that issued quarterly EPS guidance have reported earnings for the quarter. Of these 113 companies, 74% reported actual EPS above guidance, 21% reported actual EPS below guidance, and 4% reported actual EPS equal to guidance. The percentage of companies that reported EPS above guidance is below the five-year average (78%).
- + Over the past five years, companies that issued either quarterly or annual EPS guidance have outperformed companies that did not issue quarterly or annual EPS guidance.



S&P 500 Negative & Positive Preannouncements: 5-Year



### **Overview:**

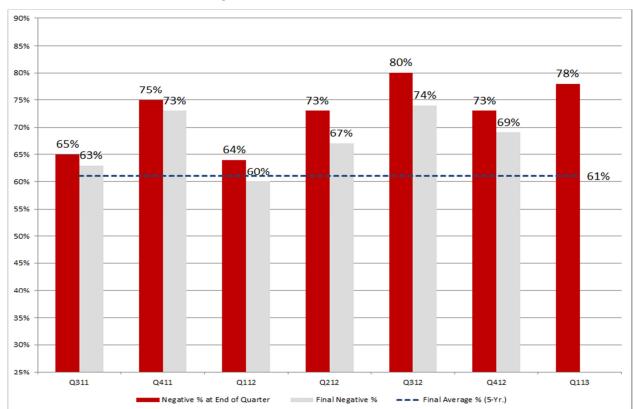
#### Low Number of Companies Issued EPS Guidance in March

March was a quiet month for guidance. For Q1 2013, eight companies in the S&P 500 issued quarterly EPS guidance during the month. Of these eight preannouncements, seven were negative while one was positive. The Consumer Discretionary (4) and Information Technology (3) sectors had the highest number of companies issue quarterly EPS guidance. For the current fiscal year, 22 companies in the S&P 500 issued annual EPS guidance during the month. Of these 22 preannouncements, 19 were negative while three were positive. The Consumer Discretionary (10) had the highest number of companies issue annual EPS guidance during the month.

### Q1 Guidance:

### High Percentage of Negative Guidance (78%) at End of Quarter. But Will It Finish At A Peak?

For Q1 2013, 86 companies have issued negative EPS guidance while 24 companies have issued positive EPS guidance. As a result, the overall percentage of companies issuing negative EPS guidance to date for Q1 2013 stands at 78% (86 out of 110). If this is the final percentage for the quarter, it will mark the highest percentage of companies issuing negative EPS guidance since FactSet began tracking guidance data in Q1 2006. However, the percentage of negative guidance has been unusually high at this stage of the quarter (end of quarter) for the past several quarters. In the prior six quarters, the final percentage of negative guidance finished below the percentage at this point in time, as companies continued to issue EPS guidance after the end of the quarter (prior to reporting actual results). If this trend continues in Q1, the final percentage will be below the current number of 78%. However, if the final percentage is 74% or higher, it will tie or surpass the record percentage of 74% set in Q3 2012.



S&P 500 Negative Guidance: End of Quarter % vs. Final %



#### Health Care Sector: Large Increase in Number of Companies Issuing Negative EPS Guidance

At the sector level (with a minimum of five companies issuing quarterly EPS guidance), the Materials (100%), Health Care (88%), and Consumer Discretionary (81%) sectors have the highest percentages of companies issuing negative EPS guidance for the quarter.

However, the Health Care sector has witnessed the largest increase in companies issuing negative EPS guidance of any sector (with a minimum of five companies issuing quarterly EPS guidance) compared to the 5-year average. For Q1 2013, 15 companies in the Health Care sector have issued negative EPS guidance, compared to the 5-year average of 8.2. This uptick represents an increase of 84% in the number of companies issuing negative EPS guidance relative to the 5-year average.

### High Negative Surprise Percentage (-15.5%) due to Peabody Energy.

On average, companies in the S&P 500 have issued EPS guidance that was 15.5% below the mean estimate. This surprise percentage is well below the trailing 5-year average for the index of -8.0%. However, one company in particular accounts for the large negative surprise percentage: Peabody Energy. On January 29, Peabody Energy issued a guidance range for Q1 (between -\$0.26 and -\$0.04) with a mid-point of -\$0.15, which was significantly below the mean EPS estimate of -\$0.01. If Peabody Energy is excluded from the index, the surprise percentage would improve to -6.9%, which is above the five-year average. Other companies that have guided earnings substantially below analyst expectations for Q1 include Avalon Bay Communities (-146%), Crown Castle International (-95%), and Teradyne (-87%).

### High Average Price Increase (+4.9%) for Companies Issuing Positive Guidance due to Netflix

Although the percentage of negative preannouncements is running at an all-time high, the market is not punishing the performance of these stocks in the short term. For the 86 companies that have issued negative EPS guidance for Q1 2013 to date, the average price change (2 days before the guidance was issued through 2 days after the guidance was issued) was -0.3%. This percentage is well above the average of -1.4% over the past five years. Just under half of the companies (42) that have issued negative guidance recorded an increase in price during this time frame.

On the other hand, the market appears to be highly rewarding the performance of companies that have issued positive EPS guidance. Of the 24 companies that have issued positive EPS guidance for Q1 2013, the average price change (2 days before the guidance was issued through 2 days after the guidance was issued) was +4.9%. This percentage is well above the average over the past five years of +2.9%. However, one company in particular accounts for the large upside price performance: Netflix. On January 23, Netflix issued a guidance range for Q1 (between \$0.00 and \$0.23) with a mid-point of \$0.115, which was well above the mean EPS estimate of -\$0.08. From January 22 through January 28, the price of Netflix jumped 65.7% (to \$162.11 from \$97.81) If Netflix is excluded from the index, the percentage price change for companies issuing positive EPS guidance would drop to 2.3%, which is slightly below the five-year average.

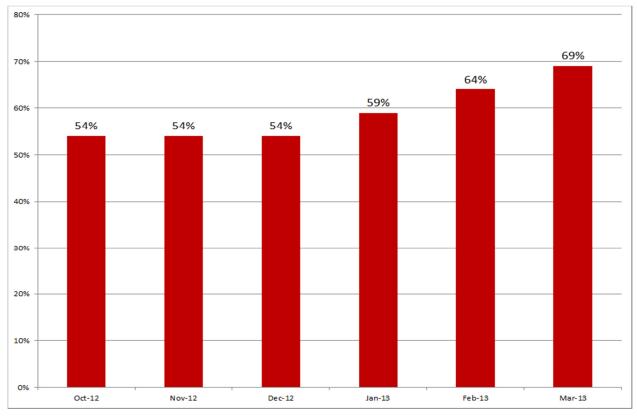
### **Fiscal Year Guidance:**

#### Increase in Percentage of Negative Guidance (69%) as Companies Now Guide for 2013

For the current fiscal year, 168 companies have issued negative EPS guidance and 77 companies have issued positive EPS guidance. As a result, the overall percentage of companies issuing negative EPS guidance to date for the current fiscal year stands at 69% (168 out of 245). This marks the third consecutive month that the percentage of negative EPS guidance has increased, as companies in the index transition to issuing annual guidance for 2013 as the new fiscal year (instead of 2012).



Since December, the number of companies issuing negative EPS guidance for the current fiscal year has increased by 31. The Industrials (+9) sector has recorded the largest rise in the number of companies issuing negative EPS guidance during this time, accounting for about 30% of the increase



S&P 500 Negative Guidance % for Current Fiscal Year

At the sector level today (with a minimum of ten companies issuing guidance), the Consumer Discretionary (81%) and Industrials (76%) sectors have the highest percentages of companies issuing negative EPS preannouncements, while the Information Technology (46%) sector has the highest percentage of companies issuing positive EPS preannouncements.

FedEx is an example of a company that issued annual EPS guidance during the month of March. The company stated that adjusted earnings for the current fiscal year would be between \$6.00 and \$6.20 per share on March 20, compared to the mean EPS estimate of \$6.35. This was the fourth time that FedEx has provided EPS guidance for the current fiscal year during the past 12 months.

## **Q4 Guidance:**

#### Below Average Percentage (74%) of Companies Report Actual EPS above Guidance

At this point in time, all 113 of the companies that issued EPS guidance for Q4 2012 have reported actual results for the quarter. Of these 113 companies, 74% reported actual EPS above guidance, 21% reported actual EPS below guidance, and 4% reported actual EPS in line with guidance. This percentage is below the trailing 5-year average for companies issuing guidance, but above the overall performance of the S&P 500 for Q4 2012. Of the companies that issued quarterly EPS guidance over the past five years, 78% reported EPS above guidance, 15% reported EPS below guidance, and 6% reported EPS in-line with guidance. Of the 498 companies in the S&P 500 that have reported earnings to date for Q4 2012, 70% have reported EPS above the mean estimate and 29% reported EPS below the mean EPS estimate.



#### Large Upside Surprise vs. Guidance Reported by Teradyne Skews Surprise Percentage for Q4

Companies also have surpassed guidance by a much wider margin than normal in Q4 2012. On average, companies that issued quarterly EPS guidance for Q4 have reported an actual EPS number that was 18.1% above the guidance. Over the past five years, companies that issued quarterly EPS guidance reported an actual EPS number that was 7.5% above the guidance on average. A large upside earnings surprise relative to guidance for Q4 reported by Teradyne is mainly responsible for the unusually high surprise factor for companies that have issued guidance. Teradyne reported actual EPS of \$0.07, compared to the mid-point of the EPS guidance range of \$0.005. If this company is excluded, the average surprise for the quarter drops to 6.6%.

### **Performance:**

### **Companies Providing Guidance Outperform Companies Not Providing Guidance**

Using FactSet's Alpha Testing, one can compare the cumulative performance of companies (on a market-cap weighted basis) that issued quarterly or annual EPS guidance to companies (on a market-cap weighted basis) that did not issue quarterly or annual EPS guidance to the benchmark of the S&P 500. Over the past five years, companies that issued quarterly EPS guidance outperformed the S&P 500 by about 12%, while companies that did not issue quarterly EPS guidance underperformed the index by about 4%. Over the same time frame (trailing 5 years), companies that issued annual EPS guidance outperformed the S&P 500 by about 5%, while companies that did not issue annual EPS guidance underperformed the index by about 8%.

## **Definitions / Methodology**

For companies that are classified as part of the REIT industry, FFO guidance is used in place of EPS guidance.

If a company provides a range of EPS estimates for guidance, the mid-point of the range is used in this report for all analysis.

Guidance is classified as negative if the estimate (or mid-point of a range estimates) provided by a company is lower than the mean EPS estimate the day before the guidance was issued.

Guidance is classified as positive if the estimate (or mid-point of a range of estimates) provided by the company is higher than the mean EPS estimate the day before the guidance was issued.



# Q1 2013: Sector-Level EPS Guidance

### Number of Negative & Positive EPS Preannouncements

Sector	Negative (#)	Positive (#)	Negative (%)	Positive (%)
Consumer Disc.	17	4	81%	19%
Consumer Staples	4	1	80%	20%
Energy	2	0	100%	0%
Financials	3	0	100%	0%
Health Care	15	2	88%	12%
Industrials	10	5	67%	33%
Info. Technology	23	10	70%	30%
Materials	8	0	100%	0%
Telecom Services	1	1	50%	50%
Utilities	3	1	75%	25%
S&P 500	86	24	78%	22%

### Percentage of Negative & Positive EPS Preannouncements





# Q1 2013: Sector-Level Revenue Guidance

### Number of Negative & Positive Revenue Preannouncements

Sector	Negative (#)	Positive (#)	Negative (%)	Positive (%)
Consumer Disc.	6	2	75%	25%
Consumer Staples	1	1	50%	50%
Energy	0	1	0%	100%
Financials	0	0	0%	0%
Health Care	8	1	89%	11%
Industrials	8	3	73%	27%
Info. Technology	30	11	73%	27%
Materials	0	0	0%	0%
Telecom Services	1	0	100%	0%
Utilities	0	0	0%	0%
S&P 500	54	19	74%	26%

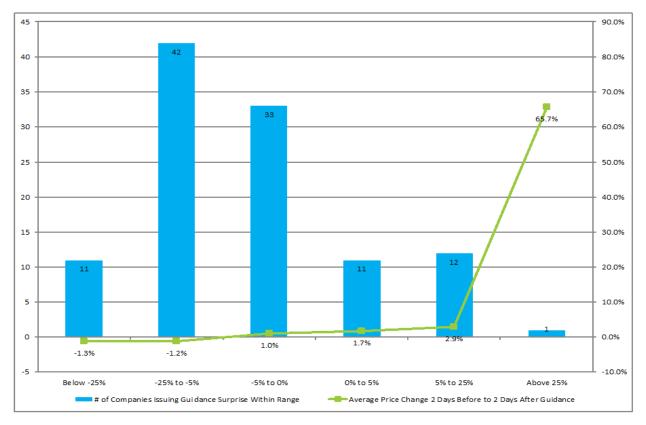
### Percentage of Negative & Positive Revenue Preannouncements



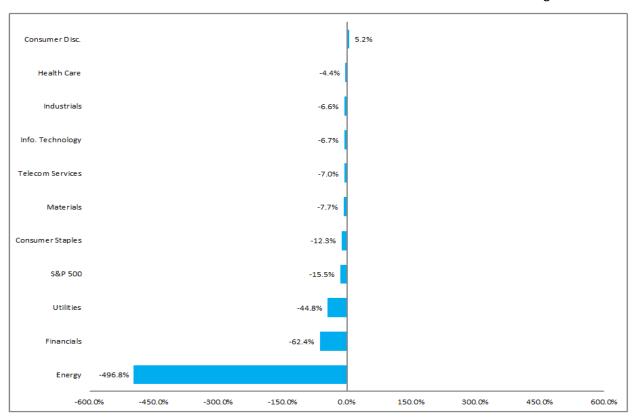


## Q1 2013: EPS Guidance vs. Mean EPS Estimate





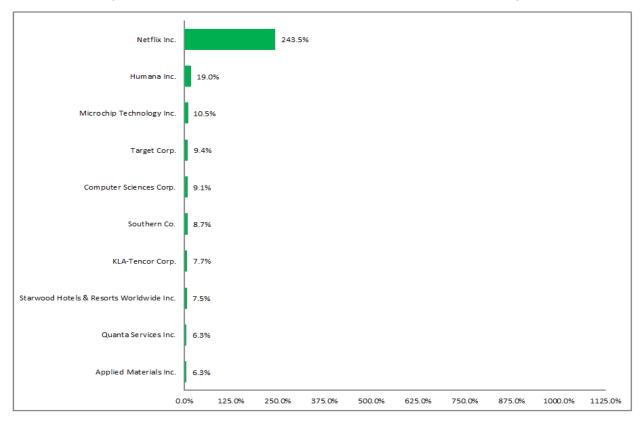
### Difference between EPS Guidance and Mean EPS Estimate: Sector-Level Average



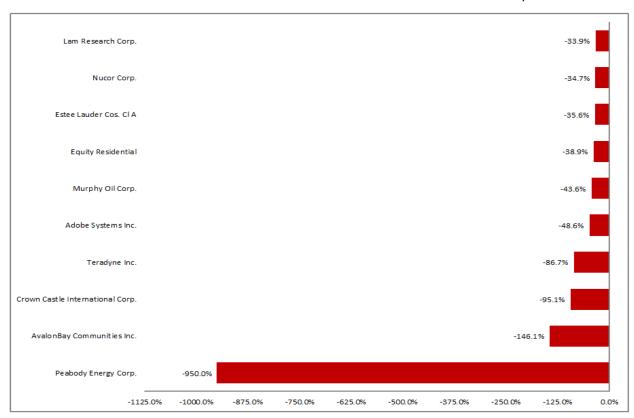
# **FACTSET**

## Q1 2013: EPS Guidance vs. Mean EPS Estimate

Upside Difference between EPS Guidance and Mean EPS Estimate: Top 10



Downside Difference between EPS Guidance and Mean EPS Estimate: Top 10



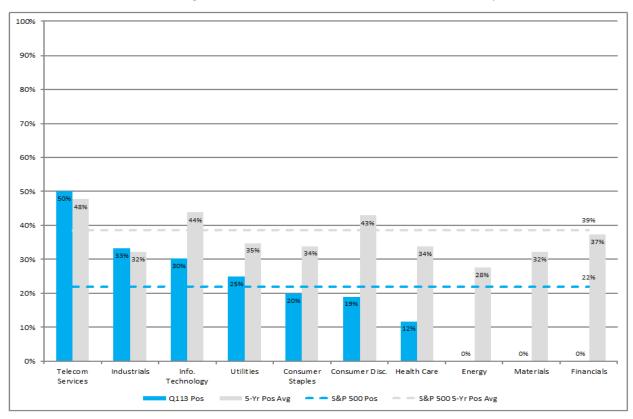


# Q1 2013: Positive EPS Guidance vs. 5-Year Average

Number of Positive Preannouncements vs. 5-Year Average

Sector	Positive (#)	5-Year Avg. #	Diff. (#)	Diff. (%)
Consumer Disc.	4.0	9.3	-5.3	-57%
Consumer Staples	1.0	2.0	-1.0	-50%
Energy	0.0	0.8	-0.8	-100%
Financials	0.0	2.5	-2.5	-100%
Health Care	2.0	4.2	-2.2	-52%
Industrials	5.0	3.8	1.3	33%
Info. Technology	10.0	14.5	-4.5	-31%
Materials	0.0	3.0	-3.0	-100%
Telecom Services	1.0	0.8	0.2	25%
Utilities	1.0	0.5	0.5	100%
S&P 500	24.0	41.2	-17.2	-42%

### Percentage of Positive Preannouncements vs. 5-Year History



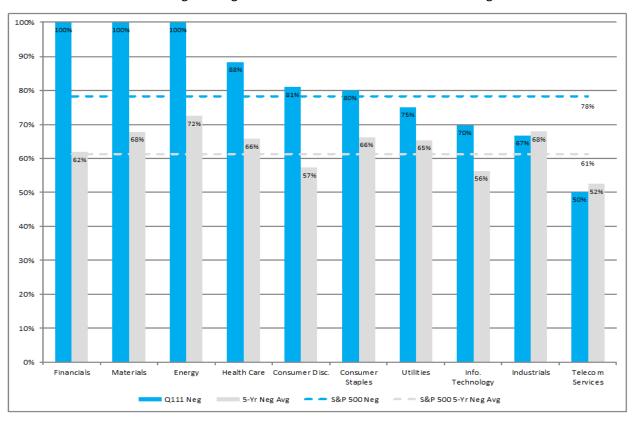


# Q1 2013: Negative EPS Guidance vs. 5-Year Average

Number of Negative Preannouncements vs. 5-Year Averages

Sector	Negative (#)	5-Year Avg. #	Diff. (#)	Diff. (%)
Consumer Disc.	17.0	12.4	4.7	38%
Consumer Staples	4.0	3.9	0.1	3%
Energy	2.0	2.1	-0.1	-5%
Financials	3.0	4.1	-1.1	-26%
Health Care	15.0	8.2	6.9	84%
Industrials	10.0	7.9	2.1	27%
Info. Technology	23.0	18.7	4.4	23%
Materials	8.0	6.2	1.8	29%
Telecom Services	1.0	1.5	-0.5	-33%
Utilities	3.0	0.6	2.5	445%
S&P 500	86.0	65.4	20.7	32%

### Percentage of Negative Preannouncements vs. 5-Year Averages





# **Current FY: Sector-Level EPS Guidance**

### Number of Positive & Negative EPS Preannouncements

Sector	Negative (#)	Positive (#)	Negative (%)	Positive (%)
Consumer Disc.	30	7	81%	19%
Consumer Staples	20	9	69%	31%
Energy	4	0	100%	0%
Financials	14	6	70%	30%
Health Care	27	17	61%	39%
Industrials	32	10	76%	24%
Info. Technology	14	12	54%	46%
Materials	8	5	62%	38%
Telecom Services	2	0	100%	0%
Utilities	17	11	61%	39%
S&P 500	168	77	69%	31%

### Percentage of Positive & Negative EPS Preannouncements





### **Current FY: Sector-Level Revenue Guidance**

Number of Positive & Negative Revenue Preannouncements

Sector	Negative (#)	Positive (#)	Negative (%)	Positive (%)
Consumer Disc.	20	10	67%	33%
Consumer Staples	5	11	31%	69%
Energy	0	1	0%	100%
Financials	5	1	83%	17%
Health Care	17	22	44%	56%
Industrials	20	14	59%	41%
Info. Technology	16	11	59%	41%
Materials	0	3	0%	100%
Telecom Services	2	0	100%	0%
Utilities	0	0	0%	0%
S&P 500	85	73	54%	46%

### Percentage of Positive & Negative EPS Preannouncements



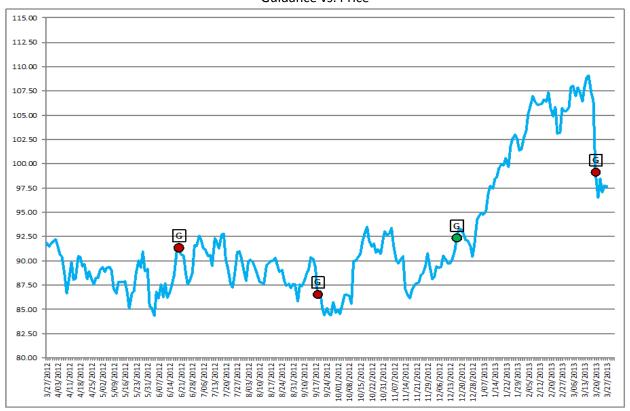


# **Current FY: Company-Level Data (FDX)**

Guidance: Data Items

Date Issued	Fiscal Prd	Item	Guid (Avg)	Mean
20-Mar-13	FY2012E	EPS - Non GAAP	6.10	6.35
20-Mar-13	FY2012E	EPS - GAAP	5.11	6.34
20-Mar-13	FY2012E	Capital Expenditures	3600.00	3890.53
20-Mar-13	FY2012E	EPS	6.10	6.35
19-Dec-12	FY2012E	EPS - Non GAAP	6.40	6.34
19-Dec-12	FY2012E	EPS - GAAP	5.21	6.25
19-Dec-12	FY2012E	Capital Expenditures	3900.00	3892.08
19-Dec-12	FY2012E	EPS	6.40	6.34
18-Sep-12	FY2012E	EPS - Non GAAP	6.40	7.02
18-Sep-12	FY2012E	Capital Expenditures	3900.00	3881.87

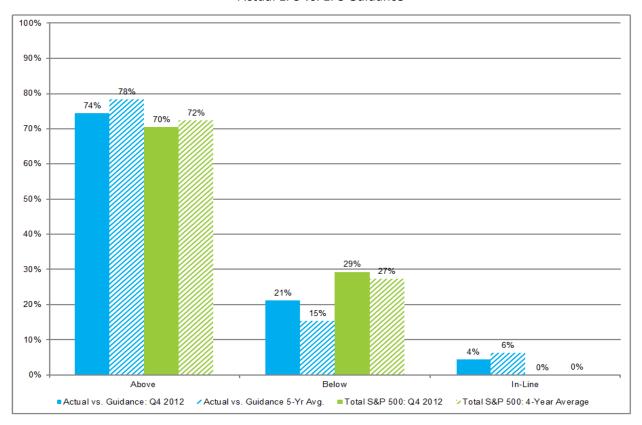
#### Guidance vs. Price



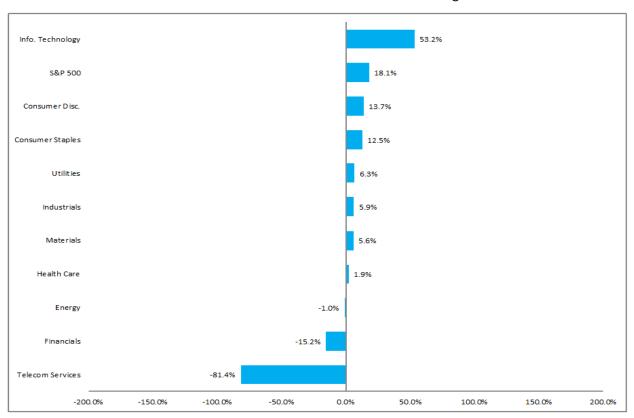


## Q4 2012: Actual EPS vs. EPS Guidance

### Actual EPS vs. EPS Guidance



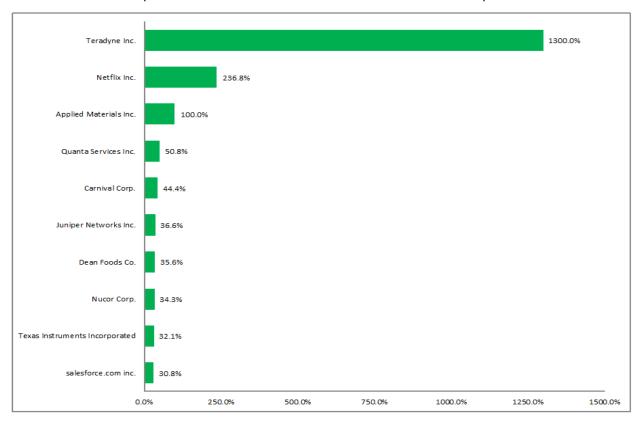
### Actual EPS vs. EPS Guidance: Sector-Level Average



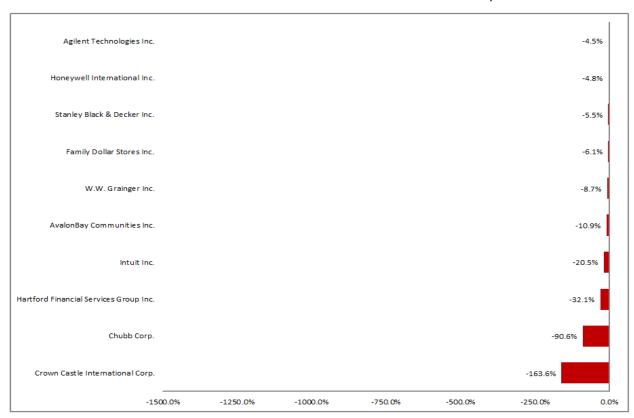


## Q4 2012: Actual EPS vs. EPS Guidance

Upside Difference between Actual EPS & EPS Guidance: Top 10



Downside Difference between Actual EPS & EPS Guidance: Top 10





### Performance: EPS Guidance vs. No EPS Guidance

Cumulative Performance: Quarterly EPS Guidance / No Quarterly EPS Guidance vs. S&P 500



Cumulative Performance: Annual EPS Guidance / No Annual EPS Guidance vs. S&P 500





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