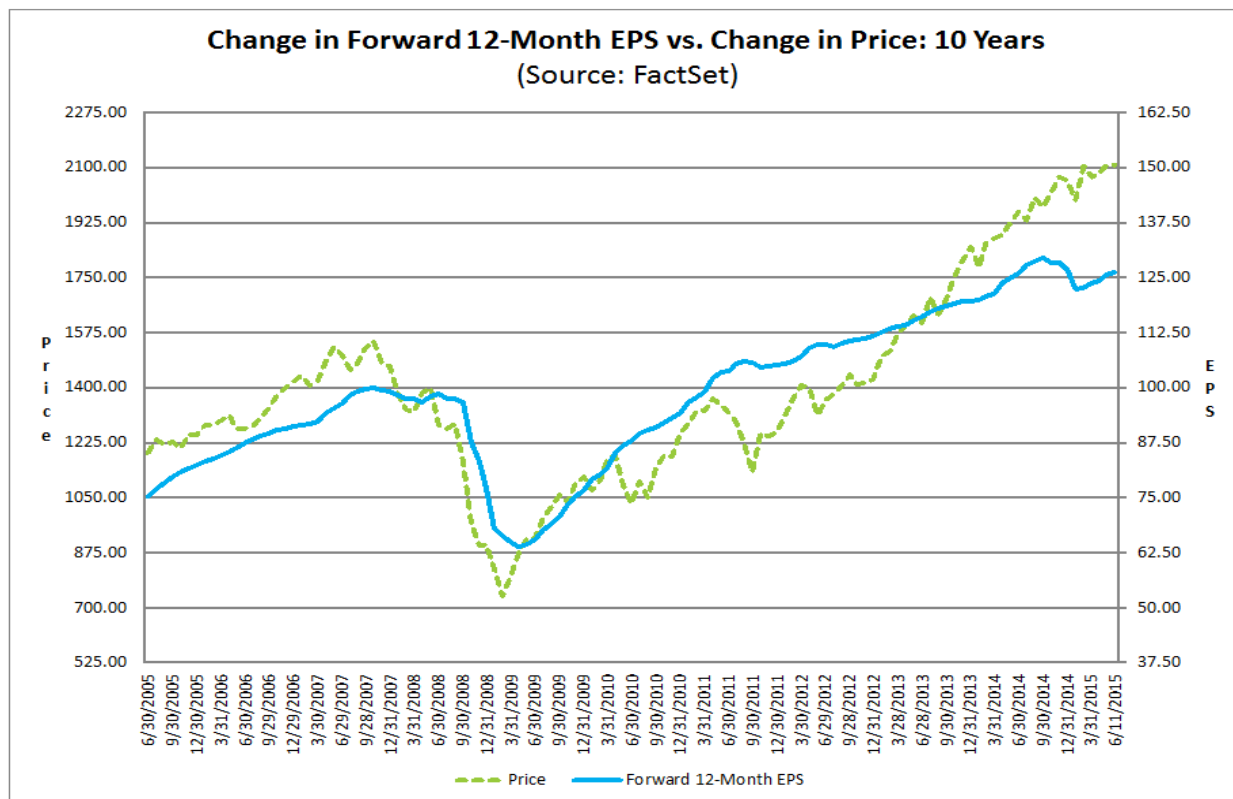


### Key Metrics

- + **Earnings Growth:** For Q215, year-over-year earnings for the S&P 500 are projected to decline by 4.6%. The last time the index reported a year-over-year decrease in earnings was Q3 2012 (-1.0%).
- + **Earnings Revisions:** On March 31, the estimated earnings decline for Q2 2015 was -2.3%. Seven sectors have lower growth rates today (compared to March 31) due to downward revisions to earnings estimates, led by the Industrials sector.
- + **Earnings Guidance:** For Q2 2015, 76 companies have issued negative EPS guidance and 28 companies have issued positive EPS guidance.
- + **Valuation:** The current 12-month forward P/E ratio is 16.8. This P/E ratio is above the 5-year average (13.8) and the 10-year average (14.1).
- + **Earnings Scorecard:** Of the 499 companies that have reported earnings to date for Q1 2015, 71% have reported earnings above the mean estimate and 46% have reported sales above the mean estimate.



## Topic of the Week:

### How Did Industry Analysts React to the Announcement of New Apple Products?

Apple unveiled several new products and services at the company’s WWDC this past Monday, including Apple Music, iOS9, and new Apple Watch software. Given these announcements, did analysts revise their outlook for Apple over the past week? Were there any significant changes to EPS estimates, ratings, or target prices for the company over this period?

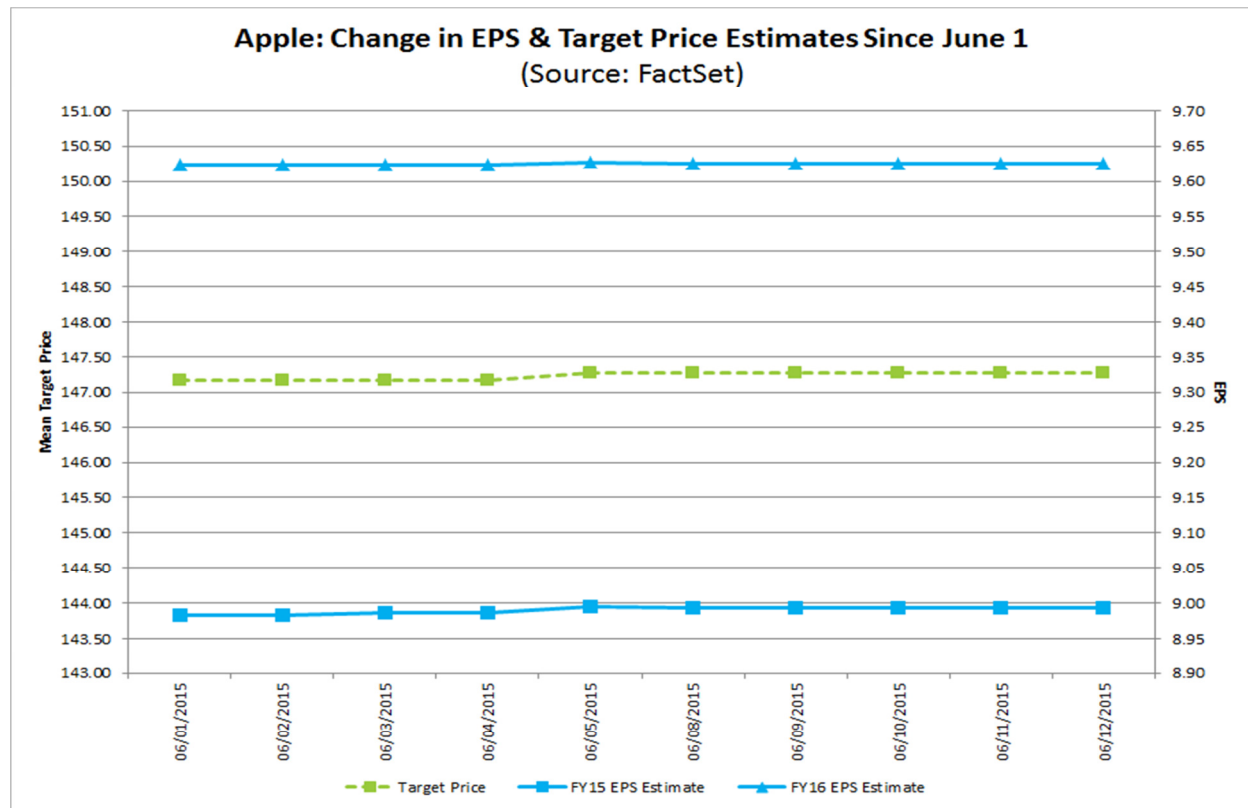
The answer is no.

In terms of EPS expectations, analysts did not make any significant changes to EPS estimates for either fiscal year 2015 or fiscal year 2016 over the past week. The mean EPS estimate for FY 2015 decreased by 0.03% during this time frame (to \$8.99 today from \$9.00 on June 5). The mean EPS estimate for FY 2016 (\$9.63) did not change over this period.

In terms of ratings, analysts did not change their opinions over the past week. The overall number of Buy ratings (36), Hold ratings (12), and Sell ratings (2) did not change during this period.

In terms of target prices, analysts did not change their opinions over the past week. The mean target price for Apple remained at \$147.28 during this period. This mean target price is 14.5% above the June 11 closing price of \$128.59.

The price of the stock fell by 0.7% on the day of the announcements (to \$127.80 on June 8 from \$128.65 on June 5). Since then, however, the price of the stock has increased by 0.6% (to \$128.59 yesterday from \$127.80 on June 8). The closing price of the stock yesterday (\$128.59) was just below the closing price from the previous Friday (\$128.65).



## Q2 2015 Earnings Season: By the Numbers

### Overview

Analysts have lowered earnings estimates for the S&P 500 for Q2 2015 to date by a smaller margin relative to recent quarters. On a per-share basis, estimated earnings for the second quarter have fallen by 2.3% since March 31. This percentage decline is much smaller than the percentage decline at the same point in time in the previous quarter (-8.0%), and it is also smaller than the trailing 5-year and 10-year averages.

Companies have lowered the bar for earnings for Q2 2015 as well. Of the 104 companies that have issued negative EPS guidance, 76 have issued negative EPS guidance and 28 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 73% (76 out of 104), which is above the 5-year average of 69%. However, this percentage is below the percentage recorded at the same point in time in the previous quarter (84%).

As a result of the downward revisions to earnings estimates, the estimated year-over-year earnings decline for Q2 2015 is -4.6% today, which is higher than the expected decline of -2.3% at the start of the quarter (March 31). The Energy sector is expected to report the largest year over-year decrease in earnings of all ten sectors, while the Health Care sector is predicted to have the highest earnings growth rate of all ten sectors for the quarter.

The estimated sales decline for Q1 2015 of -4.4% is higher than the estimated year-over-year revenue decline of -3.1% at the start of the quarter. The Energy sector is expected to report the largest year-over-year decrease in sales of all ten sectors. On the other hand, the Health Care sector is expected to report the highest growth in sales of all ten sectors for the quarter.

Looking at future quarters, analysts are expecting year-over-year declines in earnings to continue through Q315, and year-over-year declines in revenue to continue through Q415. Despite the estimate reductions, analysts are looking for record level EPS to resume in Q4 2015. Analysts also expect net profit margins to continue to rise to record levels (based on per-share estimates) starting in Q3 2015.

The forward 12-month P/E ratio is now 16.8, which is above the 5-year and 10-year averages.

During the upcoming week, 1 S&P 500 company is scheduled to report results for the first quarter and 7 S&P 500 companies are scheduled to report results for the second quarter.

### Smaller Cuts to Earnings Estimates than Average To Date

#### Small Increase in Projected Earnings Decline This Week

The estimated earnings decline for the second quarter is -4.6% this week, slightly higher than the estimated earnings decline of -4.5% last week. Downward revisions to earnings estimates for companies in the Airlines industry accounted for the small increase in the expected earnings decline during the week, as American Airlines Group (to \$2.70 from \$2.88), Southwest Airlines (to \$1.04 from \$1.09), and Delta Airlines (to \$1.23 from \$1.26) all have lower mean EPS estimates today relative to last Friday for the quarter.

#### Industrials Sector Has Seen Largest Cuts to Earnings Growth Expectations since March 31

The estimated earnings decline for Q2 2015 of -4.6% is higher than the estimated earnings decline of -2.3% at the start of the quarter (March 31). Seven sectors have recorded a decline in expected earnings growth since the beginning of the quarter due to downward revisions to earnings estimates, led by the Industrials and Consumer Discretionary sectors.

The Industrials sector has witnessed the largest decrease in expected earnings growth (to -3.2% from 4.2%) since the start of the quarter. Overall, 17 of the 65 companies in this sector have seen EPS estimates cut by 10% or more to date, led by Parker-Hannifin (to \$1.92 from \$2.34), American Airlines Group (to \$2.70 from \$3.32), Norfolk Southern (to \$1.54 from \$1.84), and Dover Corporation (to \$1.08 from \$1.30). However, the downward revisions to estimates for General Electric (to \$0.33 from \$0.39) and American Airlines Group (to \$2.70 from \$3.23) have been the largest contributors to the decrease in the earnings growth rate for the sector. The price of General Electric has increased by 10.9% (to 27.51 from 24.81) since March 31, which is the fourth largest price increase of all the companies in this sector over this period. On the other hand, the price of American Airlines Group has decreased by 24.2% (to \$40.02 from \$52.78) since March 31, which is the largest price decrease of all the companies in the Industrials sector over this period.

The Consumer Discretionary sector has recorded the second largest drop in expected earnings growth (to 4.2% from 9.0%) since the start of the quarter. At the company level, Netflix (to \$0.30 from \$0.86), Under Armour (to 0.05 from \$0.09), and Mattel (to -\$0.04 from -\$0.03) have seen the largest declines to earnings estimates during this time. Despite recording the second largest drop in expected earnings growth since March 31, the price of the Consumer Discretionary sector has increased by 1.8% (to 608.58 from 597.86) since the start of the quarter.

On the other hand, the Energy sector has witnessed the largest improvement in expected earnings of all ten sectors since March 31, as the projected year-over-year decline for the sector has fallen to -61.0% from -62.3% over this period. Overall, 18 of the 41 companies in this sector have seen an increase in EPS estimates to date. Nine of these 18 companies have seen a double-digit increase in EPS estimates, led by Transocean (to \$0.42 from \$0.24), QEP Resources (to -\$0.14 from -\$0.25), and ConocoPhillips (to \$0.04 from \$0.03). However, the upward revisions to estimates for Exxon Mobil (to \$0.92 from \$0.81) and Chevron (to \$0.95 from \$0.79) have been the largest contributors to the decrease in the earnings decline for the sector. Despite recording the largest improvement in estimated earnings since March 31, the price of the Energy sector has increased by just 0.3% (to 567.19 from 565.76) since the start of the quarter.

#### **EPS Estimate Cuts: Smaller Cuts to Estimates than Average to Date**

Downward revisions to earnings estimates in aggregate for the second quarter to date have been lower than recent averages. The percentage decline in the Q2 bottom-up EPS estimate (which is an aggregation of the earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings for the index) since March 31 has been 2.3% (to \$28.73 from \$29.39). This decline in the EPS estimate for the quarter is below the trailing 1-year (-4.5%), 5-year (-2.6%), and 10-year averages (-4.1%) for the bottom-up EPS estimate through this same point in time in the quarter.

#### **Guidance: Negative EPS Guidance (73%) for Q2 Above Average**

At this point in time, 104 companies in the index have issued EPS guidance for Q2 2015. Of these 104 companies, 76 have issued negative EPS guidance and 28 have issued positive EPS guidance. Thus, the percentage of companies issuing negative EPS guidance to date for the second quarter is 73% (76 out of 104). This percentage is above the 5-year average of 69%. However, this percentage is also below the percentage recorded at the same point in time in the previous quarter (84%).

#### **Largest Decline in Earnings (-4.6%) Expected Since Q3 2009 (-15.5%)**

The estimated earnings decline for Q2 2015 is -4.6%. If this is the final earnings decline for the quarter, it will mark the first year-over-year decrease in earnings since Q3 2012 (-1.0%), and the largest year-over-year decline in earnings since Q3 2009 (-15.5%). Six sectors are projected to report year-over-year growth in earnings, led by the Health Care. Three sectors are predicted to report a year-over-year decline in earnings, led by the Energy sector. One sector (Materials) is projected to report flat year-over-year earnings (0%).

### Health Care: Actavis Projected to Lead Growth

The Health Care sector is expected to report the highest earnings growth rate at 7.7%. At the industry level, five of the six industries in the sector are predicted to report earnings growth, led by the Health Care Technology industry (29%). At the company level, Actavis PLC is the largest contributor to earnings growth for the sector. The EPS estimate for Actavis PLC for Q2 2015 is \$4.39, compared to year-ago EPS of \$3.42 in Q2 2014. If this company is excluded, the estimated earnings growth rate for the sector would fall to 4.5%.

### Energy: Broad-Based Decline in Earnings

The Energy sector is predicted to report the largest year-over-year decline in earnings (-61.0%) of all ten sectors. Five of the seven sub-industries are projected to report a year-over-year drop in earnings: Oil & Gas Exploration & Production (-111%), Integrated Oil & Gas (-57%), Oil & Gas Drilling (-56%), Oil & Gas Equipment & Services (-55%), and Coal & Consumable Fuel (-2%). On the other hand, the Oil & Gas Refining & Marketing (25%) and Oil & Gas Storage & Transportation (17%) sub-industries are the only two sub-industries expected to report earnings growth for the quarter.

This sector is also expected to be the largest contributor to the earnings decline for the S&P 500 as a whole. If the Energy sector is excluded, the estimated earnings growth rate for the S&P 500 would jump to 2.2% from -4.6%.

### Largest Decline in Revenue (-4.4%) Expected Since Q3 2009 (-11.5%)

The estimated revenue decline for Q2 2015 is -4.4%. If this is the final revenue decline for the quarter, it will mark the first time the index has seen two consecutive quarters of year-over-year revenue declines since Q2 2009 and Q3 2009. It will also mark the largest year over-year decline in revenue since Q3 2009 (-11.5%). Six sectors are projected to report year-over-year growth in revenue, led by the Health Care sector. Four sectors are predicted to report a year-over-year decline in revenue, led by the Energy sector.

The Health Care sector is predicted to report the highest revenue growth of all ten sectors at 7.0%. Five of the six industries in the sector are projected to report sales growth for the quarter. Three of these six industries are expected to report double-digit sales growth: Health Care Technology (41%), Biotechnology (12%), and Health Care Equipment & Supplies (11%).

On the other hand, the Energy (-40.5%) sector is projected to report the largest year-over-year decrease in sales for the quarter. Six of the seven sub-industries in the sector are predicted to report a decrease in revenue: Integrated Oil & Gas (-47%), Oil & Gas Refining & Marketing (-41%), Oil & Gas Exploration & Production (-40%), Oil & Gas Drilling (-26%), Oil & Gas Equipment & Services (-25%), and Coal & Consumable Fuels (-13%). The only sub-industry expected to report year-over-year growth in revenue is the Oil & Gas Storage & Transportation sub-industry at 3%.

This sector is also predicted to be the largest contributor to the estimated revenue decline for the S&P 500 as a whole. If the Energy sector is excluded, the estimated revenue growth rate for the S&P 500 would jump to 1.7% from -4.4%.

## Looking Ahead: Forward Estimates and Valuation

### Revenue Growth Not Expected to Return Until 2016

For Q2 2015, analysts are predicting year-over-year declines in earnings (-4.6%) and revenues (-4.4%). Analysts do not currently project earnings growth to return until Q4 2015 and revenue growth to return until Q1 2016. In terms of earnings, analysts are currently predicting a decline of 0.8% in Q3 2015, followed by growth of 4.7% in Q4 2015. In terms of revenue, analysts are currently projecting a decline of 2.5% in Q3 2015 and a decline of 0.2% in Q4 2015, followed by growth of 5.9% in Q1 2016.

For all of 2015, analysts are projecting earnings to grow by 1.6%, but revenues to decline by 1.8%.

### Higher Margins Projected for 2<sup>nd</sup> Half of 2015

Analysts are also expecting profit margins to continue to expand in 2015. Using the bottom-up sales-per-share (SPS) and earnings-per-share (EPS) estimates for the S&P 500 as proxies for expected sales and earnings for the index over the next few quarters, profit margin estimates can be calculated by dividing the expected EPS by the expected SPS for each quarter. Using this methodology, the estimated net profit margins for Q2 2015 through Q4 2015 are 10.2%, 10.5%, and 10.6%. These numbers (starting in Q3 2015) are above the net profit margin for Q1 2015 (10.3%), and are also well above the average net profit margin of 9.4% recorded over the past five years.

### Valuation: Forward P/E Ratio is 16.8, above the 10-Year Average (14.1)

The current 12-month forward P/E ratio is 16.8. At the sector level, the Energy (26.0) sector has the highest forward 12-month P/E ratio, while the Telecom Services (13.3) and Financials (13.5) sectors have the lowest forward 12-month P/E ratios.

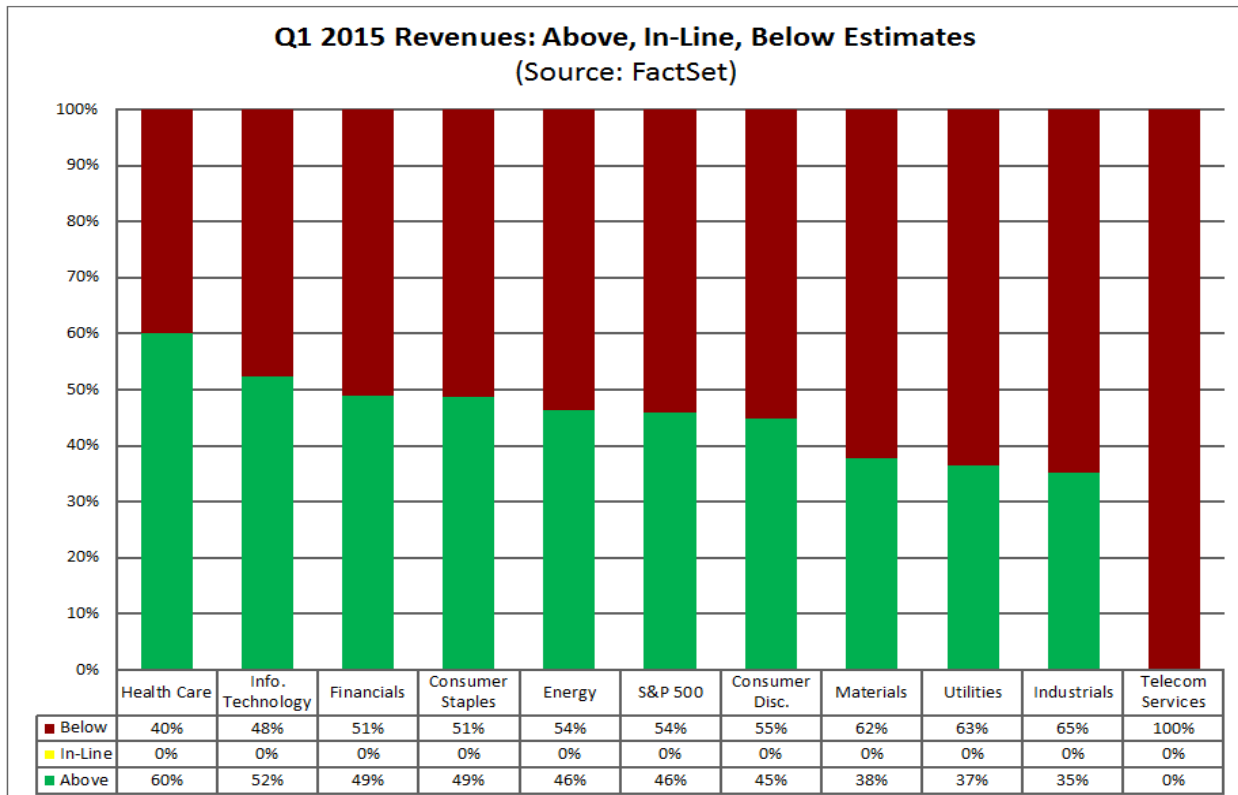
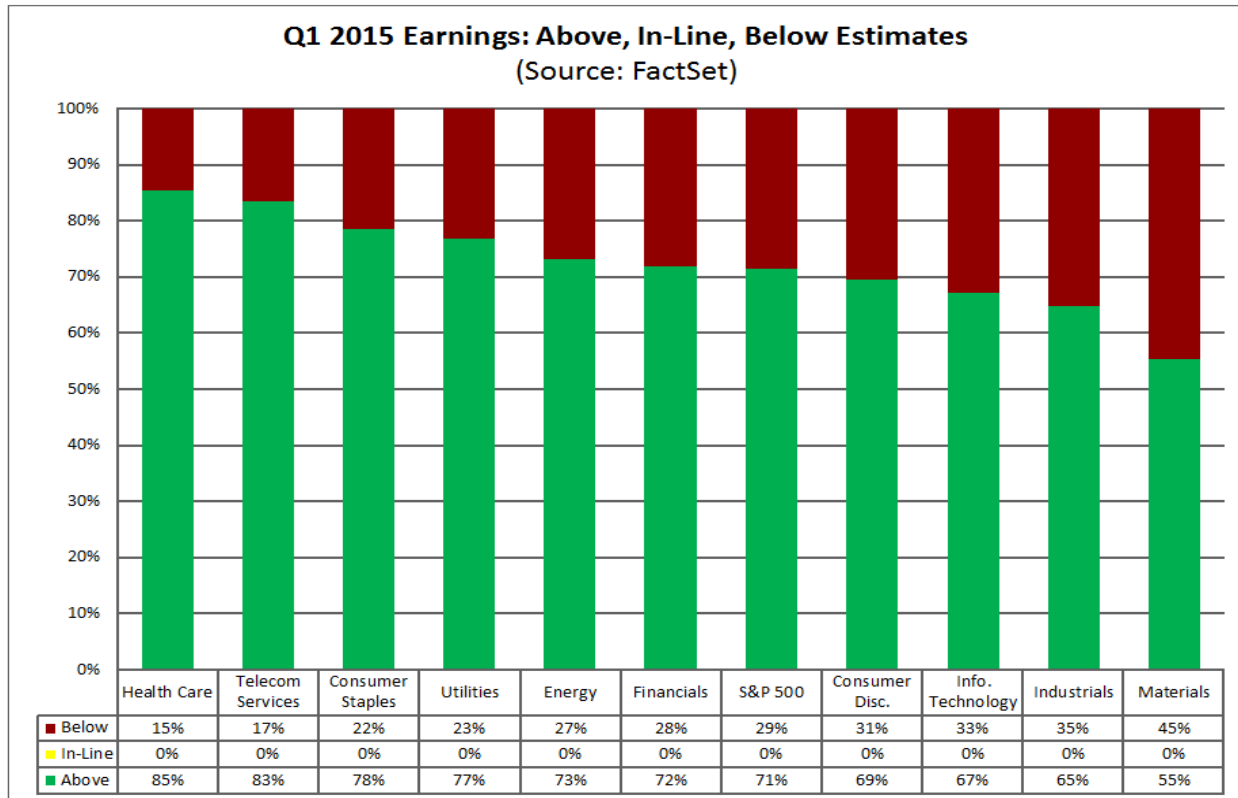
The P/E ratio of 16.8 for the index as a whole is above the prior 5-year average forward 12-month P/E ratio of 13.8, and above the prior 10-year average forward 12-month P/E ratio of 14.1. It is also above the forward 12-month P/E ratio of 16.7 recorded at the start of the second quarter (March 31). Since the start of the second quarter, the price of the index has increased by 2.0%, while the forward 12-month EPS estimate has increased by 1.9%.

Nine of the ten sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Energy (26.0 vs. 12.5) sector. The only sector with a forward 12-month P/E ratio below the 10-year average is the Telecom Services (13.3 vs. 14.8) sector.

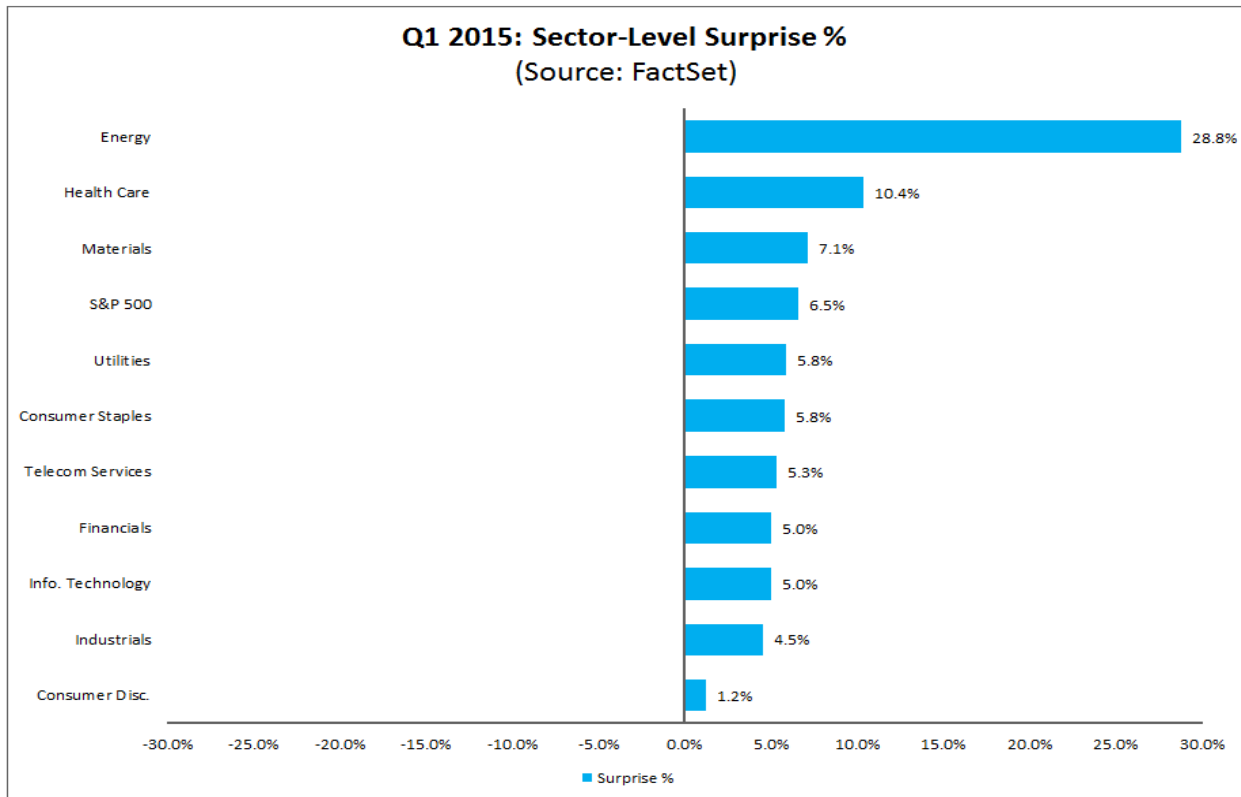
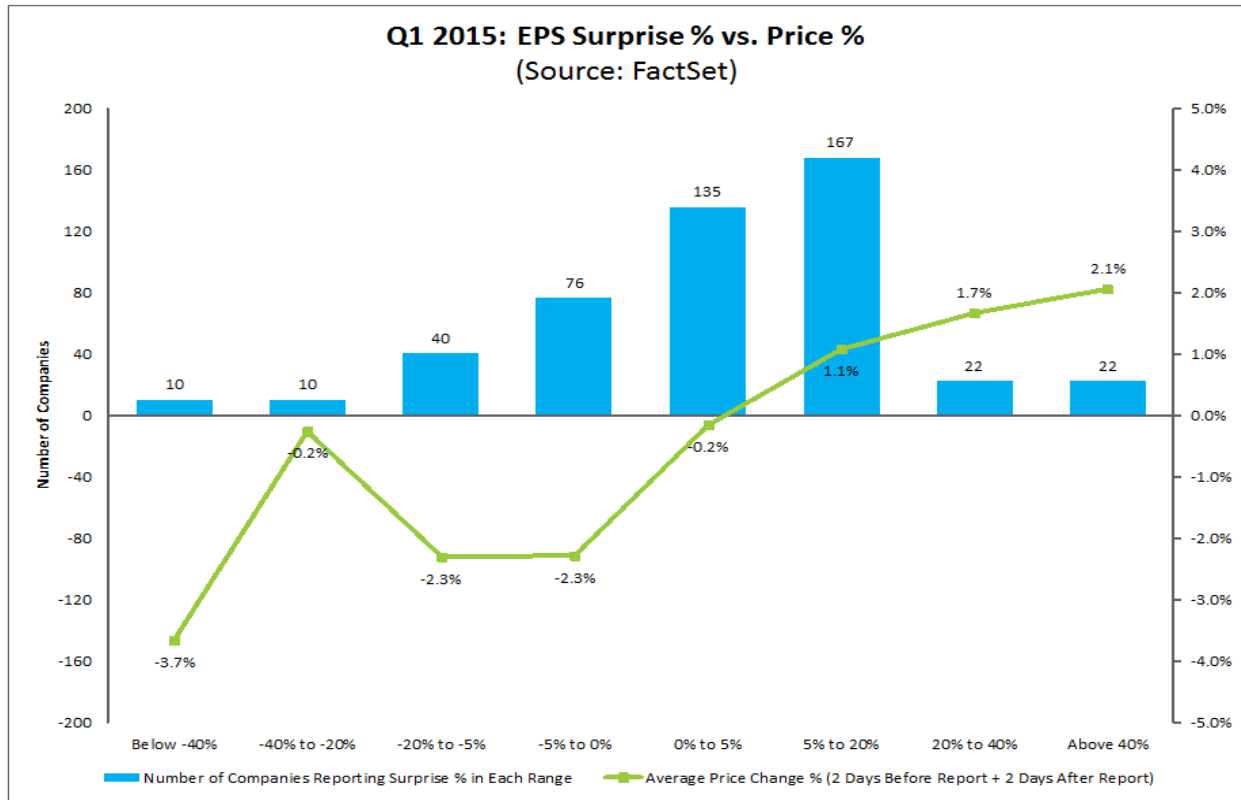
### Companies Reporting Next Week: 8

During the upcoming week, 1 S&P 500 company is scheduled to report results for the first quarter and 7 S&P 500 companies are scheduled to report results for the second quarter.

Q1 2015: Scorecard

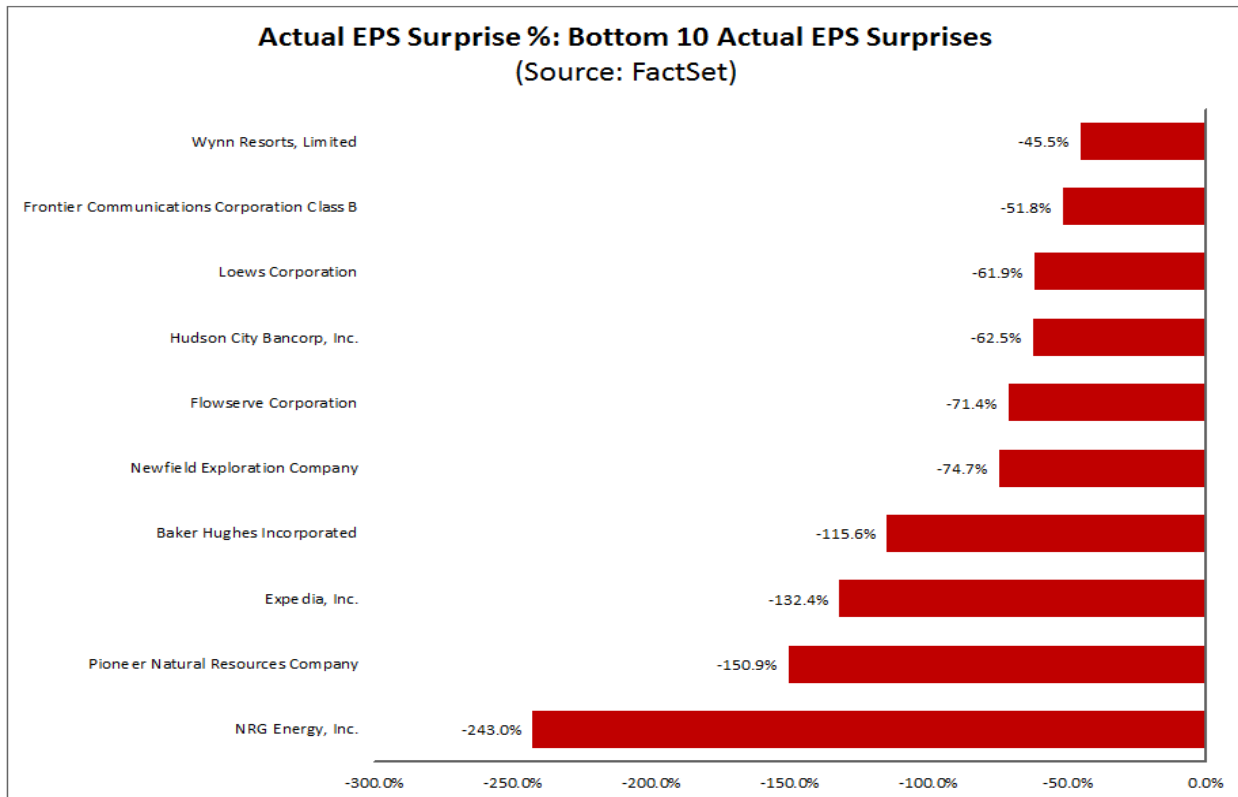
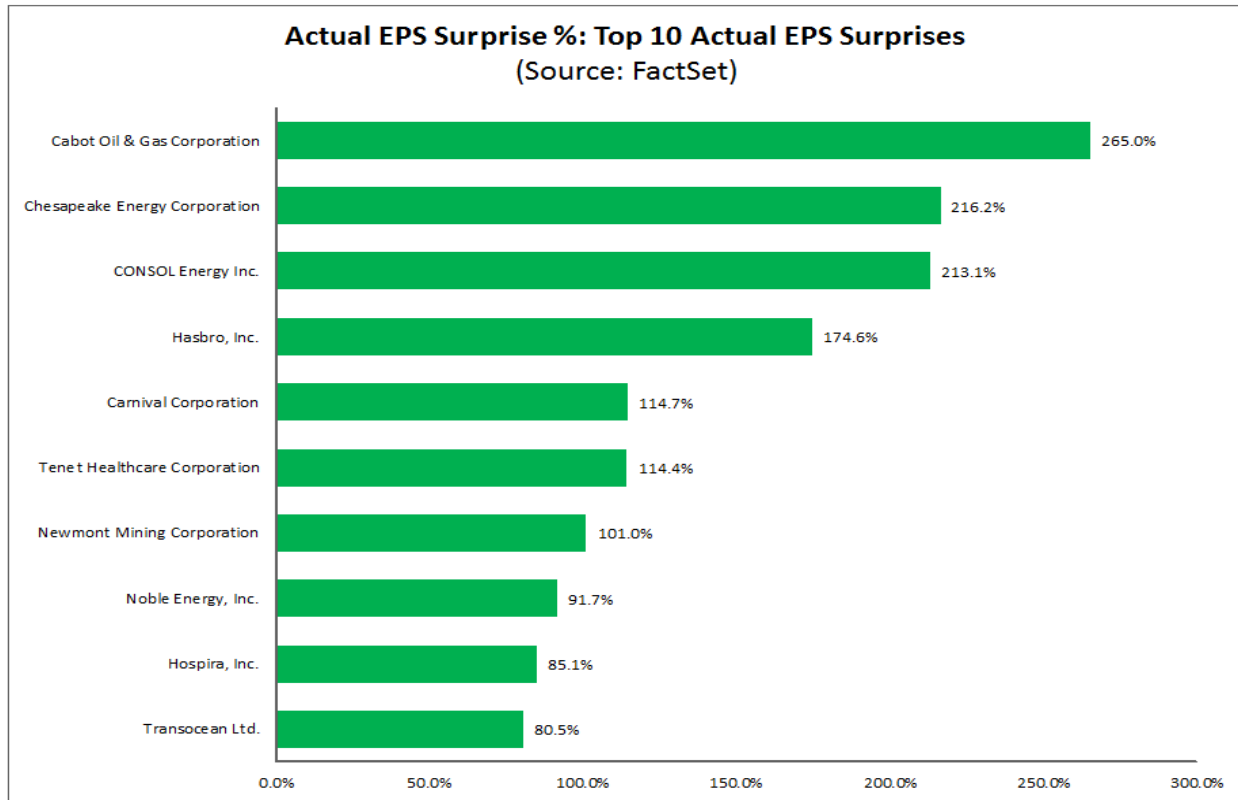


Q1 2015: Scorecard

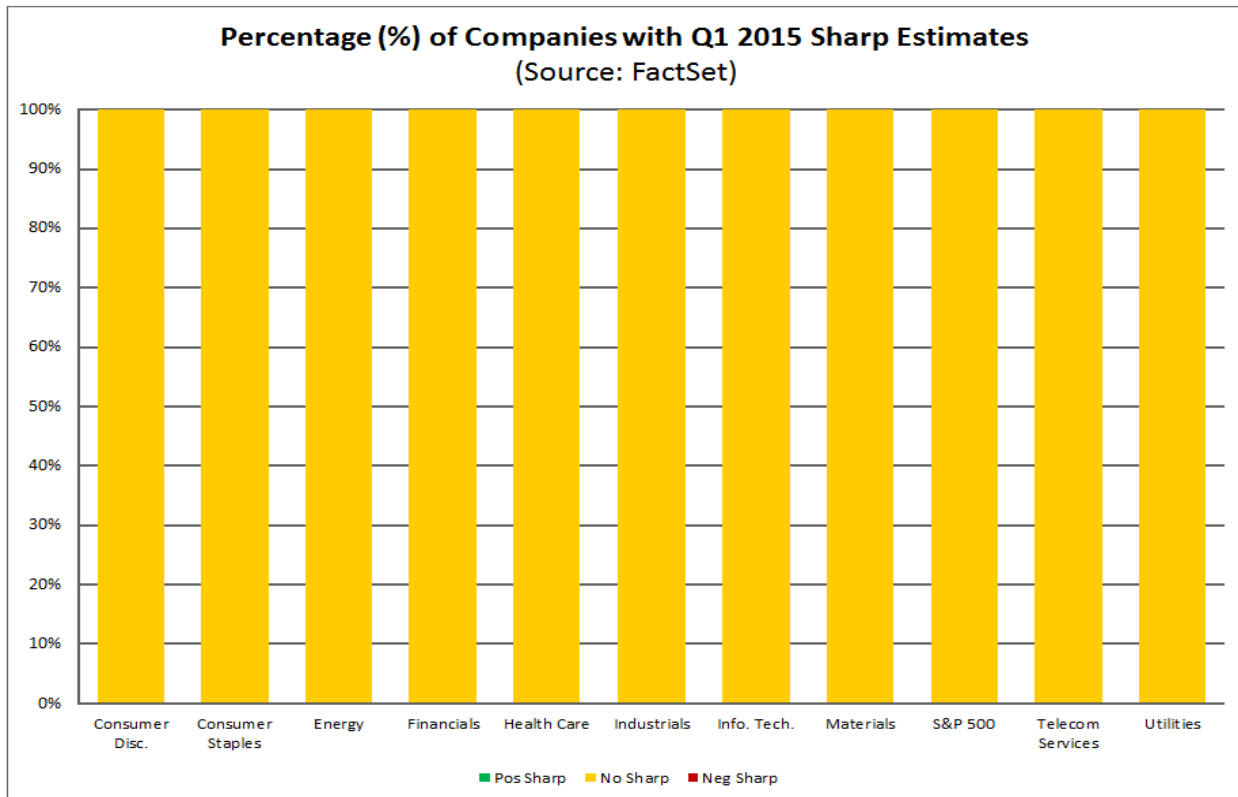
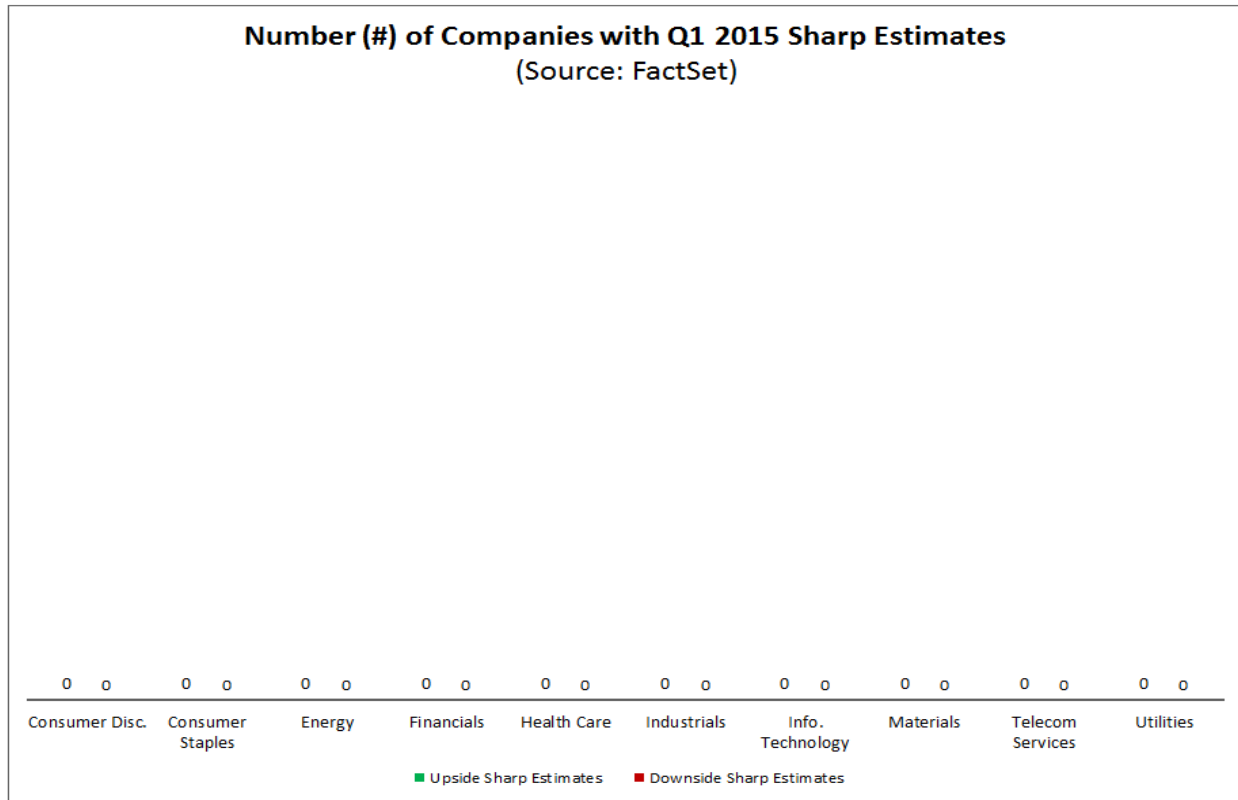




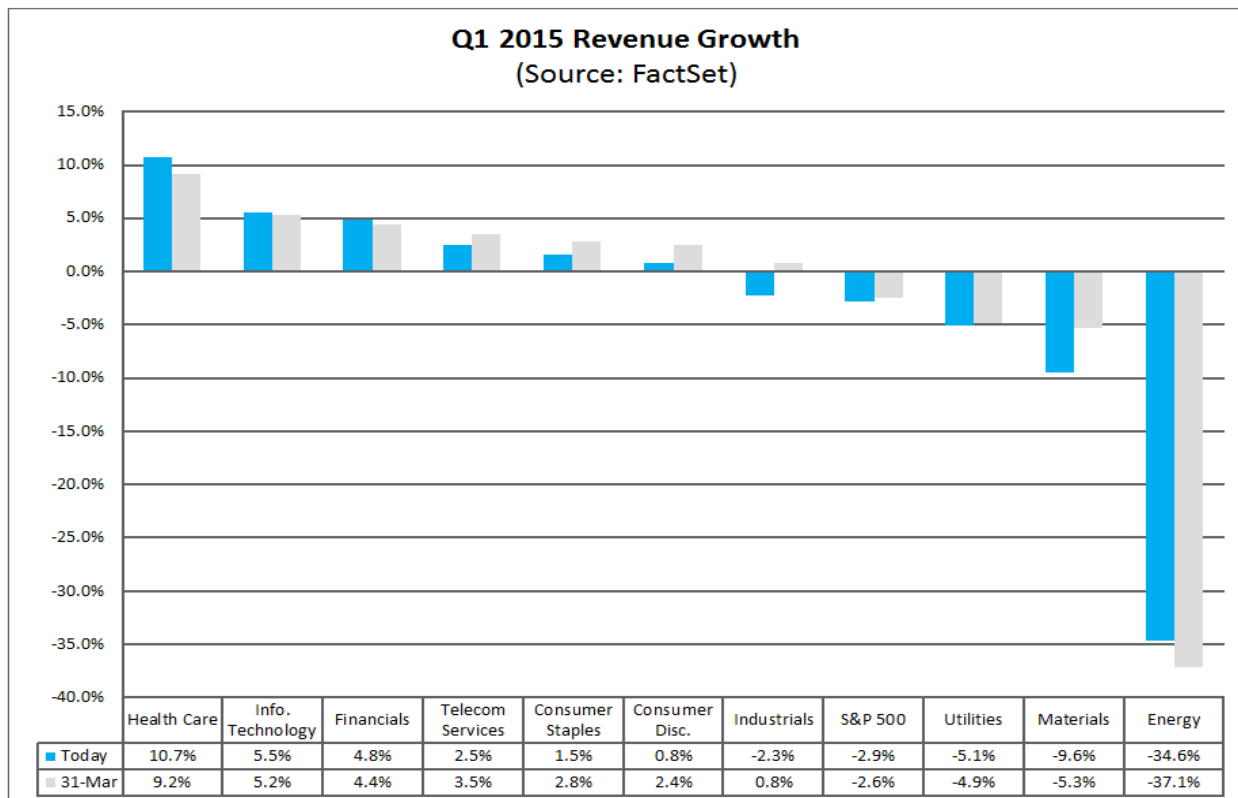
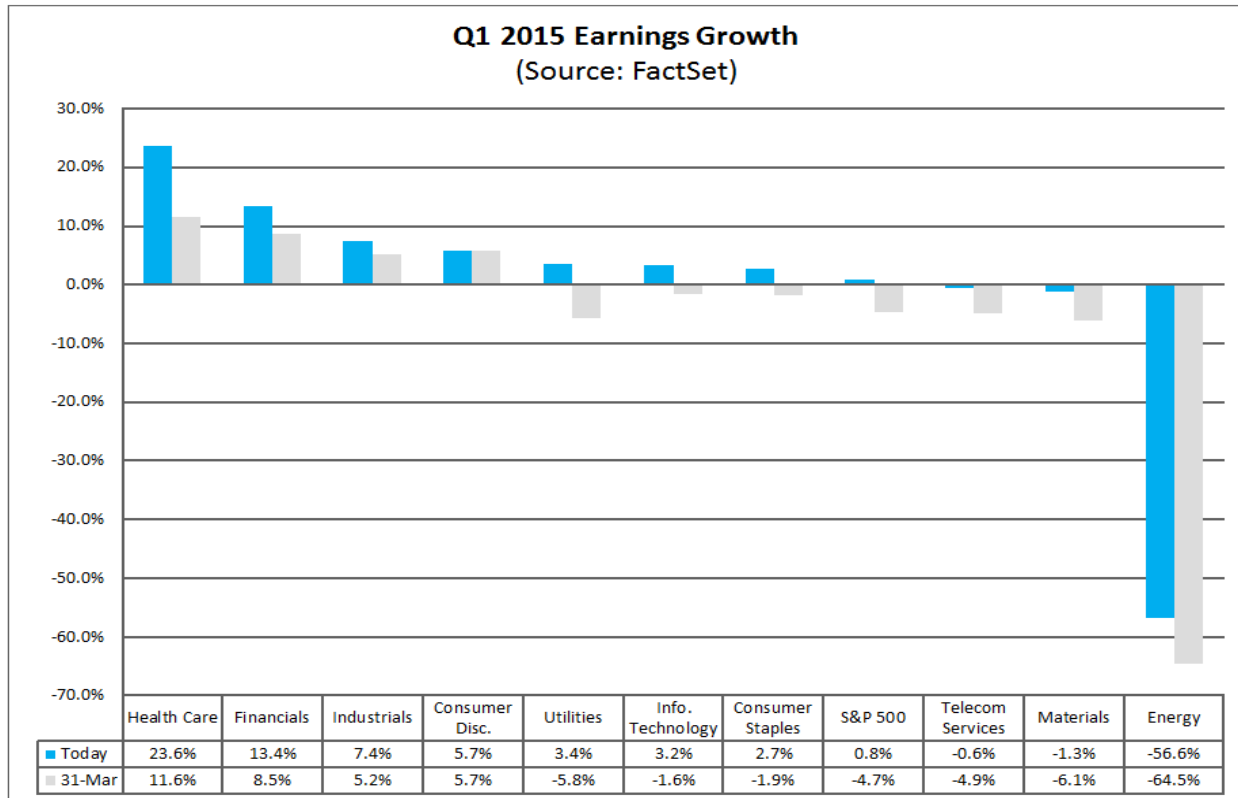
Q1 2015: Scorecard



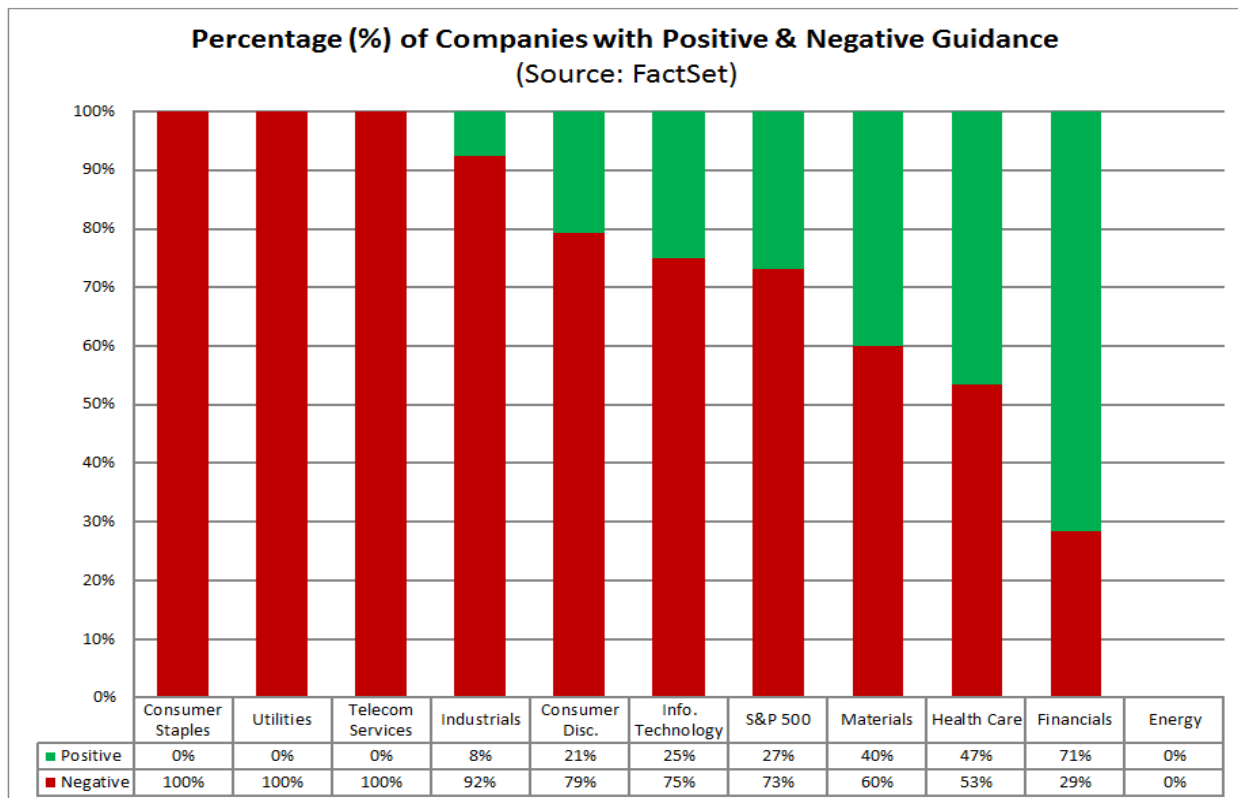
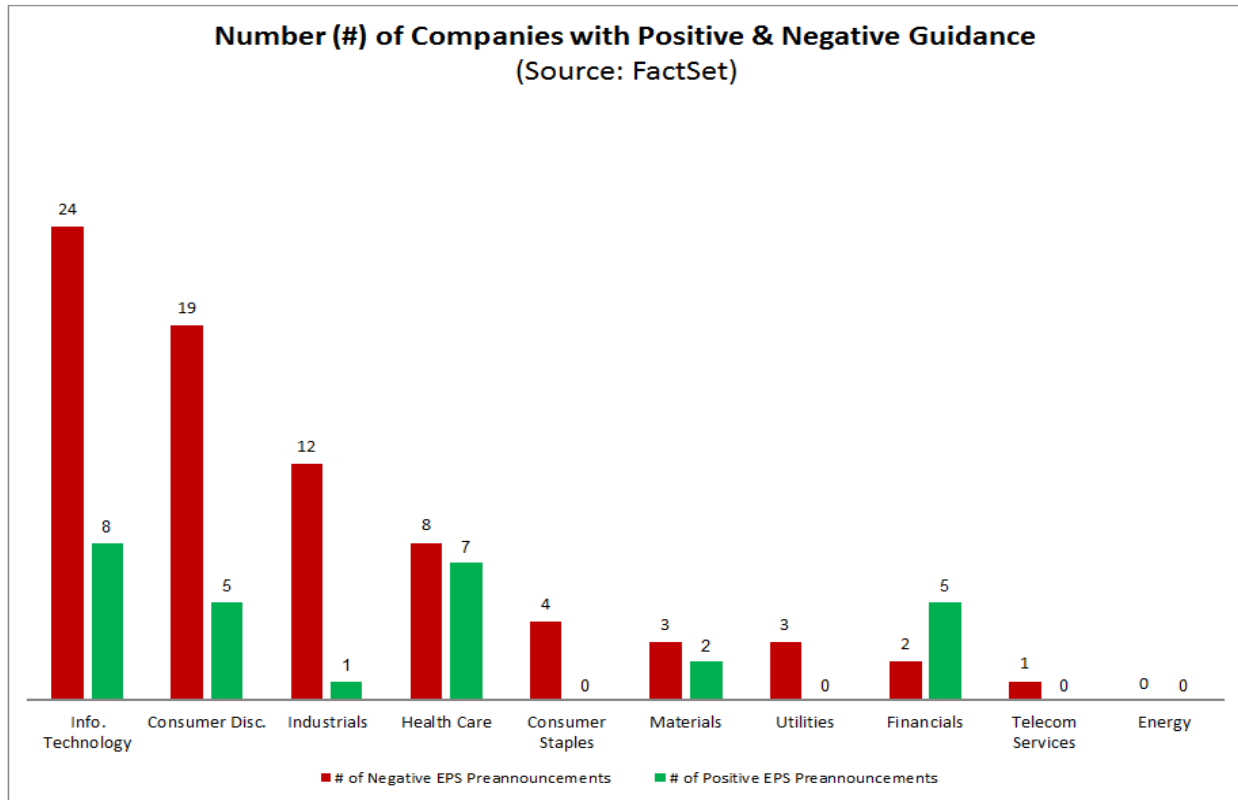
## Q1 2015: Projected EPS Surprises (Sharp Estimates)



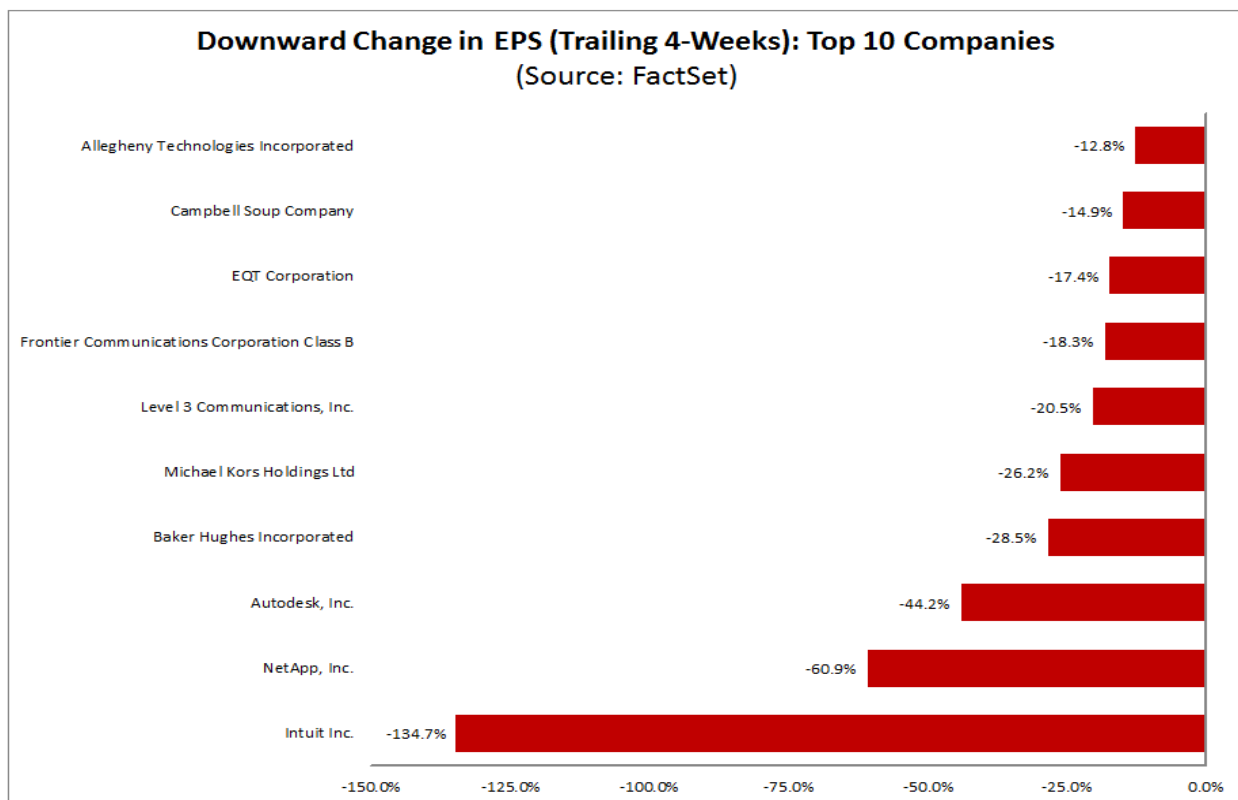
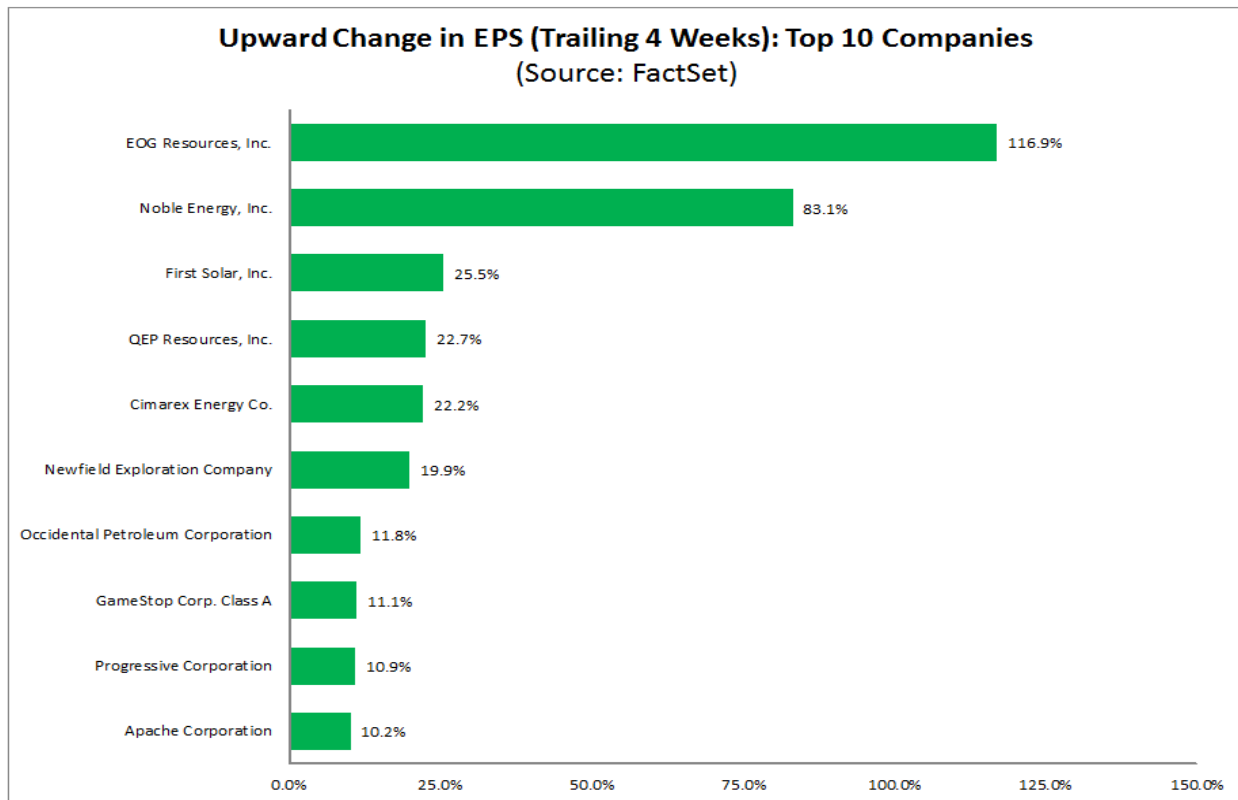
Q1 2015: Growth



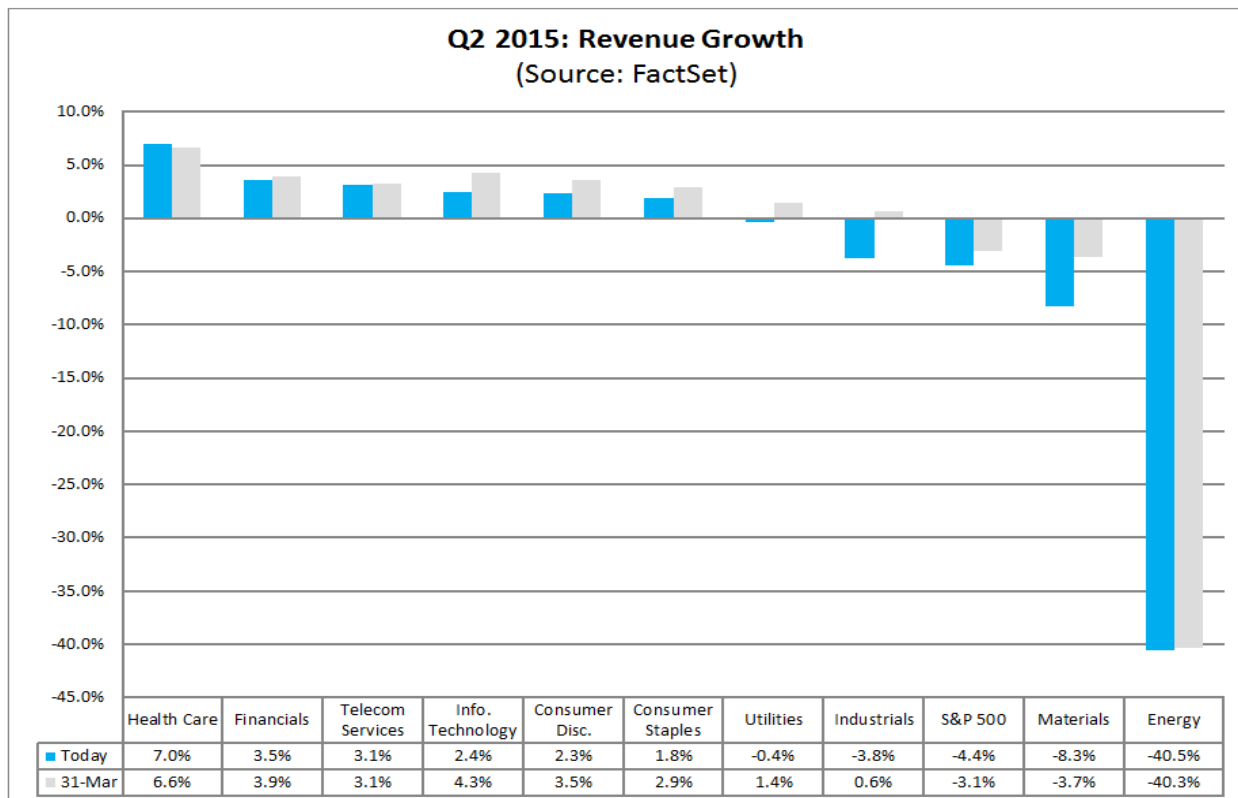
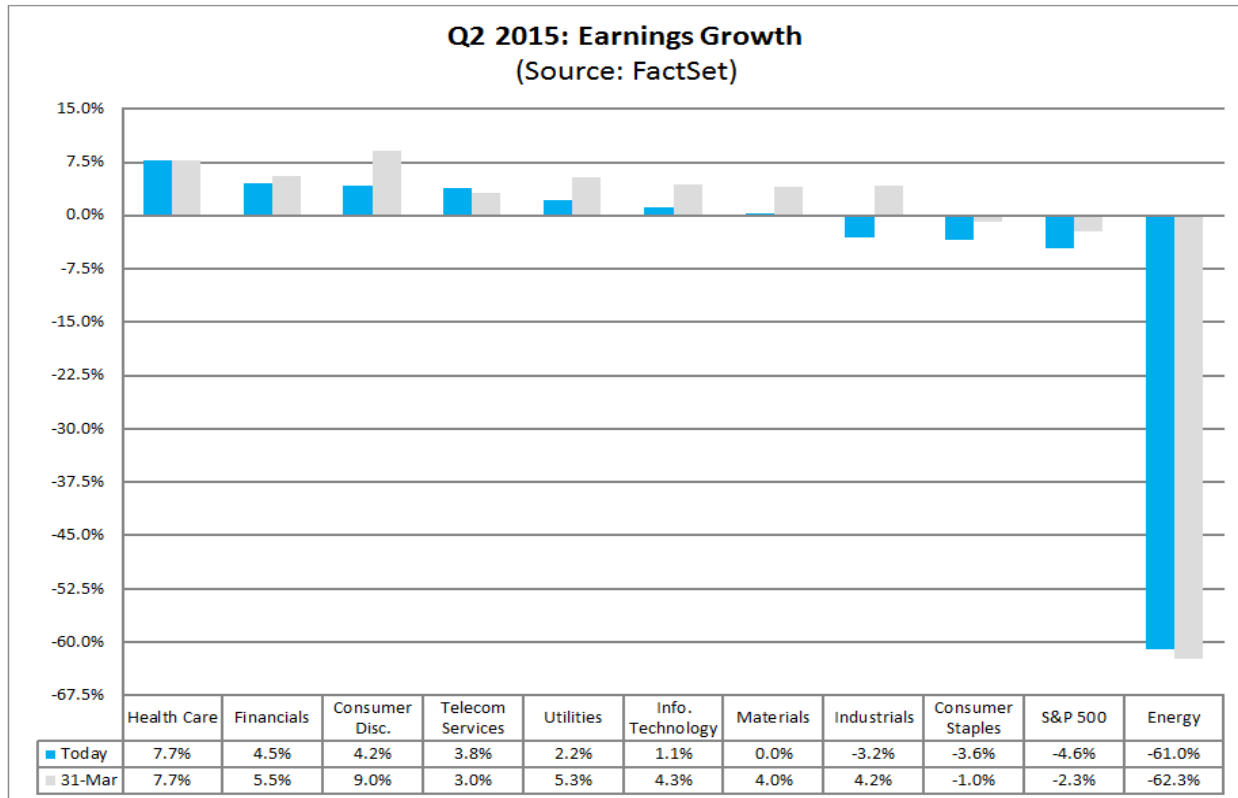
Q2 2015: EPS Guidance



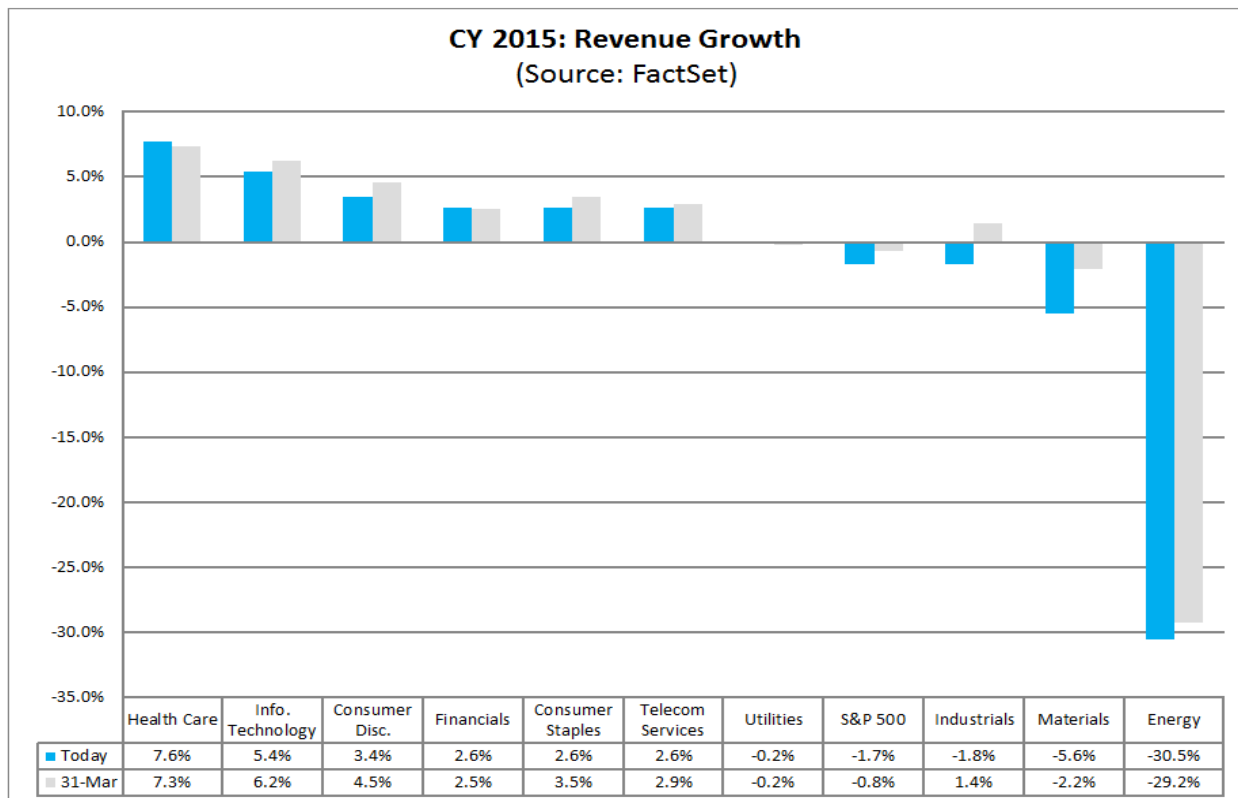
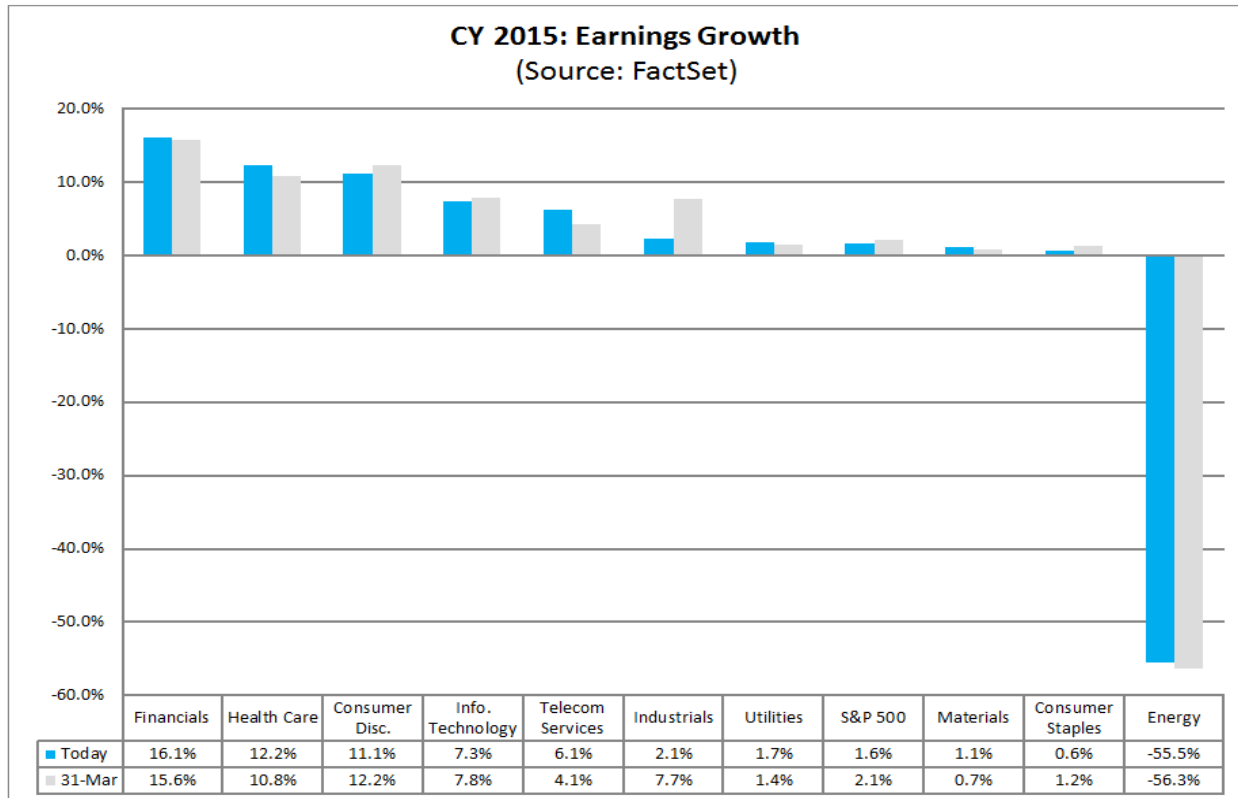
Q2 2015: EPS Revisions



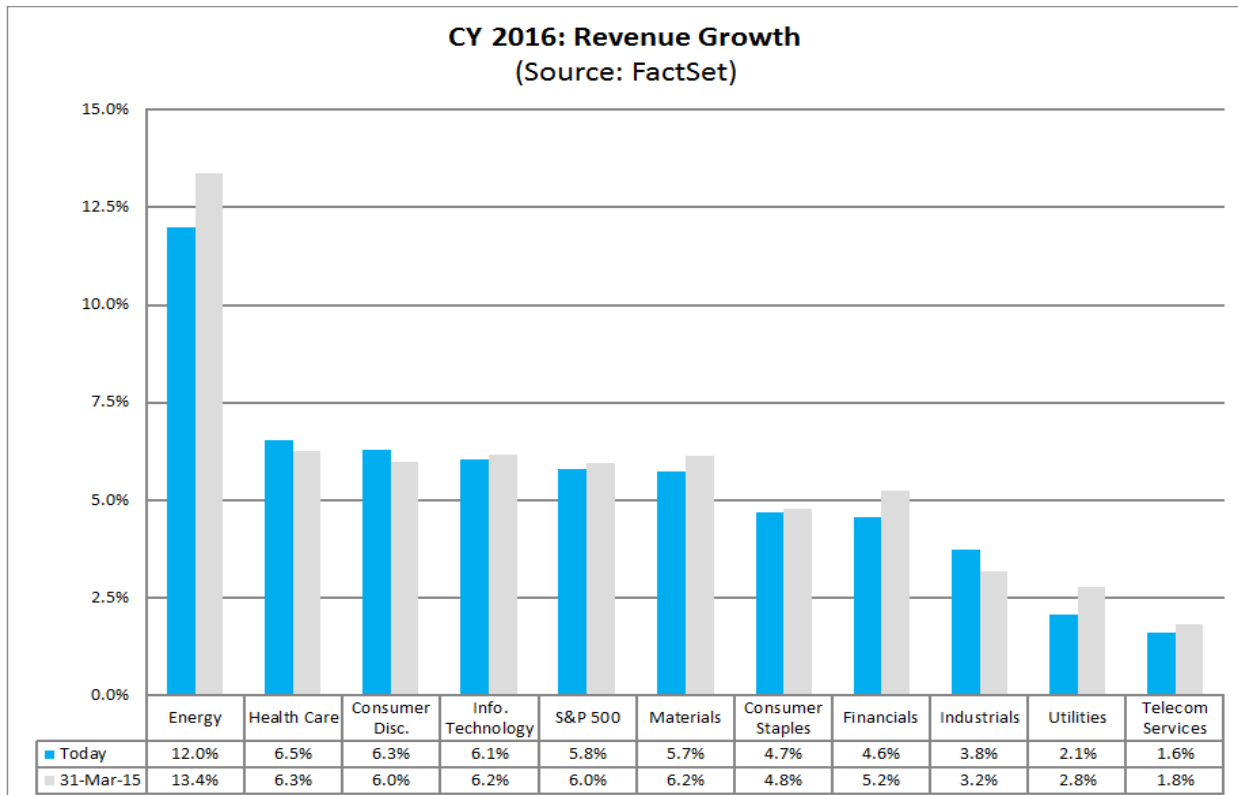
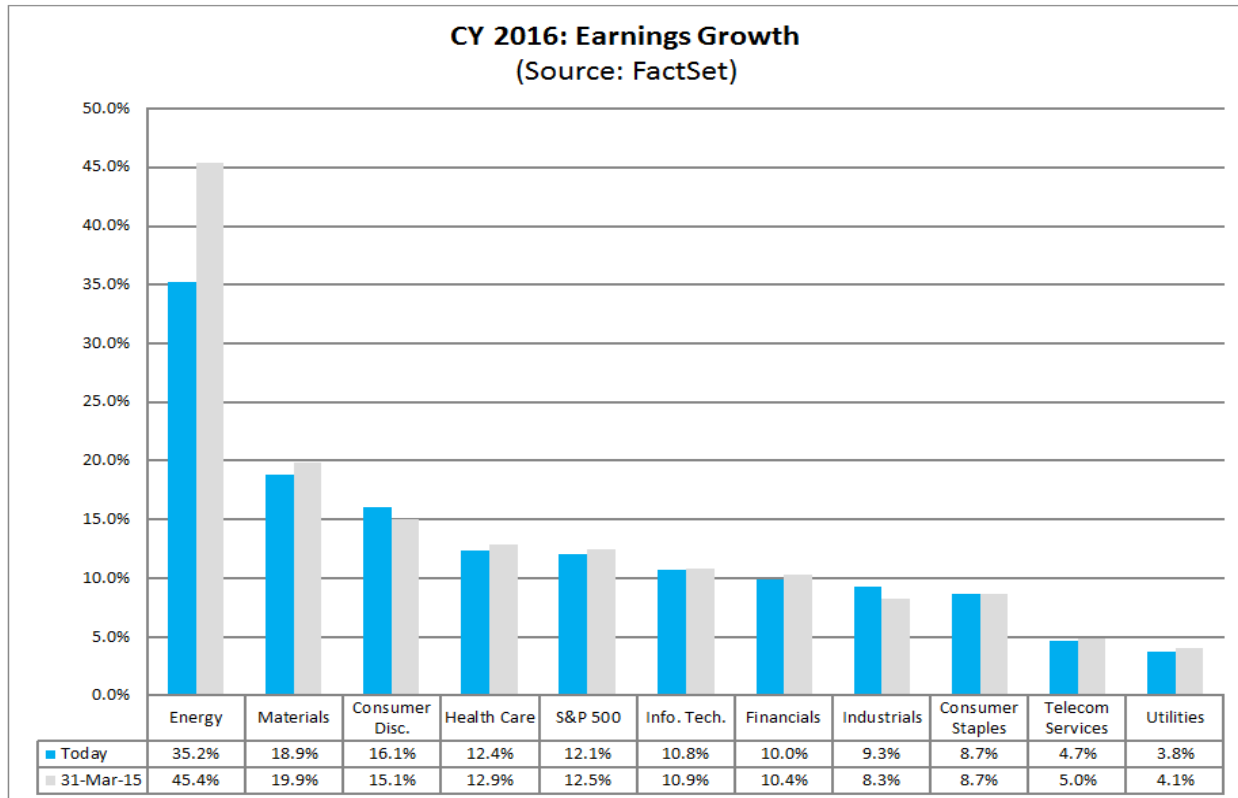
Q2 2015: Growth



CY 2015: Growth

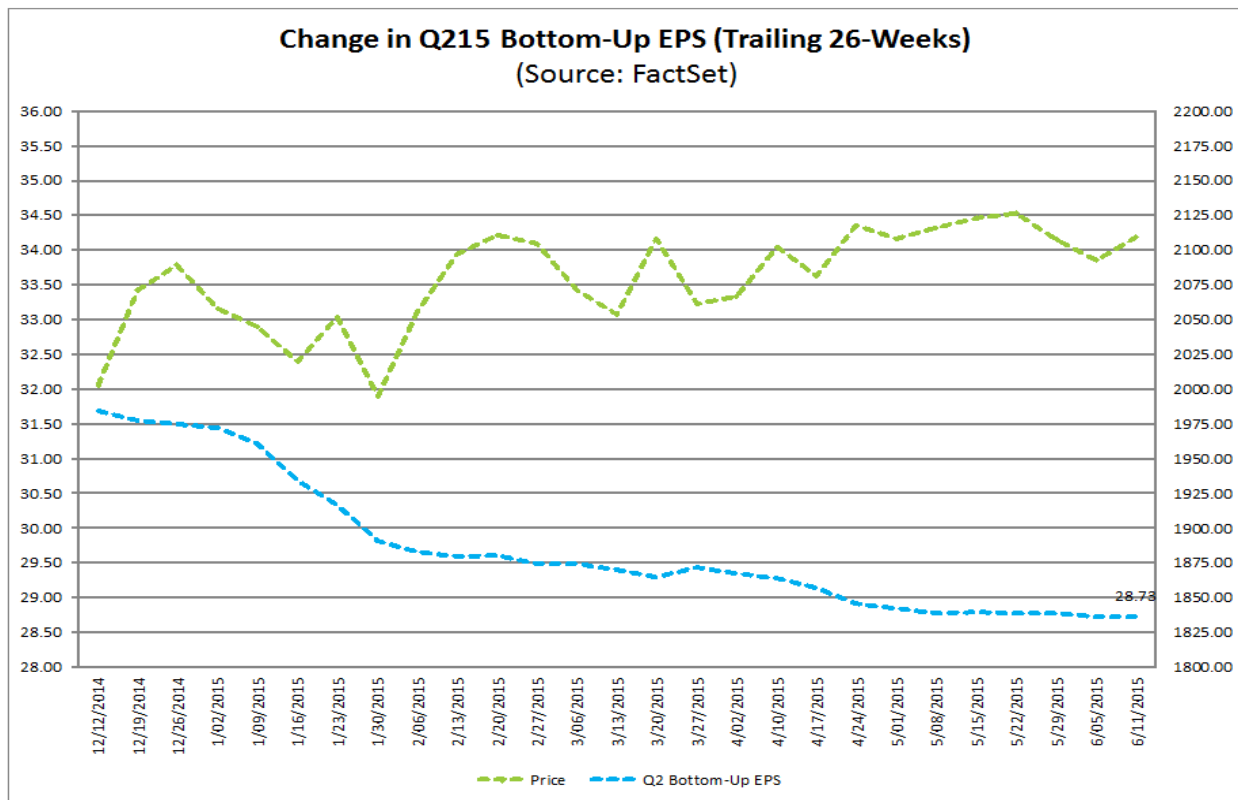
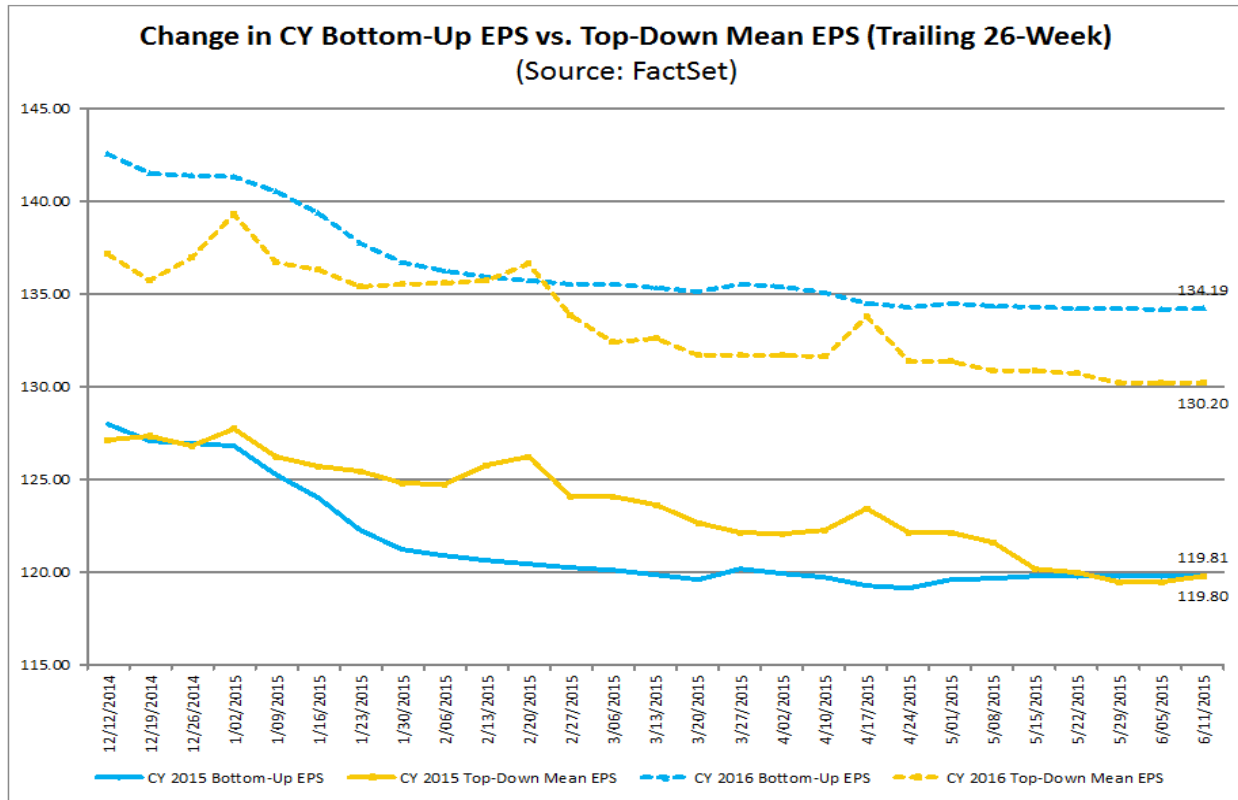


CY 2016: Growth

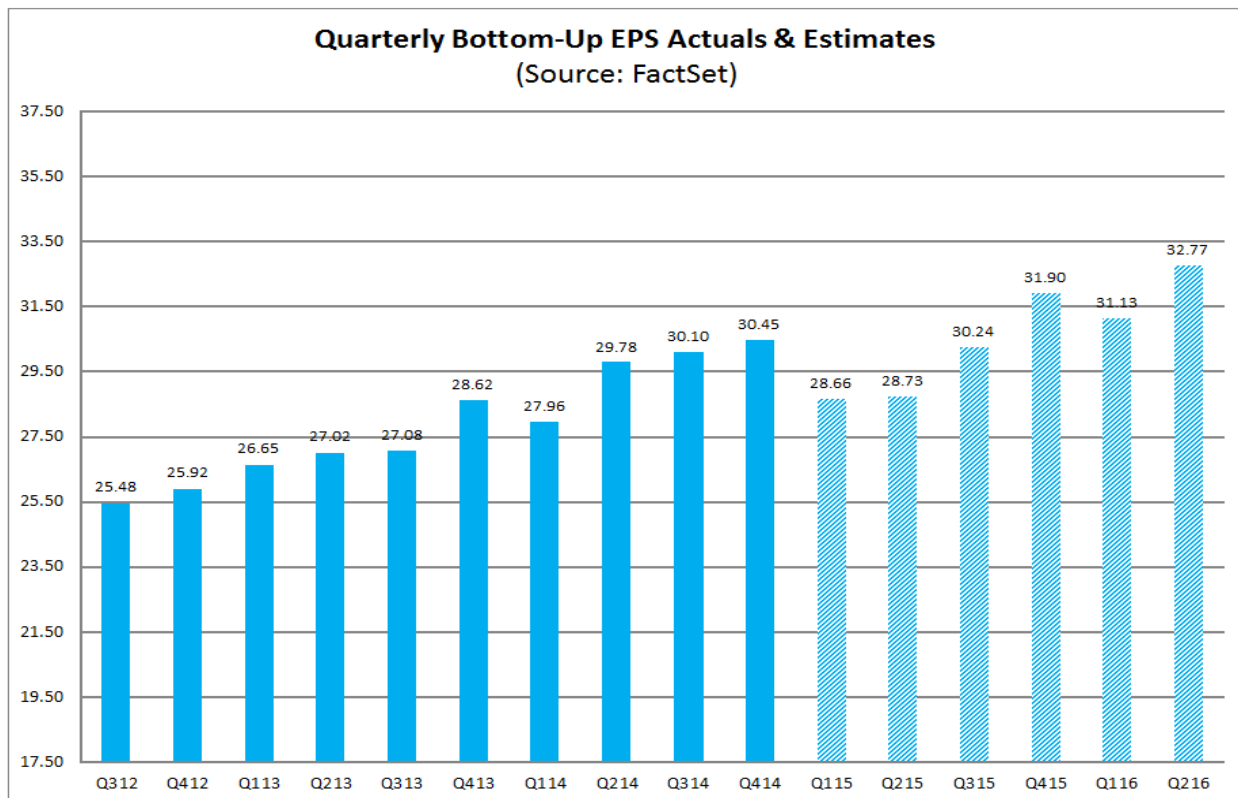
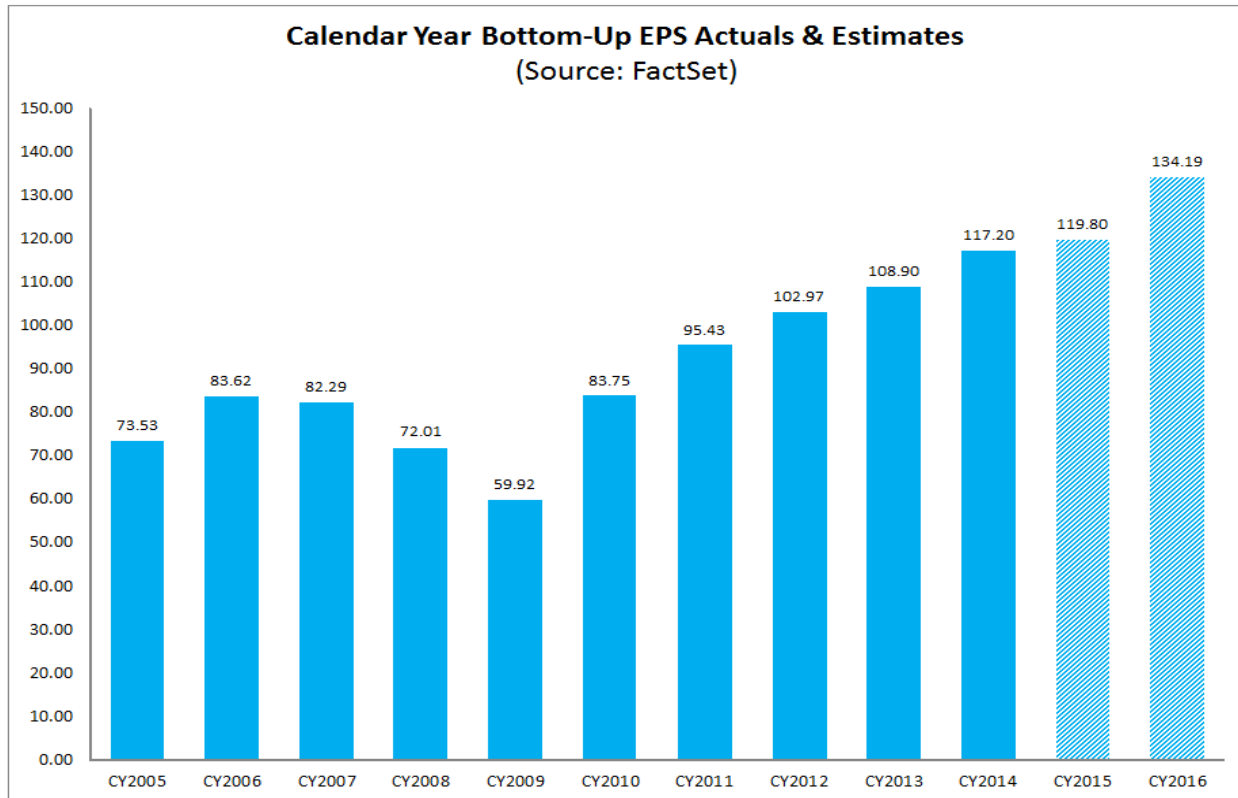




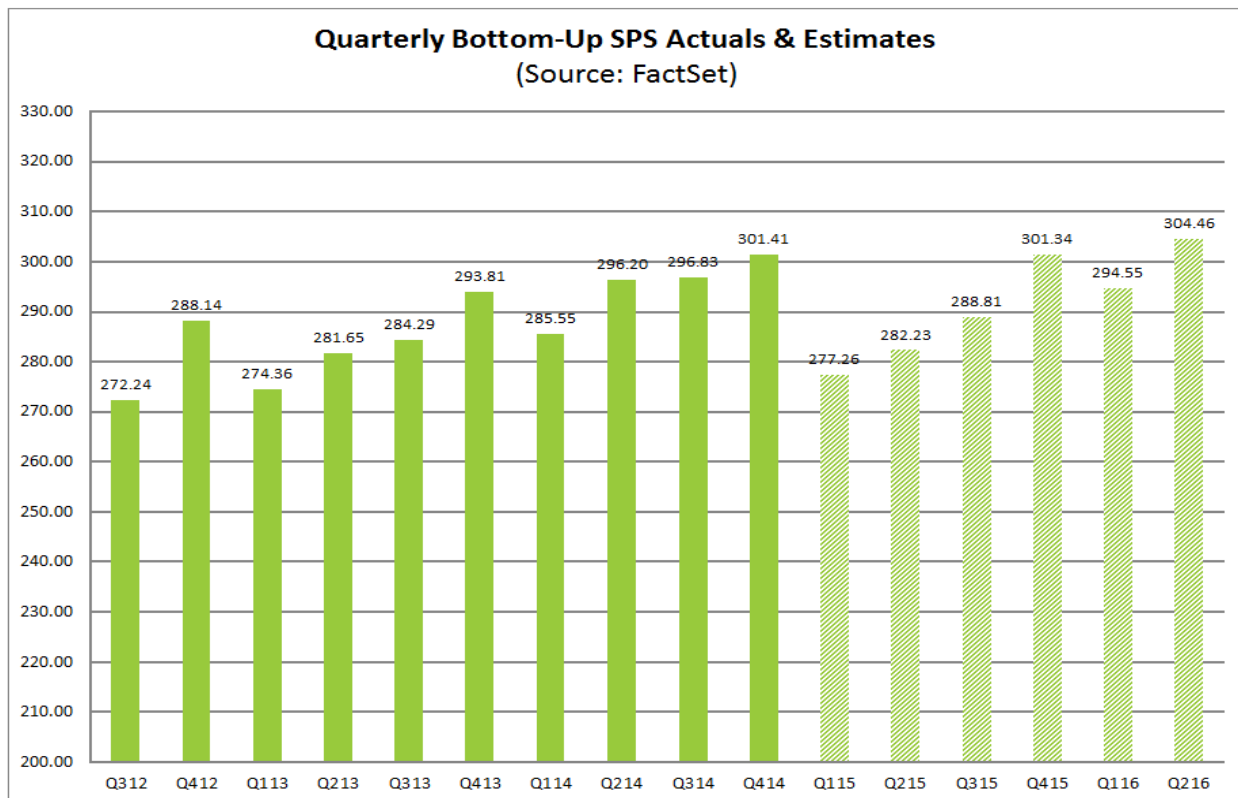
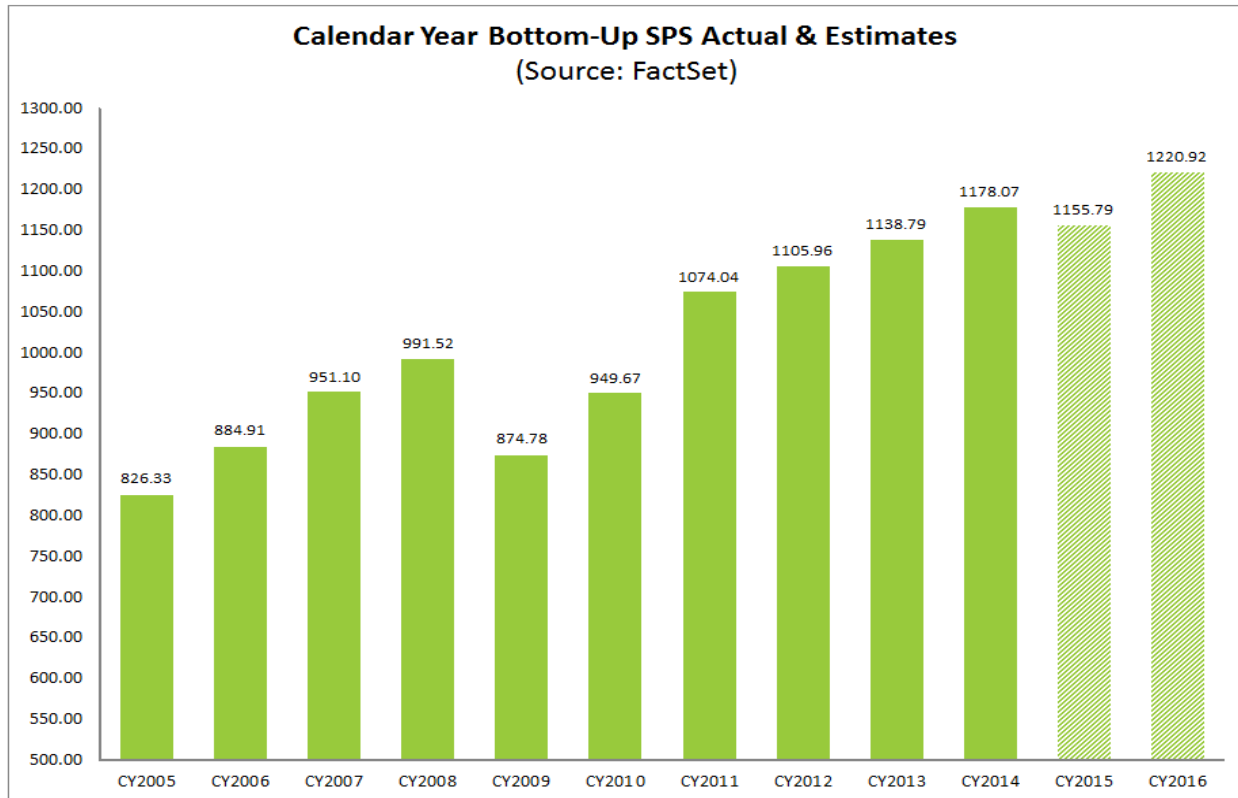
## Bottom-up EPS Estimates: Revisions



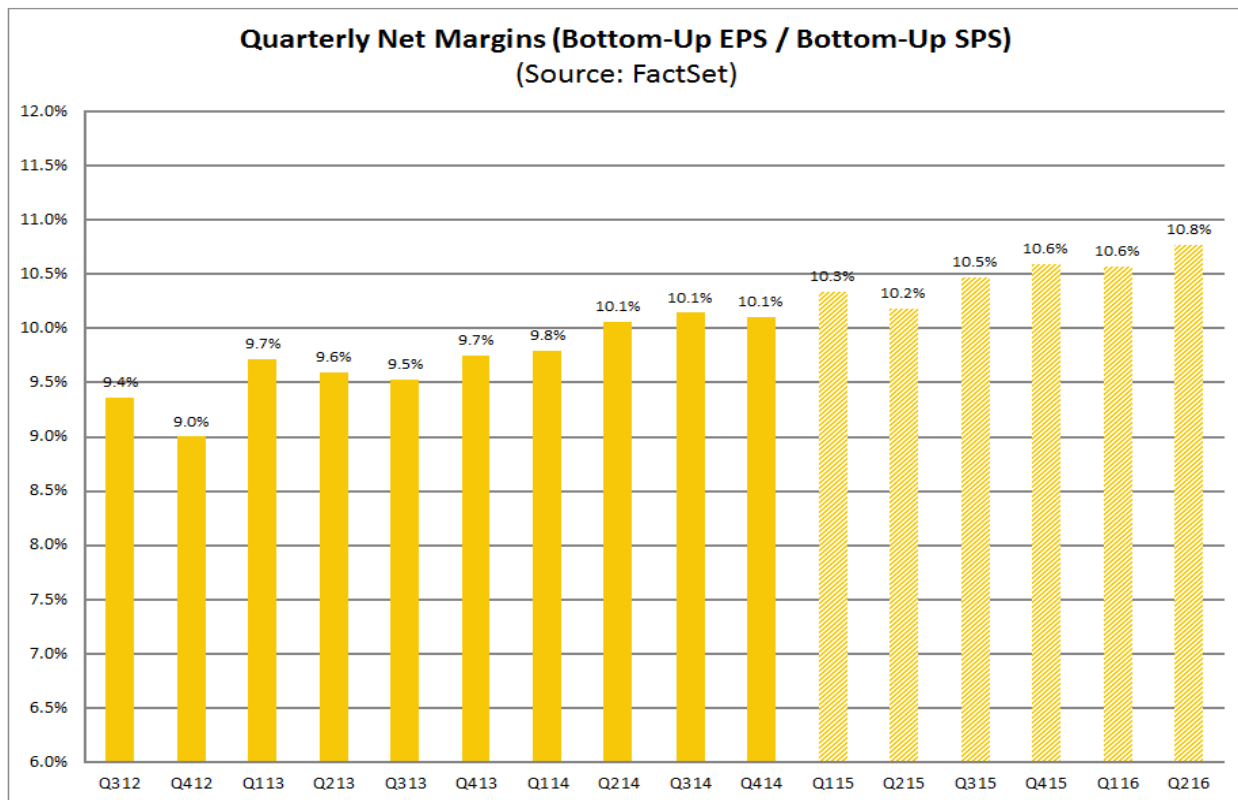
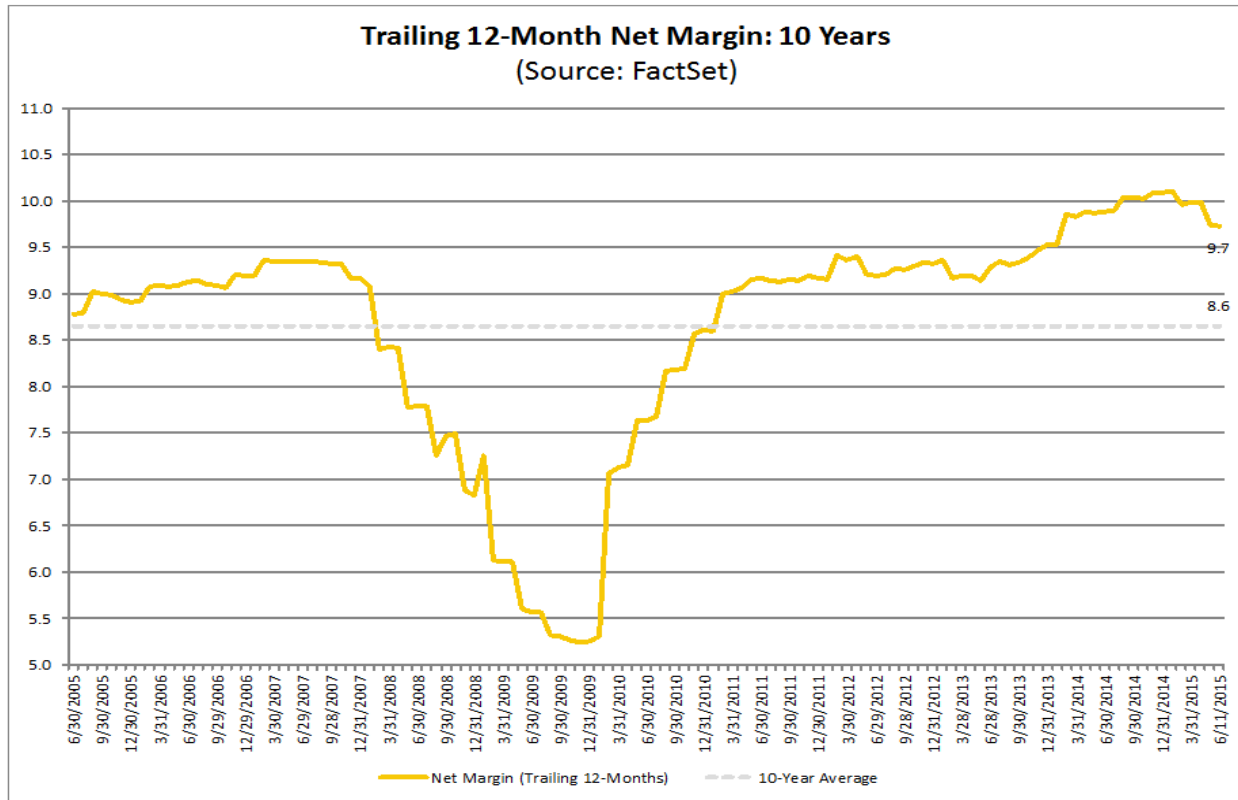
## Bottom-up EPS Estimates: Current & Historical



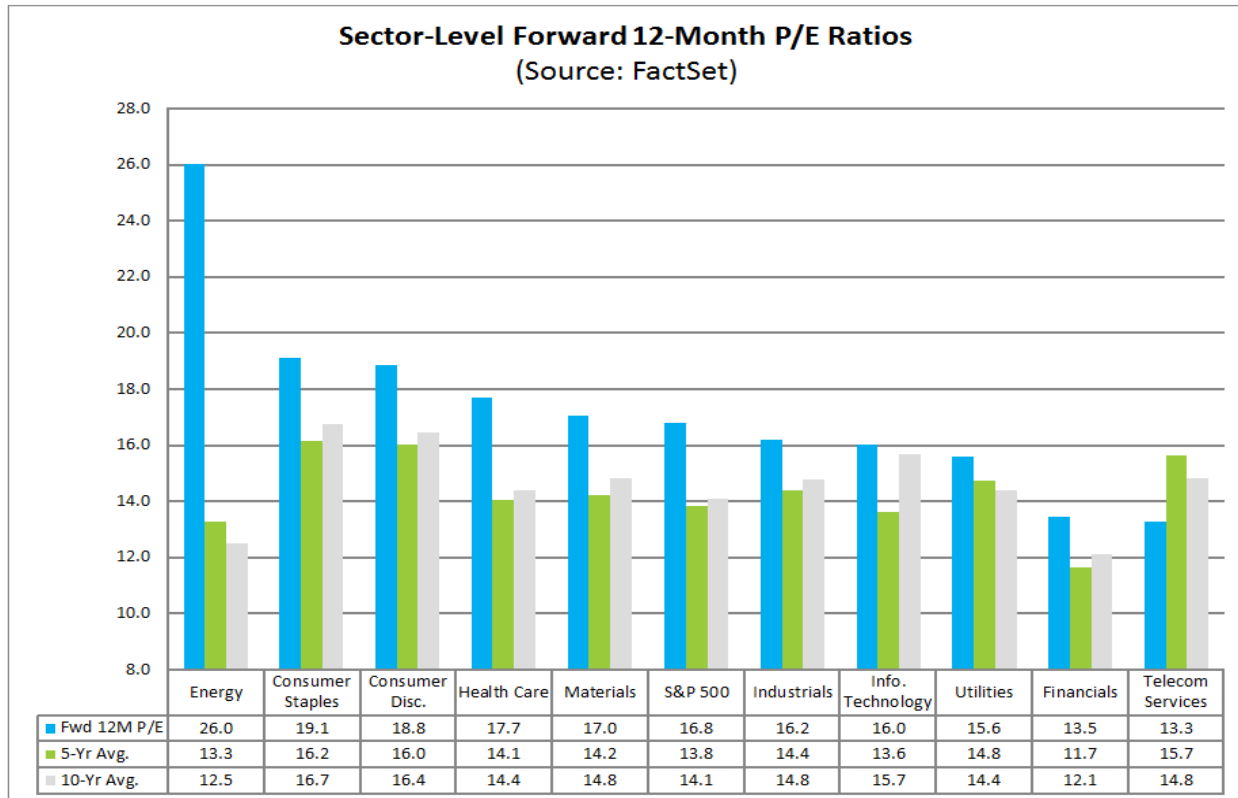
## Bottom-up SPS Estimates: Current & Historical



## Net Margins: Current & Historical

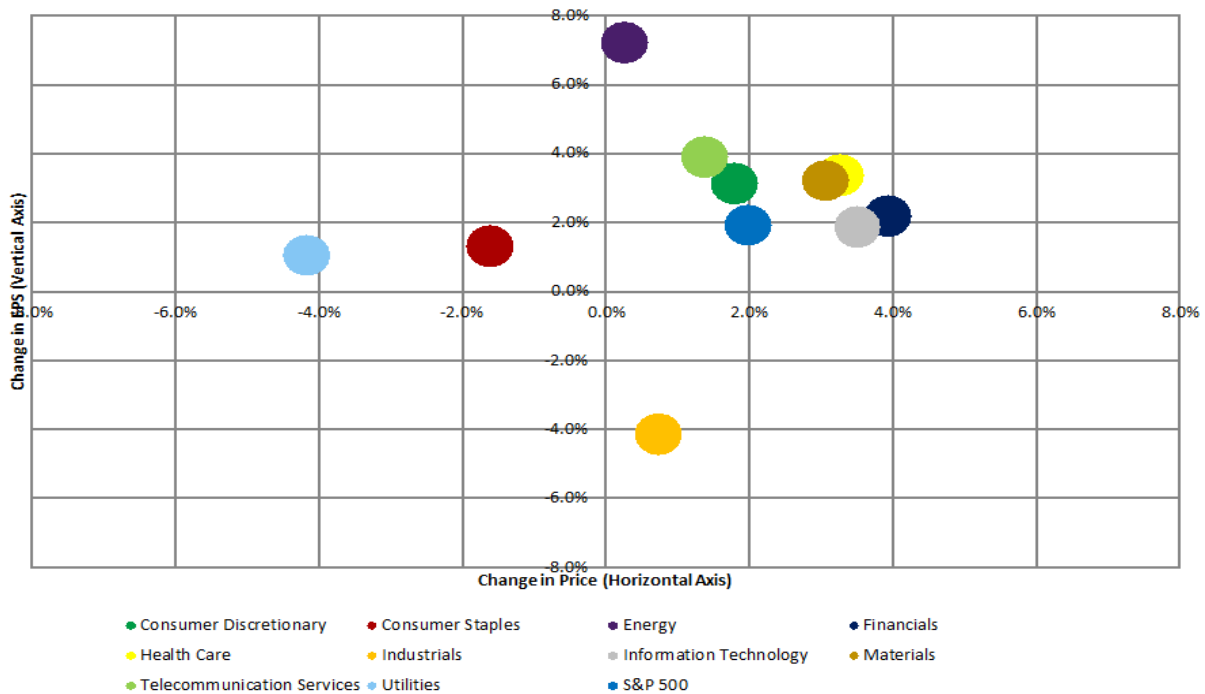


## Forward 12M Price / Earnings Ratio: Sector Level

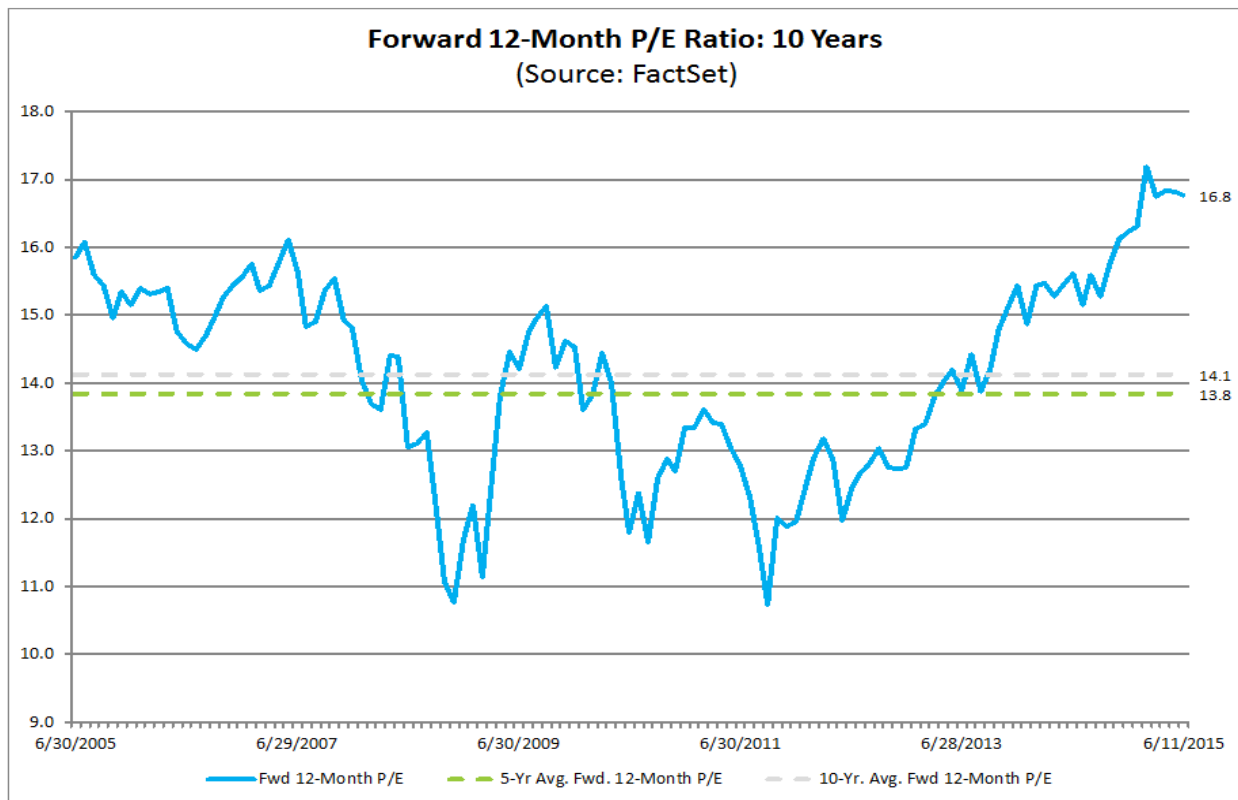
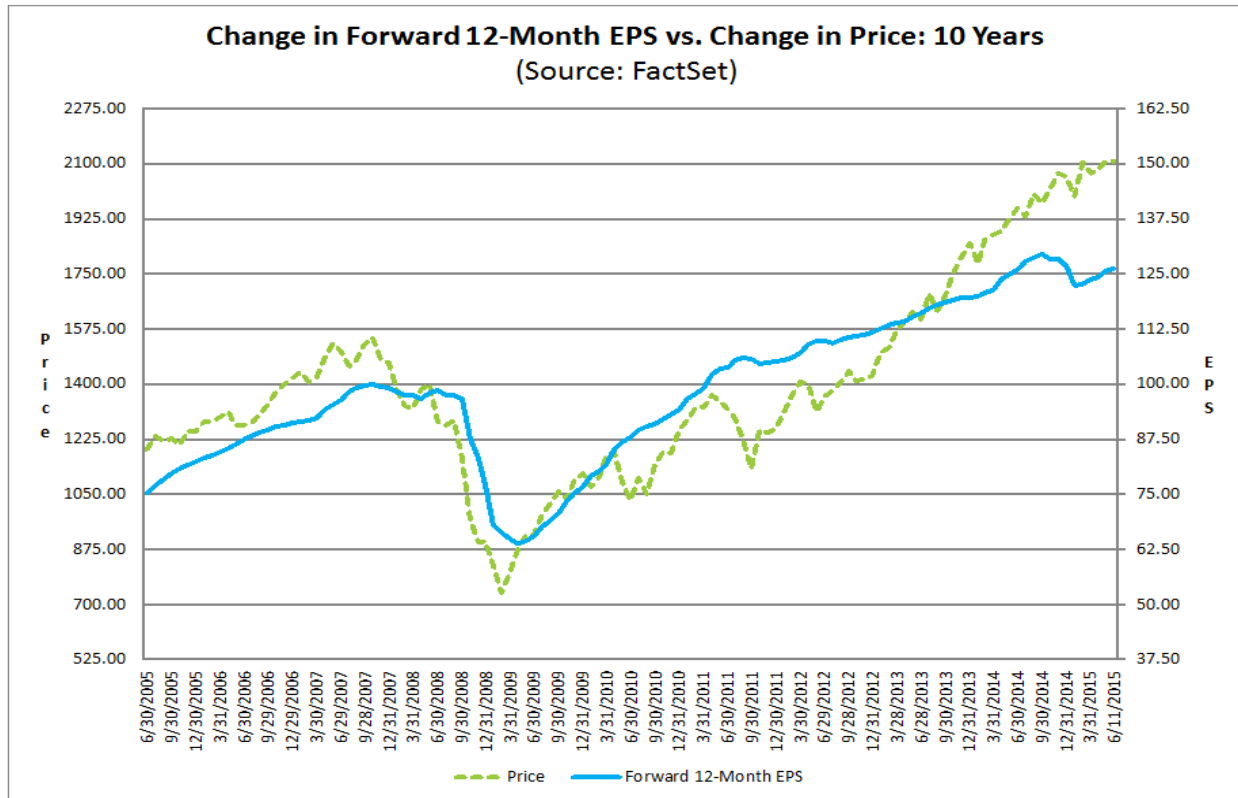


## Sector-Level Change in Forward 12-Month EPS vs. Price: Since Mar. 31

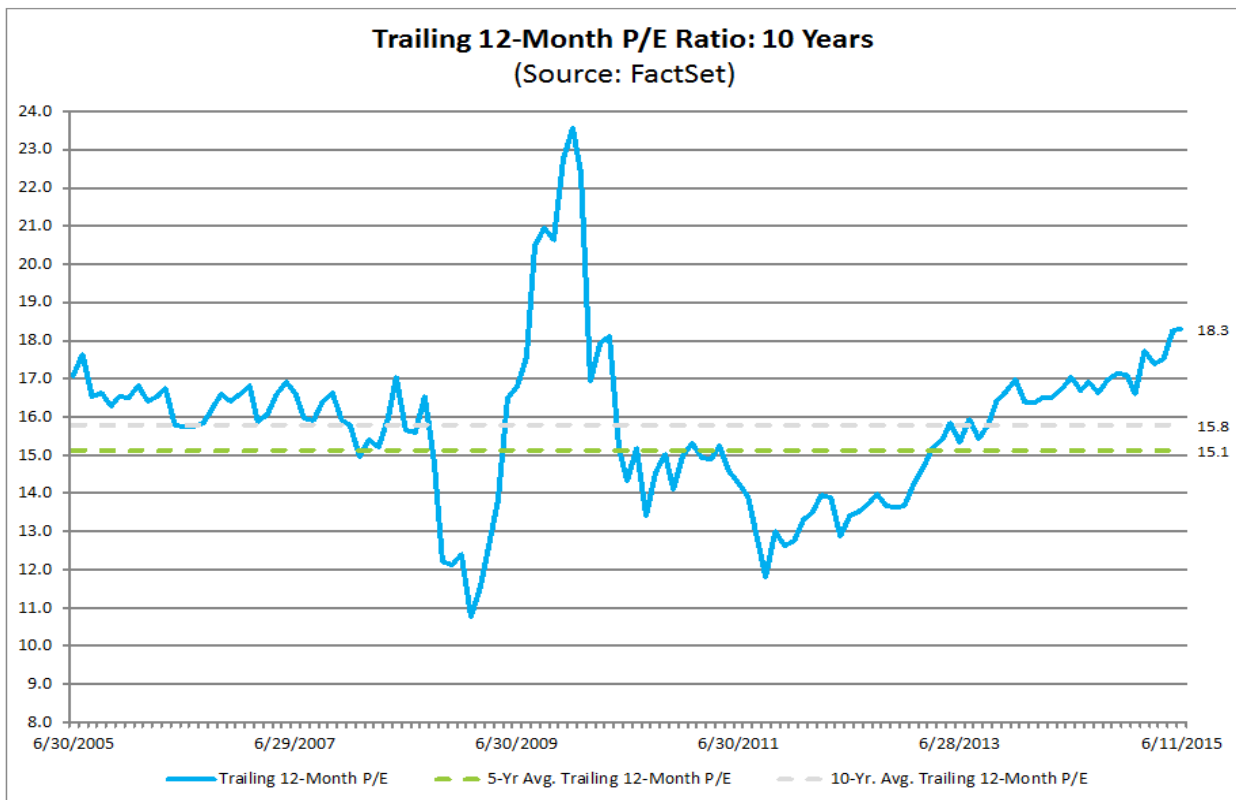
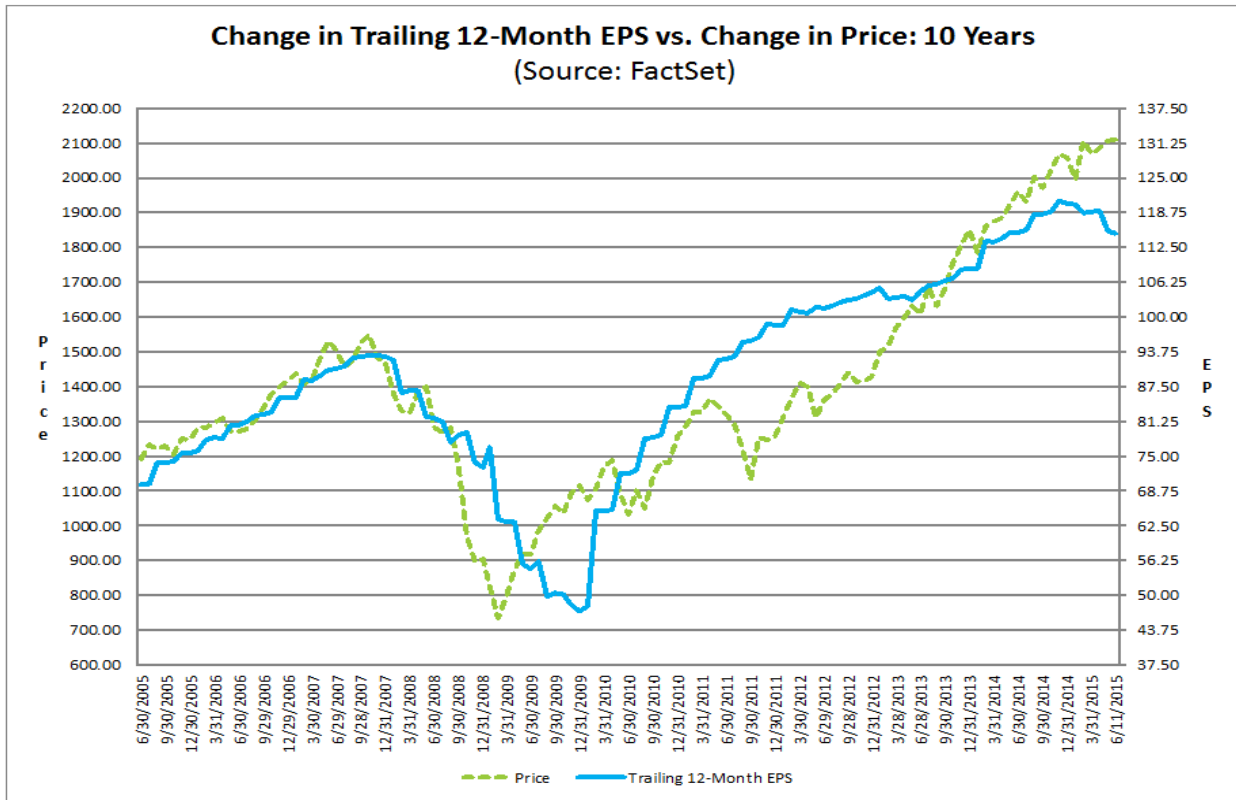
(Source: FactSet)



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



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



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