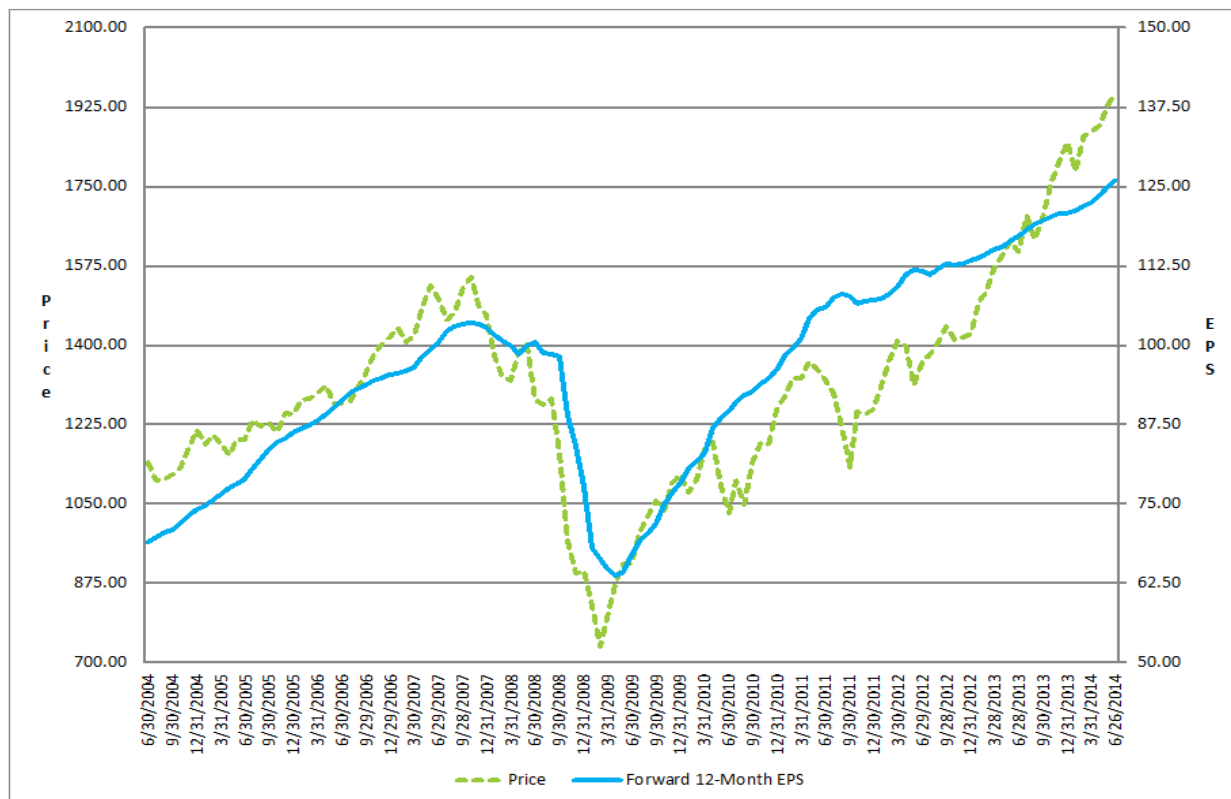


Key Metrics

- + **Earnings Growth:** The estimated earnings growth rate for Q2 2014 is 5.1%. The Telecom Services sector is expected to report the highest earnings growth for the quarter, while the Financials sector is expected to report the lowest earnings growth for the quarter.
- + **Earnings Revisions:** On March 31, the estimated earnings growth rate for Q2 2014 was 6.8%. Seven of the ten sectors have lower growth rates today (compared to March 31) due to downward revisions to earnings estimates, led by the Materials sector.
- + **Earnings Guidance:** For Q2 2014, 84 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 based on Thursday's closing price (1957.22) and forward 12-month EPS estimate (\$125.79).
- + **Earnings Scorecard:** Of the 20 companies that have reported earnings to date for Q2 2014, 14 have reported earnings above the mean estimate and 13 have reported sales above the mean estimate.

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



All data published in this report is available on FactSet. Please contact media_request@factset.com or 1-877-FACTSET for more information.

Topic of the Week

Lowest Cuts to Earnings Estimates for a Quarter since Q1 2011

Over the course of the second quarter, analysts have lowered earnings estimates for companies in the S&P 500 for the quarter. The Q2 bottom-up EPS estimate (which is an aggregation of the estimates for all 500 companies in the index) dropped 1.5% (to \$29.01 from \$29.45) from March 31 through yesterday. How significant is a 1.5% decline in the aggregate EPS estimate during the quarter? How does this decrease compare to recent quarters?

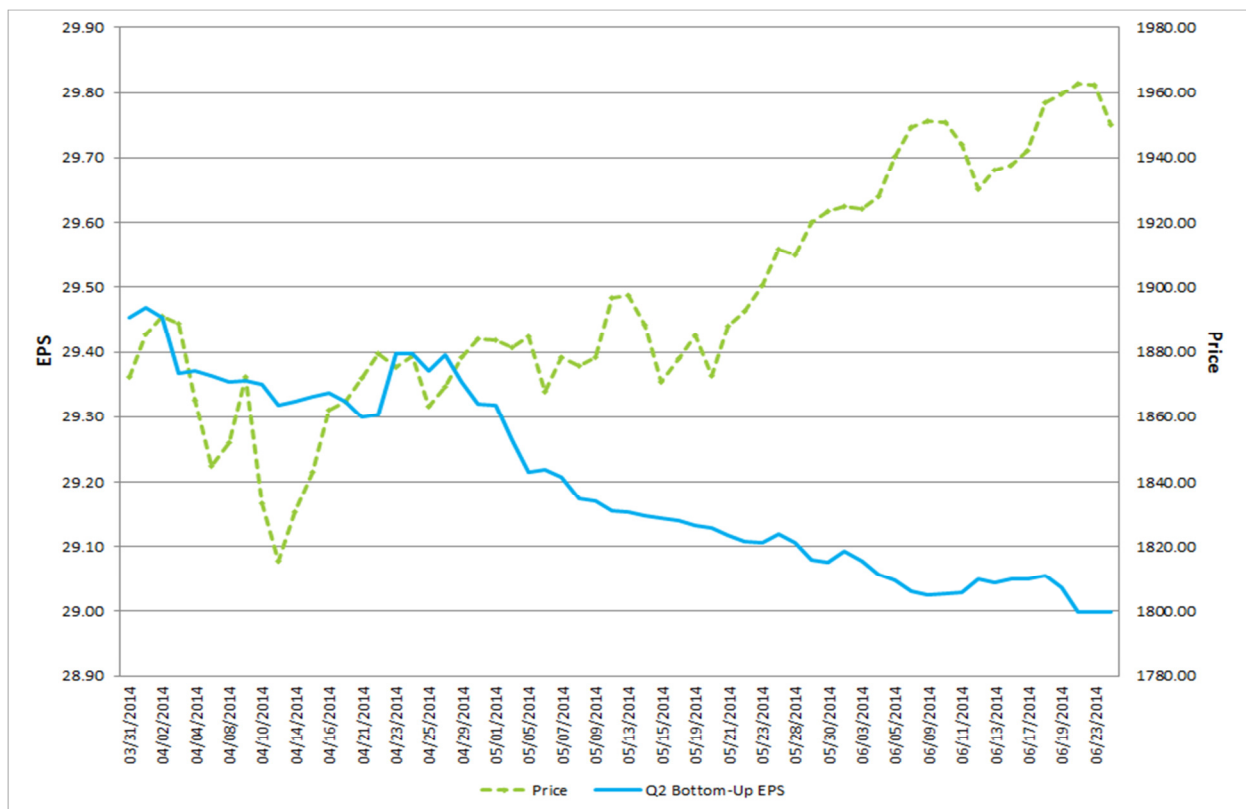
During the past year (4 quarters), the average decline in the EPS estimate during the quarter has been 3.9%. During the past five years (20 quarters), the average decline in the EPS estimate during the quarter has been 2.9%. During the past ten years, (40 quarters), the average decline in the EPS estimate during the quarter has been 4.6%. Thus, the decline in the EPS estimate recorded during the course of the Q2 2014 quarter was smaller than the trailing 1-year, 5- year, and 10-year averages.

In fact, this is the smallest percentage decline in the bottom-up EPS for a quarter since Q1 2011, when the bottom-up EPS estimate for the index fell only 0.6% (to \$22.08 from \$22.20) during the quarter.

While the downward estimate revisions were smaller than average, the expected earnings for the index still declined during the quarter. Over this same time frame, the value of the S&P 500 increased 4.5% (to 1957.22 from 1872.34). Is it unusual for the earnings estimate for the index to decline and the value of the index to increase during the course of a quarter?

In recent quarters, it has not been unusual for the value of the index to increase at the same time analysts are trimming earnings estimates for the same quarter. It has occurred in 14 of the past 20 quarters (including Q2 2014). During these 14 quarters, the average decrease in the bottom-up EPS has been 2.9%, while the average increase in the value of the index has been 7.2%.

S&P 500 Q2 2014: Change in EPS vs. Change in Price



Q2 2014 Earnings Season: Overview

Analysts Have Not Slashed Earnings Expectations for Q2 to Date

Slight Drop in Earnings Growth Rate This Week

The estimated earnings growth rate for the second quarter is 5.1% this week, slightly below the estimated growth rate of 5.2% last week. Downward revisions to EPS estimates for companies in the Energy, Financials, and Materials sectors accounted for most of the small decline in the overall earnings growth rate for the index during the week.

In the Energy sector, analysts trimmed estimates for ExxonMobil (to \$1.84 from \$1.86) and Valero Energy (to \$1.67 from \$1.78) during the week. As a result, the estimated earnings growth rate for the Energy sector dropped to 8.2% from 9.0% over this period.

In the Financials sector, analysts lowered estimates for Citigroup (to \$1.13 from \$1.14) and Berkshire Hathaway (to \$1.61 from \$1.65) during the week. As a result, the estimated earnings growth rate for the Financials sector fell to -2.3% from -2.0% over this period.

In the Materials sector, analysts cut estimates for DuPont (to \$1.26 from \$1.46). As a result, the estimated earnings growth rate for the Materials sector decreased to 8.4% from 10.0% over this period.

Materials Sector Has Seen Largest Cuts to Earnings Estimates since March 31

The estimated earnings growth rate for Q2 2014 of 5.1% is below the estimate of 6.8% at the start of the quarter (March 31). Seven of the ten sectors have recorded a decline in expected earnings growth since the start of the quarter due to downward revisions to earnings estimates, led by the Materials, Telecom Services, Financials, and Consumer Discretionary sectors. Two sectors have recorded an increase in expected earnings growth over this time due to upward revisions to earnings estimates, led by the Health Care sector. The Information Technology sector has recorded no net change in expected earnings growth (7.4%) since March 31.

The Materials sector has witnessed the largest dip in expected earnings growth (to 8.4% from 17.7%) since the start of the quarter. Companies in the Metals & Mining industry have seen major reductions to EPS estimates during this time, including U.S. Steel (to -\$0.21 from \$0.52), Allegheny Technologies (to -\$0.01 from \$0.02), Nucor (to \$0.48 from \$0.66), and Freeport McMoRan Copper (to \$0.54 from \$0.71).

The Telecom Services sector has recorded the second largest drop in expected earnings growth (to 22.5% from 26.7%) since the beginning of the quarter. Companies that have seen the sharpest cuts to estimates during this time include Frontier Communications (to \$0.04 from \$0.06), Windstream Holdings (to 0.08 from 0.09), and AT&T (to \$0.65 from \$0.70).

The Financials sector has seen the third largest decline in expected earnings growth (to -2.3% from 1.6%) since the beginning of the quarter. Companies in the Insurance industry have recorded large cuts to EPS estimates during this time, including Allstate (to \$0.87 from \$1.19) and Hartford Financial Services (to \$0.66 from \$0.85).

The Consumer Discretionary sector has witnessed the fourth largest decline in expected earnings growth (to 9.7% from 13.4%) since the beginning of the quarter. Companies that have seen the largest cuts to estimates during this time include Amazon.com (to -\$0.13 from \$0.22), News Corporation (to 0.04 from 0.06), and Under Armour (to \$0.07 from \$0.11).

On the other hand, the Health Care sector has seen the largest increase in expected earnings growth (to 5.8% from 3.6%) since the start of the quarter. However, only two companies have recorded substantial increases to estimates during this time: Gilead Sciences (to \$1.60 from \$0.93) and Boston Scientific (to \$0.19 from \$0.13). After these two companies, no other company in the sector has seen an increase in the mean EPS estimate of larger than 6.3% over this time frame.

Lowest Cuts to Earnings Estimates during a Quarter since Q2 2011

Although the growth rate for the second quarter has dropped since March 31, analysts have cut earnings estimates during the quarter by the lowest amount since Q1 2011. Please see page 2 for more details.

Q2 EPS Guidance: Negative Guidance (76%) Above Average but Below Recent Quarters

At this point in time, 111 companies in the index have issued EPS guidance for the second quarter. Of these 111 companies, 84 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 first quarter is 76% (84 out of 111). This percentage is above the 5-year average of 66%, but below the percentages recorded for Q1 2014 (84%) and Q4 2013 (88%) at the same point in time in the quarter.

For more details on guidance, please see our "Guidance Quarterly" report, which will be published on Monday (June 30).

Estimated Earnings Growth: 5.1%

The estimated earnings growth rate for Q2 2014 is 5.1%. Nine of the ten sectors are projected to report higher earnings relative to a year ago, led by the Telecom Services, Consumer Discretionary, Materials, and Energy sectors. The only sector predicted to report lower earnings relative to a year ago is the Financials sector.

Telecom Services: Ex-Verizon, Growth Rate Drops to -6.8%

The Telecom Services sector is expected to report the highest earnings growth rate of all ten sectors at 22.5%. At the company level, Verizon Communications is the largest contributor to earnings growth for the sector. The mean EPS estimate for the company for Q2 2014 is \$0.91, compared to actual EPS of \$0.73 in the year-ago quarter. If Verizon is excluded, the earnings growth rate for the sector would drop to -6.8%.

Consumer Discretionary: Broad-Based Growth

The Consumer Discretionary sector is predicted to report the second highest earnings growth of any sector at 9.7%. Growth is projected to be broad-based across the sector. Twenty-five of the 32 sub-industries in the sector are expected to report earnings growth for the quarter, led by the Casino & Gaming (37%), Homebuilding (34%), Internet Retail (21%), and Household Appliances (20%) sub-industries. On the other end of the spectrum, the Apparel, Accessories, and Luxury Goods (-9%) and Homefurnishing Retail (-7%) sub-industries are projected to have the largest declines in earnings.

Materials: Metals & Mining Lead Growth

Despite recording the largest drop in expected earnings growth since the start of the quarter, the Materials sector is still projected to have the third highest earnings growth rate of all ten sectors at 8.4%. All five industries in the sector are predicted to report growth in earnings. However, the Metals & Mining industry (+84%) is expected to be the largest contributor to earnings growth for the sector. Within this industry, Freeport-McMoRan Copper (+146%) is projected to see the largest percentage growth in EPS, followed by Nucor (77%), Alcoa (74%), and U.S. Steel (72%). If this industry is excluded, the earnings growth rate for the sector would fall to 3.5%.

Energy: Growth Expected for 1st Time since Q1 2013

The Energy sector is expected to have the fourth highest earnings growth rate at 8.2%. If the sector reports any earnings growth for the quarter, it will mark the first time since Q1 2013 (1.1%). Five of the seven sub-industries in the sector are predicted to report growth for the quarter, led by the Oil & Gas Refining & Marketing (32%) sub-industry. On the other hand, the Coal & Consumable Fuels (-118%) sub-industry is expected to see the largest decline in earnings.

Financials: 2nd Consecutive Decline in Earnings

The Financials sector is the only sector expected to report a year-over-year decline in earnings (-2.3%). If the sector does report a decline, it will mark the second consecutive quarter the sector has reported a year-over-year drop in earnings. However, only three of the eight industries in the sector are predicted to report a decrease for the quarter, led by the Thrifts & Mortgage Finance (-17%) and Banks (-8%) industries.

Estimated Revenue Growth: 2.9%

The estimated revenue growth rate for Q2 2014 is 2.9%, which is below the estimated growth rate of 3.5% at the start of the quarter (March 31). Nine of the ten sectors are expected to report revenue growth for the quarter, led by the Health Care sector. On the other hand, the Energy sector is the only sector predicted to report a decline in revenue for the quarter.

Highest Sales Growth: Health Care

The Health Care sector is expected to report the highest revenue growth at 8.3%. All six industries in the sector are predicted to report sales growth for the quarter, led by the Biotechnology (32%) industry.

Lowest Sales Growth: Energy

The Energy sector is the only sector that is predicted to report a decrease in revenue at -1.9%. However, only three of the seven sub-industries in the sector are expected to report a decline in revenue: Oil & Gas Exploration & Production (-17%), Coal & Consumable Fuels (-13%), and Integrated Oil & Gas (-3%).

Global Concerns: F/X Rates, Europe, and Emerging Markets**Mixed Impact from F/X Rates**

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 have cited a negative impact from foreign exchange activity in their earnings releases or conference calls in Q2.

“Foreign currency exchange reduced net sales growth by 2 points in the quarter.” – General Mills (Jun. 25)

“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)

However, a few companies have noted that foreign exchange activity was neutral or even had a positive impact on sales and earnings for the quarter.

“First, let me share with you some of the highlights from this quarter. For the first time in a long time, changes in foreign exchange rates have had minimal impact on our results when comparing them against Q1 last year, last quarter or against guidance” –Red Hat (Jun. 18)

“From a year-over-year currency perspective, FX increased revenue by \$3.1 million.” –Adobe Systems (Jun. 17)

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. Did companies continue to see improving conditions in Europe in Q2?

“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)

Emerging Markets

Economic growth for countries in emerging markets regions has been flat or slightly below year-ago levels in recent quarters. According to FactSet Economics, China recorded GDP growth of 7.7% in Q1 2013. By Q1 2014, GDP growth for China stood at 7.4%. Did companies see a slowdown in sales growth in emerging markets in Q2 2014?

“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)

Higher Earnings Growth Expected in 2nd Half of 2014, But Little Improvement in Sales Growth

While companies are expected to report earnings growth of 5.1% for Q2 2014, earnings growth for the S&P 500 is projected to be much higher for the remainder of the year. For Q3 2014 and Q4 2014, analysts are predicting earnings growth rates of 9.4%, and 10.3%. For all of 2014, the projected earnings growth rate is 7.6%.

However, revenue growth is not expected to improve dramatically in the second half of the year. Analysts are currently projecting revenue growth of 2.9% for Q2 2014. For Q3 2014 and Q4 2014, analysts are predicting revenue growth of 3.6% and 3.0%. For all of 2014, the projected revenue growth rate is 3.3%.

Valuation: Forward P/E Ratio is 15.6, above the 10-Year Average (13.8)

The current 12-month forward P/E ratio is 15.6. This P/E ratio is based on Thursday's closing price (1957.22) and forward 12-month EPS estimate (\$125.79).

At the sector level, the Consumer Discretionary (17.8) and Consumer Staples (17.7) sectors have the highest forward 12-month P/E ratios, while the Financials (13.2) and Telecom Services (13.4) sectors have the lowest forward 12-month P/E ratios.

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 13.3, and above the prior 10-year average forward 12-month P/E ratio of 13.8. It is also above the forward 12-month P/E ratio of 15.3 recorded at the start of the quarter (March 31). During the quarter, the price of the index increased by 4.5%, while the forward 12-month EPS estimate increased by 2.8%.

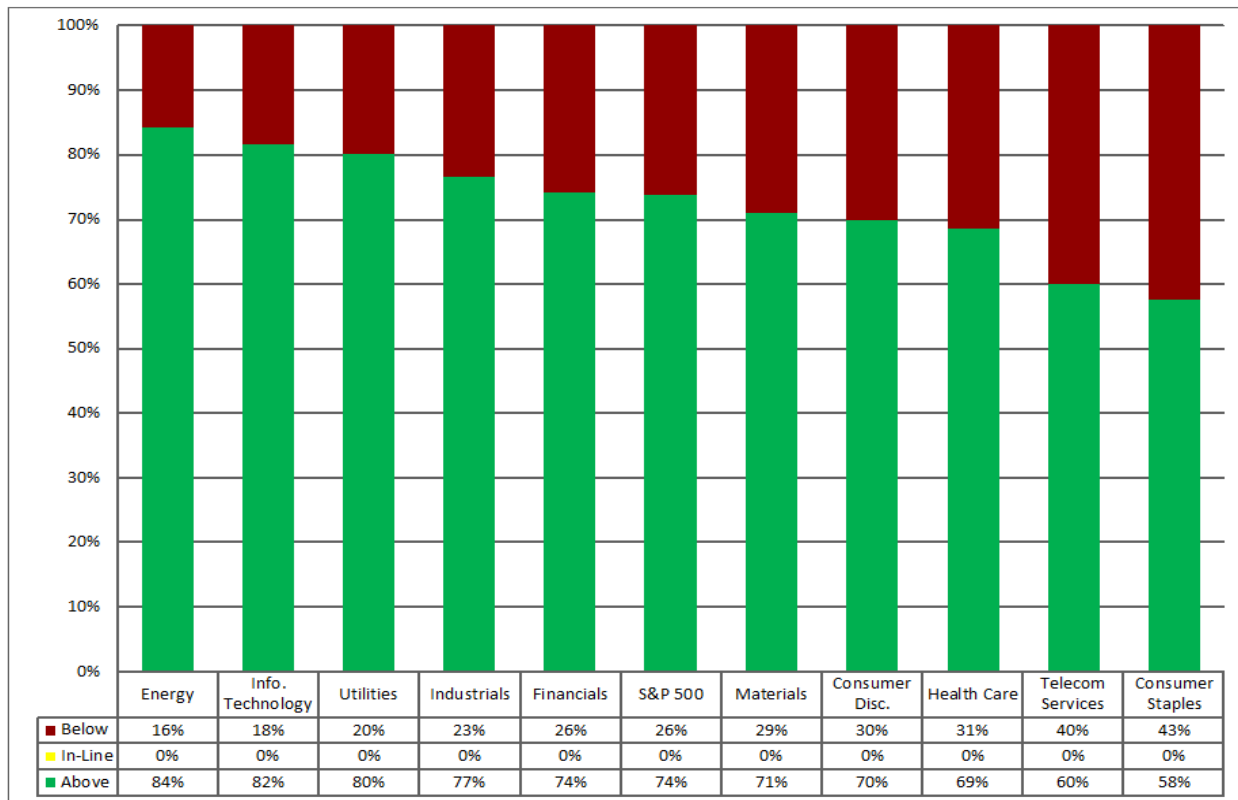
At the sector level, eight sectors have recorded an increase in the forward 12-month P/E ratio since the start of the quarter, led by the Energy (to 14.7 from 13.5) sector. The Health Care (to 16.9 from 17.0) sector was the only sector that saw a decline in the forward 12-month P/E ratio over this time frame, while the Industrials (16.4) sector was the only sector that recorded no change in the forward 12-month P/E ratio over this time frame.

Companies Reporting Next Week: 2

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

Q1 2014: Scorecard

Q1 2014 Earnings: Above, In-Line, Below Estimates

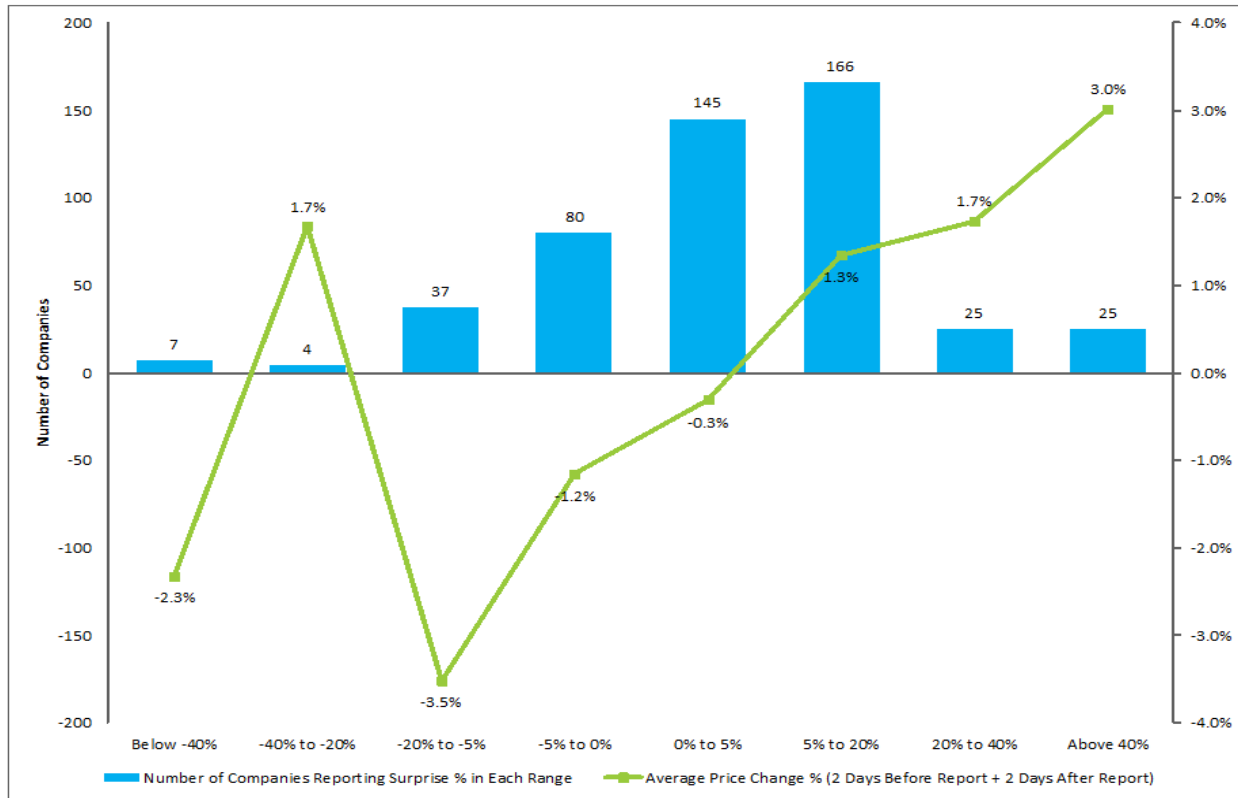


Q1 2014 Revenues: Above, In-Line, Below Estimates

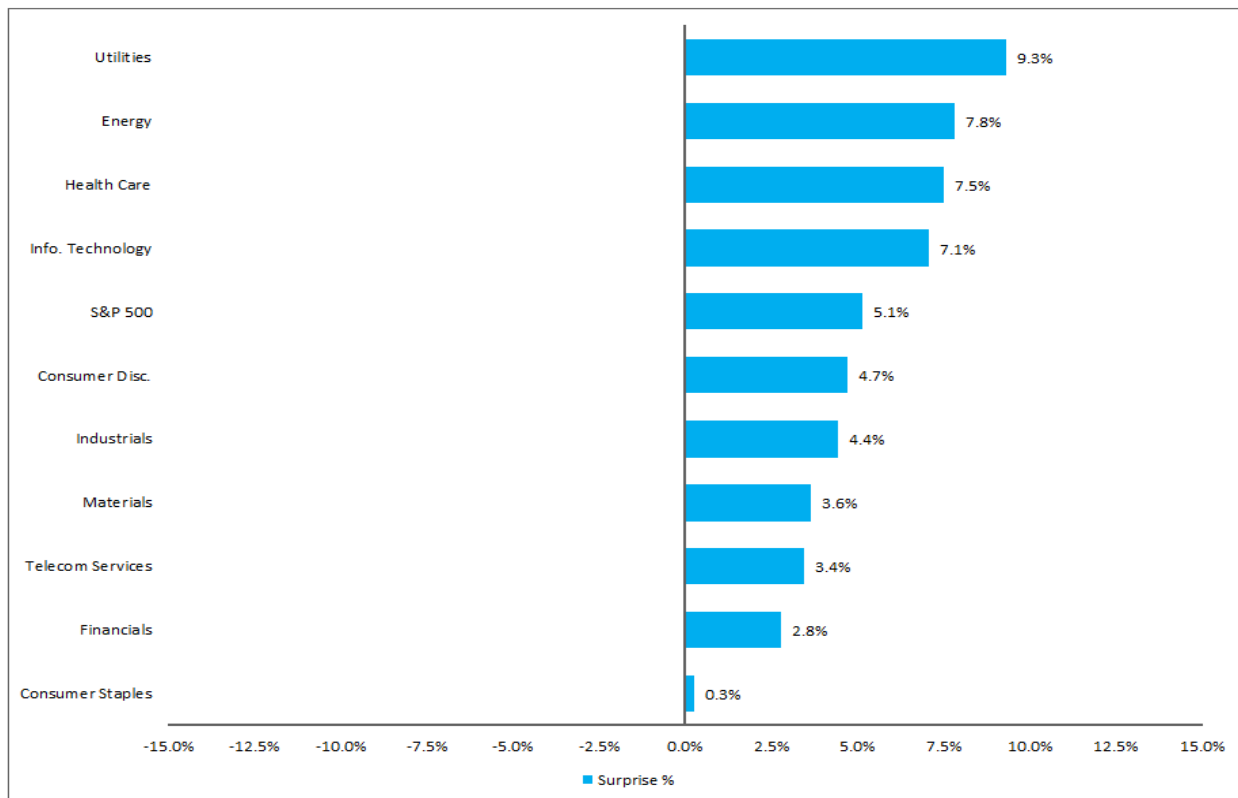


Q1 2014: Scorecard

Q1 2014: EPS Surprise % vs. Price %

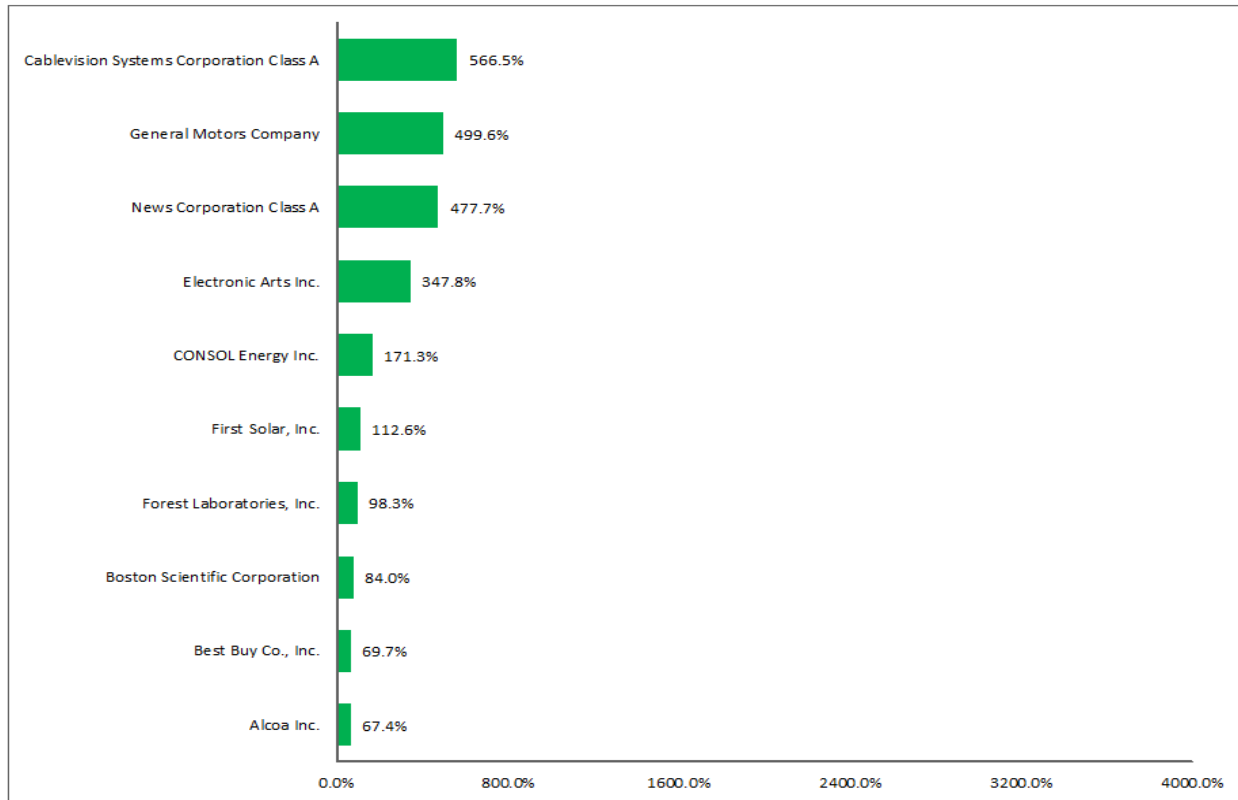


Q1 2014: Sector Level EPS Surprise %

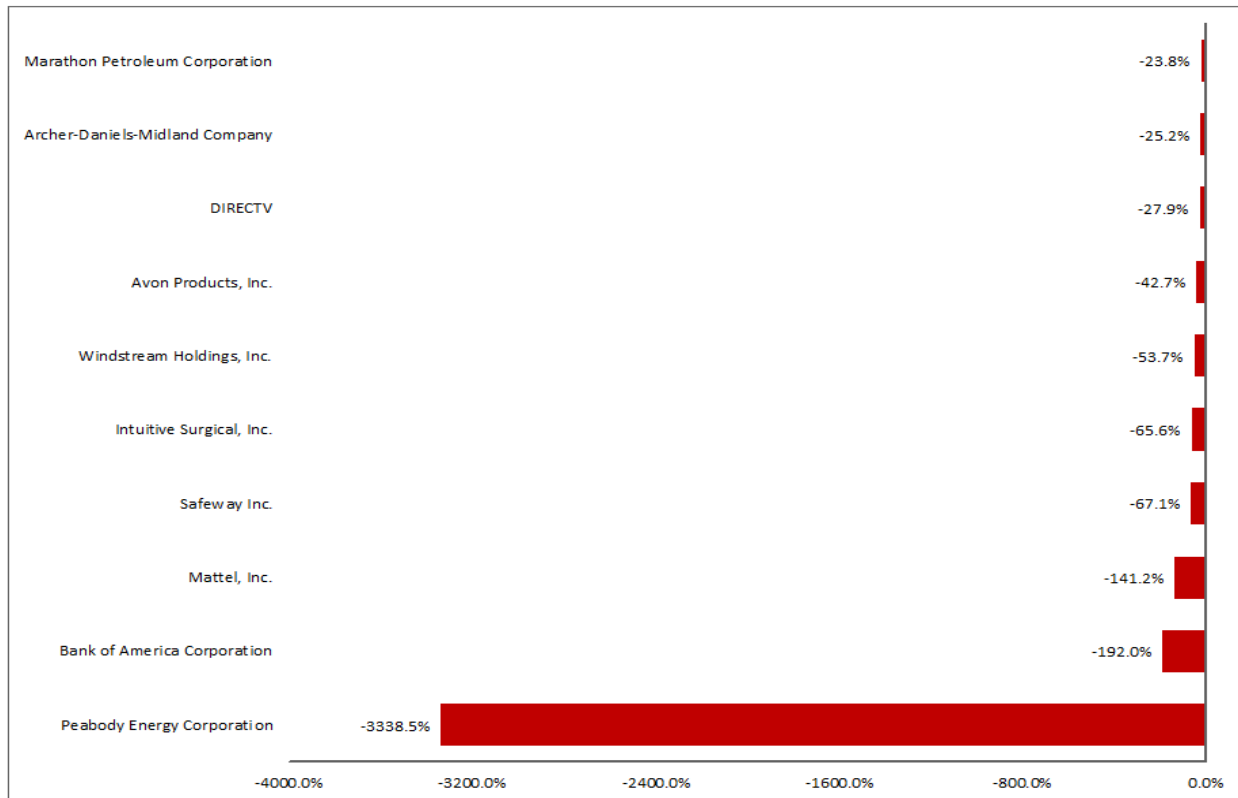


Q1 2014: Scorecard

EPS Surprise %: Top 10 Companies

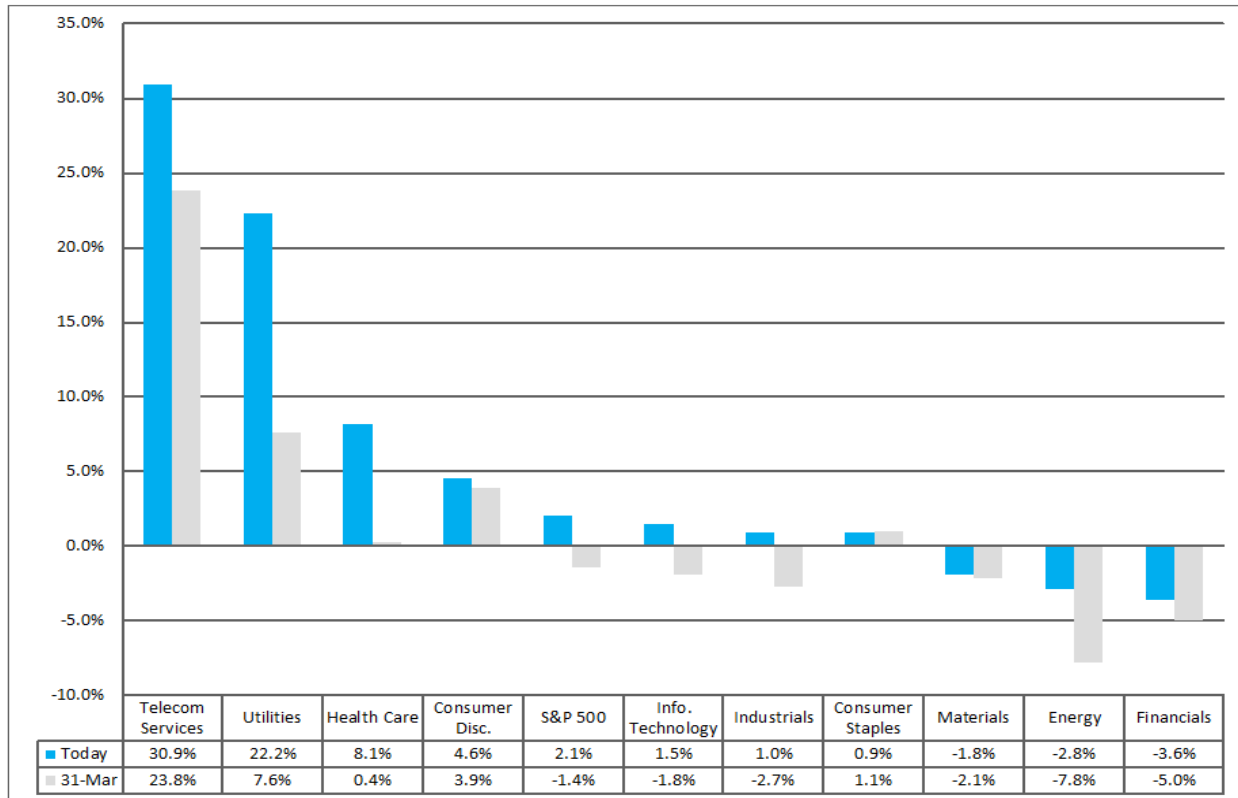


EPS Surprise %: Bottom 10 Companies

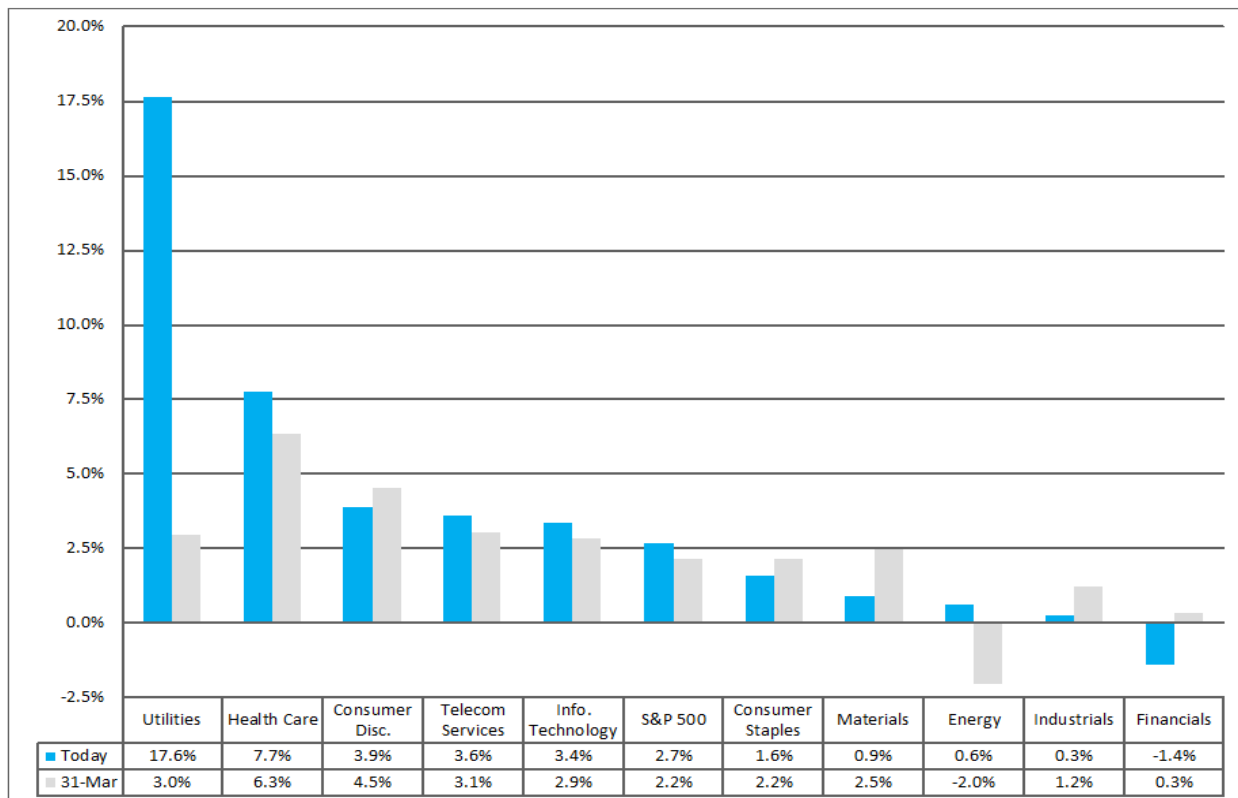


Q1 2014: Growth

Q1 2014 Earnings Growth

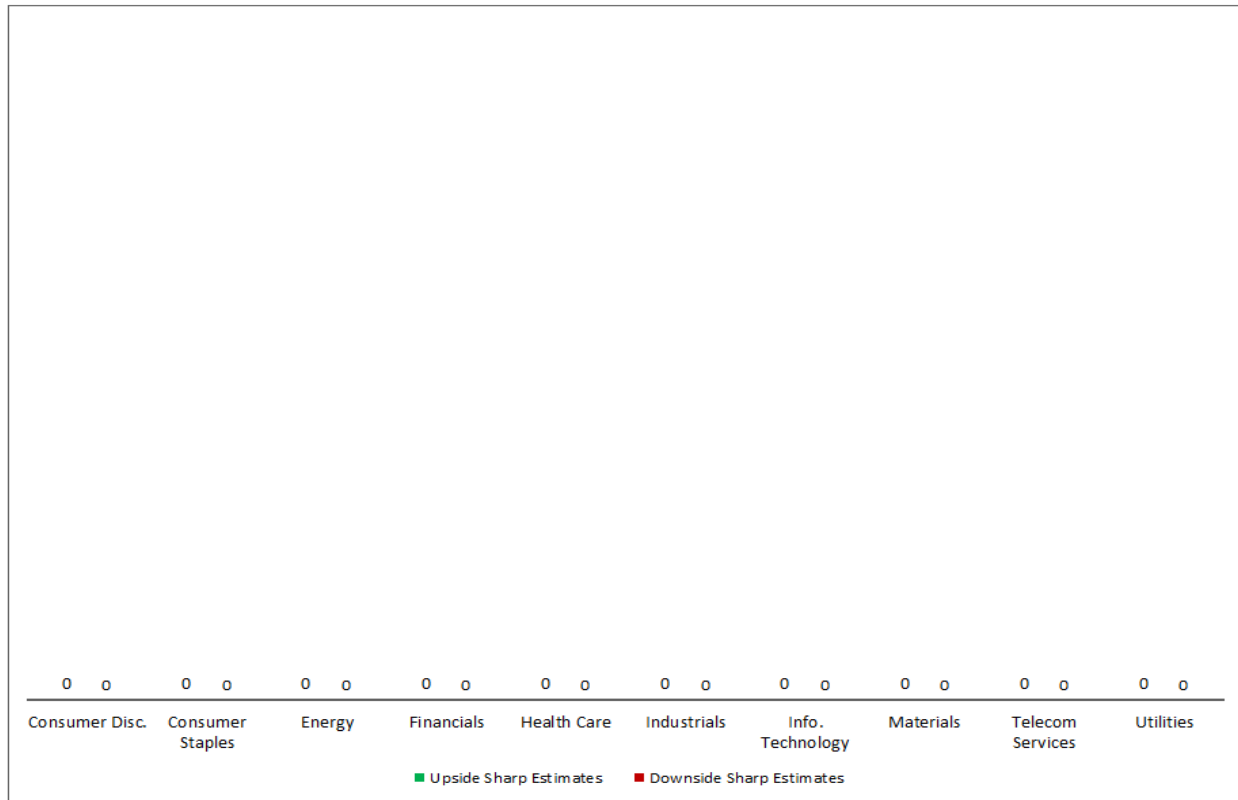


Q1 2014 Revenue Growth

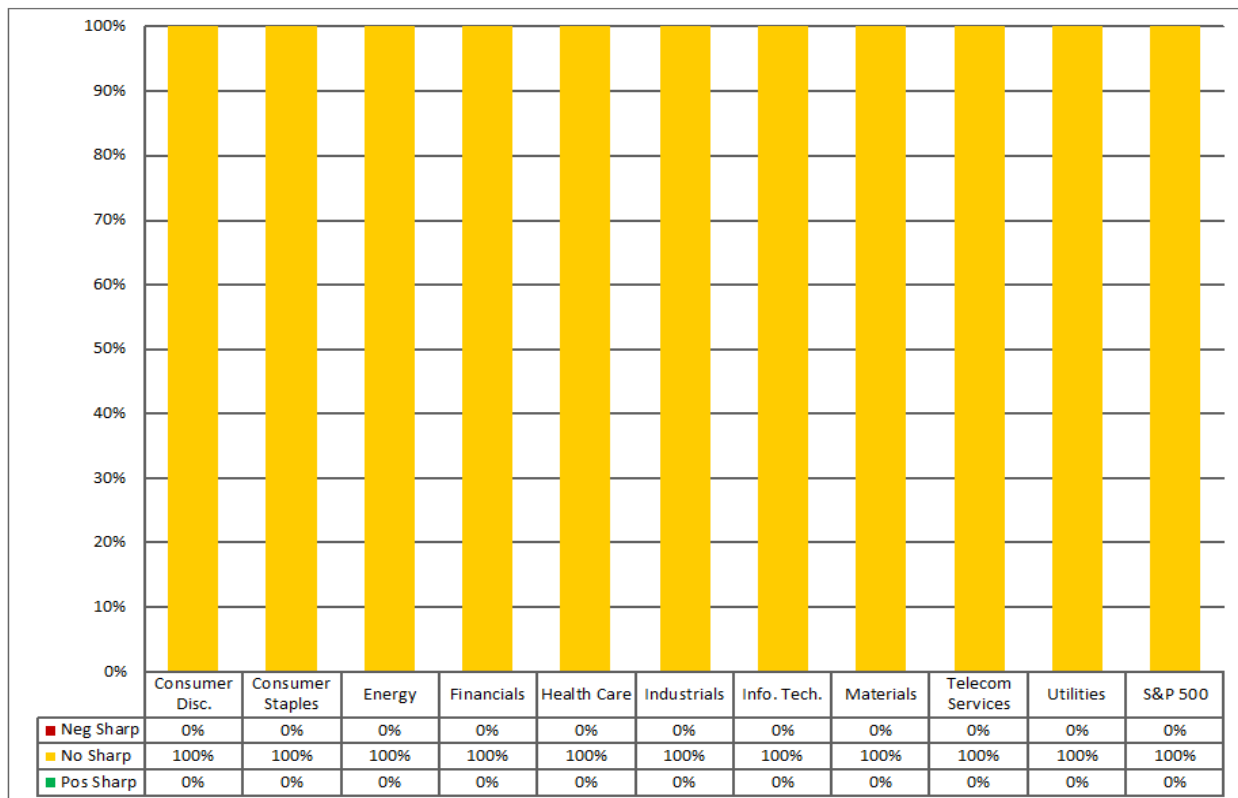


Q1 2014: Projected EPS Surprises (Sharp Estimates)

Number (#) of Companies with Sharp Estimates

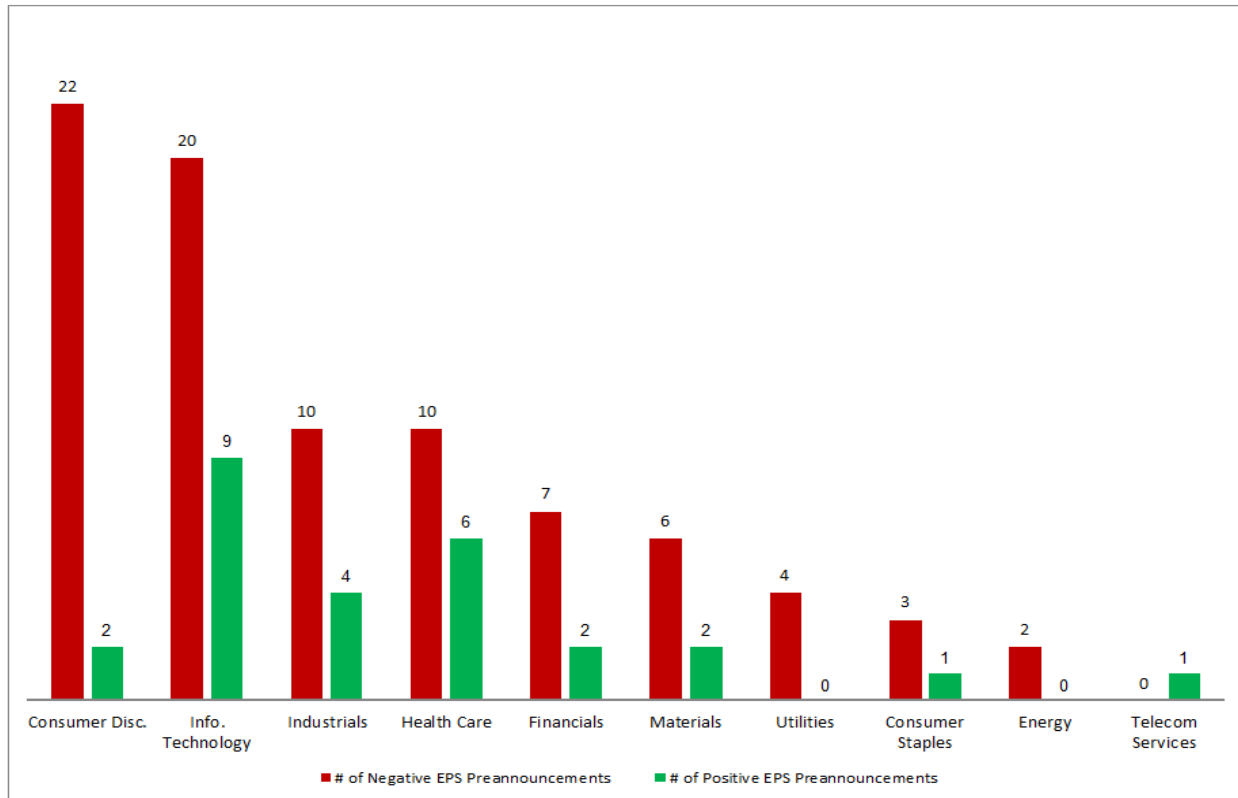


Percentage (%) of Companies with Sharp Estimates



Q2 2014: EPS Guidance

Number of Positive & Negative EPS Preannouncements: Q2 2014

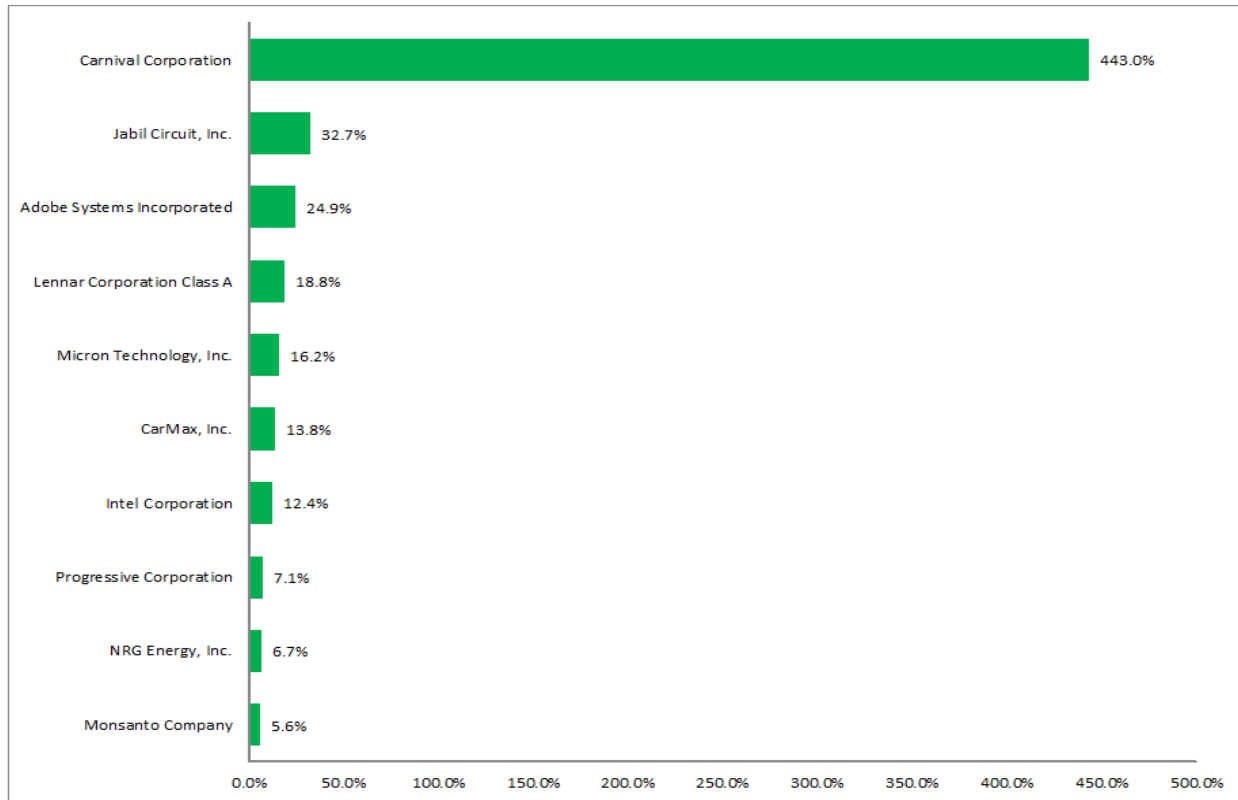


Percentage of Positive & Negative EPS Preannouncements: Q2 2014

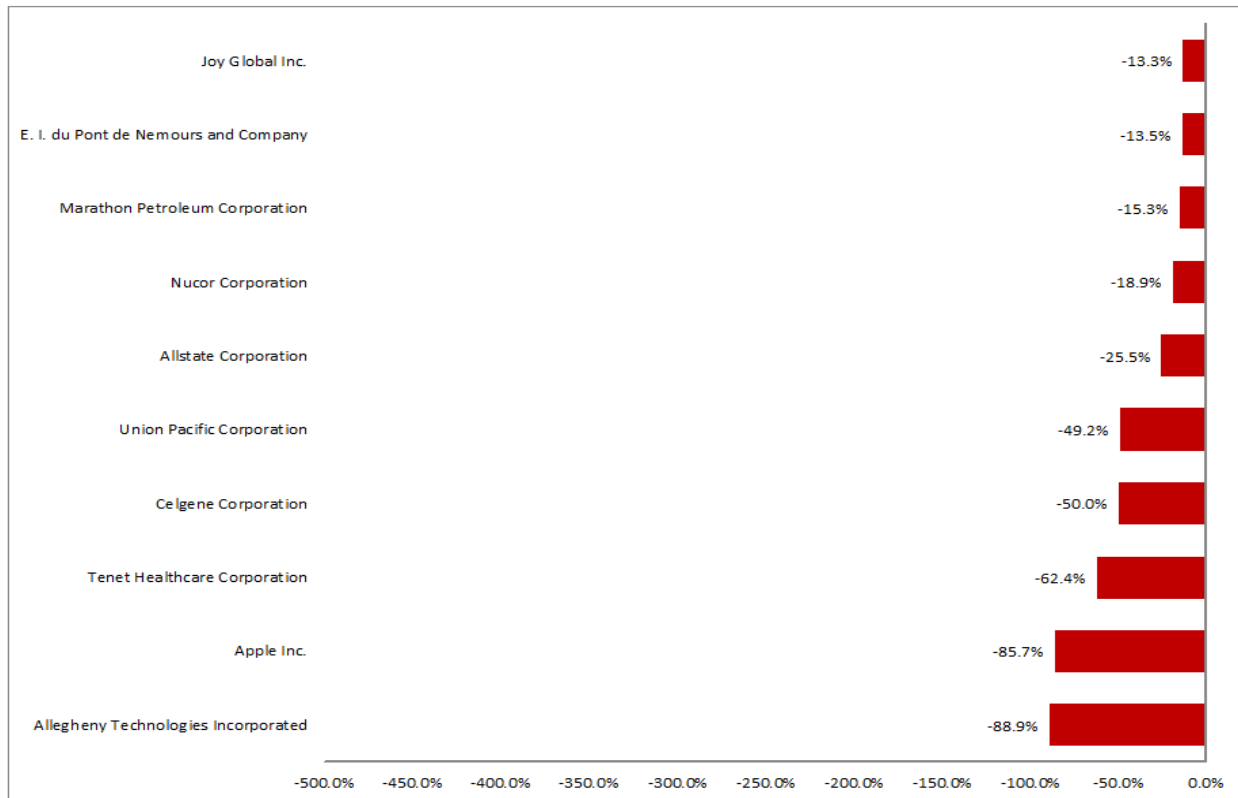


Q2 2014: EPS Revisions

Highest Upward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies

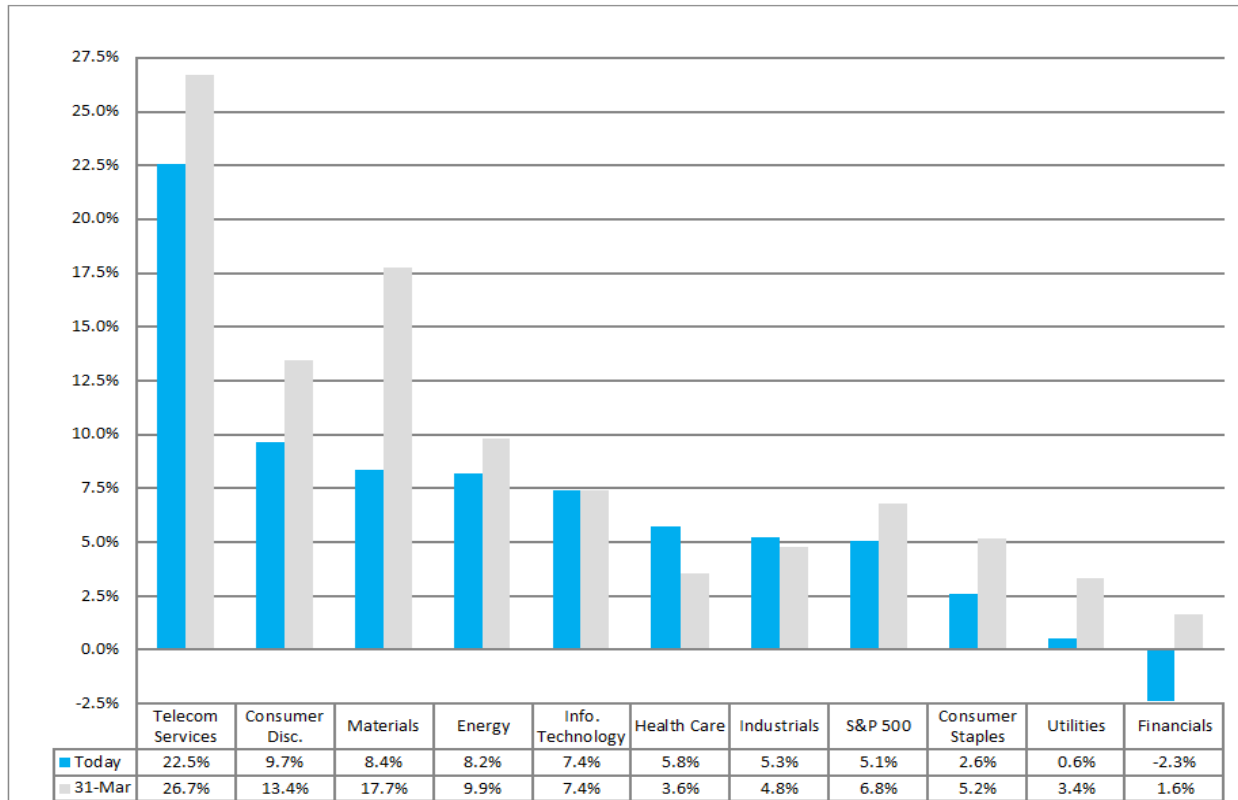


Highest Downward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies



Q2 2014: Growth

Q2 2014 Earnings Growth

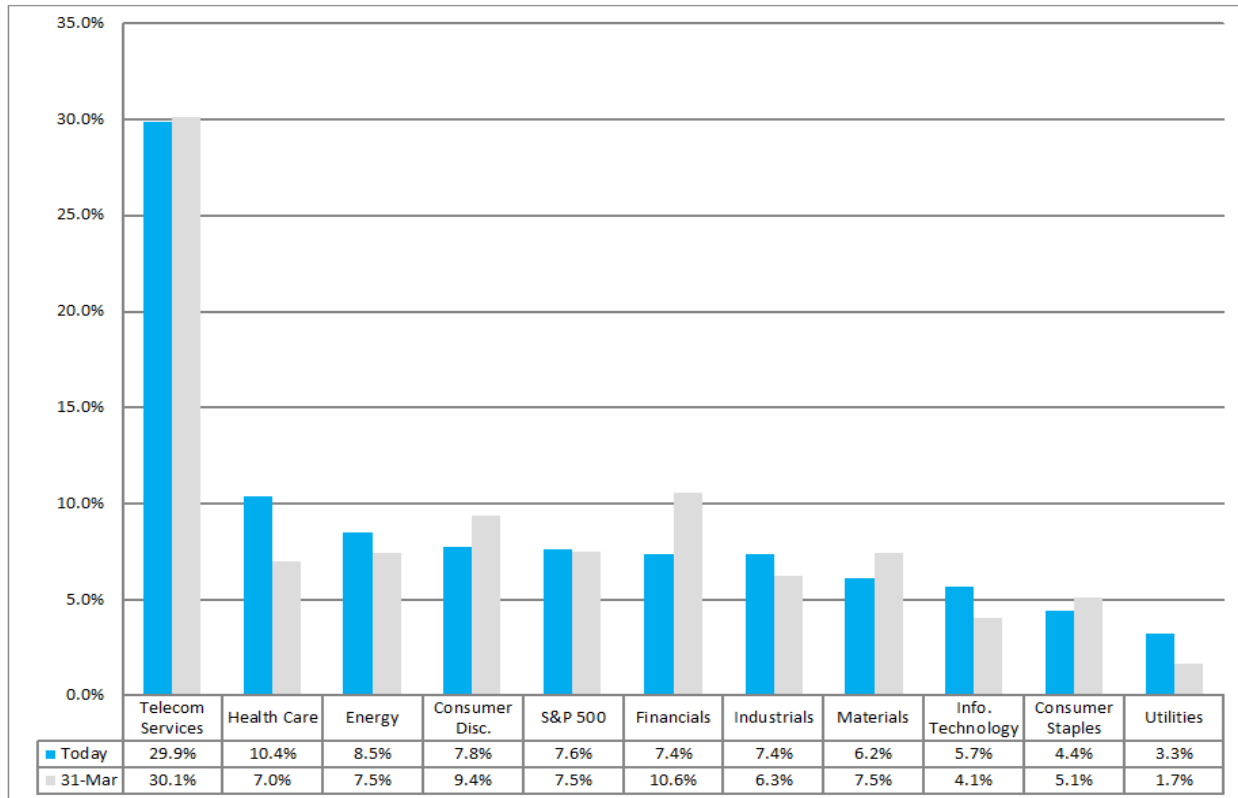


Q2 2014 Revenue Growth

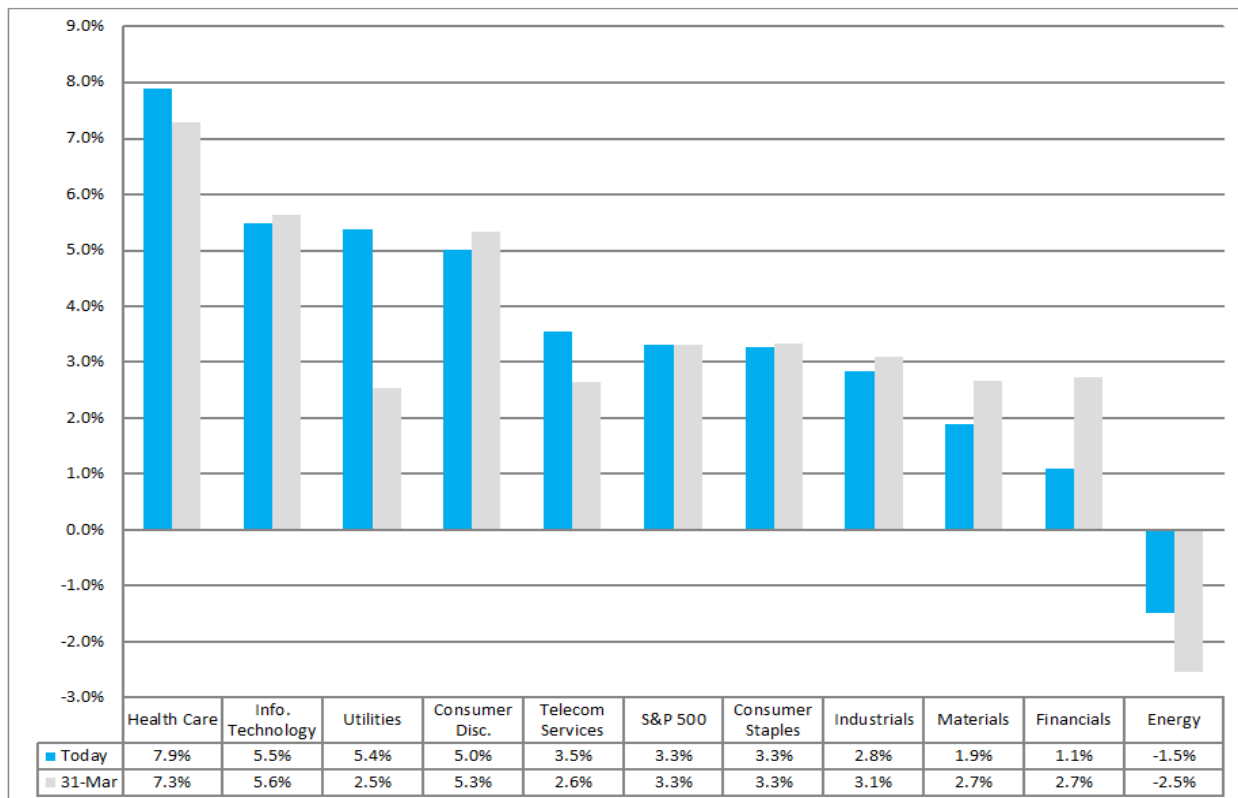


CY 2014: Growth

CY 2014 Earnings Growth

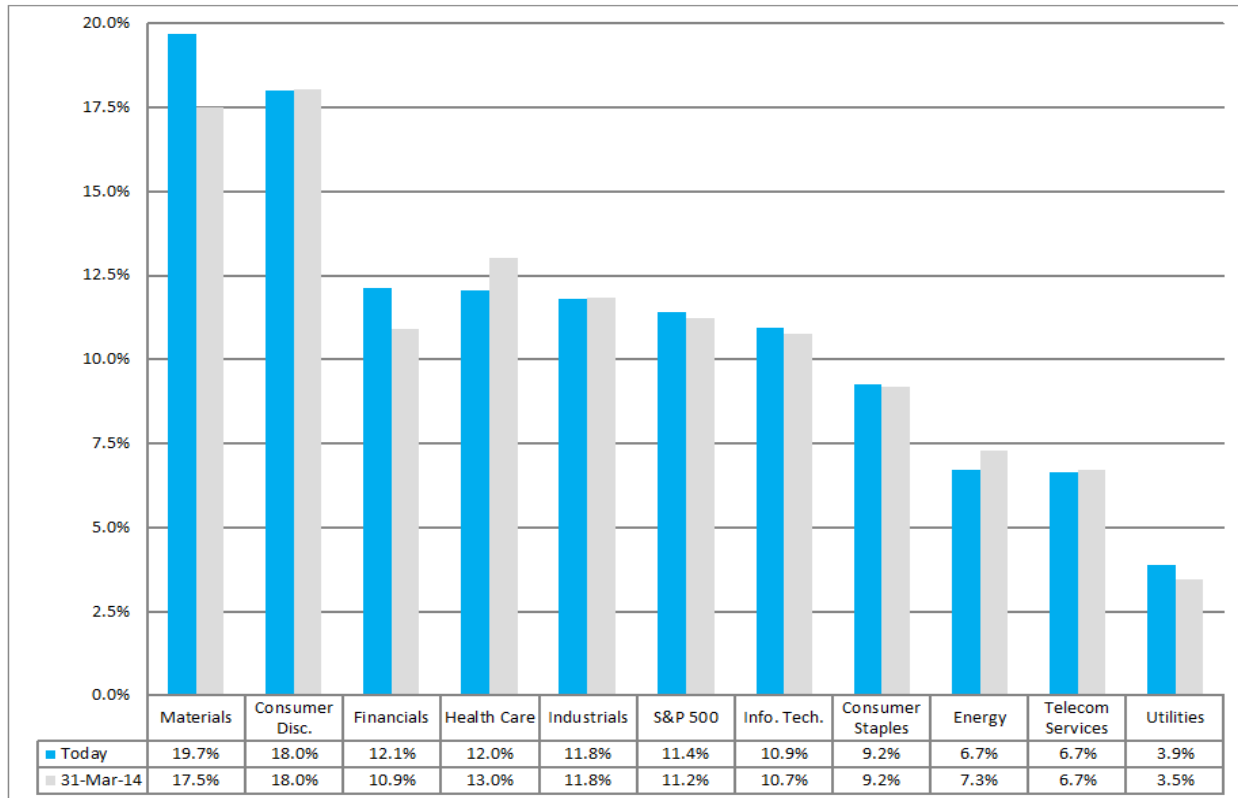


CY 2014 Revenue Growth

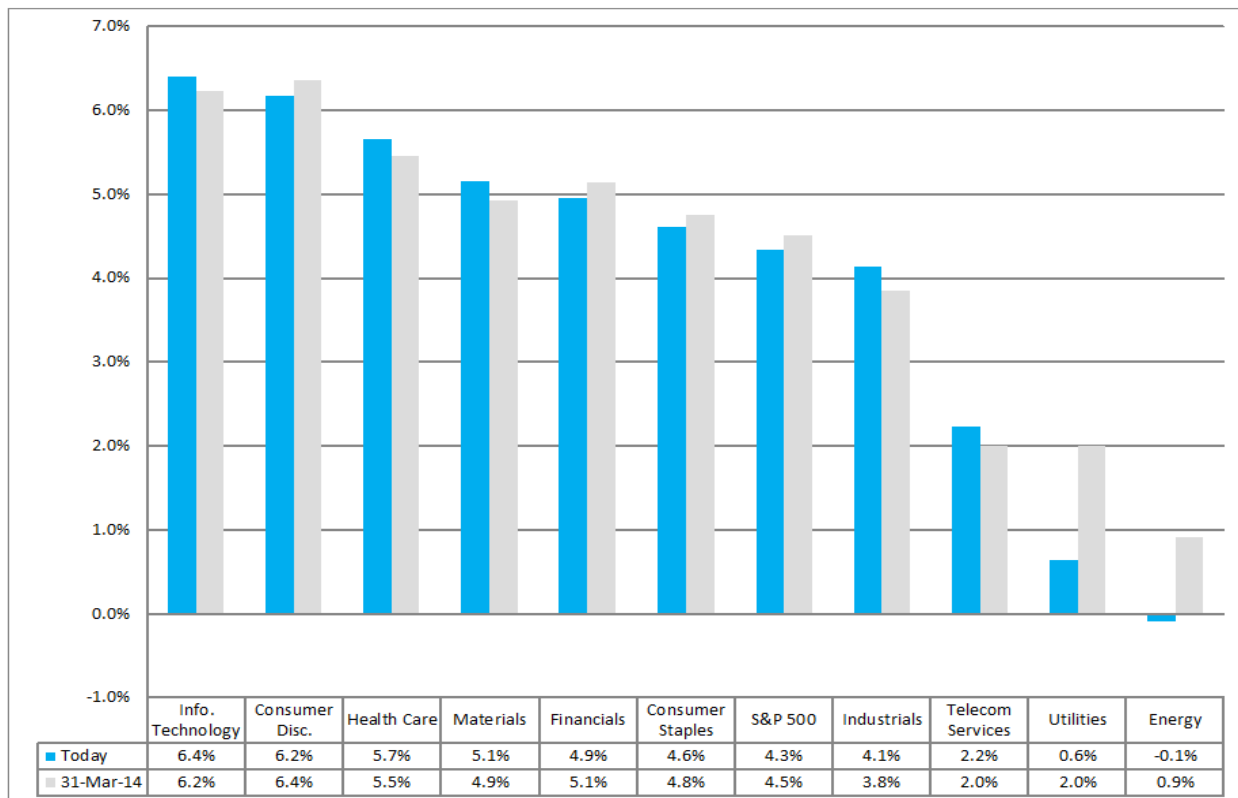


CY 2015: Growth

CY 2015 Earnings Growth

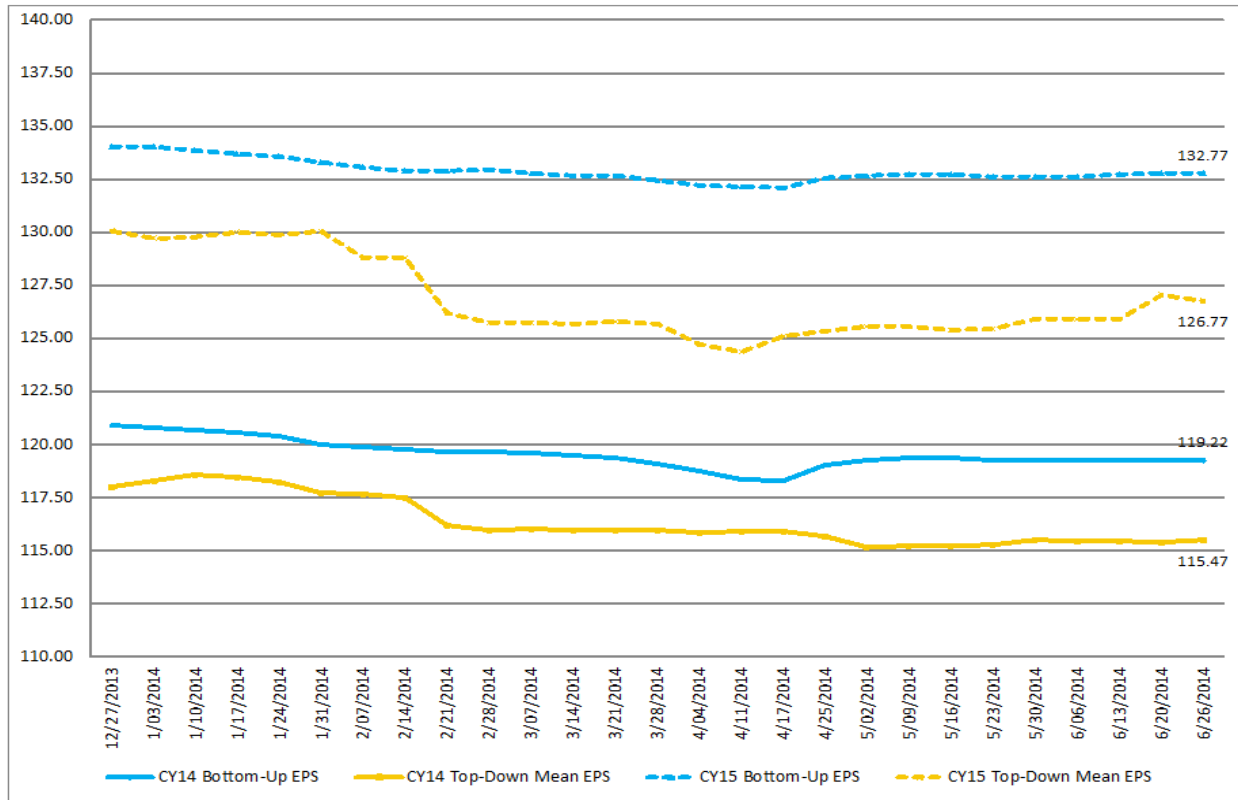


CY 2015 Revenue Growth

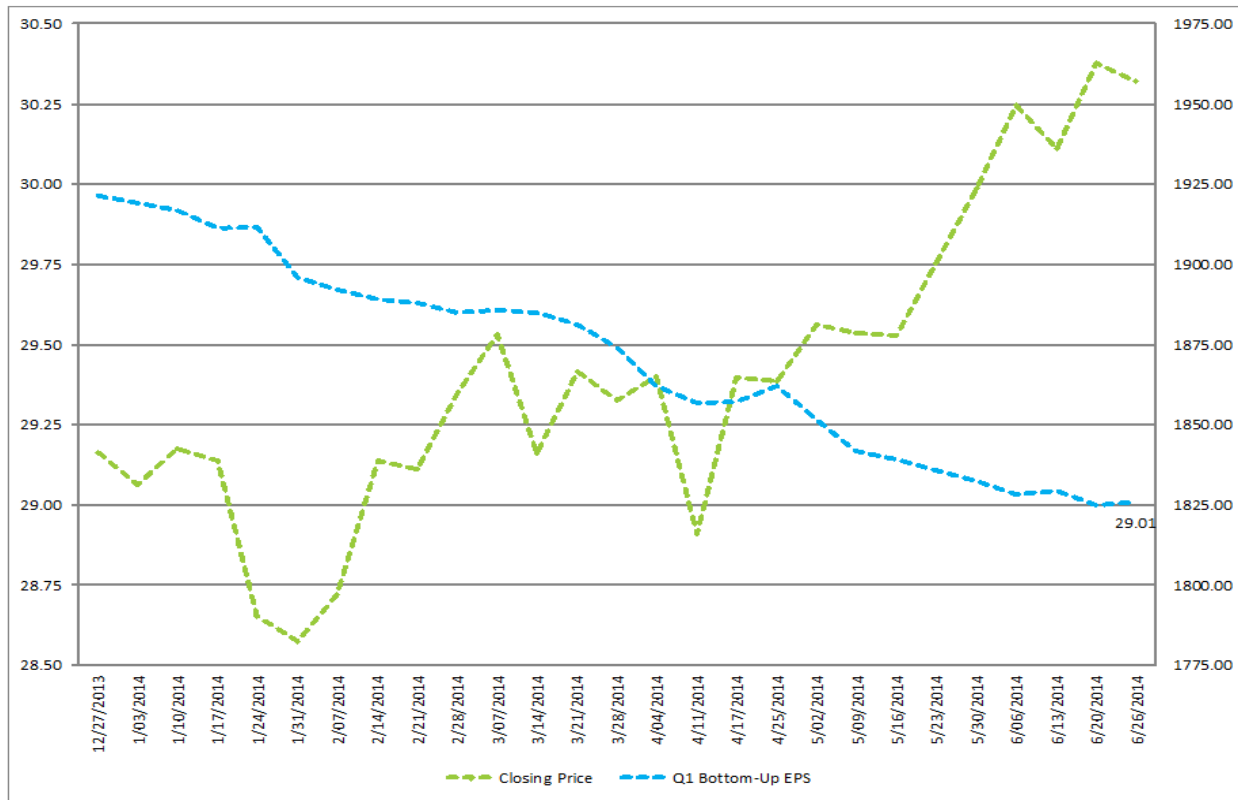


Bottom-up EPS Estimates: Revisions

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

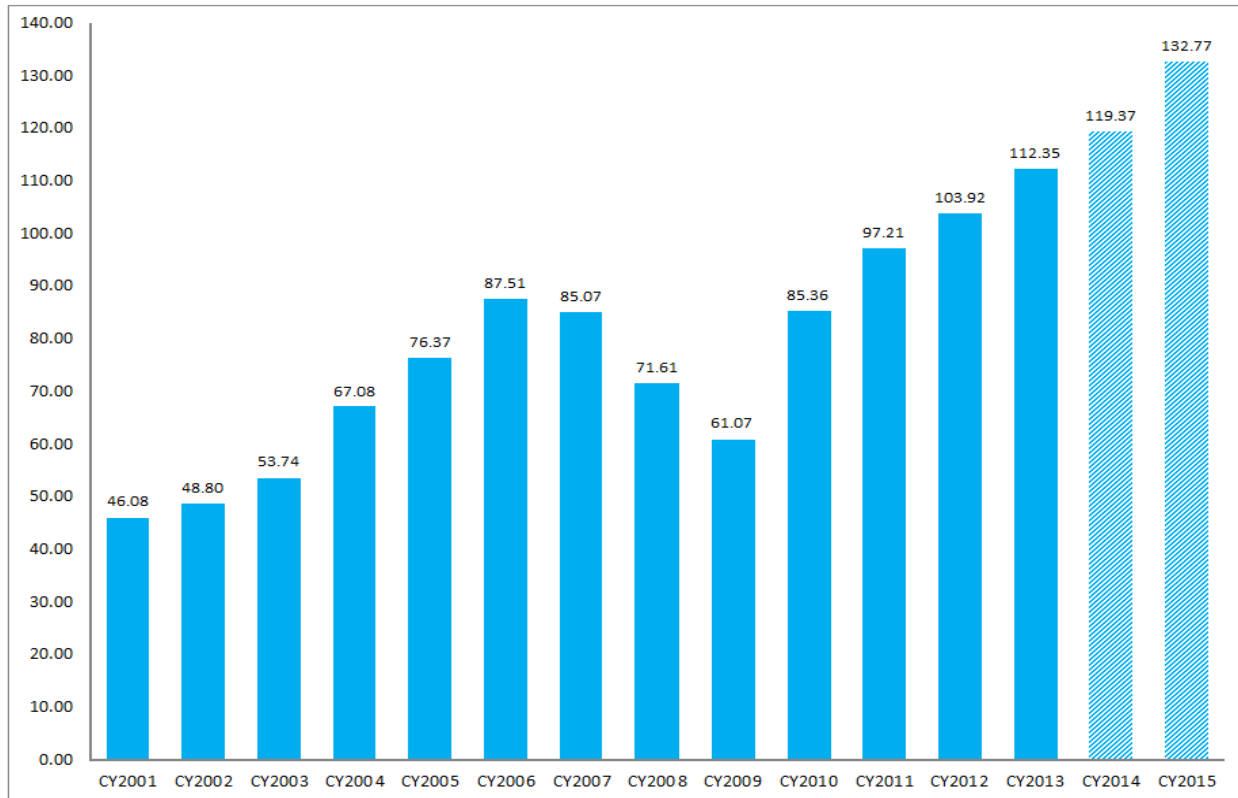


Change in Q214 Bottom-Up EPS vs. Price (Trailing 26-Weeks)

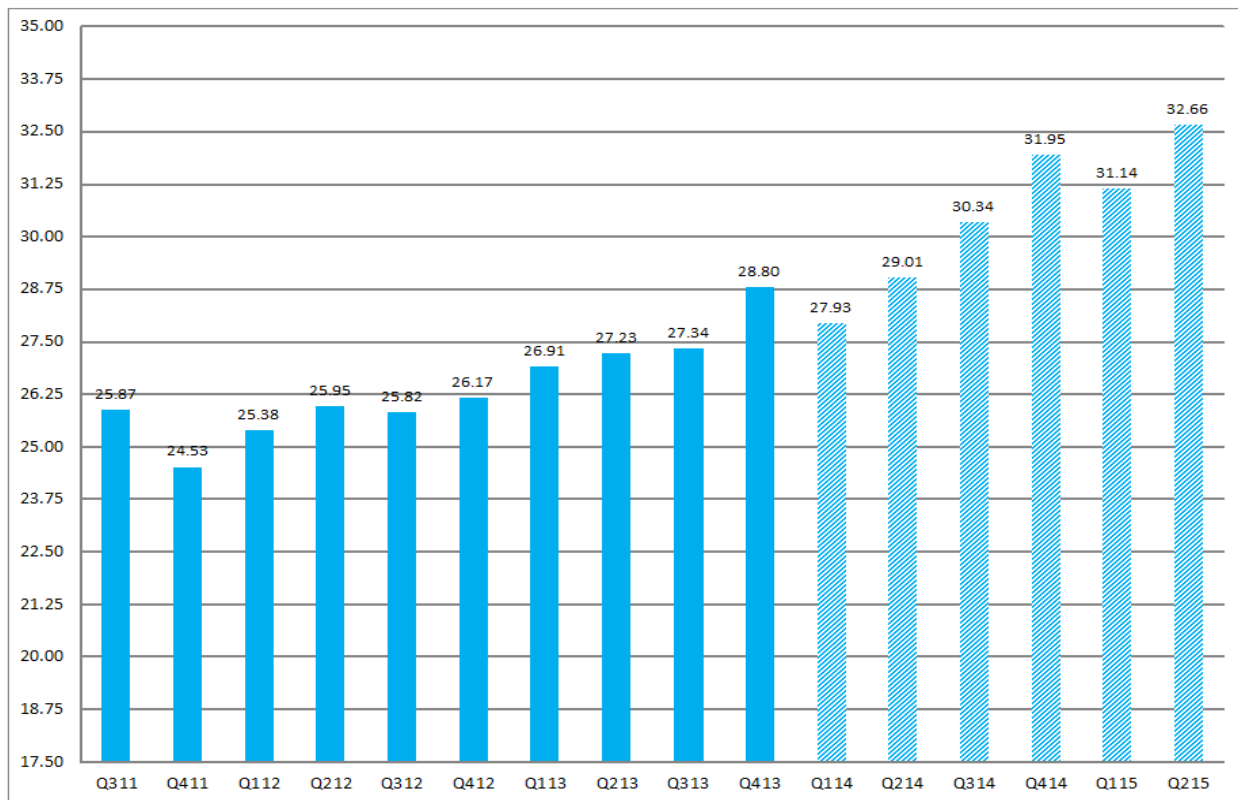


Bottom-up EPS Estimates: Current & Historical

Calendar Year Bottom-Up EPS Actuals & Estimates

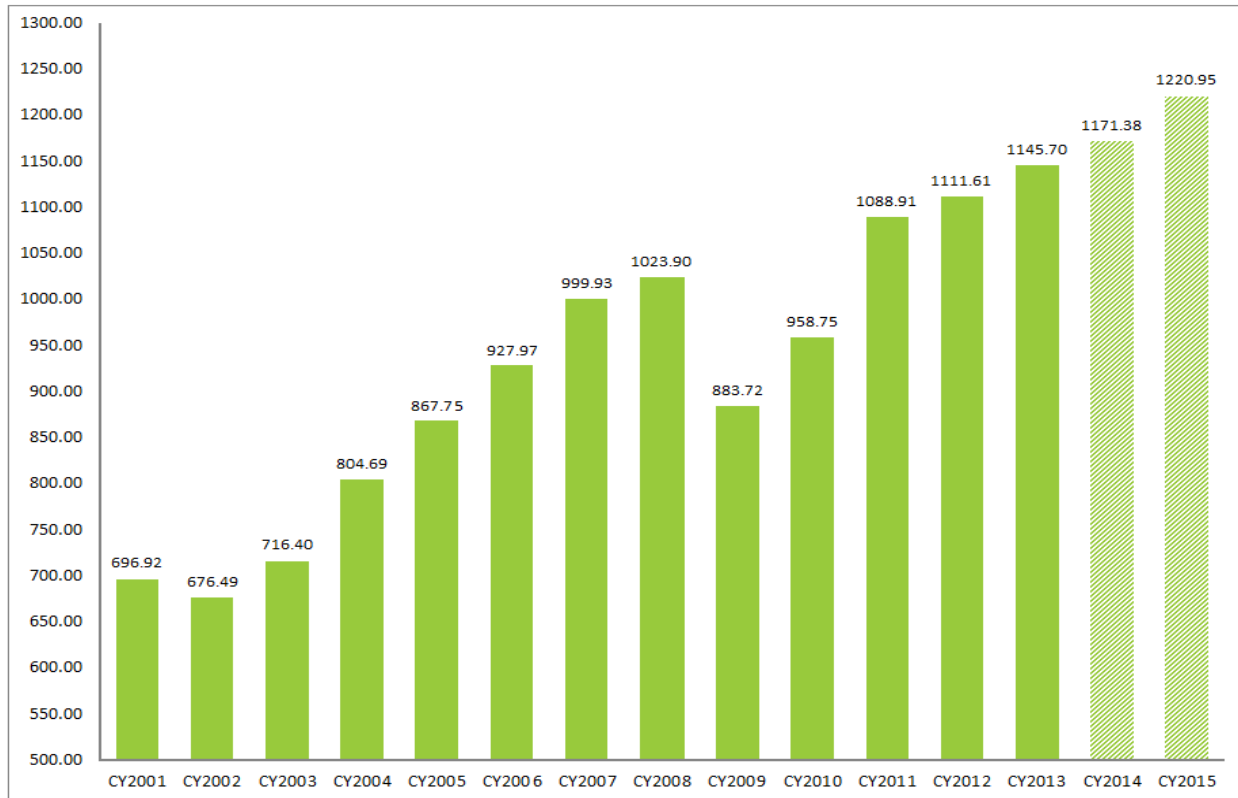


Quarterly Bottom-Up EPS Actuals & Estimates

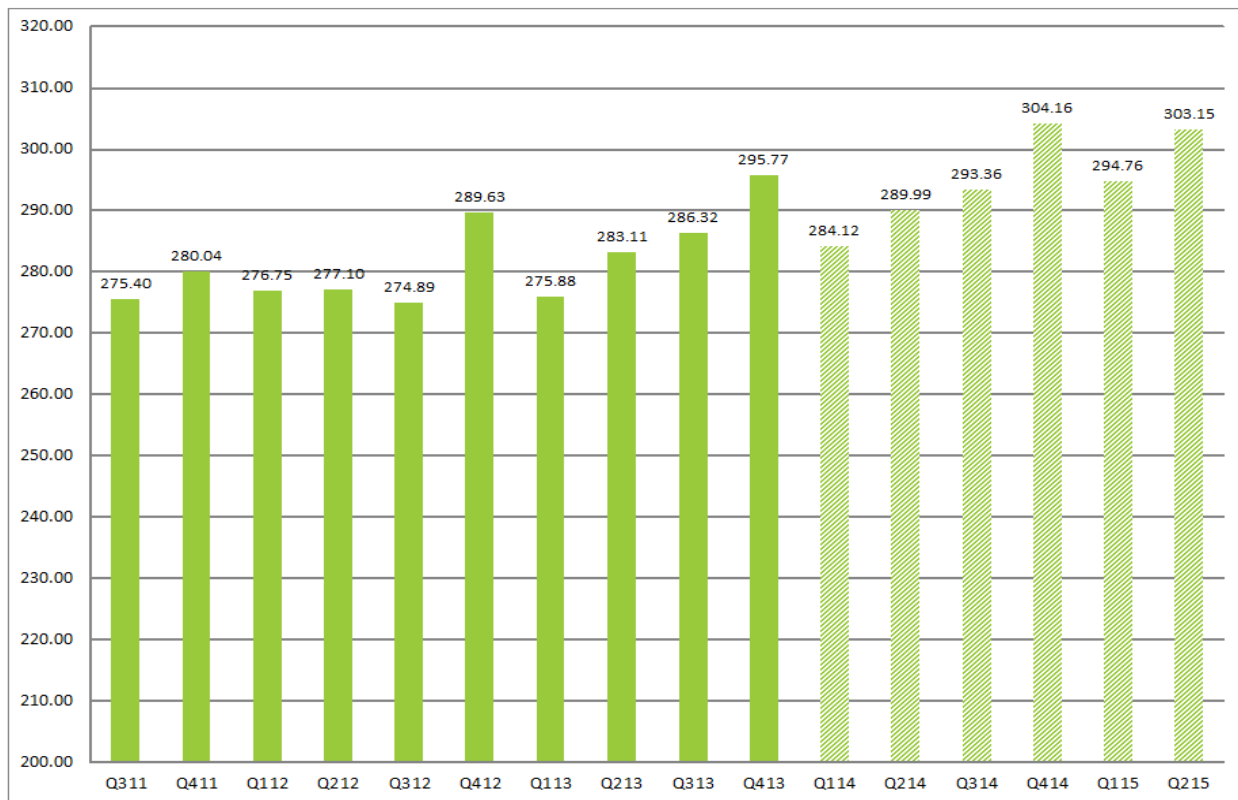


Bottom-up SPS Estimates: Current & Historical

Calendar Year Bottom-Up SPS Actuals & Estimates

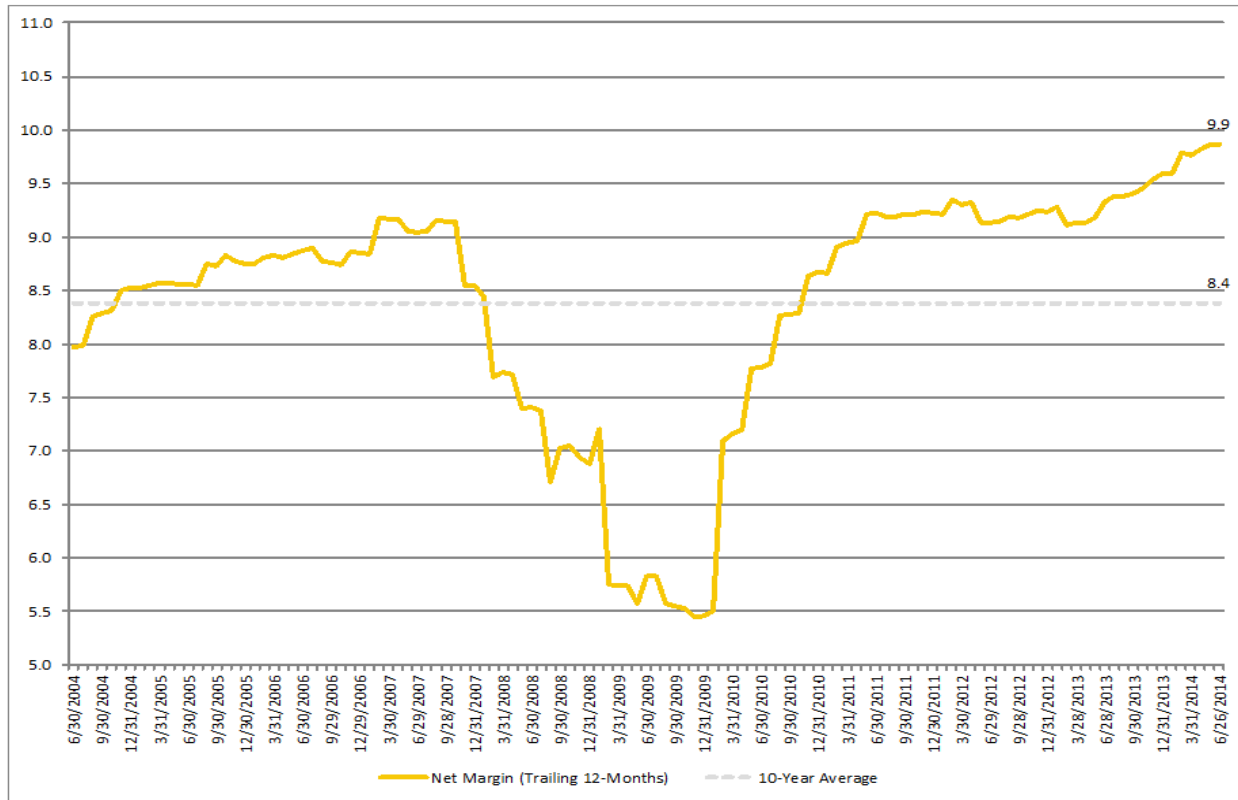


Quarterly Bottom-Up SPS Actuals & Estimates

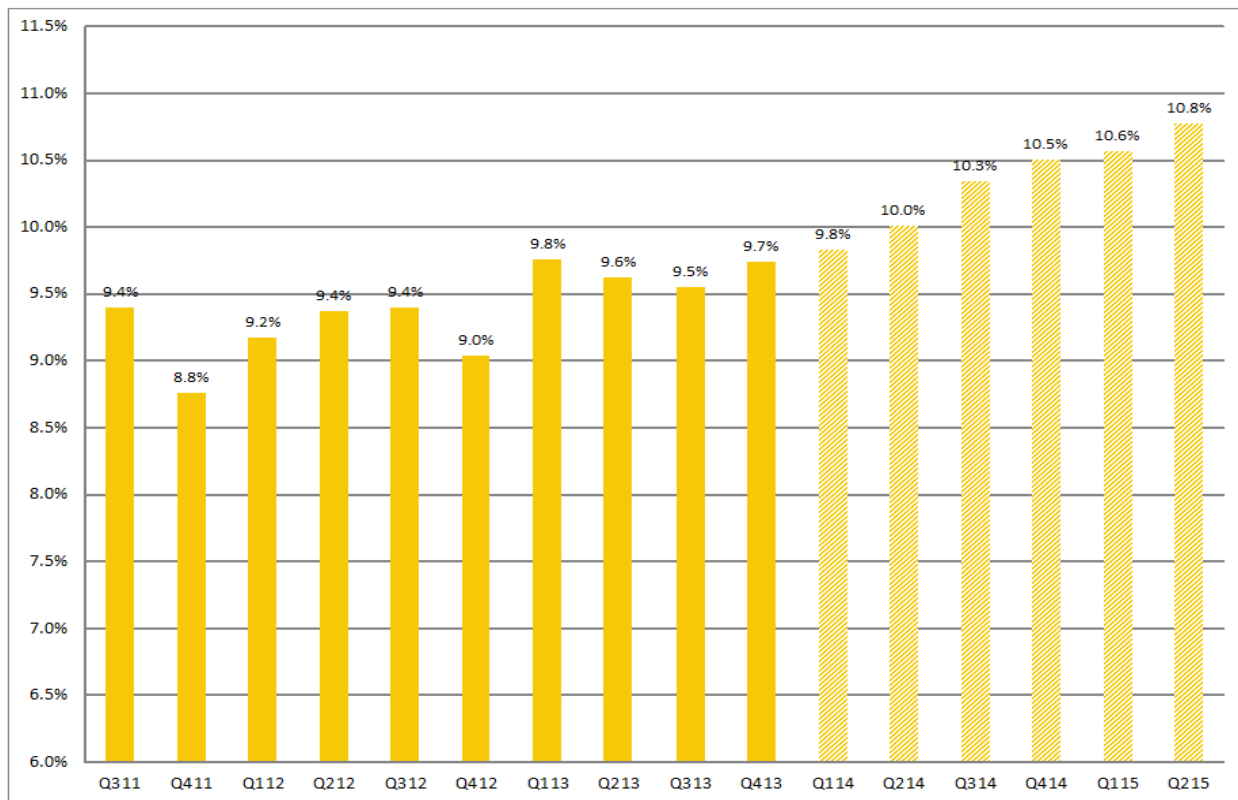


Net Margins: Current & Historical

Trailing 12M Net Margin: 10 Years

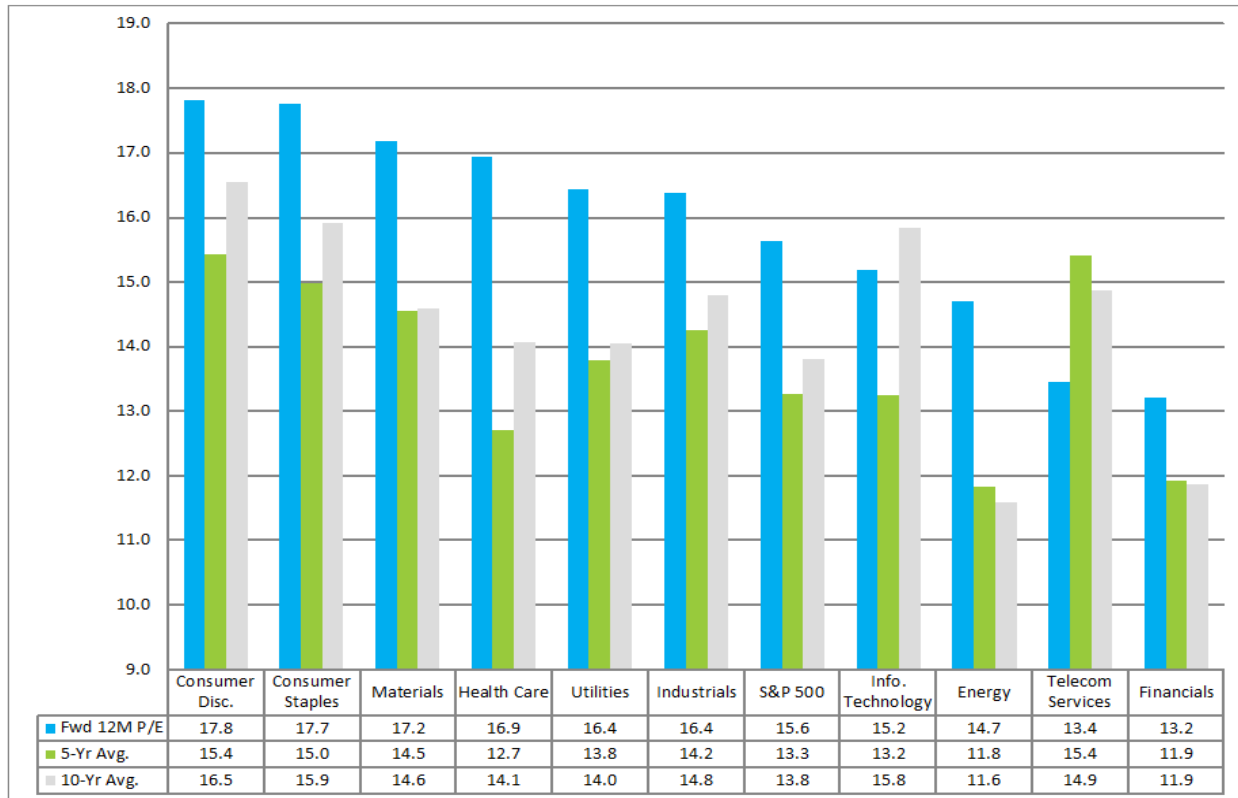


Quarterly Net Margins (Bottom-Up EPS / Bottom-Up SPS)

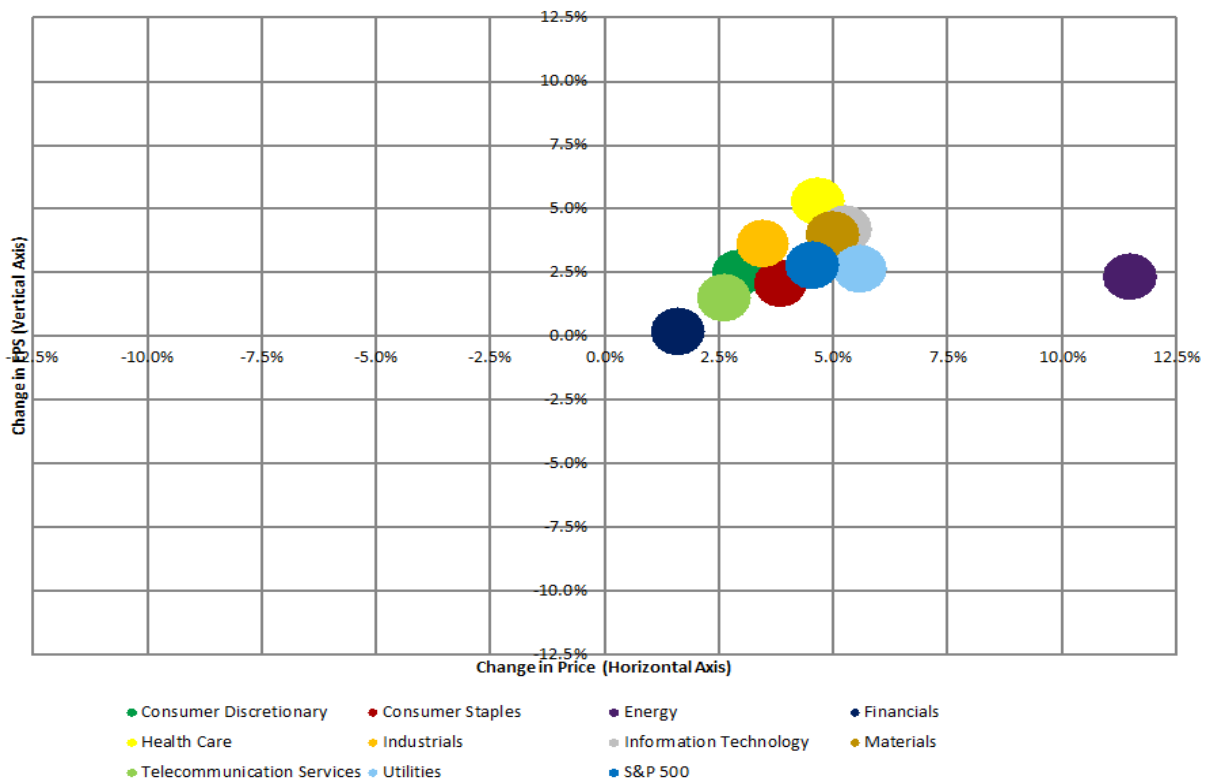


Forward 12M Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

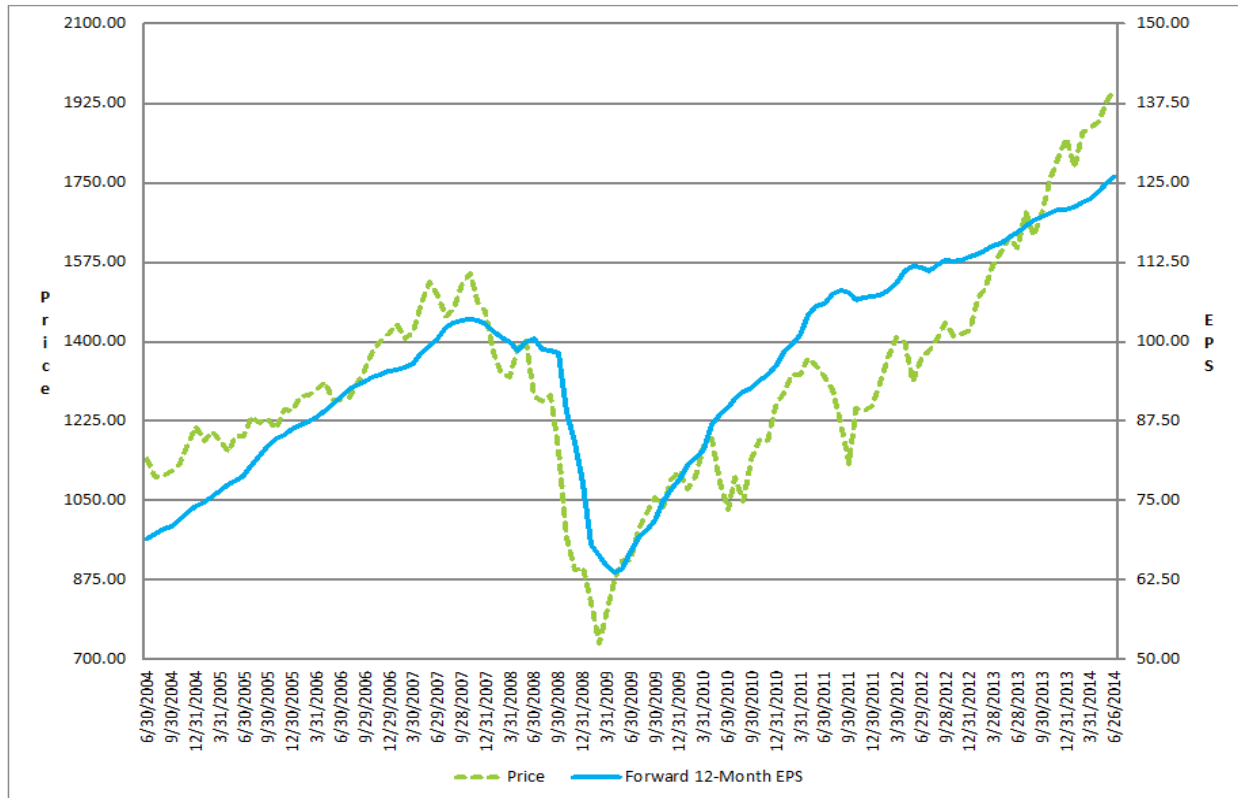


Sector-Level Change in Price vs. Change Forward 12M EPS: Since Mar. 31

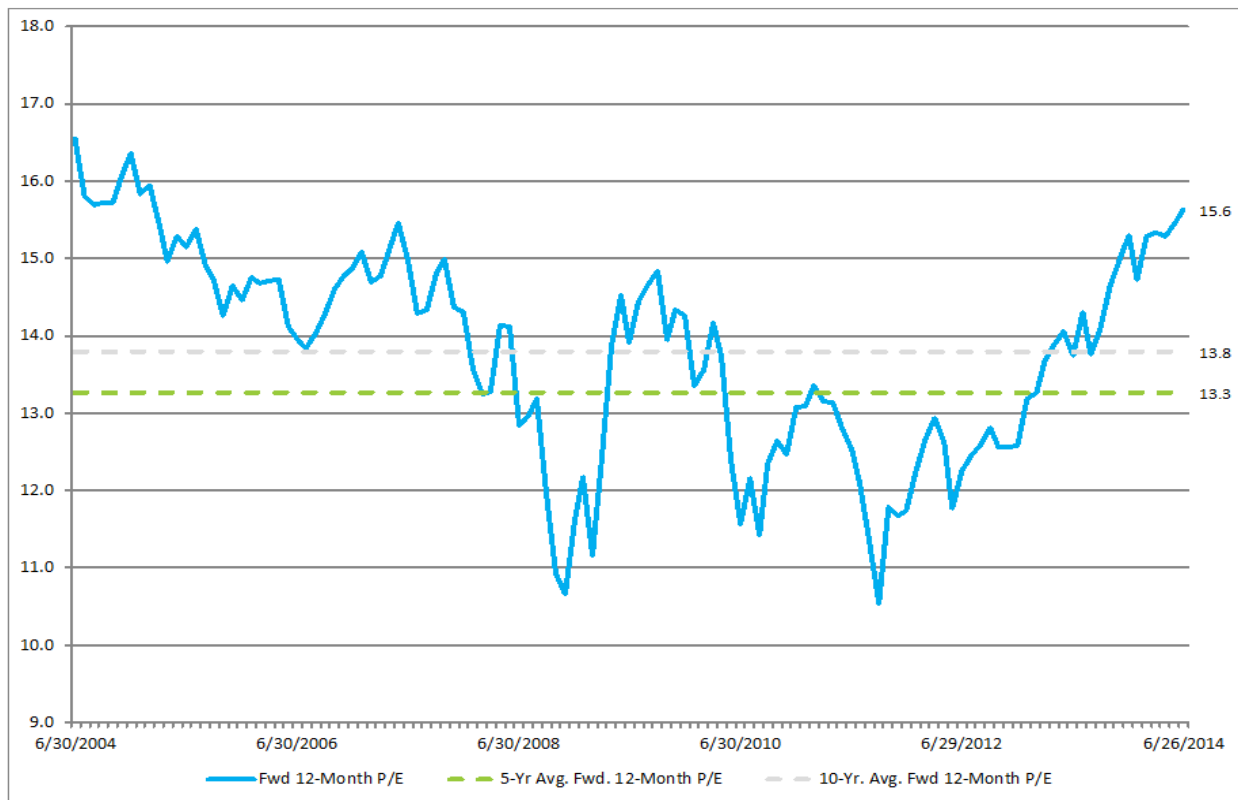


Forward 12M Price / Earnings Ratio: Long-Term Averages

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

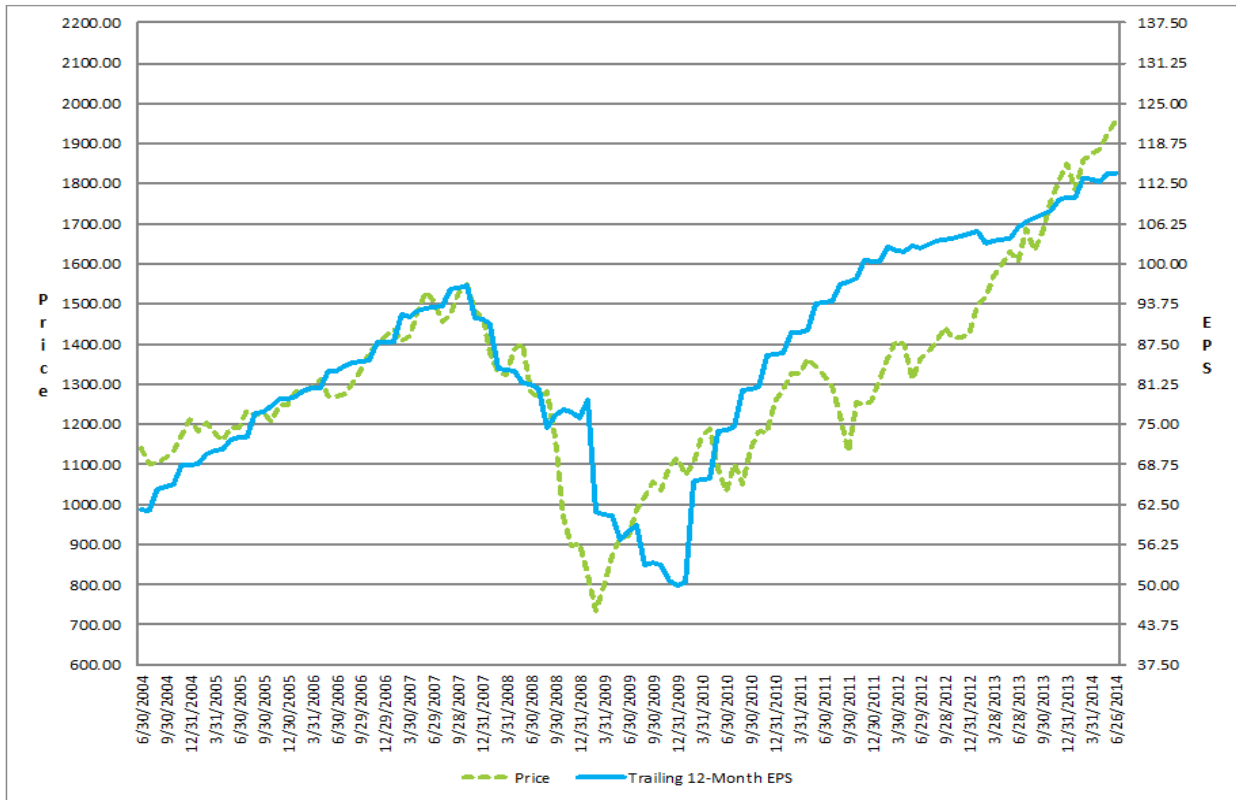


Forward 12M P/E Ratio: 10-Year

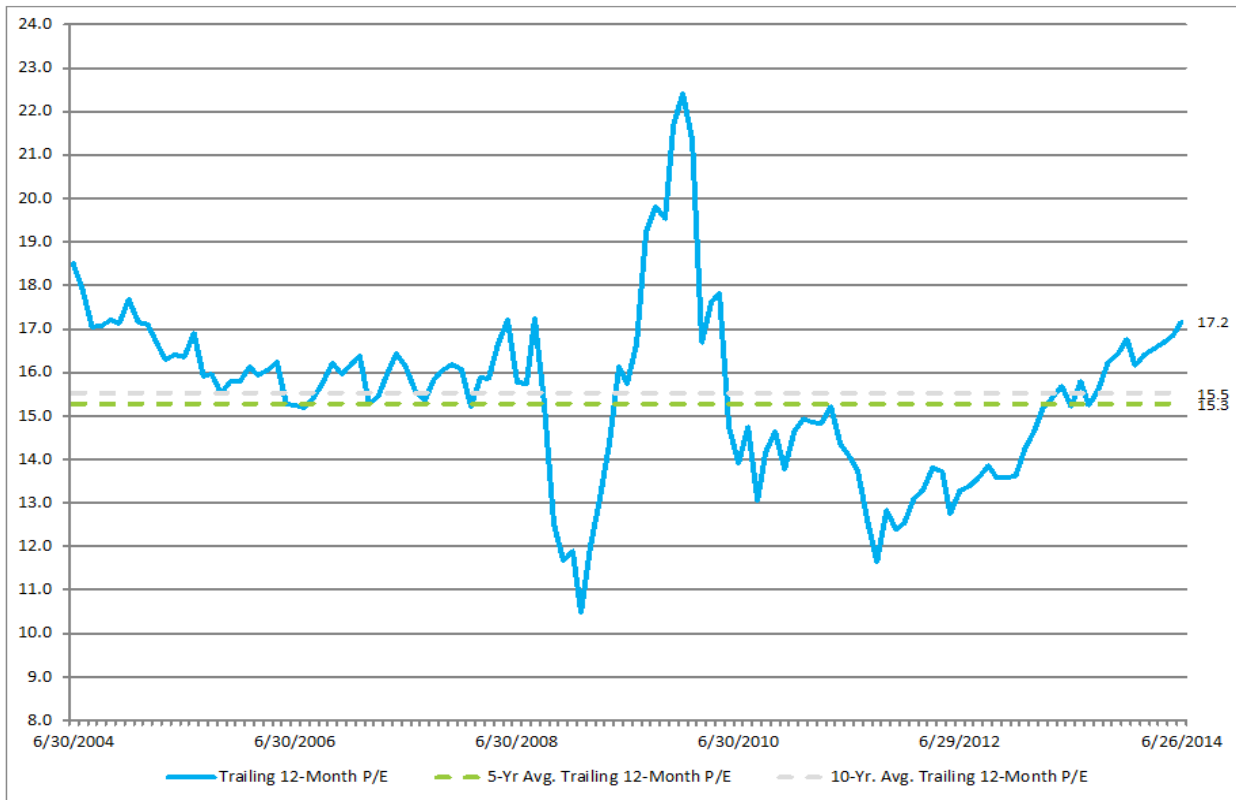


Trailing 12M Price / Earnings Ratio: Long-Term Averages

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



Trailing 12M P/E Ratio: 10-Year



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