

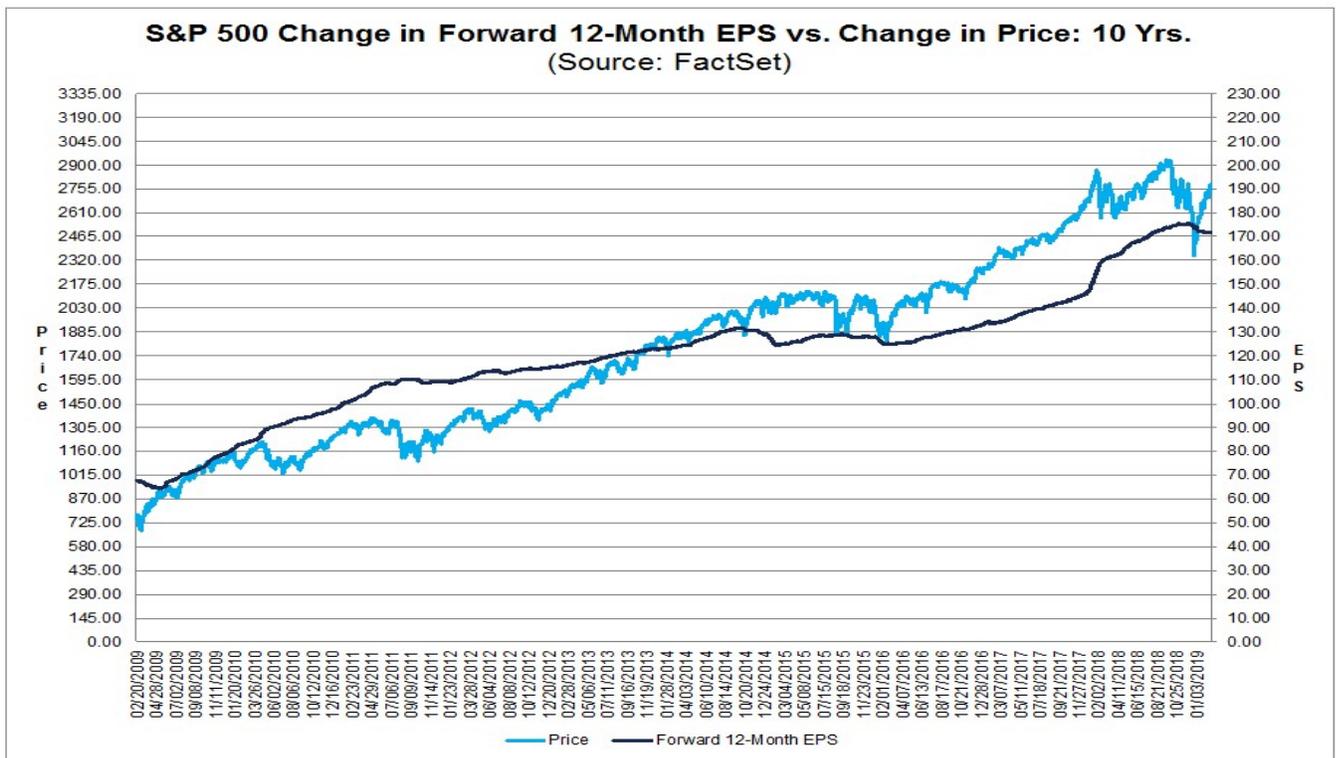
John Butters, Senior Earnings Analyst
jbutters@factset.com

Media Questions/Requests
media_request@factset.com

February 22, 2019

Key Metrics

- **Earnings Scorecard:** For Q4 2018 (with 89% of the companies in the S&P 500 reporting actual results for the quarter), 69% of S&P 500 companies have reported a positive EPS surprise and 61% have reported a positive revenue surprise.
- **Earnings Growth:** For Q4 2018, the blended earnings growth rate for the S&P 500 is 13.1%. If 13.1% is the actual growth rate for the quarter, it will mark the fifth straight quarter of double-digit earnings growth for the index.
- **Earnings Revisions:** On December 31, the estimated earnings growth rate for Q4 2018 was 12.1%. Seven sectors have higher growth rates today (compared to December 31) due to upward revisions to EPS estimates and positive EPS surprises.
- **Earnings Guidance:** For Q1 2019, 68 S&P 500 companies have issued negative EPS guidance and 25 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 16.2. This P/E ratio is below the 5-year average (16.4) but above the 10-year average (14.7).



To receive this report via e-mail or view other articles with FactSet content, please go to: <https://insight.factset.com/>

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:

S&P 500 Projected to Report First Year-Over-Year Decline in Net Profit Margin Since 2016

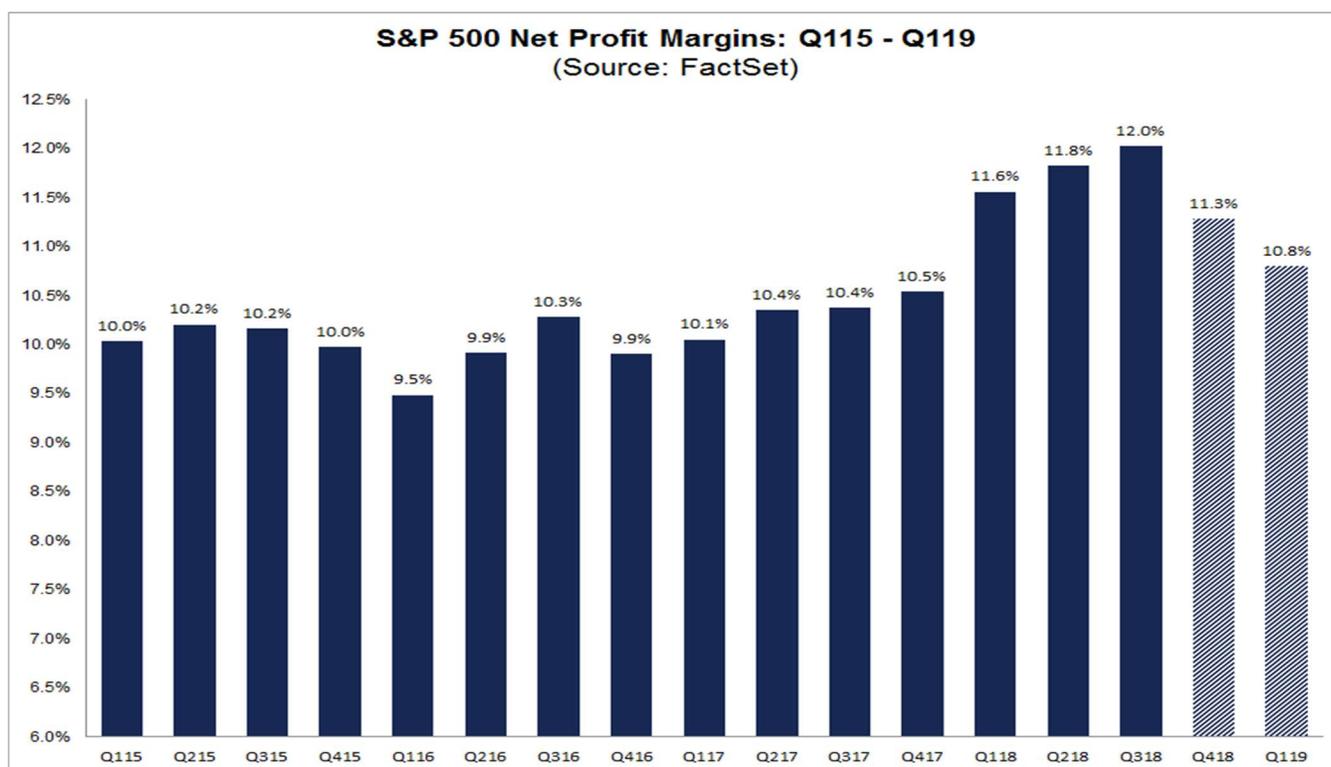
For the first quarter, the S&P 500 is projected to report a year-over-year decline in earnings of 2.7%, but year-over-year growth in revenues of 5.2%. Given the dichotomy in growth between earnings and revenues, there are concerns in the market about net profit margins for S&P 500 companies in the first quarter. What are the expectations for net profit margins for the S&P 500 for Q1?

The estimated net profit margin for the S&P 500 for Q1 2019 is 10.8%. If 10.8% is the actual net profit margin for the quarter, it will mark the first year-over-year decline in the net profit margin for the index since Q4 2016. It will also mark the lowest net profit margin reported by the index since Q4 2017.

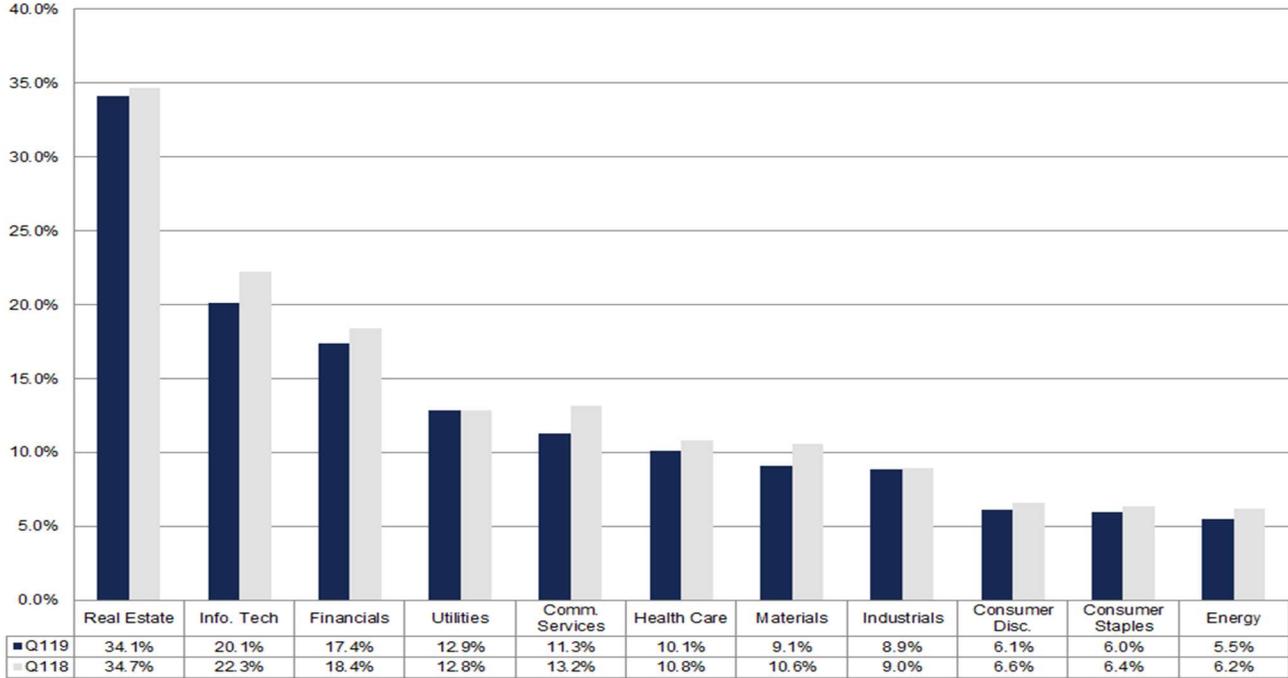
Ten of the eleven sectors are projected to report a year-over-year decline in their net profit margins in Q1 2019, led by the Information Technology (20.1% vs. 22.3%), Communication Services (11.3% vs. 13.2%), and Materials (9.1% vs. 10.6%) sectors. The Utilities sector (12.9% vs. 12.8%) is the only sector projected to see a year-over-year increase in its net profit margin. In seven of the eleven sectors, more than half of the companies in the sector are expected to see a year-over-year decrease in their net profit margins.

It is interesting to note that analysts expect the index to report higher net profit margins over the next few quarters. Based on current earnings and revenues estimates, the estimated net profit margins for the next three quarters (Q2 2019 through Q4 2019) are 11.5%, 11.9%, and 11.7%, respectively.

To maintain consistency, the earnings and revenue numbers used to calculate the earnings and revenue growth rates published in this report were also used to calculate the index-level and sector-level net profit margins for this analysis. In addition, all year-over-year comparisons for Q1 2019 to Q1 2018 reflect an apples-to-apples comparison of data at the company level. In other words, FactSet used year-ago earnings and revenue data for the current constituents (not the year-ago constituents) in the index when making year-over-year comparisons for index-level and sector-level net profit margins. This methodology was only used for the year-over-year comparisons. The net profit margins in the time series chart below reflect the data for the constituents at the end of each quarter.



S&P 500 Estimated Sector-Level Net Profit Margins: Q119 vs. Q118
(Source: FactSet)



Q4 Earnings Season: By The Numbers

Overview

To date, 89% of the companies in the S&P 500 have reported actual results for Q4 2018. In terms of earnings, the percentage of companies reporting actual EPS above estimates (69%) is below the 5-year average. In aggregate, companies are reporting earnings that are 3.5% above the estimates, which is also below the 5-year average. In terms of revenues, the percentage of companies reporting actual revenues above estimates (61%) is slightly above the 5-year average. In aggregate, companies are reporting revenues that are 1.1% above the estimates, which is also above the 5-year average.

The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report), year-over-year earnings growth rate for the fourth quarter is 13.1% today, which is slightly above the earnings growth rate of 13.0% last week. Positive earnings surprises reported by companies in multiple sectors were responsible for the small increase in the earnings growth rate during the week. If 13.1% is the actual growth rate for the quarter, it will mark the first time the index has not reported earnings growth above 20% since Q4 2017. However, it will also mark the fifth straight quarter of double-digit earnings growth for the index. Ten of the eleven sectors are reporting year-over-year earnings growth. Five sectors are reporting double-digit earnings growth, led by the Energy, Communication Services, and Industrials sectors.

The blended, year-over-year revenue growth rate for the fourth quarter is 6.6% today, which is below the revenue growth rate of 7.0% last week. Downward revisions to revenue estimates for Berkshire Hathaway were mainly responsible for the decrease in the revenue growth rate during the week. All eleven sectors are reporting year-over-year growth in revenues. Three sectors are reporting double-digit growth in revenues: Communications Services, Real Estate, and Energy.

Looking ahead, analysts predict a decline in earnings for the first quarter (-2.7%) of 2019 and low single-digit growth in earnings for the second (0.7%) and third (2.2%) quarters of 2019.

The forward 12-month P/E ratio is 16.2, which is below the 5-year average but above the 10-year average.

During the upcoming week, 39 S&P 500 companies (including 1 Dow 30 component) are scheduled to report results for the fourth quarter.

Scorecard: EPS Below Average While Revenues Above Average vs. Analyst Estimates

Percentage of Companies Beating EPS Estimates (69%) is Below 5-Year Average

Overall, 89% of the companies in the S&P 500 have reported earnings to date for the fourth quarter. Of these companies, 69% have reported actual EPS above the mean EPS estimate, 9% have reported actual EPS equal to the mean EPS estimate, and 22% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is below the 1-year (77%) average and below the 5-year (71%) average.

At the sector level, the Information Technology (86%) and Industrials (81%) sectors have the highest percentages of companies reporting earnings above estimates, while the Real Estate (40%) sector has the lowest percentage of companies reporting earnings (FFO for Real Estate) above estimates.

Earnings Surprise Percentage (+3.5%) is Below 5-Year Average

In aggregate, companies are reporting earnings that are 3.5% above expectations. This surprise percentage is below the 1-year (+6.0%) average and below the 5-year (+4.8%) average.

The Energy sector (+14.0%) is reporting the largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Valero Energy (\$2.12 vs. \$1.13) and Phillips 66 (\$4.87 vs. \$2.86) have reported the largest positive EPS surprises.

The Communication Services (+8.4%) sector is reporting second the largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Netflix (\$0.30 vs. \$0.24), Twitter (\$0.31 vs. \$0.25), News Corporation (\$0.18 vs. \$0.14), and Walt Disney (\$1.84 vs. \$1.54) have reported large positive EPS surprises.

The Materials (-1.6%) sector is reporting the largest negative (aggregate) difference between actual earnings and estimated earnings. Within this sector, CF Industries Holdings (\$0.21 vs. \$0.44), Freeport-McMoRan (\$0.11 vs. \$0.18), and LyondellBasell Industries (\$1.80 vs. \$2.27) have reported the largest negative EPS surprises.

Market Rewarding Positive EPS Surprises More and Punishing Negative EPS Surprises Less

To date, the market is rewarding positive earnings surprises more than average and punishing negative earnings surprises less than average.

Companies that have reported positive earnings surprises for Q4 2018 have seen an average price increase of +2.1% two days before the earnings release through two days after the earnings release. This percentage increase is larger than the 5-year average price increase of +1.0% during this same window for companies reporting positive earnings surprises.

Companies that have reported negative earnings surprises for Q4 2018 have seen an average price decrease of -0.7% two days before the earnings release through two days after the earnings release. This percentage decrease is much smaller than the 5-year average price decrease of -2.6% during this same window for companies reporting negative earnings surprises.

Percentage of Companies Beating Revenue Estimates (61%) is Above 5-Year Average

In terms of revenues, 61% of companies have reported actual sales above estimated sales and 39% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is below the 1-year average (72%) but slightly above the 5-year average (60%).

At the sector level, the Health Care (80%) sector has the highest percentage of companies reporting revenues above estimates, while the Materials (35%) sector has the lowest percentage of companies reporting revenues above estimates.

Revenue Surprise Percentage (+1.1%) is Above 5-Year Average

In aggregate, companies are reporting revenues that are 1.1% above expectations. This surprise percentage is below the 1-year (+1.4%) average but above the 5-year (+0.7%) average.

The Utilities (+6.3%) sector is reporting the largest positive (aggregate) difference between actual revenues and estimated revenues. Within this sector, DTE Energy (3.75 billion vs. \$2.86 billion), Exelon (\$8.81 billion vs. \$7.20 billion), and Eversource Energy (\$2.03 billion vs. \$1.68 billion) have reported the largest positive revenue surprises.

The Materials (-2.0%) sector is reporting the largest negative (aggregate) difference between actual revenues and estimated revenues. Within this sector, CF Industries Holdings (\$1.13 billion vs. \$1.24 billion) and LyondellBasell Industries (\$8.88 billion vs. \$9.66 billion) have reported the largest negative revenue surprises.

Revisions: Decrease in Blended Revenue Growth Rate this Week

Increase in Blended Earnings Growth This Week Due to Multiple Sectors

The blended, year-over-year earnings growth rate for the fourth quarter is 13.1% today, which is slightly above the earnings growth rate of 13.0% last week. Positive earnings surprises reported by companies in the multiple sectors were responsible for the small increase in the earnings growth rate during the week.

Decrease in Blended Revenue Growth This Week Due to Berkshire Hathaway

The blended, year-over-year revenue growth rate for the fourth quarter is 6.6% today, which is below the revenue growth rate of 7.0% last week. Downward revisions to revenue estimates for Berkshire Hathaway (to \$48.5 billion from \$63.5 billion) were mainly responsible for the decrease in the revenue growth rate during the week. As a result, the blended revenue growth rate for the Financials sector dropped to 0.1% from 4.4% during this period.

Energy Sector Has Seen Largest Increase in Earnings Growth since December 31

The blended, year-over-year earnings growth rate for Q4 2018 of 13.1% is above the estimate of 12.1% at the end of the fourth quarter (December 31). Seven sectors have recorded an increase in earnings growth since the end of the quarter due to upward revisions to earnings estimates and positive earnings surprises, led by the Energy (to 94.1% from 75.7%) sector. Four sectors have recorded a decrease in earnings growth during this time due to downward revisions to earnings estimates and negative earnings surprises, led by the Financials (to 7.6% from 13.3%) sector.

Utilities Sector Has Seen Largest Increase in Revenue Growth since December 31

The blended, year-over-year revenue growth rate for Q4 2018 of 6.6% is above the estimate of 6.4% at the end of the fourth quarter (December 31). Seven sectors have recorded an increase in revenue growth since the end of the quarter due to upward revisions to revenue estimates and positive revenue surprises, led by the Utilities (to 4.3% from -1.0%) sector. Four sectors have recorded a decrease in revenue growth during this time due to downward revisions to revenue estimates and negative revenue surprises, led by the Financials (to 0.1% from 4.1%) sector.

Earnings Growth: 13.1%

The blended (year-over-year) earnings growth rate for Q4 2018 is 13.1%. If 13.1% is the final growth rate for the quarter, it will mark the first time the index has not reported earnings growth above 20% since Q4 2017. However, it will also mark the fifth straight quarter of double-digit earnings growth for the index. Ten of the eleven sectors are reporting year-over-year growth in earnings. Five sectors are reporting double-digit earnings growth, led by the Energy, Communication Services, and Industrials sectors.

Energy: 4 of 6 Sub-Industries Reporting Growth Above 50%

The Energy sector is reporting the highest (year-over-year) earnings growth of all eleven sectors at 94.1%. At the sub-industry level, five of the six sub-industries in the sector are reporting earnings growth for the quarter: Oil & Gas Drilling (N/A due to \$0 earnings in year-ago), Oil & Gas Refining & Marketing (206%), Oil & Gas Exploration & Production (110%), Integrated Oil & Gas (86%), and Oil & Gas Storage & Transportation (57%). The Oil & Gas Equipment & Services (-23%) sub-industry is the only sub-industry that reported a year-over-year decline in earnings in the sector.

Communication Services: 3 of 4 Industries Reporting Growth Above 20%

The Communication Services sector is reporting the second highest (year-over-year) earnings growth of all eleven sectors at 22.3%. At the industry level, all four industries in this sector are reporting earnings growth for the quarter. Three of these four industries are reporting earnings growth of more than 20%: Diversified Telecommunications Services (33%), Media (26%), and Interactive Media & Services (22%).

Industrials: 10 of 12 Industries Reporting Double-Digit Growth

The Industrials sector is reporting the third highest (year-over-year) earnings growth of all eleven sectors at 18.2%. At the industry level, 10 of the 12 industries in this sector are reporting earnings growth for the quarter. All ten of these industries are reporting double-digit growth in earnings, led by the Construction & Engineering (47%), Trading Companies & Distributors (41%), Road & Rail (37%), Aerospace & Defense (35%), and Airlines (31%) industries. The Industrial Conglomerates (-14%) and Professional Services (-9%) industries are the only two industries reporting year-over-year declines in earnings for the quarter.

At the company level, General Electric is the largest detractor to earnings growth for the sector. The company reported actual EPS of \$0.17 for Q4 2018, compared to EPS of \$0.27 in the year-ago quarter. If this company were excluded, the blended earnings growth rate for the sector would improve to 22.9% from 18.2%.

Revenue Growth: 6.6%

The blended (year-over-year) revenue growth rate for Q4 2018 is 6.6%. All eleven sectors are reporting year-over-year growth in revenues. Three sectors are reporting double-digit growth in revenues: Communication Services, Real Estate, and Energy.

Communication Services: Alphabet Leads Growth on Easy Comparison to Year-Ago Revenues ex-TAC

The Communication Services sector is reporting the highest (year-over-year) revenue growth of all eleven sectors at 20.4%. At the industry level, all four industries in this sector are reporting revenue growth. Two of these four industries are reporting double-digit revenue growth: Interactive Media & Services (47%) and Media (17%).

At the company level, Alphabet is the largest contributor to revenue growth for this sector due to an unusual apple-to-orange comparison between revenues for Q4 2018 and Q4 2017. For Q4 2018, the majority of analysts provided estimates for total revenues (including traffic acquisition costs) for Alphabet. On this basis, Alphabet reported revenues of \$39.276 billion in Q4 2018. For Q4 2017, the majority of analysts provided estimates for total revenues excluding traffic acquisition costs for Alphabet. On this basis, Alphabet reported revenues of \$25.873 billion in Q4 2017. Thus, in the growth rate calculation, total revenues (including TAC) of \$39.276 billion in Q4 2018 are being compared to total revenues excluding TAC of \$25.873 billion in Q4 2017. In addition, the company's revenue numbers are counted twice in the growth rate calculation (once for GOOG and once for GOOGL) because the company is a dual-listed ticker in the index. As a result of the apple-to-orange comparison and the dual-listing, Alphabet is the largest contributor to revenue growth for the sector and the index as a whole. If this company were excluded, the blended revenue growth rate for the Communications Services sector would fall to 12.0% from 20.4%, and the blended revenue growth rate for the index would fall to 5.8% from 6.6%.

Real Estate: CBRE Group Leads Growth

The Real Estate sector is reporting the second highest (year-over-year) revenue growth of all eleven sectors at 12.3%. At the company level, CBRE Group is the largest contributor to revenue growth for the sector. CBRE Group reported revenues of \$6.29 billion for Q4 2018, compared to revenues of \$4.34 billion in the year-ago quarter. If this company were excluded, the blended revenue growth rate for the sector would fall to 5.4% from 12.3%.

Energy: 4 of 6 Sub-Industries Reporting Double-Digit Growth

The Energy sector is reporting the third highest (year-over-year) revenue growth of all eleven sectors at 12.2%. At the sub-industry level, five of the six sub-industries in the sector are reporting revenue growth for the quarter. Four of these five sub-industries are reporting double-digit revenue growth: Oil & Gas Drilling (31%), Oil & Gas Exploration & Production (20%), Oil & Gas Refining & Marketing (17%), and Integrated Oil & Gas (11%).

Looking Ahead: Forward Estimates and Valuation

Guidance: More S&P 500 Companies Issuing Negative EPS Guidance for Q1 than Average

The term “guidance” (or “preannouncement”) is defined as a projection or estimate for EPS provided by a company in advance of the company reporting actual results. 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.

At this point in time, 93 companies in the index have issued EPS guidance for Q1 2019. Of these 93 companies, 68 have issued negative EPS guidance and 25 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 73% (68 out of 93), which is above the 5-year average of 71%.

Earnings: Year-over-Year Decline Projected for Q1 2019

For the fourth quarter, companies are reporting earnings growth of 13.1% and revenue growth of 6.6%. For CY 2018, companies are reporting earnings growth of 20.0% and revenue growth of 8.8%. However, analysts expect a decline in earnings in Q1 2019 and low, single-digit growth in earnings in Q2 2019 and Q3 2019.

For Q1 2019, analysts are projecting a decline in earnings (-2.7%) and revenue growth of 5.2%.

For Q2 2019, analysts are projecting earnings growth of 0.7% and revenue growth of 4.7%.

For Q3 2019, analysts are projecting earnings growth of 2.2% and revenue growth of 4.5%.

For Q4 2019, analysts are projecting earnings growth of 8.8% and revenue growth of 5.4%.

For CY 2019, analysts are projecting earnings growth of 4.5% and revenue growth of 4.9%.

Valuation: Forward P/E Ratio is 16.2, Above the 10-Year Average (14.6)

The forward 12-month P/E ratio is 16.2. This P/E ratio is below the 5-year average of 16.4 but above the 10-year average of 14.7. It is also above the forward 12-month P/E ratio of 14.4 recorded at the end of the fourth quarter (December 31). Since the end of the fourth quarter (December 31), the price of the index has increased by 10.7%, while the forward 12-month EPS estimate has decreased by 1.2%.

At the sector level, the Consumer Discretionary (20.1) sector has the highest forward 12-month P/E ratio, while the Financials (11.6) sector has the lowest forward 12-month P/E ratio.

Targets & Ratings: Analysts Project 10% Increase in Price Over Next 12 Months

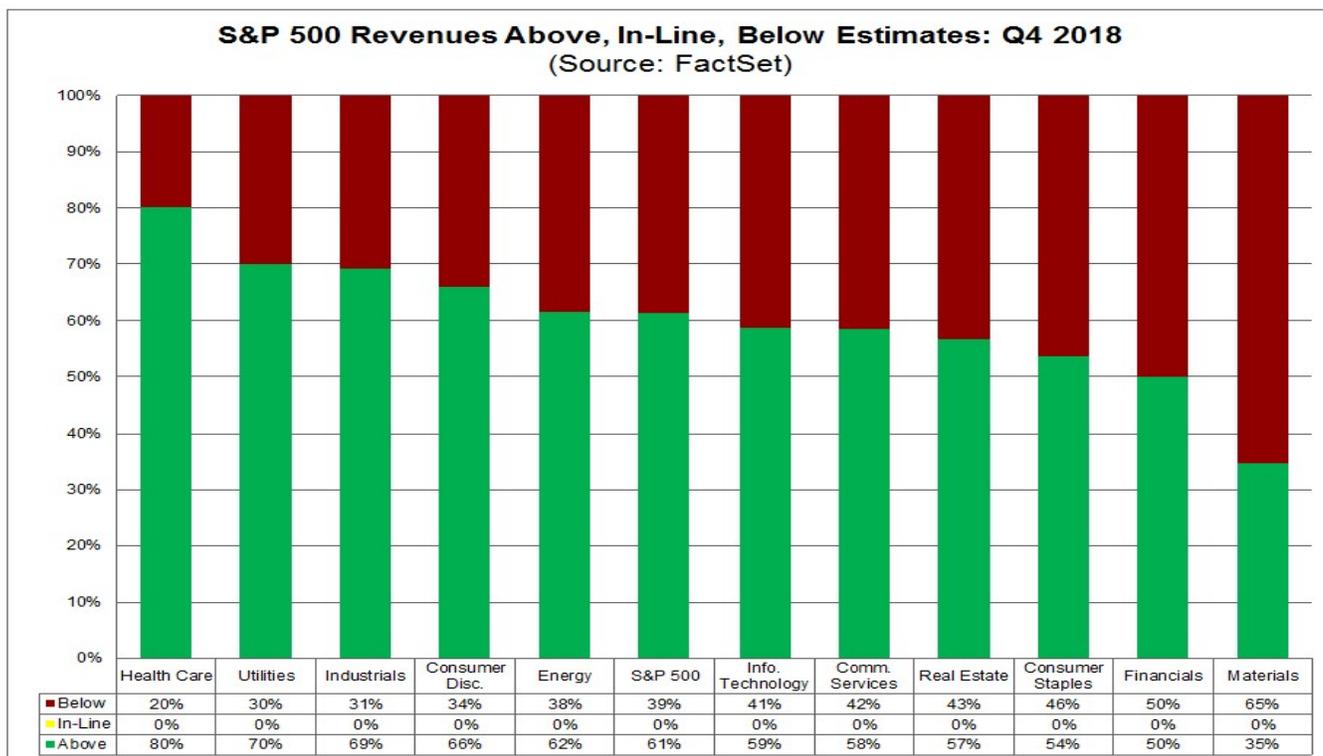
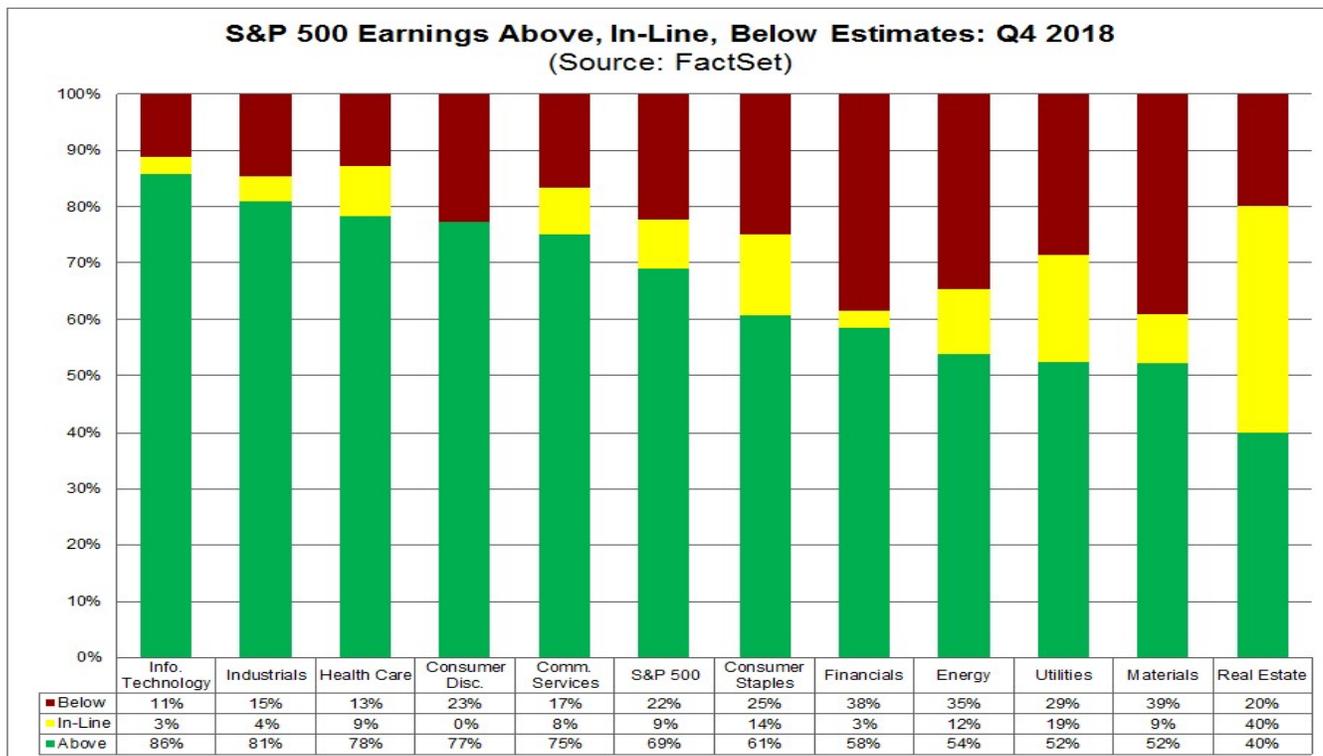
The bottom-up target price for the S&P 500 is 3060.97, which is 10.3% above the closing price of 2774.88. At the sector level, the Communication Services (+16.5%) and Energy (+15.9%) sectors are expected to see the largest price increases, as these sectors have the largest upside differences between the bottom-up target price and the closing price. On the other hand, the Utilities (+0.7%) and Real Estate (+3.2%) sectors are expected to see the smallest price increases, as these sectors have the smallest upside differences between the bottom-up target price and the closing price.

Overall, there are 11,020 ratings on stocks in the S&P 500. Of these 11,020 ratings, 53.7% are Buy ratings, 40.4% are Hold ratings, and 5.9% are Sell ratings. At the sector level, the Energy (68%) sector has the highest percentage of Buy ratings, while the Consumer Staples (39%) sector has the lowest percentage of Buy ratings.

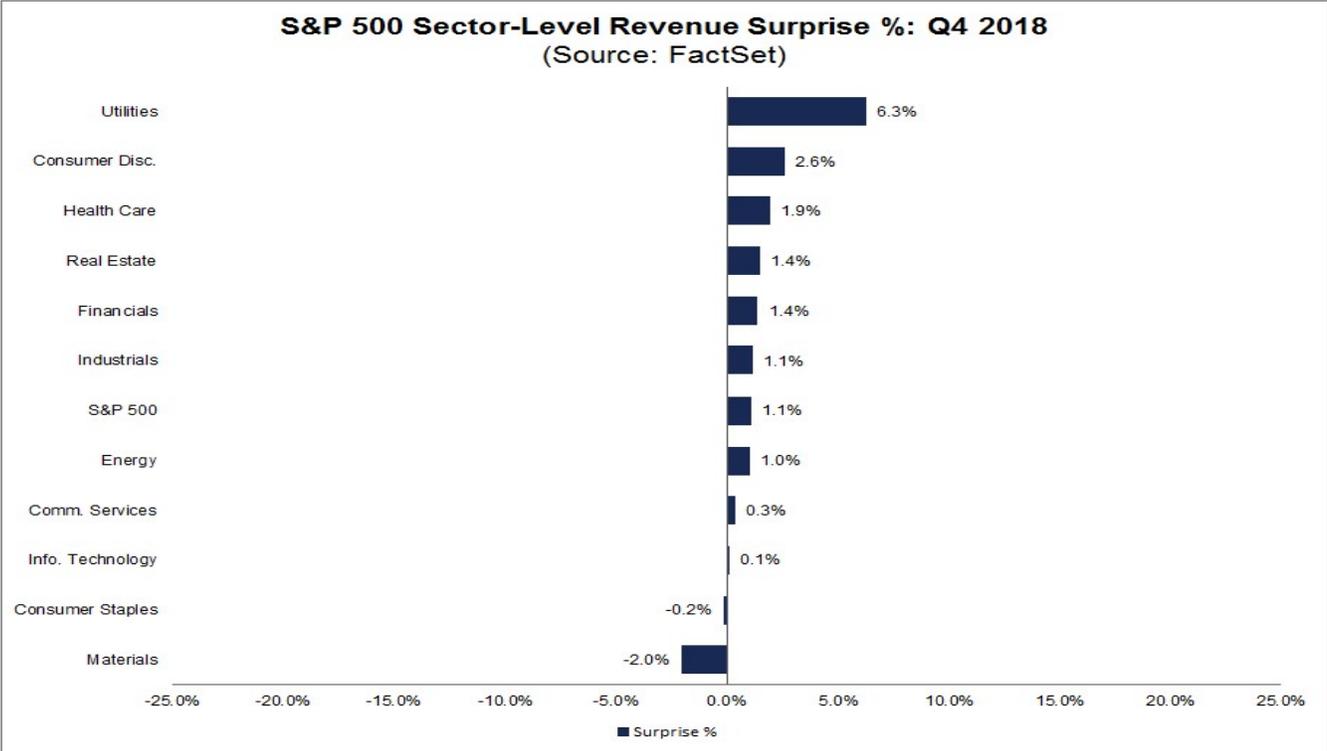
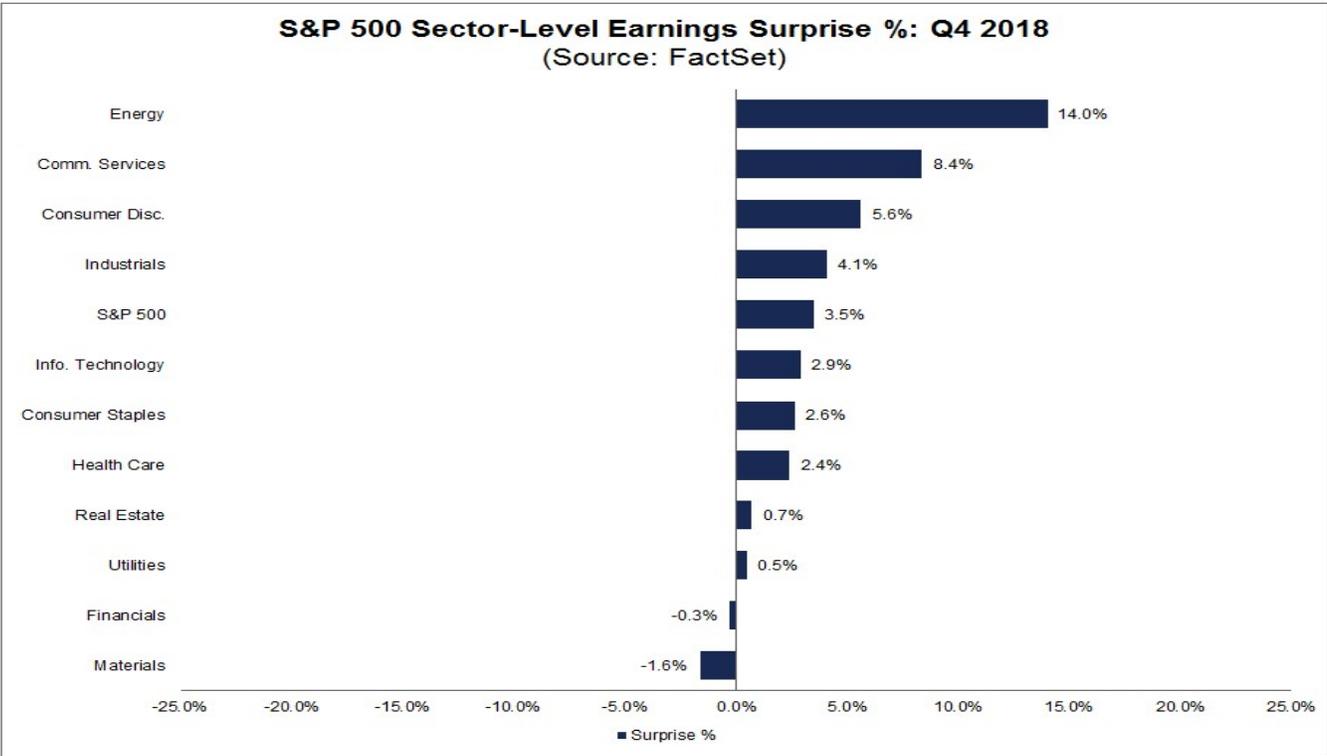
Companies Reporting Next Week: 39

During the upcoming week, 39 S&P 500 companies (including 1 Dow 30 component) are scheduled to report results for the fourth quarter.

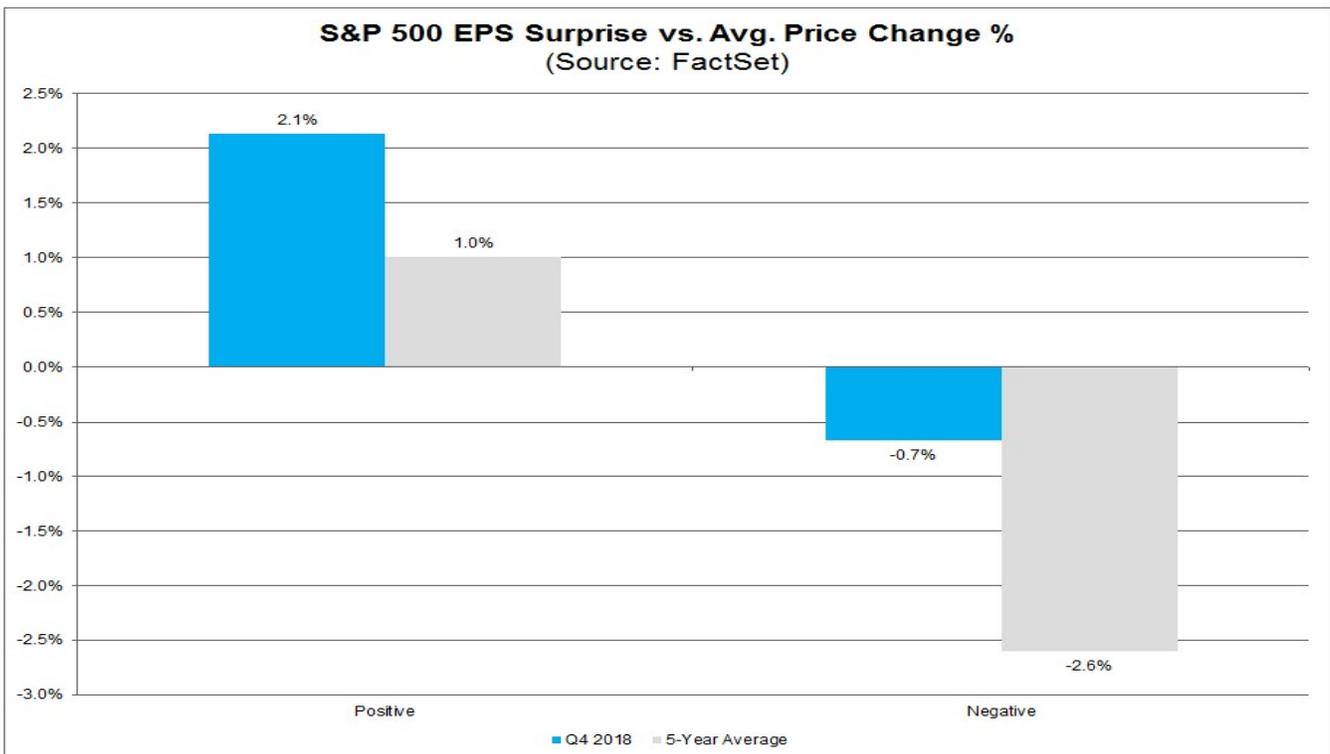
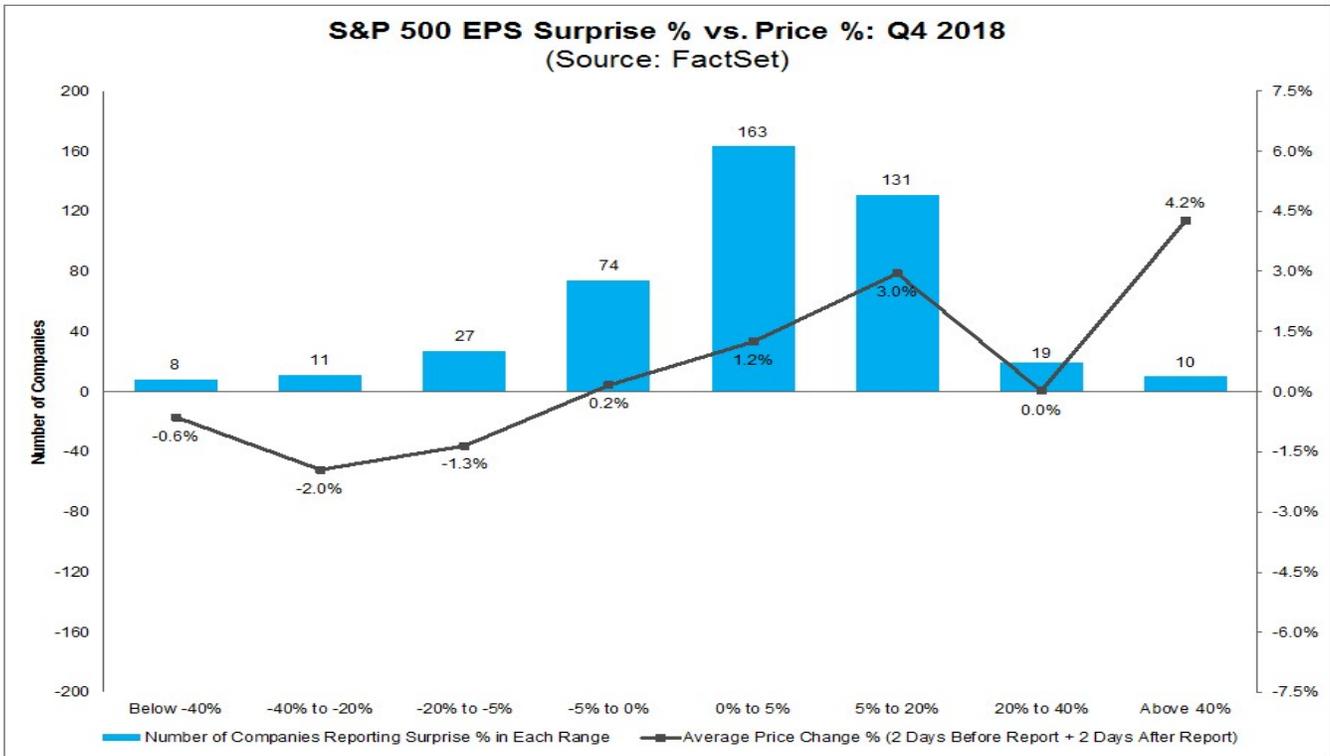
Q4 2018: Scorecard



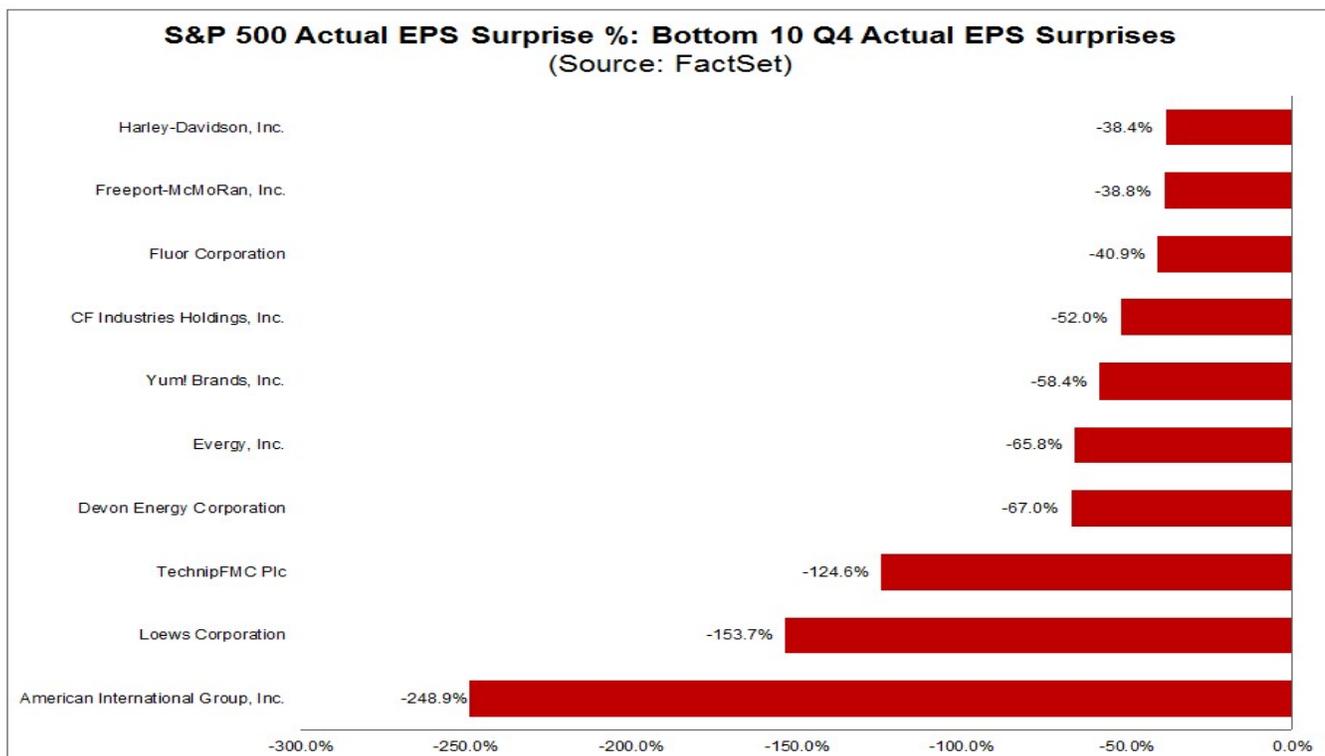
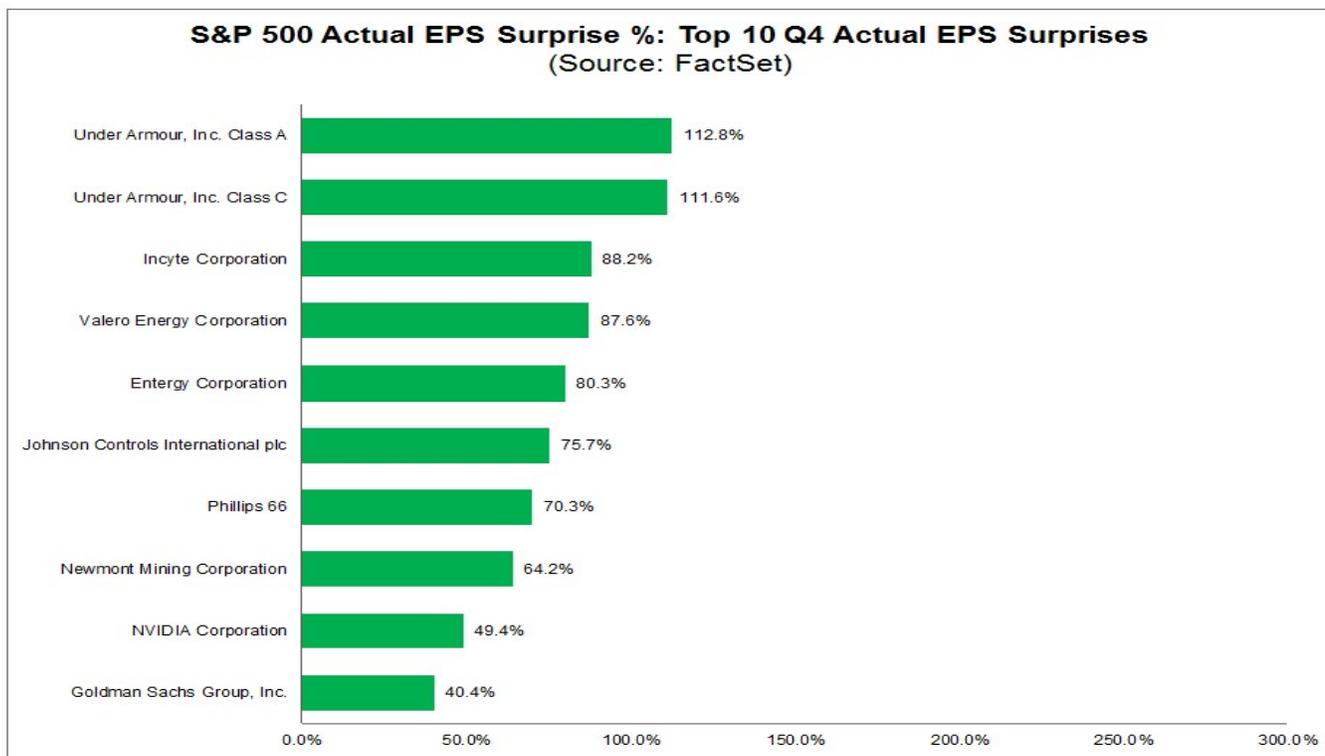
Q4 2018: Scorecard



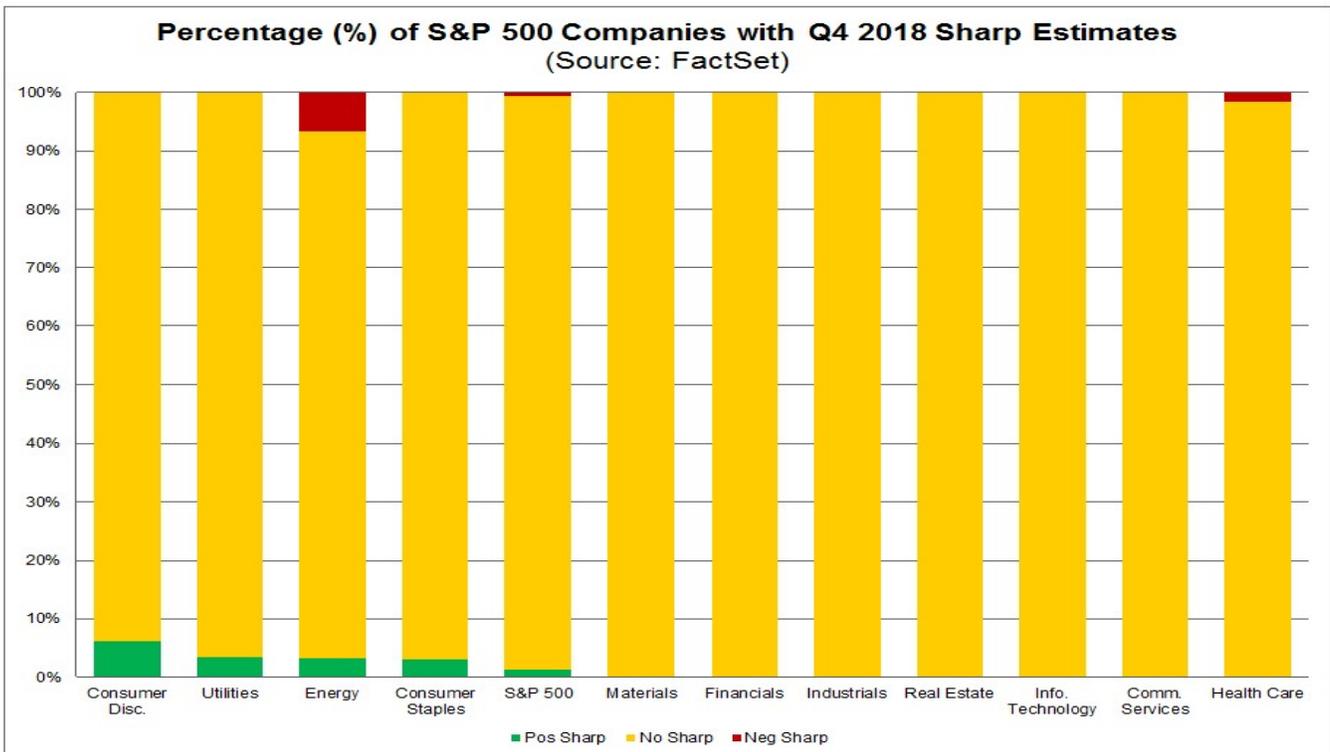
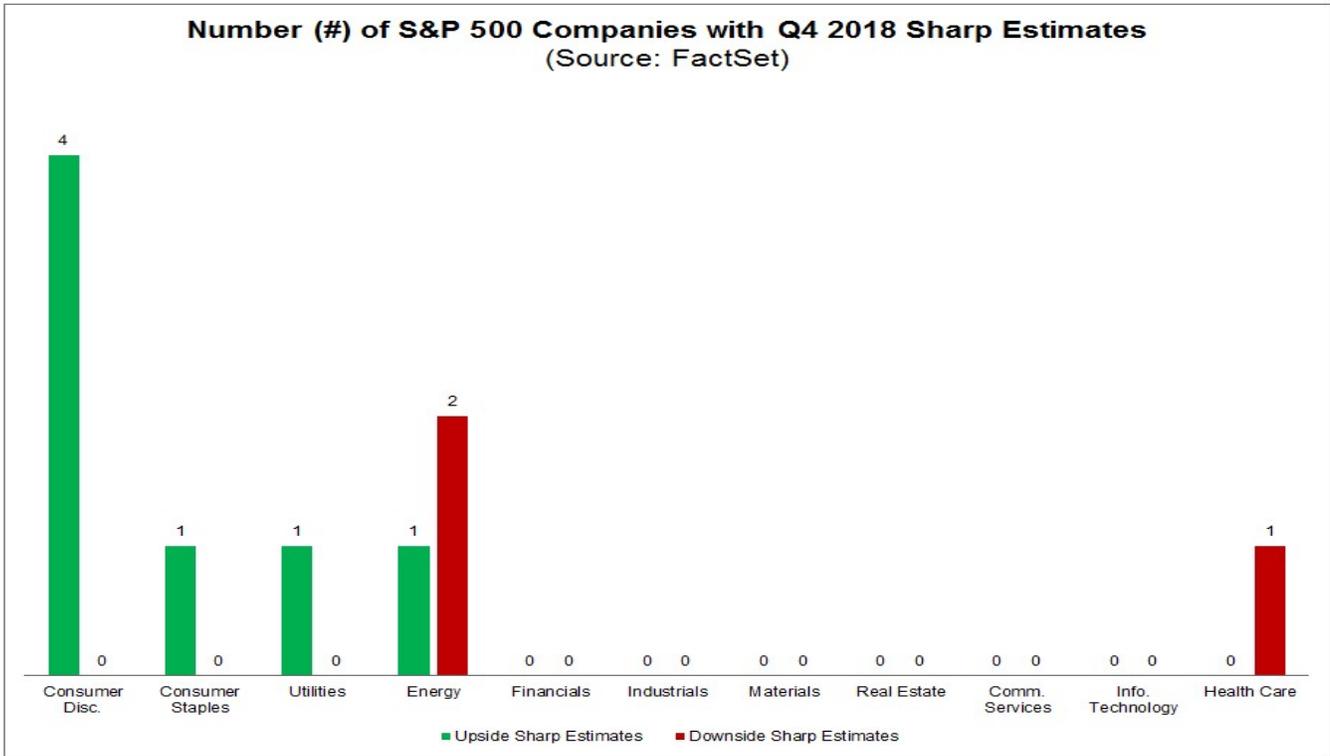
Q4 2018: Scorecard



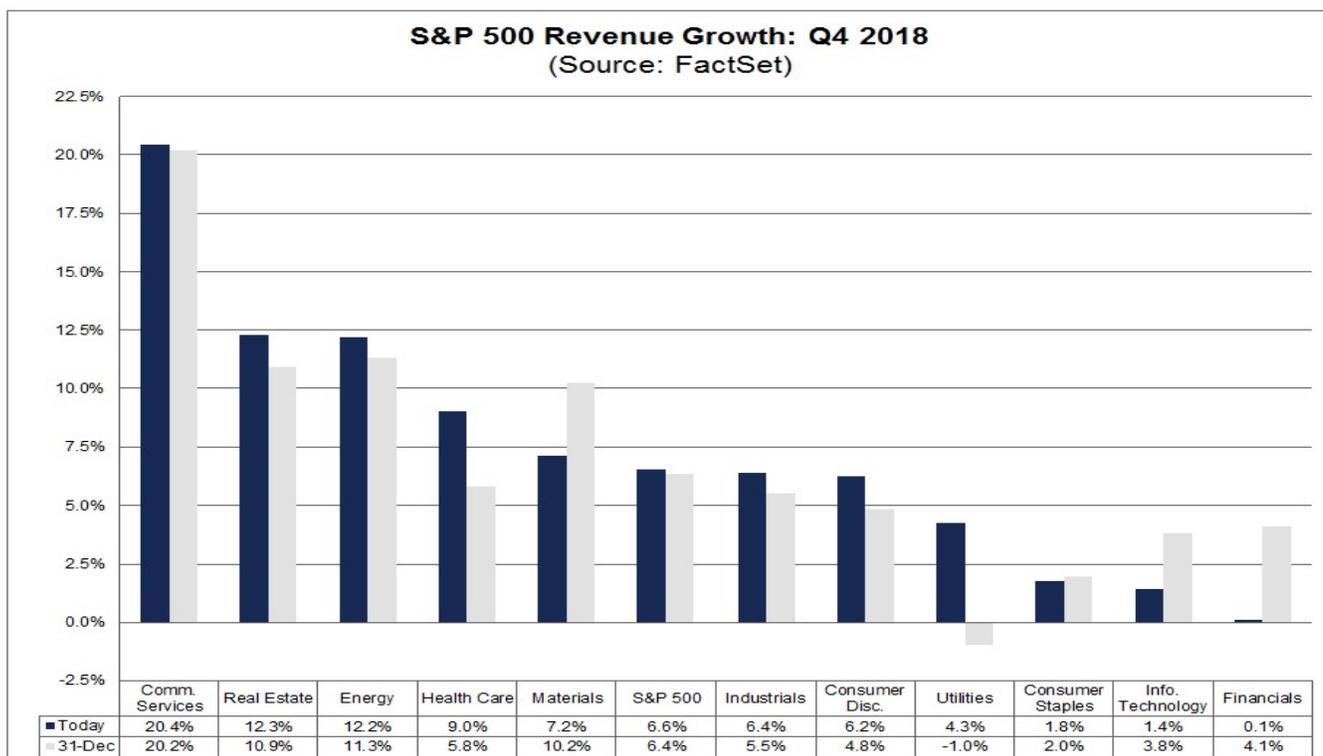
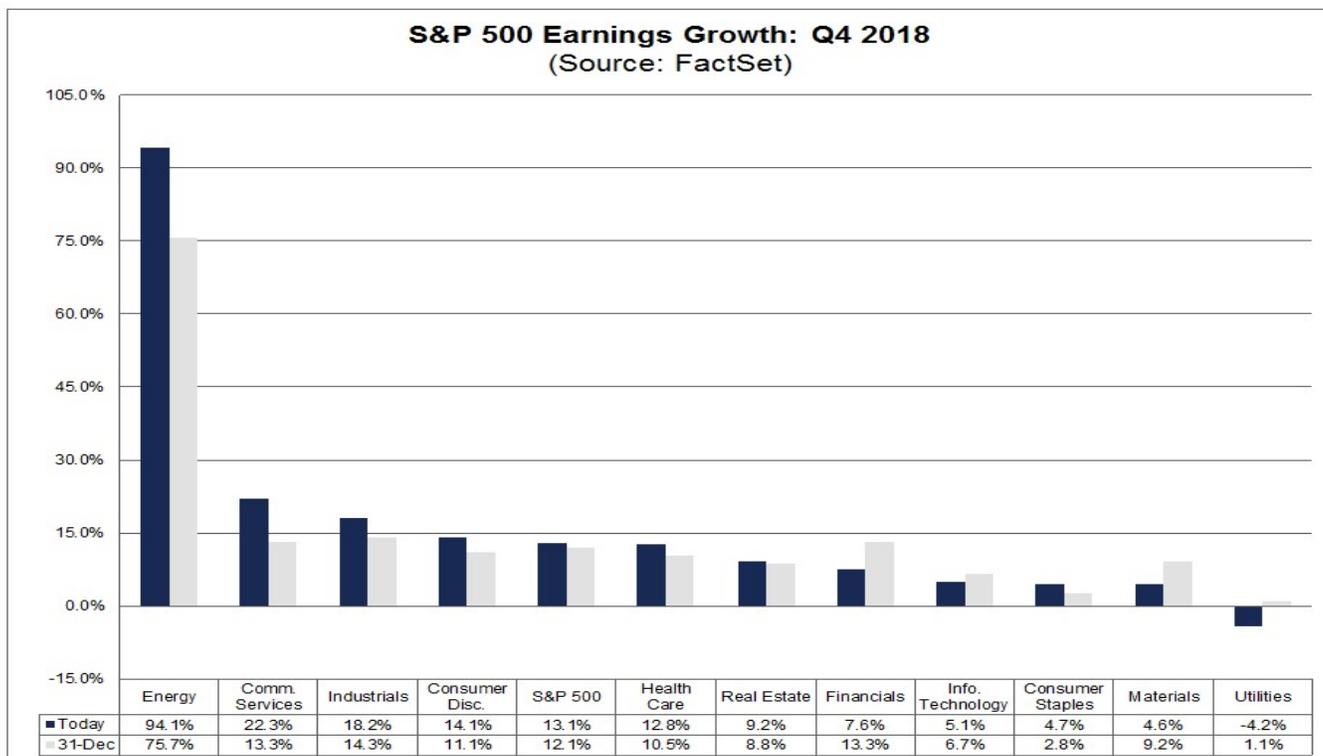
Q4 2018: Scorecard



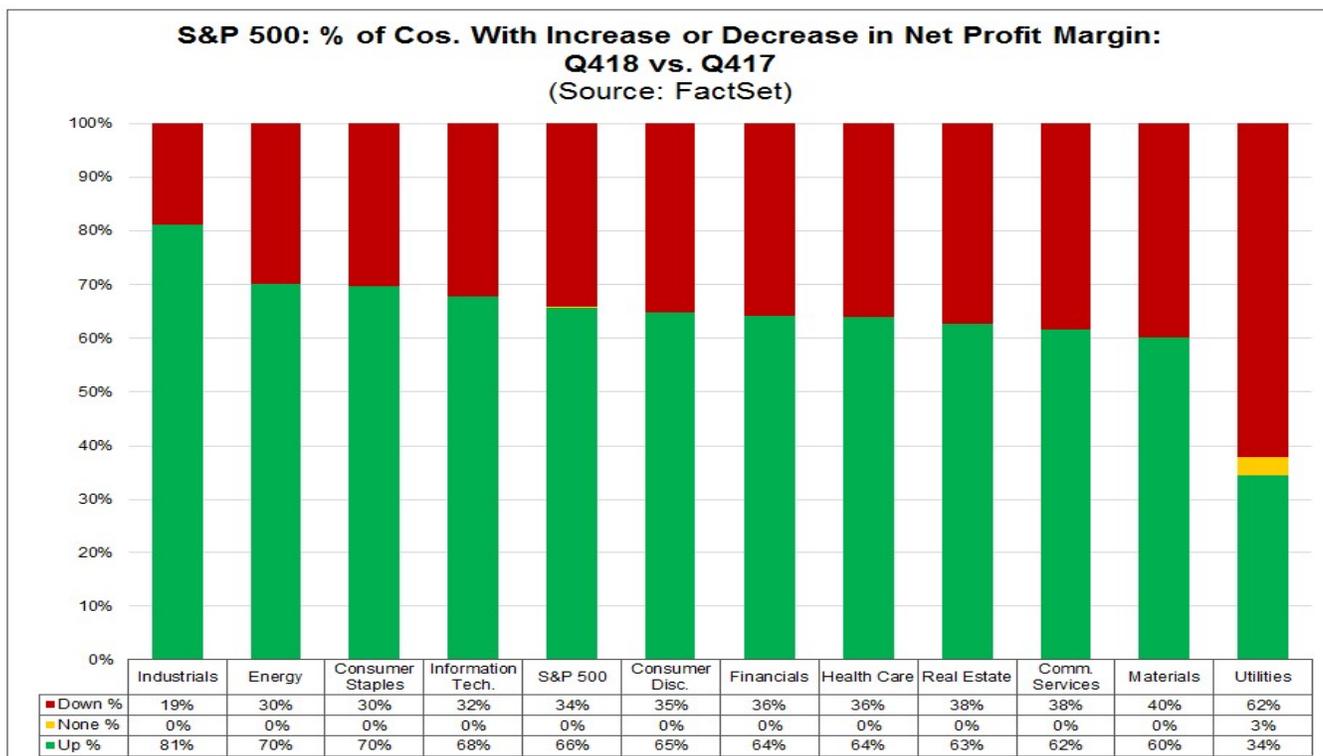
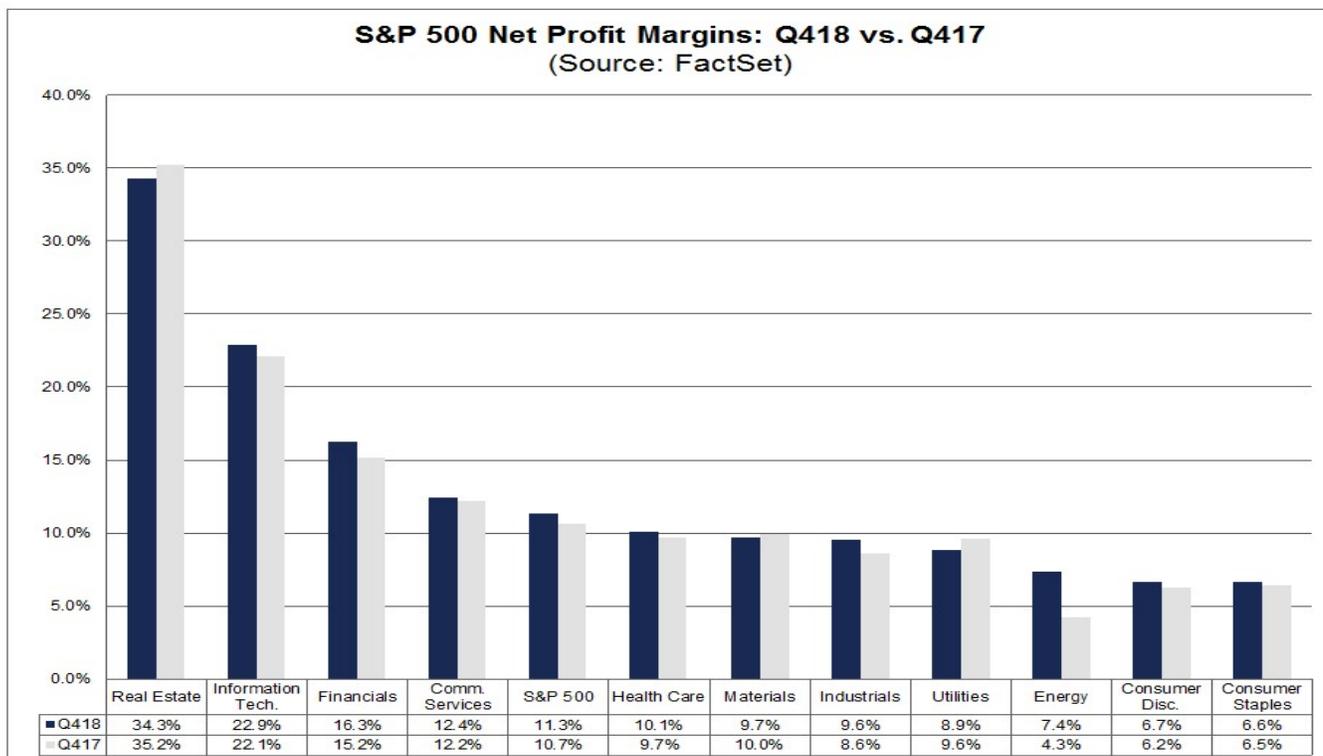
Q4 2018: Projected EPS Surprises (Sharp Estimates)



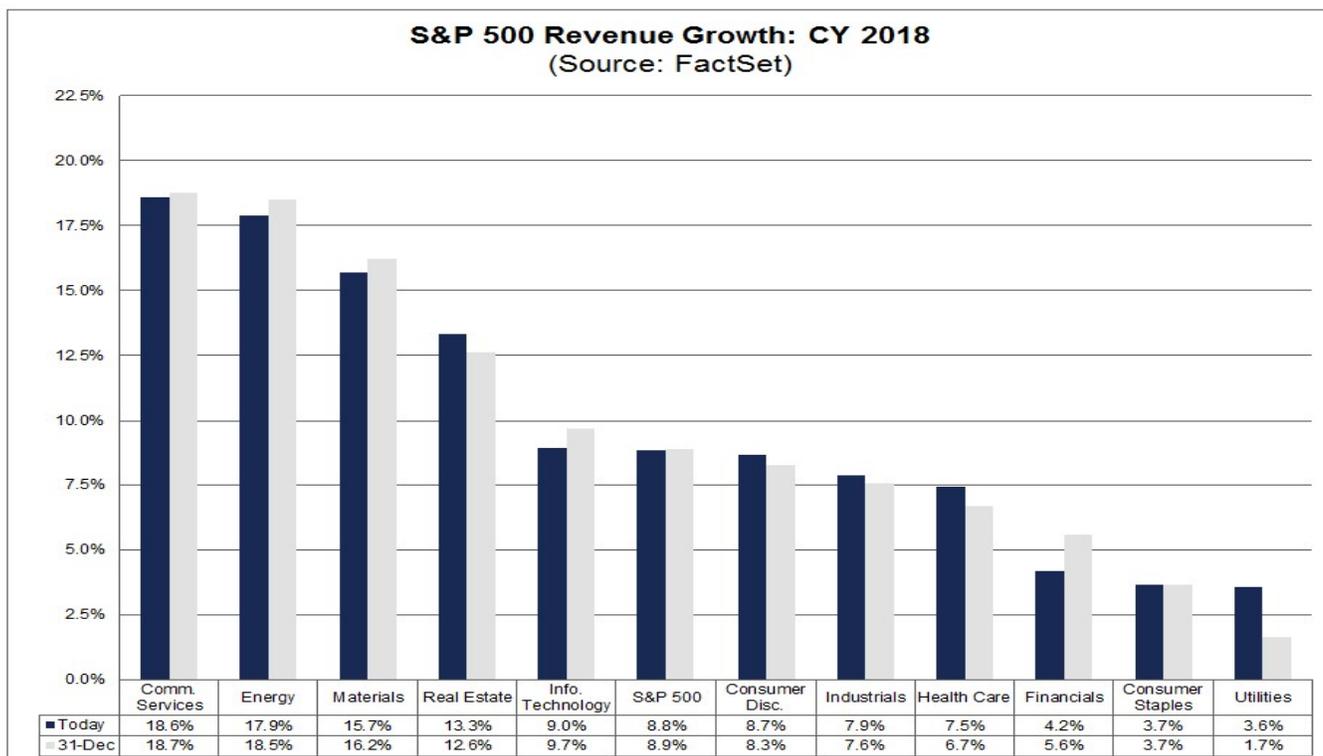
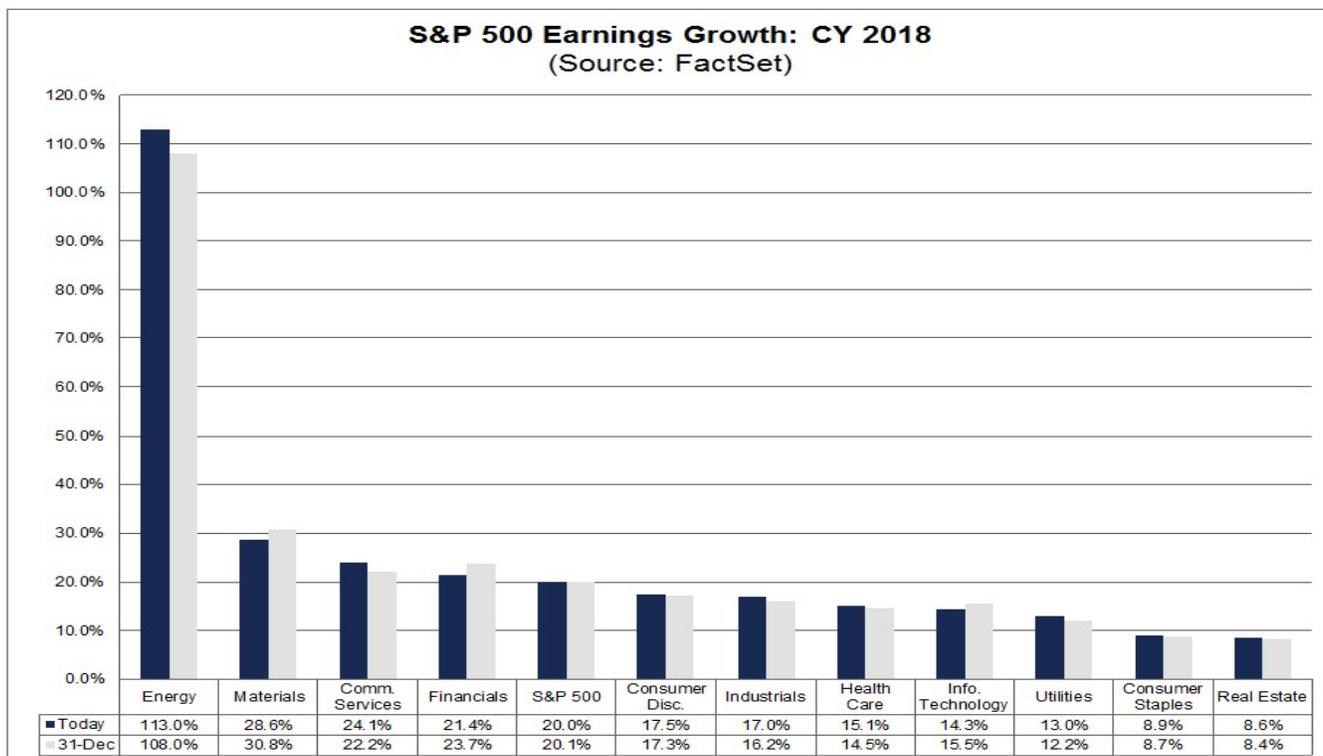
Q4 2018: Growth



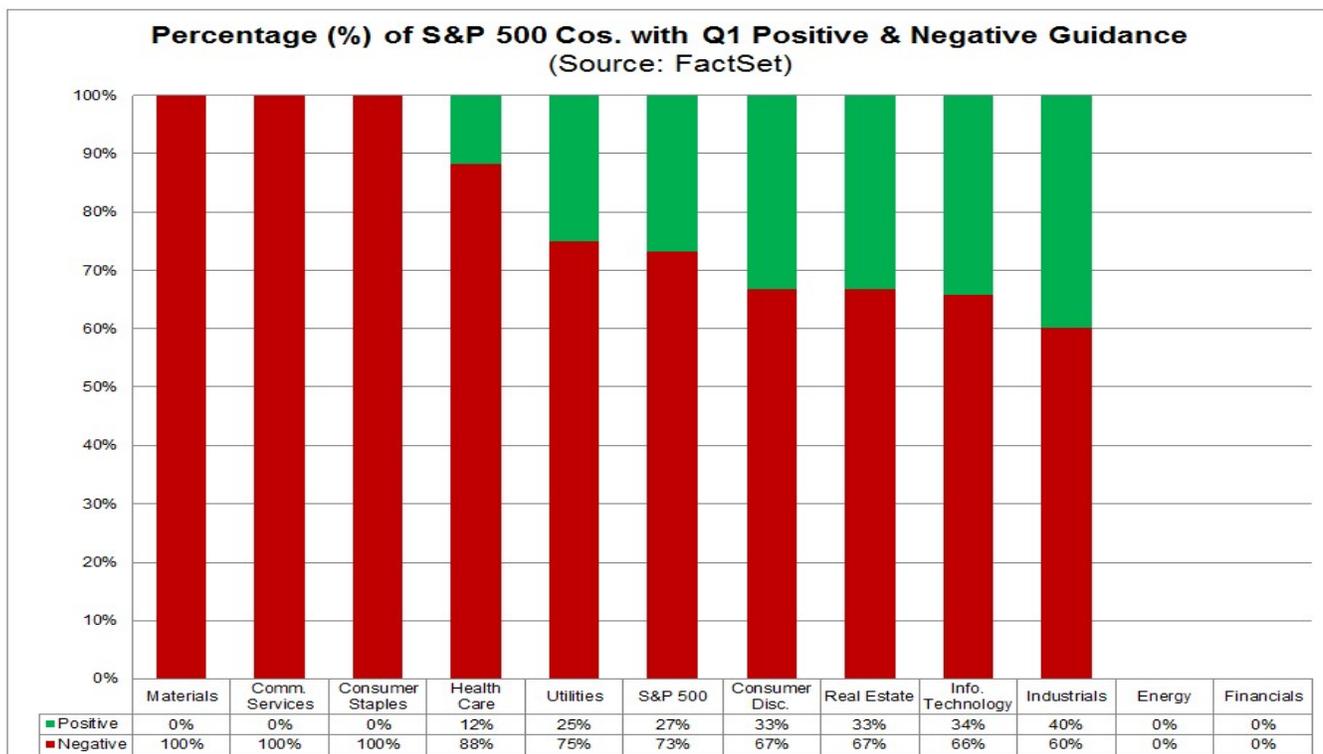
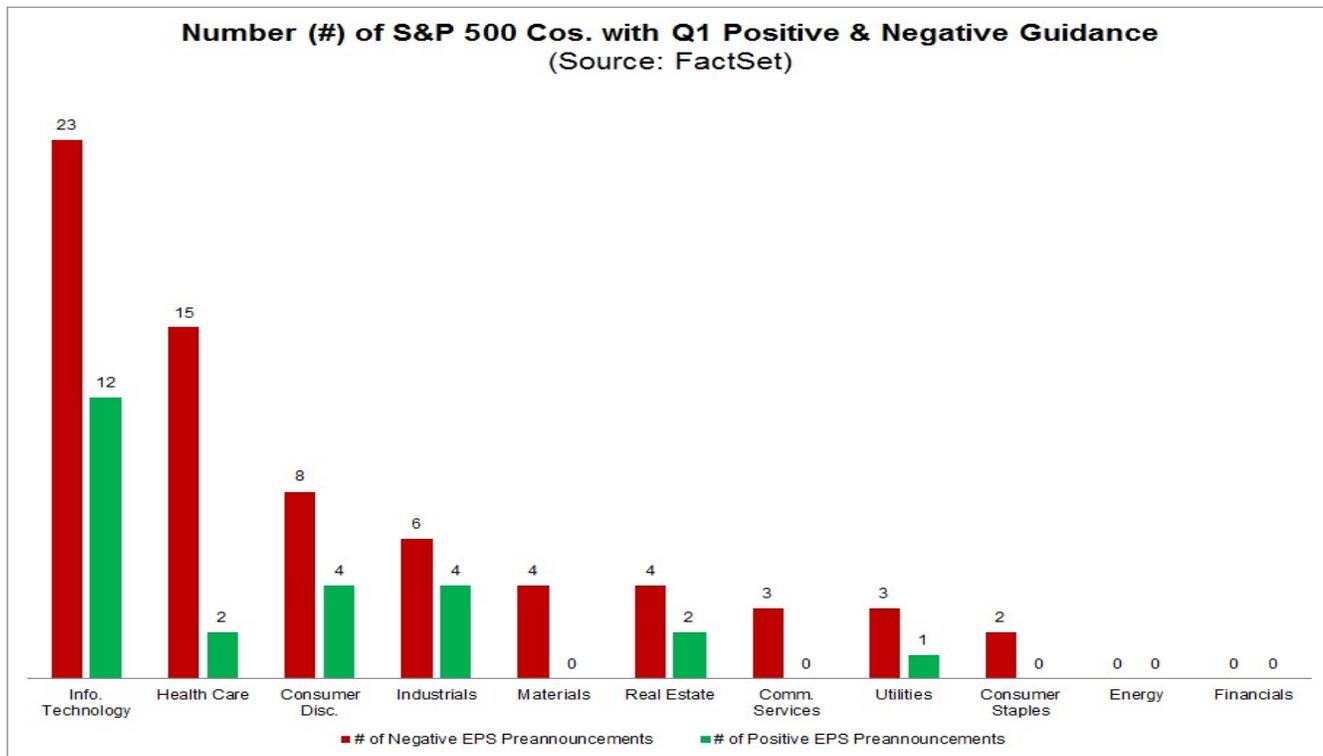
Q4 2018: Net Profit Margin



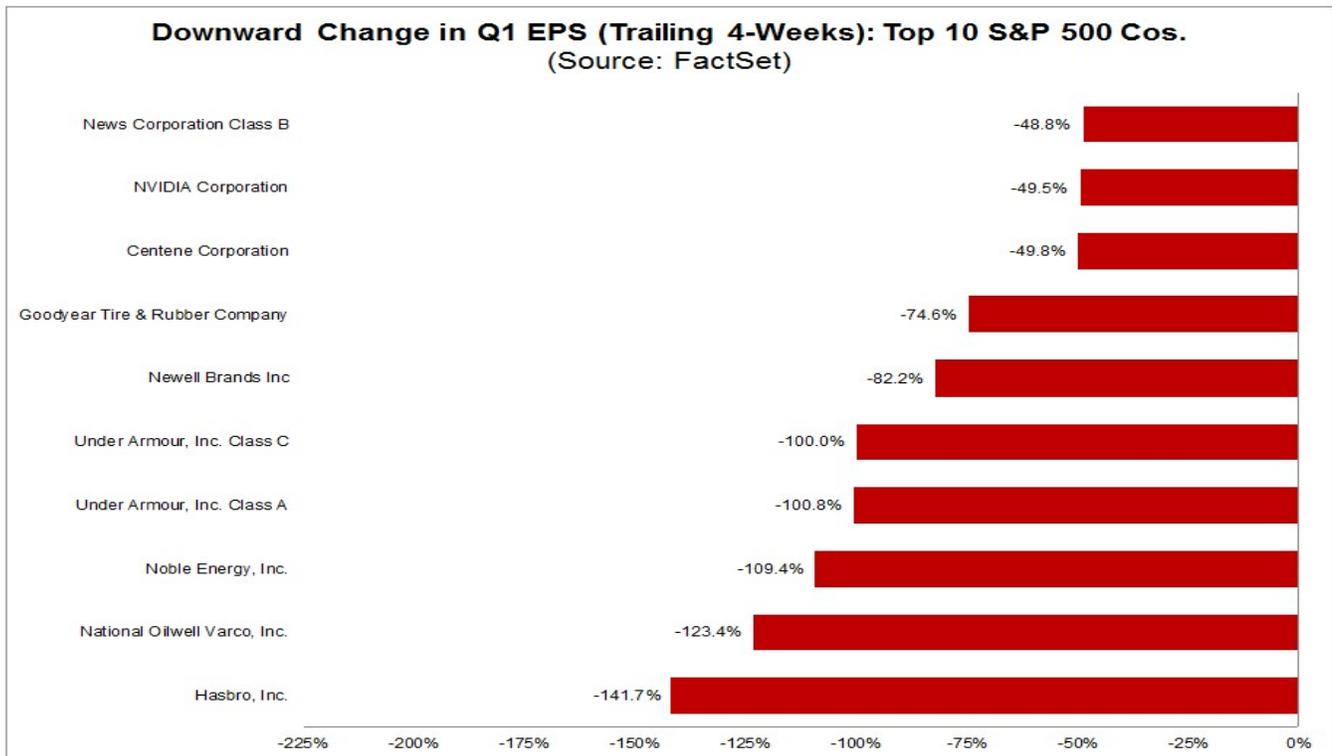
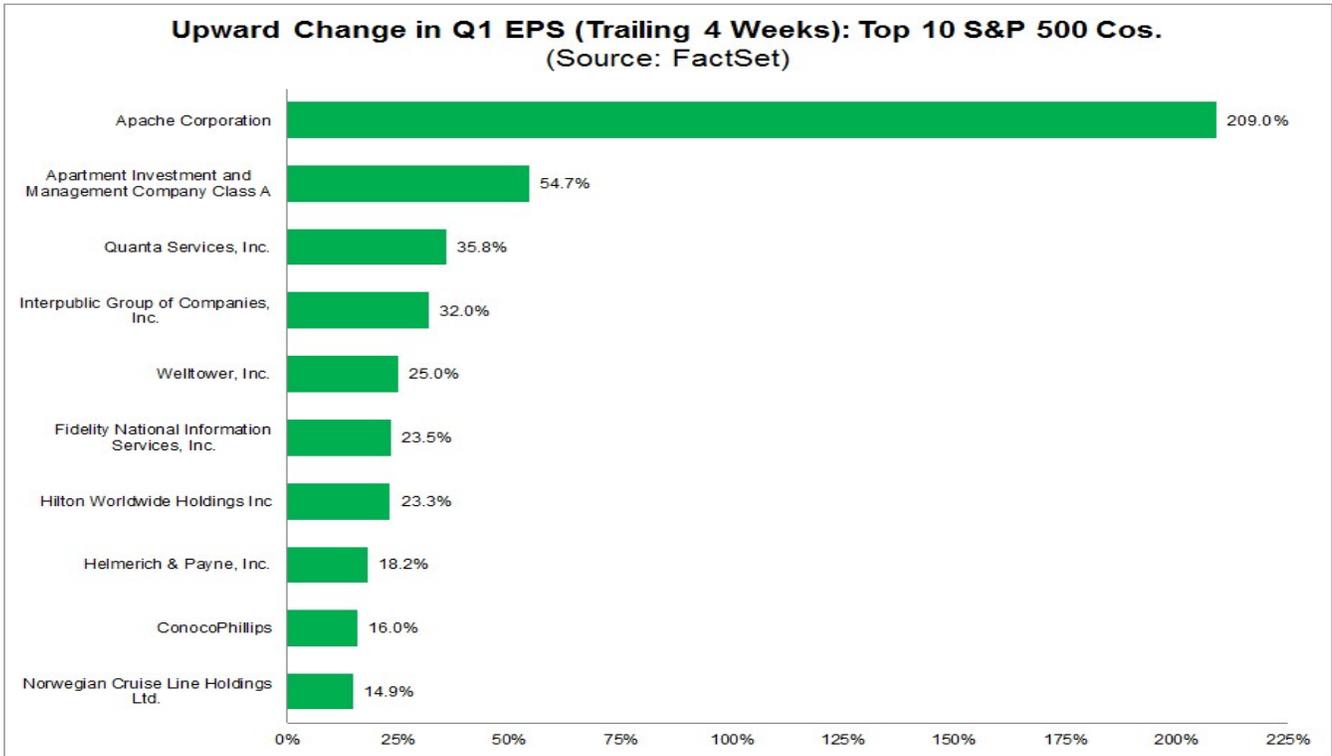
CY 2018: Growth



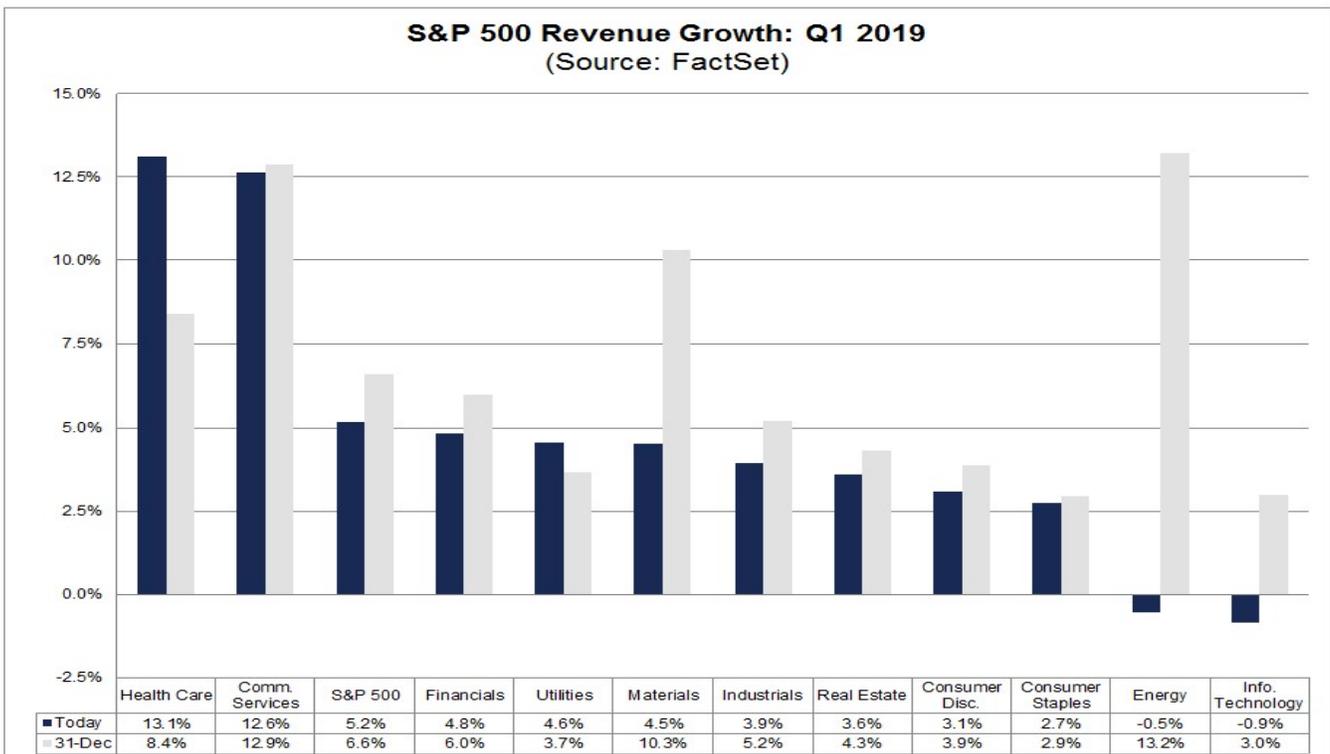
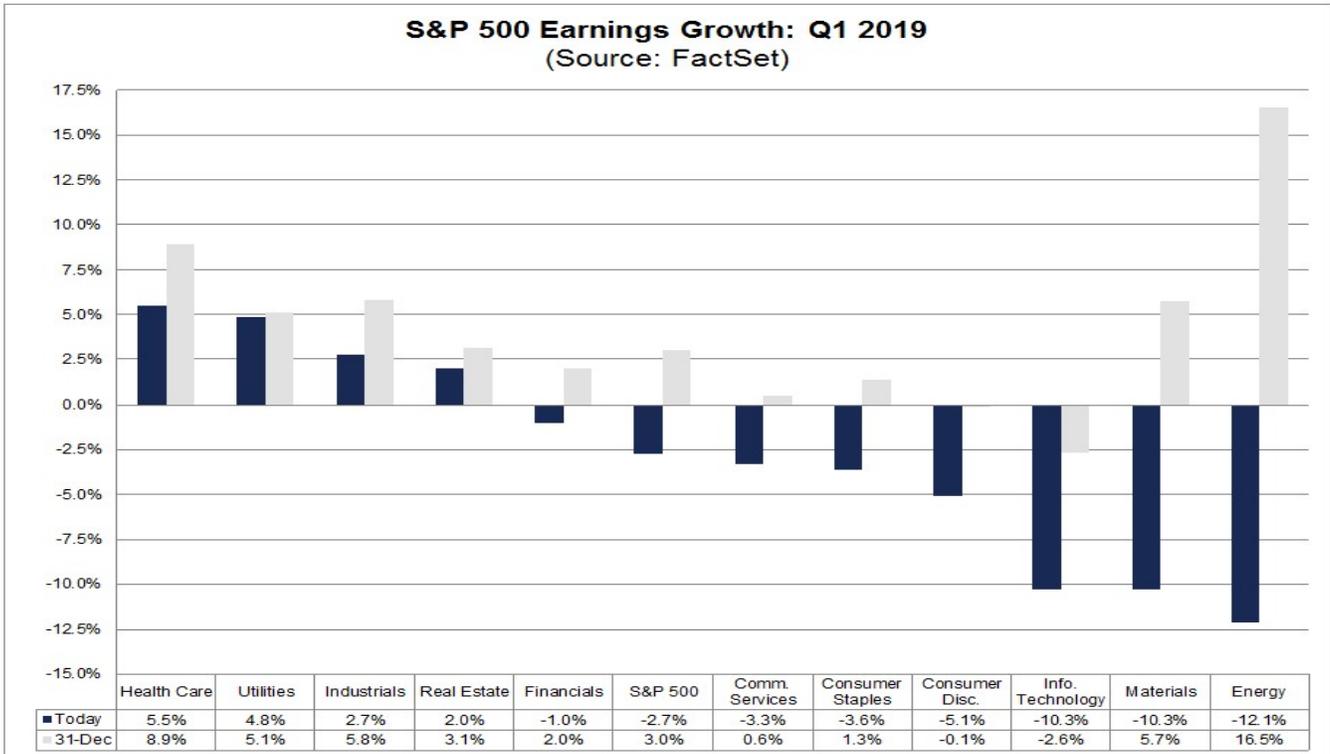
Q1 2019: EPS Guidance



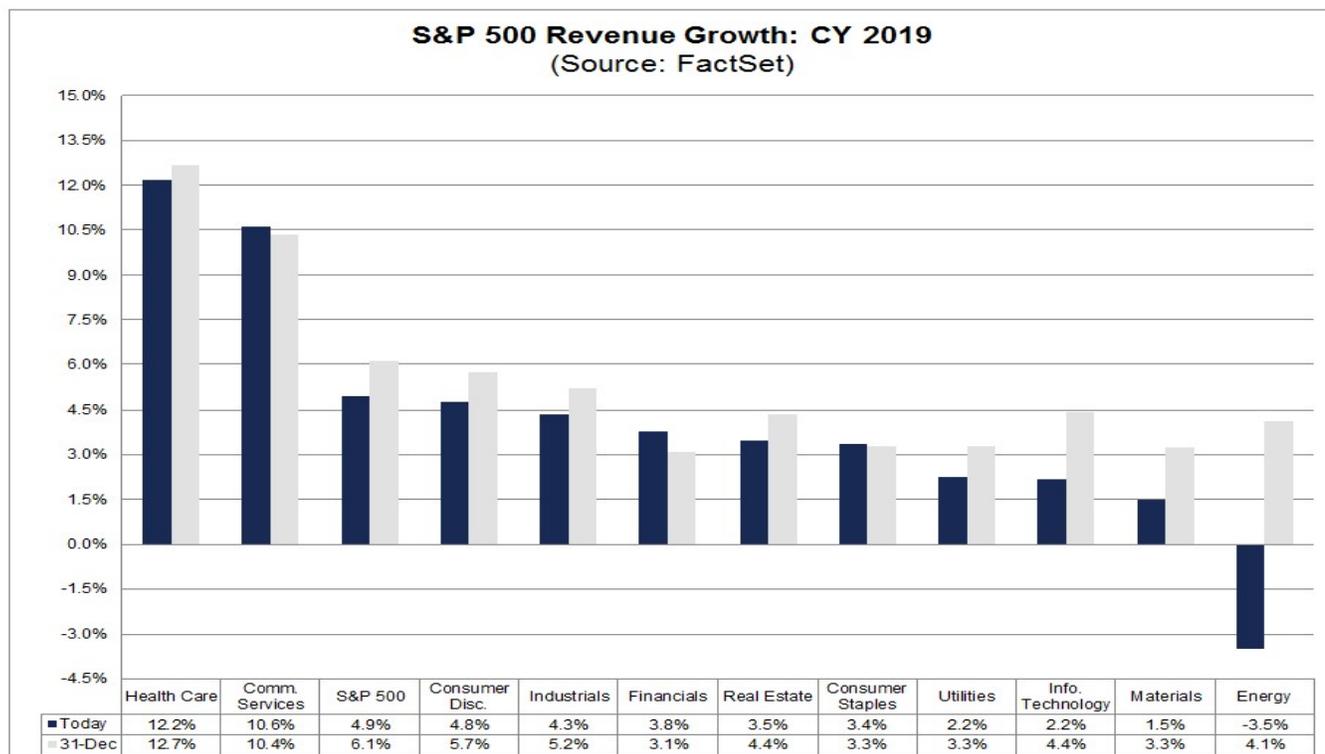
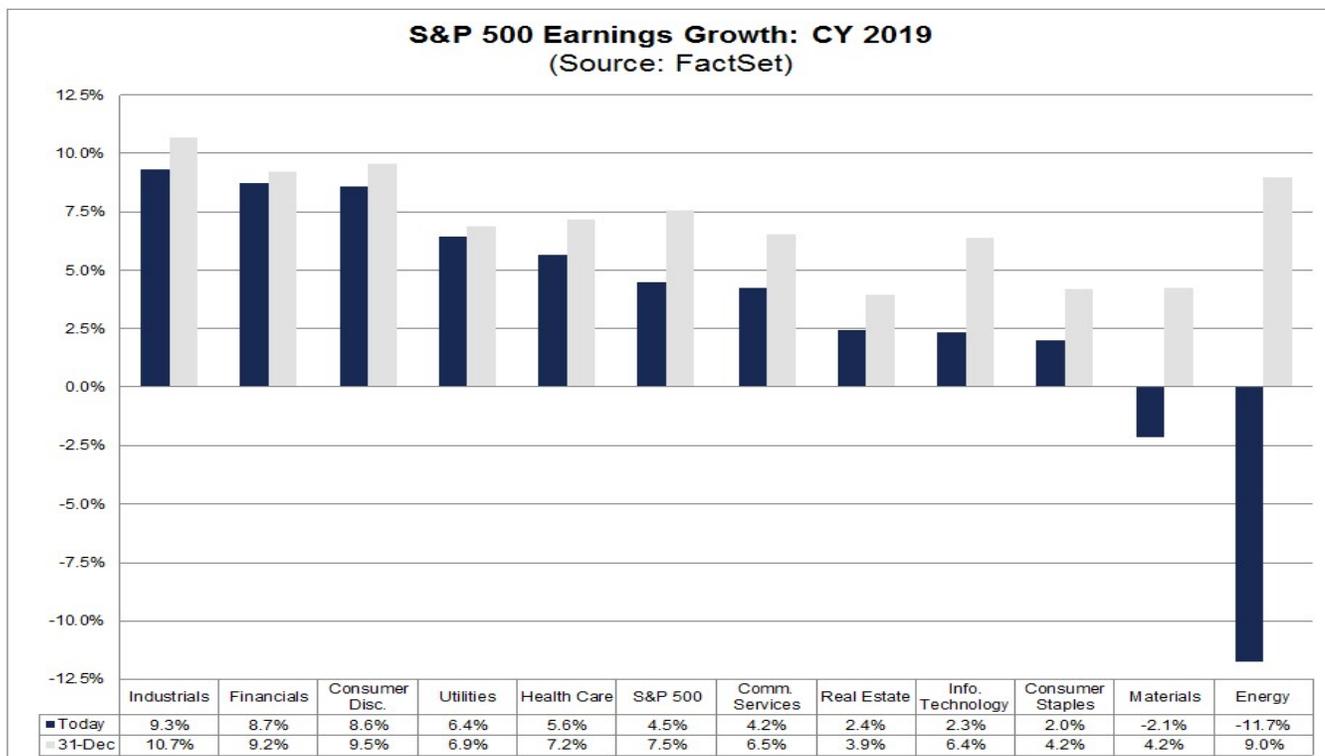
Q1 2019: EPS Revisions



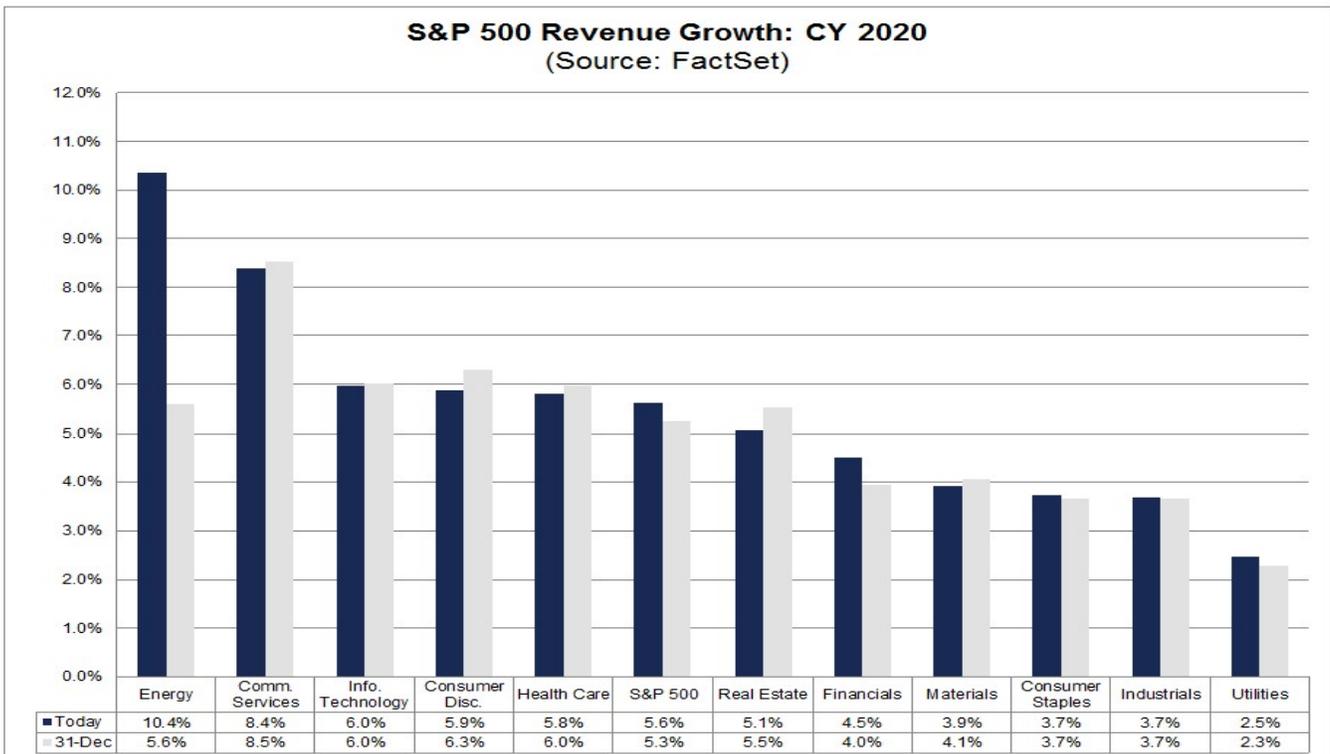
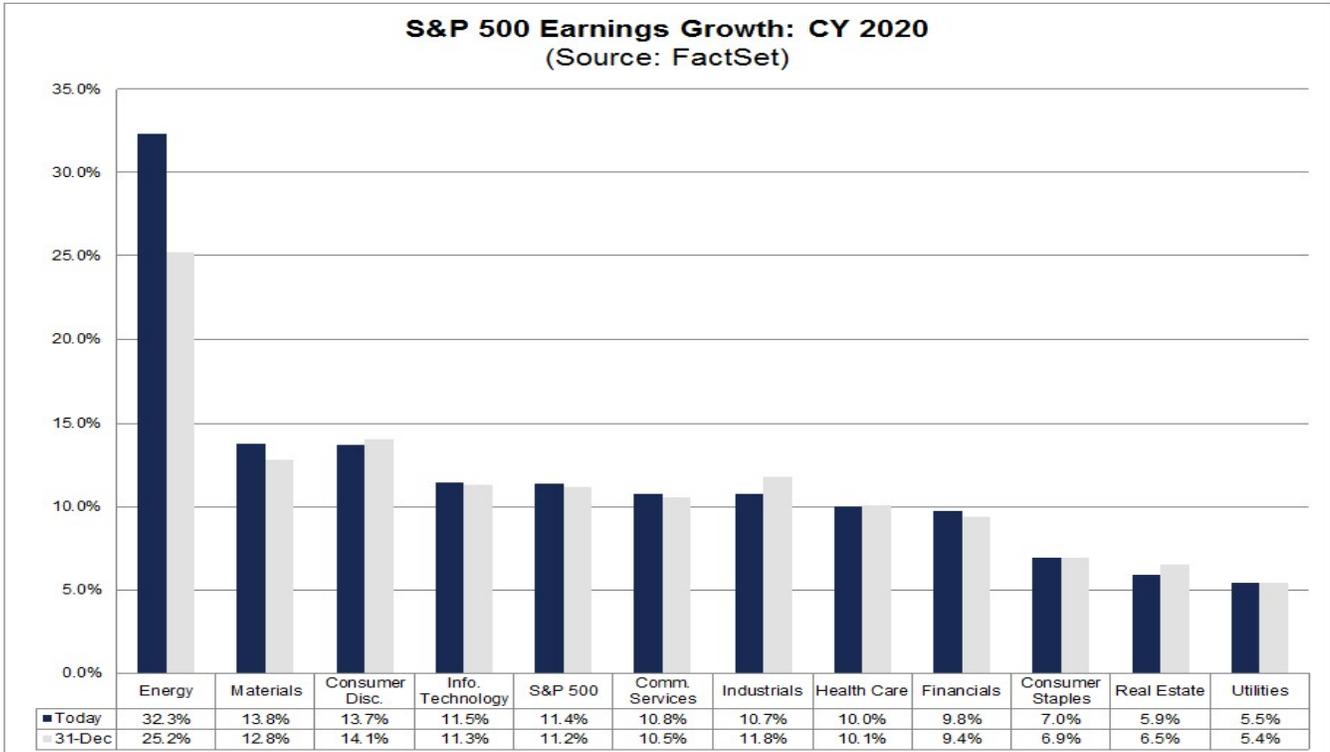
Q1 2019: Growth



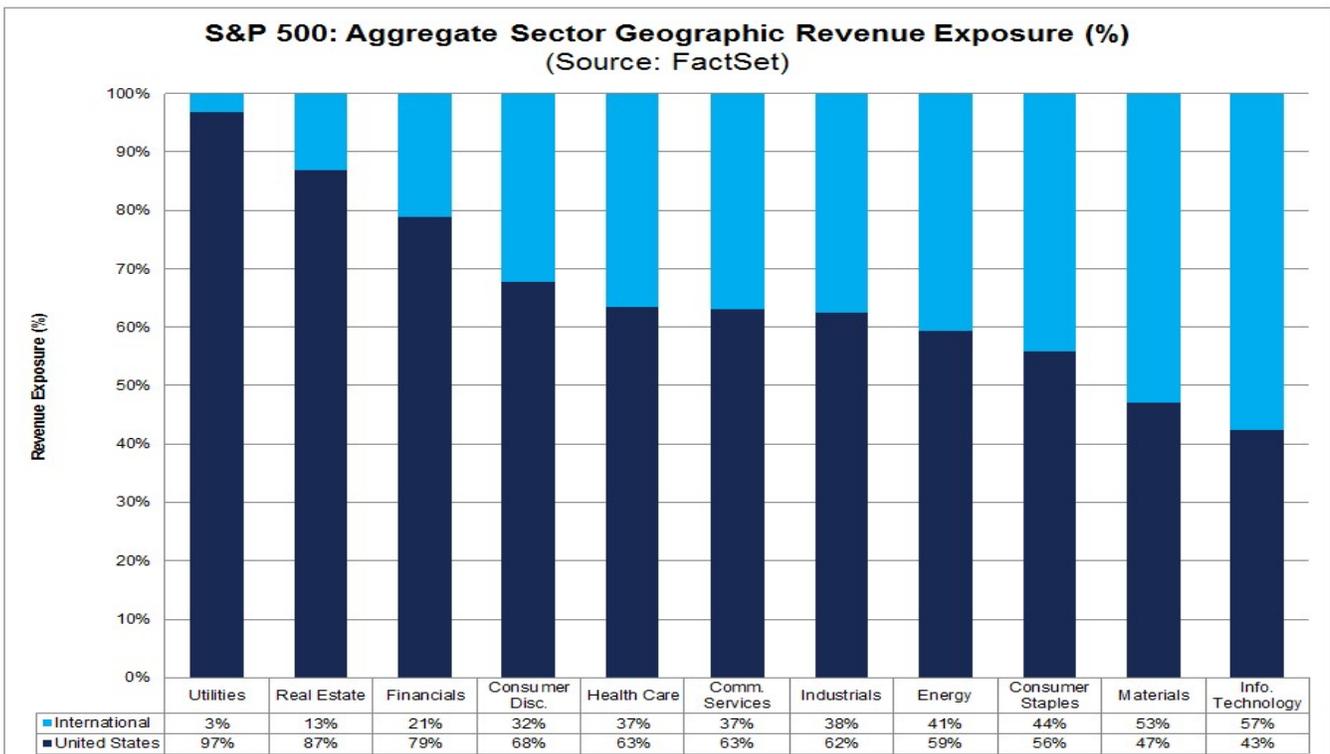
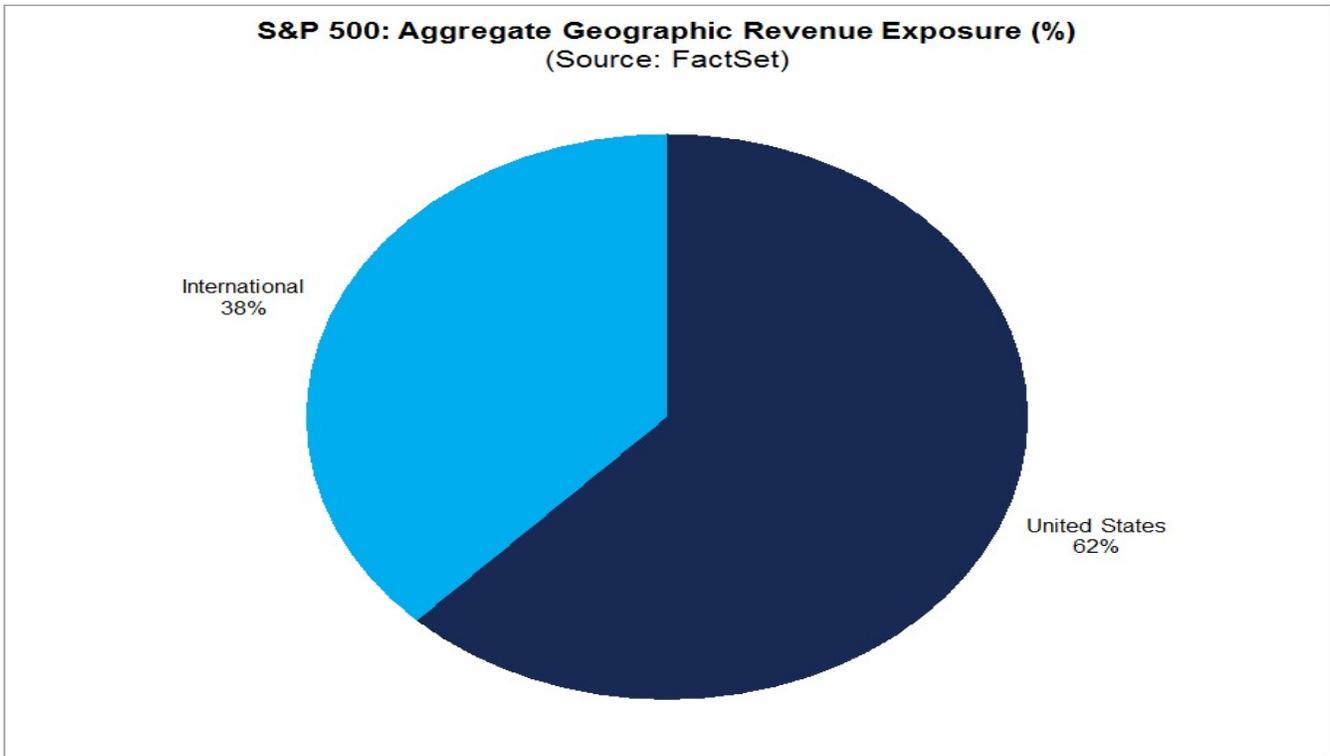
CY 2019: Growth



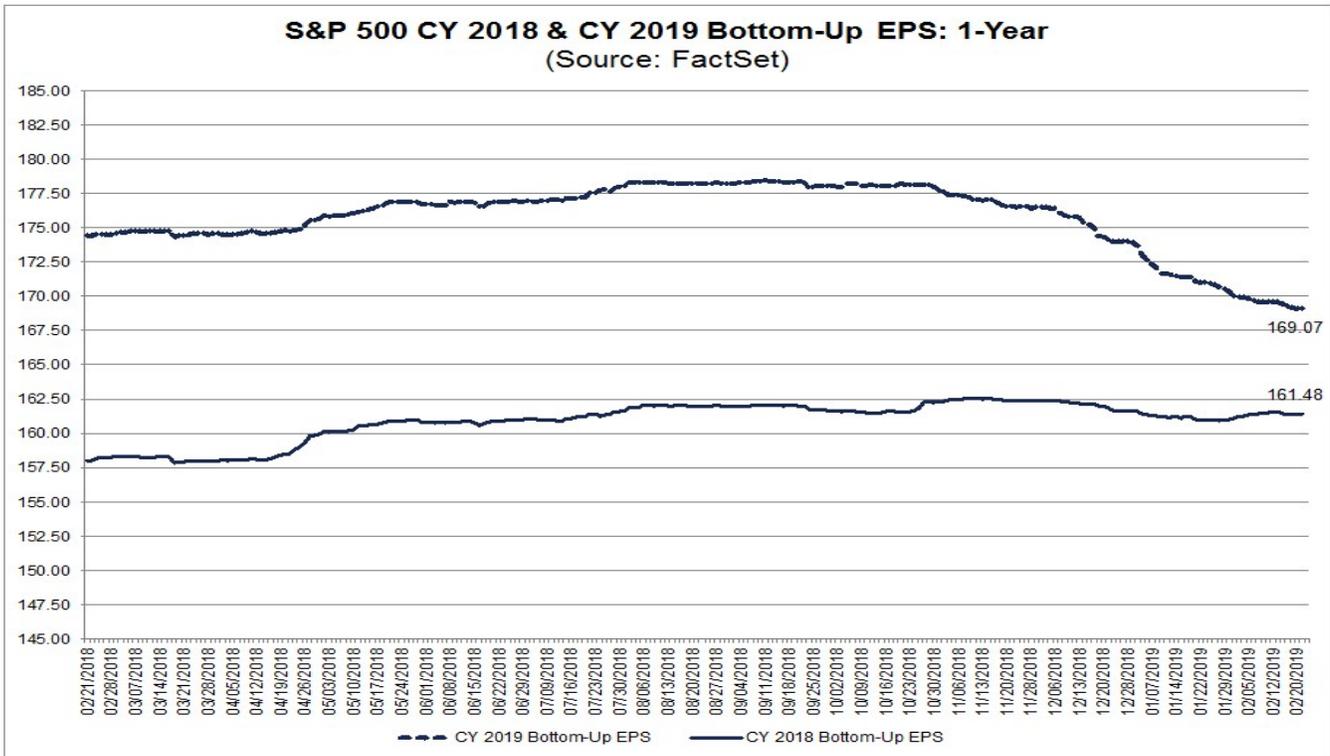
CY 2020: Growth



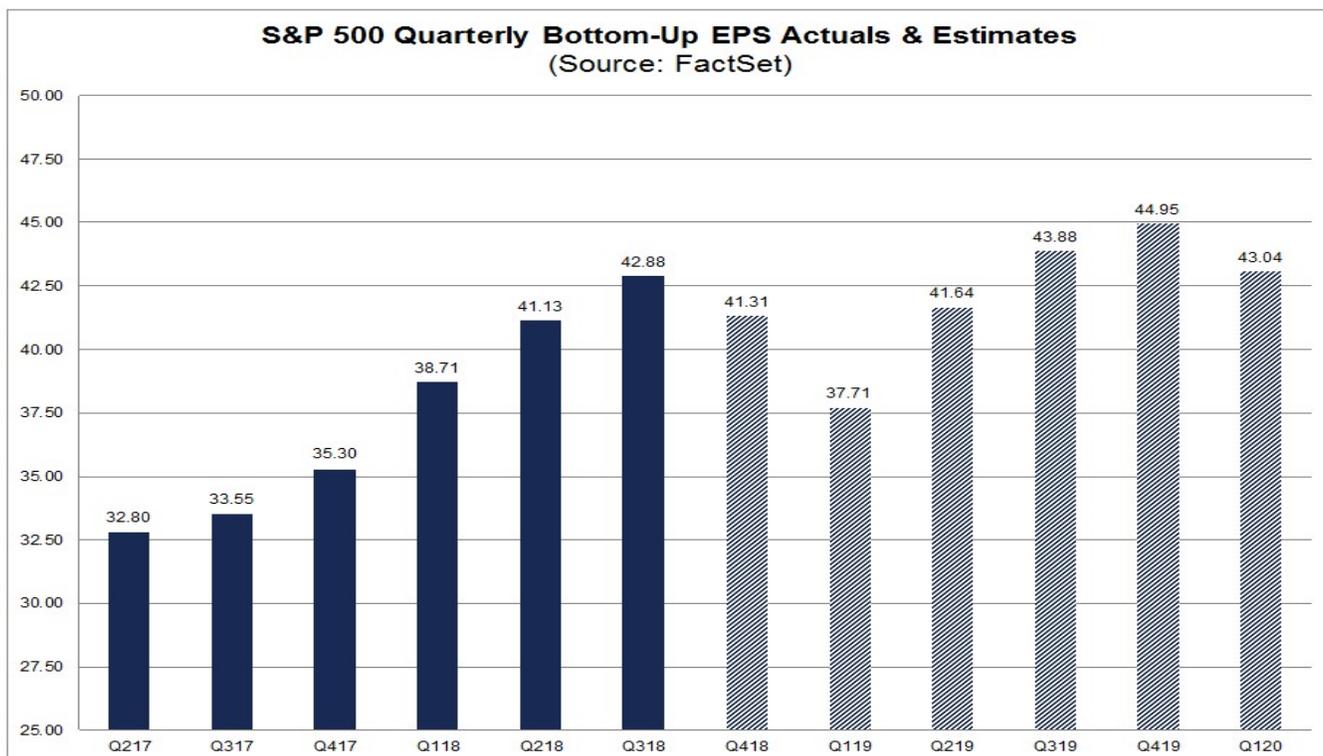
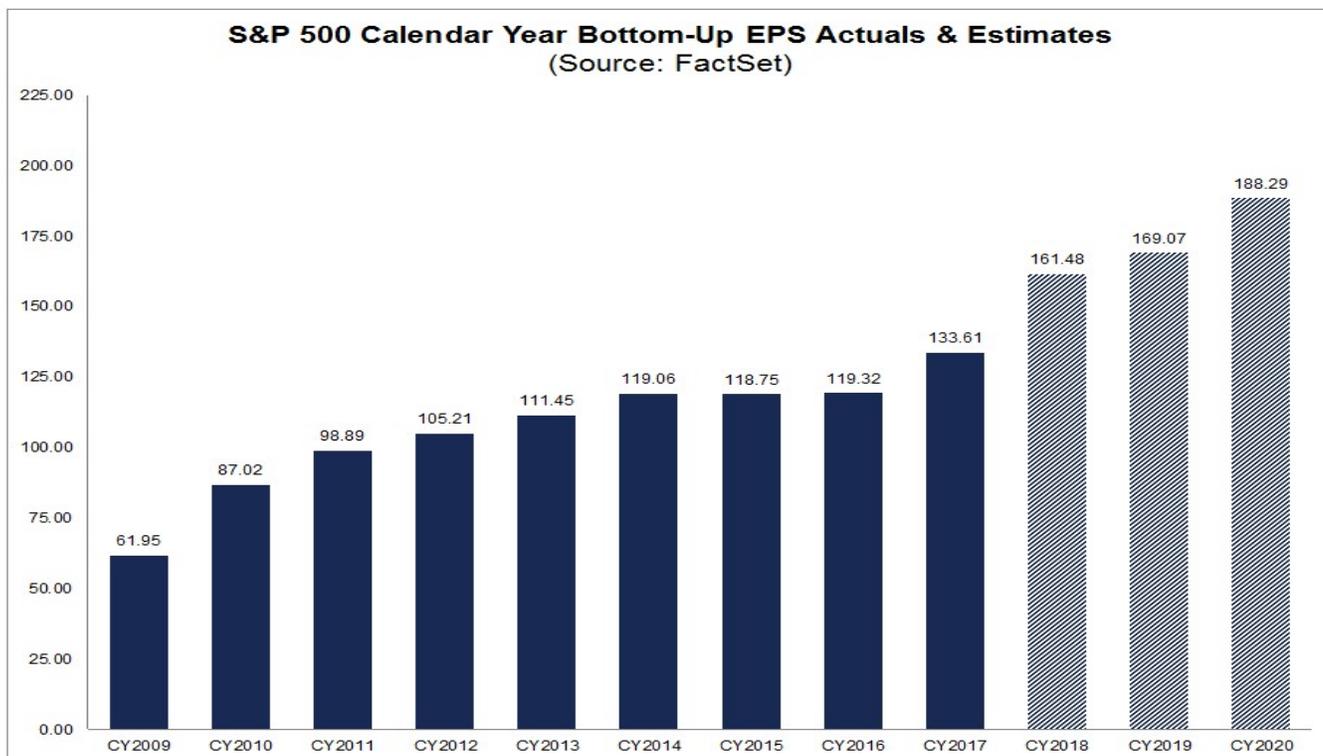
Geographic Revenue Exposure



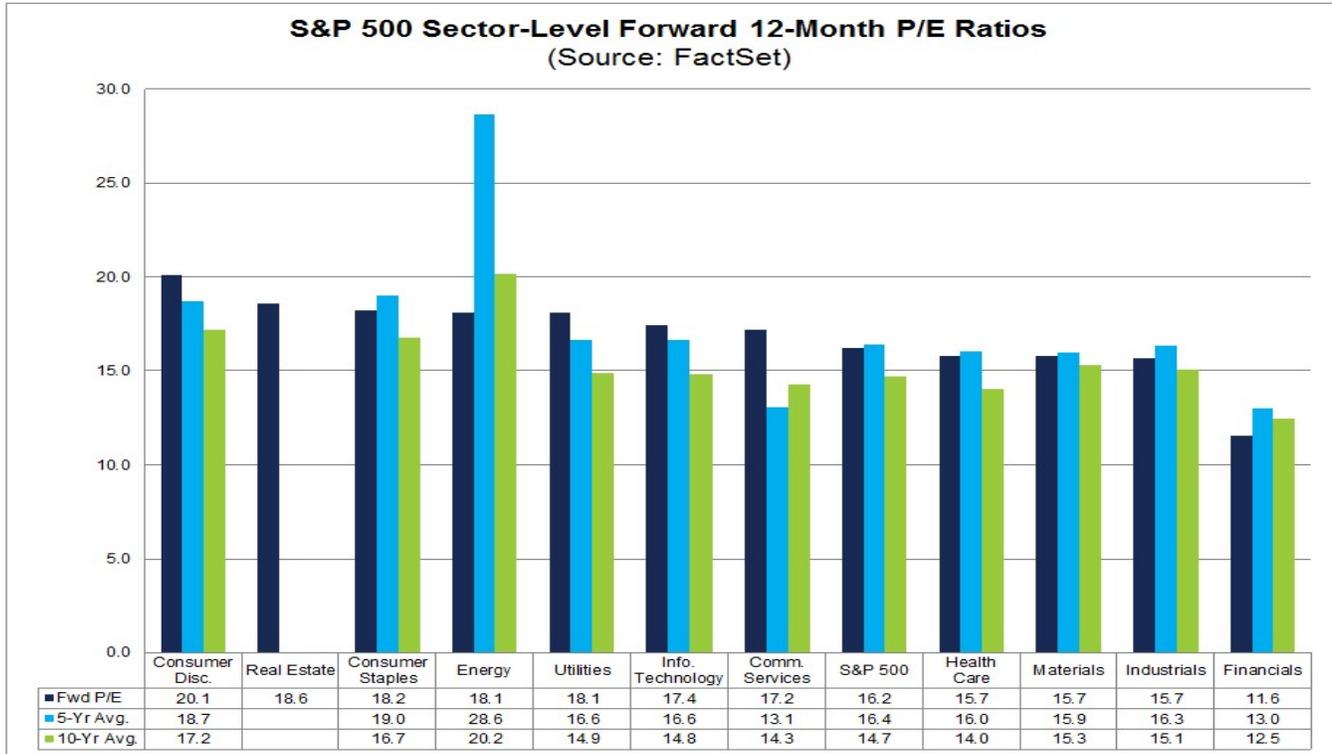
Bottom-up EPS Estimates: Revisions



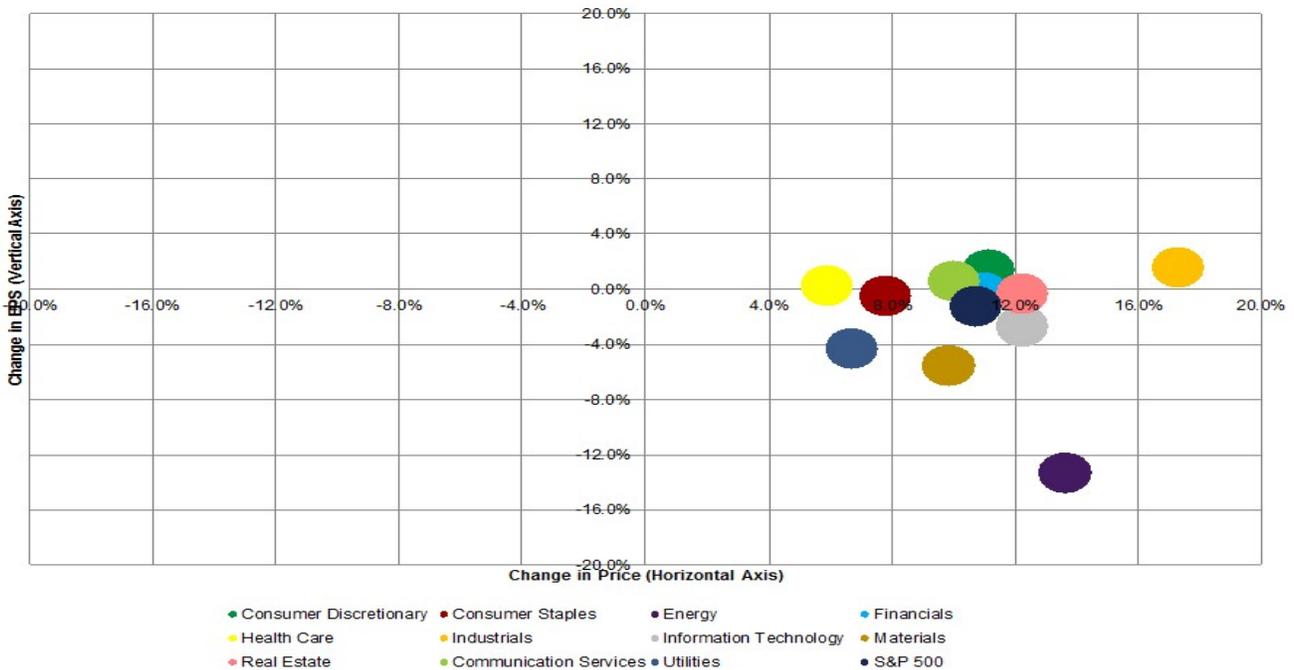
Bottom-up EPS Estimates: Current & Historical



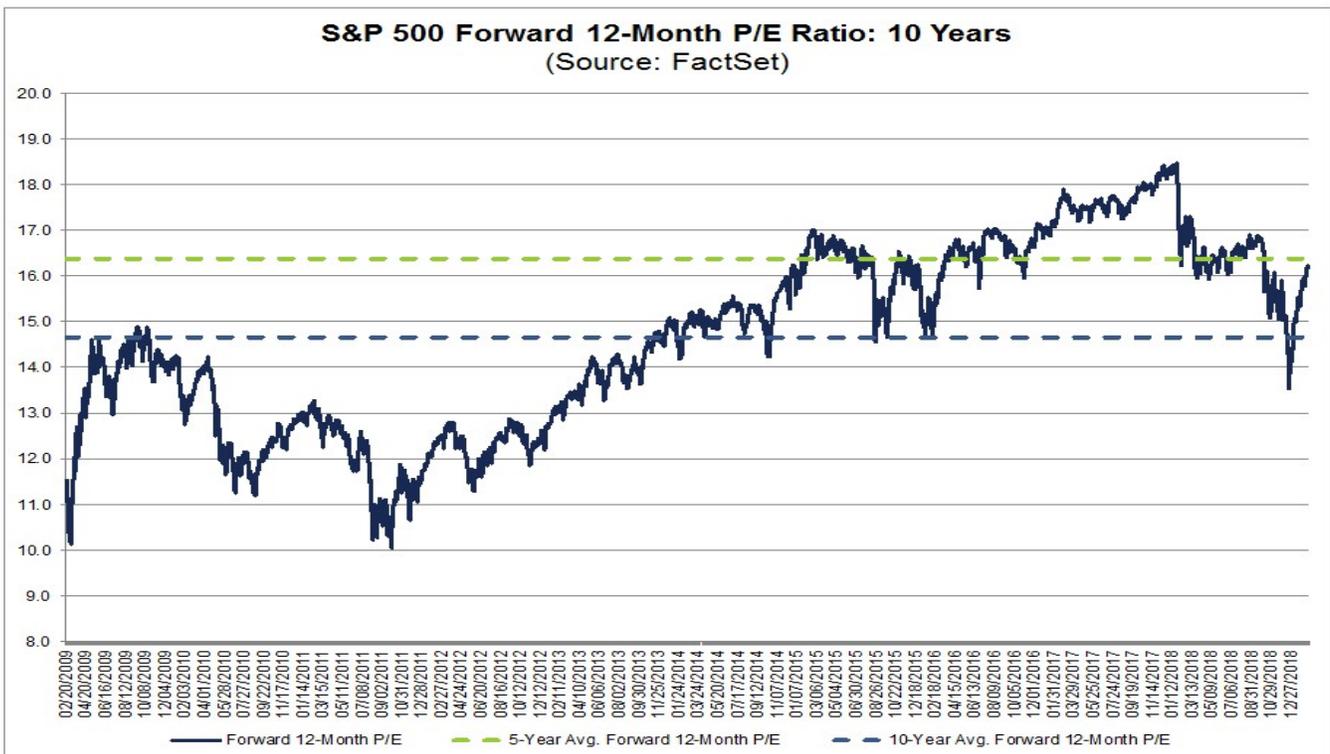
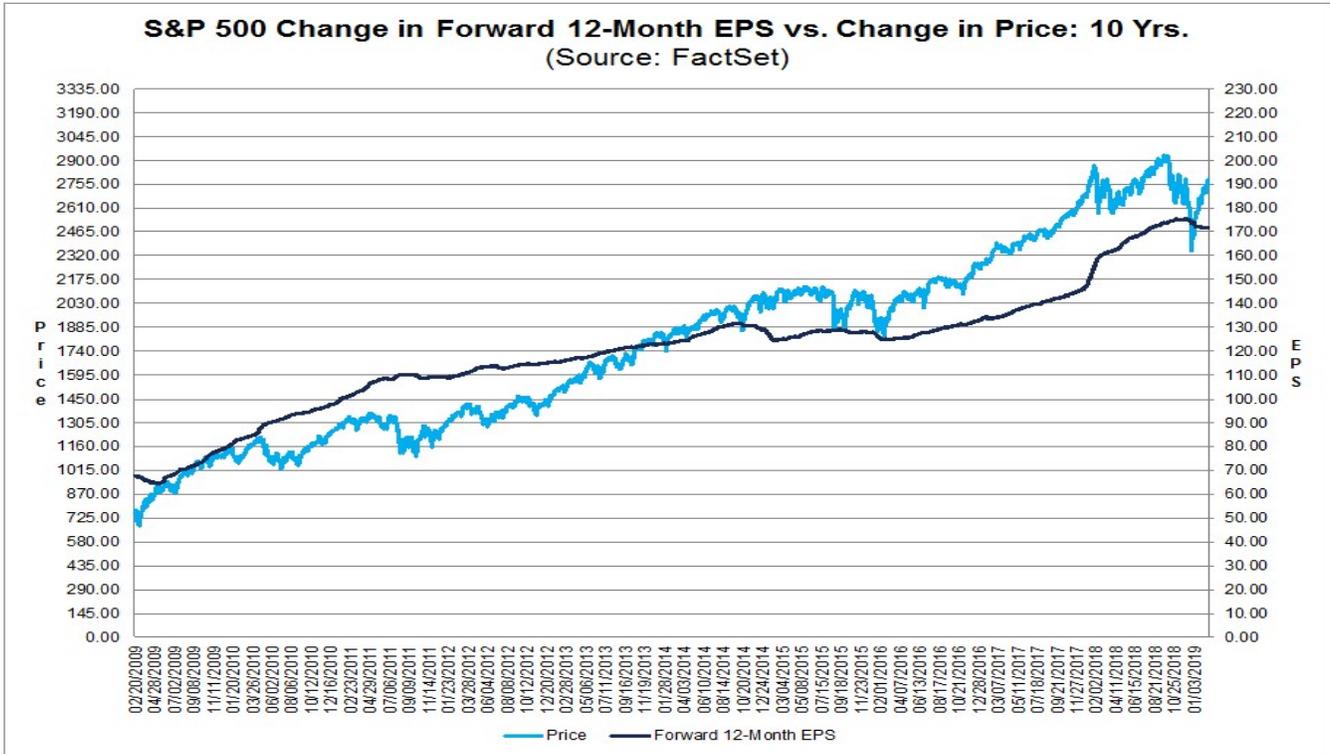
Forward 12M P/E Ratio: Sector Level



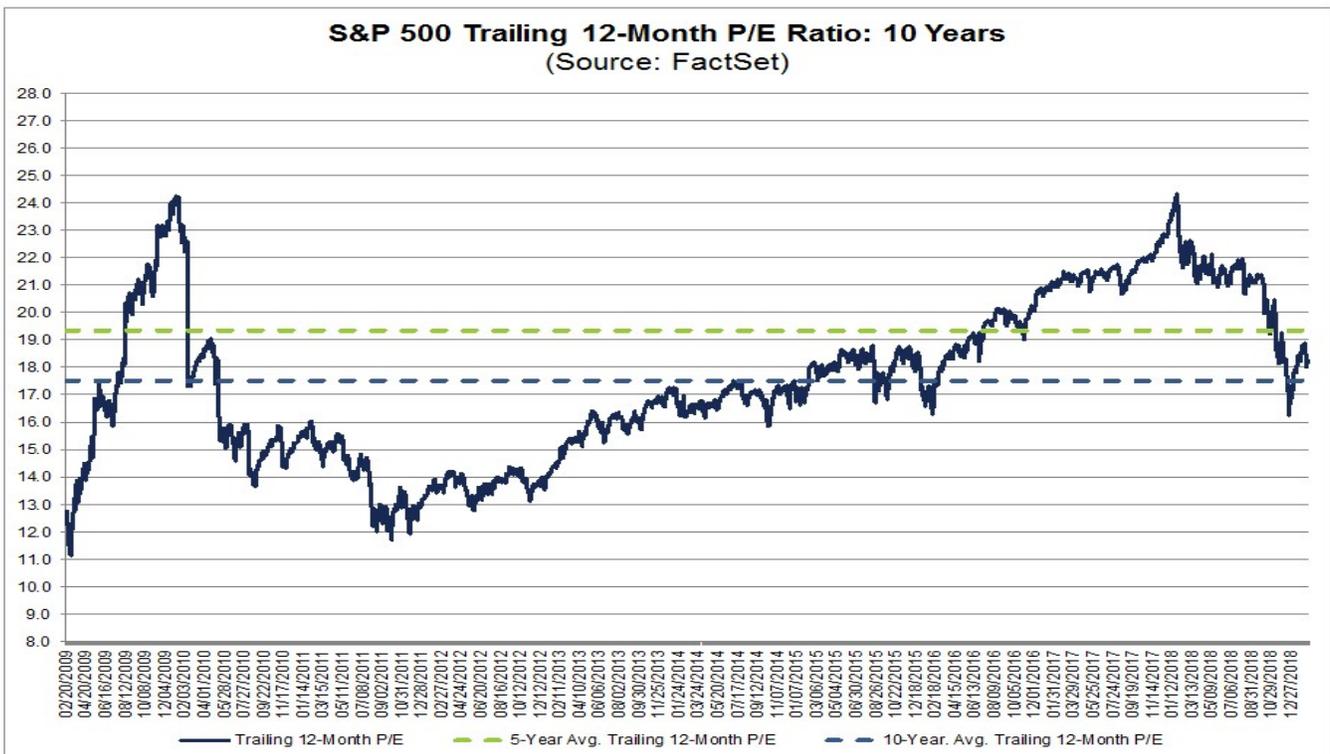
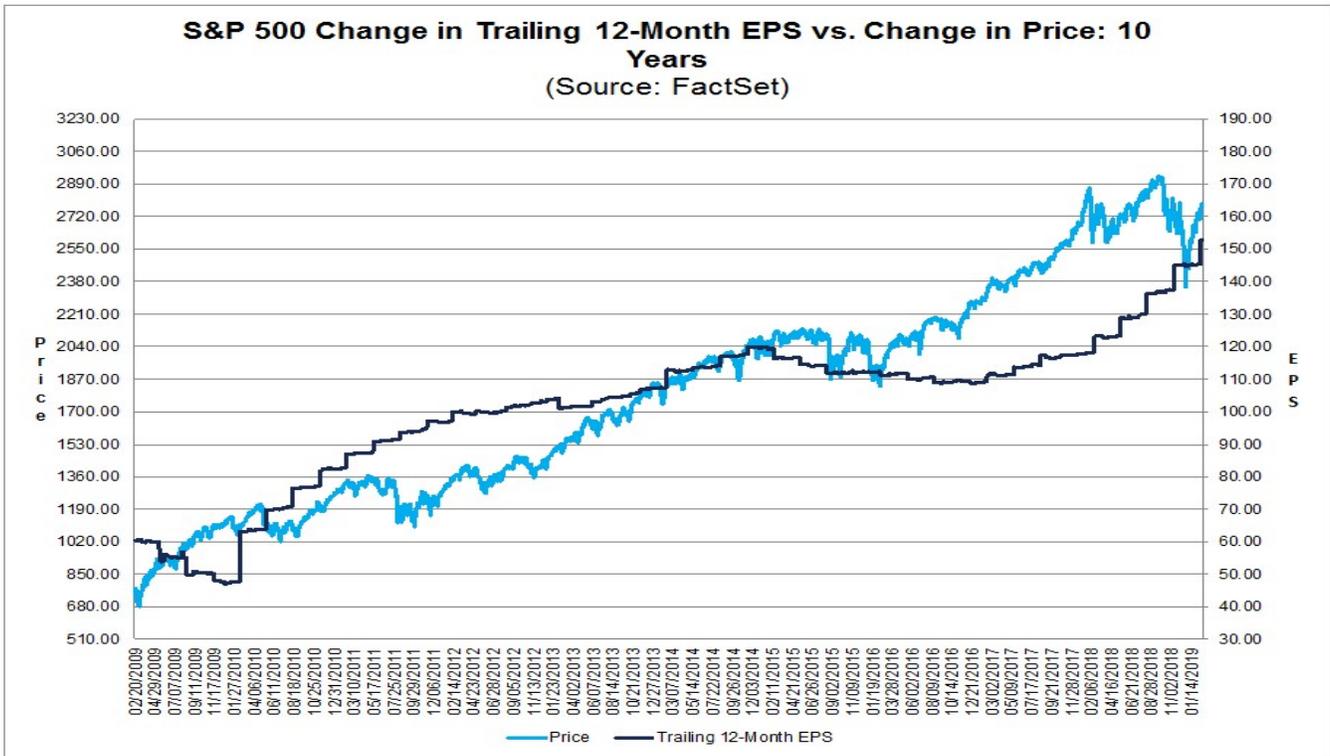
Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Dec. 31
(Source: FactSet)



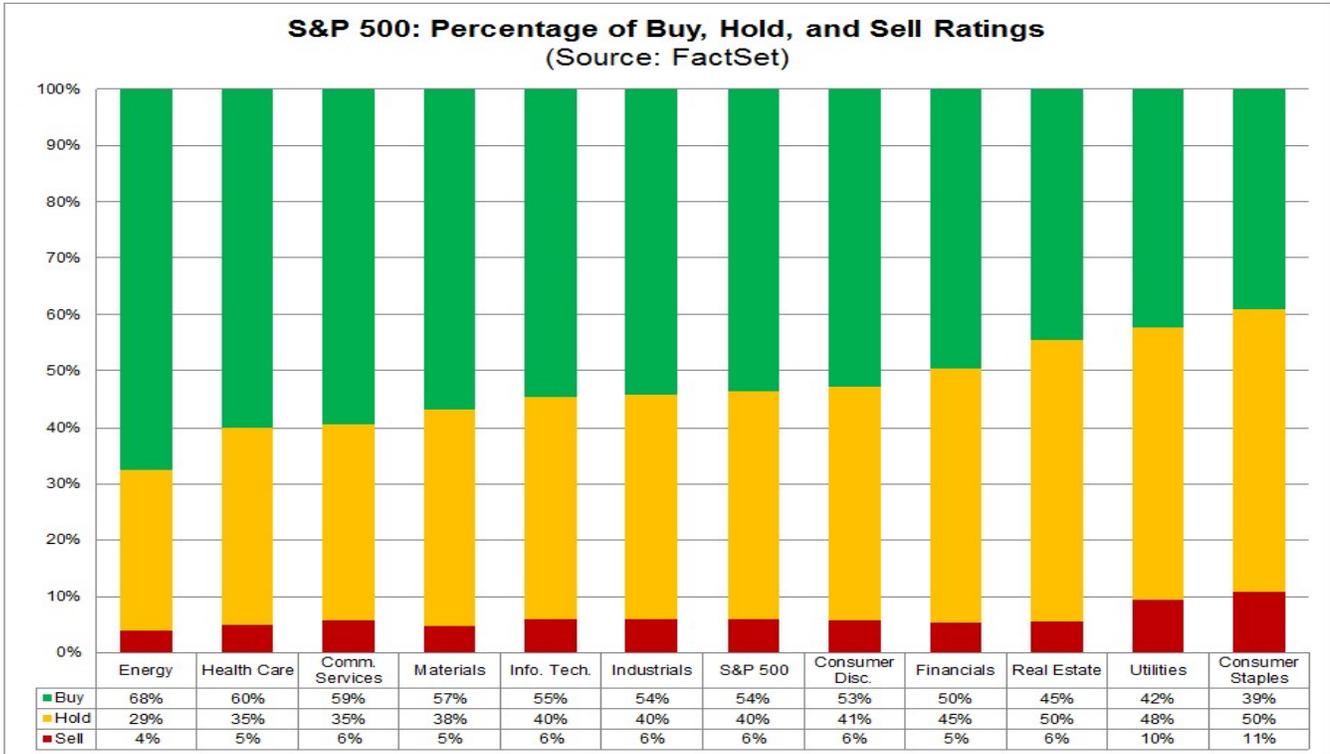
Forward 12M P/E Ratio: 10-Years



Trailing 12M P/E Ratio: 10-Years



Targets & Ratings



Important Notice

The information contained in this report is provided “as is” and all representations, warranties, terms and conditions, oral or written, express or implied (by common law, statute or otherwise), in relation to the information are hereby excluded and disclaimed to the fullest extent permitted by law. In particular, FactSet, its affiliates and its suppliers disclaim implied warranties of merchantability and fitness for a particular purpose and make no warranty of accuracy, completeness or reliability of the information. This report is for informational purposes and does not constitute a solicitation or an offer to buy or sell any securities mentioned within it. The information in this report is not investment advice. FactSet, its affiliates and its suppliers assume no liability for any consequence relating directly or indirectly to any action or inaction taken based on the information contained in this report.

FactSet aggregates and redistributes estimates data and does not conduct any independent research. Nothing in our service constitutes investment advice or FactSet recommendations of any kind. Estimates data is provided for information purposes only.

FactSet has no relationship with creators of estimates that may reasonably be expected to impair its objective presentation of such estimate or recommendation. FactSet redistributes estimates as promptly as reasonably practicable from research providers.

About FactSet

FactSet (NYSE:FDS | NASDAQ:FDS) delivers superior analytics, service, content, and technology to help more than 66,000 users see and seize opportunity sooner. We are committed to giving investment professionals the edge to outperform, with fresh perspectives, informed insights, and the industry-leading support of our dedicated specialists. We're proud to have been recognized with multiple awards for our analytical and data-driven solutions and repeatedly ranked as one of Fortune's 100 Best Companies to Work For and a Best Workplace in the United Kingdom and France. Subscribe to our thought leadership blog to get fresh insight delivered daily at insight.factset.com. Learn more at www.factset.com and follow on Twitter: www.twitter.com/factset.