

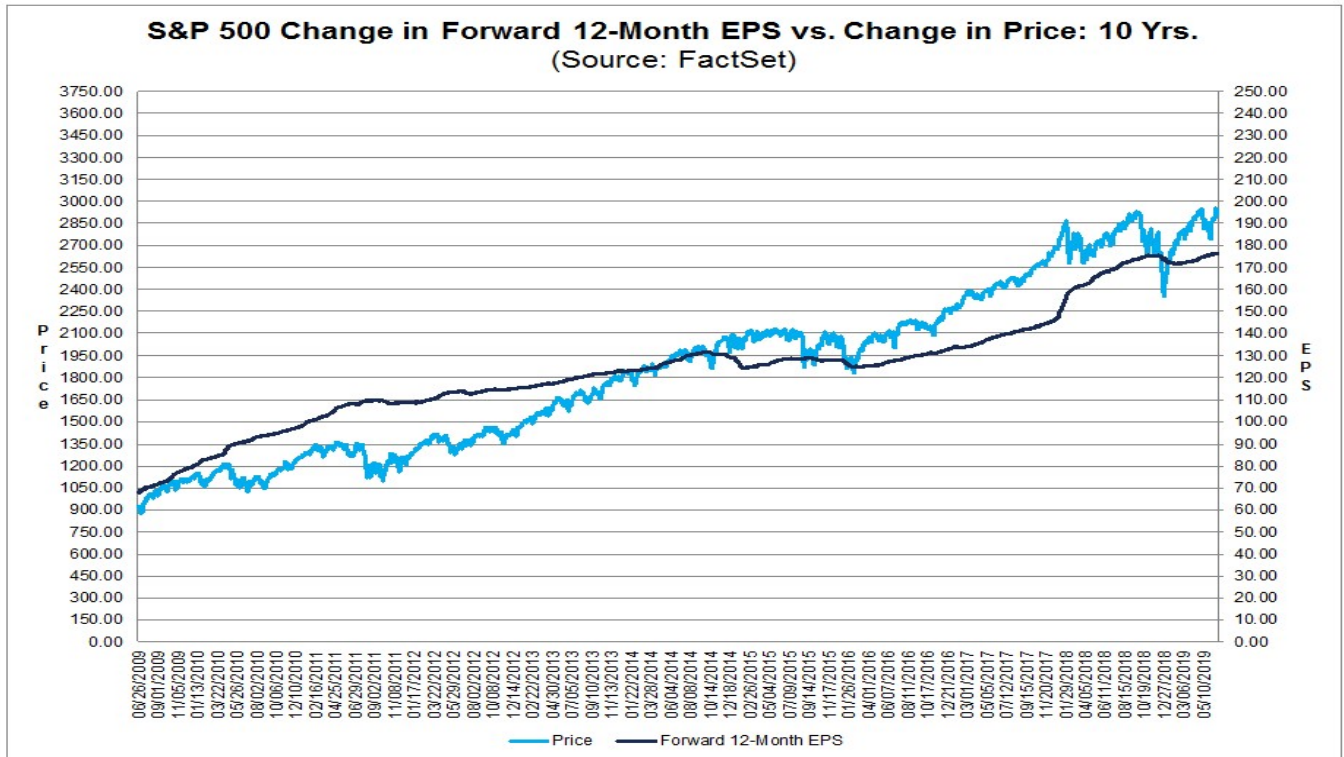
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Key Metrics

- Earnings Growth:** For Q2 2019, the estimated earnings decline for the S&P 500 is -2.6%. If -2.6% is the actual decline for the quarter, it will mark the first time the index has reported two straight quarters of year-over-year declines in earnings since Q1 2016 and Q2 2016.
- Earnings Revisions:** On March 31, the estimated earnings decline for Q2 2019 was -0.5%. Nine sectors have lower growth rates today (compared to March 31) due to downward revisions to EPS estimates.
- Earnings Guidance:** For Q2 2019, 87 S&P 500 companies have issued negative EPS guidance and 26 S&P 500 companies have issued positive EPS guidance.
- Valuation:** The forward 12-month P/E ratio for the S&P 500 is 16.6. This P/E ratio is above the 5-year average (16.5) and above the 10-year average (14.8).
- Earnings Scorecard:** For Q2 2019 (with 20 of the companies in the S&P 500 reporting actual results for the quarter), 17 companies have reported a positive EPS surprise and 14 companies have reported a positive revenue surprise.



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Topic of the Week:

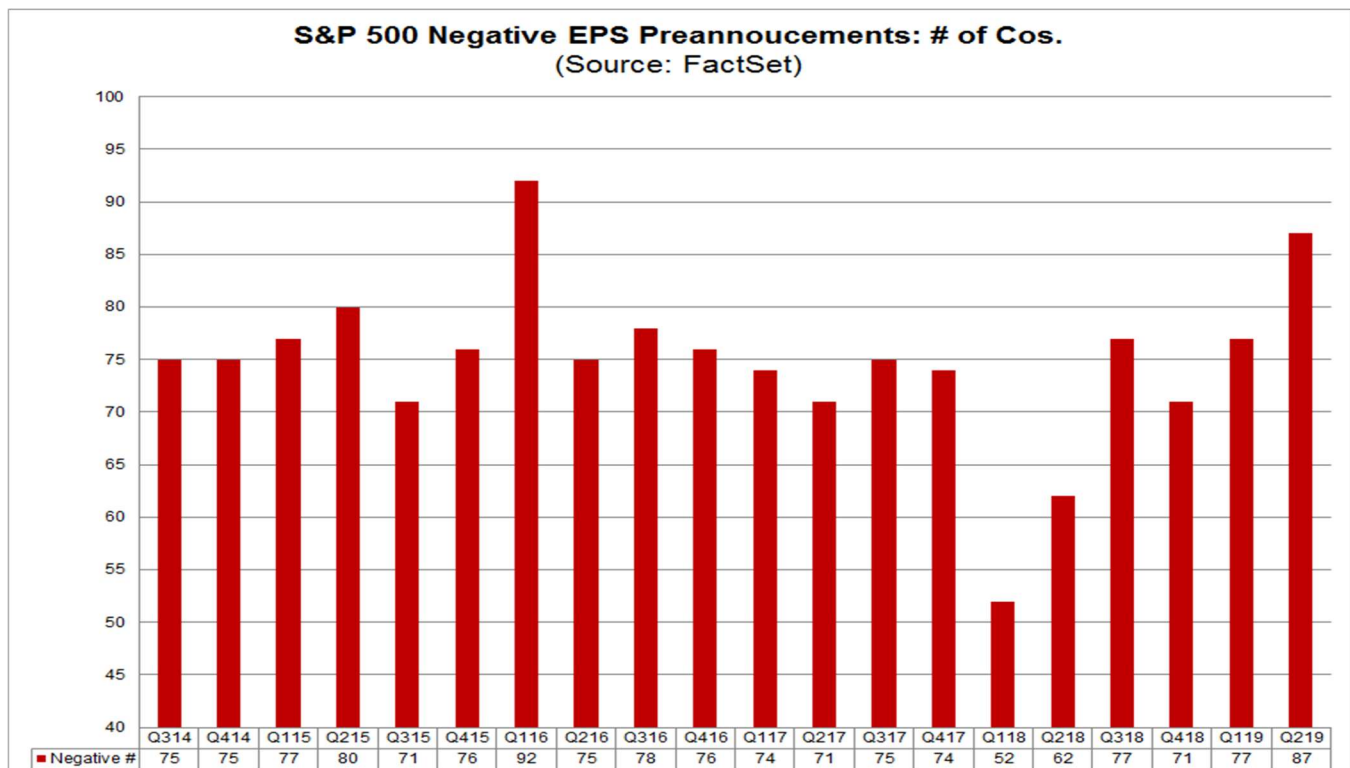
2nd Highest Number of S&P 500 Companies Issuing Negative EPS Guidance for Q2 Since 2006

Heading into the end of the second quarter, 113 S&P 500 companies have issued EPS guidance for the quarter. Of these 113 companies, 87 have issued negative EPS guidance and 26 companies have issued positive EPS guidance. The number of companies issuing negative EPS for Q2 is above the 5-year average of 74. In fact, if 87 is the final number for the second quarter, it will mark the second highest number of S&P 500 companies issuing negative EPS guidance for a quarter since FactSet began tracking this data in 2006 (trailing only Q1 2016 at 92).

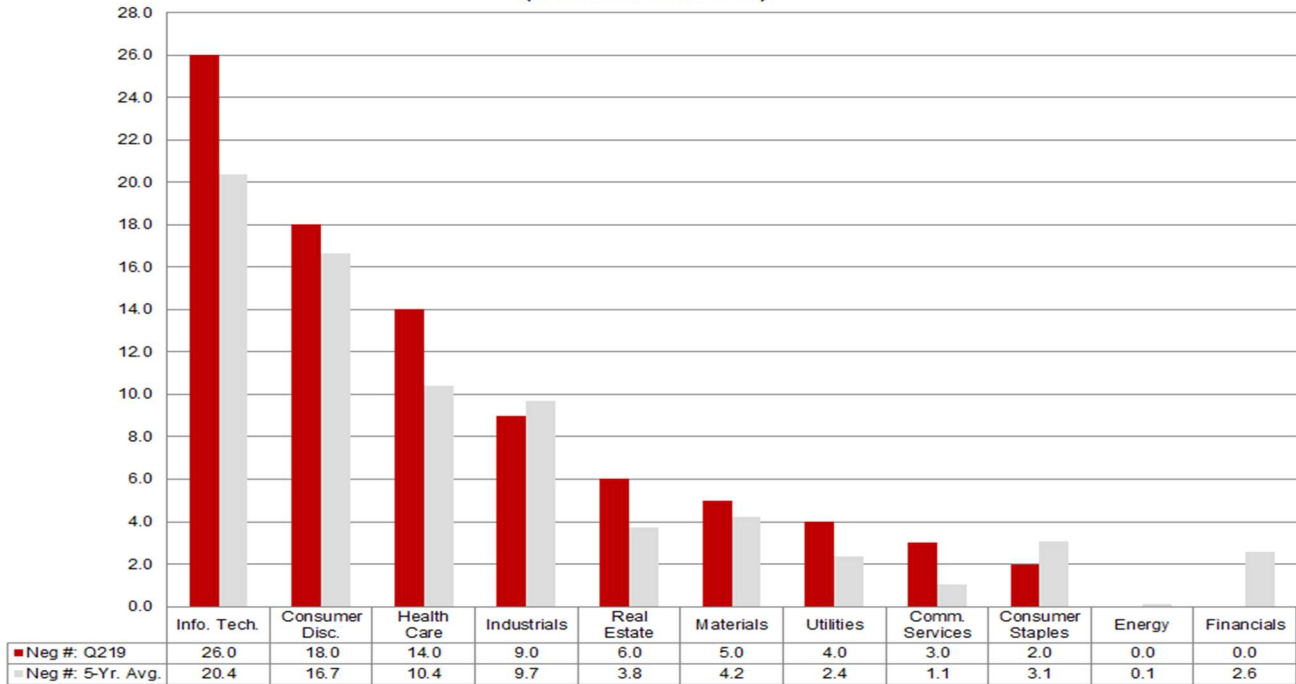
What is driving the unusually high number of S&P 500 companies issuing negative EPS guidance for the second quarter? At the sector level, 7 of the 11 sectors have seen more companies issue negative EPS guidance for Q2 2019 relative to their 5-year averages. However, the Information Technology and Health Care sectors are the largest contributors to the overall increase in the number of S&P 500 companies issuing negative EPS guidance for Q2 relative to the 5-year average.

In the Information Technology sector, 26 companies have issued negative EPS guidance for the second quarter, which is above the 5-year average for the sector of 20.4. If 26 is the final number for the quarter, it will tie the mark (with multiple quarters) for the second highest number of companies issuing negative EPS guidance in this sector since FactSet began tracking this data in 2006, trailing only Q4 2012 (27). At the industry level, the Semiconductor & Semiconductor Equipment (9) and Software (6) industries have the highest number of companies issuing negative EPS guidance in the sector. In the Health Care sector, 14 companies have issued negative EPS guidance for the second quarter, which is above the 5-year average for the sector of 10.4. At the industry level, the Health Care Equipment & Supplies (8) and Life Sciences Tools & Services (5) industries have the highest number of companies issuing negative EPS guidance in the sector.

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.



S&P 500 Sector-Level Negative EPS Guidance: Q219 vs. 5-Year Avg.
(Source: FactSet)



Q2 Earnings Season: By The Numbers

Overview

In terms of estimate revisions for companies in the S&P 500, analysts have made smaller cuts than average to EPS estimates for Q2 2019 to date. On a per-share basis, estimated earnings for the second quarter have fallen by 2.5% since March 31. This percentage decline is smaller than the 5-year average (-3.3%), the 10-year average (-3.1%), and the 15-year average (-4.2%) for a quarter.

However, a larger percentage of S&P 500 companies have lowered the bar for earnings for Q2 2019 relative to recent quarters. Of the 113 companies that have issued EPS guidance for the second quarter, 87 have issued negative EPS guidance and 26 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 77% (87 out of 113), which is above the 5-year average of 70%.

Because of the net downward revisions to earnings estimates, the estimated (year-over-year) earnings decline for Q2 2019 is -2.6% today compared to the estimated (year-over-year) earnings decline of -0.5% on March 31. If -2.6% is the actual decline for the quarter, it will mark the first time the index has reported two straight quarters of year-over-year declines in earnings since Q1 2016 and Q2 2016. It will also mark the largest year-over-year decline in earnings reported by the index since Q2 2016 (-3.2%). Six sectors are predicted to report year-over-year earnings growth, led by the Utilities and Health Care sectors. Five sectors are projected to report a year-over-year decline in earnings, led by the Materials and Information Technology sectors.

Because of the net downward revisions to revenue estimates, the estimated (year-over-year) revenue growth rate for Q2 2019 is 3.8% today compared to the estimated (year-over-year) revenue growth rate of 4.5% on March 31. If 3.8% is the actual growth rate for the quarter, it will mark the lowest revenue growth rate for the index since Q3 2016 (2.7%). Eight of the eleven sectors are projected to report year-over-year growth in revenues, led by the Communication Services and Health Care sectors. Three sectors are predicted to report a year-over-year decline in revenues, led by the Materials sector.

Looking at the second half of 2019, analysts see a decline in earnings for the third quarter followed by mid-single-digit earnings growth in the fourth quarter.

The forward 12-month P/E ratio is 16.6, which is above the 5-year average and above the 10-year average.

During the upcoming week, no S&P 500 companies are scheduled to report results for the second quarter.

Estimate Revisions: Largest Decline in Materials, while Largest Increase in Energy

Slight Increase in Estimated Earnings Decline for Q2 This Week

The estimated earnings decline for the second quarter is -2.6% this week, which is equal to the estimated earnings decline of -2.6% last week.

The estimated earnings decline for Q2 2019 of -2.6% today is larger than the estimated earnings decline of -0.5% at the start of the quarter (March 31). Nine sectors have a recorded a decrease in expected earnings growth due to downward revisions to earnings estimates, led by the Materials and Industrials sectors. On the other hand, two sectors have recorded an increase in expected earnings growth since the start of the quarter, led by the Energy sector.

Materials: DuPont Leads Decrease

The Materials sector has recorded the largest decrease in expected earnings growth since the start of the quarter (to -14.4% from -3.2%). Despite the decline in expected earnings, this sector has witnessed an increase in price of 4.8% since March 31. Overall, 20 of the 28 companies (71%) in the Materials sector have seen a decrease in their mean EPS estimate during this time. Of these 20 companies, 8 have recorded a decrease in their mean EPS estimate of more than 10%, led by DuPont (to \$0.97 from \$1.87) and Mosaic (to \$0.33 from \$0.58). DuPont has also been the largest contributor to the decrease in expected earnings for this sector since the start of the quarter. The stock price of DuPont has decreased by about 2% since March 31.

Industrials: Boeing Leads Decrease

The Industrials sector has recorded the second largest decrease in expected earnings growth since the start of the quarter (to -1.9% from 5.5%). Despite the decline in expected earnings, this sector has witnessed an increase in price of 2.1% since March 31. Overall, 51 of the 69 companies (74%) in the Industrials sector have seen a decrease in their mean EPS estimate during this time. Of these 51 companies, 6 have recorded a decrease in their mean EPS estimate of more than 10%, led by Boeing (to \$1.78 from \$4.63), 3M (to \$2.09 from \$2.64), and American Airlines Group (to 1.69 from \$2.10). Boeing has also been the largest contributor to the decrease in expected earnings for this sector since the start of the quarter. The stock price of Boeing has decreased by about 5% since March 31.

Energy: Chevron Leads Increase

The Energy sector has recorded the largest increase in expected earnings growth since the start of the quarter (to 1.5% from -5.2%). However, all of the increase in expected earnings growth was recorded during the first month of the quarter (to 4.8% from -5.2%). Since April 30, the estimated earnings growth rate for the sector has fallen to 1.5% from 4.8%. Despite the overall rise in expected earnings, this sector has witnessed the largest decrease in price of all eleven sectors since March 31 at -4.8%. Overall, 14 of the 29 companies (48%) in the Energy sector have seen an increase in their mean EPS estimate during this time. Of these 14 companies, 9 have recorded an increase in their mean EPS estimate of more than 10%, led by Hess Corporation (to \$0.00 from -\$0.26), Marathon Oil (to \$0.17 from \$0.09), and Anadarko Petroleum (to \$0.57 from \$0.32). However, Chevron (to \$1.97 from \$1.63) and ConocoPhillips (to \$1.09 from \$0.81) have been the largest contributors to the increase in expected earnings for this sector since the start of the quarter. Since March 31, the stock price of Chevron has increased by about 1% while the stock price of ConocoPhillips has decreased by about 8%.

Index-Level (Bottom-Up) EPS Estimate: Below Average Decline to Date

The Q2 bottom-up EPS estimate (which is an aggregation of the median earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings for the index) has decreased by 2.5% (to \$40.43 from \$41.46) since March 31. This percentage decline is smaller than the 5-year average (-3.3%), the 10-year average (-3.1%), and the 15-year average (-4.2%) for a quarter.

Guidance: More S&P 500 Companies Issuing Negative EPS Guidance for Q2 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, 113 companies in the index have issued EPS guidance for Q2 2019. Of these 113 companies, 87 have issued negative EPS guidance and 26 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 77% (87 out of 113), which is above the 5-year average of 70%.

For more details on guidance, please see pages 2 and 3.

Earnings Decline: -2.6%

The estimated (year-over-year) earnings decline for Q2 2019 is -2.6%. If -2.6% is the actual decline for the quarter, it will mark the first time the index has reported two straight quarters of year-over-year declines in earnings since Q1 2016 and Q2 2016. It will also mark the largest year-over-year decline in earnings reported by the index since Q2 2016 (-3.2%). Six sectors are predicted to report year-over-year earnings growth, led by the Utilities and Health Care sectors. Five sectors are projected to report a year-over-year decline in earnings, led by the Materials and Information Technology sectors.

Utilities: 4 of 5 Industries Expected to Report Growth

The Utilities sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 2.2%. At the industry level, four of the five industries in this sector are predicted to report growth in earnings: Gas Utilities (20%), Water Utilities (14%), Multi-Utilities (3%), and Electric Utilities (2%). The Independent Power & Renewable Electricity Producers (-8%) industry is the only industry expected to report a year-over-year decline in earnings.

Health Care: 5 of 6 Industries Expected to Report Growth

The Health Care sector is expected to report the second highest (year-over-year) earnings growth of all eleven sectors at 2.1%. At the industry level, five of the six industries in this sector are predicted to report growth in earnings, led by the Health Care Providers & Services (15%) industry. On the other hand, the Pharmaceuticals (-5%) industry is the only industry expected to report a year-over-year decline in earnings.

Materials: 3 of 4 Industries Expected to Report Decline

The Materials sector is predicted to report the highest (year-over-year) earnings decline of all eleven sectors at -14.4%. At the industry level, three of the four industries in this sector are expected to report a decline in earnings: Metals & Mining (-53%), Chemicals (-8%), and Containers & Packaging (-7%). On the other hand, the Construction Materials (8%) industry is the only industry in the sector that is expected to report earnings growth.

Information Technology: Micron Technology Leads Decline

The Information Technology sector is expected to report the second highest (year-over-year) earnings decline of all eleven sectors at -11.9%. At the industry level, two of the six industries in this sector are predicted to report a decline in earnings: Semiconductors & Semiconductor Equipment (-31%) and Technology Hardware, Storage, & Peripherals (-22%). On the other hand, four industries are projected to report earnings growth, led by the Communications Equipment (5%) industry.

At the company level, Micron Technology is the projected to be the largest contributor to the decline in earnings for the sector. The mean EPS estimate for Q2 2019 is \$0.80, compared to year-ago EPS of \$3.15. If this company were excluded, the estimated earnings decline for the sector would improve to -8.7% from -11.9%.

Revenue Growth: 3.8%

The estimated (year-over-year) revenue growth rate for Q2 2019 is 3.8%. If 3.8% is the actual growth rate for the quarter, it will mark the lowest revenue growth rate for the index since Q3 2016 (2.7%). Eight of the eleven sectors are expected to report year-over-year growth in revenues, led by the Communication Services and Health Care sectors. Three sectors are expected to report a year-over-year decline in revenues, led by the Materials sector.

Communication Services: 3 of 4 Industries Expected to Report Double-Digit Growth

The Communication Services sector is expected to report the highest (year-over-year) revenue growth of all eleven sectors at 14.0%. At the industry level, all four industries in this sector are projected to report revenue growth. Three of these four industries are predicted to report double-digit revenue growth: Entertainment (29%), Interactive Media & Services (18%), and Media (10%).

Health Care: Cigna and CVS Lead Growth on Easy Comparisons to Year-Ago Pre-Merger Revenues

The Health Care sector is expected to report the second highest (year-over-year) revenue growth of all eleven sectors at 12.4%. At the industry level, five of the six industries in this sector are predicted to report revenue growth for the quarter. The Health Care Providers & Services is the only industry projected to report double-digit revenue growth (18%). On the other hand, the Pharmaceuticals (-3%) industry is the only industry projected to report a decline in revenue.

At the company level, Cigna and CVS Health are predicted to be the largest contributors to revenue growth for the sector. However, the revenue growth rates for both companies are being boosted by apples-to-oranges comparisons of post-merger revenues to pre-merger revenues. The revenue estimate for Cigna for Q2 2019 (\$35.04 billion) reflects the combined revenues of Cigna and Express Scripts, while the actual revenue for Q2 2018 (\$11.48 billion) reflects the standalone revenue for Cigna. The revenue estimate for CVS Health for Q2 2019 (\$62.67 billion) reflects the combined revenues of CVS Health and Aetna, while the actual revenue for Q2 2018 (\$46.71 billion) reflects the standalone revenue for CVS Health. These apples-to-oranges comparisons are the main reason Cigna and CVS Health are projected to be the largest contributors to revenue growth for the sector. If these companies were excluded, the estimated revenue growth rate for the sector would fall to 4.7% from 12.4%.

Materials: DuPont Leads Decline on Hard Comparison to Year-Ago Pre-Split Revenues

The Materials sector is expected to report the highest (year-over-year) decline in revenue of all eleven sectors at -14.4%. At the industry level, two of the four industries in this sector are predicted to report a decline in revenue for the quarter: Chemicals (-22%) and Metals & Mining (-8%).

At the company level, DuPont is predicted to be the largest contributor to the decline in revenue for the sector. However, the revenue decline is being boosted by an apples-to-oranges comparison of post-split revenues to pre-split revenues. The revenue estimate for DuPont for Q2 2019 (\$6.02 billion) reflects the standalone revenue for DuPont, while the actual revenue for Q2 2018 (\$24.25 billion) reflects the combined revenue for DowDuPont (DuPont, Dow, and Corteva). This apples-to-oranges comparison is the main reason DuPont is projected to be the largest contributor to the revenue decline for the sector. If this company were excluded, the estimated revenue decline for the sector would improve to 5.9% from -14.4%.

Looking Ahead: Forward Estimates and Valuation

Earnings: Low Single-Digit Earnings Growth Projected for 2019

For the second quarter, S&P 500 companies are expected to report a decline in earnings of -2.6% and growth in revenues of 3.8%. For the second half of 2019, analysts see a decline in earnings in the third quarter and mid-single-digit growth in earnings in the fourth quarter.

For Q3 2019, analysts are projecting a decline in earnings of -0.5% and revenue growth of 3.8%.

For Q4 2019, analysts are projecting earnings growth of 6.3% and revenue growth of 4.3%.

For CY 2019, analysts are projecting earnings growth of 2.7% and revenue growth of 4.4%.

For Q1 2020, analysts are projecting earnings growth of 9.9% and revenue growth of 5.8%.

For Q2 2020, analysts are projecting earnings growth of 12.9% and revenue growth of 6.6%.

Valuation: Forward P/E Ratio is 16.6, Above the 10-Year Average (14.8)

The forward 12-month P/E ratio is 16.6. This P/E ratio is above the 5-year average of 16.5 and above the 10-year average of 14.8. It is also above the forward 12-month P/E ratio of 16.4 recorded at the end of the first quarter (March 31). Since the end of the first quarter (March 31), the price of the index has increased by 3.2%, while the forward 12-month EPS estimate has increased by 2.0%.

At the sector level, the Consumer Discretionary (21.2) sector has the highest forward 12-month P/E ratio, while the Financials (11.7) sector has the lowest forward 12-month P/E ratio.

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

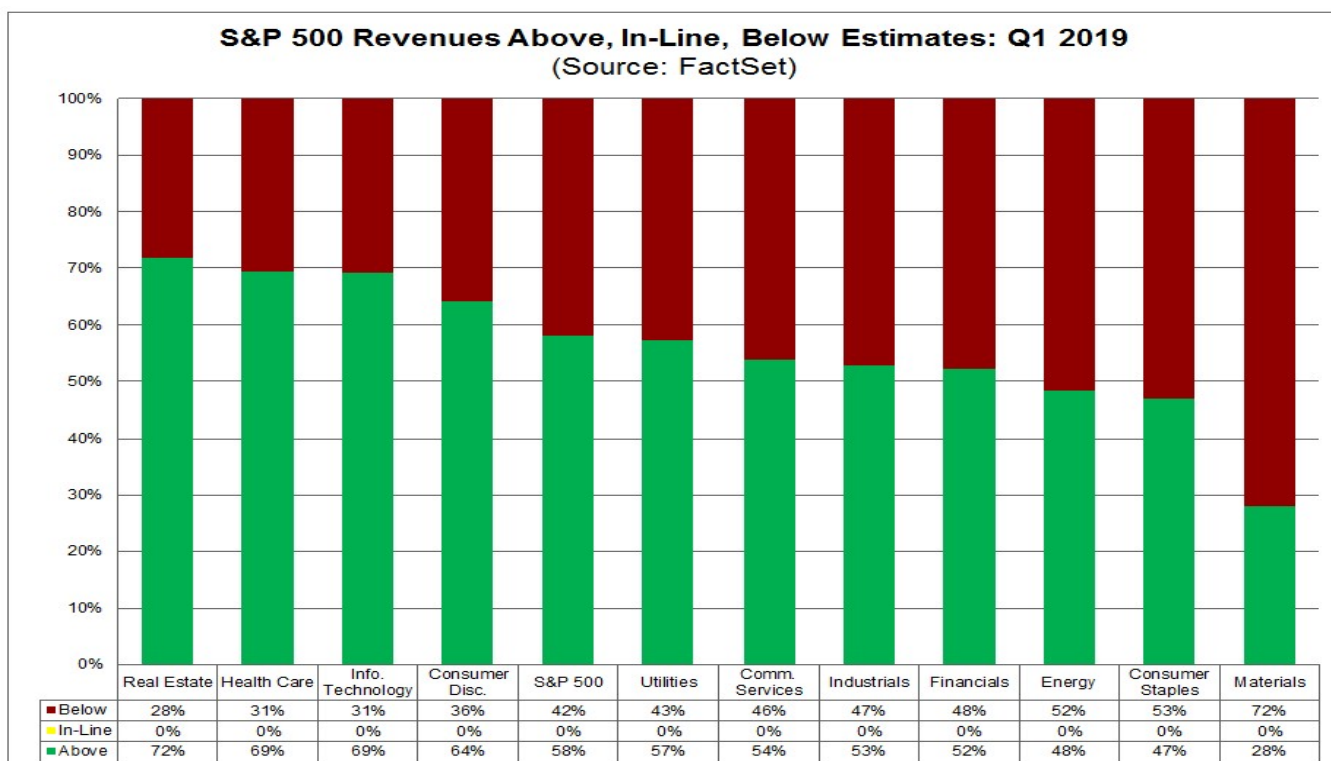
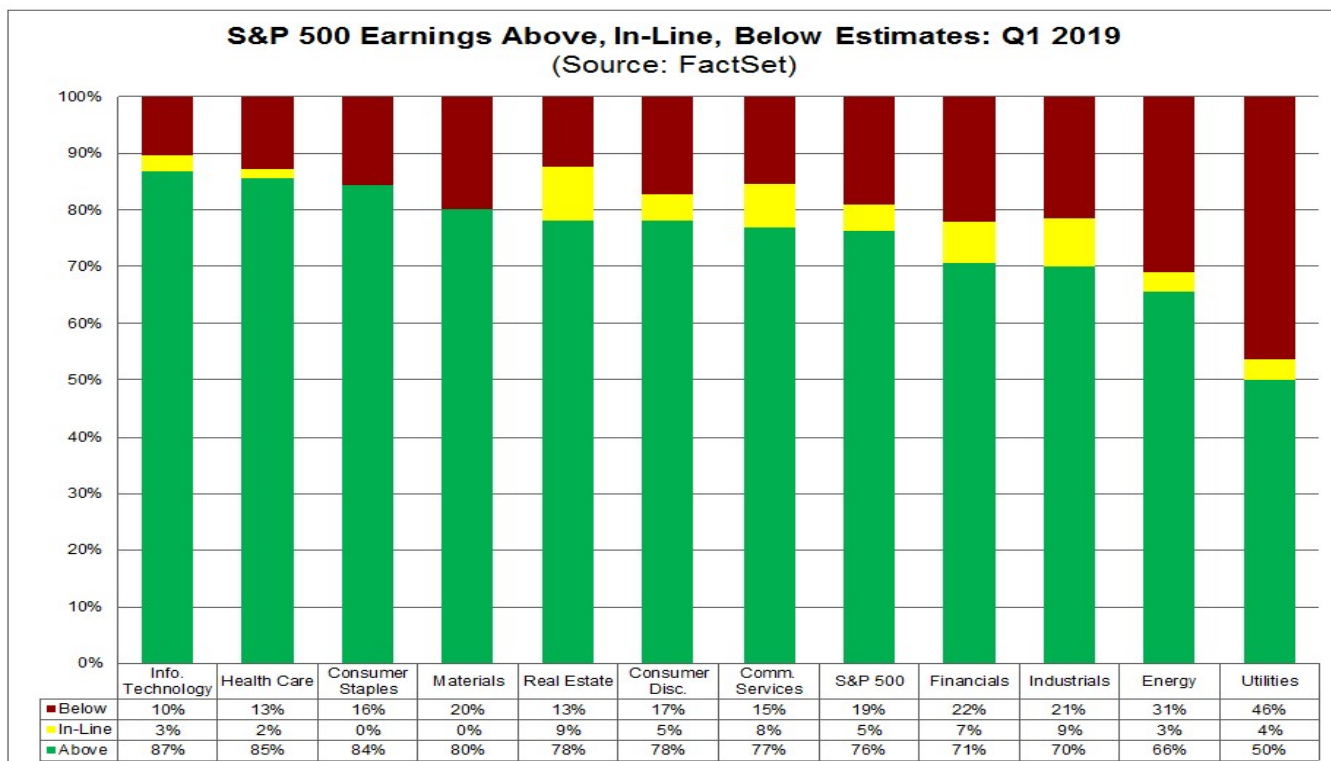
The bottom-up target price for the S&P 500 is 3218.88, which is 10.1% above the closing price of 2924.92. At the sector level, the Energy (+19.5%) sector is expected to see the largest price increase, as this sector has the largest upside difference between the bottom-up target price and the closing price. On the other hand, the Utilities (+3.4%) sector is expected to see the smallest price increase, as this sector has the smallest upside difference between the bottom-up target price and the closing price.

Overall, there are 10,450 ratings on stocks in the S&P 500. Of these 10,450 ratings, 52.7% are Buy ratings, 41.0% are Hold ratings, and 6.3% are Sell ratings. At the sector level, the Energy (64%) sector has the highest percentage of Buy ratings, while the Consumer Staples (40%) sector has the lowest percentage of Buy ratings.

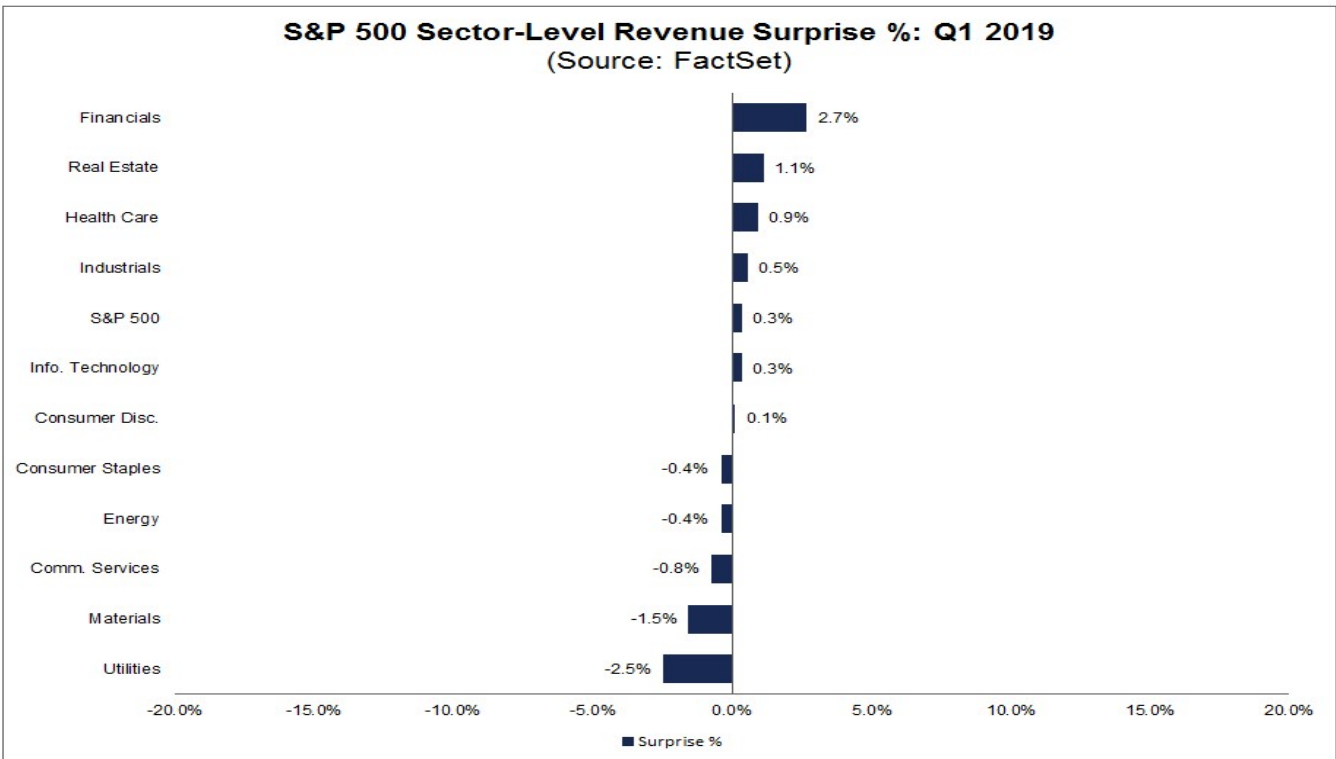
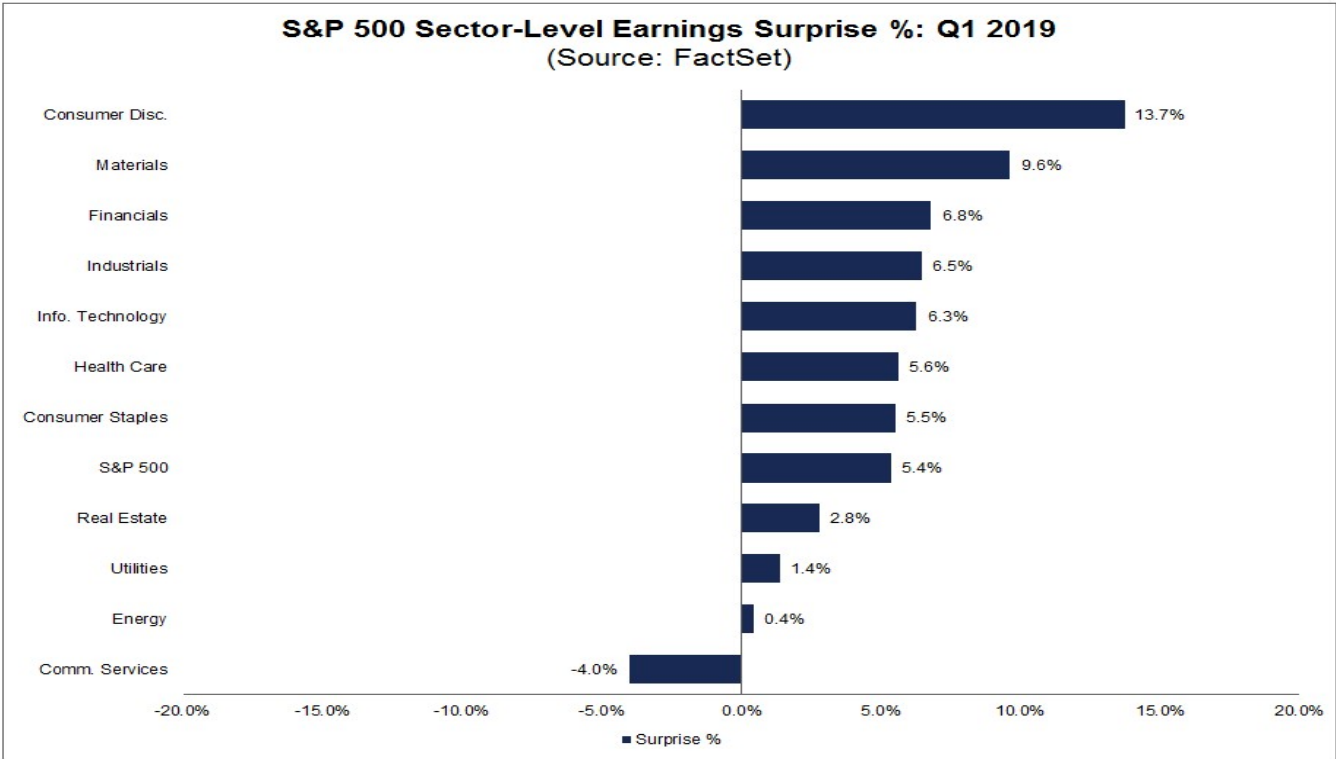
Companies Reporting Next Week: 0

During the upcoming week, no S&P 500 companies are scheduled to report results for the second quarter.

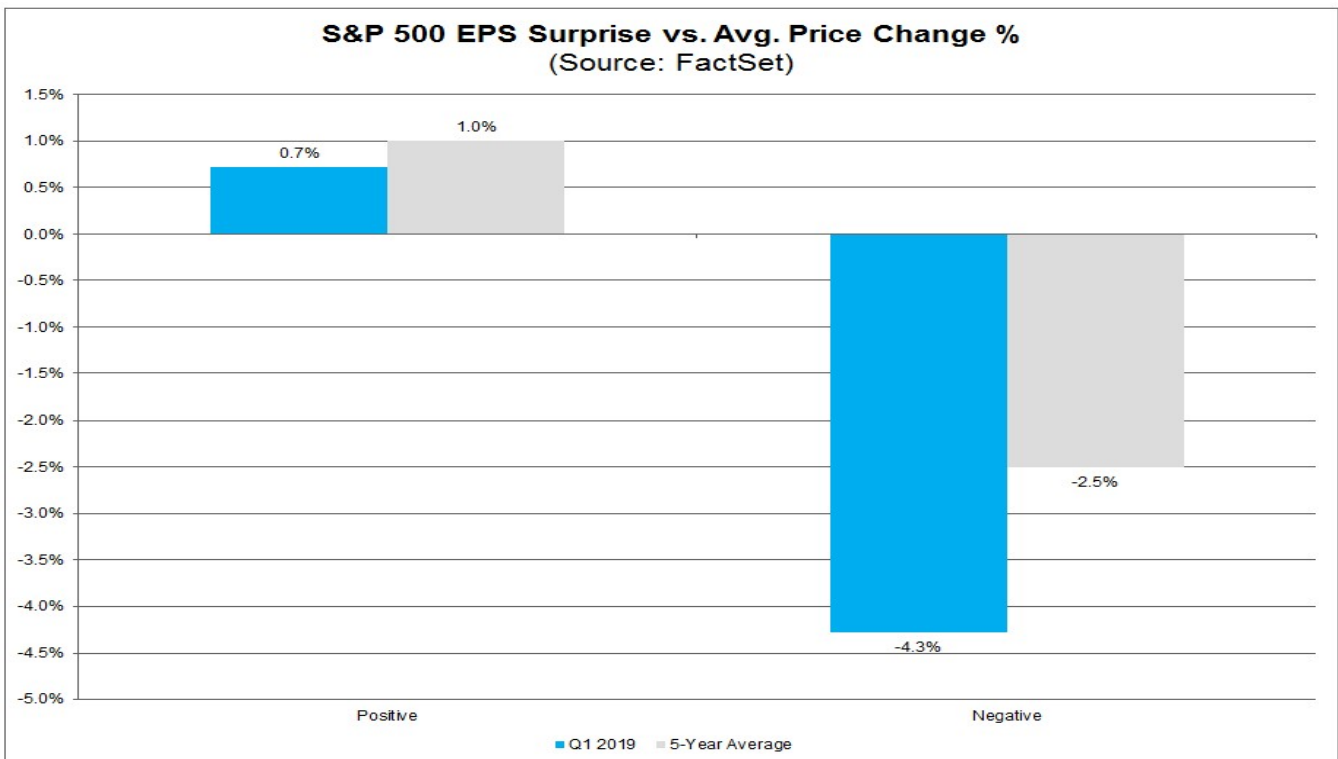
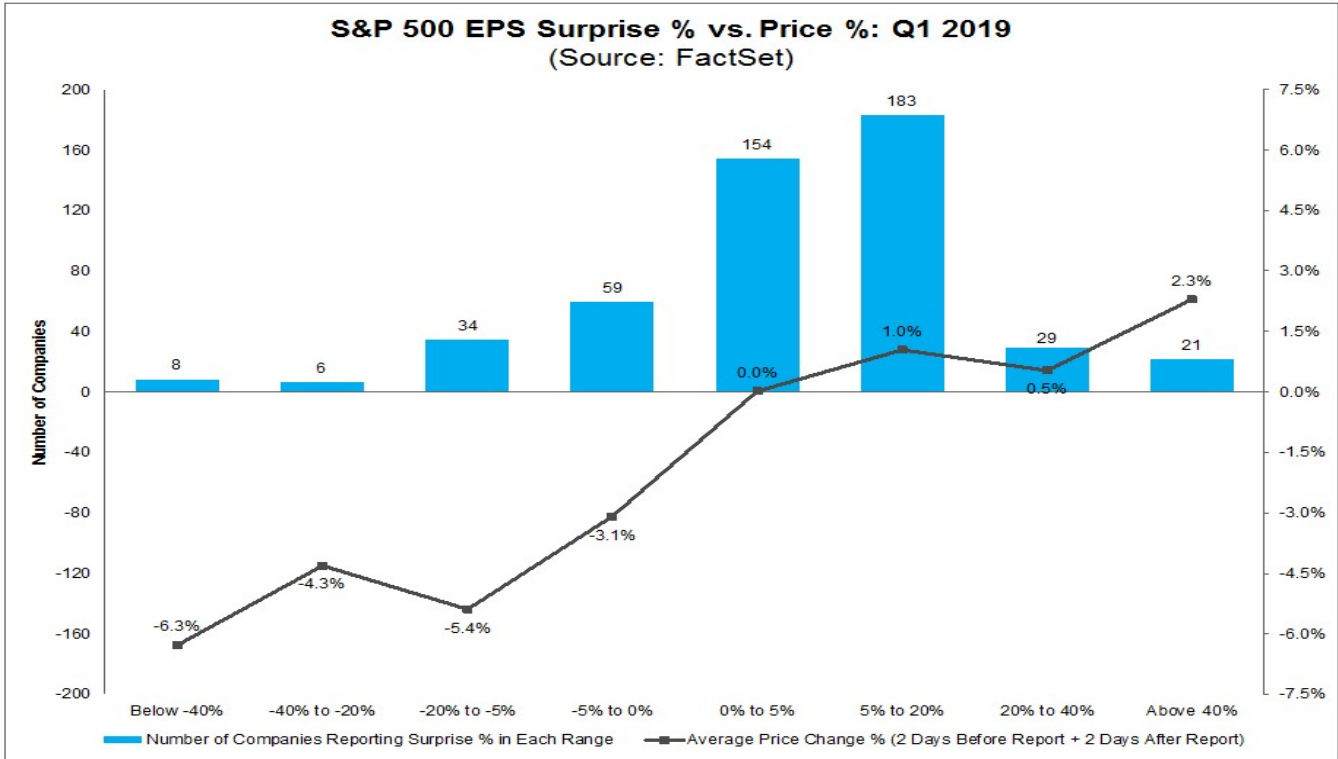
Q1 2019: Scorecard



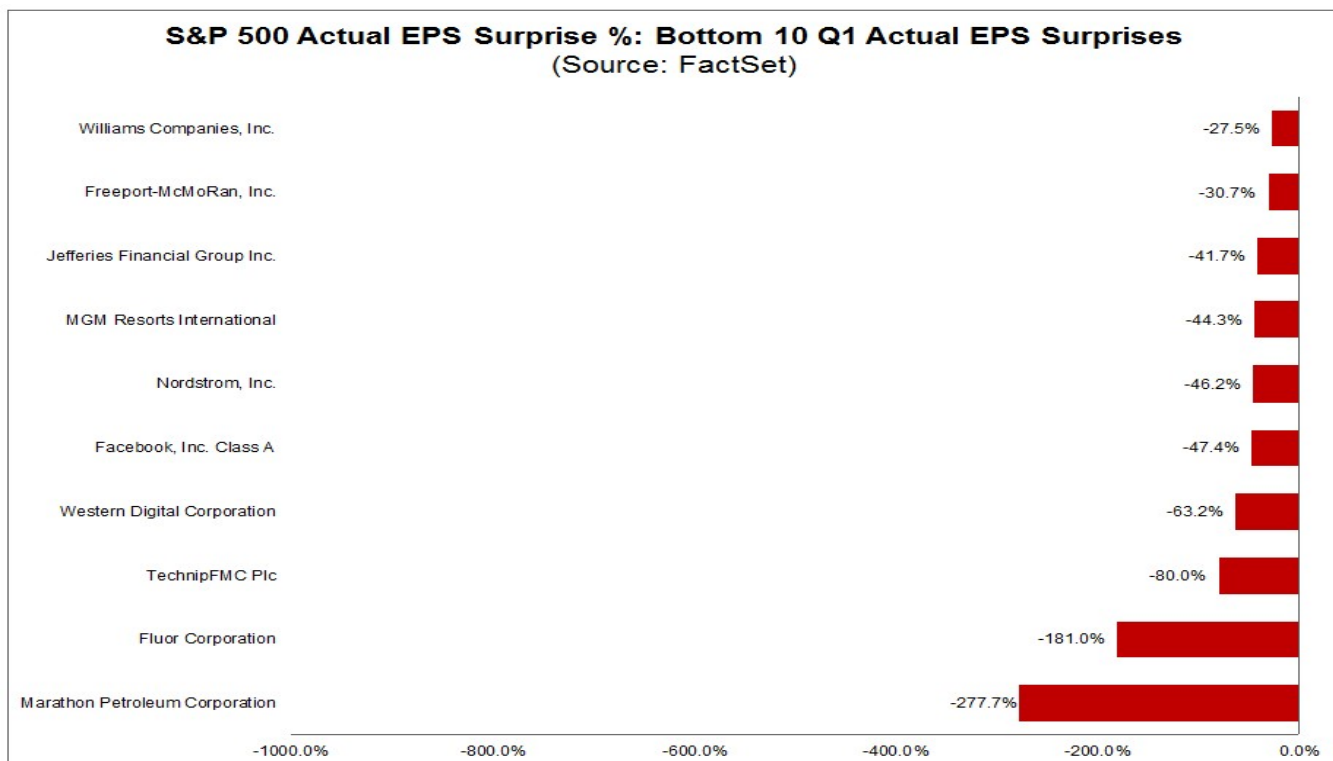
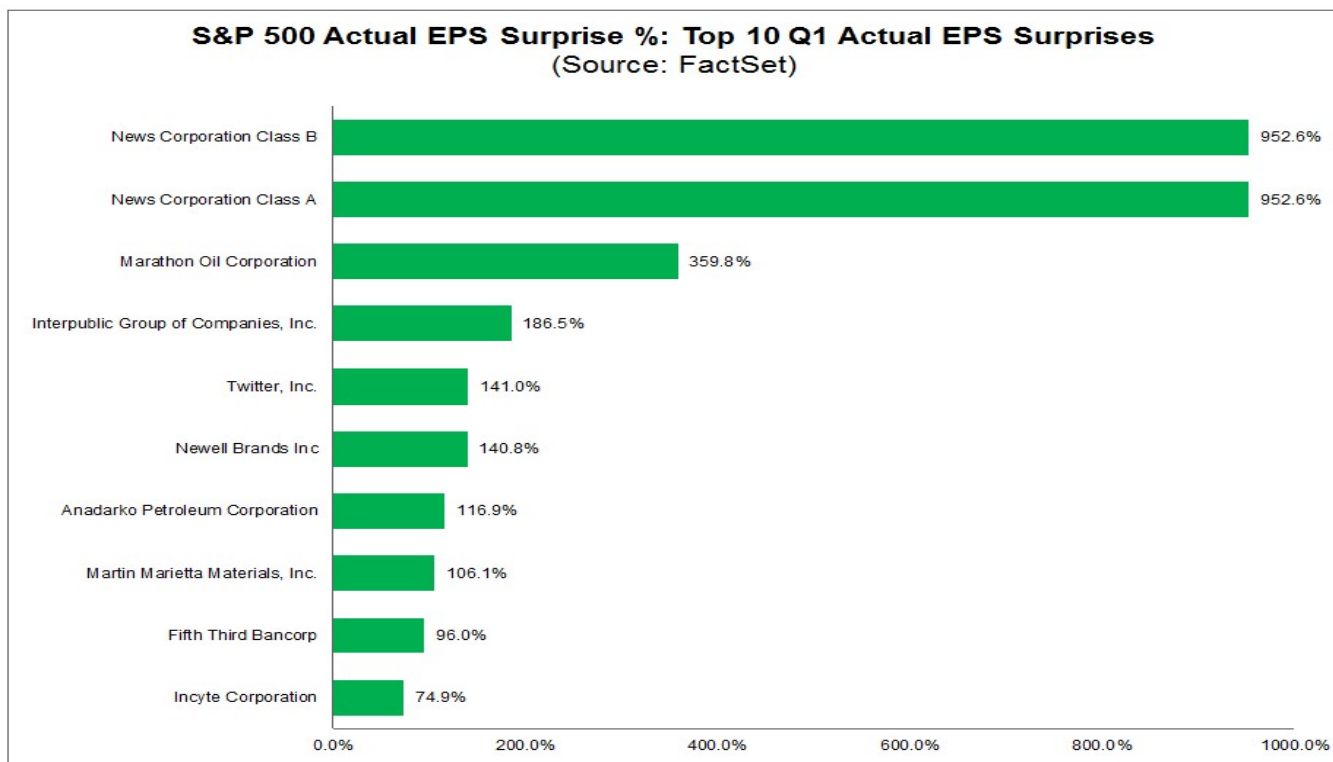
Q1 2019: Scorecard



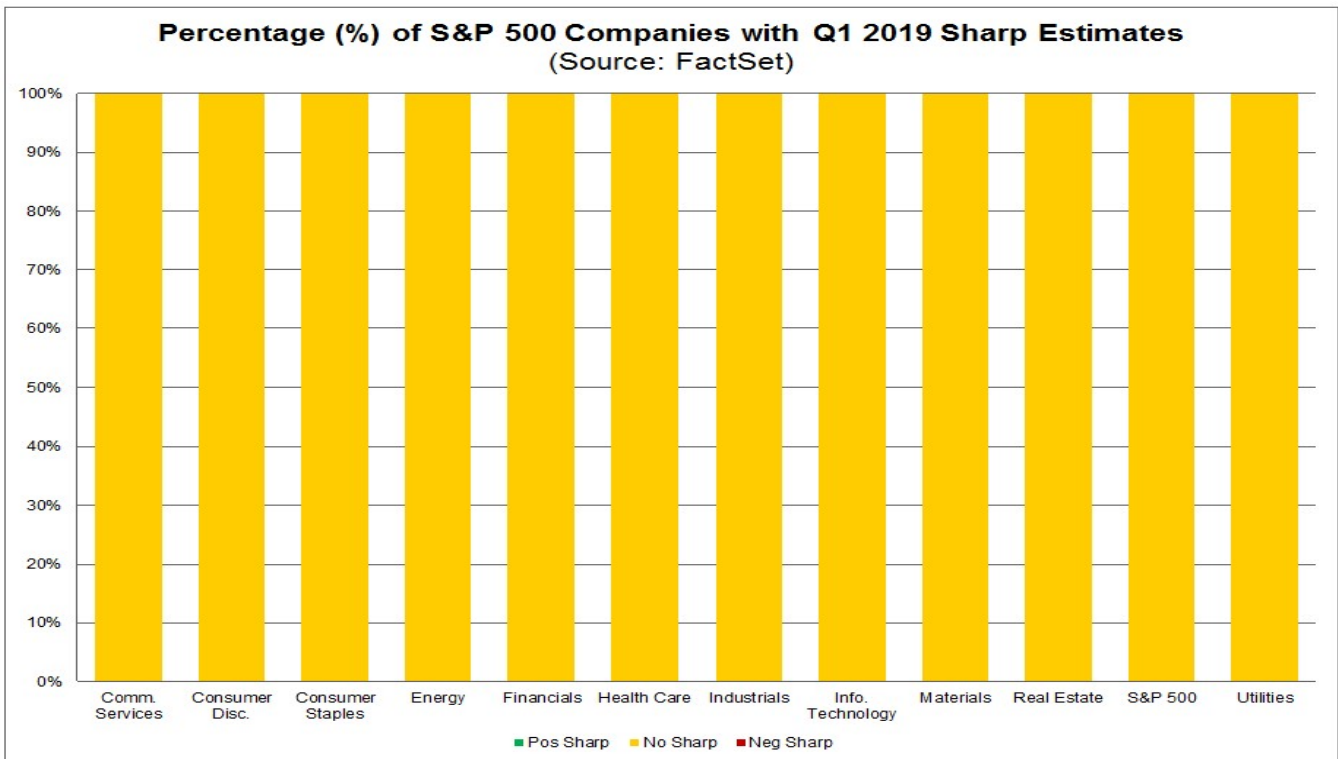
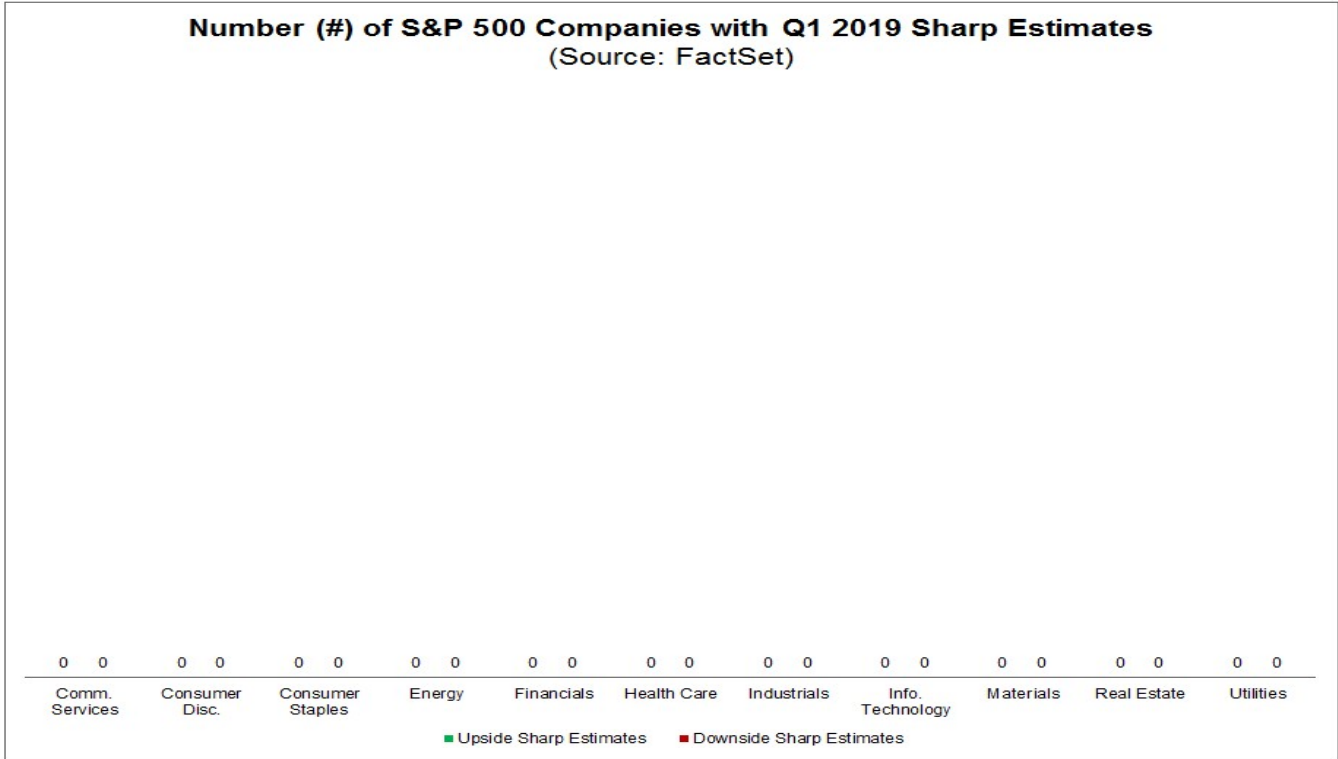
Q1 2019: Scorecard



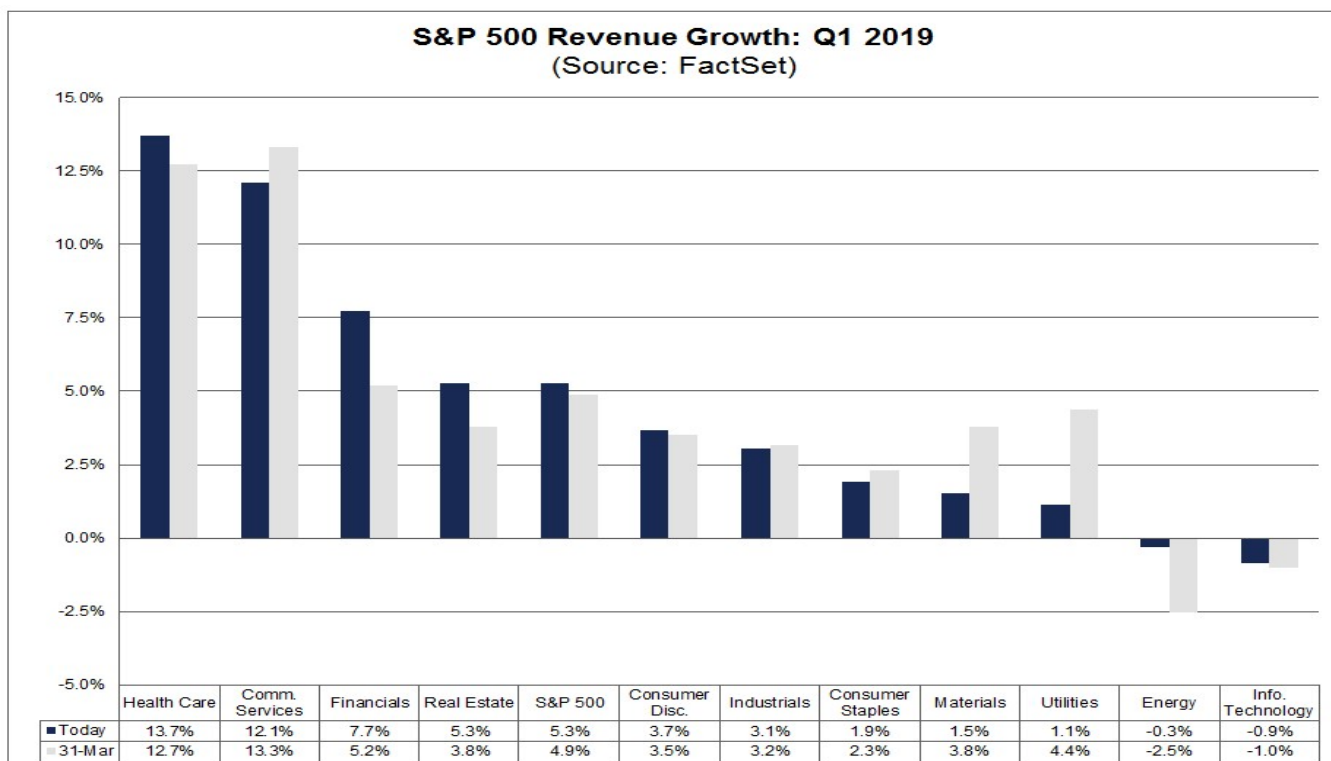
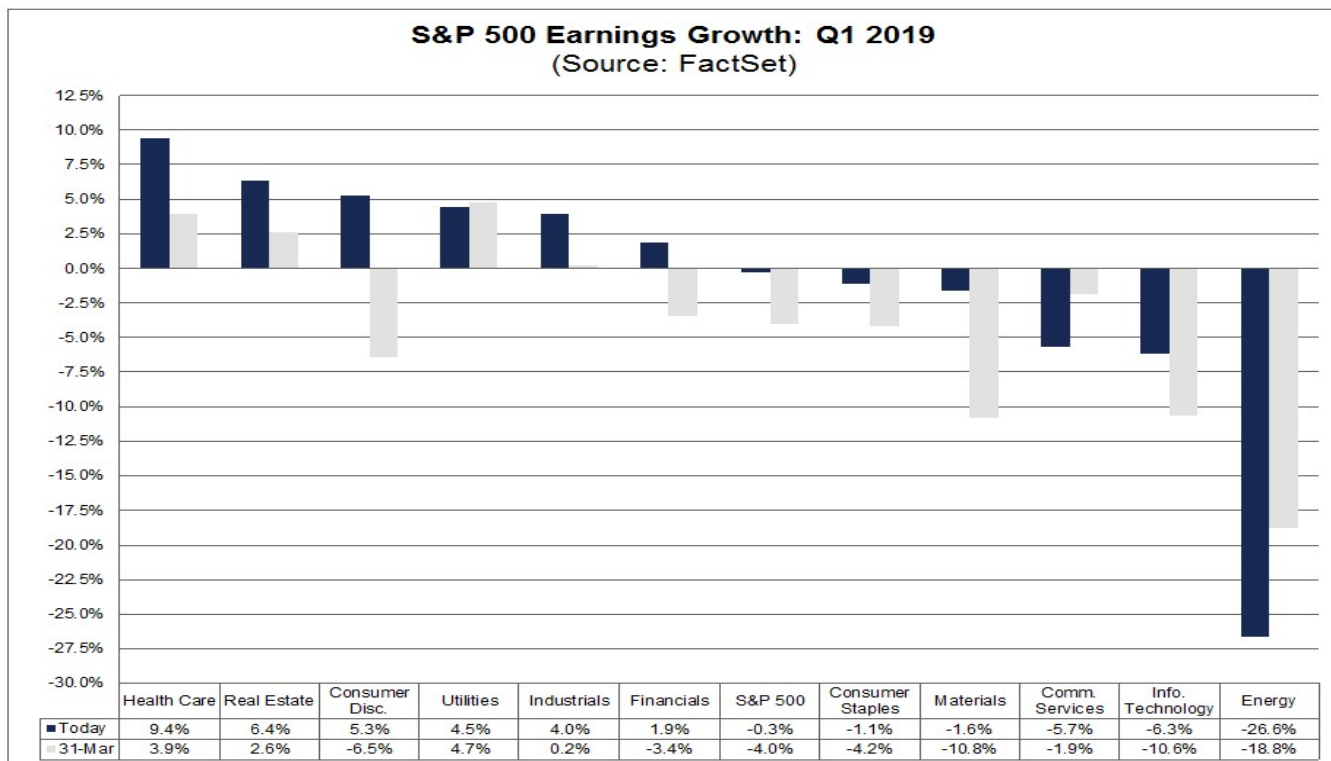
Q1 2019: Scorecard



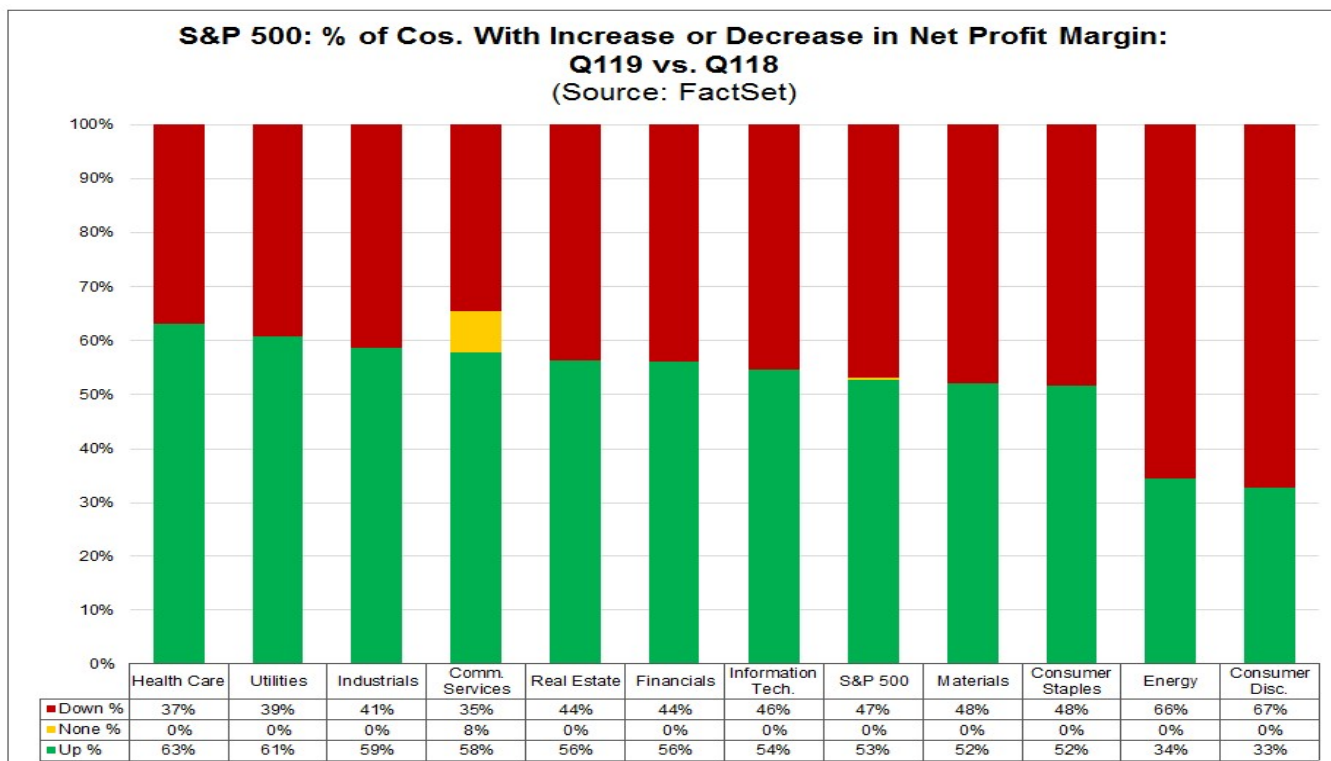
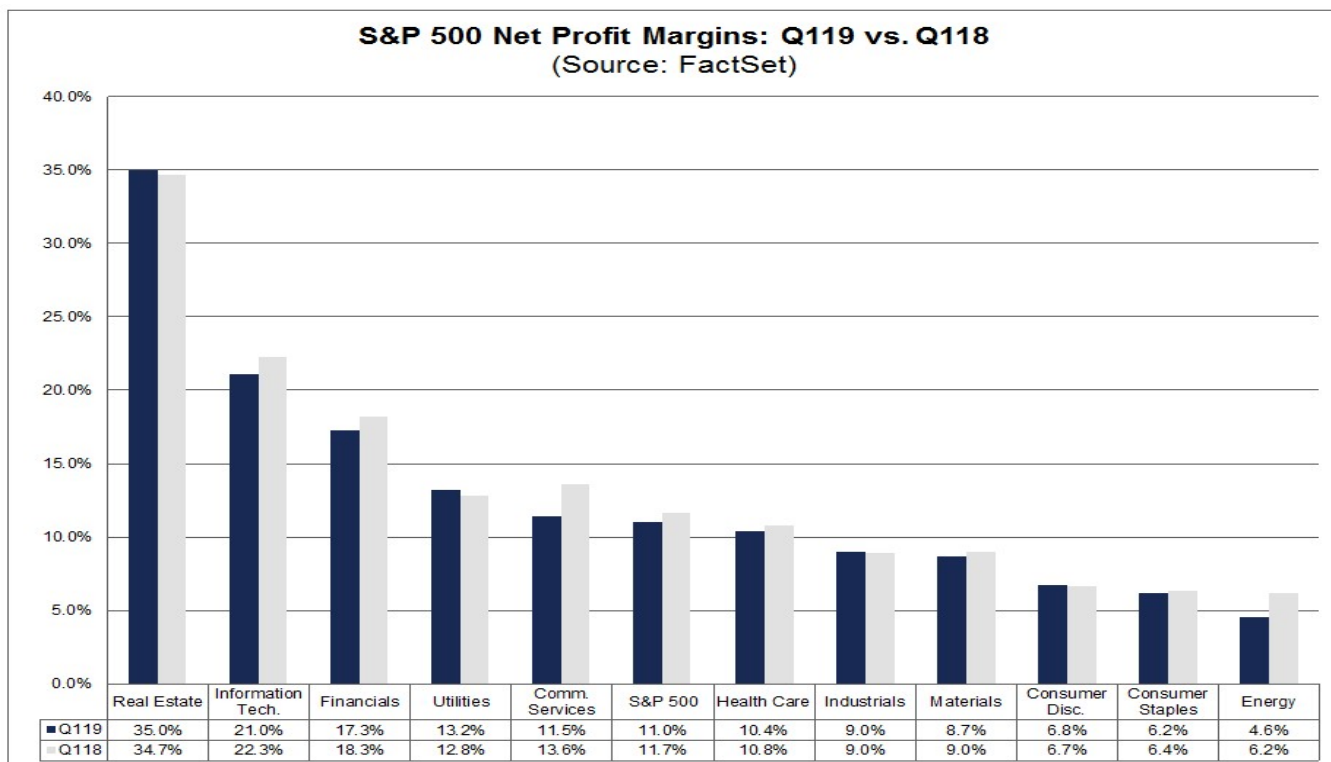
Q1 2019: Projected EPS Surprises (Sharp Estimates)



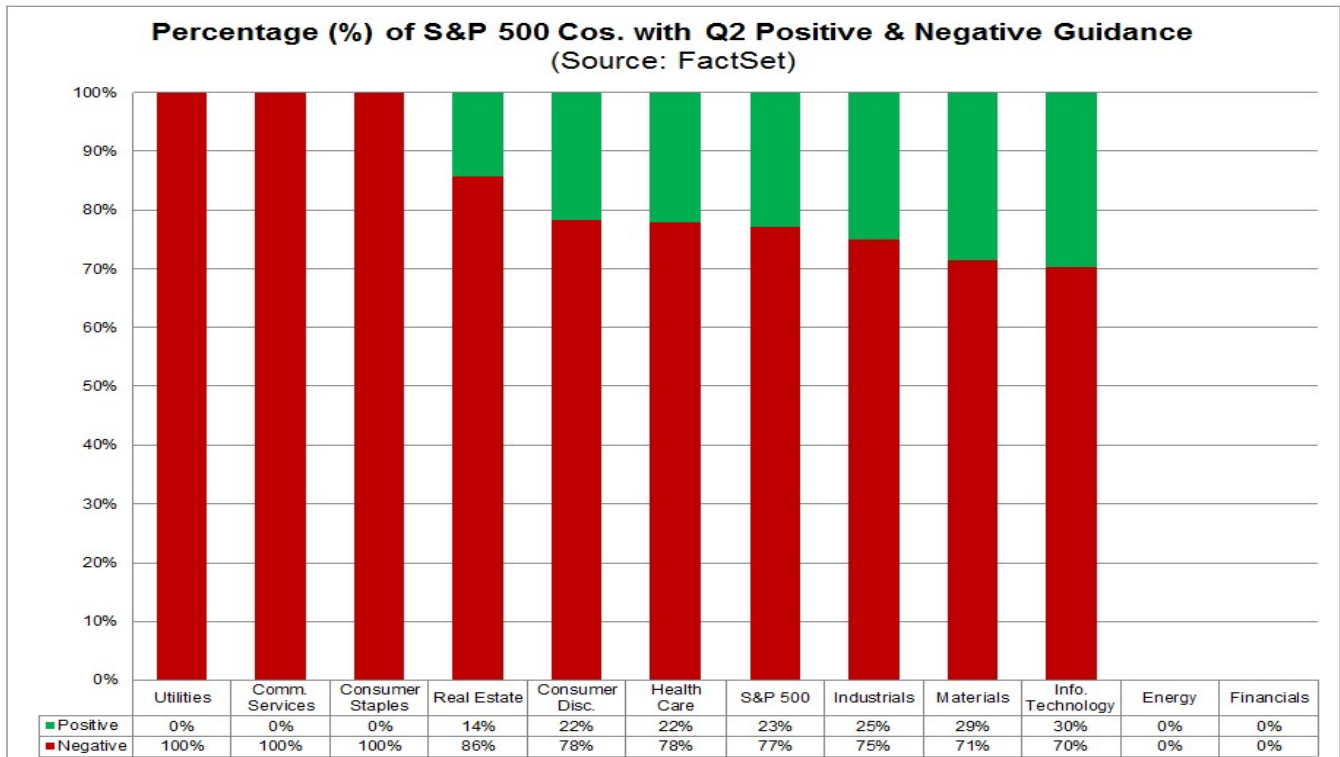
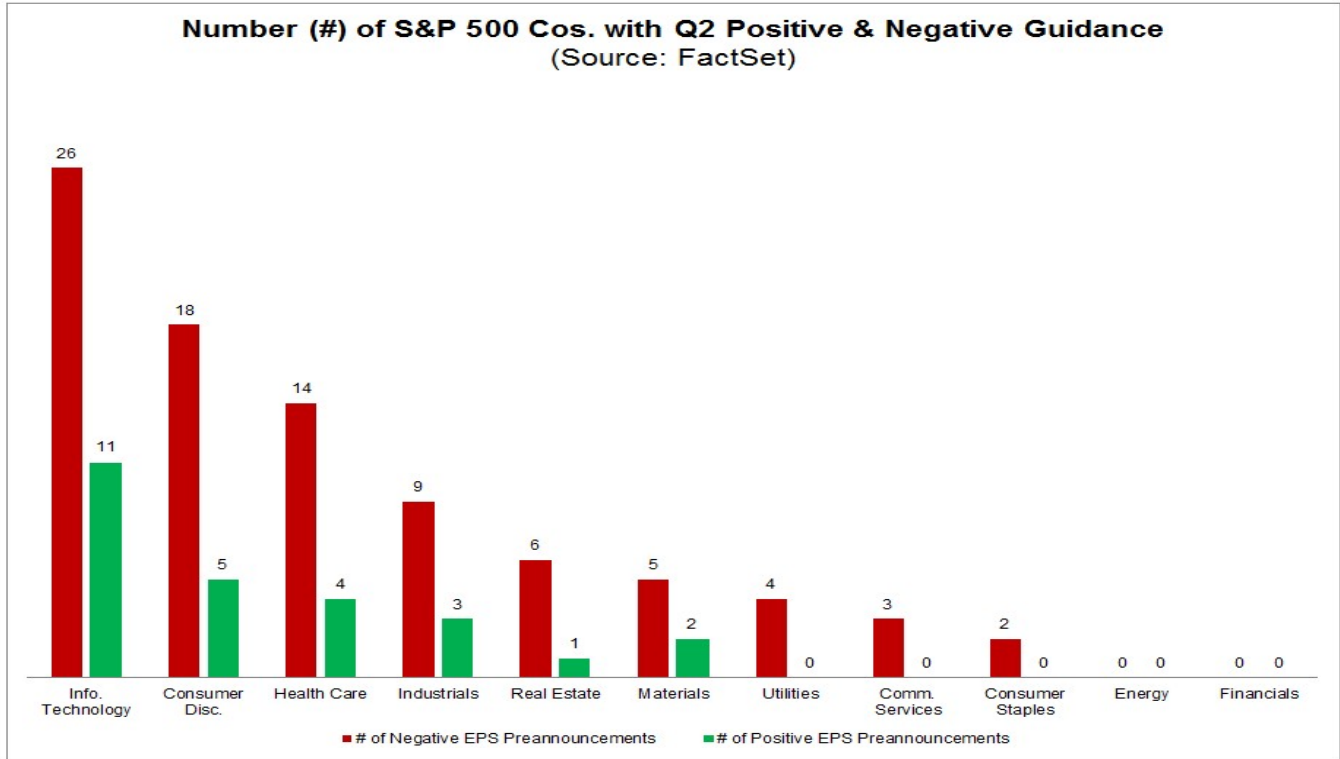
Q1 2019: Growth



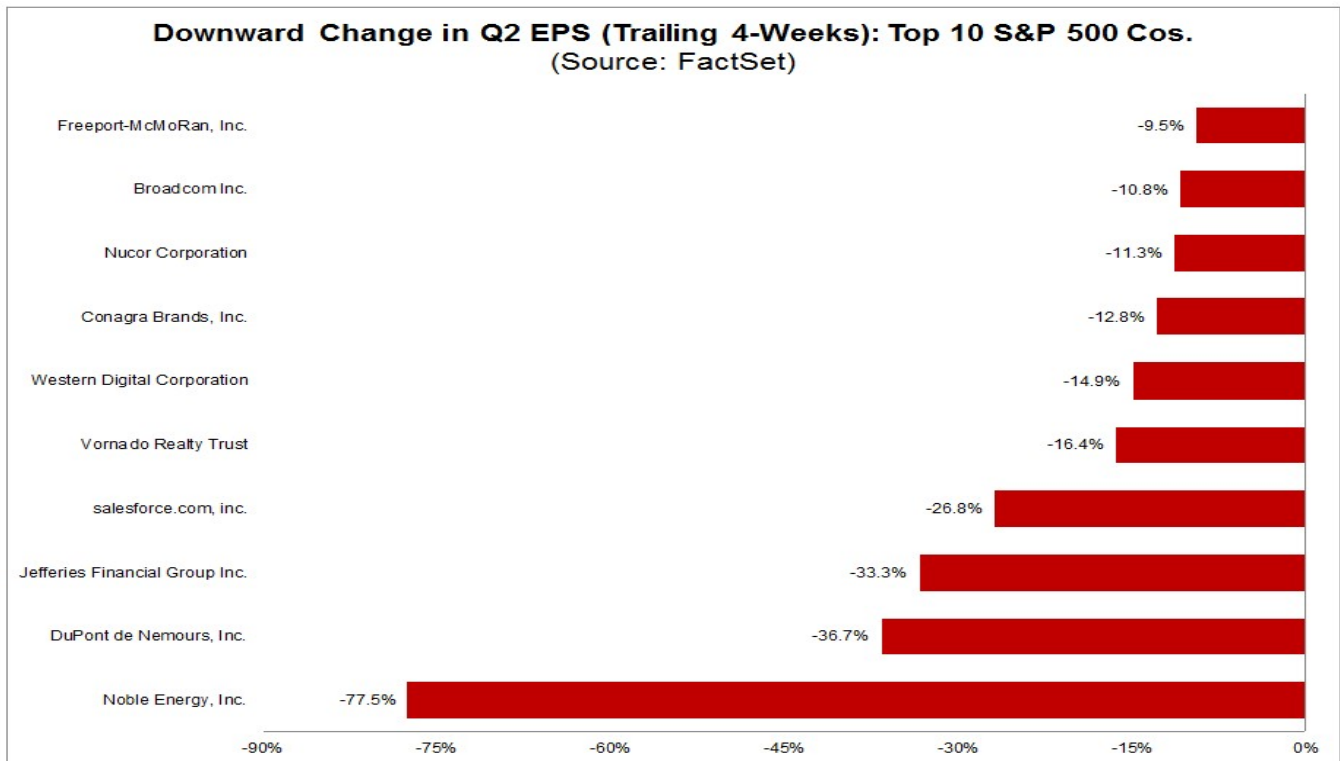
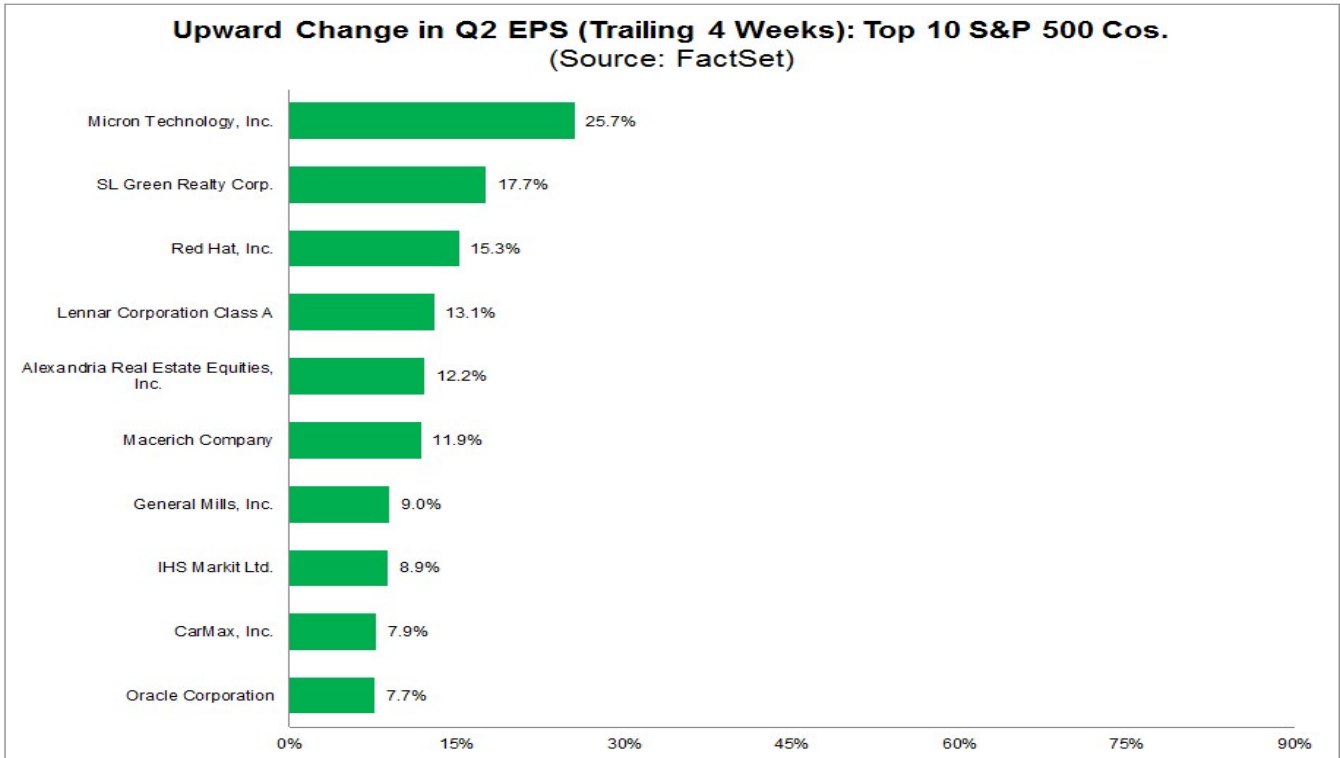
Q1 2019: Net Profit Margin



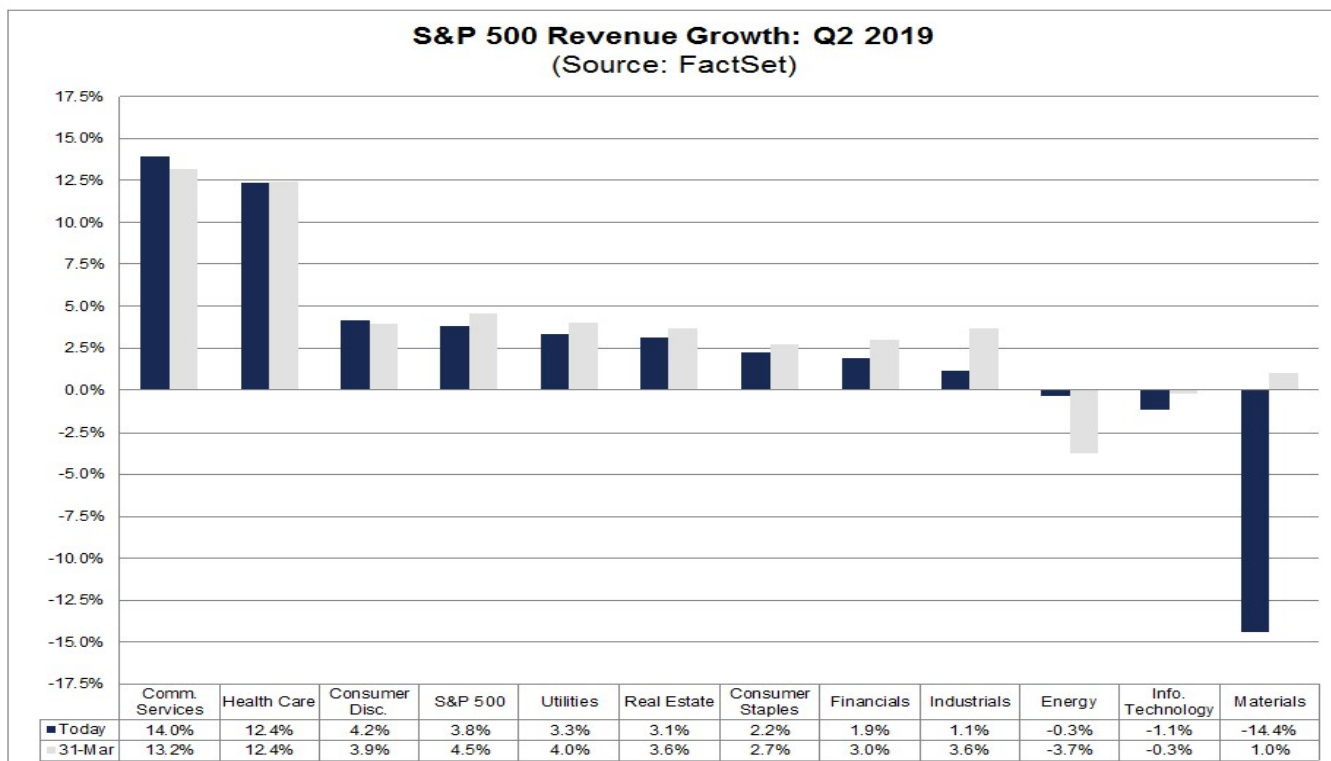
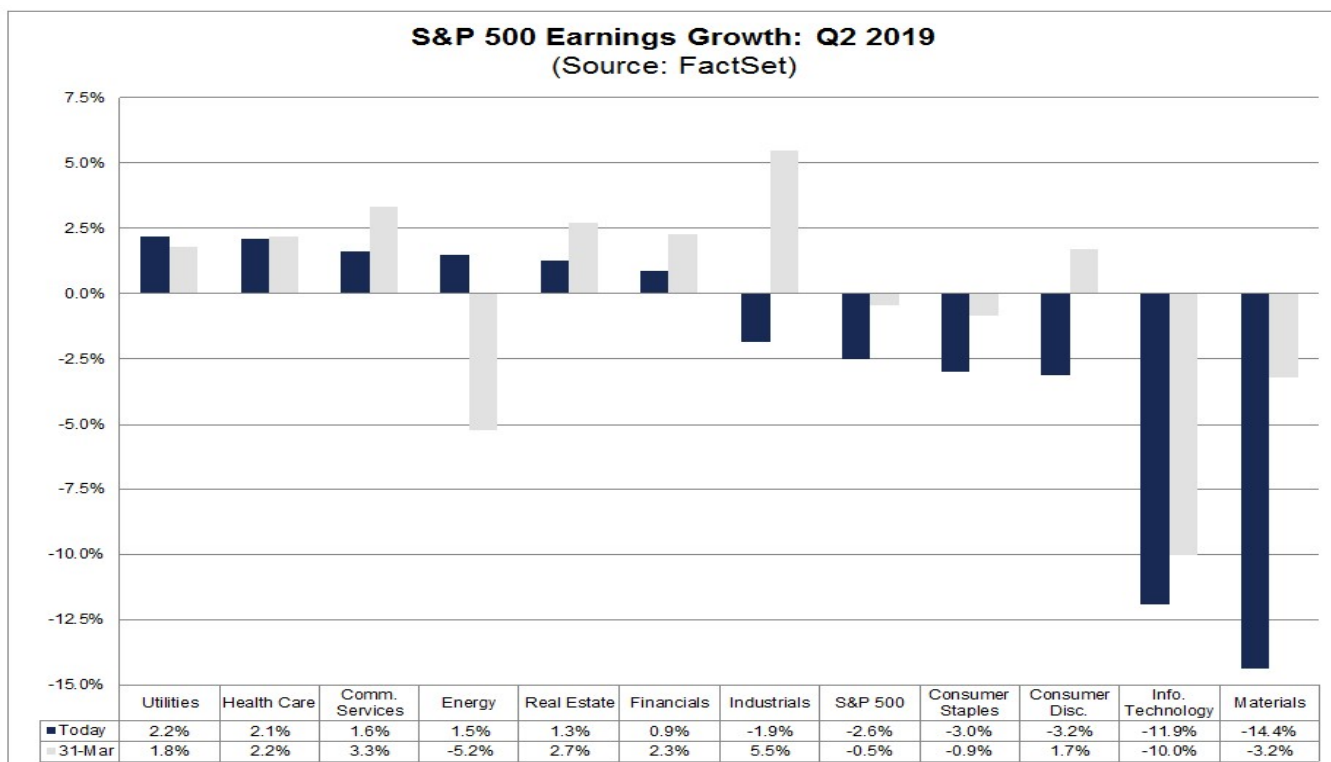
Q2 2019: EPS Guidance



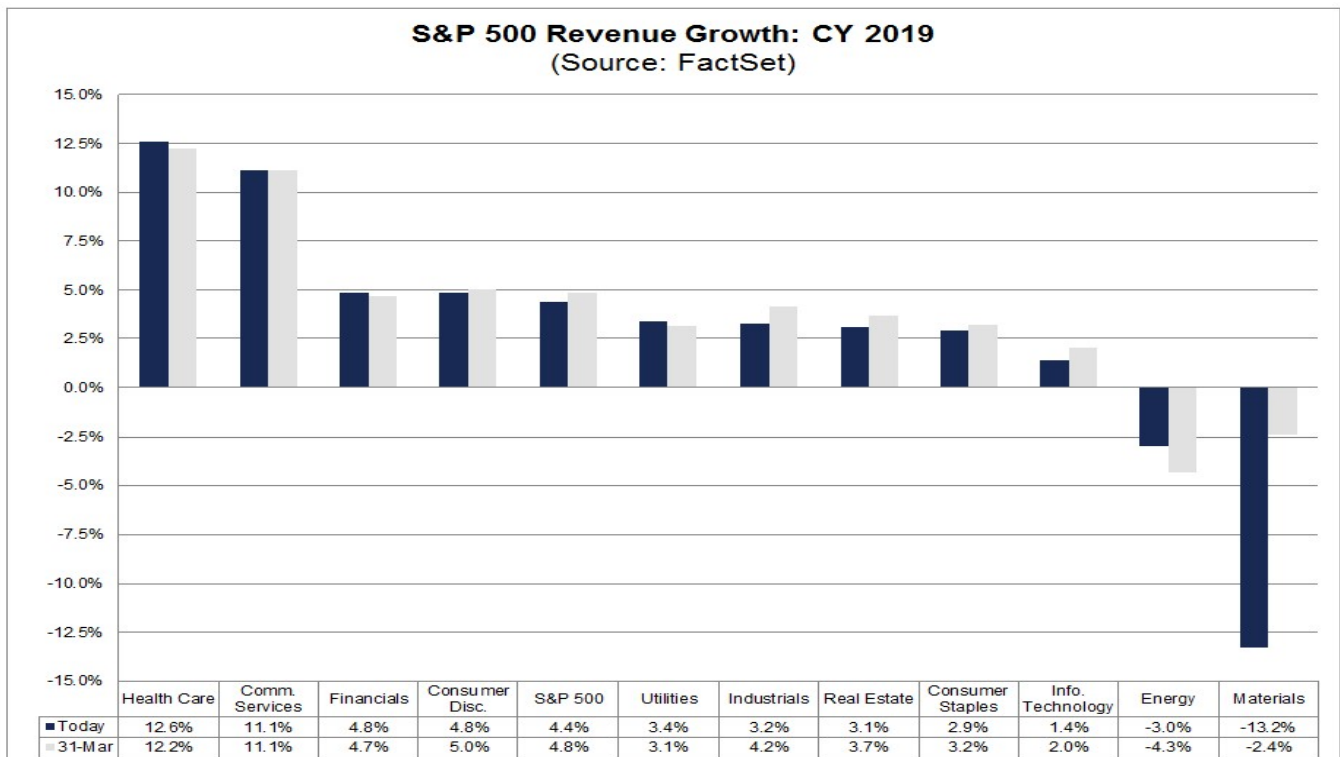
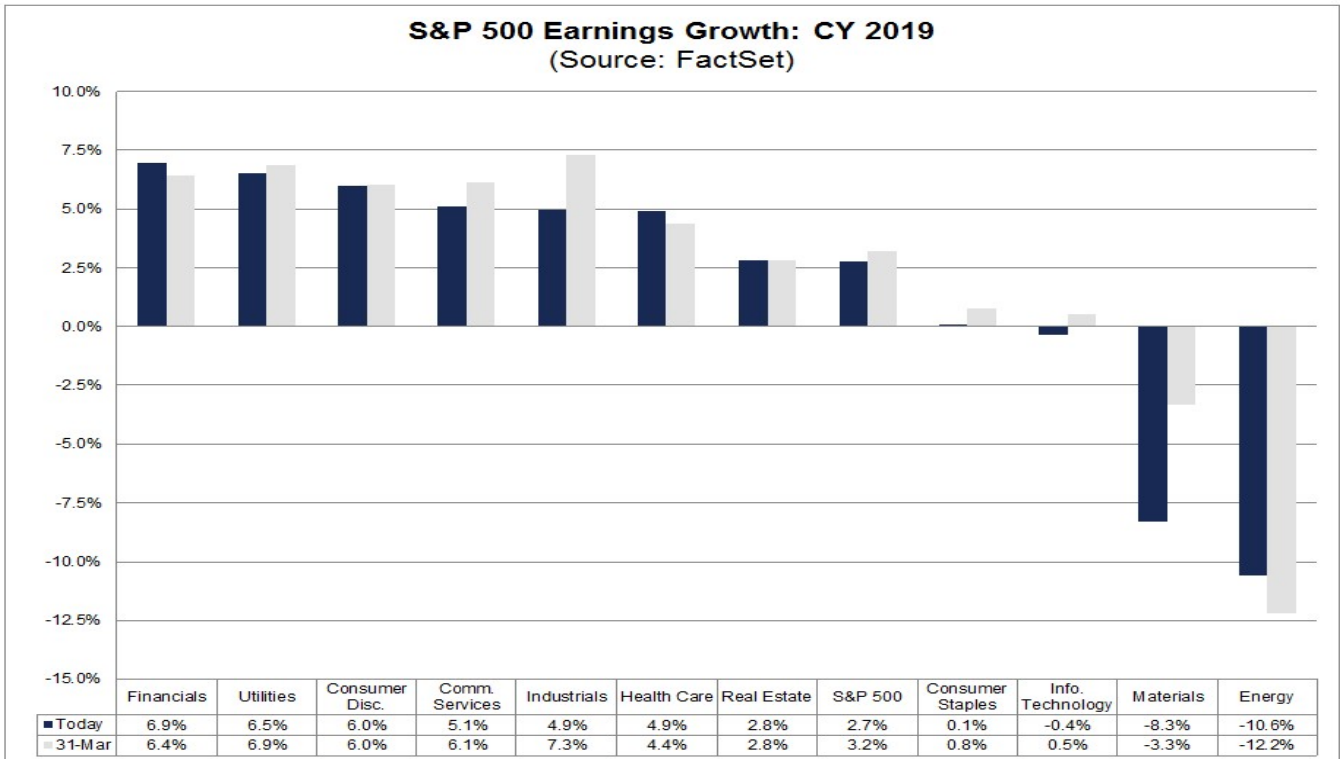
Q2 2019: EPS Revisions



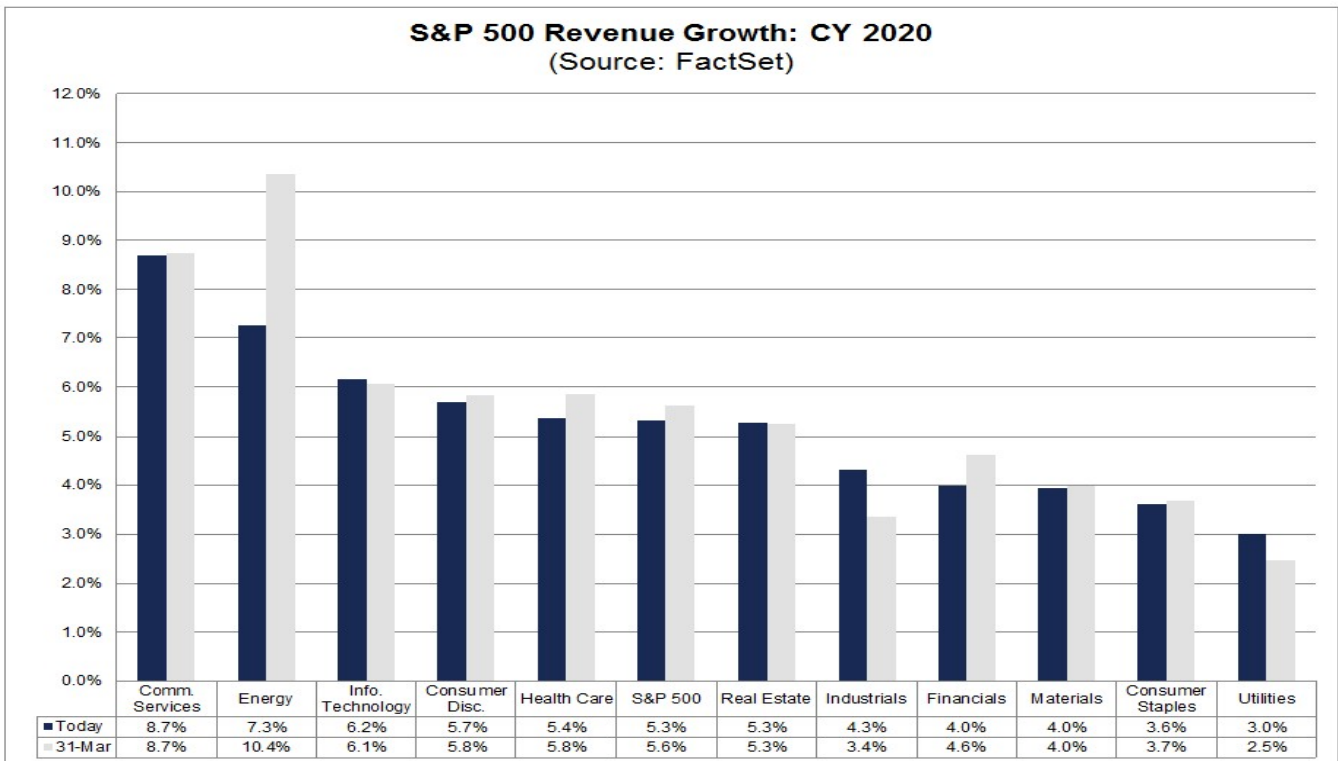
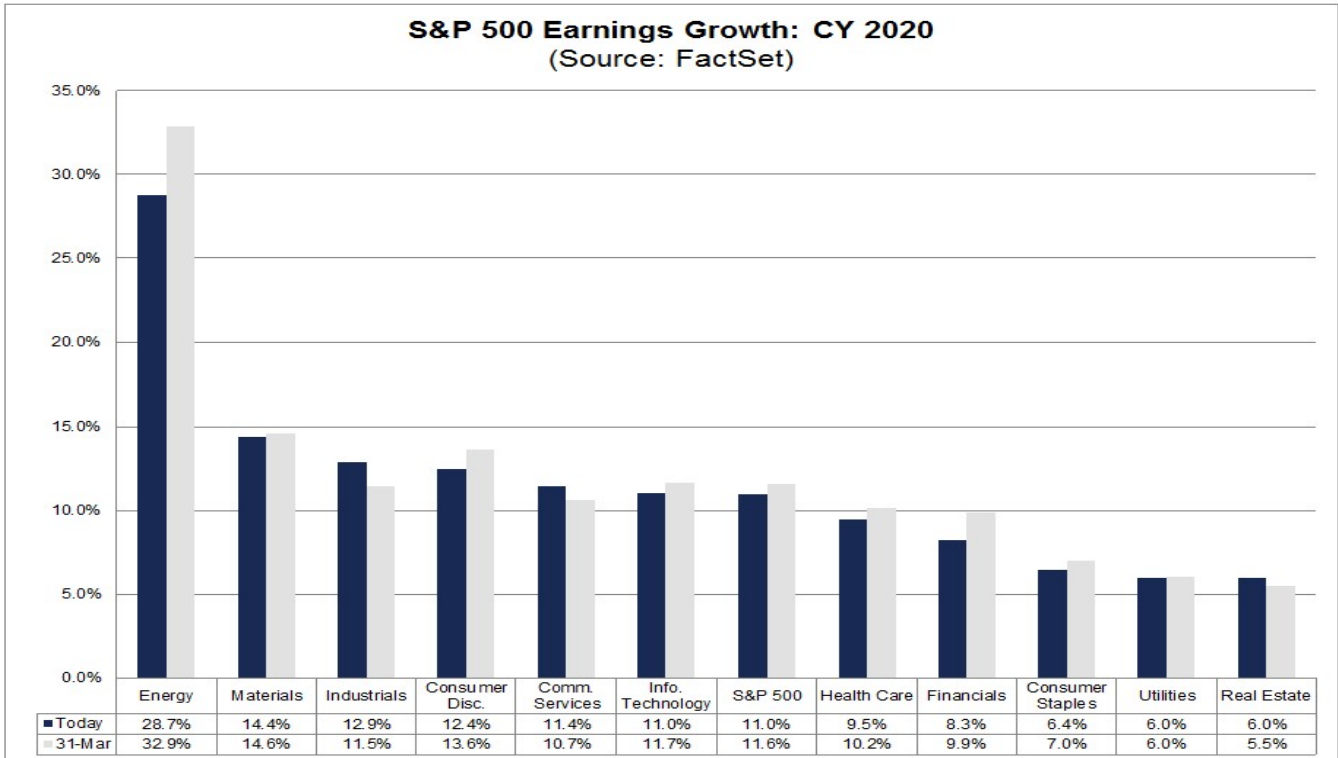
Q2 2019: Growth



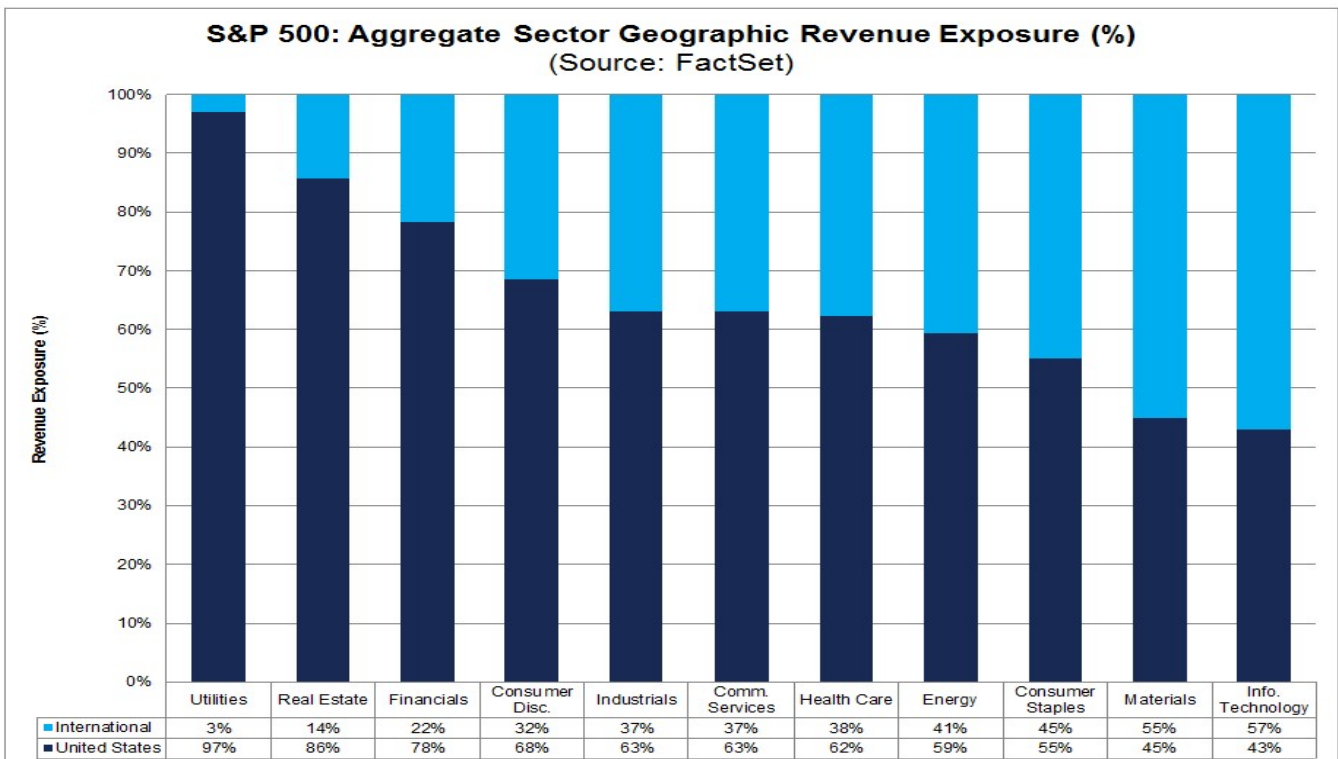
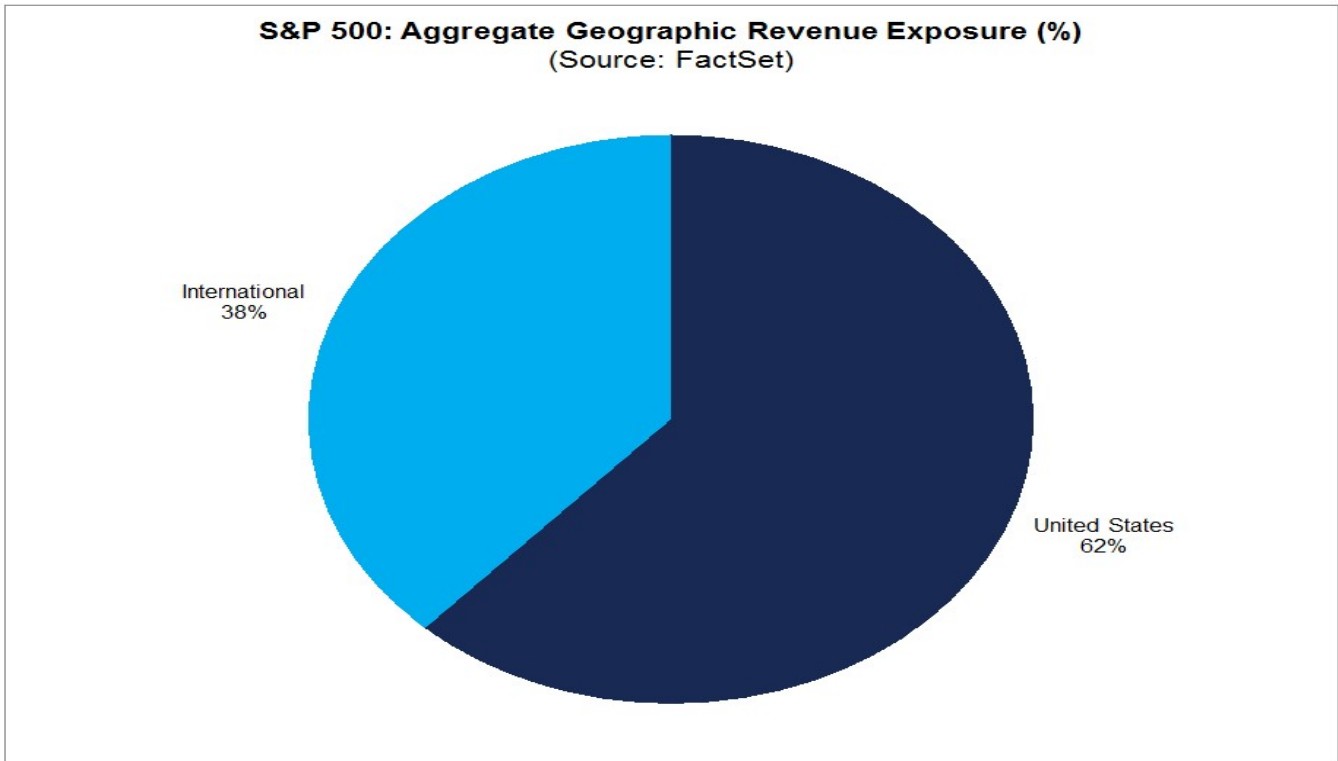
CY 2019: Growth



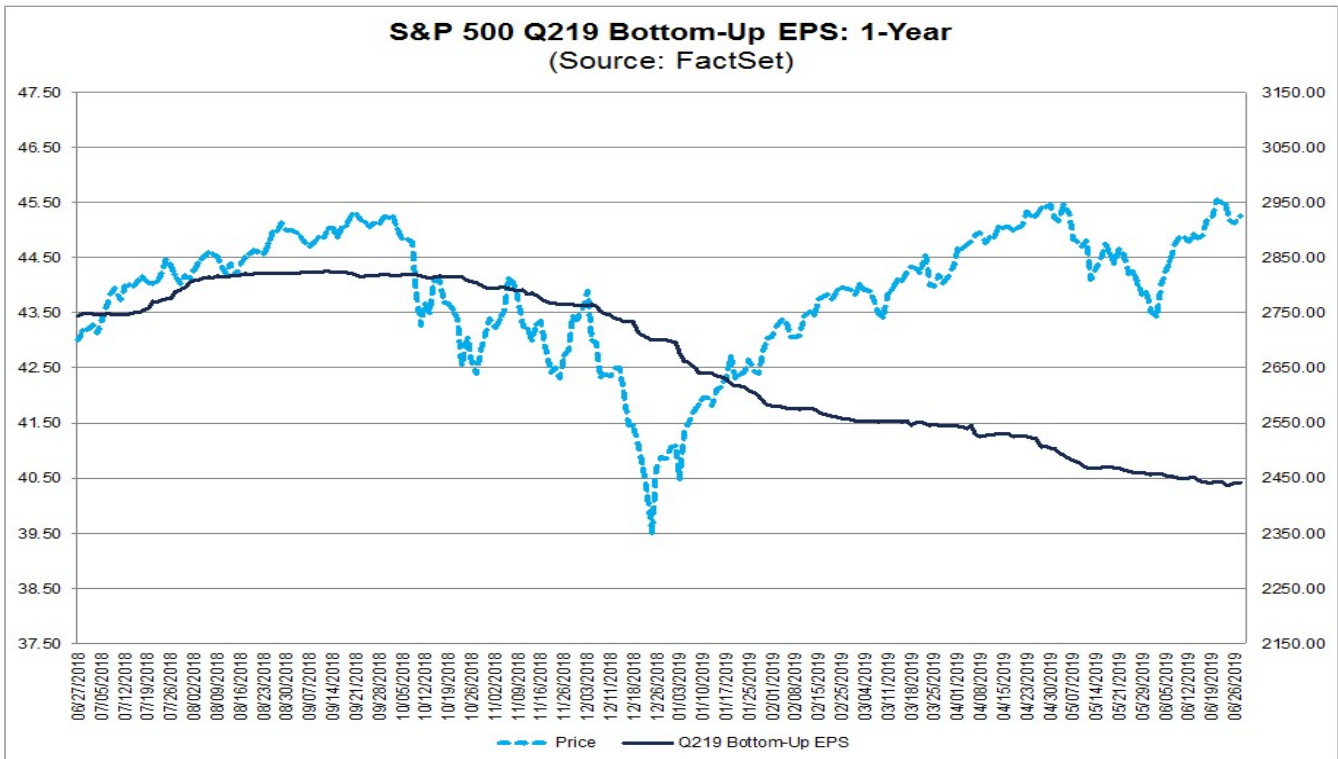
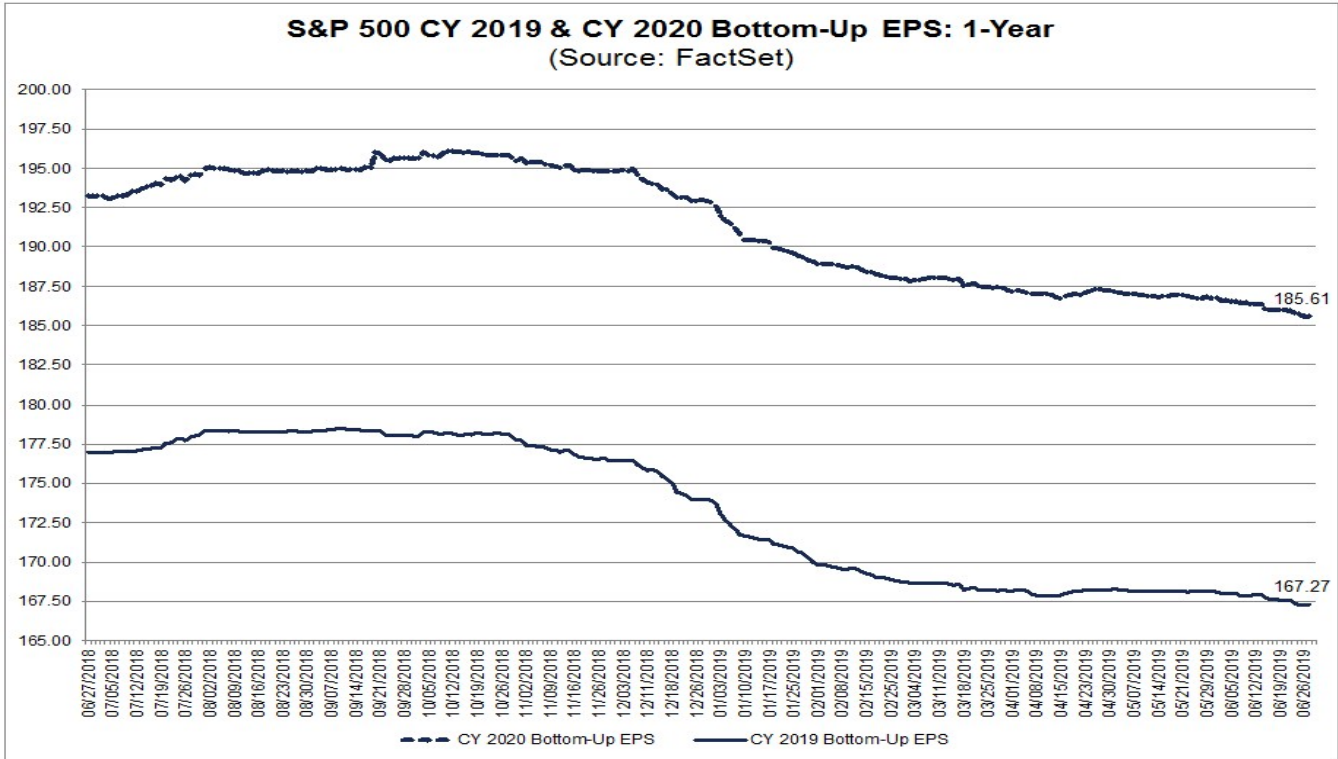
CY 2020: Growth



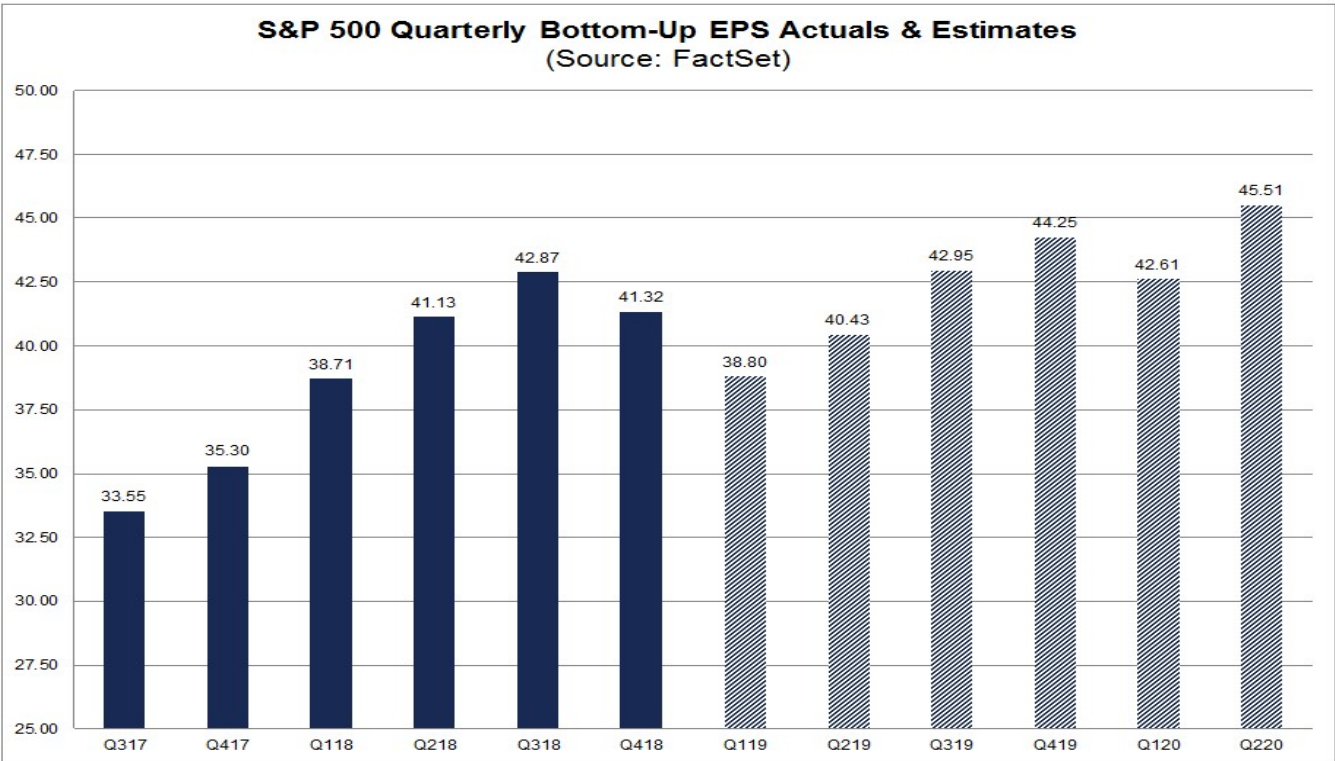
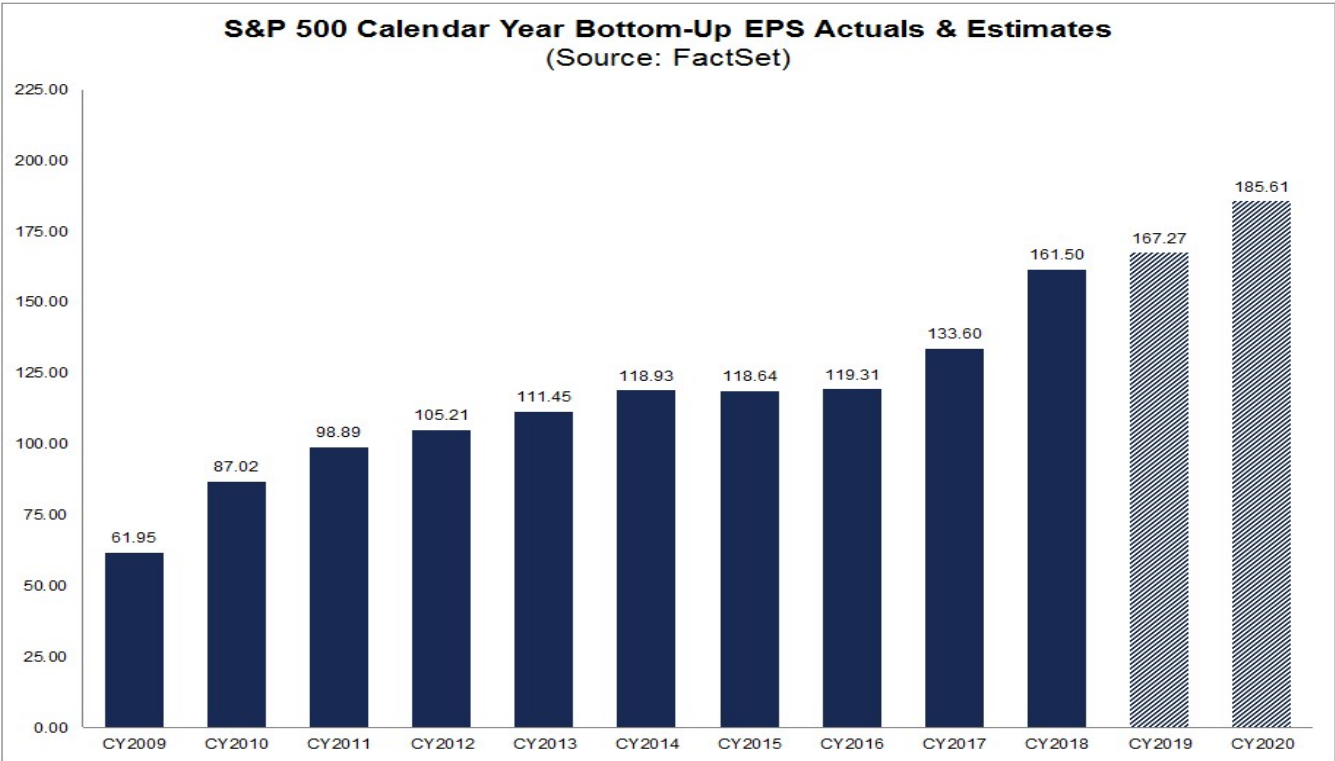
Geographic Revenue Exposure



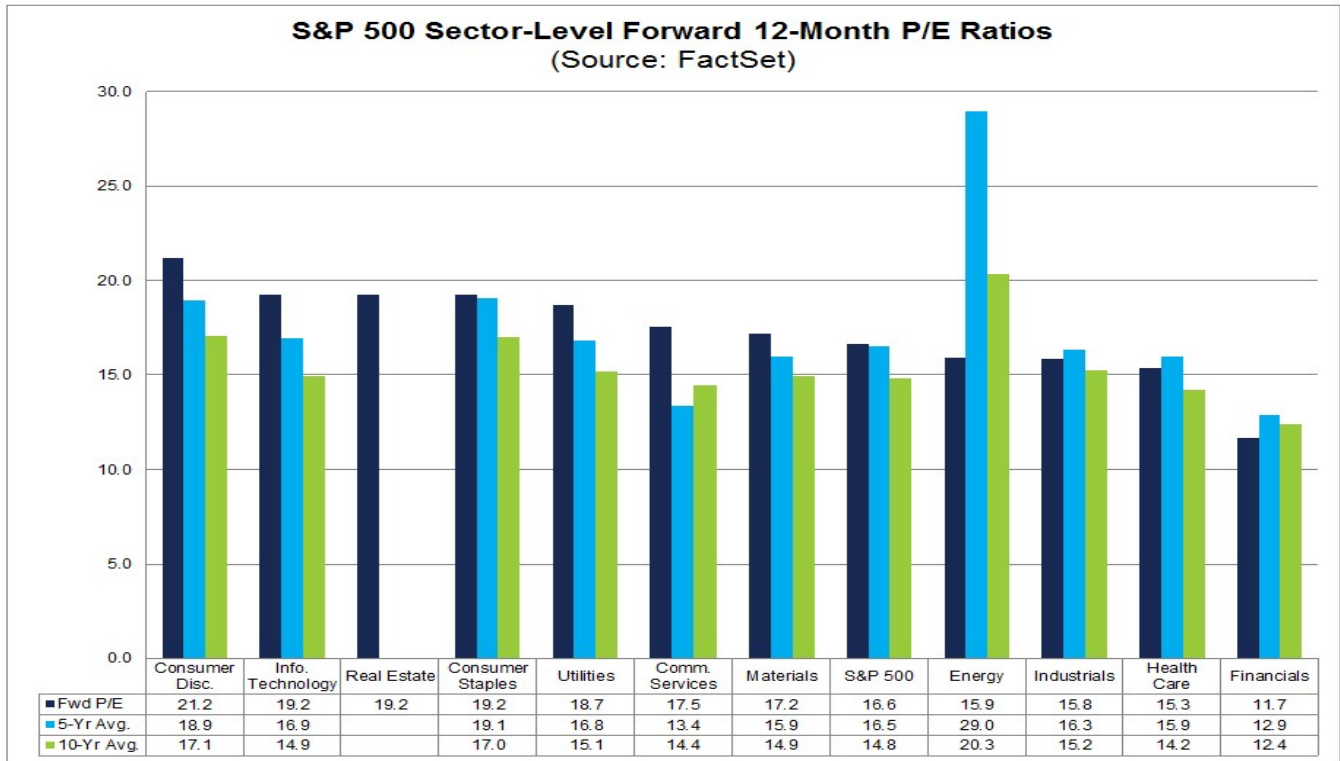
Bottom-up EPS Estimates: Revisions



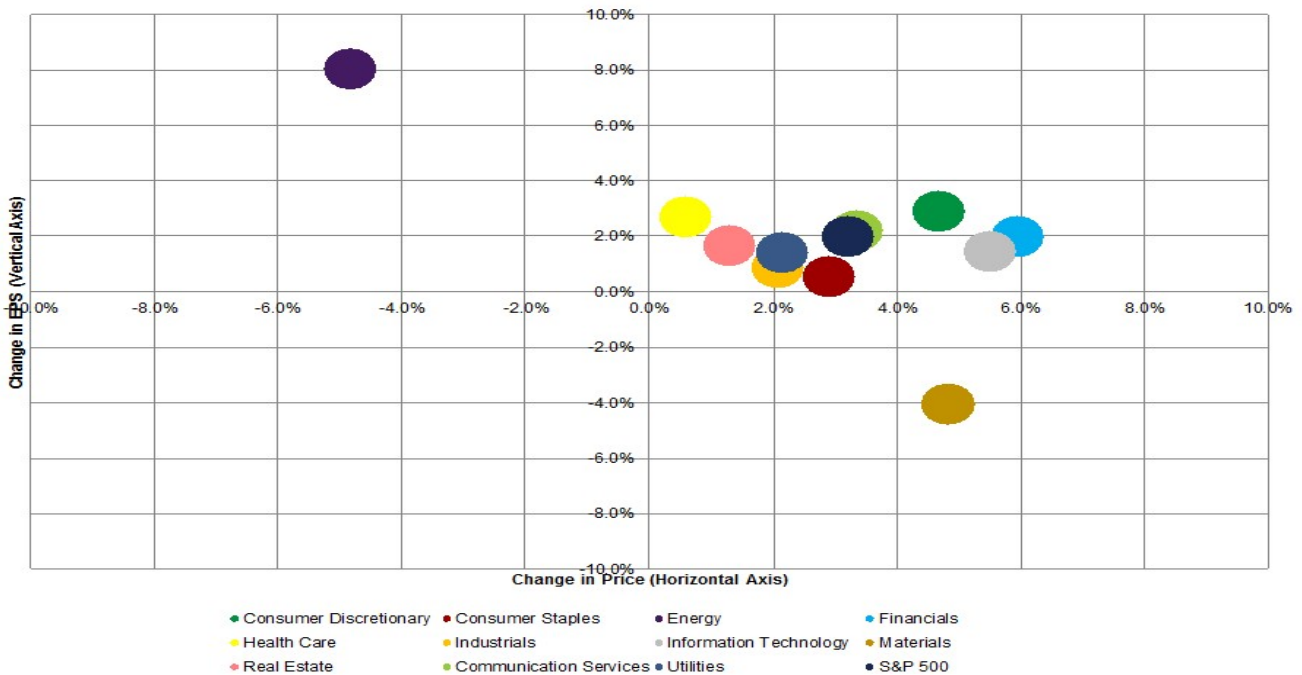
Bottom-up EPS Estimates: Current & Historical



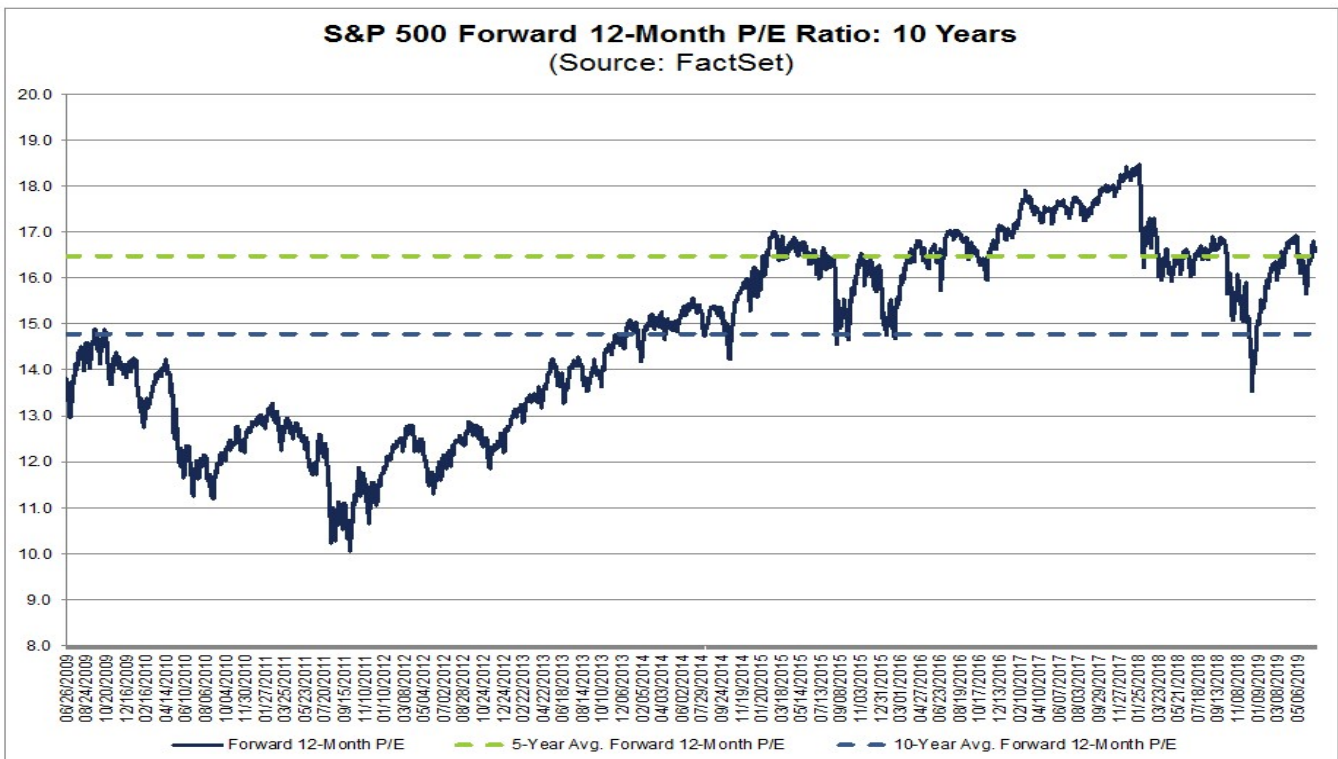
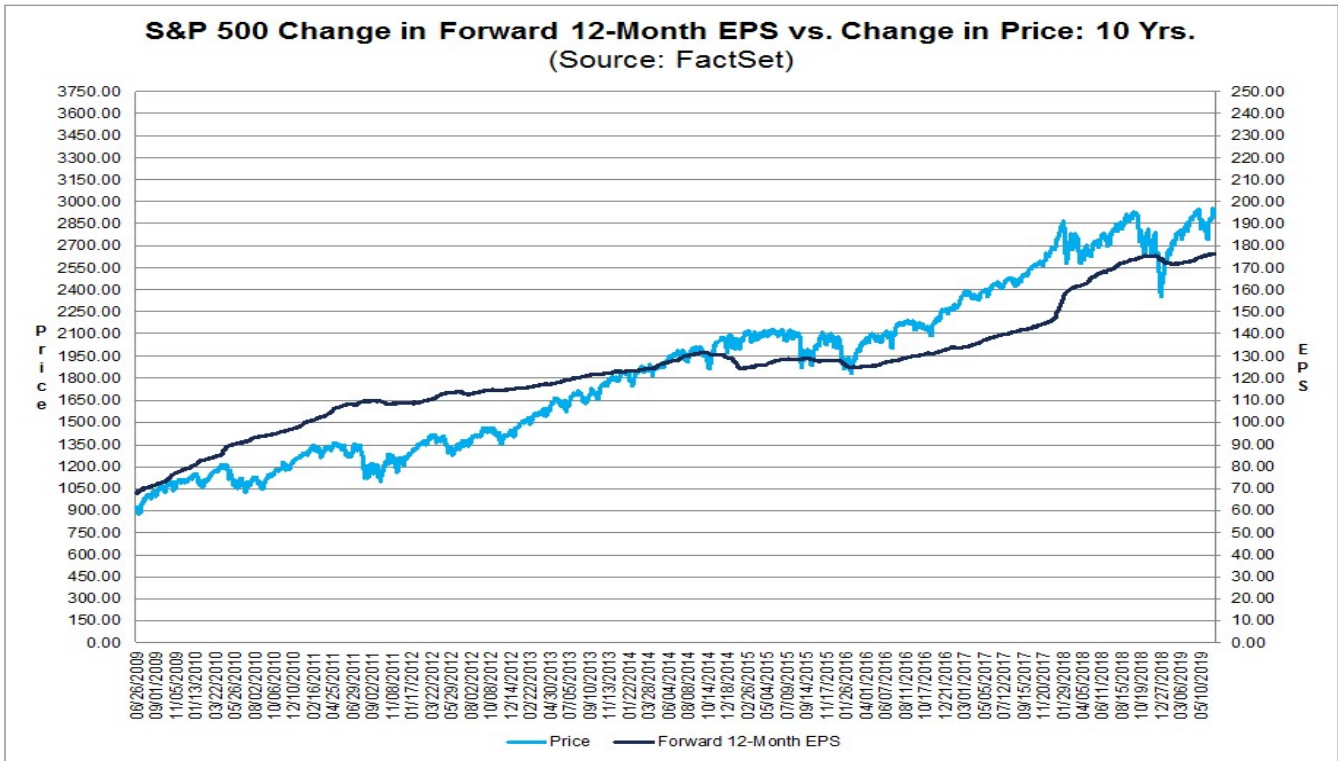
Forward 12M P/E Ratio: Sector Level



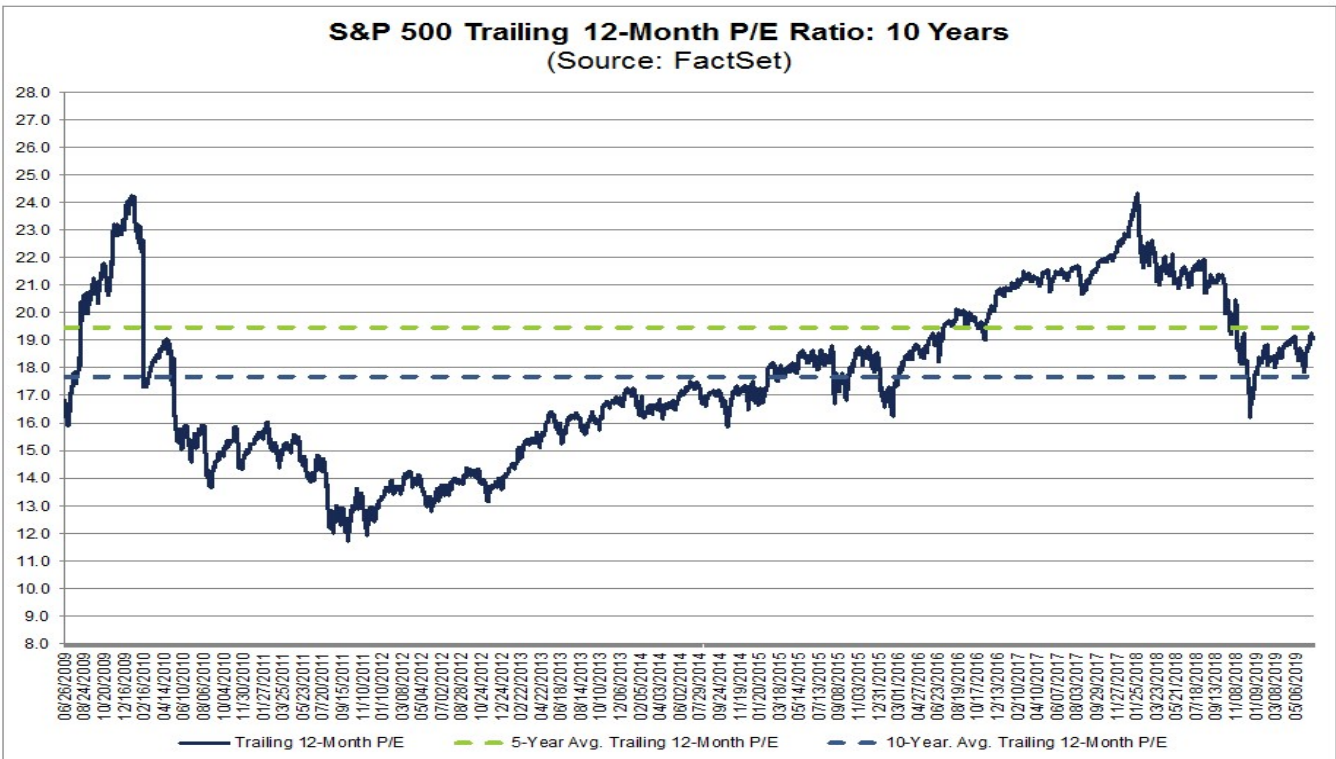
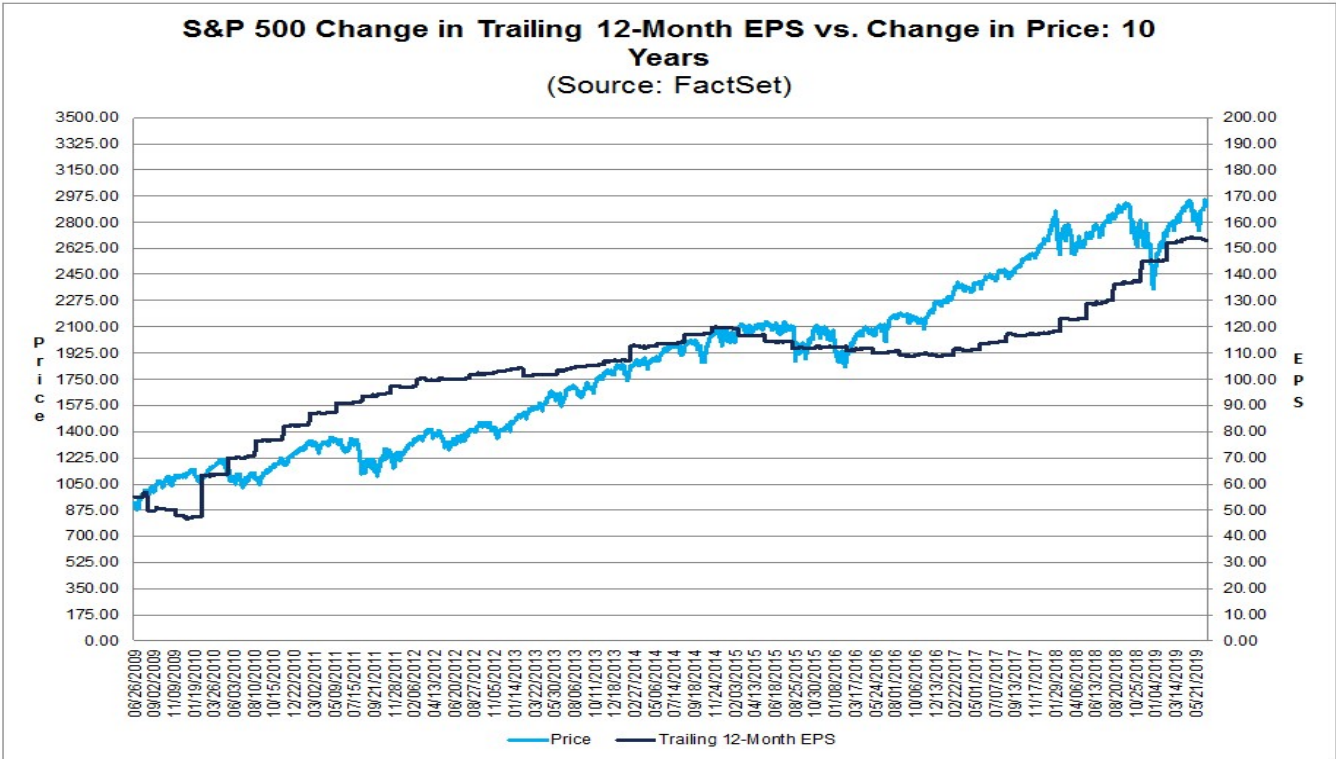
Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Mar. 31
(Source: FactSet)



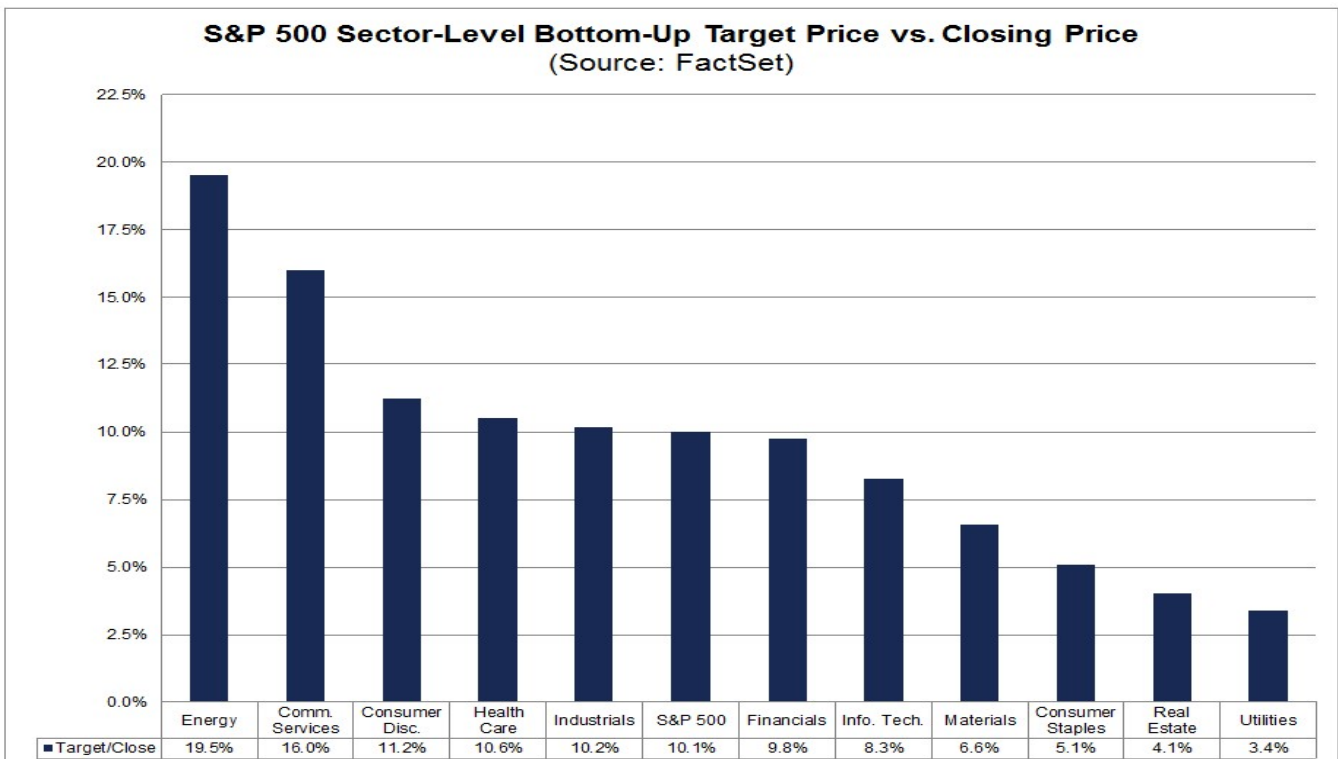
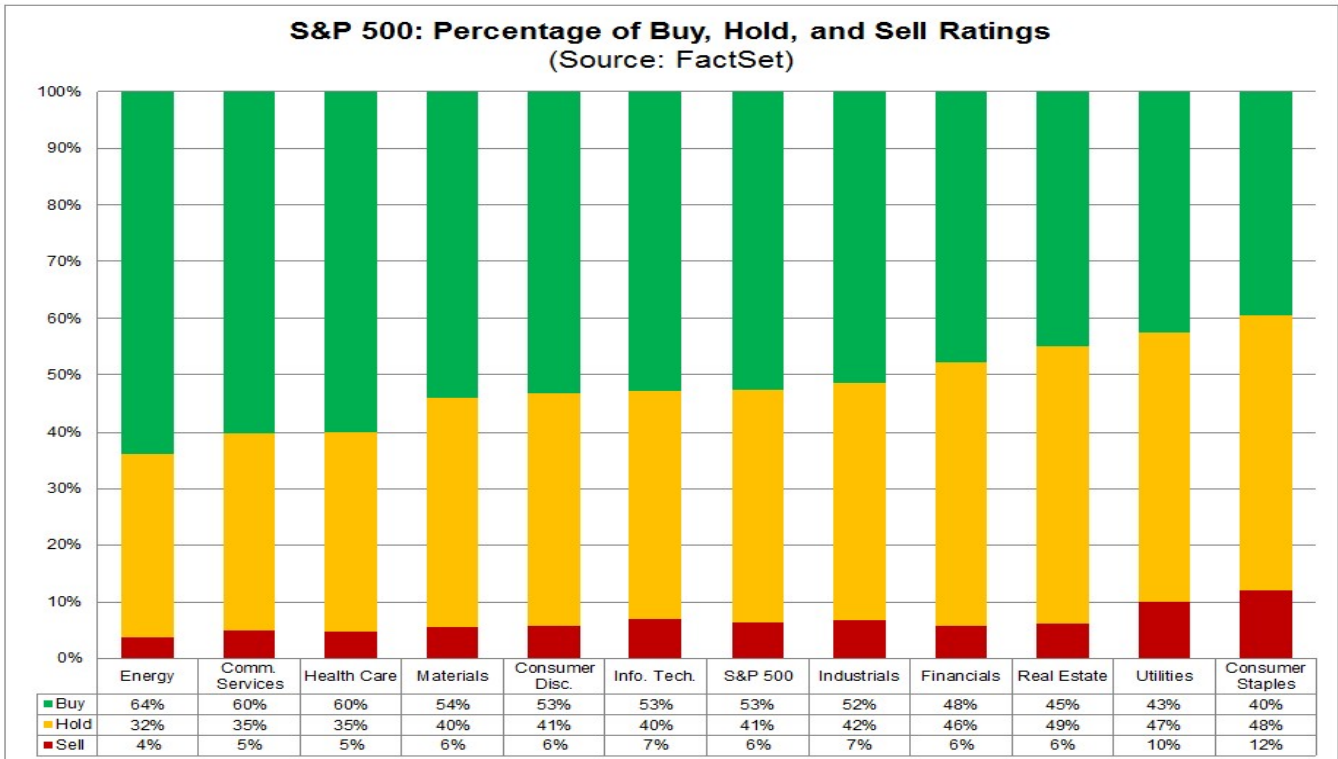
Forward 12M P/E Ratio: 10-Years



Trailing 12M P/E Ratio: 10-Years



Targets & Ratings



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