John Butters, Senior Earnings Analyst
jbutters@factset.com

Media Questions/Requests
media_request@factset.com

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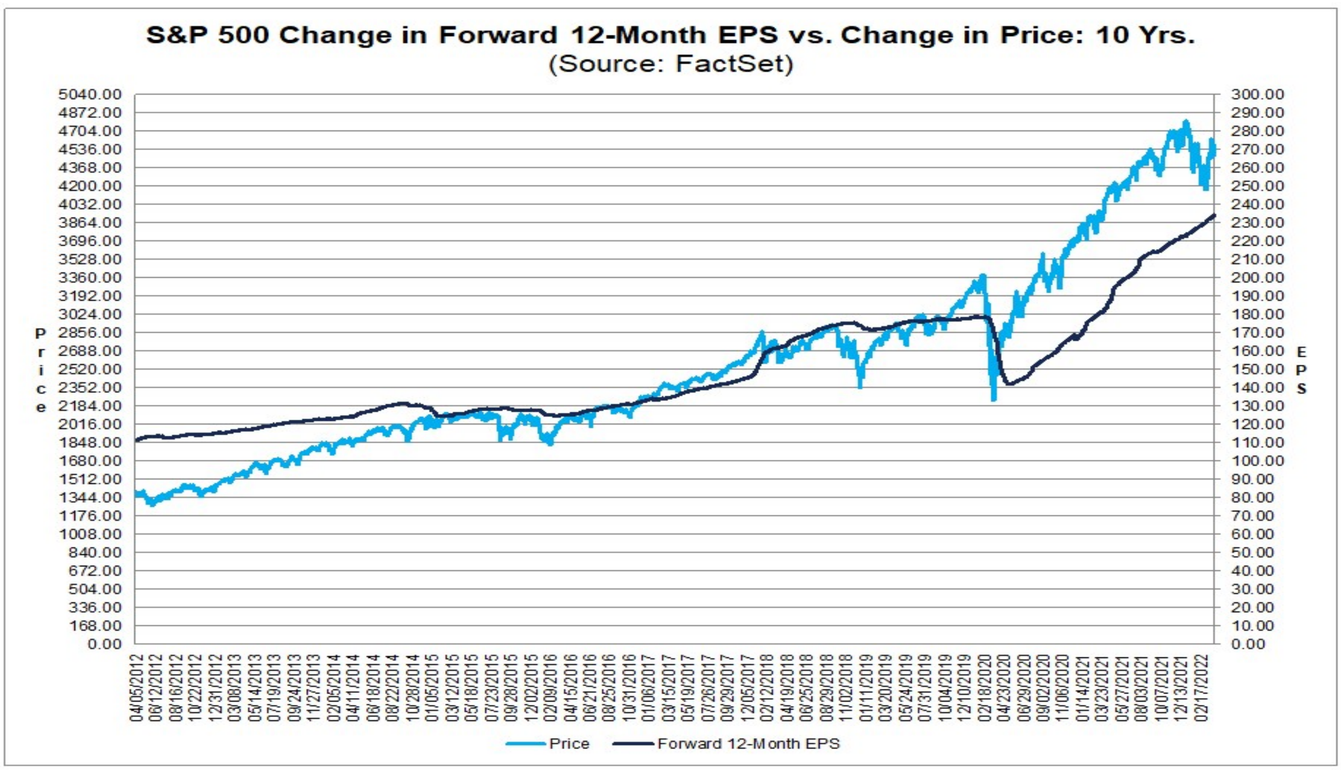
Key Metrics

- **Earnings Growth:** For Q1 2022, the estimated earnings growth rate for the S&P 500 is 4.5%. If 4.5% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the index since Q4 2020 (3.8%).
- **Earnings Revisions:** On December 31, the estimated earnings growth rate for Q1 2022 was 5.7%. Seven sectors are expected to report lower earnings today (compared to December 31) due to downward revisions to EPS estimates.
- **Earnings Guidance:** For Q1 2022, 67 S&P 500 companies have issued negative EPS guidance and 29 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 19.2. This P/E ratio is above the 5-year average (18.6) and above the 10-year average (16.8).
- **Earnings Scorecard:** For Q1 2022 (with 20 S&P 500 companies reporting actual results), 14 S&P 500 companies have reported a positive EPS surprise and 16 S&P 500 companies have reported a positive revenue surprise.



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Topic of the Week: 1

S&P 500 Likely to Report Earnings Growth of More Than 10% for 5th Straight Quarter

As of today, the S&P 500 is expected to report (year over-year) earnings growth of 4.5% for the first quarter. Given that most S&P 500 companies report actual earnings above estimates, what is the likelihood the index will report actual growth in earnings of 4.5% for the quarter?

Based on the average improvement in earnings growth during each earnings season due to companies reporting positive surprises, it is likely the index will report earnings growth of more than 10% for the first quarter, which would be the fifth consecutive quarter of (year-over-year) earnings growth above 10%.

When companies in the S&P 500 report actual earnings above estimates during an earnings season, the overall earnings growth rate for the index increases because the higher actual EPS numbers replace the lower estimated EPS numbers in the calculation of the growth rate. For example, if a company is projected to report EPS of $1.05 compared to year ago EPS of $1.00, the company is projected to report earnings growth of 5%. If the company reports actual EPS of $1.10 (a $0.05 upside earnings surprise compared to the estimate), the actual earnings growth for the company for the quarter is now 10%, five percentage points above the estimated growth rate (10% - 5% = 5%).

Over the past five years, actual earnings reported by S&P 500 companies have exceeded estimated earnings by 8.9% on average. During this same period, 77% of companies in the S&P 500 have reported actual EPS above the mean EPS estimate on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate has increased by 8.1 percentage points on average (over the past five years) due to the number and magnitude of positive earnings surprises.

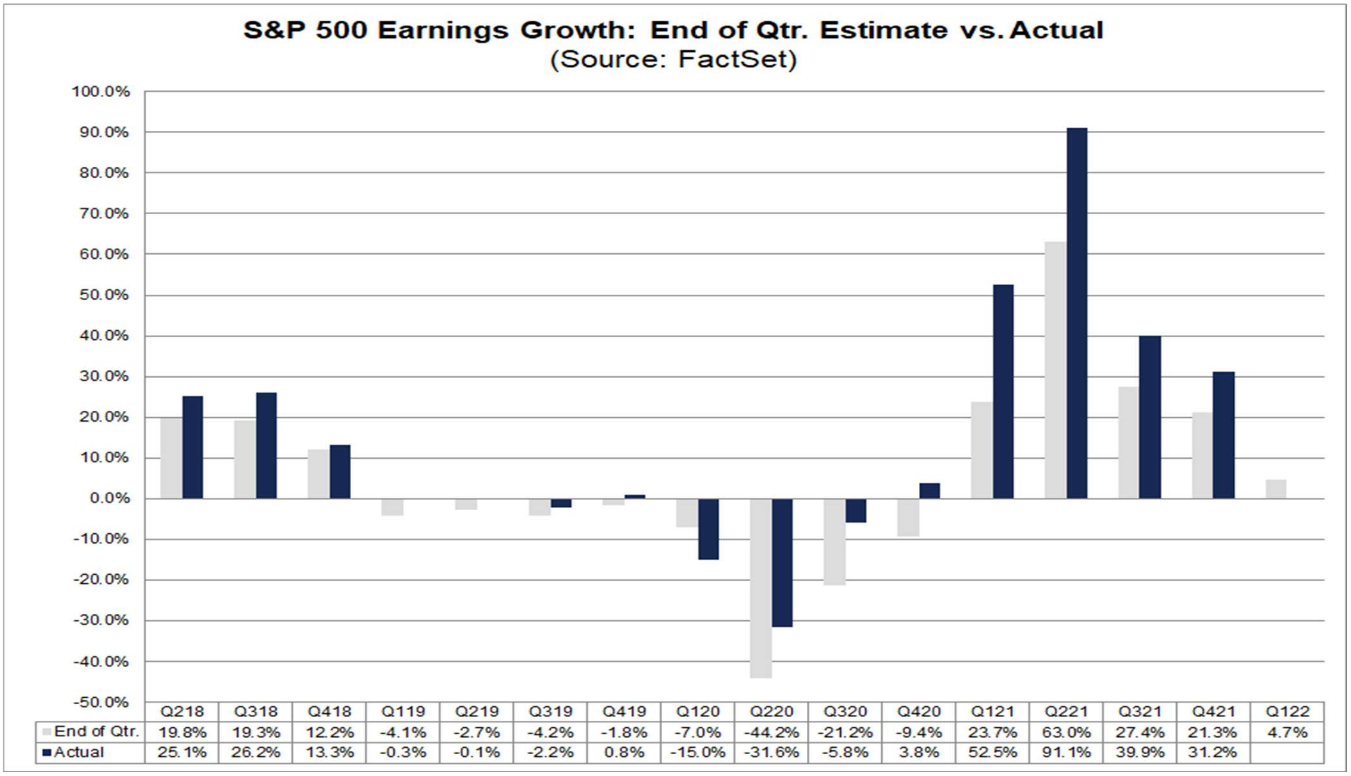
If this average increase is applied to the estimated earnings growth rate at the end of Q1 (March 31) of 4.7%, the actual earnings growth rate for the quarter would be 12.8% (4.7% + 8.1% = 12.8%). If the S&P 500 reports year-over-year growth in earnings of 12.8% in Q1, it would mark the fifth straight quarter of (year-over-year) earnings growth above 10%.

Over the past ten years, actual earnings reported by S&P 500 companies have exceeded estimated earnings by 6.5% on average. During this same period, 72% of companies in the S&P 500 have reported actual EPS above the mean EPS estimate on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate has increased by 5.5 percentage points on average (over the past ten years) due to the number and magnitude of positive earnings surprises.

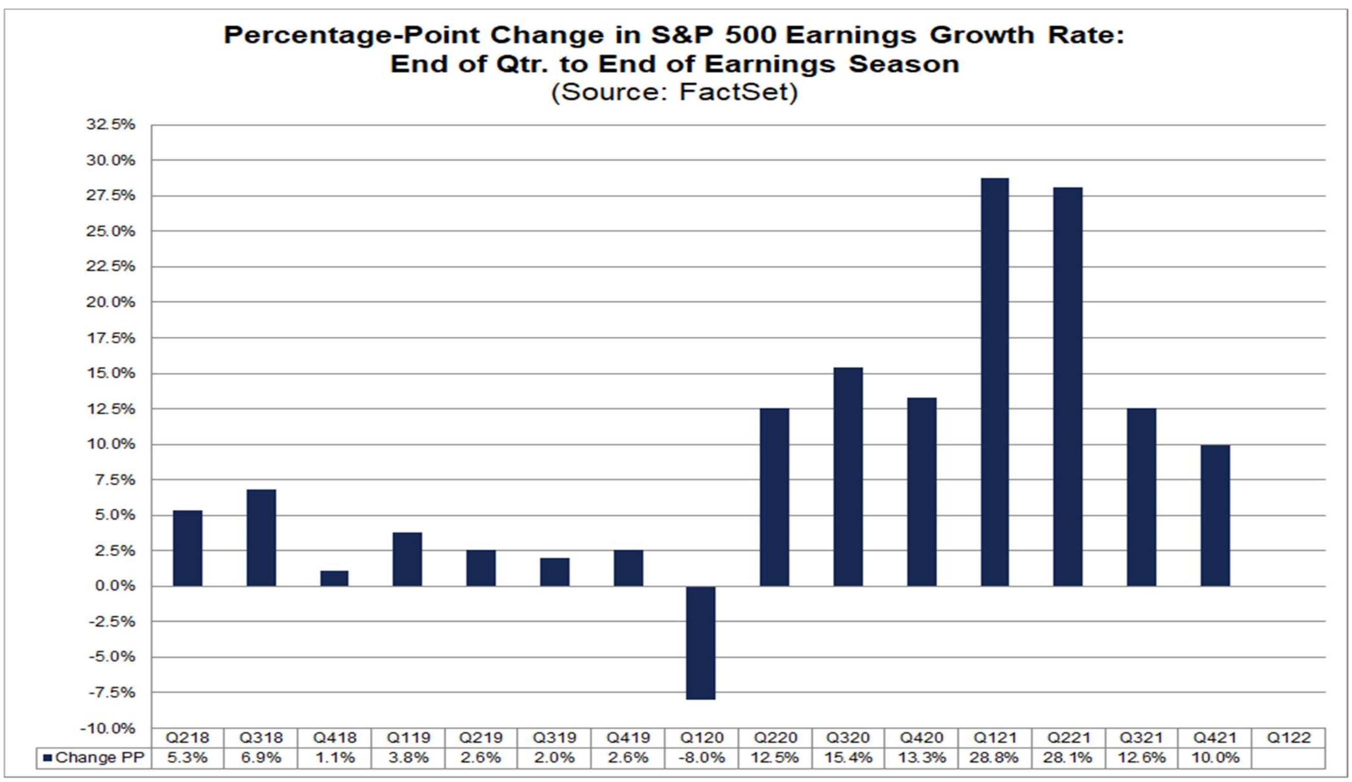
If this average increase is applied to the estimated earnings growth rate at the end of Q1 (March 31) of 4.7%, the actual earnings growth rate for the quarter would be 10.2% (4.7% + 5.5% = 10.2%). Again, if the S&P 500 reports year-over-year growth in earnings of 10.2% in Q1, it would mark the fifth straight quarter of (year-over-year) earnings growth above 10%.

Of the 20 S&P 500 companies that have reported actual earnings for Q1 2022 to date, 70% have reported actual EPS above the mean EPS estimate. In aggregate, actual earnings reported by these 20 companies have exceeded estimated earnings by 2.1%.

Therefore, at this very early stage of the Q1 earnings season, both the number of companies reporting positive earnings surprises and the magnitude of the positive surprises are below the 5-year average and 10-year average. Since March 31, the earnings growth rate for the S&P 500 has decreased by 0.2 percentage points (to 4.5% from 4.7%).



	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420	Q121	Q221	Q321	Q421	Q122
End of Qtr.	19.8%	19.3%	12.2%	-4.1%	-2.7%	-4.2%	-1.8%	-7.0%	-44.2%	-21.2%	-9.4%	23.7%	63.0%	27.4%	21.3%	4.7%
Actual	25.1%	26.2%	13.3%	-0.3%	-0.1%	-2.2%	0.8%	-15.0%	-31.6%	-5.8%	3.8%	52.5%	91.1%	39.9%	31.2%	



	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420	Q121	Q221	Q321	Q421	Q122
Change PP	5.3%	6.9%	1.1%	3.8%	2.6%	2.0%	2.6%	-8.0%	12.5%	15.4%	13.3%	28.8%	28.1%	12.6%	10.0%	

Topic of the Week: 2

65% of S&P 500 Companies Are Citing Negative Impact of Labor Costs on Q1 Earnings Calls

While the majority of S&P 500 companies will report earnings results for Q1 2022 over the next few weeks, 4% of the companies in the index (20 companies) have already reported earnings results for the first quarter (through April 7). Given current expectations for single-digit earnings growth for the first quarter, have these companies discussed specific factors that had a negative impact on earnings or revenues for the first quarter (or are expected to have a negative impact in future quarters) during their earnings conference calls?

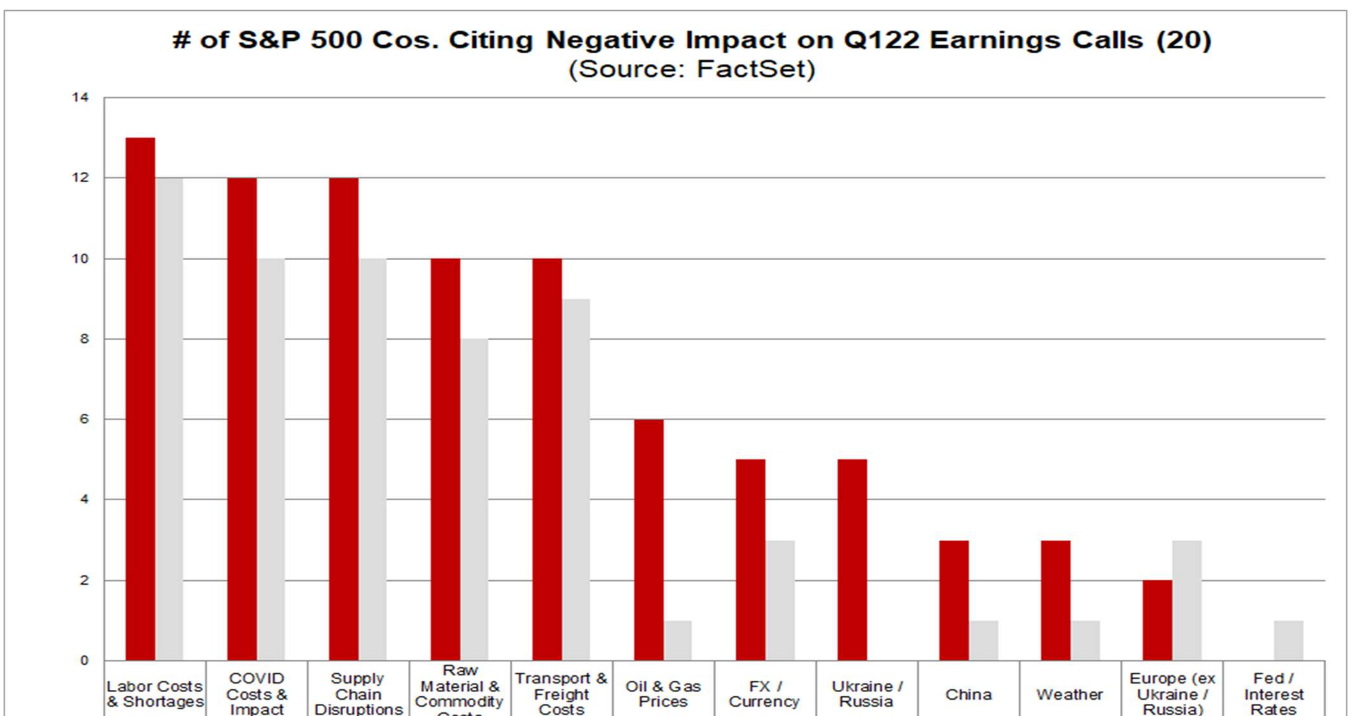
To answer this question, FactSet searched for specific terms related to a number of factors (e.g. “currency,” “labor,” etc.) in the conference call transcripts of the 20 S&P 500 companies that conducted first quarter earnings conference calls through April 7 to see how many companies discussed these factors. FactSet then looked to see if the company cited a negative impact, expressed a negative sentiment (e.g. “volatility,” “uncertainty,” “pressure,” “headwind,” etc.), or discussed clear underperformance in relation to the factor for either the quarter just reported or in guidance for future quarters. The results for Q1 and a comparison to the same time period in Q4 are shown below.

Labor costs and shortages have been cited by the highest number companies in the index to date as a factor that either had a negative impact on earnings or revenues in Q1, or is expected to have a negative impact on earnings or revenues in future quarters. Of these 20 companies, 13 (or 65%) have discussed a negative impact from this factor. After labor shortages and costs, COVID costs and impacts (12) and supply chain costs and disruptions (12) have been discussed by the highest number of S&P 500 companies.

It is interesting to note that despite the negative impacts cited by these 20 companies, they have reported aggregate (year-over-year) earnings growth of 18.5% and average (year-over-year) earnings growth of 22.7%. It appears most of these companies are raising prices to offset these negative impacts, as 18 of these 20 companies (90%) discussed increasing prices or improving price realization on their earnings calls.

While 13 S&P 500 companies cited “Ukraine” on their earnings calls, only five discussed a specific negative impact to their business due to the military conflict.

A list of the companies discussing the top factors and price increases can be found in Appendix 1 on pages 33-40.



	Labor Costs & Shortages	COVID Costs & Impact	Supply Chain Disruptions	Raw Material & Commodity Costs	Transport & Freight Costs	Oil & Gas Prices	FX / Currency	Ukraine / Russia	China	Weather	Europe (ex Ukraine / Russia)	Fed / Interest Rates
Q122	13	12	12	10	10	6	5	5	3	3	2	0
Q421	12	10	10	8	9	1	3	0	1	1	3	1

Topic of the Week: 3

Higher Provisions for Loan Losses Are Lowering Earnings Growth for S&P 500 Banks for Q1

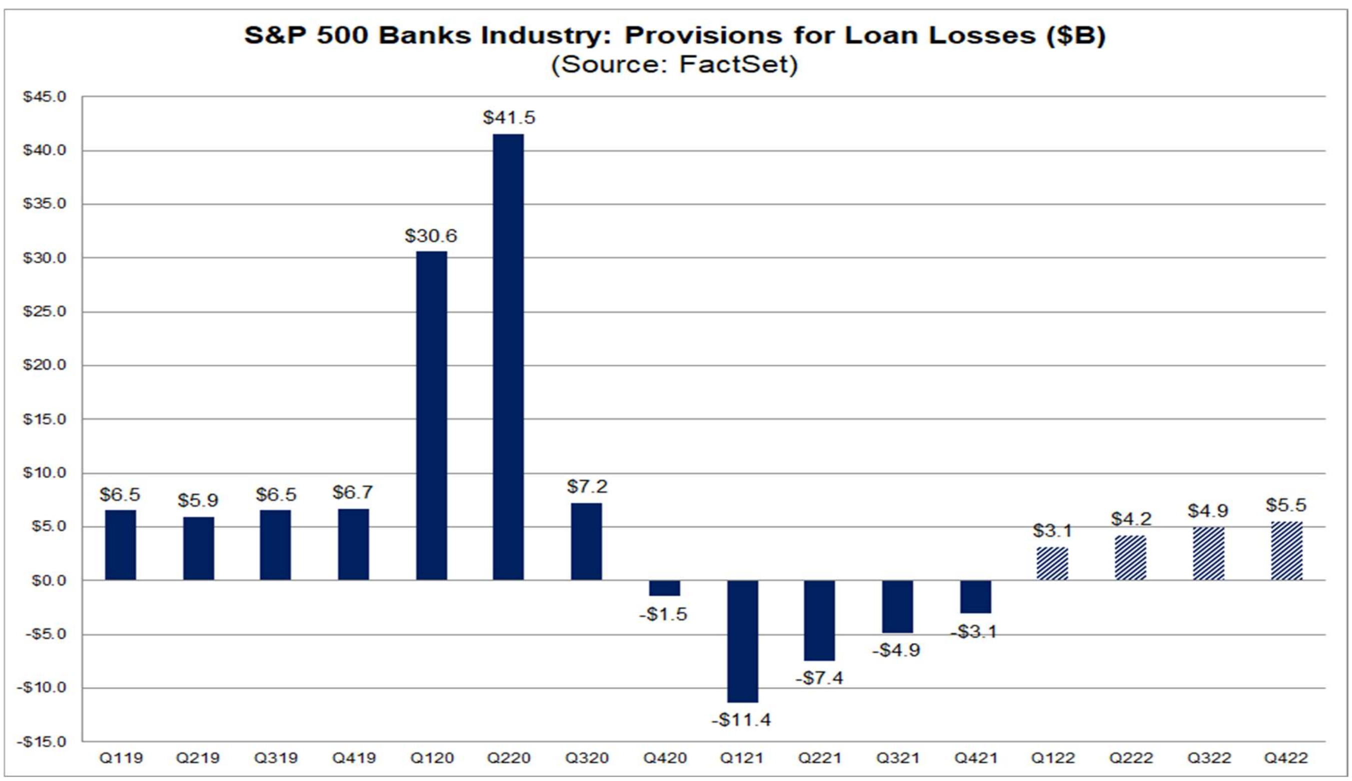
The Financials sector will also be a sector in focus for the market this upcoming week, as 10 of the 14 companies in the S&P 500 that are scheduled to report earnings for Q1 during the week are in this sector. Most of these ten companies are in the Banks industry, including Citigroup, JPMorgan Chase, and Wells Fargo. This industry is projected to report the largest (year-over-year) earnings decline of all five industries in the Financials sector at -36%. This industry is also expected to be the largest contributor to the expected decline in earnings for the sector. If the Banks industry were excluded, the estimated earnings decline for the Financials sector would improve to -16.5% from -25.7%. What is driving the expected decline in earnings for this industry?

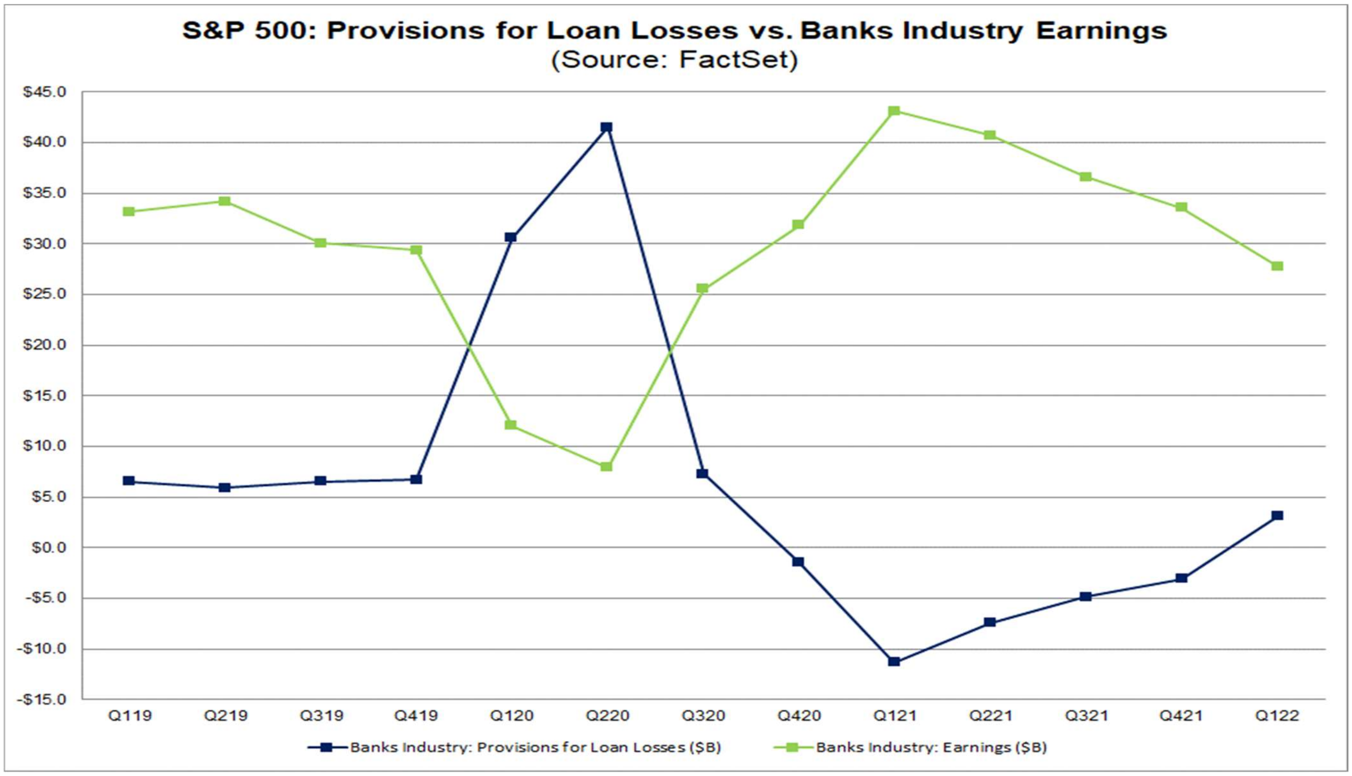
One factor contributing to the decline is that companies in the Banks industry are expected to report significantly higher provisions for loan losses in Q1 2022 relative to Q1 2021. Provisions for loan losses have no impact on top-line growth, but do have an impact on bottom-line growth, as they are treated like an expense on a company's income statement.

Banks dramatically increased their provisions for loan losses in the first half of 2020 in conjunction with the economic lockdowns caused by COVID-19. Banks then substantially reduced their provisions for loan losses in the first half of 2021, with restrictions easing and economic conditions improving during that period. Banks now appear to be setting these provisions back to near pre-pandemic levels for Q1 2022 (and going forward), but are facing difficult comparisons to the much lower (negative) numbers from Q1 2021.

For example, JPMorgan Chase reported $8.3 billion in provisions for loan losses in Q1 2020 and -$4.2 billion in provisions for loan losses in Q1 2021. For Q1 2022, the estimated provision for loan losses is $679 million.

FactSet Estimates actively tracks this metric for all 18 companies in the Banks industry in the S&P 500. In aggregate, these 18 banks are projected to report $3.1 billion in provisions for loan losses in Q1 2022 compared to -$11.4 billion in Q1 2021. Based on current estimates, the Banks industry will likely continue to see a negative impact to earnings growth for the remainder of 2022 due to the year-over-year increase in provisions for loan losses for the remainder of 2022 compared to the remainder of 2021. However, the magnitude of the (year-over-year) difference is predicted to decline sequentially from Q1 2022 through Q4 2022.




S&P 500: Provisions for Loan Losses vs. Banks Industry Earnings
(Source: FactSet)
$45.0
$40.0
$35.0
$30.0
$25.0
$20.0
$15.0
$10.0
$5.0
$0.0
-$5.0
-$10.0
-$15.0
Q119
Q219
Q319
Q419
Q120
Q220
Q320
Q420
Q121
Q221
Q321
Q421
Q122
Banks Industry: Provisions for Loan Losses ($B)
Banks Industry: Earnings ($B)

Q1 Earnings Season: By The Numbers

Overview

Analysts and companies have been more pessimistic compared to recent quarters in their earnings estimate revisions and earnings outlooks for the first quarter to date. As a result, expected earnings for the S&P 500 for the first quarter are lower today compared to expectations at the start of the quarter. The index is expected to report single-digit earnings growth for the first quarter for the first time since Q4 2020. The lower earnings growth rate for Q1 2022 relative to recent quarters can be attributed to both a difficult comparison to unusually high earnings growth in Q1 2021 and continuing macroeconomic headwinds.

In terms of earnings estimate revisions for companies in the S&P 500, analysts have decreased earnings estimates in aggregate for Q1 2022. On a per-share basis, estimated earnings for the first quarter decreased by 0.9% from December 31 to March 31. Over the past four quarters, analysts increased EPS estimates by 4.2% on average during the quarter. However, over longer time periods, analysts have usually reduced earnings estimates during the quarter. Over the past five years (20 quarters), earnings estimates have fallen by 2.5% on average during a quarter. Over the past ten years, (40 quarters), earnings estimates have fallen by 3.4% on average during a quarter. Over the past fifteen years, (60 quarters), earnings estimates have fallen by 4.8% on average during a quarter.

More S&P 500 companies have issued negative EPS guidance for Q1 2022 compared to recent quarters as well. At this point in time, 96 companies in the index have issued EPS guidance for Q1 2022, Of these 96 companies, 67 have issued negative EPS guidance and 29 have issued positive EPS guidance. Over the past four quarters, 45 S&P 500 companies issued negative EPS guidance on average for the quarter. The percentage of companies issuing negative EPS guidance for Q1 2022 is 70% (67 out of 96), which is above the 5-year average of 60%.

Because of the higher number of companies issuing negative EPS guidance and the net downward revisions to earnings estimates, the estimated (year-over-year) earnings growth rate for Q1 2022 is lower now relative to the start of the first quarter. As of today, the S&P 500 is expected to report (year-over-year) earnings growth of 4.5%, compared to the estimated (year-over-year) earnings growth rate of 5.7% on December 31.

If 4.7% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the index since Q4 2020 (3.8%). Seven of the eleven sectors are projected to report year-over-year earnings growth, led by the Energy, Industrials, and Materials sectors. Four sectors are predicted to report a year-over-year decline in earnings, led by the Financials and Consumer Discretionary sectors.

In terms of revenues, analysts have continued to be more optimistic than normal in their revenue estimate revisions. Because of the net upward revisions to revenue estimates, the estimated (year-over-year) revenue growth rate for Q1 2022 is higher now relative to the start of the first quarter. As of today, the S&P 500 is expected to report (year-over-year) revenue growth of 10.7%, compared to the estimated (year-over-year) revenue growth rate of 9.7% on December 31.

If 10.7% is the actual growth rate for the quarter, it will mark the fifth-straight quarter of year-over-year revenue growth above 10% for the index. Ten of the eleven sectors are projected to report year-over-year growth in revenues, led by the Energy, Materials, and Real Estate sectors.

Looking ahead, analysts expect earnings growth of 6.2% for Q2 2022, 10.7% for Q3 2022, and 10.3% for Q2 2022. For CY 2022, analysts are predicting earnings growth of 9.8%.

The forward 12-month P/E ratio is 19.2, which is above the 5-year average (18.6) and above the 10-year average (16.8). However, it is also below the forward P/E ratio of 21.3 recorded at the end of the fourth quarter (December 31), as prices have decreased while the forward 12-month EPS estimate has increased since December 31.

During the upcoming week, 14 S&P 500 companies (including three Dow 30 components) are scheduled to report results for the first quarter.

Earnings Revisions: Consumer Discretionary and Industrials See Largest Estimate Decreases

Slight Decline in Estimated Earnings Growth Rate for Q1 This Week

During the past week, the estimated earnings growth rate for the S&P 500 for Q1 2022 decreased slightly to 4.5% from 4.6%. Downward revisions to EPS estimates for companies in the Financials sector, partially offset by upward revisions to EPS estimates for companies in the Energy sector, were mainly responsible for the small decrease in the expected earnings growth for the index during the week.

The estimated earnings growth rate for the S&P 500 for Q1 2022 of 4.5% today is below the estimate of 5.7% at the start of the quarter (December 31), as estimated earnings for the index of $449.3 billion today are 1.2% below the estimate of $454.6 billion at the start of the quarter. Seven sectors have recorded a decrease in expected (dollar-level) earnings due to downward revisions to earnings estimates, led by the Consumer Discretionary, Industrials, Communication Services, and Financials sectors. On the other hand, four sectors have recorded an increase in expected (dollar-level) earnings due to upward revisions to earnings estimates, led by the Energy sector.

Consumer Discretionary: Amazon.com Leads Earnings Decrease Since December 31

The Consumer Discretionary sector has recorded the largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -12.1% (to $28.2 billion from $32.1 billion). As a result, the estimated (year-over-year) earnings decline for this sector has increased to -15.1% from -3.4% during this time. This sector has also witnessed the second-largest decrease in price (-11.1%) of all eleven sectors since December 31. Overall, 43 of the 59 companies (73%) in the Consumer Discretionary sector have seen a decrease in their mean EPS estimate during this time. Of these 43 companies, 28 have recorded a decrease in their mean EPS estimate of more than 10%, led by Las Vegas Sands (to -$0.22 from -$0.01), Caesars Entertainment (to -$2.11 from -$0.31), MGM Resorts (to -$0.09 from $0.06), Wynn Resorts (to -$1.14 from -$0.49), and Norwegian Cruise Line Holdings (to -$1.54 from -$0.76). However, Amazon.com (to $8.51 from $10.35) and Carnival (to -$1.65 from -$1.04) have been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since December 31.

Industrials: American Airlines Group Leads Earnings Decrease Since December 31

The Industrials sector has recorded the second-largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -11.9% (to $27.8 billion from $31.5 billion). As a result, the estimated (year-over-year) earnings growth rate for this sector has fallen to 31.7% from 49.6% during this time. This sector has also witnessed a decrease in price of 5.4% since December 31. Overall, 52 of the 72 companies (72%) in the Industrials sector have seen a decrease in their mean EPS estimate during this time. Of these 52 companies, 13 have recorded a decrease in their mean EPS estimate of more than 10%, led by Alaska Air Group (to -$1.60 from -$0.55), Boeing (to -$0.11 from $0.45), Delta Air Lines (to -$1.30 from -$0.68), American Airlines Group (to -$2.44 from -$1.35), United Airlines Holdings (to -$4.12 from -$2.35), and Southwest Airlines (to -$0.38 from -$0.22). American Airlines Group and United Airlines Holdings have also been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since December 31.

Communication Services: Meta Platforms Leads Earnings Decrease Since December 31

The Communication Services sector has recorded the third-largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -6.2% (to $45.3 billion from $48.3 billion). As a result, the estimated (year-over-year) earnings decline for this sector has increased to -6.4% from -0.2% during this time. This sector has also witnessed the largest decrease in price (-13.1%) of all eleven sectors since December 31. Overall, 19 of the 23 companies (83%) in the Communication Services sector have seen a decrease in their mean EPS estimate during this time. Of these 19 companies, 11 have recorded a decrease in their mean EPS estimate of more than 10%, led by Live Nation Entertainment (to -$0.67 from -$0.21), Twitter (to $0.05 from $0.16), Paramount Global (to $0.55 from $1.14), and T-Mobile (to $0.47 from $0.80). However, Meta Platforms (to $2.57 from $3.07) has been the largest contributor to the decrease in expected (dollar-level) earnings for this sector since December 31.

Financials: Citigroup Leads Earnings Decrease Since December 31

The Financials sector has recorded the fourth-largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -5.6% (to $68.2 billion from $72.2 billion). As a result, the estimated (year-over-year) earnings decline for this sector has increased to -25.7% from -21.3% during this time. This sector has also witnessed decrease in price of 4.0% since December 31. Overall, 39 of the 67 companies (58%) in the Financials sector have seen a decrease in their mean EPS estimate during this time. Of these 39 companies, 11 have recorded a decrease in their mean EPS estimate of more than 10%, led by Citigroup (to $1.43 from $2.14), Lincoln National (to $1.87 from $2.27), MarketAxess Holdings (to $1.72 from $2.05), and Goldman Sachs (to $8.95 from $10.66). Citigroup, JPMorgan Chase (to $2.72 from $2.95), and Goldman Sachs have been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since December 31.

Energy: Exxon Mobil and Chevron Lead Earnings Increase Since December 31

The Energy sector has recorded the largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 33.1% (to $34.0 billion from $25.5 billion). As a result, the estimated (year-over-year) earnings growth rate for this sector has increased to 252.6% from 164.9% during this time. This sector has also witnessed the largest increase in price (+39.4%) of all eleven sectors since December 31. Rising oil prices are helping to drive the increase in expected earnings for this sector, as the price of oil increased by 33% (to $100.28 from $75.21) during the first quarter. Overall, 17 of the 21 companies (81%) in the Energy sector have seen an increase in their mean EPS estimate during this time. Of these 17 companies, 13 have recorded an increase in their mean EPS estimate of more than 10%, led by Marathon Petroleum (to $1.24 from $0.28), Occidental Petroleum (to $1.78 from $0.86), Valero Energy (to $1.71 from $1.03), and Marathon Oil (to $0.90 from $0.59). However, Exxon Mobil (to $2.20 from $1.59), Chevron (to $3.49 from $2.60), ConocoPhillips (to $2.92 from $2.11), and Occidental Petroleum have been the largest contributors to the increase in estimated (dollar-level) earnings for this sector since December 31.

Index-Level EPS Estimate: First Decrease in Bottom-Up EPS Estimate Since Q2 2020

The Q1 bottom-up EPS estimate (which is an aggregation of the median Q1 earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings of the index) decreased by 0.9% (to $51.73 from $52.21) from December 31 to March 31. In a typical quarter, analysts usually reduce earnings estimates. Over the past five years (20 quarters), earnings expectations have fallen by 2.5% on average during a quarter. Over the past ten years, (40 quarters), earnings expectations have fallen by 3.4% on average during a quarter. Over the past fifteen years (60 quarters), earnings expectations have fallen by 4.8% on average during a quarter.

Therefore, the decline in the bottom-up EPS estimate recorded during the first quarter was smaller than the 5-year average, the 10-year average, and the 15-year average. However, the first quarter also marked the first decrease in the bottom-up EPS estimate during a quarter since Q2 2020 (-37.0%).

Guidance: Highest # of S&P 500 Companies Issuing Negative EPS Guidance Since Q4 2019

At this point in time, 96 companies in the index have issued EPS guidance for Q1 2022. Of these 96 companies, 67 have issued negative EPS guidance and 29 have issued positive EPS guidance. The number of S&P 500 companies issuing negative EPS guidance is above the 5-year average of 59 and (slightly) above the 10-year average of 66. The number of S&P 500 companies issuing positive EPS guidance is below the 5-year average of 40 and below the 10-year average of 33. The percentage of companies issuing negative EPS guidance is 70% (67 out of 96), which is above the 5-year average of 60% and above the 10-year average of 67%. The percentage of S&P 500 companies issuing positive EPS guidance is 30% (29 out of 96), which is below the 5-year average of 40% and below the 10-year average of 33%.

The first quarter has seen the highest number of S&P 500 companies issuing negative EPS guidance for a quarter since Q4 2019 (73) and the lowest number of S&P 500 companies issuing positive EPS guidance since Q2 2020 (25). In addition, the first quarter is the third consecutive quarter in which the number of S&P 500 companies issuing negative EPS guidance has increased and the third consecutive quarter in which the number of S&P 500 companies have decreased.

Given the recent rise in oil prices, one might expect to see more companies in the Energy sector issuing positive EPS guidance for the first quarter. However, the Energy sector has historically seen few (if any) companies provide quarterly EPS guidance.

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.

Earnings Growth: 4.5%

The estimated (year-over-year) earnings growth rate for Q1 2021 is 4.5%, which is below the 5-year average earnings growth rate of 15.0% and below the 10-year average earnings growth rate of 8.8%. If 4.5% is the actual growth rate for the quarter, it will mark the lowest (year-over-year) earnings growth rate reported by the index since Q4 2020 (3.8%).

The lower earnings growth rate for Q1 2022 relative to recent quarters can be attributed to both a difficult comparison to unusually high earnings growth in Q1 2021 and continuing macroeconomic headwinds. In Q1 2021, the S&P 500 reported (year-over-year) earnings growth of 91.1%, which is the second-highest year-over-year earnings growth rate reported by the index since 2008. Companies also continue to face macroeconomic headwinds, including higher costs, supply chain disruptions, and labor shortages. During the earnings season for Q4 2021, 74% of S&P 500 companies cited “inflation” on their earnings calls from December 15 to March 14, while 74% of S&P 500 companies cited “supply chain” on their earnings calls from December 15 to March 14. These were the highest percentages of S&P 500 companies citing “inflation” and “supply chain” on earnings calls going back to at least 2010.

Seven of the eleven sectors are expected to report (year-over-year) earnings growth, led by the Energy, Industrials, and Materials sectors. On the other hand, four sectors are expected to report a (year-over-year) decline in earnings, led by the Financials and Consumer Discretionary sectors.

Energy: Largest Contributor to (Year-Over-Year) Earnings Growth for S&P 500 For Q1

The Energy sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 252.6%. Higher year-over-year oil prices are contributing to the year-over-year improvement in earnings for this sector, as the average price of oil in Q1 2022 ($95.01) was 63% above the average price for oil in Q1 2021 ($58.14). At the sub-industry level, four of the five sub-industries in the sector are expected to report a (year-over-year) increase in earnings. A growth rate is not being calculated for the Oil & Gas Refining & Marketing sub-industry due to the loss reported by the sub-industry in the year-ago quarter. However, this sub-industry is projected to report a profit in Q1 2022 ($2.2 billion) compared to a loss in Q1 2021 (-$1.3 billion). The other three sub-industries that are projected to report (year-over-year) earnings growth are the Integrated Oil & Gas (309%), Oil & Gas Exploration & Production (197%), and Oil & Gas Equipment & Services (77%) sub-industries. On the other hand, the Oil & Gas Storage & Transportation (-33%) sub-industry is the only sub-industry predicted to report a (year-over-year) decline in earnings in the sector.

The Energy sector is also expected to be the largest contributor to earnings growth for the S&P 500 for the first quarter. If this sector were excluded, the index would be expected to report a (year-over-year) decline in earnings of 1.2% rather than (year-over-year) growth in earnings of 4.5%.

Industrials: Boeing and Airlines Industry Are Largest Contributors to Year-Over-Year Growth

The Industrials sector is expected to report the second-highest (year-over-year) earnings growth rate of all eleven sectors at 31.7%. At the industry level, 9 of the 12 industries in the sector are projected to report a (year-over-year) increase in earnings. A growth rate is not being calculated for the Airlines industry due to the loss reported by the industry in the year-ago quarter. However, this industry is predicted to report a smaller loss in Q1 2022 (-$4.2 billion) compared to Q1 2021 (-$8.9 billion). Six of the remaining eight industries are expected to report earnings growth at or above 10%: Construction & Engineering (71%), Trading Companies & Distributors (33%), Road & Rail (19%), Air Freight & Logistics (13%), Aerospace & Defense (13%), and Electrical Equipment (10%). On the other hand, three industries are predicted to report a (year-over-year) decline in earnings, led by the Industrial Conglomerates (-9%) industry. Boeing and the five companies in the Airlines industry are the largest contributors to earnings growth for the sector. If these six companies were excluded, the estimated earnings growth rate for the Industrials sector would fall to 3.6% from 31.7%.

Materials: Metals & Mining Industry Leads Year-over-Year Growth

The Materials sector is expected to report the third-highest (year-over-year) earnings growth rate of all eleven sectors at 30.9%. At the industry level, three of the four industries in this sector are projected to report (year-over-year) earnings growth at or above 10%: Metals & Mining (69%), Chemicals (25%), and Containers & Packaging (10%). On the other hand, the Construction Materials industry (-9%) is the only industry predicted to report a (year-over-year) decline in earnings.

Financials: Banks Industry Leads Year-Over-Year Decline

The Financials sector is expected to report the largest (year-over-year) earnings decline of all eleven sectors at -25.7%. At the industry level, all five industries in this sector are projected to report a (year-over-year) earnings decline. Four of these five industries are predicted to report a (year-over-year) decrease in earnings of 10% or more: Banks (-36%), Consumer Finance (-26%), Capital Markets (-19%), and Insurance (-10%). Higher provisions for loan losses in Q1 2022 relative to Q1 2021 are expected to have a negative impact on earnings growth for the Banks industry.

The Financials sector is also expected to be the largest detractor to earnings growth for the S&P 500 for the first quarter. If this sector were excluded, the estimated earnings growth rate for the index would improve to 12.7% from 4.5%.

Consumer Discretionary: Amazon and Ford Are Largest Contributors to Year-Over-Year Decline

The Consumer Discretionary sector is expected to report the second-largest (year-over-year) earnings decline of all eleven sectors at -15.1%. At the industry level, 8 of the 10 industries in the sector are expected to report a (year-over-year) decrease in earnings. Five of these eight industries are projected to report a double-digit decline in earnings: Internet & Direct Marketing Retail (-43%), Leisure Products (-35%), Auto Components (-33%), Automobiles (-18%), and Multiline Retail (-17%). On the other hand, two industries are projected to report (year-over-year) earnings growth: Hotels, Restaurants & Leisure and Distributors. A growth rate is not being calculated for the Hotels, Restaurants, & Leisure industry due to the loss reported in the year-ago quarter. This industry is expected to report a smaller loss in Q1 2022 (-$520 million) compared to Q1 2021 (-$2.4 billion). The Distributors industry is predicted to report earnings growth of 5%. At the company level, Amazon.com and Ford Motor are the largest contributors to the decline in earnings for the sector. If these two companies were excluded, the Consumer Discretionary sector would be expected to report earnings growth of 2.9% rather than an earnings decline of 15.1%.

Revenue Growth: 10.7%

The estimated (year-over-year) revenue growth rate for Q1 2022 is 10.7%, which is above the 5-year average revenue growth rate of 7.1% and above the 10-year average revenue growth rate of 4.0%. If 10.7% is the actual growth rate for the quarter, it will mark the fifth-straight quarter of (year-over-year) revenue growth above 10%. However, it will also mark the lowest (year-over-year) revenue growth rate reported by the index since Q4 2020 (3.2%).

Ten of the eleven sectors are expected to report (year-over-year) growth in revenues, led by the Energy, Materials, and Real Estate sectors.

Energy: 3 of 5 Sub-Industries Expected to Report Year-Over-Year Growth Above 40%

The Energy sector is expected to report the highest (year-over-year) revenue growth rate of all eleven sectors at 44.9%. Higher year-over-year oil prices are contributing to the year-over-year improvement in revenues for this sector, as the average price of oil in Q1 2022 ($95.01) was 63% above the average price for oil in Q1 2021 ($58.14). At the sub-industry level, all five sub-industries in the sector are predicted to report (year-over-year) revenue growth. Four of the five sub-industries are projected to report double-digit growth: Oil & Gas Exploration & Production (65%), Oil & Gas Refining & Marketing (52%), Integrated Oil & Gas (44%), and Oil & Gas Equipment & Services (13%).

Materials: Metals & Mining Industry Leads Year-Over-Year Growth

The Materials sector is expected to report the second-highest (year-over-year) revenue growth of all eleven sectors at 20.6%. At the industry level, all four industries in this sector are projected to report (year-over-year) growth in revenues. Three of these four industries are predicted to report revenue growth above 20%: Metals & Mining (35%), Construction Materials (27%), and Chemicals (22%).

Real Estate: 7 of 8 Sub-Industries Expected to Report Year-Over-Year Growth Above 10%

The Real Estate sector is expected to report the third-highest (year-over-year) revenue growth of all eleven sectors at 18.8%. At the industry level, all eight sub-industries in this sector are projected to report (year-over-year) growth in revenues. Seven of these eight sub-industries are predicted to report double-digit revenue growth, with three of these seven sub-industries projected to report revenue growth at or above 20%: Hotel & Resort REITs (136%), Real Estate Services (27%), and Retail REITs (20%).

Net Profit Margin: 12.1%

The estimated net profit margin for the S&P 500 for Q1 2022 is 12.1%, which is above the 5-year average of 11.2%, but below the year-ago net profit margin of 12.8% and the previous quarter's net profit margin of 12.4%.

At the sector level, four sectors are projected to report a (year-over-year) increase in their net profit margins in Q1 2022 compared to Q1 2021, led by the Energy (to 11.1% vs. 4.6%) sector. On the other hand, seven sectors are projected to report a (year-over-year) decrease in their net profit margins, led by the Financials (16.6% vs. 22.7%) sector.

Seven sectors are projected to report net profit margins in Q1 2022 that are above their 5-year averages, led by the Energy (11.1% vs. 5.7%) sector. On the other hand, four sectors are projected to report net profit margins in Q1 2022 that are below their 5-year averages, led by the Consumer Discretionary (to 6.0% from 6.7%) sector.

Looking Ahead: Forward Estimates and Valuation

Earnings: S&P 500 Expected to Reported Earnings Growth of 9.8% for CY 2022

For the first quarter, S&P 500 companies are expected to report earnings growth of 4.5% and revenue growth of 10.7%.

For Q2 2022, analysts are projecting earnings growth of 6.2% and revenue growth of 9.8%.

For Q3 2022, analysts are projecting earnings growth of 10.7% and revenue growth of 8.8%.

For Q4 2022, analysts are projecting earnings growth of 10.3% and revenue growth of 7.4%.

For CY 2022, analysts are projecting earnings growth of 9.8% and revenue growth of 9.5%.

Valuation: Forward P/E Ratio is 19.2, Above the 10-Year Average (16.8)

The forward 12-month P/E ratio is 19.2. This P/E ratio is above the 5-year average of 18.6 and above the 10-year average of 16.8. However, it is below the forward 12-month P/E ratio of 21.3 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 decreased by 5.6%, while the forward 12-month EPS estimate has increased by 4.9%. At the sector level, the Consumer Discretionary (27.1) and Information Technology (23.6) sectors have the highest forward 12-month P/E ratios, while the Energy (11.0) and Financials (14.1) sectors have the lowest forward 12-month P/E ratios.

The trailing 12-month P/E ratio is 22.0, which is below the 5-year average of 23.1 but above the 10-year average of 20.1.

Targets & Ratings: Analysts Project 17% Increase in Price Over Next 12 Months

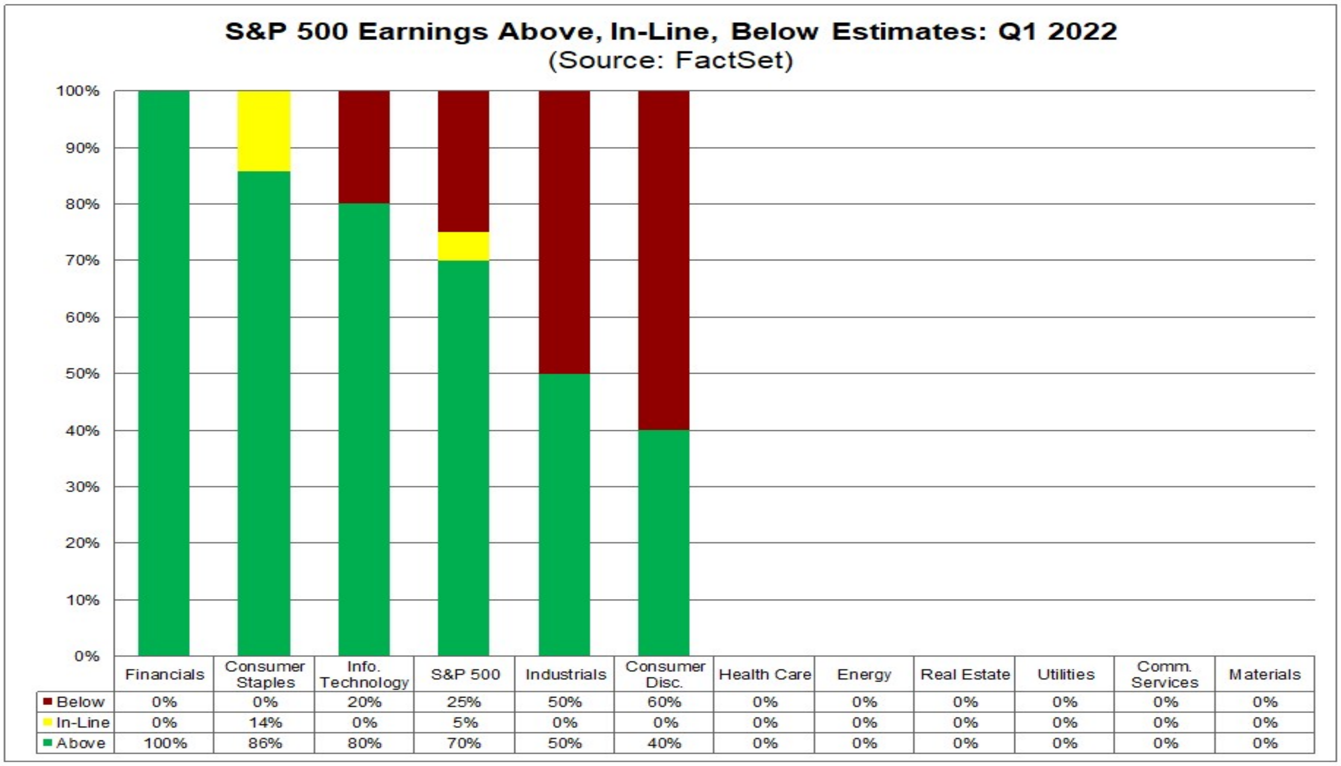
The bottom-up target price for the S&P 500 is 5281.69, which is 17.4% above the closing price of 4500.21. At the sector level, the Communication Services (+30.3%), Consumer Discretionary (+23.2%), and Information Technology (+23.1%) sectors are expected to see the largest price increases, as these sectors have the largest upside differences between the bottom-up target price and the closing price. On the other hand, the Utilities (-1.1%) sector is expected to see the largest price decrease, as this sector has the largest downside difference between the bottom-up target price and the closing price.

Overall, there are 10,870 ratings on stocks in the S&P 500. Of these 10,870 ratings, 57.3% are Buy ratings, 37.1% are Hold ratings, and 5.6% are Sell ratings. At the sector level, the Energy (66%) and Information Technology (64%) sectors have the highest percentages of Buy ratings, while the Consumer Staples (41%) and Utilities (49%) sectors have the lowest percentages of Buy ratings.

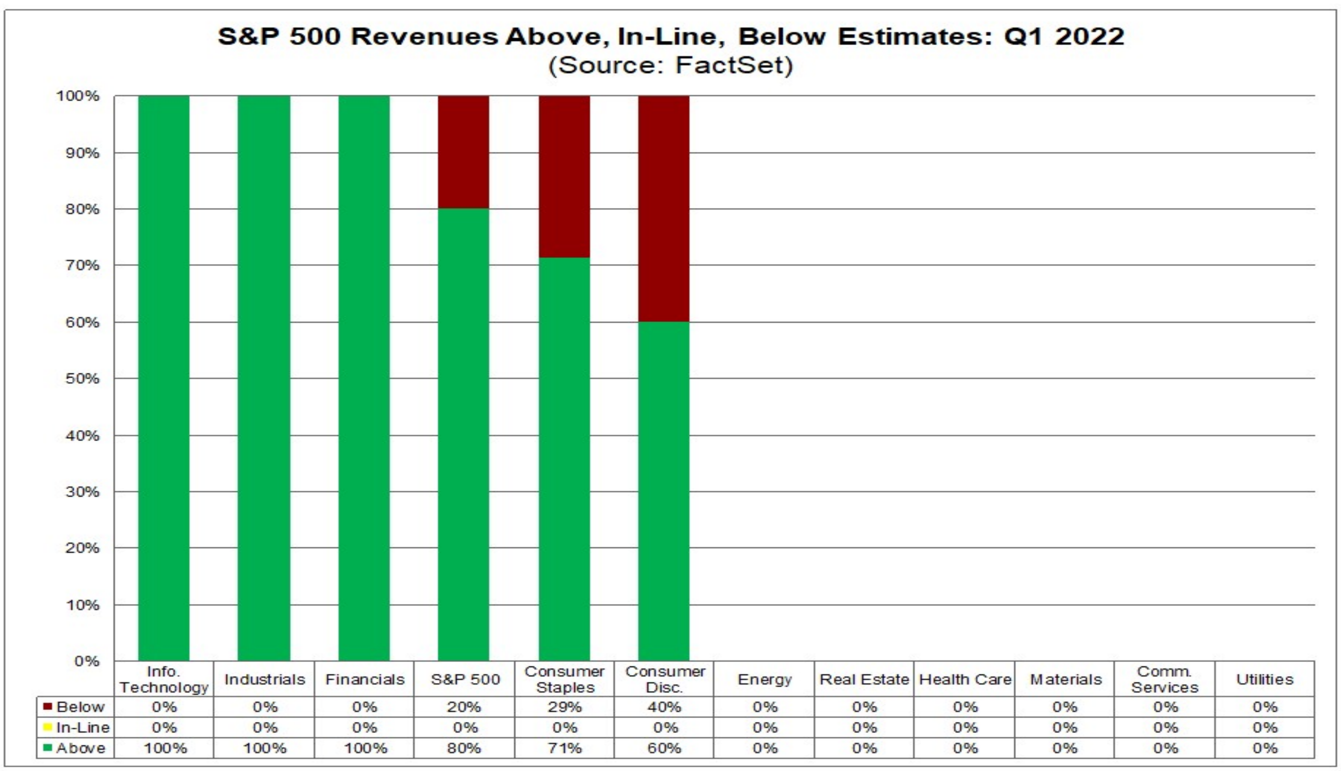
Companies Reporting Next Week: 14

During the upcoming week, 14 S&P 500 companies (including three Dow 30 components) are scheduled to report results for the first quarter.

Q1 2022: Scorecard

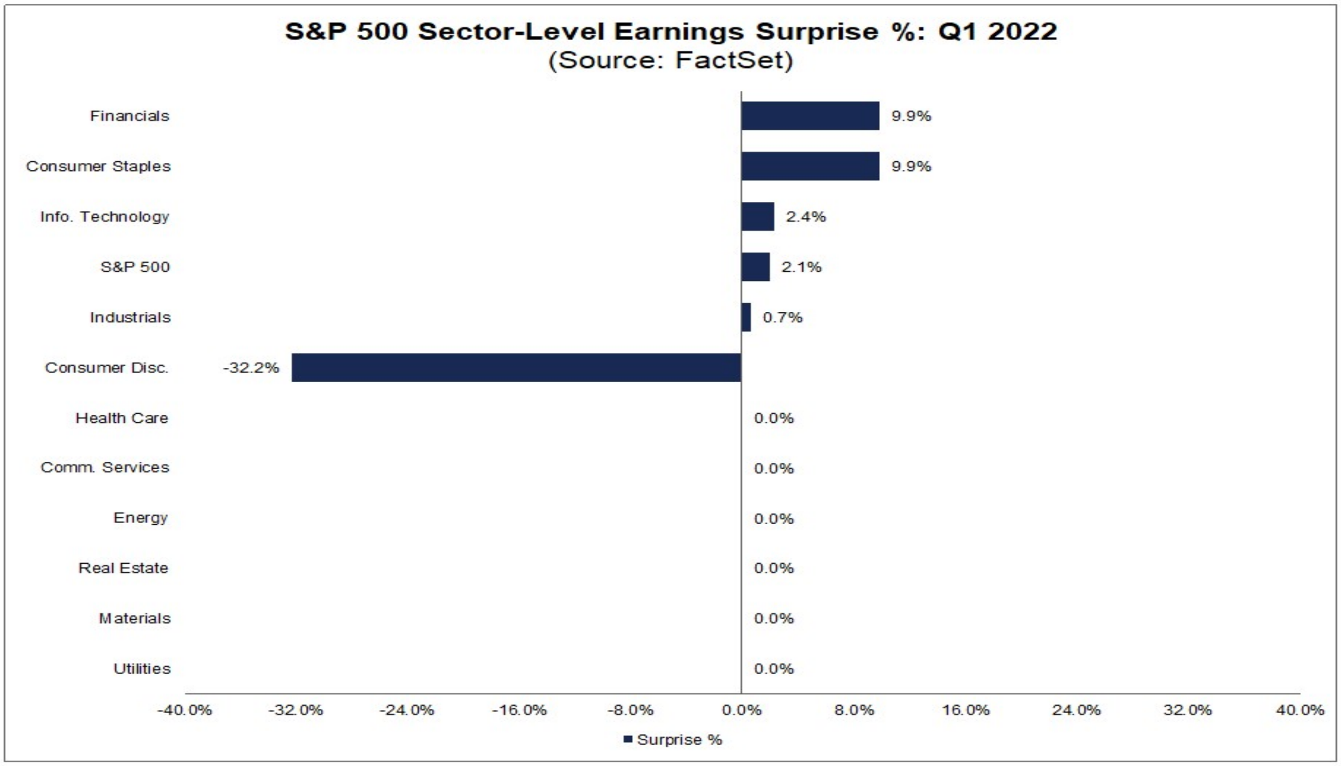


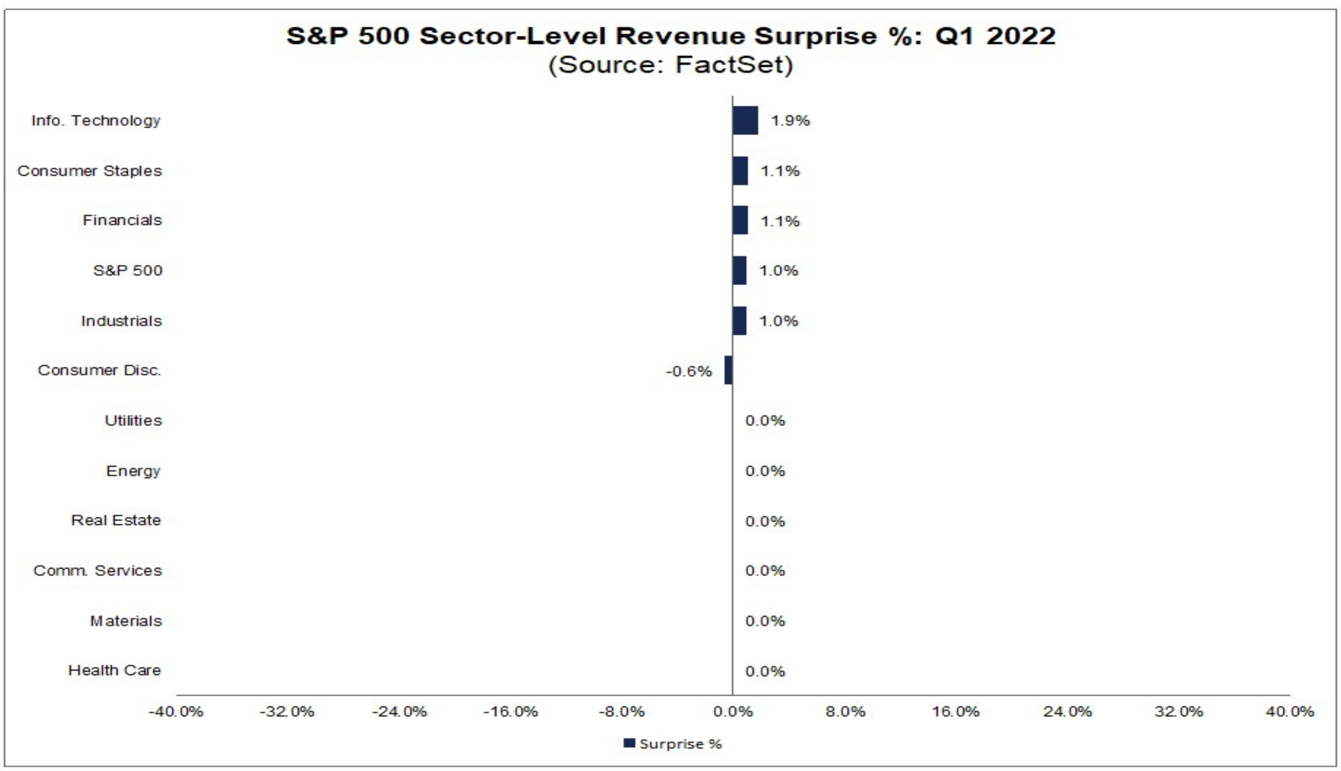
	Financials	Consumer Staples	Info. Technology	S&P 500	Industrials	Consumer Disc.	Health Care	Energy	Real Estate	Utilities	Comm. Services	Materials
Below	0%	0%	20%	25%	50%	60%	0%	0%	0%	0%	0%	0%
In-Line	0%	14%	0%	5%	0%	0%	0%	0%	0%	0%	0%	0%
Above	100%	86%	80%	70%	50%	40%	0%	0%	0%	0%	0%	0%



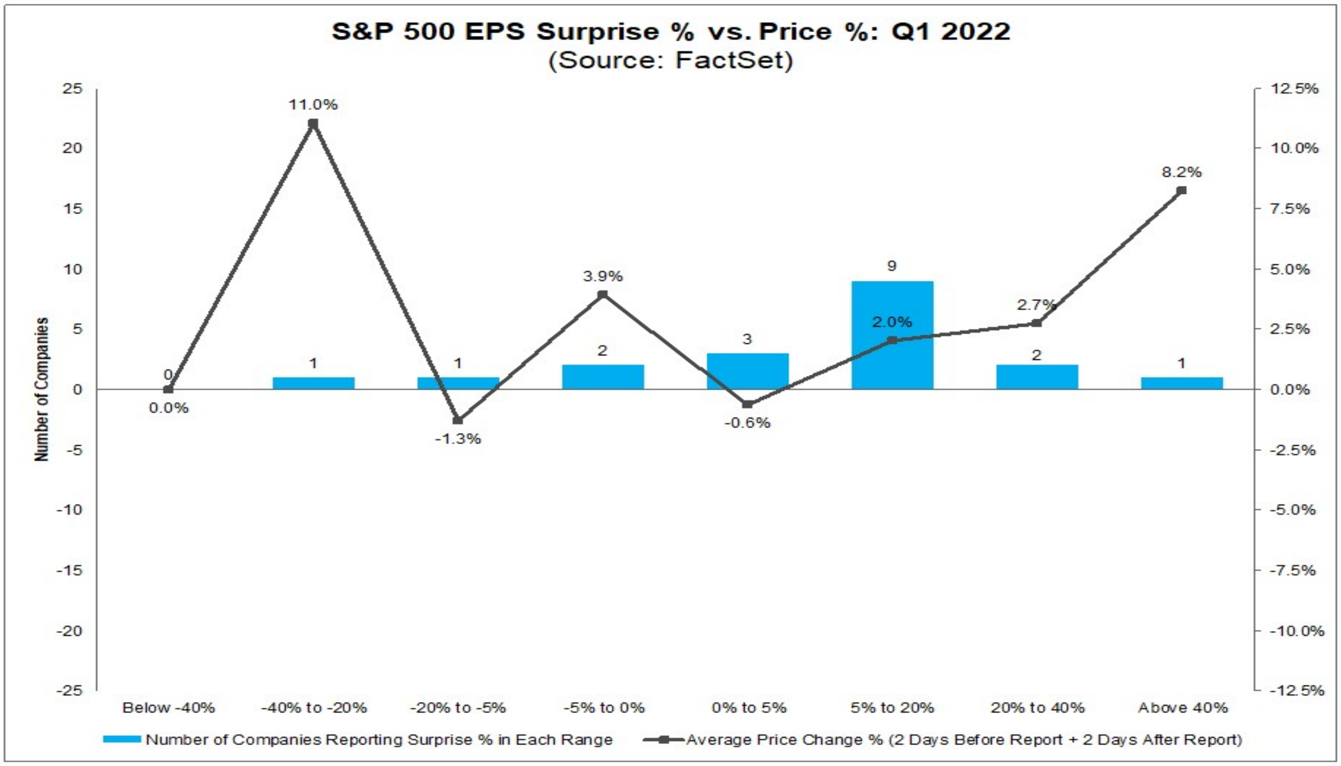
	Info. Technology	Industrials	Financials	S&P 500	Consumer Staples	Consumer Disc.	Energy	Real Estate	Health Care	Materials	Comm. Services	Utilities
Below	0%	0%	0%	20%	29%	40%	0%	0%	0%	0%	0%	0%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	100%	100%	100%	80%	71%	60%	0%	0%	0%	0%	0%	0%

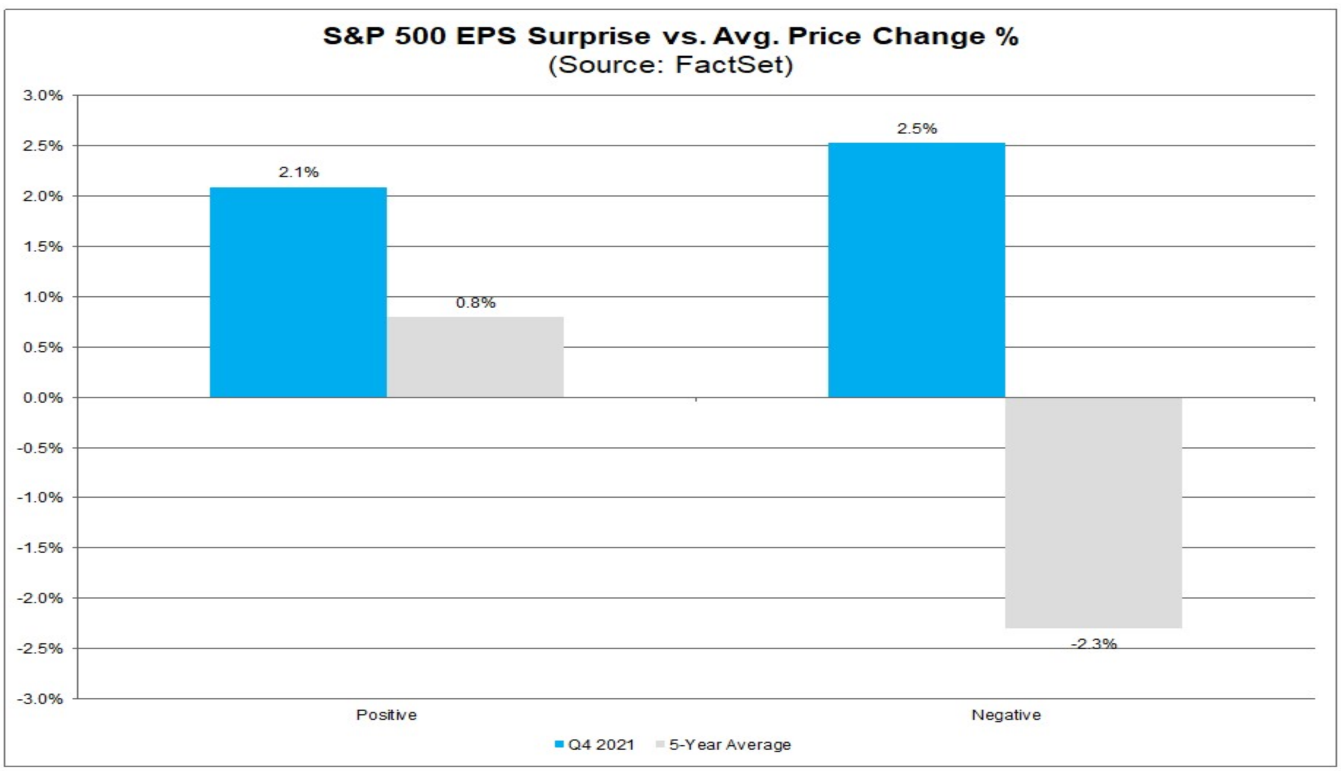
Q1 2022: Scorecard



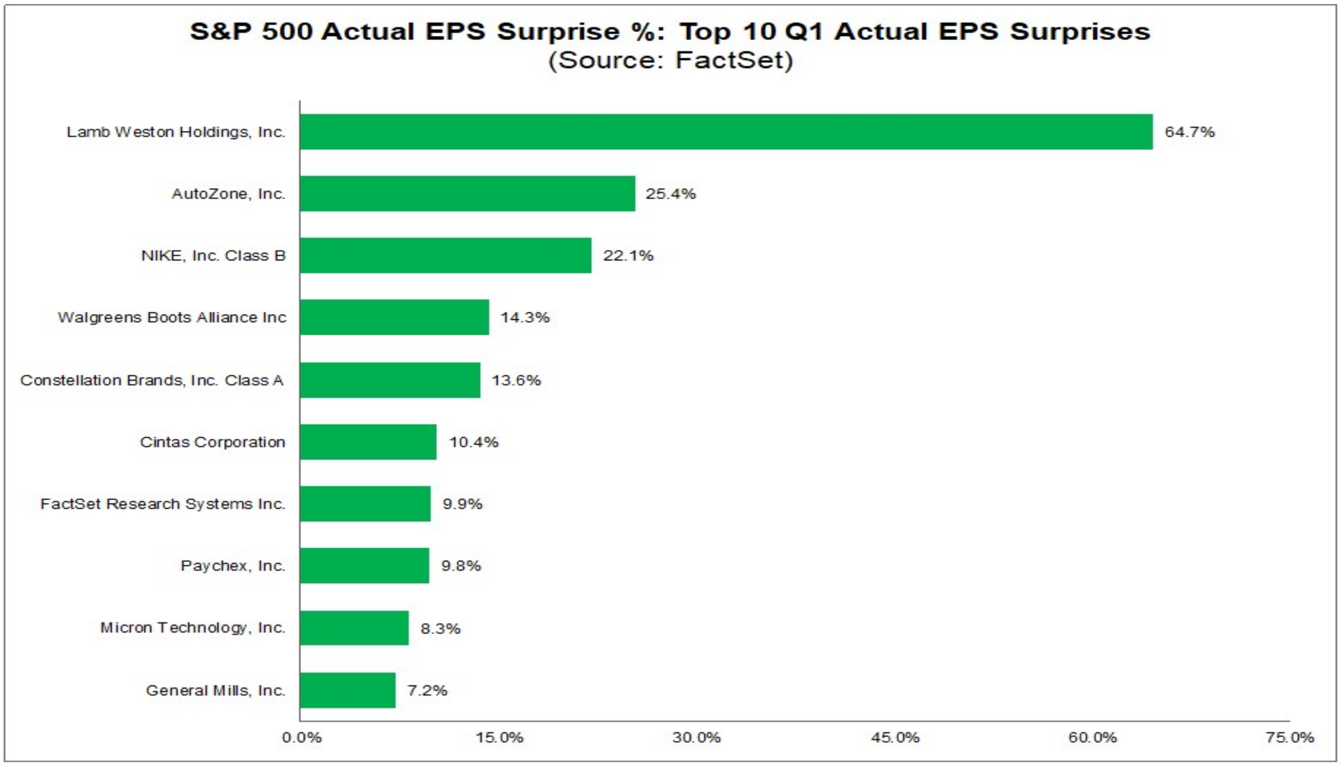


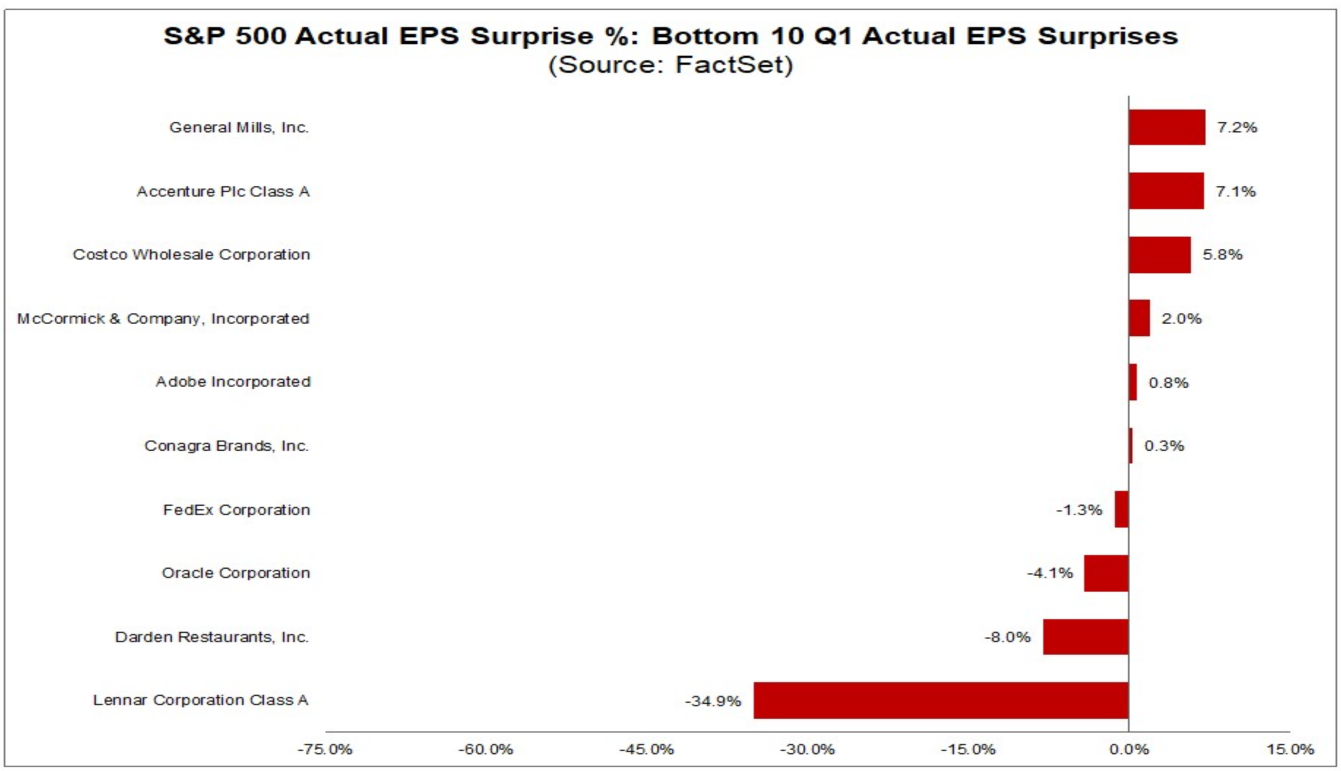
Q1 2022: Scorecard



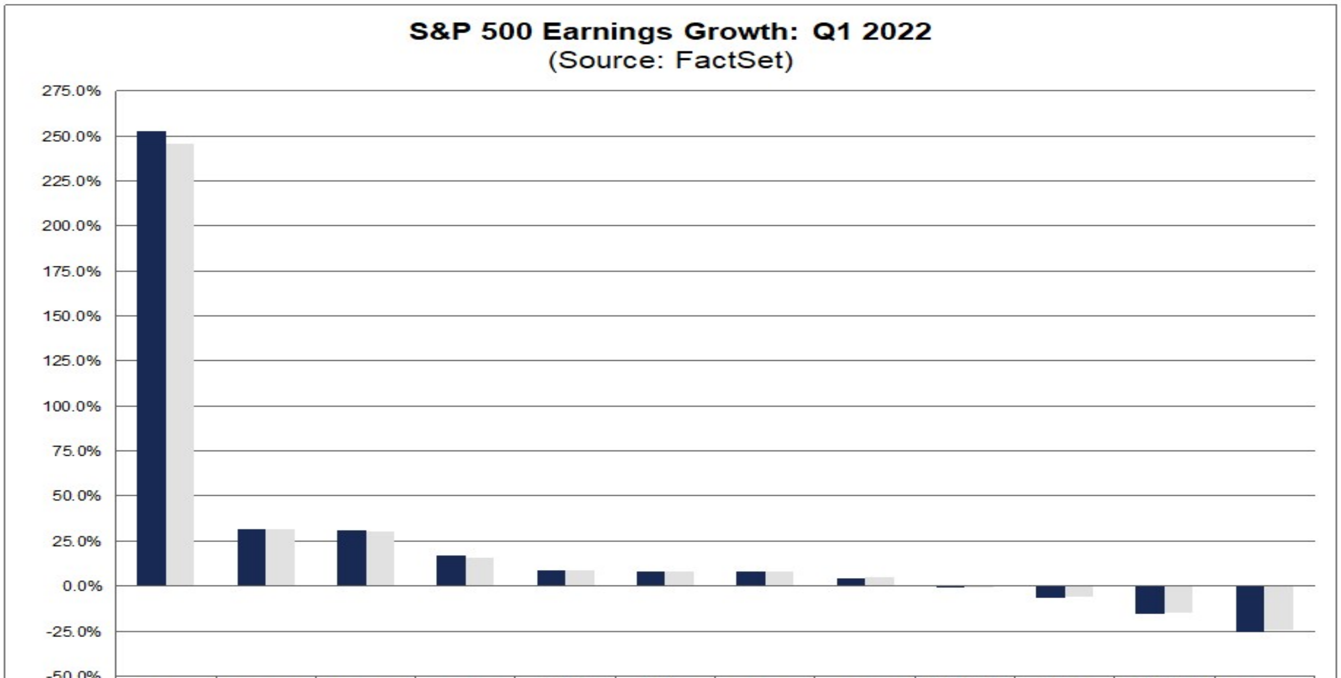


Q1 2022: Scorecard

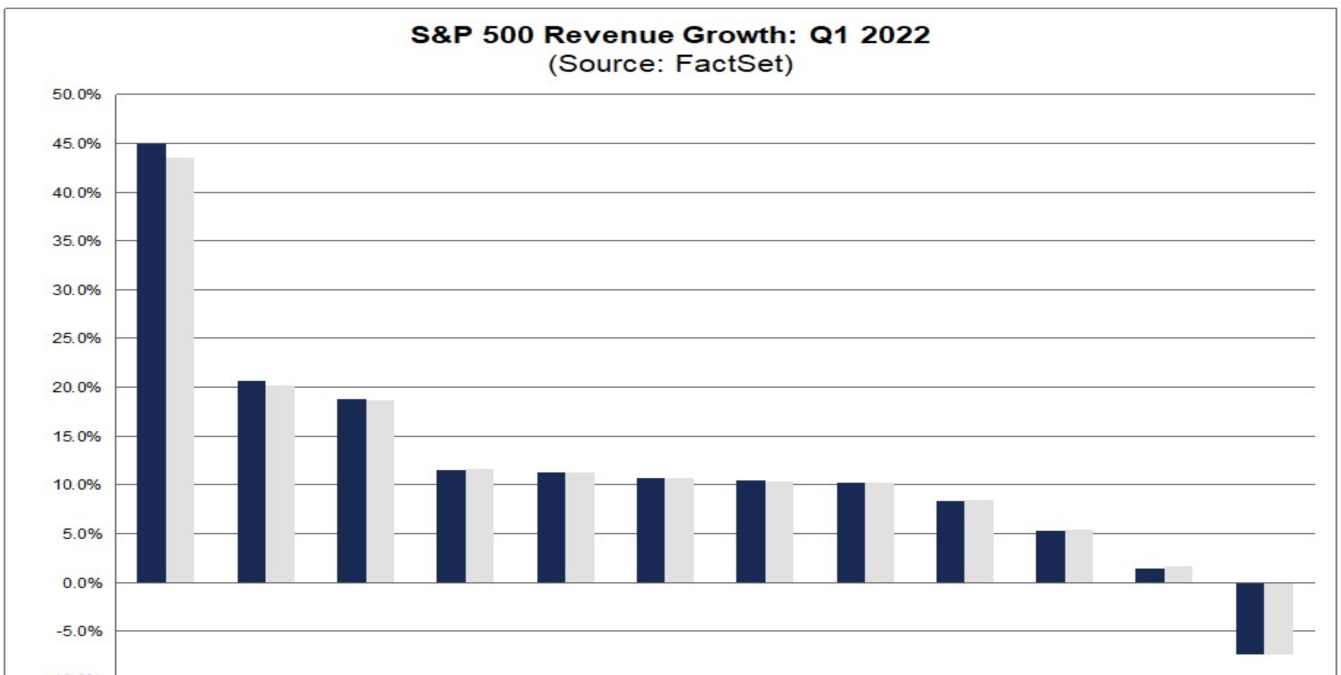




Q1 2022: Growth

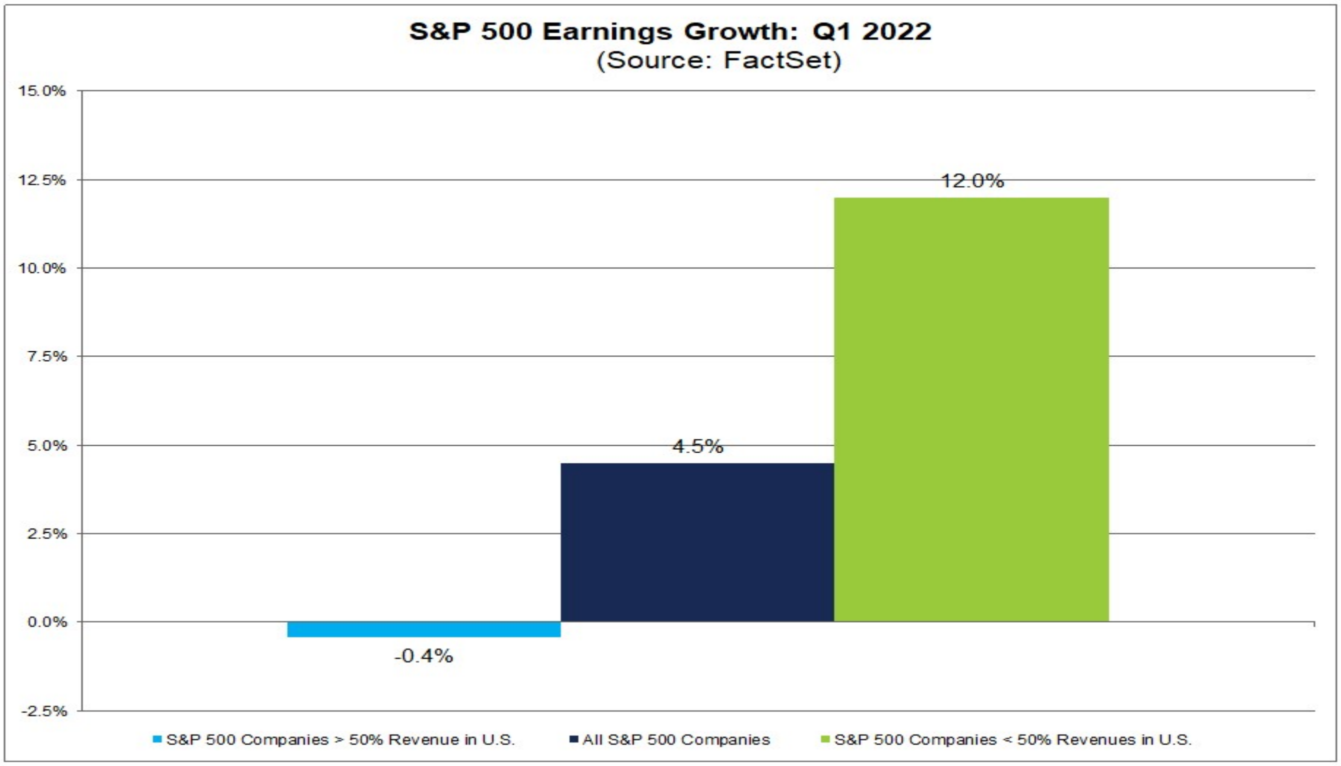


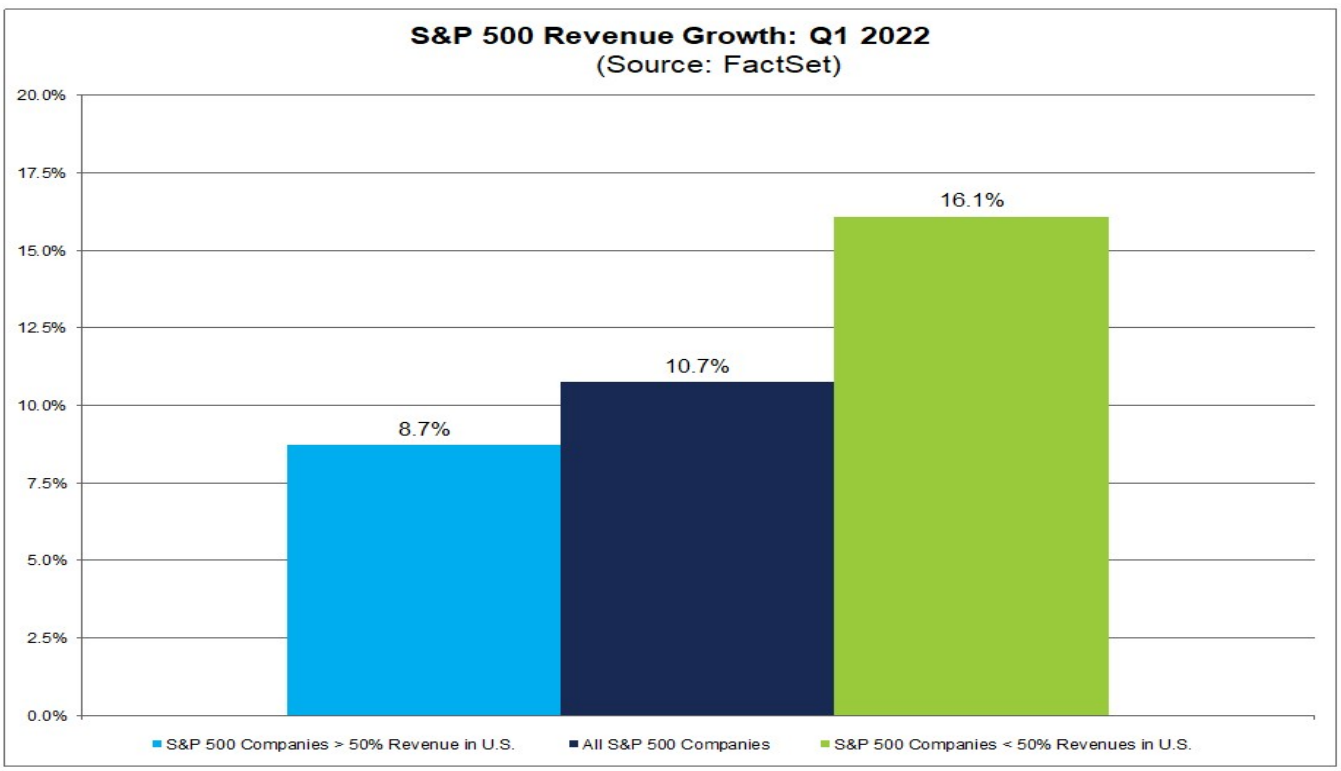
	Energy	Industrials	Materials	Real Estate	Health Care	Info. Technology	Utilities	S&P 500	Consumer Staples	Comm. Services	Consumer Disc.	Financials
Today	252.6%	31.7%	30.9%	16.7%	8.4%	8.3%	8.1%	4.5%	-0.5%	-6.4%	-15.1%	-25.7%
31-Mar	245.7%	31.8%	30.6%	15.6%	8.6%	8.3%	8.2%	4.7%	-0.6%	-6.1%	-14.9%	-24.2%



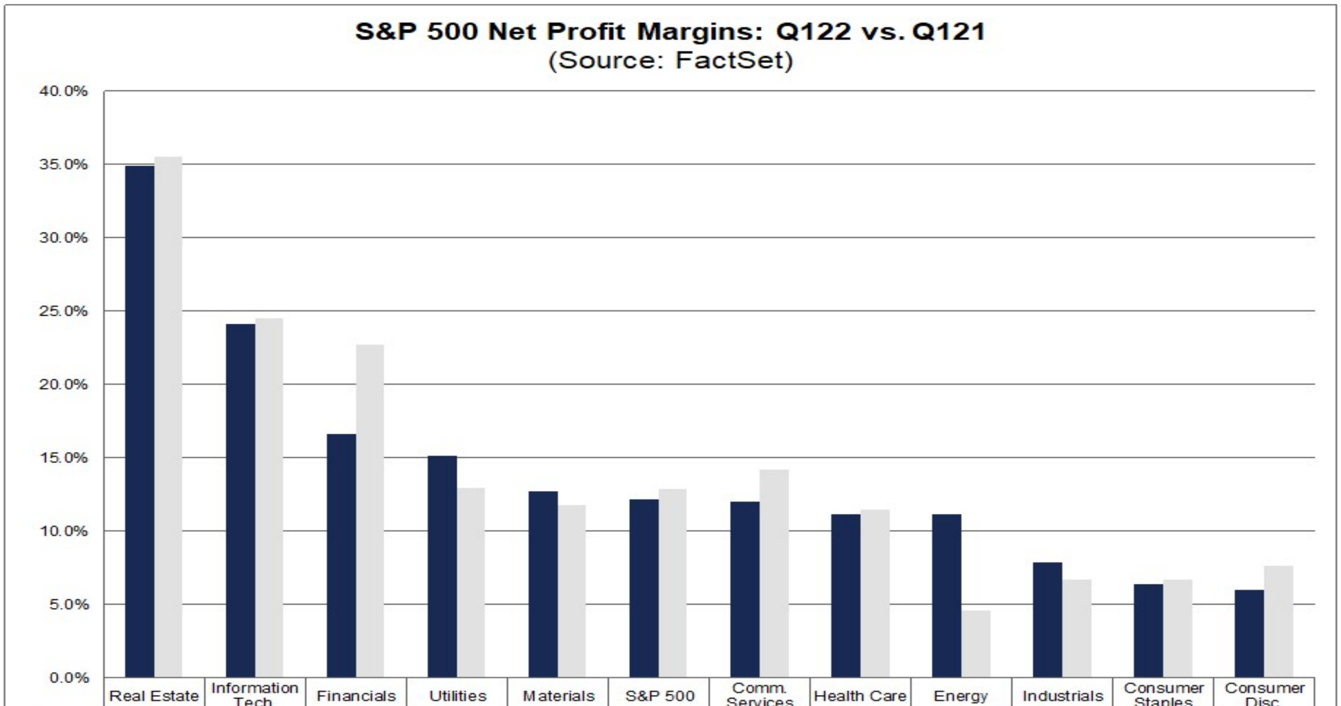
	Energy	Materials	Real Estate	Industrials	Health Care	S&P 500	Comm. Services	Info. Technology	Consumer Disc.	Consumer Staples	Financials	Utilities
Today	44.9%	20.6%	18.8%	11.5%	11.3%	10.7%	10.4%	10.2%	8.4%	5.3%	1.4%	-7.4%
31-Mar	43.5%	20.2%	18.7%	11.6%	11.3%	10.7%	10.4%	10.2%	8.4%	5.4%	1.6%	-7.3%

Q1 2022: Growth

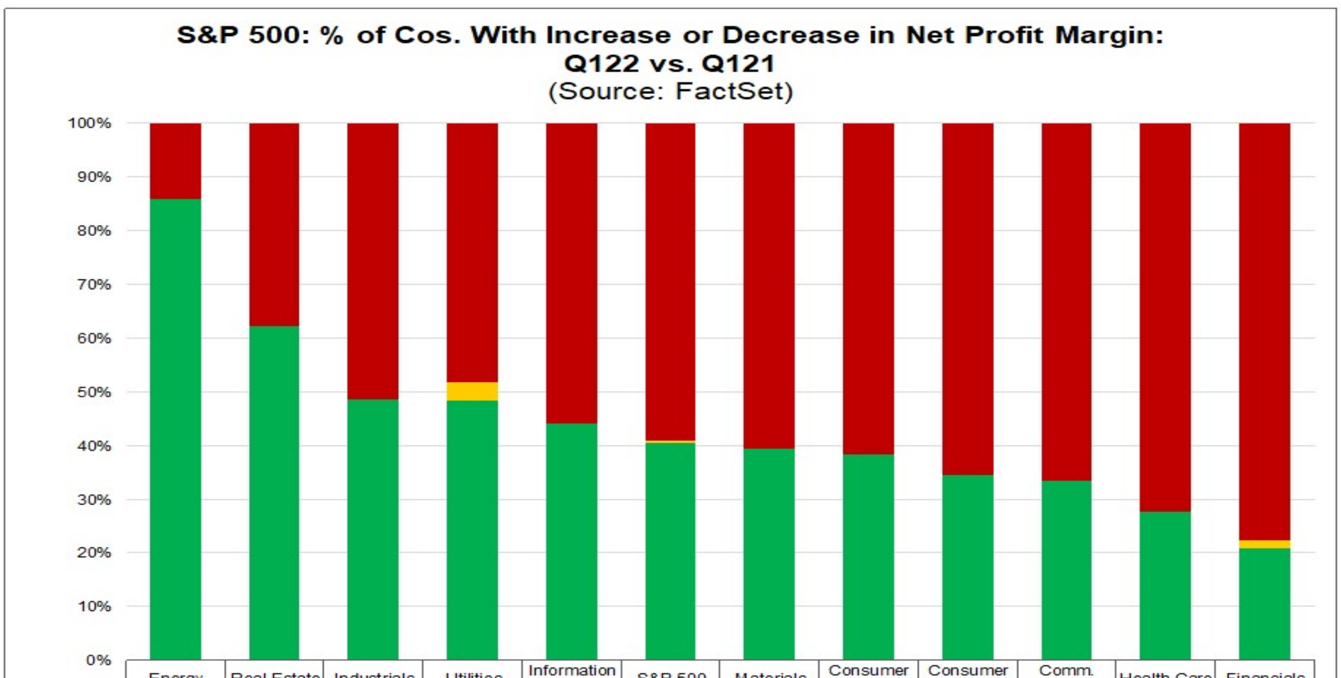




Q1 2022: Net Profit Margin

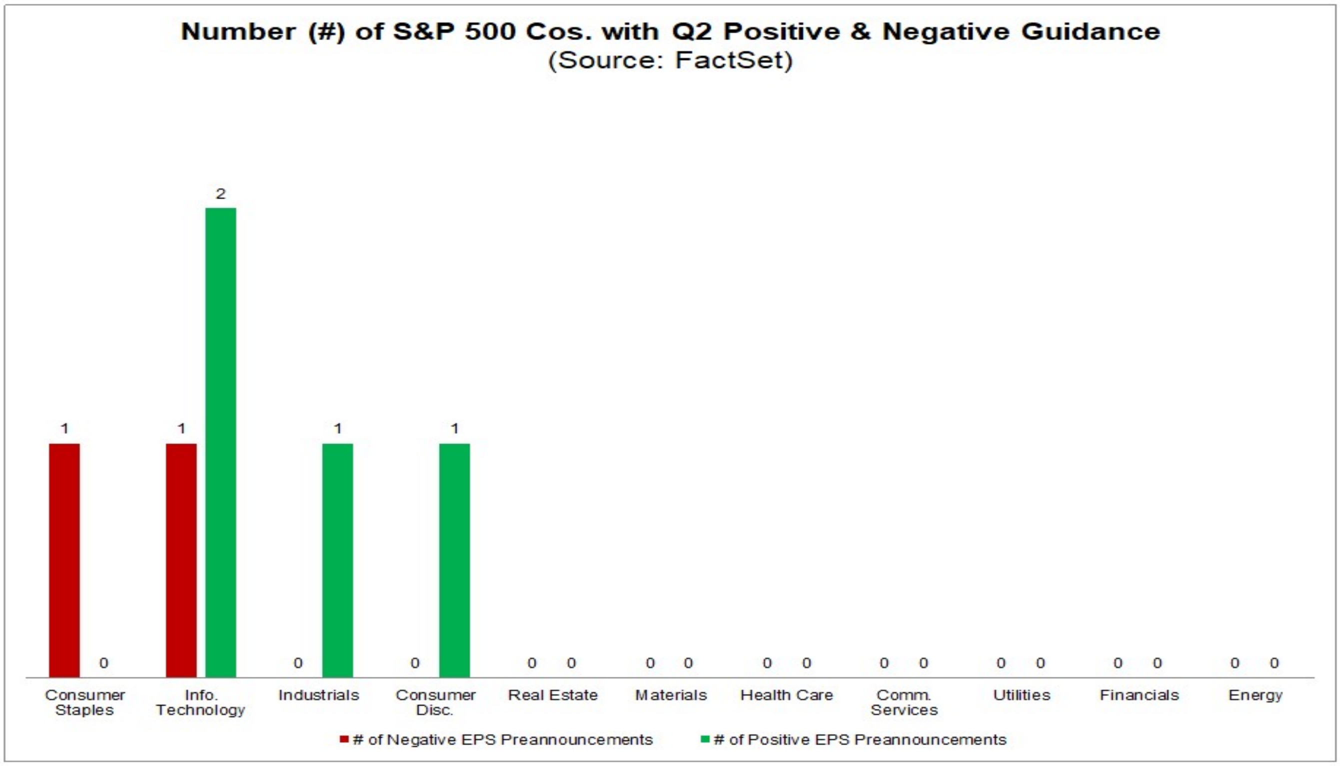


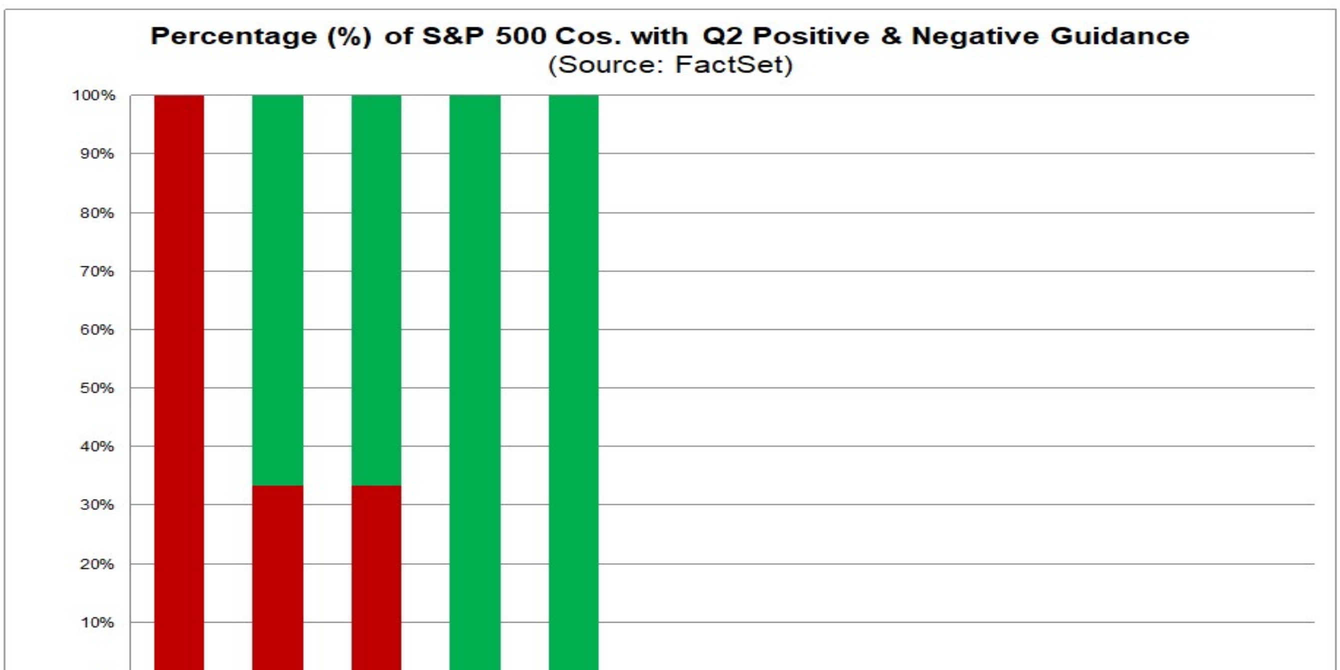
	Real Estate	Information Tech.	Financials	Utilities	Materials	S&P 500	Comm. Services	Health Care	Energy	Industrials	Consumer Staples	Consumer Disc.
Q122	34.9%	24.1%	16.6%	15.1%	12.7%	12.1%	12.0%	11.2%	11.1%	7.9%	6.3%	6.0%
Q121	35.6%	24.5%	22.7%	13.0%	11.7%	12.8%	14.2%	11.5%	4.6%	6.7%	6.7%	7.6%



	Energy	Real Estate	Industrials	Utilities	Information Tech.	S&P 500	Materials	Consumer Disc.	Consumer Staples	Comm. Services	Health Care	Financials
Down %	14%	38%	51%	48%	56%	59%	61%	62%	66%	67%	72%	78%
None %	0%	0%	0%	3%	0%	0%	0%	0%	0%	0%	0%	1%
Up %	86%	62%	49%	48%	44%	40%	39%	38%	34%	33%	28%	21%

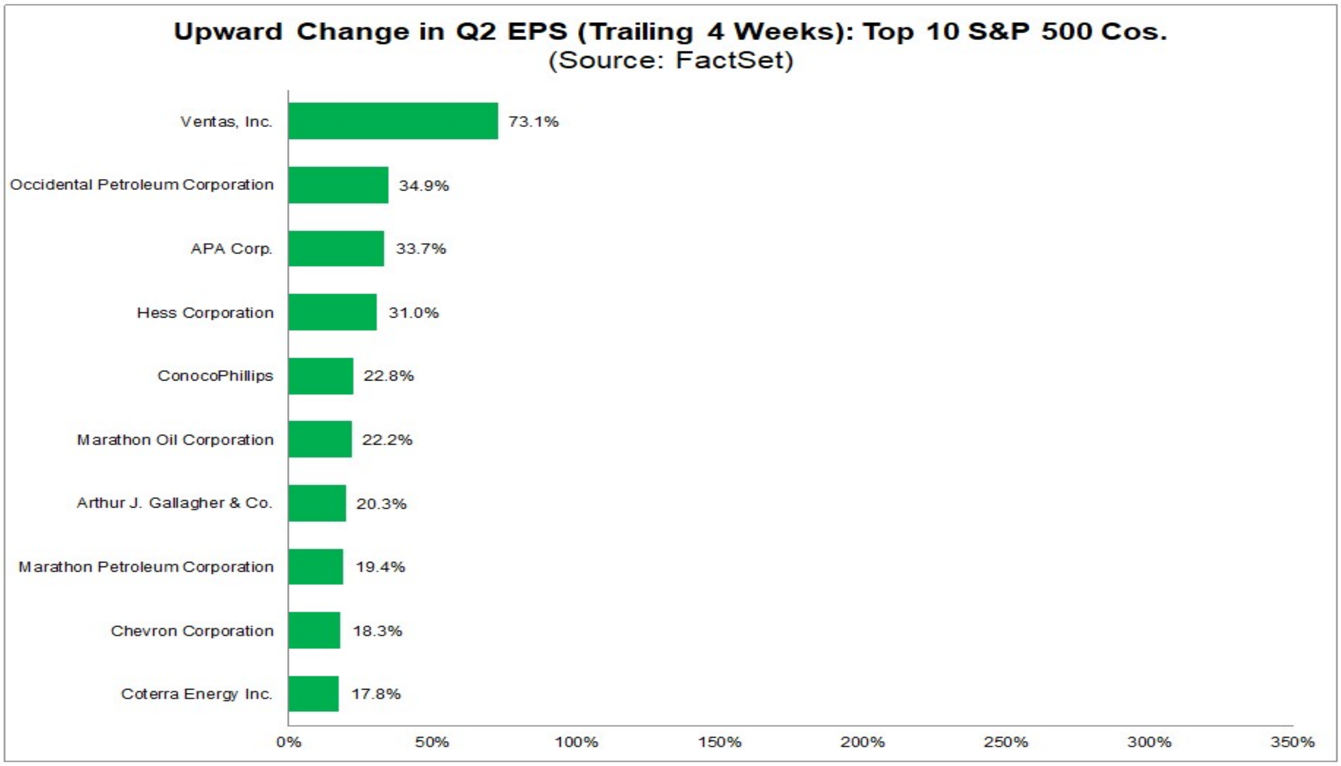
Q2 2022: EPS Guidance

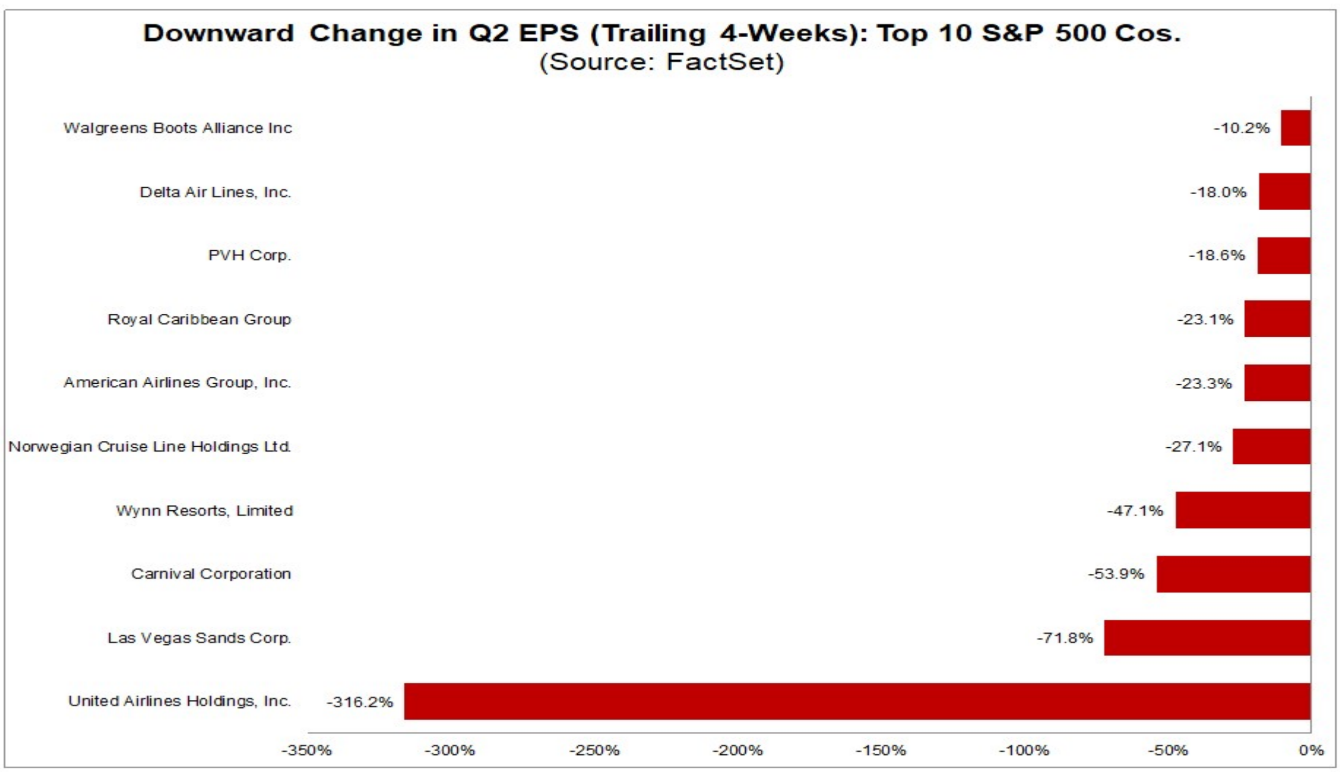




	Consumer Staples	S&P 500	Info. Technology	Industrials	Consumer Disc.	Comm. Services	Real Estate	Materials	Health Care	Utilities	Financials	Energy
Positive	0%	67%	67%	100%	100%	0%	0%	0%	0%	0%	0%	0%
Negative	100%	33%	33%	0%	0%	0%	0%	0%	0%	0%	0%	0%

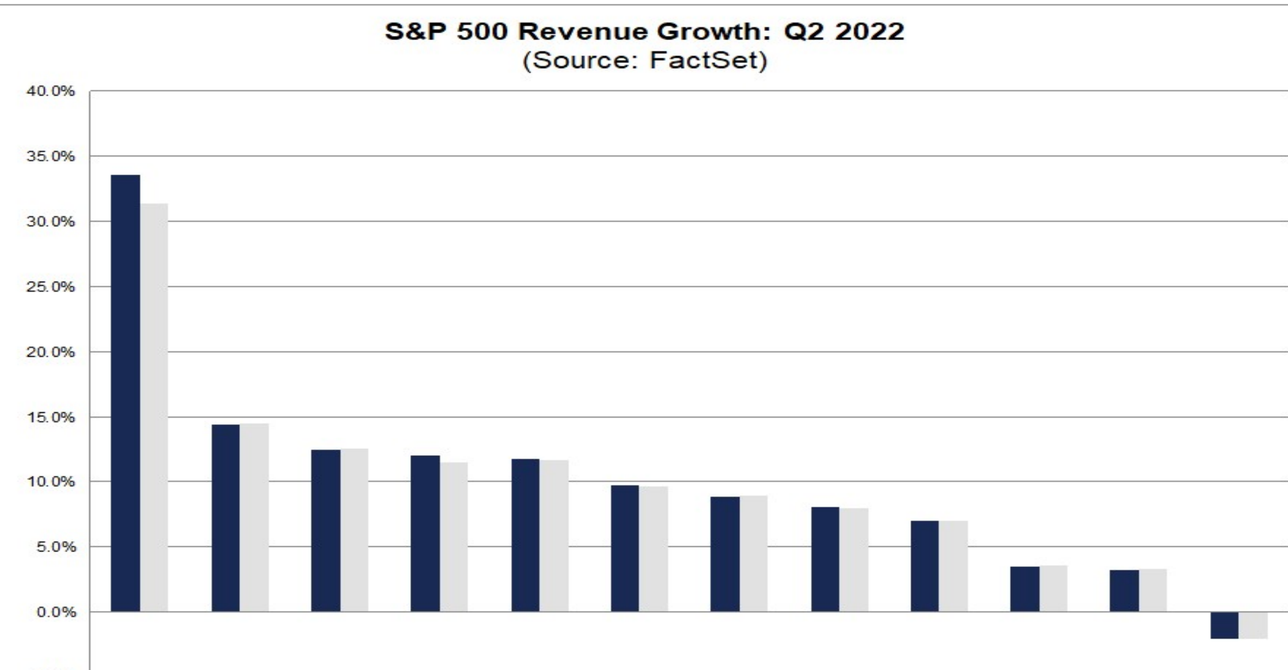
Q2 2022: EPS Revisions





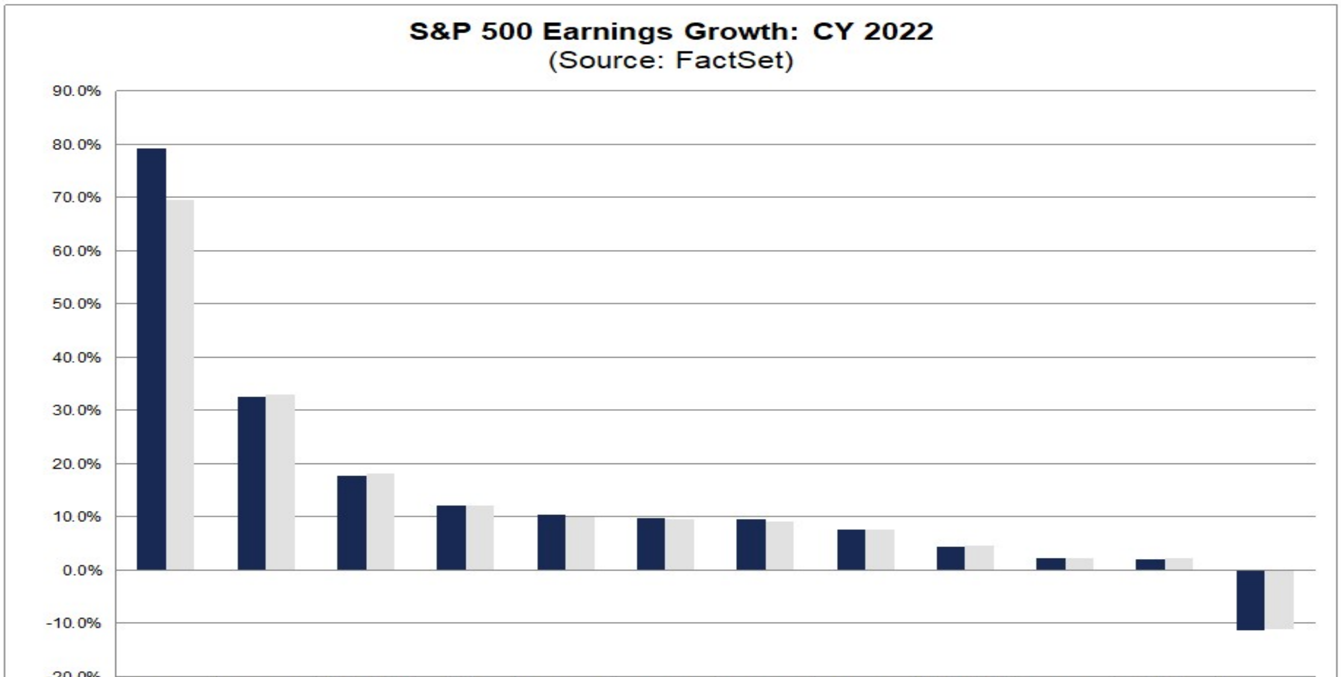
Q2 2022: Growth

	Energy	Industrials	Consumer Disc.	Real Estate	Materials	Health Care	S&P 500	Info. Technology	Consumer Staples	Comm. Services	Utilities	Financials
Today	156.0%	22.6%	13.9%	7.8%	7.2%	6.4%	6.2%	4.7%	1.4%	-3.5%	-7.7%	-19.8%
31-Mar	137.9%	23.1%	14.5%	7.3%	6.5%	6.7%	5.8%	4.7%	1.8%	-3.3%	-7.6%	-19.3%

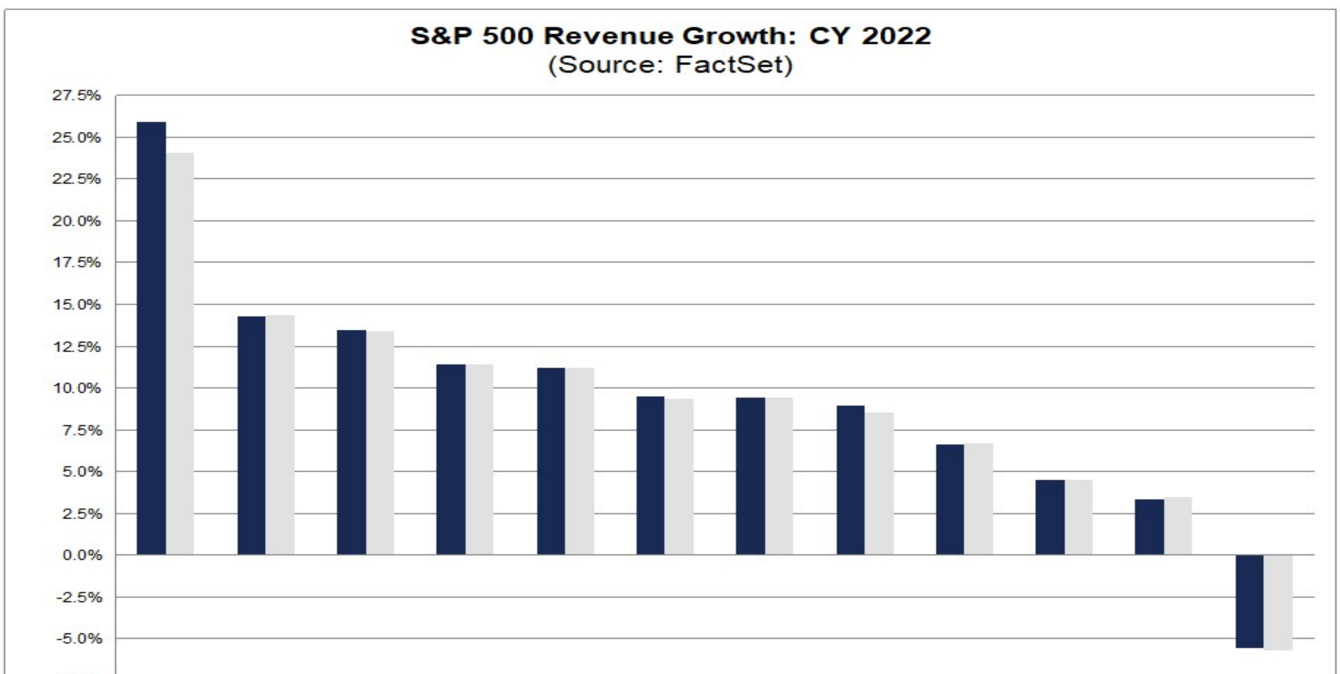


	Energy	Consumer Disc.	Real Estate	Materials	Industrials	S&P 500	Info. Technology	Comm. Services	Health Care	Financials	Consumer Staples	Utilities
Today	33.6%	14.4%	12.5%	12.0%	11.7%	9.8%	8.9%	8.0%	7.0%	3.5%	3.2%	-2.0%
31-Mar	31.3%	14.5%	12.5%	11.5%	11.7%	9.6%	8.9%	8.0%	7.0%	3.6%	3.3%	-2.0%

CY 2022: Growth

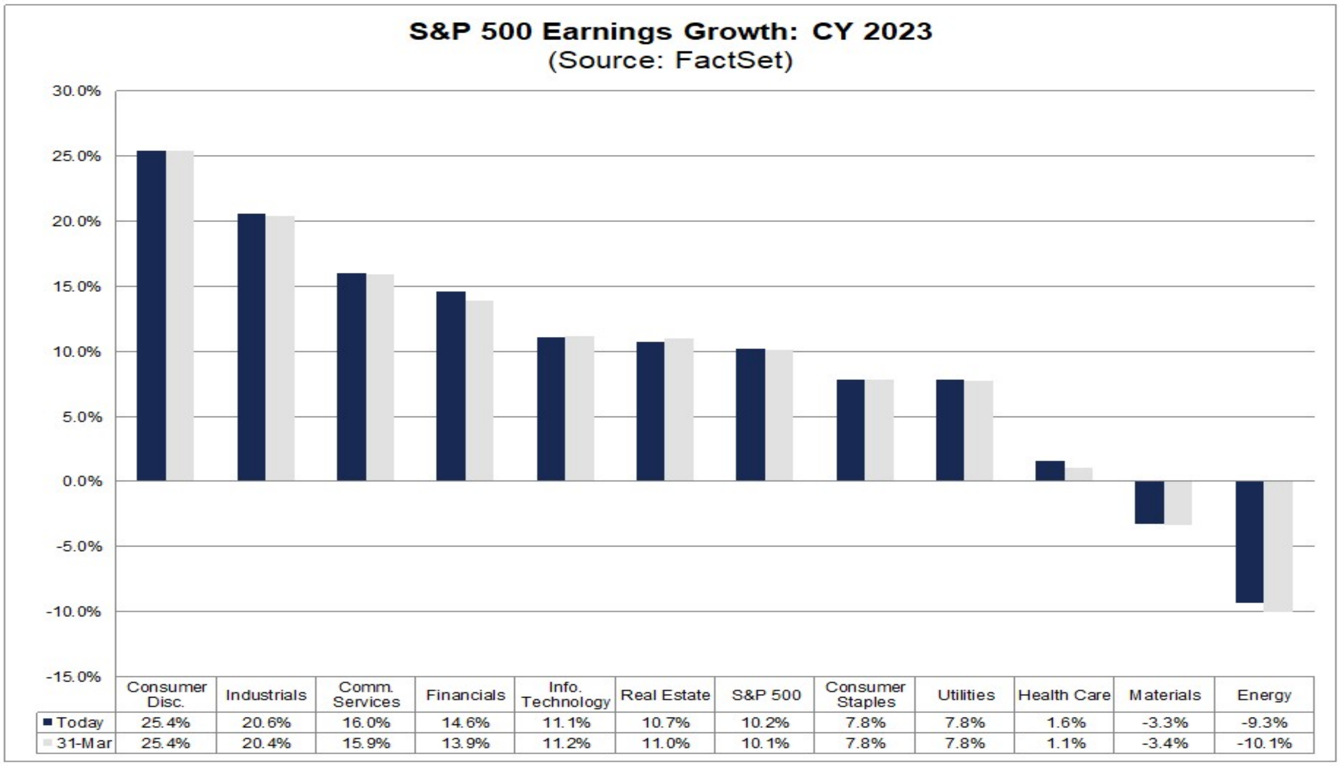


	Energy	Industrials	Consumer Disc.	Info. Technology	Real Estate	S&P 500	Materials	Health Care	Consumer Staples	Utilities	Comm. Services	Financials
Today	79.2%	32.5%	17.7%	12.2%	10.3%	9.8%	9.6%	7.6%	4.4%	2.2%	2.0%	-11.4%
31-Mar	69.6%	32.9%	18.1%	12.2%	9.9%	9.6%	9.2%	7.7%	4.6%	2.2%	2.2%	-11.0%

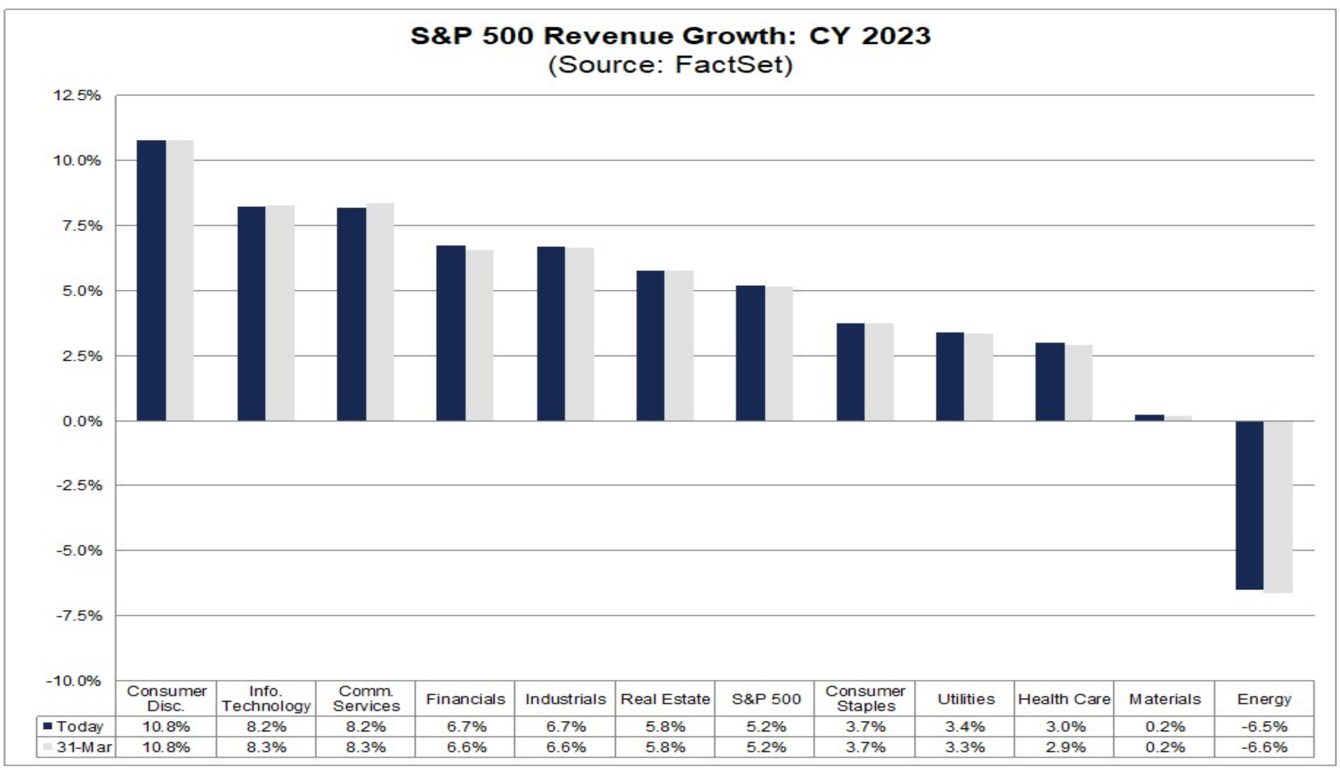


	Energy	Consumer Disc.	Real Estate	Industrials	Info. Technology	S&P 500	Comm. Services	Materials	Health Care	Consumer Staples	Financials	Utilities
Today	25.9%	14.3%	13.5%	11.4%	11.2%	9.5%	9.5%	8.9%	6.6%	4.5%	3.3%	-5.6%
31-Mar	24.0%	14.3%	13.4%	11.4%	11.2%	9.4%	9.5%	8.5%	6.7%	4.5%	3.4%	-5.7%

CY 2023: Growth

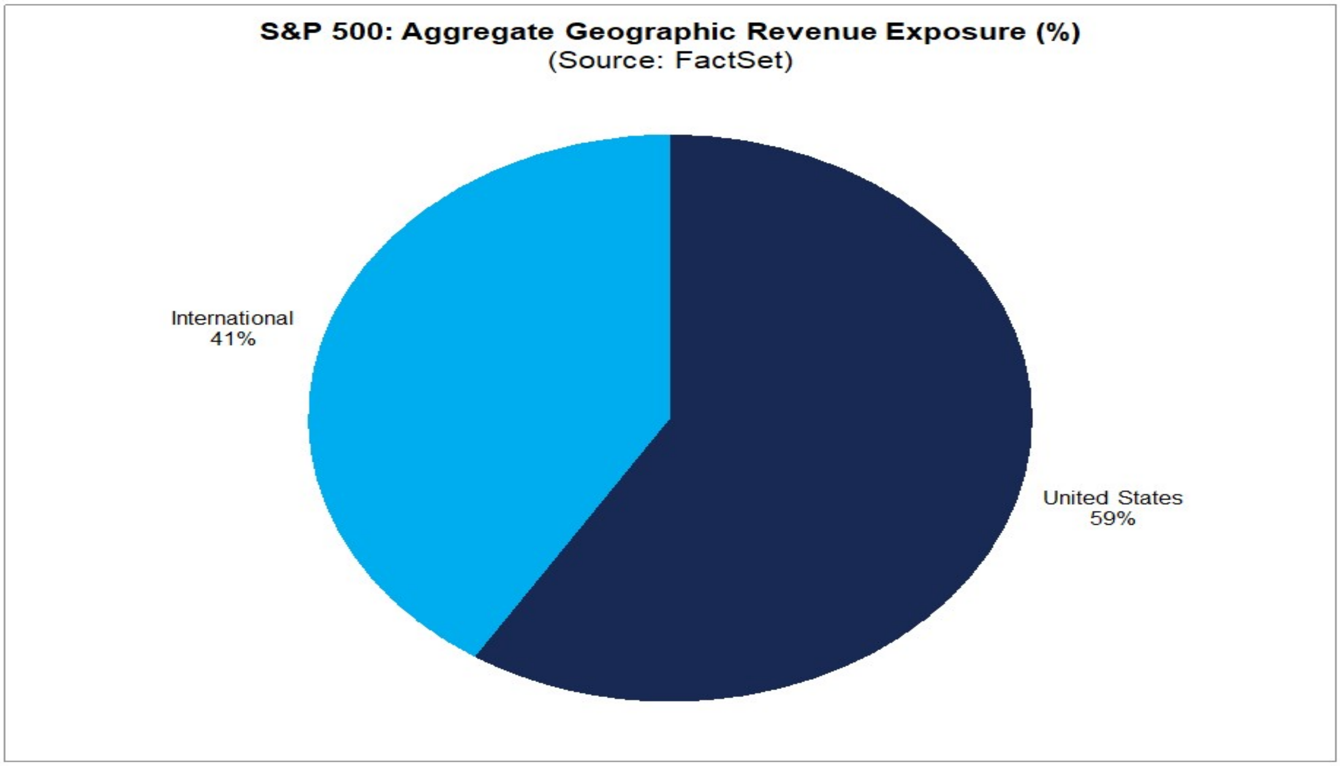


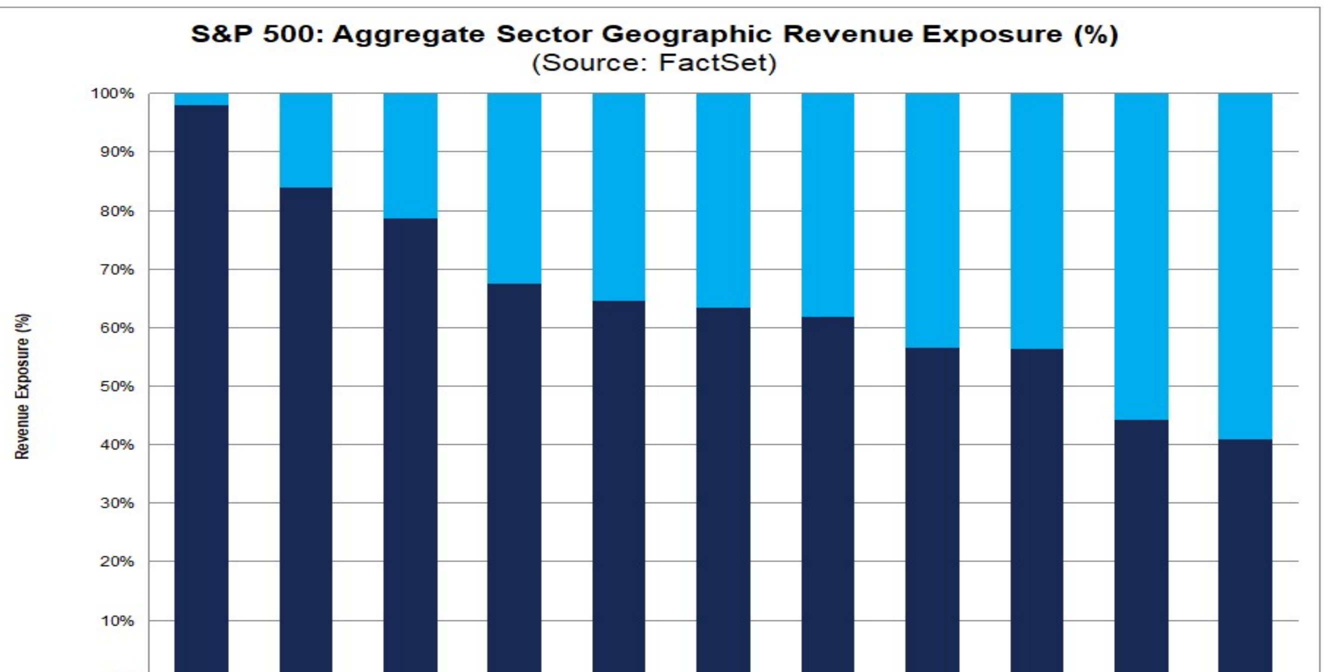
	Consumer Disc.	Industrials	Comm. Services	Financials	Info. Technology	Real Estate	S&P 500	Consumer Staples	Utilities	Health Care	Materials	Energy
Today	25.4%	20.6%	16.0%	14.6%	11.1%	10.7%	10.2%	7.8%	7.8%	1.6%	-3.3%	-9.3%
31-Mar	25.4%	20.4%	15.9%	13.9%	11.2%	11.0%	10.1%	7.8%	7.8%	1.1%	-3.4%	-10.1%



	Consumer Disc.	Info. Technology	Comm. Services	Financials	Industrials	Real Estate	S&P 500	Consumer Staples	Utilities	Health Care	Materials	Energy
Today	10.8%	8.2%	8.2%	6.7%	6.7%	5.8%	5.2%	3.7%	3.4%	3.0%	0.2%	-6.5%
31-Mar	10.8%	8.3%	8.3%	6.6%	6.6%	5.8%	5.2%	3.7%	3.3%	2.9%	0.2%	-6.6%

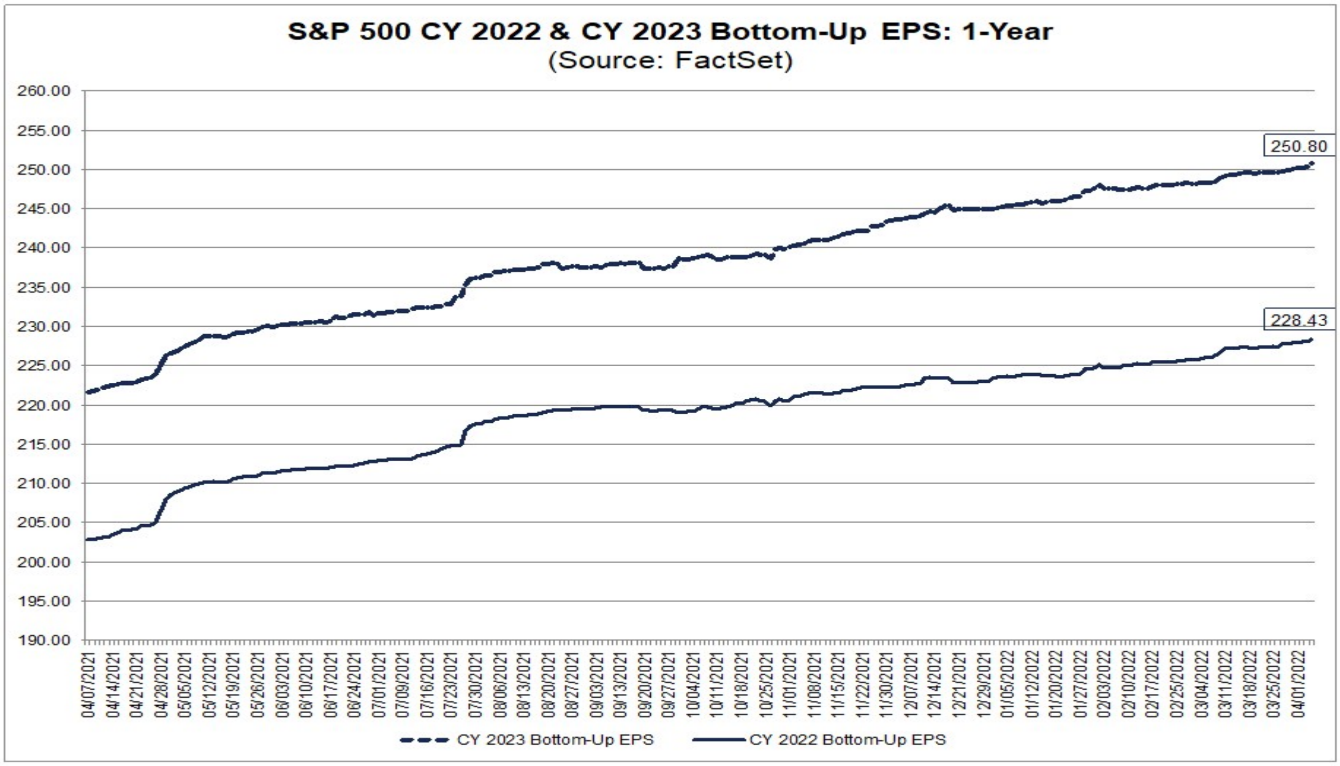
Geographic Revenue Exposure

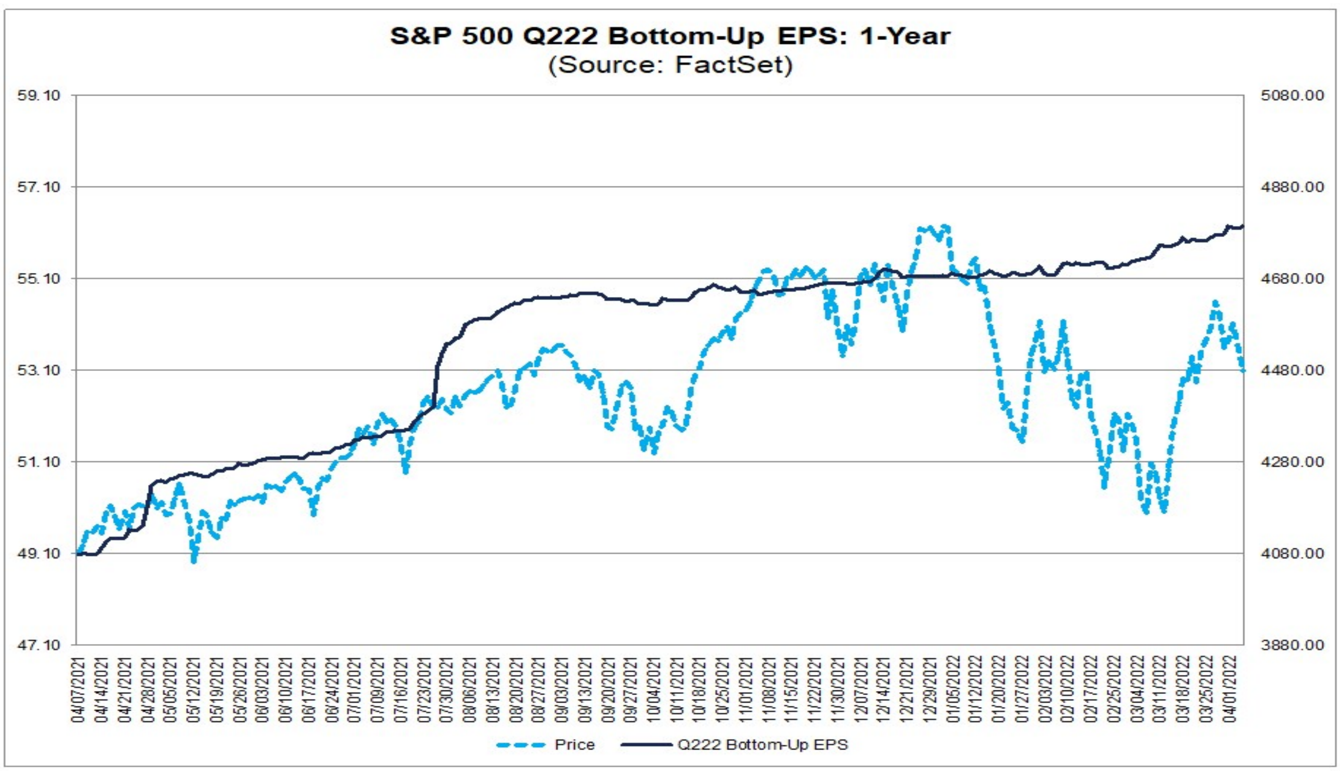




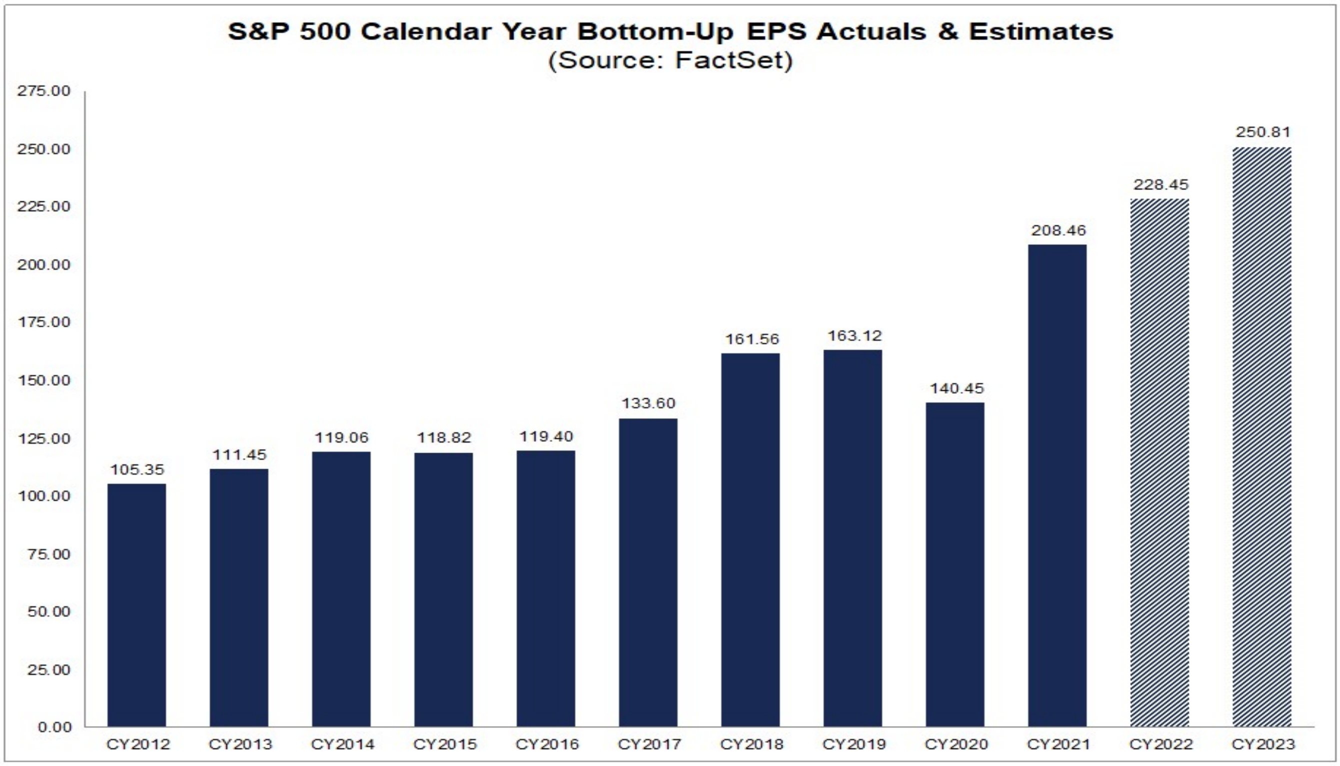
	Utilities	Real Estate	Financials	Industrials	Consumer Disc.	Health Care	Energy	Comm. Services	Consumer Staples	Materials	Info. Technology
International	2%	16%	21%	33%	35%	37%	38%	43%	44%	56%	59%
United States	98%	84%	79%	67%	65%	63%	62%	57%	56%	44%	41%

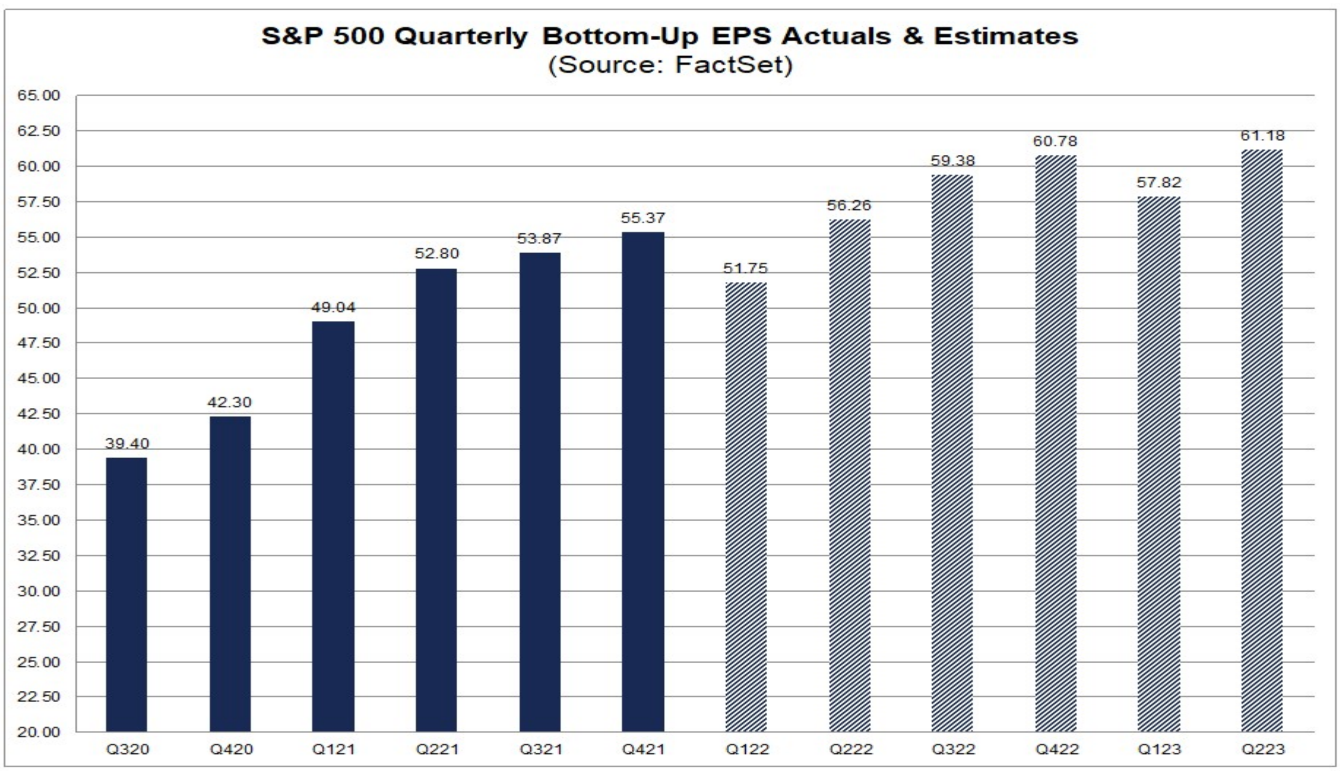
Bottom-up EPS Estimates: Revisions



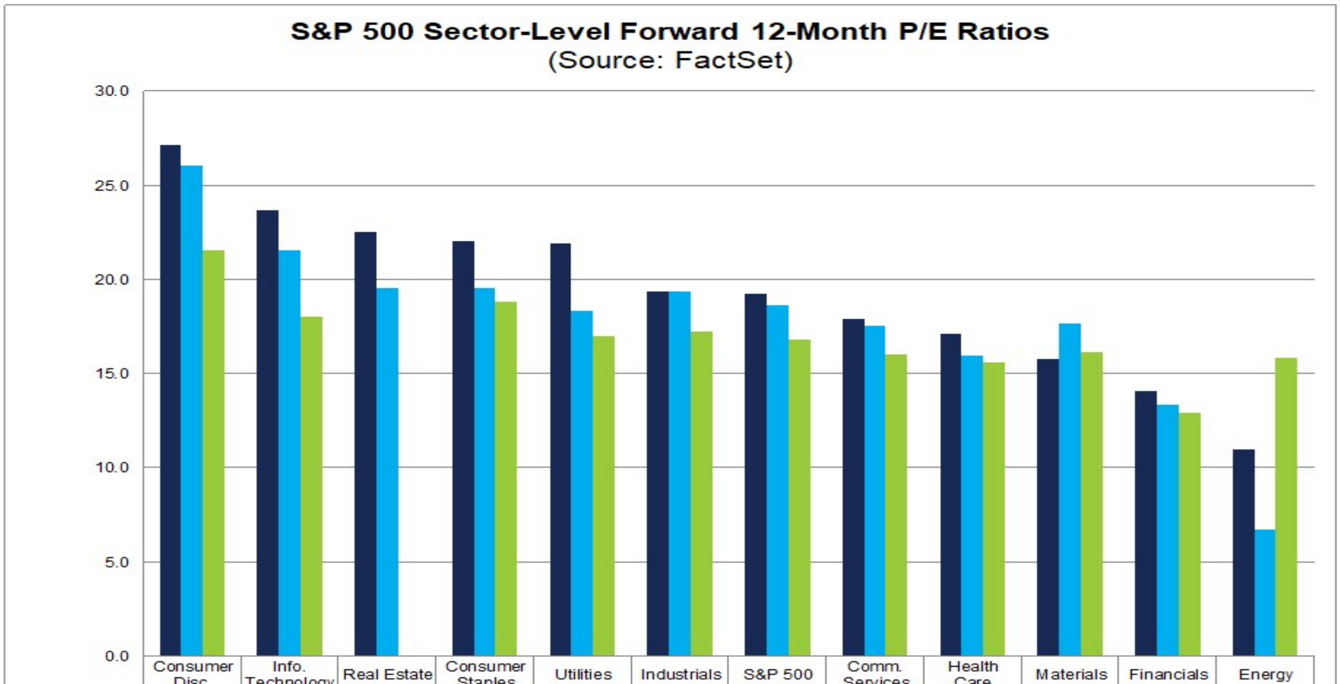


Bottom-up EPS Estimates: Current & Historical

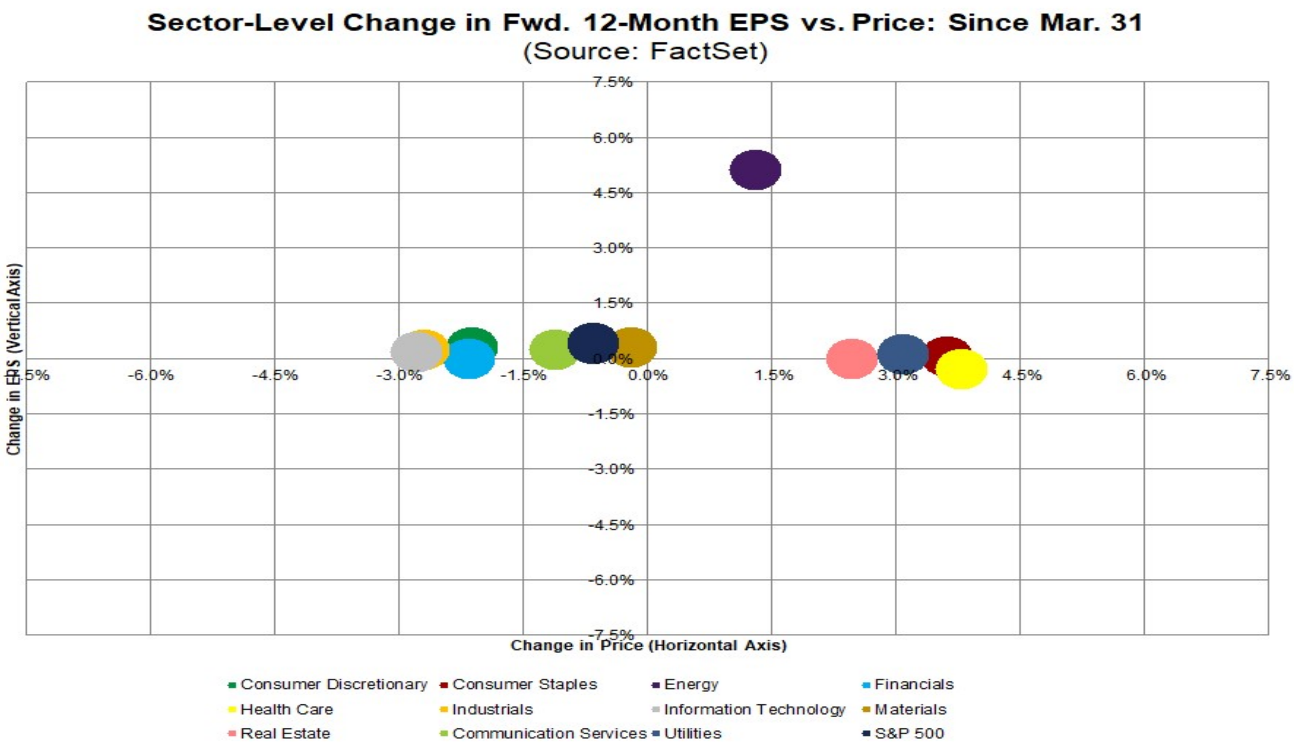




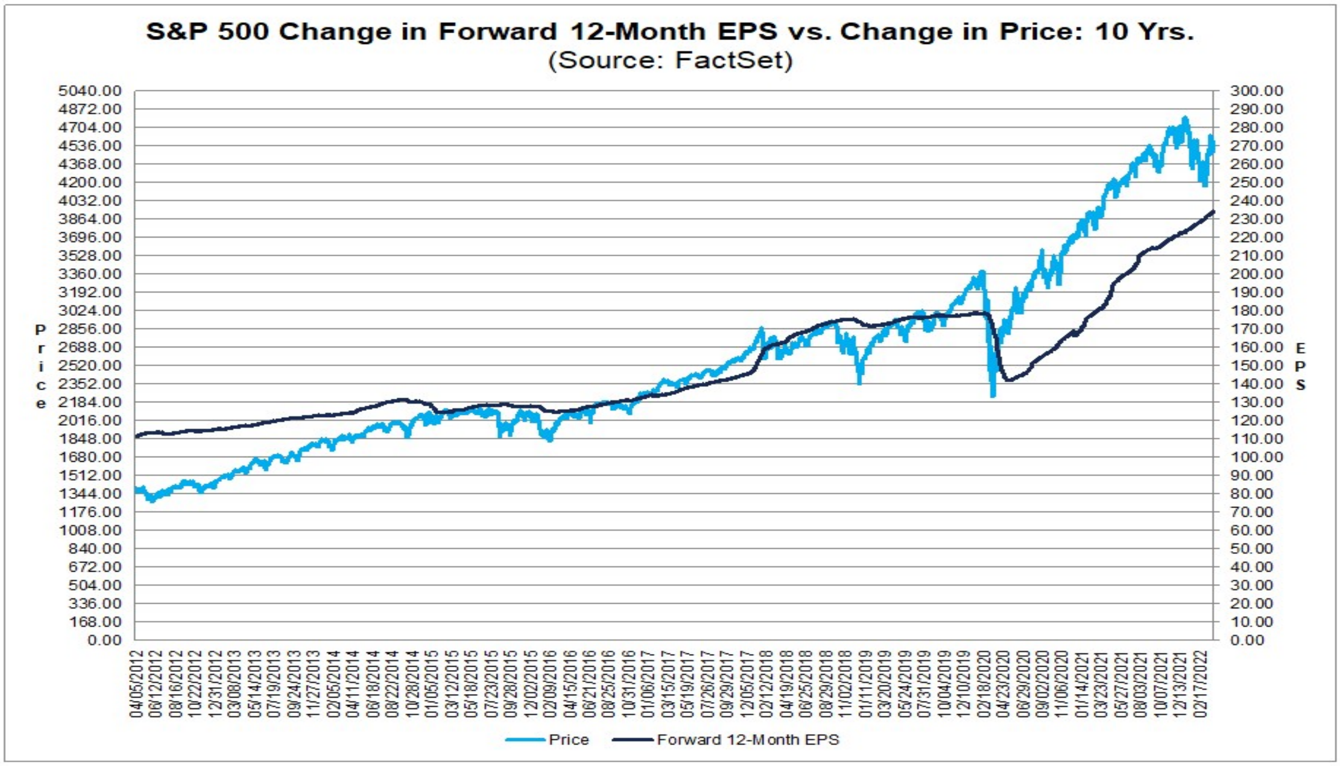
Forward 12M P/E Ratio: Sector Level

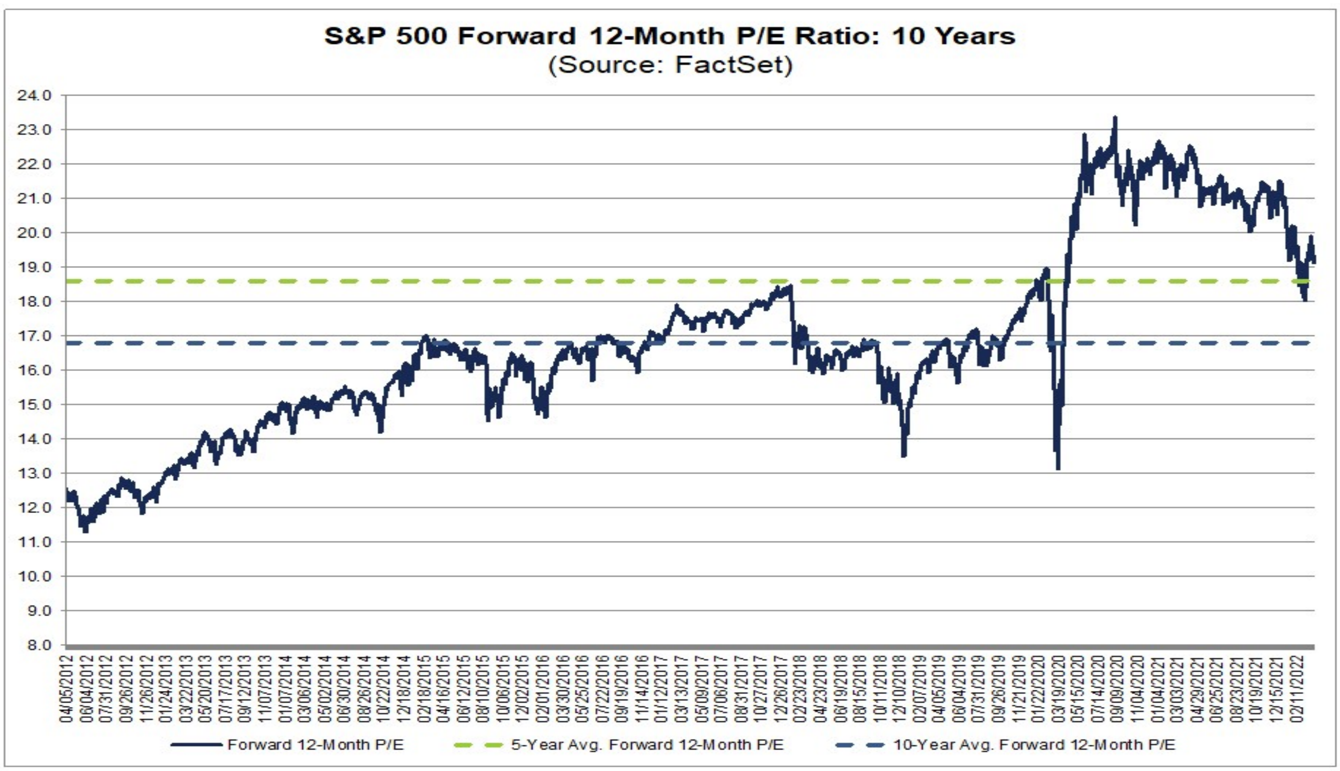


	Consumer Disc.	Info. Technology	Real Estate	Consumer Staples	Utilities	Industrials	S&P 500	Comm. Services	Health Care	Materials	Financials	Energy
Fwd P/E	27.1	23.6	22.5	22.0	21.9	19.3	19.2	17.9	17.1	15.7	14.1	11.0
5-Yr Avg.	26.0	21.6	19.5	19.5	18.3	19.4	18.6	17.5	16.0	17.7	13.4	6.7
10-Yr Avg.	21.5	18.0		18.8	17.0	17.2	16.8	16.0	15.6	16.1	12.9	15.8

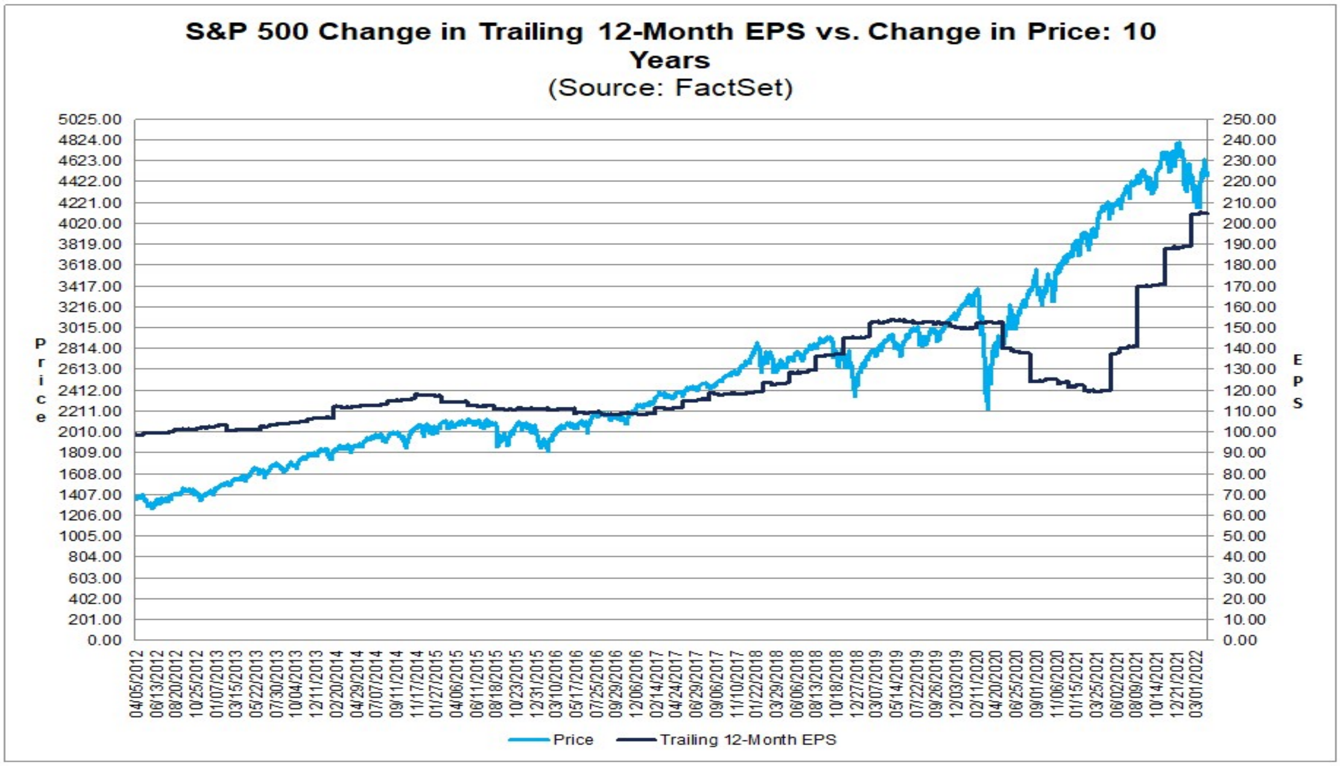


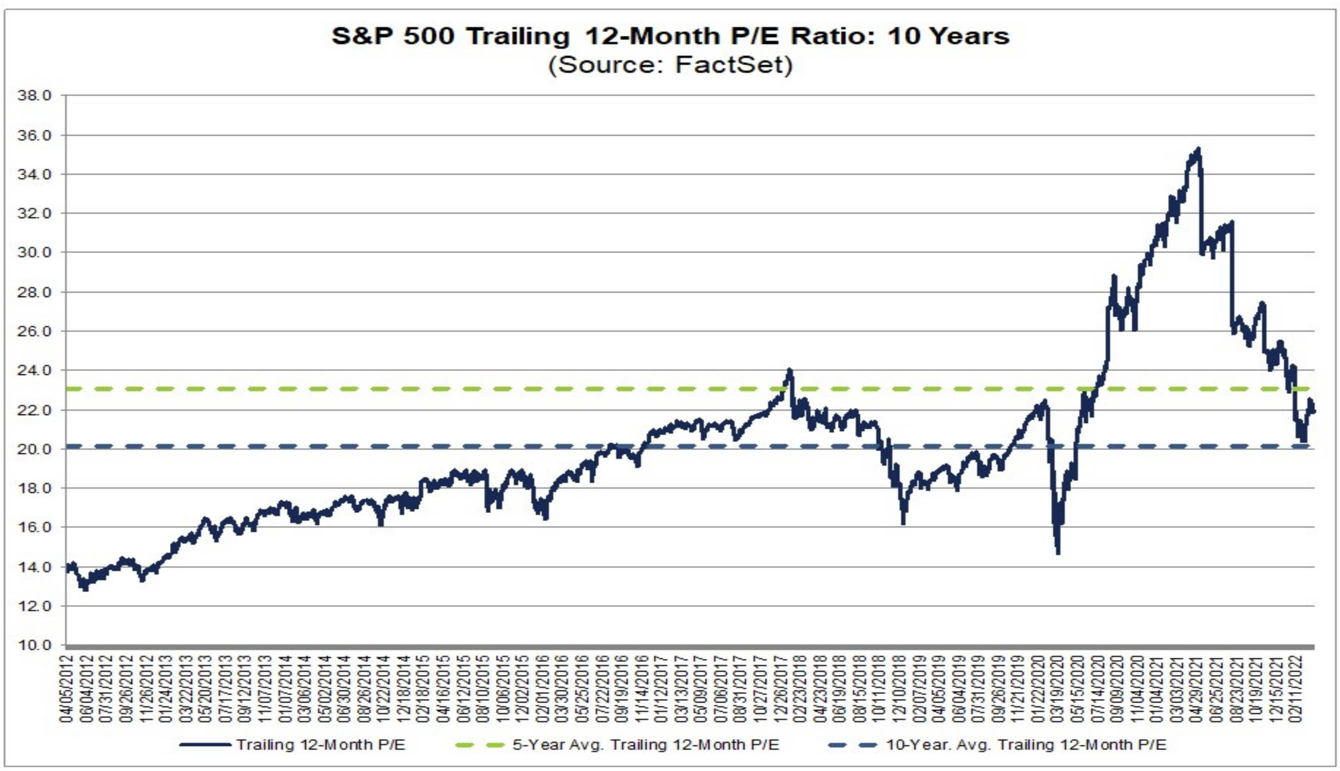
Forward 12M P/E Ratio: 10-Years





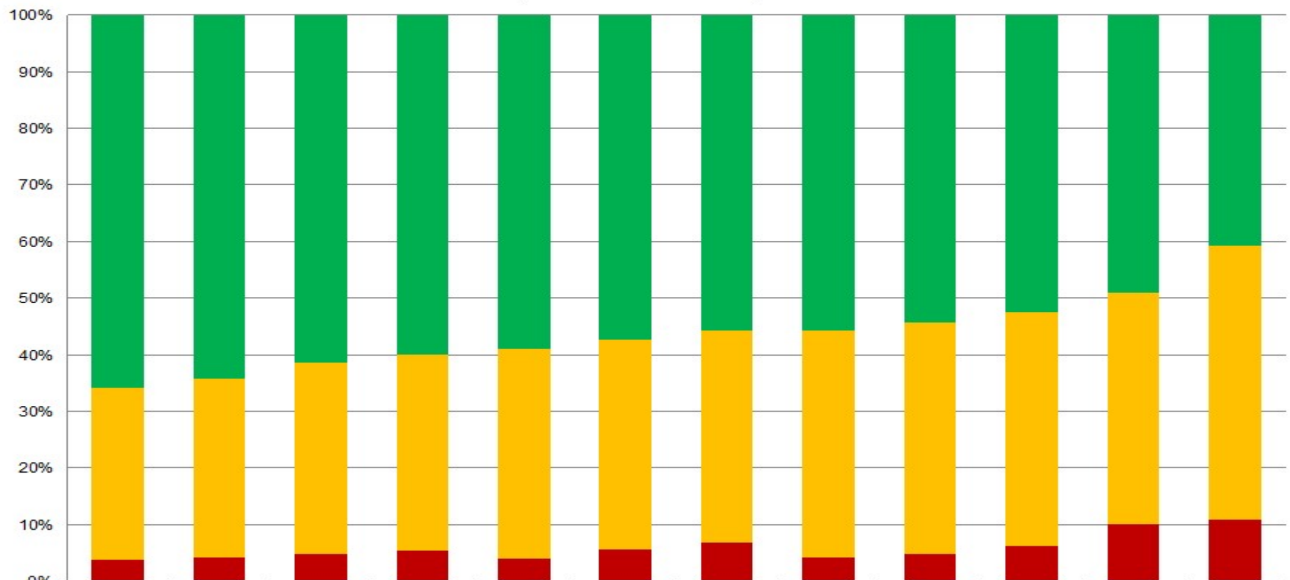
Trailing 12M P/E Ratio: 10-Years





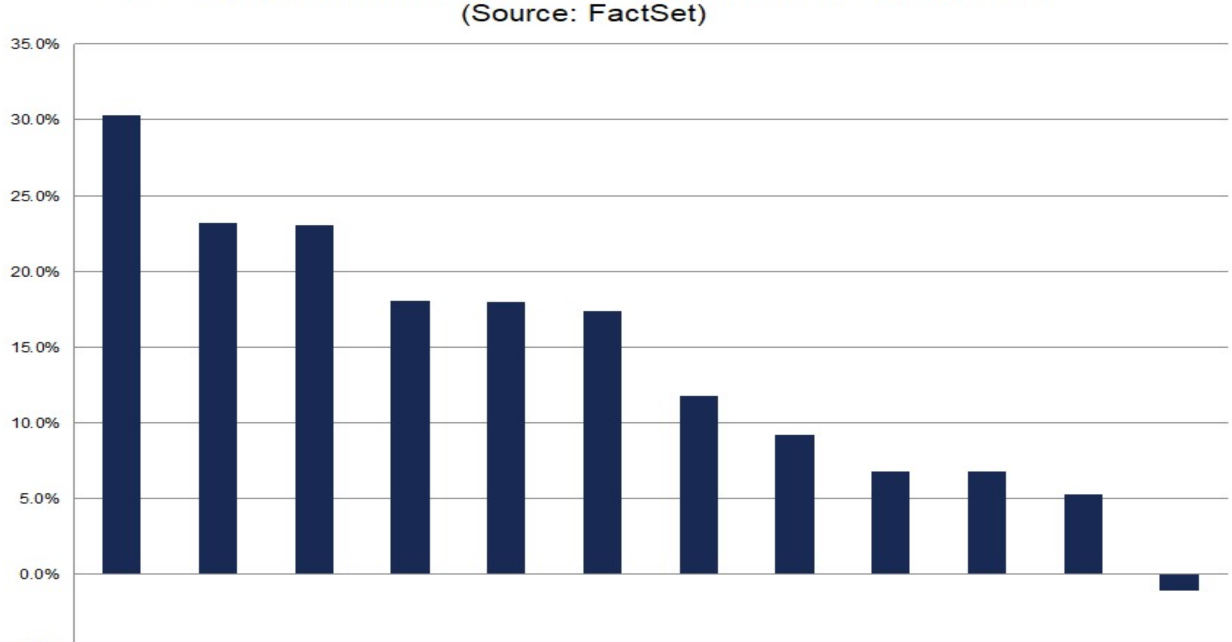
Targets & Ratings

S&P 500: Percentage of Buy, Hold, and Sell Ratings
(Source: FactSet)



	Energy	Info. Tech.	Comm. Services	Health Care	Consumer Disc.	S&P 500	Industrials	Real Estate	Materials	Financials	Utilities	Consumer Staples
Buy	66%	64%	61%	60%	59%	57%	56%	56%	54%	53%	49%	41%
Hold	30%	31%	34%	35%	37%	37%	38%	40%	41%	41%	41%	48%
Sell	4%	4%	5%	5%	4%	6%	7%	4%	5%	6%	10%	11%

S&P 500 Sector-Level Bottom-Up Target Price vs. Closing Price
(Source: FactSet)



	Comm. Services	Consumer Disc.	Info. Tech.	Industrials	Financials	S&P 500	Materials	Energy	Real Estate	Health Care	Consumer Staples	Utilities
Target/Close	30.3%	23.2%	23.1%	18.0%	18.0%	17.4%	11.8%	9.2%	6.8%	6.8%	5.3%	-1.1%

Appendix 1: Q1 Earnings Call Comments

Labor Costs & Shortages (13)

The level of base productivity we achieved in our plants and our production output were both challenged in Q3 due to Omicron-related labor disruptions. -Conagra Brands (Apr. 7)

As previously discussed, the implied decline in operating margin is predominantly driven by gross margin compression as benefits from price and our cost savings agenda are expected to be more than offset by the following COGS headwinds...Second, similar to fiscal 2022, we are expecting incremental brewery costs driven by labor inflation in Mexico is estimated to range between 5% and 6% as well as incremental head count and training expenses to support our continued capacity expansion initiatives. -Constellation Brands (Apr. 7)

Labor costs also increased due to competition for factory workers. -Lamb Weston (Apr. 7)

But the one thing I do want to mention is around – if you look at the fiscal 2022 guidance, there's some additional detail in there. We had incremental people investments in pharmacy, around $158 million. That's roughly about $0.14 of EPS above our October guidance. We had minimum wage increases in the October guidance and with – just looking at that, that's about a 2% EPS headwind in the second half of the year. -Walgreens Boots Alliance (Mar. 31)

And then, of course, we're also seeing wage inflation happening, so there are lots of vectors through which inflation is getting transmitted into the business. And of course we are, I believe, doing a really extraordinary job of containing our costs, but of course these inflationary pressures are there. -Micron (Mar. 29)

Our biggest staffing challenge during the quarter was managing the impacts of team member and manager exclusions due to Omicron. To provide some context, at the peak, team member exclusions in January were three times higher than the monthly peak we experienced with Delta. I am really proud of how our teams managed through the impacts of Omicron. As it moved across the country, we had some restaurants that were down as much as 40% of their staff and others that needed to limit their hours were temporarily moved to takeout only in order to operate effectively. -Darden Restaurants (Mar. 24)

We are winning in an operating environment that remains highly volatile. The whole industry continues to face transportation challenges and labor shortages. Our suppliers are facing these same constraints, leading to significant disruptions for our business. -General Mills (Mar. 23)

Yet these challenging operational deliverables were achieved while encountering strong headwinds like Delta, Omicron, complex constraining and constantly changing regulations and protocols. And more recently, the very troubling invasion of Ukraine, all of which undermine consumer confidence and generated greater friction on cross-border travel, labor, supply chain, itinerary planning and more. -Carnival (Mar. 22)

But for us, as it relates to wage inflation, we see for our business that we're going to continue to have wage increases in the market for certain skills, and that's going to continue to vary by geography. And we're also looking at how the Consumer Price Index and any increases there and how that might potentially spill over into inflation at the lower-end of our pyramid. And so we're focusing on pricing to absorb our higher labor costs. And again, as it relates to pricing, what we're seeing is that it's going to take some time, Keith, for the improved pricing, which we did have in the second quarter again on our record bookings. We're going to see that flow through our P&L. We did see some of that impact in the second quarter, but that obviously lags the impact of compensation increases. -Accenture (Mar. 17)

First, labor market conditions, although much improved, once again, had a significant effect on our results at an estimated $350 million year-over-year, which was primarily experienced at Ground. For the third quarter, that was primarily due to higher rates for both purchased transportation and wages. Labor availability driven network inefficiencies were significantly less of a factor in the third quarter compared to earlier in the year. -FedEx (Mar. 17)

We also know that difficulties in the supply chain present challenges for Lennar and for the industry, and that land and labor are in short supply. -Lennar (Mar. 17)

Moving to inflation. Inflation, of course, continues, as evidenced by our LIFO charge. The inflationary pressures that we and others continue to see include higher labor costs, higher freight costs, as well as higher transportation demand, along with the container shortages and port delays that I just mentioned. -Costco (Mar. 3)

As we mentioned before, I mean, we are seeing cost inflation in certain categories. We're also seeing higher transportation costs. We're seeing higher labor costs across the board. -AutoZone (Mar. 1)

COVID-19 Costs & Impact (12)

The level of base productivity we achieved in our plants and our production output were both challenged in Q3 due to Omicron-related labor disruptions. -Conagra Brands (Apr. 7)

Now let's move on to our Wine and Spirits business. Despite the confluence of factors impacting this business in fiscal 2022, including a major distributor transition, migration to SAP, inflationary headwinds and COVID-related logistics and supply chain challenges, this business delivered strong organic net sales growth of 9% and solid gross margin improvement for the year. -Constellation Brands (Apr. 7)

Specifically, in the third quarter, we delivered solid sales growth and drove sequential and year-over-year gross margin expansion. And we did this despite the impact of Omicron variant slowing restaurant traffic and disrupting our production and distribution operations more than we expected. -Lamb Weston (Apr. 7)

Let's now look in more detail at Boots UK. Comparable pharmacy sales increased 3.6%. Stronger demand for services contributed to the increase, with sales up almost 75% year-on-year, benefiting from COVID-19 testing and vaccinations, as well as new online healthcare services. Comp retail sales increased 22% despite the headwind created by the Omicron variant. -Walgreens Boots Alliance (Mar. 31)

In late December, a government mandated COVID-19 lockdown impacted production output at our backend facility in Xi'an, China. The Micron team executed with tenacity to return the Xi'an site back to normal output levels post lockdown. As a result of this outstanding effort, we mitigated the lost output from Xi'an and delivered on our customer commitments for the quarter by leveraging our global manufacturing network. Additional COVID-19-related lockdowns in the region present a risk to the global electronics supply chain, and we continue to monitor the situation closely. -Micron (Mar. 29)

And in the Asia/Pacific regions, first quarter growth was tempered by scaled down Chinese New Year celebrations, due to several cities in China imposing restrictions as a result of new COVID outbreaks. These restrictions impacted our branded foodservice demand that is included in the Consumer segment in China. -McCormick & Co. (Mar. 29)

However, in fiscal January, which is a high-volume period for us, the Omicron variant significantly impacted consumer demand, restaurant staffing and operating expenses. We also experienced substantial weather impacts, all of which resulted in significantly lower sales and earnings than our internal expectations. -Darden Restaurants (Mar. 24)

However, we had anticipated first quarter occupancy would exceed a 58% achieved in the fourth quarter of 2021. We started the quarter with over 55% cabin occupancy booked for the first quarter and expected to improve upon that during the quarter. However, during the first quarter 2022, as a result of the Omicron variant, we experienced an impact on bookings for near-term sailings, including higher cancellations resulting from an increase in pre-travel positive test results, challenges in the availability of timely pre-travel tests, and the disruption that Omicron caused on society during this time. -Carnival (Mar. 22)

NIKE Direct was down 11% on a currency-neutral basis, with declines in both digital and physical retail channels. COVID-related lockdowns continue to create challenges for retail traffic. -NIKE (Mar. 21)

After a strong start to the third quarter with the most profitable December in company history, January was significantly influenced by the rapid spread of the Omicron variant and its negative effect on our operations and the macro environment. These challenges subsided during February, resulting in third quarter adjusted operating income of $1.5 billion, up 37% year-over-year on an adjusted basis…The implications from the Omicron variant surge reduced third quarter operating income by an estimated $350 million, predominantly at Express, as it influenced customer demand and pressured our operations, resulting in constrained capacity, network disruptions, and lower volumes and revenue. -FedEx (Mar. 17)

The first quarter was also different in that the Omicron spike in January dramatically impacted everything. A significant amount of labor at manufacturers, suppliers, local trade partners and our own associates was out from work. This was most severe in January and then eased rapidly in February. At times, in January, it seemed as though as much as one-half of the workforce across the industry was quarantined at home. This challenged our management, purchasing and construction teams to be extremely nimble in finding workaround solutions to the unique challenges that the Omicron spike created. -Lennar (Mar. 17)

From a supply chain perspective, similar issues that we outlined both 12 and 24 weeks ago on the past quarterly earnings calls. The factors pressuring supply chains and inflation include port delays, container shortages, COVID disruptions, shortages of various components and raw materials and ingredients and supplies, labor cost pressures of course, as well as truck and driver shortages. -Costco (Mar. 3)

Supply Chain Disruptions & Costs (12)

Slide 36 goes into more detail on where we saw this inflation impact on our supply chain most severely in the third quarter, and where the bulk of the incremental $100 million of new inflation is coming from. -Conagra Brands (Apr. 7)

Now let's move on to our Wine and Spirits business. Despite the confluence of factors impacting this business in fiscal 2022, including a major distributor transition, migration to SAP, inflationary headwinds and COVID-related logistics and supply chain challenges, this business delivered strong organic net sales growth of 9% and solid gross margin improvement for the year. -Constellation Brands (Apr. 7)

However, we expect sales volumes will continue to be pressured as export volumes remain constrained due to limited shipping container availability, supply chain volatility and labor shortages, challenged run rates and throughput at our factories. -Lamb Weston (Apr. 7)

As anticipated, the profit driven by our sales growth was more than offset by the well-known and anticipated headwinds of higher inflation and broad-based supply chain challenges. -McCormick & Co. (Mar. 29)

And even though the availability of some of these components is improving, there is a level of cost pressure across the supply chain, and these cost pressures are coming across a range of commodities that we buy, a range of input costs, and the way we operate our fabs and back end facilities, so it's an industry-wide pressure across a range of issues and they will continue despite the improvements of availability of some components. -Micron (Mar. 29)

The January spike also caused further supply chain disruptions, and we now expect inflation to be higher in Q4 than when we talked in December. -Darden Restaurants (Mar. 24)

Slide 5 summarizes our third quarter and year-to-date financial performance. Organic net sales growth was up 4% in the quarter, driven by a positive price/mix. Higher supply chain costs and lower volume outstripped our pricing and productivity efforts, resulting in a 6% decline in constant currency adjusted operating profit. -General Mills (Mar. 23)

Yet these challenging operational deliverables were achieved while encountering strong headwinds like Delta, Omicron, complex constraining and constantly changing regulations and protocols. And more recently, the very troubling invasion of Ukraine, all of which undermine consumer confidence and generated greater friction on cross-border travel, labor, supply chain, itinerary planning and more. -Carnival (Mar. 22)

Benefits of strategic pricing expected in Q4 are being partially offset by elevated product costs, primarily due to higher macro input cost, supply chain costs and strategic actions to expedite delivery of product in North America. -NIKE (Mar. 21)

While demand is strong, supply is short and constrained, the ability to actually build and deliver homes has been slowed by the supply chain that is all but broken, by the workforce that is short in supply and the intense competition for scarce and titled land assets. -Lennar (Mar. 17)

From a supply chain perspective, similar issues that we outlined both 12 and 24 weeks ago on the past quarterly earnings calls. The factors pressuring supply chains and inflation include port delays, container shortages, COVID disruptions, shortages of various components and raw materials and ingredients and supplies, labor cost pressures of course, as well as truck and driver shortages. -Costco (Mar. 3)

Our in-stock positions are still below where we were pre-pandemic, are continuing to improve as our supply chain and merchandising teams have made great progress in a challenging supply chain environment. -AutoZone (Mar. 1)

Raw Material & Commodity Costs (10)

With respect to proteins and dairy, we also saw Q3 inflation at rates higher than previously forecasted. Meat based proteins are difficult to hedge and current industry freezer inventory positions are at multiyear lows. This supply dynamic limits our ability to build our freezer stock inventory, which is our typical coverage strategy. For a bit more perspective on cost, our total meat-based protein spend in fiscal 2021 approximated $675 million. For fiscal 2022, we now estimate total meat based protein market inflation of approximately 50%, which is approximately $340 million of additional market cost in this one commodity area, driving nearly 40% of our total gross materials inflation in fiscal 2022. In summary, these three categories alone are estimated to drive $0.16 of the incremental gross cost inflation we're now expecting for Q4. -Conagra Brands (Apr. 7)

As previously discussed, the implied decline in operating margin is predominantly driven by gross margin compression as benefits from price and our cost savings agenda are expected to be more than offset by the following COGS headwinds. First, we are expecting elevated inflationary pressures to continue throughout fiscal 2023 and estimating inflation on the commodity spend component of raw-impacted materials to land, on average, in the high-single digit to low-double digit range, including the impact of hedging where available. These significant inflationary pressures are expected across numerous components but largely driven by aluminum, cartons, wood pallets, and steel. -Constellation Brands (Apr. 7)

Looking at our costs, double-digit inflation drove the increase in cost per pound for the third straight quarter and accounted essentially for all of the increase in the quarter. There were four key areas that drove the increase in cost. First, commodities played the biggest role led by edible oils, ingredients for batter and other coatings and packaging. -Lamb Weston (Apr. 7)

I think honestly most of the impact we've talked about, especially recently, is more on the transportation and the packaging side. There's exposures to the resins and oil costs and things like that. -McCormick & Co. (Mar. 29)

Yeah, in terms of our cost pressures, certainly if you look at the overall environment out there, things are continuing to be challenging, and this is an industry-wide statement. So whether you look at the price of oil and natural gas that are important commodities that impact even the price of electricity to a lot of the other raw materials and commodities that we purchase and noble gases, a lot of these things, even the pricing of OSAT, external subcon services and of course you're seeing inflation in even foundry logic prices. -Micron (Mar. 29

For the third quarter, food and beverage expenses were 270 basis points higher, driven by elevated commodities inflation as well as investments in food quality, portion size and pricing significantly below inflation. Our commodity inflation this quarter was 11%. -Darden Restaurants (Mar. 24)

Not only have supply chain disruptions been a challenge, but we are also facing historic levels of input cost inflation. Our market basket measured at spot rates has been at a multi-decade high in recent months, and Russia's invasion of Ukraine has driven further stock market inflation and volatility. Critically, we've seen very limited impact from those movements on our fiscal 2022 inflation outlook, which remains at 8% to 9% across our full cost of goods, including raw and packaging materials, manufacturing and logistics. -General Mills (Mar. 23)

Turning to cost now. Our direct construction costs were up 3% sequentially from Q4 and 23% year-over-year. Lumber was relatively flat sequentially, but accounted for about 60% of the year-over-year increase. As you are aware, lumber dramatically increased again, up almost 100% since December 1 to $1,400 per 1,000 board feet. This increase in lumber will cause about a $5 per square foot increase by August of this year. -Lennar (Mar. 17)

Moving to inflation. Inflation, of course, continues, as evidenced by our LIFO charge. The inflationary pressures that we and others continue to see include higher labor costs, higher freight costs, as well as higher transportation demand, along with the container shortages and port delays that I just mentioned. Increased demand in certain product categories, various shortages of everything from computer chips to oils, and chemicals to resins. Higher commodity prices from food service oils to additives and motor oils, to plastics, to detergents, to paper products as well. -Costco (Mar. 3)

As rising raw material pricing, labor and transportation costs are all impacting us and our suppliers, inflation has been prevalent in the aftermarket space. -AutoZone (Mar. 1)

Transportation & Freight Costs (10)

Beginning with transportation, Q3 costs were heavily impacted by driver and truck availability, which resulted in more inflationary pressures from spot market usage and rates. Additionally, as you are all aware, fuel prices were driven up significantly during the quarter due to unforeseen worldwide events. -Conagra Brands (Apr. 7)

As previously discussed, the implied decline in operating margin is predominantly driven by gross margin compression as benefits from price and our cost savings agenda are expected to be more than offset by the following COGS headwinds...And finally, we expect margin headwinds related to incremental logistics costs and fuel and freight rates for both rail and truck which is expected to drive an increase in the low to high single digit range. -Constellation Brands (Apr. 7)

Like others, we're managing through freight challenges, including both cost increases and shipping delays. The freight challenges are impacting our top line as it limits our ability to service full demand. This is caused by a lack of containers for international and domestic shipments and truck driver shortages. -Lamb Weston (Apr. 7)

Things I'm excited about, though, I recently went through a review on inflation. We have basically offset all the inflationary impacts, and that includes a massive increase in the cost of international ocean freight, which is one of the biggest headaches in – for most retailers right now. -Walgreens Boots Alliance (Mar. 31)

Cost inflation has remained persistent with recent escalation in some areas such as transportation costs. And as such, we have raised our cost inflation guidance. It is now a mid- to high-teen increase. -McCormick & Co. (Mar. 29)

We are winning in an operating environment that remains highly volatile. The whole industry continues to face transportation challenges and labor shortages. Our suppliers are facing these same constraints, leading to significant disruptions for our business. -General Mills (Mar. 23)

Gross margin increased 100 basis points versus the prior year, driven primarily by higher NIKE Direct margins due to lower markdowns, favorable foreign currency exchange rates, and a higher full-price mix, partially offset by increased freight and logistics costs. -NIKE (Mar. 21)

First, labor market conditions, although much improved, once again, had a significant effect on our results at an estimated $350 million year-over-year, which was primarily experienced at Ground. For the third quarter, that was primarily due to higher rates for both purchased transportation and wages. Labor availability driven network inefficiencies were significantly less of a factor in the third quarter compared to earlier in the year. -FedEx (Mar. 17)

Moving to inflation. Inflation, of course, continues, as evidenced by our LIFO charge. The inflationary pressures that we and others continue to see include higher labor costs, higher freight costs, as well as higher transportation demand, along with the container shortages and port delays that I just mentioned. -Costco (Mar. 3)

As we mentioned before, I mean, we are seeing cost inflation in certain categories. We're also seeing higher transportation costs. We're seeing higher labor costs across the board. -AutoZone (Mar. 1)

Higher Oil & Gas Prices (6)

Beginning with transportation, Q3 costs were heavily impacted by driver and truck availability, which resulted in more inflationary pressures from spot market usage and rates. Additionally, as you are all aware, fuel prices were driven up significantly during the quarter due to unforeseen worldwide events. -Conagra Brands (Apr. 7)

As previously discussed, the implied decline in operating margin is predominantly driven by gross margin compression as benefits from price and our cost savings agenda are expected to be more than offset by the following COGS headwinds...And finally, we expect margin headwinds related to incremental logistics costs and fuel and freight rates for both rail and truck which is expected to drive an increase in the low to high single digit range. -Constellation Brands (Apr. 7)

This, combined with higher fuel costs, has also increased our costs to deliver products. -Lamb Weston (Apr. 7)

I think the thing that's really changed since the first quarter for the year-end call when we talked about the inflation moving from mid-teens to mid- to high-teens, really there's been a bit of an acceleration in things like fuel cost that will impact our second quarter. -McCormick & Co. (Mar. 29)

Yeah, in terms of our cost pressures, certainly if you look at the overall environment out there, things are continuing to be challenging, and this is an industry-wide statement. So whether you look at the price of oil and natural gas that are important commodities that impact even the price of electricity to a lot of the other raw materials and commodities that we purchase and noble gases, a lot of these things, even the pricing of OSAT, external subcon services and of course you're seeing inflation in even foundry logic prices. -Micron (Mar. 29)

Energy expenses comprised of gasoline, natural gas and electricity were a headwind, increasing 45 basis points from last year. -Cintas (Mar. 23)

Ukraine / Russia (5)

We have said in our 8-K, sales for Russia and Ukraine are less than 1% of our total sales. So, that's – and so that's forced in. It will have an impact in the second quarter, obviously, because that's when the crisis has unfolded. I mean as far as your question about broader impacts, primarily inflation, I think you've seen in the last couple of weeks and part of the reasons we've taken our inflation expectations up and discussed pricing is because of some of those impacts. -McCormick & Co. (Mar. 29)

The global semiconductor supply chain is experiencing pressure due to impact of Russia's invasion of Ukraine. The region is an important source for the global supply of noble gases and other critical minerals that are used in semiconductor manufacturing. We have strategically diversified our supply chain over the last several years and maintain the appropriate inventories of materials and noble gases. We currently do not expect any negative impact to our near-term production volumes because of the Russia-Ukraine war, but we do expect an increase in our costs as we secure supply of certain raw materials that could be at risk. -Micron (Mar. 29)

Before we get to our Q2 targets, I want to discuss the impact of the devastating situation in Ukraine. Earlier this month, Adobe announced the cessation of all new sales in Russia and Belarus. In addition, we've made the decision to reduce our Digital Media ARR balance by $75 million which represents all ARR for existing business in these two countries. While we will extend subscriptions automatically in Ukraine during this period and continue to provide Digital Media services, we reduced ARR by an additional $12 million which represents our entire Ukraine business. This results in a total ARR reduction of $87 million and an expected revenue impact of $75 million for fiscal 2022… So for the war in Ukraine, we de-risked the profile around the situation. And it's the prudent thing to do to be conservative in situations like this. So that's what you see in the $87 million reduction in ARR as well as the $75 million reduction from a revenue standpoint, Q2 through Q4. So if I take that revenue and I flow it through the P&L, that's going to be about a $0.04 a share headwind per quarter for the balance of the year, Q2 through Q4. -Adobe (Mar. 22)

Now, concerning the invasion of Ukraine. For the 4.6% of our capacity that was expected to call on Russian ports in the remainder of the year, we have decided to totally withdraw from Russia and have found attractive alternatives. That said, St. Petersburg was a marquee port for us, and while there have been times where we were unable to offer certain high unit itineraries, in this instance, the closed end nature of the deployment change does lead to some regional disruption in recent booking patterns. -Carnival (Mar. 22)

So let me just cover what we're assuming in our guidance. So maybe I'll first start with our guidance does take into account the revenue impact of discontinuing our business in Russia and the cost to wind that down. -Accenture (Mar. 17)

Unfavorable Foreign Exchange (5)

And foreign exchange was an additional 10 basis point headwind. Together, these factors contributed to 5.1% growth in total Conagra net sales for the quarter versus a year ago. -Conagra Brands (Apr. 7)

We also expect there will be an estimated 1 percentage point unfavorable impact of currency rates on sales, adjusted operating income and adjusted earnings per share. -McCormick & Co. (Mar. 29)

For the third quarter of fiscal 2022, we expect revenues to be in the range of $15.7 billion to $16.15 billion. This assumes the impact of FX will be about negative 4% compared to the third quarter of fiscal 2021, and reflects an estimated 22% to 26% growth in local currency. -Accenture (Mar. 17)

Now the US dollar strengthened dramatically in November, and as you all know, it was a lot of fluctuations this quarter. But assuming currency exchange rates remain the same as they are right now, I expect we will see a currency headwind of 2% to 3% on revenue and $0.05 negative for EPS in Q4. Of course, the dollar could easily strengthen from here. -Oracle (Mar. 10)

Foreign currencies relative to the US dollar negatively impacted sales by approximately 50 basis points, while gasoline price inflation positively impacted sales by approximately 390 basis points. -Costco (Mar. 3)

Price Increases or Improved Price Realization (18)

But as we started to see this latest wave of inflation coming, we took action on pricing just as we have throughout the year. These new pricing moves go into effect in Q1 of fiscal 2023 and are highly targeted toward frozen and protein snacks. -Conagra Brands (Apr. 7)

On the other hand, as you move up the price ladder, you're seeing significant acceleration, and many of our brands are performing extremely well. And it does give us some opportunity to increase our pricing and to do probably even a better job of covering some of the inflationary increases than we see in the Beer Business. So I think you should expect them to see a bifurcated answer where we need to be sensitive to what the marketplace is giving us in the mainstream, but there's probably some opportunity as you look at the premium and up sections to be a little bit more aggressive in the pricing arena. -Constellation Brands (Apr. 7)

With respect to pricing, our price mix growth accelerated sequentially in the third quarter as we continue to execute on our previously announced product and freight pricing actions in our Foodservice and Retail segments to offset inflation and as we began to implement pricing actions in our Global segment. Going forward, if we see further inflation, we're prepared to take additional pricing actions as well as drive opportunities to improve product and customer mix. To that end, last week, we began implementing another round of pricing actions in our Foodservice and Retail segments and we expect to see the benefits of these actions gradually build over the next six months. -Lamb Weston (Apr. 7)

I think what we're seeing is the opportunity to be at the high end of our [price] range. The range would still be in that same, but I think we'll be at the high end of that range. -Paychex (Mar. 30)

To partially offset rising costs, we raised prices where appropriate late last year, are currently facing an additional pricing action and as costs have continued to accelerate, we will raise prices again this year where appropriate. -McCormick & Co. (Mar. 29)

So in terms of our end markets, FQ2 was a really good quarter. When we think about PCs, PCs performed well. Mobile performed well. Data center continues to be strong, and in fact, a lot of the gross margin upside that we experienced in FQ2 came from pricing improvements that were driven out of actually both DRAM and NAND, but definitely in DRAM as well versus our expectations. -Micron (Mar. 29)

As I mentioned last quarter, we began taking additional pricing in the third quarter and have also implemented additional actions to further preserve the strength of our business model while balancing the impact to our guests. For the third quarter, total pricing was 3.7% and for the fourth quarter, we expect our pricing to be approximately 6% compared to last year. -Darden Restaurants (Mar. 24)

Benefits from our investments in both content and functionality are validated by our annual price increase. For example, in the Americas, our price increase yielded $21 million, $7 million more than the prior year. While an inflationary environment did enable us to raise the rate of price increases above our historical 3% to 4%, we also realized these price increases across a wider base of clients. -FactSet Research Systems (Mar. 24)

We have been able to navigate this challenging time and delivered increased operating margins and EPS by productively selling new business, penetrating existing customers with more products and services, providing excellent service while driving operational efficiencies and obtaining incremental price increases from our customer base. -Cintas (Mar. 23)

And as we look at the fourth quarter this year, I think it's important to realize we're still going to have inflation. In fact, inflation in the fourth quarter will be higher. Our pricing will also be higher in the fourth quarter, and in line Q3 our inflation and pricing was in line with what we expected, and so we feel as if we have a good handle on both of those items. -General Mills (Mar. 23)

As we look towards the back half of the year, we expect quarterly sequential revenue and EPS growth in Q3 and Q4. In Digital Media, we expect strong second half ARR performance across Document Cloud and Creative Cloud including continued strength of emerging businesses like Acrobat Web, Frame.io, Substance, and Creative Cloud Express. In addition, we expect ARR contributions to increase sequentially in Q3 and Q4 from a new offering and pricing structure which starts late in Q2. -Adobe (Mar. 22)

And importantly, I am happy to report that prices on these bookings for the second half of 2022 continue to be higher with or without future cruise credits, or more commonly called FCCs normalized for bundled packages as compared to 2019 sailings. Our cumulative advanced book position for the first half of 2023 continues to be at the higher end of the historical range. Also at higher prices with or without FCCs normalized for bundled packages as compared to 2019 sailings. This is a great achievement given pricing on bookings for 2019 sailings is a tough comparison, as that was a high watermark for historical yields. -Carnival (Mar. 22)

We did implement a low-single-digit price increase in the second half of this year, or for the spring-summer 2023 season to be more specific. And given the transit times delays, we'll start to see more of that hit the market in the fourth quarter, but our approach to pricing and to the consumer is a careful one. We evaluate the price value of our products on a season-by-season basis. And our financial model, as a premium brand, starts first with the value that we create for the consumer in our products. And so, we're very careful about how we approach pricing and we take a long-term view with regards to the consumer because of that relationship that we have. So, as we look forward to the fourth quarter and fiscal 2023, we're continuing to look at the opportunities for additional pricing and we do see some. -NIKE (Mar. 21)

So I may first start with, we were really pleased with our performance in operating margin. So we've expanded 10 basis points for the first half of the year and we were flat in the second quarter. And really that was driven by revenue growth, as we mentioned with, that had improved pricing on our record bookings. -Accenture (Mar. 17)

With fuel prices increasing around the world, today we announced a fuel surcharge increase effective April 4 for FedEx Express, Ground, and Freight. -FedEx (Mar. 17)

Despite operating in this cost inflationary environment, our first quarter direct construction costs as a percent of revenue were stable at 43%, which is basically flat compared to 42% both sequentially and year-over-year. Simply put, our pricing power is offsetting these cost increases. -Lennar (Mar. 17)

For first quarter, a quarter ago, I mentioned that we estimated at that time overall price inflation to have been in the 4.5% to 5% range. For the second quarter, and talking with senior merchants, estimated overall price inflation was in the 6% range. -Costco (Mar. 3)

I would say a few things. One, if you look at our results specifically, there are really four dynamics. The first is, to a certain extent, inflation has been our friend. It's helped us drive higher pricing and the volumes are actually holding. If you look at where we've seen pricing grow, I mean, we're up mid-single digits in retails for the first half. And quite frankly, if we see that same level of inflation in the back half, which is reasonable, then you could expect us to take pricing up in a similar dynamic. -AutoZone (Mar. 1)

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