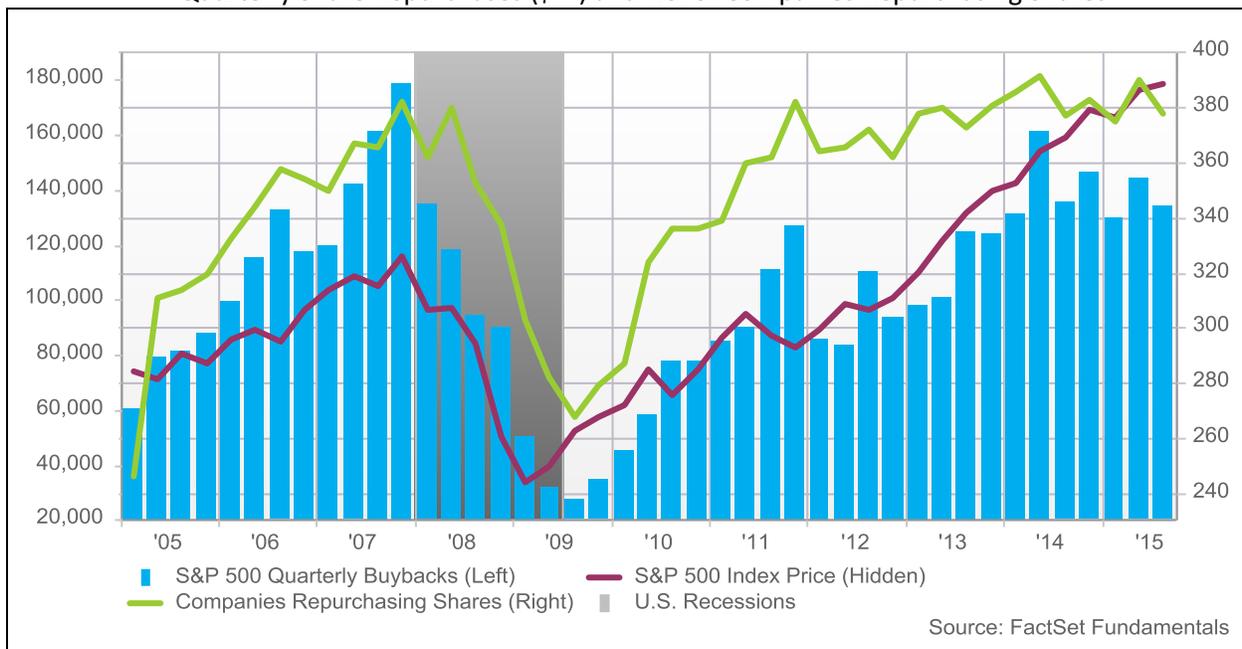


### Key Metrics:

- + **Quarterly Buybacks Decline in Q2:** Dollar-value share repurchases amounted to \$134.4 billion over the second quarter (July), which represented a 6.9% decline from the first quarter (April) and a 0.4% decline year-over-year. On a trailing twelve-month basis (TTM), dollar-value share repurchases totaled \$555.5 billion, which was approximately flat with the first quarter.
- + **Information Technology Tops Buyback Spending; Financials & Industrials Lead YoY Growth:** The Information Technology sector spent \$35.9 billion on buybacks in Q2, which was more than any other sector. The Financials and Industrials sectors led all groups in year-over-year growth for quarterly buybacks, posting growth rates of 29.8% and 17.1%, respectively.
- + **Buybacks to Free Cash Flow Ratio Exceeds 100%:** Companies spent more on buybacks in Q2 on a TTM basis than they generated in free cash flow (FCF). The aggregate Buybacks to FCF ratio for the S&P 500 exceeded 100% for the first time since October 2009.
- + **Buyback Yield Hits Lowest level since April 2011:** The TTM shares repurchased represented 2.8% of the aggregate shares outstanding in the S&P 500. This constituted the smallest buyback yield for the index since April 2011, when the ratio was 2.7%.
- + **Capital Distribution Practices:** At the end of Q2, 75% of the S&P 500 companies bought back shares *and* paid out dividends over the trailing twelve months.

Quarterly Share Repurchases (\$M) and No. of Companies Repurchasing Shares



“Buyback Quarterly” is one part of three reports (“Dividend Quarterly” and “Cash & Investments Quarterly”) analyzing cash and discretionary spending within the S&P 500. The other reports can be found at <http://www.factset.com/insight> or within the FactSet Market News application of your FactSet workstation. All data published in this report is available on FactSet. Please contact [media\\_request@factset.com](mailto:media_request@factset.com) or 1-877-FACTSET for more information.

## Share Repurchases Fall in the Second Quarter

### Pfizer and Verizon Lead the Quarter-over-Quarter Decline

Companies in the S&P 500 spent \$134.4 billion on share buybacks during the second quarter. This represented a 6.9% decline in spending from the first quarter. At the sector level, six out of eight sectors saw a sequential (quarter-over-quarter) decrease in share buybacks at the end of Q2 (excluding the Telecom and Utilities sectors, which have each averaged less than \$2 billion in quarterly buybacks since 2005). The only sectors to post positive sequential growth were the Consumer Discretionary and Materials sectors.

The largest contributors to this sequential decline in Q2 contained some household names, but also consisted of several firms with newly launched share repurchase programs. Pfizer, a consistent participant in buybacks, experienced the largest quarter-over-quarter decline of any S&P 500 company in Q2 in dollar terms (-\$6.2 billion). In Q1, the biopharmaceutical company purchased \$6.1 billion worth of shares as a part of its shareholder distribution program and its recently launched \$5 billion accelerated share repurchase ("ASR") program. Contrastingly, the firm repurchased a mere \$2.8 million worth of shares in Q2 as CEO, Ian Read, stated that the firm has already reached its share repurchase target for the year. Verizon was the second largest contributor to the Q2 buyback decline, as it saw a \$3.4 billion decrease in buybacks from Q1. Several other companies that experienced a decline of more than \$1 billion in quarterly buybacks were: United Technologies (-\$2.6 billion), Gilead Sciences (-\$2.3 billion), Illinois Tool Works (-\$1.4 billion), Johnson & Johnson (-\$1.3 billion), Abbott Laboratories (-\$1.3 billion), eBay (-\$1.2 billion), and Keurig Green Mountain (-\$1 billion).

Another factor playing into the sequential decline of buybacks was lower buyback participation overall. The number of companies repurchasing shares dropped from 390 in Q1 to 378 in Q2. The average number of companies participating in share buybacks since the recession ended in July 2009 has been 357.

### Sector Trends: Information Technology Tops Spending, Financials & Industrials Lead Growth

The Information Technology sector spent \$35.9 billion on share buybacks in Q2, which was more than all other groups. This marked the 12<sup>th</sup> consecutive quarter that the Information Technology sector topped all sectors in buybacks. Four out of the top ten companies by quarterly dollar-value buybacks were in this sector, with Apple leading the way. The full top ten list can be seen on page 5 of this report. On April 27, 2015, Apple announced that it had expanded its capital return program to \$200 billion, which included an increase in its share repurchase authorization from \$90 billion to \$140 billion. Apple's dollar-value buybacks in Q2 amounted to \$10 billion, which represented an 18.2% increase from its Q1 level. However, this amount was still well below the company's largest quarterly repurchase value in Q1 2014 (\$18.6 billion).

The Financials sector led all of the major buyback sectors (excluding the Telecom and Utilities sectors, which have each averaged less than \$2 billion in quarterly buybacks since 2005) in terms of year-over-year growth (+29.8%). The Industrials sector came in second with a growth rate of 17.1%. The Financials, Industrials, and Consumer Discretionary sectors were the only major buyback sectors to post double digit year-over-year growth in Q2.

American International Group and Citigroup were the two drivers of growth in the Financials sector. Dollar value buybacks for AIG amounted to \$2.3 billion in Q2, which was a \$2.1 billion increase from its total in the year ago quarter. In Q2 2015, the insurer declared an increase to its dividend and authorized the repurchase of an additional \$5 billion worth of shares, bringing the total remaining share repurchase authorization to \$6.3 billion. In early March, Citigroup received approval from the Federal Reserve, as a part of the 2015 Comprehensive Capital Analysis and Review (CCAR), to repurchase up to \$7.8 billion in the next five quarters starting in Q2 2015. The bank repurchased \$1.6 billion worth of shares in Q2,

which was a \$1.3 billion increase from its Q2 2014 total. Bank of America and Bank of New York Mellon were two other notable contributors to year-over-year buyback growth in Q2 (+\$539.9 million and +\$403.5 million).

In the Industrials sector, Lockheed Martin and American Airlines contributed the most to the year-over growth in buybacks (+\$813.3 million and \$752.7 million). Several other notables within the Industrials sector were Delta Airlines (+\$697.5 million), UPS (+\$609.5 million), and Boeing (+\$448.8million).

### **Buyback Spending Outpaces Free Cash Flow as Buyback Yield Narrows**

#### **Spending on Buybacks Exceeds Free Cash Flow for first time since October 2009**

Although the aggregate dollar-value of share buybacks declined sequentially in the second quarter on a TTM basis, companies in the S&P 500 still spent more on buybacks than they generated in free cash flow. Free cash flow is defined as cash from operating activities minus capital expenditures from fixed assets and cash dividends paid. The aggregate Buybacks to Free Cash Flow ratio for the S&P 500 exceeded 100% for the first time since October 2009. The ratio hit 108% on a TTM basis at the end of Q2, which represented a 12.9% increase quarter-over-quarter and a 42% increase year-over-year. The 10-year median ratio was 72.2%. At the sector level, four out of the ten GICS sectors had a ratio greater than 100% at the end of Q2 (Consumer Discretionary, Consumer Staples, Industrials, and Materials). However, this is not necessarily a surprise because the 10-year median ratio for each of these sectors is well above 100% with the exception of Industrials (81.2%).

What is driving this ratio to such high levels? As mentioned earlier in this report, the TTM dollar-value share repurchases in Q2 amounted to \$555.5 billion, which was a 1.3% increase year-over-year. This partly contributed to the higher ratio, but the main driver was free cash flow. TTM free cash flow at the end of Q2 totaled \$514.4 billion, which represented a 28.6% decline year-over-year. The aggregate FCF for Q2 was the lowest level for the S&P 500 since Q3 2009, when FCF amounted to \$140.2 billion. The sectors leading the decline in free cash flow were Energy and Financials. Financials saw a 50.2% decline in FCF year-over-year, with State Street Corporation heavily contributing to this decline. State Street reported cash flow from operations of -\$5.1 billion in the TTM ending Q2 2015 after reporting a \$907 million inflow in the TTM from the year ago quarter. The Energy sector, which typically has high levels of fixed capital expenditures, saw free cash outflows totaling -\$65 billion in the TTM ending Q2. Free cash outflows amounted to -\$7.1 billion in the TTM ending Q2 2014. Southwestern Energy was another large contributor, as it increased its fixed capital expenditures by almost 250%, leaving it with free cash outflows of -\$5.7 billion in in the TTM ending Q2. The company reported free cash inflows of \$4 billion in the TTM from the year ago quarter. Due to decreases in free cash flow, buyback spending for the S&P 500 is now 1.08 times TTM free cash flow, which has surpassed the 10-year average of 1.05 times free cash flow.

#### **Buyback Yield Hits Lowest Level since April 2011**

The trailing twelve months shares repurchased in the S&P 500 represented 2.8% of the aggregate shares outstanding in the index. This represented the smallest buyback yield since April 2011, when the ratio was 2.7%. The second quarter was also the 3<sup>rd</sup> consecutive quarter that the S&P 500 buyback yield fell below the 10-year average of 3.1%.

Relative to shares outstanding, the Information Technology sector was the most active buyer of its own shares in Q2. The sector's trailing twelve month share repurchases amounted to 4.3% of the sector's aggregate shares outstanding over the period, which marked the 7<sup>th</sup> consecutive quarter that the Information Technology sector had the largest buyback yield. The two companies with the highest buyback yields were also in the Information Technology sector (Juniper Networks and Motorola Solutions). Juniper Networks repurchased more than 27% of their shares outstanding over the TTM and Motorola Solutions repurchased almost 23% of their shares outstanding.

## Capital Distribution Practices

### 75% of S&P 500 Companies Took Part in both Dividends and Buybacks

Share repurchase programs have become a very popular way of returning capital to shareholders over the years. In general, the number of companies participating in share repurchases has increased since the U.S. recession. Overall, there have been some interesting trends when it comes to companies' capital distribution practices. These trends are illustrated in the first chart on page 10 of this report.

The number of companies in the S&P 500 taking part in both dividends and buybacks over the trailing twelve month period reached 374 (75% of the index), which was the second highest number in the index since at least 2005. Meanwhile, the number of companies that bought back shares and did not pay a dividend reached 65 at the end of July, which was slightly above the average for both 2014 and 2015 (63 companies). The count of companies that did not take part in buybacks or dividends remained at a low level (20 companies), right near the average for the past three years.

### Performance Trends in Buyback Yield

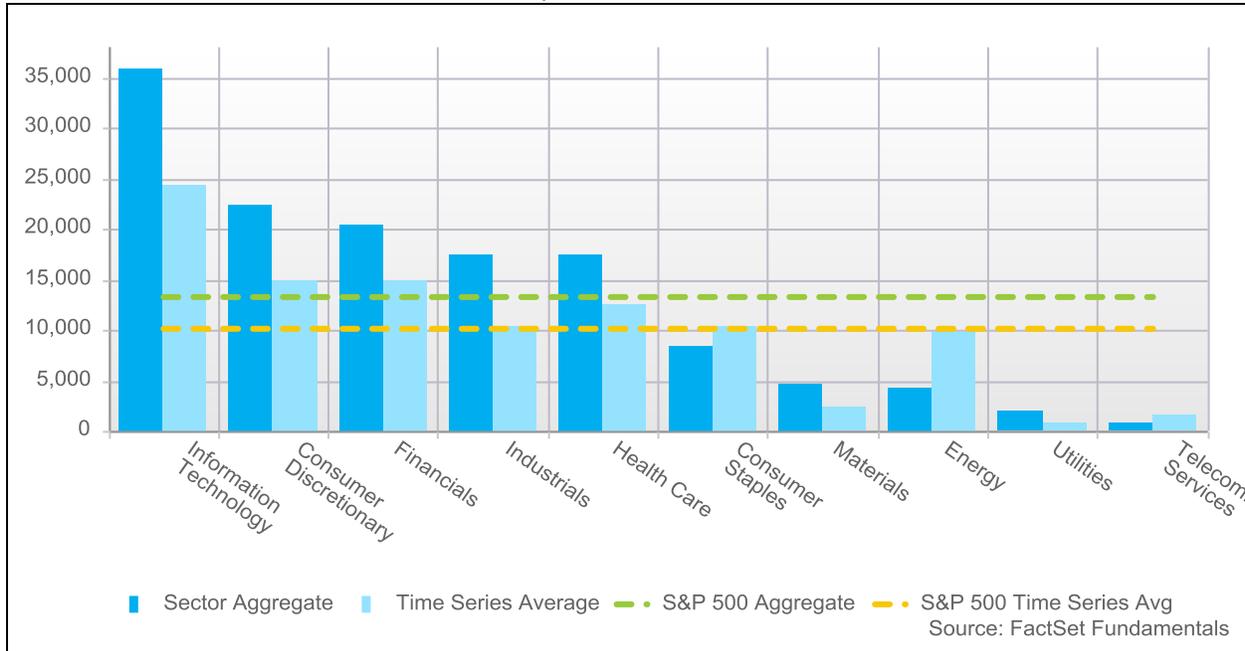
Companies in the S&P 500 with no share buybacks have outperformed all quartiles of buyback yield since March 2014 on a market cap weighted cumulative return basis relative to the S&P 500 Total Return Index. This group has also outperformed the index since June 2012. As shown in the first chart on page 11, the "No Buybacks" group has significantly outperformed the benchmark return in recent months. Major contributors to this positive performance have been stocks like Google, Amazon, and Netflix, which were each up over 20% in July.

It is important and very interesting to note that companies that repurchased shares have generally outperformed both the S&P 500 Total Return Index and companies that did not make share repurchases on an equal-weighted basis. This is shown in the second chart on page 11. On an equal-weighted basis, the first quartile of stocks has averaged a monthly return of 0.73% since 2005, the highest of any other group. Contrastingly, the group of companies not making share repurchases has averaged a monthly return of 0.57% on an equal weighted basis, which is the lowest of any other group.

## Dollar-Value Buybacks: Quarterly

All aforementioned and forthcoming values are in millions, unless otherwise designated. Quarterly data is organized by adjusted calendar quarters with Q2 ending in July.

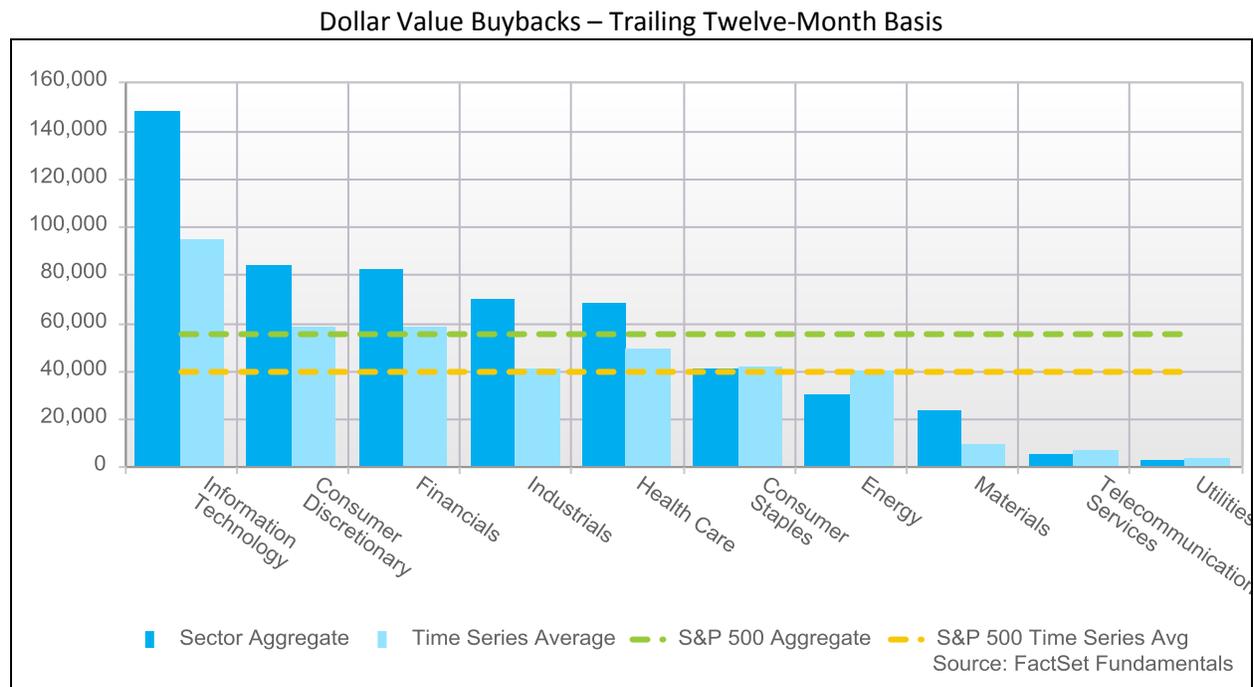
Dollar Value Buybacks – Most Recent Quarter



Top 10 Companies by Dollar-Value Buybacks – Most Recent Quarter

Company	Sector	Quarter's Buybacks (\$M)	% Change in Shares (Qtr)	Dividend Outflows	1 Year Total Return
Apple Inc.	Information Technology	\$10,000	(1.0%)	\$3,053	13.4%
Express Scripts Holding Company	Health Care	\$4,672	(7.3%)	\$0	12.5%
AbbVie, Inc.	Health Care	\$4,501	3.9%	\$818	6.2%
QUALCOMM Incorporated	Information Technology	\$4,405	(3.4%)	\$757	(26.8%)
Microsoft Corporation	Information Technology	\$4,209	(1.1%)	\$2,496	(4.4%)
American International Group, Inc	Financials	\$2,345	(2.9%)	\$165	3.8%
Boeing Company	Industrials	\$2,005	(1.9%)	\$625	8.5%
Oracle Corporation	Information Technology	\$2,002	(0.7%)	\$655	(11.3%)
Wells Fargo & Company	Financials	\$1,994	(0.3%)	\$2,220	(1.6%)
General Motors Company	Consumer Discretionary	\$1,847	0.0%	\$598	(6.8%)

## Dollar-Value Buybacks: Trailing Twelve Months



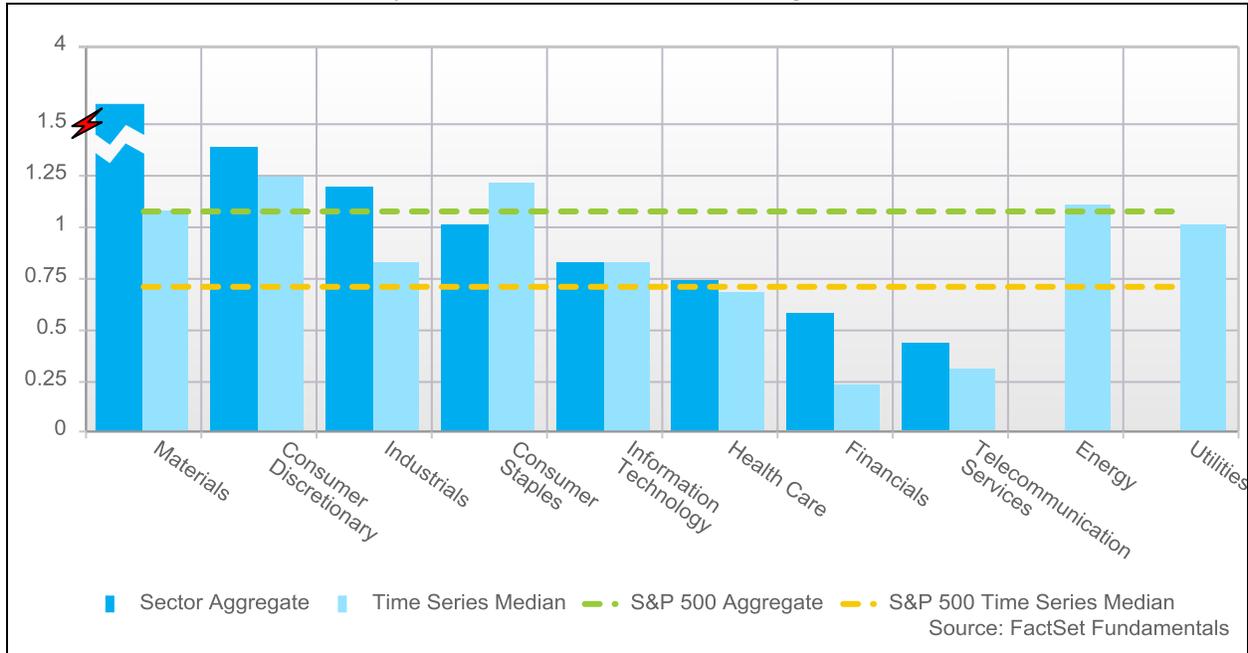
### Top 10 Companies by Dollar-Value Buybacks – Trailing Twelve Months

Company	Sector	TTM Buybacks (\$M)	% Change in Shares (TTM)	Dividend Outflows	1 Year Total Return
Apple Inc.	Information Technology	\$41,588	(4.7%)	\$11,426	13.4%
Microsoft Corporation	Information Technology	\$13,209	(2.6%)	\$9,882	(4.4%)
Wells Fargo & Company	Financials	\$10,271	(2.0%)	\$8,572	(1.6%)
Intel Corporation	Information Technology	\$9,996	(3.9%)	\$4,447	(15.0%)
QUALCOMM Incorporated	Information Technology	\$9,210	(6.0%)	\$2,844	(26.8%)
Exxon Mobil Corporation	Energy	\$9,105	(2.2%)	\$11,846	(22.3%)
Johnson & Johnson	Health Care	\$8,301	(1.9%)	\$7,948	(10.5%)
Pfizer Inc.	Health Care	\$8,258	(3.3%)	\$6,772	11.1%
Oracle Corporation	Information Technology	\$8,091	(2.7%)	\$2,255	(11.3%)
Gilead Sciences, Inc.	Health Care	\$7,919	(3.5%)	\$633	3.1%

## Buybacks to Free Cash Flow: Trailing Twelve Months

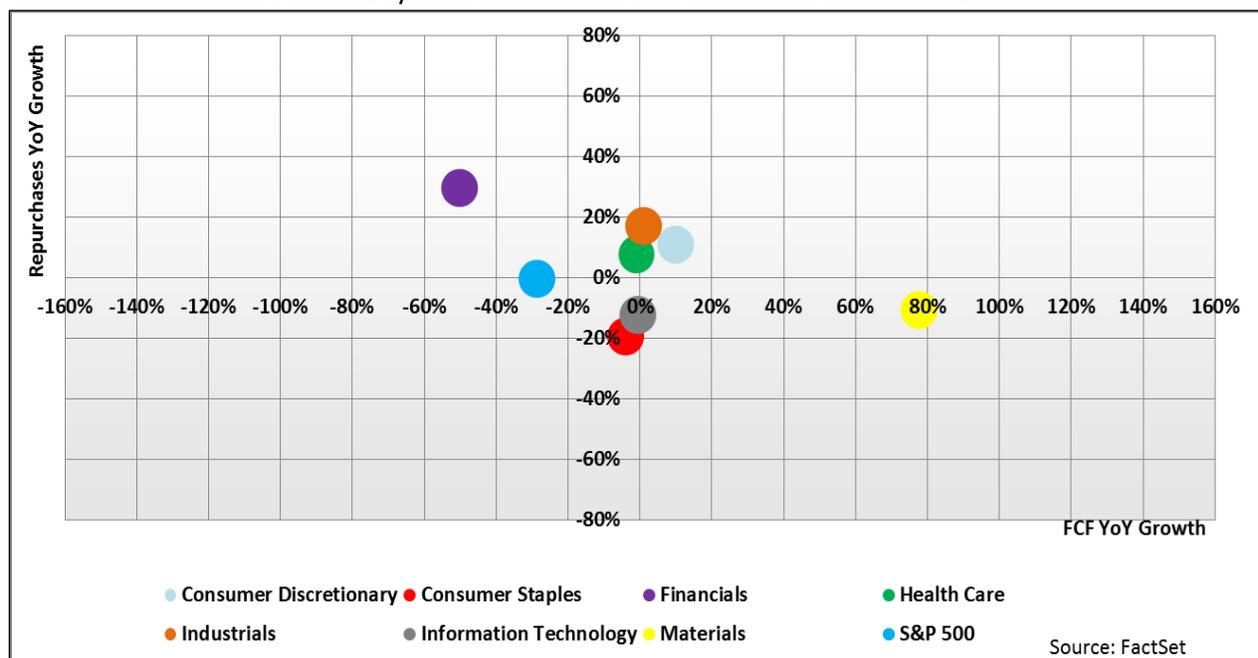
Free Cash Flow is defined as cash from operating activities minus capital expenditures from fixed assets and cash dividends paid. Periods in which aggregate free cash flow was negative have been removed from the charts below.

Dollar-Value Buybacks to Free Cash Flow – Trailing Twelve Month Basis



The following chart shows sector-level YoY growth on a TTM basis for free cash flow (x-axis) and dollar-value buybacks (y-axis). Telecom and Utilities were excluded because each has averaged less than \$2 billion in quarterly buybacks since 2005. Energy was excluded due to negative FCF.

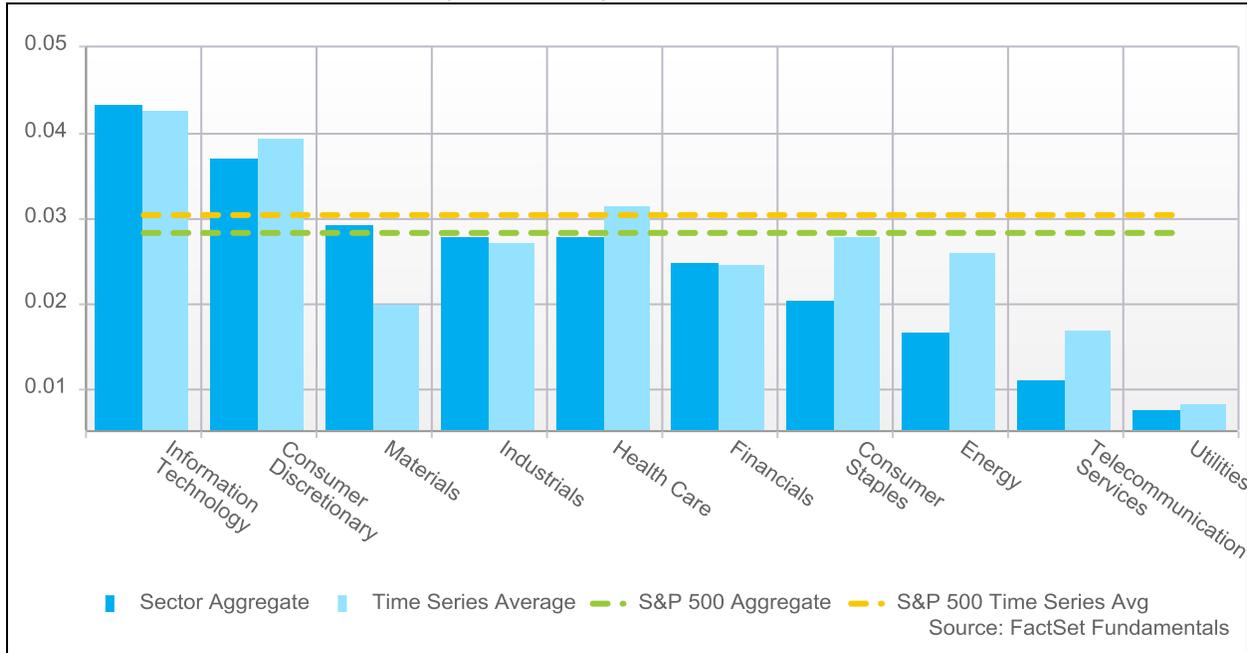
Growth in Buybacks versus Growth in Free Cash Flow – TTM Basis



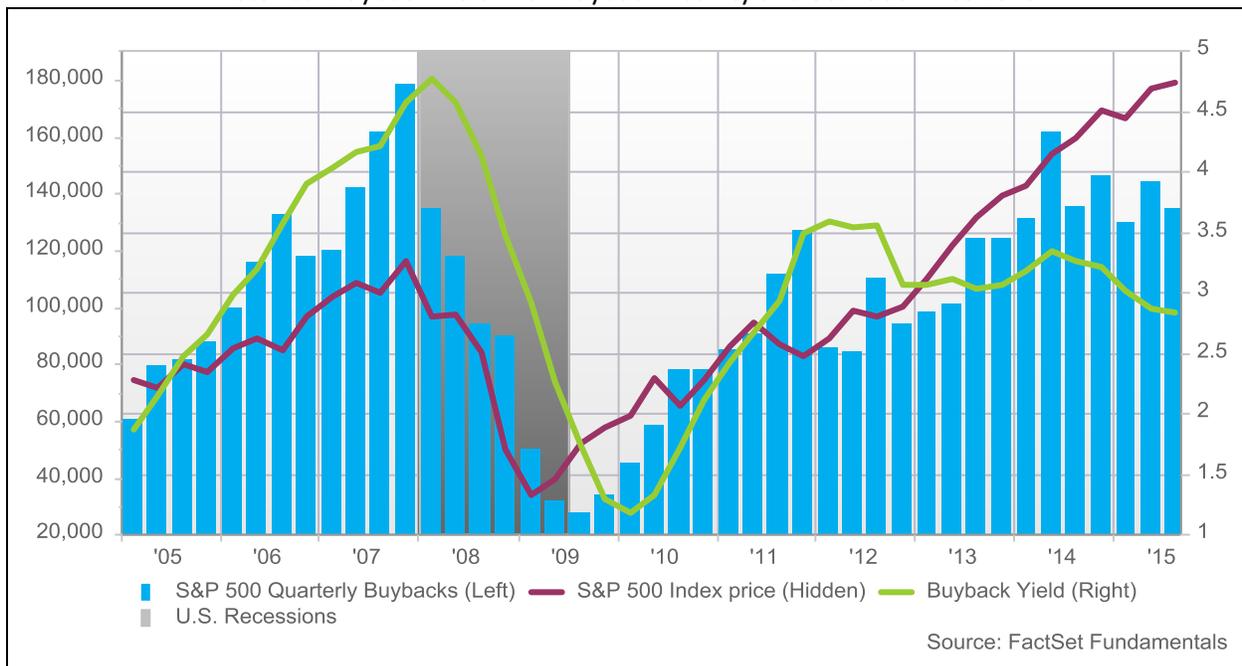
## Buyback Yield

Buyback yield is calculated by dividing the TTM shares repurchased by the company's current shares outstanding. It's also important to note the relationship between dividend and share yields. Share repurchases decrease the dividend burden of a company by reducing shares outstanding, and can reduce dividend yield by increasing a stock's price.

Buyback Yield by Sector – TTM Basis



Historical Buyback Yield with Buyback Activity and S&P 500 Price Level

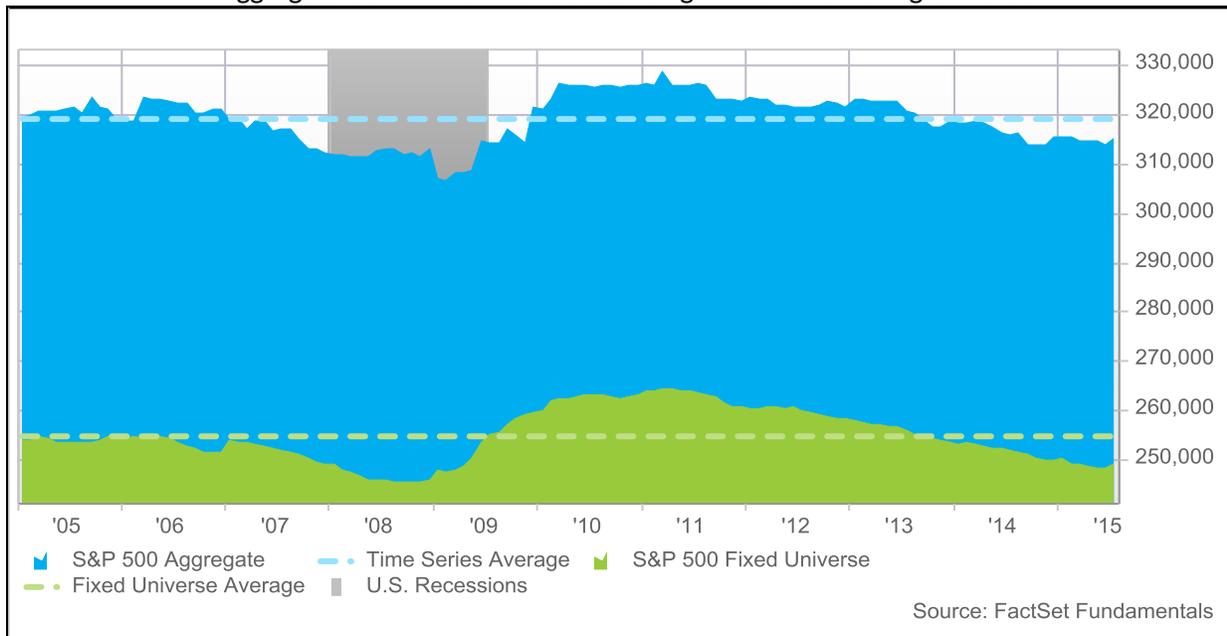


## Trends in Common Shares Outstanding

While share repurchases are a large factor in determining the change in share count of a company, they do not capture such activities as exchange of common stock for debentures, conversion of preferred stock, convertible securities, or stock options, or the issuance of stock for acquisitions. Therefore, the charts below are included to show the aggregate change in shares outstanding.

The first chart shows aggregate common shares outstanding in the S&P 500 using a rolling universe and a universe of only the companies that were in the index throughout the time series. The latter view is intended to isolate the trend in share count from constituent changes. The number of companies included in this fixed universe is 310.

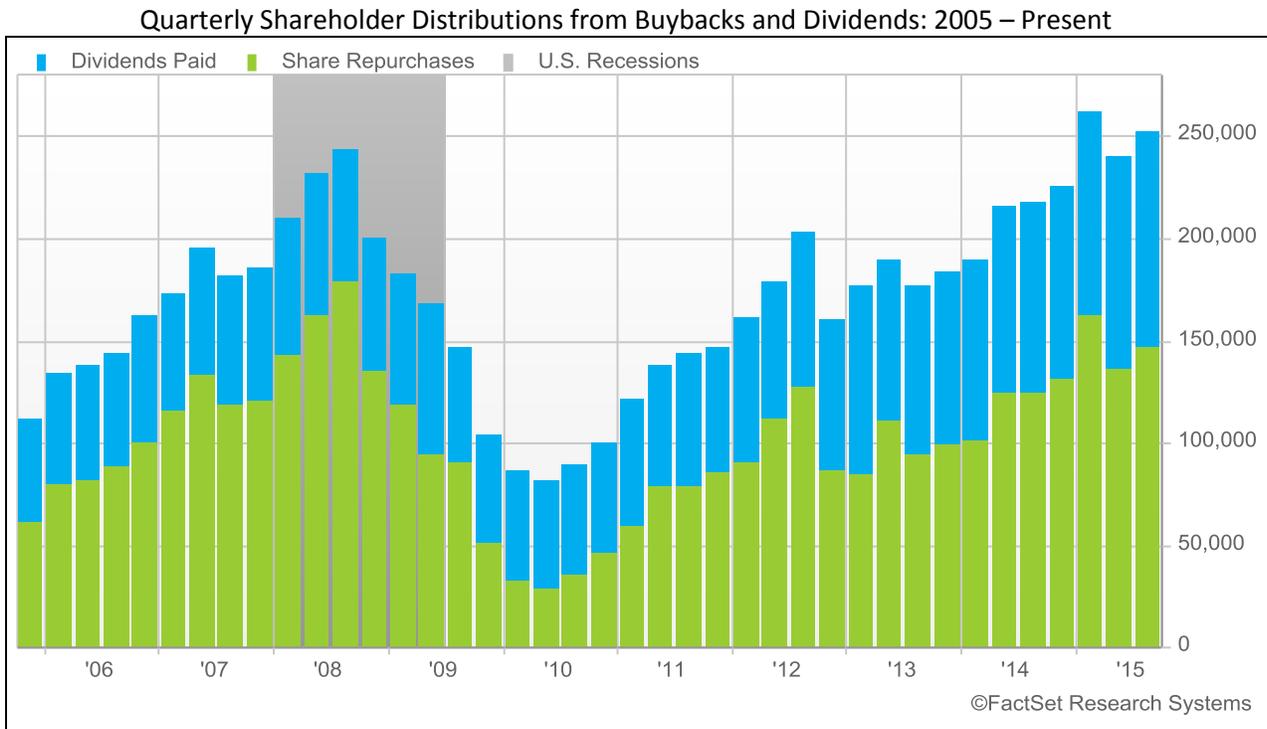
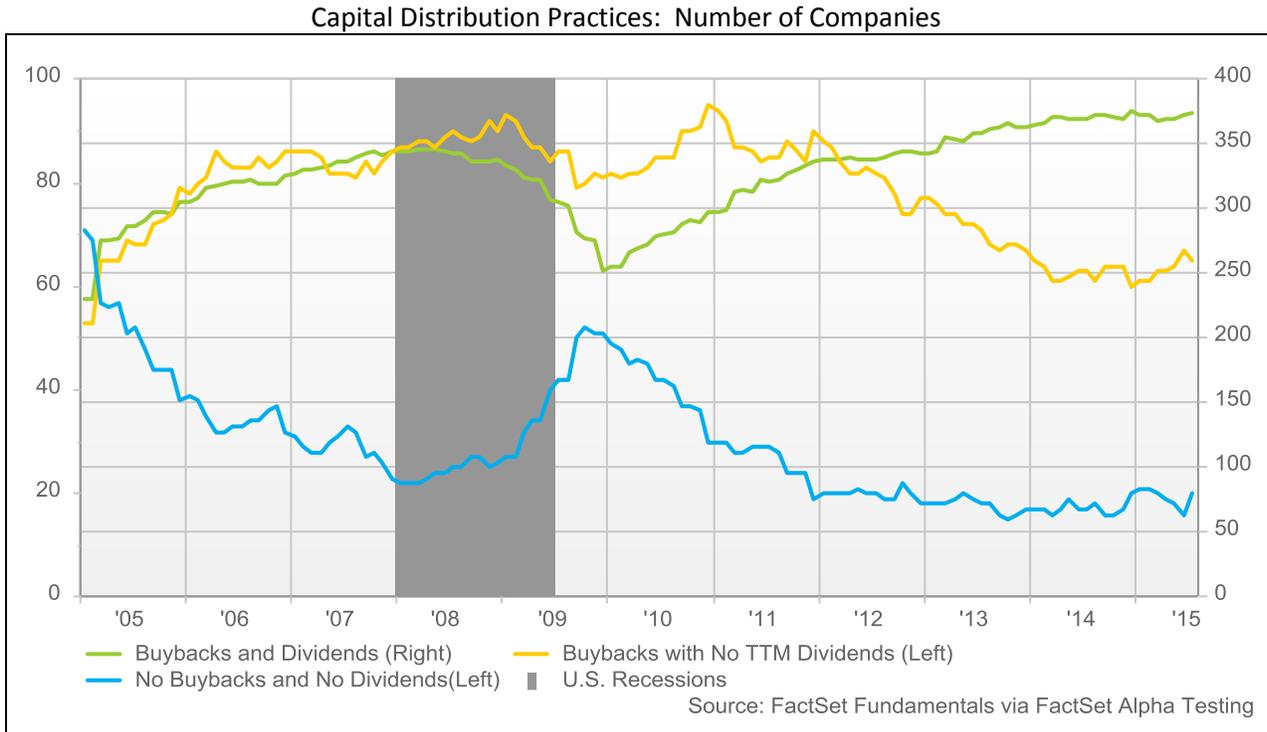
Aggregate Common Shares Outstanding – Fixed and Rolling Universe



Year-over-Year Growth in Common Shares Outstanding



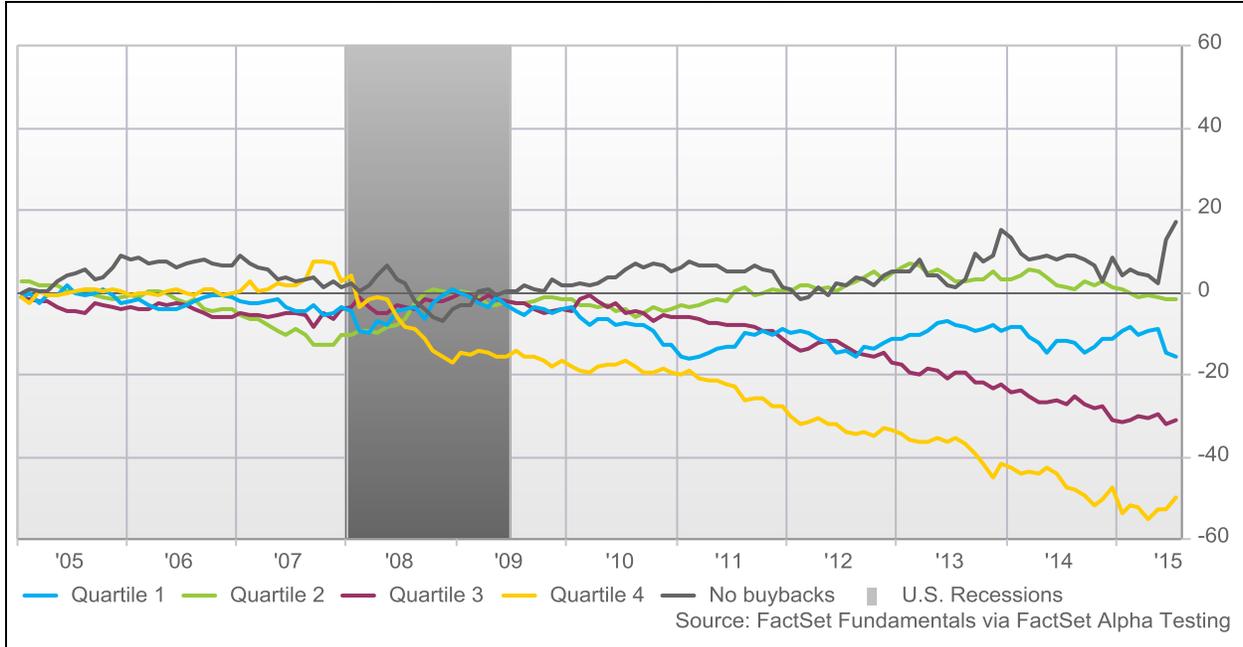
## Capital Distribution



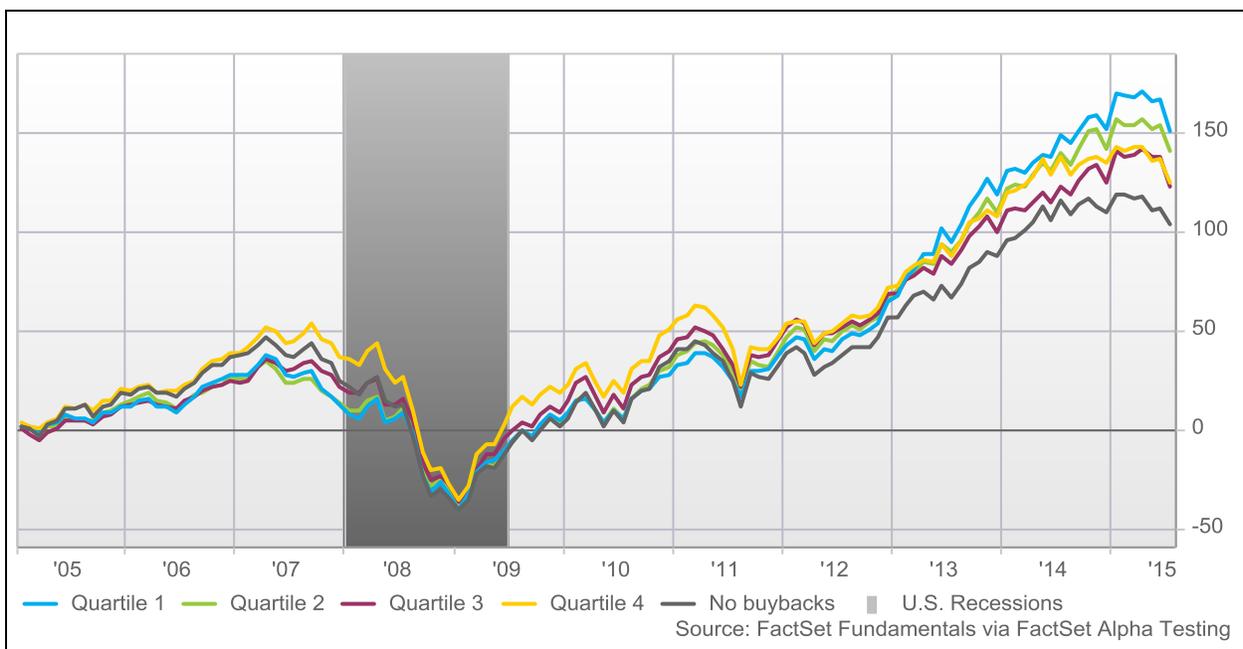
## Historical, Forward Performance: Share Repurchase Activity

For this back test, S&P 500 companies were broken into quartiles by their buyback yield. Companies were placed into four equal-sized groups based on trailing twelve month activity, with a fifth group for stocks that didn't repurchase shares over the period. Quartile 1 includes companies with the highest buyback yields and Quartile 4 includes companies with the lowest buyback yields. The average buyback yield for each quartile is shown here: Quartile 1: 8.3 Quartile 2: 3.8 Quartile 3: 1.9 Quartile 4: 0.3. The returns shown in the two charts below represent cumulative returns relative to the S&P 500 Total Return Index.

Historical, Forward Returns by Buyback Yield (Market Cap Weighted) – Relative to S&P 500 TR Index



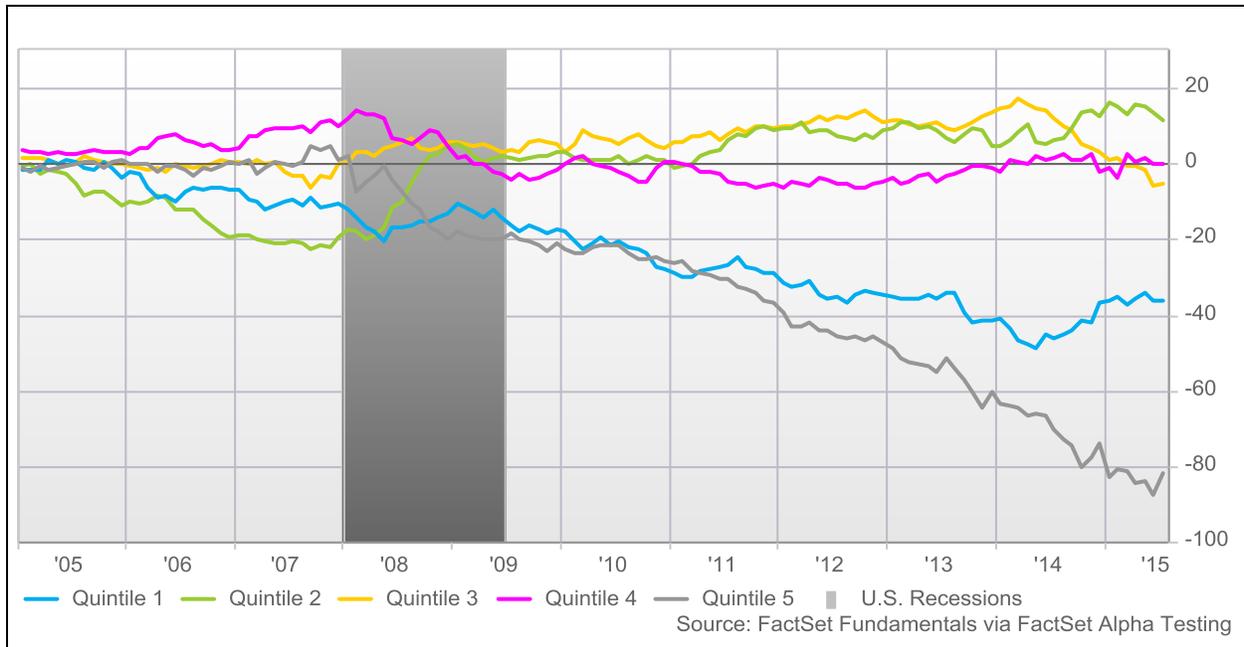
Historical, Forward Returns by Buyback Yield (Equal Weighted) – Relative to S&P 500 TR Index



For this back test, S&P 500 companies were broken into quintiles by their buyback spending relative to operating cash flow on a trailing twelve month basis. Companies that had negative operating cash flow or that did not repurchase shares over the trailing twelve months were excluded. Quintile 1 includes companies with the highest ratios of buybacks to operating cash flow and Quintile 4 includes companies with the lowest ratios. The average Buybacks to Operating Cash Flow Ratio for each quintile is shown here: Quintile 1: 1.8 Quintile 2: 0.5 Quintile 3: 0.3 Quintile 4: 0.2 Quintile 5: 0.02

The returns shown in the chart below represents cumulative returns relative to the S&P 500 Total Return Index.

Historical, Forward Returns by Buybacks to Operating Cash Flow Ratio (Market Cap Weighted) –Relative to S&P 500 TR Index



## Important Notice

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

## About FactSet

FactSet combines integrated financial information, analytical applications, and client service to enhance the workflow and productivity of the global investment community. The Company, headquartered in Norwalk, Connecticut, was formed in 1978 and now conducts operations from 35 locations worldwide, including Toronto, New York, Chicago, San Francisco, London, Amsterdam, Frankfurt, Paris, Milan, Hyderabad, Mumbai, Dubai, Manila, Tokyo, Hong Kong, and Sydney. To learn more about FactSet, visit [FactSet.com](http://FactSet.com) and follow us on Twitter: [Twitter.com/factset](https://twitter.com/factset).

## About FactSet Fundamentals

FactSet Fundamentals gives you access to current, comprehensive, and comparative information on securities worldwide. The comprehensive coverage available includes more than 69,000 companies from over 70 countries, with 20 years of historical data, and up to 2,000 data items on each company record. Comprised of annual and interim/quarterly data, detailed historical financial statement content, per share data, calculated ratios, pricing, and textual information, FactSet Fundamentals provides you with the information you need for a global investment perspective.

## About FactSet Alpha Testing

Alpha Testing is FactSet’s backtesting tool. Alpha Testing lets you test ideas about which quantitative and qualitative factors drive returns. Use our robust and flexible interface to create custom models and communicate results. Alpha Testing is fully integrated into the FactSet workstation. Model scores can be used in real time portfolio contribution or for portfolio construction.