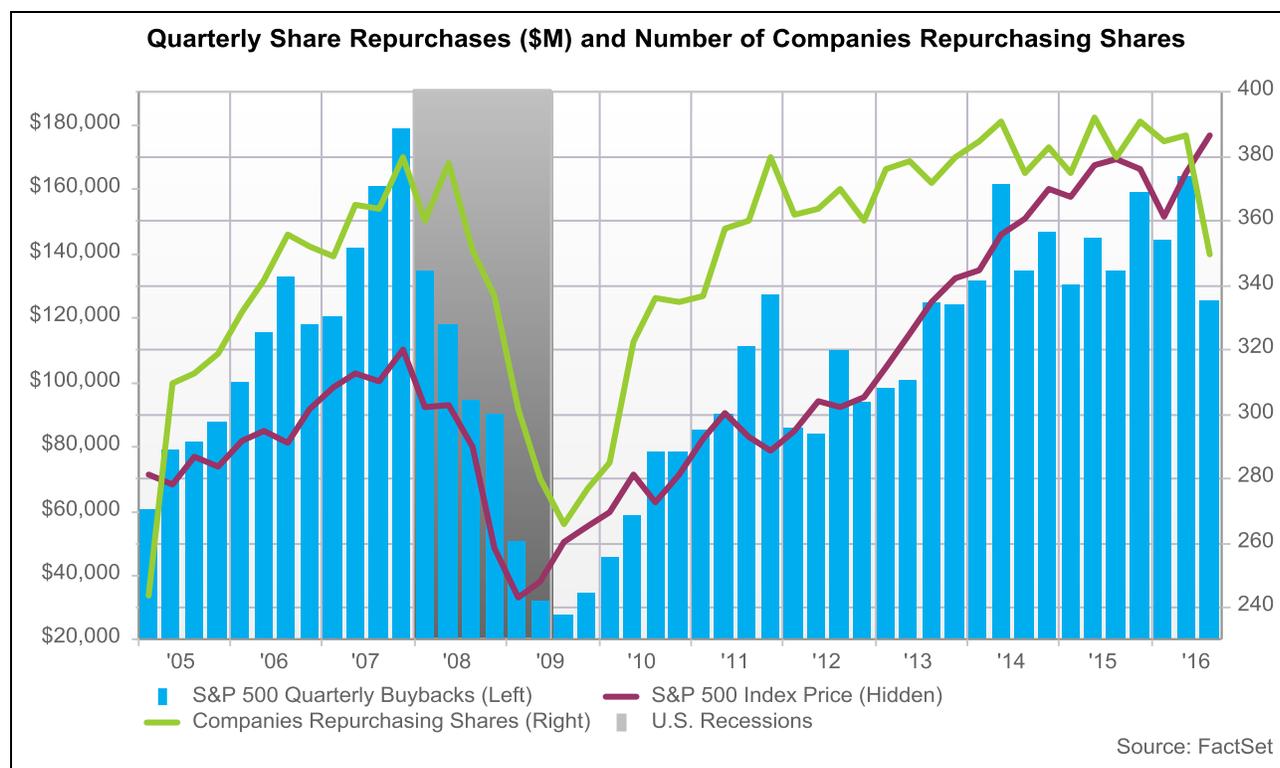


Key Metrics:

- **Quarterly Buybacks Decline 6.8% Year-Over-Year in Q2:** S&P 500 share buybacks amounted to \$125.1 billion in the second quarter (May-July), which represented a 6.8% decrease year-over-year. The Q2 amount marked the smallest quarterly buyback total since Q3 2013.
- **Buyback Participation Falls Sharply in Q2:** During the second quarter, 350 companies in the S&P 500 index engaged in share buybacks, which was a significant decrease from the 380 participants in Q2 2015.
- **Apple and General Electric Top the List of Buyback Spenders:** Apple and General Electric spent more on buybacks in the second quarter than any other S&P 500 company (\$10.9 billion and \$7.6 billion, respectively).
- **Buyback Spending Exceeds Earnings for 137 Companies:** 137 companies in the S&P 500 spent more on buybacks in the trailing twelve months ending in Q2 than they generated in earnings. This marked the eighth highest count since the beginning of 2005.
- **20% of S&P 500 Companies Reduced Year-Over-Year Share Count by More Than 5%:** Aggregate shares outstanding for the S&P 500 index declined 0.7% year-over-year in the second quarter. About 20% of the index reduced their shares outstanding by more than 5% in Q2 compared to the year-ago quarter.



“Buyback Quarterly” is one part of three reports (“[Dividend Quarterly](#)” and “[Cash & Investments Quarterly](#)”) analyzing cash and discretionary spending within the S&P 500.

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Q2 Buybacks Mark Smallest Quarterly Total Since 2013

Q2 Buybacks Decline 6.8% Year-Over-Year

Companies in the S&P 500 spent \$125.1 billion on share buybacks during the second quarter, which marked the smallest quarterly total since Q3 2013. This comes after a first quarter that saw buybacks for the index hit a new post-recession high. Aggregate buybacks in Q2 represented a 6.8% decline from the year-ago quarter, which was the largest year-over-year decrease since Q1 2015. This Q2 decline came during a quarter that saw the S&P 500 index hit record-high price levels. On a trailing twelve-month basis, shareholder buybacks amounted to \$592.9 billion at the end of the second quarter. This was a 6.8% increase from the same time period a year ago. The TTM buyback total at the end of Q2 marked the fourth largest amount going back to the start of 2005, despite this quarter's decline.

Buyback Participation Falls Sharply in Q2

The number of S&P 500 companies participating in buybacks fell sharply in Q2. During the quarter, 350 companies engaged in share buybacks, which was a significant decrease from the 380 participants in Q2 2015. The second quarter marked the lowest buyback participation rate since Q4 2010, when only 337 firms in the index performed share buybacks. Over the last 12 quarters, the average number of S&P 500 companies repurchasing shares was 381.

Number of Companies Making Large Repurchases Near 3-Year Low

The number of S&P 500 companies making repurchases that exceeded \$1 billion was 33 in Q2. Although this represented a slight uptick from the year-ago quarter (30 companies), it was still the second lowest count in the past three years (after Q2 2015). It was also a large drop from the first quarter, which saw 41 companies in the index each buy back more than \$1 billion worth of its own stock.

Apple and General Electric Top the List of Buyback Spenders

Although aggregate share buybacks declined in the second quarter, there were still some big spenders in the index during Q2. Apple was the top spender on share buybacks in Q2. The iPhone maker repurchased \$10.9 billion worth of shares, which represented a 9% increase from the year-ago quarter. The buybacks helped contribute to a 5.5% year-over-year reduction in its shares outstanding.

General Electric was the second top spender on share buybacks during the quarter. The company bought back \$7.6 billion worth of shares in Q2, after repurchasing less than \$150 million of its stock in the year-ago quarter. General Electric has repurchased approximately \$17 billion out of its massive \$50 billion repurchased program, which was funded by the sale of GE Capital. These buybacks helped reduce the firm's shares outstanding by 11.2% year-over-year.

Sector Trends: Tech Buybacks Decline, but Still Top Spending; Staples Leads Growth

During the second quarter, the Information Technology sector was the top spending group in terms of dollar-value buybacks, which has been the norm for the S&P 500 index. With that said, spending on repurchases by companies in the sector decreased 15.4% year-over-year to \$30.3 billion. The group's aggregate buybacks also made up a smaller percentage of the total buybacks for the index compared to a year ago (24.2% vs 26.7%).

The Consumer Staples sector led all major buyback sectors (excluding the Real Estate, Telecom, and Utilities sectors, which have each averaged less than \$2 billion in quarterly buybacks since 2005) in terms of year-over-year growth (+49.7%) in quarterly buybacks. The Industrials sector posted the second largest growth rate (+22.6%). These two sectors were in the minority, as five out of the eight buyback groups experienced declines in buyback spending compared to the year-ago quarter (Consumer Discretionary, Energy, Health Care, Information Technology, and Materials).

At the end of Q2, the Consumer Staples sector made up 10% of the aggregate buybacks for the S&P 500, which was an increase from 6.2% a year ago. Within the sector, Wal-Mart, Monster Beverage, CVS Health, and Coca-Cola were several of the contributors to growth. Wal-Mart and Monster each bought back about \$2 billion worth of their own shares, while CVS and Coca-Cola each repurchased over \$1 billion worth of their own stock. The Industrials sector made up 17.2% of the aggregate buybacks for the S&P 500 at the end of Q2, which was an increase from 13.1% a year ago. Within the sector, General Electric, Boeing, American Airlines, and Delta were several of the contributors to growth.

\$1.3 Billion in Buybacks for Newly Formed Real Estate Sector

The newly formed S&P 500 GICS Real Estate sector saw \$1.3 billion in share buybacks during the second quarter. The spending was led by Weyerhaeuser and Macerich, who repurchased \$831 million and \$381 million worth of their own shares, respectively.

Buybacks Represent 71.5% of Earnings; Shareholder Distributions Make Up 123% of Earnings

At the end of the second quarter, trailing twelve-month share buybacks made up 71.5% of net income, which represented a 16.6% uptick from the ratio a year ago. On a quarter-over-quarter basis, the ratio moved slightly lower as a result of the sequential decline in Q2 buybacks. In general, buybacks as a percentage of earnings still remain at a high level for the index. Looking at the past eight quarters, the average ratio was 64.3%, making the ratio at the end of Q2 an 11.2% premium to the two-year average. Additionally, the percentage of TTM buybacks to earnings marked the second highest ratio since Q3 2009.

This will be a key ratio to keep an eye on going forward. Analysts are currently projecting that S&P 500 earnings for Q3 will experience a 2.3% year-over-year decline. Earnings growth is not expected to return until the fourth quarter. However, earnings declines for the index do not necessarily mean that spending on buybacks will follow suit. Remember that Q2 2016 marked the fifth consecutive quarter of year-over-year earnings declines, yet dollar-value buybacks still hovered near record amounts in Q1 2016 and Q3 2015. Additionally, while earnings for the index were declining, aggregate debt for the S&P 500 companies was rising. At the end of the second quarter, total debt for companies in the S&P 500 hit its highest level in at least ten years. Some of this debt issued by firms was used for the purpose of repurchasing more shares. This practice could become more expensive if the Federal Reserve decides to raise interest rates in the coming months. This dynamic is shown in the third chart on page six of this report.

Buyback Spending Exceeds Earnings for 137 S&P 500 Companies

At the end of the second quarter, 137 companies in the S&P 500 spent more on buybacks in the trailing twelve months than they generated in earnings. This marked the eighth highest count since the beginning of 2005.

Shareholder Distributions Make Up 123% of Earnings

It is also interesting to look at this ratio for total shareholder distributions, which includes gross share buybacks and dividends. For the trailing twelve months ending in Q2, shareholder distributions made up 123% of aggregate earnings for the S&P 500, which was the largest post-recession ratio aside from Q1 2016. Shareholder distributions have exceeded earnings on a TTM basis since Q2 2015. Keep in mind that Q2 2015 was the start of the five consecutive quarters of year-over-year declines in earnings for the S&P 500 index.

Buybacks Represent 53.7% of Free Cash Flow

Free cash flow is often viewed as a better measure of liquidity for a company than earnings. FactSet defines free cash flow as cash flow from operating activities minus fixed capital expenditures. Free cash flow for the TTM ending in Q2 increased 17.8% compared to the same period a year ago. Part of the reason for the large year-over-year gain can be attributed to the relatively low aggregate free cash flow posted in Q2 2015. Additionally, the decline in fixed capital expenditures helped push free cash flow higher. As a result, trailing twelve-month share buybacks made up 53.7% of free cash flow, which represented a 9.4% decrease year-over-year.

Buyback Yield at 2.97%; Total Shareholder Yield at 5%

In previous versions of this report, the buyback yield was calculated as the number of shares repurchased by S&P 500 companies in the trailing twelve months divided by the aggregate shares outstanding. In order to be consistent with the "buyback ratio" calculation used by the SPDR S&P 500 Buyback ETF, and to be able to create a total shareholder yield metric, the buyback yield will now be calculated as the dollar-value buybacks in the trailing twelve months divided by the aggregate market value.

The TTM buyback yield at the end of Q2 for the S&P 500 increased 4.6% year-over-year to 2.97%. Looking at the ratio compared to Q1, there was a 6% drop primarily driven by the decline in quarterly buybacks during Q2. With that said, this yield of 2.97% is just about in line with the average buyback yield over the past three years. At the sector level, the Industrials and Consumer Discretionary sectors had the largest TTM buyback yields at the end of Q2 (4.8 and 3.85, respectively). The top ten S&P 500 companies ranked by buyback yield is shown on page nine of this report.

The total shareholder yield for the S&P 500 (calculated as TTM gross buybacks plus TTM dividends divided by market capitalization) at the end of the second quarter was 5%, which represented a 1.1% increase from the same time period a year ago. The ratio stands at a 1.1% premium to the average total shareholder yield over the past three years. Compared to the trailing twelve-month period ending in Q1, both the dividend yield and the buyback yield for Q2 were lower, which helped push the total shareholder yield down 4.8%.

20% of S&P 500 Companies Reduced Year-Over-Year Share Count by >5%

Aggregate shares outstanding for the S&P 500 index declined 0.7% year-over-year in the second quarter. Approximately 20% of the index reduced their shares outstanding by more than 5% in Q2 compared to the year-ago quarter. This represented a significant increase from the 15% of the index that lowered their count by this amount in Q2 2015 versus Q2 2014.

Repurchasing Shares at a Relative Discount: PWR, ABC, CMG

In an effort to find companies that have repurchased shares during periods of depressed prices, this report examines companies' average prices paid for repurchases over the quarter and the trailing twelve months, and compares that to their average stock prices over the same period.* Based on this analysis, Quanta Services and AmerisourceBergen bought back their shares at the largest discount in the most recent quarter (31.1% discount and 28.4% discount). AmerisourceBergen and Chipotle Mexican Grill repurchased their shares at the largest discount in the trailing twelve months ending in the most recent quarter (18.1% discount and 10.9% discount). The full top ten lists can be found on page 11 of this report.

Activist Campaigns Agitating for Buybacks/Dividends at Companies

On a year-to-date basis, there were 34 activist campaigns in which a dissident objective was to return cash via dividends and/or buybacks. Of these 34 activist campaigns YTD, the activists were successful in eight of the campaigns. This trails the pace seen in 2015 over the same time frame, when activists launched 48 of these types of campaigns, with 27 resulting in success. Keep in mind that 2015 was a record setting year in terms of activist campaigns of this kind as well as total activist campaigns announced as a whole. Looking back to the same year-to-date period in 2014, there were 27 activist campaigns in which a dissident objective was to return cash via dividends and/or buybacks. Of these 27 activist campaigns YTD, the activists were successful in eleven of the campaigns. Examples of success include: the company declaring a special one-time dividend, increasing its regular dividend, announcing a new share repurchase program, and expanding its existing share repurchase program.

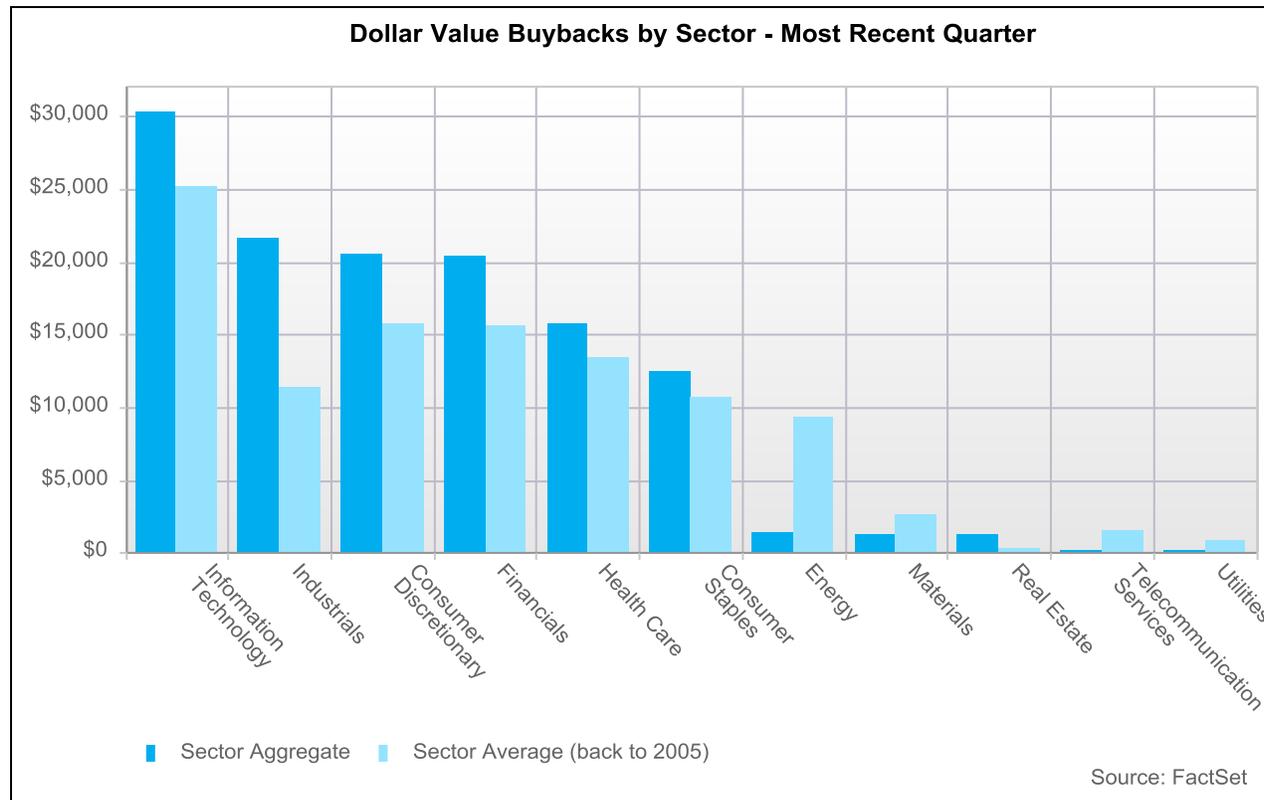
Performance of Companies Repurchasing Stock

To analyze the performance of companies repurchasing stock, the SPDR S&P 500 Buyback ETF (SPYB) and the PowerShares Buyback Achievers Portfolio ETF (PKW) can be used. These are two of the most well-known exchange traded funds for investors looking for exposure exclusively to companies repurchasing shares. On a year to date basis as of Friday's close, the SPYB has outperformed the S&P 500 index by 0.5 percentage points. However, looking back one year, the buyback ETF underperformed the S&P 500 by more than 5 percentage points. The PKW has underperformed the NASDAQ Composite both year-to-date and also over the past year (-2.7 and -6.3 percentage points, respectively). Performance charts are shown on pages 15 and 16 of this report.

**Excludes companies with less than \$100m worth of share repurchases*

Dollar-Value Buybacks: Quarterly

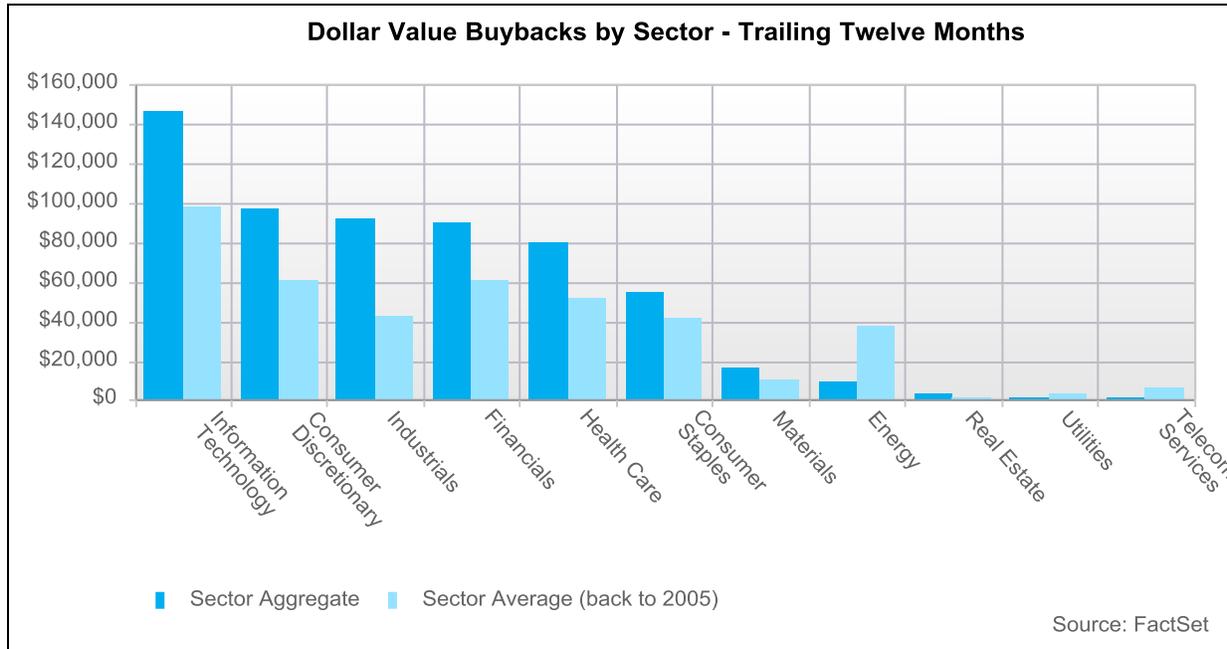
All aforementioned and forthcoming values are in millions, unless otherwise stated. Quarterly data is organized by adjusted calendar quarters with **Q2** ending in **July**. (Q1:Apr, Q2:July, Q3:Oct, Q4:Jan)



Ticker	Company	Sector	Quarterly Buybacks (\$M)	QOQ% Chg in Shares Out	Quarterly Dividends	1 Year Total Return
AAPL	Apple Inc.	Information Technology	\$10,900	(1.6%)	\$3,187	0.8%
GE	General Electric Company	Industrials	\$7,588	(2.5%)	\$2,274	19.1%
MSFT	Microsoft Corporation	Information Technology	\$3,600	(0.8%)	\$2,821	32.8%
ABBV	AbbVie, Inc.	Health Care	\$3,421	0.7%	\$927	10.5%
MCD	McDonald's Corporation	Consumer Discretionary	\$3,289	(2.8%)	\$759	20.4%
AIG	American International Group, Inc.	Financials	\$2,762	(4.2%)	\$350	0.5%
JNJ	Johnson & Johnson	Health Care	\$2,368	(0.5%)	\$2,197	28.6%
WFC	Wells Fargo & Company	Financials	\$2,214	(0.5%)	\$2,259	(12.8%)
WMT	Wal-Mart Stores, Inc.	Consumer Staples	\$2,049	(0.9%)	\$1,560	16.1%
BA	Boeing Company	Industrials	\$2,003	(2.2%)	\$691	(4.7%)

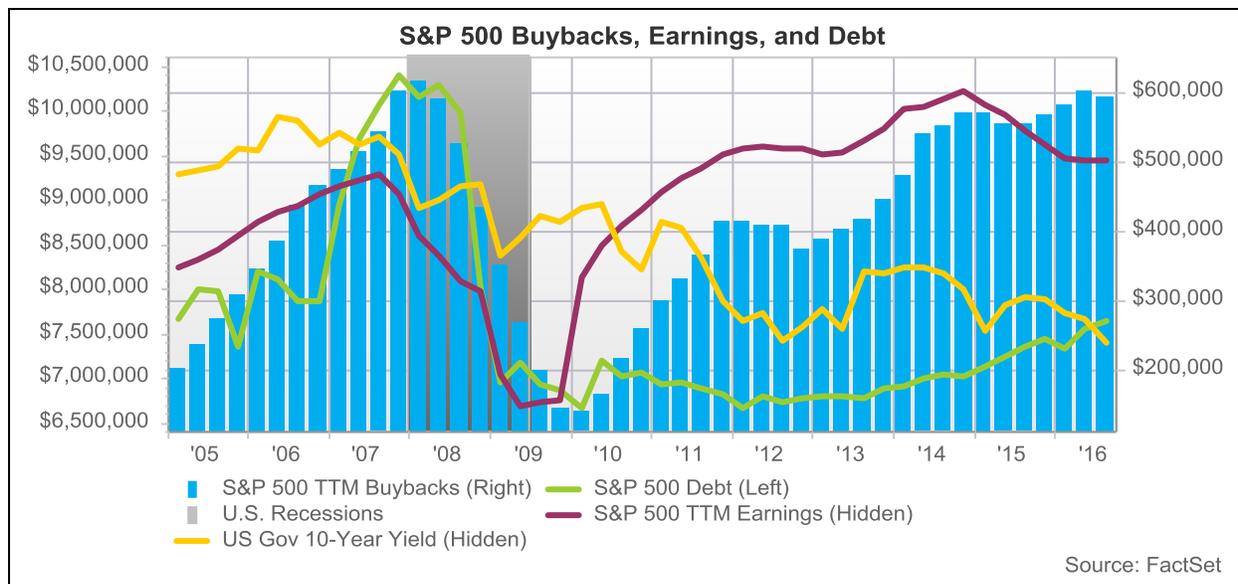
Source: FactSet

Dollar-Value Buybacks: Trailing Twelve Months

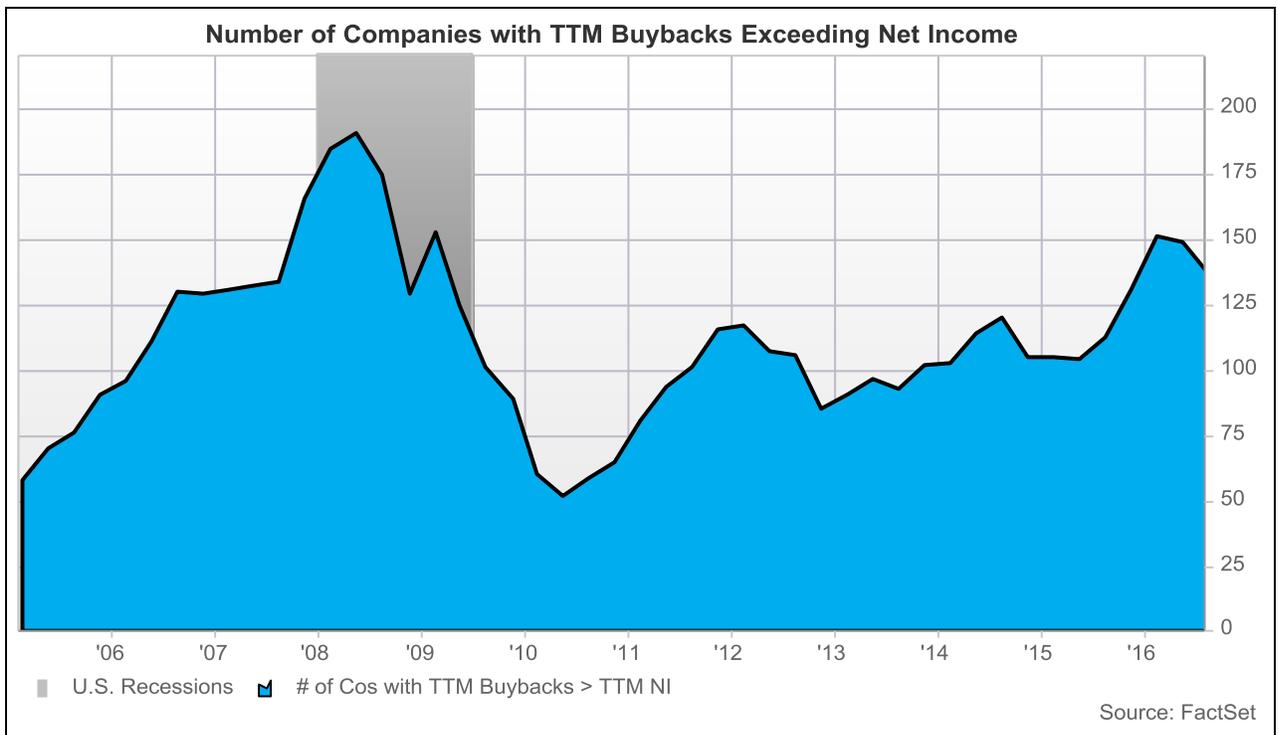
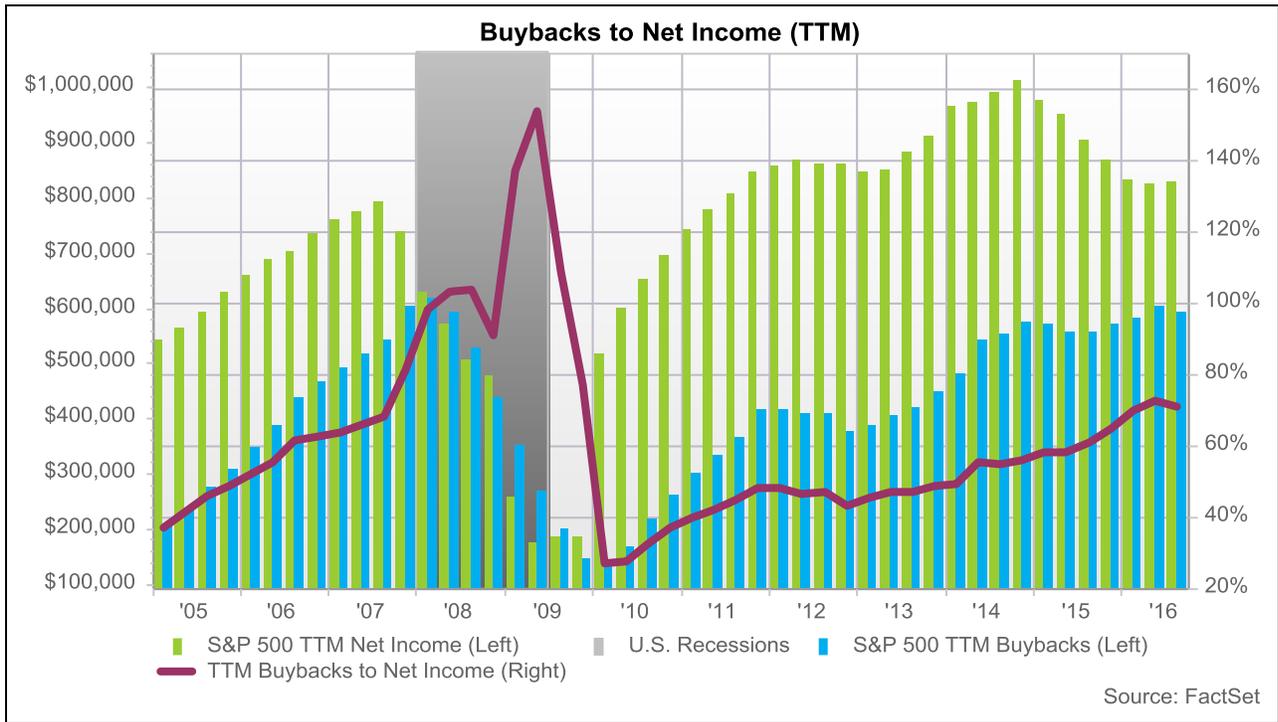


Top 10 Companies by Dollar-Value Buybacks- Trailing Twelve Months						
Ticker	Company	Sector	TTM Buybacks (\$M)	YoY% Chg in Shares Out	TTM Dividends	1 Year Total Return
AAPL	Apple Inc.	Information Technology	\$39,165	(5.5%)	\$12,022	0.8%
GE	General Electric Company	Industrials	\$16,884	(11.2%)	\$9,169	19.1%
GILD	Gilead Sciences, Inc.	Health Care	\$15,340	(9.6%)	\$2,454	(27.5%)
MSFT	Microsoft Corporation	Information Technology	\$14,800	(2.7%)	\$11,006	32.8%
AIG	American International Group, Inc.	Financials	\$13,196	(17.2%)	\$1,406	0.5%
MCD	McDonald's Corporation	Consumer Discretionary	\$10,850	(9.4%)	\$3,143	20.4%
ORCL	Oracle Corporation	Information Technology	\$10,438	(4.9%)	\$2,541	3.3%
DIS	Walt Disney Company	Consumer Discretionary	\$9,257	6.3%	\$2,283	(9.7%)
WFC	Wells Fargo & Company	Financials	\$9,104	(1.9%)	\$8,983	(12.8%)
PG	Procter & Gamble Company	Consumer Staples	\$8,477	(1.7%)	\$7,436	29.9%

Source: FactSet

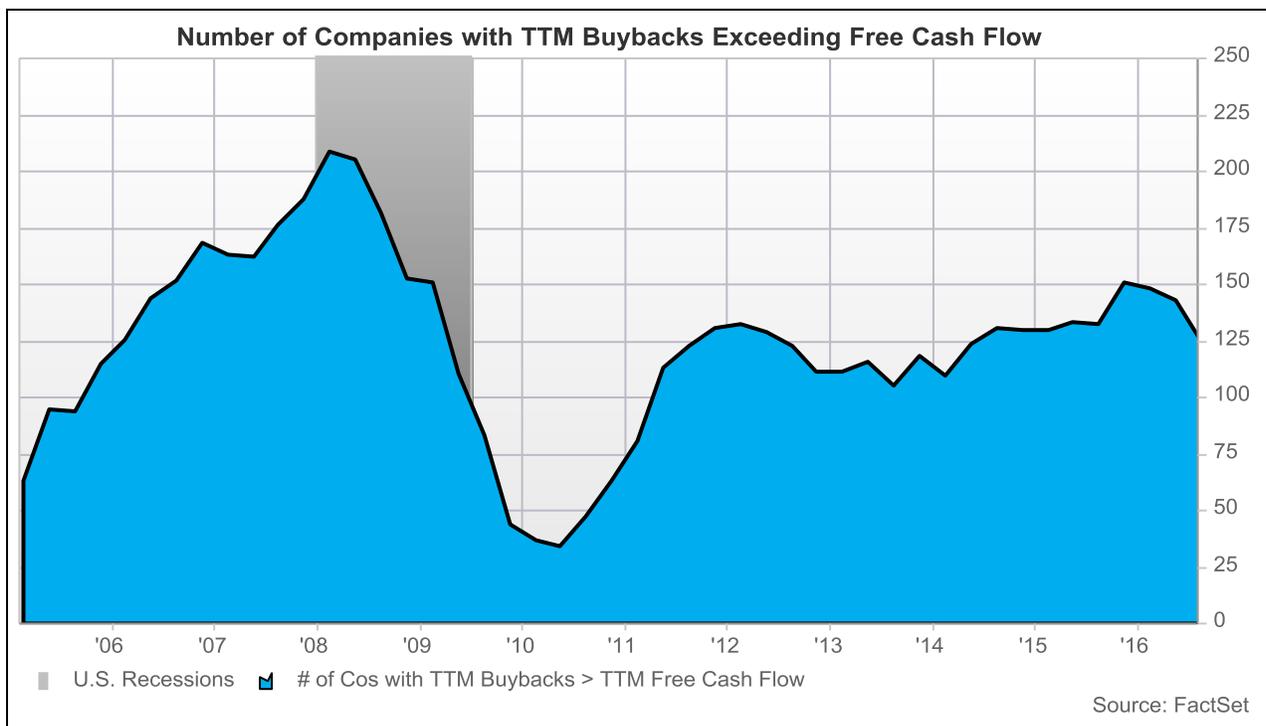
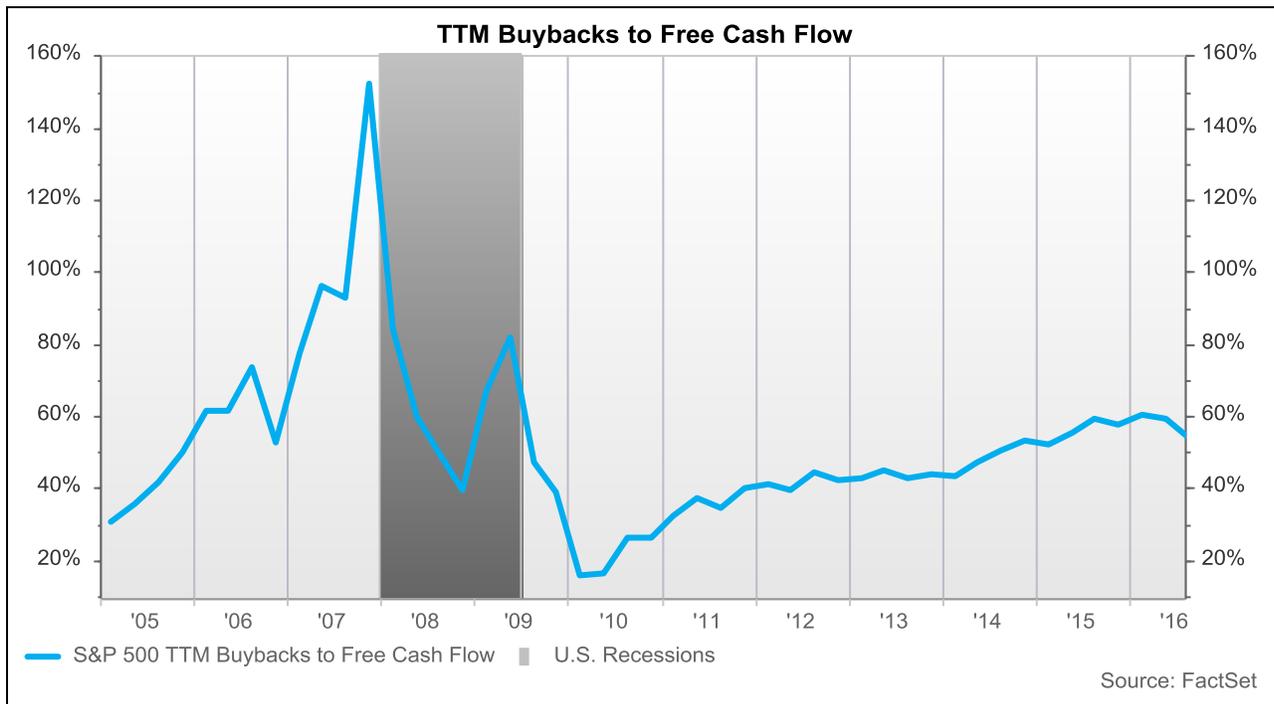


Buybacks to Net Income: Trailing Twelve Months



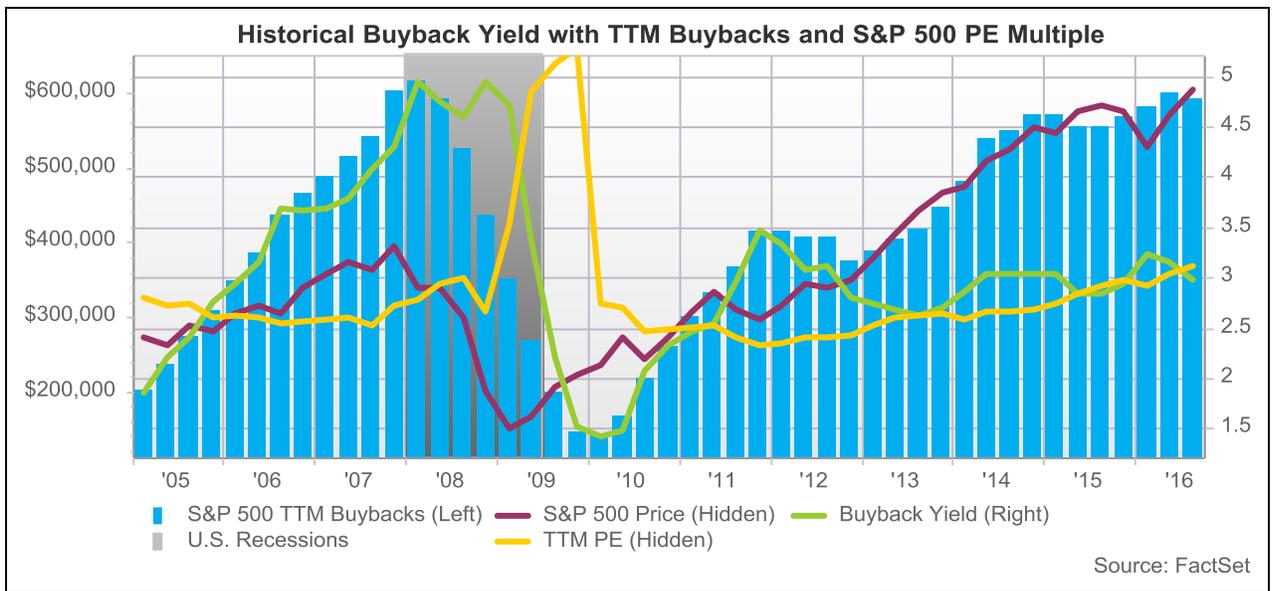
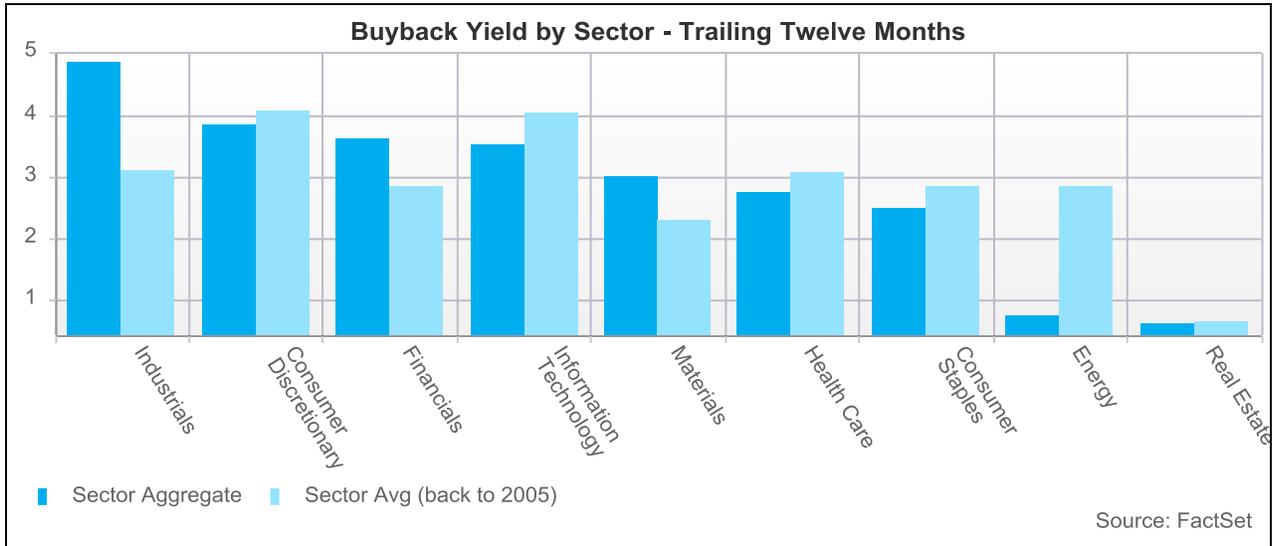
Buybacks to Free Cash Flow: Trailing Twelve Months

Free Cash Flow is defined as cash from operating activities minus capital expenditures from fixed assets.



Buyback Yield

Buyback yield is calculated as the dollar-value buybacks in the trailing twelve months divided by the aggregate market value. The Buyback Yield by Sector chart excludes Telecom and Utilities, whose yields are <0.2%.



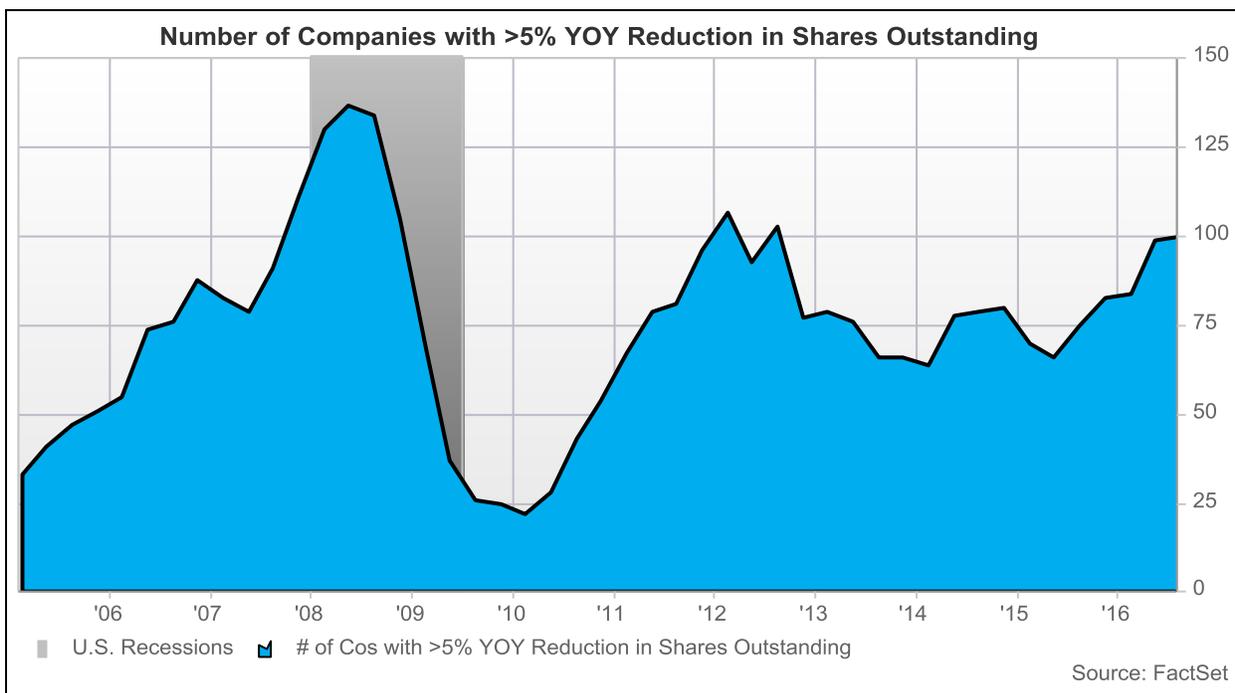
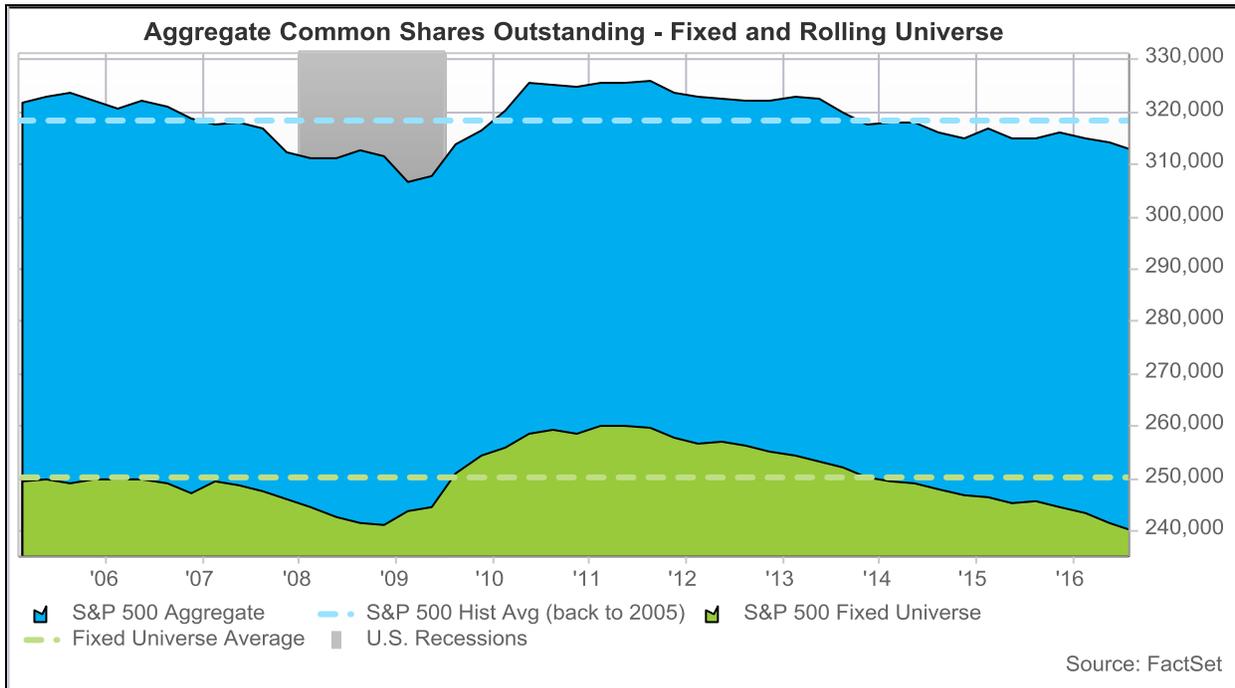
Top 10 Companies by TTM Buyback Yield						
Ticker	Company	Sector	Buyback Yield	Dividend Yield (TTM)	YoY% Chg in Shares Out	1 Year Total Return
HRB	H&R Block, Inc.	Consumer Discretionary	39.4%	3.7%	(30.8%)	(35.4%)
PWR	Quanta Services, Inc.	Industrials	32.6%	0.0%	(26.7%)	0.0%
AAL	American Airlines Group, Inc.	Industrials	32.5%	1.1%	(20.8%)	(16.7%)
MSI	Motorola Solutions, Inc.	Information Technology	23.4%	2.1%	(19.4%)	14.7%
AIG	American International Group, Inc.	Financials	22.4%	2.1%	(17.2%)	0.5%
UAL	United Continental Holdings, Inc.	Industrials	19.7%	0.0%	(14.8%)	(12.0%)
NAVI	Navient Corp	Financials	16.4%	4.7%	(15.2%)	12.9%
GLW	Corning Incorporated	Information Technology	16.0%	2.3%	(15.8%)	26.8%
HOG	Harley-Davidson, Inc.	Consumer Discretionary	15.3%	2.6%	(13.2%)	(4.8%)
SYMC	Symantec Corporation	Information Technology	14.9%	2.1%	(10.0%)	60.4%

Source: FactSet

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 fixed universe of only the companies that were in the index throughout the time series. The fixed universe is intended to isolate the trend in share count from constituent changes.



Percent Discount for Repurchases: Quarterly and TTM

The average price paid by the company for repurchases is compared to the average daily stock price for the quarter. Companies with less than \$100 million worth of share repurchases are excluded.

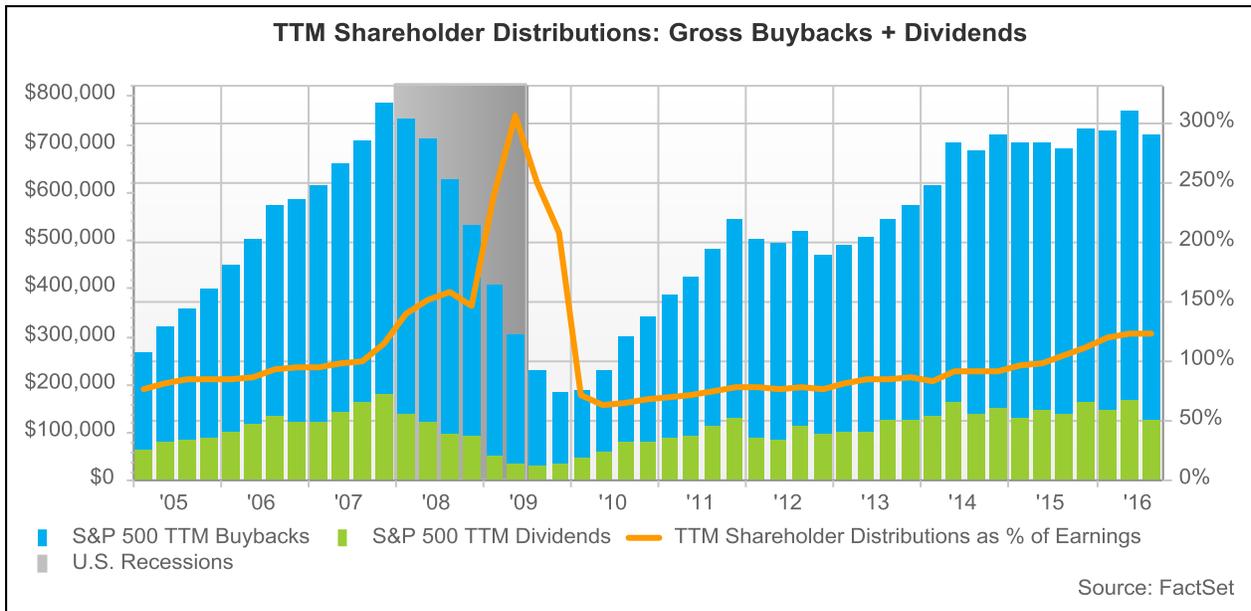
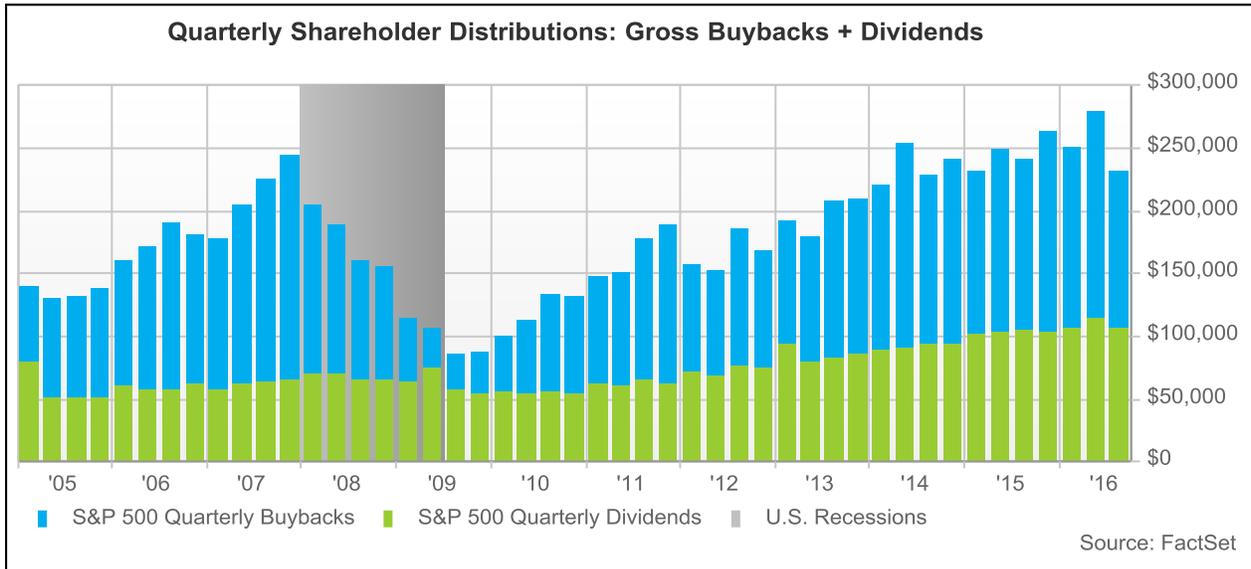
Top 10 Companies by Repurchase Discount Percent (Quarterly)					
Ticker	Company	Sector	Avg Price Paid for Repurchases (Qtr)	Avg Price for the Quarter	Quarterly Repurchase Discount (%)
PWR	Quanta Services, Inc.	Industrials	\$15.93	\$23.11	(31.1%)
ABC	AmerisourceBergen Corporation	Health Care	\$57.45	\$80.22	(28.4%)
STI	SunTrust Banks, Inc.	Financials	\$36.59	\$40.77	(10.2%)
IVZ	Invesco Ltd.	Financials	\$27.15	\$29.75	(8.7%)
MJN	Mead Johnson Nutrition Company	Consumer Staples	\$78.05	\$84.67	(7.8%)
AMAT	Applied Materials, Inc.	Information Technology	\$21.88	\$23.57	(7.2%)
VLO	Valero Energy Corporation	Energy	\$53.14	\$56.81	(6.5%)
SWKS	Skyworks Solutions, Inc.	Information Technology	\$63.97	\$67.90	(5.8%)
MDLZ	Mondelez International, Inc. Class A	Consumer Staples	\$41.37	\$43.48	(4.8%)
SYZ	Sysco Corporation	Consumer Staples	\$46.31	\$48.40	(4.3%)

Source: FactSet

Top 10 Companies by Repurchase Discount Percent (Trailing Twelve Months)					
Ticker	Company	Sector	Avg Price Paid for Repurchases (TTM)	Avg Price for the TTM	TTM Repurchase Discount (%)
ABC	AmerisourceBergen Corporation	Health Care	\$76.39	\$93.24	(18.1%)
CMG	Chipotle Mexican Grill, Inc.	Consumer Discretionary	\$497.31	\$558.38	(10.9%)
PFE	Pfizer Inc.	Health Care	\$29.72	\$32.68	(9.1%)
ADS	Alliance Data Systems Corporation	Information Technology	\$224.32	\$246.04	(8.8%)
ESRX	Express Scripts Holding Company	Health Care	\$72.93	\$79.65	(8.4%)
ETFC	E*TRADE Financial Corporation	Financials	\$24.33	\$26.57	(8.5%)
BBY	Best Buy Co., Inc.	Consumer Discretionary	\$29.57	\$32.12	(8.0%)
MNK	Mallinckrodt Plc	Health Care	\$68.62	\$74.23	(7.6%)
BHI	Baker Hughes Incorporated	Energy	\$45.65	\$48.98	(6.8%)
HOLX	Hologic, Inc.	Health Care	\$34.58	\$37.09	(6.8%)

Source: FactSet

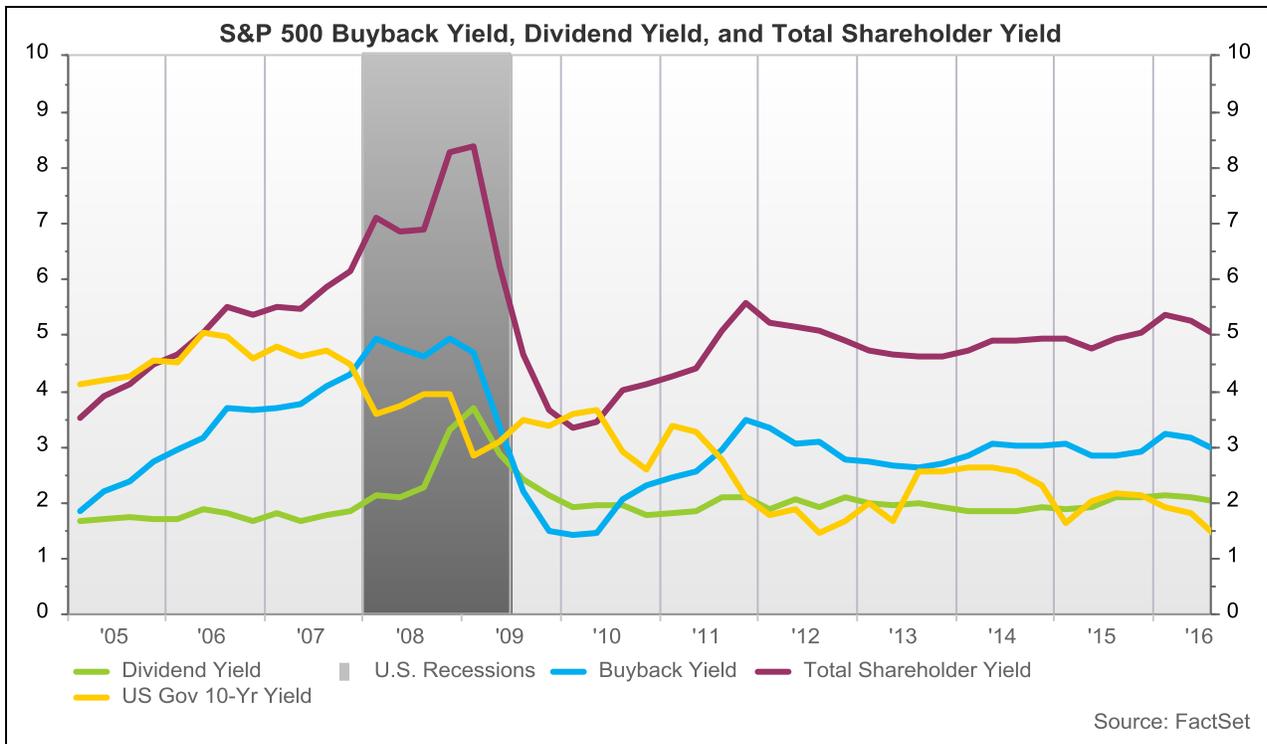
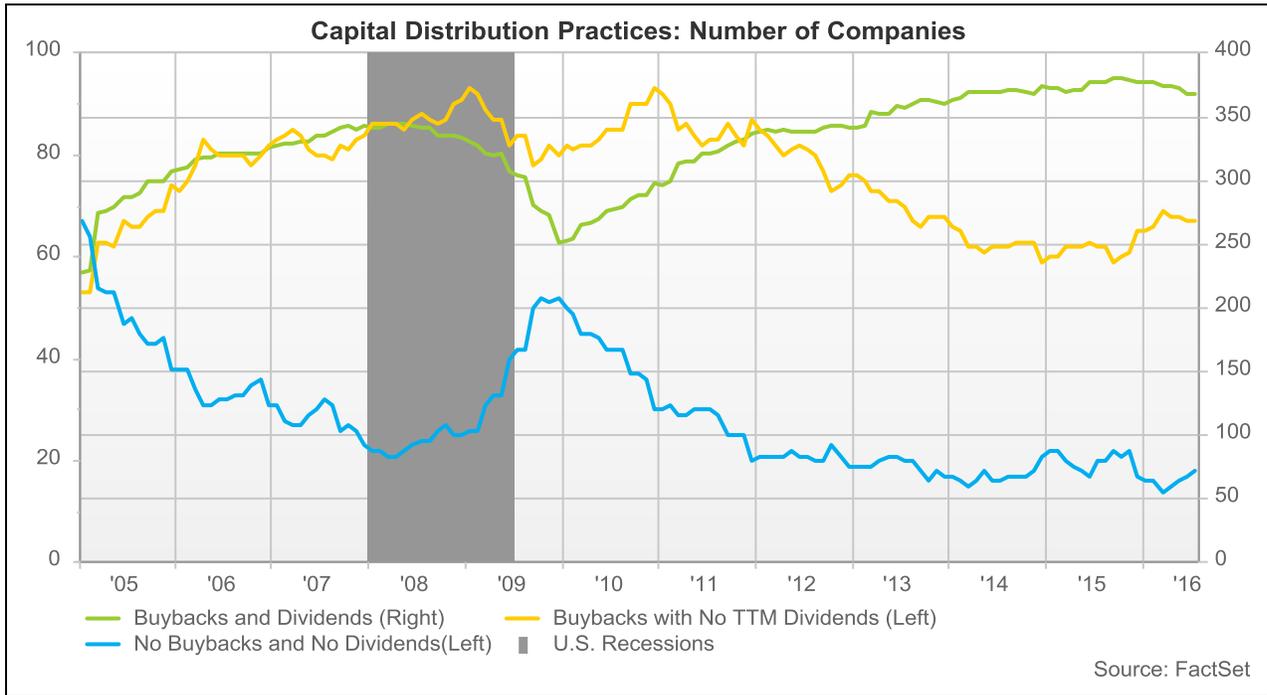
Shareholder Distributions



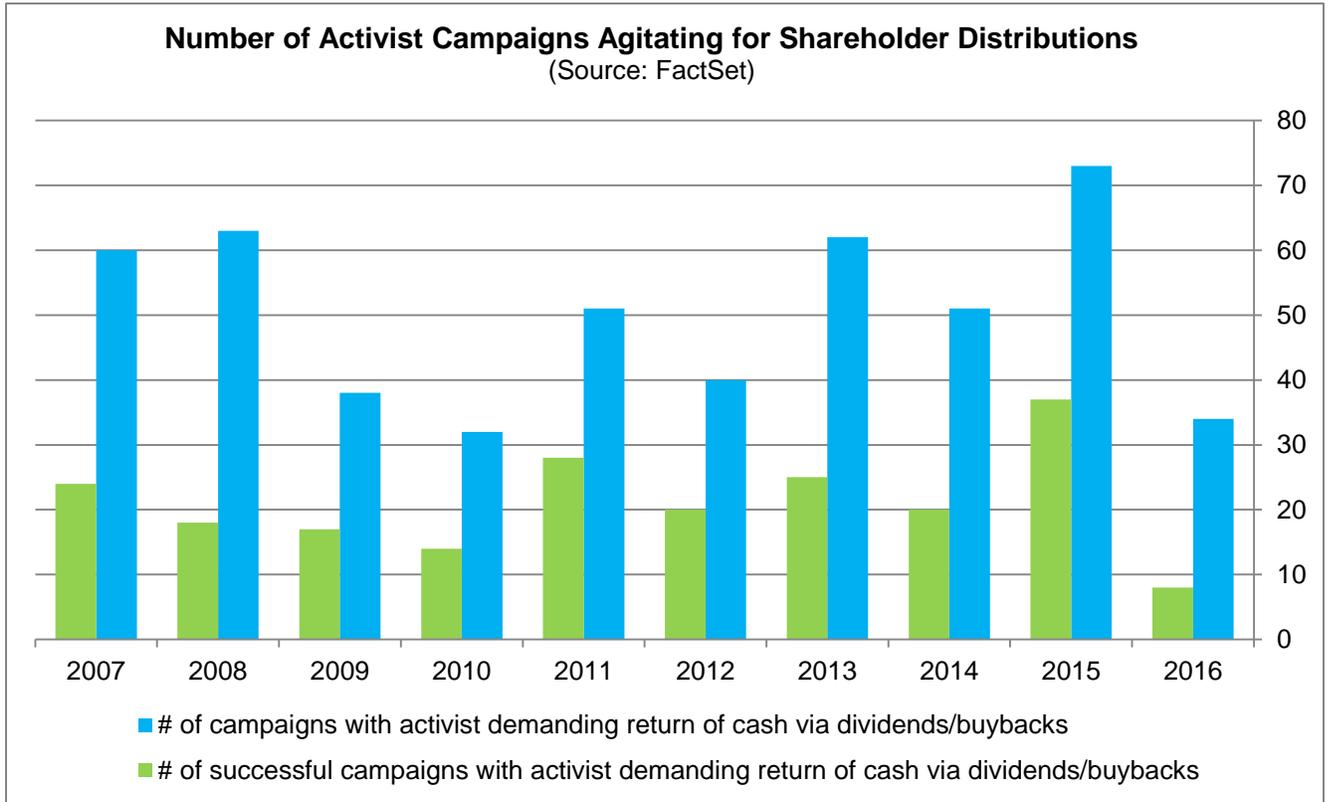
Top 10 Companies by Quarterly Shareholder Distributions						
ID	Company	Sector	Qtr Dividends	Qtr Buybacks	Qtr Shareholder Distributions	1 Yr Total Return
AAPL	Apple Inc.	Information Technology	\$3,187	\$10,900	\$14,087	0.8%
GE	General Electric Company	Industrials	\$2,274	\$7,588	\$9,862	19.1%
MSFT	Microsoft Corporation	Information Technology	\$2,821	\$3,600	\$6,421	32.8%
JNJ	Johnson & Johnson	Health Care	\$2,197	\$2,368	\$4,565	28.6%
WFC	Wells Fargo & Company	Financials	\$2,259	\$2,214	\$4,473	(12.8%)
ABBV	AbbVie, Inc.	Health Care	\$927	\$3,421	\$4,348	10.5%
MCD	McDonald's Corporation	Consumer Discretionary	\$759	\$3,289	\$4,048	20.4%
WMT	Wal-Mart Stores, Inc.	Consumer Staples	\$1,560	\$2,049	\$3,609	16.1%
T	AT&T Inc.	Telecom	\$2,952	\$224	\$3,176	28.5%
XOM	Exxon Mobil Corporation	Energy	\$3,133	\$0	\$3,133	17.1%

Source: FactSet

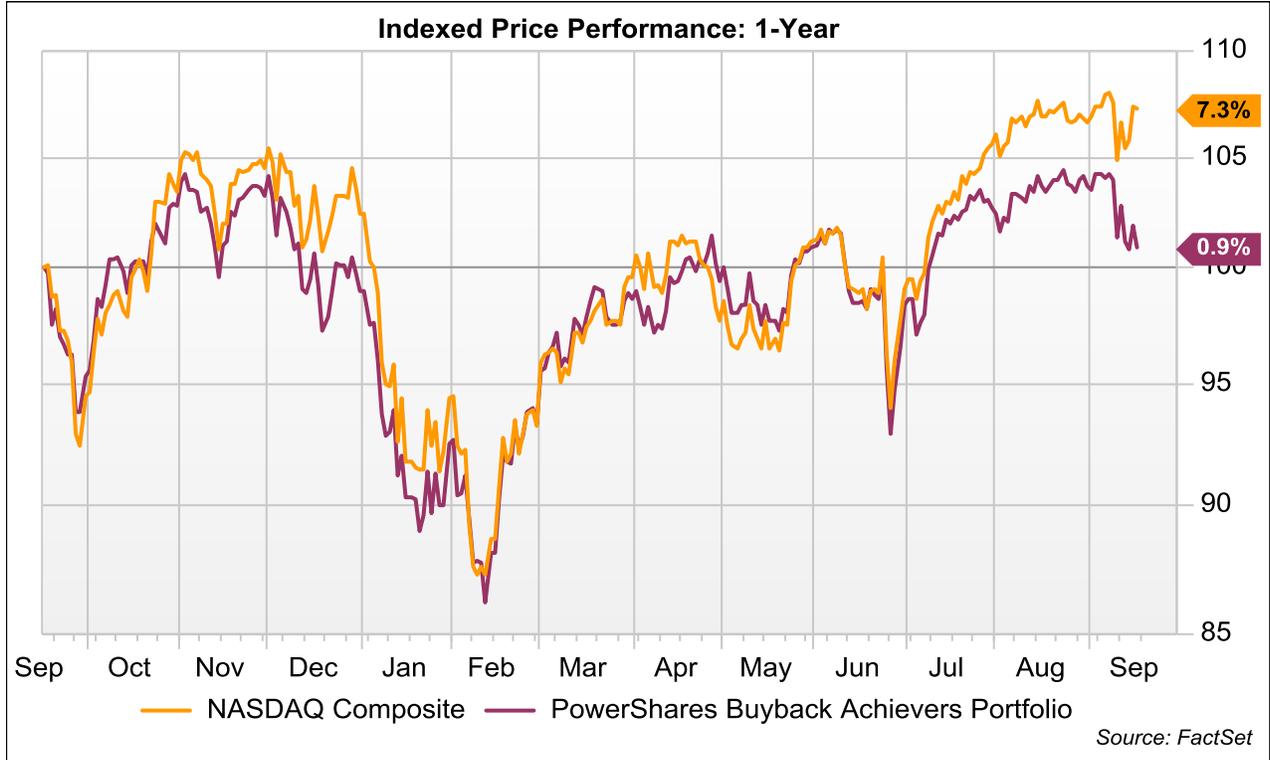
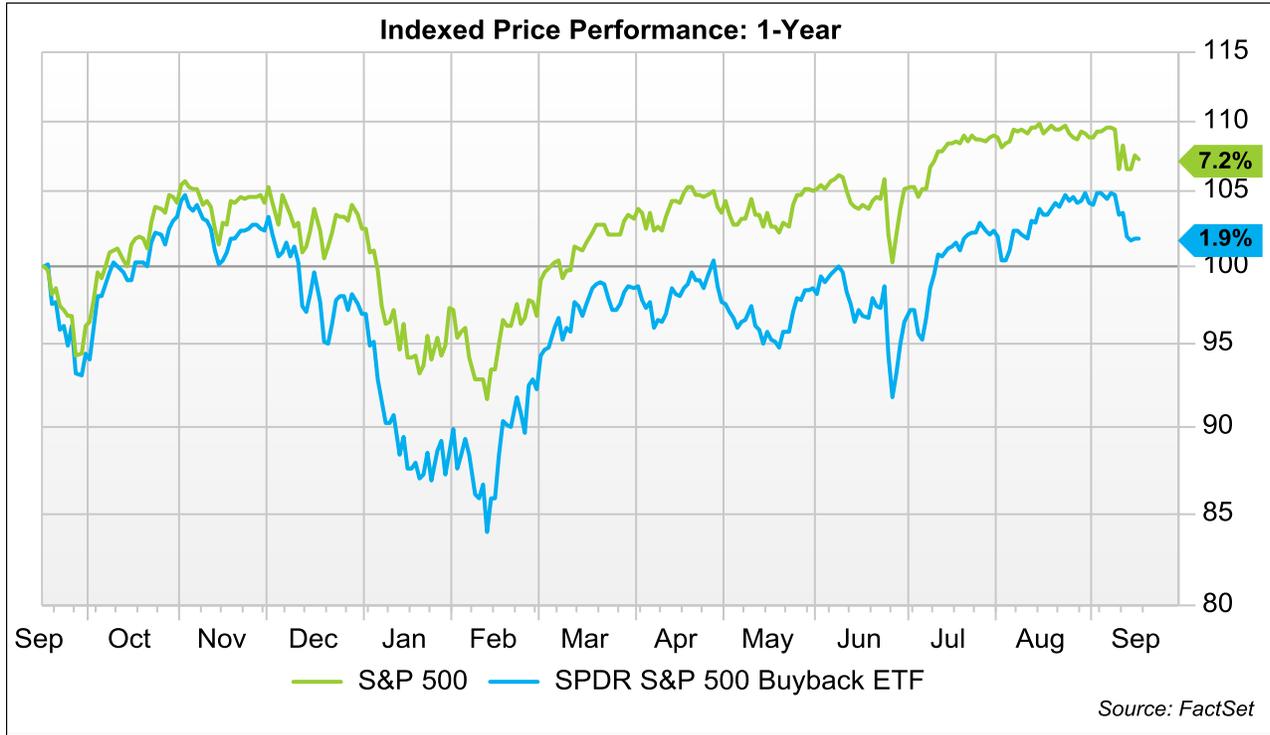
Shareholder Distributions (continued)



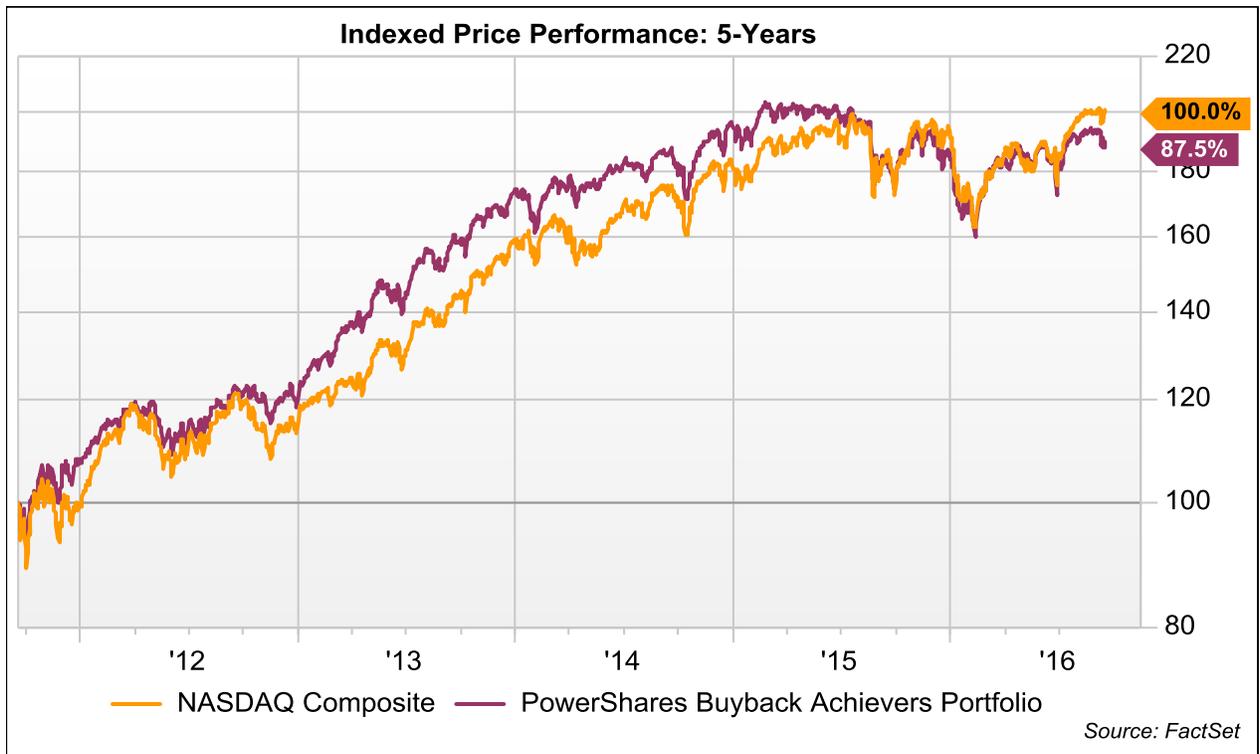
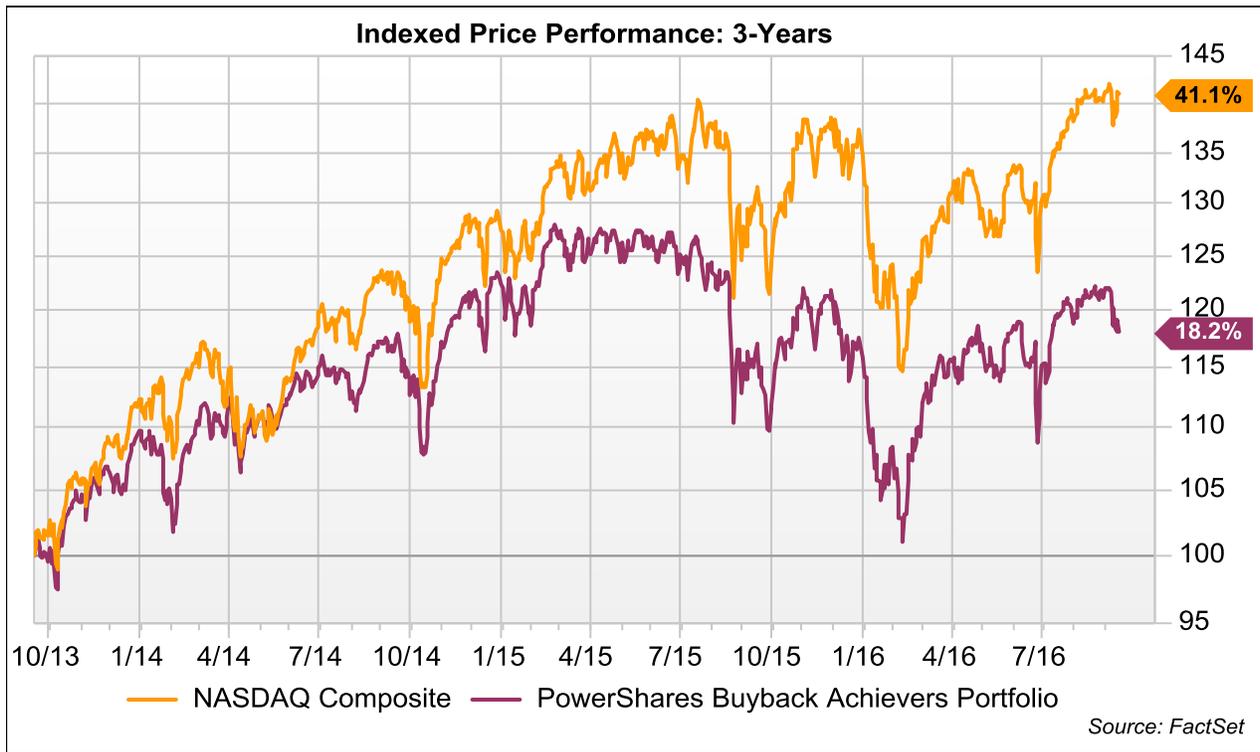
Shareholder Activism



1-Yr Indexed Price Performance: Buyback ETFs vs Benchmark



3-Yr and 5-Yr Indexed Price Performance: PKW vs NASDAQ



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