

Earnings Brief

ECONOMICS AND STRATEGY

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Research Analysts

Jonathan Golub, CFA

212 325 6239
jonathan.golub@credit-suisse.com

Patrick Palfrey

212 325 7970
patrick.palfrey@credit-suisse.com

Manish Bangard, CFA

212 325 6632
manish.bangard@credit-suisse.com

Erica Cid

212 538 8148
erica.cid@credit-suisse.com

- In 1Q, the market's response to earnings releases of Consumer Staples companies has been the worst of any sector. This weakness is largely the result of margin pressures across all Staples sub-sectors, stemming from lack of pricing power and rising input and commodity costs.
- 454 S&P 500 companies have reported 1Q results. Earnings are beating by 7.4%, with 76% of companies surpassing bottom-line estimates. This compares to 4.7% and 68% over the past 3 years.
- 1Q expectations are for revenues, earnings, and EPS growth of 8.3%, 24.0%, and 25.5%, respectively. EPS is on pace for 25.8%, assuming a typical beat rate for the remainder of the season.
- The recent tax change is adding 7.6% to the bottom-line. Excluding the reduction in tax burden, trend EPS growth is on pace for 18.2% vs 25.8% when included.
- **A detailed sector earnings breakdown is on page 2.**
- Next week 10 companies representing 3.1% of the S&P 500 will report results, including Home Depot, Cisco, Wal-Mart, Macy's and Deere & Co.
- 44 companies reported last week, including:
 - **Walt Disney:** Delivered strong beats on the success of "Black Panther". However, shares fell 2% as Comcast tries to upend DIS offer for FOX.
 - **Booking Holdings:** Surpassed expectations but 2Q guidance came in below consensus on a deceleration in hotel bookings. Shares fell 5%.
 - **Cognizant Technology:** Beat on strong digital services demand, however a higher tax rate lowered 2Q guidance. CTSH fell over 5%.
 - **NVIDIA:** Exceeded estimates on robust demand in gaming and data centers. NVDA raised guidance; however shares fell 2% after hours.
 - **Occidental Petroleum:** Topped forecasts on stronger production. OXY plans to restart their buyback program and shares jumped over 5%.

Figure 1: Key Companies Reporting Over the Next Week

Day	Date	Cos. Reporting		Major Companies Reporting
		#	Wgt (%)	
Mon	May-14	1	0.1	Agilent Technologies (A)
Tue	May-15	1	0.9	Home Depot (HD)
Wed	May-16	3	1.0	Cisco (CSCO), Take-Two Interactive Software (TTWO), Macy's (M)
Thu	May-17	3	0.9	Wal-Mart Stores (WMT), Applied Materials (AMAT), Nordstrom (JWN)
Fri	May-18	2	0.3	Deere & Co. (DE), Campbell Soup (CPB)

Source: the BLOOMBERG PROFESSIONAL™ service and Credit Suisse

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Sector Highlights

Energy: The sector delivered the highest earnings growth (80%) amongst all S&P 500 sectors, largely due to a rebound in oil price, and easy comps. Results were strong across the board with the Integrates and Downstream companies surprising on the back of a pickup in production volumes while Oilfield Services experienced increased drilling activity.

Materials: EPS grew 22%. Within the sector, Chemicals surpassed expectations on the back of higher volumes and prices. Metals & Mining grew earnings by 73%, however, results missed expectations by 8%+. This has led Materials to deliver the lowest earnings surprise among the cyclical sectors.

Industrials: Underlying trends continue to improve, mirroring the strength in recent economic activity. Industrials are delivering the highest revenue surprises within the market. EPS is forecasted to grow 25%, with all of the sub-sectors expected to deliver 20%+ growth.

Discretionary: EPS growth forecast of 23% is heavily skewed by a 13% tax benefit and 3.3% contribution from buybacks. Ex-these, earnings growth of 6% is the weakest among the cyclicals. This stems from structural headwinds for many brick and mortar retailers, tepid subscriber trends at cable providers, and normalization in new car sales; partially offset by positive secular tailwinds in internet retailing and online media distribution.

Staples: Earnings are projected to grow 13%. However, 11% of the 13% is coming from taxes. Staples, along with Discretionary, are the only sectors experiencing margin compression. Within the group, Food & Staples Retailing should deliver the strongest earnings growth (+20%) on a pickup in volumes, while Household & Personal Products is growing the slowest (+8%) given sluggish overseas growth and rising competition.

Health Care: Within the non-cyclical space, Health Care is forecasted to witness the highest EPS growth at 16%. Providers & Services have delivered the strongest growth and beats on robust volumes and lower medical loss ratio (MLR). Large-cap Pharma companies, too, witnessed strong volume growth in some of their core drugs.

Financials: Underlying trends remain strong, with EPS growth of 26%. Banks and Capital Markets delivered robust earnings growth (30%+) on the back of improving NIMs, stronger trading activity, asset growth and lower credit costs. On the other hand, Insurance results have been less impressive delivering the smallest surprises within the sector.

Technology: Growth for the sector remains a standout, with current projections calling for a 31% increase in EPS. Every sub-sector within Tech is expected to grow their earnings in excess of 20%. Strength is being driven by Semis and secular themes within cloud computing, software-as-a-service, and internet companies. Surprises have been broad-based with over 90% of companies surpassing their expectations, with strong upside from several large companies.

Telecom: Improved operating margins and lower churn has led to EPS growth of 14% for the sector. However legacy businesses remain a drag.

Utilities: The bottom-line grew 17%. Harsher weather across most of the country along with higher commodity prices aided the sector to post the greatest surprise (6%) within the non-cyclical sectors.

REITs: The bottom-line is increased 6%. Specialized REITs growth remains a standout, helped by of cloud computing. By contrast, Office, Hotels & Resorts and Hospital REITs trends remain weak.

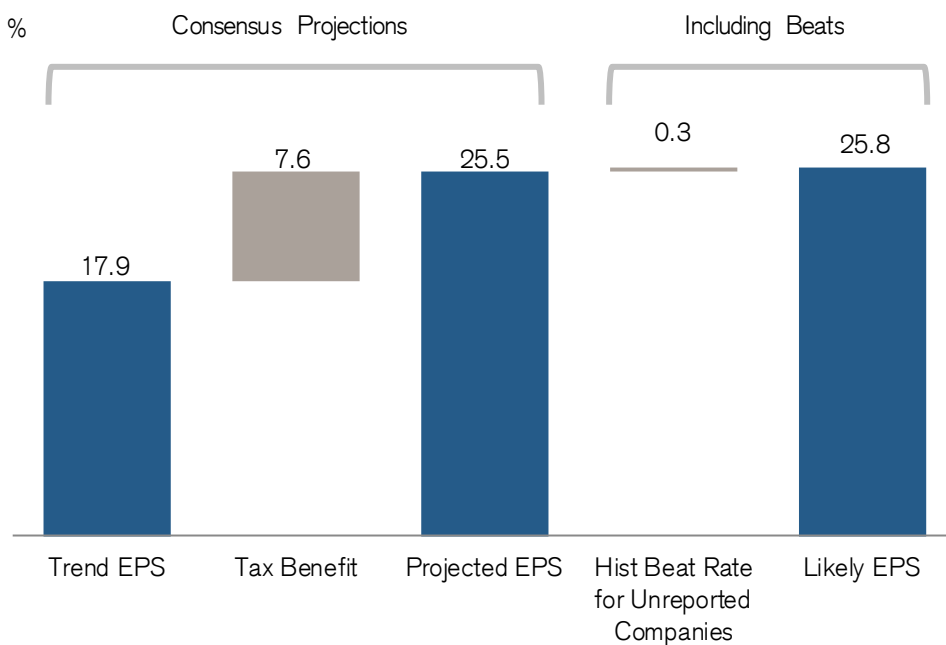
Growth Dashboard

Figure 2: S&P 500 Growth Dashboard

	Trend		Tax		Buybacks	EPS
	Revenue	Margins	Benefit	Earnings		
Cyclicals	11.8	11.4	6.5	29.7	1.3	31.0
Energy	14.0	59.6	9.9	83.5	-3.9	79.6
Materials	10.5	5.9	5.1	21.4	0.5	21.9
Industrials	10.7	3.3	10.0	24.0	1.5	25.5
Discretionary	8.8	-2.6	13.1	19.3	3.3	22.6
Technology	15.9	13.2	1.6	30.7	0.8	31.5
Non-Cyclicals	5.5	1.9	6.4	13.9	0.4	14.3
Staples	4.4	-4.9	11.2	10.7	2.3	13.0
Health Care	7.3	4.0	3.5	14.7	1.4	16.1
Telecom	3.2	2.3	12.6	18.1	-3.8	14.3
Utilities	2.9	6.2	9.6	18.7	-1.7	17.0
REITs	8.8	0.7	-1.0	8.5	-3.0	5.5
S&P 500 ex-Fins	9.1	7.6	6.4	23.1	0.9	24.0
Financials	3.3	11.8	12.5	27.6	4.4	32.0
S&P 500	8.3	8.1	7.6	24.0	1.5	25.5

Note: YoY growth of current constituents; blend of unreported and reported where available; Tax Benefit based on announced tax rate changes
Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

Figure 3: Likely Path of 1Q18 EPS Growth



Note: Blend of actuals where available and estimates; Tax Benefit based on announced tax rate changes; Trend EPS is EPS growth excluding Tax Benefit; Historical Beat Rate based on previous 1Q trend; Likely EPS assumes beat rate
Source: Standard & Poor's, Thomson, Financial, FactSet, Credit Suisse

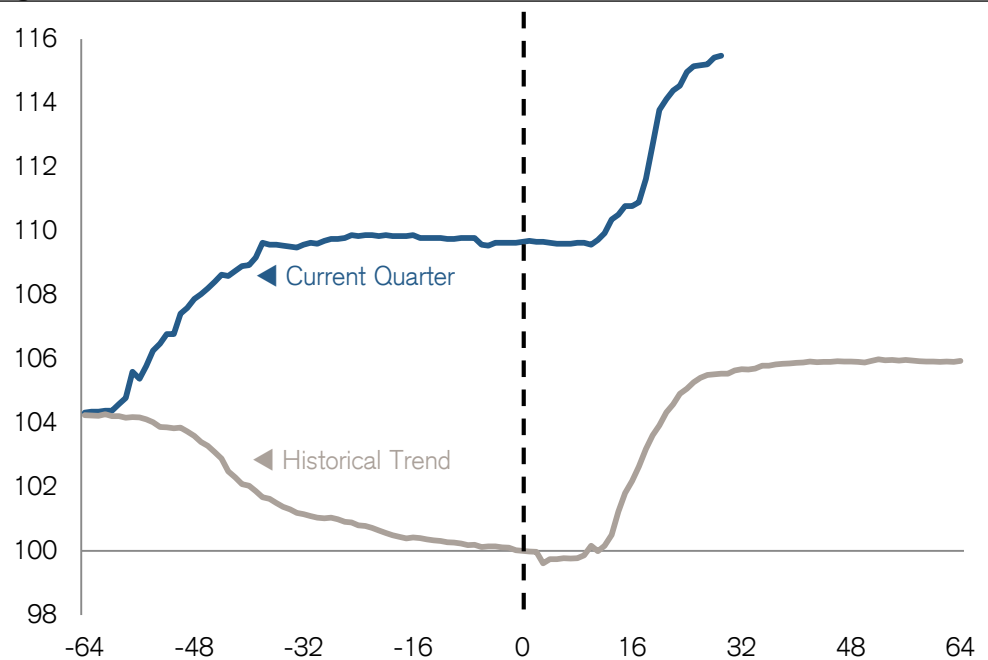
Surprise Dashboard

Figure 4: S&P 500 Surprise Dashboard

	Rptd	Total	Surprise (%)		
			Revenue	Margins	Earnings
Cyclicals	237	273	1.8	8.2	10.1
Energy	31	31	-0.4	11.4	11.0
Materials	25	25	1.0	1.3	2.4
Industrials	69	70	2.9	7.5	10.4
Discretionary	57	78	2.3	11.7	14.0
Technology	55	69	2.4	7.0	9.5
Non-Cyclicals	149	159	0.9	3.6	4.5
Staples	28	34	1.0	3.9	4.8
Health Care	57	61	0.8	4.2	5.0
Telecom	3	3	-1.0	3.1	2.1
Utilities	28	28	2.2	3.4	5.6
REITs	33	33	1.8	0.4	2.2
S&P 500 ex-Financials	386	432	1.5	6.3	7.8
Financials	68	68	0.9	5.1	6.0
S&P 500	454	500	1.4	6.0	7.4

Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

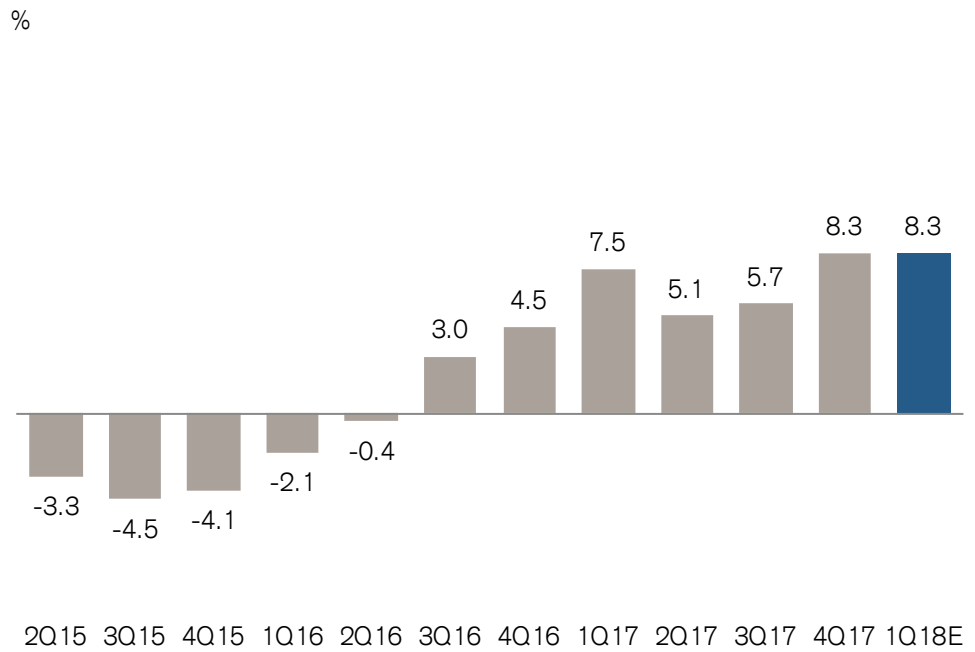
Figure 5: 1Q18 EPS Revision



Note: Indexed to 0 at quarter end. Average line indexed at 100 at the end of the quarter. Historical trend based on prior 1Qs
 Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

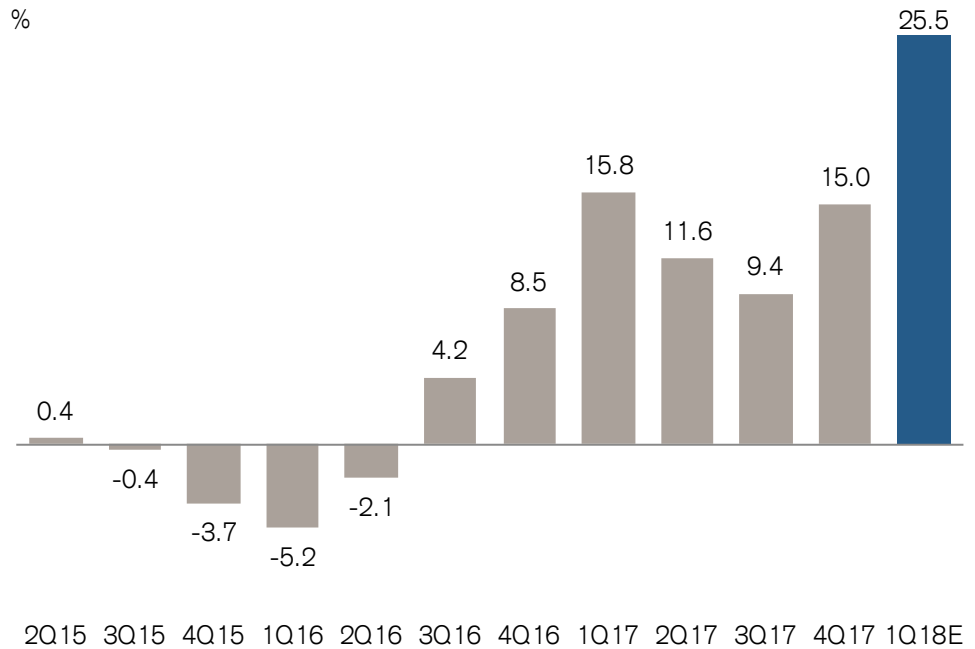
Historical Growth Trends

Figure 6: S&P 500 Revenue Growth



Note: YoY growth of current constituents; blend of unreported and reported numbers where available
 Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

Figure 7: S&P 500 EPS Growth

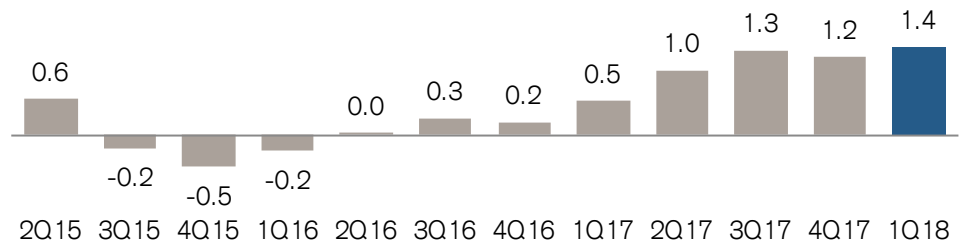


Note: YoY growth of current constituents; blend of unreported and reported numbers where available
 Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

Historical Surprise Trends

Figure 8: S&P 500 Revenue Surprise

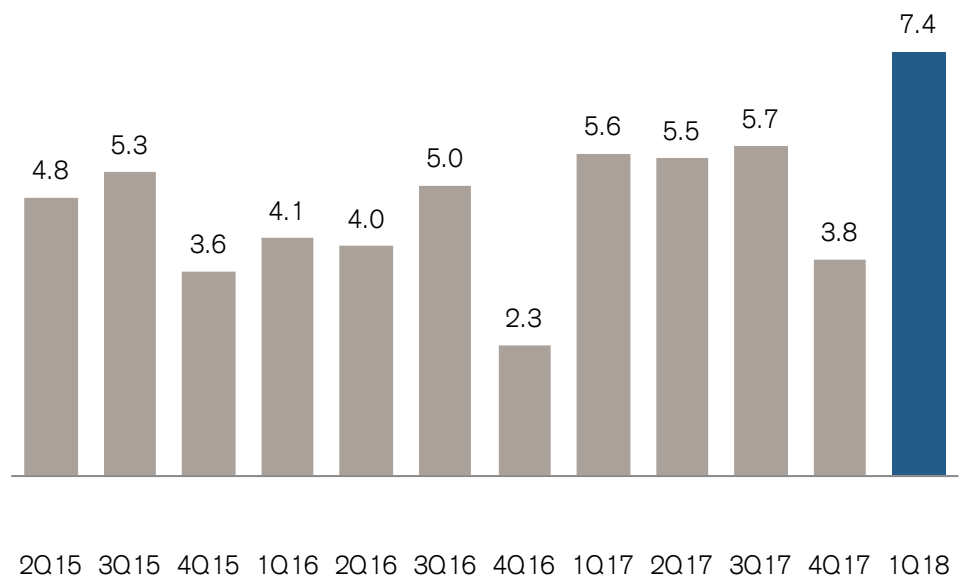
%



Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

Figure 9: S&P 500 Earnings Surprise

%



Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

Revenue and Earnings Details

Figure 10: S&P 500 Revenue Dashboard

			Revenue Growth (%)			Revenue Surprise		
	Rptd	Total	Rptd	Unrptd	Blended	Pct (%)	% Beat	% Miss
Cyclicals	237	273	12.2	9.7	11.8	1.8	65	10
Energy	31	31	14.0	NA	14.0	-0.4	58	23
Materials	25	25	10.5	NA	10.5	1.0	60	28
Industrials	69	70	10.1	35.1	10.7	2.9	72	3
Discretionary	57	78	10.5	4.7	8.8	2.3	54	12
Technology	55	69	15.5	17.8	15.9	2.4	73	2
Non-Cyclicals	149	159	6.1	3.3	5.5	0.9	53	15
Staples	28	34	5.5	2.8	4.4	1.0	46	11
Health Care	57	61	7.6	4.9	7.3	0.8	56	12
Telecom	3	3	3.2	NA	3.2	-1.0	33	33
Utilities	28	28	2.9	NA	2.9	2.2	54	32
REITs	33	33	8.8	NA	8.8	1.8	55	9
S&P 500 ex-Financials	386	432	9.7	6.2	9.1	1.5	60	12
Financials	68	68	3.3	NA	3.3	0.9	47	25
S&P 500	454	500	8.7	6.2	8.3	1.4	58	14

Note: YoY growth of current constituents; blend of unreported and reported numbers where available; Beat/Miss +/- 1%
Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

Figure 11: S&P 500 Earnings Dashboard

			Earnings Growth (%)			Earnings Surprise		
	Rptd	Total	Reptd	Unreptd	Blnded	Pct (%)	%Beat	%Miss
Cyclicals	237	273	30.9	21.8	29.7	10.1	78	14
Energy	31	31	83.5	NA	83.5	11.0	77	16
Materials	25	25	21.4	NA	21.4	2.4	72	20
Industrials	69	70	23.6	33.3	24.0	10.4	74	14
Discretionary	57	78	19.4	18.9	19.3	14.0	70	19
Technology	55	69	32.0	23.2	30.7	9.5	93	2
Non-Cyclicals	149	159	14.6	5.2	13.9	4.5	72	13
Staples	28	34	11.5	7.2	10.7	4.8	82	11
Health Care	57	61	15.6	2.1	14.7	5.0	81	9
Telecom	3	3	18.1	NA	18.1	2.1	67	33
Utilities	28	28	18.7	NA	18.7	5.6	61	25
REITs	33	33	8.5	NA	8.5	2.2	61	12
S&P 500 ex-Financials	386	432	23.9	16.9	23.1	7.8	76	13
Financials	68	68	27.6	NA	27.6	6.0	78	9
S&P 500	454	500	24.7	16.9	24.0	7.4	76	13

Note: YoY growth of current constituents; blend of unreported and reported numbers where available; Beat/Miss +/- 1%
Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

Price Action

Figure 12: Price Action

		Revenue Surprise	
		Beats	Misses
EPS Surprise	Beats	0.6	-1.5
	Misses	-4.9	-4.0

Note: Beat/Miss defined as +/- 1% of estimate. Price performance -1 to +1 days
 Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

Figure 13: Price Action Table

	Price Action (%)				
	Overall	EPS Beat with		EPS Miss with	
		Rev Beat	Rev Miss	Rev Beat	Rev Miss
Cyclicals	-0.5	0.5	-0.7	-6.0	-2.6
Discretionary	-0.1	1.1	-3.7	-2.9	3.7
Energy	0.1	-0.2	2.3	-0.8	-4.8
Industrials	-1.3	-0.2	-0.5	-9.4	NA
Materials	-1.5	-0.6	-0.8	-5.2	-4.8
Technology	0.4	1.6	-0.6	-11.4	NA
Non-Cyclicals	-0.4	0.5	-2.2	-0.4	-4.9
Staples	-2.7	-2.5	-15.5	-0.4	-8.5
Health Care	-0.9	0.3	-4.3	NA	-4.6
Telecom	0.8	4.1	NA	NA	-6.7
Utilities	0.6	1.2	1.5	-1.1	-2.4
REITs	1.4	2.5	0.5	1.0	NA
S&P 500 ex-Financials	-0.4	0.5	-1.2	-4.8	-3.9
Financials	-0.4	1.4	-2.2	-5.7	-5.9
S&P 500	-0.4	0.6	-1.5	-4.9	-4.0

Note: Beat/Miss defined as +/- 1% of estimate. Price performance -1 to +1 days
 Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

U.S. Exporters vs. Domestically Focused Companies

Figure 14: Revenues – U.S. Exporters vs. Domestically Focused Companies

	Rptd	Total	Growth (%)	Surprise		
				Pct (%)	% Beat	% Miss
U.S. Exporters	185	193	11.7	1.6	67.6	9.2
U.S. Domestically Focused	201	239	7.0	1.3	53.7	14.9
Difference			4.7	0.2	13.8	-5.7
S&P 500 ex-Financials	386	432	9.1	1.5	60.4	12.2

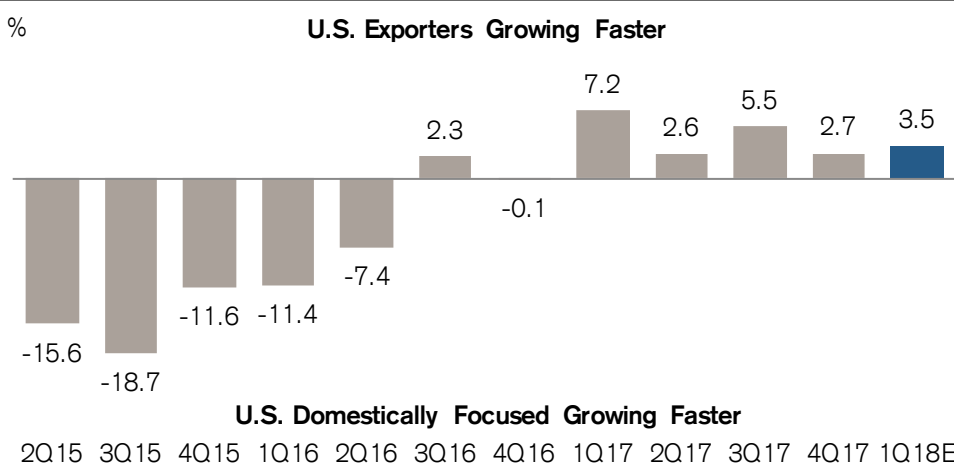
Note: YoY growth of current constituents; blend of unreported and reported numbers where available; Beat/Miss +/- 1; Exporters is top half IG neutral ex-Fin foreign sales %; Domestic focus is bottom half IG neutral ex-Fin foreign sales %.
Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

Figure 15: Earnings – U.S. Exporters vs. Domestically Focused Companies

	Rptd	Total	Growth (%)	Surprise		
				Pct (%)	% Beat	% Miss
U.S. Exporters	185	193	24.8	8.1	78.9	11.9
U.S. Domestically Focused	201	239	21.3	7.3	72.6	14.9
Difference			3.5	0.8	6.3	-3.0
S&P 500 ex-Financials	386	432	23.1	7.8	75.6	13.5

Note: YoY growth of current constituents; blend of unreported and reported numbers where available; Beat/Miss +/- 1; Exporters is top half IG neutral ex-Fin foreign sales %; Domestic focus is bottom half IG neutral ex-Fin foreign sales %.
Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

Figure 16: Earnings Growth – U.S. Exporters minus U.S. Domestically Focused



Note: YoY growth of current constituents; blend of unreported and reported numbers where available; Exporters is top half IG neutral ex-Fin foreign sales %; Domestic focus is bottom half IG neutral ex-Fin foreign sales %.
Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

Companies Mentioned (Price as of 01-May-2018)

21st Century Fox (FOXA.OQ, \$36.57)
Agilent Technologies Inc. (A.N, \$66.24)
Applied Materials Inc. (AMAT.OQ, \$50.91)
Booking Holdings Inc. (BKNG.OQ, \$2179.39)
Campbell Soup Company (CPB.N, \$40.95)
Cisco Systems (CSCO.OQ, \$44.83)
Cognizant Technology Solutions Corp. (CTSH.OQ, \$81.82)
Comcast Corp. (CMCSA.OQ, \$32.06)
Deere & Co. (DE.N, \$135.37)
Home Depot (HD.N, \$184.63)
Macy's Inc. (M.N, \$30.74)
NVIDIA Corporation (NVDA.OQ, \$227.14)
Nordstrom, Inc. (JWN.N, \$50.17)
Occidental Petroleum Corporation (OXY.N, \$76.58)
Take-Two Interactive Software Inc. (TTWO.OQ, \$104.3)
The Walt Disney Company (DIS.N, \$100.06)
Walmart Inc. (WMT.N, \$87.41)

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