

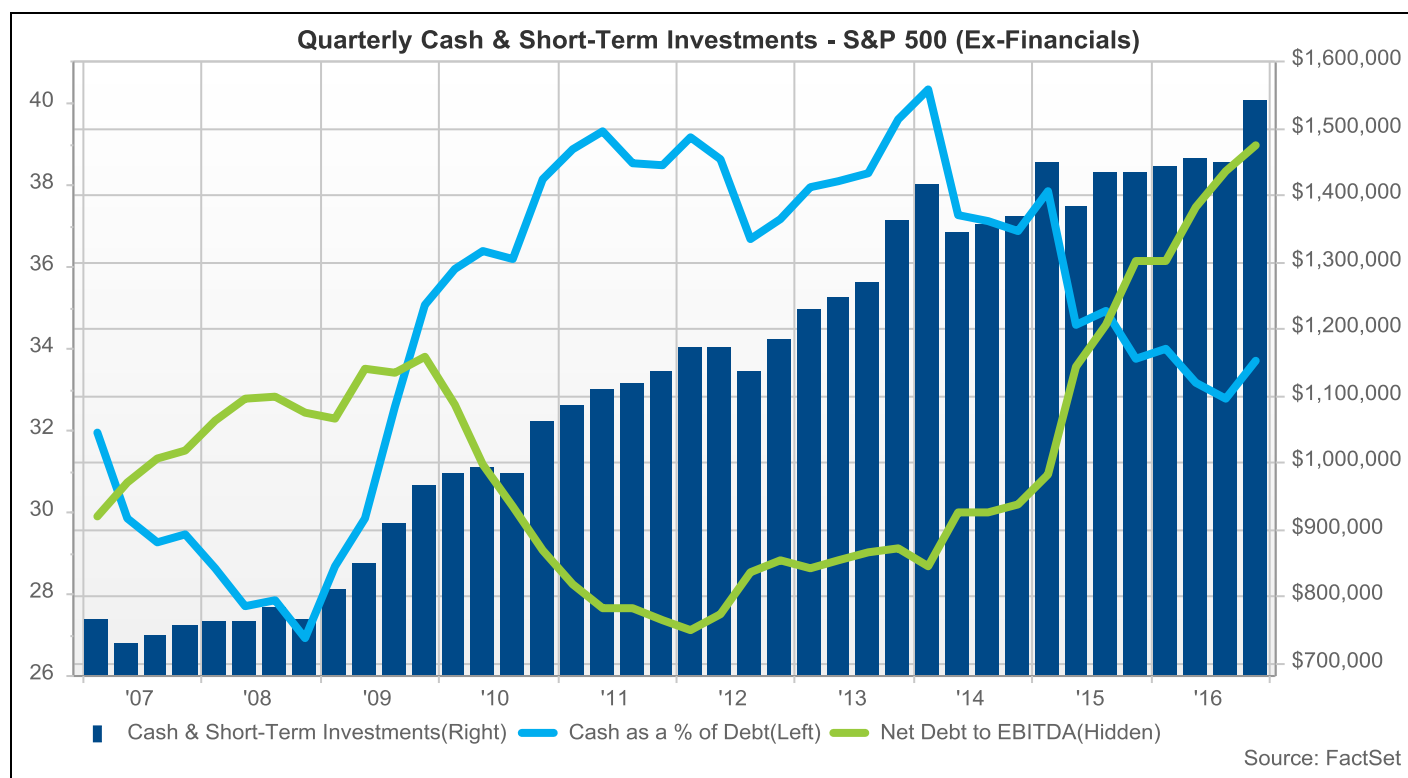
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## Key Metrics:

- Cash Balance Grows 7.6% to \$1.54 Trillion:** The S&P 500 (Ex-Financials) cash and short-term investments balance was \$1.54 trillion at the end of the third quarter (August - October), which represented a 7.6% increase from the year-ago quarter, and a 6.3% jump from Q2. The balance in Q3 represented the largest cash total in at least ten years.
- Microsoft and Alphabet have Largest Cash Balances:** Microsoft and Alphabet topped the list of companies ranked by quarterly cash and short-term investments for the fourth consecutive quarter (\$136.9 billion and \$83.1 billion, respectively).
- Net Debt to EBITDA Reaches New High for Sixth Consecutive Period:** At the end of Q3, net debt to EBITDA for the S&P 500 (Ex-Financials) increased to 1.88. This marked the sixth consecutive period that the ratio hit a new high.
- Energy Sector Continues to Weigh Down Capital Expenditures:** Over the trailing twelve months, Energy CapEx amounted to \$104.7 billion, which represented a 39.7% decrease from the same period a year ago. The TTM ending in Q3 marked the smallest CapEx total for the Energy group since Q3 2007. Aggregate TTM CapEx for the S&P 500 (Ex-Financials) index fell 8.8% year-over-year.
- Excluding Energy, CapEx Shows Growth:** Fixed capital expenditures for the S&P 500 (Ex-Financials & Ex-Energy) index increased 2.4% year-over-year to \$492.3 billion for the trailing twelve months ending in Q3.



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

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## Q3 Cash Balance Grows 7.6% to \$1.5 Trillion

### Q3 Cash Balance Reaches New High

The S&P 500 (Ex-Financials) cash and short-term investments balance (“cash”) amounted to \$1.54 trillion at the end of the third quarter, which marked a 7.6% increase from the year-ago quarter, and a 6.3% jump from Q2. The balance in Q3 represented the largest cash total in at least ten years. The top 20 companies by cash balance made up 52.5% of the aggregate cash balance for the index. The percentage at the end of the third quarter was an increase from the percentage in the year-ago quarter (50.8%) and the percentage in Q2 (51.1%).

Seven out of ten GICS sectors grew their cash and short-term investments balance compared to the year-ago quarter. The Industrials, Telecom, and Utilities sectors were the only groups to see their cash amount diminish. The Information Technology sector maintained the largest cash balance (\$672.7 billion) at the end of the third quarter. The sector’s cash total made up 43.6% of the aggregate amount for the index, which was a jump from the 39.3% in Q3 2015. The Information Technology group saw its balance grow 19.3% year-over-year, which was the second largest growth rate at the sector level. The Consumer Staples sector posted the largest increase in cash at nearly 26%.

### Microsoft and Alphabet Top Cash Balances for Fourth Consecutive Quarter

At the company level, Microsoft and Alphabet topped the list of companies ranked by quarterly cash and short-term investments for the fourth consecutive quarter. Microsoft had a cash balance of \$136.9 billion at the end of the third quarter and Alphabet had a balance of \$83.1 billion. The top five companies by cash totals were all part of the Information Technology sector (Microsoft, Alphabet, Cisco, Oracle, and Apple). The top ten list is shown on page five of this report. If long-term investments were included in the company’s cash amount, then Apple and Microsoft would top the list with balances of \$237.6 billion and \$147.4 billion, respectively.

It is important to note that the S&P 500 (Ex-Financials) may see its aggregate cash balance grow in the upcoming periods if the fiscal policy of President-elect Donald Trump is implemented. Trump’s planned tax overhaul includes a tax holiday that will encourage companies, who have been accumulating cash overseas, to bring that money back into the United States. If this occurs, some of the largest companies could be sitting on piles of excess cash, which can be used on things like shareholder distributions, capital expenditures, M&A, debt payoff, and research and development.

### Growth in Debt Outpaces Growth in Cash

The trend of rising cash and debt levels cited in the Q2 2016 Cash & Investment report is still one to watch. At the end of the third quarter, aggregate debt for the S&P 500 (Ex-Financials) index reached its highest total in at least ten years, at \$4.57 trillion. This marked a 7.8% increase from the debt amount in Q3 2015 and a 3.5% jump from the second quarter. On a sequential basis, the growth in cash actually outpaced the growth in debt, which is why the cash to debt ratio in the chart on page one of this report is showing a spike for the most recent quarter. With that said, the primary trend in the index has been a declining cash to debt ratio as a result of aggregate debt growing at a faster clip than aggregate cash. Looking at year-over-year growth rates at the end of the last 12 quarters, the cash and short-term investments balance grew at a 5% average rate, while debt level increased at a 10% average rate. Of those 12 quarters, YOY growth in debt exceeded that of cash in 11 quarters, with Q4 2013 being the only outlier.

At the end of the third quarter, the cash to debt ratio for the S&P 500 (Ex-Financials) was 33.7%, which was essentially even with the percentage in the year-ago period, and a 2.7% increase from the ratio in Q2. The cash to debt ratio at the end of Q3 was still 5.2% below the average ratio over the past 12 quarters.

### Net Debt to EBITDA Reaches New High for Sixth Consecutive Quarter

The net debt to EBITDA ratio can be used to analyze the ability of a company to decrease its debt level. At the end of the third quarter, net debt to EBITDA for the S&P 500 (Ex-Financials) was 1.88, which marked the highest ratio in at least ten years. The third quarter was the sixth consecutive quarter that the ratio hit a new high. The ratio represented a 9.9% increase from the year-ago quarter and a 2.2% jump from Q2.

## Q3 Capital Expenditures Decline 9.1% Year-Over-Year; Energy Sector Drives CapEx Lower

Fixed capital expenditures for the S&P 500 (Ex-Financials) index in the third quarter amounted to \$147.5 billion, which represented a 9.1% decline from the year-ago quarter. On a trailing twelve-month basis ending in Q3, CapEx totaled \$597 billion, which was an 8.8% decline from the same time period a year ago. The TTM amount marked the smallest total since Q3 2012. It also represented the fifth consecutive period of year-over-year declines in fixed capital expenditures.

Six of the ten sectors still increased their quarterly fixed capital expenditures on a year-over-year basis, with the Information Technology and Consumer Discretionary groups posting the largest growth rates (12.3% and 9.5%, respectively). The Health Care, Industrials, Telecom, and Utilities sectors also increased their CapEx during Q3. The Consumer Discretionary group topped all sectors in terms of aggregate spending on capital expenditures, with General Motors and Comcast being the largest spenders in the sector. General Motors logged the largest CapEx in Q3 of any company in the S&P 500 (Ex-Financials) index. The top ten list is shown on page eight of this report.

### Energy Sector Continues to Weigh Down Capital Spending for the Index

The Energy sector continued to weigh down capital expenditures for the S&P 500 (Ex-Financials) index. Quarterly CapEx for companies in the Energy sector declined 45.2% year-over-year to \$19.6 billion, which marked the smallest total for the index in at least ten years. The third quarter was also the seventh consecutive quarter in which capital expenditures in the group fell YOY. At the company level, the largest year-over-year cuts to quarterly fixed CapEx in the Energy sector came from Exxon, Chevron, and ConocoPhillips. Exxon, Chevron, and ConocoPhillips lowered their capital expenditures during the third quarter by \$3 billion, \$2.6 billion, and \$1.3 billion, respectively. Looking at the entire S&P 500 sector, 92% of energy companies saw lower CapEx in Q3 compared to Q3 2015.

### TTM Energy CapEx Marks Smallest Total Since Q3 2007

On a trailing twelve-month basis, Energy CapEx amounted to \$104.7 billion, which represented a 39.7% decrease from the same period a year ago. The TTM ending in Q3 marked the smallest CapEx total for the Energy group since Q3 2007. At the end of the third quarter, TTM fixed capital expenditures made up 17.5% of the aggregate amount for the S&P 500 (Ex-Financials) index, which was a significant decrease from the 33.1% for the period ending in Q3 2014.

Going forward, analysts estimate that capital expenditures in the Energy sector will increase 2.5% in 2017. Some of this forecasted growth may be attributed to the expectation that companies will bring portions of their cash piles held overseas back into the U.S. as a consequence of Trump's planned tax overhaul. This excess cash may then be used on CapEx. Oil prices will obviously play a key role in capital spending within the group. Analysts currently aren't predicting a whole lot of movement in oil prices for 2017. The average 2017 target price for WTI crude oil is only about 4% above its current price. Additionally, there were no significant changes recently to target prices, despite the non-OPEC production cut agreement announced earlier in December.

### Excluding Energy, Aggregate CapEx Shows Growth

Excluding the Energy sector, capital expenditures for the index actually showed some growth. During the third quarter, fixed CapEx for the S&P 500 (Ex Financials & Energy) amounted to \$127.9 billion, which represented a 1.1% increase from the year-ago quarter. It also marked the third largest quarterly CapEx total in the past ten years. On a TTM basis, capital expenditures increased 2.4% year-over-year to \$492.3 billion. The TTM period ending in Q3 marked largest fixed CapEx amount for the S&P 500 (Ex-Financials & Ex-Energy) index in at least ten years.

### U.S. M&A Activity

The amount of cash spent on assets acquired from acquisitions amounted to \$85.7 billion in Q3, which was the fifth largest quarterly total in the past ten years. Looking at mergers and acquisitions for the United States, M&A volume slowed in the third quarter (August - October) compared to the same period a year ago, but deal value rose. The number of transactions fell 7.3% year-over-year to 3078, while the aggregate deal value of these transactions increased 23% to \$564.2 billion.

## Operating Cash Flow and Free Cash Flow Increase YOY

Companies in the S&P 500 (Ex-Financials) index generated \$377.8 billion in operating cash flow (OCF) during Q3, which was a 5.2% increase from the year-ago quarter. Six of the ten sectors saw upticks in quarterly operating cash flow year-over-year (Real Estate, Health Care, Consumer Discretionary, Consumer Staples, Information Technology, and Utilities). The Consumer Discretionary and Health Care groups continued their consistent growth in operating cash flow. The third quarter marked the ninth consecutive quarter that the Consumer Discretionary group grew OCF year-over-year, and the 13th consecutive quarter that the Health Care group grew its OCF year-over-year. On the other end of the spectrum, the third quarter marked the ninth consecutive quarter that the Energy sector saw its operating cash flow decline YOY.

After subtracting fixed capital expenditures from operating cash flow, aggregate free cash flow amounted to \$230.3 billion, which represented a 15% increase from the year-ago quarter. Free cash flow in Q3 marked the second largest total in the past ten years (after Q4 2015).

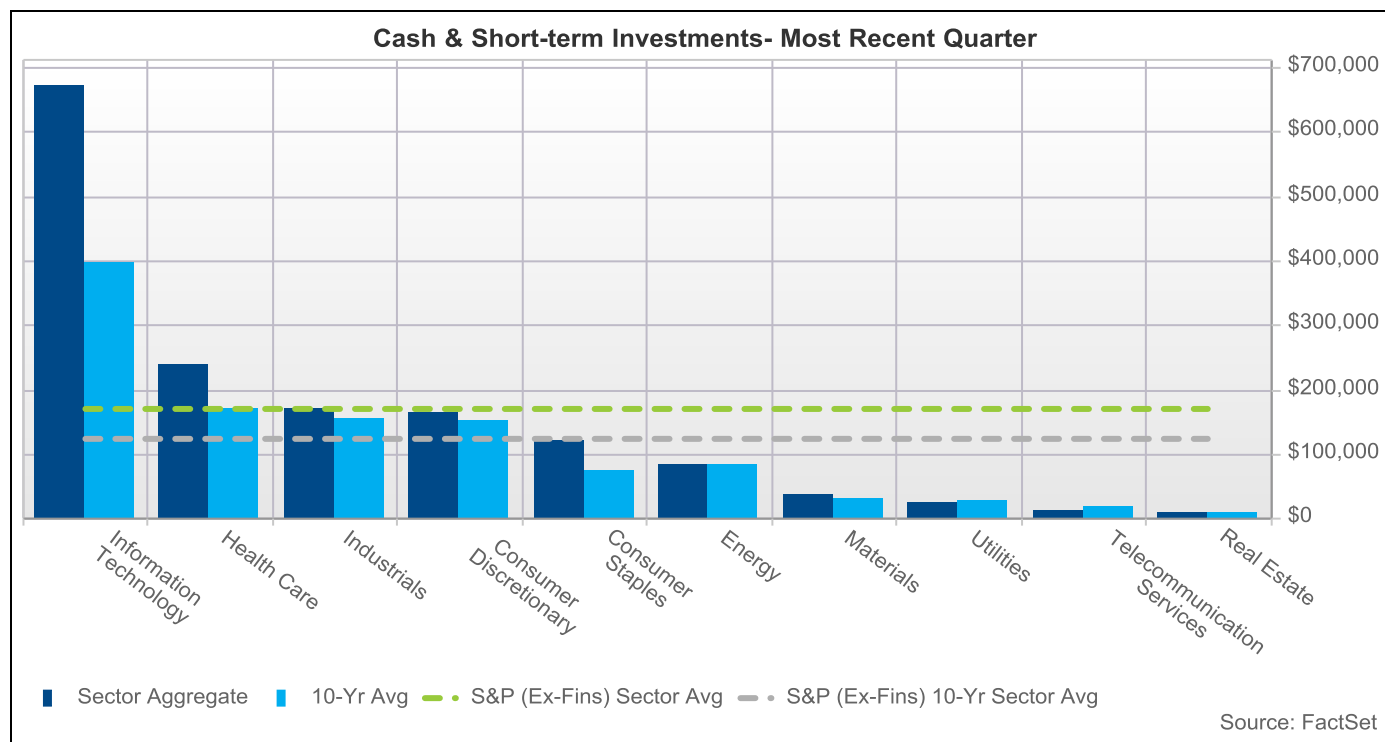
## CapEx and Buyback ETFs Outperforming S&P 500 YTD

During the first half of the year, dividend payers were the outperformers and buyback spenders were the laggards. The ProShares S&P 500 Dividend Aristocrats ETF ("NOBL") returned over 11% in this time period, while the SPDR S&P 500 Buyback ETF ("SPYB") only returned 0.3%. The Elkhorn S&P 500 Capital Expenditures ETF ("CAPX") was in the middle and returned over 5% in the first half of the year, beating the return of the S&P 500 index (+3.8%). The roles reversed for dividend payers and buyback spenders during the second half of 2016. The SPYB is up nearly 18% so far in the second half of the year on a total return basis, while the NOBL has returned under 2%. On a year-to-date basis, the buyback ETF (+18%) and the capital expenditures ETF (+16.7%) have outperformed the S&P 500 Total Return Index (+13.5%), while the dividend ETF has slightly underperformed (-0.5%).

## Cash & Short-Term Investments

In this report, “cash” and “cash & short-term investments” are used interchangeably. **Companies in the Financials sector have been excluded throughout this report.**

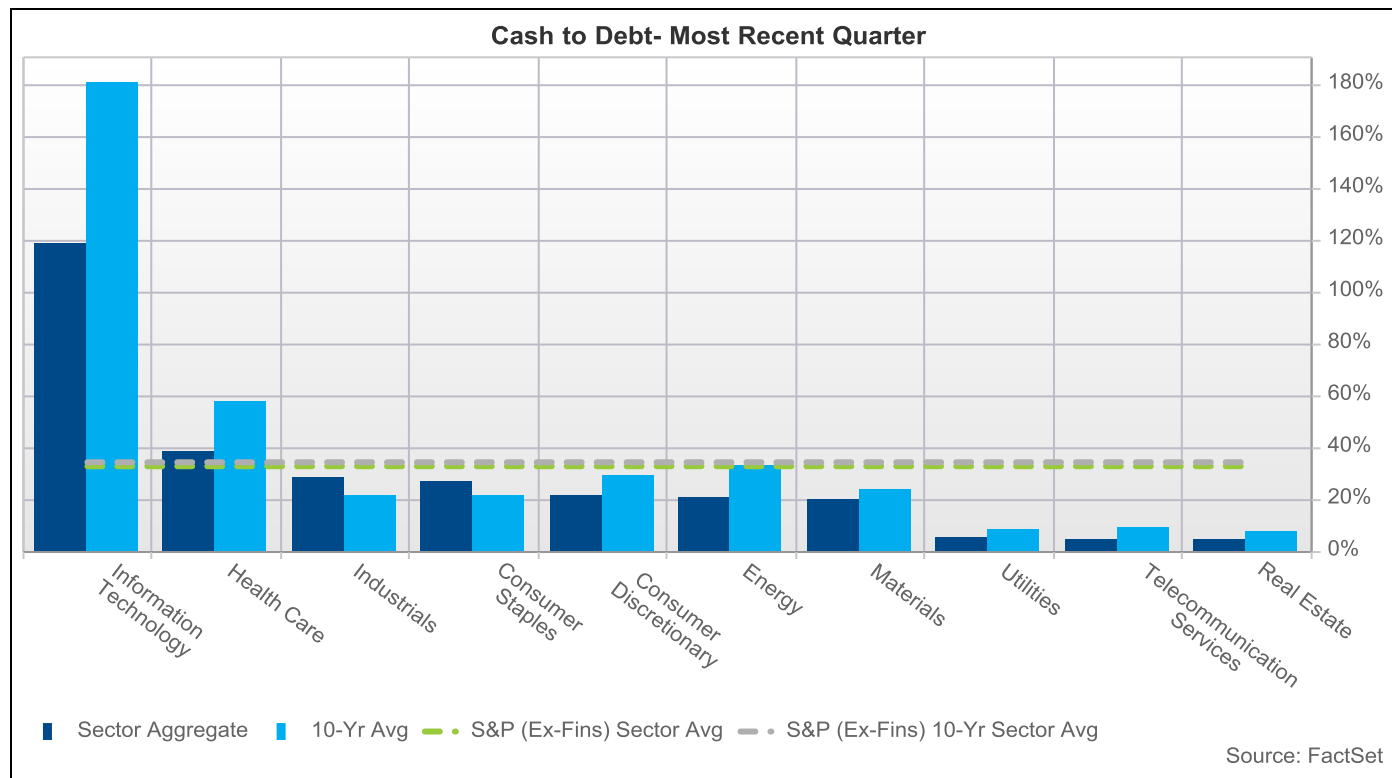
All aforementioned and forthcoming values are in millions, unless otherwise designated. Quarterly data is generally organized by adjusted calendar quarters with Q3 ending in October. (Q1:Apr, Q2:July, Q3:Oct, Q4:Jan)



Top 10 Companies by Cash & Short-Term Investments						
ID	Company	Sector	Cash & ST Investments (Qtr)	1 Year Growth	Cash to Debt	1 Yr Total Return
MSFT	Microsoft Corporation	Information Technology	\$136,932	37.8%	180.8%	20.7%
GOOGL	Alphabet Inc. Class A	Information Technology	\$83,056	14.1%	2109.1%	7.4%
CSCO	Cisco Systems, Inc.	Information Technology	\$70,968	20.1%	204.0%	21.2%
ORCL	Oracle Corporation	Information Technology	\$68,396	22.3%	126.5%	8.7%
AAPL	Apple Inc.	Information Technology	\$67,155	61.4%	77.2%	12.5%
GE	General Electric Company	Industrials	\$52,530	(47.0%)	35.2%	7.9%
JNJ	Johnson & Johnson	Health Care	\$40,433	8.4%	149.8%	17.0%
AMGN	Amgen Inc.	Health Care	\$37,980	22.0%	107.5%	(4.5%)
F	Ford Motor Company	Consumer Discretionary	\$34,165	7.3%	24.9%	(1.9%)
AGN	Allergan plc	Health Care	\$27,392	1222.7%	83.6%	(37.2%)

Source: FactSet

## Cash to Debt Ratio

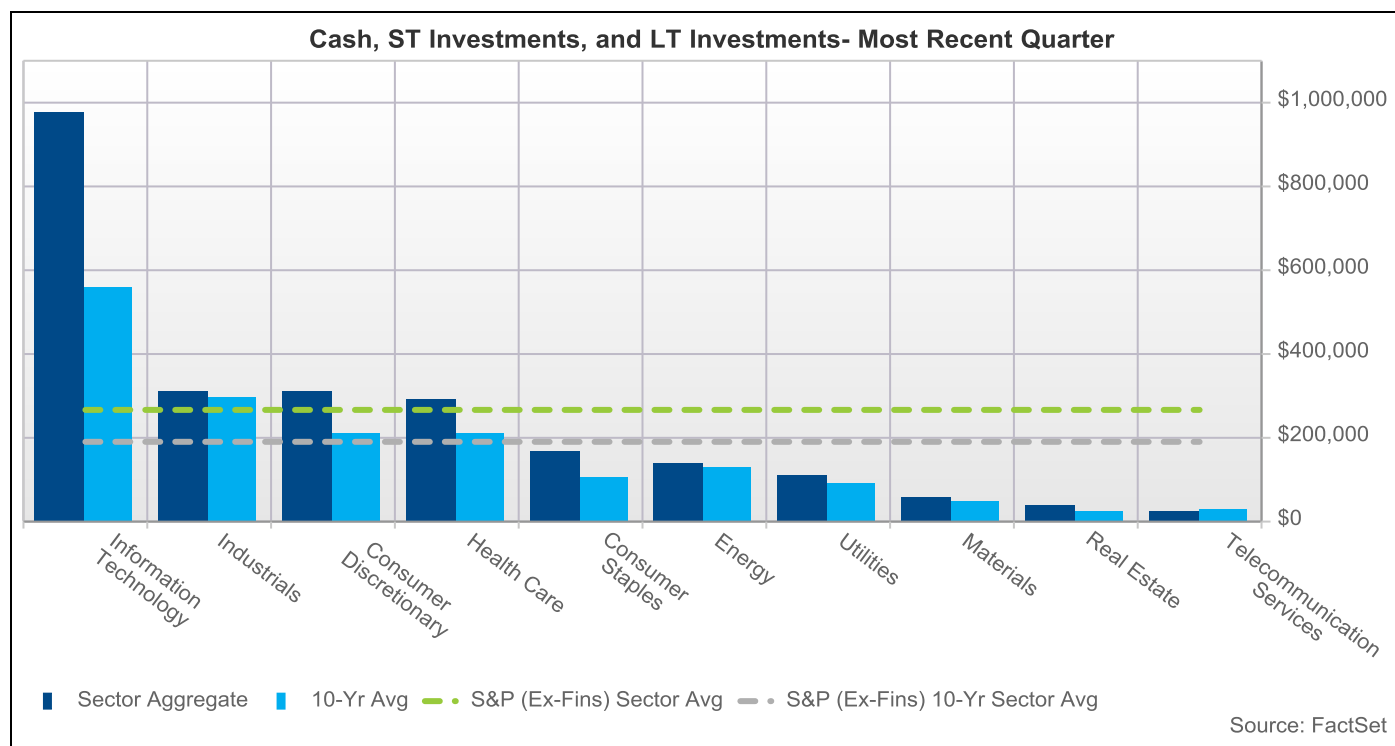


Lowest Cash to Debt Ratios						
ID	Company	Sector	Cash to Debt	Cash (Qtr)	Debt (Qtr)	1 Yr Total Return
CHK	Chesapeake Energy Corporation	Energy	0.04%	\$4	\$9,678	80.5%
AEE	Ameren Corporation	Utilities	0.24%	\$18	\$7,646	24.4%
WEC	WEC Energy Group Inc	Utilities	0.25%	\$25	\$9,967	19.7%
WMB	Williams Companies, Inc.	Energy	0.31%	\$77	\$24,719	54.8%
WM	Waste Management, Inc.	Industrials	0.32%	\$30	\$9,261	38.4%
NI	NiSource Inc	Utilities	0.39%	\$30	\$7,738	21.1%
ES	Eversource Energy	Utilities	0.39%	\$40	\$10,344	12.8%
O	Realty Income Corporation	Real Estate	0.57%	\$30	\$5,256	16.7%
JBHT	J.B. Hunt Transport Services, Inc.	Industrials	0.58%	\$5	\$944	40.1%
UDR	UDR, Inc.	Real Estate	0.69%	\$25	\$3,544	0.9%

Source: FactSet

## Cash, Short-Term Investments, and Long-Term Investments

Long-term investments refer to investments that the company intends to hold longer than one year. Cash, short-term investments, and long-term investments are also cited as “total cash” in this report.



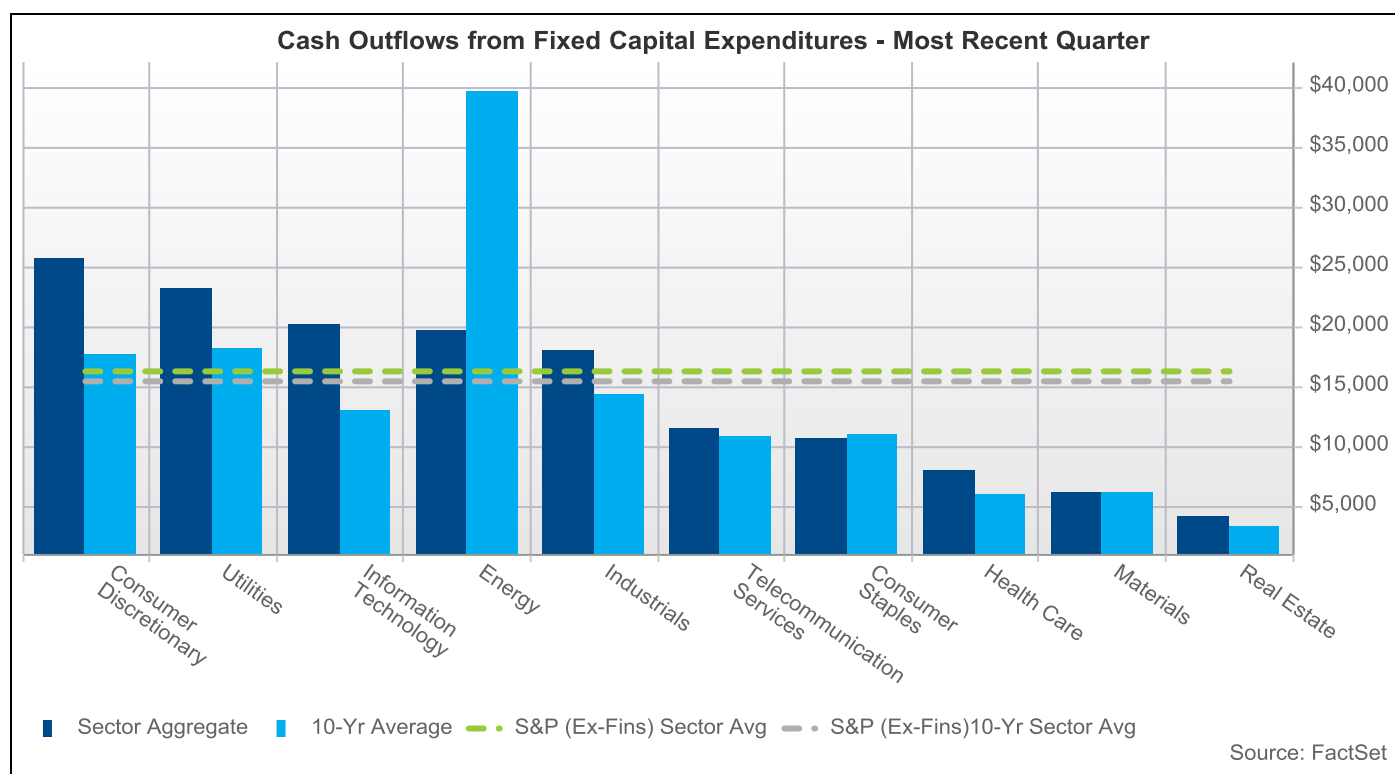
Top 10 Companies by Cash, Short-Term, and Long-Term Investments						
	Company	Sector	Cash, ST, and LT Investments (Qtr)	1 Year Growth	LT Investments (Qtr)	1 Yr Total Return
AAPL	Apple Inc.	Information Technology	\$237,585	15.5%	\$170,430	12.5%
MSFT	Microsoft Corporation	Information Technology	\$147,418	33.1%	\$10,486	20.7%
GE	General Electric Company	Industrials	\$123,253	(9.4%)	\$70,723	7.9%
GOOGL	Alphabet Inc. Class A	Information Technology	\$88,761	12.4%	\$5,705	7.4%
F	Ford Motor Company	Consumer Discretionary	\$87,574	146.4%	\$53,409	(1.9%)
CSCO	Cisco Systems, Inc.	Information Technology	\$76,743	19.8%	\$5,775	21.2%
ORCL	Oracle Corporation	Information Technology	\$68,396	22.3%	\$0	8.7%
GM	General Motors Company	Consumer Discretionary	\$55,273	6.1%	\$29,525	13.4%
YHOO	Yahoo! Inc.	Information Technology	\$51,492	60.8%	\$44,891	16.6%
KO	Coca-Cola Company	Consumer Staples	\$44,821	15.8%	\$19,252	1.3%

Source: FactSet



## Investing Cash Flows: Quarterly Fixed Capital Expenditures

**Fixed Capital Expenditures (“CapEx” or “Capital Expenditures”)** represent funds used to acquire fixed assets other than those associated with acquisitions. This includes, but is not restricted to, additions and investments in property, plant, machinery and equipment.



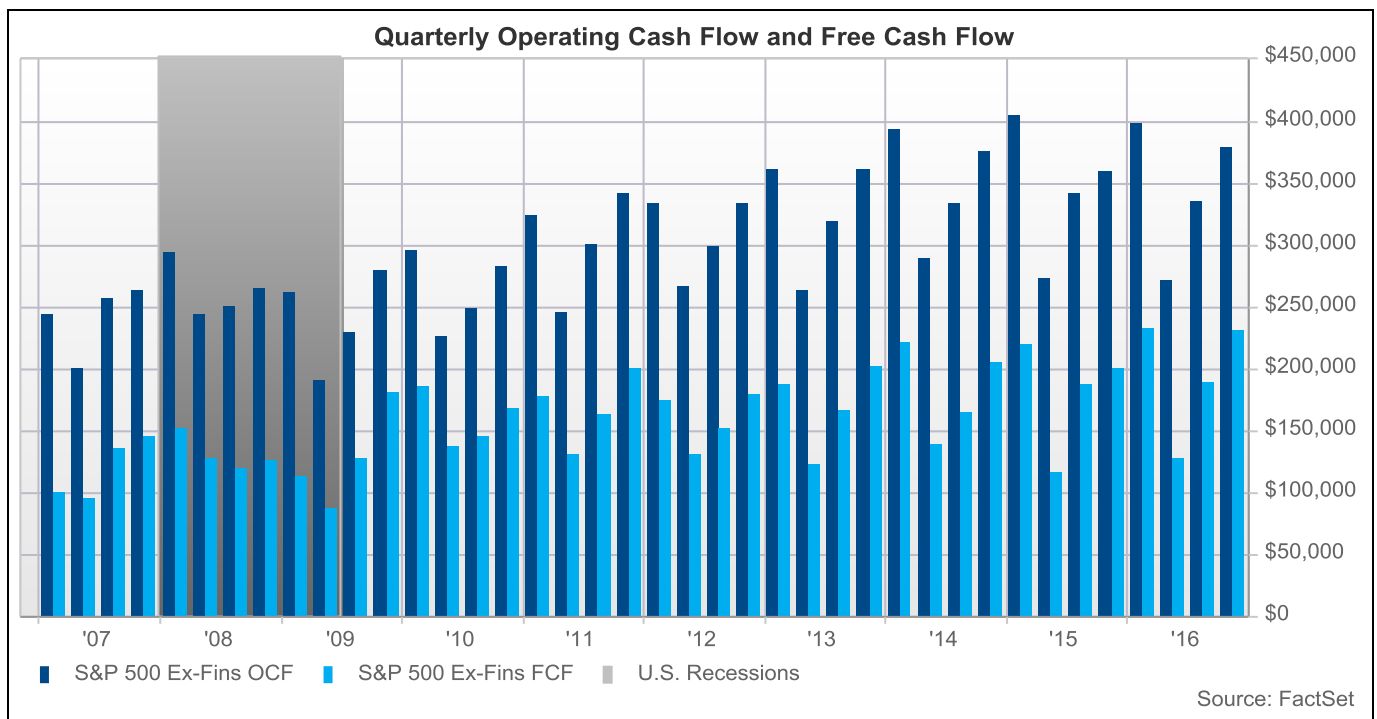
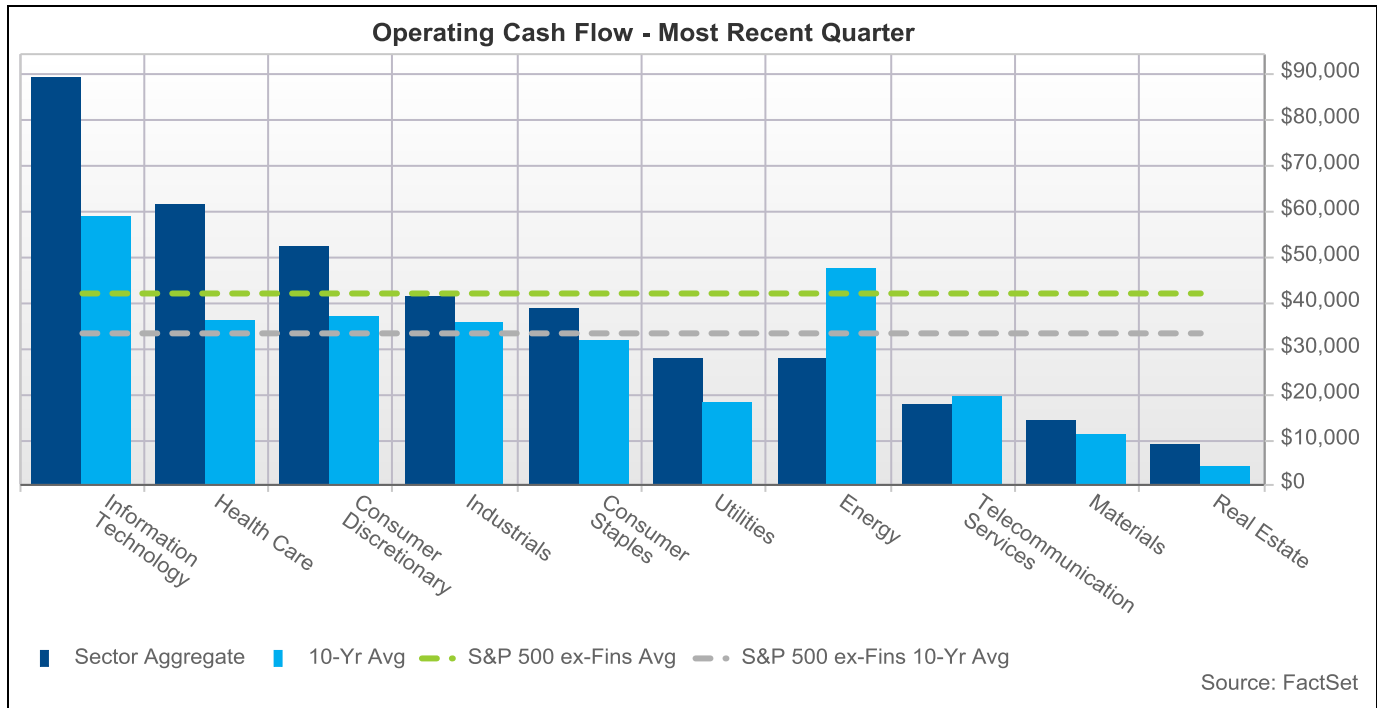
Top 10 Companies by Quarterly Fixed Capital Expenditures						
ID	Company	Sector	CapEx (Qtr)	CapEx Qtrly Growth (YoY%)	CapEx to Sales (TTM)	1 Yr Total Return
GM	General Motors Company	Consumer Discretionary	\$7,144	12.2%	17.7%	13.4%
T	AT&T Inc.	Telecom	\$5,813	10.6%	13.4%	31.7%
VZ	Verizon Communications Inc.	Telecom	\$4,125	(6.0%)	13.0%	21.4%
CVX	Chevron Corporation	Energy	\$4,055	(39.5%)	19.7%	36.8%
AAPL	Apple Inc.	Information Technology	\$3,977	9.9%	5.9%	12.5%
XOM	Exxon Mobil Corporation	Energy	\$3,404	(46.8%)	9.4%	21.2%
WMT	Wal-Mart Stores, Inc.	Consumer Staples	\$2,840	(10.7%)	2.2%	25.2%
GOOGL	Alphabet Inc. Class A	Information Technology	\$2,583	8.8%	10.8%	7.4%
CMCSA	Comcast Corporation Class A	Consumer Discretionary	\$2,498	12.7%	12.2%	26.5%
INTC	Intel Corporation	Information Technology	\$2,463	104.2%	14.5%	12.6%

Source: FactSet

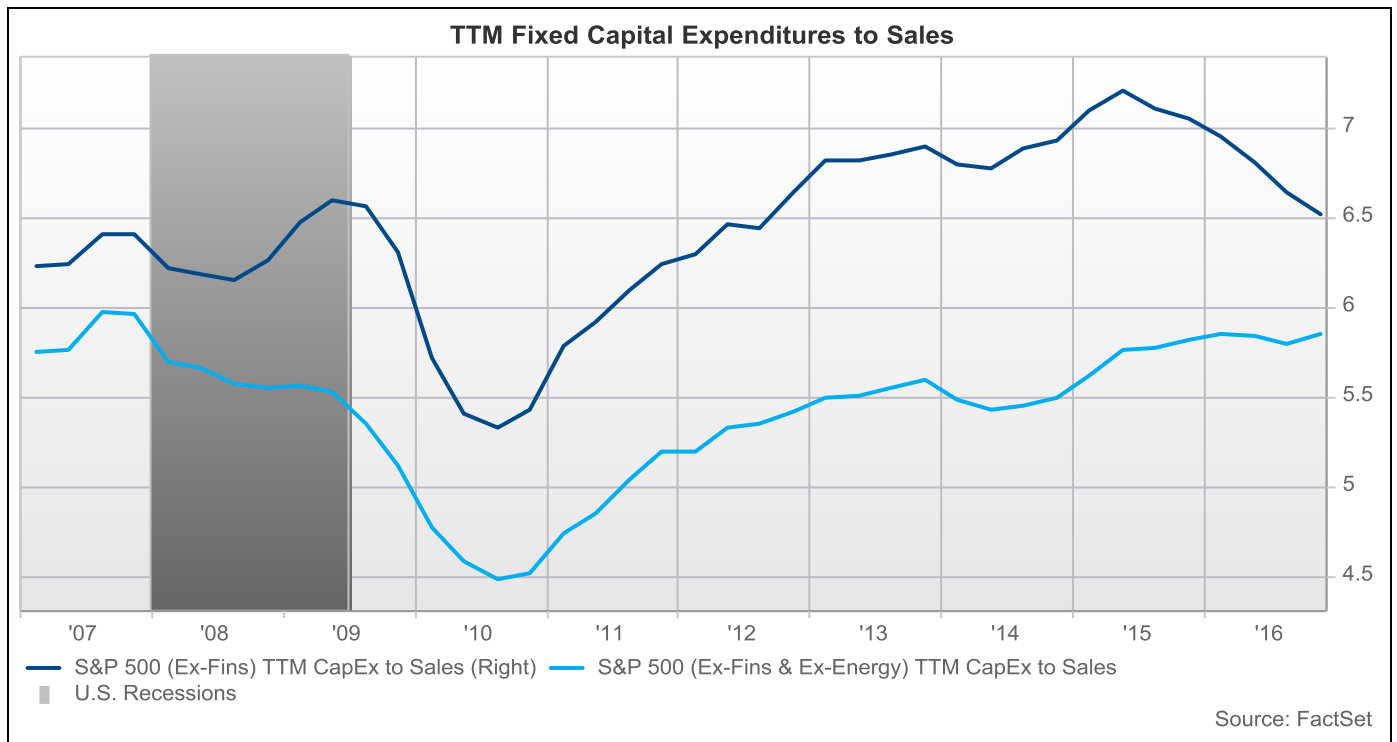
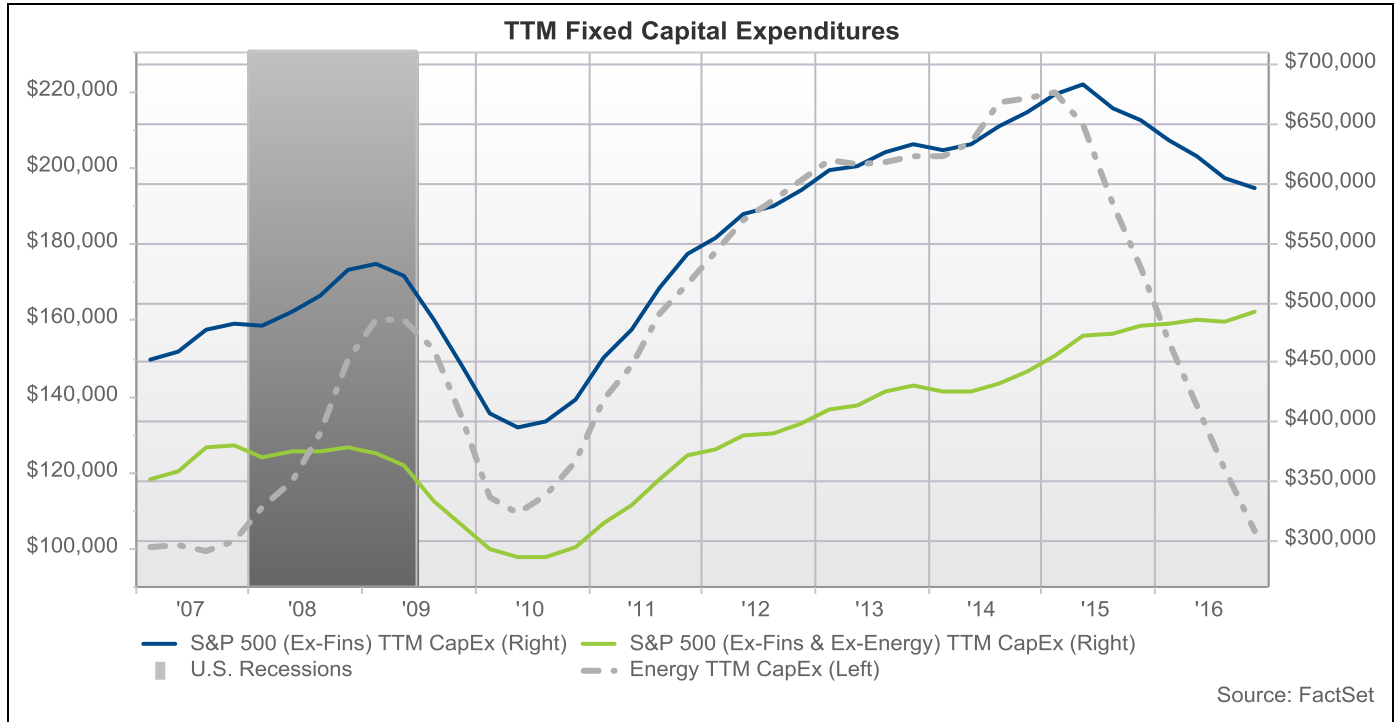


## Operating Cash Flow and Free Cash Flow

Free cash flow is defined as operating cash flow minus fixed capital expenditures.

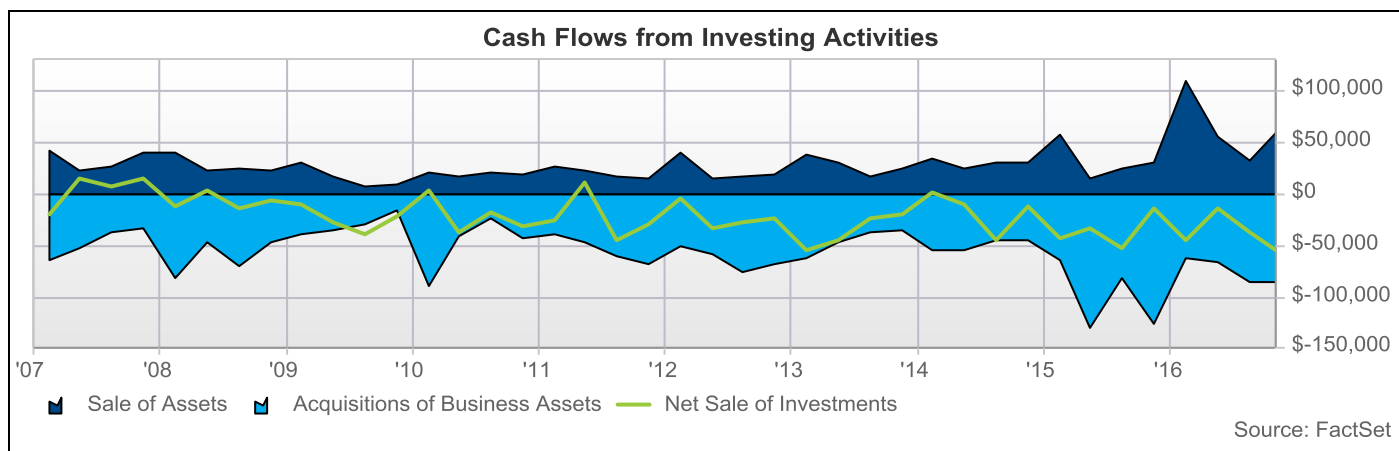


## Investing Cash Flows: TTM Fixed Capital Expenditures

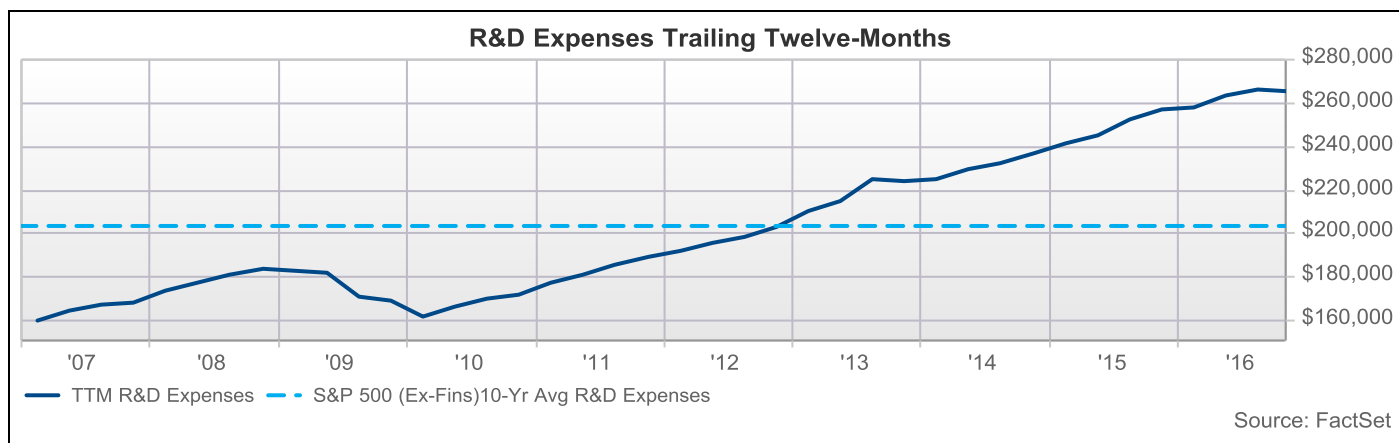


## Investing Cash Flows: Sales and Acquisitions

Disposal of fixed assets represents the amount a company received from the sale or disposal of assets, businesses, property, plant, and equipment. Purchase and sale of investments is a net figure representing proceeds from changes in portfolio investments, short-term investments, marketable securities, or proceeds from maturities of securities. Net assets from acquisitions represent assets acquired through pooling of interests or mergers, excluding capital expenditures of acquired companies.



## Research and Development Spending



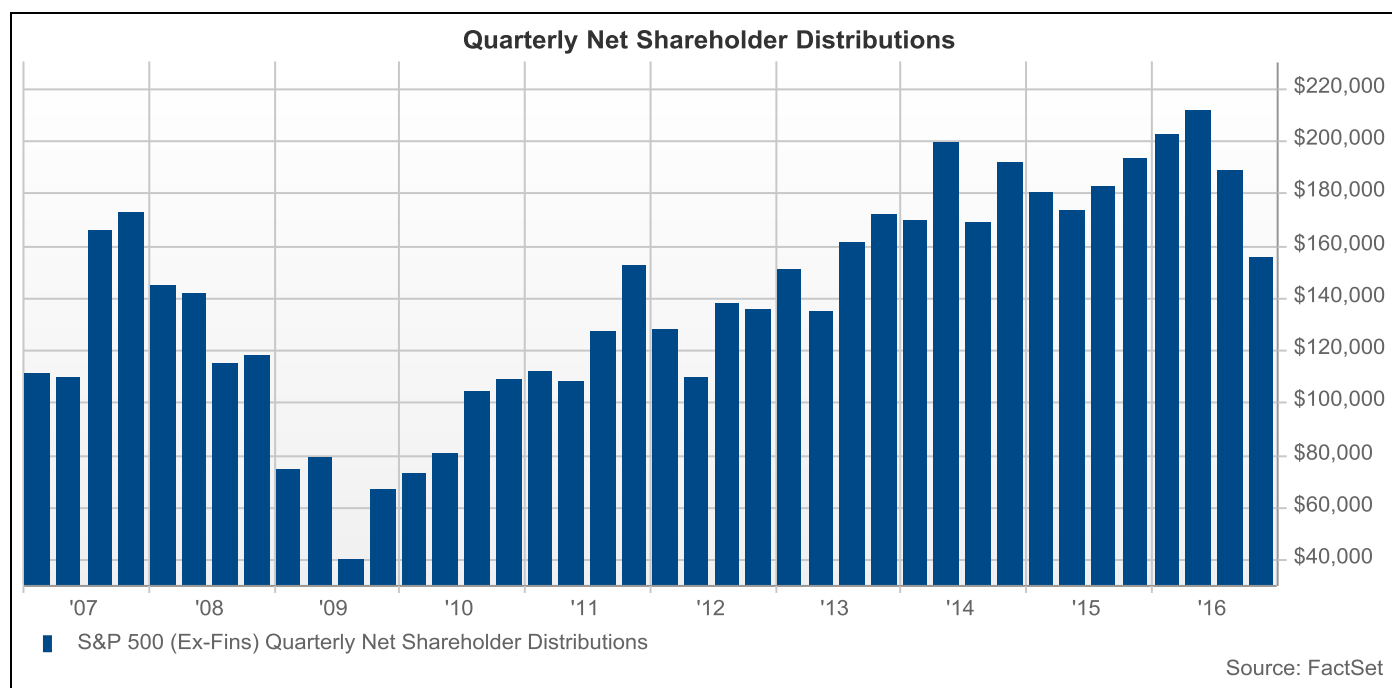
**Top 10 Companies by Research and Development Expenses (TTM)**

ID	Company	Sector	R&D Expenses (TTM)	R&D Expenses (YoY \$Chg)	R&D as % of Sales (TTM)	1 Yr Total Return
AMZN	Amazon.com, Inc.	Consumer Discretionary	\$15,110	30.2%	15.0%	15.3%
GOOGL	Alphabet Inc. Class A	Information Technology	\$13,836	19.4%	19.6%	7.4%
INTC	Intel Corporation	Information Technology	\$12,542	5.9%	22.7%	12.6%
MSFT	Microsoft Corporation	Information Technology	\$12,132	1.6%	13.5%	20.7%
AAPL	Apple Inc.	Information Technology	\$10,045	24.5%	4.3%	12.5%
JNJ	Johnson & Johnson	Health Care	\$9,229	4.6%	13.1%	17.0%
PFE	Pfizer Inc.	Health Care	\$7,683	(9.8%)	16.0%	6.5%
MRK	Merck & Co., Inc.	Health Care	\$6,883	3.4%	17.6%	22.2%
CSCO	Cisco Systems, Inc.	Information Technology	\$6,281	1.6%	12.7%	21.2%
ORCL	Oracle Corporation	Information Technology	\$5,917	5.9%	15.5%	8.7%

Source: FactSet

## Financing Cash Flows: Net Shareholder Distributions

Dividends paid represent the total common and preferred dividends paid to shareholders. Net purchases of stock equal the funds used to decrease the outstanding shares of common or preferred stock (purchase of treasury shares, repurchase or retirement of stock, etc.) minus the proceeds from the sale/issuance of stock (sale of treasury shares, proceeds from stock options, etc.). Additional analysis on gross buybacks and dividends can be found within the [Buyback Quarterly](#) and [Dividend Quarterly](#) reports.

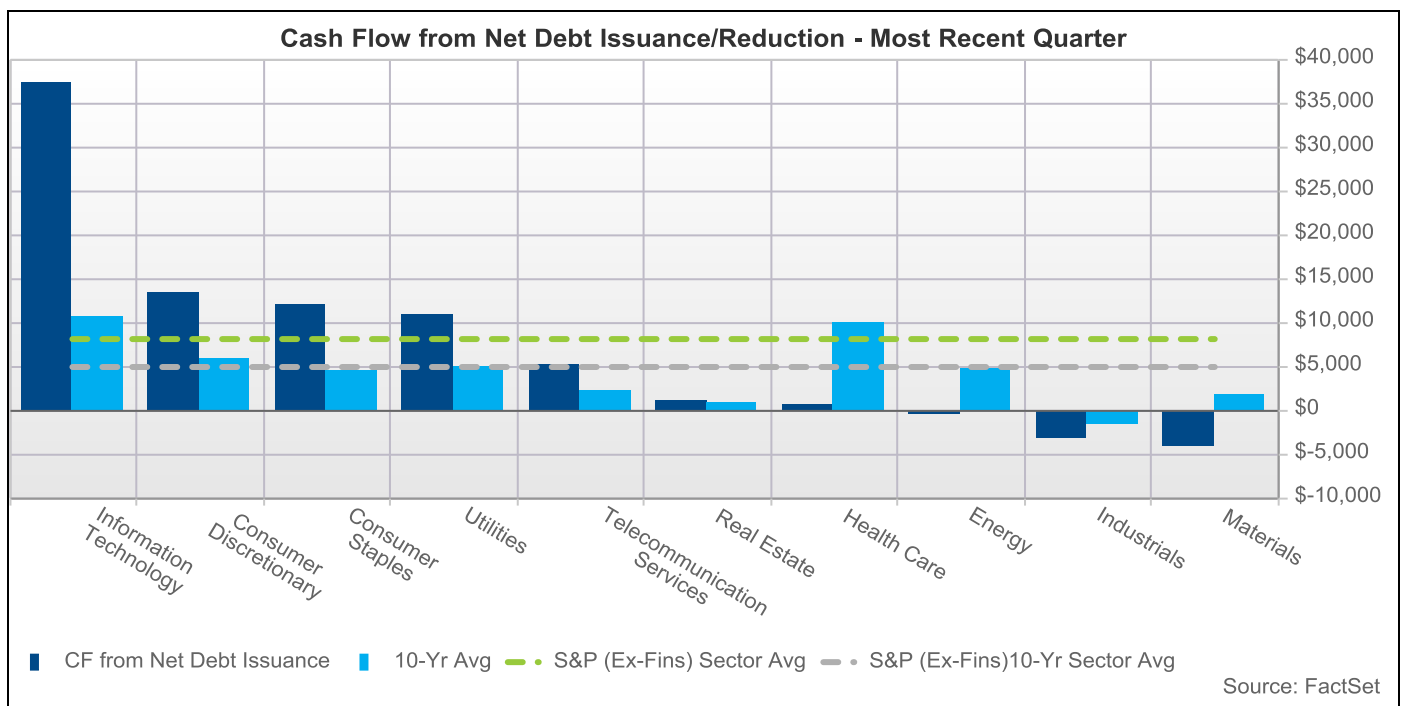
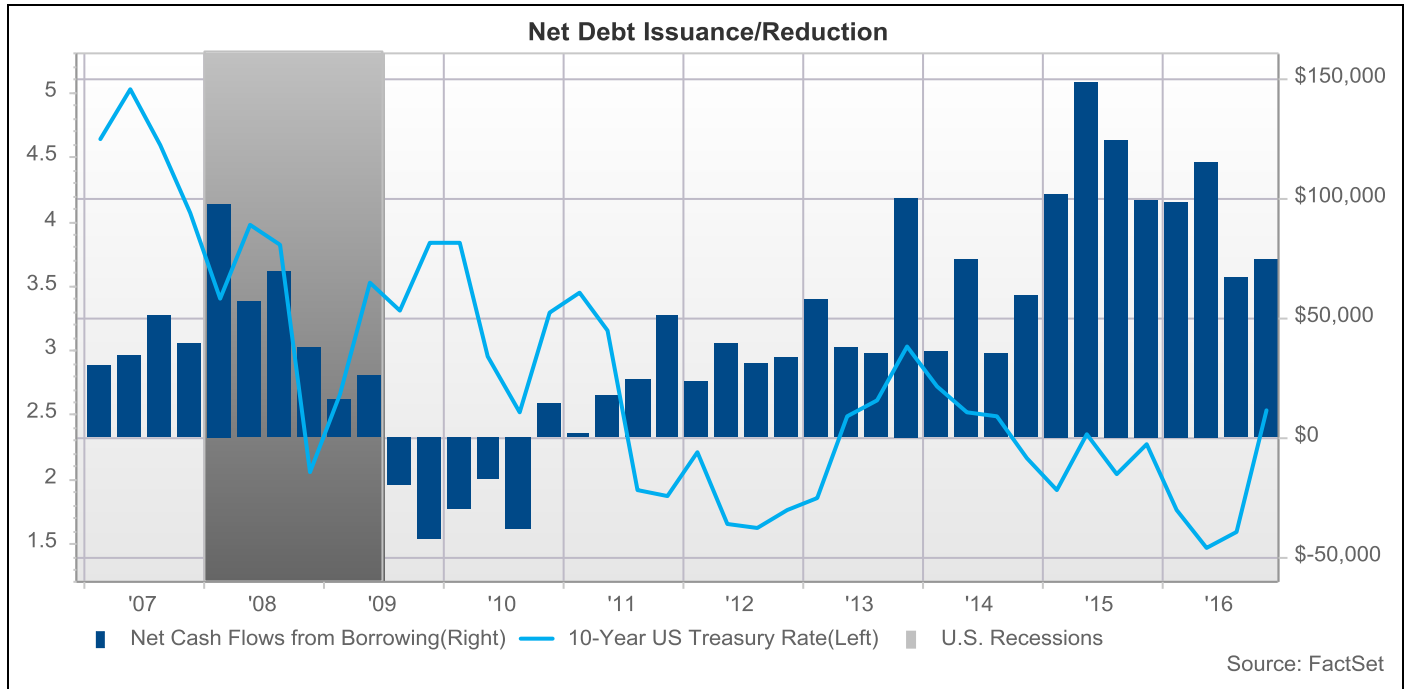


Top 10 Companies by Quarterly Net Shareholder Distributions						
ID	Company	Sector	Qtr Net Shareholder Distributions	Dividends Paid (Qtr)	Net Stock Purchases	Shareholder Yield (TTM)
AAPL	Apple Inc.	Information Technology	\$8,870	3,092	5,778	7.9%
MSFT	Microsoft Corporation	Information Technology	\$6,921	2,800	4,121	5.4%
GE	General Electric Company	Industrials	\$5,780	2,103	3,677	8.8%
JNJ	Johnson & Johnson	Health Care	\$4,205	2,185	2,020	4.4%
T	AT&T Inc.	Telecom	\$3,180	2,951	229	4.6%
XOM	Exxon Mobil Corporation	Energy	\$3,134	3,133	1	3.8%
WMT	Wal-Mart Stores, Inc.	Consumer Staples	\$2,951	1,549	1,402	6.3%
HD	Home Depot, Inc.	Consumer Discretionary	\$2,928	849	2,079	5.7%
AGN	Allergan plc	Health Care	\$2,730	70	2,661	0.2%
DIS	Walt Disney Company	Consumer Discretionary	\$2,693	1,145	1,548	6.7%

Source: FactSet

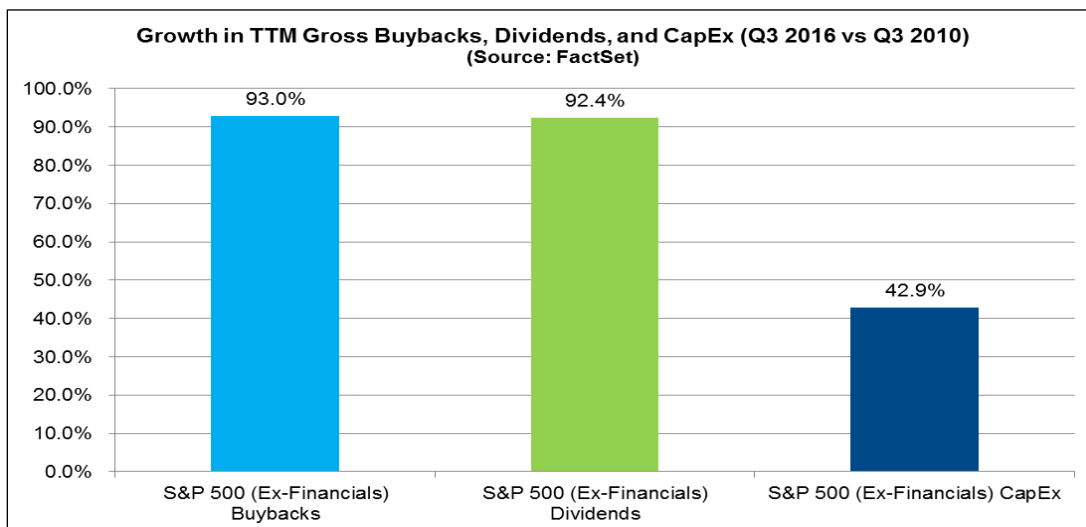
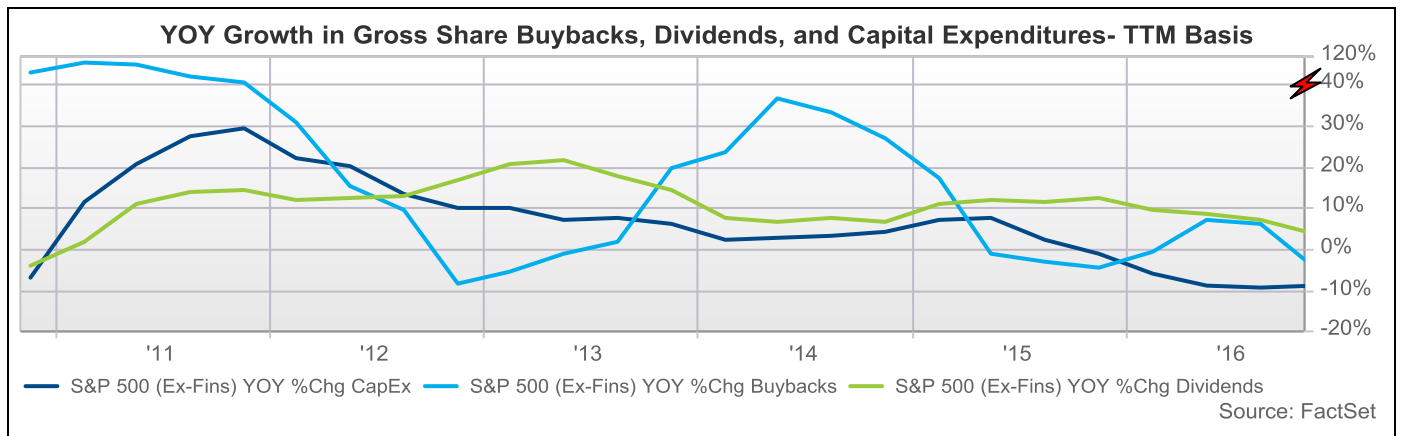
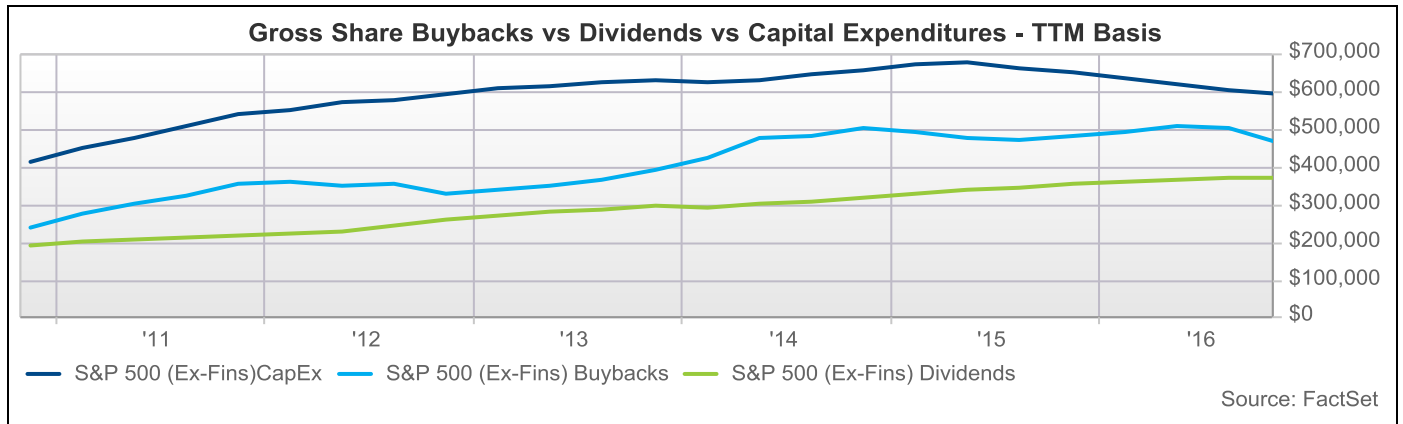
## Financing Cash Flows: Net Debt Issuance/Reduction

Net debt issued is the measure of aggregate, net funds from issuance (reduction) of debt and increases (decreases) in capitalized lease obligations. Also included are the increase in debt from acquisitions and the decrease in debt from the conversion of debentures into common stock.

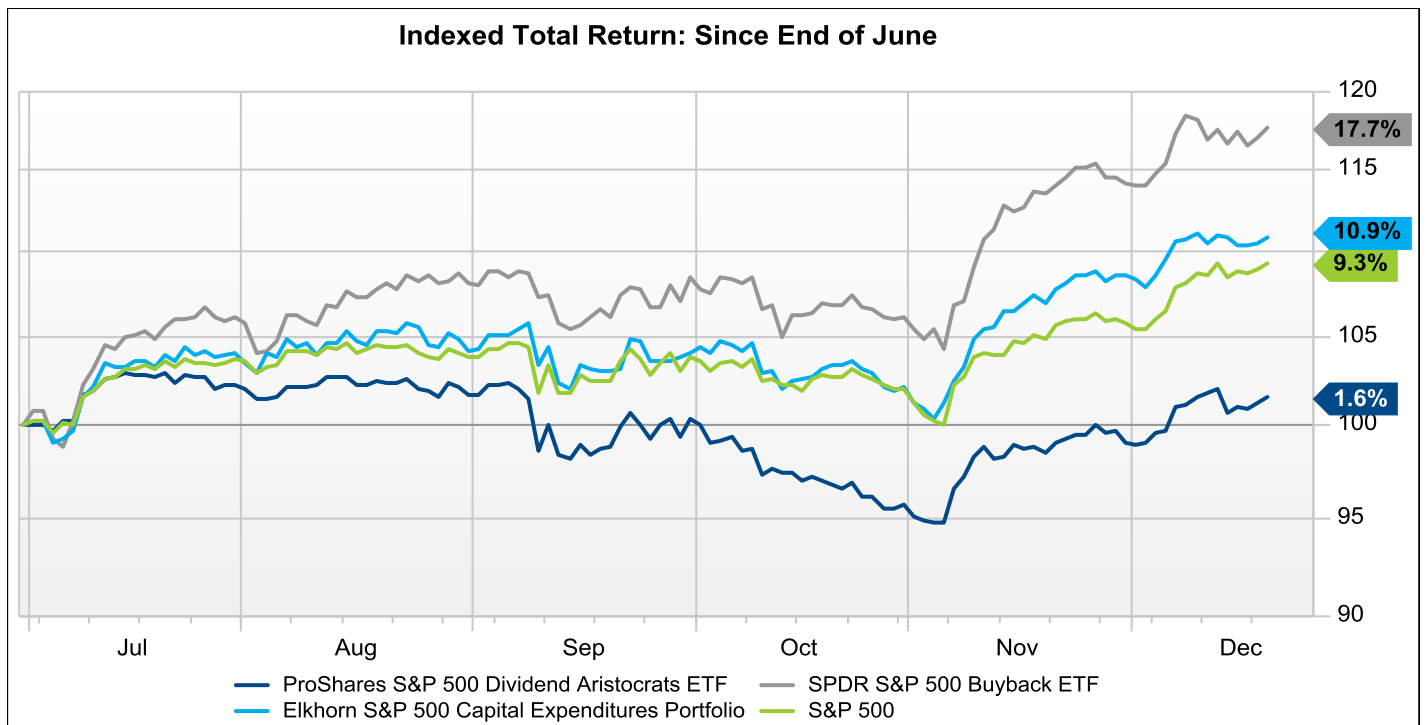
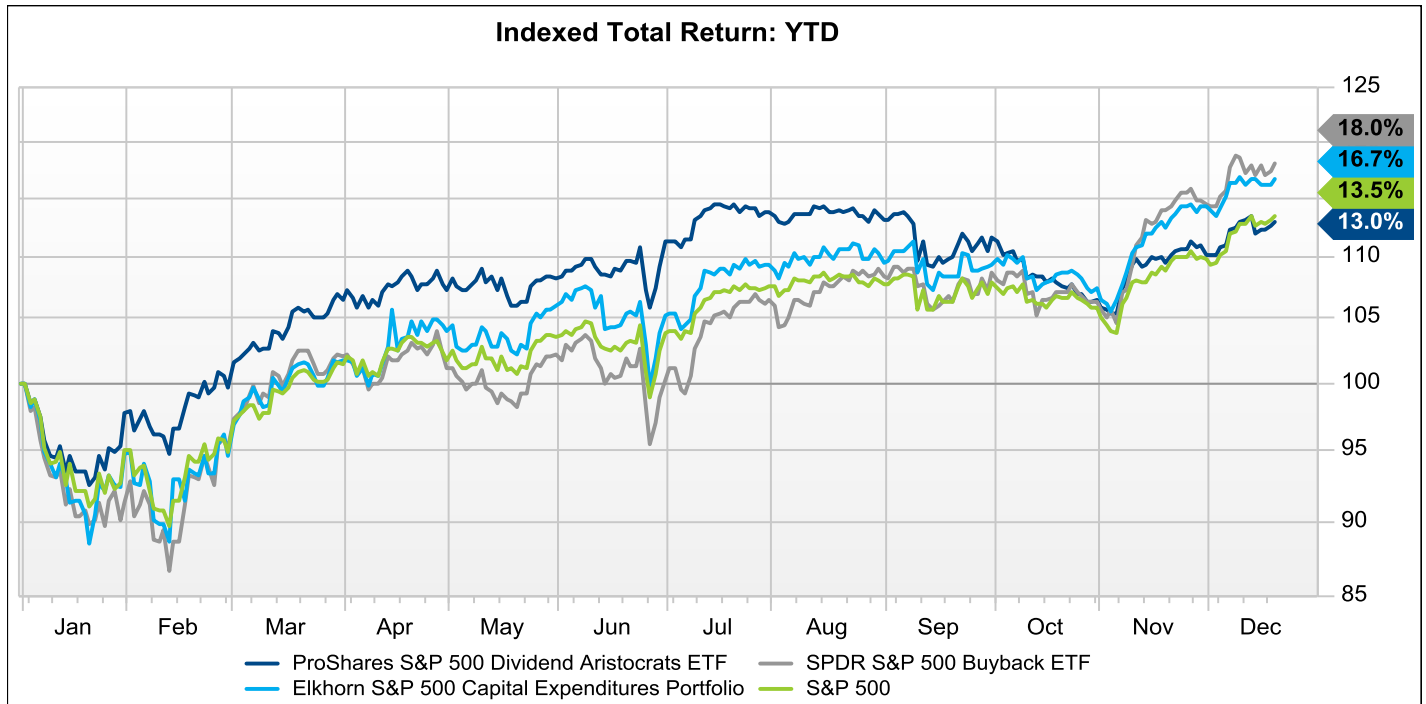


## Buybacks vs Dividends vs Capital Expenditures

The first chart shows gross share buybacks, dividends, and fixed capital expenditures on a trailing twelve-month basis for the S&P 500 (Ex-Financials) index. The data starts at Q3 2010. The second chart shows the YOY growth on a TTM basis at each quarter-end. The third chart shows growth from TTM ending in Q3 16 vs TTM ending in Q3 2010.



## Indexed Total Return





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