

Small/Mid Cap Topics

Inside Q2 Earnings Expectations

- **Inside Q2 Earnings Expectations** — We expect that the Q2 earnings reporting season will be particularly relevant for both small and mid cap performance trends. On the heels of Q1, where weather effects appear to have had a disproportionately negative influence on small cap trends, Q2 results and guidance will prove critical in establishing a more normalized base for assessing current and future earnings. This should be especially true for small cap in the context of its lagging ytd performance, and lingering valuation concerns. Generally, we expect that the underlying economic sensitivity of small cap should begin to show through in Q2 results.
- **Q1 Recap: Small Caps Disappoint, Mid Caps Surpass Expectations** — Only 51% of Russell 2000 constituents beat earnings expectations in Q1, while 71% of Mid Cap constituents beat. These results imply that estimates for small caps did not fully account for the weather-related impacts, while estimates for mid caps were more appropriately right sized. For Q2, we expect the RUT positive surprise ratio to settle in the high 50% range. Thus, one of the more important discussion points of the upcoming Q2 reporting period will be the degree to which small vs mid cap are best positioned to benefit from leverage to improving macros.
- **Index and Sector Projections** — Russell 2000 EPS are expected to fall -2% compared to 2Q13, though the median constituent is projected to grow +5%. Mid Cap earnings are projected to grow by +4%, while the R2500's expected growth rate is +6%. Full year growth has a second half bias, resulting in +9% RUT growth, +6% RMC growth and +9% R2500 growth. These estimates appear relatively stable, although we are starting to see some reductions to 2015 estimates.
- **Earnings Skew** — As is typically the case, Russell 2000 earnings are defined by a smaller number of companies. For Q2, 400 of the 2000 constituents are projected to contribute nearly two-thirds of the index earnings, and trade at a discount to the remaining stocks in the index. As such, SMID investors need to stay wary of sample biases when considering earnings-related valuation metrics and related read-throughs to the broader R2000 investment set.
- **Tracking Earnings Trends** — 2014 RUT earnings growth expectations have been falling throughout the year, but are showing some signs of stabilization as investor and analyst attention turns to 2015. 2014 RMC growth estimates have been very stable over the past three months, and there have been few signs of re-evaluating 2015 forecasts. Projected 2015 growth now stands at +22% for RUT and +15% for the RMC. Earnings revisions have returned to normal levels for both indexes as Q1 weather has been incorporated. RUT guidance has also rebounded, though RMC positive guidance remains at low levels.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Inside Q2 Earnings Expectations

Q2 results will provide the first “clean” read on growth thus far this year, which remains critical to supporting valuations.

We expect that the Q2 earnings reporting season will be particularly relevant for both small and mid cap. On the heels of Q1, where weather effects appear to have had a disproportionately negative influence on small cap trends, Q2 results and guidance should prove critical in establishing a more normalized base for assessing current and future earnings. This should be especially true for small cap in the context of its lagging ytd performance. We have been arguing for some time that valuations represent “yellow flags” for the asset classes, in that they are not concerning in and of themselves, yet sales and earnings growth follow-through will be critical to supporting index levels from here.

While we have seen some early signs that growth rates may be rebounding off of historically low levels, the impact of extreme Q1 weather made it difficult to assess whether or not the expected growth acceleration is materializing. Of course, it may be that weather was not the sole issue confronting many smid companies. As such, Q2 results should provide a cleaner read on growth growth expectations for many companies, and will confirm (or not) any underlying structural changes at a company specific level. Generally, we expect that the underlying economic sensitivity of small cap should show through in Q2 results.

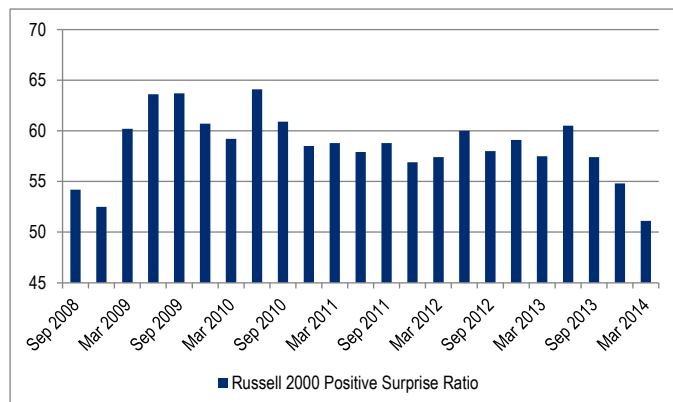
Only 51% of Russell 2000 constituents beat earnings expectations in Q1, while 71% of Mid Cap constituents beat.

Importantly, only 51% of Russell 2000 constituents beat earnings expectations in Q1, which is a low for this cycle, while 71% of Mid Cap constituents beat. While this ratio is typically higher for the RMC, these results suggest to us that estimates for small caps did not fully account for the weather-related impacts, while estimates for mid caps were more appropriately right sized. Accordingly, full year RUT estimates have trended lower both prior and subsequent to the Q1 reporting period, while RMC estimates have held firm. In an interesting dichotomy, it may be that Mid Cap estimates are more appropriately reflecting expected macro improvement, leading us to expect a modestly lower Q2 positive surprise ratio, perhaps in the mid-60% range (slightly below average). On the other hand, we expect the RUT positive surprise ratio to settle in the high 50% range, a bit higher than has been typical.

With Q2 now in the books, small cap continues to lag large cap, as the R2000 is +2.4% ytd relative to a +6.0% ytd gain for the S&P 500. Importantly low, most of that 360 bps delta occurred during Q2, as the RUT was +1.6% vs an SPX 4.7% Q2 gain. During Q, performance was comparable for the two indexes. Our view is that the R2000 felt a disproportionate impact from the early March through mid-May momentum/de-risking phase. In addition, the weaker Q1 reporting period for small cap further weighed on the performance delta. Further evidence of this earnings influence is found in the Russell Mid Cap performance. The RMC has actually outperformed the S&P 500 by roughly 100 bps ytd. As described above, mid cap did not experience the same positive surprise decline as did small cap, and underlying earnings trends have remained more constant.

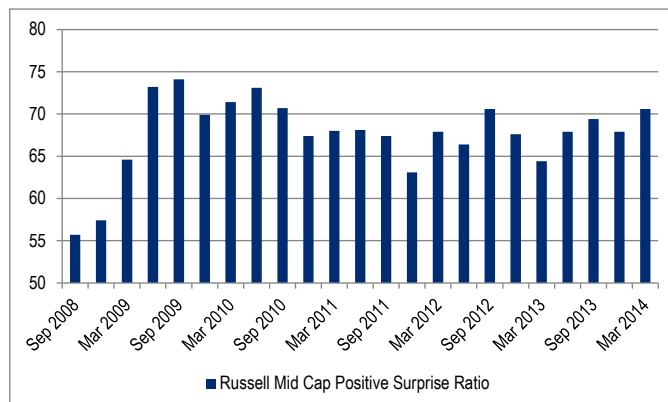
Thus, one of the more important discussion points of the upcoming Q2 reporting period will be the degree to which small vs mid cap are best positioned to benefit from leverage to improving macros.

Figure 1. Russell 2000 Positive Surprise Ratio



Source: FactSet

Figure 2. Russell Mid Cap Positive Surprise Ratio



Source: FactSet

Throughout this report, we use the preliminary constituents released by Russell on June 20 for purposes of analyzing Russell index earnings. We believe using these constituents better reflects what the earnings characteristics of the indexes will be following their annual reconstitution.

Index and Sector Expectations

Projected Q2 growth is -2% for the Russell 2000, +4% for Mid Cap and +3% for the R2500.

Using our preferred “ex-neg” bottom-up index level earnings calculation, we note that projected Q2 growth for the Russell 2000 is actually negative at -2%. For the Russell Mid Cap, projected Q2 growth is +4%, while the Russell 2500 is projected to grow earnings at a slightly lower +3% rate. As is often the case, earnings growth is projected to accelerate into the second half.

While constituent changes make a direct comparison to previous forecasts challenging, we note that Q2 is now projected to have the slowest rate of earnings growth for any of the quarters of 2014 within the Russell 2000 and 2500. For Mid Cap, Q1’s -2% growth rate is lower. Given the recent downward revision to Q1 GDP, we view a slower growth forecast in Q2 as conservative, and could see the RUT positive surprise ratio come in a bit higher than is typical, in the high 50% range. While acknowledging an easier comparison for the RMC, growth estimates appear more aggressive, and we think the positive surprise ratio could end up in the mid-60% range.

Figure 3. Russell 2000 Quarterly EPS

	Q1	Q2	Q3	Q4
EPS (ex-neg) 2013	11.11	12.74	12.96	14.05
EPS (ex-neg) 2014	11.61	12.54	14.17	15.19
Growth	5%	-2%	9%	8%

Source: FactSet

Figure 4. Russell Mid Cap Quarterly EPS

	Q1	Q2	Q3	Q4
EPS (ex-neg) 2013	19.05	18.72	20.03	19.58
EPS (ex-neg) 2014	18.60	19.39	21.34	21.98
Growth	-2%	4%	7%	12%

Source: FactSet

Figure 5. Russell 2500 Quarterly EPS

	Q1	Q2	Q3	Q4
EPS (ex-neg) 2013	4.77	5.25	5.52	5.75
EPS (ex-neg) 2014	5.11	5.38	5.99	6.34
Growth	7%	3%	8%	10%

Source: FactSet

Turning to full year projections, growth estimates have come in slightly since we published our Q1 preview (see [Calling an Audible](#)). Focusing on ex-neg EPS, the RUT is now projected to grow by +9% (rather than +11%), while the RMC growth figure is now +6% (down from +7%). In both cases, 2015 growth estimates have increased, a result of growth forecasts being pushed forward. For the R2500, 2014 growth has fallen slightly from +10% to +9%, while 2015 growth has remained at +18%.

Figure 6. Russell 2000 Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	30.00	42.76	57.62
Growth		43%	35%
EPS (ex-neg)	48.34	52.50	64.08
Growth		9%	22%
EPS (EBIT)	62.23	76.48	96.01
Growth		23%	26%

Source: FactSet

Figure 7. Russell Mid Cap Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	73.74	79.58	92.12
Growth		8%	16%
EPS (ex-neg)	76.07	80.86	92.68
Growth		6%	15%
EPS (EBIT)	123.16	137.38	155.09
Growth		12%	13%

Source: FactSet

Figure 8. Russell 2500 Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	16.94	20.55	25.40
Growth		21%	24%
EPS (ex-neg)	20.59	22.54	26.63
Growth		9%	18%
EPS (EBIT)	31.92	37.23	43.98
Growth		17%	18%

Source: FactSet

Energy contains the strongest sector-level growth expectations for the RUT, while Financials and Consumer Discretionary earnings are forecast to contract most significantly.

Figure 9. Russell 2000 Sector EPS (ex-neg) Contributions

Sector	EPS 2Q13	EPS 2Q14	Growth	Average Growth	Median Growth	Ctrb
Consumer Discretionary	2.10	1.94	-8%	-54%	2%	-1%
Consumer Staples	0.46	0.45	-2%	185%	12%	0%
Energy	0.66	0.72	10%	57%	4%	1%
Financials	3.78	3.49	-8%	14%	7%	-2%
Health Care	0.81	0.78	-4%	-31%	1%	0%
Industrials	1.91	2.05	7%	18%	7%	1%
Information Technology	1.96	2.04	4%	-103%	3%	1%
Materials	0.65	0.70	8%	-24%	12%	0%
Telecommunication Services	0.10	0.07	-27%	-24%	-28%	0%
Utilities	0.33	0.30	-7%	-7%	1%	0%
Russell 2000	12.74	12.54	-2%	-15%	5%	

Source: Bloomberg, FactSet

The picture is quite different in Mid Cap, with Consumer Discretionary actually projected to grow fastest, though Financials are also expected to show the most contraction, similar to the RUT. Interestingly, Energy has the fastest median growth projection.

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Figure 10. Russell Mid Cap Sector EPS (ex-neg) Contributions

Sector	EPS 2Q13	EPS 2Q14	Growth	Average Growth	Median Growth	Ctrb
Consumer Discretionary	2.79	3.09	11%	16%	10%	2%
Consumer Staples	1.03	1.14	10%	13%	7%	1%
Energy	1.17	1.18	1%	-1%	11%	0%
Financials	4.23	3.93	-7%	58%	5%	-2%
Health Care	1.81	1.93	7%	9%	6%	1%
Industrials	2.76	3.05	10%	10%	10%	2%
Information Technology	2.50	2.63	5%	-10%	6%	1%
Materials	1.26	1.32	4%	20%	9%	0%
Telecommunication Services	0.07	0.04	-39%	-47%	-26%	0%
Utilities	1.10	1.08	-2%	3%	2%	0%
Russell Mid Cap	18.72	19.39	4%	17%	7%	

Source: Bloomberg, FactSet

For SMID cap, the Materials sector is projected to grow fastest, while Energy is the only sector where earnings are projected to decline (aside from Telecom, which is a minor weight). Interestingly, despite flat sector-level growth, the median Consumer Staples stock has a 12% growth projection, indicating that companies with more earnings are growing at a slower pace.

For SMID cap, the Materials sector is projected to grow fastest, while Energy is the only sector where earnings are projected to decline.

Figure 11. Russell 2500 Sector EPS (ex-neg) Contributions

Sector	EPS 2Q13	EPS 2Q14	Growth	Average Growth	Median Growth	Ctrb
Consumer Discretionary	0.83	0.83	1%	-36%	4%	0%
Consumer Staples	0.17	0.17	0%	143%	12%	0%
Energy	0.29	0.29	-1%	38%	4%	0%
Financials	1.33	1.33	0%	30%	7%	0%
Health Care	0.36	0.38	4%	-20%	5%	0%
Industrials	0.94	1.00	7%	15%	8%	1%
Information Technology	0.70	0.73	4%	-85%	4%	1%
Materials	0.38	0.42	8%	-9%	9%	1%
Telecommunication Services	0.05	0.02	-48%	-29%	-27%	0%
Utilities	0.20	0.21	3%	-1%	3%	0%
Russell 2500	5.25	5.38	3%	-6%	6%	

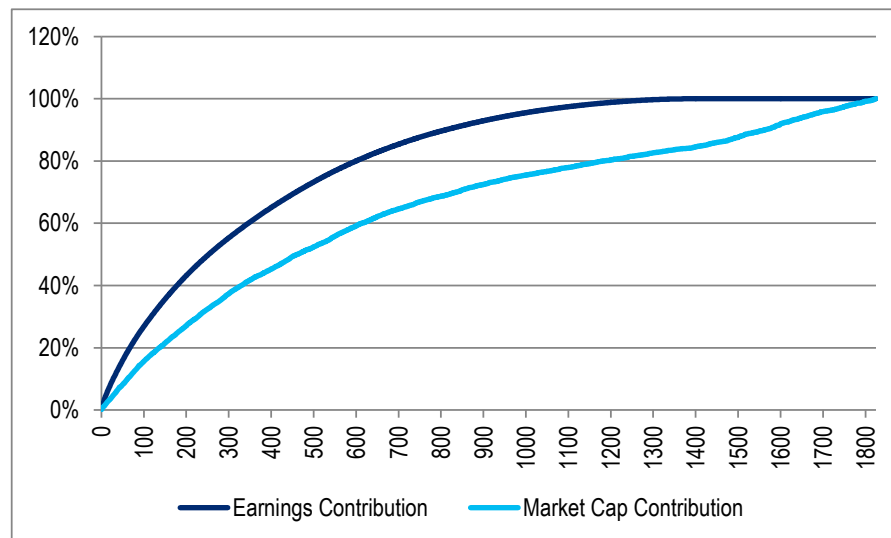
Source: Bloomberg, FactSet

Earnings Skew

As is typically the case, Russell 2000 earnings are defined by a smaller number of companies. For Q2, the top 400 “earnings contributors” are responsible for 65% of the index earnings. This is slightly less “skewed” than for Q1. These companies contain about 45% of the index market cap and trade at a median 2014 PE of 17.2x vs. 22.2x for the remaining stocks in the index. As such, SMID investors need to stay wary of sample biases when considering earnings-related valuation metrics and related read-throughs to the broader R2000 investment set. We continue to find a combination of ex-neg and median growth estimates as more symptomatic of underlying small and mid cap growth trends.

For Q2, the top 400 “earnings contributors” are responsible for 65% of the index earnings.

Figure 12. Russell 2000 “Earnings Skew”

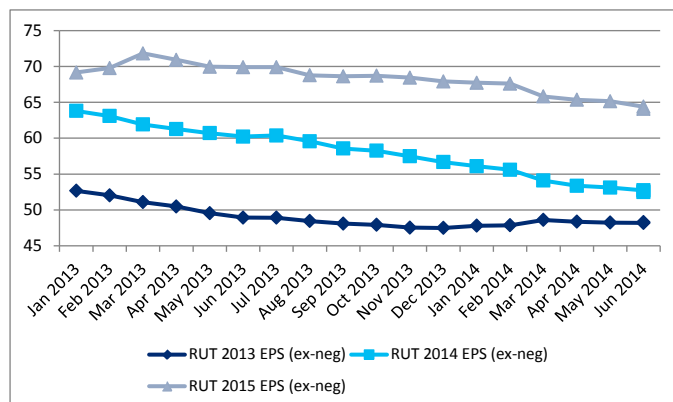


Source: FactSet, Citi Research

Tracking Earnings Trends

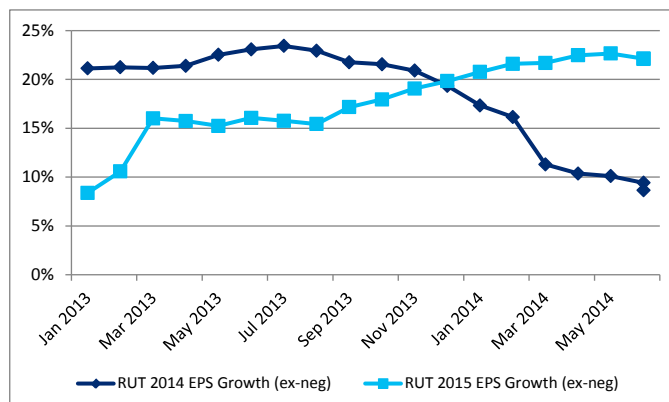
Looking at historical earnings estimates for the preliminary post-reconstitution Russell 2000 constituents, bottom-up projections for 2014 continue to drift lower. However, over the past several months, there is some evidence that those estimates have become right-sized and that analysts have begun to focus their attention on 2015 estimates. The pace of 2014 estimate cuts has slowed, and growth projections have stabilized in the neighborhood of 10%. However, 2015 estimates have started to come down, and the associated growth rate is beginning to roll over, after peaking just below 23%.

Figure 13. Russell 2000 Annual EPS (ex-neg) Estimate History



Source: FactSet

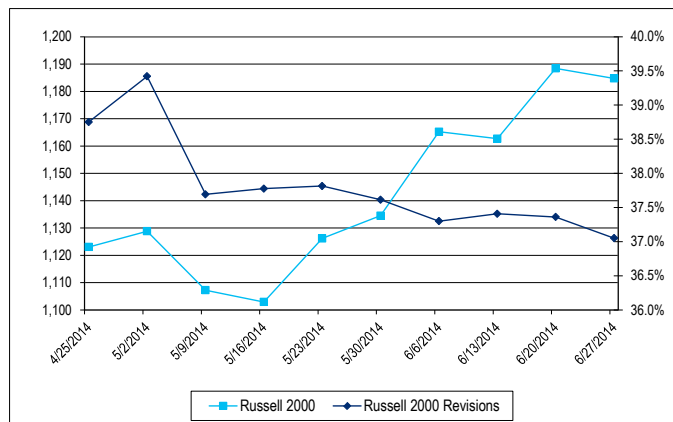
Figure 14. Russell 2000 Annual EPS (ex-neg) Growth History



Source: FactSet

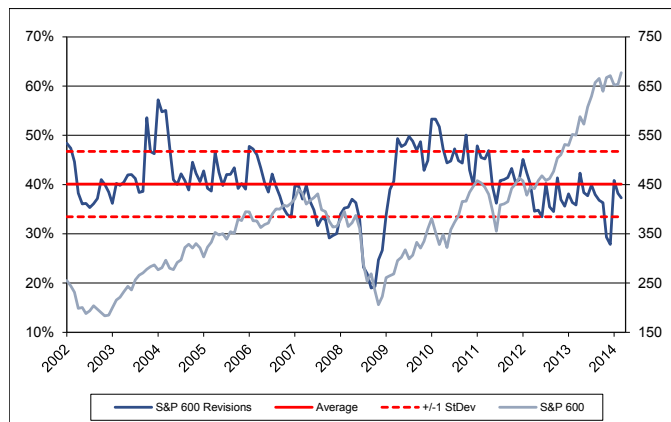
After falling to more than a standard deviation below average due to Q1 weather effects, the positive revision ratio for small cap has come back to levels closer to its average. This is encouraging in terms of the read-through to stabilizing 2014 estimates, as well as providing support for the idea that Q1's disappointing results were indeed a function of severe weather.

Figure 15. Russell 2000 Positive Revisions as % of Total



Source: FactSet

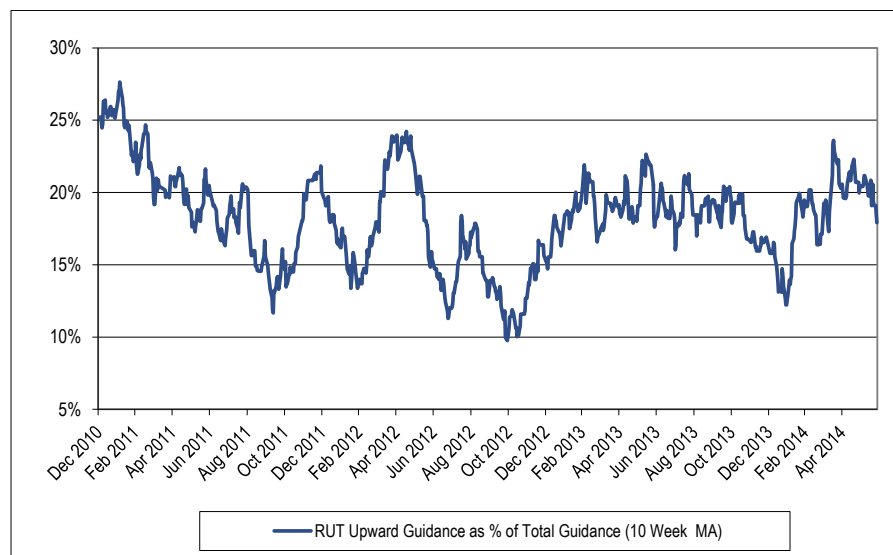
Figure 16. S&P 600 Positive Revisions as % of Total



Source: FactSet

Guidance trends within the RUT are also consistent with these observations. After falling to low levels early in the year, the positive guidance ratio has returned to its more typical 20% level, indicating stability in the outlook.

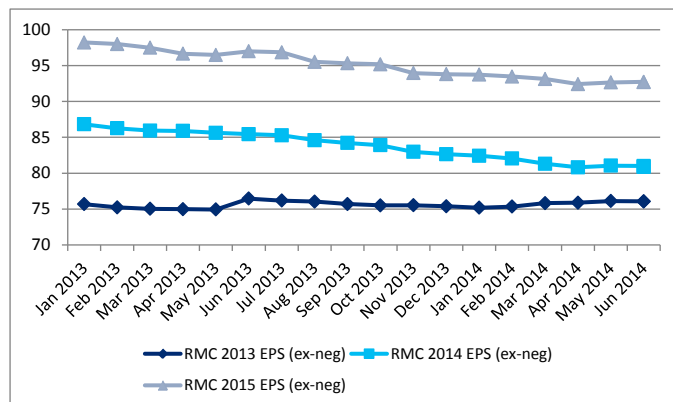
Figure 17. Russell 2000 Positive Guidance as % of Total



Source: Bloomberg

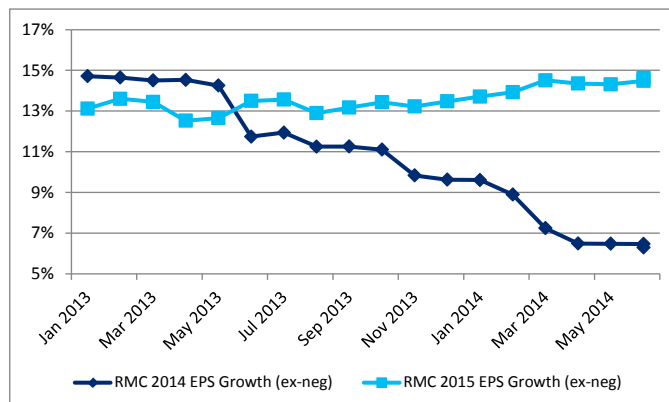
Estimates for the RMC have been much more stable than for small cap, while still declining. Full-year 2014 growth projections have remained at 6% for the past three months. Furthermore, there do not appear to have been any major adjustments to 2015 estimates yet. We think these numbers will likely need to come down at some point, barring any significant change to the economic outlook.

Figure 18. Russell Mid Cap Annual EPS (ex-neg) Estimate History



Source: FactSet

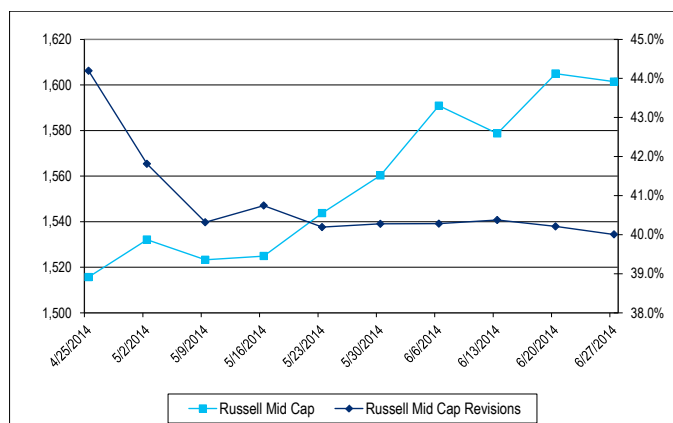
Figure 19. Russell Mid Cap Annual EPS (ex-neg) Growth History



Source: FactSet

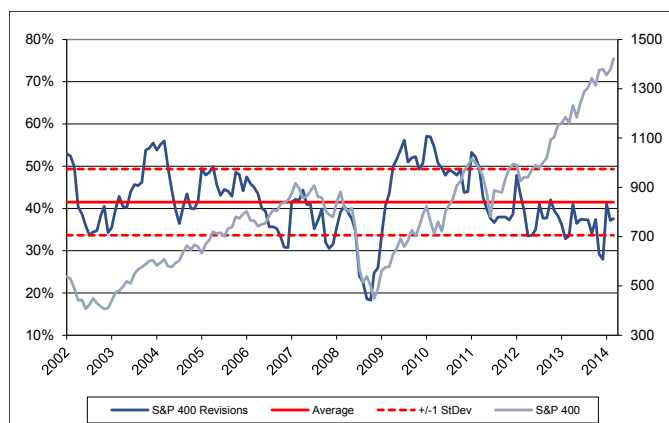
Revision trends for mid show a similar pattern to small cap: the positive revision ratio fell to more than a standard deviation below average due to Q1 weather effects, but has since come back to levels closer to its average.

Figure 20. Russell Mid Cap Positive Revisions as % of Total



Source: FactSet

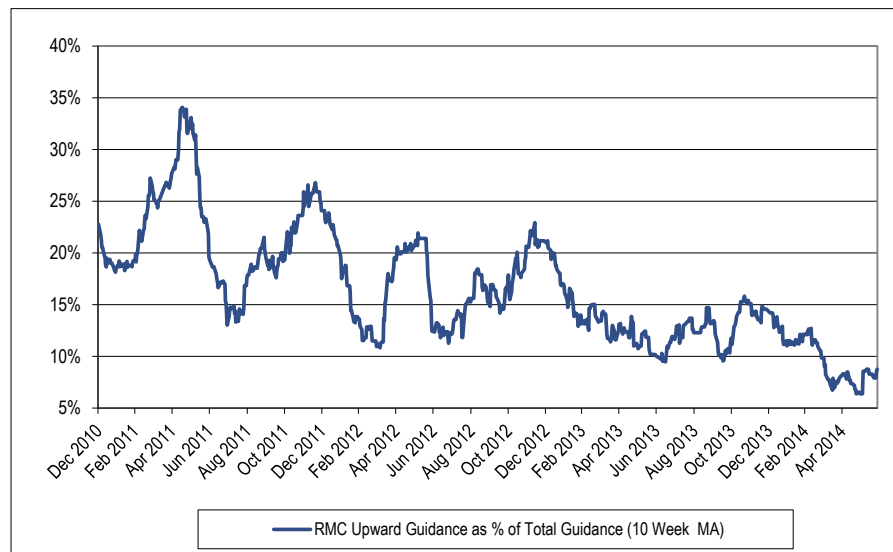
Figure 21. S&P 400 Positive Revisions as % of Total



Source: FactSet

However, company guidance for RMC constituents has not rebounded the way it has for the RUT, and remains at low levels. The implied lack of confidence by management teams, combined with the mismatch relative to analyst revisions helps to support our view that the positive surprise ratio for Mid Cap may not be as robust as Q1.

Figure 22. Russell Mid Cap Positive Guidance as % of Total



Source: Bloomberg

Appendix: Annual Sector EPS Expectations

Figure 23. Russell 2000 Consumer Discretionary Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	5.39	7.10	9.10
Growth		32%	28%
EPS (ex-neg)	7.68	7.75	9.44
Growth		1%	22%
EPS (EBIT)	11.19	15.51	19.44
Growth		39%	25%

Source: FactSet

Figure 24. Russell Mid Cap Consumer Discretionary Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	13.59	12.99	15.20
Growth		-4%	17%
EPS (ex-neg)	14.12	13.29	15.37
Growth		-6%	16%
EPS (EBIT)	20.21	22.76	25.59
Growth		13%	12%

Source: FactSet

Figure 25. Russell 2500 Consumer Discretionary Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	2.59	3.22	3.98
Growth		24%	23%
EPS (ex-neg)	3.20	3.47	4.11
Growth		8%	19%
EPS (EBIT)	5.03	6.36	7.61
Growth		26%	20%

Source: FactSet

Figure 26. Russell 2000 Consumer Staples Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	1.41	1.58	1.74
Growth		11%	10%
EPS (ex-neg)	1.47	1.58	1.74
Growth		7%	10%
EPS (EBIT)	2.99	3.44	3.59
Growth		15%	4%

Source: FactSet

Figure 27. Russell Mid Cap Consumer Staples Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	4.20	4.65	5.16
Growth		11%	11%
EPS (ex-neg)	4.20	4.65	5.16
Growth		11%	11%
EPS (EBIT)	6.92	7.48	8.17
Growth		8%	9%

Source: FactSet

Figure 28. Russell 2500 Consumer Staples Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	0.62	0.69	0.78
Growth		10%	14%
EPS (ex-neg)	0.63	0.69	0.78
Growth		9%	14%
EPS (EBIT)	1.23	1.34	1.47
Growth		10%	9%

Source: FactSet

Figure 29. Russell 2000 Energy Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	0.63	1.88	3.58
Growth		201%	90%
EPS (ex-neg)	2.46	3.09	4.35
Growth		26%	41%
EPS (EBIT)	3.12	6.92	10.17
Growth		122%	47%

Source: FactSet

Figure 30. Russell Mid Cap Energy Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	3.78	4.80	5.86
Growth		27%	22%
EPS (ex-neg)	4.06	5.02	6.04
Growth		24%	20%
EPS (EBIT)	7.11	9.65	11.31
Growth		36%	17%

Source: FactSet

Figure 31. Russell 2500 Energy Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	0.71	1.05	1.58
Growth		48%	51%
EPS (ex-neg)	1.06	1.28	1.71
Growth		21%	34%
EPS (EBIT)	1.61	2.82	3.75
Growth		75%	33%

Source: FactSet

Figure 32. Russell 2000 Financials Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	12.89	14.36	16.30
Growth		11%	13%
EPS (ex-neg)	13.93	14.68	16.43
Growth		5%	12%
EPS (EBIT)	19.63	24.30	28.71
Growth		24%	18%

Source: FactSet

Figure 33. Russell Mid Cap Financials Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	14.99	16.02	18.00
Growth		7%	12%
EPS (ex-neg)	15.68	16.15	18.00
Growth		3%	11%
EPS (EBIT)	26.06	27.04	29.97
Growth		4%	11%

Source: FactSet

Figure 34. Russell 2500 Financials Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	5.18	5.48	6.09
Growth		6%	11%
EPS (ex-neg)	5.38	5.55	6.11
Growth		3%	10%
EPS (EBIT)	8.59	9.54	10.64
Growth		11%	11%

Source: FactSet

Figure 35. Russell 2000 Health Care Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	-6.53	-2.63	-0.14
Growth		-60%	-95%
EPS (ex-neg)	2.95	3.17	4.36
Growth		7%	37%
EPS (EBIT)	-5.60	-10.62	-12.65
Growth		90%	19%

Source: FactSet

Figure 36. Russell Mid Cap Health Care Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	6.95	7.60	9.22
Growth		9%	21%
EPS (ex-neg)	7.21	8.02	9.33
Growth		11%	16%
EPS (EBIT)	11.97	13.55	16.01
Growth		13%	18%

Source: FactSet

Figure 37. Russell 2500 Health Care Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	-0.25	0.53	1.22
Growth		-315%	131%
EPS (ex-neg)	1.40	1.59	2.01
Growth		14%	26%
EPS (EBIT)	0.76	0.28	0.44
Growth		-64%	59%

Source: FactSet

Figure 38. Russell 2000 Industrials Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	6.46	7.87	10.06
Growth		22%	28%
EPS (ex-neg)	7.21	8.09	10.07
Growth		12%	24%
EPS (EBIT)	12.98	15.29	18.63
Growth		18%	22%

Source: FactSet

Figure 39. Russell Mid Cap Industrials Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	9.86	11.42	13.49
Growth		16%	18%
EPS (ex-neg)	10.16	11.54	13.53
Growth		14%	17%
EPS (EBIT)	17.00	19.50	22.44
Growth		15%	15%

Source: FactSet

Figure 40. Russell 2500 Industrials Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	3.22	3.85	4.69
Growth		20%	22%
EPS (ex-neg)	3.48	3.94	4.71
Growth		13%	20%
EPS (EBIT)	6.06	7.04	8.30
Growth		16%	18%

Source: FactSet

Figure 41. Russell 2000 Information Technology Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	6.38	8.33	10.84
Growth		30%	30%
EPS (ex-neg)	7.96	9.12	11.22
Growth		15%	23%
EPS (EBIT)	10.50	12.25	16.00
Growth		17%	31%

Source: FactSet

Figure 42. Russell Mid Cap Information Technology Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	10.15	11.32	12.93
Growth		12%	14%
EPS (ex-neg)	10.34	11.42	12.98
Growth		10%	14%
EPS (EBIT)	14.07	15.58	17.62
Growth		11%	13%

Source: FactSet

Figure 43. Russell 2500 Information Technology Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	2.50	3.01	3.70
Growth		21%	23%
EPS (ex-neg)	2.83	3.19	3.79
Growth		12%	19%
EPS (EBIT)	3.83	4.35	5.35
Growth		14%	23%

Source: FactSet

Figure 44. Russell 2000 Materials Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	1.58	2.08	3.71
Growth		32%	78%
EPS (ex-neg)	2.33	2.65	3.92
Growth		14%	48%
EPS (EBIT)	3.26	4.72	6.98
Growth		45%	48%

Source: FactSet

Figure 45. Russell Mid Cap Materials Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	4.66	5.00	6.17
Growth		7%	23%
EPS (ex-neg)	4.71	5.00	6.17
Growth		6%	23%
EPS (EBIT)	7.64	8.59	10.17
Growth		12%	18%

Source: FactSet

Figure 46. Russell 2500 Materials Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	1.26	1.50	2.04
Growth		19%	36%
EPS (ex-neg)	1.41	1.60	2.07
Growth		13%	30%
EPS (EBIT)	2.39	2.87	3.62
Growth		20%	26%

Source: FactSet

Figure 47. Russell 2000 Telecommunication Services Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	0.11	0.21	0.26
Growth		79%	29%
EPS (ex-neg)	0.44	0.30	0.34
Growth		-31%	15%
EPS (EBIT)	0.94	0.91	1.06
Growth		-3%	16%

Source: FactSet

Figure 48. Russell Mid Cap Telecommunication Services Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	0.12	0.17	0.24
Growth		41%	43%
EPS (ex-neg)	0.16	0.18	0.25
Growth		17%	35%
EPS (EBIT)	0.46	0.50	0.58
Growth		7%	17%

Source: FactSet

Figure 49. Russell 2500 Telecommunication Services Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	0.09	0.08	0.11
Growth		-13%	33%
EPS (ex-neg)	0.15	0.10	0.12
Growth		-30%	20%
EPS (EBIT)	0.28	0.24	0.28
Growth		-14%	16%

Source: FactSet

Figure 50. Russell 2000 Utilities Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	1.67	1.98	2.16
Growth		19%	9%
EPS (ex-neg)	1.89	2.06	2.21
Growth		9%	7%
EPS (EBIT)	3.21	3.74	4.08
Growth		17%	9%

Source: FactSet

Figure 51. Russell Mid Cap Utilities Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	5.44	5.60	5.85
Growth		3%	4%
EPS (ex-neg)	5.44	5.60	5.85
Growth		3%	4%
EPS (EBIT)	11.71	12.73	13.24
Growth		9%	4%

Source: FactSet

Figure 52. Russell 2500 Utilities Annual EPS, EPS (ex-neg), EBIT

	2013	2014	2015
EPS	1.02	1.13	1.20
Growth		12%	6%
EPS (ex-neg)	1.05	1.15	1.21
Growth		9%	5%
EPS (EBIT)	2.14	2.39	2.53
Growth		11%	6%

Source: FactSet

Appendix A-1

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