S&P 500 & Sectors: Free Cash Flow Yield Through 1Q21

This report analyzes[1] free cash flow (FCF), enterprise value, and the trailing FCF yield for the S&P 500 and each of its sectors. In this report, our research is based on the latest audited financial data, which is the 1Q21 10-Q for most companies. Price data is as of 5/19/21.

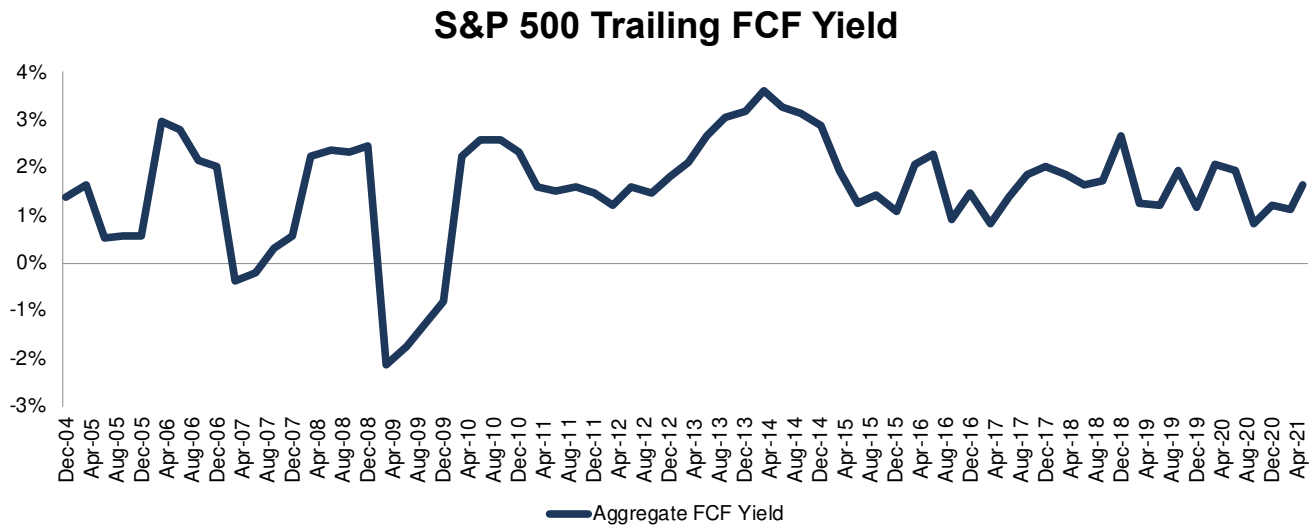
For reference, we analyze the Core Earnings for each S&P 500 sector in S&P 500 & Sectors: Core Earnings Vs. GAAP Net Income Through 1Q21. We analyze return on invested capital (ROIC) and its drivers in S&P 500 & Sectors: ROIC vs. WACC Through 1Q21.

These reports leverage more reliable fundamental data[2] that enables investors to overcome flaws with legacy fundamental datasets. Investors armed with our research enjoy a differentiated and more informed view of the fundamentals and valuations of companies and sectors.

S&P 500 FCF Yield Rebounds In Q1 2021

The trailing FCF yield for the S&P 500 rose from 1.1% at the end of 2020 to 1.6% as of 5/19/21, the earliest date 2021 Q1 data was provided by all S&P 500 companies. See Figure 1. Only five S&P 500 sectors saw an increase in trailing FCF yield from 1Q20 through 1Q21, as we'll show below.

Figure 1: Trailing FCF Yield for the S&P 500 From December 2004 – 5/19/21[3]



Sources: New Constructs, LLC and company filings.
The May 19, 2021 measurement period uses price data as of that date and incorporates the financial data from 1Q21 10-Qs, as this is the earliest date for which all the 1Q21 10-Qs for the S&P 500 constituents were available.

[1] We calculate these metrics based on S&P Global's (SPGI) methodology, which sums the individual S&P 500 constituent values for free cash flow and enterprise value before using them to calculate the metrics. We call this the "Aggregate" methodology. Get more details in Appendices I and II.
[2] For 3rd-party reviews, including The Journal of Financial Economics, on our more reliable fundamental data, historically and prospectively, across all stocks, click here and here.
[3] We use stock prices from 5/19/21 because that is the date when all 1Q21 10-Qs for the S&P 500 constituents were available.

Ranking the S&P 500 Sectors by Trailing FCF Yield

Figure 2 ranks all 11 S&P 500 sectors by change in trailing FCF yield from the end of 1Q20 to 1Q21.

Figure 2: Trailing FCF Yield for All S&P 500 Sectors: 1Q20 to 1Q21

Sector	FCF Yield	YoY Change (% points)
Real Estate	2.9%	4.5%
Healthcare	1.2%	2.3%
Industrials	2.5%	1.2%
Utilities	-1.1%	0.6%
Technology	2.6%	0.3%
Consumer Cyclicals	0.7%	-0.3%
Energy	1.2%	-0.5%
Financials	1.9%	-0.6%
Consumer Non-cyclicals	2.5%	-3.7%
Telecom Services	-5.4%	-8.5%
Basic Materials	5.1%	-8.7%
S&P 500	**1.6%**	**-0.3%**

Sources: New Constructs, LLC and company filings.
Financial data from 1Q21 10-Qs.

Investors are getting more FCF for their investment dollar in the Basic Materials sector than any other sector. On the flip side, the Telecom Services sector currently has the lowest trailing FCF yield of all S&P 500 sectors.

The Real Estate, Healthcare, Industrials, Utilities, and Technology sectors each saw an increase in trailing FCF yield from 1Q20 to 1Q21.

Details on Each of the S&P 500 Sectors

Figures 3-13 show the FCF yield trends for every sector since 2004.

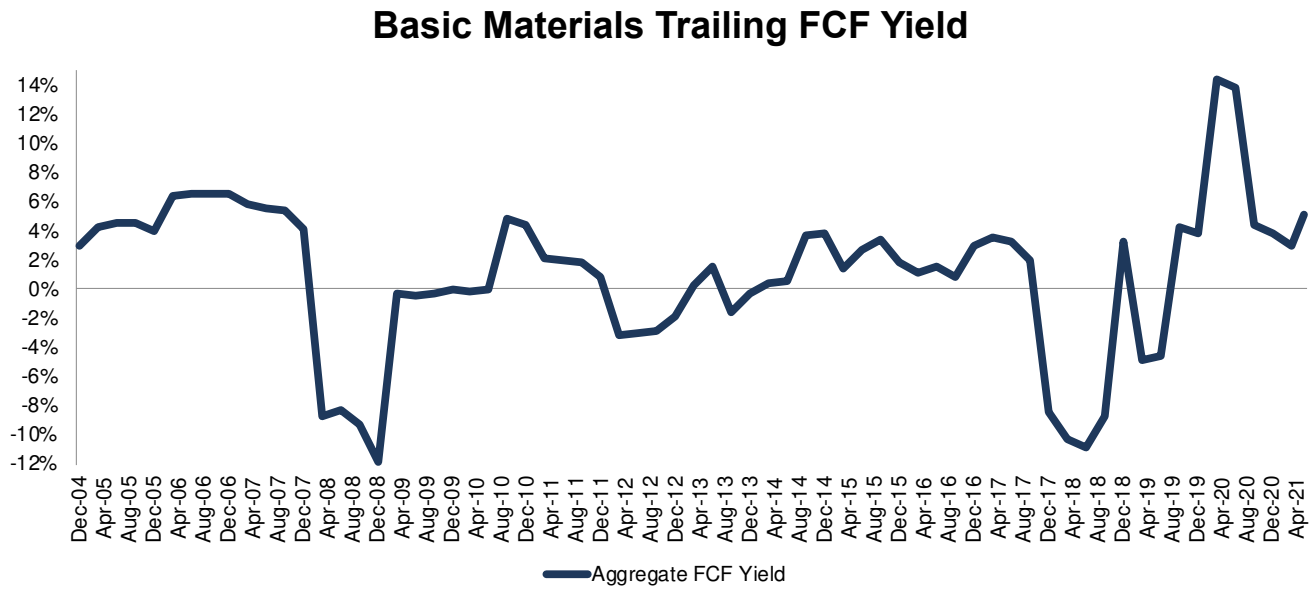
Appendix I presents the components of trailing FCF yield: FCF and enterprise value for the S&P 500 and each S&P 500 sector.

Appendix II provides additional aggregated trailing FCF yield analyses that adjust for company size/market cap.

Basic Materials

Figure 3 shows trailing FCF yield for the Basic Materials sector increased significantly since mid-2018 even after the COVID-19-induced downturn in 2020. The Basic Materials sector FCF fell from $125 billion in 1Q20 to $68 billion in 1Q21 while enterprise value increased from $907 billion to $1.3 trillion as of 5/19/21.

Figure 3: Basic Materials Trailing FCF Yield: December 2004 – 5/19/21



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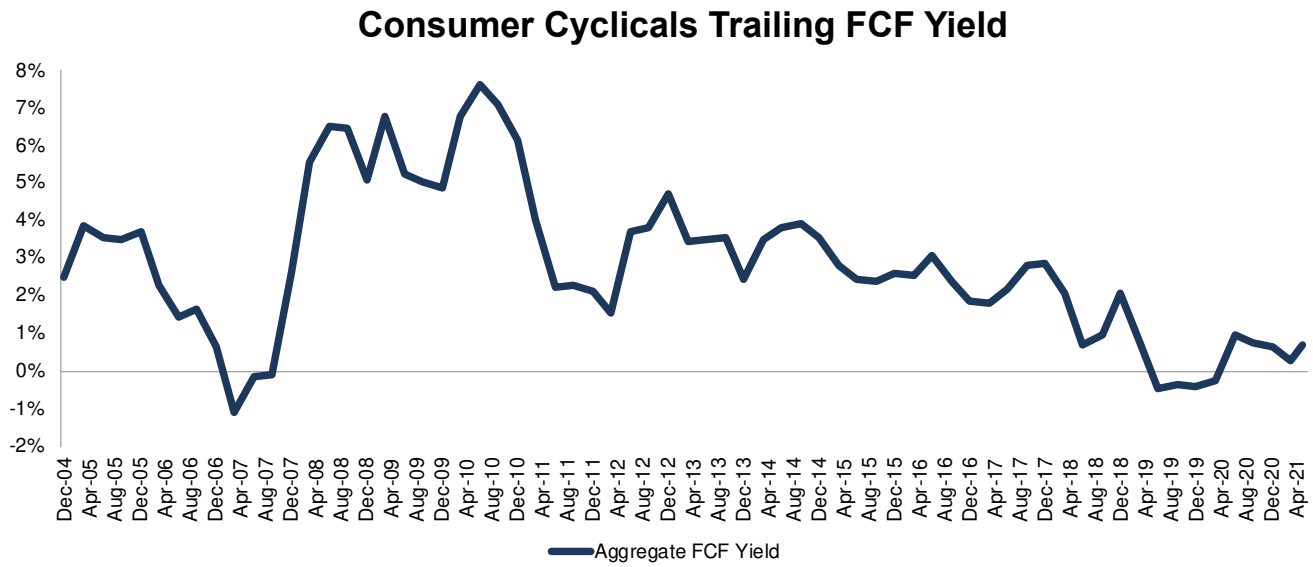
Consumer Cyclicals

Figure 4 shows trailing FCF yield for the Consumer Cyclicals sector has been in a long-term decline since 2010. The Consumer Cyclicals sector FCF stayed flat at $45 billion from 1Q20 to 1Q21 while enterprise value increased from $4.6 trillion to $6.6 trillion over the same period.

Figure 4: Consumer Cyclicals Trailing FCF Yield: December 2004 – 5/19/21



Sources: New Constructs, LLC and company filings.
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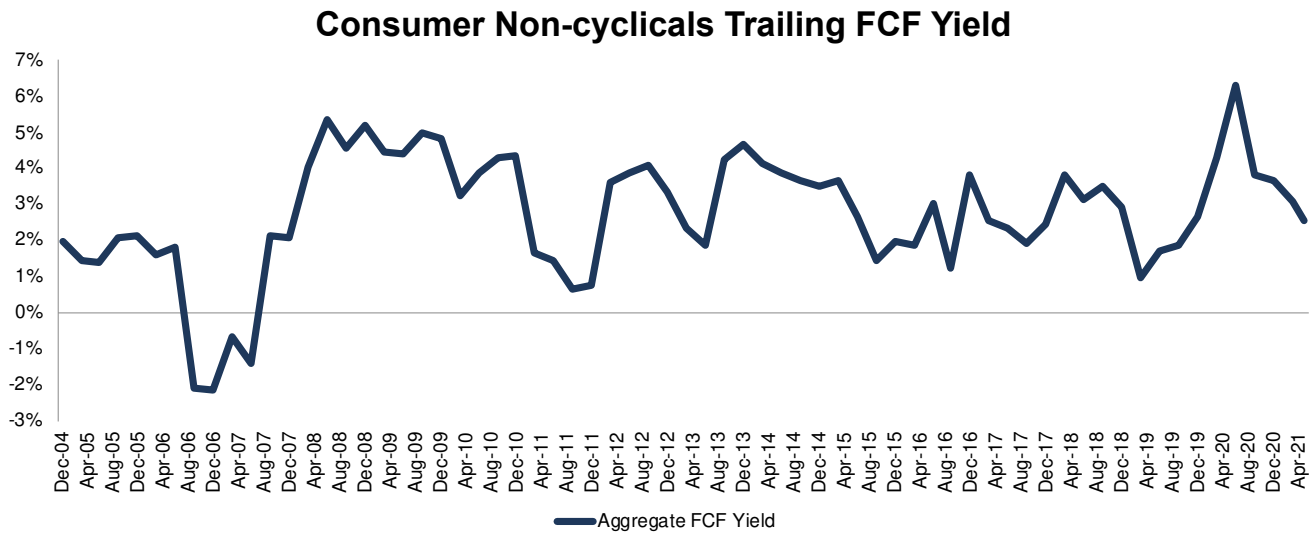
Consumer Non-cyclicals

Figure 5 shows trailing FCF yield for the Consumer Non-cyclicals sector soared in 2019 before falling to 2.5% in 1Q21. The Consumer Non-cyclicals sector FCF declined from $168 billion in 1Q20 to $79 billion in 1Q21 while enterprise value increased from $2.7 trillion to $3.1 trillion over the same period.

Figure 5: Consumer Non-cyclicals Trailing FCF Yield: December 2004 – 5/19/21



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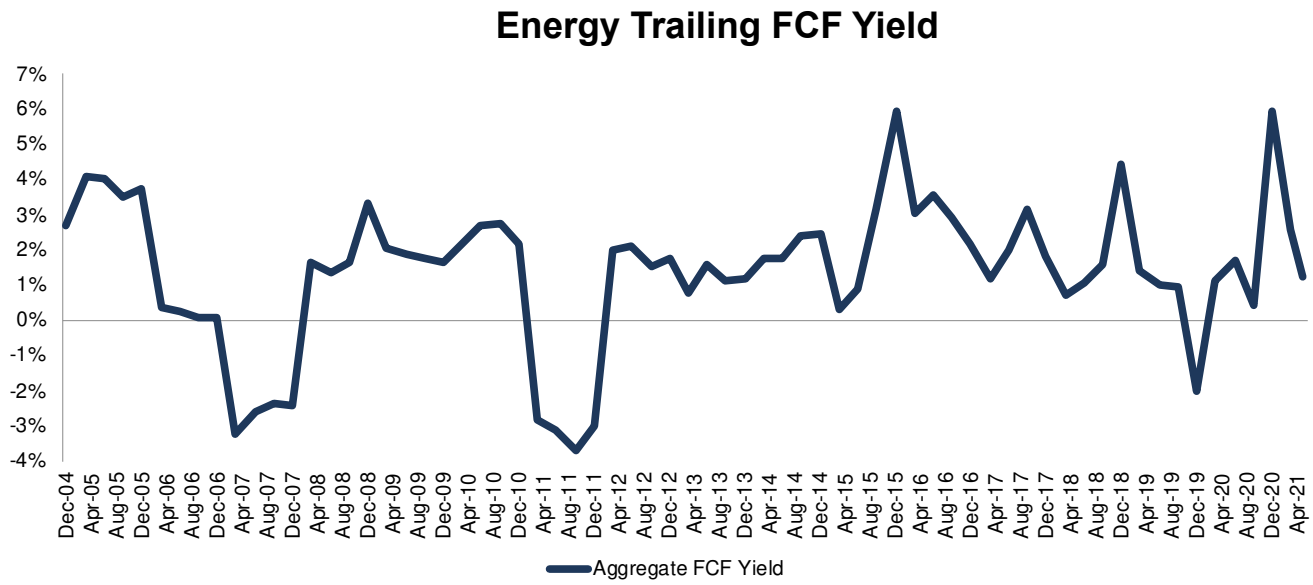
Energy

Figure 6 shows the volatile nature of trailing FCF yield for the Energy sector. The Energy sector's trailing FCF yield sharply rose from 1.1% at the end of 2019 to 5.9% in 3Q20 before falling back to 1.2% in 1Q21. The Energy sector FCF decreased from $22 billion in 1Q20 to $19 billion in 1Q21, and enterprise value increased from $1.3 trillion to $1.6 trillion over the same period.

Figure 6: Energy Trailing FCF Yield: December 2004 – 5/19/21



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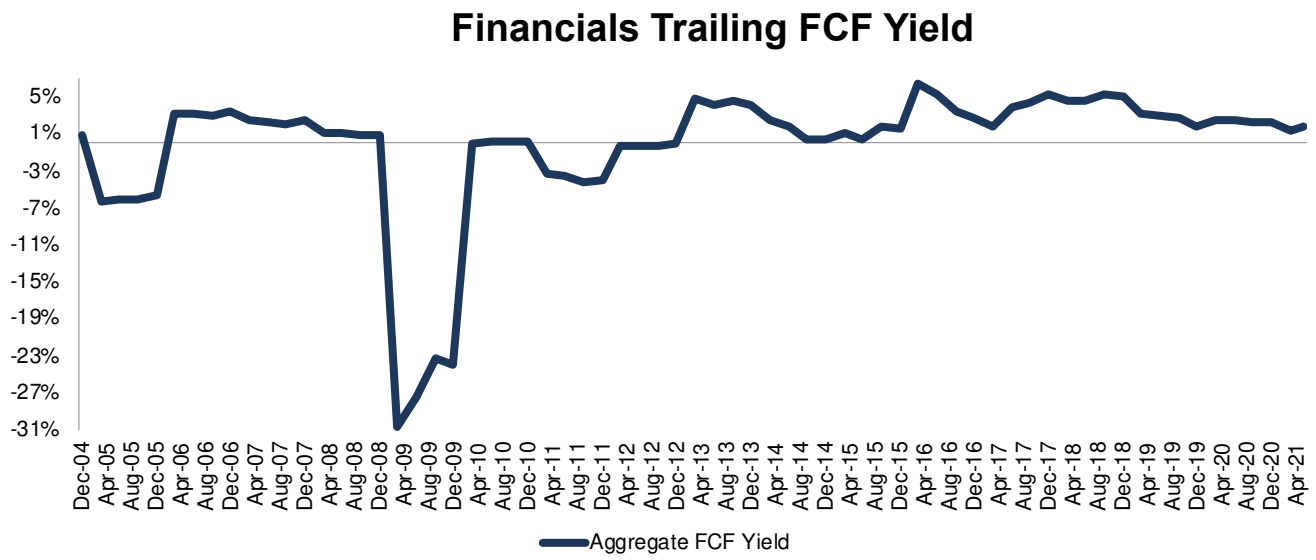
Financials

Figure 7 shows trailing FCF yield for the Financials sector has been largely stable except during the Financial Crisis. The Financials sector trailing FCF yield decreased from 2.6% in 1Q20 to 1.9% in 1Q21. The sector's FCF increased from $87 billion in 1Q20 to $98 billion in 1Q21 while enterprise value increased from $3.4 trillion in 1Q20 to $5.1 trillion over the same period.

Figure 7: Financials Trailing FCF Yield: December 2004 – 5/19/21



Sources: New Constructs, LLC and company filings.
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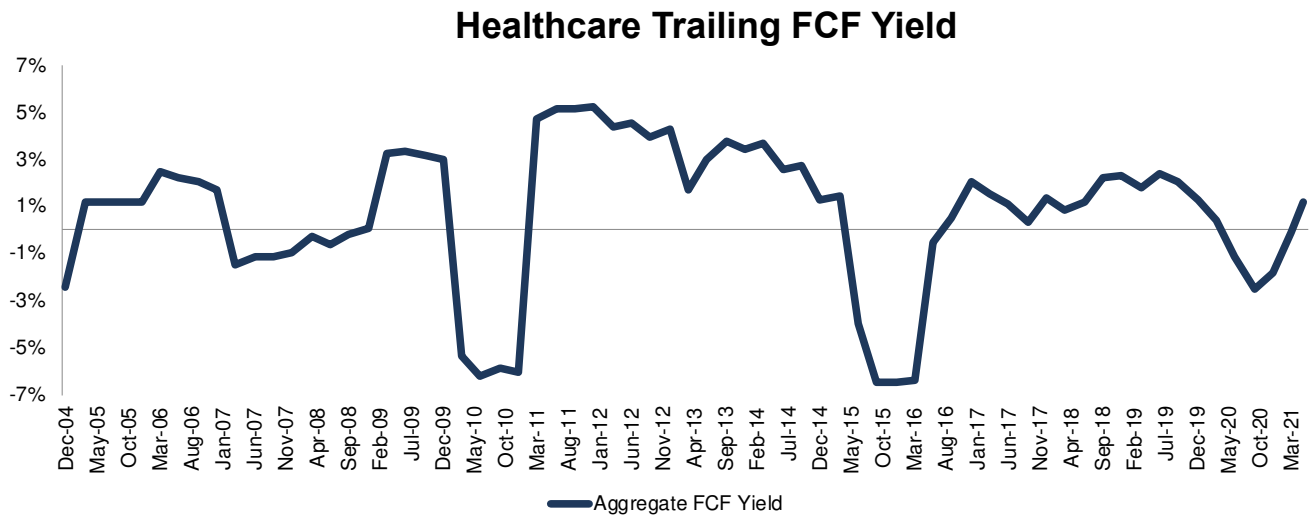
Healthcare

Figure 8 shows trailing FCF yield for the Healthcare sector is volatile and increased significantly from -1.1% from the end of in 1Q20 to 1.2% in 1Q21. FCF rose from -$48 billion in 1Q20 to $63 billion in 1Q21. Meanwhile, enterprise value increased from $4.4 trillion to $5.3 trillion over the same period.

Figure 8: Healthcare Trailing FCF Yield: December 2004 – 5/19/21



Sources: New Constructs, LLC and company filings.
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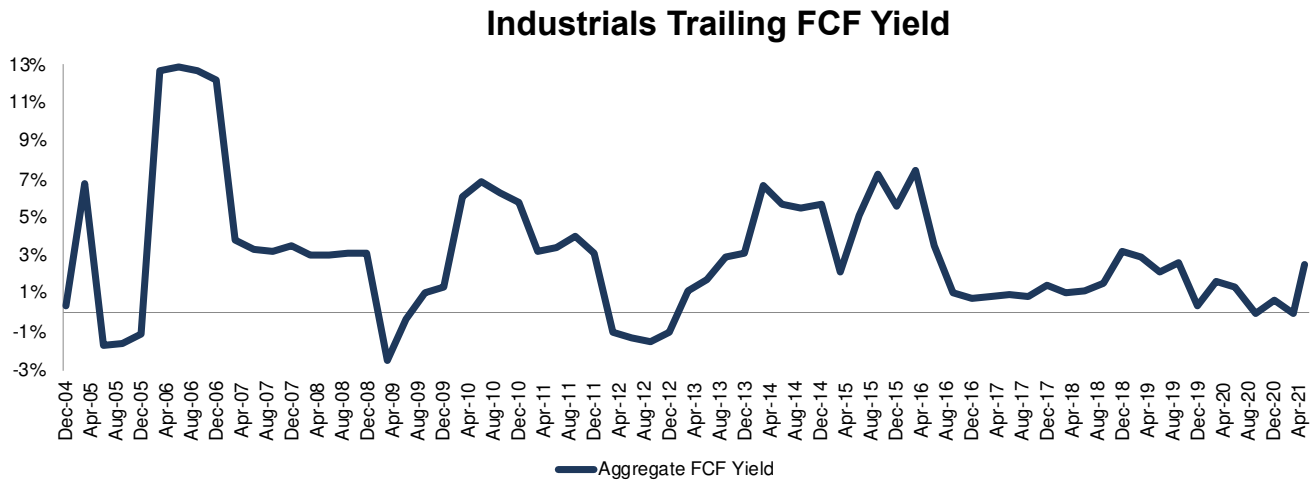
Industrials

Figure 9 shows trailing FCF yield for the Industrials sector sits at 2.5% in 1Q21, which is up from 1.3% in 1Q20. The Industrials sector FCF fell significantly due to the COVID-19 pandemic but rebounded from -$345 million at the end of 2020 to $110 billion in 1Q21 while enterprise value increased from $4.3 trillion to $4.4 trillion over the same period.

Figure 9: Industrials Trailing FCF Yield: December 2004 – 5/19/21



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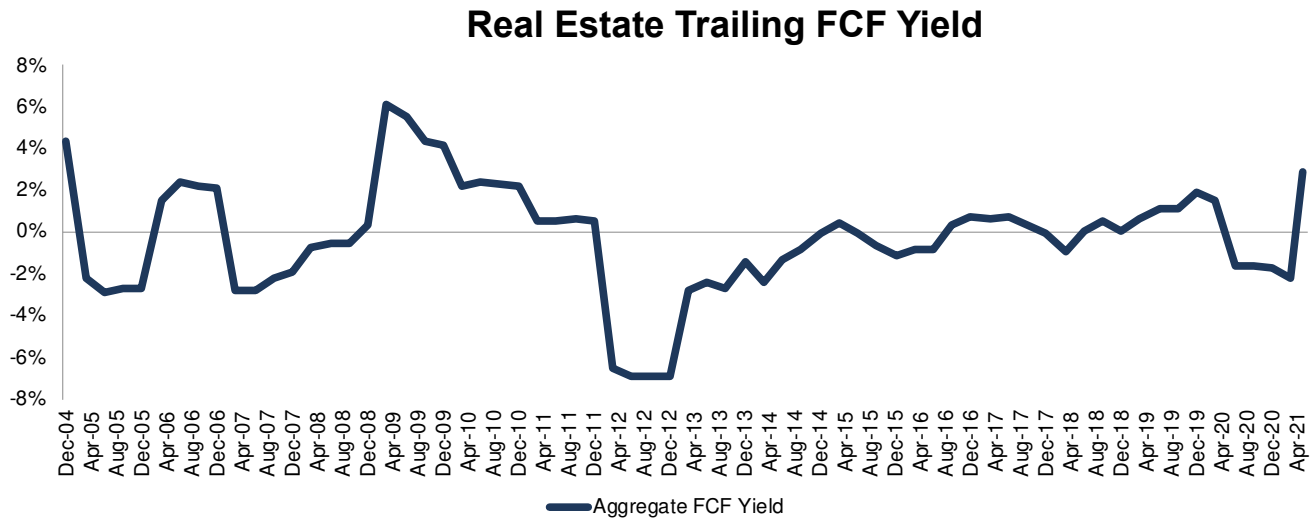
Real Estate

Figure 10 shows trailing FCF yield for the Real Estate sector steadily improved from 2012-2019 before falling in 2020 due to the pandemic and rebounding significantly in 1Q21. The Real Estate trailing FCF yield rose from -1.6% in 1Q20 to 2.9% in 1Q21. FCF for the sector rose from -$16 billion in 1Q20 to $32 billion in 1Q21 and enterprise value increased from $965 billion to $1.1 trillion over the same period.

Figure 10: Real Estate Trailing FCF Yield: December 2004 – 5/19/21



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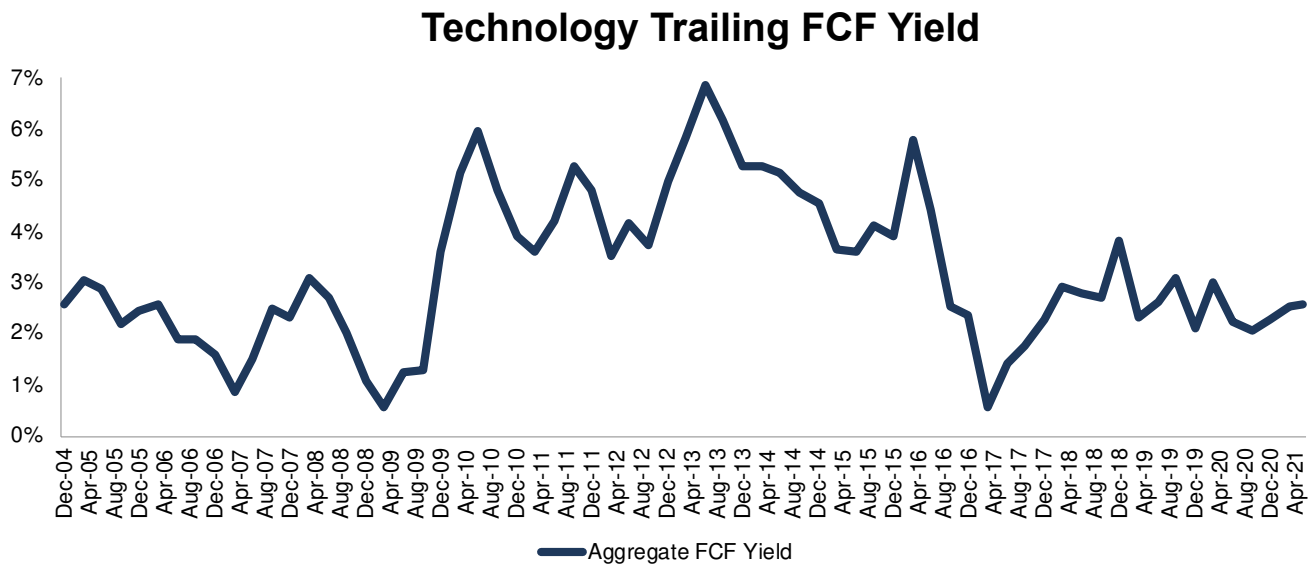
Technology

Figure 11 shows trailing FCF yield for the Technology sector remains well below prior highs in 2011, 2013, and 2015. The sector's trailing FCF yield increased slightly from 2.2% in 1Q20 to 2.6% in 1Q21. The Technology sector FCF increased from $206 billion in 1Q20 to $313 billion in 1Q21 and enterprise value improved from $9.2 trillion to $12.1 trillion over the same period.

Figure 11: Technology Trailing FCF Yield: December 2004 – 5/19/21



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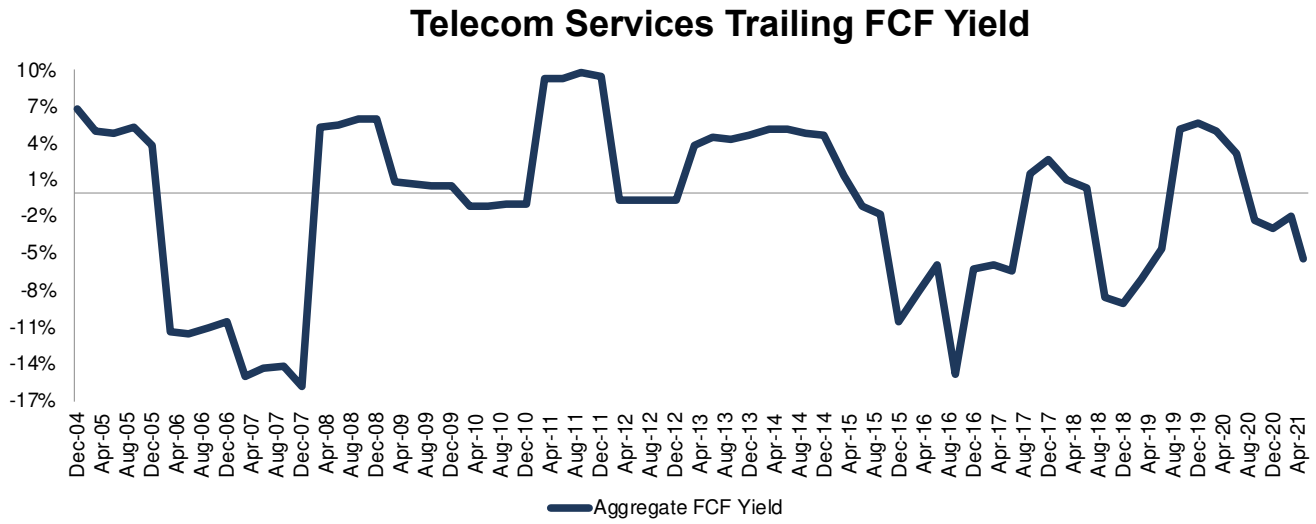
Telecom Services

Figure 12 shows trailing FCF yield for the Telecom Services sector fell significantly from 3.1% at the end of 1Q20 to -5.4% in 1Q21. The sector's FCF fell from $44 billion at the end of 1Q20 to -$87 billion in 1Q21 and enterprise value increased from $1.4 trillion to $1.6 trillion over the same period.

Figure 12: Telecom Services Trailing FCF Yield: December 2004 – 5/19/21



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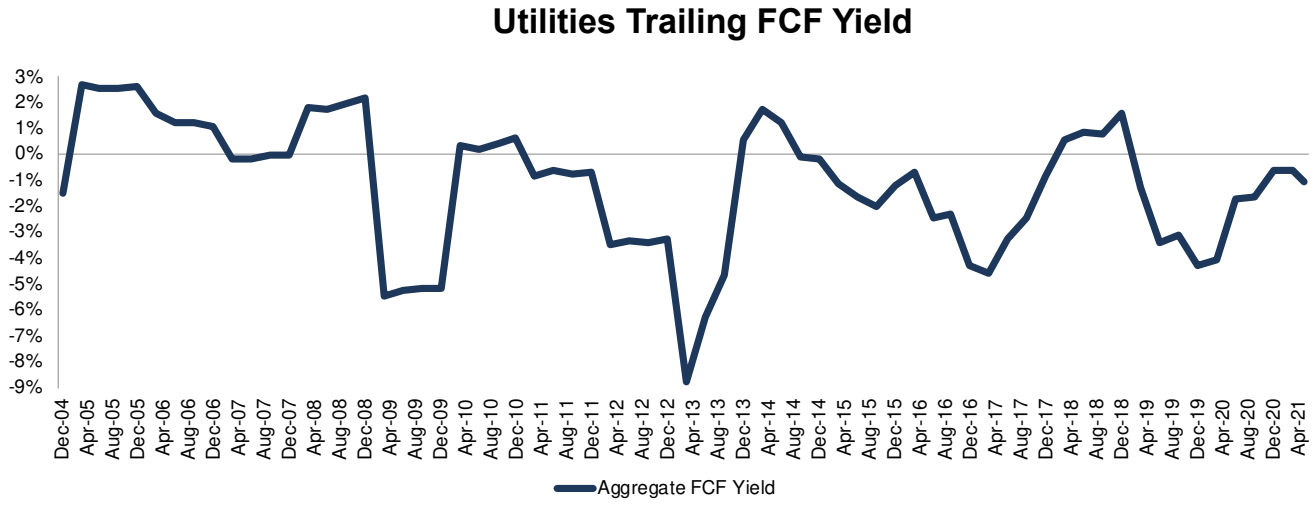
Utilities

Figure 13 shows the trailing FCF yield for the Utilities sector is rather consistently negative and, despite improving since its 2019 lows, remains negative at -1.1% in 1Q21. The Utilities sector's FCF improved from -$27 billion in 1Q20 to -$20 billion in 1Q21 while enterprise value increased from $1.6 trillion to $1.8 trillion over the same period.

Figure 13: Utilities Trailing FCF Yield: December 2004 – 5/19/21



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Appendix I: Free Cash Flow and Enterprise Value Since 2004

This appendix shows the two drivers used to calculate trailing FCF yield – free cash flow and enterprise value – for the S&P 500 and each S&P 500 sector going back to December 2004. We sum the individual S&P 500/sector constituent values for free cash flow and enterprise value. We call this approach the "Aggregate" methodology, and it matches S&P Global's (SPGI) methodology for these calculations. More methodology details in Appendix II.

Figure 14 ranks all 11 sectors by free cash flow based on financial data from 1Q21 10-Qs.

Figure 14: Free Cash Flow by Sector – Financial Data from 1Q21 10-Qs

Sector	Free Cash Flow ($mm)
Technology	$312,585
Industrials	$110,325
Financials	$98,025
Consumer Non-cyclicals	$78,923
Basic Materials	$67,641
Healthcare	$63,431
Consumer Cyclicals	$45,029
Real Estate	$32,227
Energy	$19,494
Utilities	-$19,573
Telecom Services	-$86,641
S&P 500	**$721,467**

Sources: New Constructs, LLC and company filings.
Financial data from 1Q21 10-Qs.

Figure 15 ranks all 11 sectors by enterprise value as of 5/19/21.

Figure 15: Enterprise Value by Sector – as of 5/19/21

Sector	Enterprise Value ($mm)
Technology	$12,076,824
Consumer Cyclicals	$6,564,458
Healthcare	$5,307,618
Financials	5,095,816
Industrials	$4,387,403
Consumer Non-cyclicals	$3,105,421
Utilities	$1,814,472
Telecom Services	1,613,682
Energy	$1,584,388
Basic Materials	$1,331,491
Real Estate	$1,119,458
S&P 500	**$44,001,032**

Sources: New Constructs, LLC and company filings.
Prices as of 5/19/21.

These two tables show the Technology sector not only generates the most free cash flow, but it also has the highest enterprise value of all sectors.

Figures 16-27 compare the FCF and enterprise value trends for the S&P 500 and every sector since 2004.

Figure 16: S&P 500 FCF & Enterprise Value: December 2004 – 5/19/21

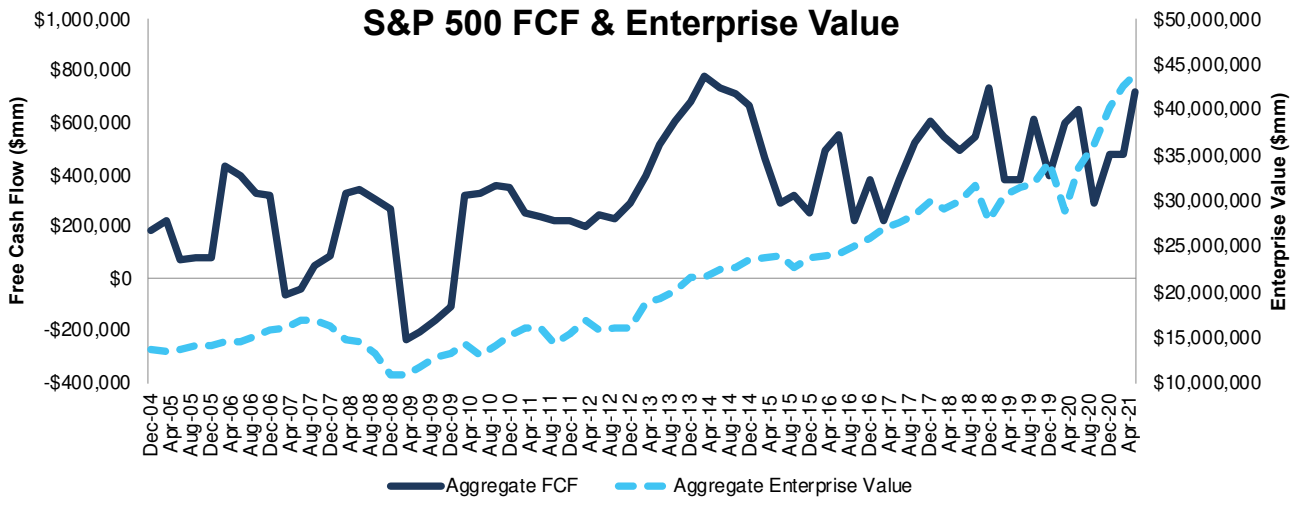

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Figure 17: Basic Materials FCF & Enterprise Value: December 2004 – 5/19/21

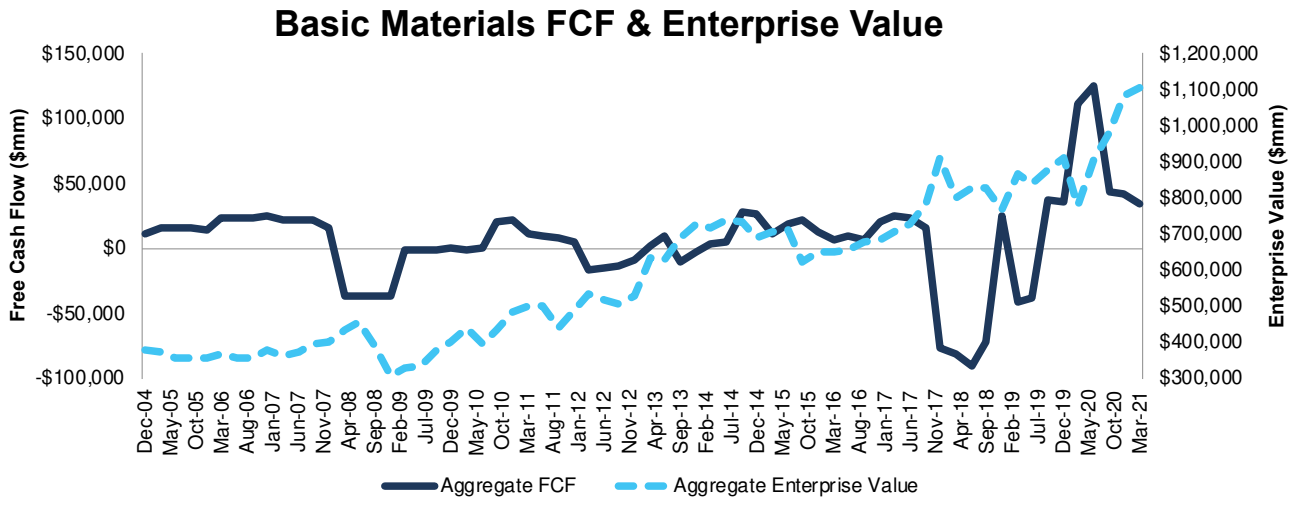

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Figure 18: Consumer Cyclicals FCF & Enterprise Value: December 2004 – 5/19/21

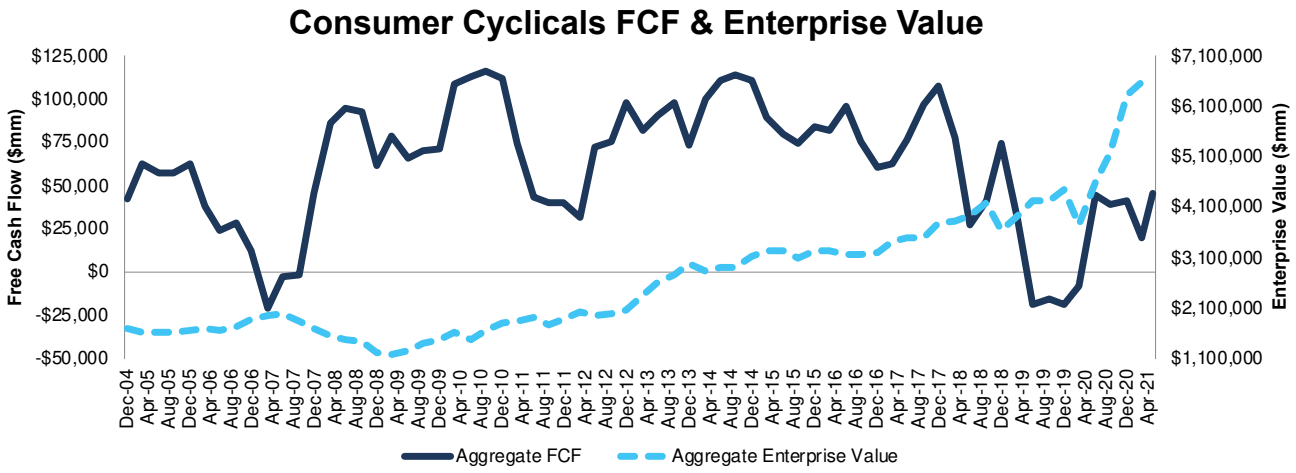

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Figure 19: Consumer Non-Cyclicals FCF & Enterprise Value: December 2004 – 5/19/21

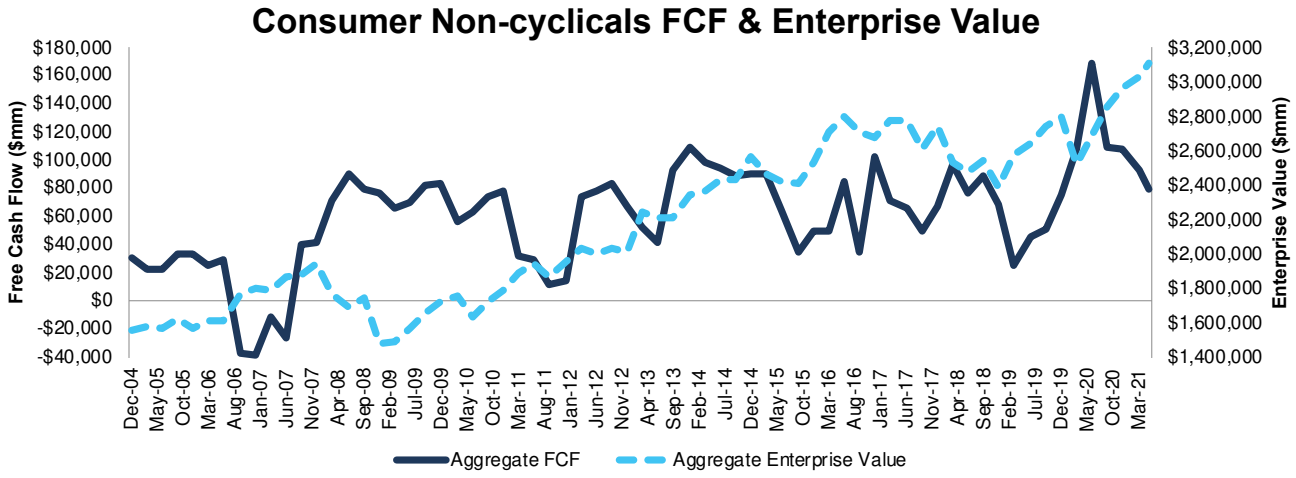

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Figure 20: Energy FCF & Enterprise Value: December 2004 – 5/19/21

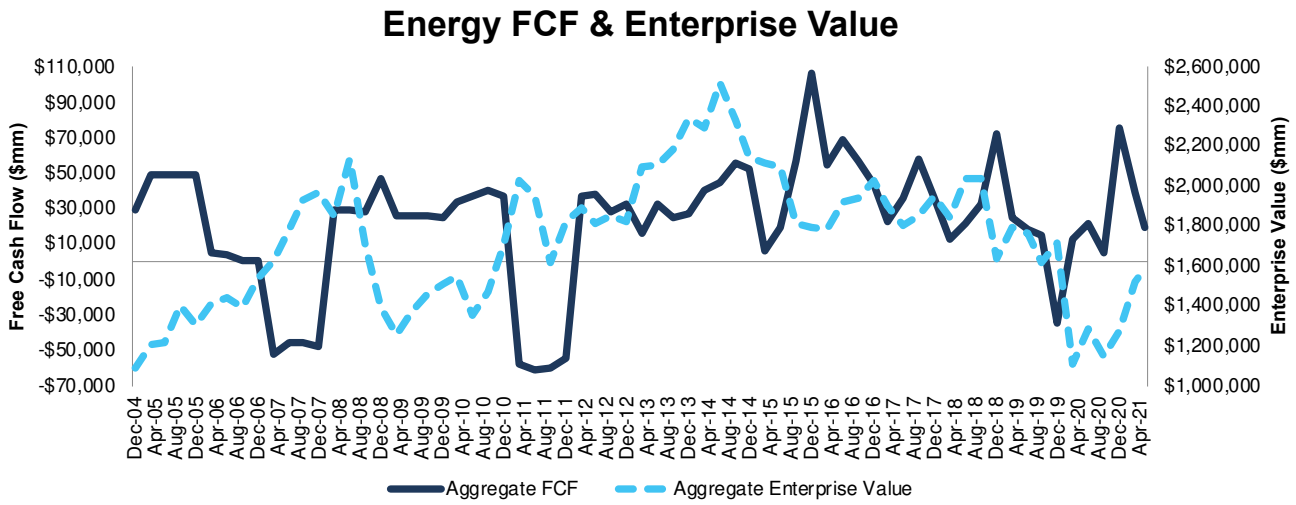

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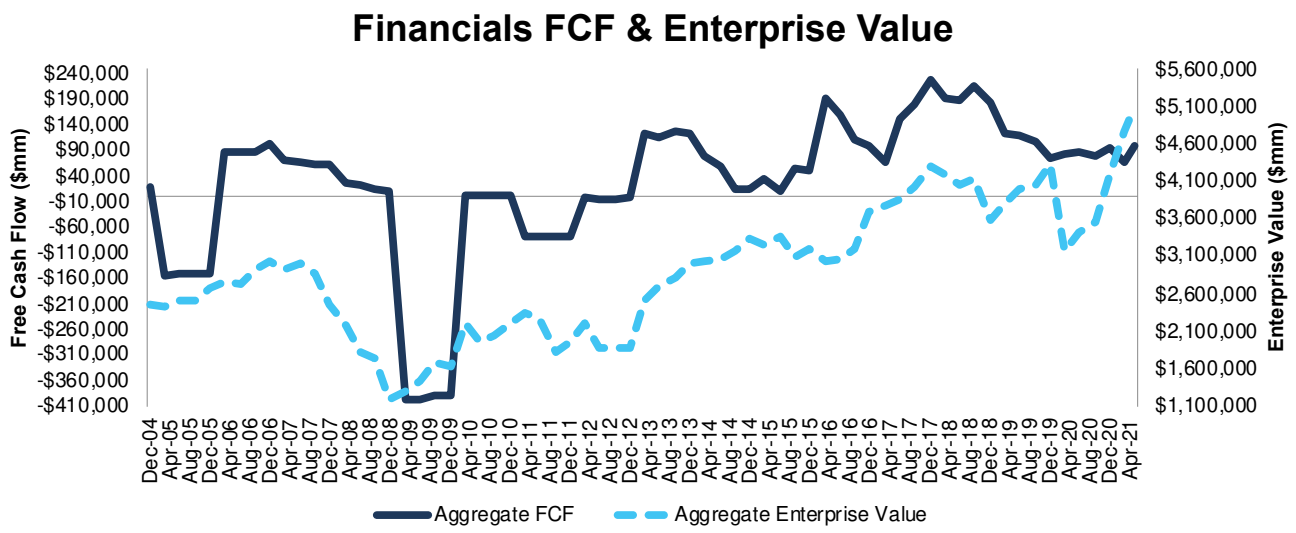
Figure 21: Financials FCF & Enterprise Value: December 2004 – 5/19/21



Sources: New Constructs, LLC and company filings.
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Figure 22: Healthcare FCF & Enterprise Value: December 2004 – 5/19/21

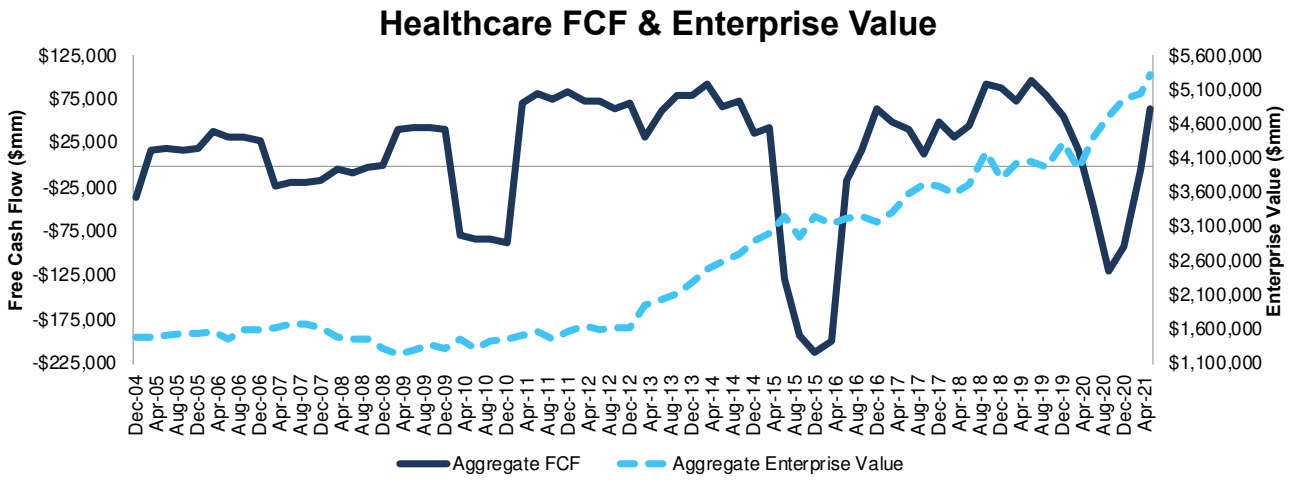

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Figure 23: Industrials FCF & Enterprise Value: December 2004 – 5/19/21

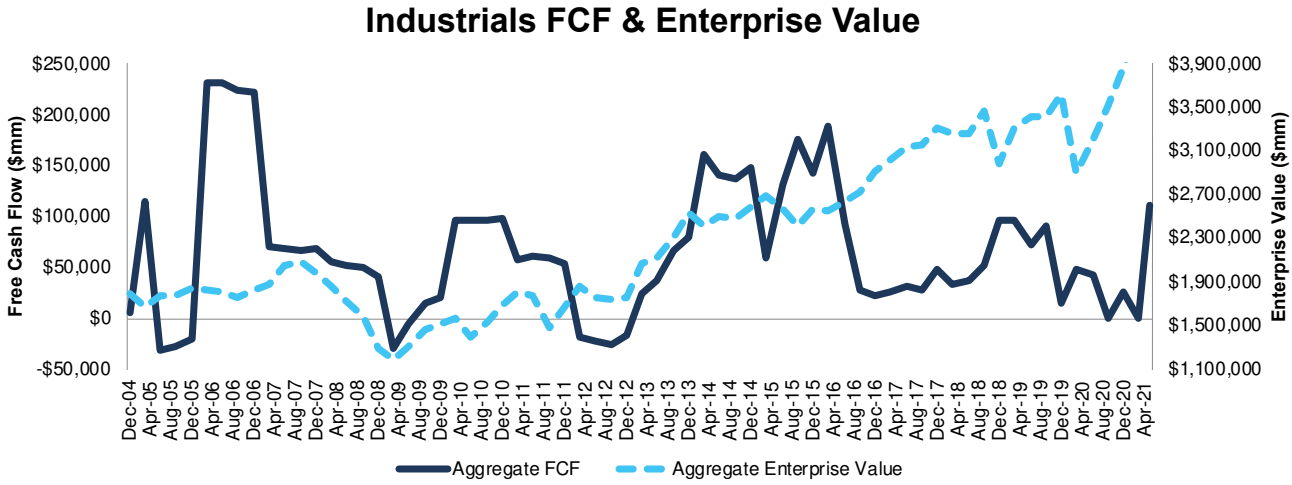

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Figure 24: Real Estate FCF & Enterprise Value: December 2004 – 5/19/21

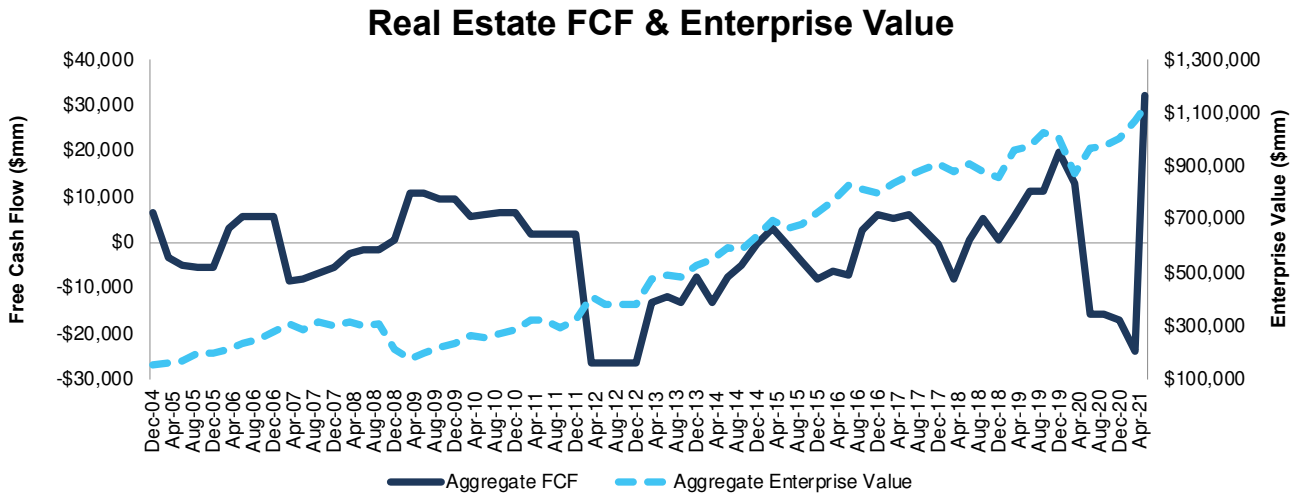

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Figure 25: Technology FCF & Enterprise Value: December 2004 – 5/19/21

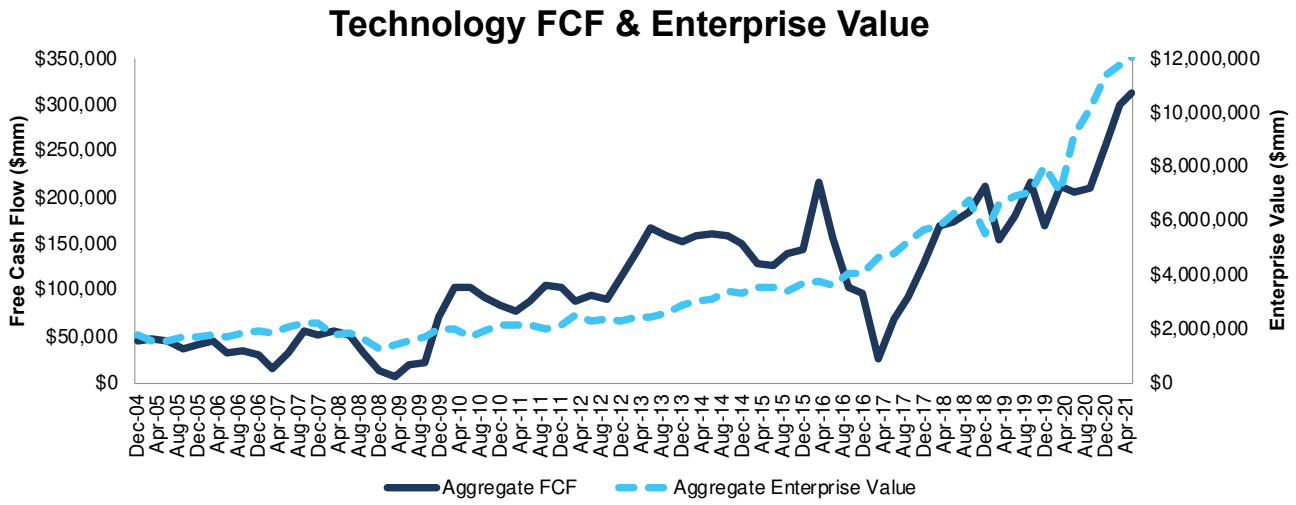

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Figure 26: Telecom Services FCF & Enterprise Value: December 2004 – 5/19/21

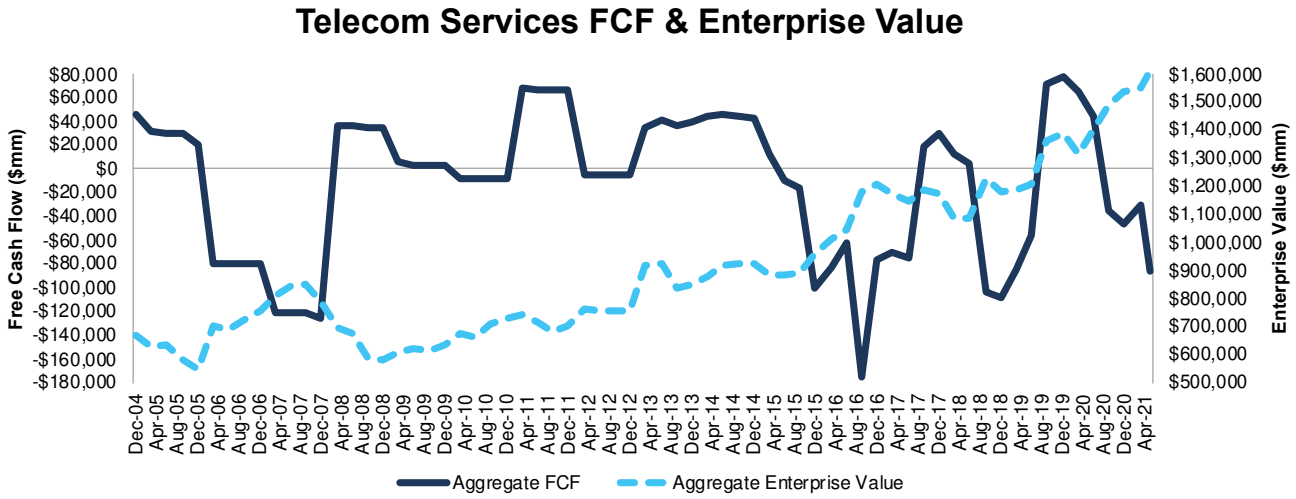

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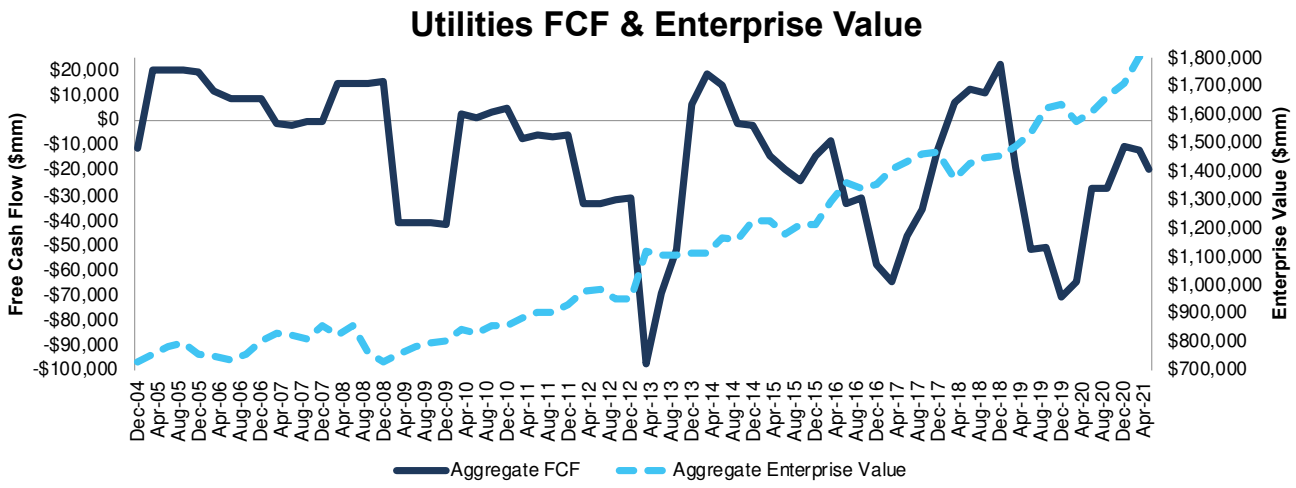
Figure 27: Utilities FCF & Enterprise Value: December 2004 – 5/19/21



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Appendix II: Analyzing Trailing FCF Yield with Different Weighting Methodologies

We derive the metrics above by summing the individual S&P 500/sector constituent values for free cash flow and enterprise value to calculate trailing FCF yield. We call this approach the "Aggregate" methodology.

The Aggregate methodology provides a straightforward look at the entire S&P 500/sector, regardless of market cap or index weighting, and matches how S&P Global (SPGI) calculates metrics for the S&P 500.

For additional perspective, we compare the Aggregate method for free cash flow with two other market-weighted methodologies. These market-weighted methodologies add more value for ratios that do not include market values, e.g. ROIC and its drivers, but we include them here, nonetheless, for comparison:

1. **Market-weighted metrics** – calculated by market-cap-weighting the trailing FCF yield for the individual companies relative to their sector or the overall S&P 500 in each period. Details:
    a. Company weight equals the company's market cap divided by the market cap of the S&P 500/ its sector
    b. We multiply each company's trailing FCF yield by its weight
    c. S&P 500/Sector trailing FCF yield equals the sum of the weighted trailing FCF yields for all the companies in the S&P 500/sector
2. **Market-weighted drivers** – calculated by market-cap-weighting the FCF and enterprise value for the individual companies in each sector in each period. Details:
    a. Company weight equals the company's market cap divided by the market cap of the S&P 500/ its sector
    b. We multiply each company's free cash flow and enterprise value by its weight
    c. We sum the weighted FCF and weighted enterprise value for each company in the S&P 500/each sector to determine each sector's weighted FCF and weighted enterprise value
    d. S&P 500/Sector trailing FCF yield equals weighted S&P 500/sector FCF divided by weighted S&P 500/sector enterprise value

Each methodology has its pros and cons, as outlined below:

Aggregate method

Pros:

- A straightforward look at the entire S&P 500/sector, regardless of company size or weighting in any indices.
- Matches how S&P Global calculates metrics for the S&P 500.

Cons:

- Vulnerable to impact of companies entering/exiting the group of companies, which could unduly affect aggregate values. Also susceptible to outliers in any one period.

Market-weighted metrics method

Pros:

- Accounts for a firm's market cap relative to the S&P 500/sector and weights its metrics accordingly.

Cons:

- Vulnerable to outlier results from a single company disproportionately impacting the overall trailing FCF yield.

Market-weighted drivers method

Pros:

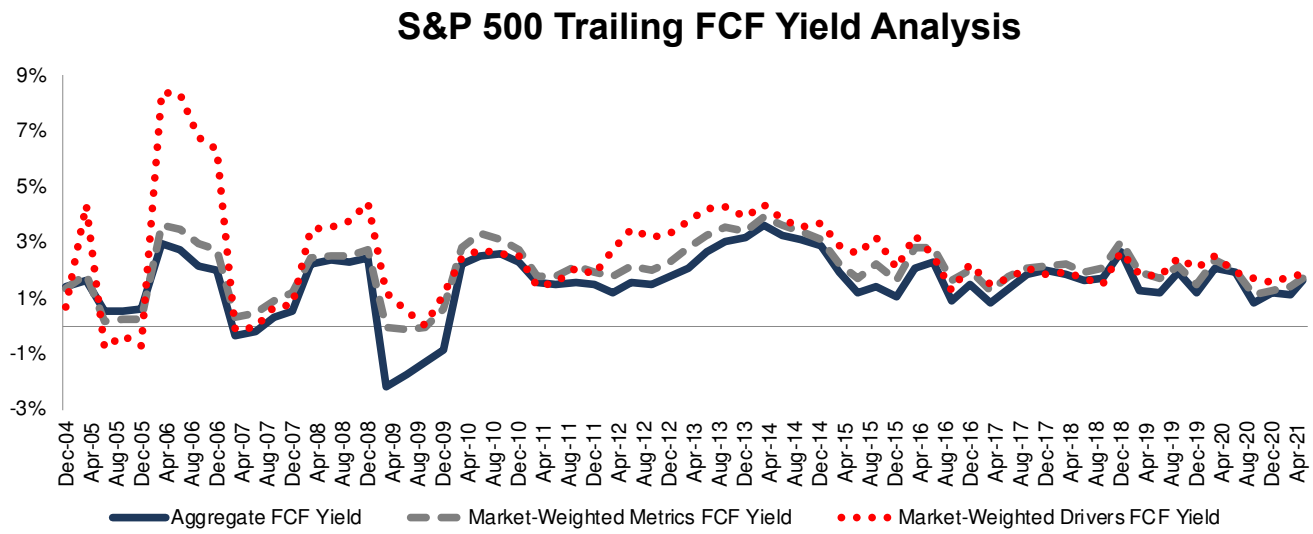
- Accounts for a firm's market cap relative to the S&P 500/sector and weights its free cash flow and enterprise value accordingly.
- Mitigates the disproportionate impact of outlier results from one company on the overall results.

Cons:

- More volatile as it adds emphasis to large changes in FCF and enterprise value for heavily weighted companies.

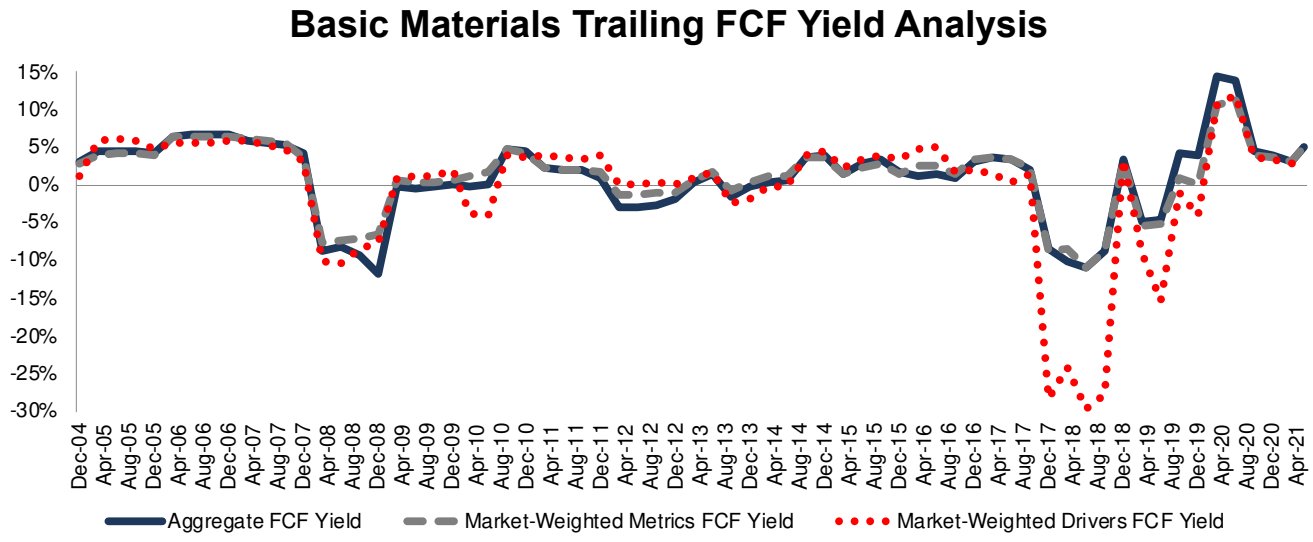
Figures 28-39 compare these three methods for calculating S&P 500 and sector trailing FCF yields.

Figure 28: S&P 500 Trailing FCF Yield Methodologies Compared: December 2004 – 5/19/21



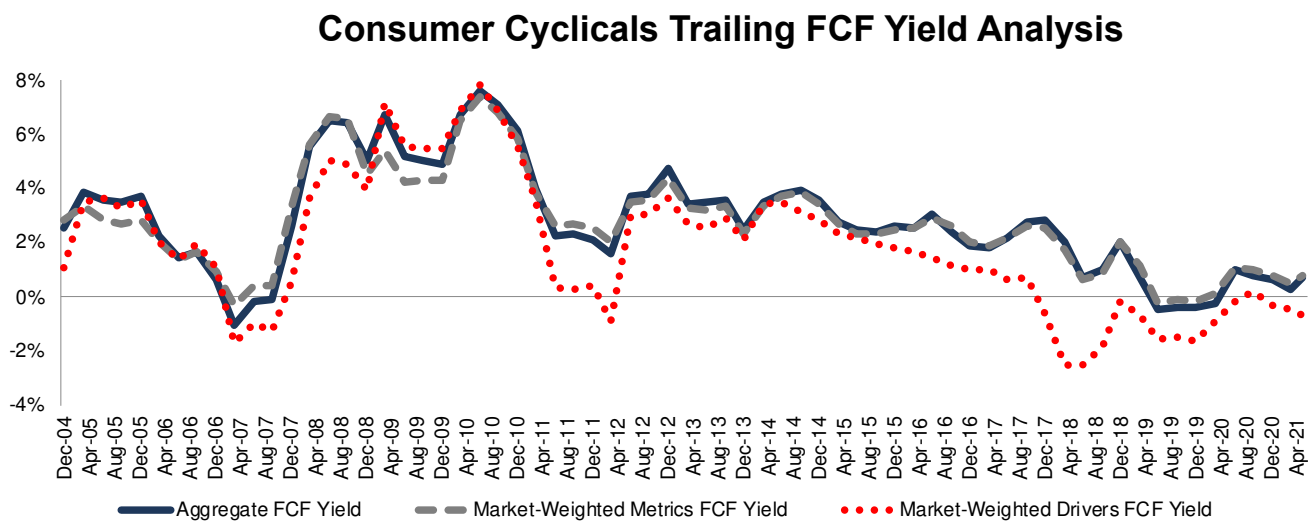
Sources: New Constructs, LLC and company filings.
The May 19, 2021 measurement period uses price data as of that date and incorporates the financial data from 1Q21 10-Qs, as this is the earliest date for which all the 1Q21 10-Qs for the S&P 500 constituents were available.

Figure 29: Basic Materials Trailing FCF Yield Methodologies Compared: December 2004 – 5/19/21



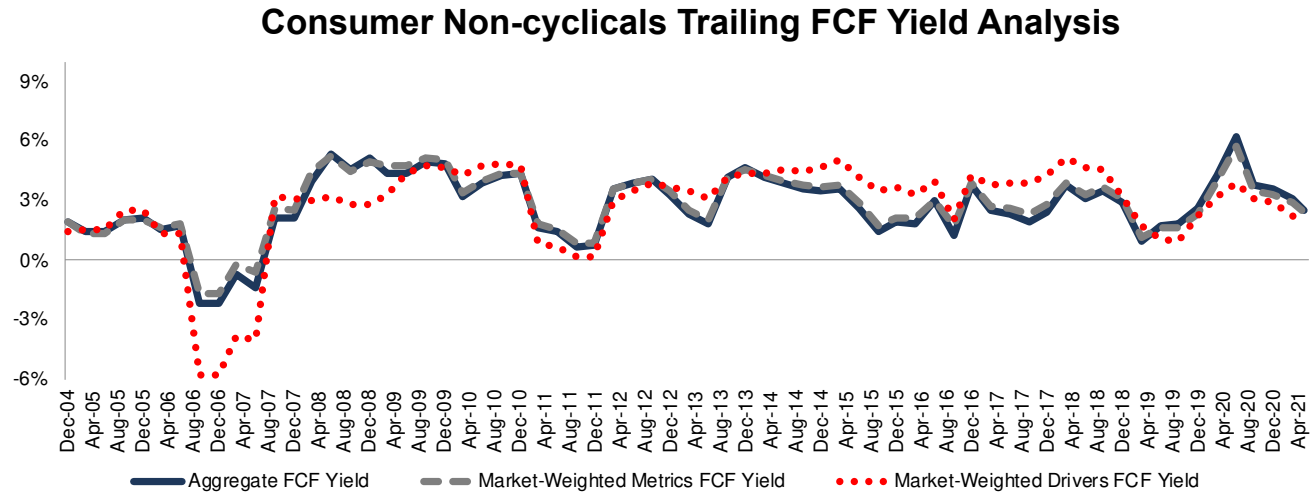
Sources: New Constructs, LLC and company filings.
The May 19, 2021 measurement period uses price data as of that date and incorporates the financial data from 1Q21 10-Qs, as this is the earliest date for which all the 1Q21 10-Qs for the S&P 500 constituents were available.

Figure 30: Consumer Cyclicals Trailing FCF Yield Methodologies Compared: December 2004 – 5/19/21



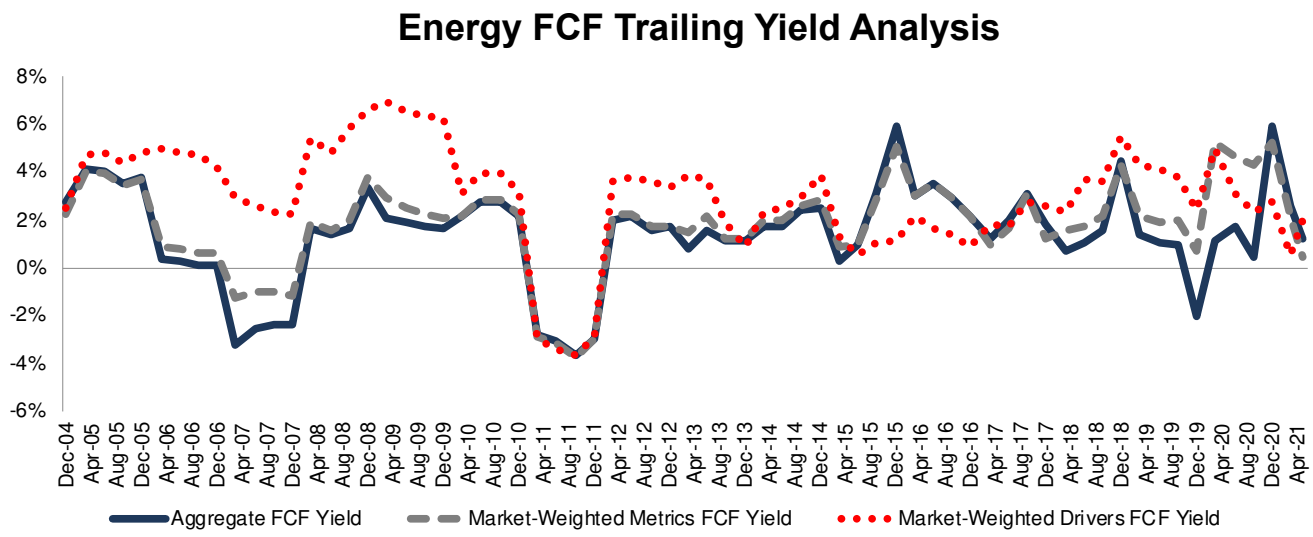
Sources: New Constructs, LLC and company filings.
The May 19, 2021 measurement period uses price data as of that date and incorporates the financial data from 1Q21 10-Qs, as this is the earliest date for which all the 1Q21 10-Qs for the S&P 500 constituents were available.

Figure 31: Consumer Non-cyclicals Trailing FCF Yield Methodologies Compared: December 2004 – 5/19/21



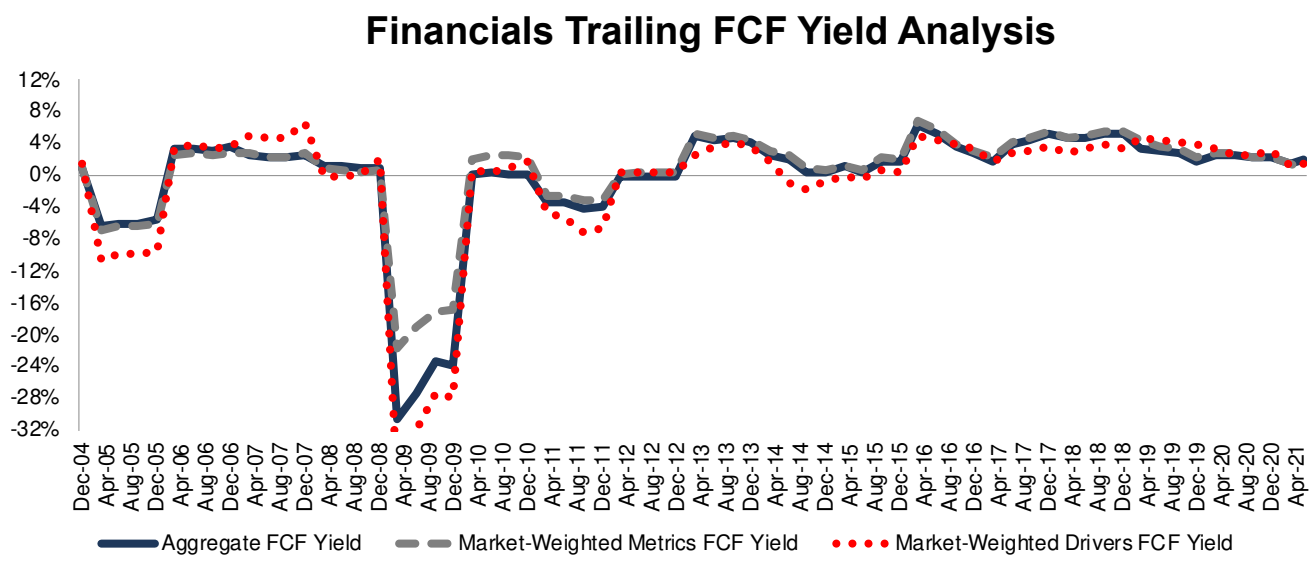
Sources: New Constructs, LLC and company filings.
The May 19, 2021 measurement period uses price data as of that date and incorporates the financial data from 1Q21 10-Qs, as this is the earliest date for which all the 1Q21 10-Qs for the S&P 500 constituents were available.

Figure 32: Energy Trailing FCF Yield Methodologies Compared: December 2004 – 5/19/21



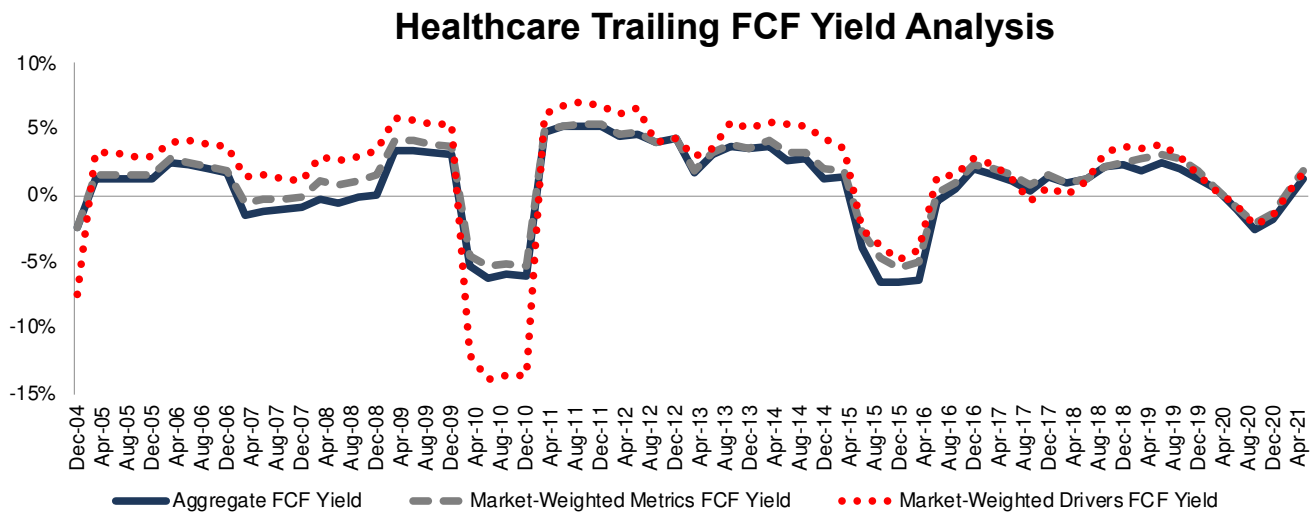
Sources: New Constructs, LLC and company filings.
The May 19, 2021 measurement period uses price data as of that date and incorporates the financial data from 1Q21 10-Qs, as this is the earliest date for which all the 1Q21 10-Qs for the S&P 500 constituents were available.

Figure 33: Financials Trailing FCF Yield Methodologies Compared: December 2004 – 5/19/21



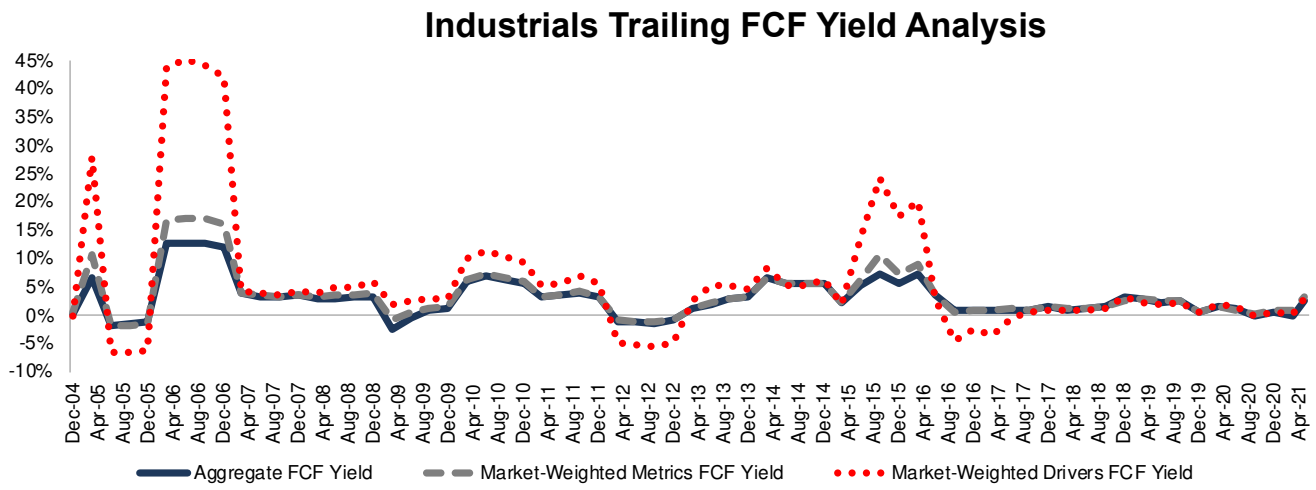
Sources: New Constructs, LLC and company filings.
The May 19, 2021 measurement period uses price data as of that date and incorporates the financial data from 1Q21 10-Qs, as this is the earliest date for which all the 1Q21 10-Qs for the S&P 500 constituents were available.

Figure 34: Healthcare Trailing FCF Yield Methodologies Compared: December 2004 – 5/19/21



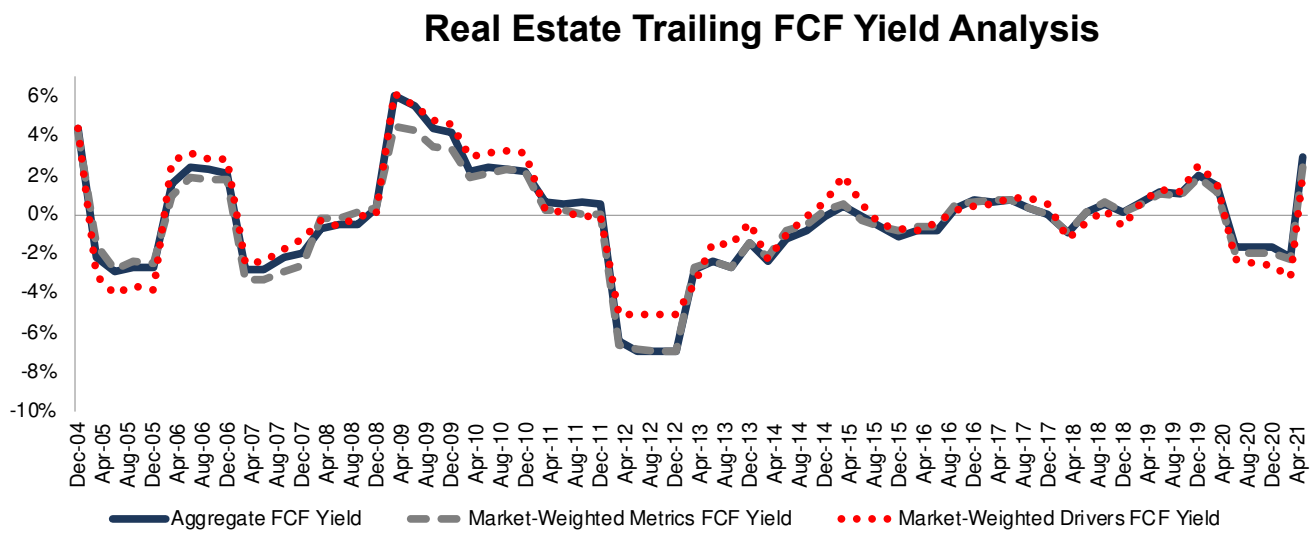
Sources: New Constructs, LLC and company filings.
The May 19, 2021 measurement period uses price data as of that date and incorporates the financial data from 1Q21 10-Qs, as this is the earliest date for which all the 1Q21 10-Qs for the S&P 500 constituents were available.

Figure 35: Industrials Trailing FCF Yield Methodologies Compared: December 2004 – 5/19/21



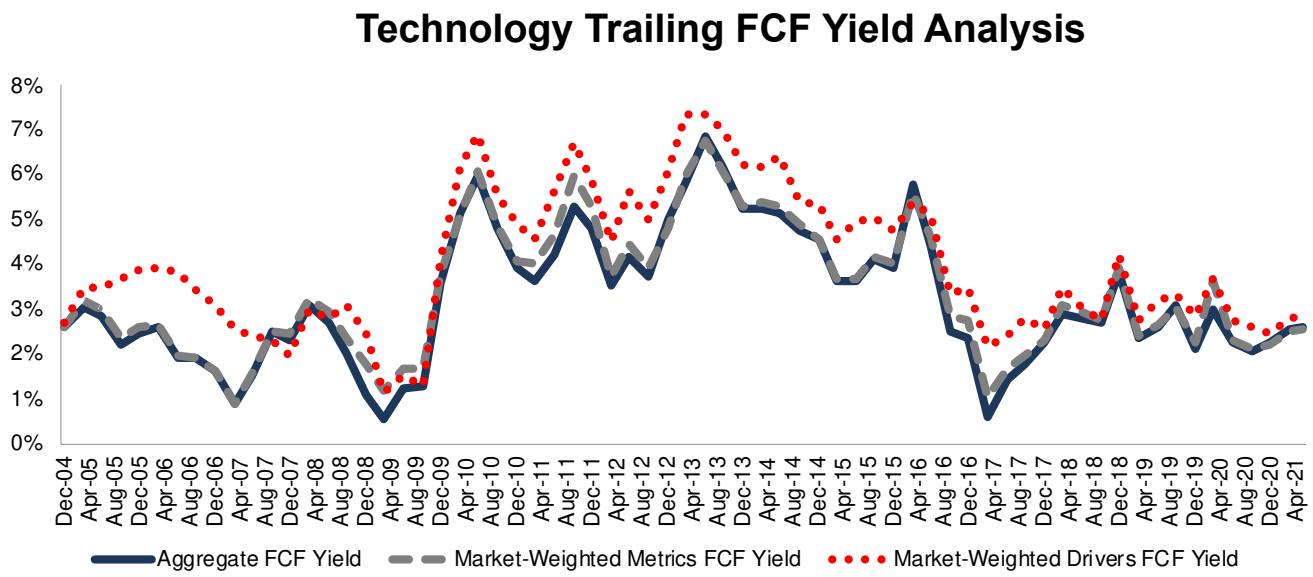
Sources: New Constructs, LLC and company filings.
The May 19, 2021 measurement period uses price data as of that date and incorporates the financial data from 1Q21 10-Qs, as this is the earliest date for which all the 1Q21 10-Qs for the S&P 500 constituents were available.

Figure 36: Real Estate Trailing FCF Yield Methodologies Compared: December 2004 – 5/19/21



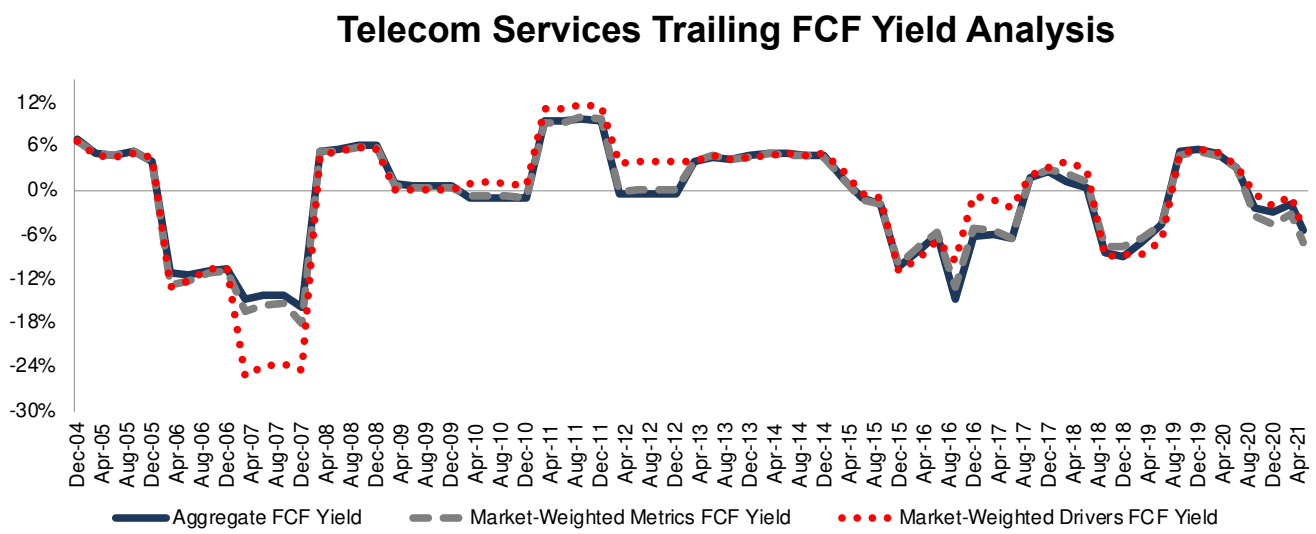
Sources: New Constructs, LLC and company filings.
The May 19, 2021 measurement period uses price data as of that date and incorporates the financial data from 1Q21 10-Qs, as this is the earliest date for which all the 1Q21 10-Qs for the S&P 500 constituents were available.

Figure 37: Technology Trailing FCF Yield Methodologies Compared: December 2004 – 5/19/21



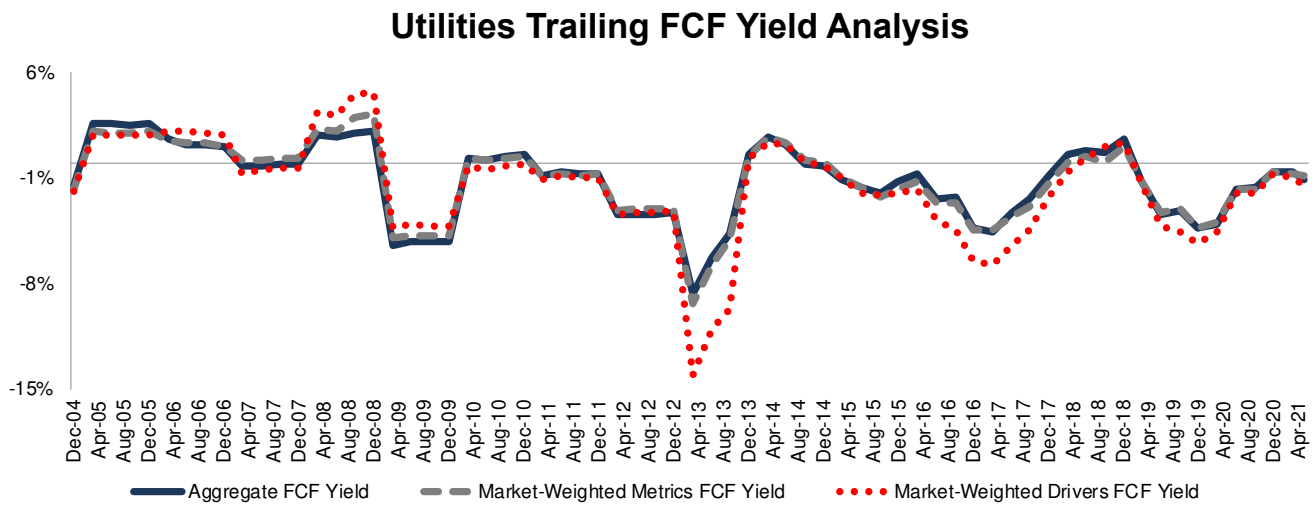
Sources: New Constructs, LLC and company filings.
The May 19, 2021 measurement period uses price data as of that date and incorporates the financial data from 1Q21 10-Qs, as this is the earliest date for which all the 1Q21 10-Qs for the S&P 500 constituents were available.

Figure 38: Telecom Services Trailing FCF Yield Methodologies Compared: December 2004 – 5/19/21



Sources: New Constructs, LLC and company filings.
The May 19, 2021 measurement period uses price data as of that date and incorporates the financial data from 1Q21 10-Qs, as this is the earliest date for which all the 1Q21 10-Qs for the S&P 500 constituents were available.

Figure 39: Utilities Trailing FCF Yield Methodologies Compared: December 2004 – 5/19/21



Sources: New Constructs, LLC and company filings.
The May 19, 2021 measurement period uses price data as of that date and incorporates the financial data from 1Q21 10-Qs, as this is the earliest date for which all the 1Q21 10-Qs for the S&P 500 constituents were available.

It's Official: We Offer the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our "novel database" enables investors to overcome these flaws and apply reliable fundamental data in their research.
3. Our proprietary measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Indiana's Kelley School of Business. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

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