Exxon Mobil Corporation XOM [NYSE] | ★★★★★

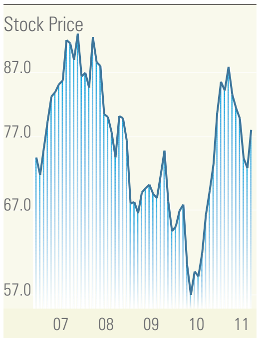
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
79.76 USD	99.00 USD	79.20 USD	123.80 USD	Low	Wide	B	AAA	Oil & Gas Integrated

ExxonMobil's Earnings Rise on Higher Oil Prices Despite Drop in Production

by Allen Good
Senior Stock Analyst
Analysts covering this company do not own its stock.

Pricing data through November 08, 2011.
Rating updated as of
November 08, 2011.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.



Analyst Note Oct. 27, 2011

ExxonMobil reported a 41% rise in third-quarter earnings from the same period a year ago, thanks largely to higher price realizations and strong downstream results. Upstream earnings rose 53.5% to $8.4 billion from $5.5 billion a year earlier, as higher oil prices more than offset the effects of lower production volumes. In the first quarter without favorable comparables thanks to the XTO acquisition, production slipped 3.8%. Liquids production was down 7.1%. Excluding impacts of entitlement volumes, OPEC quota effects, and divestments, liquids production was down 1%. Increased volumes from Iraq, Qatar, and Russia partially offset field decline. Natural gas production growth was flat year over year, with growth only in Europe and North America. However, North American natural gas production only grew 5.1%, suggesting that ExxonMobil may be slowing drilling in the face of low prices. We look forward to management comments on Thursday's conference call for further insight. On a positive note, profitability remained strong, with net income per barrel rising slightly to $21.48 from $21.29 in the second quarter despite the sequential drop in production and lower oil prices.

Downstream segment earnings continued to show strength, increasing 36.1% to $1.6 billion from $1.2 billion a year earlier. Increased refining margins offset unfavorable foreign exchange impacts and lower gains on assets sales in the prior period. Unsurprisingly, given the margin strength during the quarter, the U.S. downstream segment was responsible for the earnings improvement. Domestic downstream earnings rose $646 million while non-U.S. downstream earnings fell $227 million. However, earnings for both segments rose from the second quarter as a result of continued global margin strength. Chemical earnings proved to be a weakness this quarter, as earnings fell 18.4% to $1.0 billion from $1.2 billion a year earlier. A 5% decline in prime product volumes and unfavorable tax effects offset margin improvement.

Overall, the quarter held few surprises. However, production volumes and chemical earnings are tracking below our full-year estimates, while downstream earnings will probably finish the year stronger than we anticipated. We plan to make some slight adjustments to our production outlook for the year, but expect our fair value estimate to remain unchanged.

Thesis Aug. 30, 2011

ExxonMobil sets itself apart among the other supermajors as a superior capital allocator and operator. Through a relentless pursuit of efficiency, technology, development, and operational improvement, it consistently delivers higher returns on capital relative to peers. With a majority of the world's remaining resources in government hands, opportunities for the company to grow its large production base are limited. However, we believe ExxonMobil's experience and expertise, particularly with large projects, should allow it to successfully compete for resources.

Resource nationalism is becoming an increasingly greater challenge to international oil companies' (IOCs) ability to grow production. Countries rich in oil and gas reserves are becoming less willing to allow outside energy companies free rein to exploit resources within their borders. Instead, they chose to look for dependable partners to work with their national oil companies (NOCs) to explore for, produce, and transport to market their oil and gas reserves. In our opinion, governments cannot find a better partner than ExxonMobil. With its deep pockets, expertise, and integrated operations, it can tackle nearly any megaproject regardless of scale, location, or operational difficulty.

While we believe ExxonMobil is better suited than the other supermajors for the current environment, that does not necessarily mean production and reserve gains will come easily. ExxonMobil needs projects of a certain size in order to contribute meaningfully to its production profile. However, today fewer projects of that caliber exist than have in years past. In addition, investing exclusively in large projects exposes the company to a variety of risks.

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Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Exxon Mobil Corporation	USD	382,306	470,006	71,543	40,910
Royal Dutch Shell PLC	USD	227,004	470,886	55,116	31,208
Chevron Corp	USD	216,793	247,748	46,435	27,067
BP Plc	USD	141,237	367,361	36,979	23,218

Morningstar data as of November 08, 2011.

Given their long lead times, megaprojects have the potential for over investment risk if commodity prices crash during development. Failure to meet deadlines or material and labor inflation could create cost overruns that damage project returns.

Given that the few untapped large resource pools left in the world are under government control, megaprojects generally are done in partnership with NOCs. Competition for these projects is intense. In order to gain access, ExxonMobil must not only demonstrate its value but may also have to agree to production sharing agreements that are not as advantageous as in the past. Meanwhile, competitors eager for access may be more willing to agree to the NOCs' less favorable terms. More often, management is faced with a tough decision: take less favorable terms on more projects, or focus on projects where its expertise is highly valued by the NOC or pursue frontier locations.

Valuation, Growth and Profitability

We are maintaining our fair value estimate for ExxonMobil at $99 per share. While ExxonMobil's current production mix is evenly split between liquids and natural gas, we anticipate by 2015, natural gas will be a slight majority of ExxonMobil's production. However, a significant portion of those volumes will be LNG. As a result, we expect ExxonMobil's price realizations to improve, which also helped offset the lower assumed prices.

Our fair value is approximately 5.5 times our 2012 EBITDA estimate of $90 billion. In our discounted cash-flow model, our benchmark oil and gas prices are based on Nymex futures contracts for 2011-13. For natural gas, we use $4.19 per thousand cubic feet in 2011, $4.49 in 2012, and $4.98 in 2013. Our long-term natural gas price assumptions for 2014 and 2015 are $6.50 and $6.70, respectively. For oil, we use Brent prices of $114 per barrel in 2011, $107 in 2012, and $104 in 2013. Our long-term oil price assumptions for 2014 and 2015 are $99 and $102, respectively. We assume a cost of equity of 10%.

We forecast production growth of almost 4% during our forecast period, primarily driven by the addition of natural gas volumes. Our forecast is slightly below management's forecast to compensate for the potential negative effects of higher oil prices related to production sharing contracts as well as the risk associated with larger projects. Full realization of management's guidance could offer upside to our valuation while extensive delays or reduced U.S. natural gas production due to lower prices could result in downside risk.

Refining margins have staged a recovery in the past year and we model further improvement over our forecast period. ExxonMobil should benefit from highly complex facilities and access to growth markets. Meanwhile, we anticipate chemical earnings to remain strong with economic recovery. Both segments should benefit from integration, which can ensure profitability despite a downturn in market conditions.

Risk

For a company with global operations, geopolitical risk is always an issue. Recent events in Russia, Nigeria, and Venezuela underscore the risk associated with doing business in those countries. These risks will only become greater as Exxon expands its global production portfolio through partnerships with NOCs. By investing in large, capital-intensive projects, Exxon also runs the risk that commodity prices will decrease dramatically, making those projects no longer economical. Deterioration of refining fundamentals in the U.S. and Europe may continue to damage profitability long after an economic recovery.

Bulls Say

- Exxon's superior capital allocation and operational performance should drive high returns on capital.
- NOCs do not have the resources or expertise to effectively explore for and produce oil and gas in their countries. They will need to partner with private firms, and Exxon is the most attractive option.
- With high-performing operations and global integration, Exxon is one of the best-positioned firms to weather a drop in commodity prices. The diversity of its operations and a vast geographic footprint offer protection against regional economic weakness.
- Shareholder return is a focus of management. Over the past five years, Exxon paid almost $40 billion in dividends and repurchased $130 billion worth of stock.
- By combining XTO's expertise with ExxonMobil's operations management skills and financial resources, the company has a decided advantage in the development of unconventional resources.

Bears Say

- As nations become more protective of their natural resources, the company will find it increasingly difficult to increase production and book reserves.
- Record-high commodity prices helped produce record profits. If commodity prices slip, so will profits.
- Exxon is very discriminating when evaluating investment opportunities. It is unlikely to sign less-favorable contracts, which could slow growth.
- Production growth will come from partnerships with NOCs, politically unstable countries, and difficult environments, which means unfavorable production sharing agreements, increased geopolitical risks, and increased production costs.
- Heavy exposure to the U.S. and European refining markets could limit future downstream profitability with both markets facing long-term challenges.

Financial Overview

Financial Health: As one of the few remaining firms with an AAA credit rating, ExxonMobil's financial health is beyond reproach. Cash flow from operations remains sufficient to finance capital expenditures while increasing dividend payments and buying back stock. More important, the large cash position and access to cheap debt give the company resources to make opportune acquisitions.

Company Overview

Profile: Exxon is an integrated oil and gas company that explores for, produces, and refines oil around the world. In 2010, it produced 2.4 million barrels of oil and 12.1 billion cubic feet of natural gas a day. At year-end 2010, reserves stood at 17.2 billion boe (plus 7.6 billion for equity companies), 47% of which are oil. The company is the world's largest refiner, with 36 refineries, and it is one of the world's largest manufacturers of commodity and specialty chemicals.

Management: Rex Tillerson is chairman and CEO of Exxon, a role he assumed in 2006. Previously, he served as president after spending his career with Exxon, beginning in 1975 as a production engineer. His recent acquisition of XTO Energy raised concerns he may be straying from the returns focused strategy that has made ExxonMobil great.

However, we believe the acquisition will ultimately deliver returns that meet ExxonMobil's requirements. Also, given his previous statements, we think Tillerson is likely to continue a disciplined capital allocation strategy and deliver the high returns that his predecessor did.

Total compensation for Tillerson was only $29 million in 2010, which is reasonable, considering the size of the company and his peers' compensation. Exxon has a typical compensation structure consisting of a salary, cash bonus, and equity awards. Performance is not evaluated by typical quantitative measures but by the executives' performance relative to achievement of the company's long-term goals. Exxon gets credit for delaying 50% of bonus payment until later periods' earnings targets are met, and requiring longer vesting periods for equity awards. Low executive equity ownership relative to total shares outstanding is understandable, considering the size and history of the company.

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Sept. 21, 2011

Apache Expands North Sea Position

Apache announced Wednesday the acquisition of ExxonMobil's Mobil North Sea LLC assets for $1.75 billion. The assets are currently producing 28.7 thousand barrels of oil equivalent per day, with estimated proved reserves of 68 million boe as of year-end 2010, which works out to $61,047 per flowing barrel and $26 per proved boe. These metrics are in line with Apache's purchase last year of assets from BP and Devon. The Mobil North Sea properties will increase Apache's North Sea production by more than 50%

Sept. 02, 2011

ExxonMobil Trumps Rivals, Secures Agreement With Rosneft

On Tuesday, ExxonMobil announced it had entered an agreement with Russian oil company Rosneft to jointly explore and develop oil and gas resources in Russia, the United States, and other countries not specified. Absent the

Analyst Notes (continued)

share swap, the agreement is essentially the same as the one BP and Rosneft agreed to earlier this year before BP's Russian partner TNK scuttled the deal. Not knowing the precise financial terms, it is difficult to judge the transaction. However, at the very least, the agreement provides ExxonMobil access to Russia and a potential path to future oil volume growth while denying other majors such as Royal Dutch Shell the same opportunity. The deal also validates our long-held thesis that ExxonMobil is a preferred partner for national oil companies. Given its expertise, technology, and project management ability in harsh environments, ExxonMobil presents a compelling option for Rosneft. ExxonMobil's relationship with Rosneft as a result of its participation in the Sakhalin project in eastern Russia probably made it a more natural partner as well.

We'd like more financial details, but resource potential is certainly promising. The only monetary terms specified were the joint $3.2 billion of planned investment in the Kara and Black seas. Rosneft will hold a 66.7% interest and ExxonMobil a 33.3% interest in both those ventures, though ExxonMobil will probably shoulder the bulk of the up-front exploration costs for both areas. Rosneft estimates the two fields could hold recoverable oil resources of 36 billion and 9 billion barrels, respectively. If proved true, the deal could result in substantial oil volume growth for ExxonMobil in the next decade. However, those estimates place the Kara Sea among the largest discoveries of the past 50 years, so we think some skepticism is required, given the lack of exploration to date. According to Rosneft, drilling on the first exploration wells will not begin until 2015. Meanwhile, the companies will jointly study developing tight oil resources in western Siberia and create a research center for the future exploration of Arctic projects in offshore Russia.

In our opinion, the deal structure is more attractive than the one agreed to by BP. We think the financial terms are likely more attractive than those BP agreed to, since ExxonMobil was negotiating from a stronger position. We like the exchange of equity interests in assets as opposed to the proposed BP-Rosneft deal, which entailed a direct interest in each company. Rosneft will have an opportunity to gain equity interest in ExxonMobil's deep-water projects in the Gulf of Mexico and tight oil fields in Texas, but only those in the exploratory phase. None of ExxonMobil's current discoveries are included in the agreement. As result, Rosneft will take on a similar amount of exploration risk as ExxonMobil. The announcement of the exact assets is likely to come late next year. We think this structure, which relies on cross-ownership of exploration assets, could mitigate some of the risk, including political, for ExxonMobil as opposed to a share swap or direct investment in Rosneft. We assume ExxonMobil would have to see certain development or exploratory milestones met before Rosneft could gain any interest in its U.S. assets. Ultimately, though, the value of the assets swapped and the resources subsequently discovered will determine how good of a deal this is for ExxonMobil.

Aug. 31, 2011

ExxonMobil Expands Russian Presence Through Agreement With Rosneft

ExxonMobil announced Tuesday that it has entered an agreement with Russian oil company Rosneft to jointly explore and develop oil and gas resources in Russia, the United States, and other countries not specified. While the announcement created a lot of headlines, it was short on details. Not knowing the precise financial terms, it is difficult to judge the deal. However, at the very least, the agreement provides ExxonMobil access to Russia and a potential path to future oil volume growth while denying other majors such as Royal Dutch Shell the same opportunity. The deal also validates our long-held thesis that ExxonMobil is a preferred partner for national oil companies. Given its expertise, technology and project management ability, ExxonMobil presents a compelling option for Rosneft. Also, unlike BP, ExxonMobil was not using the deal to bolster investor confidence, which probably strengthened its negotiating position. ExxonMobil's relationship with Rosneft as a result of its participation in the Sakhalin project in eastern Russia likely made it a more natural partner as well.

The only monetary terms specified were the joint $3.2 billion of planned investment in the Kara and Black seas, though the timing of the investment was not disclosed. Rosneft will hold a 66.7% interest and ExxonMobil a 33.3% interest in both those ventures. The deal appears to rest more on an exchange of assets as opposed to the proposed BP-Rosneft deal from earlier this year, which included essentially the same assets in Russia and entailed a direct interest in each company. Rosneft will have an opportunity to gain equity interest in ExxonMobil's deep-water projects in the Gulf of Mexico and tight oil fields in Texas. Meanwhile, the companies will jointly study developing tight oil resources in western Siberia and create a research center for future exploration of Arctic projects in offshore Russia. We think this structure could mitigate some of the risk, including political, for ExxonMobil as opposed to a share swap or direct investment in Rosneft. We assume ExxonMobil would have to see certain development or exploratory milestones met before Rosneft could gain any interest in its U.S. assets. However, ultimately the value of the assets swapped between the two firms will determine how good of a deal this is for ExxonMobil.

Jul. 28, 2011

ExxonMobil Earnings Rise on Higher Oil and Natural Gas Prices

ExxonMobil reported a 41% rise in second-quarter earnings from the same period a year ago, thanks largely to higher oil and natural gas prices and improved downstream results. Upstream earnings registered the largest gain, with earnings rising 60% to $8.5 billion during the quarter from $5.3 billion a year earlier. In addition to higher oil and natural gas realizations, particularly for international volumes, overall production increased 10% year over year. The bulk of the gains came from increased natural gas production due to the addition of XTO volumes compared with the previous year and the startup of the Qatari LNG projects. Natural gas volumes rose 22% from the second quarter last year, while oil volumes registered only a 1% gain due in part to the effect of higher prices on entitlement volumes and OPEC curtailments. We would expect these impressive year-over-year growth numbers to moderate in the second half of the year as comparables become more difficult because of the closing of the XTO transaction last June. Still, based on current guidance, ExxonMobil still maintains the greatest near-term growth profile of the major integrateds.

Downstream earnings also rose, but the gains were limited to the U.S. segment. Overall downstream second-quarter earnings increased 11% to $1.4 billion from $1.2 billion the year before. However the 67% increase in the U.S. segment was offset by a decline of 20% in the international segment. We witnessed similar international weakness in ConocoPhillips' earnings earlier this week, which could portend continued declines. Given ExxonMobil's large international refining footprint, it would be adversely affected. The chemical segment registered declines as lower volumes and unfavorable tax effects offset the benefit of higher margins. Earnings for the segment slipped

Analyst Notes (continued)

3% from the second quarter last year. Unlike the downstream segment, the international segment posted year-over-year earnings gains, while U.S. earnings fell. However, international earnings were well off first-quarter levels, and both segments saw volumes fall. ExxonMobil repurchased $5 billion worth of its own shares during the quarter and expects to repurchase the same amount in the third quarter.

Jul. 15, 2011

Other Majors Unlikely to Follow ConocoPhillips' Lead

ConocoPhillips' decision this week to end its run as an integrated firm by spinning off its downstream assets likely has investors wondering who will be next. In our opinion, none of the other majors are likely to follow ConocoPhillips' lead, though a couple may make viable candidates. Most notable in our opinion is BP. The company's struggles over the past year and half are well-documented, and recent management missteps in Russia have likely compounded problems. A spin-off of its downstream assets may revitalize shares that currently trade at a substantial discount to peers'. The company already announced plans to sell its Texas City, Texas, and Carson, Calif., refineries. However, given the facilities' size, a buyer may be difficult to locate, in which case a spin-off may be necessary. Unresolved liability issues from Macondo may prevent any spin-off or separation in the near term, but if the outcome is successful for ConocoPhillips, BP management may be forced to seriously consider the move in the future in the event shares do not rebound.

The second most likely candidate in our opinion is Chevron. However, the company has already aggressively divested downstream assets during the last year, leaving it with much less investment. Also, partial ownership stakes in refineries throughout Asia may complicate a spin-off. Still, management maintains a cautious outlook on the future of refining, which could eventually lead to greater action than piecemeal divestments. We view the remaining majors as unlikely to spin off any part of their businesses. Both ExxonMobil and Royal Dutch Shell have large global refining and chemical operations that make integration a valuable business model. Meanwhile, government involvement would likely complicate or prevent a spin-off for Total. Though we do not see any of these companies taking a similar action, ultimately a positive response from the market to ConocoPhillips' decision could change some minds.

Jul. 12, 2011

Chevron's Interim Update Indicates Strong 2Q for Majors

Late Monday, Chevron released its second-quarter interim update, which indicated earnings would be higher than in the first quarter. Upstream earnings are expected to increase thanks to higher oil prices, despite a decline in production volumes from the first quarter. The lower production volumes are largely a result of maintenance activity in Kazakhstan. Downstream earnings are expected to rise from the first quarter as a result of higher worldwide refining margins. Given the rise in commodity price benchmarks throughout the quarter, the increase in earnings comes as little surprise and is in line with our expectations. We would expect Chevron's integrated peers ExxonMobil, Shell, BP, ConocoPhillips, and Total to benefit as well from the same factors and report a similar improvement in second-quarter earnings, barring any company-specific factors that could affect results.

Jun. 15, 2011

Oil and Gas Midcycle Price Update

We are updating our assumptions for midcycle oil and gas prices, reflecting fundamental changes in supply and

Analyst Notes (continued)

demand that we believe to be structural in nature and significant in impact. We are raising our midcycle price assumption for West Texas Intermediate crude oil to $95 per barrel from $82/bbl and lowering our midcycle price assumption for Henry Hub natural gas to $6.50 per thousand cubic feet from $8.00/mcf.

Our midcycle oil and gas prices are based on an assessment of a base case in which our estimate of marginal costs of production sets prices; a low case, reflecting our estimate of the points at which, if sustained, investment in new oil and gas production dries up; and a high case, reflecting our estimate of the points at which demand collapses. For oil, we estimate a marginal cost of $85/bbl, and assume a low case price of $50/bbl and a high case price of $150/bbl. For gas, our analysis suggests a marginal cost of $6.50/mcf, a low-case price of $4.00/mcf, and a high-case price of $9.00/mcf. We equal-weight our three scenarios for each commodity to determine midcycle prices, as we believe downside risks are roughly balanced by upside potential.

In our view, while we may not have quite reached a peak in total liquids production, we expect future crude oil supply additions to struggle to offset depletion and increasing demand from emerging markets. We believe that demographic and economic shifts in emerging markets support continued strong demand for crude oil and refined products, even in the face of historically high prices. Meanwhile, high prices drive demand destruction in developed nations, notably in 2008, but also in evidence this year. Effectively, emerging markets have been bidding away the incremental barrel of production from OECD nations, as supply growth has failed to keep pace with demand.

During the past decade, oil demand from emerging markets has increased by 50%, while developed nations have seen demand peak and decline by 5.5%. Looking forward, we believe that China, India, and the Middle East will continue to support robust demand growth, to the extent that supply availability will allow, thanks to growing gross domestic product per capita, urbanization, low vehicle penetration compared with developed nations, and subsidized fuel prices.

Our natural gas focus is on North American gas fundamentals, which have been transformed in recent years by horizontal drilling and hydraulic fracturing, or fracking. The primary target of horizontal wells has been shale formations underlying conventional hydrocarbon reservoirs, and the impact on gas production has been profound. In 2000, shale gas accounted for roughly 1% of U.S. production, and by 2010 shale production had exceeded 13 billion cubic feet per day, or 23% of production. Gas prices responded to the glut of new production, and by our estimates, it is now uneconomic to drill in most areas of dry-gas shales. We expect some moderation in supply growth as producers shift focus to liquids-rich drilling opportunities that offer higher returns in today

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Oil & Gas Mid-Cycle Price Update

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Exxon Mobil Corporation XOM

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
470,006	382,306	Oil & Gas Integrated	Energy

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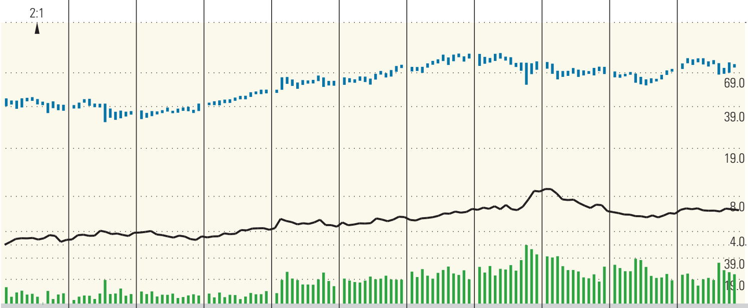
Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
★★★★★	79.76	99.00	Low	Wide	B

per share prices in USD

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD
Annual Price High	45.84	44.58	41.13	52.05	65.96	79.00	95.27	96.12	82.73	73.69	88.23
Low	35.01	29.99	31.58	39.91	49.25	56.42	69.02	56.51	61.86	55.94	67.03
Recent Splits	2:1										



Price Volatility
Monthly High/Low
Rel Strength to S&P 500
52 week High/Low
88.23 - 67.03
10 Year High/Low
96.12 - 29.99
Bear-Market Rank
3 (10=worst)
Trading Volume Million

Growth Rates Compound Annual

Grade: C	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	23.4	-1.8	0.7	5.1
Operating Income %	52.3	-20.0	-10.4	0.5
Earnings/Share %	56.3	-5.1	1.7	10.6
Dividends %	4.8	8.3	8.8	7.0
Book Value/Share %	26.1	9.8	10.5	11.2
Stock Total Return %	16.7	4.8	3.5	8.8
+/- Industry	6.5	-6.6	-0.3	-1.5
+/- Market	12.4	-6.3	5.1	7.1

Profitability Analysis

Grade: C	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	27.2	29.8	19.3	22.3
Return on Assets %	13.1	15.0	8.7	9.4
Fixed Asset Turns	2.3	3.1	2.2	7.4
Inventory Turns	21.0	21.5	12.9	15.8
Revenue/Employee USD K	5622.1	4802.4*	—	1043.7
Gross Margin %	30.7	37.8	27.8	38.4
Operating Margin %	15.2	18.8	14.6	16.3
Net Margin %	8.7	8.8	7.6	10.8
Free Cash Flow/Rev %	5.9	6.8	3.5	0.1
R&D/Rev %	—	—	—	9.9

Financial Position

Grade: A	12-10 USD Mil	09-11 USD Mil
Cash	7825	11022
Inventories	12976	16730
Receivables	32284	34368
Current Assets	58984	69376
Fixed Assets	199548	209194
Intangibles	8640	9315
Total Assets	302510	323227
Payables	9812	12968
Short-Term Debt	2787	7431
Current Liabilities	62633	74971
Long-Term Debt	12227	9331
Total Liabilities	155671	167288
Total Equity	146839	155939

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	9.6	12.5	8.7	14.0
Forward P/E	9.5	—	—	13.9
Price/Cash Flow	6.8	9.1	5.9	7.0
Price/Free Cash Flow	14.3	22.1	32.0	16.0
Dividend Yield %	2.3	—	2.9	2.0
Price/Book	2.5	3.4	1.6	1.8
Price/Sales	0.8	1.1	0.7	1.2
PEG Ratio	1.6	—	—	1.6

*3Yr Avg data is displayed in place of 5Yr Avg

Stock Performance

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD	
-7.5	-8.6	19.9	27.6	11.8	39.8	23.1	-13.1	-12.5	9.8	11.6	Total Return %
5.5	14.8	-6.5	18.6	8.8	26.2	19.6	25.4	-35.9	-3.0	10.1	+/- Market
-0.7	-0.2	-14.8	5.2	-13.6	8.4	-6.7	22.1	-32.0	3.8	4.9	+/- Industry
1.8	2.6	2.4	2.1	2.0	1.7	1.5	1.9	2.4	2.4	2.3	Dividend Yield %
268833	235511	271002	330693	349512	450501	511887	406067	322334	364064	382306	Market Cap USD Mil

Financials

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
213488	204506	246738	298035	370680	377635	404552	477359	310586	383221	470006	Revenue USD Mil
47.7	46.4	47.3	45.1	42.5	43.5	42.4	39.5	31.8	31.6	30.7	Gross Margin %
46888	40157	56722	69918	91469	69107	103607	118578	34777	52959	71543	Oper Income USD Mil
22.0	19.6	23.0	23.5	24.7	18.3	25.6	24.8	11.2	13.8	15.2	Operating Margin %
15320	11460	21510	25330	36130	39500	40610	45220	19280	30460	40910	Net Income USD Mil
2.21	1.68	3.23	3.89	5.71	6.62	7.28	8.69	3.98	6.22	8.28	Earnings Per Share USD
0.91	0.92	0.98	1.06	1.14	1.28	1.37	1.55	1.66	1.74	1.82	Dividends USD
6932	6821	6659	6512	6327	5967	5578	5149	4832	4897	4940	Shares Mil
10.70	11.09	13.60	15.77	17.87	19.52	22.29	22.21	23.39	29.49	32.53	Book Value Per Share USD
22889	21268	28498	40551	48138	49286	52002	59725	28438	48413	57649	Oper Cash Flow USD Mil
-9989	-11437	-12859	-11986	-13839	-15462	-15387	-19318	-22491	-26871	-30011	Cap Spending USD Mil
12900	9831	15639	28565	34299	33824	36615	40407	5947	21542	27638	Free Cash Flow USD Mil

Profitability

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Profitability
10.5	7.8	13.2	13.7	17.9	18.5	17.6	19.2	8.4	11.4	13.1	Return on Assets %
21.3	15.5	26.1	26.4	33.9	35.1	34.5	38.5	17.3	23.7	27.2	Return on Equity %
7.2	5.6	8.7	8.5	9.7	10.5	10.0	9.5	6.2	7.9	8.7	Net Margin %
1.46	1.38	1.51	1.61	1.84	1.77	1.75	2.03	1.35	1.43	1.51	Asset Turnover
2.0	2.0	1.9	1.9	1.9	1.9	2.0	2.0	2.1	2.1	2.1	Financial Leverage

Financial Health

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	09-11	Financial Health
5567	5116	7574	17396	27035	26960	27651	23166	3174	-3649	-5595	Working Capital USD Mil
7099	6655	4756	5013	6220	6645	7183	7025	7129	12227	9331	Long-Term Debt USD Mil
73161	74597	89915	101756	111186	113844	121762	112965	110569	146839	155939	Total Equity USD Mil
0.10	0.09	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.22	0.19	Debt/Equity

Valuation

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Valuation
18.0	21.7	13.0	13.2	9.8	11.7	12.9	9.2	17.1	11.8	9.6	Price/Earnings
—	—	—	—	—	—	—	—	—	0.7	0.7	P/E vs. Market
1.3	1.2	1.1	1.1	1.0	1.2	1.3	0.9	1.1	0.9	0.8	Price/Sales
3.7	3.2	3.0	3.3	3.1	4.0	4.2	3.6	2.9	2.5	2.5	Price/Book
11.9	11.2	9.6	8.2	7.5	9.5	10.1	6.9	11.6	7.4	6.8	Price/Cash Flow

Quarterly Results

Revenue USD Mil	Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period	105186.0	114004.0	125486.0	125330.0
Prior Year Period	89841.0	90251.0	92486.0	95298.0

Rev Growth %	Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period	17.1	26.3	35.7	31.5
Prior Year Period	6.1	41.0	24.2	15.9

Earnings Per Share USD	Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period	1.84	2.14	2.18	2.13
Prior Year Period	1.27	1.33	1.60	1.44

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Exxon Mobil Corporat	382306	470006	9.6	27.2
Royal Dutch Shell PL	227004	470886	7.1	20.3
Chevron Corp	216793	247748	8.1	24.3

Major Fund Holders

	% of shares
	—
	—
	—

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such

Morningstar Research Methodology for Valuing Companies

Competitive Analysis → **Economic Moat™ Rating** → Company Valuation → **Fair Value Estimate** → Uncertainty Assessment → ★★★★★

Competitive Analysis
Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade-show visits
- Competitor, supplier, distributor, and customer interviews

Economic Moat™ Rating
The depth of the firm's competitive advantage is rated:

- None
- Narrow
- Wide

Company Valuation
Analyst considers company financial statements and competitive position to forecast future cash flows.

Assumptions are input into a discounted cash-flow model.

Fair Value Estimate
DCF model leads to the firm's Fair Value Estimate, which anchors the rating framework.

Uncertainty Assessment
An uncertainty assessment establishes the margin of safety required for the stock rating.

★★★★★
★
★★
★★★
★★★★
★★★★★
The current stock price relative to fair value, adjusted for uncertainty, determines the rating.

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow
This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate
We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value
This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty
To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety
This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling
The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades
We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."