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

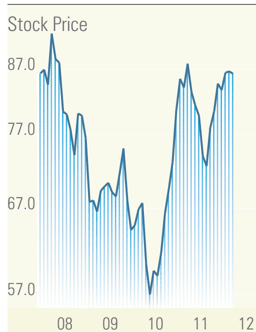
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
83.10 USD	91.00 USD	72.80 USD	113.75 USD	Low	Wide	—	AAA	Oil & Gas Integrated

ExxonMobil's Earnings Fall But Cash Flow Rises

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

Pricing data through May 11, 2012.
Rating updated as of May 11, 2012.

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



Analyst Note Apr. 26, 2012

ExxonMobil reported first-quarter earnings of $9.45 billion, an 11% decline from the year before as lower production volumes, higher expenses and the absence of asset sale gains in the upstream segment offset the benefit of higher oil prices and higher downstream earnings. Upstream earnings fell to $7.8 billion in the first quarter from $8.7 billion a year earlier. Total production fell about 5.5% from the year before as liquids and natural gas volumes fell 7.7% and 3.4%, respectively. Entitlement effects, due to higher prices, and divestments were largely responsible for the volume declines. Absent these effects, production volumes fell about 1%. On a positive note though, ExxonMobil announced recent exploration success. In the Black Sea, an affiliate drilled a successful deepwater new play test on the Neptun Block while in Tanzania the company participated in a successful exploration well that discovered approximately 5 trillion cubic feet of recoverable gas.

Downstream first-quarter earnings rose to $1.6 billion from $1.1 billion a year earlier thanks to asset sales and positive mix effects outweighed lower margins. Chemical earnings fell sharply to $701 million from $1.5 billion a year earlier, largely a result of weaker margins. Share repurchases during the quarter totaled $5 billion and the company expects to repurchase the same amount during the second quarter. Also, yesterday, ExxonMobil announced a second quarter dividend of $0.57 per share, a 21% increase. The increase in shareholder distributions speaks to ExxonMobil's strong cash flow generation, $21.8 billion during the quarter compared with $18.2 billion last year.

Thesis Mar. 16, 2012

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 expand 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' ability to expand 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 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. Given their long lead times, megaprojects have the potential for overinvestment 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

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Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Exxon Mobil Corporation	USD	388,589	496,478	71,855	39,860
Royal Dutch Shell PLC	USD	209,637	493,421	54,593	30,857
Chevron Corp	USD	202,574	254,070	48,581	27,155
BP PLC	USD	125,689	394,719	37,333	24,361

Morningstar data as of May 11, 2012.

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. A good example of the latter case is Exxon's recent deal with Rosneft to explore for oil in the Russian Arctic.

Valuation, Growth and Profitability

We are lowering our fair value estimate to $91 per share from $99 after incorporating the company's most recent guidance. Also, we altered our long-term forecasts and assumptions to incorporate a more challenging operating environment as well as a decline in returns on capital relative to historical performance. While ExxonMobil's current production mix is evenly split between liquids and natural gas, we anticipate that by 2015, natural gas will be a slight majority of the firm's production. However, a significant portion of those volumes will be LNG. As a result, we expect ExxonMobil's price realizations to improve, which helped offset the lower assumed prices.

Our fair value estimate is approximately 5.3 times our 2013 EBITDA estimate of $84 billion. In our discounted cash flow model, our benchmark oil and gas prices are based on Nymex futures contracts for 2012-14. For natural gas, we use $2.75 per thousand cubic feet in 2012, $3.58 in 2013, and $4.00 in 2014. Our long-term natural gas price assumptions for 2015 and 2016 are $6.50 and $6.70, respectively. For oil, we use Brent prices of $120 per barrel in 2012, $113 in 2013, and $105 in 2013. Our long-term oil price assumptions for 2015 and 2016 are $99 and $102, respectively. We assume a cost of equity of 8%.

We forecast production growth of 3% during our forecast period, primarily driven by the addition of natural gas volumes. Large project startups over the next three years should deliver strong oil volume growth. 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, but we anticipate weakness in 2012 and model a decline in earnings. However, we model margin improvement in the later years of our forecast as 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

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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 higher 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 2011, it produced 2.4 million barrels of oil and 12.1 billion cubic feet of natural gas a day. At year-end 2011, reserves stood at 17.7 billion barrels of oil equivalent (plus 7.3 billion for equity companies), 47% of which are oil. The company is the world's largest refiner and one of the world's largest manufacturers of commodity and specialty chemicals.

Management: Rex Tillerson became chairman and CEO in 2006. Previously, he served as president. He has spent his career with Exxon, beginning in 1975 as a production engineer. The recent acquisition of XTO Energy raised concerns that 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

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statements, we think Tillerson is likely to continue a disciplined capital allocation strategy and deliver the high returns that his predecessor did. Returns to shareholders also remain a focus, with share repurchases the primary tool used to return excess cash. However, Tillerson recently acknowledged ExxonMobil's relatively low yield and indicated higher payouts could be in the future.

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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Apr. 10, 2012

Chesapeake Asset Sale Machine Announces $2.6 Billion in Mid-Continent Transactions

On Monday, Chesapeake Energy announced three Mid-Continent transactions worth $2.6 billion in proceeds. The company had previously alluded to $2 billion or so in planned Mid-Continent monetizations--including a volumetric production payment and a financial transaction similar to the one previously executed in the Ohio Utica Shale--in a mid-February press release, although details were sparse at the time. We now know more about the VPP and the financial transaction, as well as a third deal struck with ExxonMobil subsidiary XTO Energy.

First, the financial transaction: Chesapeake sold preferred shares and an overriding royalty interest in a new subsidiary, CHK Cleveland Tonkawa, in exchange for $1.25 billion in proceeds from a group that includes alternative investment heavyweights GSO (an affiliate of Blackstone), TPG, Magnetar, and EIG Global (which also invested in the Utica preferred transaction). CHK C-T owns 245,000 net acres in the Cleveland and Tonkawa liquids-rich tight sands in the western part of Oklahoma. We estimate the production stream here to be 40%-50% natural gas by volume. By our math, the financing--which includes a 6% annual distribution, a 3.75% ORRI in the first 1,000 net new wells drilled, and a guaranteed minimum return through 2019--looks expensive at 9%-15% all in, depending on when the preferred is repurchased. Chesapeake also announced its 10th VPP, a 10-year, $745 million deal for 160 billion cubic feet equivalent of proved reserves and 125 million cubic feet equivalent per day of net production in the Anadarko Basin Granite Wash play. The deal, struck with an affiliate of Morgan Stanley, works out to $4.68 per Mcfe. We suspect the production mix here includes a good amount of liquids, given the price paid by the buyer. Finally, Chesapeake announced the sale of 58,400 net acres of

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Analyst Notes (continued)

non-strategic Texoma Woodford leasehold to XTO Energy for $590 million, or about $10,000 per net acre. The acreage, which spans a handful of counties in southern Oklahoma, currently produces 25 MMcfe/d. The Texoma acreage is probably adjacent to some of its existing 170,000 net acres, given the healthy per-acre price paid for this small position.

After applying the $2.6 billion in proceeds from Monday's announced transactions, we estimate a remaining funding gap of $3.2 billion for Chesapeake in 2012. Likely monetizations going forward include the sale of 50,000 net acres in the East Texas Woodbine play, a joint venture across the Mississippi Lime play, and an outright sale of Chesapeake's massive 1.5 million net acre Permian position. Combined, the company estimates these deals could garner $6 billion-$8 billion in total proceeds. Sales of certain midstream and service company assets and other investments could bring in an additional $2 billion or so. At this time, our fair value estimate remains unchanged at $32 per share.

Mar. 09, 2012

ExxonMobil's Analyst Day Not as Negative as Headlines Indicate

On Thursday, ExxonMobil held its annual analyst day and offered a revised 2012 production forecast, five-year production outlook, and capital plan. Initial reports seized on the 2012 production growth, but we think those headlines were a bit misleading and ignored some key elements of the presentation.

First, production guidance was negatively affected by higher oil prices, but still a net positive. Exxon provided two revised forecasts: 1) 2012 production would fall by 3%, and 2) 2009-14 production would grow at 2%-3% compared to previous guidance of 4%-5%. Both forecasts were largely a result of management assuming 2011 prices of $111 Brent as opposed to lower prices previously. As oil prices rise, Exxon cedes production under PSCs to host countries, resulting in lower production but higher cash flows. Exxon's 2012 forecast sensitivity of a 2% production decline at $90 Brent and a decline of 4% of $130 Brent suggests management was overly conservative in its previous forecast, using oil assumptions somewhere below $80/bbl. We currently anticipate Brent will average about $120 in 2012, suggesting actual declines in 2012 production will be greater than 3%. However, we think the net effect of higher prices and lower volumes should be positive for cash flow and earnings.

Secondly, near-term production growth is driven by liquids. Additional volume growth guidance of 1%-2% for 2011-16 is driven by 2%-3% growth in liquids volumes compared to 0.5%-1.0% growth in natural gas volumes, a positive in our opinion given the current outlook for prices. Over 2012-14, Exxon should see 21 major projects start up, with 80% of the volumes liquids. In 2012, 12 projects are slated to come on line, seven of which are liquids. Several of these projects, such as the Kearl oil sands project, should also increase Exxon's proportion of long-life plateau project liquids volumes from 40% currently.

Next, an increased capital plan could weigh on returns. Exxon's guidance for capital spending of $37 billion per year in 2012-16 marked an increase over last year's guidance of $33 billion-$37 billion for 2012-15. We think the increased spending will weigh on returns. Exxon attributed part of its recent decline in returns relative to historical levels to low natural gas prices and investment in projects currently under construction. With the scheduled project startups in the next two years, those assets should begin contributing production and increase productive capital. However, the

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Analyst Notes (continued)

increased capital expenditure guidance suggests the high level of investment will continue for Exxon, potentially keeping nonproductive capital high and dampening returns.

Also, integration remains a competitive advantage, in our opinion. While conceding that the benefits of integration are not always transparent, management spent a good deal of time making a case for its integrated model. We think they effectively did so, specifically highlighting its difficult-to-replicate refining/chemical integration. Exxon's integration also extends to its upstream segment as integration with downstream allows for better evaluation of a resource (e.g. potential selling prices) and can lead to an improved development plan that adds value for future buyers. It believes this ability offers an advantage relative to peers when it comes to the development of unconventional resources in North America. So, while the benefits of integration may be difficult to pinpoint (e.g. lower costs, higher margins), ultimately integration should continue to allow Exxon to capture incremental value throughout the entire organization.

Finally, dividend increases may come in the near future. Management acknowledged that Exxon's dividend yield of 2.2% was low relative to its peers. However, while we think management likely will continue to prefer share repurchases as a way to manage excess cash, it aims to address the dividend once the repurchase of the shares issued for the XTO acquisition is complete at the end first quarter.

Feb. 24, 2012

Exxon Posts Solid Reserve Replacement Figure by Relying on Oil Sands

ExxonMobil reported a reserve replacement ratio of 107% in 2011, largely thanks to the addition of 1.0 billion barrels from its Kearl Oil Sands Project Expansion in Canada. We see the report as a mixed bag. On a positive note, Exxon added significant liquid reserves at a time when large international oil companies are finding it increasingly difficult to do so. However, those reserves came from a typically higher-cost asset than the conventional resources Exxon has historically relied on. That being said, we think Kearl is one of the higher quality oil sands projects currently in development. Also, the project will ultimately add 220 thousand barrels per day of production that will remain at plateau levels for decades. In total, liquid reserve additions amounted to 1.4 billion barrels, resulting in a 166% replacement ratio. Natural gas reserve additions totaled only 0.4 billion barrels of oil equivalent, resulting in a 49% replacement ratio. It is unclear what role prices or drilling activity played in Exxon's failure to replace gas production. Last year, the natural gas replacement ratio was 328% thanks to the addition of XTO's reserves. Exxon ended the year with its reserve base split 49% liquids and 51% gas compared with 47% liquids and 53% gas in 2010. Natural gas constitutes a greater portion of Exxon's production and reserves relative to its peers. However, in the next few years it will probably be Exxon delivering the greatest liquids growth with key project startups in Angola, Canada, and Nigeria.

Jan. 31, 2012

ExxonMobil's Earnings Hit By Lower Production Volumes, Downstream Margins

ExxonMobil reported a slight increase in fourth-quarter earnings as the benefit of higher price realizations was largely outweighed by the drop in production volumes and contraction in refining and chemical margins. The sharp drop in production, albeit including the effects of divestments and OPEC curtailments, will probably focus

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Analyst Notes (continued)

investor attention on the challenges Exxon is facing in driving production growth. While we certainly think the environment is becoming more challenging for the company, we hesitate to draw too many conclusions from one quarter. With a queue of projects slated for startup over the next few years, we expect Exxon can reverse some of the production declines. However, given that investment levels continue to rise as production wanes, execution and on-time delivery will be critical to demonstrate the value of past investment. Also, growth will need to emerge from areas other than U.S. natural gas, where low prices are probably weighing on returns.

Upstream earnings increased to $8.8 billion from $7.5 billion the year before, also reflecting the benefit on asset sales gains. Production volumes slipped significantly during the quarter, falling almost 9% from the same period a year ago. Liquids production fell about 11% as a result of OPEC quota effects, divestments, and natural field decline. Natural gas dropped 7% partially as a result of field decline and lower demand in Europe. However, U.S. natural gas production growth continued with volumes rising 3.5%. For the full year, Exxon increased production a little over 1%, with liquids volumes falling almost 5% and natural gas volumes increasing over 8%, primarily in the United States.

Downstream earnings registered similar declines to those of Exxon's integrated peers. For the fourth quarter, downstream segment earnings were $425 million, compared with $1.2 billion in the same period last year and $1.6 billion in the third quarter of 2011. The margin weakness during the quarter extended to the chemicals segment as well, where fourth-quarter earnings of $543 million were well below the $1.1 billion earned last year. Both segments probably saw their low points during the fourth quarter, and we would expect earnings to bounce back in the first part of 2012, though likely not to the levels of the second and third quarters of 2011.

Jan. 12, 2012

Chevron's Interim Update Dims Outlook for All Majors' Fourth-Quarter Earnings

After market close on Wednesday, Chevron released its interim update indicating fourth-quarter earnings would be significantly below third-quarter results as a result of weak downstream segment results. While Chevron suffered from company specific events during the quarter--such as the absence of asset sale gains that benefited third-quarter results and a large turnaround at its Richmond refinery--the report indicated that the strong downstream earnings reported by the majors throughout 2011 likely did not extend into the fourth quarter as global refining margins weakened. Specifically, Chevron cited a substantial decline in Gulf Coast refining margins, which was likely due to a narrowing of heavy crude differentials.

However, the weakness is unlikely to be contained to the Gulf Coast for the other major integrated firms. Poor refining margins during the quarter in Europe will likely negatively affect Royal Dutch Shell's and Total's earnings. ConocoPhillips likely will see lower quarterly downstream earnings given the narrowing of the WTI/Brent spread during the period, which was previously boosting margins at its Mid-Continent refiners. Though not overly exposed to one specific region given its wide geographic footprint, we expect ExxonMobil will still see downstream earnings fall from third-quarter levels.

Chevron expects upstream earnings to remain essentially flat with third-quarter levels as increased international production and higher U.S. liquids realizations offset lower international liquids realizations and U.S. natural gas

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Analyst Notes (continued)

realizations. However, it appears Chevron will fall short of its revised full-year production target of 2.73 mmboe/d. Though only based on data through November, full-year production is likely to be closer to 2.67 to 2.68 mmboe/d. The other majors should report similar changes in realizations with the fall in U.S. natural gas prices particularly hurting large domestic natural gas producers ConocoPhillips and ExxonMobil. Chevron also expects to report a foreign exchange loss for the fourth quarter, compared to a gain of $450 million in the third quarter.

Jan. 06, 2012

European Refinery Closures Unlikely to Materially Impact Majors

The recent announcement byPetroplus that it would temporarily shutdown three of its refineries is unlikely to materially benefit any of the major integrated companies with significant exposure to Europe--Total (with 87% of its total refining capacity in Europe), Royal Dutch Shell (39%), BP (32%), and ExxonMobil (28%). Combined, Petroplus' three refineries facing shutdown total only 337.3 mb/d, or about 2% of total European capacity, which is unlikely to be enough to affect margins over time given a secular decline in demand compounded by weak economic conditions. Since 2008, Europe already has lost about 1,350 mb/d of refining capacity with little benefit to margins. In contrast to the U.S. where margins rebounded sharply in 2011, European margins continue to languish thanks to the decline in demand and higher feedstock costs in part a result of lost production from Libya. Also, the operating environment is unlikely to improve anytime soon. Given the dim outlook for refining in the region, most of the major integrated firms previously mentioned, plus Chevron and ConocoPhillips, were already completely exiting or reducing their exposure to Europe. While the loss of production from the three refineries may result in a short-term rise in margins, ultimately any supply deficit likely will be met with imports. In which case, large exporters to Europe, such as Valero, may see some benefit.

Dec. 09, 2011

Majors Step Up Capital Spending

Over the past week, both Chevronand ConocoPhillipsreleased detailed 2012 capital spending plans. While peers ExxonMobiland the European major integrated firms have yet to release their 2012 plans, we expect the same themes found in Chevron and ConocoPhillips' plans will hold across the sector. Most prominent is the overall step up in spending levels from 2011. While some of the reasons for the increased spending are company specific, we expect those firms who have yet to announce their plans will see similar increases. Also noticeable is the increasing amount of spending directed toward upstream activities. This comes as little surprise given that integrated firms not only typically earn higher returns in upstream projects, but they have also actively reduced their downstream asset base over the past few years. Finally, while the amount will vary, many of the firms' upstream budgets, with the exception ofBP's , will likely include significant LNG spending. This also comes as little surprise given the amount and size of LNG projects currently in development, particularly in Australia.

Chevron Sees Spending Rise Thanks to LNG Projects. Chevron expects capital and exploratory spending of $32.7 billion (including $3 billion by affiliates that do not require cash outlays) in 2012 compared with $28 billion (plus $4.5 billion for the Atlas Energy acquisition) in 2011. The rise in spending is in part attributable to the company's two larger LNG projects in Australia, which are expected to reach peak

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Analyst Notes (continued)

spending levels in 2012 and 2013. Upstream spending is expected to comprise 87% of the total budget compared with 85% in last year's plan, though absolute downstream spending is expected to rise slightly. Despite the higher level of spending, Chevron's production growth will be anemic over the next couple of years until volumes increase in 2014 with the start up of Gorgon in Australia and Jack/St. Malo and Big Foot in the Gulf of Mexico

ConocoPhillips' Increased Upstream Budget Focuses on North America. ConocoPhillips expects capital spending of $15.5 billion in 2012 compared with approximately $13.5 billion in 2011. The year-over-year increase is entirely attributable to greater E&P spending, which comprises 90% of the total budget, growing to $14 billion in 2012 from $12 billion this year. Refining and marketing spending will remain flat at about $1.2 billion. The bulk of upstream spending (60%) will focus on North America to develop the company's liquid-rich unconventional plays--Eagle Ford, Bakken, and Permian--and its SAGD oil sands projects in Canada. International spending will go toward development of its Australia Pacific LNG joint venture and North Sea projects. Meanwhile, ConocoPhillips will extend its share repurchase efforts and asset sales into 2012. After repurchasing $11 billion worth of shares in 2011, it has approved an additional $10 billion repurchase program. The program will be funded with additional asset sales. ConocoPhillips aims to sell another $5 billion to $10 billion worth of assets in 2012 after divesting $10.5 billion worth in 2011.

Similar Themes Likely to Play Out with European Firms. Though detailed plans on 2012 spending have yet to be provided, Shelland Totalhave given broad outlines of their spending plans for the next couple years (BP will publish its 2012 budget at the beginning of next year). Without question, the trends we see in Europe echo those in the U.S.: capital spending is increasing, upstream is making up larger portions of the capital spending budget (85%-plus at each company), and Shell and Total have major LNG projects in the works. Specifically for Total, we expect its capital expenditure budget to increase to an average of $23 billion for 2012-14 after spending about $20 billion in 2011.

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Exxon Mobil Corporation XOM

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
496,478	388,589	Oil & Gas Integrated	Energy

Exxon is an integrated oil and gas company that explores for, produces, and refines oil around the world. In 2011, it produced 2.4 million barrels of oil and 12.1 billion cubic feet of natural gas a day. At year-end 2011, reserves stood at 17.7 billion barrels of oil equivalent (plus 7.3 billion for equity companies), 47% of which are oil. The company is the world's largest refiner and one of the world's largest manufacturers of commodity and specialty chemicals.

5959 Las Colinas Boulevard
Irving, TX 75039-2298
Phone: 1 972 444-1000Website: http://www.exxonmobil.com

Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
★★★★	83.10	91.00	Low	Wide	—

per share prices in USD

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD
Annual Price High	44.58	41.13	52.05	65.96	79.00	95.27	96.12	82.73	73.69	88.23	87.94
Low	29.99	31.58	39.91	49.25	56.42	69.02	56.51	61.86	55.94	67.03	81.88
Recent Splits											

Price Volatility
Monthly High/Low
Rel Strength to S&P 500
69.0
39.0
52 week High/Low
87.94 - 67.03
19.0
10 Year High/Low
96.12 - 29.99
8.0
Bear-Market Rank
2 (10=worst)
4.0
39.0
Trading Volume Million
19.0

Stock Performance

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD
Total Return %	-8.6	19.9	27.6	11.8	39.8	23.1	-13.1	-12.5	9.8	18.4	-0.7
+/- Market	14.8	-6.5	18.6	8.8	26.2	19.6	25.4	-35.9	-3.0	18.4	-8.7
+/- Industry	-0.2	-14.8	5.2	-13.6	8.4	-6.7	22.1	-32.0	3.8	13.3	0.0
Dividend Yield %	2.6	2.4	2.1	2.0	1.7	1.5	1.9	2.4	2.4	2.2	2.4
Market Cap USD Mil	235511	271002	330693	349512	450501	511887	406067	322334	364064	406272	388589

Financials

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM
Revenue USD Mil	204506	246738	298035	370680	377635	404552	477359	310586	383221	486429	496478
Gross Margin %	46.4	47.3	45.1	42.5	43.5	42.4	39.5	31.8	31.6	36.9	36.1
Oper Income USD Mil	40157	56722	69918	91469	69107	103607	118578	34777	52959	73257	71855
Operating Margin %	19.6	23.0	23.5	24.7	18.3	25.6	24.8	11.2	13.8	15.1	14.5
Net Income USD Mil	11460	21510	25330	36130	39500	40610	45220	19280	30460	41060	39860
Earnings Per Share USD	1.68	3.23	3.89	5.71	6.62	7.28	8.69	3.98	6.22	8.42	8.28
Dividends USD	0.92	0.98	1.06	1.14	1.28	1.37	1.55	1.66	1.74	1.85	1.88
Shares Mil	6821	6659	6512	6327	5967	5578	5149	4832	4897	4875	4811
Book Value Per Share USD	11.09	13.60	15.77	17.87	19.52	22.29	22.21	23.39	29.49	32.21	33.58
Oper Cash Flow USD Mil	21268	28498	40551	48138	49286	52002	59725	28438	48413	55345	57776
Cap Spending USD Mil	-11437	-12859	-11986	-13839	-15462	-15387	-19318	-22491	-26871	-30975	-31767
Free Cash Flow USD Mil	9831	15639	28565	34299	33824	36615	40407	5947	21542	24370	26009

Profitability

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM
Return on Assets %	7.8	13.2	13.7	17.9	18.5	17.6	19.2	8.4	11.4	13.0	12.0
Return on Equity %	15.5	26.1	26.4	33.9	35.1	34.5	38.5	17.3	23.7	27.3	25.8
Net Margin %	5.6	8.7	8.5	9.7	10.5	10.0	9.5	6.2	7.9	8.4	8.0
Asset Turnover	1.38	1.51	1.61	1.84	1.77	1.75	2.03	1.35	1.43	1.54	1.49
Financial Leverage	2.0	1.9	1.9	1.9	1.9	2.0	2.0	2.1	2.1	2.1	2.2

Financial Health

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	03-12
Working Capital USD Mil	5116	7574	17396	27035	26960	27651	23166	3174	-3649	-4542	-3834
Long-Term Debt USD Mil	6655	4756	5013	6220	6645	7183	7025	7129	12227	9322	9231
Total Equity USD Mil	74597	89915	101756	111186	113844	121762	112965	110569	146839	154396	157012
Debt/Equity	0.09	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.08	0.20	0.21

Valuation

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM
Price/Earnings	21.7	13.0	13.2	9.8	11.7	12.9	9.2	17.1	11.8	10.1	10.0
P/E vs. Market	—	—	—	—	—	—	—	—	—	0.6	0.7
Price/Sales	1.2	1.1	1.1	1.0	1.2	1.3	0.9	1.1	0.9	0.9	0.8
Price/Book	3.2	3.0	3.3	3.1	4.0	4.2	3.6	2.9	2.5	2.6	2.5
Price/Cash Flow	11.2	9.6	8.2	7.5	9.5	10.1	6.9	11.6	7.4	7.6	6.9

Growth Rates Compound Annual

Grade: C	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	26.9	0.6	5.2	8.6
Operating Income %	38.3	-14.8	1.2	4.6
Earnings/Share %	35.4	-1.1	4.9	14.5
Dividends %	6.3	6.1	7.6	7.3
Book Value/Share %	10.6	13.7	10.8	11.8
Stock Total Return %	4.9	8.5	2.4	9.6
+/- Industry	9.4	0.8	0.4	-1.1
+/- Market	4.8	-5.0	4.3	7.0

Profitability Analysis

Grade: C	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	25.8	28.2	19.4	22.7
Return on Assets %	12.0	13.9	8.5	9.3
Fixed Asset Turns	2.4	2.9	2.9	7.6
Inventory Turns	20.4	21.7	11.9	16.8
Revenue/Employee USD K	6047.2	4785.8*	—	1053.9
Gross Margin %	36.1	36.5	22.5	40.1
Operating Margin %	14.5	18.1	8.8	18.8
Net Margin %	8.0	8.4	5.3	11.3
Free Cash Flow/Rev %	5.2	6.0	7.5	0.1
R&D/Rev %	—	—	—	9.5

Financial Position

Grade: A	12-11 USD Mil	03-12 USD Mil
Cash	12664	18670
Inventories	15024	14749
Receivables	38642	35844
Current Assets	72963	76160
Fixed Assets	214664	214602
Intangibles	9092	8434
Total Assets	331052	345152
Payables	52249	14491
Short-Term Debt	6949	6419
Current Liabilities	77505	79994
Long-Term Debt	9322	9231
Total Liabilities	176656	188140
Total Equity	154396	157012

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	10.0	12.2	7.9	14.6
Forward P/E	9.3	—	—	13.6
Price/Cash Flow	6.9	8.7	5.3	6.8
Price/Free Cash Flow	15.4	22.8	28.7	17.6
Dividend Yield %	2.4	—	3.0	2.0
Price/Book	2.5	3.2	1.4	1.9
Price/Sales	0.8	1.0	0.6	1.2
PEG Ratio	1.3	—	—	1.7

Quarterly Results

Revenue USD Mil	Jun 11	Sep 11	Dec 11	Mar 12
Most Recent Period	125486.0	125330.0	121609.0	124053.0
Prior Year Period	92486.0	95298.0	105186.0	114004.0

Rev Growth %	Jun 11	Sep 11	Dec 11	Mar 12
Most Recent Period	35.7	31.5	15.6	8.8
Prior Year Period	24.2	15.9	17.1	26.3

Earnings Per Share USD	Jun 11	Sep 11	Dec 11	Mar 12
Most Recent Period	2.18	2.13	1.97	2.00
Prior Year Period	1.60	1.44	1.84	2.14

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Exxon Mobil Corporat	388589	496478	10.0	25.8
Royal Dutch Shell PL	209637	493421	6.7	18.4
Chevron Corp	202574	254070	7.5	23.1

Major Fund Holders

	% of shares
	—
	—
	—

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

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

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MORNINGSTAR®

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.

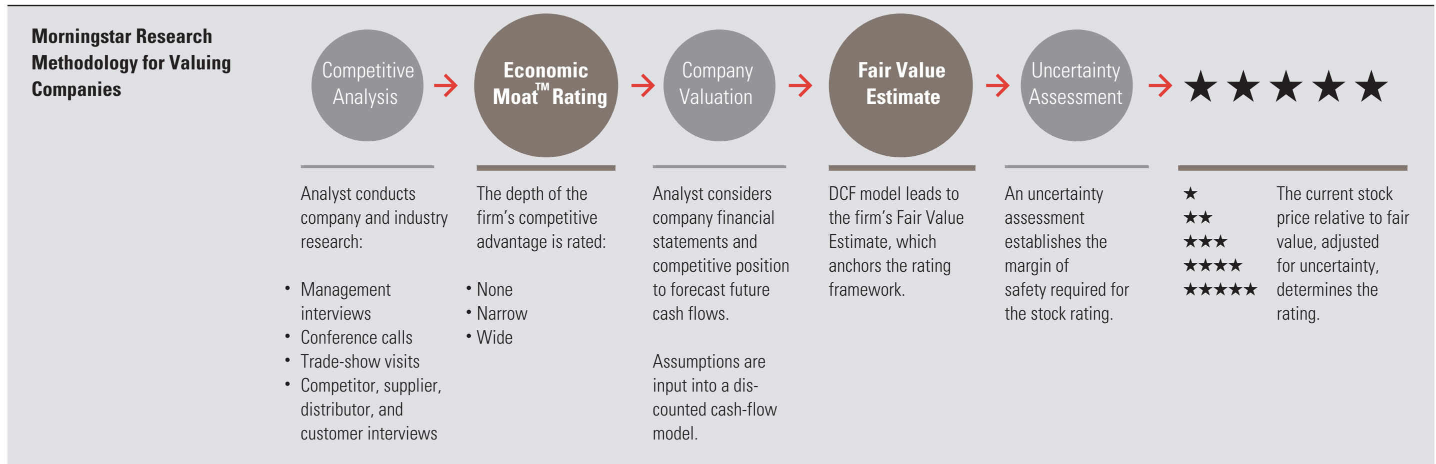
Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our 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



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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

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

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