

FIN 6186 PRELIMINARY REPORT

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1. COMPANY NAME, INDUSTRY SIC or new NAISC, TYPE OF PRODUCTS/SERVICES

Company Name: Exxon Mobil Corporation
Industry SIC: 1311 Crude Oil and Natural Gas Extraction; 2911 Petroleum Refining
NAICS: 221111 Oil and Gas Extraction; 324110 Petroleum Refineries

Products and services include crude oil and natural gas, petroleum products, petrochemicals, olefins, aromatics, polyethylene, and polypropylene plastics.

2. BRIEF STATEMENT ABOUT WHY YOU SELECTED THIS COMPANY.

I selected Exxon Mobil, because I want to gain a better understanding of why the corporation is always at or near the top of the Fortune 500 list besides the obvious reason that they sell oil, a commodity that billions of people worldwide need. In the past five decades, Exxon Mobil has never been lower than fourth on the list, and the corporation has always been ahead of other oil companies. This report aims to study Exxon Mobil and understand why it is the giant among all oil companies.

3. RECENT PRICE INFO: SUMMARY OVER LAST 12 MONTHS:

- a. **CURRENT PRICE: \$86.55** **DATE: 6/27/2008**
- b. **12 MO. HIGH: \$96.12**
- c. **12 MO. LOW: \$77.55**
- d. **VOLUME OF SALES PER DAY OR PER WEEK:**
Per Day: \$1.069 Billion Per Week: \$7.506 Billion
- e. **SOURCE OF DATA:**
Yahoo Finance (<http://finance.yahoo.com/q?s=XOM>)
ExxonMobil's website:
<http://ir.exxonmobil.com/phoenix.zhtml?c=115024&p=irol-reportsOther>
ExxonMobil's 2007, 2006, and 2003 annual reports
Investopedia (<http://www.investopedia.com>),
Google Finance (<http://finance.google.com/finance>)
Fundamentals of Corporate Finance
Forbes (<http://finapps.forbes.com/finapps/AccountingRisk.do?tkr=xom>)
Going Coastal (<http://goingcoastal.wordpress.com/2007/02/22/lawsuits-against-exxonmobil/>)
- f. **Earnings per share (for trailing 12 months TTM): 7.69**
- g. **Dividends per share (for TTM): 1.60**
- h. **Beta: 1.18**

4. STOCK EXCHANGE WHERE LISTED: NYSE

TICKER SYMBOL: XOM

5. TABLE OF KEY INDICATORS. SEE EXAMPLE OF GE. AND EXCEL TEMPLATE ON THE FOLLOWING WEBSITE: <ftp://library.amberton.edu/jtway>; Use for guidance only. Choose your own key indicators as appropriate for your company.

Ratio Comparisons	Units	Company	Industry	Sector	S & P 500	Interpretation	2007	2006	2005
Valuation Ratios									
PE (TTM)	None	11.25	9.10	14.3			12.4	11.1	9.5
Price to Sales (TTM)	None	1.17					1.29	1.20	0.96
Price to Book (MRQ)	None	3.71					3.92	3.44	2.91
Price to Cash Flow (TTM)	None						8.97	8.38	6.37
Price to Free Cash Flow (TTM)	None	26.60	35.10	-116.35					
Dividends									
Dividend Yield	%	1.80	3.16	2.32			1.46	1.67	2.03
Dividend Yield (5 Year Avg)	%	1.90							
Payout Ratio	%	18					18.2	18.6	19.3
Growth Rates									
Sales (MRQ) vs. Qtr 1 Year Ago									
Sales (TTM) vs. TTM 1 Year Ago									
Sales 5 Year Growth Rate									
EPS (MRQ) vs. Qtr 1 Year Ago									
EPS (TTM) vs. TTM 1 Year Ago									
EPS – 5 Year Growth Rate									
Capital Spending 5 Year Growth Rate									
Financial Strength									
Quick Ratio (MRQ)							1.28	1.33	1.38
Current Ratio (MRQ)		1.377					1.47	1.55	1.58
LT Debt To Equity (MRQ)		0.08	0.18	0.27			5.9	5.8	5.6

Profitability	Units	Compa ny	Industr y	Sector	S & P 500	Interpre - tation	2007	2006	2005
Gross Margin (TTM)		171.70B illion					33.3	34.6	33.8
Operating Margin (TTM)	%	16.45							
Net Profit Margin (TTM)	%	10.85							
Net Profit Margin 5 Year Avg									
Management Effectiveness	Units	Compa ny	Industr y	Sector	S & P 500	Interpre - tation	2007	2006	2005
Return on Assets (TTM)	%	16.63							
ROA 5 Year Avg									
Return on Investment (TTM)									
ROI 5 Year Avg									
Return on Equity (TTM)	%	35.59		21.55					
ROE 5 Year Avg									
Efficiency	Units	Compa ny	Industr y	Sector	S & P 500	Interpre - tation	2007	2006	2005
Revenue/Employee (TTM)									
Net Income/Employee									
Receivable Turnover (TTM)									
Inventory Turnover (TTM)									
Asset Turnover (TTM)									
		Most	Recent	Quarte rs		Fiscal	Years		
Cash Flow Indicators	Units	3/31/08	12/31/0 8	9/30/07	6/30/07	12/31/0 7	12/31/0 6	12/31/0 5	12/31/0 4
Net Income	\$					40,610 million	39,500 million	36,130 million	25,330 million
% change from 1 yr ago						1.03	1.09	1.43	
Depreciation						12,250 million	11,416 million	10,253 million	9,767 million
% change from 1 yr ago						1.07	1.11	1.05	
Operating Activities						52,002 million	49,286 million	38138 million	40,551 million
% change from 1 yr ago						1.06	1.29	0.94	
Investing Activities						(9,728) million	(14,230) million	(10,270) million	(14,910) million
% change from 1 yr ago						0.68	(1.39)	0.69	
Financing Activities						(38,345) million	(36,210) million	(26,941) million	(18,268) million
% change from 1 yr ago						1.06	1.34	1.47	
Dividends Paid						7,621 million	7,628 million	7,185 million	6,896 million
		Most	Recent	Quarte		Fiscal	Years		

				rs					
Balance Sheet Indicators	Units	3/31/08	12/31/08	9/30/07	6/30/07	12/31/07	12/31/06	12/31/05	12/31/04
Current Assets						85,963 million	75,777 million	73,342 million	60,377 million
% change from 1 yr ago									
Lt Investments						28,194 million	23,237 million	20,592 million	18,404 million
% change from 1 yr ago									
Property, Plant & Equipment						120,869 million	113,687 million	107,010 million	108,639 million
% change from 1 yr ago									
Goodwill & Intangible Assets						7,056 million	6,314 million	7,391 million	7,836 million
% change from 1 yr ago									
Total Assets						242,082 million	219,015 million	208,335 million	195,256 million
% change from 1 yr ago									
Current Liabilities						58,312 million	48,817 million	46,307 million	42,981 million
% change from 1 yr ago									
Long Term Debt						7,183 million	6,645 million	6,220 million	5,013 million
% change from 1 yr ago									
Postretirement benefits reserves						13,278 million	13,931 million	10,220 million	10,850 million
% change from 1 yr ago									
Other Liabilities						14,366 million	11,123 million	9,997 million	9,612 million
% change from 1 yr ago									
Deferred income tax liability						22,899 million	20,851 million	20,878 million	21,092 million
% change from 1 yr ago									
Equity of minority						4,282 million	3,804 million	3,527 million	3,952 million
% change from 1 yr ago									
Total Liabilities						120,320 million	105,171 million	97,149 million	93,500 million
% change from 1 yr ago									
Common Stock						4,933 million	4,786 million	4,477 million	4,053 million
% change from 1 yr ago									
Earnings reinvested						228,518 million	195,207 million	163,335 million	134,390 million
% change from 1 yr ago									
Treasury Stock						(113,678) million	(83,387) million	(55,347) million	(38,214) million
% change from 1 yr ago									
Total Stockholder Equity						121,762 million	113,844 million	111,186 million	101,756 million
% change from 1 yr ago									
Total Liabilities & Stockholder Equity						242,082 million	219,015 million	208,335 million	195,256 million

6. ANALYSIS OR INITIAL INTERPRETATIONS OF ABOVE NUMBERS

In terms of valuation, ExxonMobil has a relatively low price/earnings ratio, which means investors will be paying closer to what the company is actually earning. While the price-sales ratio indicates that ExxonMobil is performing similarly to its past, its price-book ratio shows that the stock is over-valued. The dividend yield offered by ExxonMobil is good, but it is considerably lower than its industry competitors. The value offered to shareholders is continued performance near the top of all businesses, as in past decades. Some concern lies in the financial strength of ExxonMobil in that the quick ratio and current ratio are fairly low. Higher ratios would indicate that the company could more surely meet its long-term obligations. In terms of profitability, ExxonMobil is very successful, as the profit and operating margins are all very high. Cash flow for ExxonMobil is very positive, as inflows are very substantial. Much activity is also apparent in financing and investing areas. The balance sheet for ExxonMobil shows that the company's assets are much larger than its liabilities.

7. DU PONT ANALYSIS – provide (A) a TABLE OF SEVERAL YEARS OF DATA showing historical trends of the breakdown of the DuPont equation for COLUMN HEADINGS:

YEAR ROE = NI/SALES x SALES/TA x TA/EQUITY.

Your table has five columns: year, ROE, NI/SALES, SALES/TA, TA/EQ AND WILL SHOW TRENDS OF HOW THE COMPANY PERFORMED IN TERMS OF PROFIT MARGIN, ASSET TURNOVER AND FINANCIAL LEVERAGE. NOTE THAT, THE HIGHER EACH COLUMN, THE HIGHER IS ROE.

Year	ROE	NI/Sales	Sales/TA	TA/EQ
2007	33%	0.104	1.61	1.99
2006	35%	0.108	1.67	1.92
2005	32%	0.100	1.72	1.87
2004	25%	0.087	1.49	1.92

2003	24%	0.091	1.36	1.94
2002	15%	0.057	1.32	2.05
2001	21%	0.073	1.46	1.96
2000	25%	0.078	1.53	2.11
1999	12%	0.044	1.26	2.28

- **And (B) – DISCUSSION THE MEANING OF THE TREND OF EACH OF THE 4 RATIOS IN YOUR TABLE.**

The Du Pont identity states that profit margin multiplied by total asset turnover multiplied by the equity multiplier equates to return on equity. In turn, profit margin indicates operating efficiency; total asset turnover indicates asset use efficiency; and the equity multiplier indicates financial leverage. Profit margin (net income divided by sales) has grown annually over the past decade to indicate that ExxonMobil has become increasingly profitable. In addition to profit margin, total asset turnover (sales divided by total assets) has steadily increased over the years. ExxonMobil has successfully gotten more work out of its working capital. For the equity multiplier (total assets divided by equity), ExxonMobil has varied over the past several years, down somewhat from where the corporation was in 1999. Arguably, this is another positive sign for ExxonMobil, as the company is using less debt to finance its assets. This table shows that from 2002 through 2007, return on equity has steadily risen. This means that ExxonMobil has increasingly gotten better at generating profit from the money provided by shareholders. This also means that shareholders should be pleased with the performance of ExxonMobil over the past several years.

8. DISCUSS THE RISKINESS OF YOUR COMPANY.

SEE POSTSCRIPT AT END OF THIS DOCUMENT.

A. COMPARED TO WHAT?

The riskiness of ExxonMobil can be considered in several ways. The most obvious risks for ExxonMobil are witnessed in the news every day. As gas prices have risen, many people have grown increasingly frustrated at oil companies, speculators, OPEC, the federal government, etc. The risk of this frustration to ExxonMobil is that there are continuous calls to develop alternative fuel sources, including ethanol, electricity, hydro-based fuels, and more. It's a risk to ExxonMobil's revenues to have alternative fuels become more prevalent at gas stations. In addition, as gas prices rise, some consumers have decided and some will decide to cut back on gasoline consumption by car-pooling or driving less frequently, which is a threat to ExxonMobil.

Environmental regulations pose another risk to ExxonMobil. Many people remember the Exxon Valdez oil spill catastrophe that happened in Alaska in 1989. ExxonMobil has taken considerable (and arguably deserved) criticism for the disaster. Regulations and lawsuits stemmed from this incident. ExxonMobil could use risk

imposed by future regulations to become more competent at managing its oil operations. According to Forbes, ExxonMobil faces risk in terms of litigation and organizational structure among other things. The risk of litigation stems from the costs of lawsuits that ExxonMobil faces. For instance, in 2007 lawsuits were filed against ExxonMobil for incidents that happened decades ago (Going Coastal). Any press that mentions oil spills is a risk to ExxonMobil's future profitability.

B. HOW DO YOU MEASURE RISK?

Risk can be measured in terms of business risk, which is also equity risk that is part of the daily operations of ExxonMobil. Determined by the systematic risks, business risk for ExxonMobil is very influential on assets (Fundamentals of Corporate Finance). If business strategy is focused on only oil operations, then ExxonMobil sacrifices operations that could be focused on developing alternative fuel sources. Such a strategy could impact the corporation on a wide scale, including hurting it in the market. Another way risk can be measured is in terms of financial risk, which for ExxonMobil, is attributable to the corporation's capital structure. For financial risk, ExxonMobil would be pursuing a risky strategy if the company took on too much debt. This strategy could cause a snowball effect that would see investors afraid to invest in ExxonMobil for the long run.

C. BE IMAGINATIVE

The different sources that pose risks to ExxonMobil can be managed by the company. Management of these risks can help shape ExxonMobil's strategy. Instead of fighting alternative fuel sources, ExxonMobil can embrace the movement and develop its own alternative fuel sources. To alleviate risks posed by environmental regulations, ExxonMobil can become more efficient at eliminating its waste and more careful in its oil operations. Research and development has always been an area that companies could invest in order to avoid risk. Discoveries of alternative fuel sources or better ways to turn oil into profits can eliminate some risk. Of course, if ExxonMobil invests in research and development that does not bring as much benefit, then risk could increase especially if competitors become more profitable from research and development.

References

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