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ExxonMobil's Industry Leadership Deteriorates Under CEO Darren Woods

Company Slips Compared to Peers in Profits, Cash and Shareholder Return

Executive Summary

ExxonMobil's pre-pandemic financial performance has deteriorated during the first three years of Chairman and Chief Executive Officer Darren Woods's tenure (2017-2019). Each of the company's core financial metrics—shareholder returns, cash flows and profits—has slipped. The company's board of directors has failed to report the extent of this deterioration transparently to shareholders. It needs to be more open with its shareholders and more decisive that the company needs new management.

The company's executive compensation committee uses certain key criteria to measure leadership. These include three financial metrics comparing 10-year and annual performance with peers, an operational metric (worker safety) and a qualitative assessment of progress toward meeting strategic objectives.

XOM falters under Woods's tenure:
Company standard for CEO performance is industry leadership

	Before Woods: 10-year average leadership ranking	**During Woods:** 10-year average leadership ranking	**During Woods:** Annual leadership ranking
Profits	Leader	Lead slipping	Laggard
Cash	Leader	Lead marginal	Laggard
Shareholder returns	Leader	Laggard	Laggard

The metrics are used not only to assess the performance of the chief executive but also to evaluate senior managers, verify the wisdom of company investments, compare the company to its peers, and tell ExxonMobil's story of leadership by the numbers.

The three financial metrics used by the board of directors to gauge Woods's performance are total shareholder return (TSR), return on capital employed (ROCE), and cash flow from operations and asset sales (CFOAS).

Two of the three metrics have been adjusted by ExxonMobil. These adjustments serve to overstate ExxonMobil's leadership claims since Woods took over in 2017. The third metric that is driven by ExxonMobil's stock price—total shareholder return—lags the company's peers and the weakness is acknowledged by ExxonMobil. Its poor stock performance resulted in ExxonMobil's fall from the top 10 of the S&P 500 in 2019 and to be dropped from the Dow Jones Industrial Average earlier this year.

ExxonMobil's return on capital employed (ROCE) has been a key metric since 1987.[1] There's no uniform standard to determine ROCE, so the company adjusts the figures calculated by its peers to match its own calculations. Under this scenario ExxonMobil comfortably leads its peers. When ExxonMobil is compared to the self-reported data from its peers it maintains its leadership position is slipping. Self-reported data from Shell, Total and BP all exceeded ExxonMobil's single-year ROCE in 2018 and 2019.

The company uses a third metric, cash flow from operations and asset sales (CFOAS), that's not used by financial regulators or ExxonMobil's peers. Although the company claims leadership in the CFOAS 10-year metric, ExxonMobil reports that Shell has topped ExxonMobil during each of Woods's three years at the helm. ExxonMobil's own calculation of the 10-year CFOAS shows it is still leading, but Shell is rapidly gaining ground. IEEFA's calculation of Shell's 10-year CFOAS shows that ExxonMobil may have lost the lead on this metric.

Shell has exceeded ExxonMobil's annual CFOAS in each year of Woods's tenure.

ExxonMobil's shareholders can be excused for missing Woods's connection to the company's faltering financial state. The company's shareholder reports have been muddled and the board's proclamation of Woods's "strong leadership" obscures underlying problems.

The issues raised in our study were brought to ExxonMobil's attention.[2] The company responded to our inquiries but offered no detailed explanation that would resolve the problems we identified in how it measures competitive rankings with its peers.

Introduction

IEEFA conducted a thorough analysis focusing on the three financial metrics from January 2017, when Woods became CEO, through December 2019.[3] ExxonMobil has

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[1] Steve Coll. *Private Empire: ExxonMobil and American Power*. 2012, pp. 49-51.
[2] Kathy Hipple. Correspondence with ExxonMobil shareholder relations re IEEFA research related to executive compensation for 2017, 2018 and 2019. September 8, 2020.
[3] IEEFA. Leader to Laggard – ExxonMobil's Financial Troubles Intensify. October 2020

been the industry leader for decades. IEEFA's analysis concluded that under Woods, ExxonMobil's financial performance in these critical areas has been slipping on an absolute basis and relative to its peers—Shell, Chevron, Total and BP. This slippage predates the coronavirus pandemic.

ExxonMobil's slippage during the three years of Woods's tenure has pulled down the company's all-important 10-year averages for the financial measures. This is significant because the company's business model values long-term performance over annual figures, noting the capital-intensive nature of its business.

The judgment of Woods's effectiveness as CEO reflects an uncritical treatment of the company's own data and its measurements of performance. The data is clear: ExxonMobil's financials are in trouble and getting worse. The current leadership under Woods has led the company toward greater losses, and the board has a clear decision to make.

A clear presentation of the company's finances during Woods's tenure would show ExxonMobil continues to lag in total shareholder return, has lost ground to peers on its return on capital employed and overstates its leadership on cash flow from operations and asset sales.

Total Shareholder Return (TSR)

Lagging Performance in Total Shareholder Return (TSR) is one area that is disclosed sufficiently—but its larger meaning is missed.

ExxonMobil's board clearly noted the company's decline in only one metric—the company's TSR—which it acknowledged was "lagging." During Woods's first year in office, ExxonMobil's annual TSR lagged its peers for the first time in decades. During Woods's tenure, ExxonMobil's 10-year TSR also has lagged its peers in all three years.

Figure 1: Comparison of Industry Peers 10-Year Rolling Average of Total Shareholder Return Percentage (2016-2019)[4,5,6,7]

	2016	2017	2018	2019
ExxonMobil	**4.1%**	**1.7%**	**1.5%**	**3.5%**
Chevron	N/A[8]	6.8%	7.8%	8.5%
Shell	N/A	3.6%	7.3%	6%
Total	N/A	1.4%	4.9%	4%
BP	N/A	-0.2%	3.3%	0.9%
Industry Group Average	**3.8%**	**3.2%**	**6.1%**	**1%**

The total shareholder return is driven by the market price of ExxonMobil's stock. When Woods took over, ExxonMobil's stock price was $90.89 per share. At the end of December 2019, the price was $69 per share. By October 2020, the price was in the low $30s. Of the five companies in ExxonMobil's peer ranking, the company's 10-year average TSR ranks fourth.

The TSR is the one market measure of ExxonMobil's performance that is driven by its stock prices, a measure that is not adjusted by the company. During 2019, ExxonMobil fell out of the top 10 of the Standard & Poor's 500-stock index. In 2020, the company was dropped from the Dow Jones Industrial Average. Both losses reflect the company's continued deterioration in market position.

Return on Capital Employed (ROCE)

Return on Capital Employed (ROCE) has deteriorated during Woods's tenure. This profit metric isn't a uniform calculation, so ExxonMobil makes adjustments to its peers' own ROCE calculations. These adjustments appear to overstate ExxonMobil's ROCE leadership.

Since 1987, ExxonMobil management has emphasized the importance of ROCE. Lee Raymond, Exxon's chairman and CEO from 1993-2005, tried to persuade Wall Street to use ROCE as the "premiere number by which oil corporations should be judged."[9]

ROCE's importance as a metric is highlighted in annual proxy statements and reports, including its 2019 annual report, which noted:

"The Corporation... views it [ROCE] as the best measure of historical capital

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[4] ExxonMobil. 2017 Executive Compensation Overview. p. 3.
[5] ExxonMobil. 2018 Executive Compensation Overview. p. 7.
[6] ExxonMobil. 2019 Executive Compensation Overview. p. 7.
[7] ExxonMobil. 2020 Proxy Statement. p. 41.
[8] In ExxonMobil's 2017 Executive Compensation Overview, the company used an Industry Group Average as the benchmark measure against ExxonMobil's performance. It did not provide individual peer companies' annual data. The group, however, is comprised of Chevron, Shell, Total and BP. See Footnote 3, p. 2.
[9] Coll, Steve. *Private Empire: ExxonMobil and American Power*. 2012, p. 49.

> *productivity in our capital-intensive, long-term industry, both to evaluate management's performance and to demonstrate to shareholders that capital has been used wisely over the long term."*[10]

ExxonMobil and its peers have adopted a ROCE standard, but there is no uniform standard or agreed-upon shared definition of how the figure is calculated. A uniform standard would provide consistent and reliable comparisons between ExxonMobil and its peers.

To adjust for the divergent definitions used by each company, ExxonMobil changes the ROCE reported by its peers to conform with ExxonMobil's definition of ROCE.

Under Woods's tenure, ROCE has been 9.0% (2017), 9.2% (2018) and 6.5% (2019), substantially below the company's historical performance.

Figure 2: ExxonMobil Return on Capital Employed (ROCE): Change in 10-Year Average From 2016 Through 2019

Year	Tenure	ROCE 10-Year Average
2016	Final Year of Tillerson	**20.0%**
2017	Woods Year I	**17.6%**
2018	Woods Year II	**15.1%**
2019	Woods Year III	**14.1%**

ExxonMobil's annual performance under Woods's tenure has been so subpar that it has dragged down the company's 10-year return average and weakened its claim to financial leadership in this area. In 2016, the company's 10-year ROCE average was approximately 20%.[11] By 2019, the third year of Woods's tenure, it had fallen to 14.1%.

These objective facts that point to financial deterioration in this leading metric are derived directly from ExxonMobil's data. The facts are available to any board member who wishes to analyze company disclosures. IEEFA's analysis went further, however. Here is what we found:

1. **ExxonMobil displays peer ROCE figures that it calculates, rather than ROCE figures disclosed by those peers.** While its peers report their ROCE or ROCE-equivalents in their annual filings, ExxonMobil uses its own calculations to estimate peer ROCE figures "on a consistent basis with ExxonMobil and based on public information."[12] ExxonMobil remains the leader when investors compare each company's self-reported ROCE, but its competitors are closing the gap. For example, ExxonMobil's data claimed Total had a 10-year ROCE average of 7.8% at the end of 2019; Total's annual

[10] ExxonMobil. 2019 Summary Annual Report. February 26, 2020, p. 49.
[11] ExxonMobil. 2017 Executive Compensation Overview. February 1, 2017, p. 2.
[12] ExxonMobil. 2020 Proxy Statement. April 9, 2020, p. 49.

self-reported ROCE averages out to 12%. ExxonMobil still leads with its 14.1% ROCE, but its lead is substantially narrower.

2. **ExxonMobil's proxy material does not make it clear that the ROCE figures it calculates for its competitors are different from those reported by the competitors.** Other than a footnote in the company's proxy materials (including the 2020 materials), there's no clear disclosure to investors that the ROCE figures used by ExxonMobil are not actual disclosures from the peer companies.[13]

3. **In 2020, the company did not disclose the annual ROCE data of its competitors for 2019, a departure from past practices. The change occurred at the same time that ExxonMobil's annual ROCE failed to clearly lead its peers.** ExxonMobil posted a 6.5% ROCE in 2019, the lowest of Woods's tenure. Based on the self-reported data of ExxonMobil's competitors, Shell, Total and BP all exceeded ExxonMobil's 2018 and 2019 ROCE.

Cash Flow from Operations and Asset Sales (CFOAS)

ExxonMobil uses a cash flow metric, Cash Flow from Operations and Asset Sales (CFOAS), that is not used by any of its peers. The disclosures are flawed. Under CEO Woods's leadership, the company has not led all of its peers in any year. Shell had superior performance in all three years.

Exxon defines CFOAS as cash flows from operations plus the sale of property, plant and equipment from ExxonMobil and subsidiaries, as well as sales and returns of investments.[14]

ExxonMobil's representation of CFOAS in its proxy materials is deficient because:

1. **ExxonMobil's claim of cash flow leadership is overstated.** The company's claim of leadership in CFOAS is misleading. For example, Shell has exceeded ExxonMobil's ***annual CFOAS*** in each year of Woods's tenure. According to ExxonMobil's data, Shell and ExxonMobil's 10-year CFOAS averages were separated in 2019 by approximately $1 billion. Shell's CFOAS gains over the last three years, based on IEEFA calculations, allowed it to post an 8% gain to its 10-year average. Meanwhile, ExxonMobil saw its 10-year average CFOAS decline by 4.7%.

   Based on IEEFA's analysis of Shell's financial reports, its 10-year CFOAS average is equal to or slightly more than ExxonMobil's average. ExxonMobil does not lead in this area.

[13] IEEFA wrote to BP, Shell, Chevron and Total. Shell took no position on ExxonMobil's adjustments and provided additional information on how best to understand their calculations. (See the full text of IEEFA's letters to ExxonMobil and its peers).
[14] ExxonMobil. 2019 Summary Annual Report. January 2020, p. 50.

2. **There is a $5 billion discrepancy between Shell's own 2019 financial cash flow reports and ExxonMobil's depiction of Shell's 2019 CFOAS.** This discrepancy decreases Shell's 10-year CFOAS. ExxonMobil's claim of leadership appears to be overstated.

   IEEFA researchers obtained Shell's Cash Flow from Operations; its Proceeds from Property, Plant and Equipment and Business; and Proceeds of Sale from Joint Ventures and associates from the cash flow statements on Shell's annual filings for 2017-19.[15] The totals from Shell's own reporting align with ExxonMobil's depictions of Shell's CFOAS for 2017 and 2018.

Figure 4: 10-Year Average Cash Flow From Operations and Asset Sales (CFOAS), 2017-2019 as Reported by ExxonMobil (in $ billions)[16,17,18]

Year	XOM	CVX	TOT	RDS	BP
2017	**46.7**	31.3	28.6	40.2	29.5
2018	**44.1**	31.4	28.6	41.2	28.2
2019	**44.5**	32.5	29.1	43.5	27.9
Percent Change: 2017-2019	**-4.7%**	**3.8%**	**1.7%**	**8.2%**	**-5.4%**

   Here the similarity ends. ExxonMobil's 2019 calculation of Shell's CFOAS is almost $5 billion lower than Shell's own numbers. ExxonMobil's adjustment, which reduced Shell's 2019 CFOAS by almost $5 billion compared to Shell's own cash flow figures, affected Shell's 10-year CFOAS. By using a lower CFOAS for Shell in 2019, ExxonMobil claimed a 10-year leadership status that may not be warranted.

3. **ExxonMobil doesn't disclose how it calculates CFOAS for its peers.** Based on its definition of the metric—cash flow from operations and proceeds from asset sales—the calculation would appear to be straightforward. However, IEEFA faced significant challenges in trying to re-create ExxonMobil's calculations for peer CFOAS.[19]

Conclusion

ExxonMobil's claim of leadership on two financial metrics used for executive compensation—ROCE and CFOAS—is overstated. The company acknowledges that its annual and 10-year TSR have lagged its peers during Woods's tenure. The compensation committee specifies that the standard used to judge executive performance (on ROCE, CFOAS and TSR) is industry leadership and it is "required in

[15] Royal Dutch Shell. 2017 Form 20-F. March 9, 2017. Also see: Royal Dutch Shell. 2018 Form 20-F. March 15, 2018. Also see: Royal Dutch Shell. 2019 Form 20-F. March 14, 2019.
[16] ExxonMobil. 2018 Executive Compensation Overview. p. 6.
[17] ExxonMobil. ExxonMobil 2019 Executive Compensation Overview. p. 7.
[18] ExxonMobil. 2020 Proxy Statement. p. 41.
[19] IEEFA. Leader to Laggard – ExxonMobil's Financial Troubles Intensify. October 2020, pp. 27-29.

each pre-established metric"[20] in order for the CEO to receive maximum compensation. [Emphasis in the original.]

ExxonMobil places great emphasis on its profit and cash flow metric. These are largely metrics devised by ExxonMobil, interpreted by ExxonMobil, and used to compare ExxonMobil to its peers. On these measures, ExxonMobil's leadership is, at best, slipping. On the one measure where the market renders a judgment—the Total Shareholder Return (TSR)—the company admits it lags its peers and sits fourth among the five competitors. This report acknowledges the current period of economic stress where many factors that are outside the control of each of the companies have weakened their performance. The financial improvements of ExxonMobil's peers are all the more noteworthy because of the current economic environment. Their successes stand boldly against the backdrop of ExxonMobil's weak performance.

On the one market measure—Total Shareholder Return (TSR)—the company admits it lags its peers.

ExxonMobil management would better serve its shareholders if it overhauled these flawed evaluation tools. The company should find a common definition of ROCE that its peers can agree to use, or it should abandon the measure. The company should also find common ground with its competitors regarding the measurement of cash flow performance.

This is a time of extreme stress for the oil and gas industry. Improved transparency cannot improve actual financial performance. It can, however, help investors know whether the company is succeeding, failing, or just bumbling through.

[20] ExxonMobil. 2020 Proxy Statement. April 9, 2020, p. 38. Note that the word "each" is in bold in the company's 2020 Proxy statement.

About IEEFA

The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. www.ieefa.org

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