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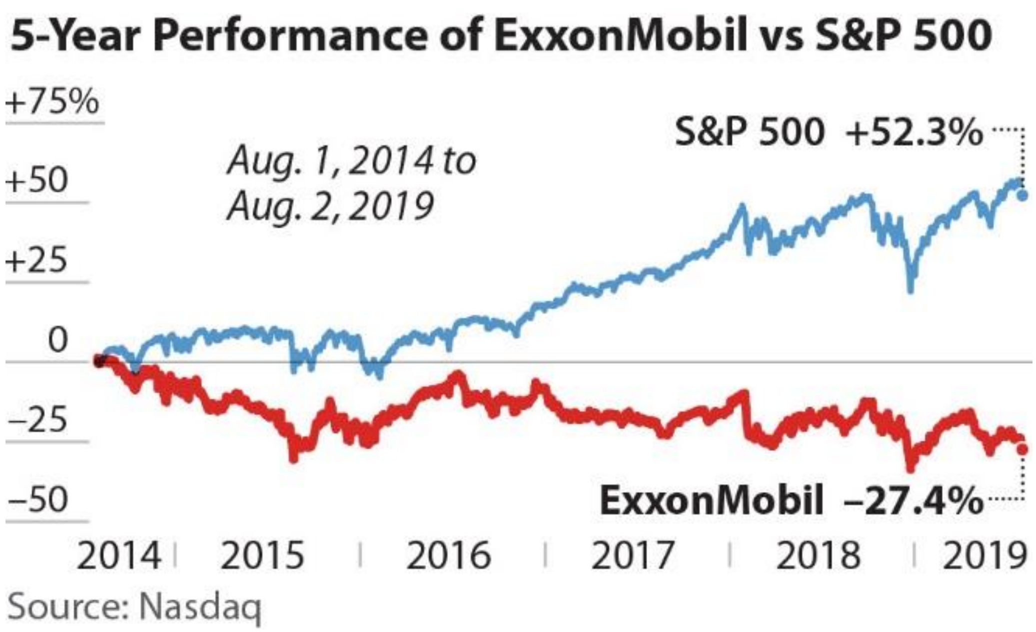
August 2019

Institute for Energy Economics and Financial Analysis
IEEFA.org

Exxon Mobil's Q2 2019 Earnings:

Eleven Facts the Company Would Like Investors to Forget, but They Shouldn't

ExxonMobil's second quarter earnings report contained more red flags than usual (See IEEFA update: Exxon's Q2 report marks another signpost on the long road downwards[1]). Its market capitalization is declining even as the bull market thunders on. It now appears all but certain that ExxonMobil will fall out of the elite group of companies in the top ten of the Standard and Poor's 500, a spot it has held for at least four decades. In 1980, seven of the top ten companies in the S&P 500 were oil and gas companies. With ExxonMobil's latest step down in Q2 2019, there are now none.



There are 11 other facts coming out of the second quarter filing that the company would probably like investors to forget.

1. Oil Prices went up by 11% but ExxonMobil revenues could not cover its dividend payment.

The amount the company received for a barrel of oil increased by 11% to $57.95 per barrel in the second quarter.[2] The WTI and Brent prices increased commensurately. Despite the rise in oil prices during the second quarter,

[1] IEEFA. Exxon's Q2 report marks another signpost on the long road downwards. August 5, 2019
[2] Exxon.com. Exxon Q2 2019 Quarterly Earnings. Average Realization Data, p.4.

ExxonMobil's revenue from operations could not cover dividends to shareholders.

2. ExxonMobil borrowed to pay for the second quarter dividend.

ExxonMobil borrowed $4.4 billion[3] and paid $3.7 billion[4] to shareholders during the second quarter. The money increased company indebtedness by 11%. The company closed the quarter with a cash balance of $4.2 billion.

3. Company claims of profitability at $40 per barrel of oil are not credible.

ExxonMobil has stated repeatedly for almost half a decade that it would be profitable at $40 per barrel.[5] Over the last five quarters, prices have averaged between $53-$65 per barrel. But even with oil in the mid-$50s and low-$60s, ExxonMobil's profits in 2019 will be about average for the period since 2015. Its profits are about half of what they were for the five-year period 2010 to 2014. The company's Q2 2019 earnings call now places the benchmark at $60 per barrel.[6]

4. Asset sales have been slow to materialize.

There were no significant asset sales during the second quarter. ExxonMobil's plan calls for $15 billion by end of 2021. The company acknowledges that its original list of assets is unlikely to produce the $15 billion projected and it is adding more assets not on the list. According to company officials, the marketing of the asset sales is on track. The company calls the $15 billion a "risk number." Some analysts have suggested Exxon's asset sales price is no longer realistic. [7]

5. ExxonMobil's contract with Papua New Guinea is being challenged as one-sided and unfair.

ExxonMobil's plans for Papua New Guinea are a company priority.[8] However, questions have emerged about these plans. ExxonMobil has disclosed that the government of Papua New Guinea is reviewing its contract. The changing political landscape could result in new projects coming forward that compete with the current ExxonMobil/Total deal.[9] The company's statement: "We have a

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[3] Exxon.com. Exxon Q2 2019 Quarterly Earnings. Total Debt, p. 1.

[4] Exxon.com. Exxon Q2 2019 Quarterly Earnings Presentation. p. 8.

[5] Exxon.com. ExxonMobil Permian development to provide $64 billion in benefits to New Mexico: Study. May 17, 2019; See also CNBC. ExxonMobil OK with oil and $40: CEO. December 3, 2014; See also ProducedWaterSociety.com. Water in Oil. Exxon UPS growth and capital spending estimates. April 1, 2019.

[6] Fool.com. Exxon Mobil Q2 2019 earnings call transcript. See exchange with Doug Terreson, ISI Evercore

[7] Fool.com. Exxon Mobil Q2 2019 earnings call transcript. See exchange with Doug Leggate, Bank of America

[8] Exxon.com. Exxon Q2 2019 Quarterly Earnings Presentation. p. 14. See also. Reuters.com. Papua New Guinea backing of Total LNG deal. August 4, 2019.

[9] Financial Times. Papua New Guinea turmoil puts LNG projects at risk. May 28, 2019

contract," obscures the real risks to its business if countries with "contracts," express grievances and opt to review them.[10]

6. ExxonMobil's contract with Guyana is being challenged as one-sided and unfair.

Exxon Mobil's plans for Guyana are a company priority.[11] The terms of Guyana's contract with Exxon were negotiated with prior governments and contain terms that appear to be more favorable to the company.[12] During the Q2 earnings call, there was no mention of this emerging issue.

7. Recent announcement of expansion plans in Argentina are vague.

ExxonMobil announced plans to expand its production in Vaca Muerta in Argentina.[13] The announcement did not contain any new money investments from ExxonMobil in Argentina. Further, the Vaca Muerta investments were not included as part of its priority listings in its second quarter statement.[14] ExxonMobil's investments in Vaca Muerta, which the company launched in 2010, have totaled $659 million,[15]– less than .003 of its total capital expenditure of $242 billion since 2010.

8. Exxon's 'different approach' to the Permian masks high, enterprise-wide risks.

ExxonMobil states that its approach to the Permian relies on the company's size and asset base. This sets it apart from smaller competitors that do not possess deep pockets. The "different approach" ExxonMobil will take in the Permian is reminiscent of the company's "different" approach to Canadian tar sands. That approach included ExxonMobil's substantial delay in acknowledging its reserves were uneconomical to extract. ExxonMobil maintained this position even after oil prices collapsed and other majors – Conoco Phillips, Shell, CNOOC (China's biggest offshore oil and gas producer) and Statoil – wrote off their assets in the region. This 'different approach' with tar sands apparently led to an SEC investigation in 2016[16] and widespread criticism in the market.[17] The SEC

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[10] Fool.com. Exxon Mobil Q2 2019 earnings call transcript. See exchange with Jason Gabelman, Cowen

[11] Exxon.com. Exxon Q2 2019 Quarterly Earnings Presentation. p. 14.

[12] .Stabroeknews.com. Guyana will lose bundle as Exxon partners, not paying taxes. August 3, 2019.

[13] Exxon.com. ExxonMobil proceeds with Argentina expansion project in Vaca Muerta Basin. June 11, 2019.

[14] Exxon.com. Exxon Q2 2019 Quarterly Earnings Presentation. p. 14.

[15] Argentina. Secretaria de Gobierno de Energia– MINEM. Inversiones realizadas en base a DDJJ presentadas por las empresas. This figure includes actual investments between 2010 and 2017 of $336 million, and planned investments of $323 million in 2018, according to the Argentine government website, which has figures only through YE 2018 for planned investments and through YE 2017 for actual investments.

[16] NYT.com. Exxon concedes it may need to declare lower value for oil in ground. October 28, 2016.

[17] WSJ.com. Exxon profit tumbles on charge; revenue rises. August 6, 2019.

investigation was closed once ExxonMobil de-booked its tar sands reserves which accounted for roughly 20% of their global reserves.[18] The company has subsequently rebooked some of its tar sands reserves due to rising oil prices.[19]

9. Profitability in its fracking operations are under pressure due to production costs and an oversupply in the market.

The company acknowledges challenges related to reducing drill times in the Delaware Basin.[20] It also points to a supply glut as a reason for its reduced margins. Exxon hopes to succeed in fracking where smaller, nimbler players have consistently failed, posting negative cash flows for a decade. Overall during the last five years, earnings from ExxonMobil's U.S. upstream operations have been anemic.

10. ExxonMobil has stated it does not need to acquire any more acreage in the Permian Basin, yet it continues to spend aggressively.

ExxonMobil has suggested it did not need to spend more in the Permian Basin to increase production, produce cash and meet its goals. Yet, over the first half of 2019, ExxonMobil put one-third of its projected $30 billion capex budget into its U.S. upstream operations, which contributed only 8% of the quarter's earnings. This imbalance between aggressive capex spending and much smaller returns from its U.S. upstream portfolio, has been a consistent trend, going back as far as 2014.

11. ExxonMobil's chemical and plastics segments are stalled even though the conditions are good for positive growth.

The company's petrochemical business – plastics and chemicals – performed poorly in Q2. The company attributed this to a surplus of global capacity and said it expects the soft results to continue for as long as another year.[21] The petrochemical sector typically performs well when natural gas prices are low. Gas is literally free in parts of the Permian where ExxonMobil has located its refinery and crackers.

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[18] insideclimatenews.com. Exxon relents, wipes oil sands from its books. February 23, 2017.
[19] Exxon.com. ExxonMobil adds 4.5 billion barrels to reserves. Feb. 26, 2019.
[20] Fool.com. Exxon Mobil Q2 2019 earnings call transcript. See exchange with Jon Rigby, UBS.
[21] Fool.com. Exxon Mobil Q2 2019 earnings call transcript. See exchange with Phil Gresh, JP Morgan.

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