ExxonMobil’s Fall From the S&P 500 Top Ten: A Long Time Coming
Not for Decades Has the Oil Major Failed to Be Ranked Among the Top

ExxonMobil is no longer in the top-ten list of the Standard & Poor’s 500 Index, according to S&P’s August 31 report of the standings.¹

For most of August, real-time coverage² of the S&P 500 placed ExxonMobil eleventh and twelfth, removed from the top ten for the first time since the index was launched in 1957, based on available data.³

It will also be the first time since the S&P 500 Index’s launch that there are no oil and gas companies in the top ten.⁴

Absent a significant turnaround through the end of 2019, it will also be the first time ExxonMobil has fallen from more informal lists of the top ten most valuable companies in the United States in more than 100 years, according to IEEFA research.⁵

During August, the energy sector, of which ExxonMobil is the leader, claimed last place in the S&P 500 sector performance.⁶ The sector -- which includes only fossil

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¹ At the end of each month, S&P publishes an update https://us.spindices.com/indices/equity/sp-500. The update includes a list of the top ten companies in the index and it is released the last day of the month.


⁵ Forbes.com. America’s top companies 1917-2017. Kauflin, Jeff. September 19, 2017. Forbes research covers from 1917 through 2007 in fifty year increments and ranks companies by market capitalization. The company went under the name Standard Oil of New Jersey through 1972 when it became Exxon and the ExxonMobil in 1999. See: S&P Dow Jones Indices. The changing DJIA. Standard Oil of New Jersey was admitted to the Dow Jones Industrial Average on October 1, 1928 and has remained there ever since. Wikipedia. Historical components of the Dow Jones Industrial Average. Fortune magazine has compiled a list annually of the top 100 companies since 1955. Standard of New Jersey and Exxon, ExxonMobil have been in the top ten every year. Fortune.com Fortune 500. See also Fortune 500 annual reports since 2006-2018. Fortune.com Fortune 500.

⁶ Yardeni Research, Performance 2017 S & P 500 Sectors and Industries, S&P 500 Sectors Performance 2017, Figure 1, August 30, 2019.
fuel companies placed last or near last in 2017 and 2018. The sector has gone from its once vaunted leadership position totaling 28% of the S&P 500 in 1980, to 4.4%.10

Financial Market Leadership Has Been Part of ExxonMobil’s Brand

The fall of ExxonMobil from the S&P 500 top ten represents a departure for the company from its ‘personal best’. Most other companies would shrug off this type of milestone; after all, eleventh or twelfth in the S&P 500 is still a good place to be. For ExxonMobil, however, financial market leadership – high returns and discipline11– is an integral part of its brand.

The slide of ExxonMobil is a sign of a more general downward trajectory that has been taking place at the company and in the energy sector for years. Although the fossil fuel industry has long equated economic growth with rising oil and gas production and profits, the last few years have proven otherwise. Over the last ten years, the economy in general and other industries have eclipsed the fossil fuel sector, creating value and pushing the stock market to impressive levels.

The long-term decline this fall is punctuated by ExxonMobil’s 2Q 2019 earnings report.

- 2Q 2019 overall earnings decreased by $800 million from 2Q 2018. Refinery earnings were down by $300 million, chemicals down by $700 million and U.S. upstream down by $100 million.12

- The company borrowed to pay dividends. 2Q 2019 dividends increased from 2Q 2018. The outlay was $3.7 billion13 and ExxonMobil’s long-term debt increased by $4.4 billion from 1Q-to-2Q.14

- 2Q 2019 free cash flow was negative $0.9 billion.15

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13 Ibid.
14 Ibid. p. 1.
15 Ibid. p. 1.
• U.S. upstream earnings show continued weakness, bringing in $335 million. Over the past five years, U.S. upstream took 27% of worldwide capex resources, but provided only 5% of ExxonMobil’s worldwide earnings.16

**ExxonMobil’s Questionable Oil Sands Valuations**

ExxonMobil’s 2Q financial performance results coincided with additional bad news that came from Canada.17 Kinder Morgan and Koch Industries, significant players in the Canadian oil sands business, have decided to pack it in. Koch’s oil sands holdings have been estimated at 1.2 million acres18 and it ranked among the top players. Koch did not report the amount it received from purchaser Paramount Resources.19 Kinder Morgan’s full departure comes on the heels of its successful offload of the Trans Mountain pipeline project to the Canadian government. Its profit, a going-away gift from Canadian taxpayers, was in the $3 billion range.20

Kinder and Koch follow a long line of foreign investors who have soured on the oil sands, with large projects scuttled and significant investments written down, partly of distressed sales, or lost altogether. For ExxonMobil, the negative news is at odds with its decision in early 2019 to re-book 3.2 billion barrels of oil sands reserves, 16% of the company’s worldwide reserves.21 The original de-booking of the reserves in 2016 came after a very public disagreement with the U.S. Securities and Exchange Commission (SEC)22 and some industry analysts. At the time, most oil sands producers reported substantial declines in extractable reserve levels, reserve values and future profitability driven in large measure by the collapse of oil prices in 2014.23

ExxonMobil did not write down its oil sands assets. As a result, the company’s financial reporting was out-of-step with the rest of the industry. The company claimed it had already factored in market decline.24 After criticism (and the

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16 IEEFA Calculation
20 IEEFA.org. ’Canada’s Folly’ could drive Canada’s national budget 36% higher while ensuring Houston-based Kinder Morgan a 637% gain. Sanzillo, Tom, Hipple, Kathy. June 26, 2018.
commencement of an SEC investigation), the company relented and de-booked 3.5 billion barrels in its 2016 annual filing. The reduction of the physical number of extractable reserves was not accompanied by a reduction in the company's value of its holdings. It claimed compliance with the SEC disclosure rules related to the quantity of reserves. The company argued this was largely a technical matter and one that did not affect the value of the assets. The company stated at the time of the de-book that it would probably rebook the physical assets at some later date when oil prices turned around. In early 2019, the company announced the rebooking in its 2018 10-K filing. ExxonMobil's Canadian subsidiary Imperial Oil stated that the rebooking reflected improved prices during 2018.

With the departure of two more foreign investors from Canadian oil sands, ExxonMobil and Imperial face renewed questions regarding the accuracy of extractable reserve levels in Canada and the validity of valuations, which amount to approximately $34 billion. Notwithstanding the fact that the SEC dropped its investigation of the company's financial disclosures of its oil sands assets, the issue remains.

The purpose of uniform systems of accounting is to allow an accurate comparison of companies so investors have reliable data. When one company's presentation of fundamental measures of financial health is so at variance with the rest of the industry, there are concerns that the accounting distortions create an unfair advantage in the marketplace. When Koch Industries oil sands assets draw such a low price that it is an embarrassment it refuses to disclose (and when the rest of the non-Canadian oil and gas sector has pulled out), then Exxon Mobil's reserve levels and value estimates have to be given another look.

### Permian Basin Performance: Why the Optimistic Outlook?

ExxonMobil has also recently let it be known that it is looking to sell its UK-North Sea holdings. The reports are that the company is moving most resources into the Permian Basin to meet its stated production goal of 1 million barrels per day by 2024. The company reports it is on target in 2Q 2019 to meet that goal. But when will the Permian Basin increases in production turn into earnings enhancements for shareholders? How will ExxonMobil escape the financial distress that has befallen

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27 Imperial Oil. 2018 Annual Report.
29 FinancialTimes.com. https://www.ft.com/content/78e652f6-9744-11e8-b747-fb1e803ee64e
32 ExxonMobil.com. ExxonMobil to increase, accelerate Permian output to 1 million barrels per day by 2024. March 5, 2019
33 StreetSignals.com XOM stock: ExxonMobil’s growth strategy is on track. August 20, 2019
smaller exploration and production companies? Why is the company putting more money into a region that is producing poor returns?

Recently, EQT, a fracking company with similarly poor performance, decided to increase investor confidence by placing the credibility of its new leadership team on the line. Company leadership committed to specific, quantifiable financial goals: the company would produce $500 million in free cash flow by 2021. It is time for ExxonMobil’s leadership to hold itself accountable and show financial success that matches its prodigious output goals. Financial goals should be based on the actual financial performance of the company’s actual production activity, without the support of accounting and financial gimmicks (e.g. borrowing to pay shareholder dividends). The commitment should be precise and the timeline certain.

ExxonMobil’s results for the first half of this year have been poor. The company’s third quarter outlook promises are modest. There is some indication that planned asset sales may produce cash during Q3 and Q4. But planned asset sales thus far this year have been disappointing. These are increasingly important as revenue from operations comes up short. The weak response to ExxonMobil’s aggressive marketing of a number of its upstream assets in the Gulf of Mexico, Azerbaijan and Norway may speak to a broader deterioration in the value of oil and gas reserves.

Investors can no longer be confident in the financial performance of the energy sector, but must now carefully pick and choose individual companies based on increasingly complicated revenue and value strategies. ExxonMobil and the energy sector are no longer high risk, high-return blue chip stocks, but increasingly have taken on the characteristics of speculative companies, high-risk and low, unstable returns.

36 Reuters.com ExxonMobil’s second quarter results expected to sag spotlighting need for asset sales. July 30, 2019. See also SeekingAlpha.com. Exxon Mobil (XOM) Corporation Management on Q2 2019 Results, Earnings Call Transcript Opening comments from Neil Chapman, Senior Vice President and Member of the Management Committee.
About IEEFA

The Institute for Energy Economics and Financial Analysis conducts research and analyses on financial and economic issues related to energy and the environment. The Institute’s mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. www.ieefa.org

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