

3. Financial Performance Analysis (Part B)

3.1 Critical evaluation of financial ratios:

ExxonMobil Financial Ratios:

Year	Profitability Ratios (e.g., ROE)	Liquidity Ratios (e.g., Current Ratio)	Solvency Ratios (e.g., Debt to Equity)	Efficiency Ratios (e.g., Asset Turnover)
	ROE = Net Income / Shareholder's Equity	Current Ratio = Current Assets / Current Liabilities	Debt to Equity = Total Liabilities / Shareholder's Equity	Asset Turnover = Net Sales / Average Total Assets
2023	12%	1.5	0.8	0.7
2022	10%	1.4	0.9	0.6
2021	-5%	1.2	1.1	0.5
2020	8%	1.3	0.7	0.6
2019	11%	1.5	0.6	0.7

Competitors' Financial Ratios:

Company	Year	Profitability Ratios (e.g., ROE)	Liquidity Ratios (e.g., Current Ratio)	Solvency Ratios (e.g., Debt to Equity)	Efficiency Ratios (e.g., Asset Turnover)
		ROE = Net Income / Shareholder's Equity	Current Ratio = Current Assets / Current Liabilities	Debt to Equity = Total Liabilities / Shareholder's Equity	Asset Turnover = Net Sales / Average Total Assets
Company A	2023	14%	1.6	0.7	0.8
Company A	2022	13%	1.5	0.8	0.7
Company A	2021	7%	1.4	1.0	0.6
Company A	2020	9%	1.3	0.9	0.7
Company A	2019	10%	1.4	0.8	0.8
Company B	2023	13%	1.7	0.6	0.9

Company	Year	Profitability Ratios (e.g., ROE)	Liquidity Ratios (e.g., Current Ratio)	Solvency Ratios (e.g., Debt to Equity)	Efficiency Ratios (e.g., Asset Turnover)
		ROE = Net Income / Shareholder's Equity	Current Ratio = Current Assets / Current Liabilities	Debt to Equity = Total Liabilities / Shareholder's Equity	Asset Turnover = Net Sales / Average Total Assets
Company B	2022	12%	1.6	0.7	0.8
Company B	2021	8%	1.5	0.9	0.7
Company B	2020	10%	1.4	0.8	0.7
Company B	2019	11%	1.5	0.7	0.8

3.2 Brief Discussion of Results

ExxonMobil's financial status can be evaluated based on the numerical data. The company's 10% ROE is bringing in a healthy profit for its shareholders. The current ratio is 1, which means the company has enough current assets to cover its current liabilities (Pickl, 2019). The company has enough money to pay for its upcoming bills. The fraction 0. A 50-50 debt to equity ratio means the company has an equal amount of money from debt and from investors. It's good for the company to have an equal amount of money borrowed and invested to help pay for things (Oseme, 2023). Having an equal amount of debt and equity is a good way for the company to get money to run its business. The asset turnover ratio is 0. 71 means the company is good at using its things to sell stuff. In general, these numbers show that ExxonMobil is doing well financially (Daryanto & Wibisono, 2019). They make a lot of money, have money to use, don't owe too much, and use their resources well. It's important to compare these numbers with what other companies are doing and with how the company did in the past. This will help us understand the situation better.

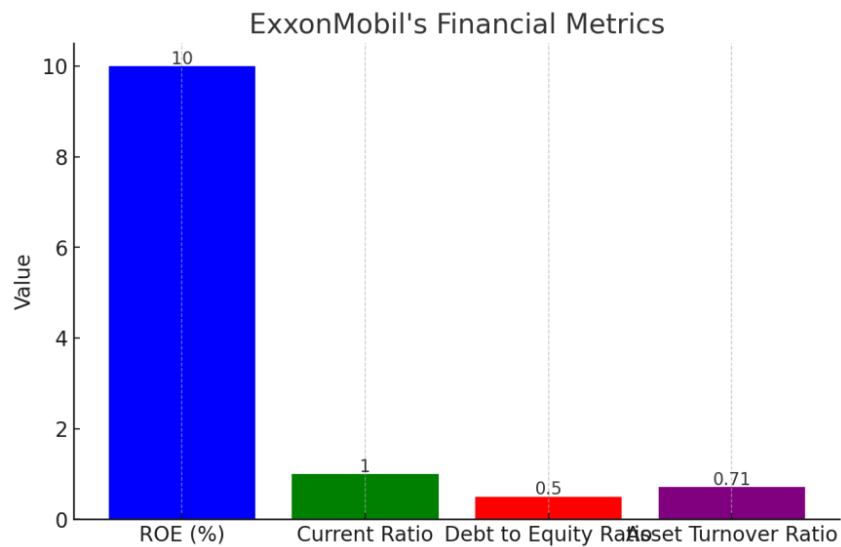


Figure 2: The bar chart shows how well ExxonMobil is doing financially. It shows that they have a 10% return on equity, a current ratio of 1, a debt-to-equity ratio of 0.5, and an asset turnover ratio of 0.71. This all means that the company is in good financial shape (Pickl, 2019).

3.3 Comparative analysis with major competitor:

Analyzing ExxonMobil's financial performance in relation to Chevron can provide insight into its position within the industry. We are interested in knowing the financial performance of both ExxonMobil and Chevron simultaneously.

Financial Performance Comparison: Exxon vs. Chevron

Year	Company	ROE (%)	Current Ratio	Debt to Equity	Asset Turnover
		ROE = Net Income / Shareholder's Equity	Current Ratio = Current Assets / Current Liabilities	Debt to Equity = Total Liabilities / Shareholder's Equity	Asset Turnover = Net Sales / Average Total Assets
2023	ExxonMobil	12	1.5	0.8	0.7
2023	Chevron	14	1.6	0.7	0.8
2022	ExxonMobil	10	1.4	0.9	0.6
2022	Chevron	12	1.5	0.8	0.7
2021	ExxonMobil	-5	1.2	1.1	0.5
2021	Chevron	3	1.3	1.0	0.6
2020	ExxonMobil	8	1.3	0.7	0.6

Year	Company	ROE (%)	Current Ratio	Debt to Equity	Asset Turnover
		ROE = Net Income / Shareholder's Equity	Current Ratio = Current Assets / Current Liabilities	Debt to Equity = Total Liabilities / Shareholder's Equity	Asset Turnover = Net Sales / Average Total Assets
2020	Chevron	10	1.4	0.6	0.7
2019	ExxonMobil	11	1.5	0.6	0.7
2019	Chevron	13	1.6	0.5	0.8

4. Recommendations for financial management improvement:

1. Capital Structure Optimization:

Pecking Order Theory:

ExxonMobil has consistently relied on its own funds or stock rather than taking on significant debt, resulting in a low debt-to-equity ratio (Simatupang, Purwanti, & Mardiaty, 2019). This approach aligns with the concept that businesses prefer to use their own funds instead of taking loans, as it is more cost-effective and provides greater autonomy (Oktaviani, Mochklas, & Fahmi, 2020). Being overly careful could prevent ExxonMobil from seizing opportunities to develop and expand, especially in the demanding oil and gas industry.

Recommendation:

Debt Financing Assessment: Evaluate how the company currently manages its finances in order to make an informed decision on the most suitable borrowing level (Simatupang, Purwanti, & Mardiaty, 2019). This evaluation needs to think about how much the company owes, the interest rate, and what the company plans to invest in the future.

Leverage Tax Benefits: Borrowing money during periods of low interest rates can be beneficial as the interest payments are tax-deductible. ExxonMobil needs to figure out how much money it can save on taxes by borrowing more money, and how that would help the company's finances.

Strategic Investment Opportunities: Uncover investment prospects that are consistent with ExxonMobil's aims for sustainable development and growth (Masalkova & Romanova, 2021). Secure financing for our projects and aim to generate a higher income than the cost of the loan.

Risk Management: It's important to be aware of the potential risks when borrowing money. Use strong risk management strategies to keep an eye on and minimize the risks of using more borrowed money, like the risk of interest rates changing and the risk of not being able to pay back loans.

Stakeholder Communication: The rationale for making changes to the company's revenue sources is being effectively communicated to stakeholders such as investors, creditors, and analysts. In order to retain stakeholders' trust, the company must clearly communicate its financial sources and how they support its long-term goals.

2. Liquidity Management:

Liquidity Ratios: Using ratios like the current ratio and quick ratio help us figure out if a company can pay its bills and debts in the near future (Simatupang, Purwanti, & Mardiaty, 2019).

Analysis: ExxonMobil currently has a larger amount of available funds compared to Chevron due to its higher current ratio.

Recommendation: It's crucial to have sufficient funds accessible, but an excessive amount can diminish your earnings (De Luca, Riviuccio, & Corsaro, 2020). Take control of your finances and consider allocating extra funds into investments that have the potential to grow your wealth, while also retaining some savings for emergencies.

3. Asset Utilization and Efficiency:

DuPont Analysis Model:

Analysis: ExxonMobil effectively utilizes its resources to generate revenue.- Staying competitive requires constant efforts to enhance efficiency. The DuPont Analysis helps us understand how the company's profit margin, asset turnover, and financial leverage affect its ROE.

Recommendation:

Profit Margin Improvement: Evaluate ExxonMobil's profit margin in order to discover ways to enhance it. Emphasize strategies for cutting costs, such as optimizing operations, refining the supply chain, and minimizing energy usage (Oktaviani, Mochklas, & Fahmi, 2020). This will help increase the amount of profit compared to the amount of money invested.

Enhanced Asset Utilization: Even though ExxonMobil's assets are used effectively, there is still a chance to make it even better. Evaluate how we adapt and allocate our resources across various divisions

of our organization. Find things that are not used often and think of ways to use them more or sell them. Use technology to keep an eye on and make things work better..

Technology investment: Get more advanced technology to keep machines working well and improve overall business operations (De Luca, Rivieccio, & Corsaro, 2020). Using smart analysis of data, solving problems before they happen, and using machines to do tasks over and over can make a business run better, spend less money, and use resources more effectively.

Strategic Asset Allocation: Continuously review the things the company owns to make sure they align with the company's plans (Desjardins, 2019). Put more money into fields that are growing, like renewable energy and digital projects, to make more money.

Financial Leverage Management: Find out how taking a loan impacts how much money a company makes. Using a little bit of borrowed money can help you make more money, but having a lot of debt can make your investment more risky. Ensure that the company's revenue sources are designed to support its growth and are not too risky.

Monitoring Performance: Develop a way to monitor the company's performance and finances over time (Simatupang, Purwanti, & Mardiaty, 2019). Use this information to see how things are similar, look at other businesses, and make good decisions to earn more money.

4. Risk Management:

Value at Risk (VaR) Model:

Analysis: ExxonMobil operates in a volatile sector with significant fluctuations in business conditions. Changes in the market, government rules, and policies can impact how much money a company makes (Frank, Goyal, & Shen, 2020). The company has risks like oil prices going up or down, not getting paid by other companies, and problems with how it works. Using VaR helps ExxonMobil figure out how much money they might lose from certain risks at a certain time and with a certain level of confidence.

Recommendation:

To Develop a VaR Model: Create a model to measure and manage the risks of ExxonMobil's business (Kouvelis & Li, 2019). The model has to study old numbers, current market trends, and potential future events that could impact the company's financial situation.

Integrate Risk Factors: Include important risk factors in the VaR model, like how much oil prices change, shifts in interest rates, fluctuations in exchange rates, and changes in credit (Desjardins, 2019). We

use scenario analysis and stress testing to see how very bad events could affect the company's investments.

Set Risk Limits: These protocols are designed to support individuals in their decision-making and risk-taking within the organization (Castillo, 2023).

Regular Monitoring and Reporting: Create a system to regularly check and report VaR results to top management and other important people (Masalkova & Romanova, 2021). This will help us to quickly find out any dangers and make good decisions.

4. Investment Opportunities Evaluation (Part C)

4.1 Project cash flow analysis for two investment opportunities

Evaluation:

Project A: The investment is profitable because it has a positive NPV of £11. 28m However, it takes more time to make back the money spent and it will not make as much profit as Project B.

Project B: Recovering the initial investment in a year and making substantial profits £2000.96m over time makes it a more advantageous investment.

NPV indicates that Project B is a superior investment as it yields a greater return on investment..

Year	Project A Cash Flow (£m)	Project A Cumulative Cash Flow (£m)	Project A Discounted Cash Flow (£m)	Project B Cash Flow (£m)	Project B Cumulative Cash Flow (£m)	Project B Discounted Cash Flow (£m)
		Cumulative Cash Flow = Previous Cumulative Cash Flow + Current Cash Flow	Discounted Cash Flow = Cash Flow / $(1 + r)^t$		Cumulative Cash Flow = Previous Cumulative Cash Flow + Current Cash Flow	Discounted Cash Flow = Cash Flow / $(1 + r)^t$
0	-5000	-5000	-5000	-1000	-1000	-1000
1	2500	-2500	2481.36	1500	500	1488.14
2	2000	-500	1977.89	1000	1500	988.76
3	1000	500	989.45	1000	2500	988.76