

# VALUATION SCORECARD

## Marathon Oil Corp

NYSE: MRO

**CRUDE PETROLEUM & NATURAL GS**

Energy

MARKET VALUE (\$BIL) \$13.84  
 SHARES OUTS (MIL): 585  
 AVG DAILY VOL (000): 9,784

YIELD: 1.9%  
 P/E: 7.0X  
 BETA: 2.22X

02/21/24  
 Price:  
**\$23.65**

Marathon Oil's common shares will need to reach \$40 to achieve average annual stock market performance of 9.0% over the next 6 years. Upper quartile performance will require a \$47 Marathon Oil stock price by 2028. What is the market's view of Marathon Oil's future operating performance as reflected in the current price of \$24?

**CRITERIA**

- Price Target Research identifies Marathon Oil as having: very high profitability, high expected growth, instability, and below average financial strength. Growth is a big positive influence on Marathon Oil's valuation while Risk Profile is a big negative influence.
- High valuation, below market shareholder returns.
- Marathon Oil's past growth is very high.
- Pretax Margin, Return on Equity, and Pretax ROA are group leading.
- Marathon Oil's risk profile is unfavorable.



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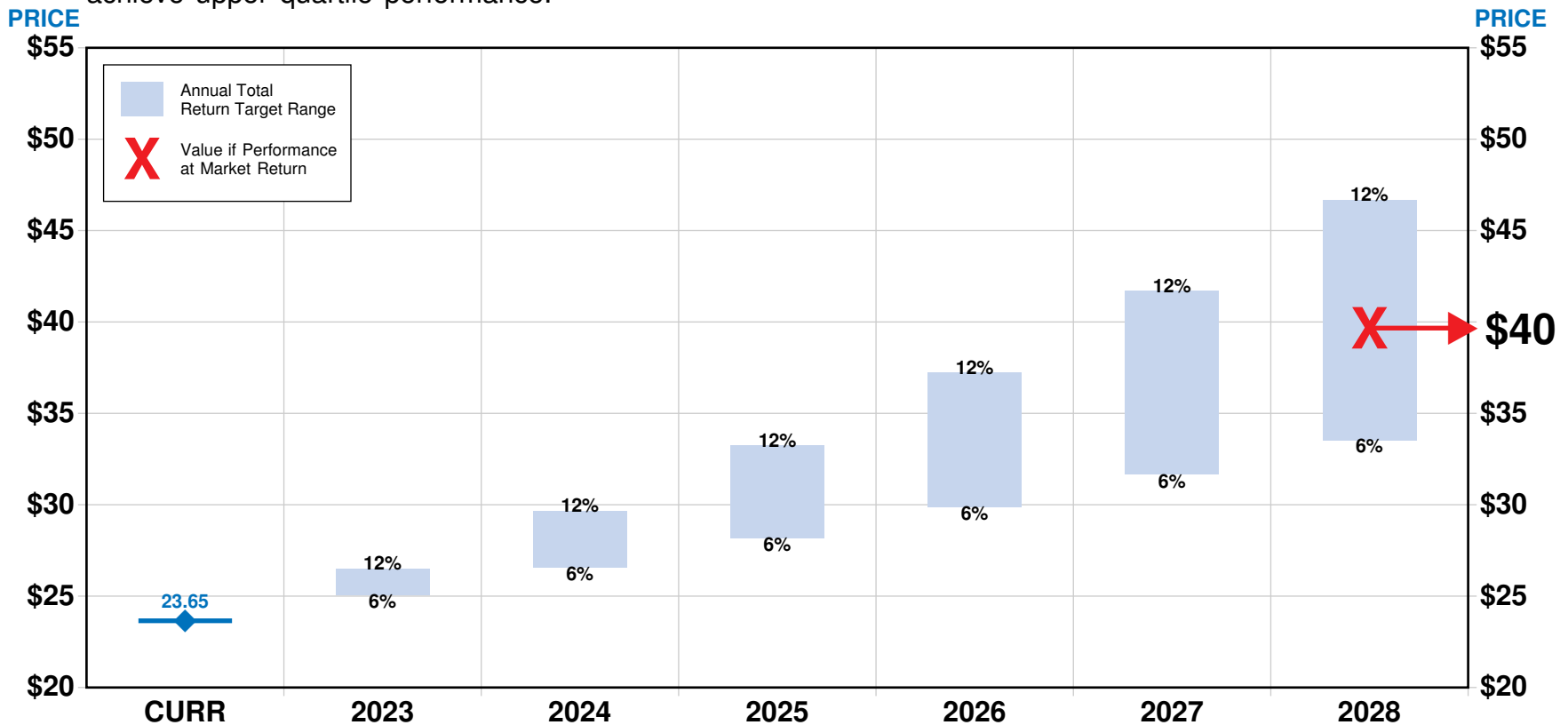
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# The Value Challenge

## How Does Marathon Oil Get to \$40 by 2028?

At the current price of \$24, what are market expectations regarding Marathon Oil's future operating performance? Over the next 6 years, Marathon Oil shares will need to reach \$40 to achieve average annual stock market performance of 9.0%. Marathon Oil's stock price will need to reach \$47 by 2028 to achieve upper quartile performance.



Diamonds represent Marathon Oil warranted value based on scenario assumptions and PTR proprietary analysis. Shaded bands represent year-end stock price necessary to achieve target returns.

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## Executive Summary

- **Price Target Research identifies Marathon Oil as having:** very high profitability, high expected growth, instability, and below average financial strength. Growth is a big positive influence on Marathon Oil's valuation while Risk Profile is a big negative influence.
- **High valuation, below market shareholder returns.** Current valuation levels are high relative to the Marathon Oil Peer Group. Recent market returns have underperformed the Marathon Oil Peer Group. Looking forward, total shareholder returns are expected to significantly beat the overall equity market. Based on current investor expectations, Marathon Oil shares should reach a level of \$194 by 2028 — an annual total shareholder return of 43.3%. A 2028 stock price of \$40 would reflect median performance and a price of \$47 would be required to reach upper quartile performance.
- **Growth has been Marathon Oil's biggest valuation strength.** Historical growth has been very high relative to the Marathon Oil Peer Group and forecasted growth is relatively very high. EPS Growth, Revenue Growth, and Asset Growth have been superior. These factors have buoyed market perceptions of Marathon Oil. Marathon Oil's historical income statement growth has been higher than growth in the balance sheet. Revenue growth has exceeded asset growth; earnings growth has exceeded equity growth resulting in an improving return on equity. Marathon Oil's consensus growth expectations are in line with past growth.
- **Pretax Margin, Return on Equity, and Pretax ROA are group leading.** These factors have strengthened market perceptions of Marathon Oil. The company has normal cash needs.
- **Marathon Oil's risk profile is unfavorable.** Overall variability has been very high with very high revenue variability, only average E.P.S. variability, and above average stock price volatility. Financial Strength is below average and earnings' expectations are relatively high. The debt/capital ratio has risen very significantly.

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# Valuation Scorecard

**WEALTH CREATION**



**Mixed**

- **Historical performance.** Average 5–year total returns relative to Marathon Oil Peer Group. One year returns weak. Valuation is high relative to group. Annual growth in warranted value has been strong.
- **Market expectations.** Total shareholder returns forecasted to significantly beat the overall equity market in the future. Based on current investor expectations, Marathon Oil shares should reach a level of \$194 by 2028 — an annual total shareholder return of 43.3%.

**GROWTH**



**Favorable**

- **Historical performance.** EPS Growth, Revenue Growth, and Asset Growth have been superior.
- **Market expectations.** Historical growth has been very high relative to the Marathon Oil Peer Group and forecasted growth is relatively very high.
- **Valuation key.** The company has normal cash needs.

**PROFITABILITY**



**Favorable**

- **Historical performance.** Pretax Margin, Return on Equity, and Pretax ROA are group leading.
- **Market expectations.** The company has achieved a very significant increase in ROE along with a very significant reduction in shares outstanding. Expectations will need to reflect these trends.
- **Valuation key.** Marathon Oil has normal cash availability.

**RISK**



**Unfavorable**

- **Historical performance.** Financial Strength is below average. Debt/capital ratio has risen very significantly. Overall variability has been very high.
- **Market expectations.** Overall variability very high. Earnings' expectations are relatively high.
- **Valuation key.** Marathon Oil's unfavorable risk profile has a negative impact on Marathon Oil's valuation.

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Marathon Oil Peer Group (14 Companies)

Ashland Inc

Civitas Resources Inc

Compania De Minas Buenaventura S

Devon Energy Corp

Helix Energy Solutions Group Inc

Marathon Oil Corp

Murphy Oil Corp

SM Energy Co

Star Bulk Carriers Corp

Tejon Ranch Co.

Textainer Group Holdings Ltd

The Mosaic Company

Unit Corp

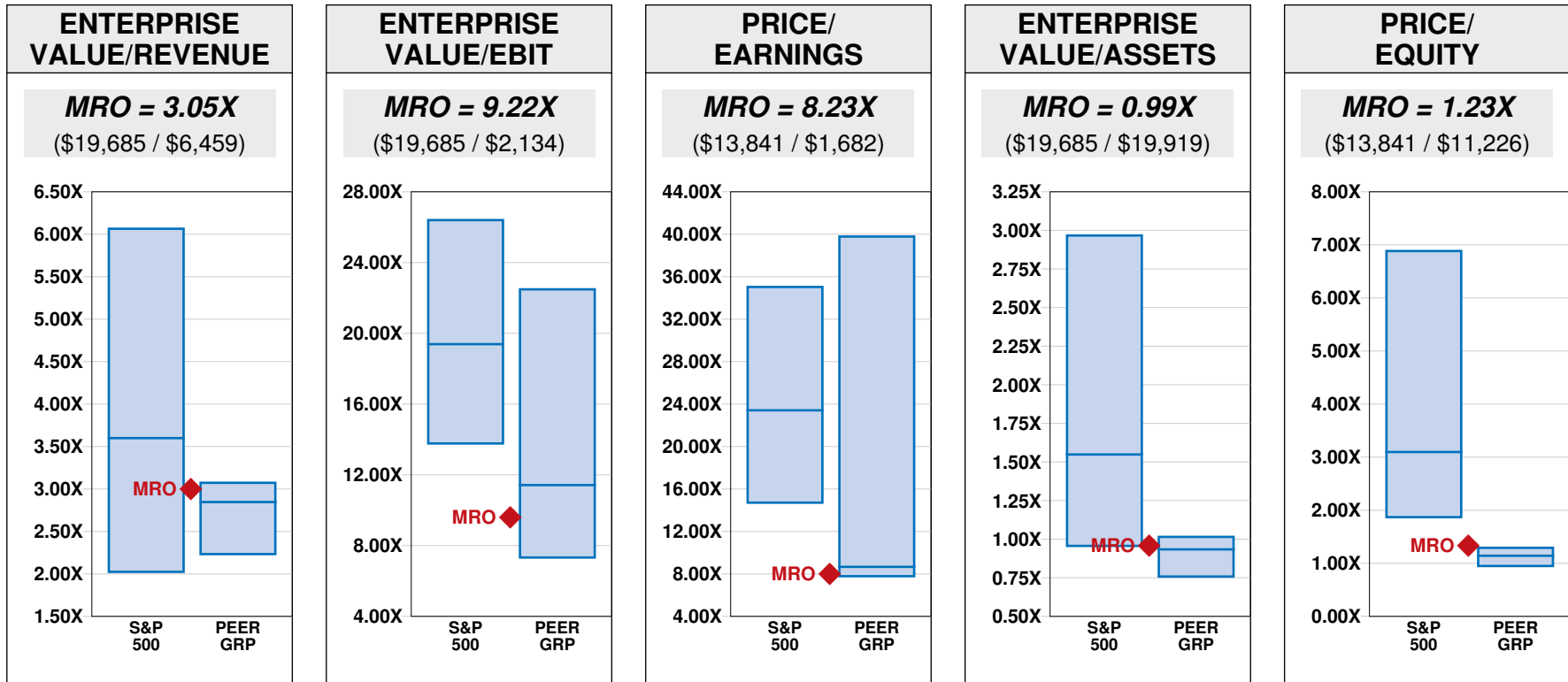
Viartis Inc

## Summary – Current Valuation

- **Relative to S&P 500 Composite, MRO’s overall valuation is quite low.**
  - The highest factor, the ratio of enterprise value/revenue, is below median. Ratio of enterprise value/assets is near the lower quartile. Ratio of enterprise value/earnings before interest and taxes is lower quartile. Price/equity ratio is lower quartile. The lowest factor, the price/earnings ratio, is lower quartile.
- **Relative to Marathon Oil Peer Group, MRO’s overall valuation is normal.**
  - The highest factor, the price/equity ratio, is above median. Ratio of enterprise value/revenue is at the upper quartile. Ratio of enterprise value/assets is above median. Price/earnings ratio is below median. The lowest factor, the ratio of enterprise value/earnings before interest and taxes, is below median.

### Valuation Relative to Key Groups

**Marathon Oil's valuation relative to S&P 500 Composite is lower than it is relative to Marathon Oil Peer Group. Relative to Marathon Oil Peer Group, MRO's overall valuation is normal.** The highest factor, the price/equity ratio, is above median. Ratio of enterprise value/revenue is at the upper quartile. Ratio of enterprise value/assets is above median. Price/earnings ratio is below median. The lowest factor, the ratio of enterprise value/earnings before interest and taxes, is below median.



Individual valuation measures for each group are percentiled and compared to Marathon Oil values. High end of bar represents group upper quartile value. Lower end represents lower quartile value. Middle line represents group median. Marathon Oil value is represented by diamond.

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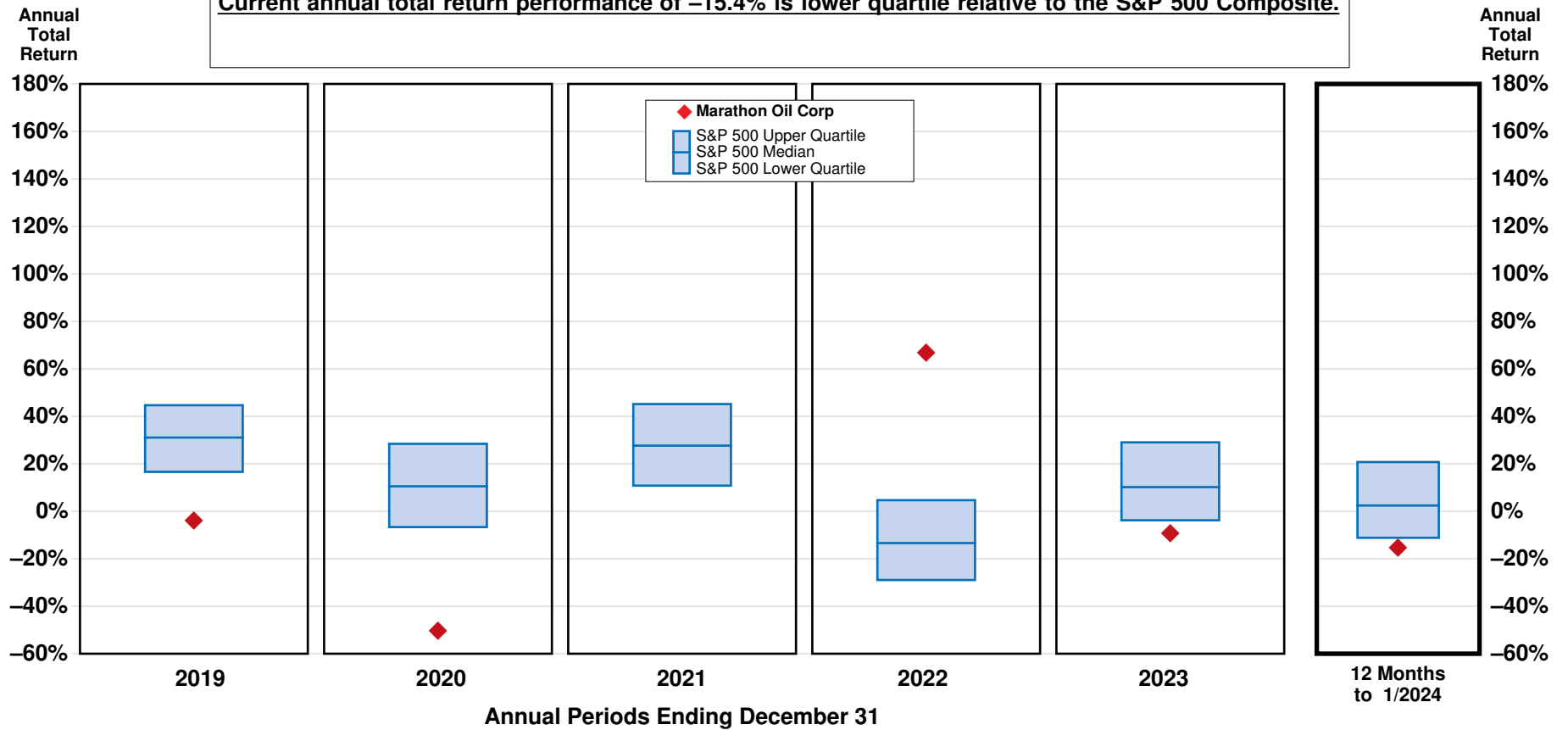
## Investment Performance vs. S&P 500

- Marathon Oil's annual total return performance of -15.4% for the year ending January, 2024 is substantially below median.
- Over the last 5 years, Marathon Oil's annual total return performance has been average. By quartile, annual total returns have been:
  - third quartile for 2 of the last 3 years.
  - variable over the last 5 annual periods.
  - third quartile for 3 of the last 6 annual periods.
- Marathon Oil's current 5-year total return performance of 9.2% through January, 2024 is at median.
- Over the last 5 years, Marathon Oil's 5-year total return performance has been average. 5-year total returns by quartile have been:
  - second quartile for 2 of the last 3 5-year periods.
  - second quartile for 3 of the last 5 5-year periods.
  - second quartile for 4 of the last 6 5-year periods.

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## Annual Total Returns vs. S&P 500 Composite

**Current annual total return performance of -15.4% is lower quartile relative to the S&P 500 Composite.**

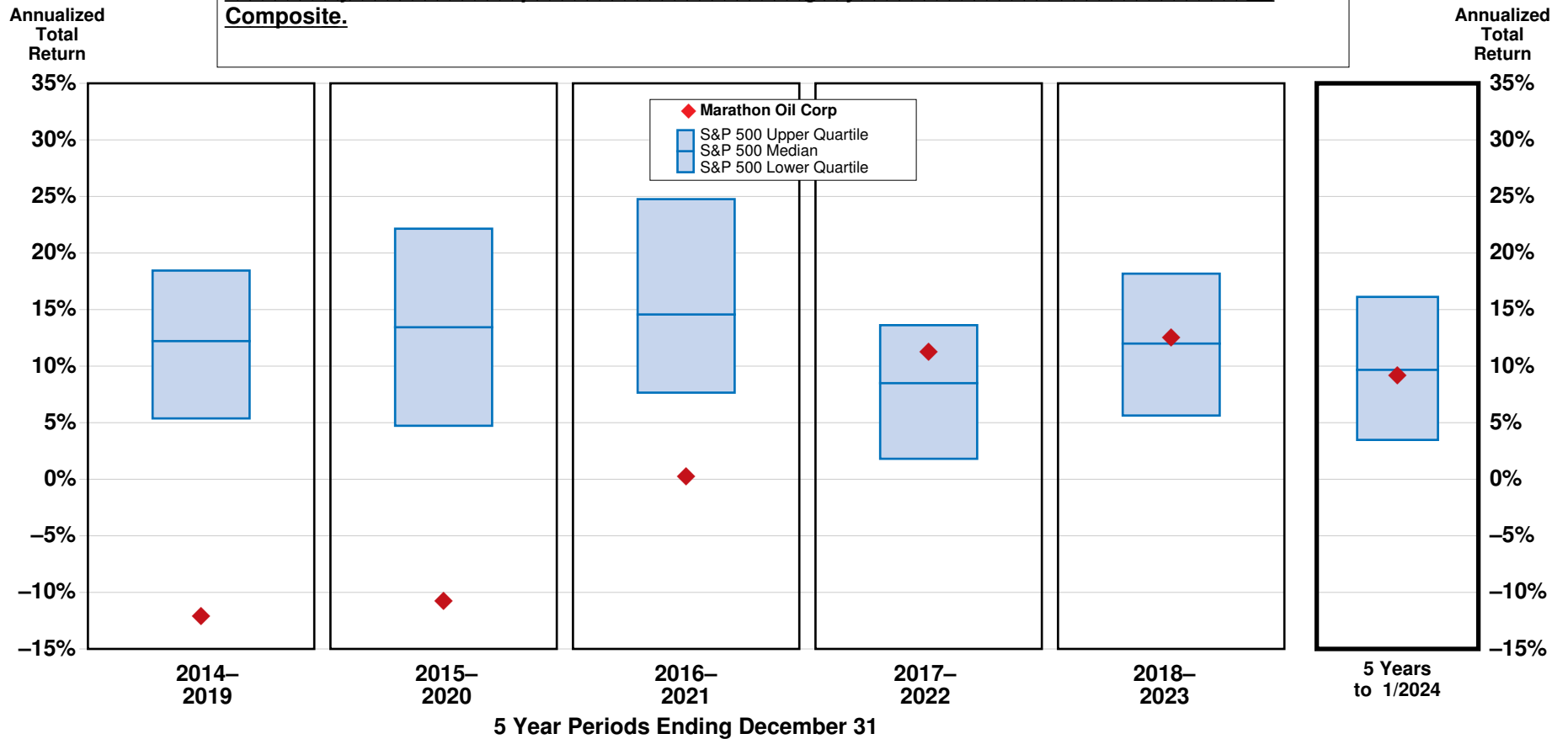


Total returns are annualized and include price appreciation and common dividends accumulated during each period. Marathon Oil returns represented by diamond; S&P 500 Composite upper quartile by upper end of bar; lower quartile by lower end; median returns by the line.

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### 5 Year Annualized Total Returns vs. S&P 500 Composite

**Current 5-year total return performance of 9.2% is slightly below median relative to the S&P 500 Composite.**



Total returns are annualized and include price appreciation and common dividends accumulated during each period. Marathon Oil returns represented by diamond; S&P 500 Composite upper quartile by upper end of bar; lower quartile by lower end; median returns by the line.

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## Summary – Growth Profile

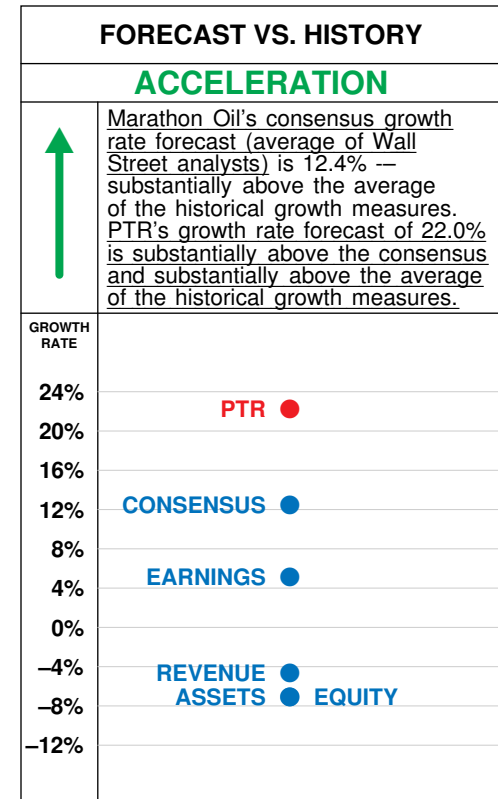
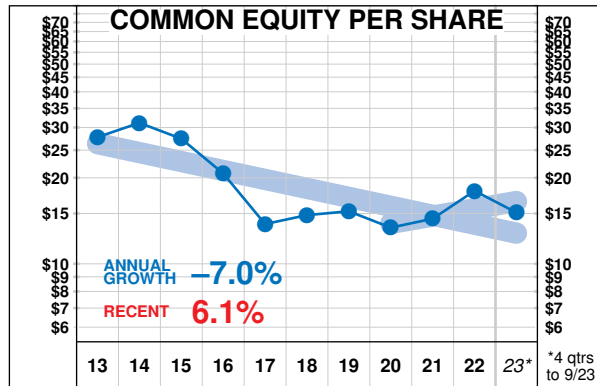
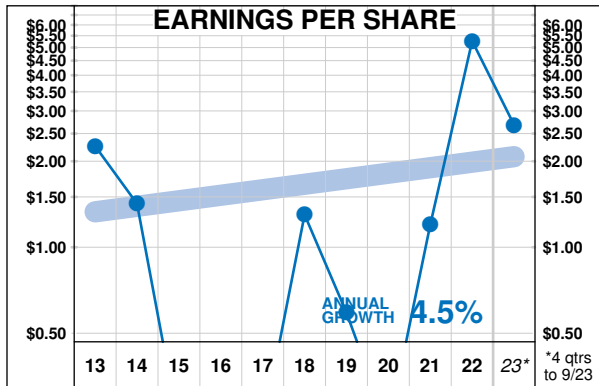
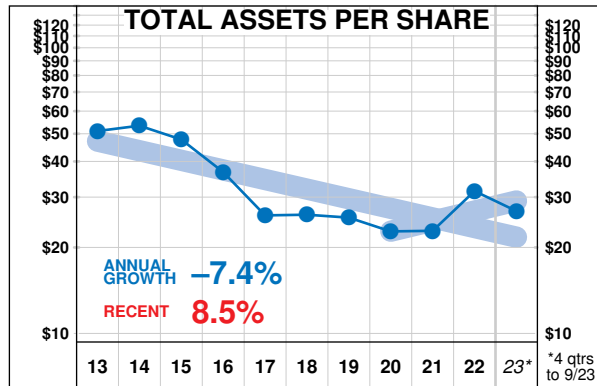
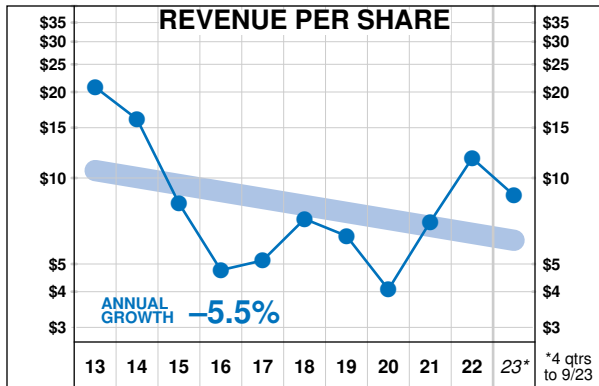
- **Historical growth profile.** Marathon Oil's historical income statement growth and balance sheet growth have diverged. Revenue growth has paralleled asset growth; earnings growth has exceeded equity growth.
  - Annual revenue growth has been –5.5% per year.
  - Total asset growth has been –7.4% per year. (More recently it has been 8.5%.)
  - Annual E.P.S. growth has been 4.5% per year.
  - Equity growth has been –7.0% per year. (More recently it has been 6.1%.)
- **Growth profile vs. Marathon Oil Peer Group.** Relative to the Marathon Oil Peer Group, Marathon Oil's historical growth measures are generally lower quartile.
  - E.P.S. growth (4.5%) has been at the lower quartile.
  - Total asset growth (–7.4%) has been lower quartile.
  - Revenue growth (–5.5%) has been lower quartile.
  - Equity growth (–7.0%) has been lower quartile.

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### Growth Profile For Period 2013–2023

**Marathon Oil’s historical income statement growth and balance sheet growth have diverged. Revenue growth has paralleled asset growth; earnings growth has exceeded equity growth.** Annual revenue growth has been –5.5% per year. Total asset growth has been –7.4% per year. (More recently it has been 8.5%.) Annual E.P.S. growth has been 4.5% per year. Equity growth has been –7.0% per year. (More recently it has been 6.1%.)

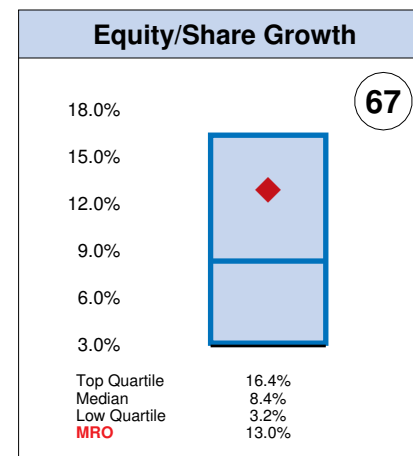
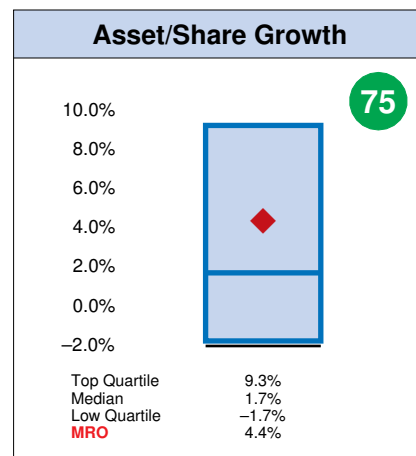
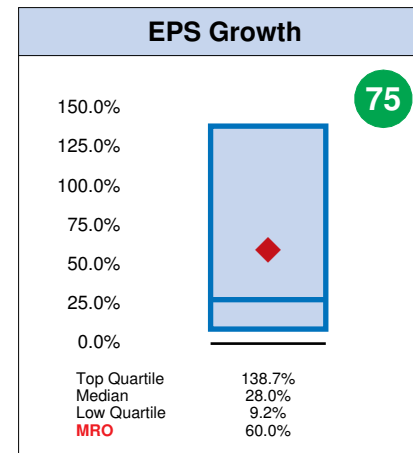
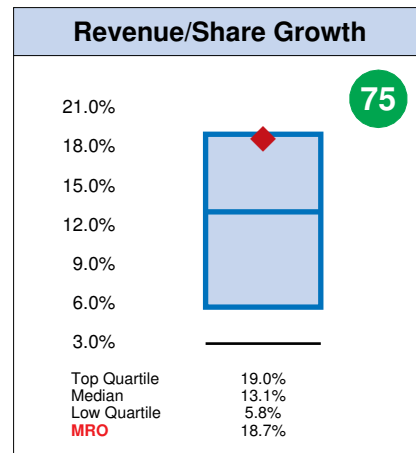


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Longer term growth rates in revenue, net income, total assets, and common equity are derived from a least-squares statistical analysis of Marathon Oil’s historical performance and are on a per share basis. (Where indicated, a significantly different shorter term trend is also presented.) Note that the consensus growth rate forecast is the average of available Street forecasts.

## Key Growth Measures Relative to Marathon Oil Peer Group (14 Companies)

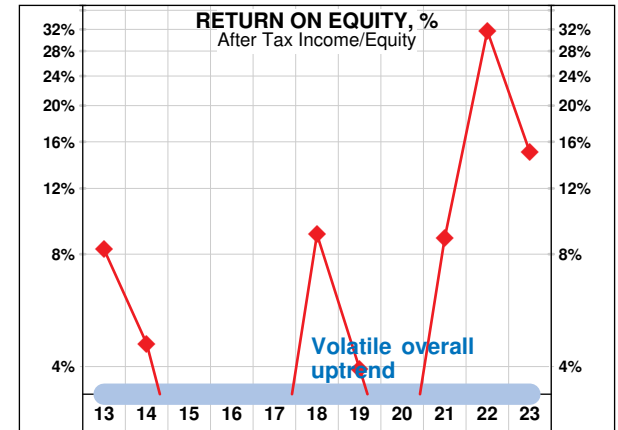
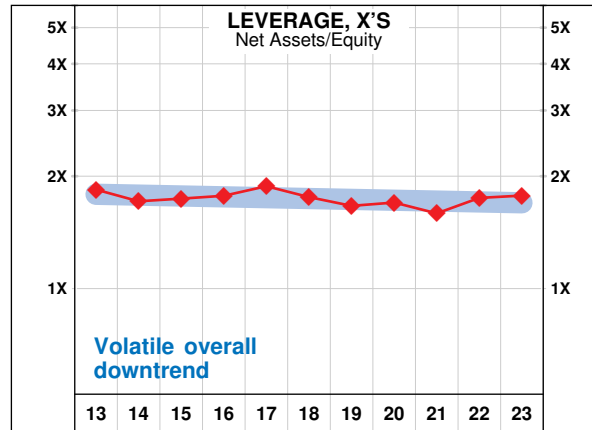
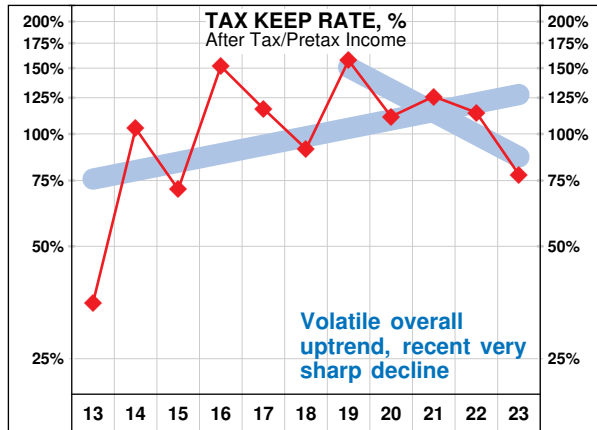
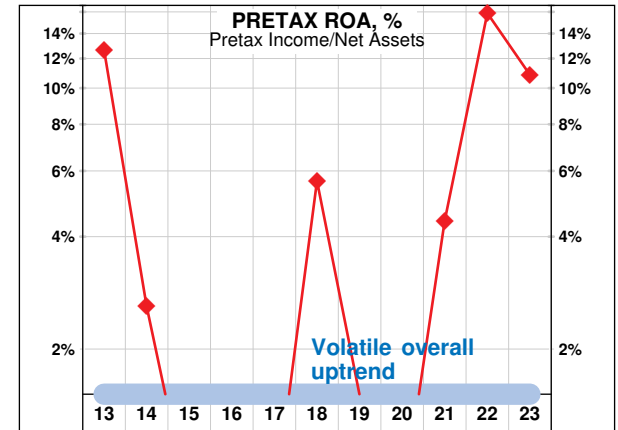
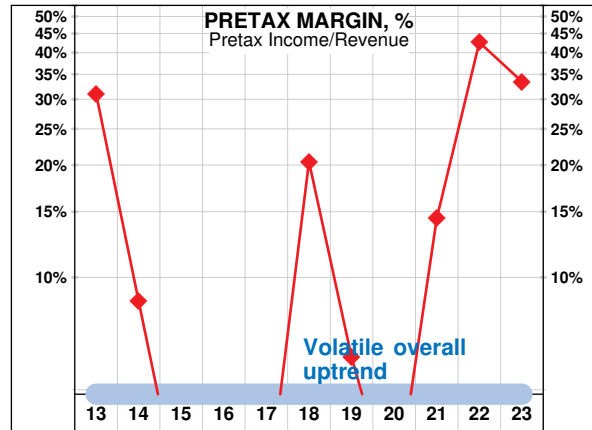
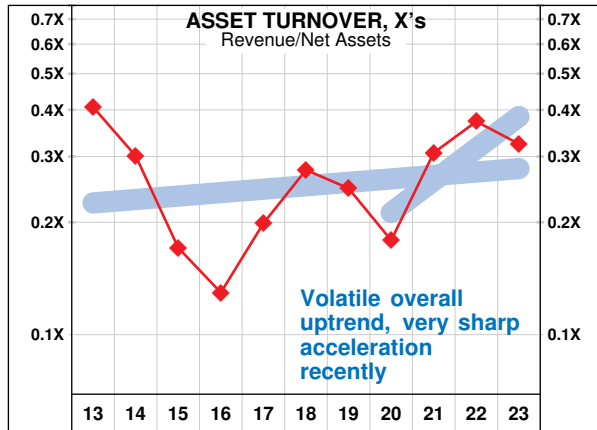


High end of bar represents Marathon Oil Peer Group upper quartile value. Lower end represents lower quartile value. Middle line represents group median. Marathon Oil values are represented by red diamonds. Marathon Oil percentile ranks (0–100) shown in circles.

## Summary – Profitability Performance

- **Trend in operating performance.** Marathon Oil's return on equity has improved very significantly since 2013. The current level of 15.0% is 1.82X the low for the period and is –52.7% from the high.
  - The key to the story for MRO is a very strong positive trend in pretax operating return significantly augmented by a very strong positive trend in non–operating factors.
  - The productivity of Marathon Oil's assets rose over the full period 2013–2023: asset turnover has exhibited a volatile overall uptrend that accelerated very sharply after the 2020 level.
  - Marathon Oil's pretax margin enjoyed a volatile overall uptrend over the period 2013–2023.
  - Non–operating factors (income taxes and financial leverage) had a very significant positive influence on return on equity.
  - Tax "keep" rate has experienced a volatile overall uptrend even as it experienced a very sharp decline after the 2019 high.
- **Current operating performance.** Marathon Oil's return on equity is at the upper quartile (15.0%) for the four quarters ended September, 2023.
  - Operating performance (pretax return on assets) is at the upper quartile (10.8%) reflecting asset turnover that is at median (0.32X) and upper quartile pretax margin (33.5%).
  - Tax "keep" rate (income tax management) is at median (77.8%) resulting in after tax return on assets that is at the upper quartile.
  - Financial leverage (leverage) is at the lower quartile (1.77X).

## Profitability Profile (Four Quarters Ending September, 2023)



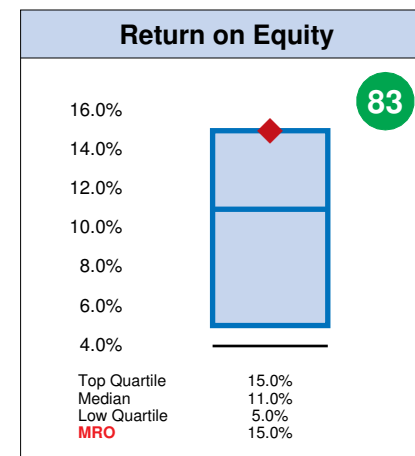
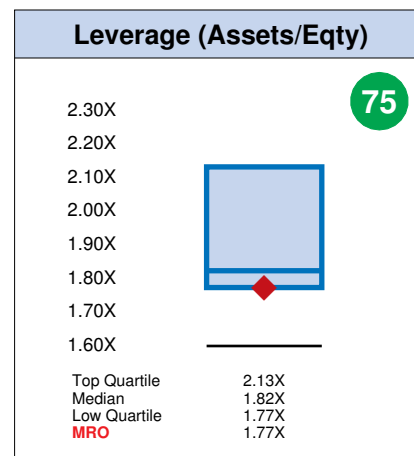
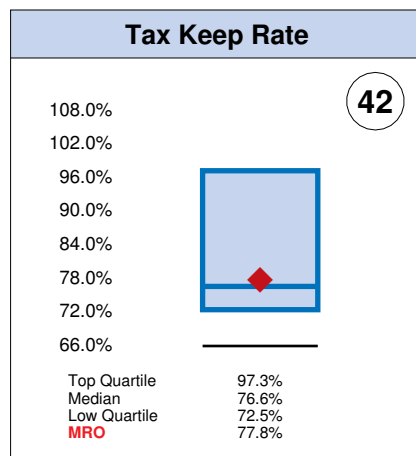
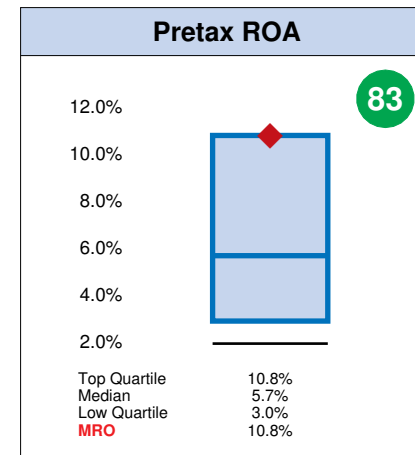
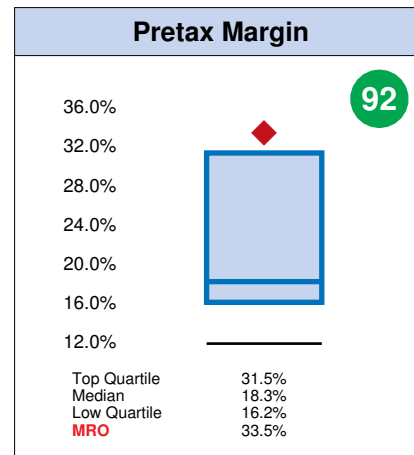
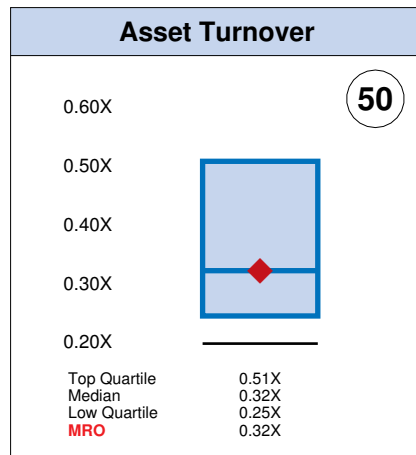
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**Asset turnover:** the revenue "productivity" of a firm's assets. **Pretax profit margin:** the profitability of each \$ of sales. **Pretax return on assets:** profitability before differences in tax liability. **Tax "keep" rate:** the percentage of pretax income retained after taxes. **Leverage (asset/equity ratio):** in asset terms rather than the traditional financing focus. **Return on equity:** ratio of net income to common equity.



## Key Profitability Measures Relative to Marathon Oil Peer Group (14 Companies)



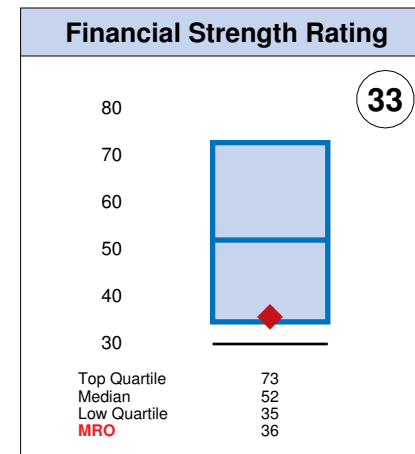
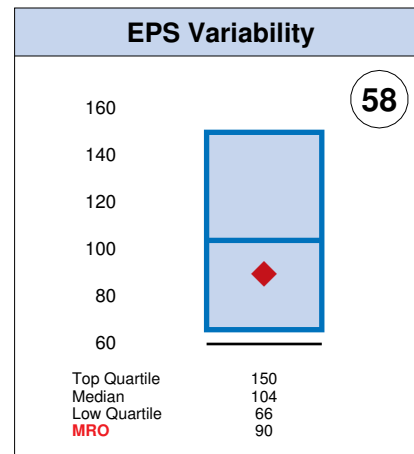
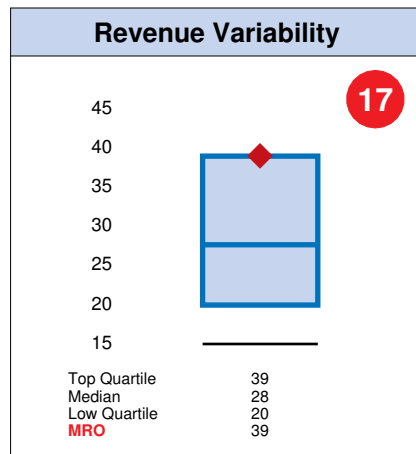
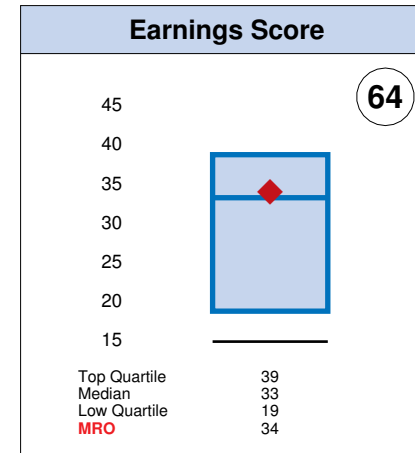
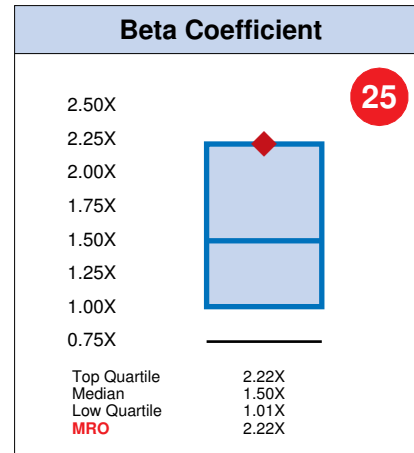
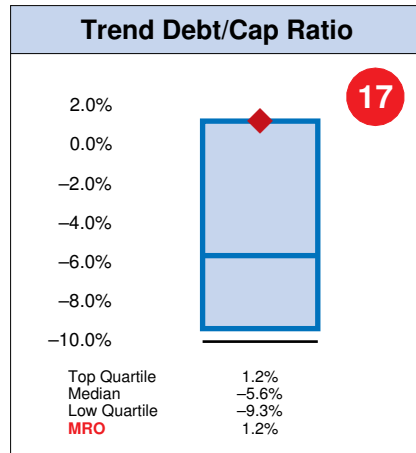
High end of bar represents Marathon Oil Peer Group upper quartile value. Lower end represents lower quartile value. Middle line represents group median. Marathon Oil values are represented by red diamonds. Marathon Oil percentile ranks (0–100) shown in circles.

## Risk Profile

- **Relative to the Marathon Oil Peer Group, Marathon Oil's overall risk profile is HIGH RISK.** This profile reflects measures of financial strength, earnings expectations, variability and changes in capital structure.
  - Marathon Oil's earnings score is 34. This score is relatively high. A high factor rating of 64 results.
  - Marathon Oil's earnings variability is 90. This variability is average, resulting in an average factor rating of 58.
  - Marathon Oil's financial strength rating is 36. This rating is relatively low with a resulting poor factor rating of 33.
  - Marathon Oil's beta coefficient is 2.22X. This price volatility is relatively high with a resulting poor factor rating of 25.
  - Marathon Oil's revenue variability is 39. This variability is relatively very high, producing a very poor factor rating of 17.
  - The recent trend in Marathon Oil's debt/capital ratio is 1.2%. This change is very high, producing a very poor factor rating of 17.

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## Key Risk Measures Relative to Marathon Oil Peer Group (14 Companies)



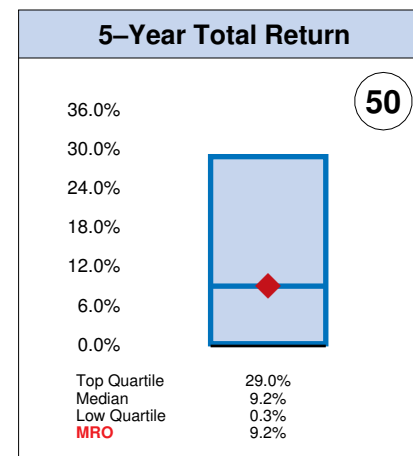
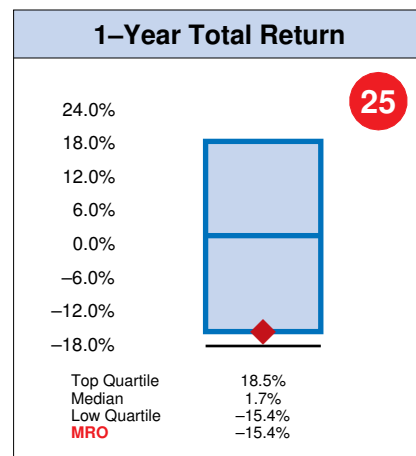
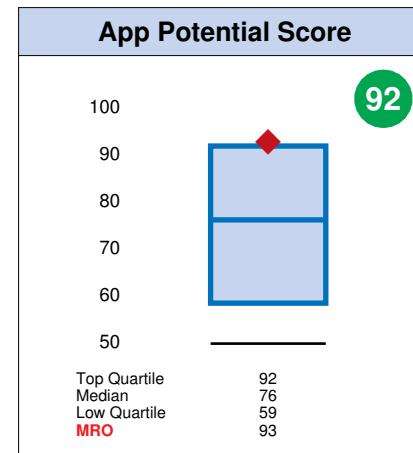
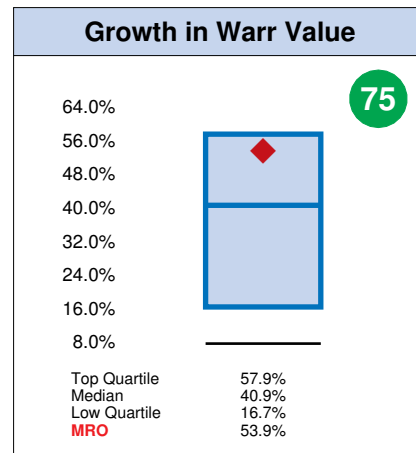
High end of bar represents Marathon Oil Peer Group upper quartile value. Lower end represents lower quartile value. Middle line represents group median. Marathon Oil values are represented by red diamonds. Marathon Oil percentile ranks (0–100) shown in circles.

## Wealth Creation Profile

- **Relative to the Marathon Oil Peer Group, Marathon Oil's wealth creation profile is FAVORABLE.** The profile is based on measures of warranted value, appreciation potential and total shareholder returns.
  - Marathon Oil's appreciation score is 93. This appreciation score is relatively very high resulting in a quite high factor rating of 92.
  - The recent trend in Marathon Oil's warranted market value is 53.9%. This change is relatively high. A high factor rating of 75 results.
  - Marathon Oil's five year total return is 9.2%. This five year return is moderate, resulting in a moderate factor rating of 50.
  - Marathon Oil's one year total return is -15.%. This one year return is relatively low with a resulting low factor rating of 25.
- **Total shareholder returns expected to significantly beat the overall equity market.** Based on current investor expectations, Marathon Oil shares should reach a level of \$194 by 2028 — an 43.3% per year total shareholder return. A 2028 stock price of \$40 would reflect median performance and a price of \$47 would be required to reach upper quartile performance.

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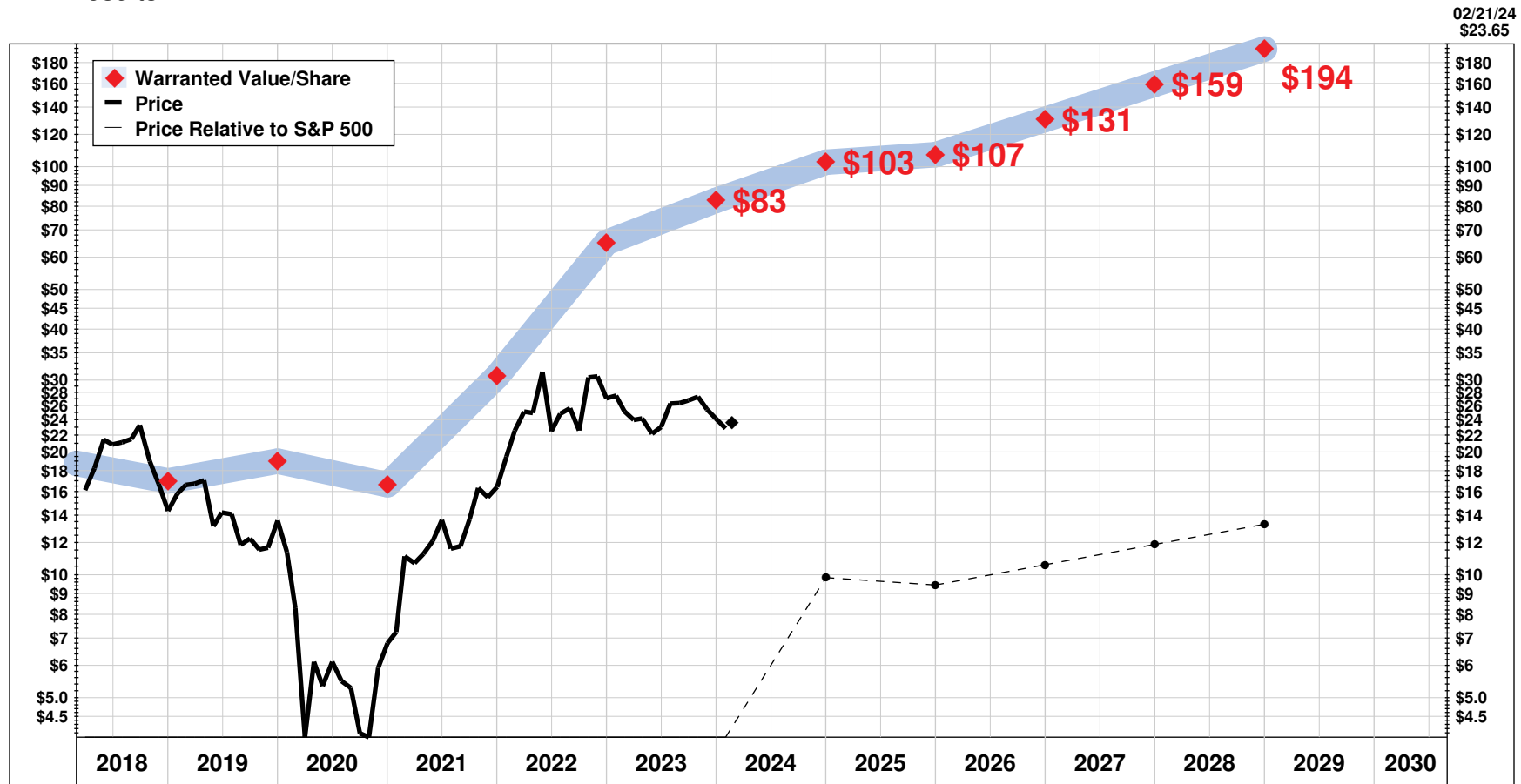
## Key Wealth Creation Measures Relative to Marathon Oil Peer Group (14 Companies)



High end of bar represents Marathon Oil Peer Group upper quartile value. Lower end represents lower quartile value. Middle line represents group median. Marathon Oil values are represented by red diamonds. Marathon Oil percentile ranks (0–100) shown in circles.

## Warranted Value vs. Stock Price, 2023–2028

Price Targets are derived for each fiscal year using PTR cash flow forecasts and the powerful CFROI framework. Key forecast inputs are: expected profitability, expected long term growth, and cost of equity capital (or discount rate). Based on current investor expectations for Marathon Oil, Price Targets for the period 2023–2028 are developed. Starting with the current price of \$24, a Price Target of \$194 for 2028 results.

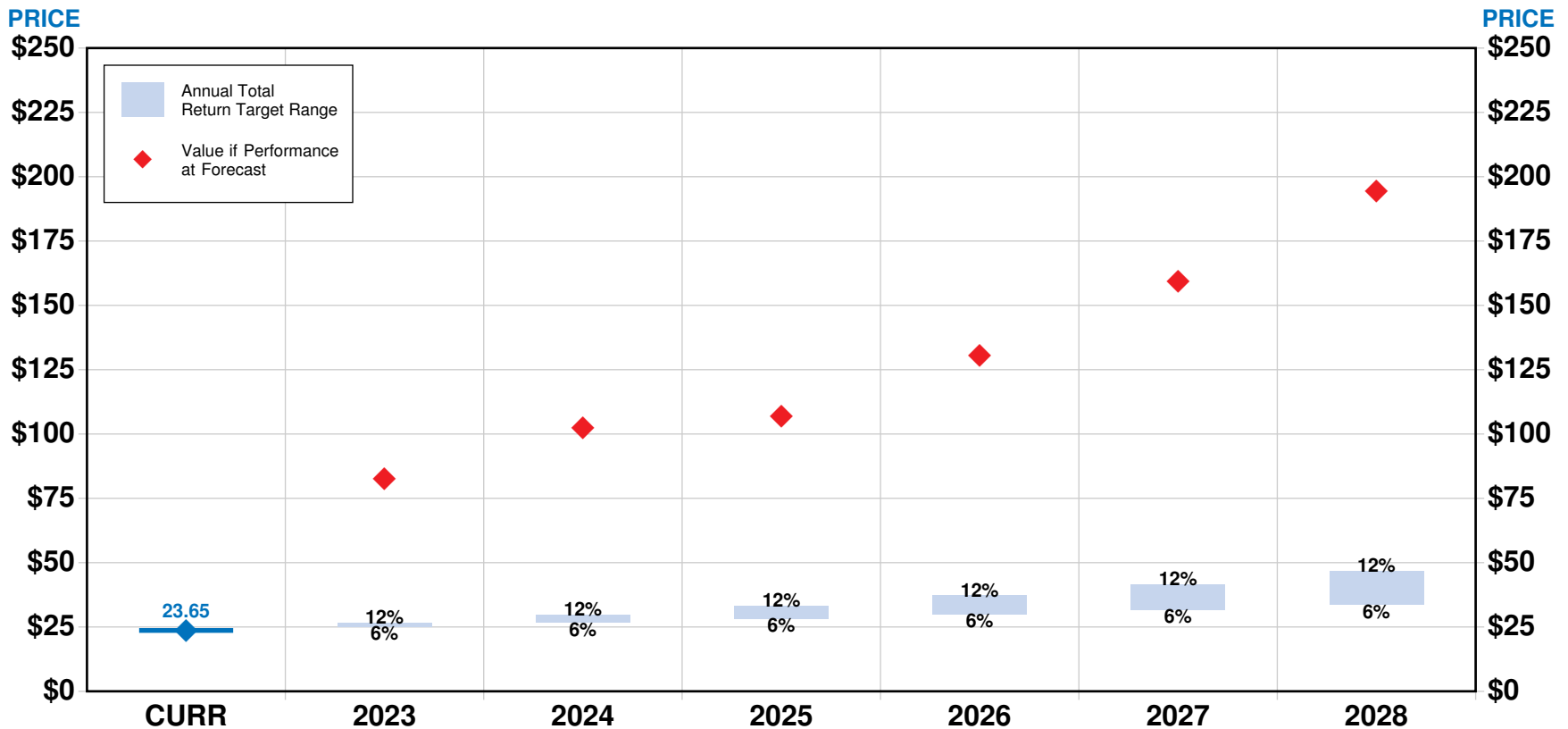


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# The Value Challenge

## Warranted Stock Price, 2023–2028

Total shareholder returns expected to significantly beat the overall equity market. Based on current investor expectations, Marathon Oil shares should reach a level of \$194 by 2028 — a 43.3% per year total shareholder return. A 2028 stock price of \$40 would reflect median performance and a price of \$47 would be required to reach upper quartile performance.



Diamonds represent Marathon Oil warranted value based on scenario assumptions and PTR proprietary analysis. Shaded bands represent year-end stock price necessary to achieve target returns.

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