Equity Risk Report (April 15, 2015)

SAIBUS RESEARCH

ROYAL DUTCH SHELL PLC (RDSa)

Exchange	**AMS (AMSTERDAM);**						
Sector	Energy	**Price per share**	US$ 62.78	**Shares Outstanding**	1,947.29 Mil	**Market Capitalization**	US$ 114.31 Bil
Industry	Oil & Gas Refining and Marketing						

Overall Risk		**Book Value per share**	US$ 54.62	**Stagnation Value per share**	US$ 63.97	**Growth Value per share**	US$ 81.88	**Wall Street Estimate**	US$ 68.22	**Ideal Buy Price**	US$ 63.00
										Ideal Sell Price	US$ 80.00

BUSINESS SUMMARY

Royal Dutch Shell plc (Shell) is an independent oil and gas company, based in the United Kingdom. It operates in three segments: Upstream, Downstream and Corporate. Upstream combines the operating segments Upstream International and Upstream Americas, which are engaged in searching for and recovering crude oil and natural gas, the liquefaction and transportation of gas, the extraction of bitumen from oil sands and converting it into synthetic crude oil, and wind energy. Downstream segment is engaged in manufacturing, distribution and marketing activities for oil products and chemicals, alternative energy (excluding wind), and carbon dioxide (CO2) management. Corporate segment represents the key support functions, such as Shell's holdings, treasury and self-insurance organization. In January 2014, Royal Dutch Shell plc completed the acquisition of Repsol S.A.'s liquefied natural gas (LNG) portfolio outside North America. In June 2014, Shell sold 19% in Woodside Petroleum Limited.

KEY STATISTICS

P/E	15.30	**Return on Assets**	4.14%	**Gross Margin**	15.15%	**Liabilities to Assets**	51.30%	**TR Credit Rating**	A
P/NOPAT	21.76	**Return on Equity**	8.36%	***Operating Margin**	4.72%	**NOPAT to Liabilities**	5.71%	**NOA Turnover**	2.12
P/FCF	17.06	**Return on NOA**	5.21%	**Net Margin**	3.49%	**NOPAT to Annual Obligations**	0.73	**Total Asset Turnover**	1.19
P/B	1.31	***Shareholder | Div Yield**	6.7% | 6.0%	**NOPAT Margin**	2.46%	**Current Ratio**	1.16	**Beta** (5Y monthly)	0.69

* Operating Margin is adjusted for unusual items. Shareholder yield incorporates both dividend income and buybacks. Credit Rating is provided by Thomson Reuters. Beta is computed using a proprietary model.

RISK SUMMARY

Total business risk is broken down Five Elements: Creditworthiness, Efficiency, Profitability, Inherent Stability, and Future Prospects. The Five Elements are broken down into 46 risk factors, which are evaluated to grasp the fundamental risk position of a company. The results of this process are linked to the debt and equity components of the weighted average cost of capital, generating a risk-adjusted discount rate. Below is a summary of the Five Elements.

CREDITWORTHINESS
Risk Level: ■■■□□ (Low Risk – High Risk)

Measures the balance street strength and the capacity to service both financial and operating obligations without sacrificing competitiveness or risking bankruptcy.

EFFICIENCY
Risk Level: ■■□□□ (Low Risk – High Risk)

Measures the efficiency of a company's historic performance in managing its working capital, in utilizing its assets to generate revenues, and in regulating its fixed and variable costs.

PROFITABILITY
Risk Level: ■■■■□ (Low Risk – High Risk)

Measures the company's the strength of its returns on invested capital and the sustainability of its payouts to shareholders.

INHERENT STABILITY
Risk Level: ■■■□□ (Low Risk – High Risk)

Measures the reliability of the company's reported earnings and the trustworthiness of its management, as well as the strength of the company's economic moat through its fundamental performance relative to its peers.

FUTURE PROSPECTS
Risk Level: ■■■□□ (Low Risk – High Risk)

Measures the likelihood for surprise pertaining to the company's future earnings or ROIC performance based on market-implied expectations and accuracy-adjusted analyst estimates.

COMPOUNDED ANNUAL GROWTH RATES

	1 year	3 years	5 years	7 years	9 years
Stock Returns	(6.06%)	(1.92%)	2.13%	(6.41%)	1.58%
Inflation Rate	(0.51%)	0.98%	1.55%	1.46%	1.59%
Sales	(6.68%)	(3.61%)	8.65%	2.44%	3.58%
Gross Profits	(8.41%)	(4.65%)	5.07%	(1.38%)	1.85%
EBITDA	(9.07%)	(7.36%)	8.82%	(2.02%)	(1.17%)

	1 year	3 years	5 years	7 years	9 years
Operating Income	(26.02%)	(22.43%)	3.89%	(9.03%)	(6.77%)
EBIT	(15.81%)	(21.89%)	6.71%	(8.80%)	(5.54%)
Net Income	(10.12%)	(22.10%)	2.95%	(10.48%)	(6.24%)
NOPAT	(21.77%)	(24.31%)	0.80%	(11.51%)	(8.17%)
Free Cash Flow	4,371.19%	8.00%	(221.27%)	4.21%	(0.82%)

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RISK ASSESSMENT

The risk levels of the Five Elements represent weighted averages determined by the quantitative analyses of multiple factors that describe subfactor groups. The absolute values, historic volatility, and observed trends of each individual subfactor are evaluated and ranked according to heuristic standards. The weights applied to each individual subfactor varies across industries. The table below summarizes individual subfactors and scores their risk levels from 1 through 5, with 5 representing the highest risk.

CREDITWORTHINESS

■■■□□

Solvency (37% weight)

Debt Ratio	1	2	**3**	4	5	N/A

Higher debt ratios signify increased leverage and thus credit risk.

Solvency Ratios	1	2	3	**4**	5	N/A

Solvency ratios compare a company's earnings to its overall liabilities. Lower solvency ratios reflects greater probabilities for default and increased dependence on the credit markets.

Probability of Bankruptcy	**1**	2	3	4	5	N/A

Default risk is measured with Altman Z-Scores and proprietary models provided by Thomson Reuters. Lower Z-scores and higher model results indicate greater probabilities of bankruptcy in the near future.

Liquidity (63% weight)

Based on assets	1	2	**3**	4	5	N/A

Asset-based liquidity refers to the company's ability to cover short-term obligations with its current assets. Lower ratios represent a weaker ability to cover short-term liabilities with liquid assets.

Based on earnings	1	2	**3**	4	5	N/A

Earnings coverage multiples determine how easily a company can pay off debt, interest, and other obligations. Multiples under 1 imply the high likelihood of sustained financial leverage or underinvestment.

EFFICIENCY

■■□□□

Working Capital Management (27% weight)

Receivables Management	1	**2**	3	4	5	N/A

Collection rates show how well the company can collect cash. Increasing divergence from 100% indicate either trouble collecting receivables or aggressive and possibly unethical collection practices.

Inventory Management	1	**2**	3	4	5	N/A

Sales rates illustrate how well the company can sell its inventory. Increasing divergence from 100% can mean the company is struggling to sell its inventory or it is aggressively marking it down at deep discounts.

Payables Management	1	**2**	3	4	5	N/A

Payment rates describe how the company pays off its trade payables. Increasing divergence from 100% suggests the company has a strong bargaining position against its suppliers or the credit terms are being tightened.

Cost Controls (46% weight)

Gross Margins	1	**2**	3	4	5	N/A

Increasing volatility and falling long-term trends show decline in the company's ability to control direct operating costs.

Operating Margins	1	2	3	**4**	5	N/A

Increasing volatility and falling long-term trends show decline in the company's ability to control overhead and other corporate expenses.

Net Margins	1	2	3	**4**	5	N/A

Increasing volatility and falling long-term trends show decline in the company's ability to control financial costs, non-operating items, and taxes.

Asset Turnovers (27% weight)

Based on total assets	1	**2**	3	4	5	N/A

Greater volatility and declining long-term trends signify inefficient asset utilization or excessive expansion.

Based on net operating assets	1	**2**	3	4	5	N/A

Net operating asset turnovers are similar to total asset turnovers, but these directly relate to operations . Greater volatility, declining long-term trends, and negative figures signify inefficiency or excessive expansion.

PROFITABILITY

■■■■□

Returns on Investment (72% weight)

Returns on Equity	1	2	**3**	4	5	N/A

A high return on equity (ROE) makes a company more attractive to investors as it implies great quality and strong competitive advantages.

Returns on Net Operating Assets	1	2	3	**4**	5	N/A

Return on net operating assets (RNOA) isolates from ROE the returns generated by business operations. High RNOAs also imply great quality and strong competitive advantages.

GPA Ratio	1	2	3	**4**	5	N/A

The Gross Profits to Assets (GPA) ratio exhibits minimum influence from accounting estimates. High, stable GPA ratios signify a robust and efficient business.

OPA Ratio	1	2	3	**4**	5	N/A

The Operating Profits to Assets (OPA) ratio utilizes operating income before unusual items. Large, stable OPA ratios are considered attractive.

Shareholder Returns (28% weight)

Based on EBITDA	1	**2**	3	4	5	N/A

Shareholder payouts matching or surpassing EBITDA are unsustainable, as it crowds out debt servicing and maintenance capex. This can lead to structural weakness or unnecessary leverage.

Based on NOPAT	1	2	**3**	4	5	N/A

Shareholder payouts matching or surpassing NOPAT are unsustainable, as it crowds out both debt servicing and growth capex. This can lead to stagnation or unnecessary leverage.

Based on uFCF	1	2	3	4	**5**	N/A

Shareholder payouts matching or surpassing unlevered FCF are unsustainable, as it crowds out debt servicing and other uses of cash. This can lead to cash shortage or unnecessary leverage.

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INHERENT STABILITY

Management Candor (42% weight)

Reliability of Auditor Opinions	**1**	2	3	4	5	N/A

Frequent changes in auditors and/or opinions made regarding the company's financial reports can be a red flag.

Accruals Usage	1	2	**3**	4	5	N/A

High usage of accruals can increase the probability of earnings manipulation.

Quantitative Models	1	2	**3**	4	5	N/A

Quantitative models are used to evaluate the reliability, persistence, and quality of past earnings by assessing accruals, cash flows, operating efficiency, and other financial data.

Economic Moat (58% weight)

Relative Creditworthiness	1	2	**3**	4	5	N/A

A company with less credit and liquidity risk than its peers signify an opportunity to grow with the use of leverage.

Relative Efficiency	1	2	**3**	4	5	N/A

A company with lower cash conversion cycles and higher turnover ratios than its peers typically demonstrates greater operating efficiency. However, these can be offset by weak profitability.

Relative Cost Controls	1	2	3	**4**	5	N/A

A company with higher profitability than its peers generally has better cost controls. However, these can be offset by inefficient operations.

Relative Returns on Invested Capital	1	2	3	**4**	5	N/A

A company with higher returns on investment against its peers illustrates efficient operations, effective cost controls, or both, along with other business advantages.

FUTURE PROSPECTS

Divergent Expectations (55% weight)

Wall Street versus the Market	1	2	**3**	4	5	N/A

Market-implied expectations for EPS growth over the next 10 years are compared against accuracy-adjusted Wall Street estimates. A wide variance reflects either overoptimism or excessive pessimism.

Potential Surprises (45% weight)

Cash Flows per Share	1	2	**3**	4	5	N/A

Average analyst projections are adjusted for age and analyst accuracy to determine the potential for the company's cash flows per share to exceed or fall short of expectations embedded in expert opinions.

Returns on Assets	1	2	**3**	4	5	N/A

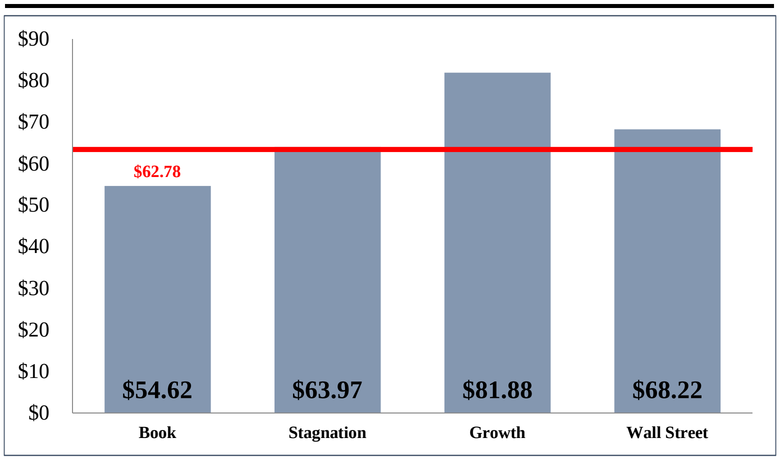
Average analyst projections are adjusted for age and analyst accuracy to determine the potential for the company's returns on assets to exceed or fall short of expectations embedded in expert opinions.

Returns on Equity	1	2	**3**	4	5	N/A

Average analyst projections are adjusted for age and analyst accuracy to determine the potential for the company's returns on equity to exceed or fall short of expectations embedded in expert opinions.

VALUATION ANALYSIS

ABSOLUTE VALUE



KEY ASSUMPTIONS

Forward Estimated Period	Next 9 years
Competitive Advantage Period	6 years
Discount Rate	6.49%
Inflation Rate (9Y NETHERLANDS)	1.43%
Sales Growth (9Y compounded)	4.00%
Operating Profits (% of Sales)	8.51%
Effective Tax Rate (%)	43.05%
D&A (% of Sales)	4.00%
CAPEX (% of Sales)	8.00%
Avg Fwd Unlevered FCF Margin (%)	1.00%
Potential Upside (Downside) (%)	30.43%

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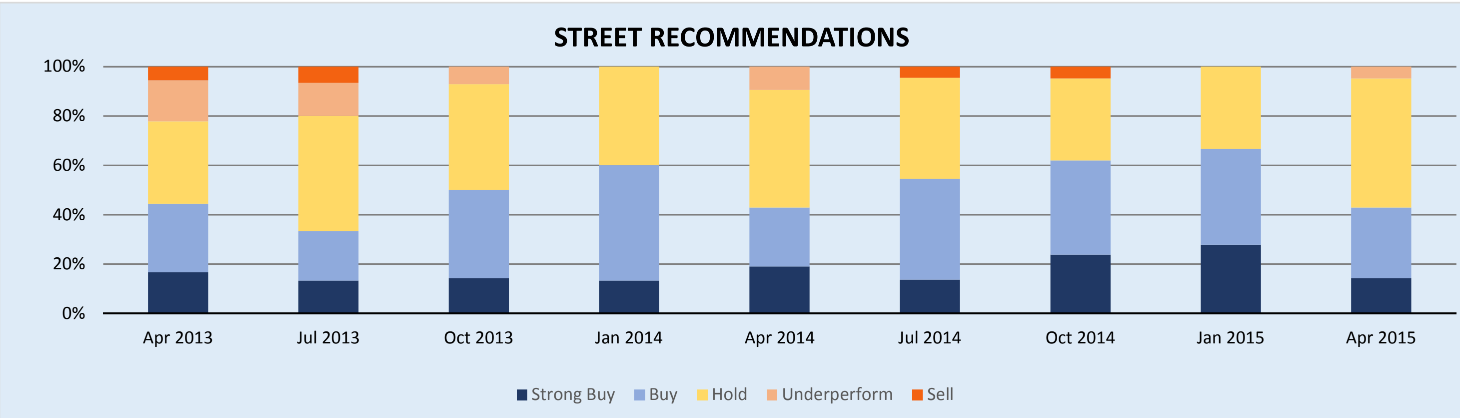
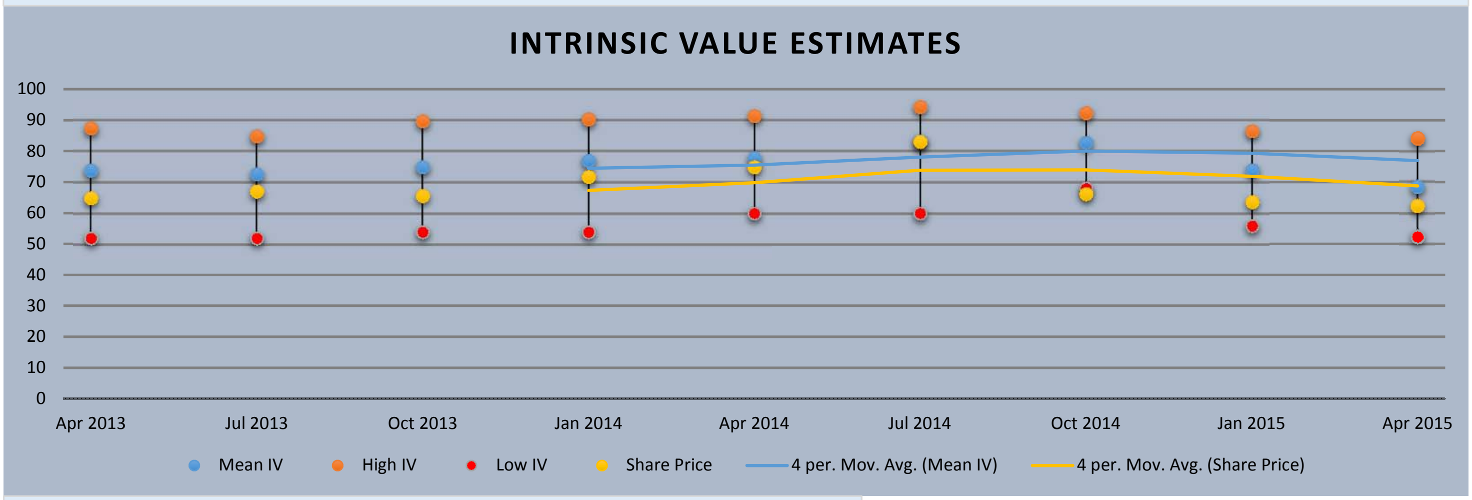
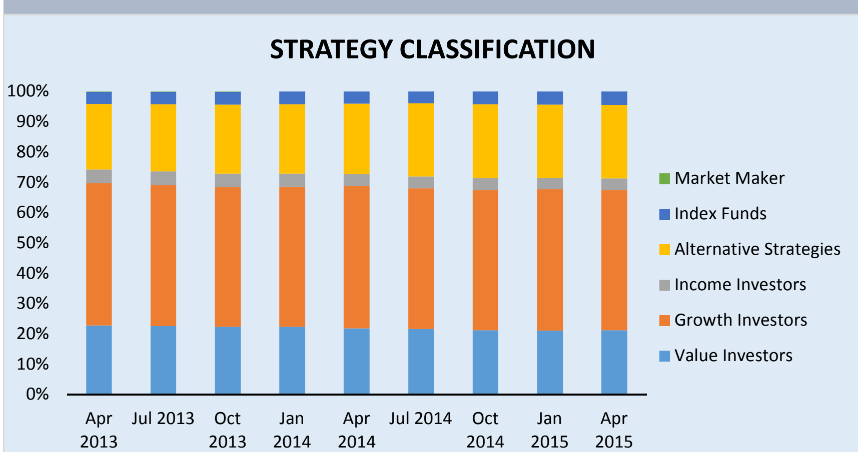
EXPECTATIONS ANALYSIS

COMPANY FOLLOWERS

	Apr 2013	Jul 2013	Oct 2013	Jan 2014	Apr 2014	Jul 2014	Oct 2014	Jan 2015
# Analysts Following	18	15	14	15	21	22	21	18
# Funds Holding	888	925	923	916	929	933	930	906







IMPLIED GROWTH ASSUMPTIONS

	Sales	uFCF
Market Price	9.4%	(9.7%)
Saibus's Growth Value	1.4%	(11.7%)
Mean Analyst Estimate	11.8%	(8.9%)
High Analyst Estimate	15.3%	(7.6%)
Low Analyst Estimate	7.6%	(10.4%)

* The table above presents the expected 9-year compounded annual growth rates of sales or unlevered free cash flows, as implied by either the market price or valuation estimates, when available.

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PEER ANALYSIS

Peer analysis is approached from the perspective of relative fundamental performance. The intent behind this point of view is to measure and quantitatively evaluate the strengths of the subject's competitive advantages as well as the depth and width of its economic moat.

Peer Group	Stock Symbol	Mkt Cap (USD Bil)	Current Price	Wall Street Consensus	Mean Analyst Targets	Reuters Value Estimate	P/E	P/B	Div Yld (%)	Beta	Current Ratio	Debt Ratio (%)	Reuters Credit Rating	GPM	OPM	NPM	ROA	ROE	Reuters Earnings Quality Rank
ROYAL DUTCH SHELL PLC	RDSA-AE	122.24	$58.70	Hold	$34.35	$43.91	15.3	1.3	6.00%	0.7	1.2	51%	A	15%	5%	3%	4%	8%	75.0
Exxon Mobil Corp	XOM	369.01	$88.08	Hold	$93.10	$87.17	11.6	2.1	3.07%	0.9	0.8	50%	A+	25%	9%	9%	10%	19%	55.0
Chevron Corp	CVX	207.62	$110.41	Hold	$114.12	$128.64	10.9	1.3	3.81%	1.2	2.3	42%	A	36%	22%	10%	7%	13%	22.0
Total SA	FP-FR	125.79	$52.73	Buy	$53.23	$73.81	28.3	1.4	5.57%	0.9	1.5	61%	BBB+	28%	21%	2%	2%	4%	36.0
BP PLC	BP.-LN	127.83	$7.00	Hold	$6.73	N/A	35.3	1.2	5.62%	1.7	1.4	61%	BBB+	12%	3%	1%	1%	3%	63.0

	2010	2011	2012	2013	2014
†Debt Ratio					
ROYAL DUTCH SHELL PLC	54.11%	53.04%	50.11%	49.64%	51.30%
Exxon Mobil Corp	51.46%	53.36%	50.31%	49.83%	50.10%
Chevron Corp	43.13%	42.05%	41.40%	41.24%	41.72%
Total SA	57.96%	59.11%	58.40%	58.10%	60.69%
BP PLC	65.11%	61.91%	60.55%	57.70%	60.80%
Altman Z-Score					
ROYAL DUTCH SHELL PLC	2.88	3.37	3.27	3.05	2.87
Exxon Mobil Corp	4.65	4.78	4.78	4.67	4.38
Chevron Corp	4.05	4.40	4.02	3.69	3.23
Total SA					
BP PLC					
Gross Margin					
ROYAL DUTCH SHELL PLC	16.42%	15.65%	15.24%	15.44%	15.15%
Exxon Mobil Corp	29.13%	27.13%	25.92%	25.08%	24.85%
Chevron Corp	36.90%	35.34%	35.49%	35.03%	36.04%
Total SA	33.67%	30.87%	30.57%	29.91%	27.84%
BP PLC	3.71%	15.47%	10.89%	12.19%	11.69%
Operating Margin					
ROYAL DUTCH SHELL PLC	7.88%	9.06%	8.07%	5.95%	4.72%
Exxon Mobil Corp	10.84%	11.58%	11.05%	9.58%	8.65%
Chevron Corp	22.48%	24.53%	24.99%	23.62%	22.23%
Total SA	27.88%	25.86%	25.23%	24.03%	20.85%
BP PLC	(4.55%)	8.33%	3.56%	4.27%	2.78%
Net Margin					
ROYAL DUTCH SHELL PLC	5.56%	6.62%	5.70%	3.63%	3.49%
Exxon Mobil Corp	8.48%	9.04%	10.56%	7.95%	8.53%
Chevron Corp	9.65%	11.05%	11.42%	9.81%	9.66%
Total SA	7.69%	7.58%	5.91%	5.05%	2.00%
BP PLC	(1.12%)	6.82%	2.99%	6.27%	1.13%
NOPAT Margin					
ROYAL DUTCH SHELL PLC	4.56%	5.07%	4.31%	2.93%	2.46%
Exxon Mobil Corp	6.43%	6.67%	6.69%	5.55%	5.63%
Chevron Corp	13.42%	13.91%	14.20%	14.21%	13.76%
Total SA	14.33%	12.22%	11.41%	10.53%	6.89%
BP PLC	(3.14%)	5.58%	2.21%	3.36%	2.25%

	2010	2011	2012	2013	2014
Cash Conversion Cycle					
ROYAL DUTCH SHELL PLC	21.12	16.80	16.94	17.63	13.49
Exxon Mobil Corp	(0.21)	(1.41)	0.41	4.06	7.47
Chevron Corp	(8.73)	(10.82)	(15.78)	(15.86)	(15.96)
Total SA	49.53	47.65	46.80	43.36	44.72
BP PLC	32.71	18.59	19.53	28.00	23.82
Total Asset Tunrover					
ROYAL DUTCH SHELL PLC	1.20	1.42	1.36	1.28	1.19
Exxon Mobil Corp	1.38	1.47	1.36	1.24	1.13
Chevron Corp	1.13	1.24	1.04	0.91	0.77
Total SA	0.99	1.15	1.07	0.98	0.90
BP PLC	1.17	1.33	1.27	1.25	1.20
NOA Turnover					
ROYAL DUTCH SHELL PLC	2.20	2.85	2.60	2.20	2.12
Exxon Mobil Corp	2.88	3.11	2.83	2.48	2.26
Chevron Corp	2.11	2.25	1.86	1.59	1.36
Total SA	2.43	2.81	2.61	2.36	2.25
BP PLC	3.31	4.05	3.66	3.39	3.26
Return on Assets					
ROYAL DUTCH SHELL PLC	6.66%	9.43%	7.74%	4.62%	4.14%
Exxon Mobil Corp	11.72%	13.32%	14.34%	9.83%	9.66%
Chevron Corp	10.95%	13.70%	11.90%	8.87%	7.43%
Total SA	7.63%	8.68%	6.32%	4.95%	1.81%
BP PLC	(1.31%)	9.06%	3.79%	7.84%	1.36%
Return on Equity					
ROYAL DUTCH SHELL PLC	14.40%	20.30%	15.98%	9.22%	8.36%
Exxon Mobil Corp	24.40%	28.02%	29.78%	19.68%	19.30%
Chevron Corp	19.43%	23.85%	20.42%	15.12%	12.70%
Total SA	18.34%	20.95%	15.32%	11.86%	4.46%
BP PLC	(3.38%)	24.80%	9.78%	19.17%	3.33%
Return on Net Operating Assets					
ROYAL DUTCH SHELL PLC	10.02%	14.44%	11.22%	6.44%	5.21%
Exxon Mobil Corp	18.53%	20.77%	18.91%	13.77%	12.75%
Chevron Corp	28.34%	31.30%	26.35%	22.65%	18.65%
Total SA	34.80%	34.27%	29.79%	24.88%	15.48%
BP PLC	(10.39%)	22.60%	8.09%	11.39%	7.34%

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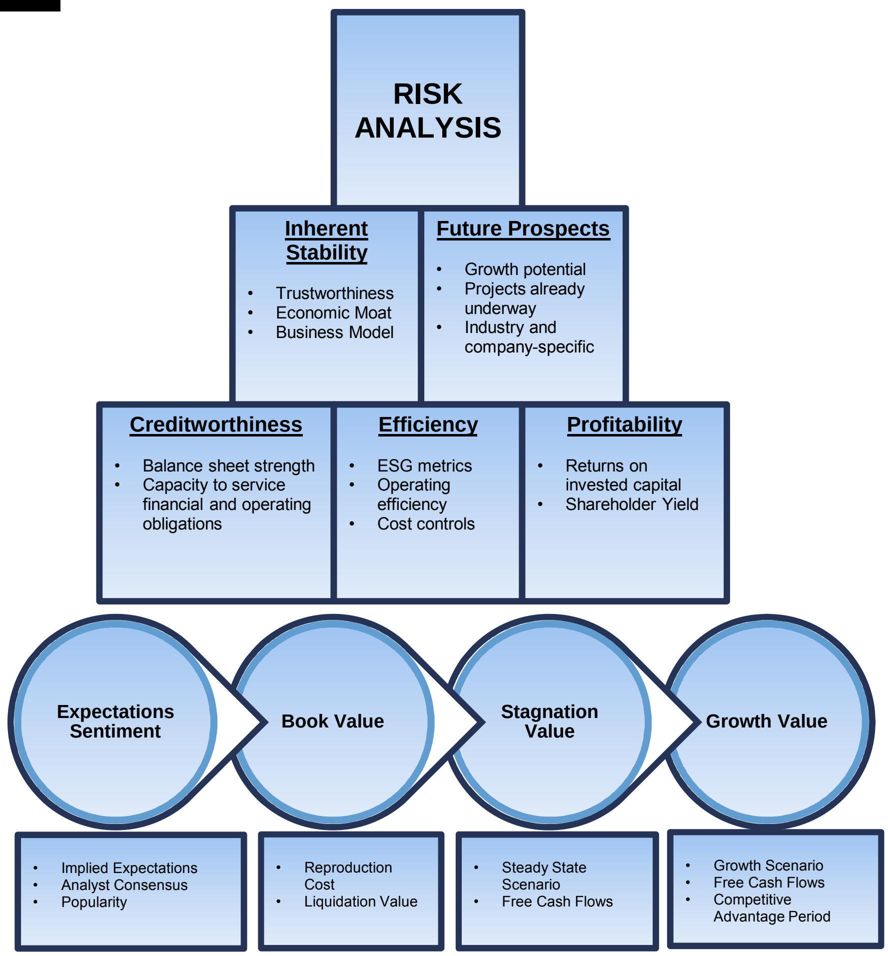
The 5/4 Process



The Five-Four Equity Report relies on a proprietary process called the "5/4" (Five-Four). This process uses the Five Elements framework to assess fundamental business risks and considers four valuation approaches to evaluate intrinsic value against these risks, and to compare market sentiments against analyst opinions. The valuation models use the weighted average cost of capital ("WACC") as the discount rate, with the cost of equity calculated by the Capital Asset Pricing Model ("CAPM"). A risk multiplier is applied to both the debt and equity components of the WACC in order to link the discovery process of the Five Elements framework to the valuation models. As these risk multipliers do not incorporate stock price volatility, the beta coefficient in the CAPM has been removed to isolate fundamental risk factors from market noise.

How the Five Elements are Appraised

Fundamental business risk have been disassembled into **Five Elements**: Creditworthiness, Efficiency, Profitability, Inherent Stability, and Future Prospects. The absolute values, historical volatilities, and prevailing trends of 46 risk factors are evaluated together to approximate the fundamental risks of any company. Such analyses are highly thorough. While valuations change frequently within the time frame of a few quarters or shorter, this report was designed with the understanding that fundamental risks are long term by nature and typically make gradual shifts over multiple years.

Creditworthiness encompasses balance sheet strength and the capacity to service financial and operating obligations. The evaluation process typically contrasts company profitability and asset liquidity against liabilities and other required obligations and also analyzes the default probabilities indicated by the Altman Z-Score and the StarMine models owned by Thomson Reuters.

Efficiency refers to the management of working capital and the ability to utilize assets in generating sales. The evaluation process looks at the consistency and direction of a company's asset turnover ratios and cash conversion cycles. It also gauges the rates of receivables collection, inventory sales, and payment of trade payables.

Profitability covers both the company's ability to control costs and to maximize returns on investment. The evaluation process considers the consistency and direction of gross, operating, and net profitability ratios, whose weights will vary depending on the underlying industry and business model. It also assays various measures of returns on investment to ascertain management's long-term performance and the magnitude of the financial impact by a company's economic moat.

Inherent Stability is attributed to management candor and the company's economic moat. Management candor refers to the trustworthiness of corporate disclosures and publicly-available financial reports, while the economic moat refers to a set of qualitative characteristics that protect the company from competition and other economic forces. The evaluation process checks for trustworthiness in cash-accrual discrepancies and earnings quality scores. It also bases the appraisal of the economic moat on its long-term relative fundamental performance.

Future Prospects are determined by numerous variables, both quantitative and qualitative. The evaluation process simplifies this analysis by inspecting the differences between the EPS growth projected by analysts and EPS growth implied by market prices, as well as predicted surprises in long-term fundamental performance.

Equity Risk Report (April 15, 2015)

SAIBUS RESEARCH

ROYAL DUTCH SHELL PLC (RDSa)

Exchange	**AMS (AMSTERDAM);**									
Sector	Energy		**Price per share**	US$ 62.78	**Shares Outstanding**	1,947.29 Mil	**Market Capitalization**	US$ 114.31 Bil		
Industry	Oil & Gas Refining and Marketing									
Overall Risk		**Book Value per share**	US$ 54.62	**Stagnation Value per share**	US$ 63.97	**Growth Value per share**	US$ 81.88	**Wall Street Estimate**	US$ 68.22	**Ideal Buy Price** US$ 63.00 / **Ideal Sell Price** US$ 80.00

Glossary and Disclaimers

Risk Assessment: The Five Elements and the company's composite business risk itself are assessed according to a balanced scorecard, which evaluates the absolute values, historic volatilities, and observed trends of 46 risk subfactors. Analyst judgment in the risk assessment is kept to a minimum.

Tactical Approach: The Five-Four Equity Reports do not adhere to the typical "Strong Buy, Buy, Hold, Sell, and Strong Sell" rating system. This research report is intended to provide data relevant for decision-making based on a company's risk-return profile.

Ideal Buy and Sell Prices: These prices are ideal entry and exit points for an investor given the company's risk-return profile and its recent movements in the financial markets. Ideal buy and sell prices reflect analyst judgment.

Four valuation approaches: Book Value, Stagnation Value, Growth Value, and Wall Street Estimate reflect four methods to assessing the intrinsic values of a stock. The differences between these methods can be interpreted for company-specific information with respect to the degree of optimism or pessimism with respect to analyst opinions and market sentiments, the strength of the underlying business's competitive advantages, and the potential upsides/downsides available to the investor.

Book Value: The book value of a company corresponds to its net asset values, as it equals total assets less total liabilities. Intangible assets and goodwill are not deducted as the going-concern principle is assumed, but a reduction equivalent to the discount rate has been applied to account for overall risk. This value estimates the minimum cost required to emulate the underlying business and represents the company's worth without the influence of management or economics.

Stagnation Value: The stagnation value of a company reflects the equity value under a "steady state" scenario, where sales, expenses, and capital expenditures are projected at a sustainable level that maintains current output and competitiveness. Stagnation value is computed with a single-stage DCF model based on net operating profits after taxes and other value adjustments such as excess cash, dilution, and outstanding debt, among others.

Growth Value: A two-stage DCF model that measures the future value of a company using projected free cash flows. Of the three models used, it is the most prone to forecast error. Because the future is unknowable, risk of error is mitigated by the use of conservative assumptions as well as a terminal growth rate set to long-term inflation.

Expectations Analysis: The same DCF model used to compute the Growth Value is reverse-engineered to determine the growth rates or profitability margins that equate the net present value to the current market price. These figures indicate the expectations of the market consensus.

Charting / Momentum: The "5/4" process does not consider technical charts and price momentum indicators in its risk assessment as these do not reflect fundamental characteristics of the underlying business in the long run. However, technical and other data derived from price and volume do have value in guiding the execution of investment decisions. Thus, these have been provided in the Five-Four Equity Reports.

Relative Strength Index: A price-based oscillator that ranges between 0 and 100, used to determine overbought and oversold conditions, identify failure swings, and indicate bullish and bearish divergence by comparing the movement of the RSI and the underlying security. Overbought (oversold) conditions are considered probable when RSI is above 70 (below 30) or above 80 (below 20), but such signals are most reliable in sideward markets. In trending markets, signals on par with the trend are more reliable. If prices are making higher highs but the RSI is making lower highs, the uptrend is weakening. If RSI is making higher lows while prices are making lower lows, the downtrend is weakening.

Trend Strength Index: The Trend Strength Index is a price-based oscillator that provides an intermediate-term absolute measure of the tendency to trend or mean-revert. It is primarily used to determine whether a trend is reversing, continuing, or stopping, as it is based on the premise that securities with a high degree of momentum relative to volatility are less likely to mean-revert than those with a low degree. TSI values fall within the -1 to 1 range. Positive values indicate uptrends. Negative values indicate downtrends. If values sustains an overall approach to zero after a reversal, the trend is continuing. If it breaks downward through zero during an uptrend (or upward during a downtrend), the trend has stopped.

Psychology Index: The Psychology Index depicts the percentage of times in the period when the value was greater than its previous value. If the Psychology value is below 25%, a rebound is likely. When above 75%, a reactionary fall is likely.

Third parties: The "5/4" process is a proprietary method developed by Obsido Analytics. This process uses Thomson Reuters for third-party data, which includes standardized financial information, the StarMine implied credit rating, the StarMine Earnings Quality Ranking, and projections calculated using the StarMine SmartEstimates model.

† Definitions of certain key ratios and other fundamental items used in the report:

Debt Ratio: Total Liabilities ÷ Total Assets

Solvency Ratio: Earnings ÷ Total Liabilities

Current Ratio: (Current Assets - Prepaid Expenses - Restricted Cash) ÷ (Current Liabilities - Deferred Revenues)

CAPEX: Capital Expenditures

R&D: Research and Development

D&A: Depreciation and Amortization

Required Obligations: Debt Payments + Interest Expense + CAPEX + R&D + Rent Expense

Earnings Coverage: Earnings ÷ Required Obligations

Operating Income: Sales less Cost of Sales, SG&A, R&D, D&A, and other operating expenses but excluding unusual and/or extraordinary items.

EBIT: Sales less Cost of Sales, SG&A, R&D, D&A, and all other non-interest income and expenses, including unusual and/or extraordinary items.

Operating Margins: Operating Income as defined above ÷ Total Sales

GPA Ratio: Gross Profits to Assets Ratio

OPA Ratio: Operating Profits to Assets Ratio

Shareholder Yield: (Dividends + Buybacks) ÷ Average Market Capitalization

Payout Rate: (Dividends + Buybacks) ÷ Earnings

EBITDA: Earnings before Interest, Taxes, Depreciation, and Amortization

EBIT: Earnings before Interest and Taxes

Net Operating Profits after Taxes: Operating Income × (1 - Tax Rate)

Net Operating Assets: Operating Assets - Operating Liabilities

FCFF: Free Cash Flows to the Firm

uFCF: Unlevered Free Cash Flows (also known as Free Cash Flows to the Firm)

NOPAT + D&A - CAPEX: Alternative computation method for uFCF

Net Fixed Assets: Net PPE + Net Intangibles - Goodwill

OCFBIT: Net operating cash flows before interest and taxes paid

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The 5/4 Process

Disclaimers

As additional disclosure, Saibus Research has no positions in RDSa and no plans to initiate any positions within the next 72 hours.