ExxonMobil Corporate Plan Update Transcript

This transcript presents ExxonMobil's Corporate Plan update held on December 8, 2022

Jennifer Driscoll: Good morning, everyone. Welcome to our 2022 Corporate Plan Update. We appreciate your continued interest in ExxonMobil. I'm Jennifer Driscoll, Vice President of Investor Relations. Joining me today are Darren Woods, Chairman and Chief Executive Officer, and Kathy Mikells, Senior Vice President and Chief Financial Officer. This live presentation, the slides, our pre-recorded remarks and the news release are available on the Investor Relations section of our website. As a reminder, today's call is being recorded. Shortly, Darren, will provide brief opening comments and reference a few slides from the pre-recorded presentation. This allows us more time for questions before we conclude at 9:30 a.m. central time.

Let me remind you that during the presentation, we'll make forward looking statements which are subject to risks and uncertainties. We encourage you to read our cautionary statement on slide two. For additional information on the risks and uncertainties that apply to these comments, please refer to our most recent Form 10-Ks and 10-Qs. Please note we also provided supplemental information in the appendix of our slides. And now, please turn to slide three, and I'll turn it over to Darren.

Darren Woods: Thank you, Jennifer. For too long, the conventional wisdom about ExxonMobil was that we had to make a choice between meeting the world's energy needs or playing a leading role in the energy transition. That view has always been flawed. The fact is, it is an and equation, one in which we produce the product societies need and lead the world in reducing greenhouse gas emissions, our own and others. To see how this can be achieved, you only need to look at our strategic priorities and the progress we are making. It starts with leading the industry in areas that form the foundation to success: safety, reliability, sustainability, earnings and cash flow growth, new products and innovative solutions that meet the changing needs of society, and, ultimately, shareholder returns.

We do this by focusing on and fully leveraging our key competitive strengths, investing only where these strengths are translated into uniquely advantaged projects. This level of discipline enables us to ride through cycles, confident that our capital and resources are placed in areas that will outperform competition. This requires all of our competitive advantages, the most important of which is, of course, our people. Continually developing our teams and maintaining a strong culture is a core strategic priority and essential to achieving our long-term objectives. We remain focused on building a diverse workforce where every employee contributes to our success and has the opportunity for personal and professional development.

In 2022, the results of our strategy have been exceptional. While it's easy to attribute our success to higher commodity prices, the fact is, the degree to which we have grown value cannot be explained solely by prices. Our success was earned on the back of the right strategy and extraordinary execution by tens of thousands of employees all around the world. Our strategic priorities differentiate us in today's higher price environment. They're the foundation of our industry leading performance and are robust to a wide range of potential future scenarios. The corporate plan we're laying out today is a continuation of that strategy and execution. It reflects the fact that we're on the right course and the results we're seeing demonstrate this.

Next, allow me to share what I believe is the investment thesis for ExxonMobil. First, we have accretive growth opportunities through investments and a leading portfolio of high quality, low cost of supply developments, including Guyana, the Permian, Brazil, and LNG. We are upgrading our product solutions portfolio with high value, lower emissions fuels, lubricants, and performance chemicals. We've demonstrated that we have superior execution capabilities supported by global projects and our operating organizations.

Second, with our fortress balance sheet, we have financial flexibility to manage through the commodity cycles. We have a diversified business portfolio demonstrated over the past two years, as we delivered record chemical earnings in 2021 and are on pace for record product solutions earnings in 2022.

Third, we deliver industry leading returns, enhanced by investments we've made the past ten years. We have demonstrated the commitment and capacity to growing shareholder distributions. Last quarter, we increased our dividend by more than 3%. Our 12 month return on capital employed rose to approximately 24%.

And fourth, we're leading the industry in the energy transition through a unique combination of differentiated advantages providing lower emissions solutions with accretive returns. This quarter, we announced the largest of its kind customer contract to capture and store up to 2 million metric tons of CO_2 per year, which is a good example of how we're supporting other companies in reducing their greenhouse gas emissions. More importantly, our strategy gives us the flexibility to pace investments based on developments we see over time, effectively allocating resources as the markets and policies evolve.

Our commitment and capability to meet society's energy needs and lead in the energy transition is unique in the industry, as is our long-term view, willingness to invest counter cyclically and buck conventional wisdom on how ExxonMobil can help society achieve its aspirations. Over the past few years, we've demonstrated our courage of conviction and made tough decisions to fundamentally change and profitably grow our business. You can continue to count on this.

Let me conclude with a few key takeaways. Our five-year plan is expected to drive leading business outcomes. By 2027, we expect to deliver earnings and cash flow results twice as high as our 2019 levels. Structural savings of $9 billion by 2023 versus 2019 will contribute to that, as will additional savings from our transformation work in supply chain, procurement, and finance.

We anticipate capital expenditures of $20 to $25 billion annually, with spending in 2023 at the upper end of the range between $23 to $25 billion. Given the returns we expect on these investments, we see a potential for approximately $100 billion in surplus cash by 2027, assuming a Brent price of $60 per barrel. The strength of our business and balance sheet will allow for up to $35 billion in share repurchases over the next two years, on top of the $15 billion in share repurchases in 2022.

We're on track to complete detailed greenhouse gas roadmaps for our major operated assets this year. Based on this work, we have a clear line of sight to aggressive reductions in our greenhouse gas emissions intensity by 2030 versus 2016. That includes a 40 to 50% reduction in upstream intensity and a 20 to 30% reduction in corporate intensity, including product solutions. You will see a more comprehensive update on our progress in the Advancing Climate Solutions report, which we will publish later this month.

These outcomes demonstrate the balance in our approach. It's the ExxonMobil and equation: working to meet the world's energy needs and reduce emissions. It is an incredibly exciting time to be at our company. With that, let me turn it back to Jennifer to kick off our Q&A session.

Jennifer Driscoll: Thank you, Darren. We'll now begin our Q&A session. The session will be video for the sell side as well as for management. Please note, we'll continue to ask our analysts on the call to limit themselves to a single question as a courtesy to the others, and so that we can take questions from more people. However, do stay on the line in case we need to ask for any clarifications. And please use the Zoom's raise your hand feature and indicate if you have a question. Okay, so with that, we'll take our first question. It'll be coming from Neil Mehta at Goldman Sachs. Neil.

Neil Mehta: Yeah. Thanks, Jennifer, and thanks for the opportunity. The question I had was really on the Permian production growth profile. So, embedded in the 3.7 million barrels a day guide, can you help us understand how much growth is there in the Permian? And then as we get out to 2027, it sounds like we're at 800,000 barrels a day in the Permian. Darren, do you view that as the plateau, and do you believe you can hold that level? Thank you.

Darren Woods: Yeah. Good morning, Neil, and thank you for the question. Let me give some context. We've increased our Permian production into ’21 at 25% this year, we expect to finish out at around 20%. As we go forward, I would expect that to come down as we work through the DUC inventory that we generated during the pandemic and have been working off in 2021 and 2022. And so going forward, I'd say more rateable growth of about 10% per year, roughly. That's going to kind of move up and down as we go through the years.

My expectation is you get out to 2027, we're going to see, consistent with what we talked about in 2018, where we committed to a million barrels a day of production by 2025. The pandemic hit. We said we're going to slip that by a couple of years. And so, my expectation is 2027 we’ll be between 900,000 barrels a day to about a million barrels a day in 2027. And as we go forward each year, I would expect kind of a 10%. So, as you look at 2023, I think 9 to 11% increase in production.

Jennifer Driscoll: Okay, thanks. Our next question comes from Doug Leggate of Bank of America. Doug.

Doug Leggate: Well, thank you. I was just trying to navigate the mute button. Good morning, everyone. Thanks for taking my question. I guess, Darren or Kathy, my question is about the break even and the implications for the dividend. You show again the slide of that excess capacity which most people will probably assume goes to buybacks over time.

But my question is that, if you think about value recognition as a function of the confidence in the sustainability of a growing dividend, how much of that $10 reduction in breakeven are you prepared to give back for an increase in the absolute dividend burden as opposed to per share growth, which obviously comes from the buyback?

Kathy Mikells: Sure. I'm happy to take that, Doug. We're trying to get the balance right. You know, as we've talked about before, we're interested in ensuring that we've got a sustainable, competitive growing dividend and that we're efficiently returning cash to shareholders as we look to share the success of the company with shareholders. If you look at what we've done more recently on the dividend, we just raised the dividend in the fourth quarter by about three and a half percent, three cent to the quarterly dividend raise. And, obviously, we announced today that we're increasing and extending the share buyback program with up to $35 billion of share buybacks in ’23 and ’24. So, we're trying to get that balance right. If you look at where we're going to be for 2022, we'll end up returning about $30 billion to shareholders, with about half of that given through dividends and the other half given through share repurchases.

The other comment that I would give is, we've been very focused on some of the lessons that we learned from the past and looking to more sustainably maintain a share repurchase program, as part of our overall program to return capital to shareholders. And that's really supported by the extension of the program now into 2024.

Darren Woods: I might add, Doug. The capital allocation priorities that we've been talking about for a number of years hasn't changed. Where, first and foremost, we're very focused on finding advantaged projects that continue to grow the value of the business. Make sure that we maintain this fortress balance sheet, which, obviously, we're going to draw on during the down cycles. And then, ultimately, then share the success that we've developed with shareholders either through dividends, and we've had a pretty strong commitment to reliably growing that dividend over time, and then buybacks in addition to that. So, that capital allocation framework remains in place and we still believe is the right allocation strategy for the long-term success of the business.

Doug Leggate: Can I ask for a clarification point very quickly? So, the 3% dividend growth is lower than your share buyback pace. So, it suggests the breakeven is dropping ten bucks, the burden is actually going down. So, to reiterate my question, should we think about $35 breakeven or a $40 breakeven? How much of that are you prepared to give back to the absolute dividend burden or should we just wait and see how that plays out?

Kathy Mikells: Yeah, I think we'll look over time. Obviously, our board reviews the dividend every quarter as we go to declare a dividend every quarter, Doug. And we've been looking to be balanced in terms of growing dividends and sustaining a share repurchase program. And, obviously, the fortress balance sheet is what we've been building during this period of time, where we're seeing more buoyant market and that helps us to ensure that we can continue to grow dividends and continue a more consistent share buyback program through the cycle. So, that's what we're really focused on.

And we know how important the dividend is. We know it's important for that dividend to be competitive, to be growing, and to be sustainable. We, obviously, get a secondary benefit through the share buyback program of reducing the nominal dividend, and that helps us to further grow the dividend as we look forward.

But you're very much on point in terms of from a capital allocation perspective, we get more resilience as we bring that break even, Brent price down, through the benefits that we're driving in improving the business: in improving the business mix and driving down our costs and ultimately improving volumes over time. And that does make the business more resilient, which can enable the company to carry a higher dividend, all else held equal as we go forward. So, we're very focused on our capital priorities, making sure that we're investing in really accretive projects in the business, making sure we're retaining that fortress balance sheet, and then sharing the rewards of the business with our shareholders.

Doug Leggate: Thanks for the clarification, Kathy.

Jennifer Driscoll: Okay. Our next question comes from Devin McDermott of Morgan Stanley.

Devin McDermott: Hey, good morning. Thanks for the time today. I wanted to dive into the structural cost reductions in a little bit more detail. And you done a great job realizing the 9 billion target by the end of next year or moving toward realizing that despite some of the inflationary pressure that we're seeing across the industry right now. But if I look at the longer-term goals that you lay out on slide eight and the earnings growth contributors by 2027, it looks like there's further efficiency reductions as we look out both post-2023 and 2025, and then beyond 2025 as well. I wonder if you talk a little bit more detail about some of the additional opportunities that you see there. And then also, have you quantified the total structural cost reductions through 2027?

Kathy Mikells: Yeah. So, if you look overall, I'd say we've been really pleased with how the structural cost reductions have evolved over time. We feel very good about hitting the target of 9 billion by the end of 2023 relative to 2019 and we've been reporting on that regularly. I think you see the progress that we're making. We've talked about as we look beyond 2023, the fact that we expect these cost savings can help us to offset inflation, obviously, inflationary pressure, ebbs and flows, from year to year.

Some of the incremental areas that we're focused on that we've talked about is really further centralizing some of our capabilities. So, you would have seen this year when we made organizational changes that we centralized our capability in terms of research and engineering. Overall, we also pulled a central maintenance organization into our global operations and sustainability group. We've talked about the benefits in the past that we've gotten from centralizing our global projects group.

As we look forward, we're looking to really better leverage the scale and our integrated approach across supply chain. So, that's a particular area of focus and how we can get more benefit by looking at supply chain across ExxonMobil. We've also talked about a number of different big processes that we run that are very disparate today. So, if you think about how we basically contract with people, pay people, how we do our accounting across the company, we have this done in disparate different businesses. And so, again, how can we pull some of those things together, start to standardize them, start to get a better grasp on the different data sets that we have across the company, so that we can ultimately apply more technology and automation to these things.

And I'd say at one level up, much better improve the experience for our customers, our vendors, and importantly, our employees, who today I would say do a lot of different processes in different ways across the different areas of our business and end up doing a lot of things in a manually intensive way because we're not standardized, and therefore it's tougher for us to apply technology to those processes. So, those are some of the areas that were particularly focused on as we move forward, and that's going to help us to offset inflation when we get beyond 2023.

Darren Woods: Yeah, and I would add, Devin, as you pointed out in the slide, that we do see a material opportunity to further become more efficient and reduce our cost, and that's built into the plans that our organizations have developed. I would quickly add, though, and what we found with the changes that we've made to date is, you have an idea of where those opportunities are going to come from, and how quickly we'll be able to manifest them when we get the organization in place, and up and running but we continue to surprise ourselves with the ability to bring those savings faster and to quantify a bigger opportunities. And so, my expectation as we go into next year and begin to implement the next stages of transformation that Kathy talked about, that we'll get a much clearer line of sight to those and be able to expand in more detail on those savings as we go forward. Right now, we've got, I think, a very good estimate. My guess would be it's probably on the low side versus the high side, but we need to do some work to get clarity on that, as that organization gets in place and starts working on the opportunities to improve.

Devin McDermott: And have you said how much you've baked in through 2027? The total number.

Darren Woods: Only in the chart that we've shown, I think the slide that you've referenced.

Devin McDermott: All right, Thank you.

Jennifer Driscoll: Our next question comes from Jeanine Wai at Barclays Capital. Jeanine, good morning.

Jeanine Wai: Hi. Good morning, everyone. Thanks for taking our question.

Darren Woods: Good morning, Jeanine.

Jeanine Wai: Good morning. I guess our question maybe is just reverting back to the medium-term Capex budget. You reiterated the $20 to $25 billion, which is great. You've got some lower emission investments ramping up a little bit versus what you thought before, of the $2 billion spread out over a number of years. A lot has happened in the past year externally, but we also know that Exxon approaches the business from a long-term planning perspective. So, our question really is, has anything changed on your go forward outlook on where you'll actually sit within that $20 to $25 billion range over the next five years, even if it's on the margin, and whether it's related to the macro or maybe Exxon's opportunity set within the traditional oil and gas business or lower emission side, or anything from the regulatory side? Thank you.

Darren Woods: Yeah. Maybe I'll start and then let Kathy fill in some of the gaps. I think important context when we come back as we've developed the plan every year, we start with a fairly, I'll call it, clean sheet of paper. Obviously we have a pipeline of projects that we're developing, but we don't begin by saying this is all we're going to spend. We begin by saying, let's make sure we have, we're finding and looking at a path to develop all the advantaged opportunities that we can find and continue to look for more advantaged opportunities. And then we build that back up grass roots and then look at it in terms of the context of the overall budget that we've laid out.

And so, we did that again this year and the plans that you see. And they will change and vary year to year. That's one of the reasons why we've given a range, is you can think about the opportunities that are five years in front of us. It's a dynamic process and opportunities will kind of move up the prioritization as we find opportunities to realize more advantage and others may move down. So, there is some movement in that space which we anticipate. And I think it's part of a healthy process of really testing hard whether these projects are going to deliver the advantage that we expect them to, that we require them to.

I'd say that dynamic process you're seeing play out. We did that this year. And then in the context of that broader $20 to $25 billion range, felt very comfortable with that range continue to support all the opportunities that we wanted to advance. As we go forward, if we find greater step out, new opportunities that begin to challenge that, we'll relook at that and be out talking to all you if we see something like that. But to date that horizon that we see is still, we're very comfortable with the ranges that we've laid out.

One comment I'll make on the regulatory question that you asked, which is, maybe, in reference to the IRA and some of the incentives that are being developed to try to catalyze additional investment in emissions reductions. We do see an opportunity there. Obviously, we're in the process of translating that, as is the government, in terms of exactly what that looks like, how will it manifest itself in the economy. But we do see opportunities there. And of course, we've got Dan and his team in the Low Carbon Solutions business aggressively looking at opportunities to bring the same type of advantages that we've realized in our base businesses to our Low Carbon Solutions business.

And I would just end by saying, very pleased with what we've seen there. And consistent with what we believe would be the case, the advantages that we've realized for decades in our base business is we are also seeing those manifest themselves in these new businesses. So, we've got a lot of confidence that that business will grow as we find accretive opportunities. And so, we will, again, continue to bring that into the portfolio and talk to all of you about that in the years ahead as we find those opportunities. Kathy, anything to add?

Kathy Mikells: Yeah, I would just add on the low carbon emission spend, we've obviously increased it from, I'll call it, roughly $15 to $17 billion. And so that's just a straight add. As Darren mentioned, as you think about the other big projects that we have, they're very consistent with the prior plan that we talked about. And some of the projects do move a little bit. We have a pretty big incentive to try and pull projects forward when we can. Payara in Guyana, I think is a terrific example of that, and is part of the reason that we're at the higher end of that $20 to $25 billion range coming up in 2023. We had previously said that we thought Payara was going to start up in 2024, we've kind of pulled that forward towards the end of 2023. And so, unsurprisingly, that means that we're spending a bit more Capex a bit sooner.

But if we have a change in terms of the project slate, we would clearly come forward and talk about that specifically. But all else held equal, that low emission spend is just adding $2 billion to the overall slate of capital projects that we have between 2023 and 2027. And most of that is coming in the later period. Again, it takes a while for these projects to spool up.

Darren Woods: The final thing I'd add, Jeanine, which I think is important with respect to the broader Capex portfolio. It comes back to the definition that we use internally about disciplined investment versus what I think the nomenclature outside the company is. For us, the discipline in investing is making sure that every dollar we invest is a dollar invested in a project which is advantaged and will generate returns in excess of what the other players in the industry are capable of doing.

And so, that disciplined investor is making sure we only invest where we've assured ourselves of a competitively positioned advantaged project. It is not a meet some cap number and compromise what I think it could be value creation to hit an artificial number that we put out at some point in time.

And so, while that hasn't manifested itself this year, that is fundamentally how we think about investing. And disciplined investing is making sure we're finding those right opportunities. And when they come along, because they're often hard to find, we're going to make sure we take advantage of them.

Jennifer Driscoll: And our next question comes from Roger Reed at Wells Fargo. Roger.

Roger Reed: Yeah. Good morning. Hopefully, I've managed to take the mute off and everything. I'd like to, maybe, tag on with Jeanine's question there. And then, I also understand, as you think about Capex and a portion of the $24 billion being dedicated, roughly 7% here to non-oil and gas production. So, the two parts of it are, could you give us a little more clarity on exactly how the returns to these projects compared to traditional oil and gas? And then, if you think about the spending level, does that imply that your actual spending on oil and gas production remains in that lower $20 billion range and that's the right way to think about longer term production growth? You gave specifics about the Permian, but I'm just thinking about the broader corporate entity here.

Darren Woods: Yeah, thanks. I'll, again, kick it off and then let Kathy fill in some of the gaps. I may go back and anchor to the points I made with Jeanine which is, it's going to be opportunity driven, Roger, in terms of how we see, say, spend in the oil and gas business. And again, it'll be a function of if we've got resources, find an opportunity that we're trying to advance. That will dictate the level of spend. Obviously, we're very committed to making sure that we bring the advantages that we have to bear, particularly, given our long-term view of the role that oil and gas will continue to play even as we reduce emissions and society moves down this path of a lower emissions future.

On the low carbon solutions, the returns for those are competitive in the portfolio. I think I've said from the very beginning that, we ought to be able to translate the advantages that we bring to the industry as a whole into opportunities in this space and generate a return that is in excess of what the marginal investment required to reduce emissions.

So, my view is our advantages positions us differently than many others who are participating in this space. And that different position ought to manifest itself in higher value that we can then bring to the shareholders, which is built on the decades of work that we've done to build these core competencies.

That proposition remains more true today than it ever has been. If you think about the areas that we're pursuing in carbon capture and storage, and biofuels and hydrogen, those are all opportunities which have huge market potential, have been recognized third parties, credible third parties are going to be a critical part of the energy transition, and all play to our strengths. And so, we're taking those, and with Dan's team, finding opportunities to invest in those areas and generate returns which are very, very competitive.

Those returns will vary. Because the markets haven't all evolved at the same pace and policy is different around the world, the returns will vary. But what I'll say to you is that the ones which are mature have very accretive returns, they're very competitive in the portfolio. There are some that we're making investments in anticipation of policy. And I would tell you the Baytown project that we've talked about, the blue hydrogen project, you may recall we started work on that before the IRA, before there was really policy in place to support it.

But in anticipation of evolving policy, we wanted to make sure that we had something on the shelf that we could reach for if that policy eventually manifests itself, which it did. And so, we're very well positioned on that project. We are doing other projects like that, kind of seed work, to make sure that as that policy and market develops, we've got a really healthy pipeline of development opportunities that we can continue to push. Kathy, anything?

Kathy Mikells: The only other thing I'd add is, we've talked previously about the pace of some of these projects had been a bit in line with where we've seen policy develop. And so, biofuel projects would be a great example of that. If you think about our project up in Strathcona, we’ve invested over in Europe, we've invested in California. So, these are all places that have supportive policy which we expect are going to drive high return. So, when we look at the overall portfolio of emission reduction Capex, we've said the overall portfolio will yield in excess of 10% return. But there's projects that are already supported by policy that already exists that I would say are going to deliver strong double-digit returns. And ultimately, these projects have to compete within our portfolio.

Roger Reed: No. It's great. Just one point of clarification, if I could. Is something like carbon capture and storage, that's a lower emissions spending component as opposed to a growth expansion? I'm just trying to understand where the dollars are going and the right way to think about the return proposition here.

Kathy Mikells: Yeah, that's a great question, Roger. And so, we try and give you all of the spending, both internally to reduce the emissions of the footprint that we already have today, spending that's going to be required as new projects come online to reduce the emissions associated with those new projects. So, those are all within ExxonMobil's four walls, and then what we're doing externally to help society overall and our customers focus on reducing their emissions. And we talk about biofuels, carbon capture and sequestration, and hydrogen, is the areas that we're focused on. But when we overall give the number, we expect to spend $17 billion over this period of time, from 2022 to 2027, that's really meant to capture everything within our own four walls and what we're doing externally.

Roger Reed: Great. Thank you.

Jennifer Driscoll: And our next question comes from Biraj Borkhataria at RBC.

Biraj Borkhataria: Hi there. Thanks for taking my question, and thanks for the presentation. The new format today very concise and much appreciated. I just want to ask a couple of quick ones on the financial guidance. So, the assumptions on the deck are $60 Brent and $3 Henry Hub. I was wondering if you could just comment on your assumptions for International Gas and LNG in particular, because, obviously, next year is it's likely to be materially higher than Henry Hub. And then secondly, another quick one. For the 2023 Capex budget, what proportion of that is cash CapEx and what proportion is affiliates? Thank you.

Kathy Mikells: So, overall, one other thing that I would just mention is, compared to Investor Day, we've now rebased pricing to 2022 versus Investor Day we would have started in 2021 in terms of the $6 and $3 Henry Hub. And then LNG, I believe we're using $6 for LNG. And then you asked about overall affiliates kind of relative to our overall footprint. I don't have that number off the top of my head in terms of overall affiliates, but it is typically a couple of billion dollars relative to our total.

Darren Woods: Yeah. With respect to projections and what we build our plans on, we try to look past the current market environment. Obviously, we're sensitive to it, but we think more longer term. And so, if you think about LNG, what's the marginal capacity that comes on? That's the price setter in the world. And then that will be the basis on which we forecast long term LNG projects. We kind of think about it as a cost of supply in normal times. What is the marginal production step required to meet the demand projections? That marginal production step has to generate a return for new investments, or if we're markets long, it's the cash cost returns. And so, that's how we think about it. Set price, that's the long term.

We're not projecting that that will be the price. What we're saying is, we're building plans based on those fundamentals, and the projects that we're developing have to be successful and generate the returns that we expect on those long-term fundamentals. And then, wherever you find yourself in the cycle, wherever the current price environment is, if it's a lot higher than what we had built the plans on, that's icing on the cake. If it's lower, we know that we'll be well positioned within this seriatim of production steps and therefore advantage versus the rest of industry.

So, that's tends to be how we think about it. We don't try to build a plan based on, what I would say is, the short-term market dynamics. But, obviously, we're very sensitive to that, and we adjust on the margin things that we're doing that have a pay-out or a consequence within that short-term price environment.

Kathy Mikells: And then just the last thing that I would add, Biraj, is, you're asking about LNG. And typically for us, LNG is 80% long term contracts, and those long-term contracts are actually linked to oil prices. So, that is more of how we see our LNG pricing move over time, is that link directly to oil price.

Biraj Borkhataria: Good. Thank you.

Darren Woods: Thank you.

Jennifer Driscoll: And our next question will come from Paul Cheng at Scotiabank. Good morning, Paul. I can't hear you yet. You might be on mute.

Paul Cheng: Can you hear me now?

Jennifer Driscoll: Yes.

Paul Cheng: Okay. Thank you. I think that this may be for both Kathy and Darren. A lot of your peers that have tried to jumpstart and accelerate the energy transition through inorganic means, making some acquisitions. And also particularly, there are several of them that have been looking at RNG, the renewable natural gas area. Just want to see how RNG fit into your ambition in the carbon neutral, as well as to build up the new carbon business. And whether you're going to look at acquisition as a reasonable means to accelerate the energy transition there?

Darren Woods: Sure. I'll start with that, Paul. I think, again, I would emphasize that the approach that we're taking in low carbon solutions with respect to investment and looking at growing that business is extremely consistent with the approach that we've taken in the base business. Which is, you'll know this too. If you go back many, many years now where there was this big push initially to go into wind and solar, we looked at that in the context of our strengths, our capabilities, and concluded we don't bring a lot of unique advantage there, and therefore focused on the areas where we felt like we could bring our competitive advantages, our strengths, our technology, to bare, to grow shareholder value. And we've stuck to that. And that's what you see now manifesting itself in the projects that are coming forward in our low carbon solutions.

So, the other areas that you mentioned, we're looking at, I would tell you the full breadth of opportunities in this space. And Dan and his team are focused on where are the opportunities that, first of all, have scale, that are going to be a meaningful, play a meaningful role in reducing global emissions. Because we think that's a strength that we can bring to bear in this space. And want to make sure that the areas that we focus on have a big enough lever to actually impact global emissions. So, that's a really important criteria.

And the other is, where we can bring to bear our unique combination of skills and advantages to do more than others. And frankly, there's a lot in that space to look at beyond just the things we've talked about. The ones we're talking about now, carbon capture and storage, hydrogen biofuels, are probably the most relevant and closer to us. But there are other opportunities that we're looking at that with time we think, what we've been working on in the technology space, we can bring to bear and potentially grow.

So, I would say we've got a very wide aperture but anchored in our strengths and competitive advantages. If we find an acquisition opportunity that complements those strengths, we will not hesitate to execute on that. But it's going to come back to, we're not looking to grow the business on a me-too basis or on industry average returns. We've got to generate higher than industry average returns, which means we have to be differentiated. And that's the focus that Dan has. And I think the really good news is there's lots of opportunities to differentiate ourselves, and that's what we're focused on executing.

Paul Cheng: Darren, can I just clarify one thing? If you do make any acquisition, would that be included in the $20 to $25 billion Capex or that would be in addition? Thank you.

Darren Woods: So, I come back to, we don't have an acquisition built into our plan going forward. As we do this every year, look at opportunities, where we see value opportunity, we'll bring that into the portfolio. And whenever that decision gets made, we'll have to look at it in the context of the other investments. And if it's outside that range, then we would be out talking to you about that. If it's inside the range, then it would just be part of that. I think it really depends on when that opportunity presents itself and what's the rest of the portfolio looking like.

Paul Cheng: Thank you.

Jennifer Driscoll: All right. Alastair Syme from Citi will give us our next question. Alistair. Good morning. Green area.

Alastair Syme: Right. I wasn't controlling the mute. You don't publish your energy outlook anymore, which you usually did about this time of year, and I understand the reasons why not. It's a shame, because it was an excellent document. But as you've gone through the planning cycle, have you taken any different view on either the shape of the oil or gas markets as you look out over the next decade?

Darren Woods: So, we are going to publish an energy outlook. We took a pause during the pandemic because it was such a challenging space to predict exactly what that recovery was going to look like. But we do an energy outlook and we'll continue to kind of talk about that going forward. Though, I would tell you, as you know grassroots and build it up based on our own understanding, and look at the technology, the policies that are out there, the demand growth, economic development, all that together build up our case. And we compare that with third parties. And I would say the IEA steps projections usually pretty much in line with where our energy outlook is. And so, I would say, that continues to be the case as we look going forward.

There are a number of third parties out there that we're very aligned with. And then it's just a question of, think where the biggest variation comes is, what transition path do you assume that we're on and how quickly society is willing to accept the policies that are going to be required to kind of drive that. And how quickly does the technology develop, how quickly do the markets? That tends to be, obviously, a lot more uncertain and therefore a lot broader variation in the future outlooks.

And the way we mitigate that uncertainty is test our scenarios and our plans against the third-party ranges and try to go to the extremes. As you know, we test against the IEA net zero scenario, which is a pretty aggressive scenario. We're continuing to do that along with looking at IPCC projections. And so, try to make sure that we've got a really robust process for testing the limits and the impacts on our portfolio and the strategy that we have in place.

And then the final point I'll make is, we do have a fairly rigorous process where we have established a number of signposts, given the uncertainty. Looking at what are critical development milestones on the different transition paths, monitoring those signposts to see, are we seeing developments in that space that would suggest we're on a particular path? And that's a very active process that we have in our organization, to try to make sure that we are looking well into the future and anticipating which path we'll end up on given the range of uncertainty that exists today. And because a lot of what has to happen involves quite a bit of capital, you're going to see that we got lots of time to respond to that. In fact, I think the energy outlook, we've got that online now. So, that's probably something that you can reference today.

Alastair Syme: Is there any view on how Europe gets out of its gas situation and how you frame the global gas market around that?

Darren Woods: I would say the path that they're on is how that's going to resolve itself, in terms of building regas capability and bringing more LNG into that marketplace. And, obviously, the conservation work that they're doing, which is, I know, a challenge for many there. And I have to tell you, I've been very, very impressed with the resolve that we've seen out of all the people of Europe to respond to the invasion and to really make the sacrifices required to get through this. I think it's remarkable where we see Europe today and their ability, I think, hopefully to get through this winter. I think building for next winter will continue to be a challenge.

They're doing the right things in terms of bringing in additional LNG and building the capacity to do that. The big challenge here, as you know, is just the time it's going to take to build those facilities, not only from the regas standpoint to bring the LNG into the countries, but also in developing the additional LNG capacity outside of Russia. And so, I think those things are going to take some time. Our view is the market is going to be pretty tight for the next several years and hopefully enough progress made, enough conservation made, that Europe will continue to kind of squeak through there, although they will obviously be paying a price for that, unfortunately.

Alastair Syme: Thanks for the insights.

Jennifer Driscoll: And our next question comes from Ryan Todd with Piper Sandler. Good morning, Ryan.

Ryan Todd: Thanks. Good morning. Maybe if I could ask a question on slide number 12, where you talk about product solutions, earnings tripling, nearly tripling from 2019 to 2027. Can you talk about what drives the significant increase? It's effectively a doubling in income there on the grey bars. I understand the strategic projects in the blue columns there, they're going to drive some of that. What drives the near doubling in earnings from 2019 to 2027 outside of strategic projects? Again, on the upstream side, it's a little easier to wrap your head around because of the significant mix shift associated with the high margin barrels coming onstream. How much of that is cost savings? Is there any margin impact there? How much of it is a mix shift that may not be associated with strategic projects going on in the business? So, any clarity there would be helpful.

Kathy Mikells: Sure. I'm happy to talk about that. And so, we specifically highlight the strategic projects because, as you can imagine, that's directly tied to the mix shift. And we show you the expectation that we're going to double volume of what we call high value products. Those are our higher margin products, be it performance chemicals or high value lubricants or low emission fuels that will see those volumes grow over time. And so, if we just try then and take that, and dissect it into kind of the different pieces of what drives earnings growth, about 50% of the growth overall comes from that mix shift over time. And we've talked about when we get out to 2027, about 40% of our earnings will actually be derived from those high value products.

You then look at cost savings. So, cost savings are driving about 20% of the overall pick up that we have. And then we get a volume increase. Obviously, we're making a number of investments in advantaged products that that are bringing on volumes over time. We're going to see refinery expansion bring on volume in the first quarter of 2023. We've got the projects that we mentioned overall coming on, that increase volume of Vistamaxx, that increase kind of PE and PP volume over time. So, that's what the breakdown of the composition is.

I think the overall storyline here is pretty aligned to how we talk about and think about the upstream business. Ultimately, we're improving the earnings capacity and cash flow capacity of this business by fundamentally changing the mix of products over time, by continuing to drive down the costs overall through structural cost reductions. And then the projects are also giving us, over time, a little bit of a pickup in volume.

And this is a market, especially on the chemical side and certainly on the lubricants side, that you see GDP overall driving volume growth. Those performance products, in lubricants, low emission fuels and chemicals, driving growth overall from a market perspective at higher than GDP. And then when we think about our refinery footprint, you also have to remember that we can change the product slate and over time produce more chemical base stocks, if we see the market shift associated with the energy transition.

Darren Woods: Yeah. I would just add, Ryan. One of the things we try to do to demonstrate the base improvement is normalize the pricing so we don't try to forecast price margin swings and build that into the outlook, but instead normalize that. So, you can see what I would say is the improvement in the fundamental business.

Ryan Todd: Okay. Thank you very much.

Jennifer Driscoll: Our next question comes from Jason Gabelman at Cowen. Morning, Jason.

Jason Gabelman: Morning. Thanks for taking my question. I just was hoping you could provide a breakout of the aggregate free cash flow that you're forecasting over this period, between cash flow from operations and Capex. And then what you're including, if anything, from a windfall tax perspective, the impact of that from the EU and the United Kingdom windfall taxes. Thanks.

Kathy Mikells: Sure. So, I'll start overall with the last question about windfall taxes. We, actually, disclosed in our last quarter, Q, at that point in time, an expectation that the windfall taxes in Europe were going to cost us upwards of $2 billion. Ultimately, where that's going to land depends on a country-by-country implementation of specific legislation. So, we'll have more to say when we get to the fourth quarter call, because, obviously, at that point in time we're going to see legislation land.

And then I'd say, if you look overall at where we land in terms of surplus cash flow over time, so we've set at $60 kind of real Brent, we expect to have $100 billion in surplus cash flow through this plan period. That's including $20 billion of, I'll call it, excess cash that we already have sitting on our balance sheet. At the end of the third quarter of this year, we had $30 billion of cash sitting on our balance sheet. So, if you look at it over the 2023 to 2025 period, that's producing then cash flow from operations less Capex, and less the dividends of basically $80 billion.

So, we haven't broken out those individual components. We actually did that in Investor Day. And I would tell you the overall cash flow from operations continues to be pretty consistent. I mentioned earlier we have a little bit more Capex that we're anticipating, largely driven by the $2 billion increase that you saw coming from the low emissions Capex spend. And then I'd also say, there's a bit of inflation that we're assuming in Capex. But in the next breath I would tell you, Jason, that some of those projects that we haven't yet FID, the team will be working very hard to drive the efficiency and design of those projects down. So, I'd say we'll update you over time in terms of where we see the Capex on a year-by-year basis coming in.

Jason Gabelman: Great. Thanks.

Jennifer Driscoll: You're welcome. And now by telephone, we will have John de los Santos from Redburn.

John de los Santos: Hello, can you hear me?

Jennifer Driscoll: We can, John.

John de los Santos: Yeah. Sorry, I didn't actually raise my hand to ask a question. I'm not sure why I got included here.

Jennifer Driscoll: That's fine. I guess we'll move then to Neal Dingmann at Truist. Sorry about that, John.

Neal Dingmann: Thanks for squeezing me in. My question is on traditional energy growth, specifically, the external growth. I've heard what you all have said on the other energy business today. So, given your large upstream inventory position, including a lot of the major projects you all talked about, and then I'm just wondering, given your future commodity forecast, you all anticipated more active traditional energy program than we've seen in recent years. Darren, what I'm trying to get a sense of, what it would take for you to think about doing a deal, at least, the size of Noble like in 2020 or something like that.

Darren Woods: So, I would tell you, Neal, we're always open to a deal. We look for deals all the time, but again, it has to meet the criteria of bringing a unique value proposition, one that leverages our strengths, where we see some synergy above and beyond what each of the entities could do independent of one another. And so that tends to be the criteria that we look for. And then, obviously, it needs to be based on a value proposition that doesn't take or recognize, what I would say is, the prices in the moment, but more the prices in the long term, and the fundamentals. So, I think that tends to be how we think about and look at acquisition opportunities.

Our view is, again, the uncertainty around the transition and exactly where oil demand goes, everyone can debate that. Our strategy is to make sure that the developments that we bring online are advantaged and therefore cost advantaged, and therefore on the left-hand side of the cost of supply curve. And so, we don't worry about ultimately what that end demand is going to be.

When you factor in the fact that depletion continues to take out roughly 7% of the production every year, we know there's going to need to be a continued level of investment. Our job is to make sure that our investments are on that far left-hand side of the curve. And if we find an acquisition opportunity that allows us to bring that acquisition into the left-hand side of the cost of supply curve, that would definitely be an opportunity that we would pursue.

Neal Dingmann: And just a clarification you mentioned on future prices. So, does your future price forecast, does that have a big driver on that? Or maybe I could ask another. Could you talk about, how do you think about long term prices?

Darren Woods: So, I would tell you, again. Because, I think, we've all demonstrated the inability to effectively project prices, it tends to be more on a cost of supply. And so, one of the great advantages of our industry is, and as you all know this, a lot of transparency in terms of the production capacity, the capacity that's out there and the projects that are being brought on. So, we've got, I think, a fairly good ability to project cost of supply across all of our businesses. And so, we have a cost to supply curve for production and new projects that come on for the industry as a whole. And we do that for our product solutions business, both for the chemical facilities that we're building, as well as the refining investments that we make.

We've got it when we're thinking about our low carbon solutions business. We look at the cost of supply or the cost of reductions, if you want to think about it in those terms, and where we sit on that curve, and we have it in gas, and we have it in oil. And so, as we're looking at opportunities and investments, doesn't require us to say this is the price on which we need to make sure we can be competitive, we look at it in the slate of the production that exist and the production that's coming on, and say, where is it positioned in that seriatim, and are we to the far-left hand side?

So, wherever demand goes, we'll know the price setter we can see, and we just need to be on the left of that to make sure that we're generating a margin. That's how we think about it. So, it's much less about the projected price and much more about the competitiveness of the opportunity.

Neal Dingmann: Very clear. Thank you.

Darren Woods: All right. Thank you, Neal.

Jennifer Driscoll: Thanks, everybody, for your questions today. We have cleared out the queue. We will post the transcript of the Q&A session on our investor website early next week. To find it, go to exxonmobil.com and click on investors, and then corporate plan update. That concludes our call. So, on behalf of all of us at ExxonMobil, have a nice holiday season, everybody.