ExxonMobil First Quarter 2022 Earnings Call Transcript

This transcript presents ExxonMobil's first quarter 2022 earnings call held on April 29, 2022.

Operator: Good day, everyone. Welcome to this ExxonMobil Corporation First Quarter 2022 Earnings Call. Today's call is being recorded. At this time, I'd like to turn the call over to the Vice President of Investor Relations, Mrs. Jennifer Driscoll. Please go ahead, ma'am.

Jennifer Driscoll: Good morning, everyone. Welcome to our first quarter earnings call. We appreciate your interest in ExxonMobil. Joining me today are Darren Woods, our Chairman, and Chief Executive Officer; and Kathy Mikells, our Senior Vice-President, and Chief Financial Officer.

The slides and our prerecorded remarks were made available on our Investor Section of our website earlier this morning along with our news release. In a minute, Darren will provide opening comments, and reference a few slides from that presentation. Then, we'll conduct a question-and-answer session.

We expect to conclude the call by about 9:30 AM Central Time. Let me encourage you to read our cautionary statement, which is on slide 2. Please note we also provided supplemental information at the end of our earnings slides, which are posted on the website. Now, I'll turn the call over to Darren Woods.

Darren Woods: Good morning, and thanks for joining us today. As we laid out at our most recent Investor Day, our goal is to sustainably grow shareholder value through the execution of our strategic priorities as seen on this slide. As we think about recent events, our job has never been clearer or more important.

The need to meet society's evolving needs reliably and affordably is what consumers and businesses across the globe are demanding, and what we delivered this quarter. First, we

continue to build our competitively advantaged production portfolio, bringing new barrels to market today driven in part by the high-value investments.

We continue to progress through the pandemic-driven downturn in prices. A prime example of the benefits of our continued investments is Guyana. This quarter saw the successful start-up of Liza Phase 2. Production is ramping up ahead of schedule, and is expected to reach capacity of 220,000 barrels of oil per day by the third quarter this year.

Combined with Liza Phase 1, it will bring our total production capacity in Guyana to more than 340,000 barrels per day. Our third project, Payara, is running ahead of schedule with startup now likely by yearend 2023. Yellowtail, the fourth and largest project to date on the Stabroek block, received government approval of our development plan, and is on schedule to start up in 2025.

Further adding to our portfolio, we have made five new discoveries this year that have increased the estimated recoverable resources to nearly 11 billion oil-equivalent barrels. Turning to the US, we continue to grow production in the Permian Basin. In March, we produced about 560,000 oil-equivalent barrels per day on pace to deliver a 25% increase versus 2021.

Looking forward, we are also growing our globally diverse portfolio of low-cost, capital-efficient LNG developments. In Mozambique, the 3.4 million-ton-per-year Coral South Floating LNG production vessel is being commissioned after arriving on site in January. Coral South is on budget with the first LNG cargo expected in the fourth quarter.

In addition to investing in high-value opportunities in our existing businesses, we are also advancing opportunities in our Low Carbon Solutions business. During the quarter, we announced plans to build a large-scale hydrogen plant in Baytown, Texas. We anticipate the facility will have the capacity to produce up to 1 billion cubic feet of hydrogen per day.

Combined with carbon capture, transport, and storage of approximately 10 million metric tons of CO_2 per year, this facility will be a foundational investment in the development of the Houston CCS Hub, which will have the potential to eliminate 100 million metric tons of CO_2 per year, and represents a meaningful step forward in advancing accretive, low-carbon solutions.

We also reached a final investment decision to expand another important carbon capture and storage project at our helium plant in Wyoming. In addition, we received the top certification of our management of methane emissions at our Poker Lake development in the Permian.

We are the first company to achieve this certification for natural gas production associated with oil. At the end of the first quarter, we implemented a series of organizational changes to further leverage the scale and integration of the corporation, improve the effectiveness of our operations, and better serve our customers.

We combined our downstream and chemical operations into a single Product Solutions business. This new integrated business will be focused on developing high-value products, improving portfolio value, and leading in sustainability. As a result of these changes, our company is now organized along three primary businesses: Upstream, Product Solutions, and Low Carbon Solutions.

These three businesses are supported by corporate-wide organizations including projects, technology, engineering, operations, safety, and sustainability. Before I cover our financial results, I wanted to provide our perspective on the market environment. In the first quarter, a tight supply/demand environment primarily due to the low investment levels during the pandemic contributed to rapid increases in prices for crude, natural gas, and refined products.

Clearly, the events in Ukraine have added uncertainty to what was already a tight supply outlook. Brent rose by about $22 dollars per barrel or 27% versus the fourth quarter. Today, natural gas

prices remain well above the 10-year historical ranges driven by tight global market conditions and ongoing European supply concerns.

The same tight supply/demand factors have also pushed refining margins near the top of the range. Chemical margins in Asia have fallen sharply with product prices lagging the steep increases in feed and energy costs. In our case, the US ethane feed advantage provided a significant positive offset versus this global view.

With that market environment as the backdrop, let me turn to our first quarter financials. Earnings totaled $8.8 billion, excluding an identified item, the after-tax charge associated with Sakhalin-1. As you know, we are discontinuing our Sakhalin-1 operations in Russia, which represented less than 2% of our total production last year, about 65,000 oil-equivalent barrels per day, and about 1% of our corporate operating earnings.

As the operator, our priority continues to be the health and safety of our people, and the protection of the environment. Of course, we remain in full compliance with all US sanctions, and are closely coordinating with the US Administration. Turning to structural savings, we continue to drive further efficiencies now delivering more than $5 billon of annual savings versus 2019.

Capex totaled $4.9 billion for the quarter in line with our full-year guidance of $21 to $24 billion. Cash flow from operations was $14.8 billion, maintaining our strong balance sheet. Our debt-to-capital ratio remains near the low end of our 20%-25% target range, while our net debt-to-capital ratio dropped to about 17%.

We returned $5.8 billion to shareholders, of which about two-thirds was in the form of dividends and the remainder share repurchases, consistent with our previous program. We said during our Corporate Plan Update in December that we expect to repurchase $10 billion dollars of our shares.

This morning we announced an increase to the program, up to $30 billion dollars in total through 2023. This move reflects the confidence we have in our strategy, the performance we are seeing across our businesses, and the strength of our balance sheet. Before I leave you with a few key takeaways, let me share one other decision we made this month with respect to our workforce.

Continually investing in our people and maintaining a strong culture are core strategic priorities and essential to achieving our long-term objectives. As part of that effort, we are tripling the number of employees eligible for stock grants by bringing in high-performing employees at earlier stages of their careers.

Our goal is to increase our people's ownership in the company, and importantly in our financial and operating results. Secondly, in June, we will implement a 3% off-cycle compensation adjustment in the US to maintain competitiveness. Our compensation and benefits programs are a key element of our total value proposition that enables us to continue to attract and retain the best talent in the industry.

Let me leave you with a few key takeaways. We had a strong first quarter, and I'm proud of the organization's progress. The impact of weather on the upstream volumes and derivatives and timing impacts in the downstream obscured a strong underlying performance. We anticipate an absence of these impacts and strong refining margins will position us very well in the second quarter. We are making outstanding progress on our high-value growth developments in Guyana, the Permian, and LNG. Our new Corpus Christi Chemical Complex is up and running ahead of schedule, and generated positive earnings and cash flow in its first quarter of operations.

We have strengthened the balance sheet and are creating value for shareholders through an attractive dividend and increased share repurchases. We are advancing hydrogen, biofuels, and

other low-carbon solutions consistent with our intention to lead in the energy transition, leveraging our competitive advantages of scale, integration, and technology.

Finally, we are evolving our organization from a holding company to an operating company to better serve our customers' evolving needs and grow long-term shareholder value. Before we take your questions, I want to acknowledge the very real impact the high prices are having on families all around the world.

You may recall that we anticipated this in 2020 with industry investment levels well below those required to offset depletion. That is why we worked so hard to preserve our capital expenditures during the depths of the pandemic and ensure that additional production was available to meet the eventual recovery in demand.

Today, that long-term focus is paying off with growing production of industry-advantaged supply. We are continuing to focus on the fundamentals through ongoing investment in advantaged projects and low-emission initiatives to ensure that we can continue to meet the critical needs of people all around the world reliably and affordably well into the future.

Jennifer Driscoll: Thank you, Darren. One last piece of housekeeping I wanted to mention is that ahead of the segment reporting change next quarter, we plan to provide you annual and quarterly information for the past five years using the new reporting segments to assist you with your modeling. We plan to post the new data on our website around mid-June.

Also, please note that starting with this call, we ask our analysts to limit themselves to a single question. So, that we can fit in questions for more people. However, you may remain on the line in case clarification is needed. And with that operator, please provide the instructions and then open the phone lines for the first question.

Operator: Thank you, Mrs. Driscoll. The question-and-answer session will be conducted electronically. If you'd like to ask a question, please do so by pressing the star key followed by the digit one on your touchtone telephone. Once again, we request that you limit yourselves to one question, so, that we may take as many questions as possible.

We'll take our first question from the line of Phil Gresh with JP Morgan.

Phil Gresh: Yes, hi. Good morning, Darren and Kathy.

Darren Woods: Good morning.

Phil Gresh: So, I guess my question is a little bit of a two-part question, then. The buyback, $30 billion over two years, previously you talked about I think $10 billion mostly in 2022. So, should we assume the $30 billion is essentially rateable, $15 billion this year? And then if that's the case, it still seems like there's a lot of excess cash potentially building up at strip prices. So, how do you think about any excess cash, debt reduction, etc. given where the leverage is versus targets now? Thank you.

Kathryn Mikells: Great. Thanks very much. So, look, we don't know exactly how long the strong market conditions that we're seeing today are going to persist. And we've learned some pretty tough liquidity lessons during the pandemic so our cash balance has been building a bit.

You would see that it was $11 billion as we ended the quarter. So, you should expect with the backdrop of these strong market conditions that even with the higher buyback program that we announced this morning, we would be building our cash in the near term, potentially between $20 to $30 billion over time.

And so, that really addresses our need for flexibility in what's an incredibly uncertain environment. and ensuring that we'll continue to appropriately invest in the business and sustain the share

repurchase program that we talked about through 2023. In terms of just how to think about the pace and the program, it's up to $30 billion through the end of 2023.

We obviously got $2.1 billion done in this quarter. You should think about us looking to get up to a ratable pace. And that roughly, we'd be looking to get $15 billion done a year. Again, looking to sustain the program more consistently over this two-year period. So, that's how I would think about roughly where we see our cash balance, and just looking to maintain a lot of flexibility in what's a pretty uncertain environment.

And we did learn some real lessons during the pandemic. We used to try and hold our cash balance, call it between $3 billion and $5 billion, and run a lot of commercial paper. And when the pandemic hit, that was quite problematic for the company. So, we're going to be a little bit more conservative here in the near term.

Operator: Your next question comes from the line of Jeanine Wai with Barclays.

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

Darren Woods: Morning.

Jeanine Wai: Good morning. Our question is related broadly to your global gas opportunities. Can you talk about how you see the evolution of the US market? And how do you see certified gas playing a role in US supply? And I guess, do you intend to really look for a global outlet for a portion of your US gas?

And we understand that Golden Pass, that provides a great opportunity to capture the spread. But maybe, are you thinking about some other opportunities besides Golden Pass? Thank you.

Darren Woods: Sure. You're welcome, Jeanine, and good to hear from you again. Just maybe a broad comment on the LNG business. Obviously, as we're seeing across each of our sectors, the pandemic had a pretty profound effect with respect to deferring, delaying capital spend, and therefore additional capacity coming on.

And as the pandemic has subsided and demand has recovered, we're seeing very tight markets. And we're seeing that play out really around the world, obviously a significant impact. And then with the Ukraine and the situation there, that has added a significant additional level of uncertainty around supply.

And so, I think a very dynamic market and a very high-priced market. And what we've seen in response to that is basically very full capacity utilization all around the world maximizing the amount of LNG moving. Obviously, we've got our Coral LNG starting up later this year, which will help contribute to and ease some of that tightness.

And then you mentioned Golden Pass, which is an important leg of our strategy of making sure that we have access to LNG supplies that we can use to supply demand all around the world. And that's a very important part of our strategy in LNG going forward is making sure that we've got barrels that we can then move and trade in the marketplace, and move across the different regional demand centers.

And so, I think we're going to continue to look for opportunities in LNG. It's an important part of the portfolio. We've got opportunities in PNG that we're progressing. Obviously, additional investments in Mozambique are in the future as well. And so, I think, it'll be a very important foundational layer of supply, and a really important part of our overall business offer.

Kathryn Mikells: And I would just add. You asked a little bit about that top rating that we got on methane management in Poker Lake in the Permian. And we would say, we really see a market

over time building for lower-emission products, and that really plays into that. And we would certainly hope that we'd also start to see a premium on those lower-emission products, right.

And we'd say that's consistent across our business, but we definitely are looking to play into that going forward.

Darren Woods: Yeah, I would just add to that. Obviously, that would be a benefit. But it's certainly not the main driver with respect to making sure that our operations have very low emissions, and very low methane emissions. And so, that's a core part of our commitment in running these facilities.

And to the extent the market pays a premium for that, that's an advantage that we'll look to take advantage of.

Operator: Your next question comes from the line of Devin McDermott with Morgan Stanley.

Devin McDermott: Hey, good morning. Thanks for taking my question.

Darren Woods: Morning.

Devin McDermott: I wanted to ask about some of the structural cost reduction goals. You continue to make good progress there. But the question is, can you add a little bit of color around what you're seeing on just broad cost in inflation, labor, and otherwise? And how if at all that impacts some of those goals and targets over time?

Kathryn Mikells: Sure. So, I'll start out with just saying, we feel good about the progress that we're continuing to make. At the end of the fourth quarter, we had said we had gotten to about $5 billion in structural cost savings relative to 2019 we are now at $5.4 billion so I'd say overall, we feel really good about that progress.

Obviously, we have now put in place the new organizational structure, which should drive incremental efficiencies on top of just driving better operations, faster speed-to-market, better deployment, faster deployment of resources to the highest opportunities across the company.

We're not immune to inflation obviously and we would see a fair amount of both energy and feedstock inflation coming through the business in certain areas that put a little bit of pressure on margins. Overall, in terms of how we are managing that, it flows through two parts of the operations.

So, one is on Capex. We feel really good about where we are at there because during the pandemic we really took the opportunity to extend contracts on work that was coming forward. I'd say while the shorter-cycle work programs obviously have some inflationary pressure, the teams are working really hard to offset that.

Overall, I'd say we really try and lever master-service agreements, self-managed procurement. We utilize a diverse set of global contractors across the globe in trying to really manage inflation. So, through the quarter right now, I'd say we're doing a pretty good job of offsetting it. But it's obviously something that we're watching really closely.

Darren Woods: Yeah, I would just emphasize the point that Kathy made. But I think one worth remembering is this longer-term view that we took during the pandemic in trying to maintain a level of investment, we also recognized that as economies recovered and demand picked up that we would potentially see inflation.

And so, we were very focused in anticipation of that trying to lock in some of the pricing and savings during the low points that we could then take advantage of early on in a recovery, which

is to the point Kathy made. And maybe the final point I would make is with the new organization, it's working hard.

And our leadership team is working hard to offset inflation and doing a pretty good job with that. And we think we've got a pretty good handle here, certainly in the short term. Obviously, we'll see how the market develops.

Operator: Our next question will come from the line of Neil Mehta with Goldman Sachs.

Neil Mehta: Yeah. Good morning, team. I have a question we want to focus on was around Downstream. And Darren, you know the refining business really well given your leadership role there over the years. And so, I'd love you to characterize how you are seeing the crack and refining market environment, which is obviously extraordinarily strong?

And then put that in the context of the quarter, which was softer in Downstream. But to your point, I think a lot of that was timing effects. And it feels like things should sequentially move in the right direction as you move into 2Q. So, the big picture question around the refining macro and then tie it into how you are thinking about the sequential move in your earnings power from here?

Darren Woods: Sure. And good morning, Neil. Yeah, I may if I can start -- and I feel like we're going to be a little bit of a broken record with respect to the anchoring a lot of what we're seeing in the market today across our sectors with the pandemic. And you will recall as we were going through that very deep downcycle where demand for fuels products dropped significantly.

There was a lot of refinery rationalization. In fact, refineries were shutting down at a much, much higher rate than historical averages, four times if not higher. And so, you had a lot of capacity

coming out of the marketplace. There were new facilities that were planned or in progress primarily in the Middle East and out in Asia.

Those got deferred and delayed because of the crunch. And so, you've got I think this period of time where you've taken a lot of capacity out. And new capacity that was planned or in progress has been deferred and delayed. And so, we've got a period with lower supply. And then of course, as demand has picked up, that has led to this very tight market and the higher margins that we're seeing.

What's compounded that then is the important role that Russia plays in supplying markets around the world. And with the uncertainty associated with that supply and potential impacts of additional sanctions that's put I think additional concern and anxiety in the marketplace, which is leading to a very, very high margin environment.

One, frankly that I do not think is a sustainable one. And two, good for economies around the world. So, I think we are in a bit of a very tight timeframe. And as you've talked about the first quarter, obviously, we saw that evolve over the first quarter with kind of rising margins in January, February, March, and now into April, very high margins.

And so, I think that is something that we're going to see for quite some time, certainly here this year and into next depending on obviously how demand plays out. The final point I'll make, which you touched on is you are right, this quarter reflects that ramp up of margins. So, you are not really seeing the healthy market that we're experiencing right now in the first quarter results.

That will I think manifest itself in the second quarter. And then some of the timing impacts, we expect to see unwind, maybe I'll let Kathy just touch on those.

Kathryn Mikells: Sure. I'm happy to do that. And just to add a stat, our March refining margin was about $4 higher than the average in the quarter. So, that's kind of reflecting that ramp up that Darren just mentioned. And then obviously in our prepared script, you would have seen us talk a fair amount to timing impacts that impacted profitability in downstream for the quarter.

I think everybody understands the mark-to-market on open derivatives. So, I won't talk about that, but we had another $590 million of other timing differences. About $400 million of that was also tied to derivatives. We had $200 million that associated with cargos where the derivatives actually closed in March. And then they reversed when the physical deliveries occurred in April. So, I'd say the way you should think about that is we took a $200 million bad guy in March. And we will see a $200 million good guy in April. We also had $200 million associated with settled derivatives that we just used to ensure pricing of our refinery crude runs is ratable, right.

The way you should think about that it's a wash over time. Sometimes, that pricing mechanism gives us a positive in a quarter. Sometimes, it gives us a negative in a quarter. Over time, it's just a wash. And then the last impact that we talked about was just commercial pricing lag, right.

And the way I would think about that is we were in a steep rising price environment over the quarter. And so, we had pricing that was a little bit lagging. If we're in a stable environment, that pricing will catch up. If pricing turns to a downward curve, then we would actually get a little bit of a benefit.

So, that's how I think about it as you are trying to just model the evolution into the second quarter here. The bottom line is obviously, we are carrying a lot of positive momentum as we stand here today.

Neil Mehta: Thanks, guys.

Operator: And next, we'll go to Doug Leggate with Bank of America.

Doug Leggate: Thanks. Good morning, everyone. Let me first of all thank the Investor Relations team for the better presentation of results. So, thanks for that, Jennifer, but we are losing a question here so, I'll temper the enthusiasm. But I'm kidding, thank you. So, guys, my question, Darren and Kathy is on your balance sheet.

Darren, going back some years I guess a couple of years ago, you talked about, do not expect Exxon to go back to the days of zero net debt. We are going to have a more efficient balance sheet. I just wonder if you can frame that for us today then what we should expect that to look like because obviously that speaks to go-forward cash distributions, buybacks, cash on hand, the whole thing, and obviously dividend policy? So, that was my question for today please.

Darren Woods: Yeah. Thank you, Doug. And good morning to you, and I appreciate your compliments to the IR team. I know they've been working hard to make sure that they're improving the transparency and giving you the information that you need to help understand what we're doing here and the business results that we're achieving.

I think to your point on the balance sheet and you'll remember what we started back in 2018 was this countercyclical approach, where we lean on the balance sheet during the depths, made those investments with an eye on the fundamentals and the expected recoveries, and to take advantage of the ups with investments in facilities in the ground.

And then reinvest and lean into the down cycles. And I would tell you generally speaking, that continues to be an ambition of ours. And part of our strategy is to try to drive the countercyclical investment approach which has worked out very well for us and is paying off in today's market.

But that I would say one philosophy. Obviously, it is tempered by just the availability of cash, and how deep and high the swings in this commodity cycle are. And so, I think a part of that balance sheet -- and I'd want to toss it to Kathy here in a minute to let her make some comments on it.

But a part of that is just going to be a function of where you are at in the cycle, and how severe that cycle is. And so, there will be periods I think where you see some movement in both cash, and how the balance sheet is structured, and based on where we're at and where the revenues are and I would also tell you though that what's not going to change is being very focused on making sure that any investment that we make is advantaged across the cycle. And you'll recall my definition of disciplined investing is not an absolute level, but more of making sure that any way you spend money that you're convinced that you'll be the low-cost supplier with an advantage versus the rest of industry. That will be successful as you move through the cycle.

Kathryn Mikells: Yeah. And then the only thing that I would add to that Doug is occasionally I get the question of, why don't you just go and pay off all of the debt you have as a priority? And I'd say, we're really comfortable with the level of debt that we have. And obviously, our gross debt-to-cap is at the lower end of the range that we talked about.

And we said, we're going to carry a little bit of a higher cash balance just reflective of the volatility that we've really seen in the market. So, that's how I think you should think about it. But we're very comfortable with our level of debt, and just being able to manage at that level through the cycle.

Doug Leggate: Okay. Thanks, folks.

Operator: Next, we'll go to Stephen Richardson with Evercore ISI.

Stephen Richardson: Good morning. Thank you. Another question on the downstream if I could, Darren. And I wonder if I could ask on the circular polymer efforts, and some of the things you're talking about in terms of recycling in the plastics business? I guess, the question is the overall approach between mechanical and molecular recycling?

And how are you seeing that market evolve? And is this a conversion of existing facilities or new reactors? And then also, what are your expectations for the returns in that business through cycle?

Darren Woods: Sure, yeah. Thank you, Stephen. I think, you touched on I think a really important part of our strategy as we look at going forward, not only in the plastics and plastics recycling, but also in biofuels. And I think what people have thought about with respect to our refining footprint and the size of that footprint is that as traditional fuels demand declines that those assets become disadvantaged.

And frankly, given the integration that we have with those facilities, if you think about our chemicals and refining facilities integrated which are now reflected in our Product Solutions business, the fact that we've got base stocks and lubricant facilities integrated with those, they are very robust platforms with large scale and low cost.

And what we see is the opportunity that as demand shifts to convert those facilities to produce more lower-emissions fuels for biofuels, and to utilize existing equipment for advanced recycling in plastics. And that's what you've seen us do in Baytown with conversion of some of our heavy cracking facilities on the refining side used to recycle waste plastic.

And we've got pretty ambitious plans in that space. We like what we see there. It gives products that have all the same attributes as virgin products. But obviously, without the same -- with the ability to recycle the waste. And so, we like the molecular recycling. That's where we're focusing.

We think we can bring an advantage there with one, our facilities, but two, our technology. And then three, with our marketing organization with respect to the marketing of those products. So, we feel generally good about that. We've got plans to drive that advanced recycling to 500,000 metric tons by 2026.

We should have 30,000 metric tons in place by the end of this year. So, I think in total, we like what we see there. The market today is interested in those products. And there is a premium out there. So, right now I think that looks pretty attractive. I suspect with time, that the market will stabilize. But we think, it's going to be a pretty healthy market for some time to come.

Stephen Richardson: Thanks very much.

Darren Woods: You're welcome.

Operator: Next, we'll go to Jason Gabelman with Cowen.

Jason Gabelman: Hey, good morning. Thanks for taking my question. I wanted to ask a question about your international gas footprint and the maintenance cadence because it seems like, you've mentioned in the slides that gas production is going to be higher than it typically is in 2Q and 3Q, but you do have higher scheduled maintenance.

So, I'm wondering if any of that maintenance is in the European gas footprint? And then more broadly, if you're seeing in the industry in Europe more tempered declines from European gas into the summer just given where prices are? And if you expect that to be a feature of the market moving forward? Thanks.

Darren Woods: Yeah. Good morning, Jason. Yeah, I think you've touched on the point that we made in our second quarter outlook with respect to the seasonality, which historically we've seen going into the second quarter a significant drop in demand for gas. And given where the markets are at today and the level of inventories around the world, our expectation is we're not going to see the same level of demand change quarter on quarter.

And we tried to indicate that in our outlook to suggest that we will see the same level of seasonality going forward, I think. And as I said earlier with response to Jeanine's question, we do see this market being fairly tight here in the short term. Obviously, the industry is working hard to supply that.

But the time cycle on investments and bringing additional supply on is fairly long, particularly in the context of where demand is at today and the tightness in the marketplace. So, I think that's going to continue to be with us for a while. And as demand declines, I think we'll see supplies start to move into inventory.

And so, that purchases will move from meeting current demand out in the marketplace to meeting the demand to fill inventory to make sure that inventories are well positioned as we move through the summer and then back into the fall and into the winter season that the markets are well supplied.

And then the final point I'd make there is obviously with what's happening in Ukraine, there is a wildcard there. That I think most economies and governments around the world are going to make sure that they're trying to mitigate the potential implications of that supply disruption by having good inventory levels.

Operator: All right. Next, we'll go to Sam Margolin with Wolfe Research.

Sam Margolin: Good morning. How are you?

Kathryn Mikells: Good morning.

Darren Woods: Morning, Sam.

Sam Margolin: Actually, just a longer-term capital allocation question. In the context of what's become conventional wisdom that NOCs around the world are very interested in accelerating activity here and bringing new resource to market. But the majority of NOCs with the exception of a few rely on foreign investment and partners like ExxonMobil.

And the industry on the independent operator side has framed a stable spending view over the long term, which has been something that's been very helpful for investors to have that multiyear Capex range. So, I'm just wondering your perspective on how that squares, if the industry is going to get pulled into the imperative of NOCs to spend more and do more? Or if you think these steady ranges of Capex are achievable even within that context? Thank you.

Kathryn Mikells: Sure. I'm happy to take that, Sam. So, first of all, I would just remind you that we do have Capex guidance that's out there. Obviously, for this year, it's $21 billion to $24 billion. And we've talked about through 2027, a range of $20 billion to $25 billion. Now within that, we always try to leave ourselves a little bit of room understanding that there's these opportunities that can come up in the future.

And obviously, we've made some investments in the type of opportunities that you're talking about in the past. And by the way, Golden Pass is a JV that we have with foreign investment that sits behind it as well. So, I'd say, we don't feel any particular pressure. I'll just reference back to what Darren said earlier, which is we spend capital when we have confidence behind the projects and the returns that those projects are going to offer, right.

And we're I'd say very, very disciplined at pressure testing those projects to make sure they're resilient across I'd say a wide set of market environment given the cyclicality that we have in the business. So, we feel great about the opportunities that stand in front of us right now.

Obviously, we've got low cost-of-supply barrels that we're investing in, be it Guyana or the Permian, Brazil. Darren mentioned the LNG projects that we're moving forward, which we feel really good about. Obviously, we've got in the Product Solutions space, investments that we continue to make to support growth in high-value products, right.

And to keep, I'd say optimizing our downstream circuit. So, we feel good about that. If there's opportunities where we feel like there's a good return to be earned, we'll certainly look at potentially participating in those opportunities. But we're going to be very disciplined in our approach as you should expect from us.

Darren Woods: Yeah. And I would just add to that, Sam. If you look at the work we've been doing with our organization, the changes that we've made in the structure, consolidation of capabilities across the corporation, one of the changes we announced on April 1st was a technology organization that combined the technical skills and capabilities and the engineering capabilities across the corporation.

We've seen really good results doing that in the projects area. We think we've got a real opportunity in the technology area to realize similar benefits in terms of effectiveness on top of whatever efficiencies that might come from that work.

And I would say that effectiveness and that concentration of technology and really getting the organization to focus on where we can add unique value and grow competitive advantage is

going to be a really important part of continuing to be a valued partner with NOCs and others all around the world.

Our strategy here is to make sure that we're an essential partner. That when NOCs and other resource holders want somebody who can effectively and efficiently develop the resource and do it in a sustainable manner that the first name to come to mind is ExxonMobil.

And that we bring those unique capabilities. And I would tell you, I have enormous confidence that that's what's going to happen. That the things that we can see in the pipeline, the opportunities that we have in front of us to become more effective at what we do, I think are huge. And I'm looking forward just to then leveraging that business opportunities in the future.

Operator: All right. Next question will come from the line of Biraj Borkhataria with RBC.

Biraj Borkhataria: Hi, thanks for taking my question. I had a question on Guyana, the fourth FPSO which you just sanctioned was a large one, 250,000 barrels a day. I was just wondering in your base case plans, are you assuming a similar size for the later FPSOs at that rate? And if I could add a second question?

A few days ago, there was an announcement from the DOE around additional export capacity from Golden Pass. I was wondering if you could just help me understand whether that was just an administrative thing, whether that was you sort of relooking at the project or is there some kind of future proofing ahead of debottlenecking there? Thank you.

Darren Woods: Yeah, sure. On Guyana, Biraj, I would tell you that as you know, we are having a tremendous success with respect to discoveries there and the characterization of that resource. And I would just say that our teams have been very focused on making sure we have a good characterization of that resource, which will then be a really important part of how we choose to

develop that resource in a cost-effective way to make sure that the cost of supply, and obviously the returns for those projects lead the industry.

And so, as we look at these bigger production facilities make a lot of sense when you have the resource to support them because it brings your unit cost down, brings down your cost of supply. As we look at extending those developments in other areas of the resource base, it'll be a function of what we find.

But I would say we would lean towards these larger developments. And we'll obviously lean towards extending some of the current developments that we have in taking advantage of whatever synergies we might have with those facilities. And so, I wouldn't say there's a single recipe here.

It's really tailoring the recipe to make sure that it's optimized for the development opportunities that we've got in front of us. And that's going to evolve as we better characterize the resource base. And I will just say with respect to Golden Pass, that project and the work that we're doing there, we feel good about the progress that we're making. And we're on schedule. The concept there is not changing.

Biraj Borkhataria: Okay, thank you.

Operator: Next, we'll go to Roger Read with Wells Fargo.

Roger Read: Yeah. Thank you. Good morning.

Kathryn Mikells: Good morning.

Darren Woods: Morning.

Roger Read: Maybe to come back a little bit to the Guyana question. And I wanted to clarify one thing there, and then maybe just a contrast to your Permian operations given Permian production is higher today, but Guyana resource is probably larger. As we think about the 11 billion barrels of resource, should we assume that's exclusively oil at this point?

That's been our baseline given the type of production coming out. And then how should we think about the long-term gas situation there, the opportunity? And when I said versus the Permian, I'm thinking about those two as we look to the middle and latter part of the decade?

Darren Woods: Yeah. Good morning, Roger. I would say the resource is a mix. And then depending on where you're at within the Stabroek Block, that mix changes. Our development priorities is weighted toward liquid. So, I think what you'll see in our plans and the way we talk about it is there's a bias toward liquid today.

And then with time, we'll see how those developments evolve. We're doing some things with the Government of Guyana to bring gas onshore to help deliver more cost-efficient and environmentally-better power to the people of Guyana, and give them a much lower-cost energy source, and a much cleaner energy source.

And so, there is some development gas in that space. But I would say generally liquids weighted. And obviously, as we move through the field and run the economics, we'll develop the resources that optimize capital and grow returns.

Roger Read: Thank you.

Operator: All right. The next question will come from the line of Ryan Todd with Piper Sandler.

Ryan Todd: Good. Thanks. Maybe one on capital allocation. As we think about your capital budget, so, it's not just for this year, but over the next few years and the range that you have within those budgets. Should we think about that range as primarily driven by timing or is there a possibility that higher commodity prices -- should we think about maybe pushing towards the higher end of the range through some combination of inflation or are there opportunities in the portfolio to deploy a little additional organic capital, whether it's on short or mid-cycle in-fill drilling, tieback opportunities? Does the higher commodity price open up the door to a little extra capital deployment opportunity there?

Darren Woods: Yeah. I'll just start off. And then pass it to Kathy for any additional comments. But I think the short answer is no. And I think we have tried to emphasize looking through the cycles, looking at the long term and making sure that the investments that we make are robust to the whole of the cycle. You'll remember, we were investing pretty heavily when prices were down in anticipation of longer-term fundamentals.

I would say, while we're in a very tight market today, we're not going to let that distract us from our focus of making sure that we have low cost of supply, industry-leading advantaged projects. And so, that remains the focus.

On the short cycle stuff, I think to the extent that we stay within our competitively-advantaged approach and the manufacturing processes that we set in and the boundaries that we set with respect to the facilities that we've built and pre-invested in, we'll continue to optimize around that.

But we're not going to go outside of that broader strategy of the long-ball game that we're playing in the Permian and in the unconventional space.

Kathryn Mikells: Yeah. And I would say, certainly timing over what's a relatively long-term period is something that we're trying to give a little flexibility for. I'd actually point to what we talked about on the Payara Guyana project. Originally, we said that was going to start up in 2024.

And now, we're saying, we think it's likely it'll start up at the end of 2023. So, that would be an example of we have initial planning that we do. But obviously, accelerating projects if we can bring them in a shorter timeframe. And obviously, on or under budget is something we're always focused on.

Ryan Todd: Good. Thank you.

Darren Woods: You're welcome.

Operator: Next, we'll go to Paul Cheng with Scotiabank.

Paul Cheng: Thank you. Hi, good morning.

Darren Woods: Good morning.

Kathryn Mikells: Good morning.

Paul Cheng: First, hopefully that also I won't use my quota if I want to complement IR for the new format on the call as well as the increased disclosure. I really appreciate. I have to apologize first because I want to go back into the inflation question. Kathy, if we're looking on for your next several years, do you have a number you can share? What percent of your Capex that pretty much that have some pretty fixed pricing?

And what percent is going to be subject to the inflation factor? And also in your presentation, you talked about the 3% off cycle compensation adjustment. Could you quantify how big is that number for us? Thank you.

Kathryn Mikells: Sure. So, overall, I think we talked a little bit about inflation on Capex. And the fact that certainly in the near term, we're feeling pretty good because we did a lot of work during the pandemic. So, we had paused some projects. And during the pandemic, we did a lot of work to actually put the contracts in place.

Like, finish the engineering and put the contracts in place at a point where I'd say there were some deflationary pressures in the market. So, as it relates to our overall capital projects, we feel pretty good over the next couple of years. And obviously strategically, the timing of when we do the engineering, when we go out to procurement is something that we're always looking at and taking into consideration.

And then, I mentioned the fact that doing our own procurement globally to make sure that we're getting globally-competitive bids is something else we do. We do spend a lot of money over the years as we're looking forward on the boats associated with the Guyana development.

And again, we approach that in a really strategic manner. So, that we're managing those projects to the lowest cost, getting the specific design that we need. So, that's how I would really discuss what's happening with regard to inflation.

Darren Woods: Yeah. And I would just add that the salary action that we announced this morning we're taking won't be material in the analysis that you're doing, Paul. Our intention would be to continue to deliver on the efficiencies that we had projected in our plan.

Paul Cheng: All right. Thank you.

Operator: Next, we'll go to Manav Gupta with Credit Suisse.

Manav Gupta: I have a very quick question here is at the start of the call, you indicated that Asian chemical margins are below mid cycle. And I just want to understand generally, when crude moves up, there is support for commodity prices. So, there's two equations going on here, some capacity coming on, but crude is also moving up.

So, do you expect the margins to remain below mid cycle for some time or do you think that higher crude could actually push up the ethylene margins and stuff in the non-US region on a go-forward basis? Thank you.

Darren Woods: Sure. Yeah, I think it's an unusual time we've got in the chemicals market just because we see a level of dislocation between what's happening in Asia, and what we see happening in the Atlantic Basin. I think we made reference in the comments that our North America footprint in chemical and the ethane advantage that we have has actually helped to mitigate this broader downturn that we're seeing with the global chemical markets, which are heavily weighted to -- or weighted towards the downturn that we're seeing in Asia.

And I think as you look at crude prices coming up and the marginal supply and olefins being liquids cracker and naphtha feed, that as that crude price goes up, your feed goes up. Your naphtha feed goes up. And so, you've got cost increases on your feed. And because of some of the logistics constraints and the ability to connect the market's demand is somewhat dislocated.

And so, you've got oversupply in a market like China, where you see some of the demand coming off with the lockdowns and the logistics constraints. So, I think, we're in a unique period right now, where you're seeing some regional imbalances and the inability to close those imbalances through logistics and transportation.

It's difficult to say how long it's going to last. But I think ultimately as markets open up, we'll see those equilibrate. Again, I think if crude remains high, my suspicion is that ethane and ethane cracking will continue to be advantaged. And then that will obviously move as crude prices move with respect to gas prices.

Manav Gupta: Thank you.

Darren Woods: You're welcome.

Operator: Your next question comes from the line of Lucas Herrmann with Exane.

Lucas Herrmann: Darren, thanks very much for the opportunity. I just wanted to return to Golden Pass if I might, and a couple of aspects to the question. The first is just, can you expand on the marketing approach, and how you intend placing volume? It's a very large project.

But it's a project, which to the best of my knowledge has very little by way of contracts at this time. So, to what extent yourself and your partner QP will -- how you'll be looking to market product? And just can you give us some indication on the phasing of the startup of the three trains?

I presume when you talk about 2024 startup, that the first train, I guess I'd expect four to six months or so between the startup of each subsequent trains. But any guidance you can give there would be helpful? Thank you.

Darren Woods: Sure, yeah. Good morning, Lucas. Yeah, just to start on the backend of your question. You're right. Train one is we expect to start up in 2024, and then the remaining trains in 2025.

And the strategic drive behind that investment and that supply point was really getting a balanced global footprint with respect to LNG supply.

And so, that Golden Pass facility gives us an anchor point within the Americas to take advantage of the US gas market and the developments that we've seen there and the supply potential that we see in US gas. And so, that forms a really important anchor supply point.

And we intend to use that with a bit of the trading business that we're growing in LNG and use it as an ability to trade and often times bridge some of our other LNG projects are being developed to bridge and supply between those projects to allow us to optimize and make commitments for projects with flexibility in terms of using Golden Pass as a supply point.

And then to also just trade in the spot market. So, I think it's going to give us a lot of flexibility to supplement our longer-term contracts for our bigger projects, but to also participate in the spot market.

Lucas Herrmann: So, there's no intent to contract some of the volume in what could be a very constructive market for pricing over the next two to three years for those who have supply coming on this near term?

Darren Woods: I would tell you that the LNG organization is going to basically develop that portfolio in a way that they think maximizes the value of it. So, I wouldn't take anything off the table. I'm suggesting that we've got a lot of optionality and flexibility. And the expectation is the LNG business and the individual running that, take advantage of that flexibility to maximize the value. That's how I would characterize it.

Lucas Herrmann: Darren, thanks very much.

Darren Woods: You're welcome.

Operator: And it looks like we have time for one more question. So, we'll take that from Neal Dingmann with Truist Securities.

Neal Dingmann: Thank you all. Thanks for squeezing me in. And my question is on the Permian. Just wondering, I'm currently seeing you all running somewhere around 16 rigs and five spreads. I'm just wondering, will this continue to be around the level of activity needed in order to achieve that?

I think your goal is around that 25% year-over-year Permian growth plans. And I was just also wondering if you could talk about maybe just broadly the degree of inflation you're just currently seeing there?

Darren Woods: Yeah, I would tell you that. The plan that we had and we've talked about with respect to the Permian specifically is somewhere between 10 and 12 rigs, and then six to eight frac crews, something like that. And we're basically I think in line with that plan right now.

And a part of that is making sure that the developments that we're pursuing are consistent with the base infrastructure, the technology, and the capital efficiency approaches that we've built into that development. That tends to drive what we're doing there. I think Kathy has touched on.

We again had anticipated the market recovery and some of the tightness. And so, we had developed some contracting strategies and partnering with suppliers to try to mitigate that impact. That's paying off. We're seeing that advantage here in the Permian. Eventually, that obviously will roll off.

Some of the consumables and some of the labor tightness that we're seeing in the Permian, obviously that's starting to impact us as well. So, we are seeing inflationary pressures. The expectation is that we'll continue to grow as the work activity opens up and as some of the logistics constraints get resolved.

And basically, we've challenged the team to try to manage that. And to make sure that as we look at progressing development and grow that production that we're doing it in a constructive way, and not undermining the cost of supply or the advantaged position of those barrels, where they sit in the cost of supply curve for the industry.

So, I think this disciplined approach that we've talked about is not so much a spend. But in terms of efficiency and making sure that everything, that every dollar we spend there is productive. And the challenge for that team is to make sure we don't lose productivity and the capital that we're spending.

Neal Dingmann: Well said. Thanks, Darren.

Darren Woods: Yeah.

Jennifer Driscoll: Thanks, Darren. And thanks, everybody for your time, and for your questions this morning. We appreciate that. We will post the transcript of the call on our investor website early next week. Have a great weekend. Thanks.

Operator: And that concludes today's conference. We thank everyone again for their participation.