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Edited Transcript

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This presentation is meant to be read in conjunction with the Fourth Quarter 2020 Transcript posted on chevron.com under the headings "Investors," "Events & Presentations."

Chevron

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Operator: Good morning. My name is Audra, and I will be your conference facilitator today. Welcome to Chevron's Fourth Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' remarks, there will be a question-and-answer session and instructions will be given at that time. If anyone should require assistance during the conference call, please press star, and then zero, on your touchtone telephone. As a reminder, this conference call is being recorded.

I will now turn the conference call over to the General Manager of Investor Relations of Chevron Corporation, Mr. Wayne Borduin. Please go ahead, sir.

Wayne Borduin: Thank you, Audra. Welcome to Chevron's fourth quarter 2020 earnings call and webcast. Our Chairman and CEO, Mike Wirth; and CFO, Pierre Breber are on the call with me. Also listening in today is Roderick Green, the incoming General Manager of Investor Relations, who will assume this position effective April 1st. Roderick and I will be transitioning together over the next couple months. It has been my sincere pleasure working with each of you over the last three years. Thank you for your excellent questions, transparent feedback, and investment in Chevron.

Before we get started, please be reminded that this presentation contains estimates, projections and other forward-looking statements. Please review the cautionary statement on slide 2. Now I'll turn it over to Mike.

Mike Wirth: All right. Thanks, Wayne. 2020 was an unprecedented year: a global pandemic resulting in a devastating loss of life, a historic collapse in the global economy, and extremely volatile oil markets. We began the year in a strong position, and we took swift action to adapt to the new realities as they emerged. During the last year's first quarter call, we shared our plan to manage through the crisis grounded in our values, and keeping our strategic and financial priorities intact. Looking back, I'm pleased to say that we delivered on each of these five commitments, which I'll cover on the next slides.

First and foremost, we focused on the safety of our employees and our operations. Despite the difficult personal challenges faced by everyone in our workforce and the additional health safeguards in our operating facilities, 2020 was our second-safest year ever in terms of fatalities, and our best ever on serious injuries, motor vehicle crashes, and loss of containment.

And it was also the year with the greatest and most rapid change in market conditions. Our upstream team had to quickly and safely demobilize dozens of rigs and reduce other production activities. Our refining personnel had to figure out how to make as little jet fuel as possible, even though just weeks before jet was the fastest growing refined product. Despite all this, our upstream delivered more than 3 million barrels per day for only the second time in the company's history, and our refineries maintained world-class availability to deliver the energy required for essential workers and a recovering economy. I'm so proud of our employees, how they carried out the responsibilities with excellence and helped each other, and during this extraordinary year, rose to overcome the unprecedented challenges.

Turning to capital and cost management, during last year's Investor Day, we told you our capital program was flexible. And just weeks after we said that we proved it. 2020 capital was down 35% from 2019, and organic capital excluding incremental C&E from Noble in the fourth quarter, was under $13 billion, well below our revised guidance of $14 billion.

We also exceeded our guidance for operating cost savings. Excluding special items, opex was down by over a billion dollars this year, with decreases due to reduced activity levels and lower transportation, fuel, and incentive compensation costs. This demonstrates our ongoing cost and capital discipline, something you can count on and a key to winning in this industry.

Moving to the next slide, we entered and exited the 2020 crisis with an industry-leading balance sheet, while also completing a major acquisition. Early in 2020, we increased our dividend over 8%. We also bought back shares. When the crisis hit and cash from operations decreased, we took action to halt the buyback and protect our balance sheet. We completed asset sales, received good value, and finished our three-year high-grading programming in the middle of our guidance range.

Being prepared with a strong balance sheet, consistent with an ongoing asset sales program, and adaptive on share repurchases; enabled us to increase our annual dividend payout for the 33rd consecutive year. And the actions we took to preserve long-term value, which I'll cover on the next slide, should give our shareholders confidence that we intend to sustain and grow the dividend in the future.

Turning to slide 7, while we reduced short-cycle capital that would bring on near-term production, we maintained capital for projects that we expect to deliver production and attractive cash flow for years, like our expansion project in Kazakhstan. And in the Permian Basin and other short-cycle basins, we've preserved the capability to build investment back up when the conditions are right.

In addition, we were the first to announce and complete a major acquisition. Showing the way with a low-premium equity deal at an opportune time. And as a result, our total investment over 2020 and 2021 will likely be in line with our pre-crisis guidance, but we'll get there in a much different way, with much lower organic capital that would have added more barrels to already oversupplied markets, offset by an acquisition for low-cost barrels already producing.

That also translated to reserve replacements, with additions from the Noble acquisition mitigating reserve demotions from reduced capital investments and price effects, as disclosed in last year's 10-Qs. Committed employees, capital and cost discipline, decisive actions that balance the short and long term; that was our playbook to manage through this crisis. And while we're not out of it yet, we look to the future with optimism. We believe we're better-positioned than others, confident in our ability to succeed in any environment.

Turning to slide 8, I'm also proud that we maintained our commitment to ESG, a commitment we've long held and one that doesn't ebb and flow with market recycles. We increased actions to advance a lower-carbon future, abating emissions in our operations, starting up our first renewable natural gas plant, and investing in low-carbon technologies, like our recent announcement with carbon utilization startup Blue Planet.

We completed our largest company restructuring in 20 years, an integration of Noble employees in a transparent and equitable manner. And we maintained positive relationships with our suppliers, and supportive relationships with communities where we operate. Lastly, we continued strong governance which starts with our exceptional Board of Directors during an unprecedented year, to meet the interests of all our shareholders.

With that, I'll turn it over to Pierre.

Pierre Breber: Thanks, Mike. We reported a net loss of $700 million in the fourth quarter. Adjusted earnings were about break even. A reconciliation of non-GAAP measures can be found in the appendix of this presentation. Excluding working capital changes, cash flow from operations was almost $4 billion for the quarter. Our Brent oil cash breakeven price, excluding working capital, was under $50 for the second quarter in a row. C&E was $3.2 billion, including about $200 million for legacy Noble assets.

Full-year financial results were significantly lower due to weak market conditions, as reflected by an adjusted ROCE near zero. We remain committed to improving returns on capital and we'll share more about our plans to do so at our Investor Day in March. Total shareholder distributions, including first quarter buybacks, were $11.4 billion. And we ended the year with a net debt ratio in the low 20s, after the assumption of Noble debt and its step-up to market value.

Turning to slide 10, adjusted fourth quarter earnings were down about $200 million compared to third quarter. Adjusted upstream earnings increased, primarily due to higher volumes from Noble Energy and higher commodity prices. Adjusted downstream earnings decreased due to negative timing effects, including an end-of-the year inventory valuation adjustment of more than $100 million, higher operating expenses primarily due to turnarounds, and higher RIN credit prices. The “Other” segment decreased primarily due to higher pension charges related to lump sum elections.

Turning to our full-year earnings, adjusted earnings decreased by over $12 billion compared to the prior year. Adjusted upstream earnings decreased primarily on lower prices. An underlift and the mix effect of higher US and lower international liftings also lowered earnings. Adjusted downstream earnings decreased primarily due to lower volumes and margins, unfavorable timing effects, and higher RIN and other credit prices. The “Other” segment loss increased primarily due to higher pension expense.

Slide 12 shows our production outlook for 2021, assuming a $50 Brent price. We expect production to be up to 3% higher than last year, excluding the impact of any asset sales that may close in 2021. Our projected growth is driven by a full year of production from the Noble Energy assets and lower expected curtailments, partially offset by higher base declines in part due to lower capital last year, price effects, an accounting change in Venezuela, 2020 asset sales, and upcoming contract expirations. Note that our Rokan concession in Indonesia expires in August of this year. And while our contract in Thailand does not expire until March of next year, production is decreasing due to the short time to earn a return on new investments.

Now looking ahead, in the first quarter we expect turnarounds and downtime to reduce production by 60,000 barrels of oil equivalent per day, primarily in Australia. Gorgon Train 1 repairs are nearing completion and we expect the facility to be back online in March. After Train 1 is back online, Train 3 will be taken out of service for the propane vessel inspections, any repairs and the planned turnaround. At Wheatstone, production is modestly below capacity while we repair an inlet separator, we do not expect production impacts in the second quarter.

The impact from ongoing OPEC+ curtailments is estimated to be 40,000 barrels of oil equivalent per day, primarily in Kazakhstan. At TCO, our project workforce reached 20,000 by year end before we paused due to a virus resurgence. Next month, we expect to resume remobilization for the Spring campaign and are targeting a project workforce of 26,000 by the end of the first quarter.

In Indonesia, we expect cost recovery of barrels to decrease 75,000 barrels per day from last quarter. One-time prefunding for drilling and ARO commitments in the fourth quarter contributed to the working capital build. We expect these receivables to reverse by the third quarter. In downstream turnaround activity in the first quarter is expected to have an estimated after-tax earnings impact of $100 million to $200 million. Other financial guidance items are shown on the slide.

With that, back to Mike for his closing comments.

Mike Wirth: All right. Thanks, Pierre. 2020 was a year like no other. And while there are uncertainties and challenges ahead, we are optimistic about the future. We are stronger with Noble, which adds geographic diversity, and plays to our strengths. We're starting the year with an industry-leading balance sheet. Again. We are executing a disciplined investment program that grows enterprise value with greater capital efficiency. We remain committed to our number-one financial priority, sustaining and growing the dividend. And we are advancing a lower-carbon future with actions that are good for the environment and good for shareholders.

We hope that you'll join us on March 9th to discuss these topics and more during our 2021 Chevron Investor Day. With that, I'll turn it back to Wayne.

Wayne Borduin: Thanks, Mike. That concludes our prepared remarks. We're now ready to take your questions. Keep in mind that we do have a full queue, so please try to limit yourself to one question and one follow-up. We'll do our best to get all of your questions answered.

Audra, please open the lines.

Operator: Thank you. Ladies and gentlemen, if you have a question at this time, please press star, one, on your touchtone telephone. You may ask one question and a follow-up. If your question has been answered or you wish to remove yourself from the queue, please press star, two. If you are listening on a speakerphone, we ask you to please lift your handset before asking your question to provide optimum sound quality. Again, if you have a question, please press star, one, on your touchtone telephone.

We'll go first to Devin McDermott at Morgan Stanley.

Devin McDermott:
(Morgan Stanley)

Great. Good morning. Thank you for taking my question. The first one I had here was just on the capital allocation strategy, as you think about the next few years. And you put the release out back in December cutting the capital budget over the next several years to $14 billion to $16 billion. And as part of that, noted that as Tengiz spending in Kazakhstan rolls off, you would increase spending in the Permian and Gulf of Mexico. Now I was wondering if you could comment on the role of those US assets in your portfolio in light of the current policy and regulatory backdrop, particularly the Gulf of Mexico, how you're thinking about that US concentrated investment strategy in light of the current policies.

Mike Wirth:

Yeah, thanks. Thanks, Devin. Look, there's a couple of things here that I think are important to recognize. Number one, not only have we transitioned over the last few years into what I would describe as a structurally lower ongoing capital program, but number two, it contains a much greater degree of flexibility. And we mentioned we pulled spending down 35% really over just 9 months last year, because we could flex that downward. And so, we have a great degree of flexibility. We've got a high degree of capital efficiency in our portfolio. And even at these further reduced levels of spending, as Pierre mentioned, production will be somewhere between flat and up 3%.

We've got a capital program that we like. And as the TCO project comes down, we've got room to make choices. When we issued the press release, certainly the Permian and the Gulf of Mexico would have been some of the first places to draw that capital back. As we look at some of the announcements of this week and developments that seem to be unfolding here in the US, you know, it's early days to understand exactly how these will play out. The executive order was sweeping and broad. But it also lacked some specificity and I think certainly as you listen to some of the members of the new administration comment, as they introduce this and answer some questions, I think they're looking to flesh out the details here in the coming weeks and months. And we certainly hope to be engaged in those conversations.

Onshore in the Permian, we're weighted towards Texas more so than New Mexico. We're weighted toward private land more so than federal land. So, we've got a fair degree of flexibility there. And that remains a highly attractive place for us to step capital up, as we have the capacity to do so and the market conditions to support it. I think the Permian situation looks pretty similar to what it did at the time we made those statements.

Deepwater Gulf of Mexico, I think we just have to see how this unfolds. And certainly, we like the projects that we're advancing here, and there's been I think general signaling that existing leases are secure, and we would presume the permitting that would go with those leases is also likely to proceed. But there are questions about this that I think we're just going to have to work our way through. The risks are probably greater in the Gulf of Mexico. That was probably the lower part of the capital step-up that we might have envisioned at any rate. I think we'll be able to manage our way through it. But stay tuned. We'll keep talking to you about this as we go forward. And of course, we've got options outside of the US as well, and I think that's important to just bear in mind. If conditions in the US become so onerous that it really disincentivizes investment, we've got other places where we can take those dollars.

Devin McDermott:

Got it. That makes a lot of sense. And then my second question is just on TCO and Kazakhstan. I was wondering if you could give us just an update on progress there and how things are progressing versus your expectations.

Mike Wirth: Yeah. So quickly I'll reiterate that last year we completed all module fabrication and all the transportation to get the modules through the Russian inland waterway systems, through the Caspian, unloaded and to site. That's a really important milestone, because those were risks that could have extended things had we not accomplished that. Progress overall in the project, it's about 81% at this point. Construction is about 60% complete. And as Pierre said, we've remobilized 20,000 workers to the project. We've plateaued at that number now, because Tengiz is experiencing some of the same wintertime uptick in coronavirus cases as you're seeing around the world. And so, we're holding at 20,000 right now. We've had to quarantine certain portions of the workforce there for certain periods of time. We plan to restart further mobilization in February, and as Pierre said, targeting 26,000 by the end of the first quarter.

We'll need to get some progress under our belt here to really see data on productivity. There's a lot of work that hasn't been done over the last going on a year now, as this has been impacting us. And so, we're working on optimizing schedules and work plans and understanding what the full impact of that is. It's hard to quantify that until we really are back at work. And certainly, in the wintertime, things tend to slow down, and summertime they'll pick up. And so, we need to see our ability to sustain the workforce there to get work done productively and begin to chew into this backlog that has built up. And we'll keep you advised as to what that looks like.

Jay will be with us at the Investor Day in six weeks, and he'll be able to give you more detail at that point in time. I don't believe by that point in time we will have enough activity that we've seen where we'll be able to give you a highly reliable, specific update on cost and schedule. But we will be working on that and we will get it to you when we've got enough data to give you something that we think is really useful.

Devin McDermott: Great. Thank you so much.

Mike Wirth: You bet.

Operator: We'll move next to Phil Gresh at JP Morgan.

Phil Gresh: (JP Morgan) Hey, good morning.

Wayne Borduin: Good morning, Phil.

Phil Gresh: First question, the 2021 production guidance, the high end growth of 3% is slightly below our consensus this year. And you gave some color there on Gorgon and Wheatstone for the first quarter, which was very helpful. So, I guess is it fair to assume that the extent of the downtime at Gorgon and Wheatstone that's in your guidance is just kind of what's in the first quarter, and just maybe any color on what you're factoring in for the Permian as well for 2021? Thank you.

Mike Wirth: Yeah. I mean the first things I'll say, Phil, and I know everybody looks at production. But it's an outcome. And we're running the company to deliver financial results, and we let the production be what it is. Pierre gave you a guide for first quarter on Gorgon and Wheatstone. Wheatstone for the rest of the year should be back up to full capacity until a turnaround that begins late third quarter and runs into fourth, which we'd already planned and announced. And then of course at Gorgon, as Pierre mentioned, Train 3 will have inspection of these propane exchangers and a planned turnaround here in the second quarter of this year. So, we will be lighter on Australia production than were everything was up and running for a full year. But a big part of that is planned turnaround activity, and then there's an increment amount related to these repairs.

In the Permian, you know there's two pieces to think about. Overall, Permian production will be up, because we've added production from Noble. I think we've previously guided to a 6% to 7% decline on the Chevron legacy production. That actually today looks like it will be a little less steep, maybe more like a 5% decline on Chevron legacy production in 2021 versus 2020, and that's with flat activity levels running five rigs and one or two completion crews over the course of the year. And a little bit of this will be dependent upon what NOJV partners do. We ended the year last year with about 1.4 net rigs in the Permian on the NOJV, 7 gross, our share about 1.4. In January, it's up a little bit to about 2.5 net rigs, 10 gross. And so, there's a little bit of perhaps upside, depending upon what non-operated JV partners do. But those are the key pieces there on both Australia and the Permian for production.

Pierre Breber: Yeah. And Phil, I'll just add that Venezuela year-on-year is down. We changed our accounting mid-year last year to where we're no longer booking production and reserves associated with those operations. We do continue to have curtailments this year, which is also factored in. Australia year-on-year is not a big variance. It's flat to modestly down. Again, we operated a big portion of 2020 with the train down at Gorgon. So that's not a big driver of the year-on-year change.

Phil Gresh: Okay, great. That's very helpful. Thank you. My follow-up would just be just on capital allocation. Balance sheet obviously still looks very strong. Pierre, you said your dividend coverage was below $50 Brent I think for a second straight quarter, and that's despite downstream still being soft. So, with oil here in the 50s, I think some people were maybe a little surprised you didn't increase your dividend the other day, recognizing we're still in the midst of a pandemic, but just any thoughts you could share around capital allocation if oil does indeed stay here in the 50s.

Mike Wirth: Yeah. Well, a couple things maybe in response to that, Phil. Thanks for recognizing we are still in the middle of a pandemic. Demand is still off in total. The global economy is functioning below its capacity, and I think there's uncertainty out there. And certainly, oil prices today are supported in part by a unilateral move by Saudi Arabia to take a million barrels a day off the market. And so, while we see inventories coming down and things trending back towards balance, that process is still underway. And so, we want to be mindful of the uncertainties in the commodity price environment. And there could be some downside risk.

All that said, maybe two other points. One, while for the last 3 years we announced a dividend increase in the first quarter, if you go further back over the last decade, it was never a first quarter increase. It actually was in other quarters. And so, we don't necessarily have a pattern or a kind of a preference for when the dividend increase would occur. It's really based on our assessment of both short-term and long-term conditions, affordability, et cetera; and it's a board decision, and the board reviews that every quarter.

I hope our words, but more our actions, over recent years have demonstrated to you and to our shareholders that the dividend is our number-one priority. We have not changed that. Others have. Others have made moves and reshuffled priorities, and reset dividends, and all the rest. We have not. And we were guided through this by those financial priorities, and we're very mindful of what our investors look for, why they hold our stock, and that's certainly something that will be part of our discussions as we go forward.

Last comment to your hypothesis, if we stay in a $55 Brent world for all of this year, we're in a very strong position from a cash flow standpoint. Our breakeven is in the 40s, and so we'd be free cash flow positive, and that certainly is supportive of a dividend increase.

Phil Gresh: Understood. Thanks a lot.

Operator: Next, we'll move to Jeanine Wai at Barclays.

Jeanine Wai: (Barclays) Hi. Good morning, everyone. Thanks for taking my question. I'd also like to congratulate Wayne, and thanks for putting up with all of us for so many years, so thanks. My first question is again on shareholder return. Chevron's prior $19 billion to $22 billion medium-term CapEx range, I believe that was based on $60 Brent. And it left room for about $5 billion a year of buybacks. So, can you talk about how your updated 2022 to 2025 CapEx guidance, how if we should think that that range still also leaves room for ratable annual buybacks?

Mike Wirth: Well, it would be a function, Jeanine, primarily of commodity price, right? So, we've outlined that budget premised on a lower price than $60, because we've been through this pandemic and we expect only a gradual recovery in the global economy, which would support gradual recovery in commodity prices. So, we've prepared ourselves for a difficult set of market conditions, which is certainly what we saw last year.

And as I just mentioned to Phil, we can hold production flat to grow it at these capital levels, and so we're in a position to consider dividend increases and share buybacks if we see an economic recovery and a commodity price environment that supports that. The fundamental premise that we outlined at $60 continues to be our premise, which is disciplined capital spending, a commitment to the dividend, and return of surplus capital above and beyond that to shareholders premised upon a strong balance sheet and the other things that we always talk about within our priorities.

We'll lay out a little more detail on this in March for you, so that you can understand what this would look like under different price scenarios and how we might allocate capital, or the flexibility we'd have for capital distributions under different price scenarios. And so, stay tuned for more discussion in March.

Jeanine Wai: Okay, I'll stay tuned for that. My second question is on the energy transition. I guess, how does the current extremely low cost of capital for energy transition projects, energy transition companies; how does that impact your view on the speed of the transition and the potential to create lots of capacity that's potentially uneconomic, but nonetheless it still erodes oil and gas demand? So, I guess your views on that and how can Chevron compete in that type of environment, thank you.

Mike Wirth: Yeah. So certainly, this is a space that's getting a lot of love from investors right now. And you see it in EV startups. You see it in solar startups. You see it in a lot of different technologies. And look, we're supportive of all of the above. We want to see advancements in growth in renewables. We expect a lower carbon energy system in the future. I think you've put your finger on one thing that needs to be watched, is things that are supported by low interest rates, lots of investor enthusiasm and government policy may work in the short term. The question is, when the tide starts flowing another direction and when a day comes that interest rates are up, maybe investor perceptions shift a little bit, and maybe government policy shifts a little bit; have we invested in things that can sustain in that environment? And I think we hope that they can. And we want to see diversification in the energy mix to meet growing demand around the world, and lower carbon.

The last thing I'd say is I'm not sure this necessarily erodes energy [oil and gas] demand as fast as some might believe. A lot of it is going into power that displaces coal. It in some cases creates capacity that is intermittent and can't be used all the time and actually requires natural gas to create grid stability and supply reliability. And so, there's not necessarily a one-for-one displacement on all of these investments. And that requires thoughtful study of the whole energy system to really understand how it's evolving and how this capacity plays against all the other different sources of energy.

Jeanine Wai: Great. Thank you.

Wayne Borduin: Thanks, Jeanine.

Operator: And our next question comes from Neil Mehta at Goldman Sachs.

Neil Mehta:
(Goldman Sachs) Good morning. Thanks for taking some time this morning. And let me congratulate Wayne as well. Appreciate the time and friendship over the years. Let me kick it off here on downstream. When we think about our model, upstream did okay. Downstream was a clear miss relative to our projections. And it's not surprising, just given how tough demand was in the fourth quarter. We are seeing cracks move in the right direction, with line of sight to OPEC barrels coming back to the market. How do you guys envision the downstream cracks ahead? And how do you think about your refining configuration to capture that?

Mike Wirth: Yeah. So, you're right. Downstream conditions have still been tough. Demand is off. It's off differentially across different parts of the product barrel, which continues to stress the refining system. And then the amount that it's off varies quite a bit regionally. So, in China, things are back to normal by and large; other parts of Asia, pretty darn close; Europe and North America, not so much. So, it's a gradually healing system, but it's different in different parts of the world, and refining markets are regional, and they're interconnected globally, but fundamentally they [function] regionally.

We're looking for improvement over the course of this year. But I wouldn't call it a full recovery. I think it's, again, it's a gradual process and we're certainly heavy on the West Coast and heavy in Asia. So, in Asia things are, as I said, a little bit better. But on the West Coast, they're still recovering. So, I think downstream in 2021, I would expect to be better than it was in 2020. But we're not anticipating pre-pandemic downstream earnings and performance this year.

Pierre Breber: Hey Neil, if I can just give a little more on the fourth quarter, I made a reference to this year-end inventory adjustment and I'll just explain that. It was more that $100 million. So, during the course of the year, you're costing inventory at average cost of the commodities. At year end, you see if you've built or drew relative to prior year layers. And so, the good news is we drew. We took our inventory levels down, so good management of working capital. But we drew into prior year layers that were higher costed. And so that's only something we do at year end in the fourth quarter. You're not doing it during the year, because you don't know if you're going to go into prior year layers in the intervening quarters, so you don't want to be always doing this calculation.

But our practice is at year end, we revalue that, so think of it as inventory that has been valued at $42 during the course of the year. When we go into prior year layers, we're picking it up at $60 or $70. And there's no cash impact, but there is a one-time kind of P&L effect. We don't call it a special item because it happens every year. It just happened this year. Through good inventory management, we actually drew down into prior year layers, which were higher costed.

Neil Mehta: Thanks, Pierre. That makes a ton of sense. So, the follow-up is you guys acquired Noble towards the bottom of the cycle. Mike, you've built a reputation as being a good deal maker and being willing to walk away when the bid ask goes the wrong way. Just, do you still see it as a buyer's market out there? And do you still see attractive opportunities, whether it's US E&P or elsewhere in the portfolio?

Mike Wirth: So, you know, it's still a tough market. And you would say that in general, I would say both companies and the asset valuations are down from where they've historically been. So, there's opportunity in circumstances like that. And we've got the capacity to consider doing things. We may have passed the bottom. Hopefully we have from the standpoint of commodity and other cycles here. And you know, we're alert to opportunities. It may be that as companies come back in terms of their equity valuations, there's still a lot of people that are carrying a fair amount of debt and have indicated a desire to sell assets in order to repair their own balance sheets. We could see a market where there are more asset sellers than there are buyers, which could offer some opportunities at an asset level. And we'll be aware and alert to those things.

But the nice thing is we're not in a position where we have to do anything. We strengthened ourselves significantly with a very good deal last year. And we've got plenty of inventory to work on for many, many years to come. And anything we would do would have to A), fit strategically into a strong portfolio; and B), it would have to compete for capital in a strong portfolio. And we'll continue to hold the bar very high, and only consider things that would really make a lot of sense.

Neil Mehta: Makes sense. Thanks, guys.

Wayne Borduin: Thanks, Neil.

Operator: And we'll go next to Paul Cheng at Scotiabank.

Paul Cheng: (Scotiabank) Hey, guys. Good morning. First, just want to say thank you to Wayne over the last three years, for all the help and insight, and wish you the best in your next role. Two questions, Mike and Pierre, one, I want to go back into the federal lease exposure. Can you share with us in the Permian over the 2019 and 2020, what percent of your activity is actually in the federal leases? I understand that federal leases may be only about 10-15% of your overall Permian land position. But I want to see that on an activity level how that looks like. And also, that how many permits that are already in hand in Permian, and whether you have all the needed permits for your program in the Gulf of Mexico this year, also if you can just give us the production number in the fourth quarter in Permian, DJ and

Duvernay?

The second question is on the ESG and carbon new product or service. We understand you're not interested going into the renewable power, like solar and wind. But is there any other new product or service related to ESG and carbon, do you think you have the technology that you can build it into a new business, and not just at the cost center, as a new business. Thank you.

Pierre Breber: Hey, Paul. It's Pierre. I'll start with your first question. I think we'll take some of it offline with Wayne and the IR team in terms of production from the various basins. Our federal acreage as you said, in the Permian is less than 10%. It went down a little bit due to the Noble acquisition. We're not going to disclose the activity for the last year and how much was the mix. I think you can find publicly available data, and you can chase that down.

In terms of the Gulf of Mexico, I think it's well-known that permits tend to have a lower inventory of permits. So, if we have a bigger inventory of permits in the Permian Basin, we and other operators do, that's not the case in the Gulf of Mexico. So those permits tend to be a lower inventory. I will just point out that we have one floating rig on a long-term contract in the Gulf of Mexico that expires at the end of the year. We'll take your other detailed questions offline. And then Mike, do you want to answer the energy transition?

Mike Wirth: Yeah. I was thinking about the first questions. And so, energy transition, if I caught it, Paul, what technologies are we interested in. I think we've indicated carbon capture and storage for sure. We've recently made an investment in other carbon storage technology startup. And you can expect to continue to hear more from us on that front.

And of course, hydrogen should be in our wheelhouse. We manufacture hydrogen today. We've sold hydrogen before at retail, and we should have the toolkit to take what is technically feasible today but not economically practical and look for ways to drive cost down and scale up hydrogen over time. And so, I can't promise you we're going to get that to a point where it's fully competitive with the alternatives today. But that's an area that few companies have the capability to do all of the things required, and we're one of the types of companies that should be able to work on that. So those would be two areas you can expect to see us active in, Paul.

Wayne Borduin: Thank you, Paul.

Paul Cheng: Thank you.

Operator: We'll go next to Doug Terreson at Evercore ISI.

Doug Terreson: (Evercore) Good morning, everybody.

Mike Wirth: Good morning, Doug.

Doug Terreson: Mike, Chevron's equity has handily outperformed S&P Energy since you became CEO a few years ago, as focus or decisiveness as I think you like to call it, on higher returns on capital and lower debt and lower dividend breakeven. So, it's been a winning formula with energy investors. Simultaneously, the pace of change in the industry seems to be quickening, not only as it relates to policy which you talked about a minute ago and likely future energy mix, but also debt which is expected from investments in the sector. So, my question is a couple-fold. Number one, how do you guys think about how to navigate this evolving environment which is somewhat different? Two, are tactical and strategic dexterity likely to be needed, maybe more than in the past? And then finally, what might be the implications for financial strategy in this new environment or is it too early to know?

Mike Wirth: Yeah. Well, hey Doug, first of all, I want to congratulate you. Everybody's been throwing bouquets to Wayne. I know this is the last lap around the track for you this year as well. So, congratulations and best wishes in the future.

Doug Terreson: Thanks.

Mike Wirth: You know on your question, I think a lot of the fundamentals that we've been exhibiting in our strategy will continue to serve shareholders well, as we go forward. It's the capital and cost discipline, it is the ability to meet the needs of today's markets while investing for tomorrow's markets. And with the diversified portfolio we have across business lines and across geographies, we can mitigate market and regulatory risk that may emerge in one country, because we've got a footprint that allows us to shift resources and capital allocation to other parts of our portfolio.

So, for 140-plus years, this is what we've been doing. You're right. Things are evolving now. But they've been evolving for quite some time. And I think the capabilities we have in our organization, the honest dialogue we try to have with everybody about how you meet the growing demand for energy and the desire to see the mix change, and how do we continue to invest where we have advantages in both the existing core business and the emerging new businesses is what you will see us continue to do. At the core, I think the financial priorities stay the same.

We are committed to the dividend. We're committed to organic reinvestment in order to support that dividend. And that could be reinvestment across the entire spectrum of energy technologies. Maintaining a strong balance sheet, we've seen this last year how important that is. And then when we've got surplus cash after those first three needs, to distribute that back to shareholders. That framework is intact, and I don't see that changing.

Doug Terreson: Okay, thanks. And also, good luck to Wayne from me as well, whose done a great job in this role. Thanks a lot.

Wayne Borduin: Thanks, Doug.

Operator: We'll move next to Biraj Borkhataria with RBC. Please go ahead.

Biraj Borkhataria: (RBC) Hi. Thanks for taking my questions. I had a couple. So, the first one is just around your comments around generating free cash flow at, you know, prevailing commodity prices. I wonder if you can talk a little bit about the balance sheet and where you'd be comfortable in terms of gearing as you move through 2021. Also, Pierre, maybe you can touch on the recent announcement from S&P on potential changes in credit ratings in the sector, and risk of the industry with the transition, and how that is working into your thinking in managing the balance sheet.

And then the second question is on a different topic. With Gorgon down in the quarter, presuming that's obviously a decent hit to you LNG portfolio. Can you confirm if you were buying spot LNG cargoes in the fourth quarter? And just if you can give a rough sense of the quantity or the earnings impact on that, because I guess that's more transitory in nature, given some of the issues there. Thank you.

Pierre Breber: All right. Thanks, Biraj. This is Pierre. I'll start. Look, Mike just went through our financial priorities and we're in a good place on a debt ratio. Our net debt ratio is under 23%. That includes the assumption of debt from the Noble acquisition, which added about $9 billion of debt. I've talked about we don't have a target net debt ratio range, but I've talked about a range between 20% and 25% is a good place to be over the cycle. We can be below that at times. We'd be heading up towards this range. If we're above it for some reason, I'd want to have confidence that we're heading down to that range. So, it's not a hard and fast target. But we're in a really good place with a leading balance sheet, low breakeven as Mike talked about, and very well-positioned. We also have asset sales that we provided some guidance on here on the call.

In terms of the S&P, look, we've worked with them. It was an industry-wide call. I think our track record speaks for itself in terms of being disciplined with capital, protecting the balance sheet, and being very progressive about the future of energy and our approach of higher returns, lower carbon. So, I think that lines up with the rating agencies. But that's not something we control. That will be up to them. We're managing the company for long-term value, and we think we're doing a good job.

Mike Wirth: Biraj, your question on Australia and LNG, a simple way to think about this is we've got 80% or so of our volume termed up. And you can think about having a train down for a better part of this last quarter. So, four out of five trains running, so about 80% of our capacity. We've been able to satisfy all of our term needs and we're in the market now with our commercial organization buying a cargo here and selling a cargo there on the spot market. But we haven't been out of position and hurt because we had to buy high and sell low to any meaningful degree through this whole cycle.

Wayne Borduin: Thanks, Biraj.

Biraj Borkhataria: Okay. Thank you.

Operator: We'll move next to Doug Leggate at Bank of America.

Doug Leggate: (Bank of America) Thanks. Good morning, everyone. Wayne, I want to wish you good luck and hoping Roderick gets me a little earlier in the queue. Congratulations.

Guys, I wonder if I could just go back to the capital allocation question very quickly, Mike. You've now got Israel and a lot of growth opportunities that Noble had talked about longer term. And it sounds like you're backing away a little bit from the need for growth in the Permian. I'm just wondering if under a Biden Administration, is that how we should think about capital allocation, international versus domestic now that you've got a bigger opportunity set?

Mike Wirth: You know, we'll have to see how things play out in the US. I don't want to overreact to that at this point in time, until we know more. But fundamentally we intend to continue to be very disciplined in the allocation of capital. Noble's assets in Israel have the big part of their capital spend behind them. Right now, there's capacity to grow production there with little or no incremental capital right now. And the nice thing is we bring some capabilities to bear here that might not have been in Noble's wheelhouse. There are ways to take this gas further into regional markets. There are ways to take it into LNG, be it facilities that have ullage today that you can go into or Noble had been looking at an FLNG concept. There are ways to take it to power markets, and into power generation and then regional power distribution across borders. And there are opportunities to look at things like hydrogen and new energy technologies as well.

We have the financial strength and capacity to underwrite things larger than perhaps Noble could have, and some technical capability and relationship depth in some of these markets that should be an advantage. And so, we'll look to use those to support the growth of the position in Israel. And then the broad capital allocation question, US versus other countries, you know, we're always thinking about that, always looking at that, and drawn by returns and risk. And we'll continue to evaluate those things.

Doug Leggate: Okay. I appreciate that. My follow-up is maybe for Pierre. It's a follow-up to the S&P question earlier, but whichever one of you guys would like to answer this, but it's really more about the external pressures that you're seeing, whether it be from one of your large peers seeing an activist shareholder, talking about big energy; the European investment community and obviously your European peers moving in that direction. And now you've got the credit agencies. And it seems to me at least that the US side of the pond is still very much in the big oil category in terms of how you see your opportunity set going forward. I'm just curious, Mike or Pierre; how do you see these external pressures influencing discussions with the board, discussions with investors, and ultimately the longer-term energy mix? Will we see Chevron move towards that big energy story over time?

Mike Wirth: I think Pierre mentioned earlier that we describe our strategy with four simple worlds. It's higher returns and lower carbon. And both of those things matter to the investors that we speak to. And we're working hard on both fronts, and we've got to improve return on capital and demonstrate that we're going to do that, and at the same time we also have to prepare for a lower carbon energy system in the future. And we're reducing the intensity of the energy we deliver today and making really good progress on that. And we'll continue to set new targets in that area, because the world stepping on the hose of supply through one way or another, doesn't really change demand. And somehow demand will need to be met, and we think it should be met by those that can do it in a way that has the lowest carbon impact.

We're increasing the production of renewable and lower-carbon products for our customers, so they can reduce their energy intensity and carbon intensity, and then likewise looking at these breakthrough technologies, and I mentioned a couple of them earlier. So, every company in the industry, Doug, is searching for the right mix. There's not an empirically observable correct answer to this. And I think we're all working with our various stakeholders: our boards, our employees, our customers, the countries where we operate, and the policy that we operate under to manage both of these things.

And look, energy is the lifeblood of the global economy. And reliable, affordable energy will be fundamental to the recovery from the pandemic in the short term. And in the longer term, it will be fundamental to lifting people out of poverty around the world. And we have to remember that. And today's energy system is not the enemy. Lower emissions are what we should be focused on. And that's what we as a company are focused on, and that's what we talk to our stakeholders about. And that's what we're committed to doing.

Doug Leggate: Appreciate the answer. Keep in touch, Wayne. Thanks.

Operator: We'll go next to Paul Sankey at Sankey Research.

Paul Sankey: (Sankey Research) Hello, everyone. Mike, a strategy question, you've obviously addressed your strategy on the call. But I just wondered in the light of activism that we're seeing, are there any specific requests, if you like, or strategy pushes that you're getting from shareholders? I wondered if you could just update us on what you've been hearing, and perhaps where you're sympathetic to the ideas that are being pushed towards you, and maybe where you're pushing back. And then I had a follow-up just on the decline rates. You've said that you got higher decline rates on lower spending in '21. Having said that, the number is only 70,000 barrels a day or about a 2% decline. Can you just help me understand why that number is so low? Thank you.

Mike Wirth: Yeah, Paul. So, on the strategy push from shareholders, there's not a lot that's being said in shareholder discussions that I haven't discussed here. It's what is your strategy for a lower carbon world, and where do you see yourself having unique strengths. And if there's one thing I do hear back from people, it is support for not going into things where we wouldn't have competitive differentiation, and we may pursue lower return investments just for the sake of saying we're doing it, when there's other out there that can do it just as well. Beyond that, I'm not hearing a lot of strategy push from shareholders. I'll let Pierre take the question on declines.

Pierre Breber: Yeah, and just to add to Mike's comments, I mean this is a sector that is trying to regain favor with investors that it hasn't earned its cost of capital. And the way out of that isn't by investing more capital. So being disciplined in our conventional business with capital, being disciplined in M&A, and being disciplined with the energy transition. As Jeanine asked, renewable energy products operate in commodity markets that have cycles up and down, just like conventional products do.

In terms of our decline, yeah Paul, I'm not sure. What I'd meant to say is that you'll see declines this year resulting from our capital last year, because we did take capital down. But as you rightly point out on the decline, we try to put that on the best apples-to-apples basis. So again, we've got curtailment adjusted and then asset sales or contract expirations adjusted, which is a good view of our base in our shale and tight. And so, it's a little more than a 2% decline. It is a big change, because that would have been growth previously, because you would have had Permian growing. That was part of the reallocation. Mike showed a chart that said we are likely to invest $40 billion over last year and this year. But $13 billion of it was Noble. So, no doubt our organic portfolio is not growing like it would have been previously, because we've taken some capital out.

But as you point out, it's a modest decline. It's because we're facility-constrained in a lot of places. We have long-lived asset like in Australia LNG and Tengiz and offshore, and even the declines in what's considered high-decline areas like the Permian where we're able to mitigate. Mike said earlier that our Permian production is beating our guidance range and will actually be up because of the Noble barrels that we added to 2021 versus 2020 full year and adjusted for curtailment. So, it's a good story that we were able to be so efficient and mitigate declines, and I'm happy you picked up on that number.

Paul Sankey: Great. And of course, thanks very much to Wayne. Thanks, Wayne. It's been a pleasure.

Wayne Borduin: Thanks, Paul. Likewise.

Operator: And we'll move next to Dan Boyd at Mizuho Securities.

Daniel Boyd: (Mizuho) Hi. Thanks for squeezing me on. One, I would just say thanks for sticking to your guns and only doing things where you have a competitive advantage. That makes clear business sense.

Most things have been asked. I just have one for Pierre. Just on the FX which has been a headwind to earnings this year, can you talk about the cash impact that that has, if any, and how you see that potentially playing out in 2021?

Pierre Breber: Yeah, the vast majority of it is non-cash. I mean it's balance sheet translation. It's taking your monetary accounts, asset accounts, and liability accounts and revaluing it. What we've seen is during the course of the year the dollar strengthened initially, and then we saw it weakening relative to other currencies, in particularly like in Australia, Canada, some of the others; where we'll have like a deferred tax liability that gets revalued. So, it turns into cash over time. But it depends on what the exchange rate is at that time in the future. So, you have modest amounts that happen in the quarter. But the vast majority is reflecting a full revaluation of that monetary liability or monetary asset account. And how it ultimately settles will decide if those gains or losses are realized or not in cash flow.

Daniel Boyd: Okay. That's helpful. Thanks.

Operator: We'll go next to Manav Gupta at Credit Suisse.

Manav Gupta: (Credit Suisse) Hey guys, I just want to ask one question. You are absolutely leading the charge on RNG, and some of the projects that you're actually developing in RNG have a CI of like minus 150 to minus 200. That's significantly lower than any EV can actually produce at this point of time. Yet we always see out there is the demand for EVs and states saying they only want to run on EVs and car manufacturers saying they only want to make EVs. So, is there something that Chevron and the industry groups can do to educate the governments or the markets that there are other forms of lower carbon, like RNG, which actually have a much significantly lower carbon intensity than an actual EV?

Mike Wirth: Manav, I'm impressed. You've done your homework on carbon intensity, and not many have, to the foundation of your question. Look, RNG is very good from a carbon standpoint, because you mitigate otherwise unmitigated methane emissions, and that's why it gets the very attractive CI factor. You know the CI factor has to be worth something. Because RNG from a first cost basis is more expensive than fossil natural gas. And so, in markets where there's a policy framework that creates that financial connection to the low CI, it's attractive and economic, and that's where we're playing today. I would expect over time that those policy frameworks could expand for the reasons that underlie your question. And we are working with customers as well to help incentivize the adoption of CNG vehicles. We've got an initiative in California where we'll subsidize truck owners to convert or buy new heavy-duty CNG engines in return for a supply agreement. And then we're working with a number of different distribution points to enable that to happen.

We think that it's a good part of the mix. It's not the answer everywhere. But it is certainly a part of the mix that we think deserves to grow, and that's why we've been investing into it. And it ties to the earlier comments about doing things where we've got unique and competitive advantages.

Manav Gupta: Thank you so much for taking my question.

Mike Wirth: Thank you.

Wayne Borduin: Thanks, Manav.

Operator: We'll move next to Jon Rigby at UBS.

Jon Rigby:
(UBS)

So hi, yes. Thanks for taking my question. Two questions actually, one is on when you think about the portfolio and also what you've seen in the market through the sort of 2014-2015 volatility, the volatility you've seen now; are you starting to change the way you look at the investment that you're making going forward? So, are you looking at hurdle rates, payback periods, et cetera, and changing them to sort of tailor a different environment going forward? And also, I mean if you are, are you able to do that through the portfolio, or can you also do that through the way you approach the development of an asset? So, you know, you build it with the expectation of adding satellites longer term, or you build a bigger host, et cetera. That's the first question.

And the second, which is slightly tied to that, is it seems to me also you've demonstrated it, but low gearing, a low level of indebtedness has served you very well through those two cycles. So, when you think about the sort of three shock absorbers that you have: so short cycle investment, balance sheet, and buybacks; is in the near term the priority getting debt down? Thanks.

Pierre Breber: All right. Thanks, Jon. Look, I'll get started. I think the answer to your first question is, yes and no. And no, we're not changing how we look at investments. You know, we don't have to go to ancient history books to know that the top line in our business is volatile. We've had not just '14 and '15, you go '08-09, you can go late '90s. And to have companies in our industry that don't have balance sheets that are built for something that we know occurs with some frequency is a capital structure that doesn't make a lot of sense. It transfers too much risk to equity holders, and that's partly reflected at why the energy sector has underperformed other sectors for a while. So, in that sense, I don't think we think of it differently.

But to the second part of your first question, can we do development differently? Absolutely. Can we size them to keep them full longer offshore? I mean I think Mike has talked about the capital efficiency of our shale and tight, the flexibility of it. So undoubtedly our capital efficiency is better than it ever has been, I mean our ability to generate positive free cash flow from a dollar of capital invested. We've talked about being very disciplined with our capital, which reinforces it. But the basic premise of operating in a set of commodity businesses that are volatile, that hasn't changed in the last several years. That's been the case for the 30 years I've been with the company. And as you said, I think it's your second part of the question, how we operate with our four financial priorities reflects that reality. And so, we understand what business we're in, and that what kind of capital structure we should have that's in the interest of our shareholders.

Jon Rigby: Right. But to that point, is even with an advantaged balance sheet that you have against your peers, I think that's widely acknowledged, would it be fair to say the first priority of those sort of three variable things, accepting with the dividend is a structural thing; is probably balance sheet?

Pierre Breber: Well again, our four priorities, Mike went through them. It's dividend, reinvestment because we've got to generate cash for the dividend, maintaining a strong balance sheet and buybacks is fourth And so we're always going to maintain a strong balance sheet. I gave a kind of a range that we think is a good place to be over the cycle. And again, we can be below it, heading towards it, or above it. So, the balance sheet, well, it's right in the middle of the range I've been talking about since I've been CFO. So, there's no primary need on balance sheet. The bigger driver is we're not at a full economic recovery here. And getting control of the pandemic, getting the world economies growing again on a sustained path, that will be good for our business. Our breakeven is under 50. You can do the math. If oil prices are above 50 and if downstream margins improve because that's a breakeven under 50 including pretty weak downstream margins; we'll have excess cash and we'll look at our priorities and make decisions like we have in the past.

Just as a reminder, we bought back shares 13 out of the last 17 years. We've bought back shares on average during that time period basically equivalent to the daily average. So, we're a pretty consistent returner of cash to shareholders in the form of sustained and growing dividends and share buybacks, when we have excess cash.

Wayne Borduin: Thanks, Jon.

Jon Rigby: Thank you.

Operator: We'll take our final question from Ryan Todd at Simmons Energy.

Ryan Todd: (Simmons) Great. Thanks, guys. I'll just -- maybe a couple quick ones at the end. On disposals moving forward, I mean with the downsized capital program, should we expect a relatively downsized disposal program on a run rate basis? And if so, is there a range in terms of what we should think of in terms of annual disposals? And then maybe as a follow-up question, as we think about your 2021 production guidance, the contract expirations in Indonesia and Thailand, can you confirm what the volume impact is there, and any willingness to share what the potential cash flow impact of those volumes would be at $50 oil?

Mike Wirth: Okay, I'll take the asset sale question, and I'll let Pierre handle contracts. Yeah, Ryan, first thing is, we don't need to conduct asset sales to generate cash. Other companies might be in a different position. But look, we've closed out the program we announced previously. We're not announcing a new program. Pierre guided to $2 billion to $3 billion for '21. And if you look back over the last two decades, we've been kind of plus or minus a couple billion dollars a year in normal portfolio maintenance and kind of rotation. And so, I think that's the kind of a number you ought to think about for your model. And like I said, this coming year we might be a little bit to the upside of that. There will be some years which we'd be below that. But we're doing this to high-grade and strengthen our portfolio, not to generate cash.

Pierre, I'll let you take the contracts question.

Pierre Breber: Yeah, Ryan, I mean we disclose in our supplement tables that we provide each quarter production by country. You see it in our 10-K. So, I think it's pretty transparent what production in Indonesia and Thailand is. Not all of Thailand is part of the concessions that are expiring here early next year. We don't disclose cash flow by country. I mean there's a fair amount of disclosure in our oil and gas tables that you can look back for there. We'll continue to provide what we think is meaningful guidance each quarter as we go forward.

We showed the variance that was tied to contract expiration. So, I think all the pieces of the puzzle are there for you. And of course, if you have follow-up questions, please reach out to Wayne and Roderick.

Wayne Borduin: Thanks, Ryan.

Ryan Todd: Great. Thanks, guys.

Wayne Borduin: Well, I'd like to thank everyone for your time today. We do appreciate your interest in Chevron and everyone's participation on today's call. Please stay safe and healthy. Audra, back to you.

Operator: Thank you. Ladies and gentlemen, this concludes Chevron's Fourth Quarter 2020 Earning Conference Call. You may now disconnect.