2Q20 Earnings Conference Call
Edited Transcript

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CAUTIONARY STATEMENTS RELEVANT TO FORWARD-LOOKING INFORMATION FOR THE PURPOSE OF “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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Chevron

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This transcript has been edited by Chevron Corporation. It is generally consistent with the original conference call transcript. For a replay of the Investor Conference Call, please listen to the webcast presentation posted on chevron.com under the headings "Investors," "Events & Presentations."

Operator: Good morning, my name is Audra, and I will be your conference facilitator today. Welcome to Chevron's second 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 second quarter earnings conference call and webcast. On the call with me today are Jay Johnson, EVP of Upstream, and Pierre Breber, CFO. We will refer to the slides that are available on Chevron's website. 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 Pierre.

Pierre Breber: Thanks Wayne. Second quarter was a challenging one for the company. The natural results included $4.9 billion in special item net charges and a foreign exchange loss of over $400 million. Excluding special items and FX, the quarter resulted in a $3 billion loss or $1.59 per share. A reconciliation of Non-GAAP measures can be found in the appendix of this presentation.

Cash flow from operations was about $100 million and total capital spending was $3.3 billion, including about $300 million for the Puma Energy Australia acquisition. Asset sale proceeds for the quarter were about $1.5 billion related to the sale of our Azerbaijan and Columbia upstream businesses. Our dividend was flat with the prior quarter and we maintained a strong balance sheet.

Turning to Slide 4, in the second quarter we recorded over $5 billion in impairments and other noncash charges. The charges were triggered by the uncertain operating environment and outlook in Venezuela, a lower oil and gas price forecast due to the anticipated economic impacts of COVID-19, and severance accruals resulting from our transformation initiative.

While we are disappointed by the impairment in Venezuela, we intend to maintain a presence in the country and resume normal operations one day. The price related impairments were primarily related to Stampede, a non-operated field in the Gulf of Mexico, conventional operations in the Permian, and various producing assets in Asia and Africa. These charges were partially offset by a gain on asset sales and various tax items.

Turning to Slide 5, we remain on track to meet our revised guidance for 2020 capital and operating cost reductions. Organic CapEx in the second quarter was $3 billion, already at a run rate 40% below the original budget. Full year capital guidance remains unchanged at $14 billion as we will need to see sustained economic recovery and much lower inventories before considering raising activity levels.

Operating costs are also trending lower, in line with our expectation of $1 billion savings compared to 2019. Organizational design from our transformation efforts is complete. Employee selections are underway, and we expect to be operating under our new model in the fourth quarter delivering additional run rate savings next year.

Turning to the next slide, our financial priorities remain unchanged. We're on track to grow the dividend for the 33rd straight year. Cash flow from operations in the second quarter was low due to the market environment which was partially offset by lower cash CapEx and asset sale proceeds. Higher debt this quarter included our successful bond issuance in May. Our balance sheet remains strong with a net debt ratio below 17%, well ahead of our competitors.

Turning to Slide 7, second quarter earnings were lower due to a swing of over $6 billion in special items and FX versus the same period last quarter. Adjusted upstream earnings decreased primarily due to lower prices including greater differentials to benchmark crudes due to market volatility and reduced liftings volumes primarily due to curtailments and prior upstream asset sales. Adjusted downstream earning decreased primarily due to lower sales volumes to match decreased demand, and unfavorable timing effects.

Turning to Slide 8, compared to the first quarter, second quarter adjusted earnings decreased by over $5 billion. Adjusted upstream earnings decreased by about $3 billion, primarily due to lower liquids realizations, lower sales volumes mainly due to curtailments, and an unfavorable swing in timing effects.

Adjusted downstream earnings decreased by almost $2 billion, primarily due to an unfavorable swing in timing effects, lower margins and lower sales volumes. Chevron's refinery system ran reliably during the quarter with crude utilization well below capacity due to lower demand. The other segment decreased primarily due to an unfavorable swing in accruals for stock-based compensation. I'll now pass it over to Jay.

Jay Johnson: Thanks, Pierre. On Slide 9, second quarter oil equivalent production excluding asset sales was flat compared to a year ago. During the quarter, increased Permian shale and tight production and higher entitlement effects were offset primarily by curtailments and turnarounds. The curtailments were at the low end of our guidance range as prices recovered from historic lows late in the quarter. I'm really proud that our employees have kept our upstream operations running safely and reliably during this global pandemic. With all of the challenges of moving people and equipment, and of course personal concerns at home, our employees have risen to the occasion to deliver the energy needed in recovering economies.

Turning to the Permian, we're making disciplined choices to balance short term cash flow while preserving long term value. In response to the current market conditions, we quickly reduced our flexible capital program across the portfolio. And in the Permian expect quarterly capital spend in the second half of the year to be about 75% lower than the first quarter. As of July, we've reduced our operated rig count to 4 with 1 completion crew.

Although the level of activity in the Permian has rapidly changed, our focus on efficiency has not. By the end of this year, we expect to double the lateral feet driller per rig compared to 2018. With lower capital investments and our improving efficiency, we still expect to be free cash flow positive this year at strip prices.

As shown on Slide 11, the short-term outlook for Permian production has changed as a result of the lower capital spending. After curtailments in May and June, we're back to full production and expect second half production to be in line with the first half. At current activity levels, we expect production to decline about 6% to 7% in 2021. Early next year, we'll update 2021 production guidance for the Permian and the rest of Chevron's upstream portfolio.

As stated in our first quarter 10-Q, we expect lower capital spending to result in the demotion of proved undeveloped reserves, primarily in the Permian. These barrels may be rebooked as proved reserves when funding and activity levels increase. The near-term production profile for the Permian has changed, but our long-term view of the asset’s attractiveness has not. With our scale, efficient factory drilling, and royalty advantage, we believe we are well positioned to maximize returns and deliver value.

Turning to TCO, despite the challenges posed by the pandemic, we continue to make progress with our Future Growth - Wellhead Pressure Management Project at Tengiz. And the project is now 79% complete. Offsite fabrication is complete, and all modules have now departed Korea. Our logistics system is working well, and we expect to receive all the remaining modules in Tengiz this year. The remaining project scope is primarily the construction and commissioning work in Tengiz. We made excellent progress on site construction through the end of last year and the first quarter of this year. In the second quarter, as a result of the COVID pandemic, we reduced our construction workforce to 20% of plan. As a result, overall construction progress has been impacted due to the limited construction workforce.

Let's turn to the next slide. TCO is working hard to mitigate the risks from the pandemic by closely coordinating with health experts and regulatory agencies to implement safeguards that protect our workforce. Looking ahead to the second half of 2020, the project team is focused on remobilizing the Tengiz construction workforce and completing the final sealift. A return to work plan for about 20,000 FGP construction personnel is set to begin in August and will continue as conditions allow.

Critical path activities such as the delivery and installation of the first two pressure boost compressor modules remain on track. Foundations and access roads are complete, and the team is preparing to receive, re-stack and install these modules. With the high field productivity and progress over the winter, we were ahead of schedule but now have limited schedule float remaining. Our ability to complete the remobilization and sustain the construction workforce through the pandemic is key to limiting further impacts to the project. We're focused on safely progressing the project and we expect to be able to provide more specific updates to project costs and schedule early next year. Now I'll give it back to Pierre. Thanks.

Pierre Breber: Thanks, Jay. Slide 14 highlights some recent announcements. On July 1st, we safely started up production in the Partitioned Zone and completed the first export this week. Also, we closed the acquisition of Puma Energy Australia. These assets will integrate with our refining and marketing value chain in Asia Pacific and extend the value Caltex brand in the region. Earlier this month, we signed an agreement with Algonquin, a leader in renewable power generation, to codevelop renewable power projects that will support our operations. Initial project assessments will be focused on the Permian, Argentina, Kazakhstan and Australia.

Turning to the next slide. Last week, we announced we had reached an agreement to acquire Noble Energy. As the necessary regulatory and approval steps progress, we've also launched our integration planning efforts. Representatives from both companies are meeting today to kick off the planning discussion, and we look forward to integrating Noble's complementary assets, people and capabilities into Chevron. Looking ahead, we anticipate a straightforward and fast integration. Our internal transformation efforts should help us efficiently integrate the new organization and achieve our synergy targets.

Now, looking forward, on Slide 16, in the third quarter we expect production curtailments of about 150,000 BOED primarily due to the OPEC Plus agreement. Planned turnarounds primarily in Australia, the Gulf of Mexico and Canada, are expected to impact production by about 110,000 BOED. This includes an extension of the turnaround at Gorgon until early September.

In Australia, we expect LNG contract pricing to be lower due to the 3 to 6-month lag with oil prices. Based on our current outlook, full year net production is expected to be roughly flat with 2019 including the effects of curtailment. And TCO co-lending is expected to be about $2 billion for the year

In Downstream, turnaround activity is estimated to have an after-tax earnings impact of $100 million to $200 million. We expect our other segment earnings and distributions less affiliate income to be in line with prior guidance excluding the impact of this quarter's special items.

Turning to our last slide, with health, economic and social crises all happening at the same time, this was a challenging quarter for Chevron and its stakeholders and a reminder of the importance of the S in ESG. We're proud of the work we're doing with social investments in our communities, pay equity for our employees, and our supply chain spend with women- and minority-owned businesses. You can read about this and more in our Sustainability Report which was published in the second quarter.

With concerns for the health of our loved ones, economic uncertainty in our communities and expectations for racial justice and equal opportunity, we know there is more work to do. On the right of this slide is the company's 5-point action plan in response to current market conditions. We're proud of how our employees are executing this plan and delivering on what we can control. We entered this crisis in a better place than our competitors and we intend to exit stronger and more valuable for all of our stakeholders. With that, I'll turn it over to Wayne.

Wayne Borduin: Thanks, Pierre. 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, if necessary. 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. 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. Our first question comes from Phil Gresh at JPMorgan.

Phil Gresh:
(JP Morgan) Good morning. First question is just kind of tying together the commentary on the Permian for next year being down 6% to 7% with your CapEx commentary that you provided. Which I think in the past you've said $3 billion quarterly run rate for second half CapEx on a C&E basis, not on a cash CapEx basis. So, is the Permian commentary consistent with just keeping that CapEx at that type of run rate in the second half of the year?

Pierre Breber: Yes. So, we had an approved budget of $20 billion. When we announced our market response plan and then updated it at our earnings call, we reduced the full year to $14 billion average, but a run rate of $12 billion essentially for the second half of the year. We achieved that [run rate] a quarter early, so if you back out the Puma Energy Australia acquisition, we were at $3 billion already in the second quarter and that's obviously at that $12 billion annual run rate which is a 40% reduction. And embedded in that are the reductions that Jay referred to in the Permian and operating at the current 4 rigs and 1 completion crew.

Phil Gresh: Got it, so you keep it at that level in 2021 for a 6% to 7% decline?

Pierre Breber: Well we haven't given capital guidance for 2021. We're in the middle of our planning process. We'll do our normal disclosure and sharing of what our capital budget is for 2021 in December when we've completed our plan and the board has approved the plan. What we are showing is just an outlook based on current activity level. We early on guided to Permian production being about 20% lower on the exit rate relative to our Investor Day guidance. And actually, we're doing a bit better than that, so that would have taken us down a little bit lower than what you're seeing on that chart. And then executing as planned and staying at this activity level, yes, we project that kind of guidance. We're not giving production guidance. There's a lot of time between now and then. We are just sort of showing what the outlook looks like if activity levels stay at the same level. It will depend on what the impact to economic recovery is, inventory levels and a number of factors will determine what our activity level will be in the Permian going forward.

Phil Gresh: Okay, got it. My second question just would be on Gorgon. There's been some media reports out there talking about some operational hiccups on Train 2 and getting that restarted. I think you were planning in mid-July, it sounds like it may be as early as September at this point, but could just elaborate on what's happening there, what the root cause of this delay is and what it would mean for being able to meet contractual obligations? I think you're about 80% contracted at Gorgon, but just any color there would be helpful. Thank you.

Jay Johnson: Yeah, Phil, I'll take that one. Our fundamental concern is operating safely and reliably and we're always going to take decisions in alignment with that. As part of our normal operations, we take trains down for turnarounds to do inspections and maintenance. And during the Train 2 turnaround, what we found in the Train 2 propane heat exchanges, or kettles some call them, we saw some weld defects. So, we developed a repair procedure and they are progressing well on those repairs. We expect them to be fully accomplished here in the near term and we expect to have the train up and running in early September. All the other planned work for the turnaround has already been completed, so the focus really is just on completing these repairs to the propane heat exchangers. We're going to use the findings from what we saw in Train 2 to plan the appropriate actions for Train 1 and Train 3, but at this point, Train 1 and 3 are running normally as expected and we've actually seen good stable operations out of them. So, at this point, there have not been challenges in delivering on our commitments and I don't anticipate that as we look forward.

Phil Gresh: Thank you.

Operator: We'll move next to Jason Gammel at Jefferies.

Jason Gammel: (Jefferies) Thanks very much. I guess the first question I have, for Pierre, is it was obviously a pretty tough quarter, but I wasn't necessarily expecting cash from operations ex working capital to be negative. So, can you address if there is anything in the quarter that is sort of a one-off item that affected the cash number? Or is this just purely the result of the core pricing margin environment?

Pierre Breber: Look, it was a challenging quarter. We did, to put it in perspective, we had a big beat last quarter and we had a miss this quarter. And one of the primary drivers we talked about last quarter and we talked about this morning is our timing effects. As you know, Jason, these are effects that benefit us in a falling oil price environment and reverse in a rising oil price environment. And we saw that, obviously prices declining in the first quarter and rising in the second quarter. Some of those effects do roll through cash because it's essentially going through our COGS and it's a timing difference between when COGS are being recognized relative to the underlying margin. In addition to that, look, we had very volatile industry conditions as you know. We had historically low prices at times, very volatile pricing, and there were times where we did not capture what the benchmark crudes were indicating. That was true in the US in certain times with the calendar roll and the physical differentials which were adjusting very quickly, but it was a very fast-moving situation. And that was true outside the US for certain crudes. CPC Blend at times was being discounted more heavily versus Brent. Some of our West African crudes also were being discounted more heavily versus Brent than is typical in a normal trading pattern.

Then we ran much lower utilization on the downstream than is typical. Again, we had unprecedented demand decreases, rapidly changing demand decreases. We were managing our refinery system to be in sync with the demand. In the US our crude utilization was 55% which is well below what the capacity is. And it just points out how extraordinary the conditions were in the second quarter. So that resulted in much lower volumes than we typically would sell and the resulting impact on margins.

The last thing I'd point out on earnings, and it's not a cash effect, is we do make accruals for stock-based compensation for all employees that have stock-based compensation and in the first quarter that was favorable and there was a swing. So, there's no doubt there's some noncash elements in the earnings, but the realizations, volumes and aspects of the timing also roll through cash. There was nothing I would say that was unusual except the industry conditions that were very unusual and extraordinary.

Jason Gammel: Thanks. I appreciate that, Pierre. Hopefully we won't ever see another quarter like this past one. Second question is for Jay. Jay, this is the first time we've been able to speak with you since the Noble acquisition was announced. I was hoping you might be able to give us your view of the quality and fit of those assets into the Chevron portfolio. And specifically I’m interested in the Permian acreage and your view on the East Med and the potential for future expansion.

Jay Johnson: Yes. Thank you. Jason. We're obviously excited to have these assets join our portfolio. I think they're a really nice set of assets, and they have an excellent fit with us. In the case of the Eastern Med and the DJ Basin, we see 2 new operations that fit quite well into our capabilities. We've worked for many years in the Middle East, and this is a nice addition to our current portfolio. In Colorado, we're excited to have an entry into the DJ that has such long running room and good returns.

In the Permian, it's a nice add-on to our existing Permian operations in the Delaware Basin and about 90,000 acres coming into our portfolio. So, we see good synergies there. And then there are other assets in the Noble portfolio that will be nice assets to have. We'll continue to start evaluating their performance.

And just on balance, I'm happy with what's coming into the portfolio. I think it's going to be a really good fit, and there's a lot of good people in the Noble organization as well. We're looking forward to bringing them into the family.

Operator: We'll go next to Devin McDermott of Morgan Stanley.

Devin McDermott: (Morgan Stanley) Good morning, thanks for taking the question. My first one is on TCO and just following up with some of the prepared remarks, Jay, that you had. When we think about the critical path here for the back half of 2020 and really into the next few years, you noted that you have all the materials onsite to achieve that critical path. But I wanted to ask specifically on the remobilization of the workforce and how you're planning that to continue to achieve execution on the critical path items as we think about the overall project timeline. Any risk of delay? Just a little bit more detail on how you're thinking about the interplay there with the critical path and remobilization of workforce.

Jay Johnson: Yeah, thank you. Well, as you said, we made great progress over the wintertime and we're actually building ahead of the schedule. With the modules being completed on time and coming to us, they are coming to us complete, good quality, dimensionally accurate. So, they're meeting all of our expectations and we expect to have the sealift finished this year. Those are all key elements in maintaining the schedule on the project.

From the workforce on the ground standpoint, Kazakhstan like many other countries is going through a significant impact from the COVID. So, as part of our precautions, we de-mobilized to about 20% of the planned workforce in the second quarter. That's about 20,000 workers that we need to bring back. During June and July, we've been doing a crew change on those people that were remaining in Tengiz and that's given us a chance to test the systems that we've been putting in place. Those involve testing people at their point of origin before they return to Tengiz. Once they get to Tengiz, we have isolation camps set up so that we can put people in isolation. Even with negative tests, we still put them in isolation to affect a quarantine period, then retest before they are allowed to progress to Tengiz. We're using a pod strategy where we keep groups of workers together, but isolated from other groups. That includes where they live, transportation, how they take meals. Trying to make sure we have sufficient mitigations in place to protect that workforce.

Our fundamental concern is the safety of the workforce and making sure that we can sustain operations as we rebuild. We expect that mobilization to take place over about a 4-month period, but clearly that's going to be dependent upon the environment in Kazakhstan as well as just the difficulty of moving people internationally for project of this scale. And we'll take the learnings as we've done the crew change and continue to adapt as we move forward into the remobilization.

Our focus continues on critical path activities, but we've got to also work off a large volume of work that didn't get done in the second quarter. So, we expect some degree of impact, but to really be able to give you any kind of an updated forecast on costs or schedule, we need to see how this remobilization goes. We need to see how we're able to sustain people at work within the pandemic, and we'll be able to update you I think more effectively probably in the first quarter of next year.

Devin McDermott: Got it. Thank you, that's very helpful. My second question is one relating to the US election and it is a short term and a longer-term part. The short-term part is, there's a lot of discussion around potential permitting or leasing changes, particularly on Federal lands and waters. One, just how you're thinking about managing that potential risk given the large presence in the Gulf of Mexico. The second part of the question that's the longer-term piece, there's also some discussion around things like clean energy standard or investments from the federal government in things like clean hydrogen over time. And just how your thinking about managing the business from an investment strategy longer term to position Chevron for this potential shifting regulatory environment. Maybe even the recent announcement on the renewables partnership with Algonquin and how that fits into the longer-term strategy as well.

Pierre Breber: Sure, Devin. I'll start and let Jay address the question on federal leasing. I mean at the highest level, look, we work well at the federal, state and local levels in this country with governments of both parties. And of course, we work with governments of different parties all around the world. Energy is essential to the economy. And as the world economies recover from this pandemic, jobs in oil and gas are good paying jobs. They're a big part of the economy in a number of states in the US and in a number of countries around the world. We think whichever governments, in the US or in other countries, the economy will be a priority coming out of this and we think energy will be a big part of that.

We're a very responsible company including our commitment to ESG which I referred to and actions we're taking to reduce carbon intensity. So, I think you know our approach to the energy transition has three focus areas. Things that we can do to lower our carbon intensity, we have greenhouse gas intensity metrics out to 2023. How we can increase renewables in support of our business. So, the Algonquin partnership which we just announced is just a way to scale up what we've been doing previously. We had some wind and solar projects to [power] our operations in the Permian and in Bakersfield and this gives us an alliance and partnership to accelerate that and scale it up globally.

We continue to do in the renewable space -- renewable natural gas and renewable liquid fuels. These actions reduce the carbon intensity of our products, in particular in California, consistent with the low carbon fuel standard. And then our third focus area is investing in breakthrough technologies. That includes carbon sequestration, hydrogen, and batteries. We are operating one of the world's largest carbon sequestration projects in Australia. So that's a long answer to say we've been in business a long time, we intend to be in business a long time. There are elections in this country and a number of countries that are occurring, and we intend to be a constructive force wherever we operate to be a good partner with whoever is governing at that time. And we think there's a lot of common ground that we can find between what we do as a company and what governments aspire to do. So, with that, I'll turn it Jay.

Jay Johnson: Thanks, Pierre. I'll build on that by just saying I think there's actually a lot of common ground with where the potential administrations want to go. Because we've already been focused on reducing flare and methane emission, our greenhouse gas intensity in producing oil and gas, we've had a head start on this. And we continue to stay focused on reducing the impact that we have as we produce these essential products. We think energy plays an essential role in economic growth and these jobs in the Gulf of Mexico and the Permian are important jobs to the economy. And I think the emphasis on natural gas as a bridging fuel continues to support our operations in both the Gulf of Mexico and Permian. So, we'll continue to focus on reducing emissions and lowering our footprint, carbon footprint. But at the same time, we're going to continue to work with whatever administration is in place and work to make sure that there's a good understanding of potential regulation and the impacts that it may have as we move forward.

Operator: We'll go next to Neil Mehta at Goldman Sachs.

Neil Mehta:
(Goldman Sachs) Good morning, team, and thank you for taking the time here. The first question I had is around cash flow breakeven. In the past, Pierre, you've talked about cash flow after CapEx breakeven after 40 at 50, the dividend and at 60, the buyback. Just how do you think about that math there now? There are a lot of moving pieces, particularly with downstream, and there's a lot of flexibility on the CapEx side. But any math you can help us with to think about your Brent breakevens would be helpful for aligning the models?

Pierre Breber: Well Neil, I mean, you're exactly right. When we talk about oil break evens, we're just talking about one part of the portfolio, and not everything else is held constant. So, we've had [2019] breakevens in the 50s. The actions that we are taking today are intended to get it down in the 40s. That has an assumption around downstream performance. And you won't see that in the second quarter, but you'll see that certainly over time.

I guess I just would first step back and just say we're in a different place than almost everyone else in our industry. We have one of the strongest balance sheets. We're exiting the quarter here with a net debt ratio of 17%. We've got excellent capital discipline and the ability to flex our capital program down. You saw that we took it down 40% in one quarter with an extraordinary change in the circumstances. Reserving the capital, not spending capital, to add barrels that just aren't needed right now as the world is contracting and then coming out of it and hopefully recovering in a sustainable way.

We've been ahead of others. We started our asset sales and signed asset sales last year. And you saw those close this quarter, generating cash. And again, we started our restructuring well before COVID, and we're on plan - we have that work on track. And of course, we signed an agreement to acquire Noble Energy last week.

So, all our actions are designed consistent with our financial priorities. The first is to sustain and grow the dividend. We showed our stress test last quarter at $30. I think it was made very clear that we have the financial capability, the flexibility in our capital program, the ability to manage our costs, [and capacity] to sustain that dividend through the stress test [conditions]. And we're continuing to sustain long-term value of the business. So, although we're taking activity back in the Permian because it brings on production in months and not years, that capital will come back when the world needs the energy. And the value inherent in that resource is still there. And of course, we're making investments, as Jay has talked about, in Tengiz, which will come on in several years. And again, we're maintaining a strong balance sheet.

So that's the high-level framework. Our goal is to get our breakeven as low as we can. We're planning for lower for longer. It's a very uncertain environment. To Jason's question, we hope the second quarter was the bottom. It sure feels like it. Things are definitely better than they were in the second quarter, in particular in that April/May time frame. But we've got a plan for lower for longer, show our downside resiliency. We know how to manage the upside. That won't be a problem. But make sure we support the long-term value so that we can not only just pay the dividend now but sustain and grow it over time.

Jay Johnson: Just to build on that a little bit, Pierre. One of the things I really like about the assets as well coming from Noble is that they also have great capital flexibility. So, it fits our strategy quite well. And about 75% of the proved reserves have already been developed. So, the big capital is largely in the past, and now we're looking at the run opportunities for these assets.

Neil Mehta: Appreciate it. And a follow-up here is around impairments. You took $4.8 billion in the quarter. Can you just talk about the framework by which you look at impairments? Obviously, your system is a little different than the IFRS system of some of your competitors. You think you're through the bulk of said impairments? And just talk about your approach to calibrating them.

Pierre Breber: Sure. Well, let me start with fourth quarter when we took large impairments. And those were primarily related to capital decisions; decisions that we made that were primarily natural gas related. And this again, of course, is pre-COVID, but in a capital-disciplined way and trying to drive higher returns, being really ruthless about where our capital is invested and making difficult choices. And that was primarily the impact of the impairments that we saw in the fourth quarter.

This quarter, it was primarily for two reasons. One, unique situation in Venezuela, which I'll comment on and I'm sure Jay will add to. And we did lower our price outlook based on the economic impacts from the global pandemic. So, we don't know what the impacts will be, but clearly with the economic contraction, and assuming economic recovery, clearly, but it just results in lower demand for some time period, and we reflected that in lower prices.

In Venezuela, it's been a difficult operating environment for a while. Each quarter we've been assessing our investment value. In the second quarter, the environment became even more difficult. As an example, our share of net production in June was just 7,000 barrels a day. So, it had really fallen off. And so, under the accounting rules and the U.S. GAAP accounting rules, we have to assess whether the loss in value is other than temporary. And if we view it as other than temporary, then we take an impairment. And unlike the IFRS, it only goes in one direction. The other ones were tied to the oil price, and I talked about a few of those. And then we had a severance. So again, we follow U.S. GAAP. We're going to look at it each quarter. What I can say is the impairments this quarter for the most part had a different nature than [4Q19] .

And maybe one comment on the price-related ones, then I'll kick it to Jay to talk about Venezuela. The price-related ones were really hitting either mature assets, late in life assets where the remaining production term just gets impacted by the lower price outlook. The long-lived assets were not impaired. It was really mature, short-lived [assets] where a lower price impacts the carrying value. But maybe Jay can comment on Venezuela.

Jay Johnson: Thanks, Pierre. Venezuela, we took the impairment there, but our fundamental approach has not changed.

And that's that we are still committed to being present in Venezuela, and we look forward to one day resuming full operations.

Our license was extended to the 1st of December 2020. And that license allows us to take on the activities for safety and maintaining asset integrity. And our focus is on keeping people and the assets and operations safe. We support communities in Venezuela. We believe we're a force for good. We'll continue to be compliant with all laws and regulations, both U.S. and Venezuela, and we just take it a day at a time. But our commitment still remains, and we think the underlying asset value is still there.

Neil Mehta: Thanks, everyone.

Pierre Breber: Thanks, Neil.

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

Paul Sankey: (Sankey Research) Hello, everyone. Can you hear me okay?

Pierre Breber: Yes. Hi, Paul.

Paul Sankey: Hi. Thanks. There are a couple of things. Firstly, on (inaudible) problems that you had in the quarter, a couple of the other mega oil companies had very good trading results. Was it fair to characterize you guys as having a smaller trading operation and appetite as a result of us not seeing a whole lot of benefit in the quarter, I was just wondering?

And the second, the follow-up is you mentioned breakeven. I think Jay -- and I'm sure Jay in his comments also mentioned breakeven. I thought you said breakeven at strip by the end of the year. Pierre, you were talking about getting down towards 40. Have I got that wrong in my head? Could you just clarify what's in those various moving parts? It might be downstream, or I might have missed that, apologies. But if you could just bring that together for me. Thanks a lot.

Pierre Breber: Okay. Let me just address the breakeven question. So again, our breakeven in last year and early this quarter was at low 50s, and the actions we're taking, again, to reduce capital and reduce costs, which are right on track with our guidance and are going very well. Everything else held constant, that would take our breakeven into the 40s. But not everything else is held constant. In particular, downstream and chemicals we've talked about weaker margins and much lower volumes. So, we'll have to see as that shakes out. But as the downstream stabilizes over time, then those reductions should flow through to a lower breakeven.

We talked about Permian being free cash flow positive at strip pricing. So, this year in the Permian and remember, we had that also as guidance in our Investor Day. It was at a much higher investment level as we were on a different trajectory. But even at now this investment level and all the changes that are going on, we affirm that we'll still be free cash flow positive. But that was only specific to the Permian, and that was at strip pricing.

If we go to trading, we don't disclose our trading earnings separately. I wouldn't exactly characterize our trading organization the way you said. But we've been pretty clear that the priorities for the trading organization are flow, ensuring the flow of our upstream barrels in and out of our refineries, to optimize around those positions, and then to trade. And certainly, at times in the quarter, the market had steep contango, which created trading opportunities for our organization. And you'll see those results in the upstream and downstream segments this quarter and in future quarters.

Paul Sankey: Great. Thanks. So, apologies for misunderstanding. Thank you.

Wayne Borduin: Thanks, Paul.

Operator: We'll go next to Jeanine Wai at Barclays.

Jeanine Wai:
(Barclays) Hi. Good morning, everyone.

Pierre Breber: Good morning, Jeanine.

Jeanine Wai: My first question -- good morning. My first question is on the overall business. And I guess understanding that growth is an outside of capital allocation decision, you're working really hard to materially reduce the cost structure. Is there an opportunity for Chevron to meet the prior ROCE and 3% CAGR targets that you laid out at the analyst meeting at a Brent price below the former $60 that you talked about? Or are those targets just kind of no longer the right way to think about the business, given your updated view on the macro? I know you just mentioned that you were planning for lower for longer.

Pierre Breber: Well, let me start, and Jay might want to add. Yes, certainly the ability to deliver that kind of production volume is there because all of the resource and the opportunities, whether it's in the Permian, whether it's the other opportunities we show during our Investor Day, they are all there.

Now, there's no doubt. We had our Investor Day on March 3rd, and by that weekend -- and we showed a $60 Brent nominal flat pricing for 5 years, which everyone agreed was a reasonable assumption. And by the weekend, oil was in the 30s when the Russian-Saudi agreement fell apart. And then a few weeks later, we were in a massive economic contraction. So, there is no doubt that the world has changed from that Investor Day. And we are in the middle of our planning process and we'll provide revised updated guidance. But our ability to deliver that kind of production is absolutely there. The question will be is that still the right strategy?

I think we have to step back and look at a sector that is underperforming the broader equity markets. And we're underperforming primarily because of low returns and a lack of capital discipline. So, when you hear us talk about capital discipline in our organic portfolio, and the actions that Jay is taking to be disciplined with our capital and in our downstream, too. Being disciplined with the capital to approach the energy transition, to Devin's question, we have to do that in a disciplined way. Organically – and inorganically, we have to be disciplined with capital. The only way to increase returns and regain favor with investors, it's not by outgrowing and it's not by having capital flowing back into opportunities. It's by being very disciplined and generating high returns by being really ruthless in our allocation.

So, I think that's a way to say that we're going to revise our plans. All the opportunities are there. Whether that's the most optimal outlook going forward, we'll decide. But our commitment to capital discipline, our commitment to raising returns is going to continue, and it's essential for us to be able to deliver higher returns over time.

Jay Johnson: I think to build on that, we had very strong performance last year and coming into this [year]. Well before the COVID crisis hit, we had already embarked on a transformation effort. And that transformation effort was all encompassing. It covers every aspect of the company. And it's really built on trying to better integrate technology into our operations and our workflows, making sure that we're as efficient as we can be across our organizations. How do we provide technical services to our business units. In the upstream, we've reduced from 4 to 3 regions. That went into effect July 1. We've reduced 1 to 2 layers across our organization.

We're building on that geographic-based business unit in the upstream, which has served us so well. But we're adding in asset class coordination across business units so we can better team and perform across business unit boundaries, geographic boundaries and segment boundaries. And we've also added in additional focus on value chains and making sure that we're getting the highest realization for our upstream products that we can all the way through the value [chain].

So the transformation itself, while it involves some restructuring, I think some of the biggest impact that's going to come is around how we think about the business, the financial fluency that we're getting throughout our workforce, the focus on improving returns and understanding where the gaps are between what's possible and where we are today. As well as incorporating, as Pierre said, the lower for longer mentality, the lower activity levels, lower turnaround activity and some of the other effects that we're seeing. So, as you put all this together, I think we'll continue to see not only the commitments towards lowering our cost structure, but I do think we're going to find ways to continue to drive for that aspiration of improving returns.

Jeanine Wai: Okay, great. Thank you for the answer.

Wayne Borduin: Thanks, Jeanine. Did you have a follow-up?

Jeanine Wai: Yes. My follow-up is it's kind of a similar question, but on the Permian. In terms of just looking medium and longer term and on the efficiency improvements that you mentioned, before you mentioned that Chevron can grow the Permian to about 1.2 million barrels a day at $4 billion to $5 billion a year CapEx. I know that's a ways off. But beyond the drilling efficiencies that you mentioned, and assuming there's a recovery in demand, how material could some of these efficiency improvements be that you've mentioned? Meaning specifically, based on what you've seen, do you think you could deliver the same or similar production capacity of that 1.2 million a day but on materially lower CapEx?

Jay Johnson: Yes. Jeanine, I think we're poised to continue to drive increased efficiency throughout the Permian operations. The drilling is just one example where we're seeing that efficiency. But the advances in technology, the advances in our understanding of the reservoirs and how to best complete and produce from those, the integration of our operation centers, the maintenance, the operations are all driving efficiency.

While the near-term activity levels, we've changed those because we can and because we think it's prudent given the current environment that we find ourselves in. The underlying long-term value and even mid-term value of this asset is unchanged. And I'm actually really excited about the changes that we're making in how we are working together in the organization. And so, I do expect to see us be able to deliver on previous expectations and continue to deliver on becoming a more efficient, more effective operator in the Permian Basin.

Wayne Borduin: Thanks, Jeanine.

Jeanine Wai: Thank you.

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

Paul Cheng: (ScotiaBank) Hi, guys. Good morning.

Pierre Breber: Good morning, Paul.

Paul Cheng: I have two questions. I think one for Jay, one for Pierre. Jay, you had mentioned about the problem in Gorgon. It's a bit surprising given it's a new machine. I mean the [thing] has only come on stream for say less than 5 years and now you have this problem. So is the problem, is it a design issue or that it's just poor workmanship? And also, whether the same vendor is applying those to Train 1 and Train 3 as well as in Wheatstone. And if they are, have you already done some inspections on those units?

Jay Johnson: Yes, Paul. So, the defects that we found in the welds we believe were there from the original manufacturer. They're not a design defect at all, but they are a manufacturing defect. They were discovered in Train 2 when we took Train 2 down for its first major turnaround and inspection. And as I've said, as part of the routine inspection, that's when we encountered this particular issue. We are evaluating based on the learnings that we've got how to best address Trains 1 and 3, and we put additional mitigations in place until that's been accomplished. We do not have the same manufacturer for the vessels in Wheatstone. It's a different manufacturer. And I don't expect to see the same issue replicated there.

Paul Cheng: And Jay, Train 1 and Train 3 already went through the full turnaround recently, right? Just in the last year or two?

Jay Johnson: No, Train 1 went through the turnaround last year. Train 3 is scheduled for next year.

Paul Cheng: So that's a risk. Is Train 3 more of the risk than Train 1, then. Because I assume that if that's an issue, when you went through the turnaround in Train 1, you should have already discovered.

Jay Johnson: We did not see the issue in Train 1, but we're assessing whether or not we need to reevaluate that inspection and go through it again. We are assessing how best to inspect, and if necessary, repair Train 3 at this time.

Wayne Borduin: Paul, do you have a second question?

Paul Cheng: Sure. Second question is for Pierre. I heard about, say, that the improving return is one of the top priority for the company. We appreciate that. But in here that we have a conflicting maybe priority. Because from a cash flow standpoint, you are cutting your CapEx in Permian, and Permian actually is your highest return project. While that you are still investing in Anchor and Tengiz, which is clearly that much lower return compared to Permian. So how exactly that the company is going to be able to raise your return when you are not investing at least in the next maybe year or two in the most profitable projects? What steps that you would be able to take?

Jay Johnson: So, Paul, one of the things we're doing, as you know, we've been bringing our unit development costs in the deep-water down significantly. Our target is to be below $20 a barrel. Anchor, as we've talked about in the past, opens up new opportunities for us in a new class of deep-water assets. We are pacing the development of Anchor in its most efficient pace. We're not focused on having to bring it on by a certain date, but rather keeping all the different aspects of the project consistent and aligned as we move through the impacts of the COVID crisis.

In terms of the Permian, it's simply we don't see the point of investing in any assets around the world to bring on new production capacity when the world is so heavily oversupplied. And so, because we have that flexibility, we're exercising that, and we'll continue to look at the current environment and begin ramping up funding and activities when it's appropriate to do so and we see a better overall supply-demand balance, better fundamentals for the industry.

Pierre Breber: Yes, to add to what Jay said, we're going to be diversified across different asset classes. We're not going to be a pure play company. And they're operating on different time frames. And one involves production that comes on in years and one involves production that comes on in months, and we're making that distinction. So, we've been laser focused on capital that supports long-term value. Capital that's adding short-term production has been hit very hard. Thanks, Paul. We appreciate your questions.

Operator: We'll move next to Roger Read at Wells Fargo.

Roger Read: (Wells Fargo) Yes, thanks. Good morning. I guess two things to follow up on. First question for you, Jay, on TCO. Just what do you think the critical -- you mentioned critical path items. What are those in 2020 and 2021 we really ought to keep our eyes on for confidence that the project is coming along as expected? And then I don't know if this second question is for Pierre or for you, but as you think about your outlook for the Permian unconventional in 2021, the down 6% to 7%, when does that become a written in stone event versus something that you could tweak and we could see something different?

Jay Johnson: So, the critical path for TCO FGP project, it really runs through the setting of all the utility modules and the compressor boost facilities for the wellhead pressure management part of the project and getting those fully integrated. And that's where our real focus is. So, it's mechanical, electrical and instrumentation work once those modules are set on their foundations. That really represents the main focus. But there is a lot of work as well that has to be maintained in parallel with that to be able to deliver the project as expected.

Pierre Breber: Yes. And look, on the Permian, we could bring completion crews back very quickly if that were to happen. So again, we're in the middle of our planning process. We'll update our capital budget. But even after we have a capital budget, we can reallocate capital if the world changes. And there's a lot of flexibility in the Permian. It goes back to the earlier question. There's a lot of value there. So, we'd want to see the sustained economic recovery, see inventory levels heading down. But it's something that we could change very quickly by adding completion crews and then adding rigs over time.

Jay Johnson: Just as we've brought it down, we can take it back up.

Pierre Breber: Thanks, Roger.

Roger Read: Thank you.

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

Doug Leggate: (Bank of America) Well, thanks for squeezing me in, guys. I just had a couple quick ones. Pierre, perhaps you could just elaborate on your change of price assumption. And what I'm really looking for is do you anticipate that you will continue to add debt, given you've got substantial headroom as you pointed out last quarter, over the foreseeable future?

Pierre Breber: I'm sorry. You broke up a little bit on your question, Doug. Can you say that again?

Doug Leggate: Yes, so -- can you hear me now?

Pierre Breber: Yes.

Doug Leggate: Okay. So, do you anticipate adding additional debt, given that you've still got substantial headroom as you pointed out last quarter? And if you could elaborate, please, on the change on price assumptions that you referred to earlier.

Pierre Breber: Yes. So, on the price assumption, I'm not sure I can say much more. We don't disclose our price outlooks. We view it as commercially sensitive. We're obviously in the market at times selling or buying assets, and we wouldn't want our counterparty to know what our price outlook is. We don't think that's in the interest of our shareholders. But again, we lowered our price outlook primarily due to what we think are the likely lower economic activities due to the global pandemic. No one knows what the recovery will look like, but it's clear that there's been an economic contraction and it'll take some time to recover. And our products are so closely linked to economic activity.

In terms of debt, we had a very successful bond issuance that we did right after last quarter. It was better than any of our peers in terms of the pricing. And we'll continue to monitor the market. We're in a very strong position. Our commercial paper balances are at a very comfortable level. But we always look at where the market is and what our liquidity is, and we certainly could go to the bond market and do another issuance if we think it's the right thing to do.

Doug Leggate: Thanks. I might follow up for Jay real quick. Jay, I hate to get a bit nerdy, but your comments about Gorgon, can you just elaborate. Is this a true [inaudible] issue, or what is the remediation that you're anticipating? And I'll leave it there. Thanks.

Jay Johnson: Sorry, are you asking about the repair for the vessels?

Doug Leggate: Yes. I'm just trying to understand the nature of the problem and what remediation -- what options you have for remediation.

Jay Johnson: It's really just grinding out and replacing a weld that had some abnormalities in it and ensuring that we have the structural and pressure containing capacity that we're looking for.

Pierre Breber: Thanks, Doug.

Doug Leggate: Okay. So, no [inaudible] on the replacement.

Pierre Breber: Sorry, you're breaking up again, Doug.

Doug Leggate:	Sorry. No [inaudible] on the replacement required.
Wayne Borduin:	Replacement required, no.
Jay Johnson:	No, we do not need to replace the vessels. We believe the repairs are going to be fully effective.
Doug Leggate:	Okay. Thanks a lot, guys.
Pierre Breber:	Thanks, Doug.
Operator:	We'll go next to Sam Margolin at Wolfe Research. Sam, you may have your line muted. I'm sorry, Sam, we're not hearing you. You may have your line muted.
Jay Johnson:	May be a double mute, the phone and the line.
Wayne Borduin:	Okay, Audra, why don't we go to the next question.
Operator:	Okay. We'll go next to Biraj Borkhataria with Royal Bank of Canada.
Biraj Borkhataria: (RBC)	Hi. Thanks for taking my question. I just had a couple of quick ones. The first one's on TCO. And I think, Jay, you mentioned that you used up some of the contingency on timing. But can you talk about how much contingency there is left on the cost and just get a sense around that? And then I have a follow-up on the impairments. Thank you.
Jay Johnson:	The efficiencies that we saw in our schedule and the gains that we made on schedule were consistent with also gains we were making on cost. But to really tell you where we are, we're going to have to see how we get through this fourth quarter remobilization and sustaining the workforce. So, we'll update cost and schedule probably early next year.
Pierre Breber:	And Biraj, we've said about $1 billion less capital this year. A portion of that is deferral, about half. But a portion is lower currency FX or currency benefits and higher productivity. So, we think some of those cost savings are rolling through. It's not all deferral.
Biraj Borkhataria:	Okay. Understood. And then maybe one for your Pierre. On the impairments, alongside the lower commodity prices, did you also adjust your expectations on interim refining and chems margins?
Pierre Breber:	There are no impairments on downstream-- they're all upstream related. So yes, we have various outlooks for upstream and downstream and chemicals margin, but the impairments were all upstream related. And there was no LNG, no refining, no chemicals [impairments]. And again, Venezuela was the biggest part of it. There were the price-related impacts, and then there were some suspended costs that also were written off.
Wayne Borduin:	Thanks, Biraj.
Biraj Borkhataria:	Okay. Understood. Thanks.
Operator:	Our last question comes from Jason Gabelman at Cowen.
Jason Gabelman: (Cowen)	Yes, thanks for squeezing me in. I want to ask about the downstream business specifically. U.S. downstream was particularly week this quarter. I think even attributing all the timing impacts to the U.S. portion of downstream, it still would have missed I think what people were expecting. Can you just talk about some of the challenges you're experiencing particularly in that part of the business? I'm thinking along the lines of maybe your over indexation to the West Coast was a headwind this quarter and the outlook for that part of the business in the near term. And I have a follow-up.

Pierre Breber: Yes. The first thing I'd say is our execution across upstream and downstream was excellent. We ran safely and reliably across our upstream and downstream portfolio under very difficult conditions, and again, extraordinary kind of market conditions.

Jason, I referred to our U.S. crude utilization in the second quarter was 55%. Now it's operating higher than that now. It's north of 70% and it's heading towards 80% here in the next couple of weeks. So, there were extraordinary contractions. We matched our supply to our demand. We have sales channels through our retailers and marketers. We were going to meet their demand, but we tried to minimize any build in inventories. Obviously, we had to significantly reduce our jet production because the jet reductions were even more significant.

So, the actual execution we thought was outstanding. It's just I don't think the models, frankly, worked under the circumstances that we had in the second quarter. We never planned -- I led that business for 3 years. Nowhere did we ever plan to run at 55% of crude utilization. Nowhere did we plan to make as little jet as we possibly could. So, it's really extraordinary conditions. It was all very well executed. But I think when you take the timing effects, margins which are not entirely transparent across the portfolio, and big volume effects, I think you'll get there.

The West Coast, it just varies. There were times the West Coast was better. There were times the West Coast was worse. I mean, if you look at inventory levels on the West Coast in PAD 5, they're actually below year-ago levels. So, there was nothing structural. It was a fast-moving set of circumstances in the second quarter. Different regions were operating at different time periods. Asia, outside the U.S. obviously held up better in the second quarter. It was more impacted in the first quarter. And that's the kind of nature of operating right now through a global pandemic and the economic impacts of it.

Jason Gabelman: Sure. Thanks. And then the follow-up. The next kind of large project I guess in your queue among TCO are the two petchem crackers that have been proposed within the CP Chem JV. I think those were deferred from being FID'd either late this year or early next year, but the FID was pushed out. Can you just talk about how you're thinking about FIDing those two crackers and your overall thoughts about chemicals demand growth given the pandemic?

Pierre Breber: Yes. The chemicals demand has held up better than our refined products. And demand is flat to maybe even up a little bit. So, there's been some mix effects. Some things are up, some things are down. But overall, petchem demand has held up pretty well. But as you know, even pre-COVID, margins were weak as there's been a lot of supply added. So, I'll just keep going to capital discipline, and that's really the key for the company and for the industry. It's not just the demand side. We've got to look at the supply side.

So, we have very competitive projects. They are on the low end of the cost curve. In other words, they can compete better than almost -- than most others. They have very advantaged feedstocks. We believe they'll have very low construction cost. But you're right; we are pacing and deferring those decisions until we get more clarity. We like the business long term. We'd like to invest in it long term. But we just have to see where the economy goes and really where industry players go in terms of how disciplined everyone will be about capital investments going forward.

Jason Gabelman: Great. Thanks for the time.

Wayne Borduin: Thanks, Jason. I'd like to thank everyone for your time today. We 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 second quarter 2020 earnings conference call. You may now disconnect.