1Q21 Earnings Conference Call
Edited Transcript

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AUTIONARY 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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This presentation is meant to be read in conjunction with the First Quarter 2021 Transcript posted on chevron.com under the headings "Investors," "Events & Presentations."

Chevron

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Operator: Good morning. My name is Katie, and I will be your conference facilitator today. Welcome to Chevron's First Quarter 2021 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 touch-tone telephone.

As a reminder, this conference is being recorded. I will now turn the conference over to the General Manager of Investor Relations of Chevron Corporation, Mr. Roderick Green. Please go ahead.

Roderick Green: Thank you, Katie. Welcome to Chevron's first quarter earnings conference call and webcast. I am Roderick Green, GM of Investor Relations and on the call with me today is Pierre Breber, CFO

We will refer to slides and prepared remarks 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 will turn it over to Pierre.

Pierre Breber: Thanks Roderick. This quarter, we had our best financial performance of the last year as the global economy recovers.

Reported earnings were $1.4 billion and adjusted earnings were $1.7 billion, or $0.90 per share. Included in the current quarter were pension settlement costs and legal reserves totaling $351 million. Pension settlement and curtailment costs will be a special item going forward. For comparability purposes, 2020 adjusted earnings were recast to exclude these costs. Also found in the appendix to this presentation is a reconciliation of non-GAAP measures.

Capex was down over 40% from a year ago and we ended the quarter with a net debt ratio of 22.5%

For the first time since the pandemic, cash flow from operations excluding working capital exceeded our cash capex and dividend spending. Cash balances ended the quarter slightly higher due to timing considerations. We expect cash balances to come back down later in the year.

Free cash flow excluding working capital was $3.4 billion, up significantly from last year and higher than the 2019 quarterly average. With oil prices back up to around 2019 levels and downstream earnings still recovering, higher free cash flow this quarter is driven by the change in cash capex – less than half of the 2019 quarterly average.

Maintaining and growing our dividend remains our top financial priority. Earlier this week, Chevron's board of directors approved a 5 cents per share dividend increase, about 4%, that positions Chevron to extend our streak to 34 consecutive years of higher annual dividend per share payouts. Since 2005, Chevron's dividend per share has grown over 7% per year – beating the S&P 500 and more than 4 times our peer average.

When our first three financial priorities have been met, we also have a track record of repurchasing shares – 13 out of the past 17 years. As we look forward, we expect to begin the repurchase of shares when we're confident that we can sustain a buyback program for multiple years through the oil price cycle. When making this decision, we'll consider the likelihood of future sustained excess cash generation and the strength of the balance sheet.

Adjusted first quarter earnings decreased about $700 million versus the same quarter last year. Upstream earnings increased on higher prices and downstream earnings declined on a swing in timing effects and lower margins and volumes resulting from the pandemic. Both segments had negative impacts from Winter Storm Uri. Other was down primarily due to employee benefit costs.

Compared with last quarter, adjusted Upstream earnings were up more than $1.4 billion due to higher prices. Downstream earnings increased primarily due to margins and timing effects, including the absence of last quarter's year-end inventory valuation adjustment of more than $100 million. Other was down in part due to employee benefit costs.

Upstream production was down 3.5% from a year ago. The increase in production due to the Noble acquisition was more than offset by a number of factors including declines, asset sales, Winter Storm Uri, and OPEC+ curtailments.

Winter Storm Uri impacted both our upstream and downstream businesses with earnings impact of about $300MM after tax in the quarter. All upstream production has been restored, and major downstream and chemical units have restarted.

We also achieved first gas flow from the successful execution of the Alen Gas Monetization Project in Equatorial Guinea. This project allows gas from the Alen field to be processed through existing onshore facilities. Finally, the company announced an agreement to acquire all of the publicly held common units in NBLX. This stock transaction is expected to close in mid-May.

We continued to take action to advance a lower carbon future. Last week, we announced an MOU with Toyota to work together to develop commercially viable, large-scale businesses in hydrogen.

Also, we've continued to invest in emerging low-carbon technologies, including announcing five venture investments this year in geothermal power, offshore wind and green ammonia.

In addition, we're in the early stages of developing a bioenergy project with carbon capture and sequestration in Mendota, California. This plant is expected to convert agricultural waste biomass, such as almond trees, into a gas to generate electricity and sequester emissions of 300,000 tons of CO_2 annually.

Looking ahead. In the second quarter, we expect turnarounds and downtime to reduce production by 90MBOED, primarily in Australia at Gorgon Train 3 where the planned turnaround and repairs of propane vessels are underway. The impact from OPEC curtailments is estimated to be 40 MBOED, primarily in Kazakhstan.

In Kazakhstan, the FGP project recently placed the final module on its foundation. Remobilization of the construction workforce achieved about 95% of the end of first quarter objective. Further workforce additions are expected this quarter.

In summary, it was a good quarter with our strongest financial performance in a year, continued progress toward advancing a lower carbon future and a dividend increase while maintaining an industry leading balance sheet.

During last month's Investor Day, we shared our goal of higher returns, lower carbon. This quarter was another step in that direction. As we look forward to the next few quarters and the world gets better control of this virus, I'm confident that we will continue to deliver stronger financial performance and help advance a lower carbon future.

With that, I will turn it over to Roderick

Roderick Green: Thanks Pierre. That concludes our prepared remarks. We are now ready to take your questions. Please try to limit yourself to one question and one follow up. We will do our best to get all your questions answered. Katie, please open up the lines.

Operator: Thank you. If you have a question at this time, please press star-one on your touch tone telephone. You may ask one question, and one follow-up question. 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 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 touch-tone telephone.

Our first question comes from Jeanine Wai with Barclays.

Jeanine Wai: (Barclays) Hi, good morning, everyone. Thanks for taking our questions.

Pierre Breber: Hi, Jeanine.

Jeanine Wai: Hi. Good morning. Our first question, Pierre, maybe just a housekeeping item on the numbers. Can you provide a little more color on the moving pieces for cash flow this quarter? It came in a little below Street expectations. And I guess if we're doing it right, we apply your cash flow sensitivity per dollar change in Brent and we're still coming up with a higher cash flow number than reported, despite Winter Storm Uri. So, we're just wondering if we're missing any other one-offs other than the pension settlement, since I know there was a lot going on this quarter.

Pierre Breber: Yeah, thanks. Our dividend break even the past couple of quarters with weak downstream margins has been around $50. It was a little higher this quarter. There was nothing operational except Winter Storm Uri. It's really primarily due to some non-operational items like accruals for legal reserves and taxes. Those are non-cash in the quarter, but when we look at cash flow excluding working capital, of course we're taking out that working capital effects. So those kinds of accruals which are charges, result in a lower cash flow ex-working capital.

Point out, though, that our free cash flow in the first quarter 2021 was higher than free cash flow in 2019 even though 2019 had much stronger downstream margins, and similar oil prices. And that's primarily because of the cash CapEx. So, I think you're doing the calculation right. The tricky thing about these cash flow break evens is you don't hold everything else constant. All the other margins and indicators and then some of these timing effects on accruals.

Jeanine Wai: Okay, great. That's really helpful. Thank you. And then maybe my second question on the buyback and free cash flow. So, on our projections, we see pretty strong near-term free cash flow and the trajectory, it really meaningfully steps up in 2024, 2025, with Tengiz and some of your long-cycle GoM projects, [and] starting up in the Permian. I think to us, this suggests that for the buyback it makes a lot of sense to leg into a program kind of similar to what you did in '18 and '19 versus a consistent amount per year, which I think was the last commentary before the pandemic, which I know changed a ton of things. Can you provide any thoughts on how you envision the buyback getting reinstated?

Pierre Breber: We have a track record of buying back shares pretty consistently, 13 of the last 17 years, over $50 billion of buybacks since that time, at an average price in the mid $80s, less than a dollar higher than the ratable price if we had been in for every single day during that whole time period. As I said on the prepared remarks, when we start a program, if and when we start a program, we'll want to sustain it for multiple years because we want to get it through the commodity price cycle. Shareholders feel differently about buybacks. There's a concern that we only buy back when our share price is high. That's a perception, that's not the reality because I just shared with you the actual numbers. But that's a perception that we have to deal with.

So, the common ground we find is, when we start a program, have confidence that we can sustain it for multiple years. And we're going to look to those two factors, the likelihood of future excess cash generation and the strength of the balance sheet to weather a down cycle on oil prices that we know is going to happen. So, we're not yet on a sustained global economic recovery, feel very good about where we are here in the United States and several other countries. But there are a number of countries where we're still working to get control of the virus. And so, we think it's appropriate, so we increased the dividend which is consistent with our financial priorities. We don't need -- we're not going -- to increase the capital this year and we have tight guidance out five years. We have the balance sheet in a very good place.

So yes, in the short term, any excess cash is going to go to the balance sheet. But over time, excess cash will be returned to shareholders in the form of higher dividends like you saw us announce a couple days ago, and in the form of buybacks over time.

Jeanine Wai: Great. Very helpful. Thank you for the time.

Pierre Breber: Thanks, Jeanine.

Operator: We'll take our next question from Doug Leggate with Bank of America.

Doug Leggate: (Bank of America) Thanks. Good morning, Pierre. Good morning, Roderick. And congratulations on your first earnings call. I wonder, Pierre, if I could just hit what might be the 800-pound gorilla in the room, which is the acquisition of Noble. The production seems to have kind of disappeared in the mix, and it's raising some questions at least from people we speak to, about whether Chevron is under-investing to sustain that long-term production capacity. What would your response be to that?

Pierre Breber: We're not under-investing. We showed during our Investor Day that we're very capital-efficient, and on our $14 billion to $16 billion we in fact, we're going to grow production around 3%. We're not. That's not an ambition of us to have production growth. It's an outcome of what's a very capital-efficient program.

Jeanine mentioned, we're investing to increase production at Tengiz. We don't have that production now, and that's $2.5 billion in the budget at Tengiz. So, we have our eye on long-term value through this whole crisis. If you really step back to when this started about a year ago, we did hit short-term capital pretty hard. We kept our eye on long-term value. We didn't see the virtue in investing capital to add short-term production in a world that was going to be over-supplied for some time period, and arguably still is with OPEC+ barrels constrained. And again, we're not back to a full, sustained economic recovery, but we preserved the options on long-term value.

I'm very cognizant that we have a dividend obligation. We're one of the few companies that didn't cut the dividend. We're the only company that's increased the dividend and really a dividend increase that averages 6% per year during a very difficult time. And we show during our investor day that we have the capability to grow free cash flow 10% per year over five years, and that's coming from Tengiz, which we'll see in a couple of years, and growth in the Permian, when the world needs the barrels.

So, we're not going to chase short-term production. We don't see value in that. Our production guidance for this year is unchanged, it's 0% to 3%. You saw our reserve replacement numbers. The Noble acquisition undoubtedly has helped.

Remember, we showed, and Mike showed at the last quarter call, that we've invested actually the same amount that we expected post-COVID as pre-COVID. Pre-COVID, we would have said $20 billion a year for last year and this year, about $40 billion. Organically, we're only going to do about $13 billion or $14 billion each year. But when you add in the $12 billion or $13 billion from Noble, we're exactly where we were pre-COVID. So, we are not under-investing. We have to sustain and grow the enterprise. But we're doing it in a very capital-efficient way.

Doug Leggate: I appreciate the full answer, Pierre. My follow-up is actually related to CapEx, so I guess a quick one. But you are obviously running well below your run rate for the year. Is that just a timing issue? How would you expect the cadence to look for the balance of the year? And I'll leave it there. Thank you.

Pierre Breber: Yeah. Thanks, Doug. It is really timing. I mean, first quarter is normally a little light. Winter Storm Uri, obviously you're not drilling wells when you're shutting in production and dealing with the challenges of that extraordinary winter event. And then there is just timing of some major capital projects that are more back-end loaded. So, no change to our guidance of a $14 billion organic program. You saw a small inorganic acquisition in the first quarter numbers, so that can be different going forward. But from an organic perspective, we're going to stick with the budget.

We're running a little low as you say. We think we'll end up pretty close to the budget by year-end.

Doug Leggate: Great stuff. Thanks, fellas.

Pierre Breber: Thank you.

Roderick Green: Thanks.

Operator: We'll take our next question from Phil Gresh with J.P. Morgan.

Phil Gresh:
(JP Morgan) Hey, Pierre. My first question here is actually a bit of a follow-up on the cash flow in the quarter. There was a $500 million headwind from affiliate cash flows in the quarter, in the cash flow statement. And in the last quarter call, you had given a guidance for the full year of zero to $500 million headwind. There was not an update given in the slides this time. So, I was wondering if it was just front-end loaded, or if there's any change to that? And I recognize the affiliates also can tie into the Tengiz co-lend, so has that guidance changed either? Thank you.

Pierre Breber: Yeah. Thanks, Phil. We didn't change our guidance because it's just early. I think you're right. I think you're inferring that the guidance, particularly for Tengiz, will get better. We gave a co-lending guidance of $1 billion to $2 billion. Right now, we'd be at the low end of the range and frankly, we could be at zero depending on if prices stay where they are right now. So, you should expect us to update that guidance at mid-year when we see a little more time with commodity prices. But clearly, at Tengiz when we have prices over $60, that reduces the need for co-lending and might not require any. And again, you could see a dividend out of Tengiz. That's a decision for the TCO shareholders to make, but we have not had a dividend now for I think two or three years. And so that would also be positive.

In terms of affiliates, I mean, that cash flow line again is the difference between earnings from affiliates and the dividends. The dividends were about flat between fourth quarter and this quarter, so that's not a variance on the cash flow. But you're right, that there's some timing in that. Some of the Winter Storm Uri effects kind of factor into CP Chem. Again, we'll update that guidance when we get to mid-year.

Phil Gresh: Okay. And then the second question is on Tengiz. You're obviously continuing to ramp the head count. I think at this point, most investors are assuming some kind of delay in the startup timing as well as impacts to costs from that potential delay. Kind of hard to overcome a timing delay, but is it possible that you can still, in your mind, be able to do this within budget even with the timing delays? I recognize you haven't given an official update here, but I just want to get your latest thinking. Thank you.

Pierre Breber: Yeah, thanks. So, let me just take us back or start with the investor day. We were at 22,000. We re-mobilized to 25,000, just short of our 26,000 first-quarter objectives. And you saw where we planned to go in the second quarter. And when I cited also a big milestone was getting the last of 86 modules onto the foundation. So, we're still making very good progress. We are managing through a pandemic. We have all the safeguards in place. They're working. We have a very low rate of positive cases right now.

We've also started a vaccination program at Tengiz. It includes both the project and the producing operations staff, so it's not just for the project. Also, for the base operations. We've been allocated about 10,000 doses and administered already 7,000. Future vaccinations, though, will depend on more allocations from the Republic of Kazakhstan. This is not a company program. We're doing it with the government and are allocated by the government in Kazakhstan.

So, to answer your question, at this time there's more pressure on schedule than costs. We have a backlog of work because of the demobilization last year. And having to isolate work teams at times when we do have a positive case. It's possible, but hard, to fully make up the schedule. We also have incurred higher costs as a result of COVID. But we've had some cost efficiencies and some foreign exchange benefits that may be able to offset the higher costs.

So, as we've said in the past, we need to demonstrate that we can remobilize, fully remobilize, stay at full numbers, meet productivity targets, and achieve our milestones while managing through a pandemic. And the spring and summer work campaigns are very important to give us the data that will help us get a reliable update on cost and schedule.

Phil Gresh: Okay, great. Good luck over the summer. Thanks.

Pierre Breber: Thanks, Phil.

Roderick Green: Thanks, Phil.

Operator: We'll take our next question from Devin McDermott with Morgan Stanley.

Devin McDermott: (Morgan Stanley) Hey, good morning. Thanks for taking my question.

Roderick Green: Good morning.

Devin McDermott: My first one is a follow-up on some of the production questions from earlier, and it relates more specifically to the Permian. And I think one of the things that stood out in your recent investor day was the fact that even at a much lower capital spending level, you were still able to achieve a similar level of growth in the Permian over the next few years, deferred slightly versus pre-COVID plans, but still attractive growth there. As you think about the resumption of activity to facilitate that growth here over the next few years, can you talk a little bit about the cadence and timing, or from a market standpoint, what signals in terms of oil prices or otherwise that you'd need to see to begin increasing activity there, to resume that planned production ramp?

Pierre Breber: Yeah. We've been focused on three metrics, three conditions. So again, oil prices are going to move up and down. We're focused on the fundamentals. We look into three indicators. The first is the global economy on a sustained path to recovery. Not quite there yet. Clearly optimistic here in the United States with high vaccination rates and the stimulus package. A few other countries, but again, a number of countries don't have control of the virus, so we need to get on a sustained path of economic recovery. The second is we need to see OPEC+ barrels get back into the market. We're starting to see that. We need to have clarity on what actions are going to take, but there's still a lot of production that is being curtailed. And then the third, and I think the third condition has been largely met. It's inventory back to near normal. And so, the inventory surplus for the most part has been worked off. I'd say one of the three conditions.

Now, that's for us to increase CapEx not this year, our budget is fixed this year, $14 billion, but within the $14 billion to $16 billion five-year guidance that we talked about. So, we're still talking about a modest increase.

In terms of the Permian, everything is going very well there. The first quarter production was clearly impacted by Winter Storm Uri. That's about 60,000 barrels of oil equivalent a day for the quarter. But if you take that out, production I think looks good. Our declines, we shared [2Q20 earnings call], Jay shared that production could decline 6% to 7% if we stayed at low activity levels. It's probably a little bit better than that. It might be closer to 5%. But undoubtedly, we're at the low investment levels that we're doing right now, we'll see some declines. That is okay. That is the correct response to an over-supplied market. In particular, again, when we're keeping our eye on long-term value.

So, what you could see later this year, is we could bring -- right now, operated, we have five rigs, two completion crews, our net non-op is a similar rig count. Certainly, we could bring back a completion crew later this year and that would help us reduce some of our drilled and uncompleted wells. But in terms of getting on the trajectory that we showed at our investor day, there's still time. I mean, that outlook kind of factored in that we would still be in this kind of not-full recovery at this point in time. And then it ramps up over the next year and the year after that.

Can we do it faster? We absolutely can. Can we hold it where we're at here longer if necessary? We can. It's very flexible. It's the appropriate response but the long-term value, and the point, I think, of your question, is there, right. The million barrels a day that we showed in 2025, but more importantly, highly accretive to returns, strong free cash flow, right. Free-cash-flow positive last year, growing free cash flow. So, it's a fantastic position we have. We're advantaged because of the royalty. We intend to invest in there, but we're going to do it at the right time.

Devin McDermott: Got it. That makes a lot of sense. And as we think about decarbonization, energy transition and returns, I think you've got a very thoughtful approach on that and focusing on returns, enhancing investments, decarbonizing your existing portfolio, integrating renewables in the portfolio has been one of the pillars there.

You had some progress here over the past few months in both venture activities, which you highlighted in the slide, the hydrogen MOU. And my question is, you've seen some of your peers in the industry form new business ventures focused specifically on commercializing technology and scaling up new business opportunities to hopefully become growth engines over time, returns enhancing growth engines.

Can you talk a little bit more about Chevron's strategy for transitioning some of the investments and opportunities that you've been able to capture so far into new growth ventures over time including in a monetization strategy or scaling strategy for some of the venture investments that you talked about here in your prepared remarks?

Pierre Breber: Yeah, look. You summarized our strategy pretty well. I'll hit it really quickly. The first is to make the oil and gas that we produce as low carbon as we can. We put out 2028 targets that have a 35% reduction. We think we're top-quartile, we'll stay top-quartile. And we showed a slide that said we'd go beyond that and get the carbon intensity down into the mid-teens in terms of kilograms per barrels of oil equivalent. So that's the first.

That's really done in the segments. That's really where the work gets done.

The second is to increase renewable energy alongside our conventional products, so renewable natural gas sold along with conventional natural gas, renewable diesel sold alongside our conventional diesel. You've seen we're going to co-process at our LA refinery later this year, bio-feed along with conventional-feed, and make renewable products, have renewable diesel, bio-diesel, at more than half of our service stations in the United States.

So good progress there. And then the third is to grow low-carbon businesses. And that's exactly, that's hydrogen carbon capture.

The venture investments are important, and they are really making sure we're staying connected to all the latest technology. But we intend to do exactly what you say, is grow these businesses.

So, let me talk about Project Mendota in California. It's in partnership with Schlumberger and Microsoft. It's going to capture the emissions from agricultural waste. They burn almond trees after a certain number of productive seasons. Normally, those emissions just go to the atmosphere. This project would capture those emissions, convert it into a synthetic gas that can then generate power and use that power to compress the CO2 and inject it in the ground, and then sell excess power into the grid. And that's a project that's in now front-end engineering and design. We're looking at another carbon capture pilot with Svante in Bakersfield.

The venture investments is an enabler to growing hydrogen carbon capture business. That's exactly what we intend to do over time. You know, these are nascent businesses, require lots of partnerships. But we're going to be a player in it.

Devin McDermott: Great. Thanks so much.

Pierre Breber: Thanks, Devin.

Operator: We'll take our next question from Neil Mehta with Goldman Sachs.

Neil Mehta:
(Goldman Sachs) Good morning, and thanks for taking the question. So, the first one is just on Gorgon. Pierre, can you just talk about the state of play there? Sounds like Train 3 is going down and the back half you're going to be running closer to nameplate capacity. But you just talk about maintenance there, and where we stand with the project?

Pierre Breber: Yeah, Neil. It's pretty straight forward. We're doing the scheduled Train 3 turnaround, you know, separately. Or as it turns out at the same time, we're able to do the repairs. We expect that to be completed by the end of this quarter, and then you're right, we'd be operating all three trains in the second half of the year. There was a short time period in the first quarter where we saw all three trains operating between the Train 1 turnaround and the start of the Train 3 work. So, we know what those units can do and we're excited to get back to it here in the third quarter.

Wheatstone will have a planned turnaround late third quarter, early fourth quarter. But again, we expect Gorgon to be running full during the second half of this year.

Neil Mehta: And Pierre, you guys have been really good at M&A, being opportunistic, willing to step away when the bid went away from you and taking in assets like Noble towards the bottom of the cycle. It's a core competency for Chevron. As you look at the landscape, how do you think about M&A and whether there are opportunities out there? And how are you evaluating them?

Pierre Breber: Neil, yeah. We're really happy with the Noble acquisition. Again, if we step back and think of July, it was still an uncertain time and being the first to announce a major transaction, closing it first in October. Having now two quarters where we've been integrated, seeing everything we said, the free cash flow accretion, the returns accretion, earnings accretion. You know, the synergies doubled from $300 million to $600 million, achieved 80% of them, we'll get the rest before the year end. Very happy with the talent from the Noble employees that have come across, DJ base and Eastern Med.

So again, what was a very good deal looks even better now. Now, look. It's a challenge to obviously replicate that. We'll always be looking. We have a very high bar. Noble, you know, got over the bar with the quality assets and the value that we saw. We don't need to do an acquisition, to Doug's earlier question. We are sustaining and growing this enterprise. I'm very cognizant of that. Again, we need to do that to sustain and grow the dividend.

At the same time, you know, there's times inorganic can enhance the company. And so, if we see something that will make that Investor Day story we told even better, then we'll pursue it. You know, I do think industry consolidation will continue. Undoubtedly the valuations have moved from back where we were in July. It's a long game. We're very patient, and again, we don't need to do a transaction.

Neil Mehta: Thanks, Pierre.

Operator: We'll take our next question from Paul Cheng with Scotiabank.

Paul Cheng: (Scotiabank) Hey, guys. Good morning.

Roderick Green: Good morning.

Paul Cheng: Pierre, two questions. First, among your peers, I think you have probably the heavier concentration in California. And with the governor's latest proposal, how that may impact your overall operation or how you may restructure it? Or if you do need to restructure it? So, I wanted to see that, how are you guys thinking about the policy outlook impacting your business in California both in the downstream and the upstream.

The second question, that if we look at some of the smaller [inaudible] E&P in the last 12 months, I think one of the movement[s] is into the variable dividend which is never a thing for the major oil companies such as you guys. You guys always use a share buyback. So just curious internally, have the board and management even considered the variable dividend versus buyback to see which is a better way to return cash to the shareholder?

Pierre Breber: Sure. Thanks, Paul. I'll answer your second question first.

Of course, we pay close attention to what everybody does. We have not been convinced that there's a better cash return story than what we do. Which is a steadily growing dividend, again, with a 4% increase announced. 34th consecutive year of growing dividends, 7% compounded rate for the last 15 years. And a ratable buyback program 13 out of 17 years, very close to the actual ratable price during that whole time.

So, we talk to our shareholders all the time. I think our shareholders support our framework, but of course we'll keep an open mind. But we don't see the value in it. Look, I think those approaches are gaining favor in part because dividends have been cut by other companies and other actions that have not been as consistent, as predictable, and as reliable as what we've done over that track record of 34 years on the dividend and 17 years on the buyback.

If you go to California policy, I'm not sure exactly which one you're referring to. There's an internal combustion, I don't know if it's a ban or a rule-making proposal to reduce that by I think 2035. The governor requested the rule makers to look at rules on hydraulic fracturing. What I can say is that certainly on hydraulic fracturing, it's been done safely in California under comprehensive regulations for a long time. It's been done safely elsewhere in the United States, and safely all around the world. And I think when policies restrict supply, it just moves energy production to jurisdictions that likely have less regulations. And it also moves the jobs and the government revenues and increases the trade deficit. I'll say the jobs in oil and gas are good paying jobs that you can raise a family on.

So, in terms of our operations, if some sort of hydraulic fracturing ban was implemented through the rule making process, it would not be material to Chevron's upstream operations in California. It impacts future drilling at a field that represents less than 10% of our [California] production. Of course, we'll work with Governor Newsom, though, to make those rules as advanced, the environmental objectives, while continuing to support the jobs and the economic benefits of our industry.

In terms of any kind of internal combustion engine, what I'd say is, we support the Paris Agreement. We support a price on carbon. Light passenger vehicles represent less than 10% of global greenhouse gas emissions, so let's make sure we also focus on the other 90%. But if we want to look at, EVs and transportation, put a price on carbon and let the technologies compete in the marketplace.

Pierre Breber: Thanks, Paul. We'll go to the next question.

Operator: We'll go to Ryan Todd with Simmons Energy.

Pierre Breber: Hey, Ryan. Are you there? Katie?

Roderick Green: Katie, can we go to the next caller, please.

Operator: We'll take our next question from Roger Read with Wells Fargo.

Roger Read:
(Wells Fargo)

Hey, good morning.

Pierre Breber: Hi, Roger.

Roger Read: Ryan's loss, my gain. A couple things I'd like to follow up on, more a look back than look forward. Gorgon in the first quarter, we had some fairly significant gas prices. You're typically more contracted than spot-market. I was just wondering how that performed at a time where you probably weren't able to participate much in the spot market. I was just curious how you covered the contracted side, and how you think about that a little going forward.

And then the other question I had hasn't gotten much play recently, but it's part of the curtailments within OPEC+, how the neutral zone restart is going, what the impacts are there for you.

Pierre Breber: Sure. So, on Australia, we've said that with one train down at Gorgon which has been largely the case since mid-year last year, if you think of our Australia system as having five trains and so four out of five trains have been operating. That lines up pretty close with our contract. So, it's not an exact match because some of the Wheatstone contracts and Gorgon contracts are a little bit different. But fundamentally, we're balanced.

So yeah, the real opportunity cost from the Gorgon down time was not participating in the spot market. So, we didn't get the benefit. We were relatively balanced. There were some trading puts and takes, I would say, in the LNG spot market but nothing worth pointing out.

In terms of PZ, that ramp-up continues very well. It's that 60,000 barrels a day, our share. Pre-the shut in was about 80,000 so we expect to get there here during the course of the year, and then of course any OPEC+ curtailments. At this point in time, it's not being curtailed, but that's really subject to the local governments.

Thanks, Roger.

Roger Read: Great. Thank you.

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

Manav Gupta:
(Credit Suisse)

Hey, guys. I just quickly want to focus on two questions on the California project. The first one is, because you are sequestering and storing in California, does that mean that on top of IRS 45Q credits you also get the LCFS credits? Because if you're not storing in California, as I understand, then LCFS is not available.

And the quick follow-up there is, why almond trees? Is it only because the carbon intensity is minus 80? But is it also because it's just you and one more guy chasing that feed stock, so what we are seeing in the soybean oil market, that doesn't replicate? So, if you could tell us why almond tree as a feedstock.

Pierre Breber: Yeah. Well, let me just step back for a moment. Just remember, we're just talking about transportation. That's the fourth largest source of greenhouse gas emissions globally, right. The first is manufacturing, second is power generation, third is agriculture and land use, and then fourth is transportation. So, agriculture and land use is an important source of greenhouse gas emissions. You've seen our work in renewable natural gas, which again, captures the methane from dairy cows. And so, that's a worthwhile area for us to look into.

The agricultural waste is just that that's what happens is it gets burned. And those emissions go to the atmosphere. And so, partnering with Schlumberger and Microsoft, that's a worthwhile project to capture an emission that otherwise would have been burned or emitted to the atmosphere, and converting it and sequestering it essentially, and generating some excess power.

So, it's early days. You're right, it's all policy-enabled including federal policy and California state policy. You know, we're doing the front-end engineering. Lots of work to do. But I think you're getting the right idea, is that we're looking for projects that are higher return, lower carbon. And so, this is a project that we can generate a return with the policy support and reduces carbon.

Roderick Green: Thanks, Manav.

Operator: We'll go next to Ryan Todd with Simmons Energy.

Ryan Todd: (Simmons) Sorry about that. My phone, the call dropped right as you asked me a question. Maybe if I could follow up on one of the earlier questions in terms of the restarting of the buyback. You walked through two of the things that you needed to see which was sustainable excess cash flow generation and a strong balance sheet. You mentioned the near-term cash goes onto the balance sheet. Is that because it's just a place to hold the cash while the sustainability gets to a level of confidence that you're okay with? Or is that because you actually feel like the balance sheet needs to be strengthened a little bit more before you restart the buyback?

Pierre Breber: It's a bit of both. I mean, it's just how the math works, right. If you have excess cash and you don't change your capital program, the dividend we just increased, so that's not going to change. So just by definition, it goes to the balance sheet. But it also, I think you can infer in my comments that again, we're looking to future excess cash generation and the strength of the balance sheet to weather the commodity price cycle. I'm not going to give you a hard target. We're going to use judgment because there's judgment on future excess cash generation.

This is our first quarter, actually, with current excess cash generation. We expect the next couple quarters to be potentially even better because you've got oil prices above 60, refining and chemicals margins much stronger. So, it could be even better. At the same time, we don't have sustained global economic recovery, so it's reasonable for us to be cautious. We want to be confident that when we start the program, we're going to continue it for multiple years, and we can sustain it through an oil price cycle.

I know that folks want a formula or a trigger. I know some of our competitors have those numbers. We're going to use judgment and we're going to consider what we see in front of us in terms of the likelihood of future excess cash generation. We're going to want the balance sheet in a strong enough position that if oil prices cycle down, we can continue the buyback program, relying on the balance sheet. Our balance sheet is very strong right now. But yes, in the short term, excess cash is going to go to the balance sheet. That's kind of by definition but it also serves the dual purpose of lowering our net debt ratio and putting us in a better position for when we start, if and when we start a buyback program.

Ryan Todd: Thanks. And then maybe on a separate topic if we talk a little bit about refining. I know you don't comment on these headlines. You were mentioned recently in a news article connecting to a potential refinery acquisition in the US northwest. You did acquire a refinery in recent years. Can you talk about how you think about your portfolio exposure on the downstream side and in general, appetite for increasing or reducing that exposure in any way? And how you're generally view on the refining outlook over the medium term may play into how you look at managing your portfolio?

Pierre Breber: Yeah. So again, I won't comment specifically on that report. The refinery in the gulf coast is a very small acquisition that we made. It was something that I had foreshadowed. I was leading the business at that point in time. Because we'd only had one refinery in the Gulf Coast region. We were, I think the only company, really, major company with that setup. We were on the Eastern side of the Gulf Coast in Mississippi and so our retail in Texas was supplied by third-party barrels. So, we had talked about that. We didn't have to do that, but when the opportunity came, and that transaction is kind of working as we envisioned.

So, on the west coast, we're in a much different place. We have a two-refinery system. We have a leading brand, you know, really strong infrastructure. We are growing a little bit in Mexico, some of our retail volumes there. I'd just say we're in a strong position on the west coast, and in the gulf coast we were also strong, but we felt we could make us even better by getting something on the eastern side and the Texas side. And we did that.

I wouldn't read too much into it. We did a small Australia retail fuels, which again enabled our value chain out of Asia. So, there's been some very targeted modest acquisitions in the refining business and retail business. But for the most part, you know, we have a focused geographic footprint, very competitive business.

As we look forward, look, it's going to get better. Winter Storm Uri, as difficult as that event was for everybody in the region, one of the outcomes was it tightened inventories for fuels and especially for chemicals. So those margins have recovered a little more quickly than they otherwise would have, and we think the next couple quarters are going to be good. And we're well-positioned in our downstream and chemicals business.

Ryan Todd: Thanks, Pierre. I appreciate all that color.

Pierre Breber: Thanks, Ryan.

Operator: We'll take our next question from Jason Gabelman with Cowen.

Jason Gabelman: (Cowen) Hey, thanks for taking my questions. I guess following up on the downstream, since that's being discussed, can you just comment on specifically your markets, your focus on California, and kind of the Asia-Pacific region? It seems like vaccine deployment and return to normalcy is kind of lagging there. So, when you look across your portfolio do you see kind of different pace of margin improvement and return to normal? And do you expect your refining results to reflect that throughout the year?

And then secondly, on the Toyota MOU, you announced, there was a comment in the press release mentioning that the MOU and the pursuit of hydrogen will leverage existing market positions and assets that Chevron has. Can you maybe elaborate on that comment a bit, what market positions or assets or at least the types of market positions and assets that the MOU will leverage? Thanks.

Pierre Breber: Yeah, Jason. I'll be real quick on the second one, because it's early days as an MOU. It's really to explore this alliance, it's to work together to grow the hydrogen business in passenger vehicles and heavy duty. You'd expect that the focus would be around California, which makes sense. And the reference to assets is like hydrogen fuel dispensing at some of our service stations. So that's the comment. More to come. We're very excited to partner with a great company like Toyota on the fuel cell technology. And you'll hear more over time.

In terms of the regional differences, you're absolutely right. There are regional differences. If I contrast first west coast and gulf coast, gulf coast is a little bit stronger. I mean, Florida looks really pretty much back to normal. West coast, on track with gasoline and diesel, really has come on strong now. The Southern California resurgence earlier this winter has worked its way through. The rates are very low and you're seeing that come back. Domestic travel is strong again in the gulf coast region, seeing it come back in California. It's a little bit weaker, we're seeing on the west coast, is because the big airports in San Francisco and LA are so heavy for international travel. That, clearly, is lagging.

Now, hopefully coming soon after domestic travel, we saw the announcement in Europe, that fully vaccinated Americans could go to Europe this summer, so we'll just see. That's hopefully not too far behind. We saw in China and Australia that domestic travel fully recovered once those countries got their arms around the virus. So, I'm confident domestic travel will come back very quickly here in this country. But again, international travel will lag a little bit and we'll just see.

Asia, you know, Asia is big, it varies. Some countries have much better control of the virus than others. And then you know, the excess, some of the new refining capacity in China becomes irrelevant there. So, you know, the US is strengthened for sure, as I said earlier, with Winter Storm Uri and you're seeing that in petrochemicals too. I do think second quarter, third quarter, are going to look better.

It is a global market, so these markets do stay connected. Asia has also recovered somewhat, and we'll see where the results are over the next few quarters.

Jason Gabelman: Thanks.

Operator: We'll take our next question from Sam Margolin with Wolfe Research.

Sam Margolin:
(Wolfe) Hi, thanks a lot. So, I just have one question and I want to revisit this reinvestment topic, because it seems pretty influential right now.

So, as you know, you field a lot of questions about your organic maintenance capital, and then anything inorganic is supposed to be accretive to some metric, whatever people choose. But I think, is it fair to say that with Noble what we're seeing is a flexible strategy to reserve and production management, if you're generating surplus cash, you're building capacity for inorganic adds to manage sustainability. And we should think about it as kind of a multifaceted approach instead of this siloed point of view, that people seem to be shoehorning you into. Is that fair?

Pierre Breber: I think so, Sam. Yeah. I mean, when we look at just the organic capital and you say, again, we were $13 billion and some change last year, $14 billion, and we had planned to be at $20 billion each year pre-COVID. And you look, you make that comparison. But to not include the inorganic seems to not tell the whole story. And I think you saw that in a lot of the reserve replacements, other numbers, and you saw it in our Investor Day. Our ability to basically get pretty close to the same production guidance five years out this year versus where we were last year is a reflection of greater capital efficiency but also the Noble transaction.

Now, so that, I agree with you. Whether we do that again or not, that's a separate question. Again, we don't have to do that. We can sustain and grow the enterprise. Our sustaining CapEx on the upstream side, excluding exploration, how we've defined it, is about $9 billion. So, we are above that. Of course, we are. We're investing in Tengiz, which we know is going to result in higher production and much stronger, higher cash flow. So again, we showed a free cash flow growing 10% per year.

I do understand all the questions. I think you are hitting it. It's a little bit focusing on half of the story. We've got to look at the whole story. Of course, we're managing the whole company and again keeping an eye on long-term value.

Sam Margolin: Thanks.

Roderick Green: Thanks, Sam.

Operator: We will take our last question from Neal Dingmann with Truist Securities.

Neal Dingmann: (Truist) Morning, all. Two things. One, you haven't talked, and I don't perceive this to be an issue, but because based on your cost, I'm just wondering are you seeing any concern just if you would talk a little bit about OFS potential inflation both domestic and international, and then same sort of thing around any raw material shortages, and maybe include personnel there?

Pierre Breber: Yeah. Short answer is nothing at this point in time, lots of talk about it. But we are not seeing requests for price increases or that.

In terms of inputs, certainly steel prices are up so that would flow through to our wells and the oil tubulars. And we are seeing, this impacts more of the downstream, trucker shortages and so that in terms of personnel, we're seeing that. I think that's in part the Amazon effect and all the delivery, UPS and the rest, pulling a lot of truckers off. So, we think that will work itself out.

Those are pretty minor and targeted. In terms of general oilfield services inflation, not seeing it here in the US or internationally. But you know, we're cognizant oil prices are higher, and we're certainly hearing the talk, just not seeing it on the ground.

Neal Dingmann: Okay. And then just lastly, you talked about the new kind of carbon sequestration project in California. I'm just wondering, as you transact and sort of jump into more of those, is that going to be more sort of return-based, or what is sort of driving, as you see, opportunities in that? Maybe from a broader standpoint if I could ask.

Pierre Breber: Yeah. We're very clear that our message and our goal is higher returns, lower carbon. And that's true in our conventional business. And that's true in M&A and how we walked away from Anadarko and how we did the Noble transaction. And that's true in energy transition.

When you look at hydrogen and carbon capture, yeah, we're viewing those as growth businesses that can do both higher returns and lower carbon. There are other parts of our energy transition strategy, lowering the carbon from our operations which I mentioned earlier, increasing renewable products. All of those also need to generate returns. So, you know, we're very clear what we do in the space has to be good for the environment and good for shareholders. And so far, we're able to accomplish both and we think activity will increase going forward.

Neal Dingmann: Thanks so much for squeezing me in.

Roderick Green: Thanks, Neal.

Operator: That will conclude our question-and-answer session. At this time, I'd like to turn the call back over to Mr. Green for any additional or closing remarks.

Roderick Green: Thanks, Katie. I would like to thank everyone for your time today. We appreciate your interest in Chevron and everyone's participation on the call today. Please stay safe and healthy.

Katie, back to you.

Operator: This concludes Chevron's First Quarter 2021 Earnings Conference Call. You may now disconnect.