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Michael Wirth Interview on “Bloomberg Daybreak: Americas”

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Transcript:

Alix Steel:

You had a mega deal this morning, Chevron agreeing to buy Anadarko for \$33 billion. It's a giant bet on shale and LNG, signaling the future of Big Oil over the coming decade. Mike Wirth, Chevron Chairman and CEO, joins us now. Mike, pleasure. Congratulations on this big deal.

Michael Wirth, Chevron CEO:

Good Morning Alix. Thank you.

Alix Steel:

Walk us through what this means for your Permian development and assets over the next five years.

Michael Wirth, Chevron CEO:

Well, I'd like to start at the company level, and it takes a great company and makes it even better. This is about, the Permian but it is about much more than that. Anadarko has a great set of assets. Chevron has a strong portfolio. You put those together, and it really is a powerhouse. This allows us to win in any price environment, and it'll create real value for our shareholders.

Alix Steel:

And a big part of that is going to be the Permian.

Michael Wirth, Chevron CEO:

A big part of that is the Permian. And we've got a very complementary position with Anadarko in the Permian. In fact, over seventy-five miles of kind of contiguous acreage that runs across the Delaware Basin, which is really the core of the Permian and this will allow us to bring some of the things we've become very good at — factory drilling and the surface infrastructure downstream integration — to a much larger portfolio. And we saw this tremendous royalty advantage. This really brings together two very nice assets, and it makes our Permian position even better.

David Westin:

A big part is the Permian. But that's not all Anadarko brings. You've also got some Deepwater assets, you've got some gas assets. Last time you were with us, you were saying Permian, Permian, Permian. That's where most of your gains are really going to be. Does this shift your company a bit to other places to look for gains and are those longer-term gains?

Michael Wirth, Chevron CEO:

Well, I think the Permian can sometimes take the air out of the room. We were never just about the Permian. We're a global company across many different asset classes. We've got a downstream and chemicals business. So the Permian is what everybody likes to talk about now, but there's much more. And Anadarko is a world class company with terrific assets. They've really high graded their portfolio. We have a highly complementary position in the Gulf of Mexico in the Deepwater. And then they've got a really nice LNG position that they're developing in Mozambique, which will complement investments we've made over the last decade in Australia and help us grow our LNG portfolio. So the industrial logic, the fit between the two companies globally across many different assets classes, is very strong.

Alix Steel:

So you're not going to sell LNG Mozambique, you're going to develop?

Michael Wirth, Chevron CEO:

We like the project that they've done. We like the resource, we like the way they've developed, they've got a world class team of people that are working on this and we're very excited about it. So, we like that project.

Alix Steel:

What are you not going to do that you did in Gorgon in Australia? What did you learn from that when you're now going to develop this LNG asset?

Michael Wirth, Chevron CEO:

Well, it's a very different development approach, and they've done a nice job. Our engineers have looked at their — frankly, they're at the bidding stage. They're ready to let contracts. And the design, the preparation for construction, the preliminary work has all been done very well. And so what we'll do is try to follow through on the great momentum that Anadarko has established and apply some of the things we've learned because our Gorgon project, we could have done better, and we've learned some things from that that we'd like to bring to bear. But the real thing is, let's not get in the way of a nice project and a good strong team that's developing it.

David Westin:

Talk about the corporate finance. Why 75 percent stock? Why not all cash? We took a quick look, I think that, that 25 percent is only about six months of your free cash flow, it's not a lot of your cash. So does that say something about what you think about the value of your stock?

Michael Wirth, Chevron CEO:

Well, we think our stock is a good currency, we think it's got upside, and we think Anadarko shareholders want to continue to be exposed to the oil and gas business. And so, you know, you look at a number of things as you put a deal like this together, and a blended offer is what made sense for both companies.

Alix Steel:

Your stock is down about 3.5 percent, presumably because you have to issue some shares. Any push back from shareholders? What are you hearing?

Michael Wirth, Chevron CEO:

You know, we haven't had a chance to meet with our shareholders yet. I'll be doing that later on today. And, I think, when you, typically when you announce one of these deals, the acquirer tends to see a little bit of a sag, the company being picked up tends to move up a little bit, so it sounds like we're within normal trading patterns here, and we'll talk to shareholders today and spend more time going through the logic of this deal.

Alix Steel:

So I'm also curious as to how this affects your CapEx spend. So if you had a goal already in terms of the Permian of 900,000 barrels of oil a day by 2023, if you add now Andadarko into it and developing it, what does that number become and what does that do to your CapEx?

Michael Wirth, Chevron CEO:

Well, the production is an outcome of our activity. The production level clearly will go up as a result of this transaction. Capital spend will continue to be very disciplined. Chevron had laid out a very flat and ratable and disciplined view over the next five years of \$19 to \$22 billion in capital spend. Anadarko's forward guidance hadn't gone that far, but they've also been very disciplined in how they've approached their spending. So as we bring these two systems together, both companies have solid sets of projects. They've got a disciplined approach to capital. We think we can take a billion dollars of spending out of the combined budgets and create synergy there, along with cost synergies, to drive the value for shareholders.

Alix Steel:

Do you have a target yet for that 2023? Is it like 1.5 million, is it over a million when you add Anadarko?

Michael Wirth, Chevron CEO:

No, we haven't. We haven't publicly released any numbers like that, and we'll need to do some work to be sure we understand what the development program will look like. But clearly, our Permian will be even better, and we would expect those kinds of numbers to reflect that.

David Westin:

How sensitive is this deal to the price of oil? I saw a number that is \$60 a barrel that you did very, very well. What if it's below \$60, how sensitive is it?

Michael Wirth, Chevron CEO:

Yeah, so we just announced last month at our analyst meeting a whole series of forward projections using a \$60 price as a basis for those projections. So we looked at this deal through the same lens and announced that it is accretive to both earnings and free cash flow. So cash flow after capital spending at \$60, a year in. And so, it's robust. Both companies have low or break-even prices, lower than \$60 for their cash break-even. You bring two strong portfolios together with good strong break evens, low costs of development, you take capital out of that, you take some cost out of that and I think you will maintain the ability to ride out the low cycle very well.

Alix Steel:

And another part of this whole thing is what you're going to sell, right? So, you have \$20 to \$22 billion in asset sales? Do you have an idea of what you're going to have to sell?

Michael Wirth, Chevron CEO:

\$15 to \$20 billion is what we announced and, at this point, we probably have some ideas, but we need to really study the two portfolios as we bring it together. We tend not to talk about what assets we'll sell until we've actually had them in the market and we've got some transactions, and so, there's some commercial sensitivities there. So we'll be talking about that more over time.

Alix Steel:

Aside from that, does this give you an opportunity to get out of Venezuela?

Michael Wirth, Chevron CEO:

We're not getting out of Venezuela. We've been in Venezuela for nearly 100 years. It's a difficult place to work today and really sad for the Venezuelan people, and I recently met with some of our Venezuelan employees to talk to them. But we've been committed to our partners, to the communities that we operate in down there, our employees, and we want to be in Venezuela in the long run.

David Westin:

Most major deals made, most major acquisitions, if they go sideways, is because of culture — putting the two cultures together. Talk about the two cultures of these companies, to what extent are you confident that they can fit together well?

Michael Wirth, Chevron CEO:

You know, we're partners on a number of projects already, so the companies know each other, we work together, we've developed projects in the Deepwater Gulf of Mexico together. I think their cultures are very complementary. Both have a high standard for, for ethics and integrity, put a real premium on safety and in collaboration and teamwork. And we've met with some of the people I mentioned on the Mozambique project. They've got a world-class team developing that project, and we've known some of the people that are doing that work for more than a decade. And so, we've got good confidence that the cultures of these companies are a great fit along with the assets, which is why we think this is such a, such a terrific deal.

Alix Steel:

The rumor was that someone was going to buy Endeavour. So, in some ways, this was more of a surprise and Anadarko got bought out before Endeavour. How competitive was this process?

Michael Wirth, Chevron CEO:

Yeah, you know, we don't really talk about the details of the process. We look at companies around the world and every year, we screen thousands of companies, and we narrow that down to ones that we like, because we think there's a nice fit. But then you also have to wait until you see the right set of circumstances within your company, within another company and you think it's the right time to try to put the two of them together to create shareholder value, and that's really what the story is here.

Alix Steel:

So, then, why now? Was it sort of the end of the cycle, is this the bottom of something? Like, what was the thought process?

Michael Wirth, Chevron CEO:

Well, I think, we're in a position where we've got really strong financial performance, we're growing cash flow, we've got a balance sheet that has got the lowest net debt in our industry. And Anadarko is in a position where they've got this great LNG project, they've got a terrific Permian position and they're looking to create value in those assets and so you put the two together and I think you put the great people of the two companies together, and we can do more together than either of us could have done individually.

David Westin:

What about regulatory approvals? Obviously, this is big enough to make it through Hart-Scott-Radino and things like that. I know that, typically, upstream there hasn't been as much concern about concentration. At some point, do you tip over that?

Michael Wirth, Chevron CEO:

That's a question, I think, for the regulators. We feel confident that this is a deal that will get regulatory approval — doesn't have the downstream issues that typically do call for more scrutiny and so, we'll go through the process and work with the regulators to be sure they understand the transaction, but we don't anticipate any issues there.

Alix Steel:

Mike, give me sort of your looking glass for the next 10 years. The conversation, at least at CERA Week and in the community, is that big oil's going to transition to be a new energy company and the question being, how does big oil do that? Where do you see Chevron then with this acquisition in the next 10 years?

Michael Wirth, Chevron CEO:

You know if you look at, Alix, even 20 years, most forecasts would suggest, even forecasts that show aggressive greenhouse gas reductions, show the world using more oil and gas 20 years out than they do today. And so, you want companies that are good at this, that are environmentally responsible in the oil and gas business, developing more gas for, particularly for power generation, and we're investing in other energies as well. So in the last few months, we've invested in a battery energy storage company, electric vehicle charging, direct air CO2 capture — these are technologies that are not as commercially viable, they're not as scaled yet, but we're making investments in these to learn about them, to try to help them grow too so we invest across a broad range of energies. But the reality is, the energy the world uses today and needs to keep the lights on and keep the trains running is something that we're good at, and we do responsibly, and we intend to be one of the best in the world at it 10 years from now, and well after that.

Alix Steel:

Are you done with M&A?

Michael Wirth, Chevron CEO:

Well, you know you never say you're done and never is a long time. But this is, this is an important deal for us. We're going to be focused on integrating this, delivering the synergies, and that's our focus for now.

Alix Steel:

Mike, really appreciate it. It was a real pleasure to catch up with you. Thank you for stopping by our studios. Mike Wirth, Chevron Chairman and CEO.

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