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Chevron

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Bob Brackett: Welcome to the ongoing 37th Annual Strategic Decisions Conference hosted by Bernstein. I am Bob Brackett, Bernstein's E&P analyst. I'll be hosting Chevron, and today we have the CEO of Chevron, Mike Wirth, with us.

The way the session will run is as follows: Mike has a few slides he's going to walk through, then we're going to adjourn to a virtual fireside chat. Ultimately, this is your conversation, and the way that you can contribute to that conversation is via the Q&A button on the right side of your screen, which takes you to Pigeonhole. We have a handful of questions in there already. You can either add questions, you can vote up the questions that are in there, and that will determine where our conversation goes.

However, in terms of structuring that conversation, we'll follow a bit of a pyramid principle. We'll start, we'll get a view from Mike on things like the macro-outlook, the down cycle we've just been through, we'll transition to talking about lowering carbon and then return to the traditional integrated portfolio.

With that, keep in mind, we have about 45 minutes. And with that, I'll turn it over to Mike for some slides and some introductory comments.

Mike Wirth: All right, well, Hey, thank you Bob. It's a real pleasure to join you here today. And I'm looking forward to the opportunity to do these things in person again.

I'll start out with just some real quick comments here. First of all, before we begin, I'm going to share three or four slides here and some of them will contain estimates, projections, and other forward-looking statements. So, in light of the risks, uncertainties, and other factors that those entail, please take a moment to review the Safe Harbor Statement that is on the screen.

And, let me move on to the next slide here, which is really a simple way that we try to level set with people on beliefs, and we have a set of core beliefs.

First, that enabling human progress is underpinned by affordable, reliable, and ever cleaner energy. That we need to do that all while protecting the environment. We believe everyone is entitled to a clean environment, that we all will play a part in addressing the risk of climate change. We clearly believe that the future of energy is lower carbon, and we intend to be a part of that future by making our operation less carbon intensive. Not relying on just a shuffling of assets around our portfolio to shift production to less efficient operators, when that really doesn't do anything to help the environment.

We support a price on carbon and are working toward a net zero future. Which is really made possible through the third message here, which is innovation and technology. We believe, and we've lived with the experience, of people working together to meet society's ever-changing needs. In this instance, no one company, no one industry, no one country will develop a solution to this dual challenge of meeting a growing demand for energy in a growing and developing world, and also addressing the risks of climate change.

And you can expect Chevron to play a leading role in helping to solve these challenges. So, these are beliefs that are really core to our success, which leads to the next slide, where it's a quick overview of our value proposition.

You know, three words that I use to try to describe our DNA is: consistent, prepared, and adaptive. The three characteristics that have helped Chevron succeed in the past and will be a key to our success in the future. Consistent values, because the world changes, but our foundation doesn't. Investors know what to expect from us. Staying prepared because we're in a cyclical business. We've navigated this recent cycle better than most in our industry. And adaptive, because we live in a dynamic world and we need to adapt along with that world.

Moving to the next slide, which I think is our last one. Our objective is very simple. It's to deliver higher returns and lower carbon. We expect to improve returns by more than doubling our return on capital employed, by 2025, at flat nominal oil prices, so no help from commodity markets. All while focusing on lowering our carbon intensity for investing over $3 billion in three specific action areas: lowering our own carbon intensity cost efficiently, increasing renewables and offsets in support of our business, and investing in low carbon technologies.

All of this is made possible through downside resilience, that is enabled by our industry leading balance sheet. And then upside leverage, which provides a strong excess cash flow in the capacity to return cash to shareholders if we are in a commodity market, that is one that looks like we're in today. So, we think we're in a different place than others in our industry. A company that's been consistent, prepared, and adaptive. And one that is clearly focused on those two simple phrases: higher returns and lower carbon.

So, with that, Bob, turn it back over to you for the fireside chat, but I thought they'd be a good way to frame up some things for people that might not be familiar with our company.

Bob Brackett: No. Fantastic. And there's a couple things you mentioned that I'll jazz off of later on.

We'll start with a couple of macro questions. One is, earlier today, Olivier Le Peuch, CEO of Schlumberger, mentioned the potential supercycle. Do you agree with him? Where do you think we are in the overall oil and gas cycle?

Mike Wirth: Yeah, I didn't hear Olivier’s comments, so I don't know the context. But, you do hear people talking about a commodity supercycle that perhaps they see early signs of.

There is enough unevenness in a state of things around the global economy, that a kind of synchronous demand pull, that could create a commodity supercycle. Still, doesn't appear to be underway, I would say. And so, while certainly some signs of inflationary pressure in certain commodities and supply chains that are constrained, I wouldn't, I don't think that's the current outlook for a supercycle.

I would say we're seeing good signs of recovery in markets. Demand is coming back, economies are recovering, particularly where the virus is now coming under control through vaccines. Other places, which are still struggling with it are further behind in that trajectory, but broadly it feels like the world is pulling through this.

Crude inventories are coming down, demand for products is going up. The Memorial Day weekend was a huge travel weekend with airports full again now. Overall, aviation is still the weakest part of our business, and it's really international travel, which has not returned in any significant way.

The two biggest domestic markets on the planet, China and the U.S., are back to levels pretty much that they were prior to the pandemic. Gasoline and diesel are at, or even a little above, where they were before. Overall, I would say the signs point towards markets returning toward balance, and I think that's good for the economy broadly.

Bob Brackett: It's funny, in a sense, there's a parallel between how the developed world has had access to vaccinations, and therefore a faster recovery versus the developing world that almost mirrors the arguments we have around the importance of energy. And, that the developed world has said, okay that's good, we've used our energy, now let's try to reduce it. Where the developing world says, well, wait a minute, there's a lot of things we would like to do with cheap, affordable energy.

Mike Wirth: Right.

Bob Brackett: You alluded to it, and we've had questions on it as well. Is inflation good, bad, or a pass through for a Chevron investor?

Mike Wirth: You know, the degree in exactly how it manifests itself could shade this a little bit, but inflation really over the course of our company's history is not a new phenomenon. Generally speaking, our revenues benefit from an inflationary cycle as commodity prices reflect that.

You know, we're not seeing signs of real broad-based cost pressure in our business. Requests for price changes remain very low. There are some specific areas that we're seeing some signs, you know steel that's used in tubulars in our business has been strong. Hiring truck drivers are very difficult right now. So, there can be isolated areas that we're seeing a little bit of pressure, but it's a mixed story.

I think inflation generally signals there's economic growth and demand underway, but it also presents challenges on the cost side, which always matter. I think we're prepared to deal with it. You hear lots of different opinions about how strong and how long this period of inflation will be once we get past the kind of year-on-year comparisons with the worst of the pandemic. We will remain watchful, but I don't think it's a big deal either way, for our investors.

Bob Brackett: And, in talking about the comparables, we're laughing a time of negative oil, a time of unprecedented demand destruction. In the down cycle, can you talk about some of the major decisions you've made? And which ones were impacted or accelerated by the pandemic? What did you respond to that you're proud of? What were other things that were long wavelength and that were going to happen anyway?

Mike Wirth: Yeah. So, I already mentioned these three words of consistent, prepared and adaptive. We really were prepared. We had a pandemic response plan on the shelf. By the end of February last year, we actually had about 50 pandemic response teams activated around the world, and we prepared this after SARS and MERS and Zika. We drilled and practiced for it. So, we actually were able to work quickly on keeping people as safe and healthy as we could.

There were some, I think you said longer wavelength things was the term you used. We had already identified the need to become even more efficient in our operations. We had cost reduction and restructuring efforts that were initiated pre-COVID. We saw those through, even as we went through the pandemic. It was hard, given what people were experiencing, but it needed to be done, whether or not we went through what we went through last year. There were some things I think if you look at, things that were accelerated. I think in our industry, and I know for the investors that are tuned in today, this is a sector that has not been in favor. And frankly, portfolio managers that have been light on energy, I think you have done better over this past few years for being there. This is an industry that needs capital discipline, it needs to not chase value out of deals. And, it's got to focus on returns on invested capital, and returns to shareholders. We've been focused on that for quite some time. I think the pandemic has accelerated the sector recognition of that. And we've tried to lead, we did an acquisition last year that was driven by the pandemic, or the opportunity was created. As we saw a company that was at a relatively low valuation historically in an environment where a low premium deal was a feasible opportunity, so we acquired a company called Noble Energy.

We're very happy with that deal. It's one where we've doubled the synergies that we first saw. We closed it quickly, quality assets, a fair price. And, so I think, we did have some things that we were committed to, some things that were accelerated, and then that's a real opportunity that we captured. And I think we'll be pleased, time will tell ultimately, on M&A how it plays out. But right now, we feel like it's been de-risked and it looks pretty good.

Bob Brackett: We have a follow-up question from an investor on that topic. Which is at $70 Brent, are there still transformational M&A opportunities out there for Chevron or more bolt-ons? If so, what geographies are the most attractive?

Mike Wirth: Yeah. You know, I do think, there were some companies under real distress last year during the depths of things.

And at higher prices, certainly energy has performed well relative to other sectors. So, valuations are not nearly what they were a year ago and I think that does diminish the likelihood we would do anything. But look, we've got a very disciplined process. We've got well over a thousand companies that we continually monitor. We've got a series of strategic filters and screens we run those through. And we want to strengthen our overall portfolio if we were to do a deal. And a pure-play Permian play, we've already got a really large Permian position and we're working to make it better by doing kind of small, off the radar transactions all the time to core up our position there.

But we would be more drawn towards the diversified asset base, Noble Energy had a strong position in the Middle East, strong position in Colorado. And there are companies out there that might have assets that fit nicely with our operating capabilities, our footprint. We're going to look for value, we're going to look to not overpay. And we would look for something that strengthens our portfolio and frankly, competes for capital, so we stay very disciplined on capital. And if we bring something in that we're not going to fund because it will compete for capital our portfolio, then we shouldn't bring it in.

Bob Brackett: And you mentioned, of course, Noble Energy being a low or no premium deal, which was true at the time, however, that was after extremely high beta moved down to a company and independent Noble relative to a more modest fall for a large integrated. So arguably this time around those little independents have a nice headwind and might be tougher to do a sort of a no premium deal.

And I can't help but go back to the concept that you had a SARS... Or a SARS based, but a COVID-19 response plan on the shelf. So, in February, so you could have gone long toilet paper before the rest of us had even contemplated that. What other long... I'm curious, what else is on that shelf? What other long-term contingencies have you all planned for?

Mike Wirth: Oh, we've got a variety of things. I mean, you look at the risks that we face in our business and you don't want to find yourself where risk manifests itself and you're flat-footed. You want to have thought it through ahead of time. So, I'll give you one example and it's a very timely one given recent events: cyber security. We do multiple drills a year in various parts of the world in our portfolio of a cyber security incidents. And we use it to test our ability to detect, to respond, to mitigate, and then to make decisions around it.

And so, that's one example, there are other types of incidents you could imagine. Security incidents, operating incidents, expropriation types of things that we have to think through ahead of time. And so, we have a very comprehensive approach to planning for a crisis and drilling for those so that we've got at least a framework and you can't... Everything has its own specific set of circumstances. But understanding the decision-making hierarchy, the resources that would be engaged, some of the critical issues that you would deal with really helps in the first hours. When sometimes decisions must be made pretty quickly, that you're not missing something big because you've thought through it when you've got the luxury of a little bit of time to do the drill and then do a look back and sharpen up your plans.

Bob Brackett: And there's a nice transition there to sustainability for our industry, which is the energy transition. That's ultimately planning for almost an existential threat over a multi-multi multi-decade horizon. So how do you at Chevron define the energy transition? How do you plan for it?

Mike Wirth: So one thing I try to remind people is the energy system's actually always been in transition. And if you go back to before oil, going back to middle 1800s, it was biomass. And actually, when oil came into the system, it was primarily used as a source of lighting for lamp oil, and it displaced whale oil, which was used at the time for lighting, and kerosene was a higher quality, less smoky and more affordable way to illuminate with lamps. And it also took the ecological pressure off of whales, which being hunted into near extinction at the time. And you can roll forward through a whole series of things in our industry. So as the energy system has grown, the world economy has grown. Nuclear has come in and natural gas has come in and hydro, and now wind and solar, and we're talking about hydrogen and other things.

The energy systems always been in transition and it's been growing. In the current context, we support the Paris agreement. We absolutely believe and intend for the future of energy to be lower carbon. We're pursuing a variety of renewable fuels, hydrogen, carbon capture, and storage. We take a bit of a different approach than some, and that we focus on areas where we think our core strengths will allow us to contribute in ways that are perhaps unique and not as broadly applicable. So, things like wind and solar, we really haven't gone into merchant wind and solar. Some other companies in our industry have, it's a pretty crowded space. There's no shortage of capital that's available. The returns are known and they're kind of single digit returns. And frankly, we think our investors can identify and diversify into that if they want that exposure, and they can do that more effectively than if we were to insert ourselves in and try to do that for them.

We're working on lowering our own carbon intensity of our operations, increasing renewables and offsets. So, this is things like renewable natural gas, renewable diesel, sustainable aviation fuel, and helping our customers to decarbonize their business, which, they're all working on.

And then the third is investing in low carbon technologies. We've long had a Venture Capital arm in the company. This is investing now in everything from carbon capture and storage to novel geothermal, nuclear, some hydrogen things. And so these are technologies and entrepreneurs who have an idea that we find interesting enough that we want to put some support behind it. And hope that it will scale, costs will come down, and economics will improve. And technologies where we think we would have unique technical operating, project management and financial skills that would help us scale these things up in a way that takes advantage of some of our unique capabilities as opposed to trying to move into an area where we don't have demonstrated strengths, such as solar and wind.

Bob Brackett: One of my truisms has always been "Strategy isn't what you say yes to, strategy is what you say no to." And so, I hear you on wind and solar. Are there other aspects of the energy transition you'll say no to?

Mike Wirth: Wind and solar are the ones that have got a lot of momentum right now. We have had people bring us opportunities, quite often. And we just haven't seen that we're going to create value for our shareholders in doing that. I'm reluctant to rule out other things that are early, because wind and solar are pretty well established. There's a lot of enthusiasm around hydrogen, but there's a lot of challenges with hydrogen. Most forward scenarios show a big role for carbon capture and storage, but there are technical and policy actions that have to occur. Modular nuclear, we've invested in this company that has fusion technology, which has long been the holy grail. We're not ruling out some of these things because they're so early that we want to be exposed to ideas that may be coming into their prime that historically have never gotten much traction. So, it's in these more mature areas where we just see, we don't add value, that we've really decided to rule some things out.

Bob Brackett: It's funny, the two things that have all been doing oil and gas for a quarter century. Fusion's always 11 years out. And then Alaska gas pipelines are always 11 years out. And that's just slid for most of a quarter century.

Mike Wirth: I used to know somebody who would say about oil shale, not the kind that we're producing now, it's 20 years away. And it always will be.

Bob Brackett: Yeah, I almost moved to Rifle, Colorado in the heyday of the oil shale, but that's a different story. If we come back to the topic of carbon, two questions that are somewhat related. The first is how do you avoid clashing with activists in the way it seems like Exxon has in spite of your commonsense approach to carbon, and then a similar one, is can you address the shareholder vote last week on emissions and any read across from news flow on Shell and ExxonMobil?

Mike Wirth: Yeah. So how do you avoid activist clashes? Look, we try to engage with shareholders on a year-round basis and it's not just a proxy season thing where you've got something on the ballot, doing conferences like this, doing non-deal road shows, I spend a lot of my time listening to our investors who have lots of different ideas. And, we sit down to try to explain how we think about things, where the company is positioned, what our priorities are, but then also ask for feedback, and to hear what other people think. And so, what I find, even as I deal with what you would argue, so you might call some of the more activist investors we have, not in the activism sense, but kind of environmentally progressive pushing, we have a lot more common ground than we do have differences.

And I remind our people just because we don't agree on everything doesn't mean we can't agree on anything. And so, we seek common ground. We seek to understand and sometimes these are a matter of framing, in time, in technology progress. And we often find through the dialogue that we share a lot more and a desire to work together. I said earlier that these can't be solved by any one company or any one industry. We need to partner with conventional and unconventional partners to try to find a way to advance solutions here. And so, engagement for us is the key. It doesn't mean that everybody always walks away feeling like, "Hey, we were a hundred percent aligned, but we understand one another." We've got to be willing to be honest about where we see things differently and why, and commit to continuing that discussion because we all learn and can move forward better when we understand that.

In terms of reaction to last week, the kind of concatenation of things on one day, you had a court decision in the Netherlands, we had a shareholder proposal, Exxon had their vote. It says, people care about this issue and we get it. And I wasn't surprised because I know people care about it, and I know our investors care about it because I hear it from them every day.

On the ballot, or the proposal on our ballot that got a lot of support on Scope 3 emissions targets, we're in the process now of considering what will we do? We'll have some dialogue with the board about this. The point that I think is really important to understand a lot of people that are not close to this issue of Scope 1, 2, and 3, it almost starts to sound like just a bunch of technical talk. But Scope 3 emissions are from the use of our products. It's what our customers emit as they use our products. And it's really driven by demand.

And so, a company in our industry, and some other companies have already said, "We're going to reduce our production of oil and gas into the future." And so, their company will see their Scope 3 emissions come down as they do that. It doesn't mean the world's Scope 3 emissions change at all. In fact, if that demand is now met by a producer, who's less responsible, who's less committed to reducing the carbon intensity of the current energy system, it actually... You could see more emissions rather than less.

There's a difference between making a company's emissions footprint lighter and kind of greening the company and really helping the whole earth achieve some of these reductions in this progress. We're in the top quartile in terms of having the lowest carbon intensity for our oil and gas production. We're one of the best in the world. Well below the industry average. Way, way, way better than the third and fourth quartile producers. And so, the question really becomes, as the world will use more energy in the future, and we'll use more oil and gas in the future, which virtually every credible forecast would suggest. As you said, there are still decades and decades of this demand that will need to be met. If you take the most efficient and the lowest carbon intensity production out of the system, should more of demand or less be met by the people with the lowest carbon intensity? And my argument would be, you should want the best producers to be meeting the most demand that they can, so it's not the dirtiest producer, but it's actually the one who's on the best trajectory.

That was really the basis for our not supporting the proposals. We think it actually doesn't help the planet, necessarily. But we've got... Look, enough of our shareholders said their wanting to see something happen here, that we've got to really sit down and look at all the different alternatives. Lots of people have made some declarations in this space. And we'll be evaluating how we think we can best respond. We try to have what we call an honest conversation about this. And it's not denying anything. It's just trying to ask these questions as the ones I just posed. So that we're really genuine about being part of the solution, and people understand where the trade-offs are, where the costs are.

Bob Brackett: It's demonstrable. Even today, there's news flow around a European major disposing of assets to a local producer in Southeast Asia. And suddenly the question is, "Well, who's going to shine a bright light on those business's emission standards?" And it's almost, we're seeing this long-term pattern in the US of decriminalization of marijuana, right? Arguably you want to take something and move it, shine a bright light on it, regulate it and have the best most efficient folks operate it or the equivalent.

We've always found, certainly from our side, having those conversations, you want the best operator. If you can't change Scope 3, if I combust a molecule of methane, I know how much CO_2 I'm going... I can't control that unless I capture that molecule. The only thing I can control are sort of the Scope 1 and 2. So that resonates with me.

One of the ways you talk about reducing your carbon intensity, is this 35% reduction in carbon intensity. And your mechanism, which is a great one, is a cost curve, a marginal abatement cost curve. Where you can look and say, there's sort of three types of projects there. Things I can do that are win-wins. I can reduce CO_2 and generate a positive NPV.

There are things that are kind of a push, right? I'll do them, maybe it costs me a little bit, but certainly less than the cost of carbon. And then there are just things, and I'm thinking almost direct air capture, way out on the cost curve that you look at and say, the world's going to have to pay a massive price for.

The 3 billion, or 2 billion you talk about investing, how do you deploy that across that cost curve?

Mike Wirth: Well, so the concept you described is exactly what we do, which is for every asset and every operation in our portfolio, we've done the technical work to understand what are the carbon and the greenhouse gas emissions, and then what are the technologies that exist, or that we hope exist that would reduce those emissions? What are the costs? And some of these things actually bring with them benefits, right? It's energy efficiency. It may change your maintenance profile. Some of the renewable power things can help us be more cost efficient.

And so, the first things that we're funding are those that actually have a payout. They have a business case that says, "This is a good thing to do just in terms of running your business more efficiently." And there's a fair amount of that, that historically had been identified, but it had to compete with other capital investments that would bring other justification with them. And until we started to centrally allocate capital for greenhouse gas reduction, business units in a more decentralized model we use, tended to choose the other projects and keep these kinds of on the list for the future. But they kind of always were on the list and they were never coming forward.

We've centralized that capital allocation. Said, "We will spend this money on these kinds of things." And so, we can get after those of the order that makes good sense for our shareholders, good benefit for the climate.

There's another tranche of things that are a little further out now, so this would be outside of that $3 billion, where we know what it will take, but the economics on these are negative. And so, without either technology development or policy change that creates a price signal, these would destroy shareholder value, not be neutral or accretive. And so those are in the queue here. But what we're really doing is looking for technology and/or policy to help shift the economic equation on those.

And then there's kind of the stub that's really hard to do that because the technologies may not exist yet today. And so that's where you ultimately think, well, we're going to have offsets. Or you're going to have carbon capture and storage, because you really don't have a technology that will work on these things.

We've lined it all out. We've described what we believe is the pathway to getting to net zero on our Scope 1 and Scope 2 emissions, and recognizing that as you get deeper into that, the costs go up and the technical challenges get harder. It's not a reason to turn away from it. Both of those things I fully expect will improve over time, but you want to start on the things that can actually make an impact on today.

Bob Brackett: And where does policy fit into that? My history is that if you give an engineer a clear target and a price signal, they will go find clever things to do. Are tax credits a good enough price signal? Is a global carbon price the right signal? What's best to deploy capital with certainty?

Mike Wirth: Yeah. We're in favor of a price on carbon. And things like tax credits and some of these other schemes, you start to get into decisions about which technologies should be favored, which one do we want to see when. And the reality is markets are the best place to sort these things out. And so, if you create the incentive with a market signal, smart people, as you said, will find ways to try to go after the incentives that exist. And it's hard to predict sometimes the path for this innovation.

I'm a believer in technology, innovation, and markets as the levers to solve these things. And so that's why we really do believe a price on carbon is the best. Right now, there actually is a price on carbon. It's just not very transparent. But there's a lot of things that are going on out of the kind of clear transparency of the average consumer out there, that are gradually embedding prices on carbon and the grids that we buy. We think being explicit about that would be a much better way to achieve more progress faster, and a lower cost to society.

Bob Brackett: And certainly if I think... I spent years trying to forecast Henry Hub gas price, it's not at all transparent. It's volatile, but it responds to free market. It's understandable in hindsight, the response of the market. I guess that's the challenge with a carbon price. If the policy levers get pulled after the market is in place, then you've got sort of this perpetual uncertainty.

If we pivot towards the more traditional portfolio, we've got a number of questions around your outlook and the Permian. Might not be a surprise. So, I'll try to combine. What oil price would you accelerate your Permian production growth profile to enhance cash flow further?

Mike Wirth: Yeah. I mean, that's not really how we think about it. We don't let activity levels tie to a price threshold. We plan at a price. We have planning prices that we use. But then what we want to do is really find the best investment opportunities to get to higher returns, back to those two themes. And we're not going to chase activity in the short cycle just because we see a strong price signal. We're trying to look through... We've got decades worth of Permian inventory that we can develop. We want to develop it in a way that's capital efficient, that will generate the strongest possible return, irrespective of price environments.

And for us, the discipline in the development plan, the capital efficiency, and in doing this in a way that, that yields the strongest long-term outcome is really how we look at the Permian. And short-term prices, absent last year's kind of immediate need to reflect the fact that the world didn't need oil. And we weren't sure where it was all going to even be able to be stored. But that's an extreme circumstance. We're into a recovery now. We're in much more of a traditional model of looking for long-term value and returns, not chasing a price signal.

Bob Brackett: So, it's based on some long-term planning deck, not short-term volatility, except in sort of extreme down cycles. With overall crude production growing zero to 3%, where do US shale assets, including those from Noble, fall in that range?

Mike Wirth: So, our production... Global demand is probably going to grow small, at a lower rate than that. We've said over the next five years, we'll probably have an average, compound average growth rate of about 3%. We don't have volume targets, but we've got financial outcomes we're targeting. But that's what it yields in terms of an outcome.

There's probably two primary contributors to that growth. One is a very large project underway in Kazakhstan to take the Tengiz Field from about [750,000] [gross] barrels of [oil] equivalent production today to about 1 million barrels a day. So that comes on in pretty much one big chunk here in a couple of years. And then you've got activity in the Permian, which has come down, but it hasn't stopped. And over the five years, we'll start to bring some rigs back in, we believe. And so those are the two things that contribute. But [Permian] is a little bit more of that production. So, it's probably the largest single contributor. [TCO] is second. And the third is a lot of other smaller things.

Bob Brackett: Then what is the future of Venezuela, in general, and in Chevron's portfolio? I suppose you can answer the second half of that more clearly.

Mike Wirth: Yeah. I hope the future of Venezuela is one where we see an improvement in the conditions in the country for the people. We've been there for most of the last a hundred years. We have a lot of Venezuelan employees, Venezuelan national employees, who are just wonderful people living in a very, very sad situation right now. The political situation, sometimes, in countries can take a long time to turn. And lots of history on that I won't recount in various countries.

I'd say Venezuela as a country blessed with some incredible natural resources, and the economy has great potential, and we want to be there for the long-term good of the people and the country. We've been able to maintain our presence under the U.S. sanctions that are in place right now. We're a non-operated partner, so we're a minority interest holder. And primarily, what we've been able to do, the government has granted licenses under the sanction that allow us to go to board meetings and conduct certain types of technical support that help achieve safe and environmentally sound operations and try to ensure proper governance of these entities. But it's a very limited set of things that we're engaged in right now. We'd like to be part of helping the country rebuild its energy system one day, when conditions there improve.

Bob Brackett: I think about the remaining resource in Venezuela, or frankly, in Canada, it is an oil sands type project. Can you think about the future of oil sands investment in sort of the context of the energy transition and Scope 1 and Scope 2 emissions? Is there a future for significant growth?

Mike Wirth: Well, I think it's one of the most challenged asset classes there is because it's an energy intensive asset class to develop. And so, absent some real significant progress on carbon capture and storage, on offsets, I think production that requires thermal production techniques becomes really at the margin, right? It's more costly. It's more energy intensive. It's more carbon intensive. And so, we're trying to preserve the option to help rebuild the country. We'll have to see what would be the technical approach, which classes of fields would we prioritize and how would we try to deal with reducing the carbon intensity of that if we got back into a development mode there.

Bob Brackett: We had an investor question on the Canada side of that. Thoughts on your oil sands assets in Canada, still like over the long-term? Or could you change to non-core to invest in your other assets or M&A?

Mike Wirth: Yeah, our one meaningful position up there is a 20% interest in the Athabasca Oil Sands Project. CNRL is the operator. Shell initially was the large partner. Marathon was in there as well. And it's an asset that's within the scale of our overall portfolio, not especially large. It doesn't call for much capital here over the next period of time and generates pretty good cashflow in a market like we're in right now, but I wouldn't deem it a strategic position. I think we've done some portfolio high grading here over the last few years and at the right value. And we don't need to sell anything because our balance sheet is strong, and our cash position is good. So, we're not in a fire sale mentality, but if we've got what we think is fair value for an asset like that, we've been willing to transact on things that are of that scale and relative import in the portfolio.

Bob Brackett: Here's one we'll try. You might say "No comment." The news reported earlier this year, Chevron and ExxonMobil were in talks to merge. Is this something that would still be entertained?

Mike Wirth: Yeah. I'm not going to comment on news reports or speculate on M&A. So, I'll kind of let that one go by.

Bob Brackett: What's the possibility Chevron considers paying a special dividend with excess cash to continue to reward shareholders?

Mike Wirth: You know we talked to shareholders about their preferences on return of capital and broadly people love the dividend. Ours is yielding about 5% right now. I think we increased it by 4% earlier this year. It's the 34th consecutive year where we've increased our dividend per share payout. So, dividend gets a lot of support. Share buybacks, there are different views on share buybacks, and we've used them as our fourth financial priority as a way to return cash to shareholders. 13 of the last 17 years we've repurchased shares, about $50 billion since 2004. But there's one school that says, "Hey, you tend to only do it when things are good, which means oil prices are high, which means the stock price is high.” We don't like that. Actually, if you look back over this period of time and you looked at the average price that we've repurchased shares at, and then the average price across the whole period it's less than a dollar difference.

It's $84 and change and $85 and change. We pretty much have dollar cost averaged our way through that, but we don't want to come in and out of the market for that reason. If we were to repurchase shares, we would want to do it on a program that we could see through normal ups and downs and commodity cycles. And therefore, the equity price would have to reflect that. Special dividends. There are some shareholders that would advocate for them, but more often than not I hear people say, "You know what, stock prices aren't going to get any benefit for it. We'd rather see you use these other levers. Consistent commitment to the dividend, a safe and growing dividend and, and share repurchases." So, I do hear some support for it, but I would say it's the least popular of the three methods of returning cash to shareholders from the feedback I've received.

Bob Brackett: Yeah, I think it's certainly agreed that from the feedback I received, that dividend is desired. The share buybacks, if you're not continuous, are the most frustrating things in the world, because when you want to buy back those shares, you're minding the sinking boat. And when you buy back the shares, you're the buyer of last cycle or top of the cycle. But the specials depend on the purpose. Is it after a big disposition, for example, and you're just returning that asset's value versus is price high and am I just giving you back, again cyclicality.

Will Chevron continue to trade in line with oil price? Can you imagine a year in which it doesn't?

Mike Wirth: Well, I hope it trades better than the oil price, because the sector has recovered. It's been a nice story this year, but if you go back to pre-COVID and you look at the trace on it, most of the rest of the economy recovered more strongly than our sector has. And I think some of it is this long-term risk question about energy transition, but I think a fair amount of it is investors are frustrated with the value destruction of the industry over the last decade. And I get it. I totally get it. And so, we've been in the penalty box with our investor base as an industry. And if we can get the industry out of the penalty box, I think there is a chance that it rerates to a different multiple.

I think investors have confidence that the discipline you've heard a lot of companies talk about is real and sustained. I think there's a chance that we do better than that. That's certainly what we've been trying to lead. And it's been a commitment to capital discipline, a commitment of cost discipline, to portfolio management, a commitment to the energy transition and a commitment to returning cash to shareholders, not overpaying on M&A. And I think we're starting to see a number of companies that are behaving in a way that I think can start to allay the criticisms and concerns that many investors have had.

Bob Brackett: By consolidating you've certainly increased your ability to control spending in short cycle assets. But it sounds like your sense is that even, and certainly in broader industry consolidation, this wave of Permian consolidation we saw last year, in each of those cases, the language and early actions have been around discipline. Your sense that the sector will stick with us for five, 10 years? We've learned our lesson?

Mike Wirth: I believe we need to. And like I said, we've been trying to show up halfway and be a leader in this. And I do think consolidation amongst some of the... It's a fragmented set of players. And in many ways, you could argue there's too many CEOs and boards and buildings and planes. And the industrial logic of consolidation, mergers of equals of some of the smaller companies to reduce costs, create more discipline, more fidelity to what shareholders are expecting. Would be a very, very healthy thing.

Bob Brackett: In our closing couple of minutes, what's the value proposition for a new equity investor in Chevron versus the energy sector and perhaps versus the broader market?

Mike Wirth: Well, I would go back to the words I used earlier, Bob: consistent, prepared, and adaptive. You know, we're consistent. We've maintained our dividend through this cycle. And as I said, 34 years in a row of increases. We haven't cut our dividend since the Great Depression, so nearly a hundred years ago. I think investors can count on us. I want investors to count on us and I want them to count on capital discipline. So, we've talked about organic and inorganic discipline. When it comes to energy transition spending, look, there are no open checkbooks. We've got to find ways to invest in things that are value-creating for shareholders and good for the planet. We can't just focus on returns and ignore sustainability. That won't last, but if all we do is focus on things that are environmentally progressive and we don't also pay attention to what our shareholders expect, that's not sustainable either. So that's number one is consistency, dividend and capital discipline.

Number two is being prepared. We talked about having a pandemic plan we had the industry leading balance sheet coming into COVID and we had at the industry leading balance sheet coming out. We were ahead in our transformation. We talked about the fact that we were restructuring to reduce costs pre-COVID and modernize how we work, use digital tools. We're a company that will be prepared and responsive in an industry where you have to be.

And then the third one: adaptive. We've talked about bottom of the cycle, M&A at a low premium. We've talked about advancing a low carbon future through our own portfolio, renewables to help our customers. Technology. I think those are the things that you can use to define the value proposition. It's a 5% dividend yield in a world where yield is hard to find. We're committed to it. Our track record says that investors can count on that. And I think as the sector continues to exhibit this path that we're on it can earn a more representative place in portfolio managers' portfolios. And so, the equity value will reflect that over time also.

Bob Brackett: We are about a minute past our allotted time and end it very clearly, so thank you for that. I'd certainly like to thank you, the investors. There will be a replay available within one hour if you'd like to go back and listen to that. But with that I'll thank you. I'll adjourn. And again, thank you, Mike, for taking the time to talk to us.

Mike Wirth: My pleasure, Bob. Good to see you.