2024 3Q Earnings Conference Call Edited Transcript

Friday, November 1, 2024

Chevron

November 1, 2024
11:00 AM ET

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

Operator: Good morning. My name is Justin, and I will be your conference facilitator today.

Welcome to Chevron's third quarter 2024 earnings conference call. At this time, all participants are in a listen-only mode. After the speaker's remarks, there will be a question-and-answer session and instructions will be given at that time. If anyone should require assistance during the conference call, please press star and then zero on your touchtone telephone. As a reminder, this conference call is being recorded. I will now turn the conference call over to the Head of Investor Relations of Chevron Corporation, Mr. Jake Spiering. Please go ahead.

Jake Spiering: Thank you, Justin.

Welcome to Chevron's third quarter 2024 earnings conference call and webcast. I'm Jake Spiering, Head of Investor Relations. Our Chairman and CEO, Mike Wirth, and CFO, Eimear Bonner, are on the call with me today.

We will refer to the slides and prepared remarks that are available on Chevron's website.

Before we begin, please be reminded that this presentation contains estimates, projections and other forward-looking statements. A reconciliation of non-GAAP measures can be found in the appendix to this presentation. Please review the cautionary statement on Slide 2 [that can be found with today's presentation materials on Chevron's website].

Now, I will turn it over to Mike.

Mike Wirth: Alright, thanks, Jake.

This quarter, Chevron delivered strong financial and operational results, returned record cash to shareholders and achieved project milestones that are expected to deliver production and cash flow growth over the coming years.

We continue to see strong performance in the Permian and executed major turnarounds at TCO and Gorgon ahead of schedule. Worldwide production increased by 7% from the prior year and set a third quarter record.

We started up the high-pressure Anchor project and began water injection to boost production at the Jack/St. Malo and Tahiti fields. These projects, combined with additional project start-ups through 2025, are expected to grow Gulf of Mexico production to 300 thousand barrels per day by 2026. We've expanded our CO_2 storage portfolio, adding over 2 million acres offshore Western Australia.

In September, the FTC completed its review of the company's merger with Hess. And we also recently announced several asset sales as part of our ongoing portfolio optimization efforts.

This quarter marked the one-year anniversary of the PDC Energy acquisition. We've successfully combined the two companies, taking best practices from both and applying them across our shale and tight portfolio.

We've exceeded our guidance of $500 million in combined capital and cost synergies by more than 30 percent and have delivered more than $1 billion in incremental free cash flow since acquiring PDC.

Chevron's well performance is 40 percent better than the DJ basin average and we continue to optimize development plans. We have advantaged inventory, with around 75 percent locations at a breakeven below $50 per barrel. We expect to hold production at a plateau around 400 thousand barrels of oil equivalent per day through the end of the decade.

Our operations in Colorado are among the lowest carbon intensity assets in the industry, benefitting from tankless production facilities that lower greenhouse gas emissions by 90 percent compared to older designs. Where possible, we utilize grid-powered rigs that reduce more than 60 percent of our on-site greenhouse gas emissions from drilling.

At TCO, the team continues to deliver consistent progress on project milestones. All four pressure boost facilities are now online and operating with high reliability. All production is flowing through these facilities which allows optimization of existing plants, and enabled the highest daily production in the field's 31 years of service.

Remaining metering stations are all under conversion and we're confident in the incremental well capacity that will feed FGP. We've initiated final leak testing for the wet sour gas compressors and are preparing the crude processing systems for operation.

Complex commissioning activities will continue over the coming months, leading into initial start-up activities in the first quarter of 2025.

We continue to divest non-core positions at significant value. We've announced asset sales in Canada, Alaska and Congo that will contribute before tax proceeds of approximately $8 billion. Pending regulatory approvals, we expect to close these transactions in the fourth quarter.

In Canada, we received a compelling offer for our Kaybob Duvernay shale position and non-operated interest in the Athabasca Oil Sands Project. Both are good assets, and we have a long history there, but they are a better fit for a reputable counterparty at an attractive deal value for Chevron.

Now, I'll turn it over to Eimear to discuss the financials.

Eimear Bonner: Thanks, Mike.

We reported third quarter earnings of $4.5 billion, or $2.48 per share. Adjusted earnings were $4.5 billion, or $2.51 per share.

Organic capex was $4.0 billion for the quarter, in line with our budget. Our balance sheet remains one of the strongest in the industry, ending the quarter with a net debt ratio under 12%.

Cash flow in the third quarter was the highest for the year despite lower oil prices. Working capital decreased by $1.4 billion on lower inventory levels. Share repurchases were a record $4.7 billion, at the top end of our quarterly guidance range.

Our financial priorities are unchanged, and we plan to use our strong balance sheet to reward shareholders consistently through commodity cycles.

Compared with last quarter, adjusted earnings were down around $150 million. Adjusted Upstream earnings were down mainly due to lower liquids realizations and higher DD&A at TCO, and partly offset by higher liftings. Adjusted Downstream earnings increased primarily due to favorable timing effects and higher U.S. volumes. This was partially offset by lower U.S. refining margins.

Adjusted third quarter earnings were down $1.2 billion versus the same quarter last year. Adjusted Upstream earnings were flat – lower liquids realizations and higher DD&A were mostly offset by higher liftings and timing effects.

Adjusted Downstream earnings decreased mainly due to lower refining margins. All Other was down primarily due to interest expense.

Third quarter oil equivalent production was up around 70 thousand barrels per day from last quarter. Strong production in the Permian, primarily in our company-operated New Mexico assets, was the main driver. We expect full-year average production growth to finish at the top end of our guidance range of 4-7%.

Costs always matter in a commodity business. We have a track-record of managing unit costs well below inflation while successfully integrating several acquisitions.

Higher returns require competitive costs and safe and reliable operations. Executing turnarounds on-budget and on-schedule is a key performance driver and we've delivered outstanding performance in 2024. Our teams have collaborated across Upstream and Downstream to standardize the approach to these complex maintenance events, increasing the days our facilities are online and lowering unit costs.

While we anticipate significant volume growth in the years ahead, we also expect to deliver $2 to $3 billion in structural cost reductions by the end of 2026.

These cost savings will largely come from optimizing the portfolio, leveraging technology to enhance productivity, and changing how and where work is performed, including the expanded use of global capability centers.

Now, looking ahead. In the fourth quarter, Upstream will have downtime which is expected to be split between U.S. and international operations.

Impacts to production from divestments are expected to be around 45 thousand barrels of oil equivalent per day for the quarter. Downstream will have higher planned maintenance, primarily at El Segundo and Pascagoula. We will also have a shutdown at the Pasadena refinery enabling the Light Tight Oil expansion to come online.

We anticipate affiliate dividends to be around $1 billion this quarter. Share repurchases are expected to be between $4 and $4.75 billion in the fourth quarter, unchanged from prior guidance. Proceeds from asset sales are expected to be about $8 billion before taxes in the quarter.

Back to you, Jake.

Jake Spiering: That concludes our prepared remarks. We are now ready to take your questions. We ask that you limit yourself to one question. We will do our best to get all of your questions answered.

Justin, please open the line.

Operator: Thank you.

If you have a question at this time, please press star one on your touchtone telephone. To allow for questions from more participants, we ask that you limit yourself to one 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 that 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 touchtone telephone.

And our first question will come from Jean Ann Salisbury with Bank of America.

Jean Ann Salisbury: (Bank of America) Hi. Good morning.

The main feedback I have heard from investors hesitant on Chevron is wanting resolution on TCO start-up and Hess. At what point should investors consider TCO start-up largely de-risked? Is there a specific milestone in the commissioning and start-up process like where you've listed here [on the TCO schematic] where you could say start-up probably really can't slip much from here? And are we there now?

Mike Wirth: Thanks for the question. We are making really great progress. You saw that again this quarter, as we've had several quarters now where we've laid out expected milestones and delivered on them. The team is delivering predictable commissioning and start-up activity, and I ran through some of the current state relative to low-pressure production, strongest day of production ever, etc.

That said, there is still significant complex commissioning work ahead, particularly on the Future Growth Project. That work is well underway and we expect, as we said, to begin start-up procedures in the first quarter. Our cost and schedule guidance is unchanged. One of the key things for us, and this is a learning from other projects over the years, is to ensure reliability. We want to make sure that we have everything ready to start-up safely and then run reliably as we go forward. We're going to continue to be very methodical in the way we go about starting up the equipment there. But, every quarter that passes, it's being de-risked. I don't know that there's a magic threshold where you can say it's entirely de-risked, but everything we see is very positive.

In fact, Eimear was there just recently, along with Mark Nelson. Maybe Eimear, you can share some of the things you saw at TCO.

Eimear Bonner: Thanks, Mike.

It was great to be back and to be with Mark and Jake and the team in Tengiz. When we were there, they achieved a key milestone the day we arrived in Tengiz, and that was when they fully transitioned to feeding all of the existing six production trains with low-pressure production through the pressure boost facility.

The fact that the production was at high levels producing through the pressure boost facilities just shows the high reliability that's been achieved there. We also visited three sites at Tengiz. The first one was the operations and control center. There we saw how they're leveraging the advanced process control technology [and] digital tools to optimize production, keep the plants full and plan work safely. That was great to see as that’s been part of the project enabling a whole new level of optimization.

We went to the sites that Mike talked about, where the complex commissioning is ongoing, like the 3GP [third-generation plant] site. There's a large number of equipment being commissioned there. We talked to the team about how diligent they're being to ensure that we do the performance testing on the equipment, we commission the equipment and we do that in a very methodical way. That was great to see.

We also went to the third-generation injection facility. With the design that we have, we will be injecting all the produced gas into the reservoir to help with pressure management, and they were doing injection testing when we were there. That's a key bit of de-risking to know that the wells will take the sour gas into the back end of the reservoir.

Overall, it was a great visit. We came away really encouraged by the work of the team, by the consistent progress that's being achieved, but also by [the] rigorous planning and thought that's going in to ensuring a safe and reliable start-up and ramp-up over the first half of 2025.

Operator: And our next question will come from Neil Mehta with Goldman Sachs.

Neil Mehta: (Goldman Sachs) Good morning, Mike and team.

I wanted to spend some time on the Permian. You had indicated in the prepared remarks that you expect to finish towards the top end of the 4 to 7% range in guidance, and you highlighted strength in company-operated New Mexico. Can you spend a little bit more time unpacking that, the sustainability of that and how should we think about the path to ultimately getting to plateau at this asset?

Mike Wirth: Yeah, Neil, we did have a nice strong quarter again in the Permian.

I realize [with] a lot of our activity now being in New Mexico, the data is not quite as timely and transparent as it is on the Texas side so you may not see that [holistic outperformance]. A couple of things: number one, our new well performance has been very, very strong in the Delaware Basin. [In New Mexico], a lot of that in the third quarter, in particular, [came from] the second Bone Spring and we're seeing top quartile performance out of those wells. Also, on the Texas side in the Delaware, the Wolfcamp A is outperforming expectations. New wells and the completion to POP time on those new wells has been very, very strong.

In the base business, we're seeing stronger reliability performance. Proactive maintenance efforts are paying off. We're seeing artificial lift optimization sustaining strong production; and we're seeing efficiency gains in everything from completions designs, coordination and logistics to reduce mobilization. We've talked about triple frac before. Across the entire portfolio in the basin, we continue to see improvement in the execution of that [base business] and the improvement in the performance of the wells.

As we move towards the 1 million barrel [of oil equivalent] a day mark next year, we will begin to shape our profile towards a plateau, and we'll really begin to focus on free cash flow. Growth will become less the driver and free cash flow will become more of the driver, if you will. We'll bring capital spending down, and what you'll see is this year is probably going to be the peak in Permian capex. As we move forward, we'll start to attenuate that.

The growth, which has been at a 15% CAGR for the last 3 years and is probably going to be higher than that this year, will begin to attenuate as well and will really open up the free cash flow there. More to follow in terms of exactly what that looks like, I'm sure people are curious about that. We'll provide more guidance over the next call or two so you can start to think of what that looks like. But, the headline is continued efficiency and

productivity gains, strong free cash flow today, and we're going to manage it for even stronger free cash flow in the future.

Operator: And the next question will come from Doug Leggate with Wolfe Research.

Doug Leggate: (Wolfe) Good morning. Mike, I appreciate the opportunity to ask you a question.

If I could observe as a precursor to my question, this is probably your best operating quarter in quite a while, so congrats and share price is responding accordingly. But if we look at your relative underperformance since you announced the Hess deal, there's clearly a huge, weight of uncertainty on the stock; [it] basically wiped out the value of Hess. So, it is a Hess question, and it goes something like this. You've now got FTC since we last spoke on the last call. You've got the shareholder vote and you're moving ahead with what many would think were the post-Hess acquisitions, disposals. The synergies presumably are not related to Guyana. Why not go ahead and close the deal if you're so confident in your legal position?

Mike Wirth: The relative performance of the shares relate to a lot of things, number one, and I wouldn't dispute the fact that the Hess uncertainty is a material contributor. But as you said, we've had some performance unevenness that we've ironed out and we need to prove that. We announced the cost and schedule update to TCO during this period of time. There have been a number of things that are all part of that, all of which are a high priority, and as you see today, are getting a lot of attention and are improving.

We've got a deal structure with Hess that has a condition precedent that if there's an arbitration, the arbitration has to be concluded. We are confident that it will be successfully concluded. That's the way we set the deal up and we're going to execute the transaction the way the transaction is written.

Integration planning is going very well. We're working very closely on everything that we can at this point in the process to prepare for the future. I realize that the timing on this is unfortunate, but we're continuing to move forward and look forward to integrating the two companies and being the premier oil and gas company prepared for the energy transition. Thanks, Doug.

Operator: And our next question will come from Biraj Borkhataria with RBC.

Biraj Borkhataria: (RBC) Hi there. Thanks for taking my question.

I wanted to ask around the Canada sales. If I go back to the Hess deal, the rationale was to buy long cycle, high-quality resource and obviously that helps diversify your portfolio and Guyana is very different to Canada, obviously. But could you just talk about the decision to execute that divestment. One, now ahead of the arbitration decision, which was a surprise, but also more broadly, I would have thought you were a net buyer of kind of long-cycle resource. If you could just talk about how you're thinking about that and how you're thinking about the portfolio, that would be helpful.

Mike Wirth: Sure. Biraj, we've got a long history in Canada. It's been a good business. AOSP has been a steady contributor of cash for many years, but we've also indicated that it's a 20% non-[operated] position and wasn't really viewed as a core asset in the portfolio. As we were marketing the unconventional position in the Kaybob Duvernay, we were not actually marketing AOSP, but the buyer came to us, proposed buying both and made us a very attractive offer to buy both. The Duvernay, while it's a good asset, was struggling to compete against the strength in other parts of our shale and tight portfolio.

AOSP, as we've indicated for some time, is a non-core asset. We were willing to consider offers for it, but there was a long time when potential buyers were struggling to give us the value that we saw, to your point, for a long-duration asset. The Canadian producers are faring better today; their equity valuations have recovered and we were presented with an opportunity to transact at what we thought was good value. And we've been patient; others have left the oil sands over the years at what we felt were discounted values and we weren't prepared to do that. But when we got a value that we thought was fair value, we were prepared to transact.

Yes, we want to add good quality, long duration assets to the portfolio, but we have a lot of those in our portfolio today. I don't think you should read our desire for those kinds of assets to say that anything that would broadly fit under that heading is not eligible for potential divestment. We're going to continue to high grade our portfolio over time and as we add quality assets and use technology to improve the value of assets in our portfolio, we'll always ask ourselves if the balance of the portfolio has more value to others than it does to us, and be willing to entertain that kind of a question. Thanks, Biraj.

Operator: And the next question will come from Josh Silverstein with UBS.

Josh Silverstein: (UBS): Thanks guys.

On the $2 to $3 billion cost savings, how much of this comes from the announced $8 billion of asset sales year-to-date versus what comes from additional asset sales and structural cost savings? And then any split between upstream or downstream?

Thanks.

Eimear Bonner: Yes, thanks, Josh.

Let me talk you through our plan here given that it's some new material. First of all, as you saw on the slide, we've been disciplined in managing our cost competitively over the years. This program is essentially our next set of cost reduction steps to sustain our discipline, given that in our business costs are always matter; they're always important.

What we're focused on here is reducing absolute costs while we deliver significant growth in the business. Think about this program as focused on the controllables, and we're expecting run rate reductions to be realized over the next few years, by the end of 2026, from a 2024 baseline. The full benefits will be seen in 2027. In terms of where the reductions come from, the first category is portfolio actions. Examples like what we've heard today on the call and the announced Canada, Alaska, Congo sales, there's a large portion associated with that. We'll see the direct costs reduced as the assets transfer from our portfolio and then we would expect overhead costs associated with those assets to reduce over time. That's one part of this program.

The second part is improvement initiatives, and these are initiatives that we see across the organization. They're coming from the business units, in all segments, they're coming from the functions. Some examples of what we're talking about here [are] initiatives that leverage technology solutions to reduce costs – drones, robotics, digital twins – that have transformed how we think about operating and maintaining our facilities. That would be an example.

Another example would be improvement initiatives that look to how we do our work, [and] where we do our work. An example there would be the recent announcement of the ENGINE [Chevron Engineering and Innovation Excellence Center] global capability center in India. In these centers, we're looking to standardize and centralize more of our workflow. That's what the [structural cost reduction] program is. When you think about

the range, the first $2 billion, think about these as divestments and cost reduction initiatives that are in our plan; they're firm, they're either execution-ready or working towards becoming execution-ready. Think about the third billion as an additional target that we have with initiatives that are underway that we haven't fully quantified. They're not execution ready. We have work to do to make them execution ready.

That's how I would describe the range, and we expect to provide updates on these initiatives. We'll do that through 2025 as we execute on them, and we deliver results.

Thanks.

Operator: And we'll go to Devin McDermott with Morgan Stanley.

Devin McDermott: (Morgan Stanley) Good morning. Thanks for taking my question.

I wanted to ask about the balance sheet and shareholder returns. Your net debt ticked up a bit quarter-over-quarter in 3Q versus 2Q helping support strong buybacks and you're still well below your long-term targets. You have cash coming in the door from asset sale proceeds, as you noted, between now and year end and then nice inflection in the Permian and TCO cash flow into next year.

But I guess my question is, given how volatile the commodity markets and oil markets specifically have been in recent months, how do you think about continuing to use the balance sheet to support shareholder returns versus tapering it back and waiting for potentially lower commodity prices over the next few years? So, balance sheet use and how you think about that is the core of the question.

Mike Wirth: Devin, let me just address share repurchases, and then I'll let Eimear talk about the balance sheet. Recent volatility in commodity prices to somebody who's been in this industry for 42 years is not new news. That is the way this industry works, and we're in a volatile cyclical commodity business. The backdrop is nothing we're not well prepared for.

First, I want to reiterate our guidance. The share repurchase run rate of $17.5 billion is unchanged. The range we've given brackets the way we execute the program, and we were a little bit above the [quarterly guidance] midpoint of that this most recent quarter. We had a strong track record of buying back shares, which is our fourth financial priority. And that's after making sure [that] we can sustain and increase the dividend - where we've got a track record of doing that for 37 years in a row. Reinvesting in organic projects to grow future cash flows to support that, is the second priority. The third [priority] is to maintain a strong balance sheet. We've got a AA credit [rating] and below 12% net debt. The fourth [priority] is to return excess cash to shareholders through share repurchases, which we've done for 17 of the last 21 years. Consistency in financial priorities, consistency in execution is very important.

We've got a track record that we can stand behind through commodity price cycles. Over the last 21 years, where I said 17 of the 21 [years] we've repurchased, we've seen a financial crisis, we've seen a pandemic, we've seen OPEC open up the taps and commodity prices respond accordingly. We've been through down cycles, we've been through unexpected circumstances and have maintained the strong track record of shareholder distributions through it; in part, because we've maintained a conservative financial position and a very strong balance sheet.

I'll let Eimear let talk a little more about the balance sheet.

Eimear Bonner: Thanks, Mike.

Devin, when we look at the balance sheet, we're focused on maintaining its strength through the cycles. It's an asset that we use to create value, to navigate the volatility that Mike talked about and reward shareholders consistently. When we look at our debt levels today, our net debt under 12%, that's at the low end of where we've been over the last 10+ years.

We're under-levered. Given this, all the growth that's coming and the additional asset sale proceeds that we're expecting in the short term, we're comfortable with where we are, and we anticipate the net debt will come down a little bit in the near term with the asset sale proceeds that are coming. We're planning with a multiyear time horizon with a through-cycle approach, and we're very comfortable with where we are right now with the balance sheet.

Thanks.

Operator: And moving on to Lloyd Byrne with Jefferies.

Lloyd Byrne: (Jefferies) Hey. Good morning.

First, congrats to you and your M&A team, I think the divestiture progress has been great. I want to follow up quickly to Biraj's question, AOSP seemed very opportunistic. Does that change your long-term goals? And then, I wanted to ask about the DJ and see whether, it's really impressive operating progress there – synergies, free cash flow – but I think the surprise has to be you guys holding it flat to the end of the decade. Maybe you can just comment on the opportunities there and whether there's more opportunities for scale.

Thanks.

Mike Wirth: To quickly touch on AOSP, there was one most logical buyer, and it was the operator. We've had discussions over the years and have not been able to get to a common view on value and that's what changed. If you want to say that's opportunistic, that's fine, but we wanted to realize the value that we saw in that asset, and we've been able to do that.

[On] the DJ, the first thing is the integration and synergy delivery continues the track record that we've had over a long time of exceeding our synergy commitments. When we do a deal and we come out with a target, it's intended to give you a high confidence number that you can use. We've done the diligence at that point, our track record is refined more, and we deliver more. We're very happy with the quality of the asset and the ability to drive strong performance.

We've learned from each of the companies that we've acquired. I talked a little bit about the lower carbon footprint there. We've seen some other things like gas lift and U-laterals that have been used by some of these companies that we're starting to work with in other parts of our portfolio. And the last thing is the team there does a wonderful job of balancing this multistep permitting process. There's been some concern expressed by people about the regulatory environment. We're working very closely with the regulator in Colorado to ensure that we can achieve their objectives and that we can achieve our objectives. I'd say that's a very constructive relationship.

We've got comprehensive area plans in place that de-risk the longer-term development and the quality of the asset – 400,000 barrels a day – out through the end of the decade. Three years ago, we had 0 [barrels per day of production] in the DJ Basin, very pleased with it. We're big there, we're the biggest operator there. If the question was are you going to acquire some additional positions there, I wouldn't say that's high on the priority list. The real key is to drive value out of this asset.

Operator: And the next question will come from Betty Jiang with Barclays.

Betty Jiang: (Barclays) Good morning. Thank you for taking my question.

I want to ask about Gulf of Mexico. Feels like there is a bit of technology renaissance that's happening in the Gulf of Mexico , including the Anchor project that just came online. Can you talk about how the technology is opening up new resource opportunities for the Gulf of Mexico for the Chevron portfolio? And does, that represent any upside to how you think about the longer-term production and resource opportunities in that area?

Mike Wirth: Yes. Betty, it sure does, and it's an extension of the story of the Gulf of Mexico.

Initially on the shelf as people moved from onshore to offshore, then out into the deepwater. [Then], we began to develop techniques to explore and ultimately develop and produce in deepwater. Now in the ultra-deep water and [with]in the ultra-deep water, now at ultra-high pressures and temperatures. The breakthroughs on the Anchor project [enabled it to be] the first one [deepwater project] to be producing with 20,000 psi [pounds per square inch] technology. I mentioned last week in something I was doing to help people understand that's essentially the pressure that would exist if an elephant – a full grown male African elephant – were standing on a quarter.

It's incredibly high pressure. These are high temperature fields that [require] everything that goes along with that needs to be capable of dealing with those pressures. That includes trees, blowout preventers, etc. We have a 3-million-ton hook load now on the drill ships, which is the highest hook load we've ever seen. That opens up a lot [of potential resource], at least 20% of our exploration portfolio is going to require this kind of capability.

We're using other things like ocean bottom node seismic, that helps us better characterize development and exploration opportunities, think of it as 4D technology. We're working on AI tools to help guide exploration focus areas and predict geologic risk factors more effectively. The history of the Gulf of Mexico has been technology advancements to continue to allow us to identify and then produce resource. It's a vast area. The Mississippi River is and was an incredible conveyor belt for organic material out into the Gulf of Mexico over geologic times. The industry isn't done there [in the Gulf of Mexico] by any means; there's a lot left to go. The last thing I'll say about it is this is about unlocking new opportunities. We're also working hard to make better use of existing infrastructure with nearer field development. The ability to tie back at longer distances and develop smaller discoveries that wouldn't support a stand-alone greenfield development but can very easily tie back as a brownfield to an existing facility. Ballymore is a good example of this, and I think you're going to see more of those as well. The heyday of the Gulf of Mexico is far, far from over.

Operator: And the next question will come from Paul Cheng with Scotiabank.

Paul Cheng: (Scotiabank) Hi. Good morning.

You have an excellent production record in both the Tengiz and Gorgon that they have done well, and it's particularly impressive that given both of them, you had turnarounds. It looks like the turnaround has done well. And maybe that came in faster than the scheduled time. Is it a one off or is it that you have changed the process so that this is a repeatable benefit that we could expect in the future?

Mike Wirth: Paul, it's the latter, and we've been working this both upstream and downstream because these facilities are starting to look a lot more similar than they are different. To deliver higher returns, one of the keys is to execute turnarounds well, ensure the work that's done enables reliable operations in between turnarounds, and to continually improve on this.

I mentioned earlier that Eimear was just out in Kazakhstan and has been at Gorgon, not too much earlier. Eimear, maybe you can talk a little bit more specifically about what you're seeing on turnaround execution.

Eimear Bonner: No problem, and thanks, Paul, for the question.

To Mike's point, our complex facilities – whether they're in refining or upstream assets like TCO and Gorgon – they're more similar than different. This has been an area of focus for us to try and standardize how we approach these complex turnarounds to drive performance.

We've been working on it diligently for a few years, and the [first] improvement action that I would point to would include how we think about the scope of the turnaround. Think about this as looking at all the units and equipment and discerning; can I do the maintenance work on the run, or do I need to do the maintenance work only when the plant is shut down? There's a lot of improvement being delivered because we've been very diligent about discerning what's in and what's out [of scope]. We call that rigorous scope management.

The second improvement talks to the digital tools that we've used to help with not only planning but execution and prioritization. I'll give you a couple of examples of the digital tools. Digital tools that help us with permits, digital tools that help us with isolation, digital tools that help us with leak and testing and flange management in addition to digital tools that help us with managing the span and control given that these turnarounds bring in huge numbers of personnel at once. That's another area.

The third one, which I believe we've taken to a whole different level, is benchmarking. We benchmark turnarounds, we benchmark the units, but the benchmarking that we're doing today goes down to the equipment level. The rigor in the benchmarking to look for improvements and to learn where we can be more efficient is yielding positive results.

Then finally, we have experts in this area from an [organizational] capability perspective. We have employees that have spent most of their careers in turnarounds – they're masters in turnarounds – and we have looked for opportunities to share resources and to cross-pollinate, so that the lessons that we learned in TCO, we can learn them in Gorgon, and vice versa. The lessons that we're learning in refining, we can implement those lessons in the upstream.

All of those things coming together has driven a step change in our performance. With nearly nine turnarounds executed this year, almost all of them have been delivered at industry-level performance. We're very pleased [with] this work given the criticality of it to base business excellence, and these results are industry-leading.

Mike Wirth: Paul, eight out of the nine turnarounds were executed in line with first quartile duration targets. The Gorgon Train 2 turnaround was our best Gorgon turnaround ever with a 14% improvement in duration. The TCO KTL1 turnaround was a 23% improvement in duration compared to the last one and several of our refinery turnarounds saw cost decreases of up to 50% compared to the prior turnaround of that same unit. There's some real quantifiable progress that you can see across the system that's being achieved.

Operator: And the next question will come from Bob Brackett with Bernstein Research.

Bob Brackett: (Bernstein) Good morning. If I return to the structural cost reductions, and I want to put it in the context of the relocation from California to Texas. Is that relocation an opportunity to the cost reductions, I believe that redesign processes and organizations? Or is it a threat to the cost reductions? There's chaos and lack of continuity. How do you think about that?

Mike Wirth: I don't think it's a threat, Bob. We've talked about the relocation occurring over a period of time. We're going to be very thoughtful about moving work from one location to another, moving people from one location to another. Not all of the work that's being done in San Ramon necessarily will go to Houston; some of it may go to global capability centers that Eimear talked about earlier.

Some of it, we may find technology tools that help us to do the work more efficiently and automate things. It's a little bit of a simplistic [deduction] to think about just lifting and shifting everything from San Ramon to Houston. It's a migration of work to different technology platforms, different locations. We'll do that thoughtfully and methodically over a period of time.

We'll make sure it's been planned out and de-risked. It's part of an ongoing work evolution in a global company that has a workforce around the world, that can do work in many different places, that historically did a lot of work in business units because that's the way it had to be done.

But now, there are other ways to approach this work, and we're looking for ways to do it best, to deliver the best work product, and do that at a cost structure that's ever improving. Thanks for the question.

Operator: And moving on to Lucas Herrmann with BNP Paribas.

Lucas Herrmann: (BNP Paribas) Thanks very much and good afternoon, Mike and Eimear.

Fairly obvious question, I wondered if both of you could talk a little bit more about capex going forward and maybe it's an inappropriate time and December will be better. If I look at what's happening with the business, Tengiz starts up, you've got your assets in the Gulf of Mexico coming on, you're talking about driving for free cash flow, driving for NPV value in the Permian, capex coming down there. If I think about the current rate of capex spend, including associates, it feels as though it's around $18 billion to $18.5 billion as you guided at the beginning of the year. If I look at the opportunities for capex to start to fall as projects or production plateaus or projects come on, it feels as though maybe $3 billion to $4 billion of capex opportunities, or opportunities to support capex decline sits there. What's really hard – Mike, Eimear – is to see where that goes, particularly given everything going on in the East Med at the moment. Is it right to start thinking about capex coming down very materially as we move forward over the next two to three years and you really start to benefit more emphatically from a portfolio that, in essence, is, deep in resource but pretty long duration?

Mike Wirth: You've covered a lot there, Lucas, let me try to address some of it and then let Eimear share some of her thoughts. Number one, an important point is if you look at the ratability of our capex, we used to have a program that had a lot of big, long-duration capital projects. There was a pattern where the back half of the year – fourth quarter in particular – tended to be a little bit heavier, first quarter a little bit lighter. We're very ratable now. We've been about $4 billion on our organic capex all three quarters this year. It's [capex] become much more ratable and predictable; that's a reflection of the nature of the projects that we're doing.

Point two, you talked about capex coming down. A decade ago, our capex was $40 billion. Today, it's $18-something billion, [approximately $18.5 to $19 billion including affiliate capex]. It's less than half of where we were; it's come down substantially even as production has grown, as the company generates more cash. We're doing it in a much more capital-efficient manner than we ever have before.

Point three is, yes, we will continue to seek further ways to optimize and improve the capital efficiency of our company. A larger portfolio does, over time, require capital to maintain it, and therein lies the trade-offs that you evaluate as you look at your capital investment opportunities and the readiness of those to move into execution.

In the near term, what's very clear is our affiliate capex will come down next year as the project in Kazakhstan concludes. You'll see affiliate capex come off. We're in the process right now of finalizing our business plan for 2025, and it is a bit premature for me to guide you to that number. We're looking at all the trade-offs, and we'll talk more about that after we complete our planning process.

Our intent is to stay very disciplined, which is something we've demonstrated here over many, many years. Our [organic capex] guidance range of $14 billion to $16 billion is unchanged and you should expect us to respect that. If that does change by some quantum, and you threw out some larger numbers there, we'll cover that with everybody and talk about how it's changed, why it's changed and how you should think about what that means going forward.

Eimear, do you want to add anything to that?

Eimear Bonner: I think you've covered most of it, Mike, given that we're putting our plan together right now. All I'd say is the projects that you referenced and how we see the capex profile coming off and the free cash flow growing as those projects complete is a key focus for us. We'll give you more information on the fourth quarter call as we complete the process; we don't want to get ahead of the process right now. Thanks for the question.

Operator: And the next question will come from John Royall with JP Morgan.

John Royall: (JP Morgan) Good morning. Thanks for taking my question.

Could you talk about your position in California in the downstream? Still having two refineries there and we've had another closure announced over the past couple of weeks; is shutting capacity something you've considered in California, and how do you think the market will be impacted by this latest closure? Do you think we'll see a structurally higher profitability there as a result or maybe things will adapt kind of back to where they were?

Mike Wirth: I would say [that] we've seen another ill-conceived move by a state that has implemented policies to deliver its residents the highest gasoline prices in the country. This most recent action to insert state bureaucracy into turnaround planning and inventory management is likely to make prices go higher, not lower. Putting bureaucrats in charge of centrally planning key segments of the economy hasn't worked in socialist states, and I doubt it will be any different in California. Policies that constrain supply faster than demand is adjusting create more volatility, and they tend to create a greater likelihood of higher prices.

Unfortunately, these measures are advertised as doing the opposite, but the reality is for anybody that looks at them and thinks them through, discouraging investment and constraining supply when you still have strong demand is going to lead to just one conclusion.

We've operated in California for over a century, both of our refineries are over 100 years old. They're very competitive refineries, and we've got strong integrated value chains with very strong brands [and] customer relationships.

These are competitive businesses that we will continue to evaluate within our portfolio like every other asset, as we've discussed earlier. We will continue to meet our customer needs and compete. We'll evaluate alternatives if and when it becomes evident that that's the

appropriate thing to do, but I'll tell you, it's very tough to justify any new investments in that system, and it's only getting tougher. Thanks for the question.

Operator: And we'll take a question from Roger Read with Wells Fargo.

Roger Read: (Wells Fargo) Thank you. Good morning.

I'd like to ask you, Mike, the LNG markets globally, we've seen some new units get delayed, we've seen a couple of other companies this earnings season talk about the outlook in terms of supply/demand balance favoring tightness in 2025. Just curious how you look at it and if you could remind us your contract versus spot exposure so we could think about how that might play to the margin potential for Chevron in 2025.

Mike Wirth: LNG demand continues to grow, but it comes against a backdrop of very healthy [gas] inventories. You asked about 2025 – [gas] inventories in Europe are strong for this time of year, inventories in the U.S. are very healthy for this time of the year [and] you see that reflected in Henry Hub prices. Overall, we've got a market that currently has healthy inventories and reasonably good supply [that] becomes somewhat weather dependent and can change with a very cold winter. Right now, I would say it doesn't look like 2025 is setting up to be a particularly tight market. Longer term, we have supply coming on in Qatar, we've got supply coming on in the U.S. and there's more supply coming to that market.

In the short- to medium-term, it's a market that is not prone to becoming nearly as tight as what we saw a couple of years ago when the situation in Ukraine began. Our particular portfolio is 80+% contracted primarily on oil indexed pricing on long-term contracts. Most of our sales are into North Asia and 20% or less spot exposure. A lot of that [spot LNG exposure] is out of our West Africa position. We'll have some spot cargoes from other parts of the system occasionally, but primarily long-term contracts tied to crude price. Thanks, Roger.

Operator: And moving on to Nitin Kumar with Mizuho.

Nitin Kumar: (Mizuho) Good morning. Thanks for taking my question.

Mike, I wanted to just maybe touch a little bit on the Chemicals business. It seemed like it was a bit of a tailwind to earnings this quarter. What are you seeing from your supply chain, particularly in Asia? You've heard about some stimulus to be offered there, but just looking at what the earnings look like for the Chemicals business.

Mike Wirth: Polyethylene chain margins have strengthened over the course of this year. It's been an improving market backdrop. Some of that has been some short-term supply disruptions in certain areas. These are long-cycle commodity markets [in which] demand grows kind of steadily but slowly.

Supply comes on in big chunks. We've had a market that's been a little bit oversupplied and that's put pressure on the olefin chains, particularly in Asia.

Over time, we expect to see margins improve. We've got a couple of projects that will come online in the second half of this decade, and you can't time these things perfectly but they're likely to come on after the trough and into what's an improving olefin chain market.

One of those projects in the U.S. [and] one in the Middle East. Asia is the big market, obviously. Naphtha and naphtha cracking being the alternative. You do have some interrelation on margins with crude oil prices and if at the margin, Asia naphtha crackers are what an ethane cracker in the Middle East or the U.S. is competing with. You've got

some interplay between those two and we'll watch it over time. CPChem is a well-run business, GS Caltex in Korea is a well-run business, and we've seen these kinds of cycles before. We remain very constructive on this sector over time as we think the fundamentals will be very good and CPChem in particular, has a lot of ethane-based feedstock, which makes it very competitive. Thanks, Nitin.

Operator: And moving on to Ryan Todd with Piper Sandler.

Ryan Todd: (Piper Sandler) Thanks. Good morning.

Maybe one on the Eastern Mediterranean. Can you maybe just provide a status update in terms of the current operations, the Tamar expansion efforts, the next leg of potential expansion of commercial development there and what impact – what is and is not happening or moving forward – given the current uncertainties in the region right now?

Mike Wirth: Obviously, the first priority is the safety and well-being of our employees and the integrity of the assets. We have seen the demobilization of the pipe-lay vessel that was working on the current expansion projects at both Tamar and Leviathan as the contractor concluded that the current risk environment was one that they were not comfortable with. We see both of those projects still being completed late next year. We'll keep you advised; this will depend on when that is remobilized. We've got projects underway in the short-term at both Leviathan to increase production by about 200 million cubic feet a day to 1.4 [Bcf/d, on a 100% basis], and Tamar is about 0.5 billion cubic feet per day from 1.1 to 1.6 [Bcf/d, on a 100% basis]. Those are on track for late next year.

We've entered FEED for a larger expansion at Leviathan that would take [production capacity] significantly [higher]. There's some room on the platform to add more processing capacity. That's a project that would be completed towards the end of this decade, and we're in FEED on that now, so more to follow.

In the short term, we're going to make sure people are safe. We've had to take production at Leviathan down a couple of times because some of the risks in the region, but we're meeting all of our supply commitments – both in the country and to regional customers – and have been able to do that despite the conflict that's been underway.

Operator: And our last question comes from Alastair Syme with Citi.

Alastair Syme: (Citi) Hi, Mike and Eimear.

Mike, you talked earlier to the operated Permian position; I wanted to get a sense of what you're seeing in the non-operated and royalty piece. Are we seeing a two-speed operating system in the basin with respect to what various operators are doing? Thank you.

Mike With: We've seen strength across all three of the components of our business. Our co-op [company-operated] growth this year is probably going to be a little bit higher than the 15% we've seen in the last three years. Royalty may be a little lower than that, NOJV [non-operated] a little bit higher.

Do we see a two-speed development approach? I wouldn't say that. I'd say we're all in the same fairway. Certainly, some of NOJV and royalty is in highly attractive sweet spots, and the economics on that are very good for our partners or our operators where we hold the royalty interest. I wouldn't say there's significant enough variation between our program and what we see with others to describe it as a two-speed program if that was the question. Thanks very much, Alastair.

Jake Spiering: I would like to thank everyone for your time today. We appreciate your interest in Chevron and your participation on today's call. Please stay safe and healthy.

Justin, back to you.

Operator: Thank you. This concludes Chevron's third quarter 2024 earnings conference call. You may now disconnect.