1Q20 Earnings Conference Call Edited Transcript

Friday, May 1st, 2020

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This presentation is meant to be read in conjunction with the First Quarter 2020 Transcript posted on chevron.com under the headings "Investors," "Events & Presentations."

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."

Transcript

Operator:

Good morning, my name is Jonathan. And I will be your conference facilitator today.

Welcome to Chevron's first quarter 2020 earnings conference call. At this time, all participants are in a listen-only mode. As a reminder, this conference is being recorded. I would now I'll turn the call over to your host for today's program.

The General Manager of Investor Relations of Chevron Corporation. Mr. Wayne Borduin. Please go ahead.

Wayne Borduin (GM Investor Relations, Chevron Corporation):

Thank you, Jonathan. Welcome to Chevron's first quarter earnings conference call and webcast. Our Chairman and CEO, Mike Wirth, and CFO, Pierre Breber, are on the call with me. We'll refer to the slides that are available on Chevron's website.

Before we get started, please be reminded that this presentation contains estimates, projections, and other forward-looking statements. Please review the cautionary statement on Slide 2. Now, I'll turn it over to Mike.

Mike Wirth (Chairman and Chief Executive Officer, Chevron Corporation):

Thanks Wayne. Before we get started, I hope you and your loved ones are safe and healthy. Our thoughts are with all the families affected by COVID-19 and especially with the healthcare workers on the front lines battling every day to contain the outbreak.

I'm also incredibly grateful to our employees showing up to work every day in particular those in the field operating critical facilities to provide the energy that supports the pandemic response and keeps essential goods and services flowing in support of the economy. They, too, are heroes.

During our Security Analyst Meeting in March, we discussed Chevron's resilience … and now is the time for us to demonstrate it. No one foresaw these specific market conditions – but we were prepared for them. We know what to do and we're doing it … as we execute this five-point action plan.

First and foremost, we're focused on the safety of our employees and our operations. Next, we're exercising the flexibility in our capital program. Today, we're further lowering … our full year guidance. In addition to capital, costs always matter in a commodity business. We initiated a major company restructuring last year – and we expect to drive additional savings this year. Capital structure also matters. We came into this crisis with an industry leading balance sheet – and we're taking actions intended to maintain financial strength. Lastly, while addressing current market conditions, we're preserving long-term value for shareholders, employees, and other stakeholders.

I'll speak to each element of this action plan in the following slide, beginning with safe and reliable operations on Slide 4.

We've had fewer than 50 confirmed instances of employees with the virus – and nearly all cases appear to have been contracted outside the workplace. Most of our office-based employees are able to work from home. For those who continue working at facilities or in the field, we've implemented multi-layer screening, distancing, hygiene and PPE protocols. Our COVID-19 testing capability is ramping up. Finally, we're helping our communities with donations of money, PPE, and other things we can manufacture like sanitizers in our plants and face shields at Chevron funded Fab Labs.

In Downstream, our refineries are running well below capacity to meet significantly lower product demand. Where possible, we're prioritizing equity crudes into our refining system and re-optimizing our plans for turnarounds.

In Upstream, the rig count will be down by about 60% by the end of this quarter. In May, we expect to curtail between 200,000 and 300,000 barrels of oil equivalent production, and for curtailments to continue in June at potentially higher levels. LNG contract sales have been unaffected.

Despite some logistics challenges, our supply chains have been functioning with no major disruptions. We're closely monitoring financial risks to our suppliers and working with them on win-win solutions.

Now I'll give an update on our major project underway in Kazakhstan.

Despite the early COVID outbreak in Korea, module fabrication and shipments out of the fabrication yard remain on schedule. In fact, only seven modules remain in the yard, and all are scheduled to depart this quarter. Re-stacking of the modules in Tengiz is progressing well and was ahead of schedule at the end of April.

That said, the pandemic is presenting challenges. Restrictions on the movement of people and goods …. and positive COVID cases in six of the more than 100 residential camps in Tengiz, have triggered changes.

While critical path construction activities proceed, we're temporarily demobilizing non-critical-path personnel. As a result, we anticipate some degree of impact to project cost and schedule, but it's too early to quantify this in any meaningful way.

Our forecast of 2020 capital expenditures for the project has been reduced by about $1 billion, our share, due to deferred activity, cost mitigations, and expected currency benefits. Turning to our overall capital outlook.

We're further lowering our full-year 2020 organic capital guidance to as low as $14 billion, down from $16 billion, announced in March. Second half capex could be as low as $6 billion … or a run-rate up to 40% lower than our original budget. The incremental reductions since our March press release are primarily focused on TCO and short-cycle investments. Turning to slide 7.

In response to current market conditions, we expect to reduce operating costs by about $1 billion this year relative to 2019 due to reduced activity levels, lower fuel costs and curtailment of other discretionary expenditures. Beyond the current year, our initiative outlined at the Security Analyst Meeting to lower opex by $1 billion next year is progressing well. A portion of these savings will come from restructuring, where we expect design to be finalized this quarter, with the streamlined organization in place by year-end.

Costs often lag during market corrections. We were already working on further cost reductions before these conditions began and intend to keep pace with today's realities. Turning to the next slide.

The chart on the left shows our estimated sources and uses of cash under a 2-year stress test with sustained prices of $30 Brent. Our decisions to suspend the repurchase program, lower costs and flex capital down will reduce the pull on our balance sheet.

The chart on the right shows we have the debt capacity to weather this stress test better than our peers. All our actions are consistent with our longstanding financial priorities – and #1 is to protect the dividend, which we know is vital to our shareholders.

Turning to slide 9 – and the fifth element of our action plan: preserving long-term value.

While we have the flexibility to take capital even lower, we're focused on preserving spending to ensure that existing assets are safe and reliable, projects already under construction are efficiently completed, operational and technical capabilities are maintained, investment options are preserved for the future, and we maintain our commitment to ESG priorities.

During a market downturn, the playbook in our industry isn't a secret. The key is how you execute it. The winners are the ones that make the right choices balancing short-term cash flow and long-term value. We made the right choices coming into this crisis – and we intend to exit in the best position among our peers.

With that, I'll turn it over to Pierre.

Pierre Breber (Vice President and Chief Financial Officer, Chevron Corporation):

Thanks, Mike. Turning to slide 10.

First quarter's earnings were $3.6 billion or $1.93 per share. Adjusted earnings, which excludes special items and FX, were $2.4 billion, or $1.29 per share. A reconciliation of non-GAAP measures can be found in the appendix to this presentation.

Cash flow from operations was $4.7 billion and total capital spending was $4.4 billion. In the quarter, we also increased our dividend and repurchased $1.75 billion of shares before suspending the share repurchase program. Turning to cash flow on Slide 11.

Excluding working capital, cash flow from operations covered the dividend and cash capex in the first quarter yielding a dividend breakeven price under $50 Brent. Proceeds from the sales of our interest in Malampaya were offset by loans to TCO. Given volatile market conditions, we're holding more cash – and ended the quarter with a net debt ratio of 14%. Turning to Slide 12.

First quarter earnings of $3.6 billion increased about $1 billion versus the same quarter last year. Included in the current quarter was a gain on the sale of upstream assets in the Philippines and favorable tax items.

Adjusted upstream earnings decreased due to lower prices partially offset by higher production. Adjusted downstream earnings increased primarily due to favorable timing effects and higher marketing margins. The "Other" segment decreased primarily due to lower corporate charges. Turning to Slide 13.

Compared to the fourth quarter, first quarter adjusted earnings decreased by about $400 million. Adjusted upstream earnings decreased due to lower prices partially offset by higher production and lower opex. Adjusted downstream earnings increased primarily due to favorable timing effects and lower opex.

On slide 14… first quarter oil equivalent production increased over 6 percent. Higher shale and tight production, primarily in the Permian, and higher entitlement effects were partially offset by asset sales and normal base declines.

Turning to slide 15…. We're nearing completion on the asset sales program announced in 2018.

In April, we closed the sale of our interests in Azerbaijan and Colombia resulting in almost $1.5 billion in before-tax proceeds. This brings our total asset sales proceeds to about $6.5 billion since 2018 – in the middle of our $5 to $10 billion guidance range. Turning to slide 16.

With cash on hand, access to the commercial paper market, and our back up revolver, Chevron's liquidity position remains strong. We have limited long-term debt maturing over the next two years. And as an AA credit, we have ample access to the debt market.

Now looking ahead.

In Upstream, we're not changing our full year production guidance – although we're clarifying that it excludes the impact of curtailments.

As Mike said earlier, we expect curtailments of production during the second quarter … in the US primarily due to economic choices that balance cash flow and long-term value … and in certain countries outside the US, mostly due to the OPEC + agreement.

Planned turnarounds in the second quarter, primarily at Gorgon, are expected to impact production by about 70,000 barrels of oil equivalent per day.

Based on our current price and capital outlook, TCO co-lending is expected to be modestly higher this year.

In Downstream, turnaround activity in the second quarter is expected to have an estimated after-tax earnings impact of $200 to $300 million.

Both equity affiliate earnings and distributions are expected to be lower in 2020 – with the net negative effect to cash flow less than $1 billion dollars. With that, I'll turn it over to Wayne…

Wayne Borduin (General Manager - Investor Relations, Chevron Corporation):

Thanks Pierre.

That concludes our prepared remarks. We're now ready to take your questions. Keep in mind that we do have a full queue, so please try to limit yourself to one question and one follow up, if necessary. We'll do our best to get all of your questions answered. Jonathan, please open the lines.

Q&A

Operator: Our first question comes from the line of Phil Gresh from JPMorgan. Your question please.

Phil Gresh (JP Morgan):
So, first question here, as we look at that slide where you're talking about the $30 oil case and the funding of the dividend, the priority of the dividend and adding debt to cover capital spending. At the end of that period, do you have a sense of (Technical Difficulty)

Mike Wirth:
Phil. You cut out right when you said at the end of that period, do you have a sense of.

Operator:
Yeah. Mr. Gresh we're not hearing you right now. I'm not sure if it's your connection, your phone.

Mike Wirth:
Jonathan, we can move on to the next question, and we can clarify that we've got a good connection with him.

Operator:
Yeah, he disconnected. All right. Our next question comes from the line of Devin McDermott from Morgan Stanley, your question please.

Mike Wirth:
Devin, we're not hearing you either. Jonathan, is there something going on in the bridge there?

Wayne Borduin:
Yeah, as we've been discussing there does appear to be an audio problem in what we're hearing over the line, the last few minutes, Jonathan.

Operator
What kind of audio issue are you hearing about? What is it?

Devin McDermott (Morgan Stanley):
Okay. Can you hear me now?

Mike Wirth:
Yes, we can hear you.

Devin McDermott:
All right. Yes. Okay. I wasn't on mute. But it seems like it wasn't going through, but you can hear me now, maybe I'll try to pick up where I think Phil left off on the stress test for $30 Brent. When we think about where this stress test takes you from a leverage standpoint or debt to capital standpoint over that two-year period. Can you talk a little bit about where you'd end up at the end of 2021 and where you would be comfortable in terms of taking leverage to? (Technical Difficulty)

Mike Wirth:
I think we got the essence of it, which is, where do you end up at the end of 2021 and how comfortable are you there. Pierre, why don’t you respond to that?

Pierre Breber:
Yeah. So, thanks for the question. The chart on the left gives an indication of the negative cash flow that we expect under a stress test at $30 Brent and the chart on the right shows our debt position relative to peers and relative to the zero line, which is a net debt ratio of 25%. And when you put the two together - where the negative cash flow or that incremental debt - we’re still to the right of that zero line.

So, in other words, we can have two years at $30 Brent, invest in the business, sustain our dividend, and still exit at the end of 2021 with a net debt ratio of less than 25%, which we think is still a very strong balance sheet.

Mike Wirth:
Yeah, I might just add that we're protecting the dividend because we're set up to do so, and we've made it a priority. As Pierre said, we enter with balance sheet strength that is second to none, an advantaged portfolio with a low breakeven, and capital discipline that's part of our DNA. We've demonstrated it [capital discipline] through the way we're managing capital spending, our discipline on transactions, and we've got capital flexibility. And all of this is because we're committed to the dividend. And you can see that. While we do lean on the balance sheet to fund the capital program over this period of time, we can support the dividend comfortably and still remain in a very healthy position and we've set ourselves up to do so.

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

Devin McDermott:
Yes, so a follow-up just on the capital spending side. Building on that a little bit. So you talk a little bit about how you think about the trade-off between some of the near-term cuts in capital spending, which really skew more towards short cycle versus one of your priorities of retaining long term optionality and continue to support longer-term growth - so that preservation of long-term value point. So how do you think about that trade off and how much additional flexibility, if any, is there as you look at the budget where it stands today?

Mike Wirth:
Yeah. Devin. So, a few years ago we really had a budget that was skewed towards the long term end of the spectrum and we've consciously shifted that now to have the short-term weighting much higher within our portfolio because it gives us the flexibility that you talked about. It's underpinned with the longer-term projects, but it's not dominated by those. So, we built a more flexible portfolio that allows us to slow down the short cycle investments when the market signal indicates that those are not being rewarded in the marketplace.

And yet we're maintaining the ability to ramp those up. And we have longer-term capital projects that are earlier in their phase and we'll be very disciplined in bringing those forward. The other thing that's different, that's really important is a much larger percentage of our portfolio now is facility-limited versus reservoir limited and characterized by the kinds of declines that you can see in a different portfolio. And that enables us to hold production with more modest capital spend and preserve the cash flow that's associated with that. So, look, we're conscious of things like leases, we're conscious of the way we're developing our resources. But we're trading those things often, and when the market is not calling for near-term production, we shouldn't be investing to deliver it. We should be conserving the cash for another day. And that's really how we're balancing this out. Thanks Devin.

Devin McDermott:
Great, thank you.

Operator:
Thank you. Our next question comes from the line of Doug Leggate, your question please.

Mike Wirth:
Doug, we're still challenged here with this audio situation. I'm afraid we're not hearing you. I apologize for this.

Wayne Borduin:
Yeah, Jonathan, why don't we pivot to the next question in the queue?

Operator:
Okay just one moment. Mr Leggate, your line should actually be open at this time. Hello? Are you on mute? Okay. Our next question comes from the line of Neil Mehta from Goldman Sachs. Your question please.

Mike Wirth:
Okay. There is a repeating pattern. A little frustrating I'm sure for everybody on the line. And certainly, for us.

Neil Mehta (Goldman Sachs):
Can you hear me okay? I'm not sure - maybe a little bit of a pause and it works. All right, well thank you. So I guess the first question was around curtailments and can you walk us through, with a little more depth about where they are, magnitude, and as we think about production shut-ins what gives us confidence that there won't be any structural damage to the assets? And we have confidence that spike can return when the market ultimately needed?

Mike Wirth:
Sure. And so, let me just frame it up a little bit. Neil, I was just talking to Devin about balancing cash flow and long-term value and that's certainly a key driver here as we're looking at curtailments. We are trying to avoid the need for abrupt shut-ins. So, broadly speaking these are curtailments rather than shut-ins with a very conscious effort to preserve reservoir and well integrity. We do these things for turnarounds, for storms, and the like. So, we know how to do this quite well and we really don't expect any issues as we ramp back up.

Curtailments in April were relatively modest. As Pierre outlined with the forward guidance - May and June look like they could be more significant about 50-50 between the US and rest of the world. And certainly, in the US, the Permian - the short-cycle piece of it is the predominant part. Around the rest of the world, it tends to be related to OPEC and OPEC plus commitments in the way those are translating into local conditions, but we're very cognizant of where and how we slow production and expect to be able to return production when the market changes in relatively short order without putting reservoir and well integrity at risk.

Neil Mehta:
Yeah. Great. Tengiz. We see that you put a pause on the project or at least slow down spending. So, can we do status check how far you've gotten so far and how it's progressing? What the ultimate plan is around execution from here? And any early thoughts on what that slowdown could mean for the full project budget?

Mike Wirth:
Sure. So, the project is about 75% complete right now. Construction is 56% percent. Logistics are working very well. As I said, there are only 7 modules left in Korea and all of those will have departed by the end of this quarter. We've got a number on the water, additional ones at the transshipment locations, and some moving through the waterways. So, the logistics are moving quite well.

Since late 2019, we've got all of the pipe racks and the gas turbine generators and utility modules on foundation, and we continue to work on the critical path. Locally, I mentioned we've seen COVID cases in a number of the camps, there's over 100 different residential camps there, and as a result we are demobilizing non-essential staff to minimize the risk of spread. That means we're demobilizing about 17,000 people to 20 different locations. Most of these are contractors not employees of TCO. But we are helping to manage the logistics - we're moving people back to other parts of Kazakhstan, Turkey, Russia, Singapore, the UK.

We need to provide contact tracing information for everybody who demobilizes. We've converted a fire station to a test center. We're testing 100 people a day. We've got 29 nurses. They're working around the clock. So, a very thoughtful effort on how we demobilize. The people that are remaining are working in essence under a POD strategy where workforce is isolated by shift, and by crew. We've got boxed meals, digital permits, and we've got dedicated drivers and cleaners and things to really reduce the risk. Employees are all outfitted in proper PPE and the like.

We are maintaining pretty good schedule progress on the critical path despite all of this, which allows us to focus the workforce on critical path and to demobilize some of the non-critical path activity. Our power and control work, the gathering system, the sour gas injection system, are all several months ahead of the critical path and that enables us to slow down and mitigate some of these risks.

The biggest challenges are in the area of crew changes. So, we have people working on some extended rotations, transit in and out in the labyrinth of travel restrictions at each level, cities, countries, et cetera is something we're managing aggressively and carefully. We're testing people as they arrive to minimize quarantine on arrival. So, a very focused and thus far, I would say a very successful effort to respond to this. The main focus is on the pressure boost facility in the utilities in the processing plant, which are on the critical path. In terms of the actual reduction in C&E our share about $1 billion, about half of that is deferral of activity. About a third of that is mitigation of cost growth through aggressive creative measures. And the balance is really related to foreign exchange.

So hopefully that gives you a sense of where we are and certainly as we go forward. Every call we'll know more, we'll see how things have unfolded there and we will provide you additional information as we have it.

Operator:
Thank you. And our next question comes from the line Jeanine Wai from Barclays. Your question please. There might be a slight delay. Jeanine, your line is open. Jeanine?

Wayne Borduin:
Jeanine. Can you hear us? Okay. I guess, Jonathan, why don't we go to the next question.

Operator:
Oh Jeanine, I believe your line is open now. Okay great.

Jeanine Wai (Barclays):
All right. Okay. So, the delay is getting longer and longer.

Wayne Borduin:
Thank you for your patience, Jeanine.

Jeanine Wai:
No. Thank you. By the way, there has been some feedback that the webcast isn't working as well. So, just to let you know. So, my first question, now that you can hear me, is on sustaining capex. We know Mike, that you don't really talk about sustaining capex on a one-year basis at all, but can you comment on whether the new $12 billion annualized capex run rate is enough to maintain what you would consider acceptable reserve replacement ratio over a longer term period and whether this can also allow you to achieve your corporate objectives of increasing ROCE, shareholder returns and all that, but maybe at a different rate from what you thought before?

Mike Wirth:
Yeah, Jeanine you are correct. This really isn't a way that we think about the business. It's not something we rely on or plan around to measure the business. So, it's not a simple question to answer, because it's just not how we think about things. We do understand it's a question among some of the investment community. Pierre has been thinking about how to try to help you guys understand this a little bit better and translate from how we run the business to how these questions come in. So, Pierre. Maybe you can help Jeanine with that.

Pierre Breber:
Yeah, thanks Jeanine and as Mike says we don't think about the business this way and to the earlier question, we're not sustaining short-term production. Right? That's a very deliberate choice Mike talked about that. The price signal says, we don't need short-term production and we're prioritizing capital on long-term value. So again, if sustaining short-term production is part of the definition, then it's just not how we manage the business as we're trying to balance the short-term and the long-term.

But if we think of sustaining capital as kind of an analytical construct. That's really the capital to keep upstream production capacity flat from existing fields, for a number of years. And so, in that definition, I'd exclude exploration, I'd exclude capital to develop new fields or for expansions like in Tengiz, I'd exclude assets that are sold or contracts that are going to expire and I'd exclude downstream and chemicals. And so, if you go through that and you know, we talk about $11 billion for our upstream base business and shale and tight total capital and that results in some growth, about 10 billion would be a reasonable estimate of the capital to keep that production capacity flat from existing fields, for a number of years.

Again, we're below that right now. Right? We started with base and shale and tight at $11, if you roll through the reductions, we'll be under $8. So again, short-term production, we do not expect to be sustained at your kind of notional $12 billion capital which includes downstream and chemicals with some cuts and exploration. But long-term value is preserved. Thanks, Jeanine.

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

Operator:
No. Follow up. Okay, all right. Next question. All right. Our next question comes from the line of Paul Cheng from Scotia Bank your question please.

Mike Wirth:
We'll be patient here because it seems like it takes 10 or 20 seconds for this to start. So, Paul hang in there and we're waiting on you.

Operator:
We are promoting you so you can speak. Okay. Mr. Cheng your line should be open at this point.

Paul Cheng (ScotiaBank):
Hello, can you hear me?

Operator:
Great. Yes.

Mike Wirth:
We've got you, Paul.

Paul Cheng:
All right, thank you. I think that it seems that potentially that will cut off so I will ask both questions. First, I think the first one might be now that the sector is being compressed, and a lot of your peers is under distress, if there is a deal, how much is the balance sheet are you willing to risk in this kind of environment for the right deal at all? And the second question, maybe it may as well that I ask that just in case I get cut off. This is for Pierre. You have a strong balance sheet, but it looks like you going to have a substantial cash burn for this year and next year on a pretty depressed pricing environment that we see. You some debt that they make sense for you given the debt market is actually open and the cost is quite low for you at this point to raise even more debt to pre-fund the potential cash burn or that you think the commercial market is readily available and you don't need to do that?

Mike Wirth:
Okay. Yeah, Paul, you're an experienced multi-part questioner. So, I think that was good to get both of those in. Let me, let me give you a quick response. And then, Pierre, I'm sure he'll have some thoughts he'd like to add there. The reason we showed this low-price stress test, Paul, was to give you a sense that we really can endure a couple of years of really tough pricing and our gearing would move back to a level that is not an uncomfortable level to be at. In fact, Pierre has said frequently that over time we would anticipate moving our gearing back into the kind of 20% to 25% [gross debt] range anyway.

Now this isn't necessarily the way we thought we would get there, but that's not an uncomfortable place for us to be. So, leaning on the balance sheet through this period of time is something that's very doable and we'll maintain a strong credit rating as we do that and so we're certainly willing to go there. And as you know, in years gone by, you go back a few years ago, our gearing was above that 25% and so I think we're in a range that we've demonstrated we can manage, and we know how to. In terms of going to debt markets at low cost, I do think that it's prudent to look at that and debt is attractively priced right now, and it wouldn't be surprising for us to look to add to that. So, Pierre, maybe you can comment.

Pierre Breber:
Yeah, I think there was an M&A question too there about using our balance sheet for M&A. But I think I can just address. You know, you can also use equity as part of a transaction, so we don't view the balance sheet as the only means to do M&A because equity makes sense in an oil deal where there is price risk and obviously price volatility and you wouldn't want a winner and loser between the buyer and the seller on an M&A deal.

I think Mike addressed the debt question. As we, as we consume cash, we will lengthen out our maturities will look at, when there is a good window to approach the bond markets, we do have access to a lot of commercial paper, that was shown on the liquidity side. Commercial paper still remains the lowest cost and the most flexible source of funding for us, but under these kinds of conditions, and if the conditions persist, we would want to have some more longer-term debt that would be appropriate. And I think, as Mike said, you shouldn't be surprised if you see us approach the market.

Mike Wirth:
Thanks, Paul. I'm sorry, I missed the M&A angle on your first question.

Wayne Borduin:
Okay. Let's go to next question.

Operator:
Okay. Our next question comes from the line of Paul Sankey from Mizuho. Paul, your question please.

Wayne Borduin:
Hang in there, Paul, for some reason we're still working through the delay. Paul we're ready for your question.

Operator:
All right. You should be open and live now. Okay. Paul. We're still not hearing you. You might be on mute.

Paul Sankey (Mizuho):
Hello, can you hear me?

Operator:
Yes.

Mike Wirth:
We've got you Paul.

Paul Sankey:
Hallelujah. You know, to add to the confusion that I was indeed on mute, believe it or not. I apologize. Sorry about that. Mike, the question is how has the world changed for you post this thing? Obviously, we can see the future strip is pressured for 2021 and I think you've addressed that a little bit. I think it's clear that your mega projects, Australia, Kazakhstan sort of continue as they were and will ultimately have regular break-evens when they're running. I guess the question would be firstly on the Gulf of Mexico, is the world do you think different there? And most importantly, obviously if your company, we know that you wanted to buy Anadarko for the acreage in the Permian. How do you think that the world has changed as regards to the Permian given what's happened? Thank you.

Mike Wirth:
Okay. Thank you, Paul. Well you know it's; I think when you're in the depth of something as unprecedented as this, it's hard to say exactly how the world will change. On the other side of it and as much as it feels like this is going on for a long time, we're just a couple of months into it. And so, I think on the other side of it, I'm an optimist. I have great confidence with all the resources being dedicated to vaccine development and therapeutics and testing capacity, I'm an optimist that in time the health risks will be successfully mitigated and managed. I believe that the world will return to some post-Coronavirus form of normal. And that means economic activity. It means growth. That means travel. The

pace and the patterns at which that re-emerges I think are still open to a wide range of views. And I don't know that anybody can predict that exactly.

But when you translate that back to our industry, I think it plays into some things that we have long believed, which is low cost of supply matters. Operational excellence and discipline in project execution matters. Capital discipline matters. Cost discipline matters. And all of those things will become very apparent as we recover in some form with inventory length in the market, with OPEC production off, and with the opportunity for shale and tight to come back in relatively rapidly. And so, I think the term lower for longer has been used for a while to describe conditions. I think that is even more appropriate today than it has been in past times when it's been used. I think we need to be very focused on efficient use of every one of our resources to operate well and to drive the cost of supply down in a world that looks like it will be well supplied.

So, you get to the Gulf of Mexico and the Gulf of Mexico has been resetting its cost structure to compete in a world like this. I think it means we've got more work to do to make the Gulf of Mexico compete even more. More focus on tiebacks, infill drilling, utilizing existing infrastructure and finding efficient ways to develop in the Gulf of Mexico and so that trend is one that we need to stay on. We've made a lot of progress and I think there is more work to be done there. In the Permian. We're not done improving in the Permian. Our results even as we sit here today, continue to improve. And so well costs come down, drilling efficiency improves, completion design and execution improve. And the hydrocarbons haven't gone away. The rocks don't go bankrupt, companies might but the rocks won't. And I think that's a resource that will continue to be a very important in the overall supply picture and certainly it will be for our company.

And so we'll look to invest in the very best projects, but we will look to acquire assets and opportunities, be they through exploration or other means, that will compete in our portfolio and continue to be attractive in a world where low cost of supply and the ability to generate good returns matters. So, in some ways those fundamentals are only more important going forward than they have been, Paul. And beyond that I think its speculation on a lot of the other things you hear people talk about.

Wayne Borduin:
Thanks, Paul.

Wayne Borduin:
Okay. So, we're going to pull an audible here. I've actually have **Doug Leggate's (Bank of America)** questions keyed up. He had trouble dialing back in. So, he texted me his questions, Mike and I'm going to feed them to you that way. So, the first one was for Mike. Shell thinks the whole industry needs a reset, a change in long-term supply etc. They just cut the dividend to adapt. What do you think of the big picture at this point? And then the second one will be for, Pierre.

Mike Wirth:
Okay. Look, I think everybody is, it's interesting, Doug and apologies, we couldn't get you on the phone directly. I wish we could have the conversation directly. I think we've actually seen more of a divergence and strategies and thinking among companies in our industry over the last few years than we have in a long time and everybody has a slightly different take on where they're going and where their strengths are and I can't, speak for another company.

I will just tell you, it's very similar to what I was saying in response to Paul Sankey's question. I think the companies that can be reliable, efficient, low-cost providers will continue to have a very strong position as leaders in our industry. The world is not ready to transition to another source of energy in large part anytime soon. So, the resumption of economic growth will require the sources of energy that we know today and that fuels the world today and there will be a need for

what we do. I think you have to be very honest with yourself about where you’re good and where you're not. You've got to focus on improving and closing gaps where you need to improve and getting even better, where you have strengths. So, it gets back to the fundamentals - capital discipline, cost discipline, project execution, and the ability - if we haven't said it clearly enough - your balance sheet is a great asset. And oftentimes, we think of our upstream or downstream assets as the most important assets and they're very important in our business. [However], the balance sheet is also a very important asset. You have to treat it with a priority, you have to be prepared for the day when you need to rely on that assets and I think that also becomes very, very important as we move forward.

We've been prudent in the way we've managed that [balance sheet]. We were positioned differently than others. As we went into this [downturn] and, as I said, while we wouldn't have predicted this exact market scenario. We were prepared for an environment like this and we will navigate our way through it with our shareholders in mind. Second question?

Wayne Borduin:
Yeah. Second question [for Doug Leggate] is around cash capex, of the $14 billion guide how much of that cash capex and how much further can that go down without impeding cash flow and production?

Pierre Breber:
Yes. So again, sorry, Doug. We couldn’t get you on. So about $9.3 billion is the cash capex equivalent to $14 billion so it, was $10.5 billion at $16 billion, so it went down $1.2 of the $2 billion additional reduction is in cash capex. I think Mike addressed it and I addressed the sustaining capex again. At the capex levels, to Jeanine’s question, when we were at $12 billion and when you back out downstream and exploration we are below the level to sustain short-term production and again that's a deliberate decision because there's not a lot of value in putting capital that results in production at current prices. We are investing and although we're below the $10 billion [sustaining capital on Base and Shale and Tight] which will cause some decline, we are investing in TCO FGP / WPMP which will come on in 2022 and 2023 and provides long-term value.

So again, the choices that Mike and the leadership team are making are really balancing the short-term and the long term and being thoughtful about where the capital reductions are and where the capital investments are.

Wayne Borduin:
Thanks, Doug for your questions. Jonathan will take the next one in the queue.

Operator:
Certainly. Our next question comes from the line of Pavel Molchanov from Raymond James, your question please.

Pavel Molchanov (Raymond James):
Thanks for taking my question. Along the lines of what you said about the energy transition not being as realistic perhaps as it a lot of folks are saying. Your CO2 targets assumed pre-COVID production rate, given that across the board volumes will be coming down. Are you looking to upsize those decarbonization targets that you put out last summer?

Mike Wirth:
Pavel it's interesting everybody in the industry has defined their targets a little bit differently and we haven't actually put out absolute targets. You would expect absolute greenhouse gas emissions to come down if people are restricting activity. We put out intensity targets, so greenhouse gas emissions per unit of production. We've got a target for per barrel of oil and per mcf for gas production in the upstream. We've got flaring and methane emission targets. All of

which are unit targets that drive down unit emissions. So, we have not reset those, and we would expect that we will continue to reduce our greenhouse gas emissions irrespective of COVID or any of these other circumstances.

These are commitments we've made. We've tied people's compensation to them, and we intend to continue to reduce our emissions footprint.

Pierre Breber:
Just another addition and another distinction is that we've done it on an equity basis. So, whether we operate or don't operate, all the barrels and all the mcfs are included in those intensity metrics that Mike talked about, not just our operated barrels.

Pavel Molchanov:
Quick question on LNG, if I may. Is there any change in the historical linkage between Asian LNG prices and Brent crude given what has happened in the last 60 days?

Mike Wirth:
The contracts have not changed and of course we sell most of our volume on contract. Our contracts are typically not linked to Brent directly but linked to JCC or Japanese Crude Cocktail and another one is linked to a JKM Index, which is a gas related index. So, I think commodity prices have some sympathetic relationship with one another, but they're not always perfectly correlated. And so, I think you would certainly say that our crude linked contracts will reflect crude prices and to the extent Brent has come off eventually our crude linked contracts will reflect that. They tend to be on a lagged basis, so they don't always reflect current-month pricing, but broadly speaking, yes, you'll see, a connection between those two.

Operator:
Thank you. Our next question comes from the line of Doug Terreson from Evercore, your question please.

Doug Terreson (EvercoreISI):
Mike, you were an early adopter of disciplined capital management model and that is obviously served your shareholders well during the upturn and now the downturn too. So, first, kudos to you for that. And then, to the points about industry stress which I think Paul brought up earlier, which often lead to consolidation. My question is, while financial benefits are often available in a variety of transactions, strategic benefits on the scale that you guys receive from Gulf, Texaco, and Unocal back in the day may or may not be this time around and so I wanted to see if you'd frame the strategic condition today, how you think it's similar or different from prior downturns, given your history and also any other notable color or philosophy that that you want to share on this topic.

Mike Wirth:
I guess if you go back all the way to Gulf and that takes you back to the '80s. The industry was highly fragmented even amongst the largest players. And so, there were, as you say, financial benefits of consolidation and there were strategic benefits as you brought together portfolios that had gaps in them, and we certainly saw that with Gulf. We saw it again with Texaco.

I think today we've got fewer large players. And so the impact of any single transaction that is not amongst large players and those are pretty hard to do as you get down to small numbers, they are less profound both from a financial standpoint simply because you don't have the same scale that you are consolidating, and it flows through to the asset portfolios. So, the players like ourselves and our big peers have exposure to many basins around the world and to all segments of the value chain.

I think everybody has work to try to optimize their portfolios in a way they think fits with their strategy. And so, I think your point is good. You can do rifle shots that would be smaller both on the financial and the strategic dimension that could fill in nicely. But things that would be transformative, the way we saw back around the 1999/2000 period, I think you're right, I think that's a lot harder to envision today and everybody has become more efficient, so even the synergies that we saw back then - technology was different, information technology was different, and productivity was different.

I think competition has made everybody sharper and more efficient. Financial synergies are harder to capture.

Doug Terreson:
Okay, thanks for the color. Mike.

Mike Wirth:
Okay. Doug. Thank you. Jonathan, we're going to keep going a little bit past the top of the hour since we had the [technical] problem, which seems to be resolved. Now, so let's we'll be sure we can get to a couple more of the questions.

Operator:
Absolutely. Our next question comes from the line of Biraj Borkhataria from RBC your question please.

Biraj Borkhataria (RBC):
Hi, can you hear me.

Mike Wirth:
We sure can Biraj.

Biraj Borkhataria:
I'll get my two questions, just in case, but the first one is on the Permian and shut-ins and economic. So, I guess you mentioned the 50% of the curtailment is in the US and then most of that is the Permian. I was wondering if you could talk about the process on how you got to the number you are looking to curtail and why that is the appropriate number for the environment that you see that would be the first question.

And then second question is on your capex reduction. Obviously part of this is economics, but there is another element, which is not necessarily choice -you mentioned slowing down Tengiz, I was wondering if you could quantify the element of capex that is simply capex that you couldn't spend even if you wanted to. So logistical reasons or otherwise. Just trying to get a sense of that would be helpful.

Mike Wirth:
On the Permian curtailment we've pulled capital down significantly. So, we're not putting capital into bringing new production online. As you look at flowing production, not every barrel is created equal. We've got some older vertical wells for instance that in this kind of an environment have pretty marginal economics. We would look at those. We've got barrels that have a different oil and gas ratio, so we would look at that. We look at netbacks, logistics, value chain cash flow, storage cost, future prices, and a whole host of things.

And then as I mentioned earlier, the desire to avoid a future need for abrupt shut-ins if we perceive logistics and flow curtailed. So, there are a series of things that we've have a team looking at across the entire basin and factoring into

decisions that we think are prudent decisions from a value standpoint and an operating standpoint. It's a moving target and this is something that our senior leadership team is involved in multiple times a week. The models to do this, to understand markets and to stay really in touch with markets to be sure we make good decisions and continue to be informed by new information and so it's a very dynamic process that we're engaged in right now.

On the capital side, on the kind of non-discretionary non-our choice capital, Pierre can you take that one?

Pierre Breber:
I think the vast majority are our decisions and choices we're making, but it gets into how you define it. For example, in Tengiz we're choosing to demobilize the non-critical path project personnel, but clearly that is COVID related. So, I don't know if you call that a choice. We have a crisis management team that is overseeing supply chains and the whole system. But the bottom line is the vast majority are decisions that we are making. In some cases, with partners we're seeing, in almost all cases, partners are very aligned on actions that we're taking. Now, we do have some currency effects - the dollar is stronger. So, that is part of the capital reduction. It is also very modest. That's a reflection of currency effects. But I would look at the vast majority of the 30% reduction as being choices that we're making to flex capital, pace capital, and defer capital which is largely driven by our decisions to balance cash flow and long-term value. Thanks, Biraj.

Biraj Borkhataria:
Understood, thanks.

Operator:
Thank you. Our next question comes from the line of Jason Gabelman from Cowen, your question please. Please Jason, your line is open. You might have your phone on mute. And we're still not hearing you.

Wayne Borduin:
Let's hang on for one more second here. See if the Jason if you can hear us.

Operator:
We're not hearing you.

Wayne Borduin:
Okay. I guess it looks like maybe he has dropped off. Okay. Let's go to the next question Jonathan.

Operator:
Certainly. Our next question comes from the line of Sam Margolin from Wolfe Research, your question please.

Sam Margolin (Wolfe):
Hey, can everybody hear me?

Mike Wirth:
We can Sam.

Sam Margolin:
All right. How you doing? So, I'll just ask sort of a focused question, we've gone over a lot of high-level stuff but…

Because of your downstream footprint you have a pretty good look into Asia. Some other operators have been talking about some interesting observations they've made about, you know, the timing disparity between Asia emerging from the COVID crisis versus the rest of the world and kind of using it maybe as a soft proxy around the slope that demand might recover, or what that might look like on the other side of this. Could you share whatever observations or thoughts you have around what you're seeing?

Mike Wirth:
Yeah, you know. Sam, there's a great quote from Lee Kuan Yew that Asia is a figment of the Western imagination – it was a more of a cultural quote. But Asia is a big area - the reason I bring that up. And what's happening in China is different than what's happening in Indonesia right now, and what was happening in South Korea is different than what's happening in Thailand. And so, broadly speaking I would say, Asia and other parts of the world, it would appear that demand has found a bottom and that we're kind of bumping along the bottom right now. And the big, biggest hit has been on aviation fuels and then you've got gasoline which is off 50% - give or take - around most of the world, diesel more like 25%.

And so, these numbers generally hold most of the places where we're doing business right now. And then you have regional signals and signs that things are starting to move. China clearly has come off the bottom. Some other markets in Asia that have seen kind of a second wave and they've reinstituted some of these lock down type policies. The green shoots seem to have pulled back a little bit. So, I would say it's highly specific to the market in Asia, where you are, but there are certainly signs in a number of markets of a resumption of activity and a resumption of demand growth. And they tend to correlate pretty well with when the policies are relaxed, and people can begin to get back to work and start to move around again.

And so, I think there are small positive signals. We had a meeting earlier this week, where we talked about it being not the beginning of the end, but the end of the beginning. I think, it feels like we're finding the bottom right now. And then the path up out of this is likely to be different in different regions of the world as it ties to the health status in those parts of the world. But I think this quarter and perhaps next quarter feel like we're about, you know, as I said bumping along the bottom and going to begin to emerge out of it, at some point over that time.

Wayne Borduin:
Thanks, Sam.

Sam Margolin:
Thank you so much.

Operator:
Thank you. Our next question comes from the line of Ryan Todd from Simmons Energy, your question please.

Ryan Todd (Simmons Energy):
Thanks. Can you hear me?

Mike Wirth:
Loud and clear Ryan.

Ryan Todd:
Great. Good morning everybody maybe a couple of quick ones. The $2 billion of additional capex cuts - on the fuzzy chart, that looks like it's coming from, kind of spread across all businesses. Any additional color on where the cuts are

coming from? And in the Permian, I think the exit rate at the end of the year was still the same, so maybe any thoughts on how we think of the trajectory there, in the Permian? And then I have one follow-up.

Mike Wirth:
Yeah. So, the $2 billion broadly you can think about a little bit less than $1 billion coming out of major capital projects and that's primarily TCO. So, we've already factored in a little bit of reduction in TCO in the first reductions down to $16, but not nearly as much as we're seeing now. So, call it $800 million or so on major capital projects. About $0.5 billion each on unconventionals and on other base business. And the unconventionals would include not only Permian, but also Argentina and Canada. And then about another $200 million coming out of downstream and chemicals. So, I think if you take those and rack them up, that gets you to the, to the $2 billion.

On the Permian, our guidance still is that we will exit the year at roughly the level that we came in, or 125,000 barrels lower than what we had initially indicated if you were to look at the chart we used at the Investor Day meeting. And notwithstanding the fact that we're seeing some curtailments there and we're pulling back on the rigs, the momentum coming into the year has been strong and Permian production growth in the first quarter, which largely reflects wells that were put on production last year, and we had more POPs [put on production] in the second half of the year than we did in the first half of the year. First quarter Permian production was strong. And so that will peak out here over the middle part of the year and come back off as the effects of the capital reductions and the curtailments roll through the system. But our expectation is that we'll exit roughly where we entered, which is about 125,000 less than the numbers we showed you in early March.

Wayne Borduin:
Thanks, Ryan

Ryan Todd:
Thanks, Mike, maybe one more.

Mike Wirth:
Yea you've hung in here. You get a follow up.

Ryan Todd:
I know there's a huge amount of uncertainty right now is (inaudible) clear, but maybe thoughts on implications as we think of the recovery coming out of this. In a very specific sense on curtailments, what's the signal? Is it clearly just net-back price that will drive the resumption of those volumes at least on the ones that you operate and control? And then as we think about the budget as we move out of the current level of spend, and you start to work your way back towards maybe the $20 billion level that we were in before, I mean how do you, what are the sort of signals that you see that will I guess first allow you to turn on curtailed volumes and then allow you to put rigs back to work in the Permian?

Mike Wirth:
Yeah, so on the first one on curtailments, it was either going to be market signals or on the economic value of those barrels. And netbacks will be an important part of that, because we can pull some of these things through the value chain into markets. And we'll see what export markets look like. We've got a refinery that we pull some of our Permian production into. So refining margins in the value chain opportunities will play into our thinking there as well. So, we look at these things across the entire value chain. But it will be an economic signal that says these barrels are being called for by the market and the contribution is more positive.

In terms of the capital spending, those are longer cycle decisions than curtailments. And I think you can expect us to be thoughtful and not rush capital back into the market prematurely, but it will be our view on where markets are headed.

So, curtailments is kind of more or less where markets are, or where they likely to be in the relative short-term. Capital spending is going to be more of a medium-term kind of a view. And it's because this flexible asset class. We don't need to really look at the long-term signal. We always, we always factor that in, but, but the medium term given the production profile on each individual unconventional well - we'll be looking at signals that suggest that that's strengthening and that the demand is there. And you're going to watch OPEC. You're going to watch inventories. There's a whole series of indicators, I think that will help us inform decision making there.

Wayne Borduin:
Thanks, Ryan.

Operator:
Thank you.

Mike Wirth:
I think we have one more question in the queue.

Wayne Borduin:
No, I apologize. It was Jason Gabelman and it looks like he dropped again. We were going to try to get Jason back in. Jason Gabelman. Sorry about that. With that I'd like to thank everyone for your time today and we do apologize for some technical and audio challenges. Rest assured the transcript will certainly be posted shortly after the call today.

Mike Wirth:
Yeah. I appreciate your patience and I apologize for the technical difficulties. I'm not sure what happened but not only will the transcript be posted, but this will be investigated and corrected.

Wayne Borduin:
Please stay safe and healthy. Jonathan, back to you.

Operator:
Thank you, ladies and gentlemen, this concludes Chevrons first quarter Earnings Conference Call. You may now disconnect.