1Q23 Earnings Conference Call Edited Transcript

Friday, April 28, 2023

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This transcript is meant to be read in conjunction with the First Quarter 2023 presentation posted on chevron.com under the headings "Investors," "Events & Presentations."

Chevron

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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 Katie, and I will be your conference facilitator today. Welcome to Chevron's First Quarter 2023 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 General Manager of Investor Relations of Chevron Corporation, Mr. Jake Spiering. Please go ahead.

Jake Spiering: Thank you, Katie. Welcome to Chevron's First Quarter 2023 Earnings Conference Call and Webcast. I'm Jake Spiering, General Manager of Investor Relations. Our Chairman and CEO, Mike Wirth, and CFO, Pierre Breber, are on the call with me. 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. Please review the cautionary statement on slide two. Now, I will turn it over to Mike.

Mike Wirth: Thanks, Jake. Chevron delivered strong financial results again last quarter – the seventh consecutive quarter with return on capital employed greater than 12%.

This enabled another record for cash returned to shareholders while maintaining a strong balance sheet.

Since our Investor Day two months ago, we've remained focused on executing our plans:

- Achieving important milestones in our project in Kazakhstan,
- Continuing to build activity levels in the Permian,
- Positioning Bayou Bend to be one of the largest carbon storage projects in the United States, and
- Safely and reliably delivering oil, products and natural gas that help power the global economy.

Next week, we'll publish our Corporate Sustainability Report. I encourage you to review it on our website as we provide updates on the ESG topics that matter to our business and our stakeholders.

In closing, while commodity markets remain uncertain, our approach is unchanged: capital and cost discipline applied to advantaged assets in both traditional and new energy businesses and steady returns of cash to shareholders.

You can see that consistency in our actions and our results.

Now over to Pierre to discuss the quarter.

Pierre Breber: Thanks, Mike.

We reported first-quarter earnings of $6.6 billion or $3.46 per share. Adjusted earnings were $6.7 billion or $3.55 per share.

We had one special item this quarter related to changes in the energy profits tax in the United Kingdom. The appendix of this presentation contains a reconciliation of non-GAAP measures.

Strong operating cash flow enabled Chevron to deliver on its financial priorities during the quarter:

- 6% per share dividend increase,
- Higher Capex within budget,
- Net debt ratio under 5%, and
- Share repurchases at the top of our prior guidance range.

Adjusted first quarter earnings were up over $200 million versus last year despite 20% lower oil prices.

Adjusted Upstream earnings were lower mainly due to realizations and adjusted Downstream earnings increased primarily due to higher refining margins.

Both segments benefited from a change in timing effects.

Higher interest income and lower accruals for stock-based compensation decreased All Other charges.

Compared with last quarter, adjusted earnings were down $1.1 billion.

Adjusted Upstream earnings decreased primarily due to lower realizations. Other items include the absence of last quarter's dividend withholding tax at TCO and lower exploration and transportation expenses.

Adjusted Downstream earnings were essentially flat, lower margins and volumes were offset with higher chemical earnings and other favorable items including trading results.

Lower accruals for incentive-based compensation decreased All Other net charges and also benefitted the operating segments.

First quarter oil equivalent production was down about 80 thousand barrels per day from last year due to the expiration of a contract in Thailand and the sale of our Eagle Ford asset. This was partially offset by growth in the Permian.

We expect 2023 production growth in the Permian to be back-end loaded as wells put on production (POPs) increase across both operated and non-operated areas. We expect our royalty production to be roughly flat.

As discussed during our investor day, we're increasing activity in New Mexico. All four company-operated rigs added this year, one each quarter, will be in New Mexico; leading to more POPs expected in the second half of the year and into 2024.

We also continue to be active in Texas. Last year, about half of our company operated production was in the Delaware Basin in Texas; with the remainder split, about evenly, between the Midland Basin and New Mexico.

More than half of our non-operated production is with five major operators in large, contiguous positions in core areas with multi-year development programs, where we have visibility to capex and execution schedules, and a royalty benefit compared to the operator.

The balance is with dozens of other operators where we have a little less visibility but similar predictability from greater diversification.

More than half of our royalty production comes from the Pecos River area, in the heart of the Delaware Basin. The balance of our royalty position is in the remainder of the Delaware and Midland Basins, also with well-known operators.

In summary, Chevron has a large, diverse position in the Permian, with a unique royalty advantage, where we learn from our own operations and from others.

Now, looking ahead.

In the second quarter, we expect planned turnarounds at Gorgon and in the Gulf of Mexico, along with downtime at an FSO in Thailand, and a number of planned refinery turnarounds.

Also, we expect share buybacks to increase to a $17.5 billion annual rate.

In summary, first quarter was another quarter with strong financial results, continued capital discipline, and a steady return of cash to shareholders. We're confident that consistent and straightforward management, through commodity cycles, will create value for stakeholders.

Back to you, Jake.

Jake Spiering: That concludes our prepared remarks. We are now ready to take your questions.

Please limit yourself to one question and one follow-up. We will do our best to get all your questions answered.

Katie, please open the lines.

Operator: Thank you. If you have a question at this time, please press star one on your touchtone telephone. You may ask one question and a follow-up question. If your question has been answered or you wish to remove yourself from the queue, please press star two. If you are listening on a speakerphone, we ask you please lift your handset before asking your question to provide optimum sound quality. Again, if you have a question, please press star one on your touchtone telephone.

Our first question comes from Devin McDermott with Morgan Stanley.

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

Mike Wirth: Good morning, Devin.

Devin McDermott: Good morning. There were some helpful detail in the slides and the remarks on the breakdown of Permian operations.

If I look at the quarter, your volumes did fall a bit sequentially in 1Q versus 4Q, I was wondering if you could just talk in a bit more detail about some of the drivers there? How things are going as you ramp New Mexico activity, and then specifically, the confidence that you have in that back-half weighted production ramp?

Mike Wirth: Thanks, Devin. Pierre tried to show a little more detail, including breaking out COOP [company-operated], NOJV [non-operated joint venture] and royalty, talking about drilling activity and feet drilled, etcetera. Glad that that was helpful.

First quarter's performance was a function of the fact that NOJV and royalty production, which as you can see from that chart [on Slide 9] is a meaningful portion of our overall production, was down a little bit from fourth quarter of last year.

This gets a little lumpy due to how it gets reported by partners. Over time, it has trended up, particularly the NOJV piece, but it was a little lumpy. It was down first quarter versus fourth quarter last year. COOP production was mostly flat from fourth quarter of last year to first quarter of this year.

In terms of the full-year outlook, on Slide 9, we show the full-year outlook. It's about 770 thousand barrels a day. 2022 was a little bit over 700 thousand [barrels a day], 707 thousand [barrels a day]. Our COOP production will grow in the mid-single digits. NOJV, we expect to grow in the mid-teens and royalty is roughly flat year on year is our expectation. That lays out first quarter.

We still think that the guide we've given is appropriate, as Pierre said, back-end loaded. So, we'll be updating each quarter on that [guidance].

Devin McDermott: Got it. Makes sense. Thanks. My follow-up is on TCO, it's exciting that we're now less than a year away from start-up there.

Back at the investor day, you noted that you had shifted to commissioning and the start-up work for WPMP. I was wondering if you could just give us an update on how things are going, the latest expectations on timing, and then also the key milestones that we should be keeping an eye out for the balance of this year ahead of start-up?

Mike Wirth: Yeah, absolutely. I actually was in Kazakhstan earlier this month. I had a chance to meet with the president of the Republic and some other senior officials.

I also spent time down at Tengiz and visited the job site. I talked to people from our construction team, people from the commissioning team, and people from operations as we're preparing for start-up.

It looks a little less like a construction site, a little bit more like a plant than it did the last time I was down there. The progress is very obvious. The headline I'll give you is there's no change to our cost or schedule guidance.

We expect WPMP start-up to begin by the end of this year. That's a conversion of the field from high pressure to low pressure. That will take some time as we take all the metering stations and field infrastructure down to low pressure. But that will still begin by the end of this year.

The start-up of the Future Growth Project (FGP), the portion that adds 260 thousand barrels of oil production, will begin by mid-next year.

Both of these [start-ups] require a series of turnarounds and tie-ins. It's quite a complex set of activities to get us to the point where we've got everything online.

There's a lot of work behind us. While I was there, we achieved mechanical completion on the third-generation sour gas injection facility, which was ahead of schedule.

There are a number of milestones that we talked about at the investor day that we've achieved.

We completed tie-in of the fuel gas system to the first gas turbine generator. We fired up that generator, so, we know that it's working.

In the second quarter, in terms of milestones to watch for: we're working to commission boilers, steam system, and other utilities that are required for the start-up of the pressure boost facility, which is the key driver of that conversion from high-pressure to low-pressure field operations to enable sustained well deliverability.

In the third quarter, we expect mechanical completion of the Future Growth Project.

As I said, we'll begin start-up activities on the field conversion to low pressure by the end of this year.

Those are some of the key milestones. A lot behind us, but there's still a lot of complex work ahead. We'll be updating you on it every quarter.

Devin McDermott: All good to hear. Thanks, Mike.

Mike Wirth: All right, Devin. Thank you.

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

Neil Mehta: (Goldman Sachs) Thank you so much, Mike and Pierre. The first question is just around the LNG portfolio.

A lot of volatility in the global gas markets over the course of the last year. Just curious on how you guys are seeing the outlook and any updates on your portfolio, particularly down in Australia where we recognize you're going to be taking some maintenance? But it seems like it's operating pretty well.

Mike Wirth: Overall, it's been a bit of a wild ride in gas markets over the last year. We've seen prices extraordinarily strong.

If you go back two years ago, they were extraordinarily weak. [Prices] have certainly moderated now as we've had warmer weather in the northern hemisphere through the wintertime and as the situation in Europe has become a little more stable.

Certainly, inventories both in Europe and in the U.S. are much healthier than people were concerned about at one point in time. We're into a market that still is perhaps strong by historic standards, but certainly not nearly as strong as what we saw.

Operations at Gorgon and Wheatstone are running very well. We had a record number of LNG cargoes out of Australia last year. It was 10% better than the best year we've ever had.

Reliability was first quartile for the two facilities, so we feel good about that. This year we'll start the second turnaround cycle, which is a four-year cycle to turn trains around at Gorgon. Train one will have a major planned turnaround in the second quarter of this year.

We're working on the next stage of field development to continue to keep the field full. Wells drilled and start-up [and] tie-in activity, etcetera, is underway on the next phase of the gas development to bring that into the facility.

Things in Australia are good from an operational and a reliability standpoint.

More broadly speaking, we continue to look at opportunities in our LNG portfolio beyond Australia. We've talked at some length about the Eastern Med, so I won't belabor that, but I would expect to select a concept on the Leviathan expansion by the end of this year.

In Equatorial Guinea, we're looking at opportunities to bring additional gas resources in through existing infrastructure.

We are continuing to be very focused on what we can do to add value in our LNG business, but to do it in a way that is returns accretive.

Neil Mehta: That's great. And then the follow-up is just on return of capital. I think you have been pretty clear about the range that we should be thinking about from a buyback perspective.

On dividend growth, just talk about how you expect that to track relative to your free cash flow per share expectations?

Mike Wirth: I think we have been clear on buybacks, so I won't spend time on that.

On dividends, I would say our track record should speak for itself. Of course, these are decisions that are made by the Board [of Directors] each year, but we've got 36 consecutive years now of higher payouts [per share].

Over the last five years, our dividend growth per share has been double that of our closest peers. We've sustained this not just over the long haul, but also in the short term through the volatile period of time that we've seen.

Our dividend track record, I think, stands very well.

Reiterating our four financial priorities. The first of which is to sustain and grow the dividend, as I just mentioned. [Our dividend saw a] 6% increase earlier this year, and a compound annual growth rate of 6% over the last 15 years. I'll say our track record on the dividend speaks for itself.

Pierre mentioned that the quarter we just closed included highest ever cash distributions to shareholders for the fourth consecutive quarter. We can say that.

We're very mindful of continuing to deliver cash in a predictable and consistent manner back to shareholders through both of those vehicles.

Neil Mehta: Thanks, Mike.

Mike Wirth: Okay, Neil. Thank you.

Operator: We'll go next to Roger Read with Wells Fargo.

Roger Read: (Wells Fargo) Thank you. Good morning. Coming back to the Permian a little bit.

I know you've been providing us a lot more detail on things and I appreciate that and the detail for the overall production breakdown in the U.S.

But looking at the Permian, the Chevron-operated portion versus your JV Non-op, as we think about some of the snags that have been hit over the last couple of quarters, where have been the biggest problems? Has it been in the operated or the non-operated? And then as you think about correcting those over the next couple of quarters, how much of that is Chevron control versus partner?

Mike Wirth: I will speak to our operated operations because I really can't speak on behalf of the other [operators]. They should speak on behalf of their operations, but we certainly learn from those.

We spent a good amount of time at the investor day talking about the learnings on the drilled but uncompleted (DUCs) wells that had sat for a long time. We [also] talked about the prior basis of design for the wells, including spacing and proppant loading. I'm talking about multi-bench development.

We've learned a lot from our own operations and those learnings are augmented by the things that we learn from others. We also talked about [the shift to] more single-bench development and more activity in New Mexico. We continue to be very focused on driving strong returns and not optimizing production or some other metric.

Just to give you a little bit more guidance, Roger, for this year in terms of how to think about it. We expect royalty production to be roughly flat in the neighborhood of a little bit over 100 thousand [barrels a day], maybe 110 thousand barrels a day. Most of that comes from the Pecos River area where we've got big operators. OXY is the largest operator in that area but other well-known operators are in that area [as well]. And then we have some [production] that comes in from the Midland [Basin] as well, from big operators where there's a lot of visibility into what their plans are.

Our COOP production growth, we expect to be mid-single digits for the full year, maybe a touch higher than the midpoint of single digits. We expect roughly 190 wells to be put on production (POPs) this year, down a little bit from last year, maybe 10%, when our COOP production increased 35 thousand barrels a day.

We have growth on the Texas side of the Delaware [Basin] earlier in the year, and the New Mexico side later in the year, which follows the chart Pierre showed you with drilled lateral feet [on Slide 9].

In NOJV, the growth is higher. It's in the mid-teens for the full year. The gross number of POPs in our NOJVs are expected to be up about 15% year-on-year. Our net POPs actually increase more than the gross because we have relatively high working interest and a significant royalty advantage in the NOOPs. So, a 15% increase in gross POPs actually translates into more production than you might presume.

We have really good visibility into the execution schedule. We've received more than three-quarters of the AFEs for this year's activity, and operations have actually begun on more than three-quarters of the NOJV wells that we expect to be POPed this year. It's a mix.

We've got a really strong but complex portfolio because of these three different contributors.

We're continuing to hold the guidance, at about 770 [MBOED] for full year.

Roger Read: No, that's great. I appreciate that. And follow-up question, I suspect is for you, Pierre. Working capital, obviously, tends to be a draw in Q1. You've got what sounds like a decent level of planned maintenance in Q2. So just any thoughts on how we should look at overall cash flow generation in Q2 and maybe rest of the year in terms of the cadence?

Pierre Breber: In terms of working capital, Roger, the first quarter, as you said, was a build on working capital, draw on cash, and that was primarily inventory related.

Last year, we had draws on working capital that were primarily through taxes payable. You'll see in the second quarter some of those payments happening. We try to give everything excluding working capital because over the course of time that tends to zero out. There is a pattern, but there's some variability around it. That's the guidance I would give to you.

In terms of free cash flow and cash from operations, it depends on commodity prices and margins. We gave a lot of that [detail] during our investor day and some upside and downside cases.

In terms of working capital, you'll see timing effects. We try to look through them and exclude them. Next quarter, you should expect some large tax payments, which will be a draw on cash.

Roger Read: Okay, great. Thank you.

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

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

Mike Wirth: Morning, Paul.

Paul Cheng: [First statement inaudible]. For your low carbon investment, not those that are for only emission mitigation activity, but in terms of CCUS as a new business. For that kind of business, what is the minimum internal rate of return and payback period that you will assign in order for you to sanction the projects?

Mike Wirth: Paul, the reality is these are brand-new businesses. We have a lot of confidence in the returns and payback periods that we expect out of businesses we've been in for many decades, understand very well, and that have well-established markets.

These are businesses that don't exist today. They are in part enabled by government policy, the rules of which are not yet fully written and the durability of which we need to ask ourselves questions about as we commit capital to it.

They're different. They are very different. Our goal over the long term is to get similar returns out of these businesses as we get out of our core business. That would be double-digit returns.

In the midterm to the near term, we're going to have to go into some of these things that offer high growth and opportunity with our eyes wide open. But also understand that as we establish them, in the early days, we may not see the returns that we expect in the fullness of time.

We make big investments. Our expectation is over the lifecycle of these investments we're going to deliver those kinds of returns.

We're also mindful of the fact we have to develop technology. We have to scale these [businesses]. We have to help markets mature. We have to build operational experience.

We have to build risk management experience, supply chain, and customer capabilities in these businesses. In the near term, we will be understanding of the fact that the returns in the short term will probably look different than our long-term expectations.

We won't go into things that we don't believe offer the long-term prospect for returns. Which is why we have steadily avoided more well-established sectors like wind and solar. We could go into those today because the risks are better defined but we also understand the returns. They don't offer the kinds of returns we expect out of the things that we're working on.

Paul Cheng: A second question is that your largest U.S. competitor just announced that they're going to push more aggressively into trading and establish a single trading organization. They think that there's quite a fair amount of opportunities out there in the market that they can capture. I am essentially thinking maybe that is somewhat of a playbook from Europe.

I think Chevron has always been a little bit more conservative on [trading]. So, do you think that there is an opportunity for a company similar to Chevron that has a lot of global reach and a lot of physical assets and has an edge over others? Is that an opportunity that we may be missing for Chevron?

Mike Wirth: Paul, what I would say is I think maybe your perception is a little bit miscalibrated from what I would describe. We have always had a global trading organization for many, many years. I used to run it. Pierre used to run it.

We're an active trader. We trade in a certain way. I'll give you the three-word overarching description: We flow, optimize and trade.

The first role of our commercial organization is to ensure our barrels and molecules flow to the market.

The second is to optimize assets, ships, market positions, market knowledge and be sure we get the most value out of our system that we possibly can.

The third responsibility is to trade. We do third-party trading. We do what we call Quad Four trading, on a regular basis, we make money at it. We have very talented people in our organization that do it.

We also have good risk management systems to ensure that we understand what we're doing. I wouldn't describe us as not being a trader. I don't know if there's a definition. I think you used the word conservative.

We're a trader, but we do it in the order that I just described and have done it for a long time on a global basis. It's a contributor to our earnings and we continue to look to grow that part of our business.

Pierre Breber: The only thing I would add, Paul, to Mike's answer is shareholders and investors don't own Chevron or like companies for trading earnings. They tend to be volatile.

I think the multiples on trading earnings historically have been very low. In fact, most of the large trading houses are private companies.

Mike described exactly what our strategy is. It works within the framework of a resource, refining and petrochemicals company where investors are owning us for safely and reliably delivering energy [while also] having commodity price exposure. If we can enhance that with trading results, that's great, but we're not going to lead with trading.

Mike Wirth: Thanks, Paul.

Paul Cheng: Okay. Thank you.

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

Sam Margolin: (Wolfe Research) Good morning. Thank you.

This one is just a clarification question on something you said about the Permian because I think it's important in the NOJV section. Because you stack royalties with the NOJV acreage, your growth rate in the NOJV portion actually exceeds the growth rate of your partners as they report it. That's the correct interpretation, right? That's what we're trying to communicate?

Mike Wirth: Yes, we not only get working interest production out of it. We have relatively high working interest in most of these ventures. It's not dissimilar to the working interest of the operator in most cases. But then we also have a royalty advantage. And we account for that, or we report that to you, through NOJV.

What we describe as royalty barrels are pure royalty, where we have no capital and no working interest. We're just collecting royalties as the landowner.

But you're correct in your interpretation, Sam. That is why our NOJV is growing a little faster than our COOP production for the same levels of activity.

Sam Margolin: Okay, thanks. Then just as a follow-up, this is on capital allocation.

I understood that you have the range out there on the buyback, but the range is pretty substantial. There is a decision to make right now about where to be within the range, about whether to preserve cash for an opportunity that might come in a downturn, if that's what looks like is on the horizon. Or whether to stay at the top end because we're in a market equilibrium in the commodity environment, and you feel good about the pace. I'm not asking you to predict the future, but it would be great to hear your thoughts directionally about the value of preserving cash on the balance sheet for a rainy day or maintaining a faster pace? Thanks.

Mike Wirth: I'm going to invite Pierre to say a couple of words. But Sam, we tried to lay out a couple of cases at investor day that showed you in two different price environments what our capacity was to operate and be within the range, and with a low breakeven to cover our capex and dividend with a lot of surplus cash already on the balance sheet.

With the very low debt levels that we have, we've got plenty of capacity. Pierre, maybe you just give a thumbnail recap on the scenarios to bookend them for Sam.

Pierre Breber: In our investor day, we looked at the high-case and low-case scenarios. Our guidance right now is towards the high end.

Let me just first be clear that we don't intend to hold $15+ billion of cash on our balance sheet. We can run the company with $5 billion, and this is surplus cash. This is cash that is temporarily on the balance sheet.

It will be redistributed and redeployed to shareholders over time, depending on the scenario and the price. Both scenarios had us working down that surplus cash because it's economically inefficient for us to hold it. And it's not our cash, it's our shareholders' cash.

We want to return it through the cycle in a steady way, not pro-cyclically. That's why it's accumulating. We've paid off all our debt economically, but it's a timing effect.

We've showed in the low-side case, which averaged about a $60 Brent [from 2023-2027], that we could continue buybacks near the low-end of the range, and we can do that by taking surplus cash down and then also using some of our excess debt capacity because we're well below our 20% to 25% net debt ratio. We would want to work towards that low end of that guidance range of 20% again, to get to a more efficient capital structure.

In terms of keeping cash for a rainy day, we're always going to maintain a strong balance sheet. We've been in this business for decades and decades. We know the good times don't last. We know that prices are cyclical. We want to manage that volatility for our shareholders. Our shareholders don't have to worry about the commodity price because they're going to get the dividend that Mike talked about, that has been growing for 36 consecutive years. That's grown 6% [at a compound annual growth rate] for 15 years. They're going to get that.

And then as we approach a cycle, and we're looking at the cycle coming up here, [returning] additional cash in a steady way. Right now, [we're purchasing] about 5% of our shares outstanding through the form of a buyback.

That's how we're planning to manage the volatility for our shareholders.

If M&A is implied in your question, we have shown that we tend to use equity for M&A because commodity prices are volatile, and it creates a more stable deal structure.

Our balance sheet will always be strong enough to enable us to not only manage commodity prices but also make sure we're positioned to do what we need to do.

We were the first to do a transaction coming out of COVID-19 when we announced the acquisition of Noble Energy, and then we followed a year or so later and acquired Renewable Energy Group.

Thanks, Sam.

Sam Margolin: Thank you.

Operator: We'll take our next question from John Royall with J.P. Morgan.

John Royall: (J.P. Morgan) Hi. Good morning. Thanks for taking my question.

Can you talk about the general demand trends you're seeing within your system? Are you starting to see any signs of weakness on the demand side? If the answer is no, just curious on your views on what's happened to spot refining margins globally and what seems like still a relatively tight market.

Mike Wirth: John, a couple of thoughts. I'll just go by the product commodities.

Gasoline demand is essentially back to pre-pandemic levels globally. Obviously, there are regional variations in this.

We're sitting in California here on this end of the call. We've had a very wet winter. The first quarter reflects an unusually wet season on the West Coast. In Asia, we see demand coming back, as economies continue to open and mobility has increased, etcetera. But broadly speaking, gasoline is flat.

Diesel carried the complex through COVID-19 and global demand has been at pre-pandemic levels for a while now. First quarter demand in 2023 is a touch lower than it was in first quarter of 2022. This could be an indicator of the beginning of some economic slowdown. But it's premature to conclude that. Diesel is not leading the parade quite as strongly as it had been for the last couple of years.

Jet demand continues to grow and it's still below pre-pandemic levels. China's the place, that everybody has been paying attention to. Domestic travel up to nearly 90% of pre-COVID-19 [levels]. Flights in and out of the country still well below that but we see flights being scheduled. You see indicators that suggest travel will grow. If you listen to the airlines that certainly seems to be what they anticipate. But that's what's in progress. That's a quick look across the product slate.

I think margins reflect a couple of things. One year ago, we were in a period of recovering economies. We're coming out of a period of rationalizing refining capacity around the world. If you go to any part of the world, you will find refineries that have shut down – that perhaps people expected would close one day, but it happened relatively quickly.

At the same time, big growth projects were deferred because of the uncertainty relative to COVID-19. A year later, you don't see refineries closing at the same rate. We've seen refinery start-ups in the Middle East. We've seen projects here in the U.S. and in Asia as well. Refining capacity is coming into the system.

Demand has moderated a little bit. Margins have come down. They're still stronger than historic margins if you look out over a longer period of time. They're trending back down towards mid-cycle, but still pretty strong in the U.S.

They are under a little more pressure in Asia. You have to think about the feedstocks in Asia, where they're coming from, how they're priced, and how those markets are working.

I don't see any big warning signs flashing, but certainly, we're paying close attention to it.

John Royall: Very helpful, Mike. Thank you.

Sticking with the downstream, you mentioned California. Can you just talk about the new regulations in California around the potential for excess profit penalties?

Not sure if that's exactly how to refer to it, but how much does that impact how you think about refining in California and your position in California and maybe the expected impacts on the broader market there?

Mike Wirth: The bottom line is this is now into a rule-making process. There's no impact right now, it's into a bureaucratic phase. I think implementation is likely to take quite a while. It's hard to say exactly how it plays out. What started as an effort to create a windfall profits tax, which was unsuccessful because you need two-thirds of a vote in the legislature for a new tax in California, was then modified into some other form. It ended up moving into the energy commission, where there will be a group established that will gather a lot of data and try to assess the profitability of the industry against some standard, which has yet to be fully articulated.

This is going to take some time. It could potentially result in some sort of a fine or a penalty for margins or profits above a level. I can't tell you how it's going to play out because there's a lot of work to be done there.

Things that I would say are pretty predictable are: One, there are substantial new reporting requirements and there's a lot of data we're going to have to produce. We're happy to do that. We'll work closely with the Energy Commission to make sure we get them the information that they're requesting.

The second is, I don't think this does anything to encourage investment or new supply, which is really what's needed in a commodity marketplace to bring prices down on average over time. In fact, I think it runs the risk of doing the opposite, of discouraging investment and decreasing supply over time. If demand does not moderate, it will tend to exacerbate volatility and over time probably result in, on average, higher levels of price.

That's about all I know about it at this point, and we'll watch it as it unfolds.

John Royall: Thank you.

Mike Wirth: Thank you, John.

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

Kalei Akamine: (Bank of America) Hey. Good morning, guys. This is Kalei on for Doug.

Thanks for taking the question. The first one is on the new Permian disclosure. You guys are forecasting flat royalty volumes. I'm wondering, as that becomes a smaller part of the production mix, how is the cash margin from that asset affected going forward?

Pierre Breber: The royalty barrels have essentially an infinite margin. You and Doug can do the math, it's a slightly lower percentage than that. That'll be a partial offset.

But there are lots of other drivers that we're doing to enhance margins and we've shown return on capital employed near 30% at $60 Brent equivalent for our Permian [asset]. It's a high return, low carbon asset, and the royalty barrels come with virtually no costs. That's part of the advantage that we have.

Kalei Akamine: Understood. I appreciate that, Pierre.

My second question goes to TCO. Just wondering if we can get an update on timing of first oil from the new expansion project and the dividend magnitude for 2023?

Mike Wirth: The expansion project [has] a lot of turnarounds and activity both this year and next year. At our investor day, we laid out a bar chart that gave you an idea on production. As I said earlier, production growth will manifest itself in 2024 because the next two years have a lot of turnarounds, tie-ins, etcetera in place.

Pierre, you can guide on dividend.

Pierre Breber: No change in our affiliate dividend guidance that we shared on the last call of $5 to $6 billion for the full year. That includes Tengiz and our other affiliates.

We expect, like last year, a dividend in the second quarter that will be modest and then a larger dividend in the fourth quarter. TCO continues to hold more cash on its balance sheet to manage through both completion uncertainty around the project and around [additional] transport [options].

That cash will come back over time. It's been performing very well, but we don't give specifics on [TCO] by year. It's embedded in our overall affiliate dividend guidance.

Kalei Akamine: I appreciate that there's still some turnaround to work through. But as the production hits a steady state, what do you expect the dividend cadence to look like?

Pierre Breber: As I said, last year, it was in two quarters. This year again will be second quarter and fourth quarter. It's up to the TCO Board of Directors to make dividend decisions going forward. Thanks for your questions.

Operator: Our next question comes from Josh Silverstein with UBS.

Josh Silverstein: (UBS) Good morning, guys.

Just curious about the pace of rig activity in the Permian. You guys are adding one [rig] per quarter this year. A lot of that seems to be to support growth next year.

I'm just curious, as you continue looking forward into next year, do you need to add four more rigs next year to keep that 10% growth pace? Is it less because you're getting more efficient in the Delaware production? I'm just curious how you're thinking about the step-up in activity going forward.

Mike Wirth: We pulled rigs down dramatically in 2020 and we didn't want to surge back with everything all at once. We entered this year with ten [rigs]. We expect to exit this year with 14 COOP rigs running.

Consistent with the longer-term production profile that we've outlined, we've got a big base business that does have decline underneath it. You can expect us to add some additional rigs as we move into 2024.

Josh Silverstein: I know there's a lot of activity stepping up across the rest of the lower 48, Haynesville, DJ [Basin]. They're a little bit more on the gassier side. I'm curious if you guys are pulling back any activity because they're a little bit more gas prone in this price environment? Thanks.

Pierre Breber: We [added] a rig in the Haynesville. We talked about that for a number of years, building up to that activity. Gas prices are going to be volatile and frankly, we need to get developing that resource. We have some offset operators and so it's the time for us to do that.

The DJ [Basin] still has a heavy liquids component. No change in our plans. In fact, the DJ [Basin] and Argentina are a couple of other areas where we expect production in the second half of the year to be higher. We're increasing a little bit of activity but all of that is within our existing capex budget.

Mike Wirth: Thanks, Josh.

Operator: We'll go next to Ryan Todd with Piper Sandler.

Ryan Todd: (Piper Sandler) Thanks.

First off, just a quick follow-up on the comments earlier on with a question on trading in the international Downstream. Your earnings were particularly strong this quarter. I think in the slides there, there's a positive $270 million other bar [on Slide 21]. Is that primarily trading and is there anything to read on that going forward? Is that something that likely reverses or maybe some clarity there?

Pierre Breber: You're right. We refer to it. I would not say it's primarily [trading], it's a lot of factors and we pointed to that. It's consistent with how Mike described our trading business.

As all trading businesses are, it can be variable in future quarters. It's just one of many factors. It's not primarily [trading], but we wanted to cite it as one of the elements in that Other variance.

Ryan Todd: Thanks, Pierre. On the Permian, if we look back at the Permian, at the analyst day you talked about a variety of the shifts in the 2023 development plan versus 2022. You highlighted some more here today. I think we appreciate some of the near-term impacts.

Can you talk at all to what some of the longer-term implications are of the shift to more single-bench development adjustments, to spacing, and more shifts towards New Mexico, etcetera? Does the move to increase single-bench development have any impact on the productivity or recovery of other zones in the area? Does it change at all how you think about service infrastructure and logistics, or how you think about resource depth in different parts of the portfolio over the long term?

Mike Wirth: Ryan, I would say not really. We've always been returns seeking. This is all about optimizing the return we can get out of this asset over the long haul.

We've tried to be thoughtful about surface infrastructure. We've tried to be thoughtful about drilling to keep surface infrastructure fully utilized, not overbuilding it for peaks and then leaving it underutilized for long periods of time.

We're continuing to learn the fundamental principles about optimizing return on investment, which continues to drive all of this activity. As we learn more about benches, about communication, about productivity, as technology changes recovery factors, we will continue to apply all of those learnings.

But the real objective remains the same. It's not volume, it's value and returns.

Pierre Breber: And just as a reminder, the move to more single bench is in the Delaware Basin. In Midland Basin three quarters is multi-bench developments.

Ryan Todd: All right. Thanks, guys.

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

Jason Gabelman: (TD Cowen) Hey, morning. Thanks for taking my questions.

Sorry to go back to the Permian, but I'm going to ask another. I appreciate all the disclosures, they're really helpful. In terms of the COOP component of production, does the proportion stay relatively stable through your forecast period? I think you gave a forecast out to 2027 at the analyst day. Does the COOP proportion stay the same or do you have more operational barrels between now and [20]27?

Mike Wirth: It stays relatively similar, Jason. We can provide further insights on that as we go on into the future, but there is not a big shift. We're growing activity.

As I mentioned earlier, we're adding rigs and have a pretty big base we are adding in on top of. So those percentages don't move a lot.

Jason Gabelman: All right, That's helpful. And then just one accounting question. Depreciation fell decently quarter-over-quarter in Upstream. What was that related to?

Pierre Breber: Are you looking at it excluding special items?

Jason Gabelman: Yeah. If I look at the quarter-over-quarter Slide 7, Upstream DD&A was +345.

Pierre Breber: Why don't you follow up with Jake? That could be tied to some exploration activity.

Jason Gabelman: Okay. Thanks.

Operator: We'll take our next question from Biraj Borkhataria with Royal Bank of Canada.

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

I wanted to ask about Namibia. You recently farmed in a few months ago. Could you just walk me through your plans for the next 12 months or so on what have you have penciled in? And then I've got a follow-up on something else. Thank you.

Mike Wirth: We've completed seismic acquisition in Namibia at the end of February and that's being processed right now. I can't really comment any further on that. We are certainly mindful of others who have had exploration success in the region, which is encouraging. We need to do the work on that and then determine what the next steps are, which could include drilling exploration wells. Stay tuned on that. If we got more information, we'll share it with you, Biraj.

Biraj Borkhataria: And then on a different topic, cost inflation. Because more and more you hear some of the service providers talking about improving pricing and so on. Could you just comment on your latest thoughts and what you're seeing on the cost inflation side outside of the lower 48? Thank you.

Mike Wirth: No change to our mid-single digit inflation guidance in our current year. Capital spending, as you note in the lower 48, there are some areas where we planned for higher inflation and are seeing that.

I'll remind you that a lot of what we do in our procurement activities are longer-term contracts that are either fixed-price or index-based. We've got detailed cost models to challenge price increases.

We commit volumes to certain things over longer periods of time to try to create a win-win between us and our suppliers. We've not seen some of the costs push through that you would see if you were buying services or commodity inputs on a spot basis or a current basis, because we manage that activity differently.

For instance, on offshore rigs, we're fully contracted for this year. We came into the year with three rigs working in the Gulf of Mexico. They're generally below current market rates. I think we're managing this well. The one thing I would say is given these index-based contracts, there are periodic reviews where we will reset based on market indicators. In the second quarter, in certain parts of our business, we'll be going through this with some of our partners and we'll see some resets that will probably reflect a little bit of the inflation that I referred to earlier that's already built into our plans. I think we're managing all that within the range that is embedded in the guidance we've given you.

Biraj Borkhataria: Great. Thank you very much.

Mike Wirth: Thank you, Biraj.

Operator:	Thank you. We'll take our last question from Neal Dingmann with Truist Securities.
Patrick Henry: (Truist Securities)	Hi, this is Patrick Henry on behalf of Neal Dingmann. For my question, it's with respect to Venezuelan exports. I know previously you made mention of no further capital investment in Venezuela. We're curious to know if there is a maximum threshold of exports and sales that you're anticipating out of Venezuela?
Mike Wirth:	Is there a maximum? It's limited by our position there and the entities that we're involved in and our portion of that production that we're entitled to market. We're currently seeing about 100 thousand barrels a day of production, up from about 50 thousand [barrels a day] when the license terms changed. That could go up further this year, maybe another 50% if everything goes well. The crude comes to the U.S. and we're finding a market for the crude. It's a six-month license from OFAC so we have to bear that in mind. We've got some past receivables that are being paid from some of these proceeds and there's a lot of relatively straightforward workovers and other activity that can help bring production up without major capital commitments. That's the current model. We'll see how things unfold, and hopefully, pointed in a good direction. But it's been a bit of an up-and-down situation. We just have to take this one step at a time.
Patrick Henry:	Good stuff there. I guess, just as a follow-up. Are you exploring that six-month term? Are you looking to extend that at all or is it too early to be negotiating on that?
Mike Wirth:	That's a decision made by the U.S. government. It's not really a negotiation. It's their decision and it's a policy matter. We're asked for input and so we provide input on these things. But for the last several years, these things have had relatively short timelines associated with them. We're in full compliance with all the conditions of the sanctions and intend to stay that way. We'll just see how the policymaking turns out.
Patrick Henry:	Thanks very much.
Pierre Breber:	Hey, this is Pierre. I'm going to go back to Jason's question. The lower depreciation [for Upstream] is really caused by three drivers. Some of it was the absence of some abandonment accruals that were in the fourth quarter. You can view those as non-recurring. And then some of it is due to new rates. Each year we revised our depreciation rates based on additions to proved reserves and those rates are a little bit lower. And then, first quarter production was a little bit lower than fourth quarter production. Lower volumes also contributed to that lower depreciation.
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. Katie, back to you.
Operator:	Thank you. This concludes Chevron's First Quarter 2023 Earnings Conference call. You may now disconnect.