

ExxonMobil Fourth Quarter 2022 Earnings Call Transcript

This transcript presents ExxonMobil's fourth quarter 2022 earnings call held on January 31, 2023.

Operator: Good day, everyone, and welcome to this ExxonMobil Corporation Fourth-Quarter 2022 Earnings Call. Today's call is being recorded. At this time, I'd like to turn the call over to the Vice President of Investor Relations, Mrs. Jennifer Driscoll. Please go ahead, ma'am.

Jennifer Driscoll: Good morning, and welcome to ExxonMobil's Fourth-Quarter 2022 Earnings Call. Thanks for joining us today. Here with me are Darren Woods, Chairman and Chief Executive Officer, and Kathy Mikells, Senior Vice President and Chief Financial Officer. Our presentation and prerecorded remarks are available on the Investor Relations section of our website.

Our fourth-quarter earnings news release is posted in the same location, and will be joined by the transcript once it's available. Shortly, Darren will provide brief opening comments and reference a few slides from this presentation. That will give analysts more time to ask questions before we conclude at about 8:30 AM Central Time.

During the presentation, we'll make forward looking comments. So, we encourage you to read our cautionary statement on slide two. Additional information on the risks and uncertainties that apply to these comments is listed in our most recent form 10-Ks and 10-Qs. Please note that we also provided supplemental information at the end of our earnings slides, which are posted on the website. Also, as a reminder, we posted our Advancing Climate Solutions Report, Sustainability Report, and Energy Outlook online in mid-December.

We reference them in today's presentation. And you can find them on our website under the Sustainability Tab. Lastly, in the past, we've held an Annual Investor Day in March. We won't be

hosting an Investor Day in 2023. Last December, we laid out comprehensive plans for 2023 through 2027 as part of our Corporate Plan Update. And the company is already executing on these plans.

We've been enjoying the higher level of investor engagement that we've been having. We'll continue to seek your feedback to host events that give you access to our leaders and insights on parts of the business that interest you, and to share with you information about the company and our plans on more of a real-time basis. With that, I'll hand it over to Darren.

Darren Woods: Thanks, Jennifer. Good morning, and thanks for joining us today. Before covering our 2022 results, I want to start by recognizing our people, their hard work and commitment not only to the company, but to meeting the critical needs of society, are what drove the strong results we reported this morning. Their work is not easy, whether it's achieving industry-leading safety, driving record levels of environmental performance, increasing production, offsetting runaway inflation, effectively responding to expropriations, or quickly recovering for winter storms to name just a few of the challenges.

Our people delivered while, I'll add, continuing to manage significant ongoing organizational changes. As I cover our results, I think you'll see why we and the entire management team are so proud of their efforts. Of course, our results clearly benefited from a favorable market. To take full advantage of the undersupplied market, our work began years ago, well before the pandemic. And we chose to invest countercyclically.

We leaned in when others leaned out, bucking conventional wisdom. We continued with these investments through the pandemic and into today. This year, our improved asset portfolio, organization changes, and strong operating performance came together to deliver industry-leading

results, industry-leading earnings, cash flows, return on capital employed, and total shareholder returns.

Excluding asset sales, we had our best cash flow performance since the merger. And despite lower revenues, we delivered higher profits than 2012, our previous record year, with a 400-basis-point improvement in profit margin reflecting upgrades to our product mix, structural cost reductions, disciplined expense management. 2022 was also a year of strong progress across our five strategic priorities.

Importantly, we've continued to strengthen our industry-leading portfolio and increased production from high-return advantaged assets in Guyana and the Permian at a time when the world needed it most. We implemented a series of organizational changes to further leverage our scale and integration, improve effectiveness, and better serve our customers.

We combined our downstream and chemical companies to form Product Solutions, the world's largest fuels, chemicals, and lubricants business. This new integrated business is focused on developing high-value products, improving portfolio value, and leading in sustainability. We're also now supporting our businesses with corporate-wide organizations, including projects, technology, engineering, operations, safety, and sustainability.

We see further opportunities in supply chain, procurement, and finance. We continued to expand our Low Carbon Solutions business. We recently signed the first-of-its-kind customer contract to capture and permanently store up to 2 million metric tons per year of CO₂. This agreement in a hard-to-decarbonize sector highlights how ExxonMobil can leverage our advantages to help others reduce their emissions, and build an attractive business with strong returns, and significant opportunities for growth.

The recent passage of the U.S. Inflation Reduction Act, which incentivizes both hydrogen and carbon capture and storage, further reinforces this. To that end, in December, we shared our plans to invest approximately \$17 billion in lower-emissions opportunities from 2022 through 2027, up from \$15 billion in our prior plan. We also made significant progress reducing greenhouse gas emissions in our existing operations, and remain on track with our 2030 emissions reduction plans, including net zero Scope 1 and 2 emissions for our unconventional operations in the Permian Basin by 2030.

In addition to investing in industry-advantaged projects, we took advantage of the strong markets to further high-grade our asset portfolio with approximately \$5 billion in divestments of non-core assets. Capex was in line with our guidance. To further increase transparency in 2022, we introduced three new reports. The Lobbying Report, which provides additional disclosure of our lobbying activities and expenditures.

Climate Lobbying Report, which provides details on our US activities at the Federal and State level. And our Investing in People Supplement, an addition to our updated Sustainability Report. Lastly, as I mentioned, the hard work of our people underpinned our success this past year, as it has done for decades. We build on this advantage every year by attracting and developing the best talent.

This past year, we were once again recognized as top in industry for most attractive employer among US engineering students, an honor we've received ten years in a row. Our 2022 financial results, which led the industry, further confirmed the strength of the strategy we developed five years ago. We grew earnings to nearly \$56 billion, \$59 billion excluding identified items, significantly outpacing peers.

We delivered an industry-leading total shareholder return of 87% and a return on capital employed of 25%, our highest one-year ROCE since 2012. Cash flow from operating activities was nearly \$77 billion, also leading the industry. This enabled us to reduce net debt to 5%, fortifying the balance sheet and positioning us to continue our strategy of countercyclically investing.

Our continued focus on leveraging scale and integration drove further efficiencies with nearly \$6.9 billion in structural cost savings versus 2019, up from \$5.3 billion at the end of 2021. We remain on plan to meet our target of \$9 billion in structural cost reductions by the end of 2023. Consistent with our capital allocation strategy, we continue to share our success with shareholders through a reliable and growing dividend.

In 2022, we boosted the quarterly dividend by more than 3% and marked the 40th consecutive annual increase. Additionally, we increased our share repurchase program twice during the year. In total, we returned \$30 billion to shareholders in 2022, including about \$15 billion in dividends, which also led peers. These actions reflect the confidence we have in our strategy, performance we've seen across our businesses, and the strength of our company's future.

We're proud of our people and their work to meet the evolving needs of society. As we advance our strategy and the "and" equation, we're committed to sharing their progress. Consistent with this, we continue to enhance our disclosures and increase transparency. In December, we updated several important online publications. Our latest Sustainability Report describes the 14 focus areas where we believe our company can have the most impact.

The Advancing Climate Solutions 2023 Progress Report outlines our approach to help reduce greenhouse gas emissions in support of a net-zero future. It includes updated resiliency modeling under the IEA Net-Zero Emissions by 2050 Scenario, including the addition of carbon and pricing

assumptions, and an audit statement from Wood Mackenzie. In addition, it includes a discussion on the value of a life-cycle approach to measuring company-specific emissions versus Scope 3 targets.

We believe our lifecycle approach for companies is more aligned with the principles of ESG. It better reflects a company's efforts to reduce society's emissions and avoids the negative consequences of a company-specific Scope 3 target. The update also contains more information on how we're driving reductions in methane emissions. And finally, it includes a look at the role of plastics in the energy transition and how we're expanding our capacity for advanced recycling to help address the issue of plastic waste.

Separately, we've updated our Outlook for Energy, which is our latest view of energy supply and demand through 2050. It forms the basis for our business planning. In addition to assessing trends in economic development, technology advances, and consumer behavior, our outlook seeks to identify potential impacts of climate-related government policies, which often targets specific sectors.

We encourage you to read these publications to gain a better understanding of how we're working to be a leader in the energy transition. They are available on our website under the Sustainability tab.

Our plan for 2023 remains anchored in our existing strategy and builds on our continuing success. I'll wrap up by highlighting a few key areas. Critically, we'll continue our efforts to lead the industry in safety, operating, and financial performance.

We'll continue to profitably grow the business through advantaged investments to meet the world's evolving needs and reduce emissions. We'll further leverage our new organization to fully realize our

advantages in scale and integration and improve competitiveness. We expect to deliver another \$2 billion in structural cost reductions, meeting our target of \$9 billion in savings versus 2019.

We'll look to capture additional organizational synergies by consolidating our supply chain activities and centralizing a majority of our finance and procurement operations. It will help us take better advantage of our scale, and greatly improve our customer, vendor, and employee experience. We anticipate 2023 Capital & Exploration expenses of \$23 billion to \$25 billion. This includes investments in the next development in Guyana, and increased spending in US unconventional assets.

It also includes advancing our China chemical complex and numerous emission reduction opportunities. We'll advance our work to reduce greenhouse gas emissions intensity in our operated assets, and help customers reduce theirs, focusing on hard-to-decarbonize sectors. We'll continue to progress our blue hydrogen project in Baytown that consists of a billion cubic feet per day blue hydrogen plant, the world's largest, and a CCS project with potential to store up to 10 million metric tons of CO₂ per year.

We'll also leverage our recent success in Louisiana to grow the customer base of our Low Carbon Solutions business. As the energy system evolves, our focus on the fundamentals and investments in the integrated but diversified portfolio of advantaged businesses will play a crucial role in capturing value and outperforming competition irrespective of the pace or path of the transition. As you've seen, we remain committed to our capital allocation priorities, investing in advantaged projects, maintaining a strong balance sheet to manage across the commodity cycles, and sharing our success through shareholder distributions.

We demonstrated our commitment to a reliable and growing dividend, and further sharing our success through the share repurchase program with up to \$35 billion in cumulative repurchases in 2023 and 2024. 2022 demonstrated the importance of the “and” equation and the strength of our strategy. We feel good about the progress we've made and even better about the opportunities ahead. With that, let me turn the call over to Jennifer.

Jennifer Driscoll: Thank you, Darren. Now, let's move to Q&A. As a courtesy to other analysts, please ask a single question. That way we can accommodate questions from more people. However, we ask that you remain on the line in case we need to ask any clarifying questions. With that, Jennifer, please open up the line for our first question.

Operator: Thank you, Mrs. Driscoll. The question-and-answer session will be conducted electronically. If you'd like to ask a question, please do so by pressing the star key followed by the digit 1 on your touchtone telephone. We'll go first to Biraj Borkhataria with RBC.

Biraj Borkhataria: Hi, there. Thanks for taking my questions. Two things. First one, your comments Darren on runaway inflation, obviously the Permian gets a lot of the headlines there. I was wondering if you could talk a little bit about the offshore environment. ExxonMobil is one of the most active in the space there. So, I just want to get a sense of what you're seeing inflation wise in the offshore.

And then second question is on Capex. And I probably shouldn't do this, but if I take the 4Q numbers and annualize them, you would be above the 2023 guide. So, obviously, I have to adjust for a little bit of seasonality there. But I would have thought you'd be adding growth Capex 2023 versus 2022. Plus, you have the inflationary pressure that you mentioned. So, how much contingency is there in the 2023 Capex guidance? And what are the risks there to the upside or downside? Thank you.

Darren Woods: Good morning, Biraj. Let me start with your last question, and then move to the first with respect to Capex. If you look at the range we've given, I think we've indicated in the comments I just made that we'll be at the upper end of that range, which is consistent with a slight increase given the work that we're doing. But I would reiterate that the broader range that we've given over the years continues to fit well with our plans and is consistent with the pacing that we established when we came out of the pandemic.

As I mentioned before, we had worked with our contractors to lay out a plan for how we continue to progress those investments. And I would tell you today with our projects organization, we feel really good about the progress we're making, the efficiencies that we're gaining with our Capex. If you look at the pause that we had to take due to the pandemic, we basically offset any of those costs to maintain the same level of productivity of our spend going forward.

So, something we're real proud of the projects organization is doing. So, I would expect to continue to stay within that range. And if that changes obviously in the years to come, we'll update you as our plans develop and make sure you all stay aware of that. With respect to the inflation, I would say from an operating expense standpoint, one point I'd make is if you look at what the organization did year on year, essentially with all the synergies that we are capturing, some of the scale advantages and purchasing power we had, essentially the businesses collectively came in on plan.

So, we were able to offset the inflation that we are seeing from an expense standpoint, which was obviously no easy task. If you look at the different projects around the world, it really is a function of when we chose to engage the contractors and engage the equipment that we're using. I mean if you look at the Permian, it's the short cycle where there's a lot of activity, and so, like a lot of the parts of our business, supply and demand gets tight and puts pressure on pricing.

There's less of that supply demand pressure in other parts of the business, and so not seeing the same kind of pressure that we're seeing in the Permian. That tends to be the one area that's really, really hot. But I think in all those areas, we're using the size of the business that we have and the long-term plans that we have and long-term commitments that we can make with our contracting partners to make sure that we're keeping those in check and that our partners are playing the long game here with us.

So, I think we've done a pretty good job of keeping capital productivity pretty high. I feel pretty good about that. I don't know, Kathy, anything you want to add?

Kathy Mikells: Just the other thing I would add is I'd really caution you about taking the fourth-quarter Capex and exploration expense and annualizing it because we tend to run a bit higher in the fourth quarter. And the expense isn't prorated over the year. Overall, 2022 came in right about where we expected it. And when we talked about our corporate plan in December, we said we expect it to be at about \$23 billion to \$25 billion in 2023 and that we expected to see a little bit of an increase year over year in part because Payara has been pulled forward.

So, we have a little more spending there. China 1 is starting to spool up. And obviously, our emission plans are also spooling up. So, right now I'd say, we're very consistent with our expectations and the guidance that we've given you.

Biraj Borkhataria: Okay. Thank you for the color.

Darren Woods: Sure.

Operator: We'll go next to Jeanine Wai with Barclays.

Jeanine Wai: Hi, good morning. Thanks for taking our question.

Darren Woods: Good morning, Jeanine.

Kathy Mikells: Good morning.

Jeanine Wai: Good morning, Kathy. Good morning, Darren. Our question is on the downstream, which was a nice positive in 2022. And how do you think the EU embargo on Russian product imports on February 5th will impact your refining margins? And I guess, what we're thinking is that there's a number of moving pieces between your refining footprint, particularly in the Gulf Coast and Europe, and then there's potential tailwinds for diesel margins as Russian export dissipate, but there's also -- we probably need to take into account the likely incremental tightness in VGO supplies. Thank you.

Darren Woods: Yeah, I'll take that, Jeanine. I think I'll start with just the market in general. And I think the driver behind the refining margins that we've seen here of late is driven by the pandemic impacts of shutting down capacity, and then not having that capacity available as demand has recovered. So, the world remains pretty tight. And it will stay I think tight while we wait for additional refinery expansions to come online, primarily out in Asia and the Middle East.

I think the Russia impact in the ban on products going into Europe could potentially have some short-term implications. At the end of the day, those products are going to be needed. So, it really is around the logistics, I'll call it dis-optimization, to where the market is pretty efficient. And we've got the most efficient supply chains and logistics systems lined out. We're going to disrupt those.

And I think it's a question of how does that disruption manifest itself in the market and what kind of disconnects and discontinuities do you see in the short term. And then, ultimately that system will stabilize, reoptimize. And I expect a higher cost just because you're moving to a less optimal logistics approach, but more stable. That is how I see that's going to play out. So, I don't think there'll be a long-term impact.

It will be a short-term one. And then, it's just a question of how long it takes for the system to rebalance. I think more fundamental to refining is the shortness and with the economies picking up and with China coming out of its COVID lockdown and the economic growth there. And then, the view that you take on the economic impacts and how severe recessions are here this year, that's probably going to play a much bigger role.

If demand picks up, economies continue to grow, we're going to see that tightness manifest itself in continued high-refining margins, which I think will mean fairly high margins this year, and potentially going into 2024 as well.

Jeanine Wai: Okay. I appreciate all the color. Thank you.

Darren Woods: Sure.

Operator: We'll go next to Neil Mehta with Goldman Sachs.

Neil Mehta: Yeah. Thank you, Darren and Kathy. I wanted you to spend some time on the Permian outlook for 2023. You made some comments in the prepared remarks about getting to over 600,000 barrels a day. So, I guess that's about 10% growth as we think about 2023. But just your thoughts on volumes and then, ultimately where should we think about plateau?

Darren Woods: Yeah. Thanks, Neil. I would take you back to 2018 when we were talking about our strategy in the Permian. And we had said at that time, our plan was to grow to a million barrels a day of production by 2025. When the pandemic hit, we basically said there's going to be a delay in a lot of our plans, and pushed out those objectives by about two years. So, moving from 2025 to 2027.

If you look at my comments and the plans, we're now forecasting that our Permian production will reach about a million barrels a day by 2027. So, very much in line going all the way back to 2018. And then, the comments that we made around the pandemic and the delay that was introduced. So, I think that's the context to think about what we're doing in the Permian and that development.

If you look at 2021, we added about 90,000 barrels a day of production. 2022, very similar number, 90,000 barrels a day. And that in part was what I'd call the organic development and the drilling and the production, as well as clearing our DUCs inventory. So, as we were in the pandemic, obviously not a lot of incentive to bring production on. And so, we concentrated our spend on drilling.

And then as we got into higher-priced environments concentrated on clearing that inventory and bringing those wells to production. And so, we were bringing our DUC inventory down. As we go into next year, we're going to rebuild that inventory, get to an optimum level that we can then use and maintain as we go through the next several years. So, that's the strategy of how we're working that.

If you think about ultimately getting to a million barrels a day by 2027, that's roughly a 13% compounded annual growth rate. That's not going to be steady every year. That will kind of fluctuate, call it plus or minus 5%. But that's the order of magnitude of how we'll see that playing out. And any one year's production will be a function of the development plans we have, and how those development plans manifest themselves in that specific timeframe.

But I think bottom-line is we're basically on plan moving at pace that we anticipated. And I'm hopeful that as we continue to focus on the technology developments and continuing to improve efficiency, we'll see either that production brought online more effectively at lower cost or in fact more productivity and higher production. But that's a function of the ongoing work we've got to bring our technology and operational capabilities to bear in the Permian, and continue to improve what we're doing there.

Operator: We'll go next to Devin McDermott with Morgan Stanley.

Devin McDermott: Good morning. Thanks for taking my question.

Darren Woods: Good morning.

Devin McDermott: So, we're going to ask about the chemicals business. And if we look at the margin chart that you have in the slide deck, it's one part of the portfolio where margins are still below the 10-year range. I was wondering if you could talk a little bit about the trends that you're seeing there as you move into early 2023 with China reopening, and that potentially being a positive driver for margins?

And then, also just talk through some of the discrete growth projects that you've got coming on over the next few years to drive that earnings growth that you talked about at the Investor Day last year, I think Baytown starting later this year. And you get the China Chemicals Complex still a few years out. But some of the growth projects and the progress there as well?

Darren Woods: Yeah, sure. I think maybe just take both sides of the equation with chemicals. I'll start with the demand side of the equation which you referenced. And you're right. I think, one of the things we saw last year was with the China lockdowns and the lack of growth in China, which is a big as you know chemical market that had an impact on the demand side of the equation. My expectation as we move into this year and the China economy continues to open up, we'll see that demand pick back up again.

And then, again a function of whether -- how deep and how widespread the recessions are around the world, that's going to have an impact. If current conventions and thinking holds and recessions are milder than people anticipated, I think that will see a benefit in the chemical on the demand side as well. From a supply side, which is a big part of what's suppressing margins today, as we came out, when we went into the pandemic, there were a lot of chemical projects that got put on hold and deferred investments.

And you're now seeing as we came out of the pandemic and you look at margins in 2021, 2022, very strong chemical margins. We saw those investments get leaned into and a lot of that capacity coming online. So, we've got this large capacity additions coming on at the same time where we've had some demand slowdown. So, I think what we're seeing play out here is that what I would say is the typical supply demand swings in that commodity cycle exacerbated somewhat by the effects of the pandemic still playing itself out.

But not inconsistent with what we had anticipated coming out of the pandemic. And so, it will take a little time for that demand to pick up and to fill that capacity. But it will get back on the growth trajectory and markets will get tight again. So, that's how we're thinking about the chemical business. With respect to our projects, I feel really good about it. We had to pause those as you

know coming out of the pandemic, where we had to make some tough choices about how we spend our capital.

We'd never done that before in terms of stopping some projects in midstream. But again, I'd tell you the organization did a great job of putting those on pause, preserving where we are at, continuing to work with contractors to drive efficiency, and now, we're bringing those back on basically in line with the plans that we've laid out in the pandemic. So, we just brought on the polypropylene unit in Baton Rouge.

We've got our Baytown Vistamaxx and LAO projects, which we anticipate coming on here middle of this year, and then China 1 is making really good progress. And we expect that to come on in 2025. So, I think all those investments we feel really good about and are on the path that we had anticipated.

Devin McDermott: Great, thank you.

Darren Woods: You bet.

Operator: We'll go next to Doug Leggate with Bank of America.

Doug Leggate: Thank you. Good morning, everyone. Good morning, Darren.

Darren Woods: Good morning, Doug.

Doug Leggate: I don't know which one of you -- good morning, Kathy, which one of you two would like to take this. But I want to ask you about your treatment of the European windfall taxes. I'm understanding as you are, I guess suing to try and get some resolution there and treating these as nonrecurring. So, can you walk us through your rationale versus how your peers are thinking about this and any cash impacts that you had to incur in the current quarter I guess would be my clarification question. But thank you for taking my question.

Kathy Mikells: Sure. So, I'll first just talk about the financial impact. In the current quarter, we wouldn't have had material impacts. Obviously, there were some countries in Europe that had passed incremental taxes earlier this year. So, I'll point to Italy and the UK as an example. And so, we would have been accruing those appropriately. You would have seen as part of our identified items that we booked \$1.8 billion associated with 2022 overall, increased additional European taxes.

Now in terms of the cash impact of that, it doesn't really hit in 2022. We took the overall accrual. And those payments will end up occurring both in 2023 and in 2024. It just depends on the individual countries. But if I take an overall step back and say, we looked at what happened in the EU and said that both it's not legal and it's the opposite of what is needed.

So, what's needed right now is more supply. And instead, what's been put in place is a penalty on the broad energy sector. So, I'd contrast that with what's happened more recently in the United States with the Inflation Reduction Act. There you see policy that's put out to incent industry, both to accelerate technology and to accelerate investment. That's greatly needed, especially in areas where the industries in terms of lowering emissions are still pretty nascent, things like hydrogen and CCS. And you're already seeing investments start to flow into those industries.

Darren Woods: And I would just add, Doug. I think obviously, we've been engaged with governments throughout Europe. And I do think there is a sensitivity to the impact on future investments and industry's appetite to continue to invest in what is a challenging market environment in the first place with respect to Europe becoming more uncertain and less stable. So, I think there was some concern going into this and my suspicion will be many in industry, this will be yet another reason to pull back on their investments in Europe.

And I'm not sure you're going to then see that begin to propagate around the world just because of the negative impact it has on an industry that requires a stable policy, and some certainty when you're making the size of investments that the industry makes over the time horizon that we make them in.

So, my sense is that there will be a lot of unintended negative consequences that come from this. And as that manifests itself, a lot less appetite for doing this.

Doug Leggate: I appreciate your perspective, guys. Thanks so much.

Darren Woods: You bet.

Operator: We'll go next to Alastair Syme with Citi.

Alastair Syme: Thanks so much, Darren and Kathy. Darren, can you just make some high-level comments about the competitive landscape you see across the business? I know this is a broad question, but your upstream energy products, low carbon solutions, how do you see the competitors' behavior?

Darren Woods: Sure. Yeah, this is obviously a real important focus area for us. And let me just maybe start with a broad strategy and philosophy that you've seen us executing here over the last five years. And as I mentioned on CNBC this morning, I think we see that paying off with respect to the profit margins and the improvements that we're seeing in the profit margins. If you look at 2012, when we had higher revenues than we've got today, we made more money this year with less revenues.

And that's really a function of the improvement in net profit margin where we went from about 10% net profit margin in 2012 to 14% in 2022. So, I think a reflection of the work that we've been doing to better position ourselves competitively. If I go down each of the sectors that we're in, I'll start with the upstream where our emphasis has really been making sure that our projects that we're pursuing are advantaged versus industry.

And very importantly are on the left-hand side of the cost of supply curve. So, our strategy there is we can't call the cycles. We can't predict where the markets will go and over what timeframe. But we can control the cost of the barrels that we're bringing on and making sure that irrespective of the environment that we find ourselves in that we are competitively positioned versus our competition and that our barrels are lower cost.

And that's been the strategy. And then, for the portfolio, where we don't see some of those advantages is to exit those businesses and to high-grade the portfolio. That's what we've been doing. I think you're seeing the benefits of that. We've also been very focused on leaning in when others lean out to use the language I used in the press release. And that I think is paying off as well.

And I think resource owners around the world recognize our commitment to that industry and our capabilities with respect to effectively producing barrels. So, I think that's what we're doing there. I think we're very well positioned. We've got a really good portfolio, I think a competitively

advantaged portfolio not only in the cost of supply, but in the quantity and the quality of the projects that we've got there.

In the chemical business, it's really around focused on performance products and making sure that we're leveraging our technology to develop products that have a high value to customers and therefore a higher margin. We build world-scale facilities, start them out on commodity grades, and then quickly upgrade those and fill transition to performance products. That strategy continues to play out well.

We're continuing to see a lot of pull on our performance products. And so, that's our strategy there. And we continue to invest in that high-end, high-value product slate in the chemical business. In refining, it's really around evolving the yield and the products that we make in our plants. I think contrary to maybe some of the conventional wisdom out there, we actually think the refineries that we're investing in position us well for again a very uncertain future.

Continuing to make the products that society needs today and doing that across a very diversified slate of products, so think chemicals, fuels products, and lubricants. And then, at the same time investing to produce low-emissions fuels to address the low-carbon demand. And as that piece of the market picks up, we've got a really good competitively advantaged base to shift that production.

And you see us doing that. The Strathcona Project is one example. But we have many, many other concepts in mind to transition our refinery production in line with that demand evolution. And it's really just a function of pacing that. And again, I think that advantage is versus the rest of competition, big refining footprint that's going to be needed and be advantaged in making low-emissions fuel.

So, I think we're well positioned there. Our chemical business is well positioned with the technology and the performance products that we're making. So, I think we've got a leg up in that space. And then, finally Low Carbon Solutions. There's a lot of activity in this space, a lot of interest particularly with the IRA here in the U.S., but more generally around the world. I think a real focus on low-carbon opportunities.

I think we're very well positioned there. This is not a game for start-ups. These are large world-scale projects that require the kind of project expertise that we have, require the size and balance sheet capacity that we have, requires the technology and operating experience that we have. So, there's a lot of I'd say skills and capabilities needed in this market that lend themselves and are consistent with our capabilities and advantages.

So, I think it will take a while for that to shake out. But I am convinced that we are very well competitively positioned in the low-carbon solutions business. And if you think about security of supply and counting on your partner to say sequester carbon for a 100-plus years, I think you're going to want somebody who's been around for a while and knows how to do that. And I think we're the company to do that.

If you want somebody who's going to guarantee that when they say they're going to have the barrels available to you, they're there, I think people will look to ExxonMobil to deliver on that. And I feel pretty good about how we're positioned there as well.

Alastair Syme: Thank you very much.

Darren Woods: Thank you, Alastair.

Operator: We'll go next to Stephen Richardson with Evercore ISI.

Stephen Richardson: Thanks. A couple for Kathy if I may. One, I was wondering if you could just address the balance sheet, and how we're thinking about the differences in the cycle? So, obviously significant deleveraging, and at 5% net debt to cap. I know that's not your target, but it is notable. So, just wondering if you could address at what point do you start to think of the balance sheet as a bit of a drag and also, your willingness to continue to de-lever here acknowledging that there was a lot of times in the corporation's history, where the balance sheet was effectively unlevered? Thank you.

Kathy Mikells: So, I would start by saying, we view our balance sheet very much as a competitive advantage, right. And we know that during the up part of this cycle, we've got to build a fortress balance sheet to make sure we have all the firepower we need and all the flexibility we need to then manage the downturn, which will inevitably come. So, that's how we think about the balance sheet.

I think we've made terrific progress. If you look overall this year, we paid down about \$7 billion of debt. You already mentioned that our net debt to cap is about 5%. We obviously also learned a number of lessons during the pandemic. And we have said we have a willingness to carry a higher cash balance. Our cash balance is around \$30 billion right now. So, I'd say overall at any given point in time, our cash balance is ultimately going to depend on how the market environment ensues.

But we know having a really strong balance sheet is a competitive advantage for us. We've been very clear about our capital allocation priorities. And at the very top of that priority list is making sure we're consistently investing in advantaged projects, right. We're in a quite good position in terms of having a very rich portfolio of advantaged projects, which we're bringing forward. And I think we've taken a very balanced approach in ultimately how we're sharing our rewards with shareholders.

In 2022, we ended up distributing about \$15 billion in dividends, and \$15 billion in a share repurchase program. So, ensuring that we just have sustainable, growing, competitive dividend, and efficiently are returning cash to shareholders. So, that's how we think about it. And we are at the part of the cycle where you would expect us to see a very strong balance sheet. And we're very focused on ensuring that that's indeed what we have.

Operator: We'll go next to Sam Margolin with Wolfe Research.

Sam Margolin: Good morning. Thanks for taking the question.

Darren Woods: Good Morning, Sam.

Sam Margolin: I'll ask about M&A actually because you're describing a number of advantages that are very unique to ExxonMobil, not just at a corporate level but even in individual asset classes for example that you might be in the early stages of efficiency and productivity gains in the Permian, which is really different than a lot of other operators are saying. So, it seems like an opportunity to consolidate and create a lot of value.

But at the same time, there's other countervailing forces against that. So, maybe at this point, it would be great to just hear your thoughts on the overall M&A landscape? And what opportunities do you see? And then also, in the context of Kathy's comments on the balance sheet, which is obviously set up very well right now. Thanks.

Darren Woods: Yeah, sure. Thanks, Sam. I'll touch on that and maybe see if Kathy has got anything to add. I think the point that you make is exactly the right one, which is looking at where we can take advantage of our capabilities and skills to bring additional value to acquisition targets. And that's

really where we put our focus is where can we leverage what we're good at, and bring value above and beyond what potential acquisition would be able to do without us?

That's the focus area. And I think we are in the area that you talked about. We do think with time, the work we've been doing in the Permian will provide a value opportunity that we can leverage when the market is right, and I think expectations start to align around values from a buyer standpoint as well as a seller standpoint. And so, there's an element of that where it's difficult to go in and buy at the top of a commodity cycle.

You tend to want to, at least I want to, focus in on where you see more, I'd say, longer-term price cycles being priced into assets. That will be one of the functions or one of the things that you got to consider in this space. But it really is. And we continue to look for where we see the opportunity of bringing value for undeveloped resources in the Permian. I think, in the low-carbon solutions space, it's a very early business. There are not a whole lot of opportunities there in that space.

But with time, that could develop. And obviously, it's challenged in the chemical space with respect to the technology that we bring to bear on existing assets. But it's something that we continue to look at. Kathy, anything to add there?

Kathy Mikells: So, the only other thing I would add is ultimately we're focused on continuing to high-grade our portfolio overall. And you would have seen in the past year, in what's been a more buoyant market environment, that we've made a number of divestments where others saw more value in those assets than we thought. So, we're always looking at both sides of this equation. And depending on the market and what's available and again, how we think about synergies, how we think about retention value, we'll look to transact, but only when we think it's going to earn good returns for our shareholders.

Sam Margolin: Thank you so much.

Darren Woods: Thank you.

Operator: We'll go next to Jason Gabelman with Cowen.

Jason Gabelman: Good morning. Thanks for taking my questions.

Darren Woods: Good morning.

Jason Gabelman: The first one is for Kathy just on a couple of items that I think impacted 4Q earnings. You had highlighted on the last earnings call that downstream trading benefits were particularly strong in 3Q, and I was wondering if that continued into the fourth quarter. And you also highlighted in the 8-K for 4Q earnings that inventory impacts would be a headwind? And I was hoping if you could quantify that as well? Thanks.

Kathy Mikells: Yeah. And so, we obviously in the third quarter quantified that we had a number of favorable timing impacts that we didn't necessarily think we're going to repeat. So, when you think about Energy Products performance in this quarter, you should think about the absence of some of those positives that we had overall last quarter, right. So, if I look at that just on a quarterly basis, overall, we had from third quarter to fourth quarter in Energy Products, unsettled derivatives of about \$1 billion as a headwind.

That's really the absence of largely a positive that we would have had in the third quarter. And then again, in the third quarter, we talked about the fact that we have a program associated with achieving ratable pricing in our refinery runs. And that had given us, again I'll call it benefit, in the

third quarter. And in the fourth quarter, price timing differences were a negative to the tune of about \$400 million.

I think the most important thing though is to actually take a step back and look at the full-year results because what we've told you during the year is look, we're going to have these price timing impacts, especially mark-to-market. And open derivative positions are going to move around quarter to quarter and during the year. But if you looked at Energy Products on a full-year basis, our unsettled derivatives were basically neutral.

And price timing impacts and again, I would have referred to this coming largely out of our priced inventory program were about \$400 million negative when we look at just 2021 to 2022. So, like we have said all along, the quarter-to-quarter impact may be a little bit more volatile. But when you look at the full-year results, it tends to settle itself out.

Jason Gabelman: Got it. And then on the inventory, the year-end inventory impacts?

Kathy Mikells: If you looked at overall year-end inventory impacts, they would have had the biggest impact in our Upstream business. And as part of the inventory adjustments we made, we had to look at gas inventories overall in Europe with prices declining pretty significantly. If you looked at our overall yearend adjustments to inventory outside of that, I would have called them neutral to modestly favorable with the largest favorability incurring in Energy Products.

Jason Gabelman: Got it. Thanks. And then my follow-up is just on downstream maintenance, which it seems like refining maintenance will be particularly high in 1Q. I wonder, if that's just a bunch of things just getting aggregated into one quarter if it's going to be a higher year overall moving

through the year, if there's something else going on, just a little more color on that number and the outlook for the year would be great. Thanks.

Darren Woods: Yeah, I'll take that one. I would just say, turnaround timing and the spend that we have in that area is really a function of the mix and the units that we're bringing into turnarounds around the different refineries and the age of those units. And so, I wouldn't take away some structural change or outlook for the year. It's really just a function of which refineries and which units that those refineries are coming in to turnaround and the work that we have to do to get those units back on their maintenance schedule. So, that's what's happening there.

Jason Gabelman: Great. Thanks.

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

Ryan Todd: Good, thanks. Maybe a higher-level question following up on some of your comments earlier on competitive position. Relative to past cycles, the competitive environment in upstream oil looks far different than many times in the past with both fewer players in the industry and many of your largest peers strategically underinvesting in oil. How do you think this impacts global supply over time?

And as you look forward, how does it impact your competitive position within the space? Does it open the door for additional opportunities for you in E&P projects, whether in terms of exploration leasehold competition or project development or even within the asset transactions in the M&A space? Have you seen an impact to date? And how do you think that evolves in the coming years with the changed competitive landscape?

Darren Woods: Yeah, thanks. I'll take that one, Ryan. I think you hit on a very good point which is -- and the point that we've made historically is there we are underinvesting as an industry in this space. And in the depletion business, we are not keeping up with that depletion or not offsetting it and covering the growth. You find yourself in tight markets. And I think as the broader public narrative has moved in this space and some of our competitors have stepped back for investment there, that does tighten the amount of capacity that's coming on and the supply that gets brought in on over time. And until you have competitive alternatives, lower-emissions competitive alternatives that address the full set of needs for society, there's going to continue to be a demand for oil and gas and oil products. And so, I think you're seeing the potential for continued tight markets, I think we have found certainly over the last five years that our continued commitment to strengthening the capabilities that will allow us to bring on competitively sourced oil and gas, and do that in an environmentally responsible way that that has resonated and is being recognized by resource owners around the world.

And so, I do think that does give us a bit of an advantage with respect to the opportunity set. And I would say that we continue to work to earn the advantage by developing those resources very effectively, bringing projects on, ahead of schedule, under budget, and doing things that frankly some of our competitors are challenged to do. And so, I think it's a very supportive environment that we find ourselves.

And the focus that we have in this space I think is appreciated and gives us an advantage versus the rest of the competition. And I'll also add that we're doing that while at the same time balancing the risk of the transition and investing in the low-emission side of the equation. And so, we've got this unique position where the same core capabilities that we're using to drive value in our traditional businesses, we're using those and leveraging them to drive value in the low-carbon solutions business, and keeping a very keen eye on the developments in all those industries.

And making sure that we adjust our investments in our strategy in our allocation of capital based on the developments that we're seeing in those spaces. So, we've got optionality. And we've got flexibility. And we've got a core set of competencies that lend themselves to every part of those businesses and across our portfolio. So, I feel really good about that. And I think the partners that we're looking to partner with recognize that and value it. So, I think we'll see that manifest itself in the deals that we continue to do, and the businesses that we continue to grow.

Ryan Todd: Thanks, Darren.

Darren Woods: You bet.

Operator: We'll go next to John Royall with JP Morgan.

John Royall: Hey, guys. Good morning, and thanks for taking my question. I just wanted to ask on the Beaumont expansion, and how the ramp is going there. And in terms of profitability, we've got Midland trading above Cushing now, but that's probably not significant given diesel cracks are very, very strong. So, just wondering on the profitability of that project out of the gate relative to how you've been thinking about it when you sanctioned?

Darren Woods: Yeah, I'll take that. And as I said before, if you look at Beaumont, the concept of that project was developed five plus years ago. And it really was looking at what I would call the feedstocks and intermediate balances going into that refinery and the options that we had to optimize the logistics piece of the equation and justified that project purely on logistics optimizations and lower-cost transportation to feed that refinery.

And that's how we thought about that, so, that is robust to wherever you're at within the cycle. If you layer on where we're at today in the commodity cycle and the fact that we are on the very high end of refining margins, my expectation is that that refining expansion will do much, much better than the basis on which we appropriated. Just because the timing of where we find ourselves in that cycle.

And that's good news. That's I think an important part of the investments that we make to make sure that we're participating in all phases of the cycle. But I think even better news is we're not depending on that to generate a return from that investment. So, even as we move through the commodity cycle and at some point in the future find refining margins start to come off and eventually we'll find ourselves in the bottom of the refining commodity cycle, that expansion will position our Beaumont refinery very well and will, I think, continue to be incremental to the value of that refinery.

So, we feel really positive about that. We're making good progress. We mechanically completed that a little ahead of schedule. And we're making good progress on ramping that facility up.

John Royall: Thank you.

Darren Woods: You bet.

Operator: It looks like we have time for one more question. Our last question will be from Roger Read from Wells Fargo.

Roger Read: Yeah, thank you, and good morning. Glad you're able to work me in here. Just wanted to follow up on Guyana. I think there was a lot of expectation at the Investor Day, well there won't be

an Investor Day, but there'd be a potentially big update on Guyana. I know things are going well there from a development standpoint. But I was just hoping you could address anything on the resource side and any update at all from a PSC political side? There's been a little noise out there on that end.

Darren Woods: Yeah, I think the point you made, we're making really good progress. As we've said, we brought Liza 2 in ahead of schedule. We anticipate bringing Payara in ahead of schedule. We brought Liza 2 up very well, brought that online quickly, and began producing at above-nameplate capacity in the fourth quarter. And so, I feel really good about the quality of those projects and the operational ability to bring those up and run them effectively making good progress there.

We've got Yellowtail in for government approval. I expect that to be a bigger FPSO. So, we're I would say we're at or ahead of the schedule and ahead of the expectations that we've talked about historically with Guyana. The resource base as you know continues to grow. We continue to make discoveries. We continue to really optimize around those discoveries.

And that's a really big part of developing these projects is as we are in parallel to developing projects, continuing the exploration, and continuing to better quantify and qualify that resource base is making sure that our projects are optimized around that. So, there's a balance that we're striking around how best to optimize and feel good about what we're doing there. And frankly, I think the government feels really good about what we're doing there.

Importantly, the development of that resource and the value associated with that is manifesting itself in country, which is a really important part of the equation here. We always said coming into this that this has to be a win-win-win proposition. It needs to be a win for the company. It needs to be a win for the Government of Guyana. And it needs to be a win for the people of Guyana.

And that's what we're seeing there. A lot of jobs, a lot of economic opportunity opening up in Guyana. We've been working with the Guyanese government around a project to bring in gas power into the country. It will be lower emissions and more reliable. We've got work going on to help bring up some of the other social services in the country. So, I think people are seeing the progress.

And the fact that we're bringing this on sooner and at lower cost I think is a benefit to the government. They recognize the values coming faster than originally anticipated. So, I think it's a good story to the government. I think in ExxonMobil, we've got very good relationships working very constructively. And as I said, it's a win-win-win proposition here and we feel good about the progress we're making.

Roger Read: And any thoughts on the resource base or the next time you'll offer an update on that?

Darren Woods: I think, as the team continues to drill and then quantify and characterize the results of those drills, when it gets to a material improvement, we'll be out talking about that.

Roger Read: That's great. Thank you.

Darren Woods: Yeah Roger. Thank you.

Jennifer Driscoll: Thank you everybody for your questions today. We will post a transcript of our Q&A session on our investor website by the end of the week. Have a nice day, everyone. And I'll turn it back to the operator to conclude our call.

Operator: This concludes today's call. We thank everyone again for their participation.