

Q2 2023 Earnings Call

Company Participants

- Darren W. Woods, Chairman and Chief Executive Officer
- Jennifer Driscoll, Vice President, Investor Relations
- Kathryn A. Mikells, Senior Vice President and Chief Financial Officer

Other Participants

- Devin McDermott
- Doug Leggate
- Jason Gabelman
- John Royall
- Josh Silverstein
- Neal Dingmann
- Neil Mehta
- Paul Cheng
- Paul Sankey
- Roger Read
- Ryan Todd
- Sam Margolin
- Stephen Richardson

Presentation

Operator

Good day, everyone, and welcome to this ExxonMobil Corporation's Second Quarter 2023 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 {BIO 21035568 <GO>}

Good morning, everyone. Welcome to ExxonMobil's second quarter 2023 earnings call. I'm Jennifer Driscoll, Vice President, Investor Relations. I'm joined by Darren Woods, Chairman and CEO, and Kathy Mikells, Senior Vice President and CFO. Our slides, script, and earnings release are available in the Investor section of our website.

In a moment, Darren will provide opening comments, then we'll take your questions. In conjunction with our recent announcement to acquire Denbury and related materials in this presentation, we have included additional information on Slide 2. During the

presentation, we'll make forward-looking comments. These are subject to risks and uncertainties. Please read our cautionary statement on Slide 3. You may find more information on the risks and uncertainties that apply to any forward-looking statements in our SEC filings on our website. Please note that we have supplemental information at the end of our slides.

Now, let me turn it over to Darren.

Darren W. Woods {BIO 17692013 <GO>}

Good morning. Thanks for joining us today. I'm pleased to be conducting our earnings call from our Houston campus. As of July 1st, our corporate headquarters is now located at the campus, alongside the senior managers of our businesses and centralized organizations. This is the first time in the company's history that the senior leadership team of the corporation is located on one site and represents a critical step in continuing the transformation of our business, enabling us to improve collaboration and alignment and further leverage synergies across our integrated businesses.

The ongoing efforts to structurally improve our company and drive sustained industry-leading performance was clearly demonstrated in our second quarter results. We delivered earnings of almost \$8 billion, 2x higher than what we earned in the second quarter of 2018, under comparable industry commodity prices. That doubling of earnings reflects our work in the intervening years to reshape our portfolio of businesses, invest in advantaged projects and drive a higher level of efficiency and effectiveness in everything we do.

With these results, I'd like to take a moment to recognize our people, starting with all those that made the move to Houston. I'm sure you know moves like this are not easy and that many personal sacrifices are made. I'm very thankful for all who did this. Their willingness to disrupt their lives for the benefit of our company is a testament to the dedication of our people whose commitment and hard work underpin all the improvements we are making. I hope our shareholders take comfort in this one, small example of our people's commitment to the company and have confidence in their resolve to further strengthen our position as an industry leader in all that we do.

Our achievements this quarter also demonstrate the progress we're making in solving the "and" equation, meeting the world's needs for energy and essential products and reducing emissions, both our own and others. In the Permian, we set another production record and remain on track for an overall growth in production of 10% this year. As I said last quarter, our growth won't be linear as we execute our development plans that balance and optimize capital efficiency, resource recovery, and production rates. Our priority will remain on driving value, not volumes.

In Guyana, we achieved a record quarterly gross production rate of 380,000 barrels per day. Our team in Guyana continues to deliver excellent operating, environmental and safety results, while optimizing and growing production. In fact, we see the potential to increase the combined gross capacity of these two FPSOs to above 400,000 barrels a day

with further debottlenecking, which is nearly a 20% increase above the investment basis, and a testament to the ingenuity of our people.

In the Gulf Coast, we continue to profitably grow our business. In the second quarter, we achieved mechanical completion of the Baytown chemical expansion. The project grows volume and improves mix with 750,000 tons per annum of additional performance chemical products.

The Baytown expansion is the final Product Solutions component of the Growing the Gulf initiative announced in 2017. If you recall, the initiative committed to investments of \$20 billion over 10 years to capitalize on the U.S.'s advantaged resources, economic growth and strong regional support for our businesses and the jobs we create. 11 of the 13 projects are up and running. The Baytown expansion, after product qualifications, should begin contributing by the fourth quarter. And Golden Pass, the last of our Growing the Gulf projects, should have its first train up at the back end of 2024.

The Growing the Gulf initiative is another example of executing our strategy, investing in advantaged, high-value growth and delivering on our commitments. Improving the earnings power of our businesses also requires divestments. In the second quarter, we completed the divestment of the Billings refinery. Including this sale, cash proceeds from divestments of non-strategic assets have totaled roughly \$2 billion year-to-date. In advancing our efforts to better leverage corporate scale integration, we established three new centralized organizations in the quarter, consolidating activities previously embedded in each of our businesses. Global Business Solutions, ExxonMobil Supply Chain, and Global Trading.

They're all off to a good start and have clear lines of sight to improve performance and lower costs. Our Low Carbon Solutions business continues to make progress in building an advantaged, low-cost, high-return business in capturing, transporting, and storing carbon. We announced the CO₂ offtake agreement with Nucor, one of North America's largest steel producers.

And we signed an agreement to acquire Denbury, which will provide ExxonMobil with the largest owned and operated network of CO₂ pipelines in the United States. Combining Denbury's assets and experience with our capabilities will significantly accelerate and expand our ability to profitably help customers reduce their emissions and allow ExxonMobil to play an even greater role in a thoughtful energy transition. It significantly enhances our competitive position and offers a compelling customer proposition to economically reduce emissions and hard-to-decarbonize heavy industries, which, today, have limited practical options.

Of Denbury's 1,300 miles of CO₂ pipeline, roughly 70% are in the Gulf Coast states of Louisiana, Texas, and Mississippi, one of the largest U.S. markets for CO₂ reduction and home to some of ExxonMobil's largest integrated refining and chemical sites and 9 of their 10 strategically-located CO₂ storage sites are also in this region. We believe the transaction synergies will drive strong growth and returns. A cost-efficient transportation and storage system accelerates CCS deployment for both ExxonMobil and our third-party

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customers. It supports multiple low-carbon value chains, including CCS, hydrogen, ammonia, and biofuels.

Ultimately, we see an opportunity to create a CCS business with the capacity to reduce emissions across the Gulf Coast by up to 100 million tons per year. This transaction will help us do that at a lower cost and faster pace. In fact, we see the potential for a third of the opportunity being actionable in the near term. Which takes us to our customers. Our latest offtake agreement extends our CCS customer base beyond industrial gas and fertilizers into steel. This project will tie into the same CO2 transportation and storage infrastructure we use to serve CF industries, located just 10 miles from Nucor.

Focusing our efforts and investments in areas with concentrated sources of emissions allows us to capture the benefits of scale, reduce our spend per ton of CO2 captured and improves returns. Our work with Nucor supports Louisiana's goal of reaching net-zero greenhouse gas emissions by 2050 and it increases the total amount of CO2 we've agreed to transport and store for customers to 5 million metric tons per year, equivalent to replacing 2 million cars with EVs, roughly the same number of electric vehicles on the road in the United States today.

With the planned Denbury acquisition, potential reduction could be up to 20x that. As demonstrated by these new developments, we're continuing to make significant progress in our plans to lead industry in helping society reduce emissions. A major component of our improved earnings is a structural cost savings that we've achieved, currently at \$8.3 billion. We remain on track to reach our target of \$9 billion in savings by the end of this year. As we develop plans for future years, we're committed to finding additional savings.

Cash flow from operations totaled \$9.4 billion in the quarter, or \$13 billion excluding the change in working capital. Our year-to-date production of 3.7 million oil-equivalent barrels per day is on track with the full-year guidance we shared last year as part of our Corporate Plan review. CapEx investments totaled \$12.5 billion year-to-date, also in line with our full-year guidance. And consistent with our capital allocation philosophy, we continue to share our success with shareholders, distributing \$8 billion in cash during the quarter, including \$4.3 billion in share repurchases and \$3.7 billion in dividends.

Before we go to Q&A, I'll leave you with a few key takeaways from the quarter. First, our work to structurally improve earnings power is paying off, demonstrated this quarter as we doubled earnings versus a comparable price environment in the second quarter of 2018. Our reorganizations, aggressive investments in advantaged projects and significant reductions in cost are driving value and improving our competitive position. We've made great progress and have a clear line of sight to much more.

In the back half of this year alone, we expect to bring on two advantaged projects, Baytown Performance Chemicals and the Payara FPSO in Guyana, further growing our capacity to generate industry-leading earnings. The company's ongoing business transformation is giving the organization a better view of end-to-end value creation and focusing us on the highest value opportunities.

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Today, we have a better positioned than ever to realize the value of our scale and the synergies from improving the integration of our businesses. For the first time in our history, we have a corporate technology, projects, trading, supply chain, and business solutions organization allowing us to apply the best solutions and talent to our biggest opportunities.

And importantly, we're developing the most talented people in the industry, providing unrivaled opportunities to meet some of society's greatest challenges. Their work is delivering exceptional results, driving industry-leading returns on investments and growth in earnings and cash flow. This, in turn, allows us to distribute cash to shareholders through share repurchases and a sustained, competitive, and growing dividend, while maintaining investments in industry-advantaged projects, including investments in our Low Carbon Solutions business.

By leveraging the advantages developed in our traditional businesses, we are laying the foundation for a world-scale, competitively advantaged, low-carbon business with industry-leading returns. Planned acquisition of Denbury is a step in that direction, improving our decarbonization proposition for customers, while generating attractive returns.

In summary, we're pleased with the quarter, the progress it represents and the improved earnings power of the company. We're confident that we have the right strategy with the right leadership and best people to effectively execute it, delivering sustained growth and shareholder value.

With that, let me turn it back to Jennifer.

Jennifer Driscoll {BIO 21035568 <GO>}

Thank you, Darren. We'll now begin our Q&A session. Please note that we continue to request that analysts ask a single question as a courtesy to the other analysts. However, please remain on the line in case you need any clarifying questions. And with that, operator, please open the line for our first question.

Questions And Answers

Operator

(Question And Answer)

Thank you, Mrs.Driscoll. The question-and-answer session will be conducted electronically. (Operator Instructions) And we'll go first to Doug Leggate with Bank of America.

Q - Doug Leggate {BIO 1842815 <GO>}

Thank you. Good morning, everyone. Darren, I wonder if I could pick up on the cost-saving target and I guess, my question is post-Denbury and given that we're already

halfway through 2023, where does that \$9 billion cost-saving target go through the end of the planned period through 2027?

A - Darren W. Woods {BIO 17692013 <GO>}

It goes up, Doug, in short. I think as you know and we've been talking about the reorganizations that we've been executing over the years with some of them just recently executed, puts us in a position to really capture a lot of efficiencies across the whole of the enterprise. This year as we develop our corporate plans, obviously, one of the objectives of these new organizations is to take stock of what they've got in their portfolio and identify the opportunities to further capture the benefits of scale and the synergies that exist between the integrated businesses and what for the first time represents an opportunity to actually manage processes across these integrated businesses.

So I think we've got an opportunity set to drive that cost reduction even further as we head out further than the planned horizon. And my expectation is, when we come back at the end of the year after we've developed the plans, reviewed them with the Board and then share them with all of you, we'll provide some perspective on what that opportunity looks like going forward.

Q - Doug Leggate {BIO 1842815 <GO>}

Would you care to offer an order of magnitude, Darren?

A - Kathryn A. Mikells {BIO 3743077 <GO>}

Doug, I'd tell you to go back to the Investor Day materials from March of 2022. We had some bridges in it where we kind of laid out earnings and how much structural cost savings were driving earnings improvement relative to volume and mix. And I think if you just look at the size of those bars, you'll get a rough order of magnitude.

Q - Doug Leggate {BIO 1842815 <GO>}

I mean going forward, but I'll leave it there. Thanks.

A - Darren W. Woods {BIO 17692013 <GO>}

You bet. Thank you, Doug.

Operator

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

Q - Neil Mehta {BIO 16213187 <GO>}

Good morning. Darren, you've been clear that you think that there's value we had potentially in M&A in both low-carbon and the Permian and Denbury pretty well into the former of those two. I'd be curious on your perspective on whether -- on the M&A markets right now and how are you thinking about approaching opportunistic value creation through that?

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A - Darren W. Woods {BIO 17692013 <GO>}

Yes. Good morning, Neil. I would say that our perspective on that whole space and I know it's one that's of great interest and we've talked about, it seems like for a number of successive quarters, hasn't really changed quite frankly. I think, what we are holding ourselves to and evaluating opportunities in that space is the ability to create unique value, unique shareholder value.

And so, the opportunities have to be bigger than what ExxonMobil or any potential acquisition could do independent of one another. So I think you've heard us say that one plus one has to equal three here and that's what we are -- how we're thinking about in that space. Obviously, from the very beginning, back in 2018, when we started talking about better leveraging our key competitive advantages one of the drives to do that is to open up value opportunities that basically others can't achieve.

And as I've made -- tried to make clear in this quarter's prepared remarks and in previous quarters, we're making great progress on better leveraging those competitive advantages, bringing them to bear on the business, delivering bottom-line results. The more we do that, the more we advance our technology portfolio, the bigger the opportunity to identify unique value opportunities with other companies. And so we're continuing to look for that, but we're not going to compromise our expectation of generating returns and growing value for the shareholders. So I think Kathy said many times in the past, we're pretty picky acquirers. I don't see us changing that position.

Q - Neil Mehta {BIO 16213187 <GO>}

Thanks, Darren.

A - Darren W. Woods {BIO 17692013 <GO>}

You bet, Neil.

Operator

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

Q - Devin McDermott {BIO 19137879 <GO>}

Hey, good morning. Thanks for taking my question.

A - Darren W. Woods {BIO 17692013 <GO>}

Good morning.

Q - Devin McDermott {BIO 19137879 <GO>}

So I wanted to ask about the Permian. You've had strong results so far this year and in the slides, you had some interesting charts and some of the advantages you see versus peers and how you develop the asset. I was wondering if we could dive into a little bit more detail on that? When you think about some of the specific drivers that allow you to get

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such better MPV versus other cube development in the basin, what are those in your view? And as part of that, could you address the resource recovery trends you're seeing and the improvement there and any room for further upside on that?

A - Darren W. Woods {BIO 17692013 <GO>}

Yeah, sure. I guess maybe start by going back to the approach we outlined in the 2018, 2019 timeframe where we said, ExxonMobil can bring a different game to the unconventional space and really bring to bear and leverage the capabilities that we have versus many others who are competing in that space. Key amongst those was taking advantage of our scale and balance sheet to develop this asset at scale. And so you may recall we talked about the cube development which was really focusing on how you maximize overall recovery and not near-term production.

That wasn't a particularly well-received approach back in the 2018-'19 timeframe, but I think with time, it's demonstrated its value and it's actually manifesting itself in the results that you see today which is we're focused on making sure that as we develop the resources and all the benches in that resources, particularly the ones that are connected, that we do that in an optimum way that develops and maximizes the recovery versus initial production rates.

So that's really important that cube development we continue to evolve that. I think we've gotten to a stage now where we feel really good about how we're executing that development. We focused on capital efficiency and I would tell you today, we are setting records for the length of our lateral wells, which, again, lowers the cost associated with accessing the resource. Importantly, as you drill longer wells, it's critical that the productivity of each foot of that well remains constant.

And so, we've done a lot of work to make sure that the productivity of each foot is consistent as we drill longer and longer. So that's driving capital costs down pretty significantly. And then I would say we've got a lot of technologies that we're trialing, ones that I won't go into specific detail on to try to maximize recovery. We've got those technologies deployed in the field. We've got some early results that are quite encouraging, but they aren't at the scale today to manifest themselves completely in our results.

So I think all those things together continue to give us a lot of confidence that not only have we moved to the front of the pack and demonstrated industry leadership with what we've got today that we see a lot of upside to that as we move forward. And I don't think we've reached the end of the optimization process yet.

Q - Devin McDermott {BIO 19137879 <GO>}

Great. Thanks, Darren.

A - Darren W. Woods {BIO 17692013 <GO>}

You bet.

Operator

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

Q - Sam Margolin {BIO 17168841 <GO>}

Good morning. Thank you.

A - Darren W. Woods {BIO 17692013 <GO>}

Good morning, Sam.

Q - Sam Margolin {BIO 17168841 <GO>}

This question is about EOR. Hopefully, you don't find it too far of field, but because EOR (technical difficulty) than CO2, then (technical difficulty)

A - Jennifer Driscoll {BIO 21035568 <GO>}

Sam, you're kind of breaking up on us. Sam, are you available? Operator, let's try another question and come back to Sam.

Operator

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

Q - John Royall {BIO 17723205 <GO>}

Hi. Good morning. Thanks for taking my question. So just looking at your bridge for Energy Products and you have over \$2 billion of negative margin. It's right in line with the number out of your A case, so no surprises there, but definitely a bigger decline on a relative basis than we're seeing from your couple of peers that have reported so far. So just looking for any additional color on the drivers of that margin decline, maybe there's something to call out around regional mix or crude slates that are a bit more unique to Exxon?

A - Kathryn A. Mikells {BIO 3743077 <GO>}

Yes. I wouldn't say there's anything unique. I mean, this is a straight flow-through of just what the industry refining margin reduction is kind of flowing through. We would see a much bigger reduction coming out of where we have a bigger footprint. So I would say even though the U.S. tends to have better margins than the rest of the world, we obviously have a very big footprint in the U.S. And so just that footprint drives a bigger absolute number and absolute decline, but it's just a straight flow through from the change in industry margins.

A - Darren W. Woods {BIO 17692013 <GO>}

Yeah. Our refining -- the size of our refining business is much, much larger than our peers, so the impacts associated with the changes in those margins have a bigger impact on us than you'd see with our peers.

Q - John Royall {BIO 17723205 <GO>}

Sure. I was just looking at it, it's kind of like a 50% cut to the 1Q number on the margin side, but yep, thank you very much. I appreciate it.

A - Darren W. Woods {BIO 17692013 <GO>}

Great.

Operator

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

Q - Roger Read {BIO 6161944 <GO>}

Yeah. Hello. Good morning.

A - Darren W. Woods {BIO 17692013 <GO>}

Good morning, Roger.

A - Kathryn A. Mikells {BIO 3743077 <GO>}

Good morning.

Q - Roger Read {BIO 6161944 <GO>}

I'd like to follow up on the chemicals margin. You made the comment on the opening about margin -- excuse me, pricing, where it was in '18, but margins much better. That said, chemicals isn't quite back to the 2021 high point. So anything else you can offer on how the chemical outlook is getting any better? And one of the reasons I asked that question is, when we look at the softness in NGL prices in the U.S. and this expectation of much higher exports, we hear you talk about increase in China chemical capacity. So how should we kind of juxtapose what looks like an improving market for you, certainly better margins versus potentially a lot of new capacity into that area?

A - Darren W. Woods {BIO 17692013 <GO>}

Yeah, sure. I'll give you a couple of perspectives on that and then see if Kathy has anything to add. I think, first of all, what I'd say is, the work that we've done over the years to make sure that we've got a well-diversified feed slate for our chemicals business continues to pay off as particularly in these markets as things are shifting around and price spreads are moving. Our organization is pretty adept at responding to those price signals and change in feed. So that continues to make its way to the bottom-line and position us better than many of our peers with that flexibility and the feed optionality that we have.

I think as you look around the world, early on with chemical -- with China being in a COVID lockdown and recognizing the role that it has in chemicals demand, that was kind of the back half of last year. And the impact and as we've come into this year, I think a lot of expectations for China to pick up and with that growth and demand in chemicals. We are seeing that starting to happen. In fact, if you look at our sales in chemicals, the second

quarter was stronger than the first quarter. So we are seeing that. The demand looks pretty reasonable, I would say, I mean, the challenge is and you've referenced it is the amount of supply that's come on.

And that's where I think our feedstock advantages and our footprint in the integration that we have with a number of refineries around the world actually positions us better. But it'll take some time, it is my expectation for demand to kind of take us out of the supply, the excess supply that we've got on the marketplace. But I would just add that we've made a lot of investments in chemicals over the last five years, fairly significant investments.

And one of the things that, frankly, I'm quite pleased with is if you look at all those chemical investments that we've got online, even in the depths of what is a pretty low bottom of cycle condition for our chemical business, all those brand new projects are earnings positive and cash positive, which I think really bodes well for when the market comes back up and we're at top of cycle.

So I feel good about how we positioned the business. And frankly, we're doing exactly what we had hoped for, which is, when you get into tough conditions that our business continues to outperform competition. And so it puts us in a good position that as markets tighten back up again and margins improve, we'll be in an even better position.

A - Kathryn A. Mikells {BIO 3743077 <GO>}

And I'd just add a couple of quick stats to that. So relative to competition, again, our geographic footprint is pretty advantaged. And so we're about 35% larger in North America than I'll call it rest of industry.

And then the other thing I'd point out that gets to what Darren just said about some of the projects we've been implementing, those projects help to support an improvement in our overall mix. And so this quarter we saw a 6% increase in performance of Chemical Products and those carry a higher margin. So those are some of the more systemic things that help to drive improvement relative to competitors.

Q - Roger Read {BIO 6161944 <GO>}

Great. Thank you. Follow-up question on the carbon capture side of the business. If we look, we've got global coal demand hitting a record in '23. Global oil demand is going to hit a record in '23 if it hasn't already. Just curious, Darren, is there -- you've already laid out your strategy. All that makes sense, Denbury acquisition certainly fits well in that.

Just curious if you're getting any additional sort of outside pressure to maybe accelerate something on this, given that if you think about it from an energy transition standpoint, two or three years ago everybody was saying we would have already had peak demand for this, peak demand for that. Clearly not happening. If we're going to have a lot more carbon emissions, are you getting any additional pressure to accelerate carbon capture?

A - Darren W. Woods {BIO 17692013 <GO>}

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Yeah, I think what you're seeing today is a reflection of the challenge that the world faces and frankly, an incomplete solution set. And I think, unfortunately, the focus if you go back several years and I would say the exclusive focus on wind, solar, and EVs and the fact that other alternatives and other solutions that, frankly, at the time, we were advocating for and in fact, trying to develop internally, weren't considered or actually -- weren't actually accepted, it slowed society's progress and its emissions reductions and capturing.

I think today there's this recognition that we need more solutions and that, frankly, the industry can bring those solutions to bear. At this stage of what is going to be a very complicated and expensive transition, we need as many solutions on the table as possible, not eliminating any of them and staying focused on emissions reductions. I think that's starting to resonate.

And so, I don't -- that the challenge here is this is a very nascent, the areas that we're focused on which are the molecule-oriented parts of the business that are very consistent with our capabilities and expertise and advantages. That's a -- we're in the very early stages. Frankly, we're in the lead in that space. There aren't any other companies that have secured the kind of third-party emission reduction opportunities that we have there aren't any parties out there that have got the scale of the investments that we're progressing.

And so I think generally people recognize that we're delivering on our ambition to lead the industry and more than anything else are supportive. Obviously, there's a desire to make things go faster. And frankly, that's a function of the opportunity set. And if you think about the IRA and the role that it plays, that legislation hasn't even been translated into regulations yet and that's going to be a critical step.

And I think there are many governments around the world who are working on appropriate legislation to incentivize and create a market for carbon. That hasn't come to be yet. So we're very early in this process and there are a number of players in here who have a role to deliver. We feel like we're delivering on our part, but there are other elements that have to come together for this to be successful.

And then ultimately, we're going to need advances in technology to keep driving that cost down so that we can get to more and more dilute streams of CO2. And we're doing a lot of work in that space. And frankly, again, I think our pipeline of opportunities, our technology pipeline, I feel pretty good about it. And I hope to in the next several years to hopefully commercialize some technologies that further reduce the cost of emissions reduction. So I think early, a lot of work going on, I think we're making a lot of good progress and we feel good about the role that we're playing and the leadership position that we have.

Q - Roger Read {BIO 6161944 <GO>}

Great. Thank you.

Operator

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

Q - Sam Margolin {BIO 17168841 <GO>}

Hello. Is that better? Sound nice?

A - Darren W. Woods {BIO 17692013 <GO>}

That is better. That's better, Sam. Welcome back.

Q - Sam Margolin {BIO 17168841 <GO>}

I'm okay. So this question is about EOR as it pertains to Denbury. I think there's some optimism that EOR barrels might be credited with carbon attributes because it buries more CO2 than the associated emissions of the oil and so maybe that's option value, but I was just wondering where you stand on that topic and if it was at all a factor as you look at different asset classes and saw that EOR was available.

A - Darren W. Woods {BIO 17692013 <GO>}

Yes. So I would say, obviously, that's the core business today of Denbury and facilitated the infrastructure that they have in place. That frankly, for us, was not a key driver, strategic driver of the opportunity. I think EOR certainly in the short-term can play a role, but if you think about the broader opportunity, it's really around carbon capture, storage, sequestration and keeping the carbon under the ground. So that's the longer term play for us.

As I just commented here about the challenges with the regulation and the translation of the IRA into regulation, we've got a Class VI well permitting that's going to be required for sequestration. That's a fairly slow progress to date. So there's a lot of work that has to go into putting these pieces together so that we're successful. I see EOR as providing a lot of optionality in the short-term that as we're bringing on carbon capture facilities, working with third parties and we start capturing the CO2, if we don't have everything lined up on the sequestration side, the EOR gives us an opportunity to progress these things and not lose schedule. So I think right now that's the way I would think about it. It's certainly not a strategic thrust for us as a company.

Q - Sam Margolin {BIO 17168841 <GO>}

Understood. Thank you so much.

A - Darren W. Woods {BIO 17692013 <GO>}

You bet. Thank you.

Operator

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

Q - Stephen Richardson {BIO 19149224 <GO>}

Good morning. I was wondering if we could dig in a little bit on the debottlenecking opportunity you talked about in Guyana. Clearly, in the 20% above nameplate is or above

design is pretty significant. Darren, could you drill in a little bit on what you're seeing here? Is it changes to the subsurface? Is it changes in the kit? Is it uptime time? Kind of scale that for us. And maybe just, I mean, there's really significant benefits if you roll it forward on a couple of the other projects that you have in the queue, so maybe just talk about how it's changing your view of the future opportunities? Thank you.

A - Darren W. Woods {BIO 17692013 <GO>}

Yes, sure, and thanks for the question. It's something that frankly the organization has spent decades kind of working. I'll start by just -- I'd bucket it in three distinct buckets. The first, it comes -- starts with the design and build-out of the project itself.

And so, having a projects organization with the capability that we've built and strengthened here over the last several years, we end up with facilities that have the right design and are built the right way so that we've got a really good platform to optimize and a good opportunity to squeeze to find opportunities to maximize and optimize the production coming out of the facilities without compromising any of the design specifications, staying well within safe operating envelopes. We've done that over the years at a lot of our facilities and I think this project organization even extends that capability with the skills that they bring to the project development and the build-out.

And then I'd say the second bucket is our operations organization and the focus that they put on maximizing utilization and production. And I think the mindset in the company is, once you've got steel in the ground, you've got this capital, the operations job is to run it reliably, run it safely, run it in an environmentally responsible way, but at the same time, maximize the value of that steel in the ground and they've done a tremendous job of that. And it's not one big thing, it's a lot of little things that, that organization stays focused on and pushes. And again, we've seen that not only in Guyana, but really all the capital projects that we've been bringing on, the organization has done a great job of making sure that we're maximizing the value of the capital that we've invested.

And then the third bucket, I would say is our technology organization. And again, we've taken the step to consolidate all of our technology organizations and move from what was a business-oriented construct to a capabilities construct. And so we've got our best people brought together, working on our biggest opportunities. It's really driving innovation and creativity. And this close partnership that technology now has with the business and the shared commitment to drive value leads to more technology getting out in the field and assisting the operations group and squeezing it.

So I'd say all of those are coming together. My expectation is, as I mentioned in my prepared remarks that we are going to see the first two FPSOs get above 400,000 barrels a day as we continue to optimize and we'll do that in a very safe and environmentally responsible way. My expectation is when the third report comes on with PIAR, we will see similar levels of improvement there.

And frankly, the expectation that we have for ourselves is that as we go forward and continue to build these projects, we will continue to find the same kind of benefits and optimization opportunities with the projects and it comes back to this inherent capability that we built into our businesses.

Q - Stephen Richardson {BIO 19149224 <GO>}

Thanks so much.

A - Darren W. Woods {BIO 17692013 <GO>}

You bet.

Operator

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

A - Kathryn A. Mikells {BIO 3743077 <GO>}

Good morning, Ryan.

Q - Ryan Todd {BIO 15158570 <GO>}

Good morning. A question maybe back on the upstream. I mean, even given the pricing environment, I think upstream performance that we've seen for the quarter not just for you, but for other peers that reported this week have been a little weaker than expected with much of that seemingly driven by the global gas environment. Can you talk about drivers or headwinds that you maybe saw during the quarter on pricing relative to headline markers, maybe headwinds in trading or any other potential drivers there and how those might evolve over the remainder of this year?

A - Darren W. Woods {BIO 17692013 <GO>}

I'll let Kathy maybe dive into a little more detail. I would just say, with respect to pricing and the impact on the business, actually, our quarter came in pretty much in line with what we had expected. If you looked at the AK that we put out, and our best attempt to model the impact just from the market environment, we were pretty rigorous in making sure that when we put an AK out that's really focused on discrete planned events, but much more importantly, on what the market impact has been to the business quarter-on-quarter. And so I think that kind of laid out pretty consistently with what we expected.

Obviously, gas prices were down, but I think refining margins down a bit, but still in very healthy territory. If you look at the fundamentals, quite frankly, as we head into the back half of the year, I think as demand picks up, we're going to see the limits that we have on additional supply, I think come back into the mix and see supply demand tighten up a bit. So my expectation is the back half of the year, we'll see some upward pressure just given demand changes and the limited options we have to significantly increase supply.

Well, Kathy, anything to add to that?

A - Kathryn A. Mikells {BIO 3743077 <GO>}

Yes. I'll mention a couple of other things to you. As a result of some of the divestments we've done over the past year, if you look at our gas portfolio, we're now about 45% LNG.

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So a little bit more tip to LNG. If you just look at kind of impact of pricing across our gas portfolio and results, I mean, Henry Hub was down about 40%, TTF was down almost 50%.

And the last thing I'd say is, we always talk about the fact that on LNG a lot of our contracts are tied to lagged oil prices. And so if you just look at where oil prices were in the fourth quarter, kind of relative to where they are more currently, I'm going to call them down roughly \$10 a barrel. And so that pricing impact would have flowed through as well.

And then the last thing that I will mention associated with our trading results is, if you exclude mark-to-market, so if you look in upstream mark-to-market was positive for us in the quarter, but if you excluded mark-to-market, I would have then said our gas trading results were a little bit lighter this quarter. So kind of all of that packaged together, I think gives you a pretty good understanding of our gas results.

Q - Ryan Todd {BIO 15158570 <GO>}

Great. Thank you.

Operator

We'll go next to Jason Gabelman with TD Cowen.

Q - Jason Gabelman {BIO 18730121 <GO>}

Hey. Good morning. I want to ask about another energy transition area that's been receiving some attention in the media in terms of Exxon's activity, which is lithium drilling and then refining. It seems like you're waiting a bit more into this space, I'm wondering how you view that opportunity given your expertise in drilling and refining of materials in the ground? And if that -- development in that space was contemplated at all in that \$17 billion energy transition budget that you previously laid out? Thanks.

A - Darren W. Woods {BIO 17692013 <GO>}

Sure. Yes. Maybe I'll just come back to kind of the fundamentals of how we think about ExxonMobil's participation in the transition space and it comes back to the focus on leveraging the advantages that we have as a corporation where we believe we can add unique value that's why we have since the very beginning stayed focused on what I'd say is the molecule side of the equation and carbon capture and hydrogen and biofuels. But we're looking at frankly all the areas that we believe we have an expertise and unique capability and seeing if there's a fit for products or solutions that can help society decarbonize.

Lithium and production of lithium from brine water is, if you think about what's required to do that is really an extension of a lot of the current capabilities that we have in our Upstream. It requires a good understanding of the subsurface, requires a good understanding of reservoir management, requires drilling and injections.

And so, I think the below surface things are very much in line with the skills and capabilities that we've built out over the decades in our Upstream business. The

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processing of the brine and extracting the lithium is very consistent with a lot of the things that we do in our refineries and chemical plants and in fact in some of our Upstream operations. So that piece of the equation, again, not new to the company.

So as you look at all that, I think the capability, the skill set that we have, the operating experience that we have, all lend themselves to that. And then, of course, there's the question of how does the market fundamentals look and supply and demand and do we see a role for what we're doing there. And frankly, we've been looking at that for quite some time. I'd say we're still early in evaluating the opportunity, but we believe that by, again, applying our advantages in this space that we can bring on a much-needed resource, lithium, one that's predicted to go short, we can bring it on at a much lower cost.

And I think, importantly, with much less environmental impact versus say the open mining that they're doing in other parts of the world. So this to us feels like a potential win-win-win opportunity, a win using our capabilities, a win from an environmental impact standpoint and a win in terms of supplying markets with a crucial component to electrification and EVs. So I think that's kind of how we're thinking about it. And we're I'd say actively exploring that opportunity set and like what we're seeing so far.

Q - Jason Gabelman {BIO 18730121 <GO>}

Great. That's really helpful color. Thanks.

A - Darren W. Woods {BIO 17692013 <GO>}

You bet.

Operator

We'll go next to Josh Silverstein with UBS.

Q - Josh Silverstein {BIO 17750530 <GO>}

Yes. Thanks. Good morning, guys. So the cash balance is still around \$30 billion for about four quarters now. And Kathy, last quarter you mentioned that you were comfortable holding the larger balance because of the net positive spread in interest rates versus your debt cost. That spread is still there, so you're probably not in a rush to do anything. But just wondering if this is still the best use of cash versus deploying it into higher rate of return projects or buybacks? And if the forward curve holds the current kind of strip right now, could you foresee Exxon going into a net cash position next year? Thanks.

A - Kathryn A. Mikells {BIO 3743077 <GO>}

Sure. And so we're pretty happy with our overall balance sheet position right now. And I've stated for a couple quarters now that we expect our cash balance is going to ebb and flow a little bit just based on how the commodity price environment and margin environment ebbs and flows. So we think it's pretty critical to hang on to a really strong balance sheet, because it gives us the flexibility that we need through the cycles.

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If you look overall at what we're doing from an investment perspective, I would say, we're never trying to constrain the organization in terms of deploying good capital investments and that's across our entire business. It includes our LCS business obviously. The acquisition of Denbury will enable us to accelerate the growth of our carbon capture and sequestration business within LCS. And we're excited about that opportunity and profitably growing that part of our business.

So I think it's really important when we talk about capital deployment that we are not trying to constrain the company from new capital projects that can drive good returns for our shareholders. And that's how we create I'd say the virtuous cycle of how we can then support competitive growing dividends that are sustainable over the long-term and a more consistent share repurchase program. So I'd say we're really happy with our balance sheet. We intend to hang on to a higher cash balance than the company has done historically, just to give us more flexibility as we think about how we manage the company over the long-term and through the cycle.

A - Darren W. Woods {BIO 17692013 <GO>}

And just maybe to emphasize the point, third time that Kathy made. The mandate to the business is, is find advantaged projects that position us ahead of competition and deliver high returns, high value. And that's the mandate they've been given and we will fund those opportunities as they come forward.

I think what you see in terms of what limits the investment is the ability to manifest those opportunities. And I think it's the challenge that we give our organization to only fund the things that we feel confident are robust to very low-price environment, are well ahead of other companies and tap into what I would say are the long-term fundamentals of the market. And I think as we find those things and the organization is very focused on developing those opportunities set, we'll fund them because that's how you generate long-term value for the corporation and our shareholders.

Q - Josh Silverstein {BIO 17750530 <GO>}

Great. Thanks, guys.

A - Darren W. Woods {BIO 17692013 <GO>}

You bet.

Operator

We'll go next to Neal Dingmann with Truist Securities.

Q - Neal Dingmann {BIO 6416564 <GO>}

Good morning. Thanks for the time. My question is on OFS costs, just your thoughts, both domestically and internationally for the remainder of the year and into 2024, how you're thinking about either inflation or deflation?

A - Kathryn A. Mikells {BIO 3743077 <GO>}

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Yes. I mean, the way that we're thinking about inflation and whether it's oil field, services costs or other costs across the business, I'd say we've gotten to a point where we're actually starting to see inflation come off in certain cost categories. If you think about some of the chemicals that we would use and unconventional things like sand, what we would call tubular goods which would include piping and valves and those types of things, we're starting to see some deflationary pressure now.

As it relates to things where labor is a high component of the cost, I would say we're not yet necessarily seeing that deflationary pressure coming through yet. But overall, I'd say it's probably too early to see much of that come through the second half of the year. But as we're looking forward into 2024, I'd say we fundamentally feel like inflation is going to come off as we're looking forward because we're starting to see those signs across multiple categories now throughout the business.

Q - Neal Dingmann {BIO 6416564 <GO>}

Very helpful. Thank you.

A - Kathryn A. Mikells {BIO 3743077 <GO>}

You're welcome.

Operator

We'll go next to Paul Cheng of Scotiabank.

Q - Paul Cheng {BIO 17337436 <GO>}

Thank you. Good morning, guys.

A - Darren W. Woods {BIO 17692013 <GO>}

Good morning, Paul.

Q - Paul Cheng {BIO 17337436 <GO>}

Thank you. You previously have set a sort of target to spend \$17 billion in the low-carbon business through 2027. Denbury, so the acquisition is about 30% and you're also saying that you're seeing a lot more opportunities. Should we interpret your \$17 billion, that number will increase perhaps quite substantially?

A - Darren W. Woods {BIO 17692013 <GO>}

Yeah. Thanks, Paul. I think as you rightly pointed out, the Denbury acquisition was not part of the \$17 billion. But maybe just a little bit of perspective on that. We -- given the -- we're just starting that business up as you can imagine, very early in the opportunity set and progressing the opportunity set.

I think Dan and his team in the low carbon solutions business have made tremendous progress in bringing those opportunities to bear and manifest in contracts with customers as we've talked about with the three big customers that we now have and demonstrating

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that we can decarbonize some of these harder to decarbonize industries that don't have a lot of good alternatives. We've also got a very significant investment opportunity in Baytown to bring on the world's largest hydrogen plant. And then we've got opportunities for low-carbon ammonia associated with that.

So I think a pretty robust portfolio and with the announcements of the deals that we've got to date, the commercial deals that we've struck with the announcement of Denbury, I think a lot of recognition and interest by outside potential customers that there's a real opportunity here and that ExxonMobil provides a real solution. So that's the context. I would say the \$17 billion that was -- looking at a portfolio of opportunities and then trying to assess how quickly those opportunities would manifest themselves and the capital that would be required to do that. We're continuing that work.

So as we continue to develop and make progress on these projects, some of the capital becomes more discreet and we can see it a lot clearer other deals move out. So I'd say right now, it's a portfolio approach. We're not changing the \$17 billion to date. Frankly, the Denbury acquisition if that goes through, will allow us to pull back on some of the grassroots investments that we were making in logistics and substitute that with the assets that we brought in from Denbury.

So it's I'd say kind of in evolving space. I think the thing to stay focused on we're not going to compromise on our return criteria or the advantaged criteria that we're insisting on for the projects that we bring to bear. We have to be low-cost suppliers in this space. We have to be leveraging the advantages the corporation has and we have to be generating good competitive returns. That's going to dictate the pace of how quickly that CapEx manifests itself and frankly the size of it. As we go through this year's plan, I know Dan and his team is very focused on based on a year under their belt of continuing to execute and drive this business, we'll develop more detailed plans and update that number.

I don't know if Kathy, you have anything you want to add for Paul?

A - Kathryn A. Mikells {BIO 3743077 <GO>}

Yes, just the other thing I'd want to mention is, especially as it relates to the CCS business, what you're going to see over time is that we're building a backlog and that backlog is what's going to support the future growing CapEx kind of over the longer term and the profitable growth of that business. So today, I would describe ExxonMobil's backlog as 5 million tons annually supported by three very large industrial customers, one in the industrial gas sector, one in the steel sector, one that makes ammonia that's used for fertilizer, right?

And if you just think about what that does for society, those 5 million tons annually that translates into the conversion of about 2 million cars from gas-powered vehicles to electric vehicles. That's about all the cars that are on the road in the United States today. And when we talk about the overall CCS opportunity across the Gulf Coast, we talk about 100 million tons annually, that's 20 times that number. But I'm going to go back to the fact that it will be supported by customer backlogs that supports a growing profitable business. So that's how you should think about it.

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Q - Paul Cheng {BIO 17337436 <GO>}

Great. Thank you. Can I sneak in a real quick question?

A - Kathryn A. Mikells {BIO 3743077 <GO>}

Of course.

Q - Paul Cheng {BIO 17337436 <GO>}

Yeah. Thank you. Real quick. Darren, do you have a number you can share what is the production for Permian this quarter -- in the second quarter?

A - Kathryn A. Mikells {BIO 3743077 <GO>}

620 koebd.

Q - Paul Cheng {BIO 17337436 <GO>}

Thank you.

A - Darren W. Woods {BIO 17692013 <GO>}

You bet, Paul.

Operator

Looks like we have time for one more question. Our last question comes from Paul Sankey with Sankey Research.

Q - Paul Sankey {BIO 4166628 <GO>}

Hi. Good morning, everyone. Just wanted to follow-up. Hi, just to follow up actually just looking at your volumes upstream, first of all, you mentioned that there was turnarounds and stuff, but I wondered if you could talk about the recovery, especially in the light of the stronger Guyana volumes the fact that your Upstream volumes are down quite hard here, is that going to be a rapid recovery in Q3 and back towards what kind of levels would we expect for the rest of the year? Thanks.

A - Darren W. Woods {BIO 17692013 <GO>}

Yes. Sure, Paul. I'll take that. If you think about the first quarter, we were up pretty significantly, second quarter or down from that first quarter, but essentially on plan with respect to the full-year of production levels that we talked about at the back end of last year when we put our plan forward.

I would tell you that there's nothing that we're seeing today that changes that guidance that we gave last year of 3.7 million barrels a day of production. So I'd say we're on track with that. We're not seeing anything that makes us change our mind, and obviously, we're working real hard to do better than that, but I would say right now we feel like we're on track to meet the plan and meet the numbers that we shared earlier last year.

Q - Paul Sankey {BIO 4166628 <GO>}

Can you say more about the downtimes that you had in Q2?

A - Kathryn A. Mikells {BIO 3743077 <GO>}

Yes, I'll just mention. We had given a bit of guidance to divestment and schedule downtime and that guidance was that we thought we'd see a reduction of about 110 koebd. If I said what the actuals were across both of those items, it was actually 120 and that's a sequential number. So we were down sequentially 120 koebd as a result of divestment and the scheduled downtime.

If you then just look at why was our overall production down a little bit more than that, it was really driven by two things. So we've seen curtailments and obviously OPEC is cutting production and so we have an impact coming from that. And then in terms of unscheduled downtime, we had a short strike in Nigeria that tipped up our unscheduled downtime. But again, I would go back to what Darren said, we had guided for the full-year at about 3.7 million oil equivalent barrels a day. And if you looked at our year-to-date numbers, we're up about 15,000 on a year-to-date basis year-over-year.

Q - Paul Sankey {BIO 4166628 <GO>}

That's super helpful. And then if I just follow-up. If I look at your Energy Product sales those are up just about as much if not more positively. Obviously, that's mostly Beaumont I guess, but is there anything else to add there to the strength?

A - Kathryn A. Mikells {BIO 3743077 <GO>}

No, Beaumont is the main thing. And then we obviously had a bit less maintenance kind of going on which helped our volumes as well. I had mentioned that Beaumont was running at 90% utilization, so again, a really nice I think proof point in just the operational excellence across the company.

Q - Paul Sankey {BIO 4166628 <GO>}

Great. I'll leave it there. Thank you very much.

A - Darren W. Woods {BIO 17692013 <GO>}

Thank you, Paul.

A - Jennifer Driscoll {BIO 21035568 <GO>}

Thanks, everybody, for your questions today. We will post a transcript of our Q&A session on our Investors section of our website as soon as it's available early next week. Before we conclude, I have one important announcement to share with you. Please mark your calendars for the ExxonMobil Product Solutions Spotlight, it's going to be on Wednesday, September 20th at 1:00 Central Time. Jack Williams, Senior Vice President of Overseas Product Solutions will be joined by Karen McKee, President of Product Solutions and several other leaders from ExxonMobil to talk about this new group formed in April 2022.

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For additional information about this upcoming event, watch the Investors section of our website.

With that, have a nice weekend, everyone, and I'll turn it back to the operator to close it off.

Operator

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

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