Q1 2022 Earnings Call

Company Participants

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

Other Participants

- Biraj Borkhataria, Analysts
- Devin McDermott, Analysts
- Doug Leggate, Analysts
- Jason Gabelman, Analysts
- Jeanine Wai, Analyst
- Lucas Herrmann, Analyst
- Manav Gupta, Analyst
- Neal Dingmann, Analyst
- Neil Mehta, Analysts
- Paul Cheng, Analyst
- Phil Gresh, Analysts
- Roger Reed, Analysts
- Ryan Todd, Analyst
- Sam Margolin, Analysts
- Stephen Richardson, Analysts

Presentation

Operator

Good day everyone. And welcome to this Exxon Mobil Corporation First 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 {BIO 21035568 <GO>}

Good morning, everyone. Welcome to our first quarter earnings call. We appreciate your interest in Exxon Mobil. Joining me today are Darren Woods, our Chairman and Chief Executive Officer; and Kathy Mikells, our Senior Vice President and Chief Financial Officer. The slides and our pre-recorded remarks were made available on our Investors Section of our website earlier this morning along with our news release. In a minute, Darren will provide opening comments and reference a few slides from that presentation, then we'll conduct a question-and-answer session. We expect to conclude the call by about 9:30 AM Central Time. Let me encourage you to read our cautionary statement, which is on Slide 2. Please note, we also provided supplemental information at the end of our earnings slides, which are posted on the website.

Now, I'll turn the call over to Darren Woods.

Darren W. Woods {BIO 17692013 <GO>}

Good morning and thanks for joining us today. As we laid out at our most recent Investor Day, our goal is to sustainably grow shareholder value through the execution of our strategic priorities as seen on this slide. As we think about recent events, our job has never been clear or more important, the need to meet society's evolving needs reliably and affordably is what consumers and businesses across the globe are demanding and what we delivered this quarter.

First, we continue to build our competitively advantaged production portfolio, bringing new barrels to market today, driven in part by the high value investments, we continue to progress through the pandemic driven downturn in prices. A prime example of the benefits of our continued investments is Guyana. This quarter saw the successful start of Liza Phase 2. Production is ramping-up ahead of schedule and is expected to reach capacity of 220,000 barrels of oil per day by the third quarter of this year. Combined with Liza Phase 1, we will bring our total production capacity in Guyana to more than 340,000 barrels per day.

Our third project Payara is running ahead of schedule with start-up now likely by year-end 2023. Yellowtail, the fourth and largest project to date on the Stabroek Block received government approval of our development plan and is on schedule to start-up in 2025. Further, adding to our portfolio, we have made five new discoveries this year and have increased the estimated recoverable resources to nearly $11 billion oil equivalent barrels.

Turning to US, we continue to grow production in the Permian Basin. In March, we produced about 560,000 oil equivalent barrels per day, on pace to deliver a 25% increase versus 2021. Looking forward, we're also growing our globally diverse portfolio of low cost, capital efficient LNG developments. Mozambique, the 3.4 million tonne per year Coral South Floating LNG production vessel is being commissioned after arriving on site in January.

Coral South is on budget with the first LNG cargo expected in the fourth quarter. In addition to investing in high value opportunities in our existing businesses, we're also advancing opportunities in our low carbon solutions business. During the quarter, we announced plans to build a large scale hydrogen plant in Baytown, Texas. We anticipate the facility will have the capacity to produce up to 1 billion cubic feet of hydrogen per day, combined with carbon capture, transport and storage of approximately 10 million metric tonnes of CO_2 per year.

This facility will be a foundational investment in the development of a Houston CCS hub, which will have the potential to eliminate 100 million metric tonnes of CO_2 per year and represents a meaningful step forward in advancing accretive low carbon solutions. We also reached a final investment decision to expand, another important carbon capture and storage project at our helium plant in Wyoming. In addition, we received the top certification over management of methane emissions at are Poker Lake development in the Permian. We're the first company to achieve this certification for natural gas production associated with oil.

At the end of the first quarter, we implemented a series of organizational changes to further leverage the scale and integration of the corporation and improve the effectiveness of our operations and better serve our customers. We combined our downstream and chemical operations into a single product solutions business. This new integrated business will be focused on developing high-value products, improving portfolio value and leading and sustainability. As a result of these changes, our company is now organized along three primary businesses, Upstream, Product Solutions, and Low Carbon Solutions. These three businesses are supported by corporate wide organizations including projects, technology, engineering, operations, safety and sustainability.

Before I cover our financial results, I want to provide our perspective on the market environment. In the first quarter, a tight supply-demand environment primarily due to low investment levels during the pandemic, contributed to rapid increases in prices for crude, natural gas and refined products. Clearly the events in Ukraine have added uncertainty to what was already a tight supply outlook. Rent rose by about $22 per barrel or 27% versus the fourth quarter. Today, natural gas prices remain well above the 10-year historical ranges, driven by tight global market conditions, and ongoing European supply concerns.

The same tight supply-demand factors have also pushed refining margins near the top of the range. Chemical margins in Asia have fallen sharply with product prices lagging the steep increases in feed and energy cost. In our case, the US ethane feed advantage provided a significant positive offset versus this global view. With that market environment as the backdrop, let me turn to our first quarter financials. Earnings totaled $8.8 billion, excluding an identified item, the after tax charge associated with Sahkalin-1. As you know, we are discontinuing our Sahkalin-1 operations in Russia, which represented less than 2% of our total production last year about 65,000 oil barrels per day and about 1% of our corporate operating earnings.

As the operator, our priority continues to be the health and safety of our people and -the protection of the environment. Of course, we remain in full compliance with all US sanctions and are closely coordinating with the US administration. Turning to structural savings. We continue to drive further efficiencies, now delivering more than $5 billion of annual savings versus 2019. CapEx totaled $4.9 billion for the quarter, in-line with our full year guidance of $21 billion to $24 billion. Cash flow from operations was $14.8 billion, maintaining our strong balance sheet.

Our debt to capital ratio remains near the low-end of our 20%, 25% target range, while our net debt to capital ratio dropped to about 17%. We returned $5.8 billion to shareholders, of which about two-third was in the form of dividends and the remainder share repurchases, consistent with our previous program. We said during our corporate plan update in December that we expect to repurchase $10 billion of our shares. This morning, we announced increase to the program up to $30 billion in total through 2023. This move reflects the confidence we have in our strategy, performance we are seeing across our businesses and the strength of our balance sheet.

Before I leave you with a few key takeaways, let me share one other decision we made this month with respect to our workforce. Continuing to invest in our people and maintaining a strong culture, our core strategic priorities, an essential to achieving our long-term objectives. As part of that effort, we are tripling the number of employees eligible for stock grants, by bringing in high performing employees at earlier stages of their careers. Our goal is to increase our people's ownership in the company and importantly in our financial and operating results.

Secondly, in June, we will implement a 3% off cycle compensation adjustments in the US to maintain competitiveness. Our compensation and benefits programs are key element of our total value proposition, enabled us to continue to attract and retain the best talent in the industry. Let me leave you with few key takeaways. We had a strong first quarter and I'm proud of the organization's progress. The impact of weather on the Upstream volumes and derivatives and timing impacts in the Downstream, obscurity strong underlying performance. We anticipate in absence of these impacts and strong refining margins positioned us very well in the second quarter.

We are making outstanding progress on our high-value growth developments in Guyana, the Permian, and LNG. Our new Corpus Christi Chemical Complex is up and running ahead of schedule and generated positive earnings and cash flow in its first quarter of operations. We have strengthened the balance sheet and are creating value for shareholders through an attractive dividend and increased share repurchases. We are advancing hydrogen, biofuels and other low carbon solutions consistent with our intention to lead in the energy transition, leveraging our competitive advantages of scale, integration, and technology.

Finally, we are evolving our organization from a holding company to an operating company to better serve our customers' evolving needs and grow long-term shareholder value. Before we take your questions, I want to acknowledge the very real impact the high-prices are having on families all around the world. You may recall that we anticipated this in 2020 with the industry investment levels well below those required to offset depletion. That's why we worked so hard to preserve our capital expenditures during the depths of the pandemic to ensure that additional production was available to meet the eventual recovery in demand.

Today, that long-term focus is paying off with growing production at the industry advantage supply. We are continuing to focus on the fundamentals through our ongoing investment and advantaged projects in low emission initiatives to ensure that we can continue to meet the critical needs of people all around the world, reliably and affordably well into the future.

Jennifer Driscoll {BIO 21035568 <GO>}

Thank you, Darren. One last piece of housekeeping, I wanted to mention is that ahead of the segment reporting change in the next quarter, we plan to provide you annual and quarterly information for the past five years, using the new reporting segments to assist you with your modeling. We plan to post the new data on our website around mid-June. Also, please note that starting with this call, we ask our analysts to limit themselves to a single question, so we can fit in questions from more people. However, you may remain on the line in case clarification is needed.

With that, operator, please provide the instructions and then open the phone lines for the first question.

Questions And Answers

Operator

Thank you, Ms. Driscoll. (Operator Instructions) We'll take our first question from the line of Phil Gresh with J.P. Morgan.

Q - Phil Gresh {BIO 15118761 <GO>}

Yes. Hi, good morning, Darren and Kathy.

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

Good morning.

Q - Phil Gresh {BIO 15118761 <GO>}

So I guess my question is little bit of two part question on the buyback $30 billion over two years, previously you talked about I think $10 billion mostly at 2022. So should we assume the $30 billion essentially ratable, $15 billion this year and then so if that's the case, it still seems like there's a lot of excess cash, potentially building out that the strip prices, so how do you think about any excess cash, debt reduction, et cetera, given where the leverage is versus targets down. Thank you.

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

All right. Thanks very much. So look, we don't know exactly how long the strong market conditions that we're seeing today are going to persist and we learned some pretty tough liquidity lessons during the pandemic, so our cash balance has been building a bit, you would see that it was $11 billion as we ended the quarter. So you should expect with the backdrop of the strong market conditions that even with the higher buyback program that we announced this morning, we would be building our cash in the near-term potentially between $20 billion to $30 billion over time, and so that really addresses our need for flexibility in what's an incredibly uncertain environment and ensuring that we'll continue to appropriately invest in the business and sustain the share repurchase program that we talked about through 2023.

In terms of just how to think about the pace of the program, it's up to $30 billion through the end of 2023. We obviously got $2.1 billion done in this quarter, you should think about us looking to get up to a ratable pace and that roughly, we'd be looking to get $15 billion done in a year, again looking to sustain the program kind of more consistently over this two-year period. So that's how I would think about kind of roughly where we see our cash balance and just looking to maintain a lot of flexibility in what's a pretty uncertain environment.

And we did learn some real lessons during the pandemic, we used to try and hold our cash balance, call it between $3 billion and $5 billion and run a lot of commercial paper and when the pandemic hit, that was quite problematic for the company. So we're going to be a little bit more conservative here in the near-term.

Operator

Your next question comes from the line of Jeanine Wai with Barclays.

Q - Jeanine Wai {BIO 16974257 <GO>}

Hi, good morning everyone, thanks for taking our questions.

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

Good morning.

Q - Jeanine Wai {BIO 16974257 <GO>}

Good morning. Our question is related broadly to your global gas opportunities, can you talk about how you see the evolution of the US market and how do you see certified gas playing a role in US supply. And I guess, do you intend to really look for a global outlet for a portion of your US gas and we understand the Golden Pass that provides a great opportunity to capture the spread, but now maybe are you thinking about some other opportunities besides Golden Pass? Thank you.

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

You're welcome, Jeanine and good to hear from you, again. Just maybe a broad comment on the LNG business, obviously as we're seeing across each of our sectors the pandemic had a pretty profound effect with respect to deferring delaying capital spend and therefore additional capacity coming on and as the pandemic has subsided and demand has recovered, we're seeing very tight markets and we've seen that play out really around the world, obviously significant impact and then with the Ukraine and the situation there that has added a significant additional level of uncertainty around supply.

And so I think a very dynamic market and very high priced market and what we've seen in response to that is basically very full capacity utilization for all around the world, maximizing the amount of LNG moving. Obviously, we've got our Coral LNG starting up later this year, which will help contribute and ease some of that tightness and then you mentioned Golden Pass, which is an important leg of our strategy of making sure that we have access to LNG supplies, that we can supply demand all around the world and that's a very important part of our strategy in LNG going forward is making sure that we've got barrels that we can then move and trade in the marketplace and move across the different regional demand centers.

And so I think we're going to continue to look for opportunities in LNG, it's an important part of the portfolio, we've got opportunities in PNG that we're progressing obviously, additional investments in Mozambique are in the future as well. And so I think it will be a very important foundational layer of supply and a really important part of our overall business offering.

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

And I would just add you asked a little bit about that top rating that we got on methane management in Poker Lake in the Permian and we would say we really see a market over time building for lower emission products and that really plays into that and we would certainly hope that we would also start to see a premium, on those lower emission products, right. And we'd say that's consistent across our business, but we definitely are looking to play into that going forward.

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

Yeah, I would just add to that, obviously that will be a benefit, but it's certainly not the main driver, with respect to making sure that our operations had very low emissions and very low methane emissions and so that's a core part of our commitment in running these facilities and to the extent the market pays a premium for that, that's an advantage that we'll look to take advantage of.

Operator

Your next question comes from the line of 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>}

Morning.

Q - Devin McDermott {BIO 19137879 <GO>}

I wanted to ask about some of the structural cost reduction goals, you continue to make good progress there. But the question is can you add a little bit of color around what you're seeing on just broad cost inflation, labor and otherwise. And how, if at all, that impacts some of those goals and targets over time?

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

Sure. So I'll start out with just saying, we feel good about the progress that we're continuing to make at the end of the fourth quarter, we had said we had gotten to about $5 billion in structural cost savings relative to 2019, we're now at $5.4 billion. So I'd say, overall we feel really good about that progress. Obviously, we have now put in place a new organizational structure, which should drive incremental efficiencies on top of just driving better operation, faster speed to market, better deployment, faster deployment of resources to the highest opportunities across the company. We're not immune to inflation obviously and we would see a fair amount of both energy and feedstock inflation coming through the business, in certain areas that put a little bit of pressure on margins.

Overall, in terms of how we're managing that, it flows through two parts of the operation, so one is on CapEx. We feel really good about where we're at there because during the pandemic, we really took the opportunity to extend contracts on work that was coming forward. So I'd say while the shorter cycle work programs obviously have some inflationary pressure, the teams are working really hard to offset that.

Overall, I'd say we really try and lever, master service agreements, self-managed kind of procurement, we utilize a diverse set of global contractors across the globe in trying to really manage inflation. So through the quarter, right now, I'd say we're doing a pretty good job of offsetting it, but it's obviously something that we're watching really closely.

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

Yeah. I would just emphasize to what Kathy made, but I think one worth remembering this longer-term view that we took during the pandemic in trying to maintain a level of investment. We also recognized that as economies recovered and demand picked up that we would potentially see inflation and so we were very focused on in anticipation of that trying to lock in some of the -- some of the pricing and savings during the low points that we could then take advantage of early on in the recovery which is -- the final point I would make is with the organizations, it's working hard and our leadership team is working hard to offset inflation and that we think we've got a pretty good handle here certainly in the short-term, obviously, we'll see how the market develops.

Operator

Our next question will come from the line of Neil Mehta with Goldman Sachs.

Q - Neil Mehta {BIO 16213187 <GO>}

Yeah, good morning team. I have -- a question we want to focus on was around Downstream. And Darren, you know, the refining business really well given your leadership role there over the years and so I'd love you to kind of characterize how you're seeing the crack and refining market environment, which is obviously extraordinarily strong and then put that in the context of the quarter, which was softer in Downstream. But to your point, I think a lot of that was timing effects and it feels like things should sequentially move in the right direction as you move into 2Q.

So the big picture question around the refining macro that tied into how you're thinking about the sequential move in your earnings power from here?

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

Sure and good morning, Neil. Yeah, I mean I can start and I feel like we're going to be a bit of a broken record with respect to the anchoring, a lot of what we're seeing in the market today across our sectors, with the pandemic. And you'll recall, as we are going through that very deep down cycle, where demand for fuels products dropped significantly, there was a lot of refinery rationalization, in fact refineries were shutting down at a much, much higher rate than historical averages, four times, if not higher.

And so you had a lot of capacity coming out the marketplace, there were new facilities that were planned or in progress primarily in the Middle East and out in Asia. Those got deferred and delayed because of the currency, and so you've got, I think this period of time where you're taking a lot of capacity out and new capacity that was planned or in progress has been deferred and delayed and so we've got a period with lower supply and then of course as demand has picked up that has led to this very tight market and the higher margins that we're seeing. What compounded that then is the important role that Russia plays in supplying markets around the world and with the uncertainty associated with that supply and potential impacts of additional sanctions, that's put I think additional concern and anxiety in the marketplace, which is leading to a very, very high-margin environment.

One frankly that I don't think is sustainable one and two good for economies around the world. So I think we're in a bit of a very tight timeframe and as you talked about the first quarter, obviously we saw that evolve over the first quarter with kind of rising margins in January, February, March, and now into April, very high margins and so I think that's something that we're going to see for quite sometime. Certainly here, this year and into next, depending on obviously how demand plays out.

Final point I'll make, which you touched on is you're right this quarter reflects that ramp-up of margins to you're not really seeing the healthy market that we we're experiencing right now in the first quarter results that will I think manifest itself in the second quarter and then some of the timing impacts, we expect to see unwind, maybe I want Kathy to just touch on those.

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

Sure. I'm happy to do that and just add a stat our -- our March refining margin was about $4 higher than the average in the quarter. So that's kind of reflecting that ramp-up that Darren just mentioned and then obviously, in our prepared script, you would have seen us talk a fair amount to timing impacts that impacted profitability in Downstream for the quarter. I think everybody understands the mark-to-market on open derivatives, so I won't talk about that, but we had another $590 million of other timing differences, about $400 million of that was also tied to derivatives. We had $200 million that associated with cargoes, where the derivatives actually closed in March and then they reversed when the physical deliveries occurred in April.

So I'd say the way you should think about that is we took a $200 million bad guy in March and we will see a $200 million good guy in April. We also had $200 million associated with federal derivatives that we just used to ensure pricing of our refinery crude runs is radical, right the way you should think about that is -- it's kind of a wash overtime, sometimes that pricing mechanism gives us a positive in a quarter, sometimes it gives us a negative in the quarter, overtime it's just a wash and then the last impact that we talked about was just commercial pricing lag, right.

And the way I would think about that is we were in a steep rising price environment over the quarter. And so we had pricing that was a little bit lagging. If we're in a stable environment, that pricing will catch-up. If pricing kind of turns to a downward curve, then we'd actually get a little bit of a benefit, so that's how I think about it is you're trying to just model evolution into the second quarter here. The bottom-line is obviously, we're carrying a lot of positive momentum as we stand here today.

Q - Neil Mehta {BIO 16213187 <GO>}

Thanks, guys.

Operator

And next we'll go to Doug Leggate with Bank of America.

Q - Doug Leggate {BIO 1842815 <GO>}

Thanks. Good morning everyone. Let me first of all thank the Investor Relations team for the better presentation of results. So, thanks for that Jennifer. But I'm also -- we're losing a question here. So I'll temper the enthusiasm, but no, I'm kidding, thank you. So guys, my question Darren and Kathy is on your balance sheet. Darren, going back some years, I guess a couple of years ago, you talked about don't expect Exxon to go back to the days of zero net debt, we're going to have a more efficient balance sheet. I just wonder if you can frame up for us to date and what we should expect that to look like, because obviously that speaks to both forward cash distributions, buybacks, cash on hand, the whole thing and obviously dividend policy. So that's my question for today, please?

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

Yeah. Thank you, Doug and good morning to you and I appreciate your compliments to the IR team. I know they've been working hard to make sure that are improving the transparency in giving you the information that you need to help understand, what we're doing here and the business results that we're achieving.

I think to your point on the balance sheet, you remember what we started back in 2018 was this counter cyclical approach, where we lean on the balance sheet, during the depths, made those investments with an eye on the fundamentals and the expected recoveries and to take advantage of the ups with investments in facilities in the ground and then reinvest and lean into the down cycles and I would tell you generally speaking that continues to be an ambition of ours and part of our strategy is to try to drive the counter-cyclical investment approach, which has worked out very well for us and is paying-off in today's market. And that's I would say one philosophy obviously it is tempered by just the availability cash and how deep and high the swings in the commodity cycle are. And so, I think part of that balance sheet and I'm going to pass it to Kathy here in a minute to let her make some comments on it, but part of that is just going to be a function of where you're at in the cycle and how severe that cycle is and so there will be periods, I think where you see some movement in both cash and how the balance sheet is structured.

And based on where we're at, where the revenues are, and I would also tell you though that it's not -- what's not going to change is being very focused on making sure that any investment that we make is advantaged across the cycle. You'll recall in my definition of disciplined investing is not an absolute level, but more of making sure that in each where you spend money that you're convinced that you'll be the low cost supplier with an advantage versus the rest of the industry that would be successful as you move through the cycle. Kathy?

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

Yeah. And then the only thing that I would add to that Doug is occasionally, I get the question of why don't you just go and kind of pay-off all of the debt you have as a priority, and I'd say we're really comfortable with the level of debt that we have, and obviously our gross debt to cap is at the lower end of the range that we talked about and we said we're going to carry a little bit of a higher cash balance just reflective of the volatility that we've really seen in the market. So that's how I think you should think about it, but we're very comfortable with our level of debt and just being able to kind of manage at that level through the cycle.

Q - Doug Leggate {BIO 1842815 <GO>}

Okay. Thanks folks.

Operator

Next, we'll go to Stephen Richardson with Evercore ISI.

Q - Stephen Richardson {BIO 19149224 <GO>}

Good morning. Thank you. Another question on the Downstream, if I could, Darren. I wonder if I could ask on the circular polymer efforts and some of things we're talking about in terms of recycling in the plastics business. There is -- I guess the question is the overall approach between mechanical and molecular recycling and how are you seeing that market evolve and with this conversion of existing facilities or new reactors and then also what are your expectations for the returns in that business kind of through cycle?

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

Sure. Yeah. Thank you, Stephen. I think you touched on, I think, a really important part of our strategy, as we look at going forward, not only in the plastics -- in plastics recycling but also in biofuels. And I think what people have thought about with respect to our refining footprint in the size of that footprint that as fuels, traditional fuels demand declines at those assets become disadvantaged.

And frankly, given the integration that we have with those facilities, if you think about our chemicals and refining facilities integrated, which are now reflected in our Product Solutions business and the fact that we've got based toxins, lubricant facilities integrated with those. They are fairly robust platforms with large scale and low cost and what we see is the opportunity that add demand shifts to convert those facilities, to produce more lower emissions fuels, for biofuels and to utilize existing equipment for advanced recycling plastics and that's what you've seen us do in Baytown with conversion of some of our heavy cracking facilities on the refining side used to recycle waste plastic and we've got pretty ambitious plans in that space.

We like what we see there. It gives products that have all the same attributes as Virgin products, but obviously without the same with the ability to recycle the waste and so we like the molecular recycling, that's where we're focusing, we think we can bring an advantage there with one our facilities, but two our technology and then three with our marketing organization with respect to the marketing of this product. So we feel generally good about that. We've got plans to drive that advanced recycling through 500,000 metric tonnes by 2026 should have 30,000 metric tonnes in place by the end of this year.

So I think in total, we like what we see there, the market today is interest in those products and there is a premium out there, so right now I think that looks pretty attractive, I suspect with time that may -- the market will stabilize, but we think it's going to be a pretty healthy market for sometime to come.

Q - Stephen Richardson {BIO 19149224 <GO>}

Thanks very much.

Operator

Next, we'll go to Jason Gabelman with Cowen.

Q - Jason Gabelman {BIO 18730121 <GO>}

Hey, good morning. Thanks for taking my question. I wanted to ask a question about your international gas footprint and the maintenance cadence, because it seems like you've mentioned in the slides that gas production is going to be higher than it typically is in 2Q and 3Q, but you do have higher scheduled maintenance. So I'm wondering if any of that maintenance is in the European gas footprint and then more broadly, if you're seeing in the industry in Europe more tempered declines from European gas into the summer. Just given where prices are and if you can expect that to be a feature of the market, moving forward? Thanks.

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

Yeah. Good morning, Jason. Yeah, I think you've touched on the point that we made in our second quarter outlook, with respect to seasonality, which has historically we've seen going into the second quarter, a significant drop in demand for gas and given where the markets are at today and the level of inventories around the world, our expectation is we're not going to see the same level of demand change quarter-on-quarter. We tried to indicate that in our outlook, to suggest that we will see same level of seasonality, going forward, I think and as I said earlier in response to Jeanine's question, we do see this market being fairly tight here in the short-term obviously, the industry is working hard to supply that, but it will the time cycle on investments and bringing additional supply on is fairly long, particularly in the context of where demand is at today and the tightness in the marketplace and I think that's going to continue to be with us for a while and as you move -- as demand declined, I think we'll see supply start to move into inventory and so that purchases will move from meeting current demand out in the marketplace to meeting the demand and fill inventory to make sure that inventories are well positioned, as we move through the summer and then back into the fall and into the winter season, that the markets are well supplied.

And then, the final point I'd make there is obviously with what's happening in Ukraine, there is a wild card there that I think most economies and governments around the world are going to make sure that they're trying to mitigate the potential implications, that supply disruption by having good inventory levels.

Operator

All right. Next, we'll go to Sam Margolin with Wolfe Research.

Q - Sam Margolin {BIO 17168841 <GO>}

Good morning, how are you?

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

Good morning.

Q - Sam Margolin {BIO 17168841 <GO>}

Question on actually just a longer-term sort of capital allocation question, in the context of what's become kind of conventional wisdom that NOC's around the world are very interested in accelerating activity here and bringing new resource to market. But the majority of NOC's with the exception of a few rely on foreign investment and partners like Exxon Mobil in the industry on the independent operator side has framed a stable spending view over the long-term, which has been something that's been very helpful for investors to have that multi-year CapEx range. So I'm just wondering your perspective on how that squares if the industry is going to get pulled into the imperative of NOC's to spend more and do more or if you think these steady ranges of CapEx are achievable even within that context? Thank you.

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

Sure. I'm happy to take that, Sam. So first of all, I would just remind you that we do have CapEx guidance that's out there, obviously, for this year, it's $21 billion to $24 billion and we've talked about kind of through 2027 a range of $20 billion to $25 billion. Now within that, we always try to leave ourselves a little bit of room understanding that there is these opportunities that can come up in the future and obviously we've made some investments in the type of opportunities that you're talking about in the past and by the way, Golden Pass is a JV that we have with foreign investment that sits behind it as well.

So I'd say we don't feel any particular pressure, I'd just reference back to what Darren said earlier, which is we spend capital, when we have confidence behind the projects and the returns of those projects are on offer, right. And we are, I'd say, very, very disciplined pressure testing those projects to make sure their resilience across, I'd say wide set of market environment given the cyclicality that we have in the business. So we feel great about the opportunities that stand in front of us, right now, obviously we've got low cost of supply barrels that we're investing in via Guyana or the Permian, Brazil. Darren mentioned LNG projects, you know that we're moving forward, which we feel really good about, obviously we've got in the Product Solution, space investments that we continue to make to poor growth in high-value products, right. And to keep, I'd say, optimizing our downstream circuit. So we feel good about that. If there's opportunities, where we feel like there is a good returns to be earned, we'll certainly look at potentially participating in those opportunities. But we're going to be very disciplined in our approach, as you should expect from us.

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

Yeah. And I would just add to that, Sam. If you look at the work we've been doing with our organization changes that we've made and the structure consolidation of capabilities across the corporation, one of the changes we announced on April 1st was a technology organization that combines the technical skills and capabilities, and the engineering capabilities across the corporation. We've seen really good results doing that in the project area. We think we've got a real opportunity in the technology area to realize similar benefits in terms of effectiveness on top of whatever efficiencies that might come from that work.

And I would say that effectiveness in that concentration of the technology and really getting the organization to focus on, where we can add unique value and grow competitive advantage, it's going to be a really important part of continuing to be a valued partner with NOCs and others all around the world. Our strategy here is to make sure that we are an essential partner and when NOC's and other resource holders want somebody who can effectively and efficiently develop the resource and doing it in a sustainable manner that first name to come to mind is Exxon Mobil and that we bring those unique capabilities, and I would tell you, I have enormous confidence that, that's what's going to happen, that things that we can see in the pipeline, the opportunities that we have in front of us to become more effective at what we do I think are huge and looking forward to leveraging that business opportunities in future.

Operator

All right. Next question will come from the line of Biraj Borkhataria with RBC.

Q - Biraj Borkhataria {BIO 17234528 <GO>}

Hi, thanks for taking my question. I had a question on Guyana, the fourth FPSO, which you just sanctioned was a large 250,000 barrels a day. I was just wondering in your base case plans, are you assuming a similar size for the later FPSO's at that rate. And if I could -- had a cheeky second question, a few days ago there was announcement from DOE around additional export capacity from Golden Pass. I was wondering if you could just help me understand whether that was just an administrative thing, whether that was you still re-looking looking at the project or is some kind of future-proofing ahead of debottlenecking there? Thank you.

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

Yeah, sure. On Guyana, Biraj, I would tell you that as you know, we are having tremendous success with respect to discoveries there and in the characterization of that resource and I would just say that our teams have been very focused on making sure we have a good characterization of that resource, which will then be a really important part of how we choose to develop that resource in a cost effective way to make sure that the cost of supplied and obviously the returns for those projects in lead industry. And so as we look at that, these bigger production facilities make a lot of sense when you have the resources to support them, because it brings your unit cost down, brings down your cost of supply, as we look at extending those developments in other areas of the resource base, it will be a function of what we find, but I would say we would lean towards these larger developments and we'll obviously lean towards extending some of the current developments that we have in taking advantage of whatever synergies we might have with those facilities.

And so I wouldn't say there is a single recipe here, it's really tailoring the recipe and make sure that it's optimized for the development opportunities that we've got in front of us and that's going to evolve, as we better characterize the resource base and I will just say with respect to Golden Pass that project and the work that we're doing there, we feel good about the progress that we're making and we're on schedule. The concept there is not changing.

Q - Biraj Borkhataria {BIO 17234528 <GO>}

Okay. Thank you.

Operator

Next, we'll go to Roger Reed with Wells Fargo.

Q - Roger Reed {BIO 17967862 <GO>}

Yeah. Thank you and good morning.

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

Good morning.

Q - Roger Reed {BIO 17967862 <GO>}

Maybe to come back a little bit to the Guyana question and I was wanting to clarify one thing there and then maybe just sort of a contrast to your Permian operations given Permian production is higher today, but Guyana resource is probably larger, as we think about the 11 billion barrels of resource, is that -- should we assume that's exclusively oil at this point, I mean, that's been kind of our baseline given the type of production coming out and then how should we think about the long-term gas situation there the opportunity and when I said first the Permian kind of thinking about those two, as we look to the middle and latter part of the decade.

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

Yeah. Good morning, Roger. I would say the resource is a mix and then depending on where you're at within the Stabroek Block that mix changes. Our development priorities is weighted towards liquid. So I think what you'll see in our plan and the way we talk about it is -- there is a bias towards liquid today. And then, with time, we'll see how those developments evolve. We're doing some things with the government of Guyana to bring gas onshore to help deliver more cost efficient and environmentally better power to the people Guyana and give them the much lower cost energy source and a much cleaner energy source and so there is some development gas in that space. So but I would say generally liquids weighted and obviously, as we move through the field and run the economics, we'll develop the resources that optimize capital and grow returns.

Q - Roger Reed {BIO 17967862 <GO>}

Thank you.

Operator

All right. Next question will come from the line of Ryan Todd with Piper Sandler.

Q - Ryan Todd {BIO 15158570 <GO>}

Good. Thanks. Maybe one on capital allocation, as we think about your capital budget, so it's not just for this year, but over the next few years and the range that you have within those budgets, is that -- should we think about that range is primarily driven by timing or should we -- is there a possibility that higher commodity prices -- should we think of that maybe pushing towards the higher end of the range through some combination of inflation or are there opportunities in the portfolio to deploy a little additional organic capital, whether it's on shorter mid cycle infill drilling, tie-back opportunities, does the higher commodity price open up the door to a little extra capital deployment opportunity there?

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

Yeah, I'll just start off and then pass it to Kathy for any additional comments. But I would -- I think the short answer is no. And I think we have tried to emphasize looking through the cycles, looking at the long term and making sure that the investments that we make are robust to the whole of the cycle. You'll remember we were investing pretty heavily when prices were down in anticipation of longer-term fundamentals. I would say, while we're in a very tight market today, we're not going up let that distract us from our focus of making sure that we have low cost of supply industry-leading advantaged projects and so that's -- that remains to focus on the end of the short-cycle stuff, I think to the extent that we stay within our I believe advantaged approach and the manufacturing processes that we set in and the boundaries that we set with respect to the facilities that we've built, pre-invested and we'll continue to optimize around that, but we're not going to go outside of that broader strategy of the long ball game that we're playing in the Permian in the unconventional space.

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

Yes. And I would say, certainly timing over what is a relatively long-term period, it's something that we're trying to give a little flexibility for I'd actually point to what we talked about on the Payara and Guyana project originally we said that was going to start up in 2024 and now we're saying, we think it's likely it will start up at the end of 2023. So that would be an example of we have initial planning that we do, but obviously accelerating projects if we can bring them in a shorter timeframe and obviously on or under budget is something we're always focused on.

Q - Ryan Todd {BIO 15158570 <GO>}

Thank you.

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

Welcome.

Operator

Next, we'll go to Paul Cheng with Scotiabank.

Q - Paul Cheng {BIO 1494607 <GO>}

Thank you. Hi, good morning.

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

Good morning.

Q - Paul Cheng {BIO 1494607 <GO>}

First, hopefully that also, I want to compliment IR for the new format on the call as well as the increased disclosure, really appreciate. I have to apologize first, because I want to go back into the inflation question. Kathy, on -- if we're looking out for your next several years, do you have a number you can share what percent of your CapEx is pretty much that have some pretty fixed pricing and what percentage is going to be subject to the inflation factor? And also, in your presentation, you talked about the 3% of cycle compensation adjustment, could you quantify that? How big is that number for us? Thank you.

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

Sure. So overall, I think we talked a little bit about inflation on CapEx and the fact that certainly in the near term, we're feeling pretty good because we did a lot of work during the pandemic, so we had paused some projects and during the pandemic, we did a lot of work to actually put the contracts in place like finished the engineering and put the contracts in place at a point, where I'd say there were some deflationary pressures in the market.

So as it relates to our overall capital projects, we feel pretty good over the next couple of years and obviously strategically the timing of when we do the engineering, when we go out to procurement, it's something that we're always looking at and taking into consideration. And then I mentioned the fact that doing our own procurement globally to make sure that we're getting globally competitive bids is something else we do, we do spend a lot of money over the years, as we are looking forward on the Boards associated with Guyana development and again, we approach that in a really strategic manner. So that we're managing those projects to the lowest cost getting the specific design that we need. So that's how I would really discuss what's happening with regard to inflation.

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

And I would just add that the action that we announced this morning that we're taking won't be material in the analysis that you're doing, Paul. Our intention would be to continue to deliver on the efficiencies, I mean at that we had projected in our plans.

Q - Paul Cheng {BIO 1494607 <GO>}

All right. Thank you.

Operator

Next, we'll go to Manav Gupta with Credit Suisse.

Q - Manav Gupta {BIO 20380315 <GO>}

A very quick question here is at the start of the call, you indicated that Asian chemical margins are kind of below mid cycle, and I just wanted to understand, generally when crude moves up, there is a vote for commodity prices. So there is two equations going on here, some capacity coming on, but crude is also moving up, so do you expect the margins to remain below mid-cycle for some time or do you think that higher crude could actually push up the ethylene margins and stuff in the non-US region on a go-forward basis? Thank you.

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

Sure. I think it's -- it's an unusual time we've got in the chemical market, just because we see a level dislocation between what's happening in Asia and what we see happening in the Atlantic Basin. I think we made reference in the comments that our North American footprint in chemical in the ethane advantage that we have actually helps mitigate this broader downturn that we're seeing with the global chemical markets, which are heavily weighted to -- or weighted towards the downturn that we're seeing in Asian.

I think as you look at crude prices coming up in the marginal supply and olefins being liquid cracker and that's the feed that as that crude price goes up, your feed goes up, your naphtha feed goes up. So you've got cost increases on your feed and because of some of the logistics constraints in the ability to kind of connect the market's demand somewhat dislocated and so you've got oversupply in a market like China, where you see some of the demand coming off with the lockdowns and logistics constraints.

I think you've got we're in a unique period right now, where you're seeing some regional imbalances and inability to close those imbalances through logistics and transportation. It's difficult to say how long it's going to last, but I think ultimately as markets open up, we'll see those equilibrate with again -- I think if crude remains high, my suspicion is that ethane and ethane cracking will continue to be advantaged and then that will obviously move as crude prices move with respect to gas prices.

Q - Manav Gupta {BIO 20380315 <GO>}

Thank you.

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

You're welcome.

Operator

Next question comes from the line of Lucas Herrmann with Exane.

Q - Lucas Herrmann {BIO 1944351 <GO>}

Darren, thanks very much for the opportunity. I just wanted to return to Golden Pass, if I might and a couple of aspects of the question. The first is just can you expand on the marketing approach and how you intend placing volume, it's a very large project, but it's a project which to the best of my knowledge has very additional by way of contract at this time. So to what extent you sell your part in the QEP will -- how will you be looking to market product and just can you give us some indication on the phasing of the start-up of the three trains, I presume when you talk about 2024 start-up that's the first train. I guess I'd expect four to six months or so, between the start-up of each subsequent train, but any guidance you can give there would be helpful? Thank you.

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

Sure. Good morning, Lucas. Yeah, just to start on the backend of your question. You're right, train one is we expect to start-up in 2024 and then remaining trains in 2025. And what the strategic drive behind that investment and that supply point was really getting a global balance, global footprint with respect to LNG supply. So that Golden Pass facility gives us an anchor point within the America's to take advantage of the US gas market and the developments that we've seen there and the supply potential that we see in US gas.

And so that forms a really important anchor supply point and we intend to use that with a bit the trading business that we're growing in LNG and use it as an ability to trade and oftentimes bridge some of our other LNG projects are being developed to bridge and supply between those projects that will allow us to optimize and make commitments for projects with flexibility in terms of using Golden Pass as a supply point and then to also just trade in the spot market, so I think it's going to give us a lot of flexibility to supplement our longer-term contracts for our bigger projects, but to also participate in the spot market.

Q - Lucas Herrmann {BIO 1944351 <GO>}

So there is no intent to contract some of the volume and what could be a very constructive market of pricing over the next two, three years for those who have supply coming on this, not near-term?

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

I would tell you that the LNG organization is going to basically develop that portfolio in the way that they think maximizes the value of it, and so I wouldn't take anything off the table, I'm just -- I'm suggesting that it's -- we've got a lot of optionality and flexibility and the expectation is the LNG business and the individual running that take advantage of that flexibility to maximize the value I would characterize it.

Q - Lucas Herrmann {BIO 1944351 <GO>}

Darren, thanks very much.

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

You're welcome.

Operator

And it looks like we have time for one more question. So we'll take that from Neal Dingmann with Truist Securities.

Q - Neal Dingmann {BIO 6416564 <GO>}

Thank you all to squeeze me in and my question is on the Permian. I'm just wondering internally seeing you all running somewhere around 16 rigs and 5 spreads, I'm just wondering, will this continue to be around the level of activity needed in order to achieve that, I think your goal around that 25% year-over-year Permian growth plans and I was just also wondering, if you could talk about maybe just broadly to degree of inflation you're currently seeing there?

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

Yeah. I would tell you that the plan that we had and we've talked about with respect to the Permian specifically is somewhere between 10 rigs and 12 rigs and then 6 frac to 8 frac crew, something like that. And we're basically, I think, in line with that plan right now, and part of that is making sure that we're in the developments that we're pursuing are consistent with the base infrastructure, the technology and the capital efficiency approaches, that we've built into that development, that tends to drive what we're doing there, I think with and Kathy has touched on, we again had anticipated the market recovery in some of the tightness and so had developed some contracting strategies and partnering with suppliers to try to mitigate that impact that's paying-off.

We're seeing that advantage here in the Permian, eventually that obviously will roll off, some of the consumables and some of the labor tightness that we're seeing in the Permian, obviously that's starting to impact us as well. So we are seeing inflationary pressures, the expectation is that will continue to grow, as the work activity opens up and some of the logistics constraints, get resolved and we're basically -- we've challenged the team to try to manage that and to make sure that as we look at progressing development and grow that production, that we're doing it in a constructive way and not undermining the cost of supply or the advantaged position those barrels, where they sit in the supply cost of supply curve for the industry.

So I think we're going to this disciplined approach that we've talked about is not so much to spend, but in terms of efficiency and making sure that everything -- that every dime spent there is productive and challenge for that team is to make sure, we don't lose productivity of the capital that we're spending.

Q - Neal Dingmann {BIO 6416564 <GO>}

Well said. Thanks, Darren.

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

You bet.

A - Jennifer Driscoll {BIO 21035568 <GO>}

Thanks, Darren and thanks everybody for your time and for your questions this morning, we appreciate that. We will post transcript of the call on our Investor website early next week. Have a great weekend. Thanks.

Operator

That does conclude today's conference. We thank everyone again for their participation.