Q1 2023 Earnings Call

Company Participants

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

Other Participants

- Alastair Syme, Analyst
- Biraj Borkhataria, Analyst
- Devin McDermott, Analyst
- Doug Leggate, Analyst
- Jason Gabelman, Analyst
- John Royall, Analyst
- Neil Mehta, Analyst
- Paul Cheng, Analyst
- Roger Read, Analyst
- Ryan Todd, Analyst
- Sam Margolin, Analyst
- Stephen Richardson, Analyst

Presentation

Operator

Good day, everyone, and welcome to this ExxonMobil Corporation First Quarter 2023 Earnings Call. Today's call is being recorded.

And at this time, I'd like to turn the call over to the Vice President of Investor Relations, Ms. Jennifer Driscoll. Please go ahead, ma'am.

Jennifer Driscoll {BIO 21035568 <GO>}

Good morning, everyone. Welcome to ExxonMobil's first quarter 2023 earnings call. We appreciate you joining the call today. I'm Jennifer Driscoll, Vice President, Investor Relations. Here with me are Darren Woods, Chairman and Chief Executive Officer; and Kathy Mikells, Senior Vice President and Chief Financial Officer.

Our presentation and prerecorded remarks are available on the new Investor Relations section of our website. They are meant to accompany the first quarter earnings news release, which is posted in the same location. Shortly Darren will provide opening comments and reference a few slides from this presentation. That'll give analysts more time to ask questions before we conclude at 8:30 a.m. central time.

During the presentation, we'll make forward-looking comments, which are subject to risks and uncertainties. We describe some of them in our cautionary statement here on Slide 2. Additional information on the risks and uncertainties that apply to any forward-looking statements are listed in our most recent Form 10-Ks and 10-Qs, available on our website for investors. Also, please note that we also provided supplemental information at the end of our earnings slides, which are posted on the website.

And now, please turn to Slide 3 for Darren's remarks.

Darren W. Woods {BIO 17692013 <GO>}

Good morning. Thanks for joining us today. Following a record year, ExxonMobil delivered the highest first-quarter earnings in our history even as energy prices and refining margins moderated from the fourth quarter. This ongoing success reflects the hard work of our people, executing our strategic priorities, and fully leveraging our competitive advantages.

Through investments in advantaged assets, mix improvements, and cost and operating discipline, we are delivering the structural earning improvements outlined in our Corporate Plan Update last December, and expanding the energy supplies needed to meet growing global demand. Compared to the first quarter of 2022 we added about 300,000 oil-equivalent barrels per day to global supply, primarily from a 40% increase in production from Guyana and the Permian Basin. The increase more than offset our divestments and the expropriation of Sakhalin-1, which we no longer account for, but which, importantly, remains part of global supply.

In addition, our Beaumont refinery expansion reached nameplate capacity in the quarter. This 250,000 barrel-a-day expansion is the largest US refinery addition in a decade, helping meet society's ongoing need for transportation fuels.

In Guyana, we're pleased to announce that we reached final investment decision for Uaru, fifth offshore project, which will bring on even more production from this low-cost, low-carbon intensity resource. Uaru will provide an additional 250,000 barrels a day of gross capacity with startup targeted for 2026. Earnings in our Product Solutions business benefitted from the team's solid operational execution with top-quartile turnaround cost and schedule performance during a particularly heavy planned maintenance period.

In Low Carbon Solutions, we're building momentum across several fronts. In early April, we announced a long-term agreement with Linde to capture, transport, and permanently store up to 2.2 million metric tons of CO_2 annually. In hydrogen, we announced front end engineering and design contract for the world's largest low-carbon hydrogen facility in Baytown, heads of agreement with SK Group of Korea for offtake of blue ammonia from that facility.

As we said during our Low Carbon Solutions Spotlight earlier this month, our low carbon projects must be advantaged and deliver competitive returns. The ability of our low carbon projects to compete successfully for capital is important if the world is going to meet its emissions aspirations. The incentives included in the Inflation Reduction Act are a positive step forward, although permitting and other regulatory improvements are still needed.

Europe, by contrast, policy approach remains far more prescriptive, and punitive. This is true whether we're talking about the emissions reductions needed to put the world on a path to net zero, or the production needed to provide Europe with affordable and reliable energy. The progress we're making across the company is underpinned by the continuing evolution of our business model. Effective on May 1st, two new enterprise-wide organizations will be up and running. Global Business Solutions will centralize a majority of our finance and procurement operations, enabling us to deliver simplified, corporate-wide processes.

ExxonMobil Supply Chain will consolidate supply chain activities globally. These organizations will focus on leveraging our scale to drive efficiencies, improve operating and financial results, and, importantly, deliver an improved experience for customers, vendors, and our people. On June 1st, we plan to launch our new enterprise-wide trading organization.

Global Trading will bring together expertise from across the company in crude, products, natural gas, power, and marine freight trading. We plan to build on our record 2022 results, leveraging the unique insights we gain from participating across each of our value chains and all along their entire length, with a global operating footprint larger than any of our competitors'.

Now let me cover the quarter's headlines. We're pleased to have delivered $11.4 billion of earnings, a record first quarter following a record year. A significant contributing factor was structural cost savings that now total approximately $7.2 billion, keeps us on track to meet our target of $9 billion by the end of this year. Cash flow from operations totaled $16.3 billion and our net-debt-to-capital ratio declined to 4%, further increasing the strength of our balance sheet while supporting shareholder distributions of $8.1 billion in the quarter, including $3.7 billion in dividends. By the dynamic market, our underlying performance remains rock-solid and well ahead of our competition. Reflecting the many improvements we've made over the last six years, and of course, hard work of our people.

Our diverse portfolio of advantaged businesses, improvements in mix, structural cost savings, and excellence in execution are driving industry-leading earnings, cash flow, and shareholder value. Combined with the strength of our balance sheet, we have the capability to win across a wide variety of market conditions, deliver strong returns while meeting the evolving needs of society, including the need to reduce emissions.

Leveraging the capabilities and advantages developed in our traditional businesses, we're building an advantaged new business, Low Carbon Solutions, which is positioning us as a leader in the energy transition, in our own and others' emissions, and establishing long-term, value-accretive growth opportunities that will underpin continued growth in shareholder returns.

With that, let me turn the call over to Jennifer.

Jennifer Driscoll {BIO 21035568 <GO>}

Thank you, Dan. Now let's move to Q&A as a courtesy to other analysts, please limit yourself to a single question that way we can accommodate more questions from more people. Also please remain on the line. In case we need to ask any clarifying questions. And with that, Operator, please open up the line for our first question.

Questions And Answers

Operator

Thank you, Mrs. Driscoll. The question-and-answer session will be conducted electronically. (Operator Instructions) We'll go first to Neil Mehta with Goldman Sachs.

Q - Neil Mehta {BIO 16213187 <GO>}

Thank you so much. Darren, you spent a lot of time in the refining business over the years and you've had a perspective on these calls, and margins we're going to start to normalize and we're seeing some indication of that. I'd just be curious on your views on what you're seeing in terms of product demand and then how do you think it's going to manifest itself in -- through the refining system from a margin perspective over the next couple of years? Thank you.

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

Yeah, good morning, Neil. Couple of points. I think as we're looking at the refining margin, obviously, the first I would make is we don't really pride ourselves on being able to forecast margins or caveat. everything I say with the recognition that given the impact that demand has on the margins, given the fairly static supply side of the equation, it's often difficult to exactly where things are going to go. But I would say as you look at where we're at today, I mean, this is seasonally a low point as you head into second quarter, then third quarter and driving season when you tend to see a supply and demand tighten up the margins improve. You typically see early in the year, a lot of refining turnarounds, which take a lot of capacity offline in that lower demand season.

And then when those turnarounds are finished and capacity comes back to how you get a surge of supply and see generally see refining margins drop-off here in this kind of this valley between the supply coming back and then demand picking-up as you head into early summer and onto here. So, I think we're in -- that's an important context in terms of what we're seeing right now.

Gasoline demand looks pretty -- pretty reasonable, frankly. I think jet demand in transportation looks like it's kind of trending up and certainly from listening to some of our customers in that space, expectations are fairly healthy. Air transportation or airline, travel miles going forward in December. So I think, my view is we're going to see the typical push up in the summer and see margins rise. Longer-term, I just saw comes back to what happens in China, that it has been a source of -- not only demand but also of exports. Their exports have been higher in the first quarter, but it depends to see how those play out going forward if we see similar levels of exports as we saw last year, my expectation of that will put additional upward pressure on the margins. So I think that's kind of the things to watch.

The last point I'd make and refining margins, which I think is so much structural. Typically, the marginal barrel and refining comes out of Europe. And so there -- the Europe said, this is the price setter for global markets ex-transportation. Yeah, high, gas prices in Europe, with I think the potential to go higher. You've got high carbon prices in Europe and so that marginal tier of production is a lot more expensive than it's been historically and that's going to keep I think pressure on higher prices for the globe, and therefore, better margins if you're producing outside of Europe.

Q - Neil Mehta {BIO 16213187 <GO>}

Yeah. Okay, Darren. Thanks so much.

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

You bet.

Operator

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

Q - Doug Leggate {BIO 1842815 <GO>}

Well, thank you. Good morning, everyone.

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

Good morning, Doug.

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

Good morning.

Q - Doug Leggate {BIO 1842815 <GO>}

Darren, I wonder if I could kick off first on disposals, another reasonable contribution from non-core asset sales. Can you characterize where you are in that process and what you think you might have still in front of you in terms of non-core asset sales? And I've got a quick follow-up, please.

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

Sure, Doug, good morning. Well, I think if you look at the plans, we set ourselves, I think back in 2018 where we talked about, particularly in the Upstream, increasing our divestments and taking a very thoughtful approach there making sure that we were positioning ourselves that when the market was right and we had interest from buyers that we had assets ready to sell, and divest has worked fairly well. We've been think pretty successful at consistently putting assets in the market and realizing the value of those.

We should hit the objective that we set back in 2018 probably sometime this year. and then we've got -- as we continue to work on high-grading the portfolio, continue to look at assets that we don't see our strategic necessarily or where we see potential value, higher value for others will continue to feed that divestment portfolio market those assets. And my expectation is, we've got an inventory of things going forward and would expect to see in my mind kind of consistent rate of being out in the market and basically finding seeing if we can find buyers who have a higher use for the assets than we do and therefore better value and therefore this space.

I just would make the final point that as we look at divestments, it is a value proposition, we are comfortable with everything we've got in the portfolio, it's really a question of how do we optimize and maximize the value that's been the focus from the very beginning and continue to be one. So we're not -- we don't have to sell anything, It's only if we find a valuable opportunity to do that.

Q - Doug Leggate {BIO 1842815 <GO>}

I appreciate the answer. I think I can remember what Jennifer said one question or one plus one follow-up. So risk a follow-up very quickly. I'll delicately ask this question if I may. Obviously, Kathy, was on the wires this morning talking about how picky Exxon would be on M&A. I just wanted to ask you if you feel you need to backfill your Permian position at any time in the future, what will be there? Thank you.

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

Yeah, okay. Doug, I'll give you this one plus one. But it amazes me that the amount of questions that come in this space where we I think we've been pretty consistent as we've talked about it. We're always looking for an opportunity for an acquisition and one that grows value and it's got to be value-accretive. It's got to be one where what ExxonMobil brings to the table, actually increases what either company would do independent of one another. And so that's kind of, I'd say the underlying approach.

While we're in a depletion business and we've got to work real hard to continue to bring volume on, we're not actually in the market to find volume. We're in the market to find value and we're willing to kind of let volume to do what they will do in the search for making sure that anything that we bring into the portfolio is accretive and is unique -- a unique value contribution for the shareholders. And so, I mean, we're looking -- we're working really hard on our technology portfolio in the Permian. I've talked about that in the past.

My view is success in technology and developing proprietary technology, which improves either resource recovery or the cost to developing that resource, whatever that is wherever value lever our technology can bring to the table that obviously opens up deal space and to the extent that we are very active in the Permian. We've got a really good anchor business there and we're working real hard on opening up the value proposition of our current acreage with technology that will open up potentially opportunities for acquisitions, but that's down the road. That's work that we've got to demonstrate to ourselves. There is a unique value proposition there. And then my view would be we'll leverage that to the full extent that we can.

But I'd make the same, that's true for any of the areas of our portfolio where we've got a substantial business today, an ongoing technology work to make advances. That's I think really what's going to underpin where we focus our attention.

Q - Doug Leggate {BIO 1842815 <GO>}

Thank you for that.

A - Jennifer Driscoll {BIO 21035568 <GO>}

As a reminder (Multiple Speaker) sorry. And then, as a reminder, we would like you to limit yourself to a single question. Thanks.

Operator

And 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 stick with the Permian, but I'm not going to ask an M&A question. I wanted to ask about the results you're seeing there. And if you look at the production in the quarter you guys reported 615,000 barrels a day, it's strong sequential growth versus 4Q and also puts you already in line with that 10% growth target that you'd laid out for 2023. I was wondering if you talk a little bit about the productivity trends and the driver of the strong results that you're seeing there and then also how you're thinking about the evolution of production for the balance of this year.

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

Yeah, well, good morning. I would say, we haven't changed our year end targets until the guidance that we gave as part of the corporate plan discussion last year continues to hold. I think we've said in the past that, as you look at production in the Permian, it's going to be a little bit lumpy, and so, I wouldn't take any one data point, any one quarter's numbers, and extrapolate from there. I think you're going to see, so, moving that up and down.

I would say, generally speaking, we like what we're seeing in terms of productivity in the Permian. You all know we -- several years ago there were strategy on maximizing oil recovery versus initial production rates that led to a very different development approach trying to work across this cube design work across all benches simultaneously to maximize ultimate recovery. That, I think, we've been developing that approach, fine-tuning it, testing it, and evolving that concept. We like where we've gotten to with that approach. I think we're seeing the results of that starting to manifest itself. Our expectation is that we'll continue to, I think, differentiate our production, and what we're able to do versus many of the others -- many of our other competitors who started off on this best bench higher initial production rates.

With time I expect to see them pivot, maybe a similar approach, but, I think we've got a real good head start on that, like what we're doing there. I think we see some encouraging signs on the early stages of that and we're going to keep pressing on that, maintain rigs and the capital levels that we've been talking about pretty consistently, and then we'll see how the rest of the year plays out. But we're sticking at this point to same year end guidance that we gave late last year.

Q - Devin McDermott {BIO 19137879 <GO>}

Great, thanks, Darren.

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

Welcome.

Operator

We'll go next to John Royall with J. P. Morgan.

Q - John Royall {BIO 17723205 <GO>}

Hi guys, good morning. Thanks for taking my question.

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

Good morning.

Q - John Royall {BIO 17723205 <GO>}

So, on the Beaumont expansion, can you talk about how the capacity is being absorbed in the market, and given what's happened to the cracks and the general concerns around demand today, and granted[ph], I think Darren's commentary on the market was probably a bit more positive, but are there any concerns about adding capacity at a time where fundamentals appear to be weakening?

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

Yeah. I would say the short answer is, no. Look, these -- we all know these markets are volatile. They move up and down. We focused, I'll remind you on the Beaumont expansion, this is something that we began planning and developing many-many years ago. And it was really built on the Permian production and the changes and transportation differentials by bringing crude into their front end of the Beaumont refinery and making the intermediate products to fill our conversion capacity and backing out imports of intermediates. And saving the transportation of those intermediates that typically coming from afar and so we justified that project on a transportation differential and felt that that provides a reasonable return and with the expectation that, on top of that, we would see the value of additional fuels in the higher-value products that we are producing. Exactly what we're seeing today.

It is very well-positioned on the cost of supply curve, and frankly, that's how you need to think about this business. So, irrespective of where the margins go, our view is all of our facilities need to be on the far left of the curve so that we've got a difference between the marginal price setter and I have every expectation that the capacity that we brought on the Beaumont oil. (inaudible) I know it's on the far left-hand side of the cost supply curve. So feel pretty good about its competitiveness.

Q - John Royall {BIO 17723205 <GO>}

Thank you.

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. Thanks for taking the question.

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

Good morning, Sam.

Q - Sam Margolin {BIO 17168841 <GO>}

So I think looking at the numbers, what sort of jumps off the page is the cash balance, and you've been pretty transparent about this topic. And you know the imperative to build a fortress balance sheet, but I wonder, if the direction we're going with cash, even net of shareholder returns that are continuing to increase, and, you know, that are well within sort of your targets, if we're kind of getting beyond fortress and into something even bigger than that and if there's any -- if there is any thought around kind of the absolute level of cash today and really what's optimal? And I think I'll just -- I'll catch that historically

Exxon had kept a very lean balance sheet on both sides relative to sort of the production base and the cash flow base and so it's a little bit different than the history of the Company. And so we would appreciate your thoughts on that. Thank you.

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

Sure. I'll go ahead and take that, Sam. I mean, our capital allocation approach, I think has been very consistent and very clear. And we had talked about the fact that we would expect our cash balance post the end of the year to kind of ebb and flow depending on how market prices and margins evolve. So I'd say, we're very comfortable with where we stand. It's important for us to have a really strong balance sheet in order to ensure that we stick to our capital allocation priorities through the cycle, right, that's investing in the business and competitively advantaged high-return projects. It's maintaining a very strong balance sheet. That balance sheet gives us all the firepower and confidence we need to succeed across a very wide variety of market conditions, which is obviously what this industry faces.

And then, clearly, we're looking to share our success with shareholders and you see that through a more consistent share repurchase program and a growing dividend. So we feel pretty good about our cash balance. I would just also mention that we're in a relatively unusual market environment compared to what we've seen in the past. ExxonMobil's average debt rate is about 3%. You can look up what people are earning on short-term cash. I think three-month treasuries are at 5% today. So right now we're not incurring a negative cost of carrying on that cash balance and that's certainly one of the things that we look at as well. So we feel really good about where we're at today in our balance sheet.

Q - Sam Margolin {BIO 17168841 <GO>}

Yeah.

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

And I would add, Sam. I think you mentioned history, you know, and in recent history, it is certainly true that we ran a fairly lean on cash. But if you go further back to some of the really high cycles, we carried more cash and it reflected the commodity cycle and the nature that typically we're bringing a lot of cash on the top of the commodity cycle. But that's an important asset as you move into the bottom of the cycle, particularly when you're trying to maintain a -- the consistent investment levels and continue to advance the projects in the portfolio.

So, I think -- and time from the markets are on the high end of the cycle, I would expect to see cash balances higher so that we're well-positioned as we go into the low end of the cycle, which we know will come, question will -- is obviously when that will come.

Q - Sam Margolin {BIO 17168841 <GO>}

Thank you so much.

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

Thank you.

Operator

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

Q - Roger Read {BIO 6161944 <GO>}

Yeah, thank you. Good morning.

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

Good morning.

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

Good morning, Roger.

Q - Roger Read {BIO 6161944 <GO>}

Yes. What I'd like to ask on the specific commentary about the $7.2 billion in savings on track for the $9 billion this year. Could you characterize a little bit where that's come from to-date? How kind of general inflation within not just the oil field, but in general, how that's affecting that? And is $9 billion, like, is that the end of the program, or is there something to happen beyond that? I know I'm kind of asking three questions in one, but they're all focused right around the $7 billion to $9 billion. So, if you allow me, I'll throw that out.

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

I'll try and circle around that kind of suite of questions for you, Roger. So, I'd start by saying, overall, we feel really good about the progress that we've made. We're very much on track for the $9 billion at the end of this year relative to 2019. If you look overall at where a number of, I'd say, different programs are driving savings for us, one is just improving the overall productivity across our workforce. If you think about how that's manifested itself in Upstream, it's been a significant reduction in what I would describe as above field cost that's been a real focus of that organization.

We've made a number of different organizational changes over the past couple of years. I would describe those generally as looking to centralize kind of key functions across the company that have been done disparately. Previously, our global projects organization would be a great example of that. Last year, more recently, the combination of our Upstream, I'm sorry, our Downstream and Chem organization into our Product Solutions business, a lot of simplification coming across that business as a result, combining our engineering and research kind of groups collectively together, and then just recently announcing the combination of our supply chain across the organization and setting up a global business services organization and combining our global trading capabilities across the company.

And so that's all about improving the experience for our employees, for our vendors, for our customers, and continuing to drive efficiencies and importantly, effectiveness across those organizations. We would have seen actually the benefit of some of that in this recent quarter. We talked a little bit in our presentation about the fact that our maintenance activities. We had a pretty heavy turnaround quarter, and those maintenance activities really came in at the first quartile. So much better than what we had planned for shorter duration that enabled us obviously to have better throughput than we would have been planning overall for the quarter. And so that's a big area of savings for us, and that's another organization that we have recently centralized in our global operations and sustainability group. So that gives you, I'd say, a little bit of a characterization of where savings are coming from. And certainly, some of the more recent changes that we've made in the organization, we'd expect to drive efficiencies and effectiveness going forward from here.

And then just the last comment, like does the program end? So just to be clear, we've talked about a specific time period externally because we thought that would be helpful in transparency. Internally, we don't actually manage this as, hey, there's one-time period that we're focused on as opposed to we are focused on continuing to drive structural cost savings over time. Those are embedded in the plans that we shared with you last December, and obviously, we'll be doing an update when we come to the end of the year, and so we'll talk in more detail about what we see from there on a go-forward basis.

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

Yeah. And the final point I'd make to build on what Kathy said is we have seen with all these organizational changes, as our people have come together the new organizations and focused on the objectives of those organizations and what the corporation is trying to achieve, we find a lot more opportunities than we could envision even going into the changes.

So my expectation is as these new organizations come together, they'll begin to find things. The organizational changes we've already made are continuing to find things. So our expectation as we head into the future is we'll continue to drive efficiencies and deliver structural cost savings onto the bottom line.

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

And then, I'll just circle back, you asked a little bit about inflation. We actually have put an additional disclosure in our press release, so I'd encourage you to look at that. If you look at the quarter, we more than offset inflationary cost pressure with the structural savings that we were able to generate. Overall, I'd say, the organization is doing a good job at looking to offset inflation in what's obviously been a higher inflation environment recently.

Q - Roger Read {BIO 6161944 <GO>}

Thank you.

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

Welcome.

Operator

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

Q - Jason Gabelman {BIO 18730121 <GO>}

Hey, good morning. Thanks for taking my question. I wanted to ask a question on the Downstream business and given your global reach there. We're seeing reports that Asian refiners are contemplating run cuts while margins in the US are still really robust. And I'm wondering if you see that dynamic has kind of balanced where cracks in Asia are zero but margins in the US are still 20, and that's kind of representative of the market structure that we're in, or do you expect the weakness in Asia margins to kind of force US refining margins lower in the near-term? Thanks.

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

Yeah, sure, I'll take that. I think the first comment I would make is, over some period of time, and it's typically pretty short the world balances, and we always use the phrase of the world as round. So it's hard to stay disconnected with -- the margins eventually have to equilibrate on transportation differentials. And so that's the model that I have in my mind. There are always short-term disruptions. You certainly saw that coming out of the pandemic with some of the logistics constraints. So there will obviously be periods of time where things constrain that. But generally speaking, that happens.

I think the margins in the US will be a function of what production source is setting the marginal layer of production. As I said earlier, that has historically come out of Europe, and their cost structures have increased and so that marginal barrel is now higher, which is underpinning higher Gulf Coast refining. I don't frankly see that changing in the short term. Obviously, if additional capacity comes on, as much lower cost, and that supply overwhelms any growth in demand, and we'll see the marginal price that are changed, and then with time, that will get balanced out based on transportation differentials.

My sense of things is if you look back to last year and the export levels coming out of China and the balances in Asia that stayed reasonably tight. And the question will be, do we see the same thing this year, and I think time will tell.

Q - Jason Gabelman {BIO 18730121 <GO>}

All right, thanks.

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

You bet.

Operator

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

Q - Stephen Richardson {BIO 19149224 <GO>}

Hi, thanks. This is maybe a bit of a follow-up on the questions previously about cost structure and the balance sheet. But I was wondering, Darren, if you could just address how and remind us how you're thinking about dividend growth, right? Because we've got clear evidence here that you've got foundational earnings growth, you've got projects that are coming on sooner and bigger if you look at Guyana, the Permian is doing well. You're adding base capacity downstream. So just wondering if you could remind us on a mid-cycle basis how to think about -- and how the Board thinks about dividend growth because certainly, you've derisked some of those foundational earnings?

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

Yeah, I'll start and then I'll hand it over to Kathy to build on, but I would just say, generally as we think about the dividend, we try to keep the long-term in mind and also be extremely conscious of the commodity cycles and the variability and the volatility that we see in the marketplace and making sure that we establish a level of dividends that are reliable, sustainable, and I'd like to see those grow with time. That's been our history. That's what you've seen us do. And you see us fight certainly during the pandemic year fight really hard to make sure that we sustain that. And that's, I think, a commitment that I feel really strong about, and so it's really about making sure that what we do there is sustainable for the long term. And then obviously, we can balance disbursement -- shareholder disbursements with buybacks. But I think maintaining a long-term perspective and making sure our shareholders feel rewarded through the dividend policy is a -- an underlying principle.

Kathy, do you want to add anything to that?

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

Yeah, I'd say we looked to take a very balanced approach, as we think about shareholder distributions and getting that balance between a growing competitive dividend, right, as well as the efficiency through share repurchases and I think we're striking a pretty even balance in that regard and we definitely think about this over the long-term as opposed to the near-term given we're in a business that's highly cyclical. And so, you've seen us in the last two years raise the dividend in the fourth quarter of the year. And we're never going to get out in front of the Board of Directors, it's obviously something that we look at regularly, and we know it's important to ensure that dividend is competitive and growing. And about 40% of our shareholders are retail shareholders, so more of the moms and pops across the globe that are investors. And so we know it's important. It's something we're really focused on.

Q - Stephen Richardson {BIO 19149224 <GO>}

Thank you very much.

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

Thank you.

Operator

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

Q - Ryan Todd {BIO 15158570 <GO>}

Great, thanks. Maybe a question on the chemicals business. You saw sequential margin improvement in your Chemicals Products business driven by advantaged ethane pricing. Have we turned the corner in the chemicals environment? And can you talk about how you see the trajectory of margins in that business over the course of 2023?

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

Sure. I'll start then and then, Kathy, if you got anything to add to it. I think, these -- like all the businesses that we're in, the underlying drivers of the chemical margins tend to be the commodity chemicals that are driven by supply/demand and the balances or imbalances in supply/demand. The margin, we saw a lot of capacity come on. You remember, as we went through the pandemic, a lot of investments got stalled and pulled back. And then as we came out, those got turned back on again and have come onto the marketplace. We've seen a lot of capacity coming on. As expect -- I expect we'll still see some of that come on here in the short term. And then in conjunction with that, the COVID impacts took a while for it to unwind through, what I'd say, is the global economy, which impacted chemical demand. As you know, it's very tied to economic activity. So if economic activity is constrained, then chemical demand is constrained, and we certainly saw that with the China lockdowns.

Where we're at now is, that capacity is out there and on and it's just a question of where demand goes. And frankly, I think it's early with China. We do see some promising signs, but we'll have to see how that our[ph] China demand and their economic activity picks up. The other point I would make is, feed and feed optimization is a big part of the margin equation as well. We've got some fairly diverse assets with respect to the ability to manage feed and change feedstocks around. As gas prices came off, that gave us a better liquid-to-gas spread that allowed us to change some of our feed into our crackers and get the advantage of that. So that was a help in the first quarter, some of that feed optimization. And that will play into it as well and I think that's what you saw in the first quarter, and then the more macro impacts, we'll see how they play out as we go forward.

Kathy, anything?

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

Yes. The only other thing I'd add is, we obviously brought on our Baton Rouge chemical expansion project late in the fourth quarter. That's spooled up in the first quarter. That's part of an overall strategy of growing performance chemicals along with growing high-value products across our Product Solutions business, they're performance chemicals or full emission fuels, high-value lubes. And so, even though the market has been tough, that project actually had a positive earnings and cash flow contribution for us in the quarter.

So that's a big part of our overall strategy and mixing up in both the Chemical business and across our Product Solutions business and we feel very good about the results that's bringing. And we obviously have a very heavy US Gulf Coast footprint kind of relative to the global footprint, and that helped us in the sequential improvement in margins.

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

Yeah. It's a great -- it's a great example of where we're focused on advantaged projects that bring on advantaged low-cost capacity. So, that polypropylene unit that we brought on in really what is a pretty low point in the polypropylene market to make earnings, positive earnings on a brand new piece of kit that starts up in the lowest of the cycle is, I think in a testament to the strength of the projects that we are investing in and bringing online.

Q - Ryan Todd {BIO 15158570 <GO>}

Thanks, Darren and Kathy.

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

Thank you.

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

Thanks.

Operator

We'll go next to Alastair Syme with Citi.

Q - Alastair Syme {BIO 1729060 <GO>}

Hello. Darren and Kathy, thanks very much. I wonder if I could just ask about unit depreciation trends. There's quite a big change first quarter versus fourth quarter in depreciation. Is that (inaudible) some of the portfolio effect in the year that we should be picking up? And how does that rate through the year differ?

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

Sure. I'm happy to answer that. What you tend to see in depreciation is some ebbs and flows associated with our asset management activities. And so, when we're selling assets, sometimes we're taking a small impairment that runs through depreciation, and so I'd say you kind of have to take a step back from that noise in depreciation. If I put that to the side, the company has run about, I'll call it, $19 billion, $20 billion annual -- annually in depreciation and amortization. So, that's how I think about it.

Q - Alastair Syme {BIO 1729060 <GO>}

Okay. Thank you.

Operator

We'll go next to Biraj Borkhataria with RBC.

Q - Biraj Borkhataria {BIO 17234528 <GO>}

Hi, thanks for taking my question. I just wanted to follow-up on trading. Because there's been various press reports about Exxon wanting to build up its capabilities in asset optimization and trading, and I was just wondering where you are in that journey. Because, obviously, we've seen some exceptional volatility in 2022 and early this year across oil and gas. And if I look at some of the numbers from some of your peers, it looks like that, those businesses, the asset and optimization could add up to 5% on ROCE in exceptional environment. So, you obviously have a big advantage with your refining footprint and your asset base. I'm just wondering how vigorously are you pursuing this opportunity, and how long do you expect it to take to get to where you want to be on the trading front. Thank you.

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

Sure, and good morning, Biraj. Thanks for the question. I think putting aside the press reports of the media, we've talked about this, I think, starting back in 2018. And what triggered our emphasis on China -- the trade and the emphasis that we're putting on trade is the reorganization that we made coming out of the functional organizational construct into value chains. And as you move in the value chains, the opportunity to trade along that value chain and generate insights and advantage along with value chain changes pretty dramatically.

And so that move to a value chain construct that we had early on between Refining and Downstream that -- now have that with our Product Solutions organization. We've now integrated our Upstream into those value chains. And so we've got a really streamlined and good view of the marketplace. And so we can now trade all along the entire length of the value chain, we can trade across those value chains, and then obviously, we can take advantage of the global footprint as you referenced and trade along that global footprint and arbitrage between the markets.

And so I think our organizational construct today gives us a much better line of sight and opportunity to optimize in the trading space. So we started growing that in 2018. That has been what I would say is on a continuum of growth. We like what we see there. We like -- we brought talent in there. We've had -- we've traded for a long time. We just gave the trading organizations within the company some different objective statements, and they've done really well responding to that, bringing value to the bottom line. And what we just announced is taking the trading organizations that today are somewhat dispersed through the organization and consolidating those into one centralized trading organization for the whole of the corporation.

We think that makes a lot of sense. We did a lot of work over the last couple of years to validate what we thought the opportunity size was there and what would be needed to get after that. And we're now, I'd say, in execution mode with respect to putting the organization together, putting in the support systems, bringing in the talent, developing the talent, and growing the talent in that space. And so I would just think of it as a progression, a continuation with what we believe is a huge opportunity, and we're going to do that in a very thoughtful controlled pace but one that is very focused on significantly growing the value proposition there, really around our footprint. This is not about going out and taking speculative positions. This is about going out and optimizing, given the asset base that we have, the value chains that we're participating in. taking the insights generated from running those businesses and the opportunities that come with those insights and transacting on them. That's what the organization is going to be doing.

And like I said, even in the short time, seen some really good results. I think we've got a clear line of sight to some additional ones. And that -- the value of that opportunity will manifest itself in our business that the -- this is really around trading on the value created through the transformation of molecules and developing products that people want and then moving those products around the world. And so that platform gives our traders a great base to optimize off of. That's where we'll see the value accrue.

Q - Biraj Borkhataria {BIO 17234528 <GO>}

That's very helpful. Just if possible, a quick follow-up. But does that change at all the way you look to manage your cash balances going forward? I'm thinking about relative to prior cycles. If you have a higher kind of exposure to trading, maybe you would like to run with a high cash (inaudible) generally. Am I wrong in that, or is there any -- any color would be helpful.

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

So we obviously take the company's working capital needs into consideration as we think about our balance sheet and our cash balance, all else held equal, a bigger company means a bigger working capital needs. So that's how I would think about it. I'd also say, as it relates to trading generally, I mean, there's some near-term, I would say, working capital that has to be brought to mind in terms of the trading organization. The profits that come through trading are different quarter-to-quarter, but I'd say year-to-year, pretty steady.

Q - Biraj Borkhataria {BIO 17234528 <GO>}

Got it, thank you.

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

Thank you.

Operator

We'll go next to Paul Cheng with Scotiabank.

Q - Paul Cheng {BIO 1494607 <GO>}

Thank you, good morning. Darren, can you give us an..

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

Good morning, Paul.

Q - Paul Cheng {BIO 1494607 <GO>}

Thank you. Can you give us an update where you are in Mozambique and also in the Papua New Guinea LNG, in terms of the Papua New Guinea expansion talk?

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

Yeah. I think just I'd speak to maybe the LNG portfolio as a whole. We're making good progress there. I'd say specifically and working through project concepts and designs and making sure that we're developing projects that are going to be on that left-hand side of cost of supply curve, we're bringing on production. It is very competitive in the marketplace to make sure that for the long-term, we have a robust supply point there.

I think good progress in both PNG and Mozambique with respect to that, we've had good progress with the government in PNG in terms of getting the agreements that we need, signed and helping us move forward. We're working with our partner there, Total. So feel good about the progress that we got there -- we're making there. And then with Mozambique, obviously, been on whole for a while, given some of the challenges there, and we'll continue to keep close eye on that, and as the situation improves and we feel comfortable that we can successfully go in there and develop the project, we'll take the steps to go do that in conjunction with Total and the work that they're doing there.

Q - Paul Cheng {BIO 1494607 <GO>}

Darren, can I ask, in Mozambique, Total seems to be optimistic about the security on the ground there, just working through on the cost structure with the contractor. And do you guys still have concern on security, or that you are going through the similar process to the tile[ph] on the cost structure side?

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

Yeah. We work very closely with Total, obviously, given the same exposures and the work that we're doing together. So I'd tell you it's kind of a hand-in-hand approach that we're taking there, sharing information. We've had our own security folks out there assessing the situation. I would say our assessment is very consistent with Total's assessment. We don't see a lot of difference between what the conclusions they're coming up with and our conclusion. So we do like the progress that we've seen there. Obviously, we need to be convinced that that will sustain that progress, and today, I feel pretty optimistic about that.

Q - Paul Cheng {BIO 1494607 <GO>}

Thank you.

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

Welcome.

A - Jennifer Driscoll {BIO 21035568 <GO>}

Okay. I think that, that completes our queue. So thank you, everybody, for your questions today. We will post a transcript of our Q&A session on our new investor website in a few days. Additionally, we look forward to connecting again on May 31st for our Annual Shareholders' Meeting. Have a nice weekend, everyone. And now let me turn it back to the operator to conclude our call.

Operator

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