

# **Exxon Mobil Corporation (XOM) Q1 2024 Earnings Call Transcript**

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**Body**

Exxon Mobil Corporation (XOM)

Q1 2024 Earnings Conference Call

April 26, 2024 08:30 a.m. ET

Company Participants

Darren Woods - Chairman, Chief Executive Officer

Kathy Mikells - Senior Vice President, Chief Financial Officer

Marina Matselinskaya - Director of Investor Relations

Conference Call Participants

Devin McDermott - Morgan Stanley

Neil Mehta - Goldman Sachs

Roger Reed - Wells Fargo

Betty Jiang – Barclays

Bob Brackett - Bernstein Research.

Jason Gabelman - TD Cowen

Ryan Todd - Piper Sandler

Stephen Richardson - Evercore ISI

John Royall - JP Morgan

Biraj Borkhataria - RBC

Josh Silverstein - UBS

Paul Cheng - Scotiabank

Presentation

Operator

Good morning everyone, and welcome to Exxon Mobil Corporation First Quarter 2024 Earnings Webcast. Today's call is being recorded.

I'll now turn it over to Ms. Marina Matselinskaya. Please go ahead.

Marina Matselinskaya

Good morning, everyone. Welcome to Exxon Mobil's first-quarter 2024 earnings call. We appreciate you joining the call today. I'm Marina Matselinskaya, Director of Investor Relations.

I'm joined by Darren Woods, Chairman and CEO, and Kathy Mikells, Senior Vice President and CFO.

This presentation and prerecorded remarks are available on the Investors 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 give you an overview of our performance. Then we'll take your questions.

During today's presentation, we'll make forward-looking comments, which are subject to risks and uncertainties. Please read our Cautionary Statement on slide two. You can find more information on the risks and uncertainties that apply to any forward-looking statements in our SEC filings on our website. 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 three for Darren's remarks.

Darren Woods

Thanks for joining us. Our strategy and the way our people are executing created significant value in the first quarter. We delivered $8.2 billion of earnings and $14.7 billion of cash flow. Even more important, we continued to strengthen the underlying earnings power of the company. An important driver of this improved earnings power is our ongoing focus on structural cost savings, which reached $10.1 billion in the quarter versus 2019, furthering our progress towards our goal of $15 billion by 2027.

CapEx in the quarter was $5.8 billion as we continue to invest in advantaged growth projects that will drive future earnings and cash flow. At the same time, we further strengthened our balance sheet, bringing our net debt to capital down to 3%, the lowest in more than a decade.

To reward our shareholders, we distributed $6.8 billion in cash, including $3.8 billion in dividends. For all of 2023, Exxon Mobil was the third largest total dividend payer in the S&P 500. Only Microsoft and Apple paid more. We also repurchased about $3 billion of shares. Buybacks were temporarily paused until the shareholders of Pioneer voted on the combination of our companies, which they approved on February 7th. Post-close, we expect buybacks to ramp up to a pace of $20 billion a year.

Our ongoing success this quarter reflects the intense focus we have had for the past seven years on improving every aspect of our business. We developed a strategy tied more directly to our core competitive advantages. We reorganized the company to create a group of centralized organizations that fully utilizes the significant synergies between our businesses. We set and met ambitious plans to improve the fundamental earnings power of the company, and we established a track record of excellence in execution that is second to none. Our focus on shareholder value extends beyond the work we're doing to drive profitable growth.

I'll give you three examples from the quarter that demonstrates how we are working to insure that the value we've created is not diminished through third-party actions. First, we filed for arbitration to confirm our rights and establish the value that the Chevron/Hess transaction places on the Guyana asset. This will allow us to evaluate options to maximize the value for our shareholders. Any responsible management team would do the same.

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Second, we're continuing our lawsuit against two special interest activists masquerading as investors. We're asking the court to require the SEC's existing rules be consistently applied in order to restore the integrity of the system. We believe the system will only work properly if the rules are clearly understood and clearly applied to all parties.

And third, we successfully defended the Pioneer merger against a frivolous lawsuit designed to abuse a legitimate legal process. These actions are so common they are often referred to as a, quote, "merger tax." In our case, however, the court ruled in our favor and sanctioned the lawyer for operating in bad faith. While the results of these efforts may not show up in any discrete quarterly result, they underpin long-term value and demonstrate our strong commitment to doing what's right.

I'll leave you with a few key takeaways. Our work to improve the fundamental earnings power of Exxon Mobil is continuing apace. By executing with excellence on our strategy, we expect to grow our earnings potential by an additional $12 billion from 2023 to 2027 at constant prices and margins, a growth rate of more than 10% per year. A significant driver of this earnings growth will be our delivery of additional structural cost savings totaling $15 million by 2027.

In the quarter, we continued to deliver unprecedented success in Guyana with growing production creating additional value for our shareholders and the Guyanese people. Our strategic projects, which are another important driver of our planned earnings improvement, helped deliver record first-quarter refining throughput and strong performance chemicals volume growth, and there are more projects planned for startup in 2025.

All of this is without the contribution of Pioneer. With Pioneer, we'll be positioned to drive earnings, cash flow, and shareholder distributions even higher. We continue to work constructively with the FTC as they conduct a very thorough review and remain confident that no competition issues should hinder the transaction. We've been working diligently on our integration plans, and we're ready to begin executing Day 1 on the significant synergies this combination will create.

Looking beyond our plan period and into the future, we see attractive, large-scale opportunities to leverage our core capabilities in our existing businesses and in brand new markets with brand new products, something our competitors can't do. The success of this company and our unique set of competitive advantages is built on our greatest strength and most important advantage, great people.

They are the best team in the business, able to successfully overcome any challenge. Through their work at Exxon Mobil, they are making a positive difference in the world, meeting people's essential needs for energy and products today, and far into the future. I'm extremely proud to represent them and cannot thank them enough.

Before we begin our Q&A session, I wanted to take this opportunity to introduce Jim Chapman, our new Vice President, Treasurer, and Investor Relations. Jim brings a breadth of capital market and functional experience to this role and is looking forward to working with all of you.

Thank you.

Marina Matselinskaya

Thank you, Darren. Now let's move to our Q&A session. As a courtesy to the others in the queue, we ask all our analysts to limit themselves to one question. However, please remain on the line in case we need any clarification.

With that, operator, please open the line for our first question.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. The first question comes from Devin McDermott of Morgan Stanley.

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Devin McDermott

Hey, good morning. Thanks for taking my question. And Jim, congrats on the new role if you're on the line. I wanted to start on Guyana, and not on the arbitration process, although I appreciate some of the posted prepared remarks on that, but instead just on the operations and growth potential.

You have another really strong operational quarter, and then you've now also taken FID on Whiptail, which is new since the last call, and gives us now a line of sight in all the plan development through the end of this 2027 guidance period. If we step back, as you bring these new FPSOs online, you also have a very active exploration and appraisal program.

So, I was wondering if you'd talk a little bit about that exploration and appraisal strategy here. What you're focused on over the next few years? The additional opportunities you see? And how that influences your view of longer-term growth potential post '27 in Guyana?

Darren Woods

Yeah, sure. Good morning, Devin. I'll try to address the broader picture here for you. I'll start, though, with just following-up on the comment you made around the operations, performance of the operations. I think while we build these projects and bring them on, in record time under budget, the value that the organization then drives from them through the operational optimization and look into the bottleneck brings a significant additional value. I continue to see opportunities to do that as we bring these platforms on. I feel really good about the collective effort of the organization to drive value of the plans that we already have in place through 2027.

As you say, we're doing more exploration. I think every time we drill, we're collecting information that allows us to better characterize that whole block and focus in on potential new areas of opportunity, and that's basically the work that our teams are very engaged in, is continuing to collect information, continuing to do seismic, continuing to drill. And through that work, update our reservoir models, update our understanding of that block, and then look for new opportunities. That's going to be a continuous progress.

I feel that's what the work that we're doing. As we develop that, learn more, we'll put together more longer-term plans, and once we have confidence that we've got a clear line of sight to how this plays itself out going forward in the future, we'll bring that to the community and share that with all of you.

Kathy, anything to add?

Kathy Mikells

I'd just mentioned, we had planned kind of four of what I'll call wildcat wells this year. We did have one discovery, a new discovery, Bluefin. We haven't quantified what that is yet, but as you mentioned, Darren, most of the drilling that we're doing is more about supporting existing production and the next couple of projects that we have coming online.

Devin McDermott

Great. And thanks.

Operator

The next question is from Neil Mehta of Goldman Sachs.

Neil Mehta

Good morning, Darren, Kathy, team. Just wanted to build on the comments on structural cost savings. So, slide seven's helpful. It gives us a little bit more of a breakdown by each of the four segments of how you're thinking about cost savings to get to the $15 billion. But, I was wondering if you could put a little bit more meat on the bone so you can give us examples, potentially by segment, of things that you're doing so we can bring that story to life.

Darren Woods

Yeah, I'll talk maybe on the macro with respect to where the costs are coming from and how they break down, and then I'll let Kathy add any specifics that she wants to.

But, I'd just say, Neil, if you look at what we've been doing here in the $10 billion of structural cost savings that we've achieved to date, really has to do with the reorganizations that we started back in 2018, and the continued progress we make in centralizing activities. Finding areas of synergies and focusing on how we drive the most value out of those synergies. Eliminating areas of duplication. Taking expertise and experience that we've had in the past scattered across the corporation in different silos. Putting those into centralized organizations. Getting the collective wisdom of that group and experience to focus on some of our toughest challenges.

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Part of that is making sure that we're the lowest cost supplier, and so reducing cost is a big challenge that the organization's looking at, and these experts are continuing to look for opportunities to optimize. To strike the balance of higher reliability, safer operations, while continuing to find efficiencies, and that's exactly what they've been doing.

I think it's important to put the cost reductions in context that, as we've made these reductions, our reliability has improved. As we've made these reductions, our safety has improved. We have less injuries on our facilities all around the world. As we've made these reductions, our environmental performance has improved. So it's a great example of how we can do both of these things with the right experience and capabilities.

I think where we're just are at the early stages of last of quantifying the value and developing a clear line of sight to how we can take advantage of the most recent centralized organizations, we'll be going through a plan process this year. Now that we've got those organizations in place and working with the rest of the businesses and the other centralized organizations to figure out what more can we bring to the table, but I'm extremely optimistic that not only will we hit the $15 billion, certainly by 2027, but I suspect we'll find even more.

With respect to a macro breakdown, I think the way to think about it is roughly split evenly today between our upstream and our product solutions business. Kathy, any specifics you want to add?

Kathy Mikells

I guess a little bit more color, I'll add. If I just talk about, what went on in the period. We saw most of the year-over-year incremental savings coming through upstream and coming through energy products. In upstream, that was driven largely by operational efficiencies. In the information that we would have pushed earlier this morning in terms of the more thorough discussion of the Investor Relations slides that we published on our website.

I talked about an example at Kearl where we've basically automated all of our heavy trucking there and how that drives both, as Darren mentioned, an improvement overall from a safety perspective, but also operating efficiency with the logistics and just efficiency of that trucking operation.

If I then contrast that with energy products, we had a really heavy slate of maintenance in this past quarter, and those turnarounds were actually done more efficiently than the same turnarounds the last time the company would have had to have executed them. And so that drove structural cost savings for us.

If I then try and look forward, what do we anticipate between now and 2027? Part of what I mentioned is some of these centralized organizations are really responsible for driving savings across the company. We have our Global Operations and Sustainability Organization. That organization is using statistical maintenance analysis across our entire footprint in order to drive better efficiency and effectiveness in our planned maintenance activity. Again, as Darren mentioned, that should drive improvement in safety and, importantly, improvement in reliability as well.

We have stood up last year a Global Business Solutions Organization, and they're really responsible for standardizing some of these big end-to-end processes that we have, procure-to-pay, record-to-report, as well as our planning activities. As we standardize those, we can implement more technology in order to improve the automation of many of those activities. When we benchmark ourselves, we know that we're too heavy on manual activities relative to what we would consider best in class, and so that should drive incremental savings.

Then, I'll just mention supply chain. Again, another central organization we stood up last year, really trying to now leverage the scale of the entire company. That's all about logistics and how can we leverage our scale to drive more efficient logistics, how can we leverage our scale to drive more effective supply chain, including utilizing more effective procurement. It's also about then driving down materials and broader inventory as we just get more efficient. As we look forward, we have big savings expected coming out of those areas.

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Neil Mehta

Thank you. Big numbers. Thank you.

Darren Woods

Thank you, Neil.

Operator

The next question is from Roger Reed of Wells Fargo.

Roger Reed

Yeah, thanks. Good morning. I'd like to come back to one of the things addressed in the opening comments on the Pioneer transaction and the expectation at the Q2 close. Can you just give us an idea of what final hurdles we're actually waiting for here? I know there is various rules with the FTC and so forth in terms of days. Just curious what gives you the confidence on the Q2 close here.

Darren Woods

Yeah, good morning Roger. I'll give you just kind of a high-level perspective. I'm not going to obviously comment on the specifics of the discussion and the work that we've been doing with the FTC, other than to say it has been a constructive engagement there. We are working with them cooperatively, if it's supplied in, an enormous amount of material, documents, contracts, line items on productions and sales, so I think a very thorough review of this transaction.

As we've said all along, we're very confident that there are no antitrust issues and I would just say we're very optimistic that we'll continue, we'll meet the objective that we said very early to close in the second quarter.

Operator

The next question is from Betty Jiang with Barclays.

Betty Jiang

Good morning. Thank you for taking my question. Maybe bring in the question earlier about the cost savings, bringing that in the context of the $12 billion of earning growth potential you see between 2023 and 2027. Really appreciate the additional color given on the key drivers between upstream, downstream and structural savings, but I want to ask about the cadence of that earning growth profile. Whether that's expected to be ratable through the period? And what do you see as the upside and downside risk to that outlook?

Kathy Mikells

Sure. I'm happy to answer that question. So, if you look at overall we've said $15 billion in cost savings from 2019 to 2027. We've achieved kind of on a year-to-date basis about $10 billion that means we have about $5 billion to go. You wouldn't expect that cost savings or other drivers of improvement are necessarily ratable. I mean we see different initiatives kind of come quarter-to-quarter, so I'd say, I don't expect it to be to be ratable, but I expect us to put up meaningful cost savings every year.

If you then look at some of the other drivers of that earnings growth, I think it's really important as you think about the EMPSbusiness, that growth really goes hand in hand with execution of strategic projects which also drives our high value products growth. We expect about double the volume of high value products from '19 to 2027 and in 2027 we expect those products will comprise about 40% of our total earnings at a kind of constant margin.

This year we're relatively light on strategic projects in EMPS. Next year in 2025 we will be really heavy, and so we'll have the Strathcona, renewable diesel coming online. We'll be executing the Resid upgrade project in Singapore and we'll have China 1 coming on, amongst other things, including increasing our capacity for advanced recycling at certain locations. So we have a lot of activity that will then start to bring incremental earnings power in 2025 and beyond.

Then I'd say if you look over at what's happening in the upstream business, we're continuing to get growth obviously out of Guyana in the Permian. That growth in advantaged assets is a real key driver in terms of overall growth in upstream, one of the things you would have seen in our presentation is that on a year-to-date basis now 44% of our production volumes in upstream are from these advantaged assets which are a key driver of earnings growth.

Then I'd say the other thing to think about in upstream is we will start to get production growth, so actual volume growth improvement, but that tends to come more strongly in the beyond 2025 period. So hopefully that gives you a good feel for some of the drivers and when we would be anticipating them starting to get reflected in our underlying earnings.

Kathy Mikells

Yeah, I'll just add to Kathy's comments. If you look at cost reductions, which Kathy talked about the value of those contributing to our earnings growth, I think there's not a lot of downside there. I think with the structural changes that we've made and have yet to realize the benefits of, we've got a pretty good track record now here over the last seven years of actually seeing those, what were initially concepts translate into bottom line savings.

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So, we've got a very high degree of confidence, and that frankly our challenge in reducing cost or driving improvements in the business, is not a lack of ideas or opportunities. It's how we prioritize and execute the highest value of those. So, we've got a great opportunity set for improving our own business and it's just a question of pacing that in a way that maintains the other objectives that we have in the business in terms of delivery day in and day out.

On the revenue side of the equation, to Kathy's point, the strategic projects are kind of at the heart of growing the revenue and the value side on the top line. I would say, we recognized going back in time, that critical to doing that was, was advantage projects, and then an organization that had the capability to effectively deliver those advantage projects.

Then finally, an organization that was capable of starting those up seamlessly and getting them online quickly. I think if you look at the big projects that we brought on today, all this portfolio projects we developed back in 2018, we're continuing to execute that. The ones we brought online, we've been very pleased with. One with the project execution, the technologies organizations contribution to that and then how we've started up and run those.

So, I think that gives me a lot of confidence going forward that the model that we put together, the focus that we put in each of our businesses to contribute their area of expertise to overall corporate success is demonstrating a lot of success. I've got a lot of confidence going forward that will deliver that -- continues to deliver that portfolio, that's demonstrated its value for what we've done to date. I think feel pretty confident about delivering through 2027 and frankly beyond.

Betty Jiang

Great, thank you. That's a really robust pipeline of projects to watch. Thank you for all the detail answer.

Darren Woods

Sure.

Operator

The next question is from Bob Brackett of Bernstein Research.

Bob Brackett

Good morning. I had a question around on the use of the phrase carbon materials. It seems fairly new, it feels fairly new. Feels, again pursuing some things in the battery chain. Could you give us a little more flavor on what you're contemplating there?

Darren Woods

Sure. Good morning, Bob. It's good to hear from you. I think one of the points we're trying to make is this company has a very broad suite of capabilities that's anchored, frankly, in technology and technology that's focused on transforming hydrogen and carbon molecules. A lot of what we've done to date and the value that the companies generated over the last many decades has been a function of energy and the consumption of those molecules to meet the growing demands for energy.

But, we also have a very broad portfolio of other products that we make through that molecule transformation expertise, and into the chemical business, as well as lubricants, and fluids and things that we do out of our refineries. So, there's a much broader set of capabilities and products than I think, frankly, what people give us credit for.

I would just point to Proxima as a great example of some time back we recognize that the demand for gasoline would trip and particularly in developed countries. And the question we challenged our technology organization with was, how can we use these molecules to make other products that are required to meet other needs in society? And Proxima, I think while it's early in its development, it's going to be – it's going to demonstrate that we can take that expertise, apply it to a feedstock that will become more and more advantaged with time and make other products that are needed for the world, and that will bring a lot of significant benefits in those applications.

The carbon ventures and the carbon materials is a very similar initiative. It's just a little earlier, in its construct. If you look at the world's efforts to decarbonize, it's clear to us that carbon over time will become more and more advantaged feedstock. And so the challenge we've given our organization is, what can we do with carbon molecules? How can we meet growing needs and large markets? And they have to be large markets, because we're going to do – if we are going to do something that moves the needle for the corporation, we have to do it at scale.

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What we are looking at there is how do we use the capabilities we have in molecule transformation applied to carbon to meet, these batteries are just one example, carbon fibers are another. There's a number of things today we had our applications for, but there's either a performance dimension that needs to be improved, or a cost dimension that needs to be improved. We think we have a line of sight for how we can do that, how we can improve the performance aspects using our technology capabilities and at the same time find ways to reduce the cost of production.

It is early days, I would say. We put it out there in this call to make sure people are beginning to think more broadly about what this company is capable of, and how our future could evolve in a very different direction than where we have come from.

The beauty of how we are positioning ourselves is we are using the same core capabilities and advantages. It gives us a lot of optionality and flexibility, to the extent these other new markets work out and demand picks up and we see great opportunities, we can shift more resources into that space. If it takes us longer there or if the transition takes longer, we have our base business and continue to invest in products that the world needs today.

We have the ability to adjust depending on how things evolve and depending on what direction the world goes. I think it is a great example of anchoring back on some very core capabilities that have very broad application. We are excited by what we see as some potentially very high-value new markets with some very high-value unique products that we can supply to meet those needs.

Bob Brackett

Very clear. A question would be the materiality threshold. Should we think about runways to billion-dollar businesses or $10 million businesses? Is that too simplistic?

Darren Woods

I think it is a good measure to think about. It has to be over $1 billion if it is going to be material. We are looking at very large markets into the billions.

Bob Brackett

Great. Very clear. Thank you.

Operator

The next question is from Jason Gabelman of TD Cowen.

Jason Gabelman

Hey, morning. I had a question about uses of cash and the balance sheet. I think this quarter we are seeing Exxon's net debt to cap move down. Some of your peers are starting to move up as commodities come off a bit. That is seemingly a bit of a differentiator between you and peers. I thought it would be a good opportunity if you could remind us how you think about utilizing that balance sheet capacity moving forward given you are still operating from a position of strength, whether it be deploying for future M&A, increasing buybacks or other opportunities. Thanks.

Kathy Mikells

I am happy to talk about that. As you correctly referenced, our net debt to cap has come down. It is about 3% now. Our approach in terms of capital allocation has not changed. It continues to be very consistent. First and foremost, we want to make sure we are making investments in this business that ultimately drive the long-term earnings and cash flow growth that create the virtual cycle of us being able to enhance shareholder returns and return cash to shareholders via dividends as well as a more consistent share of purchase program. That is job number one.

I would mention that CapEx is not radible. I have seen many people comment on a light CapEx number that we had in the first quarter. We are very much on our plan. Many times our CapEx is influenced by milestone payments, just as an example. It is not radible over the course of the year. We have guided to $23 billion to $25 billion in CapEx, and that guidance remains we are very much on plan.

When we think about investing in our business, obviously we are very focused on the advantaged slate of investments that we have organically in front of us. But, obviously M&A is another type of investment that we make. Again, where we see we can make one-in-one equal more than two, largely by adding synergies to some type of acquisition. Obviously getting ready to close the Pioneer acquisition would be a terrific example of that.

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We know a strong balance sheet is a competitive advantage. We have continued to really maintain and strengthen that balance sheet. This quarter we paid down a little over $1 billion in debt. That is part of the reason why you see our net debt to cap ratio coming down. That gives us a lot of flexibility to ensure that we are consistently investing in the business through the cycle.

It just gives us optionality, understanding that we operate in a very cyclical business, and then clearly we're looking to reward our shareholders. I think you see that with our very consistent approach to the dividend. It needs to be sustainable. It needs to be competitive. It needs to be growing. We obviously raise the quarterly dividend in the fourth quarter by $0.04 and continue to review that over time.

I would mention one thing with regard to share repurchases. We did have the Pioneer vote this quarter, and so we were out of the market for a period of time. We did about $3 billion in share repurchases. A run rate to hit the $17.5 billion, which is what we've kind of guided to this year, would be more like $4.4 billion.

So our program will naturally dial up our execution, so that we're on track to complete the $17.5 billion share repurchase program on a stand-alone basis, and then I would remind you that we've said we anticipate taking that program pace up to $20 billion annually after we close the Pioneer acquisition.

So we feel really good about where our balance sheet is at and our consistent capital allocation strategy and that that will drive long-term returns for shareholders.

Darren Woods

And I would just add to Kathy's points that – and just remind everybody, if you look at where we stand today, and Jason made the point that we're deviating from our peers in terms of continuing to generate cash and drive down net debt. That's anchored in the strategy that we've put in place in 2018, which is find advantaged projects and invest in those to grow the earnings power of the business and that's now beginning to manifest itself.

So I think you've got to have a long-term view on this. Having a robust balance sheet to make sure that we're positioned when opportunities come along and we see clear advantages to invest, that we have the capability to do that. Thanks for the question.

Jason Gabelman

Yep, got it. Thanks.

Operator

The next question is from Ryan Todd of Piper Sandler.

Ryan Todd

Thanks. Maybe one on chemicals. I mean, your chemicals businesses, the two segments, continue to show kind of modestly better than expected recovery along the bottom or off the bottom here. Is this more of a feedstock tailwind that we're seeing in the near term? Are you seeing any improvements that are noticeable in terms of demand and overall global supply demand? And I guess in the meantime, while things are weak, what are you managing to do with your product mixer operations to drive relative performance there in chemicals?

Darren Woods

Yeah, sure Ryan. I'll take that. First thing I would say is, if you look at the chemical business and kind of the margin indicators that we use to judge the health of the chemical businesses, we are at a historic kind of bottom of cycle number. And so I think, it's a very challenging chemical markets today, as I know many of you know. But even in that very challenged market, we are continuing to deliver very good results.

I think if you compare similar markets that were even close to these bottom of cycle conditions, we were in a very different place in the past with respect to earnings than we find ourselves today, where we delivered close to $800 million of earnings this quarter, despite the very difficult market conditions.

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Those market conditions are driven more by supply than demand. Frankly, we're continuing to see growth in demand, not as high as we've seen historically, but continued good growth and frankly in the first quarter saw some of that pick up. The challenge has been the supply that's come on to meet that growth and so that is depressing overall industry margins.

As you know, the investments that we make and the way we run our business, is to make sure that we're advantaged versus the average chemical player. So even in these markets that are set by other capacity, the work that we've done to position ourselves, more advantaged – in a more advantaged position in competition continues to deliver a value. You can see that with the growth, not only in the high value products, which are coming on with our projects, and frankly, that growth is in line with what we had expected.

So we're continuing to see the demand for the high value products that we've invested in, but we're also seeing in our base volume, value in those with respect to how we positioned ourselves, and so it's – and we're seeing advantages in the structural, structural cost reduction.

So I would tell you, every part of what we've been doing to improve the earnings power of the organization is manifesting itself in our chemical business and showing up in differentiating earnings. And feed to your point, feed advantages play an important role in that. So that's yet again another advantage that we have versus the typical industry player, but that is reflective of the broader strategy that we have.

So I think we feel good about where we're at in a very difficult market. Our view is that those market conditions are going to be with us for a little while here going forward, but we also feel like we're well positioned to be successful there. And as that shakes out and some of the less able competitors have no success in this space, we'll see growth continue to move and eventually we'll see margins pick back up and we'll be very well positioned.

A - Kathy Mikells

And just the other thing I'd add to that is, I think if you look at our chemical businesses performance and compare that to peers and other players, you see the differentiation and the excellent execution really coming through. We're in clearly bottom of cycle conditions right now, and yet we're still generating pretty good earnings and cash flow in our chemical business.

And then I would just mention that as Darren noted, our footprint tends to be North American weighted. So if you just look at our PE and PP footprint, we're heavily North American weighted and relatively lightly weighted to Asia compared to the rest of industry, and Asia is especially at very, very bottom of cycle conditions.

Ryan Todd

Great. Thanks, both of you.

Operator

The next question is from Stephen Richardson of Evercore ISI.

Stephen Richardson

Good morning. Darren, I was wondering if you could talk a little bit about the Baytown project and maybe just if you could give us a little bit more on what your view of adequate incentives there would be. If the PTC on green hydrogen was extended to blue, would that be sufficient to sanction the project?

And then, sorry, just as a follow on to that, as you talk about a level playing field across technology neutrality, is your view that a new gray hydrogen ATR should get some sort of incentive? Maybe you could just give us the context of how you are thinking about that project and what it needs to move forward. Thank you.

Darren Woods

Yeah, sure. I'm happy to do that, Steve. What I would say is it's a – that work we're doing to develop it is I think demonstrating the difficulty of starting brand new businesses and value chains where none exists, and that we're kind of simultaneously trying to build demand, trying to build supply, and then trying to in the early days of this market establish financial incentives to do that.

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So three core key variables to a successful business, all kind of basically being generated for the first time in this space along this value chain. So I just put that out there as it's a challenging construct, but frankly, one that plays to our strengths and the ability to look along the entire value chain, and we are uniquely situated to manage each piece of that. There are very few, if any, companies out there that have a portfolio and capabilities that extend end-to-end along this value chain.

So I feel good about what we're doing there and the work that we've put in place. And frankly, it looks to me like a very viable project. We are continuing to progress that, but it will require that the necessary incentives are in place. With respect to what's required with, with incentives, I would say the IRA and the incentives that were developed as part of the IRA are enough to do that.

The challenge is taking the IRA, which I believe rightly focused on carbon intensity and incentivizing carbon intensity, translating that legislation into regulation, and if the regulation reflects the intent of that legislation and writes the rules focused on carbon intensity, that will be enough to justify and to incentivize and give us a return on this investment.

We don't focus so much on the green, the blue and color schemes. We instead focus on how can we meet what is ultimately the objective here, which is to reduce the CO2 associated with production of these products. And we think all the work we've been doing in our facilities and our feedstock and decarbonizing those contributes to that. And so we feel like we're well positioned with the existing set of incentives, as long as those incentives are fairly reflected in the regulations and a level playing field. What I mean by that is, staying focused on carbon intensity and ignoring colors.

Stephen Richardson

Very clear. Thank you.

A - Darren Woods Okay.

Operator

The next question is from John Royall of JP Morgan.

John Royall

Hi, good morning. Thanks for taking my question. So I just had a question about the refinery sale in France. I know you have a very ambitious program for growth in the downstream business, but you have been trimming and high grading a bit with some asset sales. Other majors are also reducing their European footprint in refining. Can you just speak to how strategic the remaining European portfolio is? And could we see some more assets shake out in European downstream?

Darren Woods

Yeah, sure. I would tell you what you are seeing with the sale and France is really the latest in what's been a fairly long trend with us focused on high grading refineries to refineries that are – that have the capability to address a broad suite of products and high value products. And so integrated facilities that make not only petroleum products, but also make chemicals and lubricants and basically a broad array of high value products, and so we've been over time focused on that.

They need to be advantaged sites. They need to be – we have a cost of supply curve. I think you all have heard me talk about this many times across all of our businesses, but we look around the world and make sure that our facilities are on the low cost of supply, so that as the margins move up and down, that we never become the marginal supplier and having an integrated facility helps with that. But it also acts as a hedge to make sure that we're not dependent on any one sector for the success of one of our manufacturing facilities.

The reorganizations that we put in place have helped greatly with this, and if you think about these integrated facilities, we used to have them split up amongst different parts of the organizations, different businesses running them, and in fact, even different manufacturing organizations running them. Today, that's not the case today. Today they are being run by a single business with a single leadership team and so I feel like – I feel very good about that. But it is this continuing high grade. We were doing it all the way back when I was President of the refining company, so it's been a long-term strategy.

We're not in a hurry. We're taking our term to make sure that we find the right buyer that has the right value proposition, one that exceeds our own internal values, and if we can find that, we will then track and transact if we can. We'll continue to optimize and improve those refineries to the best of our abilities. But I would say we've worked our way down the portfolio till we feel pretty good about the position that we're in today. That the refineries that we have in the portfolio are advantaged, have a mix of either feed advantages or product advantages or both.

And frankly, our focus has been on making sure they are running reliably, running safely, running efficiently, and these centralized organizations and our global operations and sustainability organization have been a huge enabler to helping each of these facilities and our chemical plants, our refineries, lubricant facilities, all improve their performance, run better, run more profitably, run safer, run more reliably.

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So I feel really good about the position that we're in and we'll continue to look at our portfolio. It's always been the case that we're looking, to make sure that the value we see in those facilities exceed the values that others might and feel good about our position there.

Kathy Mikells

Just the other thing I'd add to that is the investment environment is certainly a bit more difficult in Europe. If you go back and look at the end of 2022, the additional taxes that were levied onto the energy sector. If you look at expanded disclosure requirements that Europe is looking for, or if you look at regulation around reducing carbon footprint and not necessarily implementing regulation that's technology agnostic and focused on just reducing carbon intensity, that all makes Europe a much tougher investment proposition. So that's certainly one of the things that we look at in any place across the globe as we look to make future investment decisions.

John Royall

Thank you.

Darren Woods

Thank you.

Operator

Next question is from Biraj Borkhataria of RBC.

Biraj Borkhataria

Quite fitting to take the next question from an analyst sitting in London, but I just have one question. You have a lot of energy coming into your portfolio in the coming years, the Golden Pass, Qatar, etcetera. You have quite a high oil weighting in the current sales mix. Are you looking to diversify over time or would you like to maintain that kind of 80% to 90% oil link exposure in your contract base over time? Thank you.

Darren Woods

Good morning, Biraj. Thank you. I would tell you, we're not as focused on an absolute mix number, as much as the advantaged investment opportunities that we can find in those businesses. We see long-term demand for oil continuing, albeit with a much lower emissions footprint as we continue to find ways to decarbonize.

We also see long-term demand for natural gas, and so I think as we look at both of those, both the liquids and the gas side of the equation, we see a long-term future there and an opportunity for this company to participate if we have advantaged projects that position us on a low cost of supply, and so that's how we think about that. And that advantaged position, which manifests itself in cost of supply, as you know obviously manifests itself in above industry average returns, which is the objectives that we set for ourselves and so that's how we're thinking about it.

And frankly, we'll let the opportunity that we find in these advantaged investments set the proportion of the portfolio that those represent. We will not invest in a project that I'm not convinced doesn't, one, leverage our core competitive advantages, that two, then results in a project which is advantaged versus other, and that three then, is on the low cost of supplies.

Because as good as the market may look today out the window, we know there are cycles. We don't think the cycles are going away and so we remain very focused on making sure that we take advantage of the upswings, but we're prepared for the downswings and we'll be very successful. And as we just talked about in the chemical business, great example of being in the very bottom of a downswing and continuing to generate cash and make good solid earnings, and that's the ambition we have for all of our businesses.

Biraj Borkhataria

Understood. And just as a follow-up to that, there's obviously been ongoing security challenges in Mozambique. What is your view at this point on whether you'd be interested in doing a second floating facility? Because obviously monetizing the onshore part has become very challenging.

Darren Woods

Yeah, I think obviously you rightly pointed out there, security challenges there. I think there's been a lot of good progress made with respect to that. I think Mozambique, the country of Mozambique, the government of Mozambique recognizes the importance, not only for the project, frankly for the people of Mozambique that needs to be addressed and effectively managed. I think they've made good progress in doing that.

My view is with time, we've seen this in other places around the world, that will get addressed, and it will result in an opportunity to invest onshore. With respect to onshore/offshore, we frankly, it comes back to the point I made at the beginning of your question, which is it depends on the returns that we can generate with respect to investment opportunities and how competitive those supply points are. If we can do that offshore, we obviously will. If it takes going onshore to do that, then we'll focus on onshore, but it will be a function of the returns of the projects.

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Biraj Borkhataria

Okay. Thank you very much.

Operator

The next question is from Josh Silverstein of UBS.

Josh Silverstein

Good morning, guys. Just wanted to see if I can get an update on the timing of the gas to power project in Guyana, and what benefits this may have to cost and operations in the country, and if there are any other projects like this that you guys may be looking at over time. Thanks.

Darren Woods

Yeah, sure. I think this is something that we've been engaged with the government on for quite some time. I think as we look at going into some of the countries that are on a growth path, on a developing path, we look for opportunities of how our footprint and presence in those countries and markets can help the people in the community and this is a great example of that, of getting the gas that's produced offshore, onshore, so they can replace what is a relatively inefficient, high-emissions power generation system that's fairly unreliable with something that's cleaner, lower emissions, and much more reliable and should be much more cost-effective. And so I think it's kind of a win-win proposition, particularly for the people of Guyana.

So we're working on bringing that gas to shore. Our expectation is we'll have that brought up sometime end of 2024. Obviously the government's working on the receiving end of that gas and responsible for putting in the power station. That's an independent project that's developing. We're also working on the distribution system. And so it's really – I think the impact of that will come when we get both pieces together and get that linked up and effectively delivering power to the market.

Operator

The next question is from Paul Cheng of Scotiabank.

Paul Cheng

Thank you. Hi, good morning. Darren, in the presentation you talked about the direct air capture. Can you give us some idea there? And you're saying that you aim to reduce the cost by half, and that won't be sufficient. So what will be needed in order – how much is the actual cost reduction from the current level in order for that to be competitive or that to be a real business for you?

And also, can you talk about that, how your approach or technology is different than what's currently in the market, especially one of your competitors in the U.S., they already have a – they said that they have a commercial operation ready, and it's going to come on stream very, very soon. Thank you.

Darren Woods

Yeah, sure. Good morning, Paul. Yeah, what I would say with – may I start with the last point of your comment, which is, yeah, there are alternatives out there today versus what we're working on. The issue is the cost associated with them. And we're not looking at what we can commercialize in the short term based on what I would say is a very narrow market of limited customers who are willing to pay a very high price to demonstrate a level of decarbonization.

We're focused on how we can make this technology broadly applicable at a cost that society can afford. So that's – we are very focused on the long term, not the short term. And our view is the available technologies today don't meet the cost requirements. That's somewhere between the $600,000 per ton of CO2 removed, and our view is if you try to apply that across the emissions challenge the planet has, the world won't be able to pay for that, so we've got to find a reduction.

Our cost, we've set an initial target of cutting the cost in half, just because that is a significant step change, recognizing it won't be enough. If we can get the technology, if we can develop the technology to a point that we're successful there, that gets us on this path and demonstrates the value of the concepts that we are developing to keep on going and drive further down.

With respect to the technology and how it compares to what's commercially available out there, I would say part of the reason why this is proprietary technology is today its proprietary and so I'm going to keep it that way. I would say, it is a brand-new approach. There are others who are out there working on new approaches as well, which frankly we're happy about. This is a tough challenge to break and I'm not pretending like we're going to be the ones to solve it, but I am confident that we will give it our all, applying our capabilities, others are doing that.

As I said in my prepared remarks that we posted, if there's a breakthrough, it doesn't so much matter who has the breakthrough. I think we're going to have a role to play, because once we have a technology that gets to the right cost level, you are going to need global deployment at scale. And I suspect that the technology that will be required for the future lower cost direct air capture, will be different than what we've got today and will require some of the technical capabilities that we have.

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So I see a role for us in the future if this nut gets cracked. We feel good about what we've seen so far, but we're very early into it, and we're hopeful that we'll make the progress that we're aspiring to and continue to drive the cost down.

Your last point you asked, I think to me, if you're going to be – if the world's – if it's going to be affordable, you've got to get into $100-ish a ton of CO2 to start talking about broad deployment around the world. I think that's ultimately where we need to get to.

Marina Matselinskaya

Thank you everybody for joining the call and for your questions today. We will post the transcript of our Q&A session on our investor website next week. Additionally, we look forward to connecting again on May 29th for our Annual Shareholders Meeting. Now let me turn it back to the operator to close the call.

Operator

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

**Load-Date:** April 26, 2024

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