Inside Exxon Mobil: Last Quarter's Progress

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When Exxon CEO Darren Woods took over in early 2017, he began a major restructuring of the company that would last through 2019. He started with where he came from, the refining business, by combining the "fuels and lubricants" business with the "supply and refining" business and streamlining reporting pathways before moving onto the Chemicals segment and finally the Upstream segment. The goals of the restructuring were to simplify operations and create more accountability for profitability: in other words, make it easier to do work and create incentives to do good work. These actions led to $3 billion in savings in 2020 from 2019, with another $3 billion expected by 2023.

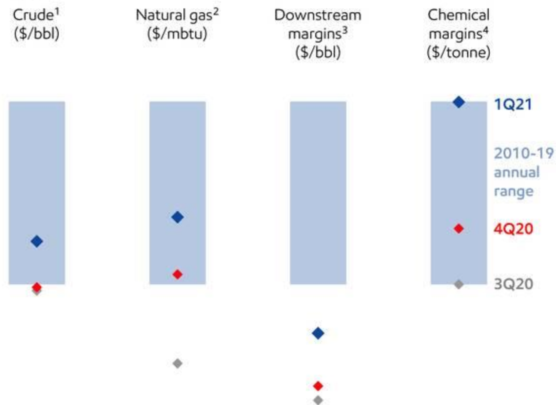
Then 2020 hit, bringing the most challenging year for oil and gas companies in recent history. As oil prices fell off a cliff and news outlets warned of peak demand, many oil companies cut or cancelled dividends to survive. As we've discussed before, Exxon made the bold choice to keep its dividend, even as it rose to one of the highest yields in the S&P 500, and survive the year by slashing spending and costs and by raising debt to cover payments in the near term. Many in Wall Street questioned the decision, with warnings of "unsustainable dividend", "cash flow hole", and "from riches to rags" attached to analyses of the company.

This past quarter, Exxon showed that not only did it survive 2020, it came out a stronger company with more earnings potential. The prior restructuring plus the additional cost cutting efforts from the past year led to greater profitability for Exxon. It reported a 5% growth in revenue but a 23% growth in earnings, posting its first profit in 5 quarters. The recovery in oil and gas prices since this time last year led to 4x greater Upstream earnings and 10x greater Chemical earnings. The Downstream business was still at a loss due to lower jet fuel demand and European activity being affected by continued lockdowns. Most impressively, Exxon created $9.3 billion in cash flow from operations this quarter (*double* that of just 3 months ago), which fully funded the dividend and capital spending and allowed for a debt reduction of $4 billion. It's starting to get its debt back to "normal" levels faster and earlier than expected.

IMPROVING **ENVIRONMENT**

Prices and margins returning to historic range

PRICES / MARGINS
2010—2021



- Crude and natural gas markets improved with demand recovery
- Chemical margins driven by tight industry supply and global shipping constraints
- Downstream margins improved from historic lows driven by North America
  - Low jet demand and slow recovery in Europe continue
  - Diesel and gasoline demand forecast to return to pre-pandemic levels by year-end 2021[5]

See Supplemental Information for footnotes.

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This graphic shows the historic price ranges for Exxon's businesses in gray, with the last 3 quarters plotted as the gray, red, and blue diamonds. Clearly, The Chemicals business has gone from the bottom of the range to the top of the range in just 2 quarters, which significantly helped Exxon's results. The remaining 3 segments are all either low or normal range. All 4 of these diamond graphs will constantly move over time, but this shows that Exxon can maintain this quarter's pace of cash flow at a variety of prices. This quarter at Exxon backed up one of Outlook's strongest beliefs: what a company does during tough times can make or break its future. We think in Exxon's case, its future is made.

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