Inside Exxon Mobil: Last Quarter's Progress

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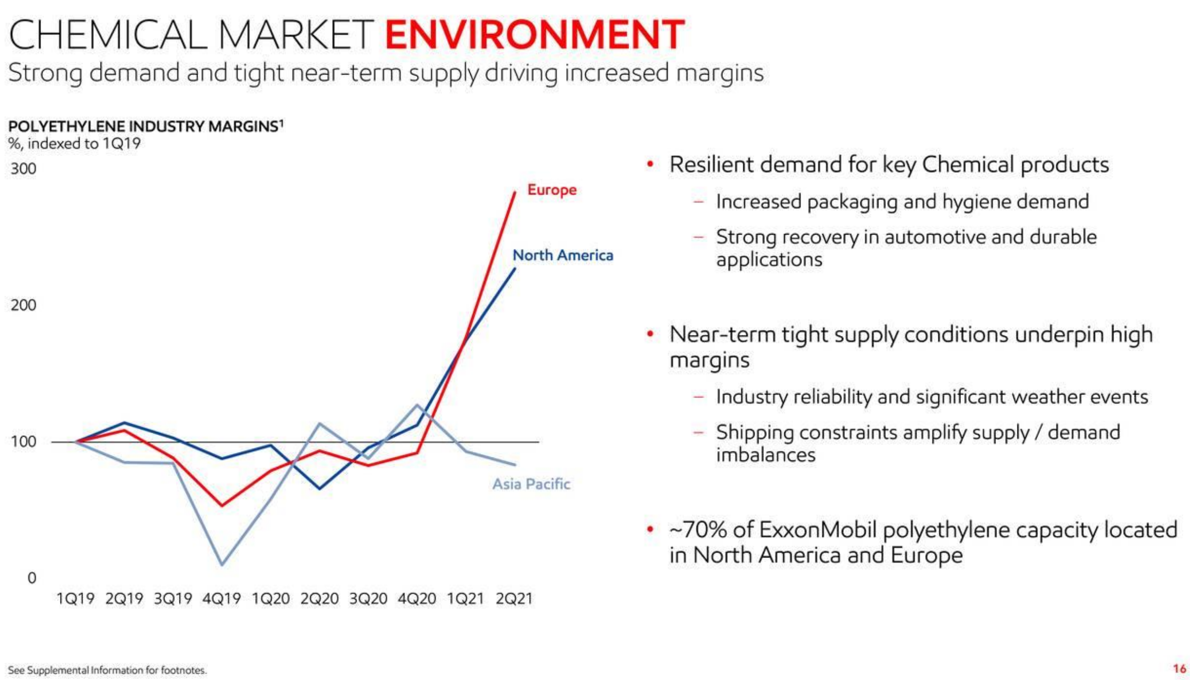
Exxon continued its climb from the trenches of 2020 this past quarter, with revenue increasing 107% from the worst quarter in decades, one year ago. In its Upstream business, higher oil and gas prices helped profitability, despite an overall production decrease due to planned maintenance activities. Its Downstream business posted a slight loss again this quarter, as demand improved but the market is still oversupplied and jet fuel demand is still much lower than normal levels. The Chemicals business was the real standout, posting earnings 65% higher than just three months ago.

Exxon's excellent Chemicals performance was led by high profits for its polyethylene and polypropylene markets in North America and Europe specifically. Profitability for these two products increased by 140% since the end of 2020. Severe weather during the winter impacted supply, global shipping constraints, and general demand growth from the US economy expanding again all led to favorable pricing for these products. It's important to note that Exxon's Chemicals earnings are outperforming the general industry. In the past decade, its earnings are 80% higher than the industry's and in 2021, earnings are more than double that of the industry. Exxon focused on bringing costs down over the past few years, with 2021's overall cost expected to be \$1 billion lower than that of 2019. It also focused on its "high-value performance products". These are products that, through the use of high tech equipment, are made with more value than the typical commodity-like chemical product. For example, Exxon's "performance polyethylene" is stronger and thinner than its regular polyethylene, leading to cost efficiencies for customers. These performance products are 10-25% more profitable than regular products, clearly helping Exxon's bottom line, and it expects sales of these products to grow by 70% by 2027. It should be a good business line for years to come.



Performance in the Permian (shale) Basin highlighted Exxon's Upstream business. Production increased 34% from a year ago, hitting 400,000 barrels of oil per day. It expects another 40,000 barrel per day increase next quarter. The improvement in drilling operations in the past few years has been remarkable. Drilling rates are 3 times more efficient than in 2019, with Exxon recently setting an industry record when drilling a 12,500 foot lateral in 12 days (a lateral is the horizontal part of the oil well that travels along the targeted shale layer). The 8 rigs that Exxon runs in the Permian today drill the same lateral length that 25 rigs drilled just 2 years ago. The Permian remains on track to become a growth machine for Exxon's Upstream business. It's a classic example "the weak go under and the strong get stronger" during any "big problem" in the business world.

Perhaps the biggest news surrounding Exxon this past quarter didn't have anything to do with its actual businesses, but instead the battle for board seats coming from a tiny activist investor hedge fund. That fund, which argued that Exxon is not focused enough on carbon neutrality, ended up winning 3 seats on the 12 seat board. While it is entirely too early to see how this board shakeup will affect the company, CEO Woods commented that initial meetings have been "encouraging" and that the company will remain committed to creating value for shareholders.

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