Inside Exxon Mobil: Last Quarter's Progress

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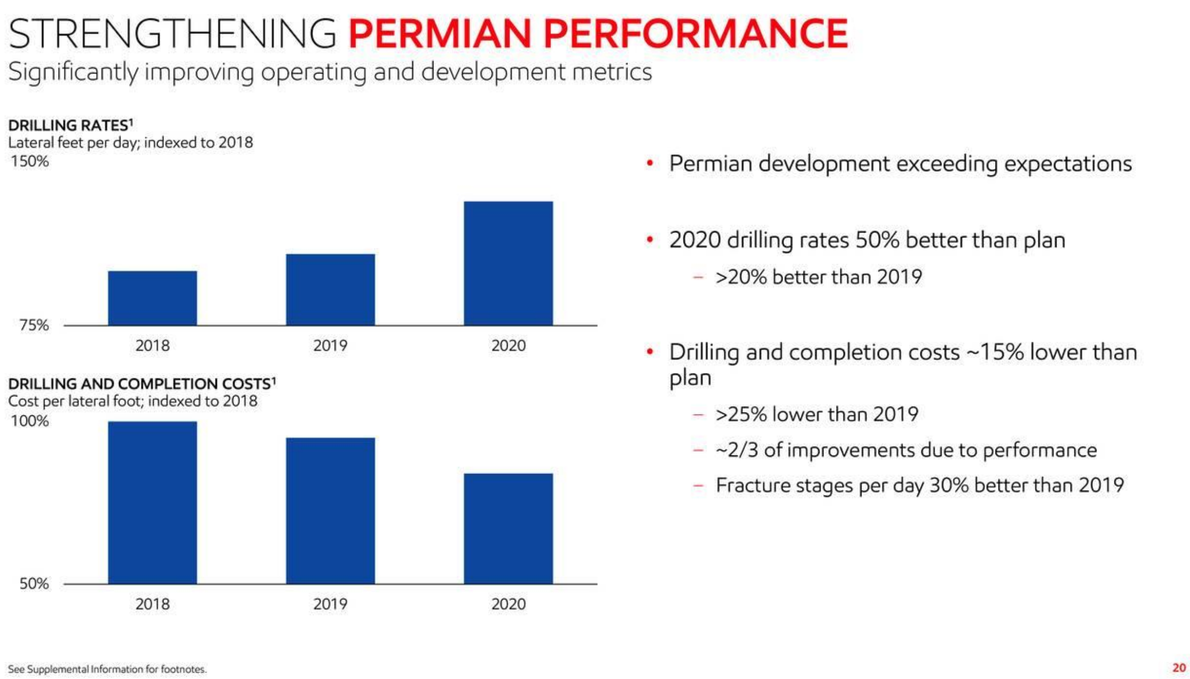
Much like the last company we discussed, Conoco Phillips, Exxon Mobil's fourth quarter saw a slight improvement from earlier in the year. Revenue fell 30%, but the company was able to post positive earnings for the first time post-COVID oil crash. It exceeded its cost reduction targets set last March, ending the year with 30% lower capital spending and 15% lower operational spending. Some of these cost cuts will be ongoing, helping improve Exxon's bottom line through 2025. Exxon's chemical business highlighted the quarter, with its best performance since 2018 due to high demand for polyethylene products.

In Upstream, the price of oil stayed relatively flat with the prior quarter while the price of gas rose 40%. Production was down due to some government mandated closures at some of Exxon's international operations. If it weren't for these closures, production would have risen. The best news in the Upstream segment was in the Permian's results. Despite reduced investment throughout the year and drilling closures in the March-May timeframe, oil drilled exceeded Exxon's plan. Drilling rates were 20% better and costs were 25% lower than 2019. The slide below shows the improvement in Permian operations over the past 3 years.



Exxon laid out its cash management plans for the next few years during the earnings call, pledging that its dividend and minimum level of capital spending can be covered at $50 oil and given no improvement from today's lows in its downstream and chemicals businesses. A price higher than $50 leaves room for more debt reduction, more spending on future drilling plans, and more shareholder returns. A price lower than $50 means that Exxon will have to reduce spending again to maintain the dividend. Oil is at $60 today, but management was clear to convey that short term market conditions are still an unknown and that it has flexibility in its plan given a wide variety of price ranges.

Exxon has been in the news lately because of activist investors calling for greater focus on investments in clean energy. Management announced the creation of a new business called Low Carbon Solutions and outlined all they have been doing the past couple of decades to lead the industry in carbon capture and storage (CCS). CCS is the process of capturing carbon dioxide and injecting it into deep geologic formations for safe storage. Exxon is the first company to sequester 120 million tons of carbon, which is equivalent to removing the emissions from 25 million cars annually. This new business unit will continue investments in this technology, while the company remains focused on meeting the need for oil and gas throughout the coming energy transition. We believe management's plan for the next few years is sound, and will pay off during the next oil price recovery.