

Inside Conoco Phillips: Last Quarter's Progress

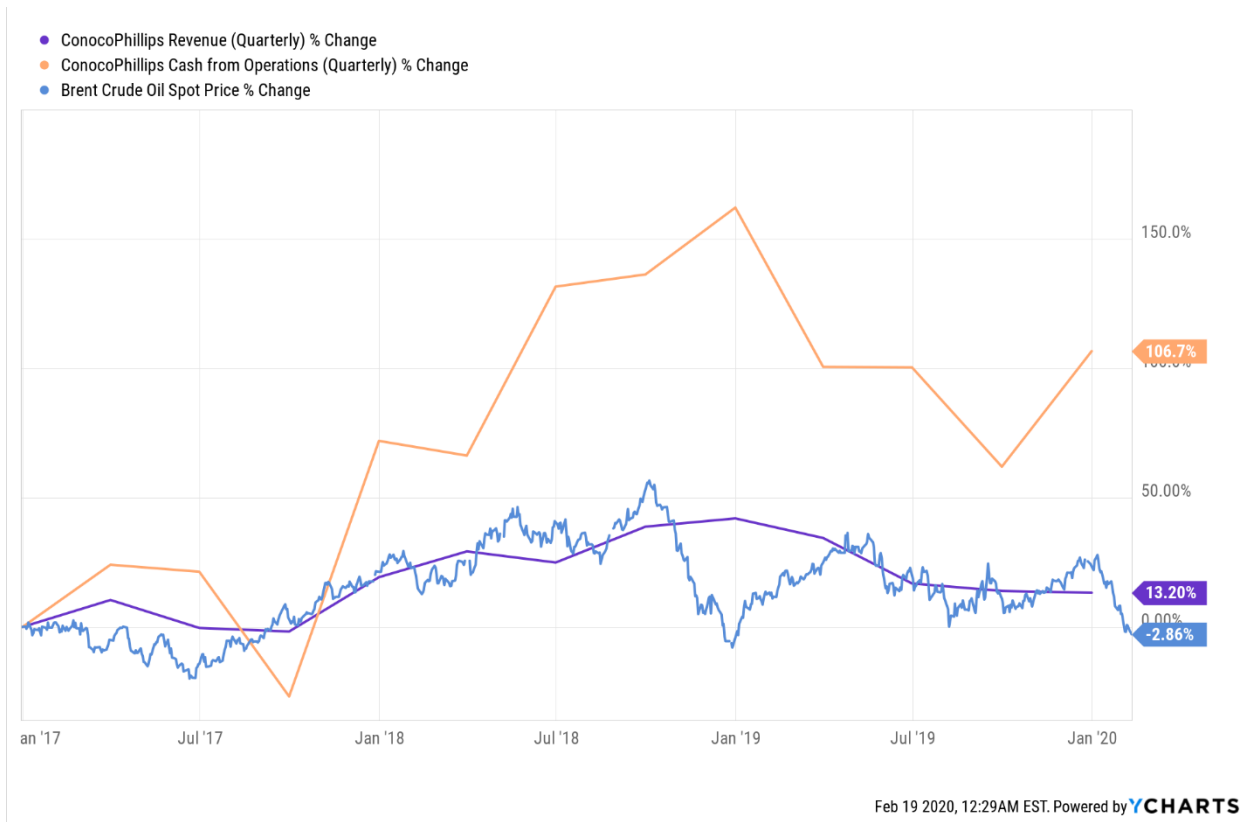
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Last quarter was typical for what we have come to expect from Conoco Phillips in 2019: making lower revenues than a year ago (a sharp 20% drop in the fourth quarter) while still maintaining strong cash generation and cash returns to shareholders. Most of the revenue plunge was caused by lower oil prices, and some by Conoco's sale of assets during the years. Conoco sold off \$3 billion worth of assets last year and expects to close on another \$2 billion in assets at the beginning of 2020 in its effort to "high-grade" its portfolio (keeping only the lowest cost-of-supply and most profitable locations.) It now can generate free cash flow at oil prices of \$35 and above, so while the drop to \$47 this last quarter hurt revenues, it didn't impair Conoco's ability to generate cash.

For the full year, Conoco made almost \$12 billion in operating cash, and over \$5 billion in free cash flow. It returned essentially all of that free cash flow to shareholders in the form of \$1.5 billion in dividends and \$3.5 billion in share repurchases. In addition to the whopping 38% dividend hike it announced last quarter, it plans on repurchasing another \$3 billion of shares in 2020, which represents almost 5% of the company. Clearly, Conoco is delivering on its promise to be "shareholder friendly".

Conoco's underlying oil production grew by 5% in 2019, and it plans for a 4% growth rate next year, led by its "Big 3" U.S. shale assets. It expects a hit to Asian demand for both oil and natural gas due to the current coronavirus issue, and expects prices to remain volatile throughout the year, similar to 2019. Management also increased its total share buyback program by \$10 billion to \$25 billion total, showing its confidence in its long-term ability to operate well throughout the volatile price environment.

2019 capped a 3-year period in which Conoco set out to transform its business and become a financially stronger company, able to weather any storm. The chart below shows this transformation. The blue line, the price of oil, constantly jumping up and down; the purple line, Conoco's revenue, generally mirroring the price of oil; and the orange line, Conoco's cash from operations, increasing by over 100%.



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