Inside Conoco Phillips: Last Quarter's Progress.

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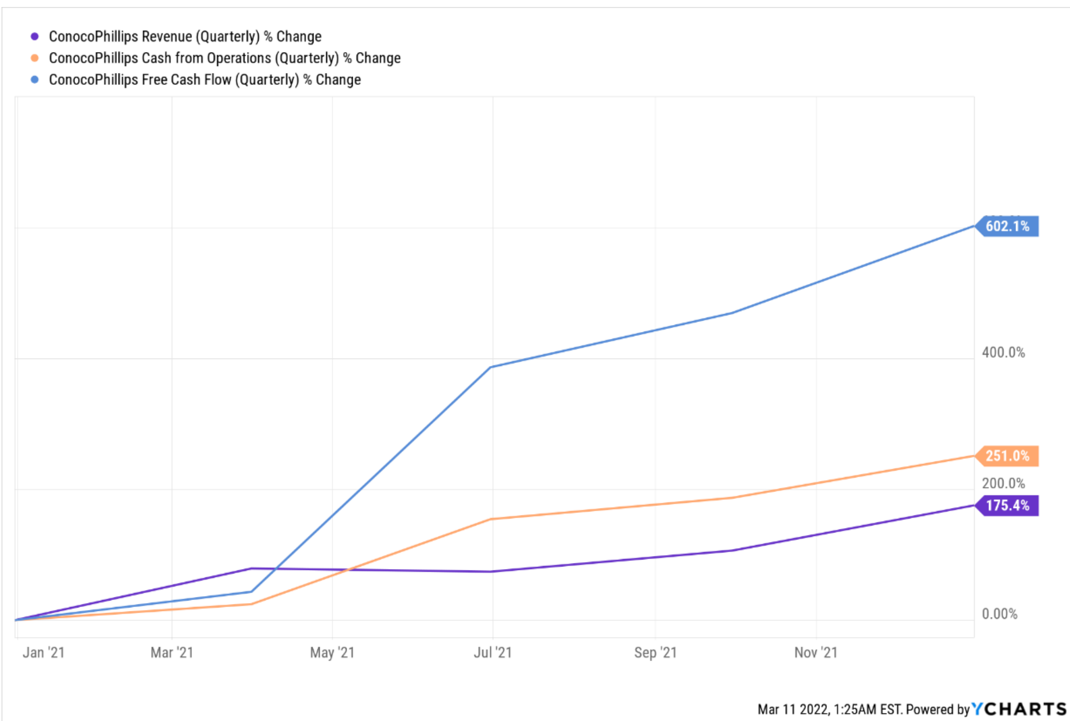
Conoco had a transformational 2021, headlined by its purchases of Concho Resources and Shell's Permian acreage. Its goal for the past decade has been to have an oil portfolio with the lowest cost of supply out there, and its purchases last year helped it do so. We talked last Inside report about how a lot of Shell's acreage was adjacent to Conoco's existing acreage. This proximity allows for longer wells to be drilled. The biggest growth opportunity the Shell purchase brings is transitioning from 1-mile wells to 2-mile wells (the lateral or horizontal portion of the well). 2-mile wells improve well economics and create a 30% lower cost of supply.

By focusing on drilling efficiently and selling off higher cost assets, Conoco finished the year with 163% revenue growth, aided by both growing volumes from the Concho and Shell purchases and from higher oil and gas prices. This translated to generating lots of cash, as Conoco is unhedged from oil prices and reaps all the benefit of higher prices.



Conoco is committed to returning 30% of cash from operations to shareholders. As that number has risen, they have kept to their word and adjusted plans. In December, management announced its 2022 cash management plan which included $7 billion allocated to shareholder returns. As of early February, because of oil's run (and even more so today!), management added another $1 billion to that plan. It initiated a variable dividend on top of its normal dividend and increased the second quarter variable dividend by 50% over the first quarter's. Over the past year, management exceeded its goal of returning 30% of cash from operations to shareholders, hitting nearly 40%. The higher oil gets, the more cash Conoco gets, and the more cash we get as investors.