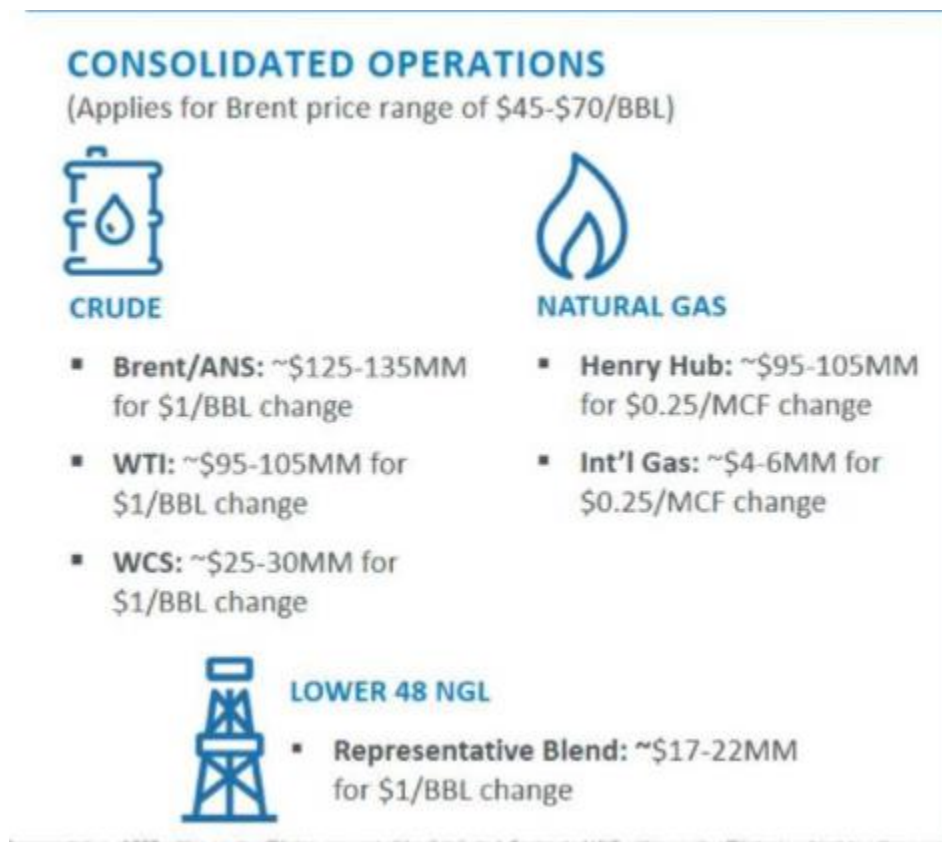


Inside Conoco Phillips: Last Quarter's Progress.

May 26, 2021

Conoco Phillips posted impressive first quarter results, with revenue up 60% from a year ago, production up 30% from a quarter ago, and free cash flow almost double that of the entire year in 2020. With revenue back around pre-COVID levels and strong cash flow, Conoco resumed its share repurchase program. It also announced that it would begin selling its stake in Canadian oil company Cenovus Energy. It obtained this stake from selling land to Cenovus in 2017, but never intended to hold onto the shares long term. It believes the shares are now valued attractively to sell, and intends to use the proceeds to buy back more Conoco stock.

The massive Conoco/Concho Resources acquisition closed in the beginning of January, and the results of the combined company so far are promising. Post-acquisition, “Lower 48” production, meaning shale production in 3 main areas, is now almost half of the company’s total production. Since the shale oil business is a shorter cycle business than conventional oil and is a lot easier to ramp up or down, it provides a higher level of predictability for the company. Since Conoco’s production mix and expenses have shifted post-acquisition, it updated its cash flow sensitivities, seen below.



This chart looks a little complicated—but it’s a very impressive picture of what Conoco has achieved. The biggest changes are seen in the sensitivities in US oil and gas. For WTI (West Texas crude oil), Conoco now makes an additional \$100 million for every \$1 increase in the price of a barrel. Prior to the acquisition, it only made an additional \$35 million. For Henry Hub natural gas, it also makes an additional \$100 million

for every 25 cent change in price, up from \$40 million pre-acquisition. One of Conoco's strengths is that it has unlimited upside given the price of oil and gas, since it has no refining or chemical segments which tend to make more money when oil prices fall. The Concho acquisition has only enhanced this strength.

Theresa Kroll
Outlook Capital Management, LLC
(847) 347-7773