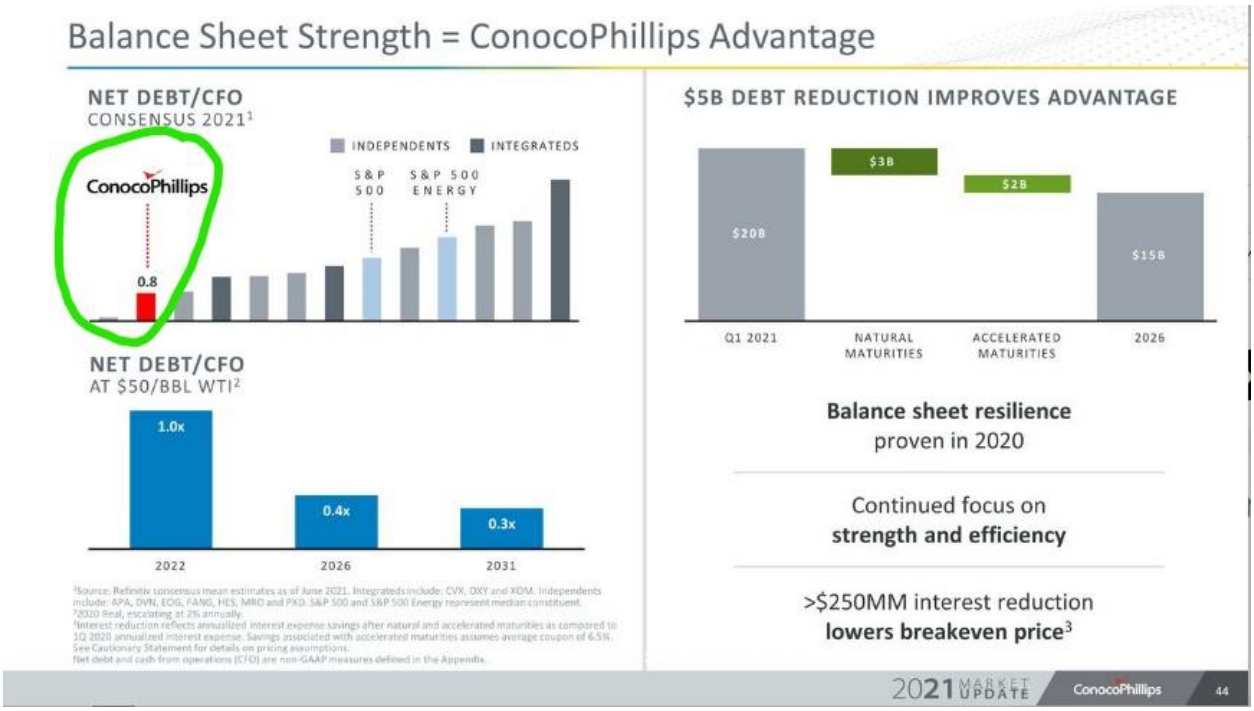
The Outlook: July 6, 2021

Market looks at tomorrow. Conoco looks a little farther.

"Oil market in disarray as OPEC+ fails to agree!" was today's headline, and the market's speculating mob obediently flung its shares of Conoco, Exxon and the other oils over the side to lighten the boat in the storm. That was normal behavior for the market mob, just as it's been normal for the mob to buy every oil share it can reach with cash, bitcoin, subway tokens and any other spare change in its pockets, whenever the headlines have trumpeted the opposite over the last year. ("OPEC tightens supply, oil market skyrockets!", etc.)

Meanwhile, by sheer coincidence, Conoco's management team gave a talk on Wall Street today. The topic was: "Conoco's 10-Year Plan." It's hard to think of 2 notions more galactically opposite than "Oil Market Plunges, Today!" and "Conoco's 10 Year Plan!" The first is all about a vast group of people making a living by betting on fleeting impressions, day by day. The second is about working people who've strengthened their company in an astonishing way over the past two years, in the midst of Nightmares the world has never seen before.

Conoco's slides weren't the kind we grasp at a glance, but let's look at a couple anyway.

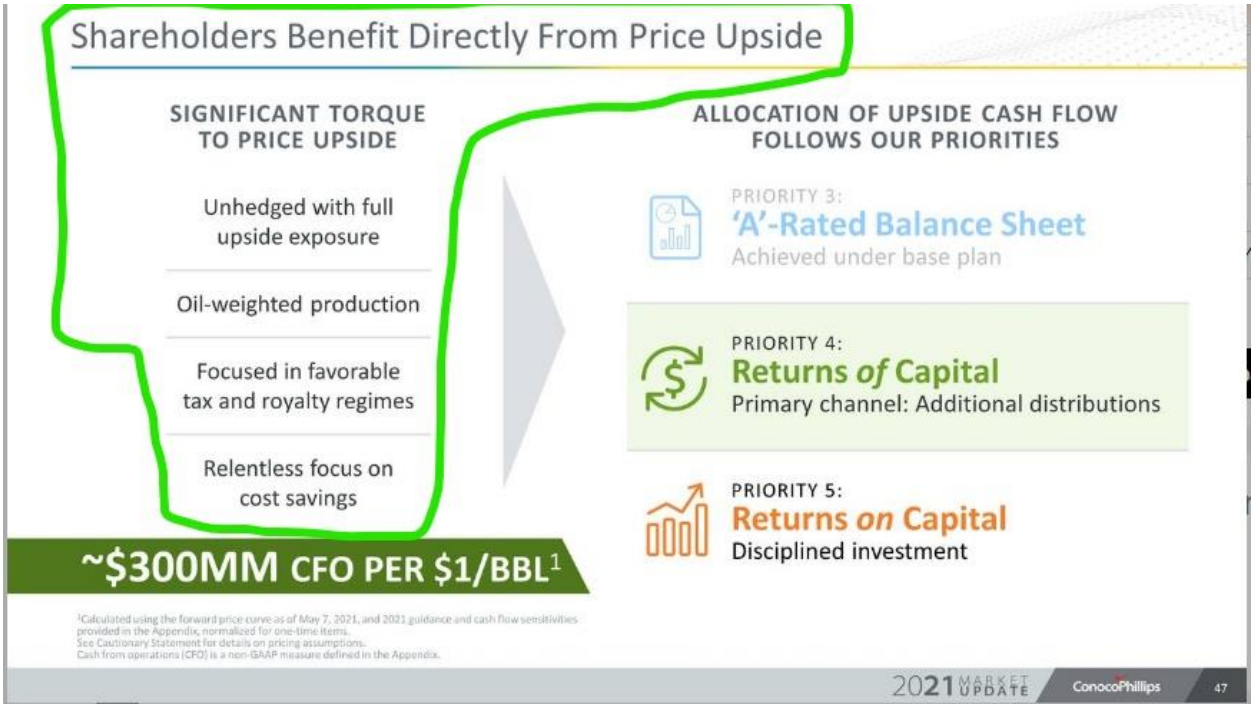


That green circle shows where Conoco ranks against its peers, in the ratio of debt to the operating cash flow which makes it possible to pay the debt. Yes, Number One . . . by a long shot. Right under the circle we see Conoco's debt disappear, over 10 years; at a mere $50 per barrel price of oil. (It's at $73 per barrel today.) At Outlook one of our Golden Rules is: "Only buy exceptionally strong companies. Financial

strength gives determined management the time it needs to dig out of any crisis. The spec mob never believes that . . . and it's wrong all the time."

The giant leap in Conoco's strength over the past crisis years might be called a "miracle" . . . except that on Main Street, such miracles happen quite a bit. They happen because American management is more accountable for results, by far, than anywhere else in the world. (But Conoco's achievement is pretty exceptional by any standards we'll find on Main Street.)

This next green circle is the picture of a financial powerhouse, over the next decade . . . no matter what "OPEC +" may do, or where the oil market may go. Glance at the "$30 per barrel breakeven" toward the bottom. Only 2 years ago, Conoco's breakeven was around $40 per barrel. That $10/barrel cost reduction has been a miracle by anyone's book.



Finally, this last picture came from CEO Ryan Lance's summing up. Over the last 2 terrible downturns in oil, beginning in 2014 or so, Conoco stuck to its guns. "We are a pure oil company—no refining business to smooth out the downside, no hedging with oil futures contracts for the same purpose—and we mean to keep being just what we are. When the oil market plunges, we'll strengthen our company so we make money at terrible prices. When the oil market rockets . . . we'll make our investors very happy indeed."

There are a lot of CEO's who would have lacked the nerve to "stick to their guns" that way. When the cycle is down and one's company is suffering, there is endless pressure to "see the light and change the strategy." Instead, Mr. Lance insisted that "the light" was in fact the inevitable strong rise in oil's price; and if his team spent the crisis years improving Conoco's basic operations and break even oil price, Conoco's investors would be far better off. Great crowds of experts didn't believe him then. They're beginning to believe him now. At Outlook we're sticking with Mr. Lance and his company for a long time to come.

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