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PRESENTATION

Operator

Good afternoon, and welcome to the Occidental's First Quarter 2021 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded. I would now like to turn the conference over to Jeff Alvarez, Vice President of Investor Relations. Please go ahead, sir.

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

Thank you, Chuck. Good afternoon, everyone, and thank you for participating in Occidental's First Quarter 2021 Conference Call. On the call with us today are Vicki Hollub, President and Chief Executive Officer; and Rob Peterson, Senior Vice President and Chief Financial Officer.

This morning, we will refer to slides available on the Investors section of our website. The presentation includes a cautionary statement on Slide 2 regarding forward-looking statements that will be made on the call this morning.

I'll now turn the call over to Vicki. Vicki, please go ahead.

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Thank you, Jeff, and good afternoon, everyone. I'd like to start this morning by saying how pleased we are with our first quarter operational and financial performance. The momentum generated by our improved cost structure and capital intensity leadership was a catalyst for our strong results this quarter and is expected to continue to provide a solid foundation for free cash flow generation.

This morning, I will cover our first quarter operational performance and divestiture progress. Rob will cover our financial results and balance sheet improvement as well as our updated guidance, which includes an increase in guidance for Midstream and OxyChem's 2021 earnings.

Our first quarter results are a perfect example of how our ability to consistently deliver strong operational performance has strengthened our financial position. In the first quarter, we generated $1.6 billion of free cash flow, which is our highest level of quarterly free cash flow in a decade. We also closed almost $500 million of divestitures, repaid $174 million of debt and exited the quarter with approximately $2.3 billion of unrestricted cash.

Our plan to stabilize 2021 production at our fourth quarter 2020 exit rate is on track. We delivered first quarter production from continuing operations of over 1.1 million BOE per day, with total company-wide capital spending of only $579 million. We're particularly proud of this achievement, given the operational challenge posed by winter storm Uri.

Our domestic oil and gas operating cost of $7.20 per BOE continued to demonstrate the lasting impact of our cost-reduction measures and includes about $83 million of atypical costs related to the winter storm. I want to note that we have fully recovered from the storm with no lasting impact. Even with incurring storm-related costs in the first quarter, our full year domestic operating guidance has only increased by $0.10 per BOE, which represents a significantly smaller increase than the approximate $0.25 per BOE that the $83 million in total OpEx would have otherwise added. This is a significant achievement made possible by our teams continuously seeking efficiencies and finding innovative ways to safely and effectively lower costs.

In the first quarter, OxyChem benefited from robust PVC pricing and gradual strengthening in the caustic soda market. OxyChem's integration across multiple chlorine derivatives provides us with the ability to optimize our caustic soda production while opportunistically adjusting our production mix to maximize margins. OxyChem's ability to adjust to rapidly changing market dynamics was invaluable during the downturn last year, and we were able to provide critical products to the medical, pharmaceutical and disinfection markets to respond to COVID. Given the recent improvements in the chlorovinyl and caustic soda markets, we expect OxyChem to extend its track record as a market leader and consistent generator of free cash flow.

Additionally, during winter storm Uri, our team was able to safely protect our assets as well as provide essential products to our customers. Our team's effective response limited the storm's impact on facility maintenance cost to an immaterial amount.

Midstream and marketing's outperformance compared to guidance in the first quarter was primarily driven by our ability to optimize long-haul gas transportation in the Rockies, along with the timing impact of export sales. Following the increase in activity in the fourth quarter, our oil and gas business continued to push the envelope with new efficiency gains as we seamlessly transitioned into the first quarter.

Our Permian teams outperformed expectations in the first quarter by setting new drilling records in New Mexico, the Texas Delaware and the Midland Basin, while also driving down costs. Our first quarter Permian achievements are especially impressive as we have now augmented the efficiencies of our Oxy Drilling Dynamics with remote directional drilling, an exciting innovation that allows the drill bit to be steered from a separate location. Being able to control and optimize our operations remotely and instantaneously apply shared expertise to similar activities has numerous advantages that we expect our operations to benefit from in the future.

We also continue to achieve significant efficiency improvements in the Rockies, where in the first quarter, our DJ drilling team reached our lowest average cost per foot in program history. I'd also like to highlight Oman for their best-ever HES performance with no recordables in the first quarter while drilling the longest laterals in Oxy Oman history and achieving record drilling times.

After a pause of the issuance of new drilling permits on federal land earlier this year, we have now started to see the process move forward again with the approval of new permits. We currently do not expect the permitting process to have an impact on our activity levels as we still plan to run an average of 11 rigs in the Permian this year and 2 in the Rockies.

In late April, I testified before the U.S. Senate Energy and Natural Resources Committee in support of lifting the federal leasing moratorium. As I told the committee, continued onshore oil and gas development means high-paying jobs, community reinvestment and meeting energy and product needs during the transition to a low-carbon economy. We look forward to working with Congress and the Administration on ways to create clarity and short- and long-term regulatory certainty.

After we announced the sale of our Colombia onshore assets last year, we updated our divestiture plan to sell $2 billion to $3 billion of assets by the middle of this year. Our progress towards this target continues as we closed almost $500 million of sales in the first quarter. Post Colombia, we now have closed approximately $835 million of divestitures and are well on our way to achieving our target. But we will continue to make the best value decisions by weighing the impact of future cash flows in our current environment versus the benefits of meeting a deadline or divestiture target.

Looking back over the last year, I'm particularly proud of the accomplishments our teams have achieved and look forward to the opportunities that lie ahead. Not only have we optimized our portfolio, improved our balance sheet and continued to reduce costs, we've also created a pathway to achieve net zero emissions. As we take our next steps toward achieving our future goals, including further balance sheet improvement, returning additional capital to shareholders and bringing our first commercial scale direct air capture plant online, we will continue to maintain our low-cost, capital efficient, stable production base with a goal of maximizing free cash flow generation through capital discipline and margin preservation.

Our cash flow priorities are structured with the aim of positioning our company for future success. While we are encouraged by the improving macro environment and are especially proud of our team's ability to maintain and sustain our production base, we will continue to improve our balance sheet until we reach the point where our financial position will support a more meaningful return on capital and return of capital to our shareholders throughout the commodity cycle.

I'll now hand the call over to Rob, who will walk you through our financial results for the first quarter and guidance for the remainder of the year.

Rob Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Thank you, Vicki. I want to echo Vicki's comments on our strong performance in the first quarter. Our cash flow priorities illustrate the importance we continue to place on capital discipline, free cash flow generation and balance sheet improvement. As we look ahead on the steps necessary to transition from our current to our medium-term cash flow priorities, our focus on balance sheet improvement will continue to influence our financial policies.

Throughout 2020, which was one of the worst years our industry has endured, we focused on deleveraging and have continued to reduce debt in the first quarter of this year. We repaid approximately $9.6 billion of principal since August of 2019, with more to come as we can complete our divestiture program combined with leveraging our ability to generate excess free cash flow and maintain our commitment to capital discipline.

On past calls, I've highlighted our preference for a viable path to return to investment-grade credit rating before allocating excess cash flow to our medium-term priorities. Our credit ratings are based on several factors, including a certain level of debt, returning to investment-grade in a mid-cycle commodity price environment may include reducing debt to the mid-$20 billion range. We are not there today, but we believe this goal is achievable, given our potential to generate free cash flow.

We repaid $174 million of debt in the first quarter, and now have less than $225 million of maturities due the remainder of 2021. As we generate cash from organic free cash flow and close our remaining divestitures, we have several more options available to deploy that cash to improve our balance sheet. We have the option to call the 2022 floating rate notes prior to maturity and may at times allow our cash position to build until maturities come due.

We have additional options available to address future maturities, which we are currently evaluating. We may also consider retiring $750 million of notional interest rate swaps later this year for the fair value amount, which was approximately $665 million at quarter end. This would improve cash flows by almost $50 million per annum at the current curve.

In the first quarter, we announced an adjusted loss of $0.15 per share and a reported loss of $0.36 per diluted share. The difference between our adjusted and reported results is primarily due to a gain on asset sales and positive fair value adjustments offset by planned lease expiries and a legal contingency related to our 2016 settlement with Ecuador.

This quarter, we classified all derivative instruments with mark-to-market adjustments as items affecting comparability. We expect this change will be helpful to investors comparing underlying business performance between periods and reconciling actual results to our guidance, which had previously excluded the mark-to-market adjustment.

We were able to add additional gas hedges in the quarter and have now hedged approximately half of our 2021 domestic natural gas production with a floor of $2.50 per Mcf.

We are on track to spend within our full year capital budget of $2.9 billion, having incurred capital expenditures of only $579 million in the first quarter. Our operational success, combined with our focus on sustaining production in a more supportive commodity price environment, enabled us to generate $1.6 billion in free cash flow and exit the quarter with almost $2.3 billion of unrestricted cash on hand.

Our business incurred a negative working capital change in the quarter, which was largely driven by higher accounts receivable and inventory balances due to commodity price recovery. Over half of the working capital change was due to commodity price, which reflects the timing difference between when the revenue is recognized when the cash is received.

We also made several payments that are typical in the first quarter, including property taxes, cash interest payments, employee benefit payments and pension contributions. We see the potential for the working capital change to partially reverse over the remainder of this year as expenses accrued last year were already paid in the first quarter of this year.

We are pleased to be able to update our full-year guidance for Midstream and OxyChem, reflecting strong first quarter performance and improved market conditions. Our revised guidance, combined with our operational achievements, have enabled us to lower our 2021 breakeven to the mid-$30 range on a WTI basis before the preferred dividend.

I would like to reiterate that despite the first quarter weather impact to our Permian production of approximately 25,000 BOE per day, as guided on our last call, combined with the production impact associated with divesting $285 million of minerals, and a negative PSC impacts of over 5,000 BOE per day related to higher oil prices, our full year production guidance of 1.14 million BOE per day remains intact, as does our full year capital budget of $2.9 billion.

I will now turn the call back over to Vicki.

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Thank you, Rob. We are encouraged by the positive reception our 2020 Climate Report received following its release in December, as well as the enthusiasm our low carbon strategy continues to generate. We understand that many of our stakeholders have a desire to learn more about our low carbon projects and the returns these projects will generate.

While we are not yet able to share the economics, we have created partnerships to finance and deploy cutting-edge CCUS technology, which leverages our expertise and our tens of billions of dollars' worth of CO2 infrastructure, assets, and pore space. We are creating these cross-industry opportunities for others to invest alongside us to maximize the deployment pace and carbon removal impact. We look forward to sharing more information when possible.

As part of being a socially and environmentally responsible operator, we consistently make operational improvements in addition to working toward our net zero goals. In the first quarter, we started a water recycling facility in the Midland Basin and began utilizing recycled water in our South Curtis Ranch development. In partnership with an industry-leading water midstream company, we were able to increase our water recycling efforts and lower cost. Recycling water has been a large focus of ours in New Mexico for several years, and we are pleased to have been able to expand this effort into Texas.

Before we begin the Q&A, I want to announce that in April, we became the first U.S. oil and gas company to commit to adopting the World Economic Forum's Stakeholder Capitalism Metrics. This commitment will guide our process to incorporate the Forum's metrics most relevant to our business into our environmental, social and governance reporting. We believe this is the appropriate framework to supplement our reporting on ESG progress, enhance transparency and strengthen our engagement with investors and other stakeholders.

We'll now open the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question will come from Dan Boyd with Mizuho.

Dan Boyd ***Mizuho Securities USA LLC, Research Division - MD & Senior Energy Equity Research Analyst***

So I want to ask one on direct air capture, but I think, first, just kind of starting with the free cash flow outlook here. Could you give us an update on your dividend breakeven? I think last time you talked about it, it was in the high 30s. Presumably, it's lower given the improvements that you've seen in chemicals and midstream. And maybe also just comment on your free cash flow generation this year at the strip, adjusted for work -- even if you include working capital, I think there's probably a lot of questions on that today, given what the stock is doing.

Rob Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Sure, Dan, thanks. So our revised guidance, when you combine operational achievements, did lower our breakeven, I would say, mid-$30 range on a WTI basis before the preferred dividend. Specifically, we give a range because it is influenced by a number of factors that you listed, including the cash flows, including the natural gas prices, realization for our products, divestiture timing and where chemicals and midstream falls in respect of earnings guidance. And obviously, this quarter, we were able to significantly improve our guidance on both the chemicals and midstream business, which has a material impact on that range.

In addition to that, as we take that organic cash flow and we can further improve the breakeven and doing things like I mentioned in my opening comments regarding interest rate swaps, where we retire the $750 million notional value, that was $665 million at the end of the quarter, we're able to eliminate about $50 million of interest costs for the year using the current curve. So there's a lot of things that go into that.

In terms of forecasting out cash flow into the year, we don't forecast cash flow forward on that side of it. I think you can see a pretty representative quarter. It's a fairly clean quarter outside of a few things. And I think you can see -- eliminate the working capital and get an idea what kind of cash we would generate at similar prices moving forward.

Dan Boyd ***Mizuho Securities USA LLC, Research Division - MD & Senior Energy Equity Research Analyst***

Okay. I'm sure you're going to get more on that. So Vicki, I wanted to go back to the direct air capture. I came across a document, it was a presentation that someone on your team made to the California Air Resource Board, I think, back in October that talked about building or at least having 4 facilities online in 2025. And there was also a petition to get credits or, I guess, generate the credits during the construction phase. So can you just talk about that, and what that might be able to do in terms of your ability to finance this in creative ways as you just touched upon?

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Yes. I'll say that we don't have any concerns about being able to finance our first direct air capture facility. The first one where -- once we have both trains built, we'll be able to capture 1 million tons per year of CO_2. So to us, there are no financing concerns. But it's helpful to -- when we can to generate some cash as we're building the facility. That's what that request was about. And if we could get that request, what that enables us to do is accelerate development of the next facility. So what we're trying to do is what I believe the CARB and others want to do, and that is accelerate our ability to be able to have a positive impact on the environment and also to be able to create value for our shareholders.

We're trying to accelerate that where we can. And so we believe that we will be able to provide or obtain some funds either from that or potentially from some modifications that we think is critically important to 45Q because currently 45Q is a tax credit. If that were a direct pay to us for the carbon that we capture, that's another enabler that allows us to accelerate the construction of the technology, get that advanced faster and more built sooner. So there, we're looking at multiple ways to accelerate all that we're doing in the Permian with respect to direct air capture.

Operator

The next question will come from Neal Dingmann with Truist.

Neal Dingmann ***Truist Securities, Inc., Research Division - MD***

Vicki, I know you mentioned on the prepared remarks that you were fine with -- as far as permits, and it's not going to influence the 2 rigs in the Rockies. Just wondering, if and when the decisions come out in August, what might, I guess, changes could we see either in the Gulf of Mexico or Rockies, I guess, depending on how -- to the degree of what comes out?

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

I think the changes that will come out will not impact current leases. I do believe that we'll be able to continue permitting on current leases. My concern is that there could be a moratorium, a longer-term moratorium on picking up additional leases. That would be bad for our industry. It would be bad for the United States. It would put our country in a position where we would likely have an even tougher time increasing production above where the United States is today.

As you know, we were at one point over 13 million barrels a day of oil production from the U.S. That's a scenario that gave us strength in world politics. It gave us the ability to completely supply our own oil and products domestically. We would not have to import very much at all at a 13 million barrel a day level because I believe our refining capacity is somewhere near 17 million. So we would have some capability to be almost completely independent.

With a moratorium on federal leases, that would really drive down our industry's ability to react. Now where we are in that, we've got 9.5 million acres of -- to develop in the U.S. And of that 9.5 million acres, I think only about 1.6 million are federal, and about half of that is offshore. So from a new lease standpoint, there are some companies that are in better positions than others, and we believe we are.

But what I'm advocating for is the industry and for the country because the other thing about this is some of this is being touted as a way to reduce emissions for the United States, which would be definitely a bad move because we are very prudent with what we're doing in United States compared to a lot of countries around the world. We've reduced emissions significantly in the U.S. and continue to push technologies to further reduce.

API, we're part of API, and a lot of companies within API have committed to a voluntary partnership where we're all working to share technologies and to help each other reduce emissions and to get the best available technology in place to address emissions and climate change. So I think that, for me, the biggest worry is not on existing leases. It's just the moratorium could be extended for a long time on picking up -- or anybody picking up any new releases.

Neal Dingmann ***Truist Securities, Inc., Research Division - MD***

No, very -- I really liked the details. And then just a follow-up. I'm just wondering, will your financial investments, and I guess, sort of 2-parter here, just talk about maybe what type of financial investments you see in your carbon capture. And initially there was other clean energy because you seem to have an advantage, especially out there in the Perm on some others. And really, my main question around that is, will the funds that you spend on that, is that going to influence what you're able to spend on either -- on some of the upstream? Or are they too sort of independent there?

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

No. Our low carbon strategy is very connected to our CO2 enhanced oil recovery projects. And as we have mentioned before, we started working on this low carbon strategy because we wanted a more sustainable source for CO2 and a lower-cost CO2 for our enhanced oil recovery.

Where we're positioned today is incredibly exciting because in the Permian Basin, we have such a footprint of not only reservoirs, pore space and resources, we have the processing plants. We have the pipelines and all of that necessary to further accelerate development of additional 2 billion barrels in our conventional reservoirs. And this, we haven't even been able to calculate yet what we could get from CO2-enhanced oil recovery in the shale.

But doing that in the Permian, doing that in the DJ Basin and the Powder River, that sets us up for decades to come of generating new reserves and production from existing reservoirs. And so really, it's tied to that. It's tied to being able to create value for our shareholders through the extended production of more reserves than what can typically be produced out of conventional or unconventional resources.

For example, in conventional reservoirs, with CO2, you can get up to 70% or better recovery. And whereas with just primary development, normally, you get 20% to 25% at most. So we can get better than 70% with CO2 flooding. In the unconventional where most companies will tell you that you'll get, at most, 10% to 12% recovery of the hydrocarbons from the shale play, but with CO2-enhanced oil recovery, we've tested it, we've run 4 pilots, and we now know that we can potentially get 75% additional recovery or maybe even double it.

So we're sitting in a position now where we have a significant amount of future potential development. And we have it in the areas where we operate, the areas where we already have the infrastructure. So as we go forward, our incremental production and recoveries are just going to continue to be at lower and lower cost beyond the point where we were able to get these direct air capture facilities built.

But what's also going to help us there, too, and help further lower cost is executing on our NET Power technology, which we're also an equity investor in. NET Power is a process that generates a lower cost of electricity by combusting hydrocarbons with oxygen, and it therefore spits off a pure stream of CO2 that -- and no other emissions. So we can take that CO2 and use it in our reservoirs. So it's essentially a lower-cost, emission-free electrical generation process for us.

So we have a lot of ways as we go forward, and this is why we're incredibly excited, a lot of ways to get more oil out of the ground for lower cost. And so as we go forward, our cost structure will continue to decrease, not just from the debt reduction that Rob has talked about, but from the actual development and operations in the field.

And in addition to that, we will be able to provide aviation and maritime industries with a net carbon zero oil. So we're going to be the solution for actually aviation and maritime, and that's why United wanted to join with us on building this first direct air capture facility. So it's exciting for us.

Sorry, if I'm talking too long on this. I'll stop here and see if you have anything else to ask, but it's exciting for us. And we're really looking forward to being able to talk more about this. And as I said in my script, we can't yet because we're in the middle of some processes and some discussions and interactions with others. But we hope that in the fall or close to the end of the year, we will be able to share more about it and get you a model that you'll be able to see and understand at that point.

Operator

The next question will come from Doug Leggate with Bank of America.

Doug Leggate ***BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research***

Rob, I hate to speak on the cash breakeven question, but I want to go over the math with you real quick. $1.6 billion of free cash, obviously, before working capital. Annualized is $6.4 billion. $215 million per dollar is $30, and the average WTI price in Q1 was $57.61. So how do you get mid-30s? Even if I add back the Pref, that still only gets you to low 30s. What am I missing?

Rob Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

So I think that part of what is missing from that is certainly the CapEx and then also where, I would say the chemicals, their performance in Q1, as you can see in the guidance, is sustained throughout the year. The midstream inclusion in Q1 is more of a onetime event associated with winter storm Uri. So I think it's part of annualizing the Q1 numbers. That's what I would modify your analysis by.

Doug Leggate ***BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research***

I realize they're not repeatable, but still, delta is about $7. Okay. I'll take it offline. My follow-up is, Vicki, I guess it's a regular question every quarter. The disposal update, a little bit more progress this time, but still a long way to go to get to the $2 billion to $3 billion. Can you give us any color on timing and visibility at this point?

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Yes. I would say that if I include the unsolicited offers that we've gotten, we currently have offers in hand that would get us well above the $2 billion minimum target. However, in this environment, we expect to -- that we would -- we'll meet the $2 billion. But whether or not we go above the $2 billion really depends on how the macro continues to look for us. And then everything that we're getting in and every divestiture that we have the potential to do, we always want to evaluate what it delivers for us versus what the cash flow in the future would generate.

So it's a value proposition for us. And it's also ensuring that -- the other part of the consideration is making sure that we have enough cash flow to meet our debt maturities and even to go beyond that to, as Rob was saying, to deal with the interest rate swaps and some other minor costs that we have. So it's all about lowering our cost structure, making sure that we maximize our higher-margin cash flow, keep that intact.

So we still have Ghana -- we have not announced any others that we have, but we do have a couple of -- several things actually in process, a couple that are higher priorities for us to do. One is Ghana, as we've talked about it before. But because we have several processes running now, we feel comfortable that we'll get to the $2 billion. And then going beyond that, it's really going to be a preference based on -- and a decision based on the valuation.

Operator

The next question will come from Neil Mehta with Goldman Sachs.

Neil Mehta ***Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst***

I just wanted to build on the cash flow questions from the quarter. Can you just walk us through again why the cash flow -- working capital number was so large? And then how should we think about the reversal? A lot of this just sounds like timing stuff, and certainly export barrels will eventually hit their final destination. So I would think a lot would come back, but just walk us through that.

Rob Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Yes. Sure, Neil. Happy to do that for you. So if you look at a typical first quarter, we would historically see a somewhat significant draw in the first quarter because of the -- but it was certainly more sizable in the first quarter of this year.

When you go back to 2018, Q1 draw of about $700 million. In 2019, it was about $900 million. And for the opposite reasons for this quarter 2020, it was about $200 million draw because with price going the opposite direction, obviously, in March when the pandemic hit and with the price wars going on. So regardless, the $1.3 billion draw we experienced in the first quarter does and is exceptionally large. The majority of that was driven by the change in commodity prices. It was the timing difference between revenue recognition and cash received.

So at the end of 2020, WTI was about $48 a barrel, and it was $61 a barrel at the end of March. And so this price increase of 30% impacts both our AR balances and our inventory significantly, especially when you consider our midstream business and how many barrels are on the water at any given point in time. And even that's a bit exacerbated because we discussed a bit last time that Europe essentially has been shut down a significant cargoes of oil from the Gulf since the third quarter of last year. And as a result, we've had to change our mix or portfolio of export shipments, which are now, for the most part, heavily weighted to -- it's not exclusively weighted to shipments to Asia, which is longer voyages, more crude on the water longer because of the transit times.

And then obviously, compared to other years, we have a pretty modest capital budget. And so we're not creating a significant amount of payables or capital spending. And so when you look at it, it's a combination of the price impacts, coupled with all those first quarter events like the financial interest payments, the payments for property taxes, we made a significant contribution to the APC pension plan during the first quarter, and then -- so we put it all together, we do expect, as you pointed out, as receivables start to come in, that some of that will reverse as the year goes on.

Neil Mehta ***Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst***

Is it fair to assume Q2 should be a decent working cash -- working capital cash inflow, all else equal then?

Rob Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Again, it depends largely on what happen to the price going into the second quarter also. But we would expect it to.

Neil Mehta ***Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst***

And the follow-up is just on the chemicals business. Obviously, margins are really strong, so just get your guys a big picture view of where we are in the chemical cycle and how your business fits into that?

Rob Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Yes. So absolutely, nothing happy to do than talk about our chemical business, which had an excellent start to the year. When you look at the chemical business, it has both some impacts from winter storm Uri, to some extent, but also because how winter storm Uri impacted the overall business itself.

And so chlor-alkali production struggled significantly in March post storm. If you think about Uri, it had a much wider impact than any individual hurricane we had in the past. And so you still have a lot of inspections, et cetera, going on, restarts going in the month of March. And that has extended into after a very difficult hurricane season last year. And so going into the end of 2020, we already had a pretty tight supply-demand balance in the second half of the year. And that was coupled with a pretty significant amount of demand. As you know, building products are in very high demand right now. So our PVC demand and margins were significant already going into the year.

And so if you look at our operating rates as an industry, they're only about 71.5% for the first quarter of '21, whereas last year, they were 89%. And so the combination of the stronger demand, coupled with the production off-line to start the year, has already tightened up an already tight supply-demand balance.

And so in the case of PVC, construction investment is very strong. Demand is expected to remain strong, with the housing starts outlook, low mortgage rates, a lot of emphasis on remodeling, et cetera, right now that is driving PVC demand. So PVC demand domestically is up almost 5% compared to the same period in 2020, which drives down the amount of PVC that's actually being exported. And exports were actually down about 30% compared to the same period last year.

And so with resin tight in the domestic market, we're able to expand margins, just like we would in our commodity under a tight supply-demand balance. And then what we're seeing in the caustic soda business is whereas previously when we guided, we anticipated to start -- we're seeing caustic soda bottom, and we thought we would start to see improvements in the second half of the year, Uri has pulled that forward a bit. And so now we're seeing caustic soda prices improve in the second quarter as we move forward. So we're just getting more of that as the year goes on. And so we're expecting not only continued high margins in the PVC business and resilient demand through the balance of the year as construction continues to pull. I mean, PVC's really different. We're seeing prices of wood and everything else. We'll also see caustic soda benefit from that process at all.

And as Vicki mentioned, Oxy's significant amount of other derivatives beyond just PVC that we sell gives the company a lot more variability in the molecules that it can sell, produce additional caustic soda and produce additional value in other parts of the chlorine chain, which is going to expand our ability to increase the value delivered by the business. I just -- it's the reason why we talk about how much value is locked in the chemical business and why when people talk to us about the chemical business a lot of times and why we don't see something different with it is because it's just hard for people to grasp with a small commodity chemical business that can turn out these types of cash flow on this asset base. And it's really -- it's a remarkable business.

Operator

The next question will come from Jeanine Wai with Barclays.

Jeanine Wai ***Barclays Bank PLC, Research Division - Research Analyst***

My first question probably maybe for Rob. I just want to make sure I heard your comments right in the prepared remarks. So getting down to the mid-$20 billion range on gross debt, that's where you think you need to be to hit IG status at mid-cycle prices. And I think ultimately, that's an important goal for you all. So about $10 billion more to go from there. Can you just remind us what your view of mid-cycle prices are at this point? And how does this jive with your prior target of 3x leverage as the trigger for growth, which I think was also at mid-cycle prices?

Rob Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Yes. It's around the $50 range. And if you look at the price decks that are being used by a lot of rate agencies, they're in the high 40s right now to look to close to $50. They're not -- so they don't move their price decks with the current environment of being in the mid- to high -- low 60s. And so that makes a significant difference on where that breakeven location is at.

And so is it exactly $10 billion? Obviously, there's a lot of different things to factor, as I indicated in my remarks, but it's somewhere in the neighborhood of that. It's somewhere -- other things will go into that. It could mitigate it to be a little higher than that would be possible or even a little lower than that. But obviously, there's a lot of things that go into it, but it's somewhere in that range.

So even though that you can probably move forward and get pretty close to that or lower that 3x in your model for the second half of the year. But by the end of the year, based on -- if current oil prices were to continue, it's not that price deck that we're going to be considered for investment-grade.

Jeanine Wai ***Barclays Bank PLC, Research Division - Research Analyst***

Okay. Got it. So in terms of the moving pieces on -- my follow-up is in terms of the moving pieces on the medium-term goals, there's a few, there's sustainable dividend, there's growth capital. Now we kind of have a bogey roughly on gross debt. So how do we think of the trade-off for all of those things? And it will take some time to reduce the debt. We've got the preferreds, but you do have like very healthy oil prices as well as asset sales that are coming in. So I'm just kind of wondering, when we're looking at our free cash flow profile and the new debt targets, when we can kind of revisit the growth conversation versus the dividend and paying off other things?

Rob Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Yes. So Jeanine, I would say that, obviously, as with Vicki's remarks, we're squarely focused on the leverage reduction right now and looking at opportunity to get down to that investment-grade type level. Embodied in that is going to be using the proceeds, both from the free cash flow from the business, using the proceeds from divestitures that take place and combine those 2 things together to reduce the cost -- what we have outstanding. And that can be through a host of different things, as I discussed on remarks, between what we're evaluating near term on the ability to put that cash to work to reduce debt.

That conversation will eventually rotate over into medium-term priorities, focusing on the dividend. But we haven't established a policy on what the dividend might look like. It's going to need to be sustainable, as we've indicated in our priorities. So it could be a combination of something that's fixed and some variable component. We haven't decided on that at this point. But that conversation will come at the -- after we made more progress on our debt reduction.

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

I would just add to that. We have this great production profile right now. And with the production profile that we have, the chemicals business supporting it, that what we're really focused on is margin expansion. We have lots of opportunity for that, and that's what we're most excited about. So there will be continuing shareholder value growth through margin expansion.

Operator

The next question will come from Devin McDermott with Morgan Stanley.

Devin McDermott ***Morgan Stanley, Research Division - VP, Commodity Strategist for Power Markets & Equity Analyst of Power and Utilities Research Team***

So my first one kind of builds actually on that last point, Vicki, on margin expansion and just the comments you had in the prepared remarks as well on cost reductions. You had said that you were able to identify some cost-reduction opportunities in the quarter that offset some of the winter storm impacts. I was wondering if you could comment just whether that was deferrals or more structural reductions?

And then as part of that, as we think about the margin expansion opportunities going forward, are you still identifying things like upside with contribution from the Anadarko transaction? Or maybe said another way, is there still more room to run on reducing the cost structure here? And what are some of the levers to drive that cost structure down?

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Yes, you're right. There's more opportunities to continue to reduce our cost structure in both capital and OpEx. And one example I'll give is we went back recently and took a look at our drilling performance between 2015 up through what we're doing in 2021. And I can tell you, we rolled out our physics and logistics space, Oxy Drilling Dynamics in our domestic operations in 2015 and then rolled it out internationally in late 2016.

And I think I said before, we haven't seen an area where we've rolled this out that we haven't had about a 20% to 30% reduction in our cost. And the exciting thing in looking at our data today is we've decreased our drilling cost from $200 a foot back in 2015 to $135 a foot in 2021 for our global drilling. That's everything around the world.

And so we've individually pointed out the performance improvements in the Permian, but we've not only seen it in the Permian. We've seen it in the DJ, in the Powder River. And now Oman is seeing a lot of good things happening there by using this process, and it's proprietary to us. We developed it.

So it's making a difference. We've also started deploying it to the Gulf of Mexico and seeing some good things there that we'll be able to quantify and report on here in the near future.

So it's drilling. On the drilling side, it's still -- and I will say before I leave drilling, some people might say that you probably got all that and right now, we're not improving. From 2019 to 2020, even in the downturn, we improved by 14% what we were doing there. So there's -- the improvement is happening even today. So far this year, we've improved by about 4% only 1 quarter into it. This is as we were picking up rigs. So this is -- what we're doing there is working. But also on the completion side, we're still setting records for how many fracs we can do in a 24-hour period, and so that's improving.

The other thing we're seeing is that our Permian team, every one of them actually is continuing to work on the subsurface model. And this has been a point of extreme emphasis for us because of the variation in the shale play. So we started really enhancing our subsurface expertise about 6 or 7 years ago and working hard to get that to where we needed it to be.

We have some incredible people in-house that now do that work. And what we've learned in the shale play, we've extended also to looking at conventional and to doing more with seismic. And part of that was driven by the good efforts that the Anadarko staff had accomplished and achieved with some of the 3D seismic. And our team, some of our domestic people started looking at how others were doing things and taking what others are doing and made it better.

So every phase of what we're doing, we're trying to do better. And we're seeing still continuing improvement. Oman is using what they call an Oxy jetting system where in existing wells, they can go in and jet with a process that ensures maximum contact with the reservoir through each phase of the jetting process, both in vertical and horizontal wells. That's delivering better recovery from the existing reservoirs, too. And to me, the more you can get out of the reservoir that you've developed, the better off you are and even better when you can go back into existing wells and get more out of those.

So I'm quite confident that we will continue on both the OpEx side and the drilling side, completion side and facilities to continue to lower our cost. Our teams are driven to do it and did it even during this pandemic and did it in a big way.

So I think in New Mexico, in several of the areas that they worked really hard there, they lowered our breakeven on some of those areas by $10 a barrel. So all of that's incredibly encouraging for what we have going forward, considering the footprint that we have in the areas that we know the best.

Rob Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

And I think I'd just add to that. I mean, it's just -- I think that when you hear about all the exciting things underlying the business that Vicki talks about, and I know externally that the thesis of paying down debt seems incredibly boring for an external thesis. That's part of the reason why we're working so hard and committed to this and getting it behind us, so that, truly, that we can focus on the story of the company being beyond that, and what is going to be.

We do fully expect that when debt goes down, it will translate into equity value, in the total enterprise value, which is good for our shareholders. But we understand that talking about reducing debt doesn't seem to totally exciting. But there's something exciting going on. And at times, we miss the fact of all the great things that we continue to break through what we thought was the best we could do before, we've beat it successively since the acquisition.

Devin McDermott ***Morgan Stanley, Research Division - VP, Commodity Strategist for Power Markets & Equity Analyst of Power and Utilities Research Team***

Yes. No, that all definitely makes a lot of sense. And I think the progress forward and line of sight on the debt reduction is definitely a good story as well.

And maybe then shifting focus to some of the other initiatives. I know carbon capture and low carbon, you spoke a few times already, but I have one follow-up there. As we think about the milestones from here to reaching FID on some of these potential projects, including the direct air capture project in the Permian, can you just walk us through what's remaining there? It sounds like policy and financing isn't one of the milestones at this point. But what are we looking for in order to bring that project to fruition?

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Well, the big step was to select our engineering and construction partner. We did. That's Worley. So the FEED process is ongoing now, front-end engineering. So we're working that now. We expect to have FID early next year and start construction by the end of next year.

So I don't see that there would be anything, barring some weird macro thing happen to us, that would change our schedule right now. Our teams are -- what they have done, our major projects team led by Ken Dillon, along with Worley, they've put together a sub team that as the front-end engineering is happening, they're looking for ways to -- already ways to optimize the designs as they're in progress.

And so I'm really excited that the first one, I believe, is going to be surprising to some people in terms of its design and how we're going to be able to build it. There are some things already in process around deciding how do you do this at a faster pace and on a larger scale as we go forward. Some of that work is in place. But I do expect that there's -- that we will begin construction at the end of next year. And I don't see anything in the way of stopping that right now.

Operator

The next question will come from Leo Mariani with KeyBanc.

Leo Mariani ***KeyBanc Capital Markets Inc., Research Division - Analyst***

Guys, wanted to hear, it looks like your first quarter CapEx did come in quite a bit below expectations. And if you just annualize that number, it looks like it's quite a bit below budget on the year. Just wanted to get a sense, what was driving the lower first quarter CapEx? And just wasn't sure if maybe there were some costs or some expenditures that shifted from 1Q into other quarters? And kind of how you guys are feeling about this $2.9 billion budget?

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Part of it was driven by the ramp-up, and we will have our highest spend capital quarter next quarter. So if you average the 2, it's going to -- that's going to be -- first half spending will be about the same as second half spending, maybe slightly less.

But generally speaking, mover parts, this is a part of the start-up process. And then we had a little bit of a delay on some of our activities as a result of the storms. So some things moved from Q1 into Q2.

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

Yes. Certainly...

Leo Mariani ***KeyBanc Capital Markets Inc., Research Division - Analyst***

Okay. That's very clear.

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

Look, what Vicki said when she said next quarter, Q2 would be our highest.

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Yes.

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

Highest spend. And you can see that with Permian, where we only spent a couple of hundred million in the first quarter of its $1.2 billion. So you can definitely see that.

Leo Mariani ***KeyBanc Capital Markets Inc., Research Division - Analyst***

Okay. That's very clear. And then just a question on the Midstream for the year. Obviously, a very strong first quarter. You guys enumerated some of the reasons why in the press release and in the prepared comments. But just looking at your second quarter Midstream guide, obviously, you're expecting a loss. When I look at it, it's not a big loss, kind of a small one. If I just add kind of the first quarter benefit, the second quarter loss, you're expecting, let's call it, roughly breakeven.

When I look at your full year Midstream guidance, you're still expecting a very large loss, kind of implying significant loss in the second half of '21. Can you kind of just explain a little bit the dynamic there in terms of what you might be expecting later this year?

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

Sure, Leo. I think if I understand what you're saying, if you look at the first quarter, we beat our guide by $234 million. And then we raised the full year outlook $200 million. So basically, last quarter to this quarter, we're expecting a deterioration of about $34 million on the remaining 3 quarters.

And basically, what's driving that is our view on gas differentials and on our oil export differentials. So if you look at -- and I think we talked about this a bit before, when differentials collapse, that helps our upstream business because realizations get better, but it hurts our midstream business. And so that's the piece you have going on. So most of the benefit of the Q1 rolls through to the year, and then you get a little bit of change for the remaining quarters, primarily driven by that differential collapsing.

Operator

The next question will come from Raphael DuBois with Societe Generale.

Raphaël DuBois ***Societe Generale Cross Asset Research - Equity Analyst***

It's about the DAC plant that you intend to FID. You mentioned a couple of conf calls ago that you will benefit through OxyChem. Can you maybe share with us how -- what quantity of caustic soda will be required for this very first plant? And looking forward, do you think it could be any issue to access caustic soda to deploy this technology?

Rob Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Vicki and I can kind of tag team this a little bit. But I would say -- so first of all, the working fluid and the direct air capture unit is caustic potash, not caustic soda. So it's KOH, not NaOH, but we haven't disclosed utilization or what that first fill volume might be or like the first direct air capture unit moving forward.

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Yes. Just to repeat, we're still in the engineering phase of that and still optimizing it. So we probably would not have that information until the end of this year.

Rob Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Another thing I would mention to you is the other piece is the majority of the infrastructure inside the actual direct air capture unit is also PVC, which obviously, there's a synergy with the OxyChem business on the amount of PVC that goes inside the direct air capture unit.

Operator

The next question will come from Paul Cheng with Scotiabank.

Paul Cheng ***Scotiabank Global Banking and Markets, Research Division - Analyst***

Looking in Permian, I think one of your competitors talking about they're going to move more into the 3 miles wells. Just curious that in your plan, is that something that you guys were trying to do or that you don't think is suitable for you?

And also, your talk about on the CO2 spotting in the unconventional side. So when we're looking at your prospect inventory, what percentage of your inventory that you think is applicable in here? So that's the first question.

The second question is that at some point that you would bring down your debt and once you reach that mid-$20 billion range, what's the objective for your Oman, Algeria and Gulf of Mexico operation? Is that still trying to just maintain the production relatively steady? Or are you trying to grow over there?

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Paul, could you just clarify for me? When you were asking the first question, you mentioned that our competitors are doing something. And then you were asking if we were doing the same. Could you clarify what that was again?

Paul Cheng ***Scotiabank Global Banking and Markets, Research Division - Analyst***

At least one of your competitors is talking about they are drilling the lateral length, that 3 miles or 15,000 feet well. So just curious that given your position, is that something you guys found that is capital-efficient and productive for use to push for the 3 miles? Or that you don't think it's applicable to you?

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

I think that it's always important to not put yourself into a box to think that 5,000 feet's the right answer, 10,000 feet's the right answer. I really think that in all cases, you should do an engineering model. You should really look at what is the right design for maximizing recovery from the wells, and what does your acreage position allow? And what are the risk of drilling the 3 miles versus 1 mile or 10,000 feet?

So I think that there are cases where there may be situations and scenarios where longer lateral than 10,000. In fact, we drilled 15,000 ourselves. We did at least 1 or 2 of those. And we've drilled more than 10,000. In other cases, they didn't go all the way to the 15,000, but I think it really depends on the reservoir and all the things that you have to take into consideration against your acreage position, your full field development plan, how you intend to complete it, how you intend to -- what kind of artificial lift you intend to use.

So there are a lot of variables involved. But I wouldn't -- I certainly wouldn't say that we would never consider doing our 15,000-foot wells again. It's always under evaluation, not only in the Permian, but anywhere we drill horizontal wells. So we wouldn't rule it out.

And with respect to CO2, we expect to use in both the conventional and the unconventional. And in the conventional alone, there's 2 billion barrels of additional resources that could be developed with what we expect to be much lower or no cost CO2 in the future. And the enhanced oil recovery of the shale as well. So we're excited about that.

Operator

In the interest of time, this concludes our question-and-answer session. I would like to turn the conference back over to Vicki Hollub for any closing remarks. Please go ahead, ma'am.

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

I just want to thank you all for your participation and your questions today. Thank you,and have a great day.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.