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PRESENTATION

Operator

Good morning, and welcome to the Occidental's Fourth Quarter 2019 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.

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

Thank you, Alyssa. Good morning, everyone, and thank you for participating in Occidental Petroleum's Fourth Quarter 2019 Conference Call. On the call with us today are Vicki Hollub, President and Chief Executive officer; Cedric Burgher, Senior Vice President and Chief Financial Officer; Ken Dillon, President, International Oil and Gas Operations; B.J. Hebert, President of Oxychem; and Oscar Brown, Senior Vice President, Strategy, Business Development and Integrated Supply. 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 A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Thank you, Jeff, and good morning, everyone. The integration of our business into one cohesive Oxy is progressing extremely well. We are ahead of schedule to fully capture value from our $2 billion synergy program. We have repaid approximately 1/3 of our debt related to the acquisition, and we have the best people in place to leverage our superior assets to deliver outstanding operational results.

As many of you may know, 2020 marks Oxy's 100-year anniversary. Success over Oxy's first century was driven by technical expertise, the ability to adapt quickly and our ceaseless drive to lead our industry forward through innovative problem solving. These same attributes, combined with our unique and defining approach to sustainability in a low-carbon world, will be integral to ensuring our leadership and success over the next 100 years.

Before I touch on the fourth quarter and value-capture progress, I'd like to thank our remarkable employees who continue to work hard and responsibly deliver excellent results, whether their focus is on drilling the best wells with industry-leading capital intensity, operating our chemical plants efficiently, maximizing product margins or delivering on our value capture and deleveraging targets. Our teams continue to lead with passion to drive positive results.

Every day, our people demonstrate that they are exceptional at what they do, while achieving the best safety performance in our history.

Moving to Slide 3. As an innovative and sustainable energy leader, we intend to be at the forefront of our industry. The opportunity before us is immense, and our teams are energized and ready for the challenge. Our technical expertise, particularly in subsurface characterization is a competitive advantage that allows us to maximize the value of our assets. All of our core assets are free-cash-flow positive and maintain dominant positions in the prolific basins or markets in which we operate.

Our focused portfolio includes multiple decades of high-return short-to-medium cycle development opportunities with primary, secondary and tertiary recovery options. The short cycle, high-return nature of our unconventional assets, combined with our low-decline conventional assets provide the flexibility to allocate capital to maximize cash margins, especially when taking into account our advantaged midstream position.

Leading the industry as the low-cost operator has always been important to us as this metric will become progressively relevant in the years ahead. As secondary and tertiary methods become more attractive in recovering additional barrels from basins currently and primary recovery, our advanced technical excellence and decades of industry leadership in CO2 enhanced oil recovery position us to be the lowest-cost operator across multiple basins.

As the assets we acquired are developed, we will utilize our subsurface and operating expertise to improve productivity and reduce full-cycle cost. Our diversified portfolio with decades of high-return inventory and our ability to produce high-margin barrels, enables us to generate sustainable free cash flow to return to our shareholders, foremost, in the form of our dividend, which is one of the defining characteristics of our company. As an innovative and sustainable leader, Oxy must boldly drive improvement on all fronts, including reducing emissions. Our commitment to sustainability is woven into the fabric of our organization. I'm proud that we were the first U.S.-headquartered oil and gas company to endorse the World Bank's initiative to reduce routine flaring globally. This important effort is fully aligned with our strategic commitments.

We plan for the future through the lens of being a best-in-class operator with an unmatched portfolio of assets and the goal of reducing our greenhouse emissions while executing our strategy to excel in a low-carbon world.

Now moving to Slide 5. The fourth quarter was our first full quarter as a combined company, and we continued to demonstrate our position as a best-in-class operator. Our businesses outperformed across the board. Our production of 1.4 million BOE per day from continuing operations exceeded the midpoint of guidance by 78,000 BOE per day. We accomplished this while spending $400 million less than our full year combined company capital budget of $8.6 billion. This demonstrates that our long-standing commitment to capital discipline remains paramount.

Pro forma production for full year 2019 also exceeded guidance by 28,000 BOE per day. And we expect to grow production by 2% in 2020 off this higher base, and we've lowered our already reduced 2020 capital budget by another $100 million. Spending less to produce more barrels demonstrates our industry-leading capital intensity and the value we will create for shareholders. That said, as global commodity prices have declined sharply in recent days, we are prepared to reduce our spending if the current environment does not improve. We are monitoring the situation closely and retain the flexibility to adjust our budget if needed.

We continue to execute on our divestiture program. In January, we closed the sale of our South Africa block to Total for net proceeds of approximately $90 million. This follows the close of an aggregate of $1.5 billion in divestitures in the fourth quarter. We applied the proceeds from these asset sales and $500 million of free cash flow to repay $2 billion of debt, and we recently announced our 182nd consecutive quarterly dividend, an outstanding record that few other companies can claim. Returning cash to shareholders through our sector-leading dividend is an integral part of our philosophy.

In the fourth quarter, we returned approximately $710 million of cash, an amount we fully expect to continue to grow.

Moving now to Slide 6. We continue to perform -- outperform expectations and capturing value through synergies. Since closing the acquisition and on a run-rate basis, we have completed 60% of our $2 billion synergy target since closing the acquisition, including $799 million of overhead synergies, $83 million of operating synergies and $323 million of capital synergies. We expect that our success in lowering cost will enable us to fully achieve our $900 million overhead synergy target in 2020, a year earlier than originally promised.

We also have announced divestitures totaling $10.2 billion net of taxes since closing the acquisition, demonstrating significant progress towards achieving our target of $15 billion. We repaid 32% of the debt raised for the Anadarko acquisition with proceeds from the divestitures closed to date, along with the $500 million in free cash flow that I referenced earlier.

Our total balance sheet debt has decreased by approximately 30% since the close. We repaid $7 billion of debt in the second half of 2019 and have a clear line of sight on closing the remaining transactions necessary to meet our divestiture target.

Operationally, our achievements are as significant as our cost reductions with the potential to accomplish much more.

Moving now to Slide 7. As an example, let's look at what we have accomplished on the legacy Anadarko, Texas Delaware acreage. We are recovering more barrels per section with fewer wells and are lowering cost by applying our unique subsurface capability and development approach. Similar to the advancements we made on legacy Oxy Delaware acreage.

Already, we have drilled a record well in the Silvertip area, showcasing our ability as a premier operator in the Permian Basin. We are enhancing our best-in-class Permian capital intensity by continuously improving time to market.

We drilled our first five 10,000 foot wells in Silvertip, 18% faster than those drilled prior to closing the deal, and this is just the start. We have many more improvements to implement. We are already saving $1.9 million per well completion by utilizing Oxy's advanced Atlas casing design. We're able to pump frac stages, particularly at the toe of the well at much higher rates with lower treating pressures. Our completion design produces improved stimulation, faster pump times and uses significantly less water.

Put simply, when including the optimized well count, we are spending 26% less in total capital to recover 7% more oil. Oxy's asset operability is unmatched and has greatly improved across the acquired assets by applying our base management expertise and best practices.

Our relentless drive for efficiency has reduced production downtime by 22% on the acquired Delaware Basin acreage. We're also seeing downtime improvements across many of the other acquired assets, which is further improving cash flow and value.

Additionally, we are working diligently with our partners and leaseholders to significantly reduce obligation wells and short laterals, allowing us to maximize value by focusing near-term activity on long-term development in our core areas.

As we had committed to do, Slide 8 shows the measures we'll update each quarter to track the success of our progress. We have created a company with ample opportunities to efficiently allocate capital from a position of strength across the portfolio with sector-leading returns. We have made significant progress in divesting assets, reducing debt and capturing synergies. As part of our commitment to creating long-term value for our shareholders, we will continue to reduce debt, strengthen our balance sheet and enhance our ability to return even more cash to shareholders.

I'll now hand the call over to Cedric, who will walk you through our financial results and guidance.

Cedric W. Burgher ***Occidental Petroleum Corporation - Senior VP & CFO***

Thank you, Vicki. I'm also very pleased with how well our integration is proceeding. Completing our value capture program ahead of schedule is well within hand. And as Vicki mentioned, our teams are delivering outstanding operational results. As our integration progresses, we remain steadfast in our commitment to capital discipline and returning capital to shareholders.

We demonstrated our ability to excel operationally in 2019, while spending $400 million less than our combined capital budget of $8.6 billion and lowered our operating costs on a BOE basis. Our capital intensity and value-capture advancements have enabled us to lower our 2020 capital budget by $100 million to $5.2 billion to $5.4 billion for the year.

Since closing the Anadarko acquisition, we have strengthened our balance sheet by repaying 32% of the new debt raised, and we will continue deleveraging as additional divestiture transactions are closed. We have already achieved 60% of annual run-rate synergies, and

I am confident that our 2020 financials will illustrate the progress we are making.

In 2020, we expect to fully capture $900 million of overhead savings, meeting our target a year earlier than originally stated. Furthermore, we expect to capture more than 75% of our operating and capital synergies this year. In 2020, we remain focused on maintaining our dividend by optimizing free cash flow and operating in a capital-efficient manner.

We have implemented a significant oil hedging program for 2020, encompassing 350,000 barrels per day, which represents over 45% of our oil production. This will enhance cash flow in a low oil price environment. As we have previously mentioned, it will be a transition period before our financial results fully reflect our rapidly improving operational performance and synergy realizations.

In the fourth quarter, we announced an adjusted loss of $0.30 per diluted share and reported a loss of $1.50 per diluted share. The difference between adjusted and reported results is mainly due to a $1 billion loss reflecting Occidental's equity investment in WES at fair value on December 31 as well as $656 million of costs related to the acquisition.

Turning to our business segments. Oil and gas adjusted fourth quarter income of $630 million represented an increase compared to the prior quarter, primarily due to a full quarter of production from the legacy Anadarko assets, and partially offset by lower international crude oil volumes as our contracts in Qatar terminated in early October.

OxyChem surpassed guidance with fourth quarter income of $119 million despite scheduled plant outages and softer overall demand, which lowered production and sales volumes across many product lines. Marketing and Midstream's adjusted fourth quarter income of $200 million, which includes WES, decreased compared to the third quarter due to noncash mark-to-market losses, the tightening of the Midland to MEH differential and lower equity investment income due to the sale of our Plains units in the third quarter.

For the fourth quarter of 2019, we reported a balance sheet without consolidating WES. Starting in the first quarter of 2020, we will present our full financial statements without consolidating WES.

For the first quarter and full year 2020, we have provided guidance, which includes annual production growth of 2%. First quarter production guidance reflects planned downturn -- planned turnarounds at Dolphin and Al Hosn as well as the timing effects of several large pad developments in the Permian Resources.

As we continue to reduce debt in 2020 by applying asset divestiture proceeds and free cash flow, we will update the debt reduction tracker in our earnings presentation, so investors can see our progress towards our divestiture target of $15 billion net of taxes and in deleveraging.

I look forward to providing future updates on our progress. I'll now turn the call back over to Vicki.

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

As Cedric said, we will provide updates over the next few quarters as our continuing improvements and enhancements become increasingly evident. For decades, Oxy has proven its ability to innovatively recover more hydrocarbons from reservoirs. We have the technical expertise to operate and develop our unique portfolio of high-quality, short-to-medium cycle assets that are perfectly positioned to ensure we will maintain our leadership as a low-cost operator.

This strengthens our ability to continue our long and steady track record of returning excess cash to shareholders. This, combined with our differentiated low-carbon strategy will ensure our success and sustainability into the future. We'll now open the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

The first question today comes from Doug Leggate of Bank of America.

Douglas George Blyth Leggate ***BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research***

Vicki, I've got 2 questions, if I may. The first one is on disposal progress. Obviously, there is a fairly significant macro change underway right now. I'm just wondering, your November 14 press release suggested line of sight to the upper end of your $15 billion target by the middle of this year.

So I'm just wondering if you can give us any color or confidence to reiterate that timeline and that target. Any color on the associated assets? And specifically, an update on Algeria and Ghana, where there seems to be some mixed news on whether the buyer is still -- has the appetite for those assets.

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

Okay, Doug, I'll let Oscar actually give a full update on our divestitures.

Oscar K. Brown ***Occidental Petroleum Corporation - SVP of Corporate Strategy & Development***

Great. Thanks, Vicki. Doug, so regarding -- we'll start with Africa. Regarding Africa, of course, we continue to work with Total and the governments of Ghana and Algeria towards a positive resolution of the divestitures. So there is an increased risk, as you point out, associated with both timing and closing certainty, so that's become clear. We'll report more when we have something more substantial to talk about.

And just to be clear, it's hard to comment beyond what's public already. In Africa, as again, we remain bound by our definitive agreement with Total around these assets, but we're also cognizant that these assets, to these countries are very important to them and their interest in retaining foreign investment is very sensitive in -- to all their constituents. So we want to be careful with that. But a couple of things I think I can say. As you probably know, the assets in Ghana and Algeria are very high quality, produce significant cash flow and we've used that to pay down debt as well.

In the case of Algeria, the -- I guess, the one thing I can observe, which is obvious, is that since our -- the announcement of our deal with Total, Algeria has voted in a new president, has brought in a new administration. So that situation, in particular, is pretty fluid. So as we -- if you look at all that, we continue to run numerous sales processes as our commitment to hit the $15 billion of asset sales hasn't changed, and that is something we'll hit with or without the remaining Africa divestitures.

So a great example that's come up again, we really like to keep these processes private. We found that's the best way to protect value, but another asset sale, as an example, to address your broader question that is in the press is the land grant. So that asset is primarily in Wyoming. There's been some press on that. It has over 1 million surface acres and over 4 million mineral acres and includes revenues from producing royalties, primarily from trona, but also from oil and gas, coal, other hard minerals and surface use, such as wind farms and grazing and so forth.

So while the state is clearly communicated a lot of interest in this asset. It is a competitive process, and there's a large number of qualified participants in that. And the winner of that asset will be one of the largest land and mineral owners in the United States. So that's an example, again. We don't want to list off a whole lot of other ideas and other things that we're actually pursuing. But we do think -- we do -- we're going to get to our $15 billion.

And everything we do, it's really important, too. As it relates to timing, we're focused on value. And we understand in this market environment, our timeline may need to be a little flexible to protect that value. But we still stick by our original announcement, original schedule we committed back at the announcement of the Anadarko deal. 12 to 24 months to get these transactions done from closing. We're about 8 months in since the acquisition, and I remain confident we'll get to the $15 billion within the original time frame.

So again, we're focused on value. We're focused on certainty of closing in terms of dealing with counterparts and all of our divestitures. We're still confident because, look, we've got -- as we've mentioned, over $100 billion of assets in our portfolio. We've got a good team and a good track record of success. So hopefully, that helps give a little color.

Douglas George Blyth Leggate ***BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research***

That's very thorough. My follow-up, Vicki, is really just on the synergy number. And first of all, pretty rapid progress on getting the operational synergies done. I know it's only, I guess, Oscar said 8 months in. But I can't help but ask, well, you're -- you've obviously done it quicker. I'm wondering if you're seeing other things. There's a potential to reset that synergy target at some point. And if so, and what time? I'll leave it there.

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

I think, certainly, we can reset the synergy target at some point. But now we're focused on making sure that we capture the synergies that we have that we've outlined as a goal. And I can tell you that progress has been actually amazing. And I want to emphasize that part of the reason for that progress is that we got the structure done and completed pretty quickly. We -- as you know, we've been working on our own company, our own organization and our own approach to business and to shale versus EOR and all the other things that we do.

We've worked on and optimized those over the past few years. So we had a business model that we felt was working well for us. So we brought the Anadarko assets into our structure and have now started working with their business units. We rolled the Gulf of Mexico up under Ken Dillon, who manages our international operations and major projects. He has the most offshore experience of any of our leadership team. So he's managing those, brought in some good Oxy people, but most importantly, we retained an incredibly good Gulf of Mexico team from Anadarko.

And then the Rockies business unit, we created the business unit there and just brought it under our domestic operations under Robert Palmer's leadership. And so the -- bringing the organization in was one thing that we did right off the bat. But the second thing that we were able to do very quickly was to start to work the culture. And fortunately, we found that culturally, the Anadarko employees that we brought with us and kept were -- had the same or similar culture to what we have. And I credit Jim Hackett for that. It's just been really good to bring those guys in.

And part of the thing that has driven the synergy capture so quickly for us, too. It's not just the amazing and outstanding performance of Permian Resources, and they're certainly ahead of schedule there, thanks to Jeff Bennett and his leadership, but it's making sure that this was a process that we owned. Some companies will bring in consultants and use them throughout the process. We have an internal team working this and full of -- and then composed of ambassadors that are working throughout the organization, and they're the ones that go out and help to ensure that our business units and teams know where we are, know what the goals are, know the specific numbers, we're tracking them weekly.

Our board is very engaged on those too. We actually have a board that's -- has an integration committee led by Dick Poladian, and Dick has done a great job to drive -- dive into the information and be a part of that team, driving progress very, very quickly. So culturally, organizationally, we're there.

The synergies are coming sooner, but other things are happening in our other business units. They may -- we may not call it a part of the synergies. But there are good things happening elsewhere where we're continuing to advance our technical capability, some of that in our own operations, and some of that in the Anadarko assets that we picked up. So I'd like to just kind of turn it to Ken Dillon for him to cover some of those. I think you'll find this as -- these are some of the things that will quantify over time and share with you, but these are the kinds of things that we're working on.

Kenneth Dillon ***Occidental Petroleum Corporation - SVP & President of International Oil and Gas Operations***

Thanks, Vicki. If we talk a little bit about Gulf of Mexico synergies with renegotiated contracts to date, we potentially see between an 8% and 15% reduction this year in the cost of the capital program. We've started to roll out Oxy Drilling Dynamics, and we're already making savings on the first wells with optimum sequencing. We expect a reduction in shutdown durations of 20% this year.

The Oxy maintenance programs will lead to a further 20% improvement next year in uptime. And recently, we were delighted that members of the Oxy Board of Directors visited the Deepwater Horn Mountain spar to emphasize commitment to HSE per staff and our contractors offshore and this follows their visit to Safa in the desert in Oman last year.

Moving to Oman. We saw records this year in block 62 of 29,000 BOE per day, and we've developed new tools in-house for something we call Oxy jetting. It's a new completion technique, which we piloted on 15 wells. So far, we've seen improvements of between 200% and 300% on IPs of new wells for an increase of 5% in the D&C costs. It's not fracing, and I'm looking forward to being able to talk more about it on future calls. We previously talked about the Oxy field optimizer in Mukhaizna. So our high-speed reservoir models are now running in the cloud. And the system is making actual recommendations for steam allocation at Mukhaizna to the engineers. In the pilot area, which covered 3% of the field. We saw increases in oil production of 31% with a decrease in steam of 14%, and we continue to increase the pilot area.

In Colombia, we increased the production at Llanos by 17% year-on-year, and we kicked off the Teca continuous steam flood project. So far, we've drilled 16 wells, and we're optimizing the development plans with our good partner, Ecopetrol. In exploration, our teams delivered 52 million barrels of resources at a finding cost of $3 a barrel in 2019. So if you look over the last 3 years, they've added 200 million barrels of resources to our portfolio.

Abu Dhabi, we saw a record production at Al Hosn of 86.6 MBOE per day as part of our winter plant trials. And on schedule, we awarded the FEED this quarter to AMEC in the U.K., so we're on track for increasing capacity to 1.45. So overall, a good year with the HES performance, peak production and continue to innovate and break records.

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

And just one last thing on the divestitures. Remember, we're repaying 3% debt with proceeds and have no 2020 debt maturities. So while we share, certainly our investors' sense of urgency around lowering the debt. We do have flexibility as it pertains to retaining cash flow, for example, the Africa assets are generating right now around $700 million of annual cash flow at $60 Brent. So we do have some flexibility with that.

Operator

The next question comes from Paul Sankey of Mizuho.

Paul Benedict Sankey ***Mizuho Securities USA LLC, Research Division - MD of Americas Research***

Vicki, the investment case for oil is really very much about the dividend and no less at Oxy. Can you reassure us that it really is your highest priority to keep paying the dividend that the environment being as difficult as it is? And would you actually be -- want to cut CapEx in order to keep paying it?

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

Thanks, Paul. Yes. Our dividend policy is what it's been for the last probably 20 years are. And we approach it based on our cash flow priorities, which is, first, to maintain our operations. And after maintaining our operations, certainly, it's the dividend and capital, share repurchases, those things come after that. So we do have the flexibility to do other impacts to our cost structure that -- to continue to pay our dividend.

Our intent is to balance our cash flows, but we -- again, with the flexibility of this enormous portfolio that we have today with the things that our teams are doing to drive efficiencies and improvements and cost reductions. We're actually in a good scenario, I think, because we don't expect this situation to last, but we can last through this situation.

Paul Benedict Sankey ***Mizuho Securities USA LLC, Research Division - MD of Americas Research***

Understood. And just to be clear, could you talk a bit more about your flexibility to cut? I mean, at the moment, you're growing, obviously, you could conceivably go growth flat or growth negative. And if you could just talk about some of your flexibility because it is important for people.

Secondly and finally, could you just reiterate on the divestment program, because I think that's the other very important thing to people? Obviously, you've gone through it line-by-line. But to be clear, you're reiterating that by midyear, you will have done the $15 billion. Is that what I've read or already said, sorry, then seen re-reported online?

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

I'll address the dividend first, and you're right. We have built a scenario around currently -- certainly, the environment we're in. We don't know how long the -- this coronavirus impact will last. So what we've done is we've actually initiated our business continuity plans. And we started to look at various scenarios and what we would do in a situation where this looks to be lower for longer. So we have the flexibility to first lower our growth to no growth. Beyond that, we have the flexibility to go even lower than that and still maintain our production.

So -- and beyond that, we -- I think we've said in the past that because of the high-growth assets that we have, we could actually allow our production to decline a little bit. If we're in a scenario where the lower prices are being driven by an event, and this is that case. Because remember now, prices were $55 or above before the coronavirus hit. So we believe that this is not a scenario that's going to last for so long that it would put us in a scenario that we can't deal with it -- with the situation that we have. So we've got those scenarios built in, and we've got timelines on when we would make decisions and pull triggers. So we're well prepared to address this.

And with respect to the divestitures, we're very confident that we will achieve the $15 billion. But given the scenario we're in today, I think every company is now looking at what their plans are. And trying to decide what do you do in this scenario? And what are the things that will -- that you should start to adjust?

We believe that we will achieve the synergies but I'm going to pass it Oscar. But I believe that some of the situations that we're in right now, our timeline could be impacted by just the fact that some of the interested parties can't travel. They can't leave their countries. And so there are some travel impacts that could have -- could delay some of what our interaction with counterparties would be. Oscar do you have more on that?

Oscar K. Brown ***Occidental Petroleum Corporation - SVP of Corporate Strategy & Development***

Yes. I think that's totally fair, Vicki, and you summed it up pretty well. So we've got -- what I'd say is we've got line of sight to midyear and the processes we have going, but we've got to be cognizant of this environment whether it's travel, the volatility of the commodity, all of that.

I think, again, we're focused on value. So the timing needs to slip a little bit to protect that. I think it's understandable if we look for that flexibility, I think you'd agree.

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

But I would say that if we believe that we still -- we'll still work the process with Algeria and Ghana, but we do have a plan B, as Oscar alluded to, we can go to plan B and replace the proceeds we would have gotten from Algeria with other asset sales that essentially have about the same cash flow impact.

Operator

The next question comes from Devin McDermott of Morgan Stanley.

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

So I wanted to build on some of the questions that were already asked around synergies, specifically. And I was hoping if you could comment on, given the reduction in capital spend that you've already made here for 2020 versus the original plan and the fact that you are on track to you -- achieve your synergies ahead of the original schedule, how that impacts the kind of capital budget ranges for 2021?

I understand it's far out to give preliminary guidance there, but you previously talked about $6.6 billion of spend for 5% growth. And then also talked about a maintenance CapEx scenario there. How have those ranges? Or how has that range changed based on what you been to achieve so far in terms of synergy realization?

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

Well, the $6.6 billion that we said with a 5% growth was based on the synergies that we expected to capture in that timeline. And as you just said, the timeline has been accelerated. So we have not laid out what the scenario would look like yet, and we're working that. But we -- we're certain that, obviously, that we get the 5% at $6.6 billion, but we do believe that there's the opportunity that we could get to 5% with -- certainly, with a lower capital.

We just haven't calculated that number. What we'd like to see is how some of these other ideas and opportunities play out. So we're -- I would just say that now, I'm pretty excited about 2021 and about what we can do based on what we're seeing today.

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

Got it. Great. That makes sense. And I wanted to ask as my second question, a bit of a longer-term one, and it relates to some of what you're doing on the Low Carbon Ventures front. And I think Oxy is in somewhat of a unique position, given the large CO2 enhanced oil recovery business you have. And I like the proactive approach with the Low Carbon Ventures and work to use anthropogenic CO2 in that business. But I was wondering if you could talk specifically to the opportunity set that you see there, kind of the return profile of some of those investments, and how you're thinking about that fitting into the business in a more meaningful way longer term.

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

Longer term, we actually think that, that's going to be a business that will generate significant cash flow and earnings for us over time. With what our team is seeing today, there's a lot of interest in partnerships with companies that don't have the capability to otherwise lower their carbon footprint. So there are a lot of situations out there where that exists.

For competitive reasons, I can't talk specifics here. But I will say that, that there is now so much interest in -- by all types of companies that this is going to be a scenario where we have partners that come in and invest and/or we can sell ultimately CO2 offsets. And we can generate our own electricity cheaper to also provide CO2 for our operations or we can provide electricity to others through the technology that we've invested in today.

So with the combination of anthropogenic from industry with net power generating lower cost electricity for our CO2 operations, while also providing the CO2 for our operations. And then the -- the direct air capture, which is a process that we're doing a FEED study on now, and we'll ultimately start construction, we believe, late 2021 or 2022.

With all of those, plus the interest and others to come in and invest and/or buy offsets, it's -- there's lots of opportunity for us to start making that a business line. And at this point, I really can't say more than that. But we will -- as we can, we will share much more information. And I think by the end of the year, we'll have a lot of exciting things to tell.

Operator

The next question comes from Ryan Todd of Simmons Energy.

Ryan M. Todd ***Simmons & Company International, Research Division - MD, Head of Exploration & Production Research and Senior Research Analyst***

Maybe a couple of follow-ups here. I mean, you've talked a lot about divestiture program and about, I guess, maintaining the dividend there in this period. I mean, what do you see as the trade-offs or the downsides of just -- I was just targeting maintenance CapEx until debt is reduced to a certain level on a multiyear basis.

How do you view the trade-offs between modest growth you're targeting over the medium-term versus the potential to pull forward debt reduction? And maybe the trade-offs of the benefits of targeting a larger -- the larger divestiture program to get the debt down faster and be in a position where you can start to talk about distribution growth?

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

Well, I think Oscar could say a little bit more about going beyond the $15 billion here in a minute. But to start with, I would say that our -- we do want to get our debt down. We want to get our debt down to -- at a $60 WTI to be about 1.5 ratio, but in doing that, remember now, our investment in organic growth delivers incredibly good returns.

So what we're trying to balance is delivering returns to our shareholders while repairing the balance sheet. We think we can do both. And so we're working to do both over time, and the divestitures are really what we are targeting to help to lower that debt a lot faster and with what we have in the portfolio, we believe we can do that. Oscar, if you want to make a comment or two?

Oscar K. Brown ***Occidental Petroleum Corporation - SVP of Corporate Strategy & Development***

Yes. I guess, just simple math. So we said, clearly, we've got processes ongoing or prepared to launch well in excess of $15 billion, whether or not we close on Africa. So to be clear, we do have -- we've kind of done what you're suggesting, right? We've got a lot more in the market than we need under really any scenario just for this purpose to be competitive across assets, be able to pull deals that we don't like, to sell things we do like.

The land grant is an interesting one, where it's relatively immune from volatility in the oil and gas price, its value is elsewhere. And so these are kind of things we'll try to accelerate. So clearly, where we can protect value moving forward, we're moving them forward. And where this volatility, if it slows down a couple of them, it slows down a few of them. So it's a portfolio approach, and it's a big effort.

Ryan M. Todd ***Simmons & Company International, Research Division - MD, Head of Exploration & Production Research and Senior Research Analyst***

Okay. And maybe one, you have a slide in the presentation where you run through the kind of the multiyear timing outlook on a number of your conventional assets around the world. What sort of timing requirements do you have on the various conventional assets globally? I mean, is there a limit to how far you can defer activity in places like Oman, Abu Dhabi and Colombia?

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

We are currently meeting all of our commitments on all of our international conventional assets. So I think we're doing a very good job of that. We work very closely with the governments and our partner companies in those areas to make sure that we're delivering what we said we would do, and we optimize where we can, and some of the activity that Ken talked about in Oman, in particular, is delivering better results with less capital than we had originally anticipated. So I think that we're doing well with all of our conventional asset commitments.

Kenneth Dillon ***Occidental Petroleum Corporation - SVP & President of International Oil and Gas Operations***

Yes, it's Ken here. I think I walked through quite a few of the ones on the sheet earlier. I think we're on track for 2019, 2020, 2021. And we spudded the well in Abu Dhabi. Things are going well there, Shah expansion, our Al Hosn expansion is going well. White Energy project is moving ahead, target 40 million mcfs per day. It's in design with a company we like working with. We've got plenty of places to put the CO_2, which takes you through the 2020-2021 timeframe. In Oman, seismic has gone well. We're interpreting the 3D seismic we captured last year on the main blocks.

Exploration wells. We've got a 75% technical success rate there, just under 50% commercial success rate and our finding costs are about $3, barrels. That's going well. So overall, I think for all of the items listed, Colombia, we kicked off Teca. First 16 wells, drilling costs coming down facilities, well mapped out, moving ahead. I'd say, completions, we're working jointly with Ecopetrol. And then we're getting ready for the Teca ramp up. So I would say generally meeting everything on that Slide 21 in terms of dates, which is the on-time, on-budget is one of our mantras.

Operator

The next question today comes from Paul Cheng of Scotiabank.

Paul Cheng ***Barclays Bank PLC, Research Division - Former MD & Senior Analyst***

Vicki, just curious that, once that you get your debt under control. Is there a target ratio of how much is the cash flow you want to reinvest, and how much is going to return to the shareholder? I'm not talking about the next month or 2 years, obviously, the way the debt repayment is going to be the priority, that may change it. But in the longer term, how should we look at the business model? How you're going to use on the cash flow? Is there a ratio that you are targeting?

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

Well, under the scenario that we're working today, you can model it that. We were assuming that a 5% growth is the cap of where we really feel like we need to be over time. So the -- no matter what the oil price is, whether it's $70 or $80, we don't think that we need to have more than a 5% growth.

So the excess cash beyond what we need to invest organically to deliver that growth would go to generally the share repurchases or other investments like that. But from a capital standpoint, growth standpoint, we think 5% is sufficient. So I don't know what our ratio, it will change over time, actually.

Paul Cheng ***Barclays Bank PLC, Research Division - Former MD & Senior Analyst***

Okay. And then under, say, call it, $55, $60 Brent price, what will be the target growth rate for you guys then?

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

$55 to $60 is still the 5%. We're not going to adjust and run our capital -- our organic capital investment up as oil prices go up. We're really going to manage the business at an optimum investment rate. And that investment rate generally will deliver that 5% growth. And so we don't want to get ahead of ourselves with respect to maximizing net present value of our developments.

Operator

The next question comes from Pavel Molchanov of Raymond James.

Pavel S. Molchanov ***Raymond James & Associates, Inc., Research Division - Energy Analyst***

When you said a few months ago that you will reduce your stake in Western Midstream to less than 50%, the yield on Western Midstream units was maybe 10% or so. To date, it's almost 20%. Given how distressed those units are trading, does it make sense to divest any of them under current conditions?

Oscar K. Brown ***Occidental Petroleum Corporation - SVP of Corporate Strategy & Development***

It's Oscar. I'll take that one. No. Generally, no. But -- that's a short answer. But clearly, we've got a commitment in terms of what we've done and then standing WES up independently and deconsolidation and all of that, where we do need to get below 50%. But we do have timing flexibility on that as well.

It's not something that necessarily needs to be done right away. But we agree, we're the largest shareholder. We hate the price as much as anybody more so probably, so some patience around that is clearly something that would make sense.

Pavel S. Molchanov ***Raymond James & Associates, Inc., Research Division - Energy Analyst***

Okay. One more on the decarbonization aspect of the story. Most other companies that have put out a net 0 target have given a timetable, 2050 or something else. Realistically, when do you anticipate being ready to give a timetable for your net 0 status.

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

Our teams have already worked out a fairly detailed strategy around getting there. In fact, this strategy that they worked is not an aspirational goal. It's the outcome of a defined program, where we actually have on a timeline milestones for the development of direct air capture, anthropogenic CO2, and the installation of net power over time. So the last I saw that -- and we're not saying this is a target, but the last I saw of what that would deliver, would look like in the 2040 to 2045 timeframe, we would be carbon neutral.

Operator

The next question today comes from Brian Singer of Goldman Sachs.

Brian Arthur Singer ***Goldman Sachs Group Inc., Research Division - MD & Senior Equity Research Analyst***

I wanted to start with a couple of follow-ups on questions from earlier. First, with regards to a lower commodity environment, given the low-cost of debt from your financing round last summer. How would you weigh going to no growth going to decline versus taking on additional debt to keep the dividend sustained? And then separately, since you brought up the land grant, can you characterize where you see free cash flow coming from there right now?

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

I would say that we will not take on debt. We don't feel the need to do that. We think that with the flexibility that we have in almost any scenario, especially given the fact that we've hedged 350,000 barrels a day. That, along with the fact that $40 oil is just not sustainable for our industry over time. So we have the time to work through this, and we would actually allow our production to decline a little bit because now with the Permian Resources business with the DJ Basin, and even ultimately, the -- Powder River, those are very fast production cash flow recovery engines.

And so we would have the ability to recover from allowing our production to decline. Remember now, back when we just had conventional assets, that were -- that had a much lower growth profile over time. That would not have been possible. But today, we have that flexibility. So we would not take on debt to pay the dividend.

We would -- what we'd do is allow our capital investments, organic capital investments to decline.

Oscar K. Brown ***Occidental Petroleum Corporation - SVP of Corporate Strategy & Development***

Real quick, it's Oscar. On the land grant, we haven't disclosed the cash flow associated with it. But the way I think about it is like this, the value inherent in the assets. So again, a lot of surface and a lot of minerals and minerals of all kinds, hard and liquid and so forth, that -- at least as much value is in the optionality and the future development of the -- of that surface in the minerals and just the value of it there as to the value of the current cash flows today.

So we do like the potential value of this asset in terms -- while it will have some impact on cash flow, because it has cash flow, we expect the multiple of the asset value to be higher than you'd expect with more traditional asset sales.

Brian Arthur Singer ***Goldman Sachs Group Inc., Research Division - MD & Senior Equity Research Analyst***

Great. And then my follow-up is with regards to 2 plays within the E&P portfolio, the Permian and the Powder River Basin. On the Permian on Slide 28, you highlight the significant increase each year in well performance and wondered what your outlook is for 2020 and the extent to which longer laterals will drive well performance versus other measures? And then just any milestones that you expect in the Powder River Basin this year and now you see that play developing within the portfolio?

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

I'd say on the Permian Resources business, I was really surprised. Well I had forecasted the 2019 from 2018 improvement to be in the 5% to 10% range. And you can see they clearly beat that. With some of the things that our team is talking about today, differences in the way we do, not just our -- where we've put our laterals, but the way we pump our frac jobs.

Going back to the improvements I've made previously. I believe there's still room to further stimulate the near wellbore along the full lateral and to recover more near wellbore reserves. And I think that they can work on some things to do that over time. So I think that -- I'd hate to give a number, but I do expect us to improve. I don't think we'll plateau from 2019 to 2020. I think we'll see improvement this year and improvement going into next year as well.

With respect to the Powder River, that's an exciting area. We've done some appraisal work. The team that's working Powder Rivers, all legacy Anadarko, they're incredibly good. They've looked at the offset operators, looked at what they're doing. They're now -- they've shared information with our internal people on the Permian Resources, we're learning things both ways. That team is going to -- that team will make some significant noise in the Powder River, I believe. Once they get started, we won't be very aggressive there this year. We'll pick up activity, probably the -- toward the middle to the latter part of next year.

Operator

The next question today comes from Jeanine Wai of Barclays.

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

This is Jeanine. My first question is on Permian maintenance CapEx. We've had a lot of discussion on that play so far. Can you discuss or maybe quantify how Permian maintenance CapEx trends over the next couple of years?

So I mean, we're thinking depending on the growth rate, the decline rates could moderate and potentially facilities-related spending could also decline, and both of those would be tailwinds.

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

The way we look at that really is from a capital-intensity standpoint, and we see that our capital intensity right now is down in the low 20s. And so we believe that with the efforts that we can make around optimizing our base production. And designing our fracs so that they are recovering more ultimate reserves from essentially the same sort of designs, I think that the maintenance capital shouldn't significantly increase over time. Jeff, do you have any numbers around that?

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

Yes. I mean, what Vicki said, and Jeanine, I think is what you're getting at is, the maintenance capital, obviously, as your base gets bigger, that drives maintenance higher. But what's going on is, with the lower growth rate, you get a lower decline. And then with what Vicki said, with the capital intensity continuing to improve, we wouldn't expect maintenance capital for Permian Resources to go up significantly even on a much larger base, which normally you would expect that to happen.

We shouldn't see that because of the improvements in performance, lower decline, and as you mentioned, we will get lower facility costs with time because you're not opening up new areas or new fronts, you're able to leverage the facilities that are already in place. So that business will continue to get better on that front.

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

Okay, great. That's really interesting. My second question is just on activity, and Vicki, following up on your prior comments about willingness to respond to a potentially lower-for-longer scenario. You said that you could go ex-growth or maybe even decline a little bit, depending on the environment.

Does that imply that there really isn't any non-D&C CapEx could be pushed off and that reducing CapEx for the year with just all be on D&C activity. So we noticed that in the oil and gas CapEx budget, facilities and exploration between the 2 of those, it's about 24%. So maybe there's potentially a scenario that you could push some of that off and still kind of keep the machine going.

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

Yes. And that would be the first to go. We've tiered our capital so that as we go through this, and we start having to having lower capital, the less productive capital goes first. Now that would mean that there could be a point in the future where our facilities CapEx could be a higher percentage. But given where we are in optimizing our developments in this kind of scenario, that's exactly what we would do.

Operator

The final question will come from Roger Read of Wells Fargo.

Roger David Read ***Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst***

I guess, one thing I'd like to touch on, if possible, on the Gulf of Mexico on the chart or Slide 21, you mentioned the Eastern Gulf of Mexico exploration discovery, and then obviously, targeting additional exploration in the out-years. As we think about the sensitivity of CapEx in a, call it, lower-for-longer period here with oil prices, where does the exploration need in the Gulf fit in with the general idea that you were going to keep production relatively stable there in the Gulf, sort of that question that's been asked about the Permian and maybe overall in the company? How do you manage constraints on one end with goals on the other and keeping that business on a sound footing?

Kenneth Dillon ***Occidental Petroleum Corporation - SVP & President of International Oil and Gas Operations***

It's Ken. I'll take that one. Essentially, it's not only keeping production flat. It's -- the Gulf of Mexico generates a large amount of net free cash flow. So our goal is really to have a 10-year plan, which focuses on keeping the net free cash flow relatively constant over that time frame. As I mentioned on a previous call, we love Horn Mountain. That was one of our assets originally continues to look better and better. Central GoM looks really interesting also.

So we see really good opportunities for near-field tiebacks. And we're also participating in ongoing activities where we can consolidate around those areas. So that's -- the goal is maintain long-term steady net free cash flow from barrels, which are really, really high-margin barrels that can compete with everything in the portfolio. And we have great teams, long history, going all the way back to the Oxy in past years ago.

Roger David Read ***Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst***

Okay, great. And then a follow-up question. You mentioned, obviously, the change in the Board structure that's gone on, some of the other things in terms of accessibility for shareholder initiatives and all that. Since the next time you have an earnings call, we'll probably be deep into the proxy season. I was just curious, has there been any change on that front you'd want to comment on?

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

Sure. Recently, we announced that Andrew Gould would join our board, that's going to be effective March 1. And we think that adding Andrew complements the addition to Bob Shearer to the board in July of last year. Andrew's decades of operational and financial execution leadership in the industry will further strengthen our Board of Directors. So those 2 adds were part of a process that we feel like we're really excited about that's brought some new and different experience to our Board.

And also as a part of the independent chair succession plan, the board approved last year, Gene Batchelder will step down as chair after this year's annual meeting, and he'll be succeeded by Jack Moore, who is our Vice Chair this year. Accordingly, Gene has indicated that he will not seek reelection to the Board. But I do appreciate Gene and Jack, as they've gone through this process, this has probably been the first formal succession to the chair role that Oxy has ever had. So that process has worked well this year.

Additionally, Spencer Abraham has served us for a while now, has indicated to the board that he has decided not to stand for reelection. So we're grateful for both Mr. Batchelder and Mr. Abraham for their contributions and their service to the board. And then the other thing I wanted to highlight is, I already mentioned that the 2 new committees this year I mentioned that Dick Poladian was leading the integration committee. He's also our audit chair. So he's been a big part of helping us structure the metrics and follow the integration and make that as successful as it's been.

But -- also, I want to highlight that Peggy Foran has been appointed Chair of the Sustainability and Shareholder Engagement Committee. Peggy's proactive shareholder outreach and thought leadership on key governance issues has earned her, really, the global recognition as a leader in corporate governance, and we appreciate the leadership and expertise that she brings to this committee and to our Board. That committee, we want that committee to help us be much more engaged and further proactive around shareholder concerns and engagement.

So with that, what I'd like to do is one last information is to, again, reiterate that, that I'm very, very pleased with the acceleration of our synergies. And those -- that acceleration of synergies was only made possible by the fact that we accelerated the integration of our 2 businesses.

I wanted to pass it to Cedric to talk a little bit about the one-time charges that have occurred and what you can expect in the first quarter, both fourth quarter that you just saw and first quarter coming up.

Cedric W. Burgher ***Occidental Petroleum Corporation - Senior VP & CFO***

Yes, great. So there's been a number of questions logically so around the timing and magnitude of the one-time costs and also some confusion, we're going to try to clear up here with respect to when the costs are expensed and when they actually are paid out in cash because the timing will be different.

So through the fourth quarter, we incurred approximately $1.6 billion in integrated related costs, and that is an expense item. And this year, we expect to incur an additional $400 million to $500 million in integration cost. So through the fourth quarter, $868 million was paid out in cash and the remainder of that total balance will be paid out -- expected to be paid out this year in 2020.

So as we looked at it, the paybacks are phenomenally good with these moves. They're very good paybacks. And so incurring these costs earlier in the process will enable the benefits to flow to our bottom line sooner than it originally expected. So as Vicki mentioned, we are significantly ahead of plan and schedule. Very excited about that. And we think that the financials are going to reflect that beginning this year.

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

Okay. I'll close with another thanks to our employees and to all of the -- all of you who participated on our call today. Thanks again, and have a good day.

Operator

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