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OXY.N - Q1 2023 Occidental Petroleum Corp Earnings Call

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OVERVIEW:

OXY reported 1Q23 reported diluted EPS of \$1, adjusted diluted EPS of \$1.09.

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PRESENTATION

Operator

Good afternoon, and welcome to Occidental's First Quarter 2023 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded. I would now like to turn the conference over to Neil Backhouse, Vice President of Investor Relations. Please go ahead.

Neil S. Backhouse - *Occidental Petroleum Corporation - VP of IR*

Thank you, Jason. Good afternoon, everyone, and thank you for participating in Occidental's First Quarter 2023 Conference Call. On the call with us today are Vicki Hollub, President and Chief Executive Officer; Robert Peterson, Senior Vice President and Chief Financial Officer; and Richard Jackson, President, Operations, U.S. Onshore Resources and Carbon Management.

This afternoon, 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 afternoon.

We'll also reference a few non-GAAP financial measures today. Reconciliations to the nearest corresponding GAAP measure can be found in the schedules to our earnings release and on our website. I'll now turn the call over to Vicki. Vicki, please go ahead.

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

Thank you, Neil, and good afternoon, everyone. The operational and financial successes we achieved last year continued into 2023 as I will detail in our first quarter call. Our operational excellence and disciplined approach to capital spending enabled us to meaningfully progress our shareholder return framework. Our continued efforts to strengthen our balance sheet culminated in regaining an investment-grade credit rating from Moody's.

This afternoon, I will begin by covering our first quarter performance, followed by an update on several accomplishments in our oil and gas business. In light of recent market volatility, I will then go over the cash flow priorities established during our last call and highlight the progress made in transferring enterprise value to our common shareholders. Then Rob will detail the commencement and status of the preferred equity redemption before covering our financial results and guidance, including an increase to full year oil and gas production and OxyChem pre-tax earnings.

Our operational success even in the first quarter's lower commodity price environment enabled us to generate approximately \$1.7 billion of free cash flow before working capital. Excess cash was primarily allocated towards approximately \$750 million of common share repurchases in the quarter, accounting for over 25% of our \$3 billion share repurchase program and triggering the redemption of nearly \$650 million of preferred equity.

Operationally, we exceeded our production guidance midpoint by approximately 40,000 BOE per day following a prolific first quarter across our premier asset portfolio. In the Gulf of Mexico, we achieved our highest quarterly production in over a decade. This outperformance was partially driven by higher uptime at Horn Mountain and the outperformance following the successful Caesar Tonga Subsea System Expansion project, which was completed in December.

Our Permian production benefited from strong new well performance and higher operability primarily in the Texas Delaware. In the Rockies, strong base and new well performance, and higher operated by other volumes in the DJ Basin resulted in higher-than-expected production. Internationally, our businesses performed well. Most notably, the Al Hosn gas expansion project is ahead of schedule because of the team's ability to integrate expansion work with annual turnarounds. The production ramp-up has commenced earlier than anticipated and has already led to a daily production record. These achievements demonstrate how our high-quality assets and talented teams provide the strongest foundation for free cash flow generation in Oxy's history.

Our global oil and gas teams continue to perform exceptionally well in the first quarter, achieving several milestones and accomplishments. Domestically, in our onshore unconventional businesses, we delivered strong well performance and established new operational records in the Rockies and Permian. Our Rockies team drilled the industry's longest DJ Basin well ever at over 25,000 feet in just 8 days. This well also set a new lateral length record for Oxy at over 18,000 feet. In addition, we delivered a single-well production record in the DJ Basin by utilizing a new well design. We plan to roll out this enhanced design as we further develop our inventory across the DJ Basin.

In the Permian, our Delaware subsurface teams continued to optimize and unlock inventory, as demonstrated by success in the Deeper Wolfcamp horizon, with a single-well generating 30-day initial production rate of 6,500 BOE per day and an Oxy record for this interval.

Our Delaware completions team also achieved a continuous pumping time of approximately 28 hours on another set of wells, far exceeding our previous record of about 22.5 hours. We expect that increasing efficiencies such as faster completions pumping will contribute to lower costs and a faster time-to-market.

Though certain products and services utilized in our operations will likely incur price increases this year compared to 2022, we are seeing some early signs of tempered inflation. Our teams are working towards partially offsetting inflation impacts through various operational efficiencies and supply chain competencies. For example, in the Delaware Basin, we've optimized frac designs to reduce acid and water utilization for an average savings of around \$240,000 per well. Our Rockies team has successfully integrated artificial intelligence into our plunger lift program, helping to maximize base production and reduce operating costs.

On a broader scale, our supply chain team is continuously pursuing opportunities to manage pricing across our business portfolio through partnerships that thoughtfully balance contractual flexibility with cost management. These capabilities are more important than ever in the current inflationary environment as we strive to continuously deliver value to our shareholders.

With these points in mind, I will now review our 2023 cash flow priorities.

As we discussed last quarter, our 2023 cash flow priorities incorporate a disciplined capital strategy largely agnostic to the short-term volatility exhibited in commodity prices this year. Our 2023 capital plan remains on track and focused on sustaining our high-quality portfolio of assets, while securing our long-term cash flow resilience. We continuously monitor the macroeconomic landscape and intend to maintain our capital plan in the current environment. Should a sustained downturn in commodity prices occur, we possess the flexibility to rapidly reduce activity levels through our short-cycle, low-breakeven projects. We demonstrated our nimble approach during the last global downturn, and we are prepared to do so again should market conditions dictate.

If oil prices follow an upward trajectory, we do not expect notable changes to our cash flow priorities, though the pace of our share repurchase program and the preferred equity redemption may be accelerated.

We have previously spoken about how potential future production growth is expected to be in the low-single digits. However, we have many opportunities to grow cash flow outside of production growth. We anticipate that the mid-cycle investments we are making this year will result in meaningful contributions to our future cash flow. For example, our new OxyChem projects are expected to contribute \$300 million to \$400 million in incremental annual EBITDA, with benefits expected to start in late 2023 and full project benefits expected in early 2026.

Additionally, near-term investments in our Low Carbon Ventures businesses are expected to enable the commercialization of exciting decarbonization technologies with the potential to generate cash flow detached from oil and gas price volatility. We believe that the combination of our low cash flow breakeven, high-return assets, and emerging low-carbon businesses uniquely position us at the forefront of our industry to create value for our shareholders.

Value creation for our common shareholders governs our cash flow priorities. The allocation of excess cash toward debt reduction over the past two years was key in positioning us to initiate the next phase of our shareholder return framework. Our balance sheet improvement efforts reduced interest and financing costs, which contributed to an increase in our sustainable and growing dividend and the completion of last year's share repurchase program.

Building on this success, we've already completed over 1/4 of our current share repurchase program, enabling us to trigger the redemption of approximately \$650 million of preferred equity in the first quarter.

As dictated by our 2023 cash flow priorities, we intend to continue allocating excess free cash flow towards share repurchases, which, in turn, may trigger additional preferred equity redemptions. We expect that these measures will be accretive to cash flow on a per share basis. In combination, we believe that these actions will further our goal of continued enterprise value rebalancing for our common shareholders and serve as a catalyst for future common equity appreciation.

I'll now turn the call over to Rob.

Robert L. Peterson - Occidental Petroleum Corporation - Senior VP & CFO

Thank you, Vicki, and good afternoon, everyone. I want to begin the day by highlighting our March credit rating upgrade and positive outlook for Moody's Investor Service. Gaining the Moody's investment grade rating is a significant milestone that acknowledges Oxy's recent financial transformation. Continued redemption of preferred equity, combined with opportunistic debt reduction presents a compelling deleveraging story that we hope will facilitate future upgrades.

The execution of our cash flow priorities over the last several quarters enabled us to begin redeeming the preferred equity. We have redeemed or have given notice redeem approximately \$647 million of preferred equity so far this year at a cost of approximately \$712 million, including a 10% premium payment of close to \$65 million.

To date, we have eliminated approximately \$52 million of annual preferred dividends, while also transfer enterprise value to our common shareholders.

During last quarter's call, we reviewed how the mandatory redemption of preferred equity is triggered when rolling 12-month common shareholder distributions reached a cumulative \$4 per share. The preferred stock agreement requires at least a 30-day notice for each redemption. By the end of this week, all \$647 million of preferred equity triggered for redemption during the first quarter will be fully redeemed. As of May 9, we have distributed \$4.67 per share to common shareholders over the rolling 12-month period. We intend to continue repurchasing common shares in part to remain above the \$4 trigger per share for as long as we are able.

We recognize that staying above the \$4 trigger will become more challenging in the latter half of this year due to the timing and pace of our prior share repurchase program. Our ability to remain above the \$4 trigger will be heavily influenced by commodity prices. But even if we fall below the

trigger, we plan to continue repurchasing common shares so that the distribution is required to surpass the trigger in future quarters are more evenly spread throughout the year.

During a period where we may be below the \$4 trigger, we may also seek to retire debt opportunistically, which would achieve a similar result of transferring enterprise value to common shareholders and further enhancing our credit profile.

Turning now to our first quarter results. We posted an adjusted profit of \$1.09 per diluted share and a reported profit of \$1.00 per diluted share. The difference between our adjusted and reported profit for the quarter was primarily driven by the premium paid to redeem the preferred equity.

We concluded the first quarter with nearly \$1.2 billion of unrestricted cash, but had not yet made payments to Preferred Equity Holder as of March 31 due to the 30-day redemption notice requirement. However, the first quarter call on the preferred equity is reflected in our balance sheet as an accrued liability and will be captured in future cash flow statements as payments to the preferred equity holder made.

During the first quarter, we generated approximately \$1.7 billion of free cash flow before working capital, which was accomplished despite a lower commodity price environment as compared to prior quarter, lower domestic oil realizations as a percentage of WTI, and lower sales and production due to the quarter-end timing of cargo liftings in Algeria.

We experienced a modestly negative working capital change during the period, which is typical for the first quarter, and was primarily driven by a semi-annual interest payments on our debt, annual property tax payments, and payments under compensation and pension plans. These items, which are largely classified as accounts payable and accrued liabilities were partially offset by a net decrease in receivables, driven by lower commodity prices.

We see the potential for working capital to partially reverse in the second quarter since many of these payments are made annually in the first quarter, but accrued throughout the year. As discussed in the last call, we expect to be a full U.S. federal cash taxpayer in 2023, which is reflected in our financials by the reduced deferred income tax provision and our cash flow statement compared to prior quarters.

We are pleased to update our full year guidance for Oil & Gas and OxyChem as a result of excellent first quarter performance in both businesses. Vicki reviewed many of the highlights in our Oil & Gas business that contributed to our production outperformance across our high-quality assets portfolio. These factors enabled us to surpass our first quarter guidance and some are expected to continue having positive impact on production throughout the year. Specifically, the acceleration of the Al Hosn gas expansion project and new well performance in our domestic onshore businesses are expected to yield higher production than originally planned. These positive results provided us with the confidence to increase our full year production guidance midpoint to 1.195 million BOE per day.

Looking ahead, we anticipate that the second quarter production will be the lowest of the year, primarily driven by the timing of domestic onshore activity and optimization of our maintenance schedule to reduce planned downtime in the Gulf of Mexico. As discussed on our last call, we expected that the first quarter of 2023, will have the fewest wells come online in our U.S. onshore business all year. This proved to be the case as the Rockies and Permian unconventional businesses turned 6 and 53 wells to production, respectively, in the first quarter.

In the second quarter, we expect to turn significantly higher number of wells to production, the benefits of which will be fully realized in the second half of the year. Quarterly timing fluctuations in bringing wells online, and the resulting production impact are typically and primarily driven by the optimization of resources and pad development timing.

Internationally, we expect higher production compared to the first quarter as our annual scheduled turnarounds were completed and production at Al Hosn is ramping up. Increased international production will be slightly offset by the just finalized Algeria production sharing contract, which decreases reported production but is not expected to have a material impact on operating cash flow. We anticipate that our second quarter oil mix will reduce to approximately 52%, due to the lower oil production in the Gulf of Mexico and Algeria, compounded by increased gas production at Al Hosn. While our oil mix will be lower in the second quarter, we expect that it will rebound in the second half of the year and be more in line with our full year guidance once maintenance in the Gulf of Mexico is complete.

Maintenance work and the associated lower volumes in the second quarter will also contribute to a domestic operating cost increase of \$9.85 per BOE before receding on a BOE basis in the latter half of the year.

In summary, our impressive first quarter production and activity plans for the remainder of the year provide us with the confidence to raise full year production guidance despite anticipated reduced production levels in the second quarter.

OxyChem approximated guidance in the first quarter. Due to the seasonality of customers' chlorovinyl inventory orders, we anticipate the first half of the year reflects stronger results in the latter half of 2023. Despite macroeconomic uncertainty, margins for OxyChem's chlorovinyl products remain robust, and lead us to expect another year of strong results, providing us with the confidence to raise OxyChem's 2023 pre-tax income guidance midpoint to \$1.5 billion.

Midstream and Marketing generated pre-tax income of \$35 million in the first quarter, falling within our guidance range. First quarter results were primarily impacted by the timing of crude oil sales as well as favorable gas margins due to transportation capacity optimization in the marketing business. These items were partially offset by lower equity method investment from income from WES.

Capital spending in the quarter approximately \$1.5 billion, or close to 25% of our 2023 capital plan, which remains at \$5.4 billion to \$6.2 billion. We expect higher capital spending in the second quarter compared to the first due to development timing in Rockies and Permian and advancement of the OxyChem Battleground modernization and expansion project. We also anticipate that capital spending in the third and fourth quarters will be below the second quarter and in line with full year guidance.

Overall, the first quarter represents an excellent start to 2023. As we look ahead in the rest of the year, we are favorably positioned to execute on our cash flow priorities and advance our shareholder return framework. We aim to continue shifting our capital structure in favor of our common shareholders in the near and long-term.

I will now turn the call back over to Vicki.

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

Thank you, Rob. We're now ready for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Neal Dingmann from Truist Securities.

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

My question is, it seems like certainly in the Permian and other areas, you're having very nice and remarkable efficiencies and then there's a potential for OFS potential softness we've heard about. I'm just wondering if you get the benefits of both those things. Would you continue with the plan you have -- basically with those savings, would you just take those free cash flow and plow that back into the buybacks at all? Or would you continue with maybe more growth?

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

No, we would -- any incremental cash flow that we can generate from whatever sources would go to share repurchases and, hopefully -- and beyond that, the redemption of the preferred along with it.

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

Okay. Great to hear. And then just secondly, DJ activity, it sounds like you're going to be really -- you didn't have as many in the first quarter as expected, and that's really going to take off. Maybe could you just comment on as far as well pads, and just I guess the 2 questions I had in the DJ. On permitting, I think you're fine there I just wanted to double check that. And then secondly, just on pad size at all, expectations are you doing anything different there on the completion side.

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

Yes. I'll pass this to Richard.

Richard A. Jackson - *Occidental Petroleum Corporation - Senior VP and President of Operations - U.S. Onshore Resources & Carbon Management*

Neil, appreciate it. Yes, a really good quarter and out looking well for our Rockies team. So I appreciate really the good pieces that they're putting together, maybe just connect a couple of things. I think one thing we saw in the first quarter that is playing through all year is very strong base production performance. A lot of that is really strong wells that they brought on at the end of last year that were new wells or wedge that are now turned into base. But in addition to that, they've been able to continue to optimize their production system. The most meaningful thing they've done, they've introduced gas lift earlier in a lot of these wells and even on some of the legacy base performance, which has really gave us a boost. We did quite a few of those in the first quarter. We'll do less in the second quarter. So we won't see quite as much of that bump. But that's been helpful on the base side.

On the new well performance side, I mean, obviously, we're happy to see we included this peak 24-hour record for this Nio C well. And I'd say that's fundamentally a good thing to see out of our new well performance in the Rockies. We've been able to continue to down space in certain areas, similar to how we do our development in the Permian. So in many areas where there might have been 18 wells per section, we're down to 12. We've been able to increase our proppant concentration to couple with that down spacing, been able to increase that about 30%. And then just the efficiency of really the frac and then turning that online, we're continuing to reduce, not only the time-to-market as we traditionally talk about it, but one that the team there has been very focused on, which is a time to peak production. And so being very thoughtful about how we're building this operational ramp in for the rest of the year.

But I guess, last couple of points, as you said, we had six wells delivered in the first quarter, that was per plan. Really, the second quarter through the end of the year, we anticipate 20 to 30 wells per quarter kind of fit that total year outlook. So definitely, picking back up on that in terms of well delivery. So bottom line, if you look at the first half and the second half, as we communicated on the last call, we expected some decline just through really the cycle of underinvestment as we picked up activity in the second half of last year. That we'll be able to then turn to growth for the second half of the year, and both of those are looking better than original plan. So very pleased with the team there.

Operator

Our next question comes from Neil Mehta from Goldman Sachs.

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

The first question is more of a short-term question and then the second is around low carbon. I just -- in the quarter, it looked like price realizations were a little bit soft. And so some of that, it sounds like, was just around turnarounds on the refining side. But can you just talk about that and clarify as it did drive some delta versus consensus?

Neil S. Backhouse - Occidental Petroleum Corporation - VP of IR

Well, Neil, I think there were three key components of that. First of all, looking at the calendar month average roll in terms of the NYMEX price. We've seen the market switch really from backwardation to contango at the end of March impacted realizations by about \$1.50 per barrel. So starting there across the domestic portfolio. Following that, in terms of the Gulf of Mexico, it had an amazing quarter. But at the same time, there were refineries on the Gulf Coast that had turnarounds going on. And so moving from the fourth quarter to the first quarter, realizations dropped against WTI by about \$3.50 per barrel.

Additionally, there was an outage in the DJ Basin as well, third-party outage, which caused realizations there to drop by about \$1.00 a barrel. So as those components altogether, that really impacted oil realizations.

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

That's really helpful. And then if you could give an update on the low-carbon business as you progress towards DAC 1, what is what's the latest in terms of the development? And then your thoughts on the voluntary market as well as that can help to bring the project closer to in the money?

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

I'll start with, we had a very exciting groundbreaking -- official groundbreaking finally on the Low Carbon Venture business, DAC 1, that we'll be building in the Permian Basin. It's already under construction. The work started at the end of the last quarter. We had an official naming at the groundbreaking. It's now called Stratos. And currently moving along very well, and we're really excited about it and excited about where the teams are headed with it. And do you want to talk about the carbon market?

Richard A. Jackson - Occidental Petroleum Corporation - Senior VP and President of Operations - U.S. Onshore Resources & Carbon Management

Yes, sure. And maybe just to add broadly on a couple of other updates on kind of the low carbon progress, like Vicki said, obviously, moving with DAC 1 in the Permian then continue to progress our sequestration hubs in the Gulf Coast, continue to move forward kind of with the subsurface understanding or the work that we're doing there. Really, the big piece of that, we've submitted two more Class VI wells in our hubs there and then two more for -- to support our Permian operations so to continue to do that. In the King Ranch area, we're making plans to drill what we call three stratigraphic kind of test wells those go in front of the Class VI submissions there. So continue to do really that upfront work to kind of prepare for development, both from the point source side and the DAC side in both those areas.

In terms of the market, continue to see the voluntary market strong or growing for our CDR sales. I think we'll anticipate having some updates on that over the next few months, getting close to some meaningful things there. But I think a lot of that is really turning to the compliance market as well as really globally as we've talked about, things around heavy-duty transportation and specifically airlines have continued to sort of form up, I'd say, sustainable aviation fuels especially in Europe, have continued to recognize kind of these carbon removals as part of that portfolio of solution. So we're seeing some policy form in addition to what we see in the U.S. with the IRA to kind of help support that. So the voluntary market is in front of that. We appreciate working with some strong partners there that understand the role of carbon removals, understand the emergence of these compliance markets.

And so they're really doing their part to help us catalyze this technology, bring this cost down, while we fit that long-term compliance market need. So more updates, I think, we hope to give later this year as that makes more progress, but certainly fitting within the ranges and the expectations we have on the revenue side for our DAC projects.

Operator

Our next question comes from Doug Leggate from Bank of America.

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

I guess I've got a couple of follow-ups because this -- I mean watching your share price reaction last night to the earnings, the market obviously saw something it didn't like. And it struck me at least that a lot of the people who cover you didn't cover Anadarko and perhaps don't remember the seasonality of Gulf of Mexico maintenance. So I wonder if you could just take a minute to explain how you're running that business as it relates to the seasonality of production?

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

Yes. Thank you, Doug, for bringing that up. And yes, you're right. I think that, that's not very well understood. What's happened with us now in terms of our forecast for Gulf of Mexico is, I want to make sure everybody realizes. This is pretty typical. What's different for this year is that we had such an incredible first quarter. And the reason that we had such an incredible first quarter is because, first of all, we had the lowest downtime that we've had in a while. It was a very, very, very good performance, operating performance by the teams in the first quarter in Gulf of Mexico. Secondly, we had the Caesar-Tonga Subsea expansion system come online. So from Caesar-Tonga, we had an incremental increase of a gross 15,000 barrels per day from that project. So our Q1 was really propped up by some good performance, lower downtime, and the transfer of what would have been the Horn Mountain maintenance in first quarter to second quarter.

The reason we moved that from first quarter to second quarter was just some supply chain issues in getting the materials we needed from the supplier. So this would have looked like any normal year if we had our -- been able to do the maintenance as we had planned to do. Now I think what's gotten people concerned is going from 171 to such a lower number in the second quarter. But Horn Mountain is one of the biggest producers that we have offshore. So doing that maintenance in a given quarter is impactful. And along with that, we have another couple of maintenance projects on the schedule along with some well work that we want to do. So the full year still looks really good. We were at 144,000 barrels a day. So that hasn't changed. It's just the timing and how it looks much, much lumpier than we're used to and that others are used to. And again, it's because of the bigger maintenance that wasn't done in Q1 that will be done in Q2, along with much higher production than we -- than people are used to seeing. So thanks for the question. And...

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

Yes. I appreciate the clarification, Vicki, because it remarkable that, that would seem to be the primary focus of discussions after the result last night, and I just thought it'd be worth reminding everyone that legacy Anadarko that was entirely normal. So thank you for the clarification. My follow-up is really, I guess, it's a Rob question. But you mentioned inflation, Rob, or at least I think Vicki did in her remarks that things might be rolling over a little bit. But your CapEx guidance is still quite wide. So I wonder if you could just give us a tip of the hat as to where you see the trend going?

Should we be starting to think that you've got a chance of coming in towards the lower end of that range? Or is that more activity led? Or was it more -- had you already baked in a reasonable amount of inflation that might not now happen?

Robert L. Peterson - *Occidental Petroleum Corporation - Senior VP & CFO*

I think as a discussion in Vicki's comments, and I heard also from Richard, is that we are seeing things sort of plateauing at this point. Some pieces are rolling over. There's still a fair amount of wage inflation pressures in the Permian that we are still seeing. So I wouldn't say we're ready to commit to the fact that things are going to roll over and decline for the balance of the year so we've maintained that guidance. As Vicki commented on the earlier question that if we are fortunate enough to have things fall off, and it allows us to continue the same level of activity for a lower cost, we would roll that back into additional share repurchases in the balance of the year. And then Richard probably has some additional comments.

Richard A. Jackson - Occidental Petroleum Corporation - Senior VP and President of Operations - U.S. Onshore Resources & Carbon Management

Yes. I would -- that's perfect, Rob. I just was going to add one. I'd say the other element we factor in is continued efficiency improvement. So Doug, ramping up last year, getting started this year kind of hitting steady state with our rigs and our frac cores. We do expect continued efficiencies. I mean we highlighted on the singular wells of these records, but it's really in total, we're anticipating some improvement in the second half of the year. So we leave a little bit of room on that where the burn rate just gets a little faster as we gain in efficiency.

Operator

Our next question comes from John Royall from JPMorgan.

John Macalister Royall - JPMorgan Chase & Co, Research Division - Analyst

So my first question is on chemicals. You were in line in 1Q, but you raised your full year guide. So you're seeing something that's giving you more confidence in the remainder of the year, but it does feel like there should still be some challenges to the housing market. So just looking for some color on the guidance raised in chems so early in the year and what appears to be an uncertain environment?

Robert L. Peterson - Occidental Petroleum Corporation - Senior VP & CFO

Yes, John, I think you've characterized it actually pretty well in your question. So if you look at domestic PVC demand through the first quarter compared to last year, it's down about 18% year-over-year. However, what we've seen is the export business has picked up that slack in the first quarter as it's up almost 80% year-over-year. So we end up with a combined demand for PVC that's up about 2.5%, 2.7% for the country versus last year. And that driving on that softness in domestic demand, as we discussed on prior calls, is really being driven by the housing construction sector. We still believe that inventories remain low for many PVC buyers as we're entering sort of the heart of construction season. But no doubt, there's discouraging macro conditions between inflation, mortgage rates, and regional bank issues have converted a little more reluctant to build what would be typical inventories for this time of the year for construction.

So our guidance reflects that continued uncertainty and the trajectory of the global business, both in the domestic business. We still firmly believe there's a lot of pent-up demand for construction, but we're just cautious with the macro conditions. I would say, however, that the lower energy prices in terms of gas prices resulting in lower ethylene prices also does create the opportunity for some margin in the business that might still be present and stickier at even at these lower demand levels. That's part of the raise.

I would say on the caustic side of the business, we're seeing this sort of balanced along type conditions. General manufacturing is certainly off from prior year, particularly automotive remains subdued. So domestic demand is similar to last year, but availability is certainly higher than it was before. And so we're seeing that result in some price erosion continually in the caustic side of the business. So we're still assuming that the unwinding of inventories in Europe take the balance into the middle of the year and then the Chinese economy continues to open slowly. If either one of those happen more rapidly, that would certainly be favorable to the business. So that increase in guidance really reflects some optimism around things kind of reaching a stability point at least the next quarter or so and then the preserving some of the margins with the lower feedstock costs.

John Macalister Royall - JPMorgan Chase & Co, Research Division - Analyst

Great. And then my next question is on the paydown of the preferred. You gave some color on the downside case and if you end up going below \$4 a share LTM. Is there a commodity price where you think you might expect to pull back on the buyback and go below that \$4 a share? And just assuming we stay above it, is that \$700 million-ish run rate, including the premium a good go-forward clip to think about?

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

I would say it's just based on the cash available. We're going to use the free cash that we have to continue to buy shares and to trigger the preferred as we can do that. But -- and we're monitoring that. We have an outlook on that. So we're being pretty thoughtful around what the rest of the year might look like.

Robert L. Peterson - Occidental Petroleum Corporation - Senior VP & CFO

Yes, it's certainly because of the concentration of share program last year, this year is lumpier, and it makes it more challenging in Q3. I think we've talked on an annualized basis we would probably want oil prices in the \$75 range to be able to continually stay above the trigger point. But as Vicki made her comments earlier, our intention would be is even as we fall below the \$4, that as part of our shareholder return program is continuing to buyback stock. And so even if we fall below the \$4, our intention is to continue to return value to shareholders through buybacks.

Operator

Our next question comes from Paul Cheng from Scotiabank.

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

Just want to go back into the budget. What's the underlying inflation that you included in your original budget? And have you -- I suppose that you didn't really build in into any deflationary in the second half? And how much is your service and raw material for this year will be subject to the spot prices if we do see deflationary? That's the first question.

And second question is that, I think, in the prepared remarks, talk about on the DJ Basin that for the remaining of the year. The well come on stream will be pretty ratable each quarter. How about in the Permian?

Richard A. Jackson - Occidental Petroleum Corporation - Senior VP and President of Operations - U.S. Onshore Resources & Carbon Management

Paul, let me -- I'll try to start on both of those. In terms of really inflation, when we look year-on-year, we are around 15%. This is domestic in the U.S. Of course, internationally, we didn't see near that. But in the U.S., looking at around 15%. We had plans that were embedded in our budget to offset about five of that through operational efficiencies. So we're generally on target for both. Let me deconstruct kind of the second half and then a few of the bigger components. So the second half of the year, we are seeing some things soften. When you think about OCTG, obviously power costs and fuel, some of the labor components, those are types of things that we see as potential.

We also have quite a few of our rigs and frac cores that are up, and so we'll be exposed a little bit either way there, though, like we talk about, we have longer-term relationships and we're able to balance kind of that long-term with short-term pricing with our service partners on that front. So the big areas we're looking for is continuing to kind of watch the OCTG market. We'll see what rigs and fracs do this year. Obviously, we're steady, but we'll see what the rest of the market has to do.

And then probably the other point that we would watch or that would impact us is sand. We're using more regional sand even in the Rockies. There's some different sand choices, but our primary supplier there continues to be in front in the Permian, and so we're seeing some opportunity on that. So at this point, we're not looking to change our outlook or kind of change the way we're thinking about the budget, but we did want to note those are the key variables that we're watching that will impact us.

And then in terms of the Permian, similar sort of well count type change, not quite as drastic as what we're seeing in the DJ. But we had 56 wells online in the first quarter. We'll see that kind of hit more steady state of around 100, 110. And really, what happened, just to give a little bit more color, as Rob kind of said in his prepared remarks, a lot around development sequencing. So if you think about the ramp-up and then going into

the fourth quarter, where you're exposed to weather, we had pads with smaller well count. And so we did that to really de-risk kind of the production in the fourth quarter, and really it was production in the first quarter.

As we started in the first quarter, many of our well pads, Midland Basin, Delaware Basin, they've gone north of 10 kind of wells per pad. So you have a lot more SIMOPS that's better from a value standpoint, but it does change kind of that sequencing of production online. But we do see -- while the well count was low and the kind of residual DUC count grew for us in the first quarter, we expect to hit steady state really on both of those as we go into the second quarter and definitely in the second half of the year. So hopefully, that helps a little bit there.

Operator

Our next question comes from Leo Mariani from ROTH MKM.

Leo Paul Mariani - *ROTH MKM Partners, LLC, Research Division - MD*

I just wanted to follow up a little bit more on the Low Carbon Venture business here. I guess recently, it came out that you guys invested kind of more money into NET Power here. And I just wanted to maybe get some color around kind of what the sort of confidence is in that business? And why putting the incremental money there?

And then sticking on Low Carbon Ventures, I just wanted to see if there was any maybe update on sort of funding for the DACs here at this point in time. Are you all having really detailed conversations out there? Or do you think there could be something that gets done here in '23 in the funding?

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

I'll start with NET Power. We started looking at NET Power about over two years ago, almost three years ago. The reason we like it is because the physics and the technical aspect of how it works is impressive. And as we've -- I know mentioned on this call before, it's really the only source of emission-free power technology that uses hydrocarbon gases. And with hydrocarbon gases being so plentiful in the United States and in other areas of the world, we felt that a technology that actually can continue to use gas, hydrocarbon gas for the generation of power is going to be incredibly transformative for the power industry, not just here in the United States, but internationally as well.

And when you look at it, it combines hydrocarbon gases, combust hydrocarbon gases with oxygen instead of air. So you have no volatile organics, and the CO₂, which is created drives the turbine and then it's captured on the -- as part of the process. So it does all the things that we needed to do and that other companies will need as well. And you look at the Appalachia, all the gas there, the gas of the Haynesville, the gas in the Permian and the DJ, it creates a lot of opportunity to build a lot of these things. Our confidence was bolstered also by the fact that we have now Baker as an equity owner in this process, and they are redesigning the turbines to make it more efficient. So when we are able to start building this, which should be in the 2026 timeframe or maybe a little bit before, we expect that the cost of this will be less than what a traditional power plant would be if you put carbon capture on it.

So it's a very flexible technology. We will be building the first one of those in the Permian Basin to provide power for our oil and gas operations, and then in the future, it will be one of the emission-free power sources that we use for our direct air capture units.

Richard A. Jackson - *Occidental Petroleum Corporation - Senior VP and President of Operations - U.S. Onshore Resources & Carbon Management*

Yes. The only thing I would add on NET Power, like Vicki said, we've started FEED on that first plant with the NET Power team, and getting that 2026 timeframe lines up very well to not only what we need for direct air capture, but it's a great fit for oil and gas operations to help decarbonize the power, obviously, that we have, but the other offtake of that is CO₂. So as we look to really transition and be able to use more anthropogenic CO₂, it's a great fit.

So the -- on the DAC, and Vicki can help with this, too. I think we continue to think about funding, not only for DAC 1, but especially for DAC 2 and beyond, to reiterate that is absolutely our plan. We know that with commercial development success as we go beyond plant 1, we really will need that financial support to be able to develop as we see the market growing for us to fit into. So I think we want to continue to progress this year. Obviously, we'll give updates on any of that as it comes forward. But meaningfully, as I answered earlier, kind of the market or the CDR sales cost progress on the project and then kind of how we think about the capitalization as we go forward. We want to be prepared as we go late this year and into next year to be able to give meaningful updates as that project continues.

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

One thing I'd like to add to that is that as we look at what the cost of this is going to be for us and what funds we will have to provide out of our free cash flow basically, it would be in the \$500 million to \$600 million range. It wouldn't be a lot more than that over the next 2 to 3 years. So I want everybody to understand that, looking forward, our capital program for our oil and gas development, chemicals, midstream, the corporation's capital is going to be invested in a way that, that fits with the priorities that we've established, one of which, and as important as any of the others, is investing in ourselves. That is the repurchase of shares. That's a big part of our cash flow priorities. And I want to make sure that people don't think that we're going to, in the future, have capital spending so much that we can't accomplish that.

For example, last year, we -- out of the \$17.5 billion of cash that we had available to those 3 buckets, the debt reduction, share repurchases and capital programs, 57% went to debt reduction, 17% to share repurchases, and 26% to our capital programs. If we had a similar situation with that kind of cash, 40% would go to capital programs, but 55% would go to share repurchases, and potentially up to 5% for debt reduction. So this is something that we're very committed to is not to let our capital grow to a point where it's not a -- we're not able to buyback shares at the level that we really need to do.

Leo Paul Mariani - ROTH MKM Partners, LLC, Research Division - MD

Okay. Very thorough answer. Very much appreciate that, guys. And then just a follow-up on your comment on sort of chemicals EBITDA on the expansion over time kind of eventually kind of getting to this \$300 million to \$400 million as we get towards '26. You mentioned in the prepared comments that you could start seeing some as soon as late '23. Can that number kind of start to be significant even as early as 2024? Could we get something even like 1/3 of that potential EBITDA next year? Just trying to get a sense of how that would ramp over time.

Robert L. Peterson - Occidental Petroleum Corporation - Senior VP & CFO

Yes. Leo, the early days contribution from that is going to be from the smaller expansion project. It's in the \$50 million EBITDA range. The \$250 million to \$350 million number we've given for the Battleground project that's out beyond the project in 2026.

Operator

The next question comes from Roger Read from Wells Fargo Securities.

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

Yes. Maybe just 1 quick 1 to clarify off your comment, Vicki, to Leo's question about the CapEx, the \$500 million to \$600 million per year. That's inclusive of NET Power and DAC or just one or the other? I was just want to make sure I understood that.

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

That's all of our Low Carbon Ventures capital. And that is assuming that we don't bring in a partner. And we are having some really good conversations with -- in fact, with -- one with a preferred partner that could materialize maybe sometime this year or if not this year or next year. So we do expect to get some funding. But what we want to make sure we relate to you guys is that, if we don't, that's the maximum of spend that we would have. Otherwise, we're looking at potentially having a lower spend than that with a partner.

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

Okay. I appreciate the clarification. And then my other question, and this ties into the goal of maintaining the \$4 of common repurchase on an annual trailing basis. None of us know what commodity price is going to be. You've got -- as pointed out in the presentation, right, one of the largest acreage holdings in the U.S. We've seen some of the other upstream companies trimming back a little bit or identifying some things as, I guess, we could call it noncore or something they simply won't be drilling and completing anytime soon.

So is there any acreage or other type of asset sales proceeds could be used to sort of plug those gaps if they arise or to offset the lumpiness that's coming forward? Just anything you can offer on that front would be appreciated.

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

Well, one of the things we do is we're always looking at how do we make the best value decisions? And when you -- when we think about divestitures, being a source for funding to continue the repurchase and the redemption of the preferred, that's certainly an option that we would consider. The reality of where we are today though is that our position is large. And when you do the relative valuations of divesting versus for the continuation of this program, you have to make sure that you're making the right decision there. And I would say there's smaller things that would be optional for us to potentially do, whether it would be large enough scale to continue it is the question at this point. But we are considering other options that I doubt would mature soon enough to be able to meet the cliff that we're facing right now.

Operator

(Operator Instructions) There are no more questions in the queue. This concludes our question-and-answer session. I would like to turn the conference back over to Vicki Hollub for any closing remarks.

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

I'd just like to say in closing that I know there's been a lot of concerns among investors in our industry, particularly with respect to asset quality, execution, performance. And as Doug had pointed out, I wonder if that's part of the reason for the reaction to what we're seeing today. But looking at our asset quality, I think there's nobody that could question the quality of our assets. And you look at our past performance, I also think that our continuing improvement in well productivity in the Permian and some data that we'll show next earnings call about our performance in the Rockies, will clearly show that we're not losing any capabilities. We're not losing any performance. And in fact, looking at what our teams are doing technically today, they continue to innovate, continue to optimize. And with the mention of a new technique in the DJ, there are also new ways of doing things that we're trying in the Permian as well as in our Oman operations, Gulf of Mexico with the subsea pumping and systems installations, starting to look at our seismic differently.

I think that for our company, we have not seen degradation in the quality or performance of our teams. And I want to thank our teams for that because they continue to push the envelope and every year get better and better. And so I don't think there should be any concern about where we are today and what we're doing is it's just a kind of a strange scenario where, in second quarter, it happens to be the lowest of the year, but our production and productivity is continuing to get better.

So with that, I want to thank you all for participating in the call today.

Operator

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

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