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OXY.N - Q3 2024 Occidental Petroleum Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 13, 2024 / 6:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good afternoon, and welcome to Occidental's third-quarter 2024 earnings conference call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Jordan Tanner, Vice President of Investor Relations. Please go ahead.

Jordan Tanner - *Occidental Petroleum Corp - Vice President, Investor Relations*

Thank you, Drew. Good afternoon, everyone, and thank you for participating in Occidental's third quarter 2024 earnings conference call.

On the call with us today are Vicki Hollub, President and Chief Executive Officer; Sunil Mathew, Senior Vice President and Chief Financial Officer; Richard Jackson, President Operations, U.S. Onshore Resources and Carbon Management; and Ken Dillon, Senior Vice President and President, International Oil and Gas Operations.

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 under 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 Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

Thank you, Jordan, and good afternoon, everyone. Our teams delivered another quarter of exceptional performance across all of our business segments. Despite weather disruptions and commodity price volatility, resilient operational execution from our teams helped to deliver the highest operating cash flow so far this year.

Our strong financial results are a testament to the dedication and capabilities of our team as well as the premium quality of our assets. I'll begin today by reviewing our third-quarter performance and providing highlights from our oil and gas business, including the ongoing integration of CrownRock.

I'll also give an update on our Direct Air Capture projects and then share the progress on our near-term debt reduction program. Sunil will cover our financial results and fourth-quarter outlook, including increases in full-year guidance for each of our segments, and provide insight on how we're looking at our 2025 capital plans.

In the third quarter, our team's commitment and delivery across each of our business units enabled us to generate $1.5 billion in free cash flow before working capital, exceeding guidance in all three segments. Our oil and gas segment exceeded the high end of our production guidance and set a new company record for the highest quarterly U.S. production in our history.

This was an outstanding achievement made even more impressive considering there were three hurricanes that impacted our operations across the Gulf of Mexico. This production outperformance was primarily driven by strong new well performance and higher uptime throughout the Permian Basin.

Our Midland Basin teams excelled, surpassing production guidance in our recently acquired CrownRock assets and delivering the highest quarterly production in over five years across our legacy Midland Basin assets. Optimal geologic targeting drove new well performance, supplemented by non-recurring OBO benefits.

The Delaware Basin continues to perform at an industry-leading level, with our New Mexico performance being instrumental in our third quarter results. Most notably, a six-well Wolfcamp development project in our Tanks field in New Mexico produced an impressive 1.2 million barrels of oil in the first 90 days.

In previous earnings calls, we highlighted that Oxy had 8 of the top 10 industry wells in the entire Delaware Basin from a six-month cumulative production standpoint. Today, I'm proud to announce that our Rockies team now claims 8 of the top 10 DJ Basin wells drilled since 2019, several of which came online in 2024.

Such remarkable industry achievements are only possible because our teams relentlessly pursue innovation and excellence. Not only is our onshore development exceeding expectations on well productivity, we're also executing in a more efficient manner.

For example, every new well drilled in the third quarter New Mexico development program is utilizing existing infrastructure. As discussed in the past, this significantly enhances project returns and, in many cases, enable secondary bench developments to deliver stronger returns than our primary benches.

We continue to advance our drilling efficiency, as evidenced by a 10% improvement in Permian unconventional drilling cycle times relative to last year. In the DJ Basin, we successfully drilled a 2-mile lateral in only 80 hours, and our teams reduced third quarter well costs by 20% compared to the first half of last year.

More than just reducing well costs, these improvements also accelerate time to market, allowing us to turn capital dollars into production faster. Our teams continue to make well design and execution improvements with exceptional results, and we expect to carry this momentum into 2025.

Another factor in our success, along with continued well performance leadership and capital efficiency progression, is our team's persistent focus on driving down lease operating expenses across our assets, which ultimately enhances our cash margins. Over the last year, we have meaningfully reduced our domestic operating expenses on a per barrel basis.

Looking to the fourth quarter, we anticipate continued progress will result in a greater than 20% year-over-year reduction in quarterly LOE per barrel. These steady improvements are driven by several factors, including increased uptime, improved CO2 utilization, and more recently, the integration of low-cost, high-margin CrownRock barrels into portfolio. Our teams continue to deliver their operational and technical strengths to drive margin expansion from both sides, reducing costs while constructing industry-leading wells.

Turning to our chemicals and midstream businesses. OxyChem outperformed in the third quarter, modestly exceeding guidance while overcoming disruptive Gulf weather. And our midstream segment also had another impressive quarter, with our marketing teams once again leveraging natural gas price dislocations between Waha and the Gulf Coast to deliver value to the company. Our demonstrated leadership and midstream expertise allowed us to optimize transport strategies, effectively bringing both our products and third-party volumes to market even in adverse conditions. I'd like to now share more on the successful addition of CrownRock to our Oxy portfolio since the acquisition closed in early August. We're thoroughly pleased with the integration of assets and more importantly, people. We've been highly impressed with the legacy CrownRock culture as well as the stewardship exhibited in running day-to-day operations in a safe, profitable manner.

Our focus these first months have been centered on safety, organizational integration, and retention of talent; and it's gone very well. There have been no significant safety incidents dating as far back as the December deal announcement, and that's a testament to the CrownRock team's proficiency and professionalism.

The combined teams are now sharing best practices and identifying opportunities to enhance field operations through our combined Midland Basin position, as well as constructing our 2025 development plan. As Sunil will cover later, we envision a consistent level of investment in this premier Permian asset next year.

I want to highlight a few areas where our teams are identifying opportunities for operational improvements and cost efficiencies. The first one I'll mention is leveraging Oxy's supply chain expertise to reduce cost of materials and construction. We're also evaluating opportunities to leverage our broader Permian frac cores and overall resources to accelerate time to market and increase utilization rates.

We have spoken in the past about the ample water capacity and network associated with these new assets, how well they fit with our existing water assets, and how they can benefit our legacy business. Recently, we've identified nearly $10 million in expected savings for a singular development plan in the first quarter of 2025 made possible by water integration across assets. We think this opportunity is just the first of many as we leverage the shared infrastructure across our combined position.

We also see opportunities to enhance the base production through improved operability and artificial lift design. Already, we are seeing incremental base production improvements in the CrownRock assets. Because of this and stronger-than-anticipated new well performance, our third-quarter production volumes exceeded the expectations that we laid out in August. We're now projecting a 9,000 BOE per day increase to our fourth-quarter exit rate for these assets.

We're still in the early stages of integration, but are very excited about the opportunities ahead. By bringing our teams together, we expect to unlock new value and achieve even greater success.

Turning now to our low-carbon businesses. I'd like to provide an update on our Direct Air Capture projects. Construction of STRATOS, which will be the largest Direct Air Capture facility in the world, is progressing smoothly and to plan.

As we have previously shared, we have phased the construction sequence of STRATOS to help integrate the latest advancements from our research and development efforts. We've been thoroughly impressed with the infusion of talent, passion, and performance coming from the Carbon Engineering team last year, driving an innovation cycle that's moving even faster than we anticipated.

Collaboration within our technical teams across Oxy paired with insight from the CE Innovation Center has given rise to incredible technological breakthroughs and engineering design innovation, which we will integrate into the continued build-out STRATOS. The new design will feature fewer air contactors and fewer pellet reactors which should reduce operating expenses and increase reliability.

We expect to bring the initial 250,000 tonnes per annum of capacity online in mid-2025 with an additional 250,000 tons to phase in during the next year, incorporating those improvements. This disciplined approach not only generates value for STRATOS, but will benefit and derisk future DAC builds.

We're also advancing our South Texas DAC project and recently achieved a significant milestone with the U.S. Department of Energy awarding the project up to $500 million for the initial DAC facility at the site. This grant could potentially increase by $150 million from the development of an expanded regional carbon network in South Texas. The award is momentous in furthering commercial-scale of DAC in the United States and validates our ability to accelerate vital climate technology.

A combination of factors will drive our continued progress in this market and technology, and you're seeing them work together now in real-time. First, our innovative technical teams and continuous investment in R&D are enhancing real world projects.

Second, we are leveraging projects and operational markets from STRATOS and applying them to enhance future designs. Third, government support and third-party capital are serving as catalysts to accelerate investment in developing DAC technology at climate-relevant scale while also solidifying our leading position in this emerging market.

We're excited about the progress made to date in constructing STRATOS, improving the DAC technology and driving demand in the voluntary and compliance carbon removal credit markets. Through the development of STRATOS, Oxy is taking a leading role to demonstrate to the developing compliance markets that DAC plus geologic storage is a large-scale, highly durable, and economic tool in the world's approach to climate change.

We believe we can help hard-to-abate industries, like aviation and maritime, meet their net zero goals with DAC, which can also serve as complementary solutions with -- along with sustainable aviation and marine fuels.

Equally as important, CO2 from our DAC can also enable us to produce net-zero oil from our EOR operations, providing resources the U.S. needs for energy security and energy the world will continue to need for decades to come. We also recognize that we are in a pivotal moment for our power and utilities in our country, especially with the proliferation of data centers and AI increasing the need for reliable, low-cost, low-emissions power.

Over the coming decades, we believe Oxy will be an uniquely positioned to contribute to this growing sector through our equity investments in Net Power and our ability to provide DAC solutions at scale to meet the increased demand for carbon dioxide removal credits for large-scale data centers and power generators.

Finally, I want to share with you some of the recent progress we've made in debt reduction. In December, we made a commitment to repay over $4.5 billion of debt within 12 months of closing the Crown Rock acquisition.

Progress in our divestiture program, including the closing of Barilla Draw, the sale of a portion of our WES holdings in the third quarter, combined with our continuing strong organic cash flow, has put us well ahead of schedule. In fact, during the third quarter, we repaid $4 billion, which is nearly 90% of our near-term commitment, and that's within just two months of the CrownRock closing. We remain fully committed to achieving our medium-term principal debt target of $15 billion.

I'll now hand the call over to Sunil to provide more details about our third-quarter financial results, guidance, and capital plan.

Sunil Mathew - *Occidental Petroleum Corp - Senior Vice President and Chief Financial Officer*

Thank you, Vicki. In the third quarter, we generated an adjusted profit of $1.00 per diluted share and a reported profit of $0.98 per diluted share. The difference between adjusted and reported profit was primarily driven by a loss on the sale of non-core, non-operated U.S. onshore acreage, largely offset by a gain on the sale of common units representing limited partner interest in Western Midstream Partners.

As a result of strong operational performance across all business segments, in the third quarter, we generated $1.5 billion of free cash flow before working capital, and we finished the quarter with $1.8 billion of unrestricted cash. The strong free cash flow this quarter reflects our team's ability to translate high quality assets into impressive financial results despite adverse weather conditions and commodity price volatility.

As Vicki mentioned, the success in the third quarter can largely be attributed to new wells and base production outperformance in the Permian Basin, inclusive of our newly acquired CrownRock assets. While the majority of the outperformance was associated with company-operated activities, the Permian saw a 6,000 BOE per day uplift associated with non-recurring outside operated volumes due to prior period adjustments.

In the Gulf of Mexico, production came in below our third-quarter guidance range largely due to unplanned downtime for hurricane-related activity and well workovers. Despite these impacts, our domestic lease operating expenses at $8.68 on a per barrel basis notably outperformed third quarter guidance and are the lowest since the first quarter of 2022. This demonstrates our operational strength and focus on delivering higher-margin barrels over time, as illustrated on slide 8.

In the Midstream and Marketing segment, we continue to capture value through optimizing our gas marketing positions out of the Permian Basin. This was a significant catalyst in the segment generating positive earnings on an adjusted basis, approximately $145 million above the midpoint of guidance.

As Vicki highlighted, we are raising our full-year guidance for each of our business segments as the result of third-quarter outperformance and improved expectations in the fourth quarter. In Oil and Gas, we are raising our fourth-quarter total company production guidance from last quarter's implied guidance to a midpoint of 1.45 million BOE per day, driven by sustained well performance and operational momentum, coupled with an improved outlook in the Permian.

Supporting this, we have increased our full-year production guidance for the Permian based on outperformance from both our legacy unconventional business and the CrownRock assets. This raise includes an additional 12,000 BOE per day in the fourth quarter, 9,000 of which are coming from our CrownRock assets.

We are excited to build on the year-to-date success across our domestic portfolio and expect these positive production trends in the Permian should more than offset the fourth quarter production impact related to the Gulf of Mexico's ongoing well workovers and disruption from Hurricane Rafael.

Even with an active hurricane season, our OxyChem team was able to overcome the weather disruptions and outperformed third quarter guidance, with pre-tax income of $304 million. Fourth quarter guidance reflects an expected uptick in caustic soda pricing due to European supply disruptions and represents an increase to full-year guidance for the segment despite seasonal declines in volumes for both PVC and caustic soda.

We are also raising full-year guidance for our Midstream and Marketing segment as a result of a strong third quarter performance. Our guidance assumes that our marketing teams will capture some natural gas transportation optimization benefits in the fourth quarter, though to a lesser extent than the prior two quarters as Permian gas takeaway constraints ease.

Additionally, our guidance has been adjusted to account for Oxy's current ownership in WES after our sale of a portion of our LP units during the third quarter. Capital spend net of noncontrolling interest, in third quarter of approximately $1.6 billion was in line with our expectations, and we remain within our previously guided range for 2024 capital.

In closing, I want to share an update on how we are approaching our capital program for next year. 2025 will be a pivotal year for our Low Carbon Ventures and OxyChem businesses as we advance construction of two major projects that are expected to generate cash flow growth and enhance long-term shareholder value.

As Vicki shared, we are well underway with the construction of STRATOS, a first-of-its-kind DAC facility. We expect our 2025 Low Carbon Ventures capital budget, net of noncontrolling interest contributions, to be approximately $450 million. This represents a $150 million decrease from our 2024 guidance of $600 million.

Our OxyChem Battleground expansion and modernization is also progressing well and is expected to reach peak construction activity next year. We anticipate our Chemicals capital budget to be approximately $900 million in 2025, an increase of $200 million from this year due to the increase in project activity. The expansion remains on track for completion in mid-2026.

In our Oil and Gas business, we anticipate activity levels to be broadly similar to this year. Across our CrownRock acreage, we plan to maintain a five-rig program as the assets have benefited from stable activity levels in the last few years. Next year's development program will feature targeted adjustments to well spacing, along with accelerated production delivery through time-to-market improvements. Overall, we expect annual production growth in the mid-single digits from these assets.

Considering the recent commodity price volatility, we are evaluating multiple 2025 activity scenarios across the rest of our U.S. Onshore portfolio. As a result of our high proportion of short-cycle U.S. onshore activity, we have retained considerable capital flexibility within these assets.

We look forward to sharing our detailed plan in our next quarterly earnings call. As Vicki emphasized in her update on our debt reduction progress, we remain dedicated to our core financial priorities. We believe the early success of our deleveraging program leaves us in a great position heading into 2025.

We have no remaining 2024 debt maturities, and our current unrestricted cash balance is sufficient to cover the remaining $1.5 billion of 2025 debt maturities, the majority of which are not due until the second half of the year. We are comfortable with our debt maturity profile, and capital investments we pursue in 2025 will be strategically guided by our commitment to further deleveraging and strengthening our financial position.

I'll now turn the call back over to Vicki.

Vicki Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

Thank you, Sunil. Before we move to the Q&A, I'd like to close by recognizing the exceptional performance of our teams, delivering value through operational excellence, world-class execution, and through driving down costs in a safe and reliable manner.

We continue to demonstrate industry-leading performance across our U.S. onshore assets, setting new records for our operations and well performance. Now with the integration of the CrownRock assets bolstering our Permian footprint, our combined teams are enthusiastically unlocking operational efficiencies to enhance our margins.

Our diversified portfolio across Oil and Gas, Midstream, and Chemicals continues to deliver strong returns, and I'm proud of the achievements made across our Low-Carbon businesses. Oxy has demonstrated leadership and proven capability in carbon management through our EOR operations, and we are making great progress delivering on our STRATOS project, pioneering DAC at scale.

With that, we'll now open the call for questions. And as Jordan mentioned, Richard Jackson and Ken Dillon are with us today for the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Doug Leggate, Wolfe Research.

Douglas Leggate - *Wolfe Research - Analyst*

Thank you. Vicki, I hope you can hear me okay. The line is a little choppy today, but hopefully, you can understand my question.

The operational performance is quite extraordinary, and I think you never really laid out synergies with CrownRock. Obviously, they seem to be showing up. But I guess my question is, there seems to be a nervousness certainly in the market around the commodity outlook. And you guys, I guess, have some big decisions, as Sunil laid out, whether you accept the growth or whether you slow down the program, which obviously has got capital implications.

So I'm wondering, first of all, if you could -- I know you don't want to give us numbers today, but just give us your thoughts on the macro in a world that clearly does not need any more oil. That's my first question. My follow-up, if I may, is on disposals.

You obviously have a lot of options, and you also have laid out this $1.35 billion of chemicals and low-carbon spend next year. So I guess my question is, we're trying to understand what the deleveraging capacity of the portfolio is.

You own NET Power, 48%. You obviously own WES. And you've got the roll-off, I assume, of that capital after 2025. So just give us your thoughts on what the pace of deleveraging could look like and what the options are to achieve that as we go into perhaps a softer commodity backdrop.

Vicki Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

Thank you, Doug. I'll begin with the macro. We, meaning our leadership team -- we review the macro on a weekly basis. We look at all the fundamentals like the activity levels, supply-demand numbers, inventory, external factors. Anything that could impact prices and impact our operations, we look at.

And so we, too, see the downside risk to prices in 2025, and it's hard to predict prices, though. I would say that over the past few years, very few people have accurately predicted prices in this incredibly volatile situation that we have today, where there's more volatility in oil prices than I think I have ever seen.

But we do believe that 2026 will be better than '25, and it's because much of the surplus in the market today has come from growth in the U.S., Guyana, Brazil and Canada. But there's declining growth rates, we believe, for the U.S. and Brazil. And if you take that along with a couple of other non-OPEC countries that are helping to mitigate the current excess with declining production, then that leaves just the wildcards right now are Iran and Russia.

With that being said, we believe it's very prudent for us to be prepared for that situation and to be very much leaning forward and not caught on the -- flatfooted or on our heels like what happened to us in past decades. So, what we've done is -- our current thought is to recommend to our Board the plan that Sunil described, which we feel is conservative.

What that is doing is keeping activity levels in the CrownRock area as they are today and then lowering slightly the capital in some of the other oil and gas areas. So, we wouldn't be growing the rest of the oil and gas portfolio. CrownRock will grow as a result of just maintaining those -- that rig activity and trying to maintain those efficiencies. Because it's always easier to ramp down than it is to ramp up.

But I would assure you that our teams have prepared plans, the next steps, for multiple price scenarios along with the plan of when to pull the trigger, how to pull the trigger, how to execute a decrease in activity should it be needed. I will say that should prices go up, which we don't exactly expect, we would not increase our capital beyond what we're talking about right now.

We would only trigger some reaction if prices look like they're going down, and that trend is strongly downwards. So, with that, they have the opportunities -- we have the opportunity to make changes. And as you saw, what we did during the pandemic, we reacted quickly and strongly to that situation. So we have the same capabilities to do that now.

But I would say there's no better time to allocate capital to our Chemicals business than now as we're doing at Battleground. That project finishes in 2026 and will provide $325 million of additional cash flow. And it's times like this that we feel like with the high volatility in oil prices that our OxyChem and gas projects in the Middle East, along with our production sharing contracts, those do not get -- they're not as appreciated in other challenges as they are now, looking through having that steady cash flow through the cycle.

So that's where we are with the macro. That's where we are with what we're thinking about capital spend. And again, we have the capability to ramp-down and a methodical approach to first working what our cost structure should be. So we've got details on that.

With respect to the synergies in CrownRock, those synergies have been pretty strong that we're starting to see now. So we will -- I'll let Richard take a stab at that. But before he does, I just want to get to your deleveraging question. As you mentioned, we have lots of opportunities.

We have one of the largest portfolios in the Permian as any company. We also have the other things that you mentioned. We have some things that we are marketing now. And as we go into the future, we have lots of levers to pull.

And we'll -- we always have everything on the table. We look at everything. And depending on what the macro is, I can assure you that we have a plan for any kind of scenario and the opportunity to execute on the deleveraging plan.

Richard Jackson - *Occidental Petroleum Corp - President Operations, U.S. Onshore Resources and Carbon Management*

Hey, Doug. This is Richard. Yeah, I'd be glad to talk through some of the most recent updates on our CrownRock integration. I know that we've gotten several questions on that, so I appreciate you bringing that up.

Obviously, going really well from the start of close. And really, that's -- means a lot from the team that's been operating it over the last year. So they really brought in some strong operational performance that led to the beat in the third quarter and the fourth quarter. So very appreciative of that.

But really, been able to -- as Vicki said, the teams dive into some of the potential synergies, and a few just to highlight. As you know, we always start with our subsurface. And -- as we look into next year, we think we have a very strong program for those five rigs focused on some of the horizons that we well understand.

But we are moving to some de-spacing. And so I think we'll be able to talk about that more as we get to the next call, but looking to de-space and improve our recovery per dollar spent.

Supply chain is another area we've been very focused because they help bring a lot to the table, but looking with this more balanced operational portfolio between the Delaware and the Midland Basin, where we're seeing some opportunities. And so one of the examples that they've highlighted is really our frac core utilization as we're able to take advantage of what we call white space, the time between being complete with the well ready for frac until mobilizing that unit to frac the well. They're targeting quite a bit of improvement next year, north of 20% improvement in that white space.

So what that does, as you're carrying a normal DUC level due to operations, that may go from something like 22 DUCs at any one time down to 15, and that adds barrels on the year for really no cost. So pleased with that.

The water example that Vicki talked about, that's a South Curtis Ranch development that we're able to use in the nearby Nail Ranch facility that CrownRock had for water, and so that's $10 million that they're able to deliver there.

And then the final thing I would say is we're just now really getting into these, what we call, best of the best workshops. And so it's not just what Oxy brings, it's certainly valuing what CrownRock or the OxyRock team brings now to our overall operations.

So the Midland Basin team, as they look at next year, they're out looking better than 10% cost improvement across the Midland Basin operations due to these best of the best synergies between the teams. So we think that's pretty meaningful and outpacing certainly what we'd be able to do alone.

Operator

Roger Read, Wells Fargo.

Roger Read - *Wells Fargo Securities, LLC - Analyst*

One thing we noticed in the results last night, it was a discussion on the sell-side call, was the oil mix in the Permian here. And I know there's been a lot of moving parts, right, CrownRock comes in, some things go out.

But as you think about the go-forward drilling program, what is the right way for us to think about that? Q3 a bit of a blip to the downside and then back up where you were or are we seeing a -- I don't know if the right term is structural change, but maybe a change in the resource base that you have there?

Vicki Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

Hi, Roger. You cut out over the last couple of sentences. Sorry about that. Would you mind repeating it?

Roger Read - *Wells Fargo Securities, LLC - Analyst*

Yeah. Sorry about that. I just said last night with the results and then on the sell-side call, there were discussions and questions about the percentage of oil produced out of the Permian. And I was just trying to understand, we had a lot of moving parts this quarter with the addition of CrownRock and then some assets sold as well.

And as you look at the go-forward, how should we think about that oil mix? It was 58%, 59% this quarter, 55%. Just -- it's not a huge difference, but we're all watching those small changes and trying to figure out what they mean.

Richard Jackson - *Occidental Petroleum Corp - President Operations, U.S. Onshore Resources and Carbon Management*

Yeah. Hey, Roger, I'll try to help that a little bit. I think to start the question, I think moving forward, we're going to try to do what we can to help guide to that and help you understand what that means.

A couple of things I would point to. One is increased secondary benches, especially in the Delaware. We moved year-on-year, '23 to '24, I think we went from about 20% secondary benches to 40%. But like Vicki mentioned in our script and we highlighted in the slides, that's adding a lot of value for us, even though there are a little more NGLs associated with that.

The value of being able to take those two existing facilities is quite accretive on a return basis. And so we're doing more of that blend between our primary and secondary benches, taking advantage of that existing infrastructure.

So from a go-forward, one, we'll try to help. But two, I think what you're seeing in the second half leveling off, and you can see it in the third quarter and fourth quarter implied percentage on that. So hopefully, that helps, and we'll do what we can to show that.

Probably the one other point I want to mention on that, we did, from a pure volume basis on oil -- I just wanted to reiterate the strong performance of the team, that was a beat on oil. So that's a plus 5 from the Permian on overall oil volume. So I understand the percentages but also want to give kudos to the team in terms of the delivery on that.

Roger Read - *Wells Fargo Securities, LLC - Analyst*

Yeah. And I didn't mean to imply a bad total production. It was more just trying to understand the moving components in there.

The other question I have -- and I think this has been addressed. But in terms of the goals on debt reduction now -- and let's leave aside what the oil price is going to be because obviously, that will change what CapEx and all that is. But if we just took the forward curve and we think where you're going to be in 12 to 18 months, how do you see the balance sheet? Like what would be defined as success from your standpoint?

Vicki Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

We think we've already had significant success with the $4 billion. But we do believe that even in a lower price environment, we're going to have some cash flow. We're still going to have some divestitures.

We'll still make progress in 2025 regardless of where prices will be, and that's our target. Our target is to continue our debt reduction through the year, regardless of what it takes to do that.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs Research - Analyst*

Yeah. Vicki, I had a macro question for you. I just -- I think you've talked a lot about how over the next couple of years, you expect shale to get more mature and -- maybe not decline, but resource tapers out and we're going to need to then pull-on exploration. But one of the things that's emerged from this earnings season is very consistent beats on productivity and oil volumes not just from you guys but from the industry broadly.

And I just love your perspective, has that evolved the way that you're thinking about the macro, the continued resiliency of supply in the face of a declining U.S. rig count? Your macro perspective would be great.

Vicki Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

I do believe that we're going to continue to increase efficiencies in the Permian Basin. And I think the Permian is a basin that will continue to deliver, where we'll see volumes declining and ultimately achieving a plateau for the Permian within -- for the US within the next three to five years will be because of declines from the other basins.

These secondary benches that we have, second and third and fourth benches that we can develop in the Permian, in the Delaware, and the Midland Basin - those will continue to contribute to growth for the Permian. Since the growth from the Permian, that's going to offset the decline from the other basins in the near-term and ultimately help us to achieve, I think, a larger, a higher peak than where we are today. That's when we'll start to plateau.

So that would be, in our view, three to five years out. Because as we said, we're still continuing to get more out of these reservoirs. And there's a lot of productivity still remaining, a lot of wells still to be completed. And as long as we're seeing that increase, and I think that it's going to continue.

I expect in the near term with weaker prices that what we used to think as a peak is, say, in three years, moves further out because with weaker prices, I think there's going to be less growth in the Permian in 2026 than what we saw or -- in 2025 than what we seen in 2026.

So it's going to push that peak a little further out. But still, productivity in the Permian as you have mentioned and indicated - it's certainly going to continue to increase. It's the basin that will keep on giving for sure.

Neil Mehta - *Goldman Sachs Research - Analyst*

Thanks, Vicki. That's great color. And then just going back to the DAC and as you think about bringing on Unit 1 by the middle of next year, what are the gating items, the critical path items, to get it into service? And what are you really focused on around the start-up from an engineering standpoint?

And then in light of the election, has anything changed about the way you think about the economics of this business? Or is your view on this independent of the subsidy environment?

Vicki Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

I'm going to take that first one first, and then Ken is going to go through the milestones and what he's looking at with respect to construction. But I will say that in weaker prices and in the scenario we see today, I think that DAC is going to be one of those businesses for us that kind of fits in the same category as our Chemicals business and our gas business in the Middle East.

I think DAC is going to be a value creator and a cash flow generator for us for a long time. We have work to do in the near-term. But in the long-term, what we -- what's happening with respect to support for DAC is pretty amazing and taking advantage of that.

But because of what we're able to do here, apply innovations even as we're building the first DAC, that’s very encouraging from a commercial standpoint. So we're already working down on the cost curve. We're already looking at opportunities for improvements in DAC 2.

So we do believe that the commerciality is still there for these units and the market is getting stronger all the time. So we're still excited and encouraged about where we are with respect to commerciality.

Kenneth Dillon - *Occidental Petroleum Corp - Senior Vice President and President, International Oil and Gas Operations*

Good afternoon. The DAC project is doing very well. First phase is nearly at 90% completion now, and this includes the first two capture trains, which should be mechanically complete by the end of the year, as well as the central processing areas. So all the major equipment is there, good checks have been done, ongoing at the moment.

Central processing size for 500,000 tonnes which will support the additional two capture trains when they come online between mid-'25 and mid -'26. So overall, if you take both together, the project is about 70% complete towards full capacity.

Since the CE purchase, our engineers have been working closer than ever. There are many cost-down ideas that we continue to work in, and Richard asked if we could see what the project team could reasonably incorporate into STRATOS.

On this slide, you've seen physical changes that Vicki mentioned earlier resulted in fewer pellet reactors and also smaller air contactors with a 30% reduction. What you can’t see, which was to your point, is all the savings in the piping, the number of valves, the instruments that have all been eliminated.

This also makes it much simpler to build, and there's also a massive improvement in the air contactor construction plan going forward by using modules, which will halve the build type for air contactors.

Future DAC's - we plan to see 10% to 15% savings from these modifications, and you could see additional improvements to take it past 20% also with reduced OpEx, maintenance, improved safety. The team at Worley has been key to being able to adapt on the fly in engineering and procurement and, in fact, Chris Ashton, the Worley CEO, was at the site to meet with his team recently and show support for the project. So overall, the teams are working incredibly well together and the project is on schedule.

Vicki Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

And then I'll just follow up to your question about the election results and the impact that will have. I think the election of Trump to become our next President is going to be very positive for our industry, especially for our Direct Air Capture.

The reality is that, I believe, he understands better than anybody our need for energy independence here in the United States. He understands the industry. He understands how it plays in the geopolitical politics. He knows what we're trying to accomplish and what we're doing.

And he also understands the part that our Direct Air Capture will play in helping with that energy and security. So I believe that the funding from the Infrastructure Investment and Jobs Act that the DOE has already awarded will be dispersed as per the agreement, such as for our DAC 2 to be built on the King ranch.

We do expect to get the $500 million with potential for $650 million. We also believe that 45Q will continue to have bipartisan support because it will benefit, first of all, helping companies to decarbonize by buying carbon reduction credits from us, but also the recovery of additional reserves from our domestic reservoir.

President Trump clearly supports that as well. And he, again, understands that that's something that's necessary. Getting oil out of the reservoirs you already have is the best possible way to provide affordable gasoline to our country.

It's impossible to be a superpower without ample supply of liquid fuels. The use of CO2 for enhanced oil recovery, as I mentioned, is a big part of what makes DAC so important for the country. And some people don't understand that process.

I won't take the time to go into how it works, but just helping people to understand -- again, President Trump knows that the CO2 -- it takes more CO2 injected into the reservoirs than the incremental oil that it generates will emit when used. But we just don't have enough CO2 to use in the reservoirs here. We don't have enough organic CO2.

So DAC is necessary to achieve the incremental CO2 that we need. And then going from DAC to Net Power, Doug had mentioned the 40% ownership of Net Power to make our DAC emission-free. We'll initially and probably throughout use some amount of solar, but we'll also need to build Net Power, which is an emission-free way to generate electricity by combusting hydrocarbon gases with oxygen instead of air.

That creates a water and CO2. CO2 drives the turbine to create the electricity, but it also captures CO2 as a part of the process. That incremental CO2 from Net Power can also be used to -- in oil reservoirs for enhanced oil recovery or to make products.

So we're developing what I believe are two of the technologies that the world really needs to address not only the companies that want to decarbonize, to help them, but to get incremental oil and extend our country's energy security.

So that's where we stand on this. We're pretty confident about where we are and how that's going to play out with this election.

Operator

Paul Cheng, Scotiabank.

Paul Cheng - *Scotiabank GBM - Analyst*

I think the first one is for Sunil. Sunil, you probably already addressed it, but trying to make sure I understand this year based on the fourth quarter CapEx. So your full year CapEx is about, say, $7.1 billion or that about $200 million higher than your previous midpoint guidance. And is that all in the CrownRock because you are doing -- or is that only in Permian because you are doing better?

If I'm looking at next year, is CrownRock CapEx is still looking like $900 million. So I think previously, it's assuming that this is a $500 million incremental. So now that -- I mean, how much is the incremental CapEx from CrownRock for next year? This is the first question.

And the second question, if we look at the -- I just want to go back into the gas oil ratio. If we look at the third quarter versus the second quarter, you dropped by about 2% in Permian. Is that something one-off that triggered it or is it all driven by CrownRock?

And it does look like, fourth quarter, that the gas oil ratio is relatively close to the third quarter. So I suppose that maybe that this is all driven by CrownRock. I just want to clarify and make sure that we understand correctly.

Sunil Mathew - *Occidental Petroleum Corp - Senior Vice President and Chief Financial Officer*

Okay. So Paul, if I understand correctly your question, your first question was, what was the driver for the increase in the full year guidance for 2024? Is that correct? Or is that --

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Paul Cheng - *Scotiabank GBM - Analyst*

And also correspondingly that from '24 to '25 CrownRock, what is the incremental CapEx that we should assume?

Sunil Mathew - *Occidental Petroleum Corp - Senior Vice President and Chief Financial Officer*

Okay. So with respect to your first question, yes, all the incremental CapEx for the full year of 2024 is related to CrownRock. So what we had disclosed in the last earnings call was it's going to be around $400 million, and that is for the five months that we are operating from.

So with respect to what the capital would be for next year, like I mentioned in my prepared remarks, we are planning a five rig program for next year. And we are still working the details around what the capital would be, but we expect it somewhere in the $900 million to $950 million range.

And so with respect to your second question, that was on the GOR for Permian, correct?

Paul Cheng - *Scotiabank GBM - Analyst*

Is there anything one-off in the third quarter that related to that because it's a drop of 2%? That is a pretty substantial drop comparing to the second quarter oil cut in the Permian.

Richard Jackson - *Occidental Petroleum Corp - President Operations, U.S. Onshore Resources and Carbon Management*

Yeah, I can start, and Sunil can help on any other macro. Yeah, it really is, I mean, one, Permian growing unconventional. So we had growth in the Rockies and Permian. And so that significant jump in production with a lower oil cut mix was one piece of it.

Two, a bigger part of that is our secondary benches that I mentioned earlier. Our first year oil cut is significantly less for our secondary benches, but the value is better. And so we want to continue to reinforce that.

So I think to your point, the growth in CrownRock is a part of that growth in unconventional - that is really driving that oil percent. But we see that percentage in the back half of this year extending into next year. And as we develop different areas that may drive that change over a period of time, we're going to -- we'll try to help guide to that so that you can understand and follow that. Hopefully, that helps.

Operator

Scott Gruber, Citi.

Scott Gruber - *Citi - Analyst*

A couple of questions here. Just back on the Permian, you mentioned raising the percentage of secondary zone development in the Delaware from 20% to 40%, if I heard correctly. Where does that figure go in '25?

And then as you look at the Midland side of the basin with the CrownRock assets, could you step up the percentage? Where is that percentage currently? And can you step it up in '25 as well?

Richard Jackson - *Occidental Petroleum Corp - President Operations, U.S. Onshore Resources and Carbon Management*

Yeah. Thank you. So I think a similar percentage on the overall Permian in terms of primary and secondary benches, I think we did a level-set utilizing these existing infrastructure facilities for that. So I don't expect that to largely change - at least with activity levels as we're currently operating.

Obviously, we adjust down or up, depending on what our final program is. That could change a bit, but I think that will be very similar. From a CrownRock perspective, our base plan for those five rigs next year is really what we call 85% primary benches.

And so while we see some opportunities in secondary benches, the program that's been put together is very de-risked. And we did that really to be able to perform operationally. So we tried to get out in front of those operational plans.

So the Sprayberry, Dean, Wolfcamp A and B, those are the primary zones that we're looking at next year. If we see opportunity to improve on that, we obviously would change. But that's the going-in plan for next year.

Operator

Arun Jayaram, JPMorgan Securities.

Arun Jayaram - *J.P. Morgan Securities LLC - Analyst*

I wanted to see if you could discuss your thoughts on what you view as a more normalized Capex in Chems. You mentioned that you'll spend about $900 million next year given some projects. And what you think about more normalized Capex? And what does the growth Capex you're spending next year - what does that do to the earnings power of that segment?

Vicki Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

So in OxyChem, pre the special projects, we were running about $300 million. And so that's what we expect to be able to get back down to post-Battleground and a couple of pipeline projects we just had.

Sunil Mathew - *Occidental Petroleum Corp - Senior Vice President and Chief Financial Officer*

And with respect to the earnings part, as Vicki mentioned in prepared remarks and later, we expect around $325 million uplift once we complete the project, and the project is expected to be completed in mid-2026. And that is primarily driven by the expansion in capacity of around 80%. And this assumes around the mid-cycle prices.

Arun Jayaram - *J.P. Morgan Securities LLC - Analyst*

All right. That's helpful. And just one question on the Rockies. It looks like from your disclosure that you have sold some properties in the Rockies. It looks like the Powder River Basin. Just give us a sense of future thoughts on the Powder and what exactly you've divested there?

Vicki Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

So in the Powder River, we bought the whole thing, obviously, as a part of the Anadarko acquisition. But we saw early on that there was a – the southern part of Powder River Basin was, by far, the most contiguous and the part that we felt like we could -- we can get most value out of. So that's why we sold.

And we wanted to always be focused and always have contiguous acreage where possible and always looking at subsurface where we think we can optimize and create value. So we sold the part that's north of that focal part of the southern part of the basin.

We sold that to Anschutz because it's in a better area for them to be able to develop. And so I think we did a win-win situation there and now have the focus on the area that I think is going to create a lot of value for us in the future.

Operator

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

Vicki Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

I want to thank you all for your questions and for joining our call today. Have a great rest of your day. Thank you.

Operator

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