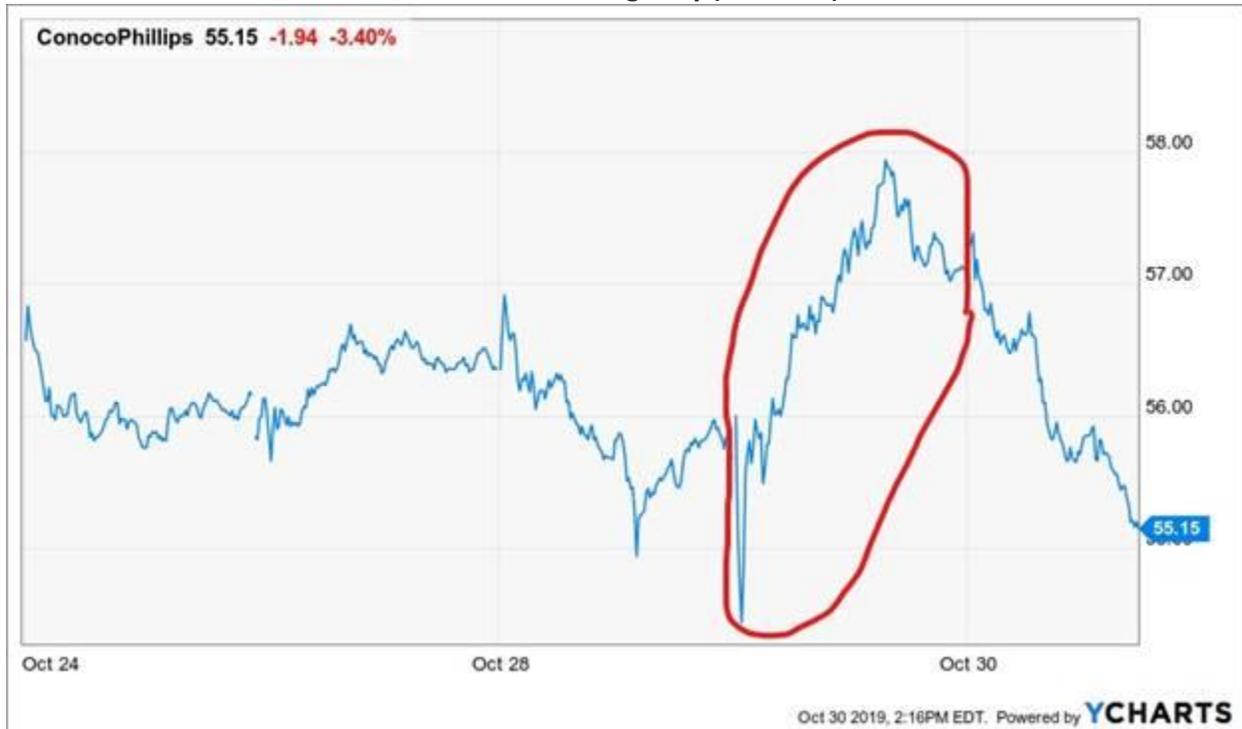


Inside Conoco: Last Quarter's Progress

October 30, 2019

The market's behavior on any one day is fundamentally meaningless . . . but it's often interesting, anyway. Here is how the market acted from 8:30 am to 3:00 pm yesterday, following Conoco's "before the market opened" earnings announcement.

Conoco on Earnings Day (red circle)



And here's a snapshot of what Conoco reported about its 3rd quarter, triggering that confused market behavior:

3Q19 Earnings Summary

Adjusted Earnings (\$ Millions)



Highlights

- Sequential adjusted earnings impacted by 7% lower realized prices and increased exploration expenses, partially offset by higher volumes
- Year-over-year adjusted earnings decreased due to 18% lower realizations and increased exploration expenses, partially offset by higher volumes

Segment Adjusted Earnings (\$MM)	3Q19	3Q18
Alaska	312	427
Lower 48	136	550
Canada	51	2
Europe & North Africa	156	241
Asia Pacific & Middle East	449	577
Other International	(13)	(9)
Corporate & Other	(177)	(193)
Total	914	1,595

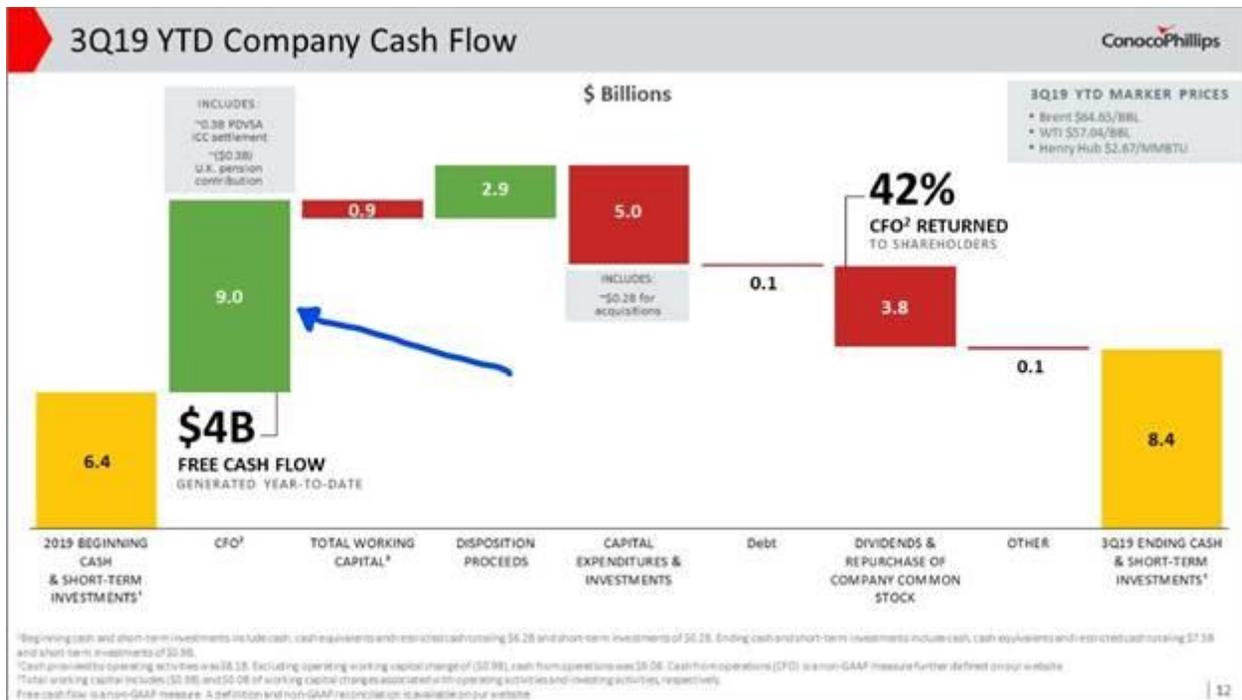
Adjusted earnings and adjusted EPS are non-GAAP measures. Definitions and reconciliations are available on our website.

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Per-share profits plunged 40%, which surely triggered the cliff-dive we see in the top chart, after the opening bell. But it didn't last long, did it? Most of the rest of the day was spent climbing to a gain of 4%, before giving a little back in the last couple of hours. (We might naturally wonder how the crowd of people who try to make their living on daily price changes made out, inside that red circle. Of course we'll never know . . . but if we guess that some financial pain got passed out yesterday, in that circle, we're surely right.)

Our last chart explains the market's behavior. (Explains it as well as anything can, which isn't very well, usually.)

Conoco: 9 months of sources and uses of cash



That’s a complicated chart, but here is the headline: “Conoco’s selling price for oil plunged 18%; but the company still generated \$9 billion of operating cash flow, and \$4 billion of free cash flow.” (“Free” meaning what was left after \$5 billion of capital spending to keep the company’s oil flowing.)

When a company’s people and leaders work exceptionally hard and effectively to fix some “Big Problem,” the payoffs are often astonishing; often last an amazingly long time; and always surprise a stock market which, when it’s doubtful and skeptical, believes nothing good, until its nose is rubbed in it. As Outlook has noted a few times, the performance of Conoco’s people was nothing less than “spectacular” during its “Big Problem” of 2014 – 2016, when the price of oil plunged 75%. CEO Ryan Lance promised to create a company which would make solid profits throughout the oil price cycle, and reward its shareholders with cash at the bottom of the cycle as well as at the top. That’s exactly what Mr. Lance and his team have done. If that red circle around yesterday’s market behavior means anything, it means the market has begun to see it (right in front of its rubbed nose, courtesy of Conoco’s 38% dividend hike, a couple of weeks ago.)

We used the word “spectacular” a moment ago, concerning the profound strengthening Conoco’s people have given their company. When the global oil price cycle turns up and stays up for a while, this company’s earnings and cash flow will themselves show “spectacular” gains. That is the unmistakable message from Conoco’s last quarter.

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