Clark Williams-Derry, Energy Finance Analyst
Tom Sanzillo, Director of Finance
Kathy Hipple, Financial Analyst
April 2020

Institute for Energy Economics and Financial Analysis
IEEFA.org

Beyond Their Means: Oil Majors Pay More to Shareholders Than They Earn by Selling Oil and Gas

"Deficit Spending" Widens as Companies Bridge Cash Gap with Borrowing and Asset Sales

Two of the world's five largest private-sector oil and gas companies failed to generate enough cash from their primary business—selling oil, gas, refined products, and petrochemicals—to cover payments to shareholders in 2019. ExxonMobil paid $9.9 billion more to shareholders during the year than it generated from its core business operations, while Shell paid $7.4 billion more. Meanwhile, Chevron's cash flow surplus declined by $6.4 billion, year over year, while Total and BP both improved their cash performance compared with 2018.

All told, the five largest publicly traded oil and gas firms in the world by market capitalization rewarded stockholders with a total of $71.2 billion in dividends and share buybacks last year, while generating only $61.0 billion in free cash flow. [1] (See Table 1.) With shareholder payouts exceeding free cash flow, ExxonMobil and Shell relied on other sources of cash to sustain dividends and share buybacks. For the five supermajors as a group, 2019 represented a stark turnaround from the previous year, when these companies produced a decade-topping $17 billion more in free cash flow than they paid out to shareholders.

Table 1: Five Oil and Gas Supermajors: Free Cash Flow, Shareholder Distributions, and Cash Deficits, 2018-2019 (Million $USD)

	Free Cash Flow, 2019	Dividends and Buybacks, 2019	Deficit, 2019	Deficit, 2018
Exxon-Mobil	$5,355	$15,246	($9,891)	$2,016
Chevron	$13,198	$11,894	$1,304	$7,720
Shell	$19,207	$26,560	($7,353)	$9,337
BP	$10,352	$8,457	$1,895	($888)
Total SA	$12,875	$8,999	$3,876	($1,120)
Sum, 5 Supermajors	***$60,987***	***$71,156***	***($10,169)***	***$17,065***

Source: IEEFA, based on company financial reports.

[1] See Appendix for methodology.

Looking longer-term, each of the five global oil and gas super-giants ran significant cash flow deficits over the past decade. All told, these five companies generated $340 billion in free cash flows from 2010 through 2019, while rewarding their shareholders with $556 billion in share buybacks and dividends—leaving a $216 billion cash flow deficit that these companies covered with other sources of cash, including new borrowing and asset sales. Said differently, over the last decade these five companies covered only 61 percent of their shareholder payouts from free cash flows, while funding 39 percent of those payouts by other means. (See Table 2.)

Table 2: Five Oil and Gas Supermajors: Free Cash Flow, Shareholder Distributions, Cash Deficits, 2010 – 2019 (Million $USD)

	Free Cash Flow	Dividends and Buybacks	Deficit	FCF as a Share of Payouts
Exxon-Mobil	$137,452	$206,176	($68,724)	67%
Chevron	$48,787	$93,776	($44,989)	52%
Shell	$104,541	$131,074	($26,533)	80%
BP	$16,842	$66,143	($49,301)	25%
Total SA	$32,029	$58,913	($26,884)	54%
Sum, 5 Supermajors	***$339,651***	***$556,082***	***($216,431)***	***61%***

Source: IEEFA, based on company financial reports.

Generous dividends and share buybacks gave the oil and gas supermajors a superficial appearance of blue-chip financial performance. But closer examination reveals an underlying weakness in the oil and gas sector's financial fundamentals: for the last decade, the globe's largest oil and gas companies have relied on borrowing and asset sales, in addition to cash flows from their core operations, to maintain payouts to shareholders.

Discussion

Executives of the oil and gas supermajors have argued that robust dividends and share repurchases offer a compelling rationale for investing in their companies.[2] Oil executives have managed these shareholder payouts carefully, often aiming to keep dividends stable or growing over time, while using share buybacks as an efficient means to distribute surplus cash.[3]

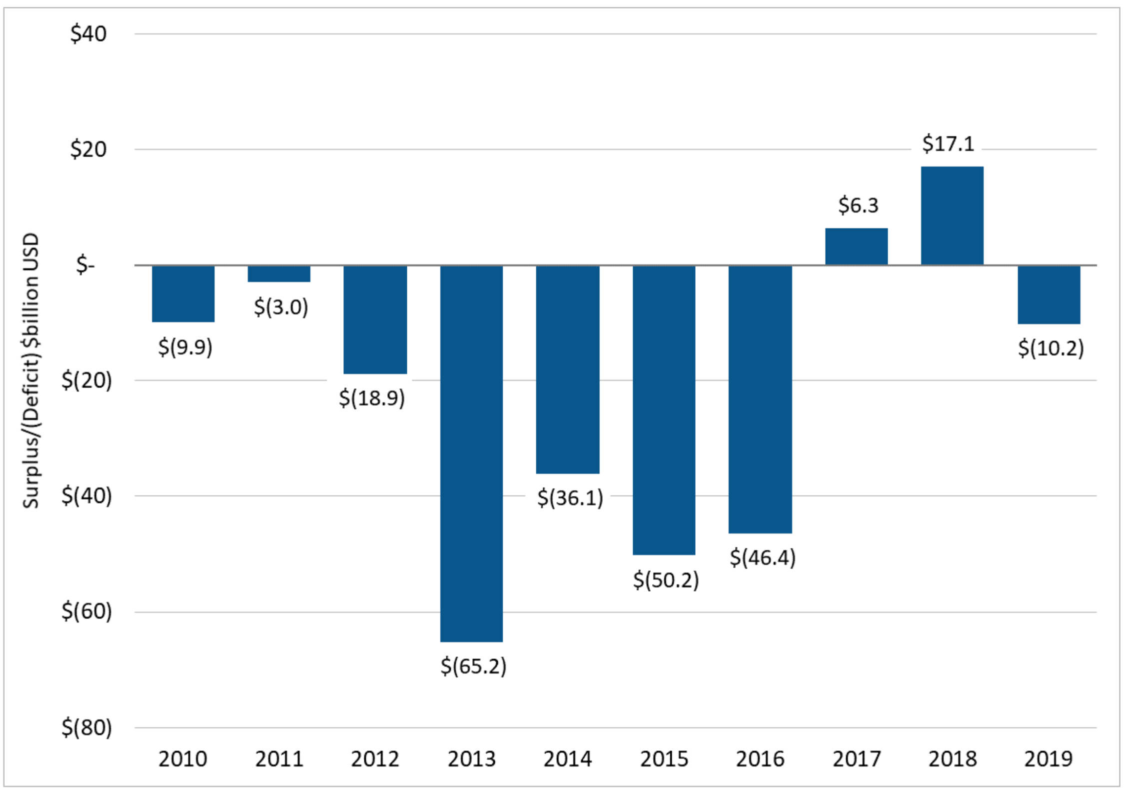
Investors typically expect private companies to fund shareholder payouts out of free cash flow —the cash generated by the company's operations, minus cash spent on capital projects.[4] When a company deviates from this standard, investors typically

[2] Energy Intel. Shell CEO on Dividends. October 10, 2019.
[3] CRS.gov. Stock buybacks: Background and reform proposals. February 27, 2019.
[4] Regular warnings are issued by rating agencies, investment publications and the business press about the elevated levels of financial distress that accompany using high levels of debt and asset sales as the means to pay dividends. The warnings are issued as general investment policy and are also specific to the oil and gas industry. See: *The Wall Street Journal*. Big Oil Opts for Payouts Over Debt Rating. February 4, 2016.

scrutinize the firm's business model and financial underpinnings. Over the past decade—and particularly over the past 5 years—investors have taken an increasingly skeptical view of the oil and gas majors, prompted in part by these companies' sustained inability to produce the robust free cash flows needed to fund their substantial payouts to shareholders.

The oil majors' cash shortfalls varied by year. (See Figure 1.) In 2013 and 2014, high oil prices helped the supermajors generate ample cash flows—yet the firms also spent prodigiously on capital projects and shareholder distributions, leading to steep cash deficits. And in 2015 and 2016, a crash in oil prices constrained revenues, leading to two consecutive years of negative free cash flows—and two more years of substantial cash deficits. The following two years brought better results. But by 2019, the supermajors had fallen back into deficit spending on their shareholder payouts.

Figure 1: Five Supermajors: Free Cash Flow Minus Dividends and Buybacks (Million $USD)



Source: IEEFA, based on company financial reports.

Moody's. Leveraged Finance – US: Tracking The Largest Private Equity Sponsors: LBO Credit Quality Is Weak, Bodes Ill For Next Downturn; *Forbes.* Is Chevron's Debt-Funded 4.5% Yield Really Worth 70x P/E, 300% Payout? March 31, 2016; *The Wall Street Journal*. Borrowing for Dividends Raises Worries. October 6, 2009; *The Money Commando*. Avoid companies that borrow to pay a dividend. September 2016; Stone Fox Capital. Exxon Mobil Dividend Problem. December 16, 2019.

The five oil supermajors have employed a range of dividend strategies in response to their cash challenges. ExxonMobil and Chevron maintained steady dividend increases over the decade, betting that investors would reward their commitment to shareholder payouts in the midst of oil market instability. Meanwhile, Shell boosted dividends significantly in some years and trimmed them back in others, while BP and Total cut dividends substantially after oil prices fell in 2015 and 2016, helping narrow their cash flow deficits in those years.

For all five companies, asset sales represented a crucial source of funding for dividends and share buybacks. The oil and gas supermajors typically describe asset sales as efforts to streamline their portfolios and meet high-value strategic goals. However, asset sales also served as critical annual sources of cash for shareholder payouts. BP led the supermajors in asset sales, raising $70.8 billion from asset sales since 2010, trailed narrowly by Shell at $70.2 billion. Yet 2019 represented the low-water mark for asset sales over the decade, with just $16.9 billion in asset sales across the five firms—even though the companies have all announced that a significant portion of their assets are for sale.[5]

All five of the supermajors also borrowed significant funds over the decade, taking on a cumulative $107 billion in additional long-term debt. Low interest rates over much of the decade facilitated borrowing as part of each company's annual strategy for keeping cash flowing to shareholders. (See Table 2.)

Table 3: Five Oil and Gas Supermajors: Net Additions to Long-term Debt, 2010–2019 (Million $USD)

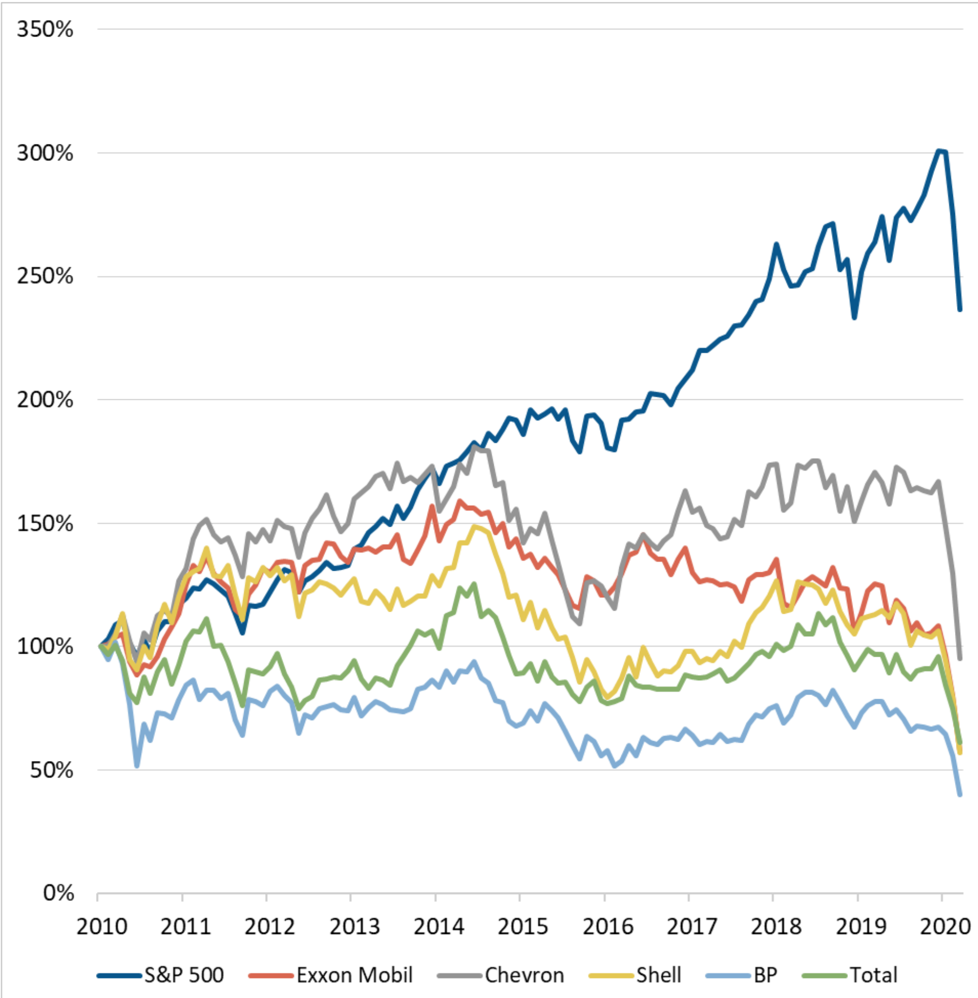
Net Additions to Long-Term Debt	2010-2019
Exxon-Mobil	17,911
Chevron	13,562
Shell	28,857
BP	32,217
Total	14,762
Sum, 5 Supermajors	***107,309***

Source: IEEFA, based on company financial reports.

For the oil and gas supermajors, the troubling and persistent gap between free cash flows and shareholder payouts has been one of many factors contributing to sustained stock market underperformance. The oil and gas industry as a whole fared poorly since the beginning of 2020, battered by a combination of weak oil demand, massive oversupply and the lowest global oil prices in more than a decade. Yet the supermajors' disappointing stock market performance long preceded the current crisis: by 2015, each of the five private sector oil giants saw their stock prices decisively trailing the broader market. (See Figure 2.)

[5] Rystad.com. Majors' global selling spree could fetch $27 billion. November 18, 2019.

Figure 2: Stock Prices of the Five Supermajors vs. the S&P 500 (January 2010 = 100%)



Source: Yahoo Finance.

Moving forward, the oil and gas supermajors will continue struggle to attract new investors in the face of today's oil market chaos. Even before the twin crises of COVID-19 and the Saudi-Russia price war, stock market valuations already reflected decreasing confidence in the industry. Investors apparently concluded that, given the supermajors' sustained cash flow challenges, generous dividends and share buybacks did not signal robust financial health. The current oil market chaos, characterized by low and volatile prices, will likely further undermine the industry's prospects for generating the reliable, robust cash flows that attract favorable attention from investors.

Sources and Methods

All data used in this report were drawn from 10-K filings for ExxonMobil and Chevron, and from 20-F forms for Shell, BP, and Total. U.S. Securities and Exchange Commission (SEC). Annual data for 2010 through 2018 was drawn.

IEEFA took additional steps to check the validity of the trends that are suggested by the data. In a few instances, the authors checked with company investor relations to determine the accuracy of the formal securities disclosures. IEEFA also reviewed numerous credit opinions and analytical updates conducted by Moody's on each of the companies for the period covered in this paper. Moody's analytical systems treat many of the data sets used in this report differently. IEEFA did not change any number based on these studies and relied exclusively on the corporate data reported in each company's financial filings. The Moody's reports were used as sensitivity checks on trends and as additional explanation to support IEEFA's data gathering, analysis and conclusions.

All spreadsheets and work products for this report are available on request as are any of the independent studies used for sensitivity checks.

Terminology: The 5 supermajors used slightly different terms and reporting methods in their financial statements. IEEFA believes that variations in definitions, terms, and currencies do not materially impact the basic trends identified in this report. The system of uniform accounting that serves as the basis for formal annual and quarterly company disclosures under U.S. and international securities laws enables reasonable comparisons among the companies on the financial metrics selected for review in this study.

Free Cash Flow: IEEFA calculated Free Cash Flow as net cash from operating activities minus capital expenditures, defined as follows:

- **Net cash from operating activities**. In recent audited financial statements this value was indicated on cash flow statements as "Net cash provided by operating activities" for ExxonMobil, Chevron, and BP, and as "Cash flow from operating activities" for Shell and Total.

- **Capital expenditures.** This value was listed on cash flow statements as "Additions to property, plant, and equipment" for ExxonMobil, "Capital expenditures" for Chevron, "Capital expenditure" for Shell and BP, and "Intangible assets and property, plant and equipment additions" for Total.

Net additions to long-term debt: Total long term-debt was listed as "Long-term debt" for ExxonMobil, Chevron, and Shell, as "Finance debt" for BP, and as "Non-current financial debt" for Total. Where possible, IEEFA excluded lease obligations from long-term debt. Lease obligations were listed in different ways over time for each company. ExxonMobil reported "capitalized lease obligations" as a separate line item on its balance sheet. Chevron reported "capital lease obligations" as part of its long-term debt for 2017 and 2018, but as a separate line item in prior years. Shell listed “finance lease liabilities” in notes to the balance sheet. BP did the same for “net obligations under finance leases,” and Total for “financial lease obligations.”

Asset Sales: In recent financial statements, ExxonMobil listed asset sales as a single line item: “Proceeds associated with sales of subsidiaries, property, plant and equipment, and sales and returns of investments.” Chevron reported asset sales as “Proceeds and deposits related to asset sales and returns of investment.” Shell’s cash flow statements had separate listings for “Proceeds from sale of property, plant and equipment and businesses” and “Proceeds from sale of joint ventures and associates,” which IEEFA summed to a single total for asset sales. BP listed “Proceeds from disposals of fixed assets” separately from “Proceeds from disposals of businesses, net of cash disposed,” which IEEFA summed to a single total. For Total, IEEFA calculated asset sales as the sum of “Proceeds from disposals of intangible assets and property, plant and equipment” and “Proceeds from disposals of subsidiaries, net of cash sold.”

Dividends: For all companies and in all periods, IEEFA tallied all dividends to common stock shareholders listed on the cash flow statements, excluding all other forms of dividend payments, including dividends to non-controlling interests.

Net share buybacks: The 5 companies reported buybacks of common shares in varied ways. Some listed a single number for net purchases/sales; others with separate line items for issuances and repurchases. And some companies listed separate totals for issuance repurchases of common shares and treasury shares. We combined all share issuance and buybacks into a single net total for each company, in each year.

Net distributions to shareholders: IEEFA calculated this figure as the sum of dividends and net share buybacks.

Exchange rates: Prior to 2011, Total reported its financial results in Euros. All figures were converted into U.S. dollars, using the annual exchange rates listed in Total’s financial reports.

Data Appendix

Summary Data, 2010-2019 (Million $USD)

Company	Operating Cash Flow	Capital Spending	Free Cash Flow	Dividends	Net Share Buybacks	Shareholder Payouts	Deficit	New Long-term Debt	Asset Sales
Exxon-Mobil	$398,180	($260,728)	$137,452	($116,047)	($90,129)	($206,176)	($68,724)	$17,911	$46,373
Chevron	$288,154	($239,367)	$48,787	($75,668)	($18,108)	($93,776)	($44,989)	$13,562	$36,815
Shell	$377,083	($272,542)	$104,541	($101,290)	($29,784)	($131,074)	($26,533)	$28,857	$70,183
BP	$207,565	($190,723)	$16,842	($54,352)	($11,791)	($66,143)	($49,301)	$32,217	$70,772
Total	$242,863	($210,834)	$32,029	($54,712)	($4,201)	($58,913)	($26,884)	$14,762	$30,741
Sum, 5 Supermajors	***$1,513,845***	***($1,174,194)***	***$339,651***	***($402,069)***	***($154,013)***	***($556,082)***	***($216,431)***	***$107,309***	***$254,884***

Source: IEEFA, based on company financial reports.

Company Data, 2010-2019 (Million $USD)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2019
Surplus/(Deficit)											
Exxon-Mobil	994	(5,781)	(9,068)	(15,578)	(12,557)	(12,270)	(7,505)	916	2,016	(9,891)	(68,724)
Chevron	5,767	5,266	(3,112)	(14,951)	(16,272)	(17,829)	(12,801)	(81)	7,720	1,304	(44,989)
Shell	(8,987)	1,558	4,648	(12,298)	828	(6,139)	(11,338)	3,211	9,337	(7,353)	(26,533)
BP	(7,263)	242	(7,915)	(14,219)	(231)	(6,174)	(10,621)	(4,127)	(888)	1,895	(49,301)
Total	(434)	(4,278)	(3,423)	(8,116)	(7,889)	(7,783)	(4,146)	6,428	(1,120)	3,876	(26,884)
Sum, 5 Supermajors	***(9,923)***	***(2,993)***	***(18,870)***	***(65,162)***	***(36,121)***	***(50,195)***	***(46,411)***	***6,347***	***17,065***	***(10,169)***	***(216,431)***
Proceeds from Asset Sales											
Exxon-Mobil	3,261	11,133	7,655	2,707	4,035	2,389	4,275	3,103	4,123	3,692	46,373
Chevron	1,995	3,517	2,777	1,143	5,729	5,739	5,476	5,096	2,392	2,951	36,815
Shell	6,916	7,458	7,044	1,750	14,036	4,996	3,636	10,985	5,960	7,402	70,183
BP	16,954	2,841	11,598	21,999	3,491	2,792	2,631	3,414	2,851	2,201	70,772
Total	2,445	2,803	2,274	4,420	3,578	5,131	1,732	3,945	3,728	685	30,741
Sum, 5 Supermajors	***31,571***	***27,752***	***31,348***	***32,019***	***30,869***	***21,047***	***17,750***	***26,543***	***19,054***	***16,931***	***254,884***
Net Long-term Borrowings (Repayment of Long-term Debt)											
Exxon-Mobil	5,162	(2,861)	(1,565)	(981)	4,762	7,409	9,020	(4,628)	(3,844)	5,437	17,911
Chevron	1,174	(1,319)	2,282	7,994	4,000	9,582	1,651	(1,716)	(4,871)	(5,215)	13,562
Shell	3,220	(3,692)	(396)	5,426	664	15,051	22,061	(9,826)	(5,744)	2,093	28,857
BP	4,997	4,799	3,596	1,905	4,923	327	5,507	3,799	930	1,434	32,217
Total	572	3,868	(2,235)	5,235	10,975	(994)	(1,413)	(2,533)	(1,759)	3,046	14,762
Sum, 5 Supermajors	***15,125***	***795***	***1,682***	***19,579***	***25,324***	***31,375***	***36,826***	***(14,904)***	***(15,288)***	***6,795***	***107,309***

About IEEFA

The Institute for Energy Economics and Financial Analysis conducts research and analyses on financial and economic issues related to energy and the environment. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. www.ieefa.org

About the Authors

Clark Williams-Derry

Clark Williams-Derry, energy finance analyst at IEEFA, served as director of energy finance and research director for the Sightline Institute, a multi-issue sustainability think-tank based in Seattle for 18 years, where his research focused on U.S. and global energy markets. He was also a senior analyst for Environmental Working Group.

Tom Sanzillo

Tom Sanzillo, director of finance for IEEFA, is the author of several studies on coal plants, rate impacts, credit analyses and public and private financial structures for the coal industry. He has testified as an expert witness, taught energy-industry finance training sessions, and is quoted frequently by the media. Sanzillo has 17 years of experience with the City and the State of New York in various senior financial and policy management positions. He is a former first deputy comptroller for the State of New York, where he oversaw the finances of 1,300 units of local government, the annual management of 44,000 government contracts, and where he had oversight of over $200 billion in state and local municipal bond programs and a $156 billion pension fund.

Kathy Hipple

Kathy Hipple, a financial analyst at IEEFA, teaches the finance sequence at Bard's MBA in Sustainability and is the founding partner of Noosphere Marketing. Hipple has written extensively about sustainable, responsible and impact finance and investing. As Vice President at Merrill Lynch for 10 years, she placed fixed income securities with international institutional clients, and advised international life insurance companies and pension funds. She later founded Ambassador Media, a local search firm in New York City, and served as its CEO. She has served on several boards, including the national Local Search Association and Bennington County's Meals on Wheels.