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# Major Oil Companies' Ongoing Struggle to Pay Shareholders Out of Cash Flows from Operations Accelerates in Dismal Second Quarter

## *Supermajors Spent $16.9 Billion More on Dividends, Buybacks Than Generated From Operations*

The second quarter financial results for the five global oil supermajors—ExxonMobil, Royal Dutch Shell (Shell), BP, Chevron and Total—showcased an industry in distress. Revenues, earnings, and operating cash flows plunged across the board, as low prices and weak demand cut into sales of oil, gas, petrochemicals and refined products around the globe. Expectations for continued low prices forced Shell to write down the value of its assets by $16.8 billion,[1] while BP, Total and Chevron took impairments of $11.7 billion, $8.1 billion and $4.8 billion, respectively.[2]

Q2 2020 saw the onset of the global pandemic (COVID-19) and the playing out of a price war between Saudi Arabia and Russia. The financial impact from the pandemic, which severely curtailed demand, exacerbated existing oversupply conditions, and the price war pushed prices down to unprecedented levels. The benchmark Brent oil price hit $29 per barrel (bbl), and ExxonMobil posted realized prices averaging $21/bbl.

Collectively, the five companies slashed capital spending by almost 30 percent compared with the same quarter in 2019. But even with these cuts, free cash flow (defined as operating cash flows minus capital spending) plummeted, with ExxonMobil, Chevron, and Shell reporting negative free cash flows for the quarter. Shell responded to the cash crunch by trimming its dividend. Nonetheless, these companies accelerated their decade-long practice[3] of paying shareholders more than they earned from their core business operations, distributing $16.9 billion more in dividends and share buybacks during the quarter than they generated in free cash flow. (See Table 1.)

[1] Impairments reported on a post-tax basis. Shell. Q2 2020 Financial Results
[2] Total. Financial Results First Half 2020. BP. Q2 2020 Supplementary Information. Chevron. Chevron Announces Second Quarter 2020 Results.
[3] IEEFA. Beyond Their Means: Oil Majors Pay More to Shareholders than Earn by Selling Oil and Gas. April 2020

### Table 1: Aggregate Free Cash Flow of Five Oil and Gas Supermajors: Free Cash Flow, Net Shareholder Distributions and Cash Deficits, Q1 and Q2 2020 (million $USD)

| IEEFA Calculations | Q1 2020 | Q2 2020 |
|---|---|---|
| **Free cash flow** | 8,595 | (5,513) |
| **Net distributions to shareholders** | 18,519 | 11,392 |
| ***Surplus/(Deficit)*** | ***(9,924)*** | ***(16,905)*** |

*Source: IEEFA, based on company financial reports.*

Since 2010, these companies have generated a total of $343 billion in free cash flows from operations, which fell far short of the $586 billion they've spent rewarding their shareholders. The companies plugged the $243 billion shortfall primarily through asset sales, cash drawdowns, and borrowing money from long-term debt markets. (See Table 2.)

**Table 2: Five Oil and Gas Supermajors: Free Cash Flow, Shareholder Distributions and Cash Deficits, 2010-Q2 2020 (million $USD)**

| IEEFA Calculations | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Q1 2020 | Q2 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Free cash flow** | 35,095 | 55,883 | 43,878 | 4,072 | 31,096 | (7,216) | (8,596) | 47,324 | 77,129 | 60,987 | 8,595 | (5,513) |
| **Net distributions to shareholders** | 45,017 | 58,875 | 62,748 | 69,234 | 67,217 | 42,979 | 37,815 | 40,977 | 60,064 | 71,156 | 18,519 | 11,392 |
| ***Surplus/(Deficit)*** | ***(9,923)*** | ***(2,993)*** | ***(18,870)*** | ***(65,162)*** | ***(36,121)*** | ***(50,195)*** | ***(46,411)*** | ***6,347*** | ***17,065*** | ***(10,169)*** | ***(9,924)*** | ***(16,905)*** |
| ***Surplus/(Deficit) as a share of total distributions to shareholders*** | ***-22%*** | ***-5%*** | ***-30%*** | ***-94%*** | ***-54%*** | ***-117%*** | ***-123%*** | ***15%*** | ***28%*** | ***-14%*** | ***-54%*** | ***-148%*** |
| | | | | | | | | | | | | |
| **Additional cash, not from operations** | | | | | | | | | | | | |
| **Y-o-y long-term borrowings (repayment)** | 15,125 | 795 | 1,682 | 19,579 | 25,324 | 31,375 | 36,826 | (14,904) | (15,288) | 6,813 | 4,491 | 49,919 |
| **Y-o-y cash drawdown (build)** | (19,360) | (317) | (15,705) | 15,810 | (20,647) | (2,185) | 18,281 | (9,217) | (2,427) | 12,846 | (4,904) | (30,192) |
| **Proceeds from asset sales** | 31,571 | 27,752 | 31,348 | 32,019 | 30,869 | 21,047 | 15,750 | 26,543 | 19,054 | 16,931 | 3,487 | 3,066 |
| ***Cash from reserves, asset sales, and borrowing*** | ***27,336*** | ***28,230*** | ***17,325*** | ***67,408*** | ***35,546*** | ***50,237*** | ***70,857*** | ***2,422*** | ***1,339*** | ***36,036*** | ***3,074*** | ***22,793*** |
| | | | | | | | | | | | | |
| **Dividends** | ***(33,136)*** | ***(33,260)*** | ***(36,280)*** | ***(38,116)*** | ***(42,098)*** | ***(38,956)*** | ***(37,434)*** | ***(40,806)*** | ***(49,587)*** | ***(52,396)*** | ***(13,588)*** | ***(11,553)*** |
| **Net Share buybacks (issuance)** | ***(11,881)*** | ***(25,615)*** | ***(26,468)*** | ***(31,118)*** | ***(25,119)*** | ***(4,023)*** | ***(381)*** | ***(171)*** | ***(10,477)*** | ***(18,760)*** | ***(4,931)*** | ***161*** |
| **Long-term debt excluding lease obligations** | ***110,405*** | ***111,200*** | ***112,882*** | ***132,461*** | ***157,785*** | ***189,160*** | ***225,986*** | ***211,082*** | ***195,794*** | ***202,607*** | ***213,361*** | ***263,280*** |
| **Proceeds from asset sales** | ***31,571*** | ***27,752*** | ***31,348*** | ***32,019*** | ***30,869*** | ***21,047*** | ***15,750*** | ***26,543*** | ***19,054*** | ***16,931*** | ***3,487*** | ***3,066*** |
| | | | | | | | | | | | | |
| **Free Cash Flow** | | | | | | | | | | | | |
| **Exxon-Mobil** | 21,542 | 24,370 | 21,899 | 11,245 | 12,164 | 3,854 | 5,919 | 14,664 | 16,440 | 5,355 | 329 | (4,417) |
| **Chevron** | 11,742 | 14,595 | 7,874 | (2,983) | (3,932) | (10,048) | (5,419) | 6,934 | 16,826 | 13,198 | 1,589 | (2,012) |
| **Shell** | 410 | 10,470 | 13,564 | 465 | 13,368 | 3,679 | (1,501) | 14,805 | 30,074 | 19,207 | 10,588 | (873) |
| **BP** | (4,805) | 4,240 | (2,743) | (3,420) | 10,208 | 485 | (6,010) | 2,369 | 6,166 | 10,352 | (2,846) | 719 |
| **Total SA** | 6,206 | 2,208 | 3,284 | (1,235) | (712) | (5,186) | (1,585) | 8,552 | 7,623 | 12,875 | (1,065) | 1,070 |
| ***Sum, 5 supermajors*** | ***35,095*** | ***55,883*** | ***43,878*** | ***4,072*** | ***31,096*** | ***(7,216)*** | ***(8,596)*** | ***47,324*** | ***77,129*** | ***60,987*** | ***8,595*** | ***(5,513)*** |
| | | | | | | | | | | | | |
| **Net distributions to shareholders** | | | | | | | | | | | | |
| **Exxon-Mobil** | 20,548 | 30,151 | 30,967 | 26,823 | 24,721 | 16,124 | 13,424 | 13,748 | 14,424 | 15,246 | 4,024 | 3,715 |
| **Chevron** | 5,975 | 9,329 | 10,986 | 11,968 | 12,340 | 7,781 | 7,382 | 7,015 | 9,106 | 11,894 | 3,975 | 2,371 |
| **Shell** | 9,397 | 8,912 | 8,916 | 12,763 | 12,540 | 9,818 | 9,837 | 11,594 | 20,737 | 26,560 | 5,151 | 1,631 |
| **BP** | 2,458 | 3,998 | 5,172 | 10,799 | 10,439 | 6,659 | 4,611 | 6,496 | 7,054 | 8,457 | 2,878 | 2,119 |
| **Total SA** | 6,639 | 6,485 | 6,707 | 6,881 | 7,177 | 2,597 | 2,561 | 2,124 | 8,743 | 8,999 | 2,491 | 1,556 |
| ***Sum, 5 supermajors*** | ***45,017*** | ***58,875*** | ***62,748*** | ***69,234*** | ***67,217*** | ***42,979*** | ***37,815*** | ***40,977*** | ***60,064*** | ***71,156*** | ***18,519*** | ***11,392*** |
| | | | | | | | | | | | | |
| **Surplus/(Deficit)** | | | | | | | | | | | | |
| **Exxon-Mobil** | 994 | (5,781) | (9,068) | (15,578) | (12,557) | (12,270) | (7,505) | 916 | 2,016 | (9,891) | (3,695) | (8,132) |
| **Chevron** | 5,767 | 5,266 | (3,112) | (14,951) | (16,272) | (17,829) | (12,801) | (81) | 7,720 | 1,304 | (2,386) | (4,383) |
| **Shell** | (8,987) | 1,558 | 4,648 | (12,298) | 828 | (6,139) | (11,338) | 3,211 | 9,337 | (7,353) | 5,437 | (2,504) |
| **BP** | (7,263) | 242 | (7,915) | (14,219) | (231) | (6,174) | (10,621) | (4,127) | (888) | 1,895 | (5,724) | (1,400) |
| **Total** | (434) | (4,278) | (3,423) | (8,116) | (7,889) | (7,783) | (4,146) | 6,428 | (1,120) | 3,876 | (3,556) | (486) |
| ***Sum, 5 supermajors*** | ***(9,923)*** | ***(2,993)*** | ***(18,870)*** | ***(65,162)*** | ***(36,121)*** | ***(50,195)*** | ***(46,411)*** | ***6,347*** | ***17,065*** | ***(10,169)*** | ***(9,924)*** | ***(16,905)*** |

*Source: IEEFA, based on company financial reports.*

# Financial Highlights From Q2 2020

- **Plummeting revenues.** Revenues among the five oil majors declined from $256 billion in the first quarter to $138 billion in the second quarter, a 46 percent drop. Year over year, revenues were down 57 percent from the second quarter of 2019. Shell's revenue drop was the sharpest, at 64 percent; Total's revenue decline was the least, at 50 percent.

- **Negative Free Cash Flows (FCF).** FCF turned sharply negative this quarter, at -$5.5 billion for the five companies. ExxonMobil and Chevron's negative free cash flows, at -$4.4 billion and -$2.0 billion respectively, were the biggest contributors to the group's negative cash flow. This negative cash flow came despite a 29 percent year-over-year decline in capital expenditures among the five, from $21.6 billion in Q2 2019 to $15.4 billion last quarter.

- **Diminished shareholder dividends and buybacks.** The five companies cut their aggregate shareholder distributions from $18.4 billion a year ago to $11.4 billion in Q2 2020. But free cash flows fell even faster, with the companies collectively paying $16.9 billion more to their investors than they generated from their core operations, compared with $1.2 billion in the second quarter of 2019.

- **Massive increases in long-term debt.** With shareholder payouts exceeding free cash flows, the oil majors relied on other sources of cash—primarily by borrowing money and selling assets—to sustain dividends and share buybacks. The companies' aggregate long-term debt rose to $290 billion in 2020 Q2, up sharply from $240 billion in the first quarter, suggesting that the companies are increasingly turning to debt markets to maintain their dividends.

- **Modest asset sales**. Proceeds from asset sales, the other major source of funding to plug the shortfall between free cash flow and shareholder distributions, were $3.1 billion, down from $3.5 billion in the first quarter. These companies have likely found it difficult to find ready buyers.

## Oil Majors Chart Divergent Paths to Confront Their Declining Cash Flows

The five oil and gas companies are charting widely different courses in response to the rapid shifts in global oil and gas markets over the past few years. The second quarter's results showcase some of these differing approaches used to address declining cash flows.

ExxonMobil's "deficit," or shortfall between its free cash flow and its shareholder distributions, was the highest of the five companies in the second quarter. During the quarter, ExxonMobil's free cash flow was negative $4.4 billion, and it increased its long-term debt by nearly $16 billion. The company paid out $8.1 billion more to shareholders than it generated from its core business, accounting for almost half the group's aggregate shortfall.

BP and Total, by contrast, generated positive quarterly free cash flows, of $719 million and $1.1 billion, respectively. While their payments to shareholders exceeded their free cash flows, the funding gap was far less than ExxonMobil's.

Chevron's second quarter results were nearly as dismal as ExxonMobil's. Its free cash flow was negative $2 billion and the company paid $2.4 billion in shareholder distributions, bringing its shortfall to $4.4 billion.

Shell, which had slashed its dividend payment and reduced its buyback program, paid out $1.63 billion to shareholders while recording negative free cash flow of $873 million, a $2.5 billion deficit.

## Conclusion

For more than a decade, the five largest publicly traded oil and gas companies—ExxonMobil, Shell, Chevron, Total and BP—have paid more to their shareholders than they've generated from their operations. This trend exploded during the second quarter.  Collectively, these oil majors paid out almost $17 billion more in dividends and share buybacks than they generated from their free cash flows from operations. During the quarter, each of the companies' free cash flows from their core business was insufficient to cover their shareholder distributions.

The five companies' response to their decline in the oil and gas industry has diverged. A constant theme over the past decade, however, has been each company's willingness to reward their shareholders more generously than their free cash flows have generated. Now that Shell and BP have cut their dividends and suspended their share buybacks, this trend may be changing.

# About IEEFA

The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. www.ieefa.org

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