

ExxonMobil: Capital Allocation Before the Next Plan

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The planning question

On the afternoon of November 15, Exxon Mobil Corporation disclosed that it would present an updated corporate plan on December 6, including capital plans through 2027. The announcement came after the company had signed a large all-stock agreement to acquire Pioneer Natural Resources, while commodity prices, operating cash flows, and regulatory approval remained uncertain.

For this teaching case, assume a **hypothetical executive planning team** has been asked to recommend the capital-allocation policy for that upcoming plan. This constructed assignment does not describe a private meeting or claim that Exxon's actual leadership debated these alternatives. What balance should the next plan strike among investment, shareholder distributions, and financial flexibility?

The choice matters because cash can serve several purposes at once. It can fund projects and preserve capacity to act if conditions change. It can support dividends and repurchases. It can also remain unused while attractive opportunities pass. With Pioneer not yet part of the company, the team must decide how much to commit before the transaction's timing and operating consequences are known.

An investment plan after a strong cycle

Exxon's December 2022 corporate plan called for annual capital investment of \$20 billion to \$25 billion through 2027. The company said about 90% of planned upstream investments bringing new oil and flowing gas production onstream were expected to earn returns above 10% at Brent prices of \$35 per barrel or lower. It also described approximately \$17 billion of lower-emissions opportunities through 2027. These were management projections; the company did not publish project-level economics sufficient to reproduce the return estimates.

In 2023, Exxon had generated substantial cash but at levels below the prior year. For the first nine months, operating cash flow was \$41.7 billion, down \$17.5 billion from the same period in 2022. Net income including noncontrolling interests was \$29.3 billion. Exxon reported \$15.7 billion of additions to property, plant and equipment, \$3.1 billion of asset-sale proceeds, and \$41.3 billion in total debt at September 30. Its cash balance was \$33.0 billion; the company-reported net-debt-to-capital ratio was 3.8%.

Over those nine months, Exxon repurchased \$13.1 billion of shares and paid \$11.1 billion in dividends. In its October quarterly release, management said the company remained on track to repurchase \$17.5 billion in 2023. Its annual dividend had risen for 41 consecutive years, including a fourth-quarter increase to \$0.95 per share.

The repurchase figures require care. Exxon had announced an authorization of up to \$50 billion in repurchases through 2024, including \$15 billion completed in 2022. That left a planned \$35 billion of repurchases across 2023 and 2024 under the announced program. The authorization set a ceiling; it did not require the company to buy a fixed amount in any quarter. Management's 2023 target was \$17.5 billion.

A signed deal, not a completed one

On October 10, Exxon and Pioneer signed an all-stock merger agreement. Under its terms, Pioneer shareholders would receive 2.3234 Exxon shares for each Pioneer share. The announced equity value was \$59.5 billion, calculated using Exxon's closing share price on October 5; including Pioneer's net debt, the implied enterprise value was approximately \$64.5 billion. Thus, the announced consideration was not a \$59.5 billion cash payment, and its dollar value would change with Exxon's share price.

Exxon and Pioneer said their boards had approved the transaction. It remained subject to Pioneer shareholder approval, regulatory review, and other closing conditions. The companies expected it to close in the first half of 2024, but closing was not assured.

Pioneer held more than 850,000 net acres in the Midland Basin. Exxon reported 570,000 net acres in the Delaware and Midland basins. Exxon projected that the combined position could support longer laterals, greater recovery, lower costs, and more short-cycle production. It said Permian production could rise to about 1.3 million barrels of oil equivalent per day at closing and approximately 2 million by 2027, based on 2023 volumes. These were company expectations, not achieved results. The company also described the deal as a chance to improve returns and emissions performance.

The combination would increase Exxon's exposure to one basin and would require the company to bring together Pioneer's acreage, people, and operations with Exxon's technology and development capabilities. The public deal materials did not disclose a detailed integration budget, a project-by-project return schedule, or a cash reserve target for the combined business.

What should the plan promise?

Three priorities framed Exxon's public capital policy: invest in competitively advantaged, high-return projects; maintain a strong balance sheet; and return cash to shareholders through dividends and repurchases. Its Q3 filing also described acquisition criteria that included strategic fit, cost synergies, future growth, and attractive valuation.

The planning team faced competing claims on future cash. More investment could support projects that management viewed as advantaged, including the Permian and lower-emissions opportunities. Retaining financial capacity could help the company manage market swings, deal uncertainty, and the timing of future projects. Returning surplus cash could protect shareholders from having capital retained without a sufficiently attractive use. Repurchases offered more discretion than a regular dividend, but each dollar spent reduced the funds available for other purposes.

The public data did not answer how much cash the company should keep. Nor did it reveal the risk-adjusted economics of each project, the minimum liquidity needed through a downside scenario, or the share price at which buybacks would be attractive. Any numerical scenario built by the team would need to state its assumptions clearly.

Exhibits

Exhibit 1. ExxonMobil financial position and capital uses

Reported item	Q3 2023 or nine months ended Sept. 30, 2023
Q3 GAAP earnings	\$9.1bn
Q3 operating cash flow	\$16.0bn
Q3 company-reported free cash flow	\$11.7bn
Q3 capital and exploration expenditures	\$6.0bn
Q3 shareholder distributions: dividends / repurchases	\$3.7bn / \$4.4bn
Nine-month operating cash flow	\$41.7bn
Nine-month additions to property, plant and equipment	\$15.7bn
Nine-month asset-sale proceeds	\$3.1bn
Nine-month repurchases / dividends	\$13.1bn / \$11.1bn
Cash at Sept. 30 / total debt	\$33.0bn / \$41.3bn
Net debt to capital, company measure	3.8%

Source: Exxon Q3 2023 earnings release and Form 10-Q. Amounts are reported actuals for the stated period. Exxon's free cash flow is a company-defined measure. Capital and exploration expenditures are not the same line item as additions to property, plant and equipment. Do not combine unlike definitions into a cash bridge without reconciliation.

Exhibit 2. Announced capital plans at the cutoff

Item	Publicly stated plan or authorization
Annual capital investment through 2027	\$20-25bn
2023 capital and exploration expenditures	\$23-25bn expected
Planned upstream investments in new oil and flowing gas production	About 90% expected to return more than 10% at Brent prices $\leq$ \$35/bbl
Lower-emissions opportunities through 2027	Approximately \$17bn
Repurchase authorization through 2024	Up to \$50bn total, including \$15bn completed in 2022
Repurchase plan remaining across 2023-24	\$35bn under announced program; 2023 target \$17.5bn

Source: Exxon 2022 corporate-plan release; 2023 proxy statement; Q3 2023 earnings release. All investment returns and future spending are management expectations. The buyback

amount was authorized, not mandatory.

Exhibit 3. Pioneer transaction at announcement

Item	Announced term or expectation
Consideration	2.3234 Exxon shares per Pioneer share
Announced equity value	\$59.5bn, based on Exxon's Oct. 5 closing price
Implied enterprise value	Approximately \$64.5bn, including net debt
Closing expectation	First half of 2024, subject to approvals and conditions
Pioneer acreage	More than 850,000 net acres in Midland Basin
Exxon acreage	570,000 net acres in Delaware and Midland basins
Projected combined Permian production	About 1.3m boe/d at closing; about 2m boe/d by 2027, on a 2023-volume basis

Source: Exxon-Pioneer October 11, 2023 joint announcement and merger agreement. Production, cost, return, recovery, synergy, and emissions claims are management projections. The agreement remained pending at the cutoff.

Exhibit 4. Pioneer's pre-deal capital context

Pioneer's 2022 annual report gave a 2023 development-capital budget of \$4.45 billion to \$4.75 billion, plus \$150 million to \$200 million for exploration, environmental and other capital. Its variable-dividend framework allowed for a quarterly variable dividend of up to 75% of prior-quarter free cash flow after a base dividend, subject to board discretion. Pioneer's free-cash-flow definition differed from Exxon's.

Source: Pioneer 2022 Form 10-K, MD&A sections "Capital Budget" and "Dividends." These standalone figures are not a combined-company plan.

Assignment

Prepare a recommendation for the hypothetical executive planning team to bring to the December 6 plan update. Your recommendation should:

1. State the priority order for investment, dividends, repurchases, and retained liquidity.
2. Recommend whether to maintain, qualify, or change the existing capital and repurchase plans.
3. Explain how the recommendation holds up if commodity cash generation weakens or the Pioneer closing is delayed.
4. Identify the evidence and assumptions that would change your recommendation.

You may use numerical scenarios, but label assumptions separately from reported facts and company projections. Do not assume the merger closes, that forecast synergies are realized, or that the announced production targets are achieved.

Discussion questions

1. Which parts of Exxon's 2023 cash position are recurring operating capacity, and which are timing-sensitive or tied to the reporting period?
2. How should the pending Pioneer deal affect the capital-allocation policy before closing?
3. What should be protected first during a downturn: the dividend, base investment, buybacks, or liquidity? Why?
4. What rules or thresholds should determine whether Exxon increases or reduces repurchases?
5. What additional information would you request before making a multi-year commitment?

Source note

The information cutoff is November 15, 2023, 4:25:16 p.m. ET. The case uses Exxon's October 31, 2023 Form 10-Q, October 27 Q3 results release, October 11 Pioneer announcement and merger agreement, November 15 8-K, 2022 corporate-plan release and 2023 proxy statement, and Pioneer's 2022 Form 10-K. Source URLs and detailed locators are listed in the research source register. No December 6 plan details or subsequent transaction outcomes are included.