

Occidental Petroleum: What comes after the debt milestone?

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This is a hypothetical strategy exercise based on public information available by August 4, 2026. Occidental had not publicly disclosed a board decision or a resource conflict between debt repayment and STRATOS. The case excludes Occidental's August 6, 2026 Q2 release and all later evidence.

A company reshaping its portfolio

Occidental Petroleum had spent years managing the debt and integration consequences of its 2019 acquisition of Anadarko. In January 2026, it completed the sale of OxyChem to Berkshire Hathaway. The transaction narrowed Occidental's portfolio toward oil and gas, midstream, and lower-carbon ventures. It also created the company's largest recent source of cash for debt reduction.

At the same time, Occidental was developing STRATOS, a large direct air capture (DAC) facility in Texas through its 1PointFive subsidiary and a joint venture that included an announced BlackRock investment. DAC aims to capture carbon dioxide directly from ambient air. The project was designed for up to 500,000 tonnes of CO₂ per year, but nameplate capacity was not the same as operating output or verified net removal.

The strategic question in this case is how Occidental should govern future discretionary capital as it works toward its stated debt milestone while seeking to learn from STRATOS. The choice is hypothetical: public disclosures do not show that management faced a specific debt-versus-STRATOS budget conflict.

What did the divestiture accomplish?

Occidental's January 2 release described \$9.7 billion of cash consideration, subject to customary purchase-price adjustments. Its Q1 filing later reported an adjusted purchase price of \$9.5 billion, subject to additional post-closing adjustments, and a \$3.1 billion after-tax accounting gain. The filing said Occidental used \$6.67 billion of OxyChem proceeds to repay debt during the first quarter and repaid another \$0.4 billion of long-term debt after March 31 but before the May 5 filing.

The figures answer different questions. The sale headline is not the final adjusted purchase price; the gain is an accounting result, not cash available for reinvestment; and debt repayment is not a measure of how much sale cash remained. Occidental retained certain environmental liabilities related to legacy sites.

Publicly reported measure	Amount and date	Definition
OxyChem cash consideration in completion announcement	\$9.7B; Jan. 2, 2026	Headline consideration, subject to customary purchase-price adjustments
Adjusted purchase price in Q1 filing	\$9.5B; closed Jan. 2	Adjusted amount, subject to further post-closing adjustments
Gain on OxyChem sale	\$3.1B after tax; Q1 2026	Accounting gain, not sale cash remaining
Debt repaid using OxyChem proceeds	\$6.67B face value; Q1 2026	Amount repaid in the quarter; a \$237M early-extinguishment loss was recorded
Additional post-quarter repayment	\$0.4B; through May 5 filing	Long-term debt repaid after Mar. 31
Borrowings at face value	\$13.757B; Mar. 31	Principal/face value of borrowings, excluding finance leases
Net book value of debt	\$14.707B; Mar. 31	Face value adjusted for premiums and issuance costs
Debt and finance leases	\$15.671B; Mar. 31	Net book debt plus current and long-term finance leases
Principal debt stated on earnings call	\$13.3B; May 6	Management's post-quarter figure after additional repayments

Sources: Occidental's Jan. 2 OxyChem completion release and Q1 2026 Form 10-Q, Notes 3-4, printed pp. 11-13; Q1 earnings-call transcript, p. 5. Figures are not additive.

Management reported the May 6 principal-debt balance of \$13.3 billion and a run-rate interest cost of \$845 million per year, about \$550 million below its 2025 interest payments. It said near-term excess cash flow would be prioritized for reducing principal debt to approximately \$10 billion. Once it reached that milestone, management would reassess cash priorities, including building cash before the preferred security's August 2029 redemption date, further debt reduction, and opportunistic share repurchases.

The Q1 filing's capital-allocation priorities also included maintaining the production base, delivering a sustainable and growing dividend, and advancing integrated CO₂, power and midstream technologies. Management said any increase in reinvestment would depend on macro conditions and continued cost and operating efficiency. It did not disclose a specific STRATOS allocation rule.

Reported Q1 continuing-operations measures added context without settling the question. Occidental reported \$1.7 billion in company-defined free cash flow before working capital, \$1.6 billion in capital expenditures and \$3.8 billion in unrestricted cash at quarter-end. The company also reported \$3.13 in GAAP earnings per diluted share and \$1.06 in adjusted continuing-operations earnings per diluted share; the difference mainly reflected the OxyChem-sale gain, partly offset by derivative losses and early debt-retirement premiums. Commodity prices, working-capital timing, operating needs, dividends and ongoing investment all affect how much cash may be available in another period.

STRATOS: construction progress, operating uncertainty

Occidental and BlackRock announced in 2023 that BlackRock, on behalf of clients, would invest \$550 million in a joint venture with Occidental through 1PointFive, which was to own STRATOS. The release described planned capacity of up to 500,000 tonnes of CO₂ per year and named several removal-credit purchase counterparties. It gave no contract volumes or terms. The \$550 million announcement was not a disclosed total project cost or a complete statement of Occidental's remaining funding obligations.

On May 6, 2026, Occidental management said STRATOS Phase 2 construction was complete. It described this as the second 250,000 tons per year of capacity, with final air-contactors trains and updated pellet reactors. Management also said Phase 1 air contactors and the central processing facility had completed commissioning and that process operations performed as expected. It reported an issue in non-process components, with repair timing and impact on the operating schedule still under evaluation. Management did not then expect the issue to affect Occidental's annual capital range.

That update left important questions open. The public record did not provide an independent root-cause report, repair cost or date, sustained uptime, actual capture rate, energy intensity, cost per net tonne, or lifecycle assessment. It did not establish whether a captured tonne would qualify as a net atmospheric removal credit, or what project funding, credit revenue or guarantees remained with Occidental. Management's characterization of the issue as non-process was an attributed explanation, not an independent technical finding.

A hypothetical policy choice

Imagine Occidental's strategy committee asks you to recommend a capital-allocation policy for the period when incremental cash becomes available as the company approaches the \$10 billion principal-debt milestone. This is a teaching assumption, not a reported company assignment. The next amount of discretionary cash, the timing of reaching the milestone and the amount of avoidable future STRATOS capital are not disclosed.

You may recommend one of three broad approaches:

1. **Debt-first.** Continue to prioritize debt reduction and existing contractual or committed projects. Defer new discretionary STRATOS expansion until commissioning, repair and commercial evidence improve.
2. **Preserve an option.** Allow a limited, explicitly bounded next-stage commitment to resolve engineering and operating uncertainties. Make any further expansion conditional on evidence and protect the company's debt and production-base priorities.
3. **Accelerate carbon management.** Commit to broader carbon-management investment as a strategic growth platform, accepting a slower path to the debt milestone in exchange for earlier scale, learning and market positioning.

The alternatives are not meant to imply that committed project costs can be cancelled or freely reassigned. Before recommending a policy, specify which future commitments are actually avoidable, what competing capital uses should be compared, and what evidence would change the decision. A recommendation can be conditional; students should explain who would authorize each stage and what would stop or release the next commitment.

Questions for discussion

1. What economic and strategic value does Occidental receive from reducing principal debt from \$13.3 billion toward \$10 billion? Which reported figures support that conclusion, and which remain management claims?
2. Is the relevant alternative use of cash debt repayment, a STRATOS tranche, sustaining or growth investment in the producing portfolio, the dividend, or several of these? How does the answer change in a lower-price scenario?
3. Which STRATOS evidence is decision-grade at the cutoff, and which is only a design claim or management-reported status?
4. What should a staged commitment measure before allowing more capital? Consider repair, sustained uptime, energy source and use, verified net capture, storage, credit/offtake economics, partner obligations, total cost and lifecycle boundaries.
5. What would make delay valuable, and what could make it costly? Which uncertainties can the company learn about through a limited next stage, and which cannot?
6. State your recommendation, its conditions, and one piece of evidence that would cause you to change it.

Sources and conventions

This case uses information public by August 4, 2026. The latest included quarterly package is Occidental's Q1 2026 earnings release (May 5), Form 10-Q for the quarter ended March 31 (filed May 5; accession 0001628280-26-030584), and May 6 earnings-call transcript. The sale facts also use the January 2 OxyChem completion release; STRATOS's JV structure uses Occidental's November 7, 2023 joint-venture release. Full URLs and precise locators appear in the source register. Q2 2026 disclosures dated August 6 and later are outside the case cutoff.

"Principal debt" follows management's wording for borrowings at face value and is not identical to net book debt or debt plus leases. Figures in the table use U.S. dollars. Financial modeling and Excel analysis are outside this case. Academic mechanisms on option value and DAC cost uncertainty are documented in the research dossier; they are not Occidental-specific coefficients or evidence that any one alternative is optimal.