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PRESENTATION

Operator

Good morning, and welcome to the Quarter Two 2021 ConocoPhillips Earnings Conference Call. My name is Zanera, and I'll be the operator for today's call. (Operator Instructions)

I will now turn the call over to Ms. Ellen DeSanctis. Ellen, you may begin.

Ellen DeSanctis - *ConocoPhillips - SVP of Corporate Relations*

Thanks, Zanera. Good morning, and welcome to our listeners. We have the following executives on today's call: Ryan Lance, our Chairman and CEO; Bill Bullock, our Executive Vice President and Chief Financial Officer; Tim Leach, Executive Vice President of the Lower 48; Dominic Macklon, our Senior Vice President of Strategy and Technology; and Nick Olds, our Senior Vice President of Global Operations.

Given our recent June 30 market update, we plan to keep our prepared remarks very short this morning and then, as Zanera mentioned, we'll begin our Q&A session. Two correlated logistics. Some of today's speakers are participating virtually. We've done our best to ensure everything runs smoothly on the technology front. Also, because we want to give as many people as possible a chance to ask questions during today's call, please don't get offended if you get cut off. You can jump back into the queue or you can reach out to Investor Relations any time after the call.

Finally, a few reminders. In conjunction with this morning's press release, we posted a short deck of supplemental material that includes second-quarter earnings and cash flow summaries, some guidance items and our cash flow sensitivities. And then finally, in today's call we'll make some forward-looking statements based on current expectations. Actual results could differ due to the factors described in today's press release and in our periodic SEC filings. I'll also refer to some non-GAAP financial measures today. And as usual, reconciliations to the nearest corresponding GAAP measure can be found again in this morning's press release and on our website. Thanks, and now I'll turn the call over to Ryan.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Thank you, Ellen. Today's quarterly results come right on the heels of our June 30 market update, during which we again laid out a compelling multiyear outlook for the company. The update was widely followed and we received some pretty positive feedback. As you'd expect, given the recency of our update, there isn't much incremental news to share at this time, except to say we remain convinced it was timely and relevant, given the ongoing volatility we're seeing in the sector. And today, we're pleased to follow it up with the very strong quarterly results we announced this morning.

As you'll recall, we kicked off our update by declaring that we believe we're at a defining moment for the E&P sector, and that persists today. Oil equities have been especially volatile recently, in part due to uncertainties in the macro, and because we know investors need to see evidence that sector discipline will hold and returns on and of capital will follow. It's clear to us that long-term sector sponsorship requires leadership on the part of companies, as well as conviction on the part of investors.

Of course, for investors, the case for these equities requires a reasonably constructive macro view. The case for equities also requires conviction around a micro view. In other words, who is best-positioned for the cyclical business realities, and who has a track record of execution and performance and who can truly lead in ESG. Most companies are espousing the virtues of discipline, and everyone now looks better coming out of the 2020 downturn.

The question investors need to consider is, who can deliver consistent returns-focused performance through thick and thin? That's where leadership matters. In June, we met this defining moment with a credible and highly investable plan that generates massive free cash flow and returns of capital, with financial returns that are competitive with the S&P. The leadership requires more than setting expectations and plans. It also requires successfully executing them. Execution is where the rubber meets the road. ConocoPhillips offers a unique combination of a credible and compelling investment plan with a commitment to strong ongoing execution.

You saw that -- you saw the plan in June, and today, you see the execution. In other words, you're seeing the June plan at work. This morning's release and supplementary information provided details on this quarter's performance, so I won't restate them. But here are a few key takeaways and themes that I want to underscore. During the second quarter, the business ran extremely well. Our planned turnaround activity went smoothly, as did our ongoing core programs across the company. These include activities in the North American shale plays as well as in the multiple programs in our Alaska and International regions.

While we're talking about execution, I'll also mention that we continue to make good progress on more than 50 emission-reduction projects that we have underway this year. Every part of our business has a role in delivering our results, and I'm proud of our team for their accomplishments during a very busy year. Overall, this quarter's financial results were really quite straightforward. The noise of 2020's market upheavals and most of the Concho transaction adjustments are behind us. And the known deal integration synergies and streamlining impacts we discussed in June are showing up in our performance.

We're on track to meet the updated 2021 guidance we issued a month ago, but we're not done, not done with our efforts to continue driving the operational and underlying efficiencies the team has described in our June material. We can't ignore that higher benchmark prices were a factor in this quarter's sector performance broadly and certainly, ConocoPhillips specifically. However, what is somewhat unique to ConocoPhillips is that our results demonstrate the capacity of our company to capture the benefit of higher prices when they do occur. That's because we're unhedged, we're diversified and we're almost entirely in tax and royalty regimes.

Now a year ago, we demonstrated just how resilient we are to low prices. Twelve months later and post-Concho transaction, this quarter gives you a sense for the upside torque we can realize when prices exceed the reference prices we showed you just one month ago. The clear bottom line, ConocoPhillips works differentially through the cycles.

Cash from operations of $4 billion more than covered our capital expenditures of $1.3 billion and distributions of $1.2 billion in the quarter. And importantly, we continue to meet and exceed our target of returning greater than 30% of our CFO to our shareholders. We announced another increase to our 2021 distributions in June, bringing our total planned returns of capital to about $6 billion for the year, representing almost 8% of our market cap today, while other companies are only announcing or just reactivating such programs.

And of course, as Bill described in our market update, if prices continue at current levels, we would expect to have additional cash that could go toward greater distributions. And for reference, we estimate full-year 2021 CFO at $50 per barrel WTI would be about $11 billion after adjusting for the onetime Concho transaction-related impacts. And you can do the math on our sensitivities at roughly $300 million per $1 per barrel change in prices.

At this time, we still believe our distribution allocation of nearly 3% yielding ordinary dividend and share repurchases is a very sound mix, but we continue to evaluate the issue and we want to engage with the market on alternative allocations. We know there isn't a perfect answer but we know what matters, and that's a credible commitment to return capital and a solid track record of reliable performance, which we've certainly delivered now for multiple years.

So to summarize, we have a great shareholder-friendly business model and plan. We're hitting our stride after a busy time and putting the execution runs on the board. We're maintaining our discipline. The company is running extremely well, and we're not done with our work to improve underlying financial returns on capital employed. That's the goal. That's how we enlist long-term market sponsorship, and that's what ConocoPhillips is all about.

We're pleased to be where we're at here at midyear but we recognize the year is still young. Looking forward to the second half of 2021, our priorities are squarely focused on executing our remaining plans and programs for this year. Meanwhile, we're closely watching how the macro evolves and beginning our internal process of setting our 2022 budget and capital plan. We'll stay actively engaged with the market and look forward to ongoing discussions about how our plans are progressing. So let me turn the call over to the operator and we'll begin the Q&A portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Neil Mehta from Goldman Sachs.

Neil Mehta - *Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst*

Two quick questions for me. First one for you, Ryan, just your perspective on M&A in this current market. You did a terrific transaction last year. But how do you think about the opportunity set that's out there for either buying and selling? And the other one, this might be for Bill, is just related to the quarter itself. Was it a relatively clean quarter? Can we just simply say $4 billion of cash flow minus CapEx and then annualize that free cash flow. implies about a mid-teens type of free cash flow yield? But want to make sure that we weren't missing any pieces here, to the positive or negative, that would be more one-time in nature.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well, thanks, Neil. I'll start on the M&A side, I'll let Bill chime in on your second question. When we think about the market, our approach is to constantly know what assets that we like, and we constantly are reviewing the portfolio to look at the pieces inside the portfolio that are uncompetitive. So we're constantly screening opportunities to both buy and sell assets and we're constantly trying to high-grade the portfolio.

I think the environment that we see today, certainly, it feels like more assets tend to come to the market. But I don't think that makes it necessarily a buyer's or a seller's market today. I think what matters to us is just to keep at the rigor and the discipline that we've described back in 2019. We continue through today and continue through the Concho transaction that we did earlier back in January. And that's just the rigor of our disciplined

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framework around cost of supply and value and simply being patient, Neil. I think the market may require that even now more than ever. So I think that's a bit about how we think about the inorganic side of the business. Now maybe turn it over to Bill and he can comment on the cash flow.

Bill Bullock - *ConocoPhillips - Executive VP & CFO*

Sure. Neil, this is Bill. It was a very clean quarter on a cash basis. It was clean for both cash and it was clean for both earnings. As you're looking at your run rate, I'd point you to just two items to consider though. The first one, and we mentioned this in the press release is that we did make a $200 million discretionary pension plan contribution in the second quarter. That reduced our second-quarter CFO, and the contribution increased the pension plan's funding status above 90% and that eliminated the need to pay the PBGC premium payments. It also leads to reduced financial statement volatility for the pension and reduces some of our go-forward funding requirements. So that really did make good sense for use of cash to us in the quarter. And so I draw that to your attention as a reduction in run rate.

And the other one that I point out as you're thinking about run rates would be our APLNG distributions. We received distributions of $250 million from APLNG in the second quarter. That brings year-to-date to about $350 million. And we anticipate about $100 million in the third quarter and $700 million for the year.

So just as a reminder, we typically receive lower distributions in the first and third quarters and higher distribution in the second and fourth quarters as you're thinking about the run rates on that. And that -- those APLNG distributions are pretty locked in for the year because of long-term LNG sales, LNG are price lagged and so there's very little sensitivity to that for the remainder of the year.

And so as you're thinking about how to look at run rates for the rest of the year, I direct you to our sensitivities that we provide. Those still hold. And a good rule of thumb is about $300 million annualized cash flow for every $1 million change in WTI. And with those, you ought to be pretty bang-on with CFO sensitivities.

Operator

Our next question is from Roger Read from Wells Fargo.

Roger Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Congratulations on the quarter. It's interesting, Ryan, you kind of mentioned looking across at the industry overall, an easier quarter for companies to do well. So let's maybe ask the question, what are some of the things that may become headwinds as we think about some of the inflationary issues that may be creeping up out there? What you would do to offset that and what you think maybe will allow you to continue to separate from some of those companies we look over the next several quarters?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes. Thanks, Roger. I can provide some comments. Maybe Dominic can add a little bit of color to that as well. I think if you're a pure-play, one-basin kind of operator, you're probably going to experience certain categories of spend that are inflating. I think the advantage that ConocoPhillips has right now is we're still capturing a lot of the best practices and the synergies from the Concho transaction plus the fact that we're a global diversified company. So other areas around the world are not inflating maybe like some of the economies that are leading the recovery from the COVID pandemic.

So I think we're able to differentiate ourselves in that regard pretty clearly. We think it's imminently manageable this year and as we go into next year. And I would add one other thing that seems to be missing a little bit from the conversation, and I mentioned it in my opening remarks, and that's the unhedged nature of our portfolio. I'm just surprised to hear the analysts aren't asking the question to the E&Ps that are hedged, what happened? You could -- there could even be more cash flow if you hadn't hedged your position. You shouldn't expect that from ConocoPhillips.

We'll get the torque from the upside on the prices as we described in my opening comments. But Dominic, I don't know if you have any more you can add to the inflation part of Roger's question.

Dominic Macklon - *ConocoPhillips - SVP of Strategy & Technology*

Thanks, Ryan. Yes, Roger, I think Ryan's covered it very well. I mean, I think the important point is that we still have wind in our sails from the transaction. I mean, we did give our last synergy update on at the market update of over $1 billion, and we said, well, that would be the last time we will give that scorecard. But that does not mean we are done with sourcing supply chain efficiencies and operational efficiencies. So we really still have wind in our sails on that.

I mean, we -- of course, we are seeing some inflation in tubulars, cement in the Lower 48, some pressure on frac crews. But like Ryan said, being a global company really helps because we're still seeing deflation in certain categories internationally. So I think that's an interesting question. And I think it really is because we still have the momentum coming out of the transaction. We do think we're well placed to manage inflationary effects.

Roger Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

I appreciate that, and I imagine the hedging and the unhedging comes back to the balance sheet strength that you've been able to maintain. So congratulations on that.

Operator

Our next question comes from Ryan Todd from Piper Sandler.

Ryan Todd - *Simmons & Company International, Research Division - MD & Senior Research Analyst*

Maybe a couple ones here. I know that we've discussed this frequently in past quarters and on the recent Analyst Day. But obviously, you continue to generate far more free cash than you're targeting to return to shareholders via dividends and buybacks. Should the environment remain supportive, can you talk a little bit about the potential impact to pace of debt reduction versus share buybacks as you look forward? Would you pay down debt far more quickly than the five-year original target that you had given or ramp up the buyback more aggressively? Any thoughts there?

And then maybe a second follow-up. This is the first quarter that we saw the combined performance of the legacy Conoco portfolio and the acquired Concho assets without some of the one-off noise that we saw during the first quarter. And the outcome was outstanding, and I think your Lower 48 business certainly exceeded our estimates quite materially. I know maybe hard at this point, but can you talk through some of the things that may be exceeding expectations, either in terms of cost, well performance, capital efficiencies or marketing efforts?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Sure. Thanks, Ryan. I'll -- maybe some comments. I can let Bill, and Tim obviously can chime in on the Lower 48 a little bit. I'd say at a high level, the debt reduction plan that we announced in our June market update, trying to take the gross debt off over the next five years. That still remains our target and our goal. Shouldn't -- we're not right at this point, trying to increase that or necessarily accelerate that. We're going to have some natural maturities that will retire and then we'll do some optimization of the debt. Bill can provide a few more details about that.

But I think as we think through the commodity tailwinds that are in there right now, beyond the plans that we talked about to the balance sheet, we feel pretty comfortable that those are in place, so any incremental ought to be returns of capital back to the shareholder. Maybe Bill, if you want to add anything to that and then I can let Tim chime in about the performance in the Lower 48.

Bill Bullock - *ConocoPhillips - Executive VP & CFO*

Yes. Sure, Ryan. So we do have about $1 billion in debt maturities that will be coming due before the end of 2022. You should expect us to retire that debt as it comes due. And as we've previously said, any potential debt refinancing and reduction will depend on multiple factors, including cost to retire debt, cost to issue debt and how we decide to approach that broader debt-reduction target. But we're in a really strong position with the balance sheet right now. And so I think you should expect us to be patient in evaluating market conditions as we continue to consider transactions to reduce our debt portfolio.

Tim Leach - *ConocoPhillips - Executive VP of Lower 48*

Yes. I think the only thing I'd have to add to that is as we've communicated in the market update, my excitement about the performance of the Lower 48 couldn't be higher. When you take the different levels of technology that we're applying to a broader set of really, really good assets, my expectation is that the efficiencies we're getting out of our business, the performance of our business would just continue. So it's a real driver of cash flow and value creation.

Operator

Our next question comes from Doug Leggate from Bank of America.

Kalei Akamine - *BofA Securities, Research Division - VP in US Oil Equity Research*

This is Kalei on for Doug. A couple of questions for me, maybe first off on M&A. Evident by the Concho acquisition, obviously, Conoco has an affection for Permian assets at the right price, in the right locations, et cetera. So there are no holes in Conoco's Permian position today. So there's no need to fill. But the question is whether you would consider a large bolt-on acquisition at the right price. And if you would, what would that bring to the table for ConocoPhillips?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes, thanks. So I think as we, I think I answered earlier, we have a pretty rigorous discipline kind of framework for how we think about acquisitions. We know the assets in the areas that we really like. And you shouldn't be surprised if we're looking at opportunities that are consistent with that framework and contiguous to where we operate, but they have to compete within our cost of supply framework and the discipline that we've brought to that and the patience that we've done, both on the buying and the selling side.

So I would look at our history, our performance, what we've done not just in the Permian but Alaska, Canada and elsewhere around the portfolio. So we're pretty -- we think about it pretty consistently, and that's how we look at those kinds of inorganic opportunities.

Operator

Our next question comes from Phil Gresh from JPMorgan.

Phil Gresh - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

Two questions for me. One, I guess a bit of a follow-up just on uses of cash. You have nearly $9 billion of cash and short-term equivalents on the balance sheet right now. As you said to Ryan's answer, you aren't really looking to reduce debt at this point in time. So how do you think about this optionality? Is there a trigger you're looking for to return even more cash back to shareholders? Or would you rather be linear and just have the optionality of the cash on the balance sheet? And then the second question, just on Big 3, could you give us your latest update of where you stand with rig counts and frac crews by basin and how you're thinking about activity levels for the second half of the year?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

All right. Thanks, Phil. I'll let Tim kind of chime in on the Big 3. Yes, as far as uses of cash, we've communicated before and broadly, we like to carry some of the cash on the balance sheet for strategic and reserve and operating purposes, and we've described that in quite a lot of detail in the past. I think with the commodity price environment that we're seeing today, the balance sheet's in great shape, as Bill described earlier on the last question. So I think as we get incremental free cash flow above and beyond our means, we're not necessarily looking to continue to build a lot of cash on the balance sheet.

Shareholders should expect that they start getting incremental returns, if the -- if our view of the commodity prices continues to hold. We've seen how volatile that can be and the fact that the market is still pretty imbalanced. Demand is yet to recover to pre-pandemic levels, and you got arguably 5 million or more barrels a day of spare supply sitting in the market. So we still expect quite a lot of volatility, which is why we like the strength of the balance sheet that we have today and holding some cash on that balance sheet. And we'll continue to watch that macro market, which will inform our distribution strategy going forward. Maybe, Tim, you could comment on the details around the Lower 48 rigs and frac spreads.

Tim Leach - *ConocoPhillips - Executive VP of Lower 48*

Sure. Just as a reminder, in the Lower 48, we invested about $1.5 billion so far in the first half of the year. We expect that investment rate to stay steady throughout the remainder of the year. We're currently running 15 rigs in the Lower 48, 11 in the Permian, four in the Eagle Ford. And we're running seven frac spreads, four in the Permian and three in the Eagle Ford. And we expect those levels of activity to remain pretty constant throughout the rest of the year, one of the big benefits of the size and scope that we have. We also have various rigs running with our other operating partners in the Big 3, and we're keeping a close eye on that to see and try to model what that activity is doing.

Operator

Our next question comes from Paul Cheng from Scotiabank.

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Two questions. First, deferred tax, can you discuss about how that as a potential source of funds in your cash flow statement over the next several years? How is that progression is going to look like, given the current commodity price environment? The second question is why, I don't know if you can give us some -- maybe share some market insight that what you see from the private producer, the operators there. I think the publicly traded companies, the capital discipline are pretty good, but we are concerned about the activity level in the private side. What are you seeing there?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes. Let me -- you broke up there a little bit, Paul. I think your first question was around debt and the last question around private operators. I think...

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Analyst*

The first question is related to the deferred tax and how that, as a source of cash, source of cash flow for you guys over the next several years, given the current commodity prices.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes, okay. Thank you. Sorry. Thanks for the clarification, Paul. I can let Bill talk about the way we view deferred taxes over the course of the plan that you're referring to. And I guess in general, to your second one, on the private side, they are representing about 45-or-so percent of the rigs that are running in the tight oil plays in the Lower 48 today. But they only account for about 22% of the current production of about roughly 7 million barrels a day, probably increases a bit because they are pretty active, to your point.

I think generally, as we think about it going forward, they run out of some of their best acreage over the next couple of years. So we don't see them having an outsized impact on the growth coming from the tight oil and being a dominant driver to U.S. production growth. That's really going to depend on the strong public companies like ConocoPhillips that have the best rocks and the higher-quality rock versus the private companies. So I think that's really the area to continue to focus on. Although we see, as well as you do, in the short term, some of the incremental production that's coming out of the private operators.

We're certainly taking advantage of the commodity price environment that don't have maybe the investor pressure on discipline and returns of capital back to their shareholders while they're trying to increase the value of their properties as they go forward. So while a short-term thing, we don't think it will be a long-term driver to what the U.S. tight oil play looks like. So let me ask Bill to chime in on the deferred tax question.

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Yes. Before that, one, can I just add that there's some industry consultants forecasting the private operators, they may be able to grow production by 0.5 million barrels per day next year or the next year -- the next couple of years. Do you believe that?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

That would probably be way at the upper end of our estimate, Paul. I don't think we would view that much. We would probably be half or so of that kind of an estimate at their current kind of rig load.

Operator

Our next question comes from Neal Dingmann from Truist.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

We probably have one follow-up with Paul that Bill can ask -- maybe if I could just and then Bill can address Paul's other question.

Ellen DeSanctis - *ConocoPhillips - SVP of Corporate Relations*

Yes, Zanera, hang on a second. We're going to break in with the answer to Paul's second question. Sorry, Neal, we'll get right back to you.

Bill Bullock - *ConocoPhillips - Executive VP & CFO*

Paul, it's Bill. On deferred taxes, if you look at -- for this quarter, we had about $360 million of deferred taxes as a source of cash this quarter. That's primarily due to utilizing our U.S. tax-loss carryforward this quarter. But if you look back to what we showed at the market update in June, the deferred taxes really are not a material component of that $70 billion worth of free cash flow we showed at reference prices at $50 WTI.

And we would expect that all of our significant businesses would be in a taxpaying position at that reference price by about 2024. Now should the current prices continue, we'd expect to move into a tax-paying position a bit earlier, maybe late 2022 or 2023 at current prices compared to 2024. But under normalized $50 barrel prices, deferred taxes really aren't a source of tailwinds for us.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Thank you, Zanera. Now we go to Neal. Sorry, Neal. Thank you.

Operator

My apologies. Neal, please go ahead.

Neal Dingmann - *Truist Securities, Inc., Research Division - MD*

The two I had was just first on in the marketing, you guys have done a great job continuing the marketing. Just wondering the opportunities you see there either to export oil or other market opportunities you would see to potentially see higher differentials. And then just as a second, a lot's been talked about, obviously, your great debt repayment. I'm sorry, your debt -- I would say, your share repurchase. Is that the primary sort of free cash flow now item over debt repayment or they sort of coexist? Those are the two I have.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes. Thanks, Neal. I think, yes, on your first one, we've got export capacity for some of our oil coming out of the U.S. Lower 48. And in fact, we're doing some direct marketing with our commercial organization that has been an uplift to our margins and netback prices. So we continue to see that as an opportunity and have a longer-term goal to continue to grow that capacity and to be able to access some of those unique opportunities in the export market. And in fact, not even going to traders, they pick it up at the shoreline but going direct customer-to-customer, given some of our relations primarily in Asia and in southern South America as well. So that's an opportunity for us as well.

On your second question, we announced our gross-debt reduction plan, and that's consistent and equally important to the share repurchases that we're doing today. Once we obviously get through that debt optimization plan that we're doing, then returns of capital back to the shareholder would dominate. But right now, it's -- we are in a dual track of looking at, as Bill described, retiring some of our near-term debt maturities and then doing some optimization of our debt in the balance sheet as market conditions continue to provide the right opportunity to do that.

Operator

Our next question comes from Jeoffrey Lambujon from Tudor, Pickering, Holt.

Jeoffrey Lambujon - *Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - Director of Exploration and Production Research*

Just one for me on return of capital, which you've been very clear about in terms of plans and very consistent about in terms of exceeding those plans. As we think about the multiyear outlook and the target that you put out for aggregate cash returns, can you just remind us what some of the guideposts are as you think internally about nailing down forms for that capital return in a given year?

Whether that's an optimal level for the dividend that you and the Board consider or if it's free cash flow metrics above a certain threshold that keep buybacks even further front and center over any consideration of a variable? Just trying to look for any parameters that can help us understand the thought process and how discussions have been with shareholders.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes. Thanks, Jeff. I think I go back to our original sideboards of the fairway that we've described to the -- to our shareholders to our owners is that you should expect greater than 30% of our cash returning back to our shareholders. That's on a quarterly and an annual basis. And if you look back at our history in the last five years, that's averaged over 40%.

So I think -- and that's really the differentiation between our model for return of capital back to shareholders and maybe some of the others that we've been reading about and that we've been hearing about because it's not free cash flow-based. It is CFO-based. So as CFO grows because commodity prices are up, the shareholders should expect to get more distribution. Now we've chosen the -- in our ordinary dividend, we've said we want to be competitive. We want to grow that competitively with the S&P. That's how we're measuring ourselves. That's how we're measuring our performance of return on capital, and that's how we're measuring our performance of return of capital with respect to the ordinary dividend.

And then -- but we want that ordinary dividend to be resilient through the cycles. So we don't want to -- we want to be able to afford it at the low end of the cycle, which we demonstrated last year through the pandemic. And then we recognize, as we get additional torque that we described with higher prices, that our cash flow is going to grow and our returns to our shareholders should grow as well. You should expect that to come. And at a minimum, it's going to be 30%. So it's not a free cash flow-based model. We think about it as a CFO-based model.

And as I said in my opening remarks, we continue to watch what the best distribution channel, maybe it's a combination, and maybe it's a hybrid down the road. We'll continue to watch that. But today, we feel like our shares are a great buy in the market. So the channel that we've chosen right now at this 10 seconds is the strong ordinary dividend. It's yielding what it is today, combined with returning -- meeting our threshold of greater than 30% through the share buyback channel.

Operator

We have another question from Doug Leggate.

Doug Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

I apologize, folks...

Ryan Lance - *ConocoPhillips - Chairman & CEO*

The real Doug.

Doug Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

There's a number of calls going on, Ryan.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

I understand, Doug.

Doug Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

I hate -- we need to get you guys to coordinate a little better. I'm kidding. Their fault, not yours. So joking aside, Ryan, forgive me, I'm going to hit on the dividend question again. I want to preface couple of examples. So BP announced a dividend increase. Their shares are up 6%. Shell announced the dividend increase. Their shares on the day were up fairly significantly. I guess my point is that it seems, to us at least, that market recognition of value tends to be through the dividend channel more than the buyback channel.

You guys have done a phenomenal job of resetting your portfolio. You were spending $15 billion prior to the dividend cut. And today, you've got better free cash flow power on one-third of the spending. Why not go back to a bigger dividend that the market will pay you for?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well, Doug, I think we've learned through the past history and you referenced the reductions that we made coming out of the downturn in 2014 and 2015, that experience is there. And we've got to make sure the ordinary dividend is reliable, it's consistent, it's predictable, it's transparent, it's growable over time and it works through the cycles. And through the cycles is an important distinction here. So a lot of the people that you've talked about raising the dividend have come out of the period where they cut it pretty dramatically and maybe growing it back to a place that works through the cycles.

We feel like we've done that heavy lifting over the course of the last four to five years. And we're in a place now where we're comfortable with the ordinary dividend. And like I said, we want to be competitive with the S&P 500 as we go forward. But I pivot back to what's important is the shareholders are going to get 30% of our cash flow or more on an ongoing basis. So you will get it. And maybe today, cash return is, to your point, a little bit more in favor than buybacks. I could point to a couple of years ago where that wasn't the case. I don't know what that case will be six or 12 months from now, but we're open to it. We're looking at it, we're evaluating it. And you'll hear more from us about that particular piece of it as well. But today, I think our shares are a pretty good buy.

Doug Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Well, forgive me if I keep pounding on this issue, but I think your portfolio capital efficiency can support it, in our view, and I don't think you're getting rewarded for it. So I'll keep pounding on that, Ryan, if that's okay. Thanks so much for taking my question.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

I hear you, Doug.

Operator

And we have no further questions at this time. I would like to turn the call back over to Ellen.

Ellen DeSanctis - *ConocoPhillips - SVP of Corporate Relations*

Thanks, Zanera. Thanks to all of our participants this morning. Really appreciate the questions and you're more than welcome to check in with us at any point after the call and look forward to engaging with you over the next few months. Be safe.

Operator

Thank you. And thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.
