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PANEL 1 – THRIVING IN THE NEW NORMAL – VOLATILITY & RESILIENCE

VIDEO TRANSCRIPT

- Hi everyone I'm Carol Massar, an anchor at Bloomberg Business Week Television and Radio. Welcome to "Thriving in the New Normal Leading Through Geopolitical Volatility and Compressed Transformation." A global pandemic, climate change, and geopolitical instability have all really changed the way we live and do business. In order to succeed in this new unpredictable environment, corporations need to be prepared, agile and adaptable. We hope that today's conversations give business leaders the tools to guide their organizations through these increasingly volatile times. So over the next hour and a half, Bloomberg journalists will moderate panels that tackle how leaders can meet the needs of their customers, employees, and investors in a volatile business environment, and really how companies can thrive in the face of all of that volatility. We'll also build on topics and themes that were discussed during the World Economic Forum in Davos just a few weeks ago. I'd like to take a moment to acknowledge our presenting sponsor Accenture, and I'm gonna be moderating our first panel. It's called "Volatility and Resilience The Call for Greater Agility." And let's begin with welcoming our panelists. Pierre Breber is the chief financial officer at Chevron. Paul Lundstrom is CFO at Flex. And Anja Manuel is co-founder and partner of Rice, Hadley, Gates   Manuel. And I just wanna say, thank you all for being with us. It's an incredible lineup, I feel like, to discuss all of the volatility and issues that are facing us. And so let's start there. before we actually got started, Paul, you reminded me of just some comments that Jamie Dimon a week or so ago talked about, storm clouds and how that was complicating our outlook and our economic potential, if you will. And then just about a week later, he talks about we're now in a hurricane season. I mean, so much of what's going on right now is changing very fast. It's very fluid right in front of us. And a lot of this was brought up recently at Davos at the World Economic Forum, they talked about supply chains, global alliances, upended commodity and labor cycles, pricing distortions, we're still reeling from COVID. And then add on top of that, of course, the war in Ukraine. The volatility is chronic. So Anja, I wanna start with you. And let's remind everybody as we're having this discussion the news flow is evolving and nonstop around us. Your firm Anja is all about helping companies navigate what's going on in the global markets. What kind of calls are you getting right now and what are you telling them about today's situations?

- Yeah, this is a stormy geopolitical environment. Thank you so much for having me, Carol. Let me just start with the two biggest geopolitical issues on everyone's mind, Russia, where Vladimir Putin is trying to reunify the Russian Empire. This is not about NATO expansion, it's about more than that for him, it's personal. And so unfortunately in that big macro situation, which is roiling oil and gas markets, food supplies, everything we're gonna talk about on this panel. I think what we see is most likely you're gonna have a quagmire. We're all hoping and praying for the Ukrainian people, who've been so courageous, that they can push the Russians back out of Ukraine, but that's looking less and less likely. And as this war grinds on, you're going to see continued upending of supply chains. You're also going tosee the continued pressure on these markets, and it'll be much harder. The West has shown remarkable unity and businesses and government has shown remarkable unity. It's gonna be harder and harder to keep that together.

- Yeah, and with that depend- No, go ahead please.

- Yeah. And I'll just say one word about China. Often when you hear about China in the Western media, we act as if they're 10 feet tall, their airports are gleaming and their roads are smooth and we can't get our act together. I don't think that's how it feels inside China right now. President i Jinping, as you know, is trying to go for an unprecedented third and maybe forever term this fall. But something funny has happened on the way to his coronation. The ero-COVID policy has been a complete disaster with growth actually turning negative in China this past April. Those numbers, as we know, are hard to believe, hard to know what the statistics coming out of there. And as a result of this economic crackdown, self-imposed recession in China, the political crackdown has been just extreme. It's harder and harder to have real conversations with the Chinese and that is making the whole geopolitical environment much less stable for all of the companies that we work with here in the U.S.

- Well, Paul, I wanna bring you into this because you guys have had a presence in China for several decades. I'm sure you've had lots of conversations with the Chinese. What's interesting about you guys too, is you've got, I think about 100 sites in some 30 countries, you touch just about every industry that is out there in the world and you are dealing first and foremost with supply chains. How difficult is it to get things done? And what are some of your thoughts about what we just heard from Anja in terms of our macro setup?

- Yeah, it certainly has been a dynamic couple of years. Just a quick background on Flex. I think it'll help you to understand the lens I'm looking at this through. Flex is a large, advanced, diversified manufacturing company. Like you said, we've got 100 facilities around the world, 100 , operating in 30 different countries. So we see a lot of the market-by-market nuances and what we've seen over the last few years for particularly a company that does large scale manufacturing like Flex, is just disruptions all over the place. It started a few years back with trade disputes that quickly rolled into the pandemic. The whole world saw the shock and awe from the pandemic and the pandemic response. Pandemic rolled into chip shortages and now you have logistics issues and who hasn't seen aerial photographs of miles and miles of container ships stacking up off the coast of Long Beach. So it's been an extremely dynamic environment for all of us over the last few years. And what I'll say is that that's essentially been one giant, two or three year sales pitch for large-scale diversified manufacturing companies that manage supply chain and logistics. And so we've had all sorts of inbound inquiries over the last couple of years on, "Hey look, I know you guys are manufacturing for us in Asia, can you repipe that supply chain to Europe or to the Americas and do more regional manufacturing?" So one thing has led to another and we're seeing some interesting trends for sure.

- Well, it's interesting you used the word dynamic. It almost sounds, I mean, and to be fair, the pandemic showed us that there were some big losers, but there were also some gainers as the world kind of shifted and adapted. How easy though, is it Paul, if may follow, in terms of shifting from China, you have a big presence, right? You've been there for a long time, to doing something in Europe? That stuff doesn't happen overnight, or does it?

- I wouldn't say it happens overnight, but there are few large manufacturing companies in the world that have the scope and the scale that a company like Flex has. So like I said, we're operating in 30 countries already and so picking up and moving out of one into another, on the small scale, piece of cake, honestly, we do it all the time. On a larger scale it's a little more difficult. It takes a little bit more investment, but you'd be surprised how many customers are asking us to do that. They want they want their end products built closer to their end markets. And so we're producing in Asia for Asia, in Europe for Europe, in the Americas for the Americas. I think it's a trend that we're gonna continue to see.

- All right, we're gonna dig a little bit deeper 'cause I wanna get into kind of nearshoring, onshoring. Pierre, come on in on this. Because again, as I said, winners and losers in any crisis and we see that and you and some of the other supermajor peers really have been among the biggest corporate winners coming outta the war in Ukraine, just because of the spike in oil prices. I know we talk about the equity trade every day. And certainly the big energy companies are among certainly, the outperformers easily. Someone recently said on Bloomberg though, "Every boom in the energy market is followed by a bust." And I spent times up in the Backen where people, you know, it's been a boom and then people are like, "Yeah, but the cycle falls apart." So how do you look at this moment of volatility and how do you think about strategy plays, longer term, short term right now.

- Energy markets are in an up cycle. Demand is very strong. Supply is responding, but it's lagging. It's really the reverse of what happened two years ago when demand decreased very quickly and sharply and supply couldn't respond as fast. So there's a time lag, but the supply is responding. Clearly the Russia-Ukraine conflict, and we want that conflict to end as soon as possible, has strained already tight markets, but the commodity cycle was well underway before the Russia-Ukraine crisis. All that said, over time, as you said, we expect markets to rebalance. It is a cyclical business. As I said, supply is responding, there's a time lag. And Chevron's doing its part. Our capital expenditures are up 30% this year versus last year. Our U.S. oil and gas production was up 10% in the first quarter and we raised the guidance for our Permian production to 15% annual growth this year.

- So Pierre, do you feel like you have, amid all the volatility, confidence to make, it sounds like you are doing the capital expenditures that you need to do, that you have enough visibility, even amid all of this turmoil and volatility to make commitments, whether it's financial commitments or strategy commitments?

- It's very consistent with our plan. We expected COVID to have impacts, but again, when times are tough, we thought the cycle would turn back. So it's within our guidance. It's actually still at the low end of our guidance. So you'll see continued capital increases. We talk about three characteristics, very close to the ones you had in your intro, Carol, that have served us well for years and will serve us in the future. First is to be consistent. During crisis like we saw in COVID, particularly our shareholders, and Paul's one of them on this call, they count on the dividend and they need to know what they can count on in a crisis and so we were consistent in maintaining and growing the dividend through a crisis. The second is we prepared. We had a pandemic playbook, wasn't exactly for COVID, but it gave us a head start. We have a playbook on how to deal when prices crash almost overnight. We've seen that in '08, '09, we saw that in '14, '15 so we know what to do. And the third is to be adaptive. And to your point around confidence, we were the first company in the industry to announce a major acquisition in July, 2020, a few months after oil prices famously went negative. And then we've made a lot of progress on our lower carbon strategy. And we look forward to closing another major acquisition of a renewable energy group later this month.

- Is it a reminder Pierre, that in crisis, there are opportunities?

- Absolutely. It's the old saying, Never waste a crisis." We're a much better company than we were two years ago. We're more capital efficient, we're more cost efficient. And I said, we're making great progress on our lower carbon strategy.

- Anja, come back in on this, 'cause I am curious about the conversations you guys are having with your clients about some of the trends that we are seeing. And I think the longer this war, this war, I think there were many initially thought it would be over soon. Well obviously here we are and it continues on.What's the advice that you're giving to some of your clients that you're talking about about what it means to be agile. What kind of methodologies do they need to be enacting?

- Yeah. Agile and resilient are the watchwords. We, Condoleezza Rice, my other business partners and I, advised U.S. CEOs on geopolitics. And so it's been an exciting few months and I think the good lesson that most of the CEOs we work with have taken away is they were a little bit blindsided. They didn't quite see Russia coming. I think there's an untold story here that U.S. businesses reacted so well. I mean really had their values out front, did what they could for their own employees in Russia, in Ukraine, went well beyond what the sanctions required and really found their values as corporations. And that's a really good story. And now what we're doing with a lot of our clients as a follow up is saying, "Okay, so we did that in Russia." Russia was a tiny amount usually of U.S, companies' revenue, but China is a huge chunk of their revenue and the supply chains run through there, everything that Paul was talking about. Now we're doing a lot of conversations. How do you make that part of your business more resilient? How do you think about diversifying and having a pan-Asia strategy, exactly what Paul talked about, rather than just a China strategy? How careful do you have to be about R D in China where it's inexpensive and they have great engineers, but spies are likely already in your system. And a whole list of things running through indicators. What are the break glass things that could happen in U.S.-China relations that would really make you have to rethink as a CEO, whether you need to make sure your expats are safe, whether you need to move your operations out of there or whether you can continue to do business.

- And you know, Paul, come on back in on this because I do think if for anybody who's out there, this concept of nearshoring or onshoring is something changing when it comes to globalization, which we know has benefited so many globally and many would say it's hard to go back on this, but is there going to be something different going forward about more nearshoring and onshoring?

- Well, I think it has changed and it hasn't just been the last couple of years it's been for, I don't know, at least at Flex it's been for 15 years. You look back 30 years ago and manufacturing was, it was all about labor arbitrage. And so you saw a lot of work moving overseas to take advantage of lower labor rates. Interesting stats here, this is just for Flex but, 15 years ago, 5 % of our sales came out of Asia. So it was for export, but it was produced in Asia, 5 % of the business. Last year, 37. So over the last 15 years, you've seen about a 20 point drop in production in Asia. Now, does that mean that we're exiting Asia? No, absolutely not. I had mentioned before, we're gonna produce in Asia for Asia. We're gonna produce in Europe for Europe. We're gonna produce in the Americans for the Americas. And there's gonna be export out of all of those regions as well. But I think it's just that as the supply chains have grown more and more sophisticated, as end customers want their product closer to the end customer, we've just been repiping the network.

- So Pierre, you know what I was thinking too, you've been at Chevron for a long time and I feel this way when we talk about the financial markets, I do like talking with folks who've seen a lot of different market cycles. Not every market up and down is the same and we know that, and I've heard a lot of folks talking about this is different this time around. And we talk about it certainly from a Fed balance sheet perspective, going from an economy that dropped like a rock to bouncing back like a ball. How do you think about this current cycle, as you said, there's boom and bust, certainly in the energy market. How do you think about this one? Is there something different that is shaping strategy or some of the conversations that you're having with your CEO, Mike Wirth?

- All cycles have similarities. Fundamentally demand and supply getting outta sync because again, they operate on different time cycles and yeah, they all have differences. If you go '08, '09 global financial crisis, '14, '15, largely specific to the industry and supply responding and then COVID. So what does feel different about this one clearly is ESG, and we have been an in and out of favor investment for a long time. I know the energy sector has performed well for the last year, but if you go back 10 years and for most of the last decade, we've been a flat stock, with a growing dividend, but a flat stock in a market that's tripled. And if you go back five years, the market's doubled, then again, we were flat till very recently. So we still have a long way to go to win back investors. But what we're seeing is clearly the constraints on capital investment is a difference. ESG investing is a much bigger trend than it was the last couple of crisis that we've had. You have European companies under a lot of pressure to shrink their business. We intend to grow our traditional business and our new energy business. We think we can do both and we know we can do both, but we have some major competitors that are shrinking, getting out of the business essentially. You have Saudi Aramco, which is a public company. So yeah, there's always some differences and it might cause this cycle to stay up longer, but fundamentally it's a cyclical business. We're prepared for a correction. We show our investors what we call downside resilience, upside leverage. So we at $50 brand so less than half of where we're trading right now in oil prices, we can invest in the business, we can grow the business, we can grow the dividend and have a strong balance sheet. And of course at prices above that, we'll generate excess free cash flow and we can buy back a lot of shares. So when oil prices were negative, we knew it wasn't gonna last forever. When oil price is over a hundred dollars, we know that's not gonna last forever either.

- You know, when you said ESG, 'cause this is one of the other things that people are concerned about, that because of the pressures on the system right now, especially in the energy markets, that it will slow the transition to alt energy. Being agile in this volatile market, you have to still continue to think about where this world is going. Is that fair to say, Pierre? And you have to continue to make those investments.

- Both things are true. So the world's going from 7 1/2 half billion people to 9 billion people, billions of people around the world want greater access to energy. And of course the world wants to address climate change and the Paris Agreements and want lower carbon sources of energy. So we can do both and we are doing both and you see that in the growing production. We talked earlier this year and our renewable energy group acquisition, which we'll do in June, will be the largest biodiesel producer in the country. We're gonna grow renewable diesel. Like Paul has customers who want shorter supply chains, we have customers who want lower carbon solutions. So United Airlines wants lower carbon jet fuel, Amazon and Walmart for their trucking fleet, they want lower carbon fuels, renewable natural gas, renewable diesel, conventional diesel that's made with lower carbon, hydrogen one day. And so our new energy business, which is focused on renewable fuels, hydrogen, carbon capture and storage, is making great progress, but it is a long transition, it's decades. We talked about the chip shortage, takes a long time. Transitioning such a massive system like the energy system or the food system or other systems, it is gonna take decades.

- I wanna get into specifics if I can. And Paul, let me jump in with you, 'cause we said what are the operational financial agility that's been necessary to anticipate and respond to unforeseen challenges? Could you be specific? 'Cause I do think about the audience that's out there, that's listening to you guys who are front and center of, you know, front row seats to really, some of the key challenges today. So what are the specifics when it comes to operational financial agility that you've had to take to anticipate some of these unforeseen challenges?

- Let me, it's a great question, but let me give you a very specific example that goes back to the immediate fallout from the pandemic in spring of 2020. Two very different businesses within our portfolio, we've got an automotive business and then we have a health solutions business. In the automotive business, that first quarter after the pandemic really got crazy worldwide. So that April to June quarter, we saw the automotive business within Flex drop about 50%. 50. 5-0. And so the effect on a large manufacturing operation is significant. You gotta tighten the belts. You have to take cost out, you have to be ready to respond when it comes back, but you have to just protect the business. So that as a bookend. Massive crisis, huge volume reduction. On the other end of the spectrum, we were asked to

start producing ventilators in response to the pandemic and we had never produced them before. And so over about a six-week period, we did a rapid ramp program. And by the end of the sixth week, we were producing patient-ready ventilators and Flex became in 2020, the largest non-captive ventilator producer in the world. We made like 50,000 of those things in 2020. Two very different business responses. And you have to be agile from a financial perspective, from a modeling perspective as you're thinking through your business continuity plans. On the automotive side it was, "Alright, look, we gotta tighten things up." On the health solutions side it was, "Hey, we gotta invest fast. We have to be fleet of foot. We have to have the engineering talent in place. We have to have the production readiness in place." And we got-

- How were you able to do it though? Did you have the money, the people?

- I would say a flexible management team who saw the opportunity, understood the necessity of the quick response and poured the resources into it to make it happen.

- Anja, come on in too about specifics in terms of, do you tell some of your clients like, "Make sure you have this in place."? Or, it's interesting coming off of the financial crisis, I feel like CFOs became king because they kept companies alive and were constantly looking at the balance sheet and what had to do in a market where everything just seized up. And so I do think about the conversations that the CFO now has strategically with the CEO. You guys can tell me. I mean, it's just much more, you guys just are on it. So Anja, I'm just curious, when you are talking with companies, are you saying, "Here's what you guys need to make sure that you have in place?"

- Yeah, absolutely. And I think the CFOs have become kings, but so have the CEOs. They're starting to earn their very high salaries because it's just a much more complex environment than before. And in addition to being nimble, as Paul and Pierre just pointed out, the ESG overlay and the values overlay has never been stronger. So a lot of our clients used to say, "Well, we're American headquartered, but we're really a multinational and we see ourselves as global." That's going to be harder and harder. I don't think that's going away. The pendulum is swinging back somewhat, not entirely from globalization. So it's impossible now to say one thing in China and another thing in the United States and in the United States CEOs are being asked very clearly to ensure that they're not transferring sensitive technology that could help the Chinese military or human rights abuses. They're being asked to ensure that they're following the highest environmental and human rights standards too. Pierre made that point earlier. I'm just off a board meeting yesterday, transportation company, we're not slowing down in our environmental and I don't see a lot of other people either. Maybe there's a blip because of this very high oil price just now, but that's also an opportunity exactly as Pierre said, because it makes all of those alternative fuels that are just coming onto the market more market-ready, gives them a little bit of a bump. And so I think these trends are big and they're gonna continue. And the final one, I would say, whether there's gonna be a Democrat or a Republican in the White House. The project supporting U.S. jobs is gonna continue to be important. And Paul talked a lot about diversifying all over the world. I mean, Flex is one of the best companies in the world at this. A lot of the reshoring I've seen hasn't come back to the United States. The big beneficiaries frankly, have been Mexico, Malaysia, a couple of other Southeast Asian countries. So that's not happening. But thinking about how as a CEO you're impacting us jobs is gonna continue to be critical.

- And Pierre, I wanna go back to you. I know I asked Paul for specifically what operational financial agility has been necessary to anticipate and respond to unforeseen challenges. I'm reading the question, 'cause I do think about our audience who are like, "Okay, what do I need to do?" What would be one that you would say?

- We follow our four financial priorities, which we've had for a long time. And they really serve us well in a crisis. And the first is to maintain and grow the dividend, I talked about that. The second is to invest in the business. We made significant capital reductions when COVID hit, but we reduced short-term supply, but we kept investments for long-term supply and again, we announced major acquisition. The third was to maintain a strong balance sheet. And the fourth is we have excess cash, we buy back shares. And clearly we suspended share buybacks in 2020 when COVID hit and we've resumed them since. So having a real clear sense of priorities. Again, I called the prior CFO who lived through '14, '15, I called the CFO two times ago, lived through '08, '09. So we have playbooks. Again, we were prepared for this type of crisis and we know what to do. In terms of the the energy flows changing, we will see more U.S. energy flowing to Europe. Russia's a very large energy producer and they've been exporting to Europe. U.S. natural gas is something that you'll increasingly see go to Europe. U.S. crude oil, refined products, even. It takes time to reroute energy flows and it'll add some cost, but that's underway. So it's very dynamic world. We've learned to be adaptive to it and having very clear financial priorities that are tried and true that have been tested during a crisis and then executing against them.

- How do you all think about the global alliances going forward? I mean, Antony Blinken, U.S. secretary of state, recently saying the U.S. will seek to influence China's behavior by shaping the world around Beijing. China says it will work with Russia to promote real democracy. We saw in terms of the energy market, OPEC producing more, there's talk about President Biden going over to the Saudis and meeting with the leader there who he has been shunning because of the murder of the journalist a few years ago, Khashoggi. So I just do wonder how do you guys rethink some of the global alliances that are out there, Paul, and maybe that are gonna stay with us much longer? Or maybe it's just a new paradigm.

- Yeah, well, I certainly hope for unity. I think like everyone else. I think I had mentioned before, I don't think people realize-

- What does unity look like? What does unity look like going forward?

- Free global trade, no protectionism. And again, it's the interconnectedness amongst all the different countries around the world is incredible. I don't think people realize just how tied in together we all really are. And so the antagonism and the saber-rattling and the us versus them and them versus us, it's just bad for the global economy. And I really believe that. We really are incredibly interconnected. Look at Ukraine, perfect example. I didn't realize this, but 20% of the world's high-grade wheat comes from Ukraine. Are you kidding me? It's a small GDP country. It's 100 times smaller than China if you look at GDP, yet they produce 20% of the world supply of high-grade wheat. We are really interconnected. And if you start being obstructionist and you put up these big trade barriers, it's just bad for everyone. It's like economics 101.

- Anja, how do you think about global alliances? And you gave a Ted Talk a little while ago and saying the West's real competition is the Communist Party of China. And you talked about China extracting technology from the West through both legal and nefarious means. China has definitely ramped up its efforts since then, it's very clear about their plan for the country. So how do you think about global alliances that's going to be impacting the global corporate world?

- Yeah. Two points. That Ted Talk was actually specifically on technology. I do not think the U.S. and Chinese economy should decouple as a whole. I think that's damaging. I agree with Paul that actually, free trade helps lift all boats. However, it's not the political environment we're in and I don't think we're gonna be there for the next 5 to 10 years. Just like you saw America First here, you have populous movements all over the world, Brazil First, Turkey First, Hungary First, India First. So I think you're gonna see a wave of, not total protectionism, but more what Janet Yellen calls, friend-shoring. And so this gets to your point of alliances, Carol, I think Vladimir Putin did the West a favor by wiping out that tyranny of petty differences. I'm in Europe all the time, talking with senior policy makers. Two years ago, you couldn't get them to think about China in a strategic way. Now they're all thinking about China and they're increasingly worried about some of the ways, not all of the ways, that China shows up in their system. So from a political perspective, I think you're seeing an era where you're gonna have imperfect alliances, not blocs like you had with the USSR and the U.S. in the Cold War, but areas of comedy. So you're seeing the Quad develop into something much stronger than it was originally anticipated. South Korea now saying they wanna join in with the Quad conversations. Conversations about how do we actually maybe not build all the semiconductors here in the U.S., but how do we do it with our friends and allies? And that's, the big democracies, developed economies in Asia. So Japan, Taiwan increasingly, South Korea, the U.S., Australia, New Zealand, India to some extent, and then the U.S. and Europe. And I think that is a trend that is with us for a long time and companies are starting to adapt.

- I just wanna wrap up real quickly, go round robin. Pierre, just final thoughts and thinking about this audience that's listening. I'm assuming you think volatility will continue or do you think we'll kind of calm down?

- It'll continue. Again, be consistent, prepared, and adaptive and be ready for the good times and be ready for the tough times.

- All right. Gotta be flexible. Paul, final thoughts?

- Yep. Spot on. I agree with Pierre. Unfortunately I think this chaos is our new reality. I think we just have to ask ourselves what's next and start planning today for whatever possible scenarios could present themselves. From a CFO perspective, we need to protect the business in the short term, but continue to make the right strategic bets and investments for the long term. And part of that is expecting the unexpected and having the discipline to model a very wide range of possibilities.

- Yeah. You gotta be on your toes. Anja, final thoughts?

- Yeah. We're moving from a just-in-time world to a resilient world. It may be slightly less efficient, but ultimately it will make us all stronger.

- All right. Gonna leave it there. Anja, Paul, Pierre, thank you so much. Really appreciate it.

- Thanks for having us.

- Thank you.

- Thank you.