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CVE.TO - Cenovus Energy Inc and Husky Energy Inc to Discuss Proposed Transaction to Create a New Integrated Canadian Oil and Natural Gas Company Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Cenovus Energy and Husky Energy Transaction Conference Call. As a reminder, today's call is being recorded. (Operator Instructions) Please be advised that this conference call may not be recorded or rebroadcast without the expressed consent of Cenovus Energy and Husky Energy.

I would now like to turn the conference call over to Ms. Sherry Wendt, Director, Investor Relations for Cenovus. Please go ahead, Ms. Wendt.

Sherry A. Wendt - *Cenovus Energy Inc. - Director of IR*

Thank you, operator, and welcome, everyone. We appreciate that you have joined us on a Sunday to discuss this morning's announced transaction between Cenovus and Husky Energy. On the call this morning are Alex Pourbaix, President and Chief Executive Officer of Cenovus; Rob Peabody, President and Chief Executive Officer of Husky Energy; Jon McKenzie, Executive Vice President and Chief Financial Officer of Cenovus; and Jeff Hart, Husky's Chief Financial Officer.

In addition to the news release, we have posted a presentation on both companies' website at cenovus.com and huskyenergy.com. I refer you to the advisories located at the end of today's news release and in our presentation. These advisories describe the forward-looking information, non-GAAP measures, and oil and gas terms referred to today and outline the risk factors and assumptions relevant to this discussion. All the financial figures within the presentation and discussed on today's call have been presented in Canadian dollars and on a before-royalties basis, unless otherwise stated.

Alex and Rob will give -- will provide comments, and then we will turn to the Q&A portion of the call. Please go ahead, Alex.

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Thanks, Sherry, and good morning, everybody. Thanks very much for joining us for this call. I hope everybody is safe and healthy. And on behalf of the combined management teams of the 2 companies, I really hope that you will forgive us for this intrusion into your weekend.

I just want to start off by saying how pleased I am to announce this transaction between Cenovus and Husky. It is unique for the assets of 2 companies to complement each other this well. We're bringing together Cenovus' top-tier SAGD assets at Foster Creek and Christina Lake with Husky's extensive refining and upgrading network. This is enhanced by the cash flow generated by Husky's upstream assets, which include its thermal and oil sands portfolio in Western Canada, natural gas and liquids production in the Asia Pacific region, Brent-based oil production in Atlantic Canada and conventional production across Western Canada.

When Jon and I joined Cenovus, our major priorities were to optimize our cost structure, expand our market access and strengthen our balance sheet. Over the past 3 years, you have seen us deliver on those commitments, driving down an already low-cost structure through capital discipline and an unwavering culture of consistent improvement in the upstream business. You have seen us create our own opportunities to expand market access, build a rail business and use our storage and transportation options to optimize value for production.

We have organically deleveraged and taken decisive actions to protect the balance sheet in challenging market environments. Now today, we are announcing a transaction that addresses all 3 of these priorities. With this transaction, we position ourselves as a more resilient company with increased and more stable free funds flow. Importantly, we will have new opportunities to continue expanding margins across the value chain, lowering our breakevens and accelerating deleveraging and returns to all shareholders. This transaction also provides an immediate opportunity to achieve coverage through market access, upgrading and refining for almost all of our combined crude oil production profile.

As you look through our slide deck today, I want to draw your attention to Slide 6, which shows how well both companies' assets balance the heavy oil value chain. Well, the transaction will immediately almost completely remove our exposure to WTI-WCS location differentials. We will maintain our advantaged access to global oil prices. The combination of these 2 companies will reduce the commodity price volatility of both our cash flows and net asset value per share compared to the standalone companies. And for an illustration of this, I would just direct people to Slide #13.

And you've already seen us drive significant costs out of our business through corporate and operating optimizations. This transaction offers an enhanced opportunity to continue to expand margins across the combined company.

Before I go further, let me invite Rob to share his perspective on why this is such a compelling transaction.

Robert J. Peabody - *Husky Energy Inc. - CEO, President & Director*

Thanks, Alex. I'll start by saying that this is a great opportunity for Husky. Over the past several months, as we've worked together on this transaction, from a value and strategic perspective, the merits and overall fit have become abundantly clear.

During a unique time, for the oil and gas industry in particular, we are pursuing this transaction because together, our 2 companies will be stronger, more competitive, efficient and profitable than either company could be on its own. The combined company will be Canada's third largest oil and gas producer and second largest Canadian-based refiner.

The company will have robust processing capacity and egress out of Western Canada for nearly all of the combined oil sands and heavy oil production, and high-margin conventional assets as well. And this is complemented by over $1 billion of annual free cash flow from Husky's high-netback offshore natural gas operations in the Far East.

The combined company will have the scale and added resilience and unique opportunity to fully capture margins across our combined value chain by uniting high-quality, low cost, heavy oil assets with extensive midstream and downstream infrastructure. Bringing our talented people together will enable the full potential of this combined portfolio. The integration will also create a stronger competitor with a low-cost, long life reserve base. Indeed, across a whole spectrum of price scenarios we examined, the transaction was consistently accretive to both sets of our shareholders on key financial metrics.

Further, at low prices, the combined company will be able to pay off debt faster than either company could on its own. The all-stock nature of the transaction provides both sets of shareholders the opportunity to participate in the near and long-term value creation potential of the combined company. In short, we see this transaction as capturing unique opportunities now and solidifying the foundation for the future.

As in any transaction, the strategic rationale will be front and center and studied carefully in a pro forma context. We know this transaction checks those boxes. But moreover, we know from a cultural standpoint, when you bring together 2 like-minded organizations with Calgary roots and shared values, the power of that strategic rationale and the promise of the combined organization is greatly enhanced.

I'm also confident that the company -- the combined company will further advance our shared values of ESG and performance leadership. So it's the start of a new chapter today.

I wanted to thank the Husky team for their exceptional focus during what has been a challenging year for everyone. Your relentless and innovative work has positioned us to be able to seize this opportunity for the benefit of our collective future. I would like to say, as we progress this transaction, as we've been progressing it, it's been my honor and privilege to serve as CEO of Husky for the past 4 years and before that, as COO.

With the support of our shareholders, our Board, our dedicated employees and our community partners, we can take pride that we have been part of an 8-decade journey of providing essential energy to the world. As part of this new company, that journey continues. I look forward to seeing the new company that will rise from this combination, and I'm confident it will demonstrate straight the same agility, determination and richness of spirit that I've witnessed at Husky over the years as it embraces the opportunities that lie ahead.

As we work to bring these 2 exceptional and complementary asset bases together, I have great faith in Alex's leadership to carry the important mission of the new Cenovus forward. I look forward to working closely with him and the Cenovus team as we work towards the completion of this transaction. I'll now turn it back to Alex.

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Rob, thank you for those kind words. Before getting back to the transaction, I really would like to express my gratitude for your leadership at Husky over the years and your legacy in building its depth of talent and assets. Rob, over the course of this transaction, you and I have worked together very closely, and I very much appreciated your insights and commitment to do what's best for all of our stakeholders.

Turning back to the transaction now. One of the most immediately compelling and tangible features of this transaction is the $1.2 billion we have identified as annual run rate synergies that we are confident can be realized mostly within the first year. And I'd just direct everybody to Slide 9, which I think takes you through how we're thinking about this.

The first $600 million of synergies are from annual corporate and operating cost savings. About 2/3 of this relates to things like workforce optimization, IT and procurement savings, and the remaining 1/3 relates to our opportunity to apply our proven technical and operational expertise to a broader set of assets. This will allow us to further drive down costs and unlock potential value in the upstream.

The other $600 million of savings will be realized through our ability to better allocate capital to an expanded upstream portfolio. By focusing investment in higher return production, we plan to sustain roughly 750,000 barrels a day of production, while ensuring safe and reliable operations in the downstream for an all-in annual sustaining capital of approximately $2.4 billion a year. That's about a 25% less than the combined sustaining capital of the 2 companies on a standalone basis.

These savings will drive the corporate breakeven well below levels that either company could achieve on its own to a WTI price of about $36 per barrel in 2021 and further down into the range of around $33 per barrel by 2023. That significantly enhances our ability to create value in the current environment and the recovery to come.

There are additional opportunities to drive incremental synergies. This includes physically integrating Cenovus' low-cost production at FCCL with the Lloyd refining and upgrading complex. But I want to be really clear on this point. This opportunity has not been included in that $1.2 billion annual synergy number that you've heard me just describe.

As I mentioned earlier, the combined company will have low sensitivity to the WTI-WCS differential while still retaining healthy exposure to global crude oil prices. Combined with a lower breakeven, this derisks and accelerates our ability to generate free funds flow and deleverage. With synergies and more stable cash flows, based on assumptions around the current forward strip, we expect to drive our net debt to adjusted EBITDA ratio below 2x in 2022, ahead of schedule and with far less commodity price risk to deleveraging than on a standalone basis. Importantly, this time line is not dependent on any asset sales.

Our primary focus as we bring these 2 companies together will be to maintain safe and reliable operations. Beyond that, over the next 18 to 24 months, our focus will be to achieve our synergy targets and deleverage the balance sheet.

Before I wrap up, I want to speak to 2 other central elements of our strategy, our ESG commitments and our people. We believe that striking the right balance between environmental, economic and social considerations is central to our strategy of creating long-term value and building a resilient and respected enterprise. As we said in our news release, we remain committed to our shared goal of achieving net 0 emissions by 2050 as we work to become a global energy supplier of choice as the world transitions to a lower carbon future. We remain equally committed to being a leader with respect to environmental stewardship, engagement and economic reconciliation with indigenous communities, diversity and inclusion and, above all, safety.

You can expect new ESG targets, commitments and plans following closing, which we'll take the time to make sure are meaningful, are deliverable and are connected to our business plan. Transactions like this are necessary to ensure our companies and our sectors stay strong. But there is no escape in the impact they inevitably have on some extremely talented and dedicated people. Our commitment is to make the best decisions we can and to treat everyone fairly and with respect and support as we go through this process.

In closing, this transaction positions us as a business that will be resilient in virtually any commodity price scenario with a robust and more stable cash flow stream, allowing us to return more value to shareholders. We believe this is an outstanding opportunity to create a company built for success in any environment. And with that, operator, you can open the line up for any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question comes from Greg Pardy with RBC Capital Markets.

Greg M. Pardy - *RBC Capital Markets, Research Division - MD & Co-Head Global Energy Research*

Just 1 question I had with respect to your -- just the major shareholder and Husky. Can you just talk a little bit about how that ownership will shift, obviously, in the combined entity? And then just how arrangements are in place as you continue to work together going forward?

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Sure. Maybe -- Greg, it's Alex. Maybe I'll pass that over to Rob to give some initial thoughts on it, and I may chime in.

Robert J. Peabody - *Husky Energy Inc. - CEO, President & Director*

Super. Thanks, Greg. First of all, I'll just point out the major shareholder, of course, has been part of Husky for more than 3 decades. And they have a very sophisticated investor. They've got a strong track record of investment all over the world, in fact and with massive value creation over time. And certainly, from a very personal perspective, I've greatly valued their advice and counsel over the years.

They are retaining their level of investment in the company. In other words, this is not a divestment from the Canadian energy scene at all. They'll maintain their level of investment. But they clearly see this combined company as a superior investment vehicle than Husky on a standalone basis. And hence, they've been strongly supportive of this transaction. That all being said, their net position in this company is going to be more like 27% instead of 70%, and they fully recognize that's a very different position than they were in Husky. And so the arrangements, which I can let Alex even talk a little more on, clearly recognize that they've got a 27% position and not a 70% position.

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Yes. Thanks, Rob. And the only thing I would add to that, Greg: On a go-forward basis, Husky's major shareholders have the right to appoint 3 nonindependent directors and 1 independent director on behalf of Husky coming out of the gate. So -- and we would expect -- I mean, we're welcoming them to the Board. We expect them to contribute, and they would contribute, I would expect, with all sorts of the rights and entitlements of any 3 independent directors that we would have on the Board. So we're feeling pretty good about that.

Robert J. Peabody - *Husky Energy Inc. - CEO, President & Director*

I should also add just one other thing, that they certainly see this as a long-term investment going forward.

Operator

Next question comes from Menno Hulshof with TD Securities.

Menno Hulshof - *TD Securities Equity Research - Research Analyst*

I'll start with a question on synergies. You didn't quantify the upside associated with the integration of Foster Creek, Christina Lake and the Lloyd complex. So maybe you could just talk us through how you intend to drive margin expansion between the 2. And while we're at it, maybe you could also elaborate on the moving parts related to your reference to reduced exposure to condensate prices?

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Sure. Why don't I -- we have Jon here in the room with us, and this is an issue that is near and dear to Jon's heart. So why don't I ask John to respond to that, Menno.

Jonathan M. McKenzie - *Cenovus Energy Inc. - Executive VP & CFO*

Sure. Thanks, Alex, and thanks, Rob. One of the things that I would tell you, Menno, is the synergies that we've included in the pack are the synergies that are readily identifiable and readily achievable on a very short time frame. So this integration work has actually been going on for quite a period of time, and that's given us a very high level of confidence on the synergies that we've identified and included in the investor pack.

What isn't included is some of the longer-term things that you're starting to touch on. But the reality is all the crude from FCCL flows right by Lloydminster on its way to Hardisty, where Husky has not only a significant position at Hardisty in terms of terminals, but also have the industrial complex at Lloydminster. And as you know, all of the small-scale SAGD in Lloydminster as well as Tucker is plumbed into those assets.

So as we go forward, we're looking at what kind of molecular integration opportunities are available to us in bringing a different crude slate in through Lloydminster and then through the application of capital projects, what that means in terms of additional or co-opted molecular integration of FCCL into that facility.

Similarly, if you think about FCCL, the marginal barrel of condensate today comes from the Gulf Coast, and we're going to be looking at opportunities to shorten that supply chain up so that we're bringing potentially condensate up from existing assets in Lloydminster. So there's lots of work to do on the integration side going forward, but we see all kinds of opportunity that's going to flesh out some more of this industrial logic.

Menno Hulshof - *TD Securities Equity Research - Research Analyst*

Okay. That helps a lot. I'll just roll out a question on refining. The deal clearly increases your North American refining exposure at a time when fundamentals under -- are under a lot of pressure. So maybe you could just give us some sense of how much of a driver refining was in this transaction? And maybe your thoughts on the outlook for North American refining more generally?

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Maybe I'll jump in, Menno, and just talk about sort of the role, I think, that refining and integration plays. And Jon or Rob may want to add something about more of the outlook, short to medium-term outlook for refining.

But I would just say to everybody, and we've been on these calls now for many quarters. And obviously, one of the biggest challenges for this company over that time period has been our relatively higher level of exposure to Alberta, heavy oil prices. And I think all of you will remember over the years. What I've said is we really admired the integrated business model. But for most of the time that I've been in this company, there just wasn't an option to acquire material upgrading or refining for anything that remotely within our [snack] bracket. And as a result, we're very focused on trying to deal with that issue through getting market access to markets where we could achieve a global price.

We're more looking at the transport side of it. And I think the extraordinary thing about this deal and along with many other positive characteristics. But in one fell swoop, this deal will almost completely remove our exposure to WTI-WCS differentials. And I just -- and to remove that exposure, but more importantly, to remove the volatility in cash flow that came with that exposure, I think, is a real positive for the company and its investors.

Maybe I'd turn it over to my compatriots to see if they had any comments about the outlook for refining.

Jonathan M. McKenzie - *Cenovus Energy Inc. - Executive VP & CFO*

Yes. Menno, it's Jon again. I would say, although the refining cracks are depressed today, we don't believe that the long-term cracks are indicative of where they are today. Part of that is seasonal, and obviously, a big piece of that is COVID related.

But when you think about the refineries that we're acquiring, whether it be the asphalt plant and the upgrader at Lloyd or whether it be Superior, Lima or Toledo, what's really compelling about this for us is those units consume the molecules that this combined company produces, and it's all pipeline collected -- or connected. So what we're really producing here is an integrated value chain at a molecular level, and that has a lot of optionality and value for us.

And as Alex mentioned, doing that in this kind of an environment, we believe, is really compelling.

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Yes. The only thing I'd add, Jon, as well is the optionality in the all the midstream infrastructure that's involved in these systems. And that really does -- in markets that change quite frequently, there's a lot of value to be extracted from that optionality.

Operator

Next question comes from Neil Mehta with Goldman Sachs.

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

Congratulations. Alex, in our conversations, deleveraging has clearly been a top priority for you and your team. Can you talk about how you see this transaction is helping to advance that? And in your conversations with the ratings agencies, do you think that this is enough to push you over back into the investment-grade line?

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Sure. I'll let Jon talk to the latter half of the question. But with respect to deleveraging in the balance sheet, you're absolutely right, Neil. I think I, at times, have probably sounded like a broken record on the importance of a strong balance sheet and deleveraging the company.

And I would just say kind of as an aside, one of the most frustrating periods in my professional career was kind of February, March and April. After all the work we had done to get our balance sheet in shape, to see this company pack on debt in that very low price environment was just profoundly frustrating to me personally.

And I think Rob alluded to this in his comments at the front, but I think one of the more real interesting features of this company is that we have had a great deal of time to think about this combination and to really stress test it under a number of different commodity price decks and assumptions.

And as Rob said, when you do that, you actually see that this combined entity, along with the synergies that we have talked about, almost under any commodity price combination of WTI, heavy differentials, you name it, it produces more cash flow and delevers quicker than the component companies.

And so for me, I mean, it was one of these incredible opportunities where we had an opportunity to kind of hit my 3 objectives. And I know you guys have heard me say this 1 million times, but ever since we've got to Cenovus, and Jon is the same way, it's been about fixing the balance sheet, driving our costs down and dealing with our market access issuer, put another way, dealing with our heavy oil Alberta pricing risk. And this is, as I said, it really is this kind of unique deal that I think solves for those 3 priorities that Jon and I have been harping on for months or years.

Jonathan M. McKenzie - *Cenovus Energy Inc. - Executive VP & CFO*

Yes. And I would just add to that. I can't speak for the rating agencies, but you should expect some notes coming out from them fairly quickly. But both companies really understand the value of investment-grade ratings and having access to competitively priced capital through the cycle.

We think that's critical for resource-based companies and particularly going forward. So this combination, we think, checks a lot of those boxes, and we would expect that we will be back in the investment-grade rate status.

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

Great. And the follow-up is on Slide 11 here. I think the operating cost synergies are pretty clear, the capital cost energies. It would be great if you could flush that out a little bit more. And specifically, which -- at a project and asset level, what do you see getting deferred? And I guess the big chunky one is West White Rose, as I know Husky's been in the middle of an evaluation of what to do with that project.

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Do you want to?

Jonathan M. McKenzie - *Cenovus Energy Inc. - Executive VP & CFO*

Yes, I'll start. So what you've got there, Neil, is really a run rate number. And you'll remember that we always talk about $1.2 billion being the sustaining capital run rate at Cenovus. And that's about $800 million for FCCL, $200 million for the downstream and $200 million for the Deep Basin.

And through this combination and putting or plumbing Cenovus' upstream onto Husky's downstream, what we're really going to be able to do is really optimize the investment, particularly in the upstream. So areas of investment can be optimized where they're going to get the highest value and the greatest efficiencies.

So things like, and we've alluded to this, bringing sort of the Cenovus SAGD technology and optimization on Husky's SAGD assets is a big piece of that. Investing more strategically in the assets that provide the highest capital returns and the highest efficiencies is the other piece of that.

So when we think about this going forward, things like West White Rose, we're not investing in 2021. That's something that's going to be on delay. But what you should be thinking about is a general capital optimization across that portfolio, which does bring down that overall cost.

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Yes. Maybe, Jon, I'd just add one thing on West White Rose is, clearly, we put in the press release as well that we're canceling the 2021 construction season. And that really, again, comes back to the macro picture and the need to prioritize the balance sheet going forward. We do want to be in that investment-grade bracket, and you have to take actions to stay there.

So -- but I'd just point out, the project going forward still has reasonable economics. But as I say, in the current environment, we want to balance -- we want to really prioritize the balance sheet.

Operator

Next question comes from Manav Gupta with Crédit Suisse.

Manav Gupta - *Crédit Suisse AG, Research Division - Research Analyst*

Congrats on the deal. Looking at what we're seeing in the market these days following Chevron-Noble, in particular, a 5% to 7% premium is, these days, considered an okay deal. Over 10% is considered a little excessive. So can you talk a little bit about the 20% -- 21% premium or pre-warrants that you are paying for this deal?

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Sure, Manav. I'll jump in and my compatriots might have some views. And I think the first thing I would say, I would caution everybody not to get too fixated on what is a really short-term number in the premium, both our companies' stocks have been very volatile this -- over the last while. And this was a deal that was always kind of intended to be done more or less as a market-based deal, and some of that premium is a little bit of an outcome of a very volatile stock market. But I think the more important point is to really think about the combination of the companies.

And if you -- for example, if you reduce that premium to dollars, it represents about 1/2 of a year's synergies that we've been talking about. And the synergies alone, if you net present value them at an 8% or 9% discount rate. They represent more than half of the present value, the combined enterprise value of these 2 companies.

So it's really about -- for me, it's about creating this incredibly resilient and strong company and all of the benefits that we can drive from, and I don't know if anyone else would want to weigh in.

Robert J. Peabody - *Husky Energy Inc. - CEO, President & Director*

The only thing I'd add, Alex, is throughout the discussions, there was a real focus on the synergies, number one, in sharing those to, equitably, among the shareholders of both companies. And so I think that was a focus and maybe the major focus.

Manav Gupta - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. One quick follow-up. Obviously, when you were doing this deal, the circumstance is a little different. On Friday, things changed a little. Canada, Alberta is removing the production cuts as we understand. Does that change the way you are either going to operate the Cenovus assets or Husky assets now you can ramp at both places? So based on what happened on Friday, does it change the way you would operate any of these assets going ahead?

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

I -- the Alberta government's decision to ramp down curtailment is not going to, in any way, shape or form, impact how we would operate this company going forward.

Operator

Next question comes from Asit Sen with Bank of America.

Asit Kumar Sen - *BofA Merrill Lynch, Research Division - Research Analyst*

Appreciate all the details on the call today. My first question is on sustaining CapEx pro forma of $2.4 billion. That's fairly impressive reduction. What is the non-E&P component sustaining CapEx embedded in that $2.4 billion number? I think Cenovus had $250 million for refining and corporate. I'm just wondering if you have a pro forma number.

Jonathan M. McKenzie - *Cenovus Energy Inc. - Executive VP & CFO*

Yes. It's about $600 million for the Husky downstream, and it's about $200 million for the Cenovus downstream.

Asit Kumar Sen - *BofA Merrill Lynch, Research Division - Research Analyst*

Great. And a broader question on multiyear capital allocation. And I appreciate the base dividend and your leverage targets, but how are you thinking about reinvestment rates back into the business? And while I'm thinking more in terms of upstream CapEx as a percent of FFO, how would you think about that number in a $40 WTI, $50 WTI and a $60 WTI in a new world?

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

I can start on that, Asit. And what -- I guess the first thing I would say is I -- you've heard me talk about the resilience of this combined entity. And I think with those free cash flow breakevens, you saw me talk about, you'd see that in any of those scenarios, we have a company that is producing free cash flow, allowing us to keep the assets in a safe and stable condition, pay the dividend and have options for our cash going forward, both in terms of improving returns to shareholders or looking at select organic opportunities.

And I think one of the -- obviously, the most -- one of the more compelling things about it is that protection we get at the bottom end. But I think we also have not given up that exposure to WTI in a higher-price environment. And so the company still retains a lot of upside potential to global oil prices. And -- but I think you've heard this from Jon and I for 3 years, and we're not going to get off this. Our priority continues to be -- we got to strengthen the balance sheet. We want -- we are going to continue to do that in any event we see those higher prices. You're going to -- people are going to have to push pretty hard to get Jon and I off a plan of continuing to apply that free cash flow to accelerate our balance sheet improvement. I don't know, Jon, if you want to add anything that.

Jonathan M. McKenzie - *Cenovus Energy Inc. - Executive VP & CFO*

I think that's right. And this is a constant theme you're going to hear from us is one of the things we really like about this transaction is it does make us more resilient and it really does give us more free cash flow at the bottom of the cycle and as well as an opportunity to continue to drive down that breakeven.

So when we think about capital allocation, the first priority is the balance sheet and keeping everything in a safe and stable condition. Where we go from there when we got the balance sheet where we want it will really be the work of the new management team. But suffice it to say that we are checking the box in all the defensive pieces that we need to take care of first.

Operator

Next question comes from Benny Wong with Morgan Stanley.

Benny Wong - *Morgan Stanley, Research Division - VP*

And I appreciate the comments around (inaudible) [wellbore] at the beginning here. I'm curious to -- to the extent you can share some of the feedback and thoughts you might have gotten with ConocoPhillips, who owns a decent amount of Cenovus shares. And do these have some sort of stand agreement as well under in?

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Why don't Jon, I think you've been in contact...

Jonathan M. McKenzie - *Cenovus Energy Inc. - Executive VP & CFO*

Yes. No, we've been talking to Conoco. And I'm not going to speak for them, but through this transaction, obviously, their holdings will come down from about 17% of our float down to about 10%.

But they've been very consistent through this, and they've been very consistent over time that they don't see themselves as long-term shareholders, but they also don't believe that the market value of Cenovus reflects the intrinsic value. And not being in a need for the cash in the short term, they have been very patient with their holdings, and we expect that to continue.

Benny Wong - *Morgan Stanley, Research Division - VP*

Great. Jon, I appreciate those thoughts. Follow-up is really around the various JVs you have in light of the announcement. Just curious about the downstream JV with Phillips 66. Are there any regulatory antitrust approvals or actions we need to keep an eye out for? And in Asia, maybe some comments in terms of how you think that partnership and potential out there fits within your long-term strategy of the combined company.

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

I could answer that. But I know my friend, Jon, has been spending a lot of time looking at regulatory issues, so I think he's just chomping at the bit to answer that.

Jonathan M. McKenzie - *Cenovus Energy Inc. - Executive VP & CFO*

Yes. Thanks, Alex. So there's nothing unusual, Benny, that you would expect on the regulatory side, and we're working through that and have been for a while.

In terms of looking at the broader asset slate and which assets fit into the long-term future of Cenovus versus noncore assets. We'll go through that piece of work. But what we've put into the pack that you've got is a deleveraging plan as well as a free cash flow plan that doesn't assume any kind of dispositions.

But this really does give us the platform to optimize the asset base very differently, I think, than either company could do on there.

Operator

Next question comes from Phil Gresh with JPMorgan.

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

Alex, what prompted the transaction is, obviously, the integration benefits of the 2 companies between upstream and downstream. That said, Cenovus does have commitments on a lot of planned pipelines in the future that could provide at least the take away aspect of that.

So I was just curious if any of the rationale for the deal is perhaps some concern on your part that those pipes will continue to get delayed or just won't happen and particularly with a Biden administration.

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Yes. I mean, look, I wouldn't say that, that was a driver to getting this deal done, Phil. But what I would say to you is I've been sitting, talking to investors for 3 years here and for many more years at my prior company before that, telling everybody that I was optimistic the pipes were going to come.

And I think one of the unique features about this deal is it allows us to actually put that solution to that issue in our own hands. And from the perspective of the company going forward, I think it's very important for Alberta to get those pipelines and it's important for the industry. But the relative importance to Cenovus has obviously been materially decreased.

So now I somewhat appreciate the position to be kind of an interested observer than -- rather than feeling like I was in the hot seat on it every day. So I think it -- I certainly view it as an important derisking element of this combination.

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

Sort of addressed the (inaudible) one of the things in the presentation was the leverage targets were based on August 20 strip prices, which, obviously, the prices have come down a bit since then. So I guess the essence of the question is really, I think, Jon, in the past, you've always said you want to have a certain target at certain level of oil price, more of a trough level of oil price, I suppose. But how do you think about what oil price you'd want to be able to achieve this 2x leverage versus, say, just using the strip on any particular date?

Jonathan M. McKenzie - *Cenovus Energy Inc. - Executive VP & CFO*

Yes. Phil, I don't think any of our thinking has really changed in terms of how we put together our financial framework. And we always talked in the past that it's really anchored in $45 WTI.

And we believe at that level, the hydrocarbon industry really doesn't work well. We don't see incremental production coming on to support incremental demand. So in terms of how we think about this going forward, I think what you'll see from us is a financial framework that's anchored in $45 WTI speaks to our capital structure, investor returns as well as our investment criteria.

But that's work that started. It just hasn't been completely finished, but it's not going to be a left-hand turn from what you've seen before.

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

Okay. Just last quick question. Just I know you're going to consider all the assets in the portfolio from an asset-sale perspective as to what would be considered core and noncore. I am curious just on deep Basin as a standalone company. At certain points, Cenovus non-quarter, then the pricing environment really didn't align with divestiture. But would you -- I guess, in this environment with how the macro environment has evolved and prices of certain hydrocarbons, do you view deep basin perhaps more core moving forward?

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Yes. Phil, it's Alex. I would -- I'd say a couple of things about that. Obviously, the gas price environment has improved markedly in Western Canada. But my kind of feel is that the asset divestiture market probably hasn't moved up in -- at the same kind of level as the commodity price environment has moved up.

And so I think we'll always have an open mind if we see value in largely any of our assets if there's a divestiture opportunity that is compelling. But I think right now, short of seeing that real compelling opportunity, I think the deep basin is probably looking like a more attractive sort of longer-term short-cycle opportunity that gives the company some optionality over the short to medium term.

Operator

Next question comes from Chris Tillett with Barclays.

Christopher Paul Tillett - *Barclays Bank PLC, Research Division - Research Analyst*

I guess for me, back to the -- some of the comments on asset integration at Foster Creek, Christina Lake and the Lloyd assets, are you able to give us any sense for like what it would cost to fully integrate those assets into sort of what you envision they might be?

And then is the spend there contemplated in kind of the longer-term or maybe the more medium-term outlook for the company?

Jonathan M. McKenzie - *Cenovus Energy Inc. - Executive VP & CFO*

Yes. Chris, it's Jon. If you're thinking -- or if your question is thinking that this company is going to embark on a major capital investment program to fully integrate FCCL into Lloydminster, you're thinking about this wrong.

What we're talking about is optimizing the assets that are in Lloydminster to make sure they're consuming the molecules that are at the highest value. So short-term opportunities that we are looking at are things like can we run FCCL crude through those assets and move the Lloyd blend to market, which gives us a much better -- could give us a much better netback in terms of how we think about the revenue line and those kind of things.

So those are things that we'll look at in the short to medium term. Longer term, there will be opportunities for us to think about more molecular integration at Lloydminster, but those opportunities are out in the future. But there's things that are right in front of us that we can chase down, but please don't believe that this is the announcement of a major set of capital initiatives that are looking to transform Lloydminster today.

Christopher Paul Tillett - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. No, I appreciate that. I guess, I just wanted to clarify and make sure that I sort of understood the messaging there. And maybe from an operational standpoint then, it sounds like the capacity -- the ability to move barrels from one area to the other is not going to be a major governing point for you guys?

Jonathan M. McKenzie - *Cenovus Energy Inc. - Executive VP & CFO*

Not in the short to medium-term, no.

Operator

Next question comes from Mike Dunn with Stifel.

Michael Paul Dunn - *Stifel Nicolaus Canada Inc., Research Division - Director of Institutional Research*

This transaction makes a lot of sense to me. I saw the headline this morning. I was surprised by the $1.2 billion in savings, probably double what I might have guessed otherwise. And you've done a great job of talking us through that.

Just had a couple of questions that haven't been asked yet. This one might be for Rob Peabody, I'm not sure. But regarding, I guess, Husky's previous process to look at divesting the retail network, does -- where that business fits in the new Cenovus, does that change at all? Like I guess, I wouldn't think so, but that's my first question. I have a couple of others.

Robert J. Peabody - *Husky Energy Inc. - CEO, President & Director*

On retail, I'd just say, I think Alex more or less covered it. It's not what you would call a core asset for the company, but the focus on -- for us, at the moment, is on improving the performance, and I'm sure it will be for the new company as well.

But we'll always -- we always look as we look across all the assets for a compelling valuation being offered to us. And the reason we stopped the process last time was, especially as the early events of this year kind of materialized and we saw the market get really bad, we just felt we weren't going to get value for it.

Michael Paul Dunn - *Stifel Nicolaus Canada Inc., Research Division - Director of Institutional Research*

Understood. Secondly, maybe this is piggybacking a bit on Phil's questions, but you talked about a $36 WTI breakeven for next year. I think looking at the slides, probably based on a more ambitious Chicago crack than where the market's looking, at least in the forward markets, I don't think you provided an EBITDA or FFO sensitivity to the Chicago crack. But is there anything you can share on that?

Jeffrey Ryan Hart - *Husky Energy Inc. - CFO*

Yes. It's Jeff here. Yes. No, we're in that $12 -- I think $13 range on the crack there for that breakeven. And simplistically, if you look at Husky standalone, we're about $100 million in cash flow sensitivity on the crack.

And then clearly, you've got the Cenovus sensitivity. So we're -- and if you look at the strip and you're in kind of single-digit frame, I think -- and Jon alluded to this, the refinery space doesn't really work in that price environment over the long haul. And so we see that lifting, but it's at about a $13 crack, which is kind of below historical average.

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

It's a COVID-related effect, I think, at the moment. And when we [solve] the pandemic, I think we'll get back to more reasonable and normal cracks.

Michael Paul Dunn - *Stifel Nicolaus Canada Inc., Research Division - Director of Institutional Research*

Understood. My next question, maybe a follow-up on the Lloydminster upgrader. Rob, you might have the best insight on this, I'm not sure. But is that [metalled] up for high 10? Or is that not -- to be determined, you're not sure yet?

Robert J. Peabody - *Husky Energy Inc. - CEO, President & Director*

The Lloydminster upgrader at the moment is kind of designed to process Lloydminster crude. So if you start changing the crude slate, you'll have to make some modifications to it as you go forward. But it's certainly -- it's a heavy processing upgrader and a great asset, extremely reliable and still in phenomenally great condition.

Jeffrey Ryan Hart - *Husky Energy Inc. - CFO*

And Michael, it's Jeff here. I'll just add on to that, is just when you think about it right now, it does process the Lloyd crudes, but also Cold Lake crudes through Tucker. And so it can handle Cold Lake crudes as well, and I think that's an important point.

Michael Paul Dunn - *Stifel Nicolaus Canada Inc., Research Division - Director of Institutional Research*

Right. I think Cold Lake crudes are still lower. They would be a lower asset crude as well. But understood. Last question, if I may, for Jon McKenzie. Jon, I see in the slides, you're taking on the COO role. Could you just remind myself and maybe some of the others on the line here who might only be familiar with you from, I guess, your CFO roles at Husky and Cenovus. But I know once upon a time, you were at Irving and at Suncor, and I forget your resume, but certainly, you had some operational roles, leadership roles there.

Jonathan M. McKenzie - *Cenovus Energy Inc. - Executive VP & CFO*

Yes. It's a very checkered past, Mike. I'm glad you haven't gone back and looked at my resume. But what I would tell you is these 2 companies are really endowed with very strong operations departments, both in the upstream home and downstream.

And operations is really never the function of one person. So although I'm probably more well-known for my role as a CFO, I do have a fairly significant operating experience both at Suncor, where I worked at oil sands for, gosh, 7 years as well as at Irving out on the East Coast, where I was there for 4 years. So certainly not unfamiliar with the operations and the operating roles, but really looking forward to getting together with what I think are 2 really very strong operating departments in both Husky and Cenovus.

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Mike, it's Alex. And Jon is probably a little too bashful to say, but a good part of that time up in Fort McMurray with Suncor, Jon was actually running the upgrader in Fort McMurray. So he kind of comes by his operational chops, honestly.

But I think it's worthwhile for me just to spend a minute kind of on my rationale for moving John into that COO role. And I think we can all agree, it is -- it isn't the sole metric of whether this combination will be determined to be successful. But I do think delivering on those synergies on time and on budget or ahead of time and budget is going to be one of the most important metrics that I think the market is going to look at and I know certainly that I and the Board will look at.

For those of you who don't know, Jon was instrumental in bringing these 2 companies together because of his time as CFO of both companies. He understands both companies intimately understands their assets and understands their people. And with his really, really hands-on role in this deal, I can't think of anyone who is more motivated to make sure the combined company delivers on the synergies that we have promised.

And for those of you who know Jon and you know his work ethic and his attention to detail and focus on execution, that certainly gives me a lot more comfort that we can sleep well at night and deliver on that very important commitment to our shareholders.

Robert J. Peabody - *Husky Energy Inc. - CEO, President & Director*

And I would just add, as someone who also worked for Jon, I'd fully endorse Alex's comments.

Jonathan M. McKenzie - *Cenovus Energy Inc. - Executive VP & CFO*

Actually, I worked for you.

Robert J. Peabody - *Husky Energy Inc. - CEO, President & Director*

Oh, sorry. I forgot.

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Sometimes it feels like we work for Jon also. Thanks, Mike.

Operator

Our last question comes from William Lacey with ATB Capital Markets.

William J. Lacey - *ATB Capital Markets Inc., Research Division - Research Analyst*

Hopefully this is the beginning and not the end of consolidation efforts that we need in this space. But a couple of quick questions for you. One, just sort of coming back to the G&A, and obviously, not necessarily news that Alberta needs these days. But in terms of the G&A focus, how do you think it will sort of shake out in terms of the impacts for the corporate versus field?

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Will, as you can imagine, when you combine 2 companies with similar geographies and broadly similar or somewhat similar operations, you're always going to have some overlap and I think that is very much the case here. I think in -- there will obviously be some overlap in the field. But I would suspect, in this case, there would probably be relatively a little more weight on the head office functions then just because we aren't quite as overlapping in the field, although there is some of that.

William J. Lacey - *ATB Capital Markets Inc., Research Division - Research Analyst*

Right. And then just a clarifying question in terms of East Coast Canada. You basically got a little bit of a tools-down stage right now out there in terms of project work. So you did talk about it being still "reasonably economic." But within the portfolio, as you look at it right now, how does it stack up within the portfolio?

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

Well, I think that's -- well, that's probably why you saw us make the decision that we're going to be suspending operations here in the year to come. And I -- how I would describe it, like I -- as a Canadian, I really hope there's a way to go forward with that. Right now, the business plan that we put forward has us suspending -- largely suspending operations there in 2021. And we're basically looking at it from a worst-case scenario where it doesn't proceed and we decommission it over time. So I think if -- I dearly hope there are some opportunities that would be compelling, but that's kind of what we have accounted for in our business model to this point.

William J. Lacey - *ATB Capital Markets Inc., Research Division - Research Analyst*

Right. So when you say the way forward, assuming there isn't some wild increase in oil prices, does that way forward require government investment?

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

I -- it's probably too early for me to say that, and I know Rob might have some views on it.

Robert J. Peabody - *Husky Energy Inc. - CEO, President & Director*

The only thing I'd say, and this is the point we've been making with the government all along, I mean, clearly, when a project looks okay going forward, it is really affected by the total industry conditions and how much cash is coming into companies at current oil and gas prices. And we think there's a role here potentially for the government to help facilitate bringing this project through to fruition.

Because again, like any offshore project, actually, almost any oil project, the lion's share, ultimately, the economic rent of these projects go to the government. So it's a good project for us. It's a spectacularly good project for the province of Newfoundland. So we certainly would hope to continue our discussions with them.

Operator

And at this time, I would turn the call over to Mr. Pourbaix.

Alexander J. Pourbaix - *Cenovus Energy Inc. - CEO, President & Director*

I think that's all the questions we have. And so once again, we sincerely apologize for jamming everybody on their weekend. But we really do thank you for your interest, and thanks for joining us. And with that, our call is complete. Thanks very much.

Robert J. Peabody - *Husky Energy Inc. - CEO, President & Director*

Thank you.

Operator

This concludes today's conference call. You may now disconnect.

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