S&P Global
Market Intelligence

Phillips 66 NYSE:PSX

Earnings Call

Wednesday, October 28, 2026 4:00 PM GMT

CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 6

Call Participants

EXECUTIVES

Brian M. Mandell
Executive Vice President of Marketing & Commercial

Donald A. Baldridge
Executive Vice President of Midstream & Chemicals

Kevin J. Mitchell
Executive VP & CFO

Mark E. Lashier
CEO & Chairman

Richard G. Harbison
Executive Vice President of Refining

Sean M. Maher
VP of Investor Relations & Chief Economist

ANALYSTS

Douglas George Blyth Leggate
Wolfe Research, LLC

Jason Daniel Gabelman
TD Cowen, Research Division

Jean Ann Salisbury
BofA Securities, Research Division

John Macalister Royall
Piper Sandler & Co., Research Division

Joseph Gregory Laetsch
Morgan Stanley, Research Division

Manav Gupta
UBS Investment Bank, Research Division

Matthew Robert Lovseth Blair
TPH Research

Neil Singhvi Mehta
Goldman Sachs Group, Inc., Research Division

Phillip J. Jungwirth
BMO Capital Markets Equity Research

Sam Jeffrey Margolin
Wells Fargo Securities, LLC, Research Division

Stephen I. Richardson
Evercore ISI Institutional Equities, Research Division

Theresa Chen
Barclays Bank PLC, Research Division

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Presentation

Operator

Welcome to the Third Quarter 2026 Phillips 66 Earnings Conference Call. My name is Hillary, and I will be your operator for today's session. [Operator Instructions] Please note that this conference is being recorded. I will now turn the call over to Sean Maher, Vice President, Investor Relations and Chief Economist. Sean, you may begin.

Sean M. Maher
VP of Investor Relations & Chief Economist

Hello, everyone. Good morning, and thank you for joining the Phillips 66 Third Quarter 2026 Earnings Conference Call. Participants on today's call will include Mark Lashier, Chairman and CEO; Kevin Mitchell, CFO; Don Baldridge, Midstream and Chemicals; Rich Harbison, Refining; and Brian Mandell, Marketing, Commercial and Renewable Fuels.

Slide 2 contains our safe harbor statement. We will be making forward-looking statements during today's call. Actual results may differ materially from today's comments. Factors that could cause actual results to differ are included here as well as in our SEC filings. We will also discuss both GAAP and non-GAAP financial measures.

Reconciliations of the non-GAAP financial measures to the most directly comparable GAAP measures are included in today's presentation and the Phillips 66 earnings release. Today's presentation, the earnings release and supplemental financial and operating information can be found on the Investor Relations section of the Phillips 66 website.

With that, I'll turn the call over to Mark.

Mark E. Lashier
CEO & Chairman

Thank you, Sean. At Phillips 66, we're focused on operating our assets safely and reliably, enabling us to supply the products that our customers depend on and to help the U.S. and global economy grow. In today's remarks, I'll focus on 3 strengths that define Phillips 66: Operating performance, capital allocation and future growth.

First, operating performance remains strong, underpinned by disciplined execution and industry-leading safety performance. We delivered strong refining utilization of 98% and third quarter record distillate yield of 41%. In Midstream, we achieved fractionation volumes of over 1 million barrels per day, wellhead volumes of 4.6 Bcf per day and 105% utilization at the Freeport LPG export dock. These results demonstrate our strong operating performance.

Second, we remain committed to disciplined capital allocation and to returning greater than 50% of net operating cash flow, excluding working capital, to shareholders. We will also fund a disciplined capital program, including sustaining capital, while retaining flexibility for additional share repurchases and debt reduction.

Third, we have a clear path for future growth. All projects must compete on a risk-adjusted basis. This discipline keeps us focused on increasing return on capital employed by building the best business, not simply the biggest business. We have a compelling set of organic opportunities across the portfolio, and we're excited to bring them to fruition. These projects support the growth of normalized return on capital into 2030 and beyond.

In our Midstream G&P business, we're increasing Permian volumes and adding processing capacity with the Iron Mesa and Zeus gas plants. In NGL transportation and fractionation, we're expanding the Coastal Bend pipeline system and building a third fractionator in Corpus Christi. Finally, our Western Gateway project creates an integrated value chain opportunity that is expected to generate returns across multiple

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

segments. Through these midstream projects, we are positioned to achieve our stated targets and deliver mid-single-digit adjusted EBITDA growth through the decade.

In Refining, the Humber Gasoline Quality Improvement Project will enable production of higher-quality gasoline for premium markets. We're delivering record operating performance in the Central Corridor, supported by the full integration of the Wood River and Borger refineries. Additionally, strong financial results have benefited from greater than $50 million of near-term operational and commercial annual synergies from the WRB transaction, and we have line of sight to more.

In Chemicals, CPChem's Golden Triangle Polymers and Ras Laffan Petrochemicals projects remain on track for full operations in 2027. These projects add earnings capacity while leveraging CPChem's advantaged feedstock position. Our integrated liquids portfolio is built to meet growing global demand. Continuous improvement across our operations, ratable midstream growth, an advantaged refining footprint and top quartile chemicals assets strengthen our ability to reliably supply the markets we serve.

Supported by attractive infrastructure and global commercial reach, we're well positioned to create value through the cycle. Phillips 66 is defined by strong operating performance, disciplined capital allocation and a clear path for growth. Together, these strengths deliver high-return opportunities and enable us to increase cash returns to shareholders. We're prepared to compete in any environment and generate durable economic value. We strengthened the foundation of the business and built a culture of continuous improvement. We're moving forward as a stronger, more agile company.

Now I'll turn the call over to Kevin.

Kevin J. Mitchell
Executive VP & CFO

Thank you, Mark. Moving to Slide 4. Our capital allocation framework remains unchanged. We fund the dividend and sustaining capital, invest selectively in high-return opportunities, maintain balance sheet strength and return cash through share repurchases. Our commitment to return greater than 50% of net operating cash flow, excluding working capital, is a priority.

We recently announced a second dividend increase in 2026, reflecting our confidence in the durability of the business model and the company's ability to generate sustainable cash flow. This represented a 10.8% increase compared with the fourth quarter of 2025. During the quarter, we reduced debt by $2 billion by paying off the remaining balance of the March 2027 term loan and through open market purchases of debt.

Total debt ended the quarter at $18.5 billion, and net debt was $12.7 billion. Additionally, we paid off a $500 million bond maturity on October 1. We will continue to allocate capital prudently, returning cash through dividends and share repurchases while investing in high-return opportunities and strengthening the balance sheet to enhance long-term equity value.

On Slide 5, reported and adjusted earnings were $5.6 billion, or $14.08 per share. Operating cash flow was $7.3 billion. Excluding the working capital benefit of $1.1 billion, operating cash flow was $6.2 billion. We continue to strengthen the balance sheet and reduce the net debt-to-capital ratio to 26%. We have achieved the 2027 net debt-to-capital ratio target ahead of schedule. Capital spending for the quarter was $680 million. We returned $2.8 billion to shareholders through share repurchases and dividends.

Looking ahead to the fourth quarter on Slide 6. In Chemicals, we expect the Global O&P utilization rate to be in the mid-80s. In Refining, we expect the worldwide crude utilization rate to be in the mid-90s. Turnaround expense is expected to be between $140 million and $170 million. We anticipate corporate and other costs to be between $350 million and $380 million.

Moving to Slide 7. Mark will now provide some final thoughts. We will then open the line for questions.

Mark E. Lashier
CEO & Chairman

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Before we begin Q&A, I'd like to take a moment to recognize Rich Harbison, our Executive Vice President of Refining since 2022. After a distinguished career with Phillips 66, Rich has decided to retire at the end of this year. Rich has been instrumental in strengthening our focus on safe, reliable and competitive operations while building an organization positioned for continued success.

On behalf of the entire company, I want to extend our deepest gratitude to Rich for his extraordinary leadership, service and contributions to the company. We wish him all the best in retirement. We're also pleased to welcome Chris Chandler, who will work closely with me over the next few months before assuming leadership of refining at the beginning of 2027. Chris brings more than 30 years of industry experience in refining and midstream, including more than 2 decades in leadership roles at Phillips 66. His capabilities complement the tremendous strengths Rich and our refining organization have built over many years.

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Manav Gupta from UBS.

Manav Gupta
UBS Investment Bank, Research Division

I actually wanted to ask you about crude differentials. You are most levered to the WCS differential, which is clearly widening out. And my broader question, and I'll keep it to 1 question only is I'm trying to understand the advantage of North American refining as a whole versus the global peers and you look at where TTF is trading, where natural gas is trading and then some of these carbon policies that Europe is looking to implement. I understand you also have some European assets, but I'm trying to basically zero down on where the differentials are and the benefits of North American refining versus their global peers, if you could talk about that.

Brian M. Mandell
Executive Vice President of Marketing & Commercial

Manav, it's Brian. So, to us, it's 2 parts. First, the WTI pricing has been a lot stronger given the strength of diesel margins around the world, refiners around the world can pay more to pull that WTI crude to fill -- to backfill crudes they're not getting. And second, on the heavy crudes, they've been pressured mostly by freight. Initially, the Canadian crude was pressured by PADD 3 refinery issues, but it's mostly a freight issue. And also, you're seeing more Venezuelan crude on the market. You're starting to see diluent blending in Canadian crude for the winter.

So internally, what we talk about is heavy crude is essentially a race to the bottom for both Canadian and Venezuelan and even high sulfur fuel oil. So as you know, weaker heavy differentials play into our kit. Canadian crude is currently favored, and we import more Canadian crude into the U.S. than any other company. And then most of our refineries run heavy crudes. In the Central Corridor and the Gulf Coast, we have strong pipe connectivity and access to Canadian crudes along with other crudes. And finally, just as a reminder, every dollar of widening of the WCS/WTI differential is worth $140 million for Phillips 66.

Manav Gupta
UBS Investment Bank, Research Division

My quick follow-up here is we saw a big improvement in the pace of buybacks. You have a clear target out there. And you were lagging a little in the first half, but you're clearly catching up now. So should we expect those targets to remain in place, which should allow your shareholders to benefit from the up cycle in refining margins?

Mark E. Lashier
CEO & Chairman

Yes, Manav, thank you for that question. This is Mark. Absolutely. Our commitment is to return 50% of our operating cash flow adjustments for working capital. We will -- you'll notice that we're building cash on our balance sheet as we try to keep up with that commitment, and we will ultimately clear that commitment as soon as we can.

Operator

Your next question comes from the line of Steve Richardson from Evercore.

Stephen I. Richardson
Evercore ISI Institutional Equities, Research Division

Mark, I wonder if you could focus in a little bit on the dividend raise. You've raised it twice this year, pretty substantive moves. And I wonder if you could talk about how the Board looked at the sustainability of the

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

dividend and seemingly your confidence in higher mid-cycle earnings once we get through this period of higher cracks.

Mark E. Lashier
CEO & Chairman

Absolutely, Steve. We had a great discussion with the Board, and there are a number of constructive elements that boosted their confidence and our confidence in not being able to only just increase that dividend, but to support it over the long term and to continue to grow it competitively. It all starts with our -- the consistent earnings from our midstream business. That is the basis that allows us to meet our commitments around sustaining capital of about $1 billion and then our current outlay of about $2 billion for the dividend.

But as you'll note in our -- a lot of our documents that we have a solid plan to increase midstream earnings to the tune of about 5% a year, and we have line of sight on the projects that will do that. So that's part of the confidence building process. And then you step back and look at the improvements we've made around refining, commercial value chain optimization, there is an upshift in what the base earnings surrounding refining will do even if margins normalize in the future.

And if you think -- if you step back and look at where we are today, we think there's about a $2 billion benefit there. If you go back to the old normalized level of margins, that benefit is about $1 billion. And we think margins will normalize at a higher level going forward for the near term and the medium term. And so that also builds confidence as well, and we're leaning into integration and creating a lot of value there.

Plus we have a solid macro today that is allowing us to aggressively repurchase shares and strengthen our balance sheet. So that balance sheet strength lowers the cash that we're outlaying for interest payments. And of course, the share repurchases lowers the denominator. So it keeps that aggregate outlay for dividends lower than the increases that you're seeing in the per share dividend. So it's all incredibly constructive and wholeheartedly supported by the Board.

Stephen I. Richardson
Evercore ISI Institutional Equities, Research Division

That's great. A follow-up perhaps on the topic of CapEx, maybe for Kevin, is I appreciate that you'll have your normal CapEx disclosure coming later in the year. But can we just talk a little bit about how we should think about funding for Western Gateway as that sort of starts to kick in, in '27 and '28? And maybe just give us a sense of how to think about funding that and the quantum of that as we'll see in '27, if you could.

Mark E. Lashier
CEO & Chairman

Yes, I'll have Kevin drill into those details, but I just want to make it clear that we will continue to be very disciplined around growth CapEx. We have really solid opportunities to improve refining, to improve commercial and to grow midstream NGL. And we'll be able to grow that midstream NGL at that 5% rate even while we execute Western Gateway. And so we're in a great position to deliver a very disciplined capital allocation there.

Kevin, you can dig into the details.

Kevin J. Mitchell
Executive VP & CFO

Yes. Well, so Western Gateway will increase our capital spending relative to the previous levels just given the magnitude of the project, $2.5 billion our share for that project. And that spend takes place over -- there's a small amount this year, pretty small '26 component, but then '27, '28, '29. And the way to think about the activity is this year through the end of next year, it's all about the engineering and then the right-of-way work and spend.

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

And then from '28, '29, that is the construction. And so what that means is '28 is the heaviest spend year as you lay this out. Now if we get through right-of-way sooner, then we will start construction sooner, and that will bring some of that spend through. But as we see it right now, '28 is the highest spend year and '27 and '29 are a little bit below that level. So you can kind of use that to gauge an estimate of what that's going to look like. And we will have more detail once we issue the capital budget in December, we'll provide more disclosure and transparency around the Western Gateway spend.

Operator

Your next question comes from the line of Doug Leggate from Wolfe.

Douglas George Blyth Leggate
Wolfe Research, LLC

Mark, I think keeping on the same kind of themes of dividend and midstream and so on has already been asked. I wonder if I could just try and put some framework around this. Mid-cycle is really hard to pin down right now in the refining business. But when you think about the magnitude or the proportion of your mid-cycle mix, your midstream mix specifically, that 5% growth rate as a CAGR could get you theoretically to some pretty big numbers. Can you frame for us how you think about that EBITDA mix of midstream relative to the rest of the business?

Mark E. Lashier
CEO & Chairman

Well, certainly, midstream is growing faster than other elements of our business. We're not shying away from investing in opportunities in refining, but that's largely the strength in the kit. We've got a strong base in refining, but we can enhance distillate production, we can enhance integration, we can enhance value creation on the refining side, but then the growth is more concentrated on the midstream side.

And you've heard us talk about Iron Mesa, Zeus gathering and processing facilities. We have the ability to expand Coastal Bend pipeline at a fractionator in Corpus Christi. And we have opportunities beyond that as well, very similar kinds of opportunities, but things that we're very good at executing efficiently and effectively. And it's not going to be a linear growth in midstream because those things come on in incremental steps, but you're going to see that consistently throughout the end of the decade.

Douglas George Blyth Leggate
Wolfe Research, LLC

Mark, just I want to share where our numbers are showing up. If I said 50% 10-year plan of your EBITDA, 50% of your EBITDA is midstream, is that nuts? Is that crazy?

Mark E. Lashier
CEO & Chairman

I don't think that's crazy. I think that, that -- yes, the math is pretty straightforward. But don't forget that we've reset the refining baseline as well. So refining is gathering speed as we speak as well, but it's not in big visible increments. It's a lot of blocking and tackling and a [whole] list of projects. I think you can see a number of them were on one of the slides in the deck.

Douglas George Blyth Leggate
Wolfe Research, LLC

No, I think the reliability performance -- all of that stuff coming together is great. The problem we're having is what is mid-cycle margins. But with midstream, what I'm trying to get at is it seems there's a lot more visibility there. Let me just take my follow-up very quickly, and it's really for Kevin or whoever wants to take this. But -- so if your midstream is really anchoring the dividend and your midstream is growing, let's say, to half the company's EBITDA within 10 years, should we expect a similar kind of trajectory for the dividend growth?

Kevin J. Mitchell

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Executive VP & CFO

Well, Doug, I do think that an assumption that the dividend -- or the per share dividend can grow at something north of mid-single digits. So let's say, mid- to high single digits on a per year basis is pretty reasonable to get to that. And part of the way I think about that is midstream's currently $4 billion per year of EBITDA growing at about 5% per year.

And you think about the magnitude of that growth and then you look at the current dividend is a $2 billion per year outlay, a 5% increase on that is only half of the growth in the midstream EBITDA, and we're buying back shares as well. And so we're actually reducing the share count. And so the absolute spend level is not increasing at the same rate. So I do think it's reasonable to assume a sort of high single-digit growth in the per share dividend for the reasonable future.

Operator

Your next question comes from the line of Neil Mehta from Goldman Sachs.

Neil Singhvi Mehta
Goldman Sachs Group, Inc., Research Division

And Rich, if you're in the room, congratulations to you. I very much enjoyed spending time with you recently here at Wood River. And maybe that's a good place to start is on the refining side of the business. I would be curious over the course of 2026, how you guys have seen the commercial side manifest its way through the refining results. And as we looked at the captures, the Gulf Coast was probably the best reflection of that because of all the crude that's dumping down to the Gulf Coast right now. And just curious how the commercial organization has made progress and how it's manifesting itself through the results.

Brian M. Mandell
Executive Vice President of Marketing & Commercial

Thanks, Neil. This is Brian. Maybe I'll start off. Just reminding you the goal of commercial, which is to extract the integration value between the assets and then to extract all the optionality in any individual asset. And we have 6 offices across the globe. I'll tell you today that we're going to add another office next month in Bogota, Colombia, and the business is accretive to corporate ROCE by about 2% to 2.5%.

So we have really been focusing on commercial. We were strong before. We've doubled the size of the business over the past few years. But just to give you some examples maybe on in WRB and some of the things we've done over the past couple of years that are adding incremental value, custom crude blending off-site to make sure that the refinery can get crudes that it couldn't get before.

One of the things we're looking at is Wood River refinery, Ponca and Borger and thinking of them as a single system. And when we do that, we think about optimizing refinery-grade butane as an example, where we have extra refinery-grade butane in the summer and we bring it back in the winter and how to allocate it across the refineries. And then also things like product blending where we can bring up lower RVP product before the market turns, blend it up and send it to a market that has higher RVP product.

Another thing we're really focused on, and we've talked about it before, is our fleet of ships. We added about over 40 time charter ships prior to all the problems in the market overseas. We have another 40 ships coming over the next 2.5 years. And those ships are at lower freight rates than the current freight rates. So that adds a lot of value to our refining business going forward. So those are just some examples of where we've added value.

Neil Singhvi Mehta
Goldman Sachs Group, Inc., Research Division

That's really good. And maybe the follow-up is on the Gulf Coast specifically, team. It did seem like a good strong beat here relative to where we were expecting. Anything you'd call out? Was it just the crude optionality? Was it specific asset that helped to drive a disproportionate result?

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Brian M. Mandell
Executive Vice President of Marketing & Commercial

Yes. In large part, it was our commercial organization and the low freight that I mentioned. We have been bringing cargoes of U.S.-based crudes to Bayway and to Humber, and we were able to bring even more cargoes overseas, which added value to the Gulf Coast refineries and including the discounted time charter freight. And another thing that we've been really focused on is ensuring that we're filling up the back-end units. Rich and team have done a fantastic job of getting the front end, the crude units filled up. Now we're focused on the back-end units and getting more intermediates into the plants. And Gulf Coast was a beneficiary of that in Q3 as well.

Operator

Your next question comes from the line of Sam Margolin from Wells Fargo.

Sam Jeffrey Margolin
Wells Fargo Securities, LLC, Research Division

Maybe just on LPGs and NGLs, we've seen a pretty substantial move in prices over the past month. And with respect to vertical integration, I think it's sort of well understood how you benefit in a low-value LPG environment via blending and some of your downstream capabilities. Can you talk about how the mix and the integrated asset base performs in a very high-value LPG environment? What the difference is and how you can take advantage of that?

Donald A. Baldridge
Executive Vice President of Midstream & Chemicals

Sure. This is Don. And a lot of the advantage in terms of just absolute price for NGLs, you'll see that in our gathering and processing business, where we do have sensitivity to the underlying NGL price, and that's in our sensitivities. And so we'll get that uplift through that part of the business.

And then what you're seeing, though, on the physical side is there's still strong demand for LPGs globally. So we're still seeing strong pulls across the dock -- across our Freeport LPG facility. And so even though the arbs on a spot basis may not look attractive, the actual physical need for the product is what is driving that part of the business. And then if you pull that all the way forward into CPChem and you think about from an ethane feed standpoint, still the U.S. ethane cracker, it's maintaining that cash cost advantage relative to the Asian naphtha cash cost. So we're still seeing the ability of the competitiveness around that part of the business to hold steady.

Sam Jeffrey Margolin
Wells Fargo Securities, LLC, Research Division

Okay. And then as a follow-up, Mark, you mentioned in the prepared remarks, there's a list or an inventory of refinery projects, capital projects that are exciting to you, particularly in the context of just a very clear shortage in global refining capacity that I think is structural. Could you elaborate on that a little bit? What specifically within optimization do you think is the best opportunity right now and maybe some time frames?

Mark E. Lashier
CEO & Chairman

Sure. Absolutely. In general, we're looking at enhancing throughput. You saw us re-rate some refineries last year or earlier this year by about 45,000 barrels a day. We're seeing improvements across the fleet that we'll review to see if there's opportunities to even enhance those re-rates and focus on improving distillate production and other value-enhancing opportunities.

Rich, you can dive in and give a few more details.

Richard G. Harbison
Executive Vice President of Refining

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Yes. Sure. Thanks, Mark. When we think about this, we really think about this in a couple of categories. One is the opportunity to debottleneck. And we've done a number of projects that we're starting to see the fruits of those labors, and they show up in our utilization when you start to see that.

And one of the sites that is particularly performing very well right now is our Borger facility. And that is one of the sites that we have actually, around the edges, improved our capacity to process crude oil there. But on the other side of that is the importance to downstream units as well. So once all your front end is as full as reasonably can be, getting the logistics in place and the debottlenecking opportunities or the yield improvement opportunities in the downstream units does 2 things.

One, it allows us to optimize our product values coming off the crude units. And two, it gives Brian's organization some flexibility to introduce intermediates from outside sources to fill up the downstream units. We've had a couple of projects that we're working on that. One is at Borger and actually results in additional jet production, and that project is in progress. And there's also some hydrotreating and some other jet projects that we've worked at Wood River as well.

And Ferndale is another good example of that of some projects that we put in place to increase the ability for the facility to produce CARB gasoline and then enter into the California market there. So we think of these projects, they're not huge game-changing multi-billion investments, they are hundreds or tens of millions of dollars of investment that are allowing us to creep the capacity and the product quality and the utilization of the assets up across the system.

Mark E. Lashier
CEO & Chairman

And Rich mentioned something really important that the Western Gateway pipeline will continue to open up opportunities to enhance our Central Corridor capabilities. And it will level out the seasonality. And so projects will become more attractive as we look at how to continue to debottleneck, add capacity and enhance the value of what we're producing.

Operator

Your next question comes from the line of Theresa Chen from Barclays.

Theresa Chen
Barclays Bank PLC, Research Division

Would you provide some color on how demand is trending across your footprint? Given the broader economic backdrop, have you seen any changes in customer behavior or demand patterns across your areas of service?

Brian M. Mandell
Executive Vice President of Marketing & Commercial

Yes. On the demand side, we see U.S. gasoline down about 2.5%, more on the West Coast and less in Middle America. We have U.S. diesel demand down about 1.5%. Internationally, it's much harder to tell the difference between demand destruction and what we call internally demand constriction or lack of supply. But we think the numbers are roughly similar to the U.S. Overall, though, I think demand is holding up well and the response in demand isn't enough to balance the market. So we expect the market to remain strong for the foreseeable future.

Theresa Chen
Barclays Bank PLC, Research Division

And maybe taking a step back on the midstream front, Don, can you provide an update on your views on Permian NGL fundamentals? How are you thinking about the pace of inlet volume growth into 2027 and beyond as producer activity evolves? And related to this, what are you seeing in terms of ethane rejection versus recovery given the step-up in residue capacity that's come online over the past few months?

Donald A. Baldridge

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Executive Vice President of Midstream & Chemicals

Thanks, Theresa. So we still see a robust outlook for the Permian production. I would say what is quite consistent along our footprint is producers that actually are on the wellhead connections are exceeding their forecast, both on a per well basis, but then just also on the overall growth trajectory. So that gives me a lot of confidence in terms of the volume growth that is underpinning the Permian outlook. I think the days of concern about overbuild is now shifting to what's next and what's needed from an infrastructure build-out in the Permian. And we see the footprint that we have will continue to be able to be advantaged and capture that growth and move that down our system. Ethane prices, as you mentioned, are up. That's a positive for our G&P business. We're really not seeing a concern about rejection. We've got exports from an ethane standpoint coming online. We've got CPChem's facility coming online. All that will be added demand in 2027. So feel good about the trajectory of the volumes, broadly speaking, NGLs and gas, all out of the Permian.

Operator

Your next question comes from the line of Phillip Jungwirth from BMO.

Phillip J. Jungwirth
BMO Capital Markets Equity Research

You made really good progress on lowering net debt in the quarter and gross debt also came down continuing into October here. It looks like there's another, call it, $2 billion maturities over the next 18 months. So is the goal to just repay debt as it matures? Or is there appetite to do more here, whether it's lower absolute debt target or buying back debt in the open market, which I think was new for Phillips?

Kevin J. Mitchell
Executive VP & CFO

Yes. Phillip, it's Kevin. So we were at $18.5 billion of balance sheet debt at the end of the quarter. We took out a $500 million maturity in October. So that puts us at an $18 billion level. The target for balance sheet debt is $17 billion. And as you point out, we've got $1.25 billion of maturities in 2027. And so we have a comfortable path to hitting that $17 billion target. We will evaluate whether it makes sense to take any of those maturities earlier. And we'll also look at the opportunities to buy debt in the open market. That was quite successful in the third quarter. We did about $800 million of market purchases of debt.

But fundamentally, we're not -- we're very comfortable with $17 billion as a debt target. We may enhance balance sheet through carrying more cash as we look to in a strong operating cash flow environment, continue with the 50% cash return to shareholders, fund the capital and build some balance sheet strength because it just enables us to continue that post as the overall environment changes. We'll just be very well positioned post that with the excess liquidity that we may be sitting with.

Phillip J. Jungwirth
BMO Capital Markets Equity Research

Okay. Great. And then also I wanted to congratulate Rich on his retirement. I appreciate all the help and discussion over the years. Definitely going out on a high note. But the question is more related to, I guess, Chris coming back to Phillips 66. And just as he takes over refining, which I know won't be until next year, just how do you see any increased areas of focus under his leadership or just specific ways to look to continue to push the business forward?

Mark E. Lashier
CEO & Chairman

Yes. Chris is a great addition to the team. He's got an incredible history. He's got experience across site and operations leadership. He was involved with the midstream business when he was at Phillips 66 in business development, and he ran our corporate strategy group. So then he went off to Plains, and he was Chief Operating Officer there. So he brings great breadth and depth of experience.

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

But when you look at his combination of Phillips 66 knowledge and his enterprise-wide operating experience, he's able to connect strategy with execution and he's absolutely committed to safe, reliable and disciplined processes and operating. So he is well positioned to just hit the ground running, pick up where Rich is leaving off, grab the baton and continue to build on it. There's no -- we don't see any big changes in the refining business priorities, the strategic direction or the targets, just continue to build on what a great foundation Rich is leaving behind.

Operator

Your next question comes from the line of John Royall from Piper Sandler.

John Macalister Royall
Piper Sandler & Co., Research Division

So my first question, I just wanted to ask on the cash situation and the volatility in the market. We know yourselves and some of your peers ended up in a situation in 1Q where you had to post a significant amount of collateral due to spikes in prices. It would seem like this quarter with the rising prices, maybe it would have been another quarter where you might see something similar, albeit to a smaller scale. But you didn't see that big working capital outflow like you saw in 1Q. Can you talk about what you did differently this time to mitigate those issues?

Kevin J. Mitchell
Executive VP & CFO

Yes, John, it's Kevin. A couple of points on that. I mean, fundamentally, you are correct. But the magnitude of the price change wasn't near what it was in the first quarter. Nonetheless, we did end the quarter with about $700 million of collateral posted, but that is significantly less than what we saw in the first quarter. One of the things we have done differently to optimize that is we're now utilizing where we can, letters of credit in lieu of cash. And that was about a $400 million impact to us in the third quarter. In other words, if we were not doing the letters of credit, we would have had an incremental $400 million out the door.

But what I'd also say from a broader working capital standpoint, we also had the benefit of rising prices and higher volumes on our net accounts payable, accounts receivable position. So that was a positive. We also have been running a positive from a tax standpoint when you think about we're accruing income taxes on current profits, which were very high, but we haven't paid those taxes yet. And so that will probably manifest itself as a headwind in the fourth quarter actually because tax and other taxes payable has been a sizable benefit to us, especially in the third quarter.

John Macalister Royall
Piper Sandler & Co., Research Division

Great. And my follow-up is on chemicals. And maybe you can talk operationally just about how your units in the Middle East are running and what markets they're able to sell into to the extent there are problems with the more traditional forms of egress. And we saw that utilization guidance is down a little bit. I'm not sure if that's just maintenance or is there anything impacted by the Middle East conflicts there? Just any update there would be helpful.

Mark E. Lashier
CEO & Chairman

Yes. I think that CPChem's non-Middle East assets have been running quite strong and taking full advantage of the demand in the marketplace. Middle East assets are running, but not -- certainly not at full rates, but they are running. They're finding ways to get around the restrictions in the Gulf. Some material is moving to the West. So they're doing what they can in the conditions they're dealing with.

Operator

Your next question comes from the line of Jason Gabelman from TD Cowen.

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Jason Daniel Gabelman
TD Cowen, Research Division

I want to go back to capital allocation because on one of the slides, you kind of show uses of cash 3Q to 4Q, and it kind of implies that perhaps a majority of your excess cash or your free cash flow, I should say, is going to go to the buyback. And I'm wondering, given where debt is, where the balance sheet is, if we're moving to a place more like your peers where essentially all of the cash goes to the buyback, excluding this kind of $1.5 billion of debt you want to pay down next year and the dividend growth. So just wondering how you're thinking about the framing of the buyback moving forward given the better balance sheet.

Kevin J. Mitchell
Executive VP & CFO

Yes, Jason, it's Kevin. So in terms of fourth quarter, we will see a higher percent going to the buybacks, and that's partly because we've been trailing the 50% through this year. We've been, to be honest, struggling to keep up with the growth in the cash generation. So at the end of the second quarter, we had returned 33% of operating cash flow through buybacks and dividends. Through the end of the third quarter, it was 40% cumulative. But the third quarter itself was 45%. And so we need to be above 50% in the fourth quarter to get the full year to the 50% level. And we believe that's very doable. We think we'll be able to get that and hit that.

But as I mentioned earlier, as the balance sheet gets to a comfortable space, we will have more flexibility. Now we'll continue to look at the big outflows of cash. It's basically the capital program between sustaining capital and growth, the dividend, and buybacks. And so we'll continue to be disciplined around capital, but note, it will be going up a bit with Western Gateway and some of the other great opportunities we have across the business. The dividend is $2 billion, and on a per share basis increasing, but not increasing that much when you factor in, in absolute dollars when you factor in the impact of the buybacks.

But I also want to stay balanced. So I don't think saying that all of the excess cash flow should automatically go into buybacks. I think we will retain some of that just from a balance sheet flexibility standpoint. And we certainly have the potential to be going above 50%, that's very realistic. But I don't think we should just assume that everything goes directly into the buyback, especially in periods with very high cash generation. We'd rather retain some flexibility to feather that out over a longer period of time.

Jason Daniel Gabelman
TD Cowen, Research Division

Great. That's really helpful. My follow-up is just going back to freight. And I know you mentioned that you have 40 vessels on time charter, you have another 40 coming in over the next couple of years. So wondering more broadly, does that fully cover your kind of freight exposure? Does it mostly cover it? Can you kind of sensitize what that 40 ships on time charter means for the rest of the business? And then any broader color on kind of your views on how long these elevated shipping rates will last?

Brian M. Mandell
Executive Vice President of Marketing & Commercial

Yes. I would say, just to answer your first question directly, that supports about 40% of our asset-based demand. And then the second question in terms of the freight. I mean, the freight is incredibly bullish. It's hit high levels -- highest levels this month, longer voyages, ship-to-ship transfers, more demurrage, bunker fuels, tight VLCCs and they're splitting them on Aframaxes and Suezmaxes now. We've seen product ships being used for dirty service. So there's a lot of reasons to think that freight will continue. And our view is that it will be stronger in Q4 than in Q3. I think the advantage, again, the advantage that we have is having that freight, having locked in those values ahead of time will be an asset to our refining business and to our commercial business in general.

Operator

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Your next question comes from the line of Matthew Blair from TPH.

Matthew Robert Lovseth Blair
TPH Research

Your chemicals business really outperformed peers in the third quarter. Could you talk about the supporting factors there? And then for the fourth quarter, can you walk through some of the moving parts? So we had US PE contracts move at $0.05 in September. It sounds like you're pushing for an additional amount in October. How likely is that to come through? But then you also have higher ethane costs. And will there be any other start-up costs rolling through from your expansion projects in the fourth quarter?

Mark E. Lashier
CEO & Chairman

Yes. Thanks, Matt. Certainly, the CPChem has been performing well. I think that they're seeing strong demand globally. I'm assuming partially because of the disruptions in the Middle East, but also the challenges in Asia, just getting feedstocks and the whole cost structure in Asia restructuring a bit. And so that's all been beneficial to CPChem's performance and where they are. And I think that normally, seasonally, the fourth quarter tends to slow down a bit, but we'll see how difficult that is because I think that China is underperforming because of their high-cost feedstocks. And so that could take some of the edge off of that. Certainly, as the Golden Triangle Polymers project starts up, there will be start-up costs there that will show up at CPChem, but things are going smoothly and according to plan.

Matthew Robert Lovseth Blair
TPH Research

Sounds good. And then our replica of your Atlantic Basin refining indicator, it's really taken a hit in October due to the crude dynamics and the freight dynamics that we've talked about. But it sounds like you're pretty well covered on both those areas. You mentioned sending Gulf Coast crudes to Bayway and Humber and then talked a fair amount about locking in the freight. So is the takeaway that North -- or sorry, the Atlantic Basin capture could be quite strong, much stronger quarter-over-quarter in the fourth quarter due to these efforts? And I guess do you have any other thoughts on moving parts on refining capture across the rest of your system in the fourth quarter?

Richard G. Harbison
Executive Vice President of Refining

Yes. Why don't you go ahead and start, Brian.

Brian M. Mandell
Executive Vice President of Marketing & Commercial

Yes. I think a direct answer to your question is absolutely on the Atlantic Basin. We've been able to move U.S.-based crudes, which is, as you know, the Brent-TI (sic) [Brent-WTI] is very wide. So U.S.-based crudes are savings and also relative to the indicator and also the freight. Just in terms of guidance for market capture, generally low to mid-90s capture in the summer and mid- to high 90s capture in the winter with C4 blending.

Think about tailwinds going forward, you have winter diesel and biodiesel margins with low inventories really expanding. Jet is over diesel, which is a benefit to us. Butane blending is helpful. Octane spreads have been good. And then we keep talking about the TC fleet, the time charter fleet, but that is very, very important in terms of getting more value out of the market than our competitors. And then finally, just the continued commercial optimization. We talked about that a little bit earlier, some of the things we're doing around WRB, but we're doing things across all our refineries, and that will show up in market capture as well.

Richard G. Harbison
Executive Vice President of Refining

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Yes. And when I think about it, it -- all systems, all facilities have been focused on distillate production and max distillate production. And you saw that across the system where we achieved a 41% distillate production across the entire system. And actually, in the Atlantic Basin, our sites are really tuned to distillate production, and they can produce up to 43%, 44% distillate capability out of those assets. So as we stay in the strong distillate economy and our kit is really tuned to take advantage of that distillate production, I see the market capture favorable for all regions that we operate in.

Matthew Robert Lovseth Blair
TPH Research

Congrats on your retirement, Rich.

Operator

Your next question comes from the line of Joe Laetsch from Morgan Stanley.

Joseph Gregory Laetsch
Morgan Stanley, Research Division

So I just want to go back to the macro on the refining side. And we've, of course, seen some volatility in refining margins in the fourth quarter, but still strong relative to history. Can you just talk a bit about some of the factors that you're watching most closely that could either sustain these elevated levels or push us towards a more normalized environment, thinking Russian exports, Chinese export quotas, normalization of flows? Just kind of how you think about all those factors.

Brian M. Mandell
Executive Vice President of Marketing & Commercial

It's Brian. Thanks, Joe, for the question. I mean we talked about the demand side, and we're continuing to watch demand. Demand, as we mentioned, hasn't really been affected much. You could see a slowdown in the economy. Generally, diesel demand is relatively inelastic, but a slowdown in the economy could affect the markets. On the supply side, we're watching the wars, both in Iran and Ukraine. Watching -- that's caused a lot of market dislocation and watching to see if things change there. We've got 7 million barrels worth of refining capacity offline in Russia, Asia and Middle East, watching that to see if something changes there.

Again, you pointed out Chinese exports and whether Chinese haven't in the past few years, been willing to really increase those exports, but whether they want to do that now. We're watching the Russian distillate. We don't think that Russia has enough distillate to make much of a difference, to be quite frank. I know there were reports even this morning, I noticed of 3 to 4 ships on the water, but that's a drop in the bucket compared to how much distillate is offline. So the other thing I would say, too, is we're watching just in general refineries, they've been pushed pretty hard with people running their refineries, and we would expect more unplanned outages given how much they've been pushed -- so that's another opportunity.

And then the freight rates, we talk about freight rates. Our view is freight rates are going to be higher in Q4 than Q3 and might be higher next year than they are now. So that will drive markets, too. So I mean all those things combined, those are all signposts that we're watching. But really, if you think about each one of those individually, there's reason to believe that margins are going to maintain the strength that they have currently through most of next year.

Joseph Gregory Laetsch
Morgan Stanley, Research Division

That's helpful. And then I wanted to go to follow up on some of the capital allocation questions. And just with the significant cash generation that we've seen and as excess cash builds on the balance sheet, can you talk about how you're thinking about potential M&A opportunities? Are there any particular areas, whether across midstream, refining, renewable fuels or marketing where you might be seeing some opportunities in the market?

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Mark E. Lashier
CEO & Chairman

Yes, Joe. We are always looking at opportunities. We've executed things in the past in midstream, of course, with the WRB roll-up. So we're not averse to doing that. We're not going to be driven by an abundance of cash to go out and do anything radical. And valuations seem to be increasing across the board. So we'll be very disciplined in anything that we might do in that regard.

Operator

Your final question will come from the line of Jean Ann Salisbury from Bank of America.

Jean Ann Salisbury
BofA Securities, Research Division

I wanted to ask about the record midstream volumes this quarter. You're already at 100% utilization on fractionation and LPG export. Your next fractionator doesn't come online for kind of 1.5 years. Does this downstream constraint on your system put you at a disadvantage versus peers in terms of gaining share and what's expected to be a very strong NGL growth environment?

Donald A. Baldridge
Executive Vice President of Midstream & Chemicals

Jean Ann, this is Don. You're right in terms of we have high capacity utilization on our Gulf Coast fractionation. But we also have access and contracted space at other third-party fractionators. So we don't see any bottlenecks in terms of continuing to grow our Permian production. We'll be turning on our Iron Mesa gas plant here in the first quarter. We expect that to fill up quite quickly as well as our Coastal Bend NGL Pipeline expansion comes online at the end of this year. So we see the volume growth coming through in 2027, and we have access to fractionation that will be able to handle those volumes and positions us well for when we turn on the Corpus Christi fractionator in 2028 that we can readily fill it.

Operator

Thank you for your questions. This concludes the question-and-answer session. I will now turn the call back to Sean Maher for closing comments.

Sean M. Maher
VP of Investor Relations & Chief Economist

Thank you for your interest in Phillips 66. If you have any questions or feedback after today's call, please feel free to reach out to Kirk or myself. Thank you.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Copyright © 2026 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2026 S&P Global Market Intelligence.

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.