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EDITED TRANSCRIPT

PSX.N - Phillips 66 at JPMorgan Energy, Power & Renewables Conference

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OVERVIEW:

Company Summary

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CORPORATE PARTICIPANTS

Mark Lashier *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

CONFERENCE CALL PARTICIPANTS

John Royall *JPMorgan - Analyst*

PRESENTATION

John Royall - *JPMorgan - Analyst*

All right. So why don't we get started? We're happy to introduce Mark Leshier, Chairman and CEO of Phillips 66. Mark's been in the role since July of '22. Prior to that, most recently, Mark ran the CPChem business and started his career I think with Phillips Petroleum in the late 80s. So Mark, thanks very much for joining us today.

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

Thanks, John, appreciate the opportunity to be here. It's great conference. It's great to be here with everyone.

Phillips 66 is a leading diversified integrated downstream energy provider. We believe that we offer a differentiated and attractive investment opportunity. And it's because of the way we've got the differentiated assets integrated together. We've got midstream, we've got refining, we've got chemicals, we've got marketing and specialties. And that portfolio of businesses really positions us for value creation across the economic cycles. So we've got very stable earnings for our midstream and our marketing specialty businesses that supports the more volatile business in refining petrochemicals.

And if we look across that business, we expect to grow our EBITDA from our base in 2022 by $4 billion to $14 billion by 2025. And most of those growth opportunities are outside of refining. We've got a great refining business. We are making it better every day, but the growth is focused more on midstream, petrochemicals marketing and specialties. It's about 75% of that growth is in those other segments.

And we have a compelling returns to shareholders story. We've been returning over 10% distribution yield and committed to returning more than half of our operating cash flow to shareholders as part of our disciplined capital approach. So that's who we are. That's why we're here today to make the case, make sure that you know what we're all about and that you feel comfortable investing with us.

QUESTIONS AND ANSWERS

John Royall - *JPMorgan - Analyst*

Very well. I think we'll dig in on almost everything you mentioned there. And so maybe we'll start with just a high-level question. The company is going through a fair amount of change with some inorganic growth in the midstream side, the fold in DCP, the acquisition of Pinnacle, and then recently, announced the sale on the REX pipeline. How do you think about the optimal business mix for the company within your different segments? Would you like to still continue to be bigger in midstream beyond what you've told us about and is refining the right size?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

Over the last several years, John, we've really honed in our strategy to focus on what really drives value for us. And it's been a consistent strategy. And part of that strategy is around simplifying our business, but we also look assets that may come available in the marketplace. We analyze everything. We look at organic growth; we look at inorganic growth opportunities.

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What really drove our DCP integration was to create this wellhead to market strategy, and that's created this backbone and we believe provides us with growth opportunities. And we intend to continue to execute on that strategy because of the growth. As I said, we've got a great refining business that we tend to get better every day. We have a great midstream business, the NGL portion of that midstream business affords us growth opportunities.

And if you look at just that DCP acquisition, we brought in house an additional $1 billion of earnings to that acquisition. But on top of that, we've been busily capturing synergies. And we originally thought we'd get about $300 million of synergies from that acquisition. We're north of $400 million. So we'll have over $1.4 billion of additional mid-cycle earnings capability because of that acquisition.

And that's afforded us to do other things. We recently acquired Pinnacle Midstream, and that is a perfect bolt-on to our midstream business. It increases our G&P asset in assets in the Permian Basin. And it really is the things that will help us to continue to provide immediate accretion in earnings. And it affords us some organic opportunities down the road as well.

And so we're going to continue to look at growing that NGL wellhead the market position. And we're going to look at accretive value, creating opportunities, whether they're organic or inorganic. And then in chemicals, we continue to grow through CPChem. CPChem has been a great platform over the years. It's got major organic opportunities, and we continue to execute those in partnerships that mitigate the risks but afford us to participate in the very good long-term growth fundamentals in petrochemicals.

And then if you think about the dispositions, when we laid out our six strategic priorities in 2022, we enhanced those in 2023 last October and included some goals to do some asset dispositions, to monetize some assets. They weren't key to our growth strategy, to our core strategy. And we've been doing that. We've been executing on some of those.

We expect to generate more than $3 billion in proceeds as we go through those asset dispositions. We've got a lot of high-quality assets generating good EBITDA that aren't critical to our core strategy. And if there's anyone out there that's interested in capturing the value from those above and beyond what we may be interested in capturing, we're in conversations with them. So there's more assets that we have than the $3 billion target, but we're not in any hurry to sell in those assets. We're only going to sell them if we're able to get a premium above what we view as the whole value to those assets.

And for instance, we just recently divested our 25% interest in the REX pipeline, and we did that for about a 10.2 multiple. And so that's the value that we wanted to capture. And while it was only coincidental to the Pinnacle acquisition, it did make a nice trade.

We divested midstream assets to the 10.2 multiple, on acquired midstream assets at a 5.4 -- about 5.5 multiples. So that was a pretty good trade. But I would say in the near term, we're probably going to be divesting more assets than we are acquiring, but you can see how we're optimizing across our portfolio.

John Royall - *JPMorgan - Analyst*

And maybe we can go through the reliability efforts you're making on the refining side, something that's been an initiative of yours since you took over in '22, you communicated to shareholders at your Investor Day around then. How's progress on the reliability side and on the capture side as well? And what inning do you think you are in overall?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

Absolutely. Rich Harbison's favorite saying is we need to focus on the things that we could control. And that really is where we've refocused the entire refining organization. It's to stop worrying about what the world thinks you should be doing and start focusing on the things you can control, how we operate our assets, the safe, reliable operation of our assets to make sure that our crude units are available to run.

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And we've got line of sight today on 98% availability from our crude units. And we've got -- every day, we are doing things to enhance our reliability. And we've got programs in place, small investments to enhance that reliability.

And we've run above the industry average utilization rate at about since -- I'm sorry, for about five quarters. And in 2023, we ran at 92% when the industry was running at about 90%. And so that's our highest average rate since 2019. And that's the result of, every day, those refining employees coming in and thinking about what they can do to make those assets run better each and every day. And we've got the entire team focused on that.

And then when you look and think about market capture, in 2022 and 2023, we made a series of small capital investments that allowed us to add over 3% the market capture. And then then this year, we've got another set of projects in place; we'll grow that by another 2%. And so those -- that's real value that we're creating, both from a reliability perspective as well as a market capture perspective.

And then last but not least, our refining system had a record clean product yield of 87% last year or last quarter -- or I'm sorry, fourth quarter '23. And that's direct result of the enhancements that we've put in place.

John Royall - *JPMorgan - Analyst*

And another program you've laid out to investors, and we appreciate that you've been very communicative in keeping us up to date on this. It's the cost save program. Maybe you can talk about what you've achieved on the cost side to date and what you've yet to achieve and how you plan to get that?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

Absolutely. In late 2021, we can see that embarked on a business transformation to drive costs out of the business, across the business. Now refining is our largest business at that time, our greatest assets, so a lot of the effort's been in refining. But in 2022, we laid out a goal to take $1 billion in costs out of our businesses, and we've blown through that.

At the end of last year, we were at $1.25 billion. About $900 million of that was cost, about $300 million of that was in sustaining capital. And so we reset the target for ourselves. And now we're targeting $1.4 billion by the end of this year, and we're well on our way. Again, about $300 million of that is in sustaining capital efficiencies, $1.1 billion will be in bottom line, cost savings.

Majority of those cost reductions have come in refining, over $600 million. That translates into a target of reducing our across-the-board refining cost per barrel by $1 per barrel. And you're seeing that in our results, you see it every quarter, and we continue to pursue that. And it's not just about cost. It's about that mindset, refining organization like I talked about earlier. They are actually motivated by the fact that they're becoming a more competitive refiner.

Five or six years ago, the world was saying we don't need refining. There's no terminal value in refining assets. And we've looked our refiners in the eyes and said, the world needs what you do, but they need you to do it better every day. You've got to be competitive. You've got to lower the carbon footprint in what you're doing, and you can own your future if you do that. And so they bought into it, and they're delivering the results that you see.

So we've been -- and we continue to look for ways to lower costs in our logistics costs, our freight costs, our contracting costs. Across the board, we want to continue to lower costs and look for ways to enhance and capture margin.

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John Royall - *JPMorgan - Analyst*

And sticking with refining, one key topic in the industry today is the startup of TMX. Can you talk about the puts and takes to Phillips 66 on a net basis? You probably -- it's negative for the Gulf Coast and Mid-Con systems. It's probably positive for the West Coast system. How should we think about the impact to PSX? And then how long do you think it'll take before TMX fills up and differentials start widening out again?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

As many of you know that Phillips 66 is the largest importer of Canadian crudes. So we're right there on the front lines, understanding what's going on there, and taking full advantage of what the market affords us. And certainly, yeah, there are puts and takes around TMX. As more volumes go over the Trans Mountain out to the West Coast, we see opportunities. Our West Coast refining system to take advantage of that.

But in the meantime, we still see opportunities for crude oil coming into feeding the rest of our refining system from Canada. But certainly, in the near term, it's created some volatility. And there's opportunities for our traders to take advantage of that volatility. But we believe that over time, it will settle out into something new.

And we're still exporting Canadian crude from the Gulf Coast though that's the first thing to get trimmed the back, and we're watching that. And it has tightened up those margins. But we've got great flexibility in our system, and we've got a value chain optimization and a commercial organization that can move the right barrels to the right refineries at the right time. And so we're going to take full advantage of whatever the market affords us. Again, we're going to focus on what we can control and then take full advantage of what the market affords us to take advantage of.

John Royall - *JPMorgan - Analyst*

And then maybe we can drill in a little on recent major project startup, which is where they're renewed. It starting up at somewhat of a challenging time in the (inaudible) CFS markets. But operationally, has the facility running today? Are you still tracking towards full 50 kbd run rates by the second quarter end? And then as you start to report quarters with their renewed -- in the numbers, is there going to be a way to parse out the RD business from the refining business?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

John, the commissioning and start-up of the Rodeo Renewed asset is going quite well. The whole process, we have two hydrocrackers that we have to commission in addition to the one hydrotreater that we already had online, our Unit 250. And the way that we've approached this is we've taken easier to process renewable feedstocks like soybean oil and commissioned those hydrocrackers. And now we've done that.

Both hydrocrackers are online, but the real differentiating assets, part of this conversion, are the feed pretreatment units. And we are now commissioning and bringing those feed pretreatment units online. And what that will afford us to do is then to convert to lower and lower carbon intensity feedstocks. And that's how you really make money in these assets.

You get the lowest carbon intensity feedstocks at the best value and process them through the hydrocrackers. But not every renewable diesel, not a renewable fuel facility has the flexibility that we're going to have because of the front-end pretreating. And that's what's key. And we're commissioning that part of the assets today.

So by the end of this month, we will have proven that we can run up to the 50,000 barrels a day. And then we're going to be feathering in the harder to process feedstocks in going into July and into August. And so somewhere by the end of the year, we'll have full operational capability of the lowest carbon intensity feedstocks in that facility.

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And in addition to renewable diesel, we'll be producing 50,000 barrels of renewable fuels. But we've got the ability to produce sustainable or actually renewable jet. So about 10,000 barrels a day of the facility's production will go into renewable jet. You can take 10,000 barrels a day of renewable jet, add 10,000 barrels of traditional jet fuel to get 20,000 barrels a day of sustainable aviation fuel.

And the economics are favorable. And we conceived this project. We didn't have any value in the project for sustainable aviation fuel. And so where we are today, economically, yes, the credits are compressed, but feedstocks are lower than we anticipated as well. So we still see good economic incentives to run into run for.

John Royall - *JPMorgan - Analyst*

And then moving on to a business that you know well, which is the chemicals business. Ethane-based ethylene margins have recovered off of bottoms but still remain well below mid-cycle. What are your expectations for margins for the remainder of this year? And what do you think we need to see for margins to get back to mid-cycle?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

Yeah, we've seen margins in CPChem's business compress over the last couple of years. Hit bottom last year and they've been long-sustained recovery.

The beauty of CPChem is they were built for those difficult times. If you think about a mid-cycle perspective, they were generating about 50% of their mid-cycle earnings at the bottom of the trough, and that's pretty good for a commodity petrochemical producer. And strategy has always been to secure the lowest feedstock cost position possible built at massive scale and market the products worldwide, and that's what they've done.

And so they've got a good and incredible footprint on the US Gulf Coast, accessing low-cost ethane in the US market. And they've got a similar position in the Middle East, both in Qatar and Saudi Arabia where they can access low-cost feedstocks. So it gives them great resilience. It gives them great market access around the world.

So 95% of CPChem's feedstock is advantage. So while others have had to rationalize and shut down assets in Europe, CPChem has been able to run at 100%, 105% across the cycle. Now the challenge right now is that there's more polyethylene capacity than the current demand requires, but current demand continues to improve.

Demand globally is actually pretty good, but there's still an overhang of polyethylene capacity that we're working through. And that's why you're seeing margins slowly improve. I think first quarter, the [HS] marker was about $0.165 a pound for polyethylene chain margins. Second quarter, it's moved up to $0.175 per pound. It was single digits last year.

And so we are seeing that sustained improvement in margins. And CPChem has definitely benefiting from that. And they've got two growth projects. There're one in the US and one in Qatar, both in conjunction with QatarEnergy. And those projects are coming along, will be online late 2026. So we look forward to continued participation that the growth in the demand for commodity, petrochemicals and plastics will provide CPChem.

John Royall - *JPMorgan - Analyst*

And then maybe moving to the M&S business. And this is a business that's exceeded your prior guidance around mid-cycle levels for a couple of years now, what have been the key drivers of that performance? And then you recently announced the divestiture of the international part of this segment. Can you talk about that business and what was non-core about it and how you feel about the remainder within that international?

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Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

Our marketing and specialties business is really a high return, low capital business. I think 2023 return on capital employed was 32% in that business. And we actually have a fairly small footprint at the retail end of that. A lot of our business is wholesale, but the retail end is incredibly successful. That's what you see driving those results.

And the strategy there has been to participate in retail outlets in very specific locations where we can get a competitive advantage. And we do it very well on the West Coast and in the Mid-Continent where we can pull through our own proprietary refined products, our clean products and capture the retail value. And we do it through joint ventures. We typically will have a partner that knows a great deal about operating convenience stores and how to get the most value out of everything from chewing gum to milk to whatever they happen to be selling and having the right locations and so on. And so it's been a great partnership, delivering great value.

And on the West Coast, it's actually enabled our last mile strategy around renewable diesel. So we can take renewable diesel from our Rodeo renewable energy complex and take it out to retail customers, out in our 76 stations. And we've also acquired some trucks fleet loading assets. So we make sure that we can capture the full value and all of the benefits of producing renewable diesel in that marketplace. And we really do believe in that strategy and are looking for opportunities to continue to employ that strategy.

Now you step back and look at the jet business in Austria and Germany, incredible business. Year after year, it's the most highly rated marketing outlets in Germany and Austria. And its great location, great inside sales are almost like neighborhood grocery stores. And so why would you want to sell that?

Well, we don't have the same pull through opportunities there that we have here. There are opportunities that people see on the ground there to go ahead and deploy electric charging stations, which is in our core competence. We can do it, but it's against a significant capital appetite. And so there's a lot of attractiveness to local operators to these assets. And so we're engaging with potential buyers to monetize these assets. We're not going to give them away. It generates about $350 million per year of EBITDA, and we want to get really good value for that EBITDA. So we can redeploy those proceeds for other strategic priorities.

John Royall - *JPMorgan - Analyst*

And then maybe we can move onto the balance sheet and capital allocation. Working capital has been a key driver of leverage now drifting above the 25% to 30% target range. What should we expect in terms of the pathway for leverage to get back to the top end of that range? And what's your expectation for when you might get back into that range? And could those efforts can move leverage down impact 2025 returns at all?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

Yeah, we continue to have the same target, the same goal, 25% to 30%. But we're comfortable where it is today because we've got the strong balance sheet, the strong cash flow from our diversified portfolio. And we talked about how we're growing EBITDA, we're growing cash flow, so we could -- one part of the story is we can grow a little bit into better ratio.

But that first quarter inventory build was typical for us. And we had commercial opportunities and we had some operational driven inventory. And so those, over the year, we'll see some cash flow back from that.

And while we're above that 25% to 30% target range, we are very comfortable because we see the earnings growth potential, and we don't see any threat to our balance sheet. And we've also been leaning into our share repurchases. And it's because, again, we have line of sight on our earnings potential. We completely believe that we will be growing and we have line of sight on growing the earnings capability at mid-cycle conditions by $4 billion out in 2025.

And we're doing things today that will continue to enhance that profitable growth in a positive way. And so if we believe in those earnings, we should be repurchasing shares because the intrinsic value of the shares is out there and still well above where we are today. And so we're comfortable

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with the balance sheet where we are, but having said that as we complete some of our divestiture opportunities, we can use some of those proceeds to bolster the balance sheet further as well as repurchase shares and other strategic opportunities.

John Royall - *JPMorgan - Analyst*

And then on the asset sales side, we talked about the international marketing piece. What are some other things that could be candidates for the sale program? And could there be a bigger business and maybe increasing the $3 billion target, something like chemicals could ever be on the table?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

I think that you saw that we sold the 25% of our REX interest. We sold that for about a 10.2 multiple, and we were able to use those proceeds in a very wise way. We've got a lot of high-value assets out there that are non-core much more than the $3 billion. But again, we are going to be very pragmatic about how we go about selling these assets, we're looking for the right buyers that can afford to pay us a premium.

We don't -- as far as the chemicals business, you heard me talk about the incredible advantages that we've built in the CPChem. And it is a deep part of the franchise and a good value creation. Its return on capital employed approaches 20% over the cycle. And it's got direct integration with our midstream and our midstream growth aspirations.

So chemicals would be one that would be hard to give up. But having said that, there are other assets that generate good value today that aren't part of our core strategy and that we're having ongoing conversations on multiple fronts. We're not going to talk about specifics, but we will say that we do have line of sight to clear that $3 billion hurdle. And then we'll talk about what might be next after that.

In addition to those asset sales, we're committed to returning 50% of our operating cash flow to shareholders, and we're committed to a sustainable growing competitive dividend as well. And so all of those things make us a more robust, very attractive investment opportunity.

John Royall - *JPMorgan - Analyst*

We have a little under five minutes. Do we have any questions from the audience? There's Michael.

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

Can you please just talk a little more about broader macro on refining by the market, if you don't mind? It's been a little bit weak I think most, I don't know how long it's been --? Then I might have thought over this period of time were strong years. But just curious what you're seeing on the supply, demand side or anything?

Yes. We are covering off a couple of really robust, strong years. I mean, we came out of COVID, we came roaring back. We were getting drug into the White House and the Senate chambers to talk about pain at the pump. I would say that this year?

Yes, we're seeing a little more lackluster margins in the second quarter. We're not really seeing things pick up like a lot of us expected to. Year over year, demand is down a little bit. I think it is up second quarter versus first quarter. And I think what we believe that we're seeing is a little bit of impact. Almost like a bifurcated economy. I think most people this room feel pretty good about the economy.

Feel pretty good about what's going on, but I think that there -- If you're out there more and working class at the lower end of the economy, you're having to make choices every day about how to meet your mortgage, how to pay higher insurance costs, how to keep food on the table in a much higher cost environment. And we're also seeing a lot of the cash infusions that came out through COVID and through stimulus packages. I think those dollars are being drained out of people's accounts.

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And so they're having to make tougher choices. So part of the part of the economy still can afford to go on great vacations.

So jet fuel demand is strong and getting stronger. But diesel demand is an indication that maybe manufacturing is slowing down transport of goods, imported goods is slowed down and that gasoline demand hasn't hit its normal driving season stride yet. So people are driving a bit less.

And I think that we're still headed for a soft landing, but the lower end of the economy is getting squeezed. And frankly, the Fed action to slow down the economy. That's who's going to feel that pressure. And honestly, as we move towards more expensive energy sources, that's the part of the economy, that's that gets squeezed as well. And so hopefully, we move through that and reverse and that part of the economy can pick up as well as the higher end of the economy.

John Royall - *JPMorgan - Analyst*

Are you seeing any evidence of run cuts in Asia, Europe, or even here in the US?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

I think we're hearing about run cuts in Asia as well as Europe. The US has a cost advantage. And so there's little incentive to cut back in the US when you've got a cost advantage over much of the rest of the world. And certainly, you've got and somewhat of a logistics advantage today going into Europe versus parts of the world that have to go through the Red Sea or the Suez Canal.

Same thing for polyethylene. But I think the US producers going in Europe have a bit of advantage versus even Middle East producers. So there's a lot of unique things going on in the world right now that can be a headwind or can be a tailwind depending on where you sit?

John Royall - *JPMorgan - Analyst*

Great. Mark, I think we're under a minute, so we're pretty much out of time. But I really appreciate your time today. Thanks for coming and have a great rest of your day.

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

You bet. Thanks, lot, John.

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