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EDITED TRANSCRIPT

PSX.N - Q2 2025 Phillips 66 Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Welcome to the second quarter 2025 Phillips 66 earnings conference call. My name is Emily, and I'll be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded. I'll now turn the call over to Jeff Dietert, Vice President, Investor Relations. Jeff, you may begin.

Jeff Dietert - *Phillips 66 - Vice President, Investor Relations*

Welcome to Phillips 66 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 and Commercial.

Today's presentation can be found on the Investor Relations section of the Phillips 66 website, along with supplemental financial and operating information.

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.

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

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

Thanks, Jeff. Welcome, everyone, to our second quarter earnings call. We had a strong financial and operating results this quarter. They are a reflection of our focused strategy, disciplined execution and meaningful progress towards achieving our 2027 strategic priorities.

Coming off our large spring turnaround program, we said we were positioned to capture a strengthening market, and we delivered. Our refining assets ran at 98% utilization, the highest since 2018. Clean product yield was over 86%, we captured 99% of our market indicator and achieved our lowest adjusted cost per barrel since 2021.

Along with refining, the other parts of our integrated business delivered Midstream generated adjusted EBITDA of approximately $1 billion. We are on track to achieve the $4.5 billion annual EBITDA target in Midstream by 2027.

Marketing and Specialties reported its strongest quarter since 2022. The combination of stable contributions from Midstream and Marketing and Specialties provide a robust platform for our capital allocation framework. We returned over $900 million to shareholders this quarter. The resilience of our integrated business model drives results delivering consistent returns to shareholders.

Slide 4 shows the progress we've made in our refining business from targeted low capital, high-return investments and a dedication to operating excellence. The results are clear. Utilization is improving, and we're consistently above industry average.

We've been setting new clean product yield records. Year-to-date, our yield is 2% higher than the previous record for the same period set in 2024. These factors have contributed to market capture improving to 99% of our published refining indicator this quarter. Year-to-date, market capture has increased 5% compared to the first half of last year. Our goal is to drive performance in any market environment while running our assets safely and reliably.

The second quarter PSX market indicator was just over $11 a barrel. As a reminder, for every dollar per barrel that the indicator increases, EBITDA increases by roughly $170 million per quarter. In the second quarter, we achieved the lowest refining adjusted cost per barrel since 2021. The organization has done a fantastic job embracing a culture of continuous improvement, enabling us to more than offset inflation.

By 2027, we expect to see the adjusted cost per barrel number below $5.50 per barrel on an annual basis. Midstream is a key growth driver for our company and creates ongoing value for our shareholders through reliable, long term cash generation.

Slide 5 shows the increase in quarterly average adjusted EBITDA from $500 million in 2021 to $1 billion this quarter. We reached significant milestones in the second quarter as we continue to enhance our integrated wellhead to market strategy.

We acquired EPIC NGL, now renamed Coastal Bend at the beginning of the quarter. We're also near completion on the capacity expansion pipeline project from 175,000 to 225,000 barrels per day. The Dos Picos 2 gas processing plant came online ahead of schedule and on budget at the end of the second quarter.

This plant and the previously announced Iron Mesa plant are great examples of highly strategic and selective investments that enhance Midstream's return on capital employed. These projects contribute to our plan to organically grow midstream EBITDA to $4.5 billion by 2027. Midstream is an important part of the Phillips 66 story. We're executing on our wellhead to market strategy and the results are coming through.

Over the past several months, we've had the opportunity to extensively engage with shareholders leading up to and following the Annual Shareholder Meeting. These conversations provided valuable constructive feedback on our strategic direction along with the support of our priorities.

We will remain focused on four key areas, enhancing our refining competitiveness, driving organic growth in Midstream, reducing debt and returning over 50% of net operating cash flow to shareholders through share repurchases and a secure, competitive and growing dividend. We've made substantial progress and remain committed to maintaining safe and reliable operations as we execute on achieving these initiatives by 2027.

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In the second quarter, we welcomed the addition of three new board members. As we do with all new directors, each new Board member participated in a comprehensive multi-day onboarding process with a broad group of our senior leadership team, equipping them to contribute meaningfully and immediately.

The extensive industry experience of our Board members continues to promote thoughtful discussion and thorough evaluation of all opportunities for maximizing shareholder value.

Now I'll turn the call over to Kevin to cover the results for the quarter.

Kevin Mitchell - *Phillips 66 - Executive Vice President, Chief Financial Officer*

Thank you, Mark. On slide 7, second quarter reported earnings were $877 million or $2.15 per share. Adjusted earnings were $973 million or $2.38 per share. Both the reported and adjusted earnings include the $239 million pre-tax impact of accelerated depreciation due to our plan to cease operations at the Los Angeles refinery in the fourth quarter.

We generated $845 million of operating cash flow. Operating cash flow, excluding working capital, was $1.9 billion. We returned $906 million to shareholders including $490 million of share repurchases. Net debt to capital was 41% and reflects the impact of the acquisition of the Coastal Bend assets. We plan to reduce debt with operating cash flow and proceeds from the announced Germany and Austria retail marketing disposition, which we expect to close in the fourth quarter.

I will now cover the segment results on slide 8. Total company adjusted earnings increased $1.3 billion to $973 million compared with prior quarter's adjusted loss of $368 million. Midstream results increased mainly due to higher volumes, primarily due to the acquisition of the Coastal Bend assets.

In Chemicals, results decreased mainly due to lower polyethylene margins driven by lower sales prices. Refining results increased mainly due to higher realized margins. We came out of a high turnaround season in the first quarter, well positioned to capture improved crack spreads.

Market capture was 99% and crude utilization was 98%. In addition, costs were lower primarily due to the absence of first quarter turnaround impacts. Marketing and Specialties results improved due to seasonally higher margins and volumes. In renewable fuels, results improved primarily due to higher realized margins, including inventory impacts.

Slide 9 shows cash flow for the second quarter. Cash from operations, excluding working capital, was $1.9 billion. Working capital was a use of $1.1 billion, primarily due to an increase in accounts receivable from higher refined product sales in the quarter following the spring turnaround program.

Debt increased primarily due to the acquisition of the Coastal Bend assets for $2.2 billion. We funded $587 million of capital spending and returned $906 million to shareholders through share repurchases and dividends. Our ending cash balance was $1.1 billion.

Looking ahead to the third quarter on slide 10. In Chemicals, we expect the global O&P utilization rate to be in the mid-90s. In Refining, we expect the worldwide crude utilization rate to be in the low to mid-90s and turnaround expense to be between $50 million and $60 million. We continue to optimize turnarounds and improve performance. We are reducing the full year turnaround guidance by $100 million.

The new guidance is $400 million to $450 million compared to the previous guidance of $500 million to $550 million. We anticipate corporate and other costs to be between $350 million and $370 million.

Now we will move to slide 11 and open the line for questions, after which, Mark will wrap up the call.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Doug Leggate, Wolfe Research.

Douglas Leggate - *Wolfe Research LLC - Equity Analyst*

Thanks. Good morning, everyone. Mark, after all the drama over the last six months, quite a quarter you put up. So good to see that. I am curious, however, your last part of your prepared remarks, you said you referenced -- I don't want to put words in your mouth, but it's kind of engaging with shareholders and obviously reviewing or continuing to review the appropriate opportunities to maximize value.

I guess it's a strategy question. So after everything that's happened in the last six months, are you still comfortable with this -- the forward strategy of the integrated company or do you envisage any incremental changes in light of the -- what you've been through the last few months?

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

Yeah, Doug, it's a good solid question. Thank you for asking that. And we've been quite encouraged, frankly, by the constructive engagement we've had with all of our shareholders over the last several months. The results of the vote, we believe reflect what's been a consistent theme in the conversations that we've had with shareholders. They understand the value inherent in the business, and they recognize that our plans can provide upside as we continue to execute against them.

We're fully aligned and the shareholders agree that there's significant value in Phillips 66, and we've got to go out and capture that upside. So as we always do, we continue to evaluate a wide range of strategic alternatives. Our Board is very engaged in the process constantly questioning us, is the strategy effective? Do we need to tweak it? Do we need to make major changes to it.

And we have a wealth of experience and talent on our board. We've got retired Chairman, CEOs, CFOs, corporate executives that are well established and Wall Street veterans. And so they constructively challenge our strategy every step of the way.

And as I mentioned, we've got the 3 new members that have been deeply immersed in an onboarding process that gives them access to all the data that they didn't have access during the proxy season. And so they have a clear understanding of where we're headed, why we're headed that way and how we can unlock value.

And as I've said before, there's no sacred cows. We're not ideological about anything. We're -- well, we are ideological about one thing and that's shareholder value creation. So let me correct myself. But at the right price, and for the creation of long-term value, we'll consider any alternatives, but we always, always are focused on the long-term value creation opportunities. And so I think our shareholders agree with us in that regard.

Douglas Leggate - *Wolfe Research LLC - Equity Analyst*

I appreciate the very full answer, Mark. Thank you for that. My follow-up is, I guess I'm asking a lot of people about that nowadays, but my follow-up is a little different. I think perhaps in the context of the macro, so strong quarter, $2.5 billion of EBITDA. Obviously, you're not where you want to be on Midstream. But if I annualize that at the margin environment we had, we're still obviously quite a bit shy of the $15 billion.

So my question is, if you had to try and normalize for today's environment, what would the $15 billion be, meaning, rather than making assumption on the mid-cycle, what would it be at today's environment? In other words, how far away from that are you? And if assuming it is less than $15 billion, how does Kevin think about the right level of debt for the combined company as it stands today?

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

Yeah, I think what we've said, and I would say the controversy is around putting a stake in the ground on what everybody believes that mid-cycle conditions are in refining. And so we said that based on our indicators, we see that as a $14 per barrel indicator.

And so clearly, we're several dollars per barrel below away from that. And that's the key driver between that and what chemicals does. And we're in the bottom of the cycle for chemicals. So we've got a lot of upside in chemicals to add to that number.

So we've got a long way to go to get to those levels, although I would say this quarter, the gap to mid-cycle closed considerably for refining, but chemicals is still a couple of years out. So Kevin, I'll turn it over to you for debt.

Kevin Mitchell - *Phillips 66 - Executive Vice President, Chief Financial Officer*

Yeah, and just one additional point, Doug. So refining EBITDA was $867 million in the quarter. If you annualize that, you got a $3.5 billion number, that's an $11 market indicator. If you use the sensitivity to a $14 market indicator, it puts you just a little bit north of $5 billion.

You can question whether you have your own view on whether $14 per barrel market indicator is the right mid-cycle, but that's what we've out there. I would also caution though that this was a quarter with minimal turnaround activity.

We ran extremely well, typically not going to have four quarters of that in a given calendar year, so we need to adjust for that. But fundamentally, we're in the ballpark of where we should be relative to our mid-cycle assumptions.

On the debt question, I go back to what we've been saying at the $17 billion of debt. On a consolidated basis, we feel puts us in a very comfortable spot relative to our -- not only our mid-cycle assumptions, but also in a less than mid-cycle environment like we're in today, clearly, we're not at that debt level today, but we have that objective to get there over the next couple of years, and we expect to do that.

We expect to accomplish that through a combination of cash generated from operations as well as proceeds from dispositions. Notwithstanding all of that, it does not compromise our ability to continue to return cash to shareholders. So 50% of operating cash flow, 50% or more of operating cash flow through share repurchases and dividends.

Douglas Leggate - *Wolfe Research LLC - Equity Analyst*

Appreciate the answers, guys. Thanks very much indeed.

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

Thank you, Doug.

Operator

Manav Gupta, UBS.

Manav Gupta - *UBS - Analyst*

Good morning. I wanted to focus a little bit on the refining results 99% capture, 98% crude utilization. I understand some of those things would be tough to replicate. But even quarter-over-quarter or year-over-year, gives a remarkable achievement.

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So can you help us understand what helped you drive close to $1.3 billion in quarter-over-quarter improvement in refining? I know the tracks were higher, but help us walk through some of the stuff which you were able to achieve here. I think you probably were working on it for some time, but it all came together in the second quarter.

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

Yeah, Manav, thank you. I would appreciate that. As the data shows, and as we've said for the last several years in refining, we had full intention to improve refining performance, and we were with a focus on the things that we can control. That's most evident in things like the clean product yield, the utilization rate.

Market capture is going to have more variability in it because you -- because of the movements in the market and crude diffs and all those variables that we have less control over. But we absolutely will continue to drive costs down in the areas that we can control, things like natural gas costs may go up and down.

But where we're looking at the things that we can control, we'll continue to drive those costs now where it's responsible to do so. And so we'll continue to fight that fight and position refining for whatever the market conditions are, we're going to be out there to capture the market that's available.

And I think that's what we saw in the second quarter. It's a combination of a very disciplined focus over the last three years of preparing and implementing projects and executing to be able to capture that market when it's available to us. So Rich can drive into more detail.

Rich Harbison - *Phillips 66 - Executive Vice President, Refining*

Yeah, Manav, let me go a little bit -- maybe a layer deeper here on this. Our mission in refining is to run the assets safely and reliably and then drive world-class performance. And we do this, as Mark indicated, by managing the items we can control, and then sustainably implementing change over time.

And of course, the foundation for all of this is safe and reliable operations, and we are an industry leader in safety, and we have that culture in our organization that continually challenges ourselves to be the best we can be. We've also established a comprehensive reliability program that has been applied to each of our assets out there in the field, and we're measuring that success by mechanical availability.

Ultimately, utilization of the assets will be the final measurement of that one. You talked -- you asked a little bit about market capture. We had a fantastic quarter at 99% market capture. But even if you look at the data a little bit closer, year-over-year, year-to-date, we're showing a 5% improvement year-over-year. So that's -- that sustainable improvement is what we're looking for over time.

And there's a couple of reasons we're able to achieve that. One is the reliability program and the impact it's having on our ability to utilize our assets and crude utilization was at 98% for the quarter. That's actually 9 out of the last 10 quarters, we've been well above industry average on utilization, only interrupted by a set of turnarounds in the first quarter of this year.

We've reached some record clean product yield as well at 87% for the assets. We're on pace this quarter also to meet that and potentially exceed it. And this is a reflection of what I've been talking about over the last three years, which is the execution of these small capital high-return projects.

They've improved both our clean product yield as well as driven flexibility into the system. We've increased our ability to produce gasoline, diesel and jet and swing between those three components. We've also improved our flexibility to process light and heavy crudes without losing capacity in the overall system.

There's no better example of this than at our Sweeny complex, where we recently completed the sour crude flex project, we called it. This project actually increased our ability to process light crude by 3 times the historic volume and the largest crude unit at the site, to reduce our dependence

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on waterborne crudes, and it also takes advantage of the integration of the site with the Midstream NGLs and CPChem feedstock generation with increased (inaudible) production, and we see nice improvement with market capture with that project as well.

Also been driving the inefficiencies out of the business. I think this is also a big important part of refining performance. And we've been managing -- the fundamental difference here that we've been doing as an organization is managing the assets as a fleet versus a set of independent operations.

And that's really opened up our ability to drive inefficiencies out of the business. And we've removed well over $1 per barrel out of the system. We saw a really good number of $5.46 in the second quarter and we're striving to be below $5.50 on an annualized basis as our goal.

The key thing quarter-over-quarter was really higher utilization for the assets. We had a set of turnarounds in the first quarter, we had 17% increase in volume in the second quarter. So that improves really drove the dollar per barrel cost down.

But if you look underneath that even a little bit more the operating cost for the assets were flat quarter-over-quarter with the exception of the turnarounds. So that base cost is still there. It's fixed. It's doing -- we're able to operate the assets well. And it's a little bit subject, as Mark indicated, to the natural gas price that is moving around a little bit on us right now, which drives $1 per barrel as well.

We're making some portfolio management changes with the Los Angeles refinery. But let me kind of wrap this up. We've made good progress, but we're not done. We'll continue to focus on and drive these strategies.

And I think, Manav, if you look at it over time, you see this trend, the steady drumbeat of improvement that's occurred in the refining system and that means our processes of changing are really sustainably implemented.

And most importantly, the people, our organization, our people have proven that we're willing to take on the hard work of change and put it in place and capture the opportunities over time.

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

Yeah, I just want to echo Richard's closing comments there, whether it's refining, marketing, commercial, Midstream or back office, across the Board, we've got a company full of people that are humble enough to know we can always do it better and we're driven to do it better.

We've got the competitive mindset to do it better and to get up and do it better each and every day. And that's what's going to make this sustainable and that's going to continue to improve those metrics that you've seen across the Board. So thanks for the question.

Manav Gupta - *UBS - Analyst*

Thank you guys. I'll be a quick follow up. Very strong results from M&S better than our expectations, even if you deduct the $89 million onetime, Help us understand some of the dynamics there? And now that you have sold these assets, what would be a good run rate of EBITDA normalized for this business?

Kevin Mitchell - *Phillips 66 - Executive Vice President, Chief Financial Officer*

Yeah, Manav, it's Kevin. So yeah, very strong results in the quarter, $660 million, as you highlighted. We had about $100 million benefit in the quarter that were really timing with an offset in the first quarter. And so you'd call that a sort of one-time effect, if you like.

And so as we look at the results, we had higher volumes as we -- as the refining system came out of turnarounds and the seasonal effect on demand as well as stronger margins, which likewise, you have a seasonal driver there, but also just the nature of the way the product price has moved over the course of the quarter, falling prices tended to help that on the margin front.

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As you look ahead to the third quarter, we would expect to be at a more normal level for the business in the third quarter, which is somewhere in the order of $450 million to $500 million of earnings is where we'd expect that to be your other component to the question on the disposition.

So we haven't closed that disposition yet. We expect that to happen in the fourth quarter. That will reduce EBITDA by about $50 million per quarter. When we -- the vet disposition of the 65% interest in our Germany and Austria business.

Manav Gupta - *UBS - Analyst*

Thank you so much for responses. And it was great to see Mark on CNBC today morning. Thank you.

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

Thanks, Manav.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs - Analyst*

Yeah, good morning, good afternoon. I've been spending some time, chatting with Mr. Dietert about global refining balances and there's a healthy debate in the market over the next couple of years about how you guys are thinking about net capacity adds?

And then also the swing factor of China, which obviously has excess export capacity that's been pretty disciplined about product quotas. And so I just love your bottoms-up view of how you think about those net adds over the next couple of years?

Brian Mandell - *Phillips 66 - Executive Vice President - Marketing and Commercial*

Hi Neil, this is Brian. I would say that net refinery additions are below for as far out as we forecast, certainly through the end of the decade. And that's before you even start thinking about unplanned shutdowns. We had Lindsay UK refinery announced that they're shutting down or in the process of shutting down last week or this week, and we expect more of those coming in the system.

Also, some of the refineries, as you pointed out, particularly in Asia, their pet chem focus. So those -- when you're thinking about crude, you really have to think about clean product yields, and those are very low clean product yields, 30% to 35% clean product yield. So I'd say bottom line is with the net additions below demand expectations, we see a very strong margin environment.

Neil Mehta - *Goldman Sachs - Analyst*

Thanks, Brian. Just follow-up on the cash flow. The Doug's question about just debt levels being about 10, 11 points higher than where you want it to be. When you just talk about two dynamics working capital, there was a $1.1 billion outflow, but I would think that swings back in the back half.

So if you could just talk about what drove that and how you think that evolves and then the jet sale because between those two nuts, I think you can close a lot of the gap that you need to get to the $17 billion level.

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Kevin Mitchell - *Phillips 66 - Executive Vice President, Chief Financial Officer*

Yeah, Neil, it's Kevin. You're right on both front. So the working capital, $1.1 billion use of cash, as you highlighted, that was predominantly due to increased accounts receivables. If you think about the end of the first quarter where utilization was much lower, we're still just wrapping up the heavy turnaround activity versus the end of June where we're running full product production and sales are significantly higher. And so that creates a build in accounts receivable.

That's the biggest single component to the move in working capital. There's also some inventory impact on the as we build for the sort of seasonal trade on that. And so over the course of the year, we would expect a benefit of working capital, probably more fourth quarter item, the third quarter item because the receivables component that I mentioned, you'd expect that to continue at the same sort of levels through the third quarter.

But come fourth quarter, you'll see the normal inventory reductions that will take place and probably some modest benefit on the receivables payables front. So do you expect that to come back, expect the cash proceeds in the fourth quarter, EUR1.5 billion, $1.6 billion. And so you put that together, and we'll make some significant inroads towards the debt target.

Neil Mehta - *Goldman Sachs - Analyst*

Makes sense. Thanks, Kevin.

Operator

Jason Gabelman, TD Cowen.

Jason Gabelman - *TD Cowen - Analyst*

Yeah. Hey, thanks for taking my question. I wanted to go back to kind of how you're thinking about the business after the activism campaign that you endured and there was a lot of focus on that Midstream part of the business.

And I'm wondering if the company is thinking about doing a deep dive on that segment and the structure that makes sense. In any way, that would be different than how you kind of evaluate that business in normal course through the year.

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

Absolutely. We've done that in the past. We'll continue to do that. We will look to see if anything has changed. We will engage with industry experts to make sure that we're thinking about it the right way. And certainly, we'll lay it out all out for our Board to drive to the right conclusion. So as I said earlier, nothing is off the table, but it's got to create long term value for our shareholders, full stop.

Jason Gabelman - *TD Cowen - Analyst*

Great, thanks. And my follow-up is just on a couple of weaker segments, chems and renewable fuels. And on chems, I just want to know if your outlook for when we reach mid-cycle in that industry has changed at all and then renewable fuels given margins where they are, do you consider tapering back runs there and just kind of outlook for margins in general would be great. Thanks.

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

Yeah, I'll grab the chemicals question. Second quarter was particularly problematic when you think about the disruptions that tariffs caused at one point, the Chinese had imposed punitive tariffs of 100% on polyethylene imports and CPChem has really minimized its exposure to China, but all of that material that was flowing into China got pushed back into the world market.

So that was a big challenge this quarter. Our longer-term view is still consistent, you're seeing rationalization in Europe, you're seeing rationalization rumored in Asia. And I think you're starting to see capitulation of those players that need to take assets off the table.

That will be constructive and we continue to see things firming up throughout '26 into '27 and beyond without a lot of new capacity coming on other than what CPChem and Qatar Energy are bringing to the table.

And again, CPChem fares relatively well versus their competitors because of the advantaged ethane position they have both on the Gulf Coast and in the Middle East. And the high-density polyethylene volumes continue to be strong. That's that they can run at high rates because demand for that product continues to grow.

It's really a very resilient product and their cost position allows them to continue to operate profitably. And so they've built out a strong competitive position that's passing the test of time as others are showing weakness.

Brian Mandell - *Phillips 66 - Executive Vice President - Marketing and Commercial*

Hey Jason, it's Brian. On the renewable front, renewable margins are indeed weak, and they were weaker in the second quarter slightly than the first quarter. We are running at reduced rates. In the second quarter, we ran at reduced rates, and we continue to run at reduced rates. Maybe I'll give you some color and tailwinds and headwinds in the regulatory and in the renewables segment in general.

As you know, there's been a number of regulatory changes for 2026 and those are headwinds for the plants, including limiting the eligible feedstocks for PTC credits to those from North America and also in reducing the premium for sustainable aviation fuel.

While we also have RVO obligations that support made renewed, other policies included in the RVO such as that reduced RIN generation for renewable fuels derived from imported feedstocks will present a challenge. We're doing a lot of things in self-help, including talking to state and federal regulators to promote profitability for the plant.

Additionally, we're working very hard on lowering the cost of operating the plant just like Rich has done in the refining segment. We're focused on this plan as well. And we're thinking about how to adjust operations to increase SAF production and also to provide additional optionality for feedstocks.

I'd say also, there are some tailwinds we see in the market, potentially stronger LCFS and RIN credits with the tighter regulations. European markets are driving greater incentives, including Germany, we've been exporting to Europe almost every month this year. There are stronger biofuels programs in Oregon and Washington and stronger Canadian markets as well.

So I would say, just in summary, when they are renewed, as you know, is one of the world's largest RD in SAF plants. And we can also generate up to 15% of the country's D4 and D5 RINs. So ensuring profitability for the plant will be important for energy supply for affordable energy across the country, given the RIN generation and for energy dominance in the United States.

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

Yeah, I would just add to that, that it's clear that the losses are unacceptable and unsustainable. But this is, as Brian noted, a strategic asset, not just for us, but for the country and for the whole RIN program, it's important as well as the volume of diesel that it produces and its capability to produce sustainable aviation fuel to meet a lot of the policies that are underway.

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So we are fully engaged at the federal level and fully engaged at the state level in California, to make sure that all the right choices are made to support this -- the strategic asset.

Jason Gabelman - *TD Cowen - Analyst*

Great, thanks for the answers.

Operator

Jean Ann Salisbury, Bank of America.

Jean Ann Salisbury - *BofA Global Research - Analyst*

Hi, I have a Midstream question. Obviously, the top concern right now across Permian volume, levered Midstream is the falling rig count in the Permian and whether growth could materially slow there next year. Can you talk about PSX's exposure to potentially slowing growth in the Permian? And how you might actually be less exposed than some peers in the medium term given your high share of contracted third-party volumes?

Don Baldridge - *Phillips 66 - Executive Vice President - Midstream and Chemicals*

Hi Jean Ann, this is Don. A couple of things around the Permian outlook. We do stay very close with our producer customers and currently, we see not a significant change in their plans based on where we are from a pricing standpoint and what their drilling activity looks like.

One of the things I think you have to realize though is the NGL content in the new production is higher than the old production. So even when you see some tampering and the -- or the dampening of the volume growth in crude, you're still seeing good robust growth on the gas and NGL side because of the higher GOR from the wells that are being drilled.

So that certainly creates some buffer when you see some rig count changes or see a change in producer plans. But as you mentioned, our volume outlook is supported both by our G&P processing volumes as well as a robust third-party contract portfolio.

And based on the conversations we were having across the board, we still have good confidence in the outlook of the volumes coming through our system, see our rate -- our utilization rates continuing to stay high. We're turning on expansion at Coastal Bend and volumes continue to grow and fill that capacity. So I feel like we're in good shape there.

Jean Ann Salisbury - *BofA Global Research - Analyst*

Great, Don, thanks for that color. And then as a broader follow-up, I think in the most recent PSX deck, there were a lot of examples of the $500 million of operating synergies from integration. Can you just kind of speak high level like directionally, I guess, on what environments caused those operating synergies to be higher, like, for example, is it just when there's refining in chems margins?

Do those numbers go up to or perhaps in more volatile environment, the operating synergies go up. But any kind -- or is it just more of a steady state number as you guys look at it?

Don Baldridge - *Phillips 66 - Executive Vice President - Midstream and Chemicals*

Sure. I'll take this one. It is fairly steady. I mean, there's some seasonality when you think about butane blending with our refining kit and how that interacts with our NGL business that has some seasonality. But a lot of it is fairly steady when you think about a lot of this is throughput-driven.

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A lot of this is the operational synergies that we have across the portfolio. And so those tend to get realized on a month in and month out basis. So a lot of stability in that regard. I would echo what you heard certainly from Mark and Rich, is that we still see a lot of opportunity to continually improve and even extract more value in the integrated model. So excited for the opportunities that we see the portfolio is presenting us.

Jean Ann Salisbury - *BofA Global Research - Analyst*

Great, thanks, Don, that's all for me.

Operator

Ryan Todd, Piper Sandler.

Ryan Todd - *Piper Sandler - Analyst*

Good, thanks. Maybe first talk one back on refining. Distillate markets have been very tight with really supportive margins. Can you talk about what you see as the primary drivers in your view? How do you see the outlook over the remainder of the year? And as you think about your operations, is there anything more that you can do to increase distillate yields or are you maxed out given the current crude sight?

Brian Mandell - *Phillips 66 - Executive Vice President - Marketing and Commercial*

Hey Ryan, it's Brian. Well, I'd say, although distillate's been favored over gasoline every month this year, but -- distillate remains very strong, as you pointed out, with lowest US inventories in decades and recent lower clean product yields versus Q2 of 2024.

We would expect distillate margins to remain strong through the end of the year with planning season coming up, our hurricane season coming up fall turnarounds and then winter demand right after that. And so we'd expect a tight distillate margins to put also bullish pressure on gasoline margins as refineries move to making more and more distillate through the driving season.

I'd say thinking about what would put some pressure on the distillate margins, it will come from additional OPEC crude and the weakening of fuel oil values with heavy crude pressure. Additionally, we have a Canadian producers ramping up production, putting more heavy crude on the market.

And we've seen back and forth, some jet moving into the diesel pool. So I'd say that one of the things we're doing is watching the MidEast and India where the global net distillate length exists with potential imports into Europe and while we don't think China is going to add any more gasoline or diesel exports, this could also take some steam from distillate.

And finally, as many people have talked about, we've seen lower biodiesel and our renewable diesel production is also bullish for distillate. So we would think that distillate margin will remain strong through the year, eventually coming off some when you get these extra barrels, heavy crude barrels back onto the market.

Ryan Todd - *Piper Sandler - Analyst*

Alright, thank you. And then one, I know a big focus here improvement in refining performance has also been an improvement on the commercial side of the business. Can you talk about how you view your progress in that regard? And particularly in a quarter like this one, what benefits you might be seeing in terms of your efforts on the commercial side?

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Brian Mandell - *Phillips 66 - Executive Vice President - Marketing and Commercial*

Yeah. We continue to drive our commercial business. We've done a lot of hiring. We've done a lot of upgrading in the business. we're focused on driving more value through the integrated system and moving barrels further along the value chain. As you know, we have offices in the Houston, Canada and Calgary in the UK, Singapore and a small office in China as well.

So we are constantly looking to drive value by moving barrels to the highest netback markets. So as an example, LPG or naphthas may end up in Asia, and we have the customers in Asia. We have boys in Asia to talk to those customers and figure out what they need. So I think we've made a lot of progress.

We've added a strong origination group. We've hired about two dozen originators around the world. These are people that speak multiple languages, understand multiple commodities and can drive value with customers, thinking about what we might want to buy and sell with customers and how we might use the integrated -- our integrated system to drive more value. So really excited about the progress we've made in commercial and I think there's -- as Don and Mark have pointed out, there's still more opportunity.

Ryan Todd - *Piper Sandler - Analyst*

Okay, thank you.

Operator

Phillip Jungwirth, BMO.

Phillip Jungwirth - *BMO Capital Markets - Analyst*

Thanks. You guys have been pretty active in managing the Midstream portfolio and are now shifting the focus more to organic growth. But wondering if there's more to do on the divestiture side here where there's crude or refined product pipelines that maybe you don't necessarily operate.

Are there arguably still integration synergies? Or is maintaining ownership more about just enhancing the cost structure for refining, diversification or just not the right environment to really realize full value.

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

So Joe, we -- or I'm sorry, Phillip, we've got an active list that we look at. We've taking a deep dive and to find what our core assets are, what we believe our noncore assets are, and we're working on that list. So there are more potential sales of non-core assets.

Some -- primarily in Midstream non-operated kinds of assets, and we're not ready to put a number out there or talk about specific assets, but we do have a considerable list of things that we could continue to monetize.

Phillip Jungwirth - *BMO Capital Markets - Analyst*

Okay. Great. And then I don't think we've asked about the new M&S allocation slide that you have in the deck here, just to be more apples-to-apples in terms of comparing refining performance. But it was a nice quarter for refining. I mean, typically, PSX tends to really outperform in the central corridor.

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I assume with the M&S allocation, I mean, the outperformance is even greater there. So just in a quarter where WCS didn't really give you much help. What do you guys look at as far as really attributing and driving that relative outperformance?

And then in some of the other regions, maybe like the Gulf Coast. I know you mentioned the Sweeny project, but are there other things you can do there, new projects or otherwise to improve relative margin uplift given that you are pretty vertically integrated in the Gulf Coast also?

Brian Mandell - *Phillips 66 - Executive Vice President - Marketing and Commercial*

Hey Phillip, it's Brian. Maybe I'll start on talking about the MidCon strength. Again, we talked about the commercial organization. I think they had a hand in the MidCon as well. We were able to increase value in MidCon by optimizing the system essentially on both gasoline and diesel, we anticipated strong MidCon prices in Q2 with heavy turnarounds and decreasing inventories, and we positioned our system appropriately.

And also on the gasoline prior to the emergency RVP waivers, our refineries were able to produce the lower RVP, which received a premium in the market given the limited production. And finally, I think, just in general, refineries had minimal maintenance during a heavy MidCon turnaround season. So we benefited by running why others were down.

Rich Harbison - *Phillips 66 - Executive Vice President, Refining*

Yeah, and I guess I'll add on the refining side of the business, what we see an opportunity on -- in the Gulf Coast and even a bit in the MidCon area, is to continue to fill up the secondary units in our processes, and that may not be -- native feedstocks may not be generated from the front end of the facility.

So that is an opportunity that we've zeroed in on, and we think there's good potential there that we can increase the overall utilization of the assets and generate more clean products for the marketplace.

Phillip Jungwirth - *BMO Capital Markets - Analyst*

Thanks.

Operator

Joe Laetsch, Morgan Stanley.

Joe Laetsch - *Morgan Stanley - Analyst*

Hey team, thanks for taking my questions. So I wanted to start on the full year turnaround expense guidance, which was used by $100 million. Was this due to outperformance or was prior planned maintenance deferred. What I'm getting at and trying to figure out is if the $400 million to $500 million level run rate to use going forward? Thanks.

Rich Harbison - *Phillips 66 - Executive Vice President, Refining*

Yeah, I'll take that this one, Joe. This is Rich. So the third quarter guidance we gave you was $50 million to $60 million. And if you look at the year-to-date spend, we've underspent based on our previous guidance there. So we did feel it was important to adjust the overall guidance for the year.

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And that's attributed to really two primary things that we've got going on. And one has been our continued focus on execution and planning. And that work has really allowed us to be very efficient on the execution and actually come under our historical productivity or above our productivity numbers, but under our historical spend to execute our work.

And the second key component of this is the maturity of our inspection programs where we're moving from a time-based inspection process to a condition-based inspection process. That does two things. One, it allows us to really optimize the interval between turnarounds.

So we can as more data comes available, we have a technical basis to move a turnaround from, call it, 36 months to 48 months or whatever that interval is. And the other benefit that this inspection process is driving is actually reduced scope of work inside the turnarounds, which is reducing the complexity of the turnarounds and then is compounding the effectiveness on the execution and planning side of the business.

So year-to-date, we performed quite well. We've spent around $320 million year-to-date. So looking at the numbers, we felt it was the right thing to do to adjust our full year outlook down by $100 million.

Joe Laetsch - *Morgan Stanley - Analyst*

Thanks for that detail and good to see the execution. My second question is on the Midstream side. Now that Coastal Bend has been closed for a couple of months. Can you talk to how the integration is going, synergy capture and any surprises now that you've had at in time with it in the portfolio. Thank you.

Don Baldridge - *Phillips 66 - Executive Vice President - Midstream and Chemicals*

Sure. This is Don. I'd say our Coastal Bend integration work is going quite well. As you heard on the call today, the first phase of our expansion is near complete. We are on schedule for completing the second expansion, which would take us up to 350,000 a day of volume capacity in 2026.

We're well on our way capturing the cost synergies as well as the commercial opportunities that we saw that would be associated with bringing coastal bin into our broader wellhead to market systems. So that's all going quite well.

I think you step back, it's a great addition that really supports our organic growth plans that you see us executing in the Permian with our gas gathering and processing plant expansions like Dos Picos 2 and the Iron Mesa gas plants.

All of that is volume that's going to come out of those plants and feed into Coastal Bend and then hit that Gulf Coast market where Coastal Bend plus what we had really creates a great network of purity product lines that hits a lot of markets up and down the Gulf Coast. And really see a robust opportunity there.

And the customer feedback, the customer engagement that we've had post-closing Coastal Bend has been robust and very positive. So really excited about what the acquisition has done for us and what the opportunity set looks like.

Joe Laetsch - *Morgan Stanley - Analyst*

Great. Thanks for taking my questions.

Operator

Paul Cheng, Scotiabank.

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Paul Cheng - *Scotiabank GBM - Analyst*

Hey, guys. Good -- I think it's still good morning for you guys. Brian, can I go back to the renewable diesel. You're saying that you are running at reduced rates. Just curious that if the margin is lower, that means that you're going to reduce further from the second quarter level. In other words, that how sensitive you are in your runway versus the market condition.

And also that whether you have fully booked the PTC in the second quarter or that there's some incremental benefit that we should assume and expand on that? That's the first question.

The second question, I think, is for Mark. Upon the completion of the shutdown of LA, you have no refinery in California, but you have wholesale and marketing and retail marketing operation there. And also that in Europe, given the market condition is never really that great for the oil and gas business.

So in those two sets of business, it means that in Europe, your refining and marketing business and in California, your marketing business, in the long haul, how do you see them fit into your portfolio? Are they -- should be part of your portfolio long haul? Thank you.

Brian Mandell - *Phillips 66 - Executive Vice President - Marketing and Commercial*

Hey Paul, it's Brian. I'll start. I'll tell you that we're likely to run Rodeo at reduced rates even from Q2 in Q3, but that will be predicated on the market and the market may be better or may not. We're watching -- as you know, there's a lot of aspects to the margins for renewable diesel and renewable jet, including all the credits, including the price of the renewable diesel relative to car diesel and also the price of the feedstock and they all move in tandem. So we're watching it all very closely. And depending on what the market gives us, that's what we'll run the plant at.

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

Paul, on your second question, regarding LA shutdown, you're right, we'll have no traditional refining capacity in California. I would point you to what we did when we converted to Rodeo to renewable feedstocks.

In essence, we were neutral on diesel production. It just happened to be renewable diesel versus traditional diesel, but we had to backfill gasoline. We did that and other market participants did that by importing. We also have the ability to import from our Ferndale refinery in Washington. So it's a good position there.

And then as we shut down LA, again, it's primarily a gasoline import opportunity. And the California authorities have been very proactive in helping us address the import opportunities from the water, whether it's international or other domestic sources. And so we've got a great plan that's been well received by California.

Brian Mandell - *Phillips 66 - Executive Vice President - Marketing and Commercial*

And I'd also add to Mark's comments, I think what's interesting is we believe that the volatility in California gasoline prices will actually be reduced with more gasoline imports because if you think about having mature supply chains, which are similar to other markets like PADD 1, which is also a gasoline import market.

You're going to have barrels coming in large ships, 300,000 barrels to 700,000 barrels and those barrels will come off the ship and be stored and ready for our market dislocations. You also have many more destinations that can produce, (inaudible) gasoline than in the past.

And also, as Mark pointed out, destinations that are very close to California, like our Ferndale Refinery. And in fact, gasoline imports into California versus a five year average are up 70,000 barrels a day already. So we really don't see any constraints on getting the CARB gasoline.

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We see a lot more gasoline coming into the market, a steady stream will help put a lid on volatility to a certain degree. The only issue is infrastructure. That's a potential issue, but what we've seen is a state is aware of this and seems poised to continue to help us on that infrastructure. So we think California is in a very good position.

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

Yeah, and regarding Europe, we've already exited co-op. We are exiting 65% of our jet position in Germany and Austria. So clearly, that's not strategic for us. We like the deal that we did for jet. It was a solid offer from a high-quality buyer.

They wanted us to come along for some period of time as they adjust to that market, and we still have exposure to the upside there. with clear exit provisions. And so we're comfortable with where we are there in Europe.

Around Humber and the integrated position in the UK, Humber is really the leading refinery in the UK, perhaps in all of Europe. It's a strong position there. It has good optionality. And as you see others rationalize assets, it's only going to strengthen this position.

Operator

Matthew Blair, Tudor Pickering Holt.

Matthew Blair - *Tudor Pickering Holt & Co Securities LLC - Analyst*

Thank you and good morning. I want to check in on the refining guide for Q3. I think it was for utilization in the low to mid-90% range versus the 92% -- or 98% in Q2 and your turnaround expense is flat quarter-over-quarter.

The indicator in July, at least should be higher than the Q2 average. So I guess we're a little surprised that utilization might be coming down fairly significantly in Q3. Is there anything to read into that? Or what's going on there?

Rich Harbison - *Phillips 66 - Executive Vice President, Refining*

I'll take that one. There's a couple of things going on that you need to think about on this one, Matt. One is -- and this is public information, Bayway -- our Bayway facility had an upset here, power outage during the last set of storms that rolled through and that took the entire plant down. The plant is back up now and operating well, but that will have an impact on utilization.

And then the second thing is around our Los Angeles refinery. We've indicated that we're going to cease operations in the fourth quarter. But actually, on the backside of the third quarter, you'll start seeing some winding down of the operation that will have also some impact to utilization.

Matthew Blair - *Tudor Pickering Holt & Co Securities LLC - Analyst*

Thank you, that's helpful. And then on the renewables business, I'm wondering if it would make sense to seek out a partner here. There's a lot of other examples in the space where your competitors are working with partners to provide help on feedstocks.

We saw a deal earlier this week where a partner came in and valued SAF capacity at about $4.50 a gallon, which seems like a pretty attractive number. So is that on the table for PSX bringing in a partner on the renewable diesel side?

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

With assets like this, we always look at what the best options are to create value. And I agree with you, that was a very attractive number. But everything, as I said earlier, everything is on the table.

Matthew Blair - *Tudor Pickering Holt & Co Securities LLC - Analyst*

Great. Thank you.

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

Thanks, Matt.

Operator

Thank you. This concludes the question-and-answer session. I will now turn the call back over to Mark Lashier for closing comments.

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

Thanks for all your questions. Before we wrap up, I want to emphasize three points from the call. The strong financial and operating results this quarter show that we're executing well on a proven strategy. Our integrated business model generates competitive returns through disciplined investments and synergy capture along our crude and NGL value chains.

And we're committed to returning over 50% of net operating cash flow to shareholders through share repurchases and a secure, competitive and growing dividend. Thank you for your interest in Phillips 66. If you have questions or feedback after today's call, please contact Jess Roman.

Operator

Thank you everyone for joining us today. This concludes our call and you may now disconnect your lines.

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