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PSX.N - Q4 2025 Phillips 66 Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Welcome to the Fourth Quarter and Full Year 2025 Phillips 66 Earnings Conference Call. My name is Michael, and I will 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 Sean Maher, Vice President of Investor Relations and Chief Economist. Sean, you may begin.

Sean Maher - *Phillips 66 Co - Vice President of Investor Relations and Chief Economist*

Hello, and welcome to the Phillips 66 Fourth Quarter Earnings Conference Call. Participants on today's call will include Mark Lashier, Chairman and CEO; Kevin Mitchell, CFO; and 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 Co - Chairman and CEO*

Thank you, Sean. Welcome, everyone, to our fourth quarter earnings call. We delivered strong financial and operating results, reflecting our continued focus on world-class operations. Our disciplined approach to improving Refining performance has delivered high utilization rates, record clean product yields and enhanced flexibility. In Midstream, we achieved another quarter of record NGL transportation and fractionation volumes, driven by our Coastal Bend and Dos Picos II expansions.

More importantly, our team remains focused on continuous improvement. We're lowering our cost structure and increasing reliability so that we can maximize profitability in any market environment. Moving to Slide 4. Safe, reliable operations, coupled with disciplined investment generates compelling shareholder returns. Safety is foundational.

I'm pleased to report that 2025 was our best year ever for safety performance. I'm very proud of our employees for their commitment to safety. I would like to congratulate them on a job well done. In 2025, we optimized our portfolio through multiple strategic actions. We acquired the remaining 50% interest in the WRB joint venture, sold a 65% interest in the Germany and Austria retail marketing business and idled the Los Angeles Refinery.

We also improved our competitive position in Midstream with the acquisition of Coastal Bend and expansion of Dos Picos II. The strong operating results are a reflection of a concerted multiyear plan and we're not done yet. In Refining, we're targeting adjusted controllable cost per barrel to be approximately $5.50 on an annual basis by the end of 2027. We've also streamlined our business to focus on the areas where we have a competitive advantage. As an example, our acquisition of the remaining 50% interest in WRB increased our exposure to Canadian heavy crude differentials by 40%.

These differentials have widened by approximately $4 a barrel since the announcement of the acquisition. Phillips 66 assets are well positioned to capture opportunities in markets across the value chain. Combining operating excellence, our integrated portfolio and our disciplined capital allocation mindset, we'll continue to deliver shareholder returns across commodity cycles. Last quarter, Rich discussed the progress and future of Refining. This quarter, Don will share more about our plans in Midstream.

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

Thanks, Mark. In Midstream, we've built an asset base that offers flexibility and reliability for our customers. We've increased adjusted EBITDA by 40% since 2022, and we've delivered approximately $1 billion of adjusted EBITDA in the fourth quarter of 2025. Our growth and our performance is the result of disciplined execution, which has created a competitive wellhead to market value chain. Over the past 4 years, we have high-graded and simplified our portfolio.

We bought in PSXP and DCP and we expanded the Sweeny Hub. Additionally, our recent Pinnacle and Coastal Bend acquisitions are performing above expectations, both operationally and financially, improving our acquisition multiple by about half a turns. We intend to deliver increasing returns, improved customer service and enhanced reliability.

Moving to Slide 6. The platform that we have developed has paved the way to growth opportunities that provide line of sight to a run rate adjusted EBITDA of approximately $4.5 billion by year-end 2027. We anticipate adding a gas plant about every 12 months to 18 months due to our attractive footprint in the Permian Basin. For example, we commissioned the Dos Picos II gas plant in 2025, and we announced the Iron Mesa gas plant, which is expected to be in service in early 2027. These plant volumes support our NGL growth. We completed the first phase of our Coastal Bend pipeline expansion and we are bringing online incremental capacity of 125,000 barrels a day in late 2026.

In addition to these larger projects, we continue to identify low-capital, high-return organic growth opportunities across multiple basins. We are positioned to deliver mid-single-digit adjusted EBITDA growth, which will support our corporate capital allocation priorities. Our team continues to execute at a high level on a day-to-day basis. We have great momentum to deliver on our growth plans. Now I'll turn the call over to Kevin.

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

Thank you, Don. On Slide 7, Midstream adjusted EBITDA covers two important priorities: a secure, competitive and growing dividend of approximately $2 billion and sustaining capital of approximately $1 billion. This leaves the balance of cash flows available for accretive growth opportunities, share repurchases and debt reduction. Further, at our targeted debt level of $17 billion, total debt would be approximately 3 times the adjusted EBITDA for Midstream and Marketing & Specialties, leaving Refining essentially debt-free. We remain committed to a conservative balance sheet and to returning greater than 50% of net operating cash flow to shareholders through dividends and share repurchases.

On Slide 8, fourth quarter reported earnings were $2.9 billion or $7.17 per share. Adjusted earnings were $1 billion or $2.47 per share. Both reported and adjusted earnings include the final $239 million pretax impact of accelerated depreciation associated with idling the Los Angeles Refinery. Capital spending for the quarter was $682 million. We generated $2.8 billion of operating cash flow. We returned $756 million to shareholders, including $274 million of share repurchases. Net debt to capital was 38%.

I will now cover the segment results on Slide 9. Total company adjusted earnings were flat for the quarter at $1 billion, with sequential improvements in Refining, Renewable Fuels and Midstream, mostly offsetting decreases in Chemicals and Marketing & Specialties. Midstream results increased mainly due to higher volumes, partly offset by lower margins.

In Chemicals, results decreased mainly due to lower polyethylene margins, driven by lower sales prices. Refining results benefited from the acquisition of WRB. Additionally, we saw higher realized margins in the Gulf Coast, partly offset by weaker Central Corridor crack spreads. Marketing & Specialties results decreased primarily due to the sale of a 65% interest in the Germany and Austria retail marketing business and seasonally lower domestic margins, partly offset by higher U.K. margins and lower costs. In Renewable Fuels, results improved primarily due to higher realized margins, including inventory impacts, partly offset by lower credits.

Slide 10 shows cash flow for the fourth quarter. Cash from operations of $2.8 billion included a $708 million working capital benefit due to an inventory reduction, partly offset by the impact of falling prices on our net receivables and payables position. We received $1.5 billion from the sale of a 65% interest in the Germany and Austria retail marketing business. We repaid over $2 billion in debt and acquired the remaining 50% interest in WRB. We funded $682 million of capital spending and returned $756 million to shareholders through share repurchases and dividends. Our ending cash balance was $1.1 billion.

Looking ahead to 2026 on Slide 11. In the first quarter, we expect the global O&P utilization rates to be in the mid-90s. We anticipate corporate and other costs to be between $400 million and $420 million. Beginning in 2026, costs associated with the idled Los Angeles Refinery will be reported in Corporate & Other. In Refining, we expect the worldwide crude utilization rate to be in the low 90s. Turnaround expense is expected to be between $170 million and $190 million.

For the full year, we expect turnaround expenses to be between $550 million and $600 million. Utilization rates and turnaround expenses by region are provided in the appendix. We expect Corporate & Other costs to be between $1.5 billion and $1.6 billion. Depreciation and amortization is expected to be between $2.1 billion and $2.3 billion.

Moving to Slide 12. Mark will now provide some final thoughts. We will then open the line for questions, after which Sean will wrap up the call.

Mark Lashier - *Phillips 66 Co - Chairman and CEO*

2025 was a pivotal year for Phillips 66. Over the last 4 years, we've been laser-focused on improving performance and advancing our strategy. We reduced cost, simplified the company and made tough decisions. We streamlined leadership, reduced headcount, outsourced work and rationalized our refining footprint. In 2025, we began to see the benefits of the discipline, solid, consistent results, which we're excited to build upon.

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We monetized more than $5 billion of assets and leaned into our integrated portfolio. We built a competitive wellhead to market position in Midstream, and we raised the bar in Refining. Our teams responded and we're driving toward world-class performance, and we're excited about what we'll do. Our assets work together. They complement one another, and our people maximize their value. We built a culture of ownership and accountability. We've challenged every employee to step up and aligned incentives so more of our people think and act like owners.

Going forward, our priorities are clear: safe, reliable operations, continuous improvement and disciplined capital allocation that returns cash to shareholders now while funding accretive returns that generate even more cash over time. This is a competitive business, and we have to earn investors' trust every day. We have momentum, and we're confident that we can rise to the challenge and deliver for our shareholders. Results matter. And in 2025, you've seen a positive inflection point in our results, and the best is yet to come.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question comes from Steve Richardson with Evercore ISI. Your line is open, please go ahead.

Stephen Richardson - *Evercore Inc - Analyst*

Hi, thank you. I was wondering if you could start on the Central Corridor, please. Can you talk about your outlook for Mid-Continent products and opportunities you see on the feedstock side, particularly now that you have a quarter plus of WRB consolidated. I appreciate the comment in the prepared remarks about the 40% increase in exposure to Canadian heavies. But wondering, if we could dig in there first, please?

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

Steve, this is Brian. In PADD 2, we have our maximum integration between our Refining, Midstream and Marketing assets. And as you probably know, we're one of the largest importers of Canadian crude.

From a crude perspective, PADD 2 is the first stop for this advantaged heavy Canadian crude. We also have crude optionality with various Cushing crude grades and advantaged crudes directly from the wellhead in PADD 2. And widening heavy dips are a tailwind -- a strong tailwind for the business. And as you heard in the intro, we've seen those dips widen by $4 since our purchase of WRB. Our sensitivities indicate that each dollar is worth $140 million in yearly earnings for the crude dip.

Additionally, PADD 2 is expected to have the most robust demand profile for the next decade with gasoline stable and with diesel and jet continuing to grow. We have really well-positioned assets in the market, and we have a strong supply of WCS and other crudes and good product demand. So margins should be very supportive.

Also the ability of our commercial team to extract optionality from the assets and extract optionality from the integration of the assets provide additional value. And then finally, I'd say the Western pipeline will help raise demand for PADD 2 products to fill a short in PADD 5.

Stephen Richardson - *Evercore Inc - Analyst*

That's great. I was wondering if you could follow up a little bit on costs. You've shown pretty good incremental progress on controllable refining costs this quarter, particularly relative to last year's fourth quarter. Can you talk about your 2026 priorities on the cost outlook? This is probably for Rich, but particularly as you have really improved utilization rate and clean product yields so significantly?

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Richard Harbison - *Phillips 66 Co - Executive Vice President of Refining*

Yes. Thanks. This is Rich. Maybe I'll just start with a little bit of a recap of the fourth quarter, which is really setting the base for the 2026 performance and it has some really good highlights here to show.

We were $5.96 in the fourth quarter, which is clearly a nice improvement quarter-over-quarter. And directionally heading towards that $5.50 target that we're up. Regionally, we saw some volume on the denominator side change. So of course, we have the Los Angeles Refinery idling and then the WRB acquisition. So those have subtle impacts to the calculation.

The primary headwinds we saw in the fourth quarter were really the natural gas pricing had increased. That was about a $0.13 a barrel headwind for us. But also the Los Angeles Refinery idling was also a big expense. We had a lot of expense there as we wound down that operation and put it in a safe position. And we had essentially no barrels throughput through in that.

So if we were to exclude that cost from our calculation for the fourth quarter, our actual fourth quarter performance was around $5.57 a barrel. So very strong performance by the organization even in the headwinds of this. So I'm very optimistic. We're on track for this $5.50 target.

Going forward in '26, the idling of the Los Angeles Refinery will have a positive influence on an annualized basis of about $0.30 a barrel. So that's a positive tailwind for us. And also probably as important is our organization and the continuous improvement effort our organization has really built into how we do our business day in and day out. And we're targeting another $0.15 a barrel reduction on that by year-end 2026. We've got over 300 initiatives that we're working and a very solid track record of capturing value from this program.

So all this is resulting in what I see as a very structural change in the business, honestly. We've got these organizational changes and work processes that we've put in place. And we've got dedicated resources that are challenging the status quo of everything we do each and every day, trying to find a better way to do it, driving inefficiencies out, eliminating waste.

And of course, foundationally, all this is reliability. You've got to be in the market to capture the market. And we're seeing continued progress on our reliability programs and we have a very safe operation as well, organization that is committed to safety. So we're making great progress. I'm very excited about it.

I think the cost profile is heading in the right direction, and we're not done yet.

Operator

We now turn to Neil Mehta with Goldman Sachs. Your line is open, please go ahead.

Neil Mehta - *Goldman Sachs - Analyst*

Yes. Just building on the operations and refining. You talked about operating costs. Can you spend a little time on turnaround specifically last year? I think you were able to beat your turnaround guide.

In Q1, it looks like you're going to be running in the low 90s utilization, which is probably better than a lot of your peers. Just your perspective on how you're managing through the turnarounds and what you're looking to be best in class there.

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Richard Harbison - *Phillips 66 Co - Executive Vice President of Refining*

Neil, it's Rich again. Thanks for the question. And I think I'm getting a few questions on this front. And one thing I want to make clear is the 2025 guidance for turnarounds did not include WRB. The 2026 guidance includes 100% WRB. So there is a little bit of basis difference on these turnarounds. So you see a slight uptick in turnaround -- total turnaround costs, but full inclusion of the WRB assets in that.

So when I think about 2026 and how that is going to move, we see ourselves in a relatively low part of the cycle on the turnarounds. The TAs are focused primarily in the Central Corridor with the smaller effort in the Gulf Coast area and '26 first quarter TAs, and that's highlighted in our enhanced information provided at the back end of the presentation here, which has given you some insight on the quarterly or the area's geographic location of the turnarounds that we're providing. So we do see a fairly light turnaround cycle. Even though you see the dollars go up a little bit, it's not really that inclusion of WRB into it that's reflecting it.

And the other thing to think about, we've often guided to $0.75 a barrel as the impact of our turnarounds. And there is a slight uptick if you were to take WRB and look at it in isolation, but that's being offset by the idling of the Los Angeles Refinery. So there's essentially no material change to that guidance on an annual basis either, Neil.

Neil Mehta - *Goldman Sachs - Analyst*

And Mark and Kevin, follow-up for you. I think, Kevin, you talked about this 8-2-2-2 framework. I thought that was a helpful way or moniker for thinking about the cash flow associated with the business. So I guess one of the questions as you guys are working down the debt towards the 30% net debt target, you're at 38% right now is what's the capacity to buy back stock. And so if you could walk through that framework, that would be helpful.

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

Yes, Neil, it's -- actually, I think it's pretty straightforward because we've laid out the debt target and also the 50% or greater of operating cash flow return to shareholders through the dividend and share buybacks. So the dividend, which is secure, competitive and growing is right around $2 billion per year. The capital program and we continue to be very disciplined around how we think about the capital program and the execution against that. We put the capital budget at $2.4 billion. So that's the second of the two, so slightly over $2 billion. And then the balance is available for debt reduction and buybacks.

And so when you think about an $8 billion operating cash flow, then that means there's just shy of $4 billion available for debt reduction and buybacks, and it would split approximately equally between the two, slightly weighted towards share buybacks, if you think about that 50% calculation. And of course, you can change if the operating cash flow is going to -- it will be what it is, and it can flex up or down from that level. But the framework is there and in place. And so we think that we should be able to reduce debt by somewhere in the order of $1.5 billion per year for the next two years. And that's excluding any additional flexibility we have with any asset dispositions that we have not baked into our plan.

We have not communicated any targets around that, but we continue to work through the portfolio and options we have to monetize noncore, nonstrategic assets that may be worth more to others than to us.

Operator

We now turn to Doug Leggate with Wolfe Research. Your line is open, please go ahead.

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Doug Leggate - *Wolfe Research - Analyst*

Mark, I'm sure you want to probably pass this off to one of your operations guys. But I'm afraid I want to ask you a obvious question about spreads, about Venezuela, the WCS and so on. And I guess my question is quite simple. Are these -- what's the actual dynamic that's going on in the Gulf Coast from Phillips perspective? Are you seeing physical barrels beyond the sequestered cargoes that we're obviously taking to begin with? And are they competitive?

And what I'm really trying to understand is, is the market overreacting here because WCS normally widens in the wintertime. And we haven't really seen a ton of physical barrels show up yet. So we're trying to figure out what the market is pricing in here if it's -- everybody is competing for these barrels at the same time, including places like India and so on. Any color you could offer on your experience would be appreciated. And I've got a follow-up on operations, please.

Mark Lashier - *Phillips 66 Co - Chairman and CEO*

Yes, Doug, thanks for the question. Yes, we're getting a lot of interest in the impact of Venezuelan crude. And certainly, we welcome the advent of more crude into the system. We've got the flexibility, as you know, to process Venezuelan crude. In fact, I think we publicly stated we can process about 250,000 barrels a day.

And if you look at that as a percentage of our total crude processing capacity, I think we're more heavily weighted, more opportunity there than our peers. And so we're quite interested in being able to do that.

And ultimately, we do think that there is an impact on WCS spreads. And there are cargoes of Venezuela crude coming into the U.S. Even before Maduro was removed, there were cargoes coming in, and we participated in that from time to time when the economics dictated it.

And as you know, we're going to look at the economics. We're going to run our models and see if it makes sense to process it or not. But we've got the capacity there. We don't have to spend a dime to get there, and we're ready to go. So I'll let Brian dig into the numbers a little more.

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

Of course, I agree with everything Mark said. We were buying Venezuelan crude. Prior to Maduro, we were buying Venezuelan crude. Now taking to our refineries. But even if the Venezuelan crude doesn't come to our refineries, it hits the global market, it's going to impact heavy crude differentials.

And even if -- on WCS, if you take a look at WCF's 2025 differentials versus this year's actuals and forward curve, we're $3.50 weaker in 2026 this year. So the market is a forward market. It's looking at barrels coming on and its processing and thinking about what the differentials should be, not just for Venezuelan crude, but for all crudes. And I would say we -- as Mark said, we look at relative crude values.

So when we're thinking about crudes whether we bring in Venezuela crude or some other crude, we're thinking about the cost of the crude, the crude type, the value of the products that crude makes, transportation costs, the specific refinery that the crude is going to. And we have a lot of flexibility about what crudes we can run in all our refineries. We also have a strong commercial organization, and that allows us to redo the crude slate pretty quickly as the market dictates. So that's also a help. But I would also -- one other final point that I haven't heard people talk about, which is the heavy naphtha.

And as more heavy naphtha is sent to the U.S. Gulf Coast for blending Venezuelan crude, it's likely to be a benefit to the gasoline margins, particularly when we're moving into gasoline season.

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Doug Leggate - *Wolfe Research - Analyst*

I appreciate the answers, guys. Maybe just a clarification very quickly. I'm trying to understand if it's the physical market has driven the widening or the expectation from the physical market. Or is these paper markets bidding out in the future, but the physical hasn't shown up yet? I'm trying to understand if it's already happening or if this is more speculative that's driving these gap -- the gap that we've seen around what is normally a winter spread on WCS?

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

I would say both. It's the barrels are coming into the market, both in the domestic market, foreign markets, and it's the expectation of continued barrels into the markets.

Doug Leggate - *Wolfe Research - Analyst*

Okay. My quick follow-up, Mark, is just on your comments about the final utilization. Obviously, reliability was under the spotlight for quite a while. You guys have stepped up there, and I think Neil already observed on his question.

My question is simply, when we think about your run rate going forward, what would you have us think about the range of utilization? It's obviously moved up. What should we think about as the go-forward sustainable utilization rate?

Mark Lashier - *Phillips 66 Co - Chairman and CEO*

Yes. I'll let Rich tackle that. He's got some good metrics there.

Richard Harbison - *Phillips 66 Co - Executive Vice President of Refining*

Okay. So utilization, obviously, we've been focused on enhancing our reliability in our programs that underlie that continued long utilization. So utilization is really two things in my mind. One is the equipment has to be available to run and then the market needs to be there. So the market will be what it will be.

But when it comes to our ability to run, we're seeing some really good progress with these reliability programs. So much so we've actually even looked at our capacities as an organization and did some noodling on it. And we've concluded the fact that we've had some structural changes in 4 of our refineries. And you're going to see us release some increased capacities and maybe even in the supplemental data on this -- on the presentation, but there's 2 primary reasons. One that we're going to increase these capacities.

One is demonstrated improved operating rates at 2 of the refineries and projects that have been implemented at 2 other refineries. So -- at our Billings Refinery, we're going to move the capacity of that facility from historic 66,000 barrel a day stated capacity to 71,000 barrels a day. And at the Ponca City Refinery, we're going to move that from 217,000 barrels a day to 228,000 barrels a day.

And on the project side, we've talked about both of these projects. And I think in 2025, they were both commissioned and have both demonstrated their capability to meet the design parameters. So at the Bayway facility, we've talked about the VGO -- the native VGO project. That has also unlocked some crude capacity for us, and we're going to move the Bayway Refinery up to 275,000 barrels a day capacity from 258,000. And then the Sweeny Refinery from 277,000 to 265,000 related to the sour crude flex project, which we've talked a lot about over the time.

35,000 barrel a day increase in capacity across the system, about a 2% increase. So when we think about utilization and then as a fact of capacity, you could see us using the equipment even at a higher level than what we have historically reported on.

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Mark Lashier - *Phillips 66 Co - Chairman and CEO*

And I would just add to that, there's been a concerted effort around turnarounds. You've seen our turnarounds become more disciplined, and we're taking work out of the turnarounds. The work still getting done, but we're finding creative ways to get it done outside of turnaround. So it shortens that duration and the financial impact. And we've been using things like machine learning.

We reduced the spend on turnarounds in our forecast, I believe, midyear substantially. And I think we still beat that throughout the year because we're getting better and better at using those tools to better implement our turnarounds to manage the impact on utilization. So that's underlying some of that performance as well.

Doug Leggate - *Wolfe Research - Analyst*

Mark, thank you so much for the answer. You are the reason we're having a panel on this exact topic at our conference in a few weeks. So thanks, guys, very thorough answer.

Operator

We now turn to Lloyd Byrne with Jefferies. Your line is open, please go ahead.

Lloyd Byrne - *Jefferies Financial Group Inc - Analyst*

Maybe you guys could start with just an update on Western Gateway and the open season? And then any -- I know you guys are extending the destination to L.A., but any hurdles, next steps? Where are you in permitting all that stuff?

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

Lloyd, this is Don Baldridge. I appreciate the question. Yes, to unpack that a bit. We had a first open season, positive response. We received multiple shipper commitments, which really gives us a solid base of volume and some certainty there.

And as you mentioned, what we're doing now in this second open season, it's really an extension as opposed to our expansion instead of an extension because what we've done is we've expanded the delivery points all the way into the California market, specifically the L.A. market, which is really the heart there, California demand.

That, plus being able to reach back into the Gulf Coast, where we have made arrangements to be able to pull product in from the Gulf Coast through the Explorer Pipeline to reach the Western Gateway path. And as you know, we're a 22% owner of Explorer, so there's some benefit there.

And so now prospective customers, they really have the ability to reach a very liquid demand center in the L.A. market, be able to reach back to supply origins both in the Mid-Continent as well as the Gulf Coast. We think that is really a compelling offer. That's what this second open season is primarily focused on.

And what I'd emphasize for you is that liquidity, that's really, I think, what's going to help drive additional interest in this project. Like I said, we received commitments in the first open season. We're expected to get additional commitments for this path that would really be the Gulf Coast, Mid-Continent to L.A. The feedback has been positive. I think we're -- the folks that we are actively engaged with along this project see the market developing a lot like we do, where the West Coast begins to look a lot like the East Coast where you have -- it's supplied by a few refineries, some imports that are waterborne and then you have a pipeline, which delivers really competitively priced, attractive, reliable American-produced fuel to that market.

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So that's what we think is really exciting about this. We're obviously actively working through the scoping and design phase and feel real confident in terms of the ability to execute. It's really right now securing third-party supply commitments with the right contract terms and such to give us the right returns to be able to execute the project.

Lloyd Byrne - *Jefferies Financial Group Inc - Analyst*

That's great. The support from the state's been pretty good?

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

Yes. I mean from my experience, this is one of a unique project, and I've been in the pipeline business for most of my career, but to have the amount of support from regulatory folks, elected folks, both state and federal. This one is a first to have that type of just kind of unilateral support and understanding for this type of project. The design, the capacity, the timing, all of it makes a lot of sense to most of the folks that we talk to.

Lloyd Byrne - *Jefferies Financial Group Inc - Analyst*

That's awesome. And a quick follow-up, I think, to maybe Steve's question. Clean product yields have been really strong. And just the sustainability of that, the catalyst optimization and then whether Central Corridor will help with respect to those yields going forward?

Richard Harbison - *Phillips 66 Co - Executive Vice President of Refining*

Yes, this is Rich. Thanks. It's been a real focus for us. We just talked a little bit about utilization and capacity, and that's really focused on the front end, the crude side of the business. The utilization and clean product yields component of that is a continued now focus for us. And we've taken time to evaluate every key unit that we have in our system. And we're using the discipline that we used for the crude unit utilization part of the business and applying that discipline now to all the downstream units that we have. And what you're seeing is the results of this effort starting to creep into the numbers here. And you see it in the clean product yield component of that.

We had a record year this year annually for clean product yield, which is not an easy thing to achieve in a system as large as ours. But it's -- what it is, is each organization is taking detailed look at every one of these conversion units and making sure that we are converting to the highest product value that we can.

So I feel it's structural. It's a structural change in our business. And I see it as very sustainable. And I also see it as we're going to -- you're going to see continued progress on this as we move forward here. Part of it driven by the organization's performance.

The other part, driven by our small capital, high-return investment opportunities.

Operator

We now turn to Manav Gupta with UBS. Your line is open, please go ahead.

Manav Gupta - *UBS - Analyst*

Congrats on a lot of positive developments, including the debt paydown and cost reductions. My question here is, when we look at the Midstream earnings, you can let me know if I'm wrong, but I think you've almost doubled them in the last two years. So how should we think

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about the Midstream portfolio going ahead? Should we assume like the organic 5% or something like mid-single-digit organic growth in Midstream and a possibility of good bolt-on deals if they come along? Like help us understand the growth path for Midstream from here on.

Mark Lashier - *Phillips 66 Co - Chairman and CEO*

Yes, Manav, this is Mark. You're absolutely right. You've seen that kind of growth in our earnings. There have been a number of things that historically have factored into that, certainly organic. But I think really, the big upside has been the inorganic things that we acquired that opened up a larger organic playing field.

So you've seen that with Dos Picos, you've seen that with Coastal Bend, and we'll continue to look for opportunities like that. But the current focus to get us to that 4.5% is organic opportunities. And Don can walk you through what that looks like going forward.

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

Yes. Manav, I can just say, I think we are right where I expected us to be from a run rate EBITDA right around that $1 billion. And maybe to kind of unpack how that looks over the next couple of years, I expect this to be about this $1 billion run rate. We'll have some quarter-to-quarter variability, a bit with commodity prices that are sensitive in our G&P business and what the realized prices are as well as just our contract and volume mix when that when we factor in fee escalations and recontracting and spot rates and such. And the real step changes will be these organic growth projects that we have been talking about.

And when those come online and fill up here the latter part of '26 and into '27, those will be the big earning contributors. That's what really takes us to that $4.5 billion run rate by the end of '27. And what I'd highlight for you, and I think you heard it a bit from Mark is the momentum that we have within our Midstream business. As you know, I came in from the DCP acquisition. And I can tell you we are a much different midstream business today than we were just a few years ago.

Because of the platform that we've built, like Mark mentioned, some of these acquisitions, putting this platform together, we are a dramatically better midstream company. We have really great response from our customers. They see the breadth and the quality of the service and the reliability that we are executing on. So we're getting a lot more deal flow. We see that as what really gives me a lot of confidence in hitting our target at that $4.5 billion by end of '27.

We also -- you're seeing the deal pipeline fill up for things past '27, like a potential expansion of Corpus Christi frac, like the Western Gateway and those types of projects that are starting to come to fruition in our deal pipeline that gives me a lot of confidence that this is a sustainable growth rate of that mid-single digits, not only into '27 but well beyond '27.

Manav Gupta - *UBS - Analyst*

Perfect. So my quick follow-up here is a little bit on the Refining macro. And we started 2025 with a very bearish outlook and things improved and refiners massively outperformed S&P in 2025.

Now you're starting '26 with a very similar sentiment there for some reason, people are overly bearish on refining. But the way the setup is looking, it's still looking pretty constructive to us. And year-to-date, refiners have again massively outperformed S&P. You have definitely outperformed S&P. I'm just trying to understand what's your refining macro outlook?

And do you believe that you could have another good year in 2026 as we did in 2025?

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

We couldn't agree with you more, Manav. We are very bullish. If you look toward the start of spring turnarounds, we believe the Refining system will have trouble keeping up with demand.

First, demand continues to keep growing in 2026. And if you look at global net refinery additions, they are less than global demand growth. We also see new refinery builds weighted to the very end of the year, and they'll probably slip into 2027.

Second, we had very low unplanned turnarounds in 2025, and it would be hard for unplanned outages for the U.S. refining system to be much lower, particularly with, as you point out, that recent high utilization. So couple this with the widening of the heavy dips benefit of that to our system, and we are very constructive margins for the year.

Operator

We now turn to Theresa Chen with Barclays. Your line is open, please go ahead.

Theresa Chen - *Barclays - Analyst*

On the Midstream front, how do you view the likelihood of increased ethane projection in the Permian following the start-up of multiple residue gas pipelines in the second half of 2026 and beyond. What implications could that have for your NGL volumes and margin realizations over time?

And given your integrated strategy translating this potential development to the chemical side, if Gulf Coast ethane availability tightens, could incremental upstream rejection ultimately affect the feedstock advantage for Gulf Coast crackers?

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

Theresa, this is Don. I think our view on -- when you think about the dynamics in the Permian with more gas pipelines coming on, our view is that ethane will have to continue to get priced so that sufficient recoveries are there to feed the demand in the Gulf Coast. And so we don't see a material change in rejection recovery in the Permian with the new gas pipelines coming on. Obviously, through our CPChem ownership, we've got some big demand coming on from an ethane standpoint as we turn on the Golden Triangle project in 2027 when it really starts commissioning and has that flow. And so I think we see this as continuing to balance out.

As gas prices rally, you might see some ethane, obviously, price with that, so it stays in recovery. But that's pretty much how I see it.

Operator

We now turn to Paul Cheng with Scotiabank. Your line is open, please go ahead.

Paul Cheng - *Scotia Howard Weil - Analyst*

I think this is the first one. Maybe, it's for Mark. You guys have done a lot in improving your refining operation. So as of this point, with your houses gradually, I think getting into the shape that you want, do you believe you could be a good consolidator in the refining industry? And do you have the desire to do it if that's a good refining asset that -- or that okay refining asset is available that you may be able to add to the system and be able to enhance.

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So what kind of criteria you may be looking at? Secondly is that if we look at your heavy oil, I assume that in the first quarter, you're going to run more heavy oil, given the discount. So is the first quarter that you are already maxing out that capability or that you actually think you still have excess capacity for the remaining of the year comparing to the first quarter level. And as you increase your heavy oil processing, will that in any shape or form impact your light product yield as well as your throughput level?

Mark Lashier - *Phillips 66 Co - Chairman and CEO*

Yes, Paul, I'll add to your second question first and maybe invite others to pile on, but we are maxed out heavy. We are taking full advantage of what's out there. And of course, there is a impact on clean product yield. And so we recognize that. And it's beneficial to the economics or we wouldn't be shifting that direction.

On your first question, the improving refining operational performance, thank you for recognizing that. It's true. And I would say that what you're seeing and what you saw in '25 and we'll build on that momentum in '26, the precursors to that were set in motion almost 4 years ago. And we've been very diligent and the results also reflect the momentum that we have because we're not just waking up today and thinking about what we can do tomorrow. These things have been building and building over the last 4 years.

And so there's much more to come, much more to do, much more to accomplish. And could M&A take a role in that? Certainly, we've shown that for the right value creation opportunity like we saw with WRB, we would add to our refining capabilities. I think they're fairly rare and maybe you could call them unicorns. But if there are the occasional unicorns that come up, we would certainly take a look at it. And if it added to our competitive advantage, particularly in the Mid-Continent or Gulf Coast, we would certainly take a hard look at things.

Operator

We now turn to Sam Margolin with Wells Fargo. Your line is open, please go ahead.

Sam Margolin - *Wells Fargo - Analyst*

Maybe turning back to Midstream. You made a comment; you alluded to this post 2027 growth opportunity. And we have the 2027 EBITDA target out there, but it does seem just like underpinned by fundamental trends, GORs and underlying production and efficiency trends, there is going to be a tail to your midstream growth opportunity?

And really, the question is how you are going to frame that on the spending side. You've got some organic projects that are starting up this year and next, feels sort of like a peak spend. Maybe there's some operating leverage and some infill in those new assets. Or there is an opportunity to accelerate spend. So just a question about how the midstream gas opportunity extends past 2027 and what that means for your capital framework?

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

Sure. The way I think about that, we've built this platform that has this now, I think, an organic opportunity flywheel that continues to bring additional opportunities that are low capital, high return, being able to add incremental volumes to our system. And we'll continue to have some of these chunkier build-out, and we've talked about a gas plant every year or so. I think we're on that pace, additional fractionator, we're on that kind of pace, we'll have those types of additions. But in the interim, just lower capital, higher return, both kind of build out extensions of what we have from a platform, I think, will continue to carry day.

And so I'd probably step back and just tell you that momentum in that platform that we see is just being able to generate those kinds of projects that will carry us beyond '27 and be able to continue on that mid-single digits.

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But I'd also say it's not just in our NGL business. We're seeing opportunities in and around our crude to clean value chain that we continue to stay focused on. And those are a lot of optimization projects around our pipes and terminals. So the breadth of which we can execute within the midstream space is pretty impressive and pretty exciting.

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

Sam, it's Kevin. I'd also just highlight that the Western Gateway, if that's a project that moves ahead, that is not in any of our current projections. And so that just further adds to the potential for growth post 2027, if that goes ahead.

Sam Margolin - *Wells Fargo - Analyst*

Understood. Okay. And then maybe just a follow-up on chems. It's an industry issue, not a not a CPChem or a PSX issue, but there is more capacity coming. And maybe just your latest thoughts on chems, both strategically after this slate of projects you have come online? And then in the near term, mitigating some of these commodity challenges?

Mark Lashier - *Phillips 66 Co - Chairman and CEO*

Certainly, I think that CPChem is focused on getting those big projects up and operating. They do see them being quite accretive even in this environment. And so they need to get those online and generating value. But -- and CPChem has shown that they're quite resilient during this downturn, generating our share of their EBITDA, $845 million in 2025.

And what needs to happen and is happening in the marketplace is pretty large-scale rationalization on the order of 20 million tons per year, and that would get the industry back to 85% utilization. Now I'd note that right now, the U.S. base is running at 90%. And so U.S. is leveraging its cost advantages, its capabilities, while Asia Pacific and Europe are running at about 65%. So they're on the bubble.

They're on the ropes, and that's where we think the bulk of the rationalization needs to occur. We saw 5 million metric tons a year come off in '25. We expect another 5 million to 7 million metric tons coming out of Southeast Asia in this year and next and then an additional rationalization of naphtha crackers in Europe to tighten things up.

And then the new builds that are out there beyond what we see at Golden Triangle and Ras Laffan are primarily in China, and there's not a lot of clarity around those, when they will come up. There were stories of them being operational, but not actually being run in '25. And so that's a little bit fuzzier.

And typically, it takes longer for those assets to come on and they will be -- they'll only be brought on when the Chinese think that they might be useful. And so that continues to push out.

Operator

We now turn to Matthew Blair with TPH. Your line is open, please go ahead.

Matthew Blair - *TPH&Co - Analyst*

Maybe to stick on chems here. Could you talk a little bit more about the modeling considerations for your Gulf Coast cracker and PE plant that's scheduled to come online later this year. Do you think that Q3 is a good start-up target? And if so, how long would that take to ramp. In terms of the sales split, would that be completely oriented to the export market?

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Or do you think like a 50-50 domestic export split would be reasonable? And then finally, for the ethane supply, does that all come from PSX? Or do you have any sort of contracts with third-party ethane providers?

Mark Lashier - *Phillips 66 Co - Chairman and CEO*

Yes. Thanks, Matt. Those assets should be commissioning and really starting up in the fourth quarter and then ramping up through at least the first half of '27. And given where we are today, it's going to be largely export-oriented and certainly initially, they'll always want to repatriate as much of that volume as we can, but starting up, it will be primarily export-oriented. As far as the sourcing of ethane, the majority of it is coming from us, but they certainly have connectivity to ensure that they have the best possible situation and multiple sources of ethane.

Matthew Blair - *TPH&Co - Analyst*

Sounds good. And then you mentioned the L.A. shutdown impact on op costs in the fourth quarter, which we found very helpful. Do you have a similar number, if there is one, on the L.A. shutdown impact for margin capture in the fourth quarter?

And I guess the reason I ask is if I look at your margin capture in 2025 versus 2024, it looks like it came down about a percentage point and some of your peers are talking about how their margin capture increased year-over-year. And of course, these indicators aren't exactly apples-to-apples, but maybe you could just help us understand if there were any sort of unique headwinds to your margin capture in 2025.

Richard Harbison - *Phillips 66 Co - Executive Vice President of Refining*

This is Rich. Los Angeles Refinery, when we step back and look at it, and we're making the decision here to the faith of the asset and the operation, it was very clear to us on two things. One, the cost to produce was very high, and the materiality of the earnings was very low, if not negative, in a number of cases. So -- and the outlook on capital -- recapitalization of the asset was also very high. So when I think about it, it is not material to the earnings side of the business, the shutdown.

And the market capture on an overall system basis, if you think about it, there was 135,000 barrel a day facility and a 2 million-barrel a day operation. So it was not extraordinarily material either on the overall system. So I would say non-material on market capture and non-material on earnings.

Operator

Let me now turn to Jason Gabelman with TD Cowen. Your line is open, please go ahead.

Jason Gabelman - *Cowen Inc - Analyst*

Yes. Most of my questions have been answered, but maybe if I could just touch on the Midstream guidance because it sounded like the ramp-up from the new projects wouldn't really hit until the second half of this year.

So wondering if you're seeing any headwinds in the first half from recontracting on the NGL pipes and if that's something that will be a feature in future years. And then also, anything specifically in 4Q that resulted in a step-up in OpEx, which looked a bit high.

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

Jason, yes, on the -- in terms of the first half of this year, I think we're going to see ourselves pretty close and pretty flat on that $1 billion a quarter run rate. I think pretty well set. That factors in, like you mentioned some contract renewals. That factors in contract fee escalations, all in there. So I think that will stay fairly steady and you'll see the uptick really when we start filling in some of these organic growth projects.

And in terms of OpEx in the fourth quarter, that's really just sort of timing and seasonality. I think if you look at us over multiple quarters and years, we spent a lot of time talking about extracting cost out of the Refining business.

And some of those successes have blended over into the Midstream because the team there has also been able to grab some efficiencies through the scale that we've built to be able to leverage what we have at Phillips in total.

And so we're seeing really, I think, a healthy operating discipline there from a cost standpoint. But there's obviously some seasonality and some quarter-to-quarter timing but really pleased with the performance from an operations standpoint.

Jason Gabelman - *Cowen Inc - Analyst*

All right, I'll leave it there, thanks.

Operator

This concludes the question-and-answer session. I'll now turn the call back over to Sean Maher for closing comments.

Sean Maher - *Phillips 66 Co - Vice President of Investor Relations and Chief Economist*

Thank you all 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.

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