

LSEG STREETEVENTS

# EDITED TRANSCRIPT

PSX.N - Phillips 66 at Morgan Stanley Energy & Power Conference

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Joe Laetsch** Morgan Stanley & Co Ltd - Analyst

## PRESENTATION

**Joe Laetsch** - Morgan Stanley & Co Ltd - Analyst

All right. Let's go ahead and get started with our keynote fireside chat with Phillips 66. Thank you to all the investors in the room and for those who are tuning in on the webcast. Those of you that don't know me, my name is Joe Laetsch, and I'm the refining analyst here at Morgan Stanley. Today, I'm very pleased to be joined by Mark Lashier, Chairman and CEO of Phillips 66.

Before we get going here for important disclosures, please see the Morgan Stanley research disclosure website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures). If you have any questions, please reach out to our Morgan Stanley sales representative. With that out of the way, Mark, thank you for being here with us this afternoon. We have plenty to talk about today. But maybe to start higher level here.

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## QUESTIONS AND ANSWERS

**Joe Laetsch** - Morgan Stanley & Co Ltd - Analyst

Phillips 66 has been active the past few years, building out a midstream business, improving refining operations and optimizing its portfolio. As you sit here today, can you talk a bit about that journey and your strategic initiatives and plans in '26 and beyond?

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

Sure, Joe. I'd love to. Thank you, everyone, for being here. Thank you, Joe, for hosting this, and it's been a great conference. We've got a lot out of it timely and all the events going on.

But when you think about the journey that Phillips 66 has been on. We are intensely focused on being a unique opportunity for investors. We have designed things and are leaning into things such that we've got a durable sustainable cash flow across the cycle.

So the integrated positions we have can be countercyclical. We've got businesses that just deliver rock solid earnings quarter after quarter. And then we've got more volatile segments that can really throw off a lot of cash at the peak but then afford us opportunities to do things across the spectrum of investment opportunities we have while still delivering at least 50% of our cash back to shareholders each and every quarter.

We've had a strong growth story in our dividend. We were committed to being competitive, sustainable and growing with our dividend every year. It's grown every year. I think our annual compounded rate of increases has been about 15% over the 13 years that we've been around, and that's our commitment and where we're sticking to it.

We just increased our dividend again this year at our last Board meeting. And when you think about those segments, we've got we've got midstream that gathers hydrocarbons, whether it's crude oil, not as natural gas liquids, we move those hydrocarbons through our transportation assets to our facilities where we convert them to the molecules that you need that you use every day.

And we just don't convert them to any molecules. We find the best value opportunity that we can create for our shareholders. And we get those molecules out into the marketplace, finding the best disposition for those molecules across the globe. We've got in addition to our midstream organization refining organization, we've got a commercial organization and their job is to optimize what goes into what comes out of these assets and then captures the ultimate value that we can capture out of the marketplace and that all works incredibly well together. And don't forget about CPChem.

Our 50:50 JV with Chevron, it's deeply physically integrated with us at our Sweeny complex. It consumes a lot of the NGLs that we produce. And so we understand those markets very well on how it interacts with the markets for our NGL clean products and so our purity products. And so it's all one big integrated hydrocarbon machine, and we endeavor to do it better each and every day.

We've been on a journey of improvement in refining. We recognized four, five years ago, we had some challenges in refining that we had a cost problem in refining. And we stepped up to the plate, and we've been delivering and executing. It's been a hard earn, but we've reached costs across the board. We've taken \$1 a barrel plus out of our refining costs.

We've improved the utilization of our assets. We've improved the clean product yield and all the time in the background, lowering the cost and delivering value. We've built a midstream wellhead to market presence that can compete with any midstream company out there. It's been a tough journey as well, but we've been very deliberate and very disciplined in the investments we made. And now you're seeing the free of those labor.

Over the last four years, I think we've increased our earnings there by 40%. And and we're headed -- we're right at about \$4 billion EBITDA a year, we're headed to 4.5 by the end of 2027. And we've enhanced our commercial organization. We've added couple of dozen of origination players out across the globe, people that speak to local language that know the local landscape that can help us find the best feedstocks and the best disposition for the molecules that we're producing.

So we're on the move, -- we're looking for every way we can improve across the enterprise, and we're leaning in hard on integration and delivering value to shareholders every day.

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**Joe Laetsch** - Morgan Stanley & Co Ltd - Analyst

Awesome. It's a great overview and a lot to unpack there. But maybe before we can do the segments have to ask what are the key topics in meetings this week have been the events that have unfolded in hereon in the Middle East over the past few days, and there's a lot of factors to consider the connect refiners from product prices, feedstock costs, freight, as well as we're talking about chemicals applications as well. Also a lot of uncertainty about the path forward here. Could you just talk about what you're hearing from your commercial organization currently, how are you thinking about potential impact to PSX, whether it's on refining sector chemicals or --

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

I'm really glad that we're blessed with a strong commercial organization from the minute even before they start happening, when you could see the military buildup they started thinking about what could happen and then you're providing thoughtful insights every day multiple times a day and looking at what's going on across the spectrum, whether it's LNG movements, the impact there on LNG Market in the world marketplace to what responses in Asia from a crude acquisition perspective, how refineries are already signaling that they're backing off run rates in Asia. And what does that mean?

And answering the questions very challenging question just in the US, but we're safe, secure. We've got access to whether it's Western Canadian crude or Venezuelan crude or Permian crude. We've got access to crude but what's it going to do to the pricing? What's it going to do the pricing of refined products? What's going to be the political reaction globally and domestically.

All of those things are coming into play. This is -- yes, all of us, I think, intellectually have done the game in our head, what would happen at the state of our moves was closed. But to sit here today and watch it unfold in real time, it's a little bit cereal to see these things not just a scenario panning exercise. This is a real live war. People unfortunately are dying.

We've lost, I think, six US soldiers and it's tragic to see what is unfolding. But now what -- how do we get to the other side of this and how do we ensure that the world has access to the resources it needs to avoid major economic disruption and how do we work with the government to ensure that the US economy is on solid footing that our customers get the resources need to go about their business. And so the commercial group has been very good at providing the fundamentals we need to start thinking that through and making those decision.

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**Joe Laetsch** - Morgan Stanley & Co Ltd - Analyst

That's helpful. There's a lot of uncertainty right now. So maybe we can dive into some of the segments. So starting with refining. So crack has been volatile at the start of the year. Can you just talk about what you're seeing across your footprint from a demand perspective? And maybe longer term, how do you see supply-demand balance shaping up over the next couple of years?

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

Yes. At a high level, we've seen strong distillate demand. We've been in heavy distillate mode. And certainly, current events only reinforce that. You can see the strain situation where there's no incentive to move into summer gasoline mode, which could create some interesting dynamics.

Gasoline demand -- diesel demand has been high mostly at the expense of renewable diesel. So the economics change around noble diesel, that volume has been replaced by traditional diesel, but you're also seeing stronger demand out in the economy.

And so there's a lot of strength in jet has -- continues to be strong. Gasoline has been about flat year-on-year. But if gasoline has to compete with distillate this summer, it's not going to fill for flat. It's going to feel very tight. So that's kind of the 50,000-foot view where we are on spin.

I think if you look back, again, I shouldn't be remiss to touch base on how we see the gives and takes from capacity additions, capacity reductions. So I think this year, our view is there might be another 1 million barrels of crude capacity -- crude conversion capacity out there. We see it coming on late in the year. So it's going to be a negligible impact.

When you boil that down to the refined product level, you're seeing this year, maybe 400,000 barrels a day of refined product impact. when you're seeing demand increase by 600,000 to 800,000 barrels a day. So really, we see things continuing to tighten into this year. The new capacity to come on late this year, it will ramp up into next year, and it will be offsetting the capacity or the volume growth that we see in refined products next year. So it's going to be kind of a wash.

And beyond that, there's not much on. So we're very constructive medium and long term on the balance for refined products. It's a good time to be in refiner.

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**Joe Laetsch** - Morgan Stanley & Co Ltd - Analyst

That's helpful. The other big development so far this year has been at Venezuela and the incremental Venezuela barrels available to the market. Can you just talk about the latest dynamics that you're seeing on the light heavy crude side, crude availability, recognizing that the Middle East inject some uncertainty just how you're seeing that light-haired availability.

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

Yes. If you stick it into the box of US consumption patterns and the interaction there really is about the competition between Venezuela and heavy crude and WCS. And we are right at the interface of that competition. We've got Mid-Continent refineries that consume at WCS, our Gulf Coast refineries can consume WCS or Venezuelan crude. And so Venezuela crude is going to have to be priced to compete with WCS. Likewise, WCS is going to have to be priced to compete with Venezuelan crude.

The diffs have spread out from about \$11 a barrel to about \$15 a barrel of WCS and that's certainly benefiting us today at places like Wood River, which have total control of. So I think as one of my colleagues has been mentioning in our speed dating sessions that we really like the Wood River transaction at \$11 diffs, we love it at \$15 diff, and it's true.

We understood that when we came in, that there was tremendous upside having control over the Wood River refinery and the border refinery, and we're seeing that benefit today well beyond the synergies that we're capturing out of that. We're seeing the uplift in these tighter times. And so we have the ability to process about 250,000 barrels a day of Venezuelan crude. Most of it at are Sweden refinery and some that are Lake Charles refinery. And we have, in the past, imported even before Maduro has removed everyone had the ability to export to the US and we were taking barrels in.

But there's nothing magically different today other than there will be more crude available. It still has to compete to get into our portfolio. We're not going to process it just because it's available. We're going to process it because it displaces in the Gulf -- in our Gulf Coast refineries and displaces WCS will still compete. So I think it's a very good dynamic place for us to be right in the middle of that.

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**Joe Laetsch** - Morgan Stanley & Co Ltd - Analyst

Makes a lot of sense. And then I want to switch on the operational side. So last year, clean product yields, they reached a record level refineries ran really well costs continue to move lower. Can you just talk about where you are in the refining improvement process and what the next steps are from here.

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

No. That's a great question. You're right, Joe. We hit -- we hit record clean product yields. We've been outpacing the industry on utilization rates, and we've been driving costs out of the system.

And those have been the primary metrics that we've been focused on. and it didn't happen overnight. This journey has started in late 2021 when we recognized that we had some challenges that we needed to address. We came up with a plan to address those challenges, and it's been a very hard path. It's very -- we've had to make a lot of tough decisions.

But what you saw in 2025 as an inflection point where all those tough decisions we made started to come home to reach in a positive way. You're seeing it in our results. You can't turn the battleships that we have around, but overnight, but we started looking at our refining system as a fleet, not as individual refineries. We challenged ourselves to drive cost out, to centralize -- a lot of things that could be centralized. We put our entire company on a unified bonus program versus competing with individual assets inside the portfolio we were competing against the external world, and that changed the thinking and the approach of things overnight.

We were not out to the front line and said, look, what things have you been challenged with in getting your job done? What makes your job difficult? How can we make your job more efficient? And we set aside capital to things that we're making it hard for our frontline operators to run their assets. Maybe they were steam like, maybe there were things that just we're positioned on valves that their job is more difficult. And that on the hearts and minds of the frontline, and they started coming up with more and more projects, more and more things we could do to be more efficient.

And we asked everybody in the organization to challenge the status quo. Don't get stuck in the old ways of doing things. Let's think about what we're doing and how we can do it better. We even had things embedded in our optimization models there were artificial limits that we're hitting. And we said why is that limit there?

Well, it's always been there. Well, and we get beyond that limit safely, yes, but nobody's ever want us to do that. Let's -- if we can do it safely, we can do reliably, let's challenge it. We ruthlessly benchmark ourselves against other refiners. And we are closing gaps. We have more gaps to close. You saw in our last earnings call, we rerated four of our refineries, and that's not something we take lightly.

We were getting good accolades for having these high utilization rates, and they became so persistently high at four of our refineries, we said we need to rerate those because we don't want our refiners to get lazy and comfortable that, oh, yes, we're operating 100% we can't do any better than that. Well, your denominator is going to go up. So you're going to have to work a little harder. And that's what we did, four refineries.

Two of those refineries were rerated solely on what we call operational excellence. They were being operated better. They were managing their turnarounds better. And so they could go up about 10% in rates consistently -- consistent enough that we said, okay, that's now what's your baseline is?

And a couple of other projects, like Sweeny and Bayway, we did specific projects that unleashed more, more potential, more throughput in those refineries, and it's been very beneficial in both those places. And there's more to come. We've opened up that door for our process engineers and the operators out there to be creative in how we run these things, to be created in utilization and in product yield as how you see the clean product yield going up.

I love when I go to a steward review at one of our refineries. And there's a string of your process engineers that come in and said, Hey, we figured out how to do this. We rewired this and now we're going to make \$20 million a year, and we only spent \$500,000. I said, why are you standing you're talking to me about these great things, go out and find more and they do. They've been -- their intellectual capability has been unconstrained.

They're applying AI to what they do. AI is help our operators operate better. It's health or maintenance people maintain our assets better and to shorten our turnarounds.

AI is helping our commercial people make better decisions faster. It's helping our midstream teams, find methane leaks using satellite data faster. It's -- we're quietly implementing things that are going to be beneficial to our business through AI. And I think we're just touching the tip of the iceberg.

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**Joe Laetsch** - Morgan Stanley & Co Ltd - Analyst

It's great to see the improvements coming through. you spoke on it a little bit earlier, but one of the strategic focuses has been improving the commercial side of the business. I know you've been building out the organization. We saw it at the headquarters last fall. Can you talk about the progress you made on the commercial side, where to go from here?

And what are the signposts we in the results.

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

Absolutely. We've got commercial operations in Houston, in Calgary, London, Singapore, we have a small off in China. We recognized that we had to do a better job on the origination side of things. So we've added two dozen originators out across the planet. They speak the local language.

They know the local cultures. They know where these deals are hidden and how to unlock those deals and bring more value from an inbound perspective. We've got more 100 callers out there looking for better places to capture more value on the disposition of our products. We hired a new head of our trading organization came in with tremendous experience. And he has hit the ground running and he's pushing that organization to higher levels of performance.

And so you're going to start seeing that in the commercial results, but you'll also see it in the capture in refining and the equivalent numbers in midstream because they are working on behalf of those organizations to capture the most value out in the marketplace to find the optimal feedstocks to bring in and the optimal placement of products on the other side and to trade around our assets in a very proactive way to make sure that we're leveraging every stream that we have, every molecule that we have, the shorts that we understand, the loans that we understand to make that all work to the benefit of our shareholders.

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**Joe Laetsch** - Morgan Stanley & Co Ltd - Analyst

That's helpful. So I wanted to shift over to midstream. So this has been one of the key focuses and wellhead-to-water strategy Pinnacle Coastal Bend have been integral to that process. Can you just talk about the strategy at a high level where you are on the process of developing this platform.

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

Yes. The strategy really started when we had PSXP assets that we had built in our MLP. We had our DCP joint venture and there was a disconnect between those assets. And then we recognize that if we had those assets all under our control, we could create this wellhead to market backbone that would afford us the opportunity to take advantage of the growth that we saw continuing in the Permian Basin. And so we executed the DCP rollout. A lot of people were scratching their heads. It took -- it was a difficult transaction to get done, a difficult nut to crack.

And we knew that everybody was watching what are you going to do next? What have you -- where you headed with this? And what we did next was start to build out more G&P assets that could feed into that backbone, acquire assets like Pinnacle that sit right on top of those assets that we were the natural operator that had built a competitive advantage on top of competitive advantages that we've had and drove all that value creation down to our fractionators at wine.

And then the Epic transaction came along. We now call that coastal win. We knew that we -- not only were we adding capacity to fill out our own fractionators in a proprietary way, we're going to need more transportation assets to bring those molecules to our fractionators. We could do what others have done is go up and build another big piece of pipe or we could acquire the pipe that we are already moving some molecules on that had debottleneck capacity. We've already debottlenecked that pipeline once and have another debottleneck I think, to the tune of 125,000 barrels a day that will be done by early 2027.

And so we're not buying assets to be buying assets. We're buying assets that create more competitive advantage for us and more organic growth opportunities for us. So Pinnacle, we bought Pinnacle, there was on G&P asset sitting there in operation with great contracts behind it, footprint for two more. We've executed the second one. It's up and running, and it's flowing into that Epic pipeline.

Out between the Midland and Delaware basins. We've got Iron Mesa, a 300,000 barrel a day gas plant under construction. It's going to take the place of a very old unreliable Goldsmith plant that we had and add additional capacity beyond that and there's more to come in that region as we reestablish ourselves as a premier operator, Goldsmith, no one could put it in the premier operator category.

We had lots of challenges with unsatisfied customers out there. They see the Goldsmith asset as a whole new bond of a new midstream opportunity out there, and now they're bringing other opportunities to us. We've got a lot of demand pull more G&P assets that we're going to add. But we're only going to add assets at the pace where we see the demand for the liquids that will fill them and the gas and we'll fill them. We're not growing just for growth's sake.

We believe that we will hit \$4.5 billion of EBITDA in the midstream business by the end of 2027. That's not an aspirational goal that said, hey, we need to get to \$4.5 billion of EBIT. No, that's not the way we do it. We look at the accretive opportunities that we have in the midstream business and what is the result of executing well on those accretive opportunities and we get to \$4.5 billion. So we're not driven by an EBITDA growth target were driven by creating value for our shareholders and driving accretive returns.

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**Joe Laetsch** - Morgan Stanley & Co Ltd - Analyst

That's helpful. Could you just beyond 2027. So Western Gateway, that's a project that could add to growth beyond that trial you just talk to the interest you received in the project path to reaching FID and how it fits within the overall strategy?

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

Yes, Western Gateway is the epitome of an integrated strategy. we had to have refining involved, we had a midstream involved. We got to have commercial involved. We had to have marketing involved because we've got marketing assets in California. And actually, the idea was originally season generated in ownership development program where we had representatives from all of those parts of the company being developed as future leaders.

And we ask them, instead of just giving them a Harvard Business Review, we said, hey, take a look at the company, we're focused on it. Can you tell us, is there something that we should be looking at? And then you came up with this concept even before we had executed on WRB, even before we had announced the exit of L.A., they said, this looks like a great opportunity, and we ran with it.

Now having full control of WRB and having our own short position because we ceased operations at L.A. made the project just jumped in the front of the queue. And we've been through one open season with our partners at Kindred Morgan. The first open season was successful. It was primarily focused on getting mid-continent shippers providing Kinder Morgan the assurance that we were able to get enough volume to satisfy Phoenix so they could reverse the flow of their system that comes from California into Phoenix. So now they're comfortable with that.

So we're having a second season that says, okay, now we're going to open up the season for flow all the way into California. And we heard in the first round that there were Gulf Coast shippers that would like to participate. So we opened up origination points in the Gulf Coast. It could come up through Explorer and tie into the system that we're developing that open season will wrap up at the end of this month, and then we'll decide how big the pipe needs to be. And if the economics are compelling, we'll proceed.

And we were bullish on those economics. We're going to be one of the primary shippers on the pipeline. And so we believe in the project, it's a matter of getting that open season, getting all the shippers committed and seeing what we can do.

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**Joe Laetsch** - Morgan Stanley & Co Ltd - Analyst

Sounds good. We'll stay tuned. So I want to talk about chemicals for a little bit. margins have been challenged recently. Can you just talk about what you're seeing in the market currently?

Maybe if you go back to Friday, there's a lot of uncertainty in the market currently, how you see the path progressing back to mid-cycle, is it more demand growth driven supply rationalization lay the land.

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

Yes. I'll try really hard to put myself back in Friday mode. But no, it's been a tough market. It's been a tough down cycle. CPChem was built these conditions to survive in these conditions that are actually doing quite well at the bottom of the market versus their competitors.

They've been running at 100% plus operating rates. They've got assets on the Gulf Coast. They've got assets in the Middle East. They're focused on advantaged ethane and the polyethylene and related olefins chains. And it's -- in the 26 years that CPK has been in existence, it's grown faster and more profitably than their competitors.

If you look at the last week view, North American assets, exporting more than 50% of their production running at over 90%. You get to 85% in that business. It's pretty tight, and North America is running at 90% Europe is running at 60% and rationalizing assets. Asia is running at 60% and rationalizing assets, but more rationalization under those conditions, under those scenarios needs to occur. And one thing that we've been talking about even before the current situation is, I'm not sure the world understands the drag on that business that subsidized or submarket crude oil being sold into China has, is the way you look at when you're thinking about pricing and cost in that business, there's a start S shaped cost curve where you've got naphtha producers, they're converting naphtha to ethylene in China, at the high end of the cost curve.

And you've got people that are converting ethane in the Middle East and the Gulf Coast at the low end of the cost. Well, if China is buying crude oil at a 40% discount, a cost curve got it's distorted. In China, people are scratching their heads, they're so aggressive. They're dumping polyethylene in the world markets. They don't usually do that.

Well, it's because they've got this incredible cost advantage and so they're being disruptive and dumping into the rest of the world. And so we were already looking at that saying, that's just a disconnect. That's a dislocation. It's a drag and causing us to continue to be at the bottom of this cycle.

And now all of a sudden, you look at something that's coming into play that could change that. They're not getting discounted Venezuela crude. They're not getting discounted Iranian crude. They're probably still getting discounted Russian crude, but you're seeing refiners in Asia cut back. You're seeing petrochemical assets in Asia cut back. Even the propane dehydro facilities are going to be challenged. And so it's a double whammy.

You're going to see that cost curve maybe revert to where it should be. And then you layer in the supply and demand impact that you're seeing from what's going on in the Arabian Gulf, Persian Gulf is that, production can't get out of, Qatar production can't get out of, Saudi Arabia production can't get out of other locations, is trapped. And so it's going to tighten up supply not just for crude oil, but for polyethylene and in some respects, polypropylene as well.

So you're going to see a cost curve revert and you're going to see supply and demand tightens. So that could be a catalyst that gets us up off of this bottom of the cycle kind of condition. Will it hold and bridge to the next uptick? It could, if it stays in place long enough as global demand keeps ticking upward, people continue to move from poverty to the middle class and demanding more of these products. And so it could be that catalyst that really sets the next up cycle in the petrochemicals business.

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**Joe Laetsch** - Morgan Stanley & Co Ltd - Analyst

Helpful. So maybe just bring it all together, the value of integration has been a key topic of discussion over the past year or so. Can you just talk about the advantages of having refining, midstream and chemicals businesses, all under one roof?

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

Yes, I think it starts with the midstream business. We've got -- we moved crude oil. We moved NGLs, rqw, Y-grade, those two businesses are synergistic. We can manage them together. We realize cost advantages.

They're just in the midstream. But then you -- I think the poster child of our integration is our Sweeny complex, where it all comes together. We've got millions of, billions of barrels of underground salt dome storage capability where we can manage the NGL system. CPChem can

manage their petrochemical system and we can keep things moving and take advantage of markets each and every day. And so there are synergies around understanding the market movements being a global player from that position on the Gulf Coast.

We've got high directional flow from coming out of the Permian into Corpus Christi bidirectional flow on purity products, to Sweeny, back to Corpus Christi all the way up to Mont Belvieu we can play all of those markets for our producers upstream and all those assets are advantaged because of how we manage the whole Sweeny complex. And we've got an export terminal at Freeport, so we can access global markets out of Corpus Christi, out of Freeport and out of Mont Belvieu.

And you look at there in the Sweeny complex, the cost advantages of being able to leverage that midstream presence that refining presence and we got petrochemical assets, three NGL crackers right in our meeting complex that are owned and operated by CPChem. They're producing polyethylene, they're producing other olefin products right there. We've got streams that are going back and forth seamlessly without the friction of vastly different ownership. And we understand those markets and we understand the influence of those markets on the NGL value chain, so we can make better decisions commercially faster.

And it's challenging to put a number on that, and we're working towards being able to discern what we can disclose to describe the values around that, but it may be easier to think about what the value is that would be destroyed if you broke that integrated value chain up. We can take you to a location in Greeley, Colorado and show you a gas plant we have there. And at one end of the gas plant, there are 50 fairly innocuous wellheads.

We're capturing all the gas and gas liquids off of those wellheads, after those liquids sit into the suite, fractionating them at Sweeny and turning the ethane from those streams into polyethylene or definitely in polyethylene pellets at Sweeny and is incredibly efficient incredibly effective, and our partner is the one -- partner in CPChem -- the C side of CPChem owns or wells. And so it's just a very integrated, efficient things happen seamlessly every day. And if you were to break that up into three distinct chunks, that would be a very challenging operation.

Could you pay for it? Sure, you can. But every piece of paper as friction as a point of disconnect as the potential for loss of value for everybody, not just you get value and I lose value. It's just a loss of value. That's what we saw inside Wood River.

Decisions remain slower, we couldn't really look at the full integrated value of running the right crudes at Wood River or Borger because of the things that we could do out at the retail level and capture value. That value is now freed up and we're delivering that. And it's amazing how we're able to optimize better across the board each and every day seamlessly without friction.

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**Joe Laetsch** - Morgan Stanley & Co Ltd - Analyst

I wanted to ask on M&A. PSX has been active in M&A recently. Can you just talk about -- is the portfolio in an optimal place right now as more a deal on either the acquisition or investment in there?

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

Yes. We've divested about \$5.5 million worth of what we deemed noncore assets, high-value assets, but noncore assets that we're generating good EBITDA, but had no growth potential. And we've redeployed much of that capital into the acquisitions that we did primarily midstream, and it was the mirror image of that. We saw assets like clinical that we could acquire and not only get great assets but open up an organic growth opportunity, the Epic pipeline or then the Wood River acquisition.

We got it at a great value from this value if you look at where this are today. And so there's got to be value creation opportunity for us to acquire something. It was great to clean up our portfolio, but it was incredible to be able to redeploy the capital that we freed up into areas that would give us great returns on that capital invested and open up even higher return opportunities from a growth opportunity perspective, primarily in midstream, but we're not shy about refining if we find the right opportunities as well.

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**Joe Laetsch** - Morgan Stanley & Co Ltd - Analyst

That makes sense. So I wanted to ask just on cash flow. Can you talk about how you think about balance between share returns, debt pay down the path to the \$17 billion debt target by 2027. And then buybacks versus dividends, which you just raised and by about 6% additionally.

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

Absolutely. We're rock solid committed to delivering at least 50% of our operating cash flow to shareholders. And we beat that target last year, we beat it for quite some time. And so if you think about that at the consensus numbers for '26 and '27 have us generating about \$8 billion of cash. And so if you think about that \$8 billion, that's -- it's convenient to divide that up by 4, 2, 2.

And \$8 million says you got to give \$4 billion of that back to shareholders. Well, about \$2 billion of that goes to the dividend right away, straight away. And so that means share repurchases are going to be about \$2 billion.

And our capital budget is around \$1 billion. And so that leaves debt repayment around \$2 billion. And so we're targeting around \$1.5 billion in '26, \$1.5 billion of that repayment in '27. And so that's how we look at that and that's how we think about that.

To the extent that we have cash beyond that, we could accelerate the debt repayment and then -- but it's really going to be balanced about where we think our share price is versus the ultimate value of our share price. But we're committed to ratably deliver share repurchases, and we've got models in place that will make purchases based on where we think the share price is versus the ultimate value.

But we know the things that we have in the hopper to create value out in the future. So we can have a line of sight on that and say, hey, this is doing what we know out in the future, this is a pretty good deal to continue to buy shares. So we think we can do both. And we think we're going to have plenty of cash to get the debt down to that \$17 billion level, probably sooner than later and still have upside in share repurchases, delivering cash to shareholders.

And remember, we've got growth capital baked into that budget as well. So we're not just going to say, okay, we're buying these shares and there's no growth out there. We've got profitable growth coming that will enhance its share price as well. So and it's doubly compounded because we're shrinking the number of shares, and we've got growth opportunities that are going to stack on top of that smaller pilot shares going forward.

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**Joe Laetsch** - Morgan Stanley & Co Ltd - Analyst

Perfect. We're a little bit over time, but I think that's a great place to here, Mark. Thank you so much for being here. Really appreciate it.

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

Thanks, Joe. Enjoyed the talk.

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