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# EDITED TRANSCRIPT

PSX.N - Phillips 66 at Piper Sandler Energy Conference

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

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

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

## CONFERENCE CALL PARTICIPANTS

**Ryan Todd** *Piper Jaffray Inc - Analyst*

## PRESENTATION

**Ryan Todd** - *Piper Jaffray Inc - Analyst*

All right. Thanks, everybody. We're going to continue now, shifting to integrated downstream company, with Phillips 66. We've got here -- we're excited to have Kevin Mitchell, the EVP and CFO; and Rich Harbison, EVP of Refining, here with us.

## QUESTIONS AND ANSWERS

**Ryan Todd** - *Piper Jaffray Inc - Analyst*

Maybe let's just jump in and start with the first question for everybody, which is that we might as well start with what's happening in the Middle East, right now. It has ripple effects that are having significant impacts across multiple parts of your portfolio.

Maybe at a high level; and we can touch in more detail later on. But, at a high level, how is what's going on, right now -- how is it impacting your businesses across Refining and across petrochemicals? Can you talk about maybe expectations in the near term; and what the possibility might be for lingering impact, going forward?

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

Yeah. Ryan, let me talk to that a little bit. Thanks for being here. Always a great conference.

First off, I would say that, as a primarily US-based company with mostly US assets and access to hydrocarbon resources in the US, we are relatively well positioned as both a country and as a company, given the extreme turmoil that's going on in the global markets, whether it's crude oil, LNG, refined products, petrochemicals.

And so, from that big picture, while we see a lot of that volatility and turmoil out there, we're relatively well positioned because, if you look from a crude standpoint, we are running, primarily, US crude oil and Canadian heavy crude -- our prime resources.

We are exposed to some import barrels. But that is a much smaller component of the total.

And then, likewise, when you look at the refined product markets, pretty significant implications in other parts of the world, in Asia and Europe, in part, because their access to crude has been significantly restricted, given what's going on in the Middle East.

We're able to continue to produce and supply products to our customers.

In Chemicals, it's an interesting dynamic, where we've come through this period of quite a long down cycle; a trough that has -- we've -- for the last two years, we thought the trough was about to end and it's just continued. And so we see some light at the end of that tunnel, from

that perspective, given reduced pet chems production in the Middle East. It's also coming off in Asia because of restricted access to feedstocks. And so the US producers stand to see some benefit there.

From our portfolio standpoint, about 15% to 20% of CPChem's production is Middle East-based. And so, certainly, that's impacted. But the majority of the production is US Gulf Coast, with ethane feedstock. And so we're seeing some uptick there.

Too soon to say what the long-term impacts of that are but certainly see some benefit, from that standpoint.

I think, as you look ahead, as to what is the longer-term outlook around this, it's a very tough decision to answer because it really comes down to, when does the military activity cease? When do Middle East operations return to normal, in the context of the Strait of Hormuz being back to fully functioning? That's a tough one to answer.

The other longer-term dynamic that's out there -- and, again, we don't know how this plays out -- but we do run the risk that, with elevated commodity prices -- significantly elevated commodity crude oil prices -- on a global basis, that translates into a significant economic downturn, which could ultimately have a pretty detrimental impact on the business because, as you know, in a business like ours, we rise and fall with the state of the economies.

A global recession would be a pretty ugly situation to be in, even though on a relative basis, in the US, we would stand to position ourselves strong -- better than most.

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**Ryan Todd** - *Piper Jaffray Inc - Analyst*

Okay. That's helpful. Maybe I want to follow up on the Chemicals side because I feel like there's probably been -- there's been a lot of discussion around the impact on crude; maybe a little bit less on Refining and probably even less on the pet chem side, even though the impacts are material to what's going on, right now.

We've been stuck in the midst of what felt like a cycle that felt like the cyclical recovery was taking longer and longer and longer and longer. We've been balancing along the trough for a while. The near-term aspects or benefits are pretty significant, as you mentioned some of them.

What does this potentially mean for the cyclical recovery? Is there a possibility that this accelerates the cyclical recovery in any way? Or does it change how you think about the impacts on Asian petrochemicals? Does it do something to lift how you think about the margin over the medium term and how we get out of this, eventually?

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

Yeah. I do think it will provide some benefit, relative to where we were.

Just for context: The situation we've been in for the last two, three, four years, which is one of global oversupply of capacity, relative to demand, demand has not been the problem. It's just there's been so much new supply come on, primarily in China.

China has also benefited by having access to discounted feedstocks. What I mean by that is, over the last few years, they've been buying discounted crude oil from Venezuela, discounted crude oil from Iran, and discounted crude oil from Russia.

They're primarily naphtha-based cracking. And so their input cost is lower than any of the other traditional market players. That's setting that price level.

If coming out of this, as a base case, they're paying market price -- true market price -- for feedstock, that will raise the level of the commodity pricing, just because that floor has been raised because they pay market price for feedstock (inaudible) no longer benefiting from discounted feedstocks.

We still need to fundamentally get global supply and demand back into balance. Some of that will materialize as demand increases incrementally as a percent of GDP. We'll see that.

We still think there's capacity that needs to rationalize because it's uneconomic for the long term.

The light feed cracking, the US Gulf Coast crackers on ethane supply, are extremely competitive, from a cost-curve, cost-positioning standpoint. And so we'll see some benefit.

I don't think we're -- it solves the problem permanently. But I do think it probably gives us a step-change improvement toward a more mid-cycle environment, relative to where we were, previously.

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**Ryan Todd** - *Piper Jaffray Inc - Analyst*

Perfect. Before we get into some of the -- maybe deeper into some of the impacts on Refinery, I want to take a step back a little bit and (inaudible) a high-level view of the company, which is, you've been in the midst of a multi-year process over the last few years of to drive improvements across -- particularly, like, Refining profitability but also capital allocation, cost structure, balance sheet, a number of these things.

You've both been at the company for quite a while. At your level, like, what has changed over the last three, four, five years, or few years? What's changed in terms of the approach to the business or the allocation of capital that's helped some of the improvements that we've seen? Where do we go from here?

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

Maybe I'll give Kevin a break for a second. And then, you can come in on the macro side of that.

I've been in the business for 37 years now, associated with the company. When I step back and see the transformational change that's occurred in the company, it's really fundamental around this concept of integration. It's not just at the molecule level. But it's also at the business operational level.

We used to run the company as, really, separate entities. You had the Refining business. You had the Midstream business. You had the Commercial Marketing business.

Yeah. Was there a little bit of interface here and there? Absolutely.

But we have taken that culture and completely changed that to one that, now, is looking for ways to be better at what we do, each and every day. It's driving efficiencies into our business decision-making at the corporate level; the enterprise level.

We're really seeing a shift to general-interest decision-making, which is benefiting the overall bottom line of the company.

One of the fundamental structural changes that is helping support that was a shift that we made a few years ago to a single-bonus structure for the company. We used to have individual bonuses for each of the business units and then, even subdivided underneath that. Now, it's one-for-all-, all-for-one-type bonus structure, which has fundamentally, again, changed the decision-making process and really pushed us to general-interest decision-making.

Now, one of my, I'll call, career successes is, when we were talking about Refining -- and there was a lot of pressure when I came into the role about, you got to fix Refining, you've got to fix Refining -- well, it became very clear to me very early that to fix Refining wasn't just a Refining issue. Certainly, there were some challenges there. We needed to absolutely improve our performance.

But this is really an enterprise-wide effort that needed to occur. Refining relies on the Midstream. Refining relies on the Marketing and Commercial organization.

It also absorbs a lot of the overhead that comes in from the corporate office. We needed to be more efficient at the corporate level. We needed to be better integrated in decision-making across all of these.

That cultural shift has completed. We're certainly not done with all the efforts that we got to do on this. But we have improved the way we're making decisions and, as a result, getting better general-interest decisions.

Refining (inaudible) a bit of a microcosm associated with that. We used to run each refinery as an individual business unit. We now run it as a fleet.

We have centralized a lot of the functional support around the system, which has driven efficiencies into the business.

And then, we have also that indirect effect -- or direct effect of that has also allowed the management teams that are running the sites to be more focused on operating safe and reliably. We've seen that come through in our performance.

That's also showing through on all the financial components of the business that we're working on. You can see it in there. You see that our cost per barrel has been creeping down. We've seen our utilization numbers creeping up. We've seen our earnings per barrel also showing nice progress. Market capture has been very good.

And so steady, steady progress, as it goes. We're not done yet. That's the most exciting part about all of this is that we've got plenty of opportunity to continue to capture additional market opportunities and integration value, for that matter, as well.

Kevin, do you want add anything else there?

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

I think you've covered a lot.

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**Ryan Todd** - Piper Jaffray Inc - Analyst

On the integration side, I appreciate that you talked about the integrated nature of the decision-making because, having covered the company for a long time, I would say there certainly seems to be a greater coherence in terms of the capital allocation across the entire company.

Maybe one example of that is something like the Western Gateway Pipeline project that you're doing, which has benefits across Midstream, Marketing, and Refining.

Can you maybe talk about the example of that? Like, how is that an example of maybe how the approach has changed a little bit on what the opportunity set is there?

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

Yeah. You love it when a plan starts to come together. This Western Gateway project is really a result of some other critical moves that we are making on the portfolio.

First, we were basically pulling out of the California market, right? We found out that we were not competitive in that market. It was a drag on our earnings portfolio. And so it was the best move for us -- was to withdraw from that market; still committed to supply the market with the barrels coming in because we had a very strong marketing organization and portfolio in that area.

And then, the other second component of that was to really take over the full operation of our Wood River and Borger operations. We bought out that JV and moved to 100% operation of those assets -- and integrating that with our third refinery in that area, which was Ponca City Refinery.

Now, we have this nice portfolio of very strong Refining presence in an area of the country that we are very competitive. We've created a short, essentially, in the area on the West Coast.

The natural next step is, let's fill that void and let's do it on an integrated basis. A small team of folks got together. They put a lot of thought to it. They came up with this concept of this pipeline operation into the West Coast from the Mid-Continent area.

And so you're now connecting the energy corridor -- and even in a market that can be long at times -- with the energy island of the West Coast. We're currently working through that process, right now.

We're in the second open season for this project. We've opened up the aperture on it a little bit. It was originally a pipeline from St. Louis to Phoenix and then, from Phoenix to Colton, which is Southern California. There was a lot of interest in that. But there was more interest from folks to see if we could get actually into the heart of Los Angeles distribution system.

We opened up a second season to extend the delivery into Central LA -- the Watson area, if you're familiar with that; and also opened up origination location from the Gulf Coast, which was also a lot of feedback we got on the first open season.

That second open season is in progress, right now, and should close here March, April, early April timeframe. We're very hopeful. We've got a lot of positive interest in this. We're very hopeful that this eventually moves to a final investment decision somewhere (inaudible) second, third quarter of this year. And then, we will be in a position now to supply from our core assets in the Mid-Con to the West Coast.

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

I would just add that, the way the company was run previously, I'm not sure we could have come up with this project and gotten it to where it is because, by its nature, this is an integrated project. Ultimately, we'll see benefits in Refining, in Midstream, and in Marketing so all of our primary operating segments will be beneficiaries of a project that I'm not sure we could have done it in the old world, when we were very much silo-focused and nobody was incentivized to come up with integration opportunities.

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**Ryan Todd** - *Piper Jaffray Inc - Analyst*

Thank you. I want to touch on a couple of other -- a couple of quick things on Refining. We came into the year at the start of the year and it was all Venezuela, all the time, right? It was -- one of the biggest themes in Refining was widening of crude differentials, right? There's going to be crude diff more (inaudible) Venezuelan barrels; heavy, medium (inaudible) differentials are going to widen out.

The current issues in the Middle East probably have somewhat of an opposite effect on crude diff. How do you think about these balancing factors? Where are we going in terms of crude differentials from here? How do you think about how that impacts your system in your portfolio?

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

Yeah. Maybe what I'll do is -- let me start. There's a lot going on, right now. Let's start with -- let's set the Middle East activity aside for a moment. I'll talk a little bit about how we saw -- the supply and demand balance is working out here over the next -- this year and next year.

With the Middle East activity set aside, we saw strong crude deliveries, strong crude supply, into the marketplace. We also saw strong distillate and jet demand through the system.

We saw gasoline flat in the US, maybe slightly growing worldwide. There was a little bit of growth on the gasoline front.

In Refining, we saw Refining capacity that was tight; but new plants on -- still going through some start-up; and some additional capacity in Asia coming on on the back half of [2007].

When we look at all of those, very bullish on Refining because Refining was a bit of the bottleneck in that whole supply chain for transportation fuels.

Now, let's layer in the current activity. This year has been really a tale of two tapes:

Originally started with the Venezuela action, which, for us, increased the heavy crude supply to the market in North America. That put pressure on the crude -- the heavy crude -- price. It opened up the heavy-light spread on crude.

We saw that. It was starting to move from [2000] -- or 2025, it was running around \$12, \$13. It started moving up into the \$13, \$14 range and maybe even into bouncing off the \$15 range, when the Venezuelan crude came on the market.

Now, the activity occurs in Iran, the Middle East, that closes off the Saudi barrels coming into the market with the medium sour and heavies that basically reversed that activity with Venezuela. We saw the heavy-light spread then move back to essentially where it was last year, 2025, in that \$12 range.

Hopefully, this is short-lived, right; and this activity eventually solves itself out. The Strait gets reopened here in the not-too-distant future.

There's been no significant impact to the global GDP. Things start to iron out to back to where we were projecting them, where these barrels start coming on to the market. We see the heavy-light spread open up a little bit more, which is very favorable for our kit that we operate; puts some pressure on the Western Canadian select crude, which we think the incremental barrel clears through the Gulf Coast because the TMX to the West pipeline is essentially full.

Those barrels are clearing to the West Coast. With the Venezuela barrels coming in and the Saudi barrels coming in, we see pressure on that heavy-light spread, which is favorable to our Refining kit, which also plays into the heavy distillate and jet demand because this crude definitely shifts your profile -- your yield profile -- to distillate and jet, as well.

It all comes together nicely for us with the way we see it over the next two years.

**Ryan Todd** - *Piper Jaffray Inc - Analyst*

Maybe one last thing before we leave Refining: There's been chatter in the news over the -- on and off over the last week about possible export bans or lifting of the Jones Act.

What are you seeing? What do you think about the possibility there? Are these real possibilities? If so, what would be the impact?

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

Yeah. Well, who knows what's possible? I don't want to predict politics. That's for sure. There's a reason I'm not in politics.

But, if -- we've been through the no-export scenario just not too terribly long ago, under the previous administration. There was a lot of talk about no more exporting products or -- and I think we were successful in educating the administration on the total impacts of that. We will do the same thing with the current administration, if that's one of the proposals.

The Jones Act, it's a real possibility, right? That is one that essentially opens up more marine equipment available to ship supplies around in the US. The markets that will benefit from that will be the ones that are generally short product, right?

You got the West Coast and then, you've got the East Coast. The barrels would move into those markets, likely out of the Gulf Coast is where that would come. It makes a lot of sense to move that around.

However, there's always been traditionally very strong resistance to any significant Jones Act waivers because of the underlying points of view on that particular act. There's also been some talk around RVP waivers and things like that. We'll see how that all plays out.

But, when you have to rack and stack the options that are in front of the administration, you're likely going to see the ones that administrative executive orders can take the action first. That would be the Jones Act or the RVP activity.

And then, it gets increasingly more difficult because you have congressional action required for some of the other things that are on the list. That is more and more unlikely that that would occur.

**Ryan Todd** - *Piper Jaffray Inc - Analyst*

Shifting to Midstream real quickly, you've got a target to hit \$4.5 billion in EBITDA by the end of 2027. Can you talk about how you think about the drivers and the risk of hitting that number?

And then, you haven't talked a lot -- you certainly haven't provided targets -- but you've got a decent amount of organic growth opportunities that should provide continued growth in the Midstream business well beyond 2027.

Maybe, how confident should we feel in hitting the \$4.5 billion number? How do you think about the opportunity set, post-2027?

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

Yeah. We feel very good about the \$4.5 billion target. That's an end-of-2027 run-rate adjusted EBITDA for Midstream. We were at essentially \$4 billion end of 2025.

We have organic projects in flight that will get us to that number between the -- we brought a new gas land (inaudible) last year. The Dos Picos II plant will be up to a full-year contribution of that facility in 2026.

We have another gas plant under construction, the Iron Mesa plant, that comes online early 2027.

We're expanding the Coastal Bend pipeline. We acquired the Coastal Bend system, formerly known as EPIC, that NGL system, in early 2025. We've completed a first-phase expansion of the NGL pipeline at the end of last year. We're undergoing the second phase of expansion that we'll complete by the end of this year, early next year.

We continue to evaluate additional gas client opportunities, as well as additional frac capacity. Our most likely next frac expansion project would be on the Coastal Bend system at Corpus Christi. That will be the most capital-efficient frac expansion that we can do.

Now, to be clear, that wouldn't be part of the \$4.5 billion. That would go beyond that. I'm blending into some of the opportunities that we see, as we go beyond at 2027.

But, with the capital budget we have this year of growth capital for Midstream, \$700 million budget, we expect it to be about that level for the next couple of years, at least. That will get us to the \$4.5 billion, as we continue to, also, from a commercial standpoint, optimize the flow of molecules around the system and maximize the margin uplift in capture that we can across that full NGL value chain.

And then, as you look beyond 2027, post the \$4.5 billion, if you assume about a similar level of capital spend -- and to be clear, it's not a given that that amount of capital is available to Midstream -- but if they have the right projects, the right opportunities, that -- remember, our priority here is not growing for the sake of scale. It's growing to increase the returns on capital employed in that business.

All of these projects we do, the ultimate benchmark is, is this consistent with our objective to grow return on capital employed? But, with the opportunities we see -- you look at projects like Western Gateway, that is further out; that would be a 2029 completion on the assumption that project goes ahead.

We feel very good that there is line of sight to continued ratable growth in Midstream earnings, not anything dramatic in terms of significant increases in capital but just continuing to work away on additional gas plants; pipeline expansion; frac capacity; Western Gateway; and then, optimizing around the entire system.

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**Ryan Todd** - Piper Jaffray Inc - Analyst

Right. Thank you. I think that's all the time we have.

But Rich, Kevin, thanks so much for being here.

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

Thank you.

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

Thank you.

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