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OVERVIEW:

Company Summary

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

Brian Mandell Phillips 66 - Executive Vice President of Marketing & Commercial

Richard Harbison Phillips 66 - Senior Vice President - Refining

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John Royall JPMorgan Chase & Co - Analyst

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PRESENTATION

Operator

Welcome to the First Quarter 2025 Phillips 66 earnings conference Call. My name is Emily, and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

I will now turn the call over to Jeff Dietert, Vice President, Investor Relations. Jeff, you may begin.

Jeff Dietert - Phillips 66 - Vice President of Investor Relations

Welcome to Phillips 66 earnings conference call. Participants on today's call include Mark Lashier, Chairman and CEO; Kevin Mitchell, CFO; Don Baldridge, Midstream and Chemicals; Rich Harbison, Refining, and Brian Mandell, Marketing and Commercial.

Today's presentation can be found on the Investor Relations section of the Phillips 66 website, along with supplemental financial and operating information. Slide 2 contains our Safe Harbor Statement. We will be making forward-looking statements during today's call. Actual results may differ materially from today's comments. Factors that could cause actual results to differ are included here as well as in our SEC filings.

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

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

Thanks, Jeff. Welcome, everyone, to our first quarter earnings call. During the quarter, we continued to execute on our transformational strategy and deliver returns to our shareholders. By staying focused on what we can control, we made important progress across our 2027 priorities -- improving refining operations, enhancing our NGL value chain and executing on our growth opportunities.

Underpinned by the strength of cash flow contributions from our midstream business, we returned \$716 million to shareholders this quarter. We did this in a challenged macro environment in refining renewables and chemicals. We also executed one of the largest spring turnaround programs in the history of Phillips 66 that impacted volumes and margins.

These important investments position us well for the future. While our results reflect the challenges of this environment, our ability to return significant capital to shareholders demonstrates the strength of our integrated business model. We remain focused on strategy execution, disciplined capital allocation and cash returns to shareholders.

Slide 4 shows how we continue to improve refining operations through targeted low-capital, high-return projects. These recent investments lead to greater feedstock flexibility and yield. Before I touch on some of these projects, I want to highlight the success of our spring turnaround program, which was completed safely, on time and under budget.

Furthermore, our refineries not in turnaround this quarter ran well. These accomplishments would not have been possible without our employees' unwavering dedication to operating excellence and safety. Thank you to the Refining team. Well done.

The bulk of the annual turnaround activity and associated costs are largely behind us, which you will see reflected in our guidance going forward. We are well positioned to capture upside in the market for the remainder of the year.

During this quarter's turnarounds, we achieved meaningful project milestones. At the Sweeny refinery, we removed constraints and enhanced crude flexibility. We now have an additional 40,000 barrels per day of heavy light crude switching capability. Depending on market conditions, we will run additional Permian barrels, displacing imported heavy crudes. We expect this flexibility in a rapidly changing price environment will enhance long-term margins at this strategic refinery.

Also, at our Bayway facility, we completed a project that increases our FCC native feedstock capabilities reducing the need for VGO imports. Both of these low capital and high-return projects are enabling us to enhance market capture. We're committed to our refining business. We have a clear path to increase operational run time improve yields and reduce cost per barrel.

Moving to Slide 5. Midstream is critical to our integrated strategy. It's a key growth driver and creates ongoing value for shareholders. We've made disciplined investments to build out our integrated wellhead to market strategy, a strategy that allows us to efficiently move products from the wellhead to high-value end markets. This strategy provides significant stability to our financial results and adds material benefits to other segments.

Our value chain creates optionality in product placement and supports reliable, long-term cash generation. We acquired EPIC NGL on April 1, which is immediately accretive and expands our takeaway capacity from the Permian. The acquired assets are highly integrated with the existing Phillips 66 asset base and provide long-term fee-based earnings growth.

This acquisition enhances our ability to offer producers unmatched flow assurance while expanding connectivity to end markets. We also continue to expand our natural gas gathering and processing footprint in the Permian Basin.

Our ADOS Pecos two expansion plant, which was part of our Pinnacle acquisition strategy, is expected to come online in the third quarter of 2025. Today, we're announcing the construction of another gas processing plant in the Permian.

The Iron Mesa plant will serve Delaware and Midland Basin production and will be funded within our existing capital budget. The facility is expected to come online in the first quarter of 2027. Both of these projects are great examples of our highly strategic and selective investments at lower build multiples.

They contribute to our plan to organically grow Midstream run rate adjusted EBITDA to \$4.5 billion by 2027. At Phillips 66, we've embraced a culture of continuous improvement and have taken decisive actions to create long-term value for our shareholders.

Slide 6 shows some of the achievements over the past three years. We have divested more than \$3.5 billion of noncore assets at high multiples while making strategic acquisitions within midstream at attractive multiples to build a world-class NGL value chain.

In Refining, we are improving competitiveness by optimizing our assets to align with long-term demand trends. We've made operational improvements throughout the portfolio, and we've rationalized our footprint with the sale of Alliance, conversion of Rodeo and plan to cease operations and repurpose the land at Los Angeles.

We have taken steps to execute on our transformational strategy, and we will do more. We remain committed to maintaining safe and reliable operations, investing in high-return growth opportunities, and capturing integration benefits. We will return over 50% of net operating cash flow to shareholders through share repurchases and a secure, competitive, and growing dividend.

Demonstrating this commitment, we recently announced a \$0.05 per share increase in our quarterly dividend. Since our formation in 2012, the annual dividend has increased every year, resulting in a significant 15% compounded annual growth rate. We have delivered over \$14 billion to shareholders since July 2022.

We will continue to create long-term value for shareholders as we execute on our 2027 strategic priorities -- maintaining operational excellence, pursuing disciplined growth, returning capital, and ensuring financial strength.

Now over to Kevin to cover the results for the quarter.

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

Thank you, Mark. First quarter reported earnings were \$487 million or \$1.18 per share. The adjusted loss was \$368 million or \$0.90 per share. Both the reported earnings and adjusted loss include the \$246 million pretax impact of accelerated depreciation due to our plan to cease operations at the Los Angeles refinery at the end of 2025.

The adjusted loss excludes the \$1 billion pretax gain on disposition of our non-operated interest in Coop. We generated \$187 million of operating cash flow and returned \$716 million to shareholders, including \$247 million of share repurchases. I will now cover the segment results on slide 8. Total company adjusted loss increased \$307 million compared with the prior quarter.

Midstream results decreased mainly due to lower volumes because of the turnaround activity in Refining. This was partly offset by the impact of higher commodity prices benefiting gathering and processing results. Also during the quarter, the Sweeny Hub had record fractionation volumes of 650,000 barrels per day.

In Chemicals, results increased mainly due to higher volumes and lower costs, driven by turnaround activity in the prior quarter. Lower refining results reflect the impact of lower volumes and higher costs, driven by turnaround activity and higher utility prices. This is partly offset by increased realized margins from higher market cracks.

Marketing and Specialties results improved due to lower depreciation and higher margins in the international business. In Renewable Fuels, results decreased mainly due to the transition from blenders tax credits to production tax credits, inventory impacts and lower international results.

Slide 9 shows cash flow for the first quarter. Cash from operations, including working capital, was \$187 million. We received \$2 billion from the sales of the non-operated equity interests in Coop and the Gulf Coast Express Pipeline. We paid down \$1.3 billion of debt and returned \$716 million to shareholders through share repurchases and dividends. We funded \$423 million of capital spending. Our ending cash balance was \$1.5 billion.

Looking ahead to the second quarter of 2025 on slide 10. In both Chemicals and Refining, we expect utilization rates to be in the mid-90s. In Refining, we expect turnaround expense to be between \$65 million and \$75 million. We anticipate corporate and other costs to be between \$340 million and \$360 million.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Doug Leggate, Wolfe Research.

Douglas George Blyth Leggate - Wolfe Research, LLC - Analyst

Mark, obviously, there has been a lot of dialogue, a lot of backwards and forwards between yourselves and Elliott regarding the right structure for the business. I guess my question is, I had an opportunity to chat to you about this a month or so ago. And our understanding at least is you guys have looked at a lot of these proposals before and made decisions that are perhaps different.

I wonder if you could share the extent of which you did look at some of these ideas that they're putting forward, for example, separate in the Midstream and kind of rationalize why you came to a different outcome. I think everyone would probably like to hear your perspectives on that. I've got a quick follow-up, please.

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

Sure, Doug. I welcome that question. And I think when we're talking about strategic alternatives or the strategy that drives the company forward, it really is important to understand the mindset of our Board. And we've got a strong board. We've got talented board members that have deep experience. Many of them have deep experience in Refining and Energy.

And they have high expectations for us when it comes to preparing and delivering strategic alternatives for them. And they expect a very detailed and diligent overview of all the options available and they want to fully understand the risks and the unintended consequences of any strategic actions that we might recommend. In fact, they want to understand the risks and the unintended consequences of not making strategic actions as well. So it's very comprehensive.

And it's not just some simple high-level spreadsheet that they might rubber stamp. They are -- I would put them in the classification of brilliant. They ask tough questions and they deeply accountable. And my experience with the Board really goes back to when I came back to Phillips 66 in 2021, and I was asked to prepare the strategic materials for our fall deep dive into strategy.

And what we did is we took the Board through scenario planning because if you remember back in '21, all the rage was net zero 2050 -- and so we span the whole spectrum from net zero 2050 to a scenario where the world realized that there was a strong need over the long term for hydrocarbons. And we established milestones to track and this analysis informed our strategic alternatives that then we did a deep dive on with the Board members.

And we've reviewed all of those options and refreshed our views on those options in the subsequent years. And I would say every Board meeting, the Board asked us strong questions around the strategy and the implementation of the strategy, what's changed, what's new should we move this way or that way. And we talk about our stock valuation and the evolving market conditions and the strategic alternatives. And we do this every Board meeting.

And then in the fall, again, we'll take them into another deep dive to review what's changed since the prior year. What is our most recent view of where we stand in those scenarios? And I'll tell you that one of the underlying principles of every discussion is that everything in our portfolio is for sale at the right price.

But the Board expects us to understand the full consequences if we should dispose of an asset or spin out a part of our company that they want to understand what's the impact on the remaining assets? What's the impact on the remaining company? What are the unintended consequences, where are all the financial impacts.

And I'd say that some of the parts is a part of that discussion, but it's not always the total driver of that discussion. One thing that we've learned, and I believe many of you observed this as well is that really, when you talk about the multiple a company realizes in the marketplace, it's really correlated strongly with earnings volatility, and that's why the Midstream business has become such an important part of our business. It generates very steady earnings, and we've grown those earnings quite quickly from right around \$2 billion of EBITDA a year to \$4 billion and increasing.

And so -- if there was a spin-off opportunity for that business, I will tell you that our Board would be the first ones to challenge us to take a look at that, and they have challenges to take a look at that. When you step back and look at our Board, the people that we have on our Board and the two new nominees that we have amongst them, they've overseen more than \$300 million in major separation transactions during their careers. This includes sales and spin-offs. So Phillips 66 itself was the result of a spinoff.

So John Lowe, one of our key members has -- was involved in that, and he was one of the architects of the spin-off. You've got the DowDuPont's three-way breakup into DowDuPont, and Cortiva, our nominee Howard Hunger leader. He was one of the architects of that and was right in the middle of all that and the decision-making there.

You look at United Technologies, that was a conglomerate that was broken -- it went through a three-way breakup into Carrier, Otis and RTX, Greg Hayes was the architect of that. And Abbott Laboratories spin-off into AbbVie. Glenn Tilton was right in the middle of that as well.

So I would say that a few -- if any Boards in this country have more experience in executing such transformational transactions than the Phillips 66 Board, they know how to do it when it makes sense, and they're challenging us every step of the way to explain to them what makes sense and what doesn't make sense.

And I mentioned the split up of United Technologies, a conglomerate. That word has been used in the same sentence as Phillips 66 -- and the first time I heard that, I thought, well, I thought I knew what a conglomerate was, but I better look it up to be sure.

When I looked it up, there was nothing there that resembled Phillips 66. We -- our hydrocarbon transporter and processor. We gather and transport hydrocarbons from the oil fields or from imports, and we move those through our transportation assets, and we convert those materials into high-value products that you use every day.

And whether it's the crude value chain or the NGL value chain, it's very synergistic, and we're in the business of managing molecules, optimizing them every day. And if you look at what we have down at our Sweeny complex, all of those value chains come together in a deeply integrated way, whether it's the fractionators where we've got massive fractionation capacity.

We've got -- we've got 260,000 barrel per day refinery, 550,000 barrel per day fractionation capacity. There's three ethane crackers on that site owned and operated by CPChem. We've got 37 million barrels of capacity in 23 salt dome caverns that are Clemens Dome, and we've got direct access to Freeport export terminals.

And -- we leverage that infrastructure. We leverage it in an integrated way every day, moving the molecules where they can create the most value. And we've got a commercial organization that trades around that information every day. So there is no hint of conglomerate in what we do. And if you look at the potential of the spinoff businesses, the Board also asked us to bring in third parties to get a cold eyes review of what we do.

And we've hired the best investment banks out there to look at strategic alternatives. And when you look at the midstream monetization specifically, the third-party independent analysis will tell you that there are incredible dyssynergies based on that deep physical integration that there's massive tax burden that any spin would realize and that there are economies of scale.

We've got a very strong balance sheet as an integrated company. The balance sheets of RemainCo and SpinCo would be impaired compared to what we have today. You throw additional SG&A on those remaining businesses. In the public company costs, none of these things are fully reflected in a simple sum of the parts analysis. And so we take that into account and we make sure that our Board understands every step of the way and it's verified by independent parties.

And then if you look at just -- you just heard in our narrative that the accomplishments we've had over the last three years, the Board was front and center in all of those decisions. We took bold actions to make sure that we are in a position to be successful over the long term. The \$3.5 billion of noncore assets -- the only way we could define noncore assets is to have a well-defined strategy that was blessed by our Board. That's how we define what is core and what is noncore.

We expanded our NGL wellhead to market strategy with the Pinnacle and EPIC acquisitions fully supported by our Board. We sold the Alliance Refinery. We converted Rodeo and we have planned to cease the Los Angeles refinery. Every one of those major strategic actions have been deeply considered, vetted, and approved by our Board.

In refining operations, we've improved utilization. We've raised clean product yield and reduced operating costs over the last three years. and we have plans for further progress, again, part and parcel of our conversations with our Board every time that we meet every action that we take. And because of all these actions that we put in place with the blessing of our Board, we believe there's substantial upside to our stock as we implement our 2027 strategic priorities.

And we're going to maintain operational excellence. We're pursuing disciplined growth, and we're returning capital and ensuring financial strength. And I just finally -- the final point I want to make -- be crystal clear on is we're making the strategic decisions at the Board level as we're making operational decisions at the operating and management level, we are focused on data. We are focused on facts; we don't act out of fear or short-term trends. We act on what we believe will create the most long-term value for our shareholders each and every time.

And I will tell you that -- since the activist launched their campaign in February, the investor sentiment around their thesis has become more and more negative and they become more and more positive around the process that -- or the progress that we've made in our refining in all of our businesses. And so we believe we're in a strong position. We're committed to it and we're going to base it on data and facts going forward. So Doug, thank you for that question, and I look forward to your follow-up.

Douglas George Blyth Leggate - Wolfe Research, LLC - Analyst

Well, I think -- first of all, Mark, thanks for the thorough answer. I think I've taken enough time. I want to be respectful to my sell-side colleagues. So I do have a follow-up, but I'll pass it back.

Operator

John Royall, JPMorgan.

John Royall - JPMorgan Chase & Co - Analyst

Tough to follow that back and forth, but maybe I'll go with a balance sheet question. So you're remaining well above your target at 38%. You got the big turnaround quarter for the year in the rearview and you also have a potential asset sale coming, which is good but also the macro environment remains uncertain. So my question is, what do you view as your path to getting back to 30%? And does the path include maybe buying back a little less stock than your framework would otherwise imply?

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

Yes, John, it's Kevin. Let me respond to that question. It's a very valid question. It's one we put a lot of focus on -- we have targets on leverage, the 30%. The real target that I focus on is the \$17 billion absolute debt level.

That's what I'm and the 30% becomes an output because it's a measure of debt and equity, as you know. And so our expectation is that between the cash that comes in from disposition of assets and some improvement in the overall operating environment from where we were in the fourth quarter and the first quarter, combined with in Refining now being very well set for the remainder of the year to run at high utilization and you combine that with some margin recovery, which we have seen as you look into April, we're seeing margins that are sort of \$3 to \$4 per barrel higher than where we were on average in the first quarter, then that should position us quite well in terms of being able to make progress on debt reduction.

I'd love to hit that \$17 billion number by the end of this year. I can't guarantee that will happen. It will be dependent on where operating cash flow comes out. But the overlay here is we're still committed to the 50% or more cash returns to shareholders in terms of operating cash flow. So that's the sort of basic criteria around returning cash to shareholders, 50% or more of operating cash flow and at the same time, through hopefully strong cash generation and proceeds from asset dispositions be able to make progress on debt reduction.

John Royall - JPMorgan Chase & Co - Analyst

Great. And then my next question is on renewables. This was a little bit of a noisy quarter with the PTC coming into effect mid quarter. Can you help us really as detailed as you're willing to be on what the post-PTC world kind of looks like in your renewables business. If you could give us any kind of sense for maybe the proportion of production that's eligible and how much you expect to receive on a per gallon basis based on your current feedstock slate, that would be very helpful.

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

Yes, John, let me first just clear the first quarter result because that was a -- it was somewhat of a messy result, to be honest. And let me just walk through what drove that and then Brian will give a bit of the sort of forward expectations around it.

So we had a significant drop from fourth quarter to first quarter. The transition from BTC was a significant impact. It was the largest driver of that drop. But we also had LIFO inventory impacts from drawing down low CI feedstock inventory where the LIFO rate exceeded market prices. That was about a \$60 million hit in the first quarter.

And then also in international, the recognition of the UK credits, these are the RTFC credits is not ratable. So we recognized about \$50 million of those in the fourth quarter. We did not have any credit recognition in the first quarter. And so when you put all those things together, you get back to why the result was where it sits. So maybe Brian can give a forward look.

Brian Mandell - Phillips 66 - Executive Vice President of Marketing & Commercial

So I would say it's hard to provide guidance for Q2. And you can tell I'm missing my voice, so I'm going to try as hard as I can. But with so many outstanding policy issues, including the tariffs and the RVO for RINs that hasn't been set yet, it's difficult, but we believe the RVO will need to strengthen the DRI or the biodiesel in to continue to provide an incentive for RD production and margins continue to be challenged even in April and the current market has us running the plant at reduced rates.

And in terms of tailwinds, there are some tailwinds. We were seeing our biodiesel plants closing given the tight margins, and we've also seen demand for renewable diesel permitting, and that's a seasonal firming of demand. And finally, we look forward to collaborating with the administration to support US manufacturing by addressing the unintended consequences of tariffs on feedstocks, given international RD imports to the US are untariffed, which disadvantages domestic producers like Rodeo.

Operator

Roger Read, Wells Fargo.

Roger Read - Wells Fargo Securities - Analyst

Maybe just to kick this off, update on where you are on kind of final asset dispositions. I think there's still some stuff in retail, maybe something in the midstream space.

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

Yes, Roger, it's Kevin. So as you know, we've done \$3.5 billion of dispositions to date. So we're ahead of the target that we laid out back in almost a couple of years ago, I guess, the major item we're still working is the Europe retail, so the Jet, Germany, Austria, that is a very active process. And I know I've said this several times, but we are legitimately in-depth negotiations on that and hope to have some updates soon.

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

Yes. As far as -- this is Mark, as far as other asset dispositions, we have other assets that we would define as non-core, non-operated assets. Many of them are in the midstream, we're not going to name any specific assets. But certainly, we know what the value of those assets are, and we know that there are potential buyers out there.

Roger Read - Wells Fargo Securities - Analyst

And as a follow-up on that, how should we think about the use of cash flows or cash raised, I guess, maybe I should say, from those asset sales at this point. Do you see it, Kevin, as you were talking earlier in terms of return of capital to shareholders? Or is most of this targeted for debt reduction?

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

I would expect most of this to be debt reduction. And think of the cash returns to shareholders being the relative to operating cash generation. So a different part of the cash flow statement driving the cash returns.

Roger Read - Wells Fargo Securities - Analyst

Okay. And then if I could just toss in one more if that didn't count as my follow-up, Jeff, I apologize if I'm violating the rules. But heavy maintenance Q1 in refining very low in Q2. Were you essentially wrapped up as we started Q2? Or is there a little lingering into Q2 that we should think of within that mid-90s guidance.

Richard Harbison - Phillips 66 - Senior Vice President - Refining

Yes. This is Rich, Roger. Thanks for the question. The Q1 was the heavy concentration of the turnaround activity. And you can tell by the guidance that we provided for the second quarter there that there is a little bit of linger that comes from quarter-to-quarter, but it's certainly winding down in the second quarter, and you see that in the overall guidance.

Operator

Manav Gupta, UBS.

Manav Gupta - UBS Investment Bank - Analyst

Can you help us better understand how some of these LPG exports will have to reset to accommodate around tariffs because I think you were sending like 48% of our ethane to China and about 22% of propane to China. So how do these NGL exports now reset globally to work around the tariffs?

Brian Mandell - Phillips 66 - Executive Vice President of Marketing & Commercial

Manav, this is Brian. I'd say like you said, the majority of China's LPG supply, which is primarily propane comes from the US tariffs will likely alter those routes for Chinese LPG supply, it's possible that China could get their supply from the AG, from Australia, from Southeast Asia. And then the US will just supply, it will backfill the hole left by those reasons just rerouting trade flows.

And maybe bringing it back to our assets, our Freeport LPG is mostly termed up, and we haven't seen any FOB cancellations for cargoes. We also have a strong international trading team and that they manage delivered cargoes, which allows us to capture additional value and optimize the Freeport exports when we see changes to fundamentals or when we have market dislocations, like those caused by tariffs.

Manav Gupta - UBS Investment Bank - Analyst

Perfect. My quick follow-up here is on the polyethylene chain margin. It was weaker even before the tariffs were announced. And again, some portion of polyethylene reason definitely moves to China, made into products, and sold back into US. Those flows cannot be sustainable with the tariffs. So you're out medium-term outlook for the polyethylene chain margin here.

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

I think that there certainly is pressure from the tariff situation. Purchasing decisions are going to be impacted. I do believe that CPChem has minimized their exposure to China. And they've also -- they've got the ability to source material from the Middle East, similar to the propane discussion. And so there would be rebalancing. But -- no, it's certainly that clear that tariffs do -- the uncertainty around tariffs causes people to slow down their decision making, you see that across the economy.

Operator

Neil Mette, Goldman Sachs.

Neil Mehta - Goldman Sachs Group, Inc. - Analyst

I appreciate the thorough answer to the question around some of the parts. Kevin, I had a follow-up for you around the midstream side of the equation because that's where I think there's been a lot of focus around you built a good business, does it make sense to try to monetize it.

And I think you made a comment that there's significant tax leakage around monetization. Is that in the case of in as well? And then can you provide a little bit more detail or help us quantify a framework for thinking about tax leakage associated with Midstream monetization.

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

Yes, Neil, the tax hit is in the context of a sale of the business. A spin-off you would expect would be structured in a tax-free manner. And so I would expect minimal tax implications from a spin. But in terms of an actual disposition of the business, it is a significant tax effect because the majority of those assets were constructed or acquired during a period where we had accelerated depreciation.

So the tax basis is extremely low. So just to put some context around that, you can -- depending on what number you use for valuation, and there's a \$50 billion number that's out there that would drive a \$10 billion tax hit to sort of quantify what we mean by significant tax impacts.

Neil Mehta - Goldman Sachs Group, Inc. - Analyst

Got it. And then there's no clear offsets that you could put against that, it sounds like?

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

Not that I'm aware of.

Neil Mehta - Goldman Sachs Group, Inc. - Analyst

Okay. All right. And then the follow-up for the team is really on the refining side. It's obviously challenging conditions in Q1 but are going to be running better here in Q2. Just love your thoughts on the path back to mid-cycle. And one of the factors that suppressing profitability has been the tightness of WCS -- just how do you guys see that moving from here as we work through turnaround? And can that be a tailwind?

Brian Mandell - Phillips 66 - Executive Vice President of Marketing & Commercial

Neil, it's Brian. I'll try to get this out. Just on market outlook and maybe the caveat is geopolitics and the slowing economy make everything hard to predict. But what we've seen, Kevin has mentioned this, US margins in April are firming a good bit, and you can see that in our market indicator.

We're estimating about 1 million barrels worth of global refining capacity shutting this year, and most of that rationalization will be in the US and in Europe. And in fact, if you look out through the end of the decade, we only show about 300,000 barrels a day of net additions per year, and we're likely to see that number to continue to decrease.

But on gasoline, we're forecasting global gasoline demand to be about 0.5% up for the year and US gasoline demand to be up about 1%. And -- if you took a look at first quarter, that was 1.1% year-on-year growth in the US. Lower pump prices, good unemployment numbers, less working from home, all contributed to that strength. US gasoline inventories are now currently at about five-year averages.

And our current gasoline supply outlook is for those inventories to continue to tighten, particularly as we get in gasoline season and particularly in the US. On the distillate side, we see demand globally up about 1% and in the US, up about 2% for the year. Part of the demand increase will come from lower biodiesel and renewable diesel production driven by the weaker renewable margins.

And also there's a shift to Mediterranean ECA fuel in May, which will help US diesel inventories are really sitting at very low five-year seasonal lows in part due to kind of ongoing maintenance, both in the Gulf Coast and in the Mid-Con. And then finally on Jet. At 1Q '25 global jet demand was up about 2.3% year-on-year. We're forecasting 2025 global jet demand to be up 2%.

I know a lot of the airlines have talked about they can't predict for the rest of the year in some ways, if you think there's going to be a recession or more tariffs the bets are off. But this is -- you don't think those things are going to happen. This is kind of our view. And we're starting to see trimming of near-month flights. So it's really hard to tell.

US jet demand, 1.4% up -- that's from fleet and flight schedule growth. Again, it's very, very difficult to tell. And then on the -- you mentioned on the Canadian differentials. In Q2, we anticipate about 315,000 barrels a day off the market, mostly driven by planned maintenance and production facilities.

And then as you kind of look across the year, we see differentials start to widen out. You'll get the seasonal benefit of diluent in the product. And also, you'll get more OPEC barrels on the market, which will also help weaken the heavy differentials.

Operator

Theresa Chen, Barclays.

Theresa Chen - Barclays Bank - Analyst

I wanted to go back to the NGL conversation. There are some material circulating about a carve-out for NGLs within the Chinese reciprocal the reciprocal tariffs. Do you have an early view on this, especially for ethane and in the event of additional downside volatility for NGL prices in the Gulf Coast? How is your business positioned within the backdrop of potentially lower LPG back spreads and OP margins in processing?

Brian Mandell - Phillips 66 - Executive Vice President of Marketing & Commercial

Well, I think, first of all, most of our business is termed up at the Freeport facility. And as I mentioned, we're not seeing anybody cancel any of those term contracts. I think a lot of the -- or most of the ethane for China comes from the US, and we would -- we've seen that still moving. We expect it to continue to move. So I don't think that would really have an impact on our business going forward.

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

Yes. I think Theresa at a high level, there's a few other options for Chinese that are consuming ethane -- and so I think that it's clear that there are at least possibly some rational discussions going on around tariffs. It's all maybe rumor and speculation at this point, but hopefully, those discussions move in a rational direction because the Chinese need access to US propane and ethane -- and so it's in their best interest to seek that accommodation.

Theresa Chen - Barclays Bank - Analyst

Got it. And related to the FID of Iron Mesa, would you be able to quantify the cost? And is this plant the first or maybe several plants to increase the by grade under your control, especially in light of a competitor building out their own frac and dock infrastructure later this decade that maybe creates a volume shortfall in Sweeny and Freeport?

Donald Baldridge - Phillips 66 - Executive Vice President of Midstream & Chemicals

Theresa, this is Don. Yes, it continues, I think, really just demonstrate the progress we're making in building out our NGL value chain. It does support our Permian G&P growth and position in terms of barrels coming out of our own gas plants.

From an investment standpoint, it's a typical midstream return with a -- from a build multiple kind of a sub-five times type size. A little bit maybe to unpack Iron Masa, it's going to be located near our Goldsmith facility. And so that really provides us with several benefits. We'll be able to retire portions of our Goldsmith facility, upgrade the processing. That's going to improve our operational efficiencies, our reliability reduces our environmental footprint, improves our cost structure in that area.

So we'll get an immediate uplift on the existing throughput that we have there as we'll load this plant first. And then from a location perspective, given our pipeline network in that area, we'll be able to process and bring gas from both the Midland and the Delaware Basins to this facility.

And this facility will be tied into our San Gils NGL system. And so I'd expect us to continue to be successful commercially from a gathering and processing standpoint. We have opportunities then to continue to grow our G&P footprint organically like this, whether that's a partial upgrade of existing facilities as well as just expansion. All of that is helpful for our overall NGL value chain.

And maybe just to step back and think about it from a broader context, at this plant and then the two plants in the Midland Basin, the dose Pecos and dose Pecos two, that's about to turn on later this year. We will have added close to 800,000 a day of gas processing capacity. That produces over 100,000 barrels a day of NGLs to feed our system. So really making good progress as we grow out the system. So we feel good about where our footprint is going, and again, what our supply outlook for Sweeny is.

Operator

Jean Ann Salisbury, Bank of America.

Jean Ann Salisbury - Bank of America - Analyst

I think many midstream investors don't own PSX stock because of the volatility of the earnings of the other segments. Is that your view as well? And given your answer to Doug's question, which I think suggested you were not that interested in the spin. What other things can PSX do to get fuller credit for the stability of the midstream earnings in your stock?

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

Yes. Jean Ann, that's a great question. And I think I touched on that earlier that we're -- we're in the process of growing those earnings. I think really, we weren't recognized as a strong midstream player per se until earlier this year when we announced the EPIC transaction. And so as those stable earnings become a bigger and bigger part of our portfolio, I think those seeking that multiple from stable earnings will take note. And across the spectrum of investors, we're getting solid feedback and support for that.

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

Yes. I was just going to add on a little bit there in terms of -- we will continue to look at our disclosures and the information we provided around the midstream segment and enhance where appropriate. And as the midstream business grows, the part of the narrative is that the refining business, yes, has volatility, but it also provides a lot of nice upside from a cash generation standpoint and returns to shareholders.

And so that's where I see that value proposition that you've got that large stable midstream business supplemented by the upside that comes with the refining and marketing business.

Operator

Joe Laetsch, Morgan Stanley.

Joe Laetsch - Morgan Stanley & Co LLC. - Analyst

I just wanted to ask on shareholder returns. With the dividend increase a few days ago, the stock is yielding just north of 4.5%, which is above refining peers. Could you just talk through the balance between raising the dividend and leading in the buyback given where shares are trading?

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

Yes, Joe, it's -- the dividends are principles there are secure, competitive, and growing. And the reason for the growing is we do have investors that are clearly dividend investors. And one of their criteria is a dividend that increases on an annual basis. And so you can expect to see us increase the dividend every year. It was a relatively modest increase, it's \$0.05, 4%, smaller than some of our more recent increases have been, but we felt appropriate in the overall context of the business environment that we're in today.

And so therefore, the real upside from a shareholder return standpoint is going to be in share repurchases. And as you see operating cash flow increase then that increases the -- go back to the 50% of operating cash flow returned to shareholders. The dividend is easy to get to compute. But so is the share repurchases at the 50% and potentially above level depending on where we are and other priorities, including balance sheet.

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

Yes. And Joe, when you look at the combination of share repurchases and our dividend, the gross dividend outlay has remained pretty stable because the shares are declining. And so it really is almost needed to catch up, and we're taking advantage of that. And so think about that overall dividend outlay as relatively constant and then share repurchases are the swing item that can grow even faster than the dividend when the cash is there.

Joe Laetsch - Morgan Stanley & Co LLC. - Analyst

Great. That makes sense. And then the other question that I had was around refined utilization in first quarter, which came in a little bit light versus what we, I think, obviously been expecting based on the low 80% guidance was that economic driven? Or was that always part of the plan?

Richard Harbison - Phillips 66 - Senior Vice President - Refining

Yes. This is Rich. So our guidance was low 80s for the quarter. There was certainly a heavy focus of that was -- of that downturn was related to the turnaround activity and our turnaround activity was heavily focused on crude units as well for the quarter. So that was a big impact, especially in the Atlantic Basin. We had a turnaround at the Bayway facility and the Gulf Coast, both our refineries in the Gulf Coast had turnaround activity at Lake Charles and Sweeny and then so did Wood River and Borger.

So those utilizations were down quite a bit. That all said, there -- those were the majority in the major components of the downturn in the utilization. There were some minor market adjustments as well made through the year, primarily in the January and front end of February time frame. So those were relatively minor call them maybe [2, 1.5] on the overall utilization for the quarter.

Operator

Matthew Blair, Tudor Pickering Holt.

Matthew Blair - TPH & Co - Analyst

I have a two-parter on M&S. First, should we expect a pretty considerable tailwind to your Q2 M&S results from the falling crude price environment. We do track a retail indicators looking quite strong in the second quarter. I know your wholesale business is a little bit different. But -- what are your expectations on M&S for the second quarter? And is there a big pickup in line?

And then second, every company reports things a little differently. And I think there's an argument to be made that Phillips refining results are a little different than your large-cap peers because your US wholesale activities are in M&S and not in refining. So my question is, could you help us

understand roughly what percent of M&S EBITDA and op costs are related to those wholesale activities so we can look at things on a little bit more of an apples-to-apples basis.

Brian Mandell - Phillips 66 - Executive Vice President of Marketing & Commercial

Matthew, it's Brian. I'll start and then Kevin can take over. I think you're right, when prices are falling, it's usually somewhat beneficial for marketing. Just to give you a little bit of color, we're seeing a stronger go margins. And our view is barring anything significant slowdown in the economy or something like that, we would expect a seasonal uptick in Q2 earnings or margins consistent with prior years.

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

Yes, Matt, it's Kevin. And just on the second question, we don't break out our results by channel of trade, which is what you're referring to. Our Marketing and Specialty segment covers the wholesale business also covers the retail to the extent we have retail. But the bulk of that business is a wholesale model. And so it's -- we don't have a breakout of the EBITDA or the costs.

The costs are relatively low. When you think about the company-owned retail business is going to have a higher cost structure, for sure. But it's not something that we're breaking out at that channel of trade level.

Operator

Ryan Todd, Piper Sandler.

Ryan Todd - Piper Sandler & Co - Analyst

Maybe just one follow-up on some of your earlier comments on renewable diesel. Outside of the macro backdrop, which is obviously very noisy. As we think about the first quarter and into the second quarter, can you talk about maybe some of the challenges that you had, optimizing things from a feedstock point of view in the first quarter because of the timing of some of the announcements and as you look into the second quarter and then maybe -- I don't know if you said this earlier, but do you have a rough estimate of maybe what percent of the products you were able to book credits on during the quarter?

And as we think into the second quarter, how will both of those things change and be a potential tailwind for you this quarter?

Brian Mandell - Phillips 66 - Executive Vice President of Marketing & Commercial

Yes, maybe I'll start and others can join in. I would say, like everybody, if you don't understand the rules of the game, it makes it more difficult to play in the game. And the PTCs were it was kind of not completely known. That time, we didn't have -- we had PTC value for imported used cooking oil, and now we don't.

And -- so we made some decisions early on between the end of last year and beginning of this year that were suboptimized, frankly, given our view of what credits would be and how they turned out in some of the sanctions.

So I think going forward, we'll have maybe a clearer view. We still don't have a complete view of the PTCs. We think that will come in June or July with the tax bill. We talked about the RVO, proposal we expect to come at the second half of May, and it not for implementation until Q3. So we're looking forward to that.

The good news is, I think ag and oil are aligned that we need to increase the RVO to make up for some of the credit value that we lost in the PTCs. And then LCFS is also up for debate. We think by the end of June we'll have some more clarity on that. So the more clarity we have on the credit values and how they work, then we'll be able to run the plants and the more focus will be on finding the right feedstock to make the right product.

Operator

Paul Cheng, Scotiabank.

Paul Cheng - Scotiabank - Analyst

Mark, I think it can -- maybe for the investor years a little bit easier to understand the integration benefit on the midstream to the rest of your business. Maybe it's a little bit more difficult on the chemical. Even CPChem they have a joint venture and they run by their own Board and their own management and in theory that all transactions between you and CPChem should be at arm's length.

So maybe you can help us understand a little bit better why -- I mean even though it has a great asset, why that is important for them to be part of the portfolio and what to synergy or that the integration benefit you can receive from there.

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

Yes. Mel, glad to take that on. When you look at CPChem, first of all, the model has been great for the last 25 years, it's grown faster and more profitably than their competitors. It's been a great return on capital employed business. It's thrived and done quite well. And we've sat across the table from our partners, each of us expressing our undying love for the company and interest in owning all of it if the other is interested and parting from it.

And so I think that there is great operational synergy between CPChem and Phillips 66 as an NGL provider and as an asset operator around the Sweeny complex, where there's a very heavy presence of CPChem, whether it's the storage facilities at the Clemens Terminal, the physical location and streams going back and forth between the assets. Yes, there is an arm's length agreement. But all of that happens quite seamlessly.

Now I would say if Philips owned those 100%, it would -- there would be even greater synergies to capture, but being a 50% owner and being deeply co-located and physically integrated, there are significant advantages there. And those represent substantial assets. You've got three of their Gulf Coast crackers right there in the Sweeny complex embedded and deeply integrated.

And so it is real and it happens every day. And if it was truly an independent separate entity, there would be more frictional losses in making things happen over time and less, I think, less direct level of financial integration. So there's benefits both ways.

Paul Cheng - Scotiabank - Analyst

Okay. Great. The second question, I think, is for Kevin. Just curious that, I mean, with order volatility create, given the top administration, economic and talent policy, should Phillips is what is the cash balance that you really want to keep on the books as far as what is the debt to capital ratio and your payout ratio to be quite find that with higher volatility, should you have a high or a payout ratio still going to pay out more than 50%?

Or should you prioritize and get the debt to be lower than what you its target at \$17 billion, at least that for -- until maybe the volatility becomes perhaps a little bit lower and the risk of recession becomes less.

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

Yes, Paul, it's all about balancing the different priorities. And there is a lot of uncertainty out there right now. But -- the point is, it is uncertainty and we don't know exactly which way this will play out. So we don't want to make any dramatic decisions around that.

And we think that the way we've set our prioritization is very measured and balanced to where it's -- it works in a low-cycle environment or a more volatile environment and it works in a more robust environment as well. The 50% payout ratio is relatively modest. We do have cash from asset dispositions. And from a balance sheet standpoint, the cash at the end of the quarter was \$1.5 billion.

We've tended to run around about that somewhere between \$1.5 billion and \$2 billion to \$2.5 billion at the end of most periods. Would it be nice to have more, yes, but it's perfectly adequate. There's a natural cycle over the course of the month anyway. The end of the month, the end of the quarter tends to be a relatively low point in that cycle.

We have significant and liquidity facilities that we can draw on, as necessary. And when we need to, we do. But we just -- we look holistically at what that balance sheet needs to look like and feel that at the \$17 billion level, when you consider that midstream with a pretty stable, very stable \$4 billion of EBITDA, the marketing business, also with stable EBITDA in the order of \$2 billion that supports that debt. That supports the leverage at a modest ratio.

And so that's how we think about it in terms of leverage ratio leverage ratios relative to the different business segments we operate. And so we expect to have a debt level that can be supported by the more stable cash-generating businesses and think of the refining business and the chemicals business as being debt free from a Phillips 66 balance sheet standpoint.

Operator

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

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

Thanks for all of your questions. Less than three years ago, we embarked on a transformative strategy. We've divested multiple noncore assets at attractive multiples, strengthened our NGL value chain and rationalized our refining portfolio. We improved refining operational reliability and reduced refining controllable costs, all while returning over \$14 billion to shareholders.

Looking forward, we will deliver significant value through our 2027 strategic priorities maintaining operational excellence, pursuing disciplined growth, returning capital, and ensuring financial strength. We value shareholder feedback.

We're committed to maximizing long-term value for our shareholders through operational excellence and disciplined capital allocation. Thank you for your interest in Phillips 66. If you have questions or feedback after today's call, please call Jeff Ron.

Operator

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

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