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OVERVIEW:

Company Summary

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

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

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

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

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

CONFERENCE CALL PARTICIPANTS

Stephen Richardson *Evercore Inc - Analyst*

Theresa Chen *Barclays Bank - Analyst*

Neil Mehta *Goldman Sachs Group Inc - Analyst*

Justin Jenkins *Raymond James Holdings (Canada) Inc - Equity Analyst*

Douglas Leggate *Wolfe Research LLC - Equity Analyst*

Manav Gupta *UBS AG - Analyst*

Jason Gabelman *TD Cowen - Analyst*

Ryan Todd *Piper Sandler - Analyst*

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PRESENTATION

Operator

Welcome to the third quarter 2025 Phillips 66 earnings conference call. My name is Breka, 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 Sean Maher, Vice President, Investor Relations. Sean, you may begin

Sean Maher - Phillips 66 - Vice President, Investor Relations

Welcome to Phillips 66 earnings conference call. Participants on today's call will include Mark Lashier, Chairman and CEO; Kevin Mitchell, CFO; Don Baldridge, Midstream and Chemicals; Rich Harbison, Refining; and Brian Mandell, Marketing and Commercial. Today's presentation can be found on the Investor Relations section of the Phillips 66 website, along with supplemental financial and operating information.

Slide 2, contains our safe harbor statement. We will be making forward-looking statements during today's call. Actual results may differ materially from today's comments. Factors that could cause actual results to differ are included here as well as in our SEC filings.

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

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

Thanks, Sean. Before we begin the call, I'd like to take a moment to recognize Jeff Dietert, our Vice President of Investor Relations since 2017. After a long and successful career in the energy industry, Jeff announced his decision to retire at the end of this year. On behalf of the entire management team, I want to extend our deepest gratitude to Jeff for his invaluable contributions to the company and we wish him all the best in retirement.

During the quarter, we continued to execute on our strategy and delivered strong financial and operating performance. Refining's results demonstrated our commitment to world-class operations. Midstream, along with Marketing and Specialties, delivered another consistent contribution, providing a strong foundation for our capital allocation framework. Chemicals generated solid returns despite a challenging market, operating above 100% utilization. Year-to-date adjusted chemicals EBITDA is \$700 million, reflecting the unique feedstock advantage of our assets.

During the quarter, the Dos Picos II gas plant became fully operational, and the first expansion of our Coastal Bend pipeline was successfully completed. These milestones enabled us to achieve record NGL throughput and fractionation volumes.

Since quarter end, we processed the final barrel of crude oil at the Los Angeles refinery. We sincerely thank our Los Angeles refinery employees for their exemplary dedication to safely operating the assets as we progress the idling process.

Earlier this month, we also closed on our acquisition of the remaining 50% interest in the Wood River and Borger refineries. This transaction simplifies our portfolio and enhances our ability to capture operational and commercial synergies across the value chain. The further integration of the Wood River, Borger and Ponca City refineries will create a system that offers opportunities to capture margin across our assets.

An example is the recently announced Open Season for Western Gateway. This refined products pipeline will ensure reliable supply to Arizona, California and Nevada from Mid-Continent refineries. This proposed project is one of many opportunities that will drive greater shareholder value. Aligned with our focus on continuous improvement and the dedication to operational excellence, we're excited about the future.

Rich will now provide more context on our progress in the future in refining.

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

Thanks, Mark. Slide 4, highlights another strong quarter for refining, a clear reflection of our commitment to operational excellence. We achieved 99% utilization, the highest quarter since 2018 and above industry average. Our year-to-date clean product yield of 87% is a record, underscoring our ability to maximize value from every barrel processed. Our third quarter adjusted cost per barrel of \$6.07 was impacted by \$0.40 per barrel due to a \$69 million environmental accrual related to the Los Angeles refinery.

Since 2022, we've reduced our adjusted controllable costs by approximately \$1 per barrel. We have built our improvement strategy on five pillars of excellence, safety, people, reliability, margin and cost efficiency. Our greatest asset is our people, training them well and sending them home safely each and every day as our top priority. Reliable operations improved nearly every metric. Our team is focused on a world-class reliability program that will sustain our strong operating performance.

We are seeing excellent progress in utilization and uptime and we're not done yet. We've made some tough, but impactful decisions that are paying off as we lower our cost structure and improve our flexibility and optionality to capture changing market conditions. Excellence in all five pillars maximizes earnings and value creation.

Moving to Slide 5. Since early 2022, refining has been on a journey. We have been making structural changes to the portfolio and organization that will continue to drive long-term shareholder value. We've rationalized our refining footprint while strengthening our position in the central corridor. The full ownership of the Wood River and Borger refineries creates additional high-return organic opportunities.

We've also transformed the organization, centralizing support functions, operating the assets as a fleet versus independently. We have a list of low capital, high-return projects in the queue going through our standard review and approval process. The ones we've already executed have improved yields product value and flexibility.

We've increased our optionality to switch between heavy and light crudes and between finished product mixes. I look forward to implementing the next phase of organic growth opportunities. Lastly, we're focused on driving efficiencies, which will further improve our cost profile. We're targeting adjusted controllable cost per barrel to be approximately \$5.50 on an annual basis by 2027. We are positioned well for the future.

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

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

Thank you, Rich. On Slide 6, third quarter reported earnings were \$133 million or \$0.32 per share. Adjusted earnings were \$1 billion or \$2.52 per share. Both reported and adjusted earnings include the \$241 million pretax impact of accelerated depreciation and approximately \$100 million in charges related to our plan to idle operations at the Los Angeles refinery by year-end. We generated \$1.2 billion of operating cash flow.

Operating cash flow, excluding working capital, was \$1.9 billion. We returned \$751 million to shareholders, including \$267 million of share repurchases. We Net debt to capital was 41%. We plan to reduce debt with operating cash flow and proceeds from the announced fourth quarter European retail disposition.

I will now cover the segment results on Slide 7. Total company adjusted earnings increased \$52 million to \$1 billion. Midstream results decreased mainly due to lower margins, partially offset by higher volumes. These results include \$30 million of additional depreciation related to the retirement of assets associated with our Los Angeles refinery. Chemicals improved on higher margins and lower costs, which were largely driven by a decrease in turnaround spend.

Refining results increased on stronger realized margins, partially offset by environmental costs associated with the idling of the Los Angeles refinery. Marketing and Specialties results decreased due to lower margins, primarily driven by more favorable market conditions in the second quarter. In renewable fuels, results improved primarily due to higher margins, including inventory impacts and international renewable credits.

Slide 8, shows cash flow for the third quarter. Cash from operations, excluding working capital, was \$1.9 billion. Working capital was a use of \$742 million primarily due to an inventory build. Debt increased primarily due to the issuance of hybrid bonds, which was partially offset by a reduction in short-term debt.

We returned \$751 million to shareholders through share repurchases and dividends and funded \$541 million of capital spending. Our ending cash balance, including assets held for sale, was \$2 billion. Looking ahead to the fourth quarter on Slide 9.

In Chemicals, we expect the global O&P utilization rate to be in the mid-90s. In Refining, we expect the worldwide crude utilization rate to be in the low to mid-90s. Turnaround expense is expected to be between \$125 million and \$145 million. The utilization and turnaround guidance reflects 100% ownership of the Wood River and Borger refineries and removal of Los Angeles. We anticipate corporate and other costs to be between \$340 million and \$360 million.

Now we will move to Slide 10 and open the line for questions, after which, Mark will wrap up the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Steve Richardson, Evercore.

Stephen Richardson - *Evercore Inc - Analyst*

Great, thank you. Regarding WRB, interested if we could just dig a little further there. Very clear, what looks to be a really attractive acquisition price, and you've got a clear synergy target out there. But could we talk a little bit about beyond this inside and outside the fence line, some of the other benefits and just address what 100% ownership of these facilities opens up in terms of some of the organic growth that Rich mentioned.

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

Sure, Steve. I think this falls into the category of our strategy in action. Several years ago, we identified that the Mid-Continent Central Core was core to our business, and we would focus and make strategic decisions around that. And since then, we've made the decision to idle LA and redeveloped land there.

We announced our increased ownership of WRB that you referenced here. And now we pushed that on with the open season the Western gateway. The first step is that really it opens up the frontier to integrate more freely WRB, Ponca City and Borger together into one system that creates a lot of optionality, a lot of opportunity.

And I'll let Rich and Brian dive into the details on that.

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

All right. Thanks, Mark. I'll start and then pass it over to Brian there for the commercial side of the business. So when I think about this, Steve, we've added 250,000 barrels a day of processing capacity for us. And what is our most competitive portfolio in the center -- Mid-Continent area there.

And as you indicated, we got at a very attractive price, not diving into the cost synergies. But really, this deal opens up some organic growth opportunities that will allow us to increase our crude processing optionality and flexibility. With our previous arrangement in the JV, we were somewhat locked into a desired crude slate and investments to open up that flexibility we're generally not looked upon favorably.

So now we have the opportunity to really open up this flexibility inside this system as well as on the product slate side of the business, too. So lots of opportunity there, which will help us increase our market capture opportunity. But most importantly, from my perspective, it's our ability to operate Wood River, Borger and Ponca City as a regional system.

Actually interconnected with a very good pipeline system operated by our Midstream assets and this will allow us to really optimize the use of intermediate products between the sites. And what that leads to is higher utilization of these downstream units, these units downstream of the crude operation. And that will also allow us to increase utilization of these conversion units and make additional products. All that leads to more commercial opportunity.

And I'll kick it over to Brian to expand a little bit on that.

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

Hey Steve, from a commercial point of view, we have currently a cross-functional team looking at synergy opportunities, everything you can think of and currently have 30-plus initiatives in the pipeline and we're generating new initiatives every single week.

So maybe just to give you a few examples of some flavor for what we're looking at. We've been able to improve our integrated model between Wood River and Ponca City on butane blending and optimize the two plants, which are highly rated with our midstream assets.

Another example is we've updated our variable cost economics on proprietary pipelines to incentivize shipping on P66 assets versus third-party pipelines. We're utilizing some of the marine assets that were previously dedicated to WRB for other higher netback service.

And also, we're using Borger and Wood River Coke and blending it with Coke from other refineries to generate more volume to be placed in the anode coke market. So those are just a few examples. It's early days, a lot more opportunity to go.

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

Hey Steve, this is Kevin. One other point of clarification I'd like to make because I think there's been a little bit of confusion out there in terms of impact on capital.

So we increased our guidance on capital budget to \$2.5 billion or approximately \$2.5 billion from what was previously \$2 billion, and that has been attributed to WRB. That's a little bit of an overstatement of the impact. The reality here is if you look at 2025, the capital budget was \$2.1 billion. The WRB capital budget at a 100% level was \$300 million. And so our net addition is \$150 million relative to that.

And that \$300 million is a reasonable run rate to assume. And so really, we're saying the \$2.1 billion goes to \$2.4 billion on a 100% consolidated basis, but we already had 50% of that uplift reflected in our operating cash flow because of the way that flows through the distributions from the equity to accounting. So I just wanted to put some clarity around that point.

Stephen Richardson - Evercore Inc - Analyst

Appreciate the additional color there, particularly on the CapEx. If I could just quickly follow up and the fear of sounding like I'm leaving the witness, but fair to assume that a lot of these benefits we just talked about, both on the refining side and the marketing side, are capital efficient and we're going to see some of those benefits relatively nearer term? I mean is the 1 point we'd like to probably bring is when do we start seeing some of those things?

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

Yeah. I think you will see capital efficient additions there. There are capital opportunities. It will add to Rich's list of low capital, high-return opportunities, but the kind of synergies we talked about and the commercial opportunities that freeze is up, those things are happening as we speak.

Operator

Theresa Chen, Barclays.

Theresa Chen - Barclays Bank - Analyst

Hello, thank you for taking my questions. I want to dig deeper into Western Gateway. Now that we are we can change into the binding open season, can you talk about the rationale behind this project? And why it's important for Phillips 66, how does it stack up versus ONEOK's competing pipeline project and it built how do you think this pipeline will change (inaudible) flows as well as margin capture for your central corridor assets?

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

Yeah, Theresa, that's a great question. When you step back and think about our mission to provide energy and improve lives. And when we looked at the evolution of refining capacity out west, impacting both California as well as Arizona and Nevada.

We saw an opportunity along with the alignment of Wood River, Ponca City and Borger to really make something special happen and in essence, the ability to bring our Mid-Continent strengths, our Mid-Continent advantages to the West Coast, St. Louis all the way to Santa Monica.

And we believe there's great opportunities there. Less refining capacity in California, growing demand in Arizona and Nevada, all of those things combined to get us interested in this opportunity. Brian and Don can dig into the details of those opportunities and address the specifics of your question.

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

Sure. Thanks, Mark. And Theresa, we do think it's a unique and compelling opportunity. And if you think about just the framework of the project, our gold line really operates like a supply header that's going to be able to access the Mid-Continent refineries, bringing that volume to help fill the Western Gateway pipeline which is going to take product along the new pipeline all the way to Phoenix, which that will help satisfy that market, that area.

And then the balance of that volume being able to go all the way to Colton, California, where it can access the broader California and Nevada market. We think that's a compelling opportunity. It's certainly early days in the open season. We're having constructive and active conversation with interested parties. So more to come on that. I think the project how we have it set up is something that's resonating quite well with the market.

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

And then maybe just from a commercial perspective, the way I think about it is PADD 5 is going to look very similar to PADD 1, where you have a short market, you have a pipeline that brings in domestic volumes like colonial does to PADD 1 and then you have barrels coming from overseas, order-borne barrels as well. So it will be set up very similar to that market. And as you know, a pipeline is the most reliable way to move volume.

It won't be susceptible to dock restrictions, lack of logistics, demerge or weather issues. And assuming only our pipeline gets built, we estimate probably about half the volume will end up in the Phoenix market with the reversal of Kinder Morgan, and the rest will end up in California, which makes sense as Mark mentioned, as you see the closures of California refineries.

But California will continue to be a waterborne import market. And at Phillips 66, we'll continue to be import barrels by the water. And from our commercial perspective at Phillips, the pipeline will allow us to move products, as Mark said, from our Mid-Con refineries for likely better than Mid-Con netbacks -- and all our Mid-Con refineries can make Arizona great gasoline and California grade gasoline. So we see the pipeline as a great opportunity for California, for Arizona for Nevada and for all the potential shippers.

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

Yeah. As far as the comparison of our project to ONEOK's project, I think they have different target markets or target sources, Gulf Coast versus Mid-Continents and I think that ultimately, the market will determine if one or either of the projects go forward. So we believe we've got a strong ability to bring Mid-Continent volumes all the way to California in the partnership with Kinder Morgan really provides a lot of strength for this option, and we have full faith that we'll move forward with this.

Theresa Chen - Barclays Bank - Analyst

Thank you for that comprehensive answer. And as a follow-up, from a cost perspective, what kind of CapEx should we anticipate for Western Gateway given the substantial re-yeild component? And how will the coffee split between the partners since Kinder is contributing its existing pipeline infrastructure.

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

Sure, Theresa. So the partnership is 50-50 with Kinder Morgan. And so that will be at the end of the day, how the balance works. And then in terms of the overall CapEx, we haven't disclosed that number. And part of that is because as we talk through with shippers and different supply connections, we're still working through what some of that connection costs might entail and how all that will flow from a volume standpoint.

And that will drive some of the infrastructure needs and obviously, capital requirements. But safe to say, this is a from an investment opportunity, this is a consistent midstream type return investment that we're looking at in concert with Kinder Morgan.

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

And probably also worth highlighting that capital spend wouldn't be in the next couple of years, either you're sort of looking at '27, '28, '29 time frame. So no near-term impact on capital budgeting.

Thank you very much.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - Goldman Sachs Group Inc - Analyst

Yeah, good morning, Mark and team. I wanted to keep on pushing on the Midstream point and you've talked about \$4.5 billion in EBITDA by year-end 2027 as the run rate. You annualize Q3, you're close to \$4 billion. And so maybe you could just talk about bridging that \$500 million and if oil prices languish, how sensitive is the EBITDA to that? And so giving us confidence around that incremental \$500 million would be great.

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

Absolutely, Neil. I'll kick it off and then turn it over to Don. But first of all, I think you have to look at our track record. We've grown that NGL business from the Midstream business from \$2 billion to \$4 billion over the last several years. And as you noted, we're just under \$1 billion this quarter.

So the \$4 billion is in line of sight. This is all the result of the concerted effort based on our strategy, we aligned on several years ago with our Board to establish this wellhead to market presence in NGLs. And we've done disciplined accretive inorganic and organic things to do that to get to where we are today.

We see the next increment, another \$500 million, largely from organic. I mean we've got line of sight on organic opportunities and the inorganic opportunities were facilitated by non-core asset dispositions. So we've been able to reallocate capital and free that up.

And most importantly, the organic opportunities quite often are unleashed because of the inorganic opportunity. So this has all been a relentless pursuit of higher ROCE in the midstream business as well as building competitive advantage on top of competitive advantage. And I'll tell you that it was a great visit we had the Sweeny last week. We've done some things around the frac there. The operations has been incredible.

And the operators pointed out that they've found our fifth frac. We have four fractionators at Sweeny. They found enough capacity through some debottleneck projects they've done. So in essence, they've added an additional frac through very low capital opportunities. So much like refining, we're looking at ways to be more efficient, to grow more aggressively in midstream and more accretively and Don's got another list of opportunities that he's going to go after.

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

Sure. Thanks, Mark. And definitely, the platform that we have developed over the years, it just lends itself to a lot of organic growth opportunities. And that's what's really driving this growth from \$4 billion to \$4.5 billion. A lot of those projects are publicly announced and are in execution phase.

If I look at the gas gathering and processing business, we've got plant expansions in the Permian with our Dos Picos gas plant that came on just a few months ago that will fill up by 2026. And then our iron Mesa gas plant that we announced that's under construction that will come online in early '27 and fill up.

So our footprint, that plus the commercial successes as well as the higher NGL content in the production, that's really driving a lot of the volume growth that's coming through our system. That's, again, all fee-based type margins. So very limited sensitivity to underlying commodity price that volume drives what happens downstream and in our NGL pipeline business in -- we just completed the first phase of our Coastal Bend expansion.

We're running that full -- we've got a next phase of capacity 125,000 a day of additional capacity will come on later in 2026. And as well as the restart of our Powder River pipeline that will pull in barrels out of the Bakken. So those volumes -- that capacity and the volumes that will flow through there, again, help drive this earnings growth that will take us to that \$4.5 billion run rate by the end of 2027.

So we've got a well-defined organic growth plan that we're executing. The other thing I would just say is that now our asset footprint, it definitely is in a position where it creates additional growth opportunities that are high return, low capital that we continue to pull together and execute on. So really see like we've got some great momentum within this part of the business and are executing it on a day-to-day basis.

Neil Mehta - Goldman Sachs Group Inc - Analyst

Thank you, Don. Thank you, Mark. So the follow-up is just crude in transit. A lot has been made of the \$1.4 billion barrels that appear to be on the water. But today's DOEs reinforce the view that they aren't finding their way into US shores or into a lot of OECD pricing nodes.

And I want to make -- get your perspective of -- do you guys have visibility to that crude actually manifesting its way over here. And if not, what do you think is driving that? Do you think it's the sanctions, whether it's Iran, Venezuela and now Russia contributing to that that difference between what appears to be a visible build in inventory on the water but not on land.

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

Yeah. It's Brian. We do see a very large build on water of barrels. It's a function of what those barrels are and it's not clear if those are Russian barrels and they don't get to end users. They may sit there for a while. If they are other barrels, maybe Saudi barrels or OECD barrels that we'll get to market, and that will probably put pressure on Saudi OSPs and benchmark crudes.

And so we're kind of waiting to see what those crudes are and it's not clear, but it is clear that there is a lot of crude on the water now.

Operator

Justin Jenkins, Raymond James.

Justin Jenkins - Raymond James Holdings (Canada) Inc - Equity Analyst

Great, thanks. I guess one of the common questions we get from longer-term investors is sit on the debt side, the pathway to your 2027 targets. And Kevin, you touched on it a bit in your remarks, but maybe I'd ask if you could give your thoughts on the bridge to that \$17 billion debt target by 2027?

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

Hey, Justin, this is Mark. I just want to context it a little bit that we've clearly been using both our balance sheet as well as asset dispositions to drive the inorganic transactions as well as the organic opportunities midstream as well as in refining while sustaining our commitment to return at least 50% of our cash from operations to shareholders.

And so we've been able to do that quite effectively. We're making a more proactive shift now towards intently focusing on the debt level, and then that debt reduction is a clear priority. And Kevin is well prepared to walk you through the math going forward.

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

Yeah. Thanks, Mark. So we still have that same \$17 billion debt target. That has not changed. You will have noticed that in the third quarter, our debt level increased to \$21.8 billion.

Now that increase was combination of some debt issuance and some short-term debt reduction. But we also had a corresponding increase in cash balance. So on a net basis, we were essentially flat during the third quarter.

But as we look ahead to the next -- over the next -- the fourth quarter and the next couple of years, and you look in the third quarter, actually in the second quarter, preworking capital, we generated \$1.9 billion of operating cash flow in both periods, you think about WRB coming into the equation. And I'll use this number partly to keep the math simple.

But if we're at \$8 billion in operating cash flow annually, you can -- we're still committed to returning 50% of cash -- operating cash to shareholders. That's \$4 billion, which is -- would be split evenly between the dividend and the buyback that leaves \$4 billion that's available, the capital budget of \$2 billion to \$2.5 billion per year, as we talked about earlier, leaves somewhere in the order of \$1.5 billion to \$2 billion per year available for debt reduction.

That's '26 and '27. Obviously, margins will do what margins do, and so we don't have complete control over all of that, but that's a reasonable construct to think about this. In the fourth quarter of this year, we will have the proceeds from the Jet disposition, but we also just funded the WRB acquisition, and those two kind of offset, but we'll have a sizable working capital benefit in the fourth quarter, somewhere in the order of \$1.5 billion will come back to us, maybe slightly more.

And so between \$1.5 billion in the fourth quarter of this year and then the \$1.5 billion to \$2 billion potentially in each of '26 and '27 gets us comfortably to that \$17 billion level by the end of '27. And that doesn't include any potential additional dispositions of non-core assets, which just provides upside and additional flexibility.

Justin Jenkins - Raymond James Holdings (Canada) Inc - Equity Analyst

Perfect. Appreciate that detail, Kevin and Mark. I guess my second question on the refining macro and maybe tilt to that cash generation side of things does seem to fit your portfolio pretty well with high diesel cracks and expectations for wider diff, maybe just your overall expectation on how cracks play out and crude diff play out in 2026?

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

Hey there, this is Brian again. On the crude dips, we expect to see the light-heavy spreads start to widen during Q4 and into Q1, it's been somewhat delayed, I think, surprising many of us. But the heavy crude has been slower, as I said, with additional OPEC barrels moving into China's and staying in the East in general and then just the geopolitical concerns hitting market volatility around Russia, Iran and Venezuela. In the US Gulf Coast, through Q3, the Canadian heavy crude became more attractive than high-sulfur fuel oil, which cause refiners on the US.

Gulf Coast to run more Canadian crude, and that supported differentials. But as we've entered Q4, we're starting to see some impact from additional OPEC crude and the kind of relative weakening, although still strong of the high sulfur fuel oil.

And additionally, the WCS production increased by 250,000 barrels in Q3, and we're going to expect another 100,000 barrels or more in Q4. And as more Canadian volume comes online along with the winter diluent blending, we're seeing the WCS diff weaken by about \$1 in Q4 versus Q3. And Canadian production is expected to increase next year as well with several projects coming online and also from winter diluent blending.

So in 2026, WCS curve is off another dollar from Q4. So as additional crude hits the market, including Middle Eastern crude, we also expect to see Middle Eastern OSPs to fall and put additional pressure on heavy crude. And as you know, we're a large user of WCS. So watching the WCS differential continue to widen will be a benefit to us.

Operator

Douglas Leggate, Wolfe Research.

Douglas Leggate - Wolfe Research LLC - Equity Analyst

Hey, good morning everybody. Guys, utilization rates blow out quarter record, I believe, since 2018, I think you said in the release. When we were running around Sweeney with you guys -- I asked I forget the gentleman's name who joined you from Chevron recently.

So what are you doing differently on how you think about plant turnarounds, the habitual once every 4- to 5-years. Is that changing? And should we think about your go-forward capacity utilization, your ability to manage that, if you like, as averaging higher over time.

The reason I ask the question is because Valero had a similar situation. And between the 2 of you, you just basically offset the closure of Lyondell, Houston. So we're trying to understand if cloud utilization is a new normal for notes you guys but for the industry generally.

Rich Harbison - Phillips 66 - Executive Vice President, Refining

Hey Doug, this is Rich. Gentleman, you're talking with Bill. He's a refinery manager down there at Sweden, and that was a good visit. I'm glad you mentioned that. It was a good opportunity for us to show off an asset there that highlights our -- one of our core strategies, which is integration with the Midstream and also CPChem operation there as well.

What I -- Doug, when I think about your question and how do I answer that? It's -- to me, it's a journey that we have been on. And you don't sustain utilization rates like this if you're making quick and short-term decisions. These have to be long-term end of sight visionary-type direction that you're moving a large set of assets to. Of course, we started that with a cost and margin, but we also simultaneously was running an improvement opportunities and initiatives around our reliability programs.

And those reliability programs are essential to this sustainability component to it. And that to me is what culturally has continued to improve over the last 2- to 3-years on this journey as we've marched down this path, and also on the margin front, which is a journey that we started a couple of years ago, and that was really centric around starting to fill up our downstream processing units behind the crude.

First, you got to fill the crude, you end it up and then you got to fill the downstream units up. Those directly result in clean product yield, which is where most of the earnings are flowing into the organization. So I think with that commitment to reliability, world-class reliability program that we're executing as well as the fundamental change in our cost and margin outlooks at each of the sites gives me a high level of comfort that we will be able to sustain this level of performance going well into the future.

Douglas Leggate - *Wolfe Research LLC - Equity Analyst*

That's really helpful. Through the AI words out to Valero and a bumper stock up, I think. So maybe you could say AI is helped pay up you manage your utilization. So my follow-up is a very quick one for Kevin. Kevin, I'm not same trip, we had an opportunity to have dinner with the guys.

And you sadly, we're not there to take this question on the chin. And the question basically is if you're a relatively static enterprise value, and what I mean by that is you've got a lot of long-life assets. However you think about mid-cycle, a little bit of growth in Midstream in the context of the overall company, but relatively static enterprise value.

It seems to me that the easiest way to basically boost your equity value is to reduce your net debt simple mass equities, enterprise value minus net debt. So why is net debt reduction not part of the cash return formula, raise a formula include net debt?

Why not?

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

Well, it's -- I mean you're absolutely correct that everything else stays the same or reduction in debt translates into an increase in equity value. And you can choose to look at debt reduction in that light. I mean what we do is take a very sort of consistent view that most others in the space do, which is the cash return to shareholders is the dividend plus the buyback and at the same time, as part of our capital allocation framework, we've got debt reduction as a key part of that.

We actually have this debate internally when we have traditionally thought of capital allocation being how much is returned to shareholders, dividend and buybacks and how much is reinvested in the business in terms of the capital program.

And now we've got this -- the additional dynamic of debt reductions in which bucket does it fall into. We tended to just break out separately on its own. But you are absolutely correct that there is clear value proposition for equity holders through debt reduction. And we do see it the same way in that context. It's really then down to the semantics of how we communicate that.

Operator

Manav Gupta, UBS

Manav Gupta - *UBS AG - Analyst*

I want to really thank Jeff Dietert over the years, I've thrown a lot of stupid questions at him, and he's been very patient in answering all of those. So thank you, Jeff. You will be missed a lot. My first question here, sir, is on the chemical side. The indicator, and I understand it's an industry indicator, seemed relatively flat.

The earnings jumped materially. Now I think some part of it was the Port Arthur non downtime. But was it also a function of you using a higher ethane blend than what probably the indicator is showing. That's what I concluded, but I wanted your opinion on it. And if you could also talk about when can we get back to like mid-cycle chemical margins.

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

Yeah. Just for the record, Manav, I've never feel that it's a stupid question from you. So I think I can speak for the rest of them, you ask insightful questions. And this one is very insightful. You partially answered it.

CPChem's chain margins increased about [\$0.095], \$0.097 per pound. IHS was flat. There's really three drivers there. We had higher high-density polyethylene margins due to lower feedstock costs. So our blend of feedstock is different than the blend used in the IHS marker where, as you noted, more heavily weighted ethane. I think the most heavily weighted to ethane, and that provides a very resilient advantage. Also in the second quarter, CPChem had some planned downtime at Port Arthur, some unplanned downtime at Cedar Bayou.

They had some turnarounds as well. And so you flip all that to the third quarter, those things go away, that was beneficial. And also the [worm] turns, other people had unplanned downtime in the third quarter and CPChem was able to take full advantage of that because of the short in the market.

And so we see the chemicals world is still oversupplied, but I would say that, what happened in the third quarter with that quick uptick in margins when there was a little bit of tightness created, that's a really good sign. CPChem because of its cost position is going to -- they generated year-to-date \$700 million of EBITDA, they should -- that's our half, not just CPChem or half of their EBITDA.

They'll be up around \$1 billion, and this is the bottom of a very protracted cycle. And so they are doing quite well. They're able to jump in when others falter. They're running at above 100% when others are rationalizing. There's going to be a lot of asset rationalization going forward or even hearing news out of Korea about the potential for rationalization.

Europe is already well down that path. And so I think when you start seeing margin upticks when people have outages, that's a good sign. We're not calling this down cycle over. We think it's going to be a long slog forward. But I think there'll be more shake out.

When CPChem starts up their two large world-scale -- the definition of world scale, frankly, assets, both here in the US and in Ras Laffan Qatar. And that will even, I think, potentially force out other high-cost producers. And so they're going to be moving from strength to strength and the long-term prospects are quite good for CPChem.

Manav Gupta - UBS AG - Analyst

Thank you for a detailed response. My quick follow-up is here, sir. Initially, when you did the EPIC deal, I think now you call it coastal bend, there was a little bit of a pushback, but now things are really coming together. The line has already had on expansion. And I think one more phase is planned. So help us understand where is the EPIC acquired assets EBITDA at this point on a quarterly basis?

And then what would it become once the whole expansion happens? If you could just run us through that much.

Thank you.

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

Yeah. Thank you for highlighting that, Manav. Again, the inorganic opportunities that we've done in Midstream have always opened up more organic opportunities. And so I think that it's important to continue to look at our track record of what we do. We're not buying inorganic opportunities just to get bigger.

We're buying because it opens up a new playing field. It creates more opportunity that perhaps the incumbents couldn't couldn't realize. And that is the case in EPIC, and we're quite pleased with EPIC and everything that's going on around that, and Don can fill in the details of what's coming next.

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

Sure, Manav. And the -- in terms of just looking back since we closed on the EPIC transaction in April, compared to the acquisition plan, we are meeting and even exceeding what we expected from the assets. That's really a testament to the synergy capture around the operations and

commercial opportunities around that now Coastal Bend pipeline, it certainly has been a really nice add in the Gulf Coast for us with the Corpus Christi presence combined with what we have at Sweeny.

And as you mentioned, we turned on the first phase of the expansion here in August. We're running at -- the pipeline full. Again, that's, I think, a sign that we've had the volumes available on the system, why we acquired the system and expanded it because we needed the capacity. We're filling it up as we turn it on. We've got another expansion that will come on later in 2026.

And most all of that volume is already on the ground and flowing on third-party pipes that will move over or it's a volume that's going to come from the G&P expansions that we've already announced. So we're executing on the acquisition plan as we advertised and really pleased with the results and the follow-on opportunities that we're seeing with having that as part of our portfolio.

Operator

Jason Gabelman, Cowen Inc.

Jason Gabelman - TD Cowen - Analyst

Yeah, hey, thanks for taking my questions. The first question is a portfolio one. You've obviously concentrated your footprint in Central Corridor talking a lot about synergies with your midstream footprint. As you think about your East Coast and West Coast refining footprints, do you still view those as core? I mean, there are some good assets there but obviously not as well integrated with what you're doing in Midstream and Chems.

So how do you think about the importance of those regions within the overall business?

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

I think there's a couple of key things to think about here. It's -- clearly, we have a core strategy around the integration of our Mid-Continent Central Corridor refineries there. They have the greatest crude flexibility. They have lots of optionality. But that doesn't mean that we're ignoring or remaining coastal refineries.

You think about Ferndale, we've already talked about it's transitioning to produce California carbon and its value is increasing as refineries -- refinery capacity in California tightens up. And so we're not going to kick out assets that are creating good value, but we are going to focus more intensely on the integration opportunities in the Mid-Continent and Central Corridor.

Likewise, Bayway, when you think about the Atlantic Basin, we've got opportunities to integrate between between Bayway and Humber. We can move streams back and forth to optimize there and to enhance the profitability and the reliability of both of those assets, and there's some very strong opportunities there that we're continuing to look at.

Jason Gabelman - TD Cowen - Analyst

Okay. Great. That's very clear. My follow-up is on the renewable fuel segment and obviously, results saw a meaningful improvement quarter-over-quarter. You mentioned some impact from selling credits and I think there was something about selling product out of inventory in there.

So wondering if you could just elaborate on what drove the increase quarter-over-quarter. How much of that is kind of underlying versus some timing impacts.

Thanks.

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

This is Brian, Jason. I mean just talking about Q3, and we'll talk a little bit about what we're seeing in Q4 and beyond. But in Q3, the renewable margins were actually worse if you took a look at just the margins, but we did a lot of self-help in Q3. We reduced costs. We improved our logistics, particularly to get in more domestic feedstock.

We send more of our renewable products to Pacific Northwest, where fossil basis were stronger. We got a lot of value from some new pathways that we got. We doubled SAF production. And then as you pointed out, we had the timing of the European credits.

In Q4, we'll have some timing impacts as well probably less timing impacts than we had in Q3. But in Q4, margins are improving with weaker soybean prices and relatively stronger credit values. We think the industry will continue to run at about the same rates as they did in Q3, given the turnaround activity. The European market will continue to attract renewable products. We've been sending renewable products in that direction, both in Q3 and we continue doing that.

We also anticipate continuing to increase our SAF production in Q4, and we've seen strong interest from SAF buyers. And finally, the new pathways that I mentioned will give us some additional flexibility, but in the end, we still need more clarity on federal and state policy. For example, the guidance on RVO policy, including reallocation of SREs and regeneration and foreign feedstock and even more clarity on the European policy.

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

And Jason, it's Kevin. Just one other clarification. That inventory comment. That was a variance relative to the second quarter. There was no net benefit in the third quarter from inventory. It's just relative to what we saw in the second quarter. So that's not a direct impact.

Operator

Ryan Todd, Piper Sandler

Ryan Todd - Piper Sandler - Analyst

Yeah. Thanks. Maybe a couple back on refining. Throughput was obviously much higher than anticipated in the quarter. But margin capture that still probably still a few headwinds that we see that existed in the third quarter. Can you talk about maybe some of the headwinds in the third quarter and how those might be trending or improving into the fourth quarter?

And then maybe as a follow-up, a few years ago, as part of your strategic priorities, you talked about a goal of driving margin capture improvement of 5%. Can you talk about where you are on that project? You've clearly made improvements on clean product yield. But where do you think you are on that journey? And what are some of the things that you may be working on over the next couple of years that we should keep an eye on that front?

Rich Harbison - Phillips 66 - Executive Vice President, Refining

Hey Ryan, this is Rich. Let me start and then Brian can clean up anything else on the market front there. But as I think about it, maybe the best way to approach this is a regional conversation. In the Atlantic Basin, market capture this quarter, 97%, pretty solid quarter-over-quarter, that was really a difference in turnaround activity in that region. But we did see improved market cracks and some inventory impacts that were really offset by some higher feedstock costs as well as some lower product differentials in the region.

The operations of the plants were quite good, though. Utilization for the region was sitting at 99%. And on our journey to improve, we had a clean product yield in that region of 88%. So very solid performance on that area. And we think that's a lot of that's supported by the self-help that we've done, but also a project that we initiated at Bayway that increased the native gas oil production, and it's allowed us to fill up that cat.

And really, we're seeing positive returns on that. In the Gulf Coast area, market capture was a little bit lower at 86%. And really, the headwinds on this one were lower octane and jet differentials. So we saw that in the marketplace, utilization for the region, pretty solid at 100%. And the clean product yields at its typical 81% for that area, which may seem a little low on clean product yield.

But I'll just remind everyone that at Lake Charles, we produce a gas oil that is sent over to excel that impacts that overall clean product yield for the facilities. Central Corridor, 101% market capture, very solid. Again, that's one of our highest performing regions.

The headwinds there, lower product differentials again. And those were offset by some improved market cracks. But that differential is the common theme you're hearing here, the octane value as well as the jet to distillate differential. Again, for the central corridor, 103% on the utilization front and 90% clean product yield. So you can see how that -- those assets are running and performing quite well.

And then, of course, one of our headwinds for the quarter was in the West Coast 9% market capture, and that's primarily driven by the wind down of the Los Angeles refinery and the impacts associated with that. So we had that impact in the third quarter. You'll see that impact continue into the fourth quarter, where we will have wind down expenses, but yet no barrels to offset that in the profile.

So we'll provide some clarity on that when we report in on the fourth quarter. Utilization was reasonably well in the West Coast at 88%. And of course, they're very complex refineries on the link product yields up there, too.

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

And the only thing I would add was that we're seeing -- we saw, as Rich mentioned, jet under diesel. Now those regrades have flipped and across all pads, jet is over diesel, which will be a tailwind for us and octane spreads have firmed as well with a weakening naphtha to crude and so that's also will be a tailwind for us as well.

Operator

Phillip Jungwirth, BMO.

Phillip Jungwirth - *BMO Capital Markets - Analyst*

Thanks for taking the question. On Western Gateway, how important is Phillips integration between Midstream and refining and designing and executing this project? And then separately, what's your level of confidence around regulatory permitting risk? And any different dynamics here to keep in mind between the greenfield pipe and the reversal in the California.

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

Yeah, Pill, we have a team that looks at integration opportunities that has representation from refining, commercial, midstream, all looking at where can we capture the most value, create the most optionality. And this this opportunity jumped right out of that kind of collaboration and it was a home run. And so we see opportunities both on the refining side we see commercial opportunities and certainly midstream is the glue that pulls it all together.

So Don, I don't know if you have anything on the regulatory side.

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

Yeah. The feedback that we've gotten initially from folks in the various states as well as in the federal has been encouraging and positive. We're obviously in the early days of going through the open season and and firming up any of the route nuances as we look at the new build, but we feel very positive in terms of the ability to get this project done.

And to follow on just to what Mark said, I think from an integration standpoint, this is a project that Phillips 66 is uniquely positioned to help facilitate and drive as really a compelling industry solution to market access for the Midwest refineries as well as satisfying a supply deficit in the West really feel good about where we stand and the opportunity set in front of us.

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

I've had conversations with key people at the federal level as well as the state level in California, and they are enthusiastic about this. I think the opportunity to leverage Mid-Continent energy dominance through infrastructure that can come online fairly quickly is very attractive at the federal level and California is looking for ways to provide energy security, and this does that.

So when you get both of those sides to the table in a positive way, I think that's a strong vote of confidence for the project.

Phillip Jungwirth - *BMO Capital Markets - Analyst*

Okay. Great. And recognizing Chemicals ran really well in the quarter. Just going back to industry capacity rationalization. I wanted to get your sense on the China anti evolution policies? And just how meaningful do you think this could be to help bring balance back into the market?

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

Well, I think you've seen it in refining in China, where the teapot refineries, it's the same kind of concept. We're hearing from our chemicals folks that they're looking at drawing a line in the sand around old, less efficient assets to make room for what they're doing around their crude to chemicals things. So I think that watch that space, I think that will result in rationalization of assets, maybe even as young as only 10- or 20-years old.

Operator

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

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

Thanks for all the great questions. We remain committed to our strategic priorities: consistently strong operational performance across our assets, disciplined investments which deliver attractive returns a strong balance sheet and a commitment to returning capital to shareholders.

Thank you for your interest in Phillips 66. If you have questions or feedback after today's call, please reach out to Sean or Owen.

Operator

Thank you. This concludes today's conference. Thank you all for your participation, and you may now disconnect.

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