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EDITED TRANSCRIPT

PSX.N - Q1 2026 Phillips 66 Earnings Call

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OVERVIEW:

Company Summary

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Don Baldrige Phillips 66 Co – Executive Vice President, Midstream And Chemicals

Brian Mandell Phillips 66 Co - Executive Vice President, Marketing And Commercial

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

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PRESENTATION

Operator

Welcome to the first-quarter 2026 Phillips 66 earnings conference call. My name is Rob, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded. I will now turn the call over to Sean Maher, Vice President, Investor Relations and Chief Economist. Sean, you may begin.

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

Hello, everyone. Good morning, and thank you for joining Phillips 66 first quarter 2026 earnings conference call. Participants on today's call will include Mark Lazier, Chairman and CEO, Kevin Mitchell, CFO, Don Baldrige, Midstream and Chemicals, Rich Harbison, Refining, and Brian Mandel, 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.²

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

Thank you, Sean. Geopolitical events in the Middle East drove unprecedented commodity price volatility during the quarter to put this in context, March was the first month that price moves in major crude oil, refined product, and European natural gas benchmarks all exceeded the 95th percentile.

In the face of this volatility, we remain focused on operational excellence. Our team is executing safely and reliably. The majority of our assets are in the US We have pipeline connectivity to some of the lowest cost and most reliable hydrocarbon corridors in the world.

This positions us to reliably supply energy to support global demand.

Due to the closure of the Strait of Hormuz, a significant amount of global refining and petrochemical capacity is down.

We, however, continue to operate at high utilization, supplying products to our customers. Additionally, we have global placement optionality through our commercial organization. This quarter has seen a significant and favorable shift in market fundamentals.

First, the importance of US Sourced hydrocarbons has increased due to a need for diversification and access to reliable supply. Second, unplanned downtime in global refining assets has reduced inventories and will support margins.

Finally, reduced petrochemical production globally due to downtime and higher naphtha prices has reduced inventories and will also support margins.

As a reminder, 80% of CP Chem's capacity is on the US Gulf Coast with competitive ethane feedstock. Recent global events show the importance of reliable domestic energy supply.

Our Western Gateway Pipeline project will address long-term refined products needs. Improved supply flexibility, and increased reliability for the West Coast markets.

We're excited about the future due to our strong asset footprint, culture of operating excellence, and attractive fundamental outlook across all of our businesses.

Anchored by the strength of our balance sheet, we're confident in our ability to navigate market volatility and capture opportunities.

Brian will now share more on slide 4 about how our commercial organization is one of our competitive advantages.

Brian Mandell - Phillips 66 Co - Executive Vice President, Marketing And Commercial

Thanks, Mark. We have a strong commercial organization with six offices across the globe. Our business enhances our asset footprint by optimizing feedstocks, delivering products into the marketplace, and capturing value. We capitalize on geographic dislocations and turn volatility into opportunity.

With our expertise in global market dynamics, we're ahead of the game. We have an asset-backed trading model and can leverage our physical footprint to take advantage of opportunities.

We trade over 6 million barrels of liquid hydrocarbons every day. This creates optionality and economic value. Markets are fluid right now, and volatility is likely to persist into next year.

Recent disruptions have created multiple opportunities. For example, we moved Bakken crude oil to our Beaumont terminal on the US Gulf Coast and then leveraging the Jones Act waiver to our Bayway refinery.³

We displaced international crudes with domestic grades into our refining system and sold the international barrels into tight overseas markets. We placed gasoline from our US Gulf Coast's commercial blending facilities into the West Coast using the Jones Act waiver.

We leveraged our global footprint to deliver LPGs and naphtha produced at our Sweeny hub to global petrochemical customers around the world.

Commercial performance is included in the results of our operating segments, enhancing their margins and improving market capture. Moving to slide 5, the recent shock to the global energy system has been universal. Refining capacity has been damaged, logistics have shifted, arbitrage routes have changed.

We are watching these and other signposts closely to capture additional value. The differentials between global indices and physical markets have spiked, and forward markets are heavily backwarddated.

This dynamic reflects tight global crude oil balances. The outlook for product markets looks even tighter, and we expect refining margins to be constructive through the remainder of the year.

Our market analysis, commercial capabilities, and global footprint enable us to optimize the flow of molecules around our system.

Our team maximizes the margin uplift across our value chains. Here are two examples of how we are optimizing our system.

First, we've added two dozen originators around the globe. They speak the language. They know the culture. And they know how to source deals that unlock more value and optionality, providing long-term access to key global markets.

Second, we've tripled our vessels on Time Charter in the past two years, securing roughly half of our waterborne crew slate.

The global tanker fleet has become tight with limited spot availabilities and a large share of sanctioned vessels.

This has caused freight rates to increase to historic levels. By locking in our freight rates early, we reduce the cost of crude to our refineries.

We optimize around our refineries, pipelines, and terminals to ensure that we're leveraging every molecule and driving additional value from our fundamental knowledge of the global markets. Backed by world-class assets, we find opportunity and volatility to deliver greater shareholder value.

Now, I'll turn the call over to Kevin.

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

Thank you, Brian. On slide 6, first quarter reported earnings were \$207 million or \$0.51 per share.

Adjusted earnings were \$200 million or \$0.49 per share.

As a result of a sharp increase in commodity prices during the first quarter, the company's financial results were impacted by mark-to-market losses of \$839 million related to short derivative positions used as economic hedges to manage price risk on certain physical positions.

We had a use of operating cash flow of \$2.3 billion. Operating cash flow, excluding working capital, was approximately \$700 million. Capital spending for the quarter was \$582 million.

We returned \$778 million to shareholders, including \$269 million of share repurchases and \$509 million of dividend payments. We increased the quarterly dividend 7% on an annualized basis.

I will now cover the segment results on slide 7.

Total company adjusted earnings were \$200 million. Midstream results decreased mainly due to lower volumes, largely due to impacts from winter storm Fern, lower margins associated with customer recontracting, and accelerated depreciation associated with a Permian Basin gas plant.

In chemicals, results increased mainly due to higher polyethylene margins. Across refining, marketing and specialties, and renewable fuels, results decreased mainly due to mark-to-market impacts.

In corporate and other, the pre-tax loss increased primarily due to the inclusion of costs associated with the decommissioning and redevelopment of the idled Los Angeles refinery site.

Slide 8 shows cash flow for the quarter.

We started the quarter with a \$1.1 billion cash balance. Cash from operations, excluding working capital, was approximately \$700 million.

It was a \$3 billion use of working capital, mainly reflecting an inventory build and an increase in cash collateral on derivative positions, partly offset by the net benefit in our payables and receivables positions associated with rising commodity prices.

We funded \$582 million of capital spending. And returned \$778 million to shareholders through share repurchases and dividends.

Our commitment to return greater than 50% of net operating cash flow to shareholders remains unchanged. The company increased debt in the first quarter. Given the sharp increase in commodity prices, we issued a term loan and increased borrowings on short-term facilities to manage the margin collateral requirements.

We ended the quarter with \$5.2 billion in cash. We are well positioned to manage further commodity price volatility through significant liquidity, including a high cash balance and cash generated from operations.

Slide 9 shows the projected path from the current debt level to year-end 2026 and 2027 debt.

We remain fully committed to a total debt balance of \$17 billion by year-end 2027. Consensus cash from operations for 2026 and 2027 is approximately \$8 billion.

In the remainder of 2026, we expect operating cash flow, working capital benefits and the reduction of cash balances as markets stabilize to enable us to reduce debt to approximately \$19 billion.

In 2027, we expect operating cash flow to enable us to reduce debt by a further \$2 billion to \$17 billion. This is consistent with the capital allocation framework we have previously laid out, with approximately \$2 billion each to dividends, share repurchases, capital spend, and debt paydown.

Looking ahead to the second quarter on Slide 10, in Chemicals, we expect the global O&P utilization rate to be in the low 80s, driven by the uncertainty of operating levels at CPChem's joint ventures in the Middle East.

In refining, we expect the worldwide crude utilization rate to be in the low to mid-90s. Turnaround expense is expected to be between \$120 and \$150 million. We anticipate corporate and other costs to be between \$430 and \$450 million.

Moving to slide 11, Mark will now provide some final thoughts. We will then open the line for questions.

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

Great things happen when preparation meets opportunity. The current environment is attractive across all our businesses.

We've prepared by focusing relentlessly on what we control, cost, culture, competitiveness, and capital with discipline, all in the service of safe, reliable operations that deliver strong shareholder returns. Our teams are performing and we're pressing in and capturing those opportunities, fully prepared, fully committed to execute and win. When we win. You win.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Steve Richardson, Evercore ISI.

Stephen Richardson - Evercore ISI - Analyst

Hi, thank you. Guys, I was wondering if we could start on the mark-to-market adjustments, and wondering if you could give us some color. On some of these impacts by segment, if you could. And I know you addressed this in the 8-K, but if you could get into a little bit of how the volatility that you witnessed was outside the bands of expectations.

And can you also just be sure to hit on how you think about that draw of liquidity, what it means going forward, and any impacts it may have on your shareholder return commitments?

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

Yes, Steve, this is Kevin. Let me walk through some of that detail. So as we laid out in the first quarter, we saw a \$839 million mark-to-market loss from an income statement standpoint that impacted refining M&A and renewables and the specific amounts by segment were detailed in the press release.

This is broadly consistent with what we put out in the 8-K, we said approximately \$900 million at that point, that was our best estimate at that point in time. And so I think it's important to make it clear that these are mark-to-market impacts on paper hedges that we have in place to offset physical purchases.

The those purchases are mark-to-market at the end of each month, but the physical inventory is not, and so there's a net impact through the income statement.

I do think it's important to emphasize that we do this to protect economic value. This is a risk mitigation tool. We've been doing this for some time. It's standard practice. And in the normal course, the impacts of these mark-to-market transactions are just not that significant, not that material. But as Mark mentioned in his comments, we saw.

Unprecedented volatility across the commodity markets in which we participate that cause this, we'll say, is a sort of outsized impact.

As you look ahead in terms of what you can expect on a go-forward basis, it's very much a function of where the commodity prices move from end of March, think through, say, the end of the year and if we were to use the forward curve as of end of the day yesterday, we'd recover by the end of the year about \$500 million of that \$8.93 million, and it's a commodity-by-commodity calculation on a quarter-by-quarter basis.

So based on the forward curve, if that were to play out as reality, that's what you'd see come back in that context. From a cash standpoint, we have at the end of the quarter, we had a total of \$3.2 billion out on margin associated with all of this activity.

That differs from the income statement effect because there are other barrels being marked where we actually do a corresponding impact to reflect the physical gain.

And so you have more paper activity than is subject to the income statement related mark-to-market. That cash impact will come back.

Two ways it comes back. One, directly in falling prices, you'll see the reverse effect. But in normal course, because this is a continual process, as volatility subsides, we effectively consume this cash through our normal purchasing activities. So just to put some context around that, \$3.2 billion out on margin at the end of March.

At the end of yesterday, it was \$2.1 billion, even though the absolute price levels are pretty similar to where they were. At the end of the first quarter. And so you will see that come down as we work our way through the year.

And then as we get into, what does this mean in terms of capital allocation, debt reduction, share buybacks, big picture.

And I covered it in the earlier comments and the slide that we put in the presentation on debt targets, we think we will be able to utilize between working capital benefits in the remainder of the year operating cash flow and as the market stabilize, we don't need to carry that much cash, which is what we showed at the end of the quarter and still do, but we can draw down that cash, get debt down to about \$19 billion at the end of this year.

And then down to our target \$17 billion next year, all while still returning 50% of our operating cash flow back through dividends and buybacks.

And quite frankly, we used the street estimates for cash generation in that calculation, but I feel pretty optimistic that there's upside there as well, and we'll hold true to that, so 50%.

Back to shareholders and the other excess will just accelerate that reduction.

Stephen Richardson - Evercore ISI - Analyst

That's great. Thanks for the fulsome answer, Kevin. I was wondering if I could just hit on as well we've got you on CPChem. The consultants have full chain margins up, I believe, \$0.33 at last check for the second quarter.

I was wondering if you could talk about what you're seeing in your business and your view on capturing this with obviously very high utilization rate on the US Gulf Coast into the second quarter and the balance of the year.

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

Yes, absolutely, Steve. This is Mark. Yes, CPChem is well-positioned to go out and capture those margins. There can be some contractual step-ups that occur, but they're certainly out there aggressively pushing that.

You've seen the supply and demand situation tighten up dramatically with the limitations coming out of the Middle East. And additionally, you've seen limitations for producers in Asia that, frankly, some countries in Asia are selectively moving hydrocarbons away from petrochemical production and into energy use to protect that.

And so that further tightens things up. And the cost curve has dramatically shifted. As the price of oil has gone up versus low-cost ethane in North America, you see that price floor going up, driving the margin increases. And then there's this factor that prior to. To Venezuela, prior to the activities in Iran, China was accessing deeply discounted crude.

And so they were converting that into deeply discounted naphtha and then pouring that polyethylene into the world market. We think that somewhere in a \$0.05 to \$0.06 per pound advantage versus what the cost curve should have been. Now that's been eliminated with the things that have been going on. And so it's very constructive for CPCChem. They can operate.

From the US Gulf Coast at high rates, over 80% of their capacity is in the US, access to advantage ethane feedstocks that have been that that feedstock cost has been stable versus what's been going on in the rest of the world, so they're very well positioned to go out and capture those margins.

Stephen Richardson - Evercore ISI - Analyst

Thanks very much.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - Goldman Sachs Group Inc - Analyst

Yeah. Good morning, Mark and team. The standout number from this quarter was really the worldwide market capture, which ticked up to 138% and maybe you can bring this to life a little bit. Can you give us a couple of examples of dynamics that specifically drove that strength?

And then when we think about sort of a mid-cycle market capture rate, you've talked about mid-90s type of utilization. I think there are a lot of investors on the call who are thinking that 2Q could be lower than that mid-90s number though just because of the backwardation in the curve and just your perspective if that is actually achievable as we set up for Q2?

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

Yeah, Neil, it's a great question. Brian, he was pretty humble in his opening remarks, but we always talk about optionality and creating optionality and what he and his commercial team demonstrated in Q1 is leveraging that optionality. You think about moving Bakken crude to New Jersey without using a train.

And leveraging the shipping logistics that they've at least advanced. So we've got an advantage over shipping using the Jones Act waivers.

All those things lined up to where Brian and his team could take full advantage of that and to drive that. And that's what drove that pretty remarkable capture number. And we're really proud of what they've been doing. They weren't sitting around watching the world in a crisis.

They were moving things to take advantage of the optionality. Created and we're prepared for. So, Brian, you can go ahead and talk a little bit more about what your folks have been up to.

Brian Mandell - Phillips 66 Co - Executive Vice President, Marketing And Commercial

Hey, Neil, as Mark said, with the huge amount of volatility in the market, with market dislocations and just the integration of our businesses, there was a lot of value to be had in the market.

Just maybe some examples, we profited from a long RIN position, including RINs we generated at a Rodeo Renewable facility, and we were also able to roll some lower-cost RINs for prior. Year into this year. We had really strong results in our European and Asian trading businesses.

As I mentioned earlier, and as Mark mentioned, the time charters that we put on over the last couple of years really helped in the elevated freight market and reduced our accrued costs into our refineries. And then finally, you saw some of the product differentials like on octane and jet were higher than the indicators, so that helped as well.

And so to give you some context maybe going forward, if we use our refining indicator, it includes a lot of the impacts already. It's embedded in the indicator. Historically, an average for the year would be 98%.

In Q1, we captured benefited from all the commercial opportunities I just mentioned. Normally, in Q2, beginning of summer driver's season, we would think about mid-50s.

So just thinking about some of the tailwinds and headwinds, tailwinds, things like butane blending. We think there'll be more butane blending due to the RVP waivers, strong jet or octane diffs can help us there, and additional commercial value, and I think we'll continue to see some of the same value we saw in Q1.

But then there's some headwinds, as you said, backwardation, the inventory impacts and even turnarounds if we had some in Q2 would impact capture. So I'd start with the mid-90s and think about what you think the market will look like in Q2 and then work your way from there.

Neil Mehta - Goldman Sachs Group Inc - Analyst

Is it fair to say mid-90s is a good starting point, though, based on the pluses?

Brian Mandell - Phillips 66 Co - Executive Vice President, Marketing And Commercial

Yeah, mid-90s would be a good starting point.

Neil Mehta - Goldman Sachs Group Inc - Analyst

Okay. All right. And then, Kevin, can you hit slide 9 again, maybe in a little bit more detail, because this is on the pushback since they came out that I know you and we have gotten on the PSX stores, is leverage pretty elevated. And I think part of that is you're just holding excess cash. And so if you could spend a little more time just unpacking this slide, because I think it is important.

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

Yes, and that is a really important point that we've effectively, from a debt and cashed out standpoint, we sort of grossed up the balance sheet by borrowing more than we need from a normal day-to-day standpoint, but being positioned in the event that we see more extreme volatility and have a need on, for example, margin calls in the event that significant price increases, it does feel like since the. The end of the first quarter, that dynamic has settled down a little bit. I mean, the markets still continue to fluctuate, but we've been in this, if you look at crude in this sort of \$90 to \$110-ish band over that period. And so our expectation is, as market conditions stabilize, we'll be able to draw that cash down and clearly that will have an offset on debt. Likewise, on.

Working capital, we had a big working capital use in the first quarter. We expect that to more than come back over the course of the remainder of the year through the combination of normal sort of annual trends. First quarter is usually a working capital use for us. It was exacerbated

by the margin calls this year, but we expect that we. Recover that and end up our projection is a slight working capital benefit for the year, for the full year, that's our assumption.

And then operating cash flow, we expect to have healthy operating cash flow and that will go to debt reduction. And as you roll into next year, we continue to have that sort of \$80 billion of operating cash flow, then a couple of billion of that can go to debt reduction pretty comfortably.

All that gets us to our projected \$17 billion target. And I will emphasize that if we see a continuation of strong margin conditions in refining and chemicals, that will further enhance the cash generation, will enable us to pay down the debt quicker and also enable us to return more cash to shareholders.

Neil Mehta - Goldman Sachs Group Inc - Analyst

Very clear. Thank you, Ken.

Operator

Manav Gupta, UBS Financial.

Manav Gupta - UBS AG - Analyst

Good morning, guys. I have more of a theoretical question. But I'm trying to get to the bottom of this. Based on your preliminary comments, it feels your refining system, which is in the US Mostly, is relatively insulated from these crude supply disruptions and other things that are happening in the world where certain refining assets may be very good but can't run.

You are relatively insulated from these things. And what I'm trying to understand is, does that mean. Somebody like a Phillips or even any US Refiner in this environment is structurally better off than their global counterparts and if that is the case, in your opinion, is this the time to be bullish US Refining or is it this time to be bearish US Refining, if you could help us answer that.

Brian Mandell - Phillips 66 Co - Executive Vice President, Marketing And Commercial

No, it's Brian. You're absolutely right. This is the time to be bullish US Refining. If we look at what's happened in the marketplace, it started in Asia, moved to Europe, but US Has been relatively insulated on supply. Refinery runs are strong, consumer demand is healthy, crude production is relatively stable.

And this kind of highlights how we're immune to the crisis, although not to the higher prices. But largely, our accrued, for instance, at Phillips 66, we only purchase about 1% of our accrued from the Middle East.

Our accrued is generally from Canada, from the US, and from Latin America. And of course, from Canada and the US, it's all pipeline-connected. So we are in a very good position.

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

And I would add to Brian's comments, and you think about the activities that they undertook in the first quarter, they do interface with the rest of the world, so they're able to move around and leverage domestic supply and push normal imports out into...

What the global markets are demanding. And then in addition to that great position in North American refining, CPChem is rock solid in North America petrochemicals in the high-density polyethylene value chain. So all of our product lines, all of our businesses really have tailwinds in this environment, and we think that those tailwinds will persist for a considerable amount of time.

Manav Gupta - UBS AG - Analyst

We completely agree. Quickly pivoting to sometimes people forget that you actually own significant amount of renewable diesel capacity in the US, you never actually entered into a JV to split your capacity. Renewable diesel margins were negative, everybody was losing money, but we are in a very different environment. Given the size of your footprint, would it be fair to say.

Year-over-year, you could see a material free cash flow infection in your renewable diesel business given where we are right now.

Brian Mandell - Phillips 66 Co - Executive Vice President, Marketing And Commercial

Well, absolutely. Even if you just think about the RINs, Manav. The current blended RIN is more than twice what it was in 2025. So it's just the credit value alone, and we are running very well right now. In fact, above nameplate capacity, so you should see a substantial difference in the prior year.

Manav Gupta - UBS AG - Analyst

Thank you so much.

Operator

Doug Leggate from Wolfe Research, please go ahead. Your line is open.

Doug Leggate - Wolfe Research - Analyst

Hey, good morning, everybody. Thank you for taking my questions. Brian, I wonder if I could direct this to you. So we've got extraordinary margins you pointed out multiple times that it's deeply backwardated and I get the bullish near-term outlet. The question is duration and what breaks it and we're seeing a lot of airlines cutting capacity or balancing demand through demand disruption, you could argue, versus physical supply constraints.

What's your response to that in terms of margins are great, but what's your view on duration? And now I've got a follow-up for Kevin, please.

Brian Mandell - Phillips 66 Co - Executive Vice President, Marketing And Commercial

Thanks, Doug. Our view is this is going to last throughout the rest of this year and into early next year. If you think about what's going on, it's.

It's less about demand destruction and more about demand constriction, trying to manage the need for products and we kind of think of it as a race to the top.

We're watching very tight food markets and crude prices keep moving up over \$106, say, on TI, \$118 on Brent. And as crude prices move up, products are going to have to move up even further to open up the refinery margin to keep refiners producing the products that the world needs.

Really the world is tight, and as you mentioned, probably jet fuel is the tightest, so the refinery margins are going to have to keep opening.

And we saw that even, for instance, in our European refinery recently, where we saw the gasoline crack was somewhat weak compared to the distillate crack, which seemed to be slowing down European refineries. And then all of a sudden, the gasoline crack made a large move to the upside, opening up margins so that European refineries could produce the products that they need. So I think we'll continue to see that through this year. To the early part of next year, even if the straits are opened in the next month or two months.

Doug Leggate - Wolfe Research - Analyst

Brian, would you treat this as a, would you annuitize this or treat it as a windfall?

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

What was the question?

Doug Leggate - Wolfe Research - Analyst

Would you annuitize this or would you treat it as a windfall?

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

In other words, are the margins going to persist? I think we see them persisting for. Longer than the straits being closed. Annuitize it, I don't know that we're at the point where we would annuitize anything, but we see it more than just a few months phenomenon.

Doug Leggate - Wolfe Research - Analyst

So, thank you for that. This is my follow-up question, which is for Kevin. Kevin, your share price is 5% off its high.

And, I think Mark just said we wouldn't annuitize this.

This is the opportunity to permanently shift this windfall to your equity value comes from debt reduction versus buying back your shares. Why is that not the right answer and if this is indeed a windfall?

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

Yeah, Doug, so you are correct that debt reduction is creates equity value as well, and debt reduction is a priority.

The \$17 billion target that we laid out there is a target. If we have significant excess cash generation, we will reduce debt below that level. I'm not going to go so far as to say we will stop buying back shares so it can all go to debt reduction. I think having maintaining a degree of balance through the cycle on capital allocation, we've been pretty clear on the 50% return of which at current levels, about half of that is the dividend and the other half is buybacks.

But as the absolute level of cash generation increases, by definition, if you take 50% back to shareholders, that's an increasing amount also going to the balance sheet. And so we view it as a balance across the Board. As of right now, while we may only be a few percent off of our high, we still think there is. Good value in our share price. And so we feel comfortable with that plan and capital allocation.

Doug Leggate - Wolfe Research - Analyst

Thanks so much for taking my questions, guys.

Operator

Joe Laetsch, Morgan Stanley.

Joe Laetsch - Morgan Stanley - Analyst

Hey, good morning, Mark and team, and thanks for taking my questions. So I wanted to start on the macro, just given where product prices are today, can you talk about the demand trends that you're seeing within your system in the US? Are you seeing any signs of demand disruption on gasoline and diesel? And then inventory levels in the US have drawn to at or below the five-year range on products, so things are starting to look pretty tight.

Brian Mandell - Phillips 66 Co - Executive Vice President, Marketing And Commercial

Hey, Joe, this is Brian. We haven't seen much demand disruption, probably 1% down for products, both gasoline and diesel. And then in terms of our system, we've actually done really well. We added over 500 franchise stores last year in marketing, so we're actually seeing a lot of value from the good work the sales team has done in marketing. But we haven't seen demand destruction in the US

Joe Laetsch - Morgan Stanley - Analyst

That's helpful. And then I wanted to just ask on the refining side, utilization rates of 95% in the quarter were solid, even with some maintenance and some third-party pipeline impacts as well. Can you just talk to some of the drivers of the performance during the quarter? And then as part of that operating costs, they continue to trend in the right direction. And I recognize there is variability quarter to quarter with throughput and natural gas costs. But could you just touch on what you think you're in in terms of cost reduction efforts and the path to the \$5.50 per barrel?

Rich Harbison - Phillips 66 Co – Executive Vice President, Refining

Yeah, Joe, this is Rich. Thanks for the question. Yeah, first quarter, I'll start with the cost per barrel and then maybe look back at some of the regional performance. Opportunities that we see last quarter. The cost per barrel, 1Q, was \$6.21. That's actually \$0.80 per barrel improvement year over year. So good movement there. I'm very happy with what the team has accomplished on that front. Quarter over quarter, as you indicated, it was slightly higher, and that's primarily due to fewer barrels processed in the quarter. And that was a combination of planned maintenance activity, as well as there's just fewer days in the quarter, in the first quarter of the year, and that does have a material effect. Total process inputs were down about 2% quarter over quarter.

Seasonally higher natural gas price was also a big player in this.

Price has gone all the way, I think, averaged about \$4.87 per MMBtu at the Henry Hub. If we normalize that back to the \$3 annual natural gas price, which is the basis we've used for the \$5.50 target, the number moves into the low \$5.80s on a dollar per barrel Opex basis.

So that says, we're well within striking range here of this 550 per barrel target in 2027.

And the organization is really working hard. They've actually got over 200 initiatives that we're actively pursuing right now, which are forecasted to drive 15 to \$0.20 per barrel out of the base operating costs. And these are structural changes. In our cost profile and continuing a trend that we've started here well over four years ago now.

And maybe an example of one or two of these.

One of them is really changing our approach to how we clean FCC boilers. It doesn't sound like something very exotic, but that actually will, once accomplished, will drive down our annual cost by well over \$3 million.

And another example is really acid consumption in our sulfuric acid alkylation units. And we're working on tightening up the process controls and the temperature controls on those. That strategy is projected to save another \$2 million per year. So it's racking these winds up one by one by one across the system, and the team's been doing a fantastic job of doing that. So, the balance of the closure.

I see us continue to increase our availability and utilization of the assets, the continued maturity of our reliability programs, as well as something I've mentioned before, which is increasing our total process inputs by filling up the downstream units behind the crude units, using all that discipline that we put in for the crude unit side to apply it to the downstream units.

So this remains an ongoing execution story, and I'm very happy with the way the organization is progressing it, and we do see additional upside on that.

On the market capture regional performance side of the business, Brian covered a lot of that generally at the macro level, but what we saw on the refining side was cargo prices coming in a little bit lower for us in refining, and some of that's.

Just the anomaly of pricing, we got prior month pricing that's coming in on crude deliveries and really good work by the European office to capture strong results and especially on the jet side of the business, the kerosene fuel as those prices disconnected from traditional tie to distillate.

On the Gulf Coast, we saw the same similar story jet production there quarter-on-quarter was very high for us, and it was also very timely with the jet pricing blowing out coming out of the Gulf Coast area as well, and then in the central corridor.

This is where we had a lot of our turnaround activity focused for the quarter. So we did see the market capture actually go down a bit there. And that was related to maintenance activity at Wood River and Border facilities and some mark-to-market impacts that Kevin had pointed out earlier in the call here.

And last but not least, the West Coast was in a pretty good spot.

As you mentioned, there was some impact with third-party pipeline operations there that slowed down our Pacific Northwest operations. But short of that, the team did a fantastic job of capturing the marketplace.

Joe Laetsch - Morgan Stanley - Analyst

Great. Thank you. Appreciate it.

Operator

Phillip Jungwirth, BMO Capital Markets.

Phillip Jungwirth - Bank of Montreal - Analyst

Thanks. Good morning. How does on midstream, just how has the higher crude prices changed, how you're thinking about investment opportunities, if it becomes clear there's going to be a greater call on shale, we see the Publix raise Capex, just would you be willing to look more at organic growth here?

If so, which parts of the value chain would that consist of GMP, pipeline, frac or exports? And then just last, just how much sensitivity is there around the \$4.5 billion mixture and EBITDA target by year-end '27 if we do see higher US volumes?

Don Baldrige- Phillips 66 Co - Executive Vice President, Midstream and Chemicals

Hi, Philip, this is Don. When I think about the crude prices and the activity, what I would say, first and foremost, that capital discipline, returns, those are very important to us. But certainly, as opportunities evolve, whether that's volume growth in the field where we can add gathering and processing capacity to serve our customers and fill our value chain.

We'll certainly pursue those opportunities. We've got growth plans in place. You'll see us continue to add capacity as the customer needs evolve. I think that's center of the fairway of our midstream growth plans.

You'll see that we try to maintain a balanced value chain. What I mean by that is adding gathering and processing capacity, making sure we've got the downstream infrastructure, but also being mindful of what capacities are needed in the market, again, going back to staying focused on capital discipline, staying focused on the returns that we can generate with those organic growth opportunities. In terms of 2027 and our \$4.5 billion.

Target, we feel very good about that target, the path that we are on. Certainly, the fundamentals are bright.

Coupled with our execution and commercial successes, we feel very comfortable with where we are on that trajectory, as well as the ability to sustain that growth beyond 2027.

Phillip Jungwirth - Bank of Montreal - Analyst

Great. And then coming back to chemicals, once the strait opens up, how do you see the progression for getting back to normal operations for CPChem, where you are guiding the lower 2Q utilization, but obviously benefiting on the margin front in the Gulf Coast?

And if you could also just count on the broader industry, that would also be helpful just in terms of what does that scenario look like, steps to take and time duration to get back to normal?

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

I think as far as CPChem is concerned, the assets in the Middle East that are offline are in good shape. The bigger question is then the greater infrastructure in the Middle East and what challenges there may be. I think that there's probably a greater sense of urgency to get crude oil and refined products moving.

And then petrochemicals may be a next layer, so I think that revival from the Gulf will be a little lag behind the energy recovery.

And then you're going to see the system need to repopulate the inventory chain, the logistics chain, and that will take some time. So I think you'll see this have some legs on it.

Now, we've got two big projects underway, too, and those projects, the Golden Triangle project in the US And the RLPP project in Qatar.

Are both proceeding as expected, and there's been no disruption in the progress of the RLPP project in spite of what's going on. Everybody's been safe.

Everybody's doing what they need to do to get that project going. And both those projects will come online fully in 2027. You'll see.

Golden Triangle Polymers starting to commission things later this year, and they're making great progress. And so I think they will contribute capacity at a time when it'll be really sorely needed, I think. And so there'll be good progress from multiple dimensions for CPChem as this crisis resolves itself.

Phillip Jungwirth - Bank of Montreal - Analyst

Thank you.

Operator

Lloyd Byrne, Jefferies.

Lloyd Byrne - Jefferies LLC - Equity Analyst

Hey, good afternoon, Mark, Kevin, team. Thank you for having me on. Can I start by following up on Neil's question on capture? And I know you commented on how well-positioned your transportation is, but how does that impact second-quarter capture or maybe even third quarter if rates continue to go on like this?

Brian Mandell - Phillips 66 Co - Executive Vice President, Marketing And Commercial

You should see a benefit, given that we locked in our shipping rates, over the last couple of years and shipping rates are so elevated, you should continue to see a benefit from shipping rates, particularly in our Atlantic Basin region.

Lloyd Byrne - Jefferies LLC - Equity Analyst

Okay. Thanks. And let me ask a follow-up of -- I don't know whether Don's on, but maybe Mark can answer it. You can comment on Western Gateway and obviously a very good open season. Just what are the hurdles left and kind of the timing for FID?

Don Baldrige - Phillips 66 Co - Executive Vice President, Midstream and Chemicals

Hey, Lloyd, this is Don. I appreciate the question on Western Gateway. We are quite excited about where we are on the Western Gateway project, the progress we've made to date, and where we find ourselves at the end of the second open season.

How I see the path forward here is to complete the JV arrangements with Kinder Morgan, as well as execute the transportation agreement with the third-party shippers, we've got a team that's working hard to get that done.

I would say with the successful conclusion of that work over the next couple of months, I'd expect we would be in a position to FID this project mid to late summer again for a 2029 in-service date and one of the things as I reflect back on just.

The progress we've made and what we've learned through the open season is really twofold: one, I think there is a strong market interest in having a new-build pipeline built to Phoenix and be able to deliver reliable, secure transportation fuels to the West.

And then, two, there's strong support from the state and federal groups, agencies, and officials in having this pipeline in service as soon as possible. So that gives me a lot of confidence that Western Gateway is the right project at the right time and will deliver the right returns.

Lloyd Byrne - Jefferies LLC - Equity Analyst

That's great. Thank you, guys.

Operator

Jason Gabelman, TD Cowen.

Jason Gabelman - Cowen and Company LLC - Analyst

Hey, thanks for taking my questions. I know you reiterated the \$4.5 billion of EBITDA on midstream. 1Q obviously moved sequentially lower, particularly in the NGL business quarter-over-quarter. Can you just help us, I guess, bridge.

Quarter-over-quarter decline and remind us how you get to that \$4.5 billion and perhaps given Western Gateway and potential for continued activity, do you see what type of upside do you see from that \$4.5 billion?

Don Baldrige - Phillips 66 Co - Executive Vice President, Midstream and Chemicals

Sure, Jason, appreciate the question. Just in summary, at the very onset, absent the impact of volume from winter storm FERN, we're right where I expected us to be from a quarter one performance.

We continue to have great commercial success, not only in the growth, but also in the recontracting, which that had some impact in Q1 and let me maybe unpack that a little bit. When we think about.

Our renewals, we're quite proactive in how we do that. We tend to renew those a year prior to their expiration dates.

The ones that came up for this quarter, we had renewed those and what was exciting about that is we had renewed those for 10-year-plus terms.

For me, that really validates the success of our customer service, the success of our relationships with our customers. That execution gives me a lot of confidence in our ability to continue to grow into our \$4.5 billion target by 2027.

The fundamentals are bright, the execution by the team is strong.

And as we look through with Western Gateway, whether it's some of the follow-on expansions, we talk about additional gas plants, that gives me confidence that we can sustain this growth rate beyond just 2027.

Jason Gabelman - Cowen and Company LLC - Analyst

Got it. And I neglected to ask about the LPG export ARB opportunity in the current environment, so if you could just talk about how you're thinking about that?

Don Baldrige- Phillips 66 Co - Executive Vice President, Midstream and Chemicals

Sure. In the near-term, most of our windows are spoken for either with our term customers or by ourselves from our time charters. Where we've had success is really in our delivered time charter market, where the team in Singapore has been able to optimize deliveries, be able to take advantage of the volatility, much like what you just heard Brian talk about.

I think overall, what this shows is the importance and the strength of the Gulf Coast LPG export capability. So I think this will continue to be a good tailwind for Gulf Coast exports, and we expect Freeport to be a beneficiary of that outlook.

Jason Gabelman - Cowen and Company LLC - Analyst

Great. And my follow-up is just on some of the assets you have on the West Coast. One, given Western Gateway, does that make Ferndale any more or less core to the business than it previously was? And maybe can you also talk about the opportunity to sell down part of the interest in the renewable diesel plant as your peers have done and as that market has strengthened here?

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

Yes, absolutely. From a Ferndale perspective, Ferndale is integrating well into the California market, and we see the two things complementary. They're more targeted at Northern California. Western Gateway is a Southern California opportunity, and so we still see strong tailwinds for Ferndale as they enhance their capability with carbon and sustainable aviation fuel and blending, and so they're in a strong. Position, and Western Gateway will come in and provide some stability in Southern California.

The other question about renewable, yeah, I think that we'll see what the market does. The asset is running strong. We would always entertain any interest, but it's a great asset, world-class asset. Runs like a Swiss watch, and we're seeing great value from that asset today.

Jason Gabelman - Cowen and Company LLC - Analyst

Great. Thanks for the answers.

Operator

Theresa Chen, Barclays.

Theresa Chen - Barclays Services Corp - Analyst

On the midstream front, with the crude price outlook likely risk to the upside over the medium-term and potential re-acceleration of activity in second-tier basins, can you talk about utilization and the ability to expand your past four NGL assets that are now or soon will be connected to Kinder's WH conversion now in NGL's surface? Is there renewed growth, if there is renewed growth in associated gas either in the Bakken or in the Rockies. How much incremental pipe capacity could you have on your rocky Sweeny NGL system or would that require significantly more investment?

Don Baldrige- Phillips 66 Co - Executive Vice President, Midstream and Chemicals

Hi, Theresa. I appreciate the question. In the Rockies, right now, actually, our DJ production, we're seeing some record volume. So it's very exciting to see the volume in that area. And certainly, as you alluded, there's opportunities, whether that's in the Powder River Basin or the Bakken, for additional development. We certainly have a well-positioned NGL

Network out of Colorado that flows through our system in multiple different routes and feeds into our Sweeny complex. We've recently restarted our Powder River NGL pipeline to be able to take some early Bakken barrels. If there's growth in that area, we would certainly look at opportunities to be able to expand capacity, to be able to fill the downstream pipes that we have out of the Rockies. So that is certainly an area that we're keeping an eye on.

Theresa Chen - Barclays Services Corp - Analyst

Thank you. And in regards to Western Gateway, now that the commercialization process is done, what range of total Capex and expected build multiple on a 100% basis can you share at this point, regardless of how the economics would be split between the partners?

Don Baldrige - Phillips 66 Co - Executive Vice President, Midstream and Chemicals

We still need to kind of work through some of the final details with our partner in terms of scope and connections with our prospective shippers. So we're probably premature to have that information out there, but it will be out there shortly.

Theresa Chen - Barclays Services Corp - Analyst

Thank you.

Operator

Matthew Blair, TPH.

Matthew Blair - Tudor Pickering Holt & Co Securities LLC - Analyst

Great, thank you. Just one question for me. Could you talk about the Canadian crude market? Looks like WCS at Hardesty is one of the most attractive crudes out there. Are the wider diffs relative to TI due to any pipeline constraints coming out of Canada? And then the market structure impacts that you talked about earlier. For US Inland barrels, would those apply to Canadian barrels as well, or are they not affected by that?

Brian Mandell - Phillips 66 Co - Executive Vice President, Marketing And Commercial

I'd say clearly the WTI/WCS differentials have moved wider from very tight levels earlier on this year. They're now next month at almost \$18 off.

And a couple of reasons. The first reason is that light sweet crudes from the US are being pulled to Asia, and so that's tightening up light sweet crudes and mediums towers and the second reason is that the Venezuelan barrels on the market and also some planned and unplanned outages at refineries have put some pressure on the heavy grades. And so that's kind of widened the WTI/WCS.

And our kind of view is that they're going to stay wide for some period of time. We're in a very strong position with our mid-con portfolio and our pipeline position, which is a competitive advantage given the Canadian crudes to our refineries, and we benefit from those widened differentials, as you mentioned. And currently, just as a reminder, our sensitivity is \$140 million of additional earnings for every dollar wider that the diffs become.

Operator

And this concludes the question-and-answer session. I will now turn the call back over to Sean Maher for closing comments.

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

Thank you for your interest in Philips 66. If you have any questions or feedback after today's call, please reach out to Kirk or myself. Thanks and have a great day.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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