TRANSCRIPT
GOLDMAN ENERGY CONFERENCE KEYNOTE

PHILLIPS 66 (NYSE: PSX)
January 7, 2021, at 12:45 p.m. ET

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TRANSCRIPT

Neil Mehta: Thank you for joining us here for the keynote of our Day 2, which is a conversation with Phillips 66 and the leadership team, particularly Mr. Greg Garland, Chairman and CEO of Phillips 66, joined by Jeff Dietert and Kevin Mitchell. We're thrilled to have Greg for an important discussion about the evolution of the energy sector and the future of energy demand and how energy companies and majors can create value in the downstream. Greg has been a leader in this industry, particularly since the spin of Phillips 66, with incredible focus on return on capital employed. The stock has outperformed the energy sector broadly here since the spin, and I think they have a really interesting presentation that focuses both on decarbonization and also strategic priorities coming out of the pandemic.

So Greg will kick it off with some opening remarks. The slides can be found here in the deck, and we'll jump into Q&A. Thanks again, Greg, for being there and the whole team.

Greg Garland: Great. Well, first of all, thank you, Neil. And hello, everyone, and happy New Year. It's great to be here with you today at the Goldman Sachs Energy Conference. It's just that we want to talk about the future of downstream today, certainly in the context of the evolving energy landscape. I'm going to give you a little bit of update on the company itself, how we think about capital allocation, and the opportunities we see for value creation, not only in the near term, but certainly in the emerging energy space.

If you'll turn to Slide 2, this is our safe harbor statement. I think we're all familiar with that, so we're going to move on to Slide 3.

So we make the products of energy that help people go--go faster, go farther, retire, dream bigger, achieve more, and lead safer, better, more productive lives. When you think about the miracles of advanced healthcare to the marvels of modern agriculture that help feed our world, to our safe drinking water, our clothes, the rocket engines that inspire and power us into space, to that iPhone in your pocket--they all depend on energy, and specifically, energy from petroleum. I don't think there's any question that the US shale revolution has created an abundance of oil and natural gas, which provides affordable, reliable, and abundant energy, but also supports more than 10 million American jobs.

So this is my fourth year--40th year, excuse me--in the energy business, and it's been a story and a journey of constant change. I think the future of energy remains one of change, and the energy landscape is going to constantly evolve. And we are in energy transition. In fact, we've probably been in an energy transition for several decades now. I think Tesla, probably more than any other company you can think of, is a symbol of that energy transition to many people. And Tesla's 17 years old, so they've been around a while. The point is that energy transitions take a long time. And then to successfully transition while maintaining reliable, affordable, and abundant energy is going to require tremendous advances in technology and trillions of dollars of investments. And frankly, this is a process that's going to take some time.

And then somehow lost in all of this is the fact that the US is a world leader in reducing carbon emissions and other air pollutants. So from the peak of 2007, almost 15% reduction in greenhouse gas emissions. So the fact is we are demonstrating that we can achieve environmental progress; we can do that without sacrificing jobs, economic growth, or energy security or without passing on higher costs to the consumer. But the fact is we need scientists and engineers and

mathematicians and accountants. We need problem-solvers. We need those that can help us accelerate the transformation in ways that we work and how we make and how we deliver our products. So we need the best and the brightest to come and help develop and apply new technologies to allow for cleaner and smarter energy production.

But I'd also assert that those 10 million people that work in energy today who understand the scale and the complexity of delivering reliable, abundant energy are also best positioned to be part of the global solution that addresses the dual challenge of providing energy and deploying the technologies and products that will continue to reduce greenhouse gas emissions. In our company, we want to play a role in that future, so we'll continue to make good on our vision of providing energy and improving lives.

As we turn to Slide 4, we believe that all forms of energy are going to be needed to support a growing global population. So certainly all of the above--that's wind and solar and other alternative energies--but also all of the below, and that would include natural gas and oil.

So IEA recently published their World Outlook. This chart shows their view based on existing policy frameworks and announced policy intentions. The right-most bar on the chart lays out the more aggressive sustainable development scenario, which aligns with the goals of the Paris Agreement. In both cases, petroleum-based fuels will continue to be a significant part of the mix. I would say the majority of the consultants that we track estimate that global oil demand will plateau in the range of 100 million to 110 million barrels a day between 2030 and 2040. And this is line with the IEA's stated policies view. But approximately 75% of global energy demand will continue to be met with fossil fuels. We expect that reality will probably be somewhere in between the two cases. I think it's largely going to depend on the pace of innovation. There's going to be substantial investment required. We're going to have to have some breakthroughs in technology to further reduce dependence on fossil fuels. It's also going to depend on government policy, and we think policy will continue to evolve.

We know that energy demand is driven primarily by economic growth and population growth. We expect that the middle class is going to grow by about 1 billion people over the next decade. We'll continue to see that trend of populations transitioning from rural to urban areas over this period of time. We expect that longer term, we'll continue to see efficiency gains. We're going to see growth in renewables. We think there will be increasing pressure to transition to a lower carbon future. But without question, a growing population is going to increase demand for energy.

So talk about sustainability. We can on Slide 5. We think about sustainability very broadly, certainly ESG, environmental, social, and government. It's also dependent upon operational excellence and financial performance. But certainly, ESG is key to how we think about and execute sustainability at our company.

We believe that strong corporate governance is essential for us. It starts with our Board of Directors. They have commitment, they have oversight of our strategy, they have an understanding of the risk, they have an appreciation for how technology and innovation will shape the future of energy. So sustainability starts at the very top of our company, and it guides everything that we do.

We have robust health, safety, and environmental programs. It's foundational, this sustainability. It supports our long-term resilience and evolving industry. And every

day we seek a zero-accident, zero-incident workplace. And we believe by doing that, we actually create value for the stakeholders of our company.

I'd also say that reducing emissions has been an ongoing effort for Phillips 66. We reduced our air emissions 28% between 2012 and 2019. We're working towards setting attainable targets for greenhouse gas emission reductions that are tied to identified projects.

We value diversity at our company, and we're building a more inclusive workplace. We find value in differing perspectives. We know that when we embrace diversity, we'll see the results in terms of more creative ideas, better ideas, better decisions, and ultimately it leads to better results for all of our stakeholders.

I'd also tell you we're working with our community partners and organizations to help bring real change and opportunities to the communities where we live and where we operate.

And finally, we know that our employees are a competitive advantage. We'll continue to recruit, mentor, train, and invest in the high-performing people of Phillips 66, not only to prepare us for today, but to make sure that we've got the assets in terms of our human resource capital to be successful in the future.

Moving on to Slide 6, at our 2019 Investor Day, we outlined our strategy and our commitment to executing the strategy. So the strategy of growth, returns, and distributions built on an unwavering commitment to operating excellence and a high-performing organization really remains unchanged. There's no question that 2020 was a year of enormous challenges, from the pandemic, the demand destruction we saw, multiple hurricanes, fires on the West Coast, political uncertainty, social unrest--the list is long. But I don't think any of us really anticipated the environment that we'd be operating in. And I think that the people of Phillips 66 stepped up throughout all of it. They demonstrated incredible resiliency, and they delivered truly exceptional operating performance. And we'll talk a little bit more about that in just a minute.

I would say that we don't really think that we should change our long-term strategy because of shorter-term circumstances. We think we took the right actions to address the macro environment we found ourselves in. We exceeded our $500 million cost reduction target. We reduced capital by more than $700 million. We worked hard to sustain strong liquidity during very uncertain times. I think the strength of the diversified portfolio of our company is a competitive advantage, and we think that it showed up in 2020.

We can show you some major projects. Gray Oak Pipeline came online. We added 300,000 barrels a day of frac capacity at Sweeny. Both Fracs 2 and 3 have demonstrated design rates above--capacities above design. We've added a new dock at Beaumont. We've had the first shipments off the South Texas Gateway Terminal, and that's in near completion in the near future here.

Chemicals demand has remained strong throughout the pandemic. IHS changed--marker margins have recovered to near mid-cycle. Our marketing specialties businesses continue to perform well. They generate stable cash flow.

So as we kind of come out of the pandemic, our strategy will be essentially what our strategy has been since we began in 2012. We're going to continue to operate well, we'll continue to be disciplined around our investments, we'll look at the universe of investable opportunities, and there's a return to so many of our hurdle rates, we just won't make those investments.

So what we don't know is exactly when we exit. New today is probably the back half of 2021, but we're going to get through it, and we'll be one of the best and safest operators in the industry. We'll pivot with the opportunity sets that we see, but we will not sacrifice returns, and we will not waver from our commitment to disciplined capital allocation.

Moving on to Slide 7, we're protecting our employees, keeping our assets safe, and our people are healthy. Our people have remained focused, and they're working harder than ever, and 2020 was the safest year in the history of our company. Our total recordable rate was 30% better in 2020 versus 2019, when it was industry leading. Our Tier 1 process safety event rate of 0.02 is 60% better than 2019. We've improved our lost workday case rate, and we continued our trend of a decade long of reducing our environmental exceedances. So really truly outstanding performance.

We continued to operate our assets, responding to the market conditions. Through the third quarter, our refineries ran at 79% utilization. We're also leveraging digital technology to improve and optimize our operations, and we're top third in terms of our operating cost structure.

And then I think an interesting point, when you look at the refining industry broadly, it's one of the safest industries there is. It's 30 times better than the average of manufacturing in the United States.

So we can move on to Slide 8. Our cash flow generation and our strong balance sheet have allowed us to maintain our financial strength and our flexibility. We have a strong, investment-grade credit rating, BBB+/A3. It's very important to us. We remain committed to a conservative balance sheet and strong investment-grade rating. We think that our balance sheet and our liquidity position us to a competitive advantage, particularly when you think about the uncertainty that we're facing in the markets today. We ended Q3 in 2020 with $7 billion of liquidity. That's $1.5 billion of cash and $5.5 billion of total committed revolver capacity.

When we saw that the pandemic was going to hang on longer than we thought, we went back to the markets in November. We issued $1.75 billion in bonds. We paid down $0.5 billion on our term loan. We've extended the maturity on the remaining $0.5 billion out to 2023. So we've structured the debt with flexibility so that we have the option to pay down this debt early without penalties when cash generation improves. And frankly, we'd like to reduce debt to be back in the range of pre-COVID levels as cash flow recovers.

So the chart on the left shows our historical cash flow from operations and non-discretionary uses of cash. When you look at our annual commitments, we have about $1 billion of sustaining capital requirements. Our dividends are about $1.6 billion. And so we expect that cash flow from our diversified portfolio would mostly cover these despite the market challenges that we see. And as we start to think about priorities coming out of COVID from a capital allocation standpoint, the first dollars are still going to go to sustaining capital, very important, $1 billion. The next dollars are going to go to fund the dividend of $1.6 billion. And I would tell you, we remain committed to a secure, competitive, growing dividend. And when you look at the actions that we took around 2020 around our costs, reducing capital and liquidity, all those were really to protect the dividend.

But paying down debt is going to emerge as a priority as we see cash generation recover. And we'd also like to get back and resume share repurchases because we remain committed to strong shareholder distributions. Since we formed the

company, we've returned $27 billion back to shareholders through dividends, share repurchases, and exchanges.

I also think that as we kind of come out of the pandemic, I think we're in a period of probably fewer growth opportunities in the near term, in the next, say, 1 to 3 years. In December our Board approved a 2021 capital budget of $1.7 billion, so that's a reduction compared to the recent years. We're only going to invest in projects that exceed our hurdle rates, and if we don't have those projects to invest in, we're going to focus capital allocation on debt repayment and shareholder returns.

I'd also say that longer term, we still think that the 60% reinvestment/40% distributions is the right split for our company. It's going to vary year to year, but the importance of capital allocation, being very disciplined around capital allocation and the need to earn a return above our cost of capital on our investment, remains fundamental to our strategy.

So moving on to Slide 9, we've created a new group in our company. It's called Emerging Energy. We have a senior leader that we've named to head this organization. And this organization is charged with helping us established a low-carbon, sustainable business platform. So really, the focus on commercializing and implementing emerging energy technology within our operations and also our portfolio of assets.

When you look across the portfolio, there's a lot going on around low carbon. We certainly have the renewable projects underway at Rodeo Renewed. We have the renewable capacity we're adding at Humber. We have the relationship with our partner, Rise. And these are certainly near-term opportunities in Emerging Energy that we're pursuing to help reduce greenhouse gas emissions. So with these, we can leverage our existing asset integration. We can use our commercial expertise and our marketing channels as we build out this new business.

But we'll also capitalize on our energy research and innovation organizations. Historically, we've called this research and technology or research and development, and we really felt like capturing the name of Energy Research and Innovation. It's really more telling of what the work we're doing there is.

So we'll do all these things with a focus on capital discipline and an emphasis on return. But the ultimate goal here is to have an Emerging Energy business that will stand beside our Midstream, our Chemicals, our Refining and Marketing, and Specialties businesses.

I'm going to move on to Slide 10. So while Rodeo Renewed probably got a lot of the headlines last year, and it's certainly the latest addition to our portfolio of renewable and alternative fuels projects, we have a lot of other projects underway. We recently completed the second phase of the renewable diesel project in our Humber refinery in the United Kingdom, so that increases production to 3,000 barrels a day. By 2024, we'll be at 5,000 barrels a day of renewable diesel at Humber.

I talked about the commercial relationship with Rise. That's another 10,000 to 11,000 barrels a day of renewable diesel. These are two production facilities being built in Nevada. We're also pursuing some solar projects at both Rodeo and Ponca City. Great sun and lots of space to put solar there. And this solar will replace either gas- or coal-generated electricity that's being supplied to those facilities today. We're participating in the Gigastack Consortium in the United Kingdom, where we're using offshore wind and hydrogen produced via water, so it's green

hydrogen. We're using that to lower the carbon intensity of fuels produced at our Humber Refinery.

And then in Europe, we've launched a hydrogen fueling program. We started that in 2017 with our co-op joint venture there, so we're building out stations there for hydrogen fueling in Switzerland. We're adding two to three new sites a year. So while we feel that refiners in general are well positioned to meet the "E" component of ESG goals, we think that Phillips 66 is uniquely positioned to advance solutions in this space.

Maybe just a couple of words about Rodeo Renewed on Slide 11. We're reconfiguring the San Francisco refinery into one of the world's largest renewable fuels facilities to meet the growing demand for renewable energy. So the first phase of this project is going to be complete at midyear of this year, in 2021, and we'll be able to produce up to 9,000 barrels a day of renewable diesel. But then we plan to take Step 2 to increase to 50,000 barrels a day by early 2024. And at that point, the plant will no longer use fuels produced from crude oil, but instead we'll have the flexibility to run used cooking oil, fats and greases, and other renewable feedstocks. So we're going to construct pre-treatment units, and we're going to repurpose existing hydrocracking units to processing renewable feedstocks. We've also got a lot of infrastructure, so the marine terminal and the rail rack that we can use for both domestic and international feedstock flexibility. And then it sits in the right markets, and we can use our existing go-to-market distribution channels to get the renewables to customers. This is going to be a very capital-efficient investment. It's going to deliver strong returns. And once the conversion is complete, it's going to reduce greenhouse gas emissions at the facility by 50%, across our California assets by 30%, and across the state of California by 4%. So significant reductions in greenhouse gas emissions.

As we turn to Slide 12, talk a little bit about innovation. The core to this is our Energy Research and Innovation organization. There's 250 people. They're scientists and engineers that work in this group. They're focused on researching renewable fuels and developing technologies for the future, including lowering our carbon footprint across our portfolio. The ER&I organization also helps us understand our existing businesses better. They help us run our facilities more efficiently, use less water, use less energy, and understand the impact that we have by manufacturing our products on air, land, and water.

We continue to work to develop battery technology, solid oxide fuel cells. We're working organic photovoltaics, developing solar projects to power our pipelines and our refineries. We're experimenting with hydrogen and carbon capture and storage. I think the bottom line is the world's going to need more energy, and the world needs our products, and we're going to need technology to drive solutions for a low-carbon future.

So I'm going to move to my last slide, Neil, Slide 12, and I'll wrap up here and then turn it back to you. But since our company's formation in 2012, we've delivered excellent returns to our shareholders. We continue to believe that Phillips 66 is a compelling investment opportunity. With the COVID vaccines being rolled out, we're glad to put 2020 behind us. We're looking forward, and we're optimistic about what 2021 will bring for us. We believe that our strategy of growth returns and distributions built on an unwavering commitment to operational excellence and being a high-performing organization positions us to create value and deliver returns for our shareholders.

So with that, thanks for having us today, and I want to thank everyone on the call for their interest in our company. And if you want to flip to Slide 14, it's an asset map, and you can just leave that up while Neil's giving us all these great questions.

Neil Mehta: Okay, thanks so much. There's a lot to unpack there, and we appreciate the incremental disclosure on Emerging Energy in particular. That's new news for us, that you're building out this segment. Greg, maybe talk about what your long-term vision is for Emerging Energy and new energy investment. How big do you see this as being as a part of your enterprise?

Greg Garland: Yes, so maybe to start off with, if I step back 4 years ago and I think about our journey on digital and I look across the portfolio, there were a lot of things kind of going on piecemeal across the Phillips 66 portfolio in digital, but it was all incremental, and it wasn't transformational. And I saw the need that we needed to bring in some help. And so we brought in Zhanna Golodryga to really head up our digital effort. And we went from this incremental view to an enterprise-wide view of digital, and that was the birth of Advantage 66 and all things digital in the company.

As I was thinking about our Emerging Energy space, I saw a very similar analogy. Where there's many things going on across the portfolio, all very good things, but by nature, we're incrementalists in this business. And we needed something that kind of stood up to an enterprise level and really pushed us to think about moving faster with bigger impact. And so that was really the genesis of the Emerging Energy group.

So the nearest thing for us is really the renewable diesel. So if you think about Humber, you think about Rise, you think about what we're going to do at Rodeo. So by the middle part of the decade, it's not inconceivable you could have a business approaching $1 billion of EBITDA easily just on those segments there. And then you start to layer in the other opportunities that we're going to be working, I see us, in a period of certainly 10 years, having a business that stands on its own, equivalent to our midstream business today in terms of the longer term.

Neil Mehta: Greg, do you envision actually breaking this out as a separate segment so we can actually see how this business is growing over time?

Greg Garland: Yes, I think that would be the intention. And when we say we had a business that stood alongside our midstream, marketing specialties and refining chemicals business, that's really what we meant, that we would have a separate business unit that would be Emerging Energy, be very transparent to investors about the earnings coming out of that business unit, and hopefully get good value recognition for those.

Neil Mehta: On renewable diesel specifically, can you talk about the Rodeo asset and feedstock? One of those things that you and I have talked about over the years is the challenges of sourcing soybean at a time where soybean prices have already been depreciating and there will be an incremental pull on that product. So how do you get feedstock flexibility to ensure that you can sustain those strong returns that you have?

Greg Garland: That's certainly a big part of the investment at Rodeo, is the pre-treatment so that we can run a wide range of feedstocks. I think about this like advantaged crude. We want to have a whole slate of feedstocks, from used cooking oil to fats and tallows to soybean. You're going to run an LP just like you would on a crude unit in terms of optimization. Obviously, the used cooking oil has the lowest carbon intensity, which will generate the highest value, whereas soybean oil has the highest carbon intensity and will generate the least value. And so it's going to be

that tradeoff between feedstock availability and essentially the CI of the fuels that you want to put in.

I do think that--our view is that there's probably 2 million to 3 million barrels a day of feedstocks available today. That probably grows with time. But there are going to be limits to how much renewables that we can actually do. And I do think that at some point in time as you get to that 3 million barrel a day marker, then you start having this food-for-fuel conversation, and there will be a social conversation around that at some point in time.

But I think for the near term, certainly this decade as we're looking out and what we see in terms of renewable diesel, I think we're pretty comfortable we can source the feedstock. I think the real challenge is going to be to make sure that we can optimize that feedstock slate. And so we've built the facility with as much flexibility as we can put in it so we can run the widest range of feedstocks available. I don't know, Jeff or Kevin, if you want to tag onto that, you're welcome to.

Jeff Dietert: Yes, I think putting that 2 million to 3 million barrel a day of available feedstock into perspective of a 100 million barrel a day oil market today. So it's an important incremental component, but there's a limit to how much transition can occur there.

Neil Mehta: Very helpful. Let's pivot to chemicals. And as you said, margins have been very good. So maybe you can just frame out where full chain margins were and where they are now and how you think about the sustainability of the chemicals recovery that we've seen.

Greg Garland: Yes, so I think from a CPChem perspective, certainly I think during the pandemic, the volumes were remarkably strong and really tied to use around hygiene and staying at home and all the things we did at home that drove demand for the product portfolio that CPChem has. So remember, CPChem's really more consumer focused than durable focused in terms of their portfolio. So they're at the sweet spot, so to speak.

Certainly we saw the margin impact as crude prices fell in 2020, and full chain ethane to polyethylene margins bottomed in May at about $0.07. And as we came into the back half of this year, we're tracking $0.25 or $0.28 in that range, so certainly we're back above mid-cycle in terms of the IHS marker margins,

Interestingly, as we're coming into the first part of this year, demand is still really strong. Normally you have to get through the Chinese New Year to sort out where we think demand is going to be, but it's started pretty strong this year. There's quite a few price increases that are out there on the table today. There's been some operational issues out there. And so we really expect that margins are going to move up in Q1 in the chemicals business. And so I would say when I think about where we're at, at this point in time, Q1 in 2021, versus where we were at in Q1 in 2020, we're actually more constructive on the chemicals business in terms of actual demand and margins in this business.

Neil Mehta: That's great. Let's talk about the demand side of the equation for refined product. Obviously, 2020 was a tough year, averaged 92 million barrels a day, most likely of oil demand. We as a house have a very constructive view of GDP and think that we're going to get back to pre-COVID levels at the end of the year and up to 102 million barrels a day in 2022. So here's to hoping that plays out. But how are you seeing real-time demand? I would imagine lockdowns are having an impact. And then your conversations with pharmaceutical CEOs and others who are very close to the vaccine rollout, what's the confidence in our ability to do an effective global vaccine rollout? That's the key to ultimate (inaudible).

Greg Garland: Okay, I'll let Jeff take the--do you want to do pharmaceuticals, or do you want to do demand?

Jeff Dietert: I'll leave pharmaceuticals for you.

Greg Garland: Okay.

Jeff Dietert: So on the product demand side of the equation, as we look at Europe and our business in Europe, we had seen demand come back to pre-COVID levels, with a slow recovery in public transportation and people really using personal vehicles. So September-October timeframe, we were above 2019. So that provides, I think, a reason for optimism as we get through the COVID environment. With the lockdowns that have occurred, we have seen things soften there, and we're seeing 20% to 25% below 2019 levels currently. So there has been an impact from the lockdowns in Europe.

As we look at the US, the impact has been much more muted. For gasoline demand, we were seeing 8% down year on year in October, and today we're seeing down 12% to 13%. So some impact, but materially softer than what we saw last April and last July when the COVID cases increased.

On the diesel side, we're really seeing pretty solid demand, overall down about 3% relative to 2019 levels, with demand up in parts of the West. And that's really driven by very strong inbound container traffic that's supporting trucking demand and rail demand, moving those products into the central part of the US. We're starting to see some cold weather in the Northeast that's supporting heating oil demand. And when you look at the economic statistics, BMI's really coming in very strong, really across the globe. And so diesel looks solid. Good export demand as well, and some weaker refining utilization in some of the Latin American countries relative to what we saw even a couple of months ago.

Jet still down 35% or so. That's going to be a little bit slow to recover as the quarantine rules are in place. But as you think about the people that have had COVID and developed immunities and the vaccines coming this quarter, I think reason for optimism as we go into the summer months. And we, like you, have similar forecasts. On a run rate basis, we're approaching 2019 levels by the end of the year.

I think it's important--we've kind of hit the demand side of the equation--but on the supply side of the equation, refining rationalization happening much more rapidly than in previous cycles, 2.6 million barrels a day down globally of permanent closure announcements, 1.2 million barrels a day of temporary closures, some of which will turn into more permanent closures. A million barrels a day of refineries have announced intentions to convert to a terminal or a renewable diesel project.

And as we think about the turnaround expenses that have been pushed out of 2020 into 2021, for your marginal refineries that are losing money, month in, month out, to have an incremental 100 million or 200 million of turnaround expense to ante up to continue to play the game, we think there's another round of turnaround, or another round of rationalization that will occur this spring. And as you think about 2022 getting back above 2019 levels, with the rationalization that's occurred, with the delays we're seeing in 2020 and 2021 because of lower capital spending and difficulty getting big groups of labor forces on to implement new capacity, we think it's not unreasonable to get back to '22--to mid-cycle supply-and-demand balances by 2022.

Greg Garland: Okay, I'll take the other part since Jeff wouldn't answer it. First of all, I don't think any of us should underestimate the magnitude of the accomplishment of what science was able to do from the discovery and the genetic mapping of the COVID-19 molecule to finding something that would attack it, and then getting it through all the steps that it needed to go through for the bureaucracy, and everyone helped, whether it's a scientist or it was the government and the FDA and the approval process and all that. So it's remarkable that we come out the other side. And it's amazing we have a vaccine that has an efficacy of 90% or better. A typical flu vaccine might be 50% to 60%. So this is truly an amazing accomplishment of science and the scientists and people in this industry.

I actually think we're going to see vaccine availability continue to improve. I worry a little bit about how the logistics of the rollout has gone and how we're going to be able to vaccinate 300 million people, or if only half of them take it, 150 million people. But certainly, I think that will become the next challenge in this. But if you think about the state of Texas, I know our governor is pushing that by May, every Texas citizen that wants a vaccine should be able to get one.

And so what we're thinking is we get to this midpoint in the year and we get most of the people vaccinated that want to be vaccinated, that's going to bring the fear factor down. People are tied of being cooped up. We're back in the summer driving season. Hopefully, it makes people feel better about getting on airplanes, and so jet will probably pick up. So we're pretty optimistic of what that vaccine does for us, particularly starting with the summer into the back half of 2021, Neil.

Neil Mehta: That's great color. We've got about 3 or 4 minutes left here, but there were some important company-specific financial questions we want to get your perspective on. In the first, about deleveraging. Phillips 66 has always had a very strong balance sheet. Certainly through the pandemic, leverage has ticked up above the top end of the venture capital range you guys are most comfortable with. So this might be a question for Kevin. It's just how do you think about the cadence of ending the balance sheet into a place you want it to be? And our follow-up is on midstream, so I'll try to sneak one more in there.

Kevin Mitchell: So you're right, Neil. Balance sheet strength has always been a priority of ours. We have a BBB+/A3 credit rating. That's very important. We want to retain that. We've added $4 billion of debt as we've gone through 2020. And so a priority as we look into this year and subsequent years is to bring debt back down to what we would consider more of our target range.

We're fortunate that we've got a lot of flexibility to pay down debt. The way we've structured the debt we put in place, we have flexibility to pay it down without cost or without make whole. And so as cash generation improves, our expectation as you look at an overall capital allocation framework for this year, we've got $1.6 billion dividend with a $1.7 billion capital budget. As cash generation improves back towards mid-cycle, which is $6 billion to $7 billion, we will have a lot of flexibility to start making progress on reducing debt back down to the kind of levels where we want it to be, and it will give us flexibility to start getting back to some of the other things we want to do--likely share repurchases. I suspect capital will be at more constrained levels for a little bit longer than just this year, given where we think the opportunities will or will not be.

And so as you look out over the next 2 to 3 years, I think we'll be very well positioned to get the balance sheet back to where we want it to be, maintain the credit ratings that we've had since 2012, and have the flexibility to make some of those other decisions from a broader capital allocation framework.

Neil Mehta: Great. And last question here is on midstream. You're running this business from free cash flow versus growth. Just given the opportunity set at this point, there are some big projects now into service, so I guess there are two questions around this. Greg, what do you think about the optimal structure for PSXP in the context of your enterprise? And then how do you think about the risks around Dakota Access, and how are you managing any potential outages there? So those are two related questions on the midstream side of things.

Greg Garland: We've liked the MLP, Neil. It certainly provided a great vehicle for us to grow our midstream business. If you go back to 2012, we're $400 million to $500 million of EBITDA in the midstream. Today we're $2 billion. And certainly, PSXP was a big part of that ability to grow that business.

Secondly, we like the transparent valuation that we got. And for most of the time that we've had MLP, it's been a premium valuation, the embedded midstream asset, and so we like all that.

I think we have this overhang of DAPL and the decision around DAPL that's probably impacting the unit price to a large degree, in our view. And so we think we have time to be patient around that. We don't feel like we have to do anything today around PSXP. We'll see. We were expecting that end of the year, we might hear something from the judge. That didn't happen, and so we're hopeful we'll hear something the first quarter of this year at the appellate level. We do expect that, regardless of which way the decision goes, that either us or the other party will try to elevate it to the Supreme Court. So this overhang may be with us a little bit longer in terms of the units.

Our view is that DAPL, it's been one of those fights. It's been challenged from the beginning in terms of the public reception of this pipe, and it continues to be. But when you look at its operational history, it's operated through 3.5 years flawlessly. It's just hard for us to believe that the government or the courts would take a decision where you would permanently shut this line down when it's had such a stellar operational record. And so that's kind of where we feel right now. So we think the units are probably undervalued or under pressure from the overhang of DAPL. We think once that's removed, it will come back some.

And then maybe the other point to make on the MLP is depending on where we go on corporate taxes, that arbitrage could open back up in terms of cost of capital for us. And so as I just look at it, I just don't think there's a big hurry to really do anything at PSXP. Obviously, we look at everything. We considered every option around PSXP and how to create value at the end of the day. So Kevin or Jeff, if you want to add anything, that's good. Otherwise, we'll leave it at that.

Neil Mehta: We covered a lot of ground here in 45 minutes, and thank you for the new disclosure. Terrific keynote presentation. Looking forward to the day where we can shake hands again in person.

Greg Garland: That would be wonderful. Happy New Year.

Neil Mehta: Thanks again.