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EDITED TRANSCRIPT

PSX.N - Phillips 66 at Bank of America Energy Conference

EVENT DATE/TIME: NOVEMBER 14, 2023 / 9:00PM GMT

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PRESENTATION

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Thanks very much indeed for being here this afternoon. So we're going to turn our agenda back to Refining again, our first corporate fireside chat with -- in the Refining sector with Phillips 66. And I wanted to extend my thanks in particular to Jeff Dietert, Vice President of Investor Relations, for bringing in Rich Harbison, EVP of Refining; and Tim Roberts, EVP of Midstream & Chemicals.

I'm going to be cohosting this one with my colleague, Kalei Akamine, who you may have noticed carrying the chair on to the stage at the end. So he's double-teaming today, but thanks very much, everybody, for being here.

QUESTIONS AND ANSWERS

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

So gentlemen, I think we'll just get straight into this with Q&A if that's okay. I'd like to kick off the questions. I'm not sure who would like to best answer this. It's a question I've never asked you and just to kind of set the scene a little bit. But I'd like to ask you about the portfolio structure. Obviously, you've got Refining, you've got Midstream, you've got Chemicals, you've got Marketing. But the genesis of our portfolio structure and why it continues to make sense today and the -- as the portfolio evolves through the CP and the other things we're going to talk about here in a second. So yes whoever would like to...

Richard G. Harbison - *Phillips 66 - EVP of Refining*

Good. Let me start, and then we'll work it down the line here a little bit. So our portfolio, we really look at it in product value chains. That's how we view our portfolio. And one of those value chains is the transportation fuels value chain, which is refining, marketing and transportation. So we look at that value chain as an operating function and the integration of that value chain.

The second is -- actually the second too are under Tim's guidance, which is Midstream, NGL value chain as well as the Chemicals value chain. So those 3 make up our foundational thinking of how we operate the business and the importance of the integration, not only internally to each of those value chains but also the cross integration as well, the opportunities on that front.

So Tim?

Timothy D. Roberts - *Phillips 66 - EVP of Midstream & Chemicals*

Yes. Look, I think, Doug, it really is -- Rich is right. It really comes down to being and anticipating in a value chain. We see that economically that in the value chain itself to participate in all of it, you capture all the value. We participate in part, you maybe capture some of the value depending on where you are in that cycle. So we like participating all the way through. That's where you look at, it all starts right at crude. From there, you go down and all of a sudden, you work your way down the refining side to marketing and the consumer at the pump or you work your way all the way down to global LPG market and chemicals. And we like to be in all those different parts of that.

Now what's really good about this and what we like and think is an inherent strength and a competitive advantage for us is the fact that we're able -- we're all -- there's dependencies amongst each of those. The Midstream segment, which we want to make sure we get the full multiple appreciation in some of the parts, we like to carve that out and bring transparency to it, but at the end of the day, my job is to make sure we provide Rich and his team the infrastructure to get into the refinery and then also for our marketing guys, the infrastructure to get to the terminals and get to the consumer and do it at a cost advantage basis. So we believe there's a strength in that.

And so -- and then when you look at Chemicals, I mean, let's face it, that feedstock and advantaged feedstocks coming out of our system and other third parties that CPCChem buys from, it's nice to be in that and participate in a cost-advantaged growing chemicals business. And CPCChem side of it all, it's a world-class business. 95% of their feedstock is advantaged. And that's a great place to be if you're going to compete in a growing segment down the road.

So we do think there are good interdependencies between those. And we do think it does create value, competitive advantage, and I think it makes it really interesting with regard to again, clipping the coupons all the way through each of those value chains to create more value.

Jeffrey Alan Dietert - *Phillips 66 - VP of IR*

I might just throw out an example. We're big importers of Canadian crude, of Canadian heavy in particular. We've got storage in Alberta. And so we've got the ability to buy on a monthly basis, on a daily basis, on a term basis. And we can manage the flows with the inventory that we've got in Canada.

We've got pipeline capacity on Keystone and a number of other pipelines down into the Central Corridor, and so we'll optimize Canadian heavy in that area. But we've also got DAPL and other access to get it to the Gulf Coast. And so if Canadian heavy is more valuable as a Gulf Coast feedstock than a Central Corridor feedstock, we've got the flexibility to move between the 2 areas. And then the Bayou Bridge the Gulf Coast into Lake Charles, we can get Canadian heavy all the way into Lake Charles, and it really competes with the Gulf Coast crudes that are available there.

And so we're optimizing -- just one example of how we're optimizing feedstocks into our refineries based on market conditions. And you think about once it's from the tailgate of the refinery, then we're really maximizing distribution channels. Does it make sense to go directly to a retail? Does it make sense to go into a different market that we have access to, to maximize netbacks? We've got branded and unbranded opportunities. So it's really on a month-to-month, day-to-day basis, maximizing the value of the products in the marketplace.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Gentlemen, I appreciate you answering that because the reason I wanted to kick off with that question is because obviously, to some extent, we could position you as an integrated refiner with all those verticals that to your point, they've got synergistic value chains. The reason I wanted to kick off with that question is because of the news you had just a week or 2 ago with your earnings, which you've stepped up your targets for business transformation for EBITDA. And the underlying question that came out for me when you announced that was, are you happy with the portfolio? Because there is a \$3 billion disposal target coming out of the portfolio. And I'm struggling to find out which part of the portfolio it is going to come from. So to the extent you can share, that's kind of my kickoff question.

Richard G. Harbison - *Phillips 66 - EVP of Refining*

That's because we haven't said that much.

Jeffrey Alan Dietert - *Phillips 66 - VP of IR*

Well, it's been interesting to me because a lot of people don't know who the business development guy is within Phillips 66, but they see on the website, jeffdietert@p66.com. So my e-mail started livening up to people that were interested in buying some of our assets. But I think when you look across the portfolio, we built very successfully PSXP, DCP. And we participate through the crude value chain, the products value chain and the NGL value chain. And with the DCP roll up, we've got the wellhead to market access within midstream, and that is a key strategic priority.

But not all the assets that we've invested in, particularly something of the nonoperated, nonstrategic assets generate substantial cash flow and their valuable assets. And I think there's a potential that they may be worth more to other parties than to us. And so we're going to explore that with some of our assets to see where can we get premium valuation within the portfolio and something that's nonstrategic to it.

Richard G. Harbison - *Phillips 66 - EVP of Refining*

Yes. I always think it's healthy to look at your assets, right? You do need to review those assets and make sure they're consistent with your strategies as you develop and evolve those strategies over time. I think what really happened here this last quarter was Mark Lashier, our CEO, was really putting everyone on notice that, hey, there's opportunity to work with Phillips 66. If you see some assets out there that have some value for you that have more intrinsic value than what may be on our books, we're happy to talk about those assets. And that's really unleashed that to the marketplace and to the business as a whole. And based on just e-mails, it sounds like it's worked a little bit.

Jeffrey Alan Dietert - *Phillips 66 - VP of IR*

Yes. I think we've started down that direction, right? We reduced our ownership in Gray Oak. We sold our interest in South Texas Gateway. We monetized assets at Alliance. And so we started down that divestiture path. And I think Mark wanted to indicate we're going to continue there.

Timothy D. Roberts - *Phillips 66 - EVP of Midstream & Chemicals*

I think, Doug, when we've looked at this, and especially if you've seen the steps we've taken in the Midstream segment, talked about that briefly. We've had a plan, and we're executing the plan. We needed to simplify the business, bring more transparency to it. One of the steps clearly was roll out the MLP. It served its purpose. It's time kind of come and gone, roll it up, bring everything back in. And the other side was, okay, for us to go compete in the Midstream business, we need to do something different here, and we need to get an integrated value chain DCP roll-up. So we had a plan to get all these done, and we've gotten that done.

But in that process, with that type of focus in that segment, it also highlighted assets that might be better off in somebody else's hands. And if we've got a bunch of assets that may be pulling time, energy and money and capital that aren't creating the value we need or bringing the focus we need where we want to go compete and win then let's see if they're more interesting to somebody else but at the right value. If not, we'll keep clipping those coupons.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

But you're confident in the timeline. So for everyone who may not be familiar with this, I think you said the \$3 billion of disposals by the end of '24. So.

Richard G. Harbison - *Phillips 66 - EVP of Refining*

I don't know...

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

(inaudible) in '24, my apologies.

Richard G. Harbison - *Phillips 66 - EVP of Refining*

We specifically didn't put a timeline on the asset sales because this is clearly not a fire sale, right? We're looking for what makes industrial sense for us and somebody else.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

I think I was conflating with \$3 billion increase in cash returns with the \$3 billion of disposals. Presumably, that's part of it. Okay. Well, that's what I wanted to kick off with. Now obviously, Kalei and I are going to tag team a little bit here. But -- so as we get into the business lines, I wonder if I could ask you to kind of characterize now that we've identified what those businesses are, where do you think we are in the cycle for each one?

And I think I've got a bit of an agenda here on refining specifically. But as you relate to how these businesses interact to smooth your earnings, how do you see the optimal balance of earnings for each of these businesses as you move through the cycle?

Richard G. Harbison - *Phillips 66 - EVP of Refining*

I mean I'll start with refining, and then we'll move through the cores -- to the other 2 cores. So refining, maybe the best way to start this is to reel back to the COVID period there. And during that time frame, worldwide 4.5 million barrels a day of capacity dropped offline. In the U.S., a little over 1 million did. And now the economies have all come back, and that supply is still off-line.

There's been subtle increases in capacity, but the fundamental tightening of the supply side has occurred. So as the demand side has picked back up, we've seen that reflect in inventories, especially on the distillate side. Gasolines now have worked their way back up to 5-year averages, but distillate and -- continues to be low on the 5-year average. And what we have been experiencing over the last year or so is an upside on the mid-cycle.

And I think when we think about the supply side and then the continuing growth on the demand side, and thinking about the additional capacities coming online, which are essentially equating to anticipated growth. Supply side we still see is very tight, which we see as constructive to the Refining business and see us on the upside of the mid-cycle scenario. So that's our outlook for it right now.

Now the integration, as we all know, those margins tend to move up and down that value chain. And that's why we're keen on the integration component of this with the Marketing side of the business. And we've been really looking at strategically getting Marketing integrated with our core Refining assets, and that's been playing out quite well for us. And we see that integration to be critical as well to capture that value as it moves up and down the value chain, unlike what Tim is doing on the NGL side of the business as well, So in Refining, we see over the next foreseeable period on the upside of mid-cycle pricing at this. And we think that's going to continue well into the future until the demand side eventually...

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

And this is very much -- is that a U.S. common or a global common because obviously you have...

Richard G. Harbison - *Phillips 66 - EVP of Refining*

Why do we expect growth over the foreseeable future? We do think that demand growth in the U.S. will be tampered with the continued evolution of the energy transition. But it's -- I don't think it's going to be as aggressive as some outlooks are. But I do think that there is an impact with that and we will -- it's not a growth industry when you think about a growth industry moving forward. But it is still a very competitive, deeply needed energy source inside our economies. And we will continue to see the demand for that and a very strong demand for it over the next several years, over the next several decades for that matter. And we don't see that changing. But we do see it as a competitive market with a stable to somewhat declining demand over the foreseeable decades.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Of course, with a tightening refining capacity backdrop.

Richard G. Harbison - *Phillips 66 - EVP of Refining*

Yes, with a tightening refining.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

And how would you see Chemicals and Midstream?

Timothy D. Roberts - *Phillips 66 - EVP of Midstream & Chemicals*

Yes. Well, Chemicals, let me start with that one. That one's -- that's below mid-cycle. Let's be clear there. It's -- you're in a cyclical trough. And so that's likely going to be the case for the next couple of years. As we normally see in this, it will work its way out as global demand picks up. You've had some capacity that's been added coupled with a drop in demand, namely over in Asia, China being the bigger driver of that. And so those -- that will rebalance. Fundamentally, it's a GDP growth business, and it's a population growth business. So overall, we see that kind of correcting itself over the next couple of years. I'm hoping 2025 turns out to be a more positive year than probably 2024 and 2023.

One of the advantages of that, though, and I think it's really important to highlight, though, even though you're at a -- in the bottom of the cycle in chemicals, having advantaged feedstocks make a difference. Our CPChem business, which we're 50% of, they're located in the 2 most advantaged locations for feedstock: U.S. Gulf Coast and in the Middle East, Qatar and Saudi Arabia. And we are in a great position with regard to weathering a trough. And it's hard to say great and trough at the same time. But it all is a degree of how much money you're making at that point. But it is a very advantaged position to be in, which is good. So we like the upside of this. We just got to get to the upside.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

But chemicals are growth market, right?

Timothy D. Roberts - *Phillips 66 - EVP of Midstream & Chemicals*

It's growth market. No doubt. Midstream, we're kind of at that or close to on a fee-based side at a mid-cycle demand, and volumes have been great. They really have been really strong. But when you look at natural gas and NGL pricing, that's been a bit of a headwind. So that's the headwind in it, which gives you the upside of what that looks like. But overall, volumes coming out of the basins and getting to global markets, they've been good.

It's been actually really solid business. In fact, you're starting to see some of the constraints on infrastructure, which you're seeing expansion coming in from some of the players in this space. So overall, I'd say it feels very constructive in a mid-cycle range, and then you're below mid-cycle in chems.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Before I throw it to Kalei, Jeff, I have to turn it to you on -- maybe just frame the question a little bit before you answer. Have any of those cyclical planning assumptions as you look backwards, in your mind, are they being reset? And if so, what have you assumed in your plan going forward?

Jeffrey Alan Dietert - *Phillips 66 - VP of IR*

Yes. They are resetting. And we're -- there are a lot of moving parts in refining, right? And what we're seeing is strengthening diesel cracks, in particular, relative to previous mid-cycle. Gasoline cracks actually staying strong relative to our previous mid-cycle. We have seen secondary products weaken relative -- we talk about mid-cycle being 2012 to 2019. Diesel stronger, gasoline stronger, secondary products weaker, and we've seen inflation on the cost side that has increased cash operating costs across the industry.

So I think those are some of the factors that are working into the way we look at things. Doug and Kalei put out an excellent report October 30 after the call kind of summarizing this. But from a mid-cycle perspective, we see Refining going from \$4 billion of EBITDA 2022 to \$5 billion of EBITDA 2023. Midstream going from kind of \$3.3 billion now to \$3.6 billion, \$3.7 billion. And if you think about our dividend of \$2 billion a year and our sustaining capital of \$1 billion a year, our stable Midstream business is providing that cash flow year in, year out.

The other thing I would mention is we hadn't talked about marketing. And our strategy has been to find secure placement for our products out of the refining refineries and the renewable diesel facility. So we've expanded our retail ownership. And we've kind of gone from \$1.5 billion to over \$2 billion of EBITDA in the Marketing business and providing secure placement for the Refining product barrels but also for Rodeo Renewed and really controlling the product from the Rodeo facility all the way through to the retail outlook in California.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Just to be clear, Kalei is waiting patiently. Everything you said, I just want to make sure we're clear on one thing. You have not reset your margin assumptions. Is that right? Your mid-cycle margin assumption, you haven't raised those. We -- I don't mean [improvised] margins, I mean the market environment.

Jeffrey Alan Dietert - *Phillips 66 - VP of IR*

We have not changed the market environment. Within the market environment, gasoline diesel stronger, secondary products weaker and a little bit higher cash operating costs.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

So if I put it to you then that your margin assumptions could be conservative.

Jeffrey Alan Dietert - *Phillips 66 - VP of IR*

I would say that we feel that the market remains tight, and it's going to remain tight in 2024. We're optimistic about 2025. So if you think about the Refining \$4 billion a year, we take the over at this point assuming the economic environment...

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

I was trying to push you towards. Kalei?

Kaleinoheaokealaula Scott Akamine - *BofA Securities, Research Division - VP in US Oil Equity Research*

No, I think my first question is I just want to underline that point because a move from \$4 billion to \$5.2 billion is not insignificant. That's a 20% move increase in the mid-cycle target for Refining, highlighted by Rich and his team. So I guess just to help illustrate what that bridge looks like, what are the moving pieces that get us from \$4 billion to \$5.2 billion, Rich?

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Assuming the margins are unchanged.

Richard G. Harbison - *Phillips 66 - EVP of Refining*

The margins unchanged, mid-cycle pricing. So how do you adjust that? You improve the business, right? That's how you get there. And we have really 2 key activities we're working on inside the Refining organization. One is about driving the inefficiencies out of the business. So in that arena, that makes up about \$750 million of that EBITDA number. 640 -- so \$750 million, \$640 million, \$740 million, \$650 million, \$650 million of that is centered around operating expense and driving inefficiencies out of operating expense.

And then of that, roughly those sit into really 4 big categories when I think about those. One is contracting and contractors and how we're doing that part of the business. And we've actually changed a number of ways that we're doing business, and we've reduced the amount of contractors that we have inside our facilities on a day in and day out basis. So -- and that's fundamentally changing how we do business, which has fundamentally reduced the need for contractors.

The other key component we are pushing very aggressively is energy efficiency. So we've looked at a number of no capital expense, nonexpense, just changing the way we do our business that has reduced operating expense inside the refineries. And here's a little example of that. So we have a feed that goes to a particular unit. And in order to run that feed, you have to run 2 compressors on that. And these are big machines. They consume a lot of electricity. If we take part of that feed and we move it to another system, and that system has the available capacity inside an existing operating compressor, and we can actually shut down one of the compressors over here on this other unit that then is a large energy savings for us.

So we have thousands of examples of these things as we've unleashed the creativity of the organization to flush these types of inefficiencies out of the organization. So what we've done is we've really turned the organization on this value mindset. And then we've created these list of ideas. We're holding ourselves accountable to actually execute these projects and move this expense out of the operating budgets. And that's resulted in about \$750 million of expense reduction.

On the other side is the margin. This is much more fun to work on, but it's the market capture. And you've heard me talk about market capture increasing by 5%. That equates to about \$400 million. So when you take the cost reductions and then you add the market capture, you get the [\$1.2 billion] number or real close with some commercial opportunities below that. Market captures, as we've defined it, is execution of a series of small capital projects less than \$25 million in those ranges, executing roughly 12 to 15 a year over a 3-year period, improving mid-cycle pricing market capture by 5%, that essentially equates to \$400 million of increased EBITDA at mid-cycle pricing without changing the mid-cycle pricing.

So those are the 2 key components when I think about it. Now we've also unleashed a number of other things that are occurring that I would expect to see this also play into this. And we've been really working on our commercial organization and unleashing the capability for them to capture value trading around the assets. And that process is continuing to materialize good opportunities for us as well.

Kaleinoheaokealaula Scott Akamine - *BofA Securities, Research Division - VP in US Oil Equity Research*

I guess the follow-up would be, how much of the self-help has already been achieved? And you're talking about an expanded commercial capability. How do you hold that organization to meet in certain markets? How do you measure it? How do you communicate it to the Street?

Richard G. Harbison - *Phillips 66 - EVP of Refining*

Yes. So of that \$740 million, clear line of sight by the end of this year \$500 million hitting the bottom line effective first quarter next year. Currently, we're sitting around \$400 million to date right now that's hitting the bottom line rolling into the fourth quarter of this year. So that rolls, that \$500 million goes and then another \$120 million, \$125 million, \$150 million next year.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

And Rich, to be clear, is this in capture rate? Or is this in operating costs?

Richard G. Harbison - *Phillips 66 - EVP of Refining*

This is operating costs realized to the bottom line, right? So on the capture rate, that's how we hold people accountable for. We continue to push -- and how you all hold us accountable too, is looking at our market capture rate. Over time, you should see a nice steady increase in market capture from our organization. And we're seeing that trend. It's actually occurring as we speak today, and it continues on a nice slope up. So as these projects come online, as these opportunities with commercial get more cohesive and embedded into our organization, that all manifests itself in commercial activity, manifests itself in market capture ultimately, earnings per barrel. So those are how we hold ourselves accountable for that.

Kaleinoheaokealaula Scott Akamine - *BofA Securities, Research Division - VP in US Oil Equity Research*

Tim, I'm going to direct my second question to you and how you're thinking about the Midstream portfolio? With the PSXP roll-up and the DCP roll-up, you obviously have a much stronger platform, especially on the NGL side to offer a full suite of services to where the customer is. When you look at your competitive positioning versus someone who's larger, perhaps a [target] or an ET, how does Phillips stand out? Where do you think your holes are in the portfolio in offering that suite of services? How do you guys compete?

Timothy D. Roberts - *Phillips 66 - EVP of Midstream & Chemicals*

Yes, that's a great question. I'll tell you what, you learn a lot when you put -- you do a transaction, right? And we learned a lot with this. What we really found is, to your point, we needed to be integrated. We felt that was going to be important for producers. And if you're not integrated, I think you've got a whole set of different issues you're going to have to deal with down the road. So with that, though, I think what we've got, we really liked the -- clearly, from an NGL -- I'll talk about natural gas and NGL. From that standpoint, we look at the portfolio, we're well positioned with the Sweeny Hub and the Freeport Export dock, great investments, a world-class facility, we really like it a lot. So that was a good thing for us to go do.

As we move upstream here and you look at the G&P side, I think we've got a really strong position with regard to the DJ presence with DCP. They've done a very nice job there. And I think they've got a really good there. It's our now. But as previous DCP, they also had a really good footprint in the Mid-Con. So we like the Mid-Con, we like the DJ and thought those were well positioned, highly competitive assets in that region.

Permian, great locations, got some assets though that probably need a little help. And so we're going to spend some time working on a couple of those things there where some of the assets from a cost standpoint, we think they can be better. So that's all part of our optimization, but we are in the right basins. And we're in the right places, both mainly in the Delaware state line, great locations right there, good commercial arrangements set up in those locations as well.

And then you've got Sand Hills, which to me is a world-class pipeline. And we're really pleased with that. We were already a partial owner in that. Now we're 100%, and we like that. It's a really good position. So when you look all the way through the value chain, now this comes back into and Kalei, when you look at opportunities in it, we have some opportunities in some of our sites with regard to just some investment for reliability in the Permian.

We also have potential as we look at how do we get further connections out to some of the newer drilling programs from some of our existing customers. That to me is more maintenance and sustaining supply. So that looks good. And then we look at the balances all the way through system. You get that 5 Bcf capacity a day coming in and then how does the rest of your chain look like to be able to manage that. We'd like to think that some additional gas plants will be really helpful. We'd like to see further expansion on Sand Hills. And then obviously, additional frac coupled with some export dock expansion but not all at the same time and not all we're going to go chase.

But we do think those are areas that we can spend time on and either build it in some cases or buy it in some cases depending on what that is. But we're going to be very focused on making sure with this acquisition, we deliver the \$400 million of synergies. That's number one. When you look at it, that has the greatest value you can generate for Phillips 66 and for shareholders. That is all in our control to deliver that \$400 million, and we are well on our way there. So that's the good news, and I hope we find more.

So do that, but then also make sure that our assets are safe, reliable and ratable for our customer base. That is job #1, and making sure the barrels in the system are optimized all the way through that system so that we are pushing as much and we're sweating the assets as hard as we can from the front end to the back end. And I feel good about where we're going with it. We've made tremendous progress on that front. But like anything else, the further we dig, the more we find and the more opportunities it creates.

Kaleinoheaokealaula Scott Akamine - BofA Securities, Research Division - VP in US Oil Equity Research

Tim, maybe 2 follow-ups for you. The first one would be, do you have any concerns that the basin is being overbuilt on -- in the long haul?

Timothy D. Roberts - Phillips 66 - EVP of Midstream & Chemicals

Yes, that's like PTSD, okay? If you remember, several years ago, when we didn't have enough infrastructure to get the crew down to basin, it was a free for all, right? Everybody and anybody, and I will tell you, Phillips 66 was part of that too but I was darn glad we built Gray Oak. It was a really good decision. And I suspect Enbridge is happy with it, too. But that is a concern. I think you've got to pay attention to that. So we are -- at this point, we're going to be very surgical about it. We're not going to get caught up in the froth but there is no doubt, with the growth we're seeing in NGLs and natural gas, you need egress. You've got to get that in place.

And I would suspect that folks are going to be a little thoughtful versus just going all in, be thoughtful in making sure that they scale this appropriately and time there appropriately. But I can't control what they do. I can control what we're going to do. And we're going to make sure our system is as robust to meet our customer needs as possible. But we're not going to get in to build it and they will come. That doesn't work. That doesn't work for our shareholders.

Kaleinoheaokealaula Scott Akamine - BofA Securities, Research Division - VP in US Oil Equity Research

When you zoom out and you look at the PSX portfolio, one would argue that your Midstream advantage is your access to downstream markets whether that's NGL frac or whether that's further downstream in Chemicals. You have that access.

Timothy D. Roberts - Phillips 66 - EVP of Midstream & Chemicals

Absolutely.

Kaleinoheaokealaula Scott Akamine - *BofA Securities, Research Division - VP in US Oil Equity Research*

So when you think about the Midstream assets as it sits today, no longer sits inside of an MLP construct. So how does that allow you to think about adding more risk to the Midstream business?

Timothy D. Roberts - *Phillips 66 - EVP of Midstream & Chemicals*

Yes. And that's a great question. We -- DCP, we're hedging their equity barrels. They had distribution they had to protect and had a commitment on that side. So hedging those barrels help make sure that they had the distribution out of the MLP. Well, that's gone. So that's given us more financial freedom, clearly. And then when you look at the bigger infrastructure and part of the integrated company that we are, Rich here, my buddy, needs natural gas...

Richard G. Harbison - *Phillips 66 - EVP of Refining*

I'm his short, yes.

Timothy D. Roberts - *Phillips 66 - EVP of Midstream & Chemicals*

He's a tall guy for being short but he needs natural gas. We've got natural gas. When you look at our NGLs, CPChem needs NGLs. So when you look at it, we've got these offsets within inside the fence, which gives us comfort that we don't need to have a -- just keep maintaining that hedging program that DCP maintained. And we're very comfortable with that decision, and we'll be going forward with it. We've got the inability to move the molecules around inside the system, and this is part of having that integrated chain that to me creates additional value.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Maybe I could turn it back to a couple of Refining and then one portfolio question for both of you guys. But -- so you mentioned the attributes of the Refining system. Right now, WCS is pretty wide. It's a big part of your input cost. Looks like it's setting up to be a terrific fourth quarter for you guys. The problem is it's probably not going to last. And so I'm curious, how do you think about feedstock flexibility? And how that -- what you can do to mitigate the risk if TMX tightens up market on the Gulf Coast? Or do you think it does?

Richard G. Harbison - *Phillips 66 - EVP of Refining*

Yes. Yes. That's a very good question and on a lot of people's mind right now, the TMX question. So there's a number of scenarios that could play out with the TMX, but I think where we're at this particular point in time, we still think the incremental barrel clears to the Gulf Coast. So -- and that set a floor essentially by the transportation cost and the differential -- quality differential of the crude. So that -- we think that sits somewhere between \$13, \$14 a barrel. So we see that as fundamental to the current distribution and supply available from the Canadian producers.

Now there is always this likely scenario that the Canadian producers increase production and that's a likely scenario. And we do see some of those barrels clearing to the West Coast, it seems to be a logical location. California production has significantly drawn down over the last several decades. So there is a short in that market for sour crudes and Canadian style -- Canadian light crude. So we do see a number of those barrels going that way as well. But fundamentally, the differential we still think is based off of the clearing barrel going to the Gulf Coast. So that, for us, sets that floor.

Now for us, when we were talking about margin capture a little bit earlier, go to answer the other half of your question, one of the things that improves market capture is going to be absolutely essential for refiners as they move forward is going to be flexibility. If you're going to survive and be competitive in a very dynamic, volatile market, you need flexibility. That's on both sides of the equation. That's your crude slate, being able

to process the various varieties of crudes that are available to you to capture that available margin as well as your swings between gasoline and distillates.

And we are actively working on both sides of that equation as part of this market capture component that we're looking at improving with the 5%. And we'll continue on with that well into the future as we develop future project for it. But that flexibility will be essential, and you'll see your premium operators creating that flexibility to capture that market over time.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

The portfolio part of that question is what -- obviously, you still have a joint venture in the Mid-Con on a couple of refineries. Do you see any movement on either side, whether you guys as seller or the other guy, or you guys as a buyer in terms of whether TMX and the changing dynamics of Canadian crude shifts the goal post in either direction?

Richard G. Harbison - *Phillips 66 - EVP of Refining*

Yes. I don't know that the TMX plays into that decision, honestly. Our relationship with Cenovus is very healthy. I think they came out with a very strong statement on their last earnings call as well in support of that. There's no real burning platform for us to change that relationship as it exists today. I think we both see value in how it operates. But that said, if there are opportunities that make industrial sense to have a different type of arrangement, we're -- we'd be open to those conversations as well.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

I'm not going to press too much on this, but I just want to come back...

Richard G. Harbison - *Phillips 66 - EVP of Refining*

You can ask a follow-up on that.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Yes, a follow-up. The DCP issue was clearly, you had a joint venture there as well that you rolled it up, and now you've extracted a ton of synergies. Would be any benefit for owning 100% of those facilities?

Richard G. Harbison - *Phillips 66 - EVP of Refining*

Yes, there is. Now is it as large of a synergy opportunity as in the Midstream? No, it's not as large. Most of those opportunities will come in the commercial arena.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

That's inevitable. Tim, I have to ask the same question about CPChem.

Timothy D. Roberts - *Phillips 66 - EVP of Midstream & Chemicals*

Very different business in that capacity. So it's completely unique. So I guess the question would be is, would there be synergies if we rolled up? You probably -- I mean, look, I would just say it's probably back office but even then, a lot of that functionality is going to be needed for that size of business. But you may have back office, but it's not operational at all.

There would be -- I just have a hard time. It is so different than anything else we do with the exception of we have common molecules between us. And I don't think there will be a lot of commercial benefits out of it -- outside of just back office.

Jeffrey Alan Dietert - *Phillips 66 - VP of IR*

Kind of like-minded partners with CPChem. CPChem has performed extremely well. It's grown faster than peers at higher returns on capital employed. It's been a very successful joint venture.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Yes, seem very happy with the current arrangement...

Timothy D. Roberts - *Phillips 66 - EVP of Midstream & Chemicals*

Yes. I was part of CPChem when it was first put together. And so fascinating experience to see the need to put that business together then 2001 and then what it's turned into. It's fascinating. Two businesses that people weren't necessarily happy with and tried to figure out what do we do with this, and it's turned into an absolutely world-class chemicals business. Chevron has been a really good partner, and CPChem has punched above their weight really for the last 20 years. And for a JV to be as successful as they have been to this point, it's really impressive.

So yes, do we like the business? Yes, we do. Would I like to own all of it? Yes, we would. But I think the other guy would, too, but we're in a happy place because it is -- both of us are jointly benefiting from a well-run, world-class chemicals business.

Richard G. Harbison - *Phillips 66 - EVP of Refining*

Yes. Growth in low-cost [feedstocks].

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Let me turn back to Kalei but I want to leave some space at the end to talk about balance sheet and cash returns. So watching the clock, Kalei, go ahead.

Kaleinoheaokealaula Scott Akamine - *BofA Securities, Research Division - VP in US Oil Equity Research*

Tim, I want to stay with you for a second. We touched on bridges -- bridge towards the new higher mid-cycle from \$4 billion to \$5.2 billion but your mid-cycle has also moved up in the most recent announcement. Can you talk us through what's changed there?

Timothy D. Roberts - *Phillips 66 - EVP of Midstream & Chemicals*

Yes, a lot of pressure from Jeff. Actually, success breeds success. So part of this is really as we dug into the synergy side, we found more synergies. And so that's part of it. And then the other is that we talk about synergies by collapsing DCP into Phillips 66 but we were also heavily involved in the business transformation effort, the cost reduction. And so we have found additional cost savings. And you're going to ask, well, a synergy or

savings, aren't they all same? Well, in our world, no. Synergies we look at because we put the 2 companies together. That benefit and value is created because of the 2 companies together.

But before we brought DCP and we were already in a business transformation mode, which is we're going to take out any fat in the system and costs that aren't necessary. We're going to digitize what we can and trying to be more lean and efficient because there was a clear recognition in our business. We know who our competition is in midstream. It is no doubt who they are. Many of you know who the big players are, and they're damn good at what they do. And we're not in this to just be in it. We're in to compete and we want to win.

And by the way, the biggest is not always the best. So our objective is we've got to get in shape to go compete. So we found more in the business transformation side, which was part of the overall corporate efforts to go ahead and take out cost in the system and sustaining capital. And then the other was through the DCP collapse. So that's where those 2 combined. We got our mid-cycle number bumped up. So...

Kaleinoheaokealaula Scott Akamine - BofA Securities, Research Division - VP in US Oil Equity Research

Doug just asked the question, Rich, about the \$3 billion of asset sales about WRB. I've got a very similar question for you. When I think about the midstream portfolio, it seems like the assets that have been targeted for sale have to do with crude logistics. You can see that in Gray Oak and also in South Texas Gateway. And when I think about the remaining crude logistics assets to that Jeff mentioned earlier, which is DAPL and Bayou Bridge. So when you're thinking about rightsizing the portfolio, making it more fit, do those assets fit longer term? Do they still serve a commercial purpose, a strategic purpose?

Timothy D. Roberts - Phillips 66 - EVP of Midstream & Chemicals

Yes. Look, they're really good assets. That was a good partnership, and it still is. It's a great joint venture for us. We really -- there's some headaches along the way getting it done but once you've got it completed, I have to tell you, it's been a very successful joint venture. So we're really pleased with that. Like any of our assets at the right value, they're better off in somebody else's hands, we're okay with that. We are not exiting the crude side. That is not because it's really important for portions of Rich's business but ultimately, if we can commercially get our way there, we're not locked into that we have to keep any given asset if we can't paper our way to a commercial solution.

But I would tell you, we're really happy with it. It's been good. Bayou Bridge has been good and subsequently DAPL has, too. But if it's something better than our hold value and we can allocate somewhere better, whether back to the shareholders or back into our business, we'd certainly have a look at it.

Jeffrey Alan Dietert - Phillips 66 - VP of IR

DAPL does serve Sweeny, and Bayou Bridge serves Lake Charles. So there are connections with existing portfolio.

Timothy D. Roberts - Phillips 66 - EVP of Midstream & Chemicals

In our Beaumont Terminal. So everything connects up through Beaumont and that's 100% owned by us. So...

Kaleinoheaokealaula Scott Akamine - BofA Securities, Research Division - VP in US Oil Equity Research

One more for Rich, and I'll pass it back to Doug to close this out. Rodeo Renewed every (inaudible) I didn't ask you what the latest status is on that asset. There's a lot of costs from the market to perhaps keep it running petroleum operations at least in the near term if West Coast's margins look good. To the extent there's flexibility, can you explain what that flexibility is? And is that something that you'd consider to do?

Richard G. Harbison - *Phillips 66 - EVP of Refining*

Yes. So Rodeo, the transition or transformation of that facility over to renewable fuels facility is one we are committed to, right? This -- we've been going through the construction phase of this now for a number of months, and we're in full construction mode. That construction is shaping up to wind up the end of the first quarter into the second quarter of next year. And we are on target to begin the start-up process of the Rodeo Renewed at the end of the first quarter.

Now that said, we're also working through some last-minute permitting issues that are sitting out there. It is very difficult to do any type of business in California, and permitting is very difficult. But we are down to 3 issues, and we were working those last 3 issues. We have them targeted for -- well, they're open for public comment right now with the county addressing one of the environmental -- our 3 issues in the environmental impact report. The public comment period is open right now. We expect that to close the middle of December. And then the county will respond to those comments and really is on track to recertify the EIR, which is the underlying document for the permits in the March -- in February, March time frame. So both of these are converting at a very similar timeline.

Now if for some reason that we are not successful in closing out that permit exactly on schedule and it trickles another weeks or months into the future, we can continue to operate as a crude oil facility, and we will continue to operate. If the permit comes through and we do receive the permit and all the green lights to go, then we will also be in a position to start up the Rodeo Renewed project and renewable feedstocks on the schedule that I talked about earlier. So what we've built into our transition process is flexibility.

But I will say, Kalei, that we are committed to converting a facility to renewable diesel and the renewable feedstocks. We do see -- we're still very constructive on that. There seems to be a lot of -- maybe a lot of descent around that constructiveness. But we've been operating a unit in the facility now for a couple of years. We see the economics very clearly on how renewable diesel rolls into the market. We've done a few acquisitions here and growing our marketing capability to own the last mile of every delivery. So there's no leakage in value, which is critical to success on this particular market.

And we've also grown our upstream feedstock capability to aggregate and collect feedstocks on a worldwide basis to capture the highest value there as well. So we think we're well positioned to execute this strategy and we will continue to push through this. And this facility will be up and running next year.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Sadly, we've only got a minute or so left. So Jeff, I'm going to direct this one to you because my Scottish counterpart didn't make it a long. But -- so the question is the balance sheet. Whether we like it or not, you've done a great job, I think, of mitigating the cyclical nature of your business or the seasonal nature of your business, but it's still volatile and with a balance sheet come -- with volatility comes a higher cost of capital. And the higher cost of capital can be mitigated by shifting the capital structure more towards equity. Why is the \$13 billion to \$15 billion cash return target to shareholders a better option than paying down your debt?

Jeffrey Alan Dietert - *Phillips 66 - VP of IR*

Yes. So I think we've talked about 1 of the 6 commitments we made at Investor Day was targeting 25% to 30% net debt to total cap. That's still a component of the plan. We like that financial flexibility. We're committed to our strong investment-grade credit ratings. We're A3, BBB+. We found that, that provided flexibility that was important and it really showed up in the pandemic. So those are critical to us. As we look at cash flow from operations, we're moving from \$7 billion a year of cash from operations to over \$10 billion and approaching \$11 billion. So if you think about that level of cash flow from operations, we've got \$2 billion of dividends and \$1 billion of sustained capital. Those are our nondiscretionary capital requirements.

We got another \$1 billion or so of growth capital. So there's \$4 billion. If you make the math easy, \$10 billion minus that \$4 billion, you've got \$6 billion that you can allocate to other uses. We've got \$1 billion -- about \$1 billion of debt maturities in 2024. 2025 is about \$2 billion, and we don't have that much -- we've got that or less as we look forward from there. So there's really another \$6 billion. To hit the midpoint of the \$13 billion to

\$15 billion of share -- returns to shareholders, we need to buy back about \$1 billion a quarter. So that's \$4 billion a year. It leaves the potential for \$2 billion of debt reduction...

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Take care of the bonds.

Jeffrey Alan Dietert - *Phillips 66 - VP of IR*

And so that's how the math works.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

It's basically managing the maturities and efficient (inaudible).

Jeffrey Alan Dietert - *Phillips 66 - VP of IR*

Yes.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Sadly, guys, we are out of time. But thanks very much indeed for being here. Really enjoyed learning from you. And Jeff, thanks for your continued guidance through the cycle. Thanks a lot.

Richard G. Harbison - *Phillips 66 - EVP of Refining*

Thanks for having us.

Timothy D. Roberts - *Phillips 66 - EVP of Midstream & Chemicals*

Thanks.

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