TRANSCRIPT
3Q 2020 EARNINGS CALL

Phillips 66 Partners

PHILLIPS 66 PARTNERS (NYSE: PSXP)
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PHILLIPS 66 PARTNERS PARTICIPANTS

Jeff Dietert, *Vice President, Investor Relations*

Kevin Mitchell, *Director, Vice President and Chief Financial Officer*

Rosy Zuklic, *Vice President and Chief Operating Officer*

Tim Roberts, *Director and Vice President, Operations*

MEETING PARTICIPANTS

Spiro Dounis, *Credit Suisse*

Theresa Chen, *Barclays*

Jeremy Tonet, *JPMorgan*

TRANSCRIPT

Operator:

Welcome to the Third Quarter 2020 Phillips 66 Partners Earnings Conference Call.

My name is David, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.

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

Jeff Dietert:

Good afternoon, and welcome to the Phillips 66 Partners Second Quarter Earnings Conference Call.

Participants on today's call will include Kevin Mitchell, Vice President and CFO; Tim Roberts, Vice President, Operations; and Rosy Zuklic, Vice President and Chief Operating Officer.

Today's presentation materials can be found on the Events section of the Phillips 66 Partners website, along with supplemental financial and operating information.

Slide 2 contains our Safe Harbor statement. We will be making forward-looking statements during the presentation and our Q&A session. Actual results may differ materially from today's comments. Factors that could cause actual results to differ are included here, as well as in our SEC filings.

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

Kevin Mitchell:

Thank you, Jeff, and good afternoon, everyone.

In the third quarter, Phillips 66 Partners delivered safe, reliable operations. We captured improved market conditions, reflected by higher pipeline throughputs.

During the quarter, we advanced our major growth projects. Volumes on the Gray Oak Pipeline continued to ramp up, and at the South Texas Gateway Terminal additional storage came online. These assets are operating well and contributing to our results. The Board of Directors approved a third-quarter distribution of $0.875 per common unit, a 1% increase over third quarter 2019.

Moving on to slide 4 to discuss financial results, the Partnership reported third-quarter earnings of $206 million and adjusted EBITDA of $313 million. Adjusted EBITDA from wholly owned assets improved $23 million due to increased volumes associated with higher utilization at Mid-Continent refineries operated by Phillips 66.

Adjusted EBITDA from the joint ventures improved $21 million due to higher volumes, including the ramp-up of Gray Oak Pipeline and the startup of South Texas Gateway Terminal. Third-quarter distributable cash flow was
$243 million, up $25 million from the prior quarter. The increase reflects higher earnings from wholly owned assets and increased joint venture distributions.

Slide 5 highlights our financial flexibility and liquidity. We ended the third quarter with $2 million of cash and $457 million available under our revolving credit facility. The Partnership funded $160 million of growth

capital during the quarter. This included spend on the C2G Pipeline and investment in South Texas Gateway Terminal. In addition, the Partnership continues to fund its share of prior commitments for the deferred Liberty Pipeline project.

The debt-to-EBITDA ratio on a revolver covenant basis was 2.8, which is consistent with our target to remain below 3.5. Our distribution coverage ratio was 1.22. Phillips 66 Partners remains committed to disciplined capital allocation and maintaining our investment-grade credit rating.

Now, Rosy will provide an update on our growth projects.

Rosy Zuklic:

Thanks, Kevin, and hello, everyone. Moving on to slide 6, I'll talk about our growth projects. We continue to advance the C2G Pipeline project. The 240,000-barrels-per-day ethane pipeline will run from the Clemens Caverns near Sweeny, Texas, to Gregory, Texas.

The pipeline is backed by long-term commitments and will serve petrochemical customers in the Corpus Christi area. Pipeline construction is roughly 55% complete, and it is expected to start up in mid-2021.

At the South Texas Gateway Terminal, the first dock and 5.1 million barrels of storage capacity have been commissioned and the terminal began crude oil export operations in July. Terminal operations are expected to ramp up through the end of this year as additional phases of construction are finished. We expect the project to be completed in the first quarter of 2021, with total storage capacity of 8.6 million barrels and up to 800,000 barrels per day of export capacity. Phillips 66 Partners owns a 25% interest in the terminal.

As we near the completion of these in-flight capital projects, we expect the 2021 capital budget to be approximately $300 million. Details of our 2021 capital program will be provided in December.

This concludes our prepared remarks. We will now open the line for questions.

Operator:

Thank you. We will now begin the question-and-answer session. As we open the call for questions, as a courtesy to all participants, please limit yourself to one question and a follow-up. If you have a question, please press star, then 1 on your touch-tone phone. If you wish to be removed from the queue, please press the pound key. If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star, then 1 on your touch-tone phone.

Spiro Dounis from Credit Suisse, please go ahead. Your line is open.

Spiro Dounis:

Hey. Good afternoon, everyone. I would like to go back and maybe just get a little bit more color on some topics that came up on the Phillips 66 call earlier. Topic of refinery closures came up. And I think if I heard you guys correctly, it sounds like the remaining Phillips 66 refineries beyond Rodeo are fairly well-insulated here going forward, barring another downturn. So, one, did I interpret that correctly? And how are you guys assessing the risk of more closures here from Phillips 66 Partners' perspective as a service provider to those refineries?

Kevin J. Mitchell:

Spiro, it's Kevin. I think the way to think about this, you look at the Phillips 66 Partners portfolio, and generally, it's focused on – to the extent, the Phillips 66 Partners assets are tied to Phillips 66 refineries

that tends to be down in the middle of the country. So, the Mid-Continent and to Gulf Coast for the most part, which is generally where, from a Philips 66 standpoint, we've talked being also the core – the core parts of the portfolio. And so, I think that's a lot of what that comment meant in terms of relatively insulated.

But I think if you go back and just take the hypothetical situation of if Phillips 66 took action around a particular refinery to idle it, then it really depends on what asset are we talking about, exactly what's the contractual – contract details in place between the two entities. We have a disclosure in the 10-K that states that any short-term idling would have no impact. The MVCs, those commitments would hold, but something in excess of 12 months would enable Phillips 66 to get out of that. But that is not – that doesn't apply across the board every asset, every refinery. So, it really is a case-by-case type of situation.

Spiro Dounis:

Okay. That's helpful color. Thanks for that, Kevin. Next one just on some of the things that came up. Greg had made some comments around midstream that caught my ears. I was hoping you could elaborate on a few of them. So, first, you mentioned the midstream industry probably sees consolidation over the next few years. M&A hasn't really been part of your strategy historically. So just wondering how you think Phillips 66 Partners fits into that mold.

And then second, you talked about the life cycle of MLP's being shorter than before. Is that an indication that you're spending a little more time evaluating the C corp structure? Just want to understand how to interpret that comment.

Kevin Mitchell:

Yeah. Let me answer the second one first and then I will come back and talk about the first one. So the comment around the MLP life cycle is really just reflecting – if you go back to where we were, say, five years ago and then look at what's happened in the space, in the midstream sector over these subsequent five years, you've seen C corp conversions. You've seen roll-up transactions. And so, you actually have a – the MLP universe is quite a bit smaller now than it was back at that point in time.

And so, it's just reflecting the reality of what has happened that this life cycle has somewhat shortened. It really wasn't meant to intend any specific intentions around a specific course of action around it. It's just somewhat reflecting what we've seen take place in the market over this time period.

And then the other question on consolidation, we've always said that Phillips 66 Partners would have the ability to grow by organic means, i.e., direct capital investment in growth projects at the MLP through dropdowns from the parent company and through acquisitions. We've done a small number of asset-specific acquisitions and those were earlier on, probably four – three, four, five years ago kind of time frame in terms of that. But in principle, we have felt that Phillips 66 Partners could position itself to participate in broader industry consolidation. We think it needs to happen in the midstream space. You're seeing that happen in a pretty big way in the upstream right now. And, that's I think for the midstream to compete well, bigger is better, scale is helpful, the ability to be more efficient to drive cost efficiencies, commercial synergies through the entire midstream value chains. And so, we think that's likely to happen.

Operator:

Theresa Chen from Barclays. Please go ahead. Your line is open.

Theresa Chen:

Hi. Kevin, I'd like to unpack your last comment about Philips 66 potentially participating in broader asset consolidation across midstream. Are there particular assets or geographical locations, which are certain parts of the value chain that you think would fit well and appeal to Phillips 66 Partners more than others?

Kevin Mitchell:

Well, you – so, you look at the portfolio that we have in Phillips 66 Partners today, and you've got crude value chain and NGL value chain assets. And some of which are integrated with Phillips 66 assets, some of which are not and so that's stand-alone. And so I think you look at where can you leverage the existing portfolio into something bigger and create a broader opportunity in that respect, because if you don't approach it that way then the opportunity to drive cost efficiencies and potentially commercial synergies are just not there. And so that's how I think about it. But I don't know, Tim, if you have any other comments around that.

Tim Roberts:

No, I think Kevin, you hit it spot on. It's really about how do we build out the value chain and make sure as we're positioned so that we can support the upstream consolidation that's going on, as mentioned by Kevin earlier. That's right.

Theresa Chen:

Got it. And shifting to DAPL, can you give us an update on the evolution of the process, where you think it goes over the near-term and key milestones from your perspective to keep an eye on it? Also, related to that, can you tell us about the movement on Bayou Bridge that is directly related to DAPL? What percentage of Bayou Bridge's EBITDA?

Operator:

Jeremy Tonet from JPMorgan. Please go ahead. Your line is open.

Jeremy Tonet:

Hi. Good afternoon. I was just hoping you might be able to provide a little bit more color on the joint ventures, how those businesses performed? If – Gray Oak, and I guess, Sand Hills, Southern Hills. Just wondering if those things kind of met expectations that anything kind of stood out there in particular, just any color on the JVs would be helpful. Thanks.

Rosy Zuklic:

Sure. Hi. Jeremy, this is Rosy. Yes. During the quarter, all our JVs actually performed well. I mean, I think as Kevin covered during the prepared remarks, Gray Oak actually was one of the leading ones that contributed to the quarter. Sand Hills did well, but it performed well last quarter. So, I would say that as a standout, Gray Oak and the Bakken and Explorer were actually – were the three JVs that contributed an upside this quarter compared to last quarter.

Jeremy Tonet:

Got it. That's helpful. Thanks. And just want to see – valuations in the space have kind of declined a lot this year as we all know. And just wondering with the yield standing where it is, is there ever a situation where that capital could be kind of better deployed, be it lowering leverage or unit repurchases or what have you? Just wondering if you could kind of refresh us on your capital allocation philosophy, given how everything in the world has changed so much.

Kevin Mitchell:

Yeah. Jeremy, that's a good question. And, step back and priority is to maintain – have a strong balance sheet, maintain that investment-grade credit rating. And we also have expectations that we can continue to

invest in growth in the MLP. We're fortunate that we have a very strong MLP, a great portfolio, really strong assets. The balance sheet is solid. We have a fair amount of room from a leverage standpoint if we need to utilize that.

But I also think that, from an equity valuation standpoint, we're hesitant to make any immediate decisions around that because we really believe that the sort of DAPL cloud that's hanging over Phillips 66 Partners is having a significant impact on valuation, and so we're reluctant to make decisions that could have long-term consequences until this whole DAPL position plays out. And so, I don't want to be rash in making decisions around that. And so that really sort of frames up how we think about that.

Operator:

We have reached the end of today's call. I will now turn the call back over to Jeff.

Jeff Dietert:

Thank you for your interest in Phillips 66 Partners. I'd like to thank Brent Shaw for his significant contributions to the Investor Relations Group. Brent has been promoted to another area within Phillips 66, and I'd like to welcome Shannon Holy to the Investor Relations team. If you have any questions, please call Shannon or me. Thank you.

Operator:

Thank you, ladies and gentlemen. This concludes today's conference. You may now disconnect.