TRANSCRIPT
1Q 2021 EARNINGS CALL

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*

Casey Gorder, *General Manager, Operations*

Tim Roberts, *Director and Vice President, Operations*

MEETING PARTICIPANTS

Theresa Chen, *Barclays*

Spiro Dounis, *Credit Suisse*

John Mackay, *Goldman Sachs*

TRANSCRIPT

Operator:

Welcome to the First Quarter 2021 Phillips 66 Partners Earnings Conference Call. My name is Hillary, 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 Phillips 66 Partners First Quarter Earnings Conference Call. Participants on today's call will include Kevin Mitchell, Vice President, Finance, and CFO; Tim Roberts, Vice President and COO; and Casey Gorder, General Manager, Operations.

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 today's presentations 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 it over to Kevin.

Kevin Mitchell:

Thank you, Jeff, and good afternoon, everyone. In the first quarter, Phillips 66 Partners delivered safe, reliable operations, despite the challenging operating conditions. Our results reflect winter storm impacts and the partnership's decision to exit the Liberty Pipeline project. We continue to execute our capital program during the quarter. We advanced construction of the C2G Pipeline, and the South Texas Gateway Terminal was completed. These assets are supported by long-term customer commitments. The board of directors approved a first-quarter distribution of $0.875 per common unit, unchanged from the fourth quarter of 2020.

Moving onto slide 4 to discuss financial results. Phillips 66 Partners reported a first-quarter loss of $18 million compared with earnings of $104 million in the fourth quarter. The decrease was primarily due to a $198 million impairment related to the partnership's decision to exit the Liberty Pipeline project, compared with impairments of $96 million in the prior quarter.

First-quarter adjusted EBITDA was $289 million, down $29 million from the fourth quarter. The partnership's wholly owned and joint venture assets had reduced volumes and higher utility costs in the first quarter. This was largely due to the winter storms impacting the Central and Gulf Coast regions.

First-quarter distributable cash flow was $233 million, down $7 million from the prior quarter. The decrease reflects lower earnings due to the winter storms, partially offset by lower maintenance CapEx in the first quarter.

Slide 5 highlights our financial flexibility and liquidity. We ended the first quarter with $3 million of cash and $299 million available under our revolving credit facility. We funded $52 million of growth capital

during the quarter. This included spend on the C2G Pipeline and investment in South Texas Gateway Terminal. The debt-to-EBITDA ratio on a revolver covenant basis was 3.2, which is consistent with our target to remain below 3.5. Our distribution coverage ratio was 1.17.

On April 1, we repaid $50 million of tax-exempt bonds. Also in April, the partnership borrowed $450 million under a new term loan agreement. Proceeds were primarily used to repay amounts borrowed under the partnerships revolving credit facility.

Before turning the call over to Casey, I'll provide an update on the Dakota Access Pipeline. We recognize there is ongoing uncertainty associated with the litigation. The pipeline continues normal operations during the legal proceedings. At a hearing on April 9, the Army Corps of Engineers indicated that they will not seek a shutdown of the pipeline and instead will leave the matter to the DC Federal District Court. That court is currently considering whether to grant the plaintiffs motion to shut down the pipeline, while the Corps completes its environmental impact statement. That decision could come at any time.

The economic implications of any shutdown, while the legal process plays out, extend beyond the pipeline owners to producers, tribal nations, customers, state and local governments, consumers, and workers throughout the energy value chain. Dakota Access Pipeline has a history of safe operations, and we believe it should be allowed to operate while the litigation continues. Phillips 66 Partners remains focused on operating excellence, strong balance sheet and disciplined capital allocation.

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

Casey Gorder:

Thank you, Kevin, and hello, everyone. Moving on to slide 6, I'll provide an update on our major projects, which continued to progress during the quarter. The South Texas Gateway Terminal commissioned additional storage bringing total capacity to 8.6 million barrels. This completes the final construction phase. In addition, the terminal has up to 800,000 barrels per day of export capacity. Phillips 66 Partners owns a 25% interest in the terminal. We continued construction of the C2G Pipeline, connecting the Clemens Storage Caverns to petrochemical facilities in the Corpus Christi area.

We finished pipeline construction, and the facilities construction is ongoing. The project is backed by long-term commitments and is expected to be completed in mid-2021. In addition, we continue to develop low-capital, high-return projects that optimize our existing portfolio of assets. These quick win opportunities enable us to meet customer demand while maintaining capital discipline.

This concludes our prepared remarks. We'll 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.

Your first question comes from Theresa Chen from Barclays.

Theresa Chen:

Hi. Thank you for taking my questions. Kevin, I wanted to go back to your comments about Dakota Access and regarding the situation here, can you just walk us through your expectations on the next

steps in the legal process, including the recent appeal to the Supreme Court and your expected timeline on this?

Kevin J. Mitchell:

So, the next steps here are the — so Judge Boasberg issued an order asking the Army Corps of Engineers to update its latest estimate for completion of the EIS and also for the Corps to provide its position, if it has one, on whether an injunction should be issued. So, the judge requested the Corps come back to the court next week on that. And so, that's really the next potential for there to be some kind of new statements is — from some point next week onward. I think consistent with what we said in the past, I think regardless of the outcome of what happens next week, we believe this legal process is just going to continue progressing. So, I still think there's actually quite a bit of uncertainty around DAPL despite our views that it should continue to operate. And we've been consistent on that from the beginning. I still think there's a fair amount of uncertainty around that.

I think the appeal that you were referring to was the appeal by Dakota Access to the appellate court for a rehearing that was turned down. So, that request for appeal was denied. And so, really what we're left with is the federal district court Judge Boasberg and his request for the court to come back next week.

Theresa Chen:

Okay. I guess in relation to the updated language in their recent Schedule 13D can you talk about your thought process about the partnership as a viable stand-alone entity over the long term? And if this is contingent on the DAPL outcome or do you view these two events as completely independent of one another?

Kevin Mitchell:

And so, that's really a — that was a Phillips 66 Partners filing, but really by Phillips 66 as an owner of Phillips 66 Partners. So, from a sponsor standpoint what that filing does is provide Phillips 66 with flexibility to consider alternatives around its ownership and possible actions it may want to do and stay consistent within the SEC regulations the previous 13D that was out there at being from IPO, and so that's the first time that there's been a change in that status. And so, really what it does, it just gives Phillips 66 the flexibility to consider alternatives around that. It doesn't mean to say anything is going to happen, but at least it provides that flexibility.

But I do think that as you step back and look at the sort of MLP landscape, a lot has changed over the last seven, eight years or so, which is the duration of Phillips 66 Partners. And so we're now in a position where there are a lot less midstream growth opportunities out there in this environment we're in. You've also lost that cost of capital advantage that used to be present at the MLP. And so the sort of ability to fund through equity is a lot more challenged. And on a relative basis when the cost of capital advantage isn't there, it's just harder to justify projects at the MLP versus say the sponsor doing projects themselves. So, it just puts more of a question mark around that. I wouldn't really tie that to DAPL. DAPL is an added uncertainty for the MLP obviously, but I don't think that DAPL on its own is going to drive any specific decisions around that.

Operator:

Thank you. Your next question comes from Spiro Dounis with Credit Suisse.

Spiro Dounis:

Hey, afternoon guys. Kevin, if you could maybe just pick up on that question a bit, and maybe I'll ask it differently. I guess if we could imagine for a second that we're beyond DAPL, it's been resolved, let's call it, mostly back to normal. Just curious what your priorities are in that environment and where you think you're going to be focusing your time. You answered it a bit there, but just curious how important it is for Phillips 66 Partners to be a growth vehicle, again here in the near-term. I think I heard on the Phillips 66 call, something to focus for the next few years is going to be deleveraging, harvesting that cash flow. I think you mentioned obviously the environment is not conducive to growth right now. And so I'm just curious is that more or less sort of track that Phillips 66 Partners is going to follow as well?

Kevin Mitchell:

I think it's natural to assume that what is being said at the Phillips 66 level around growth and growth in midstream is going to have a knock-on effect at the MLP. And so if you look at Phillips 66 today, capital program, midstream has $300 million of growth capital of which about half of that is at the MLP. And so, compare that to the previous few years that's a dramatic falloff, and there are multiple reasons for that. But specifically, the opportunities for a lot of those large-scale projects are no longer there. And so, I just think that's going to shape the trajectory of the MLP into the future as well until we see some sort of dramatic change in the overall sector that will provide for attractive growth opportunities.

Spiro Dounis:

Understood. Appreciate the color there. The second one just on C2G. Looks like the startup still on track for mid-2021, but I know you guys have mentioned in the past that the contract, the cash flows there really don't start to show up until early 2022. And so I realize this is something hard to guide to but is there anything stopping you from marketing ethane on that pipeline until the contract commences?

Casey Gorder:

This is Casey. No, no, theres not and there may be some volumes in advance of that beginning of 2022 startup of the current major contract on the asset but wouldn’t expect them to be hugely material either.

Operator:

Your next question comes from the line of John Mackay with Goldman Sachs.

John Mackay:

Hey, everyone thanks for the time. Just wanted to circle up on that growth question. Understand growth coming down across the space, also understand the kind of cost of capital headwind for Phillips 66 Partners, but you also have Phillips 66 kind of announcing it's starting to move forward again on Frac 4. Just curious if that's something that you guys are thinking about moving down to the partnership at any point?

Kevin Mitchell:

I don't think so at this point. You'll see that — so Frac 1, it sits at the MLP. Over the course of the last two years or so Phillips 66 has completed Fracs 2 and 3 and originally a Frac 4 was a quick follow on behind those two. Phillips 66 made a decision to suspend that given all of the uncertainty last year in terms of

trying to reduce capital — its capital spending outlays and made the statement this morning that we'd anticipate going back to that second half of this year. But I think at this point it's reasonable to assume that's where it's going to reside,
Phillips 66.

John Mackay:

Okay. All right. Got it. Thank you. Maybe just one follow-up, curious about the term loan, so matures in a year, it's a little bit different from what we normally see from you. Just curious if that's getting a little bit more liquidity ahead of a DAPL announcement or if there's anything else going on there?

Kevin Mitchell:

The primary objective there was we had been running — we've been going in and out of the revolver up to that sort of $400 million, $500 million level periodically. And so, we decided to term some of that out, although still relatively short term, which gives us plenty of flexibility. And it frees up liquidity on the revolver for whatever means we might need it. It's just — we have a revolver, it's a $750 million revolver and if you're periodically getting into sort of two-thirds of that capacity then you're dramatically reducing the available liquidity potentially at times when you might need it the most. And so, we just felt it was a prudent thing to do, to recreate that liquidity capacity.

Operator:

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

Jeff Dietert:

Thank you. We appreciate your interest in Phillips 66 Partners. And please follow up with Shannon or me if you have any further questions. Thank you.

Operator:

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