THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

PSXP - Q3 2013 Phillips 66 Partners LP Earnings Conference Call

EVENT DATE/TIME: OCTOBER 30, 2013 / 07:00PM GMT

© 2013 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Clayton Reasor *Phillips 66 Partners LP - VP, IR, Strategy & Corporate Affairs*

Greg Garland *Phillips 66 Partners LP - Chairman and CEO*

Greg Maxwell *Phillips 66 Partners LP - VP and CFO*

Tim Taylor *Phillips 66 Partners LP - President*

Tom Liberti *Phillips 66 Partners LP - VP and COO*

CONFERENCE CALL PARTICIPANTS

Stephen J. Maresca *Morgan Stanley - Analyst*

Brian Zarahn *Barclays Capital - Analyst*

Jeremy Tonet *JPMorgan - Analyst*

Elvira Scotto *RBC Capital Markets - Analyst*

PRESENTATION

Operator

Welcome to the third quarter 2013 Phillips 66 Partners earnings conference call. My name is Christine and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded. I will now turn the call over to Clayton Reasor, Senior Vice President, Investor Relations, Strategy and Corporate Affairs. You may begin.

Clayton Reasor ***- Phillips 66 Partners LP - VP, IR, Strategy & Corporate Affairs***

Thank you. Good afternoon, and welcome to the Phillips 66 Partners inaugural quarterly earnings call and webcast. We thank you for joining us and appreciate your interest in Phillips 66 Partners. Today we will share an operating a financial overview of the business, and we will outline the key highlights of the third quarter. We'll also have time for questions at the end of the presentation.

And with me on the call today are Greg Garland, Chairman and CEO; Greg Maxwell, Vice President and CFO; Tim Taylor, President; and Tom Liberti, Vice President and Chief Operating Officer. Slide 2 contains our Safe Harbor statement. It is a reminder that we will be making forward-looking statements during the presentation and during the question-and-answer session about Phillips 66 and Phillips 66 Partners. Actual results may differ materially from what we present today, and factors that could cause actual results to differ are included here, as well as in our filings with the SEC. Now I'll turn it over to Greg Garland for some opening remarks.

Greg Garland ***- Phillips 66 Partners LP - Chairman and CEO***

Thanks, Clayton, and good afternoon to everyone. We are excited to be here with you to discuss the initial quarterly results for Phillips 66 Partners. I'd like to start with a few key takeaways for the third quarter. We closed the IPO, as you know, on July 26, so we are only now in our first full quarter as a new public entity.

We believe that Phillips 66 Partners is well situated and will grow and benefit from the close ongoing affiliation and support of our sponsor and parent Phillips 66. The close alignment with Phillips 66 brings with it a long legacy of outstanding operations, a deep commitment to operating excellence, and a disciplined management focused on personal and process safety, environmental stewardship, reliability, cost management and profitable growth. These principles were reflected in the third quarter as we achieved outstanding safety performance.

Phillips 66 Partners is and will continue to be a fee-based business supported by a number of long-term contracts that will have minimum volume commitments and price escalators indexed to inflation, meaning limited direct commodity price exposure. This should result in stable cash flows and a strong foundation for growth. Our parent, Phillips 66, has plans for significant growth in its Midstream businesses and expects to use the partnership as a vehicle for achieving that objective.

© 2013 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Given its large portfolio of Midstream assets and strategy for growth, we anticipate near-term opportunities to acquire additional assets. This will allow for significant Phillips 66 Partners growth in the near term and provide the platform for an attractive growth profile longer term. As we look to the next several years, the partnership also has opportunities to acquire newly built projects from Phillips 66, as well as the previously announced ROFO assets, the Sand Hills and the Southern Hills pipelines. In addition, we plan to pursue third-party acquisitions and organic growth within the partnership.

We're going to target the top quartile distribution growth with the first year expected to be well above 20%. We are excited about the prospects for PSXP. Significant fee-based growth early on will help the partnership achieve our desired investment grade credit rating, attain the size necessary to take on larger projects, and enhance value for our unitholders. With that, I'll turn the call over to Greg Maxwell to provide a more detailed update on the financial results.

Greg Maxwell - ***Phillips 66 Partners LP - VP and CFO***

Thanks, Greg. Good afternoon, everyone. Before I get started, I wanted to point out that unless otherwise noted, all numbers that are referenced today will be for the period following the close of the IPO that occurred on July 26 through September 30. Now if I can direct your attention to Slide 4.

Phillips 66 Partners had revenues of $21.2 million and as compared to the prior period, or the period prior to the IPO, this reflects increases in pipeline tariff rates and related fees, updated fees for terminaling and storage, and entry into agreements providing for minimum volume commitments. Costs and expenses were in line with expectations and also as projected in our prospectus filed with the SEC on July 24. Additionally, the Partners Board just declared our first cash distribution of $0.1548 per unit and this is payable on November 13 to unitholders of record as of November 4.

Turning to Slide 5, EBITDA was $13.2 million and distributable cash flow was $12.6 million. The total cash distribution for the period will be $11.1 million, resulting in a coverage ratio of 1.13. And as we've indicated previously, we plan to target an overall annual coverage ratio of 1.1. However, on a quarterly basis you may see slight changes due to seasonality in our spending.

Slide 6 shows that at the end of the third quarter we had $421.6 million of cash and cash equivalents and this was mainly related to the net proceeds from the IPO. We also have access to a $250 million unused revolving credit facility and with that is a $250 million accordion feature. The bulk of these assets, along with this untapped credit facility, are available for use to fund organic growth opportunities, acquisitions from Phillips 66 and purchases from third parties. In closing, we operated well during our first period following the IPO, and we are looking forward to growing and creating value for our unitholders. We will now open the line up for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions) Our first question is from Stephen J. Maresca of Morgan Stanley. Please go ahead.

Stephen J. Maresca - ***Morgan Stanley - Analyst***

Good morning -- good afternoon, sorry, it's been a long day. How are you doing? When thinking about acquisitions, you, obviously, have a dowry up at PSX that's available for you. Is the focus, or can you describe is the focus more there, or do you think there's right now knowing that that's there for you longer term are there things on the third-party side that you are more focused on in near term? Just some color on that?

Tim Taylor - ***Phillips 66 Partners LP - President***

Yes, this is Tim Taylor. Really, the portfolio of assets at PSX right now, both that exist today and in operation, and then the new projects we have underway at the PSX level that are enhancing the capabilities to take advantaged crude for instance, into the refining system are the kind of assets that we think about probably fit pretty well with the initial efforts around the partnership versus a large acquisition requisition at this point. We certainly look at everything, but that would be probably the primary vehicle at this point.

© 2013 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Stephen J. Maresca - ***Morgan Stanley - Analyst***

Okay. And then you've got the $422 million cash position, how should we'd be thinking about that in terms of, would you use that all at once, or is that going to be something that will be used over multiple transactions, basically the first -- will the first acquisition be of enough size to take all that down?

Tim Taylor - ***Phillips 66 Partners LP - President***

I think we maintain our flexibility about what that will be, so really that's a significant amount of cash that allows us to have a lot of optionality. So I think we will continue to look at what that pool of assets are and where we want to go, but that is clearly intended to be part of our funding mechanism for these early drops.

Stephen J. Maresca - ***Morgan Stanley - Analyst***

Okay. And then final point, you talked about targeting top quartile growth, but then you also mentioned first year you think you'll be well above 20%. Should we'd be thinking about 20% as a baseline for not just the first year, but maybe first few years given how you guys sit with no debt and abundance of assets from PSX?

Tim Taylor - ***Phillips 66 Partners LP - President***

I think just given the size, the MLP that we have, that just the math on that, and given the large opportunity set that we see in Midstream that we think that top quartile growth is there for us to look at, and the above 20%, I think, just says that given the size and the partnership today that we have the opportunity to drive that, certainly in the first quartile for the first few years, and we've always said that above that is most likely in the first couple of years. So, yes, I think that's kind of our thinking at this point that it should be something that's achievable and sustainable that way, in that early part.

Stephen J. Maresca - ***Morgan Stanley - Analyst***

Okay. Thanks a lot, guys.

Clayton Reasor - ***Phillips 66 Partners LP - VP, IR, Strategy & Corporate Affairs***

Great. Thank you.

Operator

Thank you. Our next question is from Brian Zarahn of Barclays. Please go ahead.

Brian Zarahn - ***Barclays Capital - Analyst***

Good afternoon.

Greg Garland - ***Phillips 66 Partners LP - Chairman and CEO***

Good afternoon.

Tim Taylor - ***Phillips 66 Partners LP - President***

Hi.

© 2013 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Brian Zarahn - ***Barclays Capital - Analyst***

Can we talk a little bit about the base business, and on the pipeline side, where do you see the crude oil and product pipe volumes going forward relative to third quarter?

Tom Liberti - ***Phillips 66 Partners LP - VP and COO***

Volumes in the fourth quarter should be pretty similar to the, this is Tom Liberti, to the third quarter. We don't see anything, any major changes in any of the volumes, assets are operating, so everything should be pretty much as we explained and detailed in the S-1.

Brian Zarahn - ***Barclays Capital - Analyst***

Okay. And then, I was looking at the crude-by-rail projects at the parent level in New Jersey and Washington, can you give us any color as to the cost for those terminals and expected returns and how that would fit into your overall drop-down strategy?

Tim Taylor - ***Phillips 66 Partners LP - President***

I think those are the kinds of assets that we look at and say they make a lot of sense, they can be fee-based assets for the partnership. So I think that clearly gets into the valuation, but we would expect those to have very competitive fees to third-party, other opportunities exist in the marketplace, and that kind of underpins that value that we have to place in terms of what the partnership is willing to pay. So I think it is going to be just an example with the many great opportunities that exist between the sponsor, PSX, and the partnership.

Brian Zarahn - ***Barclays Capital - Analyst***

Just looking at some of your larger projects, then the crude rail terminals, the Sweeny fractionator and the Freeport LPG project, those are significantly larger, how do you think about those migrating to the MLP? Would that potentially be in pieces, or could potentially, could a frac be dropped down, or the entire Freeport project -- those are longer term but just thinking ahead?

Tim Taylor - ***Phillips 66 Partners LP - President***

I think from PSX has stated that they intend to grow that and use the MLP from a value creation standpoint, so I think the size and timing is really quite open. I think as we continue to look at the values, both in the partnership, at the partnership level, I think PSX will be thinking through what is the right size. But we've not set any firm guidance on how to do that, but we have said that at the PSX level that those are the kinds of fee-based projects that we think make a lot of sense for the partnership to take a look at.

Brian Zarahn - ***Barclays Capital - Analyst***

Thank you.

Operator

Thank you. Our next question is from Jeremy Tonet of JPMorgan. Please go ahead.

Jeremy Tonet - ***JPMorgan - Analyst***

Good afternoon.

© 2013 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Tom Liberti - ***Phillips 66 Partners LP - VP and COO***

Good afternoon, Jeremy.

Jeremy Tonet - ***JPMorgan - Analyst***

When you guys are thinking about potential drop downs, could you give us your thoughts on how Sand Hills and Southern Hills stack up on a capital maturity basis versus some of the other assets out there, if the maturity of the project makes sense now and if there's room for potential other assets to be dropped down ahead of them? Thanks.

Tom Liberti - ***Phillips 66 Partners LP - VP and COO***

Jeremy, this is Tom. As we look, those are starting up right now, so we want to make sure that those have the level of maturity that maximizes both for PSX and for PSXP, and with the portfolio that we currently have those are nice assets to drop. We also have other opportunities. So we will just look every time at different assets, we will look and study those assets and see which we think is right at the time.

Jeremy Tonet - ***JPMorgan - Analyst***

Okay, great. Thank you.

Operator

Thank you. Our next question is from Elvira Scotto of RBC Capital Markets. Please go ahead.

Elvira Scotto - ***RBC Capital Markets - Analyst***

Hi, good afternoon. You talked about also potentially pursuing organic growth projects at the PSXP level. Can you talk about maybe your thinking on how you think about developing organic growth projects at PSXP versus the parent, if it is size, or what kind of size organic growth opportunity you would pursue at the MLP versus the parent?

Tom Liberti - ***Phillips 66 Partners LP - VP and COO***

Right now the size of the MLP really does dictate what we are looking at, so PSX, the parent, has the opportunity now for larger projects. And for right now, PSXP would be looking more at smaller organic growth projects.

Elvira Scotto - ***RBC Capital Markets - Analyst***

Okay, what size sort of -- in terms of comfort level at the MLP level?

Tom Liberti - ***Phillips 66 Partners LP - VP and COO***

As we've said before, what we've talked about is keeping, making sure our debt is in the three times EBITDA kind of ratio. So right now, as we build the EBITDA up it would be dependent on where we are from an EBITDA standpoint. Also when and how we are able to issue equity.

Tim Taylor - ***Phillips 66 Partners LP - President***

© 2013 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

I think $1 billion kinds of projects like the frac and the export terminal are clearly not within the purview of the partnership at this point given its capabilities. So that's kind of a -- it is a very much a sliding scale and what you have in length of time to incubate, but I think really large capital, major steps, probably not within the partnership's capability at this point. But over time, as the partnership grows that will change, as well.

Greg Garland - ***Phillips 66 Partners LP - Chairman and CEO***

The other thing is as we put out the S-1 and we are talking, there are some small projects available to us within PSXP where we can, for small capital increments increase capacity, adding pump here, looking at new tankage and things like that. So there are some organic opportunities within the existing assets that we have today within the MLP.

Elvira Scotto - ***RBC Capital Markets - Analyst***

Great. Thank you.

Operator

Thank you. We have no further questions. I will now turn the call back over to Clayton Reasor.

Clayton Reasor - ***Phillips 66 Partners LP - VP, IR, Strategy & Corporate Affairs***

Great. Thank you very much for the interest in PSXP. And if there are any follow-up questions, don't hesitate to give us a call. We will be posting our presentation on our website, and look forward to seeing and talking to you in the near future. Thank you.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2013 Thomson Reuters. All Rights Reserved.

© 2013 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS