REFINITIV STREETEVENTS

EDITED TRANSCRIPT

PSX.N - Q3 2024 Phillips 66 Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Welcome to the third-quarter 2024 Phillips 66 earnings conference call. My name is Emily, and I'll 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 Jeff Dietert, Vice President, Investor Relations. Jeff, you may begin.

Jeff Dietart - *Phillips 66 - Vice President of Investor Relations*

Welcome to Phillips 66 earnings conference call. Participants on today's call will include Mark Lashier, Chairman and CEO; Kevin Mitchell, CFO; Don Baldridge, Midstream and Chemicals; Rich Harbison, Refining; and Brian Mandell, Marketing and Commercial. Today's presentation can be found on the Investor Relations section of the Phillips 66 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 call. 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 Mark.

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Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

Thanks, Jeff. Welcome everyone to our third-quarter earnings call.

The strength of our results in a challenging refining market demonstrates the benefits of our differentiated downstream portfolio. During the quarter, we continued to execute on our strategic priorities and delivered strong operating performance. Since July 2022, we have returned $12.5 billion to shareholders through share repurchases and dividends. We're approaching our $13 billion to $15 billion target.

In refining, we reduced our cost by $1 dollar per barrel, and we continued to run our system well. The improvement in clean product yield reflects our investments in high-return, low-capital projects. We continue to evaluate all of our assets as part of our strategic priorities and ongoing portfolio optimization. We recently agreed to sell our 49% interest in a Switzerland-based retail joint venture for approximately $1.24 billion. Our asset dispositions are now expected to exceed the $3 billion target.

We plan to use the cash proceeds to support our strategic priorities, including returns to shareholders and debt reduction. During the quarter, we achieved the targets on two of the six priorities ahead of schedule.

First, we have accomplished our $1.4 billion business transformation cost reduction target. We've driven a permanent shift in the way we work, and we remain diligent with a culture of continuous improvement. Our employees have done an incredible job delivering on this commitment. And the results are clear, as Kevin will cover later.

Secondly, we achieved our $400 million synergy target across our NGL wellhead-to-market value chain. This brings the total uplift in mid-cycle adjusted EBITDA to $1.4 billion from acquiring and successfully integrating DCP Midstream.

Slide 4 shows the growth of our midstream business. We have advanced our wellhead-to-market strategy through organic projects and strategic transactions that provided significant synergies and strong returns. Our Sweeny hub became the second largest NGL fractionation hub in the US, with the completion of Frac 4 in 2022. The DCP transactions strengthen this competitive position by fully integrating our value chain.

In the third quarter of 2024, we further expanded the business with the acquisition of Pinnacle Midstream. We also approved the construction of an adjacent processing plant with startup expected in mid-2025.

On a trailing 12-month basis, midstream's adjusted EBITDA has increased to $3.7 billion from $2.1 billion three years ago. In addition, midstream adjusted EBITDA is ahead of 2024 guidance despite weaker natural gas and NGL prices. The stable cash generation from this business covers the company's dividend and our sustaining capital. We continue to high grade our portfolio and capitalize on our growth platform to generate strong returns and significant free cash flow.

Before I wrap up my opening comments, I want to acknowledge our previously announced plans to cease operations at the Los Angeles Refinery in the fourth quarter of 2025. The uncertainty of the long-term sustainability of the refinery and market dynamics were key factors in this decision.

We are evaluating the future use of the property, and we work with the state of California to continue to supply transportation fuels to meet customer demand. As we work towards decommissioning, we're grateful for our employees' continued focus on safety and operating excellence. We are committed to treating all of our employees and contractors fairly and respectfully throughout the process. We continue to deliver on our strategic priorities and targets. I look forward to providing an update on the next earnings call.

Now, over to Kevin.

Kevin Mitchell - *Phillips 66 - Chief Financial Officer, Executive Vice President*

Thank you, Mark.

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Slide 5 provides cost detail at the total company level through the end of the third quarter compared to the same period of 2022. We have supported growth while mitigating inflationary impacts through business transformation and synergy capture. Through the first nine months of the year, we have realized approximately $700 million in cost reductions, including our share of WRB costs. In addition, we have reduced logistics spend by $200 million. These costs flow through gross margin. We lowered sustaining capital spend and continue to prioritize safe and reliable operations.

Slide 6 shows the business transformation reduction to refining cost per barrel. Adjusted controllable costs, excluding turnarounds, are $5.84 per barrel year to date. We have eliminated $1 per barrel of costs, achieving our target ahead of schedule.

Slide 7 covers key financial metrics. Earnings were $346 million. Adjusted earnings were $859 million or $2.04 per share. The adjusted results exclude special items which include a legal accrual in the third quarter. We generated operating cash flow of $1.1 billion and returned $1.3 billion to shareholders.

I will now move to slide 8 to cover the segment results. Adjusted earnings decreased $125 million compared to the prior quarter. Midstream results decreased mostly due to seasonal maintenance costs and lower equity earnings, reflecting the sale of our interest in the Rockies Express Pipeline. These decreases were partially offset by higher margins on LPG exports.

In chemicals, results increased mainly due to higher polyethylene chain margins and lower costs. Lower refining results primarily reflect weaker crack spreads. Capture of the new indicator was 92% in line with the previous quarter. In addition, the plan to cease operations at our Los Angeles Refinery resulted in the acceleration of depreciation.

The impact in the third quarter was $25 million. Going forward, we expect approximately $230 million per quarter of additional depreciation through the fourth quarter of 2025.

Marketing and specialties results were higher, mostly due to seasonally stronger margins. In renewable fuels, results decreased due to lower realized margins. The Rodeo Renewable Energy Complex produced 44,000 barrels per day of renewable fuels during the third quarter.

Slide 9 shows the change in cash flow. Cash from operations, excluding working capital, was $1.5 billion supported by the stability of our midstream and marketing and specialties businesses.

Working capital was a use of $381 million, mainly reflecting the impact of falling commodity prices. In July, we acquired the nickel midstream for $567 million. Also during the quarter, we received cash proceeds of approximately $200 million from the sale of non-core midstream assets.

Looking ahead to the fourth quarter, in chemicals, we expect the global O&P utilization rate to be in the mid-90%s. In refining, we expect the worldwide crude utilization rate to be in the low- to mid-90%s and turnaround expense to be between $125 million and $135 million. Full-year turnaround expense is now expected to be $485 million to $495 million. This is a reduction of more than $100 million from our original guidance. We anticipate corporate and other costs to come in between $300 million and $330 million.

Now, we will open the line for questions, after which Mark will wrap up the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Royall, JP Morgan.

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John Royall - *JPMorgan Securities LLC - Analyst*

Hi. Good morning. Thanks for taking my question. So my first question is just on your decision to shutter your remaining conventional capacity in California. Can you just talk about what went into that decision and how much the recent regulatory changes play into that decision? Or was this something that you had planned even [ask] of that?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

Hey. Good morning, John.

As we've stated in our strategic priorities that we will do an ongoing evaluation of all of our assets. And so the LA decision really was part of that. And the Los Angeles Refinery has been under significant market pressure. And the refinery, if you think back historically, it was originally designed to process in-state California crude production. And that's declined by about 75%. So the continued outlook in California in the face of declining diesel and gasoline demand was a pretty tough one.

And so when we took that, given outlook for the market and also factor in California's stated policy to move away from fossil fuels, we expected California to be a pretty challenging refining market, going forward. And we also have the typical maintenance and regulatory spending that we face, and that's only going up.

And so there are a lot of factors that go into these decisions and these decisions are only made after we do an exhaustive review of all the alternatives. And that exhaustive review led us to idle the refinery as we announced earlier this month.

And so it wasn't any knee jerk reaction in the face of any policy changes in California. This has been a long-term analysis.

John Royall - *JPMorgan Securities LLC - Analyst*

Great. Thank you, Mark.

And then my follow up on the balance sheet and maybe you could just talk about your outlook for the balance sheet and perhaps where you think you could finish the year on leverage following the sale of the Swiss business and potentially the Germany and Austria business and recognizing there are a lot of moving pieces around working capital and some other things, but just any guidance on where you could finish the year on the balance sheet.

Kevin Mitchell - *Phillips 66 - Chief Financial Officer, Executive Vice President*

Yeah, John. It's Kevin.

So certainly, expect to finish the year with a stronger cash or net debt position than where we are currently. And that will be partly reflected by proceeds from asset dispositions. But the bulk of that is going to be 2025.

So we expect the Swiss business -- that transaction to close in the first quarter of next year. And the Germany, Austria retail business, we're still in active negotiations around that. And so that will be a 2025 item as well.

But nonetheless, the proceeds from dispositions give us a lot more added flexibility as we think about balance sheet priorities, continuing to return cash to shareholders, and also, investment in the business.

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And just as a reminder from a capital allocation standpoint, the first priority is sustaining capital. That's about $1 billion per year. The second priority is the dividend. That's approximately $2 billion per year. And everything after that is available for investing in the company in growth, returning cash to shareholders, of which the dividend obviously is a part of that, but share repurchases, and then the balance sheet and debt reduction.

So we're a bit off of our target leverage metric and we expect to get closer to that. It'll take a little while when you look at the different components of the debt and the equity on that. But we expect to be moving our way towards that objective.

Operator

Roger Read, Wells Fargo.

Roger Read - *Wells Fargo Securities LLC - Analyst*

Yeah. Thank you. Good morning.

Kevin, two questions for you here. I'll just throw them together. One is we think about the stated savings, the $1.4 billion on the synergies -- I'm sorry, on the overall cost reduction plan, the $0.4 billion from the synergies with DCP, offset by the inflation that's in slides 5 and 6, I think, which it sounds like you're using a standard CPI there. I just would like to maybe dig into a little bit of how do we look at those two moving parts, one, you know, pretty substantial savings; two, inflation that's out there. You mentioned it comes out of the operating costs, but those can also be impacted by seasonality, by maintenance, and so forth. But how we should really look at that on a net basis and what's maybe inflationary pressure, going forward?

Kevin Mitchell - *Phillips 66 - Chief Financial Officer, Executive Vice President*

Yeah, I think, as you look at that and as you point out, we highlighted the inflationary impact. We also highlight the market impact. And you could say those are two versions of similar factors. They're market driven. They're outside of our control. One of them has been a headwind for the last couple of years. The other one has been a tailwind for us with lower natural gas prices primarily.

And so what we're trying to focus on is you would expect there are those things that are directly within our control and that's reflected in that cost reduction bar on the chart. On market, I wouldn't be completely dismissive of that being outside of our control because we are also, as part of our cost reduction initiatives, focused on energy reduction in terms of -- from a volume quantity standpoint.

And so that is something that we're very focused on as well. It's also consistent with our environmental GHG objectives around that. But on a go-forward basis, I think the worst of the inflationary pressures are behind us. And we'd expect that that has somewhat normalized on a go-forward basis. So lesser headwinds than we have experienced over the last couple of years.

Roger Read - *Wells Fargo Securities LLC - Analyst*

And then just as a follow up on that, the $100 million reduction in the turnaround costs, is any of that related to the issue -- the shut down or is that just outperformance during the year?

Richard Harbison - *Phillips 66 - Senior Vice President - Refining*

Hey, Roger. This is Rich. There's really two key factors in that $100 million reduction in our outlook. Half of it's attributed to this enhanced inspection process that we've been putting in place over the last several years. It's allowed us to actually extend the intervals between turnarounds. So some of that data was coming in this year on some planned turnarounds. And after we had a chance to evaluate it, we were able to defer those turnarounds. That's roughly half of that $100 million. And the other half of the $100 million is the organization's execution of the work. They've actually -- we've

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actually gotten much more efficient at our execution through a number of initiatives that we put in place with the turnarounds. And we're seeing the fruits of that labor come through now.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs & Co. LLC - Analyst*

Yeah. Good morning, team. I just want to follow up on the comments around balance sheet and capital allocation. And you guys have made a tremendous amount of progress in returning capital to shareholders via buyback and dividends. But how do you think about the pace of that going forward and what appears to be a softer commodity environment?

Kevin Mitchell - *Phillips 66 - Chief Financial Officer, Executive Vice President*

Yeah, Neil. It's -- for the last 1.5 year or longer, we have been very focused on the commitment that we put out there, the $13 billion to $15 billion, target, and that has somewhat informed our decisions around the pace of buybacks.

As we get to the end of that, I think we will move to more of a in excess of 50% of operating cash flow being the return to shareholder metric. We talked about that, I think, on the last call that the go-forward assumption around this is 50% or more of cash from operations being returned to shareholders. I think that's a good way to think about this as you model out into 2025 from -- for that metric.

Neil Mehta - *Goldman Sachs & Co. LLC - Analyst*

Okay. That's helpful. And then, we saw a very solid strength in the chemicals business relative to some of your peers this quarter. And then marketing picked up. I would imagine some of that's just because crude softened at the end of the quarter. But can you talk about those two businesses and the outlook as we think about the sequential into fourth quarter and early next year?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

Well, Neil, I'll take the chemicals side of that, and we've seen CPChem's performance strong. They're able to operate at high rates when others have had to cut back because of costs. I think that they don't have any operation or much operations exposure in Europe, which is beneficial and they've got their advantaged feedstock position, low-cost ethane in two locations in the world that they've really been able to lean into.

You do see some seasonal softness coming in this time of year, which is pretty typical. And that with lower crude prices makes Napa producers -- the floor a little bit impacted there as well. But on the long term, we see continued improvement in the macro for chemicals. They're coming out of that trough of a year or so ago, and they continue to make good progress. They continue to see demand from their perspective and their ability to capture the market increasing. And we see that going forward.

Brian Mandell - *Phillips 66 - Executive Vice President - Marketing and Commercial*

Hey, Neil. This is Brian on the marketing side. Q3 is typically marketing's strongest quarter. And during the quarter, marketing had improved margins in the US across both wholesale and franchise channels driven, as you mentioned, by falling spot prices. We also saw some stronger volumes. Additionally, in the lubricants business, base oil margins also improved with falling feedstock prices. But going forward, expectations for the M&S segment Q4 are just a seasonal pullback in earnings consistent with what we call mid-cycle Q4 earnings.

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Operator

Ryan Todd, Piper Sandler.

Ryan Todd - *Piper Sandler & Co. - Analyst*

Good. Thanks.

Maybe, one for me. I guess, on the refining side, you've made a lot of progress in terms of reducing cost structure, improving reliability and utilization rate, and even improving capture rate of refining business. But refining earnings are still struggling in the current environment. I mean, they're struggling for everybody. But as you -- we're clearly below mid-cycle margins right now, but it still seems like you're a little away from achieving your target for the refining business even in a mid-cycle environment.

I guess, any thoughts on where do you think you are in terms of progress there and what's still -- what should we still be looking for over the next 12 months in order to drive that the next leg of improvement and refining profitability?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

Yeah, Ryan. This is Mark. I'll just comment at a high level that I do believe that we're still on that journey. We've pretty dramatically increased or enhanced our cost position. And we'll continue to do so. We are focused on being competitive and continuing that journey. And we've also been very deliberate in just working away at these small projects that have quick payouts that enhance our ability to capture the market. And we've got -- our strategic priorities. We've got things that we see in '25, things that we see happening by '26. And so we've got a long, a long list of things that we can continue to work away at in refining to enhance our competitive position and increase our ability to capture value from the marketplace.

Richard Harbison - *Phillips 66 - Senior Vice President - Refining*

Yeah, so maybe I'll just add a little bit more color to that. This is Rich. So we had three primary improvement focuses in refining.

First is the cost reduction. And that's a slog, right? It's getting in the mud pit, digging it out, and pulling out these expenses that are very sticky, takes a lot of organizational effort to do that. I'm very happy with the organization's performance on this. And we've exceeded our expectations, original expectations. And now we've removed over $600 million of cost out of the cost profile for refining.

So we're not declaring infinite success with that. We will move to what I'll call a continuous improvement mode on the cost. But I will shift the organization's attention now to the earnings per barrel focus here as we move into the future. And that is taking advantage of what Mark was talking about, which is the small capital projects with high return. And we'll continue to execute those. We still have a laundry list of those projects to go.

But there's also efforts that we utilize our existing equipment and making sure that we're extracting the highest level of value out of that. We see some opportunities across the system. We're going to focus on that and continue to extract that value out.

And then of course, Brian's organization is working diligently. This integrated model that we have is really about extracting the value out of the entire value chain. And the commercial organization is the glue that keeps that together. And we've got a lot of number of initiatives that we're working on that front.

You add all these up, they're well over a $1 billion of impact to our earnings at mid-cycle pricing. So I'm very confident that when we get to mid -- back to mid-cycle pricing scenarios that you'll see the performance of the refining organization hit the $4 billion to $5 billion range of earnings.

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Ryan Todd - *Piper Sandler & Co. - Analyst*

Great. Thank you.

And then maybe one more. As we look at renewable diesel and we think about your -- the path to improvement there, can you maybe walk through how you think about the path to improvement in 2025 both in terms of the broader market and what are some of the levers or moving pieces you think drive improvement in terms of the macro backdrop? And then maybe Rodeo specifically, what are the things that you're looking to do that will drive improvement in terms of the profitability there?

Brian Mandell - *Phillips 66 - Executive Vice President - Marketing and Commercial*

Sure. This is Brian, Ryan. Maybe to start where we are today, we're still in a startup mode for the renewable segment. So I think we've had some startup costs. We're also running a higher -- or lower CI but we're also running some higher CI now in Q4. I think if you think about renewable diesel margins going into Q4 and beyond, we think margins are going to strengthen for a number of reasons. Feedstock prices remain depressed. There are a number of plans that continue to struggle. Some of the RD production is going to be converted into renewable jet production like some of our competitors on the Gulf Coast and we will do as well.

There are less imports into the US. Tighter West Coast car diesel market. With refinery production issues, we've even seen some renewable diesel from our competitors come from the Gulf Coast into the West Coast. And then just the stronger credit markets with the tightening of those credit markets and the disincentivizing of biodiesel production. So all those things together, I think, will drive renewable diesel margins stronger as we go forward.

Operator

Manav Gupta, UBS.

Manav Gupta - *UBS Securities LLC - Analyst*

Morning. I wanted to focus a little bit on your central corridor earnings. You were up $65 million quarter over quarter or 26% quarter over quarter. That is something we haven't seen in the MidCon region. It's a very strong result. Help us understand what were the factors helping you out and we understand you have very good assets over there. But generally, talk what really helped you out to deliver such a strong performance in central corridor?

Richard Harbison - *Phillips 66 - Senior Vice President - Refining*

Hey, Manav. This is Rich. Thanks for pointing that out. We're very happy with the performance of the central corridor operation. There's a couple of factors here that played into the outperform. One of the -- margins were higher, which increased mainly due to a favorable impact on our inventory hedges.

So with the WTI price falling quarter over quarter, that hedge was a positive tailwind for us on that. We also had the benefits of the WCS heavy crude disks, which are included in our indicator. But that benefit was also seen in the MidCon area as well. There was a 10% increase quarter over quarter in the cracks for the region. So we did see that a positive move there, and we did see lower product differentials though as a result of that as well.

Our secondary products also played into this tailwind for the quarter. We saw improved pricing in both the NGLs and the heavy intermediates. And this is all -- we all pull this all together really with very good operating performance for the region. We had 100% crude utilization and 89% clean product yields, which are two very, very good performances by the assets.

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Manav Gupta - *UBS Securities LLC - Analyst*

Perfect. My quick follow up here is you are at $2.7 billion on asset sale of the $3 billion, but you still have a marketing package out there in Europe. So how should we think about asset sale proceeds for the next 9 or 12 months?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

I think the way you should think about, Manav, is we -- it's part of that portfolio optimization. It's ongoing. We've defined what we think are non-core assets. And I would say that that $3 billion was considered as a floor that we would hit. And we will continue to evaluate non-core assets and move forward with any dispositions that we view as favorable for us.

Manav Gupta - *UBS Securities LLC - Analyst*

Perfect. So $3 billion was the floor, not the target. Sorry. Thank you. Thank you so much.

Operator

Matthew Blair, Tudor, Pickering, Holt.

Matthew Blair - *Tudor, Pickering, Holt & Co. Securities LLC - Analyst*

Thank you and good morning. Your refining capture [filled] up pretty well in the third quarter at 92% versus 93% in Q2. Typically, in the fourth quarter, refiners see some tailwinds here just from things like lower -- or sorry, higher butane blending volumes. Could you talk about your expectations for capture in the fourth quarter? Do you think it's reasonable to expect a small improvement quarter by quarter or is it too early to say?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

I think it's too early to say, Matthew, just one month into the quarter. There's still opportunity for some, some volatility as we go through the end of the year.

Matthew Blair - *Tudor, Pickering, Holt & Co. Securities LLC - Analyst*

Sounds good. And then the West Coast seemed pretty challenging for Phillips. And some of your peers in the third quarter, I think, the capture fell to 63% versus strong levels in Q2. You obviously made a decision to close the Los Angeles Refinery. Could you talk about the headwinds in the third quarter in the West Coast and whether there's been any improvement so far in the fourth quarter?

Richard Harbison - *Phillips 66 - Senior Vice President - Refining*

Yeah, this is Rich. I'll talk about some of the headwinds we saw on the West Coast. There's a lot of moving parts, actually.

So primarily, we saw a weaker market cracks and weaker feedstock advantages. So those were both the keys to driving lower earnings in that that region. Margins decreased with our West coast indicator falling about 46%. So you saw that if you're tracking along on our indicator, those were primarily driven by Portland and Los Angeles gasoline cracks.

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Crude deliveries also played into this as well. There was a prior month injection of crude delivered by pipeline coming out of the north from Canada. And in a declining price environment, we also see -- we see an impact in that as well versus the benchmark.

Secondary product impacts primarily related to heavy intermediate drawdown of inventory. In the second quarter, we built heavy intermediate inventories as a result of maintenance activity at both Los Angeles and Ferndale. And then, the drawdown actually occurred in the third quarter and that happened to occur in a declining price environment as well impacting the market capture.

We are also experiencing some continuing costs associated with the wind down of the Rodeo crude operation. Don't want to forget about that. We expect the majority of this work to be complete by year end as we prepare a number of the assets for demolition. The demolition costs are currently reserved in our [ARL] but that cost to prepare for that demolition is something that we'll see ongoing through the end of this year.

And as Kevin indicated in his recap earlier, there was a couple of entries into the quarter that impacted earnings as well from LAR announcement to idle operations. One is the accelerated depreciation that $25 million in the quarter and the other was a special item of $41 million, recognizing some benefit obligations associated with that announcement.

That all said, the assets actually operated well for the quarter. A 93% clean product yield and a 94% crude utilization for the assets, so primarily market-driven factors there.

Operator

Jason Gableman, TD Cowen.

Jason Gableman - *TD Securities (USA) LLC - Analyst*

Hey, thanks for taking my questions. I wanted to ask first on the refining business. And back in the 2022 Analyst Day, there was some guidance for 5% margin capture improvement by 2025. And I think there was some kind of optimization across the portfolio involved in that and some discrete projects involved in that. It sounds like maybe those projects have been a bit delayed. I can't really tell. But how much has capture improved from 2022? Tough to compare, given the change indicator. And would you say you're on track with the projects that underpinned that capture improvement?

Richard Harbison - *Phillips 66 - Senior Vice President - Refining*

Yeah, this is Rich again. Short story is we're on track. And how that's all coming together is a series of small capital projects with high return. I mentioned those a little bit earlier, but in 2022 and in 2023, we completed a series of projects, roughly 12 to 15 each year. And these are return projects and assuming mid-cycle pricing returned about 3% improvement in market capture associated with those projects.

In '24, we have additional 15 projects that we're executing right now and those projects will add about 2% of market capture to a mid-cycle price earnings profile. So add those all up to three years program on this, it comes up to the 5%. That 5% number is equivalent to essentially $400 million of earnings at mid-cycle pricing.

So, if you -- if we see that environment, I'm very confident that we will see that impact and that actually hit into the market capture numbers that we're seeing through the existing indicator. And we'll have to go back and recreate a bridge to the traditional indicator.

Jason Gableman - *TD Securities (USA) LLC - Analyst*

Okay. Thanks. My follow-up question is going back to some of the commentary on distributions next year and the balance between de-leveraging and buying back shares. There's a few targets out there in terms of that. There's 25% to 30% that as the cap. There's $18 billion of net debt.

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What's kind of the preferred metric investors should look at to determine what the buyback capacity is next year? And how do you feel about the balance sheet going into next year, given all the concern around the refining market environment? Thanks.

Kevin Mitchell - *Phillips 66 - Chief Financial Officer, Executive Vice President*

Yeah, Jason. It's Kevin. Let me make a couple of comments on that.

The leverage target is 25% to 30% level. But we acknowledge that that may take a while to get there, given the current environment and the absolute -- not just debt level, but also, it's debt and equity that drive that calculation. We also are looking at absolute debt at a sub-$18 billion on a net debt basis.

We're at the end of the third quarter. We were at an $18 billion net debt level. And we'd like to be a little bit lower than that. We do think that we're going to have a fair amount of flexibility going into next year because while the refining environment is weaker than we would like, the other businesses are performing very well. We have the broader portfolio and you're seeing the benefits of that.

And we also have some healthy cash that will become available through the asset disposition. So while we've announced $2.7 billion, less than half of that has actually been realized at this point in time. So we've got a fair amount still to come. In and there's other transactions that we're working on. So I think we'll still have a lot of flexibility to be able to meet our cash returns objectives and make progress on the balance sheet, which as you know is one of our strategic priorities as well.

Operator

Doug Leggate, Wolfe Research.

Doug Leggate - *Wolfe Research LLC - Analyst*

Thanks. Good morning, everyone. Thanks for taking my questions.

Mark, I don't know if you want to take this one. But if you go back and look at the targets you laid out back in 2022, the disposal program, I guess, the acquisition of DCP wasn't in there either, but the disposal program was not explicit in your EBITDA targets. Can you give us some idea? I'm guessing, it's a small number but what the EBITDA losses from the $2.7 billion of disposals so far?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

Yeah. No, thanks for mentioning that, Doug. As we step back and look at our earnings capacity at mid-cycle projection at $14 billion by the end of 2025, we also recognize that there's parts that are moving in and out of the portfolio. And where we're landing is sometime early next year, we're going to look at the gives and takes -- puts and takes around that number and we'll come out with a revised, mid-cycle earnings capacity. And just recognizing that that number is not a projection of our earnings in 2025 but really our mid-cycle earnings capacity in 2025. And we'll be updating everyone on that.

Doug Leggate - *Wolfe Research LLC - Analyst*

You can't put a number around the $2.7 billion at this point?

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Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

We're not prepared to do that right now. We'll revise that early next year.

Doug Leggate - *Wolfe Research LLC - Analyst*

Okay. Thank you. And I guess my follow up is actually related to that $14 billion. I want to make sure that we don't misspeak about that being a target for '25. It's obviously a mid-cycle capacity as you pointed out. But embedded in there is a little over $5 billion of refining at midcycle. And you've obviously -- you've been in the press and quite vocal about your view of what the capacity person takes are globally for the industry. And I'm just curious when you think maybe we need to wait until next year but if you think forward about what you had historically seen as midcycle, what some of us thought might be a better midcycle, that's obviously been kiboshed by last couple of quarters, obviously.

But I guess, I'm curious whether you think there it's still a case for a higher mid-cycle or whether you're battling to hold on to what was the last 10 years as mid-cycle average?

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

Well, certainly, a lot has changed in the last 10 years. And I think part of our review is we will have to step back and see what has happened in in mid cycle with respect to inflation inside the crack spreads, where all that comes down. I think it's very different than it was 10 years ago. But we do see enhanced strength in our ability to capture value in our refining assets. And we believe in the long list of things that Rich has talked about and the combination of creating more integration value, our ability of our commercial group to capture more value from the marketplace, and a different posture around how we trade around our assets has significantly enhanced our mid-cycle earnings capability in refining.

And if you look at 2025, yeah, we don't believe that we'll be at mid-cycle in 2025. But we also believe that going forward beyond '25 that we're going to see global demand growth that will exceed the net impact of capacity additions and rationalizations. And you're seeing more rationalization announcements coming at us and very little -- beyond the two big refineries that are coming on now, very little capacity addition beyond 2025. And we've got a fairly bullish outlook in the medium term.

Operator

Theresa Chen, Barclays.

Theresa Chen - *Barclays Capital, Inc. - Analyst*

Hi. Thank you for taking my questions. First, on the cost side for the chem business, with ethane in contango, due to natural gas being into contango, also perhaps because we have incremental residue capacity coming out of the Permian allowing for the option to project into 2025, how do you see that impacting chem margins from a macro perspective through 2025? And related to that, just given your processing footprint and your option to project or extract ethane for at least some of your volumes, could that may be a way to bolster earnings across the integrated value chain, midstream, and chem in a way that competitors cannot?

Don Baldridge - *Phillips 66 - Executive Vice President of Midstream and Chemicals*

Hi, Theresa. This is Don. I think, from ethane standpoint as it relates to CPChem, I think the advantage of ethane will continue to be there near term and long term. So I feel good about that outlook and how that will continue to be beneficial for CPChem's position in the chemical market.

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With regard to our assets and how we think about it, we do have, obviously, with our gas processing assets, a lot of flexibility in terms of ethane recovery and rejection. And we make those decisions on a day-by-day basis, based on market conditions and what our downstream infrastructure is associated with those assets and how to maximize both the throughput as well as the profitability as we push those barrels downstream.

So we think we've got, as an integrated player, a really good play kit to utilize and optimize across that gas to ethane and then ethane as a feedstock into the pet-chem industry. So we think it's going to be an opportunity set that we'll be able to execute on here in the near term as well as on down through the future.

Theresa Chen - *Barclays Capital, Inc. - Analyst*

Got it. And turning to the residue side in the Permian, I'd love to get a sense of how you view your exposure there and you've sold -- and a gas transmission asset outside of the Permian. Do you view your interest in GCX as core to your business, keeping in mind that the two other interests in GCX have consistently transacted with a double-digit multiple and the pipe also recently (inaudible) an expansion, that's going to cost nearly $0.5 billion on 100% basis? Is that the best use of your capital? And love to hear your thoughts there.

Don Baldridge - *Phillips 66 - Executive Vice President of Midstream and Chemicals*

Well, first I'd say, we are very excited to see the customer support behind the GCX expansion. We do think that's a big vote of confidence as to the productivity and the outlook of volume growth in the Permian, which obviously we're a beneficiary of given our footprint there. And we are an active participant in the residue gas marketing, space, and moving gas out of that basin.

So we're pleased with where things situate from that standpoint. And then, I mean, probably just reiterate what Mark had said, I mean, we regularly evaluate our portfolio and look for opportunities to high grade where it makes sense. We think that's just the right way to ensure our capital is allocated to the best opportunities.

So, it'll just be part of -- in terms of our GCX interest, it'll be no different than the other assets in our portfolio. We'll continually evaluate and make a decision when the time and opportunities make sense.

Operator

Paul Cheng, Scotiabank.

Paul Cheng - *Scotia Capital (USA), Inc. - Analyst*

Hey, guys. Good morning. I think the first question is for Kelvin. I think in the past, you have talked about a $4 billion to $5 billion on the cash balance. I don't know whether that is still the longer-term objective.

And also, I'm just curious that given the volatility in the market we are seeing, and today, you already saying that the debt level is a bit higher than what you prefer in the longer term. Should we still paying out more than 50% of the cash flow? Or that at least, we should say maybe the payout would be lesser after you finish the $13 billion to $15 billion of the commitment? So that's the first question.

The same question is for Rich. You mentioned the central corridor. You benefit from the WTI hedges. I presume you are not referring to the CMI -- the CMA. You are actually physical (inaudible) that you get into. Is that just you need for your central corridor operation or that you're doing other kind of hedges in the rest of your operation? Thank you.

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Kevin Mitchell - *Phillips 66 - Chief Financial Officer, Executive Vice President*

Yeah, Paul. It's Kevin. I'll hit your first question. I think the $4 billion to $5 billion, it sounds like one of our competitors uses that number for cash. We've said $2 billion to $3 billion, is our sort of ideal cash level which gives us adequate flexibility. And of course, we've also got plenty of other liquidity available to us. So $2 billion to $3 billion is the number that we've been saying in terms of cash balance. And as you can, we were slightly lower than that at the end of the third quarter.

On a go-forward basis on cash returns, 50% still feels pretty reasonable as an objective, 50% or more. The dividend is $2 billion. And so that's -- while in theory, there's flexibility on that, that's not how we think about it. That's a -- we view that as a very much a commitment. And the 50% still leaves adequate room for the other things we want to accomplish.

I would also emphasize that we continue to be very disciplined around our capital program, our growth capital. So back two years ago, we said for the next couple of years, '22 and '23, we have a $2 billion capital budget. While we haven't laid out our capital budget for 2025 yet, we expect that we'll -- we're going to continue to have that discipline around how we make those decisions. So I think when you put all that together, the 50% is still a reasonable number.

Brian Mandell - *Phillips 66 - Executive Vice President - Marketing and Commercial*

Hey, Paul. This is Brian. Just on the accounting -- for GAAP accounting, you have to mark your hedges and you don't mark the physical until it's sold or moved. And so in a falling market, the hedges make money and the physical doesn't get marked. So that'll get marked in the following quarter.

Paul Cheng - *Scotia Capital (USA), Inc. - Analyst*

Yeah. But Brian, is it only for the central corridor that you have that or that in other business -- in another region, you also have hedges?

Brian Mandell - *Phillips 66 - Executive Vice President - Marketing and Commercial*

Yeah, we have it in all regions.

Paul Cheng - *Scotia Capital (USA), Inc. - Analyst*

So you have it in all regions.

Kevin Mitchell - *Phillips 66 - Chief Financial Officer, Executive Vice President*

It's just much more significant.

Richard Harbison - *Phillips 66 - Senior Vice President - Refining*

(multiple speakers) volumes are -- and there was a big move on WTI on this list.

Paul Cheng - *Scotia Capital (USA), Inc. - Analyst*

So yes, only the WTI your hedges?

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Brian Mandell - *Phillips 66 - Executive Vice President - Marketing and Commercial*

Yes. We generally hedge with WTI crude. Correct.

Operator

Jean Ann Salisbury, Bank of America.

Jean Ann Salisbury - *BofA Securities, Inc. - Analyst*

Hi. I believe that the enterprise TW products pipeline has started up to [pad four]. Are you seeing that impact in pad four margins yet?

Brian Mandell - *Phillips 66 - Executive Vice President - Marketing and Commercial*

No, we -- not yet.

Jean Ann Salisbury - *BofA Securities, Inc. - Analyst*

Okay. And then my follow up is, I think, you kind of referenced this in the comments but LPG export ARBs have gotten extremely wide as I'm sure that you're aware. I think they're expected to stay that way for a few quarters until more export capacity comes online. How much exposure does PSX have to the ARB? I mean, does that increase over the next few quarters?

Don Baldridge - *Phillips 66 - Executive Vice President of Midstream and Chemicals*

Yeah, this is Don. Thanks, Jean Ann. At Freeport, we are experiencing strong demand for LPGs. And I would just say we have a portfolio mix of short- and long-term contracts there at Freeport as well as really across our whole NGL value chain. So yeah, this portfolio approach lets us capitalize on opportunities like we see today across the system. It helps navigate where at any point in time across the NGL value chain, you have some positives from a margin standpoint and some headwinds. So it really helps level out across that value chain.

But we are seeing real positive healthy dock fees, given the spread today to international markets, the ample supply of vessels, and then just a tight existing dock capacity across the Gulf Coast. We'll get our share of that, and we believe it's a pretty healthy outlook as you mentioned for the foreseeable quarters.

Operator

Joe Laetsch, Morgan Stanley.

Joe Laetsch - *Morgan Stanley & Co. LLC - Analyst*

Hey. Good morning, team, and thanks for taking my questions. So on the macro side -- thanks for your comments earlier on the supply outlook. Could you just talk to what you're seeing on the demand side for gasoline, diesel, and jet within your system as well as your outlook from here?

Brian Mandell - *Phillips 66 - Executive Vice President - Marketing and Commercial*

Sure. Hey, this is Brian. Starting with gasoline, global gasoline year to date, we're seeing about 1% higher than '23. European demands a bright spot with sales of gasoline powered and gasoline hybrid vehicles supporting a higher growth in 3Q versus prior 3Q, about 4% up.

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US demand performed well too, growing over 1% 3Q to former 3Q. Part of that is the retail prices that were falling considerably with the spot prices. On distillate -- year-to-date distillate, global demand was about 1.5% lower. In the US, we saw in 3Q about 2% lower than 3Q.

We're seeing some cautiously optimistic comments from some of the freight companies. UPS, for instance, came out last week and reported positive revenue and profit growth in the third quarter, which followed nearly two years of subpar performance. Also in the global container business, the global container volumes are up. In fact, in August, it hit a record high, so seeing some positive signs there.

Jet -- year-to-date global jet demand is about 8.5% higher than '23, driven largely by Asia. Europe and US flight demand is back to 2019 levels, but jet demand isn't quite back to those levels mostly because of the aircraft efficiency in the fleet.

Joe Laetsch - *Morgan Stanley & Co. LLC - Analyst*

Great. Thank you. And then just shifting to renewables, some peers have talked about seeing a premium for staff over RD. What are you seeing from a commercial demand standpoint for staff at Rodeo?

Brian Mandell - *Phillips 66 - Executive Vice President - Marketing and Commercial*

Yeah, we also see a premium for renewable jet production. I'll caution that in Q4, we're likely not to produce renewable jet. We're currently running off higher CI feedstocks for the plant as we prepare for the production tax credit next year. But we expect to be in steady state at renewable diesel -- renewable complex by Q1 of next year. And so by then, you should see us producing renewable jet.

Joe Laetsch - *Morgan Stanley & Co. LLC - Analyst*

Great. Thank you, all.

Richard Harbison - *Phillips 66 - Senior Vice President - Refining*

Yeah, maybe just to add a little bit to that color there. We did actually produce sustainable aviation fuel in September. So we, in the past, indicated that that was our intention. We did successfully produce a sustainable aviation field. There's this market anomaly that Brian's talking about here in the fourth quarter that will limit that production. But we will fully intend to be a supplier of sustainable aviation fuel to the marketplace.

Operator

This concludes the question-and-answer session. I will now turn the call back over to Mark Lashier for closing comments.

Mark Lashier - *Phillips 66 - Chairman of the Board, President, Chief Executive Officer*

Thanks for all your questions.

We delivered strong performance across our differentiated downstream portfolio. Business transformation achieved $1.4 billion of run rate cost reductions and lowered our refining costs by $1 dollar per barrel. Midstream achieved its synergy target and provided stable earnings with attractive growth opportunities.

We expect to exceed our $3 billion asset disposition target, having signed agreements to generate $2.7 billion in proceeds to date. We continue to evaluate assets as part of our ongoing portfolio optimization.

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I'm proud of our employees' significant achievements toward our commitments. We're confident in our strategy and continued execution on the remaining targets.

Thank you for your interest in Phillips 66. If you have questions after today's call, please call Jeff or Owen.

Operator

Thank you everyone for joining us today. This concludes our call. And you may now disconnect your lines.

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