

Par Pacific Holdings, Inc.

Q2 2024 Earnings Call

August 8, 2024

Corporate Participants

Ashimi Patel - Par Pacific Holdings, Inc., Vice President-Investor Relations & Sustainability

William Monteleone - Par Pacific Holdings, Inc., Director, President & Chief Executive Officer

Richard Creamer - Par Pacific Holdings, Inc., Executive Vice President-Refining and Logistics

Shawn Flores - Par Pacific Holdings, Inc., Chief Financial Officer & Senior Vice President

Conference Call Participants

Adam Wijaya

Goldman Sachs Group, Inc., Research Division – Equity Research Analyst

John M. Royall

JPMorgan Chase & Co, Research Division – Analyst

Jason Gabelman

TD Cowen, Research Division – Director & Analyst

Matthew Blair

Tudor, Pickering, Holt & Co. Securities, LLC, Research Division – Managing Director of
Refiners, Chemicals & Renewable Fuels Research

Manav Gupta

UBS Investment Bank, Research Division – Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and welcome to the Par Pacific Second Quarter 2024 Earnings Conference Call. All participants will be in a listen-only mode. And please note that this event is being recorded. I would now like to turn the conference over to Ashimi Patel, Vice President of Investor Relations. Please go ahead.

Ashimi Patel

Thank you, Cole. Welcome to Par Pacific's second quarter earnings conference call. Joining me today are Will Monteleone, President and Chief Executive Officer; Richard Creamer, EVP of Refining and Logistics; and Shawn Flores, SVP and Chief Financial Officer.

Before we begin, note that our comments today may include forward-looking statements. Any forward-looking statements are subject to change and are not guarantees of future performance or events. They are subject to risks and uncertainties, and actual results may differ materially from these forward-looking statements. Accordingly, investors should not place undue reliance on forward-looking statements, and we disclaim any obligation to update or revise them. I refer you to our investor presentation on our website and to our filings with the SEC for non-GAAP reconciliations and additional information.

I'll now turn the call over to our President and Chief Executive Officer, Will Monteleone.

William Monteleone

Thank you, Ashimi, and good morning, everyone. Second quarter adjusted EBITDA was \$82 million and adjusted net income was \$0.49 per share. These financial results reflect strong reliability and crisp, planned maintenance execution. Notably, the Billings turnaround planning, and performance was excellent. In addition, our retail and logistics segments continued to deliver steady earnings. The completion of the Billings maintenance positions us to push utilization rates in the third quarter in order to meet market demand. Each of our markets is short refined product in the summer months, requiring long haul imports to balance supply and demand.

Shifting to the broader refining environment, global product inventories are approaching the lower end of the five-year range. The combination of elevated utilization rates and relatively flat refined product demand have allowed for modest inventory restocking. Margins have responded and are near midcycle levels in most regions. Regional dynamics in PADD IV have largely returned to typical premiums versus the Gulf Coast. However, the Southern Rockies has been slightly less attractive as excess midcontinent inventories have pressured markets like Denver and Rapid City.

Our retail brands continued to gain market share, with same-store fuel and merchandise sales growth of 1.3% and 1.8% respectively. The retail team has focused on growing food service gross margin, enhancing systems to better manage in-store costs, and building a pipeline of remodel and new to industry sites. Our young brands continued to be well received in the local markets we serve.

On the strategic front, our growth initiatives are progressing. Billings' reliability initiatives are delivering encouraging early results. In Hawaii, our renewable hydrotreater conversion is on budget, and the renewable fuel cogeneration project is progressing towards a potential power purchase agreement with Hawaiian Electric.

On the financial side, we further reduced our cost of debt capital and we repurchased more than \$65 million of our stock. Our balance sheet remains strong, affording us the flexibility to both opportunistically repurchase stock and pursue our strategic objectives.

In closing, we are focused on safe and reliable operations and crisp project execution. While the margin environment has moderated, focus on these key areas will allow us to generate strong free cash flow and healthy returns through the cycle.

I'll now turn the call over to Richard to discuss our refining and logistics operations.

Richard Creamer

Thank you, Will. The refining segment second quarter combined throughput was on plan at 180,000 barrels per day.

In Hawaii, throughput was 81,000 barrels per day and production costs were \$4.50 per barrel. Refinery operations performed well, delivering 99% operational availability. With Hawaii's consistent throughput and strong catalyst performance, we will be extending the scheduled 2025 turnaround into 2026.

Shifting to Wyoming, throughput was a new record of 19,900 barrels per day, and production costs were \$7.08 per barrel. This represents great work by the Wyoming team to sustain nameplate capacity throughout the quarter.

Moving to Washington, second quarter throughput was 41,000 barrels per day and production costs were \$3.66 per barrel. The Washington team did an excellent job of safely restarting in April following their planned outage in March.

Finally, I'm pleased to report that Billings executed one of their largest turnarounds on record, successfully meeting all health, safety, and environmental targets, and as Will stated, finishing on schedule and on budget. The plant restart went well and has met or exceeded all operational objectives. Given the turnaround downtime in Billings, Q2 throughput and production costs were 38,000 barrels per day and \$16.18 per barrel. We do have planned maintenance of the Billings coker in the third quarter and Shawn will cover those financials.

Looking to the third quarter, we expect throughput in Hawaii between 78,000 and 82,000 barrels per day, Wyoming between 18,000 and 20,000 barrels per day, Washington between 38,000 and 41,000 barrels per day, and Billings between 55,000 and 59,000 barrels per day, resulting in system-wide throughput between 190,000 and 200,000 barrels per day.

I'll now turn the call over to Shawn to cover the financial results.

Shawn Flores

Thank you, Richard. Second quarter adjusted EBITDA and adjusted earnings were \$82 million and \$29 million or \$0.49 per share. The refining segment reported adjusted EBITDA of \$60 million compared to \$81 million in the first quarter.

In Hawaii, the Singapore index averaged \$12.49 per barrel and our landing crude differential was \$5.08, resulting in a combined index of \$7.41 per barrel. Hawaii margin capture was 136%, including a product crack hedge gain of \$12 million and continued margin support from elevated clean product freight. Looking ahead to the third quarter, we expect the Hawaii crude differential to land between \$6.25 and \$6.75 per barrel, and we have hedged approximately 10% of our third quarter sales at an average crack of \$18 per barrel.

In Billings, our US Gulf Coast index averaged \$17.93 per barrel. Gross margin capture was 94%, reflecting seasonally strong clean product differentials in the Upper Rockies and benefits from our lagged costed crude differentials. Offsetting the improved margin backdrop was an approximate \$25 million impact from the crude unit turnaround activities, driven by reduced clean product sales and higher purchased products. Looking ahead to the third quarter in Billings, clean product premiums to the Gulf Coast remained strong, trending slightly above Q2 levels quarter-to-date. Costed crude differentials in the third quarter are expected to increase by approximately \$5 per barrel, reflecting tighter heavy and syncrude differentials during the second quarter. As a reminder, feedstock costs in Billings will typically lag crude pricing by one quarter under our FIFO inventory accounting. Third quarter operating costs will reflect an incremental \$7 to \$8 million related to the maintenance activities on the coker unit.

In Wyoming, capture to the Gulf Coast index was 82%, reflecting softer premiums in the Southern Rockies. Local demand continues to strengthen into the third quarter, and clean product spreads to the Gulf Coast have returned to typical summer levels.

Lastly in Washington, the PNW index averaged \$22.54 per barrel in the second quarter. Margin capture was 21%, driven by narrow heavy crude differentials and lower secondary product margins. Looking ahead, quarter-to-date heavy crude diffs have widened \$3 per barrel, which is expected to provide more immediate benefits to Washington under LIFO accounting. Prompt secondary product margins have also improved with the recent decline in flat price.

The logistics segment reported adjusted EBITDA of \$26 million in the second quarter compared to \$28 million in the first quarter, down slightly due to reduced pipeline throughput related to the Billings turnaround.

Our retail segment reported adjusted EBITDA of \$19 million during the second quarter compared to \$14 million in the first quarter. Strong retail performance was driven by expanded fuel margins and continued growth in same-store fuel volumes and merchandise revenue.

Corporate expenses in adjusted EBITDA were \$23 million in the second quarter compared to \$29 million in the first quarter. The reduced costs were driven by lower renewable development activity and employee costs.

Net cash used in operations during the second quarter totaled \$5 million, including a \$61 million working capital outflow related to a temporary increase in inventories and deferred turnaround expenditures of \$29 million. Excluding these items, cash from operations was \$85 million during the second quarter. Cash used in investing activities totaled \$35 million, including \$37 million of capital expenditures partially offset by a \$1.5 million annual tax distribution from Laramie.

Moving to financing activities, we recently completed the working capital refinancing in Hawaii, replacing the legacy inventory intermediation with a combination of borrowings under the expanded ABL and a crude-only intermediation. In connection with the refinancing, total intermediation liabilities decreased by \$412 million, offset by an increase in ABL funding of \$420 million. As previously announced, the Hawaii refinancing is expected to reduce funding costs by approximately \$10 million per year.

We continued our opportunistic approach to share repurchases with \$66 million during the second quarter and \$116 million year-to-date through August 5. Since completing the Billings acquisition last June, we have repurchased a total of 5.6 million shares or equivalent to 10% of our current shares outstanding. Total liquidity as of June 30 was \$520 million, made up of \$180 million in cash and \$340 million in availability. With the strong balance sheet, we're well positioned to advance our strategic growth priorities while maintaining an opportunistic approach to share repurchases.

This concludes our prepared remarks. Operator, we'll turn it to you for the Q&A.

QUESTION AND ANSWER SECTION

Operator

Thank you. And at this time, we will now begin the question-and-answer session. And our first question today will come from Neil Mehta with Goldman Sachs. Please go ahead.

Question – Adam Wijaya: Good morning, team, and thank you for taking my questions. This is Adam Wijaya on for Neil Mehta. I wanted to first get your thoughts on Singapore margins. And a key area of focus in our recent conversations that center around more disappointing Asia demand and as a result Singapore margins, and it looks like based on the PARR market indicators, tick-up in margins over recent weeks. So, what are you guys seeing in terms of real time demand, and then how do you see that margin environment evolving over the coming months? Thank you.

Answer – William Monteleone: Sure, Adam. Good morning. So, I think on the Singapore front, we're probably hovering between \$11 and \$13 a barrel for the Singapore 3-1-2, and I think those are levels we'd characterize as midcycle. I think on the supply side, you're looking at levels where the simpler refining fleet in Asia is up against negative gross margins. So, I think you have some supply side support with respect to where the clean product margins are, and I think importantly, where secondary products are trading like fuel oil and naphtha. I think importantly, I think you're seeing limited exports of refined product out of China despite some of the concerns on the demand side. And ultimately, I still think you're seeing a world operated in a connected fashion where barrels are arbitraging between Asia and Northwest Europe. So again, I think that's the net driver of ultimate refining throughput in the Northeast Asian market. And no major changes. And with elevated freight impacting both inputs and the cost of arbitrage, I think the supply side has limited incentive to ratchet rates up further.

Question – Adam Wijaya: Got it. Okay. That's super helpful. And then I guess my next question is just on capital returns. The buyback number came in really strong this quarter, which is good to see

and good to see continued progress on the buybacks thus far into 3Q. So, I wanted to get the team's updated thoughts on capital returns expectations in the context of the current refining margin environment and also where the share price is as well. Thank you.

Answer – William Monteleone: Sure, Adam. So, I think on the share repurchase cadence, I think we'll remain opportunistic in how we think about it. And ultimately, our approach is going to be influenced by our cash generation, our outlook, the share price relative to our view of intrinsic value, and ultimately our liquidity position. So, we'll continue to look at all those factors and ultimately work to deliver a share repurchase cadence that I think is consistent with driving maximum shareholder returns.

Question – Adam Wijaya: Got it. Super helpful. Thank you.

Operator

Our next question will come from John Royall with JP Morgan. Please go ahead.

Question – John M. Royall: Hi. Good morning. Thanks for taking my question. So, my first question is on Billings. You've got the 2024 work now behind you, and it sounds like it went quite well. Can you talk about the work you have scheduled for 2025, and how it compares in scope and in cost to this year's work?

Answer – William Monteleone: Sure, John. I think as we've messaged, our intent with Billings is really over the course of 2024 and 2025 to turn around every major unit in the refinery. And again, the major work that was completed this year was a first step in the right direction. I think ultimately, when you look at our expected amortized turnaround cycle in Billings, it's about \$120 million over a roughly four- to five-year period. And so, again, I think you can expect for us to spend the total amount between 2024 and 2025 in that range, and there's probably an incremental \$10 to \$20 million of work that we're focusing on to ensure that we get a solid runtime out of the cat cracker which is the major focus area for 2025.

Question – John M. Royall: Great. Thank you. And then just sticking with the Rockies region, I was hoping for a little more color on the drivers of the crack basis between Rockies and Gulf Coast and how that's improved and maybe your expectations for the second half. And in particular, Will noted the Southern market is not doing quite as well. If you can just give some more detail on that bifurcation you're seeing there, that'd be helpful.

Answer – William Monteleone: Sure. So, I think ultimately, the Southern Rockies has a fair amount of interconnectivity with the Mid-Continent. And I think our observation being June and July, while you'd typically expect to see significant rail-borne imports into the Southern Rockies, ultimately, we didn't see the spreads that you would typically expect in those markets. As you move later into July and August, I would say it's beginning to normalize to higher levels that would be more consistent with rail-borne imports into PADD IV to balance supply and demand during peak demand season.

The Northern Rockies again I think is more principally served by rail, and ultimately, demand seasonality is more pronounced I think in the Northern Rockies. So, I think those are the biggest factors that are driving the distinctions and differences. And ultimately, I think we're seeing good demand across our system. And ultimately, we're still seeing demand well in excess of supply in the summer periods.

Question – John M. Royall: Thank you.

Operator

And our next question will come from Jason Gabelman with TD Cowen. Please go ahead.

Question – Jason Gabelman: Yeah, hey, good morning. Thanks for taking my questions. I wanted to go back to Billings. And it sounded like – I just wanted to confirm there was going to be some work on the coker in 3Q2024, if I heard correctly. Was that part of the initial plan for this year or was that related to something you perhaps saw while you had the asset down in 2Q, and how do you expect that to impact capture in 3Q?

Answer – William Monteleone: Sure, Jason. So, this is consistent with our plan. It impacts OpEx, not CapEx and turnarounds. And again, this is largely due to the typical maintenance cycle lengths on our fluid coker. So ultimately, this is something that is going to be a 9- to 18-month interval. And we did accelerate the downtime based on some performance, but I wouldn't say it was a material reduction in the planned runtime. So again, this is a really 9- to 18-month impact. And so, I think you should really spread out those costs over that timeframe and think about it as the amortized cost for running that unit.

Question – Jason Gabelman: Okay. And then you have exposure to West Coast cracks both from Washington and then what you export from Hawaii to the West Coast. Could you just remind us on specifically Hawaii, what that exposure is, and how that impacted your results in 2Q, and kind of how you're thinking about that impacting your results in 3Q?

Answer – William Monteleone: Sure. Jason, I don't think it'd be appropriate to specifically provide a percentage on our contract index exposure. But I would tell you that Hawaii does have a smaller percentage influence by both the Pacific Northwest and Los Angeles markets. So again, I think Singapore is the main factor and that's why the index for Hawaii is set based on Singapore.

That said, we are observing really the unusual weakness in the West Coast margin environment that's reflected in our PNW index, especially for summer periods. Again, I think that has more to do with influx of refined product, imports in the May timeframe that when you look at them on a standalone basis appear to be very uneconomic given where the market's trended. And again, that's a very difficult arbitrage to capture value. And ultimately, when you look forward, the quantity of imports appears to be reducing, particularly on the gasoline side of the equation.

That said, I think the West Coast is in a challenging environment given the material increases in renewable diesel into the market and the marginal barrel of conventional petroleum diesel being

exported consistently. So again, I think we're in a good position as a low cost operator in Washington and ultimately are well positioned with our Hawaii business to capture opportunities when they emerge.

Question – Jason Gabelman: Okay, great. If I could just sneak one more in. As you've absorbed Billings and gone through the first major turnaround, how do you think about M&A moving forward? It sounds like you're still growing the retail business. There's been some public activity from one of your peers there. Are you still a buyer of retail and just more broadly on the M&A environment?

Answer – William Monteleone: Sure. So, I think we've grown our business over the years through an active M&A program. And ultimately, I think it's one of our core competencies. That said, I think we're disciplined and thoughtful on value at all times, and I think we'll continue to weigh really the opportunity for us to redeploy capital, to repurchase our shares, as well as additional c-store development and really the opportunities to invest in organic projects inside of our existing refining fleet to improve the efficiency of our operations. We'll weigh all those pieces and evaluate the opportunity set, and I think try and make the most thoughtful capital allocation decision.

So again, I think it will remain dynamic. I would say ultimately, the M&A market is still highly influenced by the last 24 months, which I think makes it difficult for a buyer and seller to agree on value. That said, given the outlook, I think you're likely to see a more rational framework emerge as concerns of – or the return towards midcycle environment becomes more evident.

Question – Jason Gabelman: Got it. Makes sense. Thanks for the color.

Operator

And our next question will come from Matthew Blair with TPH. Please go ahead.

Question – Matthew Blair: Thank you, and good morning. On the refining side, could you talk about WCS availability on the West Coast with TMX starting up? And for your Washington refinery, is that still entirely a crude by rail supply arrangement or are you able – have you started running some of these TMX WCS barrels at Washington?

Answer – William Monteleone: Sure, Matthew. Thanks for the question. So, we are seeing increase in availability of Canadian grades along the West Coast. And I think ultimately, in Washington, we do have the capability to receive waterborne cargoes. And so, we do have a great logistics system there that affords us the flexibility to both deliver rail, as well as waterborne. Ultimately, I think the WCS market or the availability of Canadian crude is beginning to impact ANS pricing and broader West Coast crude alternatives. We are seeing lighter Canadian grades offered, and I think that's presenting a new opportunity for our Hawaii business.

Again, I think that's going to be dynamic over time. I think the winter period will be a good test as really the first cargo is loaded in May, and you've seen volumes increase as we've gone to June. But I think that's a dynamic factor. And the Trans Mountain barrels are learning to offer in based on a typical waterborne trade cycle, which is different than the inland market trade cycle.

Question – Matthew Blair: Sounds good. And then in Hawaii, we thought the capture trend was pretty encouraging. I think the release mentioned a tailwind from the fuel oil lagged contract, but could you talk about some other drivers here? And I guess in particular, any benefit from your product crack hedging in Hawaii and any benefit from the pretty robust clean product tanker market? Thanks.

Answer – Shawn Flores: Hey, Matthew, it's Shawn. Q2 capture in Hawaii was 136%, so well above our 100% guidance. And I called out the \$12 million crack hedge gain. We also called out in the release, the \$2 million price lag benefit. So, I think when you back out those sorts of tailwinds that were working in our favor in Q2, capture is about 110%. So, I think that sort of delta, the 110% versus the 100%, is really reflective of the elevated clean product freight that we're continuing to see.

Question – Matthew Blair: Great. Thanks for your comments.

Operator

And our next question will come from Manav Gupta with UBS. Please go ahead.

Question – Manav Gupta: Yes. Sorry, if I missed this earlier. I just wanted a little bit of update on your Hawaii renewable project. Like what's the progress over there? You were already conducting an initial engineering design on the cogen facility. Any updates you could provide over there?

Answer – William Monteleone: Sure, Manav. So, the project there remains on track. Again, as a reminder, it's a \$90 million capital project that we're targeting to bring online into the second half of 2025. And ultimately, I think major equipment has been ordered. We've completed at least two of the feedstock tanks that will be necessary, and again are working on and have major bids in hand from critical vendors and providers to begin executing that and are awaiting one or two critical permits. But I think feel confident on the timeline there to receive and move ahead with those items. So, we feel good about where that project is.

And on the renewable cogen project, again, moving through the power purchase agreement negotiation with Hawaiian Electric. And that's something that is targeted to be completed, I think, by the end of this year. And so, I think from there, we'll have firmer estimates on our engineering and ultimately the power purchase agreement timeline and can make a final investment decision.

Question – Manav Gupta: Thank you so much. I'll turn it over.

Operator

And this will conclude our question-and-answer session. I'd like to turn the conference back over to Will Monteleone for any closing remarks.

William Monteleone

Great. Thank you all for joining us today. We're pleased with the strong operational performance of each of our teams, and in particular the well-executed turnaround activities. Have a good day.

Operator

The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect your lines at this time.