Par Pacific

Second Quarter 2022 Earnings

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CORPORATE PARTICIPANTS

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William Pate – *President and Chief Executive Officer*

Richard Creamer – *EVP of Refining and Logistics*

Will Monteleone – *EVP and Chief Financial Officer*

CONFERENCE PARTICIPANTS

Carly Davenport – *Goldman Sachs Group, Inc., Research Division - Business Analyst*

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PRESENTATION

Operator
Good day, and welcome to the Par Pacific Second Quarter 2022 Earnings conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to Ashimi Patel, Director of Investor Relations. Please go ahead.

Ashimi Patel
Thank you, Jason. Welcome to Par Pacific's Second Quarter Earnings conference call. Joining me today are William Pate, President and Chief Executive Officer; Richard Creamer, EVP of Refining and Logistics; and Will Monteleone, EVP 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, Bill Pate.

William Pate
Thank you, Ashimi, and good morning to our conference call participants. We're pleased to report strong financial results during the second quarter, as market conditions improved well above historical norms due to a favorable supply-demand balance. Second quarter adjusted EBITDA was $242 million, and adjusted net income was $3.31 per share.

In addition to the attractive market conditions, system-wide throughput increased over first quarter levels due to the lack of any significant planned outages. Sales were excellent, as we maintain our role as the lowest cost and most reliable supplier in our local markets. Most importantly, we had outstanding operational reliability last quarter, driving high refinery feed rates.

In summary, our team's execution allowed us to capitalize on strong market conditions, and drove record net income.

Third quarter profitability continues to be strong. While gasoline cracks have declined materially, distillate cracks remain at record levels. We have the highest distillate yield within the industry. Almost 60% of our product sales are indexed to distillate markers.

Our retail business unit has faced market challenges due to high pump prices, which not only reduce demand, but also increase competition. In high-priced environments, discount retailers typically increase market share, as consumers emphasize savings over convenience. Accordingly, same-store fuel volumes decreased by 8.4% compared to the second quarter of 2021. Overall, same-store volumes are down 2.8% year-to-date, compared to the same period of last year. Looking ahead, we continue to focus on recovering market share by leveraging our loyalty programs, and aggressively pricing at the fuel pump.

With strong cash flow, our capital structure is rapidly improving. Cash generation continues to be robust

into the third quarter, allowing us to reduce debt and increase liquidity. We were pleased to reduce our net debt by more than $100 million in the second quarter.

At the end of 2019, we completed a string of successful acquisitions, and were poised for additional growth when the pandemic affected demand. We then focused all efforts on improving our capital structure and maintaining liquidity. Today, we're back to a growth posture, and we're now focused on pursuing strategic growth initiatives throughout our company.

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

Richard Creamer
Thank you, Bill. Our teams worked hard at each site to successfully maximize our production this quarter, and the second quarter operational availability for the three locations averaged 98.4%. As a result, our three refineries achieved a quarterly throughput of 141,000 barrels per day.

In Hawaii, we operated at near target rates through the quarter. Importantly, during June, we resolved a crude unit operational constraint, and were able to maximize rates, balancing with the on-island product demand. Production costs were $4.50 a barrel, and throughput was a new record of 84,100 barrels per day. Elevated energy cost impacted operating expenses by $0.37 cents a barrel during the quarter, and the third quarter throughput is expected to be 84,000 to 87,000 barrels per day.

In Washington, we operated at near nameplate rates through the quarter, and we achieved record asphalt loading, allowing us to capture high asphalt margins as crude prices stabilized. Production costs were $3.40 a barrel, and throughput was 41,000 barrels per day. Third quarter throughput is expected to be 41,000 to 42,000 barrels per day.

Shifting to Wyoming, we achieved record production rates in June, exceeding 18,400 barrels per day, capitalizing on work completed early in the second quarter. Production costs were $6.97 a barrel, and throughput was 17,000 barrels per day during the second quarter. Third quarter throughput is expected to be 17,000 to 18,000 barrels per day.

Our principal goals for the third quarter will be to continue to deliver safe operational reliability, and to maximize crude throughput to meet product demand and capture continuing market strength.

I'll now turn the call over to Will to discuss the financial results.

Will Monteleone
Thank you, Richard. Second quarter adjusted EBITDA and adjusted earnings were $242 million and $197 million, or $3.31 per diluted share. We made a change this quarter to our definition of adjusted EBITDA and adjusted net income to remove the impact of noncash RIN mark to market charges, which was approximately $18 million this quarter. We believe this better reflects the ongoing earnings of the business.

Logistics segment adjusted EBITDA contribution was $21 million, up sequentially from the first quarter by approximately $6 million. The increase was largely driven by the return of Washington sales volumes post-Q1 turnaround, and strong seasonal demand for our products in each market.

Refining segment adjusted EBITDA was $228 million, compared to $5 million in the first quarter.

Focusing on Hawaii first, the second quarter, Singapore 312 increased approximately $21 per barrel, to a record $36.80. Feedstock costs were approximately $4 premium to Brent, compared to the initially

provided estimate of $4.50 to $4.75 per barrel. Combining the 312 and the feedstock indexes, the overall margin environment improved about $20 per barrel versus the first quarter. We were able to capture most of this increase, as adjusted gross margin increased approximately $16 per barrel to $18.71, compared to the first quarter. Product crack hedges reduced our adjusted gross margin by approximately $52 million, or almost $7 per barrel. On a percentage basis, adjusted gross margin improved to approximately 64% of the combined market indicators. July market conditions remained strong, with the 312 averaging over $27 per barrel. We anticipate third quarter landed crude differentials will be between $7.25 and $7.75 per barrel versus ICE Brent, reflecting increasing backwardation. We have continued our crack hedging framework, and currently have approximately 25% to 30% of our Q3 sales hedged at an average 312 of $28 per barrel.

In Washington, market conditions rebounded strongly, with the Washington index increasing to almost $50 per barrel. Adjusted gross margin improved over $70 million, or $19 per barrel. Improving capture rates were largely driven by increased sales, strong VGO market conditions, and wider inland crude discounts relative to ANS. Backwardation and price lag on asphalt were partial offsets to these improvements. Looking forward to July, the PNW 5221 index has averaged approximately $33 per barrel.

Wyoming market conditions also improved, with the Wyoming 321 improving to $55 per barrel. The estimated FIFO benefit was $8 million, or $4.96 per barrel. Wyoming market conditions remain strong, with the July 321 averaging $53 per barrel.

Laramie generated hedged adjusted EBITDAX of $24 million, unhedged adjusted EBITDAX of $36 million, and net income, excluding unrealized derivatives, of $11 million for the second quarter. Capital expenditures totaled approximately $10 million. Exit production, as of June 30th, was 97 million cubic feet a day equivalent. The Laramie development program is progressing well, and Laramie expects to develop another pad of approximately 25 wells during the second half of 2022. With a one rig program, we expect production to increase 20% to 25% over the next 12 months. During the quarter, net debt improved by $6 million, down to $64 million. As a reminder, these positive results do not flow through our financial statements, given we currently carry the Laramie investment at zero.

Shifting back to the Par Pacific cash flow statement, Par Pacific's second quarter cash flow from operations, excluding turnaround funding, was $36 million. Working capital outflows, excluding turnarounds, totaled $120 million. The largest drivers of the working capital outflows were ramping sales activities in Washington post the first quarter turnaround, and increased collateral posting in Hawaii to support commercial and hedging activities. We have seen a significant portion of this outflow already reverse, with recent liquidity tracking above $425 million.

Capital expenditures totaled $13 million. In addition, we reduced our gross debt by approximately $70 million this quarter, including open market repurchases totaling approximately $42 million face value of our notes. Gross debt now sits at $532 million. Our net liability for the 2019 and 2020 RFS compliance years totaled approximately $139 million, based upon a weighted average RIN price of $1.67 per unit, as of 6/30.

Our quarter end liquidity totaled $286 million, made up of $186 million in cash and $100 million in availability. With a strong market backdrop, we'd like to lay out more formal plans regarding our target capital structure. We are targeting between $400 million and $450 million of gross term debt, based upon the current size of the retail and logistics segments. We believe this level of debt is consistent with our stated objective of equity financing our refining business, and a debt load supported solely by retail and logistics. We also expect to carry a higher level of total liquidity with the current higher commodity price environment.

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

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Carly Davenport from Goldman Sachs. Please go ahead.

Carly Davenport
Hi, good morning. Thanks for taking the questions, and congrats on the strong quarter. Wanted to start on the refining side, and kind of the moving pieces that we've been seeing around margins and capture rates. You mentioned the indicators for Singapore and the Pacific Northwest have come off a bit here in July, but how should we think about the moving pieces around captures with that in mind, along with the moves in flat price and differentials, backwardation, and the relative strength between distillate and gasoline across the system?

Will Monteleone
Good morning, Carly. Thanks for your question. So, I think, as we think about capture going forward, I think we would expect capture rates to remain strong, and again, I think a number of offsetting factors that you referenced. To the extent that prices remain, I'll say stable in the current price environment, we'd expect a price lag benefit to occur in Hawaii that would be partially offset by FIFO impacts in Wyoming. So, very similar trend that we've laid out with prior periods with changes in flat price.

And then I think the other factor is really on the crack spread hedging side. Again, to the extent market conditions remain in the current $28 per barrel level in the 312, we would expect a marginal gain or a slightly flat impact on crack spread hedging.

So, again, I think those are the two single largest factors. And then, again, I think we'll continue to watch the backwardation trend. But I think the summary is, we'd expect capture rates, on a percentage basis, to remain strong and consistent with the levels we've reported here in the second quarter.

Carly Davenport
Great, thanks. That's helpful. And then the follow-up was just on Laramie. Are there any updates to the process to flag, in terms of evaluating strategic alternatives there, given what we've been seeing on the gas price side?

Will Monteleone
Sure. So, I think on Laramie, we've laid out three objectives strategically there, and one is to get a rig in the field; the second is to ultimately reduce the cost of senior capital, that's there ahead of our common equity position; and the third is to get to a point where we're receiving cash distributions from Laramie. So, again, I think we've achieved the first with the rig operating and growing unhedged production in the current price environment.

And I think on the second, on the capital front, we're seeing progress on alternatives Laramie's evaluating with both traditional and alternative capital providers, and again, I think are confident we're going to be able to ultimately end up in a position where we'll be able to receive distributions and achieve the three strategic objectives that we've laid out. And then I think that will put us in a position where we can continue

to evaluate the cash market for asset divestitures, which, again, I think continues to mature and change as prices stay elevated.

Carly Davenport
Got it. Great. Thanks so much for the color.

Operator
The next question comes from John Royall from JP Morgan. Please go ahead.

John Royall
Hi, good morning, guys. Thanks for taking my question. Just wanted to dig in a little bit more on the cracks in Singapore, and particularly the gasoline cracks. They've come in quite a bit over the last month or two, but diesel has held in much better. So, what are the drivers that you're seeing there? And could you share any expectations you have for the back half on the Asia cracks?

William Pate
Sure, John. This is Bill. I think the drivers that are going on in Singapore are largely connected to the broader market, the Asian basin--the Atlantic basin as well. I mean, if you look at, for example, Gulf Coast cracks from the first of June through the end of July, I mean, as you know, it's down 70%, and distillate cracks are only down about 14%. And we're seeing similar trends in Singapore, because the East-West arb tends to connect the Pacific basin and the Atlantic basin. So, I think it's a lot of the same factors. The factors that are driving high product cracks today are related to the fact that there's a substantial risk premium associated with the Russian invasion of the Ukraine. And I think that factor is really unrelated to the supply-demand balances, and more related to fears of a more drastic reduction in energy supplies.

The war's obviously stalled out, and some of that risk premium's dissipated, but I think it'll continue to have a higher than normal risk premium until the conflict ends. We have stronger cracks, they're going to be more likely on the distillate side, just because, going into the winter months, you've got heating oil demand, and increased gas to oil switching, given what's going on with the natural gas market.

So, I think you're going to have a stronger distillate market, but refiners will adjust. I mean, gasoline and distillate are byproducts, and with distillate strength, I think you're going to see a shift, a shift toward distillate, and eventually, gasoline demand will probably be impacted by high pump prices. And so, it'll probably swing back some in the other direction.

But, overall, both product categories are extremely well-positioned over the near term. And so, we think there'll continue to be strong cracks going into--throughout the remainder of the year.

John Royall
That's really helpful. Thank you. And then, thanks for the color on the gross debt target. If you could just talk a little bit more about how you get to that $400 to $450 million number, why that's the right number, and just a little color on how you're thinking about it with the logistics and retail effectively supporting the leverage. And then maybe, how long do you think it'll take you to get to that, that $400 to $450 number?

William Pate
Yes, John, this is Bill. I'm going to start, and then I'll turn it over to Will to talk about the $450 million target, because I think it's important just to underscore that, first of all, capital allocation is an important element of our corporate strategy. And when we're making such decisions, we really take into account our size, our prospects, and our capital base, and given that, our first priority today remains strengthening our capital base, but we also believe that we have several attractive avenues of growth. And we want to

ensure that we have a strong balance sheet that we can deploy when we start funding these growth opportunities.

So, with that, that's really the rationale and the thought process that goes into these numbers. And I'll turn it over to Will and let him talk about how we got specifically to $400 to $450, and how long it will take to get us there.

Will Monteleone
Sure. So, John, as we think about the target, and again, the retail and logistics support, as you look back historically at our retail and logistics segment contribution, it has moved between probably $115 million to $135 million if you combine the two. And that's without any overhead allocation to it. And again, I think a significant portion of our corporate overhead is related to supporting our refining operations.

So, again, I think there'd be a small deduction from the combined retail and logistics segment, but let's just call it off of a $120 million base, kind of the way we think about that segment. And then, as we think about the right multiple off of that, from a leverage perspective, again, we kind of would circle the three to four times range. And that's really how we get to the target levels that we're thinking about. And, ultimately, that business, the logistics and retail business, is just fundamentally more stable, and can support servicing the fixed obligations of debt at that level quite easily. And, frankly, there's excess capital available as well.

So, again, I think that's how we got to the targets that we set, and ultimately are looking to get down to those levels in the near term.

John Royall
Thanks very much.

Operator
The next question comes from Matthew Blair from Tudor, Pickering, Holt. Please go ahead.

Matthew Blair
Good morning. Bill, I was intrigued by your comment that you're pursuing strategic growth initiatives throughout the company. Would this include refinery M&A, and could you talk about the prospects for, I guess, potentially restarting the other side of Hawaii?

William Pate
Let me take those in reverse order. With respect to the other side of Hawaii, I don't think that's likely, and principally because, while it makes sense in certain markets to restart it, I don't think the market, over the long run, would support an additional refinery in Hawaii. And we also made changes to our refining system in Hawaii, and, frankly, have our Hawaii production up to levels where we think it supports the local market well. So, if anything, starting up that other refinery, we'd probably just turn down the refinery that we have operating today. So, we think we can be more efficient and reliable and a lower cost supplier by operating just the one system.

With respect to your other question on kind of avenues of growth, we're certainly looking at extending our communities served with additional refinery acquisitions, but, as I mentioned, we see multiple opportunities. We think that there's growth within our logistics system, both in Hawaii and on the mainland. We think there's opportunities to add to our retail footprint, given the positioning we have in Spokane, and the ability to grow within the Rocky Mountain market. And lastly, and probably maybe most importantly, we continue to believe there's opportunities within our system and within our footprint to invest in renewables. Refining with crude oil is not materially different than refining with renewable

feedstocks, and we think we're well-positioned for that.

Matthew Blair
I guess on that last point, do you still expect to run like some sort of co-feed in Washington later this year, or do you think that'll be pushed out just given strong diesel cracks?

William Pate
We're going to make sure we have the optionality to do that at the beginning of 2023. Whether we co-feed will be driven by looking at the LCFS standards in Washington, our end markets, what the community needs are, and, frankly, what the profitability of running, on a co-fed basis, vegetable oils versus crude oil. I mean, right now, it certainly makes sense to focus on crude oil, but that can change, and we want to make sure we have the optionality. I mean, the cost of that system is less than $0.50 a gallon. So, it's not going to cost us much, and it creates a lot of optionality. And that's the way we look at it.

Matthew Blair
Okay. And then, I think the coal power plant in Hawaii is set to shut, or is almost closed. Has that resulted in any incremental fuel oil demand from your refinery?

William Pate
Yes, it has. I think that plant shuts down at the end of this month, or September. It's in the next 45 days.

Matthew Blair
Great. Thank you very much.

Operator
Again, if you have a question, please press star then one. Our next question comes from Jason Gabelman from Cowen. Please go ahead.

Jason Gabelman
Hi, guys. Thanks for taking my questions. The first one I wanted to ask is just on the Inflation Reduction Act in two aspects first, just given you're not a taxpayer with a large NOL, does that change the length of time you have to harvest the NOL, or any other exposure to taxes?

And then the second part of the question related to the IRA is, given the biofuel credit extensions, does that make some of the projects you were talking about more attractive? Specifically, I know you signed an MOU with Hawaiian Airlines, and was wondering if that project gets more momentum behind it following the passage of the IRA. Thanks.

William Pate
Yes, Jason, we're still studying the Inflation Reduction Act. Preliminarily, I would say that I don't think the minimum tax is going to affect us, just given the size of our company. And if we were to be at the size where the minimum tax would apply, we, frankly, would have exhausted the NOL at that point.

With respect to biofuels, certainly having a federal credit for sustainable aviation fuel we think is going to be a positive for our partnership with Hawaiian, and we think it could be helpful in other markets. But I think one of the key aspects to SAF will be, with that credit, does it actually provide parity with renewable diesel.

Jason Gabelman
Got it, okay. And then my second one was just a follow-up on Hawaii running at higher rates. I don't think jet demand on the island is fully back. Maybe you could comment on that. But as demand in Hawaii

continues to rebound, do you have the ability to continue to run at new record levels at the plant?

William Pate
Richard, do you want to handle that?

Richard Creamer
Yes, sure. I think going into this next quarter, we see our rates pushing up with the refinery that's operating about 84,000, 87,000 barrels per day. And that is 3,000 to 4,000 barrels higher than what we posted in the second quarter. So, we see the ability to continue to run at the higher rates and push up to these higher levels through the third quarter as very possible.

Will Monteleone
Jason, the market supports that level. And again, we think, again, we can continue to try and push rates to serve what the market needs. A significant portion of the jet requirements in Hawaii are met via import already.

Jason Gabelman
Okay. And then my last one, just a couple on the modeling side. You mentioned some of the working capital has already reversed. How much has reversed quarter-to-date? And then the second part just on modeling, you have a pretty large crude diff impact this quarter, $3 a barrel higher quarter-over-quarter. Could you discuss what's driving that, if you see that persisting into 4Q, and any actions you could take later in the year to mitigate another high crude headwind? Thanks.

Will Monteleone
So, Jason, I think on the working capital side, again, lots of moving pieces there between volumes and price. But again, I tried to give a number with respect to where we see our liquidity recently at $425 million, versus the quarter end at $286 million. So, again, that's a mix of earnings and working capital reversal, but I think the way to think about it from a modeling perspective, it’s a partial reversal of the $120 million dollar working capital outflow. Again, difficult to be more precise at this juncture.

On the crude side, I think, ultimately, backwardation and freight are the two biggest factors that are impacting the crude differential. Again, I think we've seen, within the last 20 to 30 days, again, backwardation really start to abate, as you've seen flat price come down, notwithstanding the physical crude market is still quite tight, especially in Europe. And again, I think that's reflected by the spread between dated Brent versus ICE Brent contracts, which you've seen go as high as $8 a barrel over, which is quite unusual.

So, again, I think there are certainly aspects of the crude market that are tight. I think we'll continue to be opportunistic. We were opportunistic in the second quarter, and I think shifted our slate and avoided some of the really high-cost crudes that were out there in the world at the time. But I think, ultimately, backwardation and freight are the two biggest factors that will drive our crude differential going forward.

Jason Gabelman
Great. Thanks for those answers.

CONCLUSION

Operator
There are no more questions in the queue. This concludes our question-and-answer session. I would like to turn the conference back over to William Pate for any closing remarks.

William Pate
I want to thank you for joining us today, and I want to thank our team for their excellent execution this quarter. We're very pleased with the quarter’s financial results and believe we're well-positioned for strong profitability for the rest of the year. Have a good day.

Operator
Conference has now concluded. Thank you for attending today's presentation. You may now disconnect.