Par Pacific Fourth Quarter 2023 Earnings Conference Call

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Corporate Participants

Ashimi Patel, Director of Investor Relations

William Pate, Chief Executive Officer

Will Monteleone, President

Shawn Flores, SVP & Chief Financial Officer

Conference Call Participants

Matthew Robert Lovseth Blair, Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - Managing Director of Refiners, Chemicals & Renewable Fuels Research

John Macalister Royall, JPMorgan Chase & Co, Research Division - Analyst

Nicolette Slusser, Goldman Sachs Group, Inc., Research Division - Analyst

Jason Daniel Gabelman, TD Cowen, Research Division - Director & Analyst

Presentation Operator

Good day, and welcome to the Par Pacific's Fourth Quarter 2023 Earnings Conference Call. [Operator Instructions] 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, Betsy. Welcome to Par Pacific's Fourth Quarter Earnings Conference Call. Joining me today are William Pate, Chief Executive Officer; Will Monteleone, President; Shawn Flores, SVP and Chief Financial Officer; and Jeff Hollis, SVP and General Counsel.

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 Chief Executive Officer, William Pate.

William Pate

Thank you, Ashimi, and good morning, everyone. I'd like to take a moment to reflect on Par Pacific's 2023 achievements. Our company thrived last year, achieving record-breaking financial results. 2023 adjusted EBITDA reached $696 million and adjusted net income was $8.21 per share, a 3% increase over 2022's results. We achieved earnings growth despite a 23% decline in our market indices last year.

This financial success is underscored by our strong year-end liquidity position of nearly $650 million, which we reached even after completing the $310 million Billings acquisition in June. We also lowered our cost of capital with the refinancing of one of our intermediation facilities. And finally, we repurchased over $62 million of common stock last year at an average cost well below our current share price.

Over the last 2 years, we've generated $17 per share in cash from operations. Given our refineries' configurations, we have relatively low maintenance and turnaround capital requirements, heightening the conversion of cash from operations to free cash flow. Our Retail and Logistics business segments have even better cash flow conversion characteristics. Consequently, more of our cash from operations is available for growth opportunities and capital structure improvements. Other than the Billings acquisition, much of the free cash flow has gone to bolster liquidity and reduce debt. Shawn will cover these changes in more detail.

In our industry, financial excellence starts with safety, environmental compliance and reliability. Our refining and logistics team did an excellent job of focusing on these objectives with our key process and personal safety metrics improving by approximately 40% in 2023.

We also remain committed to sustainability and renewable energy, particularly in our Hawaii and Tacoma initiatives. Our learnings on coprocessing in Tacoma lay the groundwork for larger projects. We will continue to focus on lower capital, higher return opportunities like our $90 million Hawaii SAF conversion project. We plan to begin production in 2025 from this unit, which will be among the lowest capital cost SAF projects in the world. In addition to renewables processing, we're also actively working on advantaged solutions in sourcing and pretreating feedstocks.

Finally, two of our four refineries were ENERGY STAR certified by the EPA, illustrating our organizational commitment to energy efficiency, and low greenhouse gas emissions in our operations.

With the first couple of months of 2024 behind us, we are optimistic about the market outlook. Singapore Cracks remain robust as Asian inventories remain constructive and high freight costs generally favor local producers like us. Given the level of spring turnaround activity and reasonable U.S. inventories, we expect the mainland market to improve rapidly as we approach summer driving season.

Last year, we demonstrated an ability to increase our financial results in the face of a declining market. This year, we will focus on improving reliability, ensuring that we capitalize on market strength and keeping our markets well supplied. Our company was built on a string of successful acquisitions, so we will also continue to seek opportunities to grow our footprint in contiguous markets and increase our presence in existing markets.

Before I pass the floor to Will, I want to speak about my decision to step down as Chief Executive Officer at this Spring's Annual Meeting and congratulate Will on his promotion to the role of President and CEO. Most of you know that Will and I have worked together for nearly 15 years and for many of those years, we've collaborated on the development of Par Pacific. When I took this job, my primary objectives were to ensure that we established a successful and growing enterprise, a differentiated strategy and most importantly, an organization that could rapidly pursue market opportunities and avoid emerging risks. While leaving this company as CEO, I retain my shareholder and director status confident that Will and his team can expertly manage and grow our business while always preserving local market leadership.

Will, the floor is yours.

Will Monteleone

Thank you, Bill. Before diving into operational details, I want to take a moment to congratulate and thank the entire team for the significant personal and process safety improvements this year. It takes unwavering discipline, alertness and care to deliver these improvements.

2023 was a strong operational year for the Refining and Logistics business units. Post-Billings acquisition, we averaged 194,000 barrels per day of throughput, resulting in 95.5% operational availability.

In addition to the Wyoming and Washington EPA ENERGY STAR awards recognizing excellence and overall energy efficiency, our Washington operation also achieved one of the lowest carbon emissions intensities in the world based upon industry benchmarking studies. Improving energy efficiency is an example of how thoughtful investment and managerial consistency delivers a competitive cost structure while also reducing emissions.

Fourth quarter throughput was 186,000 barrels per day, reflecting winter seasonality. October through mid-November market conditions were strong. However, the second half of the quarter saw a deeper than typical seasonal decline in the inland markets.

In Hawaii, fourth quarter throughput was 81,000 barrels per day and production costs were $4.80 per barrel. The quarterly Singapore Index averaged $19.44 per barrel and our landed crude differential was $6.96 per barrel, slightly elevated to our guidance. We expect our first quarter Hawaii crude differential to average between $6.50 and $7.00 per barrel. Fourth quarter capture to the combined index was approximately 134%, reflecting favorable price lag benefits.

In Washington, fourth quarter throughput was 38,000 barrels per day and production costs were $4.53 per barrel. The PNW Index averaged $17.95 per barrel during the quarter. Capture improved to 44%, reflecting an expanding feedstock advantage versus WTI, partially offset by declining asphalt and VGO realizations. Overall throughput was below our targets due to heater system constraints. We are planning to address these issues with an approximate 15-day outage during the first quarter. We expect the outage to impact profitability by $5 million to $8 million.

In 2023, the Wyoming team set an annual throughput record of 17,600 barrels per day. Great job to the team. Fourth quarter throughput was 17,000 barrels per day and production costs were $8.03 per barrel. The quarterly U.S. Gulf Coast index was $13.71 per barrel and Wyoming capture was approximately 101% despite an unfavorable FIFO impact of $8 million.

Montana throughput was 50,000 barrels per day and production costs totaled $12.03 per barrel, which was elevated due to near-term reliability projects and seasonally elevated energy costs. Capture to our Gulf Coast index was 84%, in line with winter seasonal expectations. During the quarter, prompt Canadian crude differentials widened. However, a combination of slower inventory turns and FIFO accounting delayed the realization of these benefits.

For the first quarter, we expect Hawaii to run between 80,000 and 84,000 barrels per day, Montana between 50,000 and 55,000, Washington between 30,000 and 32,000 and Wyoming between 16,000 and 17,000 barrels per day.

The Retail segment delivered a record result for 2023. Adjusted EBITDA was $68 million, driven by impressive same-store sales fuel and merchandise sales growth of 8.8% and 7.8%, respectively. Fourth quarter same-store sales continued the annual trend with fuel and merchandise growth of 7.3% and 4.2%, respectively. In addition, we opened two new-to-industry locations in Spokane and Hawaii that are delivering encouraging results in their first months of operation. On the renewables front, our Hawaii SAF project is progressing well. We have broken ground on two renewable feedstock tanks, filed permits and started ordering long lead time equipment for the project.

As we look forward to 2024, we are focused on crisp execution of our turnarounds, delivering safe and reliable operations and the Hawaii SAF capital project. Our retail brands remain focused on delighting the customer and improving the in-store experience via an active remodel and rebuild program.

I'll now turn it over to Shawn to review our financial results.

Shawn Flores

Thank you, Will. Fourth quarter adjusted EBITDA and adjusted earnings were $122 million and $65 million or $1.08 per share. Full year adjusted EBITDA and adjusted earnings were $696 million and $501 million or $8.21 per share.

The Refining segment reported $107 million of adjusted EBITDA in the fourth quarter compared to $234 million in the third quarter. Fourth quarter results included a net price lag benefit in Hawaii of $21 million, offset by a negative FIFO impact in Wyoming of $8 million and our product crack hedge loss in Hawaii of $4 million. We have continued our crack hedging framework in Hawaii with approximately 28% of our first quarter sales hedged at $20 over Brent.

The logistics segment reported $24 million of adjusted EBITDA in the fourth quarter compared to $29 million in the third quarter. The softer fourth quarter results were driven by elevated tank and pipeline maintenance costs of $5 million in Montana and Washington.

Our Retail segment reported $17 million of adjusted EBITDA during the fourth quarter, consistent with third quarter results.

Cash provided by operations during the fourth quarter totaled $130 million, excluding a net working capital outflow of $132 million. The primary component of the net working capital outflow was associated with the cash settlement of prior period environmental credits. Cash outflows from investing activities during the fourth quarter totaled $27 million primarily driven by capital expenditures. Total liquidity at year-end was $644 million, made up of $279 million in cash and $365 million in availability.

As Bill mentioned, our company has demonstrated exceptional performance over the past 2 years, generating over $1 billion in cash flow from operations. During this period, we successfully completed the highly accretive Billings acquisition for $310 million, improved liquidity by more than $465 million, strategically repurchased $68 million of common stock at an average price of less than $30 per share and fully retired our legacy RIN obligations.

We also completed a comprehensive refinancing last year, consolidating multiple tranches of high-cost debt into a single term loan. In October, we further optimized our working capital financing with the termination of the Tacoma intermediation facility and simultaneous upsides of our ABL to $900 million. We expect our streamlined capital structure to reduce cash funding costs by more than $10 million this year.

With nearly $650 million liquidity and a promising outlook into 2024, we stand well positioned to achieve our strategic growth objectives and remain committed to opportunistically repurchasing our stock at attractive prices.

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

Question And Answer

Operator

[Operator Instructions] The first question today comes from Matthew Blair with Tudor, Pickering, Holt.

Matthew Robert Lovseth Blair

Bill and Will, congrats on your respective moves. I had a question about the M&A market, which you indicated that Par would still be interested in. Is deal flow picking up with the prospects of just a lower interest rate environment later this year? And could you also talk about what kind of opportunities you find to be attractive both by business line as well as by geography?

Will Monteleone

Sure, Matthew. It's Will. Thanks for the question, and I appreciate your comments. So I think in general, M&A has been a key part of our strategy as we've grown. Now that said, I think on the refining side of the market, given the strength that we've seen on market conditions over the last 24 months, I think it's definitely a challenging environment to try and get a deal done. Again, I think seller expectations are high. And I think that's going to be a major factor. So I think that's really the backdrop. I think when you think about geography, it's really the focus that we've had previously. I think we're focused on the Western United States largely because it fits our strategy of serving communities with liquid conventional and renewable fuels that are really in niche locations. And so I think that's going to be our focus, and that's going to be true across both Refining and Logistics and Retail.

Matthew Robert Lovseth Blair

Sounds good. And then you mentioned that this rising freight rate environment, it's helpful for Par. Could you just walk through the moving parts there? Is that because the marginal source of supply coming into Hawaii is an imported barrel from Asia?

William Pate

Matt, this is Bill. That's one of the factors. I mean generally, in Asia, despite weak economic news, inventories have been pretty supportive and, I think, one of the reasons of stronger cracks. And I think one of the reasons is a lot of the export refineries, they're spot streams, have to factor in higher freight costs. So when you -- there's less movement and the refineries tend to focus more on a local production environment where it's harder to move things around. And when you're also, with some of the restrictions in the Red Sea and restrictions even in the Panama Canal, product movement just slowed down. And we're fortunate to have refineries that are sitting right on top of our markets.

Will Monteleone

And Matt, the only thing I'd add to that is just in general, when you think about both the West Coast and Hawaii, particularly for the distillate pool, the marginal barrel is moving in, typically on MR freight from Northeast Asia. So I think particularly when you think about diesel and jet, that's a major factor for the marginal barrel.

Operator

The next question comes from John Royall with JPMorgan.

John Macalister Royall

Congratulations to Bill and Will. So my first question is on Billings. Can you speak to the reliability work that you'll be doing with the turnaround this year? I know the goal is to get up consistently around that 60 kbd plus level. How does this work enable that? And is there a numerator impact on OpEx per barrel of the work you'll be doing? Or is it really just about raising throughputs?

Will Monteleone

Sure, John. This is Will. So we're really focused on summer reliability and Billings. I think that's first and foremost. And as you saw from the third quarter contribution last year in a strong market environment, that's really when you've got the opportunity to generate significant cash flows. So I think the focus on our turnaround this year is really on the crude unit and ultimately, getting to a better reliability position there, probably adding some additional alloy to ensure that we're well positioned to reduce corrosion risks.

And then ultimately, when you think about the OpEx impacts, again, I think our objectives remain targeting that $10 per barrel number. Again, I think that's -- as we push towards the 60 kbd number, that's going to be more achievable. So again, that's really the focus of this year's turnaround activities, and it's all about summer reliability.

John Macalister Royall

Great. And then my second question is on the buyback. Really strong pace in the second half of '23 after you completed Billings. But this year will be a little bit different from a CapEx and a maintenance perspective, but you don't also -- you also don't have to de-lever. So some moving pieces in both directions. How should we think about kind of the run rate going forward relative to that 2H run rate where you had strong cracks and no turnarounds?

Shawn Flores

John, this is Shawn. I think we've demonstrated sort of our buyback cadence in the recent quarters of $27 million in Q3 and $32 million in Q4. Look, I think our liquidity is strong. We've got excess capital today. I suspect we'll be able to fund our capital requirements within cash flow. So we've got ample capacity on the balance sheet to continue the buyback program. Obviously, we want to be opportunistic. And as you see, if and when you see, our share price pull back in a weaker market, we're going to get more aggressive on our cadence of buybacks. So our approach there has not changed.

Operator

The next question comes from Neil Mehta with Goldman Sachs.

Nicolette Slusser

This is Nicolette Slusser on for Neil Mehta. Bill, thank you for your leadership and all the contributions over the years. And Will, congratulations on the new role. Our first question is when we think about the business mix, I think Par is a bit more distillate-oriented versus peers at roughly 50%. Longer term and mindful of potential for opportunistic M&A, do you see the 50% distillate yield as the optimal product level for the business?

Will Monteleone

Sure. I think you -- we're going to continue to try and focus on the distillate side of the barrel. I think long term, that is ultimately, what the communities we serve need. And ultimately, I think that's going to be the portion of the barrel that's going to frankly pull the weighted average crack over time. And so I think you'll continue to see our focus be on distillate production and even trying to increase flexibility on distillate production in places like Billings.

Nicolette Slusser

Okay. That's great. And then the follow-up is just on some of the longer-term opportunities the company is pursuing. Can you just remind us where we stand in regards to the FID expected this year on the longer term Washington hydrogen and SAF facilities and how you're balancing those with the near-term renewable-oriented projects as well?

Will Monteleone

Sure. So I think we're continuing to pursue the engineering on that front. And simultaneously, I think trying to evaluate capital partners that would be available to pursue that project. Again, there's still certain aspects of it that are attractive given its location on the West Coast in a favorable jurisdiction. That said, I think we're mindful of the current renewable backdrop and what that means for returns, and I think we'll continue to be disciplined on our capital allocation framework and how we think about growing the renewables business segment.

Operator

[Operator Instructions] The next question comes from Jason Gabelman with Cowen.

Jason Daniel Gabelman

You noted some pay down in environmental liabilities with 4Q results, which I'm assuming are related to RINs. Do you have any outstanding RIN obligation that you'll need to pay down moving forward kind of beyond what's kind of the typical annual amount that you would hold?

Shawn Flores

Jason, it's Shawn. No, we've closed out all of the legacy RIN obligations, and we're just obviously accruing our current obligation and procuring RINs ratably from here.

Jason Daniel Gabelman

Got it. And then can you remind us of your upcoming turnaround schedule? You mentioned the Montana turnaround. Do you have anything else this year and then as you look to 2025?

Will Monteleone

So Jason, I think nothing else major planned this year. Again, I think you heard my reference to the small 15-day outage we're planning in Washington. Again, that's, I think, something we're largely looking to try and manage from inventory. There is some profit impact, and you will see the reduced throughput expectations for the first quarter. And then again, I think we've discussed on Billings that we expect in '24 and '25 to complete really the full turnaround cycle.

And so again, if you look at our guidance, we've signaled really the $18 million to $22 million per year and the typical cycle is 5 to 6 years. And so again, I think we're looking at completing that full cycle between '24 and '25.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Will Monteleone, President for any closing remarks.

Will Monteleone

Great. Thank you again for joining us today. In closing, I'd like to recognize Bill for his many contributions to our company's success. We're grateful for his inspired leadership, wisdom and humility. We have a strong business outlook and our talented management team is hungry to drive the next chapter of our growth. I'm excited by the opportunity to lead this growing enterprise into the future. Thank you to our shareholders for your support and have a nice day.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.