Par Pacific Holdings, Inc.

Q3 2024 Earnings Call

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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

Alejandra Magana

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

Neil Mehta

Goldman Sachs – Head of Americas Natural Resources Equity Research

Ryan Todd

Piper Sandler – Managing Director, Integrated Oils, E&P and Biofuels

Management Discussion Section

Operator

Good day, and welcome to the Par Pacific Third Quarter 2024 Earnings Conference Call. All participants will be in a listen-only mode. 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, Vice President, Investor Relations. Please go ahead.

Ashimi Patel

Thank you, Chad. Welcome to Par Pacific's third 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. Third quarter adjusted EBITDA was $51 million and adjusted net loss was $0.10 per share. Operational performance was strong with record quarterly refining throughput, record logistics adjusted EBITDA, and continuing in-store retail improvements. The durability of our results in a challenging refining market reflects the benefits of our diversified business model and the unique markets we serve.

The current refining margin environment is testing breakeven levels for many operators and is driving the next wave of supply rationalization starting in 2025. Refining fundamentals suggest a more balanced supply and demand than current margins. Simultaneously, global inventories remain below five-year averages in most regions. Small changes in balances are driving outsized changes to margins.

We are not waiting for the market to turn our way and are focusing on the things we can control. We're targeting to reduce 2025 fixed operating expenses by $30 million to $40 million, positioning our company to thrive in both high cycle and low cycle environments.

In retail, quarterly same-store fuel volumes declined by 1.4%, while merchandise sales grew by 3.8% compared to the third quarter of 2023. While same-store sales volumes were down, total fuel volumes were up approximately 100,000 gallons over this period, reflecting the contributions of our new stores.

We continue to progress our strategic growth initiatives in the third quarter. Investments in Billings reliability are delivering encouraging results. Initial objectives were to drive reliability first and then work towards cost competitiveness. We are accelerating focus on cost, considering the current backdrop, while planning to complete the major FCC and alkylation unit turnaround during the first half of 2025.

In Hawaii, we broke ground on the SAF project and are on track for startup in the second half of 2025. We are encouraged by the improving renewable fuels backdrop on the West Coast and the Pacific Basin. This capital efficient project remains an important element of our future growth.

Despite softer market conditions, our strong financial position affords us the capability to invest in our business and grow its long-term profitability. Executing the Billings initiatives and delivering the Hawaii project are focus areas to grow the earnings power of our business.

I'll now turn the call over to Richard to discuss our Refining and Logistics operations.

Richard Creamer

Thank you, Will.

The Refining segment third quarter combined throughput was a new Par quarterly record of over 198,000 barrels per day, reflecting strong reliability and summer utilization. While achieving this record throughput, each of our refining teams has demonstrated their dedication to operating safely and continuously driving reliability improvement.

In Hawaii, throughput was 81,000 barrels per day and production costs were $4.58 per barrel. The refinery team responded exceptionally well to reliability challenges and delivered 97% operational availability year-to-date.

Shifting to Wyoming, throughput was 19,000 barrels per day and production costs were $7 per barrel. Wyoming's third quarter operational performance reflects the team's ability to consistently deliver competitive results.

Moving to Washington, throughput was 41,000 barrels per day and production costs were $3.50 per barrel. The Washington team is delivering highly efficient and reliable operations while in this challenging market environment.

Finally, Billings delivered a strong 57,000 barrels per day of crude throughput, with production costs of $11.61per barrel. The Billings team safely completed the planned coker outage during the third quarter.

Our focus on mechanical availability and reliability has enabled us to optimize and extend our upcoming turnaround schedule. Billings will be our only 2025 turnaround, with Hawaii and Wyoming shifting to 2026. In Washington, we've implemented various mechanical integrity programs, enabling us to extend the turnaround cycle by two years to 2028 and transition to a six-year cycle. These actions enhance the capital and operational efficiency at all of the sites.

Looking to the fourth quarter, we expect throughput in Hawaii between 80,000 and 83,000 barrels per day; Wyoming between 15,000 and 17,000 bpd; Washington between 38,000 and 41,000 bpd; Billings between 48,000 and 52,000 bpd, resulting in system-wide seasonal throughput between 182,000 and 193,000 barrels per day.

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

Shawn Flores

Thank you, Richard. Third quarter adjusted EBITDA and adjusted earnings were $51 million and a loss of $6 million or $0.10 per share. The Refining segment reported adjusted EBITDA of $20 million compared to $60 million in the second quarter.

In Hawaii, the Singapore index averaged $11 per barrel and our crude differential was $6.51, resulting in a combined index of $4.49 per barrel. Hawaii margin capture was 136%, including the product crack hedge gain and price lag benefits totaling $10 million. Excluding these benefits, Hawaii capture was 106%.

We are increasing our benchmark capture guidance to a range between 100% and 110%, which incorporates over $20 million of annual margin improvement related to the June working capital refinancing. Looking to the fourth quarter, we expect Hawaii crude differentials to land between $5.75 and $6.25 per barrel.

In Billings, our US Gulf Coast index averaged $14.14 per barrel and margin capture was 88%, reflecting higher crude costs of approximately $20 million, primarily driven by an increase in light crude mix during the second quarter turnaround activities and the one quarter FIFO lag on costed crude differentials. Third quarter margins were also influenced by market dynamics in the Pacific Northwest, which weighed on clean product netbacks in Eastern Washington.

Looking ahead, Billings feedstock costs are expected to improve as we return to a heavier crude slate in the fourth quarter. With coker maintenance activities completed, fourth quarter production costs are expected to return to prior run rates of approximately $55 million.

Moving to Wyoming, capture to the Gulf Coast index was 97%, including a negative FIFO impact of $5 million. Adjusting for FIFO, Wyoming capture was 115%, consistent with typical summer premiums.

Lastly, in Washington, our PNW index averaged $15.48 per barrel and margin capture was 11%, reflecting a challenging jet fuel and VGO market along the West Coast. Despite the margin backdrop, combined Refinery and Logistics operations in Tacoma generated positive adjusted EBITDA during the third quarter. With a low operating and capital cost structure, our Tacoma business competitively serves the Pacific Northwest through the margin cycles.

The Logistics segment reported adjusted EBITDA of $33 million in the third quarter, compared to $26 million in the second quarter, driven by record refining throughput of nearly 200,000 barrels per day and over 216,000 barrels per day of product sales across our system.

Our Retail segment reported adjusted EBITDA of $21 million during the third quarter, compared to $19 million in the second quarter. Strong retail performance was driven by expanding fuel margins and continued growth in merchandise sales.

Corporate expenses in adjusted EBITDA were $23 million in the third quarter or approximately $1 million improvement compared to the second quarter.

Net cash provided by operations during the third quarter totaled $79 million, including a $67 million working capital inflow related to the expected drawdown of inventories, partially offset by deferred turnaround expenditures of $16 million. Excluding these two items, cash from operations was $27

million during the third quarter. Cash used in investing activities totaled $28 million, primarily related to capital expenditures.

Moving to financing activities, we repurchased $22 million of common stock during the third quarter while reducing ABL borrowings by $14 million. Our share repurchase strategy will remain dynamic, adapting to changes to our medium-term cash flow and liquidity outlook. Gross term debt as of September 30 was $546 million, near the bottom end of our term debt leverage target of 3-4x our retail and logistics EBITDA.

Total liquidity as of September 30 was $633 million, consisting of $184 million in cash and $450 million in availability. With targeted minimum liquidity of between $250 million and $300 million, our balance sheet is strong and well-positioned to achieve our strategic growth objectives through the margin cycle.

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

Question and Answer Section

Operator

Thank you. We will now begin the question-and-answer session. And the first question will be from John Royall from JPMorgan. Please go ahead.

Question – Alejandra Magana: Hi. Good morning. This is Alejandra Magana on for John Royall. My first question is on share buybacks. How should we think about buybacks in light of a worsening crack environment, but also recognizing that you've been responsive to price and look to buy back stock as the share price dips. Would you use the balance sheet to increase your buybacks today, given that price levels are attractive?

Answer – Shawn Flores: Hey, Alejandra. It's Shawn. I'll start and I'll let Will chime in. I think our liquidity position remains strong at $630 million. I referenced the minimum liquidity targets of $250 million to $300 million. So, well in excess of those targets. And I think we're going to maintain an opportunistic approach to share buybacks. And ultimately, what we've said is it's – it will be based on our medium-term cash flow and liquidity outlook.

Our views of fundamental value certainly hasn't changed during this cycle and we'll continue to balance the opportunity of buying back our stock at really attractive prices with the value of maintaining a strong balance sheet to support not only strategic growth but some of the capital investments that we have over the next six to nine months.

Question – Alejandra Magana: Got it. Thanks for that. And then, just switching gears. Logistics had a very strong quarter. And while Refining throughput was a record, it's a short history since you've acquired Billings, and these types of throughputs are likely repeatable. Can we expect that you can do $30-plus million of logistics EBITDA in a low-90%s utilization environment going forward or are there any other moving pieces that may not be repeatable?

Answer – Shawn Flores: Yeah, Alejandra, I think our logistics mid-cycle guidance that we've provided is $115 million on an annualized basis, which would imply about $29 million a quarter. But

keep in mind, in Q2 and Q3, we are typically running at full rates and maximizing sales volumes. So, typically, you'll see higher than mid-cycle margins in the summer environment.

Question – Alejandra Magana: Got it. Thank you.

Operator

And the next question will be from Matthew Blair from Tudor, Pickering and Holt. Please go ahead.

Question – Matthew Blair: Thank you, and good morning, everyone. Shawn, I think you mentioned a target to reduce OpEx by $30 million to $40 million in 2025. Do you have any examples of projects that you're undertaking to do this? And in terms of measuring this progress, would this come through in Refining OpEx or are there any other line items that we should be keeping an eye on?

Answer – William Monteleone: Hey, Matthew. It's Will. I'll take this one. The two major areas are reductions in corporate expense related to getting down to one IT system. So, we are still in two systems related to the Billings acquisition and have excess costs impacting our corporate spend. So, I think that's roughly half. And then the other half is a mixture of Refining and Logistics costs. So, I think you'll principally see it impact Refining OpEx, and that's probably the two locations where you'd see it flow through the income statement.

Question – Matthew Blair: Sounds good Thanks. And then, could you talk about your long-term outlook for the Washington refinery? We've seen some competitors on the West Coast announce their intention to close, and fundamentals have been a little tough lately. How do you see the long-term outlook for Tacoma?

Answer – William Monteleone: Sure. Certainly, difficult fundamental backdrop on the West Coast, as reflected in our quarterly results. The way we think about Tacoma is, ultimately, it's a low-cost player in that market. When you look at our operating cost in the $3.50 per barrel range and the capital efficiency that plant has, it's one of its major advantages. And I think, in addition, it has feedstock advantages versus its peers who are principally buying waterborne crude.

So, two unique attributes of that facility that I think present it to minimize cash consumption through the cycle in poor margin environments like we're in but allow us to participate in the upside, which I think are inevitable along the West Coast as you think about the supply rationalization changing in big chunks while demand is not moving in the same manner.

Question – Matthew Blair: Great. Thank you.

Operator

And our next question will come from Ryan Todd from Piper Sandler. Please go ahead.

Question – Ryan M. Todd: Great. Thanks. Maybe a couple of quick ones. Despite investor concerns over recent months on Asian refining margins and economic backdrop over there, your Hawaiian asset continues to exceed expectations. Can you talk about how you're seeing the environment out there and what continues to sustain the relatively strong performance out in Hawaii?

Answer – William Monteleone: Sure, Ryan. I think the work that you see in the performance in Hawaii is really evidence of five-plus years of effort by our team. And I think you see that in Hawaii and I think you see that in Wyoming. But as you think about Asia, I think ultimately our Hawaii business has improved to where –even at mid-cycle or probably below mid-cycle conditions like we're seeing, ultimately, we can still generate positive adjusted EBITDA and this is due to our cost structure there, as well as our commercial agreements. So, I think those are the key factors that are in place.

As you think about Asia broadly, we're seeing improvements in the Singapore 3-1-2 market, I think largely driven by increases in jet demand seasonally, and the Chinese policies are limiting exports. So, as the margin is changing real time, I think, some of the supply demand balances for distillate in the Pacific Rim. I think that's worth watching, but, ultimately, I think a key factor for distillate balances heading into the winter in Asia.

Question – Ryan M. Todd: Great. Thanks. And then, maybe a second one. Thanks for the update on the upcoming turnaround schedule and some of the adjustments you've been able to make. Can you provide any additional color on what you've been able to do to spread out the turnaround schedule for some of your assets there? What might this mean for kind of the right way to think about average annual turnaround capital requirements across your system and maybe for the overall kind of annual capital requirements for your business?

Answer – Richard Creamer: Yeah, Ryan, this is Richard Creamer. I think the work that we've done over the last couple of years on improving our mechanical integrity programs and systems has allowed us to stay on top of some of the reliability opportunities that we've had in the past and has allowed us to correct those. And now, we're in a position where we can take advantage of some of that work and extend these turnaround periods on out, which gives us a longer period to amortize those turnaround costs out.

Answer – Shawn Flores: Yeah, Ryan, this is Shawn. We're continuing to sort of guide towards $40 million of amortized turnaround expenditures over the cycle.

Question – Ryan M. Toddy: Great. Thank you.

Operator

And our next question will come from Neil Mehta from Goldman Sachs. Please go ahead.

Question – Neil Mehta: Yeah. Thanks so much. Maybe just to build on the Washington comments, because it was a very tough quarter there with very low capture rates, and I don't think that's representative of the normalized earnings power of Washington. So, maybe you could just talk about were there some one-time dynamics. And since the quarter, you've seen West Coast cracks strengthen, particularly LA jet. So, maybe you could talk about how we should think about that asset inflecting as we move into 2025.

Answer – William Monteleone: Sure, Neil. It's Will. I'll take a couple of these and maybe Shawn will add on a few. But specifically what Shawn was calling out, that's outside of our indexes, jet and West Coast VGO. So, I think on the jet side, you're correct, we saw significant pressure on West

Coast jet during the third quarter. And I think part of this is related to overall jet balances shifting as you're seeing the West Coast refining fleet pivot its distillate or its diesel production towards jet given the increase in RD penetration.

I think, nonetheless, the marginal barrel of jet still needs to be imported long haul from Asia to balance the West Coast market. So, I think you're seeing that play out in the third quarter. And as you're seeing run rates come down in the fourth quarter and coinciding with my prior comment on the tightness in jet and in the Asian market that we're seeing emerge in the fourth quarter, I think those are the factors that are really impacting the ramp up in LA jet prices, and broadly West Coast jet prices.

The VGO market is really more of a global phenomenon. And I think, as you've seen Dangote ramp up, you've seen a lot of excess VGO build up in the Atlantic Basin and that's trickling over in the Pacific Basin. As they move towards finished fuel production, I suspect that's going to change balances. But again, I think very dynamic. And ultimately, our positioning there as a low-cost operator, both capital and operating expense, as well as feedstock advantage, are really the keys that we think sustain that over a long period of time. And I think it will inevitably be margin blow-out opportunities where we can capture them.

Question – Neil Mehta: Yeah. Thanks, Will. And the follow up is as you think about the Billings refinery, that has been impacted by some of the inventory dynamics in around asphalt. But as you think about that acquisition into 2025, can you talk about how you're seeing some of the moving pieces, whether it's WCS, normalized margins now that we've worked through those inventories, operational run rates? Just your pulse check on that asset would be helpful. Thanks.

Answer – William Monteleone: Sure. I think overall on big picture, still remain very pleased with Billings and I think believe in its capability to deliver mid-cycle cash flow contributions that we set out to when we underwrote the transaction. The – there are many moving pieces, but on the whole, I would say seeing positive improvement on our ability to exceed our 50,000 barrel per day initial target.

I think our operating expenses have been higher than our $10 per barrel target, but I think there's a path to getting back towards that once we get through the major cat cracker turnaround here in 2025. And then, I think, ultimately, the view that we can balance heavy crude throughput and medium and light crude throughputs to optimize transportation fuel yields versus asphalt, over time, I think remains the last leg of improving our ability to both achieve and exceed the initial mid-cycle guidance we provided.

Question – Neil Mehta: Well, I could sneak one more in here, which is the stock's obviously been under enormous pressure this year after a very good run. And I can't help but think there's so much embedded value in the retail business that isn't reflected in the valuation here. How do you think about helping investors understand the value of the retail brands and pulling that some of that forward?

Answer – William Monteleone: Yeah. Absolutely. And I think our retail business, as you can see, has been a significant financial contributor for us over the last five years. It's grown nicely and I think ultimately is a premium multiple business to our manufacturing and distribution business.

That said, I think it's quite strategic to us. We're happy with that business. And we think it has some significant growth opportunities.

And so, I think what you'll see is we consider growing that business, we may look at alternatives that would improve our capabilities there. But I think as you think about the strategic benefits in the markets we operate, it has significant value to us, probably above and beyond just the multiple arbitrages that you're referencing.

Question – Neil Mehta: Okay. Thank you, sir.

Answer – Neil Mehta: Thanks, Neil.

Operator

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

Question – Jason Gabelman: Morning. Thanks for taking my questions. I wanted to touch on CapEx spend this year and next year. It seems like CapEx is trending a bit light. You'd have to maybe double-spend from 3Q to 4Q to reach guidance. Is that what the market should expect? And then, as you think about 2025 CapEx given spend on the SAF project and additional turnaround, perhaps some capital spend tied to the cost reduction initiatives, can you just talk us through the year-over-year bridge to 2025 spending? Thanks.

Answer – Shawn Flores: Sure, Jason. It's Shawn. I think you're right; we expect our cash CapEx to track near the low end of our guidance for 2024, which was $220 million to $250 million. Year-to-date, through 09/30, CapEx and turnaround was $146 million. I guess, the one thing I'd point out for 2024 is just keep in mind our renewables project in Hawaii is more back-end weighted. So, you should see some elevated CapEx in the fourth quarter. And then, also keep in mind, when we put out guidance each year, we think about CapEx as incurred, not necessarily cash. And our year-to-date accrued cash CapEx is trending about $20 million higher than cash. So, I wanted to point that out as you think about 2025.

And then, I think we're going to provide official CapEx guidance in late December like we typically do. But directionally, I would point out, we expect about $80 million to $100 million of turnaround expenditures primarily related to the Billings FCC and alky work, as well as pre-spending in Hawaii and Wyoming for the 2026 events. And then, we'll have about $30 million to $40 million remaining on the Hawaii renewable conversion project in 2025. So, again, we'll put out more specific guidance in December on maintenance, sustaining and other growth capital.

Question – Jason Gabelman: Okay. Thanks. And my other question is on the balance sheet, and the stock has weakened following moving inventory financing to on the balance sheet. And it seems like the company is trying to split out that financing in the ABL versus what you consider structural debt within that term debt line item. So, can you just talk about if that's kind of the right way to think about it and why taking this approach to balance sheet management is maybe a bit better than what you had when that inventory was off balance sheet?

Answer – Shawn Flores: Sure. Yeah, I think we certainly view the ABL funding separately from term debt. We've maintained our term debt leverage target of 3-4x. The Logistics and Retail EBITDA, that's been in place for multiple years. And I think we're at the low end of that range as we sit today.

On the ABL and working capital funding, this sort of solely supports our inventory management and working capital needs. And I think it's worth pointing out that, over the past year, our working capital funding and really financing has decreased materially. As you go back and look at the balance sheet, the intermediations would show up in current liabilities. A year ago, that was an $850 million liability. Today, as of 09/30, it's $165 million.

And so, when you combine the ABL funding and the smaller S&O intermediation in Hawaii as of 09/30, we're about $175 million below our year-ago levels. So, I think we've – not only do we view the ABL funding as purely working capital funding supporting our crude purchases, the funding itself has significantly decreased over the last year.

Question – Jason Gabelman: Great. Thanks for the answers.

Operator

The next question is from Manav Gupta with UBS. Please go ahead.

Question – Manav Gupta: Hey. I just have one question. Can you provide more details around what's your outlook for the crude differentials for the Hawaii region, in particular? How do you see those spreads moving out in the next six to nine months?

Answer – William Monteleone: Sure, Manav. It's Will. I think you can see the modest reduction in our expected landed crude differential in the fourth quarter. Keep in mind that is 90-plus days lagged versus real-time market conditions. So, that really reflects crude market conditions during the third quarter per se. To roll forward, as you've seen the curve, you've seen backwardation costs come down, seen freight start to soften. And just big picture, you've seen kind of the physical markets soften.

So, I would give you the directional guidance that we are seeing improvement in our landed crude differentials as you look forward. None of those are final at this point. But I think directionally, the major factors that impact our landed cost of crude are trending favorably.

Question – Manav Gupta: Thank you so much.

Operator

Thank you. And the next question is a follow-up question from Jason Gabelman from TD Cowen. Please go ahead.

Question – Jason Gabelman: Yeah. Sorry. Just one more for you on Hawaii. I know it benefits from product tanker rates and those have been strong the past couple of years. Could you just talk about what you're seeing in the product tanker market quarter-to-date in 4Q and what you expect moving forward?

Answer – William Monteleone: Sure, Jason. It's Will. I think in the fourth quarter, we've seen softening on the product tanker rate side for clean product. And ultimately, I think we're starting to see it stabilize at current levels. I would still characterize it broadly as kind of in the probably $6 per barrel range versus, call it, pre-COVID type world where it was $3.50. And so, I think you're still seeing elevated versus history, but not near the peaks that we would have seen probably at close to $11 a barrel during the height of really some of the significant trade flow disruptions that were happening during the Russian – initial stages of the Russian invasion.

Question – Jason Gabelman: Great. Thanks for that.

Operator

And ladies and gentlemen, this concludes today's question-and- answer session. I would like to turn the conference back over to Will Monteleone for any closing remarks.

Will Monteleone

Thank you, Chad. Our unique asset portfolio is well-positioned for delivering upside during mid and peak cycle conditions. Your management team is focused on improving our cost structure and executing our growth objectives to drive the enterprise forward. Thank you for joining us today.

Operator

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