Par Petroleum's CEO Joseph Israel on 2Q 2015 Results – Earnings Call Transcript

Par Petroleum Corporation (NYSE MKT:PARR)
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Executives
Joseph Israel, *President and Chief Executive Officer*

Christopher Micklas, *Chief Financial Officer*

William Monteleone, *SVP of Mergers & Acquisitions*

Christine Thorp, *Director, Investor Relations & Public Affairs*

Analysts
Jeff Dietert, *Simmons & Company*

Thomas Mitchell, *Miller Tabak*

David Neuhauser, *Livermore Partners*

Andrew Shapiro, *Lawndale Capital Management*

Chi Chow, *Tudor, Pickering, Holt*

Presentation
Operator

Greetings, and welcome to the Par Petroleum Corporation Second Quarter 2015 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Ms. Christine Thorp, Director of Investor Relations. You may begin.

Christine Thorp - Director, Investor Relations & Public Affairs

Thank you, Jessi and welcome everyone to Par Petroleum Corporation's second quarter 2015 earnings webcast and conference call. With me today are Joseph Israel, President and CEO; Chris Micklas, Chief Financial Officer; and Will Monteleone, Senior Vice President of Mergers and Acquisitions.

Before we proceed, I would like to remind everyone that comments made today by management contain forward-looking statements. These forward-looking statements include all discussions regarding plans, expectations, estimates, beliefs and projections about future events. These statements also involve certain risks and uncertainties that are difficult to predict and could cause actual results to differ materially from the results expressed or implied in any forward-looking statements.

Information about the risks we face and the uncertainties associated with Par Petroleum's forward-looking statements can be found in the company's periodic reports filed with the SEC. Because of these risks and uncertainties, investors should not place undue reliance on forward-looking statements. Par Petroleum does not assume any obligation to publically update or revise any forward-looking statements whether as a result of new information, future events or circumstances.

Today's call is being recorded and will be available on the Investor Relations section of our website. I will now turn the call over to Joseph.

Joseph Israel - President and CEO

Thanks Christine. Good morning everyone, and thank you for joining Par Petroleum's conference call. After my opening remarks, Chris will review our numbers in more detail. Then, we will open up the call for your questions.

Yesterday we reported Par's second quarter adjusted EBITDA of $31 million. Results were driven by favorable market conditions and solid execution across the board.

Strong market economics, combined with safe and efficient operations, have led the way to a record high refinery throughput of 81 MBD in the second quarter. Direct production cost are down to $3.15/Bbl in the second quarter, compared to $4.68/Bbl - full year 2014 average.

On-island sales continue to be a key business focus area, with record high 62 MBD, in the second quarter of 2015, compared to 52 MBD in the second quarter of 2014.

Singapore and West coast product markets gave us $9.76/Bbl 4-1-2-1 crack spread on a Brent basis, and the Mid Pacific crude differential index gave us another $1.30/Bbl discount to Brent. Combined, our benchmark margin in the second quarter was $11.06/Bbl, compared to $6.46/Bbl in the second quarter of 2014.

The over supplied global crude market, and specifically increased North American crude production, continue to give us flexibility and support our feedstock cost structure. The global gasoline demand profile at a low price environment, combined with the West coast supply challenges, have supported our product margins in the second quarter.

On August 1st we started a planned 10-day reformer regeneration with minimum planned impact on production. No major turnarounds are planned until the third quarter of 2016.

For the third quarter, planned throughput is approximately 75 MBD. We continue to make asphalt for the local market and reposition Par in the local propane business to maximize on-island sales.

Our retail segment contributed $5.8 million of adjusted EBITDA in the second quarter. Year over year, gasoline volume and merchandise sales are up 5% and 14%, respectively, on a same store basis.

Mid Pac contributed, on a standalone basis, $4.3 million of adjusted EBITDA to our retail and refinery results in the second quarter. Integration efforts continue with the objective of realizing annual $5 million of synergies and cost savings by the end of the year.

Our equity investment in Piceance contributed a loss of $3.0 million, compared to $800 thousands gain in the second quarter of 2014. Results were driven by gas, NGL and condensate weak pricing environment. The announced drilling program execution continues with the low cost wells expected to improve profitability and take us where we need to be on a mass standpoint. A story of value creation by increasing reserve base.

And now, I'll turn the call over to Chris, to review our second quarter numbers in more detail.

Chris Micklas - CFO

Thank you, Joseph. During the second quarter, we reported net income of $12 million dollars, or 31 cents per share, compared with a net loss of $25 million dollars, or a loss of 81 cents per share, in the second quarter of 2014. Adjusted Net Income for the second quarter was $17 million dollars, or 46 cents per share. Adjusted EBITDA was $31 million dollars, an improvement of $50 million compared to a loss of $19 million dollars in the second quarter of 2014.

During the quarter, we closed two significant transactions; the acquisition of Mid Pac on April 1st, and the supply and offtake agreement with J Aron on June 1st .

The J Aron agreement improved our cash position by $14 million dollars at closing and our liquidity by over $30 million dollars to date.

Upon entering the J Aron agreement, we terminated our supply and exchange agreement with Barclays and our HIE credit agreement. This resulted in a loss of $19 million dollars; $13 million dollars as a result of choosing to financially settle our obligation with Barclays which had previously been measured assuming physical settlement. We chose to financially settle our obligation because the inventory was being transferred to J. Aron at a premium to the Barclay's settlement value; however accounting rules do not permit us to recognize the gain. The loss also includes $6 million dollars due to the accelerated amortization of deferred financing costs.

The acquisition of Mid Pac generated $4 million dollars of Adjusted EBITDA. Additionally, we had a $19 million dollar tax gain from the release of the valuation allowance because we expect to use a portion of our $1.4 billion dollar NOL to offset the future taxable income of Mid Pac.

Consistent with previous results, our second quarter included the following items that are excluded from Adjusted EBITDA:

There was an increase of $9 million dollars in the estimated amount owed to Tesoro under the earn-out provision of the purchase agreement. Our current and projected earnings profile has improved. Therefore the probability of future payouts has increased as reflected by the 2015 and 2016 obligation estimates.

We had income of $3 million dollars due to a decrease in the value of the common stock warrants.

We incurred approximately $3 million dollars in losses from our equity investment in Piceance Energy, $2 million dollars in un-realized gains on future commodity contracts, and $500,000 dollars in acquisition and integration expenses related to our acquisition of Mid Pac.

At quarter-end, our cash balance totaled $78 million dollars, total debt was $171 million dollars and total liquidity was $142 million dollars. Year to date, we have generated $99 million dollars of cash from operations which enabled us to repay net debt of $17 million dollars, complete the Mid Pac acquisition, and make an additional $28 million dollar investment in Piceance. The cash generation for the year was driven by strong operating results and changes in working capital of $44 million dollars.

As of August 3rd, our cash balance increased $43 million dollars to $121 million dollars driven by normal operating activity and J Aron's refund of advances posted at closing. Total debt was $171 million dollars and total liquidity was $173 million dollars. Our strong capital structure, improved profitability, combined with the positive impacts from the J Aron agreement provide us with enhanced flexibility to execute on our strategy.

Now, I will turn the call back to Joseph.

Joseph Israel - President and CEO

Thanks Chris. In summary, the second quarter has been a story of good opportunities and solid execution.

Beyond strong operations performance, the organization has successfully handled growth, integration and finance activities. We also got the opportunity to use the NOL asset through the Mid Pac acquisition and generate significant tax benefit.

Overall, another positive, strong quarter is under our belt as we have now demonstrated approximately $100 million of adjusted EBITDA in the last three quarters.

We are excited with our position and our chances to use the $1.4 billion NOL asset as we continue to grow. And now Jessi, we are ready to take questions.

Question-and-Answer Session
Operator

Thank you. [Operator Instructions] Our first question is coming from the line of Jeff Dietert with Simmons. Please proceed with your question.

Jeff Dietert - Simmons

Good morning.

Joseph Israel - President and CEO

Good morning, Jeff.

Jeff Dietert - Simmons

You had strong margins both in Asia and in California. The California market experienced strong demand and increased imports. I would curious if you could talk about how the California market may have impacted your business. Does it change any of your product distribution, or did you really just benefit from the stronger margins?

Joseph Israel - President and CEO

Yes, we've benefited from the strong margins. But as a reminder, the West Coast market has about 20% sensitivity really on our margins. And the rest is Singapore Asian driver. Going to the third quarter, we can see the seasonality impact on the margin environment on three fronts. We have the gasoline market approaching end of a driving season. We have the ANS availability issues. You know, that are typical for third quarter. And we have the Asian economy and demand trends in the third quarter.

On the other side, we have the falling crude price actually helping the margin with a price lag that we have in our company. So things continue to be good for us in July, and August, even with the reduction in the margin environment, and we are happy with the third quarter so far.

Jeff Dietert - Simmons

Okay, great. You've continued to show a lot of flexibility on feedstock in the second quarter, making adjustments to take advantage of attractive African and [indiscernible] barrels. Could you talk about how those shifts occurred during the quarter, and how it looks going into third quarter? Where are you seeing the best opportunity for low cost crude feedstocks?

Joseph Israel - President and CEO

Yes. Crude sourcing is key for us. Being a waterborne, the crude mix is a monthly question for us and ongoing optimization. We really worked and improved on the crude sourcing in the past few months. With more people out there handling directly supply with the suppliers, and developing those relationships, and trying more and more grades in our refinery. The second quarter has been a simple case of low price ANS that we were happy to take. And we build the rest from optimization availability. Going into the third quarter, this is really when we see our crude sourcing improvement getting accretive, and being able to overcome the shortage, the seasonal shortage in ANS availability in third quarter. So, very happy with crude sourcing. Will continue to be a key focus for our business, and drive our numbers.

Jeff Dietert - Simmons

Thanks for your comments, Joseph.

Joseph Israel - President and CEO

Thank you, Jeff. Appreciate it.

Operator
Thank you. Our next question is coming from the line of Thomas Mitchell with Miller Tabak. Please proceed with your question.

Thomas Mitchell - Miller Tabak

Yes, thank you. A couple of questions here; the first is, you had, in some of your remarks in the last quarter's earnings discussion, you mentioned that you had made forward contracts for -- to hedge your cost of crude going to March of 2016. I think the average was around $60 a barrel. Have you seen opportunities to go out farther, and lower the average contract or should we expect it to still stay in that general area?

Joseph Israel - President and CEO

Yes, sir, and welcome onboard Tom. We're glad to have you here as analyst. Just to remind everyone, we don't burn natural gas in Hawaii, we burn fuel. Our sensitivity to crude oil price is very high compared to your typical U.S. refinery. What we do when the future curve is -- has a low crude price? We go ahead and use some hedging in order to secure, call it energy -- low energy cost, for ourselves. Just to illustrate what it means, at $100 a barrel, a crude price like 2014 environment, energy cost was $80 million just by burning fuel. With the crude at $50 a barrel, energy cost will be $40 million a year. So it's 10 million savings per quarter.

The rationale and the reasoning of using hedging on a low crude environment, it's very valid for us. We continue to do it in the recently, and capture a weak market environment all the way to the end of next year, consistently doing 74% of our fuel burn consumption, which is 74% of, call it, 840,000 barrels per year levels.

Thomas Mitchell - Miller Tabak

Okay, that's very helpful. Has the decline in the crude price -- the spot actually improved the cost going out into next year, or is that still fairly high relative to where the spot price is today?

Joseph Israel - President and CEO

Can you please ask again?

Thomas Mitchell - Miller Tabak

Yes. I'll put it differently. How steep does the contango look to you versus where it was about three months ago?

Joseph Israel - President and CEO

Yes, surprisingly, in such a low crude market environment, we didn't develop a high contango like you would expect going to the next year. It looks like the market is realizing this crude price environment is valid longer term, and keep it relatively flat. Of course, there is a little bit of contango left now during the market. We will continue to monitor it. We don't do anything on the contango side. At this point, we'll continue to ride the market like most refineries.

Thomas Mitchell - Miller Tabak

Okay. Now, I had a second question. When they came out with the new EPA rules for power plants, they seem to be relatively severe on coal-fired plants. Relatively benign towards natural gas-fired plants, and it was hard to find them saying much of anything about oil-fired plants. Can you give a rundown of how you would expect these new rules to affect your power plant customers?

Joseph Israel - President and CEO

Yes, Tom. Let me let Will here address this question.

Will Monteleone - SVP, Mergers and Acquisitions

Hi, Tom. Good morning. Our understanding is that Hawaii, it currently has an exemption underneath the proposed rule. Again, it's relatively new, so we're evaluating it. I'd also highlight that our overall utility customer exposure at this point in time is relatively low. I think those are two facts that are relevant. But our current understanding is that Hawaii has an exemption from most of those proposed regulations.

Thomas Mitchell - Miller Tabak

Okay, that's great. Now, I had just one other question that you may have already discussed. And I may have missed it. Your general and administrative expenses increased by about $1.7 million from first quarter. Should we take, let's say, more like a $12 million or $11.5 million run rate for SG&A as likely to be something that we'll see for the rest of the year or should it continue to increase?

Joseph Israel - President and CEO

Yes, I'll let Chris handle it. I'll just start by saying, second quarter had a lot of activities going on inside the office with the different deals and acquisitions, and some internal processes that we had, and still have. I don't know how good the second quarter is as an indication, going forward. Definitely, when you compare it to last year, I know you mentioned the first quarter. But when you compare it to the last year, we were a transition service agreement pretty much at that time, and limited workforce. Relying on more contract, so the numbers may not compare very well on the same bases. But I'll let Chris take it from here.

Chris Micklas - CFO

I would just add -- Joseph covered most everything. I think, when you look at the second quarter rate you can assume that approximately $3 million of nonrecurring items. Because we did have some accelerated investing on some stock options, and we did have some significant transactions during the quarter. These transactions were not considered merger and acquisition transactions because it wasn't acquiring a company. So we do have a slightly elevated level in the second quarter.

Thomas Mitchell - Miller Tabak

Okay. Well, that's very helpful. Well, congratulations on a strong quarter, and we'll look forward to seeing how things develop from here. Thank you.

Joseph Israel - President and CEO

Thank you, Tom.

Operator
Thank you. Our next question is coming from the line of David Neuhauser with Livermore Partners. Please proceed with your question.

David Neuhauser - Livermore Partners

Hi. Good morning gentlemen.

Joseph Israel - President and CEO

Good morning David.

David Neuhauser - Livermore Partners

As you further optimize the company at this point, and you're getting your feet wet, Joseph. How do envision how long further that takes before you start to look at other acquisition opportunities to further diversify the company's asset base?

Joseph Israel - President and CEO

I appreciate the question. We are there -- We feel very comfortable about what we have. And we are switching from playing defense to play offense on the growth front of things. This is a growth company. And it was great to have an opportunity to demonstrate what an NOL asset means to a growth company. So we have a team ready to go. We have the systems ready to go, and we have good NOL assets to build on. We are already active, and working on different M&A fronts to come up with a deal. And I'll also have Will commenting on that, from the M&A side.

Will Monteleone - SVP, Mergers and Acquisitions

Sure. Good morning, David. I'd further comment, as Joseph has previously said, our strategy on the M&A front remains twofold. One is to continue to build upon our footprint in Hawaii, looking for acquisitions that have natural synergies and opportunities to improve our efficiencies there. The second is really looking at opportunities that leverage our existing operations team, here in Houston. And we're looking at a number of different opportunities.

I'd also add is, in addition, given the uniqueness of our NOL, we're looking at opportunities where we can be the best buyer of assets. We have a number of opportunities we're evaluating, and remain focused on delivering the next leg of growth for the company, of course, in a disciplined manner.

David Neuhauser - Livermore Partners

Okay, that's all I have. Thank you.

Joseph Israel - President and CEO

Thank you, David.

Operator
Thank you. Our next question is coming from the line of Andrew Shapiro with Lawndale Capital Management. Please proceed with your question.

Andrew Shapiro - Lawndale Capital Management

Yes, hi, and thank you for the opportunity. Your direct production expense decreased to 412 per barrel in Q1, and even more here in Q2. Was that cost per barrel decrease here in the most recent quarter due primarily to production increases or was there an efficiency improvement? Do you think you're now operating close to your lowest cost levels or are there some more things meaningful that you can be … can be done to lower your cost per barrel?

Joseph Israel - President and CEO

Yes. I look at it as a three portions for the Delta. The biggest portion is directly driven by our higher throughput. And the second portion will be our lower electricity pricing environment in this quarter versus in the past on barrel basis. And then the third one is probably the smaller one, but call it a quarter a barrel is coming from debt reliability equal to less maintenance, and lower cost profile overall.

Andrew Shapiro - Lawndale Capital Management

Okay. And further on in the efficiency or synergy point of view. Your Mid Pac acquisition closed at the beginning of the quarter. You stated in the last call, and previously you anticipated an annual contribution of approximately 15 million of EBITDA from its operations, which didn't include 5 million from synergies. Now that you've had a full quarter somewhat under your belt, since the closing, how have you revised your expectations for increased EBITDA and cost synergies, if you have? And is there a possibility -- is it in the near-term or is it something that evolves, and then it will be a full year before those synergies are realized?

Joseph Israel - President and CEO

Yes, on the Mid Pac level, first quarter actually reinforced and confirmed our economics prior to the deal. We have reported here $4.3 million EBITDA for Mid Pac on standalone basis in the second quarter. So times 4, we are talking about $17 million just coming from the Mid Pac side. And if you want to look on the overall contribution to the Company, the additional $5 million of synergies that will be captured in different place, but still generated from the Mid Pac acquisition, and additional $5 million to $10 million of EBITDA coming from the refinery side just by selling more barrels on the island, instead of putting them in export.

You sum all of it and it's close to a $30 million EBITDA contribution for $110 million type of an acquisition price. So we're happy with the multiplier. We're happy with the deal execution. And we are looking forward to expand our marketing retail segment in the future.

Andrew Shapiro - Lawndale Capital Management

Great thank you. I have a few more questions. I'll back out into the queue, but if you could come back to me if there's time, I'd appreciate it.

Joseph Israel - President and CEO

Why don't you go ahead and ask it, Andrew, I appreciate it.

Andrew Shapiro - Lawndale Capital Management

Okay. Piceance was in the middle of a multi-year capital investment program. I was wondering if how the current energy market conditions affect these plans. And what are your expectations on capital calls from Piceance if Par wanted to, and I think it does, maintain its percentage ownership in the Piceance joint venture.

Joseph Israel - President and CEO

Will will take this question, Andrew.

Will Monteleone - SVP, Mergers and Acquisitions

Good morning, Andrew. Piceance is continuing ahead with one-rig program, and we're seeing our drill and completion costs come down, as we expected. We're currently seeing our wells drilled and completed about $1.2 million per well, so really on the low end of our original expectations. Production growth is on track to hit our expected range of 55 million to 60 million cubic feet equivalent exit production by the end of the year.

We exited June with approximately 49 million cubic feet-a-day equivalent production. We're pursuing -- I've referenced this previously, our water infrastructure build out, which remains about $15 million over the course of this year, and should be operational in the fourth quarter.

And we're encouraged by the economics we're seeing despite it's a challenging commodity price environment. So it's really to continue running the one-rig program. We'll review that plan quarterly. And obviously make decisions based on the commodity price environment we're seeing, but based on the economics we're viewing today, we're moving ahead.

I would say that we did complete one small transaction, actually, at the end of July. And at that point I -- third party, we even made a small acquisition of approximately 1.7 million cubic feet-a-day of production, approximately 7200 acres of held by production acreage for about $4 million in the Piceance basin is a bolt-on for us. And then, in addition, the seller, which is a non-affiliated third party, infused approximately $15 million of fresh equity capital into Piceance. So that took our ownership percentage down to a 32.4%, but we're pleased with the transaction.

Andrew Shapiro - Lawndale Capital Management

Yes, it sounds pretty good. Okay, and can you give us whatever update you can on the Chevron refinery sale process? And what you see is the likely results, and hence the uncertainty over there provided any opportunity for Par to gain more business and expanded margin?

Joseph Israel - President and CEO

Yes, we cannot base -- discuss or comment on the M&A specific fronts and not on the Chevron. But we mentioned in the past, that Chevron potentially exiting operations on the island will only mean good things for Par Petroleum, right; the ability to sell more barrels on the island or compete at a better competitive position on the island when any other player is around. So we will continue to monitor, and see where it goes.

Andrew Shapiro - Lawndale Capital Management

Okay. And the last question then for you here. You have a nameplate capacity I think of 94,000 barrels per day. You've been ramping things up. Have there -- have you been -- I think on some days you've been able to hit that type of capacity, and if that's the care, are there visible steps you could take to debottleneck and increase the nameplate capacity on the facility?

Joseph Israel - President and CEO

Yes. Running to a market limit really put us at 75,000-80,000 barrels per day, selling 6 -- the low 60s on the island, hopefully going to the 65 by the end of the year, and taking the rest to export and inventories by definition. So the economics of increasing the crude throughput rate is not there. Obviously, if we get to sell additional barrels on the island in the future, we will go directly to a higher rate. And as you said, Andrew, we were able to go up to the 90s in few days when we choose to catch up. And so this is a viable, and we can develop a good reliability around that number. Going beyond 90, and meet the Hawaii demand at 110,000-115,000 barrels per day is doable, but it will take a project in the right time.

Andrew Shapiro - Lawndale Capital Management

Okay. Well thank you, one last thing, gentlemen, do you have -- what is on the plate for your planned, I guess, investor relations non-deal road show commitments in the coming quarter or two, in terms of getting the story out?

Andrew Shapiro - Lawndale Capital Management

Christine Thorp, our IR and PR will reach out to you and others. And we'll make sure it's truly coordinated. Thank you, Andrew for your support.

Operator
Thank you. The next question is coming from the line of Chi Chow with Tudor, Pickering, Holt. Please proceed with your questions.

Chi Chow - Tudor, Pickering, Holt

Hi, thanks. Good morning everyone.

Joseph Israel - President and CEO

Good morning, Chi. Great to have you.

Chi Chow - Tudor, Pickering, Holt

Yes, thanks. So you mentioned your same-store fuel sales in the quarter up 5%. If I got that right, that's pretty strong. Could you talk about the factors that drove that, and just wondering if they're more industry dynamics or something company specific on that end?

Joseph Israel - President and CEO

Yes, in the 14% on the merchandise side is another year-over-year strong growth. And the reason is we are talking here about 30 stores coming from Tesoro. Tesoro is a great operator, but in Hawaii having the system for sale for such a long time, there wasn't too much marketing effort to help those sales and optimization. So from the time we got it and took it we realized marketing is a big part of our integrated strategy. And we put the efforts and got the results. I don't think it will continue to improve in this type of rate, but we will now continue to improve it in a more typical industry rate.

Chi Chow - Tudor, Pickering, Holt

What specific factors, can you give us some examples on your marketing efforts on what changed versus the prior owners?

Joseph Israel - President and CEO

Yes. It's pricing, being aware of the street price. It's in the shelf organization in the store level. And being on top of what's moving and what's generating the highest gross margin, and working it every day, and adjusting accordingly.

Chi Chow - Tudor, Pickering, Holt

Okay.

Joseph Israel - President and CEO

Nothing different from what you have seen in other…

Chi Chow - Tudor, Pickering, Holt

Right. How are things trending here in third quarter? Are you still seeing those sorts of same growth rates as 2Q? And just another broader question I guess on fuel demand. Are the seasonal factors on island the same as the mainland, where things just really fall off after Labor Day or a little different there?

Joseph Israel - President and CEO

Yes. So first quarter we report our Mid Pacific index on the core differential side, and the 4-1-2-1, and July is 9.36, which is a $1.70 under the 11 for the quarter. However, we have the crude -- falling crude price helping our margin realization. So third quarter continues so far pretty flat to date, but our future curve has it going down based on the three items I discussed, before, that are all seasonal; the gasoline approaching end of driving season, ANS availability, and the Asian economy.

I think we are less sensitive to the end of driving season that the West Coast is going through. And what we will get is the Asian demand growing up, normally in the fourth quarter, and bringing us a new boost on the gasoline as well as the distillate side, for the fourth, and the first quarter. So we're getting a mix from both sides. And, overall, our seasonality is slightly lower because of that, and volatility is better.

Chi Chow - Tudor, Pickering, Holt

Okay great, thanks. And then on the acquisition front, are you focusing primarily on refining acquisitions or also mid-stream? And I guess secondarily, can you give us your thoughts on mid-stream opportunities given the down turn in the MLP market that we've seen here?

Joseph Israel - President and CEO

Yes. Refining and marketing mid-stream is our expertise, and this is what our growth platform will capture and build on, as we build -- as we use our NOL in the future. So this is definitely the focus. Internally, we do have logistics that will eventually go down to a separate reporting, and potentially MLP following that. So we are excited with our internal MLP opportunities in the future. And outside, I think we have the -- again, the people, the back office, the systems to handle midstream opportunities on a standalone basis, on the mainland as well, and increase -- expand our footprint.

Chi Chow - Tudor, Pickering, Holt

Okay, great, thanks. And then I guess the final question maybe for, Chris. Can you explained this 18.6 million or the tax benefit from the Mid Pac acquisition, what that's all about? And was there any sort of cash impact on that issue?

Chris Micklas - CFO

Well, the cash impact will be received in the future. And the tax impact is basically being able to use the NOL to offset the future profits for Mid Pac. So it's basically being able to revalue the valuation allowance and take the results to income.

<u>Chi Chow</u> - Tudor, Pickering, Holt

Okay, and then this was a one-time item, is that correct?

<u>Chris Micklas</u> - CFO

It's part of the acquisition, and valuation of the acquisition; yes.

<u>Chi Chow</u> - Tudor, Pickering, Holt

Okay. Okay, thanks. Appreciate it.

<u>Joseph Israel</u> - President and CEO

Thank you, Chi.

Operator
Thank you. We have reached the end of our question-and-answer session. I would like to turn the floor back over to Mr. Israel for any additional or concluding comments.

<u>Joseph Israel</u> - President and CEO

Thank you, Jessi. In closing, I'd like to thank our employees for their continuous dedication and hard work. Thank you all for your interest in Par, and your participation today. Have a good weekend.

Operator
Ladies and gentlemen, that concludes today's teleconference. We thank you for your participation. And you may disconnect your lines at this time.