Par Pacific

First Quarter 2022 Earnings

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CORPORATE PARTICIPANTS

Ashimi Patel – *Director, Investor Relations*

William Pate – *President and Chief Executive Officer*

Richard Creamer – *EVP, Refining and Logistics*

Matt Vaughn – *EVP, Retail*

Will Monteleone – *EVP and Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

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

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Alejandra Magana – *JP Morgan Chase & Co, Research Division – Equity Research Analyst*

Jason Gabelman – *Cowen & Co. LLC, Research Division – Director and Integrated Oil, Refiners, and LNG Analyst*

Andrew Shapiro – *Lawndale Capital Management, LLC – President*

PRESENTATION

Operator

Good morning, and welcome to the Par Pacific First 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. To ask a question, you may press star then one on your touchtone phone. To withdraw from the question queue, please press star then two. Please note, this event is being recorded.

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

Ashimi Patel

Thank you, Kate. Welcome to Par Pacific's First Quarter Earnings conference call. Joining me today are William Pate, President and Chief Executive Officer; Richard Creamer, EVP of Refining and Logistics; Matt Vaughn, EVP of Retail; and Will Monteleone, 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. Good morning, everyone. Our first quarter adjusted EBITDA was $8 million, and adjusted net loss was $0.53 per share. These results included a $5 million noncash mark-to-market expense for our 2019 and 2020 RFS compliance. First quarter results reflected lost profit opportunities associated with our Washington turnaround, the impact of rapidly rising crude oil prices in Hawaii, and off-season conditions in Wyoming. Market conditions improved significantly in the second quarter. With the Washington turnaround behind us, we're focused on maximizing production in a highly profitable market environment.

Over the past two months, refined product cracks surged to all-time highs, due to increasing physical crude costs, increasing demand, and reduced supply from Russia. In addition, record natural gas prices have driven up production costs for refineries reliant on natural gas for utilities and hydrogen. Consequently, the April Singapore 312 Index is well above historical norms, averaging almost $30 per barrel, compared with a 2021 average of $6.22 per barrel. Cracks are also at high levels in Wyoming and Washington. The war and related trade sanctions sparked rapid increases in crude oil prices during the first quarter, and then stabilized above $100 per barrel during April. Higher prices have increased steam and electricity expenses, and consequently, our refinery production costs.

Market structure continues to be highly backwardated, which offsets a portion of the record product cracks. Notwithstanding these adverse impacts, all our refinery units are currently highly profitable. Several of the factors affecting our first quarter capture rates in Hawaii and Washington have improved, as oil prices stabilized and our refinery throughput increased. With sales volumes up, our logistics systems are also generating strong profits.

We made considerable progress this quarter on our organic growth capital initiatives. In conjunction with the turnaround in Washington, several units were debottlenecked, and the refinery is operating at record

throughput levels. We also completed work in Wyoming that should allow us to run at record levels this summer. We're completing the engineering for co-feeding in Washington to create renewable production optionality, as the low carbon fuel standard and cap and trade regulations emerge in that state. We also view this capability as a hedge against rising RIN prices.

We were pleased with the recent EPA decision recognizing that delayed decisions on small refinery exemptions have a significant adverse impact on petitioners, although we did not agree that the agency should reverse prior grants of relief. The EPA should recognize the adverse impact of delayed decision-making as it considers our outstanding 2019 and 2020 SRE petitions.

In closing, I want to introduce Richard Creamer, our new Executive Vice President of Refining and Logistics. Richard has a wealth of experience in refining and petrochemical operations and management. He joins us from HF Sinclair, and previously worked for Flint Hills Resources, Lyondell, and Invista. He also served a four-year stint with us as the head of our Hawaii refining operations. We're delighted to have him rejoin us.

Richard, welcome back.

Richard Creamer
Thank you, Bill, and it's great to be back. Our teams performed well operationally to begin the year. In Washington, we successfully completed the turnaround in March, during which we completed a debottlenecking project to increase our throughput to nameplate capacity of 42,000 barrels per day and run a larger percentage of Cold Lake crude. Now we don't have any planned major turnarounds across our refineries for at least the next two years.

First quarter Washington production costs were $7.35 a barrel, reflecting reduced throughput of 20,000 barrels per day as we completed the turnaround. Due to some additional discovery work, we extended the turnaround by 8 days, impacting throughput rates. Second quarter throughput is expected to be back up to 41,000 to 42,000 barrels per day.

As Bill referenced, we are progressing on our Tacoma renewables co-processing project, and expect to begin our co-feeding operation by early next year.

Shifting over to Wyoming, production costs were $8 a barrel, and throughput was 15,000 barrels per day during the first quarter. We completed a limited outage to replace catalyst in anticipation of the summer driving season. Second quarter throughput is expected to be 16,000 to 17,000 barrels per day.

Hawaii production costs were $4.38 a barrel during the first quarter, reflecting higher utility costs which are tied to the price of crude. First quarter throughput was 83,000 barrels per day, and second quarter throughput is expected to be 81,000 to 85,000 barrels per day. Distillate demand and cracks are strong across all our regions. Operational reliability and maximizing crude throughput are our principal goals this quarter, given the very strong market environment.

I'll now turn the call over to Matt to discuss our retail results and update on strategic initiatives.

Matt Vaughn
Thank you, Richard. The retail segment faced a number of challenges in the first quarter, including a sharp increase in refined product prices and continuing shortages in our merchandise offerings. Notwithstanding these hurdles, we were able to grow margins inside our stores, while continuing to position the segment for growth.

The retail segment reported adjusted EBITDA of $6.7 million for the quarter, compared to $8.4 million in the first quarter of 2021. This reflects approximately $830,000 of additional lease expense resulting from the sale leaseback transaction that we closed in February of 2021. Adjusted Gross Margin grew by 3.2% compared to the first quarter last year, increasing from $25.3 million to $26.1 million.

Fuel volumes rose from 24.8 million gallons in the first quarter of 2021, to 24.9 million gallons. With the return of international tourists to Hawaii, and an eye towards the summer driving season, we expect further increases in our fuel volumes in the second and third quarters of the year.

Merchandise gross margin grew by 4.4% during the quarter compared to the same quarter last year. Food and beverage sales continue to perform well, and we are working to expand our prepared food offerings across our operating regions to drive additional sales in these categories.

As we announced last quarter, we are expanding our operations in the retail segment, with a new store outside of Spokane, Washington scheduled to break ground during the fourth quarter. We are evaluating several other growth opportunities in the area, including additional greenfield development.

Looking ahead, we continue to focus on maximizing convenience for our customers by providing more options to service their needs, including expanded self-checkout options, home delivery, and pay at the pump. We are excited to launch our loyalty program in the Northwest during the second quarter, and to develop a slate of expanded food offerings across our network. While fuel and merchandise volumes have not yet recovered to pre-COVID levels, we anticipate continued increases over the balance of the year, as crude prices continue to stabilize.

I'll now turn the call over to Will to address the financials.

Will Monteleone
Thank you, Matt. First quarter adjusted EBITDA and adjusted earnings were $8 million, and a loss of $31 million, or $0.53 per fully diluted share. Focusing on accounting items first, refining results include a $5 million noncash mark-to-market loss related to the 2019 and 2020 RFS compliance years. Excluding the mark-to-market RIN expense, our adjusted EBITDA and adjusted earnings per share were $13 million and a loss of $0.44 per share, respectively.

Shifting to our segment results. The logistic segment adjusted EBITDA contribution was $15 million, down sequentially from the fourth quarter by approximately $4 million. The largest driver of the decline was reduced throughput activity in Washington related to planned maintenance.

Excluding the RIN mark-to-market impacts, refining segment adjusted EBITDA was $5 million, compared to $8 million in the fourth quarter. Focusing on Hawaii first, the first quarter Singapore 312 increased approximately $5.72 per barrel to $16.21. Feedstock costs were approximately $3.67 premium to Brent, compared to the initially provided estimate of $3.50 premium. Putting the 312 Index and Feedstock Indexes together, the overall margin environment improved about $4.70 per barrel versus the fourth quarter. The net impact of rapidly rising prices largely offset the market improvement, and the impact of crack spread hedging, increased backwardation, increased yield cost and other items caused another $4 per barrel capture headwind. In total, an approximate $9 per barrel.

Looking forward, market conditions continue to improve, with the 312 averaging almost $30 per barrel in April. We anticipate landed crude differentials will be between $4.50 and $4.75 per barrel during the second quarter, reflecting increasing backwardation, and a tighter physical crude market. We have continued our crack hedging framework, and currently have approximately 25% to 30% of our Q2 sales hedged at an average 312 of $14.25 per barrel. With flat price stable to down versus March, we currently

don't project further price lag impacts. Backwardation remains elevated relative to history, albeit Q2 levels are currently well below peak levels. Current month one versus month two levels are in the $1.50 per barrel range, consistent with the average backwardation expense we realized in the first quarter.

In Washington, market conditions improved slightly compared to the fourth quarter. Major moving pieces, compared to the fourth quarter were lower throughputs related to the turnaround, increased backwardation, and asphalt margin compression due to increases in flat price. While we were able to maintain budgeted turnaround outlays, the turnaround was extended by 8 days, impacting throughput rates, and causing us to purchase additional refined products. Total lost profits related to the turnaround were approximately $15 million to $20 million. Looking forward, the PNW index increased to nearly $40 per barrel led by improving distillate margins.

Wyoming market conditions improved slightly, with the Wyoming 321 improving to $26.53, from $23.67 during the fourth quarter. The estimated FIFO benefit was $17 million, or $12.44 per barrel. Wyoming market conditions are improving, with the April 321 improving to $49.86 per barrel in April.

Shifting to Laramie. Laramie generated hedged adjusted EBITDAX of $22 million, unhedged adjusted EBITDAX of $30 million, and a net loss of $33 million during the first quarter of 2022. Capital expenditures totaled approximately $0.4 million. During the quarter, net debt improved by $22 million, from $92 million to a $70 million ending balance. Exit production, as of March 31st, was 104 million cubic feet a day equivalent. Laramie is commencing a small development program for approximately 7 wells totaling $11 million, and evaluating a larger development program.

Shifting back to the Par Pacific cash flow statement. Par Pacific's first quarter cash flow from operations, excluding turnaround funding, was $21 million. Working capital inflows, excluding turnaround, totaled $115 million. This reflects a reversal of the fourth quarter outflows we messaged in prior communications. Capital expenditures totaled $16 million dollars. In addition, we repurchased $5 million of stock during the quarter at an average price of $13.70.

Our net liability for the 2019 and 2020 RFS compliance years totaled $119 million, based upon a weighted average RIN price of $1.43, as of March 31st. Our quarter end liquidity totaled $212 million, made up of $141 million in cash, and $71 million in availability. With the strong market environment and completion of turnaround activities, we expect liquidity to build for the remainder of the year.

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

QUESTIONS AND ANSWERS

Operator
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 are using a speakerphone, please pick up your handset before pressing the keys. To withdraw from the question queue, please press star then two.

The first question is from Carly Davenport of Goldman Sachs. Please go ahead.

Carly Davenport
Hi, good morning, team. Thanks for taking the questions. Wanted to just start on the refining environment in Hawaii. Obviously, a lot of moving pieces there impacting margins in the first quarter. So, could you just flush out a bit kind of how some of those pieces are tracking thus far in 2Q; how you'd characterize your ability to kind of capture the strong margins we're seeing on the screen; and kind of, ultimately, at these type of margin levels, where you could see profitability tracking in the second quarter?

Will Monteleone
Sure, Carly. It's Will. I think the best way to think about that is ultimately, the price lag impact that we referenced in Hawaii during the quarter was about $4, $4.50. And so, again, with the current price environment, we don't expect that to repeat. And so, again, I think that's the single biggest factor that will help improve capture rates in Hawaii during the quarter. And again, I think the other factors that are at play, backwardation, increased yield costs, and then the crack spread hedging, I think are all factors that we expect to continue. But nonetheless, I think we're expecting an improving capture environment, given the current flat price dynamic in Hawaii.

Carly Davenport
Great, appreciate that. And then the follow-up was just around kind of renewables and the co-processing opportunity that you've talked about at Washington. As we think about the rationale there, how should we frame kind of the current economics of producing renewable fuels versus the benefit around kind of mitigation of RINs, in terms of driving the investment in that project?

And then, just on the volume side, I think you mentioned startup in kind of early 2023. But how should we think about timeline to kind of ramp to the, call it just over 2,000 barrel a day number that you referenced in the deck?

William Pate
Carly, this is Bill. I would say, first of all, that we look at this as an availability project, not a project where we intend to be producing renewable diesel. It's a relatively small project that really positions us to address LCF credit units if that market starts to run. The capital requirement we're talking about is very low-single digit millions. And we expect to be capable of producing renewable diesel early next year. But again, we're completing this project solely to have the optionality to address LCFS and RINs pricing.

Carly Davenport
Great. Appreciate that color.

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

Matthew Blair
Good morning, everyone. Was hoping you could talk about the air traffic trends in Hawaii. It looks like they're actually trending better than US averages. Just wondering if that's coming through in your jet demand. And then also, would we expect to see that help out your logistics segment?

William Pate
Matt, this is Bill. It actually helps us in a number of different areas, and I'm going to let Matt Vaughn also address some of this on the retail front. But, yes, we are seeing increasing travel in Hawaii. We're starting to see more international travelers, most importantly. And the international travelers tend to stay longer. They travel around more. So, there's more consumption. And frankly, the resorts, I think are hiring more.

So, we're seeing a pickup in jet. I don't know that that's going to have a significant impact on our logistics system at this point, because we're really pretty heavily utilized, and I think the marginal barrel at this point in the state, in terms of jet consumption is an import barrel. So, probably the area where we're going to start to see a benefit here, I think is on the retail front.

Matt, did you want to address that?

Matt Vaughn
Yes, this is Matt. I think that's correct. So far, as of the end of April, inbound flights from Japan to Oahu are up about seven times compared to where they were in April of 2021. That will impact both flights into the island, jet consumption, as well as volume that we derive from the retail stores as well.

Will Monteleone
Matt, this is Will. Just to give you a sense, I think, the aggregate volumes in Hawaii still hadn't fully rebounded to pre-pandemic levels on the fuel volume side in that market. And again, I think probably we're seeing it at 90% of pre-pandemic levels. And, again, I think the last leg there is, is ultimately international travel, and then employment as Bill referenced in Oahu principally.

Matthew Blair
Sounds good. And then, could you provide an update on any potential monetization of the Laramie asset, just given the strong earnings it’s been putting up?

Will Monteleone
Yes, Matt. I think we're evaluating our strategic options for Laramie as we speak, and I think with natural gas prices materially improving and fundamentals, they are really driving a growing set of alternatives for us to consider. So, I mean, I think we're evaluating everything from a sale of Laramie, to ultimately steps Laramie can take to simplify its capital structure so profits can be distributed on an annual basis. But again, that business and the fundamentals and its leverage are improving markedly.

Matthew Blair
Sounds good. Thank you.

Operator
The next question is from Alejandra Magana of JP Morgan. Please go ahead.

Alejandra Magana
Hi, this is Alejandra Magana. I'm covering for Phil Gresh. Assuming that cash flow materially steps up in the second quarter with stronger cracks and no maintenance, how do you think about buybacks versus debt reduction?

William Pate
Alejandra, this is Bill. Our priorities really haven't changed, and certainly our highest priorities just will be funding the growth of our business, whether it be expanding our refining and logistics capability, or increasing our retail store base. Capital requirements necessarily really require us to focus on reducing our cost of capital. And I continue to believe that reducing our debt has the most significant impact.

As Will noted, we have also opportunistically repurchased our equity when it's attractive, and we will continue to assess the market and act accordingly.

Alejandra Magana
Got it. Thanks for that. And my second question is, in the stronger environment we're seeing today, are there any projects that you would consider accelerating, particularly around some of the energy transition opportunities that you've talked about?

William Pate
A number of the energy transition projects we're working on require either government support or work with the government, and the government doesn't really respond to a changing market environment. So, I don't think any of our energy transition projects will be accelerated. For example, the hydrogen project

in Washington is really going to be a function of federal funds and support for a regional hydrogen hub that will be pursued in conjunction with local partners.

The reality is, coming out of turnarounds, we have our refineries running. We think we can generate a fair amount of cash flow. We'll be using that to simplify our capital structure and build up our balance sheet.

Alejandra Magana
Got it, Thanks.

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

Jason Gabelman
Yes, hi. How’s it going? I have a couple of questions. The first one, just trying to understand the net impact of rising prices on the business. You noted a price lag in Hawaii, but then there are these offsetting inventory benefits. So, how do you think about the net impact of rising prices to the business, if there is one at all?

Will Monteleone
Yes, I think it's probably about $10 million, Jason, of impact in the quarter approximately. And again, that's, again, the price lag impacts that we referenced in Hawaii. And then, in addition, asphalt impacts in Washington, again, offset with the inventory benefits in Wyoming and Hawaii, also. So, again, I think that's probably the best way to think about it, net for the quarter.

Jason Gabelman
Got it. And then my other one, just going back to uses of cash. I guess, it sounds like the last quarter, you were kind of discussing how you were comfortable with the balance sheet. Now it sounds like maybe you want to pay down more debt. Can you just clarify those statements? And then kind of connected to that, there's obviously a large seller in the market that's probably putting some pressure on your share price, and just given the outlook that you're going to be generating a lot of cash here over the next couple of quarters, is there any engagement to try and remove that overhang? Thanks.

William Pate
Well, I don't think it'd be appropriate to comment on the recent sales of a major investor, but just think about the market context in general. We did repurchase some equity last quarter, with even the liquidity we generated over the last couple of quarters. We do continue to believe that our debt is high cost debt. And so, we'd like to take that out. We think that's going to be accretive as well. And so, we think that reducing our debt will ultimately allow us to access the credit markets on a, let's just say a lower cost basis. And I think reducing your cost of debt should eventually impact our share price in a favorable way as well.

So, I mean, I hate to say this, it's a little bit of all of the above, depending on the market context. When available, we do expect to generate liquidity. We also have to keep in mind that we have these RINs obligations, and we're in this morass with the EPA. And we want to take that into account when we think about appropriate level of liquidity as well.

Jason Gabelman
Got it. Thanks for the answers.

Operator
The next question is from Andrew Shapiro of Lawndale Capital. Please go ahead.

Andrew Shapiro
Yes, hi, good morning. Just a quick question, and I don't know if it's the year end number or it's the current number. But what's the tax NOL at, and about how much a year is now expiring?

Will Monteleone
Hi, Andrew. It's Will. The current balance is about $1.6 billion. And ultimately, I think the expiries don't begin until the 2027 and beyond timeframe. So, no current period expiries that we're concerned about. And again, I think we are confident we're able to manage the NOL balance to shield cash flows and profits going forward.

Andrew Shapiro
Oh, sure. And in the event, you were to sell off Laramie, and it would have a sizable gain, does the way it work is that that gain would then chew up the 2027 expiries, the 2028, the 2029, in other words, the nearest term expiries would get used up, and there would be even less risk of the loss of the rest of the NOL.

Will Monteleone
I think, Andrew, we're just getting into the specifics of sort of the NOL balances. I think what we'd say is, to the extent we have any gain on a potential Laramie sale, I think we could conduct it in a tax efficient manner. And so, again, I think we have the ability to utilize NOLs on a go-forward basis.

William Pate
I'd also just say, Andrew, based on our outlook for the business, we really don't see NOLs expiring. We anticipate that we'll be using those tax attributes to offset profits.

Andrew Shapiro
Yes, okay, great. Thank you.

Operator
The next question is a follow-up from Matthew Blair of Tudor, Pickering, Holt. Please go ahead.

Matthew Blair
Hi, thank you for taking my follow-up here. I think it's probably for Will. Did you mention that the Q2 hedging at 25% to 30% in Hawaii at this $14.25 strike; is that correct? And then, is there like a mark-to-market, a negative mark-to-market that we should be thinking about so far in Q2 on that?

Will Monteleone
Matt, you have the numbers correct, 25% to 30% of the sales at the $14.25 level. And again, I can follow up with you offline, but I think, ultimately, you can take our typical sales volume, and I think input what average price you want to use for the 312 to calculate the mark-to-market. It's moving quickly by the day, so I think we were trying to give a number that helps people create their own sensitivities around that.

Matthew Blair
Got it. Thank you.

CONCLUSION

Operator

This concludes our question and answer session. I would like to turn the conference back over to William Pate for closing remarks.

William Pate
Thank you, operator. I want to thank all of you for joining us today. We're pleased to have all of our units up with recently completed turnarounds and no major outages. And as we enter this favorable market for our refined products with growing liquidity and profitability, we think we have a bright near-term outlook. Have a good day.

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