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Par Pacific Holdings, Inc. (PARR)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Par Pacific Holdings Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. A 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, Ashimi Patel, Manager, Investor Relations for Par Pacific Holdings. Thank you. Ms. Patel, you may begin.

Ashimi Patel
Manager-Investor Relations, Par Pacific Holdings, Inc.

Thank you, Melissa. Welcome to Par Pacific's second quarter earnings conference call. Joining me today are William Pate, President and Chief Executive Officer; Will Monteleone, Chief Financial Officer; and Joseph Israel, President and Chief Executive Officer of Par Petroleum.

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're 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 C. Pate

President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

Thank you, Ashimi. Good morning and welcome to all of our conference call participants.

The COVID pandemic has brought serious challenges to almost every person in the world. Like many industries, the energy sector has been hit pretty hard. And furthermore, the pandemic has impacted Hawaii's economy more than most regions, given the high reliance on air travel and tourism.

While our geographic diversity and vertical integration has helped to offset the unprecedented impact on our operations in Hawaii, our second quarter results reflect difficult market condition. During the second quarter, we reported negative adjusted EBITDA of $50 million and an adjusted net loss of $1.70 per share. These results were driven principally by losses in our Hawaii Refining unit, which had negative adjusted EBITDA of $70 million due to low throughput and negative realized gross margins.

In response to weak demand, global refining throughput has been cut to near minimum rates and yet supply continues to outpace demand for refined products, resulting in some of the most significant inventory builds in history. For this same reason, many refineries in the US and elsewhere have permanently shut their operations, which is promising for well-positioned refineries like ours.

With the virtual halt of commercial air traffic, jet fuel demand has dropped to record lows. Refiners are dropping all possible jet into diesel. Consequently, distillate inventories are currently at the highest level in 40 years. Finally, restrictions on mobility have greatly reduced the gasoline demand. Rising case levels in major demand areas in the US, like Texas and California, have stifled the increase from the partial re-openings that had taken place in the early part of the summer.

On the crude supply side, both inland and waterborne crude differentials experienced extreme volatility. While crude differentials initially widened to reflect a surplus of crude oil, this trend reversed rapidly as other factors tightened the physical market.

Taking all of these circumstances together, Refining margins have dropped to historic lows and have persisted at unprofitable levels for most refineries. While challenges remain, we believe the worst is behind us. Crude diffs and product cracks have modestly improved when compared to the prior quarter and refined product inventories have begun to decline. We also have several contracts with improved terms in Hawaii, which will significantly improve our capture going forward. An increase in air travel to the state will also help the utilization and profitability of our Hawaii Logistics network.

And finally, I'd like to note we're very pleased with the financial results of our Retail business, which reported record adjusted EBITDA of $19 million despite a decline in fuel demand. The diversification afforded by our Retail unit is most evident in economic downturns like the present.

Throughout this period, we have concentrated on those aspects of our business under our control, making structural improvements so that we will emerge from this environment with a stronger high cash flow enterprise. In the next nine months, we remain focused on completing three major turnarounds. We're confident that we have very strong franchises in our local market and there's no better time to refurbish our valuable Refining network than in a weak market with minimal lost opportunity.

Despite the second quarter losses, we entered these turnarounds having increased our liquidity by 49% or nearly $70 million during the quarter. We remain cautious in how we operate our business. A quick resumption in the economy seems unlikely. Therefore, we have identified additional cost cuts to manage effectively during an extended pandemic and to position us to thrive when economic activity is fully resumed.

Before turning the call over to Joseph to review our operations, I want to thank our employees for their dedication and for continuing to execute safely and efficiently. Joseph, the floor is yours.

Joseph Israel

President, Chief Executive Officer & Director-Par Petroleum, LLC, Par Pacific Holdings, Inc.

Thank you, Bill, and good morning, everyone. In the second quarter, our system operated safely and efficiently to meet the customers' demand and mitigate COVID-19 market headwinds. Our refineries are well tuned to produce what the market needs and our cost structure continues to reflect strong reliability and cost control by our team.

In the second quarter, our Refining segment operating expense for the three refineries combined was approximately $9 million or 16% under our average 2019 quarterly expenses.

Starting with Wyoming, our second quarter refinery throughput averaged approximately 13,000 barrels per day. Our 3-2-1 Index for the second quarter was $17.39 per barrel and our realized adjusted gross margin was $6.22 per barrel. Our capture in Wyoming was negatively impacted by product pricing in Rapid City and the elevated crude diffs early in the quarter when oil price couldn't support production. On the other hand, FIFO increased total margin capture in Wyoming by approximately $3.70 per barrel. Our second quarter production cost in Wyoming were $7.72 per barrel.

Improved gasoline demand with a challenged distillate market in the Rocky Mountains has supported Refining utilization increase in PADD IV up to 87% in July, well below the 100% in July of last year. So far in the quarter, the 3-2-1 Index has averaged just under $21 per barrel. Our 45 days turnaround in Wyoming is scheduled to start in mid-September per plan. This is a five-year cycle major turnaround and our team is well prepared to execute the scope. Our target throughput for the third quarter, including the turnaround impact, is in the 13,000 to 14,000 barrels per day range.

In Washington, our second quarter refinery throughput averaged approximately 36,000 barrels per day. Our second quarter throughput implies a relatively strong 85% utilized capacity compared to the 62% average for PADD V refineries. Our yields and the integrated marketing presence in the Tacoma niche market have allowed us to maintain close to normal operations with minimum COVID-19 demand impact. Our second quarter Pacific Northwest 5-2-2-1 Index was $11.92 per barrel on ANS basis and realized adjusted gross margin was $3.78 per barrel. Production costs were $3.76 per barrel. Demand for jet fuel and diesel continues to be weak in the West Coast market and with the gasoline demand slowly improving, our Pacific Northwest 5-2-2-1 index has averaged just under $10.50 per barrel so far in the third quarter. Asphalt demand continues to be stable and our target refinery throughput for the third quarter is approximately 40,000 barrels per day.

In Hawaii, our second quarter refinery throughout was approximately 67,000 barrels per day. Singapore product crack spreads have been extremely weak through this pandemic and our 3-1-2 Singapore Index was a negative $0.14 per barrel on a Brent basis. Our second quarter crude oil differentials were $5.67 per barrel premium to Brent and our realized adjusted gross margin in Hawaii was a negative $6.96 per barrel. Production costs were $4.45 per barrel. Our 30 days turnaround in Hawaii has started over the weekend and our team is well prepared for this four-year cycle major turnaround with the planned contractors, equipment and catalyst onsite.

So far in the third quarter, demand for jet and gasoline in Hawaii has slightly improved to approximately 30% and 80%, respectively, of pre-COVID-19 demand level. Our 3-1-2 Singapore Index has improved to approximately $3 per barrel and our third quarter crude differentials are expected to improve to approximately $1.88 per barrel, driven by global oil dynamics and the more favorable market structure and shipping rates.

As a reminder, our crude differential estimates are based on our latest sales estimates, run plans, crude commitments and the implied costing. Target throughput in Hawaii for the quarter, including the turnaround impact, is approximately 60,000 barrels per day.

In summary, these days we remain focused on our employees, community and customer safety as we all navigate through COVID-19. In addition, we are all focused on a safe and efficient execution of our turnarounds in Hawaii and Wyoming. We have successfully matched our operations to meet demand with maximum efficiency and we remain optimistic and excited about our future as a strong and competitive system.

And now I will turn the call over to Will to review our financial results.

William Monteleone

Chief Financial Officer & Director, Par Pacific Holdings, Inc.

Thank you, Joseph. Second quarter adjusted EBITDA and adjusted earnings were a loss of $50 million and $91 million or $1.70 per fully diluted share. Focusing on accounting items first, Wyoming Refining results include an approximate $3 million FIFO accounting benefit. In addition, solely impacting GAAP net income was the reversal of a non-cash lower of cost or market charge of approximately $158 million.

Shifting to segment results. Retail segment adjusted EBITDA contribution was $19 million, driven by increased fuel margins and steady merchandise margins, exceeding our prior record quarter by approximately $2 million. Same-store sales fuel volumes were down roughly 30% while merchandise sales were up approximately 1% compared to the second quarter of 2019. Gasoline demand has rebounded to approximately 80% of prior year from the April trough in the 50% range. Our merchandise sales have been much stronger as customers turned to our stores at times when social distancing measures make larger format retail location more cumbersome to access.

The Logistics segment adjusted EBITDA contribution was $12 million, down $7 million from the 2019 quarterly average, with reduced throughput in Hawaii causing most of this decline. Washington and Wyoming locations performed in line with throughput and sales.

The Refining segment reported a segment adjusted EBITDA loss of $72 million. Hawaii results reflect the impact of elevated crude differentials paired with record low crack spreads. Q2 Hawaii crude differentials declined from Q1 peaks, however, FIFO accounting and a slowing sales profile increased the weighting of higher cost crude procured before the pandemic versus cheaper crude procured after the pandemic. As we look forward to the third quarter while we expect to lose approximately 30 days of manufacturing activity due to the turnaround, our storage flexibility and make-up capacity allow us to partially mitigate lost manufacturing gross margin. Washington and Wyoming contributions were both close to breakeven for the quarter.

Laramie generated adjusted EBITDAX of $5 million and a net loss of $14 million for the second quarter. Net to our interest, Laramie's results reduced our adjusted earnings by $2 million.

Moving to the capital structure and liquidity front. Our ending liquidity totaled $204 million, made up of $143 million in cash and $61 million in availability. The increase in liquidity reflects the completion of the senior secured notes offering conducted in May, partially offset by the net cash consumed after pay-down of working capital facility.

We generated cash from operations of $19 million, which included about $5 million of turnaround outlays. Working capital was a source of funds, excluding non-cash impacts from intermediation revaluations and was principally used to reduce the deferred payment facility balance by approximately $20 million. Capital expenditures and turnaround outlays totaled approximately $20 million and accrued cash interest equaled about $14 million.

We made good progress on achieving our cost reduction objectives. We reduced operating expenses and Logistics cost of goods sold during the quarter by approximately $50 million on an annual run rate basis. With additional reductions identified, we expect our capital expenditures and turnaround outlays to be on the lower end of our previously provided range of $95 million to $110 million.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Neil Mehta with Goldman Sachs. Please proceed with your question.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

Great. Can you guys hear me okay?

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Yes. Good morning, Neil.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

Good morning. Well, first question is around Hawaii not surprisingly. And obviously, very challenging results in the second quarter, consistent with the economic environment and the crude differentials. So, maybe you could start off by talking about how you think about the pace of recovery? And when we talk about recovery, the demand side but also the margin side. And then related to that, if you could also make some comments about capacity and whether you think you need to right-size the Hawaii business or you think you have the business at right scale for the long term?

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Sure. Let me start by saying that I think the issues that we're dealing with in Hawaii relate principally to crack, which obviously relates to contracts as well more so than volume. Volume, obviously helps. As I mentioned, some resumption in air travel would actually help our Logistics network. It probably wouldn't have a significant impact on our Refining business with the shutdown of Par West. We have the flexibility to run that crude unit when the demand for jet fuel is high. But in the current environment with the shutdown of that unit, we can actually run quite efficiently with our existing units. And so, then the question really becomes when do cracks come back. We took the perspective and continue to believe that the cracks are going to be determined largely by global inventories and, given the pandemic, you can't wait for that to happen. So, we have been working aggressively with our customers and the community. And as contracts have rolled over, we've been working with our customers to improve the economics associated with our sales to ensure that we get additional profitability even without a resumption in cracks. And I think the worst is behind us.

The other advantage that I think we're going to see is diffs have actually – they were very high at the beginning of the year going into the calendar year because of IMO 2020. As Will noted, when the sales slowed down, we were essentially consuming on a FIFO basis some higher cost crude. That's largely behind us. As Joseph noticed, there are diffs that have improved materially from Q2 over Q1 and, of course, from Q3 over Q2 and so I think that's going to help us as well.

And then in terms of capacity, let me just address that quickly. I mean, I think I've already answered it. But with the two crude units, our ability to restart the West unit if capacity ramps up is there, but I would point out that the real determination for the restart of the crude unit is going to be economic, which is going to relate to the cracks and the environment.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

That's very clear, Bill. Thank you for those comments. The follow-up is just on the Retail side. You had a great quarter there for whatever [indiscernible] (19:47) we think the Retail business is worth $8 a share [indiscernible] (19:51) stock is trading below that, which might represent – highlight just the value of your stock at these levels. But how do you think about unlocking the value of Retail? And is there anything you can do to continue to highlight and illuminate the value there because it's a large driver of the business? Some people often think of US Refining first and Retail second and there is a lot of value?

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Yeah. We continue to believe as a operator of downstream systems in niche market that it's very important to be integrated. And certainly, the profitability of our Retail business was very strong in the second quarter. Not just in Hawaii, we also had good profitability in the Pacific Northwest. And as we grow our business, we want to grow our Retail business in line with it. But with the trailing EBITDA that's north of $65 million, we have a very strong franchise, and we believe that that franchise is a significant contributor of free cash flow to our overall enterprise. So, for us, we think the value really will be realized as the free cash flow of enterprise is recognized. And I think that the key is going to be getting through these turnarounds and ultimately a resumption of the global economy. And with that in hand, I don't know why we shouldn't be a significant producer of free cash flow.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

Thanks, guys. Appreciate it.

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Yeah.

Operator: Thank you. Our next question comes from the line of Matthew Blair with Tudor Pickering Holt. Please proceed with your question.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc. Q

Hey, good morning, Bill and Will. Can you guys hear me okay?

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc. A

Yes.

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc. A

Good morning, Matt.

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc. A

Clearly.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc. Q

Great. Great. So, it seems some refinery closures in the West Coast and the Rockies, I was hoping you could just provide your perspective on how that might impact supply demand fundamentals both in the short term as well as the long term for your markets?

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc. A

Yeah. I mean, if you think about it, we've had two refineries that have closed in the last six months because even though the Dickinson Refinery was announced several years ago, I think the actual closure took place this spring. And then, obviously, Cheyenne had their last crude running through I think in the last 10 days. So that will have an impact on our Wyoming operations. We haven't seen that yet. And frankly, the shutdown of those refineries in the near term is probably not going to have a significant impact because the decline in demand overall nationally has a much more significant impact than the shutdown on those refineries. And I think you've seen the same thing on the West Coast.

Martinez has been down for a while. Marathon's announcement that that's going to be converted to an RD facility and will no longer be producing carbon-based fuels. I think that was already baked into the market. People have always said that the West Coast is 1 to 1.5 refineries long and I think this just reflects that. But I think when you'll see it is in the long term as demand picks up and in particular as the export opportunities on the West Coast pick up, namely South America, you're going to see more of a draw and I think you're just going to have more tightness on the West Coast market.

I don't know if you'd have anything to that, Joseph?

Joseph Israel
President, Chief Executive Officer & Director-Par Petroleum, LLC, Par Pacific Holdings, Inc. A

No. I think Bill is right. Long term impact for the industry. Short term, we will be patient waiting for the demand to come back.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Sounds good. And then just to recap on the crude differential at Hawaii. So, the third quarter, was your guidance $1.88 benefit and do you have any, I guess, early indication on what the fourth quarter might look like?

Joseph Israel
President, Chief Executive Officer & Director-Par Petroleum, LLC, Par Pacific Holdings, Inc.

A

Yeah. $1.88 is our guidance for the third quarter and we don't give a fourth quarter estimate, at this point, the market is so volatile and many things can change as we purchase our crude. So, we find it's premature.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Got it. Okay. Thank you very much.

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Thank you, Matthew.

Operator: Thank you. Our next question comes from line of Brad Heffern with RBC Capital Markets. Please proceed with your question.

Brad Heffern
Analyst, RBC Capital Markets LLC

Q

Hey. Good morning, everyone. Thanks for taking my questions.

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Good morning, Brad.

Brad Heffern
Analyst, RBC Capital Markets LLC

Q

So I was curious about some of the comments made on the contract. So I think in the past you talked about having the $1 per barrel Hawaii improvement this year. Obviously, that goal was set in a very different environment. But I'm just curious if what you're getting on the contract front is sort of over and above that prior target that you had?

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

It's a component of prior target, but I think our forecast is substantially more than $1 at this point. It really started with contracts that were rolling over on June 30. There are more contracts that have amended terms that become effective in July and late August and I think for Q4 we'll have the full impact of those contracts helping our business.

Brad Heffern
Analyst, RBC Capital Markets LLC

Q

Okay. Got it. And then just on the liquidity front, obviously, you guys did the debt offering and liquidity looks good right now. I'm just curious if we are in a significantly prolonged downturn, what are some of the other levers that you could pull that maybe wouldn't be obvious to us.

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Hey Brad, this is Will. I think the most evident one or most attractive asset that we hold is probably the real estate underlying a handful of our locations in Hawaii. So, I think that's an unencumbered asset that we hold up at the parent company level that we could monetize. We do have some debt on that at the parent company level, but believe that that's an attractive real estate portfolio.

Brad Heffern
Analyst, RBC Capital Markets LLC

Q

Okay. Got it. Thank you.

Operator: Thank you. Our next question comes from the line of Manav Gupta with Credit Suisse. Please proceed with your question.

Manav Gupta
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey guys. On the Retail front, you had a good 2Q. I'm just trying to understand between July and August, has that trend continued both on the fuel side and the merchandise side, or has there any been rate of change versus 2Q in terms of Retail segment.

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Yes, Manav. I'd say that Retail demand bottomed in April and then it gradually picked up almost on a linear basis week-by-week from the bottoming at the end of April. At this point, in Hawaii, demand is about 80% of the prior year and in Spokane, demand is closer to 90% of the prior year in terms of fuel sale. Merchandise in both cases is above our budget and at this point kind of above prior year. So, we're seeing very strong store traffic. We're still seeing some reduction in demand. I don't really expect the demand to change dramatically from here and, needless to say, margins were very strong when crude prices declined with the lag there, and those have firmed up some. But it continues to be a very strong and profitable business segment for us.

Manav Gupta
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you. A quick follow-up on the Logistics side. Given all the turnaround activity and lower throughput, should we assume 3Q earnings mirror something closer to the 2Q earnings or it should be more comparable to last year?

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Yeah, Manav. I think it's going to be tied closely to throughput. But as you heard in Joseph's guidance, in Hawaii, where it's 60,000 barrels a day throughput and then again very modest impact in Wyoming with a small part of the quarter being impacted by the turnaround activity. So I think you've got a pretty good proxy for what the Logistics segment looks like with lower throughputs with our second quarter results.

Manav Gupta
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you for taking my questions.

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Thank you.

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Thank you.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Jason Gabelman with Cowen & Company. Please proceed with your question.

Jason Gabelman
Analyst, Cowen & Co. LLC

Q

Hey morning. I wanted to ask about the working capital impact from the quarter. It seemed like that helps cash flow. Can you just disclose what that amount was and is that kind of now a sustainable amount or if there's going to be some volatility where that could reverse going forward? And I have a follow-up. Thanks.

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Sure. So, just to remind you, although the cash flow from operating sections of cash flow statement got roughly $20 million of outflow that I referenced in my prepared remarks in the financing section of the cash flow statement. So, that's one component piece that's related to the changes in working capital. I think if you looked at the aggregate change in working capital netting down all the LCM charges and all the other impacts of roughly $50 million, a benefit. And again, there's about the $20 million outflow that's there. And in terms of the forward impact, I think difficult to predict the working capital swings, I think with changes in price and refined product builds and draws.

Jason Gabelman
Analyst, Cowen & Co. LLC

Q

Yeah. I guess, the absent volatility in crude prices are [indiscernible] (30:25).

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

I don't think we expect it to reverse imminently.

Jason Gabelman
Analyst, Cowen & Co. LLC

Q

Okay. Great. And then just my follow-up on 2021 CapEx. Clearly, this is an elevated year of maintenance. So, I guess, firstly, was there any thoughts around pushing this maintenance out to 2021 to defer some of the spend or did you elect to take maintenance exactly because the way you said on the call the margin environment is weak right now? And then given the high turnaround spend this year, what does that mean for 2021 spending? Does that go back towards more of a run rate sustaining CapEx level? Thanks.

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Yeah. This is Bill. Let me say that, yes, all three turnarounds while the financial issues around it, we probably could defer – certainly could reduce the scope in some cases and reduce the capital. But given the environment and given the opportunity to invest in our refineries at this point, we think that's the right decision to make going forward.

And to your question about 2021, I think coming out of these turnarounds, if anything, CapEx should go down. We have no major capital requirements post these turnarounds. We've invested a fair amount this year in a facility in Tacoma that facilitates the movement of renewable fuels across our dock in Tacoma. With that out of the way, with the turnarounds out of the way, I would think once we complete the Tacoma turnaround early next or late next winter, we should have a considerable period of time when we have high free cash flow.

Jason Gabelman
Analyst, Cowen & Co. LLC

Q

Great. Thanks.

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

Andrew Evan Shapiro
Analyst, Lawndale Capital Management LLC

Q

Hi guys. Pardon me if...

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Hi Andrew.

Andrew Evan Shapiro
Analyst, Lawndale Capital Management LLC

Q

Hi. Pardon me if you mentioned in your prepared comments. I was a little late to the call. Commercial jet fuel demand for you in the Hawaii area, what kind of levels is that at, 50%, 20%, 80%? And similarly where's the military demand, that's probably remained near the same or has it dropped as well?

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

No. Military demand is about the same and military demand in Hawaii is probably 30% of our contractual demand. Overall, in the Hawaii market, the market is running right now at about 30% of pre-pandemic demand and that's up from a bottom when it was – it bottomed at about an 80% decline or 20% of pre-pandemic demand.

Andrew Evan Shapiro
Analyst, Lawndale Capital Management LLC
Q

Okay. And has there been guidance at all from the state authorities as to stages and the timing of reopening things?

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.
A

There has, but it's all dependent on improvements in the case rate. And the case rate has been growing in Hawaii recently. And Andrew, you may have missed this part of the conversation earlier, but the key question for us in Hawaii is really not going to revolve around volumes. With the shutdown of the Par West unit, we really don't need a full resumption of air traffic to generate profitability there. It much more relates to cracks and our contracts with our customers in that market.

Andrew Evan Shapiro
Analyst, Lawndale Capital Management LLC
Q

Okay. Great. Thank you.

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.
A

Thank you.

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.
A

Thank you.

Operator: Thank you. Our next question comes from the line of Patrick Sheffield with Beach Point Capital Management. Please proceed with your question.

Patrick Sheffield
Analyst, Beach Point Capital Management LP
Q

Hey, guys. Thanks. My questions have been answered.

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.
A

Great.

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.
A

Thanks, Patrick.

Operator: Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I'll turn the floor back to Mr. Pate for any final comments.

William C. Pate

President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

Thank you, Melissa. While the market's been difficult over the past few months, I believe we're well-positioned for the future with a diversified business model and we'll generate significant free cash flow once we complete these three upcoming turnarounds and we see an improvement in the global economy. On behalf of our management, our customers and our communities, I also just want to thank our employees for their dedication and hard work. Have a good day.

Operator: Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.