Par Pacific Holdings, Inc.

First Quarter 2023 Earnings

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PRESENTATION

Operator
Good day, and welcome to the Par Pacific First Quarter 2023 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 telephone keypad. To withdraw your question, please press star then two. Please note, today's event is being recorded.

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

Ashimi Patel
Thank you, Rocco. Welcome to Par Pacific's First Quarter Earnings Conference Call. Joining me today are William Pate, Chief Executive Officer; Will Monteleone, President; Shawn Flores, SVP and Chief Financial Officer and Richard Creamer, EVP of Refining and Logistics.

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 Chief Executive Officer, William Pate.

William Pate
Thank you, Ashimi. We are pleased this morning to discuss another quarter of strong performance. Our first quarter adjusted EBITDA was $168 million and adjusted net income was $2.25 per share. These results bring our last 12 month adjusted net income to $10.62 per share. With this quarter's robust earnings, we continue to improve our balance sheet. Shawn will go into our liquidity in more detail, but we ended the quarter with more than $660 million of cash on hand, which exceeds our funded debt for the first time.

Our balance sheet leaves us well positioned to close the acquisition of ExxonMobil's Billings refinery on June 1st. During the next few months, our team will be focused on a successful integration of the Billings assets, including bringing on board the experienced operating team. The refinery has been operating well this year and conditions in the Rockies remain profitable entering the summer season. This transaction will also significantly expand our logistics network in the Rocky Mountain region.

Global product inventories are presently low to well balanced with little sign of significant inventory builds. Asian demand is increasing, due to the reopening of the Chinese economy and increased movement within China, and global air travel continues to increase. Despite these positive factors, global market cracks declined in April due to rising concerns over an economic slowdown, as well as reduced refinery costs related to falling natural gas prices in Europe. With cracks approaching mid-cycle levels, our refineries remain profitable and we're focused on small debottlenecking projects. We see no change in our local demand profiles and these debottlenecks generate significant profitability due to the amount of imported products supplying our markets.

We continue to advance our renewable fuel initiatives and are working diligently on small scale projects that provide maximum flexibility, given uncertainty surrounding feedstock sourcing, government credit pricing and market dynamics. All our projects are designed near our existing locations allowing us to leverage our people, technology and infrastructure. This lowers the cost of these projects and also affords us some ability to flex production in response to changing market conditions.

Last week, we announced further details on our Hawaii sustainable aviation fuel project, which is expected to be commissioned in conjunction with the refinery's 2025 turnaround. This 60 million gallon per year project is forecast to be completed for less than $1.50 per gallon of annual production capacity, including a feedstock pretreatment unit. This is well below cost metrics implied by recent industry renewable fuel projects. The Hawaii project costs are low due to the availability of an underutilized hydrogen unit and established logistics. This unit will also produce low carbon naphtha and LPGs to supply local power plants and other customers seeking to decarbonize the Hawaii energy sector.

We're also working with Hawaii agricultural entities to develop locally grown oilseed crops. In addition, we've received permission to import tariff-free vegetable oils into the foreign-trade zone in which our Hawaii refinery is located.

I will now turn the call over to Will to discuss our commercial and operating performance.

Will Monteleone
Thank you, Bill. The refining and logistics first quarter market backdrop remained seasonally strong. Total refining throughput was 133,000 barrels per day and Hawaii throughput of 76,000 barrels per day was reduced due to downstream unit constraints, which we addressed during an early April outage. We are currently running closer to 86,000 barrels per day. During the quarter our per barrel production costs were $4.54 in Hawaii, $4.25 in Washington and $7.41 in Wyoming.

The first quarter Singapore 3.1.2 index declined approximately $1.60 to $21.22 per barrel. Landed feedstock costs were approximately $7.90 premium to Brent compared to the initially provided estimate of $8 to $8.50. Combining the 3.1.2 and feedstock indexes, the overall margin environment was flat versus the fourth quarter. However, Hawaii adjusted gross margin expanded by nearly $5 per barrel, resulting in a capture of 144% of the combined index. The strong capture was driven by softening backwardation and strong commercial execution.

We recently made changes to our benchmark indices for Washington and Wyoming to reflect local market conditions and enhance historical correlations. In Wyoming, switching to the RVO adjusted US Gulf Coast 3.2.1 index results in a historical capture in the 90% to 115% range. Using the new index, 2022 Wyoming capture was 93% and first quarter capture is 104%, or 111% excluding the impact of a $1.90 per barrel FIFO hit.

In Washington, switching to the RVO adjusted PNW 3.1.1.1, results in historical capture percentages in the 45% to 55% range. 2022 full year capture was 51% and first quarter 2023 capture is 44%. Washington first quarter capture was negatively impacted by narrowing asphalt margins, typical for the winter periods.

Looking ahead to the second quarter, we expect Hawaii to run between 82,000 and 85,000 barrels per day, Washington between 40,000 and 42,000 and Wyoming between 15,000 and 17,000 barrels per day.

Minor planned maintenance at each location is incorporated into these estimates. In total, despite the work we are performing, we expect a throughput midpoint of 140,500 barrels per day, up 6% from the first quarter throughput. In Hawaii, thus far the Q2 Singapore 3.1.2 has averaged $14 per barrel. Over the course of April, the largest factor impacting our market indices has been declining European distillate cracks, while the spread between Singapore and Europe has actually narrowed. Partially offsetting the declining market indices, we expect second quarter average crude to land between $5.50 and $6 versus Brent, an approximate $2 per barrel improvement versus the prior quarter.

The retail segment generated another strong financial quarter with growing fuel volumes and expanding merchandise revenues. First quarter same store sales, fuel and merchandise volumes ramped up nicely growing 7% and 11%, respectively, versus 2022 levels. The integration of our three store acquisition has gone well and construction is on track for our two new to industry sites.

The Billings refinery acquisition remains on track to close on June 1st. While early, we're encouraged by the recent strong operational performance of the Billings refinery. We look forward to working closely with the operating teams and supporting the growth of the Exxon brand across the Rockies. Current market conditions are favorable and supportive of our underwriting assumptions.

In addition to Billings, we are progressing the Hawaii SAF project. We expect strong returns and highlight this as an excellent example of the creativity of our team to redevelop an underutilized part of our refinery. We are working offtake solutions for our low carbon intensity products and are confident in the strong demand for these emerging fuels.

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

Shawn Flores
Thank you, Will. First quarter adjusted EBITDA and adjusted earnings were $168 million and $138 million or $2.25 per share. Net income during the first quarter was $238 million or $3.90 per share. Our first quarter GAAP results include a gain related to the settlement of prior year RINs of $95 million, a positive mark to market adjustment on our estimated RIN obligation of $39 million and a gain related to the cash distribution from our upstream affiliate, Laramie, of $11 million.

The refining segment reported adjusted EBITDA of $153 million in the first quarter, compared to $146 million in the fourth quarter. Refining results include a net price lag benefit of $9 million, and a product crack hedge gain of $4 million in Hawaii, partially offset by a negative FIFO impact of $3 million in Wyoming. We have continued our product crack hedging framework in Hawaii, with approximately 20% of our second quarter sales volumes hedged. At current Singapore cracks, we expect our hedge position to generate a nice tailwind for gross margin capture during the second quarter.

Our logistics segment reported adjusted EBITDA of $18 million for the first quarter, compared to $16 million in the fourth quarter. The sequential improvement was driven by increased product movements in Tacoma and a reduction in maintenance costs in Hawaii.

The retail segment reported adjusted EBITDA of $17 million in the first quarter, compared to $25 million in the fourth quarter. As a reminder, our record retail segment results during the third and fourth quarters last year were supported by a rapidly declining flat price environment for wholesale gasoline and diesel. While street fuel margins moderated during the first quarter as wholesale prices stabilized, our retail network continued to generate profitability in excess of our mid-cycle expectations.

Corporate expenses in adjusted EBITDA were $19 million in the first quarter compared to a quarterly run rate last year of $15 million. First quarter expenses include $1.5 million of non-recurring costs, including consulting engagements and $1 million of research and development related to potential renewable investments. Pro forma for Billings, we expect recurring corporate costs to range between $17 million and $19 million per quarter.

Cash provided by operations during the first quarter totaled $139 million. Net changes in working capital resulted in a $13 million inflow, after excluding mark to market activity related to environmental credits. Cash outflows from investing activities totaled $2 million, with the $11 million cash distribution from Laramie largely offsetting capital expenditures of $13 million. Cash inflows from financing activities totaled $34 million, driven by borrowings on our Washington working capital facility.

Altogether, we ended the first quarter with record liquidity of $750 million, including $661 million in cash and $89 million in availability. In February, we completed a comprehensive refinancing of our term debt with the issuance of a $550 million term loan B. The new seven-year credit facility simplifies our capital structure and is expected to reduce our average cost of term debt by 100 basis points.

In April, we replaced our legacy asset based revolver with a new ABL facility that will expand from $150 million to $600 million in total aggregate commitments at the closing of Billings. With the expanded ABL capacity and over $660 million in cash at the end of the first quarter, our balance sheet is well positioned ahead of the Billings acquisition.

Lastly, with the announcement of the planned renewable fuels investment in Hawaii, we're increasing our 2023 capex guidance by $10 million to a total of $70 million to $80 million for the full year. We expect the balance of the investment of approximately $80 million to be spent throughout 2024 and early 2025.

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

QUESTIONS AND ANSWERS

Operator
Thank you. 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're using a speakerphone, we ask that you please pick up your handset before pressing the keys. To withdraw your question, please press star then two.

Today's first question comes from Matthew Blair with Tudor, Pickering & Holt. Please go ahead.

Matthew Blair
Good morning, Will, Bill and Shawn. I hope you're doing well. I want to follow up on the Hawaii RD and SAF project. Bill, I think you mentioned that you're redeveloping an underutilized part of the refinery. Could you clarify, is this expected to be a standalone RD unit or is this like more of a co-processing arrangement? Is there going to be any impact on the existing petroleum diesel production at the plant?

Then finally, can you talk a little bit about the feedstock mix that you're targeting and if you have any idea on what kind of carbon intensity score you might get for this production?

William Pate
Yeah, sure, Matthew. To be to be very clear, we're taking an existing unit and we'll be adding some components to that unit and converting a distillate hydrotreater into a unit that will process vegetable oil and convert it into renewable fuels, SAF as well as RD. And we can flex back and forth between—principally between those two products depending on the market conditions.

That unit should not create any lost profit opportunity because we think we can divert the high sulfur diesel that's going into that unit today and drop that down and produce more jet. So we shouldn't have a significant change in the overall production of our conventional fuels at the unit. It should be supplemental.

With respect to feedstock, Will, you want to cover our feedstock sources?

Will Monteleone
Sure. So Matt, with respect to feedstock sourcing, I think we've got a range of alternatives for foreign sourced vegetable oils, tallow and then also given our Tacoma logistics footprint, the ability to source inland vegetable oils, fats and other materials there, that would be a good fit for the Hawaii unit. Again, as we referenced, the $90 million project includes pretreatment. Again, our objective is to bring the pretreatment online with the unit simultaneously, which will allow us feedstock flexibility. The CI scores are going to vary quite a bit, depending on the ultimate selection and the economics around the pricing of those feeds.

Matthew Blair
Sounds good. Thanks for all the details. And then what do you think the chances are of a dividend in 2024 after you bring Billings online and integrate the asset or do you think that would be pushed out a little bit further due to the spending on the SAF project?

William Pate
Matthew, I don't think the SAF project will impact our view on capital allocation. It's not significant enough to really change how we think about our balance sheet. But I think the key thing is we want to get through Billings, operate Billings for a period of time, understand what our working capital requirements are at that plant and ensure that we fully integrate it and have a good sense for the profit generation capability of that unit under our leadership. At that point, and only at that point, we start thinking about capital allocation options.

Matthew Blair
Okay, sounds good. Thanks.

Operator
Thank you. Our next question comes from Neil Mehta with Goldman Sachs, please go ahead.

Nicolette Slusser
Hi, good morning and thanks for taking the time. This is Nicolette Slusser on for Neil Mehta. So the first question, just on Singapore margins, was wondering if you could provide any additional insight into the weakness we've been seeing and any additional thoughts as well you can share on the outlook for the remainder of the year.

William Pate
Yeah, Nicolette. It's really since the Ukrainian war started, I think Singapore margins have taken their cue from European margins because I think what happened is building up toward the war, natural gas prices started to go up and the European barrel became the marginal barrel and really set the floor. And you can almost look at Singapore margins, they've actually been relatively stable and if anything, even in the declines in April, they seem to be following the European margin down— the East-West arb. The difference in the— between the price in Singapore and the price in Rotterdam, if anything, it tightened over that timeframe and it's fairly efficient at this point.

And I think, looking forward given where the capacity is coming online, which is largely in the Middle East and then somewhat in the Atlantic basin, I think it's going to continue to be determined by what happens in Europe. We're not seeing major changes in terms of Chinese export activities, which used to be a big factor in Singapore margins. They've been fairly stable. As the demand has picked up, certainly they've added some capacity last— at the last half of last year and a little bit in the early part of this year, but that doesn't seem to be impacting the margins nearly as much as the factors going on in Europe.

And so I think as we think through the remainder of the year, it's largely going to turn on the impact of any global economic slowdown, the impact of natural gas prices and how those affect, in particular, European operating costs and then, where the new production that's coming online in the Middle East goes. Does it go east of Suez or west of Suez? I think that's going to be determined— if you look at pricing today, it's kind of at an indifferent point where the net backs to those are somewhat indifferent between going to Europe and going to Asia.

Nicolette Slusser
Great, thank you for the color, there. Very helpful. And then the follow up is just on the Hawaii capture rate. I think on the quarter, it was mentioned it was closer to 144% or 146%. Can you— is there any way to provide a sense of the splitting and capture improvement from a commercial performance versus the backwardation benefits that you guys saw in the quarter?

Will Monteleone
I think, Nicolette, the right way to think about it is really over the long term. I still think our target there is close to 100% and so again, I think the backwardation benefit in the quarter versus the prior quarter was a significant improvement versus where we were in the fourth quarter.

I think the other factor I'd just point out that is a market force that is impacting our captures is that freight rates for clean products are higher right now. And again, I think you can look at pre, let's just say pre-war, ultimately, you're looking at something that was closer to $4 to $5 per barrel for delivering refined product into the West Coast of the United States and today it's in the $8 to $9 per barrel range. So, again, that is a factor also that is impacting our capture that is market related.

So I think those are the two points I'd make. I still think over the long term 100% is the right target for you to be thinking about.

Shawn Flores
Nicolette, I would point you to the M1-M3 spread that we quote on our website. It improved by $1.10 quarter-to-quarter, which would have benefited Hawaii and then I'd also call out the product crack hedge gain in my prepared remarks was a $4 million benefit this quarter. That was a slight headwind last quarter.

Nicolette Slusser
Very helpful. Thanks so much.

Operator
Thank you. And our next question comes from Ryan Todd with Piper Sandler. Please go ahead.

Ryan Todd
Great, thanks. In advance of the Billings acquisition, can you walk through some of the balance sheet developments you've had? You've got a new upsized ABL. You've got a lot of cash on hand and then you've got the Billings acquisition, which should close over the next month. How will you look to fund the acquisition of the asset and the associated inventory in terms of kind of cash versus credit facility? And how much cash would you like to carry longer term on the balance sheet?

Shawn Flores
Sure. I'll start with the recent ABL refinancing. We've previously had a $142.5 million ABL. We recently took that out with a new $150 million ABL, which will be upsized to $600 million at closing. That's really to cover the Billings inventory and AR. That ABL will also sit on top of Wyoming and our retail business.

And so as we think about sort of Billings funding, on June 1, we have pre-funded the base purchase price of $310 million, up to the $30 million deposit. So we have the remaining $280 million on the base purchase price. We're estimating around 2.5 million barrels of inventory, hydrocarbon inventory, to be purchased at close and ultimately the value will depend on the market value of refined products and crude at that time. But I think the easiest way to think about it is total sort of commitments at June 1 will be in the $550 million range. We're estimating $350 million of cash use and then a $200 million draw on the ABL facility.

Ryan Todd
Great and then maybe this is part of what you had said earlier about wanting to take some time and figure out what the requirements are, but any thoughts in terms of how much cash you'd like to carry longer term on the balance sheet?

Shawn Flores
Yeah, I mean, I think we feel pretty comfortable with our liquidity pro forma Billings. Typically, we would manage liquidity in the $ 200 million to $250 million range pre-Billings. Suspect that will increase as our sort of inventory exposure and sort of aggregate exposure to market pricing increases. So I think more to come on sort of target liquidity levels, but I would just point you to higher than the $200 million to $250 million level that we historically carried.

Ryan Todd
Okay, and then maybe just one on Laramie. You had a decent distribution from Laramie in the quarter. With that business shifting to equity method accounting now, what's the right way to think about contributions or distributions from Laramie going forward?

Shawn Flores
I would expect minimal impact from Laramie based on the current market environment and would suggest that you exclude sort of from your modeling going forward. I think any future cash distributions will be evaluated at year end and potential payouts will likely occur sometime next spring, similar to what just occurred in March of this year.

Ryan Todd
Okay, thank you.

Operator
Thank you. And our next question today comes from John Royall with JPMorgan. Please go ahead.

John Royall
Hi, good morning. Thanks for taking my question. So could you talk about the improvement in the landed crude differential in Hawaii; $2 per barrel is pretty significant. What are the drivers there? Is it anything about shipping costs or local crude diffs or just any color you can provide there will be helpful. Thanks.

Will Monteleone
Sure, John. So keep in mind in Hawaii, the landed crude diff is 60 to 90 days lagged, so when you really think about the Q2 consumption, you're really looking back in the Q1 period. So, again, I think the biggest factor is you saw time spreads, backwardation soften up quite a bit in the Q4, Q1 timeframe. And then I think you also saw FOB crude diffs softened quite a bit, effectively sellers of crude at the load port, ultimately impacting and receiving more of the increased freight costs. So, I think those are the two biggest drivers for the $2 per barrel improvement. It's really just time spreads and softening on load port, discounts on crude.

John Royall

Okay, thank you. And then follow up is on the SAF project and why you have the project at $1.50 per gallon of cost. Is there anything you can provide in terms of expectations and maybe an EBITDA per gallon on a mid-cycle basis or anything on just earnings or cash flows that you would expect once you have the project up and running?

Will Monteleone
Sure, John. So I think based on current market conditions and credit prices and feedstock inputs, I think we'd be looking at something that's close to a 40% IRR for the project. Again, that's part of why we're excited about it and pushing forward with it and think it is a nice supplement to our existing fuels business.

John Royall
Great, thank you very much.

Operator
Thank you. And our next question today comes from Manav Gupta with UBS, please go ahead.

Manav Gupta
Good morning, guys. I think at the beginning of the call, you also highlighted that the Billings transaction is not only about the refinery, it's also about associated logistics infrastructure. Help us slightly better understand once the deal closes, how should we give you the incremental benefit of the logistics assets that are coming in as part of the deal?

Shawn Flores
Yeah, we're estimating $30 million to $35 million of logistics contribution and if you recall, we are acquiring 7 refined product terminals, pipeline infrastructure that feeds into the refinery, as well as a significant tankage position. So it's a nice bolt on addition to our core logistics business. And just sort of a reminder, our sort of base mid-cycle logistics is an $80 million contribution, so this is a material incremental sizing at $30 million to $35 million.

Manav Gupta
Perfect. Also, second question is, you have a little bit of a unique system in your insight into Hawaii market. In your refining and distribution system, help us understand how the demand is tracking for products on a year-over-year basis, because you have such a unique position with the Hawaii market. So if you could elaborate a little on that.

William Pate
Manav, Will can jump in after me and correct it, but generally speaking, on a year-over-year basis, I'd say demand is up. We tend to track first of all just visitor counts and you can see those on a daily basis. And the mainland market came back several years ago and if anything, it's well above 2019, at this point. A lot of the international market ex-Japan came back in the middle of last year and that was really driven by tourists coming in from Southeast Asia and Australia.

The big group that really hasn't come back yet are the Japanese visitors and they're a significant component. They tend to stay longer. They spend more. They drive more. So where we see factors are that Japanese tourist arrival and while it's been trending up, it's still 30% to 40% of pre-pandemic levels. And based on conversations I've had with other participants in the Hawaii economy, I think my view would be it's probably grinding its way back and won't be fully back until the end of this year. Think about the holiday season of this year. And I think that's related as much as anything to activity in Japan and there's also, I think, a factor is the strong dollar, which tends to dissuade Japanese tourists from coming to Hawaii right now.

But our expectations, it will continue to increase and that will continue to drive up demand. Keep in mind at this point, and this has been the case for a year, the demand factors are only driving up the import business because we're really already producing as much as we can from the refinery and every barrel we produce is going into the local market. So our focus has been on getting our throughput up, to increase that throughput, increase the refined products that we're manufacturing and back out some of the imported barrels that we’re bringing in.

Manav Gupta
Thank you for a very detailed response.

Operator
Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star than one.

Today's next question comes from Jason Gabelman with Cowen, please go ahead.

Jason Gabelman
Hey, thanks for taking my questions. I wanted to go back to the kind of crude diff and tanker price dynamics that are going on. You mentioned that the higher product tanker rates can maybe be impactful to your export economics to California. But I guess the question is, I was under the impression that diesel in Hawaii priced on import parity. So I would think the higher rates from a product standpoint are actually a net benefit to the company. So can you just maybe talk about the dynamic and if that logic is flawed.

Will Monteleone
No, Jason, just to clarify, the latter part of your statement was what I was trying to message, which was ultimately that the higher tanker rates are a net positive for our capture in Hawaii given import parity pricing.

Jason Gabelman
All right, great. Thanks for clarifying that. And then, just talking about the tightening backwardation in the crude market and softening crude tanker rates. Do you expect kind of the— that landed crude costs to go back to historical level in the in the second half of the year?

Will Monteleone
Yeah, Jason, I think lots of factors move in the market. Obviously, the OPEC production cut is a factor and then the broader macro conditions, I think are worth warrant. We're following closely. But again, when you think about— ultimately, I think right now, we're seeing some softening on the freight side for crude, which, again, is probably something that will help keep us down in the range that we're at today. And then I think we need to watch the structure, the time spreads, but again, I think we're at a level today where the current or the Q2 range is probably reasonable.

Again, I think you’ve got to watch market conditions. They change quickly, just like cracks do. So I think that's probably the most— the best guidance I can give you at this moment.

Jason Gabelman
Okay, and then lastly, just on the outlook for turnarounds, you guys have done a good job at running units or running the plants to capture high margins this year. As you look beyond this year, when is kind of the next major turnaround that you're eyeing for the company? Thanks,

Will Monteleone
Jason, so I think, again, we've got a clean run in 2023. And again, I think most of the work we're

contemplating is going to be in the 2025 timeframe at this juncture. Again, I think we're still working to firm up some of the schedules and whether there'd be any impact in the second half of ’24. Right now and again, I’d remind you, we’ll come up— we'll come out with a schedule for Billings once we close and give everybody a sense of where the turnaround expectations are there for that unit.

Jason Gabelman
All right. Thanks a lot.

CONCLUSION

Operator
Thank you. Ladies and gentlemen, this concludes our question and answer session. I’d like to turn the conference back over to William Pate for any closing remarks.

William Pate
Thank you, Rocco. I want to thank everyone for joining us this morning. While we have record financial results, we're certainly not standing still. In the next few months, we'll be looking forward to closing the highly accretive Billings acquisition and also breaking ground on our latest renewable fuel project.

Thank you, everybody. Have a good day.

Operator
Thank you. Ladies and gentlemen, this concludes our conference call today. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day