

# **Vertex Energy, Inc. (VTNR) Q1 2024 Earnings Call Transcript**

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**Body**

Vertex Energy, Inc. (VTNR)

Q1 2024 Earnings Conference Call

May 9, 2024 9:00 AM ET

Company Participants

Chris Delange – Investor Relations Coordinator

Ben Cowart – Chairman and Chief Executive Officer

James Rhame – Chief Operating Officer

Chris Carlson – Chief Financial Officer

Doug Haugh – Chief Commercial Officer

Conference Call Participants

Noah Kaye – Oppenheimer

Sameer Joshi – Wainwright

Eric Stine – Craig-Hallum

Donovan Schafer – Northland Capital Markets

Saumya Jain – UBS

Brian Butler – Stifel

Jason Gabelman – TD Cowen

Presentation

Operator

Hello everyone, and welcome to Vertex Energy, Incorporated First Quarter 2024 Earnings Conference Call. Please note that this call is being recorded. [Operator Instructions] Thank you.

I'd like to turn the call over to Chris Delange [ph], Investor Relations Coordinator. You may now begin the conference.

Chris Delange

Thank you, operator. Good morning, everyone, and welcome to Vertex Energy's first quarter 2024 conference call. On the call today are Chairman and CEO, Ben Cowart; Chief Financial Officer, Chris Carlson; Chief Operating Officer, James Rhame; Chief Strategy Officer, Alvaro Ruiz; and Chief Commercial Officer, Doug Haugh.

I want to remind you that management's commentary and responses to questions on today's conference call may include forward-looking statements, which by their nature are uncertain and outside of the company's control. Although these forward-looking statements are based on management's current expectations and beliefs, actual results may differ materially.

For a discussion of some of the risk factors that could cause actual results to differ, please refer to the Risk Factors section of Vertex Energy's latest annual and quarterly filings with the SEC. Additionally, please note that you can find reconciliations of historical non-GAAP financial measures discussed during our call and the press release issued today.

Today's call will begin with remarks from Ben Cowart, followed by an operational review from James Rhame, financial review from Chris Carlson, and a review of our commercial strategy by Doug Haugh. At the conclusion of these prepared remarks, we will open the line for questions.

With that, I'll turn the call over to Ben.

Ben Cowart

Thank you, Chris, and good morning to those joining us on the call today. We had better-than-expected operational results as we maintained our commitment to operating safely and reliably. From a financial perspective, the first quarter saw significant improvements supported by improved crack spreads.

We generated almost $20 million in adjusted EBITDA, an increase of over $50 million quarter-over-quarter. Additionally, we saw conventional throughput above our guidance and managed direct operating costs and capital expenditures below our guidance.

Over the past few years, we have made material advancements and strategic decisions to grow Vertex. For the past two years we have operated safely and reliably while investing capital into upgrading the Mobile Refinery. We built in flexibility in our capital spend to allow us to redeploy our renewable equipment back into conventional production if our strategy required adjustment. Due to the significant macroeconomic headwinds for renewables over the past 12 months, many of which we believe will continue to occur over the next 18 months and beyond, we have decided to strategically pause our renewable diesel business and pivot to producing conventional fuels from the hydrocracker unit.

We plan to reconfigure the hydrocracker in conjunction with a planned turnaround on the unit. When modeling the unit in conventional service against first quarter 2024 historical data, we estimate the unit could have significantly improved our results providing an additional fuel gross margin contribution of roughly $40 million on conventional fuels.

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On the call today, the team and I plan to update you on the financial and operating results for the first quarter of 2024 and go into our plans around the renewable business pause and pivot. I want to start by thanking my team, all the employees listening on the call today for the good work they have accomplished thus far in 2024.

As James will note shortly, our safety track record is commendable and we have more work ahead of us to convert to all conventional feedstock, which we want to do safely because our people are our most valuable asset.

With that, I'll now hand the call over to James.

James Rhame

Thank you, Ben. Good morning, everyone. We continue to believe that our people and their safety are of the utmost importance, which is why I like to start talking about our health, safety and environmental performance. We're proud to say that in the first quarter of 2024 was another clean quarter with zero OSHA recordable injuries. In fact, we've now operated for two years at the Mobile site without a recordable injury.

We did have one minor environmental non-compliance at the Mobile site associated with the planned small unit turnaround executed during the first quarter. Additionally, Mobile saw zero process safety events, continuing its streak of outstanding HSE performance at the site. I want to commend our employees at every location for continually prioritizing the safety-first mentality of our entire organization.

The effort and care for each other seen across the entire business is a testament to the dedication of both employees and contract partners working within our facility. Our legacy operations overall had a good quarter with Marrero performing better than budget on volume and margin. This is an accomplishment of continuous improvement in operating performance by the Marrero team.

Our team at the Mobile site demonstrated strong operational performance at the conventional facility during the quarter with average throughput volumes of 64,065 barrels per day for capacity utilization of 85% which was above the high end of our guidance of 63,000 barrels per day. The higher volumes compared to guidance are primarily due to stronger capacity utilization and getting accrued unit back from cleaning ahead of schedule.

Total OpEx per barrel for the first quarter was also below the low end of our prior guidance at $4.10 per barrel and reflects the increasing cost efficiency gained from smooth operations, which more than offset the inflationary impact of lower throughput volumes on a cost per barrel basis. Our conventional fuels gross margin per barrel during the quarter rose significantly to $12.63 compared to $4.79 in the fourth quarter. Our finished products such as gasoline, diesel and jet fuel accounted for 64% of our total product yield during the first quarter of 2024 in line with our previous guidance.

In the first quarter, we had a planned small turnaround of one of the reformers and a pit stop of the number one crew unit in March. Following these successful maintenance events in March, the Mobile facility is poised to operate at full rates during the second and third quarters, coincided with an expected rise in demand over the driving season.

Now turning to our renewable fuels business, Vertex renewable diesel plant operated smoothly, generating total renewable fuels gross margin per barrel at $10.29 for the quarter. Our renewables throughput volumes average 4,090 barrels per day for a capacity utilization of 51%, in line with our recently updated guidance.

During the second quarter of 2024, in line with our pause and pivot strategy, we are pausing renewables fuels production and redirecting the hydrocracking unit to conventional fuels and products. We had a previously planned catalyst and maintenance turnaround scheduled again later this year for our renewables business. We will now use the planned turnaround to load a conventional catalyst and transition the unit back to conventional fuel service.

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This hydrocracker unit is one of the most valuable physical assets and we have retained the full optionality of this unit through engineering efforts in conjunction with the additional capital investments made. There will be a transition period as we can reconfigure the unit and prepare it to run conventional feedstock. We are targeting startup conventional service prior to the end of the year. Following the unit startup, we expect to utilize it to further refine our existing VGO stream to an upgraded conventional product. We are optimistic that the timing of the unit coming on stream will benefit from seasonal market shifts where typically gasoline prices dip during the winter while deals diesel season premium due to increased heating level demand.

We'll continue to watch closely as we work through this process. I will now turn the call over to Chief Financial Officer, Chris Carlson for a review of the company's financial results and additional detail regarding our financial and operating outlook for the second quarter 2024.

Chris Carlson

Thank you, James, and welcome to those joining us on the call today. Our focus continues to be on managing our balance sheet and liquidity. As Ben and James have outlined, our strategic decision to pause and pivot RD production is aimed at significantly enhancing this effort over the near-term by stopping losses associated with renewable diesel production and adding available margin through upgrading VGO to a higher margin conventional product. We anticipate based on near and midterm macro pricing that we will be able to materially generate additional cash flow, allowing us greater financial flexibility and improving our balance sheet.

Turning now to our financial results. We were very pleased to see improvement across the board driven by stronger crack spreads. Vertex reported net loss attributable to the company of $17.7 million for the first quarter of 2024. This compares to a net loss of $63.9 million in the fourth quarter of 2023. We saw a $53 million improvement in our total adjusted EBITDA from a loss of $35.1 million in the fourth quarter to $18.6 million for the first quarter of 2024.

During the quarter, we incurred a $15 million impact in cash flows, mostly as a result of the CapEx of $15 million spent during the quarter. We saw a decrease in cash from operating activities offset by an increase in financing activities. Total capital expenditures for the first quarter 2024 were $15 million, 29% below our prior guidance issued on February 28th, reflecting a deliberate preservation of capital achieved via a deferral of certain discretionary capital expenditures. This primarily includes a realignment of planned capital expense for the renewables business.

Turning to the balance sheet. As of March 31, 2024, the company had total cash and equivalents, including restricted cash of $65.7 million and total net debt outstanding of $218.5 million at the end of the first quarter 2024, including lease obligations of $68.1 million. We continuously monitor current market conditions and assess our expected cash generation and liquidity needs using the current forward crack spreads available.

Weakening crack spreads indicate a continued need for proactively managing our liquidity position. As I stated, we believe that our strategic redirection for renewables will help our financial position. Given current market conditions, we are pursuing strategic financing opportunities to improve our balance sheet.

Looking to the second quarter of 2024, we anticipate total conventional throughput volumes at Mobile to be between 68,000 and 72,000 barrels per day. Our expected yield of conventional products is expected to consist of between 64% to 68% high value finished products such as gasoline, diesel and jet fuel with the balance in intermediate and other products such as VGO.

On the renewable side of the business, we are running our remaining inventories of renewable feedstock, which we believe will improve our working capital and margins for the second quarter. Once the renewable feedstock is diminished, we will use previously planned catalyst and maintenance turnarounds scheduled for 2024 to load conventional catalyst and bring the unit out of turnaround into conventional service. The total cost of about $10 million was previously budgeted as part of the planned catalyst and maintenance turnaround and does not represent a material change to our forecasted capital spending.

Anticipated OpEx per barrel, encompassing both conventional and renewables businesses on a fully consolidated basis is projected to range between $4.11 and $4.46 for the quarter. We anticipate total capital expenditures for the second quarter to be between $20 million to $25 million, which includes a portion of the $10 million conversion cost.

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I'd now like to turn the call to Chief Commercial Officer, Doug Haugh.

Doug Haugh

Thanks, Chris. As Ben and James shared earlier, we're planning to pause renewables production, optimizing our hydrocracking asset to be utilized in upgrading conventional products. Our team has done an incredible job in terms of running and managing the unit in renewable service. I'm exceptionally proud of the work they achieved in building a supply base and securing approvals for lower carbon intensity pathways. The work done on developing these feedstock pathways not only deepens the proven capabilities of the asset in renewable service, but it also paves the way for potential future benefit, should market conditions support a decision to resume renewables production.

Our commercial team has now shifted its focus to supporting this strategic pivot, fulfilling our current renewable commercial obligations, winding down feedstock positions and supporting our operational team on the ground. We continue to work closely with customers and suppliers, all of whom have been great partners through this process. We're appreciative of their collaboration and support of this effort.

The company continues to advance targeted netback improvement opportunities on conventional and renewable products to bolster profitability, notably completing all pathway approvals for renewable feedstocks and securing a direct off-take of jet fuel produced at the Mobile Refinery. After tendering and negotiating a new off-take agreement for this jet this spring, we commenced supply for a new customer on April 1. The transition has been well managed by the operational and commercial teams. And this is an important milestone for Vertex as it is the first of the finished product contracts to roll off our initial off-take agreements inherited upon the purchase of the refinery.

We expect our margin uplift on these barrels under our new contract to represent a $10 million improvement over the previous agreement. We have additional agreements approaching expiry over the next year and we'll be following a similar process with those volumes as we did with the jet volumes and expect to deliver increased value for the company as compared with the existing contracts.

With that, I'll turn it over to Ben for some closing remarks.

Ben Cowart

Thank you, Doug. Our team is doing a great job of keeping our operations safe, minimizing risk and delivering incremental results towards our stated goals. As we navigate the second quarter of 2024, our focus is on managing cash flow during this transitional period. We believe this is the best decision at this time for this asset, as it is not only expected to curtail and stop losses associated with renewable production, it is also expected to provide additional margin opportunities following successful conversion.

Given the persisting market volatility and crude pricing, which is impacted by a variety of global factors, we will continue to pursue strategic opportunities and financing pathways that support liquidity needs over the near-term. We've done a lot of work proactively restructuring the business to reduce cost and capital and set up systems to manage and monitor cash flow effectively, and we will continue these efforts on ongoing basis.

We have been adamant that our strategic priorities are to increase our cash position, reduce our operating costs and improve margins. While we're optimistic about the future of renewables over the long-term, we feel this decision to optimize the renewable diesel hydrotreater to conventional service is not only prudent, but a necessary step in accomplishing these goals for the remainder of 2024 and into 2025.

Thank you. I'll now turn the call over to the operator for questions.

Question-and-Answer Session

Operator

We are now opening the floor for question-and-answer session. [Operator Instructions] Our first question comes from Noah Kaye from Oppenheimer. Your line is now open.

Noah Kaye

Thanks for taking the questions. Maybe just sort of walk us through what's entailed in doing the conversion of the hydrocracker back. I mean, it was in good shape prior to the RD conversion. Just is there anything that we should be particularly aware of around the actual mechanics here? Anything that suggests any kind of risk to getting back to generating what I think you called out would have been materially higher gross profit.

James Rhame

Yes. Thank you, Noah. This is James. Thanks for the question. The pivot we've got to, as Doug described in his opening remarks, we've got to work with our feed suppliers and get all of those out. We've been working that and clear that inventory. And then there are probably two keys.

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One, of course, is getting the different catalysts in and that's got to work and we've got to plan on it and then finish the permitting. And then with that, we will go through a full management of change, which we're required to do and make sure we do the engineering and do construction. We think it's a low risk activity. We have had a small team, but now that we've announced, we've been able to get – we'll be able to get more collaboration and convert the unit back and we think it'll be a better unit than it was before.

Noah Kaye

Thank you. And just in terms of the timing, any change, you can put a finer point on the timeline. And I would expect that this will start to really show up more in 3Q results. But, if you could speak to the timetables you're currently planning on.

James Rhame

Yes. So our plan is to get the conversion complete in Q3 and show up fully for Q4. That's the current plan. But as I said, there's two pieces I don't have control of, one is the getting the permitting and getting the catalyst. But we have a line on both and we'll be pursuing both aggressive.

Noah Kaye

Okay, appreciate that. And then just on the hedging, you did undertake some additional hedges here. Can we talk a little bit about hedging going forward beyond what you did in 1Q? Are you going to do additional swaps or have you already done swaps for the second quarter?

Doug Haugh

Yes. Thanks, Noah, Doug here. There's – no, we put no additional positions on since those hedges rolled. Strategically, we would look to repeat, if possible, what we – our approach from last year. So if we see a late summer run on gasoline cracks into the winter, then we would look to capture some of that and hedge it off. We have no idea whether we'll get that opportunity or not. But that strategically, just so you know what we're looking at, that's how we look at that.

And then, similar to what we did in this winter, if we see diesel cracks persist at levels that are attractive from above what we expect, then we'll do the same with diesel. So that's – our strategy would mirror what we did with gasoline in late summer and then what we did with diesel in winter for next year that would be the same outlook.

Noah Kaye

Okay, thanks. Maybe one more. Maybe talk a little bit about the process or where the process sits in and around the strategic alternatives now that the company is making the decision to pause RD operations for the current environment. How you're thinking about the pathway for the business going forward and some of the other options that you mentioned in your prepared remarks.

Ben Cowart

Hey, good morning, Noah. This is Ben. Thanks for the question. Obviously, we are still very much in our process with BofA. We've got good outcomes that that we're working through. So nothing to report at the moment, but it's clear to that process and those that are still there what we're doing on the pause and pivot. So we will continue forward with that and hopefully we'll bring good information back to the market once we conclude the process.

Noah Kaye

Well, appreciate all the color. Thanks for taking the questions.

Ben Cowart

Thank you.

Operator

Next question comes from Sameer Joshi from Wainwright. Your line is now open.

Sameer Joshi

Yeah. Good morning. Thanks for taking my questions. I think we agree it's a prudent decision of the pause in transition, but just a quick question on the actual operations of the RD. Is every incremental barrel that you're producing at a positive gross margin – contribution margin right now? And if not, then does it make sense to completely pause production instead of having some level of production at this facility?

Doug Haugh

Yes. Doug here, I think I follow you, if there's negative contribution margin, why run at all? I think that's effectively the conclusion we came to. So, we're running off our existing inventory of feedstocks now. And then, preparing the unit for the conversion, as James described from a catalyst perspective. So, that's – we didn't see any reason to persist in those losses. The forward curve on feedstocks is flat, so there's no implied benefit coming in terms of feedstock cost. RINs have collapsed materially from where they were last year, which was already down substantially from the previous year. LCFS has been bouncing a little bit, but it's substantially below levels where it commands production. So when you look at those there just – it doesn't look like there's a combination of many of those to us that would provide positive margins for the next several quarters.

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Sameer Joshi

Understood. And just a quick follow-up on Noah's previous question as to what it entails. Just wanted to understand, are there any foreseen or foreseeable issues, hurdles in this transition process, like from an engineering point of view or from construction point of view and what kind of safeguards have you put in place or are you putting in place?

James Rhame

Thank you. This is James again. No hurdles from an engineering. We're just going to make sure, as safeguards that you described, we will go through full management of change in a process hazard analysis of the unit to make sure that the changes made with RD have been taken into account in this service and make sure that we have a lot of conversions back and making sure all those are in good shape and the changes we made associated with RD would be accounted for as we do the conversion back. And we'll have those and we'll have a full engineering analysis and make sure that we've done it safely and through a pre-startup safety review.

Sameer Joshi

Understood. Thanks for that. And the last one on capital preservation or cost savings. Since the integration in 2022, your SG&A has been pretty steady around $40 million on a GAAP basis. Do you foresee or are you planning any further resource optimization or lowering of these costs from a preserving cash point of view?

Chris Carlson

Yes, this is Chris. Good question. So, I mean, we do currently have a company-wide focus on cost reductions along with SG&A expense. One thing you'll note in Q1, you did see a 5% reduction in SG&A year-over-year. So, while I'll say this is probably directionally where we will be, we are continuing to be very focused on reducing SG&A and cost in the business.

Sameer Joshi

Got it. Thanks for that. I'll take other questions offline. Thanks and good luck.

Operator

Next question comes from Eric Stine from Craig-Hallum. Your line is now open.

Eric Stine

Good morning, everyone.

Ben Cowart

Good morning.

Eric Stine

Hey, so I've been jumping around on calls. I apologize if I missed this. But did you quantify your estimate of what whether it's in Q1 or what it would have been in fiscal 2023 from an EBITDA perspective without the losses from renewable diesel?

Chris Carlson

Yes. So we take the loss, you're asking without the losses of renewable diesel.

Eric Stine

Yes, without the losses what – I mean, what should we or – just curious if you quantified what the incremental EBITDA would be or what you would expect given this action you're taking.

Chris Carlson

Yes. So we did a similar exercise, Eric, but mostly around the fuel gross margin approach. And what we did was we looked at the hydrocracker the last time it was in service. We took those yields and applied it to Q1, which provided the benefit and distillates, which would be your gas, diesel and jet. In addition, it provided the benefit in volumes from eliminating the yield loss that we experience when it's not in service. And that gave us about a $40 million benefit on gross profit – fuel gross margin.

Eric Stine

Got it. And I would assume then you're also taking out the elevated OpEx per barrel for the renewable diesel unit given that, I guess thinking about how this looks, maybe in fourth quarter, when the RD unit has been converted, direct OpEx per barrel should be dramatically less.

Chris Carlson

Yes. Your OpEx per barrel is going to be less, you're going to have less variable expenses such as logistics and other items. So yes, you're going to see some benefit across the board.

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Eric Stine

Got it. And then as we think about this, obviously you had not brought on the full 14,000 barrels per day that you were planning. So we should think about this here. You're roughly adding 8,000 barrels per day when all is said and done. Should we think – I was unclear. Should we think about kind of a similar mix of finished products? When up and running you also had some commentary about some upgrades to increase VTO output or just upgrade it. So maybe if you could just provide some details, that'd be great.

Chris Carlson

Yes. So what you'll see if you go back on this hydrocracker, it was about a 40% to 50% conversion unit and one – and its shortage, its constraint was hydrogen and stripping ability. So once the finally get the hydrogen unit up and an additional stripper, then we'll see significant upgrade in the hydrocracker itself and see a larger yield of diesel and less VGO, it'll go to about a 60-plus percent conversion unit versus the 40% to 50% we get today.

Eric Stine

Okay. So I mean you're – you see, you're looking at, you'll be at what low 70s barrel per day? I mean…

Ben Cowart

This is specifically hydrocracker, not the crude throughput we'll hold crude running in the average 75,000 barrels a day when all up and running. That doesn't change.

Eric Stine

Okay. Got it. And then last thing, just on the strategic initiatives that have been ongoing with BofA, I mean, I would assume there's a component of the people that maybe you've been talking to that were more interested in the conventional refinery. Curious, what this move potentially does in the strategic alternatives or options that you discussed on the call? Does that encompass what you've already been doing or are you taking additional steps?

Doug Haugh

So, Eric, the pause and pivot certainly paints a good, much better picture on our financials as we work on these strategic alternatives. So it's – I think everybody sees the current market for renewable diesel. So there's no surprise there. I think it's well received by any alternative party this kind of looking at the business at this point in this process.

And really believe no dissension on this decision or anything there. So when you look at renewable opportunities, they're more long-term as this process is unfolding. And then we also have the ability to demonstrate the true profitability of the asset just under this pivot strategy, taking advantage of the hydrocracker and the feedstocks that we control. So we're really setting a kind of a base of cash flow that we're running this process by. So it allows us time and allows us more optionality and broadens interest in the alternative process that we're running.

Eric Stine

Okay. Thank you.

Operator

Our next question comes from Donovan Schafer from Northland Capital Markets. Your line is now open.

Donovan Schafer

Hey, guys, thanks for taking the questions. So the first question I want to ask is for running down the inventory levels for the RD operations. How should we think about or expect that to impact your cash position? So on the one hand, you'll be monetizing what's in inventory, and that generates cash without the need to turn around and then buy additional feedstock and replace it. But then on the other hand, I believe there is an inventory facility linked to this that would need to be paid down as well. So does everything just kind of net out or does this, do you end up coming out ahead or behind a little. Just what do you think the net impact on your cash position will be after running down that inventory?

Chris Carlson

Yes. Thanks. This, Chris, good question. Basically, the way we look at it is it's going to be neutral because as you noted, we've got a financing arrangement with the inventory. So as we run that down and clear it, there's not a lot of margin in it today, as noted. And then as we clear out of the financing arrangement, we'll get a little bit of cash back on that. But when you offset it against the negative margin, I would view it as neutral.

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Donovan Schafer

Okay. That's helpful. And then with the – I think Ben responded to an earlier question about the hydrocracker unit saying, it's a 40% to 50% conversion rate from the VGO coming off the primary distillation, converting that to diesel or refined products when it goes through the hydrocracker, and that can be increased to 60%, I believe you said, with additional hydrogen. So I guess, the question. So the question is, does this mean the plan is to proceed with the Phase 2 where I forget the name of the partner you have there, but that the additional hydrogen that was originally intended to be plumbed into everything to take the hydrocracker up to 14,000 – from 8,000 to 14,000 barrels, is that still going to happen? And then that available hydrogen ends up giving you this improvement on the hydrocracker, is that what's going on?

Chris Carlson

Yes. Yes, that's the way to think of it. So that project will continue, and it continues for two reasons. Of course, one is it helps the hydrocracker and its conversion, but if we ever choose to go back to renewables, we'll need that hydrogen to get full rates.

Donovan Schafer

Okay, great. So that's helpful. And then when you were running the hydrocracker for conventional throughput, before you stopped to convert it over to renewable diesel, I believe you were still, at least up until the end there, you were still getting an olefin feedstock that was coming out of that as part of the byproduct that then would go on to Shell at their petrochemical plant to then make plastics or something with it. Is that something – do we go back to that? Can you resume selling the olefin feed to Shell? How do I think about in the context of the other part? Because maybe that gets compensated for by the conversion rate for the diesel and so forth. If you're going from 40 to 50 range, up to 60% range, maybe that's making up for the olefin piece.

I don't actually quite know how the olefin and what share of hydrocracker, how that fit in, and if that's important, and if you can just turn it back to the way it was, or if you have to find another olefin counterparty. How does that work?

Doug Haugh

Yes, it's Doug here, I'll take that. I mean, there is, I mean, clearly, we will be. The VGO coming off the unit that isn't converted to finished fuels will be of the previous grade that was sold to Shell or supplied internally when they were running this as a network core olefin feedstock, undetermined at this time whether we can get a value improvement for hydrocrack to VGO in this – at this grade, it certainly will be as good or better than the previous quality produced. So there's reason to expect that those markets would be available to us again. But at this point, we aren't – we don't have any indication that that would be a value uplift versus the VGO market that we sell into every day today.

Donovan Schafer

Okay, just so I'm clear, it's like the VGO comes off the primary distillation tower. You've got that VGO, then it's going into the hydrocracker, a certain amount of that, say, we'll get to 60% of that is going to get turned into much higher margin fuel. The 40% that isn't converted into fuel that comes out, is that just the same as VGO like it kind of went in and came out and there was no change to it. And that is also synonymously or incidentally, also what was called olefin feed before, or is there actually a change to that other 40% and it's like a different quality product, but you have to figure out what to do.

Ben Cowart

It's different. It's slightly better than just straight run VGO. However, we don't. Whether it's indeterminate, if we can get a premium for it, but…

Donovan Schafer

Okay. And then if I could squeeze just one more in. Talking about the fourth quarter, will we have – I guess, first would be by the – when fourth quarter comes around and we expect it to be running full out with conventional, will we get back to the yield, the refined product or fuel kind of yield, jet, diesel, gasoline that we had back in, I don't know, Q2 or Q3 like a year ago, I think it was about 75% or maybe 74%. Does that nudge up a bit with the higher – will the additional hydrogen capacity beyond by then? Basically just what refined product or high margin product yield should we expect kind of on a go-forward basis in Q4?

Ben Cowart

Yes, go back to 2022 and that should be your basis, even though we believe we're going to do better than that because we've made some yield improvements which were not going to back up on even with this conversion. But that at least gives you a starting point.

Donovan Schafer

Okay. And I think that's where I got the 74 from. But I don't have my model in front of me. Is that am I in the ballpark?

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Ben Cowart

You're in the ballpark.

Donovan Schafer

Okay. All right. Thanks, guys. I'll take the rest of my questions offline.

Operator

Our next question comes from Saumya Jain from UBS. Your line is now open.

Saumya Jain

Hey, good morning, guys. Can you guys talk a bit about how with market conditions right now, it's part of the reason that we're pivoting from the renewable diesel. How easily would you guys even be able to pivot back? Should that change? How feasible would that be? Is that something you consider?

Ben Cowart

Yes, it's a great question. I mean, just as the team has preserved our optionality on this unit going, back to conventional, we're doing the same – taking the same engineering approach and operations approach, to preserve the optionality to come back into renewables. Obviously, frankly, each time you do it, you get better at it because you've got experience, but also you've continued to close any gaps mechanically that might have arose as you did the work. So we have a natural option, if you would.

Every time we come up on a catalyst change, we're going to evaluate the forward market conditions, look at what those yields would produce in terms of margin, and make that decision as we order catalyst and plan the turnaround. So, for renewables, that's every year, in conventional service, it's roughly every two years.

One could certainly make that decision earlier if there was just disproportionate or dislocated margins available for some reason and you had confidence in your ability to achieve those. But the normal schedule would be just to evaluate this every time we have a catalyst change planned and then use that turnaround as our option point to go one direction or the other.

Saumya Jain

Got it. And then I guess on another, on a separate note, would you guys, or have you considered any potential joint venture partners to help with the cash flow in regards to the refinery itself?

Chris Carlson

You mean as far as like other intermediators to come in to replace current?

Saumya Jain

Yes.

Chris Carlson

I mean, what we're really focused on right now, the term debt is due within 11 months of basically today. So we're really focused on, number one, as you heard, the strategic financing opportunities as well as a – I guess a refocus on refinancing the term debt at the moment.

Saumya Jain

Got it. Thank you.

Operator

Question comes from Brian Butler from Stifel. Your line is now open.

Brian Butler

Good morning. Thanks for taking my question.

Ben Cowart

Good morning.

Chris Carlson

Good morning, Brian.

Brian Butler

I just wanted to start on the going concern disclosure and the 10-Q. Can you maybe provide a little additional color and square that with what we're discussing in the call here and what's behind that analysis? Is it just the term loan coming due in 11 months, or what is the opportunity timeline between for refinancing that term loan?

Chris Carlson

Yes, great question, Brian. So, yes, that is strictly around the term debt coming due within a 12 month window of the filing. So, gap requires us to disclose that. As noted, we're very focused on a refinancing and we feel very good about where we're at. We've got 11 months to do that. So that process is underway today.

Brian Butler

Okay. And then on the conventional, when you think about getting the hydrocracker back to conventional production, can you maybe give at a high level how we should think about gross profit EBITDA and maybe sensitivity kind of to the spread as we get to a run rate in 2025 for that conventional business? I mean, how much EBITDA can that generate or and how sensitive is that to the spread?

Chris Carlson

Yes, I mean, the best thing to do would be look back at, as James noted, Q4 2022, look at that yield slate and you basically see that we will produce more gasoline, more diesel and jet and less VGO. As far as exposure to the market and cracks, it's still the same. There's no difference.

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Brian Butler

Okay. And then last one on renewable diesel, where does the D4 RIN or the LCF as credit and feedstock costs really need to be for you guys to go back and reconsider starting back renewable diesel production?

Ben Cowart

Yes, I mean, I think if you look back historically, we'd need to see a margin environment similar to the margin environment that existed when we made this investment decision, which was again, if you look at 2022 and maybe even first quarter 2023, I think, before the curves really collapsed. But again, I think if you looked at those values in, on a kind of annual average in 2022, by and large, that would certainly incentivize us to fully evaluate converting back at an upcoming catalyst change if those were the curves we were looking at, that would make that a viable candidate at that time. If you look at the – certainly the margin environment, in most of 2023 and certainly what it's been in 2024 thus to-date then obviously very unattractive.

Brian Butler

Okay. And I guess, tied to that, would you have to go through the whole certification pathway again for the D4 the BTC and the credits, is that like another – would be a whole another group of hurdles to get over?

Ben Cowart

No, we can preserve those. We have a timeframe. We've got certain things we have to do to be able to preserve those administratively, but we'll continue to preserve those in the future as long as we can.

Brian Butler

Okay, great. Thanks for taking my questions.

Ben Cowart

Thanks.

Operator

Our next question comes from Jason Gabelman from TD Cowen. Your line is now open.

Jason Gabelman

Hey, good morning. Thanks for taking my questions. I missed some of the calls, so apologies. This has already been discussed, but the offtake agreement with Idemitsu, are there – that was for the renewable diesel product. Are there any commitments that you'll have to follow through on despite shutting down the renewable diesel production or is there any cost associated with ending that contract?

Doug Haugh

Well, I guess to clarify, it's Doug here. We don't intend to end that contract, continue to have a very good relationship with Idemitsu in all regards. So, we want that contract to continue, should we resume renewable production. So that's our belief is that Idemitsu value that as well. And that's our current indication. So it's more of a pause than a cessation in permanent terms. And that's a fairly long-term contract. So it currently goes beyond our next sort of window when we would evaluate this again. There are some operational obligations for both of us in that arrangement that we're working through and dealing with currently. Is there residual costs in our systems on a go-forward basis coming out of this potentially, not definitively, but certainly potentially associated with Idemitsu.

And then we also have storage capacity in Mobile that's secured specifically to support RD that we believe we have uses for and can trade around those assets and make use of those rents that we're paying on those tanks. But there's a tail on the tank rents too.

Jason Gabelman

Okay. But to be clear, you don't have to go out and buy renewable diesel in the open market to fulfill some sort of contractual obligation moving forward.

Doug Haugh

No, the Idemitsu is a production offtake agreement, not a guaranteed production agreement. So it flexes with our production.

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Jason Gabelman

Okay, thanks. And then my other one was just on maybe some of the cash benefits from ending the renewable diesel service. Can you provide a working capital benefit that you expect to get from running down that feedstock? And then is there any offset from building more conventional related inventories?

Chris Carlson

Yes, I mean, from the RD perspective, I don't see a big benefit in working capital as we look at running this down. On the conventional, as you know, we've got the financing agreement for our inventory flowing through. So there shouldn't be a big change in working capital as we transition.

Jason Gabelman

Okay, great. Yes, sorry.

Ben Cowart

Say the only difference is the refined products will go up a bit because we're making more of them and some of those move via vessels. So you'll see builds as you build inventory to load the ship. But similar to what we do with jet today. So that'd be the only material difference that you'll see in the inventory side.

Jason Gabelman

Got it. Great. Thanks for the answers.

Operator

As of right now, we don't have any pending questions. I'd now like to hand back over to Mr. Ben Cowart, CEO. Thank you.

Ben Cowart

Thank you, operator. And thank you, everyone for joining the call today. We are very positive about this initiative and the pause and pivot. We really believe it's the right time and place to be able to make that move. And I just want to thank our team and our leadership team as well, folks at the site, our legacy business, all the good work they did over the quarter. So, we're looking forward to really putting cash flow back on the business where it should be and really gives us time to work on our renewable strategy. And there's lots of opportunities long-term that we believe our asset is going to be of high interest.

So we're going to take our time here with our conventional business and put us back to good cash flow and move the business forward. So having the flexibility around the asset and the ability to do this is very important and to the credit of our people to be able to put us in this position, it really gives us a big step forward. So thank you, everybody, and really appreciate again making the call. And we look forward to some future communications as we go forward.

Operator

Thank you so much for attending today's conference call. Have a wonderful day. You may now disconnect.

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