

06-Aug-2019

# Par Pacific Holdings, Inc. (PARR)

Q2 2019 Earnings Call

### **CORPORATE PARTICIPANTS**

#### Suneel Mandava

Senior Vice President-Finance, Par Pacific Holdings, Inc.

#### William C. Pate

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

#### Joseph Israel

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

#### William Monteleone

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

### OTHER PARTICIPANTS

#### Neil Mehta

Analyst, Goldman Sachs & Co. LLC

#### Matthew Blair

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

#### Michael J. Harrison

Analyst, Seaport Global Securities LLC

#### Jason Gabelman

Analyst, Cowen & Co. LLC

#### Timothy A. Rezvan

Analyst, Oppenheimer & Co. Inc.

#### Andrew Evan Shapiro

President & Portfolio Manager, Lawndale Capital Management LLC

### MANAGEMENT DISCUSSION SECTION

**Operator**: Greetings and welcome to 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] And as a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Suneel Mandava, Senior Vice President of Finance for Par Pacific Holdings. Thank you. Mr. Mandava, you may begin.

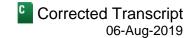
### Suneel Mandava

Senior Vice President-Finance, Par Pacific Holdings, Inc.

Thank you, operator. Good morning, everyone, and welcome to Par Pacific Holdings second quarter 2019 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, please note that some of our comments today may include forward-looking statements as that term is defined under federal securities laws. Such statements include but are not limited to those concerning plans, expectations, estimates and our outlook for the company. 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 what is indicated in these forward-looking statements. Because of this, investors should not place undue reliance on forward-looking statements and we disclaim any intention or obligation to update or revise any forward-looking statement.

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I refer you to the latest forms 10-K and 10-Q of Par Pacific Holdings filed with the SEC for more detailed discussion of the major risk factors affecting our business. Further information regarding these as well as supplemental financial and operating information, including reconciliations of certain non-GAAP financial measures to the most comparable GAAP figures, may be found in our press release and our investor presentation on our website, www.parpacific.com or in our filings with the SEC.

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, Suneel. Good morning to all our conference call participants. I'm delighted to report record financial and operational results for the second quarter of 2019. Our adjusted earnings per share of \$0.45 was a 45% increase over adjusted earnings per share for the second quarter of 2018, illustrating the accretive impact of our recent acquisitions. We generated \$57.5 million of free cash flow and \$69 million of adjusted EBITDA. We achieved these financial results due to record operational availability in our Refining system, record throughput in our Logistics unit and solid Retail volumes and margins. Higher operational availability is achieved only through solid environmental compliance and safety awareness. I want to thank our Refining team for their attention to the environment and to ensuring safe operations.

I also want to highlight our ability to integrate three significant acquisitions in the last 18 months without any increase to G&A expense. This accomplishment illustrates our ability to leverage systems and processes and achieve consistent productivity gains at our headquarters. I'm very pleased with our Washington acquisition. The integration is moving forward rapidly and we're already realizing significant commercial opportunities and benefiting from the strong [indiscernible] (00:03:20) spring market conditions triggered by unplanned outages on the West Coast. We're expanding our marine freight capability, which will lower our refined product transport costs. The inland crude oil pricing in Washington is also nicely counter-balancing the elevated waterborne crude oil diffs that we continue to face in Hawaii. And we're making progress on our next-gen renewables fuel project in Washington, which I expect to generate further logistics savings upon completion.

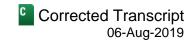
In Hawaii, we continue to face challenges in the waterborne crude market and in the first half of the year we also experienced some of the worst Singapore gasoline cracks in years. Nonetheless, our increased scale and related cost structure improvements allowed us to sequentially improve our capture in the quarter. In July, we also completed the pipeline integration work to interconnect the crude oil facilities at our two Hawaii Refining locations.

With the completion of that project, the IES assets are fully integrated within the Par Pacific system. I also want to congratulate our team on the commissioning of our distillate hydrotreater project last month. The Hawaii team completed this project under budget and two months ahead of plan. They accomplished this task while simultaneously executing a turnaround at the newly acquired crude unit undertaking a reformer catalyst regen and completing the pipeline tie-in project.

Looking forward to the third quarter, we expect the business to continue to perform well with strong Retail performance, improving cracks in the Asian markets and the peak summer driving season in Washington and Wyoming. These trends will be tempered by a continued challenging waterborne crude market and downtime from the Hawaii crude unit turnaround. Looking out for the fourth quarter, we continue to be well-positioned for IMO 2020 with our high distillate yields.

At this time, I'll turn the call over to Joseph to provide more details on our operations.

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### Joseph Israel

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

Thank you, Bill. Second quarter execution for our Refining system was exceptional. By running safely and close to a perfect 100% reliability we were able to fully capture what the market gave us with high efficiency and low production cost. Our balanced system helps to minimize our exposure to certain market conditions and gives us the opportunity to optimize and perform on a consistent basis.

Global waterborne crude differentials remained elevated, mostly due to an undersupplied global oil market and ongoing geopolitical tension. As a result, in the quarter, our realized crude differential in Hawaii averaged \$2.95 per barrel over Brent on delivered basis. This crude differential is approximately \$2.15 per barrel over five years average.

On the product side, Singapore 4-1-2-1 crack spreads was \$6.22 per barrel, driven by weak gasoline and partially offset by favorable distillate and fuel oil. Our realized adjusted gross margin in Hawaii was \$3.46 per barrel in the quarter with 99.3% operational availability. Our refinery throughput averaged approximately 116,000 barrels per day. Refinery yield matches well the demand profile in Hawaii, which allows us to focus on the local supply needs, consistent with import pricing and with minimum exports.

Production costs in the second quarter were only \$2.82 per barrel, reflecting our improved cost structure following the Refining assets acquisition from IES. The new 10,000 barrels per day diesel hydrotreater or DHT is starting up these days, couple of months ahead of original schedule. Projects cost is just under \$26 million compared to the announced \$27 million budget.

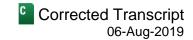
With the DHT online, our distillate production capability in Hawaii is up to approximately 55,000 barrels per day. And including 20,000 barrels per day of low-sulfur fuel oil production, 65% to 70% of our production in Hawaii is driven by distillate pricing through the IMO transition.

During the month of July, we are also executing our planned reformer catalyst regeneration and turnaround works in the acquired IES assets for approximately \$10 million to \$12 million outlay, of which approximately 75% is expected to be capitalized.

We are estimating approximately \$0.70 to \$0.80 per barrel of gross margins missed opportunities associated with the works. Considering the turnaround works, our target throughput for the third quarter is 98,000 to 103,000 barrels per day in Hawaii. Crude differentials remain elevated for the third quarter at approximately \$3.16 per barrel premium to Brent, reflecting a highly backwardated related market structure. However, following recent economic cuts in Asia by several refineries, Singapore inventories are close to five years low for all products and the 4-1-2-1 Singapore crack spread index has improved to approximately \$9.80 per barrel so far in the third quarter.

In Washington, our refinery throughput averaged approximately 39,000 barrels per day. Our 5-2-2-1 Index on ANS basis averaged \$17.14 per barrel in the second quarter. PADD 5 products inventories are back to normal through imports and high utilization rates following a busy maintenance period and between March and May. Bakken crude oil reflecting approximately two-thirds of our crude slate in Washington traded at \$1.42 per barrel discount to WTI, and WCS reflecting approximately one-third of our crude slate traded at \$12.56 per barrel discount to WTI, both on FOB basis. In the second quarter, adjusted gross margin was \$9.92 per barrel with 99.9% operational availability. The strong West Coast asphalt and VGO crack spreads positively impacted our capture. Production costs were \$4.42 per barrel.

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We continue to be very impressed with our local team in Washington. Integration is going well as our logistics and commercial flexibility as a system continued to revolve around our Pacific Northwest Assets, providing us with more optionality along the West Coast. So far in the third quarter, our 5-2-2-1 Index has averaged approximately \$15 per barrel on ANS basis. Our target throughput for the third quarter in Washington is 38,000 to 40,000 barrels per day. In Wyoming, our 3-2-1 index was \$28.89 per barrel in the second quarter; our Refinery throughput averaged approximately 18,000 barrels per day.

Our realized adjusted gross margin in the quarter was \$16.78 per barrel, including a negative \$1.16 per barrel FIFO impact. Production costs were only \$5.58 per barrel reflecting 99.6% operational availability and high throughputs. We are now at the peak of our gas – of our regional gasoline season and our Wyoming 3-2-1 Index has averaged approximately \$27.75 per barrel in July. We continue to access and benefit from discounted pipeline and local crude oil production in the Powder River Basin. Our third quarter target throughput in Wyoming is 17,000 to 18,000 barrels per day.

And now, I'll turn the call over to Will to review the consolidated results and Laramie highlights.

### William Monteleone

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

Thank you, Joseph. Our segment level results reflect strong contributions from each area, while we were able to continue to hold our aggregate G&A spend relatively flat. Refining segment contribution was \$43 million, an increase of \$14 million compared to Q2 2018. The increase in the quarter was principally driven by the first full quarter contribution from the Washington refinery. Our Logistics segment posted another record quarter of \$20 million of adjusted EBITDA driven by elevated marine movements in Hawaii, and overall throughput in Washington.

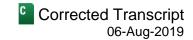
The outlook for commercial synergies between Hawaii and Washington continues to improve, and we are feeling more comfortable with the upper end of our previously provided range of \$5 million to \$10 million. Our Retail segment was also a solid contributor, with segment contribution of \$15 million, up nearly \$4 million versus the second quarter of 2018. Retail same-store sales fuel volumes were flat compared to Q2 2018. In total, our Retail and Logistics segments made up 44% of segment adjusted EBITDA contribution, reflecting an attractive segment balance.

Laramie generated approximately \$14 million of adjusted EBITDAX and a net loss of \$11 million, excluding the impact of \$8 million of unrealized gain on derivatives. Laramie's last 12 months adjusted EBITDAX stands at \$93 million. Given current natural gas and natural gas liquids pricing, Laramie intends to cease drilling activity during August resulting in lower CapEx for the year.

Shifting focus to accounting items. The largest item impacting both adjusted EBITDA and adjusted net income was the FIFO drag of approximately \$2 million for the second quarter within the Wyoming Refining segment. In addition, adjusted net income was reduced by a \$1.6 million charge associated with unrealized interest rate derivatives flowing through the interest expense line. Last and only impacting our GAAP net income was an approximately \$4 million of debt extinguishment expenses related to the exchange of the convertible notes during the quarter.

On the capital structure front, we made strides towards our targets through our convertible exchange activities and allocating cash flow from operations towards paying down debt. Our net debt to capitalization declined by 6% from 52% to 46%. Our total liquidity increased approximately \$50 million to \$175 million at quarter-end. Second

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quarter GAAP interest expense totaled \$20 million, of which \$15 million was cash interest. DD&A totaled \$22 million. Cash from operations adjusted for funding underneath the working capital facilities totaled approximately \$95 million, including a working capital inflow of approximately \$12 million and reflecting the partial reversal of the Q1 2019 working capital build. Capital expenditures totaled \$24 million during the second quarter. Planned 2019 total capital expenditures and turnaround outlays remains consistent with previously communicated ranges between \$100 million and \$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. At this time, we will be conducting a question-and-answer session. [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

Good morning, team. The first question I had was just on the Hawaii operations, it's good to see Singapore margins moving in the right direction in the third quarter. One of the risks continues to be on the crude side with OPEC cuts continuing and the lack of availability of some of those medium- and heavy-grade crudes on the water, can you talk about what you are doing to optimize to manage that risk and drive profitability for your waterborne exposed refineries.

Joseph Israel

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

Yes, Neil. Good morning. Joseph here. With regards to the elevated global crude oil differentials, really since the second half of 2017 oil demand has clearly outpaced the supply, OPEC has demonstrated consistent production discipline and ongoing geopolitical tension kept barrels out of the market resulting in elevated crude differentials to clear the barrel. In addition the backwardated market structure is another cost component in the realized crude differentials, considering the delivery time.

Fortunately, as you would expect, oil products in Asia caught up recently with the elevated crude differentials and time will tell where that's going from here. Eventually it will take an oversupplied crude market to take us back to historical range for crude differentials. To help you monitor our crude differentials, we are adding starting this week history and current quarter guidance for realized crude differentials in Hawaii to our weekly index file which is available on our website. Our optimization team in Hawaii does consistent really robust scanning work on all crude opportunities around the globe and end up with the optimized crude slate for us on a monthly basis. So we'll continue to do that, and minimize the pain as we can.

William C. Pate

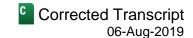
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

Neil, this is Bill. Just to chime in on that too. Fortunately, our refinery has a fair amount of flexibility and I think we've mentioned in the past can do if we optimize. If the medium seller market starts to get a little pricey we can go for longer runs on sweet that allows us the key and the big challenge for us in the market is the demand for jet.

And obviously, as we access more sweets and lighter crude sometimes we can get a little more jet yield out of

that and that helps to reduce the import. So as Joseph said, we're constantly optimizing assessing the market and

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if a different grade starts to become unfavorable, then following the LP analysis we'll adjust our batch mode slightly to optimize our crude selection.

Neil Mehta

Analyst, Goldman Sachs & Co. LLC

That's great. And then as a follow-up, it's kind of a bigger picture question on capital allocation, free cash flow and leverage. After completing the West Coast transaction, leverage did tick up and you had the option theoretically to issue equity, and it looks like you guys are going to try to organically delever the business to not dilute your existing shareholders.

And so just your views on where you want the target leverage ratio to get to, how long it's going to take in a base case to kind of get to the place you want to get to you know, confirm that you have no intention to issue equity, but I get at this point, and then sort of what you do with excess cash, it's a big picture question but maybe you can kind of help us think about the uses of free cash flow?

William Monteleone

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

Neil, this is Will. I'll take a shot at that. So I think just from a target perspective, and where we'd like to be you know I think we like our net debt to capitalization to be down in the 30% to 35% range, and I think you know on an imputed basis that gets you in the net debt to EBITDA probably in that 1.5 times range. So again, I think that's our target. I think as we indicated this quarter we made some decent progress there, and we allocated about \$16 million of cash towards the convertible note exchange that we conducted. So again, moving it down 6 percentage points during the quarter was a good step in the right direction. And we also built our liquidity up to \$175 million range, I think we'll continue to build liquidity through the year and evaluate our debt position as we head into the next year and evaluate whether we'd like to pay down debt or pursue other alternatives from a deleveraging standpoint.

I think from a time horizon you know I think we've got capital expenditure requirements next year with respect to turnarounds. That being said, I think over the next 24, 36 months we think we ought to be able to achieve that.

Neil Mehta

Analyst, Goldman Sachs & Co. LLC

Thanks, team.

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

Matthew Blair

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

Hey, good morning, everyone.

William C. Pate

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

Good morning, Matt.

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Joseph Israel

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

А

Good morning, Matt.

Matthew Blair

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

Q

I thought the value of your integrated model really came through this quarter with the record Logistics results, near record Retail, could you just provide a little bit more commentary on the drivers behind the good numbers in each of those segments. And I guess specifically on Logistics, do you feel that's a sustainable number going forward?

William Monteleone

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

Δ

Sure, Matt. It's Will. I think with respect to Logistics you know the principal driver of the increase was really activity – marine activity in Hawaii and again that's going to move a little bit quarter-to-quarter based on bulk deliveries of both crude and product. And then separately you may recall during the first quarter we referenced some delays with respect to train deliveries in and out of Washington due to weather, again I think we caught up on that during the second quarter had more activity there. So again, I think the historical kind of throughput that we've guided to on an annual basis or the historical contribution I think is a good representation of the way we think about the business. And again, I think on the Retail side you know really a stronger environment for Retail margins, given changes in flat price during the quarter and I think overall seeing an industry-wide expansion in Retail margins during the quarter and we participated in that.

Matthew Blair

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



Sounds good. And then Will, could you provide an update on the drilling program and just overall strategy at Laramie, given the drop in natural gas and NGL prices, did you say that you had ceased drilling in August?

William Monteleone

Δ

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

That's correct. So Laramie will be ceasing drilling activity during the month of August given where pricing is. We'll be continuing some of its completion activities for the balance of the year and I think we'll revisit pricing on a goforward basis. I think strategically given where commodity prices are I think the most important thing for Laramie is frankly just balance sheet preservation and trying to get to a point where we're generating free cash flow and I think that's what Laramie is focused on. And I'd expect them to continue to do that on an ongoing basis.

Matthew Blair

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



Thank you. I'm going to re-queue for a few more questions. Thanks.

**Operator**: Our next question comes from the line of Mike Harrison with Seaport Global Securities. Please proceed with your questions.

Michael J. Harrison

Analyst, Seaport Global Securities LLC



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Hi, good morning.

### Joseph Israel

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

Α

Good morning.

#### Michael J. Harrison

Analyst, Seaport Global Securities LLC

Q

I was wondering if you could go through the DHT project and maybe now that it's complete congratulations on getting it completed. Now that is complete, can you may be talk through how we should think about the timing or ramp up of that 5,000 to 7,000 barrels a day, and maybe the magnitude of that contribution on kind of an EBITDA basis. Is it something that we see a lot of contribution in kind of Q3 or is it still mostly 2020 once the new regulations start to kick in.

#### William Monteleone

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



Yeah, Mike. It's Will. I think the best way to think about it from a modeling perspective is really kind of a mid-Q4 type of contribution that starts to kick in. And again, I think if you recall we had previously provided our assessment on return thresholds for that \$27 million project in the 30% range and I think we still feel comfortable with that return profile, which I think ought to put you in the you know mid-single digits in terms of an annual contribution for additional EBITDA.

#### Michael J. Harrison

Analyst, Seaport Global Securities LLC



Okay. And then if – I know you mentioned the crude unit turnaround in Hawaii, any other kind of special maintenance or turnaround actions that we need to keep in mind for the second half, and as we get into I guess the first part of 2020?

#### Joseph Israel

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



No. In Hawaii, we're still planning a major turnaround next year early in the summer. But until then, we don't have any scheduled or planned turnaround in Hawaii, other than what we executed here in the third quarter reformer regeneration and sulfur unit and other related maintenance.

### Michael J. Harrison

Analyst, Seaport Global Securities LLC



All right. And then last question for me is on Wyoming, you mentioned the \$1.9 million of FIFO headwinds during this quarter. Just wondering how we think about that as we move into Q3, is that something that kind of reverses or any thoughts on that?

#### William Monteleone

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



Mike, it's Will. I think, we're going to need to wait and see how kind of flat prices settle out. I think the principal driver there of a change period over periods usually the change in crude oil prices. So again, I think a little early to provide any thoughts on the direction of that move going into the third quarter.

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Mich	ael	J.	Ha	rris	on

Analyst, Seaport Global Securities LLC

All right. Thanks very much.

Joseph Israel

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

Thank you.

**Operator**: Our next question comes from the line of Jason Gabelman with Cowen. Please proceed with your questions.

Jason Gabelman

Analyst, Cowen & Co. LLC

Hey, thanks for taking my questions. I want to revisit a topic discussed last quarter just on low-sulfur fuel oil pricing and I'm wondering as we think about kind of low-sulfur fuel oil pricing improving through 2020 because of IMO. Could we expect Par to roughly get the price that we see on the screen? And then if I could just add a wrinkle to that, do you guys sell all of the low-sulfur fuel oil you produce in Hawaii to utilities or is there an opportunity to sell it into the bunker pool as well?

William Monteleone

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

Hey Jason, it's Will. I think we do sell the majority of our low-sulfur fuel oil to the utilities, that being said, I think there is nothing that we think that would prevent us from selling incremental volumes into the bunker market, either locally or into another region of the world. So, I think that's with respect to the output and I think in terms of the way we think about the pricing, I think at least initially that distillates are going to be the best representation of where low-sulfur fuel oil will clear in the market and I suspect over time that low-sulfur fuel oil spreads will move away from pure diesel pricing. And again, that's the way I think we think about the value of that product in the marketplace.

Jason Gabelman

Analyst, Cowen & Co. LLC

So, just if I could clarify that answer. If there are two prices I'm looking at in my model one of ULSD and one of low-sulfur fuel oil, which one would be more appropriate to attribute to the low-sulfur fuel oil that you're selling?

William Monteleone

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

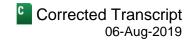
I think in the interim it's going to be somewhere in between – Jason, it's probably the best way to think about.

Jason Gabelman

Analyst, Cowen & Co. LLC

Got it. Okay. Thanks for that answer. And then just I think you guys had just mentioned that you're going to have a turnaround in Hawaii in 2020, if I heard you correctly. And I believe there's also one in Washington next year. So can you just give an indication of what CapEx directionally, what it's going to come in at in 2020?

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#### Joseph Israel

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

Yeah. So we reviewed the turnaround schedules across this system and we believe we are able to push the majority of the Washington turnaround into 2021 in the first quarter. This will leave a small first chapter in October

2020 but it's really going to have an insignificant impact to our overall operations. This will allow us to focus on only two turnarounds next year, first one in Hawaii early in the summer and then the one in Wyoming in October.

#### William Monteleone

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

And then Jason, it's Will. From just a turnaround outlay perspective, I think what we've historically indicated is that Hawaii typically runs about \$35 million and Wyoming in that \$15 million to \$17 million range. So, I think that's probably a pretty good sense of where the outlay is for 2020 and then again I think a smaller number for Washington, as Joseph indicated, later in the fourth quarter probably in the less than \$5 million to \$10 million range.

Yeah.

### William Monteleone

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

And I – Jason also keep in mind some of the turnaround outlays for Hawaii and Wyoming are actually incurred during 2019. So again, I think you could probably shave about \$10 million off that total.

Jason Gabelman

Analyst, Cowen & Co. LLC

And I'm assuming these are partial turnarounds, these aren't full shutdowns of plants.

Joseph Israel

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

You're talking about the 2019 outlays?

Jason Gabelman

Analyst, Cowen & Co. LLC

Yeah.

Joseph Israel

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

Yeah, the 2019 outlay is just reflecting ordering the equipment that we will need later in the turnaround. It doesn't involve any type of shutdown or slowdown.

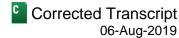
William Monteleone

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

But in 2020, they are plant-wide outages, Jason.

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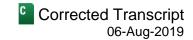
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Joseph Israel President & Chief Executive Officer-Par Petroleum, LLC; Director, Par Pacific Holdings, Inc.	A
Yeah.	
Jason Gabelman Analyst, Cowen & Co. LLC	Q
Got it. All right. Great. Thanks. I appreciate the answers.	
Joseph Israel President & Chief Executive Officer-Par Petroleum, LLC; Director, Par Pacific Holdings, Inc.	A
Thank you.	
<b>Operator</b> : Our next question comes from the line of Tim Rezvan with Oppenheimer & with your questions.	Company. Please proceed
Timothy A. Rezvan Analyst, Oppenheimer & Co. Inc.	Q
Hi. Good morning, folks. A question first on the balance sheet, you have been pretty cle goal, you're ending the second quarter with \$106 million of cash on the balance sheet. I use that to continue kind of grinding down debt. I guess what debt vehicles are kind of ir and how can we think about interest expense sort of trending into 2020, in addition to I graw from the last convert retirement?	'm assuming you'd like to n your crosshairs right now
William Monteleone Chief Financial Officer & Director, Par Pacific Holdings, Inc.	A
Sure. So I think, Tim, as a indication with respect to the starting point on a cash interest about \$60 million a year, this is in the second quarter as the starting point on an annualithink the convert reduction of about \$35 million on the principal balance is a positive confull quarter of that. So again, I think you'd expect a small reduction there. And then I think we are likely to continue to build our cash position, monitor overall cash from operations cash balance probably at least in the \$175 million range. The target I should say the liquidal balance and then I think we'll revisit which ones of the debt facilities make the most sense balance assuming we continue to generate additional liquidity.	ized basis, and so again I ntribution. You didn't get a nk – as I indicated, I think s and carry into the year, a uidity balance not cash
Timothy A. Rezvan Analyst, Oppenheimer & Co. Inc.	Q
Okay. Okay. I appreciate that. Thank you.	
<b>Operator</b> : Our next question comes from the line of Andrew Shapiro with Lawndale Ca Please proceed with your question.	apital Management.
Andrew Evan Shapiro President & Portfolio Manager, Lawndale Capital Management LLC	Q

Hi, thank you. A lot were asked and answered, but I have a few around the edges here. Just a little bit more clarification, if you could, on both the IES and U.S. Oil acquisition integration synergies is like, what do you see as

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any further consolidation integration synergy timelines for each of the acquisitions or is the digestion completed now, and all we're doing here is anniversarying the year-over-year savings.

William C. Pate

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

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So Andrew, let me take this. I think, first of all, with respect to Washington, we're making some really good progress on commercial synergies and they're probably more significant than we thought they were when we acquired the business. So those will continue to be ongoing. I don't know that that they'll show up as a synergy or a cost saving. These are opportunities where we think we can maximize the value of our products within our system, and that'll play out for a period of time.

With respect to Washington, we've also expanded our marine capability, and this really ties into Hawaii as well which will reduce the cost of moving ethanol out to Hawaii. We have not begun to realize that savings yet that's a significant savings, it's probably as big as the close to the lower end of the range of the cost savings that we laid out for the acquisition by itself. And then in addition to that, with that expanded capability, our ability to backhaul and to move products from Hawaii back to the West Coast on an opportunistic basis exists, and those are the synergies that I see in the system that we're really just starting to get our arms around.

With respect to the Integration too, we still have a fair amount of work to do in terms of integrating the processes in the systems. We see that unfolding over the next two to three quarters, not sure that you'll see a lot of impact on the bottom line there, but it's more a matter of aligning all our systems and processes and ensuring that we've got consistent kind of systems and processes throughout the organization. And so there will be certainly a point in time when we're shifting an entire organization over to our SAP system that will require some more effort.

And then turning to IES, the integration is largely done, so the asset is folded in and working very well with respect to our existing – our original Refinery, there is probably still some optimization work in terms of logistics and planning and the movement of products even between those two locations. And I think the real opportunity there will be as that market evolves. Having that expanded capability in the products that we can offer into the marketplace, we think there will be some continued growth in profitability in that market as well which will play out over probably two to three years.

Andrew Evan Shapiro

President & Portfolio Manager, Lawndale Capital Management LLC

Okay. And with respect to, I guess, the IES which probably contributed to this, I noticed on the Defense Department contracts site I guess it was within the last few days, you guys were named for I think it's the next the upcoming governmental fiscal year of a sizable increase in the DoD supply contract. Are these high-margin products in our sales mix and this should enhance our sales mix and margins or is it just a bigger movement of volume. And we see the benefit that way but it's on the lower margin sales mix?

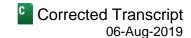
William C. Pate

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



Yeah I don't want to comment on the profitability of specific contracts but you know we obviously value our relationship with the DLA, we're fortunate to have three pipelines that are connected to major Defense installations. And we were very pleased to again win a contract with the DLA in Hawaii where I think we have a great relationship with the local Military forces and community. The volumes keep in mind are not necessarily indicative of what the Military will actually purchase during the year, they do on occasion buy more and they do on

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occasion buy less, but we don't see a material change to our operations as a result of that contract. And we're very pleased to continue to be their major supplier in the State of Hawaii.

Andrew Evan Shapiro

President & Portfolio Manager, Lawndale Capital Management LLC

Okay. When's the first year that Par's substantial tax NOLs start expiring?

William C. Pate

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

Will, you want to answer that?

William Monteleone

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

Yeah, I mean I think the time horizon was listed in the filing for 2027. And again I think – again I think there are a variety of strategies that we can deploy to ensure that we optimally consume the NOL over time as we generate taxable income.

William C. Pate

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

And Andrew, this is Bill. I think given the assets we have today and the earnings power we have today, I don't see any reason why we would have NOL that expire.

Andrew Evan Shapiro

President & Portfolio Manager, Lawndale Capital Management LLC

Excellent. So you're chewing through them as fast as they're coming up. And lastly, can you highlight and identify for us for our calendaring upcoming non-deal roadshows and investor presentations that you're planning?

Suneel Mandava

Senior Vice President-Finance, Par Pacific Holdings, Inc.

Andrew, this is Suneel. We just registered for the Seaport Global Securities Chicago Energy & Industrials Conference that'll be held in late August 27, 28, and then we're going to be picking up our planning here for the fourth quarter additional conferences that we'll be announcing those as we confirm them.

Andrew Evan Shapiro

President & Portfolio Manager, Lawndale Capital Management LLC

Okay. Is there any way you can – you announce them either on your website or that's why I usually ask on the call, a little ahead of time, because otherwise your press releases for them you know only come out basically the week of or the week before?

William C. Pate

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

Yes. That's a good point, Andrew, we'll try to accelerate that announcement going forward those announcements.

Andrew Evan Shapiro

President & Portfolio Manager, Lawndale Capital Management LLC



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Corrected Transcript
06-Aug-2019

Okay. Thank you.

**Operator:** [Operator Instructions] 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.

Hey, thanks for taking my follow-ups here. Joseph, Hawaii put up a very low \$2.80 OpEx number once again in Q2? After Q1, you sounded a little cautious on whether that was sustainable. Now it sounds like it might be sustainable. Is that the right read from your comments there?

Joseph Israel

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

Yeah. First half cost structure for our combined refinery in Hawaii has been very low at \$2.82 per barrel. Strong reliability and minimum planned and unplanned repairs have been the main reason. For the third quarter, we already mentioned the estimated \$0.30 per barrel of incremental cost through OpEx associated with the planned maintenance, also throughput barrels are going down in the third quarter due to the maintenance which will elevate everything reported on a per barrel basis. Long-term probably most important under average budget and throughput in the low \$3 per barrel production cost is probably still our best guidance at this point.

Matthew Blair

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

Sounds good. And then could you talk about where Par stands on Tier 3 compliance at each refinery, and your outlook on octane spreads next year?

Joseph Israel

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

From a Tier 3 standpoint, we are already there. And from an octane standpoint, as a system, we produce 20% – over 22% of our sold gasoline is premium gasoline, and probably more important we have even more room to increase premium and octane blending if we choose to and if the market is there. So, we are very comfortable there.

Matthew Blair

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

Great. And then last question. Some refiners have noted weak naphtha cracks that have had a negative impact on margin capture. Now just wondering about your exposure here, what is your naphtha yield, and is there anything you can do to offset the weak pricing?

Joseph Israel

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

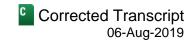
Yeah. I think the naphtha problems are more relevant for Gulf Coast refineries associated with more Eagle Ford Permian basin type of blending. We have less of that, but we still have some elevated [indiscernible] (00:43:27) in our good feedstock which our equipment can handle with a minimum noise.

Matthew Blair

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



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Great. Thank you very much.

**Operator:** Since there are no further questions left in the queue, I would like to turn the floor back over to Mr. Bill Pate for any closing remarks.

### William C. Pate

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

Thank you, operator. Thanks for joining us this morning. This has been the first reporting cycle in which we believe that our financial statements reflect the benefits of our recent acquisitions. We achieved record financial and operating results despite difficult market conditions in Asia largely due to the excellent performance from our mainland acquisitions over the past few years. Conditions in Asia are improving into the back half of the year as IMO 2020 approaches and we believe our Hawaii business is well-positioned to capture this market improvement. Have a good day.

**Operator:** This concludes today's teleconference. You may now disconnect your lines at this time. Thank you for your participation and have a wonderful day.

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