

# [***-Valero Energy Reports Third Quarter 2019 Results***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5XBY-F5J1-JD3Y-Y2W0-00000-00&context=1516831)

ENP Newswire

October 25, 2019 Friday

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**Length:** 3032 words

**Body**

Valero Energy Corporation (NYSE: VLO, 'Valero') today reported net income attributable to Valero stockholders of $ 609 million, or $ 1.48 per share, for the third quarter of 2019 compared to $ 856 million, or $ 2.01 per share, for the third quarter of 2018.

'We delivered another quarter of solid financial results despite challenging market conditions,' said Joe Gorder, Valero Chairman, President and Chief Executive Officer. 'Our simple strategy of striving to be the best operator in the business, investing to drive earnings growth with lower volatility and maintaining capital discipline with an uncompromising focus on shareholder returns has proven to be successful and positions us well for any market ***environment***.'

Refining

The refining segment reported $ 1.1 billion of operating income for the third quarter of 2019 compared to $ 1.4 billion for the third quarter of 2018. The decrease was primarily driven by narrower crude oil discounts to Brent crude oil.

'Fourth quarter market conditions look favorable with improved gasoline and distillate cracks and wider discounts for medium and heavy sour crude oils,' Gorder said. 'We expect to see continued product strength with inventories at lower levels and sour crude weakness resulting from the IMO low sulfur fuel oil mandate, which goes into effect on January 1, 2020.'

Refinery throughput capacity utilization was 94 percent, with throughput volumes averaging 2.95 million barrels per day in the third quarter of 2019. The company processed 190 thousand barrels per day of Canadian heavy crude oil and exported a total of 331 thousand barrels per day of gasoline and distillate during the third quarter of 2019.

Ethanol

The ethanol segment reported a $ 43 million operating loss for the third quarter of 2019, compared to $ 21 million of operating income for the third quarter of 2018. The decrease in operating income was attributed primarily to higher corn prices. Ethanol production volumes averaged 4.0 million gallons per day in the third quarter of 2019.

Renewable Diesel

The renewable diesel segment reported $ 65 million of operating income for the third quarter of 2019 compared to a $ 5 million operating loss for the third quarter of 2018. Renewable diesel sales volumes averaged 638 thousand gallons per day in the third quarter of 2019, an increase of 387 thousand gallons per day versus the third quarter of 2018. The third quarter of 2018 operating results and sales volumes were impacted by the planned downtime of the Diamond Green Diesel plant as part of completing an expansion project.

Corporate and Other

General and administrative expenses were $ 217 million in the third quarter of 2019 compared to $ 209 million in the third quarter of 2018. The effective tax rate for the third quarter of 2019 was 21 percent, compared to 24 percent for the third quarter of 2018.

Investing and Financing Activities

Capital investments totaled $ 525 million in the third quarter of 2019, of which $ 305 million was for sustaining the business, including costs for turnarounds, catalysts and regulatory compliance.

Valero returned $ 679 million to stockholders in the third quarter of 2019, of which $ 372 million was paid as dividends and $ 307 million was for the purchase of approximately 3.9 million shares of common stock, resulting in a total payout ratio of 61 percent of adjusted net cash provided by operating activities.

Net cash provided by operating activities was $ 1.4 billion in the third quarter of 2019. Included in this amount is a $ 315 million favorable impact from working capital. Excluding the change in working capital, adjusted net cash provided by operating activities was $ 1.1 billion.

Valero continues to target a total payout ratio between 40 and 50 percent of adjusted net cash provided by operating activities for 2019. Valero defines total payout ratio as the sum of dividends and stock buybacks divided by net cash provided by operating activities adjusted for changes in working capital.

Liquidity and Financial Position

Valero ended the third quarter of 2019 with $ 9.6 billion of total debt and $ 2.1 billion of cash and cash equivalents. The debt to capital ratio, net of $ 2 billion in cash, was 26 percent.

Strategic Update

The Central Texas Pipelines and Terminals project was successfully completed in the third quarter of 2019. This project reduces secondary costs and extends Valero's supply chain from the Gulf Coast to a higher demand market to maximize product margins. Other projects, including the Pasadena terminal, St. Charles alkylation unit, and Pembroke cogeneration unit, remain on track to be complete in 2020. The company expects the Diamond Green Diesel expansion and Port Arthur Coker to be complete in 2021 and 2022, respectively.

In September, Valero and its joint venture partner announced that they have initiated an advanced engineering and development cost review for a new renewable diesel plant at Valero's Port Arthur, Texas facility. If the project is approved, construction would begin in 2021, with expected operations commencing in 2024, which would result in Diamond Green Diesel production capacity increasing to over 1.1 billion gallons annually.

Valero continues to expect to invest approximately $ 2.5 billion of capital in both 2019 and 2020, of which approximately 60 percent is for sustaining the business and approximately 40 percent is for growth projects.

About Valero

Valero Energy Corporation, through its subsidiaries (collectively, 'Valero'), is an international manufacturer and marketer of transportation fuels and petrochemical products. Valero is a Fortune 50 company based in San Antonio, Texas, and it operates 15 petroleum refineries with a combined throughput capacity of approximately 3.1 million barrels per day and 14 ethanol plants with a combined production capacity of approximately 1.73 billion gallons per year. The petroleum refineries are located in the United States (U.S.), Canada and the United Kingdom (U.K.), and the ethanol plants are located in the Mid-Continent region of the U.S. Valero also is a joint venture partner in Diamond Green Diesel, which operates a renewable diesel plant in Norco, Louisiana. Diamond Green Diesel is North America's largest biomass-based diesel plant. Valero sells its products in the wholesale rack or bulk markets in the U.S., Canada, the U.K., Ireland and Latin America. Approximately 7,000 outlets carry Valero's brand names.

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Statements contained in this release that state the company's or management's expectations or predictions of the future are forward-looking statements intended to be covered by the safe harbor provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. The words 'believe,' 'expect,' 'should,' 'estimates,' 'intend,' 'target,' 'will,' 'plans,' and other similar expressions identify forward-looking statements. It is important to note that actual results could differ materially from those projected in such forward-looking statements based on numerous factors, including those outside of the company's control, such as delays in construction timing and other factors. For more information concerning factors that could cause actual results to differ from those expressed or forecasted, see Valero's annual reports on Form 10-K, quarterly reports on Form 10-Q, and other reports filed with the Securities and Exchange Commission and on Valero's website at [*www.valero.com*](http://www.valero.com).

Use of Non-GAAP Financial Information

These non-GAAP measures include adjusted net income attributable to Valero stockholders, adjusted earnings per common share - assuming dilution, refining margin, ethanol margin, renewable diesel margin, adjusted refining operating income, adjusted ethanol operating income, adjusted renewable diesel operating income, and adjusted net cash provided by operating activities. These non-GAAP financial measures have been included to help facilitate the comparison of operating results between periods. See the accompanying earnings release tables for a reconciliation of non-GAAP measures to their most directly comparable U.S. GAAP measures.

VALERO ENERGY CORPORATION

NOTES TO EARNINGS RELEASE TABLES

Cost of materials and other for the nine months ended September 30, 2018 includes a benefit of $ 170 million for the biodiesel blender's tax credit attributable to volumes blended during 2017. The benefit was recognized in February 2018 because the U.S. legislation authorizing the credit was passed and signed into law in that month. Of the $ 170 million pre-tax benefit, $ 10 million and $ 160 million is included in our refining and renewable diesel segments, respectively, and consequently, $ 80 million is attributable to noncontrolling interest and $ 90 million is attributable to Valero Energy Corporation stockholders.

Other operating expenses reflects expenses that are not associated with our cost of sales and primarily includes costs to repair, remediate, and restore our facilities to normal operations following a non-operating event such as a natural disaster or a major unplanned outage.

General and administrative expenses (excluding depreciation and amortization expense) for the nine months ended September 30, 2018 includes a charge of $ 108 million for environmental reserve adjustments associated with certain non-operating sites.

'Other income, net' for the nine months ended September 30, 2019 and 2018 includes a $ 22 million charge from the early redemption of $ 850 million of our 6.125 percent senior notes due February 1, 2020 and a $ 38 million charge from the early redemption of $ 750 million of our 9.375 percent senior notes due March 15, 2019, respectively.

Effective January 1, 2019, we revised our reportable segments to align with certain changes in how our chief operating decision maker manages and allocates resources to our business. Accordingly, we created a new reportable segment - renewable diesel. The results of the renewable diesel segment, which includes the operations of our consolidated joint venture, Diamond Green Diesel Holdings LLC, were transferred from the refining segment. Also effective January 1, 2019, we no longer have a VLP segment, and as a result, the operations previously included in the VLP segment are included in our refining segment. Our prior period segment information has been retrospectively adjusted to reflect our current segment presentation.

We use certain financial measures (as noted below) in the earnings release tables and accompanying earnings release that are not defined under U.S. GAAP and are considered to be non-GAAP measures.

We have defined these non-GAAP measures and believe they are useful to the external users of our financial statements, including industry analysts, investors, lenders, and rating agencies. We believe these measures are useful to assess our ongoing financial performance because, when reconciled to their most comparable U.S. GAAP measures, they provide improved comparability between periods through the exclusion of certain items that we believe are not indicative of our core operating performance and that may obscure our underlying business results and trends. These non-GAAP measures should not be considered as alternatives to their most comparable U.S. GAAP measures nor should they be considered in isolation or as a substitute for an analysis of our results of operations as reported under U.S. GAAP. In addition, these non-GAAP measures may not be comparable to similarly titled measures used by other companies because we may define them differently, which diminishes their utility.

Non-GAAP measures are as follows:

Adjusted net income attributable to Valero Energy Corporation stockholders is defined as net income attributable to Valero Energy Corporation stockholders excluding the items noted below, along with their related income tax effect. We have excluded these items because we believe that they are not indicative of our core operating performance and that their exclusion results in an important measure of our ongoing financial performance to better assess our underlying business results and trends. The basis for our belief with respect to each excluded item is provided below.

2017 blender's tax credit attributable to Valero Energy Corporation stockholders - The blender's tax credit is attributable to volumes blended during 2017 and is not related to 2018 activities, as described in note (a).

Texas City Refinery fire expenses - The costs incurred to respond to and assess the damage caused by the fire that occurred at the Texas City Refinery are specific to that event and are not ongoing costs incurred in our operations.

Environmental reserve adjustments - The environmental reserve adjustments are attributable to sites that were shut down by prior owners and subsequently acquired by us (referred to by us as non-operating sites).

Loss on early redemption of debt - The penalty and other expenses incurred in connection with the early redemption of our 6.125 percent senior notes due February 1, 2020 and 9.375 percent senior notes due March 15, 2019 are not associated with the ongoing costs of our borrowing and financing activities.

Adjusted earnings per common share - assuming dilution is defined as adjusted net income attributable to Valero Energy Corporation stockholders divided by the number of weighted-average shares outstanding in the applicable period, assuming dilution.

Refining margin is defined as refining operating income excluding the 2017 blender's tax credit operating expenses (excluding depreciation and amortization expense), depreciation and amortization expense, and other operating expenses. We believe refining margin is an important measure of our refining segment's operating and financial performance as it is the most comparable measure to the industry's market reference product margins, which are used by industry analysts, investors, and others to evaluate our performance.

Ethanol margin is defined as ethanol operating income (loss) excluding operating expenses (excluding depreciation and amortization expense), depreciation and amortization expense, and other operating expenses. We believe ethanol margin is an important measure of our ethanol segment's operating and financial performance as it is the most comparable measure to the industry's market reference product margins, which are used by industry analysts, investors, and others to evaluate our performance.

Renewable diesel margin is defined as renewable diesel operating income (loss) excluding the 2017 blender's tax credit, operating expenses (excluding depreciation and amortization expense), and depreciation and amortization expense. We believe renewable diesel margin is an important measure of our renewable diesel segment's operating and financial performance as it is the most comparable measure to the industry's market reference product margins, which are used by industry analysts, investors, and others to evaluate our performance.

Adjusted refining operating income is defined as refining segment operating income excluding the 2017 blender's tax credit and other operating expenses. We believe adjusted refining operating income is an important measure of our refining segment's operating and financial performance because it excludes items that are not indicative of that segment's core operating performance.

Adjusted ethanol operating income (loss) is defined as ethanol segment operating income (loss) excluding other operating expenses. We believe this is an important measure of our ethanol segment's operating and financial performance because it excludes items that are not indicative of that segment's core operating performance.

Adjusted renewable diesel operating income (loss) is defined as renewable diesel segment operating income (loss) excluding the 2017 blender's tax credit. We believe this is an important measure of our renewable diesel segment's operating and financial performance because it excludes items that are not indicative of that segment's core operating performance.

Adjusted net cash provided by operating activities is defined as net cash provided by operating activities excluding changes in current assets and current liabilities. We believe adjusted net cash provided by operating activities is an important measure of our ongoing financial performance to better assess our ability to generate cash to fund our investing and financing activities.

The refining segment regions reflected herein contain the following refineries: U.S. Gulf Coast- Corpus Christi East, Corpus Christi West, Houston, Meraux, Port Arthur, St. Charles, Texas City, and Three Rivers Refineries; U.S. Mid-Continent- Ardmore, McKee, and Memphis Refineries; North Atlantic- Pembroke and Quebec City Refineries and U.S. West Coast- Benicia and Wilmington Refineries.

Primarily includes petrochemicals, gas oils, No. 6 fuel oil, petroleum coke, sulfur, and asphalt.

Valero uses certain operating statistics (as noted below) in the earnings release tables and the accompanying earnings release to evaluate performance between comparable periods. Different companies may calculate them in different ways.

All per barrel of throughput, per gallon of production, and per gallon of sales amounts are calculated by dividing the associated dollar amount by the throughput volumes, production volumes, and sales volumes for the period, as applicable.

Throughput volumes, production volumes, and sales volumes are calculated by multiplying throughput volumes per day, production volumes per day, and sales volumes per day (as provided in the accompanying tables), respectively, by the number of days in the applicable period. We use throughput volumes, production volumes, and sales volumes for the refining segment, ethanol segment, and renewable diesel segment, respectively, due to their general use by others who operate facilities similar to those included in our segments. We believe the use of such volumes results in per unit amounts that are most representative of the product margins generated and the operating costs incurred as a result of our operation of those facilities.

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**Load-Date:** October 25, 2019

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