Company Name: Valero Energy
Company Ticker: VLO US
Date: 2017-01-31
Event Description: Q4 2016 Earnings Call

Market Cap: 29,463.95
Current PX: 65.09
YTD Change($): -3.23
YTD Change(%): -4.728

Bloomberg Estimates - EPS
Current Quarter: 0.912
Current Year: 5.475
Bloomberg Estimates - Sales
Current Quarter: 20060.167
Current Year: 83441.833

Q4 2016 Earnings Call

Company Participants

- John Locke
- Joseph W. Gorder
- Jason Fraser
- R. Lane Riggs
- Michael S. Ciskowski
- Gary Simmons
- Richard F. Lashway

Other Participants

- Brad Heffern
- Phil M. Gresh
- Neil Mehta
- Doug Leggate
- Edward George Westlake
- Paul Cheng
- Roger D. Read
- Chi Chow
- Spiro M. Dounis
- Jeff A. Dietert
- Ryan Todd
- Blake Fernandez
- Faisel H. Khan
- Craig K. Shere
- Paul Sankey

MANAGEMENT DISCUSSION SECTION

Operator

Welcome to the Valero Energy Corporation Reports 2016 Fourth Quarter Earnings Results Conference Call. My name is Vanessa and I will be your operator for today's call. At this time participants are in a listen-only mode. Later we will conduct a question-and-answer session. Please note that this conference is being recorded.

I will now turn the call over to Mr. John Locke, Vice President, Investor Relations. Sir, you may begin.

John Locke

Good morning and welcome to Valero Energy Corporation's fourth quarter 2016 earnings conference call. With me today are Joe Gorder, our Chairman, President and Chief Executive Officer; Mike Ciskowski, our Executive Vice President and CFO; Lane Riggs, our Executive Vice President of Refining Operations & Engineering; Jay Browning, our Executive Vice President and General Counsel, and several other members of Valero's senior management team.

If you have not received the earnings release and would like a copy, you can find one on our website at valero.com. Also attached to the earnings release are tables that provide additional financial information on our business segments. If you have any questions after reviewing these tables, please feel free to contact our Investor Relations team after the call.

I would like to direct your attention to the forward-looking statement disclaimer contained in the press release. In summary, it says that statements in the press release and on this conference call 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 under Federal securities laws. These are many factors that could cause actual results to differ from our expectations, including those we've described in our filings with the SEC.

Now I'll turn the call over to Joe for a few opening remarks.

Joseph W. Gorder

Thanks, John, and good morning, everyone. The fourth quarter and the full year 2016 were good for Valero as we achieved our best performance ever in the areas of personnel and process safety, plant reliability, and environmental stewardship. We're very proud of our team's exceptional execution which we believe is imperative in our business and critical during a low margin environment like we saw for most of the year.

In the fourth quarter, we continued to see good domestic demand supported by low prices and solid export volumes due primarily to demand strength in Latin America. While we saw seasonal declines in available margin in some regions, margins in the Gulf Coast region remained healthy and distillate margins in all regions were bolstered by a return to more normal weather patterns in North America and Europe. We also saw attractive heavy sour discounts relative to Brent.

A persistent headwind again this quarter was the exorbitant price of RINs. We spent $217 million in the fourth quarter to meet our biofuel blending obligations. At this level, this is a significant issue for us, so we continue to work it aggressively with regulators. Our efforts are focused on moving the point of obligation because we believe this will level the playing field among refiners and retailers but more importantly it will improve the penetration of renewable fuels, lower RIN speculation, and reduce RIN fraud. However, based on current rules, we expect costs in the 2017 to be similar to the $750 million amount we incurred last year. Given significance of this cost to our company, this issue continues to have our full attention.

Turning to our refining segment, we initiated turnarounds at our Port Arthur and Ardmore refineries in the third quarter. Both events carried over into and were completed in the fourth quarter. Our employees and contractors worked hard to safely complete these events. We believe distinctive operating performance is highly correlated to capturing more of the margin available in the market.

In our ethanol business, we also ran very well and saw strong margins in the fourth quarter due to high gasoline demand in the U.S., strong pull from export markets, and low corn prices. Also in the fourth quarter, we invested over $600 million to sustain and grow our business. Construction continued on our $450 million Diamond Pipeline project which we believe is on track for completion at the end of this year, and we continue to work on our $300 million Houston alkylation unit which we expect to be mechanically complete in the first half of 2019. We also have additional growth investment opportunities under development around octane enhancement, co-generation, and feedstock flexibility.

And finally, regarding cash return to stockholders, we delivered a payout ratio of 142% of our 2016 adjusted net income, which was 78% higher than our payout ratio for 2015 and well above our target for 2016. Further demonstrating our belief in Valero's earnings power, last week our Board of Directors approved a 17% increase in the regular quarterly dividend to $0.70 per share or $2.80 annually.

So, John, with that, I'll hand the call back over to you.

John Locke

Thank you, Joe. For the fourth quarter, net income attributable to Valero stockholders was $367 million or $0.81 per share compared to $298 million or $0.62 per share in the fourth quarter of 2015. Fourth quarter 2015 adjusted net income attributable to Valero stockholders was $862 million or $1.79 per share.

For 2016, net income attributable to Valero stockholders was $2.3 billion, or $4.94 per share, compared to $4 billion or $7.99 per share in 2015. 2016 adjusted net income attributable to Valero stockholders was $1.7 billion or $3.72 per share compared to $4.6 billion or $9.24 per share for 2015. Please refer to the reconciliations of actual to adjusted amounts as shown on page three of the financial tables that accompany our release.

Operating income for the refining segment in the fourth quarter of 2016 was $715 million compared to $876 million for the fourth quarter of 2015. Adjusted operating income for the fourth quarter of 2015 was $1.5 billion. The decline from the 2015 adjusted amount was primarily due to narrower discounts for most sweet and sour crude oils relative to Brent, weaker gasoline margins in some regions and higher RINs prices.

Refining throughput volumes averaged 2.9 million barrels per day which was in line with the fourth quarter of 2015. Our refineries operated at 95% throughput capacity utilization in the fourth quarter of 2016 with major turnarounds at the Port Arthur and Ardmore refineries completed early in the quarter. Refining cash operating expenses of $3.83 per barrel or $0.36 per barrel higher than the fourth quarter of 2015 primarily due to favorable property tax settlements and adjustments in 2015 and higher energy cost in 2016.

The ethanol segment generated $126 million of operating income in the fourth quarter of 2016 compared to a loss of $13 million in the fourth quarter of 2015. Adjusted operating income for the fourth quarter of 2015 was $37 million. The increase from the 2015 adjusted amount was due primarily to lower corn prices and higher ethanol prices.

For the fourth quarter of 2016, general and administrative expenses excluding corporate depreciation were $208 million and net interest expense was $112 million. Net interest expense was lower than guidance due to prepayment penalties associated with the early redemption of the 2017 notes being reflected in other income.

Depreciation and amortization expense was $468 million, and the effective tax rate was 21% in the fourth quarter of 2016. The effective tax rate was lower than expected due primarily to stronger than projected relative earnings contribution from our international operations that have lower statutory rates and other items as referenced in the release.

With respect to our balance sheet at quarter end, total debt was $8 billion and cash and temporary cash investments were $4.8 billion, of which $71 million was held by VLP. Valero's debt-to-capitalization ratio net of $2 billion in cash was 23%. We have $5.6 billion of available liquidity excluding cash, of which $720 million was available for only VLP.

We generated $998 million of cash from operating activities in the fourth quarter. With regard to investing activities, we made $628 million of capital investments, of which $244 million was for turnarounds and catalyst. For 2016, we invested $2 billion which was slightly lower than guidance due to lower turnaround cost and the timing of some growth spending. And of this total, $1.4 billion was for sustaining and $600 million was for growth.

Moving to financing activities, we returned $440 million in cash to our stockholders in the fourth quarter, which included $271 million in dividend payments and $169 million for the purchase of 2.7 million shares of Valero common stock. For 2016, we purchased 23.3 million shares for $1.3 billion and had approximately $2.5 billion of authorization remaining. For 2017, we maintain our guidance of $2.7 billion for capital investments, including turnarounds, catalyst, and joint venture investments. This consists of approximately $1.6 billion for sustaining and $1.1 billion for growth.

For modeling our first quarter operations, we expect throughput volumes to fall within the following ranges. U.S. Gulf Coast at 1.63 million barrels per day to 1.68 million barrels per day, U.S. Mid-Continent at 415,000 barrels per day to 435,000 barrels per day, U.S. West Coast at 195,000 barrels per day to 215,000 barrels per day, which reflects a major turnaround at the Benicia refinery, and North Atlantic at 440,000 barrels per day to 460,000 barrels per day. We expect refining cash operating expenses in the first quarter to be approximately $4.15 per barrel which reflects projected increased natural gas prices.

Our ethanol segment is expected to produce a total of 3.8 million gallons per day in the first quarter. Operating expenses should average $0.39 per gallon, which includes $0.05 per gallon for non-cash costs such as depreciation and amortization. We expect G&A expenses excluding corporate depreciation for the first quarter to be around $175 million and net interest expense should be about $115 million. Total depreciation and amortization expense should be approximately $485 million, and our effective tax rate is expected to be around 30%.

That concludes our opening remarks. Before we open the call to questions, we again respectfully request that callers adhere to our protocol of limiting each turn in the Q&A to two questions each. This will help us ensure other callers have time to ask their questions. And if you have more than two questions, please rejoin the queue as time permits.

Q&A

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] And we have our first question from Brad Heffern with RBC Capital Markets.

<Q - Brad Heffern>: Good morning, everyone.

<A - Joseph W. Gorder>: Good morning, Brad.

<Q - Brad Heffern>: Hey, Joe. So I was wondering obviously a big topic of conversation has been the border adjustment tax in the states. So can you go through your thoughts on how that's going to affect feedstock costs, your ability to pass it on and maybe the likelihood that you see of that actually making it through?

<A - Joseph W. Gorder>: Yeah, you bet. We'll give you a point of view. What I'd like to do is let Jason Fraser answer that question. Jason is recently taken the position as the individual responsible for our public policy and strategic planning group. So we brought him back from London to take on this job, and it's interesting, we put the two functions together, strategic planning and public policy because in our view you really can't bifurcate the two anymore. They're going to be very intertwined. So Jason, you want to go ahead and share your point of view.

<A - Jason Fraser>: Sure. Yeah. I'll give you a heads up on where we are with the house tax blueprint. And we've read all of your reports. As you know, there are greatly differing opinions on the blueprints including the border adjustment tax aspect, how it affects our industry and Valero. We're performing our own analysis as well as working through scenarios with AFPM, our trade association. We're also engaged with the legislative process.

We're at the very early stages, no legislative text has been released by the Ways and Means Committee yet, so we're not sure exactly what's going to be in it. But we're going to continue to work this issue.

Regarding the likelihood of passage, you guys know that any kind of major legislative change like this is difficult to pass. If there isn't bipartisan support, the Republicans may have to use the budget reconciliation process. We also have a new administration which adds another variable. So it's really hard to handicap at this stage how it's likely to turn out.

<Q - Brad Heffern>: Okay. Thanks for that. And then, Joe, or maybe Gary or Lane, the South Coast AQMD in California has talked about potentially banning the use of hydrofluoric acid. I was curious if you know what the impact will potentially be on Wilmington and maybe the chance of that going through as well?

<A - R. Lane Riggs>: So, Brad, it's Lane. Yeah, we're engaged in the process and there's obviously a conversation around it. And I can't really share much more than that than it does impact our operations, we do have an HF unit there as long as the operator there at Torrance. And there are technologies out there, obviously the most straightforward one is the sulfuric acid, but there's also one of the other technology providers in the space has another solution, but we're certainly working with them in terms of how long it might take to – if they choose to go down that path and how long will the phase in or at least the requirement would be. But we're very involved.

<Q - Brad Heffern>: Okay. I'll leave it there. Thanks, guys.

Operator

Thank you. Our next question comes from Phil Gresh with JPMorgan.

<Q - Phil M. Gresh>: Hey, good morning.

<A - Joseph W. Gorder>: Hi Phil.

<Q - Phil M. Gresh>: I just wanted to start with the return of capital. Obviously, the year ended up north of 140%. You're guiding to 75%, which is consistent with the guidance you've always set. But there's obviously a big delta between those two numbers. So I guess, I'm wondering how you're thinking about that target relative to what you accomplished in 2016 and just taking note of the fact that 4Q did step down a bit from the rest of the year on the buybacks?

<A - Michael S. Ciskowski>: Okay. Yeah, Phil, this is Mike. We continue to spend our discretionary cash according to our capital allocation framework. When we look at how much we're going to buy back in a particular quarter, we do look at the net income, but we also consider cash flow. And so for the quarter or for 2016 we did pay out 142% of net income, and that equated to 51% of cash flow.

<Q - Phil M. Gresh>: Okay. So you're suggesting we should consider cash flow as a metric as well?

<A - Michael S. Ciskowski>: Well, not suggesting that as our overall guidance, but in a lower margin environment where net income is hit with our depreciation, we do take that into consideration when we're returning to our shareholders.

<A - Joseph W. Gorder>: Phil, we've talked about this before. We set the 75% target because it's easy to see. And cash flow can move around obviously. And Mike is right, looking at net income in a low margin environment, we set an expectation, and we consider it to be kind of the floor. It's our commitment to our shareholders to the extent we can do more, and it's the best use for the cash. We'll go ahead and continue to buy back shares. I think, the move we made with the dividend this quarter clearly reflects our comfort level and our board's comfort level with the earnings capability of the company in a down market. And so obviously, if you look at a $2.80 dividend, it's going to continue to be a more significant component of the 75% payout ratio. We're very comfortable with that. But we will continue to buy back shares, and the guys will do it the way they've done in the past, to some extent ratably and to some extent opportunistically.

<Q - Phil M. Gresh>: Sure. Okay. That makes sense. And if I could maybe just push a little bit more on Brad's question. More from the angle of if something were to happen, maybe just talk through your system, the amount of crude you import, the amount of product you export. You gave some numbers on product exports, but maybe just what changes you think you would potentially make if this were indeed implemented?

<A - Joseph W. Gorder>: Yeah. I mean, it's – and I'll let Gary and Jason and Lane, we can all speak to this. But obviously you're going to optimize your crude slate. The big question around this whole border adjustment is how are the markets going to react to it. And frankly, we've read every one of the sell-side reports on this and then consulting reports, as Jason mentioned, and it's got a lot of moving parts. Some people look at it on a static basis. Some have looked at it when you take into consideration the markets adjusting, and some have taken it into consideration the currency adjustment also. So right now there's a skeleton out there that they're trying to put flesh on, and we don't know exactly what it's going to look like. But I think it's fair to say that we're going to continue to optimize our operation.

And if you recall, Gary, I don't remember how long ago, but we were running over a million barrels a day of light sweet crude...

<A - Gary Simmons>: Yeah.

<A - Joseph W. Gorder>: ..and there's times when we've run 600,000 barrels a day or 700,000 barrels a day of light sweet crude. So, Phil, we've got the flexibility in the system. Gary, you want to talk at all about the markets and...?

<A - Gary Simmons>: Yeah, so if you just look really over the last several years, our strategic objectives have been around developing feedstock flexibility and developing export markets, and so we believe that puts us in a

really good position to be able to handle whatever the border tax may throw our way.

<Q - Phil M. Gresh>: Okay. Got it. Thank you.

Operator

Thank you. Our next question comes from Neil Mehta with Goldman Sachs.

<Q - Neil Mehta>: Good morning, guys.

<A - Joseph W. Gorder>: Hi, Neil.

<Q - Neil Mehta>: Joe, I wanted to start off on the product markets here. We've seen a couple weeks of gasoline inventory builds, I want to get your sense of what you think is going on there. Is there an issue with underlying gasoline demand? And how do you see it playing out from here?

<A - Joseph W. Gorder>: Yeah. It's a great question, Neil. Gary, you want to share your thoughts?

<A - Gary Simmons>: Yeah. Neil, I guess to me when you look at the DOE numbers, it's always difficult this early in the year to tell a lot from the numbers, but certainly when you look at gasoline demand which is trending below last year's level. Last week's stat showed gasoline demand really at the lower end of the 5-year range. The part to me, though, when you look at implied demand which includes the export, implied demand is actually tracking above last year's level which is a little confusing. It's certainly confusing to us when we look at our operations because what we've seen in our operations in the Gulf is we've had a number of weather impacts in the Gulf, primarily fog, which has hindered our ability to really load ships, which hinders our ability to do the export.

So, at least in our mind, the export in the DOEs are probably overstated, which would in turn tell you that domestic demand is understated. And so I think, you'll see a revision in the stats to where exports will be lowered and the domestic demand raised. But we'll have to see how that plays out.

Really when you look regionally, we don't see any indication to believe that domestic demand is down. You have a few locations we had high levels of rain on the West Coast, which hindered our demand there. You had some instances in the Upper Midwest with some ice storms. But none of that is abnormal. So I don't think we see anything that tells us demand this year is going to be dramatically different than what we saw last year.

<Q - Neil Mehta>: And then so, Gary, what do you make of the inventory build? Is that just the function of fog and having some issues getting the product out, or the refining industry running too hard in response to the strong cracks at the end of year last year?

<A - Gary Simmons>: Yeah, I would say PADD 3 definitely is a result of fog. And weather clears and you'll start to see the PADD 3 market clear. Obviously, the concern is the PADD 1 market and, our hope certainly was with less carry in the market you would see a less of an incentive to put barrels into New York Harbor and store them for summer. And really we've been on a similar trajectory as what we were last year. I think, the only thing that we see that's different in the market, we don't have a lot of line of sight to the barrels people are putting into tanks. But it does look to us like a lot more of the inventory this year is a winter grade gasoline, which if that's true, you should see play out before RVP transition, people will have to liquidate those barrels and the market will get a little soft, but then you should see inventory clean up before you get to gasoline season.

To your comment, I do think, part of this is obviously the utilization rates are just too high, and we're producing more diesel and gasoline than the market can absorb. When you look at the northwest Europe crack, it looks like this week we've gone below the level where we generally start to see some run cuts in northwest Europe. I also believe regionally the Rocky Mountain region, the Upper Midwest Chicago market, those markets are long and you'll see some run cuts there. So you combine that with the turnaround activity, and I think you'll start to see inventories come back in [ph] the line (24:17).

<Q - Neil Mehta>: That's great. And my follow-up here is for Cisko. Cisko, there are a lot of puts and takes in the quarter. You mind walking through the tax rate which was a little bit lower, the interest expense guidance which was a little bit different, and some funkiness in other income?

<A - Michael S. Ciskowski>: Okay. Yeah. Neil, I can do that. Okay, first on our tax rate, for the quarter we were 21% versus our guidance of 31%. We had a couple of things going on there. First, we had higher income than previously projected with most of this being in Canada and the UK which has the lower statutory tax rate. So that was worth about 3% on the tax rate. Next, on a few of our tax audits, the statute of limitations expired, therefore we reversed reserves associated with these audits. And those reversals along with a few other small adjustments was about 7% on our tax rate.

Okay, we had a few items that we did – we chose not to identify them as special items for this earnings call, but I will walk through those. First, and you talked about one already, the debt prepayment penalty, we inadvertently on our last call included that penalty in interest expense. It actually flowed through other income. That was a charge of about $42 million. Offsetting that, however, was kind of a unique item, it's the Canadian commercial paper recovery. Back in 2009, we wrote off that investment. Part of the deal, we exchanged our commercial paper for some notes, and in the fourth quarter, we received payment on those notes. And that was about $50 million. So those two kind of offset each other in other income.

And then lastly we had in the fourth quarter a LIFO charge. We had a decrement, and we had a LIFO charge of about $55 million. So we chose not to identify any of these four items as a special, but I did want to go over that.

So in summary, we had two expense items, the debt prepayment and the LIFO charge. We had one income item commercial paper recovery, and then we had the lower tax rate. So when you net those four items together, that was $0.02 per share on our earnings.

<Q - Neil Mehta>: That's great. Thanks a lot.

<A - Joseph W. Gorder>: You bet.

Operator

And thank you. Thank you. Our next question comes from Doug Leggate with Bank of America Merrill Lynch.

<Q - Doug Leggate>: Thanks. Good morning, everybody. Joe, one of the other, I guess, policy moving [ph] parts (27:06) that has emerged in the last week or so is Keystone. Of course, OPEC, the newswires suggest it's heavy [ph] oils (27:14) that are getting cut. So I'm just wondering what can you share with us about the dynamics of what you're seeing on the Gulf Coast, specifically as it relates to how you expect the heavy differential of discount to evolve over the next [ph] uncertain period (27:29) I guess that we have.

<A - Joseph W. Gorder>: You bet.

<A - Gary Simmons>: Doug, this is Gary. What we've seen is we've certainly seen some impact in the OPEC cuts. Our crude allocations have been cut a little bit primarily from Saudi Arabia and Kuwait. But we've seen minimal impact to our system from the cuts. We continue to see good availability of grade from Latin America, Canada, and U.S. sources to replace the volumes that have been lost from OPEC. Thus far, the impact from the cuts has really been offset by lower refinery demand due to refinery turnarounds, it'll probably be April, May, before the full impact of any cuts are seen. Directionally, we really didn't see the medium sour discounts react at all to the OPEC cuts, when the cuts were announced, you saw an increase in flat price, but the discounts really didn't change. Here over the last week, the medium sour discounts have come in a little bit, but we've actually seen heavy sour discounts move wider. PMI adjusted their K factor to make Maya a little more, the discount a little wider and I think they had to do that to compete with the Canadians. So we've seen heavy discounts actually move wider.

We always look at 3% fuel oil as kind of a leading indicator of where the discounts are going and 3% fuel has actually moved from 85% of Brent last week to 82% of Brent. You see fuel inventories in Singapore that are above the 5-year high. [indiscernible] (28:52) ship fuel to Singapore is closed. So that would kind of indicate that the discounts will actually move wider.

<Q - Doug Leggate>: Okay. Just on the Keystone issue, I guess I don't want to push the point too much because I realize how much uncertainty there is, but I seem to recall in the past that you guys had – maybe I've got this wrong, were talking about becoming an anchor shipper with an option to even acquire an interest on it. Have I got that wrong, or is that back on the table?

<A - Joseph W. Gorder>: Well, so we are a shipper. We're still a strong supporter of Keystone. We don't have the ability to actually be an owner in the line. So we're working with TransCanada, as they try to better understand the executive order and drum up customer support. Our belief is that the direct connection from the Western Canadian production to the U.S. Gulf Coast is a good thing because we have the most efficient capacity to really process those growing areas of production. Our intent again would be to process those barrels in our system, not to export the barrels.

<Q - Doug Leggate>: Okay. I appreciate that. If I could squeeze in a last one because that was kind of a follow-up, I guess. Joe, your dividend and buyback policy, I realize you addressed it earlier, but I just want to ask you a question about now very quickly. It's become the MO, I guess, of your tenure as CEO, the return to shareholders. What are you thinking now in terms of the dividend yield, because you're now sitting with if not the highest, pretty close to the highest yield in the sector, is that kind of a – do you have a target in mind? Do you have an idea of how that dividend growth can evolve relative to buybacks? Just what are you thinking in terms of the overall balance of one versus the other? I'll leave it there. Thanks.

<A - Joseph W. Gorder>: Thanks, Doug. The yield obviously is a function of the stock price, and we can't control the stock price. What we can control is how we reward the shareholders of the company. And how confident we feel about our ability to produce cash flows, free cash flows within the company. That we try to manage, right, and we do it through the capital allocation framework that Mike mentioned earlier.

The dividend and our maintenance CapEx is non-discretionary in our minds, and it will continue to be. So making commitments to our shareholder returns through the dividend is something that we don't take lightly and we model extensively. The buybacks and the growth projects, organic capital projects and acquisitions are areas that we consider to be competing for the use of free cash flow, and we look at the timing on our project development activities, we look at the return on our projects that Lane and his team are developing and that Rich and Martin have, and we compare it to the value of buying back shares. And so we make the decisions accordingly to provide the highest returns for the shareholders. I would tell you I wouldn't – I would be lying to you if I told you that we look at the absolute yield and say that is what determines, our decision around the dividend policy. It's more how do we feel about the cash flows that we can produce within the system.

<Q - Doug Leggate>: Appreciate the answer, Joe. And I guess, will see you in a couple of weeks. Thanks.

<A - Joseph W. Gorder>: Doug, thanks.

Operator

Thank you. Our next question comes from Ed Westlake with Credit Suisse.

<Q - Edward George Westlake>: Hi. Thanks for taking the call. It's Johannes here. I have to pinch hit today unfortunately for you all, but fortunate for me. Thank you for taking the call.

<A - Joseph W. Gorder>: Glad to hear.

<Q - Edward George Westlake>: The first question, I guess, has to do with the other big policy that's not border adjustment taxes, that is being pushed aside for the moment but still probably very important to you all, and that's RINs. You mentioned it earlier up in the call. And what's your process are you seeing in terms of trying to move the point of obligation or engaging with the EPA as there's been a transition? I know that Scott Pruitt is not in his seat yet, but nonetheless if you've got any color on that?

And then would you expect the RIN market to move before any sort of policy change once there is some sort of clarity on which direction it's going, or are you modeling out for 2017 the higher RIN expense because you don't think the market is going to move?

<A - Joseph W. Gorder>: Okay. Fair enough. Jason, you want to take a crack at our RIN?

<A - Jason Fraser>: Sure. Yeah. I can talk about the point of obligation effort and then maybe somebody else can speak to the RIN price. The comment [ph] deadlock (33:27) on our petition to change the point of obligation is February 22, so that period is still open and there's still comments being generated. We firmly believe that once all the evidence is reviewed and the EPA is going to agree to change the point of obligation. Regarding the introduction of the process of Attorney General Pruitt as EPA Administrator which has to some discussion about that as to whether that will change the dynamic. In his confirmation hearing, he said he would administer the RFS in accordance with Congress' statutory objectives, he'd make his decision based on the evidence and their administrative record and it all sounds great to us. That's all we would ever ask for. So we think that after hearing all the arguments and reviewing the facts and what's in the record and consulting with his staff that they're going to agree that it should be moved. So we don't really see anything changed due to this changeover of administrators.

<Q - Edward George Westlake>: And then on the actual RIN price and the trading price?

<A - Gary Simmons>: Yeah, so, our view is certainly you would see a reaction in the market if this gets done and you'd see RINs come off. We've seen some market reaction already. It's difficult for us to model because of all the uncertainty around it, so.

<A - Joseph W. Gorder>: But, yeah, I guess, Gary we started the year like $0.95 per RIN and now it's like at $0.50.

<A - Gary Simmons>: Right

<A - Joseph W. Gorder>: So, we've made the point all along that this is a market that we believe is ripe for manipulation, and the fact that you've had this movement in it, it sure isn't based on fundamentals.

<Q - Edward George Westlake>: Sounds good. So, hopefully, there will be some movement.

<A - Joseph W. Gorder>: You bet.

<Q - Edward George Westlake>: The other question I have I guess has to do with California margin weakness. Clearly, the margin environment in California has come off quite a bit over the last six months. Do you see an underlying reason for that, what the big driver is? Is there a difference in the way the market is clearing? Is it just that Torrance has come back on line? Is there some sort of dynamic whether it'd be weather or something else in terms of VMT that you would like to say? Kind of just curious as to what's going on out there from your eyes on an operational basis?

<A - Gary Simmons>: Well, I certainly think Torrance coming back on line has impacted the market here, [ph] in the problem-ed (35:34) market, as I mentioned, we saw some weaker demand with rain on the West Coast. But, overall, LA is moving to summer-grade spec today which [ph] you (35:45) pull butane out of the pool which directionally tightens it, then next month the bay will go to summer-grade gasoline. So all those things should directionally help demand and bring supply and demand back into balance.

<Q - Edward George Westlake>: Okay. So you don't see any sort of a grinding issue there?

<A - Joseph W. Gorder>: No.

<Q - Edward George Westlake>: Okay. Perfect. Thank you very much for taking the call.

Operator

And thank you. Our next question comes from Paul Cheng with Barclays.

<Q - Paul Cheng>: Hi, guys. Good morning.

<A - Joseph W. Gorder>: Good morning, Paul.

<Q - Paul Cheng>: I have to apologize. First, I joined late, so if my question you already addressed, just let me know, I will take it offline. Two questions, if I may. First, if I'm looking at the contango curve, the current structure seems to suggest that you want to build inventory because that May and June the margin was very high for gasoline. On the other hand that the stock is high right now. So just curious that internally for Valero, how you guys contemplate on those diverging forces, and when you plan your [ph] one (36:49), how you go through the process.

<A - Joseph W. Gorder>: Yeah, so, Paul, for us, most of our tankage is more operational in nature, and so we don't do a lot of storage plays to take advantage of the market structure. We do some of it, especially on the crude side, but it's more related to, buying opportunistic barrels that we believe had wide discounts, and then you can also take advantage of the market structure. But overall, we don't do a lot of that.

<Q - Paul Cheng>: But, I mean, with the inventory at that high today, Gary, is that influencing your decision that you may want to slow down your run even if the physical asset availability is there or that you don't really do that, just because [ph] of the game theory (37:37) that if you slow down other people is going to take up the slack anyway, so you're just going to max out your production even [ph] end up (37:43) that you may build inventory yourself?

<A - Gary Simmons>: Yeah, I think, to me the key on the inventory build is that what we're seeing out in the market is a lot of winter-grade gasoline, and so our view is those barrels are going to have to clear before we have our RVP transition. And as those barrels clear, it will bring the market down and you will see economic run cuts and lower utilization while those barrels clear before you actually get into summer driving season.

<A - Joseph W. Gorder>: Yeah. But Gary, you're not suggesting that it's Valero that's going to make the run cuts.

<A - Gary Simmons>: No, that's right.

<A - Joseph W. Gorder>: I mean, Paul, we're the lowest cash operating cost guys in the business, and we don't have any strong interest in balancing the market ourselves.

<Q - Paul Cheng>: Very good. If I may, the second question is that maybe this is either for Lane or for Gary also. Looking at the margin capture rate, system-wide in the fourth quarter is about 56%, 57%, which is 6% lower than the third quarter and 21% lower from the year ago level. And if you're looking at your last five-year average, is about 65%, 66% and this year is about 60%. Just curious, is that just a – because of the rising oil price or is there anything that you can see structurally whether it's in your system or that in the market new condition to lead you believe this year the 60% margin capture rate is what the future may look like, or that this is really more of an one of certain items impacting that?

<A - Gary Simmons>: Yeah, Paul, it's Gary. I'll take it. Mike started the call with some comments that we took a LIFO charge in the fourth quarter of 2016. And really that LIFO charge explains the third quarter to fourth quarter variance that he talked about. It also explains a portion of the fourth quarter 2015 versus fourth quarter 2016 results. In addition to that, we had a couple other items. There's really nothing operational that I see.

But the other big thing that affect the year-over-year results, in 2015, the blender's tax credit was enacted in December of 2015. And so, all of the credit was booked in the fourth quarter of 2015, whereas in 2016, that blender's tax credit was kind of spread out through the year. So that had an impact on the capture rates.

And the other big thing that we're looking at in terms of the capture rates is just the cost of the RINs. So in the fourth quarter of 2015, RINs were around $0.49 whereas the fourth quarter of 2016 they were $0.96. And so that delta in the cost of RINs also impacts our cash rates. And that really the bulk of it.

<Q - Paul Cheng>: Thanks. Gary, I mean you certainly explained for the quarter, and for the year, RIN probably is part of the explanation, but for the full year of 60% capture rate also seems quite low comparing to the last several years what you have been able to achieve.

<A - Gary Simmons>: Yeah, we can dive into it more with John, I would suggest. But those are really the big items that we see. We don't really see anything operational, Paul.

<Q - Paul Cheng>: Okay. Thank you.

Operator

And our next question comes from Roger Read with Wells Fargo.

<Q - Roger D. Read>: Hey. Thanks. Good morning, guys.

<A - Joseph W. Gorder>: Good morning, Roger.

<Q - Roger D. Read>: I'll leave some of the policy to the side for now, but I guess, specific question for you, exports have been a huge part of, on the product side 2016 story looks like a good start to 2017. MX is out saying they intend to run a lot better in 2017 than 2016. That's their forecast. I mean we'll see what turns out to be true. But could you characterize maybe the incremental growth in exports for you as to where that's gone and if MX were to run better in 2017, is that a risk we need to be concerned about or are there enough other growth areas internationally?

<A - Joseph W. Gorder>: Yeah, Roger, it's hard to tell. As Lane can tell you, it takes a long time to improve refinery mechanical availability, so we'll see what happens there. But I think one of the things that we're looking at, we export to Mexico and to South America and certainly, when you look at a lot of the consultant views where Brazil has had negative demand growth over the last couple of years, we're forecasting some decent demand growth in Brazil. So even if we were to lose some volume into Mexico, I think it could be absorbed in other locations in South America.

<Q - Roger D. Read>: Okay. And then, second question, M&A, I know with some of the policy uncertainty, maybe sellers don't want to sell and buyers won't be able to questionable. But I was wondering, Joe, as you kind of think about the longer plan here, Lyondell pulled their unit off the market, but maybe some of the other opportunities that exist out there right now.

<A - Joseph W. Gorder>: Yeah, Mike, you want to speak to this?

<A - Michael S. Ciskowski>: Well, yeah, Lyondell did pull their refinery back for now. Other than a few things on the West Coast, there are no opportunities really in the refining space presently.

<Q - Roger D. Read>: Well, that was brief. And I heard that Lane was a miracle worker, so maybe we could get him to work for PEMEX that will fix some.

<A - Joseph W. Gorder>: No. We don't want to do that, but Roger, you're right. I mean but what Mike said is exactly right and it was characterized earlier. The Lyondell refinery is a nice opportunity, but they chose not to sell it. And we're just not seeing a lot of refining assets that are for sale that would add any value to Valero's portfolio.

So from an acquisition perspective, what do you focus on? You focus on the opportunities and logistics and other areas where you can improve the earnings capability of the company by improving your logistics, your feeds in, your products out, and then, potentially upgrading your stream. So we're not in a position – we don't believe we're in a position where we've got to go do a deal to balance out our portfolio. We look at this a little differently in that we continue to seek ways to try to improve the quality of the portfolio we've got in place.

<**Q - Roger D. Read**>: Okay. Great. Thank you.

Operator

[Operator Instructions] And our next question comes from Chi Chow with Tudor, Pickering, Holt.

<**Q - Chi Chow**>: Thanks. Good morning.

<**A - Joseph W. Gorder**>: Hi, Chi.

<**Q - Chi Chow**>: Hi. Mike, do you have a cash balance held by the company's international subsidiaries as of year-end 2016? We've noticed that balance has been steadily growing over the last couple of years. I was just wondering if you could also talk about whether, one, that cash is available for use for domestic CapEx and capital returns to shareholders; two, what are their – are there any repatriation inefficiencies in the current tax structure; and then, third, how does some of the tax policy changes proposed under the new administration impact repatriation of that cash going forward?

<**A - Michael S. Ciskowski**>: Okay. Roughly, at the end of the year, we had about $2 billion of cash that was in the UK and in Canada. So presently – okay. Our current structure that we have today would allow us to move most of the cash back to the U.S. without incurring a significant tax penalty. We haven't needed it to do that presently given where our U.S. cash balance is as well.

<**Q - Chi Chow**>: Do you feel any...

<**A - Joseph W. Gorder**>: That was an incredibly clever way to ask three questions.

<**Q - Chi Chow**>: It's all related, right?

<**A - Joseph W. Gorder**>: Yeah, it's all related. That was good.

<**Q - Chi Chow**>: Well, do you feel the need, any urgency to get that cash back given the potential changes in the repatriation policies going forward here?

<**A - Joseph W. Gorder**>: The need to get it back? I don't think we have a sense of need to get it back. Would it be nice to have access to it? Jason and the team are looking at the repatriation implications of the border tax adjustment. You always want to have your cash totally accessible to you. So it would be great to get it back. But I would tell you that this – let's just assume that we're able to bring it back and bring it back in good shape. The question is that what do you do with it. Do you reinvest it in the business?

I don't see us changing our approach to capital if we had the cash back, okay? I mean, I don't think Lane is going to say, [ph] gee whiz (47:06), now I can do a whole bunch more. Because we're not holding back on things that we're doing today. So it would be wonderful to have access to it without paying any tax on it. That's not likely, but I don't think it changes anything we're doing, Chi.

<**Q - Chi Chow**>: Okay. Great. I'll leave it there. Thanks, Joe. I appreciate it.

Operator

And thank you. Our next question comes from Spiro Dounis with UBS Securities.

<**Q - Spiro M. Dounis**>: Hi. Good morning, everyone. Thanks for squeezing us in here. Just wanted to follow-up on the RFS. Without getting into what does it look like and then what does it change, just thinking about I guess an environment where the point of obligation has actually moved away from the refiners, just curious in terms of reaction or just change in behavior on your part, maybe the refining industry in general, what are some of the things you think happens I guess on day one without the point of obligation? I think one thing we think about maybe is that exports

actually go down [ph] because of force (48:02). That's a good way to avoid the RIN. Just curious if you're thinking about anything else in terms of changes in product mix.

<A - Joseph W. Gorder>: Gary, you want to...

<A - Gary Simmons>: Yeah, I don't know that, to some degree, the export market has over time recognized the RIN. So I don't really know that it really changes the dynamics of the export market that much if the point of obligation moves.

<A - Joseph W. Gorder>: Yeah, I mean, we've all adjusted to this. Really, the frustrating thing from our perspective is the negative effect it has by shifting the value of doing business from us to the guy who is capturing the RIN. And so, obviously, it would be beneficial to Valero if the point of obligation moved, which would reduce our burden and frankly, we believe it would take a lot of the speculation and the manipulation opportunities out of that RIN market, and it should lower the price of RINs. Now, the RVOs will have a factor on that and so on. But from a refiner, from an independent refiner's perspective, it will be positive.

<Q - Spiro M. Dounis>: Appreciate the color. Thanks, everyone.

Operator

And thank you. Our next question is from Jeff Dietert with Simmons.

<Q - Jeff A. Dietert>: Good morning.

<A - Joseph W. Gorder>: Hi, Jeff.

<Q - Jeff A. Dietert>: I'm sitting here in Houston looking out my back window, and the fog has cleared in the Houston ship channel, so hopefully that's good news.

<A - Gary Simmons>: That is good news.

<A - Joseph W. Gorder>: Yeah. Do you see our ships [ph] floating (49:37), Jeff?

<Q - Jeff A. Dietert>: They're going out one right after another. I had a question on your pace of the MLP drops and there are a few things going on. One of your peers accelerating. There's also the potential for lower corporate and individual tax rates under a Trump administration, potential for higher interest rates. How do these things impact your thinking on MLP valuations and the attractiveness of dropdowns?

<A - Joseph W. Gorder>: Okay. Rich, you want to...

<A - Richard F. Lashway>: Yeah. I'll take a crack at our peers accelerating. So we've been pretty consistent in the execution of our strategy from the IPO that we're going to take a very measured pace. We believe that that's more of a prudent to have a measured pace on our dropdowns. Valero has exceeded their targeted total payout ratio for the past two years. [ph] BOP (50:38) doesn't really need to do any acquisitions or dropdowns to meet our distribution growth. There's not a need for the cash as we kind of talked about, the cash balance at Valero.

So we are just going to stick to our measured approach of growing, focusing on growing the distributions. We've been clear that we're growing distributions in 2017 at 25% and at least 20% in 2018. So it's really the focus is on the distribution growth at the LP, and we've got the coverage to achieve this and without doing any drops.

<A - Joseph W. Gorder>: And then, Jeff, the tail on that was the tax, interest rate changes.

<Q - Jeff A. Dietert>: Yes.

<A - Michael S. Ciskowski>: I mean the lower corporate tax rate, if that's what gets put in place, obviously, would make the corporation a little more attractive. However, the MLP will still have the tax advantage structure versus the corporation.

<A - Joseph W. Gorder>: And interest rates, I mean, it just provides an investor a different option, right, but you still have the benefits of everything that you have today with an MLP ownership position.

<Q - Jeff A. Dietert>: Thanks for taking the questions.

<A - Joseph W. Gorder>: You bet.

Operator

Thank you. Our next question is from Ryan Todd with Deutsche Bank.

<Q - Ryan Todd>: Hi. Thanks. You may have touched on parts of this over the course of the call, and I apologize, I missed some of it. But can you talk through what you see as some of the similarities and differences as we look at the macro environment versus last year at this time? I mean margins are a little bit better, but we've seen some pretty significant inventory builds over the last four weeks again. I mean what are some of the lingering challenges that are maybe [ph] still in their (52:30) last year and what's different this year that gives you confidence that we won't just repeat the 2016 environment again?

<A - Gary Simmons>: Yeah. This is Gary. I think the similarities are we continue to see the industry running at high utilization rates and so the production of gasoline and distillate is exceeding demand in the marketplace which isn't good, causing inventories to build. The difference we see is it looks like on the gasoline side, a lot of what's being put into inventory is winter grade, so again, our view is this will have to clear before RVP transition could bring inventories down before gasoline season starts which would make this year a little different than what we saw last year and should lead to better gasoline cracks.

On the distillate side, not too much different, I think the things that we're seeing on the distillate side is slightly better demand. So year-over-year, we've had a little colder weather here in the U.S. and also in Northwest Europe which aids distillate demand. And then, as we see some resurgence in the upstream, the drilling activity, it also leads to a little better incremental diesel demand. So those are kind of the key factors we're looking at in the market.

<A - Joseph W. Gorder>: And Ryan, we don't know enough yet about the infrastructure projects that are being talked about at the Federal level right now, what the implications of those are. But any time you get projects like that taking place, they tend to drive distillate demand. Of course, it would drive gasoline demand also, but then there's the other things, petrochemical feeds, asphalt, things like that. So we're actually encouraged by the outlook and by the focus on the infrastructure within the U.S. So we'll just see how it all plays out.

<Q - Ryan Todd>: So I mean I guess at a high level, it's safe to say is you're still – is your view on 2017 that it's still a little bit better than 2016, but we'll wait and see. Is that?

<A - Gary Simmons>: Yeah, I think definitely, we see the gasoline market being similar to 2016, but a slightly better diesel market than 2016.

<Q - Ryan Todd>: Okay. Thank you.

Operator

Thank you. Our next question comes from Blake Fernandez with Howard Weil.

<Q - Blake Fernandez>: Gents, good morning. I'm not sure if I'm as good as Chi, but I'm going to do my best to get at least two in for one here. The question is on pipelines. I know you talked about Keystone, but I'm curious for one, do you have a sense of what the current transport cost is in the market and where that might go to once the pipe is in the ground?

And then, secondly on DAPL, can you think of any direct or maybe indirect positive impacts that may have, whether it's just additional crude, light sweet on the Gulf Coast? Thanks.

<A - Gary Simmons>: Yeah, that's some of the things that we're working with TransCanada on. So we don't really have guidance on where the Keystone XL tariff is going to be, and that's certainly something that we're working with them on.

In terms of DAPL, yes, I think you kind of hit on it. It definitely will be bringing more light sweet to the Gulf Coast, which should be good for us.

<Q - Blake Fernandez>: Good deal. Thank you.

Operator

And thank you. Our next question comes from Faisel Khan with Citigroup.

<Q - Faisel H. Khan>: Hi. Good morning. It's Faisel for Citi. Thanks for squeezing me in here. Just going back to XL for a second and back to I think Doug's question, have you guys talked to them about taking an equity interest in the pipeline? I mean now that you have the sort of MLP up and running, it might make sense for them to have an equity partner with their anchor shipper.

<A - Joseph W. Gorder>: Faisel, you should never ask us that question when you got a guy who is responsible for the MLP in the room. But to answer your question honestly, no. We haven't talked about an equity stake in Keystone.

<Q - Faisel H. Khan>: [ph] Only because (56:16) it might make sense for them to syndicate out some of that risk given how large the pipeline is, but I'm not sure if that's...

<A - Joseph W. Gorder>: That may be true probably, but that doesn't mean that we'd be the guys.

<Q - Faisel H. Khan>: [ph] There's always a place (56:29).

<A - Joseph W. Gorder>: Yeah. That's right.

<Q - Faisel H. Khan>: Yeah, okay. Thanks, guys.

<A - Joseph W. Gorder>: You bet.

Operator

And thank you. Our next question comes from Craig Shere with Tuohy Brothers.

<Q - Craig K. Shere>: Good morning. Thanks for squeezing me in.

<A - Joseph W. Gorder>: Sure, Craig.

<Q - Craig K. Shere>: A quick follow-up on Phil and Doug's questions about capital deployment and buyback questions. It seems that the buybacks were kind of turbocharged a little bit in 2016, when shares were more in the mid $50 area versus in the $60 plus area. As you think about flexing buyback metrics from earnings to cash flow in a low margin environment, how does the share price itself factor into your analysis?

<A - Joseph W. Gorder>: Mike, you want to...

<A - Michael S. Ciskowski>: Well, I mean, we don't have specific seasonal targets for our buybacks. It's on an annual basis, at least 75% of net income. And our program does consist of both somewhat ratable purchases, but also opportunistic purchases too. So we just evaluate when we want to accelerate that depending on the stock price.

<Q - Craig K. Shere>: Is it fair to say that the mid $50 area is a kind of a turbocharge area for you?

<A - Joseph W. Gorder>: No. We couldn't answer that question. And I think Mike answered it properly. We sure don't want to signal our timing on our buying, but we look at what we view to be the earnings capability of this company and if the returns on the buybacks are better than the returns on a growth CapEx project, then we're going to buy back shares. We said for years that we're not going to hoard cash. So to the extent that we produce free cash flow, we'll continue to look at the buybacks.

<Q - Craig K. Shere>: Fair enough. Thank you.

Operator

And thank you. Our next question comes from Paul Sankey with Wolfe Research.

<Q - Paul Sankey>: Hi, guys. Good morning. Forgive me if this has been asked.

<A - Joseph W. Gorder>: Paul, where you have you been?

<Q - Paul Sankey>: On the Exxon call. Let's be honest. [indiscernible] (58:48) to an earlier comment about the Houston Ship Channel, the good news for you from New York is that it's snowing very heavily here, so there should be a bit more gas oil demand, I guess.

Guys, I'm sorry if you have answered this already, but what's the latest view on the border adjusted tax and what are you doing – I guess you have to, at some level, plan for the potential for that to happen, what would you do if it did occur? So I guess the question is what's your understanding of the likelihood that it happens and what would be your response to it if it did. Thanks.

<A - Joseph W. Gorder>: Okay. Yeah, Jason did talk to that earlier. You just want to give him now the likelihood and then we can talk, Gary, or we can talk about the other component of that question?

<A - Gary Simmons>: Yeah, we really at this stage we haven't put a handicap on the likelihood yet. It's so early we don't even have any draft of the legislative text floating around the committee, so we don't feel it's proper for us to try to guesstimate that now.

<Q - Paul Sankey>: Yeah.

<A - Joseph W. Gorder>: And then, Gary, as far as – Paul, it comes down to how are the markets going to react to this, right? And we've read all of the reports and we've read the consultants' reports. Some think it's going to be really good for refining. Some think it may not be as good for refining. And we talked earlier about the fact that we can adjust the crude slate. But Gary, the markets are going to react.

<A - Gary Simmons>: Yeah, so everything we've been doing is to increase feedstock flexibility and also be able to grow these export markets, and both those things should align well with this and we can optimize the system around the border tax.

<Q - Paul Sankey>: Yeah. I guess the punch line kind of goes back to 2010 to 2014 when we were trying to maximize usage of U.S. light sweet. Where did you end up on all that? How much more could you use at the end of the process? And do you have any numbers to illustrate the flexibility?

<A - Gary Simmons>: Yeah, so if you look in our IR presentation, I think it's slide 9, it does a pretty good job of going through how we can swing our system between the individual grades. We got to where we were processing over 1 million barrels a day of domestic light sweet crude. I guess that was pretty tougher so, wasn't it?

<A - Joseph W. Gorder>: That was pretty tougher.

<A - Gary Simmons>: So we've added some additional capacity since that time as well, so.

<A - Joseph W. Gorder>: Yeah, the interesting thing was I guess in Port Arthur, you were able to increase overall run rates, throughput rates, because we were running the lighter slate. So Paul, we'll be able to flex the system to deal with it. I guess, the question is how do the global crude markets respond to the duty. Do they price to continue to push their barrels into the market or do they find a different home? And I think Gary has made the comment in several of the meetings that we've had that the natural home for a lot of the heavy sour crudes tends to be the U.S. Gulf Coast refining system. And so, I don't know that that changes in a material way.

<Q - Paul Sankey>: No, absolutely. And I guess the other question is we would assume that the gasoline price at the pump would go up pretty much by the amount of the tax in the short-term.

<A - Joseph W. Gorder>: Look, that is certainly what we have read also, okay? And I think your friends at Goldman did a report here recently that I haven't gotten to study, but [ph] it's that okay (01:02:05) maybe they move up and then they move back down [ph] something like the markets adjust (01:02:08) to it.

So Paul, the interesting thing is – because this is kind of the topic du jour, right...

<Q - Paul Sankey>: Yeah.

<A - Joseph W. Gorder>: ...but none of us – they've got the skeleton out there, and the House seems very committed to this today. But they don't have the flesh on the bones, there is a lot of conversations that are taking place around, do you have carve-outs, don't you have carve-outs and so on.

I think what I have encouraged our investor base to do is just to let's be patient, not overreact to this and let's just see how it shakes out. We will adjust to maximize the value to the company, but I don't think anybody knows enough yet to really understand what the full implications are. And then, when we have seen changes like this, the markets tend to respond. So here again, we don't have great deal of concern and consternation around this right now. We're just trying to understand it better.

<Q - Paul Sankey>: Yeah. I totally understand, Joe. Thank you very much.

<A - Joseph W. Gorder>: You bet.

Operator

And thank you. This concludes the question-and-answer session. I will now turn the call back over to Mr. John Locke for closing remarks.

John Locke

Okay. Well, thanks everybody. We appreciate you joining us today. Please contact me after the call if you have any additional questions. Thanks.

Operator

And thank you. Ladies and gentlemen, this concludes today's conference. We thank you for participating and you may now disconnect.