First Quarter 2015 Earnings Conference Call

Tuesday, April 28, 2015, 10:00 a.m. CT

Introduction – John Locke

- Good morning and welcome to Valero Energy Corporation’s first quarter 2015 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 and 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. There 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 will turn the call over to Joe for a few opening remarks.

Joe Gorder

• Well, thanks John, and good morning everyone. As John will cover in more detail shortly, we reported record first quarter earnings per share. With great performance in a favorable margin environment, we demonstrated Valero’s earnings power in a heavy maintenance period.
• The one thing that I’d like to reaffirm with you before we proceed is that our team remains focused on executing our strategies to improve our valuation through operations excellence, optimizing our business through disciplined capital allocation, and unlocking asset value. And with that, John, I’ll hand it back over to you.

John Locke

• Thank you Joe. What we would like to do now is highlight a few accomplishments this quarter that align with our key strategies, and then we’ll cover the quarterly results.

• As noted in the release, our focus on operations excellence yielded solid results while we successfully managed a heavy turnaround season in the first quarter. For the remainder for 2015, we have a lighter schedule of planned maintenance compared to the first quarter.

• We remain committed to deliver a payout ratio of earnings to our stockholders that exceeds 2014’s ratio of 50 percent. So far, we are on track to meet this goal with a 55 percent payout ratio on first quarter 2015 earnings.
- Regarding capital investments, we continue to optimize and improve our business while maintaining rigor in our capital budget. For 2015, we maintain our guidance for capital spending, including turnarounds and catalyst, at approximately $2.65 billion, which excludes $150 million for a St. Charles methanol project. The proposed St. Charles methanol project and Houston alkylation units remain under evaluation and are progressing through our gated project management process. We expect to make final investment decisions on these projects later in the second quarter.

- With respect to unlocking asset value and accelerating the growth of Valero Energy Partners LP, which is our sponsored master limited partnership, we are clearly delivering growth and have a backlog of assets to drop down. Given the closing of the $671 million drop down of our Houston and St. Charles Terminal Services Business in March, we’re on track to complete our goal of $1 billion of drop-down transactions in 2015.

- Now moving on to the quarterly results, we reported net income from continuing operations of $964 million, or $1.87 per share, for the first quarter of 2015. Earnings per share was 21 percent higher than first quarter 2014 earnings per share of $1.54.
• The refining segment reported first quarter 2015 operating income of $1.6 billion versus $1.3 billion in the first quarter of 2014. We covered the key drivers of this increase in the release, but I’d like to highlight that while discounts were more narrow this quarter for most sweet and sour crude oils relative to Brent crude oil on a dollar-per-barrel basis, on a percentage discount basis, these crudes were priced more favorably in 2015. For example, in the first quarter of 2015, Maya priced on average at a 20 percent discount to Brent versus a 17 percent discount in the first quarter of 2014. Our significant crude slate flexibility allows us to adjust feedstocks and optimize margins based on the discount environment.

• Refining throughput volumes averaged 2.7 million barrels per day in the first quarter of 2015, which is an increase of nine thousand barrels per day versus the first quarter of 2014. Volumes and utilization rates in both periods were impacted by heavy planned maintenance.
Refining cash operating expenses were $3.95 per barrel in the first quarter of 2015, or four cents per barrel lower than the first quarter of 2014. That’s our twelfth consecutive quarter with cash operating expense below $4 per barrel. Our focus on safe and reliable operations combined with advantaged domestic energy costs provides us a global manufacturing competitive advantage.

The ethanol segment generated $12 million of operating income in the first quarter of 2015 versus $243 million in the first quarter of 2014. While ethanol margins compressed in the first quarter of 2015, they have rebounded some in here April. Longer term, we believe ethanol remains a key component of the transportation fuel mix.

General and administrative expenses, excluding corporate depreciation, were $147 million in the first quarter of 2015, which is $13 million lower than in the first quarter of 2014 primarily due to changes in legal reserves.

Also in the first quarter of 2015, net interest expense was $101 million, and total depreciation and amortization expense was $441 million. The effective tax rate was 31.7 percent.
• With respect to our balance sheet at quarter-end, total debt was $7.4 billion, and cash and temporary cash investments were $4.9 billion, of which $28 million was held by VLP. Valero’s debt-to-capitalization ratio, net of $2 billion in cash, was 20.3 percent. Valero had over $10 billion of available liquidity including cash.

• Cash flows in the first quarter included $698 million of capital spending, of which $240 million was for turnarounds and catalyst. We also issued $1.45 billion of debt, which included $1.25 billion of bonds in March for general corporate purposes including the refinancing of current maturities, and $200 million issued by VLP to partially fund their March acquisition.

• We returned $531 million in cash to our stockholders in the first quarter, which included $206 million in dividend payments and $325 million for the purchase of 5.4 million shares of Valero common stock. Year to date, we’ve purchased 7.1 million shares for $429 million.
• For modeling our second quarter operations, we expect throughput volumes to fall within the following ranges: Gulf Coast at 1.55 million to 1.6 million barrels per day; Mid-Continent at 430 thousand to 450 thousand barrels per day; West Coast at 280 thousand to 300 thousand barrels per day; and North Atlantic at 460 thousand to 480 thousand barrels per day.

• We expect refining cash operating expenses in the second quarter to be around $3.90 per barrel.

• Our ethanol segment is expected to produce a total of 3.7 million gallons per day in the second quarter. Operating expenses should average 38 cents per gallon, which includes four cents per gallon for non-cash costs, such as depreciation and amortization.

• We expect G&A expense, excluding corporate depreciation, for the second quarter to be around $175 million, and net interest expense should be about $105 million. Total depreciation and amortization expense should be approximately $445 million, and our effective tax rate is expected to be around 33 percent.
- Operator, we have concluded our opening remarks. In a moment, we will open the call to questions. During this segment, we request that our callers limit each turn to two questions. Callers may re-join the queue with additional questions.