Third Quarter 2015 Earnings Conference Call

Wednesday, October 28, 2015, 10:00 a.m. CT

Introduction – John Locke

- Good morning and welcome to Valero Energy Corporation's third 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

- Thanks John. Good morning everyone. As John will cover in more detail shortly, we had another strong quarter as our team operated safely and efficiently. Favorable margins during the quarter incentivized us to run at high refinery utilization and maximum production, with strong product demand. While we are seeing seasonal pressure on product margins today, demand for our products remains strong and crude oil markets continue to be well supplied, so we maintain our favorable outlook for 2016.

- Turning back to our operations, we continue to focus on our priorities of maintaining safe and reliable operations, investing in our business, and returning cash to stockholders.

- Regarding strategic investments, we continued to grow our business and we executed another drop-down transaction earlier this month to Valero Energy Partners, which is our sponsored MLP. We also expect to see contributions in the fourth quarter from our recently completed McKee Crude Unit expansion, Port Arthur Hydrocracker expansion and from delivered crude off of Enbridge Line 9B. Additionally, we are making good progress on our two Crude Topper projects. The Corpus Christi topper will be ready by the end of this year, which is ahead of schedule and on budget. The Houston topper will be ready around the end of the first quarter of 2016 as scheduled.

- [Now we've also moved closer toward making investment decisions on the proposed methanol and alkylation projects at St. Charles and Houston refineries, respectively. We expect to make decisions in the fourth quarter for the methanol plant and in the first quarter of 2016 for the alkylation unit].

- And finally, regarding cash returns to stockholders, over the first nine months of this year we've delivered a 73 percent payout of net income. So we're on track to hit our 75 percent target for 2015. Additionally, the Board of Directors approved a 25 percent increase in the regular quarterly dividend, which is the second increase approved this year.
- So with that, John, I'll hand it back over to you.

John Locke

- Thank you Joe. Moving on to the quarterly results, we reported net income from continuing operations of $1.4 billion, or $2.79 per share, versus third quarter 2014 earnings per share of $2.00.
- The refining segment generated operating income of $2.3 billion.
- Refining throughput volumes averaged 2.8 million barrels per day, which was in line with the third quarter of 2014. Our refineries operated at 96 percent throughput capacity utilization in third quarter 2015 in spite of unplanned downtime including the refinery-wide outage at our Texas City refinery due to a lightning strike.
- Refining cash operating expenses of $3.80 per barrel in the third quarter of 2015 were also in line with third quarter 2014.

- The ethanol segment generated $35 million of operating income in the third quarter of 2015 versus $198 million in the third quarter of 2014.

- General and administrative expenses, excluding corporate depreciation, were $179 million in the third quarter of 2015.

- Also in the third quarter of 2015, net interest expense was $112 million.

- Depreciation and amortization expense was $482 million. The effective tax rate was 32.4 percent.

- With respect to our balance sheet at quarter-end, total debt was $7.4 billion, and cash and temporary cash investments were $5.3 billion, of which $51 million was held by VLP. Valero’s debt-to-capitalization ratio, net of $2 billion in cash, was approximately 20 percent. Valero had over $5 billion of available liquidity excluding cash.

- Cash flows in the third quarter included $467 million of capital spending, of which $109 million was for turnarounds and catalyst.

- We returned $1.3 billion in cash to our stockholders in the third quarter, which included approximately $200 million in dividend payments and $1.1 billion for the purchase of 17.2 million shares of Valero common stock. Year to date, we've purchased 35.5 million shares for $2.2 billion.

- For modeling our fourth quarter operations, we expect throughput volumes to fall within the following ranges: U.S. Gulf Coast at 1.55 million to 1.60 million barrels per day; U.S. Mid-Continent at 420 thousand to 440 thousand barrels per day; U.S. West Coast at 235 thousand to 255 thousand barrels per day; and North Atlantic at 480 thousand to 500 thousand barrels per day.

- We expect refining cash operating expenses in the fourth quarter to be around $3.85 per barrel.

- Our ethanol segment is expected to produce a total of 3.85 million gallons per day in the fourth quarter. Operating expenses should average 38 cents per gallon, which includes five cents per gallon for non-cash costs, such as depreciation and amortization.

- We expect G&A expenses, excluding corporate depreciation, for the fourth quarter to be around $200 million, and net interest expense should be about $100 million. Total depreciation and amortization expense should be approximately $475 million, and our effective tax rate is expected to be around 30 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 please limit each turn to two questions. Callers may re-join the queue with additional questions as time permits.

Operator Facilitated Q&A

John Locke

- We appreciate your joining us today. If you have any additional questions, please contact me or Karen Ngo. Thank you.