Fourth Quarter 2015 Earnings Conference Call

Thursday, January 28, 2016, 10:00 a.m. CT

Introduction – John Locke

• Good morning and welcome to Valero Energy Corporation’s fourth 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. The fourth quarter and full-year 2015 were great for Valero. We operated safely and reliably achieving our lowest ever employee injury rate in refining and reaching an annual average refinery utilization rate of 95 percent.

- The markets were favorable during the quarter. Domestic product demand grew, supported by lower pump prices, and sour crude discounts relative to Brent were attractive to our high complexity refining system. While distillate margins are pressured due to unseasonably warm weather in North America and Europe, distillate demand in Latin America remained robust. In fact, we exported record volumes of distillate and gasoline in the fourth quarter.

- Turning to our refining operations in the quarter, we successfully commissioned the new Corpus Christi crude unit, the Port Arthur gasoil hydrocracker expansion, and the McKee crude unit expansion. Our Quebec City refinery also began receiving crude via Enbridge’s Line 9B.
• We exercised our option with Plains All American and to acquire a 50 percent interest in the Diamond crude oil pipeline project. Once completed, this project will connect Cushing with Memphis and provide us with crude optionality and long term cost savings versus sourcing crude oil from St. James. Additionally, Valero Energy Partners continues to execute its growth strategy and Valero’s GP interest in VLP reached the high splits with the distribution increase announced earlier this week.

• We also continued to advance our refining growth strategy. Construction of the Houston crude unit remains on schedule, with startup planned in the second quarter of 2016, and earlier this month our Board of Directors approved the Houston alkylation project. This project is estimated to cost $300 million and is expected to be completed in the first half of 2019.

• And finally, regarding cash returns to stockholders, we paid out 80 percent of our 2015 adjusted net income, exceeding the 75 percent annual payout target. Further demonstrating our belief in Valero’s earnings potential, last week our Board of Directors approved a 20 percent increase in the regular quarterly dividend to 60 cents per share, or $2.40 annually.

• So with that, John, I’ll hand the call back to you.
Thank you Joe. Moving on to the results, we reported fourth quarter 2015 adjusted net income from continuing operations of $862 million, or $1.79 per share, versus $952 million, or $1.83 per share for the fourth quarter of 2014. Actual net income from continuing operations was $298 million, or $0.62 per share, which compares to $1.2 billion, or $2.22 per share in the fourth quarter of 2014. Please refer to the reconciliations of actual to adjusted amounts as shown on page six of the financial tables that accompany our release.

For 2015, we reported adjusted net income from continuing operations of $4.6 billion, or $9.24 per share, compared to $3.5 billion, or $6.68 per share for 2014. Actual net income from continuing operations was $4 billion, or $7.99 per share, in 2015 versus $3.7 billion, or $6.97 per share, in 2014.

Fourth quarter 2015 refining segment adjusted operating income of $1.5 billion was in line with the fourth quarter of 2014. Stronger gasoline and other product margins, combined with higher refining throughput volumes, were offset by lower distillate and petrochemical margins, and lower discounts for sweet crude oils relative to Brent crude oil.
• Refining throughput volumes averaged 2.9 million barrels per day, which was 34,000 barrels per day higher than the fourth quarter of 2014. Our refineries operated at 97 percent throughput capacity utilization in the fourth quarter of 2015.

• Refining cash operating expenses of $3.47 per barrel were $0.29 per barrel lower than the fourth quarter of 2014, largely driven by favorable property tax settlements and reserve adjustments, and lower energy costs.

• The ethanol segment generated $37 million of adjusted operating income in the fourth quarter of 2015 versus $154 million in the fourth quarter of 2014 due primarily to lower gross margin per gallon driven by a decline in ethanol prices versus relatively stable corn prices.

• For the fourth quarter of 2015, general and administrative expenses excluding corporate depreciation were $206 million, and net interest expense was $107 million.
• Depreciation and amortization expense was $494 million, and the effective tax rate was 28 percent in the fourth quarter of 2015. The effective tax rate was lower than expected due primarily to a reduction in the statutory tax rate in the United Kingdom and the settlement of income tax audits in the United States.

• With respect to our balance sheet at quarter-end, total debt was $7.4 billion, and cash and temporary cash investments were $4.1 billion, of which $81 million was held by VLP. Valero’s debt-to-capitalization ratio, net of $2 billion in cash, was 20 percent. We had $5.6 billion of available liquidity excluding cash.

• Cash flows in the fourth quarter included $732 million of capital investments, of which $164 million was for turnarounds and catalyst and $136 million was for our investment in the Diamond Pipeline.

• For 2015, capital investment included $1.4 billion for stay-in-business and $1 billion for growth.

• We returned $1 billion in cash to our stockholders in the fourth quarter, which included $240 million in dividend payments and $767 million for the purchase of 11.1 million shares of Valero common stock. For 2015, we purchased 44.9 million shares for $2.8 billion.
• For 2016, we maintain our guidance of $2.6 billion for capital investments, including turnarounds, catalysts, and joint venture investments. This consists of approximately $1.6 billion for stay-in-business and $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 1.61 million to 1.66 million barrels per day; U.S. Mid-Continent at 430 thousand to 450 thousand barrels per day; U.S. West Coast at 245 thousand to 265 thousand barrels per day; and North Atlantic at 465 thousand to 485 thousand barrels per day.

• We expect refining cash operating expenses in the first quarter to be approximately $3.85 per barrel.

• Our ethanol segment is expected to produce a total of 3.8 million gallons per day in the first quarter. Operating expenses should average 37 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 first quarter to be around $175 million, and net interest expense should be about $110 million. Total depreciation and amortization expense should be approximately $470 million, and our effective tax rate is expected to be around 32 percent.

• 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. This will help us ensure other callers have time to ask their questions. If you have more than two questions, please re-join the queue as time permits.

**Operator Facilitated Q&A**

**John Locke**

• We appreciate you joining us today. Please contact me or Karen Ngo if you have any additional questions. Thank you.