Introduction – John Locke

- Good morning and welcome to Valero Energy Corporation’s fourth quarter 2014 earnings conference call.
- With me today are Joe Gorder, our Chairman and CEO, 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 an update on company operations and strategy.
Joe Gorder

- Thanks, John, and good morning everyone. As John will cover in more detail momentarily, we had a great fourth quarter and a great year. However, I want to spend a few minutes to discuss our key strategies and highlight a few accomplishments in the last quarter. As you have seen in our recent disclosure, our strategies are focused on operations excellence, returning capital to stockholders, making disciplined capital investments, and unlocking asset value.

- Operations Excellence continues to be important to us. Our people understand that reliability drives safe and profitable operations, so we are relentlessly committed here. An example of this can be seen at our Meraux refinery where we completed our reliability improvement program and the hydrocracker revamp project. We expect the investments we’ve made here will improve the refinery’s reliability and performance.

- Disciplined capital allocation is another key focus for us. Last week, we increased our regular cash quarterly dividend by 45 percent to 40 cents per share, or $1.60 annualized. This increase demonstrates our belief in Valero’s earnings power and our commitment to returning cash to stockholders.
• Regarding capital investments, we completed our 2014 capital program under budget as noted in the release. This is an example of the rigor and discipline that Lane and his team applied to spending throughout Valero’s gated project management process. We are committed to applying this same rigor toward future growth investments.

• The majority of our growth investments for 2015 and 2016 are allocated to logistics and to increasing our capability to access and process advantaged crude oils through our flexible refining system. We expect the majority of the logistics investments to be eligible for future drops to Valero Energy Partners LP, or VLP, which is our sponsored master limited partnership.
• On the topic of VLP, we are committed to its growth and unlocking value. As noted in the release, we are targeting approximately $1 billion of drops into VLP in 2015. At that level of growth, we also expect VLP’s distribution to exceed the 50 percent tier for our general partner and incentive distribution rights by the end of 2015. We are continuing to evaluate and structure new potential earnings streams that can be dropped to VLP, and those represent incremental growth opportunities. We understand the MLP landscape has changed since our IPO, and we are committed to unlocking value.

• In summary, we are focused on operational excellence, disciplined capital allocation, and value creation. Our team is committed to high performance and achievement.

• With that, I’ll turn it back over to John to cover the results.
John Locke

• Thank you, Joe. As shown in our earnings release, we had another strong quarter. We reported fourth quarter 2014 earnings from continuing operations of $1.2 billion, or $2.22 per share. Adjusting for special items described on page seven of the financial tables that accompany our release, we earned $952 million, or $1.83 per share, which compares to $963 million, or $1.78 per share in the fourth quarter 2013.

• For the full-year 2014, we reported earnings from continuing operations of $3.7 billion, or $6.97 per share. Adjusting for special items, we earned $3.5 billion, or $6.68 per share, in 2014 versus $2.4 billion, or $4.41 per share in 2013.
• The refining segment reported fourth quarter 2014 operating income of $1.9 billion versus $1.5 billion in the fourth quarter of 2013. Nearly all of the $377 million increase in operating income resulted from the previously noted special items. Excluding the special items, operating income was flat in the fourth quarter of 2014 versus the fourth quarter of 2013 as stronger gasoline, distillate, and other product margins relative to Brent crude oil as well as higher refining throughput volumes were offset by lower discounts for sweet and sour crude oils relative to Brent crude oil.

• Refining throughput volumes averaged 2.8 million barrels per day in the fourth quarter of 2014, which is an increase of 41 thousand barrels per day versus the fourth quarter of 2013.

• Refining cash operating expenses in the fourth quarter of 2014 were $3.76 per barrel, which is three cents per barrel lower than the fourth quarter of 2013.
• The ethanol segment generated $158 million of operating income in the fourth quarter of 2014 versus $269 million in the fourth quarter of 2013. The decrease in ethanol segment operating income was mainly due to a 31 cent per gallon decrease in gross margin driven by lower gasoline and ethanol prices with relatively stable corn prices. Production from the Mount Vernon plant contributed to record quarterly ethanol production volumes, which averaged 3.8 million gallons per day in the fourth quarter of 2014.

• General and administrative expenses, excluding corporate depreciation, were $214 million in the fourth quarter of 2014, which is $35 million higher than in the fourth quarter of 2013 primarily due to changes in legal reserves.

• Also in the fourth quarter of 2014, net interest expense was $101 million, and total depreciation and amortization expense was $425 million. The effective tax rate was 28.4 percent. The rate was lower than normal due primarily to earnings from our international operations that were higher than projected and taxed at statutory rates that are lower than in the U.S., the biodiesel blenders tax credit that was passed into law in December, and the reversal of certain tax reserves.
• With respect to our balance sheet at quarter-end, total debt was $6.4 billion, and cash and temporary cash investments were $3.7 billion, of which $237 million was held by VLP. Valero’s debt-to-capitalization ratio, net of $2 billion in cash and excluding VLP, was 17.4 percent. Valero had approximately $6.1 billion of available liquidity in addition to cash, including VLP’s $300 million of available liquidity.

• Cash flows in the fourth quarter included $857 million of capital expenditures, of which $157 million was for turnarounds and catalyst.

• In the fourth quarter, we returned $640 million in cash to our stockholders, which included $143 million in dividend payments and $497 million in purchases of approximately 10.3 million shares of Valero common stock. Our total cash returned to stockholders for 2014 was $1.9 billion, a 33% increase over 2013, and included $554 million in dividend payments and purchases of 25.7 million shares for $1.3 billion.
• For 2015 and 2016, we maintain our guidance for capital expenditures, including turnarounds and catalyst. In 2015, we expect to spend approximately $2.65 billion, consisting of approximately $1.5 billion for stay-in-business capital and $1.15 billion for growth investments, and excluding $150 million for a St. Charles methanol project that remains under evaluation.

• For 2016, we expect to spend approximately $2.4 billion, consisting of approximately $1.4 billion for stay-in-business capital and $1 billion for growth investments, excluding $300 million for the St. Charles methanol project.

• For modeling our first quarter operations, we expect throughput volumes to fall within the following ranges: Gulf Coast at 1.45 million to 1.5 million barrels per day, Mid-Continent at 430 thousand to 450 thousand barrels per day, West Coast at 240 thousand to 260 thousand barrels per day, and North Atlantic at 450 thousand to 470 thousand barrels per day.

• We expect refining cash operating expenses in the first quarter to be around $4.20 per barrel.
For our ethanol operations in the first quarter, we expect total production volumes of 3.7 million gallons per day, and operating expenses should average 37 cents per gallon, which includes four cents per gallon for non-cash costs, such as depreciation and amortization.

We expect G&A expense excluding depreciation for the first quarter to be around $170 million, and net interest expense should be about $100 million. Total depreciation and amortization expense in the first quarter should be approximately $440 million, and our effective tax rate should 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.