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CORPORATE PARTICIPANTS

David L. Lamp *CVR Energy, Inc. - President, CEO & Director*

PRESENTATION

Unidentified Analyst

Good morning. Welcome, everyone. It is my pleasure to introduce our next presenting company, CVR Energy. With us today, we have David Lamp, President and CEO.

David L. Lamp *- CVR Energy, Inc. - President, CEO & Director*

Thank you, and good morning, everyone. And I'd like to thank Barclays for inviting us here for our presentation and as well as the conference. We always find it very interesting.

I'd like to talk a little bit today about CVR Energy in general and the industry in general, just brief overviews. But at CVR Energy, we're really a holding company that has interest in refining as well as fertilizer in North America. We use as our guideline here our mission and values, how we want to run the company and how we -- the culture we're trying to create within the company. Really, our mission is to be a top-tier North America petroleum refining and nitrogen-based fertilizer company as measured by profitable -- by safe and reliable operations, superior financial performance and profitable growth. If you look at our company, we're about 80% EBITDA focused on refining, about 20% focused on fertilizer.

So safety, environmental, doing -- and integrity really are at the top of our list. It's how we operate our business. If you're not a safe operation, you're not a reliable operation, you're not a profitable operation, pretty much that simple.

Environmental is critical because we have license to operate or permits. If we violate those or do anything in counter to those or to the community, we will lose them, and so it's top on our list. Corporate citizenship's important in terms of giving back to the communities we operate in but not only with our people's time but with cash donations and money that we can give to better the communities we live in. And finally, continuous improvement, which is the way we stay alive, and the competitive nature of our business is we must continually improve in order to remain viable.

As I mentioned, we're about -- the petroleum sector is -- we're about 210,000, 215,000 barrels a day of crude capacity. We can run other materials that put us up more towards the 225,000 range in total feedstocks. And we've -- we're operating in 2 states, mainly Kansas and Oklahoma, and we're Mid-Con centric. And we have very competitive complex assets that are fairly low cost and fairly high margin.

In terms of the Fertilizer segment, we're also located mainly in the Mid-Con but a little bit more towards Iowa and Illinois on our second plant. These are about -- if you look at total nitrogen capacity, it's about 1.5 million tons a year. And we're diversified in 2 plants and have extensive distribution centers that pretty much make us cost competitive with imports than any other alternative to the market.

A little bit more into the petroleum sector. Our asset footprint, as I mentioned, is in 2 states. They're Mid-Continent refining based. They're built right -- basically right on top of or with close access to the Anadarko Basin as well as access to Permian Basin crudes as well as Canadian crudes. So we have historical basin pipelines that allows us to deliver whatever the best slate of feedstocks are to our refineries. I'll come back to that here in a little bit.

The logistical assets are also with us. We do not have a logistical MLP nor do we plan to do one at this point in time. But if you look at our capacity to bring in various types of crudes and feedstocks, we can get access to almost 250,000 barrels a day of these shale oil-type crudes.

In terms of our asset portfolio, we have about 430 miles of pipelines we operate either through direct operation or through joint ventures, and we have about 7 million barrels of total crude and product storage and more than 39 LACT units out in the field where we actually gather the crude. Our current gathering volume is about 120,000 barrels per day. Our vision is more like, all that we run, 210,000 total in the long haul.

I mentioned strategically located. We -- not only that, we are -- we have access to the Magellan system, which brings in about 49 terminals that we can market through. Our big markets are really in Oklahoma City and in Kansas City, and we make the special grade of gasoline that's required for Kansas City, which gives us another competitive advantage with lots of access outlets.

I've mentioned our complexity is fairly high on these assets. And our yield of distillate is second to none in the industry, a little bit over 44% in terms of total yield on crude, which differentiates us. So you could see on the chart on the -- let's see, probably to your right that we beat just virtually everyone. In terms of costs, we are today one of the titans -- towards the second tier, maybe top tier with something less -- just over $4 a barrel on a combined basis and continue to work those numbers down.

Kind of a little bit on the macro environment today. I'm sure there'll be a lot of questions on this at this conference. But in terms of feedstock, the shale oil revolution has impacted our assets dramatically in terms of how we run them and what we -- what we're moving forward into the future. And the increase in the shale oil has just presented a lot of opportunities, and on top of that, we have about 35,000 barrels just based on Canadian pipelines coming in. So we have optionality around how we basically can pick up the right feedstocks for our plant and play the market whichever direction it may go.

We also -- in terms of product demand, just looking at the global nature of the business. The global economy is aligned for sustainable growth, although it may be a little weak now. The low price of oil and the fact that miles driven has continued to increase and in fact, last week, we saw almost a record number in terms of gasoline consumption of 9.9 million barrels a day in the United States; sustained unemployment and the low price environment; and then some of these headwinds coming in, in terms of Tier 3 gasoline, IMO 2020; the fact that exports are at record numbers; and low unemployment, as I mentioned, all those add up to what I think is a constructive overall structure going forward, a lot of which can't be priced into the forward curve until it really hits.

The regulatory landscape has also been positive, destructive -- or constructive. I shouldn't say destructive. Deregulation has been very helpful particularly in our industry as we were heavily regulated and have been the poster child for new regulations, many of which make little sense. The positive energy development in the United States is really favoring the shale oil production and shale oil revolution, which continues to be a tailwind for us. And the low RIN prices with continued issue of small refinery waivers had really kept the RINs in check.

As far as the cracks and the crude differentials, I'll probably come back to this a little bit later in the -- when we talk about some of the projects, but all the macros are generally positive. Of course, the Brent-TI spread is of interest to a lot of people. And it has contracted a bit with the addition of some additional pipelines, but I don't know that I would sit and count it out at this point.

A lot of the analysts are projecting $4 to $5 range on Brent-TI. And if you look at the sensitivity that we have to Brent-TI, it's probably our #1 driver of -- it's almost dollar-for-dollar against our 75 million barrels a day that we process -- or millions a year -- millions of barrels a year we process. So that's near and dear to our heart, but all things being equal, it's not the only thing out there. And these assets can generate fairly good revenue even at a lower Brent-TI spread.

But now if you really look at the IMO 2020, in fact, I've always been a proponent that what we'll see when IMO 2020 comes in is an initial peak and an initial increase in diesel cracks, but then you'll have the effect of people diverting sweet VGO or cat feed to marine fuels. And those blends are already being worked hard, which means -- and if you look at a cat cracker's yields, it's about 3 barrels to 1 on distillate. So you're going to have this significant portion of cat feed -- sweet cat feed diverted to IMO 2020 purposes, and that will have the effect of taking out a lot of gasoline supply off the market.

And we're talking probably here about 1 million barrels a day of shift, and that's probably worldwide. So the U.S. being about 30% of that demand, I think even that has a material effect on wide demand balance of gasoline. So I'm much more bullish that you'll see a general improvement of the crack but not necessarily all manifest itself in diesel. That said, it's still positive to the industry and positive to CVI for sure.

The other factor that's coming in here is Tier 3 gasoline. I mean a lot of people have forgotten about this. There's a law that's passed many years ago. It had 6 years to phase in. Well, January 1, 2020, is the last phase. It'll be fully implemented at that time. And that is -- that really has the effect of driving up octane cost and reducing gasoline yield to some degree.

The reason for that is this 10 ppm spec on the pool -- the entire pool at every refinery will drive out some feedstocks such as natural gasoline because you have to treat it before you can blend it. And the fact that you have to hit the barrel that you have harder to get the sulfur down will destroy octane, a form of saturating olefins on the cat gasoline. So the combination of those 2 will make octane more expensive -- premium more expensive. And the liquid yield will go down across each refinery as people try to compensate for that with reformer severities.

So how is CVI positioned for both of these? Really well in terms of we don't make any fuel oil. We make a lot of low-sulfur VGO, more inland. We're mostly going to benefit from the coast having the impacts, but the market will still reward us in that aspect.

As far as Tier 3 goes, all our strategies are around -- built around creating more octane, more liquid yield and running more light shale crude, and we're well positioned to make significant increases in our premium make as well as meet the 10 ppm without any problem.

If you look at our dividend, we are #1 in the industry. In fact, we do it through a commitment to a dividend, not through share buybacks and other mechanisms that our competitors use. I was always taught that you never want to cut your dividend and you've got to have a lot of confidence that you could support the dividend before you are going to -- go anywhere with it. In fact, that's what CVI has done. So you see our yield is high, has been for quite a long time, and we're committed to supporting that dividend through the confidence that we have in our business.

Our strategic initiatives, which a lot of I kind of moved through, but of course, improving environmental, health and safety is #1. And we've made a lot of progress in this in the last years. Our incident rates are down 50% year-over-year, and in '19, that progress is still continuing to go down.

Our leverage on crude in our backyards and differentials of crude. We are today at our Wynnewood facility running 100% shale oil. I think barrels on this is -- this is a big increase over where we were in the past years. And we have a lot of room to run on our gathering system, which where -- we buy at the wellhead, transport deep barrels into our blending systems and then make our own grade of crude that fits our facilities and the economics the best. We have control of our destiny on the crude slate. We're not at the mercy of other blenders and other people trying to -- affect, to provide us competitive feedstock.

We're still working to reduce our RIN exposure. And I don't think this is something that's a short-term period. But we are the poster child. If we have any area we need to improve on, this is it. A lot of our EBITDA could be stripped away just by the price of RINs, and we've already taken steps to increase our internally generated RINs by blending biodiesel and then capturing more RINs on our -- just our marketing channel. But we're also looking to diversify with retail or some kind of wholesale-type sales, acquisition through existing companies of some form that will provide us more internally generated RINs. And prospects look good in this area, but more to come on that later.

We're really looking at, as I mentioned, trying to blend our own crude slate, and that's particularly true at Coffeyville where everything comes -- that goes to Coffeyville basically comes out of Cushing. So we have a lot of optionality on how we can source crudes and meet the needs of that refinery extremely strongly.

Increase our liquid yield at our -- mainly at our Wynnewood refinery. But we're making a lot of progress here too in terms of if you can reduce that shrink across the barrel, that's money right to the bottom line, and it's always competitive to be increasing that yield. At the same time, you get the benefits of more octane, more other products that are more valuable than fuel gas.

And then finally, there's really an impressive decrease in our lost opportunity. This year, we're on a run rate of about 3% lost opportunities on gross margin. And last year, we were about 7%. We think somewhere around 2% is where we'd like to be on a normal basis. And this is really important in terms of the market offers you a margin that you're prepared to capture, and that's our measure to really make that happen.

As I mentioned, we got some projects that look very strong. We call it crude optionality at Coffeyville. It really involves building the naphtha hydrotreater and an isom unit. This allows us to make additional octane through the processing of more natural gasoline. If you remember, natural gasoline is a byproduct of shale oil also. It is the -- some people call it pipe drippings.

As you make a wet gas off of a well, it condenses out in the lines, and that forms these pipe drippings. It's also fractionated out of a wide-grade gas off of these wells. And if you look at the balance of natural gasoline, its production continues to increase just as butane -- all butanes do and propane

do out of the shale oil revolution. The interesting piece of this is though, in history, you are able to blend natural gasoline which runs maybe 100 parts sulfur directly to gasoline and make a subgrade out of it; in the future, you're going to have to treat that sulfur out to get to the 10 ppm. And we're -- one of these assets will allow us to do that.

You see on the chart here, this is the spread between natural gasoline and subgrade in the Mid-Con, and that differential has been widening for some time. I'm predicting this is going to really widen with Tier 3 as people will not be able to blend it off as they historically had, and therefore, it goes to the export alternative, which is crackers in Asia on the increment. So this is a very strong project, a couple hundred million dollars to do it, but it has better than 30% returns and going to add over $100 million of EBITDA to us in a relatively short period of time.

We also have an isomerization unit we're looking at, at Wynnewood. And it's a little different play, but it still plays on the premium gasoline differential. And that's what this curve is on the right-hand side showing you, is how that spread moves particularly in the Mid-Con. Mid-Con is short premium, so it's always imported. And there's just a long runway for us to make much more premium than we have in the past. It's about a $92 million project and has about $32 million of EBITDA projected generating in the future.

KSAAT project at Wynnewood, this is kind of cutting-edge technology. It's a solid bed alkylation technology. Here, we were faced with the decision whether to put in HF acid mitigation, which involves a quick dump of massive amounts of water to -- if you did have a release, to capture the HF. We chose to go this route instead, which is about a $48 million project, about a net of 18 if you consider what we would have to spend with the mitigation. And the thing is this also adds value in terms of about $10 million of EBITDA and higher yield of alkylate and better octane. We're pretty excited about that project also.

Modest amount of capital improvements here. I think these 2 plants were -- have been historically heavily invested in just to bring them up to standard, and we're largely there with a couple of exceptions. So I'd really anticipate the CapEx budget to level out at these kind of levels or a little bit lower yet once we finish a couple of major infrastructure reinvestments. Turnaround spending is reasonable. We are now capitalizing turnarounds so this shows up a little different in our financials.

As far as the Fertilizer segment goes, just to briefly cover that. Nitrogen consumption is growing in the United States as well as the world. The interesting thing about nitrogen is it's kind of -- it's used heavily in corn, not so much in soybeans, but a little bit in wheat. But the biggest -- probably the biggest market share, and you can see it on here on the right-hand side, is ethanol. And that yellow portion of the top graph is the growth in ethanol that goes where corn goes for the most part. So you see most of -- a lot of the growth -- it's not all of it but most of it has been in ethanol.

And then when you look at the bottom chart, just look at the acres planted, this goes back from 1928 -- 1926, I believe, all the way to today. You can see how the productivity's improved. And almost all of that is better farming techniques, but a lot of it is the use of nitrogen to fertilize and to improve the yield. The line is the production of -- or the yield improvement. And the yellow bars are acres planted, are basically slightly up but mostly flat. But the biggest production increase in corn is through the use of nitrogen -- efficient use of nitrogen.

So our plants are located: one in East Dubuque, Iowa -- or Illinois; and one in Coffeyville, Kansas. We're diversified on our feedstock. One is a natural gas plant. The other is a pet coke gasifier operation. And we have access to many railroad systems. We can take the material out of Coffeyville and take it just about anywhere in the United States. And most of the -- East Dubuque is just right in the corn belt, and it's just trucked out very efficiently to a local market there.

Utilization at these plants, you typically are embedded with 95% onstream, and they're very similar to refining in that they're continuous process. And you do have seasonality here. With -- the spring is when you plant, and right before your plant, you do a lot of fertilizing. After you plant, you do a little side-dress. And then in the fall, typically, you harvest. But after you've done harvesting, you'll do some more fertilizing for the next season. So it kind of moves in those kind of cycles.

Again, it's not heavily concentrated in terms of capital spending or just sustaining capital. It's a pretty solid addition to the diversification of our EBITDA in terms of 15% to 20% comes from the Fertilizer segment.

So that's kind of an overview of the company. Just to kind of summarize here from the macro standpoint, what does the refining business look like these days? I would tell you inventories are very much in check. Gasoline, diesel, crude, if you go down the line, they're pretty much at historical 5-year averages. Gasoline demand is very strong. The low price environment, low unemployment, I think, leads to that. Exports are strong, both on the gasoline and diesel but not only that, crude. We're hitting 3 million barrels a day of crude exports out of the Gulf.

Lower RIN prices continued with the Trump administration issuing the small refinery waivers as they should per the law. Low crude price just says it all in terms of demand. Shale oil growth continues. Still -- look at the Permian, it's still doing about 1 million barrels a day increase a year. And even though pipelines have been probably overbuilt a little bit, it won't take long to fill those back up. The positive side of it is really -- it has reduced tariffs on some of the historical lines, which I think will have the same thing as -- same effect as deterring additional pipelines from being built or overbuilt.

In terms of a lot of things that the market doesn't -- hasn't really priced in, which I think are tailwinds for us and the rest of the industry, IMO 2020, it's very hard to predict what exactly will come out of that. But it is a monumental shift in the regulatory environment as well as what you have to do to make compliant fuel. Tier 3 gasoline, as I discussed earlier, this is forgotten. People don't know how to price it in.

Light crude differentiation. Now a part of the shale oil revolution has been there's been a lot more light crude. If you don't believe me, go look at WTL, which is now a posted crude. Soon, another one will be out there called WTC, which is condensate, 50-plus gravity. Those are all having the effect of pulling the gravity of AP -- of WTI itself down. If you remember, it was floating up towards 45. It's now come back down to about 42, and I predict it will fall even a little further. But that differentiation will present opportunities to those 42 count level, and it's really just starting.

So with all that, I think our future is bright. And with the combination of projects as well as these market tailwinds, I think we're in for a good run for the next 5 years or so.

With that, I'd entertain any questions.

QUESTIONS AND ANSWERS

Unidentified Analyst

About Tier 3 as being a potential catalyst and looking at your peers and competitors across the whole industry, do you think this is something that most are well prepared for or have a plan of action? Or from an industry perspective, is it going to be polarizing, there will be clear winners and losers come the effective date?

David L. Lamp - *CVR Energy, Inc. - President, CEO & Director*

Well, it's a hard question to answer as I don't know everybody -- what everybody's done. But I can tell you some are still in construction on units that will allow them to meet it, and some will have to buy credits in the short haul. Credits right now are trading at about $1,900 in million gallons per ppm. So they're not cheap, and they will get probably more expensive.

If you use like spending in gasoline as an example or any of the other regulations that come in, there's usually a peak in these things and then they fall -- they kind of fall and then they come back up to a steady state. And I think we'll have to go through that signway. But I know some companies are prepared and some aren't, so there will be a differentiation. You'll see it by -- those who have to buy credits, you'll see their capture rates go down. And you'll see the yield effects not only in that but still naphtha or some other combination that will affect capture rates. It will be spotty.

Unidentified Analyst

Okay. I'll ask another one as well. In terms of your capital allocation, so you talked about your dividend policy especially in contrast with some of your peers. What's your thought process behind going that direction versus share buybacks and especially also since you have some organic growth projects to fund?

David L. Lamp - *CVR Energy, Inc. - President, CEO & Director*

Yes. I think our Board talks about this all the time. But it's -- again, I will go back to my stance, is that if you have the confidence in your building -- in your business, you will raise your permanent dividend or dividend up. If you don't, you do stock buybacks where you're just capturing that "quarter or that first half of the year or whatever it is" effect. And I think it's a much less efficient way to return capital to your -- to the shareholders even though it is somewhat tax-free.

But that said, is -- I think if you have confidence in your business, you're going to raise your permanent dividend and you're going to protect it with all your might, and that's really what we do. Share buybacks is -- I've done in my past and have really never seen them produce a lot. I mean when you're buying back and you look -- what a lot of these companies did was buy back at a share price when they're at all-time records. And this is a cyclic business without a doubt. What does it really do when the stock price goes down 20%? If they overpaid, does that money just vaporize or what? If I was a shareholder, I don't know that I'd be very pleased with that. Okay. If you're going to buy when it's a low price, I tend to say that might be good deal. But the other way around just doesn't make sense to me. So there will be interest to see what we do. We have an extremely strong balance sheet now with a lot of cash on hand, so we'll fund those projects probably from that or restructure our debt somewhat to do it or some combination of the 2. But I think we'll protect our dividend with all our might.

Unidentified Analyst

Okay. So if there are no more questions from the audience, we have a breakout session at Liberty 3. Thank you very much.

David L. Lamp - *CVR Energy, Inc. - President, CEO & Director*

Thank you.
