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CVI - Q4 2019 CVR Energy Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 20, 2020 / 6:00PM GMT

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PRESENTATION

Operator

Greetings, and welcome to the CVR Energy, Inc. Fourth Quarter 2019 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Jay Finks, Vice President of Finance and Treasurer. Thank you. You may begin.

Jay Finks - *CVR Energy, Inc. - VP of Finance & Treasurer*

Thank you, Michelle. Good afternoon, everyone. We very much appreciate you joining us this afternoon for our CVR Energy Fourth Quarter 2019 Earnings Call. With me today are Dave Lamp, our Chief Executive Officer; Tracy Jackson, our Chief Financial Officer; Dave Landreth, our Chief Commercial Officer; and other members of management.

Prior to discussing our 2019 full year and fourth quarter results, let me remind you that this conference call may contain forward-looking statements, as that term is defined under federal securities laws. For this purpose, any statements made during this call that are not statements of historical facts may be deemed to be forward-looking statements.

Without limiting the foregoing, the words outlook, believes, anticipates, plans, expects and similar expressions are intended to identify forward-looking statements. You are cautioned that these statements may be affected by important factors set forth in our filings with the Securities and Exchange Commission and in our latest earnings release. As a result, actual operations or results may differ materially from the results discussed in the forward-looking statements. We undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise, except to the extent required by law.

This call also includes various non-GAAP financial measures. The disclosures related to such non-GAAP measures, including reconciliation to the most directly comparable GAAP financial measures are included in our 2019 fourth quarter earnings release that we filed with the SEC yesterday after close of the market.

With that said, I'll turn the call over to Dave, our Chief Executive Officer. Dave?

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

Thank you, Jay. Good afternoon, everyone, and thank you for joining our earnings call. Hopefully, you had an opportunity to listen to the CVR Partners earnings call earlier today. I'd like to begin the call today with a brief discussion of our accomplishments in 2019 and then discuss our operating performance for the quarter as well as for the year.

2019 was another successful year for CVR Energy. Last year, I outlined a handful of strategic initiatives for 2019, and I'm happy to report several accomplishments for the company, including significant year-over-year improvements in environmental health and safety performance at all plants. Total recordable incident rate declined by 11% in 2019, followed by a reduction of 50% in 2018. Tier 1 process safety occurrences declined by 50% and environmental events declined by 14% after a reduction of 35% in 2018.

We maintained our commitment to return cash to shareholders with a 7% increase in our quarterly cash dividend. The Board authorized a share repurchase program of $300 million, and we closed on our sale of our underutilized Cushing tank farm assets as planned for consideration of $44 million, including inventory for a gain of $9 million. Some specific -- accomplishments specific to our Petroleum segment include an increase in our throughput of regional crudes and shale oil by 20%, while reducing our reliance on Cushing and Midland WTI crude oils.

The quality adjusted advantage of the gathering crude oil versus Cushing common typically average approximately $0.50 to $1.00 per barrel. As a result of the benzene repositioning project completed in March as well as the replacement of reformer catalyst at both refinery -- both refineries, we have increased our production of premium gasoline by more than 25% in 2019 compared to 2018.

Our premium gasoline production approached 17,000 barrels per day in December, an increase of over 85% compared to our 2018 average. The group 3 premium gasoline averaged $0.26 per gallon over subgrade in 2019. We further increased our internal RINs generation by approximately 12% by blending biodiesel across both refinery racks for the full year. And the Board approved the Wynnewood isomerization project, which we expect will further improve our capture rates.

Earlier today, CVR Partners' CEO, Mark Pytosh, announced the following accomplishments for the Fertilizer segment in 2019. The planned turnaround at East Dubuque in the fall was completed safely and we achieved record ammonia production levels at that facility in December. Total cash distribution of $0.40 per unit were paid during the year, and the Board approved the urea, reliability and expansion project at our Coffeyville plant.

Yesterday, we reported CVR Energy's full year and fourth quarter results. For the full year of 2019, consolidated net income was $362 million and diluted earnings per share were $3.78. Fourth quarter consolidated net income was $28 million and diluted earnings per share were $0.44. EBITDA for the year was $880 million, and for the quarter was $142 million.

We posted improved results in both of our business segments on a year-over-year basis. In the Petroleum segment, the EBITDA improvement was driven by increased throughputs, higher capture rates and higher refining margins despite lower crack spreads achieved through fewer lost profit opportunities. Higher fertilizer sales and -- sales volumes and prices drove improvement in the Fertilizer segment.

We announced a fourth quarter dividend of $0.80 per share which will be paid on March 9 to shareholders of record March 2. We paid total cash dividends for the year 2019 of $3.05, bringing our total cash returned to shareholders for the year to approximately $306 million. Our current annualized dividend of $3.20 per share represents an industry-leading dividend yield of over 9% based on yesterday's close.

Now I'll speak to some of the fourth quarter highlights for each of our business segments. For the fourth quarter, the Petroleum segment, the combined total throughput for the fourth quarter of '19 was approximately 213,000 barrels per day as compared to 221,000 barrels per day in the fourth quarter of 2018. The Group 2-1-1 crack spread averaged $16.65 in the fourth quarter of '19 compared to $18.48 for the fourth quarter of 2018.

Domestic crude differentials have tightened compared to year-ago levels, primarily due to the start-up and line fill of new pipelines from Midland to the Gulf Coast. The Brent-TI crude differential averaged $5.55 per barrel in the fourth quarter of 2019 compared to $9.26 per barrel in the fourth quarter of 2018.

The Midland Cushing differential turned negative for the quarter with Midland averaging $0.94 per barrel premium over Cushing compared to a discount of $5.96 per barrel in the fourth quarter of '18.

The WCS to WTI differential was $18.98 per barrel compared to $33.86 per barrel in the same period last year. The tightening of the WCS differential is largely the result of continued production curtailment imposed by the Alberta government.

Light product yield for the quarter was 101% on crude processed. Our distillate yield as a percentage of total crude oil throughputs was 44% in the fourth quarter of 2019 compared to 45% in the prior year. Our distillate yield continues to rank as one of the highest among the independent refiners.

In total, we gathered approximately 148,000 barrels per day during the fourth quarter compared to 113,000 barrels per day in the fourth quarter of '18. During the quarter, we reached new records for crude oil gathered volumes of approximately 154,000 barrels per day in November.

The Fertilizer segment finished the quarter with strong operating performance at both facilities after completing planned turnaround at the East Dubuque facility.

Coffeyville's ammonia unit operated at 90% compared to 96% in the fourth quarter of '18. And East Dubuque -- at East Dubuque, its ammonia unit operated at 88% utilization adjusted for the planned turnaround compared to 95% in the fourth quarter of '18. CVR Partners did not generate cash available for distribution for the fourth quarter of 2019.

Now let me turn the call over to Tracy to discuss our financial highlights.

Tracy D. Jackson - *CVR Energy, Inc. - Executive VP & CFO*

Thank you, Dave, and good afternoon, everyone. As Dave mentioned, for the fourth quarter of 2019, we reported net income of $28 million, diluted earnings per share of $0.44 and EBITDA of $142 million. This compares to net income of $95 million, diluted earnings per share of $0.73 and EBITDA of $202 million in the fourth quarter of 2018.

The effective tax rate for the fourth quarter of 2019 was 40% compared to 13% for the prior year. For the full year 2019, our effective tax rate was 26% compared to 18% for the prior year period. The increase in our fourth quarter and full year 2019 effective tax rate was primarily due to the reduction of noncontrolling interest as a result of the equity transaction completed in January 2019. The effective tax rate was also elevated in the fourth quarter of 2019 due to an increase in income subject to tax as well as losses in CVR Partners and changes in certain state income tax items. We currently estimate our full year 2020 effective tax rate to be approximately 25%.

The Petroleum segment's EBITDA for the fourth quarter of 2019 was $135 million compared to $172 million in the same period in 2018. The decrease in EBITDA year-over-year was mainly the result of lower Group 3 crack spreads and narrower crude oil differentials.

In the fourth quarter of 2019, our Petroleum segment's refining margin, excluding inventory valuation impact, was $1.86 per total throughput barrel compared to $17.47 in the same quarter of 2018. The increase in crude oil flat price through the quarter generated a positive inventory valuation impact of $0.61 per barrel during the fourth quarter of 2019. This compares to a $3.80 per barrel negative impact during the same period last year.

Excluding inventory valuation impacts and unrealized derivative gains and losses, the capture rate for the fourth quarter of 2019 is approximately 79% compared to 85% in the prior year period. We estimate loss profit opportunities negatively impacted our capture rate by approximately 7% in the fourth quarter of 2019.

Total derivative losses for the fourth quarter of 2019 totaled $19 million, which includes unrealized losses of $24 million associated with open commodity derivative instruments and open purchases of crude oil -- Canadian crude oil that are scheduled for future delivery. In the fourth quarter of 2018, we had total derivative gains of $70 million, which included unrealized gains of $37 million.

RINs expense in the fourth quarter of 2019 was $13 million or $0.63 per barrel of total throughput, in line with the same period last year. The full year 2019 RINs expense was $43 million as compared to $60 million in 2018. The recent ruling by the Tenth Circuit court has caused a significant increase in the price of ethanol RINs, although biodiesel RINs have been less affected due to the extension of the biodiesel blenders tax credit. Based upon recent market prices of RINs and current estimates of production rates, we estimate that our RINs expense for 2020 will be $100 million to $110 million.

The Petroleum segment's direct operating expenses were $4.63 per barrel of total throughput in the fourth quarter of 2019 as compared to $4.41 per barrel in the fourth quarter of 2018. The increase was primarily associated with higher personnel expenses and increased material spending for maintenance activities, offset somewhat by lower expenses for utilities and outside services.

For the full year 2019, CVR Partners reported operating income of $27 million and a net loss of $35 million or $0.31 per common unit. This is compared to full year 2018 operating income of $6 million and a net loss of $50 million or $0.44 per common unit. EBITDA was $107 million for the full year 2019 compared to $84 million for the prior year. The approximate 27% year-over-year increase in EBITDA was primarily due to the improved netback pricing of 20% and 15% for both ammonia and UAN, respectively, along with increased ammonia sales volume.

For the fourth quarter of 2019, CVR Partners reported operating losses of $9 million and a net loss of $25 million or $0.22 per common unit. This is compared to operating income of $8 million and a net loss of $1 million or $0.01 per common unit for the fourth quarter of 2018. EBITDA was $11 million in the fourth quarter of 2019 compared to $33 million for the prior year period. The year-over-year decline in EBITDA was driven by turnaround expenses incurred in the fourth quarter as well as lower UAN sales volumes and pricing in the quarter as a result of challenging weather conditions.

Total consolidated capital spending for the full year 2019 was $114 million, which included $89 million from the Petroleum segment and $20 million from the Fertilizer segment. Of this total, environmental and maintenance capital spending comprised $102 million, including $79 million in the Petroleum segment and $18 million in the Fertilizer segment.

Actual spending for the year came in below expectations as a result of certain capital projects shifting into subsequent years. We estimate the total consolidated capital spending for 2020 to be $130 million to $150 million, of which $80 million to $90 million is expected to be environmental and maintenance capital. This excludes planned turnaround spending, which we estimate will be $145 million to $155 million for the year. Expected turnaround spending for 2020 includes some spending ahead of the planned turnaround at the Wynnewood refinery in 2021.

Our cash position remained strong as we ended the quarter with cash of approximately $652 million on a consolidated basis, which includes $37 million in the Fertilizer segment. Subsequent to year-end, we completed a $1 billion senior unsecured notes offering in January at a blended interest rate of 5.45%. After repaying the existing $500 million of 6.5% senior notes due 2022, we added approximately $500 million of additional cash to the balance sheet, further improving our liquidity position.

Looking ahead, for our Petroleum segment, we estimate total throughput for the first quarter of 2020 to be 155,000 to 165,000 barrels per day, reflecting the impact of the planned turnaround of Coffeyville. We expect total direct operating expenses for the first quarter to be $85 million to $95 million and total capital spending to range between $45 million and $55 million. Turnaround spending is expected to be between $115 million and $125 million.

For the Fertilizer segment, we estimate our ammonia utilization rate to be between 95% and 100%. We expect direct operating expenses to be $35 million to $40 million, excluding inventory impacts, and total capital spending to be between $4 million and $7 million.

With that, Dave, I'll turn the call back to you.

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

Thank you, Tracy. In summary, 2019 was a successful year for CVR Energy. For 2020, our mission remains to be a top-tier North American petroleum refining and fertilizer company as measured by safe and reliable operations, superior financial performance and profitable growth.

Looking at 2020, cracks have -- are having a typical soft start to the new year. On top of that, the weather has been warm and the coronavirus has reduced worldwide demand. The industry's response has been to cut runs. Despite these factors, we see a number of positive market trends that drive our constructive outlook for the year. GDP growth, low unemployment, increases in the workforce participation rates and low gasoline prices are driving refined product demand with vehicle miles traveled up 1% in 2019.

Shale oil production and exports from the U.S. continue to grow. Crude oil production from the major U.S. shale oil basins increased by over 1.2 million barrels per day in 2019 and is expected to increase another 400,000 to 500,000 barrels per day in 2020.

As the domestic production volumes have increased, crude oil exports from the U.S. have increased over 1 million barrels a day in 2019, averaging near 3 million -- nearly 3 million barrels per day for the year. Although crude differentials have narrowed with the addition of the new Midland to Gulf Coast pipeline capacity, we continue to believe the need to export incremental light shale oil drives a sustained differential between Brent and WTI.

The abundance of natural gas production in the U.S. has driven prices to a new low, even in the winter. Cheap natural gas is a key advantage for our refining and fertilizer businesses and the industry -- and industry activity in general. Corn plantings are expected to increase to 92 million to 95 million acres this year, above the 2019 level of less than 90 million acres. And although product inventories are currently elevated, they are not alarming for this time of year and the upcoming RVP spec change and heavy global spring maintenance should clean up the inventory picture.

The impacts of Tier 3 gasoline are showing up in the marketplace with octane spreads averaging $0.25 a gallon so far in 2020 as well as above the same period last year. Prices for Tier 3 gasoline credits were over $3,000 recently, a 70% increase from a year ago. We are currently producing below 10 PM gasoline and generating sulfur credits at both our refineries.

As expected, with the implementation of the IMO 2020, VGO is being diverted away from cat crackers into the marine fuel oil market. This should reduce gasoline and further tighten product inventories. And finally, Western Canadian crudes continue to be constrained by pipeline takeaway capacity although some progress has been made on future pipeline capacity additions.

We believe we are well positioned in regard to all of these market forces, and we continue to progress -- make progress on our suite of income-improving projects that are intended to capitalize on these dynamics. Our focus remains on further increasing our ability to make premium gasoline, increase our liquid yields and expand our feedstock optionality.

Our Board gave final approval to the new C5/C6 isom unit at our Wynnewood refinery. Total capital spending is estimated at $117 million for this project, and we expect the project to complete and in operation by the end of 2022. This project will improve our ability to efficiently process more light shale oils and improve our capture rates.

We are developing a similar project at our Coffeyville refinery, which leverages the Wynnewood isom project. If approved, this project would increase Coffeyville's capability to run natural gasoline and efficiently process light shale crudes.

And finally, we continue to evaluate the replacement of HF acid catalyst at our new -- at the Wynnewood alkylation unit. If approved, this project would eliminate the use of HF acid catalyst and -- in addition to increase in octane and premium gasoline production capability. We expect to complete schedule A engineering in the second half of this year and make a technology selection by the end of the year.

We currently expect these -- each of these projects should generate returns of greater than 40%. We also believe this runway of attractive high-return projects not only improves our competitive position but could also create the potential for future shareholder returns. Our recent bond offering could provide the funding required for these capital projects in addition to providing additional financial flexibility to fund potential acquisitions, share repurchases and other distributions to our shareholders.

As we look at the fourth quarter of 2020, the Coffeyville refinery is scheduled -- the Coffeyville refinery's turnaround is on schedule and is expected to start next week. The turnaround is currently expected to last approximately 40 to 50 days. Looking at the market, quarter-to-date metrics are as follows. Group 3 cracks have averaged $12.91 per barrel. The Brent-TI spread has averaged $5.54 per barrel. The Midland over Cushing by $0.70

per barrel and WTL has averaged $0.05 per barrel under Cushing WTI. WCS differential has averaged $21.02 per barrel under WTI. Prompt crack -- prompt Group 3 cracks were at $16.09 per barrel yesterday. Brent-TI spread was $5.83 per barrel and the WCS differential was $17.58 under WTI.

Quarter-to-date ethanol RINs have averaged $0.20 and biodiesel RINs have averaged $0.43. Recent developments have resulted in mixed direction of prices. The approval of the blender -- the biodiesel blenders credit retroactive to 2018 produced a windfall for some refineries in the fourth quarter. And biodiesel RINs declined by nearly 20% from the beginning of -- to the end of the quarter. However, the recent Tenth Circuit court ruling has caused RIN prices to increase, particularly ethanol RINs. The court ruled in favor of 4 trade associations related to exemptions from obligations under the Renewable Fuel Standard that were properly granted to a few small refiners under the Clean Air Act.

Let me be clear. We believe that Tenth Circuit got it all wrong. Starting with granting standing to these trade associations, not to mention misreading the most important part of the Renewable Fuel Standard regulation protecting small refineries from disproportionate harm caused by compliance with Renewable Fuel Standard. To quote directly from the RFS regulation, "A refinery may at any time petition the administrator for an extension of its small refinery exemption for the reason of disproportionate economic hardship."

We think there is positively no proof that these trade associates have been harmed by these small refinery exemptions. In fact, the blended volume of ethanol has increased every year despite the issuance of exemptions. We intend to fight this ruling with all the necessary resources going forward and believe this ruling conflicts with both the regulations as well as other rulings and sets national policy which exceeds the Tenth Circuit's authority.

With that, operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Prashant Rao with Citigroup.

Unidentified Analyst

This is [Joe] on for Prashant. Now that we have passed January 2020, and the IMO tailwind hasn't shown up as people expected, for the M&A market, are you seeing more attractive bid-ask spreads? Would acquiring an asset in the Rockies make sense given your capital structure?

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

I don't know that I'd say we've seen more attractive bid-ask spreads, but I think they are coming in a bit. Most of the assets that are available out there are what I'd call full valued. So you really have to have some synergies or something that -- an angle to which that you could add value to your existing business with to make any of them work.

Unidentified Analyst

Okay, got it. And my second question is that the Fertilizer segment seems a bit weak. Can you speak a little bit about the market dynamic? And how should we think about the long-term profitability in that segment?

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

Well, I consider the Fertilizer segment to be sort of like a chemical business. It's typical boom-bust cycle. It's still, I would say, in a recovery phase of that boom-bust cycle that happened in the '14, '15 time frame. Demand is strong, however, and -- but there's plenty of material out there to be sold worldwide. And some of that still needs to be soaked up before you really see a return to margins that we have had in the past. On the other side of it, it's a pretty -- relatively steady business for us, and it is being -- benefiting by the low natural gas prices, and we expect that to continue going forward.

Operator

Our next question comes from the line of Neil Mehta with Goldman Sachs.

Neil Singhvi Mehta - *Goldman Sachs Group Inc., Research Division - VP and Integrated Oil & Refining Analyst*

I wanted to stay on the topic here of RINs extending from your prepared remarks. And Dave, the $100 million to $110 million number is probably a little higher than what we had modeled in. Can you just walk us through the assumptions that are embedded in there with the D6 price? And then is there a small refinery exemption that's built into the number?

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

Yes. We project forward without any potential waiver. But what we do -- tend to do, Neil, is take the current price and look at that for the full year. So that's where that number comes from.

Neil Singhvi Mehta - *Goldman Sachs Group Inc., Research Division - VP and Integrated Oil & Refining Analyst*

And the spot price is where?

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

Spot price today is about $33.5 roughly on a blended basis.

Neil Singhvi Mehta - *Goldman Sachs Group Inc., Research Division - VP and Integrated Oil & Refining Analyst*

And that's what's embedded through the balance of the year?

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

That's right. At first, you take off of that what we generate internally, which has moved up in the past years. But that's still -- our basic RVO is somewhere around the $320 million range. Take off the internally generated of about -- today about $72 million to $75 million RINs, and you can -- should be able to do the math.

Neil Singhvi Mehta - *Goldman Sachs Group Inc., Research Division - VP and Integrated Oil & Refining Analyst*

Perfect. Is that pretty ratable across the quarters?

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

Yes, generally.

Neil Singhvi Mehta - *Goldman Sachs Group Inc., Research Division - VP and Integrated Oil & Refining Analyst*

Okay. Okay. And then can you just expand a little bit more on your comments, how you feel that the decision -- the court decision was not consistent with the letter of the law? And how concerned are you that this is going to ultimately be the catalyst that sends RINs prices higher over the next couple of years?

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

Well, there's 2 factors there. I don't know -- I'm sure you're up on that the EPA has elected to try to phase-in a reallocation of small refiner waivers to the large refiners, which is not in the law, number one. It's frankly unfair. It was never intended in the RFS regulation. But I think more importantly, this Tenth Circuit ruling, if you took it at face value and put it in, it goes directly against the Renewable Fuel Standard in the -- from the standpoint that the small refinery waiver exemption was put in there to save small refineries from going out of business. And if you -- there's a pump point there where if you -- if RINs go to a certain value, I don't know where it is, maybe between $1 and $2, you start putting a lot of these small refineries right out of business. They just can't afford it. Their free cash flow goes to 0 after turnarounds and sustaining capital and all the other things you have to do to run this business. So the bottom line is that was a safety relief valve put in by the legislators to protect the small refiners. And this ruling just goes against it in every way.

Neil Singhvi Mehta - *Goldman Sachs Group Inc., Research Division - VP and Integrated Oil & Refining Analyst*

And the decision to not embed the small refinery exemption into your guidance, is that an element of conservatism? Or is that just what we should base case from now? I'm just trying to understand...

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

Well, we've always run our business that way, as if we don't assume it's a given to get an exemption. And we tend to -- this is what hurts us, and in a lot of cases, we actually incur pain because the EPA is so late in issuing these waivers, like last year, it was after the compliance period was over, and we ended up with stranded RINs that were of the '17 vintage that were useless in '19. And we actually have litigation going on that with EPA now because of that fact, we're suing for harm.

So I think you really can't plan your business around these RINs, these exemptions, without some risk that you're going to put yourself in a net short position and have to do a lot of cover. And in some cases, it's infeasible to even cover because they've expired by the time they even issue the waivers. But it just creates a whole bunch of uncertainty in the business that is -- it's no way to run a business is bottom line and Washington needs to do something to fix it.

Neil Singhvi Mehta - *Goldman Sachs Group Inc., Research Division - VP and Integrated Oil & Refining Analyst*

Appreciate the comments. I think we're all hoping that we could put this topic of RINs behind us. It seems like it's reemerging.

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

It's just come right back now with vengeance.

Operator

Our next question comes from the line of Manav Gupta with Crédit Suisse.

Manav Gupta - *Crédit Suisse AG, Research Division - Research Analyst*

Can you elaborate a little more on the Coffeyville turnaround? What will be the expenses incurred during this time frame and which units are you actually digging down for the turnaround?

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

Well, this is a major turnaround for Coffeyville. It's 4.5 years run -- after a 4.5-year run. So we're basically working on every unit in the refinery. So we'll lose full production for at least 40 of those days, and we'll have partial start-ups in the last 10 days of various units as we ramp back up.

Manav Gupta - *Crédit Suisse AG, Research Division - Research Analyst*

And what's the expense you expect to incur during this downtime?

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

Well, we've already spent some money on the turnaround, but we're estimating between $115 million and $125 million.

Manav Gupta - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. A quick follow-up question on your Wynnewood isomerization unit. You have indicated that the CapEx is close to $117 million. Should we split it between '20 and '21? Or is it going to be more '22 -- sorry, '21 versus '20? If you can give us some idea how do you plan to spend that $117 million over the next 2 years?

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

Well, we're planning to heavily modularize this design, which means our spend will be slow this year, and then it will be fairly split between the next 2 years. So '21 and '22 will be heavy spend periods.

Manav Gupta - *Crédit Suisse AG, Research Division - Research Analyst*

And the return of about $35 million, can you help us understand some things around the sensitivity of that? Like what could drive those numbers more towards $40 million and $45 million? At the same time, what could go against you and put the number more into $30 million, low 30s? If you could give us some idea of the sensitivity of those numbers?

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

Yes, The key driver for this is basically liquid -- not only liquid volume yield but it's distillate yield and it's also the amount of premium we can make. And you get -- you can get -- you can use premium in 2 ways. You can either make more premium or you can cut the (inaudible) in your existing reformer, which improves your liquid yield and improves your capture rates. So those are the real -- those are the things that could go wrong. What could make it really, really good is high premium spreads, which we're predicting because of the Tier 3 gasoline and the octane shortage that's there and/or higher crude prices, which improves the liquid yield benefit of it. Of course, distillate prices are always good.

Operator

Next question comes from the line of Paul Cheng with Scotiabank.

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

Dave, one of your competitor, they -- the last several months that they did something quite interesting. They formed a JV -- joint venture in the retail that could help them, I think, in terms of maybe some margin capture in the refining -- local refinery and also then maybe on the RIN side. Do you see any opportunity for you guys to do that?

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

Well, Paul, as I think you've heard me say before, we've been evaluating investments in retail, wholesale marketing and everything. And we -- and frankly, we had -- we were close on a deal this year that we ended up not being the successful bidder on, that would have really jump-started us into that activity. An alternative to that is some kind of joint ventures, like you mentioned, and we continue to pursue those in every direction we can find. It really makes a lot of sense for us in the mid-con because our -- a lot of our -- what we produce goes directly to Oklahoma City, Kansas City, Tulsa. All those markets are big markets for us. And we're a big penetration in each of those. And we continue to look for those type of deals, but just haven't been successful yet.

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

Dave, when you say that is not successful, can you say that what's the hurdle? Is it just the price or that the control, or what's kind of the issue with that?

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

It's a number of factors, Paul. As you know, we're -- and it's difficult deals to do because you're combining a business that is typically a 12 to 14 multiple compared to we traded at, what, 6.5, somewhere in that neighborhood. So any -- the numbers that these retail businesses are going for are very high compared to our base business. So I imagine if we did 1 or 2 of them, you'd be quickly asking why don't you spin those off because you get a higher multiple. So there's your circular argument. And to us, it's -- if we can't enhance our margin and our capture rates and capture wins with it, it's not really something that's very strategic to us.

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

I see. Okay. And to follow-on, your Fertilizer business, the current structure, on the long haul, do you think that this is a sustainable or desirable structure? Or that it is better off that -- for you to be fully consolidated and just bought back the minority interest?

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

Well, personally, from running the company, it would be better to be consolidated. But it has to be accretive to our shareholders. And at the current valuation, that's just not the case. There's a lot of synergies (inaudible)...

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

Maybe let me ask this in other way then. Is there any strategic reason, the current structure -- I mean forget about -- in a minute about the valuation, whether it's accretive. Assume that it will be, is there any strategic reason for them to keep it as a separate entity like where they are today?

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

No, I don't think so. In fact, the MLP structure has fallen out of favor. It's probably a disincentive for them to be the way they are. But the GP has to make that decision, and it has to be accretive to CVI for anything to -- for that to occur. We just don't think we're in the right point of the cycle to do that right now.

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

Final question for me. You gave the first quarter, the throughput guidance and also the CapEx number. Can -- do you have a rough number there for the full year?

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

We probably have that somewhere, but Tracy has them.

Tracy D. Jackson - *CVR Energy, Inc. - Executive VP & CFO*

For CapEx, I think I read it $130 million to $150 million.

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

I thought he was saying rate, but...

Tracy D. Jackson - *CVR Energy, Inc. - Executive VP & CFO*

Rate? No. We don't do a throughput rate...

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

The throughput rate for the year and also that your CapEx for the year?

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

We have no other turnarounds or any other things planned on a planned basis, Paul, so I think you can probably ramp us up on that assumption.

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

Right. So the cost of your turnaround is 40, 50 days, so this will extend maybe into the second quarter, right?

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

That's correct. It will be partially in the second quarter.

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

And that in terms of -- but that since you capitalized the turnaround now, so none of -- so your offtakes on an absolute level, that shouldn't be impacted?

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

Yes, it shouldn't be at all much. Your denominator is changing. So that will...

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

Right, your unit costs will change, but on an absolute dollar, since you capitalized that, unless the expense is higher than expected or that prolong longer than expected?

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

That's correct.

Operator

Our next question comes from the line of Matthew Blair with Tudor, Pickering, Holt & Company.

Matthew Robert Lovseth Blair - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of Refining and Chemicals Research*

I noticed you ran a record amount of regional shale crude. It's now more than half your slate, and it definitely picked up both quarter-over-quarter and year-over-year. Could you talk about the economic uplift you see on these regional shale barrels? And also just keeping in mind that rig count in STACK/SCOOP has declined over the past year, is there any risk to these barrels coming down for you?

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

Sure. Let me take the second one first. The -- I think I mentioned in my prepared remarks that today -- in January, we actually gathered 140. The bulk of that is of the -- any increase we get is in the STACK/SCOOP area, specifically the SCOOP. And we've still -- I don't know that we're projecting large increases from here, but our -- the people we're aligned with that are direct coupled to our pipes, their production continues to maintain or go up, taking out seasonal effects. You do get a weather effect in the winter where it gets too muddy or too snowy or something to get to the wells if you're trucking it that would impact us. But in January, we gathered 140,000. We peaked at 156,000, so -- in November -- 153,000 in November. So you can see there has been a slight decline, but I almost think that's as much seasonal as anything else. And our partners are really saying they're continuing to drill. They have active rigs going and continue to do their farming activities that we enjoy, so.

As far as the second part of the question is, these crudes are right in our wheelhouse. They're WTL, light barrel, and they really blend well with the heavy that we can make a cocktail with WCS at Coffeyville that really fits that refinery well. And Wynnewood is running a pure slate of it, so -- and with the WTL as a trim. So our strategy remains to continue to pick this up and the $0.50 to $1, even to $1.50, sometimes it moves with the dynamics of the market, but that's a typical advantage we see.

Operator

We have reached the end of our question-and-answer session. I would like to turn the floor back over to management for any closing remarks.

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

Again, I would like to thank you all for your interest in CVR Energy. Additionally, we'd like to thank our employees for their hard work, their commitment towards safe, reliable and environmentally responsible operations. We look forward to reviewing our first quarter 2020 results during our next earnings call. Thank you all very much.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.