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ANDV - Q4 2017 Andeavor Earnings Call

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OVERVIEW:

Co. reported 4Q17 earnings of $879m or $5.61 per diluted share.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Andeavor Quarter Four 2017 Earnings Conference Call.

(Operator Instructions) As a reminder, today's conference is being recorded.

I would now like to turn the call over to Mr. Brad Troutman, Vice President of Investor Relations. Sir, you may begin.

Brad Troutman

Thank you. Good morning, and welcome to today's conference call to discuss our fourth quarter and full year 2017 earnings.

Joining me are Greg Goff, Chairman and CEO; and Steven Sterin, Executive Vice President and CFO.

The earnings which can be found on our website at andeavor.com includes financial disclosure and reconciliations for non-GAAP financial measures that should help you analyze our results.

Our comments and answers to questions during this call will include forward-looking statements that refer to management's expectations or future predictions. These statements are made as of the date of this call, and we are under no obligation to update these forward-looking statements in the future. They are subject to risks and uncertainties that could cause actual results to differ from our expectations. Please refer to the earnings release for additional information on forward-looking statements.

Now I will turn the call over to Greg.

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Thanks, Brad. Good morning, and welcome.

2017 was an excellent year for Andeavor, as we made significant achievements, including the following: completing the Western Refining and Western Refining Logistics acquisitions and exiting the year with approximately $190 million in annual run rate synergies; achieving investment-grade credit ratings at Andeavor and Andeavor Logistics, which will allow us to optimize our capital structure and meet future financing needs at attractive rates with longer maturities in a more liquid market; delivering $505 million of annual improvements to operating income; successfully entering and growing our Marketing business in Northwest Mexico and executing on organic growth and accretive acquisitions; enhancing our Permian Logistics and crude oil Marketing business through high-return organic growth investments, as demonstrated by the successful open season and ongoing construction of the Conan system as well as the recently announced gathering projects. This organic growth is enhanced through the acquisition of pipeline and storage assets from Rangeland Energy in the Delaware Basin. We have also recently announced 2 transactions that further strengthen our integrated value chain; an agreement to acquire the Wamsutter pipeline, which will increase the Salt Lake City refineries' access to advantaged crude oil; and the acquisition of 5 asphalt terminals from Delek, which allows for additional growth and enhanced returns on our refining production.

And finally, we have clear plans to grow net earnings by $1 billion and EBITDA by $1.4 billion by 2020, which were shared at our Investor and Analyst Day in December.

In 2017, we generated over $1.6 billion in operating cash flow. This included approximately $222 million of transaction and deal-related costs. We returned $1 billion to shareholders in the form of share repurchases and dividends; invested approximately $400 million in cash as part of the Western acquisition; and finally, invested $546 million in high-return income capital projects.

Let me recap and summarize our performance for the year. Our expectations for 2017 were based on an Andeavor index of $12 to $14 per barrel and Marketing fuel margins of $0.11 to $0.14 per gallon. As we look at our results for the year, the Andeavor index was $14.35, at the high end of our range. And Marketing fuel margins of $0.112 per gallon were at the low end of our range. For 2017, we also committed to delivering an estimated $475 to $575 million of improvements to operating income. Our teams executed extremely well by delivering approximately $505 million of improvements to operating income in 2017. These improvements were driven by growth and productivity of $40 million in Marketing, $175 million in Logistics and $290 million in refining.

I would like to clarify that these improvements do not include the synergies from the Western acquisition. As mentioned before, we exited the year at a run rate of $190 million. And we are on track to deliver a synergy run rate of $350 million to $425 million by mid-2019, which is consistent with our commitment at the time of the acquisition.

As I reflect on the year. We executed our strategic plans, delivered on our growth and productivity targets and transformed our portfolio through the acquisition of Western Refining as well as other high-return acquisitions. We faced a challenging fourth quarter, but none of these challenges change our outlook for 2018 or impact our ability to deliver on our $1.4 billion of EBITDA growth by 2020. Productivity plans are capturing the full synergies of our acquisitions. In 2017, we remained financially disciplined in our allocation of capital, strengthened our balance sheet and became an investment-grade company. These factors I just mentioned give me continued confidence in our ability to execute on our plans and create significant value for our shareholders.

Turning to our business results for the year.

First, within our Marketing business. We are focused on driving growth and improvements in our Marketing business by placing products into the highest-valued branded distribution channels, adding new retail sites to the network, implementing store improvements to enhance our convenience store position and extending our value chain into new geographies such as Mexico. We increased our branded and retail store count by 31% or 763 stores year-over-year to 3,255 in 2017. Marketing fuel margins were $0.209 per gallon for the retail and branded channels for the full year.

In 2017, we successfully began the expansion of our Marketing business into Mexico, which extends our West Coast value chain south into the northwestern region of Mexico. We are targeting to supply 15,000 to 20,000 barrels per day by the end of this year. We also signed a wholesale supply agreement to begin wholesale marketing operations using the ARCO brand. We officially began operating in Mexico and successfully opened the first ARCO station in Tijuana, Mexico in the third quarter of 2017. We are supplying approximately 60 stores in Mexico, including 28 under the ARCO brand as of January 31, and we are experiencing strong customer acceptance at these sites. We expect to increase our Marketing presence across the entire northern part of Mexico, with an estimated 250 to 300 stores planned through 2020. We continue to see strong demand in each of our geographic regions. And we remain excited about the growth prospects in our Marketing business as we expand our network of stations by leveraging our extensive brand portfolio and converting more stations to company owned and operated, which allows us to capture more value.

Moving to our Logistics business. During the year, Andeavor Logistics completed several strategic actions that will contribute to its growth momentum going into 2018. On January 1, 2017, Andeavor Logistics acquired the North Dakota Gathering and Processing Assets in the Bakken. This acquisition allows us to participate more fully in the growth of natural gas and natural gas liquid production. In 2017, the acquired business performed well; as -- and expecting to see 10% to 15% growth in 2018. Crude oil production in the Bakken has risen significantly in 2017 and is close to the all-time record set during 2014. Natural gas production continues to set new production records almost every month. Additionally, Andeavor Logistics recently announced North Dakota NGL Logistics Hub provides much needed takeaway optionality. This is important for our customers, as both production and the gas-oil ratio in the basin continues to increase.

Andeavor Logistics also successfully completed its $1.7 billion merger with WNRL in the fourth quarter of 2017, a transaction which strengthens Andeavor Logistics and provided an attractive entry into the growing Permian Basin. We also completed our IDR Buy-In with Andeavor Logistics. And Andeavor Logistics achieved investment-grade credit rating from both Fitch and S&P Global ratings. These transactions reduced Andeavor Logistics' cost of capital and will enhance the accretion all unitholders will see from its continued growth, which includes Andeavor shareholders as we currently own 59% of this company.

During the fourth quarter, we announced the Andeavor Logistics (sic) [Anacortes logistics] asset drop to Andeavor Logistics for a total consideration of $445 million. This represents about an 8.4x annual EBITDA multiple and resulted in nearly $400 million in cash flow to Andeavor in the quarter. The completion of this transaction further strengthens Andeavor Logistics as a leading customer-focused full-service logistics company. In support of our Permian Basin logistics growth plans, we expect to offer certain Permian logistics assets to Andeavor Logistics in 2018, including our newly acquired interest in the Rangeland pipeline as well as other Andeavor Permian logistics assets. We also expect to transfer the Conan Crude Oil Gathering System at cost plus interest. This integrated system, combined with Andeavor Logistics' existing Permian assets, is expected to see considerable volume growth and additional expansion projects, which support our plans to achieve at least $150 million of segment operating income and $200 million of segment EBITDA from Permian contributions by 2020.

Our Logistics business is a significant part of the value proposition for Andeavor investors. The growth in this business brings more stable fee-based earnings and cash flow to Andeavor and allows Andeavor investors to participate in the highly accretive third-party organic growth in the Permian that is self funded by our MLP.

Shifting to our refining business. Total refining throughput for the year was 997,000 barrels per day or 95% utilization, and refining margins were $10.55 per barrel. In 2017, we received the final permits on our Los Angeles refinery integration and compliance project and began construction. This project enhances our position in Southern California, allows for yield flexibility of 30,000 to 40,000 barrels per day between gasoline and distillates and significantly reduces greenhouse gas and other pollutant emissions. The project is on track to deliver $65 million of net earnings and $125 million of EBITDA growth upon completion in 2019.

Other achievements in our refining segment in 2017 include receiving final regulatory approval on the isomerization project in Anacortes, which is on schedule to be completed by second quarter 2018; forming a drilling joint venture with EP Energy Corporation to fund the development of 60 wells producing waxy crude oil for advantaged supply into our Salt Lake City refinery; and successfully completing the crude unit expansion in El Paso by 3,000 to 4,000 barrels per day, which allows for additional value capture given the refinery's access to advantaged premium crude supply.

I would like to update you on the integration of Western Refining and WNRL. We continue to have a very successful integration and are rapidly moving towards full value capture. We are making excellent progress integrating the business and identifying and capturing synergies. By the end of the fourth quarter of 2017, we estimated we have achieved approximately $190 million in annual run rate synergies consisting of approximately $100 million of corporate efficiencies and about $90 million in value chain optimization and operational improvements.

Now I'd like to talk about some recent accomplishments that further strengthen our business.

On January 19, 2018, we closed on the acquisition of Rangeland Energy, which owns and operates assets in the Delaware and Midland Basins, including a recently constructed crude oil pipeline, 3 crude all storage terminals and a frac stand (sic) [sand] storage and truck loading facility. We plan to integrate the acquired 110-mile crude oil pipeline with ultimate throughput capacity of 145,000 barrels per day and crude all storage terminals with our nearby Conan Crude Oil Gathering System which is currently under construction. We expect this acquisition to deliver an EBITDA multiple of approximately 6x and expect to offer the crude oil assets to Andeavor Logistics in 2018.

On February 12, 2018, we announced our agreement to acquire 4 asphalt terminals in the operating interest of another, with total capacity of 285,000 tons per year, from Delek. We expect the purchase price multiple to be approximately 4x expected annual EBITDA, including our synergies. The acquisition significantly builds upon our asphalt offering, enhances our West Coast value chain by optimizing our integrated system and improves the value for residuals produced in our refineries. Upon close, we expect to grow this new addition to our asphalt business to serve more customers, provide superior customer service and expand our product offering. We expect to improve the business and increase sales by about 20% over the next 3 years. The acquisition, which is subject to customary closing conditions, including regulatory approval, is anticipated to close in the first half of this year.

As I just mentioned, Andeavor Logistics announced its intent to build and operate the North Dakota NGL Logistics Hub to further participate in the NGL value chain. Natural gas liquids will be marketed by Andeavor's commercial business and for our own consumption in our refineries. Partial commercial operations are estimated to begin in late 2018, with full operations commencing in the first quarter of 2019.

Turning to our outlook for 2018.

We continue to expect an annual Andeavor index of $12 to $14 per barrel and annual Marketing segment fuel margins of $0.11 to $0.14 per gallon. Looking ahead, we remain well positioned to deliver on the strategic plans outlined at our 2017 Investor and Analyst Day. In addition to delivering on our growth, productivity and synergy targets totaling $1.4 billion of EBITDA by 2020, we continue to focus on driving stronger operational performance and reliability. Additionally, our commitment to capital allocation discipline, a stronger balance sheet and lower cost of capital all position us to create significant shareholder value and return cash to shareholders. We remain focused on being the safest and most environmentally responsible operator in the industry and continually deliver strong results and enable the company to grow and create value.

With that, I'll turn the call over to Steven to provide more detail of 2017 financial and operational results.

Steven M. Sterin - *Andeavor - CFO, Executive VP of Corporate Development & President of Tesoro Logistics*

Thanks, Greg.

Yesterday, we reported Andeavor's fourth quarter 2017 earnings of $879 million or $5.61 per diluted share compared to $78 million or $0.66 per diluted share a year ago. Consolidated net earnings were $908 million for the fourth quarter compared to $101 million for the same period last year, and EBITDA was $445 million compared to $468 million a year ago.

Keep in mind the fourth quarter 2017 results include the following pretax items: $77 million of costs related to the refinancing of Andeavor Logistics debt, a $40 million charge related to Vancouver Energy project, acquisition and integration costs of $11 million related to the Western Refining acquisition, $23 million of acquisition costs related to Andeavor Logistics' acquisition of WNRL and the IDR Buy-In transaction. Finally, our fourth quarter results include approximately $918 million of benefit related to the remeasurement of the company's net deferred tax liabilities due to the recently enacted federal tax reform.

We expect our 2018 effective tax rate to be between 20% to 24%, comprised of a cash tax rate between 8% to 10% and a deferred tax rate of approximately 12% to 15%.

2017 full year net earnings were $1.5 billion or $10.81 per diluted share versus $734 million or $6.12 per diluted share in 2016. Consolidated net earnings were $1.7 billion compared to $860 million last year, and EBITDA was $2.6 billion compared to $2.4 billion a year ago. Please keep in mind that 2016 included a full year LCM benefit of $359 million.

Turning to our business segments.

In our Marketing business, for the quarter, segment operating income was $236 million and segment EBITDA was $255 million compared to segment operating income of $169 million and segment EBITDA of $192 million a year ago. Total fuel margins for the fourth quarter were $0.122 per gallon versus fuel margins of $0.114 per gallon last year. Retail and branded fuel margins were $0.234 a gallon compared to $0.196 per gallon in 2016. The fuel margin increase was driven by stronger overall demand, along with positive contributions from stores added in the Western acquisition. Merchandise margin increased to $47 million from the $1 million in 2016, driven by the new company-operated stores we acquired as part of the Western acquisition.

For the full year 2017, Marketing operating income was $788 million compared to $830 million a year ago, and segment EBITDA was $856 million compared to $889 million in 2016. Full year fuel margins were $0.112 per gallon in 2017 versus $0.127 per gallon a year ago. This was at the low end of our expectations, reflecting low fuel margins in the first and third quarters. This was due to severe weather impacts from the West Coast in the first quarter. In the third quarter, this was due to the lag in Street prices following the increase in spot prices seen in the market during the hurricane.

We continued to grow our network of branded stores, growing store count by 763 or 31% year-over-year to 3,255 stores. This was primarily driven by the additional stores from the Western and Northern California Retail acquisitions; and the continued execution of the company's organic growth plan, including rebranding and expansion into Mexico. Our organic growth plan execution has resulted in the addition of 64 net new branded stores year-over-year. Following the acquisition of Western and leveraging their excellent retail store management capabilities, we converted 50 multi-site operators -- operator stores to company operated in the fourth quarter. We expect to convert an additional 50 stores to company operated in the first half of 2018. These conversions allow us to capture additional nonfuel margins and enhance overall station profitability.

Shifting to our Logistics business for the quarter. Segment operating income increased to $195 million from $123 million a year ago, and segment EBITDA grew to $267 million versus $177 million last year. As a reminder, the segment's results included $9 million of acquisition costs related to the acquisition of WNRL and the IDR Buy-In transaction. The year-over-year increase in segment operating income and segment EBITDA was primarily driven by contributions from the following: the North Dakota Gathering and Processing Assets acquisition, the Western Refining Logistics acquisition, the Anacortes Logistics Assets drop-down during the fourth quarter of this year and the Northern California Terminalling and Storage Assets drop-down that was completed in 2016.

The total distributions received by Andeavor were $126 million during the fourth quarter. This is an increase of $55 million from a year ago. For the full year 2017, the total GP and LP distributions received by Andeavor were $368 million, an increase of $123 million from 2016.

Logistics segment operating income was $665 million for the full year compared to $487 million a year ago, and segment EBITDA increased to $954 million from $696 million in 2016. Please keep in mind that 2017's full year results included $18 million in acquisition and acquisition-related costs.

Moving to our refining business. For the quarter, our segment operating loss was $56 million compared to segment operating income of $43 million a year ago. And segment EBITDA was $120 million versus $205 million last year. Refining margin for the fourth quarter was $787 million or $7.62 per barrel. This compares to a refining margin of $731 million or $9.45 per barrel last year. When comparing our fourth quarter 2017 segment operating income, segment EBITDA and refining margins to the same period last year, please note that results in the fourth quarter of 2016 included a pretax benefit due to an LCM adjustment of $123 million.

Total refining crude oil throughput for the quarter was 1,122,000 barrels per day or 97% utilization, which was at the high end of our guidance.

Let's provide some additional context regarding items that impacted our pretax refining results for the quarter. First, we made the decision to build product inventories in the quarter ahead of some planned major maintenance in the first half of 2018. This resulted in lower fourth quarter product sales and $50 million of refining margin realization in our California region that we expect to occur in the first half of 2018 during our major maintenance. This will allow us to meet our customers' needs during this maintenance and during a period of stronger overall demand for the region. Second, we recognized derivative losses of $85 million related to crude oil inventory that was hedged, as well as forward pricing of a portion of Canadian crude oil supply for the St. Paul Park refinery. As a result of the wide Canadian heavy crude differentials, we decided to remove the hedges, and this is now expected to have a favorable impact on 2018 results. Finally, we incurred $25 million of expense related to litigation, environmental and insurance costs during the quarter based on year-end adjustments.

Consolidated manufacturing costs in the fourth quarter decreased $0.15 a barrel over the same period last year to $5.28. This year-over-year decrease was largely due to higher refinery throughput in the fourth quarter 2017 and the results of our continued focus on driving productivity to offset inflation.

For the full year 2017, refining segment operating income was $785 million compared to $535 million a year ago. And segment EBITDA was $1.4 billion versus $1.2 billion in 2016. Total refining throughput was 997,000 barrels a day or 95% utilization. The Andeavor index was $14.35 a barrel with a refining margin of $10.55 per barrel.

Now let me take a moment to discuss our balance sheet, cash flow and our strategic priorities for creating long-term shareholder value.

We made significant progress in 2017 on our strategies to continue to strengthen our balance sheet, invest for growth and return cash to shareholders. During the year, Andeavor achieved an investment-grade credit rating. And we completed our $1 billion inaugural investment-grade public offering in the fourth quarter of 2017. This investment-grade rating -- offering exemplifies the execution of our financial strategy, which creates additional value for investors by lowering the cost of capital and extending our debt maturities. Following the completion of Andeavor Logistics' acquisition of WNRL and the IDR Buy-In, Andeavor Logistics also achieved an investment-grade credit rating. With its new investment-grade rating, Andeavor Logistics is well positioned to optimize its capital structure and meet future financing needs at attractive rates with longer maturities in a more liquid market.

In November, Andeavor Logistics completed its inaugural investment-grade debt offering of $1.7 billion in senior notes. Proceeds from the offering were used to refinance existing debt, resulting in $25 million in annual interest expense savings. Additionally, in November, Andeavor Logistics completed its inaugural $600 million offering of perpetual preferred equity.

Our balance sheet and credit metrics remained strong. We ended the year with total liquidity of $3.4 billion, including a consolidated cash balance of $543 million, versus our target of $3 billion to $4 billion of overall total liquidity. Our consolidated leverage for the fourth quarter 2017 was in line with our target of approximately 2x, while Andeavor Logistics' leverage was below its target of approximately 4x. Total debt, net of unamortized issuance costs, was $7.7 billion at the end of the quarter. Excluding Andeavor Logistics, debt was $3.6 billion.

Turning to cash flows. Andeavor generated cash flow from operating activities of $1.6 billion for 2017, including $429 million in the fourth quarter. Please keep in mind that $597 million in turnaround and marketing branding expenditures are included in our operating cash flow presentation for the full year 2017.

During the year, we invested $546 million in high-return growth capital projects at Andeavor and Andeavor Logistics. Our combined capital expenditures were approximately $1.4 billion, consisting of $1.1 billion for Andeavor and $237 million for Andeavor Logistics. These investments create significant value for Andeavor and position the company for further growth. This is reflected in our competitive returns on invested capital.

We repurchased 2.7 million shares for approximately $292 million in the fourth quarter and had approximately $1.4 billion remaining under our approved share repurchase programs as of December 31. Additionally, we paid dividends of $91 million, and Andeavor Logistics distributed $88 million to its public unitholders during the quarter. We returned over $1 billion to shareholders in 2017, consisting of $692 million of share repurchases and $314 million in dividends.

Yesterday, we also announced that the Andeavor Board of Directors declared a quarterly cash dividend of $0.59 per share payable on March 15, 2018, to all holders of record as of February 28, 2018.

Turning to our 2018 capital outlook.

Our expected full year 2018 capital expenditures are unchanged from what we presented in December, which is total capital expenditures of approximately $1.5 billion, consisting of $1.1 billion at Andeavor and approximately $400 million of Andeavor Logistics. Refining turnaround expenditures for the full year 2018 are expected to be $575 million, and marketing branding expenditures are expected to be $75 million. Looking ahead, you can find details of our planned throughput, manufacturing cost per barrel and other elements related to our first quarter 2018 outlook in our earnings release issued yesterday.

This concludes our prepared remarks, and we will now take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Spiro Dounis from UBS Securities.

Spiro M. Dounis - *UBS Investment Bank, Research Division - Director and Equity Research Analyst of Shipping*

Just wanted to start of with the asphalt acquisition and as it relates to IMO 2020. It sounds like a great multiple there on a post-synergy basis, but are there other opportunities like that, that we should expect coming down the pipeline? And then could you just remind us again what you're doing on the refining side to maximize the benefit of the sulfur change?

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes, thanks. So very good questions. So the -- we do make a portion of resid, particularly in Anacortes and Alaska. And the acquisition of the distribution system allows us to go to the ultimate end customer, so like I said in the comments, we believe one of the benefits is that we can build upon the business and have pretty significant growth over time, which is why we started today to prepare for 2020. From a refining standpoint, we are looking at ways that we've operate our cokers and see opportunities to increase the capacity that we process through the cokers but without much capital at all. So we have a number of plans that we're doing. They are not capital-intensive plans and really allow us to be very well positioned for the upcoming spec changes. And in all honesty, the biggest impact is the LA integration project. As I mentioned, the ability to process or produce more diesel versus gasoline based upon expectation of higher diesel margins is where we expect to come out way ahead. (inaudible) -- yes, just maybe one more comment. The other thing we have done is we are managing our turnarounds, why we have some heavy turnarounds in that, to have very, very little turnarounds in 2020. So our '19 -- excuse me, '18 and '19 plans include preparation for being able to supply the needs of the market in 2020 for the diesel fuel that we expect to produce.

Spiro M. Dounis - *UBS Investment Bank, Research Division - Director and Equity Research Analyst of Shipping*

Got it. And then just on the West Coast crack, the weakness last quarter. I think some of your peers pointed to the late switch to the winter blend as kind of one of the drivers, but I guess 2-part question here. One, the [move-downs in on those themes] may be deeper than normal for fourth quarter. And two, should we expect West Coast cracks to maybe rally back a little harder here ahead of the rest of the country since, I think, you guys in the West Coast switch to summer blend earlier?

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes, it's an interesting question, so I may just take a few minutes and answer that and provide some -- our view looking forward. So we fundamentally look at the key drivers in the market to determine kind of how the market's positioned to supply the needs of the customers. And our view on a quarterly basis for 2017 was that the Los Angeles 3-2-1 crack spread was kind of average. It's basically where it is based upon supply, demand, inventory levels. I would say that, in December, we did reach some -- for some days, reached some really low levels on the crack spread, but I think you have to look at the entire quarter. And we -- our view is that it's somewhat we -- what we would expect on a fourth quarter basis. I think on a relative comparison the other regions of the country experienced pretty good crack spreads for fourth quarter crack spreads, and it probably distorted people's view of the fourth quarter crack spread. If you look into the first quarter of 2018, you have what we would consider so far -- now we're only about halfway through the first quarter, but we would consider we're having a weaker-than-normal gasoline crack, once again using LA. And we would say that it's probably $1.50 to $2 lower than what one would expect to be based on the market fundamentals. And our view is that, because of the weakness particularly in December, it provided opportunities for people to carry barrels forward into 2018 instead of selling them at such low values in 2017. And so if you look at the stock levels, I think the stock levels are elevated in PADD 5. That will draw down as maintenance in that goes on, so our look going forward for 2018 is for very constructive crack spreads on the West Coast. We see all the market fundamentals. We see very good demand. Our demand, so far, is up about 1% versus last year, but let me caveat that with the fact that in 2017 we had a little bit lower demand because of the heavy rains that in -- that occurred in the first part of the year in California. But we see very good demand. We see production being kind of where it's been over time. We don't see any fundamental changes in anyone's production. We see some pretty decent turnaround activity that will -- people [will work] through the system on, on that. We're seeing kind of normal to maybe slightly better export opportunities out of the West Coast. So in total, to take a longer-term look, at least longer term being a year, we see very good crack spread environment on the West Coast based upon a fundamental view of it.

Operator

And next question comes from the line of Roger Read from Wells Fargo.

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Greg, can we maybe change tacks here to the retail side? You highlighted the growth in retail with the Western acquisition, conversion of the stores at the end of the year and plans this year, but can you give us kind of an idea of what maybe underlying organic growth really was in '17 ex Mexico? And then what would be the thought process on organic growth of conversion as we look at kind of '18, '19 and '20, maybe a 3-year plan, as opposed to giving us each quarter?

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

I think, probably the best way to look at it, Roger: If you -- for the total Marketing business, the organic growth -- if you recall, we did an acquisition in Northern California to support our Martinez refinery, but that didn't happen until kind of the middle part of the year and we brought that in. We brought on new stations, as Steven mentioned, through our branding business in that. And I -- so I would say overall the organic growth was actually relatively small relative to the lower margin environment that we experienced. We honestly -- last year, primarily because of rising crude prices throughout the year, we didn't have any periods of time where the market was impacted by having a declining crude price in that -- the lag effect of that. So I -- organically the growth was muted a little bit by the weaker margin environment.

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay. And then as we think about the growth going forward and the conversion process and again kind of organic versus -- or let's just say nonacquisition focused, what do you think the CapEx out of that -- or the needed CapEx for that would be?

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes, as we go forward, we have a capital expenditure plan, but we also have the branding costs, as Steven said. And those branding costs average about $100 million a year going forward. And then our CapEx planned on a go-forward basis is about $150 million a year, so...

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

So kind of think of it as $250 million going into retail.

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes.

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay. And then just one last question for you, in terms of the margin assumptions out of California in the fourth quarter. You went through the [50 to 85] and the [25]. Just trying to get to like maybe what was the real margin in California if you had moved all that out, what the allocation of those numbers were. Are we looking at $7 on kind of a clean comparison basis, or a little higher or a little lower?

Steven M. Sterin - *Andeavor - CFO, Executive VP of Corporate Development & President of Tesoro Logistics*

Yes, I think it's actually higher than that if you moved those out. It's probably in neighborhood of $1.50 to $2 a barrel in a quarter versus what we would have normally expected for a Q4.

Operator

And our next question comes from the line of Brad Heffern from RBC.

Bradley Barrett Heffern - *RBC Capital Markets, LLC, Research Division - Associate*

Greg, going back to the Analyst Day. I think you guys talked about $2 billion to $3 billion of cash over the next couple of years that's going to be generated, that is sort of unallocated. And with tax reform, that's going up to $3 billion to $4.5 billion, so I was curious if you had any new thoughts on uses for that cash.

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

At this stage, Brad, as we look at our allocation of capital and what Steven said, our priorities have always been the same as to return -- or invest a part of it into our growth capital projects. We don't see that growing substantially over time, so basically makes it available to be returned to shareholders. We will probably reduce our debt slightly during that period of time.

Bradley Barrett Heffern - *RBC Capital Markets, LLC, Research Division - Associate*

Okay, got it. And then I think you guys recently purchased the Kenai LNG terminal from Conoco. Can you talk about the use of that facility?

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes. The facility, which has been there for a very, very long time, allows us to be able to meet our needs for natural gas for the Kenai refinery. We see it as an alternative to supplying gas to our refinery versus the locally produced gas in the area and improving our cost position from an energy standpoint.

Operator

Our next question comes from the line of Paul Cheng from Barclays.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

Just curious that -- Greg, given that you run your Marketing as a individual division, does it make sense from a organization standpoint for ANDV to repurchase the wholesale -- Western wholesale business from ANDX and in return that you can pay them in their share? So that by doing that you [eliminate] any uncertainty or any confusion how to run that business and do a better integration.

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes, it's an excellent idea, Paul. In all honesty, we just completed all the acquisition work and integration and everything. And that's kind of on our list of things to do. We -- just we haven't had any time to look at it. We typically don't have the Marketing business into our Logistics company, but it's a good idea.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

Yes, because by doing it this way, that you [eliminate] a lot of volatility. And perhaps that will also help on the logistic company valuation.

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes, yes.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

And the second one. Can you give us some update about the mixed xylene permitting process? And also then, for every integration under construction, where are we in the process?

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes. So yes, those are things that we've worked on for a long time, like you said. So let me start with the second part of the question, around the Los Angeles project. It's actually going extremely well. As you saw, we showed a little bit of the highlights in the analysts meeting of the boring project in that. And so it's on schedule. It's progressing extremely well. And so we're very confident that -- as we move through with the turnarounds we're doing to prepare the units that we're going to connect to the 2 refineries in that, that we're going to be able to stay on budget and on schedule and be positioned to bring the refinery up; and as I mentioned earlier to the question, that it'll help us from a diesel making standpoint in the IMO spec change. On the mixed xylenes project, we actually have very good success in -- up until the summer of last year getting all -- almost all of the necessary permits. We required one shoreline permit from the Army Corps of Engineers. And then the -- recently the -- there have been appeals to the permit that we're working our way through. So we have had some groups appeal the permit that we received, that was granted the environmental permit; and we are going through the appeal process as we speak. I mean we're very -- it's being appealed at the same group that issued the permit, so we're very confident that we'll be able to work our way through and address any current concerns or questions, but it has slowed down the process for a few months to get the final permit, which we expect to happen this year.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

And so the mixed xylene look like it's going to be a late 2019, early 2020 now. And then for LA integration, do we still expect the FCC being shut sometime this year? And the new hydrocracker or expansion, that will start up by the end of the year.

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes, that's approximately what we expect to happen, yes.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

Okay, final question for me. That -- this is probably for Steven. Steven, on the hedging, the $85 million loss; and that I think you're saying that you'll take away the hedges. I presume that's just for the St. Paul. Can you talk about what is the nature of that hedges or forward sales or forward agreement? And also, what's the policy going forward? Should we assume that you'll take it off not just for this year but going forward or that you -- just going to be just this year and then you put it back? So what is the policy going forward?

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes, Paul, I -- actually I prefer to answer that question, so let me -- first, let me address the question regarding the position that was on to manage the differential cost of heavy Canadian crude supply for the St. Paul Park refinery. That was a position as -- on a forward look that was put on early in 2017 on about 30% the volume of the heavy crude supply to the refinery. And it was put on a level which would be attractive from a differential standpoint. And as we went through the year and, as you recall, with the pipeline disruption, the heavy crude spreads blew out. So we'd -- naturally we would have had to -- taken a mark to market on it, but more importantly our forward view was that we just didn't want the position on, so we -- the position was closed. And that was part of the impact, about $35 million, of the $85 million that Steven alluded to during his comments that we took that hit. And it -- so we could take the full value of the heavy crude differential going into 2018. And our policy is to be able to look at opportunities and where we see ways to price the different crudes we run in the -- our systems to price them where we feel like we'll get the highest value. It is not a policy to be able to go in and hedge or -- those Canadian crudes like that. So that's, on a go-forward basis, we would only look at that on a very opportunistic basis. On the actual crude supply, we establish each year, based upon our -- how our operating plan is set, our inventory level. And we do manage the price on the inventory when it gets above our operating inventory level. So for 2017, for the first 3 quarters of the year, we had minimal impact to us on that, but when prices ran up in the fourth quarter and with our hedge on the inventory, that was a negative $50 million impact. Each year, we reassess where we establish our level of inventories based upon where we're supplying crude from around the world and how we are going to be running, so we start fresh every year from that standpoint.

Operator

And our next question comes from the line of Neil Mehta from Goldman Sachs.

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

I just wanted to -- I just want to start off on Western Canada now that you've rolled back the hedges. You have a lot of exposure to that widening differential. What's your view on what the spread looks like over the next couple years and then your ability to access that heavy crude?

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes, we're doing -- we have a certain baseload requirements. We'd love to be able to get more of the heavy Canadian crudes to the West Coast. We -- so we're -- we can pick up stuff every once in a while to get there, but the rest of our system is pretty much base loaded. We see the differential being attractive on a go-forward basis. So we're doing everything to be able to find ways to get barrels, but there are just limitations until the expansion of Trans Mountain Pipeline were to happen.

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

Yes, understood. Then a much bigger picture question here is, if we look back over the last 12 months, certainly for the last 10 years, Andeavor has been a fantastic stock, but then in the last 12 months, stock lagged a lot of the larger-cap peers, certainly more in the last month. Can you talk a little bit about what you think the root cause is? Now part of that could just be execution. There have been some trickier quarters here in the last couple quarters, but is the integrated business model and the value of the integrated business model that we talked around a lot together really driving as much value as we all think?

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes, well, I would -- I'm going to caveat what I'm going to say that this is just my opinion and how we look at things; that one, the sector definitely had a strong move up when the WTI-Brent spreads, after the hurricanes in that -- the sector, had a pretty strong run. And overall, when you look at 2017, we kind of performed in line with everyone else. We didn't get the same appreciation because we're -- our total portfolio being more 700,000 barrels a day West Coast, 500,000 barrels a day inland is more West Coast focused. So we didn't get the same impact there that we believe showed up because of the WTI-Brent spread and how it impacted crack spreads in all the regions, except for the West Coast. With that being said, we still see the West Coast very, very attractive, like I said, on a go-forward basis. And so the -- our view is that we have to be able to go in and make things, deliver things that create value for the company, which we've been trying to do to get the value passed on to the shareholders. And so everything that we laid out in the December Investor and Analyst Meeting and what we've talked about today, all contribute to that. So I'm personally extremely confident that we'll continue to see the same value creation that we've seen over the last several years and that the integrated business model is absolutely key to it. I mean the ability to have cash and earnings come from refining, Marketing and Logistics; and capture that integrated value is one of the fundamental differences, I think, that we enjoy.

Steven M. Sterin - *Andeavor - CFO, Executive VP of Corporate Development & President of Tesoro Logistics*

Yes.

Operator

And our next question comes from the line of Doug Leggate from Bank of America Merrill Lynch.

Kaleinoheaokealaula Scott Akamine

This is Kalei on for Doug. A lot has been touched already, so I just have a few questions about the Permian growth strategy. So in the Permian obviously [you guys there] are establishing a solid core of projects but which are now primarily just focused on crude. There is a big need for gas processing in the basin. Do you have any interest in getting to that? And in Rangeland you acquired some frac sand logistics assets which are not in obvious fit for your current business. How are you thinking about optimizing those?

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Steven M. Sterin - *Andeavor - CFO, Executive VP of Corporate Development & President of Tesoro Logistics*

Yes. We're really excited about the growth that we're seeing in the -- particularly in the Delaware Basin, with the asset footprint that we've got in terms of existing and growing gathering systems, transportation for crude oil, connectivity to the major takeaway points. And our focus is absolutely on crude right now. We don't see any near-term opportunities on the gas side. There's a lot of gas G&P producers in the area right now. And so our focus is on capturing the value of the crude, our commercial organization being able to source barrels at the wellhead, to market those barrels; and on the Logistics side, transportation, gathering, storage and getting out of those barrels at the right takeaway points. We see that as providing substantial growth and that we're well positioned to capture it and importantly capture it at multiples that are well below what you've seen in terms of people going into the market and making acquisitions. And so that is our focus. And that is we're actually making really good progress with that.

Kaleinoheaokealaula Scott Akamine

Got it. And just kind of following up on that same theme and throwing this out there: One of the comments that was made on the Analyst Day expressed a desire to expand the commercial presence into Asia. I'm wondering if you guys would ever be interested in getting into the crude export business. My thinking is that perhaps a Marketing outlet would help you balance your service offering there in the Permian, particularly if you decide to get into long-haul takeaway to the Gulf Coast.

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes, I mean, we look at all possibilities and opportunities. We need to consider everything; and look at where the opportunity is, what the risk is for the company. But probably most importantly, does it -- how does it fit into what we're trying to achieve with our integrated business? Kind of getting back to Neil's comments. So I think you have a good idea. And this is something we would seriously consider.

Operator

And our next question comes from the line of Benny Wong from Morgan Stanley.

Chui Kit Wong - *Morgan Stanley, Research Division - VP*

I just wanted to follow up on IMO 2020 fuel standard. I think obviously most people think it's going to be positive for refining. Just wanted to take your take, Greg, if you think the effects will be long lasting. Or do you think the effects will be [competed away]? I -- and I apologize I missed this. I'm not sure. Did you say that some of the investments you guys are looking at are embedded in the 5-year CapEx profile laid out? Or will they be incremental?

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes, so Benny, our view is that the market -- in this pace the global market will be highly efficient to meet the need to supply the product in that. And the duration of the change, depending upon the magnitude -- and everyone has different views on what will happen with diesel crack spreads; and light-heavy differentials; and low sulfur, high sulfur fuel oils; and all those things, but we believe that the market will react. And I think it's going to -- because it's going to require some capital and that capital can come from both refiners and from shipping companies, that would tend to elongate the transition period of time. That doesn't mean it'll be as robust as you go through that period of time, but I think people will find ways to meet the needs of the market in that. So it's probably, in our opinion, a 2- to 4-year transition period, but it'll taper as time goes on and people adjust to it. And our plans in capital for -- that we laid out, the capital plans in that included everything we're doing to prepare the company to participate in the IMO spec change. However, it did not include the recent acquisition of the Delek assets. That was an opportunity that came up that is not part of that capital plans. But from a refining infrastructure standpoint, everything we're doing is in -- is built into our plans.

Chui Kit Wong - *Morgan Stanley, Research Division - VP*

Got it. And if I may just (inaudible) question. It seemed like the Pacific Northwest had a particularly weak quarter in terms of capture. I just wonder if you could provide some color around what drove that and if any of the one-off items were at play here.

Steven M. Sterin - *Andeavor - CFO, Executive VP of Corporate Development & President of Tesoro Logistics*

Yes, the overall crude hedge position that we talked about, not the Canadian but the overall crude hedge position, was really pro rata across the system, so that had an impact on PNW.

Operator

And our next question comes from the line of Kristina Kazarian from Crédit Suisse.

Kristina Anna Kazarian - *Crédit Suisse AG, Research Division - Research Analyst*

You guys made a handful of acquisitions recently. It seems like a very busy start to the year. Can you maybe touch on the cadence of pace and how we should be thinking about the rest of the year maybe both in terms of amount of transactions as well as where the biggest opportunities could be both on a segment level as well as location-specific insights?

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes. So I mean our first priority for 2018 is to drive the integration value because there -- we've talked about the amount of value there on the table and our actual commitment to be able to do that. So we are absolutely committed to delivering the integration value and continuing to drive the improvements in the business that we see available through all of the different ideas that our people have, and that is absolutely the biggest priority. So we did -- part of the things that we just announced, Kristina, are partly just timing. Those -- as those things came up, and things, ideas that we were looking at to fit into things. I don't think that's indicative of the rest of the year, to be honest with you. We will continue to look at the market and look for opportunities to do things. Our focus primarily is in the Logistics space, as we've talked extensively about and you're very aware of, in the Permian Basin. And we're continuing to focus on that. We see a very healthy environment to be able to look for different ways to do things. And we also continue to look in the Marketing business, although those opportunities are more difficult, but we continue to look in the marketplace in -- for Marketing, excuse me. And -- but I would say that don't look at what happened just recently as an indication of what's going to happen in the rest of 2018. We have a very clear plan. We're driving significant value. It's front-end loaded. A lot of that value, that $1.4 billion of EBITDA, is very front-end loaded. And it's about execution of the business.

Kristina Anna Kazarian - *Crédit Suisse AG, Research Division - Research Analyst*

A bit of more of a nuance-y one for me next. Can you talk a little bit about the 4 unplanned outages you guys had in the quarter as well as a bit more color on your turnaround expectations for the year and how we should be thinking about those pacing-wise?

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes. The -- I mean we had, we experienced small problems at 4 different refineries, which they're not unusual, Kristina. It's kind of just we -- those things are just kind of you don't -- you work hard not to allow those things to happen. Sometimes, it's a power disruption. It's things that come and go like that, but it -- in our case, we had 4 of them at 4 of the refineries. And that our whole operations excellent management system is designed to minimize any type of opportunity -- any type of problems like that. Regarding turnarounds: So we are in a very heavy turnaround year. We provided guidance in the December that our turnaround spending for 2018 is in excess of $0.5 billion. We -- just in January, we completed work at the Salt Lake City refinery. That went extremely well. Typically you don't do that type of work in the month of January in Utah, but we did work in Salt Lake City in January primarily to bring out wet gas scrubber on to impact our environmental footprint. We are in the final stages of completing a turnaround at Los Angeles that we started some time ago. And we are in -- doing a turnaround at Martinez. And so we have a very heavy turnaround year, but everything is going well.

Kristina Anna Kazarian - *Crédit Suisse AG, Research Division - Research Analyst*

Great. And last one for me: Greg, I know you guys mentioned the impairment you took relating to Port of Vancouver, but maybe bigger picture, is there anything in the back of your mind that you're thinking about project-wise that maybe you could pursue to help change or continue to change California crude-sourcing dynamics?

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

We, our people -- look, we look at all different ideas to be able to supply the West Coast. The Vancouver Energy project in particular was very attractive primarily because it allowed you to take crude oil produced in the United States with a lower carbon intensity of other crudes that are run by the industry on the West Coast and run those crudes and basically improve the environmental footprint of the fuels that we supply on the West Coast of the United States. That was -- from a society standpoint, that was the biggest impact of the Vancouver Energy project. And we could do that very safely, very efficiently and from a very environmentally sensitive standpoint to do that. So we -- that was a very unique opportunity, to be quite honest with you. It was a -- something that, to our company, we thought, like, was absolutely the right thing to do from many aspects. Unfortunately, the other opportunities, we haven't been able to find anything as significant as Vancouver Energy could have been. We continue to scour all ideas and all that, but we don't have any immediate plans to do anything differently.

Operator

And our next questions come from the line of Prashant Rao from Citigroup.

Prashant Raghavendra Rao - *Citigroup Inc, Research Division - Senior Associate*

Just wanted to touch upon the West Coast again real quick. I know, Greg, you gave some great color there at the beginning of the call and just now, but sort of maybe bigger picture thinking about capture rates given that there are some optimality and some projects on the crude sourcing side, the turnarounds this year. There's a lot of moving parts, but sort of wanted to get a sense of what's -- how you think about capture rate improvement on both the West Coast and maybe even the Pac Northwest as we look to the back half of this year, into next year, given the macro; and what you're able to do organically in order to get at those margins that you think are going to get healthier as you look to the back half of the year.

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes.

Steven M. Sterin - *Andeavor - CFO, Executive VP of Corporate Development & President of Tesoro Logistics*

Yes. As we look forward to capture rates, our view on our ability to capture margin is unchanged from what we've talked about in the past. One of the things [that I keep on], there's about $3 of distribution and other costs that are in the margin that aren't in the index. And -- but when you look forward, we still believe in an index on average of $12 to $14. And as Greg said, that includes a view of the West Coast that's very constructive. And we continue to see that and believe that going forward. And so over time, averaging in that high 70s, low 80s across the system; and in California, around 80, maybe a little bit higher. If you look historically, when cracks are where they are in our plan towards that $18, $19 a barrel level, we still see that as what we expect from the business.

Prashant Raghavendra Rao - *Citigroup Inc, Research Division - Senior Associate*

Okay, great. And then just one quick follow-up. I think nobody has really touched on this yet. With Mexico, you opened up a -- several retail locations there. And I know, at the Investor Day, you'd said this is a longer-term trajectory; and that maybe we could see more, certainly we could talk about more meaningful margin contribution or earnings contribution, like, towards 2020 and beyond. But just wanted to get a sense if there's any early read on how that expansion is progressing, [if it is seeing the] profitability. I know there's a lot of costs upfront, but any color you can provide, since the Investor Day, on what you're seeing in Mexico, in that market; and maybe the pace of expansion, if maybe you can get a bit more constructive there?

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

Yes. I would say that overall we are very pleased with the early progress that we're experiencing. We believe one of the strengths that we have is our brand. All of the work we did on the front end to get an assessment of the customer reaction to different brands and the ARCO brand was viewed very, very favorably. And so we have seen excellent acceptance of the ARCO brand in the marketplace. Our sales, relative to how they were before or -- they've been exceptional, and we expect them to stay significantly above what was experienced before of -- the stores were branded ARCO. The growth is going reasonably well. We have a lot of work to do to work away across all of Northern Mexico and look in some of the other cities. And we -- just we're in the early stages of doing that work. So we're very optimistic. We think the margin environment is very attractive. The -- we're very -- for us, it is very important that we supply our own product into Mexico. I think that's something that is critical because our ability both out of -- off of the West Coast and out of the El Paso refinery to integrate into our -- the Marketing business is something that is strategically very important to us. And it gets back to Neil's question about our integrated value chain. I think it may be a small example, but it's an excellent example of how we can take product that we make and distribute it and get it in -- get it to the customer ultimately and be able to capture value across that whole integrated value chain. So nothing -- we -- growing by 300 stations, I -- we're very confident we'll hit that level. We may exceed that. We will -- we see the profitability being very attractive. And we'll look to build out our integrated business over time so that we can -- so it becomes a significant contributor, but it's going to be post 2020.

Operator

And our next question comes from the line of Sam Margolin from Cowen and Company.

Sam Jeffrey Margolin - *Cowen and Company, LLC, Research Division - MD*

That was an interesting point you made, Steven, about the working capital build ahead of the turnaround. I think a lot of the peers tell us to brace for working capital builds during turnarounds, so it seems like you're zigging when people usually zag. So in light of that and maybe some inventory liquidation while you're doing maintenance, do you think we can expect maybe a build in cash despite the fact that you'll have some downtime in the first half?

Steven M. Sterin - *Andeavor - CFO, Executive VP of Corporate Development & President of Tesoro Logistics*

Yes. So we typically, depending on the opportunities that are there, the margins that we see and the size of the turnarounds, manage those from time to time based upon creating the most value. And so ahead of such major maintenance activity in the first half of this year, as Greg mentioned, we saw an opportunity to still meet the needs of our customers in the fourth quarter but be able to put aside the inventory so that we can capture more sales in the first quarter, in the first half than you normally would during a turnaround. And so we saw that as an opportunity, and that'll actually create value for us in the first half of the year. And so yes, from a cash perspective, that's a cash item. So that'll benefit us from a cash flow perspective.

Sam Jeffrey Margolin - *Cowen and Company, LLC, Research Division - MD*

All right. And then just secondly, kind of following up on some of the market questions: I'm sure you guys saw, during the CNPC report about a month ago, that -- expecting China to ramp products exports fairly materially. I guess, depending on what your demand view is, it's either material or a number that can be absorbed, but just curious about your assessment of that new product from China entering the market, if you see it getting into your channels at least in the initial phase of that ramp or if you think it's not really connected to your sort of core markets in the West Coast.

Gregory J. Goff - *Andeavor - Chairman, CEO & President*

I would offer, Sam, that if in fact additional products moves out of the market, it's probably more likely to go into the west coast of South America and Mexico [then] into California.

Operator

Thank you. I'm showing no further questions at this time.

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone have a great day.