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PRESENTATION

Justin Scott Jenkins *- Raymond James & Associates, Inc., Research Division - Research Analyst*

Good morning, everybody. I'm Justin Jenkins. I'm the [lead finance analyst] here at Raymond James. Today, we're fortunate enough to have Andeavor with us, the CEO, Greg Goff, to tell us their story. Greg, take it away.

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

Thanks, Justin. Good morning, everyone, and we appreciate the opportunity to share some comments about the company. What I'd like to do this morning is talk about 4 things. One is I'd like to share with you our outlook on the market for 2018, which carries on a little bit into 2019 and '20 but focus on 2018. The second thing I'd like to be able to do is share with you kind of our plans to grow the profitability of the company, specifically in '18 and then a little bit into '19 and '20. I'd like to talk about our views on capital allocation and what we see going on from that standpoint.

So this kind of shows our competitive position, and we -- last year, was an incredible year for the company. We really positioned the company where we wanted to be able to do so we had a number of things happen in the company last year. We acquired Western Refining. We acquired Western Refining Logistics. We acquired a business to get involved in the natural gas gathering and processing in North Dakota, which provided a platform for continued growth. We restructured our MLP. We brought in the IDRs, which really impacted the cost of capital. We were able to go out and enter Mexico from a marketing standpoint, and the -- both companies, Andeavor and Andeavor Logistics became investment-grade companies last year. So we really solidified the competitive position of the company in 2017.

This picture shows our integrated business model, and this is really important to people in the company because this talks about how we run the company. You can see we are a very integrated business from Refining, Marketing and Logistics. We run a very integrated business model. But more importantly, the middle part of this diagram shows you our -- how we run the company. So we have a culture that is driven by guiding principles, very focused on creating a high-performing culture. And that's important because one of the things we try to do is create value by things we can do in the company, and I'm going to spend some time talking about that in just a minute. The strategic priorities have been the focus of the company for a number of years, and those are the value creation that we drive within the company.

And then finally, we look at impacting not only shareholders, but actually a group of other key stakeholders, and we believe they're all extremely important in how we create value as a company.

One of the -- one of our core values and our guiding principles is our focus on environmental health and safety. We're extremely proud. The last year, we had the best safety performance in the history of the company. In the company, we talk about driving an incident-free workplace. We share with employees that [let's] go to Destination Zero. We absolutely believe that if you have a strong focus on environmental health and safety performance, it translates into high reliability and it allows us to capture the most value out of our business model. So this is one of the most important metrics that we look at in the company, and we have a very clear plan on how we're going to continue to make progress in this area.

So I'd like to talk about the market. And in our market, we have -- in the Refining business, we have 2 kind of areas that we cover: the West Coast market and then the inland market. So first, I'm going to talk a little bit about the West Coast market and just share some fundamental views on the market. What we show here is basic supply and demand for both gasoline on the top and diesel on the bottom. And you can see that our view of the market is that what we've experienced over the last couple of years from both a supply and demand standpoint is going to continue in '18, '19 and '20. It's a relatively balanced market on the West Coast. You can see that the -- we export. We, the industry, exports a little bit of gasoline almost all of it to Mexico. And then we also export some diesel almost to Mexico, Chile and Peru, to the western part of South America. And over the last few years and looking forward, it's a very supportive market. The balances from a fundamental standpoint are just conducive to having a good margin environment, which on the next page kind of gives you an idea.

If you look at utilization, which is a driver of Refining profitability, we see continued strong utilization on the West Coast, in the just slightly below 90% utilization. It's what it's been historically. We see that continuing going forward from a supplying the market with products. You can see on the right, we show both day supply for gasoline and day supply for diesel. I think what's important here is that we -- the gray area is the 5-year average. And because of the favorable market conditions that -- with supply and demand, we see ourselves in the lower part of the 5-year range on a day-supply basis. So the market basically is being supplied, but it's meeting the demand in the marketplace so that if you have any disruptions, you're going to see some impacts in the marketplace.

As a result of the supply-demand utilization and the inventory positions, our view on Los Angeles margins are between $17 and $18 a barrel over the next few years. We specifically show 2018 and '19 here. But the fundamentals, if you do that analysis, shows a very constructive West Coast market. So we're -- and as a company, Andeavor is extremely well positioned to participate in this market. So that's kind of our West Coast business.

If you go into the inland markets, which includes a lot of different areas, what we've shown here is some of the key drivers of profitability in the inland markets. And each of these, the northern tier, which is up in the -- outside of Minneapolis, North Dakota, that northern part of the United States; the Rockies, which for us is primarily Salt Lake City; and the Southwest, which is also primarily around the El Paso refinery.

You can see that our outlook from a margin standpoint, from an industry, is continued good profitability. If you just look at the overall fundamentals of the United States and the competitiveness of the United States refining industry to export, we believe that the industry will be able to continue to run at high utilization rates. And as we look forward, we see a very constructive margin environment not only on the West Coast but in the inland markets.

And on the bottom, some of the key crude drivers, you can see WTI-Canadian heavy, WTI-Bakken and Brent-WTI. Our views on crude differentials are probably more conservative than general people in the market because we use these from a cash forecasting standpoint. Bottom line is that crude differentials generally support attractive margin environments also on a go-forward basis. So the view that we have as a company is that overall the margin environment is attractive going forward, partly driven by a good economy.

So over the last few years, we've been working to construct the company that's very different than how it was when we started a few years ago. And we finished 2017 -- I think, these pie charts show a little bit about -- this is the EBITDA contribution from each of our different businesses, and we've been working to create a very diversified earnings and cash flow stream from our different businesses, specifically Marketing, Logistics and Refining. In this particular chart, we've broken down Refining into our West Coast market, which I talked about the fundamentals and the inland market there. And what's interesting is that this has been our strategy for a number of years is to create this diversified portfolio, diversified from lines of business and diversified geographically. And so you can see that today -- in 2017, it was about 46% Refining, 54% Marketing and Logistics. And it stays basically the same as we go out there, but it's important just to see the contribution from each of them because what we look at is the performance from a profitability standpoint and then the cash that we generate in each of those segments. So one of the things that probably stands out, for those that are familiar with the company, is that our West Coast business accounts for a little bit -- from a Refining standpoint, a little bit less than 20% of the profitability of the company because of the steps that we've taken to get this diversified portfolio. So I'm going to talk about the earnings of each segment in just a minute. As we go forward, we're going to continue to try to focus on the same strategy to grow Logistics and Marketing and drive the improvements in the profitability in Refining as we invest in capital projects and just fundamental improvements in how we operate the Refining business.

So what I'd like to do is just take a second because I want to talk about 2018, but I believe it's important to understand where we came from to get into 2018. And this waterfall chart has a lot of stuff on it, but I think I could summarize it by 3 or 4 key points here. One, what we're showing for 2016 and 2017 are GAAP-reported numbers. So in 2016, we also had an adjustment for lower customer inventory valuation that positively benefited our 2016 GAAP numbers. So when we take out that about $400 million, it gets us to about $2 billion of 2016 EBITDA. And you can see that we ended on a GAAP basis at about $2.6 billion. So what happened during 2017? Well, one, we acquired the Western business. We drove substantial improvements in the business. We had partial year synergies because the Western business closed at about midyear last year, and then the market favorably impacted us from a Refining standpoint and negatively from a Marketing standpoint. But if you take those positive impacts, that accounts for about a $1.1 billion change in our results. They were offset by about $500 million of acquisition and integration costs, some write-offs that we took at the end of the year for a project that we were developing, Vancouver Energy, we'd worked on it for about 5 years and were denied the permit. At the beginning of this year, we wrote the $40 million off on the project. And then we also had some impacts as a result of increasing crude prices in the fourth quarter. Net effect was that during the year, when we balanced all that out, we drove about a $600 million improvement in our EBITDA, which sets the platform for this year.

And in 2018, once again, we have a $2.6 billion. And you can see the first 3 items, which account for about $500 million, so the items that I talked about before. So as we focus on 2018 as a company, we kind of say where we start the year to approximately $3.1 billion because we believe the margin environment, like I just said, is going to be relatively comparable to how it's been the last couple years. And so we have clear plans in our Marketing business, our Logistics business and our Refining business to generate about $600 million of additional income. It just so happens that consensus has our company at about $3.7 billion for 2018, which is we kind of fall in the same ballpark. So we're comfortable looking at consensus estimates for the business.

Once again, we show some nonrecurring items, about $0.5 billion from '17 that won't happen in '18. But more importantly, about $600 million of things that we have targeted with a very high probability that we will execute in 2018 to get us to that $3.7 billion under the same type of market environment.

So what are we going to do? In December of last year, we go out and typically do an Investor and Analyst Day and share our forward plans on the company. Last year, when we did that, we laid out a plan to basically grow our EBITDA over 3 years by things that we did. We had identified very specific actions that we were taking to grow the profitability of the company. And at the time, we said we're going to grow it by about $1.4 billion under, once again, a relatively constant market environment. And we labeled those things on the right here. One was we have identified synergies when we acquired Western Refining. We identified that we'd be at a run rate about 15 months from now of about $400 million. We are on target to do that. We have some capital projects in our Refining business that are in execution, progressing extremely well that deliver some of that value. Then in Marketing, Logistics and Refining gets us up to about $1.55 billion, which is slightly higher than what we said in December because since that time, we've done some acquisitions in our Logistics business that actually raises the level from 1.4 to up $150 million.

And so this plan, over time, to get to the 2020 EBITDA number is something that we have identified all of the steps that need to be done. Almost everything is in action, and it's just up to us to execute those things without any help from the market. We have shown that with a potential change in bunker fuels, which happens at the beginning of 2020, different people have different views on how that's going to impact the Refining business. In this particular case, we said that it could range up to a high side of $2.4 billion using an outside independent company's views on diesel crack spreads, light heavy crude differentials and spreads with low sulfur and high sulfur fuel oil.

If we modeled all that and that happened that way, it would improve our earnings by $2.4 billion. We think that's the absolute high side. We probably would scale that back a little bit. That's why it's not necessarily built into our plans only to show order of magnitude what's possible. However, we are doing specific things today to be positioned for that to happen. We are putting things in place in the business that are not capital-intensive that will allow us to participate if diesel crack spreads are higher, if light heavy crude differentials are stronger and also how we handle our residual fuel oil.

I believe this is a very ambitious plan to grow the profitability of the company, but we are absolutely confident that everything that we've identified are things that we can control. And that's how we run the company, and that's what we like.

So in Marketing - and in Marketing you can see that we're going to grow our Marketing by about $300 million by 2020. $50 million of that comes from synergies, so we are going to have some pretty significant growth. And what so what do we do? And one, we're actually growing the size of our Marketing business. So we're -- we will go from about 3,300-branded stations to almost 4,000 by 2020. We are changing the mix of our portfolio, the different channels. We have 3 channels. We have a retail channel, an unbranded and a branded. We are moving volume from the unbranded channel to the retail and branded channel, which results in higher profitability. And we are strengthening our convenience store offering to capture higher margins on increased sales of convenience items. It's kind of an untapped opportunity in the company that we've never fully taken full advantage of, and so we have a very clear plan in Marketing, which allows us to go in and drive this profitability in Marketing.

And then finally, we are -- we entered Mexico at the end of last summer, and I'm going to share with you just a little bit about Mexico from a Marketing standpoint. This kind of shows you Mexico, for our company, particularly the northern part of Mexico, is an ideal fit for our business. It fits in with our integrated business model. It allows us to take gasoline and diesel that we manufacture in the United States, move it into Mexico and market it in Mexico, which is very, very important.

If you think back about those exports on the West Coast, I showed about 40,000 barrels a day of gasoline. Our plans are by the end of this year to have 20,000 barrels of gasoline that we actually market in Mexico. We started last year. We're having very good progress. We're probably about 30% to 40% of the way there already for this year. So in March, we've made excellent progress. But our strategy is to take product that we make, move it into our brand, the ARCO brand, into Mexico and we're realizing significant success with it.

If you look at like the efficiency of the volumes going through the stations that we've branded, it's extremely high. And the overall profitability in Mexico is comparable to the West Coast of the United States, which is a very attractive marketing market. So we see an excellent opportunity here to continue grow our business.

Our Logistics business, over time, has seen phenomenal improvements in everything we do. It's a company -- and next month, in April, the company will now just be 7 years old. And you can see that we've targeted by 2020 to generate about $1.6 billion of EBITDA, which is slightly up from what we said in December because of the acquisitions that we've done at the beginning of this year to position the company. But I think there's a few key messages about our Logistics business.

We've created a very diversified logistics company, so we're in the refined products, storage and distribution, crude oil storage, distribution. We're in the natural gas gathering, processing, fractionation business. The Marketing activities that support that are all done in Andeavor, so we have no commodity exposure in our Logistics business. It is a pure-play logistics company with significant growth potential. So we have a number of things that we've identified to grow our Logistics business. And you can see that between the end of last year, 2017 and 2020, we will grow by almost $600 million, the profitability of the company. A little bit comes from synergies as a result of the Western Logistics acquisition that I mentioned earlier.

This kind of gives you an idea of, over time, what -- how does that growth come about. So you can see, we ended last year at about $1 billion. By the end of this year, we expect to be almost $1.3 billion. A lot of that has to do with the full year benefit of the Western Refining Logistics. We didn't acquire that till the very last part of the year, so we get benefit to this year. And then we have specific growth plans in our different business segments that we look at in the logistics space, primarily from organic capital projects and drop-downs. So by the end of this year, we expect to be somewhere approaching $1.3 billion of EBITDA.

And then we have a platform to continue to grow that with everything that we've identified to get from that $1.2 billion to $1.3 billion to $1.6 billion by the end of 2020. And so most of that is from organic capital investments and from drop-downs. So we have a very good portfolio of opportunities actually spread across our entire business. And this map and picture does a pretty good job of showing that.

So these are specific projects, most of which are in development today. Others are in the early stages of engineering and design, but we have about a $1.6 billion of projects here that will flow through into the Logistics company. Some of which absolutely support our Refining and Marketing business, and others build out our Logistics company. But we do have a very strong focus and concentration of efforts in the Permian Basin because we have a very good platform in the Permian, which enables us to grow from off of that. We are able to position ourselves with the key producers that we want to provide services to in the Permian.

So our view is that by 2020, our Permian Logistics business will generate over $200 million of EBITDA, mostly from organic capital, but there are a number of activities happening in there. Earlier this year, we acquired the Rangeland pipeline, which fit in perfectly with the gathering system that we're building for some key producers that allow us to gather the crude and then move it -- the crude oil to the markets for those producers. And so our strategy in the Permian is that you can kind of see in the blue here is really to find the areas where we have our infrastructure in place, build off of that, be able to gather the crude, market the crude and then get that crude to the markets. So we have a number of things going on here with a lot of opportunities that we see. But our plan is, as you can see up here, is to add about $150 million of EBITDA in this business over the next 3 years.

In Refining -- in our Refining business, there's probably 3 major things happening. One is we get to realize the full year benefits this year of acquiring Western Refining. We closed on June of last year, so we get the first 5 months of benefits from Western Refining. A lot of the synergies that we haven't captured yet because of the acquisition are embedded in our Refining and Commercial business, therefore we see about $200 million of synergies in that business that we're working on. We've identified all of those opportunities. They're spread across all parts of the business, and they're in -- built into our business plans. They're a part of that $3.7 billion that I talked about earlier to get into the business. But we see these opportunities to capture those synergies there, and then we also have income from some major capital projects.

We've been working on some strategic capital investments, and our biggest challenge is always getting them permitted. And the time to do that can range from 3 to 5 years. Fortunately, last year, we got our permit for the Los Angeles project, which we started working on immediately. It's a very attractive project for us because it allows us to take our business and combine the 2 separate refineries in Los Angeles that we own into one facility and realize very significant benefits, especially if IMO develops like people expect because we have the capability to make about 40,000 barrels a day more of distillates, both diesel and jet fuel, instead of gasoline. And if people's views on crack spreads for diesel materialize in 2020, it will be very lucrative to us as a company. So we -- our focus in Refining is to continue to drive very high availability and utilization and capture the benefits out of our business.

These are the capital projects in Refining that we -- that I talked about, our Los Angeles projects. We have a project that will be coming online up in Anacortes to make low-sulfur gasoline and make gasoline lower cost. And we have a joint venture with EP Energy to produce crude oil in Uinta Basin, which supplies our Salt Lake City refinery. We also have a number of projects that are in permitting. We're going to -- we're working on a project to permit mixed xylenes, a petrochemical feedstock to make primarily polyester that we would make that feedstock up in the Pacific Northwest and take it to Asia. We're in the final stages of getting that permitted. We expect to get it towards the end of this year. And then our work up in North Dakota to make -- to take some agricultural products and make a renewable diesel that we could then market into California that's also in the final stages of engineering, and we'll be close to a final investment decision this summer.

I talked briefly about the Western synergies. As you can see, we target about $400 million of synergies. These numbers are unchanged from the day we did the acquisition. We're highly confident that we have identified the things needed to be done. We're in an execution stage, and we fully expect to be able to deliver the synergies that we haven't captured so far.

So from a financial discipline and capital allocation, our focus has been the same for a number of years. And they're captured up here on the chart. First of all is we've maintained a very strong balance sheet. That's always been our focus, to have a very strong balance sheet with leverage in the company that's very [comparable], particularly to allow us to continue to grow the company. We have more than adequate liquidity in the company the way we have structured the balance sheet of the company. We're very disciplined in how we reinvest into the company. We look for very strategic projects that are not driven by the market that will allow us to enhance the overall profitability of the company. And then we're -- our commitment, which I'm to going to share in just a minute, the return to shareholders, both in the form of a growing dividend and with our share repurchase program. With these priorities, they've actually been in place for a very long time. And we are very disciplined in how we execute these priorities.

Last year, we provided our capital expenditure plan for the next 3 years. This plan is basically unchanged from what we said we're going to do. You can see that versus 2017 up on the left, our Andeavor capital plan is down from a peak of what it was in 2017. We are funding some projects in Andeavor that will be sold to Andeavor Logistics that cost plus interest that will happen this year and next year to the tune of about a little bit less than $400 million. But our basic capital plan, as you can see, is that our expenditures are about a little bit less than $0.75 billion in Andeavor and about $600 million in Andeavor Logistics. And so we feel really comfortable with redeploying this amount of cash back into the business to continue to strengthen the quality of our assets and also capture opportunities where we can enhance the value from them.

In our Logistics company, you can see that we have needs for about $3.3 billion of capital over the next 3 years, primarily driven by organic growth and drop-downs in the business that we've already targeted that we will be doing. And you can see that our plans are not to go to the market for any common equity for our Logistics company. So we have the sources identified that we feel very comfortable with. We do have some flexibility in either using a hybrid or Andeavor taking more equity in the company, but our plans for the next 3 years are not to enter the public equity market for Andeavor Logistics and then maintain our strong financial targets from the growth in our distribution growth, our coverage ratios, liquidity in that, so we're very focused on being able to execute that plan.

So what I'd like to do is wrap up with our cash flow. So I talked a little bit about our earnings in the company. When we look at '18 to '20, we generate between $9 billion and $11 billion of cash flow, some cash from operations and some cash from drop-downs, as you can see in that middle column there into the $9 billion to $11 billion. And then we have potential upside if IMO materializes like some people expect here. We've been -- built in a lesser amount. You can see we build in between $1 billion to $1.5 billion of free cash flow. But what's important is what we're going to do with that cash. So we expect under this planning scenario that we would put back 25% to 30% to support our capital program for the company, for Andeavor. We expect to lessen our leverage a little bit. We show about 5% to 10% repaying debt, which would be something less than $1 billion so not a lot of reduction in debt. But more importantly, the remainder of our cash flow is there to be returned to shareholders, both in the form of growing our dividend, repurchasing shares and growing the distribution from Andeavor Logistics.

So I think in summary, we made lots of changes in the company. We've positioned the company to be -- have a very strong portfolio that we can focus on executing and extracting a lot of value from the business by the things that I've shared with you today. So with that, we can just take any questions if there's time.

Justin Scott Jenkins - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I think we're out of time so (inaudible) breakout, so thank you very much.

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

Thank you.
