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# EDITED TRANSCRIPT

HEP - Holly Energy Partners LP and HollyFrontier Corp IDR  
Simplification Call

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OCTOBER 19, 2017 / 12:30PM, HEP - Holly Energy Partners LP and HollyFrontier Corp IDR Simplification Call

## CORPORATE PARTICIPANTS

### Craig Biery

**George J. Damiris** *HollyFrontier Corporation - CEO, President and Director*

**Richard Lawrence Voliva** *Holly Energy Partners, L.P. - CFO of Holly Logistic Services, L.L.C and Senior VP of Holly Logistic Services, L.L.C*

## CONFERENCE CALL PARTICIPANTS

**Blake Michael Fernandez** *Scotia Howard Weil, Research Division - Analyst*

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

**Shneur Gershuni** *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

## PRESENTATION

### Operator

Good morning. My name is Lisa, and I will be your conference operator today. Welcome to the HollyFrontier Corporation IDR Simplification Conference Call and Webcast. Hosting the call today from HollyFrontier and Holly Energy is George Damiris, President and Chief Executive Officer. He's joined by Rich Voliva, Executive Vice President and Chief Financial Officer.

It is now my pleasure to turn the call over to Craig Biery, Director, Investor Relations. Craig, you may begin.

### Craig Biery

Thank you, Lisa. Good morning, everyone. Thank you for joining us to discuss the IDR simplification transaction we announced this morning. A slide deck for the conference call can be found on both of our websites at hollyfrontier.com and hollyenergy.com in the Investor Relations, Events & Presentations section.

Before we proceed with any prepared remarks, please note the safe harbor disclosure statement in today's press release. In summary, it says statements made regarding management expectations, judgments or predictions are forward-looking statements. These statements are intended to be covered under the safe harbor provisions of federal security laws. There are many factors that could cause results to differ from expectations, including those noted in our SEC filings. Today's statements are not guarantees of future outcomes.

The call may also include discussion of non-GAAP measures, and please see the press release for reconciliations to GAAP financial measures.

Also, please note that information presented on today's call speaks only as of today, October 19, 2017. Any time-sensitive information provided may no longer be accurate at the time of any webcast replay or rereading of the transcript.

And with that, I'll turn the call over to George Damiris.

### George J. Damiris - HollyFrontier Corporation - CEO, President and Director

Thanks, Craig. Good morning, everyone, and thank you for joining us today. As noted in today's press release, HFC and HEP jointly announced an IDR simplification agreement, pursuant to which HEP will cancel the incentive distribution rights, IDRs, held by its general partner and convert the 2% general partner interest in HEP into a noneconomic interest in exchange for 37.25 million HEP units to HFC.

I'd like to start with the strategic rationale of the transaction before handing it over to Rich to discuss the financial details.

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We'll start on Slide 3. The changes announced today will position HEP to achieve greater value creation by improving HEP's cost of capital. The simplification will increase HEP's competitiveness in both organic projects and potential acquisitions, and, over time, should result in accelerated growth and improved valuation levels.

Additionally, this transaction simplifies HEP's ownership structure, resulting in increased transparency and the value of HEP to HFC's shareholders.

Following the completion of the transaction, we expect to grow HEP's LP distribution at the current rate -- at the current run rate of \$0.0125 per unit per quarter. We continue to target an annual average distribution coverage of 1 to 1.2x and maintain debt-to-EBITDA at or below 4x.

Now I'll turn the call over to Rich.

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**Richard Lawrence Voliva** - *Holly Energy Partners, L.P. - CFO of Holly Logistic Services, L.L.C and Senior VP of Holly Logistic Services, L.L.C*

Thank you, George. Turning to Slide 4. HEP has agreed to issue 37,250,000 LP units to HollyFrontier in exchange for the elimination of the incentive distribution rights and conversion of HFC's 2% general partner interest into a noneconomic interest.

In addition, HollyFrontier has agreed to forego \$2.5 million of its LP distributions per quarter for the first 12 consecutive quarters once these units are eligible to receive a distribution.

Based on last night's closing price, this transaction represents a value of \$1.25 billion and 14x expected cash flows to the general partner interest and IDRs in 2018, inclusive of IDR givebacks associated with HEP's planned acquisition of the Frontier and SLC Pipelines. We believe this transaction provides a balance between providing fair value to the IDRs, but also creates a stronger, long-term structure for sustainable growth at HEP.

Once the transaction is complete, HollyFrontier's pro forma ownership of HEP will be approximately 59% of HEP's LP units, representing a market value of \$2 billion as of last night's close. HollyFrontier will retain 100% of the noneconomic general partner interest.

The transaction has been approved by the Conflicts Committees and boards of both companies, and we expect to close the transaction during the fourth quarter of 2017, subject to customary closing conditions.

And with that, we're ready to take questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Shneur Gershuni from UBS.

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**Shneur Gershuni** - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

Just to start off, given the premium that's paid for the IDR conversion, where do you expect coverage to shakeout as a result of the transaction going forward? And do you have some color around growth projects and future organic growth projects to support the growth rate that you just highlighted?



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**Richard Lawrence Voliva** - *Holly Energy Partners, L.P. - CFO of Holly Logistic Services, L.L.C and Senior VP of Holly Logistic Services, L.L.C*

So Shneur, I think as we -- as George mentioned, I think we're still looking and expect to run a coverage ratio north of 1x. I'd say we continue to look at some organic projects in the Permian Basin and some other places where we've got a physical footprint to leverage off of. Additionally, we continue to look at acquisitions, but I wouldn't say there's anything to call out specifically at this time.

**Shneur Gershuni** - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

Okay, fair enough. And then just as a follow-up, given the recent acquisition of an interest in SLC and the Frontier Pipeline, it was our understanding that Holly was expected to waive the IDRs on any additional equity. Does this transaction negate the need for any equity? Or is there -- or is that -- or what the waiver was supposed to offset? I'm trying to understand kind of the waiver that you outlined and is it independent of what you had previously committed to in terms of waiving the IDR benefit for additional equity?

**Richard Lawrence Voliva** - *Holly Energy Partners, L.P. - CFO of Holly Logistic Services, L.L.C and Senior VP of Holly Logistic Services, L.L.C*

Sure, Shneur. I called that out just to clarify. So the -- HollyFrontier had agreed to waive IDRs associated with any equity we issue in the financing of the SLC and Frontier Pipelines. We have not done an equity issuance yet, but we would expect to do so. That waiver -- so we've made an estimate of that waiver in the modeling here. That waiver will go away essentially as part of the IDR transactional (inaudible). If you don't have IDRs, there's nothing to waive at the end of the day. But to your key question, no, it is not -- the transaction has not obviated the need for an equity issuance at HEP.

**Shneur Gershuni** - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

And so to clarify, like when we evaluate the multiple paid on the cash flows, we should really look at it at 17x cash flow rather than 15x cash flow -- or 14x cash flow, because that IDR would have -- that IDR waiver would have effectively happened regardless?

**Richard Lawrence Voliva** - *Holly Energy Partners, L.P. - CFO of Holly Logistic Services, L.L.C and Senior VP of Holly Logistic Services, L.L.C*

No. I think if there was no IDR waiver based on the waterfalls table, the multiple would have been 13x roughly. And with the forecast IDR waiver, the multiple was roughly 14x.

**Operator**

Our 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*

Well, you all definitely gave us an indication it was coming, so it's always good to see a plan and then see the plan executed. I was curious. You mentioned cost of capital and I understand that in the overall MLP structure. Have there been any projects to-date that you had to, let's just say, not go forward with because of the cost of capital issue? Or would you consider this strictly preemptive?

**George J. Damiris** - *HollyFrontier Corporation - CEO, President and Director*

Yes, I don't think we've forgone anything because of the IDR structure. As we just discussed, particular to the SLC and Frontier acquisition there, from time to time, we have waived the IDRs, but there hasn't been an instance where we have not done a project because of the IDR.



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

Okay. And then, I guess, closing here in the fourth quarter, do you think that this new structure will accelerate some of your growth plans? I mean you kind of think about the longer-term program of -- I don't know if we want to quite say doubling refining, but adding to refining, obviously, the PCLI acquisition and potential growth there, and then the midstream side of the business. So should we think about this as any sort of acceleration on those plans or something else at work here?

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**George J. Damiris** - HollyFrontier Corporation - CEO, President and Director

So Roger, I think what we like and what we're hoping and expecting is that by lowering the cost of capital at HEP, it will help us to accelerate those plans. But at the end of the day, we still have to find those opportunities and value-creative opportunities. This should assist that. It's a piece of a toolbox, if you will, but in and of itself, it's not going to drive anything.

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**Operator**

(Operator Instructions) Our next question comes from the line of Blake Fernandez from Scotia Howard Weil.

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**Blake Michael Fernandez** - Scotia Howard Weil, Research Division - Analyst

Congrats on getting the deal done here. Just a question on the, I guess, long-term plan for your interest in HEP now that you're at about 59%. Is there, I guess, a desire to continue to own that level? Or at some point, is there maybe a monetization event? Or just kind of how you're thinking about your interest in that long term?

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**George J. Damiris** - HollyFrontier Corporation - CEO, President and Director

Yes. I don't think we have any immediate plans to do anything, Blake. We'll continue to hold because it's a good investment, but we'll play things as they come. And if there are other opportunities that we like even more, we'll consider doing something or if -- yes, let's leave at that.

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**Blake Michael Fernandez** - Scotia Howard Weil, Research Division - Analyst

Fair enough. The second question, this may tie on kind of what Roger was asking, but I'm just curious if this kind of maybe changes the composition of growth or capital spending at the HFC level, now that it seems like HEP is going to be at a better position to pursue growth. Does that change any projects that maybe you would have been contemplating at the HFC level and then ultimately dropping? Is that kind of shifted down to HEP or change the way we should be thinking about capital spending going forward?

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**George J. Damiris** - HollyFrontier Corporation - CEO, President and Director

No, I don't think it changes much strategically. Again, we would like to grow each of our 3 businesses, refining loops and the midstream. And as Rich said in response to Roger's question, we just view this as having a better tool in our box to be able to facilitate that growth in all 3 segments.

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**Operator**

There are no other questions. Now I will turn the floor back over to Craig for closing remarks.

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**OCTOBER 19, 2017 / 12:30PM, HEP - Holly Energy Partners LP and HollyFrontier Corp IDR Simplification Call****Craig Biery**

Thanks, everyone, for joining us today. And as always, please reach out to Investor Relations if you have any follow-up questions.

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**Operator**

This concludes today's conference call. You may now disconnect.

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