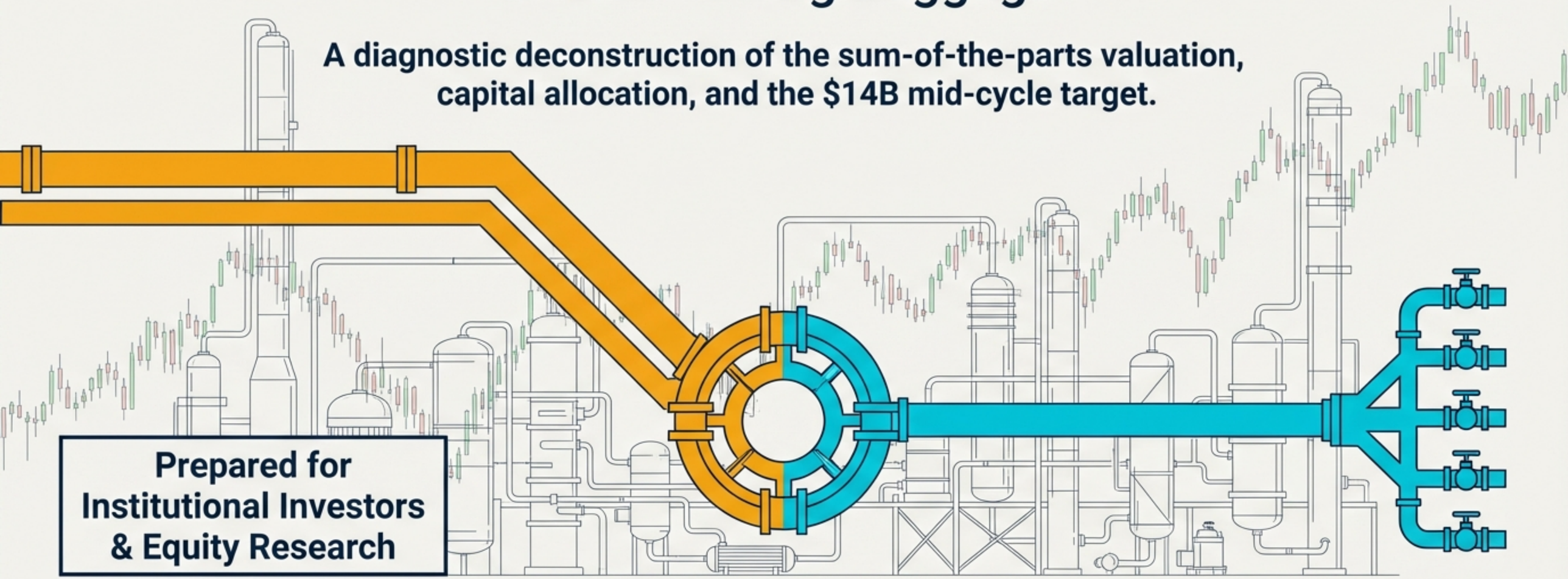
The Integrated Blueprint

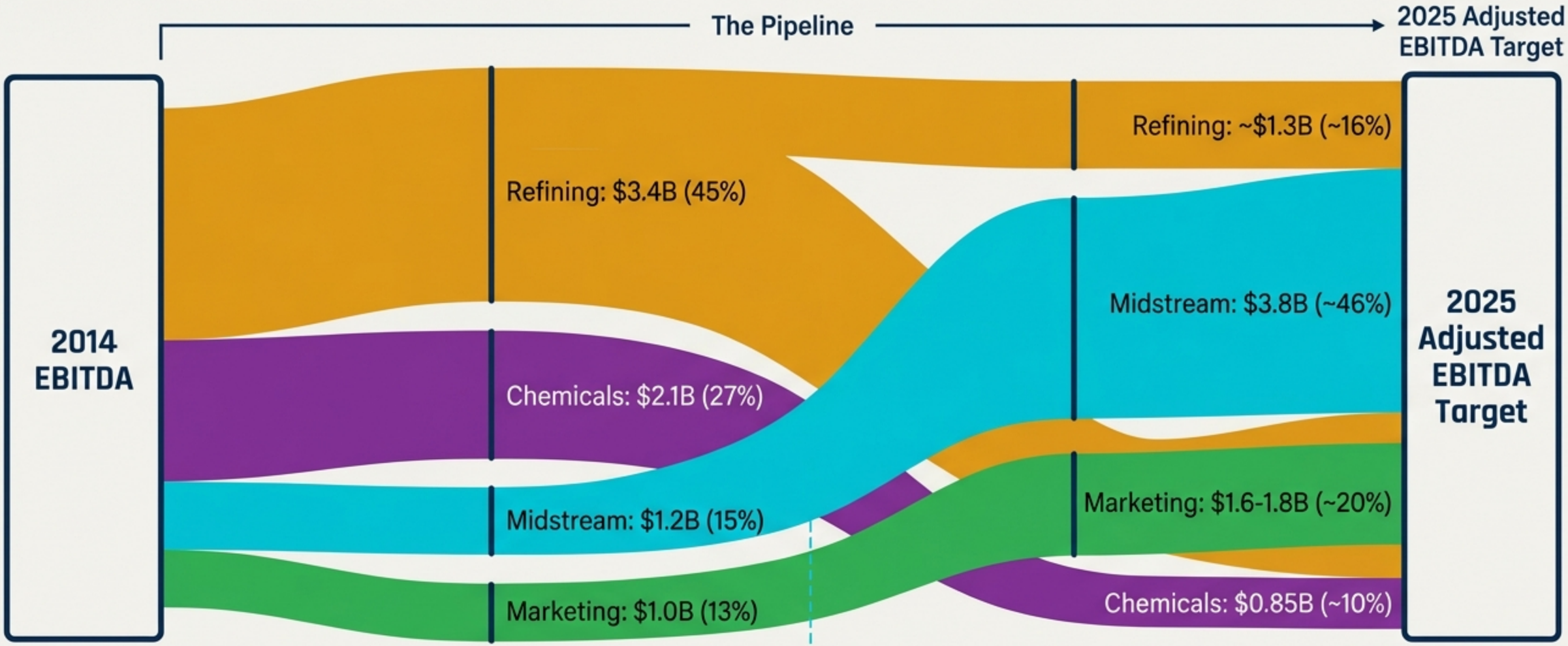
Phillips 66 (PSX):The Midstream Blueprint & The Refining Baggage

A diagnostic deconstruction of the sum-of-the-parts valuation, capital allocation, and the $14B mid-cycle target.



Prepared for Institutional Investors & Equity Research

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THE NARRATIVE

Management has deliberately engineered a transformation. PSX is no longer a pure refiner; it is functionally a midstream company with a large refining tail and chemicals optionality.

THE DRIVERS

Catalysts for Midstream Domination: DCP Midstream Acquisition ($3.8B); EPIC NGL / Coastal Bend Acquisition ($2.2B); Organic Permian Basin Growth

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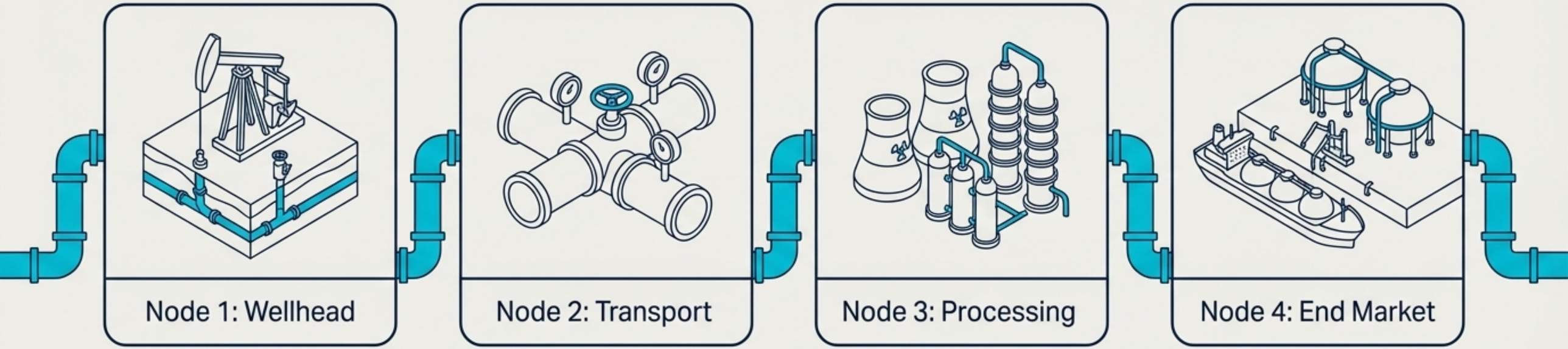
SEGMENT QUALITY MATRIX

Segment	% of 2025 EBITDA	Competitive Moat	Cyclicality	Growth Trajectory
Midstream	**~46% EBITDA**	**Strong** (Integrated value chain)	**Low** (78% contracted 5+ yrs)	**High** ($4.5B target by 2027)
Marketing & Specialties	**~20% EBITDA**	**Moderate** (Capital-light franchise)	**Low** (Stable cash flow)	**Low**
Refining	**~16% EBITDA**	**Weak** (Commodity processor, NCI ~10-11)	**Extreme** (Margin-dependent)	**Negative** (LA refinery closure)
Chemicals / CPChem	**~10% EBITDA**	**Strong** (Ethane cost advantage)	**High** (Global overcapacity)	**High** ($3.1B expansion projects)
Renewable Fuels	**Negative** (-$0.28B)	**None**	**Policy-Dependent**	**Distressed**

PSX commands a diversified downstream wrapper, but genuine competitive advantage is highly concentrated in the Midstream and Chemicals segments.

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The NGL Value Chain Concept Model



Node 1: Wellhead

Permian & DJ Basin Gathering
17+ processing plants
1.3+ Bcf/d capacity

Node 2: Transport

Long-haul pipelines
Sand Hills, Coastal Bend / ex-EPIC
78% contracted beyond 5 years

Node 3: Processing

Sweeny Fractionation Hub
550,000 b/d capacity
3rd largest in the US

Node 4: End Market

Freeport LPG Export Terminal
Petrochemical feedstock supply

Financial Trajectory

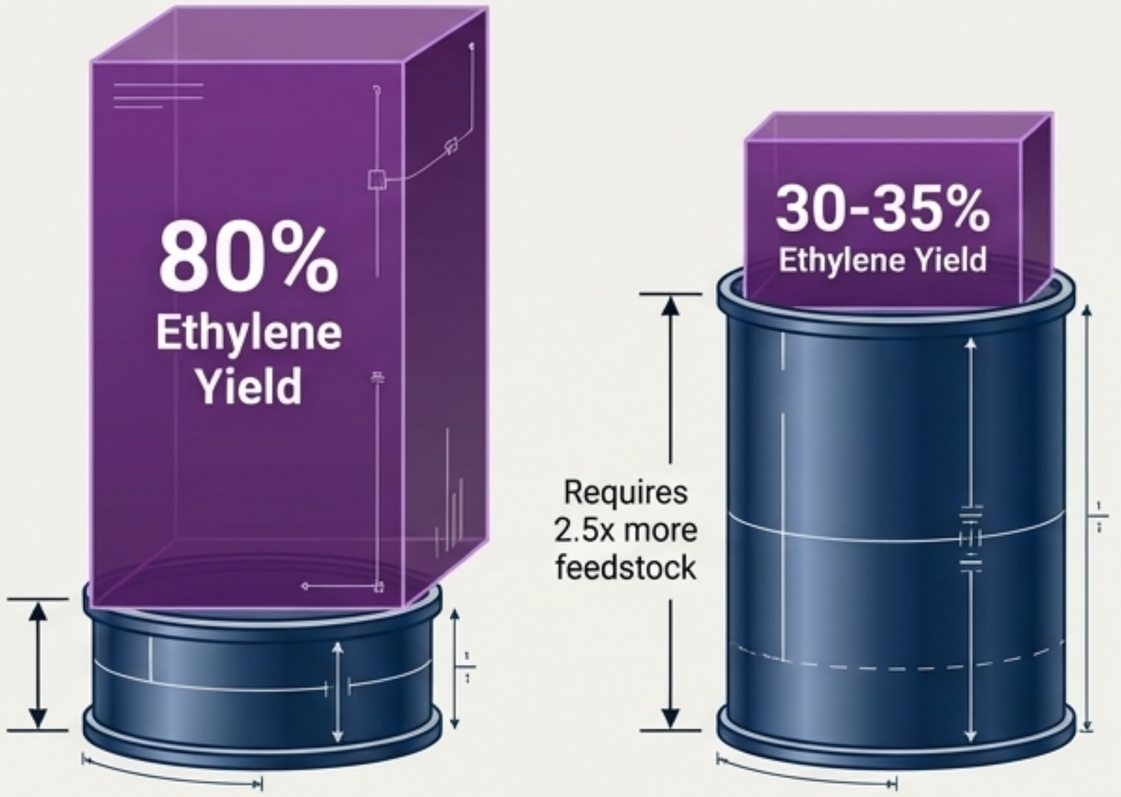
EBITDA doubled from ~$2.1B (2021) to $3.8B (2025). Funded path to $4.5B by 2027 via Iron Mesa plant and Coastal Bend expansion.

The Moat

Vertical integration from wellhead processing to export creates value at multiple points, differentiating PSX from standalone midstream peers.

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CPChem Joint Venture: The Structural Feedstock Advantage



Structural Cost Moat: Gulf Coast ethane dramatically outperforms European and Asian naphtha crackers.

The Joint Venture

50/50 partnership with Chevron. Ranks in the top 10 globally in ethylene and polyethylene production.

The Expansion Capital

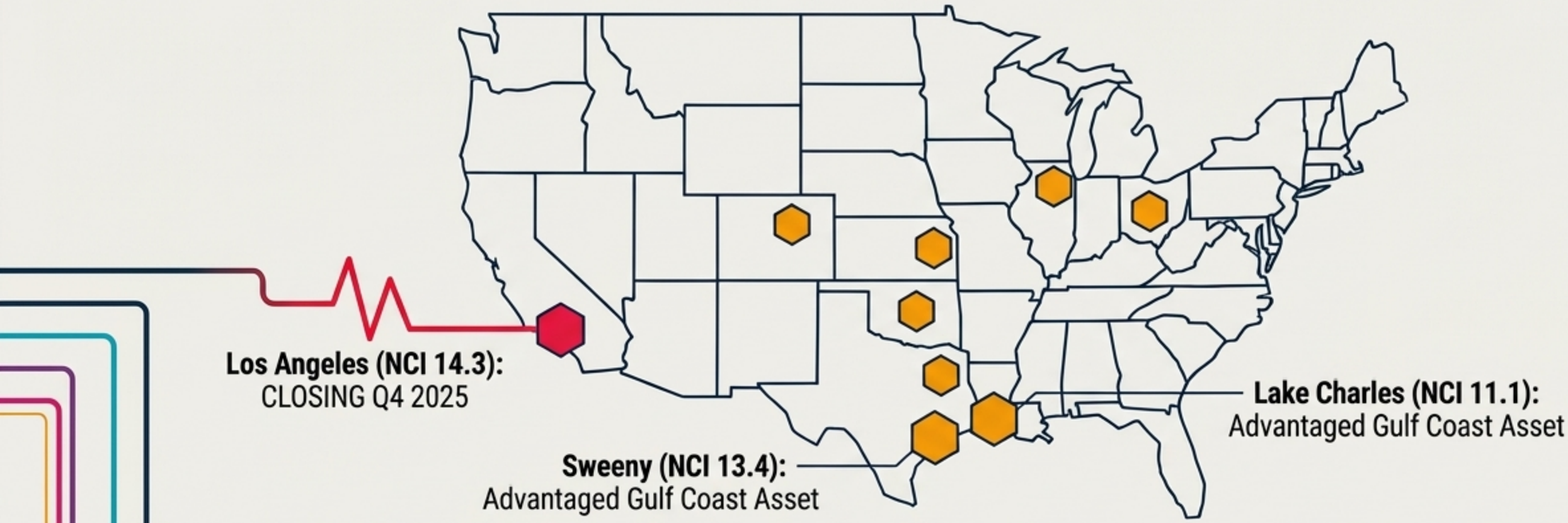
$3.1B effective PSX capital exposure across two world-scale projects: Golden Triangle Polymers (Texas, $8.5B total, 2026 startup) and Ras Laffan (Qatar, $6B).

The Cyclical Risk

Both projects start up into a challenging global market with Chinese overcapacity and tariff headwinds, risking near-term margins.

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Legacy Refining: The Macro Baggage



Scale & Complexity

1.8–2.0 million bpd capacity. System-wide Nelson Complexity Index (NCI) is ~10–11. Respectable, but lags Valero at 11.8 and Marathon at 11+.

Operations

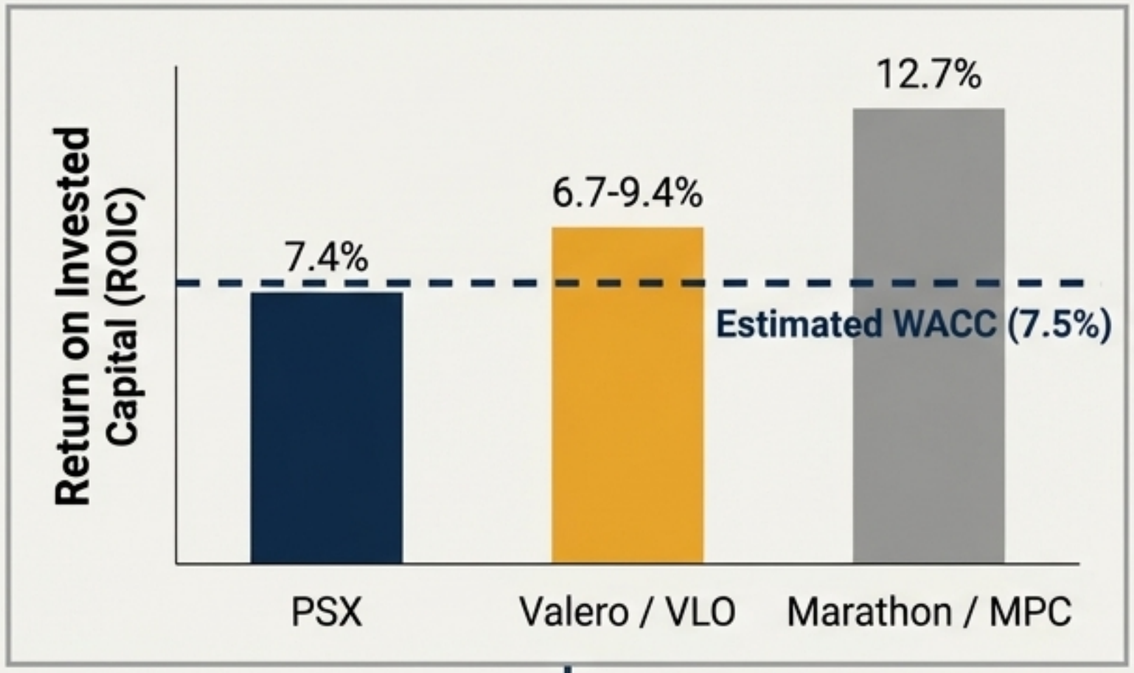
Achieved $5.46/bbl controllable costs in Q2 2025. Clean product yield at record 87%. Export demand (6.6M bpd record in 2024) provides a structural floor.

The Macro Ceiling

US gasoline consumption has peaked. No greenfield US refinery built since 2009. EIA forecasts diesel cracks at a modest $0.84/gallon (~$35/bbl) in 2026.

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The Return on Capital Paradox



	Metric	PSX	Valero (VLO)	Marathon (MPC)
1	10-Year Median ROE	~16%	~17-18%	~15-17%
2	Recent ROIC (TTM)	7.4%	6.7-9.4%	12.7%
3	Peak ROIC (2022-23)	~15-18%	~25%+	~24%

Pipeline

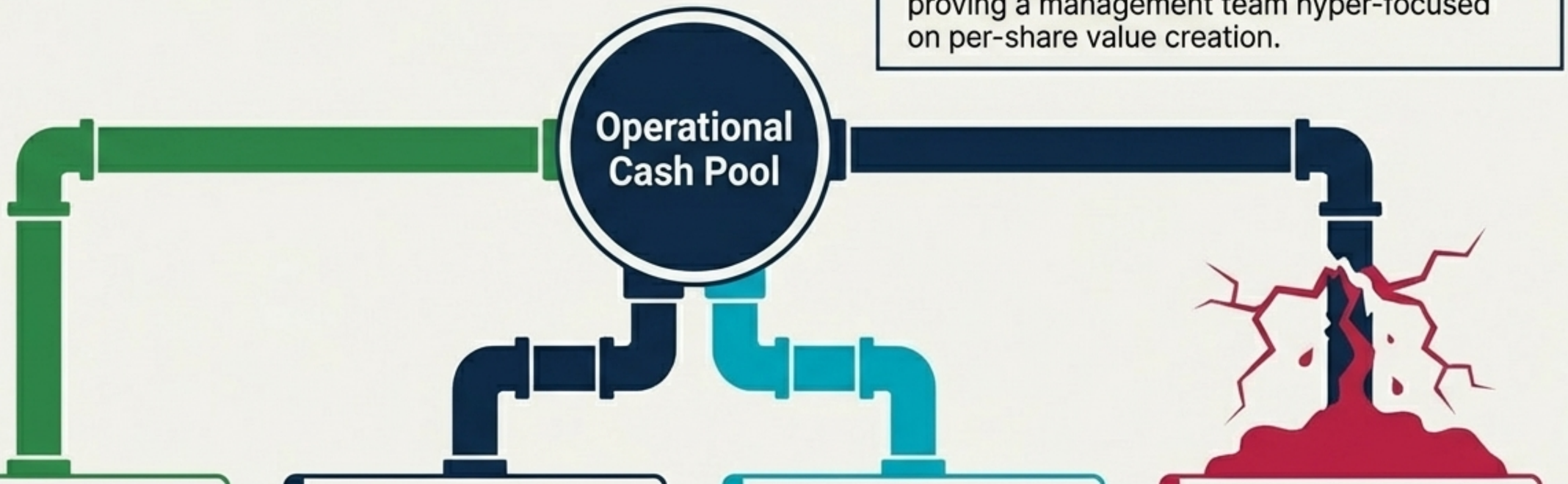
Average Returns in a Diversified Wrapper. Midstream ($4.5B target) ensures PSX won't lose $4B in a single year like 2020. However, this integration caps upside. PSX barely covers its cost of capital in normal environments, lagging pure-play refining peers that generate much higher peak returns.

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Capital Allocation Waterfall

Track Record: $43B Returned Since 2012

PSX's track record of capital return is among the most aggressive in the S&P 500 industrials, proving a management team hyper-focused on per-share value creation.



Dividends

15% CAGR over 13 years ($0.80 to $5.08/share). Never cut during the COVID-19 downturn.

Share Reductions

625M shares at spinoff to ~400M today. An exceptional 36% reduction. Heavy purchases executed at $100-$170/share.

Strategic M&A

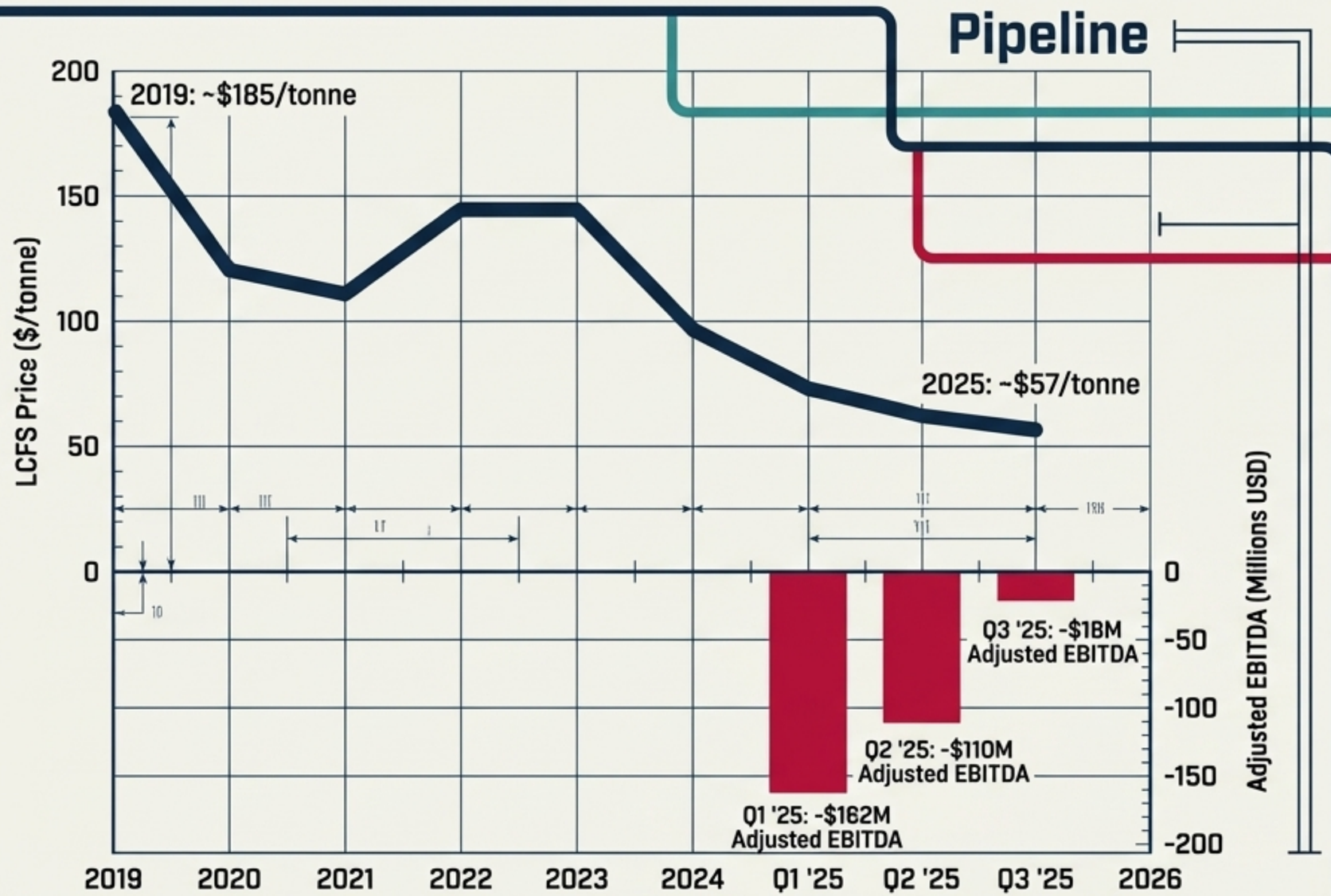
DCP Midstream. Paid $3.8B, achieved $500M in run-rate synergies (67% above original target).

Value Destruction

Rodeo Renewed renewable fuels conversion. Persistent, unacceptable negative EBITDA generation.

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The Capital Allocation Failure: Rodeo Renewed



The Investment

$1.25B capital expenditure to convert the San Francisco-area refinery to renewable fuels (50,000 b/d capacity).

The Bleeding

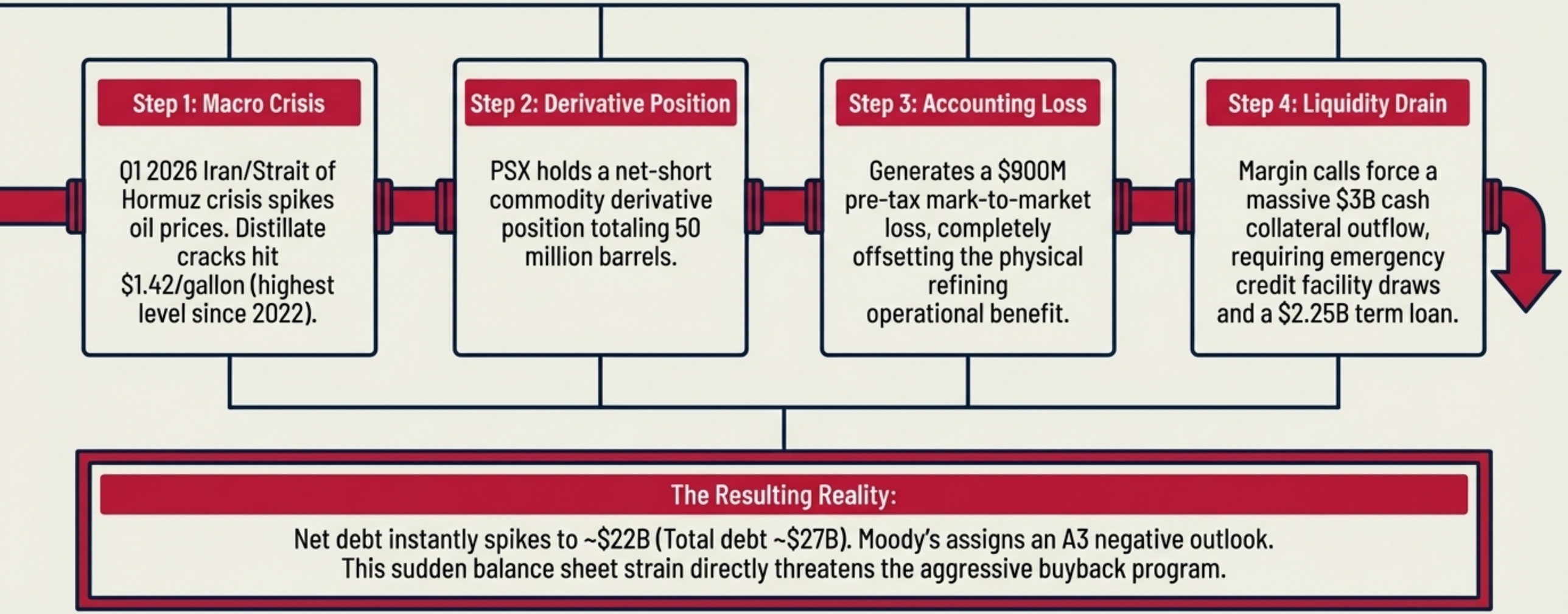
Cumulative negative adjusted EBITDA since startup. The economics collapsed due to massive renewable diesel oversupply flooding California.

The Lesson

A textbook case of policy-dependent capital allocation risk. Management admits losses are "unacceptable." The original investment thesis is broken at current credit prices.

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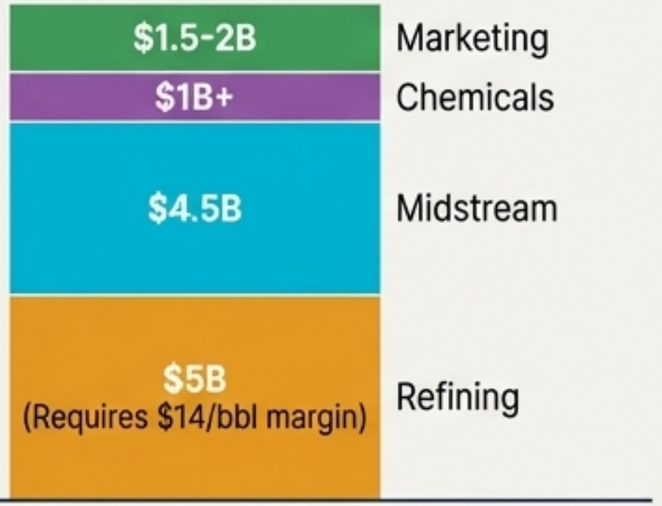
The Hidden Leverage: The Q1 2026 Hedging Shock Bridge



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The Catalyst Friction Point: Target vs. Reality

Management's Aspirational $14B Target



Status: Pushed to 2027. Arithmetically possible, but requires a macro environment that hasn't existed since 2022.

The Current 2025 Reality



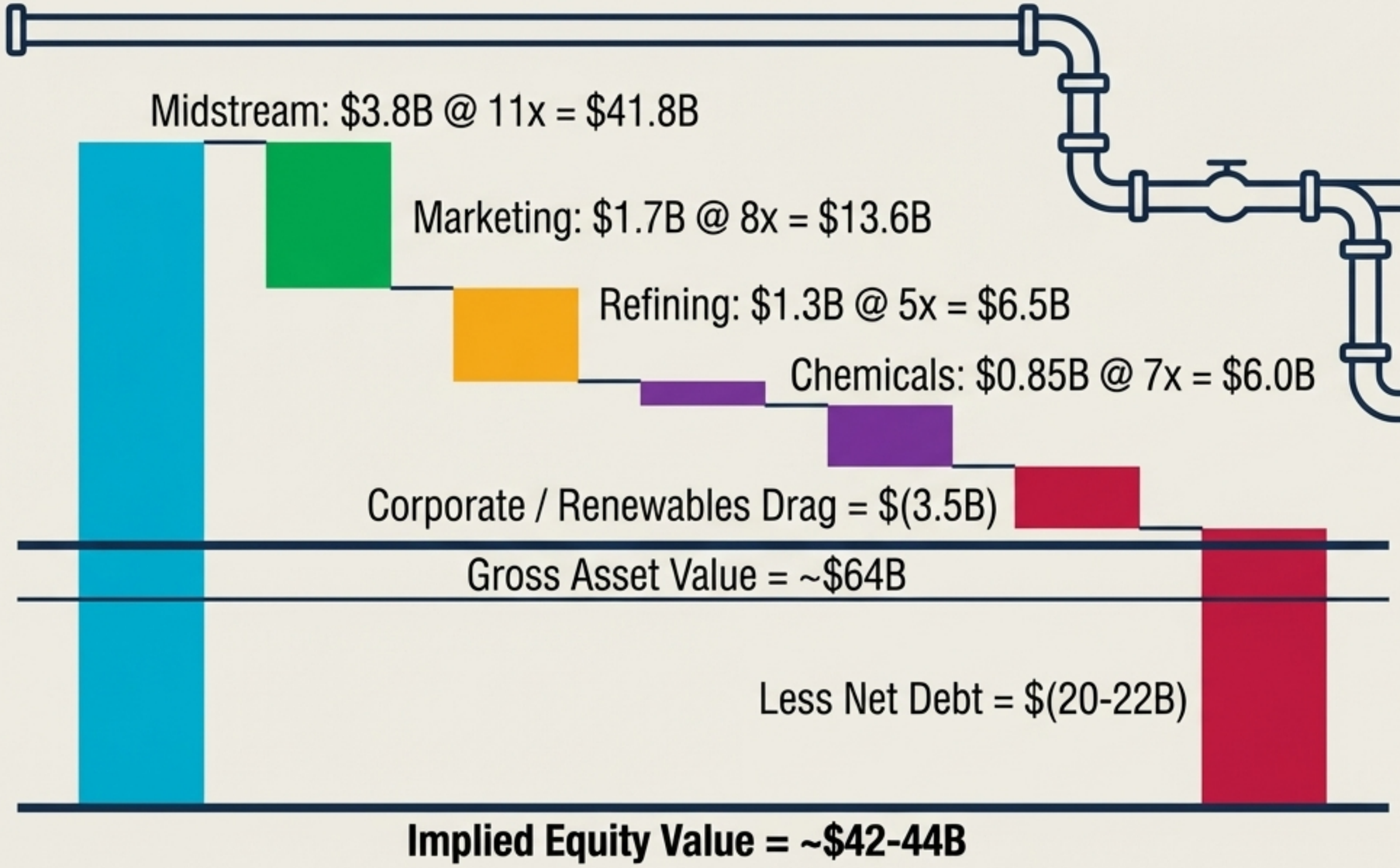
Refining margins remain far below mid-cycle assumptions. The gap between aspiration and reality creates the central valuation tension.

The Elliott Management Catalyst

Elliott Management holds a 5.7% stake ($2.5B) and secured two board seats in May 2025. They are pushing the "Streamline66" thesis to separate midstream and unlock value. The stock's subsequent rally from $114 to $176+ proves the market views this activist tension as inherently value-enhancing.

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Sum-of-the-Parts (SOTP) Valuation Rebuild



Valuation Verdict

Implies ~$105-110/share on current earnings.

Current Price = $176.

The Upside Path

To justify $176 or higher, the market is pricing in the $4.5B forward midstream target and normalization toward the $14B mid-cycle EBITDA.
Achieving this $14B mid-cycle implies $193-$228/share at a 7-8x multiple.

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3-5 Year Investment Outlook Matrix

Bull Case: $200–230 / share

Midstream Execution: Hits the $4.5B target by 2027 driven by Coastal Bend and Iron Mesa. Standalone midstream value approaches $45-55B.

Catalyst Unlock: Continued Elliott Management pressure successfully forces value-unlocking structural actions, such as a potential midstream separation.

Refining Normalization: Domestic capacity closures (548k bpd removed) tighten the market and push margins back toward mid-cycle levels.

Bear Case: $80–110 / share

Refining Trough: Margins stay structurally depressed due to accelerated global EV adoption and massive new Middle East/India capacity additions.

Debt Constraint: The $22B+ net debt burden forces management to halt the buyback program to repair the balance sheet.

Chemicals Oversupply: $3.1B CPChem expansion projects generate very poor initial returns due to severe Chinese tariffs and global oversupply.

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Executive Summary & Investment Verdict

The Business

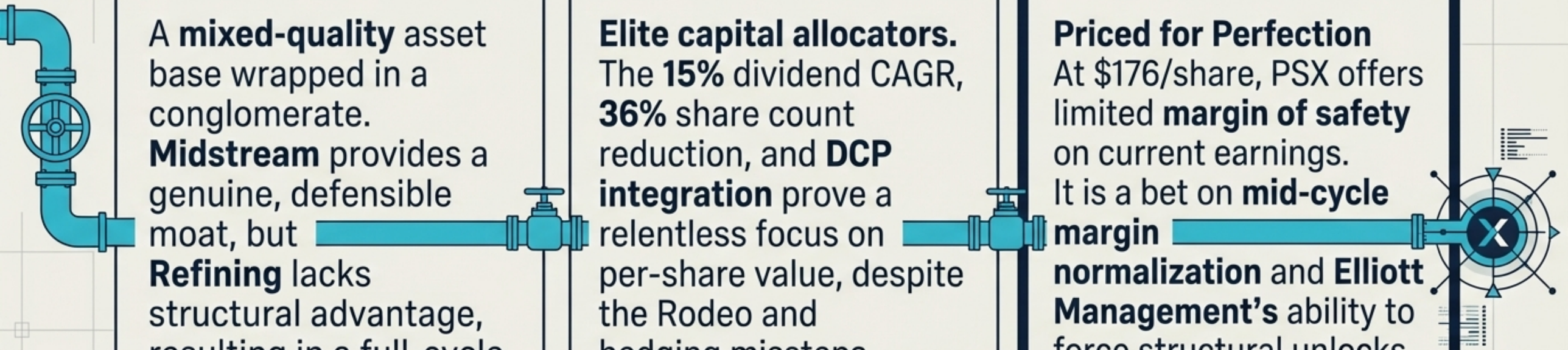
A **mixed-quality** asset base wrapped in a conglomerate. **Midstream** provides a genuine, defensible moat, but **Refining** lacks structural advantage, resulting in a full-cycle **ROIC** of ~7.4% that barely covers **WACC**.

The Management

Elite capital allocators. The **15%** dividend CAGR, **36%** share count reduction, and **DCP integration** prove a relentless focus on per-share value, despite the Rodeo and hedging missteps.

The Verdict

Priced for Perfection
At $176/share, PSX offers limited **margin of safety** on current earnings. It is a bet on **mid-cycle margin normalization** and **Elliott Management's** ability to force structural unlocks. Total return potential is **mid-teens** for patient capital willing to underwrite the balance sheet risk.



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