

HollyFrontier Corp  
Form 10-Q  
August 02, 2018

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-3876

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HOLLYFRONTIER CORPORATION  
(Exact name of registrant as specified in its charter)

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Delaware	75-1056913
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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2828 N. Harwood, Suite 1300	75201
Dallas, Texas	
(Address of principal executive offices)	(Zip Code)
(214) 871-3555	
(Registrant's telephone number, including area code)	

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(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes " No ý

176,175,461 shares of Common Stock, par value \$.01 per share, were outstanding on July 27, 2018.

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FORWARD-LOOKING STATEMENTS

References herein to HollyFrontier Corporation (“HollyFrontier”) include HollyFrontier and its consolidated subsidiaries. In accordance with the Securities and Exchange Commission’s (“SEC”) “Plain English” guidelines, this Quarterly Report on Form 10-Q has been written in the first person. In this document, the words “we,” “our,” “ours” and “us” refer only to HollyFrontier and its consolidated subsidiaries or to HollyFrontier or an individual subsidiary and not to any other person with certain exceptions. Generally, the words “we,” “our,” “ours” and “us” include Holly Energy Partners, L.P. (“HEP”) and its subsidiaries as consolidated subsidiaries of HollyFrontier, unless when used in disclosures of transactions or obligations between HEP and HollyFrontier or its other subsidiaries. This document contains certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of HollyFrontier. When used in descriptions of agreements and transactions, “HEP” refers to HEP and its consolidated subsidiaries.

This Quarterly Report on Form 10-Q contains certain “forward-looking statements” within the meaning of the federal securities laws. All statements, other than statements of historical fact included in this Form 10-Q, including, but not limited to, those under “Results of Operations,” “Liquidity and Capital Resources” and “Risk Management” in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and those in Part II, Item 1 “Legal Proceedings” are forward-looking statements. Forward-looking statements use words such as “anticipate,” “project,” “expect,” “plan,” “goal,” “forecast,” “intend,” “should,” “would,” “could,” “believe,” “may,” and similar expressions and state regarding our plans and objectives for future operations. These statements are based on management’s beliefs and assumptions using currently available information and expectations as of the date hereof, are not guarantees of future performance and involve certain risks and uncertainties. All statements concerning our expectations for future results of operations are based on forecasts for our existing operations and do not include the potential impact of any future acquisitions. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that our expectations will prove to be correct. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in these statements. Any differences could be caused by a number of factors including, but not limited to:

- risks and uncertainties with respect to the actions of actual or potential competitive suppliers of refined petroleum products in our markets;
- the demand for and supply of crude oil and refined products;
- the spread between market prices for refined products and market prices for crude oil;
- the possibility of constraints on the transportation of refined products;
  - the possibility of inefficiencies, curtailments or shutdowns in refinery operations or pipelines;
- effects of governmental and environmental regulations and policies;
- the availability and cost of our financing;
- the effectiveness of our capital investments and marketing strategies;
- our efficiency in carrying out construction projects;
- our ability to acquire refined product operations or pipeline and terminal operations on acceptable terms and to integrate any existing or future acquired operations;
- the possibility of terrorist or cyber attacks and the consequences of any such attacks;
- general economic conditions; and
- other financial, operational and legal risks and uncertainties detailed from time to time in our SEC filings.

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including without limitation, the forward-looking statements that are referred to above. This summary discussion should be read in conjunction with the discussion of the known material risk factors and other cautionary statements under the heading “Risk Factors” included in Item 1A of our Annual Report

on Form 10-K for the year ended December 31, 2017 and in conjunction with the discussion in this Form 10-Q in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the heading “Liquidity and Capital Resources.” All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION

DEFINITIONS

Within this report, the following terms have these specific meanings:

“BPD” means the number of barrels per calendar day of crude oil or petroleum products.

“BPSD” means the number of barrels per stream day (barrels of capacity in a 24 hour period) of crude oil or petroleum products.

“Base oil” is a lubricant grade oil initially produced from refining crude oil or through chemical synthesis that is used in producing lubricant products such as lubricating greases, motor oil and metal processing fluids.

“Biodiesel” means a clean alternative fuel produced from renewable biological resources.

“Black wax crude oil” is a low sulfur, low gravity crude oil produced in the Uintah Basin in Eastern Utah that has certain characteristics that require specific facilities to transport, store and refine into transportation fuels.

“Cracking” means the process of breaking down larger, heavier and more complex hydrocarbon molecules into simpler and lighter molecules.

“Crude oil distillation” means the process of distilling vapor from liquid crudes, usually by heating, and condensing the vapor slightly above atmospheric pressure turning it back to liquid in order to purify, fractionate or form the desired products.

“Ethanol” means a high octane gasoline blend stock that is used to make various grades of gasoline.

“FCC,” or fluid catalytic cracking, means a refinery process that breaks down large complex hydrocarbon molecules into smaller more useful ones using a circulating bed of catalyst at relatively high temperatures.

“Hydrodesulfurization” means to remove sulfur and nitrogen compounds from oil or gas in the presence of hydrogen and a catalyst at relatively high temperatures.

“Hydrogen plant” means a refinery unit that converts natural gas and steam to high purity hydrogen, which is then used in the hydrodesulfurization, hydrocracking and isomerization processes.

“Isomerization” means a refinery process for rearranging the structure of C5/C6 molecules without changing their size or chemical composition and is used to improve the octane of C5/C6 gasoline blendstocks.

“LPG” means liquid petroleum gases.

“Lubricant” or “lube” means a solvent neutral paraffinic product used in commercial heavy duty engine oils, passenger car oils and specialty products for industrial applications such as heat transfer, metalworking, rubber and other general process oil.

“MSAT2” means Control of Hazardous Air Pollutants from Mobile Sources, a rule issued by the U.S. Environmental Protection Agency to reduce hazardous emissions from motor vehicles and motor vehicle fuels.

“MMBTU” means one million British thermal units.

“Rack back” represents the portion of our Lubricants and Specialty Products business operations that entails the processing of feedstocks into base oils.

“Rack forward” represents the portion of our Lubricants and Specialty Products business operations that entails the processing of base oils into finished lubricants and the packaging, distribution and sale to customers.

“Refinery gross margin” means the difference between average net sales price and average cost per barrel sold. This does not include the associated depreciation and amortization costs.

“RINs” means renewable identification numbers and refers to serial numbers assigned to credits generated from renewable fuel production under the Environmental Protection Agency’s Renewable Fuel Standard (“RFS”) regulations, which require blending renewable fuels into the nation’s fuel supply. In lieu of blending, refiners may purchase these transferable credits in order to comply with the regulations.

“Sour crude oil” means crude oil containing quantities of sulfur greater than 0.4 percent by weight, while “sweet crude oil” means crude oil containing quantities of sulfur equal to or less than 0.4 percent by weight.

“Vacuum distillation” means the process of distilling vapor from liquid crudes, usually by heating, and condensing the vapor below atmospheric pressure turning it back to a liquid in order to purify, fractionate or form the desired products.

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“White oil” is an extremely pure, highly-refined petroleum product that has a wide variety of applications ranging from pharmaceutical to cosmetic products.

“WTI” means West Texas Intermediate and is a grade of crude oil used as a common benchmark in oil pricing. WTI is a sweet crude oil and has a relatively low density.

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## Item 1. Financial Statements

HOLLYFRONTIER CORPORATION  
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (HEP: \$6,656 and \$7,776, respectively)	\$979,872	\$630,757
Accounts receivable: Product and transportation (HEP: \$13,501 and \$12,803, respectively)	765,111	659,530
Crude oil resales	60,140	61,203
Inventories: Crude oil and refined products	825,251	720,733
Materials, supplies and other (HEP: \$860 and \$916, respectively)	1,560,336	1,409,538
Income taxes receivable	256,536	220,554
Prepayments and other (HEP: \$2,286 and \$1,395, respectively)	1,816,872	1,630,092
Total current assets	17,873	44,337
Properties, plants and equipment, at cost (HEP: \$2,030,244 and \$2,011,915, respectively)	62,604	36,909
Less accumulated depreciation (HEP: \$(446,355) and \$(408,599), respectively)	3,702,472	3,062,828
Other assets: Turnaround costs	6,615,853	6,523,789
Goodwill (HEP: \$314,229 and \$310,610, respectively)	(1,955,216 )	(1,810,515 )
Intangibles and other (HEP: \$186,605 and \$206,167, respectively)	4,660,637	4,713,274
Total assets	254,484	231,319
	2,241,047	2,244,744
	422,712	439,989
	2,918,243	2,916,052
	\$ 11,281,352	\$ 10,692,154
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable (HEP: \$9,148 and \$14,637, respectively)	\$ 1,243,289	\$ 1,220,795
Income taxes payable	74,849	3,159
Accrued liabilities (HEP: \$33,167 and \$33,214, respectively)	237,709	198,756
Total current liabilities	1,555,847	1,422,710
Long-term debt (HEP: \$1,395,599 and \$1,507,308, respectively)	2,387,759	2,498,993
Deferred income taxes (HEP: \$558 and \$525, respectively)	705,072	647,785
Other long-term liabilities (HEP: \$63,374 and \$62,590, respectively)	229,031	225,726
Equity:		
HollyFrontier stockholders' equity:		
Preferred stock, \$1.00 par value – 5,000,000 shares authorized; none issued	—	—
Common stock \$.01 par value – 320,000,000 shares authorized; 256,015,579 and 256,015,550 shares issued as of June 30, 2018 and December 31, 2017, respectively	2,560	2,560
Additional capital	4,192,045	4,132,696

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Retained earnings	3,831,696	3,346,615
Accumulated other comprehensive income	11,913	29,869
Common stock held in treasury, at cost – 79,694,903 and 78,607,928 shares as of June 30, 2018 and December 31, 2017, respectively	(2,197,853 )	(2,140,911 )
Total HollyFrontier stockholders' equity	5,840,361	5,370,829
Noncontrolling interest	563,282	526,111
Total equity	6,403,643	5,896,940
Total liabilities and equity	\$ 11,281,352	\$ 10,692,154

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. (“HEP”) as of June 30, 2018 and December 31, 2017. HEP is a variable interest entity.

See accompanying notes.

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HOLLYFRONTIER CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Sales and other revenues	\$4,471,236	\$3,458,864	\$8,599,663	\$6,539,347
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization):				
Cost of products sold (exclusive of lower of cost or market inventory valuation adjustment)	3,595,916	2,753,459	6,943,041	5,394,634
Lower of cost or market inventory valuation adjustment	(106,926 )	83,982	(210,764 )	95,805
	3,488,990	2,837,441	6,732,277	5,490,439
Operating expenses (exclusive of depreciation and amortization)	296,215	316,261	616,503	623,987
Selling, general and administrative expenses (exclusive of depreciation and amortization)	68,675	59,803	133,339	117,051
Depreciation and amortization	110,379	105,282	214,720	201,322
Long-lived asset impairment	—	19,247	—	19,247
Total operating costs and expenses	3,964,259	3,338,034	7,696,839	6,452,046
Income from operations	506,977	120,830	902,824	87,301
Other income (expense):				
Earnings of equity method investments	1,734	4,053	3,013	5,893
Interest income	2,934	176	5,524	995
Interest expense	(32,324 )	(29,645 )	(65,047 )	(56,803 )
Loss on early extinguishment of debt	—	—	—	(12,225 )
Gain (loss) on foreign currency transactions	(325 )	10,328	5,235	395
Gain on foreign currency swap contracts	—	—	—	24,545
Other, net	1,364	327	2,710	1,397
	(26,617 )	(14,761 )	(48,565 )	(35,803 )
Income before income taxes	480,360	106,069	854,259	51,498
Income tax expense (benefit):				
Current	88,283	32,251	145,934	7,935
Deferred	29,164	(255 )	56,550	7,272
	117,447	31,996	202,484	15,207
Net income	362,913	74,073	651,775	36,291
Less net income attributable to noncontrolling interest	17,406	16,306	38,177	23,992
Net income attributable to HollyFrontier stockholders	\$345,507	\$57,767	\$613,598	\$12,299
Earnings per share attributable to HollyFrontier stockholders:				
Basic	\$1.96	\$0.33	\$3.47	\$0.07
Diluted	\$1.94	\$0.33	\$3.44	\$0.07
Cash dividends declared per common share	\$0.33	\$0.33	\$	