Calumet Inc.

Second Quarter 2024 Financial Results

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good morning, everyone, and welcome to the Calumet Inc.'s second-quarter 2024 results conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question you may press star then one on a touchtone phone. To withdraw your question, please press star then two. Please also note, today's event is being recorded. At this time, I'd like to turn the floor over to John Kompa, Investor Relations for Calumet. Sir, please go ahead.

John Kompa
Thanks, Devlin. Good morning, everyone. Thank you for joining us today for our second-quarter 2024 earnings call. With me on today's call are Todd Borgmann, CEO; David Lunin, EVP and Chief Financial Officer; Bruce Fleming, EVP, Montana/Renewables and Corporate Development; and Scott Obermeier, EVP of specialties.

You may now download the slides and companies remarks made on today's conference call. These can be accessed on the Investor Relations section of our website at Calumet.com. Also, a webcast replay of this call will be available on our site within a few hours.

Turning to the presentation on slide 2, you can find our cautionary statements. I'd like to remind everyone that during the call we may provide various forward-looking statements. Please refer to our press release that was issued this morning, as well as our latest filings with the SEC for a list of factors that may affect our actual results and cause them to differ from our expectation. With that, I'll now pass the call to Todd.

Todd Borgmann
Thank you, John. And welcome to the first earnings call of our new Calumet Inc. Since our last call, 99% of our voting unit holders elected to convert Calumet Specialty Products Partners LP to a C-Corporation. And on July 10, Calumet Inc. commenced trading on the NASDAQ. Thank you to all of our former unit holders and current shareholders for your support. And one last thanks to the former general partner and conflicts committee for a thorough and thoughtful process.

Now to the second quarter. Let's turn to slide 3. Calumet generated $66.8 million of adjusted EBITDA in the second quarter. Before we dive into the numbers, I'd like to touch on Calumet's overall strategy and the substantial progress our team has made since our last discussion. The most important element of our strategy is safe and reliable operations. In the second quarter, we achieved the highest companywide production levels that have been seen since we brought down our former Montana plant a few years ago to begin the renewables conversion.

Specifically, the Montana/Renewables team achieved record throughput in SAF production, and our specialties business saw the highest quarterly sales volumes in over five years. Pivoting to our broader strategy, we have three primary objectives, all of which were executed against this past quarter. Let's turn to the next slide.

First, we continue to demonstrate the uniqueness of our Specialty business. Commodity markets were not helpful in the second quarter, but this business continues to prove that its market optionality, product flexibility and advantaged integration allow it to succeed in any environment. Our commercial organization and customer commitment continue to be a core differentiator, and we saw that in Q2 as record Specialty production volumes were placed into the right market. Providing a world-class customer experience matters here. And I know Scott, who is on the call with me, would love to answer any questions about how he maximizes customer experience and the tremendous feedback that we receive from our customers.

A little over a year ago, we began the process of carefully studying the connection points between our Performance Brands and SPS segments. And where it made sense, we more closely began integrating them through our commercial excellence engine. In the second quarter we saw a 30% growth in volumes and Performance Brands, much of which is in the industrial markets where we can leverage our system most effectively.

Let's look to slide 5. Our second strategic objective is to execute operationally at Montana/Renewables and demonstrate through our geographic advantage, feedstock and customer access, and focus on sustainable aviation fuel, that we have built a best-in-class renewables business. In the second quarter, we achieved operational records across the board. We ran at planned production levels; our pre-treater allowed us to choose from a full slate of feeds. We produced roughly 7 million gallons of SAF, and we continue to see our cost becoming more efficient as reliability and utilization increase.

For the second quarter, the team delivered significant operating unit cost reductions and we're well on track to achieve our operating cost objectives of $0.70 per gallon by the end of this year. Last, commercial flexibility remains a key advantage, and roughly 40% of our product is SAF or finding its way into Canada. As we demonstrate steady-state operations, Montana/Renewables contributed over $7 million of adjusted EBITDA in the second quarter, despite the trough margin conditions that the renewable industry faces.

Let me take a minute to address today's trough industry margin conditions. Many others have recently weighed in on the expected timing of renewable diesel margin recovery, and we too are optimistic that our industry has multiple positive catalysts ahead, some of which are occurring already. On the supply side, these include declining ag commodities prices, incremental biodiesel capacity closure, a reduction of imports, RD capacity cannibalized into SAF, and even renewable diesel capacity reversed back to crude oil service.

On the demand side, notable catalysts include CARB LCFS acceleration, additional LCFS geographies opting in, growing state and global mandates and incentives, legislative response on behalf of the ag sector, and the EPA increasing its non-ethanol RBO. From a timing perspective, the change to the producer's tax credit at year-end is expected to reduce imports as they become disadvantaged by $1.00 per gallon. Today, these imports are flowing at roughly 1 billion gallons annually. And we note bipartisan support, and we remain optimistic that the EPA will correct the RVO, rather than forcing additional capacity to close and delay the energy transition.

It's hard to predict exactly how these will play out in the very near term, especially during an election season, but Montana/Renewables continues to differentiate itself, focus on its competitive advantage, generate positive EBITDA even during the trough, and when these changes take hold, we will be positioned to capture the upside.

Looking ahead, SAF continues to be a focal point and an advantage for Montana/Renewables. Our SAF production continues to increase. We produced nearly 7 million gallons in the second quarter and MRL currently has 30 million gallons per year of contracted SAF sales. We look forward to the next steps of SAF for Montana/Renewables, which will be the MaxSAF expansion at the culmination of the DOE process.

Given the advanced nature of this process, and the magnitude of it to Calumet's strategy to launch MaxSAF and replace expensive project financing at Montana Renewables, we are going to limit our comments on the DOE process today. The DOE has been an extremely thoughtful and professional group to work with throughout, and we're excited to get started on the next steps of building on Montana Renewables' first mover advantage and fortifying our country's vision as a global SAF leader.

Turning to slide 6, we see the third leg of our corporate strategy is progressing a host of corporate initiatives targeted at driving shareholder value. The first item on this list is the successful execution of our corporate conversion in the second quarter. We're excited about the future of the C-Corp, the benefit of passive indices adding Calumet, and institutional investors being able to invest in the company at this paramount time as we complete our transformation. The first significant passive index adds should come in September as the S&P and CRSP indices rebalance, and this process should replicate itself over the coming year.

Further, we received news of our most recent successful step in the small refinery exemption litigation in which the Washington DC District Court deemed the EPA's denial of the SRE as arbitrary and capricious. As a small business critical to the communities in which we exist, to produce these fuels as byproducts to lower the total cost of goods on our Specialty Products that we make on purpose, we're pleased to see the courts continue to protect the intent of the Clean Air Act in the small refinery exemption. With that I'll turn the call today David to take us through the quarterly financials. David?

David Lunin
Thanks, Todd. Now I'll review our segment results. Across our Specialty businesses, which comprise both Specialty Products and Solutions and Performance Brands, we achieved the highest production volume in the last five years. Operations were strong during the quarter as we benefited from reliability and the progress we've made over the past few years fortifying our operation. That said, we continue to see additional opportunities.

The Specialty Product segment generated $65.8 million of adjusted EBITDA during the quarter, an increase of approximately 8% compared to the prior-year period. Quarterly results were driven by strong volumes across products and the application diversity of our products, strong customer relationships and our integrated network. Strong sales volume and financial results were offset by a weakened commodity environment where we saw a $7.00 per barrel decline in the Gulf crack -- 2-1-1 crack spread over the year.

The resilience of our performance underscores the specialties business ability to succeed across all commodity cycles. In the chart on the bottom right, I'd like to highlight our Specialty Products margin that has been resilient in the $60 to $70 per barrel for the last few quarters despite declines in fuel and asphalt margins. This success in Specialty Products has been driven by continued execution of commercial excellence programs and the realization of progress made over the last few years. Delivering product capabilities to our customers, top-notch service, and delivering products to this highest margin area are all part of the strategy that's been playing out in our results.

Despite strong production results, we know there's more opportunity available in reliability. In early July, our power supply was cut as the remnants of Hurricane Beryl knocked out local power, and a portion of July was spent with our Shreveport site operating at reduced rates. Today Shreveport is back operating at full rates, and we continue advancing progress on improving reliability.

Moving to the Performance Brands segment where we drove year-over-year volume growth of 30%, again reflecting strong execution by our commercial team as well as operational reliability. These operating results allowed the segment to deliver its highest volume quarter since the first quarter of 2019, reflecting strong demand across all our brands. We were able to successfully leverage the integration of our Northwest Louisiana network of upstream manufacturing sites and our performance brand compact facility.

We used the immigration to drive volumes to in-demand products as well as improve margins while delivering materials to high value add brands such as Bel-Ray and our private-label industrial business, both of which have remained resilient. Second-quarter 2023 adjusted EBITDA increased 60% to $14.1 million or up nearly $2 million year-over-year. In addition to the volume growth in the quarter, Performance Brands continued to gain momentum and delivered strong margin results. In particular our hybrid value brand, Royal Purple, continues to deliver reliable growth every year while maintaining and building on its exceptional margin profile.

Going forward we expect these trends to continue as we remain focused on growing our high-performance products as well as our core integrated industrial business lines, particularly focusing on mining, power and marine end-market applications.

Moving to Montana, the second quarter for our Montana asphalt business was slower than normal due to a combination of commodity headwinds and a little later start to the heavy paving season than normal. We expect improving sequential results in the third quarter due to wider WCS and WTI diff, stronger Rocky Mountain fuel market, and incremental retail asphalt volume. I'd also note that the retail asphalt rack opened mid-quarter and, despite broader field cracks remaining much lower than they have been in the past couple years, we are seeing the normal seasonal local market premiums reappear in the Rockies as we get into the summer months.

On the renewables side of Montana, we are pleased to report the business generated $6.1 million of adjusted EBITDA, representing Calumet's 86% ownership or $7.1 million of adjusted EBITDA on a 100% consolidated basis. Through improved operations we were able to drive financial results despite trough conditions for industry index margins during the period.

As Todd mentioned, the second quarter represented a clean quarter of operations. As a result of our team's focus on driving steady-state execution we are seeing this in our performance. We successfully delivered on our operating plan processing 12,000 barrels a day of renewable feedstock, including 1,700 barrels per day of sustainable aviation fuel.

In closing, we've highlighted the key catalysts along with our near-term strategies intended to generate shareholder value. First, we are pleased to complete our C-Corp conversion in July. Despite the recent share price volatility, we believe shareholders will ultimately be rewarded as we introduce a broader institutional investor base that could now own stock, in addition to the technical demand anticipated from index additions.

Second, we believe the second quarter was a critical milestone in demonstrating the competitive advantage of our Montana/Renewables business driven by our superior logistics advantage and location. With a clean operating quarter, the site is producing on plan and solidly profitable while we wait for more favorable market conditions to return that support a normal index margin level.

We look forward to completing the DOE loan which supports the final investment decision on our MaxSAF expansion project.

I'd also note we remain committed to reducing our debt level as evidenced by the $50 million reduction in our 2025 notes during the quarter. As we said before, we believe we have a number of actionable levers to achieve this in the near term, which we're excited to share shed more light on in the not-too-distant future. Further, cash generation for the quarter was strong, we delivered $66 million of cash flow from operations, highlighting the capabilities of our two advantaged businesses. Operator, that concludes our prepared remarks. We'd now like to open the line for questions if you can remind the callers of those instructions.

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw it, please press star then two. At this time, we will pause momentarily to assemble our roster. Our first question today comes from Roger Read of Wells Fargo. Please go ahead.

Roger Read
Thank you, good morning. And let me say congrats on getting over to a C-Corp and on the quarter's performance here. I guess I'd like to start off with maybe something not even operational, but the whole deal with the SRE and the EPA being told to go back and look at this from sort of a maybe let's call it high, mid, low case of the $200 million-plus of kind of RFS obligations on the balance sheet. What's the right way for us to think about how an SRE for you could work out?

Bruce Fleming
Hey, Roger, it's Bruce. I'll let David take the balance sheet question if he wants to build on this, but I think the first part of it was a little bit of interest in the legal impact. Look, the Clean Air Act provides small refineries exemptions in the law. It's not subject to agency interpretation. The agency wanted to interpret it, and the courts told them not to. So, I think this is cut and dried. The impact on the balance sheet is -- we backed up all the way to 2018 in terms of our accounting and that's all sitting there. So, given any assumption on future RINs prices, that balance sheet number moves around a lot. And in my opinion, we're not helping our shareholders understand our real position. So, we're going to be examining that.

David Lunin
Thanks, Roger, for the question. We're always thoughtful about how we account for things so we provide clarity to shareholders. I think as the legal process continues to move forward, we'll evaluate how -- with our auditors at Grant Thornton, how we represent the balance sheet. And we will make changes as appropriate as the legal process plays out.

Roger Read
Okay, thanks. We'll just keep our eye on that. And then, just to make sure I understood your comments on Q2 being a weak asphalt market, Q3 looking better -- I mean, we know that you build asphalt in the winter, you sell it in the summer. Was there, I guess, just a weather issue?

And so, as you look at Q3 you've seen the catch-up here? Or is there anything else we need to really be paying attention to in terms of seasonal factors?

Bruce Fleming
Hey, Roger, Bruce again. I don't think we meant to signal it was a weak market at all. Let me clarify that. We operate the Great Falls asphalt business in two channels, a wholesale channel and a retail one. The wholesale channel runs year-round. The retail, which is important but seasonal, begins when the weather allows paving jobs to start, and it ends when the weather shuts down the paving jobs. So, whether that's four, five or six months in a given year, and exactly when it starts and stops is the weather dependent part. But we don't see weakness. Our pricing, our retail margins above crude, and in particular our polymer modified asphalt margins above ordinary retail are all typical. So, we're signaling that opening of those local paving jobs began mid-quarter this time.

Roger Read
Okay, thanks. Yeah, I didn't mean to misinterpret. That was just kind of the way it came across to me. I'll hand it back. Thanks.

Operator
The next question comes from Saumya Jain of UBS. Please go ahead.

Saumya Jain
Hey, congrats, guys. I guess quickly, I just want to clarify, is the old high-priced inventory still playing out and are the earnings? And then also separately, how are you guys seeing RIN prices in refining cracks playing out this quarter?

Todd Borgmann
Hey, Saumya, it's Todd. I'll start and then hand it over to Bruce. Yeah, the old high-priced inventory that we had talked about last year is worked through the system. Of course, there's always a little bit of price lag in this business -- that can be positive, that can be negative because there's a couple weeks of supply chain movements between when you buy a feedstock and when you receive it. So, that's kind of always there.

But we don't think that's a major contributor to this quarter and the old high-priced inventory that we had talked about historically that built up in the second half of last year is absolutely all ran through the system. And just drilled with the team to have as efficient of a quarter as we did. We've been waiting for this quarter for a bit now and obviously got set back a little bit last year. But we feel like the plant is really operating on all cylinders now doing what it's designed to do. And going forward, should be a pretty straightforward system and hopefully we're done talking about that old high-priced feed.

Bruce Fleming
Saumya, it's Bruce. In terms of where RINs are headed, that's going to be unusually volatile through the end of the year. We've got a major change coming up where the importers of bio-based diesel products are going to lose the blenders tax credit that they currently enjoy. How much of that offshore volume hits and when, is going to introduce market volatility. That knocks onto the RINs price because, basically, that's a major volume portion of the balance. So, our forecast is an awful lot of volatility and then, somewhere around year end going into 2025, a much more predictable market.

Saumya Jain

Got it. Thank you.

Operator
Our next question comes from Neil Mehta of Goldman Sachs. Please go ahead.

Neil Mehta
Yeah, good morning, Todd and team. Just would love your perspective of where we are in the renewable diesel cycle. In your comments you indicated we kind of troughed in June – or May and June was sequentially better. Has that improvement sustained into Q3? And how do you see us moving from here as we look out and try to figure out the path to midcycle profitability of this business?

Bruce Fleming
Hi, Neil. Bruce. So, I think that's a two-parter. The timing part is uncertain but near-term, we've got rule changes year end. We've got a whole bunch of response in the market. Todd went through 10 points on either the supply or the demand side where people are reacting to the current environment. How material and how fast those reactions are is the answer to the next six months.

But if I pop up above that for color, let's be clear the push for renewables-- the statutory push under the law-- is by and large supporting the domestic farm industry. And the RVO mispositioning has damaged that. It's going to be corrected. The market participants will correct it through their actions, and we see a lot of push -- bipartisan push on the Hill -- to correct it there. So, it's difficult to anticipate what form that takes when, but we feel like it's all quite near-term.

When the large quantity of biodiesel imports dries up at year end, that's going to be a step change. You've got people switching from renewables back to crude, which is kind of stunning. You've got a bunch of renewable diesel being diverted over to SAF with projects in the hands of very credible operators, and so we're counting on those projects in our balance at Diamond Green and P66. All of that is clustered around year end. So, short-term volatility and uncertainty and then a much more appropriate market structure.

Todd Borgmann
Yeah, and Neil, I'll just pile on a bit. I think it's interesting to watch how the market is reacting to the current environment. And I think in a normal time, without so many of the potential catalysts that Bruce mentioned looming in the near future, you'd have seen a lot faster shutdown. We've talked before about how the current RVO supports roughly 4.5 billion gallons of biomass-based diesel. And I think a big part of the reason that you haven't seen as much capacity shut down as you normally might expect is the general optimism around not only the quantum of catalysts that exist out there, but just the magnitude of them, particularly with the RVO rebalance in front of us, the PTC coming in at the end of the year. So, I just had that comment.

Neil Mehta
And then Todd and Bruce, so the $1.20 you saw in June, do you have a mark-to-market on where the industry indicator is right now?

David Lunin
It is range bound. We've seen it -- that's a high spot recently. We've seen it sitting more like $0.95 to $1.10 while all of this clearing activity sets up to rebalance.

Neil Mehta
Great. And then that's the follow-up, which is -- that gives us a good sense of where margins are and hopefully troughing. Talk about the cost side of the equation. You talked about trying to drive this to $0.70 or below to sustain that positive EBITDA in tougher conditions. So, what are the steps that you're taking beyond just volume improvement and what's the progress that you're seeing?

Bruce Fleming
Sure, I'll start that. It's Bruce again. One of the fascinating parts about entering into a new margin-add activity in the field is the learning curve that the team can run up. There is a ton of discrete activity, discrete project activity. These are all small and tactical, they lead to, for example, higher utilization, higher stream factor. They lead to driving out particular incremental costs.

One of the largest ones that I'll point to is we, by design, are temporarily clearing some of our produced renewable water off-site. That sounds funny, I'm going to say it again. The feedstock has so much oxygen, which we turn into water and are hydrotreating, that we have a renewable water yield and that's got to go somewhere. Since it's an industrial product it's subject to a lot of regulation. The long-term gain there is to have a local water treatment facility, that's actually linked to our MaxSAF expansion. So, we're waiting for that design and while we're waiting, we’ve got a fairly expensive logistics cost outbound. So, that's a longer term but a more impactive example.

Here's a tactical one, just to give you a little more color. We have a pre-treater that can take any feedstock from anywhere in the world and it's got a lot of flexibility, and it's got a lot of redundancy. But due to a tactical design mistake by the EPC contractor, we have to shut it down once a week to switch an exchanger bank, which is crazy. And that cost us all of $500,000 to fix once we figured it out. That added seven utilization points to the pre-treater throughput.

So that's a large longer-range one and a small tactical one in-hand . The team has got 78 elements on their worksheet in various stages of completion. So, we are pretty optimistic that we're going to drive those costs back down to the range Todd gave you by later this year.

Neil Mehta
That's great color. Thank you so much, Bruce.

Operator
The next question comes from Amit Dayal from HC Wainwright. Please go ahead.

Amit Dayal
Good morning, guys. Thank you for taking my question. So, with respect to the Specialty Products and before – sorry – Performance Brands, you had previously mentioned that you've not been able to focus resources on this as much given the Montana Renewables and SAF expansion going on. How is that going to change going forward where you can extract better margins and growth from these segments?

Todd Borgmann
Hey, Amit, it's Todd. Let me kind of replay -- restate your question and see we got it. You were breaking up a tad bit coming in. But I think you were asking, hey, as we now exit the -- kind of the Montana/Renewables construction period and commissioning period and transition into

more just normal way of business, how are we going to start featuring the Specialty business more? And I just want to be real clear that the Specialty business has been -- has always been a critical focus of ours. It's been improved dramatically over the last five years and maybe here in a second Scott can give a little more color on that.

But when you look at the increase in material margin, the progress that we're making on reliability and throughput, it's pretty substantial really. Now, we haven't talked about it as much over the last couple years as we'd probably like simply because just the magnitude of Montana/Renewables during a pretty critical time with construction, commissioning, etc., was just such a big deal. But the Specialty business is a core business, always has been, always will be. And it's something that we've done a heck of a lot to improve over the last few years. So, I don't know, Scott, what would you add?

Scott Obermeier
Yeah, I would just add on, we made tremendous improvement in the specialties business starting the Specialty Products and Solutions segment. As Todd alluded to, we've had five years in a row of growth, and we've done that through really all business cycles. We then made the decision at the start of 2023 to incorporate the Performance Brands segment into a more broad base specialties approach and as we think of commercial excellence where we can further integrate, unlock value, etc. So, it's been extremely successful, and we're looking forward to the future as we continue to work on our balance sheet and invest in the Specialties business organically and inorganically.

Todd Borgmann
And I have one more thing, Amit. We have kind of a centralized group of folks in operations excellence and commercial excellence. And as we stood up Montana/Renewables, obviously that's been a major, major drain on just shared resources. So, when you look at a lot of the finance resources in Indianapolis, they're focused on analyzing Montana/Renewables and the spend over the last couple years and learning a new space.

Same thing for our operations excellence folks who have been out on site helping this new business get stood up and making sure we as an organization really understand the nuances and the differences. So, I do think that now that Montana/Renewables is fully up and running, standing alone, doing quite well, we will see the benefit. We're going to be transitioning some of those shared resources back towards Shreveport to help us accelerate some of the reliability initiatives that we talked about on the call today and have over the couple years. So, I just had that.

Amit Dayal
No, appreciate that color, guys. With Montana/Renewables now sort of running in a more stable fashion, how should we think about the monetization? That was in play earlier, sort of came off the table a little bit. Timeline for something like that or any new plans around the monetization effort? Any color on that would be helpful. Thank you.

Bruce Fleming
Hey, Amit, it's Bruce. Our strategic positioning intention remains the same. We think that the business is very attractive. We think that the expansion project, and particularly the pivot to MaxSAF, is compelling. And we would like to find a strategic partner of some sort that would enable that journey, add additional value. And that is a three directional strategy.

So, prong number one is cleaning up the balance sheet. We've been talking to the DOE about that. And prongs number two and three are two sides of a coin. We can either bring on an operating strategic and that could be vertical or horizontal integration, or we can IPO the equity. So, those choices remain available to us. We are not seeking a particular outcome on a particular timeframe as much as we're seeking the right complementary arrangement partner who is aligned with us, who thinks strategically about the world the way we do, who adds some kind of value, and who offers a fair proposition for a combination.

Those are always ongoing. If I put on my corporate development hat for a second, we get inbounds around this business all the time. We entertain the ones that are appropriate to be entertained and we will, post cleaning up of the capital structure, have a pretty compelling platform.

Amit Dayal
Thank you, Bruce. Always good color from you. Appreciate it, guys, that's all I have.

Operator
Our next question comes from Gregg Brody of Bank of America. Please go ahead.

Gregg Brody
Good morning, guys, and thanks for the update on everything. Just wanted to follow-up on -- you made some comments about Specialty being down for July or being at reduced operating rates. Can you just clarify potential volume impacts there? Do you expect it to be material this quarter? And then this quarter was above the midcycle margin. I'm just curious what your expectations are given the volatility in crude, how we should think about that for the third quarter and potentially after?

Todd Borgmann
Yeah, thanks. Hey, Gregg, it's Todd. I'll start and let's see if Scott piles on. I think David's comments on kind of the July down time, we're down for a couple weeks, lost about 500,000 barrels or so with the remnants of Beryl, kind of knocked out local power supply. So, I think that's probably what you were referencing during the call. Back up and running now. Like David said, it was a great quarter in the second quarter not to have any sort of reliability downtime, anything like that.

We continue to rebuild the infrastructure and try to add redundancy where we can. And we continue to see the need to do that particularly around the intersections with third-party utilities. So, that's something that's kind of been in the line of sight going forward. But I think on the Specialty side, midcycle probably is about right. When you look at our Specialty margins you see that where we're at right now is well above historic levels, not quite as high as the last couple years, and I think we've been pretty clear with that. But Scott and the team have really done a nice job of increasing the returns that we would expect in what we'll call kind of a midcycle environment. So, Scott, what would you have?

Scott Obermeier
Yeah, I would just throw out there, Gregg, it feels about like we're in midcycle. I think that more of the headwind we're seeing is probably a little bit more on the supply-side overall across our portfolio more so than the demand. The demand has maybe been a touch choppy, but all in all pretty resilient. We've worked hard to grow our Specialty customer portfolio, if you will, and our brands. So yeah, we feel like we're about midcycle and that's sort of how we're thinking about Q3 and going forward.

Gregg Brody
Great. And you made some comments on the call, but I'm going to say them back to and ask you what else you can say because I think you said there were some limitations on what you can say right now. So just, you said you look forward to the DOE loan and advance news of the process. And you also mentioned you would potentially use this to refinance expensive level debt. I'm curious what you can say about that. And just one other comment. You said you planned on shedding light on your commitment to reduce debt in the not-too-distant future. What else could you tell us about that as well to help us understand how you're thinking about reducing your debt?

Todd Borgmann
Yes. No, good question. We've got to be careful about getting too deep into the details of the DOE loan, as obviously we're just in a sensitive phase there and don't want to cross any boundaries. But I think Bruce said in a prior question, and I'd just reiterate, the purpose of the loan is to launch MaxSAF and to clean up the balance sheet.

So, right now when you look at Montana/Renewables' balance sheet it has all sorts of expensive project financing from various providers. Calumet is certainly one of those providers. Calumet certainly expects to get repaid on that in the near future. But now is not the time to get too far into that and exactly what that means for the broader plan. We want to see this process play out.

And what I can tell you is we have an executable plan that provides both short-term deleveraging at Calumet and removes the '25's. So, there are some moving pieces in there, so we want to be careful not to get too far out over our skis. But when we talked about shedding more light on that in the near future, we do expect it will be the near future that we'll be able to talk about that plan more publicly. But just want to make sure that you understand that there is one and we're excited about it and it continues to progress well.

Gregg Brody
And I'm curious if you can define near future in terms of a timeline.

Bruce Fleming
Hey Greg, it's Bruce. Just to continue and then pivot from the last point, we are if this is helpful, talking about the MRL balance sheet as a stand-alone entity because that's a separately incorporated joint venture. And then we're talking about the parent balance sheet. Obviously, one's partially consolidating up at 86% share. So, if we keep those separately in mind, the DOE activity is all around MRL. And in terms of the timing, that is the Department of Energy's remit. We have an agreement with them that if we make any remarks, we're going to let them see those remarks in advance. So, I'm just going to leave it at that.

Gregg Brody
I will just leave it there and then I'll just transition to, as you know, my favorite topic. Congrats on the RINs ruling. I know that was great news. I'm just curious what you can talk about for next steps there. And then maybe if you incorporated into that, just whether the SCOTUS decision to overturn the Chevron doctrine has any impact on small refinery exemptions, sort of EPA's ability to make decisions. Just any thoughts you can help us with there -- think through there.

Bruce Fleming

Yeah, let me take the second part and David may have some thoughts around the implications for accounting, and then the third piece was what are the implications for our business operation, I think, if I heard the question. So, in backwards order, we don't think Chevron has got anything to do with this territory. The small refinery exemption is in the law in the Clean Air Act. That was never a feature of the law that was subject to agency interpretation. It was crystal clear how it worked.

It worked very well year-over-year for quite a long time. And it broke down more recently, but the courts have said it was working fine, go back to that. That's what remand means. So, the Fifth Circuit in the case of our Shreveport asset, and the DC circuit in the case of most of the rest of the industry cases which were all consolidated in there, have said to the EPA, go back and do it over and get it right. So, we'll see how that plays out and what form it takes.

With respect to the implications for our business, we pretty conservatively charge ourselves in the current period income statement as if we were incurring these expenses. So, that's a conservative position, but the reality is we've qualified on the merits for the small refinery exemption historically. So, that's something for our new auditor to think about and I'll just see if David wants to talk about the balance sheet or any of our accounting thinking.

David Lunin
No detail to get into. As the cases evolve, we'll evaluate how we account for RINs on the balance sheet and income statement as we go forward. But no current change and we'll just have to work with our auditors to figure out the best way to reflect our operations and our financial reporting.

Gregg Brody
The RINs case has been remanded back to the EPA, at least the DC circuit case. Has that given you any indications what's next from the EPA?

Bruce Fleming
That starts the clock. We have not had any kind of a signal from the EPA what they're going to do. And the clock is running. So, we'll receive their response shortly or they will have some alternate thinking in mind. We remain interested in a conversation that leads to a reasonable outcome for all parties. We understand that the national interest is pushing renewables into the pool. We want to be part of that.

But the way we really want to be part of that is to get MRL up to speed and contributing. So, punishing small refineries who can't afford the capital cost to comply was a known problem and that's why the law says that small refiners can have an exemption. We just need to stop treating the industry like it's some monolithic giant enterprise where everything is the same everywhere you look because that's not true and the courts have now said so.

Gregg Brody
I appreciate all the time, guys. Thank you.

Operator
The next question comes from Jason Gabelman of TD Cowen. Please go ahead.

Jason Gabelman

Good morning. Thanks for taking my questions. I appreciate the slide you have with the potential inclusion into the several indices that you mentioned. And it seems like that could be a pretty big chunk of volume in your stock. Do you have any sense of if you would expect to capture all of that? Is there a right way to think about how much of that inclusion you can actually get in relation to the total amount of shares you show on the slide?

David Lunin
Yeah, this is David. Thanks for the question. So, there are some here that are more driven by rules that can be more predicted, then there's others that -- like the S&P 600 -- that goes to a committee once you're eligible. And so, I think we don't want to necessarily predict an expected number of shares from demand. But some of the stuff happening in September is probably easier to expect than some of the stuff that goes to committee as I described. And this stuff gets kind of rebalanced over time.

But this is only part really of the incremental demand. Even more I think could come over time from institutional investors that haven't historically been in the stock. And so, when you look at our register, there is a whole bunch of capital out there that's not invested in the business today that still wants to be a part of kind of our two advantage businesses and the upside from MRL. And so, while we're excited about some of this anticipated demand from the index inclusion, we think there's probably even more to come over time from institutional investors and transitioning the register to what you'd see from more of our traditional C-Corp peers.

Todd Borgmann
Yeah, hey, Jason, it's Todd. I'll add a bit. I think we've said historically that peers of ours typically have about 20% of their flow held by passive indices and Calumet was basically zero and continues to be. But obviously now that can change with the conversion behind us. So, I'd kind of just highlight the numbers on this slide, to David's point, aren't meant to be a guarantee or a specific, hey, on this date we will get exactly this many shares. It's directional. But when you add them up, and then you kind of overlay that with about 20% of our 80 million or so shares outstanding, you kind of get in a general ballpark.

I think what's going to be interesting is just the rate of climb. We have a couple rebalancings coming here in September. We're excited about, we're excited to, one, see the impact of the volume, but also just learn a little bit more about how these processes work and we're doing that every day. So, I think what we're going to see is just a continued steady growth of passive ownership over the next year.

Jason Gabelman
Thanks for that color. My follow-up is just on the MaxSAF project, and you still sound pretty confident about the DOE loan, which I appreciate. The project seems like it's quite compelling. And given the amount of time that it's taken to get the loan, I wonder if you've contemplated an option B to fund the project.

Todd Borgmann
Jason, it's Todd, I'll kick off. We don't plan on spending money, meaningful money to progress MaxSAF until we get the DOE loan. The balance sheet simply won't allow for it. We would love to, don't get me wrong, phenomenal project. When we see kind of the equity options open back up, that could be an option in the future, obviously. Bruce talked about partnerships earlier and obviously that would go into our thinking. But right now, that's kind of just out there.

We're really focused on the primary path, which is kind of finishing up with DOE and starting on MaxSAF down the way we've been public about. But I do want to be clear that we're not spending meaningful amounts of money to progress MaxSAF (inaudible), we're committed to delevering the business, that's our first priority. And quite frankly, the MaxSAF project gives us really a liability (ph) to expedite that deleveraging or increase that deleveraging in the midterm. Montana/Renewables is a lot more valuable and a lot more exciting to any partner with MaxSAF funded and progressing than it is stand-alone. And it's quite interesting on a stand-alone basis.

But we think it kind of all goes together. We do the DOE, we start the project, that increases the value of the entity, we continue to talk about partnership. When the right time comes along, we do that and that completes the ultimate deleveraging of Calumet, which we still expect to be around $800 million of debt at the parent.

CONCLUSION

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to John Kompa or any closing remarks.

John Kompa
Great. Thanks, Alan. And on behalf of the Calumet management team, I'd like to thank everyone for their time this morning and the continued interest in the company. Have a great weekend. Again, thank you very much.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.