Calumet, Inc.

Third Quarter 2024 Earnings Call

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CORPORATE PARTICIPANTS

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David Lunin - EVP and Chief Financial Officer

Bruce Fleming - EVP, Montana Renewables and Corporate Development

Scott Obermeier - EVP Specialties

John Kompa - Investor Relations

PRESENTATION

Operator
Good morning and welcome to the Calumet Inc. conference call. All participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you will press "*" then "1" on your touch tone phone. To withdraw your question, please press "*" then "2." Please note this event is being recorded. I would now like to turn the conference over to John Kompa, Investor Relations. Please go ahead.

John Kompa
Thank you, Anthony. Good morning everyone. Thank you for joining our third 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 Specialist. You may download the slides that accompany the remarks made on today's conference call, which can be accessed in the investor relations section of our website. Also replay this call will be available on our site within a few hours.

Turning to the presentation on slide two, please see 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 expectations. As we turn to slide three, I now pass the call to Todd.

Todd Borgmann
Thanks, John, and welcome to Calumet's third quarter 2024 earnings call. We've had a lot of big news recently at Calumet as we continue to take major steps and execute on the value creation catalyst that we started to socialize earlier this year. In July of this quarter, we successfully completed the conversion of Calumet into a C Corp, and most recently, we announced the conditional commitment of a $1.44 billion DOE loan to move forward with Montana Renewables MaxSAF expansion, which I'll talk more about shortly.

Calumet has been and continues to be, laser focused on maximizing shareholder value. Let me start with reinforcing the commercial transformation journey we've been on the past few years, which has built a competitive advantage in our leading specialty products business. Even in a softer commodity environment, it's remarkable to see the new mid cycle margins we've realized compared to historic levels, and we saw that again in the third quarter. We integrated performance brands into our one specialty strategy two years ago, and are now seeing record volumes and margins in this business as well.

We've talked a lot about the role of commercial excellence at Calumet, which really underpins our specialty strategy. The focus starts with the customer, and we're fortunate enough to have thousands of customers globally, across numerous industries, and we work hard to partner with them in a value creation manner that earns business. We implemented data driven best-in-class processes and modern smart technology the past few years to make a step change in key areas such as advanced pricing, large account management, new business development, and cutting edge logistics software that have accelerated business results.

Finally, we've enacted a continuous focus on leveraging our unique integrated asset base to provide value added optionality that will allow success across any business cycle. In addition to commercial, we set out two years ago to harden our assets and improve reliability throughout the system, particularly in Shreveport. Here, we're seeing clear improvement, and we continue to focus on improving reliability and reducing operating costs.

When David reviews our specialty products and solutions segment, you'll see this quarter represents the strongest production volumes we've had since we reported the business in its current form. I thank our teams out in the field who are leading this effort and so committed to Calumet's success.

I mentioned our C Corp conversion earlier, and while we're still in the early days, the impact has been meaningful. Over the past quarter, we've seen roughly 4 million shares of Calumet demand from passive investors, which we expect to continue to grow, and we've seen average daily trading volume increase nearly 10-fold since the conversion, which is being seen by institutional investors to continue to gain interest in Calumet now that they're able to invest in the structure.

Our de-leveraging strategy isn't yet complete, but we have a clear path towards this strategic imperative. And last, we've carved out a market leadership position in a high growth market of sustainable aviation fuel, and with the DOE loan, we expect to leverage this early mover advantage into a global leadership position.

This conditional commitment is an exceptional step for our company, and we believe, for our country, as the United States gears up to become the world leader in sustainable aviation fuel. Growing our country's competitiveness in biofuels continues to receive bipartisan support as it creates a new form to serve a rapidly growing global energy need, creates great, highly skilled jobs, is critical to our agriculture industry, and is the most practical and cost effective form of energy transition, all while keeping major investment dollars home right here in the United States.

Before I get into the DOE loan, let me take a couple steps back and review some of the reasons sustainable aviation fuel is receiving so much attention, and why Calumet in particular, is so exciting. Let's turn to slide four. The large size of the airline transportation market, fragmented nature of the supply chain, enormous replacement infrastructure cost for non-liquid fuels and safety challenges alternative energies make decarbonization in the air travel sector uniquely difficult. The world consumes roughly 120 billion gallons per view of jet fuel, and about a quarter of this demand is in North America. Air transportation is growing rapidly, according to IATA and IEA, global demand is expected to be over 140 billion gallons annually by 2030 and by 2050 reach roughly 230 billion gallons.

Next, let's talk about supply and demand. We're in the early stages of sustainable aviation fuel and a vast number of mandates and incentive structures around the world mean plenty of forecasting complexity and, quite frankly, opportunity. Thus, we spend our time trying to understand inflection points, general trends, and potential risks, rather than nail down to precise forecasts. The current fact is that we sell every drop of our SAF as substantial premiums to renewable diesel.

In fact, we previously communicated a 30 million gallon annual run rate of Montana Renewables. And in the second quarter, we produced 2,500 barrels a day, which tracks closer to 40 million gallons per year, and in September, we produced at a 50 million gallon annual run rate. All of the production was sold, and it was sold at the same premium.

Of course, with Montana renewables now expecting to increase capacity to 150 million gallons in 2026, we need to look out and evaluate future incentives. In addition, today's market, as there is little question that global policy, along with changing customer desires, is a major catalyst of the energy transition. To do this, let's break down future demands into a few components. The first demand category is driven by legislation that is already passed or deep in process. This includes 2 billion gallons of SAF demand by 2030 from policy in the EU, the UK, Canada, Japan, India, and Singapore. Some of these are active now. Some start in 2025 and most increase annually. Further, they represent anywhere from 1% to 2% of their country's total jet demand, with the median being 3%.

The next group is non US, countries with proposed policies or stated goals. Some of these include Brazil, Malaysia, Indonesia, Turkey, UAE, New Zealand, Australia, South Korea, and China. This group represents approximately 1.3 billion gallons of potential demand, and China specifically has guided to 2% to 5% of their jet fuel demand being SAF by 2030.

Last is the United States. Airlines have made large decarbonization commitments, averaging to roughly 10% of their jet fuel demand being filled by sustainable aviation fuel. This represents roughly 3 billion gallons of annual demand. This level only be reached or even approached if there's enough SAF production capacity to meet the growing demand, which will require views on policy, both domestically and globally.

Using the past two decades of energy transition as guidance, including the LCFS, the RBO, the BTC, and recently the PTC, policy evolves to incentivize supply. We've seen this progress across every administration as this critical Ag and Energy Initiative has always been a bipartisan one. Further, the SAF drivers aren't just federal. We've seen states and individual airports play a major role. For example, there are SAF specific initiatives in Washington, Illinois, Nebraska, and Minnesota, many of which are direct shot from Montana Renewables. Further, CARB is recently guided to 20% savage usage on California flights by 2030.

California is the largest jet fuel user in the country, and it alone consumes nearly 4 billion gallons a year of jet. 10% of that demand is roughly 10 times the amount of SAF that is produced in the US today. Montana Renewable’s SAF currently sold into California, Canada, Washington during this past quarter, we along with our partners at Shell, delivered the first sap into Minneapolis and Detroit airports. Further, we don't sell directly to airlines. We partner with Shell through the largest known actual SAF supply agreement, and they optimize within their massive global supply chain to serve domestic private flight, corporate fleets, and both domestic and global commercial travel.

Viewing all these drivers, we believe the markets’ unfolding rationally. New SAF supply that's coming on in the near future coincides with new international volume mandates, but by itself, is not large enough to meet the future growth in these same mandates. Further, new sites are positioned in a way to service this new Asian and European mandated demand efficiently, and like today, Montana Renewable’s geography provides an advantage to supply the northern US, the West Coast, and Canada, all which provide their own individual exceptional growth prospects.

Next, let's move to our recently announced DOE loan. This is something the company has been working on for over two years, and a transformational step for our business. First, let's turn to slide five and describe the loan. And I'm going to stick to information that's been shared publicly here and in Q&A.

The loan quantum is up to $1.44 billion it's funded directly by the US government, specifically guaranteed by the Department of Energy. The cost of this 15 year capital is expected to be Treasury plus 3/8%, which currently would be roughly 4 3/8%. The loan is designed to have two tranches, and on the right side of this slide, you'll see some details on tranche one. First, the size of the initial tranche is expected to be $778 million that would fund at closing. Our project started over two years ago, shortly after initial conversations with the Department of Energy started and its first tranche will pay for eligible expenses incurred today.

As we previously communicated, the loan will clean up the existing balance sheet, which means the third party project financing decided our construction to date will be eliminated Further, the tranche one funding is not expected to be serviced until the entire project is complete. Thus, the roughly $79 million in annual servicing that Montana Renewables is paying to third parties now will be fully available to MRL to pay other expenses and to retained earnings to meet the equity requirements of tranche two and the MaxSAF expansion, which I'll come to shortly.

The last requirement of tranche one is that Montana Renewables obtains $150 million of new equity investment. Our current plan is for this investment to come from the existing owners of Montana Renewables. Calumet expects to have the funds to make this investment and does not intend to raise equity from the public shareholders in order to make the $150 million investment into Montana Renewables.

Moving to slide six in the second tranche. This tranche is the delayed draw term loan, and it'll be available to fund go forward spend on a MaxSAF project. The DOE loan is designed to remain at a 55% debt to total capitalization. At tranche one funding, this requirement is met. And going forward, for each construction dollar that Montana Renewables wants to spend, MRL will fund 45% of it via cash, and DOE will allow 55% draw of the loan. The MRL cash is expected to be generated from retained earnings.

Further, the MaxSAF project is designed to be modular, or a set of discrete projects in a series. The first module is standing up the second SAF reactor that was purchased in 2022. We expect the first reactor step, which we're calling MaxSAF 150, to take roughly two years and to increase Montana Renewable SAF capacity, 250 million gallons annually. An early estimate the capital required to accomplish this is $150 to $250 million. Thus, MRL is planning to invest $65 to $115 million of retained earnings over the next two years, with the DOE loan being drawn for the remainder.

Of course, the fact that tranche one is expected to reduce our existing annual debt servicing by $79 million per year gives us a lot of confidence that the second phase of this project will be funded within Montana Renewables. The remaining modules, which will take longer to engineer and install, include an expansion of renewable hydrogen production, an expansion of our free treater, a new wastewater system, renewable electricity and steam via co-generation, enhanced SAF truck loading capability, and other efficiency improvements. Each of these modules are justified independently and will be managed independently to control costs.

Before turning to call over and David, I'll say that DOE has been excellent to work with. The Department has proven extremely thoughtful and disciplined in how they've approached the process, and we're looking forward to partnering with the DOE to make the United States a global SAF leader, while using local agricultural feed stocks and creating the jobs to produce this rapidly growing global demand right here at home. With that, I'll turn the call over to David to walk us through our quarterly results. David?

David Lunin
Thanks Todd. We're very excited about the DOE loan. I also wanted to briefly comment on our other recently announced transaction, the exchange offer. We appreciate the overwhelming support of our bondholders based on the initial results. I want to reiterate we are still committed

to de leveraging the business in the near term. We view this exchange as prudent capital structure management given the near term maturity of the 2025 notes.

Now let me run through our segment results. Across, our specialty business, which is comprised of both specialty products and solutions and performance brands, we continue to see strong production volumes, particularly among our more specialty product lines. Operations were solid during the third quarter as the reliability investments we've made over the past few years allowed us to recover quickly and minimize the impact of the July weather event I mentioned on the last call.

Turning to slide seven, our specialty products segment generated $42.6 million of adjusted EBITDA during the quarter, an increase of approximately 10% compared to the prior year period. Quarterly results were driven by strong volume gains, in fact, the highest levels in some time, and resilient margins across specialty products, reflecting our customer and application diversity as well as the incremental value earned through our integrated network.

Year over year, results were hampered by a weakened commodity environment, where we saw over a $20 a barrel decline in Gulf Coast industry fuel margins. Specialty products margins have performed well despite this decline. You can see in the chart on the bottom right highlighting our specialty products margin, which trended upwards in the third quarter and was at the upper end of the 60 to 70 per barrel range. We've recorded consistent performance during the last few quarters in specialties, despite softer fuel and asphalt margins, which continued in the third quarter.

Todd mentioned our commercial excellence efforts earlier, and if we go back a few years, you see Calumet specialty margins routinely in the $40 to $50 barrel range. The focus on transforming our commercial engine has resulted in us thinking of this $60 to $70 barrel range as the new and raised mid-cycle levels of these products.

This performance highlights the relevant advantage of our specialty portfolio allows us to provide stability and cash flow for this part of the business in periods of weak commodity margins. A prominent customer base, brands and assets within SPS position continue to position the company well across cycles. I'd like to thank all of the Calumet team has taken a line approach through optimization, sales, procurement, and operations to optimize our vast network of options and place our products into the right markets,

Moving to slide eight and our performance brand segment, which posted strong quarterly results reflecting 19% period over period volume growth. This is a trend that has continued all year as volumes rose 21% on a year to date basis over the prior year period. We have a proven formula of commercial excellence, reliable operation, and strong brands as Royal Purple, BelRay, and TruFuel, which are all leading brands in their respective markets.

The formula has allowed us to drive the growth you see and command strong margin in the marketplace. Also, I'd like to highlight our integration, which allows us to drive incremental dollar gain across the SPS system. We internally source into performance brands when it makes sense to do so and pivot to supply on the open market, depending on prevailing market conditions. Integration across the business will continue to be a theme as we're focused on connecting our specialties and performance brand businesses wherever it makes sense to do so.

On slide nine, our Montana/Renewable segment generated $12.7 million of adjusted EBITDA compared to $38.2 million in the prior year period. On the Montana asphalt side, the business continued to reflect significant commodity headwinds. As anticipated, we did see improving sequential results in the third quarter due to a full quarter of modified retail asphalt volume, although results were significantly lower compared to the prior year as broader fuel cracks remained much lower than they have been in the past couple of years. We are carefully managing inventories as we move into the winter season.

On renewables, we are pleased to report this business contributed adjusted EBITDA at $7 million on 100% consolidated basis, $6 million of adjusted EBITDA that is attributable to Calumet's 86% proportional share ownership in the business. We process nearly 12,000 barrels a day of renewable feedstock and produce more than 2,500 barrels a day of SAF compared to the 1,700 barrels per day in the second quarter. We're quite proud of the increased SAF production as we continue to optimize operations to drive financial performance.

Due to our low cost geographic advantage, we continue to post positive EBITDA, despite continued trust industry index margin conditions during the quarter. Results also reflected approximately 6 million negative impacts of margins from feed stock price lag, when the industry straw feedstocks declined approximately $0.40 a gallon rapidly in late July after August, supply had been priced.

As previously announced, we are safely and quickly managing a planned turnaround to Change Catalyst at MRL that started in late October. The timing allows completion prior to the winter season and coincides with a period of margin uncertainty as the blenders tax credits and incentives change to the production tax credits.

Moving to slide 10. As a testament to Montana Renewables team, we drove another clean operational quarter and produced approximately 10 million gallons of SAF up sequentially from 7 million gallons in the second quarter. More importantly, we drove a new SAF production record each month during the quarter, culminating in approximately 3200 barrels per day of SAF during the month of September, and we've been able to successfully place the increased production same SAF premium we've experienced through the base contracts. Following the completion of the turnaround, any day now, we fully expect the strong operational momentum we've experienced in this business to continue.

As we turn to slide 11 and prepare for questions, I'll just reiterate that we remain focused on executing against our key strategy and catalyst intended to drive shareholder value. It's been a busy and important year. We've delivered on the conditional commitment from the DOE of $1.4 billion and are now driving towards closing. Two, we've delivered the C Corp conversion this quarter. Three, we've proven out the competitiveness of our two leading businesses in Montana Renewables and our unique specialties business. Next step is continuing on our plan to de-lever in the near term. 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. Thank you.

QUESTION AND ANSWER

Operator
We will now begin the question and answer session. To ask a question, you may press "*" then "1" on your touch tone phone. If using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press "*" then "2." At this time, we'll pause moment three to assemble our roster. Our first question will come from Roger Read with Wells Fargo. You may now go ahead.

Roger Read
Yeah. Thank you. Good morning, everybody. There's a lot to cover here, but I think kind of where I'd like to start is the expectations for the construction and conversion process, you know, making a, I don't know, a base case assumption that the first tranche of the DOE loan closes, you know, into this year, start of next year, in terms of hitting your expectations for 2026 on the first expansion of SAF. And then, you know, tranche two can come for the later part. But what will be some of the key milestones we should be paying attention to, you know? And the other thought is, if tranche one is delayed in its award, what does that mean for the timeline?

Bruce Fleming
Hey, Roger. Bruce. I'll start us off and see if David or Todd want to get in on this. So the fact that we own the second reactor, we don't have the usual kind of schedule or cost uncertainties that you associate with these kind of large, long lead delivery items. So, the project timeline is literally moving the reactor from Corpus to Great Falls and setting it on a foundation that we pour. We're just about done. That's all we got to do. So, we feel good about the timeline.

Reactor gives us a lot more SAF yield flexibility. It doesn't immediately give us more throughput. So that's why we're talking 150 million gallons of SAF for that step, and we're talking 300 for the larger program that will be more involved and take longer. So, do we need tranche one? I think Todd covered that. We've got a really modest investment here in the grand scheme of things. We can pay for that out of cash flow from operations. We expect -- we're not going to do that. We expect the DOE is all over this thing. Butif you want to entertain hypotheticals, we can proceed a bit further on our own.

Roger Read
Well, it's Wall Street, so every hypothetical will come into to play in one way or another. Let me go that way. So, DOE loan. We've got a incoming change at the federal government level. I get this question from everybody, so I'm just going to ask you all to address it, which is anything we should be worried about in terms of tranche one or tranche two, in terms of your expectations or conversations, et cetera, with the DOE? And I'll note that I believe all four members of Congress from Montana are wearing red jackets, so presumably they're quite happy to see a project like this go forward in their state.

Bruce Fleming
Are we worried about the administration change relative to the undertaking here? In a word, no. It's fair to keep examining that question. But let's reframe it a bit. You know, this is the biggest farm project in the history of Montana. Remember where our feedstock comes from.

Second point is that the loan program office is not the IRA legislation. Now I think there's been a conflation of those two things that's not really proper. The LPO has been in the statute for 15 plus years. What we're talking about here is bipartisan Ag support. And so, I think we're differentiated from something that might narrowly depend upon some chapter or other in the in the IRA legislation.

Roger Read
Appreciate that clarification. I'll turn it back.

Bruce Fleming
Thanks, Roger.

Operator

Our next question will come from Jason Gabelman with TD Cowen, you may now go ahead.

Jason Gabelman
Hey, morning. Thanks for taking my questions. I was hoping you could provide a bit more color on the Use of Proceeds from the DOE loan. You know there's the set outstanding at MRL, there's an intra company loan that I believe is getting somewhat sizable, and then, you know, funding the construction of the project. So just hoping you could maybe delineate how you expect to use proceeds from the loan.

Todd Borgmann
Hey, Jason, it's Todd. Be careful to get too far down the track here, but I think just take a step back, reminding the purpose of the loan. And we've been consistent in this all along. It's to do the MaxSAF expansion and clean up the existing balance sheet. So, you know, we talked about $778 million coming in. The existing balance sheet would take about $500 million or so to clean up. The rest is available to MRL to pay for other, you know, things that they have, which could include, you know, other expensive project financing could include, you know, anything. MRL has that flexibility.

Jason Gabelman
Okay, understood. I wanted to also ask about the 45z credit, which, you know, Treasury is yet to finalize the regulations there. So, we could be in a period next year where the market is operating without the blenders tax credit and the producer tax credit. How do you expect renewable diesel margins to operate under that environment? And if you could help clarify, are you able to book any revenue associated with the 45z credit before Treasury finalizes the rules?

Bruce Fleming
Hey, Jason. Bruce. I'll start us off. The whole industry is focused on this expectation that we may have delayed compliance rules, but we're a producer. We're qualified, and we're going to begin booking that receivable from January 1st. What's the expectation for the market? Well, look, if that's delayed, I don't think there's a risk that the money is later not forthcoming. There is a timing question.

Remembering that this is a tax credit we do have, I think a good secondary market. We've been approached by all kinds of organizations and institutions that would like to participate in the possible delay, and basically factor that back to us. So, we're not concerned that we don't collect the money. The historical response is that, given this kind of uncertainty on the first of the year, what we've seen in the industry is that the biodiesel guys promptly turn off about half of their production. All you've got to do is pull the data off the EIA or USDA websites to see that response to uncertainty.

So, when David said earlier, and I want to reinforce this, that we took a tactical opportunity here at the end of the year to Change Catalyst, that's because the switchover from blenders to producers' tax credit, particularly on SAF, means that you literally can't comply with either rule at the end of the calendar year. We're not the only ones that have signaled this and stopped SAF production for a couple of weeks. So that's what gave us our little window for the catalyst change. So, I realized I gave you a bunch of information because I think asked a multi prong question. Let me see if you want to redirect any of that.

Jason Gabelman
I guess, just how you're able to book a receivable, given there's a lack of clarity on regulations, particularly around international feed stocks.

Bruce Fleming
Well, we're not running any international feed stocks for this purpose. So, the computation is not at issue. The detailed implementation rules come when they come. We can then file for the tax credit. So, separate the fact that we're a qualified producer right now as we speak, from filing from the tax credit, from collecting the remittance. You know, there's a couple of things in there.

Jason Gabelman
Okay.

Todd Borgmann
And I think, yeah, I think we separate, Jason, just the technical, you know, accounting, revenue recognition, from what we expect to happen here, right? That could be driven by details that have yet to surface. But to Bruce's point, you know, we're fully expecting to start applying for this, you know, PTC, day one.

Jason Gabelman
All right, that's a useful color. Thanks for the answers.

Operator
Our next question will come from Saumya Jane with UBS. You may now go ahead.

Saumya Jane
Hey, good morning. So, what is your EBITDA per gallon margin looking like for the quarter? And I guess, what's your outlook on that? I know last time you guys had noted $0.16 if I believe.

Todd Borgmann
Yeah, hey, Saumya, it's Todd. It was about the same. And that was including the, you know, the $6 million kind of impact that we got from feedstock lag that we called out, and that's about another $0.15. So, you kind of add those things together, and I think you're in line with the general thinking that we provided previously of, you know, kind of where we fall in the supply stack relative to industry index margins.

Saumya Jane
Got it so it'll be in line this last quarter then?

Todd Borgmann
Yes.

Saumya Jane
Okay, cool. And then do you still hold the capex outlook of $100 million, or has that changed for the year as well?

David Lunin
No, our range remains unchanged. We may actually come in a tad bit lower. But as of right now, we think that's still the right range to be projecting.

Saumya Jane
Okay, thank you.

David Lunin

Thank you.

Operator
Our next question will come from Gregg Brody with Bank of America. You may now go ahead.

Gregg Brody
Hey, good morning, guys. And a public congratulations on the last month or so. Two years is a long time. (Inaudible). Actually, I'm sure you guys know better than anyone else. You mentioned deleveraging in the near term. Could you talk about how you think about achieving that?

David Lunin
Yeah, I think, you know, we're probably a bit premature to get too far into the details, only because we still have an open exchange outstanding. So, want to be careful not to go too far down that path. But I guess what I'd reiterate is, you know, the extension of the 25 into this, this new 26 is pretty excited about just the support we had there. You know, 97% early adoption rate.

I think the market response that we're getting from the debt side is pretty supportive and provides a lot of just confidence in what we're doing. So the whole purpose of that exchange is really just add some optionality and flexibility with a number of balls in the air here at the same time. So, you know, think it's just kind of prudent path forward. But you know, we do expect to take them out and not too distant future. And you know, I think you'll see that kind of playing out here over the next couple quarters, and we'll be able to shed more light as we as we move forward.

Gregg Brody
I appreciate that. And then just shifting gears to MRL, I know you have some -- were you going to say something, David?

David Lunin
Oh, sorry, no.

Gregg Brody
I thought I heard someone talking. Just MRL, the catalyst replacement this quarter, what should that do for volumes, in terms of your throughput for the quarter? What type of utilization should we expect? And then, just along the idea of volumes, you touched on -- I heard two things. One, the reactors will be there in no time. And then, actually a couple things. By ‘26 you would have the first phase done, but I also heard you say two years. So how should we think about the ramping of volumes there, sort of volumes in fourth quarter and then as we see volumes ramping as we get to phase one?

Todd Borgmann
Sure, it's Todd. I'll take the first shot, and then let's get Bruce to kind of dive in. I think, on the time, and you were mentioning first the 2026 and then, and then, kind of the reactors there. Really, what we're trying to talk to here is just the risk of the project. It's within our control. You know, it still takes a while to move a giant reactor from the Gulf Coast up to Montana, make sure everything's, you know, safe, engineer the tie ins, stand it up. It's just not a complex, you know, high risk maneuver, but it certainly still takes some time.

So that's kind of the difference, probably, that you're sensing when we talk about the control we have over the project and the confidence in it. And then, why does that, you know, take a year or two, right? So hopefully that bridges that gap.

Bruce Fleming
Yeah. And then on the fourth quarter volume question, it's Bruce again, you know, look real rough farmers' math here. If we have a 30 day oil to oil production outage for the catalyst change and, say that the quarter is going to be two thirds of a quarter, you're going to be in the ballpark.

Gregg Brody
Great. And then, I think just one question for you going back to Montana Refining. There's been some headwinds this year, and I'm curious how you see that turning around to get to a what you think is a mid-cycle number, do you think the mid cycle has potentially changed?

Bruce Fleming
Well, you know, mid cycle is mid cycle. So no, we don't think that's potentially changed. Over time, there's a little bit of an upward bias. The industry follows cost inflationary pressure up. And in terms of the local performance, we're actually pretty excited that we've got our asphalt retail business lined out. You know, we made a substantive investment there a couple of, kind of 20 months ago, let's say, and, we're really seeing that come back.

The fact that 40% of a crude barrel at that refinery comes out as a super high quality asphalt means that we focus differently than on clean product cracks. And so, we've done a number of things to enhance and optimize around that 40% of the barrel. Clean cracks are going to go where they go, but you know, in the northern tier along the Canadian border, there's a strong spring planting and fall harvesting season, and so we're much more diesel tilted. I would at least suggest that if you want to model that part of the world, pay attention to the diesel crack, not the 321, crack.

Gregg Brody
And that's it for me, guys. Thanks for the time.

Todd Borgmann
Thanks, Greg.

Operator
Our next question will come from Adam Wijaya with Goldman Sachs. You may now go ahead.

Adam Wijaya
Hey, good morning, team, and thank you for taking my questions. Wanted to ask my first one just on the base business. I guess, two parts to this question here. Where are we from a mid-cycle margin perspective? And then as you think about the asset portfolio, is there anything on the organic growth side that we should be mindful of? Or on the flip side, is there anything on a potential asset sale that we should be thinking about as we head into 2025 with all the announcements around MaxSAF?

Todd Borgmann
Adam, it's Todd. Let me start and see if you get Scott to jump in on some of the margins. I think right now, you've seen this year, it's probably played out currently an outlook slightly below mid-cycle, I'd say, you know, particularly on the fuel side that you've seen throughout industry. Been just super proud of our commercial organization and their ability to really raise what we think of as the specialties mid-cycle level.

If you went back five, six years ago, you'd see that dollar per barrel and kind of our specialty margin slide around $40, $45, and now you're seeing it pretty consistently between $60 and $70, even in a pretty soft commodity environment that we're in right now. So, it's a real testament to the team and all the work they've done over the past couple of years on that.

As far as organic growth and asset sale, and let's get Scott to pile back on to that original, you know, the margin comments, we have some organic growth opportunities outstanding that we're pretty excited about. Our first focus is de leveraging. So, I think as you see us manage our capital, we'll be allocating our capital towards de leveraging, you know, first and foremost.

Of course, we do have, you know, high-hit, low-risk, high return kind of optimizations. There's always a number of those that pop up every year, but I don't think there's anything that would be of note to talk about a specific big project. You know, as we move forward and think about life after, you know, Montana Renewables' partial monetization, or something like that. When, when our when our balance sheet is, you know, completely soft then, yeah, we've got some really interesting organic and organic growth projects, and we look forward to getting to that state and focused on it clearly.

I think your third part was asset sale. And you know, can it be part of the plan? Sure, I think an asset sale M&A should always be part of the plan. Always part of the thinking. It's not our goal to simply be a hoarder of asset. You know, we're going to win in the long run because we compile a group of assets that that work together well and are worth more in a combined system than they are as individual businesses. So, I think M&A asset sales are always in the conversation.

I also say not trying to forecast that we have anything imminent or something like that to talk about just, just to highlight that it's always in our thinking and, you know, we're focused on shareholder value creation, we can sell anything that's worth more to somebody else that is to ourselves. So that's just the way we think about it. But anyway, Scott, back to margins. Any more on how we see the world?

Scott Obermeier
Yeah, Adam, let me toss out a couple of quick things. So, in terms of the margin, I think if we look at it in the two broader buckets on the fuels piece as we're all aware, crack spreads have been dropping this year, and now fallena little bit below mid cycle. And we're entering the difficult, Q4 seasonality, so on the fuel side, a little bit below mid cycle.

On the specialty side, and to Todd's point, certainly there's some macro pressure out there with seasonality, and what's going on with the economy and some global geopolitical challenges. But we've really taken the business, Specialty products piece from a $40 barrel up to, at one point, into the $80s. But we've called out that mid cycle is probably between somewhere between $60 and $70. Q3 came in at high end of that mid cycle. Q4 will probably be a little bit more at the lower end of that. But we've really step changed the margin.

And just maybe one comment for me on the inorganic and the organic, I think on the organic growth piece for the specialties business, Adam, as we look at our balance sheet, we've really had to do some low risk, low capital, quick return, high return type of IRR organic investments, and it's been very successful. On the inorganic side, we have ideas, and we talk about it. And as we continue to work on our balance sheet, I think those will come into the picture a little bit with more clarity.

Adam Wijaya
Got it that is super helpful. Color. Thanks, guys. I guess my last question is just on MRL, so maybe we could switch gears to that. On the feedstock side of the equation, is there anything you would

highlight as to how feedstock costs are trending right now? And then, given Montana's strategic geographic position and putting into context the SAF expansion, what's the outlook on the feedstock side of the equation going forward? Thanks.

Bruce Fleming
Hey. Adam. Bruce. So, the volume outlook is we're not concerned about it. Montana Renewables sits in the middle of a really large production area for these kinds of feed stocks. There's a lot of diversity, and we're actually dynamically optimizing as those feed classes move around relative to each other. So, then you come to the price in a way, the view that we have is all of these feeds over a reasonable, short time scale are going to be arbitraged based upon their carbon intensity.

So the prices will be different, but if I focus you on margin, the margin add is not as differentiated as the price. As a margin ad business, we're floating on the flat price. So, the secular decline for two years now in the in the flat price, everybody's ridden that down. That does show up on a lot of balance sheets. And we have talked in the past on this call about gains or losses from short term price movements. But in the long run, we don't think that's a structural concern for the industry.

Todd Borgmann
Let me pile on with just one more thought. Adam, as we think about change to PTC, you know, our competitive advantage from location that we've obviously spent a lot of time thinking about and talking about publicly, we think that actually grows. So, volatility in the near term, you know, the whole industry is going to have to figure out how this works and feed stock prices will have to adjust, and everybody will get used to the new system, right?

So not trying to signal anything here for the next couple of months, but I think as we see the PTC play out, a business like Montana Renewables that is based on a core competitive advantage of really flexibility has a lot of options here that maybe some others don't, you know. So, so we can sell our product into Canada, for example, that has different rules. So, there's a potential of buying kind of discounted feed stocks that maybe aren't worth as much to the to the normal kind of average US producer that they could have standalone value to Montana Renewables.

We have SAF that obviously runs in a different -- operates in a different way when it comes to the PTC. So, I think just the flexibility that we have in in market products, in market geographies, our ability to take advantage of state credits and the ability to access a wide variety of different feed stocks, we should see that really play into our favor as we shift into a world that adds kind of more complexity with the PTC.

Adam Wijaya
Got it super helpful. Thanks guys.

Operator
Our next question will come from Amit Dayal with HC Wainwright. You may now go ahead.

Amit Dayal
Thank you. Good morning, everyone. With respect to this $150 million equity raise, guys, is that already underway, that process, you know, in terms of taking care of the tranche one side of things?

Todd Borgmann

Yeah, it's, you know, we're not expecting, Amit -- this is Todd, by the way. Thanks for the question. We're not expecting to have, like an additional process for it. If you think back to some of the financing that we've already done here in the not too distant past, you know, it's probably not major coincidence that you see $150 in one of them. So, you know, I think we've expected that this is going to come. We've been working on this for a while and have planned accordingly.

So, kind of like I said a little earlier, we're not planning -- we've got some questions from investors around, hey, are you going to go raise equity for this $150 million if you have to do a quick sale of Montana Renewables to raise this? And the answer is, no. The existing investors of Montana Renewables plan to do this. Now, the second point is, we always have flexibility, and we've talked about kind of monetization, partial monetization, of Montana renewables at the right time, whenever that is. So just wanted to draw out or point out that it shouldn't be tied mentally to this first $150 million

Amit Dayal
Okay, thank you for that color. Appreciate it. And just, can you maybe remind us, you know, 3Q ‘23, MR adjusted EBITDA was quite a bit higher. Was there any one time type of benefit in that quarter that, you know, provided those kinds of --

Todd Borgmann
-- No, no. So, remember, you know, the index margins have been $2 a gallon in Renewable diesel for decades, you know, for years until the RBO reset occurred, you know, late in the year. So, what you see in Q3 last year is really, even though we weren't running at that point in time nearly as well as we are now, and we still had some clean feed in the system and all of that, that just represents a couple months before we saw index margins kind of fall apart after the RBO. So that's all you're seeing in those Q3 numbers. And we think it represents, you know, the earnings power of this business, because that was a period where, if you remember, we weren't operating all that well, and still were able to post those numbers in a more normal margin environment.

Amit Dayal
Yeah. I mean, the contrast is so, you know, so, so broad. I wasn't sure whether it was just pricing or if there were any other factors. But yeah, it's good to see you know that the business has this level of potential for cash flows. That's all I have, guys. Thank you so much for taking all the questions offline. Thank you.

Todd Borgmann
Thank you.

Operator
Our next question will be a follow up from Jason Gabelman with TD Cowen. You may now go ahead.

Jason Gabelman
Hey, I want to ask yet another policy question. Sorry about that. Wondering what your outlook is on small refinery exemptions. If you could just remind us the litigations that are ongoing and if those impact future administration's abilities to grant those SREs.

Bruce Fleming
Hi, Jason. Bruce. So, the fact that this is a difficult subject to administer means that, we're tracking 29 lawsuits. We're not party to 29 but we're tracking them, andthere have been circuit splits,

several of these things have elevated to the Supreme Court. So, I think, our view is we'll have some statesman like solutions that kind of damp all of this down.

Will that include some kind of inhibition for the small refinery exemption? No, that's going the other way. The suits that we are a party to, we are winning, and the courts are saying that the law is clear. We're entitled to these we qualify on the merits. And we're not concerned about the future of the program.

Jason Gabelman
Got it, and I think some of the previously approved and then rescinded SREs were put forth to the EPA to be re-approved. I'm not sure if you're part of that group, and if you are any expectation on timing there.

Bruce Fleming
I would not set any expectation on timing for either the legal process or the EPA. You know, our interest is in helping the EPA get these things to be technically correct, to be validly assessed. And, the law requires they consult with the Department of Energy. Todd said earlier that's an agency we've got a lot of confidence in. So, we think this will play out. I'm assuming we're talking months not years, but I don't want to have an opinion on work done by others.

Jason Gabelman
Understood. Thanks for those answers.

CONCLUSION

Operator
This concludes our question and answer session. I'd like to turn the conference back over to John Kompa for any closing remarks.

John Kompa
Thanks, Anthony. On behalf of the management team, I'd like to thank everyone for the time this morning and continued interest in Calumet. Have a great weekend. Thank you again very much.

Operator
The conference is now concluded. Thanks for attending today's presentation. You may not disconnect.