S&P Global
Market Intelligence

Delek US Holdings, Inc.

NYSE:DK

Earnings Call

Tuesday, August 6, 2024 5:00 PM GMT

Call Participants

EXECUTIVES

Avigal Soreq
President, CEO & Director

Joseph Israel
Executive Vice President of Operations

Mark Hobbs
Executive Vice President of Corporate Development

Reuven Avraham Spiegel
Executive VP & CFO

Robert Wright
Senior VP & Deputy Chief Financial Officer

Mohit Bhardwaj
Senior VP of Strategy and Growth

ANALYSTS

Jason Daniel Gabelman
TD Cowen, Research Division

John Macalister Royall
JPMorgan Chase & Co, Research Division

Joseph Gregory Laetsch
Morgan Stanley, Research Division

Manav Gupta
UBS Investment Bank, Research Division

Matthew Robert Lovseth Blair
Tudor, Pickering, Holt & Co. Securities, LLC, Research Division

Neil Singhvi Mehta
Goldman Sachs Group, Inc., Research Division

Paul Cheng
Scotiabank Global Banking and Markets, Research Division

Roger David Read
Wells Fargo Securities, LLC, Research Division

Presentation

Operator

Ladies and gentlemen, thank you for standing by. My name is Desiree, and I will be your conference operator today. At this time, I would like to welcome everyone to the Delek Second Quarter Earnings Call. [Operator Instructions]

I would now like to turn the conference over to Robert Wright, Deputy CFO. Please go ahead.

Robert Wright
Senior VP & Deputy Chief Financial Officer

Good morning, and welcome to the Delek US Second Quarter Earnings Conference Call. Participants joining me on today's call will include Avigal Soreq, President and CEO; Joseph Israel, EVP, Operations; Reuven Spiegel, EVP and Chief Financial Officer; and Mark Hobbs, EVP, Corporate Development. Today's presentation material can be found on the Investor Relations section of the Delek US website. Slide 2 contains our safe harbor statement regarding forward-looking statements. Any forward-looking statements made during today's call involve risks and uncertainties that may cause actual results to differ materially from today's comments. Factors that could cause actual results to differ are included here as well as in our SEC filings. The company assumes no obligation to update any forward-looking statements.

I will now turn the call over to Avigal for opening remarks. Avigal?

Avigal Soreq
President, CEO & Director

Thank you, Robert. Good morning, and thank you for joining us today. During the second quarter, our adjusted EBITDA was $108 million. Despite a challenging market environment, we ran our operations well. I'm proud of the ongoing progress our team is making. Turning to our strategic priorities. As I have outlined on our previous calls, Delek key focus areas are: first, safe and reliable operations; second, unlocking the sum of the part value inherent in our system; and third, being shareholder-friendly and having a strong balance sheet. I will now focus on each one of these key priorities in detail. Sales and reliable operation is the core of everything we are trying to achieve. We have made further progress and achieved our highest throughput ever this quarter. Big Spring showed additional strong improvement and it's on track to meet previously communicated throughput and OpEx guidance. Joseph and Robert will provide more details on this.

Next, I would like to talk about the progress that we have made in our sum-of-the-part efforts. We have announced a series of transactions that will allow us to further improve our position as a safe, reliable and efficient refinery. On August 1, we announced the sale of our retail business for a total price of around $385 million. We are pleased with the transaction and the value it unlocks for DK shareholders. Our supply agreement with FEMSA is for 10 years. We are building a great relationship with the company and exploring additional strategic opportunities. We intend to use the proceeds from the sale to improve our balance sheet and return cash to stakeholders. Now I would like to cover the transaction between DK and DKL. We executed and amend and extend agreement. We have also decided to drop our interest in Wink to Webster into DKL. These agreements are a win-win for stakeholders of both companies.

From a DK perspective, it will bring value back to DK refineries. And from a DKL perspective, it allows DKL to acquire high-quality assets without significant strength on its balance sheet. Today, we also announced a number of transactions for DKL. This transaction will enhance DKL position as a full service crude, natural gas and water provider in the most prolific areas of the Permian Basin. DKL announced the FID of a new gas processing plant. The plant is synergetic, highly subscribed and expected to exceed 20% cash on cash return. We expect the plant to come online during the first half of 2025. On the M&A front, DKL announced the acquisition of H2O Midstream for around $160 million of cash and $70 million of convertible preferred. The transaction is immediately accretive to DKL on an EBITDA and free cash flow basis. Post-synergies, the transaction should be in the acquired multiple of around 5x.

These transactions put us on a path to Midstream independence and allow us to enhance the margin profile of our refineries and the asset quality of our Midstream businesses. The overall impact of the transaction announced by DK and DKL is cash infusion to DK of over $500 million on a stand-alone basis for little to no loss in EBITDA. For DKL, it adds high-quality third-party EBITDA of around $70 million, making DKL largely independent third-party Midstream service provider. These transactions move us closer along our path to midstream deconsolidation. We look forward to sharing with the market further steps we are taking on this road over the coming months. Next, I would like to highlight the progress we are making on our cost reduction efforts. When we announced our ZBB efforts, we had a target to reduce our cost by around $100 million. I am pleased to announce that we have completed this process ahead of time and are exceeding our original estimates. Robert will provide more details around it.

In addition, we are looking at ways to further increase the overall profitability of our company. The new project is not just about cost reduction, but it's about making DK structurally leaner and a more profitable company. We look forward to providing you with more details in the near future. The final piece of our strategy is our commitment to shareholder return and maintaining strong balance sheet. During the quarter, we paid $16 million in dividends. On July 31, the Board approved another half cent per share increase to regular dividend. Our quarterly dividend is now $0.255 per share. Before closing, I also want to highlight that the D.C. Circuit overturned the EPA denial of the small refinery exemption petitions under the RFS last week. Our petition has been sent back to the EPA for reconsideration. The case, along with the Chevron deference ruling give us important direction to the EPA as it reconsiders our request. We believe the EPA should grant us the exemption we deserve under the RFS rules. In closing, I would like to thank our entire team of 3,500 employees, especially our Delek retail employees. On a personal note, I started my journey in Delek back in 2011 in the Retail division and have special appreciation for their hard work and dedication.

Now I would like to turn the call over to Joseph, who will provide additional color on our operation.

Joseph Israel
Executive Vice President of Operations

Thank you, Avigal. We have discussed operations excellence in the past several quarters. And today, I'm very proud to share with you operating data results, which clearly reinforce our progress as operators and demonstrate improved capabilities of our assets. Bottom line for our second quarter, safe, compliant and reliable operations led the way to a record high throughput of 316,000 barrels per day and a favorable $5.02 per barrel cost structure for our refining system. In Tyler, total throughput in the second quarter was approximately 76,000 barrels per day. Production margin in the quarter was $10.11 per barrel and operating expenses were $4.83 per barrel. For the third quarter, the estimated total throughput in Tyler is in the 74,000 to 77,000 barrels per day range.

In El Dorado, total throughput in the quarter was approximately 85,000 barrels per day. Our production margin was $2.79 per barrel, driven by low-margin environment, increased backwardation and a relatively weak asphalt market. Operating expenses were $4.12 per barrel. After successfully demonstrating our crude oil flexibility in the first quarter, the team is pushing forward initiatives on the product side, including product diversification and logistics to support new market access optionality. Estimated throughput for the third quarter is in the 79,000 to 82,000 barrels per day range.

In Big Spring, the successful execution of the recovery plan is well reflected in our results. Total throughput for the quarter was approximately 74,000 barrels per day. Our production margin was $8.92 per barrel, and our operating expenses were $6.35 per barrel as we approach our $5.50 per barrel target range later this year. We successfully completed a benzene striper project at the Big Spring refinery, which supports consent decree requirements related to benzene in wastewater. We remain focused on people, process and equipment to ensure progress in operation stability. Estimated throughput for the third quarter is in the 69,000 to 73,000 barrels per day range.

In Krotz Springs, total throughput was approximately 82,000 barrels per day. Our production margin was $7.02 per barrel and operating expenses in the quarter were $4.95 per barrel. Planned throughput for the third quarter is in the 79,000 to 83,000 barrels per day range. The team is in final stages of preparations for our fourth quarter turnaround. Our implied system throughput target for the third quarter is in the 301,000 to 315,000 barrels per day range.

Moving on to the commercial front, improved the challenged supply/demand balances in the Midwest negatively impacted second quarter growth differentials for products and our Asphalt netbacks. For the quarter, we reported a $34 million loss for Supply and Marketing. Of that, approximately $17 million loss was generated by wholesale marketing, $5 million loss was contributed by Asphalt leaving approximately a negative $12 million contribution for supply. In summary, after successfully addressing reliability gaps, our teams continue to focus on operational excellence and at the same time, advance process, logistics, and commercial optimization initiatives for each one of our sites.

I will now turn the call over to Robert for the financial variance.

Robert Wright
Senior VP & Deputy Chief Financial Officer

Thank you, Joseph. I will now move to Slide 10. For the second quarter, Delek had a net loss of $37 million or negative $0.58 per share. Adjusted net loss was $59 million or negative $0.92 per share and adjusted EBITDA was $108 million. On Slide 11, the waterfall of adjusted EBITDA from the first quarter of 2024 to the second quarter of 2024 shows that the primary driver for lower results was from refining. The $64 million decrease in refining is primarily attributable to a lower margin environment in the second quarter relative to the first quarter. Logistics had another strong quarter delivering $101 million in EBITDA. Finally, the lower expenses in corporate are primarily due to our cost reduction efforts.

Moving to Slide 12 to discuss cash flow. Cash flow from operations was negative $48 million. Within this amount is our net loss for the period in addition to an outflow of $37 million related to working capital movements, including the inventory intermediation agreement. Investing activities of $63 million is largely for capital expenditures. Financing activities of $15 million reflects the 2029 DKL tack-on offering in addition to timing of accruals. This also includes $16 million in dividend payments and $14 million in distribution payments. On Slide 13, we show the actual results of the 2024 capital program and full year 2024 forecast. Second quarter capital expenditures were $71 million. Half of this spend was in refining, primarily addressing sustaining and regulatory projects. As for the full year outlook for 2024, the original capital plan is on track at $330 million outside of the recent gas plant announcement.

Net debt was broken out between Delek and Delek Logistics on Slide 14. During the quarter, we drew $96 million of cash and paid down $35 million of debt, ending the quarter with a net debt position of $243 million, including a cash balance of $658 million. Slide 15 covers all the items. In addition to the guidance Joseph provided for the third quarter of 2024, we expect operating expenses to be between $205 million and $215 million, and G&A to be between $60 million and $65 million. Our third quarter outlook for operating expenses and G&A is around $272 million. As Avigal mentioned, this exceeds our original target of $100 million in savings through our cost reduction efforts on a run rate basis. As to other guidance, D&A is expected to be between $90 million and $95 million and net interest expense to be between $80 million and $85 million.
We will now open the line for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Manav Gupta with UBS.

Manav Gupta
UBS Investment Bank, Research Division

Guys, since you just spoke about it, I'm going to start with slide 14 itself. I'm trying to understand here, obviously, there's a big difference between Delek debt and consolidated debt. And so what more can be done in this year so eventually, you basically get to a situation where those 2 numbers start converging and you're not holding on to this additional debt. So trying to understand what can more be done to deconsolidate that debt here?

Avigal Soreq
President, CEO & Director

I will start with giving highlights overview of what we are trying to do, and I will get exactly to the point you just mentioned. As you see in this quarter, we have an unwavering commitment to show investor both the DK and DKL, the value of sum of the parts and we were driving to this target very aggressively. We are able to do in the same quarter to build, buy, sell and deal with a conflicted transaction between DK and DKL, all of that at the same time. That's a huge testimony of our commitment to bring that value to stakeholders along with strong execution to do all of that at the same time. To be more specific, Manav, you remember, I've said it over and over last quarter that the availability of over $800 million we created during March and April earlier this year will create the ability to go to the next step. That's exactly what we did this quarter.

From a DK standpoint, we improved cash balance. We have a minimal impact on EBITDA. And what we basically did on the third point of the DKL, we did economical swap of assets, basically moved one asset from one company and to another company in vice versa economically and put everything on the right bucket and making ourselves deconsolidation ready. That's huge. From a DKL standpoint, while doing all of that, we're able to grow the EBITDA, increased third-party income and have 7-year contract extend, huge steps. In the future, you will see us taking additional steps towards deconsolidation. So that was a huge quarter for us and more to come.

Manav Gupta
UBS Investment Bank, Research Division

So you mentioned about putting the right assets in the right bucket. And one of the things where delegated out is like the EBITDA per barrel is less competitive versus some of your peers. So trying to understand, based on the transactions you have done with DKL, are some of those assets now going to sit within refining. So the capture or for the matter, like on a same crack environment should we expect a better EBITDA per barrel now that assets are in the right buckets.

Avigal Soreq
President, CEO & Director

Yes, Manav, you got it exactly right. We were bringing back the value over time while growing at DKL, and that's going to improve the DK capture rate in refining. So that's exactly what we'd like to do, and you got it exactly right. So, DK and DKL are going to be deconsolidation ready. You got it exactly right.

Manav Gupta
UBS Investment Bank, Research Division

The last very quick one. On SREs, help us understand what your position is, why you feel you should be given those SREs? And to be honest, like does it really, really matter if the price is $0.50 crude a gallon.

Avigal Soreq

President, CEO & Director

So we were very pleased with the court ruling 10 days ago, it was on Friday. I think the court made the right decision, and that's something we need to get and I hope we will get.

But Mohit, why don't you give some more color around that?

Mohit Bhardwaj
Senior VP of Strategy and Growth

Yes, Manav, I think from our company standpoint, if you look at the Fridays ruling from D.C. Circuit Court, it was a very positive move from 2018 to 2020, I'm just going to give you some facts about how it has played out for us. From 2018 to 2020, 9 petitions were denied for us. And in order for us to meet the requirements under the RFS, we spent approximately $300 million during that time. We are still eligible after 2021 to apply for more SREs, but we have not done that. But between 2018 and 2020, we spent $300 million to meet our obligations under the RFS requirement. We don't know what's going to happen from here. EPA can appeal more, but we think this court ruling is extremely positive, and that's how we are doing it so far.

Manav Gupta
UBS Investment Bank, Research Division

Congratulations to Mohit on his new role. **Operator**

Our next question comes from the line of Joe Laetsch with Morgan Stanley.

Joseph Gregory Laetsch
Morgan Stanley, Research Division

Congrats on progressing the sum of the parts efforts here. So I know you touched on it a bit in the prepared remarks, but I'm just hoping to dive into a little bit more on the use of proceeds from the transaction. I know you mentioned putting towards the balance sheet, how much is there to go on that front?

Avigal Soreq
President, CEO & Director

We have communicated in the past about our cash allocation strategy. Just to remind everyone, dividend maintained strong growing dividend throughout the cycle. We just increased our dividend again by 2% these last few days. So, we are very proud of our ability to maintain sustain and grow our dividend. We have a balanced approach between improving the balance sheet and the buyback. We see a lot of value in our share price, and we'll give more details on that once transactions are closed late Q3 early Q4.

Joseph Gregory Laetsch
Morgan Stanley, Research Division

Just a quick follow-up. How should we think about the tax implications from the recent transactions?

Reuven Avraham Spiegel
Executive VP & CFO

On the retail front, there will be some tax leakage, it's not material, but we are working on the structure to minimize that. As far as the related party transaction, the taxes are residual.

Operator

Next question comes from the line of Neil Mehta with Goldman Sachs.

Neil Singhvi Mehta
Goldman Sachs Group, Inc., Research Division

Congrats on the announcement today. I guess the new corporate structure really does help to simplify things in a way that I think it could be easier to do larger scale M&A at the DKL level. I'd just be curious on does this get you one step closer to deconsolidation?

Avigal Soreq
President, CEO & Director

Yes, absolutely. That's the whole point of this deal. We are putting the right asset economically under the right ownership and right structure. I think, for the first time, we are showing that DKL, by the second quarter of 2025, is going to be largely 2/3 third-party income. So that's a huge step in making a real full value for all those assets. So, the answer is absolutely. That's our intention. We have an asset in a premier location in the Permian Basin, and we are providing all products around crude, water and gas and very proud of the clear strategy that we have for DKL and that value and M&A will reflect itself over time.

Neil Singhvi Mehta
Goldman Sachs Group, Inc., Research Division

And the follow-up is on Slide 9, it is helpful to see the margins by asset. And there's a lot of dispersion here. El Dorado seems like it had a little bit of a tougher quarter and Tyler and Big Spring performed very well. So when you look at that spread, what stands out to you? And how does that affect the way we should think about the go forward?

Avigal Soreq
President, CEO & Director

There is extreme focus of El Dorado in terms of commercial improvement because the asset is performing very well operationally.

But Joseph will give more color around it.

Joseph Israel
Executive Vice President of Operations

Similar to our peers in the second quarter, we faced the following headwinds. One was low margin, including the lower capture that comes with it. Two is increased backwardation, which increased our crude acquisition price; three, core product weakness, which for us, in El Dorado is mainly asphalt -- similar to our Midwest refining peers, we faced an oversupplied Middle East market with the under seasonal trends for group list. On a strategic level, I want to make it very clear. We're very happy with our configuration. We believe it's healthy upstream and downstream. The team is doing a great job operating and optimizing the plants on a consistent basis.

Our opportunity is clearly around alternative market access when the group is low. So what we have done so far, we identified those strategic market destinations and we are now executing on the logistics and product offering aspect of that execution. This is not rocket science, and I'm expecting in the next earnings call, we will be able to demonstrate actual progress and talk about overly past forward. And one last thing, I'll say the obvious we are 5 weeks into the third quarter and the Midwest balances have improved. And we definitely see the positive impact on both the refinery and the wholesale margins.

Operator

Next question comes from the line of Matthew Blair with TPH.

Matthew Robert Lovseth Blair
Tudor, Pickering, Holt & Co. Securities, LLC, Research Division

I want to jump into the supply and marketing improvement in the second quarter. Could you talk about what helped you out there? And then Joseph, I think you touched on it a little bit. It sounds like the outlook for Q3 is improving on the wholesale side. What about the Asphalt side, do you expect some tailwinds from lower crude prices in Q3?

Avigal Soreq

President, CEO & Director

We do see an improvement.

But Joseph will touch on that a bit more, please, Joseph.

Joseph Israel
Executive Vice President of Operations

On the wholesale marketing, again, when the Midwest market is not flooded with markets, we have better options on pricing and moving the product and you will see our results improving. On the Asphalt side, we had a rough start of the Asphalt season this year with the wet-weather conditions that made the roofing and paving challenging, we're expecting to go back to the normal range.

Matthew Robert Lovseth Blair
Tudor, Pickering, Holt & Co. Securities, LLC, Research Division

And then on the renewable diesel side, I think at one point, there was hope that, that plant in Bakersfield would start up in the first half of the year. Has that happened yet?

Avigal Soreq
President, CEO & Director

So it didn't happen yet.

Maybe I will let Robert answer that question. He's closer to that.

Robert Wright
Senior VP & Deputy Chief Financial Officer

I think it's something we are monitoring. We have ongoing dialogue with them. Obviously, we're monitoring their publicly filed information. And today, no decision has been made, and no decision has to be made until they meet some of the requirements of the plant coming up and running.

Operator

Our next question comes from the line of John Royall with JPMorgan.

John Macalister Royall
JPMorgan Chase & Co, Research Division

Congrats on the transactions today. I'd like to start with just a high-level sum-of-the-parts question. It's been a flurry of announcements with retail and several incremental items with this print. How close to complete do you think you are with the sum of the parts effort after these deals are closed. You've mentioned more to do on the deconsolidation side of DKL and presumably also on the third-party side to get that entity to fully third party. So can you talk about what inning you're in and anything else you can offer on the next steps.

Avigal Soreq
President, CEO & Director

So in order to get all of those deals done and you know that you're close to the story long enough, you need to make sure the right assets are in the right bucket, and we are starting to make those separation as we speak. While doing that, we maintain and grow the DKL EBITDA to make it a third-party dominant and to make it ready for next steps. All of those steps were completed, and we are ready to deconsolidation when the right opportunity presents itself.

Mark, please, if you want to add anything around that. He was very close to those deals and was able to build, buy, sell and deal with all those intercompany transaction, all of that on the same time.

Mark Hobbs
Executive Vice President of Corporate Development

I think you highlighted it and I appreciate that. But the transactions that we've announced at DK and DKL last week and today, they do mark significant progress on our sum-of-the-parts journey. As you know, we've highlighted and are extracting the value of our retail operations. But I think importantly, which has already been cited on this call is through the DK, DKL related announcements, we're reducing that interdependence between DKL and DK. And with Wink-to-Webster dropping, the expansion of the gas processing capacity in the Delaware, the purchase of H2O Midstream, combined, they will add substantial third-party business to DKL. I think as we consider deconsolidation down the road and the pathway for that, we're in a much better position than we were prior to these announcements.

John Macalister Royall
JPMorgan Chase & Co, Research Division

And then my follow-up is just on the cost side. I think you've mentioned moving into a Phase 2 of taking out costs after completing the $100 million early. Is there any detail you can give us on that second phase? And what might be some of the components of those savings? And anything in order of magnitude relative to the first $100 million?

Avigal Soreq
President, CEO & Director

So we are taking that very seriously. It's going to impact more aspects of the business. We didn't give guidance around that, but everything is in motion and we'll be more specific around that very, very soon. So stay tight.

Operator

Next question comes from the line of Roger Read with Wells Fargo.

Roger David Read
Wells Fargo Securities, LLC, Research Division

I have my congratulations on progressing the sum of the parts restructuring here. Maybe this question is for Joseph. You've been working hard to get Big Springs up. You had made the comments here earlier about some work around El Dorado. But as we think about bringing the support pieces back into, I believe, 3 of the 4 refineries, what's the right way for us to think about that in terms of enhancing the cash flow or EBITDA generation of these units?

Joseph Israel
Executive Vice President of Operations

Are you asking about all refineries or El Dorado and Big Spring specifically?

Roger David Read
Wells Fargo Securities, LLC, Research Division

Well, I was more exciting, I think, the progress at Big Spring. You mentioned El Dorado, but I was just curious, as we think about deconsolidating DKL and bringing the assets back in, I'm presuming that's also going to be margin-enhancing. So the progress you've made, the other changes you want to make, and then what's the right way to think about margin enhancement from bringing the support assets back into DK?

Joseph Israel
Executive Vice President of Operations

So it is amazing when fixed reliability, not only the throughput aspect in the calculation and the OpEx are more favorable in the contribution. It is amazing what we can do and what we are doing with our leadership teams as far as handling all the optimization opportunities for each one of the sites and this is what we basically switch to do. We have more octane capability where we can drive more other both from Big Spring to the right payer markets. We can sell more higher octane products, including aviation fuel from Tyler, we can convert some of the diesel we make to jet fuel. And this is what the system is driving this day. This optimization.

Mark do you have more to add?

Mark Hobbs
Executive Vice President of Corporate Development

Roger, I guess to your question, and I know Avigal stressed it a little bit earlier on the call, but the announcements between DK and DKL, you're exactly right. I mean they're effectively an economic exchange of assets, not a physical exchange of assets, but amending and extending the contracts accomplished a couple of things, the extension of the contracts for up to 7 years, frankly, removes a pretty big overhang on the DKL units and the uncertainty that we know existed in the market with respect to those contracts. But importantly, it also means that through the amendment of the contracts that we're improving the overall DK refining profitability going forward and enhancing future capture rates. And to your point, that does touch specifically Big Spring, El Dorado and Tyler over time to the moves that we've announced today.

Operator

Next question comes from the line of Paul Cheng with Scotiabank.

Paul Cheng
Scotiabank Global Banking and Markets, Research Division

Can you quantify for us that share with us with the contract expansion, how much is the lower fee that the DK will pay to DKL on a per year basis? And also I think maybe either I missed it or you didn't disclose what's the price that you'll sell the Wink and Webster pipeline down to DKL. We saw in your presentation, you're saying the DKL transaction, net cash, $130 million. Should we assume that is the selling price? And what is the EBITDA associated with Wink investment that you're currently are receiving? That's the first question.

Avigal Soreq
President, CEO & Director

You cannot assume that W2W value is basically it's a one-off series of transaction between DK and DKL, and we provide you guys the net number. So you cannot just assume that number. So the value of W2W, there is a market for that, and it's a pretty straightforward about the valuation of that asset. You need to assume that we reduced over time, the contract between DK to DKL in the order of -- it's going to be over time of order of magnitudes of $60 million that's going to come from DKL back to DK, while DKL is building the EBITDA with the deal we announced. So all in all, DKL EBITDA are going to grow. The capture rate in DK going to look and be better because of the valuation of $60 million that we have. And we still have like 20% of the contract down the road to a deal between DK to DKL. That's the full picture.

Paul Cheng
Scotiabank Global Banking and Markets, Research Division

So you're not going to disclose to us that what's the actual selling price or drop-down price for Webster and also the contract extension, I suppose.

Avigal Soreq
President, CEO & Director

Unfortunately, I can't.

Paul Cheng
Scotiabank Global Banking and Markets, Research Division

The second question is for Joseph. Big spring that you've been working on the restructuring and improved optimization as of now that is all the effort essentially done and other than, say, you're talking about how you may be still looking at saying different products to different markets. Other than that, from a manufacturing standpoint, there's all the changes or order improvement you're trying to make is already done at this point?

Joseph Israel
Executive Vice President of Operations

I think on the cost structure, we guided the market the 5.50 target. And this quarter, we have about $0.85 per barrel over that in Big Spring. So the reason is we have several special programs still going on for long-term improvements. As they go away by year-end, we will be at the 550 target, and we believe that will be sustainable. Now to the point I made before, when you stop playing defense, you can start working on your offers. And we have a lot of great ideas in Big Spring. It's a great asset, and we have a lot of room there on the octane side and the feedstock side that we will look very closely and move forward.

Operator

And our last question comes from the line of Jason Gabelman with TD Cowen.

Jason Daniel Gabelman
TD Cowen, Research Division

I'm going to try this again on what Paul just asked in terms of some of the EBITDA contributions. And if I look at what you've disclosed for the DKL transactions, H2O is $45 million of EBITDA. The gas processing plant, call it, $25 million, $30 million of EBITDA. So that kind of gets you to that projected $70 million of EBITDA for DKL. And it implies that then Wink-to-Webster offsets the DK contract amend and extend. Is that the right math? Or is there something off there?

Avigal Soreq
President, CEO & Director

So Jason, I think it's a good opportunity to do a follow-up with Mohit, we see more value in the gas plant, for example, and there is more EBITDA that comes back between DKL back to DK. I said that to Paul, it's around $60 million over time. It's not all of that day 1. So, we didn't give specific numbers on each one of the transactions, and that's the reason we made sure that the strategy is clear to you and others that we want to make sure that the right ownership is in the right place, and we are improving capture rate while growing DKL. That's the objective. And if you look at it holistically, we have tried, I think we achieved for the most part, to achieve on the same quarter deconsolidation ready while making a clearer separation between companies. That's what we're after. That's in our mind, a very, very important step, both for a stakeholder and unitholder.

Jason Daniel Gabelman
TD Cowen, Research Division

And when you say $60 million of value over time, how many years do you expect that to take?

Avigal Soreq
President, CEO & Director

We're not going to get into the details, but I encourage you to get with Mohit and get some more detailed questions.

Jason Daniel Gabelman
TD Cowen, Research Division

And then my other question is just once again on use of proceeds. Your interest expense is -- it looks pretty high right now and in terms of improving the cash flow of the parent company. It seems like that's a great place to attack. So is that priority one? And why is there hesitant right now and just kind of talking through the use of proceeds?

Avigal Soreq
President, CEO & Director

So there is a process according to our strategy. And obviously, when we are looking on free cash flow, we always look at that on mid-cycle. So mid-cycle free cash flow looks great to our expectation. We have ability to do everything we need and to have a good return to investors. So, we are very confident in where we are and looking forward.

Operator

That concludes the question-and-answer session.

Mr. Avigal Soreq our CEO, I turn the call back over to you.

Avigal Soreq
President, CEO & Director

Thank you for joining us today. Thank you for the management team around the table for the extreme focus and execution around here. Thank you for our employees and the Board of Directors, you, the investor, and a special thank you for the retail employees for a long time being with us, and welcome to the H2O team that is joining our family today. We'll talk again in the next quarter. Thank you.

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