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Marathon Petroleum Corp
Form 10-Q
August 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the Quarterly Period Ended June 30, 2017

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

For the transition period from _____ to _____
Commission file number 001-35054
Marathon Petroleum Corporation
(Exact name of registrant as specified in its charter)
Delaware 27-1284632
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

539 South Main Street, Findlay, Ohio 45840-3229
(Address of principal executive offices) (Zip code)
(419) 422-2121

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Emerging growth company ☐

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

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

There were 506,253,878 shares of Marathon Petroleum Corporation common stock outstanding as of July 27, 2017.

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Unless otherwise stated or the context otherwise indicates, all references in this Form 10-Q to “MPC,” “us,” “our,” “we” or “the Company” mean Marathon Petroleum Corporation and its consolidated subsidiaries.

GLOSSARY OF TERMS

Throughout this report, the following company or industry specific terms and abbreviations are used:

ATB	Articulated tug barges
barrel	One stock tank barrel, or 42 United States gallons liquid volume, used in reference to crude oil or other liquid hydrocarbons.
bcf/d	One billion cubic feet per day
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization, a non-GAAP financial measure
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
GAAP	Accounting principles generally accepted in the United States
IDR	Incentive Distribution Rights
LCM	Lower of cost or market
LIFO	Last in, first out, an inventory costing method
LLS	Louisiana Light Sweet crude oil, an oil index benchmark price
mbpd	Thousand barrels per day
MMBtu	One million British thermal units, an energy measurement
MMcf/d	One million cubic feet of natural gas per day
NGL	Natural gas liquids, such as ethane, propane, butanes and natural gasoline
NYSE	New York Stock Exchange
OTC	Over-the-Counter
ppm	Parts per million
RIN	Renewable Identification Number
SEC	Securities and Exchange Commission
ULSD	Ultra-low sulfur diesel
USGC	U.S. Gulf Coast
VIE	Variable interest entity
WTI	West Texas Intermediate crude oil, an oil index benchmark price

Part I – Financial Information

Item 1. Financial Statements

Marathon Petroleum Corporation

Consolidated Statements of Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share data)	2017	2016	2017	2016
Revenues and other income:				
Sales and other operating revenues (including consumer excise taxes)	\$18,033	\$16,809	\$34,167	\$29,563
Sales to related parties	147	2	301	3
Income (loss) from equity method investments	83	(50)	140	(28)
Net gain on disposal of assets	7	—	12	25
Other income	84	29	127	57
Total revenues and other income	18,354	16,790	34,747	29,620
Costs and expenses:				
Cost of revenues (excludes items below)	14,175	12,830	27,308	22,531
Purchases from related parties	150	124	272	231
Inventory market valuation adjustment	—	(385)	—	(370)
Consumer excise taxes	1,926	1,893	3,739	3,719
Impairment expense	—	1	—	130
Depreciation and amortization	521	500	1,057	990
Selling, general and administrative expenses	485	401	874	779
Other taxes	115	111	223	220
Total costs and expenses	17,372	15,475	33,473	28,230
Income from operations	982	1,315	1,274	1,390
Net interest and other financial income (costs)	(158)	(137)	(308)	(279)
Income before income taxes	824	1,178	966	1,111
Provision for income taxes	250	395	291	406
Net income	574	783	675	705
Less net income (loss) attributable to:				
Redeemable noncontrolling interest	17	9	33	9
Noncontrolling interests	74	(27)	129	(106)
Net income attributable to MPC	\$483	\$801	\$513	\$802
Per Share Data (See Note 7)				
Basic:				
Net income attributable to MPC per share	\$0.94	\$1.51	\$0.99	\$1.52
Weighted average shares outstanding	513	528	519	528
Diluted:				
Net income attributable to MPC per share	\$0.93	\$1.51	\$0.98	\$1.51
Weighted average shares outstanding	517	531	523	531
Dividends paid	\$0.36	\$0.32	\$0.72	\$0.64

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2017	2016	2017	2016
Net income	\$574	\$783	\$675	\$705
Other comprehensive income (loss):				
Defined benefit postretirement and post-employment plans:				
Actuarial changes, net of tax of \$4, \$3, \$7 and \$8	7	4	11	12
Prior service costs, net of tax of (\$4), (\$4), (\$8) and (\$9)	(6)	(7)	(13)	(15)
Other comprehensive income (loss)	1	(3)	(2)	(3)
Comprehensive income	575	780	673	702
Less comprehensive income (loss) attributable to:				
Redeemable noncontrolling interest	17	9	33	9
Noncontrolling interests	74	(27)	129	(106)
Comprehensive income attributable to MPC	\$484	\$798	\$511	\$799

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Balance Sheets (Unaudited)

(In millions, except share data)	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents (MPLX: \$293 and \$234, respectively)	\$1,450	\$ 887
Receivables, less allowance for doubtful accounts of \$10 and \$12 (MPLX: \$290 and \$304, respectively)	3,259	3,617
Inventories (MPLX: \$62 and \$55, respectively)	5,548	5,656
Other current assets (MPLX: \$31 and \$33, respectively)	186	241
Total current assets	10,443	10,401
Equity method investments (MPLX: \$3,368 and \$2,471, respectively)	4,823	3,827
Property, plant and equipment, net (MPLX: \$11,638 and \$11,408, respectively)	25,786	25,765
Goodwill (MPLX: \$2,245 and \$2,245, respectively)	3,586	3,587
Other noncurrent assets (MPLX: \$491 and \$506, respectively)	809	833
Total assets	\$45,447	\$ 44,413
Liabilities		
Current liabilities:		
Accounts payable (MPLX: \$512 and \$541, respectively)	\$5,307	\$ 5,593
Payroll and benefits payable (MPLX: \$0 and \$1, respectively)	395	530
Consumer excise taxes payable (MPLX: \$1 and \$3, respectively)	474	464
Accrued taxes (MPLX: \$38 and \$35, respectively)	177	153
Debt due within one year (MPLX: \$1 and \$1, respectively)	29	28
Other current liabilities (MPLX: \$125 and \$81, respectively)	376	378
Total current liabilities	6,758	7,146
Long-term debt (MPLX: \$6,666 and \$4,422, respectively)	12,577	10,544
Deferred income taxes (MPLX: \$7 and \$6, respectively)	3,923	3,861
Defined benefit postretirement plan obligations	998	1,055
Deferred credits and other liabilities (MPLX: \$196 and \$189, respectively)	627	604
Total liabilities	24,883	23,210
Commitments and contingencies (see Note 21)		
Redeemable noncontrolling interest	1,000	1,000
Equity		
MPC stockholders' equity:		
Preferred stock, no shares issued and outstanding (par value 0.01 per share, 30 million shares authorized)	—	—
Common stock:		
Issued – 732 million and 731 million shares (par value 0.01 per share, 1 billion shares authorized)	7	7
Held in treasury, at cost – 226 million and 203 million shares	(8,664)	(7,482)
Additional paid-in capital	11,185	11,060
Retained earnings	10,344	10,206
Accumulated other comprehensive loss	(236)	(234)
Total MPC stockholders' equity	12,636	13,557
Noncontrolling interests	6,928	6,646
Total equity	19,564	20,203

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Total liabilities, redeemable noncontrolling interest and equity	\$45,447	\$ 44,413
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The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
(In millions)	2017	2016
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net income	\$675	\$705
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred financing costs and debt discount	30	29
Impairment expense	—	130
Depreciation and amortization	1,057	990
Inventory market valuation adjustment	—	(370)
Pension and other postretirement benefits, net	(59)	56
Deferred income taxes	23	175
Net gain on disposal of assets	(12)	(25)
Income (loss) from equity method investments	(140)	28
Distributions from equity method investments	137	121
Changes in the fair value of derivative instruments	59	29
Changes in:		
Current receivables	344	(276)
Inventories	107	386
Current accounts payable and accrued liabilities	(208)	632
All other, net	(51)	(13)
Net cash provided by operating activities	1,962	2,597
Investing activities:		
Additions to property, plant and equipment	(1,265)	(1,431)
Acquisitions	(220)	—
Disposal of assets	37	79
Investments – acquisitions, loans and contributions	(677)	(171)
– redemptions, repayments and return of capital	23	1
All other, net	90	26
Net cash used in investing activities	(2,012)	(1,496)
Financing activities:		
Commercial paper – issued	300	763
– repayments	(300)	(763)
Long-term debt – borrowings	2,241	714
– repayments	(213)	(1,606)
Debt issuance costs	(21)	(1)
Issuance of common stock	20	2
Common stock repurchased	(1,170)	(126)
Dividends paid	(376)	(339)
Issuance of MPLX LP common units	434	315
Issuance of MPLX LP redeemable preferred units	—	984
Distributions to noncontrolling interests	(324)	(249)
Contributions from noncontrolling interests	128	2

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Contingent consideration payment	(89) (164)
All other, net	(17) (6)
Net cash provided by (used in) financing activities	613	(474)
Net increase in cash and cash equivalents	563	627	
Cash and cash equivalents at beginning of period	887	1,127	
Cash and cash equivalents at end of period	\$1,450	\$1,754	

The accompanying notes are an integral part of these consolidated financial statements.

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Marathon Petroleum Corporation

Consolidated Statements of Equity and Redeemable Noncontrolling Interest (Unaudited)

(In millions)	MPC Stockholders' Equity					Non-controlling Interests	Total Equity	Redeemable Non-controlling Interest
	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)			
Balance as of December 31, 2015	\$7	\$(7,275)	\$11,071	\$9,752	\$ (318)	\$ 6,438	\$19,675	\$ —
Net income (loss)	—	—	—	802	—	(106)	696	9
Dividends declared	—	—	—	(339)	—	—	(339)	—
Distributions to noncontrolling interests	—	—	—	—	—	(249)	(249)	—
Contributions from noncontrolling interests	—	—	—	—	—	2	2	—
Other comprehensive loss	—	—	—	—	(3)	—	(3)	—
Shares repurchased	—	(126)	—	—	—	—	(126)	—
Shares issued (returned) – stock-based compensation	—	(6)	2	—	—	—	(4)	—
Stock-based compensation	—	—	28	—	—	4	32	—
Impact from equity transactions of MPLX LP	—	—	(105)	—	—	355	250	—
Issuance of MPLX LP redeemable preferred units	—	—	—	—	—	—	—	984
Other	—	—	—	—	—	1	1	—
Balance as of June 30, 2016	\$7	\$(7,407)	\$10,996	\$10,215	\$ (321)	\$ 6,445	\$19,935	\$ 993