CVR ENERGY INC
Form 10-K
February 21, 2019
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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Form 10-K
(Mark One)

| | |
|---|---|
| þ | ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934<br>For the fiscal year ended December 31, 2018<br>OR |
| o | TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934<br>For the transition period from to . |

Commission file number: 001-33492

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CVR Energy, Inc.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or Other Jurisdiction of Incorporation or Organization) | 61-1512186<br>(I.R.S. Employer Identification No.) |
| 2277 Plaza Drive, Suite 500, Sugar Land, Texas<br>(Address of principal executive offices) | 77479<br>(Zip Code) |

281-207-3200
(Registrant's Telephone Number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, $0.01 par value per share | The New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 o Accelerated filer þ
Non-accelerated filer o Smaller reporting company o
Emerging growth company o

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. o

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

At June 29, 2018, the aggregate market value of the voting common stock held by non-affiliates of the registrant was approximately $578 million based upon the closing price of its common stock on the New York Stock Exchange Composite tape. As of February 19, 2019, there were 100,530,599 shares of the registrant's common stock outstanding.

Documents Incorporated By Reference

Portions of the registrant's Proxy Statement to be filed pursuant to Regulation 14A pertaining to the 2019 Annual Meeting of Stockholders are incorporated by reference into Part III hereof. The Company intends to file such Proxy Statement no later than 120 days after the end of the fiscal year covered by this Form 10-K.

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GLOSSARY OF SELECTED TERMS

The following are definitions of certain terms used in this Annual Report on Form 10-K for the year ended December 31, 2018 (this "Report").

2-1-1 crack spread — The approximate gross margin resulting from processing two barrels of crude oil to produce one barrel of gasoline and one barrel of distillate. The 2-1-1 crack spread is expressed in dollars per barrel and is a proxy for the per barrel margin that a sweet crude oil refinery would earn assuming it produced and sold the benchmark production of gasoline and distillate.

Ammonia — Ammonia is a direct application fertilizer and is primarily used as a building block for other nitrogen products for industrial applications and finished fertilizer products.

Blendstocks — Various compounds that are combined with gasoline or diesel from the crude oil refining process to make finished gasoline and diesel fuel; these may include natural gas liquids, ethanol, or reformate, among others.

bpd — Abbreviation for barrels per day.

bpcd — Abbreviation for barrels per calendar day, which refers to the total number of barrels processed in a refinery within a year, divided by the total number of days in the year (365 or 366 days), thus reflecting all operational and logistical limitations.

Bulk sales — Volume sales through third-party pipelines, in contrast to tanker truck quantity rack sales.

Capacity — Capacity is defined as the throughput a process unit is capable of sustaining, either on a calendar or stream day basis. The throughput may be expressed in terms of maximum sustainable, nameplate or economic capacity. The maximum sustainable or nameplate capacities may not be the most economical. The economic capacity is the throughput that generally provides the greatest economic benefit based on considerations such as crude oil and other feedstock costs, product values, regulatory compliance costs and downstream unit constraints.

Catalyst — A substance that alters, accelerates, or instigates chemical changes, but is neither produced, consumed nor altered in the process.

Corn belt —The primary corn producing region of the United States, which includes Illinois, Indiana, Iowa, Minnesota, Missouri, Nebraska, Ohio and Wisconsin.

Crack spread — A simplified calculation that measures the difference between the price for light products and crude oil.

Distillates — Primarily diesel fuel, kerosene and jet fuel.

Ethanol — A clear, colorless, flammable oxygenated hydrocarbon. Ethanol is typically produced chemically from ethylene, or biologically from fermentation of various sugars from carbohydrates found in agricultural crops and cellulosic residues from crops or wood. It is used in the United States as a gasoline octane enhancer and oxygenate.

Farm belt — Refers to the states of Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Texas and Wisconsin.

FCCU — Refers to the fluid catalytic cracking unit.

Feedstocks — Petroleum products, such as crude oil or fluid catalytic cracking unit or FCCU gasoline, that are processed and blended into refined products, such as gasoline, diesel fuel and jet fuel during the refining process.

GHG — Greenhouse gas.

Group 3 — A geographic subset of the PADD II region comprising refineries in the midcontinent portion of the United States, specifically Oklahoma, Kansas, Missouri, Nebraska, Iowa, Minnesota, North Dakota and South Dakota.

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Heavy crude oil — A relatively inexpensive crude oil characterized by high relative density and viscosity. Heavy crude oils require greater levels of processing to produce high value products such as gasoline and diesel fuel.

Light crude oil — A relatively expensive crude oil characterized by low relative density and viscosity. Light crude oils require lower levels of processing to produce high value products such as gasoline and diesel fuel.

Liquid volume yield — A calculation of the total liquid volumes produced divided by total throughput.

Mbpd — Thousand barrels per day.

MMBtu — One million British thermal units, or Btu: a measure of energy. One Btu of heat is required to raise the temperature of one pound of water one degree Fahrenheit.

MMcf — One million standard cubic feet, a customary gas measurement.

Natural gas liquids — Natural gas liquids, often referred to as NGLs, are blendstocks used in the manufacture of refined fuels, as well as products of the refining process. Common NGLs used include propane, isobutane, normal butane and natural gasoline.

Petroleum coke (pet coke) — A coal-like substance that is produced during the refining process.

Product pricing at gate — Product pricing at gate represents net sales less freight revenue divided by product sales volume in tons. Product pricing at gate is also referred to as netback.

Rack sales — Sales which are made at terminals into third-party tanker trucks or railcars.

Refined products — Petroleum products, such as gasoline, diesel fuel and jet fuel, that are produced by a refinery.

RFS —Renewable Fuel Standard of the EPA.

RINs— Renewable fuel credits, known as renewable identification numbers.

SEC — Securities and Exchange Commission.

Sour crude oil — A crude oil that is relatively high in sulfur content, requiring additional processing to remove the sulfur. Sour crude oil is typically less expensive than sweet crude oil.

Spot market — A market in which commodities are bought and sold for cash and delivered immediately.

Sweet crude oil — A crude oil that is relatively low in sulfur content, requiring less processing to remove the sulfur. Sweet crude oil is typically more expensive than sour crude oil.

Throughput — The quantity of crude oil and other feedstocks processed at a refinery measured in barrels per day.

Turnaround — A periodically required standard procedure to inspect, refurbish, repair and maintain the refinery or nitrogen fertilizer plant assets. This process involves the shutdown and inspection of major processing units and occurs every four to five years for the refineries and every two to three years for the nitrogen fertilizer plant. A

turnaround will typically extend the operating life of a facility and return performance to desired operating levels.

Utilization — Measurement of the annual production of UAN and Ammonia expressed as a percentage of each facilities nameplate production capacity.

WCS —Western Canadian Select crude oil, a medium to heavy, sour crude oil, characterized by an American Petroleum Institute gravity ("API gravity") of between 20 and 22 degrees and a sulfur content of approximately 3.3 weight percent.

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WTI — West Texas Intermediate crude oil, a light, sweet crude oil, characterized by an API gravity between 39 and 41 degrees and a sulfur content of approximately 0.4 weight percent that is used as a benchmark for other crude oils.

WTS — West Texas Sour crude oil, a relatively light, sour crude oil characterized by an API gravity of between 30 and 32 degrees and a sulfur content of approximately 2.0 weight percent.

Yield — The percentage of refined products that is produced from crude oil and other feedstocks.

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Important Information Regarding Forward Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including, but not limited to, those under Item 1. Business, Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Annual Report on Form 10-K the words "could," "believe," "anticipate," "intend," "estimate," "expect," "may," "continue," "predict," "potential," "project," and similar terms a are intended to identify forward-looking statements. Although we believe our assumptions concerning future events are reasonable, a number of risks, uncertainties and other factors could cause actual results and trends to differ materially from those projected or forward-looking.

Forward-looking statements may include statements about, but not limited to, the following:

- volatile margins in the refining industry and exposure to the risks associated with volatile crude oil prices;
- the availability of adequate cash and other sources of liquidity for the capital needs of our businesses;
- the ability to forecast future financial condition or results of operations and future revenues and expenses of our businesses;
- the effects of transactions involving forward and derivative instruments;
- disruption of the petroleum business' ability to obtain an adequate supply of crude oil;
- changes in laws, regulations and policies with respect to the export of crude oil or other hydrocarbons;
- interruption of the pipelines supplying feedstock and in the distribution of the petroleum business' products;
- competition in the petroleum and nitrogen fertilizer businesses;
- capital expenditures and potential liabilities arising from environmental laws and regulations;
- changes in ours or CVR Refining's or CVR Partners' credit profile;
- the cyclical nature of the nitrogen fertilizer business;
- the seasonal nature of the petroleum business;
- the supply and price levels of essential raw materials of our businesses;
- the risk of a material decline in production at our refineries and nitrogen fertilizer plants;
- potential operating hazards from accidents, fire, severe weather, tornadoes, floods or other natural disasters;
- the risk associated with governmental policies affecting the agricultural industry;
- the volatile nature of ammonia, potential liability for accidents involving ammonia that cause interruption to the nitrogen fertilizer business, severe damage to property and/or injury to the environment and human health and potential increased costs relating to the transport of ammonia;
- the dependence of the nitrogen fertilizer business on a few third-party suppliers, including providers of transportation services and equipment;
- the reliance on pet coke that we purchase from CVR Refining and third party suppliers for the nitrogen fertilizer business;
- new regulations concerning the transportation of hazardous chemicals, risks of terrorism, and the security of chemical manufacturing facilities and other matters beyond our control;
- the risk of security breaches;
- the petroleum business' and the nitrogen fertilizer business' dependence on significant customers and the creditworthiness and performance by counterparties;
- the potential loss of the nitrogen fertilizer business' transportation cost advantage over its competitors;
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- the potential inability to successfully implement our business strategies, including the completion of significant capital programs;
- our ability to continue to license the technology used in the petroleum business and nitrogen fertilizer business operations;
- our petroleum business’ ability to purchase RINs on a timely and cost effective basis;
- our petroleum business' continued ability to secure environmental and other governmental permits necessary for the operation of its business;
- existing and proposed laws, rulings and regulations, including but not limited to those relating to climate change, alternative energy or fuel sources, and existing and future regulations related to the end-use and application of fertilizers;
- refinery and nitrogen fertilizer facilities’ operating hazards and interruptions, including unscheduled maintenance or downtime, and the availability of adequate insurance coverage;
- instability and volatility in the capital and credit markets; and

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- our ability to recover under our insurance policies for damages or losses in full or at all.

All forward-looking statements contained in this Report only speak as of the date of this Report. We undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that occur after the date of this Report, or to reflect the occurrence of unanticipated events, except to the extent required by law.

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PART I

Part 1 should be read in conjunction with Management's Discussion and Analysis in Item 7 and our consolidated financial statements and related notes thereto in Item 8.

Item 1. Business

Overview

CVR Energy is a diversified holding company formed in September 2006. The Company is primarily engaged in the petroleum refining and marketing business through its interest in CVR Refining and the nitrogen fertilizer manufacturing business through its interest in CVR Partners. CVR Refining is an independent petroleum refiner and marketer of high value transportation fuels. CVR Partners produces and markets nitrogen fertilizers in the form of UAN and ammonia. As used in this Annual Report on Form 10-K, the terms "CVR Energy," the "Company," "we," "us" or "our" may refer to CVR Energy, Inc., one or more of its consolidated subsidiaries or all of them taken as a whole. The words "we," "us" or "our" generally include CVR Refining, LP ("CVR Refining" or "CVRR") or CVR Partners, LP ("CVR Partners" or the "Nitrogen Fertilizer Partnership"), the Company's publicly traded limited partnership, and their respective subsidiaries, as consolidated subsidiaries of the Company with certain exceptions where there are transactions or obligations between and among CVR Refining, CVR Partners and CVR Energy, including their subsidiaries.

As of December 31, 2018, we owned the general partner and approximately 81% and 34% respectively, of the outstanding common units representing limited partner interests in each of CVR Refining and CVR Partners. Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "CVI," and CVR Partners' common units are listed on the NYSE under the symbol "UAN." As of December 31, 2018, Icahn Enterprises L.P. and its affiliates owned approximately 71% of our outstanding common stock.

On January 17, 2019, the general partner of CVR Refining assigned to the Company its right to purchase all of the issued and outstanding CVR Refining common units not already owned by CVR Refining's general partner or its affiliates. On January 29, 2019, the Company purchased all remaining CVR Refining common units not already owned by the Company or its affiliates (the "Public Unit Purchase"). In conjunction with the Public Unit Purchase, the Company purchased all CVR Refining common units owned by IEP and its subsidiary, American Entertainment Properties Corporation ("AEP") (the "Affiliate Unit Purchase," and together with the Public Unit Purchase, the "CVRR Unit Purchase"). As a result of the CVRR Unit Purchase, the Refining Partnership's common units were delisted effective January 29, 2019 and its reporting obligations under Sections 13(a) and 15(d) of the Exchange Act were suspended as of February 8, 2019. Refer to Item 8, Note 1 ("Organization and Nature of Business") for further discussion of the CVRR Unit Purchase.

We operate under two business segments: petroleum (the petroleum and related businesses operated by CVR Refining) and nitrogen fertilizer (the nitrogen fertilizer businesses operated by CVR Partners). Throughout the remainder of this document, our business segments are referred to as "Petroleum Segment" and "Nitrogen Fertilizer Segment," respectively. Refer to Item 1, "Petroleum" and Item 1, "Nitrogen Fertilizer" for further details on our business segments.

Our History

The following graphic depicts the Company’s history and key events that have occurred since the Company’s formation.

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Petroleum

Our Petroleum Segment is comprised of the assets and operations of CVR Refining, including two refineries located in Coffeyville, Kansas and Wynnewood, Oklahoma and supporting logistics assets in the region.

Facilities

Coffeyville Refinery - We own a complex full coking medium-sour crude oil refinery in southeast Kansas, approximately 100 miles from Cushing, Oklahoma ("Cushing") with a name plate crude oil capacity of 132,000 bpd (the "Coffeyville Refinery"). The major operations of the Coffeyville Refinery include fractionation, catalytic cracking, hydrotreating, reforming, coking, isomerization, alkylation, sulfur recovery and propane and butane recovery operating units. The Coffeyville Refinery benefits from significant refining unit redundancies, which include two crude oil distillation and vacuum towers, three sulfur recovery units and four hydrotreating units. These redundancies allow the Coffeyville Refinery to continue to receive and process crude oil even if one tower requires maintenance without having to shut down the entire refinery. In addition, the Coffeyville Refinery has a redundant supply of hydrogen pursuant to its feedstock and shared services agreement with a subsidiary of CVR Partners.

Wynnewood Refinery - We own a complex crude oil refinery in Wynnewood, Oklahoma approximately 65 miles south of Oklahoma City, Oklahoma and approximately 130 miles from Cushing with a name plate crude oil capacity of 74,500 bpd capable of processing 20,000 bpd of light sour crude oil (the "Wynnewood Refinery" and together with the Coffeyville Refinery, the "Refineries"). The major operations of the Wynnewood Refinery include fractionation, hydrotreating, hydrocracking, reforming, solvent deasphalting, alkylation, sulfur recovery and propane and butane recovery operating units. Similar to the Coffeyville Refinery, the Wynnewood Refinery benefits from unit redundancies, including two crude oil distillation and vacuum towers and four hydrotreating units.

Throughput by Refinery (1)

| | Year Ended December 31, 2018 | | |
|---|---|---|---|
| (in bpd) | Coffeyville | Wynnewood | Total |
| Total crude throughput | 124,489 | 74,669 | 199,158 |
| All other feedstock and blendstock | 8,369 | 5,068 | 13,437 |
| Total throughput | 132,858 | 79,737 | 212,595 |

| | Year Ended December 31, 2017 | |
|---|---|---|
| (in bpd) | Coffeyville | Wynnewood |