Amplify Energy: 3Q 2022 Earnings Script

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Operator

Welcome to Amplify Energy's Third Quarter 2022 Investor Conference Call. Amplify's operating and financial results were released yesterday after market close on November 1, 2022 and are available on Amplify's website at www.amplifyenergy.com. During this conference call, all participants will be in a listen-only mode. Today's call is being recorded. A replay of the call will be accessible until Wednesday, November 16th by dialing (800) 654-1563 and then entering access code 10110635.

I would now like to turn the conference call over to Jason McGlynn, Senior Vice President and Chief Financial Officer of Amplify Energy Corp…

Jason McGlynn

Good morning and welcome to the Amplify Energy conference call to discuss operating and financial results for the third quarter of 2022. Joining me on the call today is Martyn Willsher, Amplify's President and Chief Executive Officer.

Before we get started, we would like to remind you that some of our remarks may contain forward-looking statements, which reflect management's current views of future events and are subject to various risks, uncertainties, expectations, and assumptions. Although management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct and undertakes no obligation and does not intend to update these forward-looking statements to reflect events or circumstances

occurring after this earnings call. Please refer to our press release and SEC filings for a list of factors that may cause actual results to differ materially from those in the forward-looking statements made during this call. In addition, the unaudited financial information that will be highlighted here is derived from our internal financial books, records, and reports. For additional detailed disclosure, we encourage you to read our Form 10-Q, that was filed yesterday afternoon.

Also, non-GAAP financial measures may be disclosed during this call. Reconciliations of those measures to comparable GAAP measures may be found in our earnings release or on our website at www.amplifyenergy.com.

Introduction

During the call, Martyn will provide an update regarding our assets in Southern California, followed by our third quarter highlights and an operational update. I will then discuss third quarter results in greater detail and provide updates to our hedging program, balance sheet and 2022 guidance. Martyn will conclude our prepared remarks with comments regarding performance during the quarter, current projections and strategic goals. We will then have a question-and-answer session before concluding this call.

Martyn Willsher

Southern California Update

I will begin with an update regarding our Southern California assets.

Since our last quarterly update, Amplify has made significant progress toward final resolution of all criminal and civil proceedings, and continues to advance the permanent repair procedures needed to replace the damaged sections of pipeline and return the Beta field to production.

As we previously announced, we reached an agreement in principle with the plaintiffs in the class action to settle all civil claims against Amplify and its subsidiaries. On October 17th, plaintiffs' counsel filed a motion for preliminary approval of the final settlement agreement, and

that motion is currently noticed for a hearing with the court on November 16th. The settlement amount of $50 million will be funded under the Company's insurance policies.

During the third quarter of 2022, we also announced that Amplify had reached agreements with federal and state authorities to resolve all criminal matters involving the Company and its subsidiaries stemming from the Incident. The resolution of these matters contemplates an aggregate fine of approximately $12 million, payable in installments to federal and state authorities over the next few years, probationary periods and reimbursement of certain government agency response costs. The Company also agreed to implement certain compliance measures, including installation of a new leak detection system and increased Remote Operated Vehicle inspections of the pipeline.

With the resolution of these matters substantially complete, we are concentrating on safely repairing the damaged sections of pipeline and bringing the Beta field back online.

On October 1st, we announced that Amplify had received the Nationwide Permit 12 from the U.S. Army Corps of Engineers to proceed with the permanent repair plans, which were reviewed and approved by PHMSA earlier this year. Repair operations are currently underway to remove and replace the sections of pipeline damaged by anchor strikes from two shipping vessels in 2021. After repair procedures are complete, the pipeline will undergo a series of safety integrity tests as required by both federal pipeline safety regulations and the October 5th, 2021 PHMSA corrective action order. We anticipate that PHMSA will review the pipeline restart plan, and once finalized, the Company will begin the process of bringing the Beta field back online. Repair operations have progressed as expected and, subject to the various reviews and approvals previously discussed, we currently estimate bringing the Beta field back online by the end of the first quarter of 2023.

Amplify's actions during the course of the last twelve months reflect the commitments we made immediately following the incident to the communities and environment impacted by the release. We worked diligently to support the successful clean-up and remediation efforts and

continue to work cooperatively with the various state and federal agencies involved with these matters. Furthermore, we continue to aggressively pursue our substantial claims for damages against the vessels that struck and damaged our pipeline and their respective owners and operators, and the Marine Exchange of Southern California that failed to notify us of the anchor strikes.

Third Quarter Highlights

Now on to the quarter…

Production for the third quarter averaged approximately 21,000 Boepd, an increase of 3% from 20,400 Boepd in the second quarter. The quarter-over-quarter increase was driven by recent development activity in the Eagle Ford, accelerated workovers in Oklahoma and the return to normal operations in Bairoil after the annual maintenance turnaround in the second quarter.

Third quarter Adjusted EBITDA was approximately $30.8 million compared to $16.3 million in the prior quarter. The increase was attributable to higher production, lower operating expenses, timing variances regarding the recognition of LOPI insurance proceeds, and lower commodity hedge settlement payments.

Capital spending during the third quarter was approximately $9.9 million, primarily related to workover activity in Oklahoma, non-operated development in the Eagle Ford, and facilities maintenance at Bairoil and Beta.

Free Cash Flow, defined as Adjusted EBITDA, less capex and cash interest expense, was $17.0 million in the third quarter of 2022, which compares to $14.3 million in the first half of the year. With Beta expected to restart early next year, we anticipate free cash flow generation to accelerate and are now projecting cumulative free cash flow of $235 million through year-end 2024 at current commodity prices.

Operational Update

Now for an update on our operations…

In Oklahoma, we continued our workover program, running three rigs focused on returning offline wells to production and artificial lift optimization. As a result of this program, Oklahoma production increased approximately 5% in the third quarter from 6,500 to 6,800 Boepd, and the field achieved its highest quarterly production rate since the first quarter 2021. For the remainder of 2022, we expect to continue an active workover program to manage our cost profile and drive incremental free cash flow.

At Bairoil, processing facilities returned to normal operating levels after completion of the annual maintenance turnaround last quarter, resulting in production of 3,600 Boepd and lower operating expenses. We will continue to utilize targeted workover activity and well stimulations to drive further operational improvements and efficiencies and improve production performance.

In East Texas and North Louisiana, we remain committed to efficiently managing production and costs, while pursuing high-return workover and joint development projects. Results from the non-operated completions we participated in during the second quarter have continued to exceed expectations and we intend to participate in similar high return projects into 2023.

In the Eagle Ford, third quarter production increased 25% from the previous quarter primarily resulting from successful development activity earlier in the year. We are currently participating in 11 gross (1.0 net) additional development projects, including two refracs, which are projected to be online in the first quarter of 2023.

I will now turn the call over to Jason to provide a detailed review of our financial and operational results…

Jason McGlynn

Thank you, Martyn.

Third Quarter Details

Production for the third quarter averaged approximately 21,000 Boepd with a commodity mix of 31% oil, 19% NGLs, and 50% gas. Once Beta returns to production next year, the Company expects the product mix to return to approximately 40% oil, with the low-decline and increasingly oil-weighted nature of our diverse assets further driving long-term profitability.

Total oil, natural gas and NGL revenues for the third quarter were approximately $112.8 million, before the impact of derivatives, compared to $112.9 million in the second quarter. Other revenues were $13.5 million for the quarter, compared to $8.9 million in the second quarter. For the third quarter, the Company recognized $13.3 million of LOPI proceeds, which represents three months of LOPI payments, compared to $8.8 million, or two months of LOPI payments, for the prior quarter. As discussed during our prior earnings call, Amplify's LOPI insurance policy is effective for 18 months following the date of the incident, and the Company will continue to receive payments until the earlier of the expiration of the policy or until Beta is returned to full production.

Lease operating expenses for the third quarter were approximately $32.0 million, or $16.56 per Boe, a decrease from $33.3 million, or $17.91 per Boe, for the second quarter, primarily attributable to lower workover cost at Bairoil.

GP&T this quarter was $7.5 million, or $3.87 per Boe, compared to $7.3 million, or $3.92 per Boe, in the second quarter. I would like to note that we expect GP&T to decline in future quarters as the East Texas gas MVC expires this year and the Oklahoma NGL MVC expires in June 2023.

Production and Ad Valorem taxes this quarter were $9.2 million, or $4.73 per Boe, compared to $8.6 million, or $4.64 per Boe in the prior quarter.

Third quarter cash G&A totaled $6.1 million, or $3.16 per Boe, compared to $7.7 million, or $4.16 per Boe, in the second quarter, primarily due to a decrease in certain professional and advisor fees.

Adjusted EBITDA in the third quarter totaled $30.8 million, an increase of approximately $14.5 million from $16.3 million in the prior quarter. As previously discussed, the increase was primarily attributable to higher production, timing variances regarding the recognition of LOPI insurance proceeds and lower operating expenses and hedge settlement payments.

Cash capital spending for the third quarter was approximately $9.9 million, a decrease of $3.6 million from the second quarter, primarily related to reduced capital in East Texas and Bairoil.

Free Cash Flow for the third quarter was $17.0 million, compared to negative $0.6 million in the prior quarter. The quarter-over-quarter increase was primarily related to the scheduled roll off of out-of-the money commodity hedges, in addition to the previously noted reductions in capital spending and LOPI payment recognition during the second and third quarters.

Hedging

On to the hedge book…

As evidenced by our free cash flow generation this quarter, we are now starting to realize the benefits from the scheduled roll-off of our hedge book, and the Company will continue to capture additional upside in the current commodity price environment as we roll-off additional out-of-the money hedges in the coming quarters. Currently, we are approximately 70% hedged for the balance of 2022 and 50% hedged in 2023 across all commodities. Our crude oil production is approximately 85-95% hedged for the remainder of the year, and 50-60% hedged for 2023. On the gas side, we are approximately 85-95% hedged for the balance of 2022 and 70-80% hedged for 2023. As a reminder, when we return the Beta field to production, those crude oil volumes will be completely unhedged, which may provide additional upside depending on prevailing prices.

Balance Sheet Update

Moving on to our balance sheet …

As of October 28, Amplify had net debt of approximately $179 million, consisting of $205 million outstanding under our revolving credit facility and $26 million of cash on hand. For the

remainder of 2022 and into 2023, we will continue to allocate the majority of our free cash flow to improving our balance sheet and reducing our total debt outstanding.

The Company's fall borrowing base redetermination process is currently underway and we will provide further updates as they become available.

2022 Guidance Update

On to guidance. As detailed in the earnings release last night, we have tightened our full-year 2022 guidance ranges for production, adjusted EBITDA, and free cash flow .

Additional guidance details were provided in our earnings release and can be found in the latest investor presentation currently available on our website.

I will now turn the call back to Martyn…

Martyn Willsher

Closing

Thank you, Jason…

Our near-term strategy remains focused on continuously enhancing our free cash flow profile and rapidly delevering our balance sheet. As we progress into 2023, we expect to not only continue generating the current level of quarterly free cash flow, but we anticipate materially increasing our free cash flow profile as our hedge book continues to roll-off and the Beta field is returned to production. Currently, our forecasted 2022-2024 cumulative free cash flow is estimated to be approximately $235 million at current strip pricing, and we are projecting to improve our leverage to under 1.0x by the third quarter of 2023.

As Jason mentioned earlier, we are currently working with our lending group on the fall borrowing base redetermination and are exploring various solutions to extend or replace the current facility which matures in the fall of 2023.

Lastly, I'd like to express my appreciation to the Company's employees for their outstanding efforts and dedication, particularly over the last twelve months. We have made significant progress toward final resolution of the legal matters related to the Incident and are activity pursuing our claims against the ships that caused damage to our pipeline in 2021. Finally, we remain focused on progressing repair operations with the anticipation of bringing the Beta field back online early in 2023.

With that, operator, we are now open for questions.

Q&A

Operator

Absolutely! At this time, we will open the floor for questions. If you would like to ask a question, please press the star key followed by the one key on your touchtone phone now.

Questions will be taken in the order in which they were received. If at any time you would like to remove yourself from the questioning queue, please press star two. Please limit your questions to one at a time. Again, to ask a question, please press star one.

Our first question comes from John White with ROTH Capital. Your line is open.

John White

Good morning and congratulations on all the progress you've made on the legal matters over the past number of months. I'm sure that's very distracting but looks like a lot of progress has been made.

At Beta, what exactly is going on? Are there damaged sections of the line being replaced by new sections of pipe or is there a lot of welding going on? Can you give us some more detail on the actual operations?

Martyn Willsher

Sure. So, the primary repair is to about a 250-foot section that's right where the actual crack occurred. That section of the line has been removed and brought to the beach so to speak—to the port.

That's the biggest section of pipe. That section will then be replaced with essentially new pipe and that's kind of where we are in the progress right now. There's an 80-foot section that also has to be replaced and a clamp that has to be placed. Those two procedures will obviously be a little bit shorter and easier.

So, the biggest section of the pipeline has been removed and already brought in. So, that process is ongoing, and we expect that to take a few more weeks.

After that, as we mentioned in our statement, there's a series of tests—both hydrostatic testing and then in-line inspections—that we complete and then are reviewed by PHMSA and BSEE as part of the restart plan.

Once that's approved, then we can start putting oil through the pipeline again. Obviously, we're kind of giving ourselves a little bit of room on timing just because we don't know how long it'll take to do the review. But like I said, we expect this will be done prior to the end of the first quarter and hopefully before that.

John White

Thanks very much for that. That's good detail and good luck on that.

On your lawsuit against the shipping companies—and I understand if you don't want to comment. But as I understand it, the preponderance of the evidence that the Coast Guard has revealed is pretty strong. Are you anticipating a settlement prior to the trial date, or do you think you're going to go to trial?

Martyn Willsher

Well, it could be. There are different forms that this could take. I don't want to get into strategy or how strongly I believe about this case. But you've noted that we've mentioned that there were anchor strikes. We believe there's a substantial amount of evidence of that.

But in any event, these damages are ongoing. Until this Beta field is returned to production, we continue to lose revenue as a result of quite frankly the damage caused. It has really nothing to do with the spill event itself. It ties back to the actual time of when the ship caused the damage.

So, there is a little bit of a difference between what we are suing for individually versus what we are suing for on behalf of the insurance companies which is tied more to the contribution to the cost of the actual spill event itself.

So, like I said, this is going to be an ongoing process. I think like I said, these are two of the largest shipping companies in the world. So, it might take a little bit of time, or it might get settled quickly. It really just depends on how commercial things get.

John White

Well, again, very good detail and I appreciate that update. I'll pass it back.

Martyn Willsher

Thank you, John.

Operator

Our next question comes from Jeff Robertson with Water Tower Research. Your line is open.

Jeff Robertson

Good morning. Thank you for taking my questions.

Martyn Willsher

Hi Jeff.

Jeff Robertson

Martyn, at Beta, two questions. One, will the work you all have done to restore production have much of an impact on the operating costs for those assets as you restart them?

Secondly, you all had talked previously before the spill about some redevelopment opportunities or some recompletion opportunities. Can you just provide an update on where that might stand and your capital allocation process either for 2023 or maybe even 2024?

Martyn Willsher

Those are great questions. Let me start with the operating costs first. One of the things we've done this year is we've continued to electrify the platforms. So, they're going to be running on more shore power versus diesel power. This obviously helps with air quality standards and other things as well.

So, we have been making changes even while we've been down in order to further reduce the fixed costs going forward. When we first come back online, one of the things that we'll note is that were projecting kind of a reduced rate for some time because obviously, being offline for what could be 17-18 months by the time that we come back online, we want to make sure that we're being conservative and not over projecting crude volumes coming straight out of the gate.

We have a ramp-up of the production from about 50% of the production rate prior to the event and that is not including the impact of royalty relief anymore.

So, we ramp up from about 50% up to 100% over time. We have the crews already on the platform. We have the rigs ready to go for whenever we get back online. So, obviously, our first primary responsibility is to kind of get all of the existing wells back online as quickly as we can. So, that's where we'll start our focus.

We do still have all of the permits in hand for what we were doing prior to the event which included—as you may recall—a couple of smaller projects that we were planning to do in 2021 and then two larger projects in early 2022 which we had some real potential to increase production in the field. Those projects are still very viable and even more so at current pricing. So, I expect we will revisit that once we kind of get the Beta field back and most of the existing wells back online. I can't give you an exact timing of that yet. It really depends on how quicky we get the existing production back online and kind of fully restored.

Jeff Robertson

Okay. So, there's still those development opportunities. It's fair to say it's still very attractive especially in today's commodity price world?

Martyn Willsher

Yeah. They're far more. Obviously, we did lose royalty relief, but that was because pricing has jumped up so much. Those projects are much more valuable now even without royalty relief like they were when we originally intended to do them.

Jeff Robertson

Just a question on the hedge book structure. Jason, for 2023, are the hedges spread pretty evenly through the year or will they roll off as the quarters progress?

Jason McGlynn

They'll roll off a little bit. It's fairly even. We're not projecting a sizeable decrease in production volumes throughout the year. We have some joint development that's going on in the Eagleford in East Texas that'll help offset that, plus the benefits of the workover program in

Oklahoma keeps it fairly flat and notwithstanding kind of the nature of the assets with Beta and Bairoil.

So, it'll role off a little bit, but not substantially as you kind of look at them, the structures are a lot more advantageous than what we had this year. So, we'll have a lot more benefit as this kind of roll forward and just speaking specifically to the gap side. We only have collars for '23 at this point and the floor's about $3.50. They call out in just under six bucks, so kind of riding that sweet spot. We will see a potential upside as we roll forward.

Jeff Robertson

Great. Thank you very much.

Jason McGlynn

Thanks a lot Jeff.

Martyn Willsher

So, I think at this point we're going to take some questions that we received as well from various investors as well, Jason?

Jason McGlynn

Perfect, yeah, and just consistent with what we did last time. We received a number of questions from some investors and have consolidated that and I will ask a few of those here, and just continue to encourage people to send those along our way. We'll roll this forward as we continue with this in future quarters.

The first one that hasn't been touched here is in relation to inflationary capex environment and kind of our plans that roll forward through our three-year of cashflow forecast. The gist of the question is, "Did we raise the capex in our free cashflow slide, and what are we seeing from an

inflationary aspect, and what are we doing that's different from other people to try to mitigate that?".

Martyn Willsher

Thank you and thank you for the person submitting this question. First of all, we have increased capital through the '23 and '24 cycle. A lot of that has to do with finalizing a little bit more of our planning related to East Texas and Eagleford development during that time period.

We have seen inflation obviously on the drilling side even though it's a non-op partner and those are already incorporated into the '23 and '24 event. Obviously, the returns are still very, very strong as well.

So, we're not immune to inflation and certainly we've seen it on kind of the base LOE side earlier in the year. It's mitigated somewhat lately. But we've seen it across a wide range of things—everything from chemicals to saltwater disposal and everything in between.

So, we have certainly accounted for that going forward and in our capital forecast that's in there as well. Obviously, the other capital forecast more around facilities and kind of our workover projects. Haven't seen that same level of inflation—the kind of workover projects that we do are a little easier and kind of easier to manage from an inflationary perspective.

So, we haven't seen quite as much inflation on those. So, we have like I said, incorporated all that into the future projections. As we get more granularity into kind of future plans, we'll continue to update and revise that future cashflow forecast obviously, with the next one coming after Q4 with the full year 2023 outlook.

Jason McGlynn

Great! The last question that hasn't been touched on that we received from a number of people is, "Can we provide any additional color on the pending RBL maturity and the plans to address that through an extension or refinance?".

Martyn Willsher

So, as we mentioned we are currently talking to our RBL lenders, primarily about an extension in the near term. All of this refinancing becomes easier once Beta gets back online so we are trying to extend that fairway for a certain amount of time in order to give us a little bit more flexibility. We will look at any and all kind of options to refinance. That could mean kind of an RBL with fewer banks. It could mean a new financing structure completely.

So, there's a lot of alternatives out there and quite frankly we could do it in the near term. But it becomes a lot more attractive and easier once Beta's back online. So, we're trying to give ourselves a little bit more time to get that done. So, we'll have something on that hopefully in the coming months and we'll update the market when we have that.

Jason McGlynn

Great! I think that concludes the Q&A portion of the call. So, I'll turn it to Martyn for some closing comments.

Martyn Willsher

Post Q&A Wrap-Up

Thank you, Jason. I'd just like to thank everyone for participating in the call today. We're continuing to work diligently to finish the year strong on the production side and really focus on getting Beta back online as early in the first quarter as we can.

We will continue to update all of our stakeholders on our progress. As always, if there's any questions, please don't hesitate to reach out. Thank you, everyone.