Amplify Energy: 2Q 2023 Earnings Script

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Operator

Welcome to Amplify Energy's Second Quarter 2023 Investor Conference Call. Amplify's operating and financial results were released yesterday after market close on August 8, 2023 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 Thursday, August 23rd, by dialing (800) 654-1563 and then entering access code 76231111.

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

Jim Frew

Good morning and welcome to the Amplify Energy conference call to discuss operating and financial results for the second quarter of 2023.

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 which 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 Willsher, Amplify's President and Chief Executive Officer, will provide an update regarding our second quarter performance and the closing of our new Revolving Credit Facility. Next, Dan Furbee, Senior Vice President and Chief Operating Officer, will provide an overview of second quarter operational performance. Following that, I will discuss second quarter financial results, provide an update on our balance sheet and liquidity, and provide additional details on our hedge book. Finally, Martyn will provide a strategic update before opening the call up for questions. With that, I hand it over to Martyn…

Martyn Willsher

Thank you, Jim.

Second Quarter Highlights

Amplify continued its strong start to 2023 both operationally and financially. Since restarting operations at Beta in late April, production volumes have continued to exceed initial projections. The wells we have brought back on-line have had fewer issues than expected, and as a result production is higher and costs are lower than previously anticipated. In the second quarter, the Company also realized higher production in the Eagle Ford due to wells brought online at the end of the first quarter. Although natural gas and NGL prices were significantly lower compared to the first quarter, the Company still generated second quarter Adjusted EBITDA of $17.6 million and free cash flow of $6.1 million.

As announced on August 1st, we successfully closed on a new four-year revolving credit facility. Jim will provide additional details on this call, but we are very pleased to have completed the deal despite a very challenging credit market. The new revolving credit facility provides the Company with sufficient liquidity to pursue our near-term initiatives and flexibility to execute on our longer-term strategic goals. We greatly appreciate the support of our lenders, and we look forward to working closely with them moving forward.

With that, I'll now turn it over to Dan to discuss operational highlights from the quarter.

Dan Furbee

Thank you, Martyn.

Operational Update

Total production for the quarter averaged approximately 21,200 Boepd, which was in line with our expectations and up 9% from the previous quarter, consisting of approximately 38% oil, 17% NGLs, and 45% natural gas. The increase in 2nd quarter production was driven by a partial quarter of Beta production after the restart in late April, Eagle Ford development that was brought online at the end of the 1st quarter, and the continued execution on low cost, high-return workover projects.

For the remainder of the year, we expect flat to slightly increasing production. Production increases in the 2nd half of the year will be driven by incremental oil volumes at Beta and accretive workover and compressor optimization projects. This will be partially offset by lower third quarter production at Bairoil, which will be temporarily impacted by a scheduled shutdown in September. Though the turnaround at Bairoil will reduce third quarter production, we intend to perform preventative maintenance on all critical facilities and equipment while also upgrading our injection system. These changes will enable us to inject more water and CO_2 into the reservoir, which we expect will improve the efficiency of the flood and in turn further reduce the already low natural production decline of the asset.

With respect to Beta, our workover program is progressing ahead of schedule. The well responses we are seeing are very encouraging as we are utilizing a coil tubing unit to perform more efficient cleanouts of the production liners compared to historic workovers. We expect to be back to pre-shutdown production rates in the 4th quarter of this year.

We remain focused on improving operational efficiencies and cost reduction initiatives across all asset areas. For the second quarter, lease operating costs were $34.9 million, gathering, processing and transportation costs were $5.1 million, and production taxes were $5.2 million. In total, these costs were 7% lower than the prior quarter on a per BOE basis. We intend to further reduce our total operating costs through the remainder of 2023 by pursuing other opportunities such as electrifying a significant portion of the Beta platforms to reduce power expenses, in-sourcing Company-owned compressors to replace high-cost rental compression in East Texas and converting wells to more power efficient artificial lift methods in Oklahoma. Our team is continuing to evaluate additional cost-savings opportunities that we will be implementing in the near-future, consisting of the in-sourcing of specific and critical service equipment that the Company will own and operate, utilizing different artificial lift configurations to reduce failures, and upgrading our oilfield chemical programs to increase efficacy at a lower cost.

The Company's total capital investment for the quarter was approximately $7.9 million. In the Eagle Ford, we invested $1.4 million on the remaining expenditures associated with the 10 gross (1.0 net) wells, which were brought on-line at the end of the first quarter. The Company also invested $1.4 million in Oklahoma workover projects and $4.7 million at Beta, as we continue to optimize the Beta field production and facilities. The Company's capital investments for the remainder of 2023 will focus primarily on Beta and Bairoil facilities projects. The Beta facility upgrades will allow the asset to be operated with much lower power costs while greatly reducing overall emissions. The reduction of emissions will also significantly reduce the emission credit expenses currently incurred by the Company as part of LOE. The Bairoil capital will greatly improve the efficiency of the asset and improve the overall operations of the CO_2 flood. With the return of the Beta field to production, we have a liquid-rich, low-decline asset base consisting of a prolific oilfield in Beta with significant remaining upside, a large inventory of low-cost, extremely accretive workover projects across our onshore assets, and several high-impact cost saving initiatives coming to fruition in the 2nd half of this year, all of which will continue to drive higher operating margins for the organization.

With that, I'll turn it over to Jim…

Jim Frew

Thank you, Dan. I would now like to discuss second quarter financial performance, balance sheet and liquidity, and hedging.

Second Quarter Details

With respect to second quarter financial performance, the Company reported net income of approximately $9.8 million compared to $352.8 million in the prior quarter. As previously reported, first quarter net income included the receipt of $84.9 million in net proceeds from the Beta settlement and recognition of a $259.5 million deferred income tax benefit, which were both non-recurring items.

As Martyn previously mentioned, second quarter Adjusted EBITDA was $17.6 million. Though down $8.2 million from the prior quarter, the results are in-line with our annual guidance. The quarter-over-quarter decrease in Adjusted EBITDA was primarily due to decreases in commodity prices and the termination of LOPI proceeds. Compared to the prior quarter, net of hedges, gas prices were down 27% while NGL prices were down 17%. With the recent improvement in oil prices and Beta back on-line, we are reaffirming our guidance range of $80-$100 million of Adjusted EBTIDA for 2023.

With respect to costs, second quarter lease operating expenses were up $1.9 million versus the prior quarter, primarily due to Beta coming back on-line. On a per BOE basis, we were down 4% compared to the prior quarter. As Dan mentioned, we think there are several opportunities to further reduce LOE in the second half of the year.

Comparing the second quarter to the first quarter, gathering, transportation and processing costs were 17% lower while production taxes were 11% lower on a per Boe basis. These cost savings were primarily due to lower physical commodity prices. Also of note, minimum volume commitments associated with our Oklahoma NGL production ended on June 30th, which will further reduce our future GPT expenses.

Cash G&A in the second quarter was $6.2 million, which was down $1.4 million from the prior quarter and in-line with expectations. We expect cash G&A to remain at this level throughout the remainder of 2023.

In the second quarter, we incurred $3.7 million of interest expense. This was down $2.0 million compared to the first quarter. The decrease in interest expense was primarily due to significantly paying down our debt outstanding with a portion of the proceeds from the Beta settlement.

Free Cash Flow, defined as Adjusted EBITDA, less capex and cash interest expense, was $6.1 million in the second quarter of 2023 and was in-line with expectations. Through the first half of the year, Amplify has generated $17.5 million of Free Cash Flow. Similar to Adjusted EBITDA, we are reaffirming our full-year Free Cash Flow guidance of $30-$50 million.

Closing of the New Revolving Credit Facility

As Martyn mentioned, on July 31, 2023, the Company entered into a new senior secured reserve-based revolving credit facility with KeyBank acting as the administrative agent. The facility has a four-year term with an initial borrowing base of $150 million. The borrowing base will be redetermined on a semi-annual basis, with the next redetermination expected to occur in the fourth quarter of 2023. At closing, participants committed $135 million, providing ample liquidity for the Company. Similar to Martyn, I'd like to thank KeyBank and our syndicate of lenders for their support and resolve to successfully close the deal.

After the closing of the credit facility on July 31st, Amplify had net debt of approximately $113 million, consisting of $120 million outstanding under its revolving credit facility and $7 million of cash on hand. The Company's liquidity was approximately $22 million and Net Debt to Last Twelve Months Adjusted EBITDA was approximately 1.2x.

Hedging

Finally, I'd like to discuss our hedge book. As of July 31st, our forecasted crude oil production was approximately 65% hedged for 2023 and 5% hedged in 2024. On the gas side, we were approximately 75% hedged for 2023 and 15% hedged for 2024. With the new credit facility now in place, we are required to increase our hedge positions covering the next 36 months of expected production. The Company is currently executing a program to meet its hedging requirements under the new credit facility. We plan to provide updated hedge information before our next quarterly conference call.

With that, I'll turn the call back to Martyn…

Martyn Willsher

Thank you, Jim.

Forward Strategy

As we progress through 2023, we expect to increase our free cash flow profile, through prudent asset management and capital allocation, lower leverage and increasing contributions from Beta's return to production. At this time, we are reaffirming our 2023 full-year guidance, but increasing our forecasted 2023-2025 free cash flow to approximately $200 million at current strip pricing.

Our strategic focus near-term is to continue to build production rates at Beta, while pursuing the cost cutting initiatives and accretive investments that Dan outlined earlier.

Additionally, over the last several months Amplify's management team and Board have been in collaborative discussions on our path forward, and with the certainty provided by our recent financing, we expect to be able to finalize certain decisions on our strategic direction in the coming months. We appreciate the support of all of our shareholders as we continue to put the events of the last couple of years behind us and focus on the value enhancing options available to us moving forward.

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

Q&A

Operator

And at this time, if you would like to ask a question, please press the star and 1 on your telephone keypad. You may withdraw your question at any time by pressing star 2. Once again, to ask a question, please press the star and 1 on your telephone keypad. One moment while we queue.

I will take our first question from John White with Roth MKM. Please go ahead.

John White

Good morning and congratulations on a good quarter and congrats on your new credit facility.

Martyn Willsher

Thank you John, appreciate that.

John White

A little more detail on Beta if we could. If you have it, what was production before the pipeline incident compared to where it's currently?

Martyn Willsher

Sure, obviously, prior to the incident, we were approximately around 4,000 barrels a day gross. We are approaching that now as we kind of got into the third quarter, we're more than a few hundred barrels a day away from reaching that target. So, we expect to get there either maybe later in the third quarter, early in the fourth quarter with our current rate of workovers and so we've made a lot of progress over the last couple of months. Obviously, this quarter, you didn't see any production at all in pretty much April and we were ramping up through May and June. But obviously, in the third quarter, you'll see a much more full quarter of close to at least production from the Beta asset, which will more than offset the loss of LOPI that we incurred during this quarter and reduced our revenue a little bit.

John White

Okay, I appreciate that and the water production is in line with your expectations?

Martyn Willsher

Yeah, absolutely. So, we're seeing good results, and like I said, we use the water as kind of a water flood anyway out there. So, we're re-injecting the water and like I said, we're seeing good results and no real degradation across off the wells that have come back online.

John White

That's great. Glad to hear it. I'll pass it back to the operator and come back into the queue.

Martyn Willsher

Thank you.

Operator

I will take our next question from Jeff Robertson with Water Tower Research. Please go ahead.

Jeff Robertson

Thanks. Martyn, before the incident in California, Amplify had some redevelopment plans for Beta. Can you talk about where you sit with those today now that the fields have come back online?

Martyn Willsher

Yeah, thank you. Great question, Jeff. So, when we went offline, we were actually finishing up the second well in that program. We have permits. We had pipe. We had a lot of the materials already ready to go to continue that program. We are currently evaluating bringing that program back maybe as early as the beginning of next year. That will be discussed with our board. So, we're going to look at the economics all over again. We're going to look at the risks and the upside and really evaluate that from the bottom up before we make any decisions. But that is certainly something that is currently under discussion, and I expect to be able to give you an update on that by the next quarterly call.

Jeff Robertson

Thanks. So the permits are still in force, right?

Martyn Willsher

Absolutely.

Jeff Robertson

Okay. Thank you.

Operator

And we have a follow up from John White with Roth MKM, please go ahead.

John White

Martyn, you threw in one of your last remarks that strategic direction is being considered over the coming months. Does that include possible resumption of a dividend?

Martyn Willsher

Yes John. So obviously, one of the things that we had to look carefully at when we did the financing was with how it fit with the future strategy. There are certainly options out there to create a lot more liquidity in the near term, but currently we're not looking at acquisitions as kind of a primary focus. So, more likely to look at some portfolio optimization opportunities and look at free cash flow as a means to reserve some kind of return of capital program to shareholders. That's all to be determined going forward. And that's part of the kind of the strategic decisions that I mentioned that we would be discussing with the board going forward. As I mentioned, there are some requirements under the revolving credit facility that we need to obtain before we can reserve returning capital to shareholders but basically, that's part of the conversation that will be had moving forward and I fully expect to be able to update our shareholders by next quarter on our plans going forward.

John White

Well, that sounds great. You're sure in a good spot compared to last year or so. Regionally, where's the focus on the workovers? It sounds like there's a lot of workovers in the budget for the rest of the year.

Martyn Willsher

So, primarily Oklahoma has a continuing workover program so does East Texas. It's not quite to the same level of Oklahoma and then primary, obviously, is in California, where we still have some wells offline that we are planning to bring back online in the next couple of months and, like I said, that just gets us back to full production rates that I mentioned earlier. We also have a workover program in Bairoil. We don't do a whole lot of drilling, but we do kind of maintain an active work program because we consider those the most accretive near-term methods of getting production up and hitting higher rates of return.

John White

Okay, well thank you. Thanks again. I'll pass it back to the operator.

Operator

Thank you. And this concludes our Q&A session. I will now turn the call over to management.

Martyn Willsher

Post Q&A Wrap-Up

Thank you. In closing, I'd like to express my appreciation to the company's employees for their outstanding efforts and dedication. I would especially like to express our appreciation for the support from KeyBank again, and our syndicate of lenders and all of our shareholders for their patience and support as we've moved forward over the last couple of years. Also, I'd like to thank everyone for participating in the call today. As always, if there are any questions, please don't hesitate to reach out. Thank you.