Amplify Energy: 3Q 2023 Earnings Script

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Operator

Welcome to Amplify Energy's Third Quarter 2023 Investor Conference Call. Amplify's operating and financial results were released yesterday after market close on November 6, 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 Tuesday, November 21st, by dialing (800) 654-1563 and then entering access code 10190845.

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 third 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 strategic initiatives, our third quarter performance and an update on our sustainability efforts. Next, Dan Furbee, Senior Vice President and Chief Operating Officer, will provide an overview of third quarter operational performance. Following that, I will discuss third quarter financial results, provide an update on our balance sheet and liquidity, and provide additional details on our hedge book. Finally, Martyn will provide final thoughts before opening the call up for questions. With that, I hand it over to Martyn…

Martyn Willsher

Thank you, Jim.

Strategic Updates

The restart of operations at Beta and substantial reduction in debt outstanding have positioned Amplify to evaluate strategic opportunities focused on enhancing shareholder value. We are pleased to announce several near-term strategic initiatives in more detail today.

First, the Company has hired an investment banking firm to pursue a monetization of our oil-producing assets in Bairoil, Wyoming. We are exploring a complete divestiture of the asset, while also considering alternative structures with a goal of maximizing value for our shareholders. The marketing process will commence in the first quarter of 2024.

Second, at Beta, we have conducted an in-depth technical review of the undeveloped potential in the field and will recommence a development program in the first half of 2024. Economics at current oil pricing are extremely attractive with IRRs well in excess of 100% for wells that can be drilled and completed for approximately $5 - 6 million. The low-variable cost nature of this asset allows us to add production with marginal increases in operating cost, greatly enhancing the profitability of the field. We expect the development program, when combined with cost savings initiatives outlined on prior calls and the low-decline nature of wells in this heavy-oil reservoir, to profitably extend the life of the asset.

Lastly, we have also created a wholly owned subsidiary, Magnify Energy Services, which will provide a variety of oilfield services to Amplify-operated wells. Beginning in East Texas and Oklahoma, Magnify is providing compression, well-testing and other well maintenance services. Over time, we may expand Magnify’s capabilities into other service lines and operating areas. Magnify will improve the Company’s profitability by providing services at a lower cost than current alternatives, while allowing the Company to have greater access to and control over these critical services.

We look forward to executing these strategic initiatives which could further reduce leverage and potentially accelerate Amplify’s ability to return capital to shareholders.

Third Quarter Highlights

Amplify’s third quarter operational and financial results were in line with internal projections, including the impact of the planned Bairoil turnaround in September. Since restarting operations at Beta in late April, production volumes have continued to exceed initial projections, and the wells brought back on-line have experienced fewer complications than expected. As a result, production is higher and costs are lower than initially anticipated. In the third quarter, the Company generated Adjusted EBITDA of $19.5 million and free cash flow of $6.1 million.

Sustainability

Yesterday, Amplify issued its inaugural sustainability report, which provides increased transparency to our stakeholders regarding our business and operating practices. This report details our safety procedures, environmental performance, efforts to enhance the long-term sustainability of our business and dedication to sound corporate governance. We are committed to continuing to improve our disclosures and to providing updates on our sustainability milestones.

With that, I will 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 20,600 Boepd, consisting of 38% oil, 18% NGLs, and 44% natural gas. As expected, third quarter production at Bairoil was impacted by our planned turnaround where the field was shut-in for 10 days to perform maintenance and facility improvements. In addition to the turnaround, a significant flash flooding event impacted production and operations for several days. At Beta, we accelerated our electrification project to utilize more onshore power from the local electric utility. Installation of the upgrades required intermittent production interruptions during the quarter.

For the fourth quarter, we expect higher production as Bairoil volumes return to pre-turnaround levels and Beta production continues to increase. Current production rates at Beta are back to pre-shutdown levels with additional wells scheduled to be returned to production. We anticipate having higher gross production rates compared to the pre-shutdown period, before the effects of new development drilling planned for 2024. Effective well treatments, including acid stimulation jobs utilizing a coil tubing unit, are generating higher production rates as we return wells to production.

For the third quarter, lease operating expenses were $37.1 million, gathering, processing and transportation costs were $5.0 million, and production taxes were $4.9 million. In total, these costs were approximately $1.8 million higher than the previous quarter, partly offset by approximately $225 thousand of income generated by Magnify Energy Services. The increase was driven by expenses related to the re-start at Beta and the Bairoil flooding event. We expect to reduce operating expenses in the coming quarters as our cost saving initiatives start to take effect. Some of these initiatives include electrifying a significant portion of the Beta platforms to reduce diesel usage, the installation of selective catalytic reducers at Beta to eliminate emission credit purchases, converting wells to more efficient artificial lift methods in Oklahoma, and continuing to scale Magnify to provide additional in-sourced compressors and services.

The Company's total capital investment for the quarter was approximately $9.7 million. The majority of this capital was invested in the facility upgrades at Beta related to the electrification of the platforms and the planned facility turnaround at Bairoil, which will improve efficiencies of the assets. Capital investments for the remainder of 2023 will focus primarily on the continuation of facility projects and additional capital workovers at Beta.

With that, I will turn it over to Jim…

Jim Frew

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

Third Quarter Details

With respect to third quarter financial performance, the Company reported a net loss of approximately $13.4 million compared to $9.8 million of net income in the prior quarter. The decrease was primarily attributable to non-cash unrealized losses on commodity derivatives from rising commodity prices during the period.

As Martyn previously mentioned, third quarter Adjusted EBITDA was $19.5 million, up $1.9 million from the prior quarter. The quarter-over-quarter increase in Adjusted EBITDA was primarily due to higher commodity prices. Looking forward, we are reaffirming our guidance range of $80-100 million of Adjusted EBITDA for 2023.

With respect to costs, third quarter lease operating expenses were up $2.2 million versus the prior quarter. On a per BOE basis, we were up 6% compared to the prior quarter. Year to date, LOE has averaged $18.84 per BOE which is in-line with our guidance. As Dan mentioned, we think there are several opportunities to reduce LOE and the Company is actively pursuing those initiatives.

Comparing the third quarter to the second quarter, gathering, transportation and processing costs were 3% lower while production taxes were 5% lower on a per Boe basis.

Cash G&A in the third quarter was $6.5 million, which was up $0.3 million from the prior quarter and in-line with expectations. We expect cash G&A to remain flat in the fourth quarter.

In the third quarter, we incurred $4.5 million of interest expense, up $0.8 million compared to the prior quarter, primarily due to writing off $0.7 million associated with the prior credit facility.

Free Cash Flow, defined as Adjusted EBITDA, less capex and cash interest expense, was $6.1 million in the third quarter of 2023 and was in-line with expectations. Amplify has generated positive Free Cash Flow in 9 of the last 10 quarters, illustrating our strong, sustainable cash generating potential. Cumulatively through the third quarter, Amplify has generated $23.6 million of Free Cash Flow. Similar to Adjusted EBITDA, we are reaffirming our full-year Free Cash Flow guidance of $30-50 million.

Balance Sheet Update

On October 19, 2023, we completed the regularly scheduled semi-annual redetermination of our borrowing base, which was reaffirmed at $150 million with elected commitments of $135 million. The next redetermination is expected to occur in the second quarter of 2024.

As of October 31st, Amplify had net debt of approximately $104 million, consisting of $120 million outstanding under our revolving credit facility and $16 million of cash on hand. Net Debt has been reduced $79 million, or 43%, since December 31, 2022. The Company's liquidity was approximately $31 million, and Net Debt to Last Twelve Months Adjusted EBITDA was approximately 1.2x (times).

Hedging

Finally, I would like to discuss our hedge book. As previously announced, we added substantially to our oil and gas derivative positions covering the next three years of production to satisfy the covenants under our new credit facility. Improving commodity prices in late summer enabled us to execute trades at attractive levels that support our cash generation profile and provide upside participation should prices increase in the future.

As of November 6th, our forecasted crude oil production was approximately 65-70% hedged for the remainder of 2023 and 2024, 45-50% hedged for 2025 and 15-20% hedged in 2026. On the gas side, we are approximately 75-85% hedged for the remainder of 2023 through 2025 and 40-45% hedged in 2026.

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

Martyn Willsher

Thank you, Jim.

Final Thoughts

Over the past 18 months, the Company has continued to deliver on its promises. Having brought Beta back online and steadily increased production in a deliberate manner and successfully refinancing our debt under a new credit facility, Amplify is now positioned to unlock additional value from our mature, diversified portfolio of cash-flow generating assets. As we near the end of 2023, we reaffirm our 2023 full-year guidance and are focused on executing on our strategic initiatives.

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.

And it appears that we have no questions at this time. I will now turn the program back over to our presenters for any additional or closing remarks.

Martyn Willsher

Thank you. As always, we like to listen to questions that have come into us through our investors. Kind of aggregate them and respond to them. So, Jim, if you'd like to ask some questions that have come in.

Jim Frew

Yes. So, I think the first question that came in was around Magnify. So obviously, we've announced that for the first time, and the question is around what is Magnify's potential? What could it be? How are you guys thinking about that? So, I don't know, Dan, if that's something you're going to take?

Dan Furbee

Yes. We appreciate the question. We see Magnify really is a way to help us better control costs and the reliability of services we use in the field daily. Over the past couple of years, there's been obviously inflation pressure on prices, and we've seen some instances where there is trouble getting certain services. So, we think by in-housing some of these services, it will help us to better control our own density.

Thus far, we've spent a pretty nominal amount of capital on this endeavor, and the payback on this investment has been a matter of months. So, these are very quick payback, high-margin services we bring in-house. And like we mentioned, in our remarks that it's mostly compression, well testing equipment and some other ancillary services. But just overall, our type of assets mature, low-decline assets we expect it's very important to try to squeeze every bit of LOE costs out of the system as we can. And this is a way we think we can help do that. Thanks for the question.

Jim Frew

Another question, I guess, I can take. So, there's been some questions around the Bairoil marketing process, why we're thinking about that asset, what our plans are there, timing, et cetera. So, I guess, first and foremost, we believe it's a great asset, with a great operating team. It generates a significant amount of cash flow for us, and it's a low decline asset. But that all being said, based on where it is, it might have more value to somebody else, especially if they can leverage any kind of infrastructure they may have in the area. So, we're going to run a dual process. We've hired an investment bank to do that.

We'll pursue both an outright asset sale as well as other alternative monetization structures. Certainly, there have been a lot of folks in our industry recently announcing asset-backed securitization so that's something we will pursue in parallel with that asset. Our goal would be to maximize the value and part and parcel of that is our current credit facility has some restrictions on when we are allowed to return capital to shareholders. Most notably, we need to have capacity or availability above 30% pro forma for any capital return we do. So certainly, if we were to monetize the asset at the appropriate value that would allow us to accelerate any kind of return of capital options that we may have at our disposal.

Lastly, I guess I'd say we're under no real pressure to sell the asset, so we will only transact if the value exceeds what we believe to be the hold value. We think we'll run a thorough process with our investment bank adviser, but we'll have more to announce upon that next year, following the first quarter when we initiate the process. So, I think that covers most items related to Bairoil. So, the final thing, I guess, that came up and it was part of the 3 strategic updates was any kind of information around Beta. So, Martyn, do you want to take that?

Martyn Willsher

Certainly. Obviously, Beta is an important asset to us, and we've been spending time, money, effort to get that asset back up to full production, which it already is, and going higher, thanks to the efforts of Dan and the operating team out at Beta. So really encouraged about where we are. Obviously, as we've done this, we've also been initiating the cost reduction initiatives, which we haven't seen flow through financials, and you'll start to see them in the fourth quarter and going into next year, but we've substantially reduced diesel usage, which will start to flow into the financials, but also has an impact on emissions credits and things of that nature that we spend money on.

So, all that is coming through the fourth quarter and beyond. But we've also looked at and we did this back in 2021 is there is an incredible opportunity here to develop this asset. As we've mentioned before, this is largely a fixed cost asset and there's very little incremental variable costs in bringing new production online and with us moving to the power generated from electricity and shore power, it's even less. And so, these wells that are $5 million to $6 million have very short paybacks of, call it, 6 to 12 months at current pricing. And we're really intrigued by the potential of these wells going forward. So, we waited until we've got most of the workovers done. We are obviously going to try to finish off the majority of the workovers through the end of the year and the beginning of next year and then quickly pivot into that development program. We're currently planning about 4 wells. Obviously, we have some flexibility there. The better things go, the more we can potentially increase the number of wells going forward, but it's currently planned at a 4-well program in '24 and a 3-well program in '25, but obviously, we have flexibility there depending on how things progress. But we're really excited about the fact that we're already back at pre-shutdown levels and going higher as were throughout the quarter and going into next year. And once again, that development program will be on top of that. So really excited about the potential for that asset.

I think that's all of the aggregated questions we got from our shareholder base. Obviously, we are available to shareholders who want to call and ask additional questions.

Martyn Willsher

Post Q&A Wrap-Up

But I would just like to close by saying thank you to all of our employees for their outstanding efforts and dedication. I would also like to express my appreciation to our syndicate lender and all of our shareholders for their patience and their support.

Thank you for participating on the call today. And as always, if there are any questions, please don't hesitate to reach out. Thank you everyone.