Amplify Energy: 4Q 2023 Earnings Script

March 7, 2024 / 10am CT

Operator

Welcome to Amplify Energy's Fourth Quarter 2023 Investor Conference Call. Amplify's operating and financial results were released yesterday after market close on March 6, 2024 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 March 21, 2024, by dialing 800-654-1563 and then entering access code 28240256.

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 fourth 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-K 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 review our fourth quarter performance and provide an update regarding our previously announced strategic initiatives. Next, Dan Furbee, Senior Vice President and Chief Operating Officer, will provide an overview of fourth quarter operational performance. Following that, I will discuss fourth quarter financial results, provide an update on our balance sheet and liquidity, and provide additional details on our hedge book. Finally, Martyn will conclude our prepared remarks with comments regarding Amplify's 2024 guidance and provide final thoughts before opening the call up for questions. With that, I will hand it over to Martyn…

Martyn Willsher

Thank you, Jim.

Fourth Quarter Highlights and Strategic Update

Amplify had a strong fourth quarter of 2023, capping off a successful and important year for the Company. With respect to the fourth quarter, the Company generated $25.2 million of Adjusted EBITDA and $14.4 million of free cash flow. Fourth quarter production averaged 20,800 Boepd, a 1% increase from the prior quarter, while LOE came in 7% lower than the prior quarter on a per BOE basis.

For the year, Amplify generated $88.0 million of Adjusted EBITDA and $38 million of free cash flow, which was in-line with the Company's 2023 guidance, despite steep declines in natural gas and NGL prices throughout the year. In 2023, the Company also materially improved its balance sheet, reducing net debt by approximately $95 million, and establishing a new credit facility in the third quarter. Operationally, the Company achieved average net production of 20,500 Boepd for the year, successfully returned Beta to production, and formed Magnify Energy Services to provide a variety of oilfield services to Amplify-operated wells, reduce operating costs and provide greater operating control. I am extremely proud of the entire organization for the operational and financial progress we made in 2023, and I expect the Company to continue the positive momentum this year.

With respect to the strategic initiatives highlighted last quarter, the Company engaged an investment bank to pursue the monetization of our oil-producing assets in Bairoil, Wyoming. As a reminder, we are exploring a complete divestiture of the asset, as well as considering alternative structures, with the goal of maximizing shareholder value. A successful Bairoil monetization will accelerate our ability to reduce debt outstanding and evaluate return of capital options. We will provide an update regarding this process on our next call.

At Beta, following an in-depth technical review of the undeveloped potential in the field, we are pursuing a four-well development program in 2024, with the first well having been spud earlier this week. At current prices, the development program is forecasted to generate attractive IRRs in excess of 100% and payback periods of less than one year. The first two wells are scheduled to be on production in the second quarter, and we will provide updates to the market when the results are available.

In summary, we continue to focus on optimizing cash flow generation, while simultaneous pursuing our strategic initiatives at Bairoil and Beta. We believe this plan will unlock additional value in Amplify's portfolio and deliver substantial benefits and long-term value to our shareholders.

With that, I will hand it over to Dan…

Dan Furbee

Thank you, Martyn.

Operational Update

Total production for the fourth quarter averaged approximately 20,800 Boepd, consisting of 41% oil, 18% NGLs, and 41% natural gas. Full-year 2023 production averaged 20,500 Boepd which was within our full-year guidance range.

Production guidance of 19,000 to 21,000 Boepd for 2024 represents volumes which are nearly flat year-over-year, with a 12% increase in oil volumes from Beta development offsetting natural declines of our gas-weighted assets. This projection includes approximately 15-days of scheduled shut-ins at Beta during the year to complete the electrification of the platforms, which will generate significant cost savings and reduce emissions in the future. The Beta development program is anticipated to bring on additional oil volumes in Q2 and Q4 of 2024, with the full impact of our initial development campaign realized in 2025. Oil production growth will increase revenue realizations in 2024 and improve the Company's profitability going forward. Additionally, we anticipate that our operating partners in the Eagle Ford will continue development in the 2nd half of 2024, with completions adding incremental liquid-weighted volumes in early 2025.

Lease operating expenses for full-year 2023 were approximately $140 million, or $18.66 per BOE, which was below the mid-point of our 2023 guidance range. As a reminder, we brought the Beta field back to production in late-April of 2023. When normalizing for a full year of Beta operations, 2023 lease operating expenses would be approximately $147 million. Our team has been extremely focused on reducing operating costs throughout our asset base, and we began to realize the positive results from these efforts in the 4th quarter. We expect to continue improving our cost structure throughout 2024 and are guiding to a midpoint of $143 million. Our guidance range for lease operating expenses does not include the impact of Magnify Energy Services, which is expected to ultimately generate between $2 and $3 million of Adjusted EBITDA that would have otherwise been captured by third party service providers in LOE. Accounting for the effects of Magnify to our operating cost structure, we are projecting full-year 2024 lease operating expenses to total $140 million, which represents $7 million in savings compared to the normalized 2023 run-rate despite $7 million of non-controllable, inflation related items such as higher insurance rates and electric utility costs taking effect in the year. A detailed reconciliation bridging last year's operating expenses to our expectations for 2024 can be found in our latest investor presentation currently available on our website.

The cost savings realized in late 2023 and expected to continue in 2024 are the result of the significant reduction in diesel usage from the ongoing electrification project at Beta, optimizing chemical programs in our Oklahoma and East Texas fields, improving workover efficiencies, and several other initiatives. Magnify currently owns and operates compressors in East Texas, which eliminates significant third-party rental fees, performs nearly all of Amplify's slickline work in East Texas and Oklahoma, utilizes its own well test units, and provides other ancillary services for well remediation work. In 2024, Magnify intends to expand the scope and size of the services it provides Amplify, including additional compression and water hauling services in fields where we find it to be advantageous to operate our own vacuum trucks. Between the continued cost saving projects being undertaken by Amplify and the expanded services provided by Magnify, we endeavor to be the most efficient operator of mature, low-decline, long-life assets.

In 2023 we invested a total of $33.7 million in capital projects, which was near the low-end of our guidance range. Approximately $19 million was invested at Beta, with $10 million spent on our electrification and emissions-reduction project and $9 million spent on workovers and other capital projects necessary to bring Beta back to production in April 2023. We also invested $7 million in non-op Eagle Ford development in which 10 gross (0.9 net) wells were brought online in the 1st half of 2023 and have performed at or above expectations, with average projected IRRs exceeding 50%. The remaining capital for 2023 of $8 million was for high-return well workovers and facility projects in our Oklahoma, East Texas, and Bairoil assets.

For 2024, our capital investment is expected to be between $50 to $60 million. As Martyn mentioned, we have initiated a development drilling program at Beta where we anticipate drilling 4 wells in 2024 for a total capital investment of $20 to $24 million. Also, at Beta we will finish the electrification project and other one-time facility upgrades, investing between $13 and $15 million. The remaining of the anticipated capital expenditures in 2024 is allocated to non-operated, high rate-of-return, oil weighted Eagle Ford drilling, other capital workovers and facilities projects across our operated asset base, and $1 million invested in Magnify to expand the oilfield services business.

The facilities projects at Beta, which will be completed in the 2nd half of 2024, involves the upgrade of our electrical facilities, the replacement of diesel driven injection pumps with electric pumps, and the installation of selective catalytic reducers on all natural gas and diesel driven engines, which will almost completely eliminate our NOx emissions at Beta. Upon completion, we will see a further reduction in power costs by eliminating almost all diesel usage for production operations, which will be substituted with our produced natural gas and additional electricity purchased from the local utility onshore. We will also eliminate the purchase of NOx emission credits, which is currently a significant operating cost. After completing these projects, we do not anticipate additional, material facility investments at Beta in the near future, which will increase the free cash flow from Beta going forward.

In conjunction with the cost savings to be realized by the large facility projects at Beta, we also anticipate substantial production growth through our 2024 development program. We have spudded our 1st of 4 planned wells in 2024 and expect to bring online 2 wells in the 2nd quarter and an additional 2 wells in the 4th quarter. The value proposition of further developing the Beta asset is very attractive. Beta is a world-class oilfield initially discovered and developed by Shell in the 1980’s drilling low angle wells through the massive, highly permeable, stacked sandstones.

The last significant drilling program in the asset consisted of 7 wells drilled by Amplify's predecessor company. Three of these wells were drilled horizontally targeting the D-Sand and delivered 1st year average production of approximately 350 gross Bopd per well. Our current development plan is designed to sidetrack out of existing, shut-in wells and horizontally target the D-Sand, utilizing the latest in rotary steerable and mapping while drilling technology to optimally place our wells in areas with the highest remaining oil saturation. With an estimated well cost between $5 million and $6 million and minimal incremental operating costs associated with these additional wells, we anticipate IRRs exceeding 100% and paybacks of less than 1 year.

The Beta field has the potential to be a large growth asset for years to come as there are still significant resources remaining to be recovered. The original oil in place estimates of the field range from 600 million to 1 billion barrels of oil and, with only approximately 100 million barrels recovered to date, the implied recovery factor is only between 11 to 16%. There are many analogue fields in the southern California basin with very similar reservoir properties that have recovered between 30 to 40% of the original oil in place. These analogous fields generally have much tighter well spacing compared to the Beta field, which presents the opportunity for significant infill drilling.

With Beta development underway, the Beta facility projects scheduled to be completed this year, the expansion of Magnify Energy Services, and the continued focus on cost saving initiatives and identifying and executing high-return workover projects, we expect 2024 to be a be a transformational year for the Company where we start to realize the full value of Amplify's asset base.

With that, I will turn it over to Jim…

Jim Frew

Thank you, Dan. I would now like to discuss full-year 2023 and fourth quarter financial performance, balance sheet and liquidity, and hedging.

Fourth Quarter Details

With respect to fourth quarter financial performance, the Company reported net income of approximately $43.6 million compared to a $13.4 million net loss in the prior quarter. The increase was primarily attributable to non-cash unrealized gains on commodity derivatives during the period.

For 2023, Amplify generated $88.0 million of Adjusted EBITDA. Despite falling gas prices, the Company's Adjusted EBITDA was near the mid-point of its guidance range. As Martyn previously mentioned, fourth quarter Adjusted EBITDA was $25.2 million, up $5.7 million from the prior quarter. The quarter-over-quarter increase in Adjusted EBITDA was primarily due to lower lease operating expenses and slightly higher oil production. Of note, with Beta coming back online in April, fourth quarter oil production increased to 41% of total production, up from 31% in the first quarter of 2023.

With respect to lease operating costs for the full year 2023, Amplify's average LOE was $18.66 per BOE. This was slightly below the mid-point of 2023 guidance. In the fourth quarter, lease operating expenses averaged $18.14 per BOE, down 7% compared to the prior quarter. As Dan mentioned, we think there are several opportunities to continue reducing LOE and the Company is actively pursuing those initiatives.

For full-year 2023, gathering, processing and transportation costs averaged $2.78 per BOE, which was below the low-end of the guidance range. Fourth quarter GPT costs were $2.66 per BOE. We expect these lower costs will continue into 2024.

Cash G&A in 2023 was $26.4 million, or $3.53 per BOE which was below the mid-point of guidance. In the fourth quarter of 2023, cash G&A was $6.2 million, or $3.25 per BOE, which was down $0.3 million from the prior quarter.

Full-year 2023 cash interest expense was $16.3 million. This was slightly above the high end of our guidance range. Despite aggressively paying down debt throughout the year, rising interest rates created some headwinds. In the fourth quarter, we incurred $3.8 million of interest expense, down $0.7 million compared to the prior quarter. As we continue to pay down debt, we expect interest expense will trend lower in 2024.

Free Cash Flow, defined as Adjusted EBITDA, less capex and cash interest expense, was $38.0 million and $14.4 million for full-year 2023 and fourth quarter 2023 respectively. Both of these results were in-line with expectations. Amplify has generated positive Free Cash Flow in 14 of the last 15 quarters, illustrating the strong, sustainable cash generating potential of our mature, diversified asset base. As Dan mentioned, we are investing significant capital at Beta in the first half of 2024, and expect to realize the positive impacts to revenue and free cash flow in the second half of the year.

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 December 31st, Amplify had net debt of approximately $94 million, consisting of $115 million outstanding under our revolving credit facility and $21 million of cash and cash equivalents. Net Debt has been reduced approximately $95 million, or 50% since December 31, 2022. At year-end, the Company's liquidity was $40 million, and Net Debt to Last Twelve Months Adjusted EBITDA was 1.1x (times).

Hedging

As of March 6th, our forecasted crude oil production was approximately 70-75% hedged for 2024, 45-50% hedged for 2025 and 10-15% hedged in 2026. On the gas side, we are 85-90% hedged for 2024 through 2025 and 45-50% hedged in 2026. The Company will continue monitoring the market to opportunistically supplement its strong hedge positions going forward.

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

Martyn Willsher

Thank you, Jim.

2024 Guidance

On to guidance. Yesterday we provided operational and financial guidance for 2024, with the current assumption that we retain Bairoil for the full year. If our monetization process is successful, we will update guidance as appropriate later in the year.

As Dan previously mentioned, Amplify's 2024 capital budget is forecasted to be between $50 and $60 million. On the development side, we expect to drill 4 operated wells at Beta and participate in 0.5 to 1 net non-operated wells in the Eagle Ford. We also anticipate completing the electrification and emissions projects at Beta, while funding facility and high-return workover projects throughout our entire portfolio. Due to the timing of the Beta development and facilities projects, we expect to invest 85-95% of our capital budget in the first three quarters of 2024. As a result of these investments, we anticipate that by the fourth quarter of 2024, the Company will see a substantial increase in oil production and a lower cost structure at Beta, which will significantly increase our cash flow and the long-term value of the Beta asset.

Our average daily production forecast for the year ranges between 19,000 and 21,000 Boepd, with a commodity mix of approximately 42% oil, 16% NGLs, and 42% natural gas. Due to the development program at Beta, we anticipate oil production as a percent of total production will increase throughout the year.

For guidance purposes, we have assumed a WTI price of $75 per barrel and a Henry Hub natural gas price of $2.50 per MMBtu for 2024. Based on these assumptions, we anticipate generating Adjusted EBITDA of $90 to $110 million and approximately $20 to $40 million of free cash flow this year.

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

Final Thoughts

As we look ahead to the remainder of 2024, we are excited by the potential of our Beta development program and the impact of a successful monetization of our Bairoil asset. We believe these two critical initiatives, combined with our relentless focus on managing our cost structure, will provide a catalyst for market outperformance, while also enhancing our flexibility as we consider our strategic path forward and evaluate potential capital return options.

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

Q&A

Operator

At this time, if you would like to ask a question, please press star 1 on your telephone keypad. You may remove yourself from the queue at any time by pressing star 2. Once again, that is star 1 to ask a question. We will pause for a moment to allow questions to queue. Once again, if you would like to ask a question, please press star 1. Our first question comes from Jeff Gramp with Alliance Global Partners.

Jeff Gramp

Morning, guys. Thank you for the time. I was curious, starting first with Beta, so you guys are drilling the first well there now, results coming in Q2. Do you have a best guess for when those wells start flowing just to get a sense of the contribution in Q2 and maybe in the Q3? I know IP rates are not everything, but any kind of internal estimate or expectations you could share to benchmark maybe what makes a good well there early on?

Martyn Willsher

Let me talk about timing and then give Dan the floor on the other part of your question. These usually will take a couple of months to kind of by the time you have drilled them, completed them, and started flowing them back. We may have some initial results by early May in our next call, but we are anticipating better results by kind of later in May and June and kind of that timeframe. We will provide what we can by the next earnings call, but I think this is more likely a later in the Q2 results and impact on our production base.

Dan Furbee

Yeah, Jeff. This is Dan. Initial production results, we said we are expecting our first-year average production to be approximately 350 barrels of oil per day kind of based on the latest wells drilled here. I would say the profile of these wells is much shallower decline than what you would see in a typical shale well being conventional assets. We are expecting IP rates obviously higher than 350 barrels of oil per day with a not extremely steep decline is kind of the characteristics of this reservoir and the results.

Jeff Gramp

Okay, great. That is really helpful. Thank you. Sticking with Beta, so production's kind of above pre-incident levels. I am curious if you guys have any reader expectation on the sustainability of that. Is that maybe just a short-term boost since it has been offline for a while or what you guys are kind of expecting on the PDP-based wedge of production there?

Dan Furbee

Yes, since we brought Beta back on, we have been able to do some much more extensive cleanouts of the laterals and the wells and the screens in the wells. We have been able to utilize the coil tubing unit that was not previously available on our asset. Bringing in that unit, the uplift we have seen seems to be sustainable. We have seen that uplift now on individual wells for going on six months since we started our workover program, since we brought the asset back on. We are confident to continue seeing these results on our workovers and hopefully get increasing uplifts from these projects.

Jeff Gramp

Okay, great. Maybe one more for me on the LOE bridge slide that you guys have and appreciate the detail that went into that. On the cost inflation component specifically, you guys hit on a couple items in the prepared remarks, but could you just kind of review specifically what you are seeing there on cost inflation and then curious if you guys view that as kind of just a structural change to the cost profile going forward? Is that something Magnify could help with? Are there other things you guys could do to maybe mitigate that? Any kind of commentary there this review again would be helpful.

Martyn Willsher

Yeah, I think we highlighted two main items, which are an increase in regulated power costs, which are basically just, they got approved at a higher rate in some cases, almost double digits and those came kind of late in the year and so we obviously push those into the forecast and then our insurance costs, really not related to Amplify in any way. This isn't just industry wide, I think this is an all-company's wide increase in liability costs. A lot of it is associated with automobile incident costs. It is kind of impacting the entire market for general liability claims and costs in the marketplace. I think this is something that a lot of companies will have to absorb, and we are, obviously pointing it out specifically, but that is one of those are two of the things that kind of impacted us the most. Dan, do you want to go into any of parts of the question there?

Dan Furbee

Yes, on the other parts of it, you know, Magnify has done a really good job to offset some of these inflationary costs. If you go back to like 2022, much higher gas prices in East Texas, we saw a lot of inflation with things specifically around compression costs, and we have a lot of rental compression, bringing a lot of that compression in house. We have been able to offset a lot of that and we do expect compressor rates to come down over time as obviously it is going on with natural gas prices. There is just not as much activity in the East Texas region and then yes, like Martyn said, most of the cost inflation we are expecting this year are mainly the insurance rates and the regulated power costs, which we are currently looking for ways to reduce our power consumption across all of our assets. We think there's additional upside there to realize this year.

Martyn Willsher

And this is, you know, obviously the bridge to 2024. A lot of the things we are doing this year will impact later in 24 and into 25, especially as we finish these electrification and emission projects. So we have already gotten some benefit from them, but there will be incremental benefits that will flow through later in the year and into 2025. And so this is kind of where we are now and obviously, but not where we intend to continue to progress from here.

Jeff Gramp

Okay. Understood. Great. I appreciate the time, guys. Thank you.

Martyn Willsher

We always try to survey our questions from our investors. One that we received that we did feel we wanted to kind of spend a little bit more time on is the timing of the Bairoil process from here. Bairoil is a very technical asset and so what we have started by doing is obviously reaching out to the most interested buyers, which is a pretty long list, and really working with them on the technical aspects of this deal. Keep in mind, we are running this as a parallel process between both an asset, outright asset sale and a monetization through a different kind of securitization or other structure. So that is going to take a little bit longer than your traditional divestiture timing. We anticipate this will lead to some kind of result or decision somewhere between kind of the first quarter and second quarter earnings calls. So probably sometime in that kind of midsummer timeframe, June, July, somewhere in there. So we expect to have more information as of the May call, but likely the kind of the conclusion somewhere in the months in between that call and the August call.

Martyn Willsher

Post Q&A Wrap-Up

With that, I just wanted to say thank you to all of our employees for their outstanding efforts and dedication this year. I would also like to express my appreciation to all of our stakeholders for their continuing support. Thank you for participating on the call today and as always, if there are any questions, please do not hesitate to reach out. Thank you, everyone.