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# EDITED TRANSCRIPT

BRY.OQ - Q3 2023 Berry Corporation (Bry) Earnings Call

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## CORPORATE PARTICIPANTS

**Fernando Araujo** *Berry Corporation - CEO*

**Michael S. Helm** *Berry Corporation - VP, CAO & CFO*

**Todd Crabtree** *Berry Corporation - Manager of IR*

## CONFERENCE CALL PARTICIPANTS

**Charles Arthur Meade** *Johnson Rice & Company, L.L.C., Research Division - Analyst*

**Nicholas Paul Pope** *Seaport Research Partners - Research Analyst*

**Steven Henry Busch** *Everglades Resources, Inc. - Founder & President*

## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to the Berry Corporation Q3 2023 Earnings Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Todd Crabtree with Investor Relations. Todd, floor is yours.

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**Todd Crabtree** - *Berry Corporation - Manager of IR*

Thank you, Liz, and welcome, everyone. Thank you for joining us for Berry's Third Quarter 2023 Earnings Webcast.

Earlier today, Berry issued an earnings release highlighting 2023 third quarter results. Speaking this morning will be Fernando Araujo, our Chief Executive Officer; and Mike Helm, our Chief Financial Officer.

Before we begin, I would like to call your attention to the safe harbor language found in our earnings release that was issued this morning. The release and today's discussion contain certain projections and other forward-looking statements within the meaning of federal securities laws.

These statements are subject to risks and uncertainties that may cause actual results to differ materially from those expressed or implied in these statements. These include risks and other factors outlined in our filings with the SEC, including our 10-Q, which will be filed later today.

Our website, [bry.com](http://bry.com), has a link to the earnings release and our most recent investor presentation. Any information, including forward-looking statements made on this call are contained in the earnings release and that presentation reflects our analysis as of the date made. We have no plans or duty to update them, except as required by law.

Please refer to the tables in our earnings release and on our website for a reconciliation between all adjusted measures mentioned in today's call and the related GAAP measures. We will also post the replay link of this call and the transcript on our website.

I will now turn the call over to Fernando.

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**Fernando Araujo** - *Berry Corporation - CEO*

Thanks, Todd. Welcome, everyone, and thank you for joining us. In the third quarter, we continued to deliver strong financial and operational results generating \$70 million in adjusted EBITDA and producing 25,300 barrels a day.

We executed on our strategy to maximize shareholder value and generate meaningful and sustainable cash flow. In line with our shareholder return model, the Board declared total dividends of \$0.21 per share, a 50% increase compared to the prior quarter.

We are currently on track to meet our goal to deliver 2023 cash return in the high single digits based on our current stock price. On September 15, we closed our \$70 million acquisition of Macpherson Energy Corporation, delivering on our strategy to acquire accretive producing bolt-on assets.

We have integrated the Macpherson assets and people into Berry, and have identified and already started implementing several initiatives that will reduce long-term costs and improve free cash flow. When we announced this acquisition, we said that we expected these assets to enhance Berry's free cash flow by 15% to 25% in 2024. Based on our cost savings opportunities implemented so far, we now expect to exceed these free cash flow estimates.

On average daily production in Q3 was higher than the average for the first half of 2023. This is an outstanding achievement considering that we are on track to spend approximately 30% less capital in 2023 than originally planned due to a reallocation of capital to fund a portion of the Macpherson transaction.

Base production continues to outperform our expectations for the year, especially in the thermal diatomite reservoir, where we have optimized our steam injection strategy, the results of which are shown on Slide 12 of our investor deck. We expect our 2023 production to be in the midrange of guidance, which has increased in connection with the closing of the Macpherson transaction.

Our ongoing initiatives to lower operating and G&A expenses continue to bear fruit. Operating expenses on a boe basis were about 10% lower in the third quarter than the first half of the year. Similarly, we reduced adjusted G&A by more than \$2 million or 12% quarter-over-quarter. We are still focused on lowering our cost structure in Q4 and into 2024.

In Q3, we had promising test results from a well targeting light oil and gas reservoirs, which do not require steam to produce, in an undeveloped block in the Midway-Sunset field. We are still executing the testing program and initial production results are exceeding our expectations and are being sold via existing infrastructure.

This project highlights the quality of our oil-rich assets in the San Joaquin Basin even after 100 years of production. There are still meaningful opportunities remaining across our acreage. I'm excited about this new development opportunities and look forward to providing further updates in the coming months.

I will now turn the call over to Mike.

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**Michael S. Helm** - *Berry Corporation - VP, CAO & CFO*

Thank you, Fernando. As always, more information is available in our earnings release issued this morning and in our 10-Q filing available later today, but here are a few highlights. We delivered another quarter of strong financial and operational results. We generated adjusted EBITDA totaling \$70 million and adjusted free cash flow of \$35 million, each were a slight increase quarter-over-quarter.

In accordance with our shareholder return model, 20% of the third quarter adjusted free cash flow will be used to pay a variable dividend, and we use the remaining 80% to fund a portion of the Macpherson acquisition.

Most of the adjusted free cash flow expected to be generated in the fourth quarter will be used for debt reduction. We are actively evaluating the optimal use of the free cash flow we plan to generate in 2024 and beyond. With the enhanced cash flow from Macpherson acquisition, we currently expect to further improve our leverage, including through debt reduction. We'll provide additional details on those efforts in conjunction with announcing our 2024 capital plans in the first quarter of next year.

Berry continues to achieve its operational and financial targets. We're delivering strong cash flows and remain well positioned to continue to maximize shareholder returns while looking at ways to optimize our dynamic shareholder return model. Back to you, Fernando.

**Fernando Araujo** - *Berry Corporation - CEO*

Thanks, Mike. Our third quarter results demonstrate our ongoing ability to maintain operational excellence and deliver strong shareholder returns. We are on track to meet our annual operating expense and production goals with lower CapEx and G&A expenses.

We're also excited about the new development opportunity in our Midway-Sunset field. Additionally, we are aggressively pursuing accretive producing growth opportunities in and outside of California that will support our overall strategy to enhance future free cash flows and shareholder value.

With that, I will turn the call over to the operator for questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) The first question will be coming from Charles Meade with Johnson Rice.

**Charles Arthur Meade** - *Johnson Rice & Company, L.L.C., Research Division - Analyst*

Fernando, you mentioned that -- my question is about this new play, there's new development concept of Midway-Sunset. I guess there's 2 aspects of the question. One, you mentioned that it's performing better than your expectations, but could you give us a sense of what your expectations are?

And maybe as part of that, you can tell us -- give us an idea for what this means at the kind of individual project or well level, what kind of productivity or what kind of resources are we talking about? And what your sense is of the total inventory of this kind of opportunity.

**Fernando Araujo** - *Berry Corporation - CEO*

No, that's a very good question, Charles. Let me give you a little background on the project itself. We're currently testing an undeveloped block in the north end of our Midway-Sunset field and this block is subdivided into different four blocks.

And we are targeting deeper reservoirs, oil and gas reservoirs, which should be recoverable without steam. Now these are stacked reservoirs. We're talking about three or four different reservoirs. And in this first well, this first sidetrack, we're testing seven different intervals. Now the deeper of the intervals, that's the one that we've tested so far in the Santos formation.

We're seeing production in the low triple digits, which is better than our normal production from development activities in California. So that's very encouraging. Now outside of this sidetrack, we also have two recompletions that we executed in the same block, and we're currently producing oil and gas from those recompletions as well from the shallower Antelope reservoir.

Now 1 thing to note is that for future development, we could develop this field with mostly sidetracks as we've got about 100 or so idle wells nearby that we can utilize to sidetrack and develop this field possibly. And then in terms of potential, obviously, we're still evaluating this asset and we'll update you in due time. But we're looking at potential opportunities in terms of locations in the mid-double digits for now. It could be better than that, depending on the results that we have. But again, it's very, very encouraging. And we'll be drilling the second well, the offset well in this block come at the end of November. So there's more information to come, but it is very, very exciting.

**Charles Arthur Meade** - *Johnson Rice & Company, L.L.C., Research Division - Analyst*

Yes, it sounds that way. Is the Santos a traditional field pay? Are you guys testing new horizons that have not historically been developed?

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**Fernando Araujo** - *Berry Corporation - CEO*

No, we are currently not producing from the Santos ourselves, but we have offset operators, nearby operators that have produced from the Santos in the past.

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**Charles Arthur Meade** - *Johnson Rice & Company, L.L.C., Research Division - Analyst*

Got it. Got it. That is really compelling. Second question, if that other one didn't count. I feel like -- Fernando, I feel like you guys were telegraphing in your press release that you're -- I guess, you're angling more towards non-California acquisition opportunity. Should we think about those as being Utah, which is your other operating area? Or are you trying to signal that you're looking beyond Utah?

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**Fernando Araujo** - *Berry Corporation - CEO*

Let me give you the full story on that. And yes, we are aggressively pursuing M&A activity in and outside of California. We're looking for scale. In California, we're still focusing on bolt-ons, similar to the Macpherson that we can add value and realize operational efficiencies.

But outside of California, we're really focusing on accretive assets, assets with known geology, assets where we can maintain our production flat and thus maintain our cash flow deliverability flat for years to come. In terms of basins, initially, we're focusing in the Western Rockies. Basins like Uinta, Piceance, Powder River. But in reality, we're basin agnostic. If we find the right asset with the right opportunity where we can maintain our production flat and deliver cash returns that will be an asset that we look at.

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**Operator**

The next question comes from Nicholas Pope with Seaport Research.

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**Nicholas Paul Pope** - *Seaport Research Partners - Research Analyst*

I was hoping to follow on a little bit with Charles' question on M&A. Kind of in that same line of thinking, curious how you're thinking about funding any potential acquisitions? Obviously, with the Macpherson you could pull down on CapEx. You got a fair amount drawn on the credit facility here coming out of the quarter. So just curious what the thinking is as you look at some of this potential M&A about how you might fund it either through cash or through what's available in the credit.

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**Michael S. Helm** - *Berry Corporation - VP, CAO & CFO*

Yes, Nick, this is Mike. A couple of ways to think about that. When you think about kind of the smaller ones, the bolt-on types like Macpherson, we do like using the RBL. And part of the reason we like doing that is we can get it paid off really quickly. And then once that's paid off quickly, you can get -- the cash flow just falls right to the bottom line.

To your point, we are on the line. And we just finished the Macpherson acquisition just before the end of the quarter. So it's not surprising to see the RBL in use there at the end of the quarter. But part of the story there is capital reallocation. So we have started reducing our capital. We'll continue to do that for the rest of the year and even looking into next year, maybe to really help fund the purchase price of Macpherson, and we would do something to a similar bolt-on.

So that's why those things kind of pay off quickly. As for larger acquisitions, yes, it really depends on what the opportunity is and kind of who we're talking to. But we think there's multiple ways to finance that, including equity in addition to raising debt and in that regard, it would have to make sense from all of our financial metrics, including leverage. We really aren't -- we don't have the appetite to increase our leverage on a long-term basis. So it would have to make sense from the financial metrics, but those are really kind of the way that we're thinking about it.

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**Nicholas Paul Pope** - *Seaport Research Partners - Research Analyst*

Got it. That's very helpful. And then kind of back to the -- this new development work that you are doing in Midway-Sunset. Just clarification, any planned development, is that all expected to be vertical development? Is that like fairly kind of lower cost as in no big horizontals. Is that the right way to think about this?

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**Fernando Araujo** - *Berry Corporation - CEO*

Yes, that's correct. There would be a vertical development. If we were to drill new wells will be vertical, with sidetracks -- it would be directional just because we would have to access the reservoir through the existing wellbores, but it's not a horizontal play. It's a vertical play.

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**Operator**

(Operator Instructions) The next call comes from Steven Busch with Everglades Resources, Inc.

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**Steven Henry Busch** - *Everglades Resources, Inc. - Founder & President*

So on these sidetrack possibilities, you're doing that so that they don't require permits. Is that correct?

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**Fernando Araujo** - *Berry Corporation - CEO*

Well, they do require permits, but it's not a new well permit. It's similar to a workover permit for an existing well.

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**Steven Henry Busch** - *Everglades Resources, Inc. - Founder & President*

And that's still being given out in California?

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**Fernando Araujo** - *Berry Corporation - CEO*

Yes. California is still -- the industry is still getting workover permits and sidetrack permits. That's correct.

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**Steven Henry Busch** - *Everglades Resources, Inc. - Founder & President*

Okay. Perfect. And how is the permanent outlook in general for new wells?

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**Fernando Araujo** - *Berry Corporation - CEO*

In terms of specific numbers for us, we currently have about 34 permits in hand, sidetrack permits in hand that would expect to execute and utilize in 2024. Now outside of that, we've got -- in a separate bucket. We've got about 26 permits that we call contingent and they're contingent because they're contingent on further technical work and results.

And on top of that, we've submitted well over 100 permits, in fact, 145 permits, for new wells and sidetracks, many of which already have what we call CEQA approval from CalGEM. And then additional to that, we also have over 100 workover permits in hand. The message here is that we have a lot of permits in hand for activity coming up, especially for the first half of 2024.

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**Steven Henry Busch** - *Everglades Resources, Inc. - Founder & President*

Okay. That's good to know. So just a quick question on the derivative hedges. I mean it's always up and down. Those are all mark-to-market and not cash. Is that correct?

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**Michael S. Helm** - *Berry Corporation - VP, CAO & CFO*

Some of it. The losses that show up in the income statement are predominantly mark-to-market. You're right.

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**Steven Henry Busch** - *Everglades Resources, Inc. - Founder & President*

Correct. Okay. And...

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**Michael S. Helm** - *Berry Corporation - VP, CAO & CFO*

We saw a big swing in the price. Sorry, go ahead.

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**Steven Henry Busch** - *Everglades Resources, Inc. - Founder & President*

Are we doing any naked derivatives? Or is it all covered with production, et cetera?

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**Michael S. Helm** - *Berry Corporation - VP, CAO & CFO*

No, it's all covered.

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**Steven Henry Busch** - *Everglades Resources, Inc. - Founder & President*

Right. So there's no speculating. I just want to make sure that part.

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**Michael S. Helm** - *Berry Corporation - VP, CAO & CFO*

No, no, no. Absolutely not. And there's a lot of reasons why it's not.

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**Operator**

I'm showing no further questions at this time. I would now like to turn it back to Chief Executive Officer, Fernando Araujo.

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**Fernando Araujo** - *Berry Corporation - CEO*

Well, thank you, everyone, and thank you for your interest in Berry. Thank you for your time. If we don't talk before Thanksgiving, Happy Thanksgiving to all. And once again, thank you for your time.

**Operator**

Thank you for your participation in today's conference. This does conclude the program, and you may now disconnect.

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