

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

BRY.OQ - Q2 2024 Berry Corporation (Bry) Earnings Call

EVENT DATE/TIME: AUGUST 09, 2024 / 12:30PM GMT

CORPORATE PARTICIPANTS

Todd Crabtree *Berry Corporation (Bry) - Investor Relations*

Fernando Araujo *Berry Corporation (Bry) - Chief Executive Officer, Director*

Michael Helm *Berry Corporation (Bry) - Chief Financial Officer, Chief Accounting Officer, Vice President*

Danielle Hunter *Berry Corporation (Bry) - President*

CONFERENCE CALL PARTICIPANTS

Charles Meade *Johnson Rice and Company - Analyst*

PRESENTATION

Operator

Thanks for standing by and welcome to Berry Corporation's second quarter 2024 earnings call.

(Operator Instructions)

As a reminder, today's program is being recorded. And now I'd like to introduce your host for today's program, Todd Crabtree, Investor Relations. Please go ahead, sir.

Todd Crabtree - *Berry Corporation (Bry) - Investor Relations*

Thank you, Jonathan, and welcome everyone. Thank you for joining us for Berry's second quarter 2024 earnings teleconference. Earlier today, Berry issued an earnings release highlighting 2024 second quarter results. Speaking this morning will be Fernando Araujo, our Chief Executive Officer; Danielle Hunter, our President; 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 of today's discussion contains 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 Investor Relations website, ir.bry.com has a link to the earnings release an investor deck aligned with this call, SEC filings and our most recent investor presentation. Any information, including forward-looking statements made on this call are contained in the earnings release and those presentations reflect 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.

Fernando Araujo - *Berry Corporation (Bry) - Chief Executive Officer, Director*

Thanks, Todd, and welcome, everyone, and thank you for joining us. In the second quarter, we delivered strong financial and operational results, generating adjusted EBITDA of \$74 million and producing 25,300 barrels of oil equivalent a day. Our teams continue to perform reliably and with excellence, and we remain on track to deliver results in line with the guidance provided earlier this year.

We are focused on our strategy of creating value by generating sustainable free cash flow with high rates of return in low capital intensity projects optimizing our cost structure and maintaining balance sheet strength, while meeting the highest compliance standards. Production quarter-over-quarter was sustained by a combination of strong results from our development activity and protecting base production.

Our thermal diatomite reservoir is an example of protecting the base. Since 2019, exclusive of drilling activity in 2024, we have increased production in this reservoir by 19% through superior reservoir management and workovers. This is a testament to the ingenuity of our technical teams who continue to find capital-efficient ways to increase production.

In the second quarter, we drilled 19 wells, with 15 in California and four vertical wells in Utah with production from our drilling activity outperforming expected results. We have the necessary drilling permits in hand that will allow us to complete our planned drilling program for 2024. And in the second quarter, we received new drill permits that will support our development plans in 2025.

Turning to Utah. The Uinta Basin has seen increased activity and consolidation, and this is exciting. The four horizontal wells we formed into earlier this year were put on production in the second quarter and are performing better than our predrill estimates. These four wells are adjacent to our existing acreage on operations.

We believe the resource on Berry's nearly 100,000 net operated acres, which is almost entirely held by production has the potential to be significant. Berry has a cost advantage position in this play. We are in the shallow end of the basin. We have no entry cost and have significant infrastructure in place, which will drive our long-term capital efficiency. An example of this is our gas production and related infrastructure, which will help us reduce fuel costs in our drilling and completion operations.

Based on what we know today, these wells are highly economical and will compete for capital with the rest of our portfolio. Our strategy with this is consistent with our capital discipline and proven financial policy of living within free cash flow, while increasing enterprise value. We've kicked off a process to farm out a portion of our 2025 and 2026 program, which we believe will allow us to better manage capital and could potentially bring additional technical insight. We are very excited about the resource potential we have in Utah and look forward to sharing our future development plans later this year.

I will now turn the call over to Mike.

Michael Helm - *Berry Corporation (Bry) - Chief Financial Officer, Chief Accounting Officer, Vice President*

Thank you, Fernando. I will highlight a few financial takeaways for the second quarter. For more in-depth information, please refer to our earnings release issued earlier this morning and our 10-Q to be filed later today.

In the second quarter, adjusted EBITDA of \$74 million was \$5 million higher than the first quarter. As Fernando mentioned, second quarter production was consistent with the prior quarter and realized crude prices were \$78.18 per boe and 92% of Brent for the quarter contributing to total commodity revenue of \$169 million. Compared to Q1, lease operating expenses in Q2 were down 11% to \$23.47 per BOE due primarily to lower energy costs.

Adjusted G&A expenses were down 10% in Q2 to \$7.41 per boe compared to \$8.20 per boe in Q1. We continue to implement optimization initiatives to manage our expenses. A great example of this is our Utah water disposal project, which will lower our trucking costs and has begun achieving projected annual operating cost savings of approximately \$2 million.

As we mentioned in Q1, we expected that our capital cadence would peak in the middle of the year, and CapEx for Q2 at \$42 million was in line with our expectations and higher than in the first quarter. This is due primarily to development in California and facilities projects as well as the second quarter Utah farmed in development program, which has already begun to add production. We expect to remain within our annual CapEx guidance of \$95 million to \$110 million for the year.

Adjusted free cash flow year-to-date is tracking higher than in 2023. In the second quarter, our adjusted free cash flow was \$19 million, and that included the impact of the higher CapEx. Accordingly, the Board approved a total dividend of \$0.17 per share for the quarter. This includes our

planned \$0.12 per share fixed dividend. And based on the adjusted free cash flow generated in Q2, the Board also declared a variable dividend of \$0.05 per share, which is higher than the second quarter variable dividend in 2023.

On the strength of our free cash flow, we continue to prioritize debt reduction in Q2, driving our revolver balance down to \$36 million at the end of the quarter, and we further reduced the revolver to \$28 million at the end of July and this included the final payment of \$20 million we made on the 2023 Macpherson transaction. Reducing our debt balances speaks to Berry's proactive nature to maintain a strong balance sheet along with our goal of debt-to-EBITDA ratio lower than 1.5 times.

And now I'll turn the call over to Berry's President, Danielle Hunter.

Danielle Hunter - *Berry Corporation (Bry) - President*

Thanks, Mike. For the third quarter in a row, Berry had zero recordable incidents and zero lost time incidents. I want to acknowledge our employees for another quarter from a truly outstanding safety performance. Berry producing oil and gas safely is one of our top priorities and a core component of our ability to deliver sustainable and reliable energy.

Another core focus is environmental stewardship. Last quarter, in conjunction with the release of our sustainability report, we announced that we had set a goal to eliminate at least 80% of methane emissions associated with our existing operations from 2022 baseline by the end of 2025. We estimated this achievement will reduce Berry's total scope one GHG emissions by approximately 10%. We're pleased to report that we have already completed 60% of this initiative, beginning with the replacement of all regulated natural gas pneumatic devices with zero emission devices.

We will continue to strive to operate with the highest safety and compliance standards that our stakeholders expect, and we are always exploring additional ways to make improvements. We look forward to providing future updates on our progress.

Back to you, Fernando.

Fernando Araujo - *Berry Corporation (Bry) - Chief Executive Officer, Director*

Thanks, Danny. In closing, our second quarter results have delivered on our commitment to create value and generate sustainable free cash flow. We are on track to meet our annual production goals and continue to effectively manage our cost, while maintaining an outstanding record of safety and compliance. We have world-class assets, an exceptional team that is always driving operational improvements and has a proven track record of delivering results.

Halfway to 2024, we are well underway to achieving another solid year of operational and financial performance. We remain very excited about the potential Utah horizontal well development opportunity. The outstanding performance from our four wells to date, the significant running room across our acreage, and the built-in competitive advantages will enhance the economics of our future drilling activity. Our Uinta Basin development has the potential to be complementary to our world-class California portfolio of highly economic locations.

I will now turn the call over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Charles Meade, Johnson Rice.

Charles Meade - *Johnson Rice and Company - Analyst*

Yes, good morning, Fernando, Mike, and Daniella, and the rest of the berry team. Fernando, I am laughing bit because of the -- I appreciate the what you've said on the Uinta wells that they're better than expectations. But I think there's probably some reason why you haven't told us the rate or told us what your expectations were. So to whatever extent you can, can you give us some some guideposts or some brackets for -- that would help us if not specifically quantify, at least get an understanding of where these wells have come in and what you maybe -- what you expect to see over the next 30, 60 or 90 days there?

Fernando Araujo - *Berry Corporation (Bry) - Chief Executive Officer, Director*

Well, very good, Charles. That's a very good question. And let me provide a little more color around the horizontal wells in Utah. As you know, we farmed into the four wells in acreage -- that's adjacent to our acreage to the northeast side of our acreage.

And as I mentioned, the well results initially are better than expected, better than predrill, and we'll get to those details here in a minute. But just to provide a little more color, we targeted the Uteland Butte reservoir, which is one of three or four reservoirs being targeted in the basin for horizontal well activity.

And I do want to emphasize that we have nearly 100,000 acres operated by Berry. Most of those -- most of that held by production with really good geology, uniform geology, especially in the Uteland Butte reservoir that has the potential for horizontal well development. So we're very, very excited about that. In addition to the fact that we do have a cost advantage position, as I mentioned, in the play, we are in the shallow end of the basin. We have no entry cost and we have significant infrastructure in place to help us put those wells on production. So that's going to drive our capital efficiency.

As far as the production itself, the wells IP-ed at a rate of about 1,100 barrels a day -- gross barrels of oil equivalent a day, 90% oil, which is very good, 10% gas. But also remember that we are at the shallow end of the basin with lower reservoir pressures, so our IPs are slightly lower compared to some of the IPs in the northern end of the basin in the deep basin. So we have to be mindful of that. But we do have that cost advantage position that I mentioned before. And that's what's really going to drive some significant improvement in the economics of those wells. So hopefully, that helps, Charles.

Charles Meade - *Johnson Rice and Company - Analyst*

No, look, that does help a lot. It's -- that may not be as high as some of the other two-mile laterals to the north, but those are really stout rates. So thank you for quantifying that, Fernando. The one other piece of it that I'd like to ask is, previously, you had said 22,000 acres were prospective. And it was clear back then that you were only -- that only reflected the piece of your total position. Now you're at 100. And can you give some context? Is that just -- does that just reflect your success with these four wells? Or is that -- or is there more that plays into that, like perhaps other industry results to the west?

Fernando Araujo - *Berry Corporation (Bry) - Chief Executive Officer, Director*

Another good question, Charles, and we should have been more specific when we talked about the 22,000 acres. The 22,000 acres that we referred to before is the acreage that we're currently applying well permits for. So we're focusing on those 22,000 acres, which is on the northern side of our acreage base. But that's just the area where we're focusing to get permits ready and submitted here in the next few weeks. But the entire 100,000 acres is what's prospective with horizontal well activity.

Charles Meade - *Johnson Rice and Company - Analyst*

Got it. Thank you.

Operator

(Operator Instructions)

And this does conclude the question-and-answer session of today's program -- we have a follow-up from Charles Meade from Johnson Rice.

Charles Meade - *Johnson Rice and Company - Analyst*

Yes. Okay. So two other questions then, one on Utah and then one on California. Fernando, you mentioned twice that you're at the shallow end of the basin. And so presumably, you've got a northward dip here. And all other things being equal, usually shallower means slightly lower well costs, because you've got a little less on the vertical section. But my understanding a lot of this is all over pressured drilling. And so that might not have as big a -- you might not see this big reduction in well cost.

When you look at it, what's the significance of being in the shallow end of the basin beyond well costs? And does that perhaps mean that some of the deeper horizons below the Uteland Butte, because some of the other operators are talking about a number of horizons that have been historically productive in vertical wells. Does that mean maybe some of the deeper horizons are going to be the most prospective for you in your -- in the shallower part of the basin?

Fernando Araujo - *Berry Corporation (Bry) - Chief Executive Officer, Director*

Another very good question, Charles. We are shallower, a couple of thousand feet shallower than the deep end of the basin. So our drilling costs are expected to be lower. So that's one of the advantages that we have outside of the infrastructure that we have in place. As you know, we've got 1,200 wells, something like that in Utah with a lot of infrastructure. So because we are shallower, the reservoir pressures are a little bit lower, and that's just a fact. But with the lower capital cost associated to drilling and completing the wells and the type curves we're seeing from these horizontal wells, our economics are going to be very robust.

So we're happy about that. Now do we have opportunities deeper than that? Yes. We've got the Uteland that we're targeting. Above that, we've got the Douglas Creek as well, and below that we've got the Wasatch. And there's a few operators targeting with success at those reservoirs. The geology is good. It's just an additional upside that we have with those additional reservoirs that happen to be deeper than the Uteland. I hope that helps and provides a little more color.

Charles Meade - *Johnson Rice and Company - Analyst*

Yes. No, it's really interesting. It's been a few years, since we've had a kind of a rapidly unfolding play like this in the industry. And so it's kind of fun to turn those cranks again.

Fernando Araujo - *Berry Corporation (Bry) - Chief Executive Officer, Director*

So we're excited about it

Charles Meade - *Johnson Rice and Company - Analyst*

Transition, California. Can you give any update there on the outlook for additional acquisitions and what the marketplace may look like now? I mean you had that successful McPherson deal not long ago. But if there's a more opportunities like that, that might be waiting under the wings?

Fernando Araujo - *Berry Corporation (Bry) - Chief Executive Officer, Director*

No, very good. Yes, we had that successful Macpherson acquisition, as you know, great results. We've been able to lower our operating expenses by 40% with operational synergies. So that's been a great success. Now in terms of additional opportunities, as we've mentioned before, we've got a handful of opportunities. We're talking to different parties, mostly small privates, and these would be consider bolt-on opportunities and this is really part of our base business.

Obviously, we're seeing in Kern County, that's when we can realize operational synergies and apply our technical expertise. And we are, like I said, having conversations with a few parties. But it takes time. A lot of these companies they've been around for many, many years. But at least they're willing to talk. They're willing to have the conversations, and we just have to come up with creative ways to close the deal and come up with a good deal structure that makes sense for everybody. But we are looking at a handful of opportunities in California.

Charles Meade - *Johnson Rice and Company - Analyst*

Great, thank you.

Operator

Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Fernando Araujo for any further remarks.

Fernando Araujo - *Berry Corporation (Bry) - Chief Executive Officer, Director*

Thank you, everyone, for joining the call. Thank you for your interest in Berry. We look forward to talking to you in Q3, and we are excited about our company, excited about what we have in Utah, excited about the potential activity that we have in California. And we look forward to staying in touch. Thank you so much.

Operator

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

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All Rights Reserved.