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BRY.OQ - Q1 2024 Berry Corporation (Bry) Earnings Call

EVENT DATE/TIME: MAY 01, 2024 / 3:00PM GMT

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

Todd Crabtree *Berry Corporation - Director of IR*

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

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Berry Corporation Q1 2024 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, Investor Relations. Please go ahead.

Todd Crabtree - *Berry Corporation - Director of IR*

Thank you, Jerald, and welcome, everyone, and thank you for joining us for Berry's First Quarter 2024 Earnings Teleconference. Earlier today, Berry issued an earnings release highlighting 2024 1st 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 in 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 website, 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 or contained in the earnings release and that presentation 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 - CEO & Director*

Thanks, Todd. Welcome, everyone, and thank you for joining us. In the first quarter, we delivered solid financial and operational results, generating adjusted EBITDA of $69 million and producing 25,400 barrels a day. These results are in line with projections, and we expect to deliver full year results consistent with the guidance provided in March. We are focused on maximizing enterprise value by generating sustainable free cash flow through operational excellence.

Our operational excellence includes keeping production essentially flat acquiring accretive producing bolt-ons, efficiently allocating capital, managing our cost structure and prioritizing safety and compliance. Let's review our first quarter results through that lens. Production for the quarter was flat to our 2023 full year average. Base production remained strong, especially from our thermal diatomite reservoirs. We drilled and completed nine sidetracks as planned, and we are in the process of drilling a 20-well sidetrack campaign in our Midway Sunset field. We also made progress reducing cost highlighted by a 10% reduction in lease operating expenses compared to last quarter.

Moreover, we are currently in the process of acquiring additional working interest in our Round Mountain field by reallocating capital from our development plan. This acquisition represents approximately 100 barrels of oil per day annualized. Underpinning these accomplishments is our commitment to superior HS&E performance and regulatory compliance. Our safety performance remains strong. And for the second quarter in a row, we have zero recordable incidents, zero lost time incidents and no reportable spills.

Since our last earnings call, there has been a development in the ongoing Kern County EIR litigation, which our President, Danielle Hunter, will address in her remarks. However, I want to emphasize that our 2024 development activity and production plan do not depend on the reinstatement of the Kern County EIR. In fact, successful execution of our 2024 plan does not require the issuance of permits to drill new wells.

Until the Kern County EIR is reinstated, we will continue to execute on our proven strategy to maintain production through workovers and sidetracks as well as potentially reallocating capital to accretive bolt-on acquisitions. Additionally, the Uinta Basin is an important part of our portfolio, and we are making progress on the horizontal play we previewed last quarter.

In April, we formed into a 21% working interest in 4 horizontal wells that are expected to be put on production in the second quarter of 2024. These are adjacent to our existing operations in Utah, and the results from these wells, will be used to evaluate future development opportunities in our acreage. We believe we have the potential to develop approximately 22,000 net acres with horizontal wells. We'll have more to share as results become available. I will now turn the call over to Mike.

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

Thank you, Fernando. I will highlight a few financial takeaways for the 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 first quarter, adjusted EBITDA of $69 million was essentially flat to the fourth quarter of 2023. Quarter-over-quarter, lower revenue was offset by lower lease operating expenses.

We experienced 4% lower commodity revenues as a result of a 1% decrease in oil production and lower oil prices. Lease operating expenses were down 10% sequentially, primarily due to decreased fuel gas costs. Expenses from field operations were $27.21 per BOE, which was lower than Q4 '23 and below the midpoint of our 2024 guidance. Highlighting another success in our cost savings efforts we were able to purchase our remaining greenhouse gas credit needs for the year at a total cost that was approximately 7% less than what we expected to spend.

CapEx for the quarter remained flat at $17 million and we expect to be within our annual CapEx guidance of $95 million to $110 million for the year. We expect our capital cadence to show increased activity over the next 3 quarters, peaking in the middle of the year. Our adjusted free cash flow, which drives our shareholder return model is historically lowest in first quarter of each year due to seasonal working capital uses.

These include annual and semiannual payments for such items as royalties, interest and certain employee compensation. In Q1 2024, our adjusted free cash flow was $1 million compared to $55 million in Q4 '23. This decrease was primarily due to the seasonal working capital uses. Our first quarter 2024 results were significantly higher than the prior year's first quarter due to higher earnings, improved working capital impacts and slightly lower capital expenditures.

As we have mentioned previously, we are fully focused on managing our debt and leverage and currently expect that much of the adjusted free cash flow for the year will be used to pay down our revolver.

The current revolver balance is largely related to the accretive bolt-on acquisition we made at the end of the year. We will also look to opportunistically refinance our notes which mature in early 2026. Last week, the Board approved our planned $0.12 per share first quarter fixed dividend. As was the case in the first quarter of '23, there will be no variable dividend for the first quarter of '24 due to the nominal adjusted free cash flow generated for the quarter. And now I'll turn the call over to Berry's President, Danielle Hunter.

Danielle E. Hunter - *Berry Corporation - President*

Thanks, Mike. Good morning, everyone. As Fernando noted, there has been a development in ongoing Kern County EIR litigation which essentially has restricted the issuance of new drill permits on and off over the last few years. On March 7, the Appeals Court issued their ruling, which did not reinstate the current County EIR. Instead, the EIR will remain stayed until the county can remedy the three areas that the court found deficient.

Based on what we know today, we expect the process will likely take 18 to 24 months to be fully resolved. While we are exploring alternatives to obtain new drill permits in the meantime, I want to reiterate that our 2024 plans do not require new drill permits and are not reliant on reinstatement of the EIR. Looking ahead to 2025, we believe that we have sufficient inventory of workover and sidetrack opportunities that should allow us to sustain production, same as we did in 2023 and have planned to do in '24. Switching gears,

producing oil and gas safely, responsibly and efficiently is how we deliver value to our shareholders. Minimizing our environmental impact, including lowering the carbon intensity of our operations in a cost-effective manner, is an integral part of our strategy and operational best practices. Last month, we issued our updated sustainable business report, which provides a transparent look at our organization.

A highlight that we want to share with you today is that we have set a methane emissions reduction goal. Specifically, we are aiming to eliminate at least 80% of methane emissions associated with our existing operations from a 2022 baseline by the end of 2025.

Based on current estimates, we believe this achievement will reduce various total Scope 1 GHG emissions from that baseline by approximately 10%. To do that, we're planning to replace all regulated natural gas pneumatic devices with zero-emission devices in the second half of this year. Based on current estimates, this investment should allow us to achieve our 80% methane emissions reduction targets and also mitigate the Inflation Reduction Act waste emission charges for assets.

Additional information, including about the source of various emissions and our approach to managing them is in our sustainable business report, which is available on our website. We take seriously our responsibility as environmental stewards, and our approach to sustainability is integral to our strategy to be a best-in-class operator for all of our stakeholders, our communities and our environment.

We will work to continuously improve the ways in which we operate by investing in economical solutions that drive operational efficiencies and add value to our business while reducing our emissions. We look forward to providing future updates on our progress.

Fernando Araujo - *Berry Corporation - CEO & Director*

Thanks, Dani. We are off to a strong start in 2024, and I am confident that we will achieve another solid year of performance. Focus for the rest of the year remains the following: one, optimizing performance from our base business, defined by sustaining production levels while maintaining high environmental and safety standards and managing cost. Two, improving our capital structure by refinancing our notes due in 2026 at the right time under the most favorable conditions and three, continuing to pursue growth opportunities in our E&P business focusing on cash enhancing accretive transactions that will provide scale and geographic diversification.

This is the foundation of our strategy to maximize long-term enterprise value. I will now turn the call over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Charles Meade of Johnson Rice. The floor is yours.

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

I wanted to ask a question first about the thermal diatomite. You called it out both in your press release and the -- in your prepared comments that your thermal diatomite at sidetracks are performing well. Can -- can you -- is just this -- the normal sort of thing where some part of your portfolio outperformed some parts underperform? Or is this kind of a repeated sustained better than expected reservoir performance for you guys?

Fernando Araujo - *Berry Corporation - CEO & Director*

Yes. Let me clarify that. And thanks, Charles, for the question. That's a really good question. And we are very proud of the performance that we have in the thermal diatomite. And the naturality, Charles, we haven't drilled any wells or sidetracks in the thermal diatomite until we started drilling some wells at the end of last year, and we just put on production.

So over the past years since Q4 2019, we've actually been able to increase the production in our thermal diatomite reservoir by 19%, just with workover activity and by enhancing our steam injection strategy from the reservoirs. The thermal diatomite is a great reservoir, very, very productive reservoir. And just through proper surveillance, proper reservoir management and workover activity, we've been able to increase its production by, like I said, 19% over the past 4 or 5 years.

We have drilled some wells we just put on production earlier in April and for the next call in the next few weeks, we'll have some results. And we'll, for sure, update you on the results from those wells from the sidetracks.

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

Got it. Got it. And then as a follow-up, and I recognize this is peering into the future a little bit with the play in Utah. But I'm wondering really about capital cost because if I think about Berry, who you've been traditionally in the price tag for a typical well project for you guys and then you look at the price tag on a typical unconventional horizontal well, I mean there's an order of magnitude difference in those D&C costs. So -- the 21% on the first 4 wells is helpful.

We can kind of bracket that maybe $8 million to $10 million or something like that for '24. But where I'm going with this question is, in the success case, where you guys, let's say, you derisked some of these, let's say, 4 or 5 DSUs on your 22,000 acres. You might be looking at you look at one rig program for -- in '25. And then suddenly, you talk about a big step-up in CapEx. So how are you guys thinking about this? Are you thinking -- what's your existing working interest in that 22,000 net acres. Are you thinking of in the success case bringing in a partner? Or is that perhaps already contemplated? Just kind of if you could frame up what that would look like in the success case for us.

Fernando Araujo - *Berry Corporation - CEO & Director*

Yes, that's very good. Charles, a very good question. And you said it yourself. One of the options that we're contemplating and exploring is the possibility of creating a joint venture or finding partners to farm into our acreage to reduce that capital commitment that we would have drilling those horizontal wells because obviously, those horizontal wells are not California wells, as you well mentioned.

We are looking at the possibility of finding partners, and we've got people interested already to come in and be joint venture partners with us.

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

Got it. That seemed like the first direction you look, and so I'm glad to know you're looking there. I appreciate the detail.

Fernando Araujo - *Berry Corporation - CEO & Director*

Very good. Thank you, Charles.

Operator

(Operator Instructions) At this time, I am showing no further questions. I would now like to turn it back to our CEO, Fernando Araujo for closing remarks.

Fernando Araujo - *Berry Corporation - CEO & Director*

Thank you. And once again, I want to thank everyone for your interest in Berry and for the questions. We're very excited about delivering results which is like we've done here over the past several quarters. And if you have any additional questions, please don't hesitate to give us a call, reach out, and we'll be happy to answer any questions or concerns that you may have. Thank you once again.

Operator

Thank you for your perception in today's conference. This does conclude the program. You may now disconnect.
