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BRY.OQ - Q4 2023 Berry Corporation (Bry) Earnings Call

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CORPORATE PARTICIPANTS

Danielle Hunter *Berry Corporation - President*

Fernando Araujo *Berry Corporation - CEO & Director*

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

Todd Crabtree *Berry Corporation - Director of IR*

CONFERENCE CALL PARTICIPANTS

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

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to Berry Corporation Q4 and Full Year 2023 Earnings Call. (Operator Instructions) Please note that today's conference is being recorded.

I would now like to pass the call over to Todd Crabtree with Investor Relations.

Todd Crabtree - *Berry Corporation - Director of IR*

Thank you, Carmen, and welcome, everyone, and thank you for joining us for Berry's fourth quarter and full year 2023 earnings teleconference.

Earlier today, Berry issued an earnings release, highlighting full year 2023 and fourth 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-K, which will be filed this week. Our website, bry.com, has a link to the earnings release and our slides for this call. Any information, including forward-looking statements made today are 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 a 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.

A year ago, during my first earnings call as Berry's CEO, I highlighted 3 priorities: One, we're committed to delivering top-tier shareholder returns by being a cost-effective producer, optimizing production without compromising safety. Two, we have the assets and the technical team to achieve that goal and successfully navigate California's regulatory environment. And three, we would pursue accretive bolt-on opportunities in California.

2023 was a strong year for Berry, and we delivered on all fronts. We generated top-tier returns to our shareholders. We held production essentially flat with less CapEx than planned, and we expanded our production base and future cash flow with 2 financially accretive acquisitions.

In 2023, we generated $97 million of adjusted free cash flow and returned $65 million to shareholders. More than half of the adjusted free cash flow, $55 million was attributable to the fourth quarter, which is typically our largest adjusted free cash flow quarter of the year, compared to the third quarter that represents a 54% increase or $19 million. Total annual production was at the top end of our updated guidance, and we achieved that with a strong safety performance, highlighted by zero lost time incidents during the year. Our full year average production of 25,400 barrels a day was driven by innovative reservoir management practices, a successful drilling and workover campaign and bolt-on acquisitions that benefited the fourth quarter.

Also in Q4, our overall daily production increased to 25,900 barrels a day. We improved reservoir management practices in our thermal diatomite assets and increase the asset's base performance by 5% without additional drilling activity. At year-end, Berry had 103 million barrels of proved reserves and replaced 176% of our California production through reservoir extensions and acquisitions.

We continue to be encouraged by test results of deeper stacked oil and gas reservoirs in our North Midway-Sunset field, which can be produced without steam. We are producing light oil from 2 wells in the low triple digits per day, which is higher than our average new well production from shallow reservoirs in California. We will continue to appraise the area with additional wells.

One of our priorities for 2023 was identifying accretive producing bolt-on opportunities. With the Macpherson acquisition and the smaller working interest acquired at the end of the year, we are seeing the benefits of that focus in both cash flow and production. Berry remains well positioned to be a consolidator in California.

We continue to aggressively pursue acquisitions that support production, generate operational and corporate synergies, increase future cash flow and maximize shareholder value.

With that, I will turn the call over to Mike.

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

Thank you, Fernando. I will highlight a few additional financial takeaways. For more in-depth information on the fourth quarter and the full year 2023 results, I refer you to our earnings release issued earlier this morning and to our 10-K to be filed this week. Our strong 2023 financial results provided $65 million in cash returns to our shareholders through $55 million in fixed and variable dividends and $10 million in share repurchases.

For the fourth quarter, we declared $0.26 per share of fixed and variable dividends, resulting in a total dividend of $0.73 per share for the year. Combined, this resulted in a top-tier sector total dividend yield of 10% for our shareholders. We also purchased 2% of our stock in the second quarter for $10 million. Additionally, we put some of the adjusted free cash flow we generated to work in another tenet of our strategy, funding accretive acquisitions. In the fourth quarter, we repaid the $53 million of borrowings on the RBL from the Macpherson acquisition, which brought our revolver to 0. The RBL balance at year-end was due to the funding of the second acquisition in late December.

Our actions in 2023 show our commitment to keeping our leverage low as well as making cash flow accretive acquisitions, which we intend to continue doing. We will also look opportunistically to refinance our notes, which mature in early 2026 as well as renew Berry's and C&J's revolvers, both of which expire in mid-2025.

Throughout 2023, we had a clear focus on executing initiatives to lower our G&A, and our adjusted G&A was approximately 4% lower than 2022. In 2024, we expect to reduce G&A by about another 6% and also make meaningful reductions in our operating expenses, both of which are included in our 2024 guidance. The expected operating expense reduction will be driven primarily by reduced energy cost. We will continue to explore investments that create long-term value for our business. An example of this is the Hill Solar project that became fully operational in 2023 and is capable of offsetting 30% of our power demand at the property. This project not only reduces our carbon footprint, but delivers annual cost savings of about $300,000.

Fourth quarter 2023 greenhouse gas prices continue to rise beyond our expectations. Consequently, our "taxes, other than income taxes" increased 47% in 2023 compared to 2022. This exceeded our revised guidance, having an unexpected $6 million noncash impact on our adjusted annual EBITDA and EPS.

As shown in our earnings slide deck, I would remind you that historically, the first quarter of each year is our highest use of working capital and therefore, the lowest for our adjusted free cash flow. In the first quarter of 2024, for example, we will have semiannual interest payments on our notes and the typically large annual royalty payment. In 2024, we expect to generate most of our adjusted free cash flow in the second half of the year, just like we did in 2023. Much of our adjusted free cash flow in '24 will be used to manage our revolver lower.

A few other items to note. Overall, we have more than 80% of our expected 2024 oil production hedged. Our crude oil hedge position in 2024 will have more attractive pricing than last year, consisting mostly of swaps at $78 per barrel they make up about 70% of the midpoint of our expected oil production. While we expect that the recent storms will have an impact on various production in the first quarter, it has not been as consequential as it was in the first quarter of last year. Additionally, for your reference, we published our annual guidance ranges for our expected production, capital expenditures and other important metrics in our press release issued this morning.

Finally, some housekeeping on our calculation of adjusted free cash flow. We believe Berry's corporate and C&J Well Services' capital expenditures are essential to maintaining the business and are really no different than our maintenance expense for our production. These capital amounts generally approximate about $8 million per year. Going forward, adjusted free cash flow will now be calculated after accounting for all of these capital expenditures.

Thank you. And now I'll return it back to Fernando.

Fernando Araujo - *Berry Corporation - CEO & Director*

Thanks, Mike.

Our 2023 results demonstrate our ability to deliver top-tier shareholder returns and operational excellence. We are confident that we will achieve another year of solid performance in 2024. Our planned 2024 activity is expected to keep production levels flat to 2023, and we will remain diligent in managing our expenses. Also we will continue to strategically employ hedging to help us cover the fixed energy cost of the business. Regarding the permitting process in California, I want to emphasize that our 2024 development activity and production plan do not depend on the appellate court's ruling on the Kern County EIR. The ruling is expected in mid-April, and we will adjust activities if it is positive. But to be clear, our 2024 plan does not require the issuance of permits to drill a new well. Until the litigation is successfully resolved, we will execute on our tried and true operating plan to maintain production through workovers, sidetracks and accretive bolt-on acquisitions. The Uinta Basin is an important part of our portfolio, and we've been monitoring the horizontal play near the north and east part of our acreage for some time. Other operators are having success, and now the play is close to our acreage. We recently signed an agreement to farm into 4 horizontal wells that immediately offset our acreage. These wells have been drilled and subject to customary closing conditions, we will participate in their completion, which is scheduled for late in the second quarter. If the wells are successful, the knowledge gained will help us define a development plan for our acreage. Right now, we believe that approximately 22,000 net acres could be prospective. Overall, Berry's strategy and priorities remain consistent for 2024 with a commitment to maximize shareholder returns.

Our business model is simple. We produce oil and gas from prolific basins. We have a track record of proven performance, and we deliver value through sustainable cash returns.

And with that, I'll turn the call over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And it's from Charles Meade with Johnson Rice.

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

Fernando, you dropped a number of interesting details in your prepared remarks, but I just want to follow up on 2 of them. First, you mentioned that the appellate ruling on the permitting dispute, I guess, is expected mid-April. I guess just 2 questions with response to that. Am I understanding that there's nothing in your guidance or your plan that assumes anything favorable there? But if you did get something favorable, how quickly would you be able to respond? Or perhaps if you did get a favorable ruling is the most likely scenario that it would be immediately appealed to the Supreme Court of California.

Fernando Araujo - *Berry Corporation - CEO & Director*

If we do get a positive ruling -- no, we have already submitted several wells. I think its another 75 wells submitting, pending approval from CalGEM. So those wells would have to be -- we'll have to go through their process and get approved. Now in terms of getting ready operationally, it's going to take a little time because there's been some equipment that's left the basin just because of the lack of activity. But we would expect to have additional possibly additional activity in the second half of the year. It wouldn't really affect production that much this year. If anything, it would just be additional capital dollars spent drilling wells. And I think Dani is going to follow up. Danielle Hunter, our President, she's going to follow up with some comments.

Danielle Hunter - *Berry Corporation - President*

Yes, I'll respond on the second part of that question. We don't have any idea if the plaintiffs would appeal an adverse ruling or not, that's anybody's guess. In terms of whether the supreme court takes it up based on conversations we've had with Counsel, we are told, typically, there's a 15% to 20% chance that they would actually take up the case. And if they do, we don't know if they would keep the stay in place during that time. So that's not something that's automatic. So while the supreme court, let's say, they do appeal it. The supreme court does take it up. There's still a good chance that it would be in effect during that time.

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

Got it. That's an important elaboration. And then second, the -- Fernando, you talked about these deeper zones at deeper test at Midway Sunset. Are those -- can you talk about what that is? I mean that's still Kern County. So these can't be -- or at least it seems like these can't be new wells? Are these -- are you working over wells and going -- are going down the hole, or are you sidetracking deeper perhaps? Can you just elaborate on what you're doing there and -- because those are attractive production rates for you guys?

Fernando Araujo - *Berry Corporation - CEO & Director*

Yes. Now that's right. And both wells that we drilled at the end of last year were sidetracked, and we sidetrack to deeper reservoirs. As I've mentioned in my remarks, we were currently producing from 2 wells so far. They're testing in the low triple digits, which is very encouraging. They're testing from the lowest reservoir. And we're testing light oil, Charles, that's a 32 to 34 API oil from the Santos formation. And one important thing to note is that it is recoverable without steam injection, which is very good. At the same time, from those wells, we're producing about 300 Mcf a day of gas, and we are capturing that gas to actually generate steam in our 21Z facility. So that's really good because we're saving on fuel from that perspective. And just a little more color on it is, remember, Charles, that this is an undeveloped block on the north end of Midway-Sunset, it's a block that's divided into several fold blocks. There's 4 fault blocks, and we have stacked reservoirs. So it's very encouraging, and it could have a significant upside potential for us in the future.

Operator

(Operator Instructions) All right. As I see no further questions, I will conclude the Q&A session and pass it back over to Fernando Araujo for final comments.

Fernando Araujo - *Berry Corporation - CEO & Director*

Thank you very much for your interest. And thank you very much for your question, Charles. And let's just forge ahead to have another really good year. It's going to be an exciting 2024 for Berry. Thank you very much.

Operator

Thank you. And that concludes today's conference call. Thank you for joining. You may now disconnect.