Amplify Energy: 4Q 2017 Earnings Script
March 7, 2018 / 10am CT

Operator

Welcome to the Amplify Energy Fourth Quarter and Full Year 2017 Investor Conference Call. Amplify's operating and financial results were released earlier today and are available on Amplify's website at www.amplifyenergy.com. During this presentation, all participants will be in a listen-only mode. Today's call is being recorded. A replay of the call will be accessible until Wednesday, March 21st by dialing 855-859-2056 and then entering conference ID #2084357 or by visiting Amplify's website, www.amplifyenergy.com.

I would now like to turn the conference over to Martyn Willsher, Vice President and Treasurer of Amplify Energy Corp…

Martyn Willsher

Good morning and welcome to the Amplify Energy conference call to discuss operating and financial results for the fourth quarter and full year 2017. We appreciate you joining us today. Bill Scarff, Amplify's president and chief executive officer will lead the call, followed by Chris Cooper, our senior vice president and chief operating officer, and Bobby Stillwell, our senior vice president and chief financial officer.

Please note that some of the remarks by management may contain forward-looking statements and are based on certain assumptions and expectations of management. These remarks reflect management's current views with regard to future events and are subject to various risks, uncertainties 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. Forward-looking statements include, but are not limited to, our statements about and our discussion of, our first quarter and full-year 2018 guidance. Please refer to our press release and our 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 is derived from our internal financial books, records, and reports. For additional detailed disclosure, we encourage you to read our Annual Report on Form 10-K, which we expect to file on or before March 16, 2018.

Also, non-GAAP financial measures may be disclosed during this call. Reconciliations of those measures to comparable GAAP measures may be found in our press release or on our website at www.amplifyenergy.com.

With this in mind, I will now turn the call over to Bill Scarff. Bill….

Bill Scarff

Introduction

Thank you, Martyn. I appreciate our stakeholders joining us today to discuss another strong quarter for the Company. Today's remarks will provide an update on our strategic alternatives process, as well as the strong operational and financial performance of our assets in the fourth quarter. We will also update our outlook for 2018.

Strategic Update

Since emergence from financial restructuring last year, we have been working closely with our Board to transition to a more growth oriented E&P C-Corp, while also maximizing value for our shareholders. We have a unique asset base in that we produce in five distinct regions with balanced exposure to both crude oil and natural gas. Our assets offer both long-life, mature production as well as growth opportunities that produce a predictable return. A strategic review with the Board led us to explore marketing alternatives for certain assets, while also targeting the development of drilling inventory in our key growth areas. We continue to consider portfolio rationalization of non-core assets, as well as evaluating growth strategies that enhance organic value, reduce debt and maximize liquidity.

It is important to highlight that all of our assets continue to perform very well. Throughout 2017 we maximized production and lowered costs across our portfolio while spending minimal capital. This generated significant free cash flow and enhanced liquidity. As we sit here today, our balance sheet is strong with debt to ebitda metrics at 2.0x, liquidity of $98 million and forecasted free cash flow for 2018 in excess of $70 million. The performance of our asset base along with the strength of our balance sheet gives us optionality as we make strategic decisions that are in the best interest of our shareholders.

Reserves

Earlier today we announced that our 2017 year-end proved reserves were 990 Bcfe, an increase of approximately 8% over our 2016 year-end proved reserves. While our drilling activity was limited throughout the year, this growth in reserves is a testament to the long-life, low-decline nature of our assets, along with some price improvement. This is also reflected in a material improvement in reserve life from 12 years to 15 years compared to year-end 2016. Our 2017 year-end proved reserves were comprised of 44% crude oil, 41% natural gas and 15% natural gas liquids, and 71% of the reserves were classified as proved developed. The SEC PV10 for these reserves was $768 million.

Operations

On the operating front, we continued to perform extremely well in the fourth quarter. Our operating costs were below the low end of the guidance range, while our EBITDA and free cash flow exceeded the high end of the guidance range. Our team and our assets continue to perform at a very high level, as they have for many quarters in a row.

Prior to year-end 2017, Amplify had drilled but not completed three horizontal Cotton Valley wells. Two of those wells were recently completed with the third well scheduled to be completed early in the second quarter. We are also recommencing our East Texas drilling program in the second quarter, with an emphasis on Cotton Valley wells in our Joaquin area. Chris will provide additional details on the outlook for our drilling program later on this call.

Cost Reductions

Consistent with our remarks on prior earnings calls, Amplify has continued to look at ways to improve our corporate efficiencies by reducing operating costs and G&A expenses. Our 2017 results and 2018 guidance reflect these efforts. LOE is forecasted to remain relatively flat on a total dollar basis year-over-year despite service cost inflation, and G&A is expected to be meaningfully reduced from 2017 levels after the first quarter of 2018. The G&A reductions demonstrate our focus on tight cost controls and include a first quarter reduction-in-force. Overall, G&A headcount has now been reduced by 26% since the fourth quarter of 2017.

Employees & Outlook

In closing, I would like to thank our employees for their continued dedication to excellence and safety in the fourth quarter and throughout the year, as we continue our transformation into a streamlined, low-cost, growth-oriented C-Corp. Going-forward, we will continue to exercise discipline on strategic decisions and deploy capital in a manner that prudently manages the asset base and enhances the value of the company for our shareholders.

Now, Chris Cooper will walk you through our operating performance in greater detail. Chris…

Chris Cooper

Thank you, Bill

Operating Results

As Bill mentioned, we were very pleased with our operating results in the fourth quarter, which met or exceeded our guidance expectations.

Production for the fourth quarter averaged approximately 184 MMcfe per day, an increase of 4% from the previous quarter and above the midpoint of our guidance. This increase was driven by production from three horizontal Cotton Valley wells that came online in the third quarter and also better than expected results from production optimization efforts across our asset base.

Lease operating expenses in the fourth quarter were $26.6 million or, on a per unit basis, $1.56 per Mcfe. This reflects a per unit reduction of 12% from the previous quarter and was significantly below the low end of the guidance range thanks to the dedicated efforts of our field teams that prudently managed discretional expense projects and service costs. While we are pleased to have exceeded guidance expectations for the fourth quarter, these results included lower than normal activity levels coupled with certain one-time events. On an absolute basis we expect LOE to remain flat from 2017. This includes provision for increased service provider costs and the impact of incremental costs associated with a planned turnaround of our Beta facility; the effects of which are mitigated by further planned efficiency improvements across our asset base. On a per unit basis, we expect full year 2018 LOE to be in the range of $1.64 - $1.81 per Mcfe. We expect first quarter LOE to be a high water mark followed by a material reduction throughout the remainder of the year, and ending the year at a lower cost basis than we ended 2017.

Capital spending for the fourth quarter was approximately $12 million, compared to $25 million in the third quarter and in-line with our guidance. The bulk of the capital spend was associated with drilling activity in East Texas, with the remainder focused on our Eagle Ford drilling & completion program and other facility upgrades across the rest of portfolio. In East Texas, we completed the drilling of our sixth well in the 2017 program and demobilized the rig in December. In Eagle Ford, we participated in 3.0 gross (0.2 net) non-operated wells brought on-line in the fourth quarter of 2017 that had average IP30 rates of 1,070 Boe/d per well with 91% liquids.

Development Plan and Guidance

Capital cost guidance for 2018 will be in the range of $65-$80 million, with first quarter capex expected to be in the range of $10-$16 million. As Bill mentioned, in East Texas, we recently completed two wells that were drilled in 2017, with a third well expected to be completed in the second quarter. In addition, we are restarting our one-rig East Texas drilling program in the second quarter. During the remainder of 2018, the Company plans to drill seven horizontal wells targeting the Cotton Valley formation, four of which are expected to be online prior to year-end 2018.

In Eagle Ford, we expect to participate in 10 gross (0.5 net) new non-operated Eagle Ford shale wells that will achieve first production in the second quarter of 2018.

Overall, we are pleased with the strong operating results in the fourth quarter and remain focused on lowering costs, growing and optimizing production and improving margins in 2018.

With that, I will now hand it off to Bobby Stillwell to walk you through our financials. Bobby…...

Bobby Stillwell

Thank you, Chris.

Financial Results

As you've heard from us a few times on the call, it was another strong quarter as we met or exceeded guidance expectations across all metrics. Net Cash from Operating Activities was $44.3 million for the fourth quarter, an increase from $37.3 million in the third quarter.

Adjusted EBITDA for the fourth quarter was $48.2 million, exceeding the high end of the guidance range of $37 to $42 million. The strong beat was due to higher production levels, lower operating costs and better realized commodity pricing. Adjusted EBITDA for the full year was $158 million, also exceeding the high end of our full year guidance range of $147 to $152 million.

G&A in the fourth quarter was $11.0 million, which included $400,000 of one-time expenses and $1.0 million of non-cash compensation expenses. Excluding the one-time expenses, cash G&A was $9.6 million, below the fourth quarter guidance midpoint of $10.3 million. This decrease was primarily due to cost control initiatives and a reduction in recurring legal and advisory costs. We expect that G&A costs will remain at fourth quarter levels in the first quarter of 2018, but will trend down significantly for the remainder of 2018 due to the impact of our cost reduction initiatives. In total, we expect that the reductions we have made to date to result in approximately $6.0 million per year in G&A savings on a cash, run-rate basis.

Free Cash Flow – defined as Adjusted EBITDA less cash interest expense and capital expenditures – for the quarter was $31 million and above the high end of the guidance range of $20 to $25 million. Free Cash Flow for the full year was $79 million, also meaningfully above the guidance range of $62 to $67 million. These proceeds were used to pay down our revolver and enhance liquidity.

Credit Facility and Liquidity

Amplify's borrowing base on its revolving credit facility was $440 million as of March 5th, with $357 million outstanding. Liquidity was $98 million, consisting of $17 million of cash on hand and available borrowing capacity of $81 million (which includes $2.4 million in outstanding letters of credit).

I'd like to add that through strong free cash flow generation and the receipt of transaction proceeds, we have paid down our revolving credit facility by $98 million since the second quarter and total debt to adjusted EBITDA metrics have gone from 3.2x to 2.0x during that time frame. Given the meaningful free cash flow forecasted in 2018, along with a strong balance sheet, we expect to have significant flexibility in executing our business plan in 2018.

Next, I would like to talk about our hedging strategy and execution….

Hedging

Hedging remains an integral part of Amplify's financial strategy and our hedge book had a mark-to-market value of approximately $18 million as of March 5th. Since our last update in November, we have added oil swaps of approximately 1,000 barrels per day in 2019 and NGL swaps of approximately 1,300 barrels per day also in 2019. We also added approximately 23 million cubic feet per day of gas swaps in 2018. As a percentage of our full year 2018 guidance, the Company's production is now 56% hedged in 2018 and 22% hedged in 2019. We continue to monitor the market and will add hedges as we deem appropriate and as required under our revolving credit facility. An updated hedge presentation with our most recent positions was posted on our website today under the investor relations section.

Guidance

Earlier today we also issued our first quarter and initial full year 2018 guidance based on recent strip pricing and the development assumptions discussed on the call today. The 2018 budget was designed to keep production relatively flat across our portfolio on a year over year basis, while also maximizing free cash flow. As new wells come online, quarterly production will trend modestly up as the year progresses. On a total dollar basis, LOE is relatively flat year over year and as production trends up, you will see per unit metrics come down. Run-rate G&A expenses will trend down starting in Q2 and stabilize for the balance of the year as our cost savings initiatives to-date are fully implemented.

I will now turn the call back over to Bill for closing remarks.

Bill Scarff

Thank you, Bobby.

We are excited about the path forward for Amplify and the options available within our portfolio. We have the flexibility to grow in a disciplined manner by developing inventory in our core area of East Texas, while also generating positive cash flow across all of our assets. We will continue to focus on transitioning to a low cost, high growth E&P company and will exercise discipline in making strategic decisions that enhance value for our shareholders.

This concludes our prepared remarks today. Thank you for your interest in Amplify Energy and for joining us on the call. As always, do not hesitate to reach out to us if you have any questions.