Amplify Energy: 3Q 2017 Earnings Script
November 7, 2017 / 10am CT

Operator

Welcome to the Amplify Energy Third Quarter 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 Tuesday, November 21st by dialing 855-859-2056 and then entering conference ID #96863387 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 third quarter 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 fourth quarter and full-year 2017 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 Quarterly Report on Form 10-Q, which we expect to file later today.

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 as we continue to make significant progress on the Company's transformation to a stream-lined C-Corp. 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 third quarter. We will also update our outlook for the fourth quarter.

Strategic Update

Over the last few months, we have been working closely with our Board on a strategic alternatives process to transition the company to a stream-lined, leading low-cost operator and to maximize value for our stakeholders. Through this process, we have re-established our drilling program in East Texas and successfully completed three horizontal Cotton Valley wells in the third quarter. We have also further reduced our debt and enhanced liquidity, while continuing to explore the divestiture of assets in our portfolio. We are encouraged by the level of interest we are seeing in our active divestiture processes and will update the market as events warrant.

Receipt of Transaction Proceeds

We are pleased to also announce that in October, Amplify received approximately $15.5 million in connection with the sale of a third-party midstream business with whom the Company's natural gas gathering and processing agreements entitled Amplify to a percentage of the proceeds in the event of a sale. The proceeds from this transaction were used to pay down debt under the Company's revolving credit facility and enhance liquidity. The sale will have no impact on the Company's gathering and processing costs.

Operations

On the operating front, we continued to perform very well in the third 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.

As mentioned earlier, we also successfully brought online the first three horizontal Cotton Valley wells in our East Texas drilling program in the third quarter. The results to date on these wells have met our performance expectations. We also drilled a fourth Cotton Valley well in the third quarter and expect to spud two additional wells in the fourth quarter, with completions on those wells scheduled after year-end 2017. Chris will provide additional details on these results and the outlook for the remainder of our drilling program later on this call.

Employees & Outlook

In closing, I would like to thank our employees for their continued dedication to excellence in the third quarter. The significant impact of Hurricane Harvey was felt across our employee base, and our East Texas and South Texas assets. Despite the difficult circumstances, we were able to keep our focus on asset execution, while also working to help our fellow employees and our neighbors in Houston impacted by the hurricane. Our third quarter results are a testament to this Company's culture, and the professionalism and resiliency of our employees. It's truly a privilege to lead this outstanding team.

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 this quarter, which met or exceeded our third quarter guidance expectations.

Production for the third quarter averaged approximately 177 MMcfe per day, an increase of 4% from the previous quarter. While this was consistent with our guidance expectations, it should be noted that third quarter production was impacted slightly by shut-ins in the Eagle Ford, East Texas and South Texas areas related to Hurricane Harvey. It's also important to note that in East Texas we are currently rejecting ethane more than we have in the past. While this is leading to enhanced economics through improved price realizations and lower processing costs, it has also reduced NGL production from our East Texas assets. We intend to continue making gas processing decisions based on the best value realization for the Company, which will likely result in some fluctuations in NGL production, realized prices and processing costs in future periods. We have updated our fourth quarter and full year guidance to reflect these adjustments.

Lease operating expenses in the third quarter were $29.1 million or, on a per unit basis, $1.78 per Mcfe. This reflects a reduction of 2% from the previous quarter and was below the low end of the guidance range. While we are pleased to have exceeded guidance expectations for the third quarter, our operating teams remain very focused on realizing further cost reductions on a per unit basis going forward.

Capital spending for the quarter was approximately $25 million, compared to $19 million in the second quarter and in-line with the guidance midpoint. The bulk of the capital spend was associated with drilling and completion activity in East Texas, with the remainder focused on our Eagle Ford drilling & completion program and facility projects across the portfolio. In East Texas, in the third quarter first production was realized from three new horizontal Cotton Valley wells with average lateral lengths of approximately 6,000 feet that realized an average peak rate of 10 MMcfe/d per well, in-line with the Company's expectations. In Eagle Ford, we participated in 14.0 gross (0.9 net) non-operated Eagle Ford shale wells brought on-line in the third quarter. Well results exceeded expectations with an average peak rate of 1,762 boe/d per well with 93% liquids.

Development Plan and Guidance

Capital cost guidance for the year has been adjusted to between $59-$64 million, with fourth quarter capex expected to be in the range of $10-$15 million. In East Texas, we expect to spud two new wells in the fourth quarter. All new drill wells this year will be horizontal Cotton Valley formation wells with an average lateral length of approximately 6,000 feet. As stated in our last earnings call, we implemented new completion designs in the third quarter, which involved increased proppant loading and reduced stage spacing with a view to improving overall well productivity and economics. We will continue to monitor the impact that these design changes have on the performance of these new wells to determine the optimal completion design for future wells. For this reason and also to support our efforts to enhance third-party service provider efficiency and capabilities, the next batch of completions are expected to be performed in early 2018.

In Eagle Ford, it is expected that an additional 3 gross wells will achieve first production in the fourth quarter.

Overall, we are pleased with the strong operating results in the third quarter and remain focused on optimizing production and margins going forward.

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

Bobby Stillwell

Thank you, Chris.

Introduction

First, I'd like to discuss our financial performance during the quarter and then provide an update on our debt and liquidity.

Financial Results

Net Cash from Operating Activities was $37.3 million for the third quarter, an increase from $12.7 million in the second quarter.

Adjusted EBITDA for the third quarter was $37.8 million, exceeding the high end of guidance primarily due to better realized commodity pricing and lower operating and processing costs.

G&A in the second quarter was $11.1 million, which included three hundred thousand of restructuring related expenses and $1.0 million of non-cash compensation expenses. Excluding the restructuring related expenses, cash G&A was $9.8 million, which is slightly higher than third quarter guidance of $9.1 million. This increase was primarily due to higher than expected legal and advisory costs that we expect to continue through the fourth quarter.

Free Cash Flow – defined as Adjusted EBITDA less cash interest expense and capital expenditures – for the quarter was $7 million and above the high end of the guidance range. These proceeds will be used to pay down our revolver and enhance liquidity.

Credit Facility and Liquidity

Amplify's borrowing base on its revolving credit facility was $475 million as of November 3rd, 2017, with $388 million outstanding. Liquidity was $101 million, consisting of $17 million of cash on hand and available borrowing capacity of $84 million (which includes $2.5 million in outstanding letters of credit). Our next regularly scheduled borrowing base redetermination is expected to occur later this month and we will update the market accordingly.

I'd also like to add that through strong free cash flow generation and the receipt of transaction proceeds, we paid down our revolving credit facility by $30 million since the end of the second quarter and total debt to adjusted EBITDA metrics have gone from 3.2x to 2.7x during that time frame. Proceeds from active divestitures are expected to further pay down debt. Given our current liquidity position, positive free cash flow profile and ongoing asset sales, our credit profile and liquidity outlook remains strong.

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 $39 million as of November 3rd, 2017. Since June 30, 2017, we have added oil swaps of approximately 1,000 barrels per day in 2018 and approximately 2,600 barrels per day in 2019. We also added approximately 10 million cubic feet per day of gas swaps in 2019. As a percentage of our full year 2017 guidance, the Company's production is now 44% hedged in 2018 and 14% hedged in 2019. We continue to monitor the market and add hedges as we deem appropriate. 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 fourth quarter and updated full year 2017 guidance based on recent strip pricing and revised assumptions discussed on the call today.

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

Bill Scarff

Thank you, Bobby.

We continue to be excited about the path forward for Amplify. We are maintaining our focus on operational excellence as evidenced by our performance, and we continue to explore all opportunities to enhance the value of the Company 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.