Amplify Energy: 2Q 2017 Earnings Script

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Operator

Welcome to the Amplify Energy Second 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 Wednesday, August 23rd by dialing 855-859-2056 and then entering conference ID #51917049 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 second 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 third 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 on August 9th.

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 this is the first quarterly earnings call we have had in quite some time. Today's remarks will address the transformation currently under way at Amplify and the strong operational and financial performance of our asset base. We will also address our outlook for the rest of the year.

Restructuring & Strategy

Amplify successfully completed its financial restructuring on May 4th with a significantly stronger balance sheet and a new direction as a growth-oriented E&P company. The restructuring eliminated approximately $1.4 billion in debt, enhanced our liquidity and re-positioned Amplify for growth. Currently, we are working closely with our Board on a strategic alternatives process that will further evaluate the asset base and transition the company to a growth-focused, leading low cost operator. Through this process, we expect to direct the company toward our highest growth areas, while selling non-core properties to further enhance liquidity. We will also continue our relentless focus on lowering costs across all aspects of the organization.

Divestitures

As part of our strategic review, we recently announced plans to divest our non-operated Eagle Ford oil assets and our conventional South Texas gas properties. The divestitures are in the early stages, but we are encouraged by the initial responses, and we will update the market at the appropriate time on our progress. Proceeds from these transactions will be used to pay down revolver debt and enhance liquidity that will support our growth plans.

Operations

On the operating front, our high-quality assets continued to perform well in the second quarter, as they have done consistently over several quarters. We continue to meet or exceed our internal targets across all performance metrics. This speaks to the strength of our asset base which offers commodity diversity, low decline rates and low cost production, as well as high growth drilling opportunities in multiple basins.

Guidance & Capital Plan

Now, I'd like to turn our attention to the outlook for the remainder of the year. In May, we re-initiated a drilling program in our core growth area of East Texas. We currently plan to run one rig targeting the horizontal development of the Cotton Valley Sand and Haynesville Shale formations. We have an expansive acreage position and a deep inventory of repeatable horizontal targets in these formations. Further, our team has a long history of success drilling high rate of return wells in the East Texas basin. Given our track record, and the significant potential of our acreage position, we look forward to continued success and increasing shareholder value through accretive development.

Chris will go into more details on our capital plan for the year, but I'd like to highlight, based on the guidance we announced today, that we expect to generate full year net cash flow from operating activities of $119 million, free cash flow of approximately $44 million, and 9% production growth from the second quarter to the fourth quarter. Excess free cash flow will be used to pay down our revolver and enhance liquidity.

OTC Listing

We were also very pleased to complete the listing of our common stock on the OTCQX market under the symbol AMPY on June 21st. We considered this listing to be a top priority for the company after emergence, and have already seen an improvement in trading liquidity and investor interest following the listing.

Employees & Outlook

I would like to thank the employees at Amplify for their continued dedication to the Company's progress. Our assets are performing very well because of a Company culture based on excellence, safety and accountability, and a determined workforce focused on execution. This focus and performance serves us well, and positions the Company to effectively execute on its new strategy as a growth-oriented and streamlined low-cost operator.

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

Chris Cooper

Thank you, Bill

Operating Results

Our operating results this quarter met or exceeded our internal expectations, which assumed higher workover and maintenance activity levels across most of our assets and a planned temporary shutdown of production at our Bairoil asset in Wyoming.

Production for the second quarter averaged approximately 171 MMcfe per day, a decrease of 11% from the previous quarter. Consistent with our internal expectations, production for the quarter was lower than the prior quarter due to the impact of the planned annual shutdown of the Bairoil asset for facility maintenance and regulatory purposes that resulted in all production being shut-in for 10 days. Third quarter 2017 production is expected to be notably higher than second quarter due to full recovery of production at Bairoil together with the impact of new production from our drilling program.

Lease operating expenses in the second quarter were $28.4 million, an increase of 9% from the first quarter. On a per unit basis, lease operating expenses were $1.82 per Mcfe, an increase of 21% from the previous quarter. This increase was anticipated due to the cost associated with the previously mentioned Bairoil shutdown coupled with increased workover and maintenance activity across most of our assets. Throughout the remainder of the year we expect lease operating expenses per unit to decline appreciably as production increases and workover and maintenance activity decreases.

Capital spending for the quarter was approximately $19 million, compared to $5 million in the first quarter. The bulk of the capital spent this quarter was associated with drilling costs in East Texas and Eagle Ford, but also included capital improvements implemented in connection with the Bairoil shutdown.

Development Plan and Guidance

Capital cost guidance for the year is $70 - $85 million. We anticipate spending approximately two-thirds of this in East Texas and 15% in the Eagle Ford, with the remainder spread across infrastructure related projects in California, the Rockies and South Texas. In East Texas, for the year we expect to spud seven new wells and anticipate achieving first production from three of these in the third quarter and at least two in the fourth quarter. Six of the new wells will be in the Cotton Valley formation and one in the Haynesville Shale formation, which adds an exciting new element to our development plans in East Texas. Our extensive land position of over 110,000 net acres in the region offers a significant portfolio of drilling opportunities, which includes multiples benches within the Cotton Valley formation as well as the Haynesville Shale formation. In the near-term, our development efforts will be focused in the Joaquin field where we had considerable success with new drill wells in 2016. We intend to build upon that success with the adoption of the latest drilling and completion technologies.

While our current guidance does not include drilling in offshore California in 2017, we remain very confident about our upside drilling opportunities in this area. As part of our strategic review process we are evaluating the resumption of drilling offshore California to exploit the significant potential of the Beta reservoir. There is additional information on our capital program and guidance available in the supplemental presentation that we posted on our website earlier today.

Overall, we remain very confident that our portfolio offers value accretive development opportunities, which, with the resumption of drilling in the second quarter, will allow us to grow production and support the continued improvement of our operating efficiency and margins.

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

Bobby Stillwell

Thank you, Chris.

Fresh Start Accounting

I'd first like to discuss the implementation of fresh start accounting given our emergence from bankruptcy on May 4th, as well as the presentation of our financials. As you will see in our press release and 10-Q, the second quarter balance sheet was adjusted to reflect fair value as of the emergence date and our financial statements were bifurcated between predecessor and successor entity periods. For discussion purposes on this call, second quarter results are presented in a combined manner – meaning April 1st to June 30th. Now, let's move on to a discussion of our financial performance during the quarter, an update on our debt and liquidity, and our outlook for the balance of the year.

Financial Results

Net Cash from Operating Activities was $12.7 million for the second quarter. This included significant impacts related to the restructuring – specifically $16.9 million in reorganization expenses recognized during the quarter.

Adjusted EBITDA for the second quarter was $32.9 million, in-line with our internal expectations given the planned temporary shutdown of the Bairoil asset, lower revenue due to reduced production volumes, and increased workover expenses during the quarter.

G&A in the second quarter was $15.6 million, which included $3.4 million of restructuring related expenses and $3.1 million of non-cash compensation expenses. That's a recurring quarterly cash run rate of $9.1 million, which was consistent with our views for the balance of the year and reflected in the guidance we published today.

Free Cash Flow – defined as Adjusted EBITDA less cash interest expense and capital expenditures – for the quarter was $8.5 million and in-line with internal expectations. The midpoint of our guidance for full year free cash flow is expected to be approximately $44 million. These proceeds will be used to pay down our revolver and enhance liquidity.

Credit Facility and Liquidity

Amplify's credit facility was set at $490 million at emergence with a scheduled reduction of $2.5 million per month down to $475 million by November 1st. As of August 7th, our borrowing base was $482.5 million with $413 million outstanding. Liquidity was $84 million, consisting of $17 million of cash on hand and available borrowing capacity of $67 million (which includes $2.5 million in letters of credit). We expect to continue generating positive free cash flow for the remainder of 2017, which will offset the monthly reductions on our credit facility. Our next regularly scheduled borrowing base redetermination is expected to occur in November 2017. Assuming a flat $475 million borrowing base at year end, we expect liquidity to be in excess of $80 million and debt to EBITDA based on our full year guidance will be below 3.0x. As Bill mentioned, proceeds from asset sales will further pay down the revolver and enhance liquidity.

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 $67 million as of August 7th, 2017. Our strategy is to hedge roughly 50% of proved developed producing volumes on a rolling one to two year basis. We are currently hedged on approximately 50% of our PDP volumes for the remainder of 2017 and all of 2018. We also recently started hedging 2019 volumes and will opportunistically look to add to these levels.

Additional detail related to our hedge program is posted on our website under the Investor Relations section.

Guidance

Earlier today we issued our third quarter and full year 2017 guidance and capital plan based on recent strip pricing. As Bill mentioned, our guidance supports a ramp up in activity in the second half of the year based on our East Texas drilling program, along with free cash flow generation of approximately $44 million and 9% production growth.

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. Our assets are performing well, and contain growth-oriented, repeatable investment opportunities. Our balance sheet is strong, and has ample liquidity. The Company has an enviable hedge position, and our workforce executes with excellence on a daily basis. Amplify is well positioned for success as a streamlined, low-cost E&P company.

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