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Q3 2024 BERRY CORPORATION (BRY) EARNINGS CALL

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CORPORATE PARTICIPANTS

- **Todd Crabtree** *Berry Corporation (Bry) - Investor Relations*
- **Fernando Araujo** *Berry Corporation (Bry) - Chief Executive Officer, Director*
- **Danielle Hunter** *Berry Corporation (Bry) - President*
- **Michael Helm** *Berry Corporation (Bry) - Chief Financial Officer, Chief Accounting Officer, Vice President*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Charles Meade** *Johnson Rice & Company - Analyst*
- **Michael Schwartz** *Jefferies - Analyst*
- **Jay Spencer** *Stifel Nicolaus and Company, Incorporated - Analyst*

PRESENTATION

Operator

Welcome to the Berry Corporation Q3 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 (Bry) - Investor Relations*

Thank you, Corrine, and welcome, everyone, and thank you for joining us for Berry's third-quarter 2024 earnings conference call.

Earlier today, Berry issued an earnings release highlighting 2024 third quarter results and other exciting developments. Speaking this morning will be Fernando Araujo, Berry's 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 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-Q, which will be filed shortly.

Our Investor Relations website, ir.bry.com, has a link to the earnings release and investor deck aligned with this call SEC filings and our most recent investor presentation. Any information, including forward-looking statements made on this call are contained in the earnings release and those presentations reflects 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 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 (Bry) - Chief Executive Officer, Director

Thanks, Todd. Welcome, everyone, and thank you for joining us. In addition to covering some of the operational highlights for the third quarter, including recent results in California and Utah has surpassed expectations. We have exciting news to report about our successful debt refinancing and our plans to unlock the significant value we are seeing in the Uinta Basin. We are excited about the road ahead and the value creation levers we have.

First, turning to our third quarter performance. We delivered strong financial and operational results as we remain focused on optimizing our operations and managing our world-class assets with the highest health safety and environmental standards, all in an effort to drive sustainable free cash flow and maintain a healthy balance sheet and generate long-term shareholder value.

Total production for the quarter averaged 24,800 barrels of oil equivalent per day, a slight decrease from the prior quarter, mainly due to the timing of connecting new wells to production in our Midway-Sunset field. These wells were put online at the end of the quarter with production increasing as we exited Q3, and this operational momentum continues. As a result, we are on track to reach the midpoint of our full year production guidance and once again demonstrate our proven ability to sustain production levels year-over-year.

Year-to-date, we have drilled a total of 48 wells, including 10 new wells in California. Production from our drilling activity has exceeded expectations. We are excited about the exceptional results from the sidetrack wells drilled in thermal diatomite reservoir, which are yielding returns greater than 100%. These returns underscore the quality of our world-class farming assets and the strength of our technical teams whose experience and expertise have consistently created value. We have significant running room for similar sidetrack activity in 2025 and beyond, and these permits have continued to be available.

For the past six years, we have been able to achieve our goal of maintaining stable production year-over-year net of divestments, despite the challenging and the changing regulatory and permitting environment. We have done so by drilling new wells and sidetracks and performing workovers, all of which are capital-efficient, high-return activities. As we plan for 2025, based on current permitting processes in our healthy California inventory, we are confident that we can continue to successfully execute the strategy, maintain production for the next few years while generating sustainable free cash flow.

Switching gears, we have signed a new commitment for a \$545 million term loan credit facility that will enable Berry to redeem all of our outstanding notes that are due in February 2026, and replace our current RBL facility that matures next year. This refinancing marks a pivotal moment in our company's journey and positions us well to pursue strategic opportunities and drive long-term shareholder value. Mike will share more details on this momentarily.

Finally, I want to update you on our Uinta business opportunity that continues to build momentum, and we believe has the potential to drive significant value for years to come. The four Uinta Basin horizontal wells we farmed into earlier this year continued to perform better than expected, with an average gross peak production rate of approximately 1,100 barrels of oil equivalent per day per well. These wells are producing from the prolific Uteland Butte reservoir, which is one of several reservoirs being targeted for horizontal well development in the basin. Also, we just signed a second farming agreement covering nearly 5,800 gross acres and currently contemplating around 12 horizontal wells. The first two wells should be online by year-end and the remainder will be drilled in 2025 and 2026.

On other benefits, these two families help accelerate the appraisal of our nearly 100,000 acres, which is almost entirely held by production. In addition to the performance of those farming wells, increased activity on our neighbors across the basin and adjacent to our existing acreage refers to significant value potential in our Utah acreage. As a result, we are actively evaluating potential JV partners to help accelerate the development with horizontal wells. We would likely begin by drilling two multi-well pads starting in 2025.

We have a unique low-cost advantage position in Utah. We are in the shallow end of the basin with no additional entry cost, and we have significant infrastructure in place, including access to fuel gas that with lower drilling and completion costs, which will further drive long-term capital efficiencies.

In sum, I want to emphasize that the opportunity and value potential we see in Utah has increased significantly over the last few months. We have still a lot of work ahead of us to delineate and realize the full potential of this asset. However, based on what we know today, we believe Utah could, over the long term, be a transformational value creator that would accrete directly to our shareholders.

With that, let me turn it over to Dani.

Danielle Hunter Berry Corporation (Bry) - President

Thanks, Fernando. Good morning, everyone. As mentioned earlier, we have been and continue to be granted permits in California for sidetracks and rework as well as new drills in areas with CEQA compliance. Although we're still finalizing our 2025 plan, I can share that we already have in hand approximately one-third of the permits necessary to complete our entire 2025 California drilling program. Based on that inventory and current permitting processes, and with our healthy portfolio of development inventory, we have clear line of sight to maintain stable production through 2026 at least.

Turning to our methane reduction goals. Earlier this year, we announced our commitment to reduce these emissions by 80% compared to a 2022 baseline by the end of 2025. I'm happy to announce that we have already achieved a significant goal. Thanks to the efforts of our dedicated operations teams over the course of this year, we were able to complete this initiative over a year ahead of schedule.

I want to highlight that in addition to the important environmental benefit, this \$2.5 million investment to replace gas-powered pneumatic devices, primarily in Utah, is expected to save the company over \$2.9 million in 2024 waste emission charges alone. Taking into account the IRAs' escalating fee structure and entering 2025 with 80% lower emissions than when we entered 2024. That return will be multifold in future years.

Powered by our core values and commitment to be a responsible and sustainable producer of ample, safe, reliable, and affordable energy, we will continue to look for additional ways to reduce our GHG emissions, minimize our environmental impact, and improve the ways in which we operate by investing in economical solutions and embracing practices that generate results.

I'll now turn the call over to Mike.

Michael Helm Berry Corporation (Bry) - Chief Financial Officer, Chief Accounting Officer, Vice President

Thank you, Danil will highlight a few financial takeaways from another good quarter. For more in-depth information, please refer to our earnings release issued earlier this morning and our 10-Q to be filed shortly. I will also provide additional details on our capital structure and the shareholder return model. Let's begin with the results.

Realized crude prices were down 7% at \$72.40 per barrel for the quarter, and this price represented 92% of Brent, contributing to total commodity revenue of \$154 million. Lease operating expense net of gas hedges decreased by approximately 2% for the third quarter and adjusted G&A was down 3% compared to Q2. All of this contributed to adjusted EBITDA of \$67 million for the third quarter.

As we have talked about on prior calls, our capital expenditure cadence was expected to peak in the middle of the year due primarily to development activity in California and the second quarter Utah farming development program. Aligned with that guidance, CapEx in Q3 was \$26 million, which was \$16 million lower than Q2 and brings year-to-date capital expenditures to \$85 million. We expect to remain within our CapEx guidance of between \$95 million and \$110 million for the year.

Operating cash flow was \$71 million in the third quarter, which was flat with the second quarter. Free cash flow was \$45 million for Q3, an increase of 55% over Q2 due to the expected reduction in capital expenditures.

As we look towards 2025, we remain focused on strengthening our balance sheet, developing our world-class assets, and driving shareholder value. Let me discuss our actions to continue advancing these objectives. Starting with the balance sheet. As Fernando mentioned, we have signed a new \$545 million term loan credit facility that will allow us to pay off all \$400 million outstanding of our 2026 notes and replace our current RBL facility that is due August of '25. We are working to put in place a new RBL facility, but the new term loan provides the capacity and delayed draw capabilities that would more than cover our liquidity needs should we decide to forgo the new RBL facility.

The new term loan facility has an initial three-year term with options to extend for up to two additional years, which could extend the maturity to 2029. Key terms of the agreement include the ability to have a long-term capital plan consistent with our focus on disciplined capital deployment into high rate of return projects while reducing our leverage ratios. Importantly, the unique structure provides us with the flexibility to repay the loan in advance, pursue strategic opportunities and return capital to shareholders.

In connection with our new refinancing, we are transitioning to a new capital allocation approach that balances returning capital to our shareholders at a sustainable level while reducing our overall debt and leverage ratios. Accordingly, beginning this quarter, our go-forward dividend policy targets a fixed dividend rate of \$0.12 per share annually. As announced in the earnings release, the Board has declared a \$0.03 per share fixed dividend for the third quarter of 2024.

Now I'll turn the call back over to Fernando for his closing comments.

Fernando Araujo Berry Corporation (Bry) - Chief Executive Officer, Director

Thanks, Mike. In closing, our performance this year has been strong. We delivered solid results quarter after quarter from our base business while undertaking a number of initiatives that we believe will drive long-term value. I am really proud of our teams and the great work they have done to advance new development opportunities, while tightly managing our cost and enhancing operational efficiencies. Because of them, we are stronger, more resilient and better positioned to capitalize on the opportunities now in front of us. We are excited about the significant long-term potential for both production growth and transformational value creation from our Utah assets. With the success of our initial Uinta Basin Permian program, a second one underway and the possibility of a JV to accelerate development, we have a lot of positive momentum entering 2025.

We are also excited about the promising upside opportunities in California. We truly operate world-class assets. Not many fields under development for 100 years can still generate 100% rate of return projects like we can in California. As someone who has operated fields around the world, this is amongst the best field development economics I have seen. 2024 will be another year of solid operational and financial performance. We have created exceptional teams with a proven track record of delivering results. And the stage is set for us to continue this momentum and drive shareholder value in the future.

And with that, I will now turn the call over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Charles Meade, Johnson Rice.

Charles Meade Johnson Rice & Company - Analyst

Good morning, Fernando, Danielle, and Mike. I want to thank you, start by thanking for putting these slides in your presentation the maps of this -- of your Uinta Basin position with the new farm out. And I can see how you'd be derisking as you go to the west. I think that the picture makes it clear. But I wondered if you could talk more about how this -- how the second farm-out came together? What the -- whether this is the kind of the thing that you explicitly sought out to try to derisk your Western acreage or if it came in together some other way? And also with two wells that are supposed to be on before year-end, I guess I'm not seeing the dollars for that in your capital budget, but maybe I'm missing something there.

Fernando Araujo Berry Corporation (Bry) - Chief Executive Officer, Director

No, Charles, very good question, and thanks again for listening and looking through all the information that we posted. And yes, in order to accelerate the appraisal phase and in order to derisk our acreage, we're looking at different potential opportunities, and farm-ins is one of them.

As you know, we have a significant land base in Utah, 100,000 acres, which is very interesting. And it has huge potential, as we've said. And we entered into additional farm-in with WEM, Wasatch Energy Management. And they're the ones that -- we've worked with them before, and they're a basin leader. And in this particular farm-in, what we're doing is we're combining nine sections total of about 5,800 acres to be able to drill 12 wells over the next essentially 24 months.

And the first two wells will be put online in the -- at the -- before the end of the year, and it is incorporated into our capital outlook. At the end of the day, if you look at what we're doing, again, we're accelerating our development. We're derisking our acreage. And in this particular farm-in, our working interest is about 16%. So the capital requirement is not huge.

Charles Meade Johnson Rice & Company - Analyst

Got it. That's a critical metric there. That's 16% and it makes sense when you look at kind of the two sections it looks like you're contributing there.

And the second question, going back to the California assets. You highlighted thermal diatomite in your press release and again in your prepared comments, Fernando. But I'm curious, you guys have had a lot of success with thermal diatomite over the last -- I think it's probably been two years -- at least two years ago, you started talking about it is the key piece of your California asset there or the program there. Is there something different that's happened just this last quarter? Is this a step change? Or is this just a continuation of results that you just want to highlight here?

Fernando Araujo Berry Corporation (Bry) - Chief Executive Officer, Director

As I've mentioned before, the thermal diatomite is a great asset. It truly is a world-class asset. In terms of oil in place, it's amongst the highest oil in place per acre reservoirs in the world. So there's huge potential in the thermal diatomite. Before this year, up to the end of 2023, for the last two -- basically four years before that, we were actually able to increase production in the thermal diatomite asset by 19%, which is by enhancing our steam and injection strategy and by doing workovers and recompletions, which is great. It just tells you the quality of the reservoir.

But since this year, we started sidetracking. So we -- the wells that we put online at the end of the quarter, at the end of Q3, a group of those wells are thermal diatomite wells, about 20 of them. And those are the first sidetracks. The thermal diatomite that we've done with excellent results, again, rates of return exceeding 100%. And we've got we've got more of an inventory, and that's going to be drilled in 2025. And we're excited about the thermal diatomite, which is on the sidetrack front. And then outside of that, obviously, we've got a lot of new well potential as well.

Charles Meade Johnson Rice & Company - Analyst

So the sidetracks are delivering something that just the workovers and adjusting the steam production wasn't doing for you. Is that the right understanding?

Fernando Araujo Berry Corporation (Bry) - Chief Executive Officer, Director

And again, by adjusting steam production and doing workovers, we were able to increase the production in our assets by 19% over, essentially, four years. This is just enhancing that. This is just improvement of production. So everything is very economic, and everything is contributing to enhanced production in thermal diatomite.

Charles Meade Johnson Rice & Company - Analyst

Thank you for that detail.

Operator

(Operator Instructions) Michael Schwartz, Jefferies.

Michael Schwartz Jefferies - Analyst

Hi, Berry. Thanks for having me and my questions today. Can you walk me through kind of uses of cash priority following term loan and the dividend change?

Michael Helm Berry Corporation (Bry) - Chief Financial Officer, Chief Accounting Officer, Vice President

Yeah, Michael. We -- as you can see in the release, we have adjusted our allocation of available cash. First of all, the part of the allocation is driven by -- being in compliance with the terms of the term loan. But I think more importantly, one of the things this does is this term loan allows us to delever the balance sheet over time. And the other thing that is important to us is we still have the ability and intent to maintain a dividend rate that's really more in line with our peers. Previously, our dividend rate was significantly exceeded most of the peer group that we look at. So the dividend rate is more in line with the peers.

And part of what we're trying to achieve there is kind of building on the excitement that Fernando talked about with the opportunities in Utah is make sure that we have the appropriate ability to allocate capital in a disciplined way, but to our high development opportunities in both Utah and California. So that's -- so we do have a kind of a change in the capital allocation approach.

Michael Schwartz Jefferies - Analyst

Makes sense to me. My second question was, could you give an update on CUP and multi-basin new drill permits? Are you expecting any of those to come through in 2025? And what kind of impact should we see from that?

Fernando Araujo Berry Corporation (Bry) - Chief Executive Officer, Director

Well, in terms of permits, we are currently getting permits for sidetrack activity for workover activity and for new wells in areas with prior CEQA approval. Based on the inventory level that we have in those categories, initially for 2025, our plan is obviously -- is going to be focused on those activities on those type of drilling activities and workovers. It's not going to be reliant on the EIR process.

And at the same time, we are following and looking for additional options. And one of those options are -- or is the conditional use permit category that you mentioned in specific fields. But the timing for that is still going to be about 18 months away. But independent of that, we've got enough inventory to be able to keep production essentially flat for next year and the year to come just with workover activity -- workovers and new wells in areas with prior CEQA approval.

Michael Schwartz Jefferies - Analyst

Makes sense. Thank you.

Operator

Jay Spencer, Stifel.

Jay Spencer Stifel Nicolaus and Company, Incorporated - Analyst

Hi. Thanks for taking my question. My questions were mainly around the \$545 million term loan. Could you just give me a sense of where you are in the timing of that? And has that closed? And if not, can you kind of indicate when that might occur?

Michael Helm Berry Corporation (Bry) - Chief Financial Officer, Chief Accounting Officer, Vice President

Yeah. Happy to take that question. It is effective. We actually signed the effective papers. We have a commitment were signed yesterday. Part of the reason that we didn't close it right away was trying to get through the finalization of those terms and give us an opportunity to put together an RBL. We have discussions ongoing with banks, including a potential lead bank.

But I think it's important to -- so those discussions are going on right now. But it's important to note that the term loan provides us with the liquidity that it's really our choice whether or not to put together the RBL. We have the liquidity to close out on the term loan that would kind of basically supplant kind of what we would need on RBL. The goal is to have all this done well in advance of the end of this year.

Jay Spencer Stifel Nicolaus and Company, Incorporated - Analyst

Got it. Okay. Thank you. And if you do get a new RBL, would the \$545 million commitment decrease? Or do you know yet?

Michael Helm Berry Corporation (Bry) - Chief Financial Officer, Chief Accounting Officer, Vice President

No. If we knew -- yes, it would. Sorry. It would decrease kind of dollar-for-dollar. We're looking at it really comes in two tranches. There's a \$450 million term loan on day one once it closes. And then the \$95 million liquidity component if we get the RBL at \$95 million, that would replace the \$95 million commitment on the term loan.

Jay Spencer Stifel Nicolaus and Company, Incorporated - Analyst

Got it. Understood. And then the term loan piece, I guess, the \$450 million. Is that -- would that amortize?

Michael Helm Berry Corporation (Bry) - Chief Financial Officer, Chief Accounting Officer, Vice President

Yes. It's got a 10% per year amortization.

Jay Spencer Stifel Nicolaus and Company, Incorporated - Analyst

Okay. That's all I had. Thank you very much.

Michael Helm Berry Corporation (Bry) - Chief Financial Officer, Chief Accounting Officer, Vice President

Thank you.

Operator

(Operator Instructions) This concludes the question-and-answer session. I would now like to turn it back to Fernando Araujo for closing remarks.

Fernando Araujo Berry Corporation (Bry) - Chief Executive Officer, Director

Yeah. Thank you very much for listening. And as you heard, we continue to be very excited about Berry and Berry's future. And we'll see you on the road here in the next few weeks. Thank you very much.

Operator

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

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