SM ENERGY

First Quarter 2025 Financial and Operating Results Q&A Session

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Internally Generated Transcript

CORPORATE PARTICIPANTS

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Timothy Rezvan, *KeyBanc Capital Markets Inc., Managing Director*

Oliver Huang, *TPH & Co., Director*

Phu Pham, *Roth Capital Partners LLC., Equity Research Associate*

Michael Furrow, *Pickering Energy Partners, Vice President Research*

Michael Scialla, *Stephens Inc., Managing Director*

Zach Parham, *JP Morgan, Executive Director – Equity Research*

Gabe Daoud, *TD Cowen, Managing Director – Energy Equity Research*

PRESENTATION

Operator

Greetings and welcome to SM Energy's First Quarter 2025 Financial and Operating Results Q&A Session. At this time, all participants are all in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, you can press star, zero, on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Pat Lytle, Senior Vice President - Finance. Thank you. You may begin.

Pat Lytle

Thank you, Chemaly. Good morning, everyone.

In today's call, we may reference the earnings release, IR presentation or prepared remarks, all of which are posted to our website.

Thank you for joining us to answer your questions today. On the call this morning, we have our President and CEO Herb Vogel, COO Beth McDonald, and CFO Wade Pursell.

Before we get started, I need to remind you that our discussion today may include forward-looking statements and discussion of non-GAAP measures. I direct you to the accompanying slide deck earnings release and Risk Factors section of our most recently filed 10-K, which describe risks associated with forward-looking statements that could cause actual results to differ.

Also, please see the slide deck appendix and the earnings release for definitions and reconciliations of non-GAAP measures to the most directly comparable GAAP measures and discussion of forward-looking and non-GAAP measures.

Also, our First Quarter 10-Q was filed this morning.

With that, I will turn it over to Herb, for brief opening commentary. Herb?

Herb Vogel

Thanks, Pat.

Good morning, and thank you for joining us. We are really pleased with the performance across the company and particularly pleased with how well the integration has gone and the quality of our Uinta Basin assets. As a reminder, our plan for 2025 delivers 30% increase in oil production, 20% increase in total production and that's a step-change in scale for SM, and we clearly have three top tier assets.

With that, I'll turn the call back over to Chemaly to take your questions. Chemaly?

Q&A Session

Operator

Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two, to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star queue. One moment please while we poll for your questions

Our first question comes from the line of Tim Rezvan with KeyBanc Capital Markets, Inc. Please proceed with your question.

Timothy Rezvan
Managing Director, KeyBanc Capital Markets Inc.

Hey. Good morning, folks, and thank you for taking my questions. My first one, I don't know if this is for Herb or Beth, but I'm trying to get an understanding on the shape and the oil skew on 2025 production. First quarter was 53%, and you're guiding to a little higher oil cut in the second quarter, but you didn't touch the full year kind of guide for oil. So, just curious if you -- are there timing issues with the Uinta wells coming online that we should be aware of or is this just simply you not touching most annual guidance items at this point? I'm just trying to understand how the year's going to shake out. Thanks.

Herb Vogel

Yeah, Tim. I'll start but, I think, Beth can dig into that one a little bit more. But, yeah, we didn't see material changes to change anything for the full year plan, but she can elaborate a little bit on the percentage and improvement in the oil cut from 1Q to 2Q and what that means later in the year.

Beth McDonald

Yeah. And so, what I would say is, as you look at the production rates and as we've said the whole year, we go from 1Q to 2Q increasing modestly, and then you'll see a major increase in the third quarter. And as far as oil mix, you know, we have a bit more Uinta wells coming on, but it's important to kind of take a step back and just know that every single quarter that we have variability in that oil mix, depending on what wells we bring on. So we have large pads coming on in the Uinta, and so that is driving our oil mix a bit higher. And for the year, we would stay within the guidance range that we've already put out there.

Timothy Rezvan
Managing Director, KeyBanc Capital Markets Inc.

Okay. Okay. That's helpful. Thank you. And then, my second one, I guess, maybe more for Wade on the topic of cash returns. Your path back to one times leverage is now a little steeper, with oil below 60, but we do see the balance sheet getting there around year end. So, is it safe to assume repurchases are going to be off the table this year until you get there or do you feel compelled to maybe step in and defend the equity with where shares are now? Thanks.

Wade Pursell

Yeah. A good question, Tim. I think my answer would be very similar to what I would have said a quarter ago, that we certainly like the stock price. I mean, that's -- that has nothing to do with it. We are being disciplined about allocating free cash flow to getting leverage back to that one times area and, yes, prices are lower than they were a quarter ago but, you're right, even if -- even at current prices and, you know, yes, certainly if you assume something like 55, we generate a lot of free cash flow, plenty of cash flow to, frankly, pay off maturities, and that leverage metric kind of gets down into that really, really close to one times area. So I think you can assume that we are prioritizing debt reduction until we get there. I think that's a good assumption, but I wouldn't take off the table our ability to step in occasionally to support the stock.

Timothy Rezvan
Managing Director, KeyBanc Capital Markets Inc.

Okay. Thank you.

Wade Pursell

You bet.

Operator

Thank you. Our next question comes from the line of Oliver Huang with TPH. Please proceed with your question.

Oliver Huang
Director, TPH & Co.

Good morning, Herb, Beth and Wade, and thanks for taking the questions. I just wanted to start out in the Uinta, looking at Slide 7 in your deck, the one showing productivity charts by various key regions. And I know the Lower Cube is the primary focus for you all today in the Uinta, and I imagine the dataset from Enverus that's being cited there likely shows the heavy lean into the

Uteland Butte as the most developed pay zone within that part of the stack. So, my question is what is the expectation for being able to hit the underwritten assumptions for the Lower Cube when you're co-developing with other zones like the Wasatch and the Douglas Creek, which haven't been quite as prolific, historically speaking, on an oil per foot basis?

Beth McDonald

So, I would say, Oliver, thank you. Thank you for the question and, you know, 90% of our program is focused on the Lower Cube, and we have a majority of those going into the Uteland Butte and the Wasatch and some in the Castle Peak, right? So, 90% Lower Cube proving up the value there. We're highly confident in the forecast that we have coming out of those zones, very competitive. The rest, 10% is focused on the Upper Cube and, as you saw from Enverus, strong results there in the Douglas Creek, and we'll continue to test other intervals within the section.

Oliver Huang
Director, TPH & Co.

Thanks. That's helpful color. And maybe for a follow-up, just on LOE, I know you all called out a few items impacting the corporate LOE guide for this year. maybe a greater mix of horizontal wells in the Uinta should help over time, in addition to getting some of the costs associated with getting facilities and whatnot up to the SM spec. So, the question is, as we think through the uplifted costs in this year's program on a corporate basis, should we view this as more onetime in nature type of impact or are there some of these costs that are going to be much more sticky beyond this year? If you could walk through that.

Beth McDonald

Yeah, I'll take that, Oliver. So we see the use of the fuel gas and our change in the way that we record the costs to continue moving forward. We use the fuel gas within our operations. And so, we see that going forward and that's about a third of that increase. You know, the workover activity was moved forward a little bit and we have increase in water production that came from offset activity. Some of that may continue, but we've included all of that in our adjusted full year guidance.

Wade Pursell

And just a reminder, the first item has revenue offsetting it. So, the accounting.

Oliver Huang
Director, TPH & Co.

Awesome. Thanks for the time.

Operator

Thank you. Our next question comes from the line of Phu Pham with Roth Capital. Please proceed with your question.

Phu Pham
Equity Research Associate, Roth Capital Partners LLC.

Hi. Good morning, guys. Thanks for taking my questions. So I saw that like you dropped two rigs in the first quarter and you also said, eventually, the total rig will be six. So I was wondering if you could be more specific about how much you're going to drop one more rig? Thank you.

Herb Vogel

Phu, thanks for the question. We are really not giving any guidance on what our plans are for specific rigs at this time. So you can just say, we'll drop to six rigs when it makes sense, based on the program, as we've laid it out. And, really, what matters is the turn in lines in terms of translating things to production, and that's really what we're still sticking to our TIL plan for the year. So, no change on that front.

Phu Phan
Equity Research Associate, Roth Capital Partners LLC.

Thank you.

Operator

Thank you. Our next question comes from the line of Michael Furrow with Pickering Energy Partners. Please proceed with your question.

Michael Furrow
Vice President Research, Pickering Energy Partners

Hello and good morning. Thanks for taking my questions. Last quarter, Herb, when I asked about capital allocation between your assets, you mentioned that returns were really comparable across the three areas but, if prices moved, that the company would have the ability to kind of flex between regions and, at that time, you know, prices were 74. You know, today, we're looking at sub 60, with gas prices relatively flat. So, my question is, have the returns between regions changed and, if so, should we expect sort of a higher allocation of capital activity towards South Texas versus the previous update?

Herb Vogel

Yeah. That's a great question, Michael. And, you know, it's really difficult to change a program that quickly. You know, the commodity markets work on, you know, intraday timelines and our plans work on timelines quite different from that. So, with program we've laid out, it looks quite good at strip for the year and achieving our objectives for the year.

You know, realistically, if prices for oil were to drop below $50 per barrel, you'd expect most companies to really revisit their programs, and we're kind of in that situation of looking. We're really comfortable about 55 with the program we have that delivers everything we want. Pullbacks in activity take quite a bit of thought and are tied to our procurement contracts.

I don't know if that answered the question for you, but we don't see a change at this time at all. It would be -- need to be a more dramatic change in crude prices for us to consider doing something different, but we do have plans made as -- for contingency on what we do later in the year were something to change.

Michael Furrow
Vice President Research, Pickering Energy Partners

Now, that answered my question. That's understood. It's not so easy to just drop a rig and pick one up and as quickly as we'd like. So, just for my follow-up, I just want to ask a quick question on the Uinta. Now that the company's had more time to kind of look into the acquired assets, how are they looking versus, you know, the original expectations and is there anything that the company is learning that would alter the drilling or completion designs that you guys get to have in 2026 versus the prior operator's designs?

Herb Vogel

Yeah. I would just say, Michael, I'm really pleased with the assets. It's definitely exceeded our expectations and we're really pleased with XCL team and what they did, setting us up with quite a bit of investment in infrastructure that we're really getting the benefits of now. But I'll turn it over to Beth because she can dig into the details more about specifically what we like so much.

Beth McDonald

Yeah. I would say, just to start and kind of piggyback off of what Herb said, the innovation of our drilling completion and operations team has really been phenomenal, and we continue to just beat a lot of the records that we set previously. And so, we're just overjoyed with the fact that we're able to drive capital efficiency there even more than we thought going into it.

Now, as far as the synergies and the great things that SM brings to this asset, it's really associated with the geoscience and reservoir engineering teams that continue to look at the well performance. And, as I mentioned in the prepared remarks, we are not popping or turning in line the new SM designed pad until 2026. And so, all of the information that we're gaining through 2025, we're putting into that design to make it optimal and create the highest returns and free cash flow. So, I think, across the board, we're seeing outstanding results in our Uinta Basin.

Michael Furrow
Vice President Research, Pickering Energy Partners

Thank you. That's helpful.

Operator

Thank you. Our next question comes from the line of Michael Scialla with Stephens. Please proceed with your question. And, Michael, is your line on mute?

Michael Scialla
Managing Director, Stephens Inc.

Sorry about that. Good morning, everybody. I wanted to see if you could say how much oil went to the local refinery or refineries in the Uinta during the quarter and kind of the difference in transportation costs there between the two, and what determines that split from quarter to quarter?

Beth McDonald

Yeah. I can jump in on that. You know, typically, we sell about 15% to 20% of our crude into the Salt Lake City refineries. It has a lower transportation cost and any time that we can get a higher percentage of our oil going to Salt Lake City refineries, we will do so. And so, we continue to just try to maximize that market as much as possible. And then, the rest, we send by rail.

Michael Scialla
Managing Director, Stephens Inc.

Is the -- is that just based on capacity? There's no contracts that are underwriting or underpinning how much goes to one or the other?

Beth McDonald

Yes. That's correct. We work with multiple refineries up there. Yeah.

Michael Scialla
Managing Director, Stephens Inc.

And it looks like you had pretty minor non-op activity in the first quarter and anticipating a little bit in the second quarter as well. I guess, I want to see if you have any better visibility on the remainder of the year. Do you think there will be any material change to that $1.3 billion of Capex that you have planned for the year?

Beth McDonald

Yeah, Mike. What I would say is, so far, you can expect a similar run rate in the second half of the year, as we're seeing in the first half. We don't deem that as material to our full year Capex program, and that's why we haven't changed guidance.

Michael Scialla
Managing Director, Stephens Inc.

Got it. Thank you.

Beth McDonald

Yeah.

Herb Vogel

Thanks.

Operator

Thank you. Our next question comes from the line of Zach Parham with JPMorgan. Please proceed with your question.

Zach Parham
Executive Director – Equity Research, JP Morgan

Good morning. Could you talk a little bit more about your operational plans for the year and going into 2026, you know, you've gone from nine rigs to seven rigs. You're planning to drop to six. As you see things today, would you plan to add back a rig in 2026 or is six the run rate going forward for the pro forma company with three assets?

Herb Vogel

Yeah. I'll start with that one, Zach. You know, I got to say, hey, what do you think the strip will look like in November of 2025? No, I don't know. So we've really got scenarios and plans laid out that really are tempered, call it, by the commodity prices that may show up or not later in the year and what the cost environment will be. So we really don't have a 2026 plan laid out there. We have scenarios and we -- as we see a pathway unfold, we'll pursue the scenario that we've line out for that price outcome, call it.

And you know how it is. It's -- we work on a timeline that's quite different from the daily pricing that's in the commodity markets. So we have to kind of sort out what is a short term phenomenon versus a trend in terms of what are based on commodity prices and costs. So, that's how we set things up.

Zach, we don't have a specific plan for 2026, but we have multiple scenarios that we model the company, and that's why we can say, hey, we stick with this plan at current strip, you know? It looks good down to 55, and then below that we'd start looking at, do we change anything? How long would that last? That's really how we look at it.

Wade Pursell

What happens to cost.

Herb Vogel

Yeah, what happens to cost. And we’ve done quite a bit of modeling the company in even more adverse environments, and we feel very comfortable from a balance sheet perspective. Wade, you want to add anything on that?

Wade Pursell

No. You said it well. I mean, I think I mentioned it earlier, at $55 flat, I mean, you see us generating lots of free cash flow, paying the dividend, paying off maturities at a leverage -- a leverage metric in an area that we're very comfortable in. So, you know, if you're wondering about hedging, we -- you know, that's kind of influenced our hedging decisions a little bit, where you'll see us do a lot of $55 floors on costless collars just to protect that level because that's a very positive level for us, if I could say it that way.

Zach Parham
Executive Director – Equity Research, JP Morgan

Thanks for that color. And just to follow up, I think you've messaged in the past, you could generate single-digit growth at kind of flat Capex year over year. Is it fair to say, if you were going

-- to go to a maintenance program, Capex would be down year over year? Based on costs that we're seeing now, obviously, you could have service cost deflation as well.

Herb Vogel

Yeah. That -- Zach, that is a big wild card. We don't know exactly how things will go on costs for 2026. I mean, things are looking pretty good that tariffs are really only influencing a small percentage of our costs. And, you know, under scenarios that are a little bit more adverse price-wise, you know, it's pretty close to flattish. You know, obviously, there's quarter to quarter variation, depending on when turn in lines are coming on, but that -- I think that answers what you're looking for.

Wade Pursell

And just looking at year over year dollars, going from nine to six this year and being, you know, six-ish next year, obviously, the cost would be overall lower the offset.

Herb Vogel

Yeah.

Zach Parham
Executive Director – Equity Research, JP Morgan

And, with those six rigs, you could hold flat next year. Is that fair?

Herb Vogel

Yeah. It depends a little bit on the mix, you know, and where you are on BO versus BOE. So, you know, if we drill in more on the South Texas side because of the gas and NGL prices being better, then obviously it's easier to be above flattish. But if you drill more heavily into the oil, you'd be at the lower end just because of the nature of BOE versus BO.

Wade Pursell

It's in a flattish area.

Herb Vogel.

…but it's in a flattish area.

Zach Parham
Executive Director – Equity Research, JP Morgan

Okay. Thanks, Herb. Thanks, Wade.

Wade Pursell

You bet.

Herb Vogel

Thanks, Zach.

Operator

Thank you. Our next question comes from the line of Gabe Daoud with TD Cowen. Please proceed with your question.

Gabe Daoud
Managing Director, TD Cowen

Hey. Thanks. Good morning, everyone. I appreciate the time. I was hoping maybe we could just start with clarification on the trajectory for the second half of this year. Did you say earlier that 3Q should show -- I guess, it'll show a sequential growth, but is 3Q growth more than the type of growth that we will see or that you guided to in 2Q? Is that fair?

Beth McDonald

Yes. That's fair.

Gabe Daoud
Managing Director, TD Cowen

Okay. Okay. Thanks, Beth. And then, maybe just as a follow-up, if we could maybe get a one on one type explanation around how you went to production plus sales, just both from a revenue standpoint and just given the lag between when the barrels get transported versus your revenue recognition? Will there always be a mismatch between sales volumes and production at the wellhead and should we expect a true-up at some point to make you whole on that or will there always just simply be a little bit of a discrepancy between those two?

Wade Pursell

Yeah. This is Wade. I wouldn't -- I would not call it a true-up. There will be slight lags, you know, just depending on a cutoff at the date, for the reasons that you articulated. So, there will always be some lag there and some, you know, small difference there going forward is the way I would say it.

Gabe Daoud
Managing Director, TD Cowen

Okay. Okay. Thanks, Wade. Thanks, everyone.

Wade Pursell

Sure.

Herb Vogel

Thanks, Gabe.

Operator

Thank you. And we have reached the end of the question and answer session. I would like to turn the floor back to Herb Vogel for closing remarks.

Herb Vogel

Thanks, Chemaly, and thank you all for joining us today. We look forward to seeing a number of you at upcoming events. Have a good day.

Operator

Thank you. And this does conclude today's call. We thank you for your participation. You may disconnect your lines at this time.