SM ENERGY

Second Quarter 2023 Financial and Operating Results Webcast

August 2, 2023

Internally Generated Transcript

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PRESENTATION

Jennifer Martin Samuels

Good afternoon and welcome to SM Energy's second quarter 2023 results webcast.

Before we get started on our prepared remarks, I remind you that our discussion today will include forward-looking statements. I direct you to slide 2 of the accompanying slide deck, page 5 of the accompanying earnings release, and the risk factors section of our most recently filed 10K, which describe risks associated with forward-looking statements that could cause actual results to differ.

We will also discuss non-GAAP measures and metrics. Definitions and reconciliations of non-GAAP measures and metrics, to the most directly comparable GAAP measures, and discussion of forward-looking non-GAAP measures, can be found in the back of the slide deck and earnings release.

Today's prepared remarks will be given by our President and CEO Herb Vogel and our CFO Wade Pursell.

I will now turn the call over to Herb.

Herb Vogel

Thank you, Jennifer.

Good afternoon and thank you for your interest in SM Energy.

I will start on slide 4: As you'll see, second quarter performance was excellent and built upon a very strong first quarter. I believe that SM is well positioned to meet or exceed our strategic objectives for the year. Let me step through the progress we have made against each of these:

- The first objective is to deliver increased return of capital to stockholders.
    - In the second quarter, we opportunistically repurchased 2.6 million shares of stock, having now repurchased 5.3 million shares since the program's inception in September 2022. Adding together share repurchases and our sustainable dividend, return of capital was $87 million in the quarter, or 92% of Adjusted free cash flow, and return of capital has totaled $221 million since September.
- The second objective is to focus on Operational Execution.
    - Strong well performance, particularly in South Texas, and completion of this year's expansion of our South Texas oil handling facilities demonstrate our success in

this area. As a result, we have increased production guidance for the year by 1 MMBoe, while at the same time, lowered capital expenditure guidance by $50 million, driven largely by deflation in diesel and steel.

- Our commitment to being a premier operator includes top tier ESG performance and we were recently recognized by Basinwide Independent Methane Emissions for not only ranking in the top ten, but actually ranking number two, among Permian Basin operators for lowest methane intensity. In addition, we were ranked sixth out of 41 operators by Rystad for all-around ESG metrics. Finally, in the ESG area, we received the Denver Mile High United Way Community Champion award for engaging year-round to inspire employees to give, volunteer, advocate, and lead.

- The third objective is to replace and build inventory during 2023.

  - In the second quarter we added around 22,800 net acres in the Midland Basin, bringing our Midland Basin position to around 111,000 net acres, up from approximately 82,000 at the start of the year. Identifying and executing these transactions employs the expertise of our geosciences, engineering and land teams, enabling organic growth, which as many of you know, is an area where we have developed a very strong track record over the past several years.

  - In turn, we expect to add a rig to the new acreage in the fourth quarter, setting us up to deliver both oil production growth and inventory expansion in 2024.

I am very pleased with our performance in the first half of 2023. As you know, we issued a release in late June, in conjunction with the JP Morgan conference, indicating that second quarter results were exceeding expectations. We enjoyed a lot of positive follow-up from the investment community, along with a more than 25% increase in the stock price, and the full second quarter results came in even stronger than we expected, even exceeding what we announced in the third week of June.

I'll now turn it over to Wade to speak to the drivers of those results and our expectations for more of the same. Wade?

Wade Pursell

Thanks Herb. Good afternoon, everyone.

I'll start with my favorite slide, which is 5: I would just begin by saying that during the 2nd Quarter, all of the strengths of SM were on full display. I look at those 2nd quarter results first and then turn to guidance for the remainder of the year.

As a reminder, and as we like to say, SM Energy is a premier operator of top tier assets delivering a sustainable return of capital., empowered by our strong balance sheet and world class technical team, we are poised to repeat this success.

So, looking first at slide 6, as a "Premier Operator of Top Tier Assets", execution in the second quarter was fantastic, resulting in:

- Production of 14.1 MMBoe, or 154.4 MBoe/d, exceeding our initial guidance mid-point by 5%, and delivering higher oil production.

- Capital efficiency and cost savings led to capex coming in 12% below our initial forecast; and

- Key bottom-line results included: GAAP Net income of $1.25 per diluted share, Adjusted EBITDAX of $390 million, Cash flow from operations adjusted for working capital changes of $362 million and Adjusted free cash flow of $95 million – I believe all of these beat consensus expectations.

Turning to slide 7: This slide gives the results by line item, which are generally as expected, although LOE came in a little better than projected. This predominantly reflects the timing of workovers. We expect LOE per Boe to increase towards the high $5 range in the second half of the year, including workover timing and higher water handling costs with more oil wells coming on line.

Moving to slide 8 and “Delivering a Sustainable Return of Capital.” During the 2nd Quarter we repurchased more shares in a quarter than we have done since 2006. While the stock was trading in the mid-$20 range, we admittedly leaned in a little more purchasing 2.6 million shares at an average price of $26.95 per share. And, as an aside, we believe where the stock is currently trading is very attractive as well. We also returned capital to shareholders through the quarterly dividend of $0.15 per share.

Turning now to slide 9 and the final part of who we are, which is “Empowered by a Strong Balance Sheet and World Class Technical Team we are poised to Repeat this success.” As we announced in June, we added 22,800 net acres in separate transactions for what we believe are top tier assets in the Midland Basin. The larger transaction of 20,000 acres in north Martin and Dawson counties closed for $90.6 million.

- Even after these acquisitions and increased return of capital in the quarter, the balance sheet remained strong at just 0.7 times levered with lots of liquidity, a cash position of nearly $400 million, and a very healthy and “well-spaced maturity schedule”.

- I will point out that our net debt of $1.2 billion is after acquisition and leasehold costs of more than $100 million this year and return of capital since inception of the program last September of $221 million. We are often asked about the allocation of free cash flow, it is clearly a balance, and we are well-positioned as we consider returning capital to stockholders, reinvesting to maintain and build our high-quality portfolio and further reducing debt.

Now, I will turn to guidance and slide 10:

As recently announced:

- We increased full year production guidance by 1 MMBoe to reflect better performance in South Texas and additional volumes from our north Martin and Dawson Counties acquisition. This includes a slight uptick in the oil production percentage as well.

- We reduced full year capital guidance by $50 million to incorporate deflation realized in steel and diesel costs as well as a flattening of rig rates versus our February assumptions.

- We also reduced full year LOE expense per Boe by $0.50 and are keeping LOE guidance at $5.25 to $5.50 per Boe for the year.

- Slide 11 drills down on guidance and provides you some specifics for the third quarter and capital activity by area. Given the synergies of the recent 20,000 net acre acquisition, we plan to add a rig in the fourth quarter, which will stop elsewhere in RockStar then move to the acquired acreage; however, the added rig is not expected to add production this year, but will contribute in 2024. In general:
  - We reaffirm the $1.05 billion capex for the year and expect the capital cadence for third quarter and fourth quarter to be flattish, despite adding a rig in the fourth quarter. Second half of 2023 capital activity is weighted toward our Midland Basin operations and our recent acquisition, leading to stronger oil production for 2024.
  - Production cadence is also expected to be flattish, at around 14 MMBoe in each of the third and fourth quarters, which points to the higher side of the full year guidance range, with the oil percentage peaking around 44% in the third quarter and around 43% in the fourth quarter.

I will just close by repeating: all of the strengths of SM's sustainable and repeatable business model were on full display in the second quarter. I will now turn it back to Herb to walk you through a few highlights from the field. Herb?

Herb Vogel

Thank you, Wade.

Skipping to slide 13 and the Midland Basin: Here we have mapped our 20,000 net acre acquisition located in Dawson and north Martin counties, which closed at the end of June. As previously reported, based on extensive geologic data and demonstrated economics from nearby wells, we intend to target the Dean and Middle Spraberry sand intervals. Production from the area is about 1,250 Boe/d and is 90% oil. We estimate that new wells will breakeven on average at less than $50 per barrel oil, assuming $2.50 per mcf gas and a 10% discount rate. We will update inventory to reflect this acquisition at year-end.

Year-to-date, we have also acquired leasehold positions covering another 9,100 net acres in the Midland Basin located in an area that we have not yet disclosed.

Skipping to slide 15, to look at Midland Basin well performance and regional breakeven cost benchmarks: We have updated the chart on the left, which now includes more operators, demonstrating our superior well performance in Howard County. The chart represents wells completed between January 2021 and April 2023. The lower black line represents the average cumulative oil performance from a peer group of 17 operators in Howard County during the period, and the upper blue line is the average of SM wells. The SM average outperforms the peers, assuming normalized lateral lengths, producing 31% more oil as updated through the first 25 months on production. The chart on the right we have shown before, which shows SM as the lowest breakeven cost operator among 11 Midland Basin peers. This is essentially the result of our exceptional well performance shown on the left combined with capital efficient operations. Having among the lowest breakeven assets in the Midland Basin underlies our sustainable profitability and underpins our top tier assets label.

Moving on to our South Texas Austin Chalk on slide 16, which is updated for second quarter performance: The ten most recent wells to reach IP30 had an average 30-day peak production rate of 2,330 Boe/d, producing an average 42% oil and 71% liquids. These wells are located across our position as you can see by the blue stars. SM has completed 85 wells in the Austin Chalk that have reached IP30 as of July 2023. The chart on the right is updated with more time on previously reported wells and the ten new wells. Here you see the continued and consistent excellent performance and, on slide 18, a reminder of the predictability and repeatability of the Austin Chalk wells in our area.

Let’s take a minute to look back at the positive evolution of our South Texas asset over the past few years. In the second quarter of 2019, so four years ago, oil made up only 4.9% of South Texas production, transportation expense was $8.46 per Boe and our cash production margin was $5.59 per Boe. Fast forward to today, and South Texas production is 23% oil and Austin Chalk LOE and transportation charges are cut in half from the second quarter of 2019. As a reminder, a legacy transportation contract expired at the end of June this year and that is expected to reduce costs even further, by about 35 cents per mcf. The tremendous improvement in our South Texas economics is attributable to the incredible success of the organically identified and developed liquids rich Austin Chalk and improved midstream costs.

Moving to slide 22: I hope you caught last week’s press release indicating that all of our updated ESG materials were posted to our website. Again, we have included responses to the CDP, TCFD and SASB frameworks. We also provide summary pages of key metrics for each of E, S and G, which have been expanded this year.

I will wrap-up by reiterating our theme: SM Energy presents a sustainable and repeatable business model that is characterized by outstanding operations, a strong balance sheet, growing return of capital to stockholders and strategic inventory growth.

Thank you for your interest in SM Energy and I look forward to our Q&A call tomorrow.