



» Third Quarter 2024 Financial  
and Operating Results Q&A  
November 1, 2024

Internally Generated Transcript

## **C O R P O R A T E   P A R T I C I P A N T S**

**Jennifer Martin Samuels**, *Vice President - Investor Relations and ESG Stewardship*

**Herb Vogel**, *President and Chief Executive Officer*

**Wade Pursell**, *Executive Vice President and Chief Financial Officer*

**Beth McDonald**, *Executive Vice President and Chief Operations Officer*

## **P A R T I C I P A N T S**

**Gabe Daoud**, *TD Cowen, Analyst*

**Leo Mariani**, *Roth Capital Partners LLC., Managing Director*

**Scott Hanold**, *RBC Capital Markets, Managing Director*

**Neal Dingmann**, *Truist Securities, Managing Director*

**Michael Scialla**, *Stephens Inc., Managing Director*

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

**Oliver Huang**, *TPH & Co., Director*

## **P R E S E N T A T I O N**

### **Operator**

Greetings and welcome to SM Energy's Third Quarter 2024 Financial and Operating Results Q&A. At this time, all participants are in a listen-only mode. If anyone should require operator assistance, please press star, zero, on your telephone keypad. You may be placed into question queue at any time by pressing star, one, on your telephone keypad. We ask you, please ask one question and one follow up, then return to the queue. As a reminder, this conference is being recorded.

It's now my pleasure to introduce your host, Jennifer Martin Samuels, Vice President Investor Relations and ESG Stewardship. Please go ahead, Jennifer.

### **Jennifer Martin Samuels**

Thank you, Kevin.

Good morning, everyone. I hope you've recovered from a festive Halloween. 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 this morning. To answer your questions today we have our President and CEO, Herb Vogel; our CFO, Wade Pursell, and we are also joined this morning by Beth McDonald, our new Chief Operating Officer.

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 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. Also, please see the slide deck appendix and earnings release for definitions and reconciliations of non-GAAP measures to the most directly comparable GAAP measures and discussion of forward-looking non-GAAP measures. Also, look for our second quarter 10-Q filed this morning.

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

### **Herb Vogel**

Thank you, Jennifer.

Good morning and thank you for joining us. Again, we had an outstanding quarter, underscored by excellent operational execution. The fourth quarter presents an exciting step-change for SM Energy with the addition of the Uinta Basin. We welcome the Uinta team and community to SM!

So, with that, let's go ahead and get started with the Q&A. I'll turn it back to Kevin to start taking your questions. Kevin?

## **Q&A Session**

### **Operator**

Thank you. As a reminder, if you'd like to be placed in the question queue, please press “\*”1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. We ask that you please ask one question, one follow up, then return to the queue.

Our first question is coming from the line of Gabe Daoud with TD Cowen. Your line is now live.

### **Gabe Daoud**

*Analyst, TD Cowen*

Hey, thanks. Morning, guys. Thanks for the time. I was hoping we can maybe start in Utah. Maybe you can help us quantify a couple of things. First is just the delay in volumes you alluded to, given less TILs by the seller, could you maybe quantify the impacts of 4Q? And then maybe give us a leading-edge number as far as what current Utah production might be at this point?

### **Herb Vogel**

Yeah, Gabe. Let me just step back a minute just on Utah, just so you guys all kind of level set this for you. So, we got our basic FTC consent around August 22. And at that point, we were able to get full data from the operator, we were restricted before that. That allowed us to understand specific rig and completion plans, status of all the permits, where the facility construction stood, all those details. We've had about two months now to digest all that data and really to figure out how to optimize the forward plan. And that means, applying a lot of the tools that we've developed over the many years for the unconventional. And then how those that optimal would juxtapose

with the existing permits and plans. So – and then also, we are looking at how do we optimize with our existing two basin assets with Utah. So we're running a lot of alternate scenarios with different commodity price mixes as just our normal planning process and CapEx allocation. And so when we get to February, we'll have be able to lay that out fully. And so, I just want to just encourage people you can understand you guys are forecasting a company performance. So definitely put less emphasis on the quarterly cadence and I'll get to 4Q in a second. And we're really pleased with the new asset mix because we do see the ability to get even better capital efficiency and we'll be able to generate more value with the three. So we're really excited about what we can do going forward.

As to 4Q in particular, the key thing is that the current operated XCL, they delayed six wells. Three of them are because of extended laterals from 10,000 to 15,000 feet. So not only does that mean they're turned in line a little bit later because it takes longer to execute. But there's also a longer shut in of offset wells while you're fracking nearby. So that's really just how the 4Q is impacted. And then, I'll just go back to what I just said for 2025, it'll be all of the above where we're really looking at optimizing the capital program for the year. That's a long-winded answer to your short question there, Oliver. Okay. Gabe.

**Gabe Doud**

*Analyst, TD Cowen*

No, thanks. Thanks. Thanks for that. That's helpful. I appreciate the color there. And then I guess just as a follow up, you noted, quarterly cadence shouldn't really be looked at all that much as you're still kind of finalizing plans for 2025. But if I look at 4Q CapEx of \$330 million, that would imply about \$1.3 billion annualized. And that's still on a higher rig count than what you guys hope to get to. So, for 2025 CapEx, is it fair to say directionally, you could be, \$1.3 billion or lower just given the plans to go from nine to six rigs? And I'll keep it there. Thanks, guys.

**Herb Vogel**

Yeah, no, I would say, Gabe, we're really looking at what the right capital level is, so I wouldn't use a multiple of the 4Q CapEx as a way to look at that. We'll be looking at what the rig program is throughout the year, how many at each asset. So, we've said in that \$1.3 billion, \$1.4 billion range for next year and we'll see what that actually comes down to when we get to February. It'll depend again on commodity prices. That's always the starting point for this too.

**Gabe Doud**

*Analyst, TD Cowen*

Got it. Thanks, Herb.

**Herb Vogel**

No. You bet.

**Operator**

Thank you. Next question comes from the line of Leo Mariani from Roth MKM. Your line is now live.

**Leo Mariani**

*Managing Director, Roth Capital Partners LLC*

I just wanted to ask on the fourth quarter production guidance here. So, I mean, it looks to me like it's much wider than you guys normally have presented historically and you guys, present a quarter. So, can you kind of provide some color in terms of, why the wide range of production in 4Q, because the capital range is quite the target?

**Herb Vogel**

Yeah, sure, Leo. We just took on the Utah asset, so we're going to be careful about how we forecast for the quarter. We've got it down in South Texas and Permian, it's like a fine-tuned piano. And then we've added in Utah and we've obviously got a larger air-band on that since we just took over the asset.

**Leo Mariani**

*Managing Director, Roth Capital Partners LLC*

Okay. No, that makes sense. And then just with respect to the share buybacks, obviously, you guys did not do any in the third quarter. Just had some kind of language there. I guess in the release, in the prepared comments, which maybe suggested like maybe these aren't all that likely going to going forward to get to kind of one times leverage if I was sort of reading that right. So could you just kind of provide a little bit more color? Is that generally right? Should we not expect many? And maybe just in times of like material weakness, maybe you'll step in is really the free cash flow goes to debt pay now?

**Wade Pursell**

I think that's actually a pretty good summary. We're clearly prioritizing debt reduction right now and getting back to that one times area. But I will acknowledge what you said as true. We very well may step in at different days and support the stock. We clearly like the stock price. I mean that's certainly not part of the decision right now. It's just really more, we think it's best for all stakeholders right now to get leverage back to that one times area where we have a strong balance sheet, a lot of drive power, flexibility, all those things, but very well may step in periodically between now and then.

**Herb Vogel**

And Leo, I'll just remind you, we reloaded that buyback authorization with the Board to the end of 2027 for \$500 million, so it's a healthy buyback that we can do over the three year period.

**Leo Mariani**

*Managing Director, Roth Capital Partners LLC*

Okay. Thank you.

**Wade Pursell**

Thank you.

**Operator**

Thank you. Next question is coming from Scott Hanold from RBC Capital Markets. Your line is now live.

**Scott Hanold**

*Managing Director, RBC Capital Markets*

Yeah, thanks. Good morning. Forget the - maybe touch on 2025 right now again, and, I appreciate you're still in the planning phase, but could you give us some framework and context on how you think about this given, some of the weakness we've seen in oil prices? How do you think about like when you look at your asset bases, you obviously have three distinct basins. Which ones do you find most competitive as oil prices come down, so there's more incentives to invest there?

**Herb Vogel**

Yeah, Scott, this is pretty much normal and routine for us and how we go about this. So at this stage, so now in November, we are looking at multiple scenarios and that means different capital allocation between the assets. We are forecasting and using multiple price scenarios, meaning different gas price decks, different oil price decks. And then we look forward that two to three-year period and we say, okay, with these scenarios which optimizes free cash flow generation over that two to three year period. And then when we get to the end of January, we say, okay, what do we think the 2025 prices will be? And then we lock in on that scenario that optimize the free cash flow for that period of time. We have found this to be extremely effective. We've done it this way for I think four years now. So that's really how the process will run and then then we'll when we report the full year 2024 results in February, we'll share that full plan.

**Wade Pursell**

Yeah, I would just add, you mentioned the pullback in commodity prices. Just a reminder, all three of our assets have significant amount of inventory at low break evens. So we actually, \$70 oil is fantastic, I guess, is what I would say, from a standpoint of returns for our assets.

**Herb Vogel**

Yeah, that's a great point Wade makes because we have driven the portfolio to be able to generate those returns even in below mid-cycle pricing. And that's – we're getting the benefits of that now.

**Scott Hanold**

*Managing Director, RBC Capital Markets*

Understood. And then my next question is on the Klondike wells. Obviously, you got some initial rates on those right now. And can you give us some color? You did comment in your prepared

remarks that the productivity in the first 30 days seemed to exceed your initial acquisition economic parameters. Can you give us a little context like how do they look compared to some of your legacy Midland activity? Is it more in line with that overall, but just some color there? Thanks.

**Herb Vogel**

Yeah Sure, Scott. So first of all, we're real pleased because the wells are kind of confirming our geologic model and that there's oil saturation in an area, that's more a conventional place for sandstone, so these are really highly productive wells and then there's variability in how much water is produced. But overall, the water oil ratios are coming in as what we thought and we have the ability to predict based on where all the vertical wells are, where the high water will be versus lower water, so that allows us to map and steer where we put the wells. So that's turned out quite positive.

In terms of productivity, if you compare to full co-development where you got one really good well and two wells that are lesser on average, these are very economic wells for us. And so, we're happy with the result and with what we saw in the first two wells and really the first eight wells, we said, well, let's put the rig back up there and drill six more. And so we're back up there now drilling those because it's one interval that we're doing there and there's no interference from others. There's less interaction which offset wells. So that's a positive as long as it's spaced correctly and we believe we're spaced correctly.

**Scott Hanold**

*Managing Director, RBC Capital Markets.*

Thank you.

**Herb Vogel**

You bet.

**Operator**

Thank you. As a reminder, that's "\*\*\*\*1" to be placed into question queue. Our next question is coming from Neal Dingmann from Truist Securities. Your line is now live.

**Neal Dingmann**

*Managing Director, Truist Securities*

Morning. Thanks for the time. My question maybe just a little bit on the other. I'm curious for your sort of future Midland plans. You've had a lot of success, Klondike and other areas, obviously, Sweetie Peck continues to do super well. I'm just wondering, kind of looking regionally and formationally next year, could we assume, and I know, obviously you don't have detailed '25 guide out yet. But I'm just wondering, would you assume the Midland plan would be relatively similar to this year, just when you think about areas and formations you might tackle?

**Herb Vogel**

Yeah, Neal, great question. I have not seen the specifics of what our Permian team is going to – where they're going to locate specific wells. But you're right, we have a little bit broader mix of opportunities between Klondike, the Woodford, Permian and obviously Sweetie Peck and in the RockStar area. So, we'll just know we'll be optimizing it. But what we keep in the back of our mind is the competitiveness with the other asset. So, it has to be a good program and it has to be designed as a good program and that means spacing selections, completion designs have to give us the good wells compete with South Texas and Uinta. So, it's kind of nice having three assets to compete against each other because then it drives those returns and people know and you get higher returns, you get more capital the following year.

**Neal Dingmann**

*Managing Director, Truist Securities*

Great details. And then just second around the Uinta, maybe specifically around the marketing there. Just wondering, if you move forward, you already like the cube and you seem to be doing a lot of things to likely boost and improve production there. I'm just trying what type of options do you all have when it comes to takeaway in order to maximize pricing going forward?

**Herb Vogel**

Yeah, Neil. So it's a lot bigger playground than I ever anticipated when we got into this and started looking at it back in April. There's a lot of competitive sensitivities around what you do specifically. So we can't get into the details there, but I would just say that, know that we will be optimizing to get the best net back we can through all this. The also surprising thing is just how much more attractive the waxy crude is to the refiners, given what their product slate--what optimizes their product slate. So we'll just be working out over time, and I think we'll get better and better as time goes on.

**Neal Dingmann**

*Managing Director, Truist Securities*

Look forward to it. Thank you.

**Herb Vogel**

Thanks.

**Operator**

Thank you. Next question is coming from Michael Scialla from Stephens. Your line is now live.



**Michael Scialla**

*Managing Director, Stephens Inc.*

Thank you. Good morning, everybody. I want to go back to Klondike. You mentioned that some of the wells that are going to be coming on will be constrained due to the water infrastructure there. I guess, what are the plans to expand that and what might be the timeframe there?

**Herb Vogel**

Yeah, that's a great question, Mike. Yeah. We build facilities for optimizing over time rather than for peak rates. And what Wade always says is, you basically don't build your church for Easter. So, it's not efficient to build water handling facilities to peak rates. So, the way we do it is we just basically produce the wells off by our ESPs at certain rates. And then you bring on a number of wells and you're going to be constrained a little bit on the production rate and then you just wind up with slower decline afterwards. So, you don't get quite as high in IP, but you also get a slower decline and value wise it's the right way to go because you spend less capital. So, that's the story there.

**Michael Scialla**

*Managing Director, Stephens Inc.*

Okay. So there really won't be any the infrastructure that you need is pretty much in place, you should look for a little flatter declines, lower peak rates out of these newer wells as you go forward. Is that the bottom line?

**Herb Vogel**

That's exactly right.

**Michael Scialla**

*Managing Director, Stephens Inc.*

Okay. And on the Utah properties, you've mentioned you're paying a transition service agreement in the fourth quarter. I guess, how do you expect that to change going forward? And is the fourth quarter run rate for your G&A? Is that a good run rate to look forward to for 2025 at this point?

**Herb Vogel**

Yeah, Mike, so we – the transition services agreement started when we closed October 1<sup>st</sup>. And this is really just an agreement where there's a period of time where the XCL team continues to operate and we get progressively more involved. We're in the more in the day-to-day decisions than we would have been September 30<sup>th</sup>. And there's a pre-agreed what we pay them during that period of time. And then on January 1<sup>st</sup>, we take their employees who accepted our offers. And I'm pleased to say that 100% of their field employees did take our offers so that's pretty smooth transition over there.

So, it's really, we're working together during this period of time. They're a really great team, so it works quite effectively. And then in terms of G&A, just – or what we will be seeing is we will be seeing increased G&A as we allocate more people's time of the SM people over to Utah. The

running change won't occur till January when we have it fully staffed up with the people we've hired from XCL.

**Wade Pursell**

Yeah, Mike, this is Wade. We're working the details obviously, and we'll share that with you in the guidance. But, if I were modeling right now, I think that's a pretty good starting point, that fourth quarter number.

**Michael Scialla**

*Managing Director, Stephens Inc.*

Yeah. That's helpful. Appreciate it, guys. Thanks.

**Wade Pursell**

You bet.

**Operator**

Your next question today is coming from Tim Rezvan from KeyBanc Capital Markets. Your line is now live.

**Timothy Rezvan**

*Managing Director, KeyBanc Capital Markets Inc.*

Hey, good morning, folks. Lots of potential questions here, but I'll start in the Uinta. I thought it was interesting, your first well results were from the Douglas Creek, which is not one of the three sort of standard de-risk zones. So obviously maybe it's not 17, but it looks like it's greater than three the number of productive intervals. So, as you go forward in 2025, how do you think about the allocation between sort of development drilling in defined areas and then sort of step outs to other areas?

**Herb Vogel**

Yeah. Great question, Tim, and I really appreciate your recognizing the importance of that because a lot of people have not counted inventory in the – from all the intervals in the Uinta. So we haven't laid out a specific 2025 plan yet, but just know that just like we do in other places, we'll have a blend of known intervals, known spacings in the known – where everyone has done things. And then we'll have a mix in there of ones that have been partly delineated. And then we'll have some completely new tests. I will give XCL credit for having done more than the typical PE in terms of looking at some of those intervals, and that gave us more confidence when we were putting our bids together in May and June.

**Timothy Rezvan**

*Managing Director, KeyBanc Capital Markets Inc.*

Okay. That's great. And then if I could follow up with Wade on the repurchase topic. You mentioned, waiting on leverage back to kind of one times, but it's pretty easy to see that in the relatively near future counting the legacy EBITDA you acquired. So based – I know you haven't

given 2025 guides, but do you see that coming positive by mid-2025 or sooner, if oil holds at 70? Your ability to hit the parameters to start repurchases again?

**Wade Pursell**

Yeah, you could definitely see that if the commodity prices hang in there. I would agree with that.

**Timothy Rezvan**

*Managing Director, KeyBanc Capital Markets Inc.*

Okay. All right. Thank you.

**Wade Pursell**

You bet.

**Herb Vogel**

Thanks Tim.

**Operator**

Thank you. As a reminder, that's star, one, to be placed into question queue. Our next question is coming from Oliver Huang from Tudor, Pickering & Holt. Your line is now live.

**Oliver Huang**

*Director, TPH & Co.*

Good morning, Herb, Wade and team and thanks for taking the questions. I wanted to kind of try and get a better understanding around the moving pieces on the Q4 pro forma guide for LOE. Are there any one-off that we should be aware of that's expected to kind of drive the legacy Texas side of things higher quarter-over-quarter for LOE? And then when we're kind of thinking about the Uinta, how are you all thinking about this line item trending for Q4? And just given how there is lower volumes from fewer completions and the offset frac shut-ins occurring? I do want to be careful about just extrapolating this for given potential efficiencies as the operator and a rebound in volumes that might impact certain costs that are more fixed in nature. So just trying to think if there's a good proxy in terms of how to think about it for 2025.

**Herb Vogel**

Okay. Yeah, let me start on this one, Oliver, that I think you pretty well understand on the oilier assets have higher LOE, the gasier assets have lower LOE. So as we transition over time to being an oilier company and getting over 50% oil, you expect LOE to go up somewhat and the margins are obviously higher on the oil side. And during the third quarter, we saw some optimization in Midland that brought LOE down, that's just basically the constructive environment from a deflationary perspective and the team optimizing things like chemicals and other things. Then you have another component when you look forward with Utah that the vertical well LOE per BOE is relatively high just because the rates are lower in the vertical wells. And as we get a greater percentage of horizontal wells in the mix, those are lower LOE per BOE because of the higher rates coming of the horizontals. So, if we think about a model for you expect the LOE to be dropping over time intrinsically because of that change in mix of vertical horizontals.

And then just overall, you expect Utah to run somewhat higher with that oil percentage and just the operating environment there. You expect it to run, run higher. But again, the margins are quite

strong just because of the oily nature of it on a per BOE basis. So that's really the way I'd look at it. Did that get answer to your question, Oliver?

**Oliver Huang**

*Director, TPH & Co.*

Yeah, that's helpful color for sure. And maybe for second follow up question, just on the Uinta with keys now in hand, any sort of color you're able to speak to in terms of your current DUC backlog might look like out of the basin, exiting the year and just kind of how that might compare to a normalized run rate in terms of how you all are thinking about it. Just trying to think through the possible efficiencies that you all might be able to capture on this front moving to the 2025 program.

**Herb Vogel**

That's a great question, Oliver, and this is the observation, is because of the stacked pay nature of the Uinta, which is even more than the Permian, in some ways, the pads are larger, so we'll typically drill more wells on a pad at a time before completing. And this is just conceptually, I would expect the DUC count to be higher than, say, the South Texas, definitely, and in some cases, much of the Permian. So we don't have an official DUC forecast. We actually don't manage to DUCs, but just knowing how we're running and how efficient it is, the impressive thing in Utah's the integrated nature of the sand mine next to an e-frac, which is run off gas turbine for electric power. And then XCL started fracking as far as two and a half, three miles from that site, so the frac spread doesn't need to move. This is highly, highly efficient, probably the most efficient operation I've ever seen, and by having a lot of wells on a pad that helps on those efficiencies. So that's the way I look at it. So that's a long-winded answer to a DUC question, but it just kind of gives you a picture of how effective it can be there. But it all starts with the stacked pay and continuous acreage, which is the type of thing we like and drives us, because that's what gives us higher capital efficiency and better returns.

**Oliver Huang**

*Director, TPH & Co.*

Okay, perfect. Thanks for the time.

**Herb Vogel**

You bet Oliver.

**Operator**

Thank you. We reached end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

**Herb Vogel**

Okay. Well, thank you, everyone, for joining us today and happy November. Take care.

**Operator**

Thank you. That does conclude today's teleconference webcast. You may disconnect your line at this time and have a wonderful day. We thank you for your participation, today.