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Second Quarter 2025 Financial  
and Operating Results  
Q&A Session  
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Internally Generated Transcript

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

**Pat Lytle**, *Senior Vice President - Finance*

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

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

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

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

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

**Leo Mariani**, *Roth Capital Partners, Managing Director – Sr Research Analyst*

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

**Scott Hanold**, *RBC Capital Markets, Managing Director – Energy Research*

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

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

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

**David Deckelbaum**, *TD Cowen, Managing Director – Sustainability & Energy Transition – Oil & Gas E&P Research Analyst*

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

### Operator

Greetings. Welcome to SM Energy's Second Quarter 2025 Financial and Operating Results Q&A Session. At this time, all participants will be in a listen-only mode. A question-and-answer session will follow the presentation. If anyone today should require operator assistance during the conference, please press star, zero, on your telephone keypad. Please note, that today's conference is being recorded.

At this time I will turn the conference over to Pat Lytle, Senior Vice President - Finance. Pat, you may begin.

### Pat Lytle

Thank you, Rob. 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 discussion of forward looking statements and definitions and reconciliations of non-GAAP measures to the most directly comparable GAAP measures.

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

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

### **Herb Vogel**

Thanks, Pat.

Good morning and thank you for joining us. Before we get started, I want to make sure that you all took a close look at slide 6 in the slide deck we posted yesterday afternoon and heard Beth's comments on the pre-recorded call. Over the last 5 years, our growth has been intentional, strategic, and compelling. Slide 6 shows that since 2020 we have grown both net proved reserves and net production by over 60% while increasing our oil percentage and production margins. Amazingly, we achieved this growth while share count remained flat, meaning no dilution, and we cut our leverage by more than a full turn from the end of 2020 to where it is today. In other words, we have delivered a step change in scale and de-risked the balance sheet all while not diluting our shareholders, benefiting per share metrics significantly.

You can attribute this exceptional outcome to date to our team's extensive geoscience, engineering, and advanced analytics experience in unconventional resource development; all hyper-focused on adding shareholder value.

We see a future where we can continue to access under-appreciated assets, apply our deep technical skills, repeat this level of performance, and grow shareholder value meaningfully.

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

### **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, from your telephone keypad and a confirmation tone will indicate your line is in the question queue. You may press star, two, to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. One moment please while we poll for your questions. Thank you.

The first question today comes from the line of Zach Parham with JP Morgan. Please proceed with your questions.

**Zach Parham**

*Executive Director, JP Morgan*

Hey thanks for taking my questions. First, just wanted to ask on cash taxes, you gave some specific guidance on cash taxes in 2025, post the passage of the tax bill. But how should we be thinking about your cash tax obligations as we go into 2026 and into future years?

**Wade Pursell**

Morning, Zach. This is Wade. Good question. You know, at this point, for the foreseeable future, I would assume something similar. If you look into 2026 under the new plan and the increased level of deductions that we will be able to achieve, I think our base plan right now looks very similar depending on commodity prices, of course. And if you're asking about, years beyond that, assuming that those laws stay into effect and assume our spending stays at similar levels, it's going to be a pretty similar result for quite a while.

**Zach Parham**

*Executive Director, JP Morgan*

Thanks. My follow up is on the Uinta, you grew the Uinta pretty significantly quarter over quarter in 2Q compared to 1Q, how do you think about Uinta production from here? What's the capacity of that asset over the back half of the year and as we go into 2026?

**Beth McDonald**

Yeah. Hey, Zach, it's Beth. You know, when you look at our turn in lines for Uinta, we had a majority of those coming on in the first half of the year, so we came out of the gate really strong. We also have outperformance of our wells in the quarter that led to the high production. But we'll have more of South Texas and Permian coming online in the second half but Uinta continues to stay strong and we're really excited about what we saw in Q2 and look forward to seeing continued performance and repeatability in that asset going forward.

**Zach Parham**

*Executive Director, JP Morgan*

Thanks, Beth.

**Operator**

The next question comes from the line of Leo Mariani with Roth MKM. Please proceed with your question.

**Leo Mariani**

*Managing Director – Sr Research Analyst, Roth Capital Partners LLC.*

Yeah, thanks. I wanted to just focus a little bit on some of the additional activity. I think if I read this right, sounds like you guys are adding an additional ten net wells to the drilling program for roughly \$75 million, was that the total that got the \$75 million, seems maybe a little high if you're just drilling wells, seems like you're not completing them, but maybe these are just drills and sounds like they're also all non-op, have some of those kind of already happened or are they hitting in third quarter? And do you expect to see CapEx come down in 4Q?

**Beth McDonald**

Yeah, hey, Leo, it's Beth, when you look at the timing of that, we had additional activity pull into Q2. So, we had the two additional net drill wells and six turn in lines that came in in Q2. But when you look at the overall capital raise that we had in new guidance for the year, it's primarily associated with non-op and better line of sight to those projects. So, some of it is acceleration and some of it is non-operated projects that we know now that we're participating in – high return ones in the Midland Basin, primarily associated with those.

**Herb Vogel**

Yeah. And Leo, those don't add any production in 2025. That's all in 2026.

**Leo Mariani**

*Managing Director – Sr Research Analyst, Roth Capital Partners LLC.*

Okay. So do you guys expect to see CapEx come down here in the fourth quarter then? I know obviously you dropped a lot of the operated rig activity.

**Beth McDonald**

Yes, Leo, we expect fourth quarter capital to come down.

**Leo Mariani**

*Managing Director – Sr Research Analyst, Roth Capital Partners LLC.*

Okay. That's helpful. And then on the Uinta, obviously sounds like well performance has been certainly quite a bit stronger this quarter. You had a lot of wells like the IP 30s were up quite a bit despite shorter laterals. I was hoping you could provide a little bit more color on sort of what drove the improved results. And can you also comment on how well costs are trending? Have you been able to bring the well cost down in addition to seeing better performance?

**Beth McDonald**

Yes, on both. So, what I would say is that what we're seeing is our technical expertise combined with that of XCL's former operational execution. And we're seeing capital efficiency really drive costs down there. And we showed that also on slide 11, especially as it relates to the conveyor system and where we are now. So, costs are coming down there in the Uinta. And also, when you look back on Slide 10 and you see the well performance, it's truly stellar well performance. Our subsurface team worked very well with our completion optimization and our design going forward, and I think you're seeing some of the benefits of that combination.

**Leo Mariani**

*Managing Director – Sr Research Analyst, Roth Capital Partners LLC.*

Okay. Appreciate it.

**Operator**

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

**Oliver Huang**

*Director - E&P Research, TPH & Co.*

Good morning, Herb, Wade, and Beth, and thanks for taking the questions. Wanted to hit on the Uinta Basin first in a little bit more detail. I know we're still waiting for the first fully SM start to finish well design. So year-to-date, I think all these wells thus far were kind of part of the inherited DUC backlog from the deal. When thinking about what spacing or zones that might have been targeted, but just kind of given how you all had close to fifty of these wells online in the first half of the year, it's a decent sample size with the handful of months of public data which all look to be performing better than what we saw from the program last year that your predecessor ran. So, just trying to get a sense for when you all look at the data and changes within the program on a year over year basis, what are some of the main differences, if you all would, pinpoint specific drivers for that positive rate of change?

**Beth McDonald**

Yeah. Thanks, Oliver, for the question. I think when you look at our top initiatives as we evaluate the Uinta, we're really looking at the entire development of the wine rack. So, we're looking at landing zone, our co-development strategy within the Lower Cube, as well as looking and evaluating the Upper Cube. We continue to extend laterals across the acreage position and we really look at maximizing capital efficiency. So, I think when you combine all those things, you see that repeatability in the twenty-two wells that we put online.

**Oliver Huang**

*Director – E&P Research , TPH & Co.*

Okay. Makes sense. And maybe just a quick follow up on the trajectory – just thinking through how the program was fairly front end weighted with respect to CapEx until. So, just doing some back of the envelope math, it looks like 15% to 20% of your full year CapEx remains for Q4, roughly 15% of TILS and most of the Uinta oilier wells were very front end weighted. So, when we're kind of thinking about just Q4 and Q1, any sort of color that you all could provide on the magnitude of potential roll offs, on oil volumes or any sort of color on the expected shape as we kind of head into 2026?

**Herb Vogel**

Yeah, Oliver, you're I think you're back down, the math is pretty accurate there for fourth quarter and especially on the tail counts and what that implies. So, we're not really going to discuss our plans for 2026 until our normal timing, which is February. And last in July last year, when we announced the Uinta transaction, we said we were going to reduce the rig count and we're doing that. So, we're down to six already, and it would be pretty much safe to assume we stick with six rigs for next year, spread pretty evenly across all our assets between South Texas and Midland Basin and Uinta. And we've kind of flagged that that would generate pretty much flattish BOE production on a little bit less CapEx year-over-year, even without assuming deflation. So, we're going to look at the plan later in the year, evaluate where we are on commodity prices and then really work to maximize that free cash flow over two to three years as we usually do. So with the commodity price experience that we've had this year, it is just really difficult to figure exactly where things are going to be – is there going to be a tailwind on gas or headwinds on gas, and then on

oil, likewise. So, we'll do our normal program there and as usual, it'll be focused on free cash flow generation.

**Oliver Huang**

*Director – E&P Research , TPH & Co.*

Okay. Fair enough. Thanks for the time.

**Herb Vogel**

You bet.

**Operator**

Next question comes from the line of Scott Hanold with RBC. Please proceed with your question.

**Scott Hanold**

*Managing Director – Energy Research, RBC Capital Markets*

Yeah, thanks. You know, certainly a focus on Uinta in you all had nice step up in sort of the returns and performance there. My question is, do you think there's some sustainability for that? I know there's going to be general ebbs and flows, but should we level set things to, you know, this was a sort of a peak quarter or do you expect things could be status quo or even better? You know, moving ahead based on what you know today?

**Herb Vogel**

Yeah, Scott, I'll start and then hand it over to Beth. But we went into the Uinta Basin because we saw all this potential and not just in near-term and in Lower Cube, but beyond that for massive inventory expansion. So, we do see is quite sustainable in a drilling program and the ability to grow inventory. And with that, I'll hand it over to Beth for the rest of that.

**Beth McDonald**

Yeah, I agree. And if you're looking specifically at the production this year and what does that mean moving forward? It's really all timing of our turn in lines. So, we have stellar performance, most of that's weighted toward the front half of the year. So, as we continue to complete wells throughout the year, we'll still bring on great, just as Herb said, that repeatable performance that we have and sustain our cash flow coming out of the Uinta.

**Scott Hanold**

*Managing Director – Energy Research, RBC Capital Markets*

Okay, thanks. And my follow up, this one's probably for Wade, on shareholder returns, as you guys have now a line of sight on hitting your leverage target. Would you anticipate being a little bit more I guess not cautious, but a little bit more conservative in terms of when you'd flex that or would you be willing to step in if the opportunity is right sooner than later? And what kind of scale would you feel comfortable doing that at?

**Wade Pursell**

A lot of good questions there, Scott. Thank you. Yeah, no, we are in line of sight that is a good word. I mean, we're close to getting there. And we ended the quarter at 1.2 times, really more like

1.1 times if you look at it on a full year basis for XCL and I think we mentioned in our comments that based on just using the current commodity prices, we see it happening by the end of the year. So, we're really bouncing along really right there close to one times the second half of the year. So, to answer your question I could see us opportunistically stepping in at some point as we see stability in the market. We're looking for that also, we've seen some stability in recent weeks. We'll continue to monitor that – and I'm talking about oil prices primarily. So yeah, so you could see us stepping in. We have just to remind everyone, we have authorization from the board, \$500 million share buyback program. So, you very well could see us step in there, especially if there's a period of weakness that we want to support.

**Scott Hanold**

*Managing Director – Energy Research, RBC Capital Markets*

Okay. I appreciate that. Thank you.

**Wade Pursell**

You bet.

**Operator**

Our next question comes from the line of Michael Scialla with Stephens. Please proceed with your question.

**Michael Scialla**

*Managing Director, Stephens Inc.*

Good morning, everybody. I wanted to ask on the Uinta, I think you said 90% of this year's program was focused on the Lower Cube. You've talked about the seventeen prospective intervals there. Just could you provide an update on how many you've tested thus far? And as you look into next year, with this year's program being so much focused on the Lower Cube, any more plans to delineate some of these other zones next year?

**Beth McDonald**

Yeah, thanks, Mike, for that question. When you look back at the historic landing zones that we've seen across, a majority of those have been in the Lower Cube. So, there's seven different landing zones within the Lower Cube itself. And we've had production out of all of those that we're evaluating and taking into account in our geologic model as we set the first SM well designed and executed pad that we talked about on the call that will come online in 2026. We also have about 10% of our program associated with the Upper Cube and we have several landing zones in there too that we're monitoring to make sure that we pull that in, design the right completion and make it most capially efficient and value adding going forward.

**Michael Scialla**

*Managing Director, Stephens Inc.*

Appreciate that, Beth. And then you had a pretty large beat on production this quarter. You did raise your oil guidance for the year, but I guess little surprised you didn't push the overall production guidance higher. Could you speak to what all prevented you from taking the total BOE guidance up for the year?



**Beth McDonald**

Yeah, the increase in volumes that we saw this quarter was really due to the mix that we had coming from the strong performance on our Uinta, and all of the POPs that you saw there. The production profile really has just shifted to earlier in the year. So that's shifted forward, if you will. We still see Q3 slightly higher than Q2 and that's reflected in our guidance for Q3. But that production has moved forward in time due to our efficiencies and putting more wells online but primarily associated with the outperformance that we've seen in all three of our assets.

**Michael Scialla**

*Managing Director, Stephens Inc.*

That's good. Thank you.

**Operator**

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*

Hi, good morning. Thanks for taking our questions. Just got a follow up to Zach's cash tax question earlier. In the OBBBA, the capitalization of R&D seems to include a multi-year catch up and should benefit operators like SM that have historically had higher levels of R&D. So, I'm curious if you could add some color to that statement in effects and SM expect to see some benefits to longer term cash taxes, particularly from the R&D contribution angle?

**Wade Pursell**

Yeah, no, that's a good point and that is definitely part of our conclusions with respect to changing our guidance on cash taxes. We do accumulate pretty significant amount of R&D every year and now having the ability to deduct those quicker is definitely part of the impact and that'll be a recurring thing for us. We do incur R&D expenses every year and so that is a component for sure.

**Michael Furrow**

*Vice President Research, Pickering Energy Partners*

Great. Appreciate the color. And then just a follow up for me on the Uinta, it looks like operations are humming along. Cadence seems ahead of schedule for the full year guidance of fifty net completions completing forty-one year to date. So can we reconsider the fifty completion guidance is sort of a hard target for the year or would the company consider continuing to run a steady program in the basin, potentially turning into sales a bit more wells than originally contemplated if the efficiencies allow for it?

**Beth McDonald**

Yeah. Thanks, Michael. This is Beth. I just wanted to point out one thing that Herb mentioned on the call also. As it relates to Uinta, we started the year with a double barrel, which is similar to what you might call a simul frac in other basins, so we started with the double barrel and are down to single barrel as our frac fleet runs very efficiently and catches up with our rigs. But we're going to continue to run that frac fleet as efficiently as possible and if that moves more of those turn in

lines into the year, that's great. But right now, we're catching up to the rigs a little bit and we're seeing those efficiencies and that's just a product of going from the double barrel to the single barrel in our frac.

**Michael Furrow**

*Vice President Research, Pickering Energy Partners*

Understood. Thanks for the time.

**Operator**

Thank you. As a reminder if you would like to ask a question today, you may press star one from your telephone keypad. The next question comes from the line of Tim Rezvan with KeyBanc Capital Markets. Please proceed with your question.

**Tim Rezvan**

*Managing Director, KeyBanc Capital Markets Inc.*

Good morning, folks, and thank you for taking my questions. I'm not sure if this is for Beth or Herb. The release and the prepared comments, you repeatedly sort of reiterated the importance of logistics and optimizing takeaway out of the Price River Terminal. I was curious if you could be a little more specific about what was done and if that is more a reliability issue or could we see a potential uplift to realizations as you look to maybe get more Uinta barrels on rail? Thanks for any color on that.

**Herb Vogel**

Yeah, thanks, Tim, and that gets in the details of rail transport, so I'll hand that one over to Beth. There's a lot of great opportunities in front of us there. We're pretty excited to see. We anticipated some, but it's even better than we thought.

**Beth McDonald**

Yeah, what I would say is that our team had to respond to that increase in production growing faster. And as a result we sold, of course as we've said before we maximize as many barrels as possible to the Salt Lake City refineries – and we were able to do that. And then we were able to work with our team at Price River Terminal as well as our railroad logistics team to move – we just moved more cars and they did an amazing job moving the barrels in and out of that terminal and we hit record volumes. So, it was a collective team effort across our infrastructure partners as well as our operations team.

**Tim Rezvan**

*Managing Director, KeyBanc Capital Markets Inc.*

Okay. So we shouldn't think of this as a sort of marketing strategy change? This is just good execution.

**Beth McDonald**

Yes, exactly.

**Tim Rezvan**

*Managing Director, KeyBanc Capital Markets Inc.*

Okay. I appreciate the context. And as my follow up for Herb. You know, in the past, you've been pretty cautious on natural gas and you've allocated capital, I guess the board has accordingly. I know the last time I spoke to you in person about this was December you were cautious on gas. And it feels like we've had several price cycles, you know, since last December. I'm just curious, are you getting more constructive on gas in 2026 approaches or sort of what's the kind of internal view given the volatility in the export outlook?

**Herb Vogel**

Yeah, Tim, it's a great question. And Wade always reminds me if you're going to forecast - forecast often. I would say that, we're just cautious on gas because of the ability to develop supply fairly quickly. We've really been watching, you know, how does the market perform through the shoulder months. And we're really looking for sustained price signals at higher level, and, you know, we even had a two handle earlier in the year and so we're just cautious. We think there's going to be a day we're looking at the structural demand changes between LNG and the data centers. And when we see those really come along that the turbines are available for them to create that demand, then we would be a little bit less cautious on the gas side and maybe lean in a little bit more. But right now it's pretty much coming out as we kind of expected, which is supply does respond, the market to market signals. And we feel like we've got a great plan. Oil has turned out a bit better than we expected from April and May and it's actually right at our budget for the year. So, I don't know how that'll continue through the end of the year, but we didn't see a reason to change our plan to respond to the shorter term gas price signals. And obviously there's been a little bit of erosion unfortunately.

**Wade Pursell**

We were happy to hedge gas in the outyears.

**Herb Vogel**

Yeah.

**Tim Rezvan**

*Managing Director, KeyBanc Capital Markets Inc.*

Okay. Thanks. Yeah, we share that caution. I appreciate the insights.

**Operator**

The next question comes from the line of David Deckelbaum with TD Cowen. Please proceed with your question.

**David Deckelbaum**

*Managing Director, TD Cowen*

Thanks, everyone, for taking my questions this morning. I did want to follow up just on the marketing in the Uinta. Just given the wider basis this quarter, particularly with the higher production levels, what is the outlook for basis in the back half of the year and then heading into next year as you continue to ramp the asset?

**Herb Vogel**

Yeah, David, asking about basis for Uinta is a bit challenging because the rail volumes are sold at the refinery locations and those can vary from Houston being most of them and the markers there versus in Salt Lake where we sell up more or less the wellhead or the tank. But I'll let Beth answer give a little more granularity around that. But it's not like a single basis market that you look at in the Permian or other markets.

**Beth McDonald**

Yeah, I totally agree with you, Herb. And you know, our marketing team just continues to work with different purchasers. As we see that demand for our product continue to increase, we look for the highest realization that we can have across. And of course, the transportation cost to get to Salt Lake City is lower than rail it to Houston and to the Gulf Coast. But we continue to look at what are ultimately the best margin and best return. And that's what our marketing team focuses on, on a monthly basis. And so we'll continue to do that and optimize as best as possible.

**David Deckelbaum**

*Managing Director, TD Cowen*

Appreciate it. I was just asking for a little bit more color on the increased non-operated budget this year. Is that mostly a function of a catch up in activity just given commodity signals that are out there or these efficiency gains that you're seeing on the non-operated side as well in terms of just drilling and completion times?

**Herb Vogel**

David I'll start that and then turn it over to Beth, but this was sort of unique year and when we put the budget out there in February at \$1.3 billion, we noted that we did not include non-op because it wasn't clear exactly what the non-op program would be from a couple of operators – then that was exacerbated with the uncertainty in commodity prices, particularly after April. So given that we didn't include it, we said we'd tell you how much we were spending each quarter. Now it's a clear outlook, we also have the ability to potentially adjust that program with the different non-operators. We've dialed in what we think they're going to do and how they're going to execute, and so we just brought that all in for the full year. Beth, do you want to add anything to that one?

**Beth McDonald**

No, nothing really to add. We just have better line of sight of what those projects are and we participated in them because they have very strong returns.

**David Deckelbaum**

*Managing Director, TD Cowen*

Appreciate it, guys.

**Operator**

Thank you. At this time, we've reached the end of the question-and-answer session, and I'll now turn the call over to Herb Vogel for closing remarks.

**Herb Vogel**

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

**Operator**

Ladies and gentlemen, this will conclude today's conference. You may disconnect your lines at this time and thank you for your participation.