

1 **Devon Energy Fourth Quarter & Full-Year 2023 Conference Call**

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3 **Operator:** Hello everyone and welcome to Devon Energy's fourth-quarter and full-year 2023
4 conference call. At this time all participants are in a listen-only mode. This call is being recorded. I'd
5 now like to turn the call over to Scott Coody, Vice President of Investor Relations. Sir, you may begin.

6

7 **Scott Coody, Vice President Investor Relations:**

8 Good morning and thank you for joining us on the call today. Last night we issued an earnings release
9 and presentation that cover Devon's results for the past year and our outlook for 2024. Throughout
10 the call today, we will make references to the earnings presentation to support prepared remarks,
11 and these slides can be found on our website. Also joining me on the call today are Rick Muncrief, our
12 president and CEO, Clay Gaspar, our chief operating officer; Jeff Ritenour, our chief financial officer,
13 and a few other members of our senior management team. Comments today will include plans,
14 forecasts and estimates that are forward-looking statements under U.S. securities law. These
15 comments are subject to assumptions, risks and uncertainties that could cause our actual results to
16 differ materially from our forward-looking statements. Please take note of the cautionary language
17 and risk factors provided in our SEC filings and earnings materials. With that, I will turn the call over
18 to Rick.

19

20 **Rick Muncrief, President and CEO:**

21 Hey, thank you, Scott, and I appreciate everyone taking the time to join us this morning. For today,
22 my comments will be centered on **four key themes:** Devon's **accomplishments in 2023**, the catalysts

23 of our **improved outlook for 2024**, the **depth of resource** we possess in our portfolio and the
24 strategic priorities that will drive our **free cash flow allocation** going forward.

25

26 Now beginning with the **fourth quarter**, we exited the year with a **solid quarter of execution**
27 highlighted by production that exceeded the top end of guidance, beating consensus across all
28 products. Disciplined reinvestment resulted in our **14th consecutive quarter** of free cash flow, and we
29 took steps to increase cash returns by stepping up the pace of our stock buyback.

30

31 These positive results rounded out **another successful year** for Devon, where we achieved several
32 key milestones that I am extremely proud of. On **slide 7**, you can see we delivered a **production**
33 **growth** rate of 8% in 2023, resulting in a new all-time high for oil production. This healthy growth rate
34 was also paired with **returns on capital employed** that outpaced the S&P 500 by a substantial margin
35 for the third straight year. With the **free cash flow** our business produced, we rewarded shareholders
36 with an impressive cash-return yield of around 10% that was balanced between buybacks and
37 dividends.

38

39 As I touched on during the last call, our team has done a great job of designing a plan to deliver
40 **improved capital efficiency** in 2024. With the current industry conditions, we still believe it is prudent
41 to deploy a steady capital program designed to **optimize returns** while **maintaining volumes** around
42 levels where we exited 2023. Importantly, we expect to deliver this production for 10% less capital
43 versus last year, funded at a WTI breakeven price of around \$40. In conjunction with this outlook and

44 given the confidence we have in the underlying health of our business; the board has also approved a
45 **10% increase to our fixed dividend** payout.

46

47 Now looking briefly at the **trajectory of our capital and production profile** in 2024 on **slide 9**, we plan
48 for spending to be slightly elevated in the first half of the year due to the addition of a fourth
49 completion crew in the Delaware Basin. Due to timing of completions and recent curtailments from
50 extreme winter weather, we expect first-quarter production to be the lowest quarter of the year.
51 However, we expect **volumes and capital efficiency to move higher** over the remainder of the year.

52

53 In 2024, a key contributor to our improved capital efficiency will be the **well productivity**
54 **improvements** we expect to achieve in the Delaware Basin. Turning to **slide 12**, and with the easing
55 of constraints across the basin, we plan to concentrate roughly 70% of the Delaware's capital in New
56 Mexico, while optimizing the remaining activity across our acreage in Texas. This allocation to New
57 Mexico is meaningfully higher than what we were able to deploy during 2023 and is more in line with
58 our historic activity in the basin. Overall, this refined capital allocation is expected to increase **well**
59 **productivity in the Delaware by up to 10%** on a year-over-year basis.

60

61 Given that two-thirds of our **Delaware Basin inventory** is in New Mexico, we anticipate being able to
62 sustain our pace of activity on both sides of the state line for the foreseeable future. With this
63 advantaged acreage footprint, you can see on **slide 14** that we have one of the **largest inventories**
64 among operators in the basin, providing us with a multi-decade resource that will drive our
65 enterprise-wide performance for many years to come.

66 The quality of our Delaware-weighted resource base, combined with our disciplined strategy,
67 positions us to generate a **differentiated amount of free cash flow** for many years to come. As you
68 can see on **slides 15 and 16**, our business is set to deliver a free cash flow yield that is up to 3-times
69 that offered by the broader markets. With this free cash flow, we are targeting a **cash-return payout**
70 **of around 70%**, while earmarking the remainder to further strengthen our balance sheet.

71

72 With our flexible **cash-return framework**, we will judiciously allocate our free cash flow towards the
73 best opportunity whether that be buybacks or dividends. Given that the equity market is heavily
74 discounting valuations in the energy sector, it's an easy decision to **prioritize the buyback over the**
75 **variable dividend** to capture the incredible value that Devon offers at these historically low
76 valuations.

77

78 **Slide 19** helps better visualize this **compelling value proposition**. On the right, you can see energy
79 represents less than 4% of the S&P 500, while contributing more than 10% of the EBITDA in 2023.
80 This is noteworthy given that energy's S&P weighting historically tracks its earnings contribution over
81 time. I believe this gap exists due to extreme valuations in tech, combined with a pervasive
82 misunderstanding of hydrocarbon demand over time. With global energy demand forecasted to
83 increase 50% by 2050, the world is going to need growth from all sources of energy, including oil and
84 natural gas. With the world's power needs continuing to grow, it is evident that **peak oil demand is**
85 **nowhere in sight** and our industry will be an important contributor of energy growth for the
86 foreseeable future. Furthermore, high-quality names like Devon provide significant equity upside

87 over time as you collect outsized cash returns. And as I said earlier, **this is why we are putting our**
88 **money** to work, actively repurchasing shares.

89

90 And with that, I will turn the call over to Clay.

91

92 **Clay Gaspar, Chief Operating Officer:**

93 Thank you, Rick, and good morning, everyone. The Devon team did a really good job of rounding out
94 2023 by exceeding our operational targets for the fourth quarter. These positive results were driven
95 by three key factors: **1. improved uptime**, driving base production; **2. increased efficiencies through**
96 **faster cycle times**, resulting in lower capital per well; and **3. better new well productivity**, improving
97 our wedge production volume.

98

99 **Slide 5** provides a good visual of these **favorable operating trends**. The chart on the left highlights the
100 **efficiencies** we've delivered in our drilling and completions operations. On the right, you can see this
101 track record of efficiency gains is also paired with some of **the best well productivity** of any producer
102 in the US. While these results can certainly vary from quarter-to-quarter, our consistency over time
103 demonstrates the **quality of our assets** and **execution capabilities**.

104

105 The most significant contributor to this advantaged capital efficiency was our **franchise asset in the**
106 **Delaware Basin**. In the fourth quarter, roughly 60% of our capital was deployed to this prolific basin
107 allowing us to run a consistent program of 16 rigs. With this activity, we brought online 62 new wells,

108 **grew productivity** 6% year-over-year and **expanded our DUC inventory**, allowing us to add a fourth
109 completion crew earlier this year.

110

111 While we had strong results across our acreage position, in the quarter, the **top contributors** to our
112 performance were several large pads within our Cotton Draw and Stateline areas. At **Cotton Draw**, in
113 the core of the basin, we brought on 11 three-mile laterals that showcased the stacked pay potential
114 and prolific rates this area can deliver. These extended reach wells were diversified across **5 different**
115 **producing intervals** in the Avalon, Bone Spring and Wolfcamp formations. In aggregate, the oil-
116 weighted production from these wells achieved 30-day rates of 4,400 BOE per day with impressive
117 per well recoveries trending as high as 4 million BOE.

118

119 In addition to the high rates at Cotton Draw, we also delivered **record-setting drilling and completion**
120 **times**. This performance included a record completion pace of 3,100 feet per day, and drilling times
121 for these 3-mile laterals came in as low as 19 days with the final mile drilled in a record time of just
122 over 24 hours.

123

124 Another standout performance during the quarter and possibly my favorite in terms of naming
125 convention was our **Clawhammer project** in the **Stateline area**. Clawhammer was named by a
126 geologist after the style of playing the banjo that his dad used in their family jam sessions. The good
127 news for him and his family is that these wells are fantastic. This 8-well pad consists of 2-mile laterals,
128 co-developed in multiple intervals in the Wolfcamp A. With production rates averaging 3,900 BOE per

129 day, this package of wells delivered the highest well productivity per lateral foot of any project during
130 the quarter.

131

132 As I look ahead to 2024, I expect another big year for the Delaware Basin as we have **a great slate of**
133 **projects lined up**. We plan to bring online around 215 wells for the year with most of the capital
134 deployed towards the best parts of our acreage in southern Lea and Eddy counties and the Stateline
135 area of Texas. This plan is designed to deliver improved capital efficiency and better well productivity
136 through the full column of development of the Upper Wolfcamp, along with select landing zones in
137 the Wolfcamp B where applicable. The derisking of multiple targets in the Wolfcamp B over the past
138 year has allowed us to pursue more extensive multi-zone developments in 2024, bolstering our high-
139 quality inventory, delivering **higher net present value** per project, and still **delivering exceptional**
140 **rates of return**.

141

142 Turning to **slide 13**, to build upon Rick's comments from earlier, we're confident in our ability to
143 deploy more capital to the core of the Delaware, because of a long list of improvements in
144 infrastructure. These improvements include 2 Bcf a day of gas processing additions, expansions to the
145 downstream gas takeaway, enhanced water handling capabilities with our WaterBridge joint venture,
146 build-out of gathering and compression and investment in self-generated power and microgrids to
147 increase the reliability of the electrical infrastructure. With these improvements, **we are very well**
148 **positioned to execute on our 2024 plan**. In fact, year-to-date, we're delivering at a pace ahead of
149 schedule, allowing us to fully offset the winter weather downtime we experienced in January across
150 the field.

151 Shifting to the **Eagle Ford**. The successful integration of our Validus acquisition was one of the key
152 drivers of the production increase of 56% during 2023. With our enhanced scale in the basin, the
153 team did a great job of capturing synergies by **driving improvements across each phase of our**
154 **operations**. This progress can be seen through several indicators, including year-over-year 15%
155 decrease in production costs, a 30%-plus improvement in completion cycle times over the course of
156 the year, and we set a company record spud to rig release of only five days.

157

158 Our activity during the year continued to demonstrate that the Eagle Ford provides one of the most
159 promising opportunities for **resource upside** in the US shale. Through tighter redevelopment spacing
160 and refracs, our capital program not only **replenished**, but **expanded** our risked resource in the play
161 to an inventory runway of around 10 years at today's pace of activity.

162

163 Looking to 2024, our key focus for the Eagle Ford team is to **sharpen capital efficiency** by
164 incorporating appraisal learnings from the past year, along with more balanced activity across DeWitt
165 and Karnes counties. This plan is expected to deliver single-digit **production growth** for roughly \$75
166 million **less capital** over last year.

167

168 In the **Rockies**, we possess a unique combination of assets that can provide both **growth** and **free**
169 **cash flow**. Specifically, in the **Powder River Basin**, we are building upon the well productivity
170 improvements achieved over the past couple of years, where the average six-month cumes increased
171 nearly 20% from historic levels. A recent highlight was the SHU Iberlin 3X well, which reached peak
172 rates in Q4. This 3-mile Niobrara well achieved initial production rates greater than 1,500 BOE per day

173 with an 85% oil cut and then hung in at that rate for quite a while. In addition to the strong oil
174 productivity, the Iberlin attained a record drilling performance of 1,350 feet per day, a 45%
175 improvement compared to the average Niobrara well. In 2024, our efforts will be focused on **refining**
176 **spacing, reducing costs** and **continue** to ready this asset for full development in the later part of this
177 decade.

178

179 In the **Williston**, I want to thank the team for safely working through the incredibly severe winter
180 storm weather that we experienced in January and rapidly restoring affected production. As I look
181 into 2024, our focus for this asset will be to **optimize base production**, deploy selective investments
182 to **high-confidence projects**, and harvest \$300 million of **field level cash flow**. So far this year, our
183 capital program is off to a great start with our Bull Moose project maxing out our production facilities
184 at over 15,000 barrels of oil per day with several of the wells flowing 3,000 barrels per day or more
185 during their flow-back.

186

187 Lastly, I'd like to briefly cover our activity in the **Anadarko Basin**, where we delivered an 8%
188 production growth rate during 2023. The 3-rig drilling program funded by our Dow joint venture,
189 delivered very impressive well production. The value of this production was also enhanced by our
190 ability to route volumes into the premium Southeast gas markets and by the team driving operational
191 costs 10% lower. In 2024, we plan to maintain a similar pace of drilling activity in the Anadarko with a
192 keen focus on developing the liquids-rich window of the play, where returns from our joint venture
193 activity will benefit from higher condensate cuts.

194

195 And with that, I'll turn the call to Jeff for a financial review. Jeff?

196

197 **Jeff Ritenour, Chief Financial Officer:**

198 Thanks Clay. I will spend my time today discussing the highlights of our **financial performance** in 2023
199 and the **priorities** for our free cash flow as we head into 2024.

200

201 Beginning with our fourth-quarter **financial performance**, Devon's operating cash flow totaled \$1.7
202 billion, exceeding consensus estimates, and represents the **highest quarterly total** of the year. This
203 cash flow comfortably funded our capital spending and resulted in \$827 million of free cash flow,
204 driving full year free cash flow to \$2.7 billion dollars. Even in the face of headwinds from lower
205 commodity prices, this level of free cash flow ranks as one of the highest in Devon's 50-plus year
206 history; another **powerful example of the consistent financial results** our disciplined strategy can
207 deliver.

208

209 As Rick touched on earlier, with this free cash flow we are targeting a **cash-return payout of 70%**,
210 with the remainder reserved for balance sheet improvement. **Slide 23** in the appendix is a good
211 exhibit representing how we allocated our cash returns in the most recent quarter. Given the
212 compelling valuation of our equity, we **prioritized share repurchases** over the variable dividend. This
213 resulted in us repurchasing 5.2 million shares in the fourth quarter at a total cost of \$234 million.

214

215 In 2024, we have continued to **actively acquire shares** through our 10b5-1 program and we plan to
216 supplement this systematic buying with open market purchases during the year. With plenty of

217 runway remaining on our \$3.0 billion buyback authorization, we see Devon's current valuation as a
218 great opportunity to **compound the per-share growth** for our investors.

219

220 In addition to our buyback activity, we delivered investors an **attractive stream of income** through
221 our fixed-plus-variable dividend framework. In the fourth quarter, we declared a dividend payout of
222 \$0.44 per share that is payable at the end of March. This dividend consists of the board's approval to
223 increase the fixed dividend by 10%, to \$0.22 per share, and declare a variable distribution of \$0.22
224 per share. We continue to believe **dividends are a great way to reward shareholders** and are a
225 critical contributor to total returns over time. We also believe that the flexibility designed into our
226 dividend framework allows us to return meaningful and appropriate amounts of cash to shareholders
227 across a variety of market conditions through the cycle.

228

229 Moving to the **balance sheet**, Devon's investment-grade financial position continued to strengthen in
230 the fourth quarter with cash balances increasing by \$114 million to a total of \$875 million. In addition
231 to our strong liquidity, we exited the year with low leverage, marked by a net debt-to-EBITDA ratio of
232 only 0.7 times. Looking ahead, with the excess free cash flow that accrues to our balance sheet, we
233 plan to build liquidity and retire maturing debt. Our **next debt maturity** comes due in September of
234 this year, totaling \$472 million, and we will have the opportunity to retire another \$485 million of
235 notes in 2025.

236

237 So, in summary, our financial strategy is working well...

238 • We have successfully scaled our business to consistently generate free cash flow

- 239 • We are boosting per-share results by opportunistically repurchasing our shares
- 240 • We offer a dividend yield that far exceeds that of the broader markets and...
- 241 • The balance sheet is in great shape, with a clear pathway of continued improvement over the
- 242 next few years

243 With that, I'll now turn the call back to Rick for some closing comments.

244

245 **Rick Muncrief, President and CEO:**

246 Thank you, Jeff. So to wrap up our prepared remarks, I want to reinforce a few **key messages**.

247 #1. Devon is a great company that has **created a tremendous amount of value** for shareholders
248 since we unveiled our industry-first, cash-return strategy announced in 2020. Since time, we
249 have deployed \$13 billion, to dividends, buybacks, debt reduction and accretive acquisitions. I
250 am extremely proud of this accomplishment, but we are just getting started...

251 #2. 2024 is setting up to be another wonderful year for Devon. By incorporating learnings from
252 the past year and, refining our capital allocation, we expect to deliver a **step-change**
253 **improvement in capital efficiency** this year. This improved capital efficiency is anchored by
254 our assets in the Delaware Basin, where we expect to deliver the powerful combination of
255 **improved well productivity** for much **lower capital costs**.

256 #3. Our **long duration resource base**, underpinned by the Delaware, is one of the deepest of any
257 company out there. The resource quality provides us an advantaged platform to drive
258 attractive per-share growth and outsized cash returns for many years to come.

259

260 And with that, I will turn the call back over to Scott and let's have some Q&A.