Devon Energy First-Quarter 2024 Conference Call

Operator: Welcome to Devon Energy's first-quarter 2024 conference call. At this time all participants are in listen-only mode. This call is being recorded. I'd now like to turn the call over to Mr. Scott Coody, Vice President of Investor Relations. Sir, you may begin.

Scott Coody, Vice President Investor Relations:

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

Rick Muncrief, President and CEO:

Thank you, Scott. It is a pleasure to be here this morning, and we appreciate everyone taking the time to join us. By all measures, Devon delivered an outstanding set of results in the first quarter that

surpassed the operational and financial targets we had set by a wide margin. This start to 2024 demonstrates the impressive momentum we have quickly established, setting the stage for our **business to continue to strengthen.** At this time, I want to personally thank our employees, our service providers and our infrastructure partners in helping us get 2024 off to a great start.

For the remainder of my comments for today, I will focus on the drivers of our **first-quarter outperformance** and the factors underpinning our **improved outlook** for the remainder of the year.

So, to start off on **slide 6**, let's do a quick review of our first quarter results, where we had several noteworthy highlights. Starting with **production**, our delivered volumes came in about 4% higher than plan for the first quarter, averaging 664,000 Boe per day. This production beat was across all products and driven by **3 key factors**:

- First, and the most significant contributor to this performance was the excellent **well productivity** we achieved from the 100-plus wells we placed online during the quarter. On average, these high-impact wells exceeded our type curve expectations, with strong well productivity in the Delaware Basin once again driving our results. Overall, this activity achieved initial production rates that were more than 20% higher than those that we placed online last year. As we progress through this year, I anticipate that these strong recoveries will continue.
- Secondly, another key factor that drove production higher in the quarter was the **improved cycle times** we delivered across our drilling and completion operations. Clay will go into much

more detail a little later, but simply put, these efficiency gains allowed us to bring forward activity in the quarter and capture more days online than we had planned.

- And the third factor that positively contributed to our performance during the quarter was the easing of **infrastructure** constraints across our Delaware Basin assets. This improvement was directly related to the steps we have taken, along with our third-party partners, to invest in the buildout of incremental gas processing, compression, water handling and electrification. These crucial capacity additions have positioned us to achieve better run times for our base production and allowed us to deploy more activity to the core of this world class basin.

Another notable achievement from the quarter was this team's **effective cost management**. This was demonstrated by delivering **operating costs** that were 3% lower than guidance and **capital expenditures** that were in line with expectations, even with an accelerated pace of activity. This positive start to the year puts us in a great position to deliver better cost efficiencies in 2024, especially if we realize incremental savings from **deflation** as we go through the year.

Cutting to the bottom line, the team's **comprehensive execution** across all aspects of the plan resulted in our **15th consecutive quarter** of free cash flow, showcasing the durability of our plan to consistently create value through the cycle. With this free cash flow, we continued to reward shareholders through our cash-return framework, which was led by **stock buybacks** and supplemented by another attractive **dividend** payout.

Now moving ahead to **slide 12**, and with the strong operational performance achieved year to date, we are **raising guidance expectations** for the full year of 2024. As you can see on the top left, a key contributor to this improved outlook is our 2024 production target increasing by 15,000 Boe per day or 2 percent to a range of 655,000 to 675,000 Boe per day. To reiterate what I touched on earlier, these **higher volume expectations** are due to the better-than-expected well performance achieved year-to-date and our confidence in the quality slate of projects that we have lined up over the course of this year.

Importantly, we are **delivering this incremental production within the confines of our original capital budget** of $3.3 to $3.6 billion. This level of investment is expected to maintain a steady production profile for about 10% less capital compared to last year. This program is fully funded at an ultra-low breakeven of around $40 per barrel, which equates to one of the lowest breakeven levels of any company in the industry.

With our improved full-year outlook, we are now positioned to generate greater than **15% more free cash flow** in 2024 versus last year at today's pricing levels. This translates into an attractive free cash flow yield of 9%, which is nearly **3-times higher** than what the broader market can offer. With this growing stream of free cash flow, we remain unwavering in our commitment toward capital discipline and will seek to **reward shareholders with higher cash returns**.

With our flexible **cash-return framework**, we will allocate our free cash flow towards the best opportunity whether that be buybacks or dividends. Given that the equity market is still heavily

discounting valuations in the energy sector, we plan to continue to **prioritize share buybacks over the variable dividend** to capture the incredible value that Devon offers at these historically low valuations.

So, in summary, 2024 is off to an excellent start. We delivered on **exactly what we said we would do** and much more in the first quarter. Our business continues to get better and build momentum, and this is reflected in our improved outlook for the year. And, with the current valuations in this space, the best thing we can do is buyback our stock to capture this value. It's going to be a great year for Devon and the team is energized to build upon this strong start. And with that, I'll now turn the call over to Clay. Clay?

Clay Gaspar, Chief Operating Officer:

Thank you, Rick, and good morning, everyone. Devon's first quarter outperformance was the result of **strong operational execution across the board**, where each asset team delivered results that exceeded targets for production and capital efficiency. As Rick touched on, the great start of the year was underpinned by three key factors: **excellent well productivity, improved cycle times** and **outstanding base production results**.

For the remainder of my prepared remarks, I plan to cover **asset-specific highlights** that are driving this positive business momentum and provide insights and observations that drive Devon's improved outlook for 2024.

Let's begin on **slide 7** with an overview of our **Delaware Basin** activity, which accounted for 65% of our capital investment for the quarter. We operated a program of 16 rigs and 4 completions crews across our 400,000 net acre position in the play, resulting in a production growth of 5% compared to the same period last year. This volume growth was driven by 59 new wells brought online that predominantly targeted the Wolfcamp formation. In aggregate, these high-impact wells achieved average initial flow rates of more than 3,200 Boe per day. This performance resulted is the best well productivity from our Delaware Basin asset in more than two years.

On **slide 8**, while we delivered **high economic results across the basin**, I'd like to drill down on three impressive projects that were the biggest drivers of our outperformance for the quarter.

- On the **far left** side of the slide, Devon's **largest development** in the quarter was the 13-well **Van Doo Dah** project in our Cotton Draw area of Lea County. With the thoughtful upfront planning and improved efficiencies from our simulfrac operations, the team brought Van Doo Dah online nearly two weeks ahead of plan. The massive scale of this project was showcased by the peak flow rates that reached nearly 30,000 gross barrels of oil per day. This success further reinforces why I believe the stacked pay potential in Cotton Draw to be one of the **best tranches of acreage** in all of North America.
- Another noteworthy project that achieved the **highest initial rates** of any project in the quarter was the **CBR 15-10** in our Stateline area. This 3-mile upper Wolfcamp development, was made possible by an acreage trade, recorded average 30-day production rates of 5,600 Boe per day. Very few projects in the history of the Delaware Basin have reached this level of

productivity and the expected recoveries from this project are also extraordinary, projected to exceed 2 million BOE per well.

- And lastly, I would like to cover a **key appraisal success** that we had in the quarter in the Wolfcamp B interval of our Thistle Area. This proof of concept well came in significantly above our pre-drill expectations with peak rates for this single appraisal well exceeding 5,000 Boe per day. This positive result **adds to our resource depth** in the Delaware by de-risking approximately 50 locations in the area. While the hydrocarbon stream in the deeper Wolfcamp intervals generally shifts towards higher gas rates, the oil cuts are strong enough for this opportunity to compete very effectively for capital in our portfolio. Given this, we expect to **incorporate more Wolfcamp B** wells into our future multi-zone developments as we plan for our 2025 program and beyond.

Turning to **slide 9,** we are clearly off to a great start with our 2024 plan in the Delaware. As you can see on the **left**, our **well productivity** is on track to materially improve year over year. As a reminder, this improvement is driven by returning to a higher allocation of capital to New Mexico, where our inventory depth is the greatest. It is important to note, that we have not changed spacing or lateral length to achieve these improvements.

Importantly, as you can see to the **right** of this slide, we are also pairing this improved well productivity in the Delaware Basin with **efficiency gains**. The adoption of simulfrac across a broader segment of our activity has been a key driver of compressed completion cycle times, but the high grading of rig fleets to also drive down overall well costs is contributing. I want to congratulate the

teams for this success and expect this momentum in the Delaware to continue as we work our way through the year.

We included **slide 10** to remind everyone of the recent infrastructure buildout that we either led, participated in, or just are benefitting from. Our patience in giving this highly prolific area some breathing room for this infrastructure to mature was the right decision from an economics perspective as well as an environmental standpoint.

Slide 11 is an updated view of Enverus' remaining inventory of the top Delaware Basin producers. As you can see from this credible 3rd party's perspective, we have one of the **largest inventories** among operators in the basin, providing us with a multi-decade resource that will drive enterprise-wide performance for many years to come.

While the Delaware Basin is the driving force behind our performance, we do value a **diversified portfolio** across the very best oil and liquids-rich basins in the United States. I would also like to briefly highlight a few items from those basins:

- In the **Eagle Ford**, the steps we have taken to **tighten our capital efficiency** are yielding results. In the first quarter, we brought online 26 infill wells and a handful of highly successful refracs that resulted in an oil growth rate of 7% year-over-year. Importantly, we were able deliver this growth while spending 13% less capital versus the average run-rate of 2023. This improved capital efficiency is driven by less appraisal requirements to tactically advance our

redevelopment of the field along with the benefits of a more **balanced program** across our assets in DeWitt & Karnes Counties.

- In the **Williston Basin**, production increased 9% in the quarter. This performance exceeded our internal expectations due to **excellent well productivity** in the core of the play from our Bull Moose and North John Elk projects and better uptimes from our base production. For the full-year, the oil-weighted production stream from this asset is on track to generate up to $500 million of cash flow for the company.
- Moving to the **Powder River Basin**, our activity in 2024 is designed to build upon the well productivity gains we achieved last year, where our **Niobrara flow rates** increased nearly 20% from historic levels. For the rest of 2024, we plan to bring online around 10 Niobrara wells across our acreage in Converse County. The objective of this activity is to refine our view on **spacing** and optimize **completion designs** to drive down costs as we advance this area toward full-field development.
- Lastly, in the **Anadarko Basin**, with the recent weakness in gas price, our capital activity was limited to one project placed online in the first quarter, but the **flow rates were very impressive**. The Allen pad, that co-developed both the Meramec and Woodford formations, achieved peak cumulative rates for this pad of 5 wells exceeding 20,000 Boe per day, with liquids comprising nearly 40% of the production mix. As we look to the rest of 2024, we are reducing activity to 2 rigs in our Dow JV area and intend to bring online the majority of the activity in the second half of the year to capture the higher gas price expected in the winter months.

In summary, I am proud of the **capital efficient** results that our team has delivered this quarter and the strong momentum we have built as we look to execute on our plan over the remainder of the year and beyond. And with that, I'll turn the call over to Jeff for our financial review. Jeff?

Jeff Ritenour, Chief Financial Officer:

Thanks Clay. I will spend my time today covering the key drivers of our first-quarter **financial results** and provide some insights into our **outlook** for the rest of the year.

Beginning with **production**, we had very strong results across the board in the first quarter driving our improved full-year outlook. Looking specifically at the second quarter, we expect this production momentum to continue with volumes increasing to a range of 670,000 to 690,000 Boe per day. This expected growth is driven by higher completion activity in the Delaware Basin, resulting from the fourth crew we put to work at the beginning of the year in the core of Southeast New Mexico.

On the **capital** front, we remain confident in our guidance range for the full year. Spending will be slightly skewed to the first half of the year, roughly 55% of our budget, due primarily to the cadence of Delaware completion activity. This spending will begin to moderate as we move from four to three frac crews in the Delaware resulting in a **lower capital spending profile** in the second half of the year.

With regard to **pricing,** the recent strength in the price of oil has provided a meaningful impact to our returns and cash flow generation capabilities. For every $1 uplift in WTI, we generate around $100 million of incremental annual cash flow. On the gas side, we are experiencing weakness in **WAHA**

pricing within the Permian, but as a reminder, our exposure is limited, given our firm takeaway and basis hedging. Looking ahead, we expect this situation to improve with the Matterhorn pipeline scheduled to come online later this year.

Moving to **expenses,** we did a good job controlling field-level costs during the quarter. Our lease operating and GP&T costs totaled $9.27 per Boe in the quarter coming in below the bottom end of our guidance range. Looking ahead to the rest of the year, we expect our field-level costs to remain relatively stable and we feel very comfortable with our **full-year guidance ranges**.

Moving to the **bottom line**, we generated $1.7 billion of operating cash flow during the quarter. This level of cash flow funded all capital requirements and resulted in $844 million of free cash flow for the quarter. With this free cash flow, we continued to prioritize share repurchases in the first quarter. We repurchased $205 million of stock in the quarter, bringing our total activity to $2.5 billion since the program's inception in late 2021. With a $3 billion authorization in place, we have plenty of runway to compound our per-share growth as we work our way through the year.

In addition to our buyback program, another key use of our excess cash in the quarter was the funding of our **fixed-plus-variable dividend** with the board declaring a payout of $0.35 per share. This distribution will be paid at the end of June.

And to round out my prepared remarks this morning, I would like to give a brief update on our **investment-grade financial position**. In the first quarter, our cash balances increased by $274 million

to a total of $1.1 billion. With this increased liquidity, Devon exited the quarter with a very healthy net debt-to-EBITDA ratio of 0.7 times. Looking ahead, with the excess free cash flow that accrues to our balance sheet, we plan to build liquidity and retire maturing debt. Our **next debt maturity** comes due in September of this year, totaling $472 million, and we will have the opportunity to retire another $485 million of notes in late 2025.

And with that, I'll now turn the call back over to Rick for some closing comments.

Rick Muncrief, President and CEO:

Thank you, Jeff. To wrap up our prepared remarks this morning, I want to reinforce a few **key messages**.

#1. We are delivering on **exactly what we promised to do** and then some in the first quarter. Our disciplined execution and outperformance of the plan demonstrates the momentum that we have established, setting the stage for our business to strengthen as we go through the year.

#2. With this great start to the year, we are raising our 2024 production guidance. This improved outlook is underpinned by efficiency gains from **excellent well productivity, faster cycle times**, and **better base production** results…anchored by our franchise asset in the Delaware.

#3. Furthermore, this improved outlook is also manifesting in higher free cash flow that will translate into higher cash returns for our shareholders. Given the value proposition that we offer, the best thing we can do is **prioritize repurchasing our shares**.

#4. And lastly, our **long duration resource base** is one of the deepest of any company out there and we continue to find ways to add resource. You heard some of that this morning. This was

evidenced by our continued success in the Wolfcamp B, positive redevelopment results in the Eagle Ford and productivity breakthroughs in the Powder River Basin.

And with that, I will now turn the call back over to Scott for Q&A