

06-May-2026

Devon Energy Corp. (DVN)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Devon Energy's First Quarter 2026 Conference Call. At this time, all participants are in a listen-only mode. This call is being recorded. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I'd now like to turn the call over to Mr. Chris Carr, Director of Investor Relations. You may begin.

Christopher Carr

Director-Investor Relations, Devon Energy Corp.

Good morning, and thank you for joining us on the call today. Last night, we issued Devon's first quarter 2026 earnings release and presentation materials. Throughout the call today, we will make references to these materials to support prepared remarks. The release and slides can be found in the Investors section of the Devon website. Joining me on the call today are Clay Gaspar, our President and Chief Executive Officer; Jeff Ritenour, Chief Financial Officer; John Raines, SVP, Asset Management; Tom Hellman, SVP, E&P Operations; and Trey Lowe, SVP and Chief Technology Officer. As a reminder, this call will include forward-looking statements as defined under US securities laws. These statements involve risk and uncertainties that may cause actual results to differ materially from our forecasts. Please refer to the cautionary language and risk factors provided in the SEC filings and earnings materials.

With that, I'll turn the call over to Clay.

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

Thank you, Chris, and good morning, everyone. Thanks for joining us. Today, we'll focus on Devon's strong first quarter 2026 results, which, once again, demonstrates the operational excellence and financial discipline that defines this organization. After walking through our Q1 results, I'll turn to a quick update on our transformative merger with Coterra Energy. Now, let's turn to slide 3 for a deeper look at our first quarter results, which reflect strong execution across the business. As you can see on this slide, beating on production and capital once again resulted in impressive free cash flow for the quarter. Our production optimization efforts drove oil to 387,000 barrels per day, reaching the top end of our guidance range. Capital spending came in 6% below the midpoint of our guidance as we continue to capture drilling and completion efficiencies through advanced technology and focused execution across the program.

Combined, these efforts translated into \$816 million of free cash flow in the quarter, demonstrating the capital efficiency of our program and positioning us to return substantial value to shareholders. I want to emphasize that these results are not isolated wins. That kind of consistency doesn't happen by accident. It's the direct outcome of the exceptional talent and commitment of our teams across every basin. Turning to slide 4, what makes this story even more exciting is where we're headed. On a standalone basis, Devon is entering the second quarter with significant upside torque to free cash flow. Production is expected to step up. Our cost structure remains well controlled and the commodity backdrop is meaningfully stronger than what anyone underwrote coming into this year. You can see the sensitivity of this business to commodity prices on the right side of the slide.

This is a very compelling yield profile in any environment, and it reflects both the operational gains we have delivered and the natural leverage of a high-margin portfolio. We are running the program we laid out, capturing

the operational gains we committed to and letting free cash flow accrue to our shareholders. Turning to slide 5, the key free cash flow strength I just walked through doesn't happen on its own, it's the direct output of the business optimization work we launched just over a year ago. I'm pleased to report that we will achieve our \$1 billion target well ahead of schedule. We will accomplish this major milestone with contributions from every part of the business, including capital efficiency, production optimization, commercial improvements, and corporate cost reductions. I want to take a moment to thank the entire Devon organization for making this happen. When you challenge this high-quality team with a clear mission, you might as well consider it done.

Business optimization has transitioned from a one-off project to a new cultural mindset. The focus and accountability that we built will translate directly into our integration work with Coterra, and I am confident this foundation will allow us to attack the merger synergies with the same urgency and rigor. The engine behind that innovation is technology and AI. I want to spend an extra minute here, because I think it is the most important insight about Devon today that isn't intuitive from just a cursory analysis of the financials. The AI revolution is real. And what is happening across this organization is incredibly exciting. Internally, we talk about the three waves of AI impact. Basically, wave one is a much more immediate connection to Devon's massive stores of data, transforming what was inefficient data hunting time into data analysis and value creation time.

After years of cleaning and organizing our data, we have a fully-firewalled internal tool called ChatDVN that has been up and running for three years and is today a standard part of our daily workflow. We are now deep into seeing the benefits of wave two, where the AI is doing the heavy lifting of complicated calculations and time-consuming work. Examples of this are leveraging AI to write code for new apps, and also translating the massive drilling, completion, and production data flow into actionable intel that our engineers can immediately act upon. Wave two value is showing up in cutting-edge drilling and completion time, directly translating into lower capital costs. We are also having very significant wins in production, leveraging AI-created tools to do real-time artificial lift optimization. We now have over 850 wells on fully autonomous artificial lift optimization, with a very impressive productivity improvement.

We are now moving into wave three, where we are redesigning internal processes from the ground up with AI at the center. That is the frontier, and Devon is leading the industry there. Slide 6 is a great example of where technology and AI are showing up across the business. We have shown this slide in past quarters to highlight some of the key initiatives that have contributed to the success of the business optimization plan. I'm not going to walk through all of these today, but the one thing I do want to point out is this, the ability to see business optimizations show up in the financials is what gives the program its credibility. On the right side of the slide, we've highlighted key milestones along with where we started and where we ended, so that you can track the progress directly. This is the same playbook we will leverage with the Coterra integration.

Turning to slide 7, as we've discussed in past quarters, parallel to driving incremental value out of the day-to-day business, we are also regularly evaluating opportunities to optimize our portfolio and enhance shareholder value. The strategic transition – transactions and portfolio actions we have executed have already collectively delivered over \$1 billion in present value uplift to our enterprise over the past year. And these gains are in addition to the improvements from our business optimization initiative. The primary update this quarter is on Fervo, which recently filed its S-1 for an IPO, an important milestone for Fervo and for our investment. This milestone is significant in providing a public marker for our investment, highlighting the value uplift we have created. The partnership is pioneering next generation geothermal technology and leveraging our core skills in geoscience, horizontal drilling and completions and data analytics, while positioning Devon in a power-generating sector with more significant growth potential.

Now, turning to slide 8 to what I know is top of mind for many of you, the status of our transformative merger with Coterra Energy. I'm pleased to report that both the Devon and Coterra shareholders have voted overwhelmingly to approve the merger on May 4, and we expect this transaction to close tomorrow. I could not be more excited about what this combination means for our shareholders. The industrial logic is undeniable, and combining two strong operational teams overlapping in each other's best basins creates substantial opportunity to enhance efficiency, and drive results. Pro forma Devon will be one of the largest independent E&P companies in the United States. In addition to scale, our asset quality, inventory depth, and balance sheet strength positions us to deliver durable free cash flow and returns through any commodity cycle. Our go-forward shareholder return framework will be thoughtfully designed and competitive with our highest quality peers.

It will be balanced between dividends, share repurchases, and debt repayment. Subject to formal board approval, our dividend will increase by over 30% on a per share basis starting in the second quarter. Additionally, both companies paused their share repurchase programs between deal announcement and close, building cash during a period of unexpectedly strong commodity price. With the repurchase program immediately resuming post close, we were positioned to increase repurchases activity beyond our legacy level, and capitalize on any discount to our intrinsic and relative value. Integration planning is progressing extremely well. And I want to be clear, the \$1 billion synergy target is the floor, not the ceiling. In fact, as of this morning, our integration teams have already identified 156 distinct value capture opportunities, underscoring both the depth of the upside, and the sense of urgency we're bringing to this work.

Once we close, we will move quickly to bring the same business optimization discipline to the integration effort and provide transparency in every step along the way. Before I close, I want to address something directly. Naturally, on the back of the announcement of our merger, we have fielded questions about the opportunity to re-allocate capital within our pro forma portfolio, and also the opportunity to evaluate the go-forward asset composition of the company. First, I am confident that with our new combined portfolio, we will have opportunities to further enhance the efficiency of the capital investment program. Second, actively managing our portfolio is core to who we are as a company. Devon has a 55-year history of buying and selling assets, and we are always seeking opportunities to enhance near and long-term shareholder value. Every asset in the combined portfolio has to compete for its capital and earn its seat at the table. We have initiated a complete review of all assets against our strategic and financial criteria.

While we do not have any preconceptions about future actions, we are excited to thoroughly review the portfolio with the soon-to-be combined board and remain open to all alternatives that enhance long-term value. We will be thoughtful, disciplined, and move with speed. Every option will be measured against one test, does it lead Devon a stronger, more focused company on the other side? To be clear, this merger has added depth and quality of inventory in the Delaware Basin and positions Devon to deliver peer-leading capital efficiency for the foreseeable future. Our discipline paired with operational excellence, financial strength, and unwavering commitment to shareholder returns, is what gives Devon its unique investment proposition. With the Coterra merger on the verge of closing, we're entering an exciting new chapter that builds on this strong foundation. We expect to provide combined full year guidance in mid-June once management and the board have appropriate time to align on the company's plan.

With that, operator, I would like to turn to our first question.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from Arun Jayaram of JPMorgan Securities LLC. Your line is open. Please go ahead.

Arun Jayaram

Analyst, JPMorgan Securities LLC

Yeah. Good morning, Clay and team.

Q

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

Hey, Arun.

A

Arun Jayaram

Analyst, JPMorgan Securities LLC

Clay, I wonder if you could provide more details on this portfolio review process which obviously will pick up steam when you close the merger in a couple days. Perhaps you could maybe articulate kind of the criteria that you and the team are looking at to establish what you believe are going to be core assets at Devon. Could it be inventory durability, commodity, price/mix, et cetera? And also that – if we look forward and you do decide to monetize some assets in the portfolio, should we think about your intention to redeploy those assets, redeploy those proceeds into perhaps coring up existing positions or potentially looking at buybacks given what looks to be a really compelling valuation of the equity?

Q

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

Arun, there's a lot there. You hit all of the top five of the questions we presume we would get today. I will try and be very – as specific as I can. Of course, you realize the last thing we want to do is box ourselves into something that is preconceived before we actually do the work, have the deep conversations, do the real critical review and objective review and, again, moving swiftly, and then making sure we're aligned with our board going forward. So what I would tell you is kind of highlighting thinking about capital efficiency, inventory depth, free cash flow, overall fit, how all these pieces fit together is kind of the tone and the nature of the analysis. But I can tell you it is not a simple formula that we goal-seek on and it spits out an answer. This is stress testing from every conceivable scenario, thinking about near-term wins, thinking about long-term lenses, thinking about the market, the use of proceeds that you're talking about.

A

And again, going back to that test of how do we make Devon a better Devon, how do we deliver more value near-term and long-term for our shareholders. So I appreciate the question, and I'm sure we will get plenty of follow-ups, but the most important thing for us is please know that we are going to move swiftly, decisively, aggressively into this. We just do not think it's prudent to box ourselves to any preconceptions of what that could look like with an ill-conceived timeline or any kind of cadence like that. But appreciate the question.

Arun Jayaram

Analyst, JPMorgan Securities LLC

Got it. And I have a housekeeping question for Jeff. I was wondering, Jeff, there's some moving pieces regarding 1Q taxes in your forward look on taxes. Could you just provide us an updated view on what's going on there,

Q

obviously assuming it's related to the move in commodity prices? But just give us some thoughts on what the go-forward cash tax guide could look like.

Jeffrey L. Ritenour

Executive Vice President & Chief Financial Officer, Devon Energy Corp.

A

Yeah, you bet, Arun. You're right, we had some noise in the Q1 tax outcome up to the positive. Obviously it was a flip from deferred to current which created a real benefit for us in the first quarter. And then, as you saw with the second quarter guide, we moved the rate higher as a result of that. That's a function of the flip that we had between current and deferred, but also a function of the higher commodity prices and the capital efficiency that we're seeing. So as Clay mentioned in his opening remarks, we – none of us were expecting to have the level of oil prices that we've seen here in the back half of the first quarter and here into the second quarter. And we're projecting that, at least to some degree, into the back half of the year. So as a result, we're generating significantly more pre-tax income. As you know, you've heard me say in the past free cash flow generation is a good proxy for pre-tax income.

And with the capital efficiency that we're seeing from the teams which has been phenomenal, married with the higher commodity prices, we're really getting into a position where we're just seeing some of that tax shield get utilized on a faster basis. And as a result, we've moved our expectation for current taxes into the back half of the year a little bit higher. So, we're – for the full year for Devon on a standalone basis, we'll still work out to be somewhere around that 10% level. But they'll be a little bit higher in the next coming quarters given the low rate we had in the first quarter.

Arun Jayaram

Analyst, JPMorgan Securities LLC

Q

Thanks, Jeff.

Operator: Your next question comes from the line of Neal Dingmann of William Blair. Your line is open. Please go ahead. [Operator Instructions]

Neal Dingmann

Analyst, William Blair & Co. LLC

Q

Morning, Clay. Clay, my first question is on Permian activity, specifically as we continue to see higher Waha, kind of negative Waha prices, how much does this impact your future Permian decisions based on what you're seeing there and maybe how much exposure you have to Waha?

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah. Let me pick up on that and then Jeff can add a little bit of color. Really proud of the team's proactive work. As you know, we've been very aggressive in participating in additional pipe. We've helped underwrite some of the pipe. We have additional capacity coming on with Blackcomb later this year. Positioned well, but certainly have marginal exposure to Waha prices. Inevitably what we're doing in those environments is we're looking to the highest gas-oil ratios, the gassiest of our assets and pulling back on those, on that production during that time. You saw a little bit of that in the first quarter. We can manage that exposure with the nominal amount of exposure we have by pulling back on some of that activity. We'll continue to fight the good fight. Think of this, when there is a call for Permian gas, think about the opportunities that we will have, especially when we've got the positive realizations once we get the infrastructure built.

Really excited about the future for Delaware when the inevitable call for the gas will come. Jeff, additional comments?

Jeffrey L. Ritenour

Executive Vice President & Chief Financial Officer, Devon Energy Corp.

A

Yeah. No, Clay, you nailed it. As Clay mentioned, when Blackcomb comes online later this year that will further limit our exposure to Waha. We'll be, call it, 10% to 15% exposure to Waha at that point going forward. As Clay mentioned, the team has done a great job of trying to manage the exposure, shedding in some of the high GOR wells, which has helped us in addition to the infrastructure takeaway that we've got. We continue to believe there's going to be a need for more takeaway from the basin as we move into 2027 and beyond. And so, as Clay mentioned, the team's very much focused on evaluating opportunities to further limit our exposure as we move forward into the future.

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

A

And just one other final comment on that, making sure that everyone is paying attention, not just to get realized gas price, but also some of the value of the hedge comes through other line items. So, making sure we're being thoughtful about how we're protecting is not always physical, but it's sometimes it's financial edges that we have in place that show up in other lines of the financial statements.

Neal Dingmann

Analyst, William Blair & Co. LLC

Q

Great point. And then, Clay, just a second quick one, just on what I would call new ventures, you all continue to own a decent size of Fervo. And I'm just wondering, do you all anticipate continuing to take positions maybe in additional geothermal, other what I'd call newer type ventures?

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah. It's exciting. I mean, I think we've dabbled in a few ideas thinking about how do we leverage this amazing – the talents that we have. You think about geoscience, you think about drilling horizontal wells and completing horizontal wells and building facilities, like, that's what we do. Like, where else can we extrapolate these skills? And what we found is an incredible Fervo team, we've really enjoyed the partnership with. Happy to be alongside those guys and we'll continue to look to other ways to expand Devon's footprint. Trey, do you have other comments there?

Trey Lowe

Senior Vice President & Chief Technology Officer, Devon Energy Corp.

A

I appreciate the question. There's a lot of exciting things happening at Fervo. And we took our stake in the Series D and led that round. We've obviously been very happy with the investment that we've had there financially as well as the investment that our teams have poured into them with just different technical advice over the years and seen them continue to de-risk, enhance geothermal systems operationally and technically. The thing that we didn't expect really going into that first investment was the power demand that we see for firm, always on 365-day power that we're seeing across the United States, especially Western United States. And we continue to be pretty bullish on that power demand story. This gives us some exposure to it. And we're definitely interested as the technology continues to get de-risking. But I think back to the spirit of the initial question, we're pouring ourselves into the success of Fervo at this point, and that's been our focus as a company.

Operator: Your next question comes from the line of Neil Mehta of Goldman Sachs. Your line is open. Please go ahead.

Neil Mehta

Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Good morning, Clay. Good morning, team, and congrats on the shareholder vote. And that's kind of where I wanted to start, which is the synergies. It sounds like you're tracking towards the \$1 billion of cost optimization and the margin stuff and the corporate cost stuff, but, Clay, could you talk about early wins, thoughts on whether you could pull forward the year end 2027 target just to kind of make this a little more tangible for us?

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

A

Neil, I love the attitude, man. We hadn't even started the race and you already want to pull forward the finish line. That's my kind of thinking. What I would tell you is I am exceptionally confident in this combined team's ability to really come to pulling the rope in the same direction, getting integrated, getting a unified culture. I mentioned the 156 projects that are already identified. What doesn't come through in the numbers is the mutual excitement of the wins we're seeing from both sides of the ledger. It's really a true synergistic opportunity. We're seeing those things in all the major categories, from D&C, capital optimization that will come really quickly. We're seeing some upside in production. We're thinking about how do we re-allocate capital inside of the portfolio. Even the hardest work that we do around, what's the optimal spacing, staggering, sequencing and completion design of a place like the Delaware Basin?

We've got two really strong teams that have worked these very hard problems in isolation. And now, you've got the benefit of two strong teams, brilliant folks, coming together and sharing their best ideas. And boy, that – if I've ever seen synergy, it's that. I really – what gets me exceptionally excited is kind of the mechanics behind it. I rewind back to the WPX-Devon merger. We signed the deal, worked so hard to get to the point. Then we looked at each other and said, okay, what do we do now? And man, we started scrambling just to figure out how do we capture these things? How do we monitor track, hold ourselves accountable, make sure that it's flowing through the financials? The beautiful thing with this position we're in today is we've just established some really great mechanics behind this. Trey Lowe led that, the business optimization project, it's already very fluent on this side of the family on how that works. I don't anticipate any issues in getting those mechanics applied to all of the opportunities.

And then I'll go back to my comments from the script, technology is the key innovative underwriter of so much of this. And we're just getting started. I love bragging on the team. I can get – I can go for the next 30 minutes on the excitement around some of the work that we're doing and how it turns ideas into value. But I can tell you, we are in the exceptionally early innings of those winds. And now, with this combined footprint, this amazing Delaware Basin is our crown jewel asset. You combine the two positions together and then you start applying all of these, the brilliant ideas and people and technology. Just watch out. We can't wait to deliver on this. And like I said, I consider it the floor, certainly not the ceiling.

Neil Mehta

Analyst, Goldman Sachs & Co. LLC

Q

Yeah. That's a – it's a great point about the Delaware really becoming the star of the portfolio in a pro forma basis. And you already have a Delaware concentrated program, but it's only going to be more so. I think you alluded to this. So, maybe you can kind of comment on that a little bit. What would be the advantage of moving the portfolio a little bit more towards being Delaware focused versus diversified, recognizing you've got a portfolio process that

you're looking at, but just at a high level, what would be some advantages of being more focused as an organization?

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah. Look, I don't want to presume that we are, in any way, not focused. We certainly have the scale, the capabilities, the teams in place that it's not like we can only work in one basin at a time. So, I don't want that at all to be the presumption going in or some kind of limiting factor. But I think we want to be exceptionally objective about all of the possibilities on how to enhance this company's value, both short and long term for our shareholders. And so, I'll go back to the prepared remarks about the opportunities that we have to really do the thorough work, to move through diligently, evaluate every scenario and not just which basins we're in, but thinking about all of the potentials, the upside that we have in other areas, and how do these pieces work together. Don't forget, this ranking and opportunities can significantly change when you apply \$1 billion of synergies.

Think about the enhancement of the opportunities that we have with much lower D&C cost, with better production, thinking about how do we stack and stagger these wells and improve the outcomes, that can really change the game and put us in a strong position. Maybe with the assets we have, maybe we see something else that fits even better into the portfolio as a bolt-on type opportunity. All of that's on the table as it always is. I just want to emphasize we don't want to presume one direction before we actually do the work and have the important alignment conversations that we need to have with the new management team and importantly, with the board as well.

Neil Mehta

Analyst, Goldman Sachs & Co. LLC

Q

We'll stay tuned. Thanks, Clay.

Operator: Your next question comes from the line of Scott Gruber of Citigroup. Your line is open. Please go ahead.

Scott A. Gruber

Analyst, Citigroup Global Markets, Inc.

Q

Yes. Good morning. Clay, you're obviously flush with cash here and you have the integration in front of you. Guess that you and the team may not be inclined to change the combined activity program much and just focus on synergy capture. I am thinking about where you could deploy some extra cash. I think about refracs in the Eagle Ford or even the Bakken in this environment. Those appear to be an area where you can deploy some modest incremental capital, get a quick payback, but not really deplete core inventory. Just some thoughts there.

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah, I appreciate that. And we're always looking to enhance. And that could be within the existing portfolio. Capital allocation and refracs are a great example of that. I would say one thing that's – we've probably gone quieter on refracs over the last several quarters, and here's the odd result or the leading indicator that came from that. We have improved our D&C cost and efficiency so much that now we're seeing the drilling side of the equation, which is basically the part that you're eliminating in a refrac. We have driven those costs in efficiency insomuch that it's becoming those refracs now have to compete with new wells. And so, we've probably done less of those. We're excited about some other things that we have in the hopper. Some longer-term winds around

enhanced oil recovery. Some exciting early projects we have there. We've talked about the surfactants that we've done tests on the Permian and other areas we're working on as well.

Those are really impressive returns that probably accrues more to the LOE side of the ledger than the capital side, but certainly always looking where we can make a differential investment to lean in. We want to remain disciplined on our capital. We ultimately have our long-term best interest in mind along with these, the shorter-term wins. But however, we can improve those wins along the way, we're happy to deliver on.

Scott A. Gruber

Analyst, Citigroup Global Markets, Inc.

Q

That's good color and good perspective. So, with this extra cash, you kind of mentioned the investigation of the EOR and obviously surfactants have been a hot topic the last couple of quarters. I mean, what do you do with your extra cash? I mean, do you push harder on EOR or try to deploy more surfactants? Do you deploy more AI and try to accelerate incorporation of those technologies into your operations? Just kind of what do you do around the margin with the extra cash?

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah, I think there's a pretty big disconnect from these projects we're doing on the margins. I mean, surfactants are incredibly cost-effective let's just say. And we think about some of these other ideas that we're investing in de-risking over time. They are relatively small investments and probably will remain that way for a bit. The cash that you're talking about, the billions of dollars of free cash flow that we as standalone Devon and certainly as a combined company will generate, I think we think about dividend policy, we think about share repurchases, and we think about debt repayment, how do we optimize those. And as you well know, different quarters can present different opportunities that we want to be nimble around. But once again, it's important we get aligned with our board. These are absolutely board-level conversations that we want to make sure we don't preempt that process. We need to get aligned with them.

But I think structurally, what we've talked about pre-close is enhancing that dividend. Likely to announce a very significant share repurchase program that we could move aggressively on. And then also, of course, we look at the debt. And inevitably, when you combine companies, just like when I look back at WPX, there were some real day-one early wins that we were able to do on the debt front to enhance value to shareholders. So, I would say that's the probably more material opportunities that we have for cash return to shareholders.

Scott A. Gruber

Analyst, Citigroup Global Markets, Inc.

Q

Got you. Yeah, I was just wondering about those kind of second-level investments that may accelerate. But appreciate all the color. Thank you, Clay.

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

A

Thanks, Scott.

Operator: Your next question comes from the line of Josh Silverstein of UBS. Your line is open. Please go ahead.

Josh Silverstein

Analyst, UBS Securities LLC

Q

Yeah. Thanks. Good morning, guys. On the merger webcast you had put out there that you had 10-plus years of inventory at the current development pace. And I know this was a third-party estimate, but I'm curious given that you guys are going through this big cost reduction program, once you start adding those into the equation here how are you thinking about the kind of pro forma depth of that base? Does it push towards 15 years? Is it greater than that because it feels like the cost of supply of that basin is moving much lower for you?

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

A

Well, certainly the cost of the wells can materially extend the runway. Think about kind of the creaming curve and that tail that are just right on the bubble. As you lower those costs, more of those yellow lights turn into green over time. But I might ask John just to add a little bit of color on what he's seeing when he thinks about combining the Delaware Basin footprint.

John Raines

Senior Vice President-E&P Asset Management, Devon Energy Corp.

A

Yeah. Josh, we need to go do a lot more of that work to get you probably more specific numbers, but I'll give you just a corollary back to 2025. So when I think about all the capital efficiencies we had in 2025, we saw our costs consistently move lower. That allowed us to do some really good work on down-spacing. And when I go back and look at the risked resource replacement that we had in the Delaware Basin from not only our appraisal but specifically down-spacing, we replaced almost 100% of our consumption. And so, when I think about that kind of additional resource gain, combining that across the two company asset base, you already had third-party estimates pushing our inventory well beyond 10 years. I got to imagine that as we see learnings as Clay mentioned from better staggering, from better landing, completion design but also as we see lower costs, we're going to see that same trend of the two companies.

Josh Silverstein

Analyst, UBS Securities LLC

Q

Got it. Thanks for that. And then, just given the significantly larger pro forma asset base and stronger balance sheet, is this opening up new investment opportunities and doors for you guys? Do you foresee more of these kind of earlier-stage investments in companies like Fervo or WaterBridge? Or do you want to get more integrated, build your own midstream infrastructure, look at long cycle exploration opportunities? Clay, any thoughts there would be great. Thanks.

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah, thanks for that question, Josh. I think that's just kind of part of our DNA. I mean, we got a bunch of entrepreneurs around here, and I think what is really awesome is when we really get aligned on what winning looks like. We've done this work solo Devon over the last six quarters or so with our board. And it was a real magical moment last year, the September strategy session. We walked out really kind of understanding what long-term success really looked like. And I think it was so empowering for all the folks around the company that are just thinking about kind of these amending and extending the opportunity set that we have, above and beyond just straight-drilling additional wells. While that's always going to be our core business, I'm really excited about how do we think about leveraging the knowledge, the position, the scale, the footprint that we have and really turning additional opportunities. Part of the go-forward, Tom Hellman is going to lead a lot of that effort for us.

And it is to think about the firepower that we're going to have, the combined skills that the company is going to bring together. There's definitely more to come, and I think it really helps the longer-term investors think about Devon's value longer-term and the sustainability of our ability to hold on to this free cash flow. So I think it's all positive and really excited about where this could evolve over time.

Operator: Your next question comes from the line of Phillip Jungwirth of BMO. Your line is open. Please go ahead.

Phillip Jungwirth

Analyst, BMO Capital Markets Corp.

Q

Yeah, thanks. And first, congrats on achieving the \$1 billion business optimization savings which some of us were skeptical of. But on – coming back to the AI discussion, I was hoping you could give more color around the fully autonomous artificial lift optimization, just how to think about this relative to gas lift or ESP or basin-specific? And any estimate on how much you think this is improving runtime which is obviously very important at current oil prices?

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah. Phil, first of all, thanks for the acknowledgment on the business optimization. I can tell you there were a lot of skeptics. You weren't the only one, and rightfully so. I mean, this was something that we were going to create a sustainable \$1 billion of incremental value kind of out of thin air. We didn't have a transaction to lean on. It was just a few of us changing offices and sitting in different seats. But I knew the organization had it. I just felt like there was just kind of this untapped resource. I talked about it in my prepared remarks about this moving from a project to more like a cultural norm. And it goes back to this hunger for data, like how do we not just compare against ourselves, the best in the business? And maybe it's not even the best in the business, maybe it's the best in any business. How do we think about that next incremental step and then the power of technology and really doing something with that data?

It's so infectious around the organization. So, I'm incredibly excited. And I couldn't be more proud of the organization's achievement on that. So, first of all, thank you for that acknowledgement. I'm going to turn to John and just see specifically on the artificial lift because you may not – maybe the audience doesn't know this, but essentially every well in all of our companies are on some form of artificial lift. We've started with gas lift as a primary opportunity. But I can tell you this extends to every other form of artificial lift as well. Anyway, let me turn to John. He can add additional color.

John Raines

Senior Vice President-E&P Asset Management, Devon Energy Corp.

A

Yeah, I think Clay did a good job of providing color in his earlier remarks. Extremely proud of the smart gas lift program. So, we're using smart AI models there to develop a physics-based calculation to optimize gas lift injection rates. That's on a closed loop system. It's going directly to the wells. And we piloted this back in 2025. And to your question on uplift, we saw about a 2% to 3% uplift. We've now moved into full implementation in the Delaware Basin. We're over 850 wells at this point in time. And we've seen uplift that is in excess of what we saw in the pilot phase. We are on our way to 1,500 wells across the portfolio. I don't want to give a specific number on uplift just yet. I just want to say it's better than what we saw in the pilot phase, because it's early. But we're already taking similar types of technology, meaning AI-derived models, to look at other forms of artificial lift that you mentioned. We're looking at ESPs and rod pumps at this point in time.

Those models that we've derived are looking at the wells. They're calculating what should be the optimal production rate for those wells. Right now, we're in the pilot phase. We're looking at subsets of wells, but we're identifying wells that may be producing below their optimal injection rates. What that's leading to is some actionable insights for our engineers. We're going out. We're testing these insights and we're already seeing production uplift. And so, much like the smart gas lift program, these are other programs that we're going to be able to scale throughout our portfolio. Smart gas lift has been a massive success for us, and I'm looking forward to being able to roll these types of programs out as well.

Phillip Jungwirth

Analyst, BMO Capital Markets Corp.



No, that's great. And then, I also had a question on cash taxes but it's more as it relates to the portfolio review process. I know you've been buying and selling assets at Devon for over 55 years but probably never generated this much free cash flow with Coterra in a similar position. So, just wondering if there's any ability to shield taxable gains for the pro forma company. Or is this just something that's going to have to be factored in and overcome in any value creation analysis?

Jeffrey L. Ritenour

Executive Vice President & Chief Financial Officer, Devon Energy Corp.



Yeah, Phil, again, we've got to go away and do the work to give you more definitive answer, but without question, we're going to evaluate – to the extent that we do land on executing on some divestitures, we'll absolutely be evaluating that all on an after-tax basis. And as you point out, some of the assets that we hold in the portfolio today certainly have a low basis. So, we'll have to be thoughtful about how we structure those transactions and be creative hopefully as to how we work through those transactions and structure them appropriately to maximize the free cash flow. But we'll absolutely be looking at all that on an after-tax net present value basis. We'll have the opportunity to look at different exchanges that we might do and even some JVs where it makes sense to try to minimize the impact of that as we work through it.

Phillip Jungwirth

Analyst, BMO Capital Markets Corp.



Thank you.

Operator: Your next question comes from the line of John Freeman of Raymond James. Your line is open. Please go ahead.

John Freeman

Analyst, Raymond James Financial, Inc.



Thank you. Just follow up on the prior discussion on sort of the AI benefits on the artificial lift side and then tying that into the earlier discussion on synergies, when I kind of use like the last 12 months of what you all achieved on the business optimization side is kind of a roadmap on the synergies. When I look at the business optimization, there were certain buckets that got realized really quickly, obviously the corporate overhead, the commercial opportunities, and then the bucket that took the longest to ultimately get realized was the production optimization. So when I look at the buckets that you all have got on slide 9 for the synergy capture, the discussion was autonomous or the AI artificial lift side.

Am I thinking about it right that now that you've got the benefit of that that you didn't have day one when you were doing the business optimization that that bucket that took the longest in the optimization side maybe doesn't have to take as long when I'm looking at kind of these synergy buckets here?

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah, man, John, appreciate the question. And you're exactly right. Some of these will be early wins. Production is notoriously just kind of one of those slower burning opportunities, you're talking about relatively small wins on hundreds or maybe thousands of wells. And that takes time to kind of work in. The great news is we've been doing the work. We've kind of got the flywheel effect going. We've been very methodical and thoughtful in how we've built towards this. So, the synergy \$1 billion will benefit from the work that we've done to date. And so, more to come. I might just turn to Trey and just see, there's so many other things exciting on the AI front from that category. And then of course, Trey is also co-leading the integration. And so, he has a very great, very insightful purview into the synergy goals as well.

Trey Lowe

Senior Vice President & Chief Technology Officer, Devon Energy Corp.

A

Appreciate the question, John. I think you're asking the right things on this one. One of the outcomes that I'm really optimistic about is that the tailwinds that we're seeing on business optimization will carry through the synergy work that we have ongoing, specifically the production items, the things like what John mentioned was smart gas lift, as well as another collection of work streams. Clay's mentioned that a few times now, but that process that we've built around which ideas become work streams that we track and measure and push forward, what are the AI and technology data-driven solutions that work? We're going to continue to push all of that forward with our structure. We've built the culture around it, so we're really, really excited about that.

The other thing that we haven't mentioned yet that I would share is, we've learned over the last year what we think our investors and our analysts care about and how we can keep all of you updated as we make progress on these things and how we categorize it, and we communicate it in a way that's transparent, and we're going to continue to do that going forward as well. And so, we're, yeah, 100% excited about the tailwinds that we're carrying on the production side, but also just the flywheel that we've built in all of these categories, I think are going to set us up really well.

John Freeman

Analyst, Raymond James Financial, Inc.

Q

Thanks, Trey. And then, this was another really active quarter on the ground game side, especially in the Delaware Basin. Should we assume that that's going to remain pretty robust as you all work hard to kind of complement both companies' positions in the Delaware?

John Raines

Senior Vice President-E&P Asset Management, Devon Energy Corp.

A

Yeah. John, this is John. Yes. You should assume that that's going to remain fairly robust. We've been very successful with our ground game. I think you saw in our materials since last year, we've added well over 100 net locations in predominantly the Delaware Basin with our ground game. Q1, we had another great success. Think you saw our acquisition capital of roughly \$150 million, that was 90% Delaware Basin. That was not only success in the January lease sale, but a lot of really good knife fighting behind the scenes and good work by the land team. So, it's been an instrumental part of our business, and you can expect us to remain very active on that front.

John Freeman

Analyst, Raymond James Financial, Inc.

Q

Thanks, guys. Appreciate it.

Operator: Your next question comes from the line of Betty Jiang of Barclays. Your line is open. Please go ahead.

Betty Jiang

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. [ph] I truly (00:48:02) just – I have a follow-up on the buyback. Clay, could you speak to the logistics of having a new buyback authorized under the new board? And you alluded to in the prepared remarks that you could go beyond the legacy level. Could we see a catch-up on the buyback going forward just to make whole on the repurchases that would have happened by the standalone, the two standalone companies?

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah, that's – I think that's one way to look at it, but I wouldn't presume that we're trying to make up for lost time on any specific numbers. When we get the board authorization of the new board, which is going to be imminent, then we will be able to communicate that and we will get to work. On a standalone, go forward, how do we think about this? What's the right opportunity? Obviously, we had a cadence before, Coterra had a cadence before. How do we combine that? Think about the best approach. There's an art and science to share buybacks, but I think there's a real excitement from both sides of the legacy teams that we have a real opportunity to return shareholder value with a tremendous amount of free cash flow and then leveraging the opportunity to buy back material shares.

Betty Jiang

Analyst, Barclays Capital, Inc.

Q

No, that makes sense. And I'll follow up on target debt levels. The combined entity is going to generate a lot of free cash flow, and we covered that earlier. But just thinking about how you view the optimal debt level going forward, would you ever want to be at a level that's net – zero net debt, or how do you think about the right leverage on a mid-cycle price level?

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah, Betty, you're on the track of probably the most common debates we've gotten in with our board over the years, on how's the best way to return shareholder value, dividends, share repurchases, and, of course, debt as well. I certainly don't want to jump in front of the important conversations we're going to have with the new combined board, but I think you're hitting around on the right opportunities. All of these are – will be evaluated when we think about the incredible free cash flow of the combined entity. And I look forward to updating everyone once we get an alignment on the go-forward plan. Jeff, do you have any other thoughts along those lines?

Jeffrey L. Ritenour

Executive Vice President & Chief Financial Officer, Devon Energy Corp.

A

No, I would say, Betty, I think both companies historically have been – both had phenomenal balance sheets, a lot of strength, a lot of – both investment grade, creates a lot of flexibility for the company. And I think investors should expect that to continue as we go forward. As Clay said, we've got to do some work with the board just to do the math and get aligned. But I expect you'll see a philosophy on both the share repurchase program and the balance sheet. That's pretty consistent with what you saw from each of the companies on a standalone basis historically.

Betty Jiang

Analyst, Barclays Capital, Inc.

Great. That makes sense. Very much look forward to the pro forma update.

Q

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

Thanks, Betty.

A

Operator: Your next question comes from Doug Leggate of Wolfe Research. Your line is open. Please go ahead.

Doug Leggate

Analyst, Wolfe Research LLC

Thanks so much. Good morning everyone. Gosh, you had to put me on right after the debt buyback discussion, didn't you?

Q

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

Sorry, Doug [indiscernible] (00:51:33). You can push that one on Betty.

A

Doug Leggate

Analyst, Wolfe Research LLC

So, I got two questions, neither of which you'll probably be able to answer, Clay. I'm going to have a go anyway. So, you talked about the number of initiatives that you've already identified. Obviously, it's an upside to the synergy target question. My question is have you been able to get under the hood, on the combined company, on Coterra's portfolio assets and so on given that the merger has not closed yet? And therefore, what's the veracity to which you've been able to define that \$1 billion target versus the number of opportunities that you mentioned in your prepared remarks? Just trying to get a feel for how do – don't want to say conservative and lead you down that road, but it sounds to me that if you haven't been under the hood, how do we think about the risk of that \$1 billion synergy?

Q

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

Yeah. Thanks for the question, Doug, and I can add some color on that. Look, there is a – we have moved aggressively. I don't know if it's – if everyone kind of sees this. But for a combined \$70 billion company to do a sign, to close in three months is moving with incredible, incredible speed. At the same time, we've been incredibly disciplined on what we can and can't do, and there's very strict rules around what we could and couldn't share. There's an interesting little ability to use something called a clean room where we can exchange certain data with third parties, and we've done some things like that. But we've been able to exchange a certain amount to now, okay? But we have to work a lot of this independently. And of course, even to get to the merger agreement and get the deal signed, both teams needed to work this and understand the why of why their shareholders are going to benefit from this. So we work this independently.

A

Between sign and close, we've been able to share some data and get closer and closer by leveraging, like I said, third parties and the ability to stay well inside the lines but make sure that we are working together closer and closer. And then obviously, starting tomorrow it's full speed ahead. Take off all the shackles and we'll find

additional opportunities. What I would tell you is we've been able to work close enough together where I feel very confident in the outcome. I am not raising the number on the \$1 billion. I'm not accelerating the timeline, but I just want to give the investors confidence in it when we say \$1 billion by the end of next year, we feel confident and we will be able to deliver much like we delivered on our last business optimization goal. The difference is the flywheel effect that Trey mentioned earlier. We already have kind of a running start on some of these opportunities, and so it just gives me even greater confidence that we'll be able to achieve this combination.

Certainly, we see opportunities in lots of different categories. But when we really unleash the combined organization without the restraints of we can't talk about all of these long list of things, it'll be even that much more exciting in unlocking value. So, feel really good about it. More to come. And as Trey mentioned, we're going to be incredibly disciplined each quarter on updating you, holding ourselves accountable. And as you've done, hold us accountable to delivering on these numbers.

Doug Leggate

Analyst, Wolfe Research LLC



Thanks, Clay. I thought I'd give it a go. My follow-up is probably a question you can't answer either, but I'm going to give this a go as well. And I'm going to speak directly and perhaps bluntly about the reason Coterra succumbed to external pressure, the mismatch with the gas and oil assets, the mismatch with the Marcellus. I know the board has to review this, but we also have the letter from Kimmeridge. Where do you stand on the portfolio mix? Do you agree or disagree that having a skewed mix towards gas makes – has risks in terms of confusing investors?

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.



Well, thanks for the question. And while I won't talk about any specific investor, we get investor feedback, as you would imagine, all day, every day from every angle. What I can tell you is I'm excited about the combination. Two of the three basins have significant overlap from the Coterra side. We're seeing some of these synergies, these opportunities to make those assets better. Certainly, we have some other assets that either were solo Devon or solo Coterra. And all of those, as I said earlier, they need to earn their seat at the table. And I do not want to be presumptive. I am not presumptive on which assets will be able to compete or not, and I think that's absolutely the right approach. And we're going to go through that with thoroughness, diligence, swiftness to evaluate all of those options.

And certainly, part of the evaluation is how do investors – what do investors want from us. Again, that's not a – that's investors very, very plural, not singular investor because there's lots of different views out there, and obviously not just trying to answer the question du jour but thinking about investor sentiment that can stand the test of time. What are investors really going to be excited about 6 months, 12 months, 2 years, 4 years from now? Those are the things that we're really trying really goal-see towards. And that's the hard conversations that we're going to have, again, with the new management team and certainly with the board going forward. So, excited about that work. And then as we think about – it's not just solving for a specific geography. We're really thinking about those things that I pointed to earlier: capital efficiency, inventory depth, free cash flow, and then how does it all fit together. Don't underestimate what applying \$1 billion of synergies could mean to one asset or another.

And so – and when we think about the skill set that we have, how do we unlock additional potential, that all needs to be thoroughly evaluated, and that will come. Believe me, we are moving fast, fast, fast on this and we're not going to slow down. But it is the right thing to do to make sure that we are very thoughtful and that we make the right decisions before we try and show our hands on which way we're going to go on any of these important considerations.

Doug Leggate

Analyst, Wolfe Research LLC

Great point. Thanks, Clay.

Q

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

Thank you. Doug.

A

Operator: Your final question comes from the line of Kevin MacCurdy of Pickering Energy Partners. Your line is open. Please go ahead.

Kevin Maccurdy

Analyst, Pickering Energy Partners

Hey, thanks for getting me on. Clay, I'd be interested in your take on the macro environment here given the supply disruption. And maybe if you'd care to comment on it, what signals you're looking for that would drive you to contemplate more than a maintenance program.

Q

Clay M. Gaspar

President, Chief Executive Officer & Director, Devon Energy Corp.

Yeah, it's a great question, Kevin. I think about the – historically, we've said on the call we think the world is well-supplied in oil. This is circa two or three quarters ago. We had OPEC still bringing barrels back on. We're watching demand from Asia, from Europe, from the US. We're trying to really watch at a macro level how that supply and demand is really kind of lining up. Certainly over the last couple of months, that dynamic has changed very significantly. I think it's too early to call kind of the end or how this thing resolves itself. Meanwhile, there's a lot of barrels off the market. We're watching international storage levels come down over time. And that certainly influences where we think the back end of the curve, one, is trading, but also where it normally should be. We'll continue to watch this. And we talked about before, we don't steer the ship with the front end of the curve. Oil price, as we see it today, can bounce around \$5, \$10 at a time.

A

And that can just – that can be an ill sought try to – try and optimize on that. We're watching the back end of the curve. We're watching the macro fundamentals. What I would tell you is from our view, things are evolving and we'll continue to watch that very closely.

Kevin Maccurdy

Analyst, Pickering Energy Partners

Okay. And then maybe shifting gears a little bit on oil realizations, they are just a little bit lower this quarter than prior quarters. Any comments on that pricing? And will you see any benefits from the Brent WTI spread that's kind of materialized here across any of your assets going forward? Thanks.

Q

Jeffrey L. Ritenour

Executive Vice President & Chief Financial Officer, Devon Energy Corp.

Yeah. You bet. I want to brag again on our marketing team a little bit. They've done a really phenomenal job with our oil export program. And kind of the back half of the first quarter, we started to see some real benefit of that with getting some premiums to what we could have achieved domestically via the export program. And I expect that to be the same case in the second quarter. We should see strength in the second quarter on a relative basis as a result of that export program. So, kudos to the team. They've been really thoughtful as we built that out over

A

the last couple of years. And it's really starting to pay dividends, particularly in the volatile environment that Clay just described.

Kevin Maccurdy

Analyst, Pickering Energy Partners



Appreciate the answers. Thanks, guys.

Operator: Thank you. I will now pass the call back to Mr. Chris Carr for closing remarks.

Christopher Carr

Director-Investor Relations, Devon Energy Corp.

Thank you for your interest in Devon today. If there are any further questions, please reach out to the Investor Relations team. Have a good day. Thanks.

Operator: This concludes today's call. Thank you for attending. You may now disconnect.

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