05-Aug-2026

Devon Energy Corp. (DVN)

Q2 2026 Earnings Call

CORPORATE PARTICIPANTS

Daniel Guffey
Senior Vice President-Corporate Finance, Devon Energy Corp.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

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

Blake A. Sirgo
Executive Vice President-Operations, Devon Energy Corp.

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

John D. Raines
Executive Vice President, E&P-Permian, Devon Energy Corp.

OTHER PARTICIPANTS

Arun Jayaram
Analyst, JPMorgan Securities LLC

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Betty Jiang
Analyst, Barclays Capital, Inc.

Neal Dingmann
Analyst, William Blair & Co. LLC

Doug Leggate
Analyst, Wolfe Research LLC

John Freeman
Analyst, Raymond James Financial, Inc.

Josh Silverstein
Analyst, UBS Securities LLC

Chris Baker
Analyst, Evercore Group LLC

Scott A. Gruber
Analyst, Citigroup Global Markets, Inc.

Nitin Kumar
Analyst, Mizuho Securities USA LLC

Phillip Jungwirth
Analyst, BMO Capital Markets Corp.

Gabe Daoud
Analyst, Truist Securities, Inc.

Scott Hanold
Analyst, RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Devon Energy's Second 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.

I'd now like to turn the call over to Mr. Dan Guffey. Dan, you may begin.

Daniel Guffey

Senior Vice President-Corporate Finance, Devon Energy Corp.

Good morning, and thank you for joining us on the call today. Last night, we issued Devon's second quarter 2026 earnings release and presentation materials. Throughout the call today, we will make reference 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; Shane Young, our Executive Vice President and Chief Financial Officer; and other members of the executive management team.

As a reminder, this call will include forward-looking statement as defined under US securities laws. These statements involve risks and uncertainties that may cause actual results to differ materially from our forecast. Please refer to the cautionary language and risk factors provided in our SEC filings and earnings materials.

Also, please note, Devon's second quarter results reflect legacy Devon operations for the full quarter plus Coterra beginning on May 7.

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

Clay M. Gaspar

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

Thank you, Dan, and good morning, everyone. This morning I'm excited to discuss our strong 2Q execution, the company's differentiated technology platform, assets and operational prowess, and the significant progress we've made in just under 100 days since the close of our merger with Coterra. But first, let's turn to slide 2 of our investor deck we published yesterday.

I want to start with who Devon is, an operations-focused, technology-forward, energy powerhouse. This description is supported by three attributes that defines Devon. First, everything is anchored around the company's culture of excellence; second, technology is a genuine competitive advantage; and third, we have key investment differentiators in inventory, cost of supply, and financial discipline. You will hear more about these themes throughout today's call. Now let's turn to slide 3.

The merger closed on May 7, just 94 days after announcement. With both legacy companies having recent integration experience, the combination has gone even better than we planned. I'm happy to report to you that I am very confident in our ability to deliver the $1 billion synergy target with more than 350 synergy initiatives already identified and taking shape. Along the way, we enhanced our Permian inventory through a once in a generation federal lease sale, and at the same time, we strengthened our balance sheet with debt retirement.

Just as importantly, none of that activity distracted us from the day job. We outperformed our second quarter guidance across the key value drivers, and that execution translated into a $1.7 billion adjusted free cash flow. When I step back and look at what the Devon team accomplished in such a compressed timeline, I couldn't be more proud.

Slide 4 put those first 100 days on a timeline. I want to pause here, because the page tells you something about who we are and what you can expect from Devon. It started on day one when we closed the merger with 95% of our core IT systems and processes already decided. We raised the dividend 33%, and we put the $8 billion buyback program to work.

Importantly, we immediately kicked off a comprehensive portfolio review underscored by our commitment to maximizing short, medium, and long-term shareholder value. Less than two weeks later, we captured value through our success in the Permian lease sale. By week five, we had issued combined guidance that was better than the sum of the stand-alone plans. And by week six, we finalized the new org structure for all of the office-based employees. From there, we closed out the quarter with a strong operational beat, and we have completed our $1.25 billion debt reduction target for 2026. Moving with speed and intention is not only a slogan, it's how Devon operates.

With that foundation set, let's get to the results on slide 5. Strong well performance allowed us to deliver oil production 2% above the midpoint of our guide, and the total production reached the very top end of our guidance. On the spending side, capital came in 2% below the guide, as we continue to capture drilling and completion efficiencies through our advanced technology and focused execution. Put those together, our reinvestment rate improved to 43% of cash flow, well below the mid-50s of the past two years.

All of that translated into $1.7 billion of adjusted free cash flow in the quarter, a powerful demonstration of what this platform can generate. I want to emphasize that these results are not just isolated wins. It's a direct outcome of the focus and the commitment of our teams to deliver world-class operational execution.

Now, zooming in on the Permian, let me spend a few minutes on slide 6 and the New Mexico federal lease sale, because I know it generated a lot of discussion, and because the more you understand this transaction, the more you will appreciate the value we captured in this unique opportunity adding 400 top-tier locations in the heart of the basin.

Let's start with the acquisition cost. The headline was $6.5 million per location, but let's make sure we understand the uniqueness of these locations. These federal leases with a 12.5% royalty, roughly half of the typical royalty burden of state and private acreage. That increased royalty ownership alone is worth about $2.5 million per location, which takes the effective cost of roughly $4 million per premium location.

It is also important to understand the auction mechanics. The process was an ascending auction bid, think eBay, where the winning price was exactly $1 per acre higher than the second place bid through market price discovery. When you hear comparisons of price per location to negotiated private equity transaction, remember those are a bit apples and oranges.

The nature of private equity companies encourages them to partially develop the best opportunities first to build production. Cherry picking the best opportunities takes them out of the inventory list, but also can have a material impact to the remaining locations. In the federal lease sale, these tracks were completely undeveloped from grass to granite, ensuring that we have the opportunity to optimally and most economically develop the resource.

As I will talk about on the next slide, our industry-leading D&C performance leverages the value of this acreage. The adjacency of the existing footprint enables longer laterals, and our significant water, gas gathering, and electrical infrastructure means lower cost and higher margins on production. We are already filing permits, and this acreage will play a meaningful role in our 2027 program.

I would love to tell you that we'll be able to do this kind of transaction again, but the fact is that this is the last Delaware Basin federal lease sale of this scale. As you've seen us increasingly do over the past few years, expect us to continue to strengthen our existing acreage footprint through highly accretive ground game focused on trades and small accretive bolt-ons.

Of course, the reason that acreage is worth more in our hands than anyone else's is that we have a home field advantage, and that's displayed on slide 7. Our well productivity is top-tier, and our drilling and completion cost per foot are among the lowest in the basin. In addition, our inventory is one of the deepest in the Delaware, with a substantial base of low breakeven locations now including roughly 400 we just added. Productivity, cost, and depth of inventory, that combination is what underwrites differentiated capital efficiency and free cash flow.

The same set of capabilities is exactly what gives us confidence in the integration, which brings me to slide 8 and synergies. We remain firmly on track to deliver at least $1 billion of annual synergy targets by year end 2027, and our confidence is higher today than the day we announced the deal, with more than 350 initiatives now underway across three roughly equal buckets.

On capital optimization, we're lowering D&C costs through well design and supply chain scale, while reallocating 2027 capital to its most efficient use. On the operating margins, we are consolidating field operations, leveraging combined infrastructure, and improving GP&T and revenue deducts. On the corporate costs, we're eliminating redundancies and lowering our cost of capital, which ties all three together is really technology. I believe technology is the most important competitive advantage for Devon.

So, let's turn to slide 9, where technology is driving real-time performance improvements today. Four quick examples. First, closed loop AI is something that we've talked about the last few quarters, and the value to Devon is growing. With our AI-enabled system now autonomously optimizing 1,000 wells real time, 24 hours a day, the ability to immediately respond to constantly changing well conditions keeps the production on the efficient frontier, and we have a clear path to broad deployment around the company. This is improving production trends and provides a path to lowering our corporate decline rate.

Second, AI is driving our subsurface advancement with a proprietary model integrating basin-wide data to predict well performance and optimize spacing and frac design with the aim of maximizing the value of every development. This enables our ability to scenario plan and reoptimize around the what-ifs of well cost, completion design improvements, and even commodity price scenarios.

Third, our surfactant tests are promising. The completion phase surfactant chemistry is enhancing our well recovery. Our first 10 trial wells across six different landing zones delivered clear uplift versus offset controls, and we are increasing our tests to more than 50 wells this year.

And fourth, real-time analytics processes live D&C data to avoid costly failures and benchmark every operation against best-in-class performance. Devon is a technology-forward company that has seen significant benefits, and we remain on the cutting edge. As we blend the best practices of both organizations, technology is a key value compounder. This is the operational story, a differentiated portfolio run with discipline, getting better through technology.

To take you through what all that means financially, I'll hand the call over to our CFO, Shane. Shane, welcome to your first Devon earnings call. The floor is yours.

Shane Young

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

Thank you, Clay. And good morning, everyone. It's a privilege to be speaking with you on my first earnings call as CFO of Devon Energy. I couldn't be more excited about the future of our company and the opportunities that lie ahead for the company and our owners. Clay just walked you through the operational story, so let me pick it up on slide 10 with the scorecard.

In summary, during the quarter, we beat guidance on every single measure. Oil production of 503,000 barrels per day came in 1.6% above the midpoint. Total production of 1.36 million barrels of oil equivalent per day reached the top end of guidance. Total operating costs, including GP&T of $8.23 per Boe, were 2% better than the midpoint, and capital of $1.3 billion was 2.4% favorable to the midpoint of the guidance as well. Our strong first half performance gives us increased confidence in our full-year outlook, and has allowed us to tighten our production guidance ranges for 2026.

So, what did that performance mean for shareholders? Turning to slide 11. In the second quarter, really the last seven weeks of the second quarter, we returned over $1 billion through a combination of dividends, buybacks, and debt reduction. Let me break that down. It starts with a sustainable dividend growth, and we paid a quarterly dividend of $0.32 per share, up 33% from the first quarter. That totals $366 million of dividends paid during the second quarter. By keeping our dividend well within our target range of 10% to 15% of discretionary cash flow, we protect our intention to consistently grow the dividend on an annual cadence.

Next comes the disciplined buyback. With repurchases suspended until the merger closed, we resumed buying quickly after post-closing and retired 4.3 million shares in the last seven weeks of the quarter. We've continued to be active in the market in the third quarter, and the remaining $7.8 billion of repurchase authorization will be deployed through a dynamic blend of systematic and opportunistic repurchases going forward. Underpinning it all is the fortress balance sheet, supported by a BBB+ credit rating.

During the quarter, we retired $250 million of senior notes, $250 million of our term loan, and completed the Coterra bond exchange. Furthermore, in July, we retired the remaining $750 million of our term loan, which was scheduled to mature during the third quarter. Having completed these actions, I'm pleased to announce that we have met our 2026 debt reduction target through our existing maturities in the quarter.

After delivering these returns and strengthening our Delaware inventory through the New Mexico lease sale, we ended the quarter with a strong liquidity position of $4 billion, including $1 billion of cash on hand. From here, our debt target of approximately $9 billion of total debt by year-end 2027 is achievable largely with maturities which occur during 2027. This will position Devon with a leverage ratio at or below 1 times through the commodity cycle, and will allow us to be opportunistic and countercyclical in our returns program in times of commodity softness.

Looking ahead, slide 12 shows why the cash flow engine keeps running through the second half on a fully combined basis. On a 20-to-1 value-adjusted basis, our implied second half capital efficiency is 24% better than our peer average, which puts us among the most efficient producers in the industry. We see that dynamic continuing to improve into the future. That efficiency, paired with a disciplined reinvestment rate, means the back half of 2026 should generate substantial free cash flow and support a robust shareholder return program. As synergies layer in through 2027, we expect that advantage to strengthen. Importantly, we see the second half of 2026 as at or above the guidance we set just 60 days ago.

That outlook is reflected in our guidance on slide 13. As I said on the scorecard, our first half gives us increased confidence in the full-year plan, including a tightening of the oil range to 495,000 to 505,000 barrels per day, total volumes of roughly 1.4 million barrels of oil equivalent per day, and total capital of $4.8 billion to $5 billion. Within that full year, the third quarter steps up meaningfully, as our front-loaded capital program turns into production and we record a full quarter of combined results.

We expect oil volumes of 550,000 to 560,000 barrels of oil per day during the third quarter, setting up nice momentum heading into the fourth quarter, which I expect to be at similar or higher oil production levels as compared to the third quarter. We also expect total volumes of 1.66 million to 1.69 million barrels of oil equivalent per day in the third quarter and total capital of $1.4 billion to $1.5 billion, which should be our highest capital quarter of 2026 and simply reflects a full quarter of combined activity and the timing of some capital that shifted from the second quarter.

As a result of normal ebbs and flows in the business cadence, we expect capital spending to move down in the fourth quarter, driven by less activity at a number of our business units, including the Marcellus, the Anadarko, and the Powder. We're successfully executing on our 2026 plan and look forward to sharing our initial 2027 views in November.

Let me end where Clay began, because everything you've heard today ties back to a simple, disciplined model: a premier Permian-anchored portfolio, top-tier capital efficiency, a fortress balance sheet, and a return framework that delivers cash to shareholders through the cycle.

With that, I'll turn it to Clay for closing comments before Q&A.

Clay M. Gaspar

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

Thanks, Shane. That disciplined model extends to the portfolio itself. Our comprehensive portfolio review is well underway with a single objective: maximizing total shareholder value. It's a top organizational priority, and we're moving with speed and intention to enhance the value of our company by leveraging our differentiated skillset, a hot market for quality assets, and keeping an eye on future value-creation opportunities. We are evaluating every asset through a consistent framework of capital efficiency, the scale and durability of free cash flow, and strategic fit. As I've said previously, I expect this exercise to be measured in months, not years, and we're making significant progress with an update expected this fall.

That said, I don't think of this as a onetime event. After this initial reset related to the merger, the evolution of our asset base and taking advantage of market opportunities has been a long-time part of Devon's culture and will continue to be a critical skill. Given the confidence and commercially sensitive nature of this work, as much as I would love to, we will not comment on specific rumors today, but the takeaway is simple, every asset has to earn its place in the portfolio, and we are working to maximize the short-, mid-, and long-term value for our shareholders.

When I sum it all up, we believe Devon is a catalyst-rich story. We will deliver quickly against our synergy targets, updating you quarter-by-quarter, making fast progress on our portfolio review and execution, rolling out a capital-efficient 2027 plan, leaning into repurchasing shares, and enhancing our advantaged balance sheet. That is a differentiated investment proposition, and this team intends to prove it.

Lastly, I wanted to say thank you to the Devon team. Integration is not easy, but every employee continues to exemplify our core values of integrity, courage, relationships, and results. You merged two proud companies in record time without missing a beat in the field. This quarter is your proof. To everyone at Devon, legacy Devon and legacy Coterra alike, thank you. The best is ahead of us.

With that, operator, I'll take our first question. We kindly ask that each caller limit themselves to one question so that we can get more questions on the call.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. As mentioned, [Operator Instructions] . Your first question comes from the line of Arun Jayaram with JPMorgan. Arun, your line is now open.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Good morning, Clay, Shane. Clay, I will bite my tongue and won't ask you about specific assets or market rumors for assets under your portfolio review. But what I do think will be helpful to the market is you to perhaps provide the criteria that you and the board and management team are utilizing to identify which assets you view as core to Devon's go-forward portfolio. How does commodity mix between oil, gas, NGL fit into that, as well as tax implications?

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah. Thanks. And of course, all of that list is on the list, and several things as well. We think about it – I think about it kind of through three lenses. First, what's the value of the asset to Devon? How do we think about the inventory? How do we think about our ability to extract value? What's that kind of core base hold position? And then secondly, you have to be very observant in the market. There's no doubt about it, there's some really hotly interested parties in buying quality assets, and we don't want to miss any of those opportunities. So, the second view is, what's the market value of the asset?

And then third, I think, is an important consideration around the strategic fit. How does this asset fit in and enhance what really is a Permian-centric core business? How does it enhance that above and beyond the incredible qualities that we have on our core piece of business? So, combine that with the specifics around inventory and capital efficiency and competition for capital, all of those things that you mentioned, do play a role in that evaluation. So, thanks, Arun, for the question. Good end around.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Thanks a lot.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Okay.

Operator: Your next question comes from Neil Mehta with Goldman Sachs. Neil, your line is now open.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

Yeah, thanks so much. Clay, would love your perspective on the federal lease sale. That was very helpful commentary, slide 6, that kind of walked us through sort of the royalty benefits and maybe why on cost of supply, it's not as high as it optically looked. But how do you think about how you want to approach this acreage? Is this something that gets pulled forward in terms of the timing of how you prosecute it? And maybe spend a little bit more time, if you can, talking about getting the market comfortable with the investment you made here?

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah. Well, first of all, thanks for the acknowledgement. And what I'll tell you, there's a lot to brag on about the team, but we're not perfect. And I can tell you we didn't communicate that effectively enough on the rollout, so this is kind of our second attempt. And obviously, there's a whole lot to be proud of on the execution of that. 13 days post-close, I was so incredibly excited to get to the finish line, and successfully so, we forgot to really kind of nail the communications piece.

So, look, we learn every single day, we intend to get better every single day, and this is a better, more fulsome story. Certainly, that royalty piece, the undrilled nature of this acreage, the mechanics behind this bidding process, unlike some of the Gulf sealed-bid processes, just it truly exhibits the market price reality. And then, it's in our backyard. We're incredibly proud of the operational prowess, the infrastructure that we have, the extended laterals, the footprint that we have. And that's why we are incredibly proud to be the rightful owners of this.

Now, now that it's in-house, it has to compete like everything else. The good news is, as you can see from the graphic depicted on the slide, it stacks up at the top of the list. This is our Delaware Basin potential depicted on the left side of that slide, slide 6, and you can see where the red bars line up. And it's very much top-quartile, even top-decile centric. What that means is we're full speed ahead getting the permits, getting this in the queue, and we will be executing, as I mentioned in the prepared remarks, very substantially in the 2027 program.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

Thanks, Clay.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Thank you, Neil.

Operator: Our next question comes from Betty Jiang with Barclays. Betty, your line is now open.

Betty Jiang
Analyst, Barclays Capital, Inc.

Q

Good morning, and congratulations on a strong first combined quarter. My question is on slide 7 and just on the Delaware well cost. What stood out is that now you're already at $800 per foot, and that is ahead of some of the additional synergies that you're expecting to capture. So, if I could ask, like where do you see an aspirational target of how that well cost could trend over time? And what are you working on to lower it? What's your confidence level? And also, just given the suite of technologies that you're seeing out there, how low could that go over time?

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah. Thanks for the question, Betty. It's a fun topic because there's a lot going on there. I'll hand it over to Blake and get his perspective on this opportunity from a synergy standpoint, but also as the D&C executive leading that effort.

Blake A. Sirgo
Executive Vice President-Operations, Devon Energy Corp.

A

Yeah. Thanks, Clay. And appreciate the question, Betty, because there's a ton of work that goes into just a number on a slide. If you don't mind, I'll give you a little deeper dive into some of the synergies we're already seeing. You can imagine it's been a ton of work bringing these two orgs together, but it's also been really exciting. We're gaining a lot of momentum. Our teams are finally getting to look under each other's hood, and we've been operating across the lease line from each other for a long time, and it's leading to a lot of great gains.

One of the first things we did is we immediately centralized our D&C teams post-merger, and that's already paid a bunch of dividends. The first one I would point to is on the supply chain side. Devon has a fully integrated supply chain team that can bundle or de-bundle services almost in real time to optimize whatever the current market presents to us. We've brought that flexibility to the merger, particularly with our new scale, and also with the legacy Coterra operation, which was more of a bundled model, they've been able to find a lot of value there.

The second piece is just sharing best practices and techniques. They like to say there's no secrets in the oil field, but I can tell you every good operator has a few, and our teams have got to share some secrets. Devon's figured out a really clever way to make simul-frac more efficient. We've been able to extrapolate that quickly across the whole platform. So, you'll see the number of simul-frac wells going up in our program. Whereas on the Coterra side, [ph] it's been (00:29:05) a lot of time and energy on long laterals, complex wellbores, 4- and 5-mile wells, 4-mile U-turns in the Permian. All that knowledge is being applied, and you'll see our average lateral lengths start going up through time.

And then the last one, which is really exciting, Clay hit on this earlier, is Devon's really invested a lot of time and energy in AI, and for me, this is nowhere more evident than in the D&C [indiscernible] (00:29:33). The way I would explain it is Devon builds a best of the best performance curve with a micrometer. Every minute, every day across every rig, every crew, every well, every basin, constantly searching for best of the best performance and benchmarking against it. And these AI tools are just combing these massive datasets, looking for the gaps.

They highlight the gaps, they elevate the gaps, And the team attacks it. It's see a gap, fill a gap, improve performance, reduce cost, all day, every day. That's what the teams live and breathe, and it's been really fun to bring that into the Coterra operations that we've now combined. So, these are some of the big synergies we're already realizing. I can tell you only some of this is in that $800 per foot that we put out. That represents wells coming online between now and the end of the year. So, you can think of that as a 9- to 12-month trailing cost structure behind those numbers.

The synergies I talked about, plus many more, are not in that number. And as we look ahead to 2027, we're really excited to deliver an even more aggressive cost structure

Betty Jiang
Analyst, Barclays Capital, Inc.

Q

Thank you. Appreciate the color.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Thanks, Betty.

Operator: Your next question comes from Gabe Daoud with Truist. Apologies, your next question actually comes from Neal Dingmann with William Blair. Neal, your line is now open.

Neal Dingmann
Analyst, William Blair & Co. LLC

Q

Morning, Clay, Shane, Blake, and Dan. And Clay, what 100 days it's been for you all. I want to say congrats. Clay, maybe...

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Thanks, Neal.

Neal Dingmann
Analyst, William Blair & Co. LLC

Q

...I'll take another shot. My question is, maybe looking at the portfolio review a different way, while I know you certainly don't want to get into the asset specifics, are you able to say is there any timeframe you all are targeting for this process, given certainly the market appears to be highly a seller's market today? There's no doubt about that. And I assume that bids always have a shelf life. So, I'm just wondering, is there any sort of timeframe around this.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah, absolutely. As I mentioned in the prepared remarks, we're exceptionally aware of the market. And I would tell you, every asset has a slightly different market. But one advantage of announcing a across the board effort like this is there is no shortage of incoming phone calls. And so, every intentional buyer, every JV partner, every bank, everything that you can conceptually think of is certainly coming our way.

And so, as you know from the first 100 days and the message here is we're not letting any grass grow under our feet. We are moving aggressively, but also thoroughly. I think the only thing more important than speed is making sure that we're making the right decision, and that is an absolute first priority is doing the right thing first. Secondly, with haste, speed, intentionality, and making sure that we're not slowed anything down.

So, I have a full – the organization is coming together exceptionally well. The executive team, the alignment there is going exceptionally well. And I feel like I have the full backing of the board on however we want to move forward. And I can tell you, it's moving forward quite well. We just want to avoid the trap of commenting on rumor du jour. And so, we will effectively stop it there.

Neal Dingmann
Analyst, William Blair & Co. LLC

Q

Thanks for the details, buddy. Appreciate it.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Thank you. Neal.

Operator: Your next question comes from Doug Leggate with Wolfe. Doug, your line is now open.

Doug Leggate
Analyst, Wolfe Research LLC

Q

Well, good morning, everyone. Thanks for taking my question. Clay or – I guess it's probably directed to you, Clay, rather than Shane. But when you think about the use of free cash flow, you've laid out the story about the $9 billion of debt and so on. I think you know, obviously, where I stand on this, but I'm particularly interested in what you do with the proceeds of any asset sales. Does that go into a formulaic buyback return of cash, or does asset sale proceeds get treated differently than operating cash flow if and when they come? Thanks.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Shane, why don't you take a stab [ph] and I (00:34:05)...

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

A

Yeah, I don't mind doing that. Great question, Doug, and really appreciate it. So, look, and I'm sure you're referring to this anyway, but that is net proceeds. Obviously, the first call we've got on any proceeds from any asset sales would be to fulfill our obligations to the government, pay the tax bite from that. So, that would come off the top.

On the net proceeds, I think the next question we ask ourselves is, what cash flow and credit capacity has been pulled out of the system. And therefore, if we're targeting somewhere around $9 billion in debt by year-end 2027, does that target move based on sort of the new complex or complexion of the portfolio going forward? And it may. So, we'll figure out what the right sort of next target could be, both in terms of any leverage reduction and/or adding to the balance sheet.

And then, I think the third piece, the one that you're – I think we're highly focused on in terms of formulaic on that is, how do buybacks play a piece of that? And I said, look, it's going to be very situational specific, what size asset, what size proceeds, etcetera. And there's an array from on the one side of it, you could see this sort of supplementing an opportunistic buyback plan, on another size of proceeds you can see it maybe stacking onto the base dividend for some period of time, two quarters, four quarters, six quarters to buyback, or if it's a very large proceeds asset sale, you could see an accelerated buyback program being a part of the mix there.

But that's something that is not formulaic at this point. It's something that's subject to conversation with Clay and the team and certainly with the board in terms of getting alignment on that. But I think that whole suite's available, but it's going to be dependent on what the size of the net proceeds after sort of taking care of the obligations associated with that sale would be.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah. Here's what I would just add to it, Doug. I think this is, obviously, what an incredible opportunity for us to figure out how do we return shareholders the best. Certainly, we've made significant progress with the opportunities near term on paying down debt. We like the way our balance sheet looks. We've got a little bit more work to do, but that will come in time. I don't feel a tremendous pressure.

This is certainly a question, and I know you have a firm opinion on this. This is a question and a real active debate amongst our best and most informed shareholders, and we get varying opinions. When I think about kind of a nominal sale and I think about throwing that additional proceeds onto the significant free cash flow that we generate organically as a company, I think about all three options, essentially stacking a little bit of cash, paying down additional debt, and then more aggressively going back and buying more shares. I think I have to be on the table.

As I look at our share price today, I can't help but think about what a compelling buyback opportunity that is. And certainly, as I think about the balance of the year, having checked the debt goal for the year, I think you'll see us differentially move towards buybacks.

Doug Leggate
Analyst, Wolfe Research LLC

Q

Appreciate the answer, fellows. I might not always agree with that, but I appreciate the answer. Thank you.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah, appreciate that, Doug. And like I said, respect your opinion. And like I said, this is one that we actively debate. This is a imprecise science, and we've got a lot of smart people that offer different views on this. So, thanks for your perspective. I always appreciate it.

Operator: Your next question comes from John Freeman with Raymond James. John, your line is now open.

John Freeman
Analyst, Raymond James Financial, Inc.

Q

Thanks. Clay, you've previously called the $1 billion sort of synergy target is sort of more the floor and not the ceiling. And in the presentation, you all did a great job of kind of elaborating and providing a lot more detail on all the various initiatives that are underway, how you're using technology. And I'm just trying to get, I guess, a little better understanding of what's sort of embedded in the $1 billion target versus what would potentially service upside, so things like the surfactant test, the autonomous artificial lift. Like, are those sorts of included in the $1 billion? Is that additional upside? Just any additional color, Clay, you could provide on that.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah. John, here's a little bit of color, and I'm trying to guard against getting too far ahead of ourselves, like these numbers aren't flowing through the financials yet, and that is where the real rubber hits the road. And so, before we start accelerating the $1 billion or increasing the $1 billion target, we want to be real cautious about that, because I think the most important thing about this $1 billion is not just delivering it, but doing it in a way that's credible and very transparent to the investors.

And so, we're going to hold back until we start seeing things flow through the financials, which will be coming in the near quarters, before we do any kind of more granular articulation. Certainly, there is upside to the numbers. The first order has got really good experience. We just did a business optimization with $1 billion. The first order of business is you don't shoot for $1 billion to get $1 billion. You shoot for a number that's much higher than that, because things look evaporate in time, then things get pushed, sometimes it doesn't exactly fall on the right timeline, and then sometimes things are significantly better than you thought. And so, we absolutely have that opportunity today.

I mentioned 350 different initiatives. We're already in the process of that. Those things are starting to firm up, got a lot of confidence. Absolutely, when you add up all of the kind of gross potential, it's a number well north of $1 billion, but we're sticking with $1 billion.

And what I would tell you is the degree of confidence that I have today, as opposed to, say, 14 months ago when we were kicking off our business optimization on the legacy Devon side, I feel so much more confident today in being able to deliver this number. We've got the right tools. We've got the teams in place. We know and understand how to quantify, how to hold these numbers with integrity and really deliver, I think, an outsized product to the investors. And that's absolutely our intention.

John Freeman
Analyst, Raymond James Financial, Inc. Q

Thanks, Clay.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp. A

Thank you, John.

Operator: Your next question comes from Josh Silverstein with UBS. Josh, your line is now open.

Josh Silverstein
Analyst, UBS Securities LLC Q

Hey, thanks. Good morning, guys. You mentioned that the initial 2027 views will come out in November on the 3Q call. I'm curious how you're setting up – or how you set up a proper development plan and start allocating capital, knowing you're going through this as a review process? Are there multiple plans you have underway? Are you outlining this based on a view of oil and gas prices? Will capital shift? I'm just curious how you're trying to put this together now, knowing it's just a few months away. Thanks.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp. A

Yeah, thanks for the question, Josh. It's pretty iterative, and I think the advantage of having sophisticated systems that can move quickly is you need to run all the scenarios. And certainly, as we think about asset rationalization and thinking what will life be like without asset X, Y, and/or Z, certainly, running that through a real world scenario of how's 2027 going to shape up is something that we're doing real-time.

And so, we have a upcoming strategy session with the board. That's typically the first time we're showing the board kind of the 5-, 10-year look. And of course, in that is their first kind of detailed view of the coming year. That usually gets us pretty close to being able to telegraph kind of pre-read by November. That was both legacy

Coterra and Devon's kind of general best practice. And so, we expect to follow-up on that. Again, this will be rough numbers. This will be kind of a soft guide as we've done before. But yeah, absolutely doing all of the iterations.

And then, like I said in the prepared remarks, don't think we just run through the tape, and then we're static for the next decade. Devon has a long history of reinventing ourselves and thinking about how do we further enhance the portfolio. And so, we've got a real opportunity with this combination. We're going to be very intentional about it.

As was mentioned earlier, the market is exceptionally hot and interested, because there's so much public talk about it. We're getting a lot of inbound phone calls. And so, it takes a little bit of time to process that and really evaluate, again, most importantly to make the right decision for shareholder value accretion. So, thank you again for the question, Josh.

Operator: Your next question comes from the line of Chris Baker with Evercore. Chris, your line is now open.

Chris Baker
Analyst, Evercore Group LLC

Q

Hey, thanks. Clay, I would love to – some great detail around the Delaware Basin in the slides. Would love to just get a sense of how you think about optimal scale there. Obviously, it's bigger today, but just in terms of the forward opportunity set, and just any thoughts around potentially use of proceeds to Doug's question just around further scaling up that position.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah. Thanks for the question, Chris. If you're going to be the dominant player in any basin, I can't think of a better basin than the Delaware Basin. From our asset footprint, from the infrastructure that I mentioned, all the way through, there is just so much value creation. We're looking at deeper horizons. We're looking at improvements on the gas opportunities.

We have an incredible gas opportunity there. How do we truly optimize the value creation from that? There's so much, kind of, synergistic opportunity upside from having a dominant position there. And of course, it is one of the least developed, kind of least mature among the spectrum of the great domestic resource plays. So, we love that position there.

How do we think about additional bolt-ons? I certainly talked about the focus on trades, the focus on additional bolt-ons, any additional opportunities, we're always evaluating. But as always, we have to be very critical about what we bring in. We're incredibly proud of the federal lease sale. I think we've done a much better job of articulating the why behind that. And so, you can kind of get an idea of there's the bar. We find an opportunity like that, you bet we're going to be aggressive and add incredible value to the portfolio.

Chris Baker
Analyst, Evercore Group LLC

Q

Great. Thanks.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Thank you.

Operator: Your next question comes from the line of Scott Gruber with Citi. Scott, your line is now open.

Scott A. Gruber
Analyst, Citigroup Global Markets, Inc.

Q

Yes, good morning. Clay, leveraging AI is, obviously, a core pillar in your operational strategy. The services industry has also been touting their AI-enabled offering. But can you discuss your AI strategy between in-house development versus third-party sourcing? How has that evolved as you continue to push AI deeper into your operations? And how are you working with the services industry on the intersection between the software and the hardware to really squeeze the most use out of AI?

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah, thanks for that question. You know I love me some serious AI, and it's – I love talking about it. I'm a huge champion. But look, little bit of our secret sauce is Trey Lowe. Trey has got a strong operational background. He actually worked for a major service company for quite a while. He's a distinguished SPE lecturer. He understands our business as well as anyone in this organization. And he happens to be a self-proclaimed technology geek, which I love all day. So, Trey, why don't you tell us a little bit of your perspective on the question from Scott?

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

A

Yeah. Thanks, Scott, for the question. We love to talk about what is happening here in this space. Clay mentioned it several times. We see technology as a advantage for the company. It's a differentiator. It's a place where we lean in. We've invested in our datasets for the better part of a decade, really building that foundation and making them accessible to all of our employees and trusted. Whenever OpenAI launched ChatGPT about three years ago, Devon leaned in really hard and started applying AI across the entire enterprise and really focused on empowering our employees.

When we announced the merger, we really ended up with the best of all worlds, in my opinion. And the places where Coterra had invested heavily around the use of AI and machine learning model for well prediction and helping us with our capital plans married up really well with where Devon had invested, which was really heavily in the operational side of our business, production, drilling, completions, and some other subsurface workflows. And so, all of those systems are zippering together today, and it's going to put us in a great place.

And we've seen it already reaping dividends for our teams that are working through the integration. What just a year ago was taking us a couple of months to create new tables, now we're doing these things in two days and we see it in the results. We tried to give a flavor of what we're seeing through synergies from these AI tools, things like the closed loop AI gas lift systems that we have and the smart gas lift systems. We're able to scale these things at a pace which, just honestly, we've never seen in my career previously.

And on those specific applications, back to your original question, those are partnerships in many ways with some of our providers that are helping us with some of the puzzle pieces to put all these things together. But the real secret sauce is empowering our employees with the gas lift system, we went from just a few months ago only having a few wells running automated, fully closed loop, and then in March we had a couple hundred wells and now we're at 1,000. And we know in the Permian Basin alone, we've got well over 2,000 still in front of us.

And in fact, just a couple of weeks ago, we applied this to the first set of legacy Coterra wells. And so, just the pace at which we can move is unprecedented. We're seeing great results out of all those things. And that's just an example. But across the board, whether it's our legal team, our production team, we're seeing the same sort of acceleration of ideas and innovations, and we're going to see it continue to flow through to the bottom line.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah. And Scott, one thing I would just add, it's been incredibly fun for me to see our new Coterra side of the family really get unleashed on some of these tools. And the jaws on the ground, the eyes wide open, the leaning forward saying, I need access to that now has just been really encouraging and exciting and affirming of the work that we've quietly been doing kind of under the radar. So, great synergy, opportunity, and look forward to talking more about it in the coming quarters.

Scott A. Gruber
Analyst, Citigroup Global Markets, Inc.

Q

All right. Appreciate the color. Thank you.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Thank you, sir.

Operator: Your next question comes from the line of Nitin Kumar with Mizuho. Nitin, your line is now open.

Nitin Kumar
Analyst, Mizuho Securities USA LLC

Q

Hi. Good morning, Shane and Clay. Thanks for taking my question. I wanted to focus on something you are doing versus what you might do in the coming weeks or months. So, you talked a little bit about in your presentation about surfactants and recovery factor is a big focus for the industry right now. I was wondering if you could provide some more color on what have you tested. Has it been localized to the Permian or have you tested in other basins? And just some of the things you're doing on that side of the house.

John D. Raines
Executive Vice President, E&P-Permian, Devon Energy Corp.

A

Yeah. Thanks for the question. This is John. We've tested surfactants most broadly in the Permian Basin up to this point, and I think there's a distinction here we want to make. We've tested it both in the completion phase of our operation, but also the production phase of our operation. I think what Clay highlighted in his prepared remarks and what we highlighted in the deck was around the completions, and that's pretty exciting work that we've done to date.

It's a fairly small dataset up to this point, but I would emphasize that 90% of the wells that we trialed with surfactants had material uplift. We saw north of 15% at 180 days. So, we're extremely excited about that technology. You heard Clay mention that we're going to scale that beyond 50 wells in the very near future. I would tell you that we're putting pressure on the teams to pump it in all the wells and tell us why we shouldn't pump surfactants and really treat that more as an exception.

One thing we didn't talk about in the deck was the production phase. And so, within the Delaware Basin over the past year, we've been active also pumping surfactants in the production phase. This is typically between six months and two years into the productive life of a well. We're also seeing uplift here. The results are a bit more variable. We see certain zones that perform better than others. But what I would generally say is we're seeing positive uplift here.

So, this is also yet another program that we're planning on scaling in the Delaware Basin, looking at going to 20 jobs a month. And beyond the Delaware Basin, we've got plans to expand that as well. Looking at the year end, we're looking at the Williston Basin. But to the extent we continue to dial in our chemistry and have successful results, you can see us expand that even further.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.
A

Thanks, Nitin.

Operator: Our next question comes from the line of Phillip Jungwirth with BMO. Philip, your line is now open.

Phillip Jungwirth
Analyst, BMO Capital Markets Corp.
Q

Thanks. Good morning. With additional Permian egress starting up, how is the new Devon positioned in terms of takeaway remaining Waha exposure? I assume this should be a nice cash flow tailwind for the pro forma company next year. And then, you guys have always been really good on the marketing side. Just wondering how you view market concerns that new gas pipeline capacity in the Permian could push some of the basis weakness to major hubs in East Texas. And do you think there's enough takeaway for gas to flow further downstream to LNG and generally how are you positioned here?

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

Yeah. Phillip, I'll take that one to start off. Listen, yeah, we've been very pleased to see the recent Kinder Morgan expansion and the impact that's had. The second quarter was, obviously, a tough quarter on Waha, but going forward for the balance of the year, we remain positioned well between firm takeaway capacity and our hedge position. We've got over 70% of our production either hedged or down to the coast, and we feel good about that. We've got additional egress coming in later in the year and in the first half of next year on Blackcomb, and so we're excited about that.

And so, next year, again, we would hope to be in that same level. Some of that 70% is financial hedges that will roll off, but we do have some in 2027, and then we'll continue to build. It's a big issue. It's something that's not just a near-term issue for us and for the base, and it's one that that Devon has been pretty forward leaning into. And I think as we think into the future, it's an issue that's not going away.

So, we'll continue to think about sort of multiple phases of ways to deal with it. One, could be additional egress; two, through the financial hedging opportunities that we've got; and three, will be to potentially look at continued opportunities in basin. For example, the CPV project that we've got coming online in 2028 for [ph] 115 million Boe (00:54:47) a day. That's going to be priced against ERCOT West, will give us – it should give us an advantaged pricing relative to in-basin pricing. So, we will continue to look on it.

Yeah, your final question on, how could this impact downstream along the Gulf Coast? Absolutely. I mean, we're super excited about what's happening with LNG and power development, but man, the industry has been really good. It's sort of meeting against those demand. And as LNG export capacity and supply ramps up, look, it could create more volatility in the long run. We're not immune to weather and we haven't had any storage in a long, long time and in that part of the marketplace. And so, yeah, it's a big issue and it could cause greater volatility in the future in some of that Gulf Coast pricing.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah. Last thing just to wrap on that, Phillip. I mean, what I would say is anytime this is a – this is saying that Greg Horne, guy who runs all of our marketing for the company, he says, look, where you see a challenge if you can identify it early, and the position that we have, the upstream position that we have, can turn that challenge into an opportunity. So, yeah, there's interesting challenges out there and every single one of them, we look through the lens of how do we turn that into a real opportunity for us to create incremental value from this incredible resource and world-class position that we have in the Permian Basin. So, thanks for the question, Phillip.

Operator: Our next question comes from Gabe Daoud with Truist. Gabe, your line is now open.

Gabe Daoud
Analyst, Truist Securities, Inc.

Q

Thanks, operator. Hey, hey, everyone morning. Clay, maybe a higher level question for you. Just since the deal has closed, stock's been a little bit of a underperformer relative to your new large cap peer group. I think we would all agree there's a pretty big value proposition here moving forward.

Maybe just curious, what do you think is – what do you attribute that maybe underperformance to? Is it you think the market's become impatient around asset sales? You think maybe they're not fully recognizing the free cash flow ability of the pro forma or the synergy capture? Would love to maybe get a little bit of color from your perspective on what you think the market's missing here. Thanks.

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah, thanks for the question, Gabe. It is not lost on the team that we are underperforming, and that is a clear focus. And hopefully, messages like this today on the progress that we're making, the objectiveness we're moving forward, the aggressiveness and the pace that we're moving with. I think the challenge right now for the investors – and my view is, there's a lot of money kind of sitting around the hoop waiting to jump in, they're looking for a clear direction. Where do we go from here? Is Devon go forward more of this or less of that? And as I said, I would love to kind of telegraph that. I think it is the right thing to do for value optimization, to make sure that we allow those processes to run.

We have not historically telegraphed where we're going to move to. We really believe that the value creation opportunity in keeping those cards a little closer to our chest is the right move for the shareholders. In the short term, there's a little bit of pain. We have to deal with the rumor de jour, and that's pointing investors into a different direction every day. I completely understand why that can be confusing to the investor.

What I would tell you is we've met with at least 100 investors all over since the close, and what I get is a lot of encouragement. Make sure you're doing the right thing first. Make sure you're thinking about value creation and don't just rush into a quick high, sugar high on a quick decision. So, that's the approach we've always taken and that's the approach we'll continue to take. But it's not lost on us. We've got constraint. And every single one of us, certainly including me, feels the pressure of our share price and we want to perform for our shareholders for the ultimate value creation, which is doing the right thing first. So, thanks for the question, Gabe.

Operator: Our last question comes from the line of Scott Hanold with RBC. Scott, your line is now open.

Scott Hanold
Analyst, RBC Capital Markets LLC

Q

Yeah, thanks. You all have made some early stage investments in some equity investments and have several of these equity interests, but that have turned some pretty good value, Fervo and a few others. Just kind of curious on your strategy with some of these equity investments. And are there other opportunities you all are looking at?

Clay M. Gaspar
President, Chief Executive Officer & Director, Devon Energy Corp.

A

Yeah. Thanks, Scott. Yeah, we've had some home run opportunities. And again, I'll go back to the earlier line of where other key challenges, we see opportunities. We want to be known as a company that's always open for business. You got a creative idea, kind of bring it our way. As I said earlier, we're operations focused. We're technology forward. We're an energy powerhouse. And so, when you open that aperture just a little bit, things come your way.

The WaterBridge opportunity, the Fervo opportunity, some of the investments we've made on the midstream are all of the mind that we know our skill set, we know what our position, meaning our portfolio, how to leverage that. And it's turned into some huge value creating opportunities. There's more of that coming. I think those opportunities can turn into even further value enhancement.

As we think about the current position that we hold, you've seen us by, a couple of quarters ago, buy into the Cotton Draw Midstream. We kind of bought out a partner there. At the same quarter, we were exiting our Matterhorn position. So, the answer to the question, if we're a buyer or seller, it's yes, we are in it for creating value for the shareholders. You'll see us continue to do innovative thing. That's kind of core to our DNA, but don't think of any of these assets as something that we have to hold on to.

Matterhorn, as an example, the real objective there was getting the pipe in the ground, making sure that we had the takeaway capacity as an enhancement to that investment. We went ahead and owned an equity stake. That was a 5x return on that equity stake. We still kept that critical takeaway capacity and made a very, very nice return in the process on the equity position. I would do that every day. Those are just phenomenal enhancement to our existing Delaware position.

What I would tell you is that opportunity only comes our way because we have such an amazing position in the Delaware. So, leveraging that to not just how do you get the best return on this next, but thinking about this world-class positions and this world-class basin and how do you lever it into more and more opportunities. I think there's absolutely more of that to come. So, thanks, everybody for the questions. I tell you what, Dan, maybe you can wrap this up.

Daniel Guffey
Senior Vice President-Corporate Finance, Devon Energy Corp.

Yeah. I'd just like to thank everyone for their time and great questions. If anyone has follow-ups, please reach out to the team. We look forward to catching up over the next quarters. Thanks again for your time.

Clay M. Gaspar

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

Thanks, everybody

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