RIVIERA RESOURCES
THIRD QUARTER 2018 EARNINGS CALL SCRIPT
November 8, 2018 – 10 a.m. Central Time

Management Participants:

- David Rottino – President and Chief Executive Officer of Riviera Resources
- Dan Furbee – Executive Vice President and Chief Operating Officer of Riviera Resources
- Jim Frew – Executive Vice President and Chief Financial Officer of Riviera Resources
- Greg Harper – President and Chief Executive Officer of Blue Mountain Midstream

MANAGEMENT DISCUSSION

Laura McDonald:

Good morning and welcome to Riviera Resources' third quarter 2018 earnings conference call. Today's call is being recorded. At this time, I will turn the call over to Paula Melancon, Riviera Resources' Director of Investor Relations and Strategic Planning, for opening remarks. Paula, please go ahead.

Paula Melancon:

Thank you for joining our third quarter 2018 earnings conference call. In a moment, I will introduce David Rottino, our President and Chief Executive Officer, but first I need to provide you with disclosure regarding forward-looking statements that will be made during this call. The statements describing our beliefs, goals, plans, strategies, expectations, projections, forecasts, and assumptions are forward-looking statements. Please note that the Company's actual results may differ from those anticipated by such forward-looking statements for a variety of reasons, many of which are beyond our control. Additional information concerning certain risk factors relating to our business, prospects, and results are available in the Company's filings with the Securities and Exchange Commission, including the Company's Form 10-Q for the quarter ended September 30, 2018, which we plan to file later today, and any other public filings and press releases.

Additionally, to the extent we discuss non-GAAP measures such as adjusted EBITDAX and EBITDA; please see our earnings press release for the calculation of these measures and the GAAP reconciliations.

Additional information can be found on Riviera Resources' website at www.RivieraResourcesInc.com in the Investor section. I will now turn the call over to David Rottino, Riviera's President and CEO.

David Rottino

Introduction

Thanks Paula, and good morning everyone. We appreciate you taking time today to join us for the review of Riviera's third quarter 2018 results and our go-forward outlook. Joining us today are Greg Harper, President and Chief Executive Officer of Blue Mountain Midstream, Dan Furbee, Riviera's Executive Vice President and Chief Operating Officer, and Jim Frew, Riviera's Executive Vice President and Chief Financial Officer. On our call today, I will provide an overview of Riviera's third quarter activity and then turn the call over to my colleagues to discuss our upstream activity, Blue Mountain Midstream business, and financial results.

Strategic

Riviera Resources completed the spin-off from LINN Energy on August 7, 2018. Since our spin-off a short three months ago, we have continued to deliver on our commitment to drive shareholder value through our strategy of capital discipline, returning capital to shareholders, and efficiently managing our assets. Since the spin-off we have returned over $140 million of capital to shareholders through share repurchases and outperformed the third quarter guidance provided in our August 2018 conference call with respect to production, adjusted EBITDAX, and lower capital spending. We continue to maintain a strong balance sheet and at the end of the third quarter we had no debt and $157 million of cash, the majority of which was used to repurchase stock in our recently closed tender offer.

Going forward, we remain relentlessly focused on shareholder returns and continue to evaluate all strategic opportunities that increase shareholder value.

Third Quarter Update

Turning to our third quarter performance, Riviera delivered strong upstream operational results on production and adjusted EBITDAX.

As we analyze our upstream portfolio, we continue to be excited about our high rate of return drilling inventory. We believe this inventory is misunderstood and not fully valued in our current share price. In the fourth quarter we will drill two wells in North Louisiana in addition to the operated rig we will run on our Northwest STACK position. We will begin drilling these wells late in the fourth quarter and expect them to come on-line in early 2019. We anticipate these wells will offset the natural declines in other areas of our portfolio.

Blue Mountain Midstream continues to be an exciting growth asset for the Company. Although third quarter operating margins were impacted by lower volume throughput for one-time outages and the exposure to widening basis, we have made considerable progress in mitigating these operational start-up issues and anticipate eliminating the basis exposure no later than the first quarter of 2020. We also believe the plant would be operating at or near 100 percent capacity by that time. As previously discussed we are now forecasting $110-$125 million of EBITDA for the first plant when it reaches full capacity. In addition, we continue to pursue other growth opportunities, such as oil gathering and transportation and new midstream solutions for the Northwest STACK. We continue to believe Blue Mountain Midstream is an exciting growth asset for the Company and potentially a future high growth standalone business.

Because we believe the Company is undervalued, we have been aggressively repurchasing shares. During the quarter, we purchased approximately $8 million of shares under our $100 million share repurchase program authorization. Furthermore, in October, we completed a successful $133 million tender offer. In total, we have repurchased more than $140 million of Riviera shares since our spin-off in August, representing approximately 8% of our outstanding shares. We intend to resume share repurchases under our share repurchase program later this month.

Though we are proud of what we have achieved during the third quarter, we are even more excited about our prospects moving forward given the strength of our unique asset base. We believe Riviera is well-positioned with a combination of mature, low-decline assets generating significant free cash flow in addition to tremendous growth assets including positions in the Northwest STACK, Arkoma basin, East Texas, and North Louisiana and of course the 100% ownership interest in the fast growing Blue Mountain Midstream business. I would again like to reiterate our commitment to total shareholder returns through capital discipline, and efficiently managing our assets and returning capital to shareholders.

I will now turn the call over to Dan to discuss the Upstream operations in more detail.

Dan Furbee

Thanks, Dave. I'm excited to have the opportunity to provide an update of Riviera's Upstream business. From an operations perspective, we had a strong third quarter. Production averaged 302 MMcfe/d, which is 4.0% above the midpoint of our original guidance. This increase was primarily due to stronger than forecasted drilling results in our Northwest STACK non-operated wells and lower down-time across our asset base. Also, we are pleased to note that LOE was approximately $22.9 million for the quarter. This is 4.5% below the midpoint of our prior guidance. Higher production and lower lease operating expenses helped Riviera generate $11.8 million of EBITDAX for the quarter versus prior guidance of $4 million.

As Dave mentioned, we believe the Company has a large drilling inventory with very attractive rates of return that is currently not valued in our share price. On our previous call I discussed our Northwest STACK position, which we believe is significantly undervalued based on activity in the area and recent results from offset operators. Since then, we continue to see encouraging results from the non-operated horizontal wells we have participated in to date. We have invested approximately $4 million of capital to acquire 3D seismic across our core area, and we plan to spend approximately $5 million total in 2018. We have signed a rig contract and expect to spud our first well this month. Though early in this play's life cycle, we believe this asset has great upside, providing significant future value relative to capital deployed especially as we coordinate midstream solutions for the basin with Blue Mountain.

In addition to adding a rig in the Northwest STACK, we intend to drill two wells in North Louisiana within our Ruston Field that is offset to the prolific Terryville Field. Prior to our spin-off LINN Energy drilled four recent horizontal wells off the downthrown side of the Terryville fault. Three of the wells were targeting the Middle Poole Sand and resulted in an average rate of return of greater than 100%. The fourth well tested the Lower Poole Sand with positive economic results. Riviera has approximately 15 additional Middle and Lower Poole Sand development locations on the downthrown side of the Terryville fault. Due to the attractive rates of return associated with these locations, Riviera plans to initiate drilling in December.

As I mentioned on our prior call, we are also excited about our drilling inventory in both East Texas and the Arkoma basin. We continue to monitor offset operators as we grow increasingly bullish about our inventory. We will continue to analyze these results and will consider adding this inventory to our plans in 2019.

Along with our assets with current growth potential, we continue to generate significant free cash flow from our mature, low-decline assets located in the Hugoton, Michigan, and Uinta basins. In the near term, we are focused on reducing costs and shallowing the base decline for these assets, which in a higher commodity price environment have low-risk inventory to be exploited.

The Riviera team is working hard to maximize the value of our strong asset base. Higher than forecasted production and lower than forecasted operating costs in the third quarter is a great start. Furthermore, the team is extremely focused on bringing the value of our undeveloped inventory to fruition. The team has benefited greatly from the Company's participation in non-operated wells and the data we continue to receive is a source of optimism. Given our strong balance sheet and largely held by production position, we have the luxury of being extremely methodical and capital disciplined in our development approach.

With that I will hand it off to Greg to discuss the Blue Mountain Midstream business.

Greg Harper

Thanks, Dan.

We've experienced great momentum since placing our new cryogenic natural gas processing plant in-service at the end of the second quarter of 2018. Throughput at the plant ramped up significantly, with natural gas peak throughput more than doubling from 61 to 150 million cubic feet per day during the third quarter. Natural gas throughput was 123 million cubic feet per day and NGLs produced were nearly 9,000 barrels per day, each on average for the third quarter. A sustained volume ramp up during the third quarter was limited by normal, one-time outages for ongoing compression installation, downstream tie-ins required to increase natural gas takeaway capacity in addition to downstream pipeline unscheduled outages for maintenance, as well coordinating new production coming online to mitigate shut-in impacts at the wellhead. Also during the third quarter, Blue Mountain began commissioning its new amine facility, which is now operational.

We recently accelerated the installation of the remaining 25,000 horsepower of compression at our plant, expanding to our total design processing capacity of 250 million cubic feet per day. The final compression commissioning and related outages as well as coordinated attachments will have a similar impact on the throughout volume ramp up early in the fourth quarter. Therefore, we estimate an average natural gas throughput range between 130 to 150 million cubic feet per day for the fourth quarter.

As of October 31, 2018, there were 9 rigs across our acreage dedication that were drilling wells we expect to connect to our system. We're confident in the continued growth of the SCOOP/STACK/Merge, and we are well-positioned in the heart of the Merge to build scale by capturing increasing natural gas production from our anchor customer Roan

Resources and adding additional acreage and volume commitments from other producer customers in and around our asset footprint. We continue the initial design and engineering evaluation for a second train to increase our processing capacity at our 80-acre site in Grady County, Oklahoma. This evaluation contemplates the ultimate size and timing based on current production levels moving into 2019, combined with the latest producer customer forecasts for the next 18 months and our ongoing business development activities.

And as volumes increase in our core growth areas, we are evaluating new downstream markets for natural gas and NGLs that will provide our producers customers access to the best netback markets. We currently have 400 million cubic feet per day of natural gas takeaway capacity through interconnects with Southern Star, Enable Gas Transmission and ONEOK and are evaluating several new interconnects, including one to Midship Pipeline. Also, we have 35,000 barrels per day of NGL outlet capacity to ONEOK, which we are looking to expand as our NGL business grows.

As part of our growth and diversification strategies, we are pursuing ways to extend our reach into new plays and are working closely with Riviera Resources and other third-party producers to provide them with midstream solutions as they develop their Northwest STACK positions.

Another means of diversification is through our service offerings. We are aggressively pursuing scalable growth platforms in Central Oklahoma and are in active discussions to develop crude oil and water gathering infrastructure in the Merge play. We believe these new systems would complement our natural gas gathering business and be another avenue to build out our high-growth midstream business.

Moving to our financial results, our operating margin, also referred to as our other revenues, net, for the third quarter of 2018 was $2.4 million dollars. Third quarter 2018 operating margin was impacted by the company's current exposure to NGL commodity price volatility causing a widening price basis at index points. We expect the elimination of the basis exposure not later than the first quarter of 2020, and management is currently evaluating solutions to mitigate the financial impact of the basis differential in the interim.

With the company's current exposure to the wider than historical NGL basis, along with plant outages for commissioning limiting the volume ramp up, management expects net operating margin between $8 to 12 million dollars for the fourth quarter of 2018.

None-the-less, we are estimating our Cryo I Plant at full capacity will now generate EBITDA between $110 to $125 million dollars, up from the previous guidance of $100 to $125 million dollars.

Capital expenditures for the third quarter of 2018 totaled $22.6 million dollars, the majority of which was the expansion capital attributable to compressor additions and construction of downstream tie-ins and well connects to capture additional natural gas production from our anchor customer Roan Resources. We anticipate total capex for the full-year 2018 of approximately $125 million dollars, inclusive of our Cryo 2 evaluation work in the fourth quarter.

Finally, during the third quarter of 2018, we established our own capital structure with a $200 million dollar revolving credit facility. With no borrowings outstanding and $72 million dollars available borrowing capacity, together with the support of our parent company and board, we have the financial strength to fund future growth projects or acquisitions.

We are very excited about our growth strategies and are well underway with executing new opportunities to increase our scale and scope to support increasing production across our operating footprint. And we continue to set up our organization and systems consistent with a standalone operating entity as we build Blue Mountain into a leading midstream company servicing oil and gas producers in the prolific SCOOP/STACK/Merge.

Thank you and I will now turn the call over to Jim to discuss the third quarter 2018 financial results and 2018 guidance.

Jim Frew

Thanks, Greg. Before opening the call up for Q&A, I'd like to discuss the following items: 1) third quarter financial performance, 2) balance sheet and liquidity, 3) share buybacks, and 4) fourth quarter guidance.

Third Quarter Financial Performance

For the third quarter of 2018, daily production averaged approximately 302 million cubic feet equivalent per day and was 4% above the midpoint of our guidance. Total oil, natural gas and NGL revenues were approximately $90 million. Of that $90 million, approximately 64% of the revenue was from natural gas sales, 11% was from oil sales, and the remaining 25% was from the sales of NGLs.

With respect to costs, operating expenses for the third quarter were approximately $52 million, which was in line with prior guidance forecasted in our August 2018 conference call. Lease operating expenses were lower than forecast, transportation costs were slightly higher than forecast and taxes were in line with our expectations.

General and administrative costs, excluding share based compensation and severance costs, were $27 million in the third quarter. This was higher than prior guidance primarily driven by costs associated with the Spin, and downsizing the organization. The Company remains focused on lowering costs and believes it will reach a run-rate G&A of approximately $30 million in 2019 for the upstream business and $14 to $16 million for Blue Mountain. In the third quarter, Riviera invested approximately $34 million of capital. Oil and Natural Gas capital was approximately $7 million while Blue Mountain invested approximately $23 million. Riviera's capital investment during the third quarter was approximately $16 million less than prior guidance. Lower capital investment for the third quarter was driven by the timing of our operated Northwest STACK development as well as the timing of projects related to Blue Mountain Midstream.

Balance Sheet and Liquidity

With respect to the balance sheet and liquidity, we ended the third quarter with approximately $157 million of cash, which was approximately $57 million higher than forecasted in our August 2018 conference call. This is a result of lower capital spending, higher adjusted EBITDAX, favorable working capital, and more cash being returned from LINN Energy, due to an earlier consolidation of LINN Energy with Roan Resources, LLC than previously forecast. As Dave mentioned earlier, Riviera used a large portion of the cash balance at quarter end to execute its October tender offer. I will discuss the results of the tender in more detail shortly.

In the third quarter, Blue Mountain Midstream successfully entered into a new credit facility with total borrowing commitments up to $200 million. Blue Mountain currently has $72 million available and expects that to grow as its EBITDA grows. Riviera's credit facility was re-affirmed in October with borrowing commitments up to $425 million. At quarter end, both Riviera and Blue Mountain had undrawn credit facilities. As of October 31st, Riviera had $20 million drawn on its credit facility.

Share buybacks

With respect to share buybacks, we continue to focus on enhancing shareholder value and finding ways to return capital to shareholders. Since our Spin, Riviera has returned approximately $140 million to shareholders through share repurchases. These share repurchases represent approximately 8% of all outstanding shares.

On August 16, 2018, the Company's Board of Directors authorized the repurchase of up to $100 million of the Company's outstanding shares of common stock. In September, the Company repurchased an aggregate of 354,656 shares of common stock at an average price of $21.24 per share for a total cost of approximately $8 million. At October 31, 2018, approximately $92 million was available for share repurchases under the program. We temporarily suspended our open market purchases during our tender offer, but the Company intends to resume share purchases under this program later in November.

On September 24th, the Company announced the intention to commence a tender offer to purchase $100 million of the Company's common stock, which was completed on

October 23rd. The tender offer was expanded to repurchase approximately 6 million shares of common stock at a price of $22.00 per share for a total cost of approximately $133 million. As a reminder, funds affiliated with the Board of Directors, and all of the Company's directors and executive officers, did not participate in the tender offer.

Guidance

Looking ahead, we have provided updated guidance for the fourth quarter as well as full-year 2018. In our supplemental presentation posted to our website today, we highlight the full year 2018 guidance taking into consideration all of the closed transactions during the year. The adjusted EBITDAX projection for the full year 2018 includes an estimated range of G&A costs of $114.5 - $118.5 million. This includes approximately $27-$28 million of estimated severance expenses plus costs associated with managing assets divested during the year, associated internal costs with selling assets, transition services required under various purchase and sale agreements as well as costs associated with the spin transaction. Our pro forma full year EBITDAX forecast for our upstream assets is $142 million.

With respect to capital, we have reduced our guidance in 2018 to $190 million. The decrease in capital is primarily due to the timing of our Northwest STACK drilling program as well as the initiation of Blue Mountain's second cryo plant following the engineering and design that is currently on-going. We continue to guide investors to a Blue Mountain midstream adjusted EBITDA forecast of between $110 million to $125 million when the first plant is full. We have added a slide to the supplemental presentation that gives projections of expected plant and gathering system volumes and cash flow for 2018.

In closing, our assets have performed well this year and our balance sheet allows us great flexibility. Moving forward, we continue to look for opportunities to maximize shareholder value and we are committed to finding ways to return cash to shareholders. With that, I will hand it over to the operator to open this call up for questions.