RIVIERA RESOURCES
FOURTH QUARTER 2018 EARNINGS CALL SCRIPT
February 28, 2019 – 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

Paula Melancon:

Good morning and welcome to Riviera Resources' fourth quarter and full year 2018 earnings conference call. Today's call is being recorded. This is Paula Melancon, Director of Investor Relations, and 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 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-K for the year ended December 31, 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 fourth quarter and year end 2018 results and our 2019 upstream 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 strategic initiatives and fourth quarter results, and then turn the call over to my colleagues to discuss our upstream activity, Blue Mountain Midstream business, and financial results.

Strategic

Riviera completed the spin-off from LINN Energy on August 7, 2018. Since then 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. Because we believe the Company is undervalued, we have been aggressively repurchasing shares. Since the spin-off we have repurchased more than $155 million of Riviera's shares, reducing the Company's outstanding share count by approximately 9%. During the fourth quarter alone we repurchased approximately $133 million of shares through a successful tender offer and another $11 million under our $100 million share repurchase authorization. The company expects to continue buying back shares and has approximately $78 million of remaining authorization as of February 22, 2019.

As previously announced we recently closed on the sale of our Arkoma Basin assets generating approximately $65 million in proceeds. While not initially contemplated as an asset sale, this transaction aligned with our overall strategy of opportunistically pursuing asset monetizations and returning capital to shareholders as long as we believe our shares continue to trade at or below net asset value.

With respect to Blue Mountain, we continue to be excited about its future growth prospects. The business continues to grow within the prolific SCOOP/STACK/Merge play. In addition to gas gathering and processing, Blue Mountain recently announced a deal to provide water gathering services leveraging its existing footprint. Additionally, the team is pursuing growth on its existing gas and water business as well as crude gathering opportunities and new business opportunities in the NW STACK. Taken together we expect to grow the midstream business to a position where we can either sell, merge, or have it be a standalone, public company.

Fourth Quarter Update

Turning to our fourth quarter performance, Riviera delivered strong operational results. The upstream business significantly outperformed adjusted EBITDAX guidance due in large part to higher than forecasted production. We were able to generate higher production despite lower than forecasted capital spending. The higher adjusted EBITDAX and lower capital spending resulted in higher fourth quarter cash flow than forecasted. This is the second straight quarter that Riviera has beat guidance on adjusted EBITDAX, production, and capital spending.

With respect to our drilling inventory, we continue to be excited about our high rate of return investment opportunities. We believe this inventory is misunderstood and not fully valued in our current share price. In the fourth quarter we began drilling two wells in our prolific Ruston field in North Louisiana. In addition we began drilling our NW STACK position in an attempt to delineate the play. Though early we remain encouraged by both our and other operators' results in the NW STACK.

In the fourth quarter Blue Mountain's operational performance was strong. Operating margins improved considerably from prior quarters and exceeded the mid-point of our fourth quarter guidance. We made great progress in mitigating operational start-up issues and the cryo plant is now capable of processing its design capacity of 250 MMcf/d. Greg will cover this more in a few minutes, but we believe the future prospects for the business remain exciting.

Though we are proud of what we have achieved during the fourth quarter, we are even more encouraged about our prospects moving forward given the strength of our unique asset base. Riviera Upstream 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 NW STACK, East Texas, and North Louisiana. Blue Mountain has an excellent existing footprint and attractive growth prospects. Finally, our strong balance sheet gives us tremendous flexibility. Taken together Riviera is set up for an exciting year in 2019.

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

Dan Furbee

Thanks, Dave. From an operations perspective we had a strong fourth quarter. Production averaged 299 MMcfe/d, which is approximately 4% above the midpoint of our guidance. This increase was primarily due to stronger than forecasted drilling results in our NW STACK non-operated wells, successful production enhancing projects in East Texas and North Louisiana, and lower down-time across our mature asset base. Higher production helped Riviera generate $44 million of adjusted EBITDAX for the quarter versus prior guidance of $30 million.

As Dave mentioned we believe the Company has a large drilling inventory with very attractive rates of return. On our previous calls I discussed our NW STACK position, which we believe is significantly undervalued based on activity in the area and recent results from offset operators. To date we continue to see encouraging results from our non-operated horizontal wells. Leveraging the data we have analyzed, we picked up an operated rig in November to further delineate the play. To date we have drilled 3 wells, and are currently drilling our 4th well. We completed 2 wells that are currently in the initial flowback period with encouraging results. As a reminder, our first 4 wells are located in western Major county with 2 wells testing the Meramec formation and 2 wells targeting the Upper Osage. We intend to drill and complete an additional 2 operated wells in the first half of 2019 for a total of 6 gross operated wells. Following that program, we will suspend drilling operations to evaluate results, continue to refine our geologic models through additional mapping and 3D seismic acquisition, and continue our participation in non-operated activity in the area. We intend to use what we learn to determine our next phase of operated development later this year.

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 NW STACK, we began drilling two wells in North Louisiana within our Ruston field late in December. We are currently drilling the 2nd well of a 2 well pad targeting the Upper Red formation. This pad is scheduled to be completed in March with first production expected in April. This development directly offsets three Upper Red wells drilled by Linn Energy prior to our spin-off, which had an average rate of return of greater than 100%.

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

Along with our current growth assets, we continue to generate significant free cash flow from our mature, low-decline assets located in the Hugoton, Michigan, and Uinta basins.

The Riviera team is working hard to maximize the value of our strong asset base. We had another great quarter with higher than forecasted adjusted EBITDAX and production, and we are continually looking for ways to further enhance value in 2019. With that I will hand it off to Greg to discuss Blue Mountain.

Greg Harper

Thanks, Dan.

We successfully executed on our 2018 plan to build a solid foundation for Blue Mountain, putting together an experienced team, establishing our own capital structure and placing in-service a high-value asset base in the core of the prolific Merge play. 2018 was clearly a transformational year for Blue Mountain where these collective efforts helped us make significant progress toward setting up our business as a best-in-class standalone midstream brand.

While our strategic initiatives remain unchanged, the lower commodity price environment reaffirms our efforts to secure third-party volumes to our current system, diversify our midstream service offerings, and extend our infrastructure reach in the Merge/SCOOP/STACK. We are confident that execution of these initiatives will continue to move the Company toward being a standalone public entity or an alternative strategic transaction as we move into 2020.

Blue Mountain closed out the transformational year by commissioning all compression requirements in early October to meet our state-of-the-art cryogenic facility's full capabilities with processing capacity of 250 MMcf/d.

In the fourth quarter we averaged 132 MMcf/d of gathering volumes producing nearly 8,700 bbls/d of NGLs. For the year we averaged approximately 95 MMcf/d and 5,400 bbls/d of NGLs.

Financially, we ended the quarter strong as the Conway to Mont Belvieu pricing spread collapsed both aiding our quarter and also providing us an opportunistic window to hedge a good portion of our 2019 exposure. As previously discussed in our third quarter 2018 call, we have contracted to fully eliminate this basis exposure expected by the first quarter of 2020.

Our operating margin for the fourth quarter of 2018 was approximately $11 million, which was at the higher end of our guidance range of $8 to $12 million. Capital expenditures for the fourth quarter of 2018 totaled approximately $12 million, the majority of which was expansion capital attributable to compressor additions and construction of well connects to capture additional natural gas production from our primary supplier Roan Resources.

Total capex for the full-year 2018 was approximately $125 million, in line with our guidance.

In the fourth quarter we were also working diligently to deliver on one of our growth and diversification strategies. As we announced last month a Blue Mountain subsidiary entered into an agreement with Roan Resources to provide comprehensive water management services including pipeline gathering, disposal, treatment and redelivery of recycled water for re-use. The agreement is supported by a 10-year acreage dedication in 67 townships covering portions of seven Oklahoma counties.

Blue Mountain will construct and operate a water system, which is anticipated to initially consist of approximately 100 miles of produced and recycled water pipelines and will be interconnected to a water treatment facility with up to 30,000 bbls/d of recycling capability. Right now, we are gearing up our back and mid office operations to begin our water management services for Roan Resources in the second quarter of 2019.

Capital expenditures are estimated to be approximately $59 million for the initial water gathering system and facilities. Our new water business secures us an additional reliable revenue stream, and we expect an annual run-rate EBITDA of approximately $18 million to $20 million by 2020 when the initial facilities are fully commissioned.

We are very excited about this diversified growth platform that has significant upside potential. Our initial system will provide us the ability to handle incremental water volumes for other producers in our asset footprint, and we will be able to transfer our water capabilities to other regional plays.

We are also continuing discussions to perform crude oil gathering in the Merge play. Similar to water management, crude gathering will provide opportunities to extend system reach to other nearby third-parties and transfer our capabilities to other regional plays.

As mentioned earlier, we are pursuing ways to extend our reach further into the region, with the strategy to secure an opportunity that provides diversification while looking to deploy capital in concentrated infrastructure and leverage our core capabilities. We are working closely with Riviera and other third-party producers to provide midstream solutions as they develop their NW STACK positions. In that light we are performing several well connects and facilitating downstream offload arrangements for several producers within the basin.

Looking to 2019 we anticipate providing a more thorough update on Blue Mountain, including guidance, by early second quarter after the impact of our supplier's development plans have been solidified. With crude prices dropping our primary supplier slowed down their completion activity late in the fourth quarter 2018 and early in the first quarter 2019 to take advantage of an opportunity to reset their oil field service pricing. Roan Resources has also announced their expectation to have fourth quarter 2019 volumes exceed fourth quarter 2018 actual levels by 20%. With that said, we will be executing an aggressive alternate connection program, specifically as we deploy our water system. We believe this strategy will ensure we are positioned to capture that expected growth moving into the fourth quarter of 2019 and drive our actual gathered volumes higher for the year.

Blue Mountain has completed the conceptual engineering and design for Cryo II and we believe we can quickly execute on Cryo II if the election is eventually made to proceed, we have not, however, included capital to do so in the 2019 budget at this time. We, of course, will stay closely in tune with our suppliers' drilling programs to make those capital decisions in a timely manner.

Finally, we have established our own capital structure with a $200 million revolving credit facility. As of December 31, 2018 we had $4.5 million drawn with $76 million of borrowing commitments and $72 million of available capacity. Recently, we completed certain operational milestones, and as such may now borrow up to our total borrowing commitments. Currently, we have borrowing commitments of $200 million, with available borrowing capacity of approximately $169 million, inclusive of outstanding letters of credit. With our own credit facility, together with the support of Riviera and our board, we have the financial strength to fund future growth projects or acquisitions.

We have a lot going on at Blue Mountain and are well underway with developing new opportunities to capture a wider spectrum of natural gas, crude oil, and water opportunities within our current footprint and transferring our expertise and capabilities into new plays, with the goal to continue to grow our midstream business to allow us to be a standalone company in the near future.

Thank you and I will now turn the call over to Jim to discuss the fourth quarter 2018 financial results and 2019 upstream guidance.

Jim Frew

Thanks, Greg. Before opening the call up for Q&A, I'd like to discuss the following items: 1) fourth quarter financial performance, 2) balance sheet and liquidity, 3) share repurchases, and 4) 2019 upstream guidance.

Fourth Quarter Financial Performance

For the fourth quarter of 2018, daily production averaged approximately 299 MMcfe/d and was 4% above the midpoint of our guidance. Total oil, natural gas and NGL revenues were approximately $107 million. Of that, approximately 72% of the revenue was from natural gas sales, 8% was from oil sales, and the remaining 20% was from the sale of NGLs.

With respect to costs, operating expenses for the fourth quarter were approximately $53 million, which was in line with guidance. Lease operating expenses were slightly higher than guidance, while transportation costs and taxes were in line with our expectations.

General and administrative costs, excluding share based compensation and severance costs, were $15 million in the fourth quarter. This was lower than prior guidance primarily driven by lower salary costs and lower legal costs associated with transactional activity, including the Riviera spin. Riviera Upstream remains focused on lowering costs and believes it will reach a run-rate G&A of approximately $30-$35 million in 2019 for the upstream business.

In the fourth quarter, Riviera invested approximately $27 million of capital. Oil and natural gas capital was approximately $12 million while Blue Mountain invested approximately $12 million. Riviera's capital investment during the fourth quarter was approximately $17 million less than prior guidance, primarily driven by lower than forecasted leasing costs, non-operated activity, and the timing of our operated drilling.

Balance Sheet and Liquidity

With respect to the balance sheet and liquidity, Riviera and Blue Mountain have established separate credit facilities. As of December 31, 2018, Riviera had $20 million drawn on its revolving credit facility. At quarter end, Riviera had borrowing commitments of up to $425 million with available borrowing capacity of approximately $371 million, inclusive of outstanding letters of credit. Riviera had an ending consolidated cash balance of approximately $19 million.

As previously mentioned, in January 2019, we closed on the sale of our Arkoma Basin assets. The proceeds were used to pay off the $20 million drawn on the Riviera credit facility. The sale resulted in a reduction of the borrowing commitment to $385 million. Currently, there are no borrowings under the Riviera credit facility, and approximately $351 million of available borrowing capacity inclusive of outstanding letters of credit.

As Greg mentioned before, Blue Mountain has established a separate credit facility with total borrowing commitments of up to $200 million. Currently, Blue Mountain has approximately $169 million of available borrowing capacity, inclusive of outstanding letters of credit.

Share Repurchases

With respect to share repurchases, we continue to focus on enhancing shareholder value and finding ways to return capital to shareholders. Since our spin, we have returned more than $155 million to shareholders through share repurchases. These share repurchases represent approximately 9% 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. Through February 22, 2019, the Company had repurchased over 1.1 million shares for a total cost of approximately $22 million. As a result, approximately $78 million remained available for share repurchase under the program.

On October 23rd, the Company successfully executed a tender offer 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. Both the successful tender offer and the on-going repurchase authorization are meaningful examples of our commitment to return capital to shareholders.

Guidance

Looking ahead, we have provided upstream guidance for 2019. As Greg mentioned, we intend to give out Blue Mountain guidance at a later date. In our supplemental presentation posted to our website today, we highlight the full year 2019 upstream guidance taking into consideration the Arkoma Basin divestiture that closed in January. Our pro forma full year adjusted EBITDAX forecast for our upstream assets is $96 million.

With respect to capital, the upstream business expects to invest $66 million in 2019. Approximately 80% of the upstream capital will be devoted to drilling, with the balance dedicated to leasing, seismic, and other needs. Riviera expects to have the ability to fund all of its capital investments through a combination of cash on hand and operating cash flows.

In closing, our assets performed well in 2018 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.