RIVIERA RESOURCES
FIRST QUARTER 2019 EARNINGS CALL SCRIPT
May 9, 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' first quarter 2019 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-Q for the quarter ended March 31, 2019 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 adjusted 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 first quarter 2019 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 strategic initiatives and first quarter results, and then turn the call over to my colleagues to discuss our upstream activity, Blue Mountain Midstream business, and financial results.

Strategic

As a reminder, 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 $205 million of Riviera's shares, reducing the Company's outstanding share count by approximately 14%. During the first quarter alone we repurchased approximately $34 million of shares under our $100 million share repurchase authorization. If you include April's repurchases, we have now repurchased approximately $72 million of shares under this program. The Company expects to continue buying back shares under its previously announced $100 million share repurchase authorization.

As previously announced we closed on the sale of our Arkoma Basin assets generating approximately $65 million in proceeds, signed a definitive agreement to sell our interest in certain non-operated properties located in the Hugoton Basin for a contract price of $31 million, and monetized approximately 23% of our helium reserves through a unique

VPP structure for approximately $82 million, all of these transactions are at a premium to PDP PV-10. These three transactions aligned with our overall strategy of opportunistically pursuing asset monetizations and returning capital to shareholders as long as we believe we are receiving fair value for the assets sold and our stock continues 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 has begun providing water gathering services to Roan Resources. Additionally, the team is looking to expand its offerings to include crude gathering 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. To that end the Board recently approved the engagement of Tudor, Pickering, Holt & Co. to assist in the review and execution of strategic alternatives for Blue Mountain to best position it towards a value-enhancing transaction.

First Quarter Update

Turning to our first quarter performance, Riviera delivered strong operational results. The upstream business outperformed adjusted EBITDAX guidance, with production and capital in line with expectations. This is the third straight quarter that Riviera has beat guidance on adjusted EBITDAX.

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. So far this year, we have turned to sales five wells in our NW STACK position and two wells in our prolific Ruston field in North Louisiana, with strong results. In a few minutes, Dan will give you more details on both programs.

In the first quarter, Blue Mountain's operational performance was strong. Furthermore, we made significant progress in diversifying our service offerings. In addition to the water services we were pleased to add a new third party acreage dedication for natural gas gathering and processing services. 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 first 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 also has attractive growth prospects. Finally, our extremely strong balance sheet gives us tremendous flexibility. Taking all these factors 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. We had another strong quarter, in which production averaged 265 MMcfe/d. This was in line with the midpoint of our guidance. Also, operating costs and capital came in as expected. We are pleased to have met our guidance expectations once again this quarter despite significant winter storms in our Mid-Continent regions that negatively impacted production and operating costs.

Our operated drilling program continues to progress with the Company turning to production five wells in the NW STACK and two wells in our North Louisiana asset thus far in 2019.

In the NW STACK we have four wells with at least 15 days of production, and the early results are positive with an average IP15 rate of approximately 610 Boepd with 43% oil and 65% liquids. These first four wells are single mile laterals, consisting of two wells producing from the Meramec formation and two producing from the Upper Osage. This demonstrates the potential of at least two viable formations in this part of our asset. Our estimated capital cost in this Western Major county area is $5.0 million to $5.3 million per well, which is expected to generate a 30% to 40% IRR.

At this time the fifth NW STACK well is currently in early flowback and our sixth well is currently drilling and scheduled to be completed next month. At the conclusion of our sixth well, we plan to suspend drilling operations to evaluate results, continue to refine our geologic models through additional mapping and 3D seismic acquisition, and continue our participation in the non-operated activity in the area. We will determine the details of our next phase of operated drilling later this year, which will be designed to best realize the value of our significant leasehold in our core NW STACK position. As a reminder, we have approximately 70,000 net acres in our core position as well as over 100,000 net acres in our broader Anadarko basin position and we are working closely with the Blue Mountain team on securing downstream solutions for our production.

In North Louisiana we started production of a two well pad late in the first quarter. These horizontal wells were drilled in the Cotton Valley, Upper Red formation for an average capital cost of approximately $6.2 million per well. The average choke restricted IP30 of these wells is approximately 20 MMcfe/day consisting of 99% natural gas. These wells are expected to generate greater than a 100% IRR and payback in less than 12 months. Also, the production from this asset receives very favorable natural gas pricing relative to other basins due its proximity to growing demand centers on the Gulf Coast. We are currently evaluating the potential for future development in this North Louisiana asset.

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

Greg Harper

Thank you, Dan. In the first quarter, Blue Mountain averaged 117 MMcf/d of gathering throughput volumes producing nearly 8,700 bbls/d of NGLs. We entered Q1 with a bit of uncertainty as our primary customer was re-evaluating their drilling program. From my perspective, the team performed admirably, readjusting both physical and commercial operations, allowing us to have a solid quarter despite the decline in gas volumes from the fourth quarter 2018.

From our proactive hedging program, our commercial optimization with downstream markets and our super-efficient high recovery Cryo, we were able to deliver nearly $7 million of Adjusted EBITDA, largely on par with Q4 2018 Adjusted EBITDA. The Q1 amount included negative basis differentials of approximately $2 million, an exposure which will be eliminated going forward in 2020 with new downstream contracts.

We continue to execute on our strategy of diversification of services. As I mentioned on the previous call, our commercial team entered into a long-term full-service water management contract with Roan covering 67 Townships. We began executing on this contract, currently moving nearly 67,000 barrels of water per day, while in flow back for several wells. We expect to be closer to a 50,000 barrel per day average in steady state of operations. Of course, our initial service is via truck hauling until our initial gathering pipe is operational.

We are obviously very excited about entering the water management business, a service that can significantly lower our customer's LOE, while providing Blue Mountain a new steady cashflow stream.

I'd like to take a few minutes to explain this platform and how the value chain works and a timeline overview. We have also included several slides in the presentation, which I hope you will find helpful as well.

The first line of work is trucking, and as I just mentioned we are currently trucking all volumes. This is the smallest of our per unit margin contributors, hence the push to put as much on pipe as possible. With that said, our concentrated footprint makes this opportunity an excellent execution model to put a substantial amount of the volumes on pipe, which will be the greatest per unit margin generator and clearly aligns these margins with other midstream services from a value perspective.

We are currently constructing our primary trunk lines as well as most of our pad connecting segments. We anticipate our water pipelines to be in service early in the third quarter.

Right now, we are disposing water via third party disposal well entities. This component, when toggled to Blue Mountain-owned disposal wells, will be a significant value enhancer. We are in the process of securing permits, and we expect to have several wells operational in the fourth quarter and others coming online in early 2020.

Finally, we will be providing a recycling service and are targeting that facility to be online by year end.

We feel very comfortable with our construction efforts and capital requirements especially as we are able to reap some synergies with certain gas gathering activities. Based on Roan's overall drilling plan and the fact there is no dual dedication for water, we believe we have good line of sight on the water quantities for the year and as we move into 2020 with a nearly fully operational system. From a growth perspective, there is a considerable amount of third-party opportunities around our footprint, and we are encouraged by our initial discussions with those potential customers.

As we look beyond Q1, let's discuss how we see the end of 2019 being shaped based on the current drilling programs provided to us by our customers. Let's first frame a few things; we had five new wells attached in Q1 with eight wells going to first sales. By year-end, we expect to connect up to 31 additional wells to first sales. We've also factored in a risked view of Roan's guidance for Q4-19 growth over Q4-18 of 20%.

With that said, an outlook based on current contracted volumes, an annualized Q4 2019 EBITDA, for Cryo 1 only, is projected at $46 million adjusted for new 2020 downstream contracts that eliminate basis differential, and we currently expect water gathering at just over $12 million on an annualized basis. Keep in mind that our water business will still be ramping up in Q4 as it continues to shift to more profitable handling processes. We still project that the initial water system will be generating $18 to $20 million of EBITDA on an annual basis when fully commissioned.

Assuming continued gas volume growth in 2020, we clearly have a solid foundation of contracted EBITDA which will be complimented by any new business development to be secured.

On a similar note, we are still projecting that Cryo 1 alone, at full capacity and under the same price curves as a year ago, will deliver approximately $115 million dollars of EBITDA. The point being that as the plant becomes more fully loaded the variable cost on a per unit basis declines.

Before I wrap up and hand this over to Jim, I want to say that my team is eager to work with Tudor, Pickering, Holt & Co. exploring the various alternatives that can truly illuminate the value of the Blue Mountain as we transition from a startup entity to a multi service growth oriented midstream company.

Jim Frew

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

First Quarter Financial Performance

For the first quarter of 2019, daily production averaged approximately 265 MMcfe/d and was in line with the midpoint of our guidance. Total oil, natural gas and NGL revenues were approximately $76 million. Of that, approximately 75% of the revenue was from natural gas sales, 7% was from oil sales, and the remaining 18% was from the sale of NGLs.

With respect to costs, operating expenses for the first quarter were approximately $50 million, which was in line with guidance. General and administrative costs, excluding share based compensation and severance costs, were approximately $13 million in the first quarter. Of that, approximately $9 million was incurred by the Upstream business, and the remaining $4 million was attributable to Blue Mountain. The Upstream general and administrative costs, excluding share based compensation and severance costs, was at the low end of first quarter guidance.

In the first quarter, Riviera invested approximately $61 million of capital. Oil and natural gas capital was approximately $38 million while Blue Mountain invested approximately $21 million. Riviera's oil and natural gas capital investment during the first quarter was in line with prior guidance.

Balance Sheet and Liquidity

With respect to the balance sheet and liquidity, Riviera and Blue Mountain have established separate credit facilities. As of March 31, 2019, there were no borrowings outstanding on Riviera's revolving credit facility. As of the spring redetermination, Riviera had borrowing commitments of up to $250 million. Due to the anticipated sale of our interest in certain non-operated properties located in the Hugoton Basin, Riviera's borrowing base will be reduced to $245 million. Currently, there are no borrowings under the Riviera credit facility, and approximately $216 million of available borrowing capacity inclusive of outstanding letters of credit.

Blue Mountain has established a separate credit facility with total borrowing commitments of up to $200 million. As of March 31, 2019, Blue Mountain had $14.5 million drawn on its credit facility. Currently, Blue Mountain has approximately $174 million of available borrowing capacity, inclusive of outstanding letters of credit, subject to covenant restrictions in the Blue Mountain Credit Facility.

As of March 31, 2019, Riviera's ending consolidated cash balance was approximately $102 million. Including the $14.5 million drawn on Blue Mountain's credit facility, the Company had approximately $88 million in net cash.

Share Repurchases

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 April 30, 2019, the Company had repurchased approximately 4.8 million shares for a total cost of approximately $72 million. In the first quarter, the company repurchased 2.5 million shares for approximately $34 million. In April 2019, the company repurchased an additional 1.4 million shares for approximately $20 million. As a result, as of April 30, 2019, Riviera had 65.4 million shares outstanding.

Guidance

Looking ahead, we have provided Upstream only guidance for 2019. 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, and the non-operated Hugoton Basin sale expected to close in the second quarter. Our pro forma full year adjusted EBITDAX forecast for our upstream assets is $95 million.

With respect to capital, the upstream business expects to invest $68 million in 2019. Approximately 80% of the upstream capital will be devoted to drilling, with the balance dedicated to leasing, seismic, and other needs. Blue Mountain expects to invest $104 million in 2019. Approximately 60% of the Blue Mountain capital is to construct a water gathering system in the Merge. The remaining capital is allocated to natural gas gathering. 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 the first quarter 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.