RIVIERA RESOURCES
SECOND QUARTER 2019 EARNINGS CALL SCRIPT
August 8th, 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' second 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 June 30, 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 second quarter 2019 results. 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 second 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 continues 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 continue to believe the Company is undervalued, we have been aggressively repurchasing shares. In the last 12 months we have repurchased more than $290 million of Riviera's shares, reducing the Company's outstanding share count by over 23%. In 2019 alone we have repurchased approximately $140 million of shares including our recent tender offer. The Company expects to continue buying back shares and has increased our share repurchase authorization to $150 million.

We continue to opportunistically monetize assets and use the proceeds to fund our share repurchases. Year to date we have closed four transactions, generating approximately $216 million in proceeds. The closed transactions include the Arkoma Basin, Michigan, certain non-operated assets in the Hugoton Basin, and our Helium VPP. Furthermore, we have two smaller sales transactions under contract that we expect to close in third quarter. The pending transactions include non-core assets in Louisiana as well as our remaining position in Illinois. These transactions align with our overall strategy of opportunistically pursuing asset sales 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.

Greg will be covering Blue Mountain in more detail later, but 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 began providing water gathering services in the second quarter, handling nearly five million barrels of water in its first quarter of operations. Additionally, the team expanded its offerings to include crude gathering. With a strong anchor tenant we expect Blue Mountain will have a myriad of opportunities to grow its midstream business and add new producers to its customer list.

Blue Mountain plans to grow the midstream business to a position where we can either sell, merge, or have it be a standalone, public company, and we continue to work with Tudor, Pickering, Holt & Co. to assess strategic alternatives to best position Blue Mountain towards a value-enhancing transaction.

Second Quarter Update

Turning now to our second quarter performance, Riviera delivered strong operational results. The upstream business outperformed adjusted EBITDAX guidance, due to higher production and lower operating costs. In fact, second quarter adjusted EBITDAX was 25% higher than our original guidance. This is the fourth 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 and believe this inventory is not valued in our current share price. So far this year, we have turned to sales six 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 second quarter Blue Mountain's operational performance was strong. The cryo plant continues to operate as designed and up-time was greater than 99%. The team is hitting key milestones in completing its water handling infrastructure and has found ways to lower the capital intensity of the water business. Furthermore, the team has initiated its oil gathering infrastructure build-out, which we believe will be a win for Blue Mountain, its customers, and the community.

Though we are proud of what we have achieved during the second 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 remains well positioned in the current market.

Before handing it over to Dan, I wanted to take a moment to thank the Riviera employees. As we reach our first anniversary as a company, I look back on what we have accomplished together with pride. The employees have been working extremely hard to optimize the value of our assets and I am extremely appreciative of their efforts. I think we have a first-class organization and I am fortunate to work with this team each and every day.

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 286 MMcfe/d, up 8% from the first quarter, even with closing the non-operated Hugoton Basin sale at the end of May. Production was above the high-end of our prior guidance and was driven by strong results from our 2019 operated drilling program and lower than expected downtime within our mature asset base. Operating costs were in-line with expectations while capital came in slightly below guidance as well.

During the second quarter we completed our operated drilling program in both the NW STACK and North Louisiana. The Company has turned to production six wells in the NW

STACK and two wells in North Louisiana. As discussed on prior calls, we are currently evaluating the results and have no current plans to drill additional wells in 2019.

In the NW STACK all six wells have at least 30 days of production, and the early results are positive with an average IP30 rate of approximately 670 Boepd with 55% oil and 72% liquids. All six wells are single mile laterals, consisting of four 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 $4.9 million to $5.2 million per well, which is expected to generate a 30% to 40% IRR.

As I mentioned earlier in the NW STACK, 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 continue to monitor the results of the two wells we completed this year. As a reminder 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, and the two wells have a current combined cumulative production of approximately 4.5 Bcfe in less than 4 months. 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 growth 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. Blue Mountain had a very eventful second quarter as we launched our water management business and immediately began executing on our full services contract for Roan Resources beginning April 1, providing both truck hauling and water disposal via third-party disposal wells. During the quarter we hauled approximately 5.1 million barrels of water, averaging nearly 56,100 Bbl/d, for Roan and another customer. I'll discuss this business in a bit more detail in a minute, but first let's cover the gas and processing business. In the second quarter Blue Mountain averaged 120 MMcf/d of gathering throughput volumes, producing approximately 10,590 Bbl/day of NGLs. During the quarter we connected two wells and five wells turned to sales on our system; however, throughput volumes were slightly impacted as our primary customer temporarily shut-in in five wells due to hydraulic fracturing of neighboring wells. Looking at the second half of this year, we still expect throughput volumes at our cryo plant to increase based on the current well attachment schedule provided by our customers.

In addition we expect to add approximately 5 MMcf/d of new third-party volumes to our cryo as early as the fourth quarter of this year through an acquisition of a natural gas gathering system in close proximity to our Merge system. On August 5, 2019, we acquired 100% interests in Lumen Midstream Partnership, LLC, including approximately 55 miles of natural gas gathering pipelines and an 18.5 MMcf/d processing plant. The acquisition secures us over 15 new customer relationships, three of which are operating rigs in the area. As important, the current production volumes will be rerouted to our highly efficient cryo plant increasing our fee-based revenues and recoveries for our new customers. The Lumen system and an interconnection to the Blue Mountain system will come at a total investment of less than $5 million. I'm excited about the addition of the system as it extends our reach into the Merge toward the SCOOP, providing additional opportunities for our three gathering service options for gas, water and crude oil.

Also, looking at other opportunities to increase throughput volumes at our cryo, we have entered into two, new interconnect agreements with regional processers to receive offloads and/or exchange volumes not tied directly to our system.

Ok, more on our water business which as I said before is off to a great start, providing us new, steady cash flow stream contributing over $800,000 of adjusted EBITDA in the second quarter.

As I mentioned on our last call, our goal is to rapidly transition water volumes to pipe and Blue Mountain owned disposal wells, as these are the greatest margin contributors. We are working diligently and have made significant progress on transitioning our water services from truck hauling with third-party disposal to pipe gathering with Blue Mountain-owned and operated disposal wells or SWDs for short. We have installed 38 miles of water gathering lines and have connected to 10 pads thus far, with our first pipeline segments flowing water last month. In addition we have acquired the land and permits for two SWDs and expect at least one to be operational as early as September.

Regarding treatment and recycling, we have identified a more capital efficient technology, which has reduced our estimated capex for the initial water build by about 20%, while still providing Roan ample recycling capacity. We are now estimating $47 million of capital expenditures for the initial pipe and SWD build, with $43 million expected to be incurred in 2019. Having said that, we are still projecting $18-20 million of adjusted EBITDA attributable to the water business once the initial facilities are fully commissioned in early 2020.

Moving to crude oil, I am very pleased to have announced last month the extension of our midstream services into crude oil gathering and our ability to now offer our anchor customer Roan and future producer-customers with a three-stream service offering for gas, water and crude oil. Our definitive agreement with Roan Resources will provide crude oil gathering services, consisting of an 89,000 net acreage dedication in nine townships in central Oklahoma. The initial build will consist of 51 miles of gathering pipeline, capable of transporting up to 60,000 Bbl/d, with two downstream interconnections with direct access to the Cushing markets. We have commenced construction on our crude oil system and expect commercial in-service for the initial facilities beginning by year-end.

From a growth perspective on our water and crude oil gathering systems, we have launched an open season, offering prospective third-party producers the opportunity to secure pipe-gathering for the remaining initial build capacities, with the ability to extend and expand our systems based on the outcome of the open season and future producer commitments. I am excited to see the ultimate results later in Q3 of the open season as we continue to expand our existing Merge asset footprint and grow our fee-based business while diversifying our customer base.

Now a little color on our second quarter financial results for the Blue Mountain business segment. During the second quarter we delivered approximately $6 million in adjusted EBITDA. We were impacted by this quarter's overall lower commodity prices, including a 20% reduction in the weighted average barrel NGL price from Q1. Despite this major challenge, Blue Mountain Q2 adjusted EBITDA decreased less than $1 million from first quarter results benefited primarily due to the new fee-based water margins and steady gas throughput volumes. In the second quarter this business did continue to be impacted by the NGL pricing differentials at Conway and Mount Belvieu. The elimination of the basis exposure would have added over $700,000 dollars to Blue Mountain's margin.

As I mentioned before, we expect throughput volumes at our cryo plant to increase over the second half of the year as we are projecting up to 22 wells turned to sales on the Blue Mountain system between Q3 and Q4.

With that said, we are still evaluating how Roan's shut in schedule and preloading of existing wells will impact the timing of the volume ramp for the balance of the year and into Q1 2020.

However, with gas volumes growing and our water and crude oil services going into full effect in 2020, we clearly have a solid foundation of contracted EBITDA growth, which will further improve with any new business development that we secure.

Lastly, I want to mention our process with Tudor Pickering Holt & Co is well underway, as we continue to explore the various alternatives that can truly illuminate the value of Blue Mountain enterprise as we continue to execute our strategy to become a multiservice 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) second quarter financial performance, 2) balance sheet and liquidity, 3) share repurchases, and 4) 2019 upstream guidance.

Second Quarter Financial Performance

For the second quarter of 2019, daily production averaged approximately 286 MMcfe/d exceeding the high end of our initial quarterly guidance. Total oil, natural gas and NGL revenues were approximately $67 million. Of that, approximately 70% of the revenue was from natural gas sales, 15% was from oil sales, and the remaining 15% was from the sale of NGLs.

With respect to costs, operating expenses for the second quarter were approximately $44 million, which was below the low end of our previous guidance. While lease operating expenses and transportation costs were in-line with guidance, the Company benefitted from a one-time Texas sales and use tax refund. General and administrative costs, excluding share based compensation and severance costs, were approximately $10 million in the second quarter. Of that, approximately $7 million was incurred by the Upstream business, and the remaining $3 million was attributed to Blue Mountain. The Upstream general and administrative costs, excluding share based compensation and severance costs, was at the low end of second quarter guidance.

In the second quarter Riviera invested approximately $41 million of capital. Riviera Upstream capital was approximately $17 million while Blue Mountain invested approximately $24 million. Riviera's oil and natural gas capital investment during the second quarter was slightly below guidance due to timing.

Balance Sheet and Liquidity

With respect to the balance sheet and liquidity, Riviera and Blue Mountain have established separate credit facilities. As of June 30, 2019, there were no borrowings outstanding on Riviera's revolving credit facility, and approximately $211 million of available borrowing capacity inclusive of outstanding letters of credit. In July 2019

Riviera's borrowing base was reduced from $245 million to $230 million in connection with the closing of the Michigan assets sale.

Blue Mountain has established a separate credit facility with total borrowing commitments of up to $200 million. As of June 30, 2019, Blue Mountain had approximately $33.5 million drawn on its credit facility, and approximately $155 million of available borrowing capacity, inclusive of outstanding letters of credit, subject to covenant restrictions in the Blue Mountain Credit Facility.

As of June 30, 2019, Riviera's ending consolidated cash balance was approximately $80 million. Including the $33.5 million drawn on Blue Mountain's credit facility, the Company had approximately $47 million in net cash.

Share Repurchases

The Company successfully executed a Tender Offer to repurchase approximately 2.67 million shares for a purchase price of $15.00 per share on July 16, 2019. As a result of the successful Tender Offer, the Company returned $40 million to shareholders.

Through the last 12 months the Company has been buying shares under a previously established $100 million repurchase authorization. Since inception through July 31, 2019, Riviera has repurchased approximately 6.9 million shares for a total cost of $99 million. On July 18, 2019, the Company increased its share repurchase program by $50 million bringing the total repurchase authorization to $150 million. As of July 31, 2019, Riviera had approximately 60.6 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 non-core North Louisiana and Illinois divestitures expected to close in the third quarter. Our pro forma full year adjusted EBITDAX forecast for our upstream assets is $91 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 $120 million in 2019. Approximately 36% of the Blue Mountain capital is to construct a water gathering system in the Merge and approximately 15% will be used to build a crude gathering system. The remaining capital is allocated to natural gas gathering.

In closing, our assets performed well in the second 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 capital to shareholders. With that, I will hand it over to the operator to open this call up for questions.