Jack's Oil Company: Q3 2023 Stakeholder Update & Earnings Call Transcript

Date: October 25, 2023
Word Count: Approximately 2000 Words

PART I: Q3 2023 Stakeholder Update Letter

TO: Our Valued Shareholders, Employees, Partners, and Stakeholders

FROM: The Executive Leadership Team, Jack's Oil Company

SUBJECT: Resilience, Strategic Discipline, and Future Growth: Q3 2023 Performance Review

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Introduction: Navigating Complexity with Discipline

The third quarter of 2023 presented a dynamic, and at times volatile, landscape for the global energy sector. Geopolitical tensions, coupled with fluctuating commodity prices and persistent inflationary pressures, tested the resilience of all market participants. Jack's Oil Company, however, demonstrated remarkable strategic discipline and operational excellence, enabling us not only to navigate these complexities but also to exceed several key performance indicators (KPIs).

Our unwavering focus remains on three core pillars: **Capital Efficiency, Operational Excellence, and Sustainable Growth.** The achievements of Q3 reflect the rigorous application of these principles across all our operating segments—Upstream Exploration and Production (E&P), Midstream Infrastructure, and Downstream Refining and Marketing.

Operational Highlights: Upstream Excellence

The Upstream segment continues to be the primary engine of Jack's Oil's profitability.

Production Volumes:
We are pleased to report that total hydrocarbon production for Q3 2023 averaged **455,000 barrels of oil equivalent per day (BOE/d)**, marking a 5% increase over Q2 2023, and a 10% year-

over-year increase. This growth was driven primarily by the successful ramp-up of the **Permian Basin's "Blue Streak" Project** and enhanced recovery techniques in our mature Gulf of Mexico assets.

Exploration & Development:
During the quarter, we allocated capital judiciously towards high-return development drilling. In the Permian, drilling efficiency improved by 8%, measured by feet drilled per day, significantly lowering our finding and development costs (F&D) to **$9.50 per BOE**, down from $10.25 in Q2.

Furthermore, our deepwater exploration program yielded a promising result with the successful appraisal of the "**Neptune's Jewel" prospect** off the coast of West Africa. This discovery, expected to hold recoverable resources in the range of 150-200 million BOE, validates our targeted approach to frontier exploration and secures a pipeline of future growth projects.

Key Upstream Metrics (Q3 2023):

- **Capital Expenditure (Upstream):** $1.2 Billion
- **Operating Cost per BOE:** $5.85 (Industry Leading)
- **Realized Price (Oil):** $85.50 per barrel
- **Natural Gas Realized Price:** $2.90 per MMBtu

Midstream & Infrastructure: Strengthening the Backbone

The Midstream segment provides essential stability and diversification to our revenue stream. In Q3, we continued to optimize our logistics network to meet growing demand from our Permian assets.

Capacity Expansion:
The "**Pipeline Synergy" Project**, aimed at increasing crude oil takeaway capacity from West Texas to the Gulf Coast refining centers, reached 85% completion. This project remains on schedule for commissioning in Q1 2024 and will contribute substantially to reducing our price differentials and enhancing market access.

Storage Optimization:

Our strategic investment in natural gas liquids (NGL) storage facilities has positioned us well to capitalize on seasonal price arbitrage opportunities, generating an additional **$45 million in incremental revenue** during the quarter.

Downstream: Responding to Demand

The Downstream segment capitalized on strong refining margins driven by tight product supplies, particularly in diesel and jet fuel.

Refinery Utilization:
Our global refining fleet operated at an impressive **96% utilization rate** during Q3, minimizing unplanned downtime and maximizing throughput. The high utilization rate, coupled with effective feedstock procurement, resulted in a robust average crack spread realization of **$28.50 per barrel**.

Marketing and Retail:
Our retail network continued to gain market share, driven by enhanced digital strategies and loyalty programs. We successfully rolled out our next-generation low-carbon fuel blend (Jack's EcoFuel 90) across 150 new locations, aligning with our broader sustainability commitments while meeting evolving consumer preferences.

Financial Performance Overview

Jack's Oil achieved robust financial results, underpinned by high commodity prices, strict cost control, and strong operational performance across all segments.

Key Financial Highlights (Unaudited):

- **Total Revenue:** $28.5 Billion (Up 15% Y-o-Y)
- **Net Income:** $4.2 Billion (Up 20% Y-o-Y)
- **Adjusted EBITDA:** $7.8 Billion
- **Cash Flow from Operations (CFO):** $6.1 Billion

Our strong CFO enabled us to maintain a healthy balance sheet, continue our disciplined capital program, and return significant value to our shareholders.

Capital Allocation and Shareholder Returns

Jack's Oil remains committed to a balanced capital allocation strategy: first, funding safe and productive operations; second, maintaining a strong balance sheet; and third, returning surplus cash to shareholders.

Dividends and Buybacks:
The Board of Directors has approved a **quarterly dividend of**

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1.5 Billion worth of common stock during Q3 under our existing buyback authorization, reinforcing our dedication to enhancing shareholder value.

Debt Management:
We successfully executed a proactive debt management strategy, reducing gross debt by $500 million, resulting in a Net Debt-to-EBITDA ratio of **0.9x**, placing us squarely within the industry's top quartile for financial strength.

Sustainability and Energy Transition

We recognize our critical role in providing secure, affordable energy while actively participating in the transition to a lower-carbon future.

Methane Reduction: We achieved a **25% reduction** in methane intensity from our 2020 baseline in the Permian Basin, primarily through the deployment of advanced leak detection and repair (LDAR) technologies.

Carbon Capture (CCUS): We inaugurated the pilot phase of the "**Project Carbon Sink**" CCUS hub in partnership with regional industrial emitters, positioning Jack's Oil as a leader in carbon management solutions.

Conclusion and Outlook

Q3 2023 was a quarter of exceptional execution and robust financial health. We successfully balanced ambitious production targets with strict capital discipline. As we look toward Q4 and

2024, the global economic outlook remains uncertain, but Jack’s Oil is positioned for success.

We will continue to prioritize high-margin barrels, optimize our integrated value chain, and accelerate our low-carbon initiatives. We thank our employees for their dedication and our stakeholders for their continued trust. We look forward to discussing these results in more detail during our upcoming earnings call.

Signed,

The Executive Leadership Team, Jack's Oil Company

PART II: Q3 2023 Earnings Call Transcript

Title: Jack's Oil Company Q3 2023 Earnings Call
Date: October 26, 2023
Time: 10:00 AM EST
Participants:

- **Mr. Alistair Finch:** Chairman & Chief Executive Officer (CEO)
- **Ms. Serena Vance:** Chief Financial Officer (CFO)
- **Mr. Thomas O’Malley:** EVP, Upstream Operations

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1. Opening Remarks – Mr. Alistair Finch (CEO)

Alistair Finch: Good morning, everyone, and welcome to Jack’s Oil Company’s third quarter 2023 earnings conference call.

This quarter demonstrated the enduring strength of Jack’s Oil’s integrated business model. We delivered exceptional financial results—Net Income of $4.2 billion and Adjusted EBITDA of $7.8 billion—driven by high-quality assets, world-class operational efficiency, and a disciplined approach to capital allocation.

In the Upstream, we successfully accelerated production growth, hitting 455,000 BOE per day, while keeping our operating costs at an industry-leading $5.85 per BOE. Our Permian performance continues to exceed expectations, proving the resilience of our core assets against various market pressures.

In the Midstream and Downstream, profitability was robust, benefiting from strong global demand for refined products and effective margin capture.

I want to emphasize three key strategic takeaways from Q3:

1. **Strategic Growth:** We are growing high-return production sustainably. The "Neptune's Jewel" discovery is a testament to our long-term exploration strategy.

2. **Financial Discipline:** We reduced debt, improved our Net Debt-to-EBITDA ratio to 0.9x, and increased our dividend by over 6%. Our balance sheet is fortress-like.

3. **Future Focus:** We are not waiting for the energy transition; we are leading it through practical, profitable decarbonization efforts, including methane reduction and CCUS investments.

Now, I will hand the call over to Serena Vance, our CFO, for a detailed review of the financial performance. Serena?

2. Financial Review – Ms. Serena Vance (CFO)

Serena Vance: Thank you, Alistair. Good morning, everyone.

Our Q3 financial results underscore the profitability inherent in our asset base at current commodity price levels.

Revenue and Earnings: Total revenue reached $28.5 billion, reflecting higher realized prices and increased volumes. Net Income stood at $4.2 billion, equating to $2.15 per diluted share. This performance significantly exceeded consensus estimates.

Cash Flow Generation: Cash Flow from Operations (CFO) was $6.1 billion. This strong cash generation fully funded our total capital expenditure of $2.2 billion for the quarter and provided substantial free cash flow (FCF) of $3.9 billion.

Capital Expenditures: Our capital program remains disciplined. Of the $2.2 billion spent, approximately 55% was allocated to high-growth development drilling in the Permian and Gulf of Mexico, with the remainder supporting Midstream infrastructure and crucial maintenance CAPEX.

Segmental Contribution to EBITDA:

- Upstream: $5.1 Billion (65% of total)
- Downstream: $1.9 Billion (24% of total)
- Midstream & Other: $0.8 Billion (11% of total)

The Upstream segment demonstrated excellent margin control. Our lifting costs per barrel remain low, providing a substantial cushion against potential price volatility.

Balance Sheet and Liquidity: Our liquidity position is excellent. We ended the quarter with $4.5 billion in cash and short-term investments. Following the $500 million debt reduction, our leverage is exceptionally strong. We believe this low leverage is vital as we approach potential global economic headwinds.

Shareholder Returns: The decision to increase the dividend to $0.85 per share demonstrates our commitment to delivering competitive shareholder returns. Combined with the $1.5 billion in share repurchases, we returned nearly $2.5 billion to shareholders this quarter.

Looking ahead to Q4, we anticipate continued strong performance, though we are modeling for potential seasonal softening in refined product demand. We expect total CAPEX for the full year 2023 to remain within the guided range of $8.5 billion to $9.0 billion.

I’ll now turn the call over to Thomas O’Malley, who will provide an operational deep dive into the Upstream segment.

3. Operational Deep Dive – Mr. Thomas O’Malley (EVP, Upstream Operations)

Thomas O'Malley: Good morning. My focus today is on how we achieved record production efficiency while maintaining strict capital discipline.

Permian Basin Performance: The Permian remains our crown jewel. Our Q3 production here averaged 220,000 BOE/d, a 7% sequential increase. This was achieved through continuous optimization of our pad drilling techniques. Specifically, we saw a 12% improvement in frac cycle times and reduced non-productive time (NPT) to less than 2%. This efficiency gain directly translated into the reduction of our F&D cost metric.

Gulf of Mexico (GoM): Our deepwater GoM assets performed reliably. Production averaged 85,000 BOE/d. We completed a planned, scheduled maintenance turnaround on our flagship "**Orion Platform**" safely and ahead of schedule, ensuring minimal disruption to full-year volumes.

International Exploration: The appraisal success at "**Neptune's Jewel**" is truly transformative. We have initiated the concept selection phase (Select Gate) for this project, evaluating options for both floating production storage and offloading (FPSO) units and subsea tiebacks. The low-cost, high-pressure nature of this reservoir suggests highly competitive break-even costs, potentially below $35 per barrel.

ESG Operations: Operationally, sustainability is now fully integrated. Our methane intensity reduction goal is ahead of schedule, and we are utilizing over 95% of associated natural gas in the Permian, virtually eliminating routine flaring.

In summary, the Upstream segment is stronger, more efficient, and focused on delivering high-margin barrels for the foreseeable future.

I will now hand the call back to Alistair for the Q&A session.

4. Question and Answer Session (Q&A)

Alistair Finch: Thank you, Thomas. Operator, we are ready to take questions.

(Operator opens the floor for questions)

Q1 (Analyst: Jane Doe, Global Energy Capital): Good morning, and congratulations on the strong quarter. My question is for Serena regarding capital allocation. Given the strong FCF generation, how are you balancing further debt reduction versus potentially accelerating the buyback program in Q4?

Serena Vance (CFO): Thank you, Jane. That's a key question for our capital committee. Our immediate priority was achieved in Q3: getting our Net Debt-to-EBITDA ratio below 1.0x. We now have significant flexibility. While we will remain opportunistic regarding market conditions, our base plan assumes funding the increased dividend and maintaining the current pace of the buyback, which targets a total of $5 billion for the fiscal year 2023. Any surplus FCF beyond that would likely be returned via accelerated buybacks, rather than additional rapid debt reduction, unless compelling market conditions dictate otherwise. We believe the current leverage level optimizes our cost of capital.

Q2 (Analyst: Ken Chen, Apex Securities): A question for Thomas regarding the Upstream cost structure. You've hit an impressive $5.85 operating cost per BOE. Do you see this as sustainable, or are inflationary pressures in drilling services and labor going to push this up in 2024?

Thomas O'Malley (EVP, Upstream Operations): Ken, that's a fair challenge. While we recognize persistent inflation in services—especially steel and labor—the $5.85 cost is highly sustainable because it's driven more by operational efficiency than by cost cuts. Specifically:

1. **Electrification:** We are increasingly powering our Permian operations with lower-cost electricity, reducing diesel dependency.
2. **Standardization:** We have standardized well designs, which reduces complexity and service costs across multiple pads.
3. **Scale:** The sheer scale of our centralized facilities in the Permian lowers processing costs per barrel.

While we might see modest upward pressure (perhaps 2-3%) next year due to inflation, we are confident in maintaining an industry-leading cost structure through continuous efficiency gains.

Q3 (Analyst: David Lee, Citadel Energy): Alistair, could you elaborate on the competitive landscape for your Downstream segment? Given the robust crack spreads this quarter, what is your outlook for Q4, particularly concerning the impact of potential global recession fears on product demand?

Alistair Finch (CEO): David, the Downstream performed exceptionally well, benefiting from structural tightness in global refining capacity—a trend we expect to continue. For Q4, we are modeling a slight moderation in crack spreads, moving perhaps from the high

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20s per barrel. This anticipated softening is a defensive measure against potential economic deceleration.

However, two factors support continued strength: one, low global inventory levels for middle distillates (diesel and jet fuel); and two, the high complexity of our refineries, which allows us to process cheaper, heavier crudes, maintaining our margin advantage even if overall spreads narrow. Our utilization rate guidance remains high—in the 92% to 94% range—reflecting confidence in sustained profitability.

Q4 (Analyst: Sarah Jones, ESG Partners): A question on the energy transition strategy. Alistair, could you provide more color on the economic viability of the "Project Carbon Sink" CCUS investment? What is the expected IRR, and how reliant is it on future government incentives?

Alistair Finch (CEO): Sarah, "Project Carbon Sink" is central to our long-term strategy. The pilot project targets a capital investment of approximately $300 million. The base-case Internal Rate of Return (IRR) is modeled at **12-15%**. Critically, this IRR is achieved by relying on a combination of existing Section 45Q tax credits and commercially viable service contracts with third-party industrial emitters.

While further incentives could enhance the economics, we have designed the project to be fundamentally commercially viable under current regulatory structures. Our objective is not just to comply with future regulations but to establish Jack’s Oil as the preferred provider of carbon sequestration services in our operating regions, creating a new, sustainable revenue stream. We view CCUS as a complement, not a substitute, for our core oil and gas business.

Q5 (Analyst: Mark Johnson, Wells Fargo): Quick follow-up on the "Neptune’s Jewel" discovery. What is the timeline for FID (Final Investment Decision), and how does this discovery impact your overall corporate production target for the end of the decade?

Thomas O’Malley (EVP, Upstream Operations): Mark, the appraisal phase was highly successful. We are targeting the Select Gate phase completion by mid-2024, followed by FEED (Front-End Engineering Design). If all goes well, we anticipate an FID in **Q1 2026**.

In terms of production impact, first oil is projected for late 2029 or early 2030, with peak production plateauing around 50,000 to 60,000 BOE/d. This asset is foundational to achieving our stated 2030 corporate production target of maintaining current high-margin volumes while divesting from marginal or high-carbon intensity assets. It ensures long-term volume stability well into the next decade.

5. Closing Remarks – Mr. Alistair Finch (CEO)

Alistair Finch: Thank you, everyone, for your insightful questions and continued interest in Jack’s

Oil.

Q3 was a quarter defined by robust execution, financial strength, and strategic clarity. We delivered strong growth while adhering rigorously to our commitment to capital discipline and shareholder returns. Our integrated model is performing exactly as designed, providing resilience in volatile times.

We remain focused on operational excellence, optimizing our core assets, and proactively managing the energy transition risks and opportunities. We look forward to updating you on our progress next quarter. Have a productive day.

(Call concludes)