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# EDITED TRANSCRIPT

SNDE.OQ - SUNDANCE ENERGY INC (US) Annual Shareholders Meeting

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## CORPORATE PARTICIPANTS

**Eric P. McCrady** Sundance Energy Inc. - MD, CEO & Director

**Stephen J. McDaniel** Sundance Energy Inc. - Independent Non-Executive Chairman

## PRESENTATION

### Operator

Hello, and welcome to the Annual Meeting of Stockholders of Sundance Energy Inc. Please note that today's meeting is being recorded. (Operator Instructions)

It's now my pleasure to turn today's meeting over to Steve McDaniel, Chairman of the Board of Directors of Sundance Energy Inc.

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### Stephen J. McDaniel - Sundance Energy Inc. - Independent Non-Executive Chairman

Good morning, ladies and gentlemen. It is now 10:00 am, and the stockholders' meeting will please come to order. I am Stephen McDaniel, Chairman of the Board of Directors of Sundance Energy Inc. We want to welcome you and express our thanks for your attendance at this virtual meeting. I would like to begin by introducing the other members of the Board and nominees present at this meeting.

Eric McCrady, who is also our Chief Executive Officer; Judith Buie, Damien Hannes, Weldon Holcombe, Neville Martin and Thomas Mitchell. I'm also pleased to have with us from our management team, Cathy Anderson, our Chief Financial Officer; John Roberts, our Vice President of Finance and Investor Relations; and Chris Humber, our General Counsel; [Keith Christel] of Baker & McKenzie our outside legal counsel, also is present.

Derek Bradfield and Alexandra Tune of Deloitte & Touche, our independent public accountants, are also present. Stephen Jones is present, representing Computershare Trust company, our transfer agent and registrar. Computershare has been appointed inspector of elections to examine and tabulate proxies and ballots at this meeting. I will now conduct the annual meeting as it relates to the proposals to be voted upon by stockholders. Notice of this meeting was given to all stockholders of record at the close of business on May 29, 2020, on or about June 12, 2020, and I have, for inclusion in the record of this meeting, an affidavit to that effect.

The meeting originally called for July 22, 2020, was adjourned until today due to lack of a quorum. I am pleased to report that the preliminary report of the inspector of elections is that more than a majority of all of the votes entitled to vote at the annual meeting are present in person, virtually or by proxy at this meeting, constituting of quorum. A quorum being present, this meeting is declared open to proceed with its business.

In order to expedite the flow of business at this meeting, we intend to adhere to the following order of business. Each of the matters to be discussed and acted upon by stockholders will be discussed, moved and seconded in the order set forth in the proxy statement, but the actual vote on each item will be deferred until all matters to be acted upon have been discussed. Nominations are now in order for directors to serve of the terms set forth in the proxy statement and until their successors are duly elected and qualified. The Board of Directors recommends the election of the following persons as directors.

Stephen J. McDaniel, Eric P. McCrady, Judith D. Buie, Damien A. Hannes, H. Weldon Holcombe, Neville W. Martin and Thomas L. Mitchell. These candidates are hereby nominated to be elected as directors of the company. Other than these candidates, there were no other timely nominations in accordance with the procedures set forth in our bylaws. May I have a motion to close the nominations?

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### Unidentified Company Representative

I move the nominations be closed.

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**Unidentified Company Representative**

I second the motion.

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**Stephen J. McDaniel** - Sundance Energy Inc. - Independent Non-Executive Chairman

Thank you. There being no objections, the nominations are now closed. Next, we will consider the proposal to approve the company's 2020 Equity Incentive plan, under which 750,000 shares of common stock will be initially reserved for issuance as described in the proxy statement.

The Board of Directors recommends voting in favor of this proposal. Are there any questions? (Operator Instructions)

I'll pause for a few minutes. There being no questions. A motion on the proposal is now in order.

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**Unidentified Company Representative**

I move that the proposal to approve the company's 2020 Equity Incentive Plan be submitted to a vote.

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**Unidentified Company Representative**

I second the motion.

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**Stephen J. McDaniel** - Sundance Energy Inc. - Independent Non-Executive Chairman

Thank you. Next, we will consider the ratification of the appointment of Deloitte & Touche LLP as the company's independent registered public accounting firm for the fiscal year ending December 31, 2020. The Board of Directors recommends that stockholders approve this proposal.

Are there any questions regarding the proposal? (Operator Instructions)

I'll pause briefly for questions. There being no questions. A motion on the proposal is now in order.

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**Unidentified Company Representative**

I move that the ratification of the appointment of Deloitte & Touche LLP as the company's independent registered public accounting firm for the fiscal year ending December 31, 2020, be approved.

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**Unidentified Company Representative**

I second the motion.

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**Stephen J. McDaniel** - Sundance Energy Inc. - Independent Non-Executive Chairman

Thank you. We will now proceed to vote on each of the previously discussed proposals. Stockholders who have not voted or wish to change their vote, may vote using the voting buttons while the polls are open.

It is not necessary for a stockholder to vote using the voting buttons if you have already sent in your proxy, unless you wish to change your vote. If there is anyone who wishes to change their vote, please do so now using the voting buttons. I'll pause briefly.

(Voting)

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**Stephen J. McDaniel** - Sundance Energy Inc. - Independent Non-Executive Chairman

I now declare the polls closed on the previously discussed proposals. While the inspector of elections is completing tabulation of votes, Eric McCrady, will make a brief presentation on the company. During the course of this meeting, in our presentations or in answers to questions, we may make forward-looking statements regarding future events, our future performance of the company. Actual events or results could, of course, materially differ. Moreover, we are not undertaking any obligation to provide updates in the future. We refer you to the documents the company files from time to time with the Securities and Exchange Commission, specifically the company's most recent Form 10-K and other reports filed with the SEC.

These documents contain and identify important factors that could cause actual results to differ materially from those contained in any forward-looking statements. Eric?

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**Eric P. McCrady** - Sundance Energy Inc. - MD, CEO & Director

Thanks, Steve. I'll just refer all of you to Slide 2 of the presentation, which further reiterates the disclaimers that Steve just read through. Obviously, with the onset of COVID and the price war between OPEC and Russia that occurred earlier this year, these are unprecedented times in the oil and gas industry. Sundance is well positioned to manage and create some value during the -- during this market turmoil really for 3 main reasons. First, we have a very high-quality asset base, located in the volatile oil window of the Eagle Ford with low breakeven costs.

The Eagle Ford is an inventory -- value during this market turmoil, really for 3 many main reasons. First -- Sorry, sorry, sorry. The Eagle Ford is an inventory start basin. So having a high-quality, low-cost asset base is becoming more and more valuable as the basin continues to be drilled up.

Secondly, we have a solid PDP base and become a proven and world cost-efficient operator. We've enhanced our efficiency through the year with the adoption of automation technology and continue to employ automation to further improve the cost structure and the value of the PDP and cash flow stream going forward. And lastly, we have a good capital discipline at the company with limited future obligations to drill new wells, which allows us to be flexible in the face of a low price environment.

Our balance sheet is very simple with essentially a bank revolver debt and a term loan. And we have a significant head position to protect the company and the company's cash flow through this price environment. Our hedge position covers just under 8,000 barrels a day this year through the remainder of this year and approximately \$55 per barrel -- floor of \$55 per barrel. And next year, we have just under 6,900 barrels a day hedged at a floor of approximately \$49 or \$50 a barrel.

That really gives good insight to the liquidity and cash flow position of the company for the next 18 months. As I mentioned, we are a leading pure-play Eagle Ford producer and our high-quality asset base generates strong returns even at low commodity prices. In 2018, when we consummated the acquisition from Pioneer in Live Oak and Atascosa County. First, we were benefiting from reduced transportation costs, renegotiating a contract with enterprise.

And second, we are undertaking to improve the overall quality of our inventory to increase our ability to generate returns through the drill bit for our shareholders. Both of those things have proven to be true. We are realizing lower transportation costs for oil molecules than the predecessor operator was by a significant margin on the assets. And the remaining locations in Live Oak, Atascosa and La Salle, today, continue to remain in the top half of our drilling inventory and among some of the best inventory in the Eagle Ford. As of today, we have a reasonably structured balance sheet. As I said, with bank debt and term loan, and we have available liquidity of approximately \$40 million.

That liquidity plus the hedge profile that I previously spoke to, gives us a solid base of cash flow and liquidity to navigate the next 18 months of running the business. In 2019, we had a solid year of operational execution. Our total capital budget was approximately \$148 million. We came in line with that expectation, and we turned 20 wells in line to sales during the year. Going through just some of our key operational achievements during the year.

We continue to integrate the Pioneer acquisition through really the development and delineation of the Live Oak and Atascosa assets. We were able to move at year end, substantially all of the remaining Live Oak locations from probable to proved reserves through our success during the year. And in Atascosa County, the company drilled its 2 longest laterals to date, which were approximately 12,500 foot laterals in Atascosa, and those wells have been producing now since November. During -- in late November, we completed a redomiciliation to the U.S. and a primary listing on NASDAQ, which we believe gives the company strategic footing to participate in various transactions moving forward to improve value for the company.

Last year, we also finished selling our Dimmit County assets. We received about \$17.3 million in total proceeds with another \$4 million remaining to be collected from the buyer of those assets. And then finally, during the year, we saw significant improvements across the board in our drilling and completion efficiencies, which I'll go through on the slide in a couple of minutes here. For 2020, because of the unprecedented change in oil prices due to COVID and the oil price war and also because we don't really have any material obligations, drilling obligations to hold our assets. We've significantly reduced our 2020 capital plan. Initially, we were likely to spend somewhere between \$80 million and \$100 million in capital, and we've revised that down to \$40 million to \$45 million for the year. Essentially, during the year, we will -- we've completed at this point, 2 DUCs, wells that we drilled last year and were DUCs at the end of the year in La Salle County, those wells began producing in the first quarter of this year. Second, we drilled the 4-well pad in Live Oak County on the Harlan Bethune lease, 4 wells that are a little bit over 8,000 lateral feet per well.

And we also drilled 2 wells in McMullen County on the Bracken lease. The 4 Harlan Bethune wells have subsequently been completed and started producing in mid-June. The Harlan Bethune wells are currently held as DUCs and we do expect to complete them at some point later this year when commodity prices support the incremental capital necessary to bring them online.

For both the La Salle wells, the 2 Washburn Ranch wells and the 4 Harlan Bethune wells, we are using a slow choke method for 2 reasons: first, to maximize oil recoveries over the long term; and secondly, to benefit, hopefully, from contango and pricing by deferring some production from those new wells out into the future. Strategically, due to the material decrease in prices, we did receive a going concern opinion in our 2019 audit report. We have, at this point, received waivers from our first- and second-lien lenders and are currently in compliance with all of our financial and other covenants associated with those debt agreements.

There's really a two-pronged approach to improve the company's business to make it through this period of depressed commodity prices. First, we've renewed our focus or invigorated our focus on cost reductions, both on the capital side and on the operating expense side. And then secondly, we are seeking alternatives to increase the equity position on the balance sheet, whether that's through asset sales, public or private issuance of debt or equity or some combination thereof.

We do believe that coming through this commodity price cycle, we have the liquidity to make it through and can improve the balance sheet to improve the company's footing going forward in the market. I mentioned earlier that we've had a pretty successful year in 2019 of improving efficiencies. This next slide really demonstrates across the board, the efficiencies we're able to generate from operations. The numbers are pretty self-explanatory, so I won't speak to them. I will note that this year on the Harland Bethune pad, we tested a dual frac for the first time on our asset base.

And so essentially, we used 1 frac crude to pump a frac into 2 wells simultaneously. Still, it's a 4-well pad, so we were still zipper fracking the wells. But essentially, we were able to pump 2 stages simultaneously, significantly reducing the amount of time on location for the frac crew. We estimate that we saved approximately \$600,000 per well by executing this technique and expect to use that going forward.

Our team is continually focused on ways to optimize efficiency within our operation. Next, looking at operating costs. You can see since we acquired the Pioneer assets in Q2 of 2018, we've had a pretty material reduction in overall costs associated with running the assets. I would expect through the remainder of this year, that we'll see an acceleration of decline in lease operating costs. We finished rolling out our first round of automation systems in the field and that's allowed us to eliminate overtime and consultants and contractors in the field. We've also made some other operational changes that will continue to drive down our lease operating costs and some of the other costs necessary to run the asset.



Our automation team continues to be focused on the next evolution of that automation in that IT project. And we do expect that not only will we continue to see benefits from what we've done today, but we will continue to drive costs out of the system going forward. Looking just briefly at the Eagle Ford and our acreage position. We essentially have 4 kind of main operating areas, all in the volatile oil window in the Eagle Ford.

First, in Live Oak in Atascosa, where we see our best breakeven prices. We generate a 10% rate of return on the wells that are located in those areas at approximately \$25 per barrel for WTI. Secondly, in McMullen County, where we have a couple of different type curves. But generally speaking, we start to generate better-than-10% rate of returns, north of \$40 -- \$35 to \$40 per barrel. And then lastly, in La Salle County, where we see PV-10 breakevens at about \$35 per barrel. So that strong return profile on our asset base and approximately 400 total locations gives us, I think, pretty good line of sight towards growing the business organically when commodity prices support that.

Looking at our hedge book. I mentioned earlier that our hedging provides a significant cushion for the company from a liquidity standpoint through the end of '21, where we have approximately 2.4 million, 2.5 million barrels hedged at an average floor of just over \$49 in 2021. And in addition to approximately 7,900 barrels a day hedged for the remainder of 2020 at about \$55 a barrel. So that hedge profile really provides liquidity for the company as we move through and navigate this challenging commodity environment.

In terms of our debt profile, we have a very simple balance sheet. We have revolver debt and a term loan. We don't have any maturities until late 2022 when the revolver matures and the term loan matures in early '23. We have about \$40 million of liquidity. And in our spring borrowing base redetermination, our availability decreased from \$190 million to \$170 million, so a \$20 million decrease despite a pretty significant drop in pricing subsequent to year end. So just to wrap up, we have a very high-quality asset base in the Eagle Ford with some of the best remaining inventory in the basin.

We have a limited need to spend capital the remainder of the year with prices where they are, which allows us to generate a little bit of free cash flow going forward. The Eagle Ford itself is a well-known and well-located basin. So benefits from low service prices and higher net realized pricing in terms of oil sales. And finally, we have a simple balance sheet with enough liquidity to manage through the cycle. So thank you. And Steve, I'll turn it back to you.

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**Stephen J. McDaniel** - Sundance Energy Inc. - Independent Non-Executive Chairman

Thank you, Eric. Are there any questions that the stockholders would like to ask? (Operator Instructions)

I'll pause for a few minutes to wait for questions. Okay. Seeing no questions. I'll turn back to our regular business of the meeting and report on the results of the stockholder vote. Will the inspector of elections please provide me with a preliminary report. Thank you.

According to the preliminary report of the inspector of elections, each of the persons nominated for election to our Board of Directors was elected. The company's 2020 Equity Incentive Plan was approved, and the ratification of Deloitte & Touche as the company's independent registered public accounting firm for the fiscal year ending December 31, 2020, was improved. The matters that this meeting was called to consider have been completed. There is no other business that come before this meeting. Therefore, a motion to adjourn the meeting is now in order.

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**Unidentified Company Representative**

I move that the meeting be adjourned.

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**Unidentified Company Representative**

I second the motion.

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**Stephen J. McDaniel** - Sundance Energy Inc. - Independent Non-Executive Chairman

The meeting is hereby adjourned. Thank you for participating.

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**Operator**

This concludes the meeting. You may now disconnect.

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