FINAL TRANSCRIPT

Enerplus Corporation

Q3 2019 Results

November 8, 2019 — 11:00 a.m. E.T.

Length: 26 minutes

CORPORATE PARTICIPANTS

Drew Mair
Enerplus Corporation — Manager, Investor Relations

Ian Dundas
Enerplus Corporation — President & Chief Executive Officer

Jodi Jenson Labrie
Enerplus Corporation — Senior Vice-President & Chief Financial Officer

Ray Daniels
Enerplus Corporation — Senior Vice-President, Operations

CONFERENCE CALL PARTICIPANTS

Neal Dingmann
SunTrust Robinson Humphrey — Analyst

Greg Pardy
RBC Capital Markets — Analyst

Patrick O'Rourke
AltaCorp Capital — Analyst

Mike Dunn
GMP FirstEnergy — Analyst

Jamie Kubik
CIBC World Markets — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Enerplus Corporation Q3 2019 Results Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star zero for the operator.

This call is being recorded on Friday, November 8, 2019.

I would now like to turn the conference over to Mr. Drew Mair. Please go ahead, sir.

Drew Mair — Manager, Investor Relations, Enerplus Corporation

Thank you, operator, and good morning, everyone. Thank you for joining the call. Before we get started, please take note of the advisories located at the end of today's news release. Our financials have been prepared in accordance with U.S. GAAP. All discussion of production volumes today are on a gross company working interest basis and all financial figures are in Canadian dollars, unless otherwise specified.

I'm here this morning with Ian Dundas, our President and Chief Executive Officer; Jodi Jenson Labrie, Senior VP and Chief Financial Officer; Ray Daniels, Senior VP, Operations; Shaina Morihira, VP, Finance; and Garth Doll, VP, Marketing. Following our discussion, we'll open up the call for questions.

With that, I'll turn it over to Ian.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Thank you, Drew, and thanks to all of you for joining us today. I'll get right into our third quarter results.

We delivered another strong sequential increase in our oil production in the third quarter, following a very active completions program in the Bakken during the summer months. Bakken production was up 18% from the prior quarter, driving company liquids production growth of 14%. And with the meaningful reduction to our share count over the last year, our liquids production per share increased 22% compared to the same period a year ago. Production continues to track our guidance and we've provided fourth quarter production guidance of 103,000 to 107,000 BOE per day with liquids production of 58,000 to 60,000 barrels per day. We've effectively completed our program this year for bringing new wells on stream in the Bakken and fourth quarter capital activity will be approximately 30% lower compared to the third quarter and primarily focused on drilling in preparation for 2020. This will result in modestly lower sequential production in the fourth quarter. The relatively light fourth quarter capital program is also expected to result in significant fourth quarter free cash flow.

Moving on to share repurchases, as highlighted in our release today, we were actively buying our stock in the quarter. We repurchased approximately 7 million shares at a weighted average price of about $9 per share. Since we began buying our stock through the third quarter last year, we've now repurchased and cancelled over 24 million shares, representing approximately 10% of our shares outstanding. We continue to see attractive value on our shares at current levels but will remain disciplined with our capital allocation as we continue to focus on ensuring we maintain our balance sheet strength. Through the first nine months of the year, we had effectively been pre-spending our fourth quarter free cash flow to buy back stock. Jodi will provide more colour on this later in the call.

So, to recap our outlook this year, our plan is expected to provide strong corporate level returns, 15% liquids production per share growth, over $200 million returned to our shareholders, and low financial leverage. Importantly, we are delivering our plan on budget and have tightened our 2019 capital spending guidance to $625 million.

I'll leave it there for now and pass the call to Jodi to talk through the financial highlights.

Jodi Jenson Labrie — Senior Vice-President & Chief Financial Officer, Enerplus Corporation

Thanks, Ian.

Our Bakken oil differential widened in the third quarter. While we expected that differentials in the second half of the year would be softer due to growing Bakken production, we also saw U.S. Gulf Coast prices relative to WTI move tighter very quickly during August and September. The differential between Brent and WTI tightened by $3 to $4 a barrel compared to the first half of the year and, as a result, our realized Bakken differential is expected to be wider than our previous forecast. This weakness persisted into October; however, lower rig count, less completions, and stabilizing U.S. Gulf Coast pricing brought some support into November and December. As a result, we are expecting our average Bakken differential for the year to be approximately US$3.60 per barrel below WTI.

Moving on to Marcellus pricing, our third quarter realized differential averaged US$0.44 per Mcf below NYMEX. Pricing in the U.S. Northeast markets was relatively weak during the quarter, particularly in September, after a cooler-than-normal summer allowed more gas to be injected into storage. We continue to expect seasonally-stronger pricing in the Marcellus in November and December as a result of colder weather. We are maintaining our full year differential guidance for the Marcellus of US$0.35 per Mcf below NYMEX.

Our unit costs trended 7% lower in the third quarter compared to the prior quarter, mainly driven by higher production volumes. We are reducing our cash, G&A expense guidance by $0.05 per BOE, with operating and transportation cost guidance unchanged.

Turning to the balance sheet, our total debt net of cash increased to $521 million at September 30, 2019, leading to a net debt-to-adjusted funds flow ratio of 0.7 times. The increased debt net of cash was primarily due to the use of cash on hand to repurchase shares and fund working capital. Through the nine months ended September 30, 2019, we repurchased 15.5 million shares for total consideration of $155 million. Although we're forecasting strong free cash flow in the fourth quarter, our total spending related to our share buybacks will exceed our free cash flow in 2019. Outspending free cash flow isn't a sustainable, long-term approach to buying back stock; however, our strong financial position has given us flexibility to be opportunistic and still maintain low leverage ratios. To be clear, however, we believe preserving our strong financial capacity is a competitive advantage and we will not put this at risk.

As noted in our news release today, we have now repurchased the maximum number of shares under our existing normal course issuer bid, which was for 7% of the public float. We've received approval from our board, along with the stock exchange, to increase our current normal course issuer bid from 7% to 10% of the public float. This increase equates to an additional 7.1 million shares that may be repurchased until the expiry of our current bid in March of 2020. We plan to provide a comprehensive update on our spending plans and capital allocation, including our approach to share buybacks, when we provide 2020 guidance later this year or early in 2020.

With that, I'll turn the call over to Ray.

Ray Daniels — Senior Vice-President, Operations, Enerplus Corporation

Thanks, Jodi.

We saw another strong ramp in North Dakota volumes in the third quarter with the 11 operated wells brought on production. As is typical for us, our completions program is biased to the warmer summer months and between April and September we completed and brought 37 gross operated wells on production, which is about 90% of our 2019 program. As we've indicated, fourth quarter capital will be lower and primarily focused on drilling in preparation for the 2020 program. The only wells being brought on production in the fourth quarter in the Bakken are non-operated.

Well production has continued to be solid. The 11 wells brought on production during the quarter were across two pads. We had a four-well pad with a peak 30-day production rate per well of 1,660 barrels of oil equivalent on a three-stream basis, which was 71% oil, and a seven-well pad with a peak 30-day production rate per well of 2,590 barrels of oil equivalent per day on a three-stream basis, which was 65% oil.

Turning to the Marcellus, we saw a 4% decline in sequential production in the third quarter as we had fewer and lower working interest wells brought on production. Notwithstanding the modest decline in production, well performance in the Marcellus continues to be exceptional. Across the 13 wells we participated in during the quarter, the average peak 30-day production rate per well was over 40 million cubic feet per day.

Lastly, we completed five gross, or four net, wells in the DJ Basin during the third quarter. We have continued to test different completion designs to further advance our understanding of the associated well performance and cost structures in this play. It's still early days, but we are encouraged by the initial production results and will provide further details when we have more run time on the wells.

I'll leave it there and we'll turn the call over to the operator and open it up for questions.

Q & A

Operator

Thank you. Ladies and gentlemen, should you have a question, please press star followed by one on your touchtone phone. If you are using a speakerphone, please lift your handset before pressing any keys. One moment please for your first question.

Your first question is from Neal Dingmann from SunTrust. Please go ahead, Neil

Neal Dingmann – Analyst, SunTrust Robinson Humphrey

Good morning, all. Nice quarter. For the team, just wondering your thoughts on activity. I guess more specifically, broadly speaking, maybe around 2020, if NGL and gas prices remain as depressed in the

Bakken has it been, or is this activity much more, or I should say, primarily driven by what the outcome of oil price is?

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Good morning, Neal. Yeah, I think at the high level it really is in oil, ah, oil really drives the activity levels. I think, obviously, gas-related infrastructure and those things and the margin is going to affect some producers, but broadly I think it's just an oil story. Certainly, it will be for us.

Neal Dingmann – Analyst, SunTrust Robinson Humphrey

Okay. And then just one last one, just M&A thoughts, specifically given today's environment. I'm just wondering, and maybe it's not this black and white, but I'm just wondering, the easiest way to ask is just if you see yourselves these days as maybe a net acquirer, net acquire, or potentially neither these days?

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Our vision is moving forward and so we're always sort of thinking about both sides of that equation. Over the years we've had a plan to sell non-core assets when we saw opportunities to do so, so I think you always have to think about that. As we think about our core area, we're looking to build it out typically and we've got a balance sheet that gives us some latitude to think about that. So, this market is pretty complicated, generally speaking, of buyers with expectations that seem a bit disconnected from, certainly from the reality of public company valuations, so not a lot of stuff has been happening. For us, I guess the key drivers remain similar. We're looking at full-cycle economics. We're looking at something that would make operational sense. We're going to keep our balance sheet strong. So, I mean that gives us lots of latitude to look at smaller things. As you start thinking about bigger things, it becomes pretty complicated when you look at the implied valuations of our stock and I think it's one of the primary reasons that not a lot of stuff is happening in a lot of places.

Neal Dingmann – Analyst, SunTrust Robinson Humphrey

Very good. Great details. Thanks, Ian.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Thanks, Neal.

Operator

Thank you. Your next question is from Greg Pardy from RBC Capital Markets. Please go ahead.

Greg Pardy – Analyst, RBC Capital Markets

Thanks. Good morning. Couple questions. One is just on the balance sheet. I mean it continues to be very strong. What are you targeting maybe as a debt to cash flow in, you know, maybe call it a mid-50s oil price? I'm just trying to get a sense that way.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

It's a good question. I'd say at the highest levels we want to have a robust and resilient plan and that resiliency means you have to maintain balance sheet strength. And, as your debt creeps up, you better be thinking very, very closely about hedging and those sorts of things. For us, I think, at a high level, I think a lot of us think about one times as being the old two times. And it's very dependent upon are we talking about 50? Are we talking about 57? Are we talking about 45? Those things really change things a lot for us right now.

Maybe another cut of it, Greg, I think this balance sheet is a competitive advantage for us, and so think about it on a relative basis on some level as well. We want to have a really, really strong balance sheet compared to our peers. We don't necessarily have to have the best balance sheet in the space, and we will use it, but it certainly is going to maintain. We're going to keep a strong relative strength there.

Greg Pardy – Analyst, RBC Capital Markets

Okay. So, it sounds like you probably run a variety of scenarios in terms of what you'll look like in 2020 from a balance sheet perspective, free cash flow, et cetera, so it's not any one number at any one oil price.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

No. No, I think that's very fair. And all of our capital goes into or virtually all of our capital has been going into oil. We do have a nice little gas position in the Marcellus, and gas prices influence affordability as well. So, yeah, we look at it all and scenario analysis has certainly become the new norm in the last five years.

Greg Pardy – Analyst, RBC Capital Markets

Okay. Okay. Second question is it doesn't sound like there's too, too much more to say around the DJ. It may have been in the release and I missed it, but how large is your DJ production now?

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

It's actually—you can probably see something that looked like around 1,000 barrels in the release. Sorry, I should know that number. We haven't given a lot of detail on it, though. I can give you a little more colour. Ray used the word "encouraging" in the well results. So, we had our first five wells, we've got another five down, and those wells would have been completed right towards the end of August, so they would have only showed up in the quarter, just a little, little bit of production in the actual quarter. So, you bring those things on a staggered basis, call it two months, maybe a little bit more than two months we have on those wells right now, so it's just a bit too early to be talking about it.

As we think about spending plans for next year, as Jodi said, we're going to give some colour right towards the end of this year or into next year, and that would be a pretty logical time to give a little more colour about those wells and how it all lines up. The whole position is over 30,000 acres. We've been sort of focusing our activity on about a third of that, a pretty concentrated block there, and that block is the one where we gave a bit of scope, which we said, you know, you could see up to about 400 wells on that. So, could be meaningful and we're really just in the evaluative stage right now.

Greg Pardy – Analyst, RBC Capital Markets

Okay. And just to be sure, the five you referred to, the five down were last year's (inaudible), so a total of ten wells down?

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Yes.

Greg Pardy – Analyst, RBC Capital Markets

Okay, terrific. Thanks very much.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Thank you.

Operator

Thank you. Your next question is from Patrick O'Rourke from AltaCorp Capital. Please go ahead.

Patrick O'Rourke – Analyst, AltaCorp Capital

Good morning, guys. Hopefully this isn't too redundant. I guess my fingers are a little slower getting into the queue than the other guys. But just kind of wondering, Jodi touched on maintaining the balance sheet here, do you guys have a specific threshold in mind that you don't want to go above with the share buyback?

And then second part to the question, I know you don't have a budget out yet for 2020, you've had some pretty impressive per-share growth here, which we think is really the right way to look at production growth. What do you think is the primary driver of that per-share growth in 2020? Is it the drill bit? Is it the share buybacks? Or how do you look at maybe keeping some of that powder dry for some of those opportunistic M&A opportunities out there that seem to resonate best with investors if they're done through cash rather than equity?

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Good morning, Pat. Yeah, there's a lot going on there, Patrick. So let me hit the—we don't have an absolute single point in time debt metric. I do think, as I mentioned to Greg, keeping relative strength is really, really important there and as we think about scenario analysis the only thing I'm absolutely convinced of relative to oil price next year is we will see volatility, and so having a balance sheet that feels pretty good when oil is in the 40s, feels like a pretty good plan to us. So that sort of sets some outer limits on how much debt you would have. And obviously you have to think what risk mitigation and hedging in connection with that.

To your question about 2020 and how all that works, as Jodi said in her comments, we made a decision this year that our balance sheet was so strong, we would use some of that strength and we would outspend. So we took all of the free cash flow we generated or planning on generating and some extra capacity and we're buying shares, and so now we've bought 10% of the stock. You can't do that forever, obviously. But to frame it, $100 million of debt is a pretty small change to our debt-cash-flow metrics. So, we've got flexibility as we think about it.

As we think about the principles next year, they're going to drive our spending plans or influence them. They're going to be very similar to the principles that we're going to play this year. The capital is going to be largely focused on the Bakken and that's going to drive competitive liquids growth. We're not just chasing growth, though, because that growth, in this kind of price environment, is very economic as well. We are focused on a plan that generates free cash flow. I think that's a plan that plays well in the markets. It's also a very sustainable plan and it's a plan that we delivered, that we're planning on delivering again this year. Balance sheet strength is critical. Obviously, if we can generate free cash flow, that gives us a lot of choices to maintain financial strength.

And so then to close it off with your sort of last question, how does other spending, share buybacks, and how do those things fit into the mix. I think in some respects you have to be opportunistic, but we see really compelling value in the stock right now and so there's a reason that we increased our approval limits for the NCIB. Our expectation is we will continue to execute under that plan and then we'll sort of dial the details and the specifics of that up as we move towards the end of the year to try to give people a bit of a sense as to how we think about spending that free cash flow and directionally how much. And it will be contextual, as you say. These things compete. If we look at share buyback today, though, you're buying Enerplus reserves on a 2P basis at about $10 a BOE. That's pretty compelling when you think about other M&A opportunities that are out there. So, we continue to see share buyback as having a place in our business.

Patrick O'Rourke – Analyst, AltaCorp Capital

Okay. And then maybe just one quick follow-up question here: Are there any implications to moving your credit facility to U.S. dollar denomination there? Does that save you interest? Obviously, most of your assets and expenses are south of the border, so that makes sense, but just wondering if there are any other positive implications.

Jodi Jenson Labrie — Senior Vice-President & Chief Financial Officer, Enerplus Corporation

Yeah, it's really no change, honestly. It's just the majority of our spending and our outstanding senior notes are in U.S. dollars and we can actually borrow either way, we can borrow in Canadian or U.S. dollars, whether the actual facility is denominated in U.S. or Canadian.

Patrick O'Rourke – Analyst, AltaCorp Capital

Okay. Thank you.

Operator

Thank you. Ladies and gentlemen, as a reminder, should you have a question, please press star followed by one. Your next question is from Mike Dunn from GMP FirstEnergy. Please go ahead, Mike.

Mike Dunn – Analyst, GMP FirstEnergy

Thanks. Good morning, everyone. Ian, I see that you guys reported $13 million of property and land acquisitions in the quarter. It sounds like it's mostly in North Dakota. I'm just wondering, I'm assuming these lands are in and around, if not additional working interest, on your existing acreage there and then maybe some colour on what you think the undrilled inventory that you've picked up there. Thanks.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

You're correct on your assumption on the first one. The line is pretty well held out there, but there's like a little opportunities, a fair amount of work going on relative to swapping and increasing working interest and those sorts of things, so that activity was all sort of in connection with that and a bit of leasing going on. Sorry, the second part of your question?

Mike Dunn – Analyst, GMP FirstEnergy

Oh, just wondering if you guys had an estimate of the number of net undrilled locations that you've picked up.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Yeah, so—oh, sorry, locations we've picked up. No, sorry, we haven't updated that number. It would largely, though, be working interest change. And I don't have that number handy.

Mike Dunn – Analyst, GMP FirstEnergy

Okay. Okay. That was all from me. Thanks, everyone.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Thanks, Mike.

Operator

Thank you. Your next question is from Jamie Kubik from CIBC. Please go ahead.

Jamie Kubik – Analyst, CIBC World Markets

Good morning. Thanks, guys. Just a quick question with respect to NGL price realizations in the Bakken: They're obviously pretty light in the U.S. for Q3 at $2 a barrel. Do you see them staying at these levels in Q4? And are they contracted? Can you help us understand how that looks going forward? Thank you.

Jodi Jenson Labrie — Senior Vice-President & Chief Financial Officer, Enerplus Corporation

Yeah, no, sure, I'll take that. So, NGL prices have weakened considerably throughout the year in both Canada and the U.S., just driven by the significant growth in the associated gas and higher NGL production growth. The Conway/NGL mix has decreased from 50% of WTI in Q1 to 35% of WTI in Q3, so this is what's driving a lot of the impact on our realized liquids pricing. However, keep in mind, NGLs are less than 5% of our overall production mix. Going forward though, we expect prices to recover a bit here in Q4 and actually into 2020 as additional fractionation capacity comes on in the U.S. Gulf Coast and some of the debottlenecking pipelines between Conway and Mont Belvieu. So, I think it's going to improve going forward here.

Jamie Kubik – Analyst, CIBC World Markets

Okay. But nothing contracted that would keep them depressed at these levels then?

Jodi Jenson Labrie — Senior Vice-President & Chief Financial Officer, Enerplus Corporation

Sorry, no. All of our gas is processed and, the majority of it anyway, in North Dakota is processed with Targa, and so they are the ones that transport and sell our NGLs.

Jamie Kubik – Analyst, CIBC World Markets

Okay, got it. And just a quick one on operating costs: They trended down nicely in Q3. Any reason that they would increase in Q4? I know you held your guidance flat, but should we expect something similar in Q4?

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

We're comfortable with our guidance. I mean winter and snow and downtime and things get expensive and so, you know, there's always a little bit of seasonality that's built into it. So, we had a good run in the summer for sure.

But I'll give you an example: We keep adding 40 producing wells a year and managing downtime continues to be a focus area and workover rigs are part of that and that rolls through to OpEx. So, it continues to be a focus and you often have things a little more complicated as it starts to snow out there.

Jamie Kubik – Analyst, CIBC World Markets

That's it from me. Thank you, guys.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Thanks, James.

Operator

Thank you. There are no more questions at this time. Please proceed.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

All right. Well, I know people have a busy day, so thanks for everyone's time and I hope you all have a good weekend. Thank you.

Operator

Ladies and gentlemen, this concludes your conference call today. We thank you for participating and ask that you please disconnect your lines.