FINAL TRANSCRIPT

Enerplus Corporation

Q1 2019 Earnings Conference Call

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Jordan Levy
SunTrust — Analyst

Travis Wood
National Bank Financial — Analyst

Jamie Kubik
CIBC World Markets — Analyst

Greg Pardy
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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Enerplus First Quarter 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 assistance, please press *, 0 for the Operator.

This call is being recorded on Friday, May 10, 2019.

And I would now like to turn the conference over to Drew Mair. Please go ahead.

Drew Mair — Manager, Investor Relations, Enerplus Corporation

Thank you, Operator, and good morning, everyone. Thanks for joining the call.

Before we get started, please take note of the advisories located at the end of today's news release. These advisories describe the forward-looking information, non-GAAP information, and oil and gas terms referenced today, as well as the risk factors and assumptions relevant to this discussion.

Our financials have been prepared in accordance with US 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; Shaina Morihira, VP Finance; Garth Doll, VP, Marketing; Terry Eichinger, VP, US Operations and Engineering; and John Hoffman, VP, Canadian Operations. Following our discussion, we'll open it up for questions.

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

Ian Dundas — President and Chief Executive Officer, Enerplus Corporation

Thank you, Drew. Good morning, everyone. We remain well positioned relative to our objective this year. We are on track to drive double-digit corporate-level returns, double-digit oil growth, and a strong free cash flow. As anticipated, we saw production volumes decline in the first quarter following a light capital program in the fourth quarter of 2018.

Moving into the second quarter, we've reestablished growth and expect to see a material increase in production going forward. Second quarter volumes are expected to be approximately 11 percent higher on a total production basis and 15 percent higher on a liquids production basis compared to the first quarter.

Growth profile is being driven by strong well performance out of the Bakken and Marcellus. In the Bakken, the three-well pad we brought on production in the first quarter had a respectable peak 30-day production rate per well of 1,900 BOE per day. In April, we brought a six-well pad on production and have reestablished strong production momentum.

In the Marcellus, we've also seen some impressive well results, with 13 wells in the first quarter delivering an average peak 30-day rate per well of 22 million cubic feet per day. Our average working interest across these wells was 14 percent.

With the strong operational execution we're seeing, along with wells outperforming our forecast, we've moved our full year production guidance higher. This capital-efficient, high-margin growth is setting up a strong cash flow outlook. Our 2019 budget was expected to be approximately cash flow neutral at $50 for West Texas. And so today, with prices close to $60, we have visibility to significant free cash flow.

With our growth outlook intact, we will maintain our capital discipline and continue to prioritize free cash flow generation and return of capital to shareholders. Year-to-date, we've repurchased approximately $35 million of our stock under our normal course issuer bid. And we continue to think that this is a compelling capital allocation opportunity, given the deep value we see in our stock today.

Strong liquidity position, we plan to accelerate our share repurchase activity. Additionally, we plan to allocate a meaningful percentage of our free cash flow towards the share repurchases, based on current market conditions.

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

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

Thanks, Ian. Strong pricing realizations in the Bakken and Marcellus helped to drive first quarter adjusted funds flow of $169 million. In the Bakken, we saw pricing strengthen from the fourth quarter of 2018, as refineries came back online throughout December and January.

Our first quarter realized Bakken differential was US$3.25 per barrel below WTI. We continue to manage our pricing exposure in the Bakken, and have approximately 19,000 barrels per day of fixed physical sales in place for the rest of the year at US$1.90 per barrel below WTI.

In the Marcellus, we sold our gas at a premium to NYMEX in the first quarter, as regional prices benefitted from the lower than expected storage levels in the Northeastern US. We also entered into a number of physical fixed-basis sales that provided significant value for us in the regional New York markets during the quarter.

Subsequent to the first quarter, Marcellus prices have moderated due to the seasonality of natural gas demand during the shoulder season. As a result, we continue to guide to an average 2019 differential of US$0.30 per Mcf below NYMEX, implying wider pricing for the rest of the year.

First quarter operating expenses were $8.75 per BOE higher than our fourth quarter operating costs and largely due to our lower first quarter volumes. But with volume growth now underway, we anticipate operating expenses per BOE to be substantially lower for the rest of the year and are therefore leaving our 2019 guidance of $8 per BOE unchanged.

Capital spending in the first quarter was $161 million. Spending levels will be meaningfully higher, though, in the second quarter as completion activity in the Bakken ramps up and our DJ program kicks off.

We plan to complete approximately 35 gross operated wells in the Bakken over the next two quarters, which is expected to drive robust growth as we move through this period. We've begun our five-well program in the DJ as well this quarter, and expect to complete and bring those wells on production in the third quarter.

We've tightened our 2019 capital spending guidance range to 590 million to 630 million, as we continue to optimize our operational program.

And lastly, we renewed our normal course Issuer bid on March 26th, for a period of 12 months. The renewal allows us to repurchase up to 16.7 million shares. As we've indicated, we plan to accelerate our share repurchases using the cash on our balance sheet, as well as allocating a meaningful portion of our free cash flow that materializes during the second half of this year.

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

Ian Dundas

Thanks, Jodi. So in closing, we're on track to deliver another year of capital-efficient, high-margin growth and strong corporate-level returns. Our peer-leading balance sheet gives us a significant financial flexibility, and our focus on profitable and sustainable growth has positioned the Company to generate enhanced free cash flow. We are committed to creating shareholder value through this disciplined approach.

Thank you for listening. And with that, I will turn the call over to the Operator, and we will be available for your questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a three-toned prompt acknowledging your request, and questions are polled in the order received. If you are using a speakerphone, please lift the handset before pressing any keys.

And your first question is from Neal Dingmann from SunTrust. Neal, please go ahead.

Jordan Levy — SunTrust

Morning, guys. It's actually Jordan Levy. I just wanted to get your thoughts, kind of given the decision to accelerate share buybacks at current market conditions, how do you look at the returns proposition of buybacks versus potential bolt-ons or acquisitions in the Bakken or other liquids-weighted plays?

Ian Dundas

Thanks for the question, Jordan. Yeah. I suppose it's a balancing act in some respects. First and foremost, we think about returns and we think buying our shares in the context of this market—this valuation, is a pretty compelling choice. Comparing that to drilling a well or an acquisition opportunity, I guess it depends. We are very, very focused on continuing to think about the shareholder return. We don't think that we are going to drive stock values forward by chasing more growth in this marketplace.

And I think what's really critical to think about here is we have what we think is a very balanced and compelling return proposition already. So I think we're in a bit of a unique position. We obviously don't need to pay back debt, given our balance sheet. And maybe to pull it all together, I think when we when we look at our financial flexibility, there's a bit of an all of the above strategy in some respects. This would not preclude us from doing bolt-ons and adding acreage and those kinds of things if we saw it. We're in a very, very strong liquidity position right now.

Jordan Levy

Absolutely. Thanks for the colour. And just as a follow-on, if we could just get a little more colour on how we see production and CapEx cadence playing out through the remainder of the year? And knowing you don't have formal all-in 2020 guidance out completely yet, just how you see kind of momentum heading into next year, to the extent that you can talk about that?

Ian Dundas

Yeah. I mean, we'll give you a feel for that. As Jodi referenced, we'll see CapEx increase in the second quarter. That will almost exclusively be a function of pre-schemes to completion activity. I guess drilling picks up a tiny bit because we're going to be drilling a few wells in the DJ, but the Bakken program is consistent.

So CapEx will increase quite significantly, actually. That'll drive a sequential growth Q2 through Q3. So when we sort of think about the completion—the on-streams in North Dakota, which is really the big driver of the liquids growth, sort of 90 percent of them—maybe not quite that amount—come on in the midpoint of the year, Q2, Q3. So that gives you a feel for how that works.

Jordan Levy

Absolutely, and nice quarter. Thanks, guys.

Ian Dundas

Thank you very much.

Operator

Thank you. Your next question is from Travis Wood from National Bank of Canada. Please go ahead, Travis.

Travis Wood — National Bank Financial

Yeah. Good morning, all. Ian, could you walk through—I mean, this happens each kind of Q1 over Q4—could you remind us kind of the strategic development plan around slowing the activity through Q4 and the tie-ins and on-stream through into Q1 and, really, what's driving that decision on that kind of profile into each Q1?

Ian Dundas

Sure. Thanks for the question, Travis. I mean, we obviously knew the price of oil was going to fall to $42 in December, and so we deferred completion activity until the price came up again. No, it's a very good question. Thank you. There's a couple of drivers.

So if you go back to the 2018 budget process, we would have anticipated a bit of a slowdown, but not as much of a slowdown. Part of that was our drilling activity exceeded expectations. And so we had an ability to spend a bit more money. We would have sequenced it a little bit differently, but that was not what we thought was a prudent move in a marketplace where prices were collapsing around us. And so with the uncertainty in the macro environment and an unwillingness to spend more money, we really wanted to honour our commitments in the marketplace; that caused us to slow.

We also would have had a plan to potentially increase the pace of our onstream activity, running two frack crews at the beginning of January. Again, that did not make any sense to commit to that in December, in our opinion. So that was a key driver for this year.

I would say other strategic benefits, though. More activity would have meant more growth, and we are for focused on a total return proposition that sets up meaningful free cash flow. So when you layer that in the context of like a real sensible operating plan with pad drilling, it turns into some lumpiness. And everything being equal, we find it more efficient not to be doing a lot of activity in December, so that's sort of how that all comes together.

Travis Wood

Okay. Thank you for that colour. And then you mentioned a second frack crew as an option last year or earlier this year. Is that in the conversation today as we sit in a 60, $65 oil world?

Ian Dundas

So just step back a little bit. Two-rig program, one frack crew, that sort of lines up pretty well. Bringing another crew in, it's more optimization-oriented, those kinds of things. Relative to $65 oil, if your question is do we see wanting to spend more money there because of that, we don't think that makes any sense. We've tweaked our guidance, I guess, our capital guidance. It was a relatively big range when we started the year. That was designed to give flexibility on many fronts; a little bit on non-op activity, but also pricing as well. We wanted guidance that people could feel comfortable with over a relatively broad range of commodity outlooks.

Now we've sort of exceeded the high end of that, I don't see exceeding the high end of that guidance. Prices stay high, maybe we continue to spend towards the higher end of that capital guidance, but I do not see wanting to increase our guidance, notwithstanding the robust pricing we're dealing with today.

Travis Wood

Okay. Great. That's all. Thanks for taking my question.

Ian Dundas

Thank you.

Operator

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

Jamie Kubik — CIBC World Markets

Yeah. Good morning, guys. Thanks. So just out of curiosity, how much would you attribute the lower volumes in the Williston Basin to natural production declines on the quarter versus potential outages or wells that were offline?

Ian Dundas

We would talk about the Bakken declines being in the low 40s, and so a large percentage of it was natural decline. But it was a rough winter, and so we had downtime associated with weather. I would say, we often have rough winters, and we plan for those things. And so although we would have had more downtime in the winter than we would have now, much of it was planned for.

Jamie Kubik

Okay. Great. And then the OpEx increase during the quarter it looked like it was up in both business units, like Canada and the US. Would the $8 per BOE guidance be maintained? Or are you expecting both business units to see some deflation on costs, or mostly in the US, given that's your source of growth?

Ian Dundas

Jamie, honestly, if you looked at our budgets and our absolute dollar spend and compared to what happened, everything lined up really, really quite well. So it was largely just a volume BOE impact that you saw. So we're not pointing to inflationary effects or any of those things. It was just volume being down. And so as Jodi said, we're on track, and we're very comfortable with that $8 number. And volume's going to be the driver there.

Jamie Kubik

Okay. Great. That's it for me. Thanks.

Ian Dundas

Thanks, Jamie.

Operator

Thank you. Ladies and gentlemen, as a reminder should you have any questions, please press *, followed by 1.

And your next question is from Greg Pardy from RBC Capital Markets. Please go ahead.

Greg Pardy — RBC Capital Markets

Yeah. Thanks. Thanks. Good morning. Another good quarter. Ian, could you provide maybe a bit more framework around the execution of the buyback? Is your thinking that it will be opportunistic? Or is the game plan essentially to execute the full 16.7 million shares over the next year?

Ian Dundas

So we are not putting a formula out for people, even though I understand why some might want it. Today, we see what really appears to be compelling value to us. And you don't need, in our opinion, $60 oil to justify that value. So that would point to a lot of spending near term.

The qualifier there, as Jodi highlighted, is the free cash flow, the strong free cash flow comes towards the back end of the year. And so we're not going to absolutely max out over the next three weeks and push our debt up in the hopes that this happens. So we're trying to find a balance in that.

And I guess the best way we chose to—I mean, people can follow it monthly and they'll figure it out, right—but we chose to signal that through language that said the pace is going to pick up. So if you read our release carefully, you can surmise that we spent about $10 million in April, so 10 million Canadian in April and we're saying the pace is going to pick up from there.

Greg Pardy

Okay. Okay. That's helpful. And maybe just to return to the compelling valuation. I mean, just broadly, what do you think the market is missing in the Enerplus story? Because it always seems that we get to these quarters; typically, you'll meet or exceed expectations, and it's not unusual to have a positive guidance bump of some kind. The stock outperforms, and then we kind of go back to the old world a little bit. What do you think is missing … that the market is missing?

Ian Dundas

So I'm in danger of sounding a little whiny on this. I guess, our view, there's a couple things that have gone on.

First, if you look at Enerplus valuation for its peer group—and I would put US peers, Canadian peers, that whole mid-cap group—you look at how we have performed over the last two years, we've picked up two multiples on the group. That is a home run by most standards. Now we all know the reality of this market is those companies have underperformed, and the market is changing around us. So I think that relative performance has been really powerful, and I think it's lost in the conversation.

If you think about that group compared to the larger companies, there's another gap that sits there as well. So I think we've got a market dynamic that is the most significant thing at play. Our shareholders continue to do well on a relative basis. Sadly, in the last little bit, that's only been up a little. But there's not much that I think is outside of the market that's driving that. We're focused on continuing to do our thing. And now we've got a moment where we're generating a lot of free cash flow, and we'll be able to buy stock to reward shareholders that way.

Greg Pardy

Okay. Terrific. Last one for me is just what's the landscape right now in terms of in terms of A&D in the Williston Basin? And I guess just the broader area? I guess you've got the Elm Coulee stuff that's up for sale right now. But you see a lot of things coming to your desk in terms of what's for sale and so on; just interested in your perspective there.

Ian Dundas

So in my career, I know I have never seen a market like this, an A&D market like this, where it has been so high centred. And that is a North American-wide comment. We had a little bit of—well, not a little bit—we had a lot of activity in one basin in the Permian, Midland and Delaware, that sort of stopped almost a year ago. So everything has been, for all intents and purposes, high centres, no activity at all.

And there's a few reasons for that. Having a capital market—an equity capital market that has effectively been closed is high on that list. The commodity volatility's been important, and even debt capital markets open and close a little bit. So we've got a really, really weird dynamic, which sort of says you don't know what the market is. You just don't know what the market is.

If you have high-quality assets, you can always sell those for, I'll call it, depressed or on attractive prices. Poor quality assets are very, very difficult to deal with, and public M&A is almost non-existent.

We've got a couple—or I guess one very high-profile transaction the market, but a major buying a large, large independent is a different dynamic than what's playing out in the broader markets. So its high centred.

I think a lot of people are paying attention to it, and they see the possibility of compelling opportunity. And it will open up at a point. What that looks like and at what valuations, we don't know. And so that's the broad comment, and it's no different in the Williston. Lots of people would like to expand footprints in the Williston. You have great differentials. You've got quality oil. You've got running room, highly economic in the context of the current price. But nothing's trading. Nothing's trading.

Greg Pardy

Okay. Thanks very much for all that.

Ian Dundas

I just—I think stability will be the key. Stability's going to be the key. And then I would guess the market's going to open up on a very selective basis for certain companies, and it'll open up at certain levels. And the longer we keep printing cash, the more balance sheets strengthen, that can also be a catalyst for people.

Greg Pardy

Thanks, Ian.

Ian Dundas

Thanks, Greg.

Operator

Thank you. At this time, we have no further questions. You may proceed.

Ian Dundas

All right. Thank you, everyone. I know it's been a busy couple weeks. Thanks for your time, and have a great day.

Thank you. Bye.

Operator

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