LINN ENERGY – FINAL
FIRST QUARTER 2018 EARNINGS CALL SCRIPT
May 3, 2018 – 10 a.m. Central Time

Management Participants:

- Mark E. Ellis – President and Chief Executive Officer
- David B. Rottino – Executive Vice President and Chief Financial Officer
- Greg Harper – President and Chief Executive Officer of Blue Mountain Midstream
- Thomas Belsha – Vice President – Investor Relations and Corporate Development

MANAGEMENT DISCUSSION

Laura McDonald:

Good morning and welcome to LINN Energy's first quarter 2018 earnings conference call. Today's call is being recorded. At this time, I will turn the call over to Thomas Belsha, LINN Energy's Vice President of Investor Relations and Corporate Development, for opening remarks. Tom, please go ahead.

Thomas Belsha:

Thank you for joining our first quarter 2018 earnings conference call. In a moment, I will introduce Mark Ellis, 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 certain risk factors relating to our business, prospects and results are available in the Company's filings with the Securities and Exchange Commission, including LINN's Form 10-Q for the quarter ended March 31, 2018, 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 during the call; please see our earnings press release for the calculation of these measures and the GAAP reconciliations.

Additional information can be found on LINN Energy's website at www.linnenergy.com in the Investor section. I will now turn the call over to Mark Ellis, LINN's President and CEO.

Mark Ellis:

Introduction

Thanks Tom, and good morning. Joining us today are David Rottino, LINN's Executive Vice President and Chief Financial Officer and the President and Chief Executive Officer of Riviera Resources, and Greg Harper, the President and Chief Executive Officer of Blue Mountain Midstream.

Strategic

It is truly impressive to look back over the past year and see the tangible progress made toward increasing value for our shareholders. From over 20 separate divestures, we raised almost $2 billion at a significant premium to proved developed PV-10. This allowed us tremendous financial flexibility to pay off all our debt and return more than $600 million of capital to our shareholders. With our strategic divestment program now complete, we are moving to the next phase of our plan to unlock value as we separate into two public companies, Roan Resources and Riviera Resources. Today, I am pleased to share the details of our strong performance this quarter, provide an operational update for Roan and introduce the new leaders for Riviera and its subsidiary, Blue Mountain Midstream.

First Quarter Update

Turning to our first quarter performance, LINN delivered strong operational results as production, operating expenses and adjusted EBITDAX all outperformed the mid-point of our guidance. This marks the fifth consecutive quarter LINN has outperformed our operating guidance. On the M&A front, we closed on several key transactions during the quarter, including the sale of our west Texas Conventional, Oklahoma Waterfloods and Texas Panhandle assets for combined net proceeds of approximately $224 million. On April 4, we also closed on the sale of Altamont Bluebell for net proceeds of approximately $127 million and during the quarter, we returned capital to our shareholders through a successful $325 million tender offer. We also elected to retain the previously marketed Drunkards Wash properties in Utah and those assets will become part of Riviera Resources. Our 2018 capital budget has been increased to $160 million, primarily driven by a $24 million increase at Blue Mountain Midstream to recognize the additional capital needed for incremental gathering and pipeline interconnects.

Roan Resources Update

Let me now provide you with a brief update on Roan Resources. Roan is performing well under its new leadership and in January took over field operations. During the first quarter, Roan operated six drilling rigs in the Merge and drilled 13 operated wells. Completion activity slowed from the fourth quarter 2017 pace while awaiting the start of Blue Mountain's Chisholm Trail cryogenic plant. Net production averaged approximately 38,000 barrels of oil equivalent per day and Roan ended the quarter with 11 drilled but uncompleted wells. Roan expects the inventory of drilled but uncompleted wells to increase until processing capacity is expanded. Once the new plant is commissioned at the end of second quarter, Roan will fully resume completion activity to work down its inventory and expects significant growth in the second half of 2018.

Roan was successful in reducing drilling times and improving geo-steering efforts during the quarter. An example of this includes the one-mile Orange Sherbet well, which was drilled spud-to-TD in approximately 11 days, an improvement of seven days compared to its closest offset. Geo-steering improved Roan's in-zone ratio to approximately 95% during the quarter.

Roan had impressive results in the quarter and highlights two of its pads in Grady County. Two of the wells on the Collins pad had average 90-day rates of 2,515 barrels of oil equivalent and 76 percent liquids from two-mile laterals. Two of the wells on the Griffin pad had average 90-day rates of 1,730 barrels of oil equivalent and 74 percent liquids from one and a half mile laterals. These four wells all targeted the Mississippian formation.

Separation and Transition

As highlighted by our many achievements this quarter, we have made tremendous progress on executing our strategic plan to increase shareholder value. We believe our shares are still trading at a significant discount and are in progress to execute our separation plan this summer to unlock this value. The separation will give our shareholders focused exposure to two unique companies: Roan Resources, a pure play high growth company focused in the prolific Merge/SCOOP/STACK play, and Riviera Resources, a diverse long life company with a strategic focus on developing its growth oriented assets and returning capital to shareholders.

Following the separation, LINN Energy, currently trading under the ticker LNGG, will solely serve as a holding company for its 50 percent equity interest in Roan. The Company has executed a term sheet with Roan Holdings, LLC (the successor to Citizen Energy II, LLC) which is expected to result in the combination of LNGG's 50 percent equity interest with Roan Holdings' 50 percent equity interest. This will allow for the consolidation of 100 percent of the equity in Roan under LNGG, subject to due diligence and execution of definitive documentation. We anticipate this to occur during the third quarter of this year. Roan Resources is preparing to up list to the NYSE or NASDAQ during 2018 under the ticker ROAN.

I will now turn the call over to David for his LINN financial update and discussion on his vision for Riviera Resources.

David Rottino

Financial Results

First quarter 2018 results

Thanks Mark. For the first quarter of 2018, daily production averaged approximately 401 million cubic feet equivalent per day, compared to 750 million cubic feet equivalent per day for the first quarter of 2017. The total oil, natural gas and NGL revenues were approximately $137 million, compared to $269 million for the first quarter of 2017. The decrease in production and revenue was primarily due to the impact of asset sales and the separation of Roan Resources.

Total operating costs for the first quarter of 2018 were approximately $75 million, compared to $136 million for the first quarter of 2017. The decrease was primarily due to reduced labor costs for field operations as a result of cost savings initiatives, the separation of Roan Resources and the divestitures completed in 2017 and 2018.

We reported net income of approximately $71 million for the first quarter of 2018, compared to $2.4 billion for first quarter of 2017. The decrease is primarily due to gains associated with the Company's financial reorganization in the first quarter of 2017.

Balance Sheet and Liquidity

Moving on to balance sheet and liquidity, we ended the first quarter with $227 million of cash on our balance sheet, which is less than the $405 million we had forecasted. This is a result of having forecasted the closing of our Altamont Bluebell transaction in the first quarter but the actual closing did not occur until April 4 and escrow funds of $12 million on our west Texas conventional transaction were not received until after the quarter end. In addition, we did not forecast additional share repurchases which were $62 million from the time we issued guidance and the end of the first quarter. Adjusted EBITDAX for the quarter was approximately $1 million higher than forecast so the performance of the business was as we had forecasted. With the closing of the remaining transactions, we now forecast ending the second quarter with cash of approximately $330 million.

At quarter end, we had no borrowings outstanding under our $390 million revolving credit facility and there is approximately $343 million available borrowing capacity including outstanding letters of credit. Subsequent to the quarter-end, the borrowing base was increased to $425 million.

Share Repurchases

As of April 23, 2018, the Company has repurchased approximately 14.6 million shares and restricted stock units settled in cash at an average price of $41.55 per share. The total repurchases have been approximately $624 million through a combination of its share repurchase program, tender offer and the employee liquidity program including retiring a proportionate number of Class A-2 profits interest shares. The Company still has $161 million under its $400 million repurchase authorization and at current share price, we continue to believe that these repurchases are an attractive way to return capital to shareholders.

Hedging Update

On the hedging front, in 2018 we have hedged approximately 191 million a day of natural gas at an average price of $3.02 per MMBtu and 1,500 barrels of oil per day at an average price $54.07. In connection with closing of the Altamont Bluebell sale in early April, the Company unwound all 2018 and 2019 oil collars at a cost of approximately $20 million. We will continue to monitor the market and add hedges as we feel appropriate.

2018 Guidance

Looking ahead, we have provided updated guidance for the second quarter as well as full-year 2018. This forward-looking guidance takes into consideration all of the closed transactions and excludes LINN's 50% equity interest in Roan. The adjusted EBITDAX projection for the full year 2018 includes an estimated range of G&A costs of $108 - $119 million. This includes $35 million of estimated severance expenses plus costs associated with managing assets divested during the year, associated internal costs with selling assets, transition services required under PSA agreements as well as costs associated with the spin transaction.

In the first quarter, we incurred approximately $4 million of severance expense. We expect to incur an additional $13 million in the second quarter with the remainder being incurred over the final two quarters. Again, we expect to incur total severance expense of approximately $35 million this year. We believe this reduction in work force will allow Riviera to streamline its operations and allow the cost structure to better fit the remaining assets in the Company. The estimated 2019 upstream G&A run rate will be between $25 and $30 million per year. This estimate does not include the G&A associated with Blue Mountain midstream. We plan to give further guidance on expected midstream G&A on our second quarter call once Greg has had a chance to build out his new organization.

We have added a slide to our supplemental material published on our website that adjusts the current year EBITDAX forecast to remove the impact of assets sold during the year, severance expense, plant level cash flow from Blue Mountain plant and related gathering system and other forecasted G&A savings. This should give investors a view into 2019 adjusted EBITDAX for the Riviera upstream assets. We continue to guide investors toward a forecasted Blue Mountain midstream adjusted EBITDA forecast when the plant is full of between $100 million to $125 million. We have been very pleased with the results we are seeing from upstream operators that process volumes through our plant. The fourth quarter expected production through the plant is higher than our initial forecast largely as a result of updated Roan production projections. We have added a slide to the supplemental presentation on our website that gives projections of expected plant and gathering system volumes and cash flow for 2018.

Riviera Resources

After the separation of Riviera Resources from LINN Energy, we are looking forward to a new beginning at Riviera Resources as we continue our mission to enhance value for our shareholders. Our focus at Riviera will be on the development of our growth-oriented assets and returning capital to our shareholders. Our unlevered, high quality producing assets include sizable positions in Hugoton and Michigan, more than 100,000 net acres in the prospective NW STACK play of Oklahoma with additional horizontal potential in East Texas, North Louisiana and Arkoma.

We are encouraged that the non-operated horizontal development has significantly increased in the NW STACK where we plan to commit additional non-operated capital and are looking at the potential of deploying an operated rig later this year. Building on our successful 2017 East Texas drilling program, we are conducting an in-depth resource assessment that incorporates recently acquired 3-D seismic data and we plan to resume drilling in 2019.

We believe Riviera is well positioned going forward with an unlevered capital structure, low decline mature assets that generate significant free cash flow coupled with intriguing potential growth opportunities.

Riviera will also include a high growth midstream business and I will now turn the call over to Greg Harper for an update on our subsidiary Blue Mountain Midstream.

Greg Harper:

Thanks, David. While having been on the job for only one month, I can already say that it is really exciting to have the opportunity to join David and step into such a unique and transformational time for both Riviera and Blue Mountain.

With the Blue Mountain's assets located in the core of the rapidly growing Merge play and anchored with significant producer dedications, my team is provided a formidable foundation from which to execute our high growth strategy. As Mark mentioned, we are on schedule to commission the state-of-the-art, highly efficient cryogenic plant by the end of the second quarter which will provide the key catalyst for the expansion of the midstream business.

As a matter of fact, I was able to tour the facilities and was very impressed, not only with the new plant but also with our engineering and operations personnel that are working long days, seven days a week to ensure our schedule is met.

On that point, and in addition to the plant construction during the first quarter of 2018, the Blue Mountain team constructed 43 miles of pipeline and completed several major off-take connections, ending the quarter operating approximately 90 miles of pipeline.

At the end of the quarter, the existing gathering, compression and refrigeration system averaged daily throughput of approximately 60 million cubic feet per day from 59 total wells tied into the system. Blue Mountain Midstream also recently contracted 20 million cubic feet per day of firm capacity on Enable, bringing the total firm take-away capacity to 65 million cubic feet per day. In addition, we were granted FERC approval to construct a limited jurisdictional 7C Blue Mountain Delivery Line that will have the capacity to deliver 150 million cubic feet per day into each of two downstream pipelines.

Once at full capacity, the Chisholm Trail plant and its related gathering is forecasted to generate annualized EBITDA between $100 million and $125 million dollars. With significant growth forecasted from Roan in the second half of 2018, Blue Mountain estimates plant throughput exiting 2018 of 150 million cubic feet per day to 200 million cubic feet per day and expects to reach full capacity in 2019.

With the forecasted growth from its dedicated acreage position of more than 80,000 net acres, Blue Mountain is currently evaluating an additional cryogenic plant and continues to pursue additional producer dedications in and around our well-established footprint.

I'd like to reinforce what a great opportunity this is and that my team and I look forward to building the customer relationships, growing the assets, and extending market access that will further differentiate our value proposition to our shareholders. Thank you and I will now turn the call back over to Mark Ellis for his closing remarks.

Mark Ellis:
Thanks, Greg.

In closing, I want to thank the entire LINN organization for the hard work over the past year in developing and executing on our strategic plan. We have created significant value to our LINN stakeholders and I think the company is well positioned to continue creating value in the future. I am extremely supportive of the new leadership teams named to run Roan, Riviera and Blue Mountain and wish them all success in the future. This concludes our prepared remarks for today and I will turn the call back over to the operator.

Operator:
Thank you for joining the first quarter 2018 LINN Energy conference call. We will now open the line for questions.