Speaker 1: Our next presenter is California Resources Corporation. Presenting for the company is Todd Stevens, CRC's CEO.

Todd Stevens: Thanks. We're pleased to be back here at Howard Weil and share a little bit about our company and talk about what we do in California, which doesn't seem like the same oil province that a lot of you are accustomed to. I'd like to start on this slide. Everything we've done at CRC since the spin in late 2014 ... As most of you are aware of when we were spun off with the debt for a much higher oil price environment and a collapsing price environment quickly after OPEC decided to do nothing. But this is the basic premise of how we allocate, how we align our company, how we focus both our financial and human capital at the organization. And VCI is that metric. It helps us determine what we should be doing as a company, where we should investing our dollars and our people's time. So I think it's important to really start here, because this is how we think of every decision at the company. How are we going to add value for our shareholders? And it's really something that aligns us and keeps us focused.

Todd Stevens: And how do we do that? I mean, it starts with, I talked about financial and human capital, but I think that's important, because you have to think about your portfolio of assets. And in California, we're the largest oil and gas producer in the state. And we don't just have a few leases and pumping units, we have an actual business with the infrastructure and everything associated with that, going down almost to the burner tip in some cases. So for us, it's really capturing the value of that portfolio, competing for capital, and allocating those resources accordingly. For us, that starts with how the people, how they're utilized, how they're allocated around the company, how we're organized. We changed our organization, and how what we did coming out of the downturn and early 2018 and pushed down responsibility into the organization to make more decisions and P&L responsibility closer to the wellhead.

Todd Stevens: And then it's important to understand how the VCI metric works and why margin and margin expansion is so important and drive that operational excellence up and down the organization with our one CRC culture, focusing on what's best for the company, not what's best for one individual asset. And at the end of the day, all this with the backdrop of strengthening the balance sheet. For us, we understand day one, our issue, we knew we had great assets, we knew we had great people, but we also knew we had the millstone of a challenged balance sheet given to us at the spin. And so that's something that always goes in the back of our minds as we think about going into the next few years with CRC.

Todd Stevens: And this just gives you a feel, again, our track record, what happened at the announcement of the separation from the spin off and what we've done to actively manage the business. We're fortunate to have a high level of operating flexibility, where we operate essentially every field but one, so we can cut rigs and go back from an enormous amount of rigs, when right before the spin about 27, down to four down to zero. And we're committed to living within cashflow from day one. It's not just something that's fashionable for us to say. We said this in 2014. We're willing to do that. But you'll see why it was important for us to do some of the other things we did, because of that commitment to living within cashflow, and focus on value and value creation for our shareholders.

Todd Stevens: The purpose of this slide is just to give you a snapshot of the fourth quarter, but what I really wanted to point to you is in the right hand side of this chart, where it talks about 314 million of EBITDAX. But the number below that's more important. That's 352 million of EBITDAX that's adjusted for our hedges. We had some hedges in 2017 and 2018 where we sold calls to pay for puts during the downturn in 2016. So even though prices for Brent averaged $66 in the fourth quarter, we achieved $60. If we had achieved the full $66, which we will have puts and put spreads, so effectively floors going forward on our production, our EBITDAX on an annualized basis would have been in excess of $1.4 billion. If you think about that, $66 Brent, it's a little bit lower than today's price, we have an EBITDAX of well in excess of $1.4 billion.

Todd Stevens: This is what I want to point to you when we talk about California. Most people don't think about California as an oil and gas province, but here is remaining resources recoverable reserves, and I'll focus you on the green, because that's where more money's in the green than the red on this chart. And you can see, obviously everyone knows about the Permian. It's talked about and well-discovered and well-delineated at this point in time. But I think it surprises most people to see California jump up on this chart, and the reason is, it's a long story, and if you've been around our story you'd understand. But California historically had been controlled by the super majors, and it still to this day is fairly tightly controlled in only a few hands.

Todd Stevens: The amount of technology, I know it's hard to believe, that's been brought to bear and some of the modern production techniques really haven't been brought to bear in California like they have elsewhere in the world. I think it's important to understand the amount of stacked pay in California, because that's something, it's very similar to the Permian Basin.

Todd Stevens: This gives you a snapshot of the state. The four major producing basins, we're obviously a significant producer, the largest oil and gas producer in the state. You see every type of drive mechanism in the state, which I think is rather unique, when you look at some people are just focused on shale or CO2 and those kind of things. In California you're going to see every type of hydrocarbon produced. You're going to see every type of drive mechanism. You're going to see interesting things. But it all goes back to, because it is the Permian Basin with tectonics, to make it something everyone can understand. It's a huge amount of depositional pay. We produce from 400 different horizons in the State of California, to give you an idea.

Todd Stevens: So it's a lot of different producing, but it also gives you tremendous optionality up and down the well bore. This just gives you a feel for our current proved reserves, 712 million barrels proved, and that we operate about 12,000 wells, and we have about 25,000 locations. We're well over 130 fields, and again, only one of those we don't operate. In the state we have 2.3 net million acres.

Todd Stevens: This just gives you a feel for why you do a spin. Again, you can go ask Vicki her perspective, but from what I understood and why we did it, it was really to focus, focus, focus on assets that really mattered to the Oxy shareholders and to ourselves. And this gives you a feel for it. When you look at the total resource at the spin, and again, this was in a $90+ oil price environment for Brent, and to today. Reserves have gone down 7% since that time, but prices have declined 29%, and the absolute level of resource, of proved, probable and possible reserves, have gone up over 250%. Again, attention to detail, focus, and focus on the assets and try to bring forward all the opportunity set that is there and the value to bring forward that's there.

Todd Stevens: Why would you do that? This is part of our planning process. This is a chart that shows our inventory, and what jumps out at you here is enormous amount of inventory. And I can do a little ruler math for you and see, if you look at the development CapEx down on the bottom against the total resource, it's sort of 10 to 1, so $10 F&D. This is projects that are fully burdened, field-level G&A, and they already have a 1.3 VCI or greater at $65 Brent. These are projects that are actionable today, that we can act upon, but what does this really mean when you think about it? All the different colors here are different drive mechanisms. What it really tells you is you have a lot of inventory, we have a challenged balance sheet, and we're committed to living within cashflow, so it really tells you about the importance of joint ventures for us.

Todd Stevens: From day one, we went looking to bring joint ventures, and there are three really important components of the joint ventures, not just the ones you might think of in the top of your head. We are inventory rich, but what does it help you do? It helps you de-risk acreage, so you can do things that are out in the future that you wouldn't have otherwise got to for five, seven, 10 years. It helps to tell you if there's an opportunity there, and drill that well. It also helps you manage your cashflow. As you can see in this chart, in the downturn that occurred in 2017, where prices got a little tough there for a little while, we were able to direct activity to the joint ventures. So the joint ventures enabled us to keep the activity constant and not allow for the same kind of degradation that might occur if you're dropping rigs, dropping workover rigs, and those type of things. Keep the activity constant, keep it going forward.

Todd Stevens: Managing that cashflow is critical. And most importantly, it helps us bring value forward for our shareholders. We have a very long-lived reserve base, well in excess of 14 years. So low capital intensity, low natural decline rate, so for us it's very important to try to bring those reserves and that value forward. These joint ventures really help us do that.

Todd Stevens: This gives you a snapshot of how we think about allocating capital during the commodity cycle. I don't think we've been in the high price scenario, except right before the spin, but other than that, we've been able to manage through the downturn. Again, we did what we felt was in the best interests of our shareholders along the way. We looked to preserve and protect value. Now we're back into the scenario where we look to be a little more modest with our capital, being cautious given what happened at year-end 2018 and Christmas Eve. I think it is fresh in everyone's mind. We'll take a tack that's probably slightly above the low price scenario on this, and be very conservative going into the year, in deference to try and pay down debt, because I think it's really the backdrop for us that's important to execute on going forward, to unlock the equity value that's in CRC.

Todd Stevens: Everyone looks at and says, "Oh my God, you have 137 fields. How do I model that?" We're not a shale math, where you can't just say, "What's your EUR? How many wells?" and do that. So for us, we like to look at it on kind of a portfolio basis, because I think it's important to understand, the oil-to-gas price ratio is important. It goes a lot to our steamfloods and lot of our assets that require, effectively, electricity that's generated through natural gas. What we look at here, it gives you a portfolio of $10 million invested in one of these opportunities, giving you a little bit higher oil and gas ratio, a moderate, and then a scenario where the oil and gas ratio is more like the early 2000s.

Todd Stevens: But you can kind of see, given our portfolio, we can have the type of opportunity that it pays great benefits for us as a company and gives you the kind of opportunity set to create value for your shareholders. To give you an idea about our gas inventory, within five years we could shift to majority gas production if the gas prices changed in that dramatic a fashion, like they used to be when they reversed.

Todd Stevens: I think this is an important component to understand about what's going on in California. California is an energy island, so its price realizations are truly unique. We get paid off of Brent, because California imports, by our calculations, about 74% of its crude last year, about 10% from Alaska, and the balance is from foreign sources like Saudi Arabia and Iraq. You can see our realizations. We've averaged between 95 and 100%. Our Elk Hills crude typically gets over 100% of Brent. That's the easy one to understand, because you're competing against a marginal water-borne barrel.

Todd Stevens: I think the other one's a little more difficult, and we'll talk about it. Gas prices used to be very Steady Eddie. It's 90% of the natural gas is imported into the state. You used to pay transportation costs from Canada or the Rocky Mountains, and that was your differential. But what happened, when Aliso Canyon, the large natural gas storage field in Los Angeles, when it went down, it now is less in usage, it's created incredible volatility in the gas market in California. So you see price spikes, where the Border price might be $3, and Citygate might be $20. We're uniquely positioned as a company with our infrastructure and our business to capitalize on those few days a year when it's really hot or really cold. When I say cold, I mean California cold, so it's 50 degrees. This is the type of opportunities that I think exist in the gas side, and understanding the business out there.

Todd Stevens: NGL is a little different. One thing to know there is, propane pricing we get is typically at least twice Mont Belvieu. Everything else, we get a premium to Mont Belvieu. The one that's pretty steady is propane, and most of that propane goes to Mexico, and a little bit to Canada. Most of the rest of the liquids are used in the refining complex in California, in the Bay Area and the Los Angeles area.

Todd Stevens: When you think about California, this gives you a perspective. On the far left, the top three producers, ourselves, Chevron, Aera. Aera is a joint venture between Shell and Exxon. Just to give you an idea about that, that's over 75% of the production of the state. Goes back to what I was weaving in earlier. Why hasn't the kind of development gone into the state? Well, you just haven't encouraged the small entrepreneurial companies to show up, because there's been such tight-fisted control of the acreage and the production for so long. And you can kind of get a feel for that in the majority of the production being shallow. Again, most folks, particularly the super majors, are focused on the shallow heavy oil, where you can get 70, 75% recovery factors in the state, and it's been something that's fairly easy operationally with steam floods.

Todd Stevens: These kind of things are important to understand as you look to unlock the state. And there's basins like the Ventura Basin that had its first 3D seismic shot in 2013. That's the birthplace of the oil and gas industry in the state. So this is something we think is a real opportunity, and a real opportunity for us, not just on areal and vertical extent of existing fields in development, but also in exploration. We'll talk a little bit more about that in a second.

Todd Stevens: I'd be remiss to talk about CRC if I didn't talk about Elk Hills. It's our flagship asset. It's approximately 50% of our production and reserves. We own 100% of it fee simple. Early 2018, we bought 22% from Chevron that we didn't own, and it's been a great opportunity for us for multiple reasons. Mainly because of the complicated nature of our relationship with Chevron, we've been able to achieve incredible synergies. To give you an idea, both revenue and cost synergies, we've already executed on $34 million of annualized synergies for our company. And to give you an idea, the incremental cost of integrating the Chevron interest was about $48 million a year. My goal personally is to get us to where we got that for free from an operating cost perspective.

Todd Stevens: But why is it so important? It's really important because Elk Hills is this hub of not just infrastructure, but also numerous producing horizons. If it was in the Permian Basin, it would be called five different fields. So I think when you look at it here, it's an integrated business. It has a power plant. It has the most sophisticated natural gas processing plant west of the Rocky Mountains. And it plays an important role as we look to tie in adjacent fields. When you look at the Southern San Joaquin Valley, there's some important fields here, names you might recognize. Just south of Elk Hills, you have Buena Vista, Midway-Sunset, and some fields down here.

Todd Stevens: But when you look down here, you get a feel that most of this area we control with fee acreage. And what's nice about this is Elk Hills has a real cost advantage, from both a processing, a compression, and a power perspective. As we slowly tie in these fields, we had a case study at a prior Analyst Day about Buena Vista. We brought the operating cost down at Buena Vista by tying it back into Elk Hills, down from over $30 a barrel to approximately $10 a barrel. So for us, this is important as we look to extend our activity and build this hub and spoke area in the Southern San Joaquin Basin. This is particularly important to us, as I show you in the next slide. These fields in the Southern San Joaquin are fields that have very low recovery factors. In some cases, I think people were just dead wrong about the original oil in place.

Todd Stevens: You look at Yowlumne, we recently have almost doubled production there, and in Paloma, we were thinking about abandoning that field. It had over a billion barrels of oil in it, original oil in place. It was producing 30 barrels a day, limping along. We were going to basically abandon the field, when we really went back and did the work and focused on the effort and the resource, and realized there's a real opportunity for us to grow the enterprise and grow the resource here in the Southern San Joaquin. Some of this has been done through exploration. Some of it just good hard work as we work the development of the areal and vertical extent of these fields. All these fields will ultimately be fed back into the activity set at Elk Hills, with a lower cost of production and power.

Todd Stevens: I talked about exploration, but I think that's something that's always lost on people when you think about CRC. We do have real exploration, and I'm not talking about two step-outs from a PUD location. This is like real wildcatting. We've been very successful, have an exceptional track record. When you look at all-in costs in California, in our exploration program we have achieved over a 1.5 VCI. First thing that went in the downturn, though, was exploration budget. It's the easy one to cut. But this has all been done, mostly with other people's money. Very modest investment on our part through the years, but other people's money has been critical, with numerous smaller joint ventures. And we had a very successful program. We continue to look at creating real value per share. We think we've created almost $4 of value per share.

Todd Stevens: If you want to think about what exploration success we've had, Gunslinger, back in the early 2010-2011, but also the Buena Vista Nose, which is adjacent to Buena Vista, is one that we're currently delineating further. It could 100 million plus barrel discovery ultimately.

Todd Stevens: All this in the backdrop. Again, I mentioned at the beginning. Balance sheet is important to us. We understand that. We understand job one for us is getting that under control. We continue to focus on this. We understand there's not one magic bullet for us. It's an all of the above approach. We had a very simple balance sheet at the spin. We knowingly complicated it to create value for our shareholders. Now there's an opportunity to create value through simplifying it. We look to monetize assets when we can, to bring in the debt and buy it in at a discount if we can, but also look at any other way to do so. The joint ventures are very important to us also, as they revert. We think all the joint ventures will ultimately revert in advance of our 2021 maturities. So I think as you look at these, we really have a criteria to get us there. Again, it's not going to be overnight like someone might like, but we've been driven and disciplined to get this accomplished since day one.

Todd Stevens: We had peak post-spin debt of $6.7 billion. We have about $5.3 billion now. We're continuing to work on that. And I think the important thing to understand is how we allocate our capital. We talked about this in the beginning. Very important. The capital allocation, you compete for internal capital, JV capital. If you don't, we're going to look to figure out a way to monetize you and create value for our shareholders, not just sit on our hands with respect to those assets.

Todd Stevens: This just gives you a real feel about how we're starting to get recognized and some of the proactive things we've done. We did some interest rate hedging, well in advance of where interest rates started climbing up. We recently got upgraded on our Second Lien Notes from S&P, but again, we continue to repurchase debt at a discount whenever available and increase value to our shareholders.

Todd Stevens: This gives a snapshot of our 2019 capital program. The pie chart is going to be very similar to other years, you know, 15% plus or minus of facilities, 15, 20% to workovers. But I will tell you the one thing we have going into this year, we're taking a conservative approach. Our idea is to keep production flat year over year, and we're budgeting $60 going into the year. We'll be supplemented with JV activity. The JV capital will enable us to keep activity fairly constant. We're in active negotiations on some more JVs, larger ones of scale. I think at least one of them will get across the finish line. It enables us to keep that activity set going and look to bring value forward for our shareholders.

Todd Stevens: We talk about our capital program. Obviously, if prices continue where they are, we'll probably be closer to 385 than to 300, but we went into the year being very cautious and looking to build momentum, but just keep us flat as we look to bring down the absolute level of debt of the company.

Todd Stevens: If you go back to what I talked about earlier, at $66 Brent, our fourth quarter EBITDAX would have been over 1.4 billion. We have about $400 million of fixed charges, so you have a billion dollars you can invest in capital or do something with, hopefully pay down debt. So it gives you a little bit of scale there in understanding what we're talking about.

Todd Stevens: I have to show this. I'm obligated. We're heavily discounted. We understand why. One of our board members, Bob Sinnott, very sophisticated financially, tells me this doesn't work for him, because you're not using the right discount rate. But however you look at it, we're discounted heavily relative to our peers, with arguably better assets. We have a business, we don't just have a bunch of leases and producing assets that tie into something else. But we understand that taking that millstone of the debt and chipping away at it, that's job one for us in order to continue to do that. And ultimately, that debt reduction will accrue to our equity holders.

Todd Stevens: Again, when you think about it, California, I know you don't think about oil. You think about a lot of other things involving Hollywood, but you have to step back and think about it. Fifth largest economy in the world. Fifth largest economy in the world, that has a chronic energy shortage. 74% of its oil is imported. 90% of its natural gas is imported. A third of its electricity is imported. So when you have this type of opportunity, and Brent pricing, and an oil province that's been overlooked for some time, I think it’s an excellent opportunity to create real value for our shareholders, and I thank you for your time today.