Thank you for joining us by telephone and online for SM Energy Company's First Quarter 2018 Financial and Operating Results Discussion.

Before we start, I would like to advise you that we will be making forward-looking statements during this call about our plans, expectations, and assumptions regarding our future performance. These statements involve risks that may cause our actual results to differ materially from the results expressed or implied in our forward-looking statements. For a discussion of these risks you should refer to the cautionary information about forward-looking statements in our press release from yesterday afternoon, the presentation posted to our website for this call, the risk factor section of our Form 10-K that was filed earlier this year, and our Form 10-Q filed for this quarter.

We will also discuss certain non-GAAP financial measures that we believe are useful in evaluating our performance. Reconciliation of those measures to the most directly comparable GAAP measures and other information about these non-GAAP metrics are described in our press release for this call.

Company officials on the call are Jay Ottoson, President and Chief Executive Officer; Wade Pursell, Executive Vice President and Chief Financial Officer; Herb Vogel, Executive Vice President, Operations; and Jennifer Samuels, Vice President, Investor Relations.

I now turn the call over to Jay.

Jay Ottoson, President & Chief Executive Officer

Thank you, David. Good afternoon to all of you and thank you for joining us.
3.3 times at quarter end and should be below 3 times by the end of 2018. The other comment I will make is that we will be considering reducing absolute debt levels once all of the divestitures have closed.

Moving to slide seven, hedging, we continue to remain well hedged and we are among the best hedged companies to the Permian basis differential, where we have 70% of Permian oil hedged to basis through year end. We have recently layered on additional 2019 hedges, including Permian basis swaps, oil collars, and natural gas collars. We are now roughly 40% hedged for 2019 with roughly one-third of Permian production hedged to basis. All the detail is in the slide deck appendix.

With respect to guidance on slide eight, I will reiterate a few points provided last month to calibrate your models. Production guidance for the full year was slightly modified to adjust for the asset sales plus the benefit of the first quarter exceeding expectations. We revised the full year range to 40.9 to 44.9 million BOE, or 112,000 BOE per day to 123,000 BOE per day. At the mid-point, this implies significant production growth of around 22% for retained assets in the second half of 2018 over the first half of 2018. Full year total capital spend guidance is unchanged at $1.27 billion, which assumes 55% to 60% of capital spend in the first half, consistent with the original plan as we have a higher proportion of drilling and completion activity in the first half, which in turn supports the production growth in the back half of the year.

In short, we’re very pleased with first quarter results. We beat expectations for production, operating costs, operating margin, EBITDAX, and cash flow per share, due primarily to well performance with some help from the macro, and this positions us well to meet our cash flow growth targets for the year.

Now let’s turn the call over to Herb Vogel to discuss operations.

Herb Vogel, Executive Vice President, Operations

Thanks, Wade.

I will echo Jay’s remarks that it was an excellent first quarter. Operationally, results continued to highlight outstanding rock quality and excellent planning and operational execution by our employees and service industry partners. The first quarter sets the foundation for meeting our production growth, margin growth, and therefore cash flow growth objectives. Importantly, we are performing on track or better in executing our plan.

Let’s review first quarter achievements, starting with the RockStar well results shown in slide nine. During the quarter, 19 wells reached their peak 30-day IP rates, all shown in the slide. Results were outstanding. The 30-day peak IP average of all 19 wells was 1,440 BOE per day per well and this included wells drilled in three intervals, Wolfcamp A and B and Lower Spraberry. As shown on the map in the slide, these new completions were spread across much of our acreage position.

Note that all of these new wells were either fully or half-bounded by wells within the same interval or an interval above or below. All of the Wolfcamp A and Lower Spraberry wells on the Guitar North, Lumbergh, Berlinda Ann, and Whitaker pads were spaced at 420 feet between wells within the same interval, equivalent to 12 wells per section. Wolfcamp B wells were located to enable 660-foot spacing, equivalent to eight wells per section between wells in the same interval; however, they are closer in plan view to the Wolfcamp A wells stratigraphically above than they are to each other. We really like the production performance in the Berlinda Ann-Whitaker area and, as a result, recently acquired about 760 acres directly to the north.

Moving farther east, take a look at the Fezzik wells, which are spaced 660 feet apart. A year ago there was quite a bit of skepticism about this portion of our acreage. The Fezzik wells are producing well above expectations and they are located about one mile east of Sabalo's Thumper well. These wells are great examples of our success in confirming the economics of wells drilled in the RockStar area within our geologic sweet-spot contours and adding economic inventory.

Moving south to the Wiley Bob wells, these are somewhat unique. Because of the leasehold geometry and previous drilling of the Venkman wells, one of the Wiley Bob wells has a 7,700 foot lateral while the other has a 10,400 foot lateral. These are also spaced at 660 feet, equivalent to eight wells per section.

Slide 10 shows how these 19 new wells are doing on average relative to the average of our previous RockStar wells. As you can see, we continue to see exceptional performance, especially compared to the peer one million barrel equivalent type curve that serves as a frame of reference, even with the generally tighter spacing employed in these wells, which we optimized from testing at Sweetie Peck over the past two years. Speaking of the Sweetie Peck area, during the first quarter we completed four wells, two net wells, on some of our nearby drill-toearn acreage. Two are in the Wolfcamp B and two are in the Lower Spraberry. These are very good wells averaging 1,390 BOE per day IP 30-day rates with 86% oil. Laterals were 9,600 to 9, 800 feet.
Next, let me give you a brief status update on our operational activity, turning to slide 11. We have nine super-spec rigs operating in the Midland Basin including eight at RockStar and one at Sweetie Peck. One of the RockStar rigs is currently drilling water disposal wells. Per the original plan, one rig will be dropped in May. We are currently running five frac fleets and, thanks to excellent planning, logistics and execution, our frac fleets are running at a record pace in terms of stages pumped per day. As a result, we will likely drop one frac spread in May and will still complete our planned program for the year. We plan to complete 36 net wells in the Midland Basin during the second quarter, most of which, as previously reported, will be brought on-line late in the quarter and will not contribute materially to production until the third quarter.

We have talked previously about the importance of co-development to maximize the value of our acreage. Looking ahead, you can watch for us to expand the scope of our co-development in some areas to encompass three intervals—Lower Spraberry, Wolfcamp A and B. This results in large neighboring pad developments that are simultaneously drilled by multiple rigs, then simultaneously fracture stimulated by multiple frac spreads, and then brought into production in rapid succession. This means that some months will have very few new wells while activity is dedicated to this co-development, while other months will bring on multiple pads. Clearly, this will lead to lumpy production quarter to quarter; however, we fully expect co-development in this manner will maximize capital efficiency, drilling inventory, and recovery efficiency.

Now let’s turn to slide 12 and the Eagle Ford. Here we are concentrating on enhancing the value of our future drilling inventory and undeveloped leasehold in three ways. First, we are up-spacing and extending laterals on our Eagle Ford development wells to increase returns. We have seen positive value impacts from some of our own data and from offset operators who have up-spaced. Spacing in the Eagle Ford has changed from where we were a few years ago when we drilled as tight as 225 foot spacing or 450 feet within each zone while co-developing the Upper and Lower Eagle Ford. Our 2018 program includes wells spaced at a minimum of 625 feet in the Lower Eagle Ford and 625 to 2,500 feet in the Upper Eagle Ford. Second, we are assessing additional intervals that would significantly increase our future inventory. And third, we are incrementally improving our completion designs.

On this last point, we are really pleased with our first ever permanent fiber optic installation, which was recently installed in the Eagle Ford JV area. Not only has this already informed us about specifics of the fracture stimulation process, it will tell us during flow-back how completion design changes have influenced stage-by-stage production performance. The direct benefit to capital efficiency is the ability to see where production gains are realized from incremental CapEx deployed on completion design improvements. Operationally in the Eagle Ford, we are running two rigs and one frac fleet now and they are covering both JV activity and our 100% activity. In the second quarter we expect to complete three net wells.

In summary, capital activity is on track with our original plan and results are meeting or exceeding plan. Execution is simply outstanding. I couldn’t be more proud of what our teams have been able to deliver and how relentless they have been at driving improved performance in just about every category this quarter.

With that, let me turn the call back over to Jay.

Jay Ottoson, President & Chief Executive Officer

Thanks, Herb.

You know, I think it’s clear we had a very good first quarter and that we are on track or ahead of schedule with all of our objectives for the year. We look forward to taking your questions tomorrow. And thank you for your time and attention.