

SM Energy Reports 2020 Results And 2021 Operating Plan, Cash Flow And Debt Reduction Exceeded Expectations

17.02.2021 | [PR Newswire](#)

DENVER, Feb. 17, 2021 - [SM Energy Company](#) (the "Company") (NYSE: SM) today announced fourth quarter and full operating and financial results, year-end 2020 reserves and the 2021 operating plan. Highlights are as follows.

The Company's strategic priorities in 2020 were to generate positive cash flow and reduce absolute debt while meeting objectives for safety and emissions reduction:

- Capital efficiency. Capital efficiency continued to improve with Midland Basin well costs averaging less than \$500 foot in the fourth quarter. For the full year 2020, capital expenditures of \$547.8 million, adjusted for decreased capex of \$8.0 million, totaled \$539.8 million. Fourth quarter capital expenditures before capital accruals were \$137.4 million, which was lower than expected due to lower costs per lateral foot and the deferral of five well completions.
- Significant cash flows. For the full year 2020, net cash provided by operating activities of \$790.9 million before non-cash working capital of \$11.6 million totaled \$779.4 million. Fourth quarter net cash provided by operating activities before change in working capital was \$204.9 million. For the full year 2020, the Company generated free cash flow of \$2.27 billion, including fourth quarter free cash flow of \$67.4 million (free cash flow is a non-GAAP measure defined and reconciled below).
- Absolute debt reduction. During 2020, the outstanding principal amount of long-term debt was reduced by \$492 million from \$2.77 billion to \$2.28 billion. At year-end 2020, Net debt-to-Adjusted EBITDAX was 2.3 times (a non-GAAP measure defined and reconciled below).
- Strong well performance. 2020 production was 46.4 MMBoe, or 126.9 MBoe/d, at 50% oil with fourth quarter 2020 production of 11.3 MMBoe, or 122.4 MBoe/d, at 51% oil. Higher than projected fourth quarter production was predominantly due to better-than-expected base production from existing Midland Basin wells.
- Safety is always a top priority. Safety metrics for 2020 exceeded targets and place SM Energy in the top quartile of the industry peers, as compared to available 2019 data. Employee and contractor safety required new protocols in 2020 due to the pandemic; however, SM Energy field operations and office teams performed seamlessly and safely.
- Emissions reduction. Preliminary estimates of 2020 flaring were 0.8% of total Company gas production, which represents a greater than 75% reduction in flaring from Midland Basin production from 2019. The reduction was primarily the result of constructing strategic inter-connections that allow the Company to redirect natural gas in the event an individual flare processor is unable to receive it. Achievement of top quartile safety performance and reduced flaring volumes are key components of the Company's compensation plan.

The Company's strategic objectives continue in its five-year plan to:

- Optimize activity level for sustainable free cash flow. Establish an optimal activity level to maximize free cash flow and reduce leverage.
- Generate positive free cash flow in 2021. The Company's 2021 operating plan is estimated to generate approximately \$100 million in free cash flow (a non-GAAP measure defined below) based on current strip prices, positioning the Company to further reduce leverage.
- Achieve sustainable reinvestment rate in 2022 and beyond. The Company's five-year plan anticipates reducing reinvestment to less than 2 times Net debt-to-Adjusted EBITDAX (a non-GAAP measure defined below) by year-end 2022, while maintaining a reinvestment rate (a non-GAAP measure defined below) of less than 75% in 2022 and beyond. The Company sets capital activity at the optimal level to support these targets.
- Demonstrate measurable, top tier ESG stewardship. Short-term annual cash bonus and long-term incentive compensation plan targets include key environmental and safety metrics.

President and Chief Executive Officer Herb Vogel comments: "The challenges brought forth in 2020 were met with exceptional resilience by the SM Energy team, generating approximately \$240 million in free cash flow and reducing long-term debt by \$500 million, well exceeding pre-pandemic plan goals. At the same time, through delineation we have advanced the portfolio with high value inventory growth in the Austin Chalk in South Texas, improved upon our excellent safety record and significantly reduced GHG emissions. This was exceptional performance. Going forward, we believe our top tier asset base will support our long-term plan that delivers sustainable free cash flow and value creation to our stakeholders."

FOURTH QUARTER AND FULL YEAR 2020 RESULTS

PRODUCTION

	Fourth Quarter 2020		
	Midland Basin	South Texas	Total
Oil (MBbl / MBbl/d)	5,348 / 58.1	441 / 4.8	5,790 / 62.9
Natural Gas (MMcf / MMcf/d)	12,601 / 137.0	12,724 / 138.3	25,325 / 275.3
NGLs (MBbl / MBbl/d)	5 / nm	1,249 / 13.6	1,254 / 13.6
Total (MBoe / MBoe/d)	7,454 / 81.0	3,811 / 41.4	11,264 / 122.4
Note: Totals may not calculate due to rounding.			

- Fourth quarter 2020 production volumes were 122.4 MBoe/d, 51% oil. Production exceeded guidance, predominantly due to better-than-expected base production from existing Midland Basin wells.

	Full Year 2020		
	Midland Basin	South Texas	Total
Oil (MBbl / MBbl/d)	21,305 / 58.2	1,712 / 4.7	23,017 / 62.9
Natural Gas (MMcf / MMcf/d)	46,567 / 127.2	57,327 / 156.6	103,894 / 283.9
NGLs (MBbl / MBbl/d)	21 / nm	6,077 / 16.6	6,098 / 16.7
Total (MBoe / MBoe/d)	29,088 / 79.5	17,343 / 47.4	46,431 / 126.9
Note: Totals may not calculate due to rounding.			

- Full year 2020 production averaged 126.9 MBoe/d, down 4% from 2019, as development activity was significantly curtailed starting in the second quarter, and certain production was curtailed in response to macroeconomic effects of the pandemic and global supply-demand imbalances. Net well completions were reduced from 94 in the original budget to 77 for the year.

REALIZED PRICING AND CERTAIN COSTS

	Fourth Quarter 2020		
	Midland Basin (Pre-hedge)	South Texas (Pre-hedge)	Total (Pre/Post-hedge)
Oil (\$/Bbl)	\$40.66	\$39.11	\$40.54 / \$52.71
Natural Gas (\$/Mcf)	\$2.40	\$2.53	\$2.46 / \$2.28
NGLs (\$/Bbl)	nm	\$18.42	\$18.43 / \$17.80
Per Boe	\$33.24	\$19.00	\$28.42 / \$34.19

- Benchmark pricing for the fourth quarter was NYMEX WTI at \$42.66/Bbl, NYMEX Henry Hub natural gas at \$2.66/Bbl and Hart Composite NGLs at \$21.68/Bbl.
- Realized oil differentials were (\$2.00) in the Midland Basin and (\$3.55) in South Texas. The South Texas differential was significantly compared with prior quarters, subsequent to the roll-off of a legacy condensate sales contract.
- The average realized price per Boe before the effect of hedges was \$28.42, up 17% sequentially and down 19% compared with the fourth quarter of 2019. Including the effect of hedges, the average price per Boe was \$34.19, up 13% sequentially and down 6% compared with the fourth quarter of 2019. Realized net hedge gains were \$65.0 million for the quarter.

	Full Year 2020		
	Midland Basin (Pre-hedge)	South Texas (Pre-hedge)	Total (Pre/Post-hedge)
Oil (\$/Bbl)	\$37.67	\$29.84	\$37.08 / \$51.49
Natural Gas (\$/Mcf)	\$1.65	\$1.93	\$1.80 / \$1.92
NGLs (\$/Bbl)	nm	\$13.96	\$13.96 / \$15.24
Per Boe	\$30.24	\$14.22	\$24.26 / \$31.82

- Benchmark pricing for 2020 was NYMEX WTI at \$39.40/Bbl, NYMEX Henry Hub natural gas at \$2.08/MMBtu and Hart Composite NGLs at \$17.96/Bbl, which were down 31%, 21% and 20%, respectively, compared with 2019.
- The average 2020 realized price per Boe before the effect of hedges was \$24.26, down 26% from \$32.84 in 2019. Including the effect of hedges, the average price per Boe was \$31.82, down 5% compared with \$33.65 in 2019.
- Lease operating expenses of \$3.97 per Boe were down 15% compared with 2019, primarily due to aggressive cost management, increased operational efficiencies and fewer workovers. Transportation costs of \$3.06 per Boe were down 15% compared with 2019, primarily due to reduced South Texas production, where transportation costs are higher, and a relative increase in production from the Austin Chalk, which has lower transportation costs per Boe.

For additional operating metrics and regional detail, please see the Financial Highlights section below and the accompanying 4Q20 slide deck.

NET LOSS, LOSS PER SHARE AND NET CASH PROVIDED BY OPERATING ACTIVITIES

Fourth quarter 2020 net loss was \$165.2 million, or \$1.44 per diluted common share, compared with a net loss of \$102.1 million, or \$0.90 per diluted common share, in the same period in 2019. The current period included a \$152.7 million net derivative loss versus a net derivative loss of \$101.0 million in the prior year period. For the full year 2020, net loss was \$764.6 million, or \$6.72 per diluted common share, compared with a net loss of \$187.0 million, or \$1.66 per diluted common share, in the same period in 2019. In 2020, the Company recorded impairment charges of \$1.0 billion compared with \$33.8 million in 2019, partially offset by a \$280.1 million gain on extinguishment of debt in 2020 versus no gain on extinguishment recorded in 2019.

Fourth quarter 2020 net cash provided by operating activities of \$256.9 million before net change in working capital of \$52.0 million totaled \$204.9 million, which was down \$32.0 million, or 14%, from \$236.9 million in the same period in 2019. For the full year 2020, net cash provided by operating activities of \$790.9 million before net change in working capital of \$11.6 million totaled \$779.4 million, which was down \$27.3 million, or 3%, from \$806.7 million in 2019. For the fourth quarter and full year 2020, the decline in net cash provided by operating activities before net change in working capital was primarily due to the decline in production. Including the effects of realized hedges, the operating margin for the fourth quarter and full year 2020 were higher than the corresponding periods in 2019, as lower production costs and lower general and administrative costs offset lower realized prices.

ADJUSTED EBITDAX, ADJUSTED NET INCOME AND NET DEBT-TO-ADJUSTED EBITDAX

The following paragraphs discuss non-GAAP measures including Adjusted EBITDAX, adjusted net loss, adjusted net loss per diluted share and Net debt-to-Adjusted EBITDAX. Please reference the definitions and reconciliations of these measures to the most directly comparable GAAP financial measures at the end of this release.

Fourth quarter 2020 Adjusted EBITDAX was \$255.4 million, down \$30.8 million, or 11%, from \$286.2 million in the same period in 2019. The decrease in Adjusted EBITDAX was due to lower realized prices including the effect of hedge gains and lower production, partially offset by lower costs per unit. For the full year 2020, Adjusted EBITDAX was \$975.4 million compared with \$993.4 million in 2019.

Fourth quarter 2020 adjusted net income was \$2.7 million, or \$0.02 per diluted common share, which compares with adjusted net loss of \$5.0 million, or \$0.04 per diluted common share, for the same period in 2019. For the full year 2020, adjusted net loss was \$25.7 million, or \$0.23 per diluted common share, compared with an adjusted net loss of \$53.5 million, or \$0.48 per diluted common share, in 2019.

At December 31, 2020, Net debt-to-Adjusted EBITDAX was 2.3 times (a non-GAAP measure defined and reconciled below).

FINANCIAL POSITION, LIQUIDITY AND CAPITAL EXPENDITURES

As of December 31, 2020, the outstanding principal amount of the Company's long-term debt was \$2.28 billion, down from \$2.77 billion as of December 31, 2019. Long-term debt was comprised of \$1.67 billion in unsecured senior notes, \$446.7 million in secured senior notes, \$65.5 million in secured senior convertible notes, plus \$93.0 million drawn on the Company's senior secured revolving credit facility.

As of December 31, 2020, the Company's borrowing base and commitments under its senior secured revolving credit facility were \$1.1 billion. The Company's available liquidity was \$965 million, which includes \$93.0 million drawn and a \$42 million letter of credit. The cash balance was approximately zero.

Capital expenditures before capital accruals for the fourth quarter of 2020 were \$137.4 million. During the fourth quarter 2020, the Company drilled 26 net wells and added 23 net flowing completions. For the full year 2020, capital expenditures before capital accruals were \$539.8 million and the Company drilled 98 net wells and added 77 net flowing completions. Fourth quarter capital expenditures before capital accruals were less than guidance, due primarily to lower drilling and completion costs per lateral foot in the Midland Basin and the deferral of five well completions in South Texas, which were scheduled to be turned-in-line in 2021.

COMMODITY DERIVATIVES

Commodity hedge positions as of February 17, 2021:

- OIL: Approximately 75-80% of expected 2021 oil production is hedged to WTI at an average price of \$41.37 (weighted average of collar floors and swaps).
- OIL, Midland Basin differential: Approximately 60-65% of expected 2021 Midland Basin oil production is hedged to price point at a positive \$0.77/Bbl basis.

- NATURAL GAS: Approximately 85% of expected 2021 natural gas production is hedged in 2021. ~50,250 BBtu is hedged to HSC at an average price of \$2.44/MMBtu and ~29,490 BBtu is hedged to WAHA at an average price of \$1.81/MMBtu.
- NGLs are hedged by individual product and include propane and normal butane swaps.

A detailed schedule of these and other hedge positions are provided in the accompanying slide deck.

PROVED RESERVES AT YEAR-END 2020

Proved reserves at year-end 2020 were 405 MMBoe with 43% oil, 43% natural gas and 14% NGLs. Reserves were 57% PD and 43% PUD.

- Proved reserves/production imply a 9-year reserve life.
- Reserve additions through drilling and net performance revisions were 89 MMBoe, replacing nearly 2 times 2020 production.
- Oil reserves increased from 40% to 43% of total reserves.
- Reserves were down 57 MMBoe compared with year-end 2019, primarily due to a (65) MMBoe adjustment under the "five-year rule" as the Company scaled back development activity in its five-year plan to an optimal activity level aimed at maximizing free cash flow. The majority of these economic reserves were removed from the proved category but are included in the Company's longer term development plans.
- SEC pricing was \$39.57 Bbl oil, \$1.99 Mcf natural gas and \$17.64 Bbl NGLs, down 29%, 23% and 22%, respectively from 2019 SEC pricing. Despite the significant drop in SEC pricing, pricing revisions totaled only (33) MMBoe, predominantly for Texas gas reserves, reflecting the quality of the Company's proved reserves.

	MMBoe
Proved reserves year-end 2019	462.0
Reserve additions and performance revisions	89.3
Revisions - 5-year rule	(65.0)
Revisions - price	(32.6)
Production	(46.4)
Net divestitures	(2.7)
Proved reserves year-end 2020	404.6

STANDARDIZED MEASURE

The standardized measure of discounted future net cash flows from proved reserves was \$2.7 billion at year-end 2020, down from \$4.1 billion at year-end 2019. The 35% decline in the standardized measure compared with year-end 2019 is predominantly due to the reduction in SEC pricing across commodities used in the calculation.

2021 OPERATING PLAN AND GUIDANCE

Discussion in this release of the Company's 2021 operating plan guidance includes the terms "free cash flow" and "Net debt-to-Adjusted EBITDAX," both of which are non-GAAP measures. In addition, guidance for net cash provided by operating activities and capital expenditures are defined to include adjustments for working capital and capital accruals, respectively. The Company is unable to provide reconciliations of these forward-looking non-GAAP measures because components of the calculations are inherently unpredictable, such as changes to current assets and liabilities, the timing of changes in capital accruals, unknown future events, and estimating future certain GAAP measures. The inability to project certain components of the calculation would significantly affect the accuracy of a reconciliation.

OUTLOOK

2021 GOALS

- Generate positive free cash flow and apply to debt reduction.
- Continue efforts to increase inventory and inventory value through testing new intervals and optimizing spacing, completion designs.
- Meet AXPC top quartile rank for safety, spills and GHG emissions.

KEY ASSUMPTIONS

- Price deck: \$52.00 Bbl WTI; \$2.80 MMBtu natural gas; \$25.00 Bbl NGLs.
- Hedges currently in place.
- Capital program sized to optimize free cash flow and debt reduction over 5-year plan. Capital expenditures (as adjusted for capital accruals) of between \$650-\$675 million. Drilling and completion costs are expected to make-up approximately 70% of total capital, with approximately 70% allocated to Midland Basin operations and 30% to South Texas operations. Under preliminary 2021 capital plans, the number of wells expected to be drilled is increased to take advantage of drilling activity and certain wells partially completed in 2021 are pushed to flowing completions in 2022.
- Midland Basin: Anticipate drilling approximately 55 net wells and completing approximately 72 net wells. Midland Basin activity will continue to co-develop zones and will include activity across the RockStar position as well as in the Permian Basin.
 - South Texas: Anticipate drilling approximately 39 net wells and completing approximately 21 net wells. Activity is concentrated on Austin Chalk development, where wells are expected to be economically competitive with the Permian Basin program.

GUIDANCE FULL YEAR 2021:

- Production: Approximately 47-50 MMMBoe or 129-137 MBoe/d at 52-53% oil; assumes ethane rejection for the full year.
 - This projects approximately 5% production growth, including approximately 11% oil production growth.
 - This projects lower year-over-year production volumes from South Texas; however, higher oil volumes from the Permian Basin as activity will concentrate on the higher liquids content Austin Chalk formation.
 - The 2021 expected production growth rate over 2020 is lower compared with previous projections, largely due to higher-than-expected 2020 production, as a result of better well performance, and the timing of completions.
- Production costs: LOE \$4.50-5.00/Boe, which reflects increased oil production and a range of potential economic activity; transportation \$2.80-3.00/Boe reflecting lower total South Texas natural gas volumes and better contract terms become effective in July 2021.
- G&A: ~\$100 million.
- Exploration/Capitalized overhead: ~\$50 million.
- DD&A: \$16-\$18/Boe.
- Production and ad valorem taxes: ~\$2.15/Boe.

GUIDANCE FIRST QUARTER 2021

- Capital expenditures: ~\$180 million.
- As of this report date, the Company is assessing the effects to operations from the frigid cold and snow storms in the Permian Basin caused widespread power outages, road closures and other impacts to oil and gas operations.

UPCOMING EVENTS

EARNINGS Q&A WEBCAST AND CONFERENCE CALL

February 17, 2021 - In conjunction with this release, the Company posts to its website a pre-recorded webcast discussion, a written transcript of the webcast, and an associated IR presentation. Please visit ir.sm-energy.com.

February 18, 2021 - Please join SM Energy management at 8:00 a.m. Mountain time/10:00 a.m. Eastern time for the fourth quarter and full year 2020 financial and operating results and 2021 operating plan Q&A session. This discussion will be accessible via webcast (available live and for replay) on the Company's website at ir.sm-energy.com or by telephone at:

- Live Conference Call Registration: <http://www.directeventreg.com/registration/event/4080946>
- Replay (conference ID 4080946) - Domestic toll free/International: 800-585-8367/416-621-4642

The call replay will be available approximately one hour after the call and until February 25, 2021.

CONFERENCE PARTICIPATION

- March 1, 2021 - JP Morgan Leveraged Finance Conference. Executive Vice President and Chief Financial Officer Pursell will present at 2:45 p.m. Eastern time. The presentation will not be webcast. An investor presentation for the Company will be posted to the Company's website before market open on March 1, 2021.
- March 2, 2021 - Credit Suisse 26th Annual Energy Summit. President and Chief Executive Officer Herb Vogel will present at 1:20 p.m. Eastern time. The presentation will be webcast, accessible from the Company's website and available for a limited time.

DISCLOSURES

FORWARD LOOKING STATEMENTS

This release contains forward-looking statements within the meaning of securities laws. The words "assumes," "anticipate," "estimate," "expect," "forecast," "generate," "guidance," "implied," "intend," "maintain," "plan," "project," "objectives," "outlook," "sustainable," "target," "will" and similar expressions are intended to identify forward-looking statements. Forward-looking statements in this release include, among other things, the Company's operating plan and guidance for 2021, the Company's future goals and strategic objectives. These statements involve known and unknown risks, which may cause SM Energy's actual results to differ materially from results expressed or implied by the forward-looking statements. Future results may be impacted by the risks discussed in the Risk Factors section of SM Energy's most recent Annual Report on Form 10-K, as such risk factors may be updated from time to time in the Company's other periodic reports filed with the Securities and Exchange Commission, specifically the most recent Form 10-Q. The forward-looking statements contained herein speak as of the date of this release. Although SM Energy may from time to time voluntarily update its prior forward-looking statements, it disclaims any commitment to do so, except as required by securities laws.

RESERVE DISCLOSURE

The SEC requires oil and natural gas companies, in their filings with the SEC, to disclose proved reserves, which are those quantities of oil, natural gas and NGLs, that, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs and under existing economic conditions (using the trailing 12-month average first-day-of-the-month prices), operating methods and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The SEC also permits the disclosure of separate estimates of probable or possible reserves that meet SEC definitions for such reserves; however, the Company currently does not disclose probable or possible reserves in its SEC filings.

Proved reserves attributable to the Company at December 31, 2020, are estimated utilizing SEC reserve recognition standards and pricing assumptions based on the trailing 12-month average first-day-of-the-month prices of \$39.57 per Bbl of oil, \$1.99 per MMBtu of natural gas, and \$17.64 per Bbl of NGLs. At least 80% of the PV-10 of the Company's estimate of its total proved reserves as of December 31, 2020, was audited by Ryder Scott Company, L.P.

ABOUT THE COMPANY

[SM Energy Company](http://www.sm-energy.com) is an independent energy company engaged in the acquisition, exploration, development, and production of oil, gas, and NGLs in the state of Texas. SM Energy routinely posts important information about the Company on its website. For more information about SM Energy, please visit its website at www.sm-energy.com.

SM ENERGY INVESTOR CONTACTS

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SM Energy Company					
FINANCIAL HIGHLIGHTS					
December 31, 2020					
Production Data					
	For the Three Months Ended				
	December 31,				
	2020	2019	Percent	2	
			Change		
Realized sales price (before the effects of derivative settlements):					
Oil (per Bbl)	\$ 40.54	\$ 56.09	(28)	%	\$
Gas (per Mcf)	\$ 2.46	\$ 2.42	2	%	\$
NGLs (per Bbl)	\$ 18.43	\$ 17.84	3	%	\$
Equivalent (per Boe)	\$ 28.42	\$ 35.17	(19)	%	\$
Realized sales price (including the effects of derivative settlements):					
Oil (per Bbl)	\$ 52.71	\$ 55.22	(5)	%	\$
Gas (per Mcf)	\$ 2.28	\$ 2.75	(17)	%	\$
NGLs (per Bbl)	\$ 17.80	\$ 23.93	(26)	%	\$
Equivalent (per Boe)	\$ 34.19	\$ 36.38	(6)	%	\$
Net production volumes: ⁽¹⁾					
Oil (MMBbl)	5.8	6.2	(6)	%	2
Gas (Bcf)	25.3	28.1	(10)	%	1
NGLs (MMBbl)	1.3	1.9	(34)	%	6
MMBoe	11.3	12.8	(12)	%	4
Average net daily production: ⁽¹⁾					
Oil (MBbls/d)	62.9	67.3	(6)	%	6
Gas (MMcf/d)	275.3	305.7	(10)	%	2
NGLs (MBbls/d)					

13.6



MBoe/d	122.4	138.8	(12)	%	1
Per Boe data:					
Realized price (before the effects of derivative settlements)	\$ 28.42	\$ 35.17	(19)	%	\$
Lease operating expense	4.10	4.67	(12)	%	3
Transportation costs	2.89	3.46	(16)	%	3
Production taxes	1.15	1.48	(22)	%	0
Ad valorem tax expense	0.38	0.37	3	%	0
General and administrative ⁽²⁾	1.78	2.92	(39)	%	2
Operating margin (before the effects of derivative settlements)	18.12	22.27	(19)	%	1
Derivative settlement gain	5.77	1.20	381	%	7
Operating margin (including the effects of derivative settlements)	\$ 23.89	\$ 23.47	2	%	\$
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	\$ 16.77	\$ 17.91	(6)	%	\$

⁽¹⁾ Amounts and percentage changes may not calculate due to rounding.

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⁽²⁾ Includes non-cash stock-based compensation expense per Boe of \$(0.10) and \$0.38 for the three months ended December 31, 2020, and 2019, respectively, and \$0.26 and \$0.41 for the twelve months ended December 31, 2020, and 2019, respectively.

December 31, 2020

Consolidated Balance Sheets		December
(in thousands, except share data)		2020
ASSETS		2020
Current assets:		
Cash and cash equivalents		\$ 10
Accounts receivable		162,455
Derivative assets		31,203
Prepaid expenses and other		10,001
Total current assets		203,669
Property and equipment (successful efforts method):		
Proved oil and gas properties		8,608,52
Accumulated depletion, depreciation, and amortization		(4,886,97
Unproved oil and gas properties		714,602

Wells in progress	233,498
Other property and equipment, net of accumulated depreciation of \$63,662 and \$64,032, respectively	32,217
Total property and equipment, net	4,701,86
Noncurrent assets:	
Derivative assets	23,150
Other noncurrent assets	47,746
Total noncurrent assets	70,896
Total assets	\$ 4,976,4
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	\$ 371,67
Derivative liabilities	200,189
Other current liabilities	11,880
Total current liabilities	583,739
Noncurrent liabilities:	
Revolving credit facility	93,000
Senior Notes, net	2,121,31
Asset retirement obligations	83,325
Deferred income taxes	-
Derivative liabilities	22,331
Other noncurrent liabilities	56,557
Total noncurrent liabilities	2,376,53
Stockholders' equity:	
Common stock, \$0.01 par value - authorized: 200,000,000 shares; issued and outstanding: 114,742,304 and 112,987,952 shares, respectively	1,147
Additional paid-in capital	1,827,91
Retained earnings	200,697
Accumulated other comprehensive loss	(13,598)
Total stockholders' equity	2,016,16
Total liabilities and stockholders' equity	\$ 4,976,4

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FINANCIAL HIGHLIGHTS

December 31, 2020

Consolidated Statements of Operations

(in thousands, except per share data)

	For the Three Months Ended		
	December 31,		
	2020	2019	
Operating revenues and other income:			
Oil, gas, and NGL production revenue	\$ 320,153	\$ 449,001	\$
Net gain on divestiture activity	-	539	9
Other operating revenues	139	2,146	3
Total operating revenues and other income	320,292	451,686	1
Operating expenses:			
Oil, gas, and NGL production expense	95,963	127,312	3
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	188,934	228,597	7
Exploration ⁽¹⁾	11,314	17,649	4
Impairment	8,750	8,750	1
General and administrative ⁽¹⁾	20,034	37,213	9
Net derivative (gain) loss ⁽²⁾	152,693	101,002	(
Other operating expense, net	14,651	19,466	2
Total operating expenses	492,339	539,989	2
Loss from operations	(172,047)	(88,303)	(
Interest expense	(40,507)	(40,911)	(
Gain on extinguishment of debt	15,535	-	2
Other non-operating expense, net	(1,585)	(547)	(
Loss before income taxes	(198,604)	(129,761)	(
Income tax benefit	33,429	27,706	1
Net loss	\$ (165,175)	\$ (102,055)	\$

Basic weighted-average common shares outstanding	114,528	112,847	1
Diluted weighted-average common shares outstanding	114,528	112,847	1
Basic net loss per common share	\$ (1.44)	\$ (0.90)	\$
Diluted net loss per common share	\$ (1.44)	\$ (0.90)	\$
Dividends per common share	\$ -	\$ -	\$
(1) Non-cash stock-based compensation included in:			
Exploration expense	\$ 743	\$ 724	\$
General and administrative expense	(1,181)	4,836	1
Total non-cash stock-based compensation	\$ (438)	\$ 5,560	\$
(2) The net derivative (gain) loss line item consists of the following:			
Settlement gain	\$ (64,991)	\$ (15,379)	\$
Loss on fair value changes	217,684	116,381	1
Total net derivative (gain) loss	\$ 152,693	\$ 101,002	\$

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FINANCIAL HIGHLIGHTS

December 31, 2020

Consolidated Statements of Stockholders' Equity

(in thousands, except share data and dividends per share)

	Common Stock	
	Shares	Amount
Balances, December 31, 2018	112,241,966	\$
Net loss	-	-
Other comprehensive income	-	-
Cash dividends, \$0.10 per share	-	-
Issuance of common stock under Employee Stock Purchase Plan	314,868	3
Issuance of common stock upon vesting of RSUs, net of shares used for tax withholdings	334,399	4
Stock-based compensation expense	96,719	1
Balances, December 31, 2019	112,987,952	\$
Net loss	-	-
Other comprehensive loss	-	-
Cash dividends, \$0.02 per share	-	-
Issuance of common stock under Employee Stock Purchase Plan	464,757	4
Issuance of common stock upon vesting of RSUs and settlement of PSUs, net of shares used for tax withholdings	1,022,019	10
Stock-based compensation expense	267,576	3
Issuance of Warrants	-	-
Other	-	-
Balances, December 31, 2020	114,742,304	\$

[SM Energy Company](#)

FINANCIAL HIGHLIGHTS

December 31, 2020

Consolidated Statements of Cash Flows

(in thousands)

For the Three Months Ended

December 31,

2020

2019

Cash flows from operating activities:

Net loss

\$ (165,175)

\$ (102,055)

Adjustments to reconcile net income (loss) to net cash provided by operating activities:

Net gain on divestiture activity

-

(539)

Depletion, depreciation, amortization, and asset retirement obligation liability accretion

188,934

228,597

Impairment

8,750

8,750

Stock-based compensation expense

(438)

5,560

Net derivative (gain) loss

152,693

101,002

Derivative settlement gain

64,991

15,379

Amortization of debt discount and deferred financing costs

4,620

3,920

Gain on extinguishment of debt

(15,535)

-

Deferred income taxes

(33,476)

(28,215)

Other, net

(506)

4,511

Changes in working capital:

Accounts receivable

(15,408)

(38,922)

Prepaid expenses and other

354

9,019

Accounts payable and accrued expenses

67,056

34,974

Net cash provided by operating activities

256,860

241,981

Cash flows from investing activities:

Net proceeds from the sale of oil and gas properties

-

539

Capital expenditures

(128,008)

(235,127)

Acquisition of proved and unproved oil and gas properties	(798)	-	(
Net cash used in investing activities	(128,806)	(234,588)	(
Cash flows from financing activities:			
Proceeds from revolving credit facility	281,500	464,500	1
Repayment of revolving credit facility	(366,500)	(471,000)	(
Debt issuance costs related to 10.0% Senior Secured Notes due 2025	(183)	-	(
Cash paid to repurchase Senior Notes	(42,228)	-	(
Net proceeds from sale of common stock	517	1,250	1
Dividends paid	(1,146)	(5,642)	(
Other, net	(14)	(2)	(
Net cash provided by (used in) financing activities	(128,054)	(10,894)	(
Net change in cash, cash equivalents, and restricted cash	-	(3,501)	-
SJM Energy Company			
Cash, cash equivalents, and restricted cash at beginning of period	10	3,511	1
FINANCIAL HIGHLIGHTS			
Cash, cash equivalents, and restricted cash at end of period	\$ 10	\$ 10	\$
December 31, 2020			

Consolidated Statements of Cash Flows (Continued)

(in thousands)	For the Three Months Ended		For t
	December 31,		Dece
	2020	2019	2020
Supplemental schedule of additional cash flow information and non-cash activities:			
Operating activities:			
Cash paid for interest, net of capitalized interest	\$ (18,319)	\$ (28,780)	\$ (14
Net cash (paid) refunded for income taxes	\$ (61)	\$ 7,578	\$ 6,6
Investing activities:			
Increase (decrease) in capital expenditure accruals and other	\$ 9,440	\$ (59,167)	\$ (7,

DEFINITIONS OF NON-GAAP MEASURES AS CALCULATED BY THE COMPANY

The following non-GAAP measures are presented in addition to financial statements as the Company believes these metrics and performance measures are widely used by the investment community, including investors, research analysts and others, to evaluate and compare investments among upstream oil and gas

companies in making investment decisions or recommendations. These measures, as presented, may have differing calculations among companies and investment professionals and may not be directly comparable to the same measures provided by others. A non-GAAP measure should not be considered in isolation or as a substitute for the related GAAP measure or any other measure of a company's financial or operating performance presented in accordance with GAAP. A reconciliation of each of these non-GAAP measures to the most directly comparable GAAP measure or measures is presented below. These measures may not be comparable to similarly titled measures of other companies.

Adjusted EBITDAX: Adjusted EBITDAX is calculated as net income (loss) before interest expense, interest income, income taxes, depletion, depreciation, amortization and asset retirement obligation liability accretion expense, exploration expense, property abandonment and impairment expense, non-cash stock-based compensation expense, derivative gains and losses net of settlements, gains and losses on divestitures, gains and losses on extinguishment of debt, and certain other items. Adjusted EBITDAX excludes certain items that the Company believes affect the comparability of operating results, including items that are generally non-recurring in nature or whose timing and/or amount cannot be reasonably estimated. Adjusted EBITDAX is also important as it is considered among financial covenants under the Company's Credit Agreement, a material source of liquidity for the Company. Please reference the Company's 2020 Form 10-K for discussion of the Credit Agreement and its covenants.

Adjusted net income (loss): Adjusted net income (loss) excludes certain items that the Company believes affect the comparability of operating results, including items that are generally non-recurring in nature or whose timing and/or amount cannot be reasonably estimated. These items include non-cash and other adjustments, such as derivative gains and losses net of settlements, impairments, net (gain) loss on divestiture activity, gains and losses on extinguishment of debt, and accruals for non-recurring matters.

Free cash flow: Free cash flow is calculated as net cash provided by operating activities before net change in working capital less capital expenditures before increase (decrease) in capital expenditure accruals and other.

Net Debt: The total principal amount of outstanding senior secured notes and senior unsecured notes plus amounts drawn on the revolving credit facility (also referred to as total funded debt) less cash and cash equivalents.

Net debt-to-Adjusted EBITDAX: Net debt-to-Adjusted EBITDAX is calculated as Net Debt (defined above) divided by Adjusted EBITDAX (defined above). A variation of this calculation is a financial covenant under the Company's Credit Agreement for its revolving credit facility beginning in the fourth quarter of 2018.

Pre-Tax PV-10: Pre-Tax PV-10 is the present value of estimated future revenue to be generated from the production of estimated net proved reserves, net of estimated production and future development costs, based on prices used in estimating the proved reserves and costs in effect as of the date indicated (unless such costs are subject to change pursuant to contractual provisions), without giving effect to non-property related expenses such as general and administrative expenses, debt service, future income tax expenses, or depreciation, depletion, and amortization, discounted using an annual discount rate of 10 percent. While this measure does not include the effect of income taxes as it would in the use of the standardized measure of discounted future net cash flows calculation, it does provide an indicative representation of the relative value of the Company on a comparative basis to other companies and from period to period. This measure is presented because management believes it provides useful information to investors for analysis of SM Energy's fundamental business on a recurring basis. In addition, management believes that Pre-Tax PV-10 is widely used by professional research analysts and others in the valuation, comparison, and investment recommendations of companies in the oil and gas exploration and production industry, and many investors use the published research of industry research analysts in making investment decisions. Pre-Tax PV-10 should not be considered in isolation or as a substitute for other measures prepared under GAAP.

Reinvestment rate: Reinvestment rate is calculated as capital expenditures before increase (decrease) in capital expenditure accruals and other divided by net cash provided by operating activities before net change in working capital.

FINANCIAL HIGHLIGHTS		
December 31, 2020		
Adjusted EBITDAX Reconciliation ⁽¹⁾		
(in thousands)		
Reconciliation of net loss (GAAP) and net cash provided by operating activities (GAAP) to Adjusted EBITDAX (non-GAAP)	For the Three Months Ended	
	December 31, 2020	December 31, 2019
Net loss (GAAP)	\$ (165,175)	\$ (165,175)
Interest expense	40,507	40,507
Income tax benefit	(33,429)	(27,000)
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	188,934	228,000
Exploration ⁽²⁾	10,571	16,000
Impairment	8,750	8,750
Stock-based compensation expense	(438)	5,000
Net derivative (gain) loss	152,693	101,000
Derivative settlement gain	64,991	15,000
Net gain on divestiture activity	-	(53,000)
Gain on extinguishment of debt	(15,535)	-
Other, net	3,514	(64,000)
Adjusted EBITDAX (non-GAAP)	\$ 255,383	\$ 255,383
Interest expense	(40,507)	(40,507)
Income tax benefit	33,429	27,000
Exploration ⁽²⁾	(10,571)	(16,000)
Amortization of debt discount and deferred financing costs	4,620	3,900
Deferred income taxes	(33,476)	(28,000)
Other, net	(4,020)	5,100
Net change in working capital	52,002	5,000
Net cash provided by operating activities (GAAP)	\$ 256,860	\$ 256,860

(1) See "Definitions of non-GAAP Measures as Calculated by the Company" above.

(2) Stock-based compensation expense is a component of the exploration expense and general and administrative expense shown in the accompanying consolidated statements of operations. Therefore, the exploration line items shown in the reconciliation above will vary from the corresponding line items in the accompanying consolidated statements of operations for the component of stock-based compensation expense recorded.

[SM Energy Company](#)

FINANCIAL HIGHLIGHTS

December 31, 2020

Adjusted Net Income (Loss) Reconciliation ⁽¹⁾

(in thousands, except per share data)

	For the Three Months Ended		For the Tw
	December 31,		December
	2020	2019	2020
Reconciliation of net loss (GAAP) to adjusted net income (loss) (non-GAAP):			
Net loss (GAAP)	\$ (165,175)	\$ (102,055)	\$ (764,614)
Net derivative (gain) loss	152,693	101,002	(161,576)
Derivative settlement gain	64,991	15,379	351,261
Net gain on divestiture activity	-	(539)	(91)
Impairment	8,750	8,750	1,016,013
Gain on extinguishment of debt	(15,535)	-	(280,081)
Other, net ⁽²⁾	3,554	(647)	5,321
Tax effect of adjustments ⁽³⁾	(46,536)	(26,896)	(201,994)
Valuation allowance on deferred tax assets	-	-	10,017
Adjusted net income (loss) (non-GAAP)	\$ 2,742	\$ (5,006)	\$ (25,744)
Diluted net loss per common share (GAAP)	\$ (1.44)	\$ (0.90)	\$ (6.72)
Net derivative (gain) loss	1.33	0.90	(1.42)
Derivative settlement gain	0.57	0.14	3.09
Net gain on divestiture activity	-	-	-
Impairment	0.08	0.08	8.93
Gain on extinguishment of debt	(0.14)	-	(2.46)
Other, net ⁽²⁾	0.03	(0.01)	0.05
Tax effect of adjustments ⁽³⁾	(0.41)	(0.25)	(1.79)
Valuation allowance on deferred tax assets	-	-	0.09
Adjusted net income (loss) per diluted common share (non-GAAP)			

\$

0.02



(0.04)



(0.23)

Basic weighted-average common shares outstanding	114,528	112,847	113,730
Diluted weighted-average common shares outstanding	114,528	112,847	113,730

Note: Amounts may not calculate due to rounding.

(1) See "Definitions of non-GAAP Measures as Calculated by the Company" above.

(2) For the three and twelve months ended December 31, 2020, other adjustments related to bad debt expense, pension expense, the change in net profits plan liability, and impairments of materials inventory and other property. For the three months ended December 31, 2019, other adjustments related to the change in net profits plan liability and impairments of materials inventory and other property. For the twelve months ended December 31, 2019, other adjustments related to bad debt expense, the change in net profits plan liability, and impairments of materials inventory and other property.

[SM Energy Company](#)

(3) The tax effect of adjustments for each of the three and twelve months ended December 31, 2020, and 2019, was calculated at a tax rate of 21.7%. This rate approximates the Company's statutory tax rate for the respective periods, as adjusted for differences.

Regional proved oil and gas reserve quantities	
	South Basin
Year-end 2020 proved reserves	
Oil (MMBbl)	1,572.7
Gas (Bcf)	2,632.0
NGL (MMBbl)	56.4
Total (MMBoe)	2,420.6
% Proved developed	88%

Note: Amounts may not calculate due to rounding.

Pre-Tax PV-10 Reconciliation ⁽¹⁾		
(in millions)		
	As of December 31,	
Reconciliation of standardized measure (GAAP) to PV-10 (non-GAAP)	2020	2019
Standardized measure of discounted future net cash flows (GAAP):	\$ 2,682.5	\$ 4,104.0
Add: 10 percent annual discount, net of income taxes	1,856.3	2,955.3
Add: future undiscounted income taxes	-	579.8
Pre-tax undiscounted future net cash flows	4,538.8	7,639.1
Less: 10 percent annual discount without tax effect	(1,856.3)	(3,276.3)
Pre-Tax PV-10 (non-GAAP):	\$ 2,682.5	\$ 4,362.8
⁽¹⁾ See "Definitions of non-GAAP Measures as Calculated by the Company" above.		

Reconciliation of Total Long-Term Debt to Net Debt ⁽¹⁾	
(in thousands)	
	As of December 31, 2020
Senior Secured Notes ⁽²⁾	\$ 512,160
Senior Unsecured Notes ⁽²⁾	1,674,581
Revolving credit facility ⁽²⁾	93,000
Total funded debt	2,279,741
Less: Cash and cash equivalents	10
Net Debt	\$ 2,279,731
⁽¹⁾ See "Definitions of non-GAAP Measures as Calculated by the Company" above.	
⁽²⁾ Amounts are from Note 5 - Long-term Debt in Part II, Item 8 of the Company's Form 10-K for the year ended December 31, 2020.	

Free Cash Flow ⁽¹⁾				
(in thousands)				
	For the Three Months Ended		For the Twelve Months Ended	
	December 31,		December 31,	
	2020	2019	2020	2019
Net cash provided by operating activities (GAAP)	\$ 256,860	\$ 241,981	\$ 790,944	\$ 823,560
Net change in working capital	(52,002)	(5,071)	(11,591)	(16,852)
Cash flow from operations before net change in working capital	\$ 204,858	\$ 236,910	\$ 779,353	\$ 806,712
Capital expenditures (GAAP)	128,008	235,127	547,785	1,023,760
Increase (decrease) in capital expenditure accruals and other	9,440	(59,167)	(7,965)	(24,289)
Capital expenditures before accruals and other	\$ 137,448	\$ 175,960	\$ 539,820	\$ 999,471
Free cash flow	\$ 67,410	\$ 60,950	\$ 239,533	\$ (192,759)

(1) See "Definitions of non-GAAP Measures as Calculated by the Company" above.

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Die URL für diesen Artikel lautet:

<https://www.rohstoff-welt.de/news/375189--SM-Energy-Reports-2020-Results-And-2021-Operating-Plan-Cash-Flow-And-Debt-Reduction-Exceeded-Expectations>

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