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EDITED TRANSCRIPT

MUR - LLog Exploration Offshore, LLC, LLOG Bluewater Holdings, LLC, Murphy Oil Corporation - M&A Call

EVENT DATE/TIME: APRIL 23, 2019 / 1:00PM GMT

OVERVIEW:

Co. announced that it's acquiring seven producing fields and four near-term development projects in 26 deep water Gulf of Mexico blocks from JV between LLOG Exploration Offshore and LLOG Bluewater Holdings. Co. will pay $1.375b cash with appropriate closing adjustments.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Murphy conference call. (Operator Instructions) And I would like to turn the conference over to Kelly Whitley, Vice President, Investor Relations and Communications. Please go ahead.

Kelly L. Whitley - *Murphy Oil Corporation - VP of IR & Communications*

Good morning, everyone, and thank you for joining us on our call today. With me are Roger Jenkins, President and Chief Executive Officer; David Looney, Executive Vice President and Chief Financial Officer; and Mike McFadyen, Executive Vice President, Offshore.

Before we get started, I'd like to remind you that a slide deck summarizing the highlights of this Gulf of Mexico transaction, which we will be discussing today, has been posted to the Investor Relations section of our website. So I encourage you to review as you listen to this webcast.

Slide 2. Additionally, please keep in mind that some of the comments made during this call will be considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. As such, no assurances can be given that these events will occur or that the projections will be attained. A variety of factors exist that may cause actual results to differ. For further discussion of risk factors, see Murphy's 2018 annual report on Form 10-K on file with the SEC. Murphy takes no duty to publicly update or revise any forward-looking statements.

I will now turn the call over to Roger Jenkins.

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Thank you, Kelly. Good morning. Thank you for taking the time to join us in our call this morning. We look forward to discussing our latest acquisition and how it strategically fits into our multiyear transformation.

We're acquiring 7 producing fields and 4 near-term development projects and 26 deepwater Gulf of Mexico blocks from a joint venture between LLOG Exploration Offshore and LLOG Bluewater Holdings. We'll be increasing our ownership in oil-weighted producing assets in the Gulf in fields that we have -- fields that we feel have further upside, which will also be immediately accretive to our company. These new assets will be solely owned and operated by Murphy and will be held outside our MP GOM portfolio.

Murphy will pay $1.375 billion cash with appropriate closing adjustments. We'll fund this through a combination of cash on hand along with drawing on our revolving credit facility. We could have up to a $200 million contingent payment if revenue thresholds from certain development projects are exceeded at 2022. There are also additional contingent payments of up to $50 million that is tied to first oil being achieved at certain development projects by 2023. These assets are currently producing 38,000 barrels equivalent per day, driving an attractive acquisition metric of 36,200 per flowing barrel equivalent. The probable reserves are also purchased at an attractive price of just over $11 per barrel oil equivalent.

On Slide 4. The addition of these newly operated assets complements our current Gulf of Mexico portfolio and further leverages our deepwater execution expertise. These assets are primarily located in traditional Pliocene and Miocene geologic formations. All the fields produce from high-quality sands that are from well-defined premium subsalt amplitudes with significant production history and/or have direct analogues.

On Slide 5, reserves. Based on our current annualized production upon closing, the acquisition is expected to add between 32,000 and 35,000 barrels equivalent of production, bringing our annualized net production in the Gulf to over 85,000 barrels equivalent per day for 2019, of which about 66% will be operated by Murphy as compared to 49% prior to this transaction. We expect to add nearly 66 million barrels of equivalent of proven reserves, of which 73% is oil. This increases our corporate reserves by over 10% to over 750 million barrels oil equivalent after taking into account the sale of the Malaysia assets.

It's important to note, with the sale of our Malaysia assets, we divested 129 million barrels equivalent of proved reserves. And with this recent acquisition, we're gaining 66 million barrels oil equivalent improvement for a difference of 63 million barrels of oil equivalent. Primarily almost all of the 63 million barrels of oil equivalent reserve loss is attributable to natural gas.

Slide 6. This high-margin Gulf of Mexico acquisition ties directly to our strategy as it increases our operatorship, our oil concentration, our oil production, our oil reserves, all with very positive financial advantages. Plus we're able to execute this all-cash transaction and maintain our strong balance sheet. These assets will also be added with very low general and administration -- administrative expenses, excuse me. We're also gaining complementary assets near some of our exploration prospects in our Samurai field development.

Slide 7. The timing of this deal will lead to an adjustment in the use of proceeds that we previously disclosed around our recent Malaysia divestiture. We are prioritizing the use of the proceeds from the $2.1 billion divestiture to buying back shares, paying off our revolving credit facility and acquiring these Gulf of Mexico assets. I'm also pleased to announce that consistent with our long-term history of returning capital to shareholders, we're committed to executing our recently announced $500 million share repurchase program. We plan to execute the first $300 million tranche in 2019, and we will execute the remaining $200 million between now and the authorization exploration of December of 2020.

With the addition of these assets to our portfolio, we now expect to generate approximately $2.3 billion of free cash flow between 2019 and 2023. Furthermore, over the next 5 years, we expect to return nearly $780 million to shareholders through compelling dividend in addition to our current $500 million repurchase plans. Finally, we should generate more than $1.4 billion of free cash flow after dividends with our current long-range plan using $55 per barrel WTI pricing.

Slide 8. Let's take a step back and look at the major transformation of our company that's taken place over the past few months. We divested our Malaysia assets for $2.1 billion. This has been one of the most successful assets in Murphy's history, generating billions of dollars of cash flow. However, it's time to monetize Malaysia as over the next few years, production is becoming gassier, which is causing margins to decline. Our in-country taxes are subject to a 38% cash tax with production-sharing contract terms becoming less favorable. We're also able to fully monetize our full 2P resource risk-free.

Meanwhile, back in the Western Hemisphere, we're able to strike a deal with Petrobras in the Gulf of Mexico at very attractive deal metrics. This strategic go-away transaction will allow Murphy access to world-class assets such as St. Malo and Lucius. Combine this with our latest acquisition, we have a benefit from meaningful synergies and generate significant free cash flow. We're also able to repatriate primarily all of the proceeds of Malaysian divestiture to our tax-advantaged United States regime. These 3 deals together are very accretive and significantly increase shareholder value.

Slide 9. I'm very proud of the deal metrics that we have been able to generate in these 3 transactions. Alone, each of this transaction is very meaningful, and now putting them together are extremely powerful for Murphy and our shareholders. We're able to divest Malaysia 4.4x 2019 EBITDA and turn around and acquire assets at an average of 2.6x 2019 EBITDA. On a per-barrel metric, we're able to sell for 45,000 per flowing and buy for a combined 28,000 per flowing equivalent in assets that are heavily oil-weighted with lower operating expenses.

On a reserve basis, we're able to fully monetize our 2P for $11.13 per barrel equivalent and assets becoming gassier and acquire for $10.59 per equivalent and assets becoming oilier, all very impressive metrics, especially considering we're selling 2P with 40% oil weight and buying 2P with

82% oil weight. Combining the Gulf of Mexico transactions along with the divestiture of Malaysia, we're swapping assets with 58% oil production by volume to assets with 77% oil production of volume, all while folks in the Western Hemisphere assets are expected to deliver over a lower cost and high margins per barrel oil equivalent. I'm sure you all agree these are real value-creating actions.

Let's review some of the quantitative evidence of the increased strength of Murphy's portfolio on Slide 10. First, the quality of reserves and margins generate a higher EBITDA per barrel, over 20% higher in fact. Second, we're able to amass a meaningful scale in the Gulf as one of the top 5 producers in the play. Thirdly, we're able to drive upside and significantly greater free cash from our increasing oil-weighted 2P oil reserves. In summary, Murphy is able to deliver significantly better quality, scale and upside from our newly transformed portfolio.

Slide 11. I'm very excited for our Gulf of Mexico assets along -- in the long term. Over the next 5 years, we anticipate we'll be able to spend an average of about $300 million per year to generate approximately $675 million of free cash flow on an average per year basis, driving EBITDA per barrel of oil equivalent to near $35 per barrel while maintaining production of 83,000 to 85,000 equivalents per year.

Each year has specific plans that are associated with development rig programs moving our Samurai discovery to development mode also. We'll also be in execution mode with several opportunities in the near term on the acquired assets with 3 fields to produce by year-end 2020 and sustainable Khaleesi/Mormont fields to be executing an output produced in late 2022 -- early 2022, rather, excuse me.

Slide 12. Let's review where we see Murphy going over the next 5 years. Recently, we updated our 5-year long-term plan of our company involving the sale of Malaysia and the growth of our Eagle Ford assets. Now with the LLOG transaction, we have an even stronger plan.

Graphically, we can see our full set of plans coming to fruition where our 2 accretive Gulf of Mexico transactions more than replace Malaysia with higher amounts of production all significantly oil-weighted to maintain our spending plans in the Eagle Ford shale that offers growth in addition to these transactions, leading to a truly transformed Murphy in 2023, with again our oil CAGR being generally generated primarily from our Western Hemisphere operating assets.

Slide 13. Today's announcement is a continuation of our repositioning into the Western Hemisphere with accretive oil-weighted assets. Our team again have hit a home run in the signing of the 2 Gulf of Mexico transactions and the selling of our Malaysia business, all in 7 months. The combined metrics of the 2 Gulf of Mexico transactions with the sale of Malaysia is absolutely incredible on every single metric. We completely reshaped our long-term oil growth ability, all with the continuation of rewarding shareholders with a significant repurchase and long-standing dividend policy. We'll also be able to maintain financial flexibility long term with a keen focus on our balance sheet. This is a truly perfect situation for us and cannot be more pleased and excited.

So we thank our business development team led by Dan Hanchera and thank David Looney, our Chief Financial Officer, for his leadership in our transformation. In addition, I want to thank our subsurface, operational and financial teams as well as our outstanding law department and advisers for all the long hours and work needed to complete these significant transactions. It feels really good to see our strategic plans that I wanted come together at this time.

With that, I'd like to open the phone lines for your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question will be from Arun Jayaram at JPMorgan.

Arun Jayaram - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

I was wondering if you could give us a sense of kind of the valuation relative to the PV-10 on a P1 or P2 basis. Could you give us some thoughts on that?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Well, I mean, clearly, first, what we do here is we take a very talented long-term strong subsurface team and we go to the 2P and make a real review of that closely. And we then, of course, take oil price deck and operate and get a free cash flow analysis. We don't normally share the NAV of that, but it would be fairly good in $0.5 billion range.

Arun Jayaram - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Say that again.

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

In the $0.5 billion range.

Arun Jayaram - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

So the $0.5 billion above what you paid, is that...

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

That's the NAV of the transaction, yes, sir.

Arun Jayaram - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Okay. Got it, got it. That's helpful. Just a couple other quick ones. Could you give us a sense -- you highlighted several development assets on Slide 4, a little bit of what you believe kind of the net production will be from those 4 fields?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Yes. Hang on 1 second. I'll move to that. We have 4 big projects, 3 of which are small and 1 major. Calliope is a 28% -- 28.5% working interest. That's going to be tied back to the nearby facility. It's around a 20 million barrel 2P type of thing. It's going to flow in the second quarter of 2020. It's already completed, in fact. And the come-on rate of that, let me turn to that, hang on with me one here -- 1 second. I have everything but that number. Hang on a second, Arun. Okay. It's going to flow between 5,000 and 7,000 barrels a day gross, and we have a 28.5% working interest.

The next is Ourse, 31% working interest. It has a 2P of around 20 million to 25 million barrels. This will be put online, hopefully, mid-2020. And we have it coming online at near -- hang on 1 second, probably again in 5,000 to 6,000 barrel range gross.

We have another project called Nearly Headless Nick. I'm not a reader of these type of novels. I understand that's from Harry Potter, I believe. 26.8% working interest with a 2P of around 16 million barrels. It will be tied back very near to a facility that's owned by our new thing that we purchased. And it's going to come on again in the 5,000 to 6,000 barrels a day gross number. These are 3 single subsea developments.

The major prize in this purchase is Khaleesi/Mormont. This is 2 separate fields discovered by LLOG north of 150 million barrel type project 2P. This is very near the Samurai, about 4 miles away. And we hope that great synergy from Samurai tying back to this facility, also have an option to bring this to Front Runner or take on the plans that this company had prior. This is a 34% working interest flow in 2022, 6 well penetrations, great set of subsurface data and in the 40,000 day gross production range. We hope that we can optimize that. And very, very pleased about that field, and that's one of the main reasons the production is able to stay flat through the years as we have. What's the reason we are interested in these assets is we have new assets to develop and not just picking up declining assets. We're able to have a strong asset base and then add new fields to the base.

Arun Jayaram - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Great. That's super helpful. Roger, my last question, I was wondering if you can give us a little bit of color on your anticipated free cash flow in 2020. And does the $325 million in annualized CapEx include any ARO spending?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

We're not really going to disclose our free cash flow in 2020. We're trying to get through the first quarter of 2019 right now. The ARO of this deal is incredible. I think, David is here with me, around $40 million of ARO. So again, we're swapping out of ARO in Malaysia, picking up slightly less than that with Petrobras and have very low ARO. And ARO is not even on our radar for this type of asset, Arun.

Operator

Next question will be from Roger Read at Wells Fargo.

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

I'm just glad to actually be around for the day you announced one of these transactions. A quick question for you here. Transaction looks fine. I understand the metrics there. A little -- I wanted to go down the path on the share repos. And I know that was tied to the Malaysia sale in terms of the proceeds, but you're pivoting on the debt retirement. You're highlighting that you can make some acquisitions at valuations below where your stock is trading. I'm just wondering what the thought process was on not pivoting away from the share repo completely also from the standpoint of just sort of if you were shrinking the company with Malaysia, it would have made sense to shrink the share base, but now we're essentially -- we're more than replacing the part of Malaysia. So on a per share basis, what the thought process was and how that calculation was made.

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

I just think it just sets us apart as a company that really focuses on rewarding shareholders with share repurchases. In my mind, we sold a historically long asset, incredible metrics, fully monetized everything beyond 2P actually. And to give some of that back to shareholders in an upfront way I thought was the best way to handle this and so did our Board. And also the reason this is so meaningful and so critical for shareholders is that we didn't make a big deal out of it today. It's been 3 years since the collapse in 2016. We did not issue equity then. So when you buy equity now, after a great monetization of a historic asset in Malaysia, turn around and basically replace it with metrics far better and then do a share repurchase, we really feel that we've done the best we can in rewarding shareholders. And as to the debt, we naturally want to keep our revolver undrawn in these type of arrangements.

But since our EBITDA is so strong and our debt-to-EBITDA metrics are so stellar, with this arrangement, we felt that we could pivot toward just revolver and really wanted to again highlight the great reward we have for shareholders, including a significant dividend. And without issuing equity in '16, we turned around and bought again, we also had a repurchase -- a major repurchase back a few years ago all again without issuing equity. So we've been taking out a large percent of the company over the last decade, which I think sets us apart in shareholder value creation. That's why we did it.

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Appreciate that. One thing I would be interested in following up on, on Slide 11, the overall outlook until 2023 based on, obviously, a couple of specific developments and all that. We talked back late November at our little deepwater event. Tiebacks were obviously very critical element of growing the Gulf of Mexico going forward. There was an announcement about 2 weeks ago of an acquisition in the Gulf, and one of the things highlighted there was this 30-mile radius and tieback to existing platforms. You're really not talking about that here, but that's got to be in your back pocket. I was just sort of curious, if we looked at '23, are you locked down on what you do? Or should we think about expansion opportunities beyond what's highlighted here in the presentation from the tieback side?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Well, this project will come with -- as it's currently outlined, has a significant facility located in Mississippi Canyon, this facility right on top of our Hoffe Park project that we have a discovery on when we drill a well there later this year. We see that as a go-to there. And another facility, which in the current plans will be built on top of Samurai. So we do have major synergy with those 2 projects that are in the forefront. Then there will be other additional things we're working at and working on in the Samurai area. And so we have 2 major facilities, plus our Medusa, plus our Front Runner, to take back tiebacks, too. And I've never been one to single all that out. I mean in the Gulf of Mexico, there's massive infrastructure everywhere, basically, except the ultra-deepwater tertiary. So you can tie back to someone or yourself all the time. Lucius is a field, for example, takes in tiebacks from other areas, which we're not a partner. So basically, this is a tieback company we're buying, and then it fits in with some of our exploration areas, and they too have, like I just mentioned, Arun here, I stumbled through the -- I had every number but the production here on these assets. But they're all tied back as well. So this really is a tieback project. They're building, looking -- we're looking to build a new facility at Samurai, what you're tying back to, we're tying back to. Three of the next wells through next year are tied back to facilities either they own or someone else primarily, they being the company we're buying. So I really feel it's a tieback acquisition. We just don't brag and go around the tieback word all the time. We're here to make money with it and we'll make money how we need to make it.

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

No, I appreciate that. And then kind of the final question along those lines, the comment in the press release about operating production going up to 66%. I know you've talked a lot of times in the past about when you're in control, you don't have to deal with the third-party outages and all of that. Should we think of that 66% number is pretty stable going forward? Or is that something that goes up as you think about moving this acquisition forward or moving the whole Gulf of Mexico forward?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Today's production is what we will operate, and that's what where we'll be operating those fields and I don't see it significantly changing unless we do other deals to make it hard.

Operator

(Operator Instructions) And next question will be from Pavel Molchanov at Raymond James.

Pavel S. Molchanov - *Raymond James & Associates, Inc., Research Division - Energy Analyst*

At the time of the Malaysian sale, you commented that you would clearly be on the lookout for bolt-on acquisitions. And obviously, you announced the big one today. Beyond this $1.4 billion deal, are you still looking to add assets in your existing North American operating areas? Or is this it for the time being?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

No, it's really never over for me. We've done a lot of deals in 5 years if you look back, a lot of significant deals, all kinds of different types of businesses. I e-mailed off a list today or the other day of things I want to look at again. So it never ends for me. If we're able to -- with our -- we have an outstanding subsurface team, both onshore and offshore. And when we find a situation and we can run through the 2P and able to buy that 2P and make value or sell something else for more than we have it -- more than we have in it for its value and buy something to create additional value, again, we'll continue to do it. And we're going to be continuing to look at these things to help our business because all our deals have been so accretive. It's incredibly so if you really look at the numbers and look into it. So it never really ends on that front. I'll never be someone to say it's over. We'll keep going, keep working, keep working to improve our shareholder value every day.

Pavel S. Molchanov - *Raymond James & Associates, Inc., Research Division - Energy Analyst*

Can I also ask about hedging? Are there any hedges that are coming into the company as part of this acquisition? And if not, will you be looking to hedge some of the incremental production given that you're obviously funding it from the balance sheet?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

We're -- we did not inherit any of any kind, and we prefer to talk about our hedging stuff at our quarterly call, which is just a week away. So we'll get into all that at that time.

Operator

Thank you. And at this time, Mr. Jenkins, we have no other questions so I would like to turn the call back over to you, sir.

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Okay. Thanks, everyone, for calling in on another deal. I think that's 3 quarters in a row. And thanks, everyone, for dialing in. And we'll get back to earnings work, and we'll be talking to you soon. And thanks for everything. Appreciate it.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines. Enjoy the rest of your day.