Granite Ridge Resources, Inc. NYSE:GRNT

Earnings Call

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Call Participants

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Presentation

Operator

Good morning, and welcome, everyone to Granite Ridge Resources' Fourth Quarter and Full Year 2024 Earnings Conference Call. [Operator Instructions].

I will now turn the call over to James Masters, Investor Relations representative for Granite Ridge.

James Masters

Thank you, operator. Good morning, everyone. We appreciate your interest in Granite Ridge Resources. We will begin our call with comments from Luke Brandenberg, our President and Chief Executive Officer; will review company strategy, discuss 2024 results and provide an outlook for 2025. We will then turn the call over to Tyler Farquharson, our Chief Financial Officer, who will review our financial results in greater detail. Luke will then return to provide some closing comments before we open the call up for questions. Today's conference call contains certain projections and other forward-looking statements within the meaning of federal securities laws.

These statements are subject to risks and uncertainties that may cause actual results to differ from those expressed or implied in these statements. We would ask that you also review the cautionary statement in our earnings release. Granite Ridge disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Accordingly, you should not place undue reliance on forward-looking statements. These and other risks are described in yesterday's press release and our filings with the Securities and Exchange Commission. This conference call also includes references to certain non-GAAP financial measures. Information reconciling non-GAAP financial measures to the most directly comparable GAAP financial measures is available in our earnings release that is posted on our website.

Finally, as a reminder, this conference call is being recorded. A replay and transcript will be made available on our website following today's call.

With that, I'll now turn the call over to Luke.

Luke C. Brandenberg
President & CEO

Thank you, James, and good morning, everyone. I appreciate you joining us today. This is an exciting call for us at Granite Ridge. Our fourth quarter 2024 results exceeded our expectations and contributed to a strong full year 2024. I look forward to discussing that in more detail shortly. Even more exciting in our accomplishments in 2024 are our plans for 2025. Since going public, we have been laying the groundwork for the significant progress we anticipate this year, an exceptional team of professionals and partners in place. Now is the time to execute. As this is a year-end call, I will begin with an update on the Granite Ridge business and why we believe it offers a unique value proposition within the oil and gas sector.

Next, I will share the results of the capital we've invested in operator partnerships, which is rapidly transforming the company into one that controls its capital expenditures and cash flow timing similar to an operator. Finally, I will highlight the results we have achieved this year and outline what you can expect from us in 2025 before turning the call over to Tyler for the details.

Since going public in 2022, we have been viewed as a nonoperated oil and gas company. However, our roots go back to 2014 as an oil and gas private equity firm, and our business model has always represented a blend of both noncontrolled and controlled investments. We are less an oil and gas company, and we are a publicly traded private equity firm with career oil and gas investors and a technical team applying an investment-driven approach to oil and gas development.

Over the past decade, we have built interests in over 3,100 wells across 6 of the premier unconventional basins in the United States. We offer our investors a diversified portfolio, targeting best-in-class full cycle returns by investing oil and gas projects with proven public and private operators. The opportunity set has evolved in the past few years, and Granite Ridge is doing what we do best, identifying dislocations in the market.

In 2014, nonoperated inventory with near-term development traded at a substantial discount to operated inventory, roughly 50%. By 2023, the volume of nonoperated oil and gas deals had surged but the discount began to compress as mineral buyers expanded into nonoperated interests and family offices increased their allocation, often seeking the tax benefits associated with oil and gas development. As the nonoperated space became more competitive, smaller operated deals offered higher returns.

This shift occurred due to an exodus of private capital, leaving a void in the market. From 2018 to 2023, private equity fundraising for U.S. natural resources plummeted by nearly 90%. Although more robust lately, those firms that have been successful in raising capital are generally allocating larger commitments to fewer teams. Recognizing this evolution, we are once again partnering with highly talented proven value creators who have successfully built companies for private equity.

In 2024, we've invested approximately $120 million in what we previously referred to as strategic partnerships and control capital. By partnering with proven operators as the majority working interest owner, we gained control over capital and development timing, leading to higher returns and enhancing our ability to generate shareholder value. As our controlled investments have grown in scale and importance, we are simplifying how we describe our opportunity set to better reflect our forward-looking strategy.

Going forward, our investments will fall into 2 categories: operated partnerships and traditional non-op. Operated partnerships are controlled investments with proven value creators in their areas of expertise where we hold the majority working interest. These deals give us full control of our capital allocation, development timing and well design, allowing for us to optimize returns. Traditional non-op remains an important part of our strategy, where we own minority interests in core areas managed by experienced operators. This provides exposure to high-quality assets without the need for direct operational control.

This shift is not just about terminology, and it's about how we're positioning Granite Ridge for the future. In 2024, just under half our capital was allocated to operated partnerships, but the success of our early investments give us confidence to lean in further. In 2025, the strategy will account for nearly 60% of our CapEx. For our investors, this means more control, higher returns and increased optionality in a competitive market. We are targeting full cycle returns of greater than 25% and have been pleased with our results to date. To add some color, our first 6 projects in our operated partnership program included 38 wells, all in the Delaware Basin. We invested $148 million and based on realized and projected cash flows at current strip pricing.

We estimate a full cycle internal rate of return of 24%, fully accounting for inventory costs as well as drilling and completion expenses. We are currently running 2 rigs and have 92 gross or 42.9 net locations in hand or under definitive agreements across 2 operating partners in the Permian Basin.

The operated partnership strategy continues to gain momentum, and we are in active discussions with several additional management teams. We have built a great mousetrap that provides public investors with private equity-like exposure offers proven value creators a differentiated capital structure that does not rely on an exit, but offers the flexibility to build a company rather than an asset to flip. As I mentioned on the last call, it is different and is working. As usual, Tyler will provide a detailed overview of the fourth quarter, but I would like to highlight a few key points. In our last call, I mentioned we expected roughly a 10% decline in gas production, offset by a modest increase in oil production. I was pleasantly surprised to be wrong, but for the right reasons.

In the fourth quarter of 2024 compared to the third, gas production actually increased by 4%, complemented by a 16% increase in oil production. The primary driver of this outperformance was acceleration in our traditional non-op business, specifically chunky interest in wells operated by newbern, EOG, and Silverhill that came online earlier than expected. Additionally, early outperformance in a couple of our operated partnership units contributed to the beat.

We are looking ahead to an exciting year for Granite Ridge with robust production growth of 16% or 29,000 barrels of oil equivalent per day at the midpoint with an oil weighting of 52%. This is largely driven by our Permian operated partnerships and a few high working interest Permian units in our traditional non-op business. We expect gas production to remain steady through the first 3 quarters, followed by an increase in the fourth quarter as about a dozen wells come online across the Haynesville, dry gas Eagle Ford and traditional non-op Permian.

While production is expected to decline by about 5% in the first quarter, increased slightly in the second quarter and accelerate in the second half of the year as our second Delaware-focused operated partnership rig stood up this mid-February, begins to contribute in earnest. We are guiding to a total CapEx range of $300 million to $320 million. with 56% allocated to operated partnerships and the remainder to traditional non-op.

As is our norm, this range only includes deals and developments that are either in hand or under contract. Absent a significant negative change in hydrocarbon prices, we are confident that we can fund this capital plan as well as our fixed dividend from internally generated cash flow and existing liquidity. We have a substantial amount of oil-weighted inventory in our operated partnership program and current economics are incentivizing us to drill sooner rather than later. While honoring the conservatism towards leverage that is in our DNA, I could see a path towards an additional $60 million to $80 million in development CapEx this year.

This additional CapEx would be weighted towards the fourth quarter and would likely have a negligible impact on 2025 production but would significantly contribute to early 2026. We continue to evaluate various debt financing opportunities, which we believe offer attractive options for our capital plans. We plan to continue to monitor market conditions and our strategy remains focused on non-dilutive capital to expedite the development of our existing inventory.

On that note, I'll hand it over to Tyler to provide more insights into our results.

Tyler S. Farquharson
Chief Financial Officer

Thanks, Luke, and good morning, everyone. As Luke mentioned, we are happy to report fourth quarter results that exceeded expectations. Production for the quarter was a record 27.700 BOE per day and up 10% sequentially with an increase in oil cut from 50% to 53%. For the year, total production increased to 25,000 BOE per day and finished near the high end of our guidance range. For 2025, we expect our growth trend to continue with the midpoint of our production guidance range, representing a 16% annual increase. Our net loss for the fourth quarter was $11.6 million or $0.09 per diluted share. Excluding noncash and nonrecurring items, adjusted net income for the quarter was $22.7 million or $0.17 per diluted share.

Adjusted EBITDAX in the fourth quarter was $82.6 million, which was a slight increase year-over-year from $81.8 million and a 10% increase from the prior quarter. In 2024, we achieved adjusted EBITDAX of $290.8 million, down from $305.4 million in 2023 due to lower realized commodity prices and the impact of divested assets in December 2023.

Moving on to cost. I want to highlight our per unit lease operating expenses, which has continued the trend of year-over-year improvement. In the fourth quarter, we reported per unit lease operating expense of $5.99 per BOE, which is 7% lower than the fourth quarter a year ago. We reported full year LOE of $6.29 per BOE, an 8% improvement over 2023.

The decrease in lease operating expenses is primarily due to lower gathering and transportation expenses and decreased workover, repair and maintenance costs versus 2023. Production and ad valorem taxes for 2024 were 6.8% of sales, a slight reduction from the prior year. Both our LOE and production tax metrics ended below the low end of our 2024 annual cost guidance ranges, and we've lowered our 2025 initial cost guidance ranges to reflect our continued strong performance. Our per unit cash G&A expense was $2.09 per BOE for the quarter, down 14% from the same quarter last year. For the full year, $2.45 per BOE was

16% lower than the year before. This metric continues to improve as our business grows and highlights the scalability of our business model.

Our operating partners completed and placed on production a total of 86 gross or 4.1 net wells for the quarter and 299 gross or 23.4 net wells for the year with activity primarily focused in the Permian Basin. As of year-end, we have an additional 202 gross or 14.9 net wells in process. In the fourth quarter, we successfully closed nearly 2 dozen transactions primarily involving Utica condensate window leasing and consolidating existing operated partnership units in the Permian Basin.

We invested approximately $9 million, including future drilling carries. Excluding Utica leases that are not yet unitized, we added 1.2 net locations at a cost of $2.9 million per net location. Most of these 1.2 net locations are either in the drilling phase or already online, including an in-process 3.5-mile Utica condensate unit. We anticipate $12 million in future development capital for these acquired locations aligning with our typical ratio of $1 of entry capital to roughly $3 to $4 in the ground.

Finally, we have consistently returned capital to shareholders and the fourth quarter was no exception as we paid out our regular quarterly dividend of $0.11 per share. Subsequent to quarter end, our Board declared another $0.11 per share cash dividend payable on March 14, 2025, to shareholders of record as of February 28, 2025.

I will now hand it back to Luke to discuss our outlook for 2025.

Luke C. Brandenberg
President & CEO

Thank you, Tyler. Granite Ridge combines the control of an experienced operator with the investment acumen of a private equity firm. We provide access to a diversified portfolio of oil and natural gas interests situated in some of the world's most productive basins. Our extensive proprietary data set gives us a competitive edge in selecting high-return projects, partnering with some of the industry's most successful operators. We maintain a target leverage of less than 1.25x net debt to adjusted EBITDAX, and continuously optimize our portfolio with near-term development opportunities.

Additionally, we actively manage risk through a systematic hedging strategy, protecting our investments with 90% of our current production hedged through 2026. For 2025, we project a 15% growth in production per share, coupled with robust cash returns to shareholders through our fixed dividend, which implies a current yield of over 7.5%.

Since 2023, our fixed dividend has consistently yielded between 5% and 9%, while production growth per share was over 20% in 2023 and 13% in 2024. As a management team and Board, we find this performance highly compelling as our Form 4s show that we continue to put our money where amounts by investing alongside our shareholders.
Thank you again for joining us this morning. We are excited about the year ahead and appreciate your interest in Granite Ridge. With that, I'll turn the call back over to the operator for questions. Operator please open the floor for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Michael Scialla with Stephens.

Michael Stephen Scialla
Stephens Inc., Research Division

I want to see if I could get a little bit more color on the contingent $60 million to $80 million that Luke, you mentioned you could spend weighted toward the fourth quarter. I guess, what factors will really determine whether or not that gets spent? Is it strictly market conditions or some beyond that? And maybe if you could address how that might impact the first half of '26 if that does get spent and if it doesn't?

Luke C. Brandenberg
President & CEO

Yes, you got it. Thanks for the question, Mike. The way that we look at the world right now, our CapEx is pretty weighted towards the first half of '25, probably about 2/3 of the CapEx for the year we're currently modeling in the first half. And really, that's first quarter weighted. We're looking at first quarter CapEx. It's probably 1/3 higher than what we saw in the fourth quarter. So that's currently what we're modeling out. But you hit the nail on the head, it's really market driven. We look at our inventory on the operated partnership side, and we're excited about what the economics look like at those projects.

And so if the market conditions hang in there, certainly seen some volatility on pricing lately, and I'll hit on that in a second. But if the market conditions hang in from a hydrocarbon price perspective, that could be pretty darn interesting.

The other piece I mentioned, our current capital budget we're certain, I'd say, highly confident, again, that's a material market condition change, that we can fund that out of cash flow and existing liquidity. But we're always looking at ways to better capitalize this business for the long term. And we're specifically focused on anti-dilutive ways. But we're always canvassing the market. We're always talking to looking at different opportunities. And so if we were to have an opportunity to access additional liquidity in a way that was not dilutive, then we would seriously consider that. So that's the high level.

I would say pricing is one on the market conditions that I would like to hit on. So I really appreciate you opening that door for me. Oil has been a bit volatile lately, but we've certainly seen that in the past few months. The reason I want to hit that is it's a great example of why our diversification is really a strength for us. Oil being a more international commodity, has gotten a lot of international attention.

It's really only down about 6% year-to-date. We see a lot of volatility. What gets less attention is the gas side, given that it's just a more localized market, but gas is up about 24% year-to-date. And so we really want to hit that as a highlight because that's really going to benefit us. We have a significant amount of gas production, approximately half of our reserves are gas.

And we feel good that we have alignment with our partners on the traditional non-op side in the gas basins that are going to put some of those wells the sales this year. So that's a real long-winded way of answering your question, but the net-net is that $60 million to $80 million, that would be inventory in hand on our operated partnership side. We see it. We're excited about the economics. And if market conditions are there, both on the hydrocarbon pricing side, but then also the capitalization side, then we would really look to accelerate that from what's currently modeled in 2025 to be developed and have that CapEx hit in '25, but the production would really start to show up in '26.

Michael Stephen Scialla
Stephens Inc., Research Division

I appreciate that detail. And if that does get spent, it is fair to assume that the momentum continues to grow in the first half of '26?

Luke C. Brandenberg
President & CEO

Yes, sir. You nailed it. I don't think that would have a lot of impact on '25 production. It may have a little bit, but it will be negligible. But it would really help to continue the growth profile that we're showing into '26.

Michael Stephen Scialla
Stephens Inc., Research Division

Got it. And then one more, if I could. You mentioned the 2 rigs that you're running inside the partnerships. I think you had said those are both in the Delaware. Is that correct? And if so, your thoughts on adding a rig in the Midland What needs to be done before you could do that?

Luke C. Brandenberg
President & CEO

Yes, that's right. So they're both in the Delaware Basin right now, primarily Loving County. That's where most of the development has been to date and what's projected right now. We look forward to starting to drill in the Midland Basin. Probably middle of this year, we've got an asset in hand. We have another deal that we're working on getting closed that we're excited about. There's a few DUCs that we have to get in a row just from operations perspective, and getting some other interest owners lined up, but we do hope to spud those wells middle of this year in the Northern Midland Basin as well.

Operator

Your next question comes from the line of Derrick Whitfield with Texas Capital.

Derrick Whitfield

Also congrats on a strong close to 2024. Well, Luke, I'll step into the door that you open on natural gas. When you look at the environment, I mean, it's arguably the most supported macro environment we've seen in well over a decade. So very few are seeming lean into it. How are you thinking about the opportunity from both a controlled capital and traditional non-op basis?

Luke C. Brandenberg
President & CEO

Yes. Thanks for asking that. We don't currently have any just pure natural gas-focused partners on the operated partnership side. We've explored some opportunities there, and we will continue to. We don't have any right now -- a couple of points, though, I would say that we do look forward to benefiting from a lot of our Delaware production is pretty darn gassy. And so we are seeing a benefit there.

It's nice to get some positive realization at Waha, after some rough periods last year. But on the traditional non-op side, we do have some compelling inventory right now. We're looking at, at least a net well in process in the Haynesville, and we expect that to come online. That's across several gross wells, but they come online probably late third quarter or early fourth quarter.

And we also have some inventory in the dry gas Eagle Ford that we expect to come online probably in the third quarter. What I'm optimistic of, we're really careful when we pick our partners on the traditional non-op side, we want to make sure that we're -- if we're going to be in the non-op position, we want to be under folks that we have real alignment with. And there's one group in particular that's been a great partner to us. We know them well. They've got a wonderful position in the Haynesville. We were able to get a little piece of. I'm optimistic that at these prices hang in there, they'll accelerate development there. And so there's a scenario where we do have additional CapEx and development going to the dry gas Haynesville this year with some of these traditional non-op groups that are, let's say, quick to adapt.

So we're excited about that. If I look at the Haynesville, we have probably 16, a little more than that, net locations that could be developed. Again, we're only looking at little over 1 in the back half of this year, but I would love to see that number accelerate.

Derrick Whitfield

Terrific. And then referencing your deal sourcing funnel on Slide 9. Are there any generalizations you can offer on the deals won or lost other than price? And if you could also add maybe where you're seeing the greatest opportunities in the marketplace.

Luke C. Brandenberg
President & CEO

Yes. So it's funny on gas. Just to stay on that topic, gas deals we've seen a lot of, if you look at 2014, we saw a lot of gas-weighted deals. We weren't really competitive on them in 2014 because the fact is a lot of folks were wanting you to pay, then strip pricing, at least kind of point 4 pricing -- excuse me, '25 pricing that was in the 4s when gas was trading more in the high 2s. And then we struggled to get there. So we lost the vast majority of the gas deals that we looked at in 2024.

So that was definitely a driver where we continue to see most opportunity. It's in the Permian and a lot of that is just driven by non-op deals that are generated, where the rigs are. And so that's where we see most of the opportunity. I would struggle to win gas deals because we weren't willing to pay for $4 gas when it was trading in the high 2s or low 3s and high side, maybe I wish I had some of those, but that's all right.

Another place that we had actually had some success is small, but it's in the condensate window of the Utica. Tyler mentioned that we've done a few deals there. It's not necessarily large in dollar quantity. Although, we anticipate additional drilling that will make that more impactful, but it's actually pretty high in just count. We've been excited about what we've seen there. We've got a great partner that we're working out there in the Dale Resources guys, they all operating.

So that's been a neat area for us. But I'll tell you the one neat thing is we talk about diversification. And if you look at our portfolio, I think we do have a net diversification. That's an output. Whenever we set our budget for '25, we don't say, I want to allocate 50% of the Permian and 10% of the Haynesville. That's not the case. We just let every deal compete on economics. But where we are intentional is, we are intentional to make sure that our deal flow, so the 650-plus deals that those are diversified because we want to make sure that you see any themes and basins, but we're quick to recognize them and that we have a quick ability to move.

So again, a long-winded way, I think, in answering your question, but hopefully give you a little more color to what are seeing.

Operator

Your next question comes from the line of Noah Hungness with Bank of America.

Noah B. Hungness
BofA Securities, Research Division

For my first question, I was just -- I wanted to ask on your CapEx guide. Is that all D&C spend? Or is there any deal or acquisition CapEx in there?

Luke C. Brandenberg
President & CEO

There's deal and acquisition CapEx in there as well. Thanks for asking. That's a good point. So there is a combination of those 2 things. It's certainly D&C heavy, I would say. But it's primarily D&C. If I had to break it out, Tyler, what would you say, because there's a little acquisition we did earlier this year that had some PDP, what would you think, maybe, if I have to guess, probably 3 quarters is development. If I think about it, no, we typically say that $1 of inventory drives $3 to $4 of development. And so any quarter that number may change. But if you look at it over the long term, I think you're generally going to be 20%, 25% inventory and 75%, 80% development.

Noah B. Hungness
BofA Securities, Research Division

Got you. And then for my second question, I noticed there was an impairment that you guys had in 4Q '24. Could you just add any color around that?

Tyler S. Farquharson
Chief Financial Officer

Yes. Thanks, Dylan. This is Tyler. Yes, so that was in our Williston Bakken assets. We haven't invested a lot of capital up there over the past handful of years. That's been one of our areas that we've seen less deal flow and less investment opportunity. So that's really a maturing asset -- PDP heavy asset. I think we've had a lot of little things on some costs and other items that have just gone up as those properties mature. So that's really what was driving that impairment is just the lack of additional CapEx investment up there and then the maturing of those assets.

Luke C. Brandenberg
President & CEO

Noah, If I can add something there, too, and this may be a little hand wavy, but it's the truth. One thing I want to point out there, nobody likes to see these write-downs, but that was actually a really good deal for us. So that was a deal that we bought several years back. But we basically bought it for PDP value. And so that deal has worked out for us, but it's one of those few deals you actually buy for PDP and you get the inventory for, I would use, air quotes free. And so with a lot that we wrote down in that specific instance was inventory that we booked, but we didn't necessarily pay for, but we booked it.

And then it was honestly marginal, which is why we didn't have to pay a lot for it. But that's what ultimately drove the write-down to Tyler's point. So again, we don't like to see write-downs, but I would say that write-down was not the result of a bad investment decision. It was just the result of -- we were able to book some inventory that was probably marginal, but we got for nothing and then ultimately had to write that down. But in a higher price environment, that could come back.

Noah B. Hungness
BofA Securities, Research Division

Yes. I mean that was going to be, I think, my follow-up question, if I could. Just as we've seen the Bakken, I feel like people would consider the boundaries of the Bakken expand and laterals have continued to extend. You guys have gotten more creative with their development. I mean, do you see like a pathway potentially where those locations that have been written off could come back into the money?

Luke C. Brandenberg
President & CEO

I do. I would say it's probably more price driven than it is CapEx driven in the areas that we're at anyways, that's a bigger piece for us. If hydrocarbon prices increased. And if you're looking at $80 oil of that, some of that does come back. The CapEx piece certainly matters, but the bigger driver for us in those areas, again, it was stuff that primarily we got without paying a lot of value for it, it was more of a production buy. But yes, I think it could come back. I don't know that it's ever going, never say never.

In the near term, I don't see it being a big growth area for us. So the land side up there, we're just seeing fewer opportunities. Other people may be on a real small scale, but it's been tougher for us to capture opportunities up there at a compelling price lately. So I don't think it would be a growth area, but I do think there's a scenario where that comes back if prices get a little better for us.

Operator

Your next question comes from the line of John White with ROTH Capital.

John Marshall White
ROTH Capital Partners, LLC, Research Division

Congratulations on the nice results all the way around. Yes, you were pretty confident in talking about 2025 guidance. And as also mentioned, crude has been volatile primarily to the downside this year. In preparing your guidance, did you get the impression from any of your partners that some of their planned wells might be on the bubble or subject to being rescheduled or canceled?

Luke C. Brandenberg
President & CEO

Yes, that's a great question, John, and so I'll hit that from 2 approaches. Right now, if we look at our expected term to sales for the year '25, probably that is through the operated partnership program. So on that side of the equation, we control that, right? And so where we are right now and where prices are right now, we still are -- I think that's an attractive economic decision to develop that. Again, this is call, 60% of the turn to sale wells. If prices do continue to degrade, particularly on the oil side, then we could change that. That's a neat thing about these operating partnerships. We do have control over that. Right now, it's so good.

But we are keeping a close eye on it. We're keeping a close eye on the economics and when it makes sense to drill or if it makes sense, just to slow down the pace, that's a big piece. On the traditional non-op side, so call it 40% of the wells that we expect to turn to sales this year. One thing we're always pretty careful to do is only guide to wells where we see a real line of sight to those wells happen.

And so for most of those, some maybe you've got a permit on, but a decent number of those already, frankly, are have either been spud or at least you've got some capital being spent building pads, et cetera. So those it could always change, but it's harder to move it -- hard to stop a moving train. And a lot of those are already in process. So I don't anticipate a big change. But again, if there was a significant move, that could happen. But right now, we feel pretty good about that 3.10%. Certainly, the traditional one-off side, again, a lot of it is moving. But the operated side, we're going to adapt quickly if the market does continue to degrade.

Operator

[Operator Instructions] Your next question comes from the line of Chris Baker with Evercore ISI.

Christopher Moore Baker
Evercore ISI Institutional Equities, Research Division

I want to go back to the operated partnership. I think as we kind of frame up the next few years, it seems like there's a coming free cash flow inflection as those stabilize inflection that you're arguably not getting much of any credit for in the market. Could you just kind of frame up in the scenario where that maybe continues? How should we think about the longer-term strategic direction? Are there levers to pull in terms of forcing the market sand a little bit. Just any sort of thoughts around that longer-term outlook and what we're likely to see as some of these initial partnerships kind of start to stabilize, would be great.

Luke C. Brandenberg
President & CEO

Thanks for the question, Chris. I appreciate it, and thanks for picking up the rebranding to operated partnership so quickly, too. On that side, what we really like about the operated partnerships, as you mentioned, if you just pick up a rig, you're going to have this big cash flow outspend, and then eventually you get to a cash flow positive place. And so you're really hitting the nail on the head, and we anticipate that, especially with our first partnership with 1 or 2 rigs. We're still in a cash flow outspend, but that will start to resolve itself in the next year or so, I anticipate.

We do think that's a big delta. One thing that just in the market, this is just that we've had to fight since going public, I think I've said it before, in fact, I know I had, but we went public in October '22 with no debt. And we were hoping the market would reward us and cheer us for our financial discipline, and we were just met with a resounding yarn as we say. It seems that the market is more focused on leverage than it was in the pre-COVID area certainly, but it seems like if you're less than 1.5x levered. The market is -- gives you a path. That's not really a risk factor. So in a weird way, because the opportunities that's there and we're excited about it. We just continue to grow, continue to add rigs, we continue to add partners. In fact, I mentioned that we're in advanced discussions with a couple of other teams. We're real close with another one that's pretty exciting.

But your point the spot on is we have accelerated development based on the opportunity set and based on the inventory that we're excited about, we've gone to that cash flow negative piece. But that's not going to happen forever. We actually added a slide in the investor deck, I wanted to put in there because if I'm an investor, I could say, all right, if you guys have an increase in debt, when do we stop? But just to show that if you look over the company's history, at least over the past 7, 8 years, we've never been above 1x levered. And part of that is just conservatism in our DNA.

But as we look forward, a big part is exactly what you hit. These guys are going to outspend cash flow and you pick up a rig and then eventually that becomes a self-sustaining program that we're excited about. So our first partnership is running 2 rigs, hopefully, sometimes next year that gets to being about cash flow positive. To be totally transparent, though, we're going to pick up a rig hopefully, middle of this year with our second partner. We have a third partner, we're really fired up about -- they wouldn't be drilling any time soon, maybe like this year, but they'll be in that cash flow outspend as well.

But the goal is to get those guys cash flow positive, you're living within cash flow, we can actually put a positive print on a free cash flow basis is coming. It's definitely coming. Anything else we can hit there for you, Chris? I really appreciate the question and dialing in.

Christopher Moore Baker
Evercore ISI Institutional Equities, Research Division

Congrats on the quarter.

Operator
Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.