Southwestern Energy Company

Q2 2019 Earnings Call

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CORPORATE PARTICIPANTS

Paige Penchas – *Vice President of Investor Relations*

Bill Way – *President and Chief Executive Officer*

Clay Carrell – *Chief Operating Officer*

Julian Bott – *Executive Vice President and Chief Financial Officer*

Jason Kurtz – *Head of Marketing and Transportation*

PRESENTATION

Operator
Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Southwestern Energy Second Quarter 2019 Earnings Conference Call. Management will open up the call for question-and-answer session following prepared remarks. In the interest of time, we do ask you please limit yourself to two questions and re-queue for additional questions.

I would now like to turn the conference over to Paige Penchas, Southwestern Energy's Vice President of Investor Relations. You may begin.

Paige Penchas
Thank you, Jamie. Good morning and welcome to Southwestern Energy's Second Quarter 2019 Earnings Call. Joining me today are Bill Way, President and Chief Executive Officer; Clay Carrell, Chief Operating Officer; Julian Bott, Chief Financial Officer; and Jason Kurtz, Head of Marketing and Transportation. Along with yesterday's press release, we also issued our 10-Q, which is available in the Investor Relations section of our website at www.swn.com.

Before we get started, I'd like to point out that many of the comments during this call are forward-looking statements that involve risks and uncertainties affecting outcomes. Many of these are beyond our control and are discussed in more detail in the risk factors and the forward-looking statement section of our annual and quarterly filings with the Securities and Exchange Commission.

Although we believe the expectations expressed are based on reasonable assumptions, they are not guarantees of future performance, and actual results or developments may differ materially. We may also refer to some non-GAAP financial measures, which help facilitate comparisons across periods and with peers. For any non-GAAP measures we use, a reconciliation to the nearest corresponding GAAP measure can be found in our earnings release available on our website.

I'll now turn the call over to Bill Way.

Bill Way
Thank you, Paige. Good morning everyone. We really appreciate you all joining us for the call today. Foundational to who we are at Southwestern Energy, we once again delivered strong operational performance for the quarter, reporting solid results across the business and honoring the specific commitments that we have made to investors.

We remain committed to responsible returns focused capital allocation, our clear and deliberate path to free cash flow, and preserving our strong balance sheet. While the backdrop of equity and commodity markets is clearly challenged, we have and will continue to prudently manage risks, lower costs, and capture strategic organic and inorganic opportunities along the way to build long-term value.

We note the efforts across the industry to exercise capital discipline in a volatile commodity business and to take steps to improve balance sheets. This is nothing new here at SWN and we've been doing this for years. As clearly evidenced by our strategic actions we have taken, this discipline is part of the bedrock of our management approach at SWN. Our fully funded capital program, undrawn $2 billion revolver, strong leverage ratio, and no material maturities prior to 2025 altogether mean that we already have a strong balance sheet, which underpins our resilience in this current market.

We remain sharply focused on both cash flow neutrality and our leverage ratio. We are well down our announced path to replace the EBITDA we monetized in our Fayetteville sale last year, through prudent development of our liquids-rich Appalachia assets. Lowering drilling and completion costs and reducing cycle times without sacrificing well performance are all key to this plan.

If there is one thing SWN is known for, its operational out performance. By combining our leading fully integrated field development capabilities, and our large-scale high-quality acreage position, the company is setting new records and building on its strong legacy of outperformance.

Our subsurface technical expertise in Appalachia spans the basin in high-yield condensate rich and super rich NGL acreage, along with high yield high rate gas wells. When combined with our demonstrated learning agility and innovation, we are continuing to apply new learnings at an accelerated pace, gaining the benefits of improved performance, and realizing lower costs. And we do all of this while assuring the safety of all those who work with us and protecting the environment where we work and live.

Clay and Julian will describe our most recent technical, operational, and cost reduction achievements in more detail in a moment, but I want to highlight a few for you.

First, we are on track for our well cost reduction target of $875 per lateral foot, on average for all wells to sales in 2019.

Second, as a result of numerous efforts across the company, production of 186 Bcfe equivalent was on the high-end of guidance for the quarter. Year-over-year performance predominantly came from our super rich acreage in southwest Appalachia, where condensate production increased 30%. For the full year, as previously guided, we expect modest production growth of 9% for the company. My thanks to our incredibly dedicated and resourceful teams, we sure are proud of you and the efforts that you make every day to make these achievements possible.

Third, with cost management being of paramount importance to our company, we have reduced our total cost structure by over $100 million compared to the first half of 2018. We are careful and prudent with every dollar, whether it is capital or expense.

Fourth, with the capital and operational efficiency improvements achieved year-to-date, we are able to lower the high-end of capital investment for 2019 by $30 million, while affirming our regional production guidance. Total capital for this year will not exceed $1.15 billion.

To emphasize this point, we've already begun our planned reduction of activity in the second half of this year, and expect to go from operating an average of six rigs and four frac crews in the first half to two rigs and one frac crew by the end of the third quarter, all within plans.

Looking ahead, the company's strategic intent remains the same. We intend to grow differentiated and sustainable shareholder value through returns-focused investment and consistent operational outperformance in leading high quality, concentrated large scale and low-cost assets with an emphasis on high margin liquids.

While we're just getting underway with our detailed 2020 planning process, you can expect us to remain as disciplined in our approach as we've been in the past. Our priorities and our financial discipline are clear.

As you've heard me say before, we establish and adjust our capital budget based off of available cash flow at strip pricing generated by the company including the benefits of our hedging program, and we allocate capital based on project economics calculated using strip pricing unhedged. As previously announced, 2019 and 2020 capital programs are fully funded by cash flow generated by the company and supplemented with cash earmarked from last year's Fayetteville monetization.

We believe that even at strip prices, we can achieve our goal of returning to free cash flow neutral position by the end of 2020. However, if cash flow declines, due to lower prices, and it impacts our cash flow, we will reduce investment accordingly, in line with our rigorous capital discipline management.

And finally, regarding our current operations, protecting the environment is a core value of the company. The sustainability of our efforts is highlighted in the fact that from the beginning of our operations in Appalachia, we've invested in water delivery infrastructure. To date, we estimate that we have removed more than 1.3 million truckloads of water from the roads, thereby reducing industrial traffic in the communities where we work and live, all while lowering our costs to operate, another proof point of our core value-based culture, supporting leading safety performance and environmental stewardship.

I'd now like to turn the call over to Clay to further discuss our quarter's operational achievements.

Clay Carrell
Thanks, Bill and good morning. Let me start by recognizing our operating and asset teams for their outperformance in the quarter and for continuing the operational momentum that we've been building for some time now. From technical enhancements to operational excellence, from supply chain to marketing, we delivered industry-leading execution and achieved greater efficiencies. All of these teams working together drove costs lower, enhanced margins, and improved production performance on both new and existing wells.

Total production for the quarter was above the midpoint of guidance at 186 Bcfe, including 21% liquids. Liquids production increased 15% compared to the second quarter last year to 70,700 barrels per day, consisting of 60,400 barrels a day of NGLs and 10,300 barrels a day of condensate. Our condensate production increased 30% compared to prior year quarter and is our highest value commodity accounting for 12% of total revenue this quarter.

During the quarter, we captured greater value through ethane rejection, resulting in slightly lower ethane volumes. Consistent with our front-end loaded capital program, we invested $368 million in the second quarter and have already begun our planned activity reduction for the second half of the year.

In the second quarter, we averaged six drilling rigs and four frac crews, and are currently utilizing four drilling rigs and three frac crews. As Bill mentioned, we plan to operate two drilling rigs and one frac crew by the end of the third quarter. Capital will decline in the second half and will not exceed $1.15 billion total for the year.

We continued to enhance our technical operational capabilities across drilling completions and facilities. These improvements have lowered costs and improved cycle times, which allows us to get wells online faster. As a result, we had more wells to sales in the first half of the year than planned, while investing the same amount of capital.

On the drilling side, we drilled an additional five ultra-long laterals, each in excess of over 15,000 feet, bringing the year-to-date total to ten. In addition, we accomplished the Mile-In-A-Day goal on 10 wells in the quarter, and 21 wells year-to-date. These achievements demonstrate the quality of our super spec rigs and drilling organization, which delivers an exceptional result enabled by a continuous improvement mindset.

On the completion side, we delivered a company record 11.4 stages pump per day on a four-well pad. Year-to-date SWN has increased completion stages per day by 30% to an average of greater than seven stages per day on all completed wells.

These examples contributed to delivering 2Q results that have us on track to achieve our annual goal of reducing well costs for wells to sales by 25%, with an average cost per lateral foot of $875. For the quarter, we averaged $866 a foot with an average lateral length of 10,128 feet, a 30% increase in lateral length compared to the prior year quarter.

The well costs we report are comprehensive and include title, regulatory, permitting, pad site, facilities, drilling, optimized completions and initial flow back costs for all wells to sales in the period. To be clear, we are focused on maximizing returns from our capital program and maximizing efficiency, but we will not jeopardize well performance simply to meet a certain cost target.

In Southwest Appalachia, we are focused on maximizing our condensate and liquids production rates in our super rich acreage through longer laterals, completion optimization, flowback techniques and facility design improvements. We brought 23 wells online, 12 of which were online for 30 days or more and had an average 30-day rate of 11 million cubic feet equivalent per day, including 69% liquids--a 60% increase compared to second quarter 2018. A recent well had initial production rates of 31 million cubic feet equivalent per day, including 1700 barrels per day of condensate and total liquids of more than 70%.

In Northeast Appalachia, we brought 13 dry gas wells online, with an average initial production rate of 25 million cubic feet per day at 25% increase over the prior year quarter. In addition, we are further optimizing the base production associated with this asset and have lowered wellhead and line pressures through gathering system enhancements and wellhead compressor additions.

We progressed our resource to reserves effort in the quarter. In Southwest Appalachia, we completed our fourth upper Devonian well, which is our first test in the super rich acreage. The well is expected to be online in the third quarter. Additionally, we continue to add and evaluate trade data related to the UPP Utica and have advanced our view of being able to significantly reduce well costs associated with the go-forward development of that horizon.

In Northeast Appalachia, we completed our three most recent Upper Marcellus tests and have early production results averaging 13 million cubic feet per day, with an average lateral length of about 8,600 feet. We are encouraged by these early results and we will continue to evaluate the production data to confirm long-term economic viability.

And now, I will turn the call over to Julian for the financial highlights. Julian.

Julian Bott
Thank you, Clay and good morning everyone. The company continues to deliver solid operational and financial results on its transition back to generating free cash flow, following last year's deleveraging initiative with the Fayetteville asset monetization.

Adjusted EBITDA for the quarter was $186 million and $505 million for the first six months of 2019 compared to $713 million in 2018, principally driven by the loss of the Fayetteville EBITDA.

Year-to-date E&P margins including interest are $1.28 per Mcfe or $0.11 higher than the first six months of 2018. Higher Appalachia production volumes and our lower cost structure more than offset lower commodity prices.

Our weighted average realized price including derivatives was $2.61 per Mcfe excluding transportation, or $2.17 per Mcfe including transportation.

We continue to realize the benefits of our leading low-cost firm transportation portfolio, which is well positioned to capture the improving basis differentials in the basin and provide the company with market access to premium Northeast hubs and Gulf Coast pricing locations. We are updating our guidance for natural gas differentials, which include all transportation costs, to $0.60 to $0.70 per Mcf--a $0.10 improvement from the guidance issued in February. This is having a positive impact on realized gas prices. For example, in Northeast Appalachia, our realized gas price during the second quarter of 2019 was $0.01 higher than the second quarter of 2018 despite a $0.16 decline in NYMEX.

In the current environment, we see these tightened differentials continuing as we move through the rest of this year and into 2020. Whilst our differentials include some new unutilized contractual pipeline capacity on MXP, the approximate $0.10 contribution is short-term and manageable as we grow into the capacity.

From a cost structure perspective, we are enhancing margins and lowering the company's fully burdened breakeven prices. Gross G&A was reduced to $49 million in the first six months of 2019 compared to 2018. We continue to look for additional opportunities to reduce G&A even further. For example, we recently closed a real estate transaction that sold our Houston headquarters and entered into a new lease for roughly half the space, which will save $8.5 million per year, or $85 million of G&A over the 10-year lease term.

Furthermore, we lowered our LOE guidance for the year, reflecting the results of the ongoing cost and efficiency drive by our operating and logistics teams. The two biggest drivers are lower compression fees and reduce saltwater disposal costs. The new range of $0.90 to $0.94 per Mcfe captures savings of approximately $20 million from the previous guidance, assuming midpoints.

Our guidance for NGL realizations is being lowered to 18% to 22% of the WTI, which is reflective of the current ethane price environment and the divergence of C3+ prices to oil prices. Prices for NGLs and particularly ethane were lower in the quarter. We believe that the ethane forward curve will continue to be volatile and that the supply demand balance can adjust quickly, which we believe will happen this year as new ethane cracker capacity goes in service. When it does, we expect some price improvement. As we did in the second quarter to maximize value, we will elect to reject ethane as prices dictate, despite the impact on reported production volumes.

There continues to be growing global demand for propane and butane. However, Mont Belvieu propane and butane prices experienced the decoupling from oil and international pricing due to limited Gulf Coast export capacity. While we have revised NGL realizations guidance to reflect this situation, we expect Mont Belvieu pricing to realign with global prices in late Q3 or early Q4 and into 2020 as multiple LPG export expansion projects are completed providing incremental export capacity.

Moving to the balance sheet, we continue to maintain our strong position with an undrawn $2 billion revolver and a $150 million of cash on the balance sheet. This strong liquidity position coupled with no material debt maturities until 2025 positions us well to maneuver through a volatile commodity price environment. Our leverage ratio for the trailing 12 months is two times, even when excluding the EBITDA from Fayetteville. Protecting our balance sheet, the liquidity remains the core focus of the company and is critical component of our decision-making process.

During the second quarter, we sold non-core assets for $25 million with no production inventory or reserves impact.

Reducing debt has not only strengthened our balance sheet, but has also allowed us to reduce our interest costs by approximately $40 million for the first six months of 2019 compared to 2018, further adding to captured savings throughout the organization that I mentioned earlier.

To summarize, cost management remains the key focus for us as demonstrated by having reduced our total cost structure by over a $100 million compared to the first six months of 2018. Our efforts are continuing.

That concludes our prepared remarks. Jamie, could you please open the line for questions?

QUESTIONS AND ANSWERS

Operator
Ladies and gentlemen at this time we'll begin the question-and-answer session. To ask a question, you may press star and then one using a touchtone telephone. If you are using a speakerphone, we ask that you please pick up your handset before pressing the keys. To withdraw your questions, you may press star and two. Once again, that is star and then one to ask a question.

Our first question today comes from Holly Stewart from Scotia Howard Weil. Please go ahead with your question.

Holly Stewart
Good morning gentlemen, Paige. Bill, recognizing it's early and appreciate the comments on planning at strip on an unhedged basis but is there kind of any color you can provide on the activity set as you kind of move toward 2020 with those two rigs running?

Bill Way
Yes, we are in the planning stages, and because our capital program is built off of the cash flow that's generated our commodity prices in the year, that certainly impacts that answer. But what I can tell you for 2020 is that as we close out 2019 in the capital program that I described, we will begin the process of ramping back to a nominal amount of rigs and frac fleets commensurate with our estimates of the budget, and we'll make adjustments to that as we finalize that budget after in January-February time period.

That budget will be benefited by the lowering cost structure productivity gains and all of the things that have happened this year and in years passed. It will be coupled with the cash flows generated from strip pricing at the time, as I said, any hedging benefit that we have that is locked in. And then we'll take that capital or available cash flow and determine how much of it and what priority we want to invest it, based of economics, and then take the prioritized list of projects and set them up to be funded.

So, the other piece of color I can give you is that we will likely to continue our practice of slightly front end loading the first half of the year to assure delivery and capture greater value just as we've done over the last several years, and so the shape of the activity will be similar to where we are today for this year.

Holly Stewart
Okay, that's helpful. And then maybe just sort of along those same lines, I think it was the 4Q call that you talked about some other strategic contract renegotiations that were still ongoing. It seems that we've heard a few producers at least talk about the potential of some midstream contract renegotiations. I think your Southwest wasn't done until at some point in 2017. But is there anything that you can highlight from just a strategic level that you're still sort of working toward to get those costs lower?

Bill Way
We look across the entire enterprise and where it makes sense to go back and take another look at an agreement—these are long-term relationships that we have that are critically important to us, but where we have the opportunity to add additional acreage or adjust the contracts to the particular commodity market that we're in, whether we look at some of the new well inventory that is being generated in our resource-to-reserves efforts and being able to commit those to the agreements, we're able to exchange those commitments for some opportunities for us to get a better deal on the contract on our side.

And so, we have a number of those discussions that are underway as we typically do. We bring those results out when they're done. But you know, there is a continuous effort, whether it's a contract for gathering or transportation, there is always an optimization effort going on. And whether it's a strategic sourcing, procurement, any of those, there's constant effort to find greater value for us. And again, as we bring those forward and get them concluded will bring them out on the table for you guys. Thank you.

Operator
Our next question comes from Drew Venker from Morgan Stanley. Please go ahead with your question.

Our next question actually is from Noel Parks from Coker & Palmer. Please go ahead with your question.

Noel Parks
Hi. Good morning.

Bill Way
Good morning.

Noel Parks
I was wondering with your company-owned rigs, could you just refresh my memory on sort of the

age of those rigs? I was wondering, you know, as you look at planning activity levels going forward, is there any downtime for maintenance or refurbishment scheduled ahead.

Bill Way
Sure, Noel. The rigs are vintage 2013 age. We've continued to apply upgrades to those rigs to where they are super spec, state-of-the-art, horizontal, long lateral, shale rigs. And when we start bringing down rigs like we've started, that is the opportunity for us to both do maintenance and upgrades that we think are beneficial as we move forward with the program and to keep getting the execution that we're getting out of that program.

Noel Parks
Okay, and just for perspective, in the accounting of that spending, does that just show up as regular drilling and completion CapEx spend?

Bill Way
Yes, it did. It gets applied to the wells.

Clay Carrell
Noel, you'll see it in a line on the guidance and some other E&P. It shows up there on the on the table.

Noel Parks
Okay, great. And, you know, even though the spot has been so tough for gas lately, with a few exceptions, we look out to the longer dated strip. It really has, for the past year, though 2020 has gotten a little weak, kind of been in that $2.50, $2.75 (gas) range. And do you have a sense of where, if a longer dated strip weekend, where it might be enough to really spur some plants or curtailed activity more?

Bill Way
Well, I think I think how we how we invest in a given year, there's a couple of different things that happen. One, whatever the strip is at the time, we put in our company's model, and it generates cash flow. Among the myriad of things that we could do with that cash flow, debt reduction, last year we did share repurchases, capital investment, we prioritize those, and then we prioritize the economics of the program. And so, if, and then in 2019, and 2020. Some of the funds that we monetized out of Fayetteville are included in that, which we've disclosed previously. And so, we take that budget and we set it and then we continuously monitor.

So, to your point, if the gas prices fall, or commodity prices fall in the year, we put it through our model, and if and when it affects cash flow, this year, for example, we're pretty heavily hedged, but if it affects cash flow, then we pull back on the capital investment. It's just a practice that we have been doing for some time.

If we see a short-term spike, gas goes to—pick a number for the winter months, we don't just turn on another rig. We take that cash flow into the company and again, evaluate the use of that. And it could be pay down some debt, it could be for other uses. And that's all done in a rigorous economic evaluation.

The wells themselves, or let me broaden it, the investments themselves must meet certain returns metrics as well. So, we are looking at multiple years. And that's how we prioritize them is to force rank our economics. So yes, there is adjustment. Yes, it does move. We want to be, we want to keep that look live by using strip pricing, and we want to keep that live by looking at how the cash flow is generated that's funding the projects.

Noel Parks
Great, thanks a lot.

Operator
Our next question comes from Brian Singer from Goldman Sachs. Please go ahead with your question.

Brian Singer
Thank you. Good morning. I wanted to follow up on some of the comments you're just making. Can you just talk philosophically, with regards to your willingness to let production decline in pursuit of free cash flow, and then, how much capital and rig activity at the cost reductions that you've highlighted keeps production flat on an annual basis?

Bill Way
Yes, I mean, philosophically, what we're trying to do is look at two things: generating free cash flow, and achieving a two times debt leverage, which we talk about continuously. And the biggest leverage of that is looking at ways--whether it's cost reductions, productivity improvements, investing in high value Appalachia wells, to drive the EBITDA side of that debt to EBITDA equation because there's more leverage in in that in terms of results.

And so, this isn't a production-driven exercise. It really is how do we, because we drive EBITDA from a number of places. We have very lucrative investments in water, we have very lucrative investments in some of the other projects. And so, it's about driving EBITDA and production will be what where the production will be that results from that.

When we look at maintenance capital, for the company, it's right around $550 million before CI&E, that's drilling completions capital. And so, again, we look at that. We've talked about becoming free cash flow neutral at the stroke of a pen. We can just stop, but we are looking at both getting to free cash flow neutral and maintaining our debt leverage, both of which we believe are important for the going forward plans that we have.

Brian Singer
Great. Thanks. And then my follow-up is with regard to opportunities to add, inorganically or organically, inventory. Can you talk about your thoughts on consolidation and Southwestern's role or potential role there?

And then, you made a comment and it may have just been converting proved locations or unbooked locations and to proved locations, but you made a comment on adding new well inventory and wanted to see if there is anything going on the exploratory front or just adding inventory to your overall locations within Appalachia?

Bill Way
Well, I'll start with our inventory. We have a deep and robust inventory, and we also have a significant amount of resource that's attached to both those reserves and that inventory. And it's incumbent upon us and we call it organic growth because we already own it. It's incumbent upon us to continue to test intervals, such as the Upper Devonian, the Upper Marcellus, and others, using today's technology that we apply consistently, these ultra-long laterals, a number of things like that. And where we can convert resource into reserves that type of organic growth is a terrific

thing to do and it's part of what we do all the time.

And so, where you see us go back into areas that we've been in before, haven't been in a while and come back and in effect retest, we're getting some promising results on that in a number of areas. We also recognize the fact that in upper Devonian and it's in a new area and spans a great deal of acreage in West Virginia. We're in the test program trying to understand that as well. And so, as we further test that, be able to bring those reserves into the picture, as well.

So, we have what we call a science budget. We test acreage. We de-risk acreage. We test new capabilities, all in the name of continuing down that path. In the area of consolidation there is a lot of discussion about that. And as I've said before, where it makes economic sense, we believe that consolidation should occur. And then there's likely certain situations that make sense at all different levels.

And what I mean by all different levels, at all different sizes of enterprises. We're in this for the shareholder, and so, we look at these opportunities, we examine them, we have them that—where we see there is an opportunity to provide greater scale, offer meaningful synergies, possess the potential to generate short- or long-term value, we think that makes sense and we should pursue them. It's part of our obligation to the shareholder to look at all different options.

So, we talk about them coming opportunistically. In other words, a banker comes in and has a chat, or we are out studying the basins and we know the basins, and we know our top tier acreage, and so, we continue to analyze that. Our top tier balance sheet, our track record of implementing large-scale strategic moves, like we did when we bought West Virginia, and like we did when we sold Fayetteville, all while managing the business and continue to outperform in everything we do, puts us in a great position to participate in those and we'll continue. As I've also said, before, when we announced Fayetteville, we did that very publicly before we sold it to generate as much interest and activity as we could. And on the sell side, that makes sense.

On the opportunity side, just like we did when we were looking at West Virginia, or any of these other things that we're talking about here, it makes a lot of sense to me, like when you're buying a house in a popular neighborhood, you don't broadcast every step. And so, we'll take a look at these and should something make sense. Again, it's economics and value driven, it's not size driven, it's not any of the other things. And if you go down this path, you have to generate full cycle returns, and you have to generate and deliver on the promises, whether they're synergies or other promises to the shareholder or it doesn't make sense to do. But we believe there's an opportunity to spend some time in this space and that's what we're doing.

Brian Singer
Great. Thank you for that.

Operator
Our next question comes from Marshall Carver from Heikkinen Energy Advisors. Please go ahead with your question.

Marshall Carver
From the dropping to two rigs in the fourth quarter, or in the second half of this year, is that a reduction in the plan tills, or the planned wells to be drilled this year, or are all those targets the exact same as they were?

Bill Way

This, what we're doing is exactly what we planned. It's in the program exactly. The front-end loading and then the phase down the number wells we deliver to sales, everything is as we said it would be including, we talked about how much all that will cost at the end of the day, and we put that number out. We won't go over the number that we laid out. If something changes, and we need to make an adjustment to that we will, but we honor the commitments we made around capital like everything else.

Marshall Carver
Thank you. And as a follow-up, you've talked in the past about not wanting to drill a well unless it meets a minimum return metric. What would your minimum return metric be?

Clay Carrell
What we've typically talked about, Marshall, is a PVI metric and we've targeted greater than a 1.3 PVI.

Bill Way
So, $1.30 for every dollar invested at a 10% discount rate.

Marshall Carver
Okay, thank you.

Bill Way
That's a threshold amount.

Operator
Our next question comes from Sean Sneeden from Guggenheim, please go ahead with your question.

Sean Sneeden
Good morning and thank you for taking the questions. Bill, maybe for you, can you talk a little bit about what gives you confidence around free cash flow by the end of 2020? And I guess specifically, can you give us a sense of just anecdotally, how much of that is driven by cost reductions versus your view or expectations of gas and really NGL markets improving and normalizing more towards global LPG markets?

Bill Way
Yes, I'll tell you straight up, the first thing that gives me great confidence in being able to do that is the hundreds and hundreds of people that work for our company across this country who continue to deliver exactly what we keep telling you about, all of you about, which is operational efficiency gains, lower cost structure, productivity gains on wells, well performance, and the like.

The fact that we have a deep and robust inventory, high value, very predictable investment opportunities, an execution capability that continues to deliver out performance, our very close and rigorous planning and implementation of capital allocation at strip pricing, our risk management program, there's just a number of pieces and it's the things that we talk about integrated together and then rigorously managed with a lot of discipline and being willing to make adjustments as necessary to compensate for swings and changes in market dynamics.

And so, you know, as we as we look at our program, our prioritization of projects and again, lateral length increases, efficiency increases. That gives me a great deal of confidence. Gas prices, commodity prices are any company's largest swing, impacts it the largest and we understand that and as you become more and more efficient, which is where we are, our breakeven numbers and our minimum required return numbers are in some cases below $2, and so, in super rich condensate laden wells, and so the opportunity set that we get to play with, and all of this execution is what gives me confidence and gives the leadership team the confidence to continue down this path.

Sean Sneeden
Got it. That's helpful. So, it's really kind of all the above type of strategy of, kind of continued cost reductions beyond what you've laid out and, continued productivity gains. Is that kind of a fair way to summarize that?

Bill Way
It is. Oftentimes we have folks come talk to us and they bring a single metric and a single metric rarely is the, you know, the ticket to get something done. I think a completely integrated, very collaborative, well executed plan that brings in all of those risks and opportunities is the way to go, and our people deliver it every day.

Sean Sneeden
That makes sense. Maybe just as a follow-up, you know, I guess you guys highlighted U.S. LPG markets have somewhat, you know, decoupled from global prices and, you know, sounds like you think that ends up normalizing towards the end of the year. But I guess, just kind of curious, you just kind of given how U.S. markets have progressed year-to-date, has that shaped your views differently, if at all, around potentially marketing your own C3+ volumes?

Bill Way
Well, I think that you know, certainly the market's waiting for the promises to be delivered in the industry. So, if you're going to put three or four crackers on, or five, when they're on, then the market is adjusting, and it appears to be a bit more real time. We think that the fundamentals for NGLs, even as difficult as it is right now, the evidence of demand through all these crackers, the evidence of demand in re-linking NGLs to the export market by additional capacity, the investments are being made, the contracts are being let, the opportunities is there.

We'll market our NGLs if we can add value or as we can add greater value to that process than someone else can and that's our objective. And so, we built that capability in house and we will continue to head in that direction. Our marketing team has deep experience in the nuances and the capture of opportunities and managing risks in the gas side, and their capability to understand very quickly and build on that in the liquid side is present.

Sean Sneeden
Great. Appreciate the comments, guys. Thanks.

CONCLUSION

Operator
And ladies and gentlemen at this time I'm showing additional questions. I'd like to turn the conference call back over to management for any closing remarks.

Bill Way
Thank you. Thank you all for joining. I appreciate all the questions and the continued dialogue. You know, as we continue to deliver quarter-after-quarter success, as we talked about today, we're confident about our future, we're confident about our ability to move forward on a clear path

that has multiple levers and multiple opportunities and risk to work together on, to work together to continue to deliver on every commitment that we've made. We believe in strength, resilience, and the capabilities of our people, and we celebrate the fact that we have them because they deliver over and over consistently quarter-on-quarter on the very commitments that we make. So, we absolutely appreciate them.

We will continue to execute with the same relentless determination as we always have with returns at the center of every decision that we make and in everything we do. And as I've said before, we're moving from strength to strength earning the confidence of all stakeholders. So, we just want to say thank you very much for joining our call and for your interest in the company and we look forward to sharing more results going forward. Hope you have a great weekend. Thanks.

Operator
Ladies and gentlemen, that does conclude today's conference call. We do thank you for joining. You may now disconnect your lines.