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Chesapeake Energy

Chesapeake Energy Corporation Agrees To Sell Utica Shale Position For $2.0 Billion, Provides Powder River Basin Update And 2018 Updated Guidance

OKLAHOMA CITY, July 26, 2018 /PRNewswire/ -- Chesapeake Energy Corporation (NYSE:CHK) today announced that it has entered into an agreement to sell its interests in the Utica Shale operating area located in Ohio for approximately $2.0 billion to Encino Acquisition Partners, a private oil and gas company headquartered in Houston, Texas. The transaction, which is subject to certain customary closing conditions, including the receipt of third-party consents, is expected to close in the fourth quarter of 2018. The purchase price includes a $100 million contingent payment based on future natural gas prices and is subject to adjustment for certain customary items at or following closing. Chesapeake intends to use the anticipated net proceeds to reduce debt.

Transaction highlights:

- **$1.9 billion initial closing proceeds to be applied toward reduction of debt; up to $150 million reduction in annual cash interest expense**
- **$450 million reduction of projected 2019 gathering, processing and transportation expense, for an expected improvement of approximately $0.50 per barrel of oil equivalent (boe); eliminates all future Utica Shale midstream and downstream commitments of approximately $2.4 billion**
- **Improves EBITDA by approximately $0.70 per boe in 2019, due to lower cash operating costs and improved oil differentials, assuming flat 2018 commodity prices**
- **Expect organic replacement of divested EBITDA within one year, primarily driven by oil volume growth from the Powder River Basin (PRB)**
- **2019 oil production expected to grow approximately 10% from 2018, adjusted for asset sales, with additional oil growth anticipated for 2020**
- **2018 Outlook updated to reflect business performance year to date and impact of pending transaction**

Doug Lawler, Chesapeake's President and Chief Executive Officer, commented, "Today's announcement makes Chesapeake a stronger and more competitive company. By divesting our position in the Utica and using the proceeds for debt reduction, we will not only significantly improve the health of our balance sheet, but we will also accelerate progress toward our strategic goals of reducing our debt, improving our margins and reaching sustainable free cash flow neutrality.

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"Moving forward, we will continue to target our long-term goal of improving our leverage ratio to two times net debt to EBITDA. We remain committed to generating higher returns on invested capital by directing our investments to the highest-return opportunities across our five diverse, multi-zone basins. With the addition of a fifth rig earlier this month, we believe our position in the PRB will lead our organic oil volume growth, driving further leverage reduction, enhancing our margins and improving our free cash flow. As a result, we anticipate growing overall oil production approximately 10% year over year in 2019, adjusted for asset sales, with additional growth forecasted for 2020. The underlying strength of our portfolio, along with the overall price advantages we currently realize from our remaining oil assets, position Chesapeake to replace the divested EBITDA within a year following the close of the transaction.

"We are pleased with our updated 2018 Outlook reflecting our strong performance year to date, as well as adjustments assuming a 2018 fourth quarter close of the Utica sale. While we are reducing our full-year natural gas and NGL volumes accordingly, we are raising our oil guidance by 500,000 barrels. We have also reflected the realized pricing and cost structure adjustments, resulting in a forecasted EBITDA level that is unchanged from our previous guidance that included the Utica for the full year. We are raising our capital expenditures slightly to reflect an accelerated capital program in the Utica on behalf of the buyer pre-closing, the cost of which will be settled in the post-closing adjustments, and increased drilling and completions activity in the PRB. Finally, we expect to seek a renewal and extension of our revolving credit facility in the 2018 third quarter. Pro forma collateral available for the new borrowing base, excluding the Utica assets, is expected to exceed $7 billion.

"Our unwavering commitment to reducing our debt, maintaining capital discipline, removing legacy complexities and simplifying our business has made Chesapeake more competitive. Over the past five years, we have fundamentally transformed all aspects of our company, eliminating more than $12 billion in total leverage, reducing our total midstream and downstream commitments by more than $10 billion, erasing more than $1 billion in annual cash costs, and removing operating leases, subsidiary preferred equity, four minimum volume commitments and nine volumetric production payments. We expect this transaction to improve our margins, result in greater capital efficiency and significantly reduce our outstanding debt. The depth of our assets, strength of our people and improvements highlighted here position Chesapeake to deliver increasing returns directly to our equity holders."

As part of the transaction, Chesapeake has agreed to sell all of its acreage in Ohio, of which approximately 320,000 net acres are in the commercial window for Utica Shale development, 920 operated and non-operated wells which produced an average of approximately 107,000 boe per day (67% natural gas, 24% natural gas liquids and 9% oil) in 2017, on a net basis, and related property and equipment. Proved oil and natural gas reserves in the Utica Shale as of December 31, 2017 were approximately 480 million boe (72% natural gas, 23% natural gas liquids and 5% oil).

Powder River Basin Update

The Powder River Basin in Wyoming continues to develop into the oil growth engine of the company, as recently demonstrated by a 78 percent increase in net production compared to the average 2017 fourth quarter rate. On July 22, 2018, total net production hit a new record of approximately 32,000 net boe per day (42% oil, 41% natural gas and 17% natural gas liquids), compared to an average 2017 fourth quarter rate of 18,000 boe per day. Chesapeake now projects net production from the area will reach approximately 38,000 boe per day by year-end 2018, and expects total net annual production from the PRB to more than double in 2019 compared to 2018.

As a result of this planned transaction, Chesapeake has updated its guidance on certain factors that affect its financial performance for the remainder of 2018 below. Additional details about this transaction and the company's strategy going forward will be provided on the company's 2018 second quarter earnings conference call that has been scheduled on Wednesday, August 1, 2018 at 9:00 am EDT. The telephone number to access the conference call is 323-994-2093 or toll-free 888-254-3590. The passcode for the call is 9446629. The number to access the conference call replay is 719-457-0820 or toll-free 888-203-1112 and the passcode for the replay is 9446629. The conference call will be webcast and can be found at www.chk.com in the "Investors" section of the company's website. The webcast of the conference will be available on the website for one year.

CHESAPEAKE ENERGY CORPORATION
MANAGEMENT'S OUTLOOK AS OF JULY 25, 2018

Chesapeake periodically provides guidance on certain factors that affect the company's future financial performance. New information or changes from the company's May 1, 2018 outlook are ***italicized bold*** below.

	Year Ending 12/31/2018
Production Growth adjusted for asset sales[(a)]	1% to 5%
Absolute Production	
Liquids - mmbbls	***48.5 - 52.5***
Oil - mmbbls	***31.5 - 33.5***
NGL - mmbbls	***17.0 - 19.0***
Natural gas - bcf	***790 - 830***
Total absolute production - mmboe	***180 - 191***
Absolute daily rate - mboe	***494 - 524***
Estimated Realized Hedging Effects[(b)] (based on 7/24/18 strip prices):	
Oil - $/bbl	***($11.00)***
Natural gas - $/mcf	***$0.14***
NGL - $/bbl	***$(0.76)***
Estimated Basis to NYMEX Prices:	
Oil - $/bbl	***$1.50 - $1.70***
Natural gas - $/mcf	($0.10) - ($0.20)
NGL - $/bbl	($5.20) - ($5.60)
Operating Costs per Boe of Projected Production:	
Production expense	***$2.85 - $2.95***
Gathering, processing and transportation expenses	***$6.85 - $7.35***
Oil - $/bbl	***$3.60 - $3.80***
Natural Gas - $/mcf	***$1.25 - $1.35***
NGL - $/bbl	$7.85 - $8.25
Production taxes	***$0.60 - $0.70***
General and administrative[(c)]	$1.25 - $1.35
Stock-based compensation (noncash)	$0.10 - $0.20
DD&A of natural gas and liquids assets	***$5.25 - $6.25***
Depreciation of other assets	$0.35 - $0.45
Interest expense[(d)]	$2.40 - $2.60
Marketing net margin[(e)]	($60) - ($40)
Book Tax Rate	0%
Adjusted EBITDA, based on 7/24/18 strip prices ($ in millions)[(f)]	$2,250 - $2,450
Capital Expenditures ($ in millions)[(g)]	***$2,000 - $2,300***
Capitalized Interest ($ in millions)[(d)]	$175
Total Capital Expenditures ($ in millions)	***$2,175 - $2,475***

(a) Based on 2017 production of 407 mboe per day, adjusted for 2017 asset sales and 2018 asset sales signed to date.

(b) Includes expected settlements for oil, natural gas and NGL derivatives adjusted for option premiums. For derivatives closed early, settlements are reflected in the period of original contract expiration.
(c) Excludes expenses associated with stock-based compensation, which are recorded in general and administrative expenses in Chesapeake's Consolidated Statement of Operations.
(d) Excludes changes due to pending closing of Utica Shale transaction and planned subsequent liability management.
(e) Excludes non-cash amortization of approximately $19 million.
(f) Adjusted EBITDA is a non-GAAP measure used by management to evaluate the company's operational trends and performance relative to other oil and natural gas producing companies. Adjusted EBITDA excludes certain items that management believes affect the comparability of operating results. The most directly comparable GAAP measure is net income but, it is not possible, without unreasonable efforts, to identify the amount or significance of events or transactions that may be included in future GAAP net income but that management does not believe to be representative of underlying business performance. The company further believes that providing estimates of the amounts that would be required to reconcile forecasted adjusted EBITDA to forecasted GAAP net income would imply a degree of precision that may be confusing or misleading to investors. Items excluded from net income to arrive at adjusted EBITDA include interest expense, income taxes, and depreciation, depletion and amortization expense as well as one-time items or items whose timing or amount cannot be reasonably estimated.
(g) Includes capital expenditures for drilling and completion, leasehold, geological and geophysical costs, rig termination payments and other property, plant and equipment. Excludes any additional proved property acquisitions.

Headquartered in Oklahoma City, Chesapeake Energy Corporation's (NYSE: CHK) operations are focused on discovering and developing its large and geographically diverse resource base of unconventional oil and natural gas assets onshore in the United States.

This news release includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are statements other than statements of historical fact. They include statements that give our current expectations, including statements regarding the benefits and cost rationalization of the proposed transaction, guidance, replacing EBITDA growth, the anticipated purchase price and use of proceeds from the proposed transaction, the expected timetable for completing the proposed transaction, our future financial performance, management's outlook guidance or forecasts of future events, production and well connection forecasts, estimates of operating costs, anticipated capital and operational efficiencies, planned development drilling and expected drilling cost reductions, anticipated timing of wells to be placed into production, general and administrative expenses, capital expenditures, projected cash flow and liquidity, our ability to enhance our cash flow and financial flexibility, plans and objectives for future operations, the ability of our employees, portfolio strength and operational leadership to create long-term value, and the assumptions on which such statements are based. Although we believe the expectations and forecasts reflected in the forward-looking statements are reasonable, we can give no assurance they will prove to have been correct. They can be affected by inaccurate or changed assumptions or by known or unknown risks and uncertainties.

Factors that could cause actual results to differ materially from expected results include the need to obtain consents and approvals and to satisfy closing conditions, the termination of the agreement, the effect of the transaction on our financial position actions by the purchaser, effects of operations and changes in PRB, purchase price adjustments, interest rate fluctuation and those described under "Risk Factors" in Item 1A of our annual report on Form 10-K and any updates to those factors set forth in Chesapeake's subsequent quarterly reports on Form 10-Q or current reports on Form 8-K (available at http://www.chk.com/investors/sec-filings). These risk factors include the *volatility of oil, natural gas and NGL prices; the limitations our level of indebtedness may have on our financial flexibility; our inability to access the capital markets on favorable terms; the availability of cash flows from operations and other funds to finance reserve replacement costs or satisfy our debt obligations; downgrade in our credit rating requiring us to post more collateral under certain commercial arrangements; write-downs of our oil and natural gas asset carrying values due to low commodity prices; our ability to replace reserves and sustain production; uncertainties inherent in estimating quantities of oil, natural gas and NGL reserves and projecting future rates of production and the amount and timing of development expenditures; our ability to generate profits or achieve targeted results in drilling and well operations; leasehold terms expiring before production can be established; commodity derivative activities resulting in lower prices realized on oil, natural gas and NGL sales; the need to secure derivative liabilities and the inability of counterparties to satisfy their obligations; adverse developments or losses from pending or future litigation and regulatory proceedings, including royalty claims; charges incurred in response to market conditions and in connection with our ongoing actions to reduce financial leverage and complexity; drilling and operating risks and resulting liabilities; effects of environmental protection laws and regulation on our business; legislative and regulatory initiatives further regulating hydraulic fracturing; our need to secure adequate supplies of water for our drilling operations and to dispose of or recycle the water used; impacts of potential legislative and regulatory actions addressing climate change; federal and state tax proposals affecting our industry; potential OTC derivatives regulation limiting our ability to hedge against commodity price fluctuations; competition in the oil and gas exploration and production industry; a deterioration in general economic, business or industry conditions; negative public perceptions of our industry; limited control over properties we do not operate; pipeline and gathering system capacity constraints and transportation interruptions; terrorist activities and cyber-attacks adversely impacting our operations; an interruption in operations at our headquarters due to a catastrophic event; certain anti-takeover provisions that affect shareholder rights; and our inability to increase or maintain our liquidity through debt repurchases, capital exchanges, asset sales, joint ventures, farmouts or other means.*

These market prices are subject to significant volatility. Our production forecasts are dependent upon many assumptions, including estimates of production decline rates from existing wells and the outcome of future drilling activity. Expected asset sales may not be completed in the time frame anticipated or at all. We caution you not to place undue reliance on our forward-looking statements, which speak only as of the date of this news release, and we undertake no obligation to update any of the information provided in this release, except as required by applicable law. In addition, this news release contains time-sensitive information that reflects management's best judgment only as of the date of this news release.

SOURCE Chesapeake Energy Corporation
