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EQT Corp. (EQT)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. My name is Danica, and I will be your conference operator today. At this time, I would like to welcome everyone to the EQT Q3 2024 Quarterly Results Conference Call. All lines have been placed on mute to prevent any background noise. [Operator Instructions] Thank you.

I would now like to turn the call over to Cameron Horwitz, Managing Director, Investor Relations and Strategy. Please go ahead.

Cameron J. Horwitz
Managing Director-Investor Relations & Strategy, EQT Corp.

Good morning and thank you for joining our third quarter 2024 earnings results conference call. With me today are Toby Rice, President and Chief Executive Officer; and Jeremy Knop, Chief Financial Officer. In a moment, Toby and Jeremy will present their prepared remarks with a question-and-answer session to follow. An updated investor presentation has been posted to the Investor Relations portion of our website and we will reference certain slides during today's discussion. A replay of today's call will be available on our website beginning this evening.

I'd like to remind you that today's call may contain forward-looking statements. Actual results and future events could materially differ from these forward-looking statements, because of the factors described in yesterday's earnings release, in our investor presentation, the Risk Factors section of our most recent Form 10-K and Form

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10-Q, and in subsequent filings we make with the SEC. We do not undertake any duty to update any forward-looking statements.

Today's call also contains certain non-GAAP financial measures. Please refer to our most recent earnings release and investor presentation for important disclosures regarding such measures, including reconciliations to the most comparable GAAP financial measures.

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

Toby Z. Rice

President, Chief Executive Officer & Director, EQT Corp.

Thanks, Cam, and good morning, everyone. The third quarter was hallmarked by the closing of our strategic acquisition of Equitrans Midstream, which transformed EQT into America's only large-scale, vertically-integrated natural gas business. This combination has created a differentiated business model among the energy landscape, one that has leading inventory duration at the absolute low end of the North American natural gas cost curve.

EQT's position as the lowest-cost producer structurally derisks our business in the low parts of the commodity cycle, while simultaneously unlocking unmatched upside to higher price environments by eliminating the need to defensively hedge longer term. We believe these characteristics position EQT to generate disproportionate value for our shareholders regardless of where we are in the commodity cycle.

Since we closed the Equitrans acquisition, our integration team has been sprinting ahead, with more than 60% of total integration tasks completed in just three months. This remarkable pace is a testament to our proprietary integration system, which has been honed across multiple successful transactions over the past several years. The highly efficient integration pace we've seen to-date is resulting in synergy capture occurring quicker than we originally expected.

Recall, we had previously assumed base synergies would start accruing by the middle of 2025, but with our integration progress to-date, we have already achieved $145 million of annualized financial and corporate cost savings, which is $25 million more than our original underwriting assumptions. Said another way, we have already derisked more than half of our $250 million base synergies in just three months of owning Equitrans. This rapid pace of base synergy capture, along with longer term system compression upside, further increases confidence in our ability to optimize value from the combined entities.

We are also seeing Equitrans employees excited to be integrated into EQT's culture. This is a similar situation to what we observed when we took over EQT in 2019, where the cultural buy-in of our employee base enabled us to create more value than we originally anticipated. I'm extremely excited to see what the combined EQT and Equitrans teams can accomplish together over the coming years.

Alongside rapid integration and synergy capture, we are already unlocking operational efficiency gains as a direct consequence of the acquisition. An example of this can be seen in our investor presentation, where we highlight a new EQT record for water delivered to a wellsite. This record water delivery pace in turn facilitated another all-time EQT record for completions pumping time, besting our prior record set early this year by 10%.

The pace of water delivery is a key factor in completion efficiency. Put simply, the faster you deliver water to the wellsite, the faster you can frac, which in turn drives down well costs. This record was only possible because of the seamless coordination of our now internal Equitrans water system with EQT's upstream operations,

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highlighting that optimization of the Equitrans water assets has the potential to drive additional operational efficiencies that we could not have achieved standalone.

We also recently completed the connection of EQT's water network in West Virginia with Equitrans' water system in Pennsylvania, which structurally improves our ability to deliver water to wellsites. This connection should also save more than $70 million in water disposal costs over the next two years from an investment of just $15 million, highlighting an example of the type of low-risk, high-return investment opportunities that are unlocked by the acquisition.

Efficient water delivery along with various other supply chain initiatives are supercharging the recent completion efficiency gains that we highlighted with Q2 results. During the third quarter, we set a new EQT record for completion efficiency with footage completed per day averaging 35% faster than our 2023 pace. The past two quarters of operational performance, along with our Equitrans integration momentum, are increasing our confidence in a sustainably faster completions pace and we see the opportunity to complete 50% more footage per day in 2025 compared to our historic average.

With continued success, we may ultimately be able to drop from three to two frac crews over time, which is remarkable, given we are able to hold flat 7 Bcf a day of gross operated production at this activity level. We are still quantifying the potential impacts to our capital budget, but we believe these gains could have the potential to sustainably save approximately $50 per foot, which could translate to $50 million to $60 million per year.

Shifting gears, we recently announced that EQT has become the first traditional energy producer of scale in the world to achieve net zero Scope 1 and 2 greenhouse gas emissions. Not only did we accomplish this ahead of our 2025 goal, but we achieved this net zero status across the entirety of our upstream operations, inclusive of the recently acquired Tug Hill, XcL Midstream and Alta assets, which were not included in the target originally set in 2021.

This means that over the past five years, EQT has reduced total Scope 1 and Scope 2 GHG emissions by over 900,000 tons, which is the equivalent of taking approximately 195,000 cars off the road annually. The bulk of these reductions came from structural emissions abatement, including replacing more than 9,000 pneumatic devices, shifting to electric frac fleets, deploying combo development, and installing advanced emissions control devices.

For the remaining emissions that are not abatable with current technologies, EQT has generated carbon offsets through forest management projects as opposed to purchasing third-party carbon credits. This was done via our partnership with the State of West Virginia and includes conservation management practices, such as the removal of invasive species, wildfire risk monitoring, and native tree and shrub placement, all of which have co-benefits for our local stakeholders. These efforts are verified by West Virginia University, ensuring both economic and environmental benefits to the region.

Over the life of this partnership, we expect to generate approximately 10 million tons of high-quality carbon offsets at a cost to EQT below $3 per ton, underscoring EQT's capital efficient path to achieving net zero emissions. We believe EQT's unique position as the only vertically-integrated, low-cost natural gas producer with multi-decade inventory and net zero Scope 1 and 2 emissions will continue to open differentiated ways to maximize the value of each molecule, similar to the long-term supply deals we announced with utilities in the Southeast last year.

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

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Jeremy Knop

Chief Financial Officer, EQT Corp.

Thanks, Toby. I'll start by summarizing our third quarter results. But prior to doing so, I'd like to note that results shown on our financial statements include Equitrans for 70 days during the quarter. So, we've also provided pro forma numbers assuming a full quarter of Equitrans results for the purpose of comparability to guidance and consensus estimates.

Strong well performance, continued efficiency gains, and modestly lower-than-expected curtailments drove Q3 sales volumes to 581 Bcfe, or 4% above the high end of our guidance range. It's worth noting that had we not curtailed, we estimate production would have come in at 616 Bcfe for the quarter, or 6.8 Bcfe per day, highlighting the true strength of our performance.

As it relates to curtailments, we have been taking a highly tactical approach over the past few months in response to the volatile gas price environment. This strategy has allowed us to match supply with demand on a daily basis, thus maximizing our price realizations. Consequently, our differential for the third quarter came in $0.10 better than the midpoint of our guidance range at $0.65 per Mcf, underscoring how this tactical approach is creating value in real time without disrupting operations or impairing productive capacity.

We believe these impressive results prove why tactically curtailing volumes in periods of weak pricing is the right strategy in a volatile world. The acquisition of Equitrans gives us greater ability to deploy this strategy as it eliminated 4 Bcf per day of minimum volume commitments, while simultaneously lowering cost structure to a level that we can maintain steady operations even in the low parts of the commodity cycle rather than being forced to slash activity due to high operating leverage.

Pro forma for the full quarter of Equitrans, our operating costs came in $0.05 below the low end of guidance at $1.07 per Mcfe due to production outperformance, and LOE and G&A expenses below expectations. Pro forma CapEx was nearly $100 million below the midpoint of our guidance range at $573 million, as efficiency gains and lower midstream and pad construction spending accrued to our benefit. On the midstream side, pro forma third-party revenue came in at $142 million, at the high end of guidance, driven by better-than-expected uptime. MVP capital contributions were $160 million, in line with expectations.

Turning to the balance sheet. Q3 was an eventful quarter with the closing of Equitrans in July. As we discussed in our last conference call, ahead of closing, we negotiated an upsize of EQT's unsecured revolver capacity from $2.5 billion to $3.5 billion. At closing, EQT redeemed all of Equitrans' outstanding preferred shares, followed shortly thereafter by the redemption of EQM's $300 million of bonds due in August 2024, saving approximately $50 million annually from reduced cost of capital.

Yesterday, we announced the divestiture of our remaining non-operated assets in Northeastern Pennsylvania to Equinor for $1.25 billion in cash. Recall, these non-operated assets came with our Alta acquisition in 2021, and we allocated approximately $1.1 billion of value to them at the time. Between asset level cash flows and the two transactions announced this year, we expect to realize approximately $3.6 billion of total value, implying a 3.3 times return on investment since 2021.

We expect this transaction with Equinor to close by year-end, with proceeds expected to be used for debt repayment. With this latest sale, we have now announced cash proceeds of $1.75 billion compared to our $3 billion to $5 billion asset sale target. We are simultaneously making rapid progress in our regulated midstream sales process, giving us confidence in achieving the high end of our asset sale target range by year-end 2024, thus derisking our balance sheet several quarters ahead of schedule.

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Turning to hedging. Since our last update, we have added a significant amount of hedges in the back half of 2025 to bulletproof our deleveraging plan. Post these additions and pro forma for the non-op sale, we are now approximately 60% hedged for calendar year 2025, with an average floor price of $3.25 per MMBtu, with collar upside as high as $5.50 per MMBtu in Q4. With our updated hedge book and low breakeven cost structure, we estimate EQT can generate free cash flow next year down to a NYMEX natural gas price of approximately $1 per MMBtu and generate nearly $1 billion of free cash flow at $2 per MMBtu Henry Hub prices, underscoring the unrivaled earnings power of our business in any scenario.

Beyond 2025, we expect to use commodity derivatives opportunistically rather than defensively, as our position at the low end of the natural gas cost curve acts as a structural hedge, which in turn facilitates unmatched exposure to high-priced scenarios by limiting our need to financially hedge.

Turning briefly to the macro landscape. We have spent the last few quarters studying the power markets, which were awakening from two lost decades and becoming one of the most interesting corners of the energy industry, with a direct impact on natural gas demand. Over the course of this year, we have witnessed a reluctance to entertain the idea of gas power generation for data centers evolve into a widespread acceptance of natural gas as critical.

At the same time, more than 80 gigawatt of coal generation capacity is scheduled to be retired by 2030, and nearly 200 gigawatts by 2035, leaving a hole in the US baseload power stack that can only be filled quickly by reliable natural gas generation. We expect natural gas to take 50% to 80% of new power generation market share as intermittent renewables are not suited for 24x7 reliability, and we believe there are just a handful of more nuclear facilities that can be restarted through the end of the decade.

These dynamics are giving us greater confidence in our base-case view that data centers and additional coal retirements will drive up to 10 Bcf per day of incremental natural gas power demand by 2030. Notably, this demand will be regional in nature, with more than half likely to come from the Southeast and PJM markets. Given EQT is the only large-scale integrated natural gas producer with exposure to these regions, we stand ready to support and directly benefit from this megatrend.

Turning to fourth quarter guidance. We've made some modest tweaks to our prior outlook. We now expect fourth quarter production to range from 555 to 605 Bcfe, up 7% from our prior outlook of 515 to 565 Bcfe due to robust well results and less curtailed volumes than we previously expected, amid an improving Appalachia price environment. For perspective, we estimate our 2024 production is tracking above the high end of our original 2,200 to 2,300 Bcfe guidance range when normalized for curtailments, demonstrating the strength of this year's underlying performance before the impact our decision to curtail production.

Looking into 2025, we still intend to maintain flat year-over-year sales volumes pro forma the transactions with Equinor around 2,100 Bcfe and expect to pull back activity if efficiency improvements continue to pull forward volumes. On basis differentials, we are tightening our fourth quarter differential guidance range by $0.05 to $0.50 to $0.60 per Mcf as Eastern storage levels have normalized, improving local pricing this winter.

Looking at operating expenses, we are lowering the midpoint of our fourth quarter operating expense guidance range by $0.05 per Mcfe, largely driven by higher volumes and lower upstream LOE and G&A expenses. Note, we reallocated some expenses within our GP&T outlook as we fine-tuned our pro forma accounting for Equitrans, but this had essentially no net impact on our total GP&T expenses.

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On CapEx, as I mentioned previously, third quarter spending came in nearly $100 million below expectations, with part of this variance driven by pad construction shifting from Q3 into Q4. This shift, along with embedding some conservatism around non-op spending, drove a $50 million increase in our fourth quarter capital guidance. That said, our total second half spending is still trending below the midpoint of guidance we put out last quarter by a net $50 million, reflecting the efficiency gains referenced previously.

At MVP, we have fine-tuned estimates for slightly higher capital contributions to complete the right-of-way reclamation post Hurricane Helene and a slightly lower distribution in the fourth quarter, simply driven by payment timing. At recent strip pricing and pro forma the non-op sale, we forecast cumulative free cash flow of approximately $14.5 billion from 2025 to 2029 at an average natural gas price of roughly $3.50 per MMBtu.

At $2.75 natural gas prices, EQT would still generate approximately $8 billion of five-year cumulative free cash flow. While at $5 gas, this number swells to almost $25 billion, which we can realize as we do not need to defensively hedge. There is no other natural gas business that comes close to providing the same combination of downside protection and upside exposure for investors. We believe EQT is now in a class of its own.

Our simple goal is to be the easy-to-own way for investors to gain exposure to natural gas. Meaning, if you're thematically bullish natural gas, whether it's because of coal retirements, power growth, LNG exports, dwindling core inventory, bearish oil prices due to OPEC oversupply or anything else, we are positioning EQT to be the go-to natural gas stock that is a through-the-cycle fixture of your energy portfolio. We see our story increasingly resonating with long-term investors, who trust we will continue to operate from the same principal framework that has brought us success to-date, compounding cash flow year after year.

And with that, I will turn it back to Toby for some concluding remarks.

Toby Z. Rice

President, Chief Executive Officer & Director, EQT Corp.

Thanks, Jeremy. EQT today is operating at the highest levels of efficiency in history, and quarter after quarter, we continue to break records. We've built an unrivaled integrated natural gas business with key catalysts for continued value creation. We have high confidence in the successful completion of our deleveraging program and continuing our long track record of delivering on our promises to shareholders ahead of schedule with better-than-expected results.

And with that, I'd now like to open the call to questions.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Doug Leggate with Wolfe Research. Please go ahead.

Doug Leggate
Analyst, Wolfe Research LLC

Q

Thanks. Good morning, guys. And gosh, you guys are moving quite quickly on this, and congratulations on what you've done. But Toby, I guess, I – we're never happy with the pace, especially given that you're moving a lot faster than perhaps you initially guided. So, my question is, when I look at slide 6, which is obviously your progress on the $250 million. And then, I look at slide 25, which is the upside case to $425 million, how would you have us think about the timing and the risking of both those numbers, particularly the upside synergies from infrastructure optimization?

Toby Z. Rice
President, Chief Executive Officer & Director, EQT Corp.

A

Well, I'd say, we're ahead of schedule, both from a time perspective and realizing synergies that are a little bit greater than what we had anticipated. What's in front of us now really are the synergies related to the operational execution. And those – the pace at which we're moving in this integration, being 60% through this, help to frame those up a little bit better. And Doug, those synergy capture estimates will be folded into our 2025 budget, which we're currently working through when we'll provide updates in future calls.

Doug Leggate
Analyst, Wolfe Research LLC

Q

Okay. Good stuff. Well, again, the pace seems to be certainly ahead of what you were expecting. Toby, my next question is – and my follow-up rather is a little bit tricky to ask. I'm not quite sure how to articulate it. But if I look at the volatility of gas prices through the third quarter, and then ultimately, the way that you track volumes, I'm trying to understand how malleable the curtailment strategy is? I mean, how easy it is to bring things on and off in response to pricing?

What's behind my question is, you no longer have any MVP (sic) [MVC] (00:22:54) obligations really that relates to your ownership of E-Train. So, you have tremendous flexibility to really navigate around very short-term moves in price. Is that how we should think about this curtailment strategy or am I thinking about it the wrong way?

Toby Z. Rice
President, Chief Executive Officer & Director, EQT Corp.

A

Yeah. I think it's really important to understand, I think the dynamic that we laid out on slide 21, which is framing up sort of the natural gas market characteristics and how they've changed. I think it was a really powerful chart that sort of supports the fact that we're going to be in a more highly volatile world going forward. And the question that people need to ask is how are these businesses going to perform in this more volatile world, where you're going to have lower lows and higher highs.

The way that our business is going to manage in those low price periods, there's really two things. It's the integrated nature of our business which, as you mentioned, will give us tremendous flexibility by removing MVCs that we had in place. So, we've lifted a huge constraint and have more flexibility there. But the other thing that's

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going to allow us to curtail that's equally as important is having a super low cost structure and that will give us the ability to curtail volumes and not have to alter or slash activity levels.

What that means is that, when those higher price environments show up, we're going to be positioned to capture that. And we're not going to be sitting six months, our production is not going to be sitting behind six months of restart. It's something that we can turn on pretty rapidly, and that's a muscle that we've been flexing in the past, and it's going to be a muscle that's to be really important in this environment that we're looking at.

Jeremy Knop
Chief Financial Officer, EQT Corp.
A

Doug, if you look at Q3 specifically, we have been turning on and off up to 1 Bcf a day on a near daily basis in response to where pricing is. That is really the reason we've realized that $0.10 better differential this quarter, it's just being able to tactically do that. Now, I think in a low price environment, that's a great tool. It's kind of like hedging – kind of like basis hedging in a way.

And when you look at that chart Toby referenced on page 21, 60% of the data points you see on that bottom chart are really below $3, so about 20% of those are below $2. And in that environment, that's generally where you're going to see us turn volumes off, because you just can't make money there. The rest of that time, we plan to be supplying gas to the market. And so, it allows us to almost delete the lows out of our sales volumes, but still be in position to capture the highs.

And so, if you look at the data shown there, the difference between the median and the average is over $0.80. And that's effectively the difference if you pursue the strategy we're pursuing, where you don't have to hedge away the highs, but you still are protected against the lows you can curtail, and you have a structurally resilient business. That $0.80 for us over [indiscernible] (00:26:00) production is a tremendous amount of value added certainly when look out long-term. So, it's very hard to model that. I think the character of the market as we keep talking about, as you and I have discussed a lot, is changing and that's how we're trying to position.

Doug Leggate
Analyst, Wolfe Research LLC
Q

Guys, pardon the clarification, and of course, I meant MVC, not MVP. I think you've got too many pipelines, I guess. But just to be clear, so when we look at the volatility intra-quarter, in your curtailment strategy, you have the ability to basically pick your spots, and therefore, beat us on your basis differentials? Is that the right way we should think about it?

Toby Z. Rice
President, Chief Executive Officer & Director, EQT Corp.
A

Correct.

Doug Leggate
Analyst, Wolfe Research LLC
Q

Thank you. That's what I was looking for. Thanks, guys. Appreciate the time.

Toby Z. Rice
President, Chief Executive Officer & Director, EQT Corp.
A

You got it.

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Operator: Our next question comes from Roger Read with Wells Fargo. Please go ahead.

Roger D. Read
Analyst, Wells Fargo Securities LLC

Q

Yeah. Thanks. Good morning, and appreciate the clarity on the previous question. I think a lot of us were trying to figure that out on the curtailment side. I think one of the other questions I have is, early days, obviously, with the Equitrans acquisition. But as you think about synergies into 2025, maybe a little bit of a – what have you seen that surprised you so far? What do you think it might take a little bit longer? And just trying to get an idea, we're used to companies setting a synergy target and outperforming it. You think that's something that's likely to play out for you here?

Toby Z. Rice
President, Chief Executive Officer & Director, EQT Corp.

A

Yeah. So, the biggest thing for us operationally, which I think you have, most of the conservative, baked in in the synergy estimates really is outlined on slide 26, the uplift we're going to see from compression. It's important to note, when we framed up that synergy, we were assuming a 10% uplift from the benefits of adding compression, and these pilots that we're showing there are showing that we're seeing nearly two times that uplift. So, that will be helpful. Timing on when we can get these compression projects rolling at a larger scale is going to be the big determining factor and the team has been hard at work, and we'll be putting those projects into our budget. So, timing and all of that would be framed up in our 2025 budget plan.

Roger D. Read
Analyst, Wells Fargo Securities LLC

Q

Okay. And then, my other question is, obviously, things have gone fairly well on the asset dispositions, the non-op stuff you cited. I think we've seen rumors in the press about MVP sale. If you're able to generate more cash just from operations in addition to the asset sales, what's the right way to think about how you would rightsize the balance sheet? Meaning, how much of a premium would you have to pay on any of the debt to retire early? And I'm just trying to think about it as, do you build cash, do you return cash, and then pay the debt off in a more methodical pattern.

Toby Z. Rice
President, Chief Executive Officer & Director, EQT Corp.

A

No. We've been spending a lot of time on this. I think we have a pretty efficient plan to eliminate the debt that we have in front of us and smooth out our maturity stacks. So, I don't expect any sort of inefficiency to come out of that. I think it will be pretty straightforward.

Roger D. Read
Analyst, Wells Fargo Securities LLC

Q

All right. Appreciate it. Thank you.

Toby Z. Rice
President, Chief Executive Officer & Director, EQT Corp.

A

Thanks.

Operator: Our next question comes from Neil Mehta with Goldman Sachs. Please go ahead.

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Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Thank you, team, and congrats on making some progress on – around the asset sales. You mentioned in your prepared remarks, you've been spending a lot of time in the power markets. Just curious what your real-time assessment is around the AI and data demand – data center theme? And how do you see that specifically in the Marcellus, do you see a case for a step-up in in-basin demand around data centers as well? So, just any real-time conversations, perspectives, and a mark-to-market of your views as you guys have been on the forefront of this.

Toby Z. Rice
President, Chief Executive Officer & Director, EQT Corp.

A

Yeah. So, we laid out sort of our plan on 2016, we're seeing between 10 and 18 Bcf a day of demand growth for natural gas due to power. Some of the real-time data that we're looking at, because this is the million-dollar question is AI – people know power generation is coming, what percentage of that is going to be natural gas. So, like a lot of you, we're looking at the orders that are coming in for natty gas turbines. And you see one of the largest turbine manufacturers in the world, Mitsubishi, seeing a 50% increase in their orders. You see GE, compared to last year, their orders are up 90%.

So, while this stuff isn't making the headlines of how much market share natural gas is taking, the orders are building up and strengthening that natural gas is going to continue to be the workhorse that adds a lot of this power demand. And just looking at the baseline of what we've done over the last 10 years, I mean, natural gas has seen power demand needs – requiring 14 Bcf a day. That's what we've done over the last decade. Not a lot of people have talked about that. That was largely driven by coal-to-gas switching, which is still a theme going forward, and now you add on the power generation growth from AI, and it's not too hard to believe some of these numbers that we're putting forward.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

Toby, we've seen nuclear restarts in PJM. We've seen some talk about license re-extensions on the nuclear side as well. As you think about competition for that natural gas demand, how do you think about the alternatives, whether it's renewables or nuclear, and how does that fit into the math for the TAM around this market?

Toby Z. Rice
President, Chief Executive Officer & Director, EQT Corp.

A

On nuclear, that was something we looked at what would be the other options like Three Mile Island that could come back on line, keeping in mind, some of this power demand growth estimates is around, call it, 70 to 80 gigawatts. Our view on this, looking at similar nuclear facilities, that would have the potential to add about 3 gigawatts of power demand. Relative to what's required, it's a drop in the bucket, it's not meaningful. And it still needs to happen, but the world is going to be looking for fresh, reliable, affordable energy sources. So that's going be mean more natural gas, and that's what we're seeing in the order books when people are looking to pick up these turbines.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

Thank you, sir.

Operator: The next question comes from Jacob Roberts with TPH. Please go ahead.

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Jacob Roberts
Analyst, Tudor, Pickering, Holt & Co. Securities LLC

Q

Good morning.

Toby Z. Rice
President, Chief Executive Officer & Director, EQT Corp.

A

Morning.

Jacob Roberts
Analyst, Tudor, Pickering, Holt & Co. Securities LLC

Q

Just wanted to see if we could hit on an early 2025 look. But looking at Q3 and Q4, excluding shut-ins, I think the run rate is closer to 2,400 Bcfe, and should the market be thinking about slight declines in your production base in 2025, given the earlier comments kind of in the 2,100 Bcfe level, net of the sale?

Jeremy Knop
Chief Financial Officer, EQT Corp.

A

Yeah. Look, I think from where we are within the year, I think we're in a peak time right now. So, I do expect that to come up a little bit as we get into 2025. But I would say, year-over-year, we've seen relatively flat growth on our remaining assets that we've not divested.

Jacob Roberts
Analyst, Tudor, Pickering, Holt & Co. Securities LLC

Q

Okay. I appreciate that. And then, lastly, I know the release noted the production and capital impact from the non-op sale. Should we be thinking about any changes to operating expense?

Jeremy Knop
Chief Financial Officer, EQT Corp.

A

No, I wouldn't say materially at this time.

Jacob Roberts
Analyst, Tudor, Pickering, Holt & Co. Securities LLC

Q

All right. Appreciate the time, guys.

Operator: Your next question comes from Kalei Akamine with Bank of America. Please go ahead.

Kalei Akamine
Analyst, BofA Securities, Inc.

Q

Hey. Good morning, guys. Thanks for getting me on. My first question is on operational synergies, water, in particular. Can you talk a little bit more about how putting water in the right places can help you drop one frac crew. Are you simply cutting the standby time? When could this happen and what does the impact on capital look like?

Toby Z. Rice
President, Chief Executive Officer & Director, EQT Corp.

A

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Yeah. It's pretty simple. When we look at the driving factor for completions efficiencies, it's the amount of feet we can frac per day. That is driven by the amount of hours that we're pumping per day. So, we look at the NPT when we're not pumping, for us, a big part of that nonproductive time wedge was waiting on water. We've eliminated a large part of that. So, you take out a lot of NPT time, you replace that with pump time, and your footage per day increases.

So, if you can increase your efficiencies by 30% and you're running three frac crews, you've positioned yourself to get the same amount of footage and have 33% less frac crews. And that's what we're setup and monitoring to bake that into the 2025 plan. From a cost perspective, that could translate to about $50 per foot of savings or roughly $50 million per year of operational efficiency value.

Kalei Akamine
Analyst, BofA Securities, Inc.

Q

And Toby, to clarify, is this in your synergy target? I guess, from our perspective, it's hard to tease out what's the synergy and what's the natural evolution of your business. And I suppose, over time, that's going to get more blurry. But just to be clear, is this in the target or is this separate?

Toby Z. Rice
President, Chief Executive Officer & Director, EQT Corp.

A

That would be separate. That was not included in our synergies.

Kalei Akamine
Analyst, BofA Securities, Inc.

Q

I appreciate the clarity. The second one goes to gas balances and I guess it's two parts. First, can you remind us on curtailments, how much you currently have, and how you're thinking about bringing that back when you look at the winter in-basin pricing? And then, on MVP, our understanding is that it can flow more fully in the winter. Can you give us an idea what that looks like? And then, what could that mean for headline in-basin production numbers?

Jeremy Knop
Chief Financial Officer, EQT Corp.

A

Yeah. So, on that first question of what we have curtailed, we've been fully online for several weeks actually. So, I wouldn't expect when you're looking at your gas balances that EQT is bringing back an additional 1 Bcf a day, which we had curtailed at the peak. That's already back. It's been back. And so, I think as everyone is trying to look at their gas models, I think that's a pretty important factor.

And look, we did that because the market showed that there is a need for that gas. It was above our price targets. And so, as you look at our improved guidance for Q4, a lot of that's because the assumptions we had previously made for curtailments in October just haven't played out. We just haven't needed to curtail in response to what the market has told us. And so, that's why you've seen that move up in addition to better well performance.

And then, on your MVP question, look, the assumption we are making is effectively that between December and February, MVP should flow at full capacity or near it, as you see that arb opened up, and there's that downstream demand. So, that's effectively what you'll see baked into our guidance.

Kalei Akamine
Analyst, BofA Securities, Inc.

Q

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Awesome. Appreciate that. Thanks, guys.

Operator: Your next question comes from David Deckelbaum with TD Cowen. Please go ahead.

David Adam Deckelbaum
Analyst, TD Cowen

Q

Good morning, guys. Good morning, Toby. Thanks for taking my question this morning. I was hoping that you guys could give a little bit of color and update around the regulated asset sales process. Just given the success of the non-op now, how do you think about timeline? I know that you have a year-end 2025 debt target. So, presumably, I guess, you have roughly, I guess, 15 months or so before we get down to that level. Is this something you want to get done sooner than later? And then, as you think about selling those – a portion of those assets, is there a right ownership percentage that would like to retain outside of just a controlling stake?

Jeremy Knop
Chief Financial Officer, EQT Corp.

A

Look, I think we've provided a pretty good clarity of the structure that we're pursuing in prior calls. We've been pretty open about that. I don't think there's going to be a deviation from what we outlined previously. There's been robust interest, and I'd say, the cost of capital that we are seeing has exceeded our expectations. I think the quantity of capital that investors have to put towards scarce high-quality natural gas pipes like this is above expectations. And I think that's really what's pushing forward our expectations, like we said in prepared remarks of when a deal gets done. But beyond that, look, we're in discussions with parties. We're working through that. We hope [ph] it's sooner than later (00:39:18), but it's certainly above our original – or ahead of our original expectations, which initially we had pegged to be in the first half of next year. Now, we expect that to probably get done before the end of this year.

David Adam Deckelbaum
Analyst, TD Cowen

Q

No. That's helpful. If I could just ask one more. Obviously, I know the industry is focused on this AI power generation thematic, and you talked about, obviously, the regionalization of demand with a lot of that proliferating in the Southeast, where EQT has a ton of egress via MVP and expansion. I know that you guys have already guided to, obviously, benefiting from the firm demand contracts that you have in place in late-2027 with the Transco expansion with utilities.

As we think about AI and its commercial impact to EQT, you talked about benefiting from this directly. So, what is like the remaining quantum if you see this proliferation in the Southeast of how much more we could see contracted on top of those firm sales? And is this something that is much more of a 2030 and beyond expectation or should we expect potential for incremental basis improvement between now and the end of the decade?

Jeremy Knop
Chief Financial Officer, EQT Corp.

A

Yeah. Great question. So, in our view, Appalachian demand would include what is taken – or just really exported out-of-basin plus in-basin demand. We think between now and the end of this decade, that should increase to – from about 35, 36 Bcf a day to about 42 Bcf. So, effectively adding a whole another EQT in terms of demand. I think that is overlooked in many ways. And really, in our assumption, no new pipes are getting built aside from the expansion we expect to pursue on MVP through the compression that we've talked about previously. Beyond that, it's really in-basin demand. And when we step back and think about how does that play out and impact our business, it's either one of two ways than it's probably a combination of both.

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One, we think it tightens in-basin differentials, but it also allows us to grow. So, as we're really a price times volume business, we expect to see benefits on both sides of that. And now in our new integrated business model, we effectively control a lot of the toll roads in the basin, and we expect to be the one to probably disproportionately benefit from that growth where we can connect our low-cost decades of supply to those different sources of demand as they come online. So, that's something that we're hyperfocused on. It's one of the reasons we haven't gone out to other plays, because we do see that backdrop playing out in Appalachia, and I think we're as well-positioned as anybody to benefit from that.

David Adam Deckelbaum
Analyst, TD Cowen

Q

Appreciate that color.

Operator: Our next question comes from Josh Silverstein with UBS. Please go ahead.

Josh Silverstein
Analyst, UBS Securities LLC

Q

Thanks. Good morning, guys. Last quarter, you talked about an initial outlook for spending next year around the $2.3 billion to $2.6 billion range. Given the efficiency gains that you guys have seen this year, the non-op sale and then a pending midstream sale, are you thinking that the lower end of that range is now more likely relative to the initial view?

Jeremy Knop
Chief Financial Officer, EQT Corp.

A

So, if you're at a high level kind of bridge that, and just start with the midpoint for ease of discussion, the midpoint of that range we gave out was $2.45 billion, the non-op sale removes about $75 million out of 2025, and the efficiency gains we referenced in prepared remarks, we equate it to about $50 million of additional savings beyond what we had assumed at the time.

So, I would expect that to probably be toward the lower end of that range at this point in time. But look, we're still working through it to figure out exactly how we might even put some of those savings into accelerating some of the midstream synergies. So, it's a work in process, but I'd say directionally things are moving to the positive side of that range that we looked at previously.

Josh Silverstein
Analyst, UBS Securities LLC

Q

Got it. Thanks. And sorry to come back to the curtailments, but I'm curious what specifically in the markets you guys see to bring back all of your volumes that were previously curtailed. Henry Hub in the fourth quarter pricing is lower versus when you announced the 45 Bcf of expected curtailments for fourth quarter. Is it something in Appalachia? Is there something else? Like, what is it that you guys are looking at that we should be thinking about going forward to kind of adjust our quarterly numbers for you guys?

Jeremy Knop
Chief Financial Officer, EQT Corp.

A

Yeah. So, all the volumes we curtail are volumes that we are selling into the Appalachia market. Those are in excess beyond what we have had [indiscernible] (00:43:57). So, the number we're looking at in Appalachia is

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about $1.50 at M2. So, when you see M2 above that, you should assume we're generally going to be flowing at full capacity. When it dips below that, you'll see us pull volumes off the market. And that at a high level is really our cash costs, excluding the sort of integrated midstream payments we pay ourselves plus F&D, it's about that $1.50 level.

And so, when you kind of put that all together and think about what it means for the gas market, I think there's kind of three bands of the way you'll see the market evolve over the next 12 months, call it. I think you will continue to sort of ping pong between $2 and $3 until all curtailments are back online, because as you approach $3, all of that should come back online. I think there's a second band between probably $3 and $3.50, where you see some of the short-cycle DUCs and deferred TILs sitting out there, that some of our peers have.

I would expect that's the band where some of that starts coming online. So, you see that additional resistance level. But I think once you get beyond that, you need to have real activity and there's a delayed effect to that as we saw on the downside, there's delayed effect to production falling, there's a delayed effect to production resuming growth when activity is added. And I think the longer production stays down where it is, the more difficult it's going to be to bring it back.

So, going back to that slide 21 that we referenced, I think we're likely to sit kind of at that below $3 level. And so, you see a lot of this production back. And very quickly, you're going to snap towards the high end of that level as you get towards the back half of 2025 and into 2026, which is also why we've hedged the way we have. We remain unhedged in 2026 and highly exposed in Q4 next year. But I think it is going to be a path to get back to that level, just putting aside how winter goes, which is hard to predict.

Josh Silverstein
Analyst, UBS Securities LLC

Q

Got it. Thanks for the color.

Operator: Our next question comes from Bert Donnes with Truist Securities. Please go ahead.

Bertrand William Donnes III
Analyst, Truist Securities, Inc.

Q

Hey. Good morning, team. You mentioned that the production should be kind of directionally flattish on the remaining upstream assets. Historically, though, we've seen some operators attempt to take advantage of shoulder months and shape their production. Should we expect to see that come about naturally as you use curtailments throughout the year next year or is that strategy just not viable anymore because of the loss in efficiencies when you try to bring all those wells all at once?

Jeremy Knop
Chief Financial Officer, EQT Corp.

A

Yeah. That's never really been our strategy. I mean, we've always really focused on really the most efficient way to operate and execute, which is not really the start-stop nature of operations cadence, which you need to execute to pursue that strategy. So, I don't think at least from EQT, you're going to see that sort of seasonal up and down that you see in the market more broadly or out of Appalachia more broadly. I think, for us, we try to run that pretty consistently. You will see, like in Q3 this year, there are some quarters that will be higher than others, but year-over-year, you should expect that to be pretty flat until there's a real need in the market for that production, which I think you'll see in terms of Henry Hub price rising and local basis being relatively tight.

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Bertrand William Donnes III
Analyst, Truist Securities, Inc.

Q

Makes sense. And then, this one a little more pointed. On the timing of the asset sale, obviously, you got a pretty strong price on the non-op. But we've got a few questions on maybe selling assets with low capital requirements during lower near-term gas pricing. So, maybe you could talk about how do you balance selling assets versus achieving your leverage targets or maybe your buyer is just willing to look past near-term gas prices and we should all just – everybody started looking at 2026 when they deal with A&D.

Jeremy Knop
Chief Financial Officer, EQT Corp.

A

Yeah. I'd characterize at least in our view the assets we sold this way, under how we would have underwrote it, we see it as like a 3P PV10 before tax type value at about $3.50 gas. So, we felt like despite where the prompt price is on the strip, we got pretty good value for it, and that includes value for the Upper Marcellus, which we think Northeast Pennsylvania in the next couple of years is going to be predominantly driven by Upper Marcellus development. There's just not a lot of core lower left.

And so, I think, for us, we're really happy with it on just an intrinsic value basis. And taking those assets specifically, the next five years, we estimate it would generate about $250 million – or sorry, $750 million of free cash. We received $1.25 billion right now without the effect of discounting. So, again, we feel like really no matter how you cut it, the valuation is pretty strong.

If you compare it to the deal that we did also with Equinor, six months prior, you had two real differences. One, the back end of the curve has come down probably $0.50. So, that impacts value. The prior deal also had asset swap component. So, that obviously muddies it a little bit. That was also a strategic exit for them out of US onshore operations. There's probably some element of a premium for that. But overall, we feel like it's a really strong outcome out of the entirety of the process.

Bertrand William Donnes III
Analyst, Truist Securities, Inc.

Q

And just to clarify, so on the A&D, does it work both ways? Is it – you were saying that you got value for later periods of strip pricing. Are you seeing that on the other side when you're looking at potentially acquiring assets? Does that work with sellers as well? That's all I've got. Thanks.

Jeremy Knop
Chief Financial Officer, EQT Corp.

A

I think it just depends. It's kind of hard to say. It just depends on the environment. I think, for core assets, you're more likely to see value for those – that longer-term inventory. But, I think, in the mode we are in right now, we've gone through what Toby and I like to think of as like a transformation era of EQT in the last five years. M&A has been a very key part of that to transform EQT into the lowest-cost producer with most inventory.

I think, where we're at today, there's no other assets out there that compare to what we've built. So, I don't think we're as focused on M&A going forward. I think we look at, if we have extra cash available, where can we actually put that to work acquisitively and buy the most duration of inventory at the lowest cost, let's just buy enough shares back. Historically, we haven't really had that option because we didn't – our business wasn't the character of what it is now. But I think going forward, that's what you're going to see us focus pretty heavily on, once we clear the balance sheet and ensure that through the cycle, we have the ability to do that with confidence.

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Bertrand William Donnes III
Analyst, Truist Securities, Inc.

Q

Perfect. Thank you.

Operator: Our final question for today comes from Noel Parks with Tuohy Brothers. Please go ahead.

Noel Augustus Parks
Analyst, Tuohy Brothers Investment Research, Inc.

Q

Hi. Good morning. I was really interested to hear your comments about – just as you have become more integrated again, your thoughts about volatility going forward. And do you see us reaching a point where this greater volatility winds up reflected in the strip. I'm thinking about how low the liquidity is out beyond a year or so compared to what we saw in prior eras, where I guess there is just more speculative capital out there. So, just curious what your thoughts on that.

Jeremy Knop
Chief Financial Officer, EQT Corp.

A

I think you – I mean, look, what the market will be short of is storage capacity. The way to incentivize more storage capacity to get built, especially like short-cycle self-storage is you need seasonal spreads to widen out. And so, I think as the market evolves in the years ahead, I think you will see summer/winter spreads widen out quite a bit from where they are, because that's the incentive to build that storage capacity. I think the other place you will see that begin to be expressed is in the options market. So, that's what I'd be looking towards in terms of like how is the market going to price that extra volatility.

Noel Augustus Parks
Analyst, Tuohy Brothers Investment Research, Inc.

Q

Got it. Storage again, always comes to the floor sooner or later. And I'm just wondering, as you have outlined your strategy around curtailments and just how those can be useful, do any scenarios that you look at contemplate the possibility of LNG capacity that have been planned getting pushed out in its start-up? And with your strategy, I was just trying to get a sense of whether that could actually be something favorable for you, if sort of that demand burst, given your low-cost structure and everything does get delayed or more or less neutral effect?

Toby Z. Rice
President, Chief Executive Officer & Director, EQT Corp.

A

Yeah. If that happens, gas prices would react, you have more lower prices, and I think it's going to reflect on why we've worked so hard to position this business, to really get our cost structure to where it is to withstand those low-cost environments and not have to curtail activity. I mean, I think it's just a matter of time before this gas demand comes, and being able to get through those troughs and remain unhedged so you can take advantage of the higher prices when that demand does come is how we've set up the business. And I think it's – the volatility that will come, whether it's LNG or weather events or geopolitical instances, I mean, step back and look at the last few years, we've seen some major things happen that have created some pretty big opportunities.

We've positioned the business to be able to take advantage of those. And I think to your prior question on like pricing in the strip, I think it's the dynamic that we've proven in the third quarter that being able to curtail opportunistically has translated to higher realized pricing. I think that opportunity is going to be hard to model when you look at companies and just pick a gas price, because we are going to be moving our volumes, curtailing them and optimizing for better pricing.

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Jeremy Knop
Chief Financial Officer, EQT Corp.

A

Noel, your question – and I'm trying to think about what exactly you mean by some of this, too. If your question is getting at, for example, Golden Pass or other facilities getting delayed till, call it, the back half of next year. I think one of the most bullish things for the gas market right now is, if all that capacity comes online in a very short amount of time, so if that facility really comes online towards the end of 2025, along with other facilities, instead of slowing progressively, I think you're going to see just say it's 3 Bcf that comes online in very short order, over 365 days, that's a Tcf of incremental demand. Producers simply cannot respond that quickly and that is a material swing in US balances.

If that happens, I actually think while it is a little more bearish near-term, I think once that happens and as you get into 2026 that is unbelievably bullish. So, look, we're going to be opportunistic. I think we're going to be well-positioned for whatever happens either way. But that is kind of a silver lining to some of this getting delayed and really getting stacked together all at the same time, potentially in the back half of next year.

Noel Augustus Parks
Analyst, Tuohy Brothers Investment Research, Inc.

Q

Right. That was exactly what I was getting at, your remark earlier about the longer prices stay low and it suppresses overall industry activity, the harder it is to come back beyond DUCs and TILs to build activity back. So, that was kind of what I was thinking. So, thanks.

Operator: All right. Thank you all for joining. That concludes today's call. You may now disconnect.

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