

Edgar Filing: Diamondback Energy, Inc. - Form 10-Q

Diamondback Energy, Inc.
Form 10-Q
May 10, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

✓ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED March 31, 2018
OR
o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-35700

Diamondback Energy, Inc.
(Exact Name of Registrant As Specified in Its Charter)

Delaware	45-4502447
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

500 West Texas, Suite 1200	79701
Midland, Texas	
(Address of Principal Executive Offices)	(Zip Code)
(432) 221-7400	
(Registrant Telephone Number, Including Area Code)	

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check One):
Large Accelerated Filer ☒ Accelerated Filer ☐ o

Edgar Filing: Diamondback Energy, Inc. - Form 10-Q

Non-Accelerated Filer ☐ Smaller Reporting Company ☐

Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 4, 2018, 98,611,408 shares of the registrant's common stock were outstanding.

DIAMONDBACK ENERGY, INC.
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2018
TABLE OF CONTENTS

	Page
<u>Glossary of Oil and Natural Gas Terms</u>	<u>ii</u>
<u>Glossary of Certain Other Terms</u>	<u>iii</u>
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	<u>iv</u>
 PART I. FINANCIAL INFORMATION	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets</u>	<u>1</u>
<u>Consolidated Statements of Operations</u>	<u>2</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>3</u>
<u>Consolidated Statements of Cash Flows</u>	<u>4</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
 <u>Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations</u>	<u>32</u>
 <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>44</u>
 <u>Item 4. Controls and Procedures</u>	<u>45</u>
 PART II. OTHER INFORMATION	
 <u>Item 1. Legal Proceedings</u>	<u>46</u>
 <u>Item 1A. Risk Factors</u>	<u>46</u>
 <u>Item 6. Exhibits</u>	<u>47</u>
 <u>Signatures</u>	<u>49</u>

GLOSSARY OF OIL AND NATURAL GAS TERMS

The following is a glossary of certain oil and gas terms that are used in this Quarterly Report on Form 10-Q (this “report”):

Basin	A large depression on the earth’s surface in which sediments accumulate.
Bbl	Stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to crude oil or other liquid hydrocarbons.
BOE	Barrels of oil equivalent, with six thousand cubic feet of natural gas being equivalent to one barrel of oil.
BOE/d	BOE per day.
British Thermal Unit or Btu	The quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit.
Completion	The process of treating a drilled well followed by the installation of permanent equipment for the production of natural gas or oil, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.
Crude oil	Liquid hydrocarbons retrieved from geological structures underground to be refined into fuel sources.
Finding and development costs	Capital costs incurred in the acquisition, exploitation and exploration of proved oil and natural gas reserves divided by proved reserve additions and revisions to proved reserves.
Gross acres or gross wells	The total acres or wells, as the case may be, in which a working interest is owned.
Horizontal drilling	A drilling technique used in certain formations where a well is drilled vertically to a certain depth and then drilled at a right angle with a specified interval.
Horizontal wells	Wells drilled directionally horizontal to allow for development of structures not reachable through traditional vertical drilling mechanisms.
Mcf	Thousand cubic feet of natural gas.
Mineral interests	The interests in ownership of the resource and mineral rights, giving an owner the right to profit from the extracted resources.
MMBtu	Million British Thermal Units.
Net acres or net wells	The sum of the fractional working interest owned in gross acres.
Oil and natural gas properties	Tracts of land consisting of properties to be developed for oil and natural gas resource extraction.
Plugging and abandonment	Refers to the sealing off of fluids in the strata penetrated by a well so that the fluids from one stratum will not escape into another or to the surface. Regulations of all states require plugging of abandoned wells.
Prospect	A specific geographic area which, based on supporting geological, geophysical or other data and also preliminary economic analysis using reasonably anticipated prices and costs, is deemed to have potential for the discovery of commercial hydrocarbons.
Proved reserves	The estimated quantities of oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be commercially recoverable in future years from known reservoirs under existing economic and operating conditions.
Reserves	The estimated remaining quantities of oil and natural gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and natural gas or related substances to the market and all permits and financing required to implement the project. Reserves are not assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves

Edgar Filing: Diamondback Energy, Inc. - Form 10-Q

should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

Reservoir	A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is separate from other reservoirs.
Royalty interest	An interest that gives an owner the right to receive a portion of the resources or revenues without having to carry any costs of development.
Spacing	The distance between wells producing from the same reservoir. Spacing is often expressed in terms of acres (e.g., 40-acre spacing) and is often established by regulatory agencies.
Working interest	An operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and receive a share of production and requires the owner to pay a share of the costs of drilling and production operations.

GLOSSARY OF CERTAIN OTHER TERMS

The following is a glossary of certain other terms that are used in this report.

Company	Diamondback Energy, Inc., a Delaware corporation.
Equity Plan	The Company's Equity Incentive Plan.
Exchange Act	The Securities Exchange Act of 1934, as amended.
GAAP	Accounting principles generally accepted in the United States.
General Partner	Viper Energy Partners GP LLC, a Delaware limited liability company and the General Partner of the Partnership.
NYMEX	New York Mercantile Exchange.
Partnership	Viper Energy Partners LP, a Delaware limited partnership.
Partnership Agreement	The first amended and restated agreement of limited partnership, dated June 23, 2014, entered into by the General Partner and Diamondback in connection with the closing of the Viper Offering.
SEC	United States Securities and Exchange Commission.
Securities Act	The Securities Act of 1933, as amended.
2024 Senior Notes	The Company's 4.750% senior unsecured notes due 2024 in the aggregate principal amount of \$500 million.
2025 Senior Notes	The Company's 5.375% senior unsecured notes due 2025 in the aggregate principal amount of \$500 million.
Senior Notes	The 2024 Senior Notes and the 2025 Senior Notes.
Viper LTIP	Viper Energy Partners LP Long Term Incentive Plan.
Viper Offering	The Partnerships' initial public offering.
Wells Fargo	Wells Fargo Bank, National Association.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in this report that express a belief, expectation, or intention, or that are not statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Exchange Act. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements, other than statements of historical fact, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this report, the words “could,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “may,” “continue,” “predict,” “potential,” “project” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. In particular, the factors discussed in this report and detailed under Part II, Item 1A. Risk Factors in this report and our Annual Report on Form 10-K for the year ended December 31, 2017 could affect our actual results and cause our actual results to differ materially from expectations, estimates or assumptions expressed, forecasted or implied in such forward-looking statements.

Forward-looking statements may include statements about our:

- business strategy;
- exploration and development drilling prospects, inventories, projects and programs;
- oil and natural gas reserves;
- acquisitions;
- identified drilling locations;
- ability to obtain permits and governmental approvals;
- technology;
- financial strategy;
- realized oil and natural gas prices;
- production;
- lease operating expenses, general and administrative costs and finding and development costs;
- future operating results; and
- plans, objectives, expectations and intentions.

All forward-looking statements speak only as of the date of this report or, if earlier, as of the date they were made. We do not intend to, and disclaim any obligation to, update or revise any forward-looking statements unless required by securities laws. You should not place undue reliance on these forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our

management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this report are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved or occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

Table of Contents

Diamondback Energy, Inc. and Subsidiaries

Consolidated Balance Sheets

(Unaudited)

	March 31, 2018	December 31, 2017
	(In thousands, except par values and share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$72,487	\$112,446
Accounts receivable:		
Joint interest and other	71,017	73,038
Oil and natural gas sales	165,263	158,575
Inventories	8,963	9,108
Derivative instruments	—	531
Prepaid expenses and other	6,737	4,903
Total current assets	324,467	358,601
Property and equipment:		
Oil and natural gas properties, full cost method of accounting (\$4,204,745 and \$4,105,865 excluded from amortization at March 31, 2018 and December 31, 2017, respectively)	9,648,825	9,232,694
Midstream assets	295,161	191,519
Other property, equipment and land	82,095	80,776
Accumulated depletion, depreciation, amortization and impairment	(2,274,909)	(2,161,372)
Net property and equipment	7,751,172	7,343,617
Funds held in escrow	10	6,304
Investment in real estate, net	109,103	—
Other assets	40,136	62,463
Total assets	\$8,224,888	\$7,770,985
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable-trade	\$63,129	\$94,590
Accrued capital expenditures	262,242	221,256
Other accrued liabilities	100,557	92,512
Revenues and royalties payable	82,055	68,703
Derivative instruments	99,685	100,367
Total current liabilities	607,668	577,428
Long-term debt	1,701,912	1,477,347
Derivative instruments	6,492	6,303
Asset retirement obligations	21,258	20,122
Deferred income taxes	152,369	108,048
Other long term liabilities	7	—
Total liabilities	2,489,706	2,189,248
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common stock, \$0.01 par value, 200,000,000 shares authorized, 98,610,608 issued and outstanding at March 31, 2018; 98,167,289 issued and outstanding at December 31, 2017	986	982

Edgar Filing: Diamondback Energy, Inc. - Form 10-Q

Additional paid-in capital	5,299,811	5,291,011
Accumulated deficit	116,286	(37,133)
Total Diamondback Energy, Inc. stockholders' equity	5,417,083	5,254,860
Non-controlling interest	318,099	326,877
Total equity	5,735,182	5,581,737
Total liabilities and equity	\$8,224,888	\$7,770,985

See accompanying notes to combined consolidated financial statements.

Table of ContentsDiamondback Energy, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31, 2018 2017 (In thousands, except per share amounts)	
Revenues:		
Oil sales	\$419,268	\$207,074
Natural gas sales	14,378	9,922
Natural gas liquid sales	33,113	15,502
Lease bonus	—	1,602
Midstream services	11,395	1,130
Other operating income	2,041	—
Total revenues	480,195	235,230
Costs and expenses:		
Lease operating expenses	37,345	26,626
Production and ad valorem taxes	27,304	15,725
Gathering and transportation	4,285	2,619
Midstream services	11,189	854
Depreciation, depletion and amortization	115,216	58,929
General and administrative expenses (including non-cash equity-based compensation, net of capitalized amounts, of \$7,451 and \$7,063 for the three months ended March 31, 2018 and 2017, respectively)	16,325	13,744
Asset retirement obligation accretion	355	323
Other operating expense	530	—
Total costs and expenses	212,549	118,820
Income from operations	267,646	116,410
Other income (expense):		
Interest expense, net	(13,701)	(12,225)
Other income, net	2,736	1,145
Gain (loss) on derivative instruments, net	(32,345)	37,701
Gain on revaluation of investment	899	—
Total other income (expense), net	(42,411)	26,621
Income before income taxes	225,235	143,031
Provision for income taxes	47,081	1,957
Net income	178,154	141,074
Net income attributable to non-controlling interest	15,342	4,801
Net income attributable to Diamondback Energy, Inc.	\$162,812	\$136,273
Earnings per common share:		
Basic	\$1.65	\$1.46
Diluted	\$1.65	\$1.46
Weighted average common shares outstanding:		
Basic	98,555	93,161
Diluted	98,769	93,364
Dividends declared per share	\$0.125	\$—

See accompanying notes to combined consolidated financial statements.

Table of Contents

Diamondback Energy, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(Unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Non-Controlling Interest	Total
	(In thousands)					
Balance December 31, 2016	90,144	\$ 901	\$4,215,955	\$ (519,394)	\$ 320,830	\$4,018,292
Net proceeds from issuance of common units - Viper Energy Partners LP	—	—	—	—	147,523	147,523
Unit-based compensation	—	—	—	—	819	819
Stock-based compensation	—	—	8,587	—	—	8,587
Distribution to non-controlling interest	—	—	—	—	(6,482)	(6,482)
Common shares issued in public offering, net of offering costs	—	—	14	—	—	14
Common shares issued for acquisition	7,686	77	809,096	—	—	809,173
Exercise of stock options and vesting of restricted stock units	298	3	355	—	—	358
Net income	—	—	—	136,273	4,801	141,074
Balance March 31, 2017	98,128	\$ 981	\$5,034,007	\$ (383,121)	\$ 467,491	\$5,119,358
Balance December 31, 2017	98,167	\$ 982	\$5,291,011	\$ (37,133)	\$ 326,877	\$5,581,737
Impact of adoption of ASU 2016-01, net of tax	—	—	—	(9,393)	(6,671)	(16,064)
Unit-based compensation	—	—	—	—	1,288	1,288
Stock-based compensation	—	—	8,804	—	—	8,804
Distribution to non-controlling interest	—	—	—	—	(18,737)	(18,737)
Exercise of stock options and vesting of restricted stock units	443	4	(4)	—	—	—
Net income	—	—	—	162,812	15,342	178,154
Balance March 31, 2018	98,610	\$ 986	\$5,299,811	\$ 116,286	\$ 318,099	\$5,735,182

See accompanying notes to combined consolidated financial statements.

3

Table of Contents

Diamondback Energy, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31, 2018	2017
(In thousands)		
Cash flows from operating activities:		
Net income	\$ 178,154	\$ 141,074
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	46,908	1,425
Asset retirement obligation accretion	355	323
Depreciation, depletion and amortization	115,216	58,929
Amortization of debt issuance costs	748	852
Change in fair value of derivative instruments	38	(39,375)
Income from equity investment	(2,167)	(3)
Gain on revaluation of investment	(899)	—
Equity-based compensation expense	7,451	7,063
Gain on sale of assets, net	—	(12)
Changes in operating assets and liabilities:		
Accounts receivable	6,322	(20,104)
Accounts receivable-related party	—	199