Q1 2026 Earnings Call

Company Participants

- Kyle Sahni, Investor Relations
- Paul Goodfellow, President and Chief Executive Officer
- Zachary Dailey, Executive Vice President and Chief Financial Officer

Other Participants

- Ajay Bakshani, Analyst, BMO Capital Markets
- Greta Drefke, Analyst, Goldman Sachs
- Michael Furrow, Analyst, Pickering Energy Partners
- Michael Scialla, Analyst, Stephens
- Nate Pendleton, Analyst, Texas Capital Securities
- Noel Parks, Analyst, Tuohy Brothers Investment Research
- Paul Diamond, Analyst, Citi Research
- Phu Pham, Analyst, ROTH Capital
- Tim Rezvan, Analyst, KeyBanc Capital Markets

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Talos Energy First Quarter 2026 Earnings Call Conference. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. (Operator Instructions) This call is being recorded on Wednesday, May 6, 2026.

I would now like to turn the conference over to Kyle Sahni. Please go ahead.

Kyle Sahni {BIO 20592702 <GO>}

Thank you, operator. Good morning, everyone, and welcome to our first quarter 2026 earnings conference call. Joining me today to discuss our results are Paul Goodfellow, President and Chief Executive Officer; and Zach Dailey, Executive Vice President and Chief Financial Officer. For our prepared remarks, please refer to our first quarter 2026 earnings presentation that is available on the Talos's website under the Investor Relations section for a more detailed look at our results and operations.

Before we start, I'd like to remind you that our remarks will include forward-looking statements subject to various cautionary statements identified in our presentation and earnings release. Actual results may differ materially from those contemplated by the company. Factors that could cause these results to differ materially are set forth in yesterday's press release and our Form 10-K for the period ending December 31st, 2025, filed with the SEC. Forward-looking statements are based on assumptions as of today, and we undertake no obligations to update these statements as a result of new information or future events.

During this call, we may present GAAP and non-GAAP financial measures. A reconciliation of certain non-GAAP to GAAP measures is included in yesterday's press release, which was furnished with our Form 8-K filed with the SEC and is available on our website.

And now I'd like to turn the call over to Paul.

Paul Goodfellow {BIO 18789103 <GO>}

Thanks, Kyle, and good morning to everyone joining us on the call today. To start, I want to thank our employees for their hard work, dedication, and unwavering commitment to safety and environmental stewardship in delivering the results Zach and I have the privilege of discussing today, especially during these dynamic times.

But before turning to our results, I'd like to briefly provide some context on the current energy market. Recent geopolitical tensions have reminded global markets of a couple of fundamental truths. Energy security is not guaranteed, and reliable and affordable hydrocarbons remain essential to meeting the world's energy needs. We believe Talos Energy, as part of the vibrant US energy industry, plays a clear and increasingly important role in delivering reliable Gulf of America oil that the world requires. Our strategy is designed to build Talos into a leading pure-play offshore E&P company by delivering high-margin production through disciplined execution, a resilient cost structure, and building a long-lived portfolio that creates durable value across the cycle.

Today, I'd like to focus on three key takeaways from our results, where outstanding execution across the business drove another quarter of strong financial outcomes, generating adjusted free cash flow of $113 million on production of approximately 89,000 barrels of oil equivalent per day. First, our disciplined operational performance remains the foundation of our financial results.

During the first quarter, we delivered oil production of approximately 64,000 barrels per day and total production of approximately 89,000 barrels of oil equivalent per day, which just exceeded first quarter guidance. This outperformance was driven by strong new well productivity at Cardona, continued solid base performance and high facility uptime. I'm extremely proud of our team and want to recognize their tireless focus on operational excellence and identifying opportunities to maximize value across our asset base. This mindset is core to Pillar One of our strategy and ultimately leads into Pillar Two by driving production and profitability.

My second key takeaway is that execution is off to a strong start in what is an active drilling and completion year for Talos. In addition to efficient execution and strong performance at Cardona, we drilled and completed the CPN well in quarter one, with first production on track for the third quarter. Execution at CPN was best-in-class, highlighted by the fact that the well was completed with zero completion-related non-productive time, an outstanding achievement and a testament to the high-performance team here at Talos. The plan for remediation work to begin on the Genovesa well is on track for quarter two, with a return to production mid-year, slightly ahead of schedule. Lastly, on the execution front, drilling is underway at the monument project operated by Beacon Offshore, with first oil on track by late 2026.

Our relentless focus on improving the business every day has strengthened our position as a low-cost E&P operator in the Gulf of America, while also delivering top-decile EBITDA margins across the sector. Over the last three years, as industry cost structures in the Gulf of America have increased, Talos' proactive cost management and production growth have resulted in a reduction in unit operating costs. In fact, for 2025, which is the most recent available full-year dataset, our operating costs were approximately 30% lower on average than the offshore peer group. Our advantaged cost structure, combined with our oil-weighted production, drives top-decile EBITDA margins in the E&P sector.

My third and final key takeaway is that we continued this trend of low costs and high margins into the first quarter. Total company lease operating expenses were approximately $16 per barrel of oil equivalent in quarter one, which was in line with our 2025 average. It's also been an impressive start to the year for our optional performance plan, with greater than 40% of the 2026 target already achieved. These results are broad-based with free cash flow enhancements driven by operating cost reductions, margin improvement, and capital efficiency, which spans operations, development, and P&A activities.

We expect to build on the outstanding first-quarter performance and carry that momentum forward into the second quarter. We expect to spud the Daenerys appraisal well later in the second quarter. The primary objectives are to test the northern portion of the prospect and further evaluate reservoir and fluid properties. The well has been designed to penetrate multiple prospective intervals with optionality to accommodate future sidetracks, enabling further appraisal and development. We are ready to start execution as soon as the rig returns from the current operator's well. We expect to have the well drilled and evaluated by the end of the year. Exploration is a core element of our strategy, falling under Pillar 3, building a long-lived, scaled portfolio that supports sustainable growth. To deepen our exploration inventory for the future, we have been proactive with recent seismic investments, giving Talos the most advanced reprocess data across our core areas.

This approach to leveraging modern technology enabled a successful December 2025 lease sale with all 11 leases now awarded. The eight identified prospects among those leases, several of which span multiple blocks, represent more than 300 million barrels of gross unrisk resource potential across amplitude-supported and Wilcox opportunities. While the work is underway and is still early, our objective is to advance these prospects towards drill-ready status, allowing them to compete for capital in 2027. For me, the bottom line is simple a strong execution quarter delivered solid financial outcomes.

With that, I'll turn it over to Zach to walk through our first quarter financial results, along with the full year and second quarter guidance.

Zachary Dailey

Thanks, Paul. I'll focus my remarks this morning on our first quarter financial performance, which was underpinned by the strong operational execution Paul just discussed and our unchanged disciplined capital allocation framework. I'll also touch on our latest hedging activity before wrapping up with guidance and then opening it up for Q&A.

Starting with the quarter, we invested just under $120 million of exploration and development capital and delivered oil production at the high-end of our guidance range, with total oil equivalent production exceeding guidance. This strong execution across the business translated into $293 million of adjusted EBITDA and $113 million of adjusted free cash flow.

Importantly, these results were achieved at a low reinvestment rate of approximately 41%, reflecting the capital efficiency of our development program and our ability to convert consistent operating performance into strong financial outcomes. While we expect the macro and commodity price environment to remain volatile, Talos has the financial strength and flexibility to execute on our strategic priorities across a range of commodity price scenarios.

Our 2026 plan features development projects with breakevens in the '30s and '40s with a corporate free cash flow breakeven in the low $50 WTI range, and although oil prices have moved higher since the Iran war began, our capital allocation priorities and our 2026 budget remain unchanged. We will continue to allocate capital in a disciplined, balanced and focused manner guided by the framework that underpins execution across all three of our strategic pillars. This consistency is especially important during periods of volatility, and we believe adherence to our capital allocation framework positions Talos to deliver strong financial outcomes and long-term value creation through the cycle.

As a reminder, our capital allocation framework calls for returning up to 50% of annual free cash flow to shareholders, and the first quarter represented another quarter of consistent execution on this front. We returned $38 million or 34% of adjusted free cash flow to shareholders through share repurchases. Since announcing our return of capital framework in the second quarter of 2025, Talos has returned approximately $135 million to shareholders through repurchases, resulting in an approximately 7% reduction in our outstanding share count.

Turning to the balance sheet. Our liquidity remains strong, and leverage is low, resulting in financial strength that underpins our ability to execute across all three of our strategic pillars. During the first quarter, cash on hand increased while net debt declined sequentially, further enhancing our financial position. In addition to approximately $1 billion of liquidity, we have no near-term debt maturities and have recently extended our credit facility, which now matures in 2030. Together, our balance sheet strength provides flexibility to invest in the business through the cycle, return capital to shareholders, and advance both our development and exploration priorities while maintaining financial discipline.

And now, let me share a few thoughts on hedging and provide an update on our recent activity. The end of the first quarter was marked by elevated oil price volatility driven by geopolitical developments and broader macroeconomic uncertainty. In that environment, we remain disciplined and selectively opportunistic, acting consistently within our established hedging framework to support free cash flow while preserving upside. While we added some 2026 oil hedges at the beginning of the Iran War, our primary focus during the quarter was to begin layering in required oil hedges for early 2027, a time period in which Talos was unhedged before the war began. These initial positions were added to establish protection around future free cash flow, maintain exposure to additional upside, and satisfy credit facility requirements.

We view this early positioning in 2027 as prudent and well-timed given the current level of market volatility and uncertainty in longer-dated oil prices. It's also worth highlighting that approximately two-thirds of our oil production is sour and that we benefit from a balanced oil marketing portfolio with access to multiple physical crude pricing benchmarks. Beginning with April pricing, we saw strength in a number of Gulf Coast sour grades relative to historical levels, which all else equal should support near-term price realizations. Overall, our hedging activity during the quarter reflects a measured and steady approach using periods of volatility to strengthen cash flow resilience and reinforce our ability to execute consistently across the cycle.

For the forward outlook, all of our full year 2026 operational and financial guidance ranges we released in late February remain unchanged. For the second quarter, we expect oil production to be in the range of 63,000 to 67,000 barrels of oil per day and total production to be in the range of 88,000 to 92,000 barrels of oil equivalent per day. Additional details describing our guidance can be found in our presentation, which is available on our website.

In closing, the business is off to a very solid start to the year. With a clearly defined strategy, an advantaged cost structure and top-decile margins, we have the financial strength and flexibility to execute on our strategic priorities while remaining anchored to our disciplined capital allocation framework.

With that, we will open the line for Q&A.

Questions And Answers

Operator

Thank you. In a moment, we will open the call to questions. The company requests that all callers limited turn to two questions from each analyst, one question and one follow-up. (Operator Instructions) Your first question comes from Greta Drefke with Goldman Sachs. Please go ahead.

Q - Greta Drefke {BIO 23628780 <GO>}

Good morning, all, and thank you for taking my questions. I was wondering if you could just update us with your latest thoughts around how different uses of free cash flow compete across holding cash on the balance sheet, leaning into share repurchases like you did this past quarter, or potential M&A here?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah, thanks, Greta. Good morning. Look, I'd say nothing changes. We have a very close framework in terms of how we think about capital allocation that we've been working within over the last year, where we've seen sort of prices rise and decline during that timeframe. And that really is focused on investing in the business and making sure we remain sort of or keep the strength of the balance sheet, absolutely returning cash to shareholders, but also giving ourselves the opportunity to sort of invest in the future of the business to make sure that we have length in the portfolio. Now we've said that that investment needs to actually make Talos better and not bigger, and so it's not investment for investment sake, but actually in the same way as you see us investing in sort of projects in '26 and going into '27 that have low breakevens and high returns and can deal with the volatility that we see in the macro.

That's how we sort of look for that sort of fourth component as well, and so we'll balance that as we go through '26 and '27 with no change to the overall framework in which we are thinking and operating, and planning.

Q - Greta Drefke {BIO 23628780 <GO>}

Great. Thank you. And then just for my second question, I was just wondering just on the longer-term outlook and if we are in a higher for longer oil price environment, albeit very volatile and so as you're thinking about organic growth opportunities like you mentioned, is Talos considering leaning any -- leaning into any incremental organic growth projects in 2027 or 2028 to have potentially turned economic given where the oil forward curve is even today relative to a few months ago?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah, I'd just probably reiterate what we sort of spoke about before, which is we actually look for projects that have low breakevens, and Zach sort of mentioned that in the comments. And so we're not going to chase an oil curve. We'll look for projects that have resilience through the cycle. Now, as we mentioned, I think in the last quarter's call, we were very successful in the first lease sale that was held at the end of 2025. All of those leases, the 11 leases, have now been awarded to us, and we are working those diligently to allow some of those, the majority of those, to compete for capital in 2027.

But that's just sort of normal course. It's not in reaction to where the price is today and if you look at the shape of the curve, it's still incredibly backwardated. Yes, the long-end is sort of slightly higher than where it was pre-the Iran war, but it is nothing that would make us fundamentally change our view on how we invest in projects and the thresholds that we have for those projects to be considered to compete for capital aggressor[ph].

Q - Greta Drefke {BIO 23628780 <GO>}

Thank you very much.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thank you.

Operator

Thank you. The next question comes from Phillip Jungwirth with BMO. Please go ahead.

Q - Ajay Bakshani {BIO 19831895 <GO>}

Hey, guys. This is Ajay Bakshani on for Phil. Thanks for taking our question. As we think about the upcoming appraisal, well at Daenerys, you do a good job of listing out the objectives, but what are some of the key risks here? And assuming you accomplish these objectives, how does this inform your resource potential estimates or is further appraisal needed to really dial this in?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah. Thank you. I mean, look, the reason that we're drilling the appraisal well at Daenerys is to try and derisk the range of uncertainty that we have, and so the sort of clearest risk, as there isn't any exploration or appraisal well, is -- are the main objectives that we're looking for present. And do we see the reservoir characteristics that we're looking for? Do we see the fluid characteristics that we're looking for? And how does that all then get folded into the overall resource, size and estimate, and quality that can sort of inform the next steps. Now, clearly, there are always mechanical risks when you're drilling deep sub-salt wells such as this, but we're incredibly fortunate that Talos to have, I think, one of the best drilling and completion teams in the industry. And I think they've sort of demonstrated that time and time again with what they've done on the first Daenerys well, on Sunspear, on Cardona, on CPN, and we plan accordingly. We're really thinking about the risks and how do we mitigate those. But really outside the mechanical risks of the well, then it really is looking at derisking the reservoir and fluid properties and characteristics. And from that point, we'll then make the determination of what further appraisal, if any, is needed dependent on where those results come in, which as we've mentioned, we expect to be spudding that well once we get the rig back from the current operator in second quarter with sort of results all being well available before the end of the year that we'll clearly be able to update you and colleagues on that.

Q - Ajay Bakshani {BIO 19831895 <GO>}

Very helpful. Thank you. And for my next question, can you just talk about what you've been seeing on crude differentials through 2Q so far, as there's a strong global bid for waterborne medium-sour barrels? And also just on that, what's the typical breakdown as far as barrels and key price ups for Talos?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah, let me pass that over to Zach.

A - Zachary Dailey

Yeah. Jay, this is Zach. I appreciate the question. So the diffs that we've experienced in April and May have been positive to HLS. So about two-thirds of our crude is sour and with a little bit higher sulfur content than a sweet barrel. So they price at Mars, Poseidon, and Southern Green Canyon. So we have seen an uplift in those sour diffs in the first part of the second quarter. So, all else equal, that should help realizations in Q2. Yeah, hope that helps.

Q - Ajay Bakshani {BIO 19831895 <GO>}

Thanks, guys. Very helpful and congrats on the good quarter.

A - Zachary Dailey

Thank you.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thank you.

Operator

Thank you. The next question comes from Michael Furrow with Pickering Energy Partners. Please go ahead.

Q - Michael Furrow {BIO 23939425 <GO>}

Hey, good morning. Thanks for taking our questions. Look, this might not be the best morning for it, but it does seem like the oral market might be going through a structural shift that could result in a higher mid-cycle price. So under that context, how does the Talos business strategy change, if at all, in a higher pricing scenario? And if it doesn't change, what levers can you pull to capitalize on higher prices?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah. Thanks, Michael. I mean, I think it doesn't change. We have a very robust sort of strategy in terms of the three pillars that we're driving against. We have a disciplined capital allocation framework in which we'll look at how to deploy capital within that. And that's where our focus will remain.

And so clearly, we are laser-driven in terms of improving our business each and every day, driving continuous improvements, and I think we've continued to see evidence and examples of that through the first quarter. We're equally focused in terms of the second and third pillars in terms of driving production and profitability and building a longer-lived scale portfolio, and whilst there's a lot of activity going on in those spaces, I'd say there's an equal amount of activity going on there as there is in the sort of continuous improvement space.

You know clearly until something gets to finish line, then difficult for us to talk about that. But I think bottom-line is that our strategy doesn't change, especially when we sort of look at, as you mentioned, sort of slight structural changes potentially through the cycle. I think if anything, it sort of reinforces the strategy that we have and the need for the capital discipline that we are driving.

A - Zachary Dailey

Yeah, Michael, I might just add to what Paul said to your second point. How do you capitalize on higher oil prices? I mean, for us, as you know, we expect to be 73% oil in 2026, which drives those top-decile margins that we're very proud of. And similar to the prior question, strong differentials are kind of a near-term benefit with the sour crude we produce.

Q - Michael Furrow {BIO 23939425 <GO>}

Appreciate the context. One related area we're trying to understand is how these oil pricings affect the offshore rig market. And so with the West Vela contract rolling and with the upcoming Daenerys appraisal as well as other prospects, presumably Talos has been active in this market recently. So, Paul, I'd be curious to hear your views on the high-spec drillship market. Are you seeing a tightening? Do you feel that there's enough availability? And maybe you could offer your opinion on how leading-edge day rates in the Gulf have evolved over the last 12 months?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah, thanks. I mean, I think the trends we're seeing are the trends that were maybe suggested six, nine months ago, which was some potential capacity in '26, but the market tightening in '27, I think that is what you're actually seeing, and maybe a slight acceleration of that tightening given what's happened in oil prices over the last two months, right.

I think it's also important to remember though, of course, as we think about deepwater projects and deepwater wells, the cycle time is much longer from sort of decision to actually having the well online and so I still think for operators like ourselves, there's a degree of sort of caution, as I've mentioned in terms of making sure the projects that we do go forward with have low breakeven prices.

Now we have been in the market for -- with a tender for deepwater rig activity in 2027. We've had a number of high-spec rigs sort of bid into that and we'll be making our decision in the coming sort of weeks and months as to which rig or rigs we sort of take on in '27 and beyond. We are sort of looking at our need beyond just the very near-term and start to think maybe a little bit more sort of strategically about deepwater rig needs.

I think it's also important that one thing that we've spent a fair amount of time working on here is recognizing that we also need the ability to intervene quickly on wells should they have a problem such as the Genovesa well that we identified at the back-end of last year and so sort of leveraging technology and how can we use intervention vessel platforms to do that intervention type work versus only relying on the high-spec rigs, I think gives us another degree of flexibility as we think about the type of vessel and therefore, the price of the vessel to do the work that we need to do.

And in fact, that's one of the reasons why the Genovesa well is sort of on or slightly ahead of plan at the moment is because of our ability to execute that well off an intervention vessel versus a high-spec rig. I hope that gives you some color, Michael.

Q - Michael Furrow {BIO 23939425 <GO>}

No, that's great. Thanks for your time.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thank you.

A - Zachary Dailey

Thank you.

Operator

Thank you. The next question comes from Tim Rezvan with KeyBanc Capital Markets. Please go ahead.

Q - Tim Rezvan {BIO 22940940 <GO>}

Good morning, folks. Thank you for taking our questions. First one, maybe this is for Zach on the balance sheet. You know, Talos has $1.25 billion of second-lien notes out there. The company is in much better financial health than when those were issued. They're trading above par, and some are callable now, and I know the call stepped down in 2027. And so just curious kind of where that is on your radar screen this year? And maybe for Paul, is that sort of a part of that $100 million cash flow uplift getting those refinanced? Thanks.

A - Zachary Dailey

Thanks for the question, Tim. Good morning. You pretty much nailed the state of affairs on the 29s. Yeah, I mean, it's front and center on our mines. The notes are trading as you'd expect, very well. The high-yield market is very tight, and it's a good place to be for companies like Talos. So I would say, we have lots of flexibility in our balance sheet and our capital structure right now to support the strategy that we've laid out to the market and go out and execute the plan. So I don't want to get into too many specifics, but just suffice it to say that it's definitely front and center and we're in a good spot. And --

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah. And simple answer to the second part of your question, Tim, is, any sort of refinancing benefit we would get is not considered in the $100 million of additional free cash flow. That's very much sort of centered around the operational capital, supply chain efficiency world in terms of the execution of the plan today. But as Zach said, the actions it will take around those bonds is very much the front and center in our thinking at this point in time.

Q - Michael Furrow {BIO 23939425 <GO>}

Okay. Okay. Yeah, the market is wide-open. So, that's why we're asking right now. I appreciate that -- the details. And then, as a follow-up also on the capital allocation theme. Talos has repurchased shares for five straight quarters. It seems to be sort of a consistent part of the -- of your use of free cash flow, but we also have going into today at least shares pushing two-year highs. So, I don't know if it's for Paul or Zach, but should we think of that as maybe you toggle that up or down, but you expect that to be kind of a consistent part of the program is in like a greater than zero, but you'll be opportunistic. Just trying to understand how you think about repurchase intensity with shares back at 16? Thanks.

A - Paul Goodfellow {BIO 18789103 <GO>}

No, thanks. I mean, look, we think about it within the framework that we laid out. So we've sort of said we're going to invest in the business today. We're going to maintain strength of the balance sheet. We're going to look for the sort of accretive opportunities to support and build the business and we're going to sort of return capital to shareholders through share buy buyback and it's a balance of those four and that is what you've seen us do over the last four quarters and thank you for the recognition of that in terms of the consistency of executing against the strategy that we have.

And that's how you'll see us think about it going forward, not only in this quarter, but the quarters to come.

A - Zachary Dailey

Yeah. Tim, as Paul's exactly right. I'd just add on to that that in Q1, it was about 34% of free cash flow allocated to repurchases. And within the financial framework that we want to stay consistent to, we do have the flexibility of up to 50%. And so at any one point in time, we'll be toggling in that range.

So, as we kind of highlighted in the prepared remarks, we've reduced the outstanding share count by about 7% over the last 12 months since the strategy was rolled out to the street. So, we do want to stay consistent, but do have flexibility within that framework.

Q - Tim Rezvan {BIO 22940940 <GO>}

Thanks. Thank you. That's all I had.

A - Zachary Dailey

Thanks, Tim.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thanks, Tim.

Operator

Thank you. The next question comes from Paul Diamond with Citigroup. Please go ahead.

Q - Paul Diamond {BIO 16818858 <GO>}

Thank you. Good morning, all. Thanks for taking the call. Just a quick one on Katmai and Tarantula. I know that there was some recent debottlenecking there. And I guess looking at it longer-term, I guess, how do you see competing for capital like going out beyond? I know it's flatline through '27, but going out beyond that.

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah. Thanks, Paul. Look, the Katmai field is doing incredibly well. The operations team there continue to focus on safe, efficient operations and really sort of maximizing the throughput, and that's what we've seen as we've gone through the first quarter of this year into a continuation of what we were doing in 2025.

I think what we've said is, look, there are a number of opportunities around the Katmai field, and so Katmai North, as well as some of the leases that we acquired in the last lease sale, that as we sort of think about maturing those, we'll also think about that then in the light of what further debottlenecking or expansion of that facility is actually needed.

And so, for where we are today, we sort of see that nice plateau, and that's where we will sit. I think the next level of expansion would be actually a looping of the pipeline that will sort of give us additional capacity. But to do that, we would want to have additional volumes coming in from near-field wells, and those are the wells that the team are maturing at the moment to compete for capital in 2027.

Q - Paul Diamond {BIO 16818858 <GO>}

Got it. Makes perfect sense. And then just a bit of housekeeping on the optimal performance plan. You guys have talked about $100 million in savings, gotten about 40% there. How should we think about the vector of that plan? Is it -- is the low-hanging fruit come first, and the rest should be somewhat linear, or is it more, I guess, chunky, and what's the timeline on those on the completion there?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah, great question. I mean, look, so the plan, of course, is a continuation of what we laid out last year. And so we sort of set an interim target, which the teams did incredibly well to exceed last year. And there's an element of those that sort of recur from '25 to '26. And so there is some sort of lumpiness in terms of as it comes through. But I would think of sort of the vector overall as sort of, yeah, between where we are now and a delta of $100 million at the end of the year, we have a reasonable degree or a high degree of confidence in sort of delivering that $100 million and we'll be looking to ways to exceed it, but we're not changing that sort of target at this point in time, Paul.

A - Zachary Dailey

So, Paul, just add on to that, that the real prize here is instilling a culture of continuous improvement, which really has been a cornerstone of Talus for a long time, that really putting kind of a framework and a little bit of structure into it, and so that will continue. I would expect that vector of that mindset and that culture to continue well into the future.

Q - Paul Diamond {BIO 16818858 <GO>}

Got it. Understood. Appreciate the clarity. I'll leave it there.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thanks, Paul.

Operator

Thank you. The next question comes from Michael Scialla with Stephens. Please go ahead.

Q - Michael Scialla {BIO 4082882 <GO>}

Good morning, guys. It looks like you'll have some growth heading into 2027 with Monument coming online at the end of the year. Realize there's a lot of variability and unpredictability with your business. But can you say if you're anticipating year-over-year growth next year, say, barring a collapse in '27 oil prices, or is it too early to go out that far?

A - Paul Goodfellow {BIO 18789103 <GO>}

Hi, Michael. In simple terms, it's sort of too early to go out that far, as there's a lot of uncertainty in terms of the work that we have to do this year still. So as you say, the Monument project has started, and with our partner Beacon Offshore that the operator -- so far the operations are going well, but there's a long way between now and actually getting production from those wells. So there's a range of uncertainty.

Although clearly the area in which Monument sits is a sort of prolific area if you think about the Shenandoah, which is where it will tie it back to. We also have a fairly significant redevelopment program at Brutus coming through in the second half of the year that we're sort of getting ready to start up now, and sort of other activities as well. And so, I think we're investing this year in good quality, low-break-even projects. Excuse me, that sort of give us that stability for the future, but it is too early to sort of put a sort of a number on a vector relative to where we are in 2026.

Q - Michael Scialla {BIO 4082882 <GO>}

Understood. I want to see if you could talk more about the 11 new leases that you got in the lease sale, you said that came with or did kind of unlocks eight new prospects. It looks like some of that is in the Wilcox the inventories expanded. Maybe your thoughts on the confidence in that play? And what you're seeing with those new leases?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah. So you're right, we were successful in getting 11 leases where we've identified eight prospects. Some of those span a number of blocks. We sort of focused them around some key areas for us around the Katmai area, around the Daenerys location. We sort of focused them on plays where we have some deep skills, and so some amplitude supported, some in the Wilcox, some in the Paleogene [ph]. And you know, and we're now going through the work of sort of the seismic, we pre-invested in sort of seismic and such that we could actually mature those prospects and have them compete for capital in 2027.

And we are focused particularly in the Wilcox and sort of a proven part of the play where we see those opportunities, one having sort of tieback potential, but also having upside to be standalone and hub class. And that's really sort of some of the criteria that we look to sort of the leases through and we'll continue to look at opportunities in future lease sales.

What I think is important, though, is the pre-investment of really advanced with seismic that we've done around those key areas and key fairways where our focus is.

Q - Michael Scialla {BIO 4082882 <GO>}

That was good. Thank you, Paul.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thank you, Michael.

Operator

Thank you. The next question comes from Nate Pendleton with Texas Capital. Please go ahead.

Q - Nate Pendleton {BIO 24004152 <GO>}

Good morning. Congrats on the strong results. You just mentioned the Brutus -- of course. You just mentioned the Brutus wells. Can you talk about the potential you see for similar recompletion activity across your portfolio? And maybe also how those types of opportunities compete for capital when you're looking at potentially doing a dedicated drilling program as you look out '27, '28?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yes, I think what we're doing at Brutus is really bread-and-butter for Talos, which is our ability to take these mid to late-life assets, identify opportunities that may have been overlooked, and then execute those very efficiently and effectively to maintain the volumes and the throughputs of those hosts.

And so I think this is the second or third incarnation of redevelopment that we've done at Brutus, and we've had sort of similar activities, and that's similar activities at other hubs. It's important that, again going back to seismic issue, the fact we have high-quality seismic over those locations, sort of the near-field from an infrastructure point of view, also allows us to look at opportunities. And you're right, Nate, that they need to compete in terms of the type of breakevens and returns relative to other opportunities that we have in the portfolio. But it's also important that we're sort of balancing our focus on maybe larger-scale opportunities in the exploration phase with sort of high-quality development that can maintain the high oil component of the portfolio that we're sort of delivering at the moment, sort of north of 70% oil cut [ph]. So the Brutus program specifically will be targeting more oil opportunities than gas. In fact, some of the wells that the well bores that it will use are wells that have been gas wells that are coming to the end of their life, and we'll use those well bores now to go and add additional oil into the portfolio.

Q - Nate Pendleton {BIO 24004152 <GO>}

Got it. I appreciate the detail there. And then, as my follow-up, I wanted to zoom out and kind of discuss M&A for a second. Can you talk about the opportunity you see in the Gulf of America in smaller asset-level acquisitions versus corporate M&A potential? And then, if you have any interest in shallow-water assets versus deepwater?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah. So look, I mean, our focus is to become a leading pure-play sort of offshore E&P player. And so, from a Gulf Shelf perspective, we have a large legacy position, and we'll continue to operate and execute those as efficiently and as effectively as we can through to end of life, being a responsible operator and sort of taking those through to abandonment and decommissioning when the time is right for that.

In terms of sort of asset-level opportunities, clearly, there has been a history of asset activity within the Gulf of America, and we'd expect that to continue to some degree. Clearly, what has happened over the last two months, post the Iran War, and sort of run-up in prices, has created a bit of a bump in the road in terms of how buyers and sellers sort of think about that from a price point of view. But I do think we're sort of getting to a sort of new norm of an understanding of how to sort of deal with that. And so, I think there'll be a continual degree of opportunities that come forward, maybe not at a super-high level as current incumbents look to optimize their portfolios, as any company, including ourselves, would do, nice.

Q - Nate Pendleton {BIO 24004152 <GO>}

Got it. Thank you, Paul.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thank you.

Operator

Thank you. The next question comes from Phu Pham with ROTH Capital. Please go ahead.

Q - Phu Pham {BIO 20155145 <GO>}

Hi, good morning, everyone. My first question is about the cost savings. So we know that you guys executed $72 million in 2025, and the company expects to realize in total $100 million in '26. So it's in the slide that you guys have executed 40% -- greater than 40% of the '26 target. So is that like 20% to 40% of the $28 million left of the $100 million in total of '26? Can you quantify that a little bit?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah. Thanks, Phu. No, look, the $100 million for '26 was a new $100 million starting at zero, and so we have executed just above 40% of that $100 million. So $72 million was a number in '25 that was attributable to the activities in 2025. Now some of the solutions that we put in place are repeatable, and we'd expect to be able to see those continue into 2026. But the target we set for 2026 was a new $100 million target, and that was built into our plan.

Q - Phu Pham {BIO 20155145 <GO>}

That's very helpful. So my second question is about the general vessel wells. Can you provide a little bit update on that? I think, like originally, we expect to bring it on -- back to -- bring it back on third quarter '26, but now it's midyear. So, can you provide more like exact timing for the wells?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yes, so look, the team has done a great job of procuring all the equipment that's needed in terms of the insert safety valve, which is now here and over in the Gulf with us of working with the operator to make sure we can have access to the control system of the well and then to access a platform in terms of an intervention vessel and we're sort of working now towards the execution of that.

I mean, I can't be any more specific than sort of mid-year because there's still an awful lot of uncertainty in terms of when we actually get the vessel, when the actual date is that that we can go on to the well in terms of working with the operator. But again, as is the culture of Talos, the team has worked incredibly hard to look at every lever that we can pull to get that as early as we can while still executing it incredibly efficiently and safely. And that is our prime driver is to make sure that we execute efficiently to get that well back online, which at the moment, we see slightly ahead of that sort of third quarter target that we gave when we first shared the generation update last quarter.

Q - Phu Pham {BIO 20155145 <GO>}

All right. Thank you.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thank you, Phu.

A - Zachary Dailey

Thank you.

Operator

Thank you. The next question comes from Noel Parks with Tuohy Brothers. Please go ahead.

Q - Noel Parks {BIO 3358841 <GO>}

Hi. Good morning.

A - Paul Goodfellow {BIO 18789103 <GO>}

Good morning.

Q - Noel Parks {BIO 3358841 <GO>}

I was wondering a bit about exploration in the industry, and we've heard so much, I guess, especially over the last couple of quarters, about onshore exhaustion, more capital heading out to the deepwater globally. And I -- with sort of exploration drilling starting to get rolling more and more brokers, it's, I guess, nowhere near its past peaks. Is there anything that you see in the Gulf that you think is particularly exciting to the point where you could be enticed to maybe take a non-op role in someone else's exploratory prospect? Just kind of wondering if the quality of what's out there is something you're excited about or just more sort of routine?

A - Paul Goodfellow {BIO 18789103 <GO>}

No, thanks, Noel. I mean, if -- the first thing I would say is, if we weren't excited about the opportunities, we wouldn't have taken the 11 leases that we did in the first Big Beautiful lease sale one in December.

Q - Noel Parks {BIO 3358841 <GO>}

Sure.

A - Paul Goodfellow {BIO 18789103 <GO>}

And we've had a strategy of not just looking for exploration, but to look for exploration opportunities that can raise, if you like, the volume picture that we have. And so, I think as I've said in the past, that first lease round, we have now access to some 300 million barrels of gross unrisk volume opportunity, but also the individual opportunity size has sort of gone up by roughly 50% relative to what we had prior to that.

Now, and clearly, we prefer to be an operator. We think we have great skills in operating. But if partnering opportunities are out there, we will clearly look at those if it was the right type of subsurface opportunity that sort of fits our skills. I think the other point that I make -- that I raised earlier is our investments, our continued investment in seismic. If we were sort of excited by the opportunity set or the opportunity potential here, then we would not be investing in high-quality sort of state of the art reprocessed proprietary seismic that allows us to actually go look for and develop those opportunities.

Q - Noel Parks {BIO 3358841 <GO>}

Great. Thanks.

A - Paul Goodfellow {BIO 18789103 <GO>}

But clearly, we are happy to be a non-operator with the right operator, as you see with the Monument development that we are doing now.

Q - Noel Parks {BIO 3358841 <GO>}

Sure, fair enough. And again, just sort of a general macro question. When we look at the volatility we've had in oil prices in the last couple of months. I just wonder, just from your long experience, if you have any thoughts on the 2027 strip and sort of your gut on whether there's a big leg up ahead for us there or whether we've seen about as much as it's going to do unless there's a huge swing in world events one way or the other?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah. Noel, the only thing that we focus on here at Talos is making sure that our unit development costs, drilling costs, our lifting costs are as low as they can be, and that we do that as safely and efficiently as we can be such that regardless of where the strip goes, we know that we have a robust set of opportunities that we can then go execute against. We will not get sort of caught up in trying to have our decision quality driven by what we think a strip price may or may not be.

Q - Noel Parks {BIO 3358841 <GO>}

Okay. Thanks a lot.

A - Zachary Dailey

Thank you.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thank you, Noel.

Operator

Well, thank you. We have reached the end of the question-and-answer session. And I will now turn the call over to Paul Goodfellow for closing remarks. Please go ahead.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thank you, Angelina, and thank you all for joining today and for your continued interest in Talos. And to close, the current geopolitical landscape reinforces our belief that the world will continue to need reliable and affordable oil supply to meet rising global demand well into the future. As I've said, we believe that Talos is well-positioned as a low-cost, high-margin oil producer, executing a well-defined strategy to become a leading pure-play offshore E&P company and play a meaningful role in meeting that opportunity. Thank you all.

Operator

Thank you. This concludes today's conference, and you may now disconnect your lines. Thank you all for your participation.
