



# James Davolos

Vice President & Portfolio Manager, Horizon Kinetics



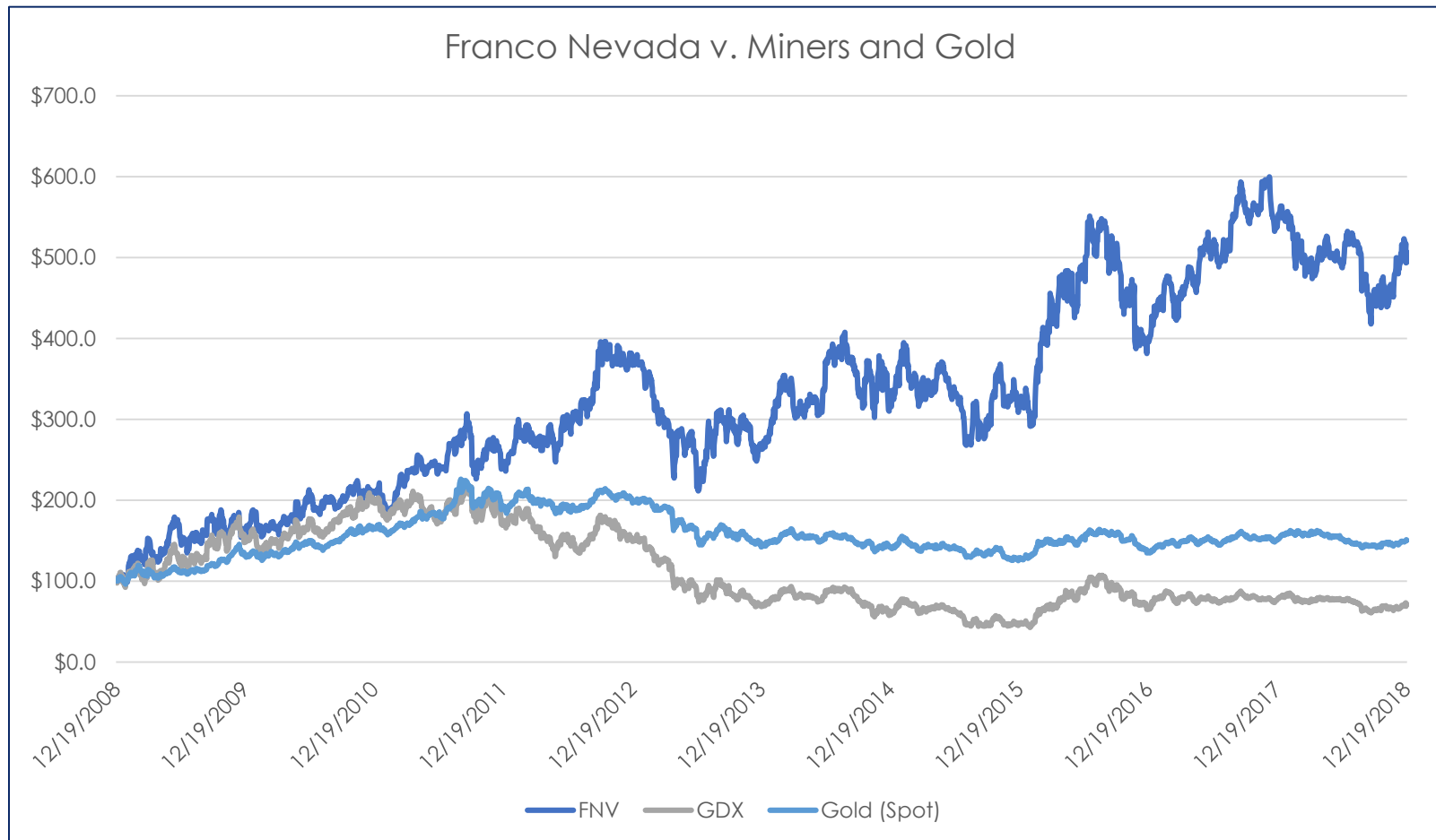
# Best Ideas 2019, Hosted by MOI Global

Viper Energy Partners (VNOM)

James Davolos, Horizon Kinetics LLC

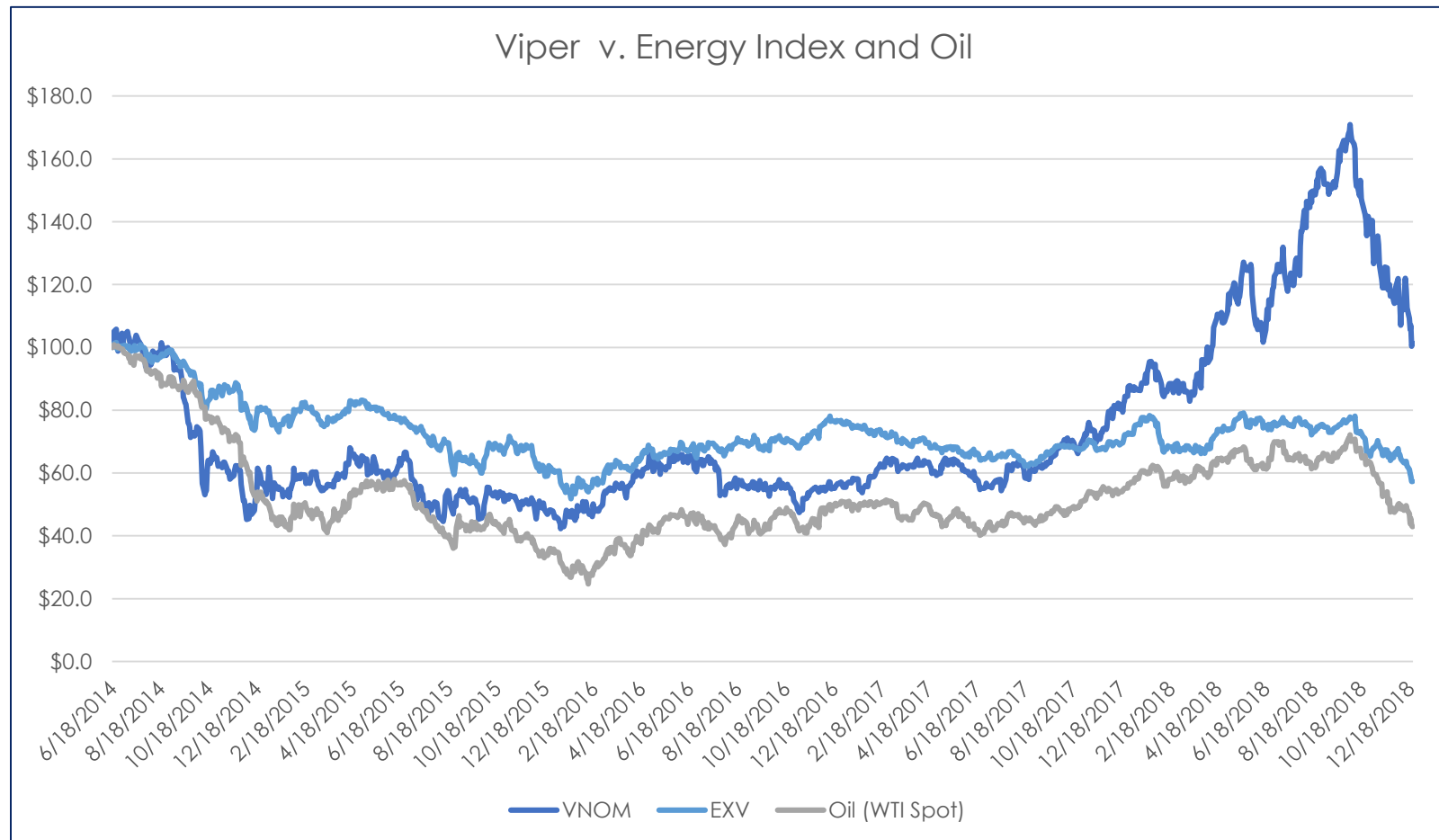
January 8, 2019

## Royalty Companies: An Evolving Asset Class



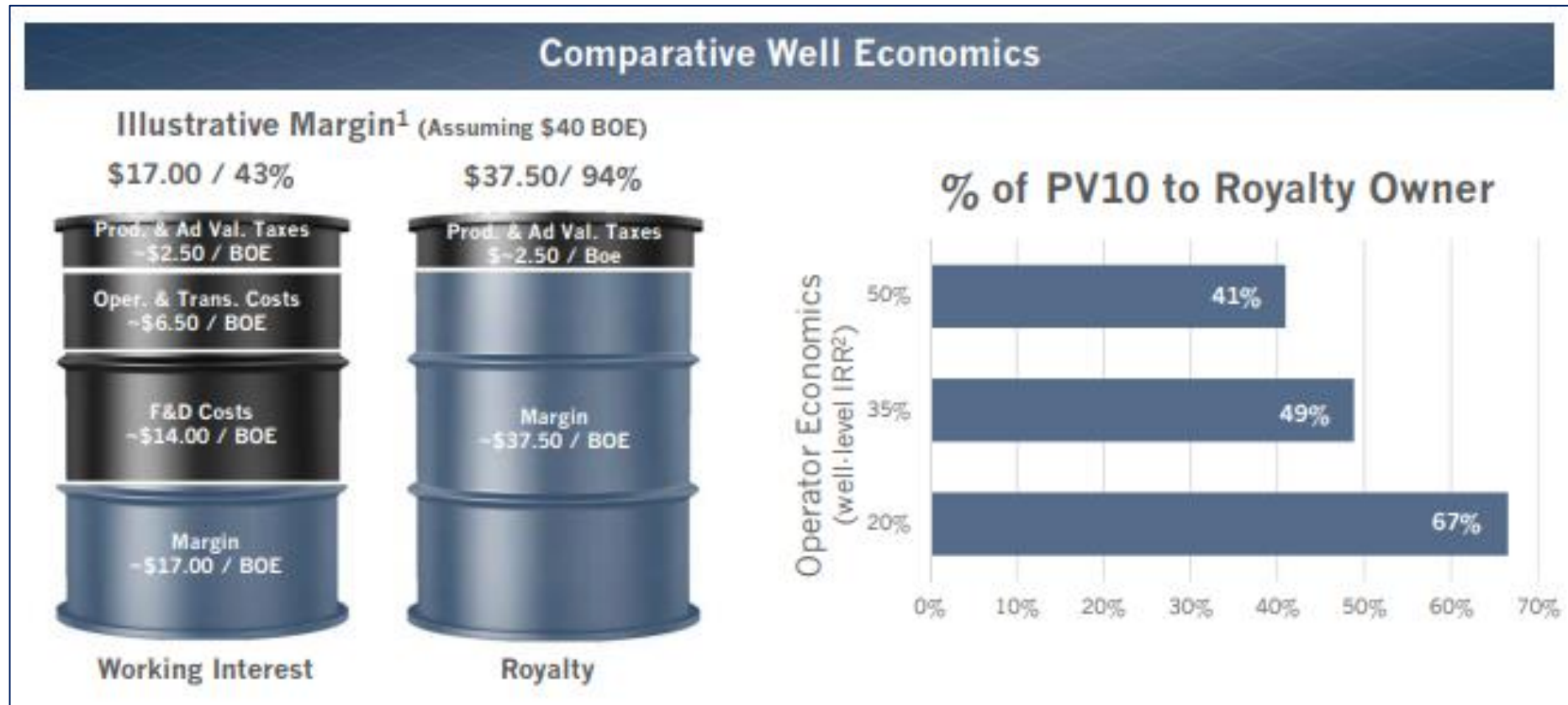
- Precious metals companies are the original “royalty” companies in public markets
- Structured as a financing mechanism for non-producing gold and silver mines
- Franco Nevada (FNV) is amongst the oldest and most successful royalty companies
- FNV recently began investing in **energy royalties**

## Royalty Companies: Energy

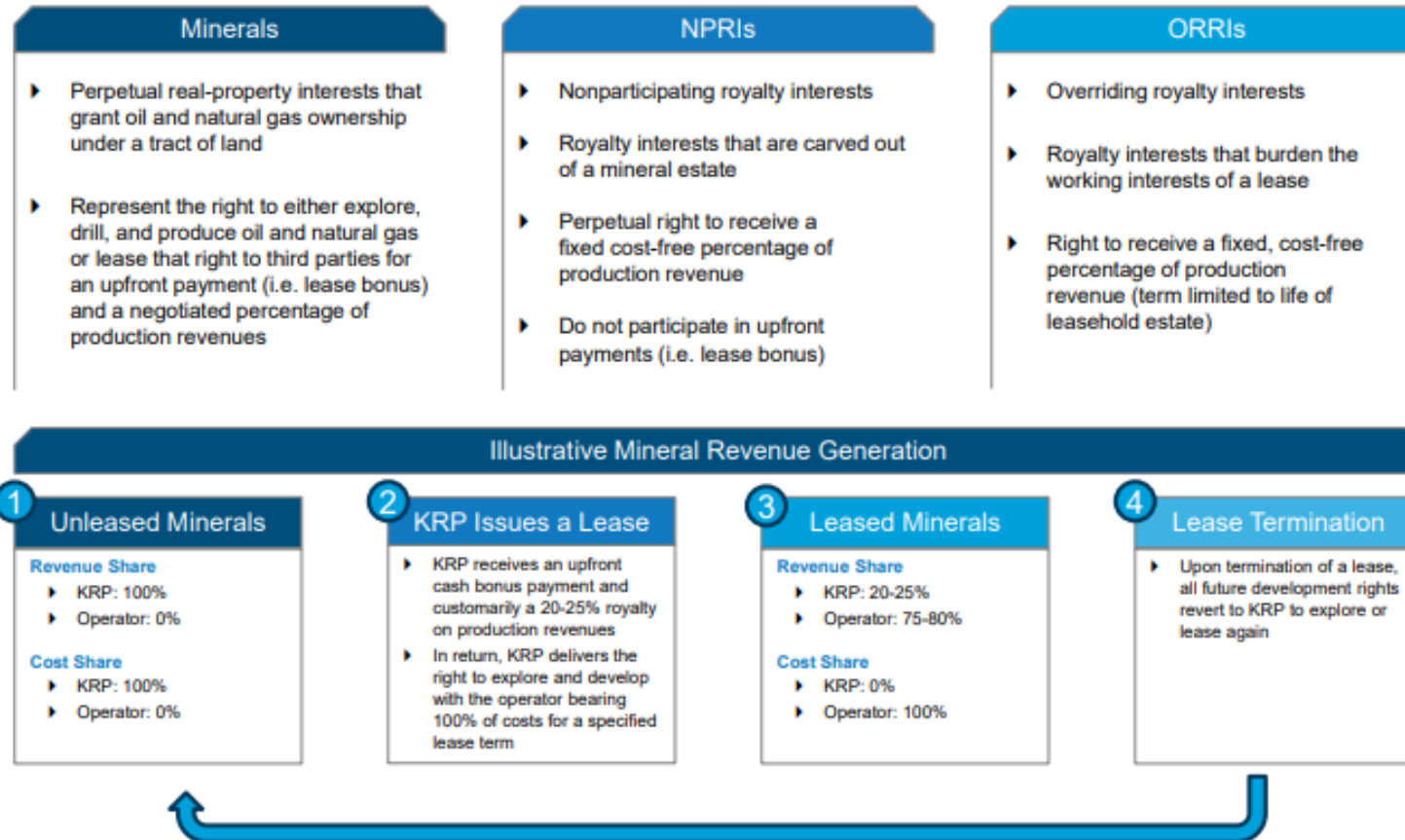


- Energy royalties are proportionate levels of production revenue paid to land (mineral) owners
- Operating leases typically require an upfront payment to land owner, plus royalties
- Viper Energy (VNOM) was taken public in 2014 by parent company Diamondback Energy (FANG)
- Viper is the first of a new type of actively managed energy royalty companies

## Royalties v. Working Interests



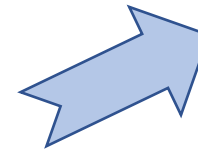
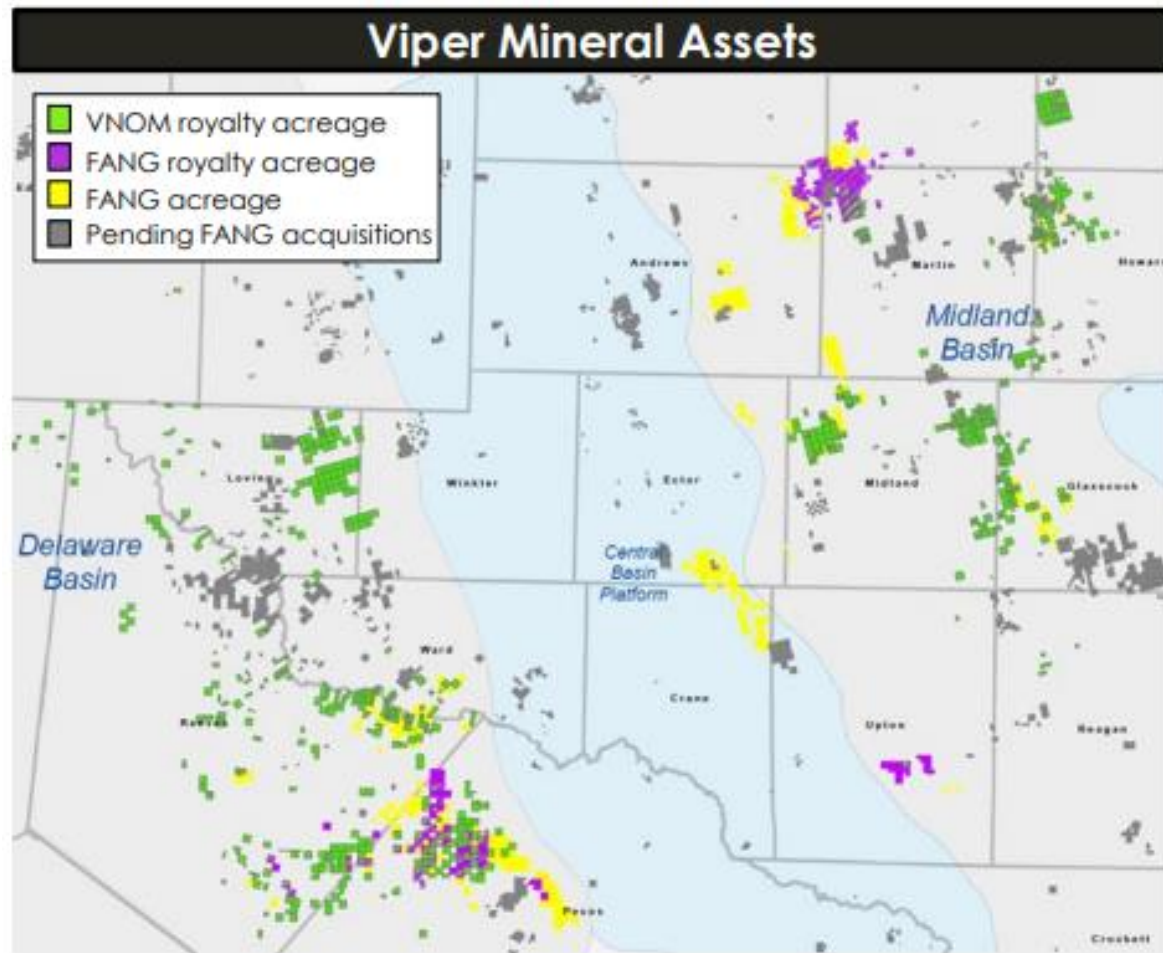
# Types of Energy Royalties



## Royalty Benefits

- No working capital requirements
- Minimal operating expenses
- No required capital expenditures
- Minimal or no debt funding
- Exposure to production growth and commodity prices

## Viper Energy Partners

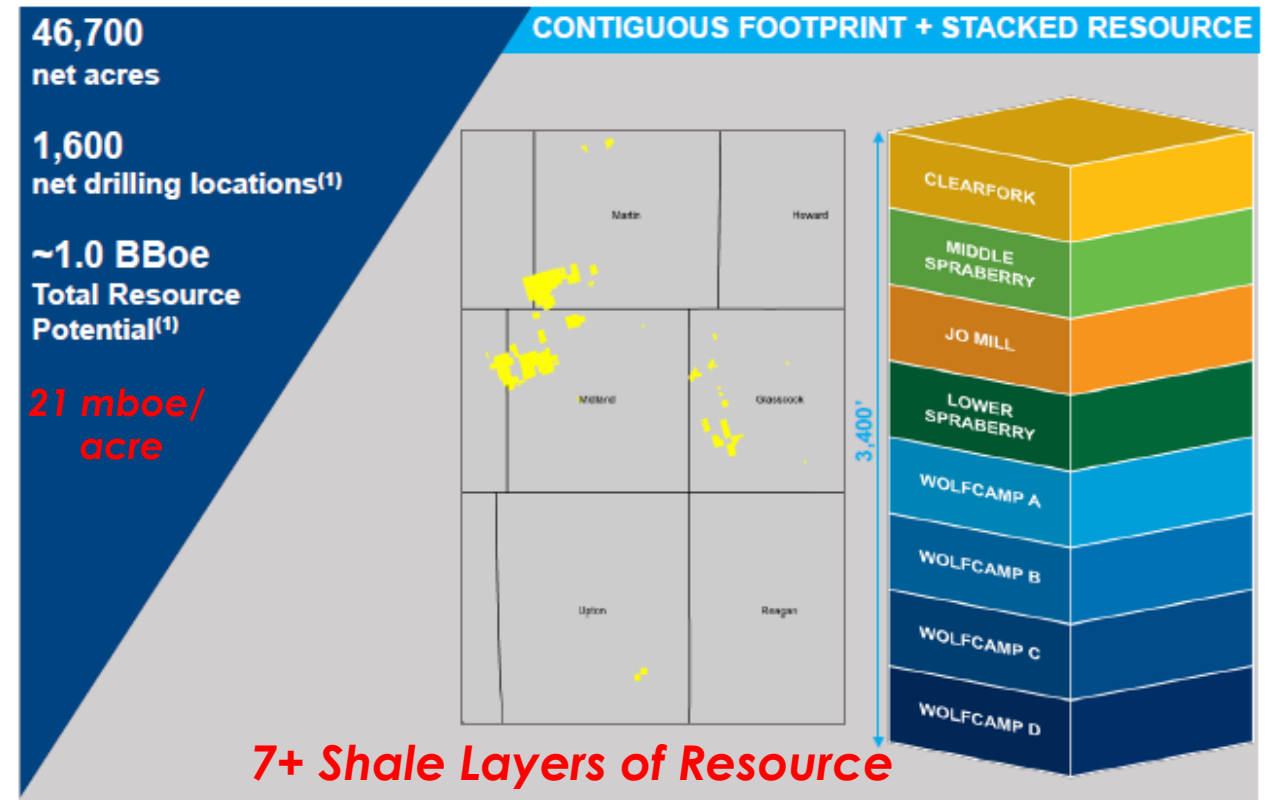
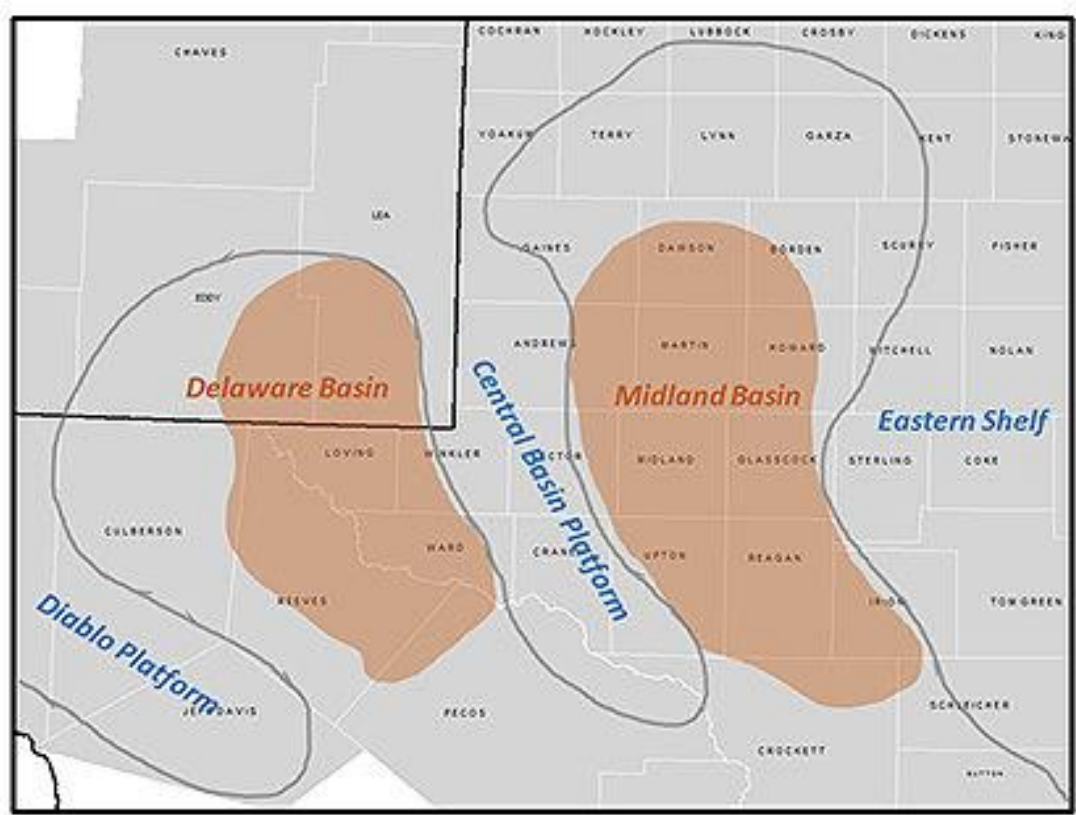


Ticker	VNOM
Shares (Units) Outstanding	124 mm
Market Capitalization	\$3,075
Net Debt / Liquidity	\$280 mm / \$275 mm
Enterprise Value	\$3,355
Net Royalty Acreage	13,908

As of 12/21/18

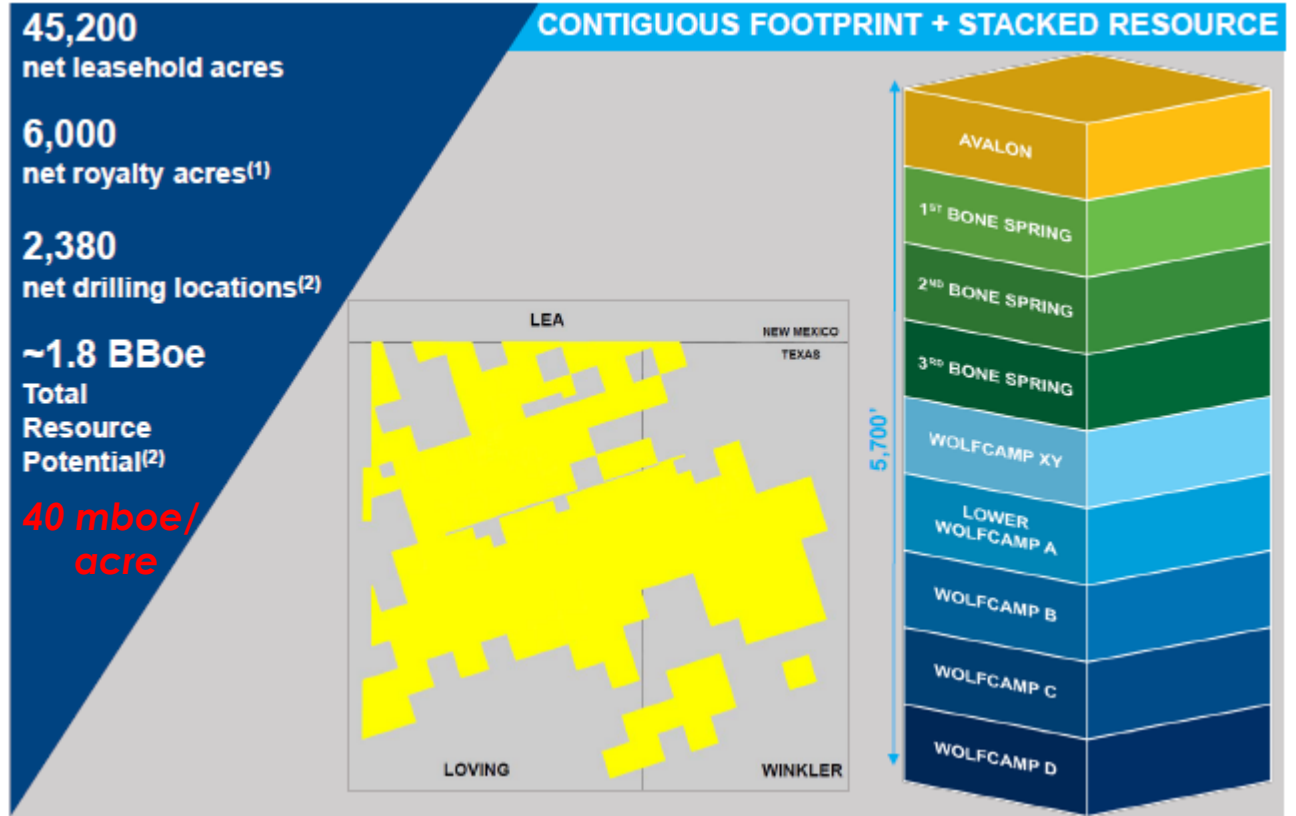
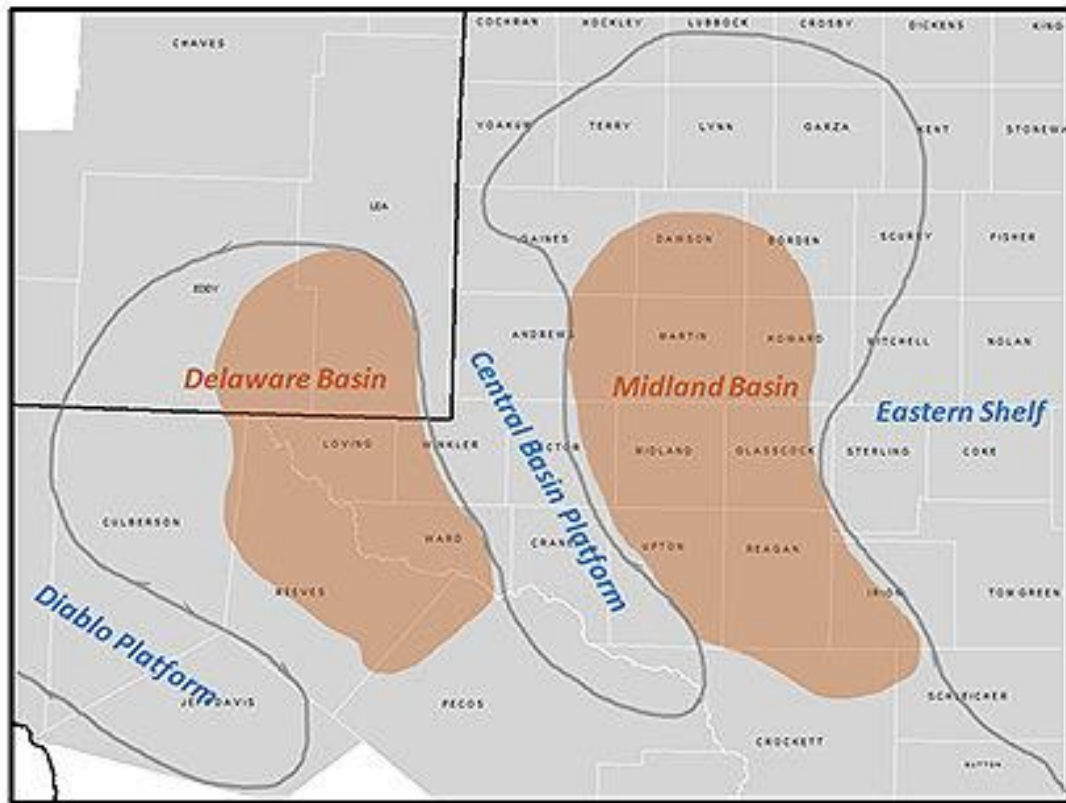


## Permian Basin: Midland Basin

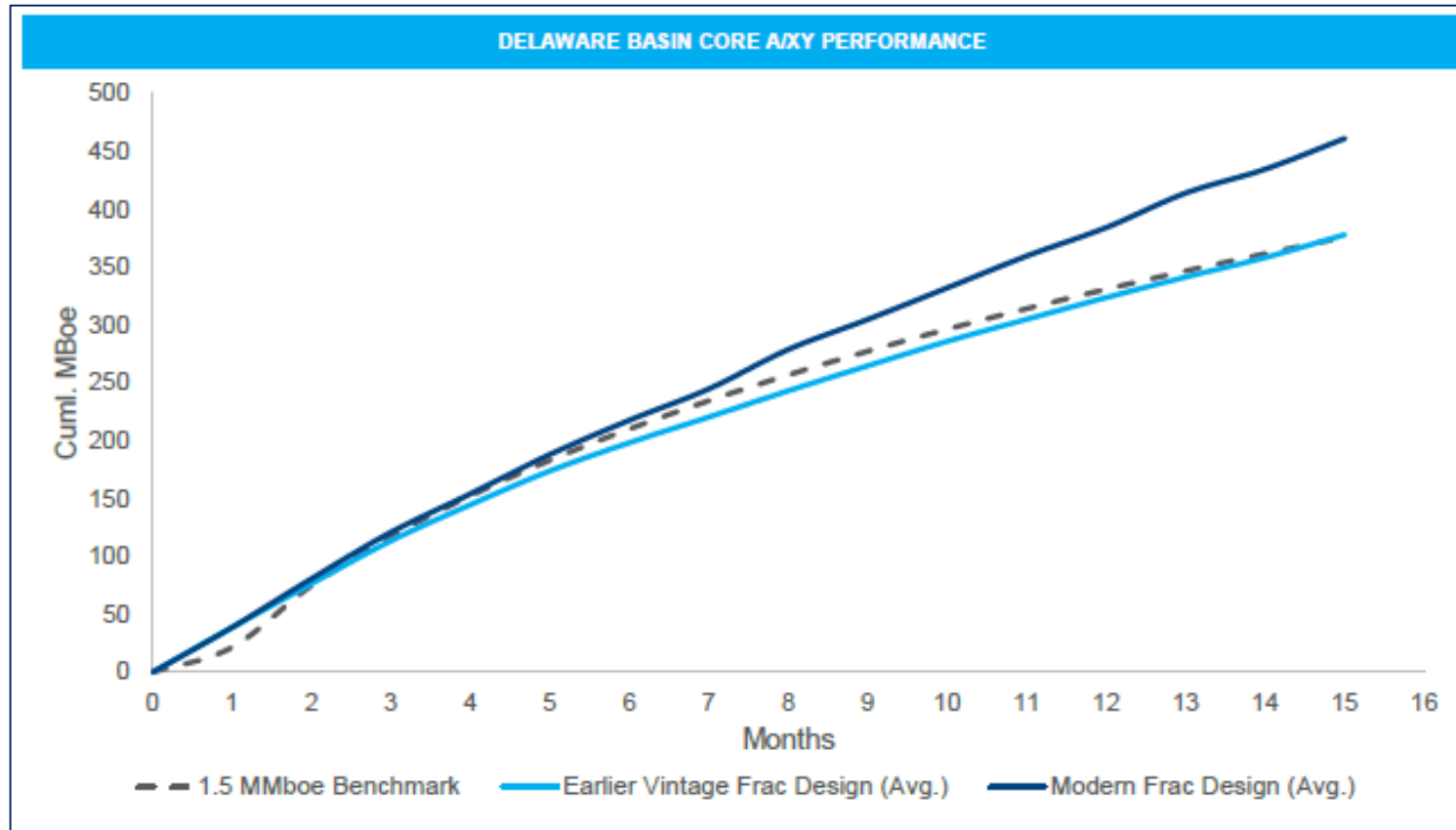




## Permian Basin: Delaware Basin

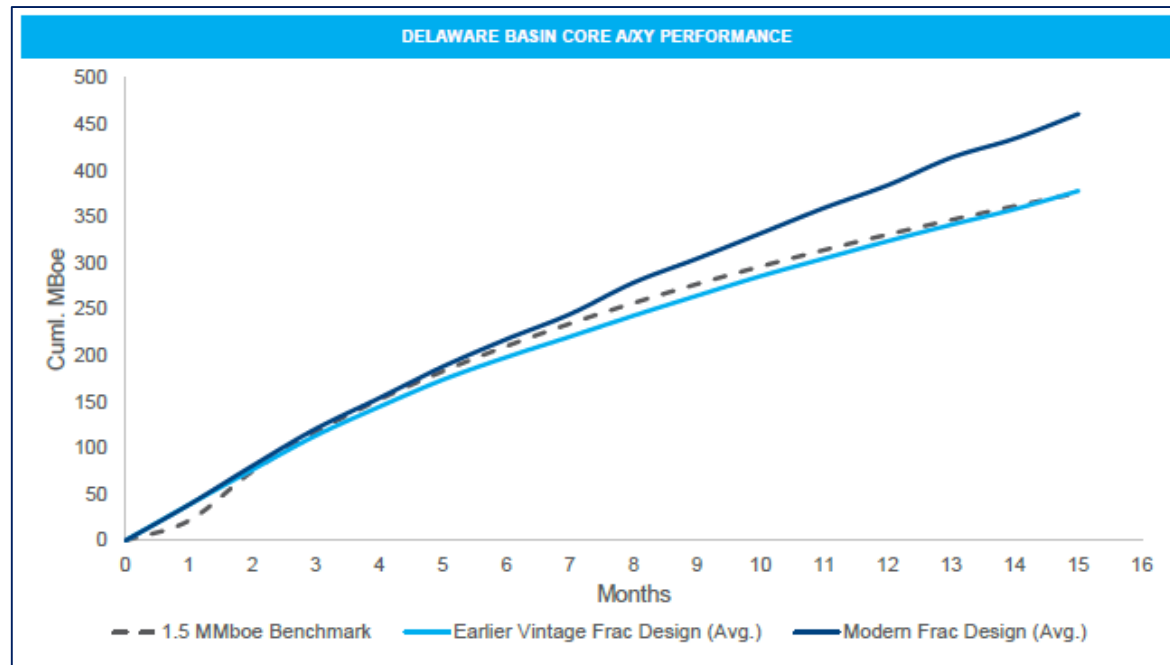


## Permian Basin: Well Types-Curves



- 1.5 Mmboe indicative well in the Delaware Basin
- Modern frac design produces ~450 mboe through first 15 months. ~30% in first 1.5Y of well life
- Representative “BOE” (barrel of oil equivalent) 60:20:20, Oil:NGL:Gas

# Permian Basin: Net Royalty Acre (“NPV”)



## Type-Curve 1.5 Mmboe wells discounted at 7%

	Spot		
BOE \$	\$36.72	\$42.50	\$50.00
Delware Basin	\$1,103,114	\$1,276,752	\$1,502,061
Midland Basin	\$579,135	\$670,295	\$788,582

*Assumes acreage drilled and producing immediately*

Benchmark Pricing	
WTI Oil	\$46.0
NGL	\$27.6
Gas	\$18.0
<b>Composite</b>	<b>\$36.72</b>

*12/21/18 Spot Pricing*

Source: RSP Permian Energy

Data shown in the tables above is based on internally calculated figures and represents the views of Horizon Kinetics LLC; however no representation has been made regarding is accuracy. Moreover, in calculating such figures, certain assumptions were made such that the estimates and opinions offered may differ from actual results.

A “Net Royalty Acre” (NRA) is the net equivalent of a 100% royalty interest in an acre. As an example at a 1/8<sup>th</sup> royalty, 8 “gross” acres, will equal 1 “net acre”

## Viper Energy Partners: Implied Acreage Value

Ticker	VNOM
Shares (Units) Outstanding	124 mm
Market Capitalization	\$3,075
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Enterprise Value	\$3,355
Net Royalty Acreage	13,908

12/21/18 closing share price

**Enterprise Value / Net Royalty Acres**

**Imputed Value/Acre \$241,242**

Share Price	Implied NRA
\$20	\$198,447
\$25	\$243,026
\$30	\$287,604
\$35	\$332,183
\$40	\$376,762

Source: Viper Energy Partners

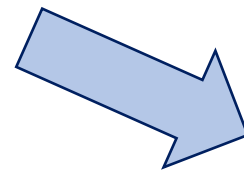
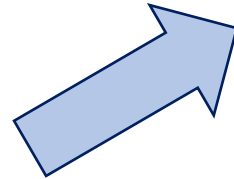
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Producing

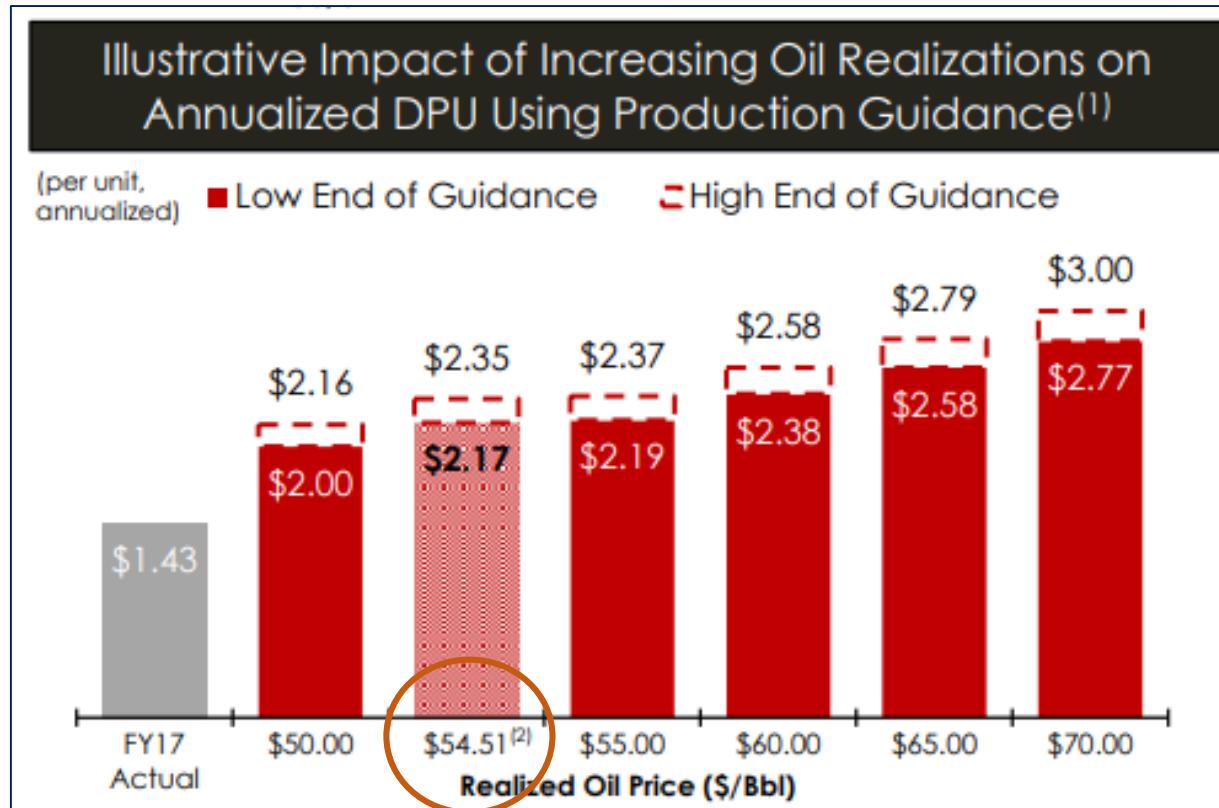


Future Production  
Discounted

7% NPV	Spot		
BOE \$	\$36.72	\$42.50	\$50.00
Delware Basin	<b>\$1,103,114</b>	\$1,276,752	\$1,502,061
Midland Basin	<b>\$579,135</b>	\$670,295	\$788,582

10 Year, 7% NPV	Spot		
BOE \$	\$36.72	\$42.50	\$50.00
Delware Basin	<b>\$560,767</b>	\$649,036	\$763,572
Mildand Basin	<b>\$294,403</b>	\$340,744	\$400,875

## Energy Prices

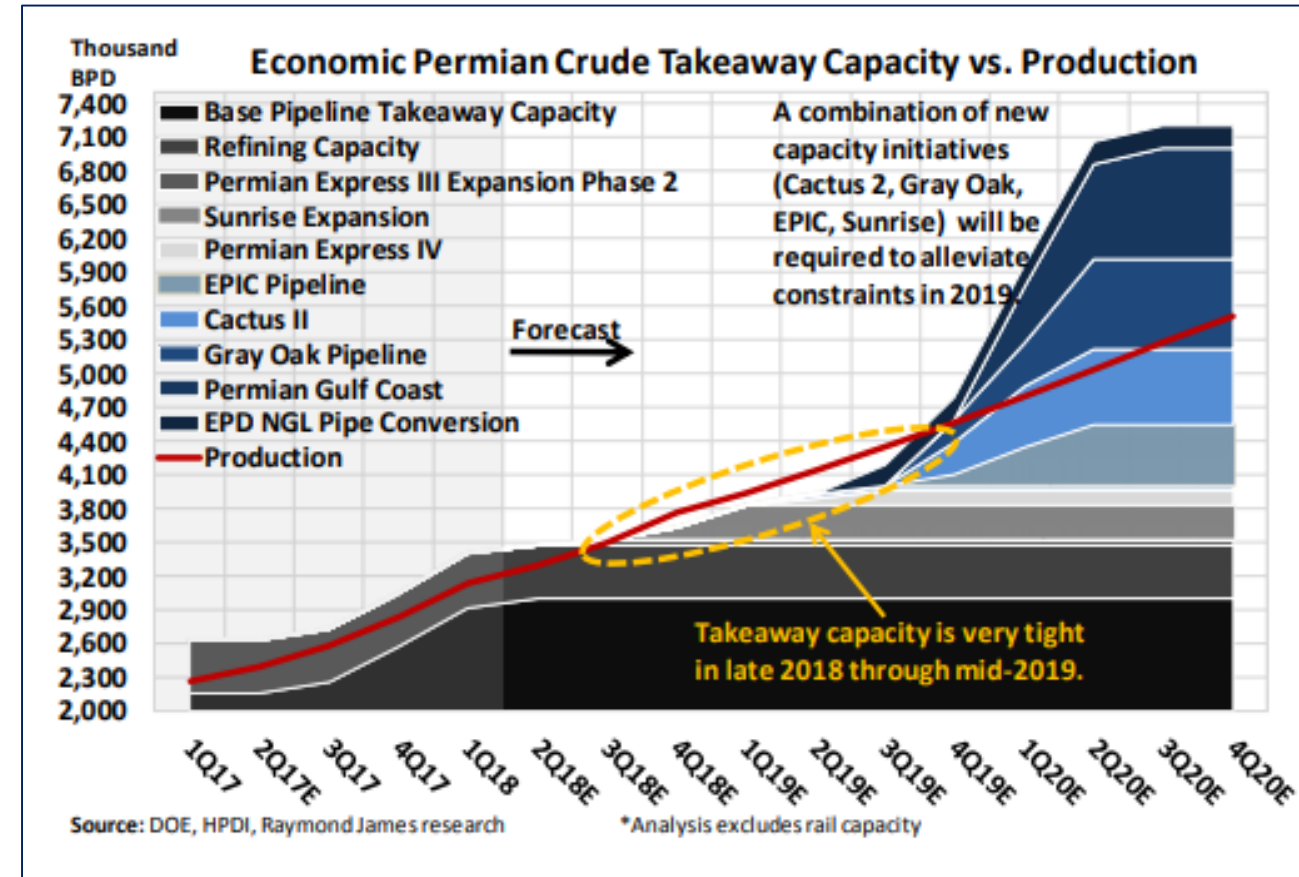
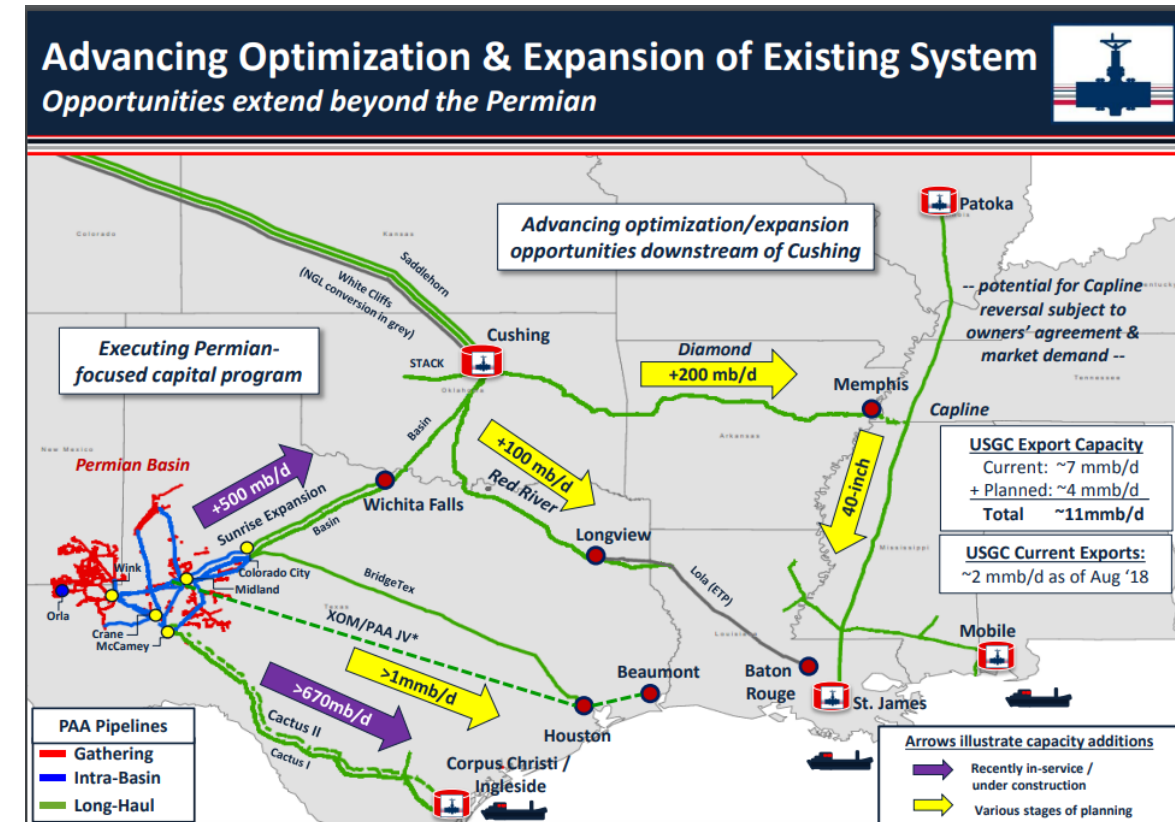


- \$54.51 average realized oil price in 3Q 2018
- WTI Oil averaged a closing price of \$69.41 during the 3<sup>rd</sup> quarter of 2018
- This is a result of a pricing “differential” at the Midland oil hub due to temporary pipeline capacity constraints

WTI – “West Texas Intermediate” benchmark pricing



# Energy Prices: Infrastructure



**2019 Pricing Potential: Midland Differential (+\$10), Gulf Pricing (+\$5)**



## NAV Growth: Accretive Acquisitions

### 2018 Acquisitions/Drop-Downs

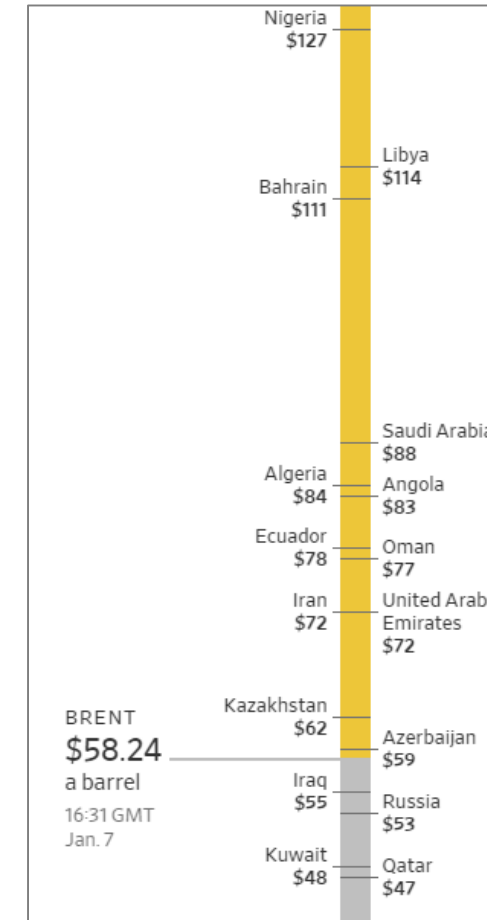
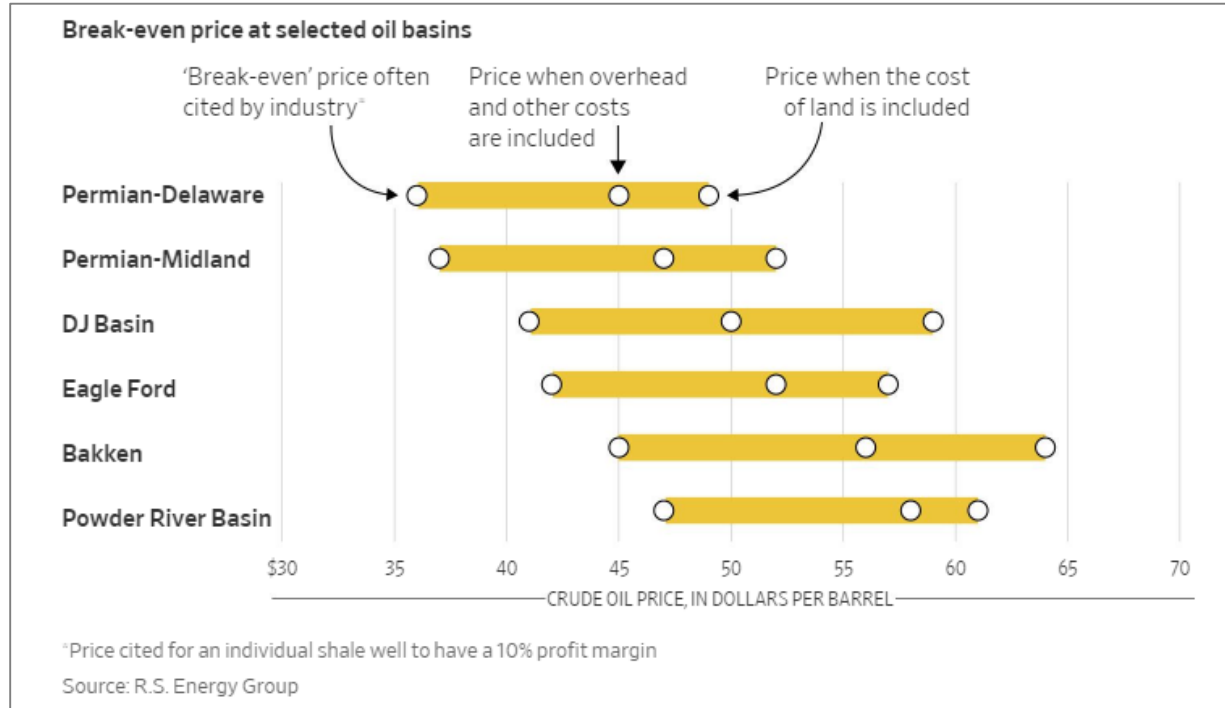
Operator	Acreage	Price (\$mm)	\$/NRA
Diamondback	1,696	\$175	\$103,184
Various	263	\$30	\$114,068
Various	200	\$22	\$110,000
BP/Devon/Conoco	681	\$126	\$185,022
Surge	90	\$14	\$155,556
Diamondback	545	\$56	\$102,752
Various	873	\$97	\$111,111

- Largest scale mineral operator; public shares used as acquisition currency
- Market prices minerals based on current yield, placing low or no-value on non-producing land
- Private acquisitions and FANG drop-downs fund accretive growth
- High distribution yield + NAV growth

Source: Viper Energy Partners

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# Energy Macro: Oil “Break-even” Price Levels



Sources: Renaissance Capital (Russia); ERC Equipoise (Venezuela, Nigeria, Angola, Ecuador); International Monetary Fund (all others)

## Market Mismatch - Investing in “Orphan” Securities

S&P 500 Index (3<sup>rd</sup> Quarter)

Sector	Weight
Information Technology	26.2%
Health Care	15.0%
Financials	13.3%
Consumer Discretionary	13.1%
Industrials	9.7%
Consumer Staples	6.7%
<b>Energy</b>	<b>6.0%</b>
Utilities	2.8%
Real Estate	2.7%
Materials	2.4%
Telecommunications	2.0%
Other	0.1%

S&P Energy Index (3<sup>rd</sup> Quarter)

Company	Weight
Exxon Mobil Corporation	23.0%
Chevron Corporation	16.2%
ConocoPhillips	6.2%
EOG Resources	4.8%
Occidental Petroleum Corp.	4.5%
Schlumberger NV	4.4%
Valero Energy Corp.	3.5%
Phillips 66	3.5%
Marathon Petroleum Corp.	2.6%
Halliburton Company	2.6%

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