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Mineral Market Bounces Back to Life

Experts say middle-market activity is beginning to pick up in the mineral and royalty space. Larger deals are expected to follow in late 2021.

By Michelle Thompson

Rallying oil prices, rising rig activity, and private and public market activities are contributing to a mineral market comeback, industry executives say.

With 15 asset sale transactions totaling more than $2 billion in valuation, RBC Richardson Barr is a leading mineral and royalty advisor. Since it entered the space in 2016, it has observed the space increasing A&D market share each year. By its estimates, the total U.S. onshore mineral and royalty market has evolved from $2 billion to $3 billion in annual transaction value.

Today, the market is embarking on a slow and steady return from the pandemic-induced crash in 2020. It's being led by a moderate recovery on rig activity, which is primarily supported by private and private equity-backed companies, said RBC Richardson Barr managing director Rusty Shepherd.

"You're seeing private and private equity be much more aggressive with their development activities compared to their public counterparts."

—RUSTY SHEPHERD
RBC Richardson Barr

"You're seeing private and private equity be much more aggressive with their development activities compared to their public counterparts," Shepherd told attendees at the Mineral & Royalty Conference in Houston in April. "I can even make the case that there is a preference to own minerals under these groups today."

It's a notable shift from previous years, when public companies dominated the market as investors looked to access the additional information that comes with public disclosures.

By RBC estimates, $15 billion has been deployed by private and private equity investors in the past seven years. About 60% of those dollars have been deployed in the Permian Basin, with funds being managed by short-term holders.

"If you think about the magnitude of that, compare that to the market capital of all the public companies, you can see why IPOs are a topic of conversation," Shepherd said. "You can't squeeze that much asset supply into the existing public companies. Inevitably, you're going to have some other solutions."

The situation presents a challenge in that the assets must, somehow, move from short-term holders to long-term buyers. Adding to that is the two and 20 returns many private equity companies seek. The return structure

should double the value of private equity assets to $30 billion, Shepherd said.

"If you're willing to offer that today you would probably clear most of the mineral market, because that would actually get into some of the management incentive elements," he said.

"On the public market side, it's a bit of a cookbook that they're following. They're not willing to take dilution on asset quality. If you're looking to try to push an asset into a public company and want to try and customize a portfolio that appeals to X, don't make it of quantity. Make it better quality. Then you'll get their attention."

When a transaction is priced right, he said, the market response has been positive.

Tempered expectations

In 2019, when the market was riding high, the expectation was for strong double-digit growth for all mineral and royalty consolidators. Of course, the industry had no way of knowing the troubles ahead, and following the 2020 oil crash, expectations shifted.

"Today, it's a much more moderate view of the business with single-digit growth and stability moving forward, and that's the reason you see that adjustment in the market cap for those public companies," Shepherd said.

Prior to the COVID-19 pandemic, there were typically one to two acquisitions per year in the mineral and royalty space.

"One of the things that we can look forward to is returning these public company buyers in the middle-to-late 2021 to fulfill the investment directive that was taking place from 2014 until COVID-19," said Shepherd.

Throughout the nation, production has slowed since the declaration of the COVID-19 pandemic. In the Permian Basin, for instance, production is down about 8% from the peak around March 2020. It's not yet clear whether it's a trend that's here to stay.

"We can talk through whether this is going to be something that's a new paradigm in our industry, as to whether flat is the new growth," Shepherd said. "From my perspective, follow the incentive clauses on these management contracts. If they're really incentivizing their management teams to maximize free cash flow, this is going to be the new model. If those contracts stay the same as they were prior to COVID-19, then look for growth to start occurring about the time 2021 hedges roll off in January."

As well, the industry has likely seen the last of the 100% payout ratios for public mineral and royalty companies, which were commonplace in 2019.

"I expect we're going to get something where there's some money that's being stockpiled for ground game acquisitions without having to tap into the equities market," Shepherd said.

Going public

In June 2018, Osprey Energy Acquisition Corp. announced it would form a public mineral company with Eagle Ford Shale assets through the acquisition of Blackstone Energy Partners' entire portfolio in the South Texas play.

The purchase by Osprey, a special purpose acquisition company (SPAC), led to the formation of Falcon Minerals Corp. It was the first SPAC to purchase minerals, and although the transaction was a successful one, Shepherd said he's not optimistic about blank check companies.

"Our space is very highly fragmented, and it's very hard to get everybody in the boat to create the scale it takes to de-SPAC," he said. "There are a lot of other opportunities in the energy transition space that could be very attractive to investors. As a result, I think we're going to find ourselves on the sidelines looking in when it comes to additional mineral or royalty SPACs."

Some groups have achieved the scale necessary to launch IPOs on their assets, by surveying for market conditions, and making themselves attractive to investors, he said. However, he added, size isn't the only consideration.

"You need to be differentiated," he said. "If it's just one of the consolidators, I think you immediately need to be able to carve a niche for yourself, other than having a place at the table"

When preparing assets for sale, owners must do their due diligence to ensure their assets align with ESG standards, said Shepherd.

"I want to make one comment about ESG," he said. "It is not a fad. It's not going away; it's here to stay. So you might as well get used to it. From an 'E' standpoint, there's a big difference between the Midland and Delaware [basins] … You ought to know the answers to those and be able to converse with your investors around which is a more favorable environment. You ought to know whether your key operators are aligned for growth or maintenance, and most of them are willing to signal right now which strategy they're pursuing."

Rise and fall

When Detring Advisors president and founder Derek Detring took the stage to speak to conference attendees, the irony wasn't last on him. One year earlier, on April 20, 2020, the price of WTI crude plunged by nearly 300%, trading for negative $37/bbl. At the time of his presentation, prices had recovered to about $63/bbl.

During his presentation, Detring painted a picture of the mineral and royalty market's turbulent tendencies. From 2016 to 2018, the market grew significantly as operators looked to develop resource play markets. Transactions values rose from $900 million in 2016 to $3.8 billion in 2018.

However, activity began slowing in early 2019 as investors began backing away from the sector, and the total value of transactions dropped to $2.6 billion. The slowdown was exacerbated in 2020 with the arrival of the COVID-19 pandemic, as commodity prices went into a freefall. During the year of the pandemic, total transaction value sunk to $1.2 billion.

This year, the market is beginning to gain some momentum.

"We're seeing a lot of signs of life in 2021," Detring said. "As oil price rallies, and as rig counts pick back up, we've engaged in more mineral transactions in the past

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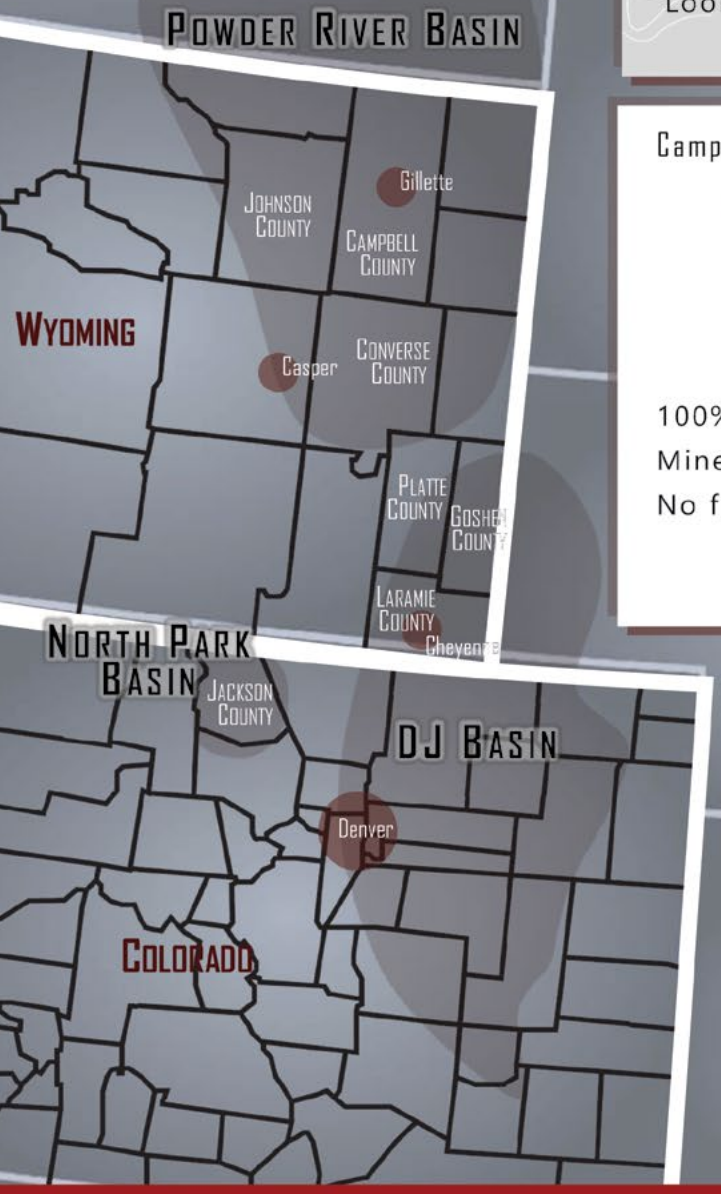

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"As oil price rallies, and as rig counts pick back up, we've engaged in more mineral transactions in the past month probably than we have in the past year."

—DEREK DETRING
Detring Advisors

month probably than we have in the past year. We do think there's going to be a lot of life coming to the market in Q2 through Q4 of this year."

The pulse can already be felt among industry giants such as Pioneer Natural Resources Co., which in April acquired DoublePoint Energy in a $6.4 billion deal. The acquisition extended Pioneer's Midland Basin footprint by about 97,000 acres.

In March, Diamondback Energy Inc. completed its $2.2 billion acquisition of QEP Resources Inc., giving it nearly 49,000 additional net acres in the Midland area.

"Buyers are now going to feel that [if] they need to win an asset, they need to pay for an acreage value," Detring said. "Are we going to get back to the levels per acre that we saw in 2018 and 2019? That may take some time, but it's certainly worth a lot more than zero, and that's what buyers are starting to realize."

Market trends

In analyzing the outcomes of previous financial crises—including the 2008 market freefall—Detring observed a pattern of recovery. Typically, it takes six to seven quarters for the market to begin normalizing, he said.

At the time of his presentation, the oil and gas industry was six to seven quarters into its current downturn, which he said actually began in December 2019.

Normalizing transactional value takes a little longer, he said, adding it typically takes up to 10 quarters for that market to stabilize. It's standard for middle-market activity to pick up first, with larger deals following months later.

"It's good to see activity picking back up, it's good to see we're toward the end of this downturn, it's good to see commodity pricing rallying here for both crude and natural gas. That's what really leads to a constructive A&D market for buyers and sellers."

Detring has also observed a shift in buying patterns.

In 2018, nearly all mineral interests were acquired by the same group of companies, including Black Stone Minerals, Falcon Minerals, Brigham Minerals, Viper Energy Partners LP, Franco-Nevada Corp. and Kimbell Royalty Partners.

Last year, that same group accounted for just one-third of the $1.2 billion in transaction volume.

"Those [companies] took a pretty big pause," Detring said, adding that Viper began selling some of its mineral assets. "We're seeing most of those groups digest the large transactions they did the last few years."

The slowdown provided an opportunity for nontraditional partners to step into the space, he said. One such example is global investment firm Sixth Street Partners, which in June 2020 closed a $402 million overriding royalty transaction with Antero Resources Corp.

Private equity was once a huge player in the minerals space, but Detring said there has been a steady drop in private equity investments in recent years. In 2017, at the peak of private equity investment, there were 20 new fundings. In 2018, the number of new private equity fundings dropped to about 10. Last year, there were just three deals.

"That's what we're seeing in the sector now is not only do you have the publics retreating to focus on their own portfolios, but also the private equity groups who were aggregating on a smaller scale, to really pull back their commitments and think more strategically about how they're going to exit in the current market," Detring said.

Partner up

Many exploration and production companies are shifting their approach to a single-operator focus, which provides them with a direct line of sight to operations, Detring said. Franco-Nevada, for instance bought the mineral rights of a newly formed Continental Resources Inc. subsidiary for $220 million in 2018. The acreage is operated by Continental.

"For Franco-Nevada, collaborating on mineral rights with an operator is a new business development opportunity," Franco-Nevada's then-chief executive, David Harquail, said in a statement announcing the acquisition. "It will allow for the ongoing growth of Franco-Nevada's oil and gas interests through the acquisition of mineral rights at the grassroots level."

Such partnerships reflect a shift in strategies, Detring said.

"As you put your positions together for a mineral aggregator or you're looking to target an exit one day, something that gets buyers' attention is: 'How can we pay beyond your PDP?'" Detring said. "That line of sight and that operator relationship is instrumental in achieving that."

Also changing is the approach companies take to operator sizes. In the past, many groups sought to work under industry giants such as Pioneer Natural Resources Co. or Diamondback Energy.

"A very interesting dynamic event the past few years is seeing that dynamic flip 100% on its head," Detring said.

Public companies are now facing constraints, he said.

"Matador [Resources Co.] announced an additional rig to their portfolio and their stock dropped 10% or 20%," he said. "For Pioneer it's very clear that they're going to only grow production, about 5% per year. So, just think about the fact that public companies typically own hundreds of thousands of acres—Pioneer owns a million acres. When are they going to get to your property? And if they're going to grow slowly … some groups may choose to work with private equity companies to accelerate the growth of properties." ■

IPO Play: Is it Worth the Risk Right Now?

Experts discuss what private mineral companies can expect with regard to IPOs in the current volatile environment.

By Faiza Rizvi

IPOs in the upstream and midstream sectors have been lackluster long before the pandemic rocked the shale industry. But the recent events have worsened scarcity of equity capital markets, exacerbated by the fact that companies in this space have been underperforming relative to the broader market, thus resulting in fewer IPOs in the E&P and upstream sector.

However, experts are hopeful that private equity-backed mineral players will go public by the beginning of next year as investor sentiment changes.

"I believe that we're seeing at least green shoots in the IPO space within energy," said Fritz Schlopy, managing director at Citi, who spoke during a panel discussion at the recent Mineral & Royalty Conference in Houston.

"We are starting to see a bit of a sea change from an investor perspective. If you look at year-to-date results within the broader market, growth-oriented companies are up about 4% while value-oriented companies are up 21%," he said.

Schlopy continued, "From an investor perspective, if we look back, we saw yield as a particular value metric for them. I think that this time around, you're going to see scale. You're going to see asset quality. You're going to see balance sheets. You're going to see some very fundamental elements to the way in which valuation is approached. Yield will be part of that decision, but it won't be the absolute end-all decision as it relates to valuation."

"From a market perspective, if we think about the elements of success as it pertains to minerals and perhaps throughout energy, I think scale matters."

—FRITZ SCHLOPY
Citi

Schlopy also noted that he views minerals as a "value play" and expects more enthusiasm from investors in the coming months.

"I think of minerals and energy as more of a value play on a go-forward basis from where we've been to where we are and where we believe we're going to go. So as a result, we could see some more enthusiasm. It's not there today, but it doesn't mean that we won't begin to see some people documenting and hopeful of getting public by Q1 of next year," he said.

He continued, "There is certainly a belief from the underwriter's perspective as well as my belief, from a coverage perspective, that there are some companies out there that are nearing IPO-ready, and that they will be well-received."

Schlopy also pointed out that companies in the mineral space could benefit from more private equity players going public.

"I think even the public mineral players that are currently out there would appreciate a little bit deeper pool that would create broader investor enthusiasm."

With regard to special purpose acquisition companies (SPACs) in the mineral space, Schlopy noted the concept hasn't been necessarily "fit for energy."

"It has been tried and was partially successful with regard to getting deals announced. It has been more difficult to get them all the way to the finish line. And that has a lot to do with the timing between the announcement, the vote and ultimately the closing and how long the seller is holding out versus another alternative that they may have available to them as it pertains to selling their asset. And as a result of this, SPAC hasn't necessarily fit yet for energy," he said.

Is going public worth it?

Josh Sherman, partner at Opportune LLP and who spoke on the same panel, said the decision to go public should be carefully thought out, adding that companies should thoroughly consider several factors before making the move, especially in the current volatile environment.

"For a minerals company in the upstream space, the question is, do I really want to go through this process?" he said. "You have to really be committed to being a public company and must have a certain scale to make it worthwhile. If you're a small public company, it's just not a lot of benefit to it. I mean, you're better off selling to a bigger competitor or at least combining and going public that way, because there is a lot of hassle associated with that," Sherman said.

Reflecting similar sentiment, panelist Doug McWilliams, partner at Vinson & Elkins, said the process of going public isn't easy and involves several challenges.

"It's not an easy process. I think if you ask some of the guys who have gone public, it's not easy being able to create the systems, put them in place and manage the data that's coming from all these wells," McWilliams noted.

He continued, "Not only do you have to gather [data] that has to be accurate, but it has to be really timely because if you go public, you've got to get a 10-K on file, which is your annual report, depending on how long you've been public—about 60 to 90 days after year-end. Same thing with the 10-Qs, you've got to get those on file somewhere between 30 to 45 days after a year-end or after a quarter-end."

McWilliams added that it's important for companies to understand that gathering data, preparing financials in an accurate and timely manner and filing them require considerable time and investment.

"Some of the management teams I've talked to, that have gone public, wished they had gotten started on that sooner than they did. And I think what I've been told by some CFOs and CAOs [chief accounting officers] is that it really takes about a year, at least, to get those kinds of systems fully to the place where you really want them to be."

He continued, "I can't tell you how many times I got calls where a mineral company was formed six months ago, nine months ago, a year ago—they made a big acquisition and now they want to go public just when the mineral IPOs were hot for that fleeting moment of time. And they didn't have two years of financials. And they said we've only been around for a year, so we don't need to go any further. And that wasn't the right answer. You have to go find that second year. And so going and getting the financial data from somebody as your predecessor, who you didn't know, could be incredibly difficult, if not impossible."

On the other hand, McWilliams said it's easier for companies that have been private longer to gather financial data.

"The nice thing is that as companies have been private longer is if you ran a business for two years now, it's going to take some work, but at least you've got the data to be able to prepare those predecessor financials.

"You may still have to go get some acquisition financials, but generally SEC is a lot more lenient on what those financials look like. And you only have to do them for the acquisitions that are really big," he said.

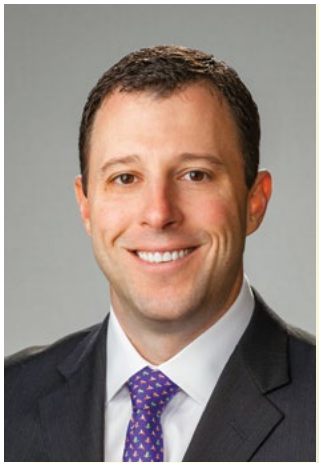
Despite the challenges, going public has certain strategic

advantages like getting access to capital markets, noted McWilliams.

Unlike upstream companies that have a fair number of buyers ready to purchase their assets, private equity-backed mineral companies have limited liquidity options, he said.

"I've talked to a number of private portfolio companies who have thought of trying to do either a reverse merger with an existing public mineral company or just combine the two companies to take back equity. There are not a whole lot of companies out there who are going to write you a big check, right? So you're going to be willing to take equity anyways."

For example, Brigham Minerals Inc. took the IPO option, and despite some ups and downs, the company's stocks performed fairly well, he noted.



"You have to really be committed to being a public company and must have a certain scale to make it worthwhile."

—JOSH SHERMAN
Opportune LLP

Being 'IPO-ready'

To be IPO-ready on a continuous basis requires significant continuous investment, said Sean Wheeler, partner at Kirkland & Ellis.

"The issuer fees are a couple of million dollars just for the lawyer. There's also the cost of kind of preparation of the financial statements and the continued maintenance of that, and then we have to file them with the SEC, which is additional cost," he said.

Wheeler noted that once the filing is made and the document is written, a "fairly modest amount" is needed to keep it going.

"But the question is, are you going to really invest $3 million to $4 million in the process if you're not ready to go public?"

Wheeler also noted IPO-ready companies are a more attractive M&A target.

"Being ready to go public kind of has the additional benefit of making you more attractive to a public mineral company or large private companies. There is value to having systems in place and being ready to go," he said.

According to McWilliams, the key to being IPO-ready is getting the financials ready at least four to six months prior to going public.

"If you really want to put yourself in a position to be able to go public, get your arms around what the financials would be and whether you have access to the data to getting those financials prepared. Even if you decide not to prepare, start getting your audits done, your reviews done … start working on your internal controls to get them a little bit better," he explained.

"If you have your financials, we can get something on file with the SEC in four weeks," he said.

'Scale matters'

"From a market perspective, if we think about the elements of success as it pertains to minerals and perhaps throughout energy, I think scale matters," said Citi's Schlopy.

He added that IPO investors are not looking to make more investments. Instead, they prefer fewer investments that have more liquidity and opportunity to either enter and exit and as a result, scale. "Liquidity matters for these companies," he said. "And as a result, we've probably seen fewer IPO's. The one upstream IPO that's been done of late was the Vine Energy [Inc.] IPO. I can tell you that, whereas it was successful, it was not easy to bring in any particular deal to market in this environment."

Schlopy noted that in the near future, mineral companies will potentially try to pull off a high-yield offering.

"Private upstream companies that have done dead issuances thus far where the minimum price of entry was kind of that 25,000 barrels, 25,000 anchors, $200 million to $250 million of EBITDA that allowed folks like Colgate to access the markets not too long ago."

He continued, "You're going to need the critical mass to attract a story such that you get the response necessary for a competitive cost of capital versus perhaps the cost of capital they have in their back pocket, through their RBL or through other sources of funding."

Up-C structure benefits

An "umbrella partnership" C corp (Up-C) structure has several advantages including tax benefits, McWilliams explained.

"If you're taking cash proceeds out as part of the IPO,

Unlike upstream companies that have a fair number of buyers ready to purchase their assets, private equity-backed mineral companies have limited liquidity options.

—DOUG MCWILLIAMS
Vinson & Elkins

adopting a [Up-C structure] is a more tax efficient way to get proceeds out to yourself," he said.

In addition, he said there may be some benefits for sponsors, the owners of the private company to stay in the private company from a tax perspective on a go-forward basis.

Listing another tax benefit of the Up-C structure, McWilliams said, "When you exchange your units in that operating limited liability company (OpCo)—the old private portfolio for the public company—it's as if you sold your proportionate interest in those underlying assets to the public company. And it's a taxable event to you at that time. But you're going to sell that to be able to pay that tax liability, but the public company gets a step up in the tax basis on those assets, which is going to create deductions on a go-forward basis."

Furthermore, McWilliams noted that in the mineral space, a lot of minerals are owned in "flow-throughs," and the public company can make acquisitions with its equity to buy additional private portfolio companies.

"If a corporation issues its stock for, let's say an LLC, that's going to be taxable to the owners of that LLC. So we now have a vehicle down here, which is a flow-through for that OpCo, and that can actually issue more of these exchangeable units in acquisitions on a tax deferred basis. So it gives the public company the ability to actually make acquisitions on a tax deferred basis that a corporation can't do," he said.

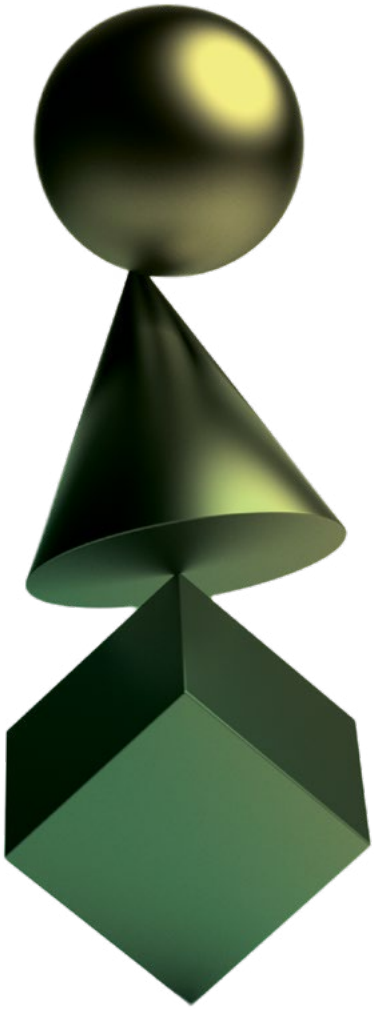
IPO and ESG

Even though ESG is here to stay, investors aren't making decisions based exclusively on a company's ESG rating, Schlopy noted.

"The ESG elements that go along with energy are firmly embedded. That being said, it has been our experience that the investors at the decision level—in many of the companies making the investments—are not necessarily making them with ESG orientation," he said.

Schlopy continued, "ESG is part of an umbrella element to energy, but not necessarily yet at this point, getting down to the decision level on which companies to pick, and it would be difficult, I believe, to rate the ESG elements of one company versus the next I know they're trying to do it … but it's not yet creating differentiation within the investment decisions themselves."

Doug pointed out that the 'G' of ESG is creating immense pressure for increasing diversity both in the boardroom and within the management teams. "I think we will continue to see that," he said. ■



"Being ready to go public kind of has the additional benefit of making you more attractive to a public mineral company or large private companies. There is value to having systems in place and being ready to go."

—SEAN WHEELER
Kirkland & Ellis

Better Times for Mineral Financing

The mineral business is seeing improved conditions for obtaining financing, even though it remains more challenging than it had been a few years ago.

By Anna Kachkova

The mineral business—like other parts of the oil and gas sector—is enjoying better times after a year of unprecedented challenges. This extends to financing—the appetite to provide it is there, as is a cautious optimism over the trajectory of the recovery. Nonetheless, it remains more difficult to access sources of finance than it did in the earlier days of the U.S. shale boom.

Additionally, as the U.S. and other countries increasingly embrace the energy transition, ESG metrics are becoming more and more important to financiers. This adds a new dimension to seeking financing that mineral companies will need to consider and adapt. While exploration and production (E&P) and mineral businesses are affected by many of the same trends, there are also some differences between the two.

"The public capital markets related to energy took a little bit of pause in 2020. We've seen a pretty rapid recovery, but I think that in a yield-hungry world, there is appetite for that asset class in the public market."

—KYLE KAFKA
EnCap Investments LP

These were some of the themes that were discussed at the World Oilman's Mineral & Royalty Conference (MARC) held in Houston in April. Comments from various speakers indicate that they expect the recovery to continue.

On the up again

Like the E&P side of the shale industry, the mineral business experienced a boom during the last decade, even after the downturn that began in 2014. This was highlighted by Kyle Kafka, a partner at private equity firm EnCap Investments LP, who spoke during a panel session.

A lot of shale plays across different basins had really started to establish themselves by around 2015, he told the audience. "It was competitive to go enter into those plays as an operator. Lease prices were high, and it was hard to get into the core of plays. So, we really found the mineral business is a way that we can get into some of these core plays and expose some capital to areas that we thought were going to be highly attractive places to be from an economic perspective."

However, sources of capital for the U.S. energy sector had been shrinking, even before the new downturn that started last year amid a very short-lived oil price war between Russia and Saudi Arabia and—more significantly—COVID-19. Now, with commodity prices relatively stable and hopes that mass vaccination will help beat the pandemic, conditions are improving for the oil and gas industry, but it remains more difficult than before to access financing.

This is playing out across both public and private markets, including for minerals.

"I think the public market for minerals continues to evolve," said Kafka. "The public capital markets related to energy took a little bit of pause in 2020. We've seen a pretty rapid recovery, but I think that in a yield-hungry world, there is appetite for that asset class in the public market. "I also think that the private capital market continues to evolve," he continued. "We've seen some of our peers do pretty creative transactions in the secondary market, where they've taken assets that they think have a lot of long-term value, and recapitalized them in the private market to give them more runway."

"Traditional banks' participation in minerals was a recent development, as they 'hadn't quite figured out how to lend to the mineral space' until the past few years."

—NICK FERSEN
EIG Global Partners

Various options

In this environment, mineral companies benefit from having a variety of options available to them for accessing capital.

This was in evidence during the panel in which Kafka was participating, which also included representatives of Amegy Bank and EIG Global Partners—an institutional investor. All three panelists voiced their enthusiasm for the mineral business from the point of view of their organizations.

Nick Fersen, a managing director at EIG, said there was no specific capital structure that worked best for mineral companies—with some that should be purely equity-funded with no debt and others that have strong cash flow and can support a modest amount of leverage.

In terms of acquisitions, instances involving proved developed producing (PDP) assets would probably go to the banks for financing, Fersen said, while buying "in front of the drill bit," with no PDP assets, would likely involve traditional equity.

"We fall somewhere in between on the acquisition side, where there's some cash flow to support—a modest amount of preferred debt. But then, we're stretching a lot further than the banks will," he added.

Kafka agreed on acquisitions where there is no existing cash flow.

"If we're pursuing that strategy of buying ahead of the drill bit and there's no cash flow, then it's equity," he said. "But hopefully, if we've done our underwriting correctly, the cash flow shows up sometime relatively soon. And we're relatively conservative as it comes to leverage."

Fersen noted that traditional banks' participation in minerals was a recent development, as they "hadn't quite figured out how to lend to the mineral space" until the past few years. But by 2016 to 2017, as these mineral companies grew in size and scale, banks had become "more sophisticated" in their approach to this and had worked out to how to make traditional reserve-based lending (RBL) apply to such players, he said.

The latest downturn has complicated matters for banks, though, and while RBL is still available to the mineral business—and oil and gas more broadly—obtaining it is not as easy as it was before.

"We had to recognize the drop-in market value and start having more equity in deals and a little bit less debt. Obviously, we were taking a little more risk," said Steve Kennedy, executive vice president and head of energy at Amegy, in reference to the whole of the RBL market.

He said that in order to access RBL now, companies have to ensure they meet all the relevant criteria, which are more stringent than before.

"It's a little bit tough—it's a little bit like threading a needle these days to get a new RBL," he said. "But they are available, and we've been doing them since last fall."

Another current trend highlighted by Fersen is that of synthetic exits, which have become more popular among mineral companies even as E&P players focus more on replacing banks as their sources of capital dry up.

This is where companies opt for dividend recapitalization in order to return liquidity to investors as a dividend without selling their assets.

"And ultimately, if that company looks to IPO down the road, they actually have a use of proceeds, as opposed to just doing a large secondary IPO. They'll just pay off the debt," Fersen said.

Greater expectations

Looking ahead, Amegy's appetite for energy financing and the mineral business appears set to improve further.

"We're in a very comfortable position where we can increase our commitments to the energy space," Kennedy said. "And we really like the mineral space a lot, so we'll be looking to put some more loans out there."

He tempered this, however, with a comment on the "semi-permanent" feel of the latest downturn in terms of the capital that is willing and able to flow to the market. During the next two to three years, Kennedy said he anticipated lenders to be more conservative, with banks likely raising their pricing somewhat. But this comes as he is also seeing some of the best deals of his 34-year career, he added.

A more conservative approach by banks leaves room for other investors to step in, and Fersen said EIG had

"In order to access RBL now, companies have to ensure they meet all the relevant criteria, which are more stringent than before."

—STEVE KENNEDY
Amegy

indeed seen an uptick in demand during the past 12 to 18 months. He added, however, that he believed suggestions of the death of RBL to be overblown.

"There's a structural shift that's occurring," he said. "I think the banks are retrenching into higher-quality assets, so there are some assets that probably don't deserve bank capital anymore.

"And then the other thing that we're seeing is, even though the overall bank market has shrunk … there's still a handful of banks willing to lend."

With the availability of RBL reduced, however, EIG's "opportunity set is coming in and backfilling that RBL market," Fersen said.

ESG in the spotlight

Another significant shift that the industry has to contend with—and one that affects both mineral companies and E&Ps—is the rise in importance of ESG performance.

"We all can't pick up the newspaper every day without reading about another institution that wants to divest from fossil fuels," commented Kafka. He added, though, that it depended on the type of investor, with EnCap seeing certain university endowments in particular wanting to back away from fossil fuels.

The growing importance of ESG was also discussed by Tim Perry, the co-chairman of global energy at Credit Suisse, in a separate MARC session. ESG matters more and more with each passing year, Perry said, pointing to BlackRock's chairman and CEO, Larry Fink, as one of the most influential figures saying he was evaluating companies on their ESG focus.

"What we're also finding in the commercial banking industry is that ESG questions are becoming very commonplace for many banks," Perry said.

Kafka argued, however, that even as ESG grows in importance, returns continue to be a priority for public and private markets alike.

"While there is probably some small portion of the investor base that won't want to invest in fossil fuels going forward, I think the majority of our investors are, frankly, looking for a return," Kafka said. "So long as you can present yourself as a responsible steward of their capital, and you're doing the right things from an ESG perspective to be good stewards of the environment and invest responsibly in oil and gas, I still think there's an appetite there to invest with people that they think can help them generate a return, help balance their portfolio and provide them with some exposure to that asset class."

Fersen pointed out, though, that given the importance of returns, investors may have been using poor ESG performance as an excuse for backing away but could come back if returns improve. If this is the case, it will likely become clearer in the coming months.

The industry is still figuring out how best to respond on ESG, but one theme echoed by both Perry and the panel is that the response does not need to be perfect.

"They don't have to be net zero today. They don't have to have zero emissions," Perry said. "There is a lot of investors out there that realize that we are going to have oil and gas for decades to come, and we have to have this industry. But what they do want to see is improvement."

Similarly, Kennedy said that if companies are seen to make an effort in the realm of ESG, this can give lenders justification to continue investing in oil and gas.

However, this is more straightforward for E&Ps.

"I think it's a lot harder for mineral companies, though, on the ESG side," said Fersen. "In an upstream company obviously there is a lot of knobs you can turn to reduce your emissions, but from a mineral standpoint, you are either in the fossil fuel game or you're not."

This picture is further complicated for mineral companies by the fact that many investors view all oil and gas players as being part of the same "hydrocarbon bucket", according to the panel. Additionally, Perry noted that while E&P companies were increasingly opting to disclose their ESG metrics, among public royalty companies assessed by Bloomberg recently, only one had disclosed an ESG score. ■

"What we're also finding in the commercial banking industry is that ESG questions are becoming very commonplace for many banks."

—TIM PERRY
Credit Suisse

CENTERED IN TRUST AND LONG-TERM RELATIONSHIPS

Stephens maintains a long history of raising private capital for oil & gas companies. In recent years, we have been particularly active raising capital for mineral acquisition businesses.

Recent Private Financing Transactions

UNDISCLOSED	UNDISCLOSED	UNDISCLOSED	UNDISCLOSED
Haynesville Minerals Platform	**Diversified Minerals Aggregator**	**Midland Basin Operator**	**Eagle Ford Minerals Platform**
EQUITY PRIVATE PLACEMENT	STRATEGIC PARTNERSHIP	ASSET ACQUISITION	EQUITY PRIVATE PLACEMENT
Sole Placement Agent	Sole Placement Agent	Financial Advisor	Sole Placement Agent
UNDISCLOSED	UNDISCLOSED	UNDISCLOSED	UNDISCLOSED
PRODUCERS MIDSTREAM	ROSEWOOD RESOURCES	Thunder Basin Resources	NOBLE ROYALTIES, INC. AN ENERGY COMPANY THAT DOES NOT DRILL.
EQUITY PRIVATE PLACEMENT	JOINT VENTURE TRANSACTION	EQUITY PRIVATE PLACEMENT	EQUITY PRIVATE PLACEMENT
Sole Placement Agent	Financial Advisor	Sole Placement Agent	Sole Placement Agent

Other Recent Minerals & Royalties Transactions

UNDISCLOSED	UNDISCLOSED	UNDISCLOSED	UNDISCLOSED
VIKING MINERALS	VIKING MINERALS	**Shadow Creek Minerals**	NOBLE ROYALTIES, INC. AN ENERGY COMPANY THAT DOES NOT DRILL.
ASSET DIVESTITURE	ASSET DIVESTITURE	ASSET DIVESTITURE	ASSET DIVESTITURE
Financial Advisor	Financial Advisor	Financial Advisor	Financial Advisor

$350 MILLION	$66 MILLION	$104 MILLION
VIPER Energy Partners	KIMBELL ROYALTY PARTNERS	KIMBELL ROYALTY PARTNERS
FOLLOW ON OFFERING	FOLLOW ON OFFERING	INITIAL PUBLIC OFFERING
Underwriter	Underwriter	Underwriter

PRIVATE FINANCING STATISTICS	MINERALS & ROYALTIES STATISTICS
~$11.4 Billion	~$900 Million
Aggregate Capital Raised Since 2009	Aggregate Transaction Volume Since 2017
35 Closed Transactions since 2009	10 Closed Transactions Since 2017

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Investment Banking

Rising Phoenix Royalties

Rising Phoenix Royalties offers accredited investors attractive yields in alternative asset proved developed producing ("PDP") mineral funds.

Founded in 2016 by 4th generation oil and gas industry professional Jace Graham, Dallas- based Rising Phoenix Royalties ("RPR") mineral and royalty PDP focused funds have been earning investors double digit returns since inception.

JACE GRAHAM

RPR leverages real estate marketing technology and tactics to help identify motivated mineral and royalty sellers while utilizing proprietary software to quickly price and formulate offers. The company's reservoir engineering team possesses expertise in almost all US Basins ensuring optimal oil and gas asset evaluations and underwriting.

RPR's success comes from the thoroughness of its financial analysis and its in-house acquisition team's execution of consistent non-marketed deal flow. These advantages give RPR the ability to move quickly when an opportunity strikes with an immediate evaluation and purchase of basin agnostic acquisition opportunities for mid-level deal sizes ranging from $50,000 to $5 million.

Acquisitions can be closed in as little as 10 days allowing RPR to capitalize on time-sensitive opportunities.

The Rising Phoenix Royalty funds are privately subsidized and not subject to certain time constraints unique to private equity backed mineral companies. Consequently, the funds have inherent flexibility to be exited within a timeframe that generates maximum profitability for its investors.

Jace Graham, Rising Phoenix Royalties Founder and CEO

Rising Phoenix Royalties Founder and CEO Jace Graham brings a lifetime of oil and gas expertise to his work in acquiring mineral assets and driving optimal returns for RPR investment funds.

Jace Graham grew up in the Dallas area learning the oil and gas business from his father Jim Graham, a reputable independent operator for over 40 years. "I remember sitting on drilling rigs, talking to landowners and checking oil levels in tank batteries in West Texas with my ole man as a kid. It was exciting, I knew this type of business was for me!" Graham reminisced.

After graduating from Cornell University, Graham cut his teeth in 2003 as a landman in Northeast Colorado where he learned how to run title back to patent and negotiate leases with landowners. Shortly thereafter he was relocated to work on several projects in East Texas with complex title and leasehold negotiation projects which ultimately led to him joining the family business, Palo Petroleum, Inc. in 2005.

At Palo, Graham orchestrated complex lease plays in the Barnett Shale. His work included combining numerous subdivisions to create a contiguous sizable lease position. From there, Palo connected with an offsetting well-funded publicly traded operator, sold a majority of its leases, and then participated with a non-operated working interest.

Graham started at Palo in 2005, and in 2006 he formed a team to actively acquire minerals at scale. "Since we participated in drilling several wells in the Barnett, we

knew firsthand the economics and cost of each well so buying the minerals under units in and around where we were active made sense," noted Graham. He led a team of over twenty landmen that acquired, in the course of about eight years, over 16,000 unique mineral interests. "That's a lot of ¼ acre lots! We definitely learned how to build a streamlined and efficient acquisition, underwriting and back-office process." Today, Graham and his brother continue to manage over 4,000 net mineral acres in the Barnett core of Tarrant and Johnson Counties.

Graham also owns and operates Rising Phoenix Real Estate that has bought and sold over 50 single family homes to date in 2021 in the Dallas/Ft. Worth area, one of the United States most competitive real estate markets. "Our real estate and mineral workflows are almost identical by design — from the marketing to sales to operations to asset management. We like originating deal flow with efficient and scalable systems and processes in place," shared Graham.

What are some reasons individuals invest with Rising Phoenix?

People come to us looking for a straightforward way to invest in alternative assets that are not correlated to the stock market. With current inflation looming and as much money as the Fed has pumped into the stock market in the last year I think folks are getting a little suspect as to what's really happening and want to invest in hard assets like real estate, oil and gas minerals, and other tangible assets they can touch and see.

You're seeing people, especially today, really starting to doubt what's occurring with the economy and its long-term sustainability. People are saying, "That's great. Everything's on fire, but everything could easily go the other direction very quickly. I'm going to park some assets in cash and some investments in alternative assets like oil and gas." Those are the folks that come to us wanting to invest in our funds.

Investors appreciate that we have a good product that's easy to understand; it's immediate cash flow from day one. People like getting that return, that check, that mailbox money every quarter. People also want some investment exposure in oil and gas without the inherent risk of participating in a drilling fund where you put up money with every new well and can incur significant dry hole expense.

It's also beneficial to know that minerals and royalties overall will generate income month over month in perpetuity while you only have the one time acquisition of the asset - the mineral itself. Our investors then get to benefit with ongoing income so long as those wells are producing in economic quantities - which could be for the next 30 to 100 years plus there is a 15% tax depletion incentive year over year.

Another advantage with mineral royalty assets is you're typically buying under proven publicly traded operators that know what they're doing, and you're buying the asset after all the risk has been taken out because it's producing.

RISING PHOENIX FUND PERFORMANCE

RISING FUND I

- Fund Closed: December 2016
- Asset Mix: 85% Natural Gas; 15% Oil
- Asset Type: 100% PDP
- Status: Fund sold in July 2018 (18-month hold)
- ROI: 34%
- IRR: 23%

RISING FUND II

- Fund Closed: December 2018
- Asset Mix: 75% Oil; 25% Natural Gas
- Asset Type: 100% PDP
- Status: Currently averaging 10% cash-on-cash returns with a projected Q4.2021 exit

RISING FUND III

- Fund Closed: December 2019
- Asset Mix: 50% Oil; 50% Natural Gas
- Asset Type: 100% PDP
- Status: Currently averaging 24% cash-on-cash returns with a projected Q4.2021 exit

RISING PHOENIX OPPORTUNITY FUND III

- Fund Closed: August 2020
- Asset Mix: 70% Natural Gas; 30% Oil
- Asset Type: 100% PDP
- Status: Currently averaging 26% cash-on-cash returns with a projected Q4.2021 exit

RISING FUND IV

- Fund opens in July, 2021

How do I get started investing with Rising Phoenix?

We're happy to talk with investors to understand their specific investment strategies and what ultimate goals they're trying to accomplish to see if our funds are a fit.

We encourage you to give us a call and have a conversation to see if our offering aligns with your investment portfolio.

Feel free to reach out to our Investor Relations team at invest@rising-phoenix.com or learn more at www.RisingFund4.com where you can schedule a call to speak directly to Jace Graham, CEO of Rising Phoenix Royalties. ■

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Beyond the Minerals

A new technology entry into market, borne from a mineral rights platform, promises to put the entire dealmaking process at both buyers' and sellers' fingertips.

By Len Vermillion, Editorial Director

Sometimes a good idea just needs to wait for its time to come. Ryan Vinson, CEO and co-founder of MineralWare, the mineral rights and royalty software solution provider for the oil and gas industry, had an initial vision for the latest venture all the way back in 2007.

"We're connecting the folks in the industry who need help. It can range from a family office that needs help with negotiating leases or doing a mineral evaluation all the way to an operator."

—RYAN VINSON
MineralWare

That latest venture will see Vinson and his partners move beyond the mineral space and into a broader transaction technology solution for both the oil and gas space and the new energy space down the road. But getting to the point where Vinson and the team were ready to launch Energy Domain, a MineralWare company, was a long and winding path. Ben Heinzelmann serves as president of the new company.

Mineralware also recently launched Energy Freelance, an online platform that connects operators directly to land, engineering, geology and legal contractors.

"When I graduated college in 2007 from Texas Tech, that's where this transaction platform idea began," said Vinson, who was named one of *Oil and Gas Investor*'s Forty Under 40 honorees in 2020. "Back in 2008, I created a company called Energy Clearinghouse so that was really the first idea of creating this platform."

However, Vinson, ever the entrepreneur and businessman, knew there was a better opportunity at the time with MineralWare. That decision in 2014 to launch the nonop asset management software that serves everyone from mineral rights and royalty companies to banks and financial institutions to government pushed the Energy Domain idea to the side.

"Now we can leverage MineralWare… not only the datasets, technology and developers that we have, but also this is cross-selling."

"It's really been on the backburner for several years because we had a heck of an opportunity with MineralWare," Vinson said.

Fast forward to today and Vinson sees the opportunity present itself again to expand beyond minerals and into the broader transaction space. He sees the opportunity, because his clients have told him it is there.

"Now our clients are asking for a better way to buy and sell," he said. "It isn't just from the mineral owners, who currently are only able to sell their assets by getting letters and postcards in the mail from [oil companies] wanting to pay for their minerals. But the fact is these owners don't trust these companies. They don't know who they are or if the offer is legitimate or even competitive."

From the minerals perspective, Vinson, a landman by trade, said there has long been a desire to have a better way to buy and sell assets. But Vinson still sees the opportunity to extend to the institutional side.

He admits there is competition in that space, but he believes his company's technology can be a difference maker. "We felt that technology was the way to go, especially since that's what we know very well," he said.

Streamlined process

The current process for listing and selling assets in the industry today is a long, arduous process, Vinson said. He said one of the biggest pain points is that it can take up to three weeks to only list an asset for sale on competitive platforms.

"We thought we can do that a whole lot more efficiently," he said. That efficiency can also extend throughout the entire selling and buying process.

One way Energy Domain sets out to accomplish streamlining the process is by using MineralWare's technology expertise to create software solutions that put the entire process in one place.

"Once they look at a deal and like a deal, they'd have to go to a data provider like Enverus or IHS Markit to do their due diligence," Vinson said. Just doing that separate due diligence can delay the process for a day or more.

The tedious procedure led Vinson and his partners to ask them how they can use their technology, the data that they own and make the process more efficient and effective for buyers.

One of the big aspects of researching a deal is having access to well data, production data and permit data.

"Over the past seven years with MineralWare, we've been building the database," Vinson said. "We've been building this database, standardizing it, going directly to each producing state, standardizing their data, creating these proprietary scripts that ingest that data into our database and provide that to our customers.

"We just took that same dataset and leveraged it with Energy Domain, so [our customers] are able to do their due diligence as they're looking at deals," he continued.

The benefit for sellers, Vinson added, is that deal can move more quickly. "We're teeing it up for buyers to buy a deal," he said.

The one-stop shop offers multiple ways to directly buy assets on site. One thing that is unique, Vinson pointed out, is that users can make an offer directly through the platform.

"If the seller accepts that offer, then the deal is done," he said.

The platform even features a "buy it now" price. "You can just take it off the market instantly by committing to buy," Vinson added.

Meanwhile, negotiated sales can be accepted, declined and negotiated right in the platform.

"It might seem like this should all be common, but this is the new technology we are bringing to the marketplace," Vinson said.

Launching the right way

Vinson said Energy Domain is ready and willing to be put into the market, but the company is playing it safe and doing things the right way, particularly when it comes to licensing.

"There are a lot of companies that buy and sell, but they don't have their broker/dealer license," Vinson said. "We decided to do things the right way and get our license."

The launch is coming. Vinson said the company already has deals committed verbally.

Launching the right way also means timing. Vinson first started the idea when he was a young entrepreneur fresh out of college. "It was a learning experience," he admitted.

Vinson has had his share of starts and stops, but he said he learned each step of the way.

Aside from the advice he received from MineralWare customers, Vinson said the barrier to entry Energy Domain in 2021 is much less daunting than a decade ago. That's because of the success of MineralWare and the customer relationships he and the company have already built.

"Now we can leverage MineralWare, which is a very successful company," he said. "We can leverage not only the datasets, technology and developers that we have, but also this is cross-selling. We have a bunch of customers who are asking for this. This is what they want."

Making connections

Launching one new company may sound difficult enough, but that's not stopping Vinson and MineralWare from also launching another. In addition to Energy Domain, MineralWare launched Energy Freelance, which connects energy professionals working as freelancers to companies.

Energy Freelance received more than 360 registered freelancers on the platform in the first two weeks. The company had estimated less than 50 at that point.

"Some of these folks were checking the website every day," Vinson said.

Energy Freelance is so far a one-of-a-kind platform in the industry.

"We're connecting the folks in the industry who need help. It can range from a family office that needs help with negotiating leases or doing a mineral evaluation all the way to an operator," Vinson said. "Right now, the big thing is a lot of these operators—small, mid and large—are trying to get their G&A down. For the operators, this is connecting them to landmen, engineers and geologists for on-demand projects."

Energy Freelance isn't the first entry into the overall gig economy, which includes the likes of Uber in the non-energy world. But Vinson said there's nothing like it in the energy industry at this point.

"We don't have any competition with this one," he said.

Energy Freelance is starting out by catering to oil and gas, but Vinson said the renewable sector is definitely in the cards.

As the industry exits the COVID-19 era and activity and work ramp up again, Vinson and the MineralWare team are ready to go with three companies that all complement each other and fill a void within the industry. ■

The Royal Treatment

Public mineral company CEOs see emerging opportunities in M&A and investor recruitment but have an eye on investor payouts.

By Darren Barbee

As the U.S. finally began to thaw from the COVID-19 pandemic that whipsawed the oil and gas industry, mineral and royalty companies are coming out of hibernation ready to make a deal.

Public mineral companies have been revived in a time of transition. They are returning to offices after COVID-19 appears to have done its worst, reversing remote working for their staff and finally seeing life in commodity prices.

"I happen to be a big believer in the importance of shareholder alignment and ensuring that management is doing what is in the best interest of the owners."

—DANIEL HERZ
Falcon Minerals Corp.

Many used 2020 to bring their debt under heel, and now M&A beckons. But the fate of their cash flow is up for debate. Some see wisdom in reducing stockholder payouts to address debt and fund their A&D ground game. Other companies see an imperative in returning every cent possible to the owners.

"It's the one area of minerals where there are diverging opinions or divergent strategies," said Daniel Herz, president and CEO of Falcon Minerals Corp.

With less direct risk to commodity prices, mineral companies also face the need to live up to ESG standards while also trying to zero in on the time and place where operators' drill bits will dig next.

In April, leading executives from five public mineral and royalty companies addressed the future of the sector at the World Oilman's Mineral & Royalty Conference in Houston.

"We like our balance sheet, but we think it's smart whenever possible to pay down debt."

—BOB RAVNAAS
Kimbell Royalty Partners

Bob Ravnaas, CEO, Kimbell Royalty Partners, said he was surprised at his team's adaptability and the ability to meet deadlines.

"I was happy in how we transitioned, how we didn't miss any important dates," he said. "We were able to not skip a beat with regard to paying out dividends."

As a kind of asset management class company, Ravnaas said it's clear that the work environment is crucial for the company to be at peak performance.

"I do think you drop some balls. You miss the human interaction of being together. But what we've learned is that we can adapt," he said.

Brigham Minerals Inc. CEO Rob Roosa took away three key points from the pandemic: preparedness, safety and the ability to exchange ideas meaningfully.

Roosa said that as he read about the spread of COVID-19 in December and January, Brigham worked on being able to shut down its office while keeping its employees virtually connected. The company also tested the ability of employees to work at home. By mid-March, as lockdowns began, the team was ready.

By April, Brigham then began to work on making sure the environment at work felt safe.

Culturally, Roosa said the pandemic showed him that bringing employees together to create ideas was crucial.

"In the team environment, as we got together on a few deals, there were seven or eight of us in the deal room," he said. "We're feeding off each other or training the younger people. So it's really critical to get back to the office."

Jeff Wood, president of Black Stone Minerals LP, said a larger lesson for him was the importance of maintaining a strong balance sheet.

Black Stone has prepared for the ups and downs of being in a commodity exposed business. "And of course, 2020 was that on steroids," he said.

"But I'll tell you there were a lot of sleepless nights in periods of worry, but it sure was nice … knowing that we were going to get to the other side. It may not have been a whole lot of fun for a year, but we weren't having those sorts of existential periods of self-doubt that a lot of others in the energy sector" had to survive amid price drops and high leverage.

Kaes Van't Hof, president of Viper Energy Partners LP, agreed, though Viper entered the downturn with more leverage than it wanted.

"The beauty of the royalty model is that if you cut back on your distribution just a bit, you can get back into a leverage profile that's manageable very quickly," he said. "And a lot of E&Ps haven't had that opportunity. So, the asset class certainly shined through what is fortunately looking like the shorter downturn than I thought a year ago today."

Ripple effect

The days of mineral companies shrugging off questions about ESG—and deferring to operators—is coming to a close. Dodging the questions don't satisfy investors, Wood said.

"It's absolutely coming. It's absolutely important," he said.

Still, effective stewardship remains an elusive concept, with a balance to maintain between environmental and financial ripple effects. In particular, a small minority of investors can drown out the voices of the overall shareholder base if they raise alarms over environmental concerns.

"If we had a single operator ready to come commit capital to our lands, that they had an average ESG rating somewhere, are we really supposed to turn down that cash flow stream just in recognition of ESG?" he said. "That's going to be something that we're going to have to balance."

Van't Hof said there's rarely a conversation with investors that doesn't include ESG, with most of the emphasis on environmental concerns.

As a public operator in North America, part of the social and environmental license to operate as a good steward is dictated by shareholders. The demands for greater disclosure are almost certain to lead to demonstration of enhanced ESG performance.

"They're forcing us to one way or the other disclose more and do better," he said. "I think for the past 10 years it's been how much more can you disclose. I think the next five to 10 years are going to be how much better are you doing on all of these things?"

In time, Van't Hof expects that ESG disclosures will be part of normal reporting, along with income statements and cash flow reports. But that's not without its headaches, especially as so many ratings agencies have popped up with a blizzard of data—sometimes dozens or even hundreds of metrics—that apply to the energy sector in differing ways.

"There's not a mutual respect from the other side," he said. In the case of one vendor, Van't Hof said he's set up calls, with someone in Romania answering on the other end. They "don't know who Diamondback is and don't know who Viper is.

"And I try to explain to them that we've added all of these things to our sustainability report, and we're not getting credit for it in the ratings, but they say, 'Okay, we'll get to it, you know, six months from now.'

"So it's unfortunate that we're held at a higher standard in the oil and gas sector that is not being met by the ESG rating agencies."

Falcon Minerals has focused on governance issues. The company has kept a close eye on executive compensation. Herz noted he's personally been involved in activist campaigns that led to the departure of EQT Inc.'s CEO as well as changes at Energen Corp. that led to its sale to Diamondback Energy Inc.

"I happen to be a big believer in the importance of shareholder alignment and ensuring that management is doing what is in the best interest of the owners," he said. "You should actually be required to do a good job [with] metrics that are predetermined that you have to hit to be able to be paid or be paid reasonably well."

Roosa said his view is that ESG is an opportunity for Brigham Minerals. The company is actively working to create a sustainability report.

But Brigham's mineral footprint offers its own advantages, aside from core geology and active operators.

"Those well-capitalized operators have naturally lent themselves to high ESG scores in terms of environmental [measures]," Roosa said. "So, when I think about our operators, Oxy, Chevron, Ovintiv, Pioneer, Diamondback—that group is scoring well already. So, we can point to those operators developing our position for us."

"Those well-capitalized operators have naturally lent themselves to high ESG scores in terms of environmental [measures]."

—ROB ROOSA
Brigham Minerals Inc.

M&A

The 2021 transactions market has already seen some flourishes, with large-scale mergers and asset deals.

Van't Hof said 2020 was the year of the big corporate merger. He sees 2021 as "the year of small A&D."

"With the rise in commodity prices, anybody that didn't get an opportunity to sell in 2020 … is now going to hit the accelerator and hit the exit," he said.

Logically, he said, mineral buyers and sellers should be thinking more optimistically in the current market.

"I'm looking forward to it. It's fun to be more active and, the more we can put Q2 of 2020 behind us, the better."

Roosa said that since the New Year, the deal environment has taken on a different shape, carried by the tailwinds of rising crude prices and a rig count that is up roughly 30%.

Since July of 2020, Brigham has been actively executing its ground game, working on hitting deals that are solid "singles and doubles" similar to the 50-acre deals the company has built upon since 2012.

"We had a very active third quarter in terms of ground game acquisitions," he said. "We deployed about $21 million of capital and … in similar amounts in the fourth quarter and have been very active in the first quarter as well."

Roughly half of the company's 42-member team is part of the deal evaluation process.

"We've structured the team such that … we can process the ground game acquisitions, as well as the much larger transactions," he said. "We're constantly evaluating, talking to other folks about larger transformative transactions."

A key principle for Brigham Minerals' A&D has been in its focused process that is consistently well underwritten and accretive on a net asset value basis.

"You've got to hit all those benchmarks. It's high hurdles to cross," he said. "So the first deal that we take out from marketplace and announce, we want to make sure it checks all those boxes."

Black Stone Minerals has seen a narrowing of the bid-ask spread that's made the deal market functional again. Wood said the company is paying down debt and given itself a balance sheet capable of taking advantage of acquisition opportunities.

Last year, "as we looked at acquisition opportunities, we weren't willing to lever up," he said. "And then frankly, you had a seller community that had bought [assets] in a very different price and activity environment," he said.

The gap between buyer and seller expectations was difficult to overcome.

"It was just a slow year. Things are coming around and sellers that have been sitting on these assets—prices are up a little bit—so they're becoming a little bit more optimistic."

Equity prices have also improved Black Stone Minerals' balance sheet, which has less than 0.5x leverage.

"You have to be very encouraged about the state of the M&A market going forward. It's nice to look forward to playing a little offense after, frankly, a year of defense."

—JEFF WOOD
Black Stone Minerals LP

Stone Hill Minerals is a privately-owned company that buys oil and gas mineral and royalty interests in oil and gas basins across the US with a focus on the Appalachian, Permian and DJ basins. Stone Hill, through its affiliates Stone Hill Minerals Holdings, LLC, SH Permian Minerals, LLC and Stone Hill Exploration and Production, LLC, owns and actively manages more than 100,000 net acres in seven states and has completed hundreds of mineral and royalty deals since the company was founded. Stone Hill is interested in deals of any size, whether producing or non-producing.

Please contact us for more information.

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"We've got some ways to play with that," he said. "So, you have to be very encouraged about the state of the M&A market going forward. It's nice to look forward to playing a little offense after, frankly, a year of defense."

Kimbell Royalty's Ravnaas said its team has screened hundreds of potential deals since the company went public in 2017. Few deals get done, however, because Kimbell looks for acquisitions that are immediately accretive to NAV.

"We love looking at acquisitions. We've looked hard at maybe 500 deals since we went public, and we've closed 2% or 3% of them? So that's what I like to tell everybody out there, 'Please have some patience with us, we need to be a creative to get a deal.'"

"The beauty of the royalty model is that if you cut back on your distribution just a bit, you can get back into a leverage profile that's manageable very quickly."

—KAES VAN'T HOF
Viper Energy Partners LP

Herz said Falcon Minerals is encouraged by the asset potential available through private equity companies, which are estimated to have acquired about 60% of $15 billion in mineral rights. Falcon wants to expand and diversify as it seeks out the core of the core in the best basins.

"We're very much working on larger transactions," he said. "We trade at a discount to our peers, and we think that through a transformative transaction, we really could find a scenario where one plus one equals a lot more than two."

He added that with more deal activity on the ground and strategically, "I think it's going to be a surprise to the upside with respect to activity."

What investors want

Long-only investors appear to be returning to the mineral space, Van't Hof said.

But long-only investors were quick to leave the sector as energy prices crumbled, compared to hedge funds, which "can play both sides in an upcycle or downcycle."

Ultimately, what brings long-only investors back is money. Van't Hof said he's had several conversations at recent conferences and seen a dramatic uptick in interest. Mineral companies also offer less exposure to market volatility.

"I don't think the mineral companies ever had the issue of generating free cash flow and pay me back," he said. "But the big E&Ps did have that issue. And I think we've solved that problem … and that leads to consistent returns and return of capital to shareholders. That's what they're looking for in our industry because it's no longer the growth industry that we thought it was, seven, eight, nine years ago."

Since the beginning of the year, Roosa said he's seen a similar influx of interest from investors who Brigham Minerals hasn't spoken with before.

"It's quite a bit different environment that we saw really over the past … four months. We're so extremely encourage," he said.

The most pronounced area of separation for mineral companies may be how they pay shareholders.

"We've tried to be a little less variable in our distribution, which at times can result in higher coverage, lower payout ratios," he said. Large investors and endowments appreciated the additional layer of stability from hedging.

"Because we don't do 100% payout, I think it deters … more hedge fund activity that wants to see that [high] level of volatility that we try to protect against," Wood said. "We try to be very responsive to what we're hearing from our major shareholders. And frankly, it's led to a lot of stickiness for us over the years."

How investors react to payout ratios may prove to be a key differentiator for mineral companies.

Last year, Kimbell Royalty reduced its payout ratio, which is currently 75% of its projected cash available for distribution. Ravnaas said the company will stay at that level for the foreseeable future, using the remaining 25% on debt reduction.

"We like our balance sheet, but we think it's smart whenever possible to pay down debt," he said. "That's sort of our make-it-simple position."

Herz disagreed, saying that his view is shareholders do a lot better with their money than energy executives. The company returns 90% of free cash flow and, if it's necessary to grow, will approach investors through an equity offering.

Wood said that maintaining an absolute policy on distributions may be difficult since capital markets have turned away from energy. In 2020, the company lowered its distribution to pay down debt.

"If capital markets were functioning like they were four years ago, I think payouts would be very different," he said.

Now, he said, the payout ratio should go up since the company has addressed its balance sheet.

But the capital markets remain a shaky partner.

"It's been very hard to rely on capital markets to think that it's going to fully fund your growth needs," he said, "because sometimes when you need them most is the time that they're just not there." ■

Redefining Mineral Management

Valor Mineral Management is new kind of energy-focused accounting firm driven by an integration of land, data and intelligent proprietary software solutions.

When Joseph DeWoody co-founded Valor, he did so to fill a niche in the oil and gas accounting industry he did not believe was being served by any other market participant. According to DeWoody, "I was managing multiple oil and gas investment partnerships when a family with significant oil and gas holdings asked me if I would manage their interests as well. As a partnership manager, I took a land-based approach to managing oil and gas interests. We were utilizing industry accounting software products, but I wanted a software platform which integrated accounting and land data, ideally with sophisticated mapping capabilities." Further, he observed professional services firms in the oil and gas asset management industry were specialized in either accounting or land services. "Again, with my background as a manager for investments partnerships, it was essential my team specialize in both accounting and land services, and that our accountants and landmen be able to work together hand in glove," said DeWoody. Finally, most accounting firms are not focused solely on oil and gas, but rather service multiple industries. This presented an opportunity to build an energy-focused oil and gas accounting firm with strong land capabilities.

JOSEPH DEWOODY, CEO

Accounting Integrated with Land

So, in 2018, seeing an opportunity to meet a unique need in the market, DeWoody assembled a team of seasoned industry professionals, secured investment capital from a number of prominent oil and gas families in Midland and Fort Worth, and created Valor, which distinguishes itself from other oil and gas accounting firms in its focus on integrating accounting and land services within its proprietary software platform.

DeWoody and his partners began by assembling Valor's team of professionals. The Valor team consists of

mineral.tech

seasoned Certified Public Accountants, revenue accountants, Certified Professional Landmen, Certified Trust and Fiduciary Advisors, division order analysts, attorneys, software programmers and executives. DeWoody leads the company as CEO.

They also created a proprietary oil and gas software called "mineral.tech™". The mineral.tech™ software is a map-based platform, which organizes accounting data, generates numerous reports, and stores documents so clients can easily access all of their relevant asset information. It helps clients avoid missing revenue, verify their ownership, and track production on their assets.

An Energy-Focused Firm

Since founding, they have been growing the Valor service offerings and expanding its client base. Valor provides full-service management of minerals and non-operated working interests. It also provides full back-office accounting and land services to oil and gas operators. Its clients include operators, institutions, investment funds, family offices, partnerships, trusts, non-profit organizations and individuals. From its headquarters in Fort Worth and its offices in Midland and Abilene, it manages over 80,000 oil and gas interests across 30 States.

The secret to Valor's success is its singular focus on serving energy clients and staffing the firm to best address the comprehensive needs of its client base. Valor's team is comprised of CPA's with public accounting backgrounds, career in-house landman and division order staff as well as project management experts. The team also includes a former Trust officer with career in banking and trust management.

Recently, Valor has begun working with other accounting firms and banks who lack the full service offerings that the company provides. Such an arrangement allows these institutions to continue to perform accounting services for their existing clients, but also offer the benefits of integrating a land and document management within the mineral.tech™ software platform. "We are happy to supplement the service offerings of other accounting firms and banks and we can be flexible and creative in structuring such arrangements," said DeWoody.

Software Innovation

"mineral.tech™ is the leading software solution in the market for owners of non-operated oil and gas assets. It allows our team to leverage their skills and expertise in a way that other accounting firms can't and provides an efficiency to our work that won't be found elsewhere", says DeWoody. The platform delivers the perfect marriage of accounting, reporting and land that allows clients to see a comprehensive view of their assets in real-time. It also integrates and works seamlessly with all other professional service providers and in-house teams so that Valor's clients can improve workflows and reduce overhead.

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Valor has successfully completed the System and Organization Controls (SOC) 1® Type I Audit examination. It received an Independent Service Auditor's Report with the opinion that Valor's policies, procedures and operations meet or exceed the rigorous SOC 1® Type 1 controls.

"Valor's mission is to bring peace of mind to its clients, and we do so by integrating accounting and land data and reporting in an innovative way so it is easier for owners to understand and make better, more timely decisions about their oil and gas assets," said DeWoody. ■

VALOR

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Preferred deal size: Any

PennMarc Resources LP
Chase Hill
General Partner
214-306-8741
chase@pennmarc.com
400 S. Record St., Ste. 850
Dallas, TX 75202
pennmarc.com
Focus: Appalachian Basin (PA, OH, WV)

Peregrine Energy Partners
Josh Prier
Managing Director
214-254-4769
josh@peregrinelp.com
5710 Lyndon B Johnson Fwy., Ste. 490
Dallas, TX 75240
peregrinelp.com
Focus: Nationwide
Preferred deal size: $2MM-$20MM

Perpetual Production LLC
Josh R. Camp
President & CEO
972-685-6016
Josh.Camp@perpetual-production.com
2527 Fairmount St.
Dallas, TX 75201
perpetual-production.com

Petroleo LLC
Perry Porterfield
Managing Partner, A&D
817-353-2070
perry@petroleo-llc.com
306 West 7th St., Ste. 702
Fort Worth, TX 76102
petroleo-llc.com
Focus: Delaware Basin
Preferred deal size: All

PHX Minerals Inc.
Ralph D'Amico CFO
405-948-1560
rdamico@phxmin.com
1601 NW Expressway, Ste. 1100
Oklahoma City, OK 73118
phxmin.com
Focus: Midcontinent, East Texas and Appalachia
Preferred deal size: $5MM+

Pillar Energy LLC
Casey Hunt
President
214-880-7110
chunt@petrohunt.com
210 Cedar Springs Rd., Ste. 600
Dallas, TX 75201
Focus: Minerals/Royalty; Non-op working interest

Pony Oil
John Paul Merritt
Founder, CEO
214-865-7575
jpm@ponyoil.com
3100 Monticello Ave., Ste. 500
Dallas, TX 75205
ponyoil.com
Focus: Denver-Julesburg, Midcontinent, Permian, Delaware, Eagle Ford, Powder River Basin
Preferred deal size: Up to $50MM

Prairie Mineral Co. LLC
Tom L. Scott
Principal
817-980-9697
tlscott@prairiemineral.com
777 Taylor St., Ste. 800
Fort Worth, TX 76102
prairiemineral.com

Providence Minerals LLC
Karen Herbst
Land Manager
214-522-9131
kherbst@providence-energy.com
16400 Dallas Parkway, Ste. 400
Dallas, TX 75248
providence-energy.com
Focus: Western Oklahoma, Permian, Powder River Basin
Preferred deal size: More than $10MM

Q-R

Rain Oil & Gas LP
Cas Atchison, CPL
Co-Founder/CEO
512-772-1226 x101
cas@rainoilandgas.com
3303 Northland Dr., Ste. 201
Austin, TX 78731
www.rainoilandgas.com
Focus: TX, western NM, Williston, eastern LA
Preferred deal size: All

Regions Energy LLC
Travis Newkumet
CEO
432-682-6700
travis@regionsenergyllc.com
310 West Wall St., Ste. 300
Midland, TX 79701
regionsenergyllc.com
Focus: Permian Basin
Preferred deal size: $1MM-$10MM

Rising Phoenix Royalties
Sal Fierro
Mineral Advisor
214-393-6486
minerals@rising-phoenix.com
4230 Avondale Ave.,
Dallas, TX 75218
risingphoenixroyalties.com
Focus: PDP-focused w/assets in Barnett, Haynesville, Denver-Julesburg, Marcellus & Eagle Ford
Preferred deal size: $50,000-$5MM

Rock River Minerals LP
Sam Beaufait
CFO
432-685-9005
SBeaufait@piedrallc.com
400 West Illinois Ave., Ste. 1070
Midland, TX 79701
rockriverminerals.com
Focus: Permian Basin

Royalty Clearinghouse
Marc Zimmerman
President, COO
512-458-4545
201 W. 5th St., Ste. 1350
Austin, TX 78701
royaltyclearinghouse.com

RRIG Energy
Jet Ellis
Acquisitions Manager
817-887-9371
contact@rrigenergy.com
105 Nursery Lane, Ste. 110
Fort Worth, TX 76114
rrigenergy.com

S

San Jacinto Minerals LLC
Tiffany A. Culp
VP Legal & Land
724-300-8063
tiffany.culp@threeriversroyalty.com
9055 E. Mineral Circle, Ste. 110
Centennial, CO 80112
sanjacintominerals.com
Focus: Marcellus-SW Appalachia, Delaware Basin, Denver-Julesburg, Eaglebine
Preferred deal size: All

San Saba Royalty Co. LLC
Carson Coon
Acquisitions/Landman
972-388-7346
ccoon@sansabaroyalty.com
4925 Greenville Ave., Ste. 500
Dallas, TX 75206
sansabaroyalty.com
Focus: TX, LA, NM
Preferred deal size: All

Saxet Petroleum Inc. Managing: Royalty Interests Partnership LP & RIP3 LP
Robert O'Brien
President
713-243-8400
robrien@saxetpetroleum.com
510 Bering Dr., Ste. 600
Houston, TX 77057
riplpsaxet.com
Focus: Permian, Williston, Anadarko
Preferred deal size: $20MM

Shale Mineral Group Inc.
Brian Davis
President
972-835-4100
bdavis@shalemg.com
580 Decker Dr., Ste. 130
Irving, TX 75062
shalemineralgroup.com
Focus: TX, OH, PA, WV

Shepherd Royalty LLC
Gary Redwine
Managing Member
214-234-0360
gredwine@shepherdroyalty.com
5949 Sherry Ln., Ste. 1175
Dallas, TX 75225
shepherdroyalty.com
Focus: Anadarko, Cana Woodford, SCOOP/STACK/Merge, Permian, Eagle Ford
Preferred deal size: $10,000-$10MM

Spindletop Oil & Gas
Chris Mazzini
972-644-2581
cmazzini@spindletopoil.com
One Spindletop Centre
12850 Spurling Rd., Ste. 200
Dallas, TX 75230
spindletopoil.com

Stone Hill Minerals Holdings LLC
Andrew Schmid
President
724-766-5775
info@stonehillminerals.com
P.O. Box 470426
Fort Worth, TX 76147
stonehillminerals.com
Focus: Appalachian, Permian, Denver-Julesburg
Preferred deal size: All

Swallowtail Royalties
Lysle A. Witter
EVP Business Development
972-427-1751
l.witter@swallowtailroyalties.com
7750 N. MacArthur Blvd., Ste. 120-370
Irving, TX 75063
swallowtailroyalties.com
Focus: Midland Basin
Preferred deal size: $1MM-$100MM

T-U

Texas Royalty Corp.
Tom Schoonover
CEO, President
512-306-1717
tom@texasroyalty.com
500 N. Capital of Texas Hwy., Bldg. 4-200
Austin, TX 78746
texasroyalty.com
Focus: Austin Chalk, Permian, Delaware Basin, East Texas conventional
Preferred deal size: Up to $25MM

Three Rivers Royalty
Tiffany A. Culp
VP Legal & Land
724-300-8063
tiffany.culp@threeriversroyalty.com
100 Adios Drive, Ste. 1110
Washington, PA 15301
threeriversroyalty.com
Focus: Marcellus-SW Appalachia
Preferred deal size: All

Tower Rock Oil & Gas
Brandon M. Guidry
Vice President, Business Development
737-255-7906
bguidry@towerrockog.com
P.O. Box 5746
Austin, TX 78763
towerrockoilandgas.com

Upstream Energy Capital LLC
Brandon Balagna-Toal
President
brandon_balagna_toal@yahoo.com
P.O. Box 1268
Littleton, CO 80160
720-273-7841
Focus: Permian, Appalachia
Preferred deal size: Up to $1MM

V

Venable Royalty Ltd.
Patrick R. Van Ooteghem
Chief Acquisitions Officer
888-777-5028
patrick@venableroyalty.com
5910 N. Central Expressway, Ste. 1470
Dallas, TX 75206
venableroyalty.com
Focus: Marcellus, Eagle Ford, Permian, Haynesville
Preferred deal size: $250,000-$5MM

Ventana Exploration and Production
Heather Powell
President
405-754-5010
hpowell@ventanaep.com
13832 Wireless Way
Oklahoma City, OK 73134
ventanaep.com
Focus: Onshore non-op and minerals

Vero Minerals LLC
David Vasquez
Managing Director
214-662-0431
david@verominerals.com
2500 E T.C. Jester Blvd., Ste. 280
Houston, TX 77008
verominerals.com
Focus: PDP, undeveloped unconventional
Preferred deal size: $3MM+

Viking Minerals
Ran Oliver, CEO
Court Roueche, COO
405-606-7424
ransome@vikingminerals.com
101 N. Robinson, Ste. 940
Oklahoma City, OK 73102
vikingminerals.com
Focus: Permian, Eagle Ford, Midcontinent, Haynesville
Preferred deal size: $1MM+

THE

PERMIAN BASIN

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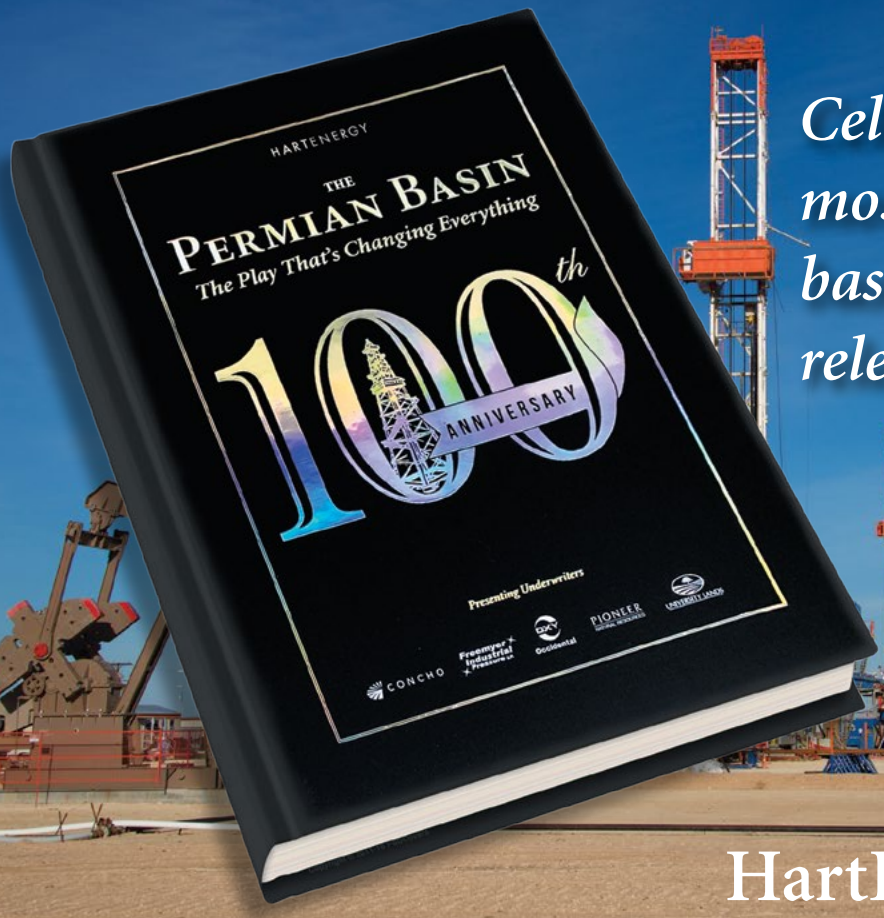

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W-Z

West Bend Energy Partners
Charlie Scherer
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charlie@basenergyholdings.com
P.O. Box 472087
Fort Worth, TX 76147
westbendenergy.com
Focus: Permian

Windswept Royalties LLC
Jesse Baldwin Kimball
Managing Member
214-267-1104
kimballj@windsweptenergy.com
3838 Oak Lawn Ave., Ste. 1414
Dallas, TX 75219
windsweptroyalties.com
Focus: OK, TX, PA
Preferred deal size: $50,000-$30MM

Wing Resources LLC
Nick Varel
Presidet & CEO
214-389-1060
info@wingoilandgas.com
2100 McKinney Ave., Ste. 1540
Dallas, TX 75201
wingoilandgas.com
Focus: Permian
Preferred deal size: Any

Wolf Resources LLC
Kevin Conners
Manager
kconners@wolfresourcesllc.com
719-351-4414
621 17th St., Ste. 1601
Denver, CO 80293
wolfresourcesllc.com
Focus: Denver-Julesburg, Powder River, Bakken

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