

VNOM Earnings Call Transcript

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Quarter: 3

Operator: Good day, and thank you for standing by. Welcome to the Viper Energy Third Quarter 2025 Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Chip Seale, Investor Relations Director. Please go ahead.

Chip Seale: Thank you, Amber. Good morning, and welcome to Viper Energy's Third Quarter 2025 Conference Call. During our call today, we will reference an updated investor presentation which can be found on Viper's website. Representing Viper today are Kaes Van't Hof, CEO; and Austen Gilfillian, President. During this conference call, the participants may make certain forward-looking statements relating to the company's financial condition, results of operations, plans, objectives, future performance and businesses. We caution you that actual results could differ materially from those that are indicated in these forward-looking statements due to a variety of factors. Information concerning these factors can be found in the company's filings with the SEC. In addition, we will make reference to certain non-GAAP measures. The reconciliations with the appropriate GAAP measures can be found in our earnings release issued yesterday afternoon. I will now turn the call over to Kaes.

Kaes Van't Hof: Thank you, Chip. Welcome, everyone, and thank you for listening to Viper Energy's Third Quarter 2025 Conference Call. During the third quarter, Viper continued to execute on our growth strategy, bolstered by the closing of the Sitio acquisition and continued organic growth. Our fourth quarter 2025 oil production guidance implies a roughly 20% increase in oil production per share compared to the same quarter last year. Looking ahead to next year, 2026, we continue to anticipate mid-single-digit organic oil production growth from fourth quarter 2025 estimated production. This implies double-digit year-over-year growth in oil production per share relative to 2025. Viper also showcased our differentiated return of capital profile in the third quarter. Because of our high operating and free cash flow margins, strong balance sheet and recent signing of our non-Permian asset sale, we felt it appropriate to lean into our return of capital commitment and returned 85% of cash available for distribution in the third quarter to stockholders. As a result, Viper is delivering on multiple strategic capital allocation fronts this quarter. Our combined base plus variable dividend represents a greater than 6% annualized yield and an increase of almost 10% relative to our dividend from last quarter. This dividend increase is combined with over \$90 million of share repurchases completed during the quarter and an incremental \$60 million being retained to the balance sheet. In total, third quarter return of capital per Class A share represents a 48% increase versus the second quarter. Looking ahead, as we move to close our non-Permian asset sale, and as a result, move closer to our long-term net debt target of \$1.5 billion, we will have line of sight to return nearly 100% of cash available for distribution to stockholders. We continue -- expect to continue to allocate the majority of our cash for distribution to our base plus variable dividend, but feel compelled to buy back shares in today's market given the current market dislocation and unique opportunity to invest countercyclically by increasing our ownership in our high -- existing high-quality mineral royalty assets. Importantly, the share repurchases done today will further enhance our growth in per share metrics and allow us to distribute more through our base plus variable dividend over the long term. On the operational front, we continue to see strong activity levels across our asset base, and as a result, continue to expect mid-single-digit organic growth in 2026 despite the commodity price volatility we have seen over the past several quarters. Following

the closing of the Sitio acquisition, Viper is positioned to benefit from a best of both worlds situation. Viper continues to own concentrated interests under Diamondback's core Midland Basin development, which is expected to drive meaningful long-term oil production growth. In addition, Viper now has broad exposure to leading third-party operators across both the Midland and Delaware basins. And our current acreage position has consistently captured almost half of all third-party activity in the Permian. Beyond this, the 25,000 existing horizontal wells in the Permian Basin in which Viper owns an interest provides an invaluable information advantage. In conclusion, we continue to believe that Viper presents a differentiated investment opportunity within the broader energy space. Viper's unmatched ability to deliver sustained per share growth with 0 capital and limited operating costs should result in a differential ability to return increasing amounts of capital to stockholders over the long term. Additionally, given our extremely low breakeven, our business model should provide a more consistent cash flow returns profile during times of overall market volatility. Operator, please open the line for questions.

Operator: [Operator Instructions] Our first question comes from Neal Dingmann of William and Blair.

Neal Dingmann: Great free cash flow story, obviously. My first question, just turning to -- given the nearly \$700 million asset sale and what should be probably even over \$1.5 billion of free cash flow next year, could you speak to sort of near term and '26 at capital allocation? I mean as I see it, I mean it seems like you'll not only quickly repay that debt, but you could bump distributions up materially and potentially do some buybacks. Would love to hear how you're thinking of it.

Kaes Van't Hof: Yes, Neal, I feel like we got a great number on that asset sale, and we debated internally if we should wait or execute on the sale. We decided to execute. And the reason being -- you recall, last quarter, we came out and said when Viper gets to \$1.5 billion of net debt, we're going to return 100% of free cash back to shareholders. And with this asset sale proceeds coming in, we feel like we have line of sight to that goal. And so therefore, we're going to lean in ahead of that by adding some repurchases to our story, just given how much the market dislocation has widened between Viper and where it should trade. So high level, I think by the beginning of the year next year, we'll be ready to consistently return almost 100% of free cash to shareholders, but we're not going to stop now. We're going to be a little aggressive as we head into year-end with the buybacks, plus a significant continued cash distribution story.

Neal Dingmann: And that kind of leads to my second question. Is that predicated, I guess -- or maybe asked another way, could you just speak to how activity outside of Diamondback is trending? It seems like judging by last quarter, things still appear very active, even more active than what we're seeing from some of these operators out there, but really just want to confirm that's still the case?

Kaes Van't Hof: Yes, I think it's really strong. I'll let Austen give some more detail, but this is the first quarter we're looking at a combined Viper and Sitio together, and we think that gives us a broad exposure to a lot of the Permian.

Austen Gilfillian: Yes, I mean, we put some new details in the deck, Page 11 being one of those. And what this really does is go back to the beginning of 2023, and it looks at all of the wells drilled across the Permian Basin excluding Diamondback and what percentage of those -- Viper's current asset base would have an interest in. And what you'll see is that we've just captured almost half of all activity across the basin over this time period with a pretty consistent average NRI at around 1.5%. So it will trend up and down kind of with activity a bit. But I really think it speaks to the quality of the acreage and the operators that we have outside of Diamondback deploying consistent capital to this position. That gives us a lot of confidence to the forecast in 2026 and really even beyond that.

Operator: Our next question comes from Betty Jiang of Barclays.

Wei Jiang: I wanted to ask about the third-party activity. Also, just on the -- the backlog has continued to increase. But even -- I want to understand how much of that increase is driven by the Sitio contribution? And how much is seeing a broader constructive uplift that you're seeing across from the legacy assets from other operators across the Permian?

Austen Gilfillian: Yes, Betty, I would say it's pretty evenly mixed. I think being a couple of months in post Sitio closing, that asset base has outperformed the underwriting assumptions. But really, legacy Viper's third-party operating position has continued to outperform as well, mainly as a result of some of the higher NRIs, and you can kind of see that showing up on Slide 11, as I mentioned. So as we look at it

today, right, we don't have full visibility into what will happen for the full year 2026, especially in the back half of the year. And we'll continue to monitor new activity as it shows up and the conversion of those permits and those wells that have been spud. But I would say, generally, we're extremely pleased with the third-party exposure and especially the complement that, that provides to the concentrated exposure through the Diamondback drill bit.

Wei Jiang: Yes. Those are really encouraging signs to see. My second question is on AI. It strikes me that the royalty model is ideally positioned to benefit from AI integration. And thinking about the impact of predictive nature of future activity, maybe the organization, can you just speak to how you see the tools that are available today could potentially impact your operations and M&A;?

Kaes Van't Hof: Yes, Betty, I mean, I would say generally, you're correct, right? There's a lot of data flowing through the mineral business. There's a lot of data on 35,000 wells throughout the Permian that can be utilized for a lot of things, right? We can use that data to make operational changes to buy more minerals in areas where something is emerging. But I think in the near term, some of the benefits of AI and automation and machine learning is really to make our business more efficient on the back end, right? Tracking 35,000 wells every month is not -- should not be a manual process. And so we're working to move everything from manual to automated. And then beyond that, it's about finding a way to utilize all this data effectively and efficiently and even potentially monetize it. Should we not see that it provides us a differential advantage, I think it can provide a lot of data to the market. But for now, we're going to keep it all internal and I think focus on some of the automation, and that's actually one of the synergies that the Sitio team brought to the table that we hadn't developed ourselves at Viper. So with all these deals, we end up learning something. And I'd say the biggest thing from the Sitio team has been big data and automation.

Operator: Our next question comes from Neil Mehta of Goldman Sachs and company.

Neil Mehta: Yes. Just -- congrats on some of these non-Permian divestitures. And it's good to see the business kind of core up around the Permian again. As we think about the cash that's coming in, Kaes, are there any considerations we should be mindful of in terms of the number that's coming in? Are there any offsets, whether it's taxes or anything else around these inflows?

Kaes Van't Hof: Yes, we kind of highlighted that there would be a little bit of a tax hit. So I think our net proceeds will be about \$610 million. There will be some reduction between effective date and close date. But all in all, I think generally, the proceeds are going to pay down essentially the revolver to 0 as well as almost pay our term loan down to essentially 0. And that would put essentially a balance sheet I define as an almost perfect position with 1 5-year note, 1 10-year note that we executed over the summer, leaving us a lot of optionality and flexibility to buy little deals, but also return a lot of cash to shareholders.

Neil Mehta: Yes. And Kaes, can you talk about the A&D; market? That's been kind of a hallmark of the broader Diamondback complex is finding those bolt-on opportunities. We think, especially given the softer commodity price environment, that's going to -- does that make it easier or harder to get deals done here over the next 6 to 12 months?

Kaes Van't Hof: Yes. Traditionally, it makes mineral deals harder to get done. It's -- you see a lot more upstream deals lower in the cycle than minerals just because of the 0 CapEx nature of minerals. So I think we're probably on a bit of a pause at Viper for now and waiting for what we see is still a significant opportunity set to come our way in the coming years. But Austen, anything else you want to add?

Austen Gilfillian: Yes. I think that's certainly the case on the larger, more strategic acquisitions. We've tried to position ourselves to be the consolidator of choice on the \$1 billion-plus type opportunities. And it's tough to see those transacting with where commodity prices are today. I would say it's a little bit different on kind of the smaller ground game-type acquisitions. We've had some success in some of those owners might see the royalty checks go down and see that as an opportunity to liquidate it. But that's tougher to scale today relative to the size of the enterprise value at least. So part of our thinking additionally is with the buyback, that's an effective way to buy really high-quality assets that we know and that [have grown] the assets today. So it's kind of a combined strategy of how to deploy capital for us today.

Operator: Our next question comes from Kalei Akamine of Bank of America.

Kaleinoheaokealaula Akamine: Kaes, in your opening remarks, you called out that Viper has been

exposed to about half of all third-party activity in the Permian Basin over the last 3 years. In the basin this year, there has been a reduction in activity because of oil price uncertainty. The market expects maybe 0 oil growth in the Permian Basin next year, yet your Permian volumes continue to grow. That's a favorable dynamic. How long do you expect that it can continue?

Kaes Van't Hof: Yes. I mean, I think the advantaged nature of the Diamondback-Viper relationship probably drives that growth for at least the next couple of years, if not longer. I think we have somewhere between a 5% and 7% interest expected in all of Diamondback's wells on average for the next 5 years. So that's a pretty unique position to be in. And I think that, combined with -- in our remarks, we kind of highlighted that, that, combined with the broad exposure, otherwise puts us in a pretty good spot here for the next few years.

Kaleinoheaokealaula Akamine: I appreciate that. For my next question, one question that we get from investors considers the valuation of Viper. It's the best risk-adjusted return in the Permian, in our view. Another way to look at it is that VNOM shares are trading with great value today. So my question is, would you ever consider using free cash at bank to purchase more interest in VNOM shares?

Kaes Van't Hof: Yes, it's certainly on the table. I think Diamondback has some strategic priorities that they need to continue to execute on, mainly reducing its share count as well. But we certainly are kind of trying to pound the table on VNOM's valuation. And also, I think as part of the rationale for the non-Permian asset sale getting executed so quickly is that we can lean in at the Viper level and reduce that Viper per share count. Because I think until the market wakes up to the free cash flow yield plus growth story, we're going to try to take advantage of it as a complex.

Operator: Our next question comes from Derrick Whitfield of Texas Capital.

Derrick Whitfield: For my first question, I wanted to start with your guidance regarding the soft guide for 2026. How are you thinking about the price sensitivity associated with that guidance from a Diamondback operating perspective?

Austen Gilfillian: Yes. So that really contemplates the base case of Diamondback's current activity levels, right, and really maintaining that more maintenance level through 2026. So to draw on their analogy being the yellow light scenario, that's kind of what's underwritten here. Things could flex up or down. I think the beauty of the relationship that Kaes was hitting on it earlier, to the extent that it flexes down, Diamondback will really be prioritizing the highest returning projects in the lower commodity price environment. So Viper tends to be insulated at least in gross reductions in Diamondback activity level and just kind of gives a higher percent exposure and a higher average NRI.

Derrick Whitfield: Got it. Makes sense. And then maybe just to build on an earlier question. With the benefit of more time with the Sitio team and their approach, could you guys elaborate on the synergy opportunity you see from a cash savings perspective on just implementing some of the AI processes? And then the opportunity it could generate from a ground game perspective?

Kaes Van't Hof: Yes. I would say, obviously, the employee aspect of the deal and those synergies have been realized, and we brought over some select high performers from Sitio that are helping us out today. Second to that, one of the big synergies was cost of capital savings on the debt, on both their debt and ours. And it's clear that Viper got upgraded to investment grade and was able to execute its first investment-grade deal in the quarter in July. And so that sets us up from a balance sheet perspective. And then I think on the automation side, there's certainly benefits to automating the processes that -- at Viper, I think over time, those same people that are working on automating those processes at Viper will then move to automate more at Diamondback. So it's kind of a synergy to the parent co as well. I can't tell you exactly what that number is going to be today, but I think a lot of our business is going to be moving towards less manual entry and more observing by exception versus doing things by hand. So I think a lot to come there. I think the whole industry is working to continue to automate, but you can expect us to be on our front foot. And then on the deal side, I think we -- being in Midland, we have pretty good access to all the deals. There's a saying out here that if a deal leaves Midland, I mean, it might not be a good deal. So we're on the front foot here in the mix, and we have a really good deal flow.

Operator: Our next question comes from Leo Mariani of ROTH.

Leo Mariani: I just wanted to clarify on the guidance here. I know it's a soft guide for '26. When you guys talk about mid-single-digit growth next year versus 4Q, I assume that's kind of unadjusted for the

pending asset sale. So clearly, as we strip those volumes out, then you kind of wouldn't quite hit that mid-single digit growth to be a little bit lower as kind of a pre-asset sale guide here?

Austen Gilfillian: Yes. I mean, it's either -- if you look at Q4 being pro forma, right, really, the way to look at it is you're going to have a couple of thousand barrels a day of growth on an absolute basis on the assets that we'll retain. So the Q4 guidance of 66,000 a day of oil at the midpoint, that includes about 5,000 a day of contributions to the non-Permian assets. So if you strip that out, that will be your go-forward starting point for 2026, and then you'll grow a couple of thousand barrels from there, which kind of gets you to that mid-single-digit level.

Leo Mariani: Okay. Appreciate that clarification. And obviously, you've got the asset sale done and you certainly spoke to returning a greater percentage of capital to shareholders. You clearly leaned into the buyback pretty heavily. But just trying to get a sense as that debt is paid off, as you kind of spoke to, it sounds like in the next handful of months, are your eyes also looking to maybe kind of accelerate the growth in the variable dividend component as well over the next few quarters? Is that something that investors should also be looking forward to?

Kaes Van't Hof: Yes. I mean, I think it's all price related, right? And the key point here on the buyback, which is, in our mind, our third priority return of capital behind the base dividend and the variable dividend, leaning into that buyback sends a pretty strong message that we think the stock is cheap. We do agree with a lot of our large shareholders, Diamondback being the largest, that we want a majority of the return of capital in the form of cash. But I think what's interesting about Viper with the debt position it's in, the balance sheet position it's in is that it can do both. And I think we would, at some point, tap the brakes on the buyback if the market wakes up to this story. But until then, we're going to keep reducing the share count.

Operator: Our next question comes from Tim Rezvan from KeyBanc Capital Markets.

Timothy Rezvan: I don't mean to beat the dead horse here, but the repurchase news was really notable. It was equal to your prior 2 biggest quarters combined. So is it safe to say this was more of kind of an extreme quarter given shares at the \$37, \$38 level? Or would you potentially look to go even bigger at the expense of the variable dividend if you thought the dislocation warranted that?

Kaes Van't Hof: Yes. I mean -- so I think it depends, right? But I think what's interesting about -- again, about Viper, here we are at \$60 oil, generating 92%, 93% margins. There's a lot of flexibility to do a lot of things with cash, right? I think if you put your E&P; hat on, you're restricted by how much capital you need to spend to maintain your production base. And here, other people are spending capital for you to maintain your production base. And so that frees up a lot of free cash to do different things with. I think if the market dislocates further, we can just -- we can lean in further without compromising free cash flow generation or the balance sheet. So it's truly -- in my mind, it should theoretically be a lower cost of capital business than where it's trading today.

Timothy Rezvan: Okay. Okay. I appreciate that response. And then on the topic of repurchases, there's been some market consternation perhaps overdue about these new holders that you have following the Sitio closing. And I believe there's 4, what people would call unnatural holders at about 13% of shares. Can you talk, Kaes, about any dialogue you've had with any of them? And how high that is on your sort of kind of maybe removing that overhang or sort of addressing that as they look to sell?

Kaes Van't Hof: Yes. We'll be prepared to address it should they make the decision to sell. But I'm talking to a lot of them with -- particularly with respect to the Sitio merger, they merged their stock into ours knowing that there's a lot of long-term upside to the combined business. So I can't comment on if they want to or not -- don't want to sell because that's their decision. But I will say we have the firepower to aid that if that ever happened. Just like any other shareholder, right? If there are any other large shareholders looking to sell here, we've got the firepower to buy those shares back.

Operator: Thank you. I am showing no further questions at this time. I would now like to turn it back to the CEO, Kaes Van't Hof, for closing remarks.

Kaes Van't Hof: Well, thanks, everybody, for participating today. And please reach out if you have any questions, and we'll talk to you in 1 quarter.

Operator: Thank you for your participation in today's conference. This does conclude the program, and you may now disconnect.