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2023

BISON INTERESTS

Vital Energy (VTLE)
Bison Investment Thesis

January 2023

Josh Young's screen

About Bison

Josh Young
Chief Investment Officer

Josh has built his career investing in publicly traded oil and gas securities, with over 15 years of relevant experience in investment management, private equity and management consulting. Josh co-founded Bison Interests in 2015 and became Chairman of the Board of portfolio company RMP Energy in 2017. After refreshing the board and management team and rebranding the company (Iron Bridge Resources), it was bought out at a 78% premium from its pre-deal price by Warburg Pincus and CPPIB backed Velvet Energy, in 2018.

Josh is the author of numerous articles on oil & gas investments and the guest speaker at various energy industry conferences. Josh is a well-known oil and gas expert and is often featured in media outlets such as the Wall Street Journal, Bloomberg, Al Jazeera, Barron's, Reuters, and others.

Awards & Highlights

Hedgeweek US Awards 2022

HEDGEWEEK US AWARDS 2022

Shortlisted for Best Equity Hedge Fund Under $500MM & Best Long Biased Equity Hedge Fund

Barron's

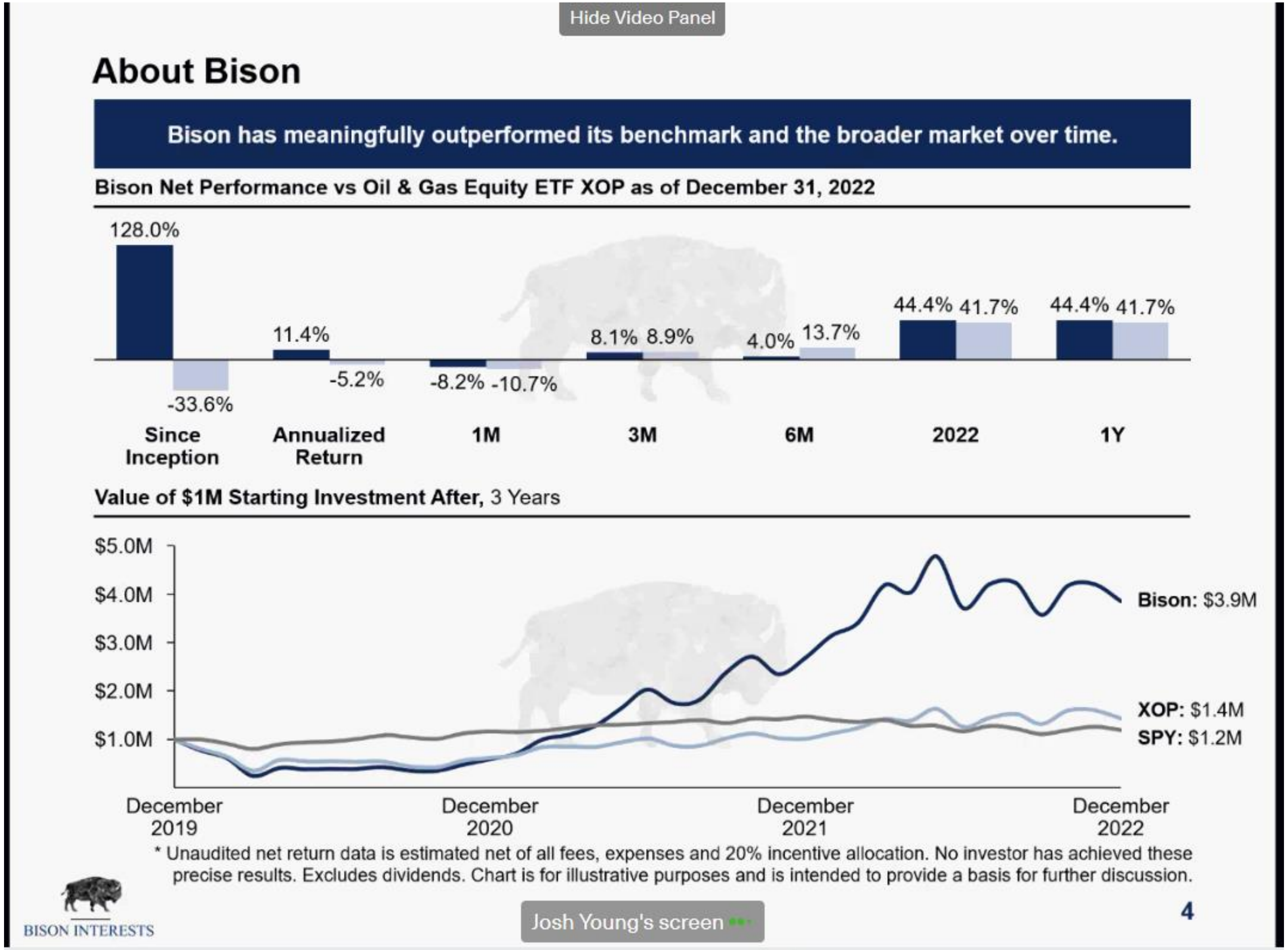
BARRON'S

Barron's interviewed Josh Young in a feature article following Bison Interests' outperformance in 2021

Hart Energy's 40 Under 40

FORTY UNDER 40

Josh Young was the only oil & gas public equity investment manager to receive this designation in 2022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About Bison
Bison has meaningfully outperformed its benchmark and the broader market over time.
Bison Net Performance vs Oil & Gas Equity ETF XOP as of December 31, 2022
128.0%
-33.6%
Since Inception
11.4%
-5.2%
Annualized Return
-8.2% -10.7%
1M
8.1% 8.9%
3M
4.0% 13.7%
6M
44.4% 41.7%
2022
44.4% 41.7%
1Y
Value of $1M Starting Investment After, 3 Years
$5.0M
$4.0M
$3.0M
$2.0M
$1.0M
December 2019
December 2020
December 2021
December 2022
Bison: $3.9M
XOP: $1.4M
SPY: $1.2M
* Unaudited net return data is estimated net of all fees, expenses and 20% incentive allocation. No investor has achieved these precise results. Excludes dividends. Chart is for illustrative purposes and is intended to provide a basis for further discussion.
BISON INTERESTS
Josh Young's screen
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Vital Overview

Vital Energy (NYSE: VTLE) is a ~75,000 Boe/d Permian focused E&P with rapidly improving prospects, trading at a compelling valuation.

Steep Valuation Discount	▪ Trades at a material discount to Permian-focused peers, both large cap and small cap. ▪ Trades at a significant discount to NAV → significant upside if shares were to trade up to NAV. ▪ Vital's discounted valuation offers downside protection, where shares may outperform over time even if oil prices stay flat.
Material Cash Flow	▪ Vital is generating significant cash flow as a % of it's market cap at current commodity prices, and with a portion of its production hedged. ▪ Vital's higher production costs imply significant FCF torque to rising oil prices. ▪ Vital's hedging program is rolling off in 2023, which may offer additional upside should commodity prices rise.
Improving Operations	▪ Vital has faced some operational headwinds in 2022, notably cost inflation and lower than expected production. This appears to have driven recent share underperformance. ▪ Well performance has improved and current production is now over the higher end of management guidance. Shares have not yet re-rated, offering a compelling opportunity.
Debt Paydown	▪ Vital is highly levered and actively repurchasing debt, with ~185MM of face value repurchased in 2022 as of Q3 and a target of $285MM at year end. This may unlock significant cash flow to buyback heavily discounted shares. ▪ Vital has reduced net debt per share by ~30% over the last 2 years, and decreased it's leverage ratio from ~2.0x to 1.25x over the same period.
Share Buybacks	▪ Vital has announced a $200MM share buyback plan on a ~ $850MM market cap. ▪ It is actively repurchasing shares, with ~ $37MM purchased YTD. ▪ At current oil prices, Vital could generate enough cash flow to buyback all outstanding shares in ~ 2 years.

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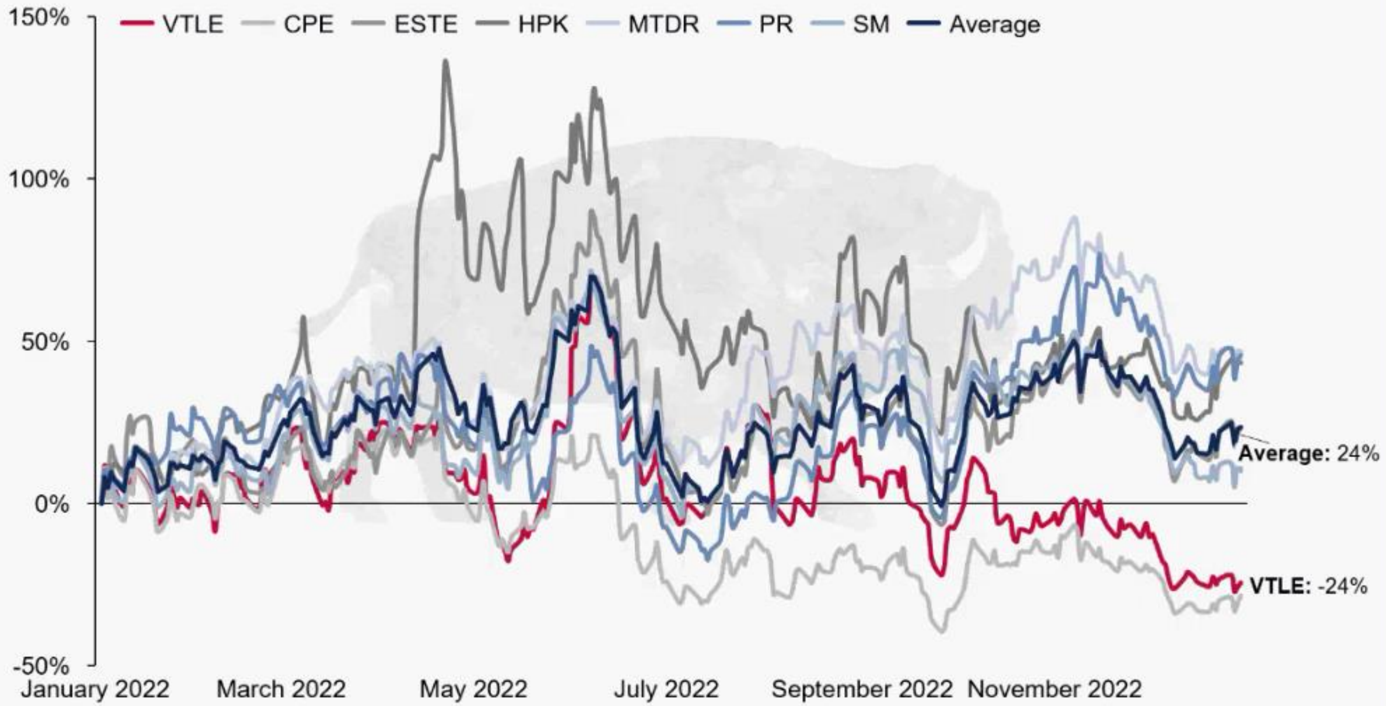
Vital's Shares Have Underperformed

VTLE has materially underperformed other small-cap, Permian focused peers.

VTLE Performance vs. Peers, FY 2022



Sources: Bison Interests analysis, Investing.com

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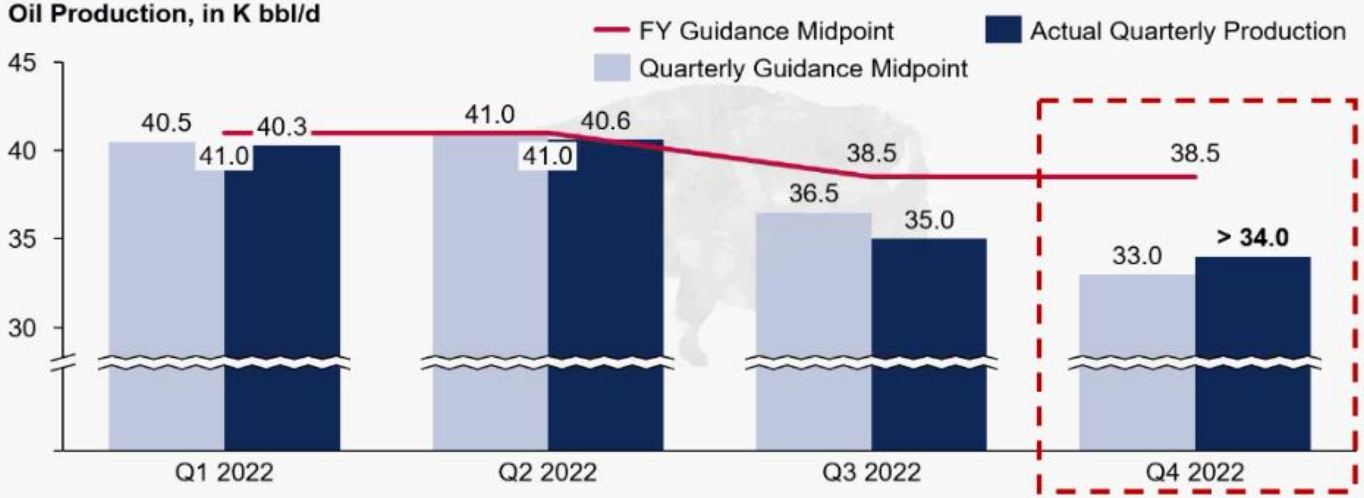
Why have Vital Shares Underperformed?

The most likely driver of Vital's underperformance is a series of production misses and subsequent lower production guidance.

- Management had originally forecasted 39.5-42.5k bbl/d of oil production in 2022. Due to operational headwinds in the North Howard County and unforeseen cost inflation, production has been consistently lower than guidance.
- This was the likely result of several recorded "frack hits". Afterwards, management was forced to lower FY production guidance and VTLE's underperformance gap to peers began to worsen.
- The situation has since improved with Vital having posted better well performance for Q4 2022. Despite producing more oil than the high end of management guidance in Q4 2022, Vital's shares aren't getting any credit.
- This presents an opportunity to invest in Vital ahead of broader market realization of operational improvements.

VTLE Quarterly & Full Year Oil Production Guidance vs. Actual Production, 2022



Sources: Bison Interests analysis, Company Reports & Presentations

*Q4 production value represent mid quarter management estimates.

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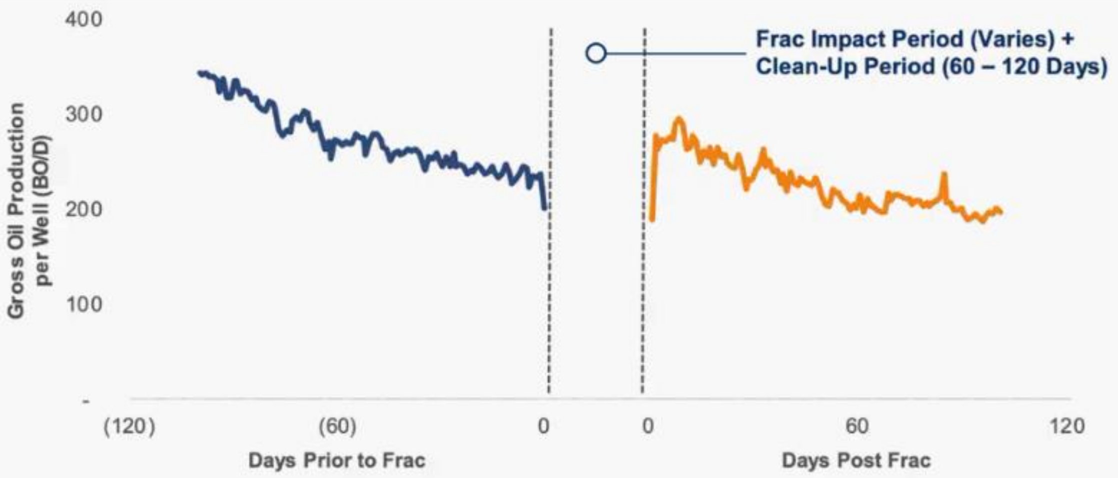
Why have Vital's Shares Underperformed?

Vital's Howard County wells have underperformed management and consensus expectations, driving lower than guidance production.

- Vital is a small company, and its production isn't diversified across several basins. Therefore, total production is more sensitive to individual well underperformance than peers.
- Howard county is attractive for drilling due to fast payback periods on wells, and Vital's Howard County acreage is more profitable than any of it's legacy wells.
- Howard County's attractiveness has resulted in competition from other producers, who are drilling wells near Vital's. Nearby fracking may have caused frack hits and lowered Vital's well performance vs. management expectations.
- As can be seen below, Vital's well performance has been volatile following the "frac period" for nearby producers.

Result of 34 Vital Operated Wells After Offset Completions in Howard County, 2019 — December 2022



Source: Vital December 2022 Investor Presentation

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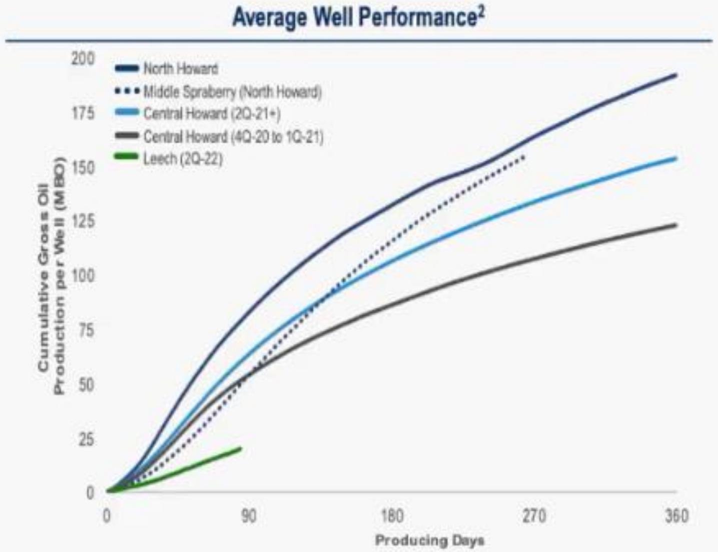
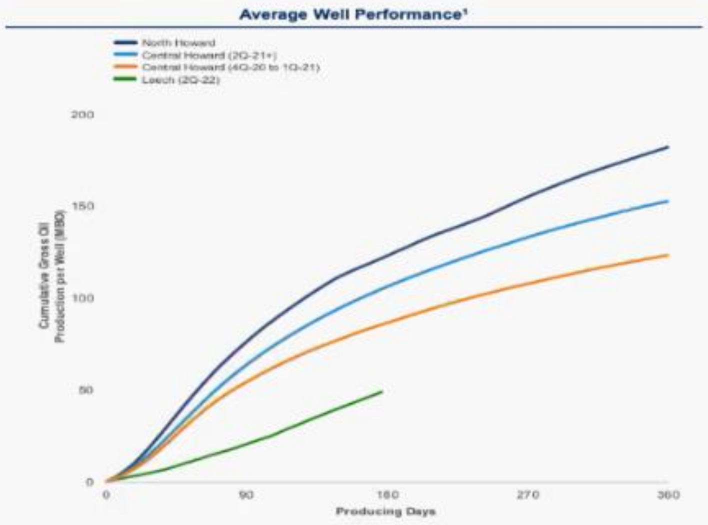
Well Performance is Improving

Despite earlier disappointments, current well performance is exceeding expectations.

- As new operators move in this area and well performance becomes easier to forecast, Vital management is less likely to overestimate production. This implies that Vital is more likely to hit management production targets moving forward.
- Vital's newer Howard county wells are more profitable than expectations, with payback periods of <1 year. This remains under appreciated as the market remains focused on previous production misses.
- Vital's Leech wells, which were originally a cause of concern, may be on track for much better performance. And with the more profitable Howard County areas located further away, Leech wells are least susceptible to well interactions.
- Well performance has been improving versus initial disappointments, as can be seen below:

Vital Average Well Performance for Select Wells, Q3 2022 — Q4 2022





Sources: Bison Interests analysis, Company Reports & Presentations

*Q4 production value represent mid quarter estimates.

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Material Upside Potential for Oil Equities

Oil equities have lagged other indices for some time now, despite rapidly improving fundamentals and higher oil prices.

- Oil equities have materially lagged both oil prices and the broader market—this offers compelling potential upside to "catch up" to broader market performance in a sustained bull market.
- Valuation multiples for oil and gas equities remain historically low compared to previous cycle highs, and there is additional potential upside if they re-rate. And regardless, strong cash flow generation and higher investor interest may drive prices higher.
- Small cap have been particular laggards, despite lower valuations and stronger fundamentals than their large cap counterparts. We find the opportunity to invest in these particularly compelling.
- If small caps were to only catch up to large cap peers it would imply material returns, without relying on multiple expansion.

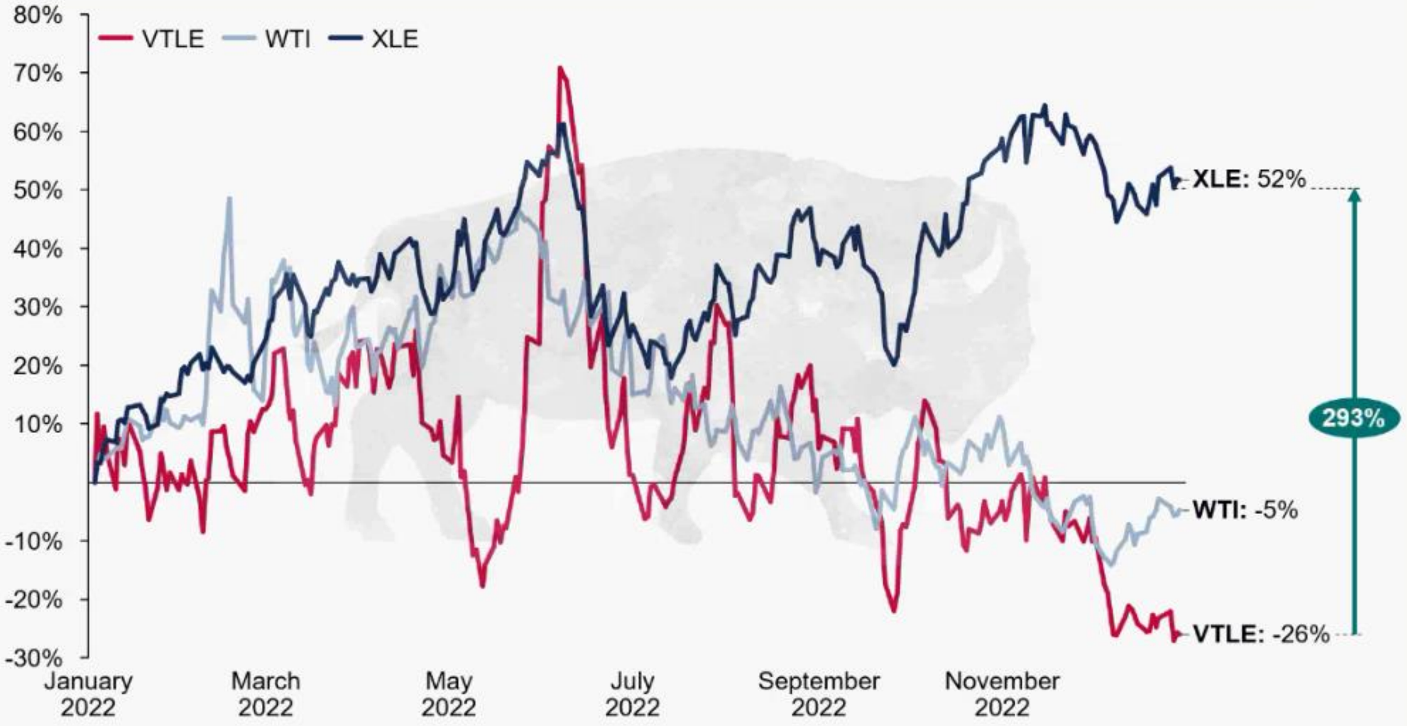
PSCE, SPY, XLE & WTI Absolute Performance, December 2012 – December 2022

Sources: Bison Interests analysis, Investing.com

Material Catch-Up Potential for VTLE

VTLE has underperformed both oil equities and the oil price in 2022, and there is potential for it to re-rate in line with peers as improving prospects become better understood.

VTLE, XLE & WTI Performance, FY 2022



Sources: Bison Interests analysis, Investing.com

*December 2022 values through 12/29.

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Small Cap Oil Equities are Undervalued

Small cap oil and gas equities are trading at a material discount to large cap peers, as indicated by various valuation metrics. VTLE's valuation stands out from that of peers.

Valuation Metrics for VTLE Peer Set, Q4 2022*

	Company	Oil Production Growth		EV/EBITDA		Net Debt/EBITDA		Hedge Adj. EV/FCF		FCF Yield		Capex/CF	
		2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
Large Cap	Peer 1	17%	5%	3.0x	4.5x	0.9x	1.2x	7.1x	15.4x	20%	9%	28%	56%
	Peer 2	31%	2%	3.9x	4.4x	0.5x	0.3x	6.9x	9.3x	17%	11%	34%	43%
	Peer 3	0%	5%	2.7x	3.0x	0.0x	(0.2x)	5.3x	5.7x	19%	17%	22%	32%
	Peer 4	9%	2%	4.7x	5.2x	0.8x	0.7x	7.4x	10.9x	16%	10%	27%	40%
	Peer 5	4%	4%	4.8x	5.1x	0.0x	(0.2x)	11.5x	11.4x	8%	8%	32%	43%
	Peer 6	0%	17%	4.6x	5.1x	1.1x	1.2x	8.0x	12.5x	16%	11%	29%	40%
	Peer 7	38%	4%	7.0x	7.7x	0.8x	0.8x	32.1x	36.8x	4%	3%	45%	69%
	Peer 8	(3%)	5%	3.8x	4.1x	0.9x	0.6x	5.5x	6.6x	24%	18%	26%	36%
	Peer 9	0%	1%	3.1x	2.1x	0.4x	0.0x	5.0x	3.5x	18%	29%	45%	35%
	Peer 10	4%	(2%)	3.8x	4.5x	0.8x	0.6x	6.7x	9.1x	22%	15%	20%	31%
	Peer 11	(9%)	2%	4.3x	5.8x	0.3x	0.5x	7.1x	13.4x	15%	8%	29%	41%
	Mean	**8%**	**4%**	**4.2x**	**4.7x**	**0.6x**	**0.5x**	**4.1x**	**4.7x**	**16%**	**13%**	**31%**	**42%**
Small Cap	Peer 12	121%	(1%)	2.7x	2.6x	(0.2x)	(0.3x)	3.5x	4.6x	26%	16%	25%	42%
	Peer 13	53%	2%	2.0x	2.2x	(0.1x)	(0.2x)	3.1x	5.6x	29%	15%	44%	52%
	Peer 14	(8%)	4%	2.4x	2.1x	1.1x	0.8x	6.8x	6.8x	26%	25%	61%	66%
	Peer 15	(6%)	4%	3.7x	3.0x	0.3x	0.0x	7.8x	5.3x	11%	14%	50%	52%
	Peer 16	(4%)	7%	7.0x	5.9x	(0.1x)	(0.2x)	23.2x	27.5x	3%	4%	65%	70%
	Peer 17	2%	0%	3.2x	2.8x	0.2x	0.0x	5.3x	5.9x	19%	18%	37%	37%
	Peer 18	17%	5%	3.2x	3.7x	(0.3x)	(0.5x)	5.2x	8.0x	18%	11%	33%	45%
	Peer 19	26%	17%	3.0x	3.0x	0.0x	(0.2x)	5.9x	8.4x	17%	11%	41%	51%
	Peer 20	31%	15%	4.1x	2.9x	1.6x	0.9x	8.9x	7.4x	17%	21%	44%	49%
	Peer 21	18%	7%	2.7x	2.5x	0.5x	0.3x	4.4x	5.4x	26%	18%	43%	49%
	Peer 22	120%	14%	5.1x	3.0x	1.5x	0.8x	11.1x	9.1x	13%	17%	54%	59%
	Peer 23	23%	15%	2.6x	2.1x	0.7x	0.5x	8.5x	10.2x	16%	12%	64%	78%
	Peer 24	(25%)	10%	2.7x	2.4x	0.5x	0.3x	5.1x	7.0x	21%	16%	48%	52%
	Peer 25	10%	9%	3.3x	3.6x	0.8x	0.7x	5.4x	9.0x	24%	14%	30%	46%
	Mean	**27%**	**8%**	**3.4x**	**3.0x**	**0.5x**	**0.2x**	**3.3x**	**2.9x**	**19%**	**15%**	**46%**	**53%**
	VTLE	**(19%)**	**14%**	**1.9x**	**1.5x**	**1.0x**	**0.7x**	**6.3x**	**5.4x**	**27%**	**35%**	**74%**	**68%**

Sources: Bison Interests analysis, Enverus, Atom Finance

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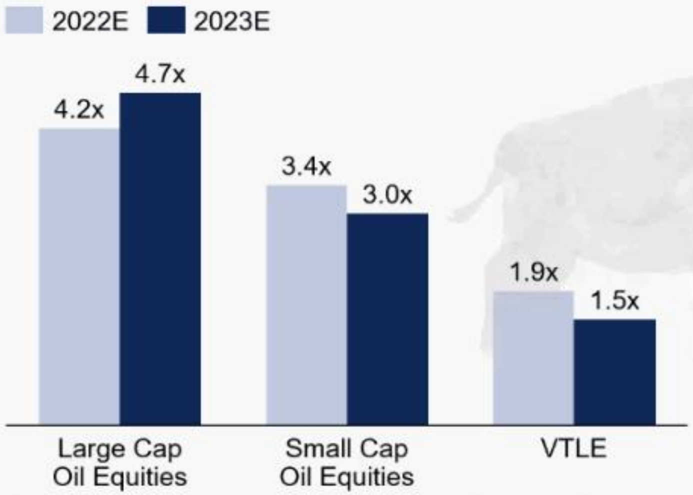
Small Cap Valuation Discrepancy → Compelling Opportunity

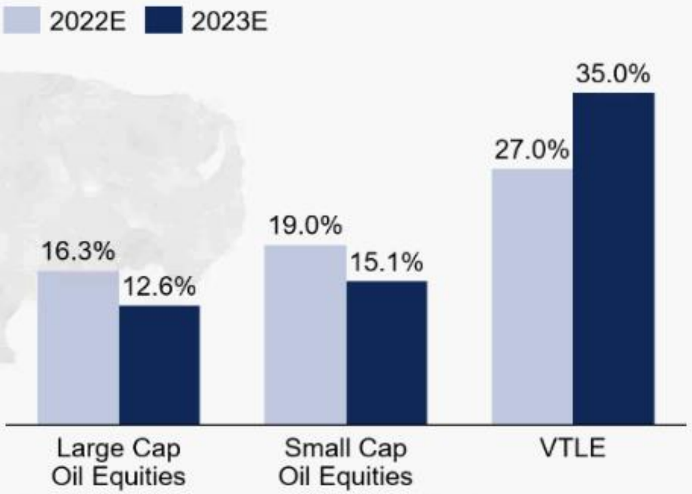
Of the small cap peer set, VTLE is the most discounted and offers significant upside.

- On a free cash flow basis, large cap equities command a slight premium to small caps, which is justified given large caps larger inventories, scale, and lower breakeven costs.
- VTLE's FCF yield is projected to increase materially in 2023 as it actively buys back shares and debt while increasing cash flow, while both large and small cap peers are projected to become more expensive.
- The steep discount between large and small cap equities is also reflected in EV/EBITDA differentials, which are projected to widen in 2023. VTLE is expected to trade 50% cheaper than small cap peers in 2023 on an EV/EBITDA basis, implying 100% upside if it were to trade up to peer averages.

Peer Set EV/EBITDA, 2022E – 2023E



Peer Set FCF Yield, 2022E – 2023E



Sources: Bison Interests analysis, Enverus, Company Reports, Atom Finance *Share prices as of Dec. 12. CLR share price is merger price of $74.28/share. Share prices are in USD except for WCP (CAD). NAV values are post-tax.

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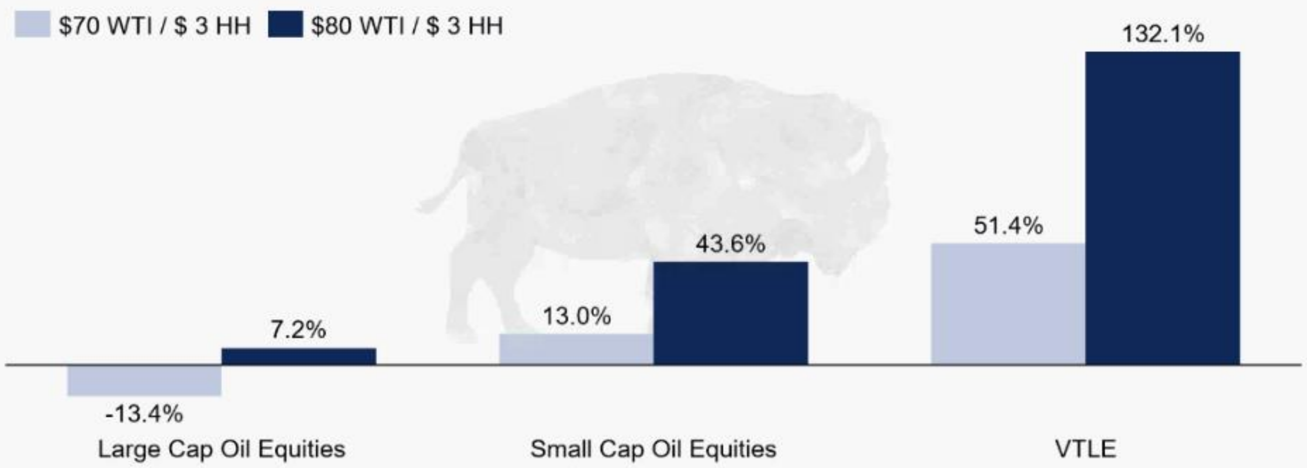
Discount to NAV → Potential Re-Rate

VTLE trades at a discount to cyclically cheap small cap peers, and offers upside if it were to trade up to NAV.

- The implied WTI prices embedded into small and large cap valuations at $63/bbl and $74/bbl, respectively, as per Enverus intelligence. Large caps may be trading closer to fair value at current WTI prices, while small caps may offer downside protection even if oil prices fall from here.
- Nearly all small cap equities in the peer set trade at a discount to NAV at $70/WTI and offer material upside to NAV at $80WTI, with VTLE leading the pack.
- Higher oil prices may galvanize a re-rate in these equities and discounts to NAV may narrow, implying significant returns for investors. And already wide discounts to NAV offer downside protection in a scenario where oil prices fall.

Implied Upside/Downside to NAV from Current Share Price at Different WTI Prices



Sources: Bison Interests analysis, Enverus, Atom Finance

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Vital's Stock is Inexpensive Vs. Permian Focused Peers

VTLE trades at a material discount to Permian focused peers, with ~72% upside if it were to trade up to the average peer set EV/EBITDA.

2022E EV/EBITDA for Permian E&P Peer Set

Valuation Metrics for Permian E&P Peer Set, Q4 2022*

		Capital Structure (in $MM)				EV/EBITDA		Net Debt/EBITDA		FCF Yield		Debt-Adjusted FCF Yield	
	Company	Share Price	EV	Market Cap	Net Debt	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
Large Cap	COP	115.31	150,248	150,248	143,709	4.1x	4.6x	0.2x	0.2x	15%	13%	14%	12%
	DVN	60.89	45,202	45,202	39,804	4.5x	4.3x	0.5x	0.5x	19%	16%	17%	14%
	EOG	127.40	74,710	74,710	74,898	5.0x	4.7x	(0.0x)	(0.0x)	11%	11%	11%	11%
	FANG	134.47	29,011	29,011	23,681	3.9x	3.8x	0.7x	0.7x	18%	34%	15%	28%
	PXD	224.39	56,702	56,702	53,310	4.4x	5.0x	0.3x	0.3x	15%	10%	14%	9%
	Mean		**71,175**	**71,175**	**67,080**	**4.4x**	**4.5x**	**0.3x**	**0.3x**	**16%**	**17%**	**14%**	**15%**
Small Cap	CPE	34.55	4,498	2,129	2,369	2.6x	2.5x	1.4x	1.3x	38%	38%	18%	18%
	ESTE	13.56	3,070	1,894	1,176	2.7x	2.2x	1.1x	0.8x	23%	18%	14%	11%
	HPK	22.55	3,086	2,559	527	5.5x	2.7x	0.9x	0.5x	-	-	-	-
	MTDR	55.30	7,326	6,533	793	3.4x	3.6x	0.4x	0.4x	17%	15%	15%	14%
	PR	8.93	7,253	4,995	2,258	2.8x	2.9x	0.9x	0.9x	23%	25%	16%	17%
	SM	33.25	5,157	4,084	1,073	2.6x	2.4x	0.6x	0.5x	29%	29%	23%	23%
	Mean		**5,065**	**3,699**	**1,366**	**3.3x**	**2.7x**	**0.9x**	**0.7x**	**23%**	**22%**	**17%**	**16%**
	VTLE	**49.55**	**1,964**	**833**	**1,131**	**2.2x**	**1.9x**	**1.2x**	**1.1x**	**37%**	**55%**	**16%**	**23%**

Sources: Bison Interests analysis, Atom Finance

*Share prices as of Dec. 28.

BISON INTERESTS

Josh Young's screen

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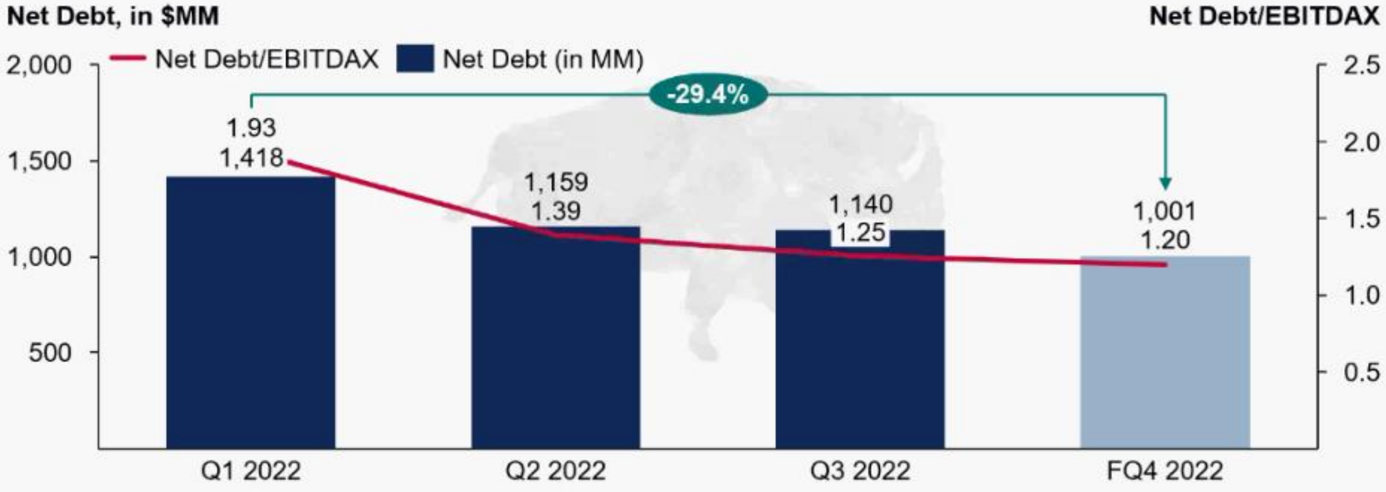
Invite Attendees Chat Reactions

Rapid Deleveraging May Unlock Significant Cash Flow

Vital has been using its cash flow to opportunistically buy back shares and pay down high interest debt.

- High interest debt repurchases unlock significant cash flow as the interest burden is reduced, while buying back shares at a steep discount to intrinsic value is highly accretive for the equity. Vital shares have not received credit for this.
- In 2022, Vital repurchased $285MM of various senior note tranches, with interest rates ranging from from 7.750% to 10.125%.
- Debt buybacks will reduce interest payments and unlock significant additional cash flow to buy back shares in 2023.
- Vital's liquidity has increased from $550MM to $955MM between February and December of this year, and we estimate it will have reduced net debt and leverage by by ~30% and ~40%, respectively, by the end of 2022.

VTLE Net Debt and Leverage Ratio, Q1 2022 — FQ4 2022*



Sources: Bison Interests analysis, Company Presentations

*Q4 Net debt estimate based on quarterly net debt reduction. Q4 Net Debt/EBITDAX multiple based on management estimates.

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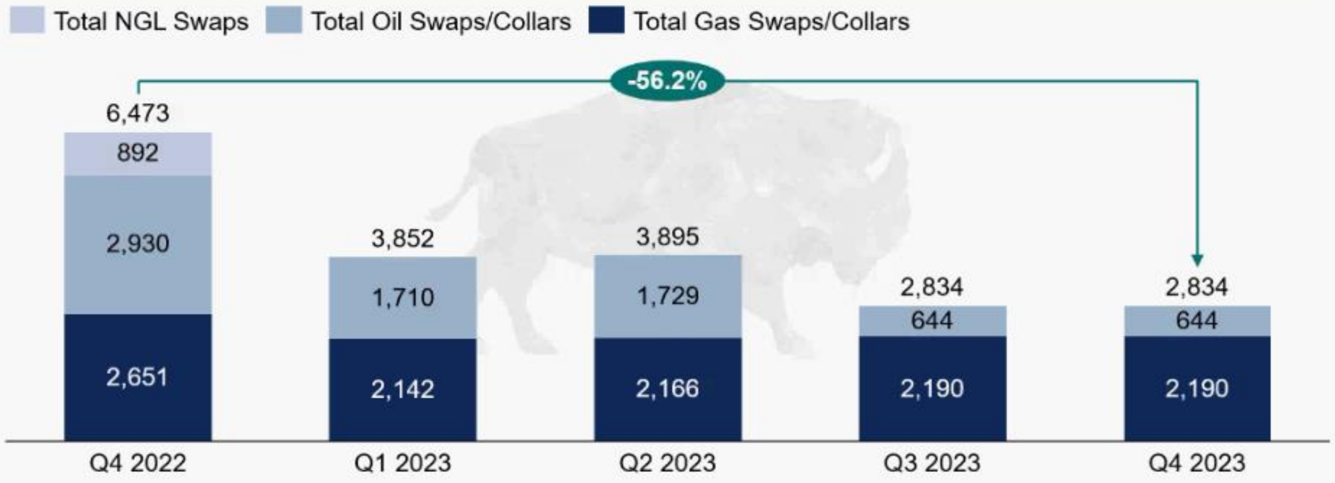
Hedges are Rolling Off and Offer Some Downside Protection

Vital's hedges are rolling off in 2023, which will allow it to capture higher market prices while continuing to offer downside protection.

Floor/Ceiling Prices for VTLE Hedges, Q4 2022 — Q4 2023

	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
WTI Oil	$72.65 – $86.54	$68.10 – $83.78	$68.10 – $83.78	$70.00 – $88.12	$70.00 – $88.12
Brent Oil	$56.65 – $65.44	-	-	-	-
Henry Hub Gas	$3.09 – $3.84	$4.14 – $8.43	$4.14 – $8.43	$4.14 – $8.43	$4.14 – $8.43
Waha Gas (Basis)	($0.36)	($1.65)	($1.65)	($1.65)	($1.65)

VTLE Production Volumes Hedged (in Mboe) , Q4 2022 — Q4 2023



Sources: Bison Interests analysis, Company Presentations

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Vital's Hedging May Boost Its Cashflow

Vital's lower priced oil hedges are rolling off, while it is seeing downside protection from significant gas hedges amid recent gas price volatility.

- A significant portion of Vital's oil hedges have rolled off in Q1 2023, with a total volume hedged of 1.7MM bbls vs. 2.9MM bbls hedged in the prior quarter.
- We estimate oil hedges had weighed down Vital's free cash flow by ~ $53MM in Q4 2022. With these significantly reduced Q1 2023, Vital's free cash flow could double absent a material change in oil prices.
- A significant portion of Vital's gas production remains hedged, with a volume of 2,173 Boe hedged in Q1 2023 vs. 2,689 Boe hedged in Q4 2022. Vital's cash flow has already benefitted materially from these hedges in place, with Henry Hub natural gas prices having nearly halved to an average ~ $3/MMBtu in Q1 2023 from ~ $6/MMBtu in Q4 2022.

VTLE Estimated Net Impact to Cash Flow of Oil & Gas Hedges (in $MM), Q4 2022 — Q4 2023

Sources: Bison Interests analysis, Aegis Hedging, Company Presentations, Investing.com

*Using reported hedges as of 11/02/2022. Does not account for NGL hedges. Q123 estimates based on pricing through 26/01/2023.

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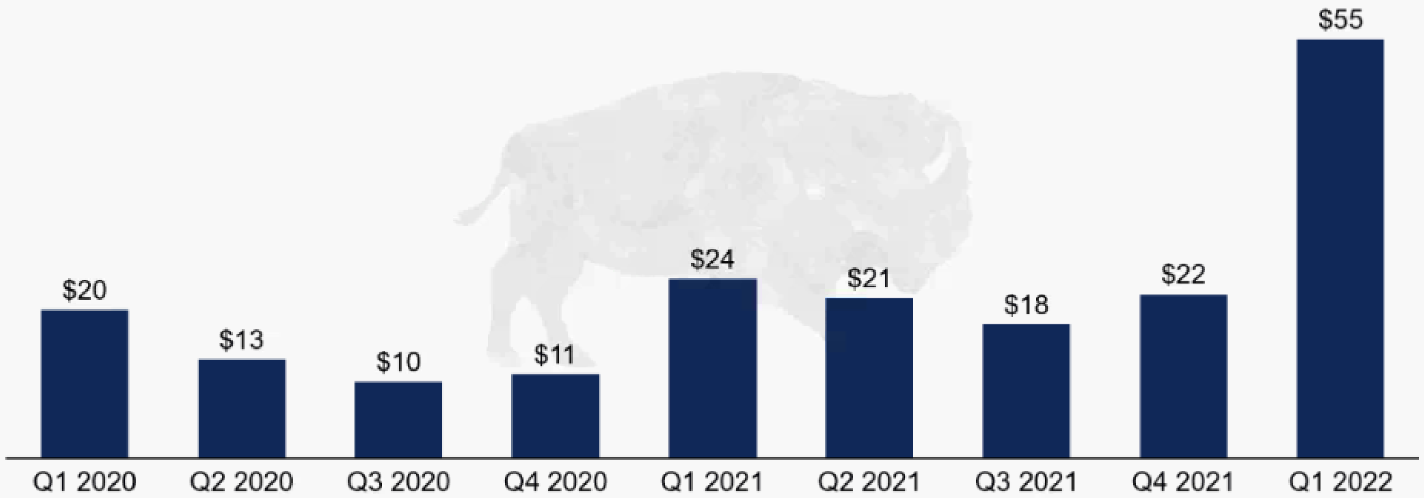
Vital Energy Cost Saving Initiatives

Despite higher inventory breakeven costs, VTLE management has actively taken on various cost saving initiatives, including a sand mine.

- Vital has a sand mine operated by a third party, which reduces well completion costs and and offers some inflation protection. With its on-site sand mine, Vital has successfully reduced well costs by $400K/well, and currently has 4 years of sand inventory.
- From a logistical perspective, the sand mine helps reduce truck traffic on the site and mitigates oilfield services related constraints that are causing production delays for other E&P's, such as shortages.
- The mine offers protection from rising services costs which have put pressure on other E&P margins, despite higher oil prices. Frac sand prices, which had more than doubled in the beginning of 2022 and make up an increasingly large proportion of well completion costs.

Frac Sand Prices in $/Ton, Q1 2020 — Q1 2022



Sources: Bison Interests analysis, Bloomberg, Lium

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For more information, questions, or inquires, please don't hesitate to reach out. And follow Bison Interests on social media for differentiated industry research updates.

Contact Info

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