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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Viper Energy Partners' Second Quarter 2019 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Adam Lawlis, Vice President of Investor Relations.

Adam T. Lawlis - *Viper Energy Partners LP - VP of IR of Viper Energy Partners GP LLC*

Thank you, Maze. Good morning, and welcome to Viper Energy Partners' Second Quarter 2019 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 Travis Stice, CEO; and Kaes Van't Hof, 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'll now turn the call over to Travis Stice.

Travis D. Stice - *Viper Energy Partners LP - CEO & Director of Viper Energy Partners GP LLC*

Thank you, Adam. Welcome, everyone, and thank you for listening to Viper Energy Partners' second quarter 2019 conference call. To begin, I want to highlight the unparalleled total return and value proposition Viper Energy Partners presents today. Not only versus our peers in the energy sector, but also versus the broader investment universe. First, Viper offers high margin growth with 0 capital expenditures required to achieve that growth. A combination, which leads directly to unmatched corporate returns and free cash flow. Viper has now in aggregate distributed over $6.50 per unit since our IPO. Our operators have significant inventory and undeveloped resource remaining on Viper's current asset base providing years of embedded organic growth at no additional capital cost to Viper.

Looking at traditional investment metrics, such as earnings growth, margins, return on capital, free cash flow yield and leverage, Viper transcends other potential investment vehicles in offering a strong combination of each. Second, I would like to narrow in on our second quarter results in the announced drop-down transaction from Diamondback. Both of which reinforce Viper's differentiated position in the mineral space and increase our high degree of confidence in generating continued per unit volume and distribution growth for many years at almost any commodity price.

Looking at our second quarter results, specifically, Viper experienced record levels of gross activity across our acreage position as represented by the nearly 200 wells that returned to production.

This activity speaks to the quality of Viper's premium acreage position in the Permian and is highlighted by 20% year-over-year production growth in the second quarter versus 2018.

It is important to note that Viper elects to take concentration risk in core areas of the Permian that enable long lateral development. We believe this concentrated acreage will continue to lead to outsized growth over time as it should be developed first in operators drilling plans.

Lastly, Viper announced yesterday it had entered into a definitive agreement to acquire certain mineral and royalty interests from Diamondback our sponsor through a drop-down transaction. This transaction will be immediately accretive to Viper on a cash flow per share, production per million units and net asset value per share.

Equally, as important, this acquisition adds substantial scale to Viper and increases total acreage operated by Diamondback at Viper by roughly 80% to more than 50% overall. This line of sight to future development on our acreage and alignment with our sponsor Diamondback only further distinguishes Viper's business model versus our peers.

In closing, I want to highlight that our business development operation continues to consolidate the fragmented private minerals market in the Permian. Having completed 74 transactions for a $127 million, during the first half of the year. Our focus on accretive acquisitions, combined with our best-in-class cost structure will enable continued distribution growth in the coming quarters with strong organic growth in the back half of 2019 to be driven by large high-interest pads completed by Diamondback in Spanish Trail, and the addition of a drop-down production in the fourth quarter.

To close, Viper continues to grow production reserves, acreage and net asset value on a per unit basis leading to high return on capital, and a growing distribution. Operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Welles Fitzpatrick of SunTrust.

Welles Westfeldt Fitzpatrick - *SunTrust Robinson Humphrey, Inc., Research Division - Analyst*

Congrats on the newly accretive drop-down. My first question is on cash taxes, does the drop-down push that forward to maybe early 21? And have you guys thought about extending the NOL agreement with Diamondback and if so whether any consideration would be given?

Travis D. Stice - *Viper Energy Partners LP - CEO & Director of Viper Energy Partners GP LLC*

Welles, we are a long way from that NOL agreement running out. I don't think the drop-down impacts it much. There is a significant amount of factors that go into that agreement and NOLs are calculated yearly based on production, oil price, the amount of acquisitions we do. There is a significant amount of items that go into that. So I don't think that's an issue we need to think about today. I think we have a lot of running room left to go. I think as you think about how Diamondback and Viper have worked symbiotically over the past 4, 5 years, we expect that relationship to continue and to do the right thing for both shareholders.

Welles Westfeldt Fitzpatrick - *SunTrust Robinson Humphrey, Inc., Research Division - Analyst*

Okay. Okay. Perfect now that makes sense. And then we have seen, I guess, a pretty mild slowdown, especially in the core areas on the rig count in the Permian. Can you talk to the mineral market now? Has it seen any softening from that slowdown or is it still pretty hot in the areas you guys are active?

Travis D. Stice - *Viper Energy Partners LP - CEO & Director of Viper Energy Partners GP LLC*

I guess I'd would say prices have softened a little bit. Mineral prices though are pretty sticky relative to oil price or activity levels. A mineral owner doesn't have to sell their minerals. So there is not a forced sale there. So they can be pretty sticky with their price expectations. For us, we just had to stay disciplined and we've had a lot of competition perk up over the last 4, 5 years. And I think we have a very defined strategy and that separates us from some of these peers that are either private or now becoming public.

Welles Westfeldt Fitzpatrick - *SunTrust Robinson Humphrey, Inc., Research Division - Analyst*

Okay. Perfect. And then just one last one, and this one seems extremely cut and dry. But I just want to clarify because we keep getting questions. The roll-up of this Carlyle Fund that has 0 effect on the JV and 0 effect on the mineral acres, et cetera, that's a correct interpretation, isn't it?

Travis D. Stice - *Viper Energy Partners LP - CEO & Director of Viper Energy Partners GP LLC*

Yes, that's correct.

Operator

Our next question comes from Tim Howard of Stifel.

Timothy D. Howard - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Could you speak to the financing of the drop-down kind of that makes debt and equity, and maybe to the long-term leverage target at Viper, as you kind of increase your scale?

Kaes Van't Hof - *Viper Energy Partners LP - President of Viper Energy Partners GP LLC*

Tim, so from a long-term perspective, whether it's Diamondback, Viper or Rattler or consolidated, we are never going to go above 2x debt-to-EBITDA whether that's on a consolidated basis or at each of the subs. Now I think with this drop-down, what's unique about it is the amount of cash flow that we add to our next 12 months in 2020 projections at Viper. And now Viper is in a position to probably put some permanent financing may be a turn of leverage of permanent financing given the size and scale that we've achieved at the business. Now it's very important that the parent borrowing costs come down, and Diamondback, we feel is an investment grade company and on its way. And that will naturally bring down the borrowing costs of the sub. So as we thought about the debt and equity split, I think, the Diamondback board really likes owning a lot of Viper, and this brings Diamondback's ownership and Viper up to 60%, and it also gives some cash consideration to Diamondback without needing to fund this deal with equity.

Timothy D. Howard - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

That's helpful. And then pivoting to the organic growth profile in kind of 2020 and beyond, how are you guys thinking about that?

Kaes Van't Hof - *Viper Energy Partners LP - President of Viper Energy Partners GP LLC*

Well, I think what's great here, Tim, is that, doing this deal, which is a massive deal for Viper, increases the Diamondback operated position by 80% and it's all in areas where Diamondback is operating. So I think, as you think, about the long-term growth rate of Viper, the 2 businesses Diamondback and Viper should grow almost in concert. Now Viper will have the benefit of doing some acquisitions on third-party acreage, which should drive that growth rate up a little bit over the long term as well.

Timothy D. Howard - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Okay. Got it. And then as it relates to third-party M&A, is it more on an opportunistic basis or do you have a target every quarter or year?

Kaes Van't Hof - *Viper Energy Partners LP - President of Viper Energy Partners GP LLC*

Yes. I don't like putting out targets. I mean we certainly have goals to continue to consolidate the private minerals market. We have set our machine up at Viper on a very unique way and that we can -- we have a ground game. We can close 40 acquisitions in a quarter, even if they're small check sizes. So I think we are set up to do a $700 million drop-down. But today we are closing $200,000 and $300,000 deals that add up and make a big difference, especially under Diamondback-operated acreage.

Operator

Our next question comes from Gail Nicholson of Stephens.

Gail Amanda Nicholson Dodds - *Stephens Inc., Research Division - MD & Analyst*

With the roller-coaster oil prices that we have experienced over the last 12 months, I just wanted to get some incremental color and your thoughts on hedges. And how you guys would proceed maybe in 2020 to maybe protect that downside of oil in order to make sure that cash distribution continues to be healthy as you move through time?

Kaes Van't Hof - *Viper Energy Partners LP - President of Viper Energy Partners GP LLC*

Yes, Gail, there is a lot of discussions internally. On hedging, right now, we are an unhedged vehicle. I don't think, I think, it's up to the Board to decide what we are going to do from a hedging philosophy because it would be a big shift in strategy. If you were to do anything it would be some downside protection giving -- leaving all upside for investors.

Operator

Our next question comes from Tim Rezvan of Oppenheimer.

Timothy A. Rezvan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

First question, does this drop now sort of wipe all the legacy Diamondback in energy and minerals or have they all now been moved down or is there still kind of a potential queue?

Travis D. Stice - *Viper Energy Partners LP - CEO & Director of Viper Energy Partners GP LLC*

Yes, for all intents and purposes, Tim, this is it. There is some overrides that remained in the southeast New Mexico stuff, but we held those out because we continue to look for ways to create value on that acreage, but this is essentially it.

Timothy A. Rezvan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Okay. Okay. And then the move, obviously, the drop is impactful. Diamondback now controls greater than 50% of the Viper royalties. Was that sort of just a kind of happy coincidence? Or was there an idea that you want to control greater part to have more visibility on growth?

Travis D. Stice - *Viper Energy Partners LP - CEO & Director of Viper Energy Partners GP LLC*

Yes, I think that's been an ongoing part of our strategy as we have executed on acquiring these minerals. Kaes just talked about the machine we have in place, and we still like to differentially focus on acquiring minerals under Diamondback-operated properties. I think, if you look at the other mineral companies out there, this remains a clear differentiator. The fact of relationship that Viper has with its sponsor Diamondback and that ability to operate at the Diamondback level and to forecast future cash flows is truly unique in this Viper vehicle.

Kaes Van't Hof - *Viper Energy Partners LP - President of Viper Energy Partners GP LLC*

Yes. Tim, I have a little bit to add. I mean, we love to own every mineral under Diamondback acreage. Unfortunately, not all of them are for sale. So we are going to keep looking to acquire minerals under Diamondback, but we also have a machine now where we are buying third-party minerals with clear visibility at good prices.

Timothy A. Rezvan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Okay. Okay, that's helpful. And then just one last one, if I can. You nudged up sort of the midpoint of 2019 production guidance. Is that because of activity you are seeing in the field now in well productivity or is that because of the acquisition? And then can you give kind of any ballpark on the anticipated closing date?

Kaes Van't Hof - *Viper Energy Partners LP - President of Viper Energy Partners GP LLC*

Yes, Tim. I think it's fair to assume that the deal closes right at the beginning of the quarter. Certainly, we have to raise production guidance for Q4 when that drop-down closes and adds to the production of Viper in the fourth quarter. We are going to see a pretty significant jump, excluding the drop-down from Q2 to Q3, and then some organic growth on top of that into Q4 with the drop-down adding significant amount of growth over 4,000 barrels a day on top of that.

Operator

The next question comes from Phil Stuart of Scotia Howard and Weil.

Philip Stuart - *Scotia Howard Weil, Research Division - Analyst*

Congrats on getting the deal announced. We really appreciate the incremental data point on Slide 8 of the investor deck, particularly, the anticipated gross completions in 2020 and 2021. Given that you are contemplating the net revenue interest going up in 2021, does that imply that kind of the incremental wells that will be completed over the 2020 level will primarily be in kind of Spanish Trail North and the Midland area that you've identified on that map?

Kaes Van't Hof - *Viper Energy Partners LP - President of Viper Energy Partners GP LLC*

Yes, I mean, it's actually there is some details beyond that. For instance, you see that in 2019, you have only have 30 to 35 wells completed in the rest of the year, but at the beginning of the year, we completed 2 in almost 25% NRI, 10,000-foot wells in the Delaware. So we have pockets of acreage that is very, very concentrated and has significant NRI. And you'll see that we talk about that on one of the later pages on Page 14 of our deck. Some very high interest wells that are going to be developed into 2020. Naturally given consolidated capital allocation, we are going to keep pushing to do the higher interest pads first, but there will be some high interest stuff coming on in '19 and '20 and then significant amount into '21.

Philip Stuart - *Scotia Howard Weil, Research Division - Analyst*

Good deal. I appreciate the color there. And then wondered if we could circle back on the Eagle Ford. It's been a while since we gotten a material update there. Obviously, it's very small in kind of the grand scheme of things for the overall Viper picture. But just kind of curious, I think you guys have had that acreage for about 18 months now. Just kind of curious how you view that deal now looking back on it and if you see any similar opportunities in the Eagle Ford or potentially in the Bakken or other oily kind of lower 48 basins that are kind of peaking your interest right now?

Kaes Van't Hof - *Viper Energy Partners LP - President of Viper Energy Partners GP LLC*

Yes, I mean, I think we timed that deal very well. It has performed at and above our expectations and prices performed above our expectations. Volume has been at our expectations of about a 1,000 barrels a day pretty consistently. There has been some pretty positive data points from the major operators Conoco, Devon, and a little bit EOG. And then picking up some activity in the back half of the year, but for us that's probably going to move 1,000 barrels a day up to 1,100 or 1,200 barrels a day. So it won't make a huge impact on Viper overall. Now talking to the Eagle Ford or the Bakken or other plays, that was a pretty unique deal and a one-off deal. I think, all of our G&A today is dedicated to the Permian Basin and if an extraordinary opportunity comes up outside the basin then we'll think about it. But really the acquisition machine has become so fluid here in the Permian that we haven't had a reason to leave.

Operator

Our next question comes from Jason Wangler of Imperial Capital.

Jason Andrew Wangler - *Imperial Capital, LLC, Research Division - MD & Senior Research Analyst*

I was just curious and you talked a little bit about it already, but do you expect -- you obviously have the visibility of Diamondback. But as you look at the second half of the year, do you expect the slowdown in completion and drilling in the Permian to kind of impact your numbers and that kind of baked into the guidance that you put out?

Kaes Van't Hof - *Viper Energy Partners LP - President of Viper Energy Partners GP LLC*

Yes. Our guidance has everything that we can see baked into it. If you look at our -- we released some new numbers this quarter, which is essentially our net ducts and net wells in progress, and that number continues to grow for us. So I think, Diamondback is going to pack the mill for Viper here in the back half of the year. And that will outweigh any potential slowdown you might see from other operators. And as you think about how Viper buys deals under other operators, we buy based on lease requirements. So I don't think operators are giving up leases at this time, so Viper's forward production is protected by what the lease requires that operators drill and also have to pay us an extension or we can potentially lease that acreage to Diamondback if we wanted to.

Jason Andrew Wangler - *Imperial Capital, LLC, Research Division - MD & Senior Research Analyst*

Okay. And that's helpful. And just curious, I mean, obviously gas prices have been tough in the Permian, is there anything much to mitigate that on your end? Or is it just simply that it's just going to have to be something that is a headwind until more pipe comes in and hope it gets a better price?

Kaes Van't Hof - *Viper Energy Partners LP - President of Viper Energy Partners GP LLC*

Yes, I think this is going to be a headwind for the Permian for the next 3 or 4 years. There is going to be pockets of tightness. Certainly, Henry Hub price hasn't helped, but the diff on top of it is hurting now. Viper posted a negative number for the quarter. There is a little bit of noise in that number and that Viper takes all the realized price. We don't take out gathering, processing and transportation as a separate cost item. So that would have decreased our negative number a bit, but as an unhedged vehicle this is what we are living with right now.

Operator

The next question comes from William Thompson of Barclays.

William Seabury Thompson - *Barclays Bank PLC, Research Division - Research Analyst*

So Travis, you gave some helpful visibility on production expectations on the drop-down and overall. Slide 8 suggests a ramp of activity on the legacy Energen and Spanish Trail North through 2021. I recognize you are front running the Diamondback earning here and plans are -- maybe an influx. But just want to get a updated sense on Diamondback activity plans for 2020. Correct me if I'm wrong, but I believe the latest comments within that frame would add about 1 to 2 -- up to 1 to 2 rigs in 2020. Has anything changed your mind given the global demand concerns and investor prioritizing free cash flow over growth?

Travis D. Stice - *Viper Energy Partners LP - CEO & Director of Viper Energy Partners GP LLC*

Yes, William, we got a week before Diamondback releases its earning (technical difficulty) and we will be able to talk about all that in detail at that time.

William Seabury Thompson - *Barclays Bank PLC, Research Division - Research Analyst*

All right, let me try something different. How do you think of your third-party activities -- you think third-party activity snaps back in early 2020 following your end budget exhaustion. I mean based on rig count data we've pulled, some of your peers continue to drop rigs below expected levels and land rig contractors made some of a bleak outlook. So obviously, rig count is about 6 months ahead of production. Just curious how you think some of your peers operate in 2020?

Travis D. Stice - *Viper Energy Partners LP - CEO & Director of Viper Energy Partners GP LLC*

Well, I think Kaes laid out a pretty succinct response to that because we are not forecasting Viper's volumes based on their rig count. What we are looking at is the lease requirements and we know that with a high degree of confidence that these third-party operators are not going to let their leases expire. And in the unusual case that they do that actually is a win for Viper, because we can either release it or release it to Diamondback or any other option. So I don't think any of those scenarios, William, are going to impact the way that we forecast the future for Viper.

William Seabury Thompson - *Barclays Bank PLC, Research Division - Research Analyst*

Okay, and then maybe one more for me just on oil price realizations came at the high end of the guidance range. You reiterated the 88% to 90% for the full year? I recognize the Spanish Trail sale agreements improve again in early 2020? But what are the puts and takes and kind of the high end and the low end of that range for the remainder of the year?

Kaes Van't Hof - *Viper Energy Partners LP - President of Viper Energy Partners GP LLC*

Yes, I think the more Spanish Trail production there is the lower will be on that range. So Spanish Trail is going to pick up in Q3 and Q4 with these large pads coming on. So we'll probably be closer to midpoint of that range for the rest of the year. And then as you think about 2020, Spanish Trail deal significantly improves along with a lot of the other Diamondback operated deals, which Viper participates in. And so we expect to be at a 100% of WTI or greater in 2020.

Operator

I'm showing no further questions at this time. I would now like to turn the conference back to Mr. Travis Stice, CEO.

Travis D. Stice - *Viper Energy Partners LP - CEO & Director of Viper Energy Partners GP LLC*

Thanks, again, to everyone participating in today's call. If you have any questions, please contact us using the contact information provided.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation, and have a wonderful day. You may all disconnect.