



Ring Energy Inc. (NYSE: REI)

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Executive Summary



Industry Thesis



Company Thesis



Valuation & Recommendation

Executive Summary

Industry Thesis

Temporary oversupply and dip in oil demand has led to low prices

Market has deeply discounted North American oil producers

E&Ps with low costs of production are attractive long-term investments

Company Thesis

- Ring Energy has a low cost of production and a strong balance sheet to weather the storm of low oil prices
- Favorable geology of Ring Energy's land enables lower cost vertical wells
- 76% of Ring's reserves are undeveloped or non-producing, presenting attractive growth prospects when oil prices rise
- Future cash flows heavily weighted towards cash flows 2+ years in future
- Proven management team with a history of generating shareholder value in similar ventures
- Company discloses little information so investors discount it despite its potential

Key Stats

Market Cap	\$238.25mm
Enterprise Value	\$209.18mm
Stock Price	\$9.40
TTM Sales	\$33.16mm
TTM EBITDA	\$21.04mm
Productive Wells	54
Acreage	27,250
% Developed	24%
Half-cycle cost/bbl	\$49.13

Industry Overview and Thesis

Industry Background

Upstream



Extracts the oil
Exploration and Production

Midstream



Transports the oil
Usually pipeline, tankers, or rail

Downstream



Refines the oil
Refineries

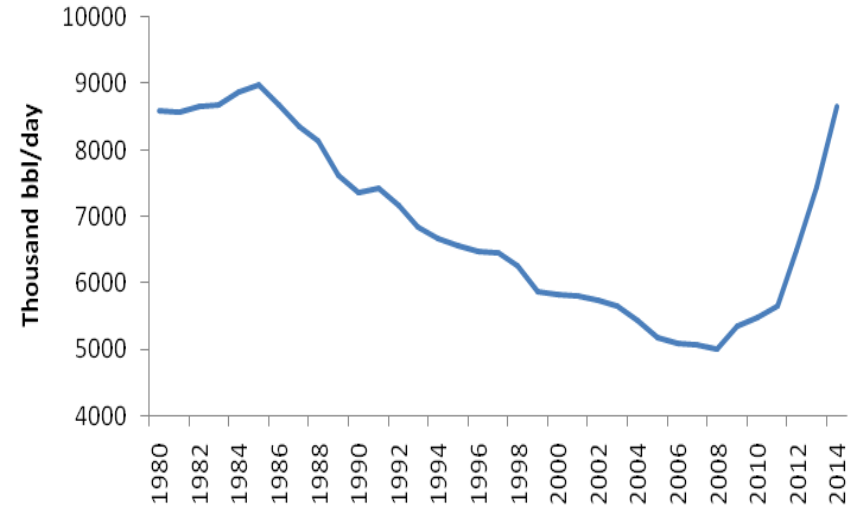


Industry Background

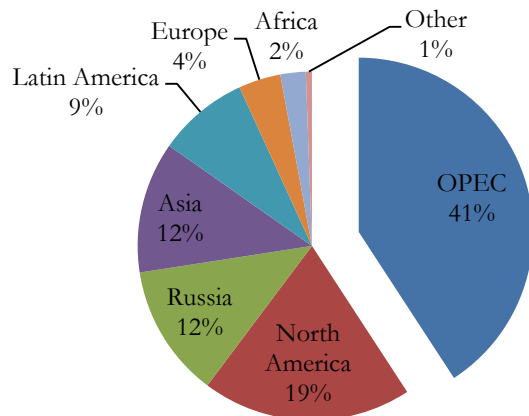
Oil Price Decline



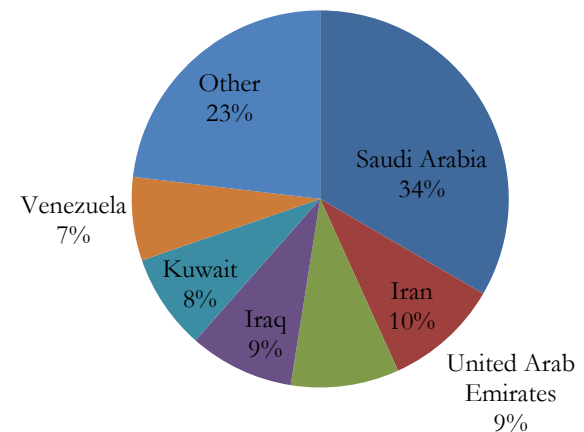
North American Oil Boom



Global Oil Production Breakdown

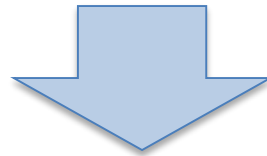


OPEC Production by Country

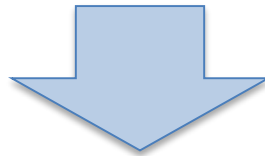


Forces Driving Oil Prices Down

Oil Shale boom



High OPEC Production



Slowing Global Demand

Industry Street Perception

Street Thinking

Oil prices below the breakeven cost of production for most North American E&Ps

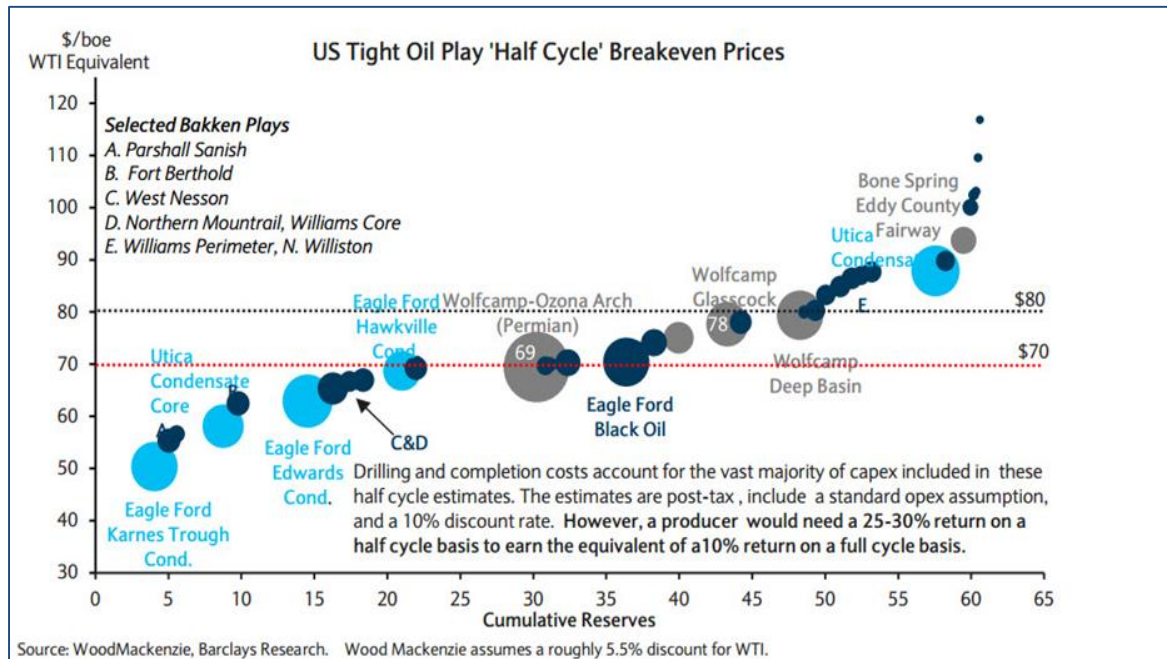
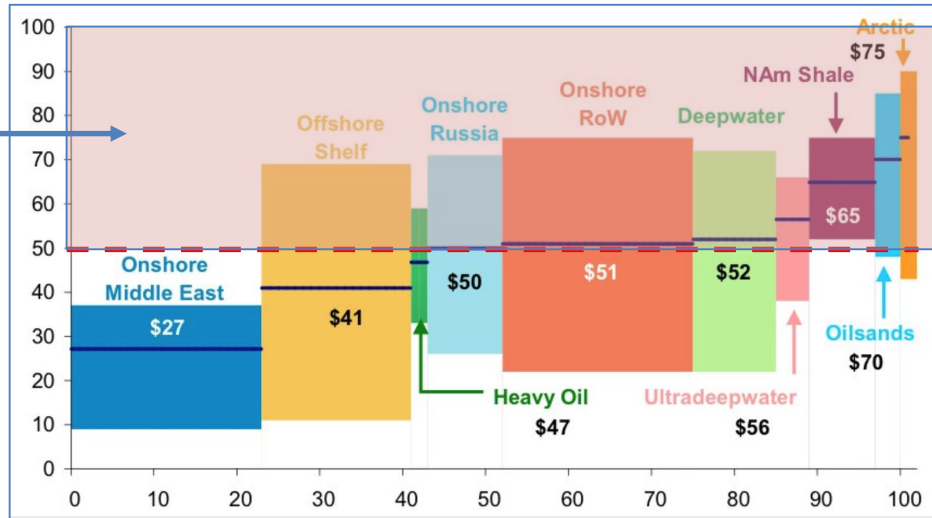


OPEC intent on kicking NA tight oil out of the market



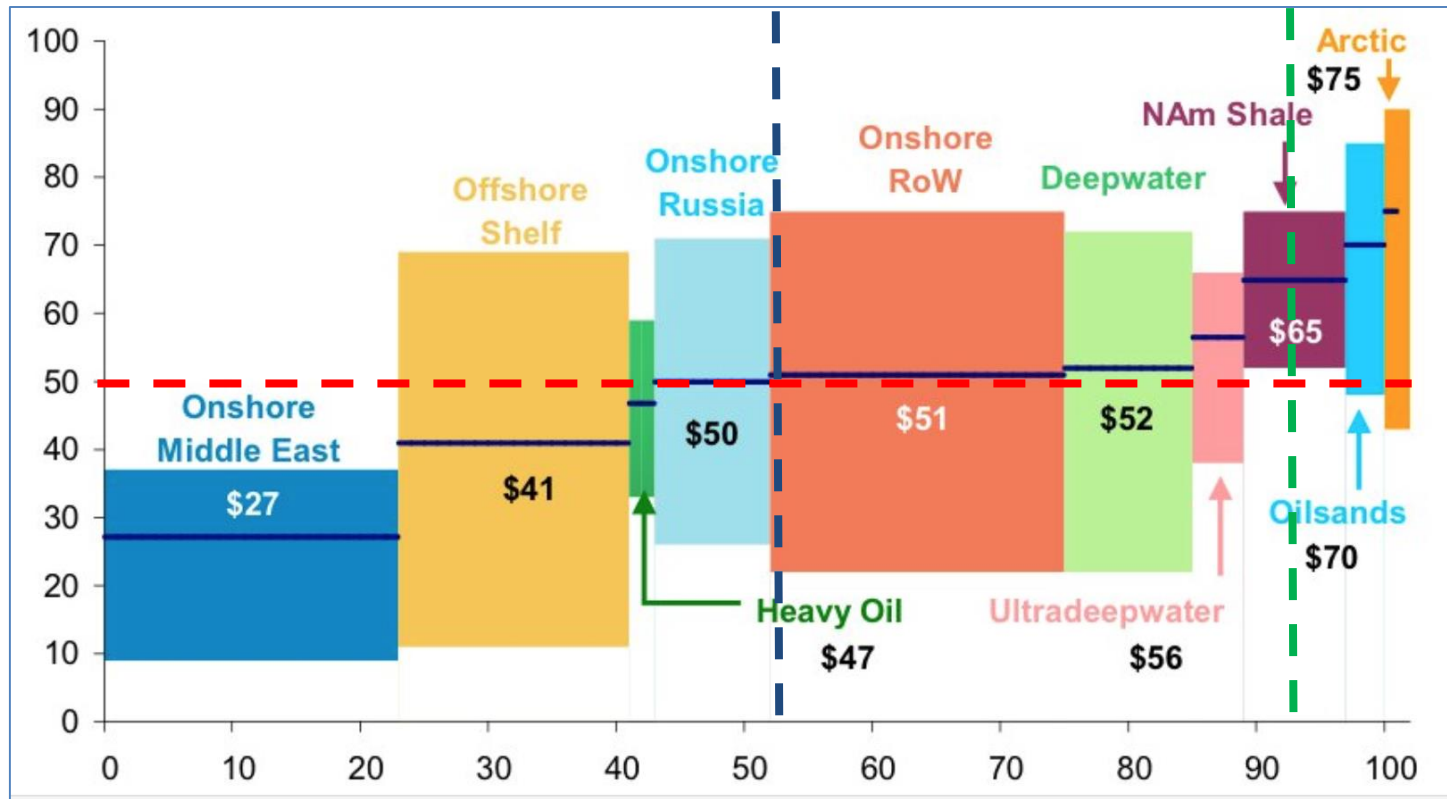
No relief in sight for North American E&Ps

Out of the money



What the Market's Missing

Breakeven
\$/bbl



Barrels/day of production

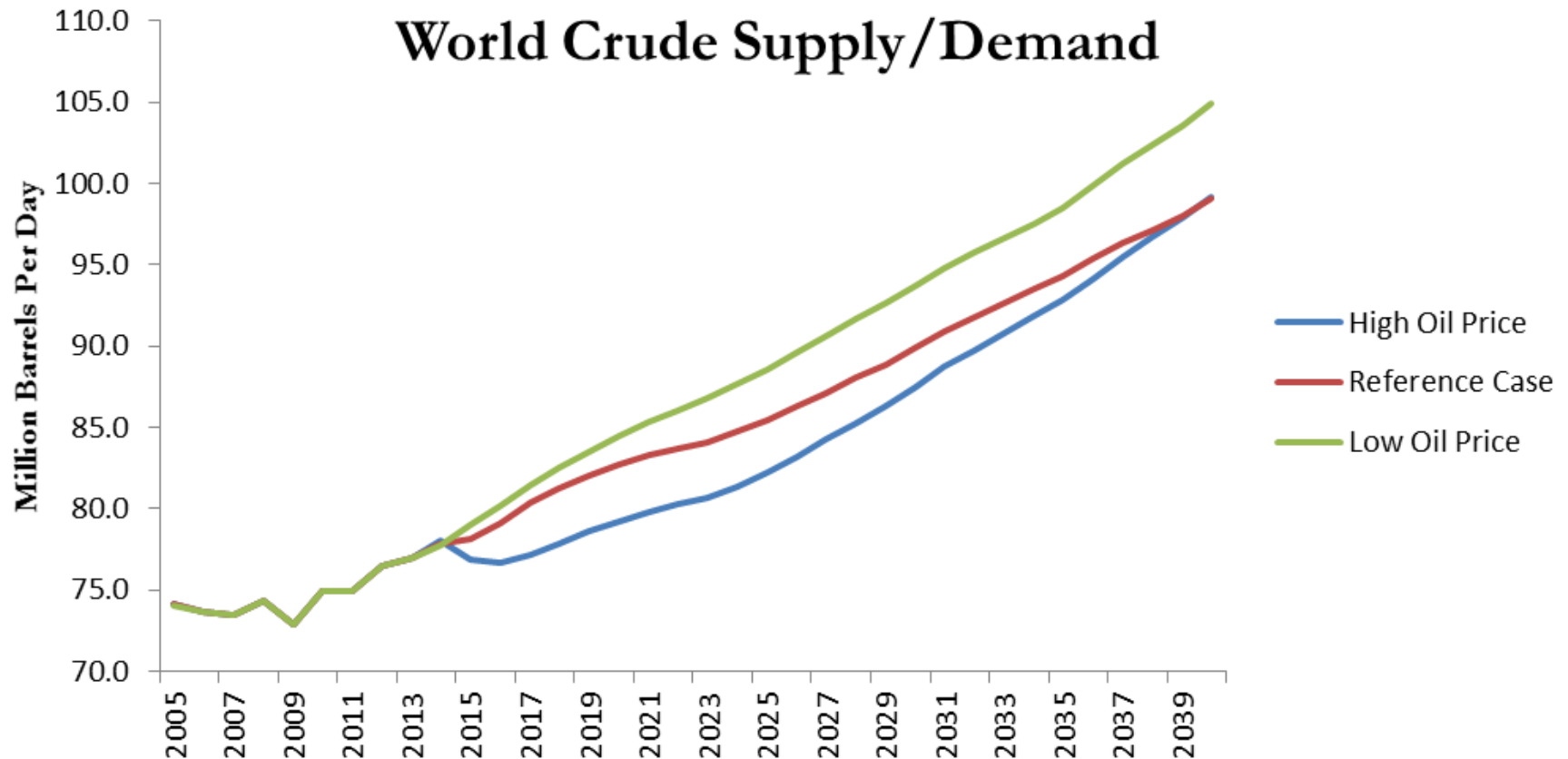
Current profitable oil production

Current oil consumption

40 million bbl/day of unprofitable consumption

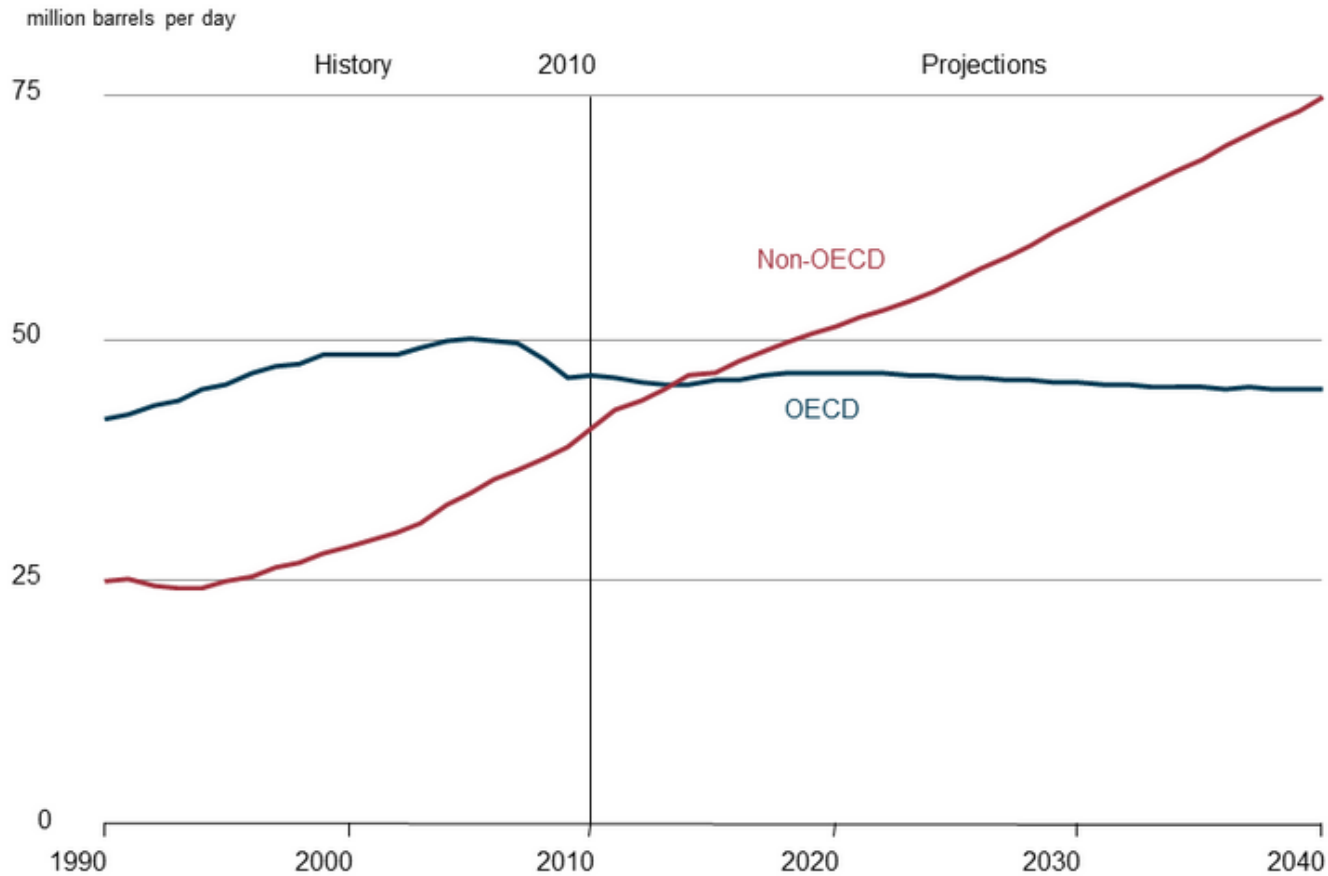
Current oil prices are unsustainably low

Forecasted Oil Supply/Demand



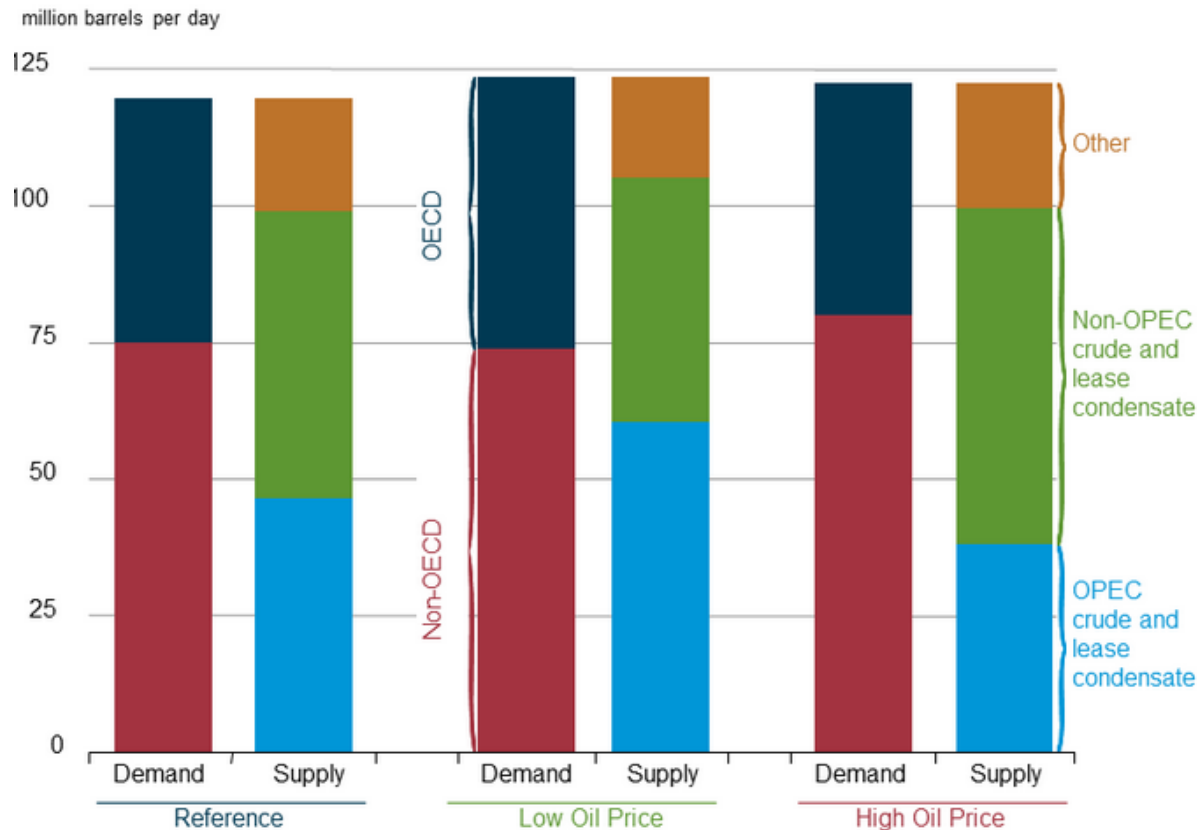
Developing Economies Driving Demand

Figure 5. OECD and Non-OECD petroleum and other liquid fuels consumption, Reference case, 1990-2040



Oil Supply/Demand Breakdown 2040

Figure 3. Liquid fuels consumption and production in three cases, 2040



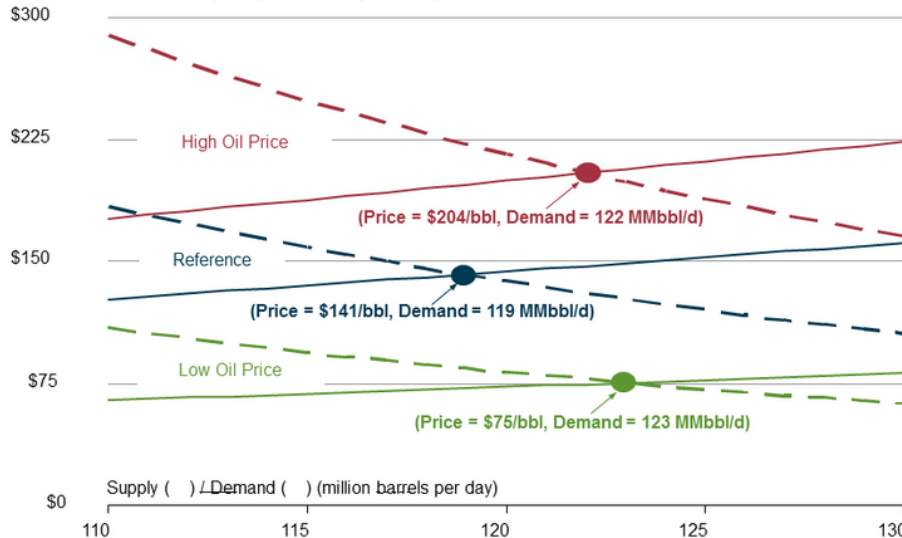
Non OECD Demand and OPEC Supply greatest source of uncertainty

Long Run Oil Price Projections

Figure 4. Liquid fuels supply and demand and North Sea Brent crude oil equilibrium prices in three cases, 2040

2012 dollars per barrel

North Sea Brent crude oil price (2012 dollars per barrel)



eia

Current Supply = Unsustainable

- In the long run, a conservative equilibrium price is \$75.
- Producers can't meet demand in the long run under this price.
- This is 25% above current spot price.



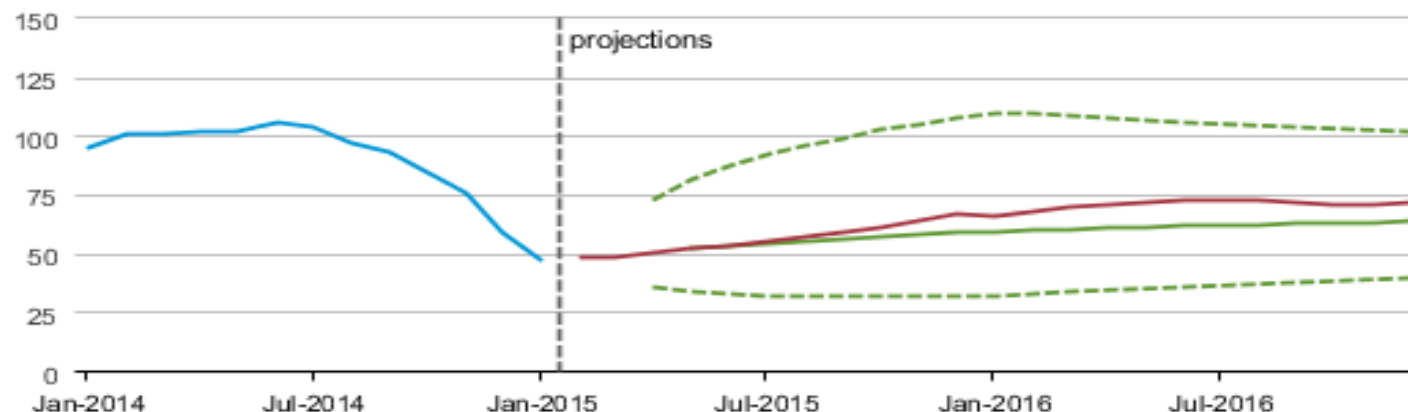
Key Takeaway

- The price of oil will rise in the long run.

EIA Short-term Oil Price Predictions

West Texas Intermediate (WTI) Crude Oil Price

(dollars per barrel)



Source: Short-Term Energy Outlook, February 2015

Note: Confidence interval derived from options market information for the 5 trading days ending Feb. 5 2015. Intervals not calculated for months with sparse trading in near-the-money options contracts.

Takeaway: The Price of oil is unpredictable in the short term.

Company Thesis

Expansion opportunities

- 27,250 gross undeveloped acres (20,398 net)
- Only 24% off its acreage is developed and producing
- Over 1,250 proven and potential vertical drilling sites

Low cost of production

- Shallow wells with high zone thickness
- Vertical drilling cheaper than horizontal drilling
- Operates 99% of its Permian basin and Kansas acreage positions

Strong management team

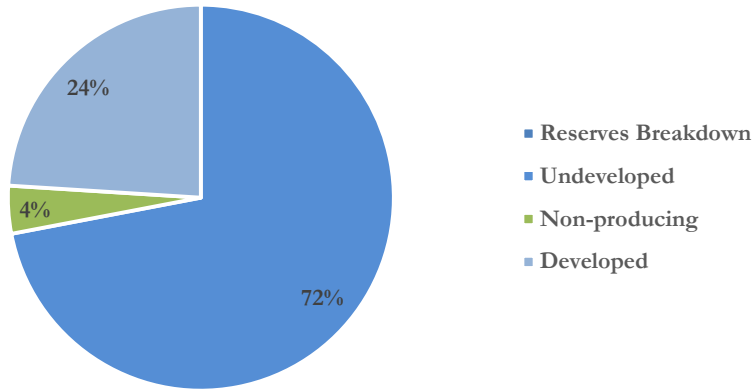
- 24% of stock owned by executives/directors
- Strong history of generating shareholder value and successfully growing E&Ps in Permian Basin

Undervalued by market

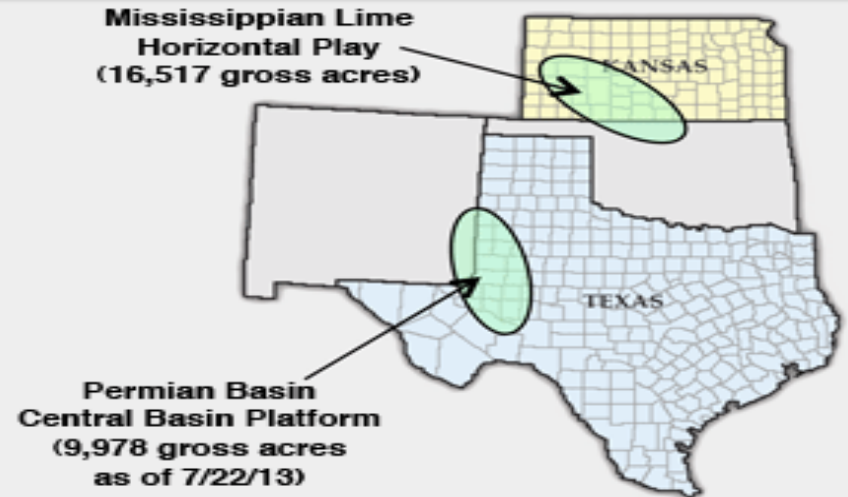
- Valued in comparison with higher cost, horizontal drilling companies with less expansion opportunities
- Little effort spent on investor relations and a small market cap (<\$250mm) has reduced exposure to investors

Operations Summary

Reserve Distribution



Ring Energy Reserves



Key Reserve Statistics

- 7.3 million BOE proved reserves (2013)
- 72% of reserves are undeveloped
- 4% of reserves developed non-producing
- 24% of reserves developed and producing
- 94% oil and 6% natural gas
- \$198.4 million PV10

Ring energy has rights to a large, undeveloped reserve base of low cost of production oil

Permian Basin Central Basin Platform

Ring Energy Drill Sites

- 14,375 acres
- 7,247,397 proven Boe
- Drilled 45 wells and re-stimulated 22 existing wells
- 191 proven vertical drilling locations and 1,172 potential vertical drilling locations
- 100% working interest
- 75% net revenue interest

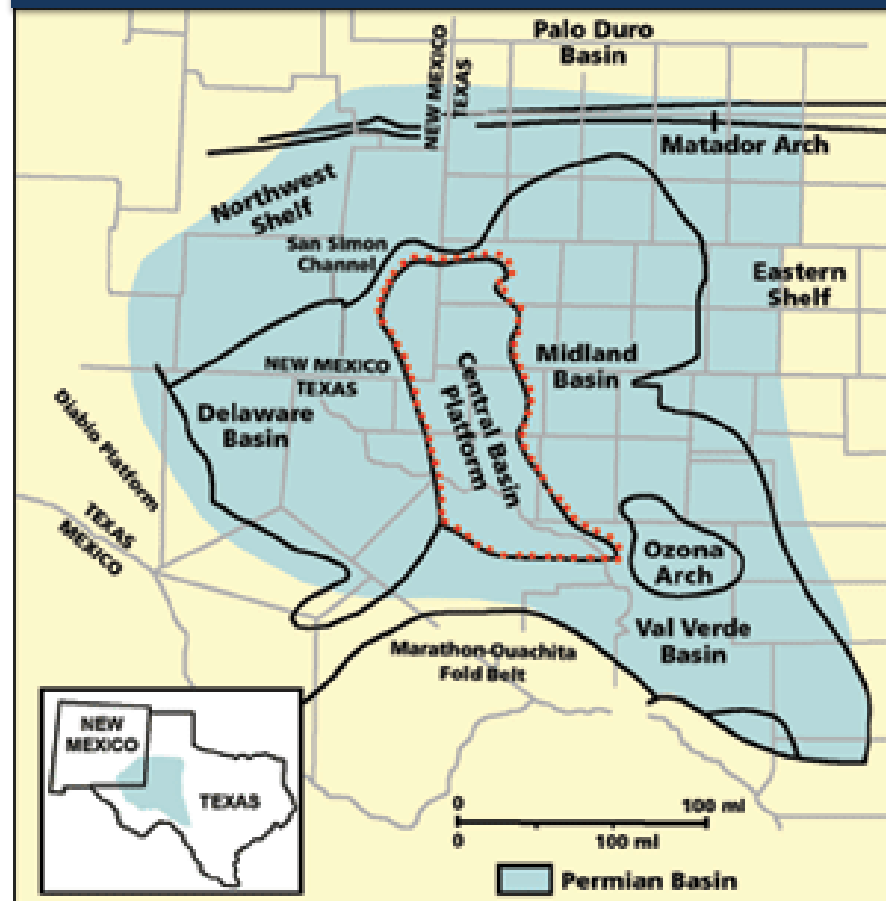
San Andres Geology

- Lithology: Limestone & Dolomite
- Average Well Depth: 4,800 feet
- Average Zone Thickness: 200 feet
- Porosity: 8% to 16%

Largest petroleum-producing basin in U.S.

- 22% of remaining U.S. oil reserves
- 29% of estimated U.S. reserve growth

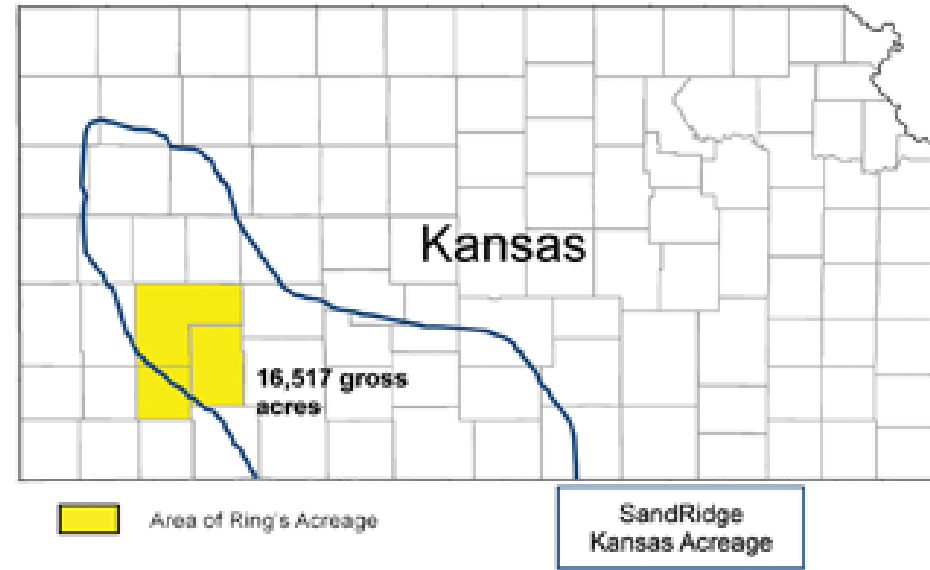
Permian Basin Central Basin Platform



Mississippian Limestone Horizontal Play

Expansion opportunity in Kansas

- 16,997 gross (14,232 net) acres
- Ring energy plans to drill 10 vertical wells
- Potential for more lower-cost, vertical wells
 - More than 4,000 vertical wells have been drilled in the play over the last 50 years



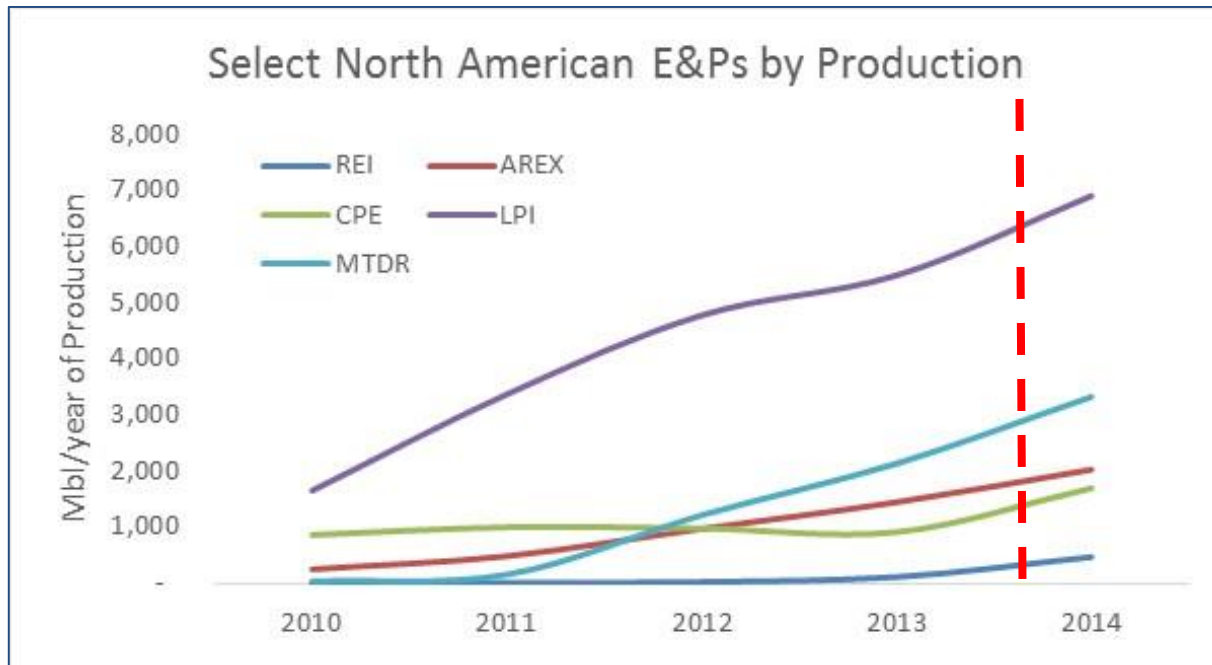
Mississippian Limestone Geology

- Variety of low-permeable limestone
- Average depth to oil: 4,500 feet
- Average zone thickness: 50 feet
- Average of 50,000-350,000 bbls recoverable per well per day

Joint Venture

- Joint development agreement with Torchlight Energy Resources, Inc. to develop Kansas leasehold
- Torchlight will earn an equal share in the leasehold after drilling carry obligation of \$6 million

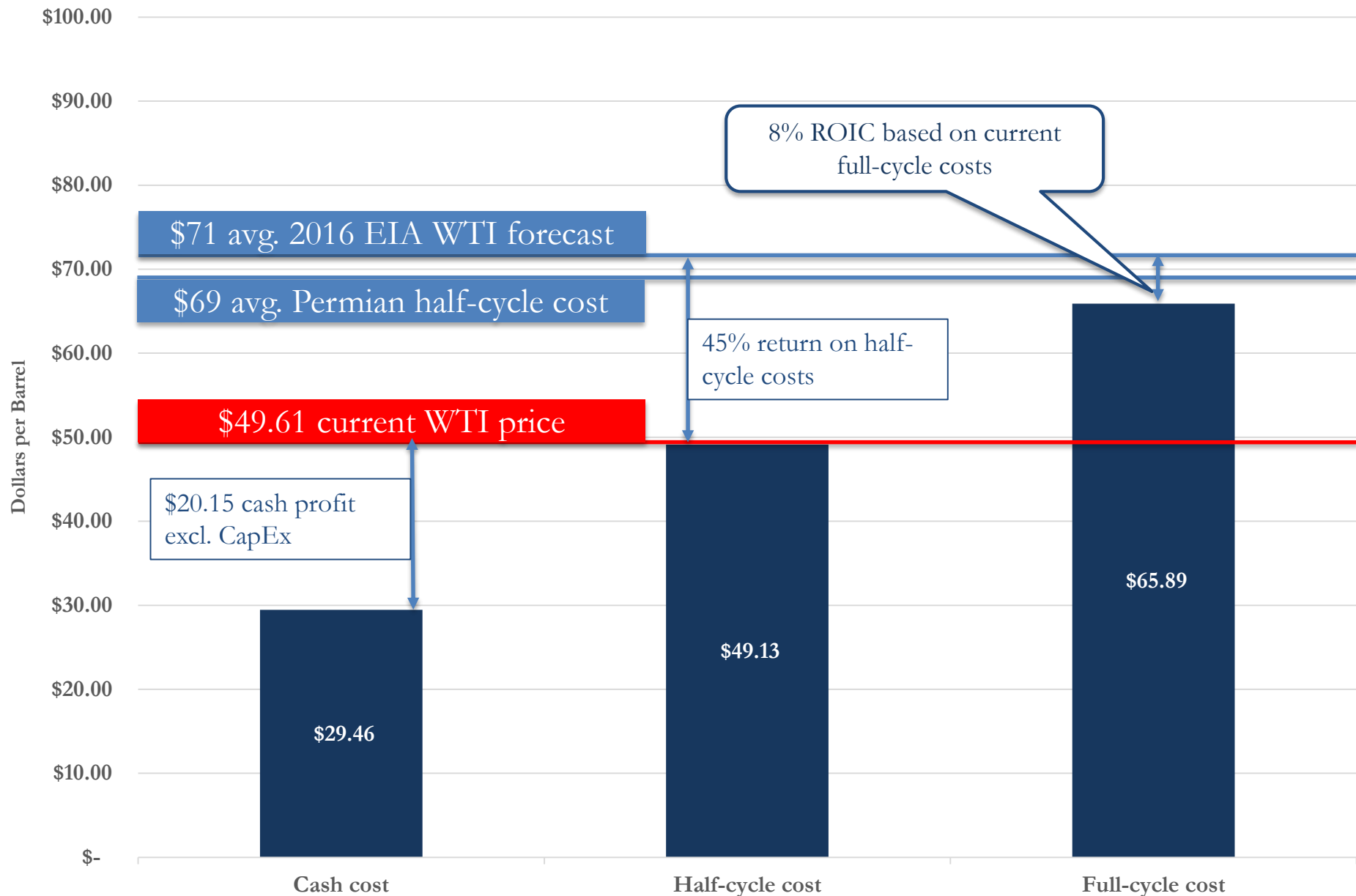
Summary of Expansion Opportunities



REI's back-loaded production means little earnings exposure to the low ST oil price

While industry peers must continue to produce at higher volumes, REI has the flexibility to defer production into the future, when oil prices are higher

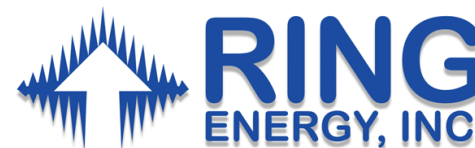
Cost of production



Strong Management Team



- Acquired 28,000 acres
- Grew production from 250 barrels to 12,000 barrels per day
- Sold for \$1.6bn in 2010 to SandRidge Energy
- Generated 98% returns and increased revenue 164% in 3 years



- Operating in same geographical area as Arena resources
- Executing same property acquisition & drilling strategy as Arena Resources
- 3/8 of directors and executives from Arena Resources

Key Executives

Kelly Hoffman, CEO and Director

- 40 years of experience with E&P companies in the Permian Basin
- Acquired 12,000 acres, drilled and 19 successful wells and sold interest to Arrow Operating Company
- Served as President of Victory Park Resources, an E&P company in Oklahoma, Texas and New Mexico

Lloyd T. ("Tim") Rochford, Chairman

- 43 years of experience as consultant/entrepreneur in oil and gas industry
- Formed, developed and sold/merged four natural resources companies including Arena Resources

Market Perception

- Ring is similar to other NA producers
- REI's operations are unsustainable in the short-term
- Cannot compete with OPEC and other suppliers in this market

Our Perception

- Ring has a relatively low cost of production due the nature of its wells
- Oil prices will rise in the long run and REI will live to benefit from that higher price
- Management has the operational expertise to efficiently allocate capital and navigate REI through short-term headwinds
- Healthy balance sheet gives management maximum flexibility

At \$238.25MM market cap, REI's positive attributes are overlooked by the market



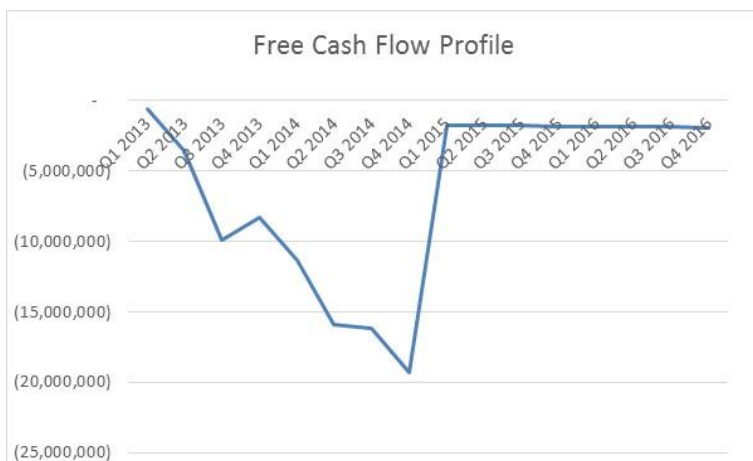
The market has “thrown the baby out with the bathwater” with Ring, classifying it among failing high cost of production players in the industry without taking into account the difference in drilling costs and management

Valuation and Recommendation

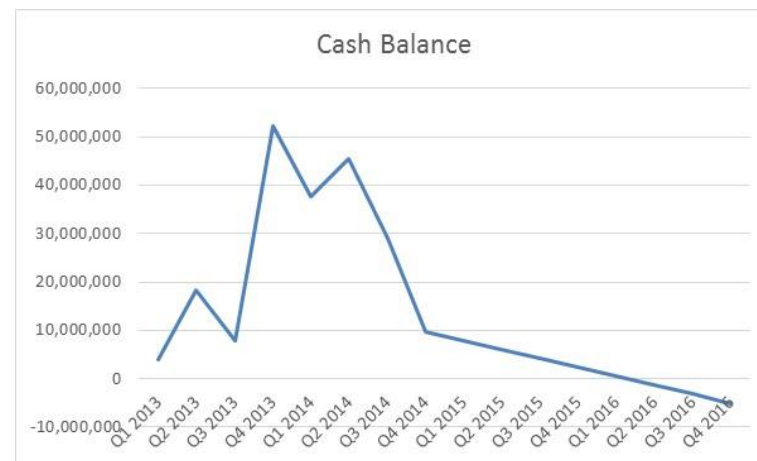
Valuation – Stress Case

Long-term oil prices will rise to ~\$70-75/bbl, but can REI outlast poor short-term pricing dynamics?

Let's assume prices remain at \$50/bbl until year-end 2016



Management will cut back on discretionary capex during the short-term in response to chronically low oil prices



The reduction in new wells keeps REI's cash deficit at <\$5MM

The low cash deficit can be gapped by the currently undrawn \$25MM revolver, protecting our downside

Valuing E&P companies usually entails a DCF, but in REI's case, a DCF is not the best approach

1. The discount rate is unrealistically low at 4.2% due to the stock's low beta and the company's lack of debt
2. REI's cash flows are very back-loaded, with minor losses in 2015 and into 2016

We used a multiples valuation approach assuming a 2019 exit

Comparable Companies

Permian Basin E&P Comparables

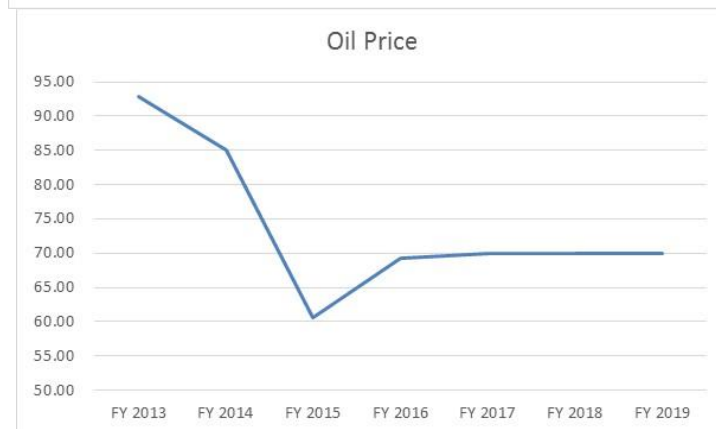
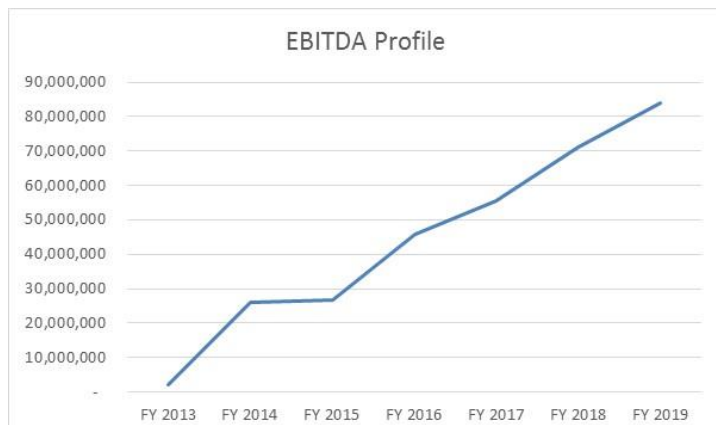
Name	EV/Sales	EV/Sales	EV/Sales	EV/EBITDA	EV/EBITDA	EV/EBITDA	EV/EBIT	EV/EBIT	EV/EBIT	Debt/	Debt/EBITDA
	TTM	FY1	FY2	TTM	FY1	FY2	TTM	FY1	FY2	Equity	
RING ENERGY INC.	6.31	5.10	4.08	9.94	7.96	6.81	19.17	19.30	21.90	0.00	0.00
Approach Resources	2.50	3.14	2.99	2.96	4.41	4.44	5.79	58.00	45.45	0.52	2.73
Callon Petroleum	3.53	2.86	2.56	5.27	4.51	3.86	11.35	15.35	11.53	0.25	0.94
Concho Resources	6.10	7.31	5.67	8.46	9.63	7.89	16.22	42.87	24.73	0.66	1.98
Diamondback Energy	9.84	9.21	7.85	9.57	11.35	10.68	14.36	28.00	21.39	0.38	1.57
Energen	4.08	4.54	4.14	7.55	7.32	6.93	30.81	44.23	33.45	0.30	1.38
Laredo Petroleum	5.12	5.99	5.67	5.09	8.72	8.53	7.37	48.20	23.66	1.15	3.86
Matador Resources	5.49	5.43	4.25	7.79	7.74	6.45	14.79	71.28	22.84	0.31	1.02
Pioneer Natural Resources	5.63	7.36	6.32	8.64	12.97	11.29	13.76	46.45	28.18	0.31	1.42
Resolute Energy	2.25	3.42	3.51	N/A	6.97	8.24	N/A	N/A	N/A	1.37	6.40
Mean	5.08	5.44	4.70	7.25	8.16	7.51	14.85	41.52	25.90	0.53	2.13
Median	5.31	5.27	4.20	7.79	7.85	7.41	14.36	44.23	23.66	0.35	1.50
High	9.84	9.21	7.85	9.94	12.97	11.29	30.81	71.28	45.45	1.37	6.40
Low	2.25	2.86	2.56	2.96	4.41	3.86	5.79	15.35	11.53	0.00	0.00

Despite having more attractive growth prospects, Ring Energy trades near median EV/EBITDA multiples

Valuation – Base Case

Annual returns 2015-2019

		2019 EV/EBITDA				
		4.0x	5.0x	6.0x	7.0x	8.0x
2019 WTI	67.00	6.2%	10.7%	14.5%	17.9%	20.9%
	68.50	6.8%	11.3%	15.2%	18.6%	21.6%
	70.00	7.5%	12.0%	15.9%	19.3%	22.4%
	71.50	8.1%	12.6%	16.5%	20.0%	23.1%
	73.00	8.7%	13.2%	17.2%	20.7%	23.8%



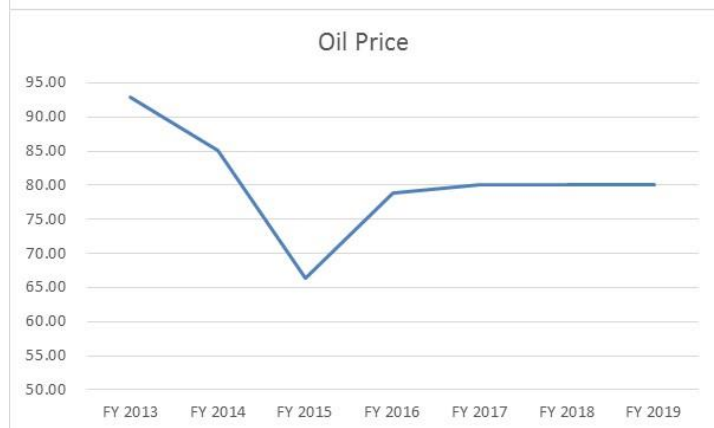
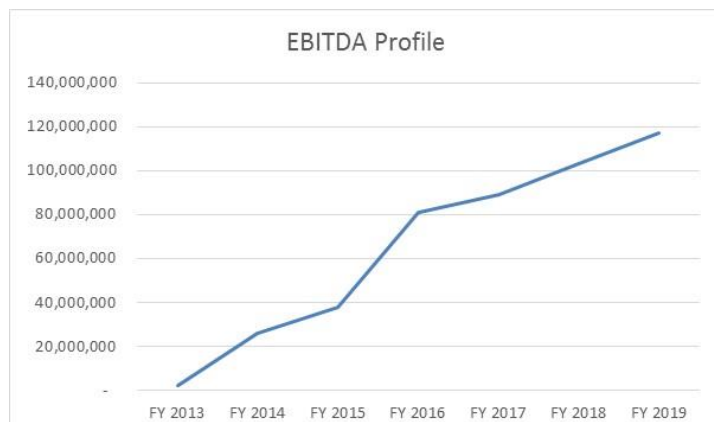
- Multiple contracts to 1.5x below industry peers due to realized earnings growth
- Well productivity increases from 10bbl/day to 30bbl/day in 2019 as REI retires wells at the end of the production curve
- Management reacts to higher prices by increasing production 29% annually between 2015-2019

2019 Exit target : \$19.63

Valuation – Bull Case

Annual returns 2015-2019

2019 WTI	2019 EV/EBITDA				
	4.0x	5.0x	6.0x	7.0x	8.0x
77.00	13.3%	18.5%	22.9%	26.7%	30.2%
78.50	13.9%	19.1%	23.5%	27.4%	30.8%
80.00	14.5%	19.7%	24.2%	28.1%	31.5%
81.50	15.1%	20.3%	24.8%	28.7%	32.2%
83.00	15.6%	20.9%	25.4%	29.3%	32.8%



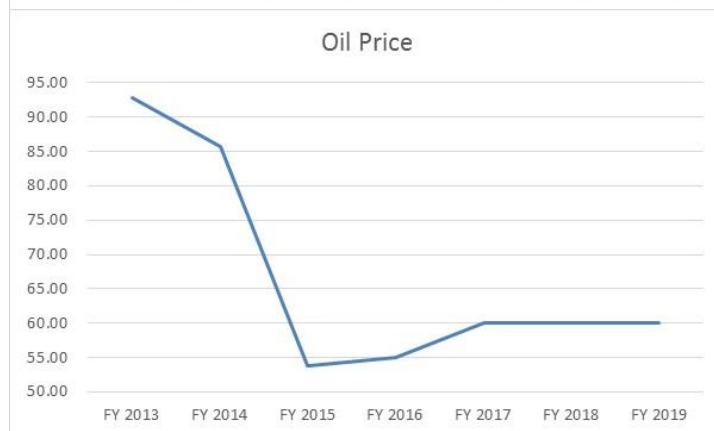
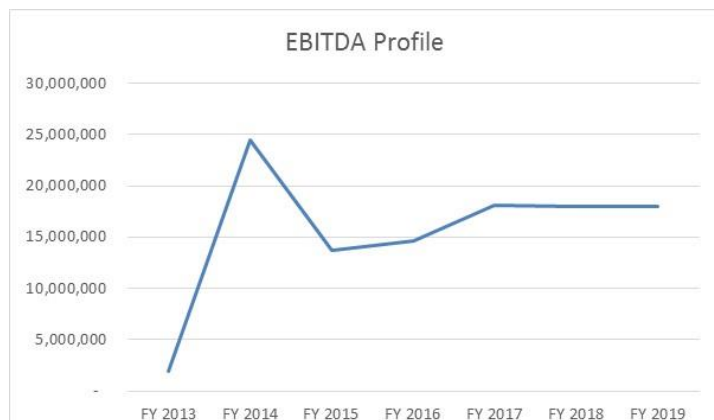
- Multiple contracts to 1.5x below industry peers due to realized earnings growth
- Well productivity increases from 10bbl/day to 33bbl/day in 2019 as REI retires wells at the end of the production curve
- Management reacts to higher prices by increasing production 33% annually between 2015-2019

2019 Exit price: \$27.74

Valuation – Bear Case

Annual returns 2015-2019

		2019 EV/EBITDA				
		6.0x	7.0x	8.0x	9.0x	10.0x
2019 WTI	57.00	-16.5%	-13.9%	-11.5%	-9.4%	-7.5%
	58.50	-15.6%	-12.9%	-10.6%	-8.4%	-6.5%
	60.00	-14.7%	-12.0%	-9.6%	-7.5%	-5.5%
	61.50	-13.8%	-11.1%	-8.7%	-6.5%	-4.5%
	63.00	-13.0%	-10.3%	-7.8%	-5.6%	-3.6%

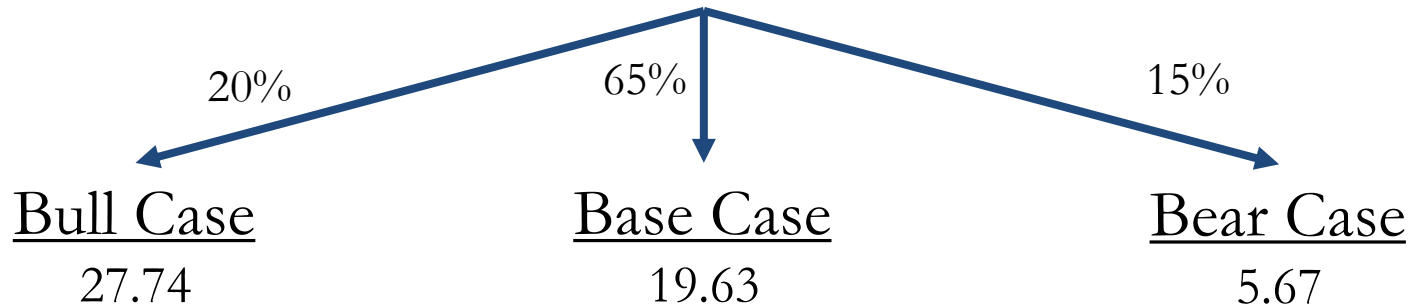


- Multiple contracts slightly to the industry average
- Well productivity increases from 10bbl/day to 19bbl/day in 2019 as REI retires fewer wells at the end of the production curve
- Management reacts to low prices by only increasing production slightly at 7.5% per year

2019 Exit price: \$5.67

Valuation – Assumptions by Case

Target Price: \$19.16



- Long-run WTI = \$80
- Oil prices return LR price over 6 quarters
- Wells increase to industry-level productivity
- Maintenance capex increases due to higher well productivity
- Oil production increases 14% annually

- Long-run WTI = \$70
- Oil prices return LR price over 6 quarters
- Wells increase to 20% below industry-level productivity
- Per-barrel Maintenance capex decreases due to increased scale
- Oil production increases 10% annually

- Long-run WTI = \$60
- Oil prices return LR price over 8 quarters
- Wells stay at roughly current productivity
- Per-barrel Maintenance capex increases due to decreased scale
- Oil production stays constant

Blended annual return of 13.7%

We recommend a long position using 4% of the portfolio to buy
REI under \$10.00 for a ~13% annual return

Questions?