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SITIO ROYALTIES

Sitio Fights for its Place Atop the M&R Sector

The minerals and royalties space is primed for massive growth and consolidation with Sitio aiming for the front of the pack.

Jordan Blum, Contributing Editor 04/02/2025

Sitio Royalties is less than 3 years old, but it has quickly grown into a leading mineral and royalty interests player with a publicly traded, multi-basin approach.

After almost two decades in energy investment banking, Chris Conoscenti joined private equity player Kimmeridge and took over its new minerals arm, Desert Peak Minerals. Three years later, it hit Wall Street with a nearly $2 billion, all-stock merger with publicly traded Falcon Minerals, creating the Sitio name—Spanish for "place."

But the growth was just getting started, with Sitio quickly scooping up Momentum Minerals, Foundation Minerals and then the big deal: a $4.8 billion merger with Brigham Minerals.

Growing more quietly since then, Conoscenti and Sitio are ready for the next chapter of minerals consolidation, following in the massive wake of upstream E&P consolidation the last two years.

Conoscenti spoke with contributing editor Jordan Blum about the latest sector trends and the future of Sitio.

This interview was edited for clarity and length.

Jordan Blum: Starting out broadly, what are the overall trends you're seeing in the minerals and royalties sector? How are things evolving and what are you focused on?

Chris Conoscenti: I'd say the three biggest trends, first, is just the abundance of capital that's pursuing minerals. It's more than ever before, and it's a combination of public minerals companies, operators—mainly focused under their own leasehold and traditional private equity. There's direct to LP (limited partner)

SCOTT DALTON

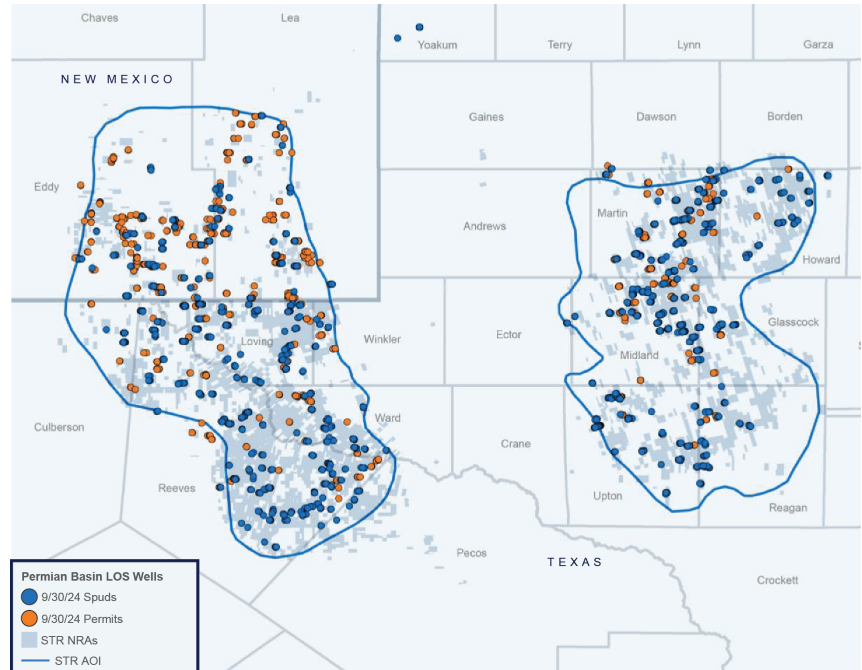
Chris Conoscenti , Sitio Royalties CEO

private equity, there's income funds, insurance money, family offices. There's a whole host of different parties, but there's no shortage of capital willing to be put to work in the mineral space.

The other trend I would say is the consolidation opportunity is still enormous. Even with all that competition, there's a lot to be done to consolidate this really highly fragmented space. We still have a situation where less than 5% of royalties are paid to public minerals companies. We're the natural permanent owners of these assets eventually, and that means that there's a lot of migration from individual hands to private capital to public capital that needs to take place. That's going to take a long time and there's a lot to be done. So, the fact that there's a lot of money pursuing minerals is actually a good thing to keep this ecosystem of consolidation going.

I'd say the third trend is that the migration of money to the public minerals companies is happening on a larger scale now. The aggregate market cap of the minerals companies is over $50 billion for the first time. That needs to get a lot larger, obviously, to compete for eyeballs and attention from investors within the upstream space, which is multiple times larger, but it's a step in the right direction. The last thing I'll mention in terms of trends is the upstream consolidation that's taking place. It directly impacts the minerals industry. The last 18 months saw a tremendous amount of upstream public and private consolidation, and that has impacts on the pace of development, and the allocation of capital for the development of assets that are owned by the mineral owners. It changes your calculus for how you think about how minerals assets are valued and when they'll be developed. It's a good thing to have healthier operators capable of sustaining their capital programs through the cycles, and less volatility of capital programs. It's actually pretty good for mineral owners overall. It's just going to take a more calculated measure of where do these locations fall within a much larger company's investment opportunity set.

Permian Basin Line-of-Sight Wells



SOURCE: SITIO ROYALTIES

Top Operators

Net Spuds

Exxon

DIAMONDBACK ENERGY

Net Permits

Exxon

ConocoPhillips

DIAMONDBACK ENERGY

eog resources

JB: With that upstream consolidation and less acreage readily available to buy as a lot of companies get gobbled up, is that part of what's bringing more eyeballs and dollars to the minerals and royalty space?

CC: I think it's just a greater adoption of minerals as an asset class. I think it was previously viewed as a side business, and now it's becoming a core business for a lot of people as they recognize the cash flow potential and consolidation potential of this business. Ultimately capital flows where it gets the best returns. There are very good returns to be had in the minerals business, and I think that attracts a lot of capital as well.

JB: Still speaking more broadly, I wanted to get your basin-by-basin overview where you own interests: the Permian Basin, Williston Basin, Eagle Ford Shale, Denver-Julesburg (D-J) Basin. How are things looking, and where are you most focused?

CC: We have a great lens into activity in all these basins just because our footprint is so broad in all of them. If you look at the Permian Basin, our acreage sits within drilling units that cover over 36% of the entire Permian Basin. In the D-J basin, our acreage sits within drilling units that cover over half of the Greater Wattenberg field. It's similar statistics across the core of the Eagle Ford and the Williston Basin. We have a great window into operator activity, and I'd say that the trends that I would call out there, first of all, the efficiencies are real for the operators. The operators are continuing to innovate and demonstrate that they can touch more rock with less capital. You see that in the trend of rig counts coming down and frac crew counts coming down, but lateral feet being drilled and completed going up.

As a mineral owner, that's what we care about. We want as much rock to be touched and as much resource to be extracted as possible, and we're less concerned about the actual rig count. We want the actual amount of resource extracted to be maximized. That's the trend that we're seeing these operators realize as they drill longer laterals and have better land configuration. They're drilling these horseshoe-shaped laterals to access rock that was previously stranded because it was in a one-section unit that nobody drills anymore as a 1-mile lateral. Now they drill 2-mile laterals within a single 640 [acres]. The other trend I'd say across all these basins is that there's just less

white space for a mineral buyer to buy. Pretty much everything you're going to buy today is going to have some degree of development, whether it's existing PDP or wells that have been spud or permitted. It provides better visibility for a buyer like us. It provides less upside for a private equity-style buyer, but for somebody in the public space that's trying to balance upside with current cash flow, it's a good dynamic for us.

JB: I was actually curious to ask how white space fits into your strategy and gambling on those more perspective areas.
CC: We don't look at it as gambling because we have a team of technical professionals that help us underwrite every single unit for every single acquisition. We have GIS professionals, geologists, engineers, landmen and finance and accounting professionals that help us break down value in every single unit we look at. The white space can be either a unit that's undrilled or horizons that have not been touched yet. It becomes an assessment for when we believe the operator will come and extract the resource from that section or from that horizon. We absolutely are comfortable with white space. We love a balance of existing cash flow from existing production and additional upside, and that's why we focus in places like the Permian and the D-J Basin because they have that in spades. We see a lot of running room left in remaining drilling inventory in both the Permian and the D-J, less so in the Eagle Ford and Williston where we see those as more mature basins. They're going to continue to see some primary development, but it's going to shift to a secondary and tertiary recovery before too long across those basins as production from primary drilling either plateaus or declines.

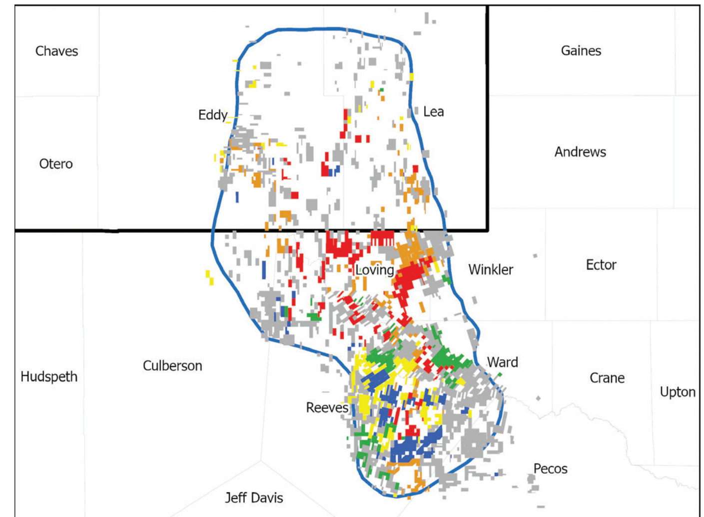
JB: We talked about the Permian, but I wanted to maybe home in on there a little more. Obviously, it's super competitive and for good reason, but I wanted to get your take on just how you stay ahead of the competition there and avoid overpaying.
CC: Yeah, the key part of your question there was avoiding overpaying. The easiest thing to do in minerals is to grow. It is very easy to make acquisitions in minerals. The hard part is doing it with discipline around long-term rates of return. At Sitio, we are incentivized by long-term rate of return. That's the lens through which we look at every single acquisition we make in the Permian and elsewhere. Really how we differentiate ourselves is around our strategy. We are not very good at just saying the highest number in a broad auction process, so we're not particularly competitive in auctions. So, we look for where we are competitive. It's in assets that fit our profile but may not fit a private buyer's profile, or it's a relationship we have with a mineral owner, or it's a solution that we can offer. For example, we have an Up-C corporate structure, so we're able to offer owners of minerals a tax-deferred solution if they want to sell their minerals and take our class C shares. They get to defer their capital gains on the sale; they continue to get income from our dividend; they get us professionally managing those minerals; and they get exposure to a much broader footprint—a much more diversified footprint than they have with just the minerals they own. So, we try to be solutions oriented, relationship driven and, at the end of it all, focused on long-term rate of return.

JB: Please tell me what you can about the operators you like to work with.
CC: We do love working with well-capitalized operators that have

DETAILED ASSET OVERVIEW

Delaware Basin

Acreage footprint by drilling spacing unit



OXY | PR | CVX
COP | APA | Other

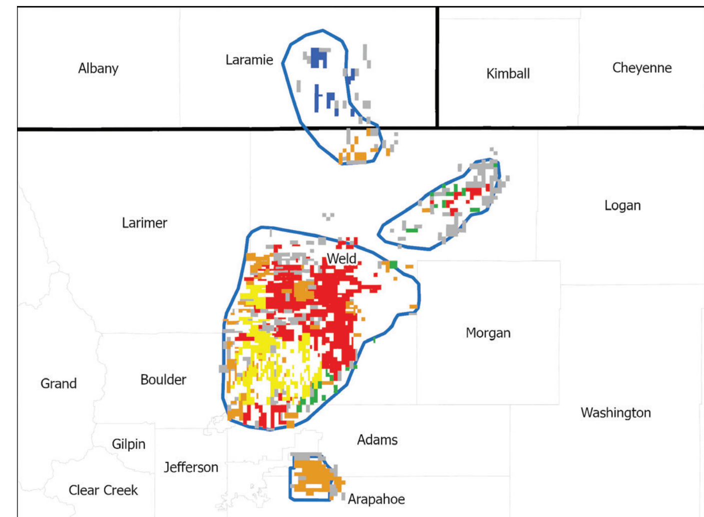
156,543
Delaware NRAs

1.3%
Average horizontal NRI

22.5
Normalized net spuds and permits

D-J Basin

Acreage footprint by drilling spacing unit



CVX | OXY | EOG
CIVI | Verdad Resources | Other

41,681
D-J NRAs

0.6%
Average horizontal NRI

6
Normalized net spuds and permits

SOURCE: SITIO ROYALTIES

durable ability to spend through cycles, and that's what's been great about the consolidation that's taken place. You look at some of the work that the biggest consolidators have done between Conoco[Phillips] and Oxy {Occidental Petroleum) and Exxon [Mobil] and Chevron and Diamondback[Energy] and Permian Resources. All those folks have done tremendous things for moving assets from more volatile spenders of capital to more durable spenders of capital, and they're very like-minded to us. They want the capital to flow to the highest rate of return, which makes our job marginally easier because we can make educated estimates for where they're going to allocate their capital based on where they're going to get the best rate of return for their drilling dollars.

JB: Outside of the Permian, or even in the exploratory fringes of the Permian, what else are you most excited about in the Lower 48 right now?

CC: We are excited about anywhere we can allocate capital to get the highest rate of return. We are not driven just to own assets in a particular zip code. We want to get the best rate of return on the dollars we invest. So, we're just as likely to buy minerals in the Permian as we are to buy in the Haynesville [Shale] or in the Rockies or Alaska or overrides (overriding royalty interest) in the Gulf of Mexico. Those are all on the table. We haven't done those things yet. We have found the greatest opportunity for the best rates of return in places like the Permian and the D-J.

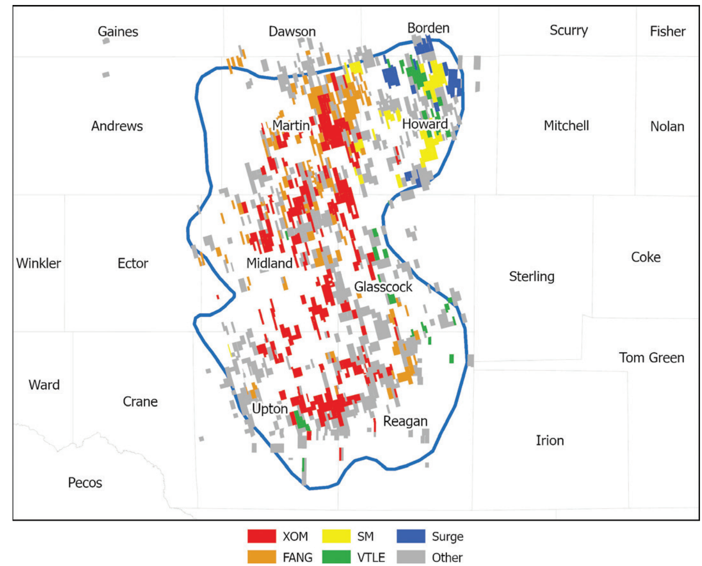
We do get excited about areas of the Permian that are the future, which is going to be parts of the basin in primary zones that have been less explored to date. People have been focused on more core areas of the basin, but there's also different horizons which are being tested. We're seeing deeper horizons being tested and new concepts throughout the basin. As I said before, there's also some efficiency measures which are making even primary horizons more economic in stranded sections. So, there's a lot to be excited about in the Permian. We're really excited about the D-J too. We've allocated a lot of capital over the last two years because the regulatory environment has become much more balanced. It's layered on additional costs for the operator, but it's improved visibility for the mineral owner, and that's important for us as we think about what we can underwrite in terms of pace of development and activity levels for the operator. Some of the disclosures that operators make as they fulfill the regulatory requirements are quite helpful for mineral owners.

JB: Which basins have the most mineral rights held by surface owners and how does that affect the business?

CC: By our estimates, within just our buying areas within the Delaware and the Midland basins, there's approximately 12 million net royalty acres within those shapes. If you were to just subtract out the minerals that are either owned by state or federal entities in New Mexico or University Lands in Texas or some minerals that are not acquirable by Sitio such as Chevron or Viper [Energy], you're still left with about 10 million net royalty acres that are technically acquirable. And Sitio owns 200,000 [net royalty acres]. So, we're just getting going on the potential. It's a massive basin. There's a lot of original surface owners that still own their mineral rights. As we get further on in time and families pass on those minerals to people who are not as connected to the surface anymore, or people have different liquidity needs or tax

Midland Basin

Acreage footprint by drilling spacing unit



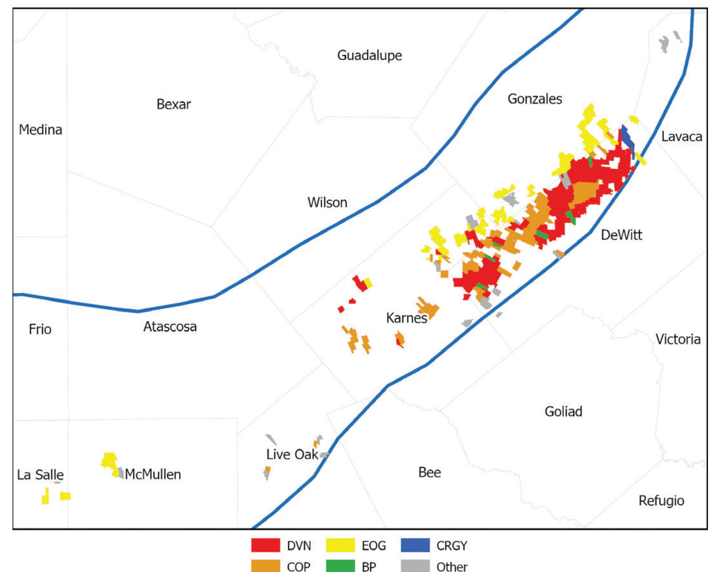
45,626 Midland NRAs

0.5% Average horizontal NRI

11.7 Normalized net spuds and permits

Eagle Ford Shale

Acreage footprint by drilling spacing unit



21,047 Eagle Ford NRAs

1.1% Average horizontal NRI

4.2 Normalized net spuds and permits

SOURCE: SITIO ROYALTIES

sensitivities, they look for solutions for those minerals, and that's helpful for us. There's been a big trend for the surface owners extracting more value for their surface rights in the Permian, and that helps with development as well. The surface owners want to see development happen as they realize more value from things like water or caliche, and that turns into more value for the mineral owner because they're being more constructive about development on their surface.

JB: From your experience, where has it been hardest to convince mineral owners to sell?

CC: Everywhere. Minerals are perpetual real property assets, and so they never expire. Our biggest competition when we wake up every day is the hold value and convincing a mineral owner that today is a good day to sell. Really there has to be some catalyst for the mineral owner to sell, and that comes down to estate planning, some liquidity needs, some tax sensitivity, and we can be a solution for all those problems that they have. There's not one place that's harder than others. In the United States, we're blessed to live in a country where the individual can own the mineral rights and make that decision for themselves.

JB: You're obviously in growth mode. There's a KeyBanc report that predicted you'll be a buyer of minerals packages this year. I just wanted you to discuss that strategy and how 2025 might play out.

CC: We've demonstrated we have the ability to source acquisitions consistently through cycle, and the outlook for this year is terrific. It's just as exciting as it was last year. The operators are still very active on our acreage in our core areas where we're buying actively, and they're developing their high-quality assets, and we still have attractive rate of return investment opportunities. Sitio has every opportunity to continue to succeed on its consolidation strategy in 2025, just like we did in 2024. Our goal is to do it at greater scale and realize the very unique economies of scale for a minerals business that are really different than any other business. To realize those, we need to continue to make a lot of progress on consolidation.

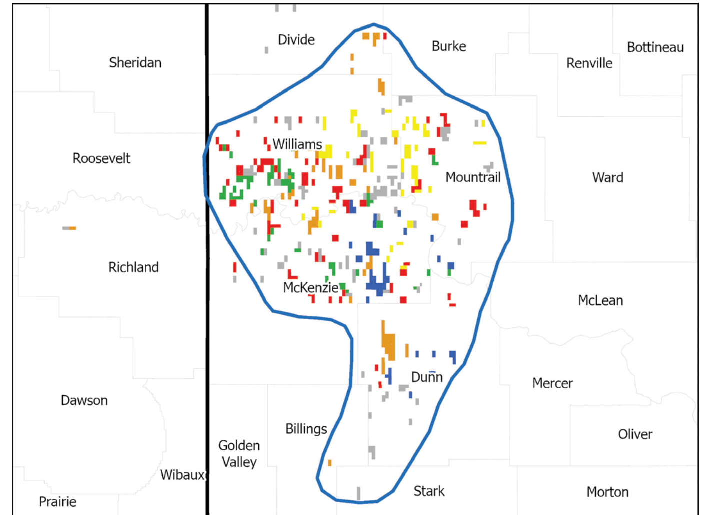
JB: Just to go back in time a little bit, it's been almost three years since the Desert Peak-Falcon merger. I wanted to get your retrospective thoughts on how everything has gone, Kimmeridge's involvement, and your personal transition to leading the publicly traded company.

CC: We really had three focus areas after that transaction. The first was to continue to be a leader in the consolidation of this space and achieve rates of return that were identical to what we were pursuing when we were a private equity-backed private company. The second was to build out a team of professionals that shared our vision for where we believe we can take this business and they're passionate about this business. And, third, we wanted to build proprietary systems that are purpose built for managing a diverse set of mineral assets that's almost infinitely scalable.

I'd say on all three of those fronts, we've had a lot of success. As I said before, we want that consolidation to continue at a larger scale, but we've been very successful at building out a very high-quality team. I'd say the systems we have built really set Sitio apart and create an opportunity for us to bring more value to our shareholders as we are able to realize more cash receipts from our royalties than anybody else given the granular nature with which

Williston Basin

Acreage footprint by drilling spacing unit



8,206
Williston NRAs

0.2%
Average horizontal NRI

0.4
Normalized net spuds and permits

Top 10 Sitio Royalties Operators

by third quarter 2023 production

Rank	Operator	% of 3Q24 Production	3Q24 Gross Wells TIL(1)
1	Chevron	12.1%	282
2	Occidental	11.5%	162
3	Exxon Mobil	10.5%	255
4	ConocoPhillips	9.1%	118
5	APA Corp.	6.2%	63
6	Permian Resources	5.4%	6
7	Diamondback	4.8%	172
8	Civitas	4.0%	76
9	Devon	3.7%	25
10	Coterra	3.7%	-
Total		**71.2%**	**1,159**

SITIO ROYALTIES
(1) 3Q24 GROSS WELLS TIL INCLUSIVE OF WELLS ON SITIO ROYALTIES ACREAGE ONLY

we're able to track every single molecule of production.

JB: Then, you obviously had big deals, especially for Brigham Minerals and to a lesser extent Foundation Minerals. How transformative were those deals and how has Sitio continued to grow in its relatively short lifespan?

CC: We were very fortunate to retain a dozen really high-quality professionals in Austin who were part of the Brigham team. They shared our excitement about this industry. They embraced our strategic vision for building Sitio. We've added more members to the team in Austin. The integration of Brigham, I would say was easier than any asset deals we've done because, when you acquire assets, there are requirements to transfer title with the courthouse. But, when you buy an entity, the title record owner doesn't change, and so nothing gets lost in the shuffle. With operators keeping track of who owns the minerals and who should get paid the royalties, there's often a long delay from operators to put mineral owners in pay when there's a transfer of title at the courthouse. That didn't have to happen with Brigham because we bought the entire entity. That was very fortunate. And the continuity from the Brigham team helped us address questions about data structure and history.

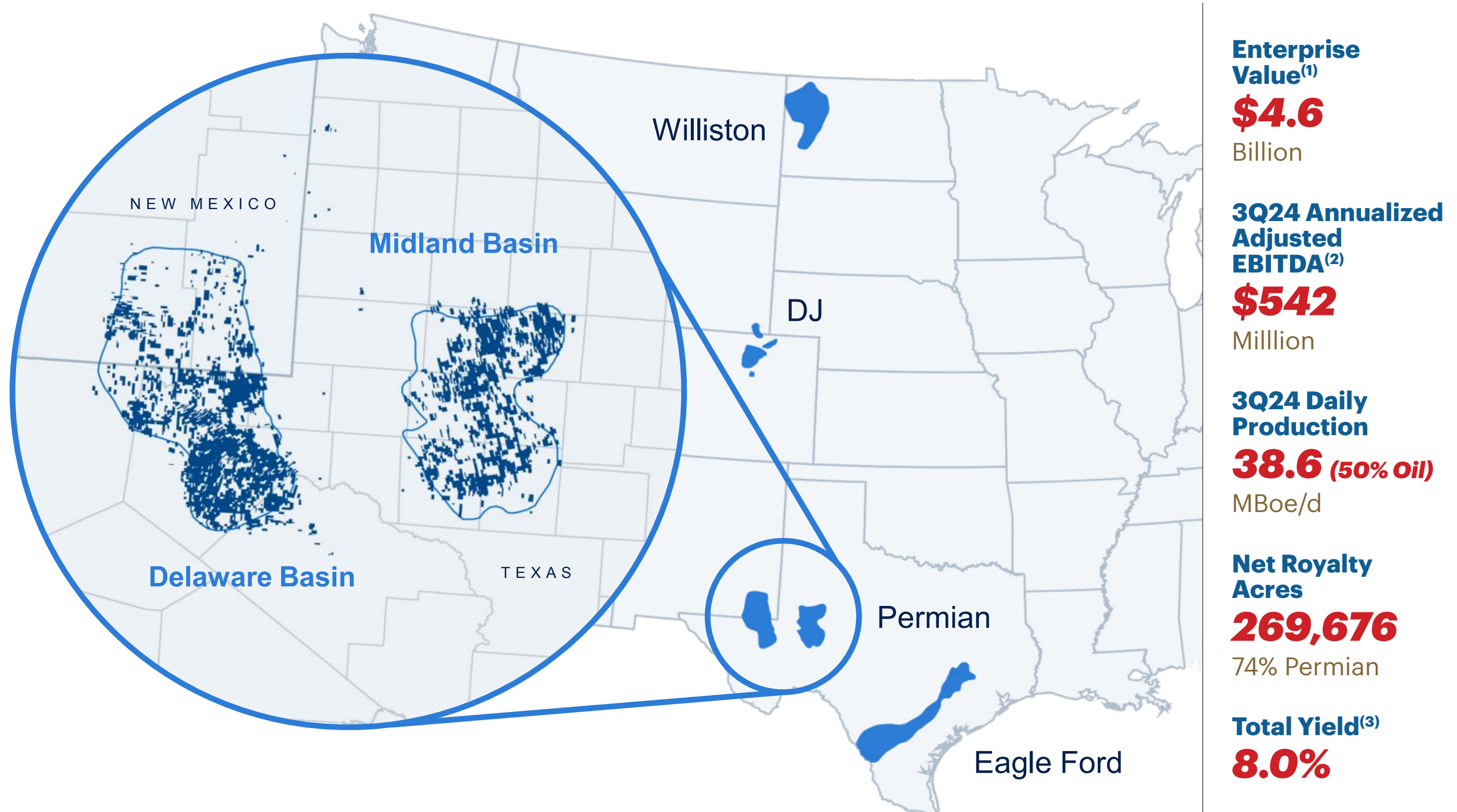
JB: What do you want to highlight in terms of why minerals are compelling today as a distinct asset class?

CC: First and foremost, as an asset class from the investor perspective, it's the highest margin vehicle through which you can add exposure to the energy value chain. There's a tremendous consolidation opportunity to drive more scale to this industry and really realize the unique economies of scale inherent in the minerals business that are very different from every other element of the energy value chain. It's just very early stages of the consolidation that needs to take place in this space. So, it's a very exciting time to be investing in minerals as either a public equity investor or a private equity investor. It's a very exciting time to be investing in minerals as a minerals consolidator just given the amount of running room there's left in the space.

JB: Obviously, we talked about a lot of room for consolidation, a lot of competition, but why don't we see more of the big upstream players, with some exceptions, have more developed mineral strategies?

CC: I think that's perhaps the most important question that needs to be addressed going forward. If you look at the roadmap that Diamondback and Viper have very publicly laid out for everybody, they have proven that a successful mineral strategy is not a distraction. It's actually a differentiator, and it can lead to value creation for shareholders for both the upstream operator

Sitio's Value Proposition



SOURCE: SITIO ROYALTIES
(1) STR SHARE PRICE AS OF 11/15/24; SHARE COUNT AS OF 11/1/24; DEBT AND CASH BALANCES AS OF 9/30/24
(2) SEE APPENDIX FOR NON-GAAP RECONCILIATIONS
(3) BASED ON ANNUALIZED 3Q24 RETURN OF CAPITAL PER SHARE OF $0.47 (INCLUDES CASH DIVIDENDS AND SHARE REPURCHASES) AND STR CLOSING PRICE OF $23.46 ON 11/15/24

and the mineral owner. And it can be a differentiator in terms of consolidation of both the operator and the mineral owner, and both can trade at a premium. It's surprising to me that every upstream operator of scale does not have a defined mineral strategy because it's proven to be scalable and not a distraction to the operator. It's actually a differentiator for the operator. It's my hope that more operators embrace a defined mineral strategy.

That said, there's no operator that should be allocating their capital to buying minerals. They should all partner with a company like Sitio because the payback period for drilling a good Permian well can be as short as a year or as long as four years. It's a pretty quick payback. On the capital you invest in minerals, it's a much longer payback period. So, the owner of the leasehold should be focused on drilling wells, not buying minerals, but they should have a strategy to extract more value and highlight value for their shareholders for the minerals they do own. When they make acquisitions of upstream assets, there's naturally going to be minerals assets that come along with those acquisitions that should be separated out and allocated to where they're going to get the most value, and that's within a publicly traded minerals company like Sitio.

JB: What else are you really excited about in the industry right now?

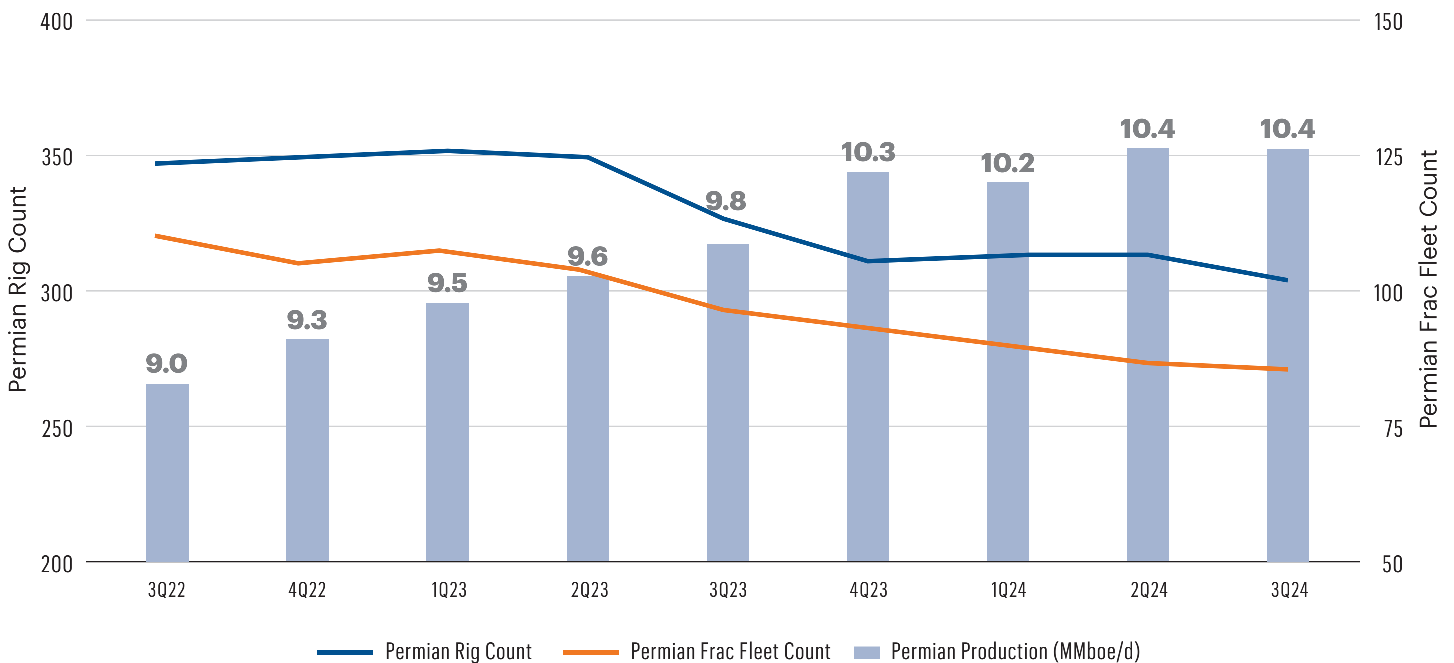
CC: The evolution of this business is just beginning in terms of how we prove that it's scalable, how we prove that it adds value and how we prove and measure success. It's going to be very different than what the world has seen from the upstream space. The measure of success for a minerals company is not about drilling wells. It's all about the discipline with which you underwrite acquisitions and the returns you achieve on underwriting those acquisitions. That takes a longer time to prove out. It's going to be an exciting process to watch as people realize the returns we are achieving from the investments we've made.

JB: I was curious, with your personal background in finance, banking, private equity, oil and gas, how did you end up finding the minerals and royalties niche and running with that?

CC: It was a great intersection of all the skill sets that I developed over the years. You look at the day-to-day aspects of this business, and all we do every day is we consolidate minerals. We're making acquisitions. That's a bit of the M&A background. We have to be thoughtful about how we finance those acquisitions. That's helpful from the banking background. And we have to be best-in-class in how we manage those minerals and innovate. You learn that from good mentors and being around private equity, which always finds ways to innovate and compete. ■

This interview has been edited for length and clarity.

Permian Production, Rigs and Frac Fleets



SOURCE: RIGS PER BAKER HUGHES; FRAC FLEETS PER KAYRROS AND PRODUCTION PER EIA

Permian Basin production has grown steadily despite decreasing rigs and frac fleets.

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