



PLS TD Report:

DJ Basin producer Bonanza Creek signs \$746 MM buyout offer by SandRidge

Here's the deal-

- **SandRidge (NYSE: SD)** offers to acquire **Bonanza Creek (NYSE: BCEI)** for \$746 MM or \$36/share (53% cash, 47% stock).
- Offer represents a 17.4% premium to BCEI price prior to announcement.
- Primarily focused on the DJ Basin plus cash flowing Cotton Valley assets.
- 15,800 boe/d (52% oil) 3Q17 production with 12,500 boe/d from core DJ.
- 91 MMboe YE16 SEC proved reserves (56% PD & 55% oil at \$42.75/\$2.48 pricing).
- 67,000 contiguous net acres in Weld Co. CO (73% HBP).
- 11,000 net acres in Columbia and Lafayette Cos., AR (89% HBP).
- 970 locations targeting Niobrara and Codell (220 PUD and 750 probable).
- 580-780 Mboe DJ EURs (50% oil) for extended reach laterals (\$5.5 MM D&C).
- 40% plus returns on locations at 10/27/17 NYMEX strip pricing (~\$50/\$3).
- Company owned midstream infrastructure enhances operations.
- \$81 MM last twelve months EBITDA for Bonanza Creek implies 9.2x TTM EBITDA.
- \$20 MM G&A savings expected from merger.

Quick Thoughts-

- SandRidge traded down 13% today post announcement to \$16/share.
- BCEI traded up 4.6% to \$32.07/share.
- Under the assumption of today's close price of SandRidge, the deal equity collar would kick in and BCEI shareholders would receive the high end of the collar or .96 SD shared the deal value would be reduced to \$712 million.
- At \$16 per SD share, BCEI shareholders would receive \$19.20 in cash and \$15.36 in SD stock for a total of \$34.56/share.
- BCEI would own 35.8% of the new SandRidge.
- Under certain conditions, SandRidge is subject to a \$26.1 MM Termination Fee.

Behind the Numbers-

- \$746 MM headline acquisition price subject to SandRidge price collar.
- \$398 MM paid in cash (\$19.20/share).
- \$348 MM paid in stock (\$16.80/share if avg SandRidge price is between \$17.50 and \$21.38 for 20 consecutive business days three days prior to closing).
- Exchange ratio capped at 0.7858 to 0.9600 SandRidge shares.
- 31.4-35.8% of pro-forma stock to be owned by Bonanza Creek shareholders and one independent director from Bonanza Creek to be added to the board.
- Bonanza Creek has clean balance sheet with no debt.
- Expected to close 1Q18.
- Both Board of Directors have unanimously approve terms.

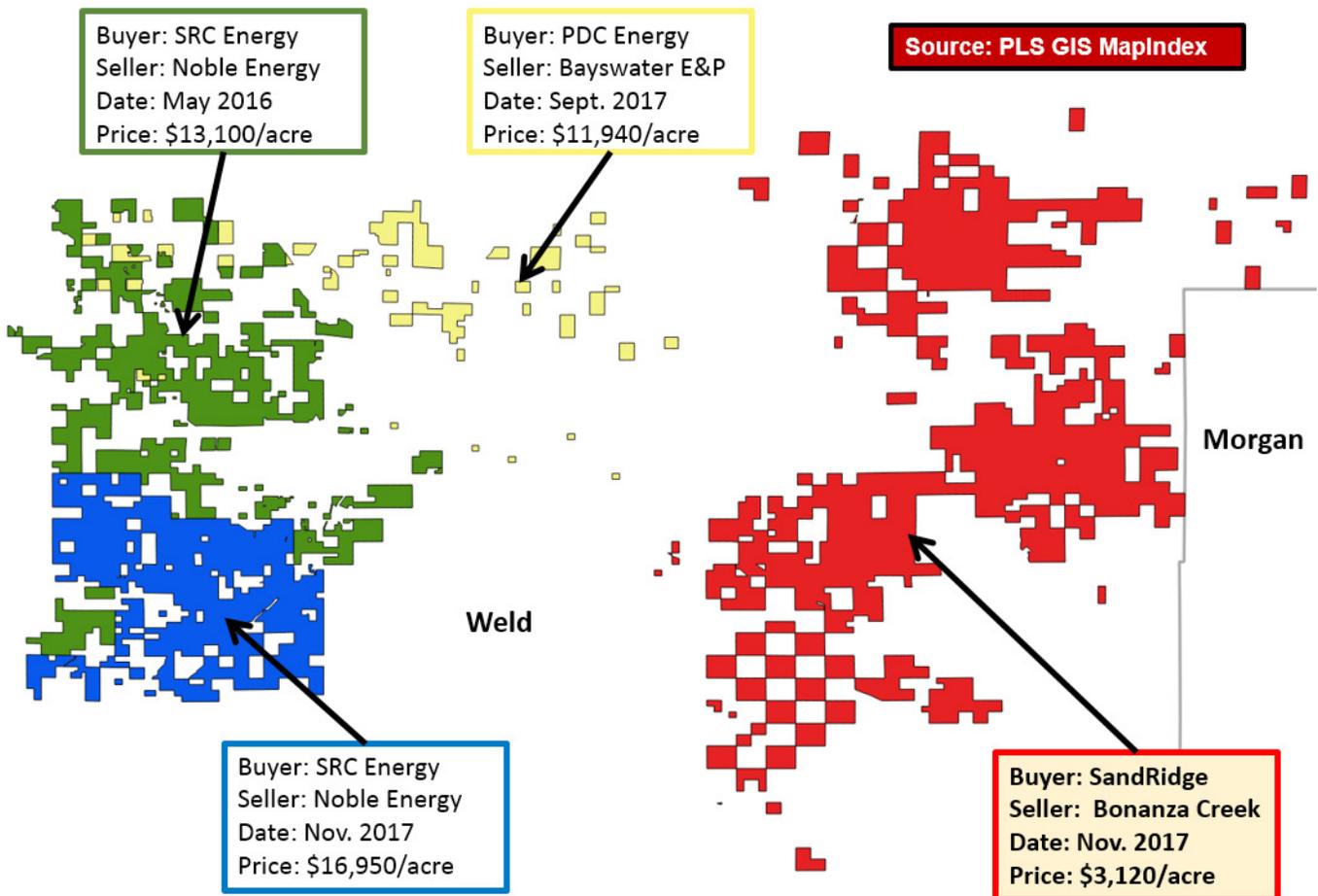
Transaction Advisors–

- **Morgan Stanley** and **Vinson & Elkins** advised SandRidge.
- **Evercore** and **Kirkland & Ellis** advised Bonanza Creek.
- Both Evercore and Kirkland & Ellis advised Bonanza Creek’s creditors on the financial restructuring.
- Kirkland & Ellis had previously advised on SandRidge’s restructuring.

Transaction Analysis–

- \$506.2 MM paid for production (\$32,000/flowing boe) based on multiples of \$45,000/flowing bbl for oil and \$3,000/flowing Mcf for gas.
- \$31 MM cash balance held by Bonanza Creek as of Sept. 30, 2017.
- \$208.8 MM remaining value implies acreage cost of \$3,100/acre for 67,000 net acres in DJ Basin (assume Cotton Valley bought for PDP value).
- Per location, SandRidge paid \$215,200 each for 970 proved plus probable locations (\$948,900 if only valuing 220 PUDs).
- Acreage acquisition cost below DJ average of ~\$12,000/acre and well below \$17,000/acre paid by **SRC** for **Noble** acreage last week. (Click Here for the TD report)
- SandRidge valued the DJ Basin acreage at \$5,200/acre (using \$25,000/flowing).
- Other analysts pegged the deal at ~\$4,500/acre (value only placed on DJ acreage under active development) while noting assets quality was likely below what SRC bought from Noble.

Select Recent Nearby DJ Basin Deals



Buyer Objectives–

- SandRidge has likely been looking for a major deal since emerging from its restructuring in October 2016.
- Permian prices too rich for SandRidge risk profile.
- Sought acquisition to leverage resource play skill set with room to run.
- Core Miss Lime asset in mature mode and SandRidge seeking growth.
- Stock and cash deal allows for maintaining low leverage.
- Acquisition greatly enhances existing portfolio by adding a deep inventory of drill-ready locations in the DJ Basin and is highly complementary to existing North Park, northwest STACK and Mississippian assets.
- Launched its post-bankruptcy IPO at \$25/share for a market cap of \$484 MM and a total enterprise value of \$701 MM.
- Favorable restructuring removed \$3.7 B in second lien and unsecured debt.
- As of the end of Q3, SandRidge reported net liquidity of \$551 MM (\$38 MM total debt, \$133 MM cash and \$418 MM undrawn on its revolver).
- Owns position in the northwest STACK extension that is being partially developed via a \$200 MM drillco with capital provider **Davidson Kempner**.
- Added 13,100 net acres in the northwest STACK for \$48 MM in February 2017 via an acquisition from **Red Mountain Energy** and **IOG Capital**.
- Six months before filing Chapter 11, SandRidge moved into the Rockies via a \$190 MM cash acquisition in North Park Basin from **EE3 LLC**.
- Geological and operational characteristics of Bonanza’s Niobrara and Codell locations are analogous to existing Colorado North Park assets.
- SandRidge will benefit from the greatly increased scale and substantial cost and operational synergies as a result of the transaction.
- OKC independent was founded in 2006 by Tom Ward (cofounder of **Chesapeake** with Aubrey McClendon) and launched an initial IPO on November 5, 2007.
- Like Chesapeake, SandRidge had a business model of aggressive acquisition activity including deals with Forest Oil (\$800 MM, Permian) and **Arena Resources** (\$1.5 B, Permian).
- Also made a controversial acquisition of **Dynamic Offshore Resources** (\$1.3 B) in 2012 which frustrated some analysts.
- Tom Ward was replaced by the Board of Directors in 2013 with current CEO James Bennett, who previously worked at **GSO Capital**.

Seller Objectives–

- Like SandRidge, Bonanza Creek went through a helpful financial restructuring.
- Filed quick prepackaged bankruptcy in January 2017 and completed in April 2017.
- Emerged after converting \$866 MM in unsecured debt to equity.
- Pre-bankruptcy shareholders were given 4.5% of the restructured company.
- Bonanza Creek has been active in the DJ since its founding in 1999. It first listed on the NYSE in December 2011.
- Several iterations of Bonanza Creek have drilled hundreds of vertical wells in the DJ. Horizontal program was initiated in July 2011 and has since drilled more than 300 horizontal wells.
- Recently, the Denver Business Journal ranked Bonanza Creek as the 11th largest oil and gas company in Colorado based on 2016 revenue (\$195.3 MM).
- Post-bankruptcy, board approved minimal \$108-115 MM capex primarily aimed at high intensity Weld Co. completions.
- Proppant loading and improved completions driving 60% improvement in oil vols versus legacy completions.
- In May 2014, Bonanza Creek added substantially to DJ position (34,600 net acres) with \$226 MM buy from **SW Capital Partners**.
- Bill Barrett was thought to be most likely buyer of Bonanza Creek with talks of an unsolicited takeover approach prior to Bonanza Creek’s restructuring.
- Bonanza shareholders pick up cash as well as carry in the combined entity.

Seller Objectives (Continued)-

- **Mangrove Partners** (one of Bonanza’s largest shareholders) supports the merger with SandRidge noting the DJ development, NW STACK and North Park Basin provides attractive oil-weighted growth.
- From restructuring to today’s sale, Bonanza Creek traded down ~25% to \$30.66/share.
- Following merger announcement, stock rose ~5% to \$32.07/share but still trading ~12% below the \$36 offer price.

Sequenced oil-weighted growth opportunities

EURs and ECONOMICS	DJ BASIN ^(a)		NORTH PARK	MERAMEC	
	XRL	SRL	XRL	XRL	SRL
EUR, MBoe ^(b)	580 – 780	300 – 400	600	800 – 1,000	500 – 600
% Oil	~ 50%	~ 50%	80%+	40%+	40%+
D&C (\$MM)	\$5.5	\$3.1	\$6.7 - \$7.2	\$6.5	\$4.4
IRR ^(c)	36 - 51%	28 - 42%	39 - 47%	18 - 32%	14 - 24%
PV-10 ^{(c)(d)} (\$MM)	\$2.4 - \$3.7	\$0.9 - \$1.6	\$3.6 - \$4.1	\$1.5 - \$3.6	\$0.4 - \$1.5

INVENTORY	DJ BASIN	NORTH PARK	NW STACK	MISSISSIPPIAN
PUD (Hz laterals) ^(e)	220	106	6	51 ^(f)
Probable (Hz laterals)	~750	~1,050	Under evaluation <i>(4-8 per section)</i>	~180 ^(f)
Net acres	67k	123k	70k	360k
HBP or HBU	73%	58%	41%	87%

Source: SandRidge Energy

Market Impact-

- The DJ has seen 16 deals worth ~\$2.0 B trade hands this year.
- Over 75% of 2017 DJ Basin deal value announced in the last two weeks with this deal plus acquisitions by SRC (\$608 MM) and **Extraction** (\$195 MM).
- **Bill Barrett**, one of Bonanza’s closest peers, currently trades at a -8% discount to this deal on a per acre basis says **KeyBanc**.
- DJ deal activity bodes well for other locals like **Carrizo** which currently has 30,700 net acres on the market in the NE Watternberg Extension.
- M&A activity has been dominated by asset purchases in the past few years and this merger of two Ch 11 companies with clean balance sheets may be a harbinger of the drive to growth among other Ch 11 survivors who seek other greater growth opportunities.