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Intrepid Potash: Betting on Blue!

- Update to two previous reports, **'Betting on Bob!'** and **'Betting on Joc!'**, and an introduction to the next leg of the story with the **'Bet on Blue!'**
- The **"Bet on Bob"** was a bet on survival as co-founder, Chairman & CEO Robert Jornayvaz III was tasked with leading the company through a strategic, operational, and financial turnaround...
- The **"Bet on Joc"** was a wager on market stabilization and eventual recovery, as Potash Sask CEO Jochen Tilk held the line in pursuit of a price over volume strategy...
- The **"Bet on Blue"** is all about growth, as Intrepid's substantial water rights in the Delaware portion of the Permian Basin have now become in high demand from the oil & gas industry.
- The stock has increased almost 250% since the initial write-up. Valuation remains reasonable though and relative to asset values & cash flow expectations, it remains as big an opportunity now as it was then.
- Shares are positioned for an additional 200%-300% potential upside over the next few years.

Introduction

I can't believe it's been almost three years since my first report on *Intrepid Potash* (IPI:NYSE):

- [Betting on Bob!](#)

The premise of that piece had been that Intrepid, for a variety of reasons, had turned into a *distress* situation. The company was losing money; and with the addition of a qualified opinion ("*going concern*" language) from its auditor, had tripped a debt covenant. This became the "*Bet on Bob*"—a reference to Intrepid's co-founder, chairman & CEO, Robert Jornayvaz III. That he would be able to execute on a strategic turnaround and help the company avoid bankruptcy.

As these actions slowly began to take hold, I followed it up with a second article:

- [Betting on Joc!](#)

The second piece was all about the factors out of Bob's control. It focused on a supply/demand imbalance that continues to dog the potash industry; and is the reason I turned to a "*Bet on Joc*"—a nod at then-CEO of *Potash of Saskatchewan* (NTR:NYSE), Jochen Tilk. Through pursuit of a price over volume strategy, he could set the industry on a path towards sustainability.

It's been a remarkable journey ever since, as *Intrepid's* shares have increased nearly 250% in that time. Along with *Viking Therapeutics* (VKTX:NGS), it's been one of the biggest contributors to performance in my fund.

But that *wouldn't* be a reason to write a new article.

I take a lot of pride in the "shelf life" of research I write. The two previous reports are still relevant. A lot of what I'd expected to occur has happened, but the magnitude to which it can impact results is still playing out. There is nothing new to add... just time and patience.

But there is a NEW element which wasn't discussed in either of the original articles. Something that is worth writing about... the *Bet on Blue*. And it is why I am the most excited I've been about Intrepid's prospects since it was being priced for bankruptcy...

Bettin' on Bob – The Remix

The bet on Bob was a bet on *survival*. It was all about the elements within management's control.

What I'd said at the time was:

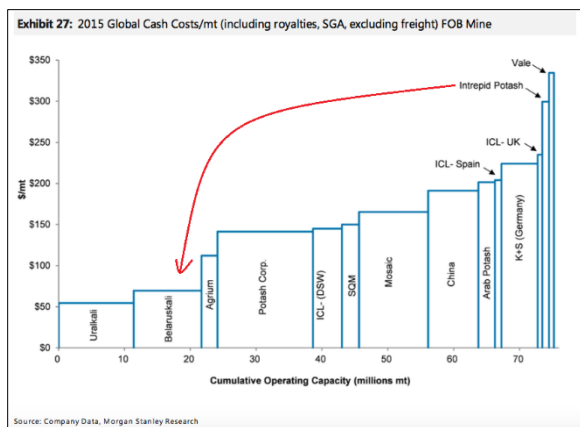
"The stock is now down more than 95% over the past 5 years and with \$150m of outstanding long-term debt, the (going) concern is that the company is starting to exhibit many of the tell-tale signs of a pending bankruptcy. For this reason, investors [...] have shifted from evaluating the company's long-term opportunity to assessing near-term survival.

This change in focus doesn't make sense [...] though the more I dig into the company's history and financials. Aside from its exceedingly low share price, Intrepid does not appear to be a business headed for bankruptcy; and to the extent it isn't headed that direction, may prove to be a fantastic long-term investment from current price levels."

This is because fundamentally, Intrepid was trading at a discount of almost ~90% to tangible book value; and while asset value in the basic materials industry can be finicky, particularly given the downfall in commodities pricing, it's still a rare occurrence. The company owned significant real assets and had a management team that was incentivized not to let it go for cents on the dollar. That was a bet I was willing to take.

And Bob did not disappoint. In three years since shares have appreciated by some 250%! This has occurred for many of the reasons outlined—conversion of the *East* mine (Carlsbad, NM) to *Trio* (langbeinite) product and shuttering of the high-cost *West* mine.

The net result of these strategic decisions can be boiled down into a single chart: the global cost curve. That red arrow has been added by me, because while analysts & investors had assumed Intrepid's cost profile was stuck in one place on the graph, they had failed to understand it was actually in another. This is the same dynamic for why *Israel Chemicals'* (ICL) operations¹ are separated into DSW (Israel/*Dead Sea Works*), U.K. (*Boulby*) and Spain (Iberia/*Iberpotash*). Evaporation mining can be at a materially lower cost profile than underground, yet nobody was taking the time to look at this for *Intrepid*, which was being viewed through a homogenous lens.



The company doesn't like to talk about "cash costs" any more, but when it last did had estimated these strategic moves would bring down cash operating costs into the \$110-\$125 per ton range for MOP product.

All companies calculate "cash" costs slightly differently—so it isn't always apples-to-apples in terms of royalty rates, freight costs, etc.—but I'd also indicated reasons that range could prove *conservative* (sub-\$100/ton).

This was covered in the second article when I laid out financial expectations, but a few key points to consider before moving on.

First is to recognize that all of this occurred before it happened. This was a *prediction* that Intrepid would be able to stave off bankruptcy. Now, it's *history*.

The company continued to receive waivers on its term debt until it reached a permanent refinance through an asset-backed revolver and a recap of the equity. While the secondary offering may have "capped" the upside, it also removed the downside and made the remaining potential much more likely to materialize.

The strategic decisions Bob made were the right ones; and undoubtedly saved the company. Management has since continued to take bold steps, looking to maximize any available avenues for growth—be it through brines, salt, lithium, or water. It is doing exactly what it said it would, which goes a long way to restoring credibility.

Bob has also continued to align himself with common shareholders. SEC [form-4 filings](#) cover 20 open market purchases since Mar-2016. For people that had voiced concerns about Bob "stealing" the company at a lowball price. Well, he is... he's just doing it in plain sight.

He also brought in major shareholders to stabilize the investor base. *Fairfax* turned out just to be a "renter," but *Clearway Capital* has been the opposite. That fund is the cache of Gonzalo Avendaño, owner and patron of the *Patagones Polo Club*; and has quietly amassed over 17m shares, second largest holder behind Bob.

Counting those two, the other founder (Hugh Harvey), another director ("Lanny"), and *Blackrock*—nearly half the shares are locked up between five people/entities. The limited float rarely gets mentioned, but it provides a solid foundation to base a move higher.

Long story short, *Intrepid* is a business that will survive long into the future.

Betting on Joc – The Recap

But all the right decisions in the world can't overcome the wrong macro environment. That is the harsh reality of commodity markets. Bob couldn't do it without help. This was the focus of the "*Bet on Joc*"—a wager on CEO of Potash Saskatchewan, Jochen Tilk, to stabilize the market through pursuit of a price over volume strategy.

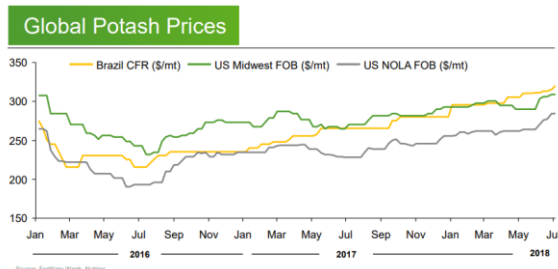
What I'd written was:

"The time to find cheap MOP potash has been had and a line in the sand is now drawn that prices are moving higher. Intrepid isn't directly influenced by [this], it is indirectly influenced [though], as spot prices represent the biggest wildcard in the equation for FCF in FY'17 and beyond.

But even with only relative stability, the company appears to positioned itself well going forward, regardless of whether the analyst community has taken notice.”

And that is exactly what we’ve gotten... *stability*.

Nobody was predicting that outcome. Analysts were all ballyhooing supply/demand being out of whack. But lo and behold, MOP prices had *already* bottomed a little less than a month earlier. It was literally the “floor” on U.S. Midwest and NOLA FOB pricing.



It’s actually been a fair bit better than relative stability. Rational supply and solid demand has helped support a protracted, steady recovery; and is why ag commodity companies such as *Nutrien ltd.* (NTR:NYSE), *Mosaic* (MOS:NYSE), and *CF Industries* (CF:NYSE) all trade at/near 52-week and multi-year highs.

In the article, I’d laid out some numbers for what this could mean to IPI in terms of revenue, non-GAAP gross margin, cash flow, etc. These model projections have been spot-on with what the company is now reporting based on a “clean look” of the MOP side over the last 6 quarters without lower-cost-or-market adjustments.

This improvement has not been reflected in valuation. To be sure, the stock has done well. But the price target had been predicated on a 12% FCF yield.

With the ascent from distress, that is no longer tenable.

The issue for why it persists relates to the challenges of evaluating GAAP vs. non-GAAP figures in MOP potash, as well as various non-market developments that have impacted Trio. Fair value for the mines is subjective, but I still believe it would be in the \$750m-\$1b+ range; and likely to get there sooner rather than later.

This is not new though. It’s no change from what I said. It just takes time to naturally play out.

There is an entirely *new* aspect to the story though, one that is different from the challenges/opportunities that were discussed in the previous two articles; and one that is worth writing about. But before discussing it, we need a little background on the *Permian basin*.

Permian Basin

Even among casual investors, it is understood that the *Permian Basin* is something *important* to the future of oil & gas, a sector (XLE:NYSE) which represents ~5%+ weighting in the *S&P 500* index.

Yet few seem to understand *why*.

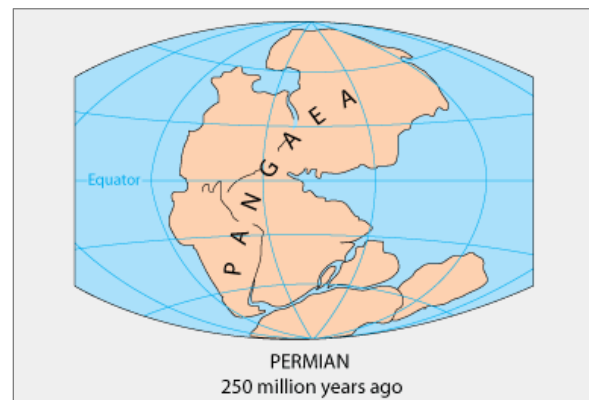
To explain takes an understanding of geologic time.

Geologic Time Scale (GTS) is the strata-based system of chronological dating which divides time into *eons*, *eras*, *periods*, *epochs* and *ages*.

Eons are the largest division—spanning an incredibly long amount of time. The entire 4.5-billion-year history of Earth is covered in just *four* eons. Not a lot happened during the first three, which are lumped together into one giant boring *supereon*. Basically just 4 billion years of foundation. Formation of the moon; asteroids and comets smashing into things; water and atmosphere; Signs of early life with single-celled organisms, slowly evolving into multi-celled organisms. Effectively, just setting the stage for the *Cambrian* explosion. Boom!

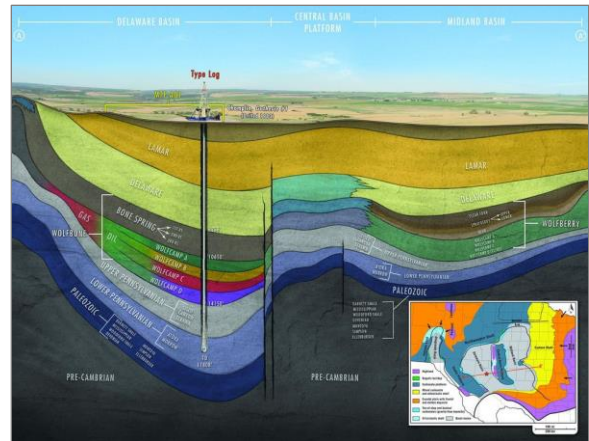
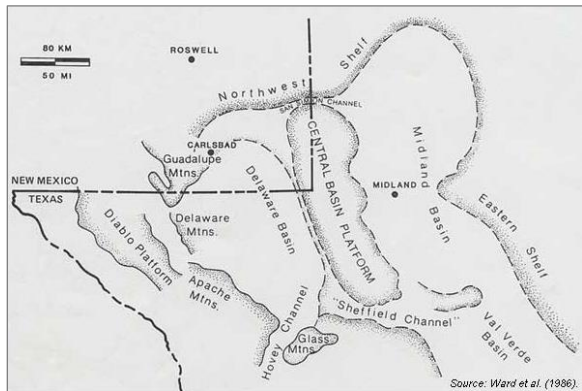
The Cambrian was the initial *period* that kick-started the *Phanerozoic* eon (which we are still currently in). It was not an actual explosion, but rather a *burst of life* that took place around 540 million years ago. It was a period of rapid, mass biodiversity. Four billion years of evolution with little to show for it, then, bang! All of a sudden... evolution went wild. An [exhilarating chapter](#), at least by the standards of geologic time.

Subdividing the Phanerozoic eon, it was also the start of the *Paleozoic* era, which lasted around 300 million years and is encompassing the *Cambrian*, *Ordovician*, *Silurian*, etc. periods. The era ended with the *Permian*. This is important to understanding the *Permian Basin* for a bunch of reasons, beyond just its name.



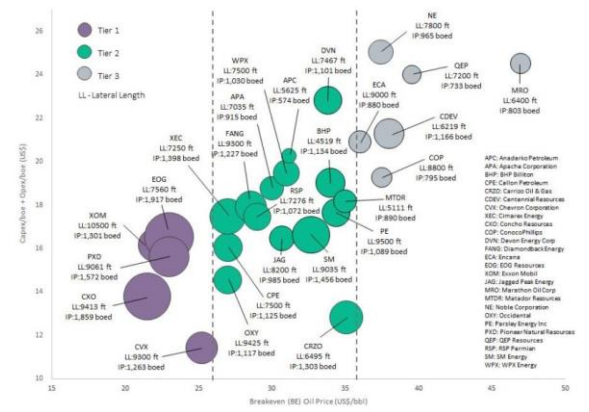
First, it was during the Permian period in which all the major land masses collided together to form *Pangaea*. Tectonic plate activity that accompanied this formation of the supercontinent is what is largely responsible for the structural, *physical* development of the basin itself.

Prior to the collisions, during the pre-Permian periods, the region was a shallow, broad, marine area known as the *Tobosa* basin. But following the tectonic collisions, it was differentiated into two deep basins (*Delaware & Midland*) surrounding a shallow central platform that is recognizable as today's *Permian*.²



The big difference is *economics*. While the Persian Gulf has high pressure/flow wells with massive reserves in a relatively handy location that can be maintained with minimal exploration costs, the Permian Basin has been largely inaccessible since it was discovered around 100 years ago. This made it uneconomical, at least until the last ~10 years, when dramatic increases in productivity were brought about by new technology innovations in horizontal/directional drilling (i.e. fracking) and use of proppants to keep fractures in the rock open longer.

Second, it was during this period that nearly everything died. Scientists aren't really sure why, but almost 90% of all species on the planet were killed off. It would take almost 10 million years for the surviving species (which became the dinosaurs, *wooo!*) to recover. This event, known as *PT Extinction*, marks the end of the Permian and the start of the *Triassic* (*Mesozoic* era). The plant and marine life that died, though, got layered over the ocean floor and covered in a sedimentary time capsule, which could compress into hydrocarbons over millions of years (i.e. "fossil fuel").^{3, 4}



The third factor is it was warm. Like tropically warm. While the Permian basin we know resides under Texas (and a small, little sliver of eastern New Mexico!), this was not always the case. When it was formed, as part of *Pangaea*, it resided much closer to the equator. It was only later when *Pangaea* rifted (*Laurasia & Gondwana*) and eventually separated into *Laurentia*, forming the independent North American continent, that it reached its current destination in the Southwestern U.S.

This has made it the lowest cost basin in the U.S. with certain breakeven costs at less than \$25 per barrel; and it is why it is set to become the most prolific oil field the world has ever known...

Enter *Permiania*...

This *formula*—a large accumulation of organic life in a warm, shallow sea area which then dies off, but gets preserved in sediment—is the same "recipe for success" at just about every major oil field throughout the world. For instance, all the fields adjacent to the Persian Gulf, including the *Ghawar*, *Safaniya*, and *Burjan* oil fields in Kuwait/Saudi Arabia, owe their characteristics to a similar dynamic with the *Tethys Ocean*.

Permania

This is why the Permian Basin is now considered the “crown jewel” of the U.S. oil & gas industry.

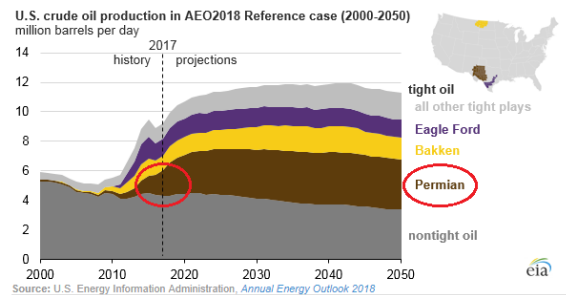
Pay close attention to the map below. That represents all the major shale plays in the lower-48 United States. The red circle (added) is the Permian Basin, which is expected to account for the vast majority of growth on our path forward towards energy independence.

According to the all-important *Annual Energy Outlook* (AEO), a report published by the *Energy Information Administration* (EIA), that was [most recently released](#) in Jan-2019:

“Recent growth in U.S. crude oil production has been driven by the development of tight oil resources, primarily in the Permian Basin. Three major [areas] in the [basin]—the Spraberry, Bone Spring, and Wolfcamp—accounted for 36% of U.S. tight oil production in 2017. Production from these three plays is projected to increase and to account for 43% of cumulative tight oil production through 2050 in the Reference case.”

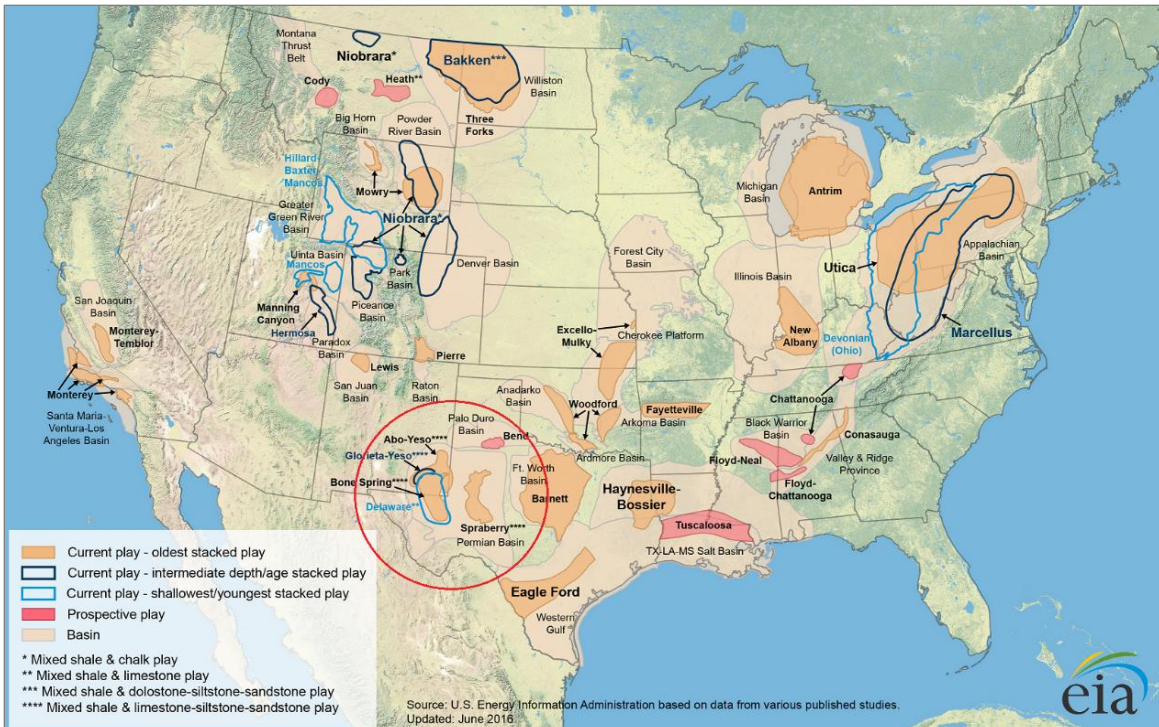
The projected increase to 40%+ of tight oil production comes even as shale oil is expected to grow from less than 55% of total U.S. production to nearly 70% during the same time frame. The Permian basin is expected to be both the largest contributor *and* the fastest growing region—a very special combination from an investment perspective.

It is this consensus view which has [breathed new life](#) into the 100-year old oil play; and has led to something of a modern-day “gold rush” with major oil producers scrambling to be large-scale participants. The resulting [land grab](#) has seen prices in the region skyrocket from only ~\$2k/acre in the early 2000s, to a range of nearly \$20k-\$30k/acre in more recent transactions.

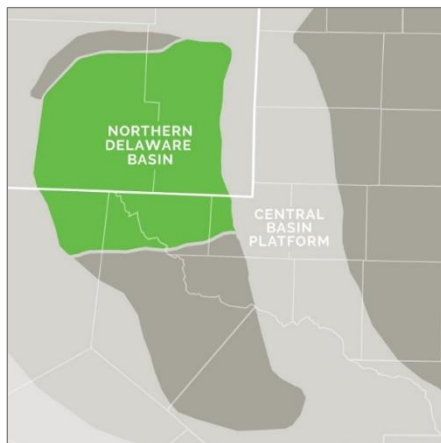


ExxonMobil (XOM:NYSE) plunked down over \$6b+ to acquire the Bass family’s *BOPCO*, which includes 250k acres of highly contiguous land in the Delaware Basin with an estimated 3.4b barrels of oil equivalents (BOE).

EOG Resources (EOG:NYSE) merged with *Yates* (YPC) in a relatively modest \$2.5b transaction in 2016 to take advantage of that company’s significant presence in the Northern Delaware Basin & Northwest Shelf. It’s been setting records ever since, drilling absolute “gushers” with some of the largest test wells ever recorded.



RSP Permian (RSPP) completed a number of small land acquisitions in 2014-2016; and then itself was bought by *Concho Resources* (CXO:NYSE) as part of a \$9.5bn merger that closed in Jul-2018. Concho's website now sports the popular mantra "*We are the Permian Basin*", and in particular, mentions the Northern Delaware as the largest core area that has rapidly advanced from an exploration play to large-scale development over just the past three years.



Similarly, *Energren* (EGN:NYSE) which announced late last year that it was being acquired by *Diamondback Energy* (FANG:NGS) in a \$9.2b transaction.

The Permian Basin has created many Wall St. favorites; and a similar blurb can be written for *Cimarex Energy* (XEC:NYSE), *Chevron* (CVX:NYSE), *Pioneer Natural* (PXD:NYSE), *Marathon Oil* (MRO:NYSE), *Occidental Petroleum* (OXY:NYSE), etc.

One Man's CapEx is Another Man's Revenue

All of that growth won't just happen overnight. There is a massive amount of spending that will need to take place first, in order to secure all the necessary upstream & midstream infrastructure for the region. This is a real capital commitment on the part of the E&Ps; but it also represents an enormous revenue opportunity to small, related businesses.

This includes all the ancillary services such as drilling, pipelines, sand/proppants, varied completion services, and water. These are the "picks & shovels" that are the true backbone of the American energy revolution.

Similar to the "land grab" among oil producers, service companies are also jockeying to secure positions for the next decade and beyond.

In drilling/horsepower, it includes companies such as *Halliburton* (HAL:NYSE), *Schlumberger* (SLB:NYSE), and *Baker Hughes* (BHGE:NYSE). Almost **50%** of all [rigs operating in the U.S.](#) are currently stationed in the Permian Basin. This is not a fly-by-night opportunity. It is a secular shift that will continue over decades.

This is leading to the "[disposal nightmare](#)" currently gripping the region in terms of higher pipeline offtake. Companies such as *NextEra Energy* (NEE:NYSE) and *Targa Resources* (TRGP:NYSE) are pushing to solve it with projects such as the *Whistler Pipeline*, etc.

It also means that completions will not be starting from a standstill. EIA began [providing estimates](#) for *drilled but uncompleted wells* (DUCs) in the major production regions in Sep-2016. The Permian now stands at over 4,000 wells, more than 2x the next largest area.

This should be a boon for companies tied to completion volume. This includes sand & proppant businesses like *U.S. Silica* (SLCA:NYSE) and *Hi-Crush* (HCLP:NYSE). Wireline services & related componentry such as *DMC Global* (BOOM:NGS); and of course, water.

Water management is a major challenge for producers. It includes "pre-frac" services in sourcing and transfer, as well as all "post-frac" solutions like containment and disposal. Because for all of the oil that is expected to be extracted from the Permian, there is approximately [4x barrels of water](#) needed for each one.

For instance, here is an excerpt from the S-1 filing for *Select Energy Services* (WTTR:NYSE), a company that came public in 2017 with hopes to be a leading provider of comprehensive water solutions:

"[...] to maximize the efficiency of their completion techniques, E&P companies have found that substantially increasing the amount of water and proppant injected into the [well] can dramatically increase production. Management estimates that completion of a horizontal well in 2009 required an average of approximately 75,000 barrels of water [...] while current horizontal well completion can require in excess of 500,000 barrels per well. [...] These volumes are amplified in multi-well pad completions which can require in excess of 5 million barrels of water per pad [...]."

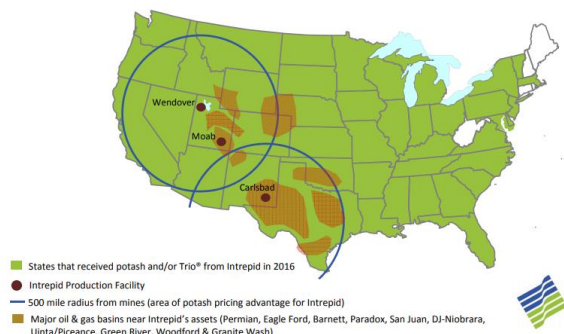
Lots and lots and lots of water...

Betting on Blue!

Ok, got it. Permian Basin. But where's the connection?

What does all this have to do with a *potash* company?

We'll take a look at the map of Intrepid's operations and focus on the Carlsbad site. The location overlaps almost perfectly with the Northern Delaware shelf area of the Permian Basin, an almost exact split of the county lines separating Lea and Eddy counties.



Then remember *how* Intrepid operates—*evaporation mining*. Huge, sparkling pools of brine that crystallize over the summer months for harvest. It does this by owning vast water rights, accumulated over nearly 100 years, stretching back to the mine's formation by V.H. McNutt, who ironically enough came looking for oil.



Standing in one of the pools at the Moab mine

Historical water rights in an area devoid of fresh water that has suddenly become intensely desirable based on anticipated drilling and completion activity.

That is the *Bet on Blue*—as the growth in demand for fresh water is expected to be staggering.

The company has said as much, for investors willing to listen. For instance, on the Q1'17 [conference call](#):

"[...] over just the past few years, surrounding our Carlsbad assets which are located in the Permian Basin, major oil companies including: ExxonMobil, Chevron, Occidental, Concho, and Devon [...] have invested billions of dollars in acquiring oil and gas assets; and have announced multi-billion-dollar drilling & completion capital programs [including] fracking of almost 2000 drilled but uncompleted (DUCs) wells in the Permian Basin. These fracs require water—which has now become in high demand with relatively limited supply. Intrepid is one of the largest water rights owners in Southeast, New Mexico; and we have begun to monetize those rights.

During the first quarter [17], we finalized multiple contracts with various [E&P] and water delivery companies to lease a portion of our significant rights; and are currently negotiating additional agreements [...]. As a result, we believe our water sales could generate between \$10m-\$15 million of additional cash flow in the next 9-12 months and hope to at least double that range annually for the next several years based on the investments made by various oil companies, their announced capital programs, the agreements we have in place, and the growing interest in our water."

That had been the second quarter the company started to talk about its water rights. And the hope to at least double the range had been fulfilled when management guided to \$20m-\$30m in sales in Q2'17. In fact, it then did investors one better when it *raised* the guidance to \$25m-\$35m in Q2'18; and also switched over to *cash flow* rather than revenue to alleviate confusion over the deferred revenue accounting treatment on its contract with XTO... the "worst kept secret" in the Permian. This figure is only set to grow in FY'19, especially following the company's announced acquisition of [Dinwiddie](#).

But therein lies the problem. Investors just don't seem willing to take management at their word.

Real and Spectacular

But the water rights are real and they are spectacular!

Analysts have postulated that it is difficult to assess the exact opportunity, but as a former sell-side analyst that specialized exclusively in small-cap, that's nonsense.

Navigating the [New Mexico Water Rights Reporting System](#) (NMWRRS) isn't simple, but it doesn't exactly require a Freedom of Information request either.

The company changed hands several times throughout the life of the mine; and while documentation is held

under many different historical entities, I was still able to pull more than 30+ documents like the one below:

CRW No. 5

IMPORTANT — READ INSTRUCTIONS ON BACK BEFORE FILLING OUT THIS FORM.

Declaration of Owner of Underground Water Right

Declaration No. 1-1684 Book LC-7 Date received Jan. 14, 1953

I, R. R. Dabney being first duly sworn upon my oath, depose and say that the following is a full and complete statement prepared in accordance with the instructions on the reverse side of this form and submitted in evidence of ownership of a valid underground water right that I have carefully read each and all of the items contained therein and that the same are true to the best of my knowledge and belief.

Potash Company of America declares.
By R. R. Dabney

Subscribed and sworn to before me this 15th day of January, A.D. 1953
My commission expires 7-30-55 Michael H. Campbell Notary Public

STATEMENT

- Name of water right owner Potash Company of America of Carlsbad County of Eddy State of New Mexico
- Source of water supply Shallow Water Basin (state whether stream or shallow water basin) located in Lea County Basin (name of underground stream, valley, artesian basin, etc.)
- The well is located in the NW 1/4 SE 1/4 SW 1/4 of section 13 Township 17S Range 33E N.M.P.M. on land owned by Potash Company of America
- Description of well: date drilled May 6, 1952 at E. Barron depth 250 feet; diameter (outside) of casing 6.0 inches; original flow Est. Capacity-300 gal. per min.; present flow Not producing gal. per min.; maximum pumping lift 180 feet; make and type of pump Well is being used for observation of water levels at present.

make, type, horsepower, etc., of power plant _____

Fractional or percentage interest claimed in well _____

- Quantity of water appropriated and beneficially used 483.88 acre feet per year claimed for Industrial and Domestic purpose.
- Acres actually irrigated and with water right None acres, located and described as follows (describe only lands actually irrigated):

Subdivision	Sec.	Twp.	Range	Acres Irrigated	Owner

(Note: location of well and acreage actually irrigated must be shown on plot on reverse side.)

- Water was first applied to beneficial use May 6, 1952 and since that time has been used fully and continuously on all of the above described lands or for the above described purpose except as follows: See (4) above

Additional statements or explanations _____

583824f

The documents cover various surface & ground water rights, which all told imply exactly what was expected. That Intrepid appears to be one of the *largest holders of water rights in Southeastern New Mexico* with an estimated 30k+ acre-feet of annual fresh water rights.

The economics of a well aren't exactly foreign language either. Intrepid has estimated revenue of \$250k-\$500k per well in its most recent slide deck. This translates to approximately 50-100+ wells per year based on the full year guidance of \$25m-\$35m in cash flow; and would validate the amount of water typically needed for a frac job, as well as the fact Intrepid is basing *current figures* on only ~1/3rd of its total water rights.

Given the amount of pent up demand in the area in the form of drilled but uncompleted (DUCs) wells, it is not

hard to build up a case for \$40m-\$50m+ of cash flow in the next couple of years. It would likely only take an additional 1-2 E&P firms operating in close proximity to the mine to want to enter into a long-term contract, similar to the deal Intrepid inked with ExxonMobil's subsidiary XTO for \$15m per year for 5 years.

Even without underwriting any growth, if the business just stabilizes, it is easy to see how it might be worth big numbers. Using the formula for a straight-line annuity, depending on assumptions for duration and discount rate, takes it over the current market capitalization of the entire company.

This would be similar to valuation techniques used for royalties businesses such as *Texas Pacific Land Trust* (TPL:NYSE) and *FRP Holdings* (FRPH:NGS)—which trade at substantial premiums to Intrepid.

The world of water rights is an interesting one, full of a unique brand of long-term value investors. This is the likes of companies such as *JG Boswell* (BWEL:OTC), *Cadiz* (CDZI:NGM), *PICO Holdings* (PICO:NGS), etc. These investors love to look beyond the margins of the present value sheet. But they haven't seemed to happen upon IPI yet. Once they do, though, and that narrative grabs hold... it could mean big valuation. Perhaps I am too optimistic, but I see no reason the water business couldn't be worth over \$1b+ in a few years' time.

Summary

In summary, it appears to me that shares of *Intrepid Potash* are massively undervalued due to a disconnect in fundamentals. The issues driving that opportunity are complex, though; and have not yet been bridged by analysts and investors.

First there was the issue of distress—the *Bet on Bob*—which at this point is over. Finished. Complete. *Dunzo!* But for some reason, investors still don't seem to fully believe it. The company's core potash business is cash flow generative at current price levels and the balance sheet is nearly back to a net cash position. Intrepid is a company that will survive and *compound capital* long into the future.

Next up was the issue of overcapacity—the *Bet on Joc*—which was depressing potash prices around the world. The sector pursued a price over volume strategy which has led to price stabilization and recovery. Agricultural commodity companies are trading near 52-week highs on expectations of continued momentum, yet Intrepid is not fully participating due to the drag from *Trio* and given misperception of its MOP production cash costs (GAAP vs. non-GAAP). While this makes sense, it has resulted in Intrepid trading at a significant discount to

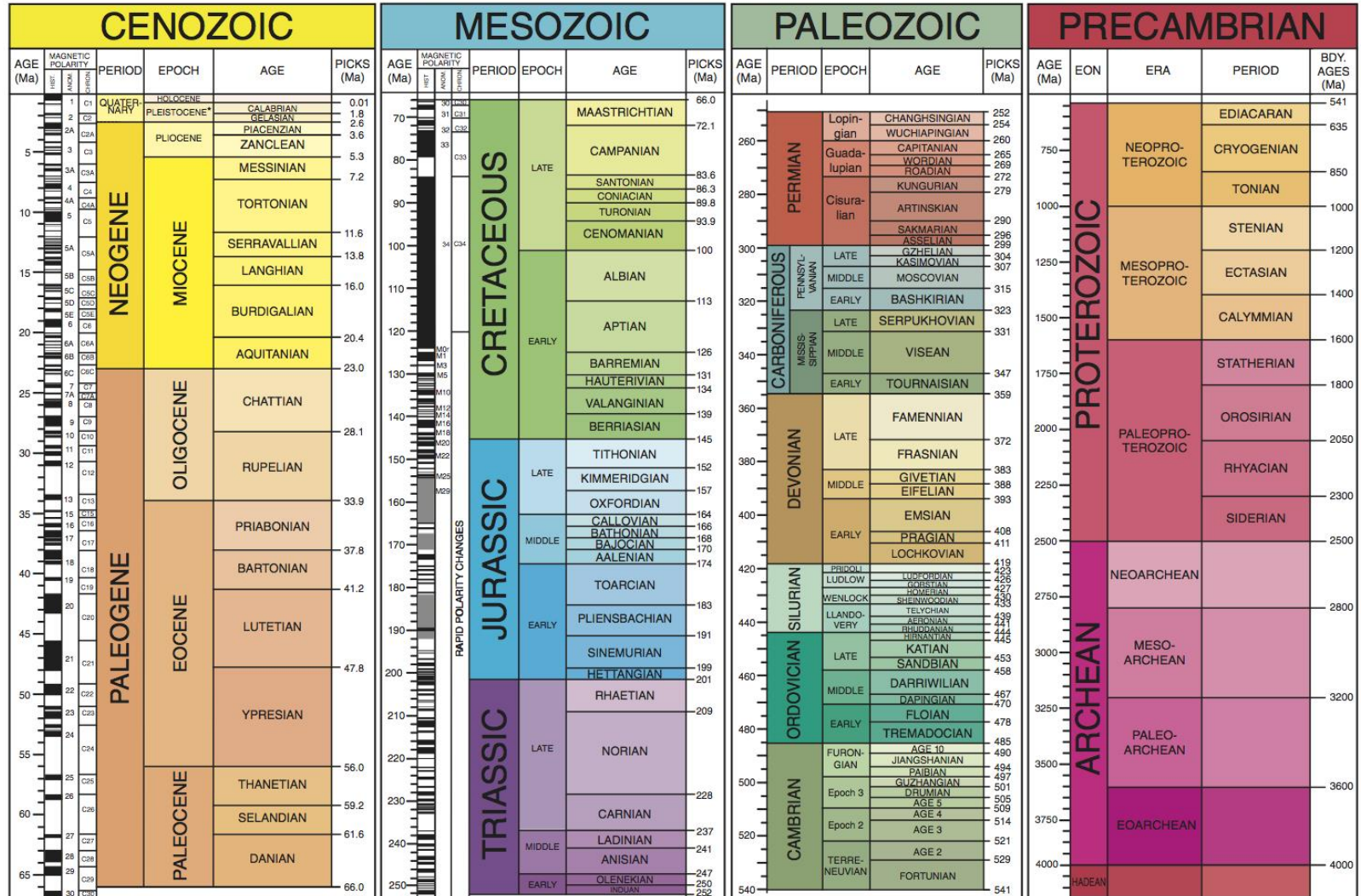
its fair value of \$1b+, which I expect it to reach sooner rather than later.

And now there is the issue of water—*the Bet on Blue*—which has helped reignite excitement among investors, but has not yet fully materialized. Investors are going to be reading about the Permian basin for the next 50 years; and water may be the single, largest unresolved question among major producers in the region. There have been billions of dollars invested and billions more already allocated to ensure *decades* of production that may ultimately set the “marginal barrel” to control the entire industry. Demand for water could be staggering and Intrepid will be monetizing the value of water right assets for years to come. Whether this helps to “protect downside” or whether it provides a meaningful avenue for growth remains uncertain. But cash flow is real and on a discounted basis it is likely worth more than the entire current enterprise value of the company.

Something doesn't add up, but it might just be that IPI is being priced far too *low*. This is the beauty of small-cap. Ephemeral moments of inefficiency that can lead to outsize returns. I expect 200-300%+ upside over the next few years, because by the time it becomes obvious it will be far too late.

That usually makes for a very good bet.

GSA GEOLOGIC TIME SCALE v. 4.0



*The Pleistocene is divided into four ages, but only two are shown here. What is shown as Calabrian is actually three ages—Calabrian from 1.8 to 0.78 Ma, Middle from 0.78 to 0.13 Ma, and Late from 0.13 to 0.01 Ma.

Walker, J.D., Geissman, J.W., Bowring, S.A., and Babcock, L.E., compilers, 2012, Geologic Time Scale v. 4.0: Geological Society of America, doi: 10.1130/2012.CTS004R3C. ©2012 The Geological Society of America. The Cenozoic, Mesozoic, and Paleozoic are the Eras of the Phanerozoic Eon. Names of units and age boundaries follow the Gradstein et al. (2012) and Cohen et al. (2012) compilations. Age estimates and picks of boundaries are rounded to the nearest whole number (1 Ma) for the pre-Cenomanian, and rounded to one decimal place (100 ka) for the Cenomanian to Pleistocene interval. The numbered epochs and ages of the Cambrian are provisional.

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ENDNOTES

1. ICL Group – Business Divisions
(<http://www.icl-group.com/about-icl/vision-strategy/>)
2. Smithsonian – When Texas Was at the Bottom of the Sea (<https://www.smithsonianmag.com/travel/when-texas-was-bottom-sea-180953653/>)
3. SEPM Strata – A Brief Tectonic History of the Permian Basin (<http://www.sepmstrata.org/page.aspx?pageid..>)
4. Bill Wurtz – history of the entire world, i guess
(<https://www.youtube.com/watch?v=xuCn8ux2gbs>)

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