

## SANCHEZ ENERGY CORP. (SN)

## '16 capex front-end loaded; South-central Catarina focus of drilling activity

## KEY TAKEAWAY

Sanchez continues to stick to its plan to significantly reduce capital spending during 2H:16, when it plans to keep only one rig operating (down from 3 rigs currently) and remains on track to spend \$200-\$250 million this year. Having already met its 50-well drilling commitment through June and on track to have 15-20 wells "banked" against the drilling 2016/2017 commitment by mid-year, Sanchez only needs to operate one rig to meet its obligations. As the build-out of the infrastructure under the Targa JV (TRGP: \$22.13; Not Rated) is completed (pipeline operational by late 1Q:16 and gas plant operational in early 2017), Sanchez should benefit from both higher yields/realizations and lower costs while maintaining the optionality of monetizing that interest at some point in the future. Looking out over the longer term (through 2018), Sanchez continues to anticipate maintaining a cash position while executing an annual maintenance capital program similar to 2016 levels. With its \$435 million cash position representing ~60% of its current liquidity, Sanchez is differentiated from a number of peers that are dependent on borrowing base availability. We believe Sanchez's liquidity differentiation makes Sanchez an attractive investment option at current levels.

## KEY POINTS

- **2016 activity to be concentrated in south-central Catarina** – With 6+ months of production data from its initial wells in the area (showing an EUR of 1.1 mmboe), activity was shifted to the south-central portion of the play in late 2015. Sanchez has drilled 11 wells in this portion of the acreage that are expected to come on-line in the coming weeks. Two rigs are currently active in the area, but plans call for one of the rigs to be released by mid-year to conserve capital in the current environment. Looking forward, activity is expected to remain in South Central Catarina through 2017, given the better relative economics. Sanchez holds a 200+ well inventory in the south-central portion of Catarina alone.
- **2016 capex front-end loaded** – Three rigs are currently active across its acreage (2 Catarina, 1 Maverick) with plans to reduce its rig count to 1 by mid-year. As a result, a majority of its \$200-250 million capex is expected to be spent during the first half of the year (~65%). While production is expected to increase slightly in the first half of the year, it will remain relatively flat throughout the year as completions are brought on-line generally balanced from quarter to quarter.
- **Catarina commitment held by 1 rig** – Sanchez met its 12-month 50 well drilling commitment (July-June) by the end of 2015, allowing any remaining drilling to be "banked" against the next 12-month commitment. The Company expects 15-20 wells to be drilled by mid-year towards its 2016 commitment with 2 rigs operating currently, but 1 rig expected to be dropped at the end of 1Q. Interestingly, drilling efficiencies continue to improve to the point that management believes it can meet its annual commitment with only 1 rig operating from 2Q:16 through 2017.

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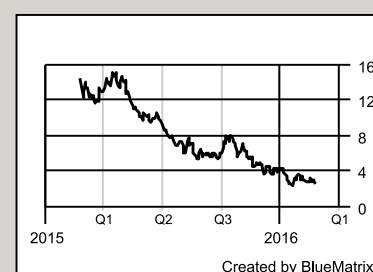
CFPS (Dec)	Q1	Q2	Q3	Q4	YEAR	P/CF
2015A	\$0.88	\$1.22	\$0.95	\$0.73	\$3.78	0.7x
2016E	\$0.67	\$0.67	\$0.68	\$0.67	\$2.69	1.0x
2017E	\$0.30	\$0.36	\$0.37	\$0.36	\$1.39	1.9x
	Production (MMcfe)	Y-O-Y / Growth			EBITDA (MM)	
2015A	115,107	72.2%		2015A	\$375.5	
2016E	112,975	(1.9)%		2016E	\$305.5	
2017E	110,342	(2.3)%		2017E	\$214.9	

SN: \$2.68

BUY

Shares Out. (MM)	NA
Deb + Pref. (MM)	\$2,017.9
Cash (MM)	\$435.0
52-wk Range	\$15.85-2.06
Avg. Daily Vol.	2,199,180

## SANCHEZ ENERGY



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- **Adjusting estimates** – After adjusting our model to account for 4Q actual results and updated guidance we are adjusting our CFPS estimates to \$2.69 and \$1.39 (from \$2.52 and \$1.21).

For additional information regarding Sanchez' operations please click [here](#) to see our note published in conjunction with its 4Q:15 earnings release and [here](#) to read our note published following its 2016 analyst day meeting.

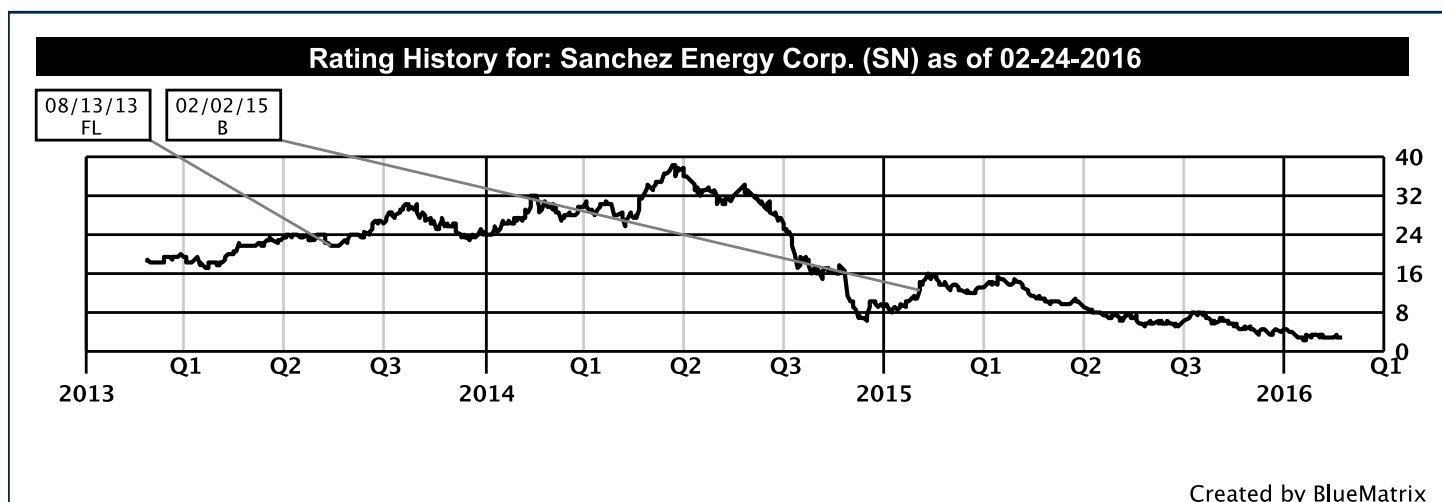
Sanchez Energy Corporation	FY:14A	1Q:15A	2Q:15A	3Q:15A	4Q:15A	FY:15A	1Q:16E	2Q:16E	3Q:16E	4Q:16E	FY:16E	FY:17E
<b>Income Statement:</b>												
<b>Revenues:</b>												
Oil, NGL, and Natural Gas Revenues	\$666,064	\$110,593	\$141,128	\$114,526	\$109,532	\$475,779	\$93,765	\$97,721	\$102,394	\$106,379	\$400,258	\$454,635
Realized Hedging Gain (Loss)	\$5,601	\$29,355	\$28,138	\$39,488	\$45,487	\$142,468	\$45,697	\$41,518	\$37,750	\$33,070	\$158,035	\$13,685
Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total Revenue</b>	<b>\$671,665</b>	<b>\$139,948</b>	<b>\$169,266</b>	<b>\$154,014</b>	<b>\$155,019</b>	<b>\$618,247</b>	<b>\$139,462</b>	<b>\$139,239</b>	<b>\$140,145</b>	<b>\$139,449</b>	<b>\$558,294</b>	<b>\$468,321</b>
<b>Expenses:</b>												
Lease Operating Expenses	\$93,581	\$34,163	\$35,658	\$40,345	\$49,448	\$159,614	\$43,889	\$43,496	\$43,577	\$43,180	\$174,142	\$170,083
Production Taxes	\$37,787	\$8,670	\$8,303	\$3,038	\$6,859	\$26,870	\$4,688	\$4,886	\$5,120	\$5,319	\$20,013	\$22,732
DD&A	\$338,097	\$102,657	\$104,717	\$89,167	\$48,031	\$344,572	\$42,709	\$42,327	\$42,406	\$42,019	\$169,462	\$165,512
Accretion Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
G&A	\$49,959	\$13,783	\$14,087	\$15,496	\$15,963	\$59,329	\$14,463	\$14,588	\$14,713	\$14,838	\$58,602	\$60,602
Stock Based Compensation	\$25,888	\$7,694	\$7,875	\$355	\$(1,093)	\$14,831	\$0	\$0	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0	\$(3,086)	\$(3,086)	\$(3,750)	\$(3,750)	\$(3,750)	\$(3,750)	\$(15,000)	\$(15,000)
<b>Total Expenses</b>	<b>\$545,312</b>	<b>\$166,967</b>	<b>\$170,640</b>	<b>\$148,401</b>	<b>\$116,122</b>	<b>\$602,130</b>	<b>\$101,999</b>	<b>\$101,547</b>	<b>\$102,066</b>	<b>\$101,606</b>	<b>\$407,219</b>	<b>\$403,929</b>
<b>Operating Income</b>	<b>\$126,353</b>	<b>(\$27,019)</b>	<b>(\$1,374)</b>	<b>\$5,613</b>	<b>\$38,897</b>	<b>\$16,117</b>	<b>\$37,462</b>	<b>\$37,692</b>	<b>\$38,079</b>	<b>\$37,842</b>	<b>\$151,075</b>	<b>\$64,391</b>
Interest Expense	\$89,800	\$31,558	\$31,500	\$32,195	\$32,260	\$127,513	\$30,734	\$30,734	\$30,734	\$30,734	\$122,938	\$122,938
Non-Recurring Expense (Income) & Other	\$201,569	\$443,274	\$468,149	\$454,628	\$0	\$1,366,051	\$0	\$0	\$0	\$0	\$0	\$0
Unrealized loss (gain) on derivatives	\$(131,796)	\$(11,948)	\$61,887	\$(64,508)	\$(15,849)	\$(30,418)	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total Interest &amp; Other</b>	<b>\$159,573</b>	<b>\$462,884</b>	<b>\$561,536</b>	<b>\$422,315</b>	<b>\$16,411</b>	<b>\$1,463,146</b>	<b>\$30,734</b>	<b>\$30,734</b>	<b>\$30,734</b>	<b>\$30,734</b>	<b>\$122,938</b>	<b>\$122,938</b>
<b>Pre-Tax Income</b>	<b>(\$33,220)</b>	<b>(\$489,903)</b>	<b>(\$562,910)</b>	<b>(\$416,702)</b>	<b>\$22,486</b>	<b>(\$1,447,029)</b>	<b>\$6,728</b>	<b>\$6,957</b>	<b>\$7,345</b>	<b>\$7,108</b>	<b>\$28,138</b>	<b>(\$58,546)</b>
<b>Total Tax Provision</b>	<b>(\$11,429)</b>	<b>\$7,442</b>	<b>\$0</b>	<b>\$158</b>	<b>\$0</b>	<b>\$7,600</b>	<b>\$2,355</b>	<b>\$2,435</b>	<b>\$2,571</b>	<b>\$2,488</b>	<b>\$9,848</b>	<b>(\$20,491)</b>
<b>Income Before Extraordinary and Other</b>	<b>(\$21,791)</b>	<b>(\$497,345)</b>	<b>(\$562,910)</b>	<b>(\$416,860)</b>	<b>\$22,486</b>	<b>(\$1,454,629)</b>	<b>\$4,373</b>	<b>\$4,522</b>	<b>\$4,774</b>	<b>\$4,620</b>	<b>\$18,289</b>	<b>(\$38,055)</b>
<b>Preferred Dividends</b>	<b>\$30,478</b>	<b>\$3,991</b>	<b>\$3,991</b>	<b>\$3,991</b>	<b>\$4,035</b>	<b>\$16,008</b>	<b>\$4,020</b>	<b>\$4,020</b>	<b>\$4,020</b>	<b>\$4,020</b>	<b>\$16,078</b>	<b>\$16,078</b>
<b>Reported Net Income to Common</b>	<b>(\$52,269)</b>	<b>(\$501,336)</b>	<b>(\$566,901)</b>	<b>(\$420,851)</b>	<b>\$17,134</b>	<b>(\$1,470,637)</b>	<b>\$353</b>	<b>\$503</b>	<b>\$754</b>	<b>\$601</b>	<b>\$2,211</b>	<b>(\$54,134)</b>
Non-recurring Items, Net	\$55,067	\$446,089	\$533,844	\$392,140	\$(15,121)	\$1,356,952	\$0	\$0	\$0	\$0	\$0	\$0
<b>Recurring Net Income to Common</b>	<b>\$2,798</b>	<b>(\$55,247)</b>	<b>(\$33,057)</b>	<b>(\$28,711)</b>	<b>\$2,013</b>	<b>(\$113,685)</b>	<b>\$353</b>	<b>\$503</b>	<b>\$754</b>	<b>\$601</b>	<b>\$2,211</b>	<b>(\$54,134)</b>
<b>Reported EPS - Basic</b>	<b>(\$0.99)</b>	<b>(\$8.83)</b>	<b>(\$9.91)</b>	<b>(\$7.33)</b>	<b>\$0.30</b>	<b>(\$25.70)</b>	<b>\$0.01</b>	<b>\$0.01</b>	<b>\$0.01</b>	<b>\$0.01</b>	<b>\$0.04</b>	<b>(\$0.94)</b>
Recurring EPS - Basic	\$0.05	(\$0.97)	(\$0.58)	(\$0.50)	\$0.04	(\$1.99)	\$0.01	\$0.01	\$0.01	\$0.01	\$0.04	(\$0.94)
<b>Recurring EPS - Diluted</b>	<b>\$0.50</b>	<b>(\$0.74)</b>	<b>(\$0.42)</b>	<b>(\$0.35)</b>	<b>\$0.04</b>	<b>(\$1.40)</b>	<b>\$0.06</b>	<b>\$0.06</b>	<b>\$0.07</b>	<b>\$0.07</b>	<b>\$0.26</b>	<b>(\$0.54)</b>
<b>Recurring CFPS</b>	<b>\$6.23</b>	<b>\$0.88</b>	<b>\$1.22</b>	<b>\$0.95</b>	<b>\$0.73</b>	<b>\$3.78</b>	<b>\$0.67</b>	<b>\$0.67</b>	<b>\$0.68</b>	<b>\$0.67</b>	<b>\$2.69</b>	<b>\$1.39</b>
Shares Outst. - Basic	53,023	56,805	57,184	57,426	57,490	57,226	57,530	57,570	57,610	57,650	57,590	57,750
Shares Outst. - Diluted	66,580	69,413	69,792	70,034	70,098	69,834	70,138	70,178	70,218	70,258	70,198	70,358
Convertible Preferred Shares	13,558	12,608	12,608	12,608	12,608	12,608	12,608	12,608	12,608	12,608	12,608	12,608
<b>Discretionary Cash Flow &amp; EBITDA:</b>												
Adjusted Net Income	\$2,798	(\$55,247)	(\$33,057)	(\$28,711)	\$2,013	(\$115,002)	\$353	\$503	\$754	\$601	\$2,211	(\$54,134)
DD&A	\$338,097	\$102,657	\$104,717	\$89,167	\$48,031	\$344,572	\$42,709	\$42,327	\$42,406	\$42,019	\$169,462	\$165,512
Deferred Taxes	\$17,384	\$666	\$0	\$9	\$0	\$675	\$2,355	\$2,435	\$2,571	\$2,488	\$9,848	(\$20,491)
Stock Based Comp	\$25,888	\$7,694	\$7,875	\$355	\$(1,093)	\$14,831	\$0	\$0	\$0	\$0	\$0	\$0
Accretion Expense	\$0	\$1,500	\$1,500	\$1,500	\$1,500	\$6,000	\$1,500	\$1,500	\$1,500	\$1,500	\$6,000	\$6,000
Other	\$0	\$0	\$0	\$0	\$(3,086)	\$(3,086)	\$(3,750)	\$(3,750)	\$(3,750)	\$(3,750)	\$(15,000)	\$(15,000)
<b>Discretionary Cash Flow</b>	<b>\$384,167</b>	<b>\$57,270</b>	<b>\$81,035</b>	<b>\$62,320</b>	<b>\$47,365</b>	<b>\$247,990</b>	<b>\$43,168</b>	<b>\$43,015</b>	<b>\$43,481</b>	<b>\$42,858</b>	<b>\$172,521</b>	<b>\$81,888</b>
<b>EBITDA</b>	<b>\$490,610</b>	<b>\$83,332</b>	<b>\$111,218</b>	<b>\$95,135</b>	<b>\$85,835</b>	<b>\$375,520</b>	<b>\$76,421</b>	<b>\$76,269</b>	<b>\$76,735</b>	<b>\$76,112</b>	<b>\$305,537</b>	<b>\$214,903</b>

Sanchez Energy Corporation	FY:14A	1Q:15A	2Q:15A	3Q:15A	4Q:15A	FY:15A	1Q:16E	2Q:16E	3Q:16E	4Q:16E	FY:16E	FY:17E
<b>Production &amp; Pricing:</b>												
<b>Daily Production</b>												
Daily Crude Oil Production (bpd):	16,656	19,817	21,066	18,166	19,488	19,629	17,338	17,188	17,038	16,888	17,112	16,637
Daily NGL Production (bpd):	7,097	12,453	16,122	16,400	18,016	15,765	17,366	17,216	17,066	16,916	17,140	16,803
Daily Natural Gas Production (Mcf):	40,624	77,684	100,391	109,671	123,665	102,997	104,665	103,665	102,665	101,665	103,160	101,665
Daily Oil Equiv. Prod. (Boepd)	30,524	45,217	53,920	52,845	58,115	52,560	52,148	51,682	51,215	50,748	51,446	50,384
Daily Natural Gas Equiv. Prod. (MMcf)	183,146	271,304	323,519	317,067	348,689	315,362	312,889	310,089	307,289	304,489	308,674	302,306
<b>Total Production</b>												
Total Crude Oil Production (Mmbbls):	6,080	1,784	1,917	1,671	1,793	7,165	1,578	1,564	1,567	1,554	6,263	6,073
Total NGL Production (Mmbbls):	2,591	1,121	1,467	1,509	1,657	5,754	1,580	1,567	1,570	1,556	6,273	6,133
Total Natural Gas Production (MMcf):	14,828	6,992	9,135	10,090	11,377	37,593	9,525	9,434	9,445	9,353	37,756	37,108
Total Oil Equiv. Prod. (Mboe):	11,141	4,070	4,907	4,862	5,347	19,184	4,745	4,703	4,712	4,669	18,829	18,390
Total Natural Gas Equiv. Prod. (MMcfe):	66,848	24,417	29,440	29,170	32,079	115,107	28,473	28,218	28,271	28,013	112,975	110,342
<b>Production Metrics</b>												
% Crude Oil	55%	44%	39%	34%	34%	37%	33%	33%	33%	33%	33%	33%
% NGL	23%	28%	30%	31%	31%	30%	33%	33%	33%	33%	33%	33%
% Dry Gas	22%	29%	31%	35%	35%	33%	33%	33%	33%	33%	33%	34%
<b>Hedging Statistics</b>												
Crude Oil % Hedged	57%	62%	66%	77%	72%	69%	104%	105%	106%	107%	105%	0%
Total Production % Hedged	36%	52%	47%	48%	43%	47%	66%	67%	67%	68%	67%	25%
<b>Pricing Summary:</b>												
<b>Crude Oil Pricing (\$/bbl):</b>												
JRCO Crude Oil Pricedek (\$/bbl)	\$92.29	\$48.59	\$59.31	\$46.48	\$42.02	\$49.10	\$40.00	\$42.00	\$44.00	\$46.00	\$43.00	\$50.00
Realized Price	\$88.64	\$42.35	\$51.90	\$41.61	\$35.37	\$42.99	\$34.47	\$36.40	\$38.14	\$39.87	\$37.21	\$43.34
Differential % of WTI	98%	87%	88%	90%	84%	87%	86%	87%	87%	87%	87%	87%
Realized (Incl. Hedging)	\$89.60	\$57.33	\$63.75	\$62.25	\$57.68	\$59.20	\$59.32	\$59.37	\$59.19	\$58.98	\$59.22	\$43.34
Hedging Impact (\$/Bbl)	\$0.96	\$14.98	\$11.85	\$20.64	\$22.31	\$16.21	\$24.85	\$22.97	\$21.06	\$19.11	\$22.01	\$0.00
<b>NGL Pricing (\$/bbl):</b>												
Realized Price	\$28.31	\$12.36	\$12.06	\$11.30	\$12.31	\$12.20	\$10.52	\$11.04	\$11.57	\$12.10	\$11.31	\$13.15
% of WTI NYMEX	31%	25%	20%	24%	29%	25%	26%	26%	26%	26%	26%	26%
<b>Natural Gas Pricing (\$/Mcf):</b>												
JRCO Natural Gas Pricedek (\$/Mcf)	\$4.39	\$2.98	\$2.64	\$2.78	\$2.27	\$2.67	\$2.40	\$2.50	\$2.60	\$2.75	\$2.56	\$3.00
Realized Price	\$4.06	\$3.03	\$2.62	\$2.77	\$2.26	\$2.63	\$2.39	\$2.49	\$2.59	\$2.74	\$2.55	\$2.99
Differential % of Henry Hub	98%	102%	99%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Realized (Incl. Hedging)	\$4.06	\$3.41	\$3.21	\$3.26	\$2.74	\$3.14	\$3.07	\$3.08	\$3.09	\$3.10	\$3.09	\$3.36
<b>Revenue Metrics</b>												
% Crude Oil	81%	68%	70%	61%	58%	65%	58%	58%	58%	58%	58%	58%
% NGLs	10%	13%	13%	15%	19%	15%	18%	18%	18%	18%	18%	18%
% Natural Gas	9%	19%	17%	24%	23%	21%	24%	24%	24%	24%	24%	24%

Sanchez Energy Corporation	FY:14A	1Q:15A	2Q:15A	3Q:15A	4Q:15A	FY:15A	1Q:16E	2Q:16E	3Q:16E	4Q:16E	FY:16E	FY:17E
<b>Unit Costs (\$/bce):</b>												
<b>Oil &amp; Gas Revenues</b>	<b>\$60.29</b>	\$34.39	\$34.50	\$31.68	\$28.99	<b>\$32.23</b>	\$29.39	\$29.61	\$29.74	\$29.87	<b>\$29.65</b>	<b>\$25.47</b>
Lease Operating Expense	<b>\$8.40</b>	\$8.39	\$7.27	\$8.30	\$9.25	<b>\$8.32</b>	\$9.25	\$9.25	\$9.25	\$9.25	<b>\$9.25</b>	<b>\$9.25</b>
Production Taxes	<b>\$3.39</b>	\$2.13	\$1.69	\$0.62	\$1.28	<b>\$1.40</b>	\$0.99	\$1.04	\$1.09	\$1.14	<b>\$1.06</b>	<b>\$1.24</b>
Accretion Expense	<b>\$0.00</b>	\$0.00	\$0.00	\$0.00	\$0.00	<b>\$0.00</b>	\$0.00	\$0.00	\$0.00	\$0.00	<b>\$0.00</b>	<b>\$0.00</b>
Prod. Taxes as a % of Revenues	<b>5.67%</b>	7.84%	5.88%	2.65%	6.26%	<b>5.65%</b>	5.00%	5.00%	5.00%	5.00%	<b>5.00%</b>	<b>5.00%</b>
Total Operating Costs	<b>\$11.79</b>	\$10.53	\$8.96	\$8.92	\$10.53	<b>\$9.72</b>	\$10.24	\$10.29	\$10.34	\$10.39	<b>\$10.31</b>	<b>\$10.48</b>
Gross Margin	<b>\$48.49</b>	\$23.86	\$25.54	\$22.76	\$18.46	<b>\$22.51</b>	\$19.15	\$19.32	\$19.41	\$19.48	<b>\$19.34</b>	<b>\$14.98</b>
DD&A Expense	<b>\$30.35</b>	\$25.23	\$21.34	\$18.34	\$8.98	<b>\$17.96</b>	\$9.00	\$9.00	\$9.00	\$9.00	<b>\$9.00</b>	<b>\$9.00</b>
G&A Expense	<b>\$4.48</b>	\$3.39	\$2.87	\$3.19	\$2.99	<b>\$3.09</b>	\$3.05	\$3.10	\$3.12	\$3.18	<b>\$3.11</b>	<b>\$3.30</b>
Net Interest & Preferred Dividend Expense	<b>\$10.80</b>	\$8.74	\$7.23	\$7.44	\$6.79	<b>\$7.48</b>	\$7.32	\$7.39	\$7.38	\$7.44	<b>\$7.38</b>	<b>\$7.56</b>
Cash Taxes	<b>\$0.00</b>	\$0.00	\$0.00	\$0.00	\$0.00	<b>\$0.00</b>	\$0.00	\$0.00	\$0.00	\$0.00	<b>\$0.00</b>	<b>\$0.00</b>
Total Cash Costs	<b>\$27.07</b>	\$22.65	\$19.06	\$19.55	\$20.31	<b>\$20.29</b>	\$20.61	\$20.78	\$20.83	\$21.01	<b>\$20.81</b>	<b>\$21.34</b>
<b>Cash Flow Statement:</b>												
Decrease (Increase) in WC	<b>\$6,238</b>	\$11,687	\$16,314	\$33,588	\$2,049	<b>\$63,638</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	<b>\$0</b>
Other	<b>\$24,930</b>	(\$5,156.57)	(\$11,745.00)	(\$16,674.31)	\$4,035	<b>(\$29,541)</b>	\$4,019.59	\$4,019.59	\$4,019.59	\$4,020	<b>\$16,078</b>	<b>\$16,078</b>
<b>Cash Flow from Operations</b>	<b>\$415,335</b>	\$63,800	\$85,604	\$79,234	\$53,449	<b>\$282,087</b>	\$47,187	\$47,035	\$47,500	\$46,877	<b>\$188,600</b>	<b>\$97,966</b>
<b>Cash Flow from Investing</b>												
Capital Expenditures	<b>(\$790,462)</b>	(\$212,584)	(\$133,000)	(\$133,000)	(\$100,000)	<b>(\$578,584)</b>	(\$70,000)	(\$70,000)	(\$35,000)	(\$35,000)	<b>(\$210,000)</b>	<b>(\$200,000)</b>
Divestitures (Acquisitions)	<b>(\$574,917)</b>	\$81,958	(\$224)	(\$7,658)	\$345,000	<b>\$419,076</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	<b>\$0</b>
Leasing & Infrastructure	<b>(\$70,000)</b>	\$841	(\$2,686)	(\$2,727)	(\$11,250)	<b>(\$15,822)</b>	(\$5,000)	(\$5,000)	(\$5,000)	(\$5,000)	<b>(\$20,000)</b>	<b>(\$20,000)</b>
Other	<b>\$74,115</b>	(\$58,000)	(\$19,257)	(\$6,758)	\$0	<b>(\$84,015)</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	<b>\$0</b>
<b>Cash Flow from Investing Activities</b>	<b>(\$1,361,264)</b>	(\$187,785)	(\$155,167)	(\$150,143)	\$188,750	<b>(\$304,345)</b>	(\$92,500)	(\$92,500)	(\$57,500)	(\$57,500)	<b>(\$300,000)</b>	<b>(\$220,000)</b>
<b>Cash Flows from Financing</b>												
Increase in Long Term Debt	<b>\$1,252,250</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	<b>\$0</b>
Decrease in Long Term Debt	<b>(\$100,000)</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	<b>\$0</b>
Proceeds from Sale of Common Stock	<b>\$176,250</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	<b>\$0</b>
Other	<b>(\$31,910)</b>	(\$400)	\$0	\$0	\$0	<b>(\$400)</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	<b>\$0</b>
<b>Cash Flows from Financing Activities</b>	<b>\$1,266,112</b>	(\$4,391)	(\$3,991)	(\$3,991)	(\$4,035)	<b>(\$16,408)</b>	(\$4,020)	(\$4,020)	(\$4,020)	(\$4,020)	<b>(\$16,078)</b>	<b>(\$16,078)</b>
Net Cash Flow	<b>\$320,183</b>	(\$128,376)	(\$73,554)	(\$74,900)	\$238,164	<b>(\$38,666)</b>	(\$49,332)	(\$49,485)	(\$14,019)	(\$14,642)	<b>(\$127,479)</b>	<b>(\$138,112)</b>

Sanchez Energy Corporation	FY:14A	1Q:15A	2Q:15A	3Q:15A	4Q:15A	FY:15A	1Q:16E	2Q:16E	3Q:16E	4Q:16E	FY:16E	FY:17E
<b>Balance Sheet:</b>												
Cash & Equivalents	\$473,714	\$345,338	\$271,784	\$196,884	\$435,048	\$435,048	\$385,716	\$336,230	\$322,211	\$307,569	\$307,569	\$169,457
Other Current Assets	\$208,041	\$184,268	\$133,896	\$191,339	\$231,570	\$231,570	\$231,570	\$231,570	\$231,570	\$231,570	\$231,570	\$231,570
<b>Total Current Assets</b>	<b>\$681,755</b>	<b>\$529,606</b>	<b>\$405,680</b>	<b>\$388,223</b>	<b>\$666,618</b>	<b>\$666,618</b>	<b>\$617,286</b>	<b>\$567,800</b>	<b>\$553,781</b>	<b>\$539,139</b>	<b>\$539,139</b>	<b>\$401,027</b>
<b>Net Property, Plants and Equipment</b>	<b>\$2,261,678</b>	<b>\$1,848,781</b>	<b>\$1,412,780</b>	<b>\$1,009,682</b>	<b>\$756,103</b>	<b>\$756,103</b>	<b>\$805,894</b>	<b>\$856,067</b>	<b>\$871,161</b>	<b>\$886,641</b>	<b>\$886,641</b>	<b>\$941,129</b>
Other Assets	\$131,977	\$97,564	\$116,853	\$134,315	\$119,623	\$119,623	\$119,623	\$119,623	\$119,623	\$119,623	\$119,623	\$119,623
<b>Total Assets</b>	<b>\$3,075,410</b>	<b>\$2,475,951</b>	<b>\$1,935,313</b>	<b>\$1,532,220</b>	<b>\$1,542,344</b>	<b>\$1,542,344</b>	<b>\$1,542,802</b>	<b>\$1,543,490</b>	<b>\$1,544,565</b>	<b>\$1,545,403</b>	<b>\$1,545,403</b>	<b>\$1,461,779</b>
Current Portion of Long-Term Debt	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Current Liabilities	\$302,198	\$194,422	\$198,938	\$216,292	\$167,506	\$167,506	\$169,006	\$170,506	\$172,006	\$173,506	\$173,506	\$179,506
<b>Total Current Liabilities</b>	<b>\$302,198</b>	<b>\$194,422</b>	<b>\$198,938</b>	<b>\$216,292</b>	<b>\$167,506</b>	<b>\$167,506</b>	<b>\$169,006</b>	<b>\$170,506</b>	<b>\$172,006</b>	<b>\$173,506</b>	<b>\$173,506</b>	<b>\$179,506</b>
Long-Term Debt	\$1,746,263	\$1,746,490	\$1,746,649	\$1,746,807	\$1,746,966	\$1,746,966	\$1,746,966	\$1,746,966	\$1,746,966	\$1,746,966	\$1,746,966	\$1,746,966
Other Long-Term Liabilities	\$27,362	\$29,094	\$42,808	\$42,698	\$84,040	\$84,040	\$90,414	\$96,869	\$103,459	\$109,967	\$109,967	\$105,554
Preferred Equity	\$270,941	\$270,941	\$270,941	\$270,941	\$270,941	\$270,941	\$270,941	\$270,941	\$270,941	\$270,941	\$270,941	\$270,941
<b>Total Shareholder Equity</b>	<b>\$999,587</b>	<b>\$505,945</b>	<b>(\$53,082)</b>	<b>(\$473,577)</b>	<b>(\$456,168)</b>	<b>(\$456,168)</b>	<b>(\$463,584)</b>	<b>(\$470,851)</b>	<b>(\$477,866)</b>	<b>(\$485,035)</b>	<b>(\$485,035)</b>	<b>(\$570,247)</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$3,075,410</b>	<b>\$2,475,951</b>	<b>\$1,935,313</b>	<b>\$1,532,220</b>	<b>\$1,542,344</b>	<b>\$1,542,344</b>	<b>\$1,542,802</b>	<b>\$1,543,490</b>	<b>\$1,544,565</b>	<b>\$1,545,403</b>	<b>\$1,545,403</b>	<b>\$1,461,779</b>
<b>Working Capital</b>	<b>\$379,557</b>	<b>\$335,184</b>	<b>\$206,742</b>	<b>\$171,931</b>	<b>\$499,112</b>	<b>\$499,112</b>	<b>\$448,280</b>	<b>\$397,294</b>	<b>\$381,775</b>	<b>\$365,633</b>	<b>\$365,633</b>	<b>\$221,521</b>
<b>Reserves</b>												
Gas Reserves (Mmcf)	420,576					478,278					478,145	477,074
Oil Reserves (Mbbbl)	64,704					68,600					67,733	66,766
Total Reserves (Mmcf)	808,800					889,880					884,545	877,669
Total Reserves (Mboe)	134,800					148,313					147,424	146,278
Gas as % of Total	52%					54%					54%	54%
Reserve Life (Yrs.)	12.1					7.7					7.8	8.0

## REQUIRED DISCLOSURES



Legend: I - Initiating Coverage, R - Resuming Coverage, S - Suspending Coverage, T - Terminating Coverage

**Valuation Methodology**

We may use one or more of the following valuation methodologies to evaluate the intrinsic value of the stock and its anticipated performance relative to the Market: Price / Earnings; EV/ EBITDA; Price / Cashflow and Net Asset Value (NAV).

**Risks**

Risks which may impede the achievement of expected stock price appreciation: material change in commodity prices; regulatory, accounting or tax statute changes; interest rate increases; management changes; political or economic risks.

**Analyst Certification**

By issuing this research report, each Johnson Rice & Company LLC analyst whose name appears on the front page of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in the research report.

The research analyst principally responsible for the preparation of this report receives compensation that is based upon, among other factors, Johnson Rice's overall investment banking revenues. From time to time this firm and/or its members, employees and members of their families may have a long or short position in the securities of the issuers mentioned herein and related entities and may engage in securities transactions in a manner inconsistent with this research report.

**CURRENT STOCK RATING**

**BUY (B)** – The stock is expected to significantly outperform the Market over the next 6-12-month and we suggest purchase today.

**ACCUMULATE (AC)** – The stock is expected to outperform the Market over the next 6-12 months. Investors intending to build a position should begin purchase.

**HOLD (H)** – The stock is expected to perform in-line with the Market, or there are material pending issues which need further review.

**SELL (S)** – The stock is expected to underperform the Market and we suggest the sale of the stock..

**Not Rated (NR)** – Johnson Rice & Company does not provide an investment rating for this stock because there is not a sufficient fundamental basis for determining an investment rating.

**Rating Suspended (RS)** – The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when JRCO is acting in an advisory capacity on a merger or strategic transaction involving the company.

**STOCK RATING PRIOR TO FEBRUARY 2, 2015**

**Focus List (FL)** – The stock represents the analyst's top pick(s) within their coverage group for outperforming the expected total return to the industry sector over the next 3-months on a risk adjusted basis.

**Overweight (OW)** – The stock is expected to outperform the expected total return to the industry sector over a 12-month investment horizon.

**Equal weight (EW)** – The stock is expected to perform in-line with the expected total return to the industry sector over a 12-month investment horizon.

**Underweight (UW)** – The stock is expected to underperform the expected total return to the industry sector over a 12-month investment horizon.

**JRCO RATING DISTRIBUTIONS**

Rating Category	Count	Percent
Buy/Accumulate	93	72%
Hold	35	27%
Sell	1	1%

Of the 6 JRCO investment-banking clients, 100% are rated Buy/Accumulate, 0% are rated Hold.

**OTHER DISCLOSURES**

The information contained herein has been derived from sources we believe to be reliable, but its accuracy cannot be guaranteed. Investors should understand that statements regarding projections and/or future prospects may not be realized. This report does not purport to be a complete statement of all data relevant to the securities mentioned, and additional information is available upon request.