

July 5, 2021



Diversified Energy Announces Conditional Acquisition With Oaktree Participation

BIRMINGHAM, AL / ACCESSWIRE / July 5, 2021 /LSE-listed Diversified Energy Company PLC (LSE:DEC)("Diversified" or the "Company") announces the conditional acquisition of certain Cotton Valley and Haynesville upstream assets and related facilities ("the Assets") in the states of Louisiana and Texas from Tanos Energy Holdings III LLC ("Tanos") (the "Acquisition").

Concurrently, Oaktree Capital Management, L.P. ("Oaktree") will co-invest in the Acquisition under the joint participation agreement announced on October 5, 2020, marking Oaktree's inaugural participation in a transaction with Diversified and affirming their confidence in the Company's recently defined Central Regional Focus Area ("Central RFA"). Total cash consideration for the Acquisition is \$308 million.

Oaktree will also co-invest in the assets Diversified recently acquired from Indigo Minerals LLC ("Indigo") to more fully align both parties as working interest partners in assets located in the Cotton Valley/Haynesville region given the contiguous nature of the assets Indigo Minerals LLC ("Indigo").

Tanos Acquisition Highlights - Diversified's Interest:

1. Gross cash consideration of \$154 million (~\$118 million net at closing), equal to 50% of the total cash consideration as per Oaktree joint participation agreement
 1. Diversified will fund its portion entirely with cash on hand and existing credit capacity
 2. Diversified assumes certain below-market natural gas hedge contracts through 2023, valued at ~\$24 million as of June 25, 2021 (the "Assumed Hedges") (collectively with the cash consideration, the "Purchase Price")
 3. Net Purchase Price represents a 2.8x multiple on ~\$51 million of estimated next twelve months' ("NTM") Adjusted EBITDA^(a) before potential synergies
2. Diversified receives 51.25% working interest in the Assets inclusive of Oaktree's initial 2.5% working interest promote
 1. Diversified's working interest increases to 60% once Oaktree achieves a 10% unlevered internal rate of return ("IRR") on its investment
 2. Diversified's share of the NTM Adjusted EBITDA^(a) is 17% accretive to the Company's 2020 reported Hedged Adjusted EBITDA^(b)
3. Proved Developed Producing ("PDP") reserves of ~40 MMBoe (241 Bcfe) and PV10 of ~\$201 million^(c)
4. Current production of ~14 MBoepd (~82 MMcfepd) with 92% from ~390 net operated wells
5. Favourable Gulf Coast pricing underpins >65% cash margins
6. Post-transactions with Oaktree participation leverage ratio (2020YE pro forma) of

~1.9x

Oaktree Participation in Indigo - Highlights

1. Oaktree will acquire 48.75% of Diversified's working interest in the Indigo assets for \$58 million, representing 50% of the previously announced net purchase price
2. Consistent with the terms of the Acquisition, Diversified's working interest will increase to 60% once Oaktree achieves a 10% unlevered IRR
3. Adjusted for Oaktree's participation, Diversified retains ~8 Mboepd (49 MMcfepd) current production and ~\$21 million NTM EBITDA

Building Scale within the Central Regional Focus Area Operations

The Company signed a conditional purchase and sale agreement with Tanos on July 2, 2021 to acquire ~390 net operated wells producing ~14 MBoepd (~82 MMcfepd; 96% natural gas) located within the Cotton Valley/Haynesville producing area of northwest Louisiana and east Texas. Diversified and Oaktree expect to close the transaction in mid-August 2021 following customary diligence, reviews and approvals.

With an effective date of January 1, 2021, the Acquisition will add ~40 MMBoe (~241 Bcfe) in PDP reserves, with a PV10 of ~\$201 million^(c). The average production-weighted age of the acquired wells is ~9 years.

Consistent with Diversified's acquisition strategy, the long life, predictable and shallowing decline of the Assets' estimated ~\$51 million of NTM Adjusted EBITDA^(a) enhances the Company's free cash flow generation, with strong cash margins underpinned by high realizations from favourable Gulf Coast natural gas pricing.

The gross Purchase Price represents an approximate PV14 of the acquired reserves, and estimated net Purchase Price represents just a 2.8x multiple of NTM Adjusted EBITDA^(a) before any anticipated synergies. Accordingly, the Acquisition strengthens Diversified's dividend distribution capabilities and creates opportunities to deliver operational synergies.

This Acquisition represents the Company's third acquisition in just over two months and demonstrates its significant momentum consolidating high quality assets within its newly defined Central RFA. The Assets are complementary to the Company's recently acquired Cotton Valley assets from Indigo, and includes additional working interest in 42 wells previously acquired from Indigo.

The enlarged and geographically dense asset base is better positioned to drive near-term operating and administrative synergies. Consistent with the Company's growth strategy and to ensure an efficient and effective transition, Diversified will retain certain Tanos field personnel currently servicing the wells who will quickly begin to leverage Diversified's Smarter Asset Management programme to both optimise and maintain asset performance and realise synergies.

Oaktree Participation

Under the terms of the joint participation agreement, Oaktree jointly evaluated the asset economics and elected to coinvest in the Acquisition. Accordingly, both Diversified and Oaktree will fund 50% of the net Purchase Price in exchange for working interests of 51.25% and 48.75%, respectively. Diversified's larger share reflects the up-front promote it

will receive from Oaktree (2.5% of Oaktree's investment) and its working interest will further increase to 60% once Oaktree achieves a 10% unlevered IRR based on its investment in the Assets.

Given the contiguous nature of the Tanos Assets with Diversified's recently acquired assets from Indigo, Oaktree will also participate in the Indigo transaction to align both parties as working interest partners in assets located in the Cotton Valley/Haynesville region. Under the same participation terms detailed above, Oaktree will acquire from Diversified a 48.75% working interest in the Cotton Valley upstream assets and related infrastructure for \$58 million (or 50% of the Company's net purchase price for the Indigo assets). Diversified will use the proceeds to reduce outstanding balances on the Company's Revolving Credit Facility, with a post-transactions leverage ratio (2020YE pro forma) of approximately 1.9x. Following Oaktree's participation, the Company's working interest in the previously announced annualized Adjusted EBITDA of \$40 million and current production of ~16 MBoepd (~95 MMcfepd) will adjust proportionately to ~\$21 million and ~8 MBoepd (~49 MMcfepd), respectively. As the result of the transaction, Diversified will retain an interest in ~400 net operated wells and ~26 MMBoe (~156 Bcfe) of PDP reserves with a PV10 value of ~\$90 million. Consistent with the terms of the Acquisition, Diversified's interest will further increase to 60% when Oaktree achieves 10% unlevered internal rate of return ("IRR") on its investment.

Net of Oaktree's participation in both Tanos and Indigo, and assuming the successful completion of the Acquisition and the previously announced acquisition of Barnett assets from Blackbeard Operating LLC, the aggregate contribution of the Company's Central RFA assets represents a greater than 30% increase to Diversified's 2020 reported production and Hedged Adjusted EBITDA.

Upon closing the Acquisition, expected in mid-August 2021, the Company will fund its portion of the net cash consideration entirely with cash on hand and existing credit capacity. Subsequent to the closing, the Company will pursue increasing its Revolving Credit Facility with the additional collateral obtained from the acquisitions.

Commenting on the Acquisition, CEO Rusty Hutson, Jr. said:

"When we announced our strategic entry into the Central RFA, we expected to quickly build scale as a capable buyer with a proven track record in a region with ample opportunity. Just over two months later, we are excited to deliver results and build momentum with the addition of geographically proximate assets that represent the next step in achieving that goal and replicating our historical successes in Appalachia. Once complete, our Central RFA acquisitions will contribute over 30% of our production and Adjusted EBITDA. I would like to welcome the Tanos operations personnel who service the assets into the Diversified family, and I look forward to working with them to build value for our stakeholders."

"We are excited to partner with Oaktree in the Cotton Valley/Haynesville area, which I believe will be the first of many opportunities to partner in the region. Oaktree's participation not only demonstrates the attractive nature of these acquisitions, but also affords Diversified additional liquidity and line of sight to identify and pursue opportunities while continuing to maintain a strong balance sheet. Together, we will responsibly grow our Central RFA footprint, build scale and drive operational synergies."

The Company will host a conference call later today to discuss the Acquisition, with call details as follows:

Date: July 5, 2021

Time: 1:00 pm BST / 07:00 am CDT

US (toll-free) +1 877-407-5976

UK (toll-free) +44 (0)800 756 3429

Web Audio www.div.energy/news-events/events

Truist Securities, Inc. is serving as exclusive financial advisor to Diversified in connection with the Tanos Acquisition.

The Acquisition and the separate divestment by the Company of Oaktree's proportionate share of the Indigo assets each constitute a Class 2 transaction for the purposes of the Listing Rules, and this announcement is made in accordance with the Company's disclosure obligations pursuant to Chapter 10 of the Listing Rules.

Footnotes (for Company-specific items, refer also to the Glossary of Terms and/or Alternative Performance Measures found in the Company's 2020 Annual Report):

- (a) Acquisition NTM Adjusted EBITDA assumes historical cost structure and not reflective of synergies that may be realised following post-acquisition integration; Purchase Price multiple based on estimated net Purchase Price and Acquisition's NTM Adjusted EBITDA (unhedged)
- (b) Based on the Company's 2020 reported Adjusted EBITDA of \$301 million and the Acquisition's estimated NTM Adjusted EBITDA (unhedged) of ~\$51 million
- (c) Based on January 1, 2021 effective date and the full NYMEX strip as of June 28, 2021

Market Abuse Regulation

This announcement contains inside information for the purposes of article 7 of the UK version of regulation (EU) no. 596/2014 on market abuse ("UK MAR"), as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018, and regulation (EU) no. 596/2014 on market abuse ("EU MAR").

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About Diversified Energy Company PLC

Diversified Energy Company PLC is an independent energy company engaged in the production, marketing and transportation of primarily natural gas related to its synergistic US onshore upstream and midstream assets.

SOURCE: Diversified Energy Company PLC

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