

Diversified Energy Company Announces Conditional Acquisition of Central Region Assets

BIRMINGHAM, AL / ACCESSWIRE / October 7, 2021 /Diversified Energy Company PLC (LSE:DEC) ("Diversified" or the "Company") has entered into conditional agreements to acquire certain upstream assets, field infrastructure, equipment and facilities (the "Assets") within the Company's Central Region from Tapstone Energy Holdings, LLC and its related party - KL CHK SPV, LLC (the "Sellers") (collectively with the Assets, the "Acquisition"). Under the previously announced Strategic Participation Agreement, funds managed by Oaktree Capital Management, L.P. ("Oaktree") will make a non-operated working interest investment in the Acquisition. Total gross consideration, inclusive of Oaktree's investment is \$419 million (approximately \$366 million net of customary purchase adjustments to the August 1, 2021 effective date).

This Acquisition, which represents the third co-investment with Oaktree since May of this year, is strategically aligned with the Company's prior Central Region acquisitions which included Tanos Energy Holdings III LLC, Blackbeard Operating LLC and Indigo Minerals LLC (the "Central Region Acquisitions").

Tapstone Acquisition Highlights - Diversified's Interest:

- Gross cash consideration of ~\$218 million (~\$174 million^(a) estimated net after customary purchase price adjustments) funded entirely with cash and debt financing ("Purchase Price")
- Represents a ~1.8x multiple based on net Purchase Price and ~\$95 million of estimated Adjusted EBITDA^(b) before potential synergies
 - 80% increase to the Company's previously announced anticipated Adjusted EBITDA contribution from the Central Region Acquisitions, bringing the region's total to approximately \$214 million
- Net Purchase Price approximates a PV27 valuation at the effective date of August 1, 2021 with Proved Developed Producing ("PDP") reserves of ~35 MMBoe (208 Bcfe) and PV10 of ~\$324 million as of the effective date and based on September 28, 2021 NYMEX strip
- Current production^(c) of ~12 MBoepd (~72 MMcfepd) from ~660 net operated PDP wells
 - ~33% increase to previously announced anticipated Central Region production
 - Gas-weighted production (~80% natural gas and NGLs) and commitment to optimize existing assets aligns with Diversified's ESG strategy
- High cash margins^(d) of ~65% reflective of favorable realized pricing benefitting from higher liquids content and a competitive and scaling cost structure (\$11.69/Boe;

\$1.95/Mcfe)

- Expands the Company's Central Region footprint into the well-established, operator-fragmented Mid-Continent producing area that broadens the Company's consolidation opportunities
- Pro-forma Net Debt / Adjusted EBITDA of ~2.1x^(e)

Oaktree Participation Highlights

- Oaktree will acquire 48.75% of the working interest in the Assets for \$192 million^(a), representing ~50% of the net total consideration after customary purchase price adjustments and reflective of the 2.5% initial promote
- Oaktree's third co-investment within Diversified's Central Region, deploying an aggregate ~\$370 million of its \$1 billion commitment

Rapidly Building Scale within the Central Region

The Company signed a conditional Plan of Merger and Purchase and Sale Agreement with the Sellers on October 6, 2021, its fourth acquisition of producing assets within the Company's Central Region within the past five months. Net of Oaktree's co-investment, Diversified will acquire ~660 operated producing wells with August 2021 production of ~12 MBoepd (~72 MMcfepd; over 80% natural gas and NGLs) located in Oklahoma within the broader Mid-Continent producing area. This Acquisition demonstrates Diversified's status as a capable consolidator, highlighting its ability to build regional scale at compelling valuations. As with the broader region, the Mid-Continent also benefits from a constructive regulatory environment and aligns with the Company's operating and ESG strategic initiatives. Diversified and Oaktree expect to close the acquisition in early December 2021 upon completing customary diligence.

Diversified's expansion into the Mid-Continent producing area is a natural next step in further consolidating the Central Region and represents an entry into an established and well-developed area with strong economic fundamentals including high cash margins reflective of favorable takeaway pricing and competitive cost structure. The production weighted average well age of ~12 years complements the Company's target asset profile of mature, long-life and low-terminal decline wells. Following the Acquisition, the Company estimates its consolidated corporate decline will approximate a peer-leading 9% ^(f).

The net Purchase Price represents a highly attractive approximate PV27 of the acquired producing reserves, and the estimated net Purchase Price represents ~1.8x multiple of estimated Adjusted EBITDA^(b), which is leverage enhancing compared to the Company's consolidated 2.1x multiple. Importantly, the Acquisition highlights the Company's ability to execute value-additive acquisitions throughout the commodity price cycle.

With an effective date of August 1, 2021, Diversified's 51.25% working interest in the Acquisition adds ~35 MMBoe (~208 Bcfe) of net PDP reserves, with a PV10 of ~\$324 million with an estimated Adjusted EBITDA of \$95 million^(b), and strong cash operating margins of ~65%^(d) reflective of high realizations and a low operating cost structure that excludes the potential benefit of immediate or future synergies.

Consistent with the Company's growth strategy, Diversified intends to retain Tapstone

personnel who will assist with Diversified's Smarter Asset Management program to optimize asset performance, reduce costs and add value through realization of operational synergies within the Central Region.

The Company will fund its portion of the net cash consideration entirely with cash on hand and debt financing, resulting in an approximate pro-forma leverage of 2.1x^(e).

Hedging

The Company is acquiring the Assets unhedged and, upon closing, will opportunistically protect the Acquisition's cash flows, capitalizing on the improved forward commodities price curves.

Upon successfully completing the Acquisition, Diversified's Central Region production and Adjusted EBITDA contribution will equate to 50% and 70% of the Company's prior year (2020) Appalachia production and hedged Adjusted EBITDA, respectively. The Company remains active in its evaluation of strategically aligned asset acquisitions in this and its legacy Appalachian regions with both providing significant opportunities for further consolidation to build scale and drive synergies

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

"With a net purchase price of less than two times net cash flow, this acquisition represents another highly accretive, fully balance sheet-financed acquisition that further demonstrates our status as a capable consolidator of producing assets within the Central Region. Our enlarged regional footprint strengthens our portfolio with additional high-quality assets and added scale to drive synergies. We are pleased to once again partner with Oaktree to acquire assets at a compelling multiple and with material upside potential available through asset optimization."

"Replicating our success in Appalachia, we have quickly established ourselves as a significant operator in the Central Region, which positions us for additional growth. As we work to seamlessly integrate these assets, we look forward to welcoming Tapstone's employees to the growing Diversified family."

Later today, the Company will host a webcast/conference call to discuss the Acquisition.

Event details:

Date	October 7, 2021
Time	2:00 pm BST / 8:00 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

Evercore is serving as exclusive financial advisor to Diversified in connection with the Acquisition. Jeffries acted as sole financial advisor to the Sellers.

The Acquisition constitutes 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 and Interim Results for the Six Months Ended June 30, 2021):

- a. Differences in the allocation of Purchase Price relates to certain assets the Company is acquiring at 100% of the proportionate interest in the Acquisition (including the indirect ownership and retention of a 50.8% interest in the units of the Chesapeake Granite Wash Trust (CHKR), a publicly traded royalty interest entity) and other customary purchase adjustments and tax matters
- b. Reflects Diversified's proportionate interest of the Acquisition's next twelve months (ended December 31, 2022) Adjusted EBITDA; assumes historical cost structure using NYMEX strip as of September 28, 2021 and is not reflective of synergies that may be realized following post-acquisition integration; this figure is not intended in any way to constitute a projection of actual results attributable to the Central Region Acquisitions or consolidated pro-forma Company
- c. Current production defined as August 2021 average daily production (net) for the acquired assets
- d. Cash Margin calculated as the Acquisition's Adjusted EBITDA, see footnote (b), as a percentage of Adjusted Total Revenue (which includes as applicable natural gas, NGLs and crude oil commodity revenue, midstream revenue and other revenue)
- e. Pro-forma Net Debt / Adjusted EBITDA ("leverage") calculated as estimated post-closing Net Debt / LTM Adjusted EBITDA (hedged) as of June 30, 2021, pro-forma for the annualized impact of previously announced Central Region acquisitions; this figure is not intended in any way to constitute a projection of actual results attributable to the Central Region Acquisitions or consolidated pro-forma Company
- f. Illustrative value represents consolidated one-year total Diversified production decline, pro-forma for the Acquisition and the previously announced Central Region Acquisitions; excludes production contribution from 5 Tanos wells with less than 12 months of production history at the time of acquisition

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, as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("UK MAR"), 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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