RNS Number : 5744F
Diversified Energy Company PLC
22 March 2022

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Diversified Energy Company PLC
("Diversified" or the "Company")

Final Results for the Year Ended 31 December 2021

Diversified Energy Company PLC (LSE: DEC) is pleased to announce its annual results for the full-year ended 31 December 2021. Diversified has published to the Company's website its annual report and accounts for the year ended 31 December 2021 (the "Annual Report") and notice of the annual general meeting ("AGM") of shareholders (the "Notice") along with the form of proxy for the AGM.

Key Highlights

- Full-year production up 19% to 119 MBoepd (711 MMcefpd) (2020: 100 MBoepd) and December exit rate production[a] up 35% to 139 MBoepd (833 MMcfepd) (2020: 103 MBoepd)
- Peer-leading ~9% consolidated corporate annual decline rate[b] underpins durable dividends
- Consistent Cash Margins[c] of ≥50% in 2021 and 2020
- Hedged Adjusted EBITDA[d] up 14% y/y to $343 million (2020: $301 million)
- Net loss of $325 million (2020: net loss of $23 million) inclusive of $485 million (2020: $181 million) tax-effected, non-cash unsettled derivative fair value adjustments
- Adjusted Total Revenue[e] up 24% to $687 million (2020: $553 million) net of $321 million commodity cash hedge payments (2020: included $145 million of commodity cash hedge receipts)
- Total Revenue up 147% to $1 billion (2020: $409 million)
- Dividends per share up 8% to $0.1650 (2020: $0.1525); Total dividends paid up 31% to $130 million (2020: $99 million)
- Recommending a final quarterly dividend of $0.0425/share up 6% over final 2020 dividend of $0.0400/share
- Adding hedges in improving commodity price environment positioning for margin expansion; recent 2022 and 2023 NYMEX hedges added at an average floor of $4.55/Mcf[f] and $3.71/Mcf[f], respectively, representing a 50% premium and 30% premium, respectively, to the Company's portfolio as at 31 December 2021
- Adjusted G&A[g] per unit down 9.0% to $1.21/Boe ($0.20/Mcfe) (2020: $1.33/Boe)
- Pro forma year-end liquidity[h] of >$400 million, adjusted for two successful Asset Backed Securitisation ("ABS") refinancings of Credit Facility borrowings with fixed rates <5%; Available for significant non-dilutive growth
- Net Debt[i] of $1,010 million resulting in Net Debt-to-Pro Forma TTM Hedged Adjusted EBITDA ("Leverage") of 2.1x[j] at 31 December 2021

ESG Highlights

- Revised 2020 reported methane emissions intensity downward 62% to 1.6 MT CO2e/MMcfe using refined measures from extensive well reviews and physical measurement vs. previous reporting primarily using theoretical factors[k] (Prior 2020:4.2 MT CO2e/MMcfe)
- 2021 methane emissions intensity, inclusive of Central Regions assets, down 6% to 1.5 MT CO2e/MMcfe (Revised 2020: 1.6 MT CO2e/MMcfe)
- Deploying 600 handheld leak detection devices, enhancing our ability to identify and remediate emissions as part of our Smarter Asset Management programmes
- Progressing light detection and ranging (LiDAR) flights to detect and drive emission reduction, particularly related to compression and midstream assets
- Achieved a 10% reduction in average well retirement cost (136 wells averaging ~$22,500 per well) underpinned by a ~30% reduction in the average well retirement cost when using our retirement crews and equipment
  - The Company now has six well retirement crews with an ability to plug an estimated 200-250 wells per year
- Progressed our Climate-Related Financial Disclosures (TCFD) report with enhanced disclosures and analysis included within our Annual Report available on our company website
- Expect to publish our 2021 Sustainability Report in early April 2022

Significant 2021 & Recent Acquisition Activity

Acquired and integrated several Central Region acquisitions and an Appalachian well retirement company:

- Indigo Minerals LLC ("Indigo") for cash consideration of $117 million[l];
- Blackbeard Operating LLC ("Blackbeard") for cash consideration of $171 million;
- Tanos Energy Holdings III, LLC ("Tanos") for cash consideration of $116 million;
- Tapstone Energy Holdings LLC ("Tapstone") for cash consideration of $177 million; and
- Next LVL Energy, an Appalachian Basin plugging company headquartered in Pennsylvania.

Oaktree Capital Management L.P. ("Oaktree") significantly co-invested in Indigo, Tanos and Tapstone under the previously announced Joint Participation Agreement.

Recent Financing Activity

- Completed two leverage-neutral, liquidity-enhancing, sustainability-linked ABS transactions in February 2022 for $525 million ($501 million net of a certain transaction costs and $16 million restricted cash interest reserve for the notes)
- Weighted-average fixed coupon of 4.9% (issued at par)
- Fully amortising over ~9 years and underpinned by long-term hedge protection
- Proceeds used to reduce borrowings on the Company's Credit Facility
  - Borrowing base revised from $825 million to $500 million (reduction of $325 million vs. the $525 million of ABS gross proceeds)

Commenting on the results, CEO Rusty Hutson, Jr. said:
"I'm pleased to report another year of consistent operational excellence amplified by the strategic expansion of our low-risk, long-life, low-decline asset acquisition model into the Central Region through four accretive, complementary acquisitions and an acquisition of an established Appalachian well plugging company that significantly increases our well retirement capacities. These transactions enhanced our scale, enlarged our portfolio of Smarter Asset Management opportunities and created strategic optionality across our expanded operations. Our 2021 results reflect record average production through the year of 119 MBoepd and an exit rate of 139 MBoepd that generated Hedged Adjusted EBITDA of $343 million, 14% above the prior year. Our differentiated and value focused business model once again delivered an

exceptionally strong free cash flow of $252 million, representing a robust 40% free cash flow margin[m] *and an impressive 20% free cash flow yield*[n] *supporting our durable dividend. Our teams across all areas of our company performed very well in 2021, and I continue to be grateful and impressed with their diligence and focus on delivering exceptional results for all stakeholders.*

"To protect our profitability and dividend payments through commodity price cycles, we employ disciplined operational excellence to maximise revenue and reduce expenses while using long-term hedging to limit our exposure to price risk. This strategy once again served us well, delivering yet another year of 50% Cash Margins and supporting the steady cash generation that underpins our ability to insulate the dividend from commodity price swings. We distributed $130 million to shareholders in the period, up more than 30% from 2020 and 8% on a per-share basis, with the per-share quantum positioned to increase in 2022 due to the full-year contribution from our recent Central Region acquisitions.

"We also elevated our ESG strategy this year culminating in our commitment to accelerate our Net Zero[o] *target by 10 years to 2040, with an interim commitment to reduce our 2030 Scope I methane emissions by 50% from revised 2020 levels. To support these initiatives in 2022, we are investing $15 million in high impact projects to solidify our emissions reduction trajectory that our Smarter Asset Management programmes, enhanced by investments in emissions-detection technology, will drive to achieve our stated goals.*

"We also progressed our Asset Retirement commitments by retiring a record number of wells, leveraging our investment in vertical integration to reduce our average plugging costs by 10%, and more significantly, by 30% in West Virginia thanks to the impact of using our internal teams. Building on this success, we are adding crews to our internal teams with an eye towards using the excess capacity to retire wells for third parties, diversifying our business with the potential to offset the near-term cash costs to retire our own wells. Our acquisition of Next LVL Energy positions us to partner with U.S. state governments to plug orphan wells.

"As we look ahead, the macro environment continues to improve, which we proactively capture by adding to our hedge portfolio, increasing the downside commodity price protection. We have hedged approximately 90% of our 2022 production volumes, giving strong visibility into our free cash flow generation that positions us for meaningful non-dilutive growth in a target-rich environment. Higher commodity prices often motivate sellers to transact, so I'm encouraged by the PDP-heavy opportunities before us across an enlarged operating footprint and surrounding territories. With over $400 million in liquidity following our ABS transactions, we are well positioned to enlarge the Company's long-life, low-decline asset base without the need for additional equity at a time many quality assets are coming to market.

"I am excited about our prospects in 2022 and beyond as we evaluate strategically-aligned opportunities while remaining firmly grounded in our commitment to protect our strong balance sheet underpinned by low leverage with ~90% of our borrowings in fully-amortising structures that provide for systematic debt repayment. Well positioned, we remain ever focused on creating long-term value for our shareholders and other stakeholders."

Posting of 2021 Annual Report and Accounts, and Notice of Annual General Meeting

Diversified has published to the Company's website its 2021 Annual Report and Notice of AGM, along with the form of proxy for the AGM.

These documents can be viewed or downloaded from Diversified's website at ir.div.energy/financial-info.

The Company also provided copies of these documents to the National Storage Mechanism that, in accordance with Listing Rule 9.6.1, will be available for inspection at https://data.fca.org.uk/#/nsm/nationalstoragemechanism.

Annual General Meeting Arrangements

The Company's AGM will be held on Tuesday, 26 April 2022 at 2:00pm BST (9:00am EDT) at the offices of Buchanan Communications Limited, 107 Cheapside, London EC2V 6DN.

Results Presentation and Audiocasts

Diversified will host a conference call today at 1:00pm GMT (9:00am EDT) to discuss these results. The conference call details are as follows:

US (toll-free)	+ 1 877 407 5976
UK (toll-free)	+ 44 (0)800 756 3429
Web Audio	https://ir.div.energy/ir-calendar-events
Replay Information	https://ir.div.energy/financial-info

Footnotes: (for Company-specific items, refer also to the Glossary of Terms and/or Alternative Performance Measures found in the Company's 2021 Annual Report):

(a) Average daily net production for the months of December 2021 and December 2020, respectively;

(b) Illustrative declines based on Diversified's historical declines on Appalachian operations, adjusted for the pro-forma effect of the 2021 Central Region acquisitions;

(c) As used herein, Cash Margin is measured by reducing Adjusted Total Revenue for operating expenses and Adjusted G&A;

(d) As used herein, Hedged Adjusted EBITDA represents earnings before interest, taxes, depletion, depreciation and amortisation, and includes adjusting items that are comparable period over period, non-cash items such as gains on the sale of assets, acquisition related expenses and integration costs, mark-to-market adjustments related to Diversified's hedge portfolio, non-cash equity compensation charges and items of a similar nature;

(e) As used herein, Adjusted Total Revenue includes the impact of derivatives settled in cash;

(f) Mcf prices calculated using Diversified's corporate average Btu factor of 1.07;

(g) As used herein, Adjusted G&A represents total administrative expenses excluding cost associated with acquisitions, other adjusting costs and non-cash expenses plus recurring allowances for expected credit losses;

(h) Pro-forma year-end liquidity as of the completion of Diversified's ABS IV securitisation, as announced via RNS on 24 February 2022;

(i) As used herein, Net Debt represents total debt as recognised on the balance sheet less cash and restricted cash. Total debt includes Diversified's current portion of debt, Credit Facility borrowings and secured financing borrowings.

(j) As used herein, Net Debt-to-TTM Hedged Adjusted EBITDA, or "Leverage" or "Leverage Ratio", is measured as Net Debt divided by pro forma Trailing Twelve Months ("TTM") Hedged Adjusted EBITDA, which includes adjustments for the trailing twelve months ended 31 December 2021 for the Indigo, Blackbeard, Tanos and Tapstone acquisitions as well as Oaktree's subsequent participation in the Indigo transaction to pro forma their results for a full twelve months of operations.

(k) During 2021, Diversified placed significant emphasis on its Project Fresh initiative, focused on enhancing baseline emissions data and subsequent monitoring which enabled the Company to increase the use of actual measurements in emissions calculations, rather than the application of standard, theoretical factors

(l) On 9 July 2021, the Company divested to Oaktree a non-operating 48.75% proportionate working interest in the Indigo assets for initial consideration of $52 million, or 50% of Diversified's net purchase price for the assets;

(m) As used herein, Free Cash Flow represents Hedged Adjusted EBITDA less recurring capital expenditures, asset retirement costs, cash interest expense and cash paid for income taxes; Free Cash Flow Margin represents the Company's Free Cash Flow as a percent of Adjusted Total Revenue;

(n) As used herein, Free Cash Flow Yield represents Free Cash Flow as a percentage of Diversified's average total market capitalisation for the year ended 31 December 2021;

(o) Achieving an overall balance between carbon emissions produced and carbon emissions taken out of the atmosphere, which includes making changes to reduce emissions to the lowest amount and offsetting as a last resort; Measured using Scope 1 and Scope 2 greenhouse gas emissions

For further information, please contact:

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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.