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Diversified Energy Announces Complementary Central Region Acquisition

BIRMINGHAM, AL / ACCESSWIRE / July 28, 2022 / Diversified Energy Company PLC (LSE:DEC) ("Diversified" or the "Company") announces that it has entered into a Purchase and Sale Agreement ("PSA") to acquire certain upstream assets and related facilities (the "Assets") in Oklahoma and Texas, within the Company's Central Region, from ConocoPhillips Company (the "Seller") (collectively with the Assets, the "Acquisition").

The Company has posted an Acquisition presentation website at ir.div.energy/presentations.

Central Region Acquisition Highlights

- Purchase price of $240 million before customary purchase price adjustments
- Estimated net price of ~$210 million ("Acquisition Cost") with a late September closing ("the Closing")
- Fully financed from existing liquidity
- Cash margins[a] of ~70% on estimated Adjusted EBITDA of $82 million[b]
- Uplift of ~20% to Diversified's 2021 Hedged Adjusted EBITDA per share[c]
- Acquisition Cost represents a ~2.5x purchase multiple[d] and PV17 of PDP reserves
- Pro-forma Net Debt / Adjusted EBITDA of 2.2x[e] with ~95% of debt in fully amortizing notes
- Consolidated corporate declines unchanged at ~8.5%[f]
- Net production[g] increase of ~9 MBoepd (~52 MMcfepd; 60% operated), (+6% vs 1Q22 exit rate)
- Upside available through field level synergies, Smarter Asset Management acreage swaps, non-operated development opportunities

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

"I am pleased to announce another strategically-aligned acquisition at a compelling valuation in the Company's Central Region that reinforces our commitment to create long-term value for shareholders. Financed entirely with existing liquidity, this non-dilutive acquisition represents a compelling opportunity to further scale our Central Region portfolio while maintaining a strong balance sheet. Building on our success in Appalachia, we are excited to increase our holdings within the Central Region that position us to drive greater synergies and unlock additional shareholder value through scale."

Delivering Significant Per-Share Value on Low Multiples with Non-Dilutive Financing

The Company signed a PSA with the Seller on 27 July 2022 for a purchase price of $240 million. The estimated Acquisition Cost due at Closing of ~$210 million reflects the estimated customary purchase price adjustments through the close date and represents a ~2.5x Acquisition Price multiple[d] before any anticipated synergies. The Acquisition highlights Diversified's ability to execute accretive acquisitions throughout the commodity price cycle.

Diversified is acquiring the Assets unhedged and, upon closing, will evaluate its consolidated hedged levels consistent with its commitment to protect cash flows that underpin its consistent dividend and debt repayment. The Company expects to close the transaction in late September 2022, following customary due diligence. Closing is subject to customary conditions being met, including title an environmental review.

Diversified will finance the Assets with cash on hand and existing availability on its Revolving Credit Facility ("RCF") resulting in a pro-forma Net Debt / Adjusted EBITDA of 2.2x[e] (1Q22: 2.2x). After funding the Acquisition, approximately 95% of the Company's borrowings will exist in fixed-rate, fully amortizing and predominantly investment grade rated notes that benefit from hedge-protected cash flows. The Company's post-acquisition funding liquidity approximates $250 million[h] before any increase in the Company's RCF borrowing base for the additional collateral from the Acquisition. Accordingly, the Company expects liquidity to rise with its next borrowing base redetermination scheduled in the fall of 2022.

By financing this Acquisition without new equity and only with existing liquidity, at the current price strip the Company estimates the Acquisition adds ~20% to Diversified's previously reported 2021 Hedged Adjusted EBITDA per share (2021: $0.43/shr). Combined with the Company's previously reported acquisition of East Texas Assets in April, the Company increased per share accretion by ~30% vs. 2021 Hedged Adjusted EBITDA per share.

With an effective date of 1 June 2022, the Acquisition adds ~31 MMBoe (186 Bcfe) of net PDP reserves, with a PV10 of ~$297 million, using NYMEX strip pricing as of 25 July 2022. Accordingly, the Purchase Price represents an estimated PDP valuation of PV17. The Assets complement Diversified's existing portfolio, contributing an estimated Adjusted EBITDA of $82 million[b] underpinned by high cash operating margins of ~70%[a] and a modest annual decline of ~8%[f] that continues to shallow. Including the Acquisition, Diversified's consolidated corporate decline rate remains industry-leading at approximately 8.5%[f].

Expanding Presence and Scale in the Central Region

The Acquisition, which includes an interest in ~1,500 producing wells located in Oklahoma and Texas represents Diversified's sixth major acquisition within the Central Region since May of 2021 and the second acquisition in the Mid-Continent area since mid-2021. The proximity of the Assets to previously acquired Tapstone assets creates further potential to develop operational synergies of scale in the Central Region and benefits from a constructive regulatory environment.

The Company will operate ~60% of the Acquisition's net production of ~9 MBoepd (52 MMcfepd; ~90% natural gas and NGLs), which represents a 6% increase to Diversified's 1Q22 exit rate (136 MBoepd; 816 MMcfepd).

The Assets provide high cash operating margins through realised pricing that benefits from low regional commodity differentials and a largely variable expense structure that is consistent with the Company's other Central Region assets.

- Total Lease Operating Expense of \$1.90-\$2.00/Mcfe (\$11.40-\$12.00/boe)[i]
- Natural Gas pricing differentials of \$(0.20)-\$(0.30)/MMBtu
- Production-weighted average well age of 16 years

Consistent with the Company's asset acquisition strategy, Diversified intends to retain certain ConocoPhillips Company experienced personnel who will complement Diversified's asset stewardship operating philosophy designed to improve well performance, enhance margins, and lower emissions.

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 2021 Annual Report):

a) Cash Margin calculated as the Acquisition's estimated 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)

b) Acquisition estimated Adjusted EBITDA assumes historical cost structure using NYMEX strip pricing as of 25 July 2022 and assumes acquisition close in late September 2022; Estimate is not reflective of synergies that may be realised following post-acquisition integration; this figure is not intended in any way to constitute a projection of actual results attributable to the Acquisition or consolidated pro-forma Company; Purchase Price multiple based on estimated net Purchase Price and Acquisition's estimated Adjusted EBITDA (unhedged)

c) Acquisition and East Texas Adjusted EBITDA per share calculated using announced estimated Adjusted EBITDA and current diluted shares outstanding of 863 million; 2021 Pro Forma Hedged Adjusted EBITDA per share calculated using previously reported Pro Forma Hedged Adjusted EBITDA of \$491 million and 2021 weighted average diluted shares outstanding (had the Company not been in a Net Loss position) of 800 million shares

d) Acquisition Price multiple calculated by dividing net consideration to be paid by estimated Adjusted EBITDA

e) Pro-forma Net Debt / Adjusted EBITDA ("leverage") calculated as estimated post-closing Net Debt / Last Twelve Month's Adjusted EBITDA (hedged) as of 30 March 2022, pro-forma for the annualized impact of previously announced Central Region upstream acquisitions and the impact of Diversified's ABS V financing, previously announced on 30 May 2022; this figure is not intended in any way to constitute a projection of actual results attributable to the Central Region acquisitions or the consolidated pro-forma Company

f) Illustrative value represents estimated, consolidated annual rate of decline using the Company's previously announced corporate decline of ~8.5% (as measured and annualized from December 2021 Exit Rate to March 2022 Exit Rate) pro-forma for the Acquisition, which excludes the impact of one recently completed well due to the limited production data available for the calculation; Estimated total declines, inclusive of new production well approximate 10% over the twelve month period ended 30 August 2023

g) Current production defined as June 2022 average daily production estimate (net) for the acquired assets and non-operated interests

h) Calculated as the available portion of the Company's Revolving Credit Facility borrowing base of \$300 million and inclusive of cash on hand and letters of credit

i) Lease operating expense is defined as Base Lease Operating, plus owned midstream operating expense (as applicable), third-party transportation expense, and production taxes; ~60% of expenses variable with production and pricing

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