February 9, 2022

Trading Statement and Exercise of Warrants

BIRMINGHAM, AL / ACCESSWIRE / February 9, 2022 / Diversified Energy Company PLC (LSE:DEC) ("DEC" or "the Company") is pleased to announce the following operations and trading update confirming 2021 results are in line with market expectations. Diversified also announces that the Company will release its 2021 full-year results and host an investor call on March 22, 2022.

Recent Operating Highlights

- Expanded Diversified's production-focused platform with entry into Central Region through four completed acquisitions totaling $516 million now contributing approximately one-third of Diversified's current exit rate production with access to favorably priced end markets
- Recorded full year production of 119 Mboepd (711 MMcfepd), up 19% vs 2020, with a December 2021 exit rate of 139 Mboepd (833 MMcfepd), up 35% vs December 2020
- Realized 50% Cash Margin[(a)] on the enlarged business in 2021 with full-year Adjusted G&A[(b)], down 11% to $1.21/Boe ($0.20/Mcfe) vs 2020
- Realized higher prices in the Central Region that preserve Cash Margins[(a)] even as Total Cash Expenses[(c)] increase 13% to $7.97/Boe ($1.33/Mcfe) vs 2020 largely driven by higher production taxes and transportation expense in the Central Region
- Hedged to provide stability to cash flows with ~90% of 2022 and ~70% of 2023 natural gas production hedged[(d)] at $3.17/Mcf[(e)(f)] ($2.96/MMBtu) and $3.07/Mcf ($2.86/MMBtu), respectively
- Opportunistically hedged into a rising price environment adding incremental 2022 NYMEX hedges at an average floor of $4.00/Mcf, representing a 33%% premium to the Company's previous reported 2022 NYMEX average floor of $3.03//Mcf as of 3Q21.
- Closed leverage-neutral $365 million BBB-rated 4.875% securitization of Appalachia assets (the "Securitization"), ~163 bps lower than the Company's previous amortizing term loan and 38 bps lower than the Company's previous securitization
- Secured year-end liquidity of $316 million[(g)] (pro-forma for the recent Securitization) while maintaining the ~2.2x net debt / adjusted EBITDA leverage ratio reported in the Company's October 28, 2021 Trading Statement

Recent Environmental, Social and Governance ("ESG") Highlights

- Closed the Company's first sustainability-linked financing on February 4, 2022 (discussed above)
- Asset-Retirement Progress:
    - Acquired an established asset retirement company in Appalachia that

strengthens the Company's ability to meet its retirement targets creating the ability to market excess service capacity to third parties for a fee
- Exceeded well retirement targets by 70% and plugged 136 wells during 2021 at an average cost of ~$22,500[i] per well
- Emission Reduction Initiatives:
    - Appointed a third party to independently verify the Company's 2021 greenhouse gas emissions data and actively working to progress their review
- Advanced the deployment of handheld emission detection equipment and developed a data platform to aggregate well-level emissions data to facilitate strategic analysis and drive emissions reduction
- Scheduled aerial surveys of Appalachian midstream assets beginning in February 2022 that will focus asset optimization efforts

Rusty Hutson, Jr., CEO of the Company commented:

"I am pleased to report that our full-year 2021 results are in line with market expectations as the Diversified team delivered another transformative year. This group led our expansion into a new operating region, which today represents one-third of our consolidated production. Our enlarged team, including the talented individuals who join Diversified having previously operated our acquired Central assets for their sellers', is actively applying our proven Smarter Asset Management techniques and working to leverage our enlarged scale.

"Importantly, we continue to create value for all stakeholders. We progressed our ESG commitments, targeting ambitious emission reductions with the independent verification of our emissions data under way. This important work complements our success retiring 70% more wells than our initial goal at exceptional costs. Concurrently, we maintained our progress repaying our fully-amortizing debt while continuing to delivering tangible shareholder returns, raising our quarterly dividend for the tenth time since our IPO in 2017 to an annualized 17 cents, paying approximately $130 million in dividends to our shareholders in 2021.

"As I survey our prospects, our outlook is as dynamic as I've seen. We enter 2022 with great momentum bolstered by an improving commodity pricing environment that is catalyzing rapid industry consolidation and asset sales at compelling multiples of cash flow. With another successful low-cost, fully-amortizing securitization completed last week, we have greater liquidity to pursue additional value accretive growth while responsibly stewarding the operating assets that underpin our stable cash flows, debt reductions, ESG commitments and dividends."

Operations Update

Record Production Supported by Central Region Acquisitions

In 2021, Diversified's four Central Region acquisitions added 50 MBoepd of production, with the Tapstone acquisition closing in early December. Collectively, this newly established focus region in the Central U.S. already produces one-third of Diversified's consolidated production (as of December 2021). The Company's expansion into a new focus region provides an incremental opportunity to develop scale and operational synergies to protect and bolster the high cash operating margins that underpin the Company's hedge-protected cash flows.

Thanks to the contribution of the 2021 acquisitions and the continued application of Diversified's Smarter Asset Management program, the Company once again delivered record annual production of 119 Mboepd (711 MMcfepd) with 139 Mboepd (833 MMcfepd) in December, an increase from the prior period of 19% and 35%, respectively.

			Change	
Net Production (Mboepd)	**FY21**	**FY20**	**#**	**%**
Average Annual Production	119	100	19	19 %
December Exit Rate	139	103	36	35 %

Multi-Region Operations With Different Cost Structures Deliver Similar Cash Operating Margins; Leveraging G&A platform

Diversified generated a robust consolidated Cash Margin[a] of 50% in 2021 which includes a 11% reduction in Adjusted G&A as the Company responsibly manages its resources and corporate team across an enlarged asset base. Once again, Diversified maintained its attractive margins with its strategic entry into the Central Region where higher commodity price realizations largely offset Total Cash Expenses per-unit. The increase in unit-level operating expenses primarily relates to variable production tax rates amid rising commodity prices as well as higher transportation expense in the Central Region.

As the Company (1) integrates its Central Region, (2) continues to build operating scale and (3) hedges at higher prices, the Company will pursue opportunities to further improve its cash operating margin.

Total Unit Cash Expense[c]	FY21		FY20		
	$/Boe	$/Mcfe	$/Boe	$/Mcfe	%
Base Lease Operating Expense	$ 2.79	$ 0.47	$ 2.53	$ 0.42	10 %
Midstream Expense	1.40	0.23	1.45	0.24	(3) %
Gathering and Transportation	1.86	0.31	1.24	0.21	50 %
Production Taxes	0.71	0.12	0.38	0.06	87 %
Total Lease Operating Expense	**$ 6.76**	**$ 1.13**	**$ 5.58**	**$ 0.93**	**17 %**
General & Administrative Expense (Adjusted)	1.21	0.20	1.34	0.22	(11) %
Total Unit Cash Expense	**$ 7.97**	**$ 1.33**	**$ 6.93**	**$ 1.16**	**13 %**

Amounts may not sum due to rounding

Capturing the Benefit of Rising Commodity Prices in the Hedging Program

Taking full advantage of the rising commodity price environment, the Company increased its average natural gas hedge position at higher prices as reflected in the following table:

	Recent Hedging Activity				Full-Year Hedge Position	
	Additional % of Natural Gas Volumes Hedged(d)	Wtd Avg Price of Hedged Incremental Volumes(e)(f)		Premium vs Prior Reported Average FY Floor Price	~ % of Total Production Hedged(d)	Wtd. Avg. Hedge Price(e)(f)
		$/Mcf / $/MMBtu				$/Mcf / $/MMBtu
FY22	15 %	$	4.00 / $3.74	33 %	90 %	$ 3.17 / $2.96
FY23	15 %	$	3.72 / $3.48	31 %	70 %	$ 3.07 / $2.86
FY24	n/a	$	3.26 / $3.05	22 %	55 %	$ 2.85 / 2.66

Consistent with its stated coverage targets, the Company continues to add hedge protection in the improved price environment to 2023 and thereafter. The table below represents the Company's full-year hedge positions for the periods reflected:

	GAS (MMBtu)		NGL (Bbl)		OIL (Bbl)	
	Wtd. Avg. Hedge Price(e)(f)	~ % of Production Hedged(d)	Wtd. Avg. Hedge Price(f)	~ % of Production Hedged(d)	Wtd. Avg. Hedge Price(f)	~ % of Production Hedged(d)
FY22	$ 2.96	90 %	$ 33.82	85 %	$ 67.12	70 %
FY23	$ 2.86	70 %	$ 36.89	65 %	$ 60.75	35 %

Recent Securitization demonstrates continued access to low-cost financing

On February 4, 2022, Diversified closed its third Asset Backed Securitization ("ABS III") that increases the Company's liquidity and fits well with the Diversified's production-focused strategy and commitment to consistent debt reduction. The $365 million BBB-rated 4.875% securitization of certain Appalachia assets is ~163 bps lower than the Company's previous amortizing term loan and 38 bps lower than the Company's previous securitization.

Importantly, Moody's ESG Solutions(h) has provided an ESG Assessment on Diversified and the coupon rate on the sustainability-linked financing will be tied to Diversified's ESG Assessment from Moody's ESG Solutions. Incorporating our ESG score in this way aligns with our steadfast commitment to improving all aspects of our ESG performance.

Adjusted for the effect of the financing, Diversified's pro forma December 31, 2021 liquidity approximates $316 million and positions the Company to further its pursuit of non-dilutive growth while maintaining leverage targets.

Pro forma for our ABS III financing, secured amortizing debt comprises approximately 80% of our year-end debt and our weighted average borrowing rate for total debt is 4.8%, an exceptionally low borrowing rate for a small-cap energy company. Diversified's proven business model of growing, reliable cash flow and ESG stewardship is highly compatible with the amortizing nature of ABS financing and attractive to secured debt investors. Accordingly, the Company continues to evaluate opportunities to refinance borrowings on our RBL into these low-cost, amortizing structures that enhance liquidity and protect cash flow with long-term hedges.

ESG Update

Asset Retirement Update

Diversified safely retired 136 wells in 2021, the highest single-year of retirements in Company history and exceeding the 80 wells required under state agreements by 70%. At an average cost per well of $22,500, well retirements costs remain consistent with historical rates and in-line with Company expectations. The Company achieved this success by expanding its investments in internal plugging crews and looks to further expand its internal capabilities with additional resources in southern Pennsylvania and northern West Virginia.

Acquisition of Asset Retirement Business

In support of Diversified's ambitious asset retirement initiatives, the Company acquired privately held Next LVL Energy, a premier Appalachian Basin plugging service provider headquartered in Pennsylvania. Having previously engaged Next LVL for well retirements, Diversified recognized the common commitment between the two companies to safely, efficiently and responsibly retire wells that have reached the end of their producing lives.

Joining Diversified's senior leadership in Appalachia from Next LVL is Bradley Maddox, the founder and President of Next LVL and the former Vice President of Drilling, Completions and Plugging at EQT Corporation. Mr Maddox will assume a senior leadership position within Diversified's Appalachia asset retirement program.

With this acquisition, Diversified expects to expand its plugging capabilities to a total of six in-house teams by the end of 2Q22 and to be well-positioned to meet the Company's stated commitment to retire at least 200 wells per year across Appalachia by 2023.

The acquisition enhances the Company's ability to maintain low well retirement costs by reducing its reliance on third-party service providers. Additionally, Diversified will market its excess service capacity to provide plugging services to others, including to the states receiving a portion of the $4.7 billion federal orphan wells clean-up program under the recent Bipartisan Infrastructure Law. Of this amount, Diversified estimates that approximately $2.6 billion will be distributed in the states in which the Company currently operates. Just as Diversified generates revenue from its midstream assets today, the Company sees tremendous potential expanding its low-cost, high-quality asset retirement activities to include third-party services.

Progress on Emissions Reductions Initiatives

Recognizing the importance of data quality and reflective of the Company's stated commitments, Diversified engaged and is actively working with a third party to independently verify the Company's 2021 IPCC-reported GHG emissions data. The Company looks forward to publishing the results of the independent verified data upon completion of the work.

In addition to the previously discussed purchase of calibrated handheld emissions detection devices for its well tenders who, upon completion of technical training, will lead the effort to reduce emissions from the Company's upstream assets, the Company built a data platform to capture well-level emissions data to allow for strategic analysis of that data to focus Diversified's resources on high-impact projects. Commencing in Pennsylvania this month, Diversified will distribute the majority of devices in Appalachia and expects to complete this deployment and the related training by the end of 1Q22.

In February and weather permitting, Diversified will commence its multi-year, multi-million dollar initiative to reduce its emissions through wide-reaching and proactive aerial surveillance of its midstream assets. Bridger Photonics' state-of-the-art leak detection technology will identify unintended natural gas emissions to inform the Company's midstream maintenance activities.

Exercise of Warrants and Total Voting Rights

Diversified announces that 290,375 ordinary shares in the Company have been issued following the exercise of warrants at 0.65p per share.

The Company will apply for the new ordinary shares to be admitted to trading on the London Stock Exchange. Admission is expected to become effective on February 15, 2022. Following the exercise, 355,154 warrants remain outstanding.

Following this issue, the Company has 849,945,028 ordinary shares in issue. This figure of 849,945,028 ordinary shares may be used by shareholders in the Company as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change to their interest in, the share capital of the Company under the FCA's Disclosure and Transparency 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) As used herein, Cash Margin is measured as Hedged Adjusted EBITDA, as a percentage of Adjusted Total Revenue. The key distinction between Cash Operating Margin and Cash Margin is the inclusion of Adjusted G&A. The Directors believe that Cash Margin is a useful measure of DEC's profitability and efficiency as well as its earnings quality.

(b) As used herein, Adjusted G&A represents Base G&A plus recurring allowances for expected credit losses. The Directors use Adjusted G&A because this measure excludes items that affect the comparability of results or that are not indicative of trends in the ongoing business.

(c) Total Cash Expenses represent total lease operating costs plus recurring administrative costs. Total lease operating costs include base lease operating expense, owned gathering and compression (midstream) expense, third-party gathering and transportation expense, and production taxes. Recurring administrative expenses is a non-IFRS financial measure defined as total administrative expenses excluding non-recurring acquisition & integration costs and non-cash equity compensation.

(d) Illustrative percent hedged, calculated using December 2021 Exit Rate and assuming a consolidated annual corporate decline rate of 9%.

(e) Mcf volumes have been converted to MMBtu using a richness factor of 1Mcf=1.07MMBtu

(f) Weighted average price reflects the weighted average of the swap price and floor price for collar contracts as applicable

(g) Calculated as the revised borrowing base of $550 million subsequent to the Company's successful $365 million securitization announced on February 6, 2022 less pro forma 2021 year-end borrowings of approximately $234 million inclusive of cash on hand and letters of credit

(h) This ESG Assessment was originally conducted by V.E., which is now a part of Moody's ESG solutions

(i) Average plugging cost excludes 6 wells plugged by the Company for which costs were fully reimbursed

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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