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14th May 2026

Diversified Energy: The real estate of American oil and gas part 2[1]

Company:	Diversified Energy (DEC)	**Market Cap:**	$1.1bn (£11.6)
Industry:	Natural gas & oil upstream	**Net debt:**	$2.9bn*
Country:	US	**Revenue:**	$1.83bn*
Date:	5th May 2026	**Adj. EBITDA:**	$956m (87%)*
Div/buyback:	$185m (16%)*	**Free cash flow:**	$440m (40%)*
Entry:	$1.1bn (£11.2)	**Target:**	$1.5bn (£15.7) (+39%)

*based on Q4 25 report, FCF excl. capex, including disposals,

Why Diversified Energy?

- Diversified Energy is the 3rd largest leaseholders in the Lower 48s behind Conoco and Exxon[2] & keeps growing – land that is becoming more valuable considering the Middle East and Ukraine/Russia conflict
- At least since 2023, all capex is being financed through land disposals[3]
- Low valuation could turn around if the company starts drilling for new wells for the first time this year[4]
- Guidance kept despite lower natural gas price[5]
- Considering the Middle East and Ukraine/Russia conflict, the US becomes the one and only large and stable energy supplier of choice, hence should trade at a premium
- Industry leading shareholder returns[6]

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[1] all assumptions and observations are based on internal modelling and data analysis

[2] https://d1io3yog0oux5.cloudfront.net/_cef0d36adf7f19b359a1f857a01b7c12/dgoc/db/581/6049/pdf/NYC+Investor+Symposium+presentation+vf.pdf slide 9

[3] https://d1io3yog0oux5.cloudfront.net/_cef0d36adf7f19b359a1f857a01b7c12/dgoc/db/556/6048/file/2025+IFRS+Financial+Statements+%28FINAL%29.pdf p. 7

[4] https://d1io3yog0oux5.cloudfront.net/_cef0d36adf7f19b359a1f857a01b7c12/dgoc/db/581/6054/pdf/1Q+26+Earnings+Presentation+-+vf.pdf slide 13

[5] https://polaris.brighterir.com/public/diversified_gas_and_oil/news/rns/story/w3942dw

[6] https://d1io3yog0oux5.cloudfront.net/_cef0d36adf7f19b359a1f857a01b7c12/dgoc/db/581/6055/pdf/Investor+Presentation+May+2026.pdf slide 39

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Risks

- Off balance sheet transactions (new Carlyle agreement & some decommissioning liabilities) leave more room for error in valuation[7]
- During most years production grew slower than net debt and finance costs grew faster than EBITDA as per chart below

Diversified Energy

I have invested in Diversified Energy in the past, of which a summary can be found here. Since then, a few things have further strengthened the investment case: After ConocoPhillips (11.2m net acreage) and Exxon Mobil (9.7m net acreage), Diversified Energy is now the 3rd largest landowner with 8.8m net acreage in the Lower 48s (US shale oil and gas basins) as of end of 2025[8]. The company produces around 1.2 Bcf/day (200k boepd), of which 71% is natural gas, 14% NGLs, and 15% oil as of Q1 26[9]. With an enterprise value (EV) of around $4bn, which is nearly half of natural gas producer Comstock Resources' $7.25bn EV with 1.36 Bcf/day[10], Diversified trades at a discount to its peers (4.2x EV/EBITDA vs. US gas weighted E&P's 5.5x), and that does not even take into account Diversified's latest acquisitions, Sheridan and Camino Energy[11]. The reason for the comparatively low valuation is likely the operating model of hedging over 80% of production[12] and not drilling for oil/gas, i.e. just running existing wells dry. However, the latter might change soon, as CEO Rusty Hutson pointed out in the Q1 26 earnings call[13] that there is a possibility of drilling in the undeveloped acreage in 2026[14]. In addition, the 85% hedged production for 2026 has an

[7] https://polaris.brighterir.com/public/diversified_gas_and_oil/news/rns/story/x8vyd5w,

[8] https://d1io3yog0oux5.cloudfront.net/_cef0d36adf7f19b359a1f857a01b7c12/dgoc/db/581/6049/pdf/NYC+Investor+Symposium+presentation+vf.pdf slide 9

[9] https://polaris.brighterir.com/public/diversified_gas_and_oil/news/rns/story/w3942dw

[10] https://www.comstockresources.com/aboutus.html, https://investors.comstockresources.com/static-files/a73b6dba-e629-42f2-96cb-c0d48b9d18b3 p. 4

[11] https://polaris.brighterir.com/public/diversified_gas_and_oil/news/rns/story/x8vyd5w, https://polaris.brighterir.com/public/diversified_gas_and_oil/news/rns/story/xz5n0ox

[12] https://d1io3yog0oux5.cloudfront.net/_cef0d36adf7f19b359a1f857a01b7c12/dgoc/db/581/6055/pdf/Investor+Presentation+May+2026.pdf slide 35/36

[13] https://ir.div.energy/financial-information Q1 26 earnings call

[14] https://finance.yahoo.com/quote/QI7.F/earnings/QI7.F-Q1-2026-earnings_call-577147.html minute 11

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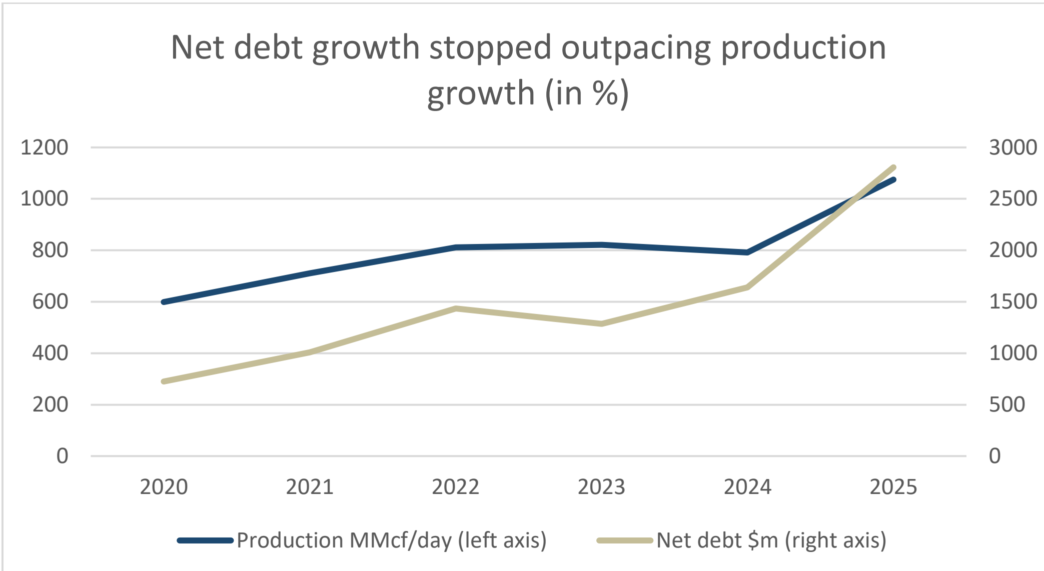
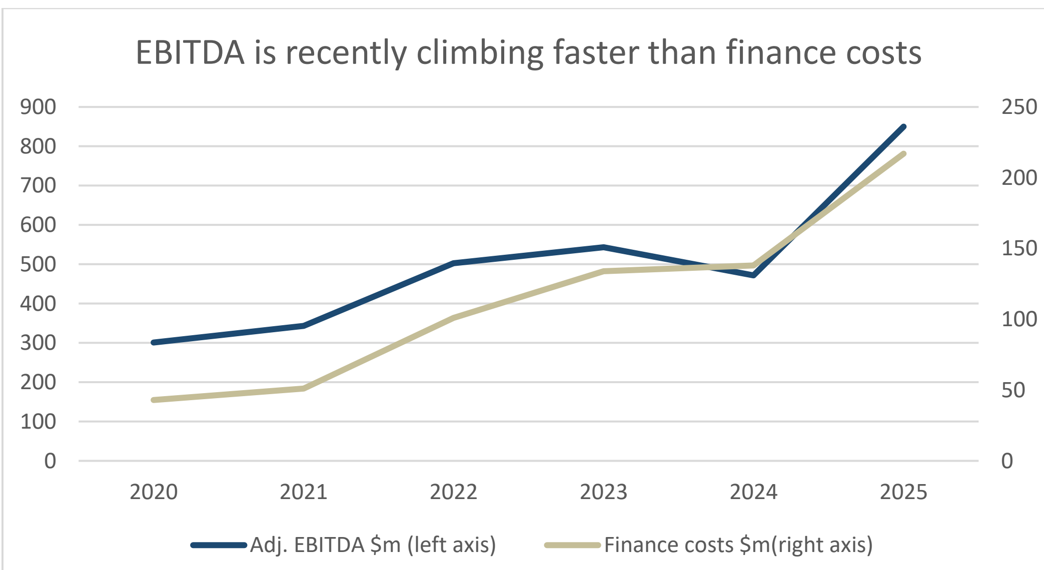
average price of $4.72/mmbtu[15], which provides free cash flow of around $300m considering land sales continue to offset capex. Lastly, the roughly 10% production decline is not only offset by acquisitions, but half of it is also offset by joint ventures (JVs), which will add around 10.8k boepd in 2026[16].



Source: Annual reports Diversified Energy



Source: Annual reports Diversified Energy

15 https://d1io3yog0oux5.cloudfront.net/_cef0d36adf7f19b359a1f857a01b7c12/dgoc/db/581/6055/pdf/Investor+Presentation+May+2026.pdf slide 36

16 https://ir.div.energy/news-events/us-press-releases/detail/223/diversified-energy-reports-first-quarter-2026-results

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The power of ABS financed acquisitions

With a debt/equity ratio of 2.6x Diversified Energy appears over levered and risky. However, 72% of the debt is from asset-backed securities mostly rated between BBB and A[17]. These ABS have long dated maturities (between 2037 and 2045), are amortized annually, and are often paid back years ahead of schedule due to their structure of 25-100% of excess cash flow require making additional principal payments[18]. The larger principal repayments on the ABS are paid in the earlier years after issuance, which means that Diversified is having to hedge over 80% of their commodity price exposure for multiple years into the future. When Diversified Energy makes an acquisition, the acquired assets often are neighbouring land parcels, which enables high synergies. In addition, the new assets generally come with undeveloped acreage, which Diversified Energy oftentimes sells to offset their capital expenditure entirely. This structure enabled Diversified Energy to grow its production significantly from around 600 mmcf/day to around 1,200 mmcf/day in 2026, whilst maintaining industry leading, in most years double digit % shareholder returns.

Diversified Energy Debt Summary

Maturity	Debt	$m	Coupon	Annual repayment (estimated)	Interest payment
2037	ABS 4	61	4.95	10	3
2039	ABS 6	181	7.5	43	14
2044	ABS 8	537	7.28	40	39
2044	ABS 9	65	6.89	7	4
2045	ABS 10	475	7.07	50	34
2045	ABS 11	379	6.61	50	25
2038	ABS Maverick Notes	384	9.1	55	35
2029	Nordic Bonds	500	9.75		49
	Other	32	9		3
	Credit facility	315	6.73		21
	Cash	-55			
	Net debt	**2,874**	**Subtotal**	**255**	**227**

Source: https://ir.div.energy/financial-information/sec-filings/content/0001922446-26-000039/dec-20260331.htm p. 20

[17] https://www.fitchratings.com/entity/diversified-abs-viii-llc-97605615#sector-outlooks, https://www.fitchratings.com/research/structured-finance/fitch-affirms-ratings-on-diversified-abs-x-llc-a-1-a-2-b-notes-revises-class-b-outlook-20-03-2026,

[18] https://www.globenewswire.com/news-release/2025/09/08/3146530/0/en/diversified-energy-expanding-leadership-position-in-oklahoma-with-accretive-acquisition-of-canvas-energy.html

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Diversified Energy's Acquisitions since 2017

Date	Assets Acquired	Acquisition cost in $m	Equity issuance	Else	Reserves quantity	Reserves Value	Production	Current EBITDA NTM ($m)
Q3 26	Camino	1,175	0	$210m in cash, 40% ownership, rest Carlyle and ABS in SPV	1,478 Bcfe		300 MMcfepd (51Mboepd)	397
Apr-26	Sheridan	245	0	existing bank facilities	397 Bcfe	$310m (PV-10)	62 Mmcfepd (10 Mboepd)	52
Nov-25	Canvas	550	3.4m shares	$400m ABS	200 MMBoe	$690m (PV-10)	147 Mmcfepd (24 Mboepd)	155
Mar-25	Maverick	1,275	21.2m + 8.5m in shares (>$460m0	$207m in cash		$2.1bn (PV-10)	350 Mmcfepd	380
Feb-25	Summit Natural Resources	42	0	Cash	11 MMBoe	$55m (PV-10)	12 MMcfepd	12
Oct-24	West Texas Assets	69	$35m worth of shares to seller	New and existing liquidity	12 MMBoe	$89m (PV-18)	21 Mmcfepd	19
Aug-24	Crescent Pass Acquisition	106	$28m worth of shares to seller	Existing facilities and a senior secured bank facility	28 MMBoe	$155m (PV-10)	38 Mmcfepd	26
Jun-24	Oak Tree	410		$83m deferred cash payments, Assumption of $120m debt	85 MMBoe	$462m (PV-10)	122 Mmcfepd	137
Mar-23	Tanos Energy	250	$165m from equity fundraise	Cash on hand, $90m from Sustainability Linked Loan	25 MMBoe	$312m (PV-10)	99 Mmcfepd	107
Sep-22	Upstream Assets	240	None	Cash on hand and revolving credit facility. 95% debt in fully amortising notes	31 MMBoe	$297m (PV-10)	52 Mmcefpd	96
Jul-22	Well services and plugging assets (Contractor Services Inc. WV)				0	0	0	
Apr-22	East Texas Assets	50	None	Cash	18 MMBoe	$102m (PV-10)	22 Mmcfepd	35
Dec-21	Tapstone Acquisition	181	None	$181m Debt	35 MMBoe	$324m (PV-10)	72 Mmcfepd	95
Aug-21	Tanos	154	None	Cash and Debt	40 MMBoe	$201m (PV-10)	82 Mmcfepd	51

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Jul-21	Blackbeard Acquisition	180	Recent Equity sale	Debt and Cash	79 MMBoe	$238m (PV-10)	95 Mmcfepd	48
May -21	Cotton Valley	135	None	Debt from Revolving Credit Facility	50 MMBoe	$175m (PV-10)	95 Mmcfepd	40
May -20	Carbon Energy	110	None	Debt of senior secured term loan	74 MMBoe	$189m (PV-10)	54.6 Mmcfepd	30
Sep-19	Natural Gas Gathering Systems	8			0	0	0	
Sep-19	EdgeMarc Acquisition	50	None	Debt facilities	13.5 MMBoe	$58m (PV-10)	46 Mmcfepd	
Apr-19	HG Energy 2 Appalachia	400	$234m in equity sale	Debt facilities			11.2k boepd	
Jul-18	EQT Corporation	575	$250m in equity sale	Loan facility interest rate of LIBOR plus 2.5 percent	230 MMBoe	$804m (PV-10)	24k boepd	
Apr-18	CNX Gas Company	85		Paid cash from existing facilities				
Mar-18	Alliance Petroleum	95	Equity Financed	None	49.3 MMBoe	$168m (PV-10)	53 Mmcfe per day	14
Dec-17	NGO Development Corporation	3	None	Cash			1.3 Mmcfed	
Jun-17	Tital Energy	84.2	$35m raised	$110m Senior Secured Loan Facility			12.5k Boepd	

Source: https://ir.div.energy/news-events/regulatory-news

The path forward

Last year, Diversified began to move their future well retirement obligations in West Virginia off-balance sheet[19], which provides a template for similar transactions in other regions. The company has come under pressure in recent years due to activists believing their asset retirement obligations are vastly understated[20]. Although their well-plugging company Next LVL Energy is expanding, and is reducing the liability to some extent, the off-balance sheet agreement with the regional government provide further clarity. This year, the Carlyle co-funded acquisition of Camino is the second off-balance sheet transaction[21]. The details of this transaction are very attractive, as Diversified only needs to pay $210m in cash for a 40%

[19] https://ir.div.energy/news-events/us-press-releases/detail/208/west-virginia-and-diversified-energy-launch-first-of-its-kind-well-plugging-fund
[20] https://seekingalpha.com/article/4727856-diversified-energy-risks-of-asset-retirement-obligations-are-too-great
[21] https://ir.div.energy/news-events/us-press-releases/detail/221/diversified-and-carlyle-partner-to-acquire-assets-from-camino-natural-resources

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share (Carlyle pays an unknown amount for the 60% share), with the rest of the $1.175bn transaction being funded via ABS structure[22]. According to Tennyson, Diversified expects to receive $30-40m in annual equity interest from the acquisition, plus a $12m management fee from the SPV for managing the asset per annum. This would be equivalent to a 21-26% return on investment. After 4-5 years the ABS amortization is likely close to being paid off, and Diversified could either buy Carlyle out or get a new ABS in place with new leverage. In summary, Diversified Energy is what the management says it is: The company provides growth and strong shareholder returns at the same time. And I believe a decision to drill instead of selling some of the undeveloped acreage could revalue the company.

[22] https://ir.div.energy/news-events/us-press-releases/detail/221/diversified-and-carlyle-partner-to-acquire-assets-from-camino-natural-resources

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