

Diversified Gas & Oil

Operations update
and outlook

Cash flow protected in a low-price environment

On 18 May 2020, Diversified Gas & Oil (DGO) started trading on the Main Market of the London Stock Exchange (LSE), just over three years after its IPO on AIM. The company continues to offset Legacy assets' natural declines and keep operating costs low resulting in strong cash flow generation. Even though COVID-19 has affected global energy demand and the current commodity price environment, DGO has hedged c 80% of its natural gas production for FY20 and FY21 protecting its cash flows and shareholder returns. DGO recently announced two more opportunistic acquisitions in line with the company strategy. We update our valuation to reflect the impact of our new short- and long-term pricing assumptions and scenarios. Our mid-case valuation stands at 125.4p/share.

| Year-end | Revenue* (\$m) | Adj EBITDA** (\$m) | PBT** (\$m) | Net debt (\$m) | Capex*** (\$m) | Dividend yield**** (%) |
|----------|-------------------|-----------------------|----------------|-------------------|-------------------|---------------------------|
| 12/18 | 290 | 146 | 71 | 481 | (767) | 8.2 |
| 12/19 | 462 | 273 | 126 | 637 | (467) | 10.5 |
| 12/20e | 416 | 290 | 139 | 670 | (240) | 10.4 |
| 12/21e | 658 | 305 | 148 | 597 | (31) | 10.4 |

Note: *Excluding hedging impact. **EBITDA and PBT include hedging and are normalised for exceptional items including acquisition activity. ***Including acquisitions. ****Dividend yield based on dividend declared for the period.

From AIM to the Main Market in three years

DGO's growth since IPO in February 2017 has led the company to the LSE premium listing segment. DGO has invested more than \$1.7bn since admission on AIM and increased production by 32x and reserves by 23x while delivering growing and stable returns to shareholders in the form of dividends and share buybacks. The move should improve trading liquidity and valuations due to potential inclusion in FTSE indices and provide access to a greater number of institutional investors. More recently the company announced the acquisitions of Carbon Energy and certain EQT assets in line with the company strategy.

Shielded cash flows allow for dividend maintenance

DGO's Smarter Well Management programme has been proving pivotal in maintaining strong production from the company's Legacy assets. The sustained optimisation of these assets has offset their natural declines for the seventh consecutive quarter with Q120 realised production averaging c 94.0kboed, within 1% of the 2019 exit rate of 94.8kboed. Stable production combined with low operating costs and a robust hedged portfolio protect cash flow generation and allow for debt repayment and shareholder returns.

Valuation: Mid-case core NAV 125.4p/share

Our updated mid-case valuation currently stands at 125.4p/share. Changes to our valuation include updated short-term commodity prices based on the EIA's 9 June 2020 forecasts. We have also revised our long-term (2022 onwards) commodity price assumptions and we now present three different scenarios. In this note we also provide a peer analysis and compare DGO's multiples to other US onshore producers. We forecast an FY20 dividend yield of 10.4% at the current share price.

Oil & gas

15 June 2020

Price 104.6p

Market cap £740m

US\$1.28/£

Net debt (\$m) at 31 March 2020 603

Shares in issue 707.1m

Free float 88%

Code DGO

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (7.5) 65.0 (9.2)

Rel (local) (9.8) 43.6 8.2

52-week high/low 116.5p 59.6p

Business description

Diversified Gas & Oil is predominantly a conventional natural gas and oil producer with a main focus on the US onshore. The company possesses long-life, low operational cost, mature producing assets with slow decline profiles in the Appalachian region.

Next events

H120 results Q320

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Investment summary

Focus on low-cost, late-life US onshore cash-generating assets

DGO was admitted to AIM in February 2017 and has since invested more than \$1.7bn in acquisitions, making it the largest conventional gas producer in Appalachia. Production is mainly natural gas (90% for FY19), but the company has some oil price exposure through natural gas liquids and condensate realisations. Group net production in Q120 averaged 94kboed from a year-end 2019 1P PDP reserve base of 563mboe, with the portfolio largely focused on conventional production. The company's strategy focuses on the continued acquisition and consolidation of both conventional and unconventional assets within its core areas of operation to drive down unit operating expense and expand margins, leading to stable cash flow generation. This is possible due to the company's Smarter Well Management programme that has been able to keep its Legacy asset production stable without significant capital investment. A combination of stable production and an opportunistically hedged portfolio guarantees robust free cash flow (FCF) generation, allowing for shareholder returns in the form of dividend pay-outs and share buyback programmes even in the current low commodity price environment.

Valuation: Core NAV 125.4p/share

Our valuation is based on the NPV₁₀ discounted value of the company's production adjusted for net debt and overheads. We break down the assets into DGO Legacy assets (conventional, late-life, low-decline rate), the 2019 acquired assets (early-life assets) and the recent acquisitions of Carbon Energy and EQT assets. DGO also owns pipelines with related compressor stations, which is reflected in our discounted value for payments DGO receives for third-party use of services and midstream assets and respective operating costs in our valuation. We also include the hedging impact based on DGO's latest available information on hedging volumes from 1 June 2020, as well as the impact of the 2020 share buyback programme and capital raise for the recent acquisitions. Our mid-case valuation stands at 125.4p/share.

Financials: Focus on shareholder returns

DGO's key drivers of FCF generation and dividends will be natural gas price realisations and lease operating costs (LOE). In this note we stress-test DGO's ability to sustain its dividend at different commodity prices. We forecast a quarterly dividend payment of 3.50c resulting in an annualised 14.0c dividend in 2020, equating to an FY20e yield of 10.4% at the current share price. We also assume FCF is used to reduce net debt and gearing with net debt/EBITDA standing at 2.3x in FY20 following the recent acquisitions funded through an equity raise with net proceeds of \$81.7m and \$160m in debt. We believe DGO will continue to mitigate the impact of low gas price realisations by continuing with its opportunistic hedging strategy. DGO's hedging portfolio encompasses c 81% of its natural gas production at \$2.69/mmBtu in 2020 and 79% in 2021 at \$2.62/mmBtu.

Risks and sensitivities: Commodity prices and cost control

Key investment risks are the future prices of natural gas and oil liquids. Changes in commodity pricing may affect the value of DGO's hydrocarbon reserves and operating cash flow beyond the current 24–36 months hedging portfolio, regardless of operating performance. DGO could also be affected by events outside of its control, including economic and political events that could lead to a continuous decrease in commodity prices. DGO also needs to maintain its low unit operating expenses as it grows its asset base. In 2019, the company went through a consolidation period and was able to decrease unit LOE while keeping G&A costs stable, demonstrating the increased synergies achieved from the integration of the acquired assets.

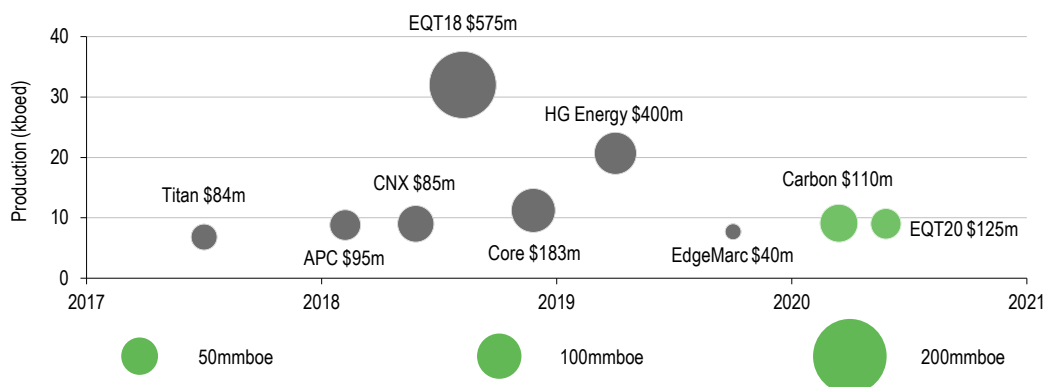
Acquire, optimise, produce

Since our [initiation note in 2018](#), DGO's strategy remains the same, entailing the acquisition of PDP reserves in/or around the Appalachian Basin and the maximisation of production and reserve recovery through the use of modern technology and operating practices. DGO continues to focus on targeting low-cost, low-decline production assets, with synergistic opportunities. Once acquired, the team deploys rigorous field-management programmes to optimise production and extend well lives, which combine with DGO's low operating costs to improve margins. This growth strategy results in robust FCF generation, which allows for dividend pay-outs and share buyback programmes, debt reduction and safeguarding the company's balance sheet.

DGO has invested more than \$1.7bn in acquisitions since its admission to AIM in February 2017, increasing production to 94.8kboed and reserves to 563mmboe by the end of 2019. This is in line with the company's strategy to leverage its position in the Appalachian Basin to capitalise on current market conditions and acquire mature producing assets in the region. Acquisitions have been funded through a combination of equity and debt, which comprises a five-year senior secured credit facility of up to \$1.5bn from KeyBank and a syndicate of lenders. The current facility has a borrowing base of \$425m with a maturity date of July 2023 and an interest rate of 2.5% plus one-month Libor and is subject to a grid that fluctuates from 2.0–3.0% plus Libor based on utilisation. Borrowings under the company's senior secured credit facility at 31 December 2019 were approximately \$437m. DGO also entered into two securitised financing agreements of \$200m each, with net proceeds being used to pay down the revolving credit facility. Both securitisations were granted investment grade by Fitch, with the first being rated BBB- (5.00% interest rate) and the second BBB (5.25% interest rate) reflective of improved asset coverage and the shorter amortising life of the note. DGO's access to capital and the relatively low cost of debt provides it with a competitive advantage over smaller market entrants looking to establish a similar acquire and build strategy.

Through acquisitive growth coupled with effective mitigation of the natural decline of legacy assets, net production has increased from approximately 3kboed at the end of 2016 to c 94.8kboed at the end of 2019. DGO has managed to achieve operational synergies, reducing unit operating costs and extending the life of producing well stock.

Exhibit 1: Significant acquisitions of upstream assets by DGO since IPO



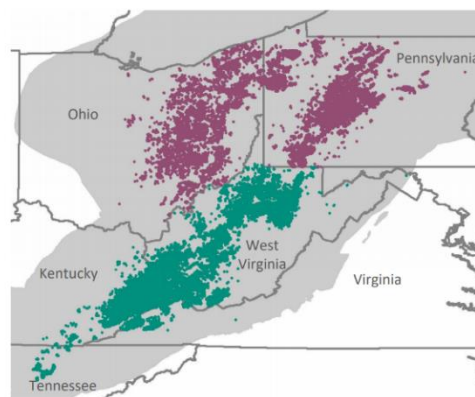
Source: DGO, Edison Investment Research. Note: Labels refer to acquired asset and cost of acquisition; bubble size refers to size of reserves acquired.

Despite DGO's progress in assimilating c 67,000 producing well locations, significant opportunities still exist to expand the company's footprint in the Appalachia region. While the scale of acquisitions in 2019 did not match the transformational growth achieved in the prior year, DGO delivered a number of material and bolt-on transactions with the same strategic focus. The acquisitions of assets from HG Energy and EdgeMarc Energy enhanced and further diversified production, while

two natural gas gathering system acquisitions helped expand the company’s midstream capabilities and enhance the financial synergies and operational efficiencies of the overall portfolio.

The integration of these assets is largely complete, and the producing wells are performing in line with management expectations. The HG Energy acquisition in April 2019 added a combined net daily production of over 20kboed from 107 unconventional producing wells. These unconventional assets represented the first wholly unconventional asset package DGO has acquired and demonstrated the stated objective of acquiring producing assets that offer synergistic opportunities for operational efficiencies, due to their similar productive profile and geographic proximity. In July 2019, DGO entered into a ‘stalking horse’ asset purchase agreement with EdgeMarc Energy for 12 producing unconventional Utica natural gas wells with associated production (c 99% gas) of approximately 7.7kboed and related facilities in Ohio; three drilled but uncompleted wells (DUCs); and undeveloped land containing deep Utica rights.

Exhibit 2: DGO well locations at 31 December 2019



| | Northern Division | Southern Division |
|-------------------------|-------------------|-------------------|
| Net Production (MBoepd) | ~53 | ~42 |
| # of Wells (gross) | ~32,000 | ~28,000 |
| Miles of Midstream | ~500 | ~11,500 |
| # of Employees | 317 | 469 |

Source: DGO

The EdgeMarc acquisition demonstrated DGO’s ability to identify unique opportunities and execute transactions on compelling valuation multiples that are in line with the company’s strategy. This was further supported by the update in November 2019, when DGO announced the sale of the non-producing assets – including the three DUCs to which no value had been allocated at the time of purchase – for a total of \$10m. The transaction successfully monetised assets that were not in line with DGO’s core strategy and reduced the net cost of the 12 producing wells by c 20%.

In addition to expanding upstream production, DGO also completed the purchase of two separate natural gas gathering systems in Pennsylvania and West Virginia in September 2019. The assets, purchased from Dominion Gathering and Processing and Equitrans comprise c 1,700 miles of low-pressure wet and dry gas gathering pipelines together with compressors, measurement stations and related facilities and equipment. Combined with DGO’s existing southern midstream system, the company now owns and operates c 12,000 miles of natural gas gathering and transporting pipelines across the Appalachian Basin.

Acquisition of upstream and midstream assets completed

DGO recently announced it has concluded the acquisition of certain upstream and midstream assets in Appalachia from Carbon Energy Corporation and EQT Corporation. The gross purchase price stood at c \$235m (Carbon: \$110m, EQT assets: \$125m), with a resulting net consideration of c \$210m (Carbon: \$98m, EQT assets: \$112m) after customary purchase price adjustments with an effective date of 1 January 2020.

The Carbon Energy assets are located within DGO’s existing West Virginia, Kentucky and Tennessee footprint and include mature, low-decline conventional net daily 2019 adjusted

production of c 9.1kboed (97% natural gas) primarily from c 6,100 net operated wells. The acquired assets also include an intrastate gathering pipeline of c 4,700 miles in West Virginia, which currently transports the majority of the production from Carbon's Appalachia wells and provides additional third-party transportation revenue along with direct interconnects to higher-priced interstate pipelines. Two active natural gas storage fields that generate third-party storage revenue and greater control optionality for DGO are included in the midstream assets to be acquired. The assets come with a robust hedge portfolio that includes average NYMEX downside protection of approximately \$2.60/mmBtu for a period of 18 months from the transaction effective date, representing c 75% of the asset's 2019 produced volumes.

EQT assets encompass c 900 net operated wells, with the majority of the wells being conventional vertical wells in West Virginia, and 67 horizontal producing wells in Pennsylvania, and associated midstream infrastructure. The acquisition includes a further 13 drilled and completed wells that are not yet connected to the gathering infrastructure, which have been excluded from the valuation. DGO has the optionality to connect the wells to the gas export facilities or monetise the wells in the same fashion as the EdgeMarc DUCs, and is currently evaluating both scenarios.

DGO intends to fund the purchase price through a combination of equity and debt. The company raised \$81.7m net of expenses by placing 64,280,500 new shares at 108p/share, equal to a 1.6% discount to the closing of the company's shares on 11 May 2020. The remainder is to be funded by the issuance of \$160m gross through a senior secured 10-year term loan (\$155m net of fees and a \$3m interest and principal reserve account) with a 6.5% coupon secured by 100% working interest of certain acquired assets, underwritten by Munich Re Reserve Risk Financing, Inc. (MRRF).

Offsetting natural declines through Smarter Well Management

We believe DGO's approach and corporate structure put it in a unique position to continue to consolidate US onshore conventional and unconventional assets and maximise resource recovery from assimilated well stock. Competition for assets in the company's core areas is limited as larger operators continue to divest mature well stock and smaller players lack scale as well as the access to capital to compete, especially in the current macroeconomic environment.

While the oil and gas majors continue to pursue the simplification and standardisation of operational and field development practices, we believe DGO takes a contrasting approach, devoting resource to scrutinise and maximise the value of each operated well location. This bespoke approach has enabled DGO to increase average production rates from mature wells and reduce unit costs, driving a significant improvement in unit netback. Management has highlighted several initiatives that have successfully reduced unit LOE for assimilated assets, including:

- reinstating production from shut-in wells of c 750 wells in 2019;
- improved water management, resulting in more environmentally friendly and cost-effective solutions;
- enhanced fluid separation resulting in more consistent production;
- wellhead automation, which reduces required well tender visits;
- modified compression cycles to reduce downtime;
- reconstructed flowlines increasing safety; and
- DGO's 'big data' platform, with integrated ERP (production, revenue, accounting, land), which streamlines data analysis for improved business intelligence and strategic decision making.

DGO's Smarter Well Management programme continues to maintain strong production from its Legacy assets, which exceeded 70kboed in the last quarter of 2019. The continued optimisation of these assets has largely offset what would otherwise have been natural declines in production, for the seventh consecutive quarter in Q120. Acquired assets are often non-core to the seller and

opportunities to optimise and workovers have often been overlooked. While the NPV to be generated from such activities is small, IRR is higher and payback quick. Scale is key in ensuring absolute value is material for DGO and its shareholders.

Asset retirement obligations

DGO operates c 67,000 wells and with that comes the responsibility of safely retiring end-of-life, non-productive assets. The company has been able to negotiate with state regulatory bodies and reach agreements on abandonment schedules, allowing DGO to manage the NPV of this liability and, where possible, extend well life. In 2019, DGO completed the plugging and abandonment of 105 wells at an average cost of \$24,200 per well.

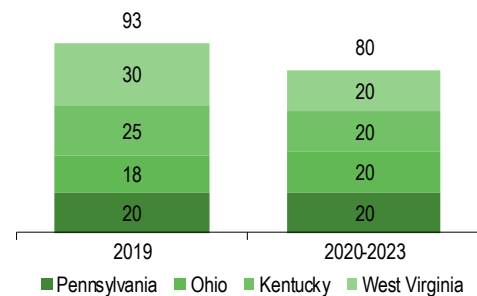
The Carbon Energy and EQT acquired assets are accompanied by state-level plugging agreements that are complementary to those DGO already has in place and do not possess any strict annual plugging requirements as wells may also be returned to production. The company does not anticipate material changes to its plugging programme or related liability as a result of the acquisitions.

Exhibit 3: DGO's long-term agreements with states

| State | Agreement duration |
|---------------|--------------------|
| Pennsylvania | 15 years |
| Ohio | 10 years |
| Kentucky | 10 years |
| West Virginia | 10 years |

Source: DGO, Edison Investment Research

Exhibit 4: Minimum number of wells to be retired per state, per year



Source: DGO, Edison Investment Research

Strategic diversification

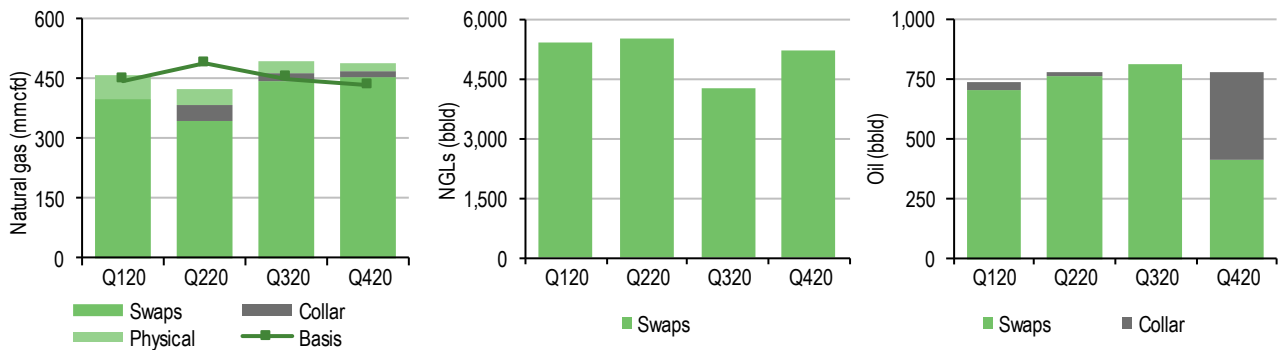
In 2019, DGO expanded its midstream capacity to c 12,000 miles of natural gas gathering and transporting pipelines across the Appalachian Basin. The ability to control the flow of its natural gas production while simultaneously increasing market optionality and margins is a core aspect of DGO's strategy and business model. The company's expanding midstream results in increased third-party midstream revenues from tariffs charged and production volumes retained and sold, which together partially offset costs to operate the systems. It also allows for control of gas production flow through these systems, increasing optionality to reroute gas to sales points with higher realised prices and eliminates the risk of future rate increases to move gas on the systems, insulating DGO's low operating cost structure.

Eventful 2020 despite challenging environment

The year 2020 is proving to be challenging for the oil and gas industry. In January, geopolitical events relating to Iran resulted in market instability, followed by the coronavirus outbreak and the Russia/Saudi Arabia oil price war. These disruptions to the supply/demand balance have already affected results in Q120, with the EIA on 11 March 2020 estimating oil demand in Q120 to be 0.9mmbod lower than in Q119. However, DGO's production mix, with c 90% natural gas, and strong hedging portfolio provide strong defensive qualities and downside protection against the recent drop in oil and gas prices.

Historically, hedging has been part of DGO’s strategy, and the company reaffirms its focus on opportunities to protect future cash flows, especially in the current low gas price environment. Approximately 81% of DGO’s natural gas production is hedged at an average price of \$2.69/mmBtu (HH was trading at \$1.79/mmBtu on 8 June 2020) for 2020, while c 79% of production is already hedged for 2021 at an average price of \$2.62/mmBtu. This type of preventive measure will allow DGO to protect its revenue stream for 2020/21 and generate sufficient cash for debt repayment and dividend distribution.

Exhibit 5: DGO’s near-term hedge portfolio



Source: DGO, Edison Investment Research

Operations continue under COVID-19

DGO recently announced that, despite the current challenging environment, normal operations continue, with little to no impact from COVID-19. The company has been deemed a provider of ‘essential services’ in all states it operates in and is therefore authorised to continue operating on an unrestricted basis. Despite this, DGO continues to monitor the situation to safeguard the wellbeing of its employees and of the local communities, often in rural locations. This has allowed DGO to maintain stable production during this period, which alongside low operating costs and robust hedging mitigate the impact of low commodity prices and underpin steady cash flows, profitability and the ability to maintain its dividend.

The company has been providing support to the communities in which it operates during these difficult times, with contributions to food banks in the states of West Virginia, Kentucky, Pennsylvania, Ohio, Virginia and Tennessee.

Move to London Main Market

DGO’s growth over the past few years has brought the company to a natural strategic step of moving to the premium listing segment of the Official List and admission to trading on the Main Market of the LSE on 18 May 2020, and subsequent cancellation of admission of ordinary shares trading on AIM. DGO initially announced its intention to move to the Main Market in September 2019. This move should improve trading liquidity and the valuation of DGO due to potential inclusion in the FTSE and other indices and provide access to a greater number of institutional investors who regularly trade in the shares of companies listed on the Main Market.

Management

David E Johnson, non-executive chairman, has enjoyed a long and successful career in the investment sector. He has worked at a number of leading investment houses as both an investment analyst and a manager and more recently in equity sales and investment management. During his career he has worked for Sun Life Assurance, Henderson Crosthwaite and Investec Securities, where he became head of sales and executive director of Investec Investment Bank. Mr Johnson joined Panmure Gordon & Co in 2004 where he worked until 2013, as head of sales from 2006 and then head of equities from 2009. Mr Johnson joined Chelverton Asset Management in 2014 where he was responsible for the group's private equity investments. Mr Johnson is a non-executive director of Bilby, a holding company providing a platform for strategic acquisitions in the gas heating and general building services industries, and Chelverton Equity Partners, an AIM-listed holding company.

Robert 'Rusty' Russell Hutson, Jr, chief executive officer. Founder and CEO of DGO, Rusty Hutson Jr was born and raised in West Virginia and is the fourth generation of his family to immerse himself in the oil and gas industry. He graduated from Fairmont State College (West Virginia) with a degree in accounting and holds a CPA licence (Ohio). Before founding DGO in 2001, Rusty spent 13 years steadily progressing into multiple leadership roles at well-known banking institutions such as Bank One and Compass Bank. His final years in the banking industry were spent as CFO of Compass Financial Services. After years of refining his strategy, Rusty and his team took DGO public in 2017. He continues to lead his team and expand the company's footprint throughout the Appalachian Basin, with a rapidly growing portfolio. Rusty remains focused on operational excellence and creating shareholder value.

Bradley Grafton Gray, chief operating officer. Before joining the company in October 2016, Mr Gray held the position of senior vice president and CFO for Royal Cup, a US-based commercial coffee roaster and wholesale distributor of tea and other beverage-related products. Prior to Royal Cup, from 2006 to 2014 Mr Gray worked in the petroleum distribution industry for the McPherson Companies and held the position of executive vice president and CFO. Mr Gray has a BSc degree in accounting from the University of Alabama and holds a CPA licence (Alabama).

Eric Williams, chief financial officer, joined DGO in July 2017 from Callon Petroleum. During Eric's more than seven-year tenure with Callon, the company grew significantly from a market capitalisation of \$40m to over \$3.5bn, successfully transforming itself from a deep-water asset focused company to an onshore, pure-play horizontal drilling operator in the Permian Basin. Mr Williams began his career in PwC's Birmingham, Alabama, audit practice and prior to his time at Callon, served in various roles including internal audit with a focus on Sarbanes Oxley implementation and compliance, controllership and financial reporting for several US publicly traded companies. Eric has a BSc degree in accounting from Samford University, an MSc degree in accounting from the University of Alabama and is a licensed CPA (Alabama).

Risks associated with the company strategy

The operation of mature well stock has operational rather than subsurface uncertainties and risks, which DGO looks to minimise. We discuss several of these company-specific operational risks and mitigation strategies below. The two key sensitivities are gas prices and LOEs.

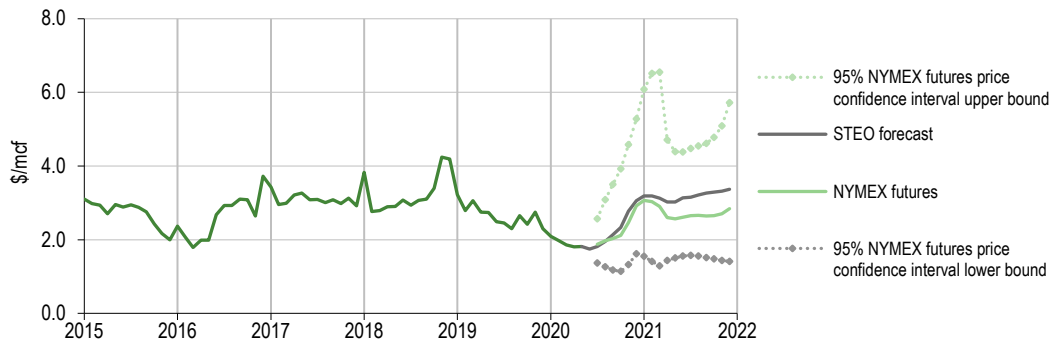
- Natural gas and crude oil pricing: changes in commodity pricing may affect the value of DGO's natural gas and oil reserves, operating cash flow and adjusted EBITDA regardless of operating performance. DGO's management actively mitigates several of these risks with a strong hedging portfolio in place.
- Managing LOE as well stock matures: management sees the potential to reduce base LOE from the current \$2.67/boe as the company consolidates incremental production adjacent to its core areas of operation reducing unit costs. However, low decline rates and relatively low maintenance capex requirements ensure unit LOE can be sustained.
- Infrastructure access: DGO is reliant on midstream access to export and sell natural gas. At a macro level, there is spare gas pipeline capacity across the Appalachian Basin and further capacity is under construction, enabling gas to feed existing and planned LNG export capacity on the Gulf coast of the US. The recent acquisitions of export capacity somewhat reduce this risk.
- Asset retirement obligation: DGO provides for abandonment liability. All the company's wells are onshore and easily accessible, enabling effective forecasting and clear line-of-sight for costs related to plugging and abandoning (P&A). DGO's production largely consists of long-life, low-decline mature assets with production expected to extend to 2050 and beyond, which significantly reduces liability on a present value basis. DGO expects to extend economic well lives beyond current expectations, potentially offsetting the non-cash accretion associated with the unwinding of the booked decommissioning liability. The company also has agreements in place with all states in which it operates to guarantee the orderly and safe decommissioning of its non-productive assets and which provide the company with sufficient visibility to effectively forecast cash flows and associated liabilities related to the regulator-required decommissioning activities.
- Ensuring safe and compliant operations: DGO promotes a culture of environmental awareness and safety among its employees and contractors. The company's assets are onshore and largely mature wells with relatively low wellhead pressures. Although there are inherent safety and environmental risks in the oil and gas sector, we believe the likelihood of a high impact event is lower than a number of peers that operate high pressure, sour gas or offshore assets.
- Success of acquisition strategy: returns will ultimately rely on the quality and performance of the assets being acquired by DGO. The success of the company's strategy also depends on management's ability to identify potential assets, acquire them on favourable terms and generate value from them.

Appalachian region commodity benchmarks

Over the past decade, natural gas production in the Appalachian region has grown faster than pipeline capacity, driving up the regional differential relative to HH. More recently, an increased capacity to deliver gas to regional markets has narrowed the price spread but a seasonal pattern in price differential remains, with Dominion South pricing showing a widening price spread in the summer months. As infrastructure in the region is expanded, differentials are narrowing and price seasonality is reducing, benefiting Appalachian producers. Growing Marcellus gas production has driven activity in the midstream sector with numerous gas pipelines under construction taking gas to meet demand from LNG exporters on the southern coast. Pipeline capacity constraints and

transport tariffs drive the differential between the Appalachian region gas hub pricing and HH with DGO realised natural gas prices in 2019 c \$0.2/mcf lower than the year average for HH at \$2.66/mcf. This is an improvement over 2018 where the difference between DGO realised gas prices and HH stood at \$0.5/mcf. As mentioned above, DGO's increased midstream portfolio allows the company to optimise gas sales points and take advantage of increased realised prices.

Exhibit 6: HH natural gas price and NYMEX confidence intervals



Source: Edison Investment Research, EIA Short-Term Energy Outlook (STEO) at 9 June 2020

Warmer temperatures than normal this winter reduced demand for heating and put downward pressure on HH prices at the beginning of the year. However, the EIA forecasts that natural gas prices will begin to rise at the end of the second quarter of 2020. This increase is anticipated as associated natural gas production is expected to decline from US onshore production. The COVID-19 pandemic resulted in decreased demand for oil in the US, leading to a crash in the WTI benchmark. The low demand and low oil price realisations led the EIA to reduce the forecast for rigs and wells being drilled onshore US. The unprecedented effects of COVID-19 on the level of drilling activity, as many producers have already announced plans to reduce capital spending and drilling levels, will have an impact on oil production and consequently associated natural gas production. The EIA announced in May 2020 it expects US dry natural gas production will average 89.8bcfd in 2020 (92.2bcfd in 2019), with monthly production falling from an estimated 93.1bcfd in April 2020 to 85.4bcfd in December 2020. Natural gas production is expected to decline the most in the Appalachian and Permian regions. In Appalachia, current low natural gas prices are discouraging producers from engaging in natural gas-directed drilling, and in the Permian region, low oil prices reduce associated gas output from oil-directed wells. DGO is not affected in the same manner as other Appalachian gas producers due to the nature of its low-decline, late-life wells that do not require additional drilling to maintain output levels. The EIA forecasts 2021 natural gas production to average 84.9bcfd, rising in the second half of 2021 in response to higher prices. The EIA forecasts that HH natural gas spot prices will average \$2.12/mcf in 2020 then increase in 2021, reaching an annual average of \$3.20/mcf because of lower natural gas production compared to 2020.

Changes to estimates

Exhibit 7 provides DGO's reported 2019 figures and our updated forecasts for FY20 and FY21. Our FY19 production forecast was in line with DGO's results for the year. Our FY20 production estimate increases to 100.0kboed to account for Carbon Energy and EQT assets' contribution for the year. As a result of improved operating metrics, we have also updated our assumptions to reflect DGO's latest base LOE, production taxes, G&T, G&C and G&A per boe. Our FY20 oil and gas price assumptions, based on the latest EIA estimates, fell by 7% for HH and 37% for WTI; however, EIA forecasts a pick-up in HH pricing for FY21, resulting in a 22% increase versus [our previous note](#). Revenues and FCF for the near term are offset by the hedging portfolio, where c 81% of natural gas production is protected at a floor of \$2.69/mmBtu (\$2.79/mcf) for 2020 and c 79% at c \$2.62/mmBtu (\$2.72/mcf) for 2021.

| Exhibit 7: Edison updated forecasts | | | | | | | | | |
|-------------------------------------|--------|-------|-------|-------|-------|-------|--------|-------|-------|
| | Actual | New | | Old | | | Change | | |
| | 2019 | 2020e | 2021e | 2019e | 2020e | 2021e | 2019 | 2020e | 2021e |
| Production (kboed) | 84.8 | 100.0 | 102.4 | 84.9 | 90.2 | 85.5 | 0% | 11% | 20% |
| Revenue* (\$m) | 536 | 564 | 589 | 523 | 526 | 500 | 2% | 7% | 18% |
| EBITDA** (\$m) | 279 | 290 | 305 | 279 | 268 | 245 | 0% | 8% | 24% |
| Adjusted EBITDA (\$m) | 273 | 290 | 305 | 269 | 268 | 245 | 2% | 8% | 24% |
| FCF (\$m) – excluding acquisitions | 225 | 251 | 215 | 244 | 232 | 184 | -8% | 8% | 17% |
| P&A expenditure (\$m) | 3.0 | 3.5 | 3.5 | 3.0 | 3.1 | 3.2 | 0% | 12% | 12% |
| Revenue*/boe (\$/boe) | 17.33 | 15.45 | 15.76 | 16.89 | 15.94 | 16.02 | 3% | -3% | -2% |
| Opex***/boe (\$/boe) | 6.45 | 6.42 | 6.26 | 6.80 | 6.49 | 6.80 | -5% | -1% | -8% |
| G&A/boe (\$/boe) | 1.83 | 1.00 | 1.20 | 1.31 | 1.25 | 1.26 | 40% | -20% | -5% |
| Cash costs/boe (\$/boe) | 8.28 | 7.42 | 7.46 | 8.11 | 7.74 | 8.06 | 2% | -4% | -7% |
| Capex/boe (\$/boe) | 1.04 | 0.81 | 0.82 | 1.01 | 0.82 | 0.83 | 3% | -1% | -2% |
| HH gas price assumption (\$/mcf) | 2.66 | 2.12 | 3.20 | 2.66 | 2.29 | 2.62 | 0% | -7% | 22% |
| WTI (\$/bbl) | 57.02 | 35.14 | 43.88 | 57.02 | 55.71 | 62.03 | 0% | -37% | -29% |

Source: Edison Investment Research. Note: *Revenue includes hedging impact; **Edison adjusted EBITDA excludes reported acquisition gains; ***includes lease operating expenditures (LOE), gathering and transportation (G&T), gathering/compression costs (G&C) and ad valorem and severance taxes.

In this note we have also revised down our long-term HH assumption of \$3.10/mcf in 2022 to reflect current natural gas prices. We present three scenarios

- Low case scenario with HH in 2022 at \$2.73/mcf, calculated from a 2020 HH of \$2.60/mcf escalated at 2.5% per year. This is in line with the current forward curve. We assume Brent at \$42.03/bbl in 2022, calculated from a 2020 Brent of \$40.00/bbl escalated at 2.5% per year.
- Mid-case scenario with HH in 2022 of \$2.94/mcf, calculated from a 2020 HH of \$2.80/mcf escalated at 2.5% per year. This reflects the mid-point between current forward curve and the EIA forecast. We estimate Brent at \$52.53/bbl, from 2020 Brent of \$50.00/bbl escalated at 2.5% per year.
- High case scenario with HH in 2022 of \$3.15/mcf, calculated from a 2020 HH of \$3.00/mcf escalated at 2.5% per year, in line with EIA. We assume Brent at \$63.04/bbl in 2022 from a 2020 Brent of \$60.00/bbl escalated at 2.5% per year.

Given the current commodity price volatility, we will continue to monitor market conditions closely and may revisit these assumptions in due course.

Valuation

We value DGO using a conventional NAV approach based on the NPV₁₀ of the company's producing assets minus overheads and net financial liabilities. The NAV table below, Exhibit 8, provides a breakdown of our valuation by asset, using latest data published by the company as well as state public sources.

We break down the assets into DGO Legacy assets (conventional, late-life, low-decline rate), the 2019 acquired assets (early-life assets) and the recent acquisitions of Carbon Energy and EQT assets. DGO pipelines with related compressor stations are also reflected in our discounted value for payments DGO receives for third-party use of services and midstream assets and respective operating costs – currently estimated at an NAV of \$49.0m. We also include the hedging impact based on DGO's latest available information on hedging volumes from 1 June 2020, as well as the impact of the 2020 share buyback programme and the recent equity raise for the Carbon Energy and EQT assets acquisitions.

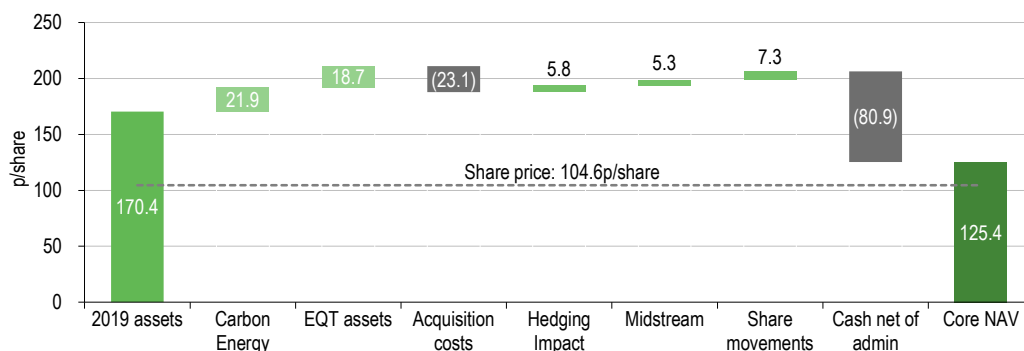
Exhibit 8: Edison detailed NAV breakdown for DGO

| Asset | Country | Diluted WI % | CoS % | Net recoverable reserves (mmboe) | NPV/boe \$/boe | Net risked value (\$m) | Low | Mid | High |
|-----------------------------------|---------|--------------|-------|----------------------------------|----------------|------------------------|----------------------------|--------------|--------------|
| | | | | | | | (\$2.60/mcf) | (\$2.80/mcf) | (\$3.00/mcf) |
| | | | | | | | Net risked value per share | | |
| | | | | | | | p/share | p/share | p/share |
| Net (debt) cash end 2019 | | | | | | (637) | (70.2) | (70.2) | (70.2) |
| SG&A – NPV of three years | | | | | | (97) | (10.7) | (10.7) | (10.7) |
| Hedging impact | | | | | | 53 | 7.6 | 5.8 | 4.0 |
| Third-party volume discounted FCF | | | | | | 49 | 5.3 | 5.3 | 5.3 |
| Share issuance/(buyback) expense | | | | | | 66 | 7.3 | 7.3 | 7.3 |
| Acquisition costs | | | | | | (210) | (23.1) | (23.1) | (23.1) |
| Production | | | | | | | | | |
| Legacy | US | 100% | 100% | 464 | 2.7 | 1,244 | 112.3 | 137.1 | 161.8 |
| HG Energy | US | 87% | 100% | 86 | 3.0 | 255 | 25.1 | 28.1 | 31.1 |
| EdgeMarc | US | 79% | 100% | 12 | 3.9 | 47 | 4.7 | 5.2 | 5.7 |
| Carbon Energy | US | 82% | 100% | 74 | 2.7 | 199 | 19.5 | 21.9 | 24.2 |
| EQT assets | US | 92% | 100% | 48 | 3.6 | 170 | 17.0 | 18.7 | 20.5 |
| Core NAV | | | | 684 | | 1,138 | 94.9 | 125.4 | 156.0 |

Source: Edison Investment Research. Note: Number of shares = 707.1m. FX: \$1.28/£.

Exhibit 9 breaks down our valuation by asset class showing where our base case core NAV sits relative to the current share price. Our valuation suggests the market is not fully valuing DGO's 1P PDP reserves of 684mmboe (562mmboe + 122mmboe from Carbon Energy and EQT assets acquisition reserves) or its third-party revenues from midstream assets and may be overestimating the NPV of decommissioning liabilities.

Exhibit 9: NAV waterfall chart



Source: Edison Investment Research. Note: Share price as at 8 June 2020.

Key drivers of DGO's valuation are the gas price and LOE. Our mid-case assumes a long-term (2022) gas price of \$2.94/mcf based on a 2020 \$2.80/mcf and short-term gas assumptions based on the EIA short-term energy outlook of \$2.12/mcf for FY20 and \$3.20/mcf for FY21. Our consolidated LOE assumption is \$3.09/boe as per DGO's expectation post-incorporation of Carbon Energy and EQT assets. Our base LOE assumption excludes gathering and transport, SG&A and production taxes. The table below provides a base case valuation sensitivity to these key drivers.

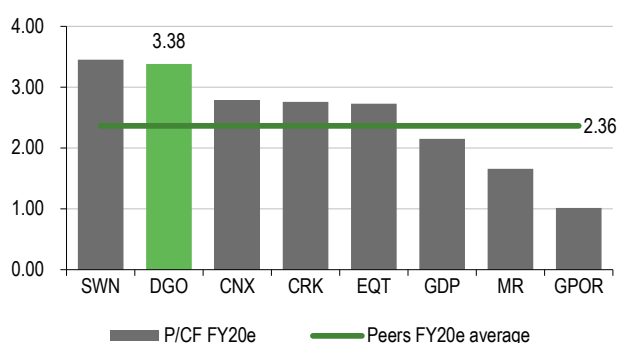
| Exhibit 10: Valuation sensitivity to LOE and gas price assumption (p/share) | | | | | | |
|---|--|-------|-------|--------------|-------|-------|
| LOE* \$/boe | | -20% | -10% | 0% | 10% | 20% |
| \$/mcf long-term | | | | | | |
| 2.40 | | 114.3 | 100.8 | 87.4 | 74.0 | 60.5 |
| 2.60 | | 121.7 | 108.3 | 94.9 | 81.4 | 68.0 |
| 2.80 | | 152.3 | 138.8 | 125.4 | 112.0 | 98.6 |
| 3.00 | | 182.8 | 169.4 | 156.0 | 142.5 | 129.1 |
| 3.20 | | 205.7 | 192.2 | 178.8 | 165.4 | 152.0 |

Source: Edison Investment Research. Note: *Includes base LOE and G&C and excludes G&T, SG&A and production taxes

Comparative valuation

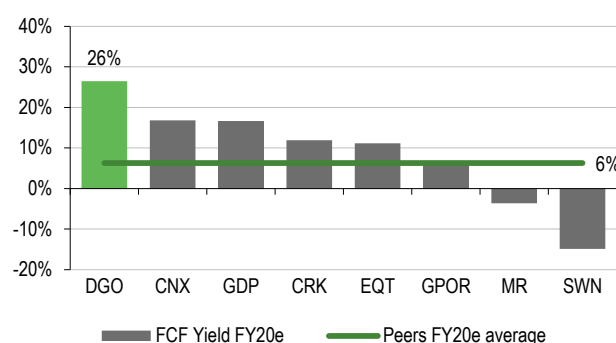
In this section, we compare DGO to a number of its US onshore gas-biased peers, looking at where the company trades on comparative multiples including P/CF, EV/EBITDA, FCF yield and net debt/EBITDA for FY20e. On a P/CF FY20e multiple, DGO trades at 3.38x, a premium compared to its peers with more than 75% natural gas production in its production mix at 2.36x. We believe this premium is justified by DGO's cash flow certainty for FY20 and FY21 (FCF yield FY20e 26%) due to its highly hedged portfolio book and its 10.4% dividend yield (at the current share price). On an EV/EBITDA basis for FY20e we observe that DGO trades at 5.47x, in line with a peer average of 5.30x. The combination of these two factors reflect DGO's lower debt levels versus its peers, with DGO trading at net debt/EBITDA FY20e of 2.31x while peers trade at average of 3.36x. We note that DGO is a London-listed mid-cap whereas the peer group is made up of US listed E&Ps, which are typically valued on a combination of prospective P/CF metrics and NAV by US analysts. Also, c 80% of DGO production is conventional whereas its peers with more than 75% natural gas in the production mix are mostly unconventional, capital-intensive, shale gas producers. Our DGO forecasts do not include any incremental upside from further M&A, which is a key component of the company's growth strategy.

Exhibit 11: P/CF FY20e



Source: Edison Investment Research, Refinitiv estimates as at 8 June 2020

Exhibit 12: FCF yield FY20e



Source: Edison Investment Research, Refinitiv estimates as at 8 June 2020

Exhibit 13: EV/EBITDA FY20e

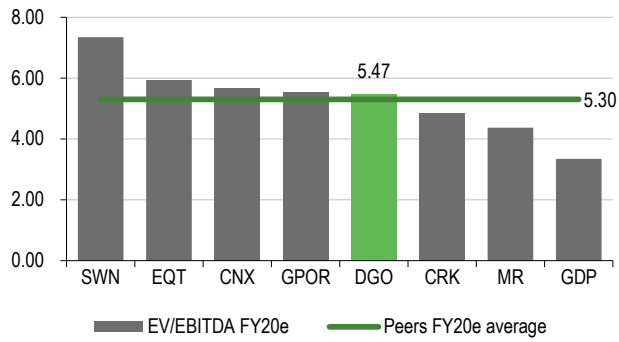
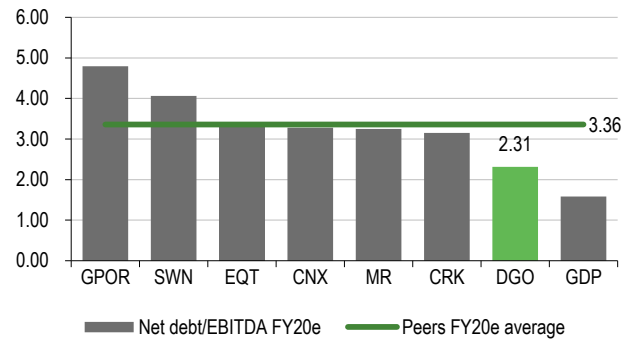


Exhibit 14: Net debt/EBITDA FY20e



Source: Edison Investment Research, Refinitiv estimates as at 8 June 2020

Source: Edison Investment Research, Refinitiv estimates as at 8 June 2020

In Exhibit 15 we provide a peer group valuation as at 8 June 2020.

Exhibit 15: US onshore producers peer group valuation table

| Company | Market cap (\$m) | EV (\$m) | EV/EBITDA FY20e (x) | EV/EBITDA FY21e (x) | FCF yield FY20e (%) | FCF yield FY21e (%) | P/CF FY20e (x) | P/CF FY21e (x) | Net debt/ EBITDA FY20e (x) | Net debt/ EBITDA FY21e (x) | Dividend yield FY20e (%) | Production FY20e (kboed) | Gas (%) | Prod growth FY20e (%) | EV/kboed FY20e (\$m/kboed) |
|--------------------------------|------------------|---------------|---------------------|---------------------|---------------------|---------------------|----------------|----------------|----------------------------|----------------------------|--------------------------|--------------------------|------------|-----------------------|----------------------------|
| Edison forecast – DGO | 949 | 1,586 | 5.47 | 5.20 | 26.4% | 22.6% | 3.38 | 3.87 | 2.31 | 1.96 | 10.4% | 100.0 | 92% | 18.0% | 15.9 |
| DGO peers | 5,473 | 9,708 | 6.69 | 6.88 | 7.1% | 2.4% | 4.02 | 3.99 | 3.51 | 3.66 | 1.3% | 262.4 | 42% | 5.0% | 99.9 |
| Gas production >75% | 1,444 | 3,816 | 5.30 | 4.66 | 6.3% | 10.7% | 2.36 | 2.18 | 3.36 | 3.00 | 0.0% | 259.4 | 90% | 7.3% | 38.9 |
| Goodrich Petroleum | 117 | 223 | 3.35 | 2.79 | 16.6% | 26.4% | 2.15 | 1.83 | 1.58 | 1.32 | 0.0% | 23.5 | 98% | 7.7% | 26.0 |
| EQT | 4,040 | 9,058 | 5.94 | 5.49 | 11.1% | 8.1% | 2.73 | 2.90 | 3.39 | 3.13 | 0.2% | 673.2 | 95% | -2.2% | 36.9 |
| Comstock Resources | 1,353 | 4,230 | 4.87 | 4.25 | 11.9% | 25.1% | 2.76 | 2.26 | 3.15 | 2.75 | 0.0% | 223.3 | 95% | 58.3% | 51.9 |
| CNX Resources | 2,128 | 5,725 | 5.66 | 5.43 | 16.8% | 13.3% | 2.79 | 2.94 | 3.28 | 3.15 | 0.0% | 237.5 | 94% | -3.5% | 66.1 |
| Gulfport Energy | 306 | 2,214 | 5.54 | 5.67 | 5.9% | 0.3% | 1.01 | 1.02 | 4.80 | 4.91 | 0.0% | 176.2 | 91% | -23.1% | 34.4 |
| Southwestern Energy | 1,934 | 4,354 | 7.35 | 5.08 | -14.9% | -3.8% | 3.45 | 2.81 | 4.06 | 2.81 | 0.0% | 385.8 | 78% | 8.5% | 30.9 |
| Montage Resources | 229 | 907 | 4.38 | 3.93 | -3.6% | 5.8% | 1.65 | 1.50 | 3.25 | 2.91 | 0.0% | 96.5 | 77% | 5.7% | 25.8 |
| Gas production >50% | 1,322 | 6,718 | 8.85 | 8.69 | 6.3% | -12.9% | 3.66 | 3.93 | 5.92 | 5.58 | 2.6% | 360.5 | 70% | -4.1% | 75.9 |
| Black Stone Minerals | 1,678 | 2,362 | 7.58 | 9.48 | 16.2% | 17.4% | 6.75 | 8.59 | 1.42 | 1.77 | 6.7% | 40.9 | 73% | -15.7% | 158.1 |
| Antero Resources | 1,010 | 7,535 | 7.99 | 8.58 | 41.8% | -5.9% | 1.43 | 1.56 | 6.94 | 7.45 | 3.6% | 573.8 | 70% | 6.9% | 36.0 |
| Range Resources | 2,031 | 5,254 | 10.33 | 8.03 | -6.6% | 3.1% | 5.93 | 4.43 | 6.35 | 4.93 | 0.0% | 379.3 | 69% | -0.3% | 37.9 |
| Chesapeake Energy | 569 | 11,722 | 9.52 | 8.67 | -26.3% | -66.1% | 0.55 | 1.12 | 8.98 | 8.18 | 0.0% | 448.1 | 69% | -7.4% | 71.7 |
| Other onshore producers | 6,873 | 11,370 | 6.72 | 7.14 | 7.4% | 2.4% | 4.42 | 4.40 | 3.24 | 3.57 | 1.4% | 250.8 | 28% | 5.6% | 116.2 |
| Average | 5,370 | 9,523 | 6.66 | 6.84 | 7.6% | 2.9% | 4.00 | 3.99 | 3.48 | 3.62 | 1.5% | 258.7 | 43% | 5.3% | 98.0 |

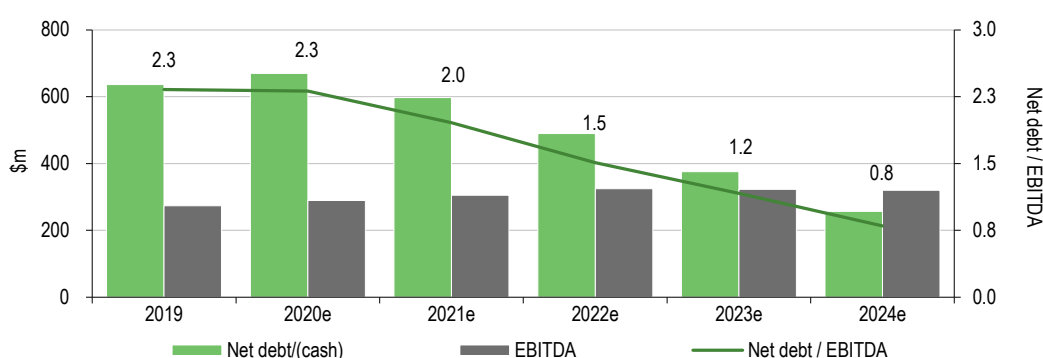
Source: Edison Investment Research, Refinitiv estimates. Note: Priced at 8 June 2020.



Financials

DGO's key drivers of FCF and dividends will be natural gas realisations and LOE. Below we provide our net debt and net debt/EBITDA based on our underlying commodity price assumptions. We forecast a quarterly dividend payment resulting in an annualised 14.0c dividend in 2020, equating to an FY20e yield of 10.4% at the current share price. We also assume FCF is used to reduce net debt and gearing with net debt/EBITDA standing at 2.3x in FY20, following the recently announced acquisitions, (management targets less than 2.5x net debt/adjusted EBITDA leverage ratio) and falling to 2.0x in FY21. We believe DGO will continue to mitigate the impact of low gas prices realisations by continuing with its opportunistic hedging strategy, as it did for 2020.

Exhibit 16: Net debt and net debt/EBITDA estimates



Source: Edison Investment Research

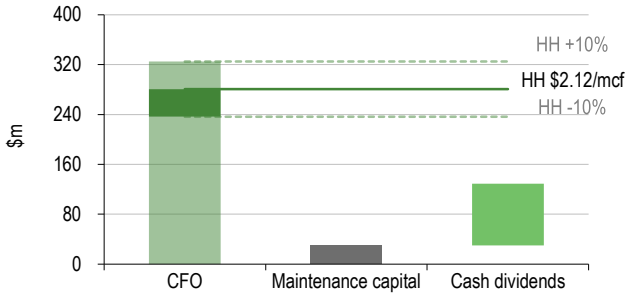
Although the market has been observing lower HH prices, the redetermination of DGO's senior secured credit facility in January 2020 reaffirms a \$650m borrowing base following the successful \$200m securitisation financing in November 2020 and demonstrates the lenders have confidence in DGO's ability to reduce its debt even at current commodity prices. The current facility has a borrowing base of \$425m with a maturity date of July 2023, an interest rate of 2.5% plus the one-month LIBOR and is subject to a grid that fluctuates from 2.0–3.0% plus LIBOR based on utilisation. Borrowings under the company's senior secured credit facility at 31 December 2019 were approximately \$437m. In April 2020 DGO completed its second \$200m securitisation financing, with net proceeds being used to pay down the revolving credit facility. These securitisations provide a low cost of debt with investment grade rating (higher than that of the issuing parent company) due to a bankruptcy-remote structure. The covenants are more flexible, being tied only to the assets being securitised and not on a corporate level. For the Carbon Energy and EQT assets acquisitions DGO raised \$81.7m net of expenses by placing 64,280,500 new shares at 108p/share, equal to a 1.6% discount to the closing of the company's shares on 11 May 2020. The company intends to fund the remaining consideration by the issuance of \$160m gross through a senior secured 10-year term loan (\$155m net of fees and a \$3m interest and principal reserve account) with a 6.5% coupon secured by 100% working interest of certain acquired assets, underwritten by Munich Re Reserve Risk Financing, Inc. (MRRF).

Dividend protected by FY20 and FY21 hedges

DGO has distributed regular and increasing dividends to shareholders since 2017. Management targets shareholder returns of c 40% of FCF. In Exhibit 17 we show that at a 10% discount to our current commodity price assumptions and a constant annual dividend estimate of 14.0c, FY20 and FY21 maintenance capex and cash dividends are covered by cash from operations. We have stress-tested our model for commodity prices and observed that we would have to see an average

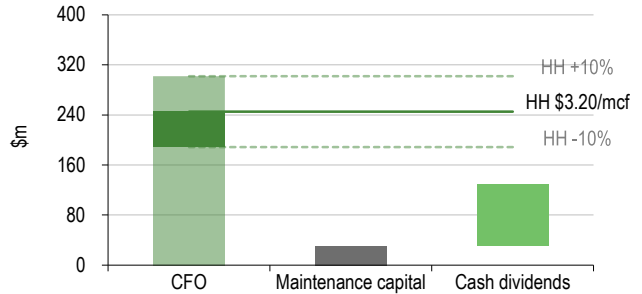
realised price of \$1.38/mcf in 2020 and \$2.56/mcf 2021 for cash from operations to just about cover current capex and dividend assumptions. However, as already been mentioned, DGO's floor hedge price for 2020 is \$2.69/mmBtu (\$2.79/mcf) and \$2.62/mmBtu (\$2.72/mcf) for 2021.

Exhibit 17: DGO FY20e dividend coverage



Source: Edison Investment Research

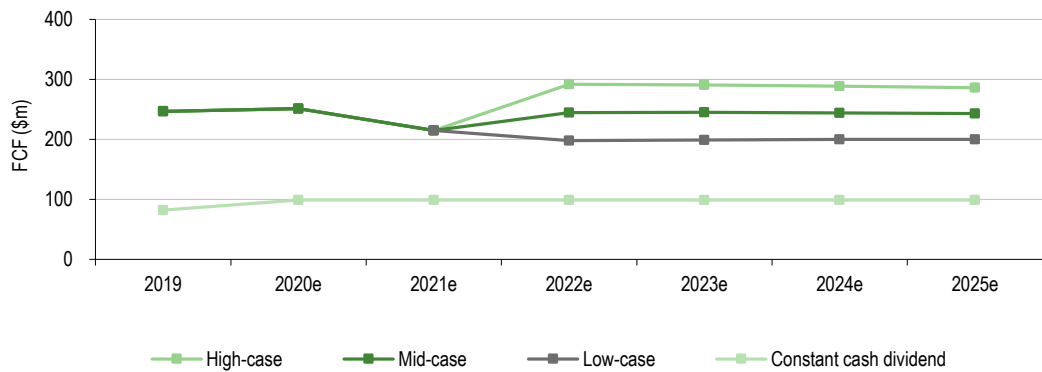
Exhibit 18: DGO FY21e dividend coverage



Source: Edison Investment Research

Exhibit 19 provides a test to DGO's dividend sustainability until 2025 under our different modelled scenarios. We observed that under our mid-case scenario, assuming dividend pay-outs remain constant, cash dividends would account for c 40% of generated FCF from 2022, in line with the company's current dividend policy. In our low-case scenario this would increase to c 50% of FCF from 2022.

Exhibit 19: DGO dividend sustainability

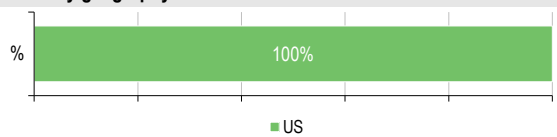


Source: Edison Investment Research

Exhibit 20: Financial summary

| | US\$m | 2017 | 2018 | 2019 | 2020e | 2021e |
|--|-------|---------|---------|---------|-----------|---------|
| Year-end December | | IFRS | IFRS | IFRS | IFRS | IFRS |
| PROFIT & LOSS | | | | | | |
| Revenue | | 41.8 | 289.8 | 462.3 | 416.3 | 658.0 |
| Cost of sales | | (28.4) | (149.8) | (300.5) | (328.8) | (331.7) |
| Gross profit | | 13.3 | 140.0 | 161.7 | 87.5 | 326.3 |
| General & admin | | (8.9) | (40.5) | (56.6) | (36.5) | (44.8) |
| Gain/(loss) on derivative financial instruments | | (0.4) | 18.0 | 73.9 | 148.0 | (69.0) |
| Exceptionals inc gain on acquisitions | | 37.2 | 177.6 | 1.5 | - | - |
| Reported EBITDA* | | 48.7 | 337.0 | 278.6 | 289.7 | 304.9 |
| EBITDA* | | 17.5 | 146.2 | 273.3 | 289.7 | 304.9 |
| Depreciation | | (7.5) | (42.0) | (98.1) | (90.7) | (92.6) |
| Operating Profit (before amort. and except.) | | 10.0 | 104.2 | 175.1 | 199.0 | 212.4 |
| Reported EBIT | | 41.2 | 295.0 | 180.5 | 199.0 | 212.4 |
| Net interest | | (11.5) | (33.2) | (49.0) | (60.4) | (64.2) |
| Profit Before Tax (norm) | | (1.5) | 71.0 | 126.1 | 138.6 | 148.2 |
| Profit Before Tax (reported) | | 29.7 | 261.8 | 131.5 | 138.6 | 148.2 |
| Tax | | (2.3) | (60.7) | (32.1) | (37.4) | (40.0) |
| Profit After Tax (adjusted non-IFRS) | | (3.7) | 10.3 | 94.1 | 101.2 | 108.2 |
| Profit After Tax (reported) | | 27.5 | 201.1 | 99.4 | 101.2 | 108.2 |
| Average Number of Shares Outstanding (m) | | 120.1 | 386.6 | 641.7 | 707.1 | 707.1 |
| Average Number of Shares Outstanding fully diluted (m) | | 120.3 | 120.3 | 387.9 | 707.1 | 707.1 |
| EPS - normalised (c) | | (3.1) | 2.7 | 14.7 | 14.3 | 15.3 |
| EPS - normalised fully diluted (c) | | (3.1) | 2.7 | 14.6 | 14.3 | 15.3 |
| EPS - (IFRS) (c) | | 22.9 | 52.0 | 15.5 | 14.3 | 15.3 |
| Dividend per share declared (c) | | 5.4 | 11.2 | 13.9 | 14.0 | 14.0 |
| Gross margin (%) | | 31.9 | 48.3 | 35.0 | 21.0 | 49.6 |
| EBITDA margin (%) | | 116.6 | 116.3 | 60.3 | 69.6 | 46.3 |
| Operating margin (before GW and except.) (%) | | 23.9 | 36.0 | 37.9 | 47.8 | 32.3 |
| BALANCE SHEET | | | | | | |
| Non-current assets | | 223.3 | 1,445.4 | 1,845.6 | 1,994.6 | 1,932.6 |
| Intangible assets | | 215.3 | 1,093.0 | 1,490.9 | 1,639.9 | 1,577.9 |
| Tangible assets | | 6.9 | 324.8 | 341.8 | 341.8 | 341.8 |
| Investments | | 1.0 | 27.7 | 12.8 | 12.8 | 12.8 |
| Current assets | | 29.6 | 111.6 | 160.4 | 158.7 | 158.7 |
| Stocks | | - | - | - | - | - |
| Debtors | | 13.9 | 78.5 | 73.9 | 73.9 | 73.9 |
| Cash** | | 15.2 | 1.4 | 2.9 | - | - |
| Other | | 0.5 | 31.8 | 83.6 | 84.8 | 84.8 |
| Current liabilities | | (15.3) | (64.3) | (126.9) | (126.9) | (126.9) |
| Creditors | | (15.0) | (64.0) | (86.1) | (86.1) | (86.1) |
| Short term borrowings | | (0.4) | (0.3) | (40.8) | (40.8) | (40.8) |
| Long term liabilities | | (123.1) | (743.8) | (941.0) | (1,019.7) | (948.5) |
| Long term borrowings | | (70.6) | (482.5) | (598.8) | (629.4) | (556.3) |
| Other long-term liabilities (inc. decomm.) | | (52.5) | (261.3) | (342.2) | (390.3) | (392.2) |
| Net assets | | 114.4 | 748.9 | 938.1 | 1,006.7 | 1,015.9 |
| CASH FLOW | | | | | | |
| Operating cash flow | | 6.9 | 87.7 | 279.2 | 280.7 | 245.2 |
| Capex inc acquisitions | | (93.1) | (766.8) | (466.9) | (239.7) | (30.6) |
| Other | | - | - | - | - | - |
| Equity issued | | 77.0 | 425.6 | 169.0 | 66.4 | - |
| Financing expense | | (3.3) | (32.6) | (44.3) | (40.7) | (42.5) |
| Dividends | | (5.8) | (31.3) | (82.2) | (99.0) | (99.0) |
| Net cash flow | | (18.3) | (317.4) | (145.2) | (32.3) | 73.1 |
| Opening net debt/(cash) | | 37.1 | 55.8 | 481.4 | 636.7 | 670.2 |
| HP finance leases initiated | | - | - | - | - | - |
| Other | | (0.5) | (108.2) | (10.0) | (1.2) | (0.0) |
| Closing net debt/(cash) | | 55.8 | 481.4 | 636.7 | 670.2 | 597.1 |

Source: DGO, Edison Investment Research. Note: *Includes hedging. **Assumes DGO uses cash balance to pay down debt.

| | |
|--|---|
| Contact details 1800 Corporate Drive Birmingham, Alabama, 35242 United States www.dgoc.com | Revenue by geography  <p>A horizontal bar chart showing that 100% of the company's revenue is generated in the United States. The bar is green and labeled '100%'.</p> |
| Management team | |
| Non-executive chairman: David E. Johnson Mr Johnson has enjoyed a long and successful career in the investment sector. He has worked at a number of leading investment houses, as both an investment analyst and a manager and more recently in equity sales and investment management. Mr Johnson is a non-executive director of Bilby, a holding company providing a platform for strategic acquisitions in the gas heating and general building services industries, and Chelverton Equity Partners, an AIM-listed holding company. | Chief executive officer: Robert 'Rusty' Russell Hutson, Jr Founder and CEO, Rusty Hutson Jr was born and raised in West Virginia and is the fourth generation in his family to immerse himself in the oil and gas industry. Prior to founding DGO in 2001, Rusty spent 13 years steadily progressing into multiple leadership roles at well-known banking institutions such as Bank One and Compass Bank. His final years in the banking industry were spent as CFO of Compass Financial Services. Rusty and his team took DGO public in 2017. He continues to lead his team and expand the company's footprint throughout the Appalachian Basin, with a rapidly growing portfolio. |
| Chief operating officer: Bradley Grafton Gray Prior to joining the company in October 2016, Mr Gray held the position of senior vice president and CFO for Royal Cup, a US-based commercial coffee roaster and wholesale distributor of tea and other beverage related products. Prior to Royal Cup, from 2006 to 2014 Mr Gray worked in the petroleum distribution industry for the McPherson Companies and held the position of executive vice president and CFO. Mr Gray has a BSc degree in accounting from the University of Alabama and holds a CPA licence (Alabama). | Chief financial officer: Eric Williams Mr Williams joined DGO in July 2017 from Callon Petroleum. During Eric's more than seven-year tenure with Callon, the company grew significantly from a market capitalisation of \$40m to over \$3.5bn, successfully transforming itself from a deepwater asset focused company to an onshore, pure-play horizontal drilling operator in the Permian Basin. Mr Williams began his career at PwC prior to his time at Callon. Eric has a BSc degree in accounting from Samford University, a MSc degree in accounting from the University of Alabama and is a licensed CPA (Alabama). |
| Principal shareholders | |
| Sand Grove Capital Management LLP HSBC Bank PLC Caius Capital LLP Pelham Capital Ltd. AXA Investment Managers Premier Miton Group Plc JO Hambro Capital Management Ltd | (%) 8.91 8.54 5.72 5.67 5.16 5.00 4.93 |
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