



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

PDCE - NASDAQ - as of	8/7/17	\$45.07
Price Target		\$85.00
52-Week Range	\$40.12 -	\$84.88
Shares Outstanding (mm)		66.1
Market Cap. (\$mm)		\$2,979.9
1-Mo. Average Daily Volume		1,300,053
Institutional Ownership		77.0%
Debt/Total Capital	Q2'17	22.5%
ROE	FY'16	-9.4%
Book Value / Share	Q2'17	\$41.12
Price / Book Value		1.1x
Dividend Yield		NA
LTM Adj. EBITDA Margin		82.3%

Adjusted EBITDA / Share - FY 12/31

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$1.27		\$1.97	A --	--
2Q	\$2.48		\$3.04	A --	--
3Q	\$2.63	\$2.54	\$2.43	--	--
4Q	\$2.35	\$2.79	\$2.69	--	--
Year	\$8.88	\$9.20	\$10.12	\$12.86	\$13.00
Mult.	5.1x		4.5x		3.5x

Product Sales (\$mm)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$75		\$190	A --	--
2Q	\$111		\$214	A --	--
3Q	\$142	\$245	\$234	--	--
4Q	\$169	\$267	\$254	--	--
Year	\$497	\$895	\$891	\$1,203	\$1,261

Company Description: Denver, CO – based PDC Energy is a junior exploration and production company with operations in the Rocky Mountain, Delaware (Permian) and Utica basins. In 2016, the company produced 22.2 Mmboe (million barrels of oil equivalent) from proved reserves of approximately 341 Mmboe (35% crude, 40% gas, 25% NGLs).

Energy

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PDC Energy

PDCE -- NASDAQ – Long-term Buy-3

Q2 Volume +54%, Pricing -11% Yr/Yr; Raise Estimates

Investment Highlights

- PDC reported Q2'17 adjusted EBITDA of \$200.4M vs. \$115.7M a year ago. Our forecast was for \$125.6M while consensus was \$141.1M. Results benefitted from the reversal of a prior \$40.2M note receivable charge-off, partially offset by a \$27.6M impairment charge.
- Production increased 21% sequentially to 8.0 Mmboe in Q2 at 63% liquids. Realized pricing of \$28.16/Boe was ~2% lower sequentially while “all in” production costs of \$27.17/Boe were 15% lower yr/yr and 7% vs. Q1.
- At Q2-end net debt to total capitalization was 23% with \$202M in cash and zero drawn on its \$700M credit facility, putting total liquidity at ~\$900M. With Capex at ~\$800M this year and next, we believe growth will be primarily internally-funded.
- The company continues to exceed our production forecasts, which we are increasing for 2017 from 31.1 Mmboe to 32.1 Mmboe and for 2018 forecast from 35.2 to 39.0 Mmboe. This is partially offset by a pullback in our pricing outlook and a firming cost environment. Nevertheless, with the Q2 upside our 2017 adjusted EBITDA per share forecast rises to \$10.12 from \$9.20 while our 2018 forecast improves to \$13.00 from \$12.86.
- The shares are currently trading at 35% average discounts to historical median cash flow multiples vs. our 2018 forecasts, and at \$1.95 on an EV/Mcfe basis, a 27% discount to the sector average. At our \$85 price target, the shares would trade at 17% average premiums to these multiples, which we believe is reasonable given the company’s accelerating growth production and cash flow forecasts.

Note Important Disclosures on Pages 5-6
Note Analyst Certification on Page 5

ADDITIONAL DISCUSSION

PDCE exceeded our production growth forecast once again in Q2, delivering 88.1 Mboepd vs. our 83.0 Mboepd forecast and against 57.7 Mboepd a year ago. Management lifted the bottom end of its guidance range for 2017, from 30 to 32 Mmboe, while holding the top of the range at 33 Mmboe, but on the quarterly conference call suggested the lower bound was more likely than the top given a moderation in the pace of drilling planned for the fourth quarter and certain midstream constraints. This caution was met with hostility by the market, resulting in the shares being punished by more than 10% as this is written.

We thus find ourselves in a situation where our heretofore too-cautious production growth forecasts are moving up, while the street appears to be pulling back. We are adding 1 Mmboe to our 2017 forecast, and 3.8 Mmboe to our 2018 outlook, which we believe reasonably tracks the pace of production growth management has already demonstrated running the current three rig program in both its Wattenburg and Permian plays.

Hedges cover ~70% of our forecasted H2'17 oil production at ~\$50/Bbl, ~63% of gas at \$3.40/Mcf and ~17% of NGLs at ~\$26/Bbl. Approximately 54% and 63% of our forecasted 2018 oil and gas production is hedged at \$50/Bbl and ~\$2.95/Mcf, respectively, and ~3% of NGLs at ~\$27/Bbl.

The company has engaged an investment banking group to further the divestiture of its Utica Shale assets, and anticipates reclassifying such as assets held for sale in the third quarter of 2017.

SUITABILITY RATING

Our Suitability rating is 3 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive). This reflects our favorable view of the company's relatively high-performing production development, competitive cost structure in the Rockies, Permian and Utica basins, attractive hedge position and notably strong balance sheet condition. This is balanced, however, against a challenging industry-wide market environment.

CONSIDERATIONS AND RISKS

The energy production industry is highly capital intensive and highly competitive and is subject to a range of economic and operational risks. Foremost among these risks may be volatility in the underlying commodity pricing, which is subject to supply and demand fundamentals related to factors such as economic conditions, weather patterns and logistical constraints. The industry is also subject to a range of regulatory risks, including changes in environmental and pollution policies, permitting requirements, and employee benefits obligations. Operating and financial risks include drilling success rates and costs related to expansion of the reserve base and sufficient access to capital.

Company-specific risks include potential capital requirements and midstream access for its development projects in its Rockies and Texas operations.

Additional information is available upon request.

PDC Energy (PDCE)

Financial Model (\$\$ in '000s) FYE Dec.

Income Statement Analysis	FY14	FY15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
Revenues													
Gas & Oil Sales	471,413	378,713	75,367	110,841	141,805	169,340	497,353	189,692	213,602	234,000	254,200	891,494	1,261,400
NG Marketing / Other	71,571	10,920	2,171	1,879	2,678	1,997	8,725	3,311	3,624	3,200	3,150	13,285	10,000
Well Ops. & Pipeline	2,919	2,510	2,237	178	10	93	2,518	-	-	-	-	-	-
Commodity Hedging Gain (Loss)	310,304	203,183	11,056	(92,801)	19,397	(63,333)	(125,681)	80,704	57,932	-	-	138,636	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	856,207	595,326	90,831	20,097	163,890	108,097	382,915	273,707	275,158	237,200	257,350	1,043,415	1,271,400
Costs & Expenses													
Production Expenses	83,624	91,932	23,442	24,183	28,617	33,533	109,775	38,090	41,558	45,210	47,120	171,978	224,880
NG Marketing / Other	72,015	11,717	2,578	2,125	3,092	2,398	10,193	3,528	3,890	3,200	3,150	13,768	10,000
Exploration	947	1,102	210	237	241	3,981	4,669	954	1,033	1,350	1,250	4,587	4,910
Asset Retirement Accretion	3,415	6,293	1,812	1,811	1,777	1,680	7,080	1,768	1,666	1,800	1,800	7,034	7,390
G & A	115,859	83,783	22,779	23,579	32,510	33,602	112,470	26,315	29,531	31,300	31,750	118,896	145,220
D, D & A	192,528	303,258	97,388	107,014	112,927	99,545	416,874	109,316	126,013	136,930	141,280	513,539	654,700
Operating Profit	387,819	97,241	(57,378)	(138,852)	(15,274)	(66,642)	(278,146)	93,736	71,467	17,410	31,000	213,613	224,300
%	45.3%	16.3%	-63.2%	-690.9%	-9.3%	-61.7%	-72.6%	34.2%	26.0%	7.3%	12.0%	20.5%	17.6%
Gain (Loss) on Leasehold Sales	(507)	385	84	(260)	219	-	43	(2,033)	532	-	-	(1,501)	-
Interest Inc.	1,290	4,807	1,558	177	140	(912)	963	240	768	200	150	1,358	-
(Interest Exp.)	(47,842)	(47,571)	(11,894)	(10,672)	(20,193)	(19,213)	(61,972)	(19,467)	(19,617)	(19,870)	(20,120)	(79,074)	(81,570)
Pre-Tax Income	340,760	54,862	(67,630)	(149,607)	(35,108)	(86,767)	(339,112)	72,476	53,150	(2,260)	11,030	134,396	142,730
Income Tax	69,967	(38,308)	(41,839)	(58,327)	(12,032)	(34,997)	(147,195)	26,330	24,537	(860)	4,190	54,197	54,240
%	20.5%	-69.8%	61.9%	39.0%	34.3%	40.3%	43.4%	36.3%	46.2%	38.1%	38.0%	40.3%	38.0%
Other Non-Recurring Items	(163,532)	(159,205)	(45,739)	(4,170)	(233)	(3,869)	(54,011)	-	12,637	-	-	12,637	-
Disc. Op's.	48,174	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	155,435	(66,035)	(71,530)	(95,450)	(23,309)	(55,639)	(245,928)	46,146	41,250	(1,400)	6,840	92,836	88,490
Shares Outstanding	36,678	39,591	41,608	46,742	48,839	58,914	49,052	66,117	66,019	66,270	66,520	66,232	67,250
EPS - GAAP	\$4.24	(\$1.67)	(\$1.72)	(\$2.04)	(\$0.48)	(\$0.94)	(\$5.01)	\$0.70	\$0.62	(\$0.02)	\$0.10	\$1.40	\$1.32
EPS - adjusted operating	(\$1.03)	(\$1.18)	(\$0.89)	(\$0.11)	(\$0.12)	\$0.18	(\$0.94)	(\$0.06)	\$0.19	-	-	\$0.21	-
Margin Analysis													
Gas & Oil Production GM	82.3%	75.7%	68.9%	78.2%	79.8%	80.2%	77.9%	79.9%	80.5%	80.7%	81.5%	80.7%	82.2%
G&A as % of Rev's	13.5%	14.1%	25.1%	117.3%	19.8%	31.1%	29.4%	9.6%	10.7%	13.2%	12.3%	11.4%	11.4%
D, D & A as % of O&GRev's	40.8%	80.1%	129.2%	96.5%	79.6%	58.8%	83.8%	57.6%	59.0%	58.5%	55.6%	57.6%	51.9%
Rate of Change Analysis													
Gas & Oil Sales	31.2%	-19.7%	1.7%	14.4%	35.7%	64.1%	31.3%	151.7%	92.7%	65.0%	50.1%	79.2%	41.5%
Adjusted EBITDA	49.3%	22.7%	-35.5%	14.5%	-1.7%	7.0%	-1.7%	146.3%	73.2%	24.9%	29.4%	53.9%	30.4%
Production of 9.3 (ex-Marcellus) Mmboe @ 61% liquids	Production of 15.3 Mmboe @ 64% liquids	3/11- \$297M share offering	6/16- announce ~14k ac acreage exchange w/NBL in CO field; settle \$115M convertible	8/23- announce ~\$1.5B Delaware (Permian) acq.	12/6- 9.4M shares issued as part of Permian acq.	Production of 22.2 Mmboe @ 61% liquids	1/4- 4.5k ac bolt-on acq in Permian	6/7- 9.4M share shelf reg.	6/26- Fed & state (CO) pollution complaint filing			Forecasting production of 32.1 Mmboe @ 63% liquids	Forecasting production of 39.0 Mmboe @ 63% liquids
Forecasted gas & oil revenues include estimated impact of commodity hedging													

Source: Company reports and Hilliard Lyons estimates

PDC Energy (PDCE) (\$'s in '000's)

Cash Flow Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Inc.	155,435	(66,035)	(71,530)	(95,450)	(23,309)	(55,639)	(245,928)	46,146	41,250	(1,400)	6,840	92,836	88,490
D, D & A	192,528	303,258	97,388	107,014	112,927	99,545	416,874	109,316	126,013	136,930	141,280	513,539	654,700
(Increase) Decrease in Wrkg. Cap.	(95,112)	(15,605)	28,531	(21,501)	71,765	65,925	144,720	48,872	2,514	5,580	12,090	39,560	36,300
Operating C.F.	252,851	221,618	54,389	(9,937)	161,383	109,831	315,666	204,334	169,777	141,110	160,210	645,935	779,490
(Cap Ex.)	(628,592)	(604,668)	(122,759)	(112,948)	(118,015)	(84,671)	(438,393)	(130,647)	(206,058)	(220,000)	(215,000)	(771,705)	(850,000)
(Acquisition Exp.)	-	-	-	-	(100,000)	(975,678)	(1,075,678)	-	-	-	-	-	-
Asset Sales	154,457	405	90	4,813	42	-	4,945	6,918	(253)	-	-	6,665	-
(Dividends)	-	-	-	-	-	-	-	-	-	-	-	-	-
Free C.F.	(375,741)	(383,050)	(68,280)	(118,072)	(56,590)	(950,518)	(122,727)	80,605	(36,534)	(78,890)	(54,790)	(125,770)	(70,510)
ST Debt Drawn	263,750	397,000	85,000	-	-	-	85,000	-	-	9,860	13,700	23,560	35,260
(ST Debt Repaid)	(200,000)	(416,000)	(122,000)	-	-	-	(122,000)	(2,349)	-	-	-	(2,349)	-
LT Debt Drawn	-	-	-	-	586,229	(122)	586,107	-	-	-	-	-	-
(LT Debt Repaid)	-	-	-	(115,000)	-	-	(115,000)	-	-	-	-	-	-
Stock Issued	-	202,851	296,578	-	558,494	2	855,074	-	-	-	-	-	-
(Stock Repurchased)	(5,392)	(6,056)	-	(4,055)	-	-	(4,055)	-	(5,274)	-	-	(5,274)	-
Net C.F.	(317,383)	(205,255)	191,298	(237,127)	1,088,133	(950,638)	1,162,399	78,256	(41,808)	(69,030)	(41,090)	(109,833)	(35,250)
Supplemental Cash Flows Analysis:													
margin	66.1%	113.0%	66.3%	102.5%	89.0%	80.6%	85.6%	67.5%	92.2%	67.8%	69.5%	74.1%	68.7%
Adjusted EBITDA	\$ 361,106	\$ 442,956	\$ 52,868	\$ 115,714	\$ 128,649	\$ 138,183	\$ 435,404	\$ 130,235	\$ 200,369	\$ 160,740	\$ 178,780	\$ 670,124	\$ 873,970
per share	\$9.85	\$11.19	\$1.27	\$2.48	\$2.63	\$2.35	\$8.88	\$1.97	\$3.04	\$2.43	\$2.69	\$10.12	\$13.00
Balance Sheet Analysis													
Cash	16,066	850	238,545	109,099	1,197,692	244,100	244,100	257,514	202,291	133,260	92,170	92,170	56,920
Accounts Receivable	131,204	104,274	100,053	107,350	99,895	143,392	143,392	122,484	135,203	189,760	205,880	205,880	190,710
Fair Value of ST Derivatives	187,495	221,659	183,484	98,839	65,604	8,791	8,791	27,047	52,105	52,100	52,100	52,100	52,100
Other Current Assets	193,449	226,925	189,454	102,686	70,458	12,333	12,333	31,773	58,724	58,700	58,700	58,700	58,700
Total Current Assets	340,719	332,049	528,052	319,135	1,368,045	399,825	399,825	411,771	396,218	433,820	408,850	408,850	358,430
Net PP&E	1,800,186	1,937,678	1,942,498	1,930,595	1,932,274	4,008,266	4,008,266	4,098,463	4,165,572	4,248,600	4,322,300	4,322,300	4,517,600
Other Assets	199,683	100,816	44,847	21,940	116,961	77,751	77,751	82,896	95,138	95,100	95,100	95,100	95,100
Total Assets	2,340,588	2,370,543	2,515,397	2,271,670	3,417,280	4,485,842	4,485,842	4,593,130	4,656,928	4,777,520	4,826,250	4,826,250	4,971,130
ST & Current Portion of LT Debt	-	149,940	114,183	-	-	-	-	-	-	9,860	23,560	23,560	56,470
Accounts Payable	130,321	92,613	73,898	64,234	62,350	66,322	66,322	144,440	152,492	227,710	247,060	247,060	317,850
Fair Value of Derivatives	570	1,595	5,173	22,824	22,563	53,595	53,595	26,495	10,138	10,100	10,100	10,100	10,100
Other Current Liabilities	179,500	57,184	94,917	100,141	134,368	150,661	150,661	147,047	168,036	168,000	168,000	168,000	168,000
Total Current Liabilities	310,391	301,332	288,171	187,199	219,281	270,578	270,578	317,982	330,666	415,670	448,720	448,720	552,420
Long-term Debt	664,923	529,437	492,717	492,997	1,041,575	1,043,954	1,043,954	1,046,461	1,049,004	1,049,000	1,049,000	1,049,000	1,049,000
Other LT Liabilities	227,915	252,577	218,060	166,909	170,364	548,556	548,556	557,510	562,816	562,800	562,800	562,800	562,800
Shareholders' Equity	1,137,359	1,287,197	1,516,449	1,424,565	1,986,060	2,622,754	2,622,754	2,671,177	2,714,442	2,750,050	2,765,730	2,765,730	2,806,910
Book Value	\$ 31.01	\$ 32.51	\$ 36.45	\$ 30.48	\$ 40.67	\$ 44.52	\$ 53.47	\$ 40.40	\$ 41.12	\$ 41.50	\$ 41.58	\$ 41.76	\$ 41.74
Current Ratio	1.1x	1.1x	1.8x	1.7x	6.2x	1.5x	1.5x	1.3x	1.2x	1.0x	0.9x	0.9x	0.6x
LT Debt/Cap. - Net of Cash	36.0%	29.1%	12.7%	20.0%	-5.2%	21.8%	21.8%	21.2%	22.5%	24.1%	25.1%	25.1%	25.7%
ROE: DuPont	13.7%	-5.1%	-4.7%	-6.7%	-1.2%	-2.1%	-9.4%	1.7%	1.5%	-0.1%	0.2%	3.4%	3.2%

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

I, Joel K. Havard, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

- 1** - A large cap, core holding with a solid history
- 2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
- 3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
- 4** - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

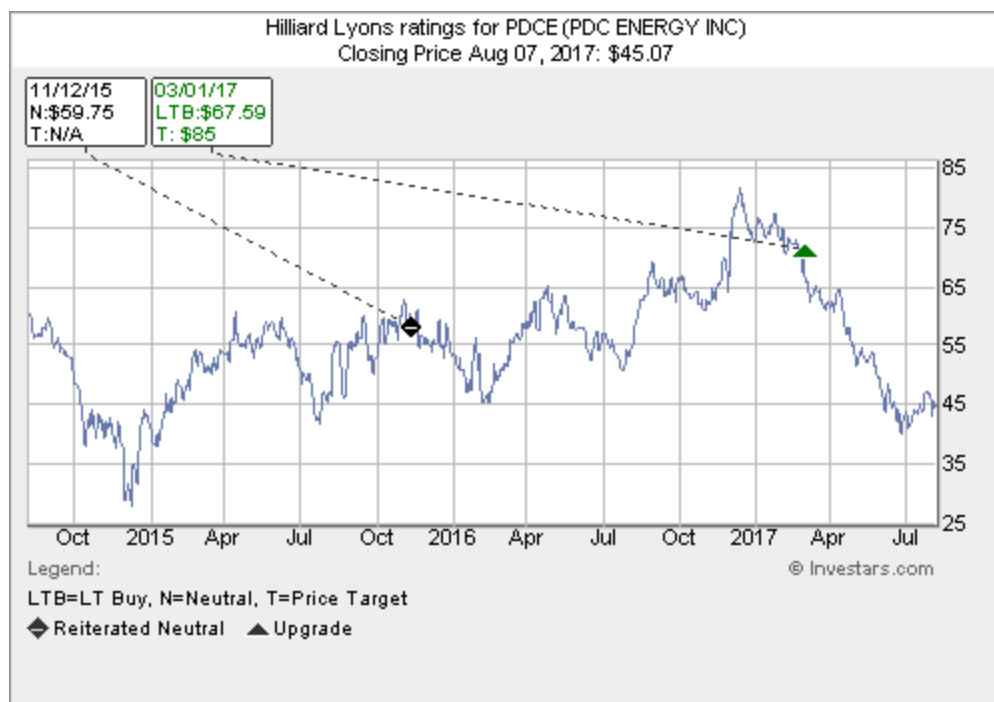
Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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