



## COMPANY UPDATE / ESTIMATE CHANGE

### Key Metrics

PDCE - NASDAQ - as of	5/5/17	\$52.71
Price Target		\$85.00
52-Week Range	\$50.12 -	\$84.88
Shares Outstanding (mm)		66.1
Market Cap. (\$mm)		\$3,485.0
1-Mo. Average Daily Volume		1,293,528
Institutional Ownership		77.0%
Debt/Total Capital	Q1'17	21.2%
ROE	FY'16	-9.4%
Book Value / Share	Q1'17	\$40.40
Price / Book Value		1.3x
Dividend Yield		NA
LTM Adj. EBITDA Margin		84.9%

### Adjusted EBITDA / Share - FY 12/31

	2016A	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$1.27		\$1.97	A --	--
2Q	\$2.48	\$2.07	\$1.89	--	--
3Q	\$2.63	\$2.45	\$2.54	--	--
4Q	\$2.35	\$2.89	\$2.79	--	--
Year	\$8.88	\$9.20	\$9.20	\$12.78	\$12.86
Mult.	5.9x		5.7x		4.1x

### Product Sales (\$mm)

	2016A	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$75		\$190	A --	--
2Q	\$111	\$200	\$194	--	--
3Q	\$142	\$232	\$245	--	--
4Q	\$169	\$261	\$267	--	--
Year	\$497	\$910	\$895	\$1,198	\$1,203

**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

Analyst: Joel Havard  
 J.J.B. Hilliard, W.L. Lyons, LLC  
 502.588.1833 / jhavard@hilliard.com  
 Institutional Sales Desk: George Moorin  
 502.588.9141 / GMoorin@hilliard.com  
 May 8, 2017

## PDC Energy

PDCE -- NASDAQ – Long-term Buy-3

**Q1 Volume +32%, Market Pricing +73% Yr/Yr; Raise Estimates**

### Investment Highlights

- PDC reported Q1'17 adjusted EBITDA of \$130M vs. \$53M a year ago. Our forecast was for \$117M while consensus was \$122M.
- Production increased 12% sequentially to 6.6 Mmboe in Q1, at 61% liquids, about even with the year-ago mix. Realized pricing of \$28.61/Boe was 12% lower sequentially while “all in” production costs of \$29.20/Boe were 2% lower vs. Q4 and down 14% yr/yr. “Cash costs” of ~\$12.76/Boe were down \$1.34/Boe and about flat yr/yr.
- At Q1-end net debt to total capitalization was 22% with \$258M in cash and nothing drawn on its \$700M credit facility. With total liquidity ~\$1B, we see the ~\$765M 2017 Capex program well-funded.
- We are increasing our 2017 production forecast from 30.9 Mmboe to 31.1 Mmboe and our 2018 forecast from 33.5 to 35.2 Mmboe. This is partially offset by a slower improvement in our pricing outlook, a flattening cost environment and the dilution of the Permian acquisition. As a result, our 2017 adjusted EBITDA per share forecast holds at \$9.20 while our 2018 forecast improves from \$12.78 to \$12.86.
- The shares are currently trading at 25% average discounts to historical median cash flow multiples vs. our 2018 forecasts, and at \$2.22 on an EV/Mcfe basis, a 34% discount to the sector average. At our \$85 price target, the shares would trade at a 17% average premium to historical cash flow multiples, but still a 5% discount to the sector on an EV/Mcfe basis, which we believe reasonably balances valuation.

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

**ADDITIONAL DISCUSSION**

Hedges cover ~77% of our forecasted 2017 oil production at ~\$50/Bbl, ~52% of gas at \$3.49/Mcf and ~8% of NGLs at ~\$27/Bbl. Approximately 47% and 57% of 2018 oil and gas production is hedged at \$51/Bbl and ~\$2.94/Mcf, respectively.

PDC announced it anticipated divesting its Utica Shale assets in 2017. At year-end, the segment was comprised of 4,291 net developed and 58,162 net undeveloped acres, respectively, with approximately 25 net wells. The segment was producing ~2,800 Boe/d in Q1. Transactions have not been as frequent in the Utica as certain other plays, but a recent lease delivered ~\$5,500 / acre for an undeveloped property.

**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	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
<b>Revenues</b>													
Gas & Oil Sales	471,413	378,713	75,367	110,841	141,805	169,340	497,353	189,692	194,200	244,600	266,600	895,092	1,203,000
NG Marketing / Other	71,571	10,920	2,171	1,879	2,678	1,997	8,725	3,311	3,250	3,200	3,150	12,911	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	-	-	-	80,704	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	856,207	595,326	90,831	20,097	163,890	108,097	382,915	273,707	197,450	247,800	269,750	988,707	1,213,000
<b>Costs &amp; Expenses</b>													
Production Expenses	83,624	91,932	23,442	24,183	28,617	33,533	109,775	38,090	42,820	46,710	49,860	177,480	212,350
NG Marketing / Other	72,015	11,717	2,578	2,125	3,092	2,398	10,193	3,528	3,250	3,200	3,150	13,128	10,000
Exploration	947	1,102	210	237	241	3,981	4,669	954	1,100	1,350	1,250	4,654	4,980
Asset Retirement Accretion	3,415	6,293	1,812	1,811	1,777	1,680	7,080	1,768	1,800	1,800	1,800	7,168	7,530
G & A	115,859	83,783	22,779	23,579	32,510	33,602	112,470	26,315	29,210	31,620	33,490	120,635	137,150
D, D & A	192,528	303,258	97,388	107,014	112,927	99,545	416,874	109,316	119,570	130,310	138,940	498,136	564,670
Operating Profit	387,819	97,241	(57,378)	(138,852)	(15,274)	(66,642)	(278,146)	93,736	(300)	32,810	41,260	167,506	276,320
%	45.3%	16.3%	-63.2%	-690.9%	-9.3%	-61.7%	-72.6%	34.2%	-0.2%	13.2%	15.3%	16.9%	22.8%
Gain (Loss) on Leasehold Sales	(507)	385	84	(260)	219	-	43	(2,033)	-	-	-	(2,033)	-
Interest Inc.	1,290	4,807	1,558	177	140	(912)	963	240	80	70	60	450	-
(Interest Exp.)	(47,842)	(47,571)	(11,894)	(10,672)	(20,193)	(19,213)	(61,972)	(19,467)	(19,720)	(19,970)	(20,220)	(79,377)	(81,880)
Pre-Tax Income	340,760	54,862	(67,630)	(149,607)	(35,108)	(86,767)	(339,112)	72,476	(19,940)	12,910	21,100	86,546	194,440
Income Tax	69,967	(38,308)	(41,839)	(58,327)	(12,032)	(34,997)	(147,195)	26,330	(7,580)	4,910	8,020	31,680	73,890
%	20.5%	-69.8%	61.9%	39.0%	34.3%	40.3%	43.4%	36.3%	38.0%	38.0%	38.0%	36.6%	38.0%
Other Non-Recurring Expenses	(163,532)	(159,205)	(45,739)	(4,170)	(233)	(3,869)	(54,011)	-	-	-	-	-	-
Disc. Op's.	48,174	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	155,435	(66,035)	(71,530)	(95,450)	(23,309)	(55,639)	(245,928)	46,146	(12,360)	8,000	13,080	54,866	120,550
Shares Outstanding	36,678	39,591	41,608	46,742	48,839	58,914	49,052	66,117	66,370	66,620	66,870	66,494	67,494
EPS - GAAP	\$4.24	(\$1.67)	(\$1.72)	(\$2.04)	(\$0.48)	(\$0.94)	(\$5.01)	\$0.70	(\$0.19)	\$0.12	\$0.20	\$0.83	\$1.79
EPS - adjusted operating	(\$1.03)	(\$1.18)	(\$0.89)	(\$0.11)	(\$0.12)	\$0.18	(\$0.94)	(\$0.06)	-	-	-	\$0.07	-
<b>Margin Analysis</b>													
Gas & Oil Production GM	82.3%	75.7%	68.9%	78.2%	79.8%	80.2%	77.9%	79.9%	78.0%	80.9%	81.3%	80.2%	82.3%
G&A as % of Rev's	13.5%	14.1%	25.1%	117.3%	19.8%	31.1%	29.4%	9.6%	14.8%	12.8%	12.4%	12.2%	11.3%
D, D & A as % of O&GRev's	40.8%	80.1%	129.2%	96.5%	79.6%	58.8%	83.8%	57.6%	61.6%	53.3%	52.1%	55.7%	46.9%
<b>Rate of Change Analysis</b>													
Gas & Oil Sales	31.2%	-19.7%	1.7%	14.4%	35.7%	64.1%	31.3%	151.7%	75.2%	72.5%	57.4%	80.0%	34.4%
Adjusted EBITDA	49.3%	22.7%	-35.5%	14.5%	-1.7%	7.0%	-1.7%	146.3%	8.5%	31.8%	35.1%	40.6%	41.8%
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., 57k ac, 7 Mboe/d. 9/12- \$1.2B capital raises (9.1M shares for \$556M, \$400M Sr Notes & \$200M convertible)	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					Forecasting production of 31.1 Mmboe @ 61% liquids	Forecasting production of 35.2 Mmboe @ 62% liquids

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	Q2'17E	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	(12,360)	8,000	13,080	54,866	120,550
D, D & A	192,528	303,258	97,388	107,014	112,927	99,545	416,874	109,316	119,570	130,310	138,940	498,136	564,670
(Increase) Decrease in Wrkg. Cap.	(95,112)	(15,605)	28,531	(21,501)	71,765	65,925	144,720	48,870	(45,260)	30,210	13,170	47,000	20,100
Operating C.F.	252,851	221,618	54,389	(9,937)	161,383	109,831	315,666	204,332	61,950	168,520	165,190	600,002	705,320
(Cap Ex.)	(628,592)	(604,668)	(122,759)	(112,948)	(118,015)	(84,671)	(438,393)	(130,647)	(225,000)	(215,000)	(195,000)	(765,647)	(803,930)
(Acquisition Exp.)	-	-	-	-	(100,000)	(975,678)	(1,075,678)	-	-	-	-	-	-
Asset Sales	154,457	405	90	4,813	42	-	4,945	6,918	-	-	-	6,918	-
(Dividends)	-	-	-	-	-	-	-	-	-	-	-	-	-
Free C.F.	(375,741)	(383,050)	(68,280)	(118,072)	(56,590)	(950,518)	(122,727)	80,603	(163,050)	(46,480)	(29,810)	(165,645)	(98,610)
ST Debt Drawn	263,750	397,000	85,000	-	-	-	85,000	-	81,530	34,860	22,360	138,750	49,310
(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)	-	-	-	-	-	-	-	-	-	-	-
Net C.F.	(317,383)	(205,255)	191,298	(233,072)	1,088,133	(950,638)	1,166,454	78,254	(81,520)	(11,620)	(7,450)	(29,244)	(49,300)
<b>Supplemental Cash Flows Analysis:</b>													
Adjusted EBITDA	\$ 361,106	\$ 442,956	\$ 52,868	\$ 115,714	\$ 128,649	\$ 138,183	\$ 435,404	\$ 130,235	\$ 125,570	\$ 169,520	\$ 186,700	\$ 612,025	\$ 868,140
per share	\$9.85	\$11.19	\$1.27	\$2.48	\$2.63	\$2.35	\$8.88	\$1.97	\$1.89	\$2.54	\$2.79	\$9.20	\$12.86
margin	66.1%	113.0%	66.3%	102.5%	89.0%	80.6%	85.6%	67.5%	63.6%	68.4%	69.2%	67.4%	71.6%
<b>Balance Sheet Analysis</b>													
Cash	16,066	850	238,545	109,099	1,197,692	244,100	244,100	257,514	175,990	164,370	156,920	156,920	107,620
Accounts Receivable	131,204	104,274	100,053	107,350	99,895	143,392	143,392	122,484	157,960	198,240	215,800	215,800	181,950
Fair Value of ST Derivatives	187,495	221,659	183,484	98,839	65,604	8,791	8,791	27,047	27,000	27,000	27,000	27,000	27,000
Other Current Assets	193,449	226,925	189,454	102,686	70,458	12,333	12,333	31,773	31,800	31,800	31,800	31,800	31,800
Total Current Assets	340,719	332,049	528,052	319,135	1,368,045	399,825	399,825	411,771	392,750	421,410	431,520	431,520	348,370
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	4,203,900	4,288,600	4,344,700	4,344,700	4,584,000
Other Assets	199,683	100,816	44,847	21,940	116,961	77,751	77,751	82,896	82,900	82,900	82,900	82,900	82,900
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	4,679,550	4,792,910	4,859,120	4,859,120	5,015,270
ST & Current Portion of LT Debt	-	149,940	114,183	-	-	-	-	-	81,530	116,390	138,750	138,750	185,710
Accounts Payable	130,321	92,613	73,898	64,234	62,350	66,322	66,322	144,440	189,550	237,890	258,960	258,960	303,250
Fair Value of Derivatives	570	1,595	5,173	22,824	22,563	53,595	53,595	26,495	26,500	26,500	26,500	26,500	26,500
Other Current Liabilities	179,500	57,184	94,917	100,141	134,368	150,661	150,661	147,047	147,000	147,000	147,000	147,000	147,000
Total Current Liabilities	310,391	301,332	288,171	187,199	219,281	270,578	270,578	317,982	444,580	527,780	571,210	571,210	662,460
Long-term Debt	664,923	529,437	492,717	492,997	1,041,575	1,043,954	1,043,954	1,046,461	1,046,460	1,046,460	1,046,460	1,046,460	1,046,460
Other LT Liabilities	227,915	252,577	218,060	166,909	170,364	548,556	548,556	557,510	557,500	557,500	557,500	557,500	557,500
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	2,631,010	2,661,170	2,683,950	2,683,950	2,748,850
Book Value	\$ 31.01	\$ 32.51	\$ 36.45	\$ 30.48	\$ 40.67	\$ 44.52	\$ 53.47	\$ 40.40	\$ 39.64	\$ 39.95	\$ 40.14	\$ 40.36	\$ 40.73
Current Ratio	1.1x	1.1x	1.8x	1.7x	6.2x	1.5x	1.5x	1.3x	0.9x	0.8x	0.8x	0.8x	0.5x
LT Debt/Cap. - Net of Cash	36.0%	29.1%	12.7%	20.0%	-5.2%	21.8%	21.8%	21.2%	23.7%	23.8%	23.8%	23.8%	24.7%
ROE: DuPont	13.7%	-5.1%	-4.7%	-6.7%	-1.2%	-2.1%	-9.4%	1.7%	-0.5%	0.3%	0.5%	2.0%	4.4%

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

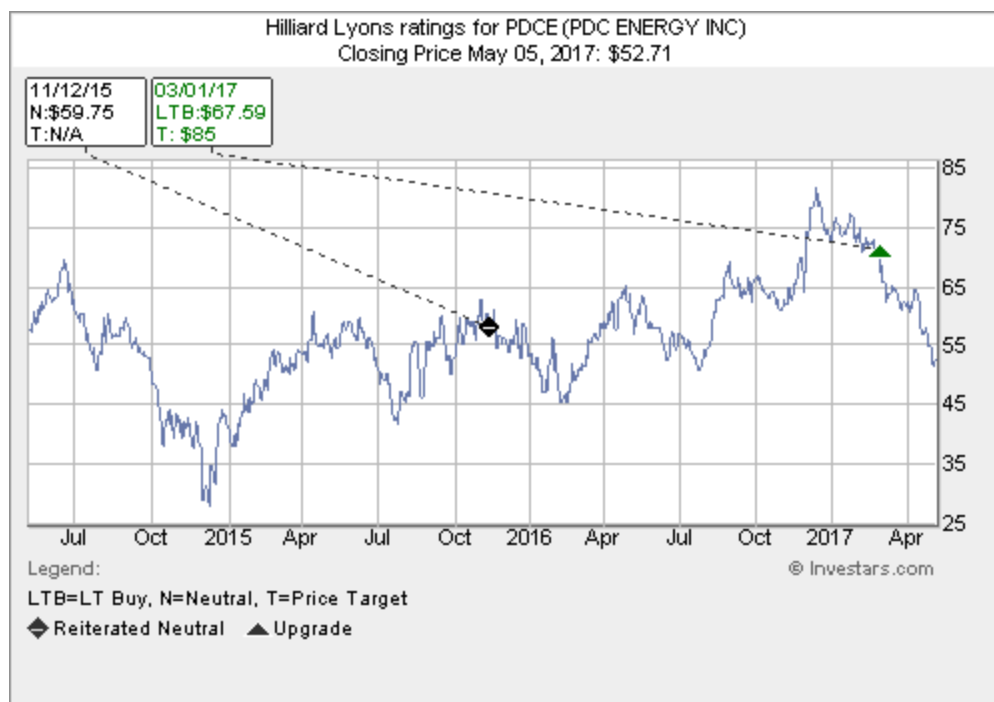
### **Investment Ratings**

**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	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

**Other Disclosures**

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