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Range Resources Corp. (RRC)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Range Resources Third Quarter 2020 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. Statements made during this conference call that are not historical facts are forward-looking statements. Such statements are subject to risks and uncertainties which could cause actual results to differ materially from those in the forward-looking statements. After the speakers' remarks, there will be a question-and-answer period.

At this time, I would like to turn the call over to Mr. Laith Sando, Vice President-Investor Relations at Range Resources. Please go ahead, sir.

Laith Sando

Vice President, Investor Relations, Range Resources Corp.

Thank you, operator. Good morning, everyone, and thank you for joining Range's Third Quarter Earnings Call. The speakers on today's call are Jeff Ventura, Chief Executive Officer; Dennis Degner, Chief Operating Officer; and Mark Scucchi, Chief Financial Officer.

Hopefully you've had a chance to review the press release and updated investor presentation that we've posted on our website. We also filed our 10-Q with the SEC. It's available on our website under the Investor's tab, or you can access it using the SEC's Edgar System.

Please note we'll be referencing certain non-GAAP measures on today's call. Our press release provides reconciliations of these to the most comparable GAAP figures. For additional information, we've posted supplemental tables on our website to assist in the calculation of EBITDAX, cash margins and other non-GAAP measures.

With that, let me turn the call over to Jeff.

Jeffrey L. Ventura

President, Chief Executive Officer & Director, Range Resources Corp.

Thanks, Laith, and thanks, everyone, for joining us on this morning's call. As our company and our industry have matured, we are positioning Range to provide more consistent returns for shareholders by improving our cost structure, strengthening our balance sheet, operating safely and efficiently, lowering the capital intensity of our business with the pure leading maintenance capital and ultimately positioning the company to return capital to shareholders.

The third quarter saw continued progress towards this. Streamlining our business with the sale of North Louisiana, extending maturities, reducing debt and lowering our full-year capital budget as a result of efficient operations and disciplined spending.

In addition to providing more consistent returns, we believe the market is also looking for companies to take a more holistic view of what sustainability means. For our industry, we believe that requires environmental leadership. On the environmental front, the natural gas industry has an advantaged position today and for the foreseeable future as the world moves towards cleaner, more efficient fuels. Within the natural gas industry, Appalachia is in advantage globally as an abundant low-cost resource with leading environmental standards. And we believe Range is best positioned within Appalachia, as discussed in our most recent sustainability report.

There are several highlights in the report, including our pioneering efforts on water recycling and our class-leading emissions intensity of 0.35 metric tons per million cubic feet equivalent produced, which is best-in-class amongst all E&P companies, according to third-party research. In addition, our target of net zero emissions by 2025 further separates Range from other independents with respect to environmental targets and objectives. As we strive to achieve this goal, it all starts with efficient operations that reduces our environmental footprint and, importantly, generates higher returns.

I believe Range's pure leading capital efficiency and maintenance capital is a key differentiator amongst peers. There are several ways that maintenance capital, sustained CapEx or capital intensity can be measured. As an investor, you can look at enterprise value and Range is one of the very few companies that spends less than 10% of enterprise value to maintain production. With maintenance capital in the low \$400 million range including facilities and land, that equates to only 8% of our enterprise value.

Another metric that we've discussed in the past is capital spending per unit of production where Range is again, best-in-class amongst Appalachian peers. This low capital intensity, it is unmatched amongst small and mid-cap E&P companies, provides us a solid foundation for generating a top tier free cash flow yield.

Total third quarter spending of \$63 million and the reduction of full year capital while achieving our operational objectives reflects exactly that. 2020 will be the third consecutive year that Range is able to complete its operational plans for less than budgeted, which reflects the organization-wide focus on efficiencies and our commitment to capital discipline.

Being able to sustainably hold production flat for such a low level of capital is driven by our pure leading well cost, our sub-20% base decline and the repeatable well results from our sizable core Marcellus inventory. Layered on top of this operational advantage, we have a competitive and improving cost structure. The last two quarters have seen cash costs average in the low \$80s per Mcfe, a substantial improvement from where we were this time last

year, a result of laser focus on efficiencies. Mark will elaborate on the costs in a few minutes, but I can say that we'll continue to look for efficiencies across the board, as every penny per Mcfe of cost savings generates a durable improvement of \$8 million per year in cash flow.

We also have the benefit of a large blocky acreage position that allows for maximizing midstream infrastructure, and we will continue to see improvements to our GP&T expense for many years as a result. This is a line item that has improved by \$0.11 per Mcfe thus far in 2020 versus last year's average and \$0.18 per Mcfe since the end of 2018. When we pair the unit cost improvements made this year with our low sustaining capital requirements and consider the backdrop of an improved natural gas and NGL pricing, we see Range generating significant free cash flow in 2021 and beyond.

Given that Range has reduced debt by more than \$1.1 billion since late 2018, this free cash flow along with potential asset sales, will put Range at our near-term leverage targets in the not too distant future, as 2021 is expected to be the fourth consecutive year that Range reduces absolute debt. In the meantime, Range continues to focus on furthering our leadership position on well costs, improving unit cost to enhance margins, funding our capital program organically and reducing absolute debt.

Before I turn things over to Dennis, I want to reiterate Range's strategy for 2021 and beyond. Range remains committed to sustainable free cash flow, generating corporate-level returns. While 2021 and even 2022 prices have improved considerably for natural gas and NGLs, we believe the forward curve remains below a sustainable long-term price. This is not a market that's incentivizing any growth.

Instead, Range will seek to maintain production around current levels and optimize cash flow, similar to our capital program this year and use excess cash flow to reduce debt and ultimately return this free cash flow to shareholders. Over time, we believe Range will stand out among peers as a result of our low sustaining capital requirements, competitive cost structure, marketing strategies and, importantly, our multi-decade core inventory life, which will be a critical competitive advantage in the years to come as other operators exhaust their core inventories.

I'll now turn it over to Dennis to discuss operations.

Dennis L. Degner

Chief Operating Officer & Senior Vice President, Range Resources Corp.

Thanks, Jeff. The focus of Range's 2020 operational plan is to deliver a sustainable maintenance program as efficiently as possible, and in doing so, align our annual capital spending with organic cash flow to further reduce debt. Our third quarter operational cadence, cost control and production levels remain consistent with these objectives. And lowering our capital spending by \$15 million for the year speaks to the discipline and commitment of our team to achieve this.

Production for the third quarter closed out at 2.2 Bcf equivalent per day, taking into account completion of the sale of our North Louisiana assets mid-quarter. Contributing to our Q3 production include turning to sales 19 wells during the quarter with approximately half of the lateral footage located in our dry acreage position. Production field run time exceeded our expectations, along with strong well performance from both new and historical wells across southwest Pennsylvania. Our operational program for the rest of the year will result in seven wells turning to sales in the fourth quarter, which puts us on track to achieve 67 turn in lines for the year and is consistent with our communicated targets.

During the quarter, a combination of gas storage levels and infrastructure outages across the basin created a challenging price environment for Appalachian natural gas. In response to low prices late in the quarter, Range strategically curtailed up to 210 million cubic feet per day of gross production with curtailments beginning in the second half of September and running through October. Based on significant improvements to price expected in the coming months, these curtailments are expected to be value accretive as deferred production will receive the benefit of a higher go forward commodity price.

Throughout the year, managing both production and cash flow has evolved to be much more than a decision whether to produce or curtail. We've maintained the flexibility to react to pricing in multiple portions of our business from incremental ethane extraction or rejection levels depending on relative pricing, to the scheduling of field maintenance during seasonally weak portions of the year. In addition to this, throughout the year we actually adjust key well turn-in lines when possible to align with higher commodity prices and achieve better returns on those projects.

This methodical approach will carry into the fourth quarter as pricing and margins improve with the winter season. Reflecting the early fourth quarter strategic curtailments, fourth quarter production is forecast at approximately 2.1 Bcf equivalent per day with full year 2020 production forecast at 2.24 Bcf equivalent per day.

Capital spending for the third quarter was approximately \$63 million with our total capital spend for the first three quarters of the year totaling \$298 million. This capital spend falls in line with our activity cadence planned for the year.

The fourth quarter we will see adding one horizon rig in Appalachia and one frac crew late in the quarter, both in line and setting us up for a maintenance level program for 2021. Based on our year-to-date activity and current forecast for Q4, our capital spend in 2020 will close out at or below \$415 million. This results in us coming in below budget for the third consecutive year while delivering on a peer-leading capital efficiency.

I'll now shift over and share a few operational highlights for the quarter. On the drilling side and consistent with prior quarters, we've continued our practice of long lateral development and use of existing pads. During the third quarter, the majority of our activity was located on sites with existing production, thus allowing us to capture additional operational and capital efficiencies. With this strategy we have deployed for several years now, we re-utilized existing pad sites, roads and production infrastructure.

Couple this with the utilization of an electric fracturing fleet, and we see this reducing our operational cost structure by as much as \$25 per foot for those respective pads. This is an asset-development advantage for Range that is driven by our large, contiguous, high quality acreage position, coupled with the creativity of our teams. These types of initiatives make our cost savings and capital efficiency durable, repeatable and enhance project economics – not just on a single well basis – but for the total development of Range's Appalachia acreage position.

Our activity this quarter resulted in drilling wells across our dry, wet and super rich acreage positions with an average horizontal footage drilled of more than 15,000 feet per well. The drilling on laterals is only one part of the equation. To be successful, we must be repeatable. To support this, four additional horizontal wellbores were drilled exceeding 15,000 feet in the quarter with several laterals over 17,000 feet. When you consider our year-to-date drilling results, our average horizontal length has increased over 24% versus last year while reducing the drilling cost per lateral foot by 11%. And as a side note, it showcases the hard work and dedication of our drilling, geology and support teams. All of our third quarter wells were successfully drilled via remote directional operations to help minimize personnel on-site, supporting safe and effective operations. This type of repeatable

long lateral drilling performance continues to be a key driver in our ability to deliver unmatched capital efficiency and well cost.

Even while reducing to a single frac crew for the third quarter, operational and capital efficiencies remained strong with well cost achieved under \$600 per foot, including all facilities cost. Through the utilization of third-party produced water, the team was able to efficiently utilize over 1.3 million barrels of third-party water in addition to using 100% of Range's produced water in southwest PA. Our efficient water operations model is a repeatable initiative that reduced Range's completion cost by just under \$2.8 million for the third quarter, reduced our overall completion cost by more than \$8 million year-to-date and resulted in Range reusing 147% of our produced water in 2019, which was highlighted in our recent corporate sustainability report.

In addition to the cost reductions captured through our water operations, directly sourcing sand for completions continues to add to our savings and accounts for more than \$3.5 million captured year-to-date. As we reduced activity in line with our maintenance program, these creative initiatives are delivering long term, durable capital efficiency gains and are keeping Range in a leading position as we continue to reset the bar for lowest well cost per foot in Appalachia.

Lease operating expense saw similar savings in the third quarter with LOE coming in at less than \$0.10 per Mcfe, which was the lowest in Range's history. This was driven by reductions in workover expenses, cost removal associated with legacy assets no longer in the portfolio and strong production field runtime that was mentioned earlier. Similar to our drill and complete savings, we see our lease operating expense equally durable and repeatable.

On the natural gas marketing front, as cooler weather approaches, the storm season starts to weaken and infrastructure returns to service. We see optimism in gas prices moving forward. LNG feed gas is poised to reach near to full utilization by the end of the year after falling below three Bcf per day earlier in the third quarter, further supporting a return to normal operation and an improvement in pricing as we complete 2020 and plan for 2021. And lastly, as we've touched on in our prior calls, we believe a sustained mover in the forward curve for natural gas is needed to incentivize activity from gas basins to offset both depleting storage levels and associated gas declines.

On the liquids side, preliminary reports of third quarter US domestic NGL demand were flat quarter on quarter. While international demand continues to impress, the September year-to-date propane exports are up 5% versus the same period last year. US NGL supply was reported to have increased by 7% versus the third quarter of 2019. However, this supply growth was driven entirely by increased ethane recovery that was needed to satisfy robust chemical demand. The remainder of the NGL barrel actually saw a decrease in year on year supply as associated NGL production remained challenged and industry spending is better aligned with cash flow.

Globally, trends are similar with estimates of third quarter supply of propane and butane down 5% year on year while demand was flat. As a result of these tightening global balances, Range continues to see healthy NGL export premiums at Marcus Hook relative to the Mont Belvieu index.

Looking ahead, we expect US NGL balances will continue to tighten with ongoing declines in US C3+ production, facing both increasing domestic demand and additional exports. New ethane capacity and new ethane export capacity will add to domestic ethane demand, pushing [ph] pad 3 (00:18:55) to full ethane recovery and requiring ethane prices to increase to levels that support incremental ethane recovery from basins further from the Gulf Coast.

With respect to propane and butane, the onset of winter will boost domestic demand, just as new LPG export capacity becomes operational. Global LPG balances are expected to tighten by more than 10% between now and the first quarter of 2021. These strengthening domestic and international fundamentals set the stage for stronger propane and butane prices moving into 2021. In this environment, Range expects its NGL marketing portfolio to create opportunities to maximize value, optimizing sales in both domestic and international markets, further supporting a continued premium differential to Mont Belvieu. And for context, a simple \$1 per barrel increase in our realized NGL price generates over \$30 million in additional cash flow per year for Range.

Turning briefly to condensate. Production was lower quarter on quarter due to the sale of North Louisiana and lower activity in the super-rich area during 2020. Condensate prices have trended with crude, improving by almost 50% since the end of June. Consequently, Range experienced a sharp increase in condensate price realizations during the quarter. We expect condensate price differentials to WTI to tighten in the fourth quarter and into early 2021, as regional production continues to decline while demand for transportation fuels continues to recover.

Before closing out the operations and marketing section, I'd like to share a few highlights on our safety and environmental performance. Similar to prior quarters, our team's commitment to the safety and well-being of those working on a Range location has continued to produce meaningful results throughout the year. By empowering our workforce, promoting safety focused dialogue and enhancing supervisory engagement, our total recordable incident rate dropped to 0.42 unit of measure along with capturing a third consecutive year of incident reductions amongst our contractor workforce.

Similar to the safety results seen on a Range location, our preventable vehicle incident rate continues to show improvements by falling below two incidents per million miles, both key milestones as we strive for improved safety performance with each operation. And in line with our safety efforts, Range's environmental performance continues to see similar improvements, with a reduction in reportable spills compared to the same time period just one year ago.

Our third-quarter results reflect our ability to build upon the momentum from prior quarters, especially as it pertains to the advancements in our safety and environmental performance and improvements in cost reductions. This is generating Range's pure leading capital efficiency while maintaining existing production levels and is a trend we'll further build upon through the fourth quarter and through 2021.

I'll now hand it over to Mark to discuss the financials. Mark?

Mark S. Scucchi

Chief Financial Officer & Senior Vice President, Range Resources Corp.

Thanks, Dennis. As discussed so far on this call, themes of the business continue to be cost reduction, debt reduction, managing the debt maturity profile and enhancing our liquidity. These trends continued during the third quarter, situating Range well for what appear to be encouraging market signs for natural gas and NGLs in the fourth quarter and the coming year.

During the third quarter, Range was busy on all fronts, raising proceeds by closing asset sales, launching another divestiture marketing process, improving unit costs in several lasting ways, improving the capital structure by refinancing bonds and maintaining liquidity, with the reaffirmation of the credit facility. These accomplishments were possible due to the focus and dedication of the Range team.

Starting with the net change in debt, cash proceeds and net results for the quarter reduced debt outstanding by \$136 million compared to last quarter. There were a number of transactions in this quarter that had both

immediate and lasting effects, strengthening Range's business. First, we closed on the north Louisiana sale for net proceeds after closing adjustments of approximately \$220 million with the difference received as production revenue in the time after the effective date of the sale.

As discussed last quarter, we retained certain north Louisiana midstream obligations. Using a portion of proceeds, \$28.5 million, we prepaid and reduced the retained liability of midstream obligations. The GAAP accounting valuation of future costs through the year 2030 was recorded during the quarter, totaling approximately \$480 million. The actual payment obligation retained by Range may be reduced through incremental development of the asset, and given publicly stated objectives of the Terryville acquirer, we believe this will ultimately be the case.

Additionally, the contingent proceeds payable to Range of up to \$90 million represents upside linked to commodity prices, the majority to natural gas, which makes us optimistic about the ultimate value. With these transactions closed, Range has lower debt, will benefit from lasting lower gathering, processing and transportation costs, lower lease operating costs and benefit from improved capital efficiency through reduced, base decline and lower maintenance CapEx.

The balance of proceeds from the Louisiana sale, combined with proceeds from a \$300 million bond offering, funded a \$500 million tender offer for nearer term maturities. These successful transactions, together with refinancing and open market bond repurchase transactions earlier this year, have reduced the balance of notes due through 2024 by almost \$1.2 billion while maintaining liquidity under the credit facility of approximately \$1.4 billion.

Consistently strong operational performance is evident in financial results for the quarter, particularly in capital spending and lease operating costs. Capital spending during the third quarter was targeted and efficient, with capital cost incurred totaling \$63 million and a total of \$298 million for the nine months year-to-date, representing materially better-than-budget performance by the team. It is worth noting that 2020 should be the third consecutive year we close out the capital investment program with better than planned expenditures, in addition to being the third consecutive year in which Range reduces debt, demonstrating our sharp focus on capital discipline and improving the balance sheet.

Cash unit costs improved by an aggregate \$0.18, or 9%, compared to the third quarter last year, declining to a total \$1.84 per unit, driven primarily by reduced gathering, processing and transport as well as lower lease operating costs. Savings in these line items are due to the sale of higher cost properties and continued efficient utilization of our gathering and transportation portfolio.

Compared to the preceding quarter, total cash unit costs were up \$0.05, or 2.8%, of which \$0.03 relates to GP&T, largely due to the return to service of certain natural gas transportation, as well as improving pricing for NGLs quarter-over-quarter, given percent of proceeds processing contracts and \$0.02 in G&A due largely to timing of certain annual data and service renewals as well as one-time increased legal and miscellaneous costs during a transaction-heavy quarter. We believe total unit cost levels achieved over the last six months – total meaning capital spending and fully loaded cash unit costs – represent a leading break even cost in southwest Appalachia, and we continue to look for ways to lower costs further.

In total, the third quarter remains at the low end of annual guidance for unit costs. These structural improvements with the closure of a sizable divestiture and its related costs behind us, we expect to maintain and continue to improve cash unit costs. As noted on prior calls, one element expected to drive improvements in unit costs, specifically GP&T, is the contractual feature of reduced gathering rates over time based on existing advantageous

contract terms and other transport contracts where we have the option to release capacity at expiration, or extend, based on economics.

While I'm pleased with our progress, it remains a top priority to further reduce debt, further de-risking Range's business. Looking ahead at a promising 2021, economics of the business for Range and its investors are poised to rebalance with significant free cash flow generation targeted. Let's make the math simple using reported numbers to illustrate the potential of Range's business.

Cash unit costs over the last two quarters averaged \$1.82 per unit. Add to that maintenance capital to arrive at real full cycle economics. If we simply take this year's \$415 million capital spend, divide it by annual production of a little over 800 Bcfe, you get approximately \$0.50. That totals \$2.32 per unit. As an example, assume \$3 of realized price and you have \$0.68 per unit of free cash flow, or greater than half a billion dollars for the year in free cash flow for debt reduction. Obviously, there are working capital and periodic one-off items that effect this illustrative math. But the example does not take into account the potential impact of the positive uplift from NGLs that Range receives, nor does it factor in additional expected capital and operating cost efficiencies due to business changes made this year and contractually declining costs.

As you can see with US natural gas production down materially, demand returning and potentially increasing with significant projected growth in LNG exports and much more disciplined drilling activity by the industry expected to be at or around maintenance levels for most operators, Range is positioned to reduce leverage and target cash returns to shareholders in the not too distant future. This is achievable because we have taken significant strides, including closing material transactions, all with our eyes on realizing the value of Range's immense inventory for the benefit of its shareholders.

Our strategic actions over the last two years have been focused on reducing risk while maintaining and enhancing the intrinsic value of the asset base. We believe Range holds the largest portfolio of quality inventory in Appalachia. Exposure to that inventory on a per share basis has been preserved and enhanced by our strategic actions this year. That portfolio also includes a diversified set of customers and pricing points, paired with a consistent and data-driven hedge program. We believe steps taken represent material progress in positioning Range as a more resilient business and primed to participate in improvements in both natural gas and natural gas liquids pricing.

On the topic of hedging, you'll note that we added positions for 2021 during the third quarter into rising natural gas prices. This was a balanced approach to risk management and participation in rising prices. For over a decade we have a steady practice of hedging a significant portion, over 70%, of natural gas production. While we have a glide path, or common range in which we add positions over the course of a year, based on clear data indicating prices needed to rise to balance the market, we intentionally moved at a cautious pace in adding positions. Today we have a hedge book that lets Range participate in 2021's higher prices through higher hedge strike prices than peers, through our remaining unhedged production, as well as through our unique natural gas price-linked ethane sales.

In addition, we have the contingent receivables for the Terryville sale, the majority of which is tied to natural gas prices through 2023. We will exercise the same prudence in hedging production going forward to protect the business while benefiting from what we believe to be a structural change in the natural gas market that requires pricing in 2022 and beyond to rise in order for supply to meet demand. A well-defined and we believe achievable objective that all of us at Range work toward daily is to sustain a highly investable business that will be resilient through cycles, return cash flow to shareholders and offer compelling value, not only compared to other independent producers, but across industrial sectors.

Jeff, back to you.

Jeffrey L. Ventura

President, Chief Executive Officer & Director, Range Resources Corp.

Operator, we're happy to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, Mr. Ventura. The question-and-answer session will now begin. [Operator Instructions] The first question is from Josh Silverstein of Wolfe Research. Your line is open.

Josh Silverstein

Analyst, Wolfe Research LLC

Yeah, thanks. Good morning, guys.

Q

Jeffrey L. Ventura

President, Chief Executive Officer & Director, Range Resources Corp.

Good morning.

A

Josh Silverstein

Analyst, Wolfe Research LLC

Good morning. Just keeping on the subject of the hedges, you just talked about that; you mentioned that it was strategic hedging in there. But it looks like you guys pretty aggressively added hedges this go around, given the rising price environment. And just wondering why you did it throughout the course of the year as opposed to maybe the summer months more aggressively rather than the winter?

Q

Mark S. Scucchi

Chief Financial Officer & Senior Vice President, Range Resources Corp.

Morning, Josh. This is Mark. I'll lead off on this one. So as I mentioned during the scripted portion, we have kind of a glide path, a ratable rate at which we add hedges over the course of the year. It's not programmatic. It's not just adding hedges blindly. We do, do a lot of data analytics. There is a data-driven decision-making involved in the program. We intend to hedge a significant portion every year. That's the underlying premise to protect the balance sheet and protect the business. But there is judgment based off of the data that we see.

A

If we look back earlier in the year and the shape of the curve and the levels in the forward curve on natural gas, it was simply at levels that for the industry was unsustainable. And as we've seen, you've seen responses by producers what looks to be rational behavior with maintenance capital now becoming the common theme in the rational decision-making by producers.

So with that, as prices begin to re-rate into levels that Range can thrive in, we began to add more hedges just out of prudent risk management. So with that, we just exercised some judgments based off the data and moved a little bit more slowly than we might have in prior years. And we'll continue to take that approach to protect the balance sheet but also to retain exposure to what looks to be a continuing improvement in the structural re-rating and the price curve going forward.

Josh Silverstein*Analyst, Wolfe Research LLC*

Q

Got it. Okay. And then you did, on the hedging side, leave yourself open on the ethane and propane side. I'm guessing maybe you're maybe a little more structured bolus there. Can you just walk through some of the supply/demand fundamentals that you're seeing there? Why not hedge into the current price environment?

Alan Engberg*Vice President-Liquids Marketing, Range Resources Corp.*

A

Yeah, this is this is Alan Engberg. I'm the VP of Liquids Marketing. So I'll start of just addressing your question about the fundamentals. So we'll start with ethane. The current fundamentals are actually quite strong on ethane. We're looking at roughly or close to being fully recovered in terms of the ethane that's available in the Permian and in [ph] pad 3 (00:36:19). We have new demand that's actually coming online over the rest of this year and into next year that's really going to force the recovery of ethane out of basins that are outside of the major demand center in the US Gulf Coast. So that's actually going to move the price floor up on ethane. And we see that actually as being pretty much inevitable.

So the forward curve right now on ethane with respect to hedging was at a level that in fact was actually under what I would call the price floor based off of a Permian price, which is a lot of gas plus some T&F. So it just really wasn't all that attractive from a hedging perspective. So our view is that going forward, eventually the curve is going to catch up with fundamentals and it'll be much more conducive to hedging at that point.

Similarly, for propane, I would say propane during the summer, people have been looking at the stock levels. They're actually at the high end of the five-year range. Although if you look at the overall days of supply, they're near the low end of the five-year range. We actually added during the injection season, which we define for propane, April through the end of September, we added about 42 million barrels of stocks, which is well below what we added last year which is around 49 million barrels.

So the fundamentals for propane actually have been improving. The price as a result is higher – much higher than where it was in the second quarter. It's higher than where it was last year at this time and it's higher on a relative percentage of crude type basis. But again, we see strong international demand continuing to pull propane, and then we've got seasonal demand coming up now. So the overall view is that the forward pricing is going to be better for propane as we move through the rest of the year. And, again, will provide a better opportunity for hedging.

Dennis L. Degner*Chief Operating Officer & Senior Vice President, Range Resources Corp.*

A

Yeah, and, Josh, this is Dennis. Just to bolt onto something Alan's sharing here. As we mentioned earlier in the prepared remarks, for every dollar adjustment to our NGL component, we basically see that adding \$30 million in extra cash flow for Range in 2021. So we certainly have a view that that could be certainly accretive for us as we look into 2021. And, as Alan says, once the fundamentals of the pricing starts to align.

Josh Silverstein*Analyst, Wolfe Research LLC*

Q

Sorry. Maybe just a quick follow-up there. Is there a price on ethane in which you guys start to take whatever you're rejecting out?

Dennis L. Degner

Chief Operating Officer & Senior Vice President, Range Resources Corp.

A

I'll jump in on that one. We look at that on a regular basis. A lot of it has to do with what kind of sales structure it is. Is it FOB? Does it involve using additional transport? So it's difficult for us to point to an exact price. But certainly, as you heard us talk about curtailments during the remarks this morning, ethane was a compelling story for us to be able to take advantage of opportunities when they do present themselves because of the relative pricing and cash flow opportunity versus natural gas in the quarter.

Josh Silverstein

Analyst, Wolfe Research LLC

Q

Thanks, guys.

Operator: Our next question comes from Holly Stewart of Scotia Howard Weil. Your line is open.

Holly Stewart

Analyst, Scotia Capital (USA), Inc.

Q

Good morning, gentlemen.

Dennis L. Degner

Chief Operating Officer & Senior Vice President, Range Resources Corp.

A

Good morning.

Jeffrey L. Ventura

President, Chief Executive Officer & Director, Range Resources Corp.

A

Good morning.

Holly Stewart

Analyst, Scotia Capital (USA), Inc.

Q

Maybe just kind of starting off with the curtailment. This is probably one of the first time that we've seen Range talk about curtailment, at least in a fairly material way. So can you just maybe talk about the process? Is this just based on pricing? Or has something changed in your view that made you move to curtailing production?

Dennis L. Degner

Chief Operating Officer & Senior Vice President, Range Resources Corp.

A

Yeah, good morning, Holly. This is Dennis. When you look at where let's just say pricing has been in basin over the balance of September and October, it became pretty apparent that there were accretive options for us to basically move some of our production. And rather than maybe just call it just curtailing, we really looked at it from a production management standpoint. So things that we considered were where we had commitments, we took a look at opportunities to pull maintenance into the quarter that may be later this year when we have improved pricing environment. So we tried to structurally look at all of that, plus scheduling adjustments for turn in lines that could shift slightly getting out of some of the, let's just say, lower price environment.

When you start to look at October being sub \$1, and again using M2 as a bit of a proxy, September being around \$1, October being \$0.65, November's outlook is now in the \$1.65 range. Again, using that as a proxy, you can see where the framework supported us looking at curtailing some of our production where it was also commensurate

and in line with some potentially reduced cost and other activity. So October was a key month. We started to see some curtailments toward the end of September as well. But when we saw improved pricing in the daily structure, we certainly took advantage of those opportunities as well. So certainly, wasn't just a flat curtailment, we wanted to look at further supporting our business objectives in the balance sheet, as Mark talked about earlier.

Jeffrey L. Ventura

President, Chief Executive Officer & Director, Range Resources Corp.

A

I'd also like to point out that most of our gas goes out of basin. About 80% of our gas goes out of the basin.

Holly Stewart

Analyst, Scotia Capital (USA), Inc.

Q

Yeah, no, it's a good point, Jeff. And then maybe as a follow-on to that, Mark has talked about reducing the firm commitments and as they roll off over time, I think you guys highlighted \$0.11 or so improvement in the GP&T line just over the last year or so. So maybe balancing those comments with the production shut-ins that you just did, we still have very weak pricing in the basin, even as I guess, weather is kind of rolling in. So how do you balance the FT rolling off with really the fact that maybe MVP is kind of the last major pipeline that we have with the fact that pricing just remains very weak? Just generally talk about maybe the thought process, if there is a thought, to keeping some of this FT as it comes due.

Mark S. Scucchi

Chief Financial Officer & Senior Vice President, Range Resources Corp.

A

Yeah, good series of questions there, Holly. So let me break that down into a couple pieces. So for Range, fortunately, we are fully utilizing our infrastructure. So our long-haul transport, firm transport to the Gulf, to the Midwest and so forth, is fully utilized. We produce, like Jeff said over 80% is going out of basin. So there's a portion that's left in basin which given that full utilization we had optionality built into our business that allowed us to selectively curtail just to optimize cash flow. And that did not leave unutilized any long-haul transport because we were talking about in-basin sales at that point.

So to your point on the firm transportation capacity we hold, we have shown a schedule in prior quarters as you go forward through time over the next few years, you do get to the maturity dates, the expiration dates if you will of capacity. But Range holds the option to extend those. So that represents an option to Range that we simply make the economic call on. Is it more economic? Are the netbacks better for Range to retain that and achieve a better sales price at the endpoint? Or at that point, does there still exist an excess unutilized capacity coming out of the basin? Not Range specifically; just talking about the basin in total, is there still capacity available that we could access on an interruptible basis?

So those will be decisions for each piece of capacity as they come due. Completely within Range's choice. So it's a really great position to be in where we have the choice of fully utilizing what we have today and then have a series of options. So that represents potential for declining costs over time but also option to control and improve our margins.

One thing I would say, though, is that there is still declining cost built into the gathering, processing and transport due to the declining gathering cost that run over time.

Dennis L. Degner

Chief Operating Officer & Senior Vice President, Range Resources Corp.

A

Yeah. Holly, this is Dennis. And just really a quick bolt on here. When you look at just kind of the numbers of total production in Appalachia today, we see somewhere in the neighborhood of about 32 Bcf. When you look at current takeaway capacity minus MVP plus local demand, there's still around 3, 4 Bcf of additional, let's just say room in capacity in totality and that's without MVP. When you roll the tape forward for 2021 along with us and others talking about activity of maintenance type levels, holding production flat, really see that, whether it's a discussion around basis or really just overall takeaway, we see this aligning well with us for the next 12 to 24 months. Certainly, beyond that, harder to predict but we see this actually aligning with us pretty well.

Throw MVP in there and now you've got a couple of more Bcf. Again, we're going to have to see for the backwardated strip most likely an improvement in that structure to then to support and promote growth that could fill that infrastructure.

Holly Stewart

Analyst, Scotia Capital (USA), Inc.

Q

Yeah, no, thank you. That's, Mark, a good point on the gathering and processing. Maybe just one other question for me and maybe this one is for Jeff. I mean, Jeff, we've seen a lot of M&A – I don't want to say a lot – but we've certainly seen quite a bit of M&A start to pop up. I'm just curious your views on maybe what we've seen thus far in the Appalachian Basin and maybe where you could see Range fitting into this consolidation.

Jeffrey L. Ventura

President, Chief Executive Officer & Director, Range Resources Corp.

A

Yeah, we've seen in the industry, a lot of M&A recently and I think you'll continue to see it. You're seeing certain transactions in Appalachia. That, I think will continue as an industry down that path which again, I think is helpful for supply/demand balance and all that type of thing. So for Range specifically, when they start, we're open to whatever's best for Range's shareholders but to pop back out again to a high level. Obviously, we're in a commodity business. In a commodity business, you want to be low cost; you want to have a large inventory. And in today's environment, I think you really want to have a strong environmental track record in performance so those are critical.

And then if you kind of zoom down the range, I think we're very well positioned. At Range, we have the best cost to drill and complete in basins below \$600 per foot. We have the lowest base decline in basin at less than 20%, lowest maintenance capital and largest tier 1 inventory. So when you kind of fast-forward into 2021 and 2022, I think we generate very competitive free cash flow yields against other E&P companies. And really, I think it'll be competitive against other sectors as well.

And importantly, if you look at our latest CSR report, sustainability report that we put out in August, I think we have – what we do have, according to third-party data the lowest emissions of any oil or gas company based on that third-party data. So for Range specifically, again, we're open to whatever's best for shareholders. You'll see us stay very focused. Whatever we do will be in basin. We'll be deleveraging, and we'll be free cash flow accretive on a cash flow basis. So that's kind of how we think about it.

Holly Stewart

Analyst, Scotia Capital (USA), Inc.

Q

Great. Thank you, guys.

Jeffrey L. Ventura

President, Chief Executive Officer & Director, Range Resources Corp.

A

Thank you.

Operator: Our next question comes from Neal Dingmann of Truist Securities. Your line is open.

Neal Dingmann

Analyst, Truist Securities, Inc.

Q

Good morning. Jeff, my first question is for you or Dennis.

Jeffrey L. Ventura

President, Chief Executive Officer & Director, Range Resources Corp.

A

Good morning.

Neal Dingmann

Analyst, Truist Securities, Inc.

Q

My question is around that slide 15. You guys in the past have done a good job when you talk about returning to existing pads. Just wondering. My question is, definitely you save on infrastructure there. But are there issues such as the offset frac shut-ins or things that present challenges? Or you basically – that just goes as part of your plan and that's not a big deal?

Jeffrey L. Ventura

President, Chief Executive Officer & Director, Range Resources Corp.

A

Yeah, let me start now. Dennis and I will kind of tag team this one. But, yeah, we've been returning to existing pads for a long time. And we have, and it clearly is helpful from a cost perspective. When you look at the long-term performance of the pads and the wells that we drill in those areas, they're great. And there really haven't been any issues for us at all there. So it is a competitive advantage of having a big blocky position and the ability to go back. Of course, it helps with extending laterals and water recycling and utilizing all the existing infrastructure. But let me flip it over to Dennis for more specifics.

Dennis L. Degner

Chief Operating Officer & Senior Vice President, Range Resources Corp.

A

Yeah, Neal. Good morning. Just to really bolt on to what Jeff said, we've been doing this for a number of years. And what we haven't seen is some of the challenges that may plague some of the other basins as they start maybe talking about cube development and other creative strategies to try and offset or rest, let's just say parent-child relationships. We just really haven't seen that on our side. And I think a good thing for us to point to is the continual repeatability with our published type curves that we put in our slide deck. And in some cases, we've had positive revisions.

So especially as it pertains to the super rich area where we see increases in our well productivity over the course of time as we've refined things like landing target and also our completion strategy in each one of the respective areas. So we see this being very repeatable. We're excited about the costs and capital efficiencies. We harvest by moving back into those pad sites, utilizing the existing infrastructure. And just overall being able to also minimize our footprint. So really encouraged by the results, and we're not seeing anything that would suggest a degradation in well productivity. If anything, just the opposite. Very repeatable.

Neal Dingmann

Analyst, Truist Securities, Inc.

Q

Got it. And then just my follow-up just probably for Jeff or Mark. It's around your leverage, you're certainly making some notable progress on the paydown. But it looks like leverage is still, obviously, certainly a bit higher than some of the peers. Could you talk about – you all have done asset sales, working interest sales. You've been creative on what you've done. I'm just wondering. What are the thoughts in the 2021 out there as far as is it to do more similar type deals like this? Are there other types of transactions that you all consider? I'm wondering what's on the table to continue to address this, in addition to, obviously, the free cash flow.

Mark S. Scucchi*Chief Financial Officer & Senior Vice President, Range Resources Corp.*

A

Sure, Neal. It's a good question and, obviously, something we've been very busy focusing on for two years now, reducing total debt. Asset sales are approaching \$1.4 billion. Debt's down from a peak about \$1.2 billion just this year. If you add everything up, near term maturities through 2024, down by about \$1.2 billion, refinanced or redeemed, into longer term maturities.

So in terms of evaluating what we need to do versus what we would like to do, we have some time. We have some flexibility to make sure we're doing things that are in the best interest of risk management for the balance sheet but also in the best interest of shareholders and preserving that per share exposure and value to Range's inventory. So all that having been said, it is still our target to get leverage down, continue reducing absolute debt, long term. The leverage target will be substantially below two times, much lower than that. That's where we'll get the company to and run.

If we just look at what commodity prices can do into next year, there's material deleveraging, even in the absence of an additional asset sale. That being said we'll still continue to explore those, but it again, comes down to value. So in summary for a long-winded answer, I would say that we'll continue to focus on reducing absolute debt and continue working in the fashion that we have for last two years.

Neal Dingmann*Analyst, Truist Securities, Inc.*

Q

Very good. Thanks, Mark.

Mark S. Scucchi*Chief Financial Officer & Senior Vice President, Range Resources Corp.*

A

Thank you.

Operator: We are nearing the end of today's conference. We'll go to Brad Heffern of RBC Capital Markets for our final question.

Brad Heffern*Analyst, RBC Capital Markets LLC*

Q

Hey, good morning, everyone. Thanks for taking my questions.

Jeffrey L. Ventura*President, Chief Executive Officer & Director, Range Resources Corp.*

A

Good morning.

Brad Heffern*Analyst, RBC Capital Markets LLC*

Mark, just a follow-on to the last one. How do you think about the use of cash either towards paying down the revolver versus repurchasing debt? Obviously you've been able to get some of the bonds at a discount, but they're back to trading close to par. So how do you think about increasing liquidity versus maybe making [ph] revolve (00:54:02) maturities a little easier?

Mark S. Scucchi*Chief Financial Officer & Senior Vice President, Range Resources Corp.*

Sure. It's good question. The answer is it's a balance. We have ample liquidity. At quarter-end total liquidity was approximately \$1.4 billion under the credit facility. So there is not a need to further expand that. We're going to be an organically funded, free cash flow generating businesses. So over time you would expect the need for Range, and for the industry for that matter, to rely and use these bank credit facilities to decline over time. So we'll use it as a tool. We'll use it as a tool to redeem bonds at advantageous prices and manage maturities. But we'll also just continue to push maturities out and then pay them down with cash flow and asset sales. So, there's not a simple, direct, formulaic answer for you to that other than we have ample liquidity. We'll continue to preserve that. And then just balance cash proceeds in terms of applying them to bond maturities as they come up and/or principal under revolver.

Brad Heffern*Analyst, RBC Capital Markets LLC*

Okay. Thanks for that. And then just sort of an administrative question. On the retained transportation obligations in the Terryville, can you just talk about how those are going to flow through going forward? Is that something where we're going to see sort of a revaluation of the balance sheet asset on a quarterly basis and it won't flow through the transport line? Or will we see continued transportation charges related to that?

Mark S. Scucchi*Chief Financial Officer & Senior Vice President, Range Resources Corp.*

Sure. So the liabilities that were retained – just to kind of frame the subject – these are the processing capacity by and large unutilized in that region that we've been paying all along, since the original acquisition of the Terryville asset. So with the divestiture of Terryville, the utilized portion in sum went with that asset. So Range is left with a reduced liability, reduced retained than what we had otherwise. So that was a benefit of the transaction in addition to bringing in cash upfront.

Add to that the potential and hopefully likely potential of further reducing this liability with development that's expected to occur on that asset. So to get more directly to the question, the mechanics of that, the present value of that likely liability payment over the next 10 years was recorded in a one-time, I'll call the lump sum, as non-cash.

The recurring cash flow associated with that as a consequence will be a reduction in that liability over time as we pay it. And you'll see that flow through in working capital on the cash flow statement. So the income statement impact has been taken in full. You might see some minor adjustments up and down just on variations of development activity. For example, if they accelerate development, potentially see it reduced. But by and large you will only see that on the cash flow statement going forward.

Brad Heffern

Analyst, RBC Capital Markets LLC

Okay. Perfect. Thank you.



Jeffrey L. Ventura

President, Chief Executive Officer & Director, Range Resources Corp.

Thank you.



Operator: Thank you. This concludes today's question-and-answer session. I'd like to turn the call back over to Mr. Jeff Ventura for his concluding remarks.

Jeffrey L. Ventura

President, Chief Executive Officer & Director, Range Resources Corp.

I just want to thank everybody for taking time to participate in the call this morning. And feel free to follow-up with additional questions with our team. Thank you.

Operator: Thank you for your participation in today's conference. You may now disconnect.

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