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Range Resources Corp. (RRC)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Range Resources First Quarter 2019 Earnings Conference All. 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 First Quarter Earnings Call. The speakers on today's call are Jeff Ventura, Chief Executive Officer, Dennis Degner, SVP of Operations 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 yesterday. It's available on our website under the Investors tab, or you can access it using the SEC's EDGAR system. Please note that 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

Chief Executive Officer & President, Range Resources Corp.

Thanks Laith and thanks to everyone for joining us on this morning's call. Range is off to a great start in 2019, delivering on the operational and financial objectives that drive our five-year outlook. In the first quarter, Range generated \$54 million of free cash flow and reduced debt by \$48 million. We achieved this result through a commitment to capital discipline and a focus on driving higher margins through prudent cost management.

This strong start to 2019 builds upon 2018's results, as Range transitioned to generating free cash flow in the second half of last year and completed our 2018 drilling program for \$31 million less than our original budget. This compares favorably to our industry peers as the majority of E&Ps have spent their original capital budgets in 2018. Range's commitment to capital discipline is unwavering, so I'll reiterate Range will not outspend our \$756 million capital budget for 2019.

I also want to reiterate Range's commitment to generating free cash flow. If strip pricing improves over the course of the five-year outlook, we will not increase growth, but will instead look to generate additional free cash flow and reduce debt faster, which could position us to return cash to shareholders sooner in the form of buybacks and/or increased dividends.

Speaking of the balance sheet. Our commitment to organic free cash flow and asset sales has strengthened our financial position considerably and allowed us to reduce debt by \$419 million over the past three quarters, a reduction that represents approximately 10% of total debt. We intend to build on this momentum through the remainder of 2019 and beyond, translating our high-quality asset base into meaningful free cash flow generation, while further accelerating our financial targets through asset sales. We believe this will narrow the disconnect we see between our share price and the intrinsic value of our assets. That disconnect is in part demonstrated by our year-end 2018 proved reserve value and strip pricing, net of debt, which is over \$24 per share and does not account for the large high quality inventory of core Marcellus wells that will remain beyond the five years of development, included in proved reserves.

Accelerating our financial targets remains a top priority. For evidence of management and the board's commitment to balance sheet improvement, you can reference the 2019 compensation incentives in the proxy that we filed earlier this month. The 2019 targets for both debt reduction and leverage improvement reflect our focus on derisking the balance sheet in the near term. Like we've talked about for the last few quarters, Range has committed what we've called our commissioning phase of the Marcellus, which now positions us to deliver free cash flow and improve returns going forward. We have a vast blocked up acreage position that's largely held by production. This allows for highly efficient development of our assets, with the ability to drill long laterals, utilize existing pads and infrastructure and effectively source and recycle water. These efficiencies are evidenced in our peer-leading F&D costs and low maintenance capital requirements. Our processing and transportation capacity is right-sized for our production, while providing diversified market access for various products. We see opportunities to improve margins going forward by marketing incremental production in basin, thereby limiting additional transportation expense and supplying growing southwest Appalachia demand for both natural gas and NGLs.

And given the massive infrastructure build-out that's occurred in the Marcellus and Utica over the last 10 years, we expect there will be ample takeaway to other markets, allowing us to optimize sales without incremental commitments or take advantage of the narrow southwest PA basins in several years.

Importantly, we're not pressured to grow in order to meet firm transportation agreements or satisfy the competing interests of the midstream affiliate. This provides Range with the flexibility to develop a capital program going forward that optimally balances an efficient development cadence, free cash flow generation and unit cost improvement. Range's ability to generate sustainable free cash flow at current strip prices is underpinned by our high-quality assets, which drive our low corporate base decline and low maintenance capital requirements. Range's base decline entering 2019 was below 20%. This relatively flat base decline supports low D&C maintenance capital of only \$525 million and differentiates Range versus peers.

When we look at the dollars it takes to add or replace an MCF of production, we couple that analysis with the underlying base decline, we see Range is the only producer in southwest Appalachia capable of generating free cash flow and modest exit to average growth in 2019 as true maintenance capital for peer companies chews out significant percentage of their cash flow.

Not only does this analysis demonstrate Range's high-quality asset position, I believe it's one of the many indicators that strip prices do not reflect fundamentals. From my perspective, there's going to be a significant call on southwest Appalachia to help supply the coming increase in demand for North American natural gas both for domestic use and for export. If most companies in southwest Appalachia can't grow within cash flow at current strip pricing, we see this as a positive sign for the macro.

Range's ability to generate free cash flow in this commodity price environment is driven by capital discipline and efficiency, asset quality and cost control. The team's performance on cost controls in the first quarter was outstanding as nearly every category came in at the low end of or below our expectations. Mark will spend some time discussing this trend in more detail, but we're thrilled to see unit costs headed down for the first time in six quarters. And like we've discussed for some time, this is a trend we expect to continue over the course of the five-year outlook and beyond.

In addition, I want to make everyone aware of Range's Corporate Sustainability Report we plan to release in the next couple of weeks. In this report, we'll detail Range's efforts and commitment to responsible natural gas development, and doing what is right for all stakeholders. Some highlights in this report include a 6% reduction in total emissions in 2018, while growing production approximately 10% year over year. Additionally, Range achieved a 153% water recycle ratio as Range recycles effectively all of our produced water and utilizes recycled water from over a dozen operators in the surrounding area.

We encourage everyone to read this report when it's published. And in the meantime, I'll emphasize Range's commitment to sustainable business practices and developing positive, long-lasting relationships with all stakeholders. This commitment is not only the right thing to do, but also represents a win-win as we believe it generates enhanced shareholder returns over time.

In summary, Range will continue to focus on responsible capital and cost-efficient development to drive sustainability organic free cash flow generation. That free cash flow will be used to reduce debt and begin to position the company to return cash to shareholders. We will strive to accelerate the organic balance sheet improvement with asset sales in the near term. And given our peer-leading inventory of high-quality Marcellus locations, we believe we're in a great position to extend this program and deliver investor returns far beyond the

five-year outlook into a market that will see other producers exhausting the core inventories and looking for their next act.

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

Dennis L. Degner

Senior Vice President-Operations, Range Resources Corp.

Thank you, Jeff. Our operating teams are off to a strong start for the year, with first quarter production on track and capital spending projected at or below our 2019 plan. First, capital spend came in at \$214 million or approximately 30% of our 2019 budget. Production for the quarter came in at 2.256 Bcf equivalent per day as a result of strong well results and [audio gap] (10:02) quarter.

As we discussed on the prior call, our capital spending program is front-end loaded for the year. As we look forward, and similar to past years, we expect our second and third quarter capital spending to each be approximately 25% of the annual budget this year.

First, let's talk about well results. Similar to prior quarters, Q1 generated some exceptional well performance, which played a key role at exceeding guidance. One example is in our Appalachia dry gas acreage, where we turned to sales 14 wells on two different pads, with average IPs exceeding 30 million cubic feet per day from an average lateral length of over 13,000 feet. Both pads have produced at or above 100 million cubic feet per day for 60 days and continue to produce at this level as of this morning.

On the other side of our acreage position, in the last week of the quarter, we turned to sales three wells in the heart of our super-rich acreage. The average initial production from these wells was over 20 million cubic feet equivalent per day from an average lateral length of just under 7,000 feet. Despite the shorter lateral lengths on this pad, the first three wells produced peak condensate production that exceeded 3,000 barrels per day, solidly pointing to the quality of the acreage and results from the team's technical work. Flowback operations in this site will continue into the second quarter as we clean up the remaining four wells on the pad.

We expect the performance of this pad and other near-term activity in the liquids-rich area to increase condensate production back to a level above 11,000 barrels per day during the second quarter. Now, let's look at field runtime. For the past several years, our production team has conducted a thorough look-back on the winter season with a focus on improving runtime for the year ahead, especially the winter.

This process, coupled with our ability to monitor production real-time, has allowed the team to hone in on freeze-prevention solutions such as heat trace, and focus our lease operating team on sites requiring their support, ensuring production volumes flow is planned with downtime remaining low.

Similar to the team's approach on Zero Vapor Protocol, this extensive effort between both the operations and technical teams translates into an improved runtime and playing a key role in our production performance in Q1. The first quarter closed out with 26 total wells turned in line, consisting of 20 wells in our dry acreage, three super-rich wells and three wells in North Louisiana.

As we look ahead, we are setting our second quarter production guidance at 2.27 Bcf to 2.2 Bcf equivalent per day, which aligns with our 2019 production plan to deliver approximately 6% production growth, while delivering meaningful free cash flow within our capital budget of \$756 million.

Now, let's turn to some of the team's operation operational highlights. The past year has showcased several accomplishments by the Appalachia drilling team as they drilled our longest, fastest and most capital-efficient wells. The team's first quarter results continue this trend as they successfully drilled three of Range's top five longest Marcellus laterals, with all three laterals exceeding 18,000 feet. As discussed on prior calls, Range has been able to reduce drilling cost per foot during extended lateral operations by as much as 30%, a contributing factor to our underspend last year and an important component in allowing us to deliver on this year's financial objectives, as we deliver peer-leading, normalized well costs.

We look forward to sharing the production results from these long laterals in the upcoming quarters. On the completion front, the team pumped over 13,000 frac stages in the quarter, while seeing a 20% efficiency increase in frac stages per day compared to the same time just one year ago. Both operational accomplishments point to the quality of our team, coupled with the strength of our service partner relationships, especially considering this was accomplished during winter conditions.

As Jeff mentioned earlier, water recycling continues to play a significant role in our sustainability efforts as we execute on our 2019 program as efficiently as possible. You've heard us talk about how we recycle 100% of Range's water in southwest Pennsylvania. But through the team's creative efforts, we have partnered with other operators to recycle their produced water as well. In the first quarter, third-party water comprised over 20% of our water usage. Range's water management program not only contributed to an efficient first quarter capital spend, but it also contributed to Range's first quarter corporate LOE of \$0.16 per Mcfe, which is approximately 16% below our LOE when compared to the same time last year. I think this is a great example of the team working tirelessly, to find the next incremental step in efficiency gains, cost reduction and overall improved program results. And it's a great example of the team working collaboratively, with other operators to be thoughtful stewards of the environment and pushing the standards for the industry.

Shifting over to our liquids marketing efforts, as we've shared on a prior call, the Mariner East 1 pipeline was temporarily taken out of service in late January, following a subsidence appearance along the pipeline route. Since that time, the marketing team has worked diligently, pursuing options to secure our production flows. For propane, we have utilized available capacity on Mariner East 2 and other outlets to move our barrels to the market terminal and other markets.

In the case of ethane, we have utilized various options for marketing our production through the quarter, including both normal extraction and selling ethane as natural gas. Overall, despite the temporary disruption on the Mariner East 1 pipeline, Range has successfully engaged transportation and market alternatives to keep its natural gas liquids, otherwise transported on ME1 flowing to both domestic and international markets through the utilization of rail and other infrastructure in the region.

Based upon the latest update from Energy Transfer, start-up procedures are underway, with the Mariner East 1 pipeline returning to service over the balance of the next few days. During the first quarter, Range resumed its waterborne butane export program it began last year. This was enabled via the newly operational Mariner East 2 pipeline and associated infrastructure at Marcus Hook. Going forward, Range has also positioned a portion of its butane volumes for export using an additional East Coast terminal, giving our products another outlet for accessing premium markets.

Including hedges, Range's first quarter NGL realization was \$23.17 per barrel, an increase of 15% year over year.

Based on recent strip pricing, Range expects pre-hedge NGL pricing for 2019 to average 34% to 38% of WTI. On an absolute basis, expected realizations are now slightly better than our original 2019 pricing guidance from February.

There's been some market confusion around NGL prices recently; so I want to repeat that while the relationship to oil price has temporarily weakened, our forward strip based on NGL price per barrel expectations are now slightly higher than when we had our yearend earnings call. Propane and heavier products, which represent over 75% of the NGL barrel's value, continue to be well supported by international export demand.

Currently, U.S. export terminal capacity is tight and the U.S. propane and butane market is seeing the strongest international export arbs in the past five years with prompt spot cargos loading at over \$0.10 per gallon net of shipping costs. We expect this to cause max possible export of NGL products over the course of 2019 and ultimately support Range's decision to gain access to Marcus Hook or other East Coast export capabilities in the future.

On the gas marketing side, the first quarter saw the full utilization of the recently commissioned MarkWest/Harmon Creek 1 gas processing plant. This facility, along with the restart of the Houston gas processing plant following fourth quarter outages, saw strong runtimes for the first quarter and supported processing for first quarter wells focused in our liquids-rich acreage. As discussed on the prior call, the new plan allows us to maximize the utilization of newly available long-haul infrastructure.

With a significant amount of downstream takeaway capacity that has come online over the last couple of years, local Appalachia pricing has improved. Additionally, with the slowdown in southwest Pennsylvania production growth for the industry, we believe this local pricing trend will continue. Further, with the combination of additional downstream takeaway capacity and local generation demand growth, we expect this will provide additional in-basin liquidity and market growth opportunities with less transportation costs associated with incremental natural gas production. Range remains actively engaged in developing in-basin markets and optimizing our infrastructure to existing end basis in-basin points of liquidity. Evidence of the team's work in optimizing the portfolio can be found in the \$6 million net gain from the brokered gas marketing activities in the quarter.

I'll close out the operations section with this. The team has done a great job with our first quarter results, highlighting exceptional well performance, capital discipline and operational efficiencies from long lateral development. This really helps set the stage for delivering on our capital budget and production targets in the year ahead.

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

Mark S. Scucchi

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

Thank you, Dennis. During the first quarter of 2019, Range continues to execute on a free cash flow generating plan through efficient operations, diligent capital deployment and stringent cost management. From capital to production, revenues to expenses, Range met or beat guidance and has made early progress on the 2019 business plan.

On the back of solid operational performance, Range generated cash flow from operations of \$261 million compared to capital spending of \$214 million, resulting in free cash flow of \$53 million before dividends and corresponding debt reduction of \$48 million. As discussed on the last earnings call, we made the transition to free

cash flow mid-year 2018. We've continued that trend and expect to generate meaningful free cash flow for the full year 2019.

Focusing on Range's cost structure for a minute, I'd like to discuss trends and specific components of our unit costs. Our focus on expanding margins includes efforts to consistently realize competitive pricing for our production and to strategically manage costs such that our margins maximize full-cycle returns over time.

Starting with the largest cost line item, gathering, processing and transport expense was \$1.49 per MCFE in the first quarter. This cost consists of infield gathering, processing plant expenses and long-haul transport for natural gas and natural gas liquids. Long-haul transport is largely a fixed cost, with all of our contracted gas capacity online. Infield gathering has both fixed and variable elements, much of the gathering system is fully utilized and as cost recovery hurdles are met, the fixed rate component will decline over time. On the processing side, this is predominantly structured as a percent of proceeds from NGL sales and will vary with our pre-hedge NGL realizations.

For context, per MCFE, gathering represents roughly \$0.50; transport roughly \$0.50 and processing around \$0.45. Over the next few years, we anticipate per unit GP&T expense will decline, driven by incremental in-basin sales, declines in gathering costs due to reuse of existing facility and the roll-off of capital recovery.

Range's lease operating cost per unit of production had declined 16% from the first quarter last year, are competitive with liquids-producing peers and on a more granular level, our costs in dry gas areas are also competitive with best-in-class dry gas-only producers.

G&A is an item of particular focus as we continue to adapt the company to current business environment and our anticipated activity levels. Cash G&A per unit has improved to 22% since the first quarter last year. As disclosed in the proxy statement, 2019 estimated senior executive compensation is expected to decline approximately 30% compared to 2016. Additional savings have been identified in areas such as consultants, data subscriptions, insurance brokers and software, among others.

On the matter of equity compensation expense, it should be noted that even though potential stock grants, specifically performance shares, are expensed, that does not mean the shares were issued. In fact, significant forfeitures have been experienced, which is evident in the one half of 1% change in diluted shares outstanding over the last year. While steps have been taken to optimize spending, we continue to focus on all expenditures to enhance profitability and resiliency.

Turning to the balance sheet, free cash flow from the first quarter resulted in a \$48 million reduction in revolver borrowings. While the business is seasonal, we expect to generate material free cash flow over the balance of the year.

In addition, divestiture processes continue on multiple fronts. As we look at our debt profile, we have balances readily repayable under the revolver without early redemption costs. We remain focused on reducing debt, maintaining a comfortable maturity ladder and strengthening our balance sheet over time. As it relates to asset sales, we're currently marketing several opportunities. These processes are in various stages from data rooms, to active negotiations, to diligence. We're working conscientiously and will continue to evaluate opportunities to prudently monetize inventory. As evidence of this goal, absolute debt reduction was added as an incentive performance metric detailed in the proxy.

As we look forward to the balance of 2019 and beyond, the framework through which we allocate capital remains a daily focus, a focus on creating economic value. We evaluate each reinvestment decision, weighing relative returns and optimizing for total free cash flow, absolute debt reduction, leverage ratios, capital efficiency, unit costs, margins and base decline rate. And balancing objectives to maximize the value from the 2019 capital program, we developed a \$756 million capital plan. This budget is a 20% reduction from prior year and we are on track to remain within this target.

In summary, we remain focused on converting consistently efficient operations, on top tier acreage and to tangible shareholder returns through the application of a disciplined capital allocation framework, coupled with continued cost management efforts.

Jeff, back to you.

Jeffrey L. Ventura

Chief Executive Officer & President, Range Resources Corp.

Operator, let's open it up for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you, Mr. Ventura. The question-and-answer session will now begin. [Operator Instructions]

The first question comes from the line of Marshall Carver with Heikkinen Energy Advisors, please go ahead.

Marshall Hampton Carver

Analyst, Heikkinen Energy Advisors LLC

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Yes, thank you. On the year-end call, you discussed spending approximately 35% of the full-year CapEx budget in 1Q, but spending came in below that. Was that due to well timing or well cost trending below your forecast? Do you have any color on why the 1Q spend came in lower?

Dennis L. Degner

Senior Vice President-Operations, Range Resources Corp.

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Yes, good morning, Marshall, this is Dennis. I'll start off by saying, we tried to highlight this morning a couple of key themes on what helped us, basically have the capital spend results that we did in the first quarter and a big portion of it clearly is our operational efficiencies. The drilling team continues to really do a great job of advancing the ball on our ability to drill long laterals and we see that translate into a significant reduction in our drilling cost per foot.

The other part is, is we saw some efficiency gains this quarter versus last year through our fracturing operations. 20% is a pretty strong move amongst our operating team. That helped us harvest some capital savings as well, and then, thirdly, the water side. I mean, it's an area that we continue to see good cooperation between other operators on top of the 100% recycling effort that we have and it translates into significant savings as you look across the quarters and the balance of the year, could translate into even more savings than what we're seeing today. So we're pretty encouraged by that.

The one pad that we had at the end of the quarter, we referenced in the super-rich that we turned in line the three wells, there are some wells that moved into the first weeks of Q2, but the majority of those dollars are already spent. So we're going to get the advantage of seeing those volumes show up in Q2, which we're encouraged to see, but there will be a few capital dollars that also show up in Q2.

Marshall Hampton Carver

Analyst, Heikkinen Energy Advisors LLC

All right. Thank you.

Jeffrey L. Ventura

Chief Executive Officer & President, Range Resources Corp.

Thank you.

Operator: Our next question comes from the line of Ron Mills with Johnson Rice.

Ronald E. Mills

Analyst, Johnson Rice & Co. LLC

Good morning. Dennis, I think you referenced NGL prices and I know relative, given the move up in WTI, it looks like you brought down the low end of the range, but your comments were pretty telling, even when using the strip, the absolute prices are higher than – are actually looking to trend higher. Any additional color, whether it is about strip or your thoughts on NGL markets as we look through the rest of the year, particularly fourth quarter when the seasonality starts to benefit NGLs even more?

Alan Engberg

Vice President, Liquids Marketing, Range Resources Corp.

Good morning, Ron. Thanks for the question. This is Alan Engberg. I'm the Vice President of our Liquids Marketing team. So I'll see if I can give you some color around liquids. Absolute prices are actually similar to what we guided back in February. They're up for the quarter, actually, roughly about \$3 per barrel. Now, as you know and as you pointed out, crude was up quite a bit more. Crude was up about \$15 a barrel for the quarter. Typically, NGLs will always lag crude on the way up and on the way down. However, this quarter, there are a couple of one-off events that caused it to lag more than usual.

So if I start with LPG or start with propane and butane, exports in particular were one of the big drivers. They were negatively impacted by an unusual amount of fog this year along the Houston Ship Channel. Added to that, there was a big fire at ITC's tank farm that caused contamination of the waterway and that further slowed down all traffic on the Houston Ship Channel. And by our estimates, there was approximately 200,000 barrels per day that were impacted over a 45-day period; so 9 million barrels that didn't ship. So, that was just a big kind of change to the market that the market wasn't expecting.

And note that the rest of the world has really come to depend on the U.S. exports, and those delays actually caused a spike in overseas prices, both in Europe and in Asia, that have resulted in right now what we're seeing is the highest LPG arbs in roughly four years. Going forward, we expect things to improve. This was a one-off event. It's over with. The ship channel is pretty much cleared.

But on top of that, we've got new export capacity coming on. So as we mentioned in the call, ME1 is back up, but also, up in the Northeast, you have ME2 running. And that's transporting roughly 150,000 to 165,000 barrels per

day to Marcus Hook for export. Last year at this time, those barrels were going into local storage. This year, they're going overseas. So, it's a big impact of supply/demand balance up in the Northeast.

Shifting down to the U.S. Gulf, Targa is debottlenecking their capacity. Most of that will be next year, but some of it's actually already happened. They've added a butane pipeline that adds roughly 30,000 a day of new capacity. And then, Enterprise is debottlenecking their capacity. They're adding 175,000 barrels per day of new export capacity. That'll be starting up in the third quarter.

So if you add up just that new export capacity, you've got 355,000 barrels per day that's going to be going into international markets that are actually hungry for the product. And just for reference, 355,000 barrels per day, the U.S. produces – gas plant production of propane and butane is roughly 2.2 million barrels per day. And I'm just citing EIA data for the most recent month that was published, which is January of 2019. So, 355,000 out of 2.2 million a day is 16% of supply that's going to be – additional increment that's going to be going offshore. So for those reasons, we expect things to improve as we continue on through the year.

For ethane, things were a little bit different there. We had ethane prices come off during the second half of the first quarter. A big part of it is a story that we're already familiar with. There's big new crackers coming online that have been delayed. So, there were delays from last year and then in the first quarter, we learned of further delays. So, we have five new crackers that are coming on, but they're coming on later in the quarter – or sorry, later in this year.

The fog also impacted ethane. Ethylene prices, so ethane's the main feedstock for making ethylene. Ethylene prices dropped down quite a bit, down to \$0.13 per pound. That put some pressure on ethane prices. On top of that, on the supply side, cooler weather allowed more pipeline flow from various locations to Mont Belvieu. It also allowed more fractionation capacity. We've got a little bit of new infrastructure. New pipeline came on. In February, Chinook's pipeline from the Permian; and Lone Star added a new fractionator.

And then finally, in the Permian, natural gas has been painful to watch. Actually, we've had Waha index trading at negative values. And when it's trading at negative values, the Permian producers have every incentive to recover as much ethane as the pipelines can take. So, we've seen that happening as well.

But going forward on ethane, story does improve there as well. So out of those five new crackers, two of them are starting as we speak, and then that's roughly 90,000 – or sorry, yeah, 90,000 barrels per day. And then, we've got the other three are starting during the third quarter and that'll add 215,000 barrels per day of demand. Added to that, there'll be more ethane exports with ME1 back up as well as some of the capacity that's freed up on ME1 due to ME2 starting up, there will be more ethane moving on that pipeline.

And then, our friends at INEOS actually are bringing online a new VLEC. It'll be the world's largest ethane carrier. It's actually moving towards the Houston Ship Channel now. That thing will be able to hold 850,000 barrels per load and that will add roughly 15,000 barrels per day of demand. That product will be going to a new steam cracker that's starting up in China later on this year.

So overall, with roughly 320,000 barrels a day of new ethane demand coming on during the next three to four months, we expect to see some improvements in ethane prices and, for the reasons I mentioned earlier, in propane and butane prices.

Ronald E. Mills
Analyst, Johnson Rice & Co. LLC



Great. Thank you for that. And then, one quick one, in terms of completion timing, is there any seasonality in terms of driving – so many of the completions being weighted to the dry gas area in the first quarter? Or is it just a function of just moving through your acreage position given the shift in wet gas and super-rich over the remainder of the year?

Alan Engberg

Vice President, Liquids Marketing, Range Resources Corp.

Yeah, Ron, the planning team looks not only at the next 12 months, but they'll be looking at the next couple of years. And based upon our type curves and our internal production forecasts, they'll be looking at where we have available capacity in our infrastructure and gathering system. The goal will be to maximize utilization of that. So when we see a change in well mix, most of the time, it's going to be tied directly to those drivers. I think an example of that I'd point to would be toward the end of last year, as we brought on some compression in the Northern part of Washington County to support Harmon Creek 1. You saw us then, of course, through Q4 bring on several wet gas wells that were then going to utilize that infrastructure that then ties to our long-haul takeaway at Rover. So you'll see some fluctuations at time, but it tends to be tied to the infrastructure and how we can best utilize it and keep costs low.

Ronald E. Mills

Analyst, Johnson Rice & Co. LLC

Great. Thank you.

Operator: Your next question comes from the line of Rehan Rashid with B. Riley FBR.

Rehan Rashid

Analyst, B. Riley FBR, Inc.

Morning. Thank you for taking my question.

Mark S. Scucchi

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

Morning.

Rehan Rashid

Analyst, B. Riley FBR, Inc.

Two quick questions. One, the 20% improvement in frac efficiency, I think, that was mentioned earlier, what changed and how does that drive CapEx per well? If I could get some color on that, that's one. And two, maybe a little bit more color around kind of the divestiture timelines and kind of any particular area that's of focus in terms of divesting? Thanks.

Dennis L. Degner

Senior Vice President-Operations, Range Resources Corp.

You bet. Thanks for joining us on the call this morning. I'll start with the frac efficiencies and hand over to Mark. On the frac efficiencies, we haven't exactly quantified how all that savings will be translated into our cost per foot as of this morning, but we know that as you look between winter and I'll just say non-winter operations, there's substantial savings, and mainly because of some of the supporting hardware that goes along with our operations during the winter, whether it's supporting equipment, et cetera.

When you look at our cost of completing and drilling wells, what we see is that over the balance of time, it translates into reduced cost per foot for us. So when you look a year ago, efficiencies were starting to kind of stabilize at that point. This year, we're seeing through the balance of continuous operations with some of our crews and also increase in our knowledge base on location, we're seeing that performance translate into really improved performance on location. So we really like what we see and expect that this should continue throughout the balance of the year.

Now, with some seasonal differences, you might see a little bit of a fluctuation, but the crews have performed extremely well, pointing back to our service partner relationships.

Mark S. Scucchi

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

A

Morning, Rehan, this is Mark. On the divestiture front, as we've talked about before, we have a number of processes underway, and, again, they're in various stages, from negotiations, there's open data rooms, to diligence. So with a variety of efforts underway, we're not going to pin down timing, but what I can point to is a few facts that hopefully give some comfort and some guidance into what we're striving to achieve. So obviously we were successful last year in closing on the royalty sale. That closed in October of last year. We would consider royalties again. We've mentioned northeast PA, we've mentioned non-core acreage as potential candidates, all those dialogues are ongoing.

Another read on the sense of urgency, not just kind of our alignment of interest, but the importance of this factor, as well as its timing, is the addition of an absolute debt reduction target in the management performance measurement and incentive program, as you can see in the proxy. So there are specific targets there for us to strive to achieve at the high end to maximize that metric. That would be a \$700 million reduction in debt for 2019. So while we're not going to give specific guidance on timing or dollar amounts of specific transactions, those are in broad strokes how we're thinking about it and what we're striving to achieve.

Rehan Rashid

Analyst, B. Riley FBR, Inc.

Q

Okay, and just maybe a different way to ask the same question on the divestiture thought process. Your cost of debt is so much more lower than implied by your cost of equity, but when you're thinking of kind of acceptable pricing, what – would you expect to be more closer to your cost of debt as you divest these assets? Is there cash flow for this? Or kind of how much deeper would you have to go away from your cost of debt and closer to your cost of equity to think about kind of what multiples you would get for your cash flows or anything else associated with it. Does that question make sense? I'm not sure if I asked it properly.

Mark S. Scucchi

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

A

Sure. I think I understand where you're headed. So, the answer would depend on what type of asset you're talking about. For example, some of the acreage is nonproducing, so there is no cash flow. So we're talking about a portion of our asset base or inventory that's not reflected clearly, no value in our equity. So that type of valuation metric might not be the most applicable. As it relates to others, you can look at that asset value, full-blown discounted cash flow valuation, and of course we would look at cash flow multiples as well. So based on the markets and the interested investors in each of these, or acquirers in each of these packages, I would say that these are all – we fully expect to be deleveraging type transactions and very reasonable relative to our corporate cost to capital.

Rehan Rashid
Analyst, B. Riley FBR, Inc.

Q

Okay, got it. Thank you.

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

A

Thank you, Rehan.

Operator: Your next question comes from the line of Brian Singer with Goldman Sachs.

Brian Singer
Analyst, Goldman Sachs & Co. LLC

Q

Thank you, good morning.

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

A

Good morning, Brian.

Brian Singer
Analyst, Goldman Sachs & Co. LLC

Q

You mentioned your ability to continue to push out lateral length with some of the 18,000 feet lateral tests. Can you remind us your base expectations for how you see well cost per foot and EURs per foot evolving, and then how long do you think you can push out those laterals until you would either see sufficient operational risk or acreage limitations?

Dennis L. Degner
Senior Vice President-Operations, Range Resources Corp.

A

Yeah, good morning, Brian. At this point, we're really confident in the 18,000-foot lateral length that we've been able to drill. I think on the prior call, we referenced that we certainly had a substantial number of laterals that were in excess of 15,000 feet. When you look at – and we've been able to do this across – as we think about our acreage position, both in the core of Washington County, where we have historical wells, but we've also been able to do it in areas where maybe we have a cleaner sheet of paper and fewer wells that we're drilling around. So, by having a blocky acreage position the way we do, and it being contiguous, it really affords us an opportunity coupled with the gathering system to really – to maximize that lateral length opportunity. We've typically been a incrementing type, uh, operating team.

So, rarely will you see us go from 5,000 feet to say 20,000 feet in any kind of operation because we understand that we want to manage the risk and part of us being successful in an unconventional resource play is being repeatable. So, getting to the 18,000 feet point that we've gotten today, we really like the results we're seeing. As we look back on the performance of these wells, I'll shift there for a quick second. The wells that we reported toward the end of last year, that we drilled, one that was at 17,800, and the other one was at 18,100, both of those wells are at or above the type curve, the super-rich type curve still today. We looked at those results just over the last few days. So we really like what we see on a normalized basis out of the wells. The drilling team continues to push down cost per foot. We've seen, as we've mentioned earlier, as much as a 30% decrease. So we really like the direction we're headed. Average drilling length this year, I believe we reported was going be around 13,000 feet for the program. But when you look at a lot of our reference, it's not uncommon again for us to

point to 10,000 feet. We feel like that's a good spot as well, but we will have those cases like a few of those super-rich wells we pointed out that IP'd at 7,000 feet. So we will have some fill-in space, but our goal will always be to maximize our lateral length because we see that as the most capital efficient approach.

Brian Singer

Analyst, Goldman Sachs & Co. LLC

Great. Thank you. And then to follow up on the divestiture question, given that this has been an area of focus for some time, can you just broadly discuss how the market environment and market and interest in Appalachia upstream assets either directly or via royalty compares today relative to 12 to 18 months ago?

Dennis L. Degner

Senior Vice President-Operations, Range Resources Corp.

Sure. So I'd say depending on area, the evolution of investor interest and the bid/ask spread has evolved. So for example, in northeast Pennsylvania, with Atlantic Sunrise coming online, seeing actual sales occur, basis tightening not just in the forward curves, but in the spot market and the actual physical transactions, that gives potential buyers greater confidence in the economics that they're forecasting. So that I would say is an improvement. The variety of interested parties and types of investors remains pretty diverse and strong. There are multiple potential parties on each and in each data room. In southwest Pennsylvania, I would say that those discussions continue to evolve, just as an example, after we announced last fall successful royalty sale, we actually received several inbound phone calls of parties saying, hey, I wish we had known that that was something you would consider. So in general, I would say that the A&D market is alive and functioning.

Brian Singer

Analyst, Goldman Sachs & Co. LLC

Great. Thank you very much.

Dennis L. Degner

Senior Vice President-Operations, Range Resources Corp.

Thank you.

Operator: Your next question comes from the line of Jane Trotsenko with Stifel. Please go ahead.

Jane Trotsenko

Analyst, Stifel, Nicolaus & Co., Inc.

Good morning. In the press release, you mentioned that Range is actively engaged in developing in-basin demand to support the use of natural gas in local markets. Could you please expand a little bit on that?

Dennis L. Degner

Senior Vice President-Operations, Range Resources Corp.

Yeah, good morning. One of the things that we see as you can imagine with the kind of, let's say, resource certainty that you have in a place like southwest PA, you're now starting to see more and more discussions around industry development. An easy example to point to would be – that would utilize demand. An easy example to point to would be the Shell cracker, as an example. We're seeing more and more inquiries now come in for industry development that could be right there on top of our acreage footprint or at least in a very, very close proximity that would allow for us to have some in-basin liquidity as we move forward. Whether that's power generation, again, or other industries that have a strong interest in moving to the region, we're going to continue

to look at those opportunities and make sure that they have a good thorough scrubbing in how they could potentially fit with reducing our costs and be part of our portfolio going forward.

Jane Trotsenko

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Perfect. Thanks. And my second question is on northeast Pennsylvania, I'm curious which pricing point that gas is priced at.

Mark S. Scucchi

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

A

Much of our gas sold out of northeast Pennsylvania is priced linked to [ph] lighty (48:18).

Jane Trotsenko

Analyst, Stifel, Nicolaus & Co., Inc.

Q

[ph] Lighty (48:20)? Okay, got it. And maybe the last question is on Terryville, maybe you can update your current thoughts – update us on your current thoughts on Terryville, how we should be thinking about activity levels going forward and if you're marketing this asset as well.

Dennis L. Degner

Senior Vice President-Operations, Range Resources Corp.

A

Yeah, on the go-forward, I'll take a step back, and from a Terryville activity standpoint, in the beginning of the year, we kind of laid the groundwork that it's an area where we're going to spend around 10% of the capital this year with 90% going to Appalachia. We have some technical thoughts that we're continuing to explore throughout the year in continuing the tests. We've got a drilling rig that's been operating there for the past few months and will most likely start to wrap up sometime mid-year pending our results we see over the months ahead. The asset really has to be at a place where it competes on a risk-adjusted basis. And we've got to find repeatability in the results that we see there. As you would imagine, as we look over the balance of 2018 and 2019, there are things that we really like and are still excited about from the asset standpoint, but it still has to compete with the Marcellus. And that's what we're trying to work through here in the months ahead.

Jane Trotsenko

Analyst, Stifel, Nicolaus & Co., Inc.

Q

But just to clarify, you are not marketing this asset as of right now, right?

Mark S. Scucchi

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

A

This is Mark. No, it's not being actively marketed right now, but to Dennis' point, you can see the trend in capital allocations, the approach, the science that's being done there. And just zooming out, as we evaluate the inventory and think about the purpose of the almost 10% of the capital budget allocated to that property this year, it was around managing the decline profile and managing the cash flow from that asset. So just in terms of how we manage the portfolio overall, we will continue to optimize and do everything we can to maximize the value.

Jane Trotsenko

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Got it. Thanks a lot.

Operator: Your next question comes from the line of Sameer Panjwani with Tudor, Pickering, Holt.

Sameer Panjwani

Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Hey, guys, good morning.

Jeffrey L. Ventura

Chief Executive Officer & President, Range Resources Corp.

Good morning.

Dennis L. Degner

Senior Vice President-Operations, Range Resources Corp.

Good morning.

Sameer Panjwani

Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

I was hoping you could reconcile the debt reduction target with the leverage targets for 2019. And I think you mentioned earlier that \$700 million was your top-level target for debt reduction, which I believe implies about \$600 million of asset sale proceeds given your organic free cash flow expectations for the year. But on the leverage side in the proxy, it looks like you have 2.5 times as your top-level target and my math would imply over \$1 billion of asset sale proceeds to kind of hit that without assuming any EBITDA loss. So, could you just reconcile the difference between the two or provide some context about how we should think about those two metrics?

Mark S. Scucchi

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

So the two are conceptually linked, of course, in reducing absolute debt, but they're not mathematically hardwired because the leverage ratio can change based off commodity prices and other outside factors, frankly, beyond our control. We're well hedged at over 80% on the gas side this year, so that certainly helps add certainty to the trajectory. But the idea there is, we evaluate credit holistically.

The debt-to-EBITDA ratio is certainly one measure of improving and strengthening the balance sheet. But just an example of why it's important to look at it from the absolute debt perspective as well, you could improve the leverage ratio, as measured by debt-to-EBITDA, by just growing faster and having no absolute debt reduction. So, the concept behind pairing those two is to demonstrate the fact that we are talking about debt reduction in the absolute as well as improving an entire host of credit metrics, among them, debt-to-EBITDA. So, they are intended to function together as the holistic evaluation of the balance sheet is considered.

Sameer Panjwani

Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Okay. Yeah. I guess my read into it was that the leverage target was implying that there could be additional asset sales beyond what's kind of implied in the absolute debt reduction target. Is that not the right way to think about it?

Mark S. Scucchi

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

We haven't given any hard dollar amounts associated with, either individually or in the aggregate, the asset sales processes we have underway. So, I'll defer that to you to assign whatever valuations you'd like to the packages.

But suffice it to say, again, it's about crystallizing the value of non-core assets or assets where that capital could be better deployed elsewhere in Range.

Sameer Panjwani

Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Okay. Thank you.

Mark S. Scucchi

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

Thank you.

Operator: We are nearing the end of today's conference. We will go to Kashy Harrison of Simmons Energy for our final question.

Kashy Harrison

Analyst, Simmons Energy

Good morning, everyone, and thanks for taking my question. So, I had just a quick follow-up for Alan. You gave some really great color on incoming ethane demand. I was just wondering, in your opinion and just your historical experience in the field, do you find the forward markets for NGLs to be more – to be fairly efficient? And do you think they're properly pricing in that demand or do you find the forward market to be maybe perhaps a bit more volatile? And then, kind of tagging on to that, does the 36% of TI assumption bake in your expectation for improving ethane demand, or is that just based off whatever you're seeing on the forward markets?

Alan Engberg

Vice President, Liquids Marketing, Range Resources Corp.

Thanks, Kashy. This is Alan. Yeah, that's a good question. Forward curves for natural gas liquids, despite the name natural gas liquids, aren't quite as liquid as, let's say, natural gas or crude oil. And similar to natural gas, though, the activity down the curve is largely producer-driven activity. The chemical players in the market, those that are naturally short and that are physical buyers of the products aren't active hedgers, mainly because they have a spread that they would need to hedge and the polymer markets are even less liquid, let's say, than the NGL markets.

So for that reason, the shape of the curve often is dictated by the trading activity and people's view of the market, but to a large extent, also by hedging activity of producers. So to answer your question, no, I don't believe it's always a good guide of what forward prices are actually going to be. It's just what today's value is that you can get in the market for that forward strip. So our guide is based on the strip, and I would say, with reference to the numbers that we've published, we believe that there's upside to that guide for all the reasons that I mentioned in answering that previous question around ethane, propane and butane. Does that answer your question?

Kashy Harrison

Analyst, Simmons Energy

That does. Thank you.

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

Jeffrey L. Ventura

Chief Executive Officer & President, Range Resources Corp.

Yeah, I just want to thank everybody for participating on the call this morning, and feel free to follow up with any questions that you might have by calling our team. Thank you.

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

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