25-Oct-2022

Range Resources Corp. (RRC)

Q3 2022 Earnings Call

Copyright © 2001-2022 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Laith Sando
Vice President-Investor Relations, Range Resources Corp.

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

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

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

OTHER PARTICIPANTS

Scott Hanold
Analyst, RBC Capital Markets LLC

Doug Leggate
Analyst, BofA Securities, Inc.

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

Noel Parks
Analyst, Tuohy Brothers Investment Research

Umang Choudhary
Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Range Resources' Third Quarter 2022 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 statement. 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. 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 may reference certain of those slides on the call this morning. You will also find our latest 10-Q on Range's website under the Investors 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.

Copyright © 2001-2022 FactSet CallStreet, LLC

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

Jeffrey L. Ventura

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

Thanks, Laith and thanks everyone for joining us on this morning's call. Range delivered a successful third quarter and realized record free cash flow and cash flow per share, both the highest in company's history. We're returning this free cash flow to shareholders through various means. Last week, the Range board authorized a significant $1 billion increase to the company's share repurchase program. In September, we paid $0.08 per share in quarterly dividends, and we're rapidly approaching our long-term debt targets which we expect to hit early next year at current strip pricing, while simultaneously funding the base dividend and additional share repurchases.

Year-to-date, Range has invested over $300 million in share repurchases or approximately 4.5% of shares outstanding, acquiring our own production and reserves at what we believe are very attractive and accretive levels. As of today, Range has approximately 242 million shares outstanding and $1.2 billion of availability on our updated share repurchase program. The buyback program represents a compelling investment of our capital as we traded at substantial discount to the underlying value of our reserves and resource base. While we run various NAV scenarios in assessing company valuation, we can point to Range's proved reserve valuation that's well north of $60 per share as a proxy for the value of a portion of our inventory.

And as many of you are aware, the SEC definition of proved reserves only allows for five years of development. And beyond this five-year window, Range has thousands of additional core Marcellus wells. Beyond that, we have what many consider to be core Utica and Upper Devonian as well. Simply put, we do not believe the significant resource value is reflected in Range's share price, presenting the opportunity to create meaningful long-term per share value for equity holders through our buyback program.

Before covering the quarterly results, I want to spend a couple of minutes on the global energy picture and how we see Appalachia and Range within that framework. As we continue to witness a global energy crisis, it's apparent that the world desperately needs access to abundant, safe, reliable and ethical fuel sources. Families in Europe are facing real challenges that may not be solved this winter and that remain a stark reminder that evolving energy policy will need to be thoughtful, prioritizing security, affordability, availability and reliability. Similarly, regions in the United States are not insulated from these challenges as large population centers on the East Coast and New England could be faced with limited supplies this winter due to a lack of pipeline infrastructure.

As the US and the world looks for reliable, safe and affordable long-term energy solutions, we believe Appalachian natural gas, and particularly Range, is well-suited to meet the call due to our inventory depth, competitive full cycle cost structure and environmental performance. When considering the expected increase in demand for US natural gas in coming years, we believe that increased Appalachian supplies will be critical. But in order for that to happen in a meaningful way, additional infrastructure, namely pipelines and LNG offtake, is necessary. Permitting delays and cancellations of critical infrastructure projects have obviously been a challenge, resulting in inflated energy costs in the US and abroad. But in the long run, we believe that common sense policy and economics will win the day and allow this great resource to provide life-sustaining fuel to the people who need it.

We shouldn't forget or look past the fact that the United States has led the world in lowering CO_2 emissions, primarily from the substitution of natural gas for coal in power generation as natural gas has a 60% lower carbon footprint than coal. This was led by the growth of the Marcellus and Utica shales in Appalachia that grew from

Copyright © 2001-2022 FactSet CallStreet, LLC

nothing about a dozen years ago to what is now the largest producing natural gas field in the world, making the US the largest producing country in the world. This reduced American energy cost significantly when compared to Europe and Asia. No doubt, Americans are experiencing increased energy cost today, but nowhere near the levels being experienced in Europe and the rest of the world.

Currently, US natural gas pricing is about 75% lower than prices abroad, making US manufacturing more competitive, helping to keep the US utility bills lower than other countries, positively contributing to the US trade balance while generating tax revenues for government and providing energy security for our country. Despite these meaningful contributions, we believe that much more can and should be done to support the continued and increased use of American natural gas both in our country and abroad. With some of the lowest finding costs and emissions intensity of any natural gas field in the world, Appalachian natural gas is the long-term answer.

Within that energy picture, we see Range as being differentiated amongst producers given our operational expertise, vast multi-decade core inventory and our access to a diverse set of natural gas and NGL markets, both domestic and international. The financial and operational results in the first nine months of this year reflect many of these advantages as we made steady progress on our key objectives for 2022; completing our drilling program safely with peer-leading capital efficiency, enhancing margins through thoughtful marketing and a focus on cost, bolstering our balance sheet with absolute debt reduction, and returning capital to shareholders.

Looking at the quarter, Range successfully delivered on our third quarter development plans and capital spending remains on track with the high end of our original full year guidance of $460 million to $480 million for completing the 2022 operational plan. Dennis will provide some additional details on the quarter in a minute, but the team has done an outstanding job operating safely and efficiently while controlling costs.

Looking at margins, starting with pricing, Range's portfolio of multiple end markets resulted in strong natural gas prices for the first nine months of the year and have allowed us to once again improve our corporate natural gas differential despite meaningfully higher Henry Hub index prices. Range's natural gas liquids production also had strong pricing of over $35 per barrel, up 4% from last year's third quarter. Overall, Range received $7.31 per mcfe in the third quarter for its aggregate production. As a result, we realized free cash flow and cash flow per share that was the highest in company history.

Before turning it over to Mark and Dennis, I'll reiterate something I've mentioned on past calls and remains true today, which is I truly believe Range is in the best position in the company's history. As the world continues to move towards cleaner, more efficient fuels, natural gas and NGLs will continue to be the reliable, abundant and affordable supply that helps power our everyday lives, while also providing the opportunity to help billions of others improve their standard of living, while reducing the reliance on coal and other more carbon-intensive fuels.

We believe Appalachian natural gas and natural gas liquids are well positioned to help meet that current and future demand. Within Appalachia, we expect Range to be a leader in capital efficiency, emissions intensity, and transparency, which are all core to generating sustainable long-term value for shareholders.

I'll now ask Dennis to cover operations.

Dennis L. Degner

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

Thanks, Jeff.

Copyright © 2001-2022 FactSet CallStreet, LLC

Third quarter capital came in at $138 million, with drilling and completion spending totaling approximately $134 million. Capital spending for the first three quarters of the year totaled $382 million or approximately 80% of our annual plan. As communicated last quarter, we expect to complete our 2022 activity plan in line with the upper end of our original capital guidance of approximately $480 million. Production for the third quarter came in at 2.13 bcf equivalent per day, adding an average of approximately 60 million cubic feet per day versus the prior quarter.

Unplanned third-party midstream maintenance that impacted the third and fourth quarter will place us at the low end of our annual guidance range of 2.12 bcfe to 2.16 bcfe per day for the year. Despite these maintenance impacts, production is currently running approximately 2.2 bcf equivalent per day.

Looking at some of our operational highlights, we turned to sales 18 new wells during the third quarter, 12 of these wells are located in our dry and wet acreage positions in Southwest Pennsylvania, with six wells located in our Northeast PA footprint. As has become a hallmark of our operation, approximately half of the wells are located on pads with existing production, supporting Range's cost-efficient development plans.

Turning to drilling, we are now running one horizontal rig, which drilled seven wells during Q3. For completions, the team completed 22 wells during the third quarter across Southwest and Northeast Pennsylvania. Completion efficiencies averaged 7.8 frac stages per day, while executing just under 1,000 stages during the quarter. This is the largest number of frac stages pumped in a quarter for Range since the second quarter of 2021 and represents approximately 30% of our fracturing activity for this year.

The water operations and logistics group continued to build on Range's ongoing water recycling effort with strategic partnerships with other producers and third-party treating facilities. These efforts yielded water savings of over $4.2 million during Q3, which is nearly a 40% increase over the last quarter.

When combining these numbers with the successes of the first half of 2022, the team has saved over $10 million and are projected to exceed $12 million in water cost savings that was achieved last year. These are durable, repeatable cost savings that support our peer-leading capital efficiency and overall financial results that Mark will touch on in just a moment.

Lease operating expense came in at $0.11 per mcfe for the third quarter, which is consistent with Q2. With warm weather in our rearview mirror and cooler temperature starting to emerge in Appalachia, the team is turning its focus to field optimization for our winter operations.

Before moving to marketing, I wanted to touch briefly on service cost. During the third quarter, we continued to observe increased pricing pressure for steel, sand, electricity and labor, along with strong competition for equipment such as drilling rigs, frac crews and trucking. We anticipate service pricing and resource availability is beginning to stabilize near current levels as we finish our 2022 program and continue setting up for 2023. The proactive and collaborative approach that we take with our service partners, along with continued operational efficiencies, have allowed us to mitigate significant impacts to the 2022 capital program as we complete this year's planned activity at the upper end of our capital guide as previously mentioned.

As we look into 2023, we have launched our annual request for services process earlier versus prior years, allowing our service partners to secure equipment, labor and materials for next year. We will have a better indication of the service cost changes for 2023 once the RFP process is complete. But given where current markers are for items such as drilling rig day rates, tubular goods and labor, it is reasonable to anticipate a service cost increase of approximately 20% year-over-year.

Copyright © 2001-2022 FactSet CallStreet, LLC

But like all years, in the months ahead, we will be working to actively identify areas to further advance our efficiencies and we expect that Range will again deliver a peer-leading capital-efficient program in 2023.

In fact, Range has very low capital intensity. As a result of our peer-leading well cost and low base decline are a differentiator when considering the service cost increases being seen across the industry. For instance, if you assume a 20% increase in our capital costs over the high end of our 2022 guidance, that equates to $0.75 per mcfe for all-in capital for 2023, or a $0.13 increase to our full cycle cost structure over 2022. We expect this will be at the very low end amongst the E&P group, particularly when considering that we are starting from a 2022 capital budget that has not been increased this year.

Shifting over to marketing. Range reported a natural gas differential of $0.38 below NYMEX in the third quarter, including basis hedging, with Range's realized natural gas pricing closing out at $7.81 per mcf. Given the strong performance year-to-date, Range is improving its expected 2022 natural gas differential to $0.30 to $0.35 below NYMEX.

Looking at NGLs, Range's pre-hedge NGL price for Q3 was $35.30 per barrel, an increase of $1.25 versus the prior year's quarter and approximately $1.53 below the Mont Belvieu weighted equivalent. The primary driver of Range's discount to Mont Belvieu was the spread between European naphtha and Mont Belvieu ethane, which narrowed considerably during the quarter. The company expects a slight improvement to its fourth quarter differential and further improvement into 2023 based on forward commodity pricing.

Looking at propane fundamentals, global petrochemical margins have been under pressure, causing US LPG prices to settle at less than 50% of WTI. However, looking forward, we see reasons for optimism that include the following; new demand in areas such as LPG fueling and spiking of LNG, increased demand from Europe to replace Russian supplies.

Port delay is improving, container rates falling, and excess polyethylene inventory being consumed. In combination, we believe these positive changes set the stage for petrochemical margins to recover, which should lift US propane prices back in line with historical trading levels, which we expect to be 60% of WTI or greater.

Range remains well positioned to supply domestic and international markets. Range's ability to export NGLs via the Marcus Hook terminal provides us the most efficient route into European, Mediterranean and West African markets. We expect this access to export markets, combined with our in-house marketing capabilities to be a long-term positive differentiator for Range.

Before handing over to Mark, I'd like to briefly touch on our environmental and safety performance. During the remaining months of this year and going forward, we are upgrading our LDAR process by doubling the inspection frequency to eight times per year, further striving to reduce emissions while ensuring our production facilities are operating as efficiently as possible.

And for safety, ongoing dialog between our service partners and operations teams resulted in further reductions in worksite incidents versus last year, placing us closely in line with the best performance in company history.

We look forward to sharing our environmental and safety results for the year on our first call in 2023. With just under three months remaining in this year's program, we remain focused on delivering our operational and financial objectives this year, while setting us up well for the year ahead.

I will now turn it over to Mark to discuss the financials.

Copyright © 2001-2022 FactSet CallStreet, LLC

Mark S. Scucchi

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

Thanks, Dennis. Third quarter financial results continued to deliver against Range's stated goals at an accelerating pace. The Range team delivered on all fronts with operational results meeting guidance, driving strong financial results that were directly translated into shareholder value through continued debt reduction and growing returns of capital. Third quarter progress on balance sheet objectives while accelerating shareholder returns demonstrate the immense progress made in positioning the business so that Range can consistently deliver tangible returns over the long-term. Our mission is to deliver the value of Range's world-class, world-scale asset base to shareholders underpinned by a balance sheet fit for purpose to consistently drive the business over a multi-decade inventory life.

Third quarter cash flow reached $550 million which funded net debt reduction through the accumulation of $157 million in cash, share repurchases of $176 million, payment of a quarterly cash dividend totaling approximately $20 million, after capital expenditures of $138 million. Net debt quickly moving toward target level combined with growing earnings drove leverage down to a company low of 1 time debt-to-EBITDAX. Current cash balances and expected fourth quarter cash flow are planned to redeem notes callable in December totaling $529 million.

As net debt continues to decline toward our absolute target range of $1 billion to $1.5 billion, cash flow that can be allocated to shareholder returns continues to grow. To that point, this year we have invested a total of $326 million in repurchasing Range shares or 65% of the previously authorized amount. Given year-to-date net debt reduction better than $500 million and the pace of further planned debt reduction driven by strong forecasted cash flow as well as what we believe is a significant disconnect in Range's asset value compared to stock price, Range's board has approved a $1 billion increase in the share repurchase plan, bringing total available repurchase capacity to nearly $1.2 billion.

The cadence of repurchases is framed by our target net debt levels of $1 billion to $1.5 billion and our belief based on current commodity prices that we should enter that range early next year and could reach or potentially surpass the low end of the range by year-end 2023. Our priority remains achieving a balance sheet designed to weather commodity price fluctuations. Fortunately, Range's strong margins, peer-leading capital efficiency and low base decline rate results in cash flows capable of supporting both debt redemption and returns of capital.

Taking a closer look at third quarter results. Cash flow of $550 million was driven by strong pre-hedge realized prices of $7.31 per mcfe compared to $4.32 in the third quarter last year. Realized pricing was led by improved natural gas prices further supported by natural gas liquids and condensate pricing. Range's diversified portfolio of transportation capacity and customer contracts largely mitigates in-basin pricing risk given that approximately 80% of natural gas production is delivered to out-of-basin markets on firm transportation and, similarly, virtually all natural gas liquids are sold out of basin.

Hedged cash margins per unit of production expanded to $2.84, up almost 100% compared to third quarter last year. Range's margins benefited from higher prices resulting from thoughtful hedging and continued focus on cost and efficiency. The increase in total cash unit costs in the third quarter compared to the prior year primarily relates to gathering, processing and transportation which have links to higher NGL prices as well as electricity and fuel costs, while reductions in other line items such as G&A and interest expense partially offset the processing cost increases. Planned debt reduction and previously executed timely refinancings should expand annualized savings, such that in 2023 annualized interest savings can add greater than $100 million to cash flow compared to last year.

Copyright © 2001-2022 FactSet CallStreet, LLC

Our confidence in the return of capital program is bolstered by a successful year-to-date execution of the 2022 plan combined with the tremendous opportunities provided by our deep, high-quality asset base. As Jeff mentioned, we continue to believe the repurchase program is an attractive investment opportunity given the significant gap between the value of Range's inventory and production versus current share price. We will remain flexible and adapt to market conditions, project returns and prudent reinvestment with our repurchase program providing a compelling option for use of free cash flow to acquire greater per share exposure to our own multi-decade inventory and production at a very attractive price.

While this has been said before, I believe it bears repeating. Taking a step back from Range's results and looking at profitability of some natural gas producers this quarter, I believe it's important to put in perspective what this means in the context of an inflationary environment. Range and the industry has spent many years as stewards of investor capital and bringing fully online the productive capabilities of the Marcellus shale. It was a dozen years commissioning what is now the largest natural gas producing field in the world. Now, Range and peers to varying degrees are reaching sustainable cash flow generation returnable to investors, including pension plans, 401(k)s and retirees who hold our stock. At the same time, Range provides a reliable, clean energy source to customers across the US and globally, a supply that is cheaper for customers here in the US than most of the world.

So what does this mean? Range is profitable and benefit the US economy and environment. At this moment in time, when the world's need for clean, reliable, affordable energy is more apparent than ever Range stands ready to continue developing its unrivaled asset to better serve customers here at home and abroad, all in a fiscally and environmentally responsible manner.

Hard work, focus and swift but precise adjustments for our business plan without varying from our core objectives or demonstrating the value of Range's portfolio and business. For several years now, Range has been returning value to shareholders, first in the form of debt reduction and now expanded share repurchases and a cash dividend. Share repurchases remain a compelling investment of capital given the substantial gap between current share price and intrinsic per share value of the largest portfolio of quality inventory in Appalachia. We seek to continue this trend of disciplined value creation for our shareholders. Jeff, back to you.

Jeffrey L. Ventura

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

Operator, we'll be happy to answer questions.

Copyright © 2001-2022 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Operator: Thank you Mr. Ventura. The question-and-answer session will now begin. [Operator Instructions] And today's first question will come from Scott Hanold with RBC Capital Markets. Please go ahead.

Scott Hanold
Analyst, RBC Capital Markets LLC

Q

Thanks. Good morning all. I was hoping to delve into 2023 a little bit. And – correct me if I'm wrong, I guess, I'm reading into your commentary, it feels like somewhere in that $550 million to $575 million is at least an early kind of range that makes sense for a CapEx budget. But – correct me if I'm wrong there, but – and then talking into like how you look at the trajectory in terms of production, you're actually running about 2.2 bcf a day if you sort of average that pace, that's still – that's a nice 3% to 4% growth rate. Is that a reasonable way to kind of look at next year? Or do you see sort of a shape of a curve, which may make it a little bit more flattish? So what are your thoughts on that production trajectory in the next year as well as the capital range that I mentioned?

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

A

Yeah. Good morning Scott, this is Dennis. I'll start with the production side. I think if you look over the last couple of years, we've been on pace to deliver maintenance programs, keeping our production flat year-over-year. But we also front-end load our programs, so as you tie production back to an activity cadence, it's not uncommon for us to see potentially variations throughout the program year where we may be lower or higher, just depending upon when the turn-in-line start to kind of kick out of that process of drilling and completions activity.

So we'd expect Q3 and Q4 to be a little bit higher this year versus the first half of the year. I think we've tried to touch on that a little bit through prior calls, just again, because of turn-in-line cadence. 30% of our activity, we touched on earlier in the call, of our fracturing activity was done in Q3 as an example. So you'll see that translate into more production here in Q4 at that 2.2 bcf level.

So we would expect to be somewhere in a very similar maintenance level production profile for 2023. So I think something in a similar guide of maybe a 2.12 bcf to 2.16 bcf type level. We'll better define that as we get into the next call and we finalize our budget and our plans for the upcoming year, but it's fair to say that we expect a similar year-over-year flat type production profile.

From a capital perspective, what we're seeing right now is, is the – the RFP process has been launched, we'd launched that a little bit earlier than what we have in prior years to try and work with our service partners to give them more lead time, more time to discuss with us, securing consumables, labor and just other equipment that would be needed for next year's program.

The good news is, being that we have a maintenance level program this year and certainly pointing to one that's real similar for 2023, it's really a function in a lot of cases of maintaining the equipment that's existing in our program that we have with our service partners. So, frac crew is secured for next year. We've touched on that already prior, and our drilling rigs are also secure. So now it's really just support – getting the supporting equipment to make sure that we've got our maintenance program in place for next year.

The RFP process should wrap up here in the next few weeks. So we're going to have a much better answer on what that cost looks like from a service perspective. But I will kind of maybe close out with this. For us, cost can

Copyright © 2001-2022 FactSet CallStreet, LLC

be looked at a couple of ways. One, on the service side, but other is how we tie them back to our overall cost and capital efficiency. Water team continues to really do a great job of – and our operations team as a whole and looking for efficiencies that can offset service cost increases that then translate into really what we see as our peer-leading capital efficiency and cost structure.

Again, we touched on it a little bit earlier, but when you look at where we're at this year to replace that incremental molecule, we're talking about $0.60 per mcfe in 2022. Even if we get to a 20% increase and, again, we'll have a better framework around that as we get into the next weeks ahead. But if you – even if you add 20% to that, you're talking about a $0.13 increase, taking us to around $0.75. And if you start to look at peers in 2022, that still puts us ahead of several of them, and it puts us in the neighborhood of half of a rate compared to other basins like the Haynesville as an example.

So, regardless of where things land across the sector, we still like where we're going to be at with our efficiencies, our service partner relationships and our ability to maintain a peer-leading capital-efficient program.

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

A

And I'll just tag along with what Dennis said, you take that cost, but then you have to couple it with the fact that we have the lowest base decline of any peer which in two things together then lead to class-leading capital efficiency and then put that together with the largest Tier 1 inventory and we think we're in a good place.

Scott Hanold
Analyst, RBC Capital Markets LLC

Q

Okay. I appreciate all the color. Thanks for that. And you call completed, I think, half a dozen wells in Northeast PA. Can you talk about what you saw from those wells? And how do those compete versus what you're doing in the Southwest Appalachia? Is that something where it makes sense to continue a modest development program into next year?

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

A

Yeah. Scott, we're – it's early on, but so far, so good. We really like the performance we're seeing out of those wells. I would say, just given Range's historical development in that area, it gave us a high – and others, we've seen a high degree of confidence in the type curves that we put together in that area, much like in Southwest PA. So the wells that we've drilled and completed up there have only been on for a few months, so still early on in the cleanup phase, but they're right in line with expectations. And, we're still evaluating how future Northeast PA activity could find its way into future development programs. We like the rock quality there, we really like the results we're seeing. But we're still finalizing what kind of future activity would be in that area.

The economics compete. And that's another thing that's really encouraging for us is as we look at our dry gas inventory in the Southwest part of the state, those economics clearly compete across the program for us now. So still working on that, but fully expect that we'll continue to look at ways to bring our most capital-efficient wells into the program year-over-year.

Scott Hanold
Analyst, RBC Capital Markets LLC

Q

Could you remind me what the EURs that you generally use up there, what the type curves look like?

Copyright © 2001-2022 FactSet CallStreet, LLC

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

A

Yeah. It's fair to – Scott, to look at those wells at being somewhere in kind of like a 2 to 2.5 bcf per 1,000 range. Clearly, there are portions of the field that exceed that level as well. But that's a fair way to look at it. And again, if you look at some of the materials that we have in our slide deck, you can see why those economics don't compete.

Scott Hanold
Analyst, RBC Capital Markets LLC

Q

Thank you.

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

A

Thanks, Scott.

Operator: Thank you. One moment for our next question. And that will come from the line of Doug Leggate with Bank of America. Please go ahead.

Doug Leggate
Analyst, BofA Securities, Inc.

Q

Thank you. Good morning, everyone.

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

A

Good morning.

Doug Leggate
Analyst, BofA Securities, Inc.

Q

Guys, I wonder if I could go to slide 12 and just ask you particularly the 2025 outlook. I know it's a long way off, but I'm trying to understand where you are on cash taxes currently and whether you fully loaded this latest guidance for your expectations for capital inflation that you discussed and the transition to [ph] full (35:47) cash tax. Just to want to understand if they're fully embedded in these numbers.

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

A

Good morning, Doug, it's Mark. Happy to take that question. So as a backdrop – the background information to your question is really where we're starting from in terms of net operating loss that we can use to help defer taxes and minimize near-term cash tax payments. Range has roughly $2.9 billion in federal NOLs. So that largely will take care of taxable income for this year and will provide a substantial offset for 2023 as well. We have to dig into the details just a bit to understand the timing of cash tax payments. The NOLs come in two vintages. The first bucket, if you will, of roughly $1.2 billion allows you to offset up to 100% of your taxable income at the federal level.

The remaining, the balance of $1.7 billion or so, you can use to offset up to 80% of your taxable income at the federal level. So what that means is – again, federal tax is largely offset for 2022. 2023, they will be largely

Copyright © 2001-2022 FactSet CallStreet, LLC

mitigated, but some cash taxes at the federal will begin, and after 2023 you have effectively – very nearly fully utilize those NOLs. So as you head into 2024 and thereafter, your federal payments do begin to increase. At the state level, we do have NOLs as well in the Commonwealth of Pennsylvania. Those can offset a portion of your taxable income. So you'll see modest – I think, very low-single digits, like maybe 1% effective rate to the corporation this year and next year.

So as you go forward into years 2024 and beyond, to your question, yes, there will be cash taxes we fully expect. That's a happy byproduct of strong profitability of the company. And, yes, those estimates are baked into these numbers we reflected here on page 12.

Doug Leggate
Analyst, BofA Securities, Inc.

Q

And that's the comment I was looking for. Thank you, Mark. My follow-up is, is kind of – I guess, it's a quasi-takeaway question but I'm going to ask it like this. Our understanding is that some of your smaller, let's say, private peers don't have the same inventory depth or longevity that you guys do, and we're starting to see some [indiscernible] (38:15) space opening up in some of the pipes. I wonder if you could confirm if that's what you're seeing regionally? And if so, if that plays into whether Range would look to fill or be able to fill some of that space in the context of your flat production or maintenance capital comments earlier? I'll leave it there. Thanks.

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

A

Yeah. Doug, this is Dennis. I'll take that question. Our marketing team in PA is always looking at the most creative ways to move our gas production on a regular basis. We monitor the pipes, we understand what's flowing on them pretty well. And I would say at this point, it's not unlikely to see some of that infrastructure as we go forward be underutilized because of core exhaustion, capital allocation maybe for some companies that have gone to other basins as you look at some of the M&A transactions that have occurred over the past 12 to 24 months.

But when you look at the way our core position is put together, it really allows us to really be ready and able to take advantage of whether it's processing capacity that goes underutilized, we monitor that as well, or being able to take advantage of nat gas or NGL capacity that comes available on different portions of the infrastructure. So is there some capacity? I would say as we look over the past year, there's been points on an annualized basis across the year between local demand and capacity somewhere around approximately 1 bcf of capacity. So, there is room to put some gas in the system there, but there are times in the year which you can imagine it is tighter than others.

Doug Leggate
Analyst, BofA Securities, Inc.

Q

So does that change – would that change meaningfully Range's sort of [indiscernible] (40:04) sustaining capital guidance that you've obviously spoken to for some time?

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

A

So I'll start first and by all means, if Jeff or Mark want to jump in, please do. But I think as we think about 2023, we still lean toward a maintenance level-type program, stay in the course and, again, stay dedicated to our financial objectives that we have. But again, as we start to look at 2024 and beyond and you start to see core exhaustion limits in inventory and the quality of the inventory potentially for peers in the basin, we think that really tees up the

Copyright © 2001-2022 FactSet CallStreet, LLC

opportunity for a different outlook in the event that we want to [audio gap] (40:44-40:59) consider some kind of low growth profile.

Again, we're a ways from that. We like our maintenance level-type program for 2023 where we feel like we're poised and ready with our long runway of inventory and our ability and history to execute in the basin. With over 1,200 producing wells, we feel like we really understand Appalachia well and we're set up on the first cut of the fairway to be able to step in and actually add some additional production when the basin economics and also fundamentals call for it.

Doug Leggate
Analyst, BofA Securities, Inc.

Q

Great stuff, guys. Thanks for the long answer. Appreciate it. Thank you.

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

A

Thanks, Doug.

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

A

Thank you.

Operator: Thank you. One moment for our next question. And that will come from the line of Jake Roberts with Tudor, Pickering, Holt. Please, go ahead.

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

Q

Good morning, guys.

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

A

Good morning.

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

Q

Just curious if we could dig into Q4 a little bit, some of the moving pieces there. I know you guys are messaging high end of the full year guide. Just curious what's going on there for the similar turn-in-line quarter-over-quarter for a bit less money. And then also as part of that, is the current rig running going to be with you for the reminder of the year into 2023 and is that part of what's been secured for 2023?

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

A

Yeah. Good morning, Jake, I'll – this is Dennis. I mean, as we look at our activity cadence for Q4, we have the one frac crew and the one drilling rig that's operating. If you look back on Q3, we had two frac crews that were operating. The second one was really focused on our Northeast PA activity that we touched on just a few minutes ago. And, of course, then a second rig was being released early on in Q3, kind of late Q2-type timeframe. So as you think about capital as we go from Q3 into Q4 and kind of our cost distribution, it's about 70-30 when you start

Copyright © 2001-2022 FactSet CallStreet, LLC

to look at the cost and the capital that we spend with a frac crew versus on the completion side versus the drilling rig side.

So as we kind of finish out Q4, the lower pace of activity, those two frac crews – sorry, the frac crew and the drilling rig will then go into 2023 for us, and there will be the frac crew for all of 2023 along with that drilling rig. We typically front end-load our programs, so it would be also reasonable to expect us to see an increase in drilling activity in Q1 to then properly shape our program for 2023. But the turn-in-lines that you'll see in Q4 will mirror the activity that is a byproduct of those 1,000 frac stages that we pumped in Q3. It'll be certainly a little bit less but certainly be a byproduct of that as well.

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

Q

Okay, great. Thank you.

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

A

Thank you.

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

Q

And then on 2024, I can see roughly 30% hedged. And I know you guys have spoken all this debt comes out of the system, you don't need to have such a strong hedge profile as you perhaps once did. Is 30% a good range to be thinking about in that timeframe once that does hit those target levels or should we expect some incremental adds there as we progress through 2023?

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

A

Morning, Jake, it's Mark. I'll start off responding to that question. So I think that's a good starting place as we look a year or two out. Really, our fundamental strategy and the purpose of hedging hasn't changed over the years; it's really a risk management exercise. Years ago, given the state of maturity of the business capturing the inventory drilling to hold drilling, to prove up the inventory, a higher hedge percentage was required to protect the balance sheet, protect cash flow, protect the capital program necessary to capture this inventory.

Today, given dramatically reduced debt balance, extremely low leverage – the lowest in the company's history – we are looking conceptually to essentially cover a good portion of the fixed costs in the business to help mitigate downside risk while still participating in a strong market, a market that has rerated and continues to rerate both in terms of natural gas and natural gas liquids. So as you look ahead to 2024, that roughly 30% hedged on the natural gas side. That equates to about 25% of revenue. That's a good level to cover the vast majority of fixed costs. But there may be some minor fluctuations above that. If you can generate extremely strong rates of return far beyond any other industrial sector, we might consider a bit more as well. But fundamentally, it's a risk management exercise designed to cover the fixed costs.

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

Q

Appreciate the time, guys.

Copyright © 2001-2022 FactSet CallStreet, LLC

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

Thank you.

Operator: Thank you. One moment for our next question. That will come from the line of Noel Parks with Tuohy Brothers Investment Research.

Noel Parks
Analyst, Tuohy Brothers Investment Research
Q

Hi, good morning.

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

Good morning.

Noel Parks
Analyst, Tuohy Brothers Investment Research
Q

I was wondering – thinking about the infrastructure situation, I was wondering we, of course, know the federal opposition to pipeline growth has been pretty long standing now. I was wondering if there are any signs of reduced state or local opposition to pipelines? Or even if you could even see any signs of less opposition to LNG infrastructure going forward?

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

Yeah. Look, this is Jeff. I would just say within the state, the good news is the natural gas industry polls well. So you can see in the elections, whether it's this current one, mid-term or last one, the candidates that are running on either side, both support and talk about the natural gas industry because it polls well with the citizens. The trade unions in the state are supportive of the industry. And the industry generates a lot of revenue for the state, whether it's taxes, jobs, all the things like that.

There's constructive things there. In terms of LNG, I think there's a meeting actually later this week in Philadelphia and the states has a group of legislators who are looking to get together to talk about LNG and the opportunities in the southeast part of the state for LNG export. Clearly, it would be advantaged given all the need for energy in Europe, it's closer – transportation to Europe would make a lot of sense, it would create a lot of jobs. And certainly, there's plenty of brownfield sites in that area. So I think all in all it's positive.

Noel Parks
Analyst, Tuohy Brothers Investment Research
Q

I was wondering if anything as far as the adjacent states that aren't producers, I'm just thinking with – what we might see with energy costs in New England and the Northeast this winter, whether there might be some reading of the writing on the wall as far as the need for more infrastructure?

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

Copyright © 2001-2022 FactSet CallStreet, LLC

Yeah. I mean, you've heard – not that I'm following it, but you hear in the New York gubernatorial race, the Republican candidate said that if he gets elected, that's one of the things that he's going to do is promote natural gas industry for New York. And – and the pipeline, clearly, it would be a plus New England's getting LNG imported was from Russia, Algeria different places at a significantly higher price. I think earlier this year, if I remember exactly – don't quote me, but I think in January and February, they paid about $30 per 1,000 cubic feet or per MMBtu, whereas you could have bought it from Pennsylvania to Marcellus for a significantly lesser price. So that would be the common sense solution.

And then importantly, too, from an environmental perspective, not only is at lower cost, but from an environmental perspective, the Appalachian Basin has the lowest emissions of any basin really on the globe. And within Appalachia, Range is basically the head of the class. So it's more cost effective, environmentally, it's better. Clearly, it's more environmentally effective to move that by pipeline than it is to move it by ship from Asia to Northeast US, when the US has such an abundant resource in natural gas. So it is the answer. But short-term and long-term answer, I think, for the country.

And take that one step further, even in terms of manufacturing now, it's – the US is going to have a tremendous advantage from a feedstock point of view or an energy cost point of view, when you look at the price of natural gas in the US versus Europe or Asia. It literally trades for plus or minus 70% less in the US – 75% less than it is in Europe or Asia. So that's an advantage from a manufacturing point of view as well as from a consumer point of view.

Noel Parks
Analyst, Tuohy Brothers Investment Research

Q

Right. Thanks. And I did want to take a minute to think about longer term, more optimistic scenario for gas. And thinking about with your current level of reactivity, could you just refresh my memory, what Range's peak Appalachian rig count has been in the past? And I guess I'm thinking about a scenario in which maybe a multi-basin player decided to divest out of Appalachia. With your current overhead how much bigger an activity slate do you envision you could support?

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

A

Well, it's great question. It's a bit of an apples-and-oranges question. If you go back to peak number of rigs that we ran, in the past when we were delineating drilling this developing might have been 10 to 12 rigs or maybe a tick higher. But back in that time, the lateral lengths of those wells were extremely small. So, Range discovered the play, kicked it off, the early laterals were plus or minus 3,000 feet where today our average well is 11, 12, and the longest are 18 to 19. So, a lot's changed, and the team has got better and more efficient year after year after year from a variety of things, not just longer laterals, and I won't go into all those.

But I think we have a great team operation. I think we know the state well. We know the marketing. We know how to move natural gas and NGLs in the basin. So there may be opportunities with time to do more. The good news is we have a great inventory, and we're in good shape. So we don't need to do anything. We can continue to execute the plan. But to the extent there's something that makes sense for us to do, we'll be open to it. And ultimately, if there's capacity and it's the right time to grow, we'd also consider that. We have the inventory to do that.

Noel Parks
Analyst, Tuohy Brothers Investment Research

Q

Copyright © 2001-2022 FactSet CallStreet, LLC

Great. Thanks a lot.

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

A

Thank you.

Operator: We're now nearing the end of today's conference. We will go to Umang Choudhary with Goldman Sachs for our final questions.

Umang Choudhary
Analyst, Goldman Sachs & Co. LLC

Q

Hi, good morning and thank you team. Appreciate all the color. My question is on NGLs. I wanted to get your thoughts around the near-term outlook for NGL, specifically on propane and ethane, especially given the current chemical demand weakness we are seeing. Wanted to get your thoughts around when – what are you seeing which can get you more optimistic around the demand side of the equation? And how are you thinking about hedging the NGLs molecule?

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

A

Yeah. Good morning. This is Dennis. I'm going to kind of open up here and then pitch over to Alan to provide some additional color. But – as you look back on Q3 and where we've been from a pricing perspective, we had some unique things clearly take place. You look at ongoing lockdowns from a COVID perspective, certainly providing an impact to really petrochemical facilities and their run rates. And so reduction of what we've seen over the past quarter has been certainly unique. When you look at what's going on from an increase in naphtha inventories also that's been going on in abroad. That's also been impactful to Range's pricing given that we've got some of our contracts that have an exposure to European naphtha. It's been a diverse portion of our portfolio, but something that also has created a lot of benefit to us over time.

As you look kind of in the go-forward part, really, we kind of see Q3 as being the low point from a guide perspective, and we see opportunity for that to further improve, thus in the updated guide that we've provided. When you look at days of disposition, you've touched on propane as an example, we continue to remain at very low levels, below the five-year average. We don't really see that changing as you get into 2023.

When you look at exports, they've continued to also remain incredibly strong over the course of time. And certainly, you've got to think that there's going to be a point where COVID lockdowns are going to improve in some of the foreign countries that clearly we're all reading about these days and seeing those impacts. And I think we're seeing early on signs of that.

Of course, last thing, winter is ahead, right? And so we know that demand is going to look differently for a significant portion of the NGL barrel as we start to get into our winter demand season as well. When you look into 2023, the last thing we see further optimism around is when you just think about the realized price that we could capture associated with strip pricing and getting that much closer to a Mont Belvieu outlook. And so from that, a lot of optimism for us, and I'm going to turn it over to Alan, let him add some additional color.

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

A

Copyright © 2001-2022 FactSet CallStreet, LLC

Actually, I'll just jump in on the hedging side. Umang, your question is a good one around the hedging of NGLs. First, that NGL derivative market is somewhat more limited. Historically, we use kind of a three- to six-month rolling forward type of window that we will layer on hedges. That said, we're constructive for all the reasons that Dennis just laid out. So we've been somewhat more limited on the hedges.

But as you step back and look at where our delivery points are and how our NGL business is constructed, Range is running a global book of business here. We deliver NGLs, ethane and other NGL components of the barrel down to the Gulf Coast to Canada and export out of Marcus Hook. We export ethane, propane, butane to a variety of different price points. We have the ability in the underlying contracts linked to natural gas prices and/or propane – international propane indices or other commodity indices as prudent for our own book of business and for our customers.

So through the diversity of our delivery points and the pricing points, combined with some modest hedging we manage that risk. But all the fundamental reasons Dennis laid out, we're constructive about the NGL market, ethane, propane and the other components going forward.

Umang Choudhary
Analyst, Goldman Sachs & Co. LLC

Q

Great. That's great color. Thank you so much for taking my questions.

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

A

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 & Director, Range Resources Corp.

I just want to thank everybody for taking the time to join us on this morning's call, and feel free to follow up with any additional questions that you may have. Thank you.

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

Copyright © 2001-2022 FactSet CallStreet, LLC

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.