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Range Resources Corp. (RRC)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Range Resources Third Quarter 2021 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. Statements made during this conference call that are not historical facts are forward-looking statements. Such statements are subject to risks and uncertainties which could cause actual results to differ materially from those in the forward looking statements. After the speaker's 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 posted on our website. We'll be referencing certain slides on the call this morning. You will also find our 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

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supplemental tables on our website to assist in the calculation of EBITDAX, cash margins and other non-GAAP measures.

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

Jeffrey L. Ventura

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

Thank you, Laith, and thanks, everyone, for joining us on this morning's call. Range continued to make steady progress in the third quarter 2021 towards our key objectives, improving margins through cost controls and competitive marketing strategies, generating free cash flow and organically reducing debt and leverage, operating safely and efficiently and, ultimately, positioning the company to return capital to shareholders in the near future as the most efficient natural gas and NGL producer in Appalachia. I'll touch briefly on these before turning it over to Dennis and Mark to cover in more detail.

Starting with margins. Margins improved by nearly $1 versus the prior year quarter driven by higher pricing and unit costs that were in line with expectations. Strong liquids pricing and an improved natural gas differential drove Range's pre-hedged realized price for the quarter to $4.37 per Mcfe, which was $0.36 above the NYMEX Henry Hub price of $4.01. This premium to Henry Hub is a major differentiator for Range and is a result of our liquids optionality and diversified marketing portfolio.

Through consistent and efficient operations, coupled with strong prices, Range generated healthy free cash flow in the third quarter, and this is expected to expand materially over the coming quarters at current strip pricing.

In the third quarter, Range produced $277 million (sic) [$276 million] in cash flow and with capital spending coming in at just $96 million, Range generated strong free cash flow that again reduced debt outstanding. Mark will provide more detail shortly, but the expansion of Range's free cash flow over the coming quarters and years is significant.

At strip pricing, free cash flow in 2022 is in excess of $1 billion. And with recent improvements to pricing in 2023 and beyond, we see a high degree of repeatability in a large free cash flow profile despite heavy backwardation in natural gas and NGLs futures curve. As a result, Range expects to rapidly approach the leverage targets that we have set in recent years, including a balance sheet that is below one times levered at the end of 2022.

After many years of supply exceeding demand, supply for natural gas and NGLs has stabilized over the last 18 months, while demand continues to grow, both domestically and internationally. This has driven storage levels for most commodities from near all-time highs just one year ago to near multiyear seasonal lows today.

Continued discipline from producers is prudent. And to that end, Range remains committed to a maintenance level program. Our key strategic objectives continue to emphasize free cash flow generation and balance sheet strength and ultimately returning capital to shareholders, all of those currently taking priority over growth.

While the market could require some incremental production from top-tier Appalachian operators at some point in the future, this would only occur at Range after we've achieved higher priority objectives. But looking at supply-demand fundamentals and at the shape of the futures curve for natural gas and NGLs, we do not believe the market is incentivizing Appalachian producers to grow in the near term.

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Looking longer term, what too often gets overlooked by the market is the repeatability of drilling programs over longer time horizons. As we have discussed at length in recent years, the cores of major US shale plays are known and limited and the core inventory is not evenly distributed across operators.

Given that Range was the first mover in Appalachia, we were able to secure a large contiguous acreage position, approximately 1.5 million acres in the core of the Appalachian Basin. This provides Range with an unmatched core inventory life that's measured in decades.

As other operators exhaust core inventories over the coming years, Range stands to benefit. And as peer capital efficiency start to roll over, the average breakeven price should begin to rise, while Range would still be executing the same consistent development program.

This is all to say, we're excited about where Range is today and equally excited about what the future holds. I believe that the development of US shale is one of the most substantial innovations of the last century. It has created millions of direct and indirect jobs across multiple parts of our country and provided reliable, clean and very affordable energy.

The increased use of natural gas has substantially improved US emissions over the past decade and saved consumers money in the process. In addition, natural gas and natural gas liquids provide a critical feedstock for many products, helping to supply the US manufacturing industry.

With continued investment in pipeline infrastructure and export facilities, the US has the opportunity to make a positive impact on the world's future energy needs through increased LNG and LPG exports.

LPG is not only used as a feedstock for manufacturing internationally, but also supplying LPG to developing nations provides them with cleaner fuels, which helps to improve their quality of life, lower emissions and reduce deforestation as roughly half the world's population is living in energy poverty and cooking with wood, coal and biomass.

Natural gas and natural gas liquids will continue to play a critical role as the world moves towards cleaner, more efficient fuels. We believe that producers who can most efficiently deliver these products to end markets from a cost and emissions perspective will be the most successful. And we believe Range is well positioned within that framework.

We remain committed to achieving our absolute emission reduction targets and our 2025 goal of net zero and our emissions profile is near best-in-class amongst producers globally. So Range has both class leading inventory and one of the best environmental track records in the upstream industry, which positions us well for success in the coming years and decades.

Before turning it over to Dennis and Mark, I'll just reiterate that Range remains committed to disciplined capital spending. Over time, we believe Range will stand out amongst peers as a result of our low sustaining capital, competitive cost structure, liquids optionality, and importantly our multi-decade core inventory life, which is an increasingly competitive advantage as other operators exhaust their inventories. We will continue to focus on safe, efficient and environmentally sound operations, prudent capital allocation and generating sustainable returns to shareholders.

Over to you, Dennis.

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Dennis L. Degner

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

Thanks, Jeff. Third quarter all-in capital came in at $96 million, with drilling and completion spending totaling approximately $92 million. Capital spending for the first three quarters of the year totaled $322 million or approximately 76% of our original annual plan.

During our prior calls covering the first and second quarter results, we touched on the operational and capital efficiencies that drive these results. And once again today, we plan to expand on these during our operations update, further showing their repeatable and durable nature.

Looking forward, our activity cadence in the fourth quarter will reduce as planned with one horizontal drilling rig and one frac crew operating through year-end. We expect our projected activity, coupled with secured service pricing and repeatable operational efficiencies will place us approximately $10 million below our original all-in budget of $425 million, even as we start to observe cost pressures for areas such as steel, labor and logistics in the broader market.

Production for the third quarter closed out at 2.14 Bcf equivalent per day, representing a 1.5% increase over the second quarter production and a 3% increase from the beginning of the year. We anticipate a similar production increase in the fourth quarter, resulting in a midpoint production guide for the year of 2.125 Bcfe per day, an approximate 1% change to our previous guidance.

Adjustments to our 2021 production are the result of year-to-date unplanned upsets, mainly comprised of third-party gathering and transportation outages, temporary impacts from force majeure events resulting from heat, storms and power-related downtime, along with elevated line pressure experienced in a portion of our dry gas operating area. Despite these factors and their impacts to production, we've remained disciplined and committed to our activity and capital spending plans, and we remain on track to deliver our operational plans under budget for the fourth consecutive year.

Activity for the third quarter resulted in 12 wells being turned to sales with over 80% of the new wells coming online in the second half of the quarter. Approximately 75% of the lateral footage turned to sales during the quarter was in our dry gas acreage position with the remaining turn-in-line footage located in our super-rich area. Our operational program for the rest of the year will result in adding production from another seven wells in the fourth quarter, which are spread across our liquids-rich footprint.

Moving to our operational highlights. The drilling team continued to operate two dual-fuel drilling rigs during the quarter, which resulted in 16 wells drilled located throughout our dry, wet and super-rich acreage with an average horizontal length of 10,600 feet. The team achieved a 16% increase in lateral footage drilled per day versus the second quarter, placing the average horizontal link so far in 2021 at over 11,000 feet with nine laterals successfully drilled greater than 17,000 feet.

We've touched on this before, but Range's high-quality contiguous acreage position, results in a program advantage as we return to pads with existing infrastructure, capturing incremental efficiency gains that have allowed our team to drill our longest laterals and capture our highest efficiencies while drilling in the lateral section, all while maintaining drilling costs well below $200 per lateral foot year-to-date.

Like the drilling team, operational efficiencies are an ongoing focus for the completions team. With strong efficiencies by all crews, resulting in an average of 7.7 frac stages per day in the third quarter, a 23% increase over the same time last year.

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As mentioned on prior calls, we have been utilizing a contracted electric-powered fracturing fleet since late 2019. Our blocky acreage position allows for the efficient use of clean burning natural gas directly from our field production to power this equipment. In addition to the operational efficiencies captured this year with the electric fracturing fleet, this equipment has been the major contributor in substituting over 3.7 million gallons of diesel fuel for Range operations year-to-date, further reducing our cost structure by $6.8 million while supporting our emission goals.

The water operations team at Range continues to outperform targets when it comes to cost savings and efficiency gains with third quarter results continuing this theme. Utilization of third-party produced water in Q3 more than doubled in comparison to that of the previous quarter.

To put this into perspective, in addition to Range's own produced water, the team was able to utilize nearly 1.7 million barrels of third-party produced water for our completion operations. This equates to over $4 million in savings for the third quarter alone and helped to exceed our internal water cost savings goal for the year of $10 million.

In addition to the savings attributed to third-party produced water, Range's water logistics team has now had two full quarters operating with a digital logistics platform, especially tailored to our operations.

The logistics platform, along with our water hauling partnerships allows for real-time monitoring of Range's water demands, storage volumes, and movements throughout the field. Not only did this logistics technology aid in achieving the aforementioned savings, it also captured meaningful lease operating expense and capital dollars, while rooting out inefficiencies in the field.

Although the use of this software is still in its infancy, we're encouraged by the early time results and expect a positive impact from the integrated optimization that it will provide to the Range water logistics and functional teams. It is these type of drill, complete, and water operations results shared today that drive our ability to come in below our capital guidance for the fourth consecutive year.

Now, shifting over to liquids marketing. The third quarter benefited from price increases across the board for gas, NGLs, and condensate. Preliminary reports of third quarter NGL fundamentals show a 5% tighter domestic balance quarter-on-quarter and 21% tighter year-over-year. And domestic demand for LPG was estimated 7% higher versus last year, while third quarter LPG exports were up 13%.

As a result, LPG prices ended the quarter at the highest level in over seven years, but the market price for a Range equivalent Mont Belvieu barrel increasing by approximately $7.50 per barrel to over $33 per barrel during the quarter. At the end of Q3, propane was trading at 80% of crude on strong domestic fundamentals, which are poised to tighten further as we head into the winter. Range's LPG exports delivered significant incremental value in the third quarter versus Northeast domestic prices. And the flexibility of our transportation and sales portfolio puts Range in a strong position to serve a tight domestic market this coming winter.

Our NGL portfolio of contracts drove an $0.83 per barrel premium to Mont Belvieu for the quarter, and Range's absolute pre-hedge NGL price increased by $6.14 per barrel quarter-on-quarter. For reference, each dollar per barrel increase in our NGL barrel price represents approximately $30 million in incremental cash flow for the year.

As we enter the winter months, we see continued strengthening NGL price realizations supporting our updated 2021 NGL guidance range of $1 to $2 per barrel premium relative to the Mont Belvieu index.

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For our natural gas marketing efforts, positive pricing movement discussed on the prior call further materialized with Q3 NYMEX averaging over $4 per MMBtu. Steady supply, coupled with LNG exports above 10 Bcf per day has resulted in natural gas production, net of exports, well below 2018 levels. And gas storage levels below the five-year average. This undersupplied market, which we have discussed for some time, is now starting to improve prices further out the curve.

For the third quarter, Range reported a Q3 natural gas differential of $0.35 under NYMEX, including basis hedging. As a result of year-to-date performance and tighter regional basis into the upcoming winter, Range has improved its expected natural gas differential for 2021 to $0.28 below NYMEX, which implies a fourth quarter differential of approximately $0.24 below NYMEX.

As we look forward to 2022, despite the recent improvements in strip pricing for oil, natural gas and natural gas liquids, we remain committed to maintaining production at current levels with a focus on harvesting cash flow, reducing debt and further strengthening our balance sheet.

As everyone is aware, making a decision to add incremental production involves an estimated 9 to 12 months cycle time from spud to first sales. This assumes availability within existing gathering, processing and transportation systems with additional time required if infrastructure expansions are needed.

When further considering that a well only recovers approximately 15% of the EUR during the first 12 months, the remaining 85% receives a price that is much different than near-term months. But setting price in the static model aside, we fundamentally don't believe the market is indicating that Appalachian producers need to grow in the near-term. As an outsized increase in activity by large producers which changed the market balance for an extended duration, much like we all experienced over the past few years.

Thinking longer term, we believe that inventory exhaustion across multiple basins could require a producer like Range to add activity to keep the market balanced. But we're just not yet in that type of market and you can expect a maintenance type program from Range for next year generating significant free cash flow in 2022.

Before closing out today's updates, I'd like to briefly touch on our operational, environmental and sustainability efforts. In the days ahead, we will be publishing an updated corporate sustainability report. There will be several areas of progress to note in the report ranging from our air monitoring efforts to safety.

But for today, I'll leave you with just a few of the highlights. First, we continue to make meaningful progress towards our emissions reduction targets. And since 2017, we've achieved a 69% reduction in greenhouse gas emissions intensity along with an 86% reduction in methane emissions intensity.

In addition to this, our reported equipment leak emissions were reduced by more than 66% since 2019 as a result of an increased frequency of leak detection inspections or commonly referred to as LDAR surveys. On top of the emissions reduction from these reports, they have also improved the efficiency and safety of our production facilities.

Lastly, as discussed, we continue to be a leader in water recycling with Range recycling 148% of our produced water and flow back volume last year through our water sharing program. This program has reduced supply needs from regional freshwater sources and has resulted in more than $30 million of cost savings over the past three years.

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We look forward to publishing the upcoming CSR and discussing the report with many of you in the coming months. As we enter the home stretch of 2021, our third quarter and year-to-date results continue to demonstrate the repeatable and durable nature of our program, further supporting our operational, environmental and financial objectives.

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

Mark S. Scucchi

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

Thanks, Dennis. During the third quarter, Range continued to be intently focused on delivering against stated objectives. Cash flow from operations of $276 million before working capital compared to $96 million in capital spending, resulting in free cash flow of approximately $180 million.

Significant improvements in free cash flow compared to past periods were driven by a 129% improvement in pre-hedge realized prices per unit of production versus the prior year period with realized price per unit reaching $4.37 in the third quarter. This realized unit price is $0.36 above NYMEX Henry Hub, driven by a 109% increase in NGL price per barrel, which reached $34.05 before hedges.

Realized NGL price on an Mcfe basis equates to $5.68. As Henry Hub natural gas prices rose, Range's diversified portfolio of transportation capacity and customer contracts also maintained basis differentials such that the total per unit price received by Range is a premium to Henry Hub.

Hedging results for the industry have understandably been a focus item for investors to assess near-term opportunity costs, while also looking to future strategy and retained participation in improved prices. Near-term, our strategy of reducing risk through an active hedge program remains.

For 2022, we seek to generate very competitive returns on capital employed, generate free cash flow directed to absolute debt reduction and to be balanced in our risk management so as to not hedge away improved fundamentals.

NGLs are hedged typically on a rolling three to six-month basis, meaning exposure to higher NGL prices is retained with improving average hedge price by quarter. For perspective, Range's production mix is approximately 30% liquids, both NGLs and condensate. Range's quarterly revenue from liquids over the last year has averaged between 40% to 48%.

As a result, the carefully considered cadence and structuring of natural gas hedges seeks to provide predictability of cash flow to reduce debt. Likewise, the NGL hedging program seeks to manage volatility, but on a shorter-term basis, such that when aggregated, cash flow risk and reduced leverage are more predictable, while at the same time, a meaningful percentage of total revenue continues to participate in global structural changes in supply and demand.

As a result, Range's hedge book compares very favorably to the industry, allowing Range to capture improved pricing, growing cash flow per share while also accelerating deleveraging, particularly in the next several quarters and ultimately, cash returns to shareholders. Cash margins per unit of production expanded by nearly $1 during the third quarter. Lease operating expenses remain near all-time lows at $0.10 per unit on the back of continued efficient Marcellus operations.

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Recurring cash G&A expense was approximately $31 million or $0.16 per unit, roughly in line with the preceding quarter and third quarter last year. Cash interest expense was roughly $54 million, slightly lower than the preceding quarter and with reduced debt balances should decline meaningfully in the coming quarters.

As we have frequently commented, Range's gas processing cost is linked to NGL prices, such that gathering process and transportation expense increased during the quarter and resulted in significantly higher NGL margins. As an example, an increase in revenue of $1 per NGL barrel equates to approximately $0.01 per Mcfe in cost. This structure is unique to Range in the Appalachian Basin, reducing costs at times of lower prices and driving material margin expansion with rising prices.

For reference, when comparing to 2020, NGL prices have increased by approximately $17 per barrel, increasing pre-hedge revenue by approximately $600 million and pre-hedge cash flow by $500 million year-on-year demonstrating the significant margin expansion from rising NGL prices.

Additionally, rising commodity prices have improved the value of contingent property divestiture receivables, such that the first installment is expected to be maximized with Range receiving $25 million to $30 million, with the balance of the aggregate $75 million potential payout becoming more likely based on current prices.

Turning to the balance sheet. Third quarter cash flow reduced debt by $91 million. And in October, we expect cash flow will more than fully repay the bank credit facility bringing year-to-date debt reduction to an estimated $165 million with significant incremental net debt reduction expected in the fourth quarter.

Forecasted cash flows at strip pricing are expected to exceed debt maturities in coming years and are backstopped by ample liquidity. There has been substantial improvement in the debt markets and it's evident in the trading levels of Range's bonds that both the access to and cost of capital has improved.

Future debt retirement is expected to be funded primarily by organic free cash flow. We will be cost conscious in effectively managing debt retirement, while also being mindful of the costs and benefits of potential refinancing activity.

Managing debt maturities over the last two years has, as expected, temporarily increased interest expense. However, this avoided much higher cost forms of capital that allowed Range to retain per share exposure to growing free cash flow in a substantially improved natural gas and natural gas liquids environment.

Further improving the balance sheet remains a principal objective. At current commodity prices, forecasts indicate leverage debt to EBITDAX in the low 2 times area at year-end 2021 and in the mid-1 times area achievable in early 2022. Tangible shareholder value accretion is first being driven by using free cash flow to reduce absolute debt.

As target leverage levels are achieved, potentially as early as the first half of next year, the discussion of Range's return of capital framework becomes a logical next step in a balanced macro environment.

The third quarter and year-to-date results are demonstrating the value generation ability of Range's portfolio and business. It is a byproduct of hard work by a cohesive team focused on enhancing per share exposure to what we believe is 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.

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Jeffrey L. Ventura

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

Operator, we'll be happy to answer questions.

QUESTION AND ANSWER SECTION

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

Josh Silverstein

Analyst, Wolfe Research LLC

Q

Hey, good morning, guys. You talked a little bit before about the ability to shift some capital around. Can you talk about what you're thinking for this environment right now? Obviously, we're in a high gas price environment, but also high NGL price environment, how much flexibility do you have within the program right now? Obviously, waiting to see what [ph] winter remains to (00:30:27), but how much flexibility do you guys have to shift capital around?

Dennis L. Degner

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

A

Yeah. Good morning, Josh. This is Dennis. We maintain a, what I'd say is, a reasonable level of flexibility in the program. And part of that is because of the consistent track record we've had with moving back into pad sites with existing production that certainly allows us the ability to move into, whether it's the liquids side of our portfolio or move over to the dry gas assets and have further development.

So we think, as a planning exercise, we always leave a fair bit of optionality in the program, so that allows us to react appropriately. But I'll also say this, we certainly make it a goal to put together what we think is our best plan for an upcoming program year.

When you look through the slide deck, the economics are incredibly competitive across all three areas of the field that we have designated. So it allows us not only to have that flexibility, but also to capitalize on, let's just say, movements in the liquids market, which you certainly heard Alan touch on in the past.

So we leave a fair bit of flexibility. We like how it shapes up for our program. And again, moving back into those pads with existing production really allows us that flexibility.

Josh Silverstein

Analyst, Wolfe Research LLC

Q

Great. And then how much incremental capacity does Range have to continue supporting liquids growth given the infrastructure and then the firm transport and the export capacity that you guys have? How much further can that really get to? And then locally next year, there's Shell's ethylene cracker coming in and just wanted to see if you have any direct sales into that?

Dennis L. Degner

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

A

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Sure, Josh. I'll start, and then I'll kick over to Alan. But as we think high level, we really see that there's an option for additional not only gathering, but also processing capacity. We'll just say kind of right there in our backyard associated with our producing assets. A part of that, we feel, is going to come with other core exhaustion and quality of inventory starting to expire for maybe some of the regional producers.

We feel like we're poised with two-thirds of our inventory being in that liquids-rich portion of our assets really sets us up nicely to be able to take advantage of producing into that space. From a, let's just say, NGL export optionality standpoint, I'll turn it over to Alan. But before I do, we have always left the optionality for us to both put barrels on not only pipe, but also on rail, depending upon where we can get our molecules to most premium markets.

So in some cases, that very well could be getting it to a Shell cracker type facility. In some cases, it's clearly getting it on a waterborne export, whereas if you look at this year, about 80% of our propane and butane is actually getting over to a ship and heading to a foreign price point. So with that, I'm going to turn it over to Alan.

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

A

Josh, this is Alan. So on the ethane, in particular, as Dennis was saying, we do have a lot of flexibility. We're fortunate in the standpoint that we've got a really unique position with production out of Houston, out of Majorsville and out of Harmon Creek, and we can get into all four ethane takeaway pipelines. So given all that and the flexibility we have within our program, we're in a pretty unique position where we can take advantage of ethane opportunities, and we optimize around that flexibility on almost a daily basis. And I think that shows up in our relative premium to the market index on ethane.

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

A

And I would just add in, given our long core inventory, and there's a slide in there on slide 15, we can do that for a long, long time as others exhaust theirs.

Josh Silverstein
Analyst, Wolfe Research LLC

Q

Great. Thanks, guys.

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

A

Thanks, Josh.

Operator: Our next question is from Doug Leggate of Bank of America.

Doug Leggate
Analyst, BofA Securities, Inc.

Q

Hey, guys. Good morning. I hope you can all hear me okay.

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

A

Yeah, good morning.

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Doug Leggate
Analyst, BofA Securities, Inc.
Q

Jeff, I want to hit on the maintenance program. And the thing that really jumps out to us when we think about your investment case relative to your peers, is the depth of the inventory. So when you talk about multiple decades of inventory, you're obviously talking at a sustaining level. Is that how we should think about your base business model is the primary objective of holding flat, not just for one year, but for multiple years? So that's kind of my first question.

My second question is, what are the implications there for on the underlying decline rate and the sustaining capital that goes along with that because presumably, both of those decline over time if you stick to that maintenance level? I'll leave it there. Thanks.

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

Yeah, I would just – yeah, we think that is a differentiator, again, on slide 15, having the longest core inventory. And also important is we have the lowest base decline rate of anybody in the basin, so which leads to best maintenance capital. But yeah, clearly, we're going to be at maintenance for next year. And when we have been - we have a little bit of flexibility to be at maintenance long term or to the extent the market indications, whatever be there, the back end of the curve comes up.

It's not so backwardated that. We would have the option to increase that low-single-digit growth if we wanted to. So we can keep it maintenance and generate significant free cash flow for a long, long time. And again, we have great operations team that has class leading cost to drill and complete. And so I think we're in a good shape under either program, but clearly, we're going to be looking at maintenance for next year, for sure.

Doug Leggate
Analyst, BofA Securities, Inc.
Q

So to be clear, the CapEx guide dropped a little bit this year, and you addressed that in your prepared remarks regarding the activity in the fourth quarter. But I'm really focused on the $425 million, you talk about all-in capital, I think your decline rate is high-teens currently. If you stick to that program, where do those two numbers trend, I guess, is my question? I do actually have a follow-up, if I may.

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

Yeah. The decline rate with time in a maintenance program should shallow. So the 19% would become even lower. In terms of capital, Dennis, you want to hit a little bit on the capital program and looking forward into next year?

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

You bet. Doug, I know you've probably seen it, but I'll reference slide number 8 in our slide deck. It's a good example of shifting from, we'll call it the spreadsheet exercise of capital required under current cost type scenarios to then shifting over to what does it look like when you start to move into real life development. So that gets you from the $350 million to closer to the $425 million, which is what we've been communicating throughout the year.

We expect to see some inflationary effects. I mean we're seeing them now. We're seeing them in areas like labor, steel and some other materials. The positive is, is that the team just continues to find creative ways to look for

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additional efficiency gains. We tried to touch on some of those in the prepared remarks today. Both from water savings to the drilling team really hitting a home run and adding additional footage drilled in the lateral by 16% versus just the prior quarter. So those all turned into real dollars for us that we can turn back at the end of the year.

When you look at them on a quarter-by-quarter basis, they may be smaller. But by the time you do get to the end of the year, it's allowing us to communicate that capital reduction for this year.

As we look forward, I think a reasonable bandwidth is $425 million to something that's higher depending upon what we harvest through this inflationary effect. We're in the throes of our bid process right now that we go through every fall. So difficult to communicate what we're anticipating to see for a maintenance capital guide today. We'll provide more color and clarity on that in our next call in February.

But know that wherever we land through that, when you look over the past four years, we're now in our fourth year in a row coming in under our capital guide, delivering on our plans and leading our peer group from a capital efficiency standpoint, and we don't tend to give up that position.

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

A

Doug, this is Mark. I'd like to add on there.

Doug Leggate
Analyst, BofA Securities, Inc.

Q

[ph] Thank you for answers (00:39:03). Go ahead Mark.

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

A

As we think about what the valuation implications are of your question, what we're talking about when we or any investors looking at Range in a simple maintenance mode is you're evaluating the company and doing a valuation in a bond like or an annuity-like fashion, such that you're building what is, I might argue a floor to the valuation. So by doing that, we may not get all of the value baked into that type of model for the contractual declines in GP&T costs. There is certainly, inflation considerations in this market, as Dennis pointed out, but there's also optionality you get in the rising commodity prices and a free option on the industry's finite inventory that may, at some point, lead to market share growth for Range or at some point when the market dictates the growth.

So using the maintenance capital case, a maintenance mode, there is some efficiency and a declining base decline. But in essence, when I step back and look at how that frames and does it capture the entire valuation of Range's, multi-decade inventory. I think it provides a good reference at a floor level at which point you're still getting optionality on price and duration of Range's inventory that's kind of not comparable to peers.

Doug Leggate
Analyst, BofA Securities, Inc.

Q

And as you know, Mark, that's exactly how we think about your valuation, I've taken up enough time. So, thanks so much, guys.

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

A

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Thanks, Doug.

Operator: Our next question is from Michael Scialla with Stifel.

Michael Scialla
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Hey, good morning, guys. Maybe just I wanted to get some further thoughts on hedging, Mark, you talked about protecting some of the cash flow without hedging away the upside. You did add some 22 hedges. It looks like you got about 60% of your gas production hedged for next year now. Are you comfortable with that level as gas prices continue to rise here or plan to add more? And maybe thoughts on hedging further out into 2023.

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

Yeah. It's a fair question. And I think stepping back, just to talk a little bit further about what the objective is. I think our objective for the end goal is highlighted on the slide deck on slide 14. When we look at that slide and the iterations over the course of this year, early this year, we were talking about strip pricing and hopes of being substantially below three times levered at the end of 2021.

Quarter or two ago, we said we thought we'd be at mid-times two. Well, now strip pricing, along with our incremental hedges, we're talking low two times and fast forward into 2023 strip pricing, including our hedges, you're potentially sub-one times levered. So, our objective has always been, again, to generate that value, take that enterprise value and shift it over to the equityholder and just reduce risk.

By reducing the absolute debt level, you create additional flexibility in the hedging program, such that the historical trend of hedging between 70% to 80% may or may not will represent the best plan going forward. You would certainly have the choice of reducing some of that hedge profile to participate directly in commodity prices.

Again, we studied the markets, we studied the supply-demand fundamentals and what that indicates for realized prices. But our objective here reduce absolute debt that, as I mentioned in the opening remarks, also positions Range at the point at which we achieve our target leverage levels to announce a framework for returns of capital.

So, getting back to your very specific question on what is our target percentage hedge for 2022, 2023? I don't think we're going to give a specific number. I think with these strip prices generating and getting us to our target levels, it would make sense to continue to move slowly to continue to use structures like collars that continue to retain upside exposure.

I'd point out that the additional positions that were added, particularly for 2022 were well above $4. So, it's our goal to hang on to that upside not hedge it away. As for 2023, again, you reduced absolute debt, you have greater optionality. We'll continue to study fundamentals, but it's about returning value to shareholders.

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

And I would just add in about 45% of our revenue comes from NGLs, if you remember that, in the NGLs are very likely hedged and we're very constructive what NGL pricing is and will be.

Michael Scialla
Analyst, Stifel, Nicolaus & Co., Inc.
Q

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Very good. Dennis, you talked about some of the delays and weather issues that impacted production and your fourth quarter guide, I just want to see if you can provide any additional detail there? And do you expect any of those issues, do you have any kind of lingering impacts on next year?

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

A

Yeah, we really don't, Michael. And I think the way we would phrase this is very seasonal short-term in nature. And some of that same – if you look back over the balance of the summer, we saw some of our warmer than normal average temperatures in Appalachia. And that no doubt resulted into some effects from time to time on run time for equipment, which we saw translate itself through our production. We also had some storms come through the area, and those also created some impact. So we expect this to be more short lived and be back to business as usual here in the quarters ahead.

Michael Scialla
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you guys.

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

A

Thank you, Michael.

Operator: Our next question is from David Deckelbaum of Cowen.

David Adam Deckelbaum
Analyst, Cowen and Company, LLC

Q

Thanks for taking my questions today guys.

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

A

Sure.

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

A

Thank you.

David Adam Deckelbaum
Analyst, Cowen and Company, LLC

Q

I just have two. Just one, given the increases in pricing, and your view that you're going to be potentially sub one times levered at strip pricing next year. And the emphasis on having this long inventory life, has that changed how you think about potential core, non-core asset dispositions? Should we generally think that there isn't necessarily an endeavor to bring forth NAV value by selling other packages at this point?

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

A

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Yeah. This is Mark. I'll start with that. At this stage, we are very happy with the inventory and the infrastructure and the business and the contracts that are overlaid on top of that. There's optionality across the play. There's good infrastructure, and we are left with a high-quality inventory. So that is a very good thing. I think that's a distinguishing hallmark that allows a bit more predictability and more confident modeling and the valuation of the company.

So at this point, the motivations behind selling inventory, do you need capital? Can you harvest some additional value incrementally and pull that forward model? I don't think that's a significant driver and value for Range. So at the time being, I'd say, any divestiture initiative would not be a priority.

David Adam Deckelbaum
Analyst, Cowen and Company, LLC

Q

I appreciate that. And then my follow-up would just be just around pricing. And I think, Jeff, you alluded to some optionality in the future to maybe grow single digits when the market warrants. As we think about going into next year, you're obviously focused on maintenance mode free cash generation. In the event that we get into winter and then targeting first quarter of next year, there is hyper volatility in pricing or price spikes. Is it fair to assume that there really isn't much that Range would do to respond to near-term price actions such as field level, choke management solutions, things like that?

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

A

Yeah. I think, yeah, we've been pretty clear in the – for next year, we're going [audio gap] (00:46:55) maintenance. And it's important, we've talked about it a few times. We think core exhaustion or inventory – core inventory isn't evenly distributed. It's one like Mark said, one of the distinguishing features of Range and we can do that for a long time and very long time, very predictable that creates a lot of value. To the extent, you see core exhaustion from other people, and we can fill that long, long-term. We've got a chance to maybe capture a little bit of market share. But again, we're – that's a longer-term thing. We're focused on – we're excited about next year's plan, generating well in excess of $1 billion of free cash flow, driving leverage down to below one-times.

David Adam Deckelbaum
Analyst, Cowen and Company, LLC

Q

Certainly.

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

A

Yeah. David, this is Dennis. And one thing I'll just kind of retouch on is, we look at it also, as when will we see production arrive when we do have the discussion around growth. And clearly, as you start to plan and consider your options, it is about a 9 to 12 month on average cycle time type decision by the time you get permits, your wells identified, you've got room in the gathering system.

And then you turn that into executable, we'll just say, molecules that will turn the sales meter. The first 15% of that EUR is going to get captured in the first 12 months.

But after that, when you look at the backwardation in the curve, it's something we have to really take into consideration, and if that's the exposure that we want to put forward in the program at this time. So it's multi-pronged as we evaluate this for sure.

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David Adam Deckelbaum
Analyst, Cowen and Company, LLC Q

Thanks for the clarity there. Thank you, guys.

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

Thank you.

Operator: Our next question comes from Neil Mehta of Goldman Sachs.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC Q

Thanks guys and good morning. I want you to take some time to walk through how you're thinking about the NGL price outlook on a more structural medium-term basis? Do the bullish drivers that have led us to this price point here, sustain themselves? And walk us through the individual products, particularly propane and ethane and how you're seeing the balances.

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

Yeah. Good morning, Neil, I'll start here, and then I'll hand over to Alan. But I think as we look forward there's, a lot of reasons to be optimistic about NGL pricing. And Alan will dive into a few of the deeper – clearly, the deeper details.

But part of it is when you look at where supply and demand have really been over the balance of the last few years, with operators administering capital discipline over the balance of the last year, year and a half. Clearly, that's taken some supply and supply growth out of the conversation, especially as you start to think about the contribution of associated gas NGL type contributions as well.

All throughout that, exports have really remained strong and with the arb remaining open. So with our optionality that, we touched on a little bit earlier for us to either keep molecules on the NGL side either domestically through pipe and rail or get them on a waterborne export. It's continued to create a balance that we've been able to take advantage of.

And then, I think lastly, when you look at the incremental demand that continues to get commissioned, whether it's infrastructure or really just also, as Jeff touched on in his prepared marks, it's really getting this energy source to other countries that really need it.

And so I'm going to hand that over to Alan, but we remain really optimistic looking forward about ongoing NGL prices.

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

Thanks, Dennis. Hey Neil, this is Alan. I'll touch on ethane and propane and just give you a little bit of flavor what demand looks like and what potential upside still is. So on ethane, right now, ethane going into making ethylene is by far the most competitive feedstock that you can use. So from that standpoint, there's a fair amount of margin, actually, a lot of margin that's still available for ethane going into ethylene.

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We've got just through the end of this year in the US, two new facilities that are coming on that are going to add roughly 175,000 barrels per day of new demand. So that's Bayport polyolefins and then the joint venture between ExxonMobil and SABIC that's coming on. We get into next year, you've got roughly 75,000 barrels per day of new export demand that's expected to come on as the Orbit terminal ramps up in supplying satellite petrochemical second cracker in China. And then between Shell, Nova, and DowDuPont, you've got maybe another 175,000 barrels per day of new ethane demand.

The margin right now for an integrated producer of polyethylene in the US is about $1.70 per gallon. So, again, that just gives you an idea of how much more upside there is for ethane.

Flipping over to propane. Propane is already out of the steam cracker – ethylene steam cracker feedstock portfolio. It's been out of the portfolio globally since about July. So, that demand has disappeared, but there's still a lot of demand from the PDH standpoint from ethylene crackers that have to crack propane and butane as well as from the res comm standpoint.

And if we look just simply at residential commercial, let's say in the US, propane can compete a little bit with heating oil. Heating oil is at $2.34 per gallon as of, I think, closed the business Monday. So, with propane at about $1.40, that leaves over $0.80, $0.90 of upside there.

If we look at LNG let's say whether it's in Europe or in Asia, let's use Asia, for an example, LNG is $32 per MMBtu. FEI or Asian propane is at around $850 per ton. That translates to $18.50 per MMBtu. So, that leaves upside of $13.50 per MMBtu start for all the numbers. But if you convert that, that gets you to $1.23 per gallon of upside on the propane price.

So, given the combination of new demand that's coming on, plus margin that's still available relative to competing materials, we're still really bullish that there's a lot of upside in these products.

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

A

Neil, this is Mark. Just to add on one maybe summary comment, if I could. With that level of detail, sometimes it's challenging to market – to grasp and to model the NGL component of producers revenue stream. So, for reference, in the appendix, there's a buildup of Mont Belvieu pricing by stream, it gives the barrel weighting and so forth.

At current strip pricing for the fourth quarter, you get to a Mont Belvieu estimated price of $41.50 per barrel. That equates to roughly $6.50 per Mcfe. So, again, perspective on Range's uplift, positive pricing above Henry Hub and the outstanding margin expansion range is experiencing driving free cash flow.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

That's great. Those are really big numbers in those terrific perspective. If I can drill down into micro here. Next year, it looks like you guys are going to be in a position to talk about capital returns. Obviously, the big part of the story this year has been about deleveraging next year. You'll have an opportunity to evaluate whether it's dividends or buybacks most likely.

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You've seen some of your peers implement a variable dividend model. Do you have any initial reactions to that? Do you think that makes sense in your business model as well? And have you gotten any investor feedback on that thus far?

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

A

Yes. We certainly listen and discuss all of these types of matters in the business with our investors, trying to understand what is most valued and desirable from them. There's obviously different impacts on different portfolios depending on their personal tax jurisdictions and so forth, so taking a step back for Range.

As you point out, with our leverage heading into target zones. It would be a logical next step for us to announce perhaps next year, what that framework might look like. I think the programs that the industry has spoken of, in general terms, makes sense. I mean this is a commodity and capital-intensive business, there is cyclicality to it.

So a modest base dividend makes sense, a variable component makes sense. I think the variable component from a mathematical perspective ought to have flexibility. Again, commodity prices move around, the capital investment can move around, some framework around it should give comfort to investors. But that said, it's also a mathematical exercise of whether it should be share repurchases or incremental dividend and what is most valued by investors.

But I would also add that we view it as we have been returning capital to investors for quite some time with absolute debt reduction of $1.3 billion as of today, basically since the peak in late 2018 with the repurchase of 10 million shares. This has been a commitment of the strategy of the business for some time. So there may be further iterations as we announced a framework in coming quarters, whatever the time may be. But suffice it to say, that has been our focus to-date.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

Thanks, team.

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

A

Thank you.

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

A

Thank you.

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

A

Thank you.

Operator: We are nearing the end of today's conference. We will go to Arun Jayaram of JPMorgan Chase for our final question.

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Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Yes. Good morning. The first question is for Dennis. I was just trying to think about your 2021 – or 2022 program. Dennis, any sense of how much footage that Range is executing this year with the 60 wellbores versus I think you did 67 last year. So trying to get a sense of footage this year versus last year and what this could mean for 2022, assuming a maintenance-type program?

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

A

Yes, good morning Arun. I think it's fair to – from an assumption standpoint, our average lateral length that we target from a planning perspective is around 10,000 feet. So as you think about translating that back from a well count perspective, there's always going to be a little variability there. You've no doubt seen our numbers continue to increase on a lateral footage basis, but it should be really similar when you think about how much will both drill, complete and turn in line for 2022 on a maintenance type level program.

And it's one of the reasons why we've talked about similar capital levels given the current cost assumptions minus any inflationary effects. So similar capital efficiency and really should be a similar program all the way.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Fair enough. And then just my follow-up, you touched on some of the inflationary pressures the industry as a whole is kind of seeing. Dennis, have you yet begun the tendering process. I know that that Range is focused on some of the more ESG-friendly frac and drilling equipment. So just wondering if you could give us a sense of how those leading-edge conversations are for your frac and drilling needs for 2022?

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

A

Well, it's certainly – yes, we are in the throes of that process and difficult to share the results today because we're still in the process of harvesting those and evaluating the numbers. So too early to share what those details will look like at this time. But what we are seeing is that service providers that historically wanted to align with Range that we have good partnerships with. They want to continue to do so because of our efficiency models, which we know that helps keep let's just say, their side of the ledger in the right direction, it also keeps our costs low because we capture those costs through efficiency gains and other measures. So we're optimistic about what we're going to capture, but we are seeing some inflationary effects come our way.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Great. Thanks a lot.

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

A

Thank you.

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

A

Thank you.

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

Jeffrey L. Ventura

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

We just appreciate everybody taking time to listen to our call and ask questions this morning. Please feel free to follow-up with our team afterwards. Thank you.

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

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