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Range Resources Corp. (RRC)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Range Resources' Fourth 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.

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

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

Hopefully, you've had a chance to review the press release and updated investor presentation that we've posted on our website. We may reference certain of those slides on the call this morning. You will also find our 10-K on Range's website under the Investors tab or you can access it using the SEC's EDGAR system.

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

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

Jeffrey L. Ventura

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

Thanks, Laith and thanks everyone for joining us on this morning's call. While 12-month natural gas prices have no doubt wavered over the past couple of months, Range's operations have remained consistent. We've made steady progress on key objectives and our business is more resilient today than at any point in the company's history.

In 2022, Range successfully managed a great opportunity the natural gas markets presented us with. We delivered our operational plans safely and with peer-leading efficiencies. We generated record free cash flow, materially strengthened our financial position and returned significant capital to shareholders.

At the end of the year, we had reduced debt by over $1 billion, marking our fifth consecutive year of debt reduction, repurchased $400 million in shares and established an annualized dividend of $0.32 per share. We captured much of the upside presented to us in 2022 with a deliberate fit-for-purpose hedging program. Ultimately, every natural gas E&P company would have preferred to have been unhedged last year as the natural gas market moved higher. But when looking back at our results, Range's hedge program retained more of the upside on a per Mcf basis than any of our natural gas peers.

Looking forward into 2023 and 2024, the natural gas market is in a different place, but our hedge program is once again positioned for success. Our hedging activity is not aimed at picking tops and bottoms, but our program is aimed at supporting durable free cash flow through the cycles while retaining exposure to improving longer-term natural gas and NGL fundamentals.

Looking at our 2022 results and projections for the next two years, I believe we have struck that balance quite well. Our business generates free cash flow down to very low prices, and for 2023, we believe Range has among the best annual breakevens in the industry, well below $2 per Mcf.

The resilience that our business has in a lower price environment like we find ourselves in today is a positive differentiator for Range. Having hedges in place to cover our fixed cost and capital commitments is part of it, but the business model over the long run is really underpinned by Range's sustaining capital requirements. Our relatively low capital requirements are the result of Range's class-leading drilling and completion costs, coupled with our shallow-based decline and large, blocky core inventory.

All together, these result in a peer-leading all-in maintenance that is approximately $0.76 per Mcfe. This provides Range a solid foundation for consistently generating significant free cash flow and returns to shareholders.

Further bolstering Range's durability is our liquids production. NGLs and condensate are approximately 30% of Range's production. Through the cycles, our liquids revenue has provided an uplift to natural gas prices and using today's strip pricing for 2023, that uplift is meaningful.

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For context, Range's NGL pricing would currently be priced around $26 per barrel using strip prices for 2023. That is the equivalent to a 40% or $1.30 per Mcf premium to current Henry Hub strip pricing for 2023. When we roll all of that together, our low maintenance capital, our leading hedge program and our liquids optionality, you get the lowest breakeven amongst natural gas producers and the most durable free cash flow in 2023.

As we show in our slides, Range is still generating several hundred million dollars in free cash flow at $2.50 natural gas prices. Importantly, our leading efficiencies and low breakevens are sustainable because of Range's large blocky acreage position that provides us decades of core inventory. A portion of the value of this massive inventory can be found in our year-end reserves. The after-tax PV-10 of our reserves using $4 NYMEX, which is approximately where the 10-year strip is, equates to over $40 per share, net of debt, over 50% higher than Range's current share price.

For added context, our reserve report includes our proved developed wells and only 367 undeveloped locations out of approximately 3,000 undrilled core locations we have in the Marcellus. Simply put, we do not believe this significant resource value is currently reflected in today's market, presenting Range the opportunity to create meaningful long-term per share value for equity holders through our buyback program, which has $1.1 billion of availability remaining.

As a reminder, we set a target in the spring of 2021 to reduce debt by more than $2 billion by the end of 2023. Today, we are 90% of the way towards that target. It's been a successful repositioning of our balance sheet within a short period of time and clears the path for meaningful returns of capital to shareholders in the years ahead.

Before turning it over to Mark and Dennis, I'll reiterate what I've said on the last many calls. 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 be the affordable, reliable and abundant supply that help power our everyday lives, while also helping billions of others improve their standard of living.

We believe Appalachian natural gas and natural gas liquids are positioned to meet that future demand. And within Appalachia, Range will be among those leading the way on capital efficiency, emissions intensity and transparency, which are all core to generating sustainable long-term value for shareholders.

Range has derisked a massive inventory of high-quality wells in the Marcellus, measured in decades, and translated that into a business capable of generating free cash flow through the cycles. With the resilient business plan for 2023 and 2024 and favorable long-term fundamentals for natural gas and natural gas liquids, Range is well-positioned to generate healthy returns on and returns of capital to shareholders.

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

Dennis L. Degner

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

Thanks Jeff. I'll start with capital. All-in CapEx for the year totaled $492 million. Included in our fourth quarter activity were nine additional top holes as we were able to secure drilling equipment in December in advance of our 2023 program. This added $11 million to our original capital plans.

Production for the fourth quarter averaged 2.2 Bcf equivalent per day, resulting in an annual average daily production just above 2.12 Bcf equivalent per day for the year. This was achieved despite a cumulative production loss of 2.7 Bcf equivalent and a few well turn-in lines being moved into January during the cold weather Appalachia experienced in late December.

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As we look forward into 2023, our all-in capital spending is expected to be between $570 million and $615 million, with this year's activity weighted more towards our liquids-rich acreage versus last year. Approximately two-thirds of the lateral footage turn to sales this year will be in the wet and super-rich acreage positions with the remainder in Range's dry gas footprint, including three wells in Northeast PA. This plan delivers a similar production level as last year at 2.12 to 2.16 Bcf equivalent per day, while adding lateral footage to our expected inventory at year-end.

The incremental inventory being added is underpinned by the drilling team's successes in late 2022. And so far in 2023, they are off to an incredible start, setting daily footage records that I will touch on in just a moment.

As a result, our 2023 capital plan includes approximately $30 million associated with this lateral inventory, providing us with increased optionality as we think about our 2024 and 2025 operational plans. Approximately, 95% of this year's capital is slated to be allocated towards drilling and completions-related activity, with the remaining balance directed towards leasing and support functions.

Similar to prior years, the 2023 program is front-end loaded with three horizontal rigs tapering off by year-end, while completions will continuously utilize a single electric frac crew, with a second crew performing planned spot work. 68 horizontal wells are expected to be drilled with 61 wells turning to sales during the year.

Our average horizontal lengths for wells completed and turned to sales during the year will be approximately 11,000 feet per well with more than half of the wells developed on pads with existing production, similar to prior years. Our production is expected to be back-half weighted in 2023, similar to last year, which fits nicely with the current shape of the natural gas forward curve.

A review of our 2022 operational highlights begins with drilling. In the fourth quarter, we drilled 13 top holes and five horizontals with an average drilled horizontal length for the quarter of approximately 14,700 feet.

As part of these results, we also added four new wells to our top 15 long lateral list, with each of the four laterals drilled in excess of 18,300 feet. This success continued into 2023, where the team has set a new Range record by drilling in excess of 7,300 feet in a single day and then beat that record again at 7,900 feet in a single day and the days that followed. These results so far this year represent a 20% increase versus the prior record, showing the team's continued efforts to improve efficiencies after drilling over 1,200 wells.

Continuing with the flexibility afforded by our large, contiguous acreage position and the practice of returning to existing pads, 75% of top holes drilled in the fourth quarter were on pads with existing production. In addition to the efficiency gains by returning to pads, 90% of the wells drilled in Southwest PA in 2022 were drilled with dual fuel rigs which successfully displaced more than 480,000 gallons of diesel fuel. The fuel savings equated to nearly $2 million while improving emissions from our operations.

As a result of our fourth quarter long lateral development, drilling costs were approximately $230 per lateral foot, which was a 15% improvement versus the prior quarter. On the completion side, we reached 8.8 frac stages per day in the fourth quarter and completed over 3,100 total fracs for the year.

Looking back on 2022, completion efficiencies continued to improve while setting several new records. The first new record involved averaging 9 frac stages per day for a given quarter. Second, a new benchmark of 15 frac stages completed in a 24-hour period. And third, averaging 8.2 frac stages per day for the full year.

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One area driving these efficiency improvements is our return trips to existing pads and the data-driven decisions enhancing each consecutive completion job. For example, operations returning to pads has seen the average frac stages per day increase by 33% versus the first wave of development. Applying data from prior completions, coupled with our use of strategic logistical planning and utilizing existing surface equipment, has supported our recent records and continued leadership amongst peers on well cost and overall capital efficiency.

Water recycling efforts for Range's water operations and logistics teams resulted in saving $2.8 million for the fourth quarter with our full year savings reaching a total of $12.9 million. Looking back on the past three years, the average savings per year is $12.4 million. And looking back even further to 2018, the five-year average is $11.8 million in savings per year. Once again demonstrating the repeatable components that underpin Range's operations.

In addition to our standard production procedures, new technology is playing a role in our base production management. This past year, Range pilot tested the use of Artificial Intelligence in our production operations. Working in conjunction with our AI technology provider, an algorithm was created to monitor well production and make automated changes to perimeters within our flow logic that enhance production and reduce downtime.

The trial was completed last year, and based upon the results, the project will be expanded this year with the potential to add approximately 1 Bcf of gross production for the year. This production addition may appear small versus our total production, but it is this type of project that demonstrates our team's continued focus on production optimization and the use of technology to further support our low base decline and improved returns.

In addition to our operational highlights, Range saw similar advancements for our safety performance in 2022 through collaborative efforts with our Range employees and contractors, a 50% reduction in our OSHA incident rate was achieved versus last year, while reaching a program record low for days away or restricted duty, and making it our best safety performance in our program history.

Shifting over to marketing. Range's pre-hedge NGL price for Q4 was $27.17 per barrel, which was approximately $0.75 per barrel below the Mont Belvieu equivalent, showing the differential improvement mentioned on our prior earnings call. In November, Shell Chemicals announced that operations had begun at its Pennsylvania project. The facility includes an ethylene steam cracker that will consume an estimated 100,000 barrels per day of ethane when it ramps to full production, representing a significant increase to in-basin ethane demand.

As we've stated previously, Range's NGL logistics and marketing program is designed to provide flexibility across seasons, markets, and phases of the business cycle. I'm pleased to report that the Range team made uninterrupted deliveries to our customers with improved NGL pricing versus the prior quarter.

Looking ahead, Range is poised to benefit from improving NGL export economics in the first half of 2023 as China's reopening proceeds, ocean freight rates stabilize, and exports via the Marcus Hook terminal continue to command a price premium versus the Mont Belvieu index.

Looking at this year, Range's NGL differential guide for 2023 is between $1 below and $1 premium relative to a Mont Belvieu equivalent barrel. For natural gas, Range reported a better-than-expected differential of $0.29 below NYMEX for full year 2022, which beat the low end of our guidance.

As seen in our fourth quarter numbers and over the past several years, Range's natural gas marketing process and active basis hedging program helped mitigate some of the swings experienced in the daily markets. Similar to

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our guidance at the start of last year, Range is setting 2023 natural gas differential guidance at $0.35 to $0.45 below NYMEX.

As we wrap-up our operations and marketing update, I'd like to congratulate our team for their accomplishments discussed today and their dedication to our continued improvements. Thanks for your hard work and commitment to delivering on our safe, efficient operations. We look forward to the exciting things we'll achieve in the year ahead.

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

Mark S. Scucchi

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

Thanks Dennis. On the earnings call a year ago, we spoke of a transformational year. We defined target debt levels and discussed the priority of debt reduction alongside our return of capital program.

So, in 2022, how did the actions and results compare to our stated objectives? I believe the results speak for themselves, that we met or exceeded stated objectives. It was a record year for Range Resources in nearly every respect.

Safe, efficient operations led to planned production levels. Our on-plan production levels sold through a diverse portfolio of sales point, yielded strong realized prices. A constant focus on costs helped translate strong pricing into record cash flow and net income. That cash flow was strategically deployed to reduce debt, repurchase common stock and to reinitiate a cash dividend.

In summary, we executed on the plan communicated a year ago, exceeded goals and enhanced the resilience of the company so the business can thrive throughout commodity price cycles, generating strong returns and free cash flow.

Let's start with a discussion of the balance sheet. During 2022, Range reduced debt by approximately $1.1 billion. This brings total debt reduction since 2018 to approximately $2.3 billion. Debt reduction, combined with the timely refinancing in January of last year, reduces current annualized interest expense by approximately $35 million, with additional savings expected as debt is further reduced.

Leverage debt-to-EBITDAX, stood at 0.8 times at year-end, the lowest in company history. Equity holders gain value from debt reduction, as well as through return of capital programs including our share repurchases and cash dividends. In 2022, Range repurchased $400 million in common equity. Since initiating the share repurchase program, Range has repurchased $430 million in stock, reducing share count by 24 million shares or nearly 10%.

Additionally, a sustainable dividend was reinitiated midyear at an annualized rate of $0.32 per share, returning an additional $39 million to shareholders during the second half of the year. In total, capital returned to stakeholders in 2022 alone was more than $1.5 billion, equating to roughly one-quarter of current market cap. With $1.1 billion remaining under the existing share repurchase program, we have ample capacity to prudently reinvest free cash flow in shares of the business.

As a reminder, our priority remains further improving the balance sheet to within our stated target range of $1 billion to $1.5 billion net debt, which we have the potential to reach in coming months based on recent strip pricing. As debt declines, we have incremental latitude to deploy free cash flow, as evidenced by our actions in 2022.

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Driving balance sheet improvement and shareholder returns with the tireless operating team focused on safety and efficiency. The team delivered planned production at a competitive all-in capital cost of $0.64 per unit of production. When measuring capital efficiency and a maintenance profile, dividing capital expenditures by total production offers good perspective on relative performance, both in terms of cost and production profile. Not all capital dollars invested are equal.

With perhaps the lowest decline rate of comparable companies, Range's capital efficiency stands out in terms of cost per Mcfe, as well as the required reinvestment rate of cash flow to maintain production. At $0.64 per Mcfe or less than 30% of cash flow reinvested its maintenance capital in 2022, Range was at/or near best in the industry. We expect the same to be true in 2023.

Fourth quarter operating results achieved cash flow of $513 million compared to $112 million in capital spending resulting in free cash flow of approximately $400 million. Significant improvements in fourth quarter free cash flow were driven by a combination of lower expenses, and a 5% improvement in hedged realized prices per unit of production versus the prior year period, with realized price per unit reaching $4.33 per Mcfe in the fourth quarter.

Fourth quarter cash margins per unit of production were $2.49, an increase of $0.39 or 18% compared to fourth quarter last year. Lease operating expenses remain in the historic range and in line with guidance at $0.11 per unit. Recurring cash G&A expense was approximately $32 million or $0.15 per unit, roughly in line with preceding quarters despite inflation.

Cash interest expense declined to less than $36 million. With the redemption of 2023 notes in December, totaling $528 million, combined with debt reduction and refinancing earlier in 2022, annualized net interest expense run rate is estimated at $35 million lower than last year. Further significant interest savings should follow as we retire additional debt.

As we discuss each quarter, Range's gas processing cost is linked to NGL prices, such that gathering, processing and transportation expense decreased during the fourth quarter, serving as a right-way risk relationship between costs and pricing. Also reducing costs in Q4 were lower fuel and electricity costs and some cost savings from winter weather downtime.

Additionally, rising commodity prices have improved the value of our contingent derivative assets, such that the 2022 installment was maximized at $24.5 million, leaving an additional $21 million as a potential remaining balance for 2023. Taxes have become a relevant topic with company profitability.

In 2022, Range's total cash taxes are state level for a total of roughly $15 million for the year. At year-end 2022, Range had federal NOL carryforwards totaling $2 billion. These NOLs will serve to reduce taxable income in coming years, subject to utilization limitations. For some added understanding, the first layer of federal NOLs totaling $375 million can be used to reduce up to 100% of taxable income.

The remaining $1.7 billion of federal NOLs can be used to reduce up to 80% of a given year's taxable income. At current strip pricing and Range's expected profitability, we believe we will benefit from the full utilization of these NOL carryforwards in coming years.

Turning from 2022 accomplishments to where the company is headed in 2023. Given the strong foundation provided by high-quality assets, paired with low financial leverage, we expect Range's strategic focus will remain consistent going forward. Generate free cash flow, reduce debt, prudently return capital and reinvest in the

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business, this plan is reinforced with a thoughtfully constructed hedge book with that in principle is the same risk management process we have always used.

We seek to thoughtfully retain participation in improved long-term market pricing while increasing confidence in near-term forecasted cash flow, all-in support of consistent and efficient operations, preserving the balance sheet and thereby preserving optionality around returns of capital. We believe Range's results demonstrate a thoughtful approach to hedging has served the company well and will continue to do so in the future.

Presently, Range has approximately 55% of 2023 natural gas hedged with an average floor price of $3.57 and in 2024, approximately 35% hedged with an average floor price of $3.75, which is at or near the head of the class among natural gas producers.

Range's business plan continues to be executed on what we believe is the largest high-quality asset in Appalachia, paired with a transport and sales portfolio delivering production across the US and internationally, all underpinned by a strong financial foundation. We have the team, assets, and balance sheet to succeed through price cycles, and we believe the Range business can and will continue to deliver significant value to investors.

Jeff, back to you.

Jeffrey L. Ventura
Chief Executive Officer, President & 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] The first question comes from the line of Jacob Roberts of TPH & Company. Your line is now open.

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.

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

A

Good morning.

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

Q

Just looking at the Q4 results, I noticed the liquids percent is a tiny bit higher than the 30% and it scaled throughout the year. And then comparing that to the turn-in line plan you've laid out for 2023, I'm just curious if

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you could provide some guardrails around that 30% either through the year or as we might see it progress over the quarters?

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

A

You bet. Good morning, Jacob. This is Dennis. When you look at a given quarter's results, there's some things that could move that percentage factor around, as we kind of take a step back and put some color around it. And one could be variations in ethane extraction, just given what's taking place at the market at that particular time.

Timing of vessel loadings, that's something we've also clearly referenced as a variable that can move some of our percentages around. But when you look at 2023 versus 2022 or even Q4, half of our activity in our turn-in lines is going to be clearly in the wet portion of our field. And when you look at it from wet to super-rich, you're going to see really variations just even between those two areas from amount of NGLs and also overall liquids production that will be generated from that activity.

As you start to look through the balance of the year though, that production profile, as we touched on in the prepared remarks, will be more back-half weighted. So, we'll see some fluctuations throughout the given quarters as we move from dry, wet through the super-rich profile of our activity program.

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

Q

Great. That's helpful. And then my follow-up, and I echo the commentary about the great work your marketing team does, results as well as the disclosures you guys give, I'm just curious if you could talk a little bit about longer term, how you guys are approaching the market, 2025-plus, as new opportunities might present themselves and any conversations that are happening now that we might think about longer term?

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

A

Yeah. This is Dennis again, Jacob. I'll dive in on this one. As we start to think about 2025 and beyond, clearly, the topic that starts to surface is really the LNG second wave expansion that will start to come into service and beyond and potential additional infrastructure. When you look at the way our program is shaped today, a couple of things we think about. One, our organization has, what we would say is from a marketing team perspective, experience in not only transacting conventional indices and markets here, the Lower 48, but also is – we've also got exposure to international indices as we currently sit with our liquids exposure, and we like that, the way that has diversified our program.

Our transport, as we've touched on before, we get – essentially 25% of our gas gets to the Gulf. The other 25% of that 50% that gets there is already transacting in the LNG space today. And we would continue to look at participating in that space further as we go forward, but it also has to compete on a returns basis, as Mark's touched on with our financial objectives. So those are two key items.

As we think about what the program will look like in the future, we want to continue to have conversations with varying – we'll just say we're going to have – continue to have diversity as a part of our transportation portfolio and our customers that we transact with, whether it's on the NGL side or it will be on the nat gas side as well.

And we think, when you look at – this all ties back to our inventory conversation. We know that the expansion of infrastructure in the future, these are multi-decade financial investment decisions for our organizations and we

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think that our inventory and our transport aligns really well with the ability to participate in this infrastructure and opportunities as they further materialize.

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

Q

Thanks so much. Appreciate the time guys.

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

A

Thank you.

Operator: Please standby for our next question. Our next question comes from the line of Umang Choudhary of Goldman Sachs. Your line is now open.

Umang Choudhary
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning, and thank you for taking my questions.

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

A

Thanks.

Umang Choudhary
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. I wanted to get your updated thoughts on the natural gas and the NGLs macro as we see today. And then I also had a follow-up on your thoughts around free cash flow allocation towards debt reduction and share repurchase, given you have line of sight towards the $1.5 billion number. So what are your thoughts around both those topics? Thank you.

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

A

You bet. Good morning Umang. I'll start with the natural gas and NGL macro and then hand over to Mark for your financial questions. But as we think about the natural gas macro, I think through this earnings season, it's been fairly apparent that you're seeing companies like – that have had maintenance level programs continue that effort this year. Range is clearly in that category as well. It's something we've talked about a lot.

But also, you're starting to hear about rig activity potentially starting to slow in other basins like the Haynesville example. We think that bodes well for the go-forward outlook for natural gas. You've got Freeport LNG now starting to see feed gas come through the facility and ships start to leave the docks. And we think that's also no doubt constructive and positive for the go-forward look.

And then we've, of course, got the next wave of LNG that will be coming online starting some time in the balance of 2024. So we think all of this aligns well as we look forward. You couple that with the demand outlook that's still going to be materializing in the background through 2023 and 2024. You're still talking about something, as you, kind of, link all this back to a day supply from a natural gas perspective that's not too dissimilar before we were at before going into this winter.

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So we think that this still could have, no doubt, a constructive outlook as we start to see activity start to modulate through the balance of the year, especially in the basins that have had a higher level of activity going forward. NGL piece, Alan touched on it a number of times in prior calls, but as you start to look at the number of exports, barrels that are leaving the docks from a propane perspective as an example in LPG, we're still seeing some record level exports occur today, which is really encouraging.

And of course, we're all watching the reopening of China take place. And we know that, that will translate into further supporting of reducing stock levels and continuing to support a back half of the year constructive outlook for further NGL price improvements. And I'll turn it over to Mark for the financial piece.

Mark S. Scucchi

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

A

Hey, good morning, Umang. I think the nature of your question is in and of itself important, that at Range this year, as we look at prices, obviously off somewhat from the last year or so, our story remains the same. We're talking about free cash flow and the same business plan that we've talked about for the last couple of years, generate free cash flow, reduce debt, return capital to shareholders, all while executing on a really efficient capital program.

Looking at full cycle cost structure, looking at our line items, unit costs remain extremely competitive. And certainly on the capital front, if you take CapEx dollar per Mcfe, it will be best in the business. So with that, we're talking about free cash flow generation and degrees of free cash flow generation.

So to your question more directly, how do we think about the allocation between debt and share repurchases? We haven't hard-coded that with a specific percentage. But what I'll say is or reiterate is, our priority is debt reduction. But we're very close to coming within our targeted net debt range of $1 billion to $1.5 billion.

We're just a couple of hundred million away from that. And free cash flow examples we have on slide 7 of the investor relations deck provides some hypothetical context around that. So free cash flow generation this year could quite easily put us within that range in the coming quarter or two, which gives us latitude on share repurchases and certainly keeps us in firm support of our dividend going forward and keeping that an integral part of the program. So we have incremental latitude as we get within that range.

In 2023, as we get within that net debt range, we've got incremental latitude on how to execute on the share repurchase program. So I would give you the example of what we did in 2022. Over the course of the year, as we pay down debt, we ratably increased share repurchases. We were responsive to prices in our overall free cash flow generation, and in principle, will be the same in 2023 and going forward.

Umang Choudhary

Analyst, Goldman Sachs & Co. LLC

Q

That's very helpful. Thank you so much, guys.

Jeffrey L. Ventura

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

A

Thank you.

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

A

Thank you.

Operator: [Operator Instructions] Our next question comes from the line of John Abbott of BofA. Your line is now open.

John H. Abbott
Analyst, BofA Securities, Inc.

Q

Good morning and I'm on for Doug Leggate.

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

A

Good morning, John.

John H. Abbott
Analyst, BofA Securities, Inc.

Q

Hey, good morning. Our first question is there were some obvious M&A chatter last week. If anything might have highlighted the misvaluation in Range's shares, what can you do at this point to further bolster recognition of the value opportunity for Range?

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

A

Well, I would argue just consistently execute, stick on the plan we are on, which is, I think, a really strong story of having best-in-class inventory, really long core inventory. We put some new data in the deck to kind of highlight that and give you more color, having the lowest cost per Mcfe added, being able to do that for a long, long time into what we think are better markets. So I think it's just consistent execution. Mark just talked about our strategy and return of capital, and prioritization of that.

John H. Abbott
Analyst, BofA Securities, Inc.

Q

Appreciate it. And then, Jeff, for the second question, you highlighted the inventory and you've had the benefits of 15,000-foot laterals. I mean, just sort of when you look at your inventory, in general, what is the opportunity on the 15,000-foot lateral plus going forward?

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

A

I mean it's the beauty of our position being a first mover, having a big blocky position, which we think is the best area of stack pays and with the really talented team that keeps finding ways to add value. So, extending laterals, landing, loading, et cetera, I think our team has demonstrated year-in and year-out that we can add value and just get a little bit better each year.

And you'll see when you look at the recoveries per thousand and things like that in there, the team – we're one of the few companies in the industry that consistently be able to replicate those results to improve when others are seeing core exhaustions. Dennis, do you want to add anything to that?

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

Yeah, I think if you look back, I'll just add one quick item. If you look back over when your question was what's the opportunity there, we see it's a long runway. A year ago, I believe at this call or at the April call, we kind of walked through an example of where the pad sites we had returned to versus the pad sites we have not yet returned to. And it was – the pads we've returned to only represented a small percentage of the overall data set.

This past year, we returned to a pad site again for the third time, and we drilled more lateral footage in that third return than we did in the prior two, showing the further continual incremental development of drilling long laterals, having some of our most efficient D&C development costs, and utilization of those roads, infrastructure, gathering system, et cetera. So, we see a long runway as we think about our inventory total and the ability to return to those pad sites and have further capital-efficient leading cost structures.

John H. Abbott
Analyst, BofA Securities, Inc.
Q

Appreciate it. Thank you for taking our questions.

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

Thank you for being on.

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

Thanks John.

Operator: Our next question comes from the line of Paul Diamond of Citi. Your line is now open.

Paul Diamond
Analyst, Citigroup Global Markets, Inc.
Q

Good morning all. Thanks for taking the call. Thank you for taking the time. Just a quick question here. So, you place our expectations through the year, obviously, still trending directionally upward. In your conversations, are you guys seeing any of those – or just in the aggregate, anything particularly starting to break? Or anything, in particular, where those concerns are softening?

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

You're specifically talking about cost and inflation? Just to clarify your question.

Paul Diamond
Analyst, Citigroup Global Markets, Inc.
Q

Yes. I'm sorry. Yes, right.

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

Go ahead, Dennis.

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

A

Thanks Paul. Yes, as we – I'll kind of take a half a step back and what we're not seeing is questions or requests to increase cost today. What we have seen is, we'll call it, a stabilization. As you start to look through the balance of this year, though, we would expect with some of the announcements of rig activity starting to maybe slow in other basins, these maintenance level programs that have been announced. We would expect that as you get deeper into the year, there would be further opportunities that will surface for us to reduce service costs and that could come in a variety of forms and fashions.

I think if you look at an example, where fuel prices are today versus maybe where they were in the back half of 2022, that could present an opportunity to shore up, let's just say, some savings for the balance of the year, along with tubular goods starting to see some relief. So, we would expect the deeper you get into the year, there would be some opportunities that would further present themselves for service cost reductions.

Paul Diamond
Analyst, Citigroup Global Markets, Inc.

Q

Understood. Thank you. And I just have one quick follow-up. Given the volatility that we're seeing in the market in natural gas pricing, is there a point directionally, either upward or downward, that would kind of have you guys revisiting your operational plan for the year or is it pretty much locked in?

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

A

This is Mark. I'll kick that one off. I think as we've each mentioned in various forms throughout our discussions so far this morning, we're talking about degrees of free cash flow. So I'll bring it back to our waterfall and capital allocation. First is reinvesting cash flow to maintain production levels that maximizes margins. We have a well utilized infrastructure system that delivers production to a diverse set of locations.

90% of our revenue roughly is outside the Appalachian Basin across gas and natural gas liquids. So we're coming into this market where prices may be softer this year, but we're still generating extremely competitive returns and able to reduce debt and return capital to shareholders.

So I think being at a maintenance level of spend again this year still is prudent reinvestment to the cash flow of the business. And as far as being adoptive to prices, we've also got a good base set of hedges that further insulate cash flow and provide us greater predictability near medium term. And then of course, we'll be responsive to any severe moves. We clearly are not going to look away from prices and the realities of realized netbacks.

But all that being said, under virtually any reasonable pricing scenario, we've got a variety of scenarios down to $2.50, for example, on page 7 of our deck. Range is generating extremely competitive levels of free cash flow. So we feel good about the program and don't expect there to be any material alteration. That said, we remain nimble and we'll adapt as need be.

Paul Diamond
Analyst, Citigroup Global Markets, Inc.

Q

Understood. Thanks for clarity guys.

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

A

Thank you.

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

A

Thank you.

Operator: Please standby for our next question. Our next question comes from the line of Neal Dingmann of Truist Securities. Your line is now open.

Neal Dingmann
Analyst, Truist Securities, Inc.

Q

Morning all. Thanks for the time. Hope you can hear me a little bit loud here. My question is on oilfield services. I'm just wondering you've seen a bit of a decline now in some of the gas areas like here. I'm just wondering, has that shown through on, maybe not rigs yet, but maybe some of the other oilfield services or is it maybe still too early to tell?

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

A

Yeah. Thanks for the question, Neal. I'd say it's a little bit early, I think, for those service cost reductions to, at this point, fully surface. But again, I kind of tried to touch on this just a little bit earlier. The good news is we're not seeing any further requests for increases at this time. We've seen, in some ways, a good strong stabilization of the service cost market. But we fully expect, as rigs fully materialize and being dropped in the months ahead, and we start to get deeper into the year, there to be further opportunities for us to evaluate service cost reduction opportunities.

And I'll throw this on, I mean, we also – service cost is always one component of our cost structure, but our efficiencies are the other. As we look at how we are attacking the program this year, we would further expect to repeat our efficiencies and continue to build upon them, further reducing that cost structure. So as you kind of dial all this back, we kind of feel like, at the end of the day, and Mark's touched on it this morning as well in his remarks. But we expect, regardless of the outcome to be at the leading edge of what that dollar per Mcfe efficiency value looks like at that $0.76 per Mcfe level.

Neal Dingmann
Analyst, Truist Securities, Inc.

Q

Great. [indiscernible] (00:47:12) point. And one follow-up, Dennis, I think you and Jeff talked about this, but on the additional inventory to inventory you see for the next year or two, is most of that – will that be the longer laterals? Or could you just make me pass a little color on the type of wells you anticipate there? It seems like they will – it seems like you're insinuating that you could see a bit bigger better margins on that pipe. I'm just wondering if that's because of the long potential laterals or is there more things to that?

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

A

Yeah. As we think about the inventory that we're adding this year, it's really to do a couple of things. One, it allows us to have some optionality as we think about 2024 and 2025. But if you really take a step back, we're really

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talking about adding somewhere between one to two pad sites of wells and wellbores. And so again, that's going to allow us to further operationally de-risk the program, not only maintain our current efficiency levels, but also to build upon them.

And as we kind of look at the drilling efficiencies and records that the team said already in 2023, by having some of those efficiencies that we're already capturing, plus completion efficiency improvements from last year, you can see some of that activity then further making it into this year's program. But again, we also like the optionality that it has for next year, and that can be capital that comes out of next year program or become still a part of the base program in 2024 and 2025.

Neal Dingmann
Analyst, Truist Securities, Inc.

Q

Thank you. [ph] Why did (00:48:40) you all spend that now?

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

A

Can you repeat that, Neal?

Neal Dingmann
Analyst, Truist Securities, Inc.

Q

I said, thanks and I appreciate and it's really good to see that you're all spending that now for next year's build.

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

A

Okay. Thank you, Neal.

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

A

Thanks, Neal.

Operator: Please standby for our next question. Our next question comes from the line of Arun Jayaram of JPMorgan. Your line is now open.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Good morning. Jeff, Mark, I wanted to get your thoughts on just potentially unlocking value. It's clear that you think the stock is undervalued based on your PV-10 update at strip. And I was wondering your thoughts on how you unlock value beyond using the buyback? And if someone came knocking on the door, what type of approach would you take in terms of evaluating some sort of bid? And just frame that relative to your views on what's an appropriate, call it, mid-cycle natural gas price?

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

A

Yeah, I'd just say you're talking about if somebody came knocking on the door. So clearly, you're probably referring to the Reuters article. And the good news there is Pioneer confirmed their position that they're not

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considering a deal, and then the good part is the position we're in. We're extremely confident in our inventory life and in our assets and our ability to deliver shareholder value.

So we're in a great position where we don't need to pursue any sort of M&A. And again, back to – we can talk about unlocking value. I think just consistently executing you're seeing again, if you look at in your work that you put out in some of your research, you see declining productivity in most basins and in most companies across the US, no matter what basin it's in. We're unique in that. We're one of the few companies that doesn't see that, that you're seeing consistent results year after year.

In fact, when you look at page 30 and our future projections of drilling, like in a wet area, EURs per 1,000, over 3 Bcf per 1,000, we're confident in those numbers. We're one of the few companies that had positive reserve revisions 15 years [indiscernible] (00:51:01) in a row. So I think just consistently executing into what we think is a better environment will add value. But Mark, do you want to comment?

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

A

Yeah. I think Arun, you asked a question about, basically, I'll rephrase it. When does the market recognize the value of Range or even more broadly, just energy? I think you've got a slow return of investor dollars into the sector. You have – the energy sector had gone down to what, roughly 2% of the S&P 500. We're getting back close to 5%-ish ZIP code.

As you look at what free cash flow yields are for energy, specifically upstream and then more specifically, Range, you're talking teens of north of – greater than 20% free cash flow yield for Range under whatever your price expectations are. Those are valuations of a company with a multi-decade inventory, with 15 years of production history to prove it and audited reserves to back that up, that it simply can't be ignored over the long haul.

Does it take a few more quarters? Does it take some stability in commodity prices to allow, perhaps, more generalists to come back in and begin to step in? Perhaps and that's fine. That is something that the consistency of the Range program, the stability of our drilling program, the diversity of our outlets, I think, allows us to prove up over time, in the interim, just simply generating significant cash flow and reinvesting in our business proves our point.

So, I think, we can continue to highlight that. We have very constructive dialogue with investors. In fact, the volume of that number of phone calls is as high as we've ever seen it. So we feel very good about the state of Investor Relations and the general trend of our shareholder base.

And I think the premium of our inventory, both the quality and the depth of that inventory, is recognized in our relative valuation to our closest peers. So we'll continue to highlight that. And I think over near and medium term, that will continue to be rewarded and better recognized in the price of the stock. So we have a great standalone plan, a great business to operate here and a lot of value yet to deliver.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Appreciate the fulsome answer. My follow-up is, I don't know if Alan is on the line, but I wanted to get some thoughts. You gave us a $15.1 billion approved reserve PV-10 value using the strip. I was wondering if you could break out maybe the PDP value embedded in that number.

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And I noted that you made some minor tweaks to your type curves. You raised your wet area type curve by about 7% and dry gas came down a little bit. [indiscernible] (00:53:40) maybe you could address some of the changes to the type curves as well?

Alan W. Farquharson
Senior VP-Reservoir Engineering & Economics, Range Resources Corp.

A

Sure. Let me address the type curve first, and I'll take it in reverse order. I think if you look at the last several years, from 2020 through 2022 well results, I think really dictate the increase in terms of the wet gas area. Well performance continues to remain strong.

We continue to drill really high-quality wells if you notice some of the wells. In 2021, we've probably some of the best wells that we've ever drilled in the play as a matter of fact. So it really suggests that there's a high quality of locations left when you look at the slide of our inventory, so I can see very low breakeven costs on a portion of our well, they would reiterate and support extremely great well performance.

So, I think, what you see is just recognition. Historically, we have never gone out and after a year, increase the type curve. We look at a little bit longer term, support data to be able to increase it. And, of course, the development plan that we have identified for the next five-plus years, we'll also support that as well.

Minor tweak down on gas, just once again, kind of looking at where the well results have been and recognizing that and looking at where the well performance of what we can expect to see going forward. So we have a much larger position in the wet gas portion than what we do to the dry. So there's a lot more of the inventory that's going to be wet, so it's going to be sustainable for a longer period of time.

On the first part of the question, I don't remember what the PDP percentage is. So we will get back with you. I'll get with Laith and the team, and we'll get back with you on that as well. I just don't recall on the top of my head.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Thanks Alan.

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

A

On slide five, kind of, is a new slide with more of that color and detail that Alan was referring to in the deck.

Operator: We are nearing the end of today's conference. We will go to David Deckelbaum of Cowen for our final question. Your line is now open.

David Adam Deckelbaum
Analyst, Cowen and Company, LLC

Q

Thank you. Can you hear me?

Operator: Yes, we can hear you.

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

A

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Yeah, we can.

David Adam Deckelbaum
Analyst, Cowen and Company, LLC

Q

Thank you. Thanks for squeezing me in. I just wanted to ask about the lateral length progression first. It sounds like 2022 was kind of like a landmark year in terms of average lateral length. Obviously, the till count goes up a bit. In 2023, as lateral line comes down, it seems like there's still some potential to increase that throughout the year. How does that look when you get beyond 2023, and the 2024 and 2025? Or should we see the program kind of conforming towards this 10,000-foot kind of standardized lateral that you have assumed in long-term costs?

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

A

Yeah, good morning, David. I would say, as we look forward, we have yet to experience the technical limit of our horizontal lateral capacity. But we also take a very methodical, data-driven approach to how we extend laterals, because I know you've heard us talk about this on prior calls, but in order to be successful, we know we need to be repeatable. And so, making big leaps is something that we're not opposed to doing, but we try to incrementally extend our lateral lengths and operationally take those learnings, so that we can do it in a very cost-effective way, we can also be very repeatable.

I think if you look back over the last couple of years, as you point out, we continue to make a progression to – as we just touched on in our prepared remarks, we drilled some of our top 15 longest laterals in the balance of the fourth quarter, and we have more wells like that planned for the 2023 program.

As we look at our, internally, our five-year plan and outlook of well inventory, where we would move rigs to gathering system, and how that would complement that activity level, there are lots of wells that we would consider to be at or beyond that 15,000-foot level. But as you move throughout the field, there will be cases where maybe you have some lease limitations that would prevent you from always drilling in excess of 15,000 feet which then creates more of an average of 10,000. We know that our long laterals create our most capital-efficient opportunity. And so, we see a really, really long runway with our inventory to be able to drill extended reach laterals, and we'll continue to do so.

David Adam Deckelbaum
Analyst, Cowen and Company, LLC

Q

Thank you. And then my second question, just Jeff, maybe to close out the call on something a little bit more exciting. Just it sounds like you confirmed that perhaps there were not conversations around M&A last week. But longer term, does the board or management believe that there is perhaps a philosophical goal of getting towards perhaps some sort of combination with an oil-weighted company to create a differentiated investment proposition as an organization? Or given your constructive view on gas macro, do you think your best path forward is the focus on core natural gas development in the US?

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

A

Yeah. To answer that, I would just say we're really in a great position. We have what we believe is the largest core inventory in the best gas field in the world, big, blocky position. We have the new disclosure on page 5 or whatever talking about the quality of the wells and the longevity. So we can – we've got the lowest decline rate. We've got the lowest cost structure into what we think is going to be a much better natural gas story long-term.

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I think natural gas is going to be a great place to be. There's a lot we think, and there's a slide in the back. LNG, we talked about the next wave – big wave in 2025. Dennis says it starts in 2024. But when you look at our slide in the back, we see that by the end of 2027, LNG exports 29 Bcf per day, and there's a slide in there and that describes them. So we've got the ability to access those markets. So we think we're in a great position where if we can just – and we will consistently execute and create value that we're in great shape. We want to just continue to do what we're doing.

David Adam Deckelbaum
Analyst, Cowen and Company, LLC

Q

Thanks Jeff.

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

A

Sure. 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.

Yeah. I just want to thank everybody for taking time to be on the call this morning, and feel free to follow up with our team if you have additional questions. Thank you.

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

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