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Range Resources Corp. (RRC)

Q2 2022 Earnings Call

CORPORATE PARTICIPANTS

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

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

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

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

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

OTHER PARTICIPANTS

Scott Hanold
Analyst, RBC Capital Markets LLC

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

Doug Leggate
Analyst, BofA Securities, Inc.

Neal Dingmann
Analyst, Truist Securities, Inc.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Range Resources Second 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 statements. After the speakers' remarks, there will be a question-and-answer period.

At this time, I'd like to turn the call over to 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 second quarter earnings call. The speakers on today's call are Jeff Ventura, Chief Executive Officer; Dennis Degner, Chief Operating Officer; and Mark Scucchi, Chief Financial Officer. Hopefully you've had a chance to review the press release and updated investor presentation that we've posted on our website. We may reference certain of those slides on the call this morning.

You'll also find our latest 10-Q on Range's website under the Investors tab, or you can access it using the SEC's EDGAR system. Please note, we'll be referencing certain non-GAAP measures on today's call. Our press release provides reconciliations of these to the most comparable GAAP figures. For additional information, we've posted supplemental tables on our website to assist in the calculation of EBITDAX, cash margins and other non-GAAP measures.

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

Jeffrey L. Ventura

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

Thanks, Laith, and thanks, everyone, for joining us on this morning's call. Before discussing the second quarter results, I wanted to spend a few minutes on the broader global energy picture and how we see Appalachia and Range within that framework. As we sit here today in the middle of a global energy crisis, we see a world that desperately needs access to ethical, safe, reliable and abundant fuel sources.

Europe's challenges are a stark reminder that evolving energy policy will need to be thoughtful, prioritizing security, affordability, availability and environmental responsibility. Within that framework, we believe Appalachia is well suited to play a key role in meeting the world's needs. And from that perspective, it's an exciting time for US natural gas producers.

Energy policy will need to be rooted in market realities. If infrastructure projects, namely pipelines and LNG terminals are not prioritized and given a reasonable regulatory review, then I believe it's simply impossible to meet the growing global demand for reliable, safe and affordable fuels. Unwarranted delays in permitting, adverse policy decisions and a global push for various renewable initiatives have resulted in underinvestment in oil and gas infrastructure over the last few years. This has stifled domestic supply growth, leading to inflated global energy costs. The current situation will not change unless there's support for the necessary infrastructure that would allow for increased supply, plain and simple.

I believe the industry, like Range, is ready, willing and able to assist in providing the much-needed growth in supply of clean-burning American natural gas to replace coal and also replace supplies of gas from less reliable hostile countries. As it relates to the broader energy transition, I don't believe it's an either/or decision between renewables and natural gas. Rather it will require an all-of-the-above approach to keep cost and inflation in check and to have energy security. Oil and gas production is inextricably linked to nearly everything in our lives; food production, medicine, transportation, shelter, manufacturing, heating and cooling, to name a few. As a result, inflated energy costs from a lack of infrastructure becomes an onerous, regressive tax on individuals and families struggling to afford food and shelter.

As we look for reliable, safe and affordable energy, we believe Appalachian natural gas and Range, in particular, are well suited to meet the call due to our current cost structure and environmental performance. We believe Appalachian natural gas is essential in meeting increased global demand in order for the US to sustainably produce enough natural gas at affordable prices. However, infrastructure approvals and investment are needed before it's possible to meaningfully increase Appalachian supply. Additional infrastructure requires permitting at the federal level and that process has been incredibly slow or impossible in recent years.

Given that our national leaders are looking for supply from other countries, they clearly understand the importance and need for more oil and natural gas globally as we try to fight inflation and provide energy security. Unfortunately, domestic supplies are being stymied by shortsighted energy policy along with permitting delays and cancellations of prior approvals. We really need to ask ourselves as a country if we'd rather have additional energy supply from other countries or would we rather source it from right here in America where we have the highest environmental and safety standards in the world, offer good paying jobs and provide significant tax revenue at the local, state and federal level.

Specific to Appalachia, we also have the lowest finding cost and emissions intensity of any oil or natural gas field in the world. As Appalachian shale production grew from virtually nothing just 15 years ago to now producing over one-third of the nation's natural gas supplies, it allowed the US to lead the world in lowering CO_2 emissions, primarily from the substitution of natural gas for coal and power generation as natural gas has a 60% lower carbon footprint than coal. The Marcellus and Utica shales in Appalachia are now the largest producing natural gas field in the world, making the US the largest natural gas producing country. This has also resulted in significantly lower natural gas prices in the US compared to Europe and Asia.

No doubt, Americans are experiencing increased energy cost, but nowhere near the levels being experienced in Europe and the rest of the world. Currently, US natural gas pricing is about 75% lower than prices abroad, making US manufacturing more competitive, helping to keep US utility bills lower than other countries, positively contributing to the US trade balance, while generating tax revenues for governments and providing energy security for our country. Despite these meaningful contributions, we believe that much more can and should be done in the years ahead to support the increased use of American natural gas, both in our country and around the world. We remain confident that we'll see many more opportunities over time for Appalachian natural gas.

So where does that leave Range today? We believe that we've positioned the company for success in whatever infrastructure scenario we find ourselves in this year, next year and for the foreseeable future. As the most capital efficient operator in the largest natural gas field in the world, we believe we sit on the low end of the global cost curve for natural gas. Importantly, Range and other Appalachian producers have advantaged emissions intensity profiles given the prolific nature of the Marcellus, robust environmental standards and a focus on operational efficiencies being applied on a daily basis. Looking longer term, we see Range as being differentiated amongst producers given our operational expertise, vast, multi-decade core inventory and our access to natural gas and NGL markets outside of Appalachia.

The financial and operational results in the most recent quarter reflect those advantages as we made steady progress on our key objectives for 2022; completing our drilling program safely, within budget and with peer-leading capital efficiency, enhancing margins through thoughtful marketing and a focus on costs, bolstering our balance sheet with further absolute debt reduction and returning capital to shareholders. Operationally, Range successfully delivered on our second quarter development plans with production coming in slightly better than expected in first half 2022 capital spending of $244 million or approximately 52% of the full-year budget, putting us on track within our full year guidance. Dennis and Mark will provide some additional details on the quarter in a minute, but the team has done an outstanding job operating safely and controlling costs.

Looking at margins, starting with pricing, thoughtful marketing and deliveries to multiple end markets resulted in strong prices for the first half of the year and have allowed us to improve our corporate natural gas differential despite meaningfully higher Henry Hub index prices. Range's natural gas liquids production also received a premium to the Mont Belvieu equivalent price, coming in at over $42 per barrel or greater than $7 per mcfe. Overall, Range received $7.18 per mcfe in the second quarter for its aggregate production. As a result, we realized the highest quarterly cash flow per share and free cash flow in company history. This free cash flow is being directed towards the absolute debt reduction and capital returns we announced in February, including a base dividend to begin later this year and a $500 million share repurchase program.

Continued strength in commodity prices has further derisked our absolute debt targets, allowing us to repurchase shares at a steep discount to what we believe is the underlying value of the business. This is particularly the case as long-term natural gas prices have rerated from sub $3 to over $4 per Mmbtu as the call for US natural gas becomes more evident globally. This rerating of long-term prices is particularly beneficial to companies like Range with multi-decade core inventory life, though we don't believe it's recognized in the current equity market which seems overly fixated on near-term trading multiples rather than the true underlying asset value. We have discussed our long-term balance sheet target of $1 billion to $1.5 billion in absolute debt. We expect we can achieve this financial objective early next year at turn strip pricing, while simultaneously funding the base dividend and share repurchases.

We believe the share buyback program continues to represent a compelling investment of our capital as we still trade at a substantial discount to the underlying value of the reserves and our resource base under what we believe are conservative mid-cycle pricing assumptions and development plans. While we run various scenarios in assessing company valuation, we can point the Range's SEC proved reserve valuation at year-end 2021 as a proxy for the value of a portion of our inventory.

At recent strip pricing, that value was well north of $60 per share, and as many of you are aware, the SEC definition of proved reserves only allows for five years of development. And beyond this five-year window, Range has thousands of additional core Marcellus wells. Beyond that, we have what many consider to be core Utica and Upper Devonian as well. Simply put, we do not believe this significant resource value is currently reflected in Range's share price, presenting us the opportunity to create meaningful, long-term per share value for equity holders through our buyback program.

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

We believe Appalachian natural gas and natural gas liquids are well positioned to meet that current and future demand. And within Appalachia, we expect Range to be a leader in emissions intensity, capital efficiency and transparency, which are all core to generating sustainable long-term value for our 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. Underpinning this business is the low sustaining capital requirement that Range enjoys, reflected in our peer-leading D&C spending per mcfe, which allows us to weather service cost inflation better than others, while also supporting healthy margins.

At the same time, Range's balance sheet is in the best shape in company history, with rapid improvements continuing in the coming months. With significantly lower absolute debt, Range will be even more resilient whenever we see the next cycle. And with favorable 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 ask Dennis to cover operations.

Dennis L. Degner

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

Thanks, Jeff. As we look back on the second quarter, all-in capital came in at $127 million, with drilling and completion spending of approximately $119 million or 94% of total capital for the quarter. Capital spending for the first half of the year totaled $244 million or approximately 52% of our annual plan.

As we mentioned on our call earlier this year, our operational cadence is front loaded, resulting in a higher number of wells turned to sales in the second half of the year. We exited the second quarter with two horizontal rigs and two frac crews, and are on track with our operational program that we outlined earlier this year. This tapered approach results in production growth in the third quarter and additional growth in the fourth quarter, putting us on firm footing to deliver on our annual capital spending and production guidance.

During the second quarter, we turned to sales 16 wells in our dry and wet acreage positions. Similar to our approach discussed on previous calls, 14 of the 16 wells turned to sales were located on pads with existing production. One set of these wells was a result of a third return trip to that given pad where we saw initial development in 2011, followed by a second phase of development in 2018 and with the third phase occurring this year.

The three new wells on this pad are producing over 1,000 barrels per day of condensate, in addition to the gas and NGL contribution we see from our wet area. This pad now has 12 producing wells, with capacity for additional well development in the future. This pad exemplifies the benefits of our large contiguous acreage position, and the durable, repeatable and capital-efficient nature of our development program for decades to come.

Second quarter production came in at 2.074 Bcf equivalent per day, slightly ahead of our communicated guidance during our prior call. Strong field run time during the quarter, which has become a cornerstone of our operations, helped to offset downtime from scheduled infrastructure maintenance and upgrade projects. Additionally, our liquids marketing team was able to work through potential turnaround impacts with our downstream petrochemical customers to maintain overall NGL product placement.

21 wells were drilled in our dry and wet acreage position during the quarter, while returning to pads with existing production on four of the six pad sites. Of the 21 wells drilled, 16 of them were in Southwest Pennsylvania, with the other five in Northeast PA. The average horizontal length for the first half of 2022 averaged over 11,000 feet, or a 5% increase compared to the prior year.

Underpinning the year-to-date average, Range drilled four wells with horizontal lengths exceeding 18,000 feet. These wells are just another example of our repeatable, capital-efficient long lateral development and places them among the longest laterals in Range's program history.

For completions, the team completed 11 wells during the second quarter. Of 11 wells completed, 4 of them had horizontal lengths exceeding 18,000 feet, but 2 of them over 19,000 feet. Overall, the team completed just under 600 stages during the quarter, while operating the majority of Q2 with a single frac crew. An additional crew was secured in the latter part of the second quarter to start completions for wells in Northeast Pennsylvania that are expected to come online later this year.

In previous calls, we've reported on the efficiency gains the team has realized along with various records being set. And today, we're pleased to report a continuation of this theme. For the second quarter, fracturing efficiencies averaged nine stages per day, which is a new company record for quarterly completion efficiencies. Along with setting a record for average stages per day in a quarter, the team also set a new standard for pad completion efficiency. This past quarter, a four-well pad in Range's dry gas acreage area completed with an overall pad efficiency of 11.3 stages per day, which is a 5% increase over the previous mark that was set just last quarter.

Similar to our message on the prior two calls, these efficiency gains are result of advancing our service equipment design and completion procedures through remote valving technology and quick connect wellhead equipment, reducing time between fracs and resulting in a more capital-efficient operation.

Along with increased efficiencies, the team continues to find areas to capture incremental cost savings each quarter. For example, fueling our contracted electric fracturing fleet with Range's clean burning natural gas, the team has been able to save capital dollars by displacing diesel fuel for various operations. And through the end of the second quarter, our overall year-to-date fuel savings are estimated to exceed $4 million. With the utilization of the electric frac fleet and dual fuel drilling equipment, we look forward to sharing updates on additional similar savings across Q3 and Q4.

As we've come to expect, water operations continue to build upon their prior successes in the second quarter, with the team moving over 10.5 million barrels of water in support of our activities during the first half of the year. As mentioned on previous calls, the team also recycles water from third-party producers to support our water recycling effort. And in the Q2, this part of our program accepted just under 1.2 million barrels of third-party recycled water, which translates to a savings of over $3 million to our operations.

These savings, combined with the totals from Q1, amount to over $6 million in savings through the first half of the year. These numbers mirror our trajectory in 2021, and as we continue through the second half of the year, we look to meet or beat last year's savings realized. The boots on the ground in the field along with our dedicated 24-hour logistics department and software tools lead the way on this effort and the continued savings to our capital program.

Lease operating expense for the second quarter finished at $0.10 per mcf equivalent, placing us on track for our 2022 plan. During the second quarter, our production operations team shifted their attention from winter operations to warmer weather, working with our midstream providers to ensure heat-related issues are mitigated and keeping the field running at high rates. Compressor cooler maintenance, upgrades and pigging operations were the focus and played a key role in our quarterly operational success. We often provide updates on our new wells and their execution, but internally, the base production receives the same level of attention, day-in and day-out. The production engineering and operations teams completed tubing installations on 47 wells year-to-date.

Normally, our tubing program is spread across the program year. However, due to scheduling optimization during planned maintenance and downtime, the team was able to complete all of this work in just under two months, supporting production and minimizing downtime. The team also installed 18 capillary streams in the second quarter, which were redeployments from other producing wells. These streams were redeployed at a savings of 85% versus the original installation, and increased production in tubed well applications while also extending the time for when tubing will eventually be needed in case well applications. And lastly, we installed pad compression on an older pad in our dry gas acreage during Q2, testing the impacts of reduced line pressures.

The pilot test has been online since May with approximately 20% higher flow rates with the reduction in field pressure. These type of results will help support future decisions on optimizing recoveries and project economics. Shifting over to marketing, Mont Belvieu ethane price continued to rise during the second quarter, averaging $0.585 per gallon, which is the highest quarter average in over a decade. This price performance was driven by strong underlying domestic demand resulting from new ethane cracker startups in late 2021 and the first half of 2022, in addition to some export growth. Combined with Range's diversified LPG marketing strategy, this drove Range's NGL price for the quarter to $42.63 per barrel, which is a premium relative to Mont Belvieu and Range's highest quarterly NGL realization in 10 years.

Looking ahead, we expect continued ethane demand growth in the second half of 2022 due to new cracker demand from Shell's Southwest PA facility and from increased exports supported by the recent launch of several new carriers. We expect this increase in demand will continue to support ethane prices into 2023 and beyond.

Range remains well positioned to supply both domestic and international markets through our flexible transportation portfolio and liquids-rich Marcellus acreage position. As we enter the second half of the year, industrial activity in Asia is expected to strengthen, following seasonal maintenance turnarounds and COVID-related lockdowns that reduced petrochemical operating rates in the second quarter.

This, coupled with above-average European demand, should support global LPG consumption through the third quarter, keeping propane and butane stocks near the low end of historical ranges as the winter buying season begins. Low stocks, strong international demand and limited global NGL supply growth in 2022 should combine to support both domestic and international NGL prices into 2023. For our natural gas marketing efforts in Q2, Range reported a natural gas differential of $0.29 below NYMEX, including basis hedging, with Range's realized natural gas price closing out at $6.90 per mcf. Underpinning this result was stable production levels across Appalachia. Mexican exports reaching 6.7 Bcf per day and exports from LNG at 12 Bcf per day prior to the Freeport interruption.

With Freeport projected to return to full service, along with reaching capacity at Calcasieu and Sabine Pass in Q4, LNG exports are projected to reach 14 Bcf per day as the winter season begins, providing a constructive outlook for Q4 and 2023. Before turning it over to Mark, I'd like to briefly touch on our environmental and safety performance. Year-to-date, our thorough Leak Detection program has resulted in an additional 8% reduction in leaks detected per component inspected versus last year, further reducing emissions and ensuring our facilities are operating as designed. Looking back at last year and with the reported numbers finalized for water recycling, Range recycled approximately 147% of our produced water, a level we've achieved for the fourth consecutive year.

And Range's greenhouse gas emissions equated to approximately 0.26 CO2 equivalent per Mmcf equivalent, a level within 10% of the prior year. This places Range at the low end of a mission intensity on a global basis, and places us on track with our stated emission targets. And lastly, for safety, we continue to see communication, training and hazard identification pay dividends with no Range employee or contractor OSHA incidents during the second quarter, and only one employee OSHA incident in over two years. We look forward to sharing more details on these as well as other accomplishments in our upcoming Corporate Sustainability Report slated for release in the days ahead. As we turn our focus to the second half of the year, we look to build upon our year-to-date results, continue to improve our operational and capital efficiencies while delivering on our operational 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. Second quarter financial results mark a company high in quarterly net income. The Range team collectively delivered on all fronts with operational results exceeding guidance, driving strong financial results that were directly translated into shareholder value through debt reduction and share repurchases. The second quarter themes are what Range can deliver to investors and customers quarter-after-quarter for decades to come. The principal themes are operational excellence, developing an unrivaled asset in terms of quality and duration paired with a strong financial foundation and strategy that delivers value to shareholders. As we've described before, it's our mission to realize the value of Range's world-class, world-scale asset base, paired with a balance sheet fit for purpose to consistently deliver value to shareholders over a multi-decade inventory life.

It was again a busy quarter with substantial progress across much of the business. Cash flow before working capital reached $519 million, which funded net debt reduction of approximately $105 million, share repurchases of

$117 million, after capital expenditures of $127 million and working capital of $179 million. As a reminder, as commodity prices go up, revenue and corresponding receivables rise as well. The majority of our receivables are collected in the following month. So virtually all of the working capital increase shown in second quarter financial results will be collected in July. It's simply a matter of timing. Absolute debt reduction and growing earnings drove leverage down to a company low of 1.2 times debt to EBITDAX, and rapidly heading lower while growing returns of capital through both share repurchases and expected cash dividends.

As net debt continues to decline towards our absolute target range of $1 billion to $1.5 billion, cash flow allocable to returns of capital continues to grow. In other words, we've already begun buying back shares which we expect to do at an increasing pace as debt declines, paired with re-initiation of cash dividends. Through today, cumulative share repurchases have deployed over $165 million or roughly 33% of the current plan. And as we approach 50% utilization, it will be timely to re-evaluate and expand as approved by the board. This type of re-evaluation is part of a repetitive, continuous process responsive to prevailing commodity prices, commodity prices, stock price and investment opportunities for Range.

Taking a closer look at second quarter results, cash flow of $519 million was driven by better than guided production levels, achieving strong pre-hedge realized prices of $7.18 per mcfe compared to $3.25 in the second quarter last year. Strong realized pricing was driven by improved natural gas, natural gas liquids and condensate pricing. Range's diversified portfolio of transportation capacity and customer contracts supported differentials, and in conjunction with pricing uplift from our liquids production fully offset basis differentials to realize a price equal to Henry Hub. Hedged cash margins per unit of production expanded to $2.79, up 200% compared to second quarter last year. Range's margins benefited from higher prices resulting from careful hedging and continued focus on cost and efficiency.

The change in total cash unit cost in the second quarter compared to the prior year primarily relates to processing cost, which are linked to NGL prices, with minor variations in other line items related to higher commodity prices or inflation. However, with rising production in the second half of the year, GP&T expense per mcfe is expected to decline, putting us on track for the full year GP&T expense guidance provided. As planned, interest expense savings from debt reduction have already reduced quarterly costs by over $15 million. We expect further debt reduction to expand annualized savings, such that in 2023 annualized interest savings can add greater than $100 million to cash flow compared to last year. Successful second quarter results, combined with a positive view of opportunities for Range going forward, further support our confidence in the return of capital program.

As Jeff mentioned, we continue to believe the repurchase program is an attractive investment opportunity, given the significant gap between the value of Range's inventory and production versus current share price. We'll remain flexible and adapt to market conditions, project returns and prudent reinvestment, with our repurchase program providing a compelling option for use of free cash flow to acquire greater per share exposure to our own multi-decade inventory and production at a very attractive price.

Taking a step back from Range's results and looking at profitability of some natural gas producers this quarter. I believe it's important to put in perspective what this means in the context of an inflationary environment. Range and the industry have been for many years stewards of investor capital and bringing fully online the productive capabilities of the Marcellus shale. It was a dozen years commissioning what is now the largest natural gas producing field in the world. However, large-scale projects typically require patience before returns, real tangible returns, are realized.

Range, and peers to varying degrees, are reaching sustainable cash flow generation returnable to pension plans, 401(k)s and retirees who hold our stock. At the same time, Range provides a reliable, clean energy source to customers across the US and globally, a supply that is cheaper for customers here in the US than most of the world. So what does this mean? Range is profitable and benefits the US economy and environment all at the same time.

Range stands ready to continue developing its unrivaled asset as infrastructure expansions become available to better serve customers here at home and abroad, all in a fiscally and environmentally responsible manner. Hard work, focus and swift but precise adjustments to our business plans without veering from our core objectives are demonstrating the value of Range's portfolio and business.

Patience and diligence allowed early returns of capital to come in the form of debt reduction, and now accelerating share repurchases. Share repurchases remain a compelling investment of capital given the substantial gap between current share price and intrinsic per share value of the largest portfolio of quality inventory in Appalachia. We seek to continue this trend of disciplined value creation for our shareholders.

Jeff, back to you.

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

Operator, we'll be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, Mr. Ventura. [Operator Instructions] Our first question comes from Scott Hanold with RBC Capital Markets.

Scott Hanold
Analyst, RBC Capital Markets LLC

Q

Thanks. Good morning all.

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

A

Good morning.

Scott Hanold
Analyst, RBC Capital Markets LLC

Q

I was wondering if you all could elaborate [indiscernible] (00:36:01) shareholder return plan. You [ph] obviously (00:36:02) utilized the buyback pretty aggressively in the second quarter. Can you just give us a sense that, going forward, what are your thoughts regarding the plan along with debt reduction? How do you see those two working in concert [indiscernible] (00:36:20) especially at current valuations?

And also, as you look forward, does it make sense at some point with your visibility to those debt reductions in sight over the next, say 12 months, does it make sense to start thinking about like having more of a formulaic-type shareholder return plan like a few of [ph] the, (00:36:42) I guess, E&P peers do?

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

A

Sure. Good morning, Scott, this is Mark. I'll start off the answer. So as we've laid out for some time, we have the priority, the waterfall for allocation of capital, the maintenance capital, then debt reduction, shareholder returns and growth at the appropriate time when market conditions make that the prudent reinvestment of free cash flow. So with that, we provided a debt target, as you well know, absolute debt in the $1 billion to $1.5 billion area. As we are quickly heading towards that, what we have done is execute both the return of capital and the debt reduction in parallel.

And the way I would think about that is like a re-asses. As you get closer to your debt target, your risk profile has gone down, your financial strength is up, so you can increase the capital that can be put towards the return of capital, and you're reducing how much has to go to debt reduction.

So where we stand today at quarter end, we were about $2.3 billion, just shy of $2.4 billion in net debt, 1.2 times levered, again, a company best. By the end of this year or very early next year, we're falling within, we anticipate, to be within the range, that $1.5 billion to $ 1 billion absolute debt level. So ratably, you can increase the share repurchases. And like we've talked about before, we fully intend to reinitiate the dividend here in the second half of the year.

So what that means is, just to refer you to slide 13, where we give some calculations, some free cash flow numbers, we're estimating in aggregate about $1.5 billion free cash flow this year, $1.3 billion in 2023, $1.2 billion 2024, and that slope is just based on the backwardation [ph] in (00:38:32) pricing curves. We're just using strip pricing to do that. So what it means is there's a pretty significant amount of free cash flow that's unallocated.

What this does is it gives us tremendous flexibility as we hit debt targets early next year to prudently reinvest capital. At the moment, as we repeatedly highlight, the gap between current share price and what we think the intrinsic value of the shares is, would dictate that a prudent reinvestment would be share repurchases.

We haven't to-date provided a hard and fast formulaic approach because we think the flexibility has allowed us to better execute both debt reduction and the share repurchase program. There are days when the market's very strong and Range stock may be outperforming, but perhaps your execution is better if you're a little bit lighter those days.

And there are other opportunities when we have market pullbacks that Range is getting a better return on its dollars. We're getting more shares by being a bit more active, again, when there's a macro pullback in the market. So that flexibility by being a little bit less formulaic has, I think, achieved a better result for Range in terms of shares and the average price.

So as we go forward, is that the way it will remain? We will continue to evaluate whether a more formulaic approach is prudent, whether that formulaic approach actually helps investors value our shares, does it improve the value. But just stepping back to 100,000 feet, what is our job as management? It's allocation of capital. Is it the best return to buy back a share? Is it the best return to invest in some facilities that drive production and reserves and reduce unit costs? Is it drilling an extra well? That's ultimately the decision. It's a broad reinvestment of cash flow decision that really underlies our daily responsibilities.

Scott Hanold
Analyst, RBC Capital Markets LLC

Q

Appreciate you being very thorough. Thanks. And as a follow up, as I think you're prepared to see the inflationary pressures really build through the year, what is your thoughts on leading edge kind of inflation thinking about into, say, 2023? I know it's a bit early, but can you give us your thoughts on a maintenance CapEx trajectory, like how do you see the base spending plan moving into next year with inflation? And if you also get the benefit, I think this year you're drilling a percentage of your existing pads. Do you still have about the same model into next year?

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

A

Yes, Scott. This is Dennis. Good morning. I'll tackle this one. As we start to – we touched on this a little bit on the Q1 call. And we have seen inflationary changes in our cost structure like a lot of other folks between areas such as like labor, steel and fuel. We've worked really diligently and the team has done a great job in trying to mitigate those impacts as much as possible. And with areas like pre-purchasing our tubular goods, I know we did some of that to end off last year, and also securing some throughout the year to make sure that not only making sure that we have the supply, but it was also at a price below where we thought the market has been heading. The other part is working with our service providers pretty closely.

We've had long-term relationships with a number of our service providers. If you look at just the average timeframe with our top active service providers, it's well over a decade. So building upon those relationships, looking to strategically make sure that we're efficient together, because we know that efficiencies – like we touched on in the prepared remarks today, are going to help drive not only our returns, but also theirs as well. And then lastly, we've done things like trying to secure pricing as much as possible onto other areas like, say, the rigs that we utilize in the field, but also in areas like with our completion equipment.

As we start to think about next year's program, the reality is, we're going to have a much better response. I think your question, as we go through our annual bid process in the fall and we start to align that with what our program looks like, we can lay out what our activity program is going to consist of, which we're clearly in the throes of evaluating, but it's not out of the realm of expectation, I think, for us to consider something in the 10% to 15% impact range for 2023. But again, we'll know a lot more as we get into the fall and have a much higher clarity answer for us as we get into the end of the year for 2023.

But I'll also say this, as you look at our cost structure, our low base decline, and you look at our class-leading D&C per foot structure that we've had over the past, not just this year, but the past several years, it's really a natural hedge against inflationary effects that Range would see versus our peer groups or in other basins. So we've had this in the slide deck now for a few cycles. But we see $0.60 per mcfe just for that replacement molecule, whereas other basins may see more 3 times that type number. So we feel like that provides a natural hedge and protects where we're headed in the event of whatever inflationary effects come our way.

Scott Hanold
Analyst, RBC Capital Markets LLC

Q

Yes. I appreciate that. And quickly, what percentage of wells do you think you'll drill on existing pads next year? I mean, just ballpark, is it going to be about the same as next year, or is there any reason to shift one way or the other?

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

A

Yes. Scott, I think year in and year out, we tend to range somewhere between say, 30% to 50%. I would expect us to be in that same category. As we touched on today, we've got a pad site we returned to for the third time now. And consistently, we're returning to pad sites to add additional wells. So we've got a long runway of being able to do that. We're going to continue to factor that in as much as possible. We know that some of our most efficient operations, we have a high level of repeatability from a well performance standpoint. And it also keeps the gathering system fully utilized, which helps with our unit cost.

Scott Hanold
Analyst, RBC Capital Markets LLC

Q

Thanks.

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

A

Thanks, Scott.

Operator: Thank you. Our next question comes from Michael Scialla with Stifel. Your line is now open.

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

Q

Good morning everybody. I wanted to ask on the philosophy on share buybacks. One of the pushbacks on that is that companies tend to do that when the revenues are high, in the case of oil and gas companies when commodity prices are high, then they don't have the cash to do it when revenues go lower or commodities go lower. So I realize you see a large gap between the stock price and the intrinsic value of the company, we see it as well, I think everybody does. But any thoughts on building up the cash balance at all with commodity prices where they are now?

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

A

Sure. So as we evaluate the capital structure overall, I think the risk profile and the financial risk you're really referring to there is why we laid out absolute debt targets of $1 billion to $1.5 billion, why those have been targets established along with our board of directors, setting those targets alongside management and they're in the proxy. So it's not just the leverage ratios, it's absolute numbers in a strong cycle.

Clearly, prices are attractive today. You would think you could continue to push towards the lower end of that leverage target. So that gives you greater flexibility as that number is rapidly approaching us to be able to execute share repurchases. And to your point, that large gap between current share price and the intrinsic value number we're quoting is just proved reserves. So we think we're using a pretty conservative yardstick there, at least conversationally, to validate, to gut check the prudent allocation of capital back to share repurchases.

So we think, so far, average price repurchasing is around $28. We've put about $165 million back in if intrinsic value proved reserves strip pricing is greater than $60. We think that's a tremendous value, and it's creating permanent value, and that you're reducing the number of share count hopefully in perpetuity and growing cash flow per share and exposure to our inventory on a per share basis. So I think that gives us great confidence in continuing to do what we've been doing, which is announced per share repurchase program at the end of 2019, executing it in 2020. We bought back 10 million shares. We've really accelerated the program this year. And I think, as I mentioned earlier, as we approach 50% utilization, I think that's timeline to take a fresh look at it, make sure it remains prudent reinvestment and subject to more approval, get an appropriate resize or increase in that program.

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

Q

Okay. Thanks. And Jeff, I appreciate the comments on how you view Appalachia gas being well suited to play a very important role in the future in the energy transition. I guess, along those lines, anything that you're seeing at the local, state or federal level that has you more or less encouraged about future export capacity out of the basin?

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

A

Yeah. There's a talk in Pennsylvania legislation about an LNG project in Pennsylvania on the East Coast. So again, largest producing gas field in the world, coupled with lowest emissions with big demand for US natural gas globally, given the conflict in Europe, coupled with the desire to lift quality of life globally. So it's well positioned to do that. It would clearly would be supported, I think, with the trade unions polls popular in the state. And we've got the longest core inventory and within the Appalachian Basin. The other thing, the Appalachian Basin is at the low end of the cost curve globally. So with Range being at the low end of the cost curve, best emissions within basin and a desire to do that, I think you will see growth in takeaway infrastructure ultimately come from the basin, and we're well positioned to fill that when it's available.

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

Q

Very good. Thank you, guys.

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

A

Thank you.

Operator: Thank you. Our next question comes from Doug Leggate with Bank of America. Your line is now open.

Doug Leggate
Analyst, BofA Securities, Inc.

Q

Hi. Good morning, everyone. Thanks for taking my questions. Jeff, I wonder if I could – my question is really on hedging strategy as absolute debt drops, but I wonder if I could use that also to kind of segue on your views on recent spot price volatility. It kind of seems to us that with full US LNG utilization we've now got almost gas-on-gas competition with storage for at a higher level for the first time in quite a while, and I'm just wondering if you could offer a comment on that. So I guess that's a macro question, but also how it plays into how you think about hedging going forward. Obviously, your hedge exposure rolls off pretty hard in 2024 at this point.

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

A

Let me start and I'll flip it probably to Mark after that. Yeah, you're seeing a strong demand for US LNG, power generation, we used to have the gas to coal switching not occurring right now, and I believe we have a slide in there that shows that. And then coupled with strong industrial demand. So the demand signs are good. And then at a high level, as our balance sheet hits or approaches the targets, and again, we'll be looking at less than one-time levered by the end of this year, net debt within the level that we want theoretically, it could even approach zero by year-end 2023. So well, that gives us a lot more flexibility in how we hedge and our ability to hedge. So let me turn it over to Mark for some more specific comments.

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

A

Yeah. I think that's the most important point there is the interplay between the financial risk, the debt level and how we need to hedge versus how we choose to hedge. So the need to hedge in a more defensive fashion to protect balance sheet has passed. So where we stand today is choosing to hedge to cover a base level of cash flow, choosing to hedge to mitigate basically the fixed cost of the business. We may elect with strong prices to hedge in a portion of outsized returns, and by outsized returns I mean, our business is able to generate returns competitive or more competitive to just about any other industrial type of business out there today, certainly when you look at the valuations of E&Ps and Range in particular relative to other industries.

So with that, what does it mean? You can look at where we stand today. We've changed how we hedge to using more collars more upside. You're paying for the floors with some opportunity costs on the top of the collar, the call you're effectively selling. But we think that's a good risk reward to effectively purchase insurance protection around your fixed cost component. As you look at the percentages hedged, again, we can hedge significantly less. We think hedging still plays a part of our program going forward but at a significantly lower rate. If you look at the percentages today, for 2022, you could even look over the course of the year. Gas was hedged about 70%, but that tails off even in the fourth quarter closer to like 50%.

As a percentage of revenue for 2022, we were about 50% hedged. Looking forward to 2023, gas is around 50% hedged volumetrically. But in terms of revenue, you're about 35% hedged next year and you're only about 15% hedged in 2024. So again, we have significant flexibility. Those numbers will likely remain lower. The thought process behind it is to protect fixed costs largely with some, I would position it as an opportunistic business decision to perhaps take a bit of outsized returns off the table and lock those in. But again, much lower percentages than you've seen Range execute historically.

Doug Leggate
Analyst, BofA Securities, Inc.

Q

Thanks a lot, Mark. Just to be clear, so swaps are off the table on a go-forward basis. Is that a good read of what you – to interpret your comments?

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

A

I wouldn't say they're off the table. No. I would say we're going to adapt to how we see the market. If there's positive skew to the market or you're getting more value from the call option, then perhaps the value of a collar is better than a swap. So it depends on what fundamental supply-demand situation is, and it depends on what's being priced into the derivatives market. So I wouldn't say they're off the table. But I would say, at present, we are favoring collars.

Doug Leggate
Analyst, BofA Securities, Inc.

Q

Okay. Thank you for that. So I guess my follow-up question is really just a quick one on inflation. You guys have got relatively stable level of activity. And obviously, you're in a basin that's not seeing the same level of competition as for example in Permian. So I'm just curious, as you look into 2023 and maybe longer term to the extent you can, how protected or benign do you expect your capital to be to inflationary pressures? And to put it in context, we're hearing some of your peers talking about 20%, 30% year-over-year increases in 2023. I'm just curious how you would frame that range for yourselves, I guess.

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

A

You bet, Doug. This is Dennis. I'll kind of maybe take a step back to some comments earlier kind of through their prepared remarks. But ultimately, as we start thinking about 2023, we're going to really have, I think, a much better handle on what that's going to look like as we get into the fall annual bid process that we go through. It's really a strong component of what we do. Our service providers, I think – we would like [ph] to think have (00:55:24) come to appreciate that we deliver on the program that we put in front of them. So the bid process we do together has a lot of validity. We know that their returns are going to be tied to our efficiencies as in a big way so are ours.

As we look at it right now, we're estimating somewhere between 10% to 15% inflationary effect for 2023. But again, once we start to see what happens through the balance of the year, an example do we start to see some changes in steel price. If you look at diesel fuel as it ties to oil, you can make the argument that maybe you're starting to see some upper limits of where that fuel could go at this point in time. So there are some categories, as you would expect, we've seen small movements into 2022, maybe low single-digits. And then there are some categories we've seen maybe 30% on a service unit cost basis.

But then when you couple that with our efficiencies, and some of those we touched on today like our water efficiencies as an example, the team continues to do a great job being creative there with our teams, our tools that we use in our logistics room, and also the folks on the execution side in general, we've had another $6 million in savings year-to-date. We know that, that helps offset some of what we're most likely going to experience for 2023.

So again, I'll kind of close out by saying this, whatever – if it is 10% to 15%, we also know that when you start to tie this back to a per mcfe basis in that $0.60 mark, we know that we have a natural hedge against these inflationary impacts versus what we're seeing in other peers and also in other basins.

Doug Leggate
Analyst, BofA Securities, Inc.

Q

Appreciate the answers guys. Thank you.

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

A

Thank you, Doug.

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

A

Thank you.

Operator: Thank you. Our next question comes from Neal Dingmann with Truist. Your line is now open.

Neal Dingmann
Analyst, Truist Securities, Inc.

Q

Good morning, all. Interesting comments you had earlier on production, I think, but specifically I'm wondering, and you all mentioned the increased second half TILs [ph] and the full core growth, (00:57:28) which was nice to hear given the front-end load. And so I'm just wondering with that, again, I'm not asking for 2023 guide, but you anticipate a bit of growth continuing, sounds like through the end of the year and right into next year, and I guess what I'm trying to get at is just, would you think about maybe a little bit more growth next year than what you had this year and all, or again, is that just more of a timing sort of towards the end of this year?

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

A

Yeah. Let me just be clear. If you look at where we are this year and where we've been, our focus has been and is maintenance capital. And you see that typical profile like you're seeing this year, you've seen the last few years. It's pretty similar. But I think if and when we grow, most likely will be low single-digits, later this year we'll be looking at our plan for next year as usual, probably communicate that early next year.

But the good news is, given our long-life core inventory, we're well positioned to take advantage when that opportunity for growth comes up. And I think the other thing, importantly, when you look at us, even in a maintenance capital case, we can grow cash flow per share. Mark, do you want to expand on that a little bit?

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

A

Yeah. I think the profile you're talking about is really seasonal, I would say, your program-based levels of activity. And again, it's a question of when Range chooses to grow. But I think, for the time being, for all the infrastructure-related reasons that Jeff highlighted earlier, a growth program may be a little bit off. But for Range, I think a very important point to take away from it is, the maintenance capital does not mean a no growth story in terms of cash flow and cash flow per share.

Range is very much a growth in cash flow and cash flow per share. And not just because we're buying back shares, it's because of the built-in reduction in gathering costs, as we've laid out in the investor relations materials, that next year reduce gathering costs by $25 million, and that ramps to well over $100 million by the end of the decade.

As we commented earlier, in 2023 relative to 2021, you're reducing interest expense by $100 million. We continue to hold production and grind down costs elsewhere and various other line items. Again, we have the ability to grow cash flow and cash flow per share. And then again, we're deploying capital to buy back shares, further accelerating that growth in per share cash flows. So I think it's just a question of when and how that growth manifests itself.

Neal Dingmann
Analyst, Truist Securities, Inc.

Q

Great add, Mark. I really like the details. And then just a follow up on my second, on M&A. Can you talk about how active you are looking at bolt-ons? And maybe separately, would you consider anything more on just primary units of acreage in light of – given that, obviously, the material depth of inventory that you already have?

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

A

Neal, you were kind of breaking up on the end. But I think the question was on M&A. And one of the things we've pointed out and we really believe is, we've got the longest core inventory in Appalachia. So given our core inventory, we've been pretty clear in terms of our path forward we'll be staying focused on what we're doing. It would have to be something that's extremely accretive on all measures, and again, and weigh it even against our share repurchase where we see a big disconnect there.

Neal Dingmann
Analyst, Truist Securities, Inc.

Q

Great add. Thanks, Jeff.

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

A

Thank you.

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

A

Thank you.

Operator: Thank you. We're nearing the end of today's conference. We'll go to Neil Mehta of Goldman Sachs for our final question. Neil, your line is open.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

Thank you, team. Appreciate all the great macro color. I want your perspective on propane prices which, as you show on slide 37, have come off a little bit. And how do you think about whether this is sort of temporary disruption, or is there a change in sort of the way we should be thinking about normalized?

And then the other question was on the gas macro, unbelievably strong environment right now. How has that affected your view of mid-cycle for natural gas? And do you think the market should be repricing normalize as we get through 2022 and really focus on what the gas equity should be discounting over the long-term? Thank you.

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

A

Hey, Neil. This is Alan Engberg. I manage our Liquids business. So I'll tackle the first part there on the propane prices. So we were really tight on stocks through the winter. And then as we got into spring, seasonally, that's kind of like shoulder months with natural gas. So things typically weaken a bit. In the backdrop, crude was really, really strong. So propane as a percent of crude on slide 37 really did come in a little bit. Some of that also is due to just high maintenance levels in the spring months as well as the lockdowns in China due to COVID in Beijing and Shanghai.

And then finally, the last item that really affected price was overall naphtha prices in Europe. So naphtha competes with propane internationally as a feedstock into ethylene crackers. And naphtha was long in Europe. In fact, the naphtha crack or the spread relative to Brent was at historic lows during the second quarter. So all that kind of, pushed propane a little lower than what it otherwise would have gone to relative to crude.

Looking forward though, we still see all kinds of new demand coming online. In fact, we've got roughly call it 700,000 barrels per day of new LPG-related demand internationally coming on line over the next two years. That's

25% of the current global waterborne market. Add on to that, if you just put in 2% ResComm demand internationally, you get close to like 1 million barrels of new demand coming online over the next two years.

Internationally, we might contribute maybe 300,000 barrels per day of supply growth to that. And then the latest July EIA short-term energy outlook has us only contributing about 300,000 barrels per day of new supply over the next two years. So the macro actually looks like the market is going to be really, really tight. And we would expect then that propane prices relative to crude will go back to more like what we saw over the past year, 60% to 70% range.

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

A

Yes. And then I would just add on the gas side, again, we talked about – we think natural gas is a critical fuel. World is moving towards cleaner, more efficient fuels. You look at US gas or particularly Appalachian gas is on the low end of the cost curve even globally or towards the low end of the cost curve. And Appalachian gas is at the low end of sort of the cleanest natural gas produced. So it's in a great position. US gas really is the only commodity in the US that doesn't trade like a global commodity, but it's been moving up as that demand is there. So I think with time, you'll see international prices come down some and US prices may come up some. So I think gas is going to be a great place to be.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

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 closing remarks.

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

Yes. I just want to thank everybody for taking time to visit with us this morning. Please follow up with our IR team with any additional questions that you may have. Thank you.

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