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Range Resources Corp. (RRC)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Range Resources First Quarter 2021 Earnings Conference Call. All lines have been placed on mute to prevent any background noise.

Statements made during this conference call that are not historical facts are forward-looking statements. Such statements are subject to risks and uncertainties, which could cause actual results to differ materially from those in the forward-looking statements. After the speakers' remarks, there will be a question-and-answer period.

At this time, I would now like to turn the call over to Mr. Laith Sando, Vice President-Investor Relations at Range Resources. Please go ahead, sir.

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

Thank you, operator. Good morning, everyone, and thank you for joining Range's first quarter earnings call. The speakers on today's call are Jeff Ventura, Chief Executive Officer; Dennis Degner, 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. You'll find our 10-Q on Range's website under the Investor's 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.

Thank you, Laith, and thanks everyone for joining us on this morning's call. The first quarter of 2021 saw Range make continued progress towards our key strategic objectives: improving margins through cost controls and thoughtful marketing; generating free cash flow; enhancing liquidity and extending our maturity profile; operating safely and efficiently; and ultimately positioning the company to return capital to shareholders as the most efficient natural gas and NGL producer in Appalachia. I'll touch briefly on each of these before turning it over to Dennis and Mark to cover in more detail.

I'll start with unit costs and margin improvements. Range's unit costs for the quarter were right on track and ahead of our expectations with G&A, LOE, exploration expense, and production taxes coming in at the low end of our guidance and expectations.

Additionally, we reported a significant gain in our marketing activities for the quarter. As expected, GP&T increased versus the prior quarter, but was more than offset by the significant improvements we saw in NGL and natural gas realizations, resulting in vast improvements to Range's margins.

In fact, Range's unhedged realized price for the quarter was approximately $3.20 per Mcfe, which was $0.51 above the NYMEX-Henry Hub equivalent price of $2.69. This premium to Henry Hub is a result of our diversified marketing portfolio and liquids production. This liquids uplift improves margins and reduces Range's breakeven cost when compared to producing only dry gas.

In fact, Range's pre-hedge margin improved by over $1 per Mcfe in the first quarter when compared to the 2020 average. Given the improved fundamental backdrop for natural gas liquids, with approximately 65% of our activity in the liquids-rich window this year, Range is very well positioned to continue to benefit from this dynamic.

During the quarter, Range was also able to benefit from improved daily prices in the natural gas market, realizing a natural gas differential that was $0.08 better than the midpoint of guidance, only partially offset by higher transportation and fuel cost, again, benefiting margins and cash flow.

On the back of this improved pricing, Range generated $193 million in cash flow from operation before changes in working capital. And with capital spending coming in at just $105 million for the quarter, Range generated solid free cash flow.

As shown on slide 14, we expect this to continue with significant growth in EBITDAX this year versus last. When combined with absolute debt reduction, this organic free cash flow generation puts us well on our way towards our longer-term balance sheet targets.

Touching on the all-in capital investment of $105 million on the quarter, it's clear that the team's operational execution was superb and we continue to find ways to lower cost, once again, leveraging our large contiguous acreage position to find ways to complete the operational plan, with peer-leading capital efficiency.

After delivering on operational plans below budget for the last three years, Range remains on track to do the same for the fourth consecutive year in 2021. The operational team safely delivered this capital-efficient plan with an eye towards our long-term environmental goals. Range closed out 2020 with class-leading emissions intensity, reducing greenhouse gas emissions intensity, and putting us right on track towards our 2025 goal of net zero.

As we strive for this goal, it all starts with efficient operations that minimize our operating footprint, and importantly, generates competitive returns. We believe Range's peer-leading capital efficiency and maintenance capital are key differentiators amongst peers.

As we've discussed in the past, Range's large blocky acreage position affords us operational and financial efficiencies on multiple fronts, including water recycling, infrastructure, rig mobilization, and e-fleet optimization, just to name a few. Dennis will cover a good example of how this combination of these benefits benefit Range from both an ongoing development and corporate return standpoint in addition to strengthening our environmental efforts.

When combining our low well cost, strong recoveries, and shallow base decline of under 20%, Range is operating at a high level of capital efficiency that provides a solid foundation for generating sustainable free cash flow. What further differentiates Range is our ability to deliver this level of efficiency for an extended period of time, giving our multi-decade core inventory.

For some added context on our inventory, Range is turning to sales approximately 60 wells this year, but we have approximately 2,000 Marcellus locations with EURs that are greater than 2 Bcf per thousand-foot of lateral. The average recovery of these wells is very similar to the wells Range has turned to sales for the last several years, providing Range an unmatched runway of high-quality wells that's measured in decades. This is not the case for many of our peers, which we believe positions Range as well as any upstream company to benefit from improving commodity price environment over the medium and long term.

Before turning it over to Dennis and Mark, I'll just reiterate that Range remains committed to sustainable free cash flow. Over time, we believe Range will stand out amongst peers as a result of our low sustaining capital, competitive cost structure, marketing strategies, and importantly, our multi-decade core inventory life, which will be an increasing competitive advantage in the years to come as other operators exhaust their core inventories.

We will continue to focus on safe, efficient and environmentally sound operations, prudent capital allocation, and generating sustainable returns to shareholders. Importantly, these are all reflected in our updated compensation metrics that can be found in our most recent proxy statement, have also been summarized in our company presentation, demonstrating the alignment of our incentive programs with shareholders as we seek to continue our steady progress towards key initiatives.

Over to you, Dennis.

Dennis L. Degner

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

Thanks, Jeff. When we communicated the operational details for our 2021 program, our framework was built around improving both operational and capital efficiencies, enhancing margins, all while striving to further improve our environmental and safety performance. As we look at our first quarter results, our operating teams are off to a strong start, delivering on our objectives for the year, beginning with Q1 production above our communicated guidance and capital spending in line with our 2021 plan.

First quarter capital spending came in at $105 million, or approximately 25% of our 2021 program budget. As we discussed on the prior call, our capital spending program is front-end loaded for the year and is a consistent approach with previous years. As we look forward, our second quarter capital spending is expected to be approximately one-third of the annual budget for the year, mainly driven by activity timing for completions and turn-in-lines shifting to Q2. The reduced capital investments in the second half of 2021 are aligned with our activity cadence reducing to one drilling rig and one frac crew during the third and fourth quarters.

Our first quarter production level of 2.08 Bcf equivalent per day was a direct result of recent strong well results, combined with exceptional field run time for the quarter, due in large part to the near flawless winter operations planning and execution by our production operations team. Underpinning our first quarter production, including turning to sales 16 wells spread across our dry, wet and super rich acreage. Our Q1 turn-in-lines consisted of an average horizontal length in excess of 11,500 feet and added just under 200,000 producing lateral feet to Range's Appalachia assets.

During the fourth quarter of last year through the first quarter of 2021, our activity shifted towards wells located across our processable gas footprint. The results of these turn-in-lines increased Range's average oil production to a level exceeding 8,000 barrels per day in Q1 and has increased overall liquids production in similar levels seen during the first half of 2020.

This level of wet production contribution is expected to continue through the end of this year, with second quarter production projected at approximately 2.1 Bcf equivalent per day. This will position us to achieve our 2021 maintenance target of 2.15 Bcf equivalent per day through additional margin-enhancing liquids production, while spending $425 million or less.

Shifting to our operational highlights, during the first quarter, 15 wells were drilled across our dry, wet and super rich footprint. Four of these wells are in the top 20 lateral lengths for Range's Marcellus program history, with all four exceeding 17,800 feet. Drilling efficiencies continued with nearly three quarters of the new wells drilled on pads with existing production, coupled with a 5% increase in daily lateral footage drilled compared to 2020.

On the completion side, 16 wells were completed during the quarter. Overall, the team completed just under 1,200 frac stages, while setting a first quarter winter operations efficiency record by averaging over eight frac stages per day. This efficiency level exceeds Range's previous best first quarter winter operations record by 14%.

The water operations team built upon prior water recycling successes by utilizing nearly 2 million barrels of third-party produced water, a first quarter record and as a result, reduced overall completion costs for the quarter by more than $4.5 million.

Despite cold weather conditions and heavy snowfalls, the team produced some of our best operational results in our program to-date, all while keeping safety and environmental performance at the forefront.

Lease operating expense for the first quarter was consistent with our prior year's Appalachia level and remained low at $0.09 per Mcf equivalent. Achieving this LOE level is in large part due to a well-coordinated, proactive winter operations plan with the objective of minimizing weather-related production impacts and associated costs. These efforts generated a field run time that exceeded 99% with a weather-related production impact of less than 0.5 million cubic feet per day for the quarter, a remarkable achievement.

Looking at the operational successes and milestones achieved during the first quarter involves a focused, continuous improvement approach. It's anchored by four key areas: Range's water recycling program; long lateral development; utilization of existing infrastructure; and lastly, optimized use of drilling and completions equipment.

Each of these are key drivers in delivering on our operational and capital efficiency and are integrated part of achieving our ESG or more specifically, our environmental objectives. We often touch on the benefits each of these bring to our program, ranging from a reduction in operating cost, efficiency gains, minimizing our environmental footprint, and reductions in emissions.

Today, I'd like to take a moment and walk through how these four strategies are being implemented by our operations and support teams, along with the positive impacts. I'll use three of the wells that were turned to sales in the first quarter as an example. These three wells were drilled on an existing surface location, with producing wells that were originally developed and turned to sales in 2013. The average lateral length of the original wells was just over 3,000 feet per well.

In stark contrast, the average lateral length of the new wells is nearly 16,000 feet per well, more than five times longer. No additional earth disturbance was needed for five times the acreage development and no additional production, gathering and processing infrastructure was required to add these new wells.

To put this into perspective, Range has close to 250 developed pads in Southwest PA. And as of today, we've returned to 84 of these locations to drill additional wells. Additional wells are planned for these same pad sites, along with the approximate other two-thirds of Range's pads that we've yet to return to for added activity. Simply put, we're only scratching the surface of this opportunity.

The three new wells were completed late last year, utilizing our contracted electric fracturing fleet, which displaced 470,000 gallons of diesel fuel. This reduced our cost by approximately $300,000 per well, along with large reductions in associated emissions. 40% of the water used to complete these new wells was recycled water from Range's producing wells, along with third-party water sourced from our water sharing process. The balance of the water was pumped from our water pipeline network, which was installed nearly a decade ago, further reducing emissions associated with truck traffic by more than 13,400 truck trips.

The average initial production of these wells exceeded 44 million cubic feet equivalent per day, including more than 9,700 barrels per day of combined condensate and natural gas liquids per well, placing them in the top tier of wells in our Marcellus program history.

This is just one of many examples we could share from our development during the past several years with results such as this. These efforts have underpinned our operational efficiency gains and give us confidence in the durability around keeping our drilling complete cost below $600 per foot, all while achieving our environmental goals and producing best-in-class wells. These benefits highlight the importance and value of having a high-quality, contiguous acreage position and forward-thinking technical team.

Before moving on to marketing, I'd like to touch on Range's environmental and safety performance. To further reduce production facility emissions in 2020, Range transitioned to a quarterly leak detection program, doubling the number of inspections conducted. As a result of this increased inspection frequency, an additional 7,400 metric tons of CO_2 equivalent emissions was removed from our program, resulting in a 67% reduction for those related components.

This effort, along with the continued advancements in our production facility design and utilization of an electric frac fleet, has resulted in further reductions in Range's reported emissions, reaching a new low CO2 equivalent level. This level of performance is competitive with any natural gas play in North America and puts Range in an enviable position globally. Consistent with our environmental results, Range's safety performance saw similar improvements delivering an over 30% improvement in recordable incidents for the quarter, which was the best Q1 performance versus the prior five years.

Switching to marketing, Range's NGL and condensate business benefited from a strong first quarter. Market prices improved across the board. And our advantage portfolio of contracts enabled Range to capture premium pricing and a pre-hedge NGL realization in Q1 that was the highest level since late 2018. The primary driver for improved pricing across both NGLs and condensate was strong demand in a market that saw decreased supply.

Preliminary results for US propane and butane, or LPG, reveal that Q1 2021 domestic demand was 13% higher year-on-year, while supply decreased by 4%. Similarly, condensate supply in the Northeast is estimated to have decreased by 15% to 20% year-on-year. As a result of these improved fundamentals, the market average NGL barrel price improved significantly during the quarter.

At $24.83 per barrel, Range's Mont Belvieu equivalent barrel was up 38% over the prior quarter and 83% compared to the first quarter of 2020. Propane prices led the way, increasing nearly 60% versus the prior quarter and 140% versus Q1 of 2020. Additionally, Range's premium to a Mont Belvieu equivalent barrel increased by approximately $1.50 per barrel versus the prior quarter as Range realized its highest premium to Mont Belvieu in company history.

Looking forward, we see propane and butane market prices continuing to post strong year-on-year gains, as storage balances of these NGLs are much tighter relative to last year. This past winter, propane posted its largest seasonal withdrawal in well over a decade, leaving end of March propane stocks at a 33% deficit to last year and a 17% deficit to the five-year average.

Given the strong international demand that we are seeing with new chemical capacity coming online and recovering global economies, we believe it will be challenging for propane to replenish US stocks to a comfortable level by fall. As a result, we expect propane prices to transact at levels at or above 60% of WTI crude this fall and the upcoming winter.

On the commercial side, beginning April 1, Range entered into a set of new and diverse LPG export-related contracts. These contracts will add flexibility, reduce cost, and further enhance realized propane and butane prices, continuing Range's momentum of achieving strong price premiums relative to the market.

Finally, we continue to optimize Range's condensate sales portfolio by adding flexibility, improving margins, and assuring product placement. As this year progresses and optimization continues via a diverse set of counterparties, we expect that our condensate differentials to WTI will continue to improve, further benefiting our liquids area development plan discussed earlier in the call.

On the natural gas side, cold weather during mid-Q1 equated to the third coldest February when looking at the past 10 years. And despite milder conditions in both January and March, Q1 gas weighted heating degree days finished slightly above the five-year average. Through utilization of our diverse transportation portfolio, Q1 resulted in a differential of $0.14 under NYMEX, including basis hedging.

Looking ahead, we see potential for additional positive improvements for natural gas pricing. Given that a high percentage of operators are targeting maintenance production levels this year, coupled with year-over-year improvements in storage, the fundamentals point toward an undersupplied natural gas market. Within this constructive outlook for natural gas, Range is on track with its differential guidance of $0.30 to $0.40 for the year.

As we close out our operations and marketing updates, the first quarter results clearly reflect our operations are off to a strong start for the year, with the team further building on our operational and capital efficiency performance, all while delivering on our environmental and safety 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. Consistent delivery on stated objectives, that is Range's fundamental strategy, and as you heard from Jeff and Dennis, something the team successfully executed during the first quarter. Efficient operations, delivering production, efficient drilling and completions activity, with capital spending trending in line to better than budget, combined with margin-enhancing expense management, all resulted in significant free cash flow. Our ultimate goal is to repeat this quarter in and quarter out.

Results for the first quarter reflect the benefits of reliable operations, productive wells, and diversity in sales points for natural gas, natural gas liquids, and condensate. Cash flow from operations before working capital was $193 million compared to $105 million in capital spending.

Significant improvements in free cash flow compared to past periods were driven by a 50% improvement in pre-hedge realized prices per unit of production versus the prior-year period, which reached $3.20 per Mcfe in the first quarter. This realized price per unit is $0.51 above NYMEX-Henry Hub, driven by improved natural gas basis, and importantly, further enhanced by a 77% increase in NGL price per barrel, which reached $26.35 pre-hedge.

Realized NGL price on an Mcfe basis equates to $4.39 per Mcfe and condensate realizations equate to $8.17 per Mcfe, hence the realized premium to Henry Hub. Additionally, Range's NGL prices exceeded a Mont Belvieu NGL barrel by $1.52 due to our unique portfolio of domestic and international sales contracts.

Margin-enhancing focus on unit cost is a constant state of mind for Range. Lease operating expenses declined over 40% year-over-year to $0.09 per unit on the back of consistent, efficient Marcellus operations, despite the winter weather and the divestiture of higher-cost assets.

Cash G&A expenses declined to $28 million or $0.15 per unit in the first quarter. The decline results primarily from lower compensation costs of a leaner organization, coupled with targeted value-focused spending on IT, data services, safety, environmental and other essential areas.

Cash interest expense was roughly $55 million. Higher interest expense is the result of our most recent refinancing activity, which dramatically and positively reshaped the debt maturity profile of the company and enhanced liquidity.

Gathering, processing and transportation expense increased, but it is important to keep in mind that this is a positive byproduct of strong NGL prices that resulted in significantly higher NGL margins. Recall that Range's processing costs are a percent of proceeds contracts such that we pay a percentage of NGL revenues as the fee.

Consequently, a fraction of the material higher prices received for NGLs is paid as higher processing costs in that quarter.

For perspective, an increase of $1 per NGL barrel equates to approximately $0.01 per Mcfe in cost. This structure is unique to Range in the Appalachian Basin and is a right way risk arrangement that has led to reduced costs for several quarters and lower prices and now continues to drive material margin expansion. As a result of rising NGL prices in recent months, GP&T expense in 2021 is trending towards the high end of guidance. However, this is more than offset by expected higher NGL revenue forecasted at current strip pricing relative to earlier this year.

Turning to the balance sheet, Range has diligently and successfully managed the debt profile, such that liability management projects reduced bond maturities through 2024 by almost $1.2 billion, while at the same time, improving liquidity to nearly $2 billion.

During the first quarter, we issued new bonds due 2029 in the amount of $600 million, which combined with the reaffirmation of our facility's $3 billion borrowing base and $2.4 billion in commitments, provides substantial liquidity and a strong evidence of what we believe is durable asset value.

Cash flows are expected to retire debt maturities in coming years and are backstopped by ample liquidity. During the first quarter, we called in $63 million in near-term maturities of senior and senior subordinated notes, closing on the redemption in early April.

There's been substantial improvement in the debt markets and it's evident in the trading levels of Range's bonds that both access to and cost of capital has improved. Future debt retirement is expected to be funded primarily by organic free cash flow. We will be cost-conscious in effectively managing debt retirement, while also being mindful of any potential refinancing risk of debt maturities. Being opportunistic in bond redemptions as prices and early redemption options become economic on a risk-adjusted basis.

Liability management over the last two years has, as expected, temporarily increased interest expense. However, this avoided much higher cost forms of capital that would have diluted shareholder ownership and participation in what we see is a steadily improving natural gas and natural gas liquids business.

While we're proud of the steps taken to date, further improving the balance sheet remains a principal objective. As can be seen in the recently filed proxy, leverage metrics have been incorporated into long-term compensation criteria, with a target of 1.5 times debt to EBITDA or better. Shareholder value creation through the generation of free cash flow and its prudent redeployment is our focus. To be clear, we believe this is an achievable goal. At current commodity prices, by the end of 2022, Range's leverage is approaching target levels.

On the topic of hedging, we have a glide path or common range in which we add positions over the course of a year. Within that path, we intentionally moved at a deliberate pace during 2020 as we added 2021 hedge positions. We plan to follow similar principles this year in adding hedges for 2022 and beyond. By that I mean we'll seek to balance the twin goals of prudently de-risking cash flows, while not hedging away the improved supply-demand balance into backwardated price curves.

Our strategic actions over the last three years have been focused on reducing risk, while maintaining and enhancing the intrinsic value of the asset base. We believe Range holds the largest portfolio of quality inventory in Appalachia. Exposure to that inventory on a per share basis has been preserved and enhanced by our actions. We believe steps taken represent material progress in positioning Range as a more resilient business and as evidenced by first quarter results primed to participate in improved market dynamics.

Jeff, back to you.

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

Operator, we'll be happy to answer questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, Mr. Ventura. The question-and-answer session will now begin. [Operator Instructions] Our first question will come from the line of Josh Silverstein from Wolfe Research. You may begin.

Josh Silverstein
Analyst, Wolfe Research LLC

Q

Thanks. Good morning, guys.

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

A

Good morning.

Josh Silverstein
Analyst, Wolfe Research LLC

Q

Good morning. Thanks, Jeff. You mentioned on the 2022 outlook getting down to 2x leverage or below there by the end of the year. You mentioned the gas price and crude oil price assumption in there. Can you talk about what you're thinking about from an NGL price assumption standpoint? And should we still be thinking about like the 2.15 Bcf a day and $425 million spend?

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

A

All right. Good morning. Josh, this is Mark. I think the best place to reference is slide 14 in the deck to talk through some of the points you just made. As we've laid out to illustrate the cash flow generating ability of the business and the follow-on, the deleveraging power of business as it stands today. There's a chart in there, as you point out, gets us 2 or below 3 times leverage by the end of this year at current strip pricing. And if you assume at $2.85 natural gas, $60 oil price for next year, which is really just removing the backwardation of the curve, it really is just doing a mirror of this year's curve. You get to, to your point, below 2 times leverage-type situation.

The NGL assumption is roughly $25 per barrel. In other words, if you just look at NGL strip pricing for 2021, that gets you to $24.80, give or take, and you're carrying that forward into next year. So, in essence, we're not using an aspirational price deck here. We're just trying to mimic 2022 looking like 2021. The assumption here in terms of capital is a flat spend. It's a maintenance-type case. There is no further assumptions into additional efficiencies. This is carrying forward but the team is currently on track to achieve.

Josh Silverstein
Analyst, Wolfe Research LLC

Q

Good. Thanks for the clarity there. And then you had $1.52 premium on your NGL price assumption for this quarter. And I know you bumped up the bottom end of the range. But based on the strip pricing in the current portfolio that you guys have, any reason to think that we wouldn't still kind of be in that $1.50 range going forward? And then maybe just as it relates to 2022, could you still see – could you see that premium grow next year?

Alan Engberg
Vice President-Liquids Marketing, Range Resources Corporation

A

Hey Josh, this is Alan Engberg. I manage the liquids business for Range. Yes, so we see that premium actually staying quite strong. As we noted in the call notes, we've put together a series of new contracts for our export business that diversify our portfolio and the portfolio's pricing in a way that maximizes prices. So, we're actually bullish going forward that our premium actually improves. And hence, the guidance that we've offered out there of $0.50 to $2 over the Mont Belvieu index.

There's a lot of new demand coming on both domestically as well as internationally. You've got organic growth in demand just from economies opening back up, the GDP increasing as we slowly pull out of COVID on a global basis. And then you've got a large amount of just new capacity for consuming NGLs coming online.

For propane, in particular, you've got about 125,000 barrels per day of new PDH capacity coming on in Asia, plus you've got new LPG crackers that will add about another 50,000 barrels per day to global demand for LPG. And then in 2022, if you're asking the question, we've got even – there's – the build-out continues. We've got about another 110,000 barrels per day of new PDH demand still coming on. That's in North America as well as in Asia and probably about another 25,000, 30,000 barrels per day of LPG demand from new steam crackers.

So, all-in-all, we're pretty bullish on the demand side. And from the supply side, we still see things kind of flat this year. You might have marginal growth, although a lot of people are still predicting that we'll have a reduction in C3+ supply. And similarly, in 2022, we might have margin growth, but the balances that we're looking at all point towards a much tighter market going forward. And that will add to demand for the products out of the US and given, again, the portfolio of contracts that I mentioned that we have as well as our access to the export docks and to some real good customers leads us to believe that our premiums will continue to be quite strong.

Josh Silverstein
Analyst, Wolfe Research LLC

Q

Got it. Thanks, Alan. Thanks guys.

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

A

Thank you.

Alan Engberg
Vice President-Liquids Marketing, Range Resources Corporation

A

Thank you.

Operator: Our next question will come from the line of Neil Mehta from Goldman Sachs. You may begin.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

Thanks guys. My first question, building on the NGL fundamental question, is any incremental color you can provide on LPG demand trends in Asia, which seems to be an important part of driving that part of the barrel? And any more details you can provide on the LPG contracts that you announced here that can enhance your LPG pricing?

Alan Engberg
Vice President-Liquids Marketing, Range Resources Corporation

A

Sure. Neil, this is Alan again. So, in Asia, I believe this year, there's five new PDH units coming on, five or six. One of them is in Vietnam, the rest of them are all in China. So, right there, as we were saying, that's about 125,000 barrels per day of incremental demand from those PDH units.

Now, there were new PDH units added last year that were still in the ramp-up phase near the end of last year that add to what I would call the organic growth that we're seeing. So, there's strong growth from new capacity coming on as well as if you look at the chemical chain from – you go from propane, let's say, in a international steam cracker to ethylene, propylene, polyethylene and polypropylene, the polymers actually are in short supply globally. And as a result, the margins throughout that chain have increased significantly, which gives good upside for feedstock prices.

But with economies coming back online, there's some inventory replenishment that needs to take place as well as there's just going to be a big GDP growth that most analysts are forecasting. So, with those two things, I think the pull is going to continue to be very, very strong from the existing installed base of capacity around the world as well as that new capacity that we pointed out.

On the new contracts, really, I can't say too much more about them except for we had a big contract that expired recently, and it gave us the opportunity to put new contracts in place that really add to our flexibility and add to our capability to generate strong premiums relative to Belvieu. And again, that supports our view of having one of the highest premiums to Belvieu out of any producer in that $0.50 to $2 per barrel range.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

Thanks, guys. And then the second question is more of a big picture one. I would appreciate your latest thoughts on industry consolidation among the gas producers. Do you see opportunities for Range to optimize the portfolio either by selling assets or improving leverage through acquisitions here?

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

A

Well, maybe we'll double team this one. I'll start and then turn it over to Mark. Yeah, I think, in generally speaking, you've seen some industry consolidation on the gas side, and I won't go through the transactions that occurred last year, but we all know what they are. And few of those were in Appalachia, whether they were corporate or asset purchases, but it was consolidation.

I think, generally speaking, I think you'll continue to see that with time. And then to the extent it makes sense for Range, we would – we'll consider whatever is best for our shareholders. But in terms of us consolidating, clearly, we have a high hurdle rate and a high bar that we looked at, would have to be in-basin, accretive to free cash flow per share, deleveraging, allow us to maintain our peer-leading capital efficiency and decline rates.

So, we'll be extremely disciplined. We're fortunate in that we have, as we've said, decades of the core inventory left to drill. So, we can stay focused on that. But if there's something that makes us a better, stronger company that checks several boxes, it's something we would consider. Mark, do you want to add to that?

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

A

Sure. So to join and add on to that, I guess, taking a step back to what your rationale and your motivation is for either divestiture or consolidation, first, on the divestiture side, are you trying to raise capital simply to redeploy that capital into better assets? In other words, you're hiving off lower quality assets? I would say Range has done a pretty thorough job of that over the last several years. And further, we've reduced debt by $1 billion. Near-term maturities zero this year, [ph] $207 million (00:41:00) next year, $500 million or so the year after that, ample liquidity, ample cash flow, we fully expect.

So, then you get to not just a nice-to-have, but you'd also cover the need-to-have. There's a need to sell assets at what today, I would suggest, is a less than optimal price for what are high-quality assets in Range's portfolio, Northeast Pennsylvania, the Lycoming County asset specifically, is a good cash flow generating asset for us. It's got good potential going forward.

So, going back to the points we made earlier on a previous question with the deleveraging trajectory of the business, again, we're not in a position where we're forced to do anything. We can stay focused on doing what is most economic for a shareholder for value creation. So, then that takes you what's the nice to have, what's going to drive the most value.

To Jeff's point, it's a pretty high bar, but we do maintain financial and operating models on assets around us. It may fit that. We do deep dive into these to see what could accelerate deleveraging, what could reduce unit costs, what could expand margins, make a bigger business overall reduce the cost of capital to the business. So, as we look at that and we also consider what the potential impacts are to NAV, given Range's depth of inventory that's really unrivaled.

All that is to say, it's something we monitor and something we'll continue to be certainly open to and evaluate. But the other motivations for M&A frequently are to backfill your quantity of inventory, which we don't need to do; to improve the quality of your inventory, again, Range does not need to do that; to fix the balance sheet, I think we're on the right path, and we'll continue to work very hard to move that forward as fast as we can. So, again, those boxes are pretty well checked. So, the last is just to maximize value for shareholders. Again, we're open to that, and we'll continue to examine it. But I think the punch line here is it's possible. It's a high bar, but we've got a great path in front of us as we're currently operating.

Neil Mehta
Analyst, Goldman Sachs & Co. LLC

Q

Thanks, guys.

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

A

Thank you.

Operator: Our next question will come from the line of Kashy Harrison from Simmons Energy. You may begin.

Kashy Harrison
Analyst, Simmons & Co.

Q

Good morning and thank you for taking my questions. Dennis, a quick clarification question, did you say the lower capital in Q1 was mainly driven by timing shifts into Q2? Or are you seeing some improvements in capital efficiency that could bode well for 2021 CapEx?

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

A

Yeah. Good morning. Thanks for the question. I would say it's a little blend of both. We continue to see further improvements in our efficiencies. I'll start from that standpoint. The teams made great progress. I think when you look at just the scenario that we tried to walk through and from a water recycling to drilling some of our longest and most efficient laterals, it's all translating into further improved costs. So, we continue to see really good progress that we're proud of across the board in further staying below a $600 per foot cost structure type level.

On the other side, though, we do have some turn-in-lines and a small amount of activity that would have shifted into the early parts of Q2, it's just a function of bleeding over from one quarter of reporting into another. And on top of it, we tend to push some of our activity into, we'll just say, more favorable weather timeframe. So, stuff that ultimately is like roadwork, as an example, difficult to do roadwork in the Northeast when it's freezing temperatures outside.

So, you'll see a slight uptick for Q2, but it still will be very much aligned with our efficiencies that we've captured and also in line with, we'll just say, some seasonality, but we're really off to a really good start and look forward to seeing what we deliver for Q2.

Kashy Harrison
Analyst, Simmons & Co.

Q

Got it, very helpful. And then my second set of questions are for Mark. I was just wondering how should we think about changes in working capital for 2021? And then for dumb guys like us, is there a simple rule of thumb that we can think about to model changes in working capital on a go-forward basis, maybe based on balance sheet amounts at year end? Just some help on working capital would be great.

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

A

Sure, happy to. I think the change in working capital, obviously, a draw of about $77 million in the first quarter, but it's really fairly simple when we peel it back, when we try to break it down into two pieces.

First, prices went up, so accounts receivable went up. The month of March is billed within days after month close and you collect by the 25th of the month. So, by definition, higher prices, you're going to have a little bit of a delay in that cash coming in the door to pay off that accounts receivable. So, that $33 million, so half of the working capital draw is simply due to higher prices.

So, to your question, is there a rule of thumb? You'll kind of have to map each company a little bit. But if prices go up, there's going to be a working capital draw in accounts receivable. Prices go down, you're going to have that come back in.

On the other side of the balance sheet, accounts payable and accrued liabilities was a net $40 million draw. Half of that we've talked about. That's the retained midstream liability. So, there's your $20-some-million.

The other relates to some periodic annual payments. There are certain expenses you pay in a single lump sum over the course of a year, Pennsylvania impact fee, for example, or when annual employee bonuses are paid, those are one-time events over the course of the year. So, that's the sum total of the working capital change for Q1 for Range.

Again, you just have to look back at kind of some timing, some seasonality and the changes in commodity prices as to how those might shape for each company over the course of a year.

Kashy Harrison
Analyst, Simmons & Co.
Q

Got it. So, the message here is that as we look at Q2 through Q4, you probably are not going to see that magnitude of draws you saw in Q1. Is that fair?

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

Well, it's going to – I mean, it will reverse. You'll have the revenue coming in, absent prices running further on us, which would certainly be a welcome occurrence. There may be small one-off payments, again, annual expenses that go out. But no, we wouldn't expect the large one-off draws like this to be recurring. It's seasonal. It's lumpy periodically. But by definition, working capital turns on you and comes back in over time.

One other point I would make is for the one-off payments like impact fee or, again, employee bonuses, those sorts of things, those are expense and accrued over the course of the year. So, as you look at our unit costs, that's already been accounted for, these are not incremental expenses to add to any sort of breakeven calculation. And we've obviously talked through the retained liability and that's just the roll-off of what was already expensed, already accrued.

Kashy Harrison
Analyst, Simmons & Co.
Q

Helpful. Thank you.

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

Thank you.

Operator: Our next question will come from the line of Scott Hanold from RBC Capital Markets. You may begin.

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

If I could maybe ask a question on the capital spending. Can you give us a sense of like where your well cost per foot are right now? I think your guidance for the year is somewhere in that [ph] $550 million to $575 million (00:48:50). Are you sort of at that range? And can you give us a sense of where within that range you are? And also as part of that, what are the service cost trends that you're seeing? Is there any kind of pressure that you're feeling at this point or is it somewhat benign?

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

A

Yes. Good morning, Scott, I'll start with the service costs and then maybe double back to the capital spending. From a service cost perspective, we go through a really thorough annual bid process with all of our service partners. A lot of them that we're using actually today are service providers that we've been partnering with for a number of years, you could say, in some cases, in excess of a decade.

And so, part of that process is providing a trajectory of what activity we'll have in the upcoming year and allowing those service providers to secure their goods and materials and also resources to make sure they're going to help us deliver on the program. So, we've locked in our prices in a very nice way. We have seen some small fluctuations. Most of them have been really small and not impactful to our overall cost structure.

Steel is a good example of that. I mean, clearly, we're seeing some movement across the sector when it comes to steel prices. That represents around 5% approximately of our total cost. And as we've talked about, I think, in our prior call, we actually were able to secure casing for the first six months of the year in our tubular goods, insulating us from some of those pricing increases. It's really nice, especially as you think about our program being front-end loaded, and further managing any risk around that.

When you couple that with the efficiency gains that the team continues to capture and again, I'll reference the example that we walked through in the prepared remarks, our ability to further improve and get to that [ph] $570 million, $550 million (00:50:43) kind of range that you referenced is truly due to a multi-disciplinary approach and multiple aspects. It's the water recycling, having the ability to reutilize part of our buried infrastructure that has been with us for a decade, along with just efficient truck traffic use to get recycled water to our sites.

We're drilling our best wells from a efficiency standpoint. And our – as I touched on in the prepared remarks, our Q1 frac efficiencies reached an all-time high, and we still had some cold weather and snow, as everyone knows on the call. So, we're continuing to see that we're on a great start again for the year to meet these numbers and beat them. So, we'll keep pushing through the year, but it's a little early to say that we're going to be significantly below or provide any additional guidance at this point, but we really see good strong efficiencies. And we feel at this point, we've managed through the service cost pressures pretty well.

Scott Hanold
Analyst, RBC Capital Markets LLC

Q

Okay. I appreciate it. And just to clarify again, the target range you gave of [ph] $550 million to $575 million (00:51:45), are you within that range right now?

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

A

I think it's fair to say that our guidance is unchanged.

Scott Hanold
Analyst, RBC Capital Markets LLC

Q

Okay. Fair enough. And thank you for that. And just a high-level strategic kind of question, obviously, you discussed how natural gas is in a better position at this point in time this year as well as NGL volumes or NGL supplies, which obviously makes you more constructive on the outlook.

Strategically, how do you look at this in terms of like how Range reacts? I mean, obviously, the gas producers, like some oil producers are taking more of a disciplined approach. But if we are getting tight on some of those inventories heading into the winter, certainly, that creates a little bit of tension, obviously, upside to your commodity prices, but there's also a need to make sure there's ample supplies in the event of very cold weather occurs.

So, could you just give us a sense of how do you balance that with – we're going to stay disciplined, need to get debt down. But at the end of the day, the market may need some supplies and so how do you prepare for that?

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

A

Yeah. I'll start off. This is Dennis. I think from a planning and execution standpoint, we always leave some flexibility within our plan to be able to move back to pad sites with existing infrastructure. It allows us to react when we need to.

I think last year is a good example of that. We were able to move some of our activity in a way where we continue to maximize utilization of our infrastructure, pull some of our dry gas turn-in-lines a little bit more forward in the program, especially as we saw impacts of COVID-related scenarios on refining, along with liquids production and allowed to push those, then liquids turn-in-lines later into the year to now be advantaged to what we see in the commodity price environment. So, the planning team did a really good job there.

As you think forward, we are staying the course from a maintenance level program perspective. If you look at where the commodity strip is at this point in time, it's really not incentivizing any growth. So, from our view, and I think as Mark touched on earlier, as part of the 2022 leverage discussion, it's really about staying the course from a maintenance level production standpoint and then seeing what truly materializes for 2022 and how that would change the various scenarios in-house that we would run to capitalize.

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

A

And I'll join Dennis in reiterating that maintenance capital for the time being. I think the underlying question and a follow-on question could be, well then what might motivate the company to increase its capital spending? And I'll say that unless Range sees a change, not only in the price but the duration of that price change, persistent change, meaning a change in the shape of the forward curve, something three, four, five years in duration, where you can hedge in to ensure the return of and return on capital for shareholders of that incremental capital spending. And that would occur when there is a clear and persistent supply demand call on the market for Appalachia to grow production.

So, we're going to be very disciplined in that respect. We're going to be very mindful of both in basin and broader Lower 48 market conditions and the fundamental returns on capital to shareholders. We certainly have the capacity. We've got the inventory, and we can do that, but we're focused on harvesting the value of the inventory and maximizing the cash flow with the first priority and the call on cash for Range being to position balance sheet.

So, we've got a fair amount of flexibility there to operate this business in a strong free cash flow environment as we see prices this year in the current strip, and you can see the scenario we've laid out for 2022, approaching our leverage targets by the end of next year.

So, that leads you to, again, capital redeployment. Is that the drill bit, or is that a return of capital program to shareholders? I think as you've got clear line of sight to your target leverage levels and persistent free cash flow, that return of capital and the framework Range would use, that becomes the topic of conversation.

Scott Hanold
Analyst, RBC Capital Markets LLC

Q

I appreciate the color. Thank you.

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

A

Thank you, Scott.

Operator: And our next question will come from the line of Noel Parks from Tuohy Brothers. You may begin.

Noel Parks
Analyst, Tuohy Brothers

Q

Thanks. Good morning.

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

A

Good morning.

Noel Parks
Analyst, Tuohy Brothers

Q

So, I was intrigued by your last discussion. So, what we've seen with the strip and how it's been pretty apparent as the liquidity beyond the early years is challenging. I mean, I'm not thinking so much about a scenario where you could see three, four, five years of strength in the strip. It seems pretty resistant to building in that sort of time value into it.

But I'm thinking more about a scenario where say, post-COVID, strong industrial demand, you have a six-month period or a one-year period, where, say, we're solidly in the 3s and even if the strip, though, as a whole doesn't make that huge [indiscernible] (00:57:15). I'm curious, was the success you've had in your planning group, do you consider a scenario where you have a limited ramp-up for a period of time and then sort of returning down to your current really fine-tuned level of operation with just a confined number of rigs?

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

A

I think in that scenario you just described, what that means to Range is just more free cash flow. That's a short-term objective, we'll stay disciplined. And you got to remember the wells are – have 50-plus-year life and [indiscernible] (00:57:54) the NPV is mainly over the first 5 or 10 years. But to react to 6 or 12-month signals just means more free – we won't. It will just mean more free cash flow to Range.

Noel Parks
Analyst, Tuohy Brothers

Q

Fair enough. And I was wondering, do you have any sense of any regulatory loosening maybe on the state level to support? I'm thinking about midstream in particular, nat gas has an input to energy generation that is considered green fuel cells, hydrogen and so forth. Is there anything on the state front happening you think could indirectly benefit Appalachian producers?

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

A

I think at a high level, you've seen some constructive things like from Senator Joe Manchin, wrote a letter to the President supporting Mont Belvieu and the importance of the gas industry, clearly Manchin is a influential key senator and really the [indiscernible] (00:58:57) senator at this point. So, I think natural gas being a cleaner fuel, US is an abundant supplier, but I think it will be an important part of the energy transition. And I think that will occur over long time. We're well positioned.

We have slides in our deck, and there's a bunch of third-party work that really when you look at emissions, natural gas is the head of the class, Appalachian is at the head of the class of natural gas. And we're in the core of that and leading the way on the emissions front.

So, I think it is being embraced, again, just referencing Senator Manchin, but there's a lot of people that are supportive of gas in the area. Trade unions are very supportive of gas. And it actually holds well in the state. It was a key issue in the last presidential election and really both parties supported development of gas in Pennsylvania and in Appalachia.

Noel Parks
Analyst, Tuohy Brothers

Q

Great. Thanks a lot.

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

A

Thank you.

Operator: Thank you. We are nearing the end of today's conference. We will go to David Heikkinen from Heikkinen Advisors as our last question. You may [ph] go ahead (01:00:11).

David Martin Heikkinen
Analyst, Heikkinen Energy Advisors LLC

Q

Good morning, guys, and thanks for taking the question. As I think about your free cash flow is really improving, and it sounds like you're offsetting inflation with efficiency. So, as you head towards the $550 per foot range, and you maintained $400 million of capital, you'll actually get more wells drilled.

And so, I'm just trying to think through, Jeff, you hit on this efficiency gain that just keeps happening longer laterals that you're moving beyond the $12,000 a foot. There's like this toggle of more cash flow that can come just from the higher level of delivery per well and then even a possibility for a slight uptick in wells with the same number of capital.

This is a longer-term thing because I know you're focused on the balance sheet and the $400 million stays, should we think about almost like a base level of acceleration that Range has latently with efficiency?

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

A

Well, I mean, another way to look at it is [ph] the fact that it (01:01:10) just generates more free cash flow. We could – in the scenario you described for – as Dennis and the operational team has done a great job leading lowest cost to drill and complete in the basin. And really, historically, it's been getting better, a little bit better every year, it just [ph] means our (01:01:29) capital efficiency, we're already the most capital-efficient operator in Appalachia, it allows us to stay there, and I think, generate more free cash flow is what I would say. Mark, do you want to add to that?

David Martin Heikkinen
Analyst, Heikkinen Energy Advisors LLC

Q

And once you get your balance sheet – what do you do with the free cash once you get below the two times? Like do, I guess, dividends come in, variable dividends, or do you just let a little more volumes flow?

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

A

Yeah, I think that's a good question. And I'll point you in part to the proxy. The changes in executive compensation provide a decent directional sense of what the board and we as management intend to do with this business. So, long-term performance shares are keyed off of debt to EBITDA. That's a primary concern of investors these days and ours, of course. So, threshold being at or below 2 times, target at or better than 1.5 times, excellent being at or better than 1 times.

So, what you'll see us do is, as leverage approaches that 2 times and you've got clear line of sight to better than that on a sustainable basis, then I think we can be crystal clear with what framework we and the board approves as far as return of capital. So, that, I think, in this business, it is, by definition, a cyclical business. You need some sort of variable component. I think the combinations of fixed dividend, variable dividend, and/or share repurchases, it's a mix of those. And I think as we, again, have clear line of sight to being within those target leverage ranges, that's when we'll put something more definitive out there.

But the plans that have been discussed by other producers make sense in broad strokes, it would be some combination of those with some guardrails, if you will, on cash flow reinvestment into the business to give you a sense of – there's no return to the 20% growth days.

If and when five-year curve is above some level that incentivizes some very low single-digit growth, which we can do, then there's still going to be guardrails on that. The balance sheet, first, return of capital and then sustaining CapEx and then some very modest reinvestment if and only if and when growth is clearly called upon by fundamental supply and demand in the market.

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

A

[indiscernible] (01:03:49) if you want to call it that.

David Martin Heikkinen
Analyst, Heikkinen Energy Advisors LLC

Q

Your three-year performance period looks like you guys are set up to hit your 1.5 times pretty reasonably. So, if you can get to 1 times, that 200% payout looks pretty appealing. So, good luck.

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

A

Thank you.

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

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

I just want to thank everybody for taking time to listen to the call this morning and for the people that ask questions, feel free to follow up with additional questions. Thank you very much.

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