

Credit, Collections...And All That Jazz

A Case Study - Range Resources

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Business Facts

- ▶ Exploration, Development, Acquisition
- ▶ Natural Gas & Oil Properties
- ▶ Founded 1976 as Lomax Petroleum Inc.
- ▶ Changed name to Range Resource Corp in 1998

Facts, page2

- ▶ As of 2022
 - ▶ Owned 1,433 producing wells
 - ▶ Approximately 781,000 acres under lease
- ▶ Located in Appalachian Region of US
- ▶ Simplified portfolio in 3rd quarter 2020 sold North Louisiana Assets
- ▶ Significant Impairment Charge \$1.6 M

2022 Auditor Report

- ▶ Provided an unqualified opinion
- ▶ Management responsible for establishing and maintaining adequate system of internal controls
- ▶ Identified a material weakness in the internal controls of Range from 2021 was corrected in 2022
- ▶ Determined a gap in the design of controls to adequately review and assess certain new tax laws
- ▶ Management working with the Audit Committee and has corrected the error.

2022 Industry Facts

- ▶ 2022 Increasing average oil prices since 2003
- ▶ 2022 Increasing average natural gas prices since 1995
- ▶ Expect commodity prices to remain volatile with lower demand created by the pandemic and closed facilities
- ▶ Pandemic has slacked and the demand for commodity has increased with the Russian invasion of the Ukraine
- ▶ Prices will remain volatile with Russia and Saudi Arabia cutting back on their production to increase the prices on oil.

Financials

- ▶ Balance Sheet
- ▶ Income Statement
- ▶ Cash Flow Statement
- ▶ Consolidated Statement of Shareholder Equity

Balance Sheet

Current Assets

Assets	2022	2021	2020	2019
Current Assets:				
Cash	207	214,422	458	546
Accounts Receivable Less Allowance	481,050	471,775	252,642	272,900
Derivatives	25,425	35,238	23,332	136,848
Prepaid and Other Assets	32,905	15,230	13,408	17,508
Total Current Assets	539,587	736,665	289,840	427,802

Balance Sheet

Vertical Common Size

Assets	2022	2021	2020	2019
Current Assets:				
Cash	0.00%	3.22%	0.01%	0.01%
Accounts Receivable Less Allowance	7.26%	7.08%	4.12%	4.12%
Derivatives	0.38%	0.53%	0.38%	2.06%
Prepaid and Other Assets	0.50%	0.23%	0.22%	0.26%
Total Current Assets				

Long Term Assets

	2022	2,021	2020	2019
Derivative Assets	40,990	38,601	16,680	706
Goodwill				
Natural Gas and Oil Properties	10,655,879	10,175,570	9,751,114	10,231,737
Accumulated Depreciation	(4,765,475)	(4,420,914)	(4,064,305)	(4,172,702)
Totals	5,890,404	5,754,656	5,686,809	6,059,741
Other Properties	74,638	74,678	79,878	102,083
Accumulated Depreciation	(72,204)	(71,184)	(75,717)	(96,708)
Totals	2,434	3,494	4,161	5,375
Operation Leases rights of use	84,070	40,832	63,581	62,053
Other assets	68,077	86,259	75,865	75,432
	11,978,813	11,681,992	11,538,066	12,267,717

Long Term Assets Vertical Common Size

	2022	2021	2020	2019
Derivative Assets	0.62%	0.58%	0.27%	0.01%
Goodwill		0.00%	0.00%	0.00%
Natural Gas and Oil Properties	160.83%	152.77%	158.89%	154.30%
Accumulated Depreciation	-71.93%	-66.38%	-66.23%	-62.93%
Totals				
Other Properties	1.13%	1.12%	1.30%	1.54%
Accumulated Depreciation	-1.09%	-1.07%	-1.23%	-1.46%
Totals				

Current Liabilities

Liabilities	2022	2021	2020	2019
Current Liabilities				
Accounts Payable	206,738	178,413	132,421	155,341
Asset Retirement Obligations	4,570	5,310	6,689	2,393
Accrued Liabilities	532,256	420,898	348,333	356,392
Accrued Interest	39,138	75,940	54,742	39,299
Derivative Liabilities	151,417	162,767	26,707	13,119
Divestiture contract Obligations	86,546	91,120	92,593	
Current Maturities of LTD		218,017	45,356	
Total Current Liabilities	1,020,665	1,152,465	706,841	566,544

Current Liabilities Vertical Common Size

Liabilities	2022	2021	2020	2019
Current Liabilities				
Accounts Payable	3.12%	2.68%	2.16%	2.34%
Asset Retirement Obligations	0.07%	0.08%	0.11%	0.04%
Accrued Liabilities	8.03%	6.32%	5.68%	5.37%
Accrued Interest	0.59%	1.14%	0.89%	0.59%
Derivative Liabilities	2.29%	2.44%	0.44%	0.20%
Divestiture contract Obligations	1.31%	1.37%	1.51%	0.00%
Current Maturities of LTD	0.00%	3.27%	0.74%	0.00%
Total Current Liabilities	15.40%	17.30%	11.52%	8.54%

Current Liabilities

- ▶ Asset Retirement Obligation
 - ▶ Cash to remove tangible equipment
 - ▶ Restore surface at end of production operations.

Long Term Liabilities

	2022	2,021	2020	2019
Bank Debt	9,509		693,123	464,319
Senior Notes	1,832,451	2,707,770	2,329,745	2,659,844
Senior subordinated notes			17,384	48,774
Deffered Taxes	333,571	117,642	135,267	160,196
Derivative Liabilities	15,495	8,216	9,746	949
Deferred Compensation	99,907	137,102	81,481	64,070
Operating Lease Liabilities	20,903	24,861	43,155	41,068
Assets Retirement obligations	112,981	101,509	91,157	259,151
Divestiture contract obligation	304,074	325,279	391,502	
Long Term Liabilities	2,728,891	3,422,379	3,792,560	3,698,371

Long Term Liabilities

Vertical Common Size

	2022	2021	2020	2019
Bank Debt	0.14%	0.00%	11.29%	7.00%
Senior Notes	27.66%	40.65%	37.96%	40.11%
Senior subordinated notes	0.00%	0.00%	0.28%	0.74%
Deferred Taxes	5.03%	1.77%	2.20%	2.42%
Derivative Liabilities	0.23%	0.12%	0.16%	0.01%
Deferred Compensation	1.51%	2.06%	1.33%	0.97%
Operating Lease Liabilities	0.32%	0.37%	0.70%	0.62%
Assets Retirement obligations	1.71%	1.52%	1.49%	3.91%
Divestiture contract obligation	4.59%	4.88%	6.38%	0.00%

Long term liabilities

- ▶ Deferred taxes recognizes expenses are recognized in tax returns before they are recognized in the financial statements
- ▶ Management considers all available evidence and believes the deferred taxes will be realized

Long Term Liabilities

- ▶ Bank Line of Credit is for \$2.9 Billion and was reconfirmed in September 2022
- ▶ Secured by all assets for the company
- ▶ Company is in compliance with certain financial and non-financial covenants
- ▶ Included in the covenants
 - ▶ Limiting dividend payments
 - ▶ Debt incurrence
 - ▶ Maintain certain financial ratios

Bank Debt

	2022	2021
Senior Notes	1,832,451	2,707,770

Bank Debt to Capitalization

	2022	2021
Bank Debt	1,832,451	2,707,770
Stockholder Equity	2,876,006	2,085,663
Total Capitalization	4,708,457	4,793,433
Debt to Capitalization	38.9%	56.5%

Shareholders Equity

Stockholder Equity	2022	2,021	2020	2019
Preferred Stock				
Common Stock	2,629	2,598	2,563	2,514
Common Stock in Treasury	(429,659)	(30,007)	(30,132)	(7,236)
Additional Paid in Capital	5,764,970	5,720,277	5,684,268	5,659,832
Accumulated comprehensive loss	467	(150)	(479)	(788)
Retained Deficit	(2,462,401)	(3,607,055)	(4,018,685)	(3,306,834)
Total Shareholder Equity	2,876,006	2,085,663	1,637,535	2,347,488

Shareholder Equity

Vertical Common Size

Stockholder Equity	2022	2021	2020	2019
Preferred Stock				
Common Stock	0.04%	0.04%	0.04%	0.04%
Common Stock in Treasury	-6.48%	-0.45%	-0.49%	-0.11%
Additional Paid in Capital	87.01%	85.88%	92.62%	85.35%
Accumulated comprehensive loss	0.01%	0.00%	-0.01%	-0.01%
Retained Deficit	-37.17%	-54.16%	-65.48%	-49.87%
Total Shareholder Equity	43.41%	31.31%	26.68%	35.40%

Income Statement - Revenue

Revenus and Other Income	2022	2021	2020	2019
Natural Gas	4,911,092	3,215,027	1,607,713	2,255,425
Derivative fair value	(1,188,506)	(650,216)	187,711	226,681
Brokered natural gas	424,217	365,412	173,273	345,509
Tota Revenue	4,148,825	2,930,223	1,968,697	2,827,615

Revenue

Horizontal Common Size

Revenus and Other Income	2022	2021	2020	2019
Natural Gas	226%	147.7%	73.9%	103.6%
Derivative fair value	-557%	-304.8%	88.0%	106.2%
Brokered natural gas	192%	165.1%	78.3%	156.1%
Tota Revenue	159%	112.2%	75.4%	108.3%

Cost of Goods

Cost and Expenses	2022	2,021	2020	2019
Direct operating	84,286	75,287	92,157	136,276
transportation	1,242,941	1,174,469	1,088,490	1,199,297
Production	35,367	29,317	24,617	37,967
Brokered Natural gas	427,048	367,288	188,316	359,892
Exploration	26,772	23,555	32,654	36,683
Abandonment	28,608	7,206	19,334	1,235,342

Cost of Goods Sold

Horizontal Common Size

Cost and Expenses	2022	2021	2020	2019
Direct operating	63%	56.1%	68.6%	101.5%
transportation	163%	154.3%	143.0%	157.6%
Production	82%	68.4%	57.4%	88.5%
Brokered Natural gas	194%	166.7%	85.5%	163.4%
Exploration	50%	43.9%	60.9%	68.4%
Abandonment	11%	2.7%	7.2%	458.0%

G & A

	2022	2,021	2020	2019
G & A	168,085	169,766	159,415	181,109
Exit & termination	70,337	21,661	547,409	9,506
Deferred Compensation	61,880	68,351	12,541	(15,472)
Interest	165,145	227,336	192,667	194,285
Gain on early extinguishment	69,493	98	(14,068)	(5,415)
Depletion	353,420	364,555	394,330	548,843
Impairment of properties			78,955	1,095,634
Impariment of Goodwill				
(gain) loss on asset sale	(409)	(701)	(110,791)	30,256
Total Costs & Expenses	887,951	851,066	1,260,458	2,038,746

G & A

Horizontal Common Size

	2022	2021	2020	2019
G & A	72%	72.7%	68.3%	77.6%
Exit & termination	1866%	574.6%	14520.1%	252.1%
Deferred Compensation	-122%	-134.2%	-24.6%	30.4%
Interest	84%	116.2%	98.5%	99.3%
Gain on early extinguishment				
Depletion	57%	58.3%	63.1%	87.8%
Impairment of properties	0%	0.0%	124.0%	1720.6%
Impariment of Goodwill				
(gain) loss on asset sale	2%	3.0%	467.2%	-127.6%
Total Costs & Expenses	108%	100.0%	107.0%	199.5%

Cash Flow - Operations

Operating Activities	2022	2021	2020	2019
Net Loss	1,183,370	411,778	(711,777)	(1,716,297)
Deferred Tax	215,772	(17,727)	(25,029)	(506,438)
Depletion	353,420	364,555	473,285	1,644,477
Impairment goodwill				
Exploration Dry Hole			888	(11)
Abandonment Properties	28,608	7,206	19,334	1,235,342
Derivative fair market	1,188,506	650,216	(187,711)	(226,681)
Cash Settlement derivatives	(1,190,154)	(520,013)	322,629	188,384
Divestiture contract	69,766	20,340	499,934	
Allowance bad debt	(250)	200	400	4,341
Amoritzation	7,959	8,347	6,919	6,455
Defer stock based comp	107,959	110,356	48,552	24,891
(gain) loss sale assets	(409)	(701)	(110,791)	30,256
Gain early extinguishment debt	69,493	98	(14,068)	(5,415)
Changes working capital				
Accounts Receivable	(3,286)	(250,538)	24,539	214,196
Inventory	(18,438)	(1,140)	1,010	4,520
Accounts Payable	17,077	39,231	(32,686)	(60,374)
Accrued liabilities	(164,649)	(29,260)	(46,748)	(155,803)
Net cash from operations	1,864,744	792,948	268,680	681,843

Cash Flow - Investing

Investing Activities	2022	2,021	2020	2019
Addition to properties	(456,505)	(393,478)	(405,617)	(687,277)
Addition to field services	(682)	(1,231)	(2,873)	(1,162)
Acerage purchases	(30,885)	(23,962)	(26,816)	(59,986)
Proceeds disposal of assets	518	303	246,127	784,937
Purchase Marketable securities	(43,691)	(30,806)	(17,076)	(19,039)
Proceeds sales of marketable securi	41,413	31,295	22,173	22,005
Net Cash for Investing	(487,810)	(417,879)	(184,082)	39,478

Cash Flow - Financing

Financing Actiities	2022	2,021	2020	2019
Borrowing Credit Facility	972,000	1,434,000	2,076,000	2,311,000
Repay Credit Facility	(953,000)	(2,136,000)	(1,851,000)	(2,777,000)
Issuance Senior Notes	500,000	600,000	850,000	
Repayment senior notes	(1,659,422)	(63,324)	(1,120,634)	(195,432)
Dividends	(38,638)			(20,070)
Treasury stock purchases	(399,699)		(22,992)	(6,908)
debt issuance cost	(16,176)	(8,854)	(13,608)	(4,446)
Taxes for shares withheld	(25,492)	(9,299)	(3,324)	(3,384)
Change in cash overdrafts	9,071	16,493	176	(25,747)
Proceeds sale stock from Comp prog	22,229	5,879	696	667
Net cash from Financing	(1,589,127)	(161,105)	(84,686)	(721,320)

Cash Flow Statement

	2022	2021	2,020	2,019
Cash Flow Operations	1,864,744	792,948	268,680	681,843
Cash Flow Investing	(487,810)	(417,879)	(184,082)	39,478
Cash Flow Financing	(1,589,127)	(161,105)	(84,686)	(721,320)
	(212,193)	213,964	(88)	1

Statement of Shareholder Equity

Balance Dec. 31, 2020	256,335	2,563	(30,132)	5,684,189	(4,018,606)	(479)	1,637,535
Issuance Common Stock	3,429	35		6,998			7,033
Stock Based Compensation				28,988			28,988
Cash Dividends							
Treasury Stock Repurchased							
Treasury Stock Issued			125	(125)			
Comprehensive Loss						329	329
Net Loss					411,778		411,778
Balance Dec. 31, 2021	259,764	2,598	(30,007)	5,720,050	(3,606,828)	(150)	2,085,663
Issuance Common Stock	3,089	31		13,529			
Stock Based Compensation	2			78	(78)		
Cash Dividends				31,133	(38,638)		
Treasury Stock Repurchased							
Treasury Stock Issued			47	(47)			
Comprehensive Loss			(399,699)			617	
Net Loss					1,183,370		
Balance Dec. 31, 2022	262,855	2,629	(429,659)	5,764,743	(2,462,174)	467	2,085,663

First Half 2023 Income Statement

For January thru June		
Revenues and Other Income	2023	2022
Net Sales	1,823,337	1,405,879
Total Revenue	1,823,337	1,405,879
Cost and Expenses		
Cost of Material Sold	1,175,068	1,422,582
Gross Profit	648,269	(16,703)
Provision for Taxes		
Current	2,399	13,751
Deferred	134,192	(26,501)
	136,591	(12,750)
Net Income	511,678	(3,953)

First Half 2023

Cash Flow Statement

For January thru June		
	2023	2022
Operating Activities	601,546	731,120
Investing Activities	(291,659)	(228,354)
Financing Activities	(148,019)	(716,832)
	161,868	(214,066)

Altman Z Score

Given

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

X1=Working Capital/Total Assets

X2=Retained Earnings/Total Assets

X3=EBIT/Total Assets

X4=Market Value of Equity/Total Liabilities

X5=Net Sales/Total Assets

Inputs	2022	2021	2020	2019
Total Assets	\$ 6,625,562	\$ 6,660,507	\$ 6,136,936	\$ 6,631,109
Working Capital	\$ (481,078)	\$ (425,800)	\$ (429,021)	\$ (140,763)
Retained Earnings	\$ (2,462,401)	\$ (3,607,055)	\$ (4,018,685)	\$ (3,306,834)
Pre-Tax Earnings (EBIT)	\$ 1,413,830	\$ 402,035	\$ (737,329)	\$ (2,216,588)
Market Value of Equity <i>(If not public use book value)</i>	\$ 7,885,650	\$ 13,769,188	5,127,080	\$ 3,520,146
Total Liabilities	\$ 3,749,556	\$ 4,574,844	\$ 4,501,421	\$ 4,266,934
Sales	\$ 4,148,825	\$ 2,930,223	\$ 1,968,697	\$ 2,827,615
Altman Z Score	1.98	1.61	-0.39	-0.91

Z greater than 2.99

Z between 1.81-2.99

Z less than 1.81

Indicates a non-bankrupt company

Indicates the Zone of Ignorance

Indicates a bankruptcy prone company

Short Term Related to Pay Debts

- ▶ Accounts Receivable Days
 - ▶ Turnover
- ▶ Inventory In Days
 - ▶ Turnover
- ▶ Operating Cycle
- ▶ Sales to Working Capital
- ▶ Current Ratio

A/R Turnover in Days

▶ Average A/R / Net Sales / 365

A/R TO	2022	2021	2020	2019
Average A/R	573	505	402	473
Net Sales / 365	17	16	9	12
	33.1	32.5	42.3	38.4

Inventory in Days

▶ Average Inventory / COGS / 365

Inventory TO	2022	2021	2020	2019
Average Inventory	1,167	1,182	901	1,010
COGS / 365	14	12	8	10
	85.0	95.3	115.6	100.4

Operating Cycle

- ▶ A/R Turnover + Inventory Turnover
- ▶ Days

Operating Cycle	2022	2021	2020	2019
A/R TO	33	32	42	38
Inventory TO	85	95	116	100
	118.0	127.8	157.9	138.7

Sales to Working Capital

► Sales / Ave working capital

Sales vs WC	2022	2021	2020	2019
Sales	6,324	5,675	3,467	4,502
Ave WC	411	420	287	394
	15.38	13.50	12.06	11.42

Current Ratio and Working Capital

- ▶ Current Assets - Current Liabilities
- ▶ Current Assets / Current Liabilities

Working Capital	2022	2021	2020	2019
Current Assest	1,442	1,592	1,103	1,280
Current Liabilities	619	751	529	492
	822	841	575	788
Current Ratio	2022	2021	2020	2019
Current Assest	1,442	1,592	1,103	1,280
Current Liabilities	619	751	529	492
	2.33	2.12	2.09	2.60

Long Term Related to Debt Pay

- ▶ Times Interest Earned
- ▶ Debt Ratio
- ▶ Debt Equity
- ▶ Long Term assets vs Long Term Debt

Times Interest Earned

▶ Cash Flow operations / Interest Expense

	2022	2021	2020	2019
Cash Flow Operations	501	35	278	193
Interest Expense	33	51	76	93
	15.10	0.69	3.64	2.07

Debt Ratio

▶ Total Liabilities / Total Assets

	2022	2021	2020	2019
Total Liabilities	1,441	1,820	1,658	1,843
Total Assets	2,334	2,364	1,802	2,021
	0.62	0.77	0.92	0.91

Debt Equity

▶ Total Liabilities / Shareholder Equity

	2022	2021	2020	2019
Total Liabilities	1,441	1,820	1,658	1,843
Shareholder Equity	2,662	2,337	144	179
	0.54	0.78	11.55	10.28

Long Term Debt vs Long Term Assets

▶ Long term assets / Long Term debt

	2022	2021	2020	2019
Long Term Assets	2,334	2,364	1,802	2,021
Long Term Debt	822	1,069	1,129	1,351
	2.84	2.21	1.60	1.50

Free Cash Flow

▶ Cash flow operations - Cash flow investing

Free Cash Flow	2022	2021	2020	2019
Cash Flow Operations	501	35	278	193
CAPEX (investment Exp)	(105)	(59)	(26)	(46)
	404.1	142	252	193.1

Analyst

- ▶ RRC is rated as Hold by couple of analysts I looked at
- ▶ Momentum score is doing very well
- ▶ Value side also rated high
- ▶ But growth score is very low
- ▶ Estimates are broadly trending up
- ▶ Hold until see better trends develop

Class action lawsuits

- ▶ Between April 2016 and February 2021
- ▶ Company made false and misleading statements to market
- ▶ Improperly designated wells in Pennsylvania since 2013
- ▶ Artificially decreased company costs to plug abandoned wells
- ▶ Wells not used in over 12 months are inactive
- ▶ Company incurred and paid fines from State of Pennsylvania of \$294K

Case Study

Questions/Discussion

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