# *Southwestern Energy Company*
## Fourth Quarter 2017 Earnings Teleconference Call
## March 2, 2018

## Participants
Michael Hancock - Vice President - Investor Relations
Bill Way - President and Chief Executive Officer
Jennifer Stewart - Interim Chief Financial Officer
Clay Carrell - Chief Operating Officer

## Analysts
Charles Meade - Johnson Rice
Arun Jayaram - JPMorgan
Michael McAllister - MUFG Securities
Brian Singer - Goldman Sachs
Drew Venker - Morgan Stanley
Jeffrey Campbell - Tuohy Brothers
Sean Sneeden - Guggenheim Securities
Greg Brody - Bank of America Merrill Lynch

## Presentation

**Operator**
Greetings, and welcome to the Southwestern Energy Company Fourth Quarter 2017 Earnings Teleconference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. In the interest of time, please limit yourself to two questions. Afterward, you may feel free to re-queue for additional questions. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce Mr. Michael Hancock. Thank you, Mr. Hancock. You may now begin.

**Michael Hancock - Vice President - Investor Relations**
Thank you, Tim. Good morning and welcome to Southwestern Energy's fourth quarter and full year 2017 earnings call. Joining me today to discuss our results are: Bill Way, President and CEO; Jennifer Stewart, Interim CFO; Clay Carrell, COO; along with other members of our management team.

Along with yesterday's press release, we also issued our 10-K, which has been posted on our website. Before we get started, I'd like to point out that many of the comments during this teleconference are forward-looking statements that involve risks and uncertainties affecting outcomes. Many of these are beyond our control and are discussed in more detail in the Risk Factors and the Forward-Looking Statements Sections of our Annual and Quarterly Filings with the Securities and Exchange Commission.

Although we believe the expectations expressed are based on reasonable assumptions, they are not guarantees of future performance, and actual results or developments may differ materially. We may also refer to some non-GAAP financial measures, which help facilitate comparisons across periods and with peers. For any non-GAAP measures we use, a reconciliation to the nearest corresponding GAAP measure can be found in our earnings release available on our website.

I'll now turn the call over to Bill Way.

**Bill Way - President and Chief Executive Officer**
Thanks, Michael. Good morning, everyone. Thanks for joining us on our call today. Before we get started on 2017 results, I would like to talk about the management changes we've had since our last call.

Clay Carrell, our new COO; Julian Bott, our recently announced incoming CFO; and Paige Penchas, our new Vice President of Investor Relations are in the room with us today. And, I want to tell you how excited we are about the extensive experience that each have gained throughout their careers in the energy industry and the diverse perspectives that they will bring to our leadership team.

I also want to take this opportunity to personally thank Jennifer Stewart and Michael Hancock for their outstanding work in serving their respective roles for our company. I look forward to continue to work with them and the rest of the leadership team at SWN on a going forward. Jennifer and Michael will be working to transition Julian and Paige over the coming weeks.

Following my remarks this morning, Clay Carrell will give a detailed summary of the operating highlights, and Jennifer Stewart will provide a financial review.

2017 was a solid operational and financial year for Southwestern Energy where we met or exceeded every commitment we laid out in our 2017 guidance. The results of our rigorous financial discipline and returns-focused capital allocations are clear. We generated $1.1 billion in cash flow, grew production to 897 BCF equivalent and recorded record reserves of 14.8 trillion cubic feet equivalent.

Building on the strength, confidence, and performance of our high-quality asset portfolio, last month we announced the decision to reposition the company to compete and win. We are actively pursuing strategic alternatives for the Fayetteville Shale E&P and related midstream gathering assets, and identifying and implementing structural process and organizational changes to improve cost and margin leadership.

Our intention from these activities is to utilize the funds realized to reduce debt, supplement our highly economic Appalachia development capital, and potentially return capital to shareholders and for other general corporate purposes. This next step in our strategy supports our drive to capture the highest value from our large-scale, high-quality Tier 1 assets, which we believe will deliver maximum long-term value for our shareholders.

We are successfully navigating through the continuing challenging commodity price environment, and we built strong momentum over the last two years by executing our multiphase strategy to improve the company's position in this sector.

In 2017, we intensely focused on our assets and expanded margins to enable SWN to deliver growth within cash flow at realized natural gas prices well below $3. This second phase of our strategy is delivering real results and is ongoing.

Given the large scope and scale of our core assets, we are in the enviable position of being able to optimize and drive significant value from the existing portfolio we already own. It includes technical, operational, and commercial excellence, as measured by our team's impressive results, including improving cycle time, drilling longer laterals, and material uplift of wells from significant improvement in frac design and implementation. It also includes renegotiation of transportation and gathering agreements across our assets and dramatic water handling cost savings among others.

During 2017, we once again allocated capital to our highest return projects in Appalachia, which grew production 16% and increased reserves to over 11 Tcfe in that area alone. To put this in perspective, 11.1 Tcfe of Appalachia reserves at a $2.98 per MMBtu SEC price compares to only 5.5 Tcf just three years ago when natural gas prices were much higher at $4.35 per MMBtu. In other words, we've doubled the reserve base in the Appalachia Basin with a $1.37 per MMBtu decrease in price, further demonstrating the economic resiliency and ability to transform our portfolio to compete in a lower commodity price environment.

The strong depth and breadth in our Appalachia portfolio, backed up with clear metrics and our significant growth in the Appalachian area, has positioned the company to take the next step forward. The time is right to seek strategic alternatives for the Fayetteville assets and focus on additional growth, cash flow, and higher returns generated from the growing contribution natural gas liquids are contributing to our results to further strengthen our investment returns at even lower gas prices.

While Fayetteville has numerous additional economic development opportunities, the high bar set by our Appalachia assets and our rigorous capital allocation discipline of investing in the highest return projects make it challenging for Fayetteville to compete for capital in our portfolio.

I will note here that the Fayetteville process and our further work on cost reductions are moving forward. We have announced these two strategic actions early to provide additional context to our strong 2017 results and our 2018 objectives. However, we are very early in the process, and we will engage in further discussion on these two actions at the right time and once we have completed our work. While these repositioning actions progress, we are laser-focused on creating value from all three of our large-scale high-quality assets, and are well on our way to delivering the exciting plans we have for 2018 with the same vigor you come to expect from Southwestern Energy.

Our 2018 guidance demonstrates the benefits of our margin expansion mandate and the impact of our growing liquids portfolio. Liquid production is expected to grow approximately 30% compared to 2017, assuming the midpoint of guidance, helping deliver an over 5% increase in cash flow despite a $0.25 per Mcf decrease in the forecast of NYMEX gas prices.

Consistent with our rigorous and demonstrated capital discipline, our capital investment program of $1.2 billion, will be fully-funded from cash flow. Our Appalachia assets in Pennsylvania and West Virginia are expected to generate almost $850 million in EBITDA for 2018, setting them up nicely to self-fund future growth within cash flow. In 2018, these assets are delivering more with less and are expected to generate almost 20% production growth from just $770 million of drilling and completion capital. This includes approximately 30% production growth in Southwest Appalachia alone.

Looking forward, the company’s Southwest Appalachia assets provide growing natural gas liquids rich production, and are capable of doubling production over the next four years with only $500 million per year of capital investment, excluding capitalized interest and expenses.

While pipeline infrastructure continues to expand in Appalachia, SWN is well-positioned to capture the resulting basis improvements today and well into the future. As a reminder, Southwestern has drilled in the Marcellus for more than eight years and was an early participant in the pipeline expansion in the area, locking in low cost firm transportation with ample capacity to grow our business and access multiple high-value markets.

Our Northeast Appalachia business is solidly positioned to capture materially-improving basis differentials with transportation costs essentially flat throughout the development. In 2018, we expect to realize a $0.25 per Mcf improvement in Northeast Appalachia differentials and an over $0.10 per Mcf improvement in companywide differentials.

In Southwest Appalachia, we have sufficient outlets to market our growing gas production even if pipeline projects are delayed. We continue to monitor additional pipeline capacity opportunities to access the growing gulf coast demand going forward.

As the impressive portfolio of natural gas pipelines are built and expanded, we believe the availability and cost of future capacity will further improve over time and fully support future development. We are confident about the solid foundation we have in place and are excited about the momentum we have built. I would like to now turn over to Clay to provide some further specifics on the exciting road ahead for this company.

**Clay Carrell - Chief Operating Officer**

Thank you, Bill, and good morning, everyone. To begin with, I'm excited to be a part of a company that has a long-standing culture of operational excellence. A core tenant of my operating philosophy throughout my career has been a continuous improvement focus on operational and technical excellence, and that’s one of the key things that attracted me to Southwestern. I'm even more impressed now that I have the chance to see the team in action, firsthand, and get a deeper understanding of our asset base.

As Bill mentioned total production was 897 Bcfe in 2017. Production from Appalachia accounted for 65% of our total production, or 578 Bcfe, an increase of 16% compared to 2016. Further, our 2017 gross operated exit-rate was 2.35 Bcfe per day in Appalachia, a 40% increase compared to December 2016.

Appalachia assets generated over $500 million in EBITDA in 2017. Underlying this cash flow growth is a higher natural gas liquids component and an intense focus on applying technology and improved well efficiency. So, doing more with less and doing it better.

Our year-end 2017 proved reserves of 14.8 Tcfe reflect our meaningful improvements to economics across our portfolio. We were able to enhance the economics through innovative breakthroughs and drilling and completion techniques along with renegotiated pipeline gathering and processing agreements. Proved reserves were comprised of 75% natural gas and 25% liquids, compared to 93% natural gas and 7% liquids in 2016, driven by a significant increase in liquids-rich Southwest Appalachia proved reserves.

Operationally throughout 2017, we utilize latest generation technology that tested tighter stage and cluster spacing, increased sand loading, longer lateral lengths, and optimized flow techniques across the portfolio. These improvements resulted in increased type curves and improved economics in both of our Appalachia assets. As an example, in Southwest Appalachia, we increased the stage density and sand loading by 20% and 14%, respectively, in 2017, and increased the average horizontal lateral length by over 2,000 feet or 41% compared to 2016. The results from these wells are outperforming historical offsets by approximately 30% on a per lateral foot basis, and you can see the uplift in the type curve shown in last night's press release.

Additionally, in Northeast Appalachia, increased drilling precision in the optimal landing zones and enhanced completion designs are yielding higher well productivity and higher well returns, as evidenced, by an approximately 75% increase in first year cumulative production and approximately 25% increase in EUR over the life of the well.

As mentioned in the past, we have tested new designs in multiple counties in our Northeast Appalachia acreage and are seeing the uplift across our position. We expect to capture this enhanced value on all of our future Northeast Appalachia development.

Our well productivity is translating into improving capital efficiency, demonstrated by the continued improvement in proved-developed F&D. In 2017, total company proved-developed F&D costs were $0.72 per Mcfe, 4% better than 2016. Capital efficiency is expected to further improve in 2018 as we take the learnings to the next level of application and look for even more ways to capture additional value.

Beyond our technical and operating capability, we are delivering additional value through the Southwest Appalachia water project, which is expected to save approximately $500,000 per well beginning in late 2018.

In 2017, we also expanded our testing of prospective acreage in each asset. In Southwest Appalachia, we expanded the rich gas footprint of our acreage, placing our northern most pad to sales in Brooke County, West Virginia. This four-well pad has produced approximately 8 Bcfe of cumulative production comprised of 68% liquids and has an average F&D cost of approximately $0.50 an Mcfe, with a gas breakeven price of less than $1, based on current oil prices. Based on these results, we have added an additional 6,000 acres in Brooke County and plan to focus our 2018 activities in the rich gas window of the play, further enhancing our economics.

In Northeast Appalachia, the company commenced development of its acreage in Tioga County, with gross production increasing to 73 million cubic feet per day at year-end 2017. Southwestern holds approximately 28,000 acres in the Tioga area and has commissioned the installation of the first phase of a gas gathering and water distribution system throughout this acreage. In 2017, we placed eight wells to sales in this area and had an additional 11 wells in progress.

The first portion of development in Tioga has shown encouraging results, and Tioga activity is planned to increase as part of the 2018 Northeast Appalachia program, as we continue to develop more pads, further delineate the reservoir, and continue to capture acreage.

In Fayetteville, we tested two concepts in 2017, which included further delineation in the Moorefield and redevelopment opportunities in the Fayetteville Shale. The results of our Moorefield tests have derisked approximately 36,000 productive net acres out of the prospective 100,000 acres in the play. Additionally, we identified a significant opportunity for additional future value through the redevelopment of the Fayetteville Shale, utilizing the latest generation drilling and completion techniques supported by our internal Big Data analytics.

The redevelopment opportunities include both redrilling infield wells in older, lower-performing areas of the field, and drilling normally-spaced, proved-undeveloped locations again using the latest drilling and completion technology and in some cases extending lateral lengths. The company drilled its first redevelopment well, a redrill of an older vintage well in the second half of 2017, which resulted in a 40% improvement in initial production rates over offset well averages, which validated the results generated by the data analytics model. Based on this result, the company is currently drilling additional redevelopment opportunities to further validate the improved performance predicted by the data analytics model across the field.

I'll now turn it over to Jennifer Stewart to discuss some of the recent financial highlights.

**Jennifer Stewart - Interim Chief Financial Officer**
Thank you, Clay, and good morning everyone. One of our key 2017 initiatives was to improve financial strength in order to increase our resilience and flexibility in a volatile commodity price environment. We delivered on that initiative. In 2017, we took several steps to further strengthen the balance sheet by investing within net cash flow, which was supplemented by the remaining $200 million from our 2016 equity offering. We reduced gross debt by $262 million and extended our debt maturity schedule, resulting in no significant bond maturities prior to 2022.

Further, improvements in pricing and operational enhancements combined with our liability management actions implemented over the last two years, improved our net debt to EBITDA ratio 38% from 4.5x at the end of 2016 to 2.8x at the end of 2017. We remain committed to continuing improvement of our debt metrics with our announced strategic alternatives where we stated our attention to accelerate the path to below 2x.

Additionally, in the fourth quarter, we received consent from the majority of our 2022 and 2025 bond holders to align the covenants of those bonds with our 2020, 2026, and 2027 bonds, as well as to amend certain covenants that created additional financial flexibility. In the fourth quarter of 2017, we generated approximately $322 million in net cash flow, a 53% improvement compared to the fourth quarter of 2016, due primarily to higher liquids pricing, which more than offset lower NYMEX natural gas prices.

Our focus on NGL rich gas development resulted in a 44% increase in liquids production capturing the benefits of improved liquids pricing. In Southwest Appalachia, this resulted in an over 80% increase in margins compared to a year ago. For the total company, liquids revenues provided a $0.19 per Mcfe price uplift compared to a $0.06 per Mcfe price uplift in 2016.

As part of our commitment to ensure cash flow and economic returns on our capital investments, we continue to add to our hedge portfolio. As of February 27th, we had approximately 70% of our 2018 production hedged at an average swap or purchased-put strike price of approximately $2.97 with upside exposure up to $3.39 per Mcf on approximately 53% of those protected volumes. The company also had approximately 215 Bcf of 29 production hedged at an average swap or purchased-put strike price of approximately $2.96 with upside exposure up to $3.31 on approximately 57% of those protected volumes. Our 2018 and 2019 positions continue to be predominantly costless collars in order to retain upside exposure to expect an improvement in commodity price.

That concludes our prepared remarks. Operator, we'd now like to open up the call for questions.

**Question-and-Answer Session**

**Operator**
Thank you. We will now be conducting a question-and-answer session. [Operator Instructions]

Our first question comes from the line of Charles Meade of Johnson Rice. Please proceed with your question.

**Bill Way - President and Chief Executive Officer**
Good morning. How are you doing Charles?

**Q:** I'm doing well. Thank you. Bill, I wanted to ask about the Fayetteville Shale and the expectations that you'd like to communicate forward. Can you talk about what timeline we should be thinking about? And, also, could you add some thoughts about what sort of buyer you're going to be targeting for this?

**Bill Way - President and Chief Executive Officer**
Let me put in the room for all the callers a comment around this entire process and ask you to bear with us. We are early in this process. We announced the process in order to bring context to our 2017 and 2018 performance. We've spoken about the fact that a major driver for this is repositioning the company to capture liquids in the Northeast and that the funds from any kind of monetization of that asset would go, in the first instance, to pay down debt, and then the other things that I mentioned on the call. It's critical for you to understand, and I'll ask for your indulgence that timing and details and success cases and non-success cases and floor pricing and any other things that may come at an angle on this question, we're just not ready to talk about them. We have a process to get underway, which we have started. But, I ask you to be patient with us and, as we work through and achieve milestones, we'll be more than happy to communicate those. But, for right now, I'm going to ask you to just be patient with us.

**Q:** Certainly. Understood, Bill. I just wondered to see what more you would be interested in sharing. And, then, if I could actually ask this follow-up question on the Fayetteville, also, Clay, It was really interesting to hear a lot of what you guys are doing with that asset, even though you're going to be parting ways with it. Well, particularly, you talked about redrilling a previous well. And, I wondered, if you could elaborate a little bit more on that. Were you twinning an old well that had a bad frac or maybe you had screen-outs on several stages? What was the bigger set up for why you'd redrill an old well?

**Clay Carrell - Chief Operating Officer**
Yes, the idea was around—we've been developing and producing that field for many, many years, and the quality of drilling and completion techniques has continued to improve across all these shale plays. And, so, our team continued to look for ways to add value in that asset and identified, through the help of this data analytics model where we put all 4,000 wells into the model and look for the different areas that had the best performance, we identified those that were the older generation fracs that had not performed up to the averages of some of the more recent wells around them. That helped us identify the candidates that do as you said, essentially go—redrill 100 foot away from an existing well that didn't perform like we now think we can get out of the field based on our analytics mode. And, it played out right in line with that analytics model. So, we were really pleased with that result.

**Bill Way - President and Chief Executive Officer**
And, Charles, to follow-up with that a bit, you'll note in our results that the strategy behind all the work that's going on in Fayetteville right now is for the company to capture all of the value and upside that is present in that world-class asset and position it to get maximum value out going forward. So, transportation renegotiations, the incredible work the teams are doing around Moorefield, and the very strong and encouraging work that they're doing around redevelopment and opportunities is all part of the drive to maximize the value of that asset in this entire process.

**Q:** That's helpful Bill. So, if I understand the comments, this was kind of—you pick one of your more productive areas of the field and then find the lowest performing well in that productive area, and that's how you sorted the opportunity.

**Bill Way - President and Chief Executive Officer**
That's how we sorted the first one. We have some additional wells that have been approved, and those will be testing spacing, testing a number of other dimensions. The real nugget here is applying the latest technology that delivers increased value that we've brought from the Appalachian basin back to the Fayetteville and drive additional results. And, the uplift on this first well was very strong and encouraging.

**Q:** Thank you, Bill, for the detail.

**Operator**
Our next question comes from the line of Arun Jayaram of J.P. Morgan. Please proceed with your question.

**Q:** Yes, good morning. My only question regarding the Fayetteville, I was just wondering if you could help us with the year-end PV10 value, and maybe just to split, I think it was at $2.98 gas, but the split between PDPs and maybe undrilled inventory at that time?

**Michael Hancock - Vice President - Investor Relations**
You're talking from a PV10 value, Arun?

**Q:** Yes. And I don't know if you have that at this strip…

**Michael Hancock - Vice President - Investor Relations**
Yes, most of that's going to be the PDP, and we don't have the breakout at today's strip, but it hadn't changed a great deal since running the SEC price. So, but most of that value is PDP because those are out later in the development cycle, so discounting impacts the value.

**Clay Carrell - Chief Operating Officer**
Yes, the PDP component of the Fayetteville is a little over $2 billion.

**Q:** Great, okay, that's helpful. Thanks, Clay. And, just for my follow-up, Bill, you talked about potentially looking at ways to renegotiate some of the transportation agreements that were successful in the Fayetteville. Could you just give us a little bit more color around that?

**Bill Way - President and Chief Executive Officer**
Sure. We previously announced, a couple of quarters ago, the Fayetteville has two major transportation routes out for Southwestern. And, those agreements, there's two parts to it: One, we don't use all that transportation in our operations today; and two, they expire in '19 and '20, I believe. So, what the team did is take a look, like they've done across the company, at what options do we have? How do we get out from under some of the excesses that we have, and how do we extend and lock-in a pathway to the growing Gulf Coast market? And, so, basically, they did that. They went to the parties, one of them, in particular, wanted to engage us, so we engaged them, and basically renegotiated, amended, and extended the agreement, allowing for some near-term value of about $70 million to come back to us, and, then, a long-term transportation rate for 10 years to the Gulf Coast, which can be renewed and extended at a very, very favorable transportation rate.

**Q:** And is there opportunity to do something similar in Appalachia?

**Bill Way - President and Chief Executive Officer**
In the Northeast Appalachia, we've already got industry-leading portfolio of very low cost transport. And, so, we've done some work in our history around this, and it’s paid us well. In the Southwest Appalachia Basin, our strategy has been very clear about committing to as much transportation as we needed to, to get the pipes built where we wanted them built and then begin to grow into those with a very clear expectation that, as all of these

pipelines come on and all of the transport comes into play, that the opportunity for capacity to add on to our portfolio at a lower cost is certainly present.  We will phase that in as we develop our asset, but we believe that there is more than enough capacity to allow us to grow very significantly in that basin.  And, we are not under a large amount of long-term, very, very high-cost transport that needs to be renegotiated.  We took a different tact, and we think it's going to pay off for us.

**Q:** Thanks a lot.

**Operator**
Our next question comes from the line of Michael McAllister of MUFG Securities.  Please proceed with your question.

**Q:** Good morning, everyone.

**Bill Way - President and Chief Executive Officer**
Good morning, Michael.

**Q:**  My question is on the Fayetteville and the redevelopment program.  Can you go into what you are doing in 2018?  And, is it being done with the budget of $25 million, or $15 million, or at the midpoint?

**Clay Carrell - Chief Operating Officer**
Yes.  So, we've got a drilling rig running right now.  And, like Bill mentioned, we're further testing the different concepts that are part of this redevelopment opportunity in line with the model that we're using, and those dollars are all included in the 2018 budget capital.

**Q:** So, it's as high as $25 and that's what they're working was in the Fayetteville?

**Clay Carrell - Chief Operating Officer**
That's total capital.  There's some other capital that's non-drilling and completion-related in that total number, but that's the total pool of money that we are currently working on.

**Bill Way - President and Chief Executive Officer**
And, as you should think about this in the broader sense, our capital allocation principles and practices to invest in the highest PVI projects remains.  The majority of our capital is allocated to the Northeast, but the terrific potential that we think could be unlocked if these tests actually come through could be a game changer for just the whole view on Fayetteville from the breadth of the 900,000 acres we have.  So, it's very early days.  We're doing this one test at a time, being very structured about it and very disciplined about it, all the while honoring our capital allocation practices of targeting high-value investments.

**Q:** I guess trying to get to the balance of that, because if the goal is to find the strategic alternative for Fayetteville, I would almost put a little bit more capital and try to—as you're trying to sell this in some form.  Then you could be more upside by putting more capital there.  It might not be PV10 for you, because you have higher rates in other areas, but, if you can create it, why wouldn't you put a little bit more capital into it and accelerate that to show the wares of this field?

**Bill Way - President and Chief Executive Officer**
Yes, and we certainly discussed quite at length your point.  And, so, just stay tuned is what I'll tell you.  We are working this at pace.  We've got the greater value of the enterprise certainly in front of us mine and in mind.  So just stay tuned, and we'll update you more as we go forward.

**Q:** Okay.  Fair enough.  That's great.  Thanks.

**Bill Way - President and Chief Executive Officer**
Thank you.

**Operator**
Our next question comes from the line of Brian Singer of Goldman Sachs. Please proceed with your question.

**Q:** Thank you. Good morning.

**Bill Way - President and Chief Executive Officer**
Good morning.

**Q:** Wanted to start, and hopefully this will qualify as an okay Fayetteville question. Can you just talk a little bit about the framework for how you would use the cash coming in? You talked some in your opening comments, but I wondered, as you think about debt pay down and balance sheet specific leverage objectives, and then as you think about potentially accelerating to add or to accelerate exposure to Southwest PA liquids, if acreage acquisitions would play into that?

**Jennifer Stewart - Interim Chief Financial Officer**
Hi. This is Jennifer. In our 8-K, that we announced the strategic alternatives for the sale of Fayetteville Shale, in my prepared remarks, we said we're targeting a debt to EBITDA of about two times or lower, actually [indiscernible] times. But, really, the decision on what debt we're going to address with any potential sales proceeds, and that includes the decision of bank versus bond debt, near or longer dated maturities, it's really going to be based on the amount of proceeds that we receive and the market conditions at the time we get the proceeds. So, as of right now, it's just—again, as Bill said, just stay tuned on that.

**Bill Way - President and Chief Executive Officer**
And, in terms of broader uses, we mentioned potential return to shareholders. Today, we're prohibited under our agreements to do that. So, we label this a debt reduction priority first. If we're going to go and be able to use funds for return to shareholders, we have to get approval. We're in a better spot if we get some data first, so we'll do that. Certainly, by doing this, it provides us with much greater flexibility, a stronger balance sheet, and the numbers that Jennifer talked about. And, the options that are available to us to look at are certainly there. We fund a certain portion of acreage in and around our assets, the acreage that Clay talked about in Brooke County, and we have a land budget within our overall capital budget to deal with things like that, and we will continue to pursue that. But, as we get the sources of funds identified by a successful implementation of this plan, it will, as Jennifer said, bring more clarity to where exactly that will go.

**Q:** Great. Thank you. And, then, my follow-up is with regard to Southwest Appalachia. You raised your type curves and talked about further improvements in productivity and efficiency. Can you just talk recovery rates, is the increases in EURs reflective of greater cumulative recovery, is that offset by fewer locations, and where are those recovery rates now?

**Clay Carrell - Chief Operating Officer**
Yes, it's definitely improving recoveries because we are getting greater frac intensity in each of our stages. And, so, we believe we’re improving the recoveries and then that's translating to the greater EURs, and it’s part of the ongoing continuous improvement around the drilling and the completion designs.

**Q:** Thanks. Can you talk to where recover rates are, or?

**Bill Way - President and Chief Executive Officer**
Yes, I think, right now, some of this work is early. So, what we try to do is get a flow history long enough to be able to both determine the EURs and determine recoveries. But, it's all pointing in the right direction.

**Q:** Thank you.

**Operator**
Our next question comes from the line of Drew Venker of Morgan Stanley. Please proceed with your question.

**Q:** Thank you.  Good morning, everyone.

**Bill Way - President and Chief Executive Officer**
Good morning.

**Q:** Bill, I was hoping you could talk about pro forma, the Fayetteville sale.  What kind of growth you think you could deliver, I guess, thinking beyond 2018, because the metrics you talked about for this year is still going to be in a process and again in sale and then potentially a debt pay-down, and you're saying about an Appalachian growth rate that's, I think, really pretty high.  But, if you're spending to cash flow in 2019 and beyond, have you run through what those numbers might look like?

**Bill Way - President and Chief Executive Officer**
Yes, I mean, we model, obviously.  We're going to continue to invest within cash flow.  That's the objective.  And so, with pricing and the volatility of that, and the yet to be determined total amount we would get for Fayetteville is kind of premature.  The numbers that I've said in my opening comments around the ability to grow at these cash flow numbers that the Appalachian Basin alone generates will be double digit growth and robust.

**Q:** Bill, you meant for that number beyond 2018?

**Bill Way - President and Chief Executive Officer**
Right.

**Q:** Okay.  And, is there any significant amount of midstream EBITDA that would be left after you sold Fayetteville gathering?

**Michael Hancock - Vice President - Investor Relations**
About a $25 million is a good placeholder from marketing activities and things like that that's captured in that guidance we put out.

**Q:** Okay.  And, have you provided any updated drilling inventory for Appalachian?  I'm sorry if I missed that.

**Clay Carrell - Chief Operating Officer**
I think that is going to be in the release of the presentation deck that'll come out after this call.  But, we've got future inventory in Southwest Appalachia around 3,700 future drilling locations in total, and then in Northeast Appalachia, it's over 400.

**Q:** Okay.  And, Clay, how much of that in Southwest Appalachia is attributable to Marcellus, or is that all Marcellus?

**Clay Carrell - Chief Operating Officer**
No, it's not all Marcellus.  About a little over 2,000 of that is Marcellus.

**Q:** Okay.  Well, it's still quite a big number, okay.  And, then, just on the corporate costs, you guys have talked about doing a pretty high level and detailed review of the cost structure and the opportunities there.  Do you anticipate that G&A could be materially reduced whether or not you sold the Fayetteville or is there other costs that you are targeting?

**Bill Way - President and Chief Executive Officer**
We're looking at all costs in the company.  And, whether that's G&A, LOE, any other kind of costs along with all the fees and transportation and everything.  So, everything's on the table to evaluate our stated objective is to be top quartile in this and every other part of our business.  So, as we dig into and evaluate all the dimensions of that project, we will bring those this cost segments to the table.  We haven't put any kind of number or range even in

our own head so that we don't limit what we're looking at.  We want to do a very rigorously benchmarked analysis, which is well underway against our peer group.  And, our stated objective is to be in that top quartile.

**Q:** Okay.  Thanks, Clay and Bill.

**Operator**
Our next question comes from the line of Jeffrey Campbell of Tuohy Brothers.  Please proceed with your question.

**Q:** Good morning.

**Bill Way - President and Chief Executive Officer**
Hi Jeffrey.

**Q:** Just for variety, let's not ask a Fayetteville question.  I thought the increased type curve in Susquehanna based on enhanced completions is really quite noteworthy.  I just want to ask first, is the ceiling on improved well performance starting to come into view?  After all, 75% improvement is a lot.  Second, do you expect to see similar percentage uplift in well performance on a percentage basis in other new counties, or is this uplift fairly unique to Susquehanna?

**Clay Carrell - Chief Operating Officer**
We believe the improved completion technology is going to lead to similar improvements in performance across the acreage position.  There's varying development areas across our position, but we think we will be able to generate similar increases.  And it, I think, the continued learning around the best way to frac these shale wells is going to continue to grow, and we're going to continue to see increases.

**Bill Way - President and Chief Executive Officer**
I've been here for six years, and we have had this question asked of us—we have a track record of getting into an area and applying learning.  The capturing of learning and applying it is what really matters and I have been asked if we're at the ceiling, and we've continued to say no, and we've continued to demonstrate no.  So the use of the data analytics models that we have—we've have some of the largest inventories of wells of anyone, and leveraging that and then reconfirming our engineers and scientists and operations folks continue to drive innovation.  And, it's a really a delightful thing to watch.

**Q:** I appreciate that color.  And, let me just ask, as a follow-up, apart from the enhanced completions themselves, do you still have upside with regard to longer laterals in the Northeast or are you pretty much tapping the limit there?

**Bill Way - President and Chief Executive Officer**
Yes, we do.  It's obviously connected to the unit size or the ability to renegotiate to extend units in.  And, so we have opportunities in all of the assets, even in some of the areas in Fayetteville to extend lateral length.  And, we have set some big objectives to do that.  And, for a group of people out from our commercial side of the company and land to help facilitate that where it might not be obvious in front of you by renegotiating the landside of the deal.

**Clay Carrell - Chief Operating Officer**
And, some of that with partnering would offset operations.

**Clay Carrell - Chief Operating Officer**
Yes.

**Q:** Okay, guys.  Thanks for the color.  I appreciate it.

**Operator**
Our next question comes from the line of Sean Sneeden of Guggenheim Securities. Please proceed with your question.

**Q:** Hi, thank you for taking the questions. I guess, number one is on the term loan, Jennifer. Given the 2020 maturity, how are you thinking about that? Do you need to wait for, I guess, the Fayetteville sale to take place, or do you think there's more of a near term refinancing event in that sense?

**Jennifer Stewart - Interim Chief Financial Officer**
As of right now, we don't have anything; there's no concrete plans. We're waiting to see what how the Fayetteville sale progresses and what the proceeds are. And, then, like I said for the previous caller, we have a lot of decisions to make on bank versus bond debt and, with respect to bond date, the nearer or longer date maturities. We, also, as part of the scripted remarks, we've built in a lot of flexibility up to now. And, we really want to take advantage of that flexibility and then evaluate what options we have to make our capital structure more efficient. So, we are going to put that across for a little bit and make our decisions at the right time based on market conditions and also the outlook from our outlook frequency.

**Q:** Okay. That, I think that make sense. And, so, really we should be thinking about more of a holistic review of the cap structure whenever you have a Fayetteville sale in hand. Is that really fair in that sense?

**Jennifer Stewart - Interim Chief Financial Officer**
That's right. Yes. Yes.

**Q:** Okay. And, then, Bill, in your prepared remarks, you mentioned the ability of the Appalachian assets to generate a decent amount of cash as you scale up longer term, and I think you talked a little bit about this in some of the previous questions. But, is the thought process there to use the free cash flow returning to shareholders through dividend or share buybacks? And, I guess, if so where do you think the balance sheet needs to be, or where does leverage need to be in order to do that?

**Bill Way - President and Chief Executive Officer**
Again, we're targeting debt to EBITDA of less than two or at two. We are able to, as we move forward in time, once the transaction would occur, to be able to fund from cash flow from those assets as they continue to improve and grow in scale. And, then, the third, and probably large point that Jennifer mentioned is, to be able to be free to return capital to shareholders we have covenants that we need to change, and we think the best time to think about changing those is after we've taken some of the risk and some of the debt off, and then go through and get those cleared to give us that optionality.

**Q:** I think that makes sense. And, then, just one last one, if you don't mind, you highlight that nice performance there and uplift in the Appalachian type curve. I just want to make sure the guidance you have out there, is that incorporating that current performance or are you using more of a P60 outcome?

**Bill Way - President and Chief Executive Officer**
It includes the performance we put out. Once we can validate performance, similar to what we put out on these curves, we move our objective to that performance.

**Q:** Okay, perfect. Thank you very much.

**Operator**
Our next question comes from the line of Greg Brody of Bank of America, Merrill Lynch. Please proceed with your question.

**Q:** Hey, guys, just one follow-up, on the debt side, you mentioned that covenant restrictions that would prevent you from buying back equity. What securities are out of that? Is that term loan, or is that the bond as well?

**Jennifer Stewart - Interim Chief Financial Officer**
Yes, the term loan, currently, the way we negotiated our current bank facility prevents us from issuing dividends or buying back shares. We would anticipate that when we—as I mentioned before when we're looking to streamline our capital structure and become more become more efficient with the capital structure that we would look to negotiate with our consortium of banks to have some type of outlet depending on certain credit metrics and utilization of whatever facility we use to be able to do a certain amounts of dividends or buybacks. But, as of right now, our current credit facility prevents that.

**Q:** Could you just remind me how many banks are on your term loan?

**Jennifer Stewart - Interim Chief Financial Officer**
Approximately 24.

**Q:** Thank you very much.

**Operator**
Thank you. Ladies and gentlemen, we have reached the end of our allotted time for questions. I would now like to turn the floor back over to Mr. Way for closing comments.

**Bill Way - President and Chief Executive Officer**
I just want to thank everyone for being on the call today. We've got a great team, and I think you've seen results that continue to deliver on the commitments to drive long-term value for our shareholders and our company. We got more to do as we reposition the company to be top quartile performer in the U.S. shale business. We're focused on our high-value liquid-rich investment opportunities within our existing position in the Appalachian basin. And, we look forward to joining you again in the next call to discuss progress being made on the repositioning of our company and all of the exciting things to come around our existing assets. So, thanks for being on the call. Hope you have a great weekend. Take care. Bye.

**Operator**
This concludes today's conference. Thank for your participation. You may disconnect your lines at this time and have a wonderful rest of your day.