



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

REXX - NASDAQ - as of	8/10/17	\$2.66
Price Target		NA
52-Week Range	\$2.30 -	\$9.80
Shares Outstanding (mm)		9.9
Market Cap. (\$mm)		\$26.3
1-Mo. Average Daily Volume		1,597,919
Institutional Ownership		25.4%
Debt/Total Capital	Q2'17	97.5%
ROE	FY'16	nm
Book Value / Share	Q2'17	\$0.37
Price / Book Value		7.1x
Dividend & Yield		NA
LTM EBITDA Margin		24.2%

Adjusted EBITDA / Share - FY 12/31

	Prior	Current	Prior	Current
2016A	2017E	2017E	2018E	2018E
1Q	\$1.24	\$1.59	A --	--
2Q	\$2.65	\$1.26	A --	--
3Q	\$0.50	\$1.91	\$1.77	--
4Q	\$1.36	\$2.30	\$1.74	--
Year	\$5.71	\$7.37	\$6.36	\$10.90
P/E	0.5x		0.4x	0.2x

Revenue (\$mm)

	Prior	Current	Prior	Current
2016A	2017E	2017E	2018E	2018E
1Q	\$31	\$52	A --	--
2Q	\$31	\$47	A --	--
3Q	\$34	\$56	\$48	--
4Q	\$48	\$62	\$56	--
Year	\$144	\$221	\$203	\$307

Company Description: State College, PA – based Rex Energy is a junior exploration and production company operating in the Appalachian and Illinois basins. In 2016 the company produced 72.4 Bcfe of gas, oil and NGLs from its 219 net wells. At year-end the company had proved reserves of approximately 367 Bcf of gas and 47 Mmboe of liquids.

Energy

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Rex Energy Corp.

REXX -- NASDAQ – Neutral-4

Q2'17 Volume -11%, Pricing +5% Yr/Yr; Adjust Production and Cash Flow Forecasts

Investment Highlights

- Rex Energy reported Q2'17 adjusted EBITDA of \$1.26 per share vs. \$2.65 a year ago (both figures adjusted for the May reverse split). The adjusted consensus forecast was for \$1.35 per share.
- Production was 179.0 Mmcf/d in Q2, with 1.4 net wells tied into sales. Guidance for 2017 was reduced from 194-204 Mmcf/d to 180-190 Mmcf/d on delays to tie-ins and midstream constraints.
- Average realized pricing of \$2.82/Mcfe was up 5% yr/yr but 16% lower sequentially. “All in” production costs were \$3.81/Mcfe, up 21% yr/yr but below our outlook.
- The net debt to total capitalization ratio was unchanged at 98% in Q2, and we calculate that liquidity was ~\$151M at quarter-end.
- We are pulling our 2017 production outlook back to 181 Mmcf/d to allow for the recent operational delays the company has experienced, but maintain our 2018 forecast of 255 Mmcf/d as expanded midstream capacity is anticipated to come on-line in January. However, we are reducing our price forecast for H2'17 and allowing for the step-up in interest expense on the October 2020 senior notes, giving way to a better pricing and cost outlook for 2018. These changes reduce our adjusted EBITDA per share estimate for 2017 from \$7.37 to \$6.36, but raise our 2018 from \$10.90 to \$11.30.
- We believe it remains early yet in the company's operational and financial repositioning, and maintain our Neutral / 4 rating.

Note Important Disclosures on Pages 5-6
Note Analyst Certification on Page 5

ADDITIONAL DISCUSSION

While Q2 results were rather mixed, we believe REXX continues to make progress. Management announced a propane marketing arrangement with a subsidiary of BP plc (BP - \$35.47 – not rated), commencing with the start of 2018 anticipated to stabilize pricing and to free up working capital. And in July, the company closed on the sale of waterline assets in Ohio for approximately \$8M.

We calculate the company's hedge positions now cover ~76% of H2'17 volume at \$3.35/Mcfe and ~57% of 2018 volume at \$3.22/Mcfe.

However, the longer-term balance sheet challenges persist with ~\$622M of senior notes scheduled to mature in Q4'20, a backdrop we believe warrants continued caution on the name.

SUITABILITY RATING

Our Suitability rating is 4 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive). This reflects the combination of our favorable view of the company's relatively high-performing development in the Utica and Marcellus formations, attractive near-term hedge position and competitive cost structure. This is balanced, however, against challenging industry-wide market conditions, the lack of hedges beyond 2018 and the company's current balance sheet condition.

CONSIDERATIONS AND RISKS

The energy production industry is highly capital intensive, highly competitive and is subject to a range of economic and operational risks. Foremost among these risks may be volatility in the underlying commodity pricing, which is subject to supply and demand fundamentals related to factors such as economic conditions, weather patterns and logistical constraints. The industry is also subject to a range of regulatory risks, including changes in environmental and pollution policies, permitting requirements, and employee benefits obligations. Operating financial risks include success rates and costs related to expansion of the reserve base.

Company-specific risks include the potential for future constraints on REXX's borrowing capacity and success rates in its drilling and development programs. Additionally, the company has a significant percentage of its undeveloped acreage expiring over the next few years, which could limit longer-term growth potential. Finally, smaller-cap stocks can be subject to pronounced volatility and may not be appropriate for all accounts.

Additional information is available upon request.

Rex Energy Corp. (REXX)

(\$'s in '000's) FYE Dec.

Income Statement Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
Gas, Oil & NGL Sales	297,869	171,951	30,494	31,271	34,034	48,022	143,821	52,065	47,457	48,300	55,630	203,452	306,300
Field Service Revenue	41,461												
Other Revenue	118	42	13	(6)	5	5	17	6	5			11	10
Total Revenues	\$ 339,448	\$ 171,993	\$ 30,507	\$ 31,265	\$ 34,039	\$ 48,027	\$ 143,838	\$ 52,071	\$ 47,462	\$ 48,300	\$ 55,630	\$ 203,463	\$ 306,310
Costs & Expenses:													
Lease Operating & Production	100,248	118,999	30,146	25,221	26,333	28,694	110,394	28,934	29,374	30,050	33,350	121,708	153,960
D, D & A	97,030	104,744	19,408	14,750	15,109	16,503	65,770	15,468	15,501	15,620	17,340	63,929	92,680
G&A	38,997	29,435	6,063	4,837	5,116	5,384	21,400	4,534	4,294	4,170	4,440	17,438	23,330
Exploration	9,445	3,011	993	803	216	224	2,236	220	99	160	220	699	730
Field Service Exp.	30,912												
Other Operating	380	5,595	329	704	9,899	(176)	10,756	(21)	(98)			(119)	
Operating Profit	\$ 62,436	\$ (89,791)	\$ (26,432)	\$ (15,050)	\$ (22,634)	\$ (2,602)	\$ (66,718)	\$ 2,936	\$ (1,708)	\$ (1,700)	\$ 280	\$ (192)	\$ 35,610
%	18.4%	-52.2%	-86.6%	-48.1%	-66.5%	-5.4%	-46.4%	5.6%	-3.6%	-3.5%	0.5%	-0.1%	11.6%
Interest Inc.	-	-	-	-	-	-	-	-	-	-	-	-	-
(Interest Exp.)	(37,459)	(47,806)	(13,032)	(11,439)	(9,646)	(9,404)	(43,521)	(9,143)	(12,122)	(25,000)	(27,500)	(73,765)	(110,000)
Realized Hedging Gain (Loss)	7,280	60,176	4,049	(29,169)	16,866	(24,261)	(32,515)	8,381	10,386	-	-	18,767	-
Unrealized Hedging Gain (Loss)	31,596	-	-	-	-	-	-	-	-	-	-	-	-
Gain (Loss) on Asset Disposal	(331)	477	30	4,307	10	(164)	4,183	1,834	-	8,000	-	9,834	-
(Impairment Exp)	(132,603)	(345,775)	(14,184)	(25,139)	(9,563)	(29,275)	(78,161)	(1,546)	(3,032)	-	-	(4,578)	-
Inc. / (Loss) from Equity-Method Inv.	(813)	(411)	-	-	-	-	-	-	-	-	-	-	-
Other Non-Op. Inc. / (Exp.)	45	(115)	(8,480)	95,502	384	(1,670)	85,736	221	(3,127)	-	-	(2,906)	-
Pre-Tax Income	\$ (69,849)	\$ (423,245)	\$ (58,049)	\$ 19,012	\$ (24,583)	\$ (67,376)	\$ (130,996)	\$ 2,683	\$ (9,603)	\$ (18,700)	\$ (27,220)	\$ (52,840)	\$ (74,390)
Income Tax Exp. (Benefit)	(26,433)	(24,227)	2,092	(393)	(8,106)	8,221	1,814	-	-	(3,740)	(5,440)	(9,180)	(26,040)
%	37.8%	5.7%	-3.6%	-2.1%	33.0%	-12.2%	-1.4%	0.0%	0.0%	20.0%	20.0%	17.4%	35.0%
Inc / (Loss) from Disc. Ops.	767	37,985	-	(1,683)	21,892	8,203	28,412	-	-	-	-	-	-
Inc. / (Loss) to Noncontrolling Interests	4,040	2,245	-	-	-	-	-	-	-	-	-	-	-
(Preferred Dividends)	(2,335)	(9,660)	(2,105)	(1,723)	(613)	18	(4,423)	(598)	(598)	(598)	(598)	(2,392)	(2,392)
Net Income	\$ (49,024)	\$ (372,938)	\$ (62,246)	\$ 15,999	\$ 4,802	\$ (67,376)	\$ (108,821)	\$ 2,085	\$ (10,201)	\$ (15,558)	\$ (22,378)	\$ (46,052)	\$ (50,742)
Shares Outstanding	5,457	5,439	5,600	7,180	9,080	9,740	7,926	9,769	9,881	9,930	9,980	9,890	10,230
EPS - GAAP	(\$8.98)	(\$68.56)	(\$11.11)	\$2.23	\$0.53	(\$6.92)	(\$13.73)	\$0.21	(\$1.03)	(\$1.57)	(\$2.24)	(\$4.66)	(\$4.96)
EPS - Operating, Adjusted	\$0.43	(\$0.79)	(\$0.27)	(\$0.07)	(\$0.14)	(\$0.78)	(\$1.63)	(\$0.06)	(\$0.93)			(\$4.80)	
Margin Analysis													
Production margin	66.3%	30.8%	1.1%	19.3%	22.6%	40.2%	8.4%	44.4%	38.1%	37.8%	40.1%	31.6%	42.1%
D, D & A as % of revenues	28.6%	60.9%	63.6%	47.2%	44.4%	34.4%	1.6%	29.7%	32.7%	32.3%	31.2%	0.3%	0.2%
G&A as % of revenues	11.5%	17.1%	19.9%	15.5%	15.0%	11.2%	14.9%	8.7%	9.0%	8.6%	8.0%	8.6%	7.6%
Rate of Change Analysis													
Total Revenues	42.7%	-49.3%	-43.6%	-31.7%	-9.4%	39.1%	-16.4%	70.7%	51.8%	41.9%	15.8%	41.5%	50.5%
Adjusted EBITDA	29.3%	-51.4%	-76.3%	-15.2%	-72.4%	-20.7%	-46.7%	124.5%	-34.7%	287.6%	31.0%	39.0%	83.8%
Working Cap.	-12.3%	10.3%					83.1%						
Forecasted sales include the estimated impact of commodity derivatives (hedge positions)	Production: 145.3 Mmcf/d @ 70% gas	Production: 195.8 Mmcf/d @ 62% gas	1/21- suspend pref dividend. 2/4- 42% borrowing base reduction, Sr Notes exchange offer. 3/1- announce BSP JV in App operating area	4/11- Europe offtake announced; 4/25- announce preferred & debt exchanges; 6/14- announce sale of IL Basin assets for \$40M (w potential \$10M earn-out)	7/25- \$44M Sr Notes exchange for 16.8M shares; 8/22- close IL Basin sale	10/3- Borrowing base affirmed at \$190M	Production: 198.5 Mmcf/d @ 62% gas	1/11- close sale of Utica War. S. (4100 ac, 9 Mmcf/d) for ~\$30M	5/1- close on new first lien credit line; 5/15- 1:10 reverse split	Second Lien notes interest rate steps up Q3; Jul- close \$8M sale of water system		Forecasting ~255 Mmcf/d @ 60% gas (Morraine East compression expansion scheduled early Jan.)	

Source: Company reports and Hilliard Lyons estimates

Rex Energy Corp. (REXX) (\$'s in '00 (\$'s in '000's)

Cash Flow Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Inc. (adjusted below)	(49,024)	(372,938)	(62,246)	15,999	4,802	(67,376)	(108,821)	2,085	(10,201)	(15,558)	(22,378)	(46,052)	(50,742)
D, D & A	97,030	104,744	19,408	14,750	15,109	16,503	65,770	15,468	15,501	15,620	17,340	63,929	92,680
Deferred Compensation Exp. Reversal	5,672	6,449	(27)	1,164	990	1,072	3,199	71	500	100	100	3,200	3,520
(Increase) Decrease in Wrkg. Cap.	(5,115)	3,752	4,075	9,288	(12,778)	32,830	33,410	(22,134)	1,798	(4,990)	7,330	(18,000)	8,700
Operating C.F.	48,560	(257,993)	(38,790)	41,201	8,123	(16,971)	(6,442)	(4,510)	7,598	(4,828)	2,392	3,077	54,158
Asset Sales (Adjustments)	546	77,226	19,532	119	21,158	75	40,884	24,329	184	8,000	-	32,513	-
Acquisitions - Acreage	(169,423)	(28,242)	(5,266)	(634)	(402)	(410)	(6,712)	(299)	(1,484)	(500)	(500)	(2,783)	(5,500)
Acquisitions - Production	-	-	-	-	-	-	-	-	-	-	-	-	-
Capex PP&E	(391,422)	(221,099)	(15,068)	(22,670)	(10,902)	(342)	(48,982)	(25,476)	(28,528)	(32,500)	(29,000)	(115,504)	(85,000)
Dividends, JV Distributions	(2,335)	(9,660)	(2,105)	(1,723)	(613)	18	19,461	(598)	(598)	(598)	(598)	(2,392)	(2,392)
Free C.F.	(514,074)	(439,768)	(41,697)	16,293	17,364	(17,630)	(1,791)	(6,554)	(22,828)	(30,426)	(27,706)	(85,089)	(38,734)
ST Debt Drawn	209,895	229,314	46,500	3,900	5,000	16,000	71,400	21,500	149,500	-	-	171,000	-
(ST Debt Repaid)	(263,152)	(108,335)	-	(2,057)	(15,176)	(12,276)	(29,509)	(28,500)	(116,670)	-	-	(145,170)	-
LT Debt Drawn	325,000	-	-	-	-	-	-	-	-	22,820	27,710	50,530	37,570
(LT Debt Repaid)	(2,721)	(1,519)	(184)	(20,197)	(3,992)	8,440	(15,933)	(131)	(188)	-	-	(319)	-
Stock Issued	154,988	-	-	-	-	-	-	-	-	-	-	-	-
(Stock Repurchased)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net C.F.	(90,064)	(320,308)	4,619	(2,061)	3,196	(5,466)	24,167	(13,685)	9,814	(7,606)	4	(9,048)	(1,164)
Adjusted EBITDA	174,469	84,861	6,937	19,024	4,536	13,241	45,272	15,577	12,420	17,582	17,342	62,921	115,628
Adj. EBITDA/Share	\$ 31.97	\$ 15.60	\$ 1.24	\$ 2.65	\$ 0.50	\$ 1.36	\$ 5.71	\$ 1.59	\$ 1.26	\$ 1.77	\$ 1.74	\$ 6.36	\$ 11.30
Adj. EBITDA Margin	51.4%	49.3%	22.7%	60.8%	13.3%	27.6%	31.5%	29.9%	26.2%	36.4%	31.2%	30.9%	37.7%
Balance Sheet Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash	17,978	1,091	24,891	3,438	2,524	3,697	3,697	5,075	12,855	5,200	5,200	5,200	4,000
Accounts Receivable	43,936	19,483	24,315	31,644	21,655	25,448	25,448	25,264	23,762	29,000	33,400	33,400	49,000
Derivative Assets (ST)	29,265	34,260	29,012	4,760	5,461	1,873	1,873	3,430	7,317	6,590	5,930	5,930	4,740
Other Current Assets	38,164	3,847	3,186	48,285	1,290	2,757	2,757	2,172	2,050	2,010	1,970	1,970	1,930
Total Current Assets	129,343	58,681	81,404	88,127	30,930	33,775	33,775	35,941	45,984	42,800	46,500	46,500	59,670
Net PP&E	1,224,208	1,001,215	971,500	905,763	888,484	855,444	855,444	835,667	852,278	882,150	908,180	908,180	980,140
Derivative Assets (LT)	4,904	9,534	8,460	1,526	3,367	2,212	2,212	3,292	4,820	4,340	3,910	3,910	2,740
Other LT Assets	43,266	38,610	2,489	2,490	2,492	2,492	2,492	2,495	2,488	2,490	2,490	2,490	2,500
Total Assets	1,401,721	1,098,506	1,063,853	997,906	925,273	893,923	893,923	877,395	905,570	931,780	961,080	961,080	1,045,050
ST & Current Portion of LT Debt	1,176	590	9,934	172	201	764	764	801	834	834	834	834	900
Accounts Payable	53,340	37,874	42,818	51,915	29,464	40,712	40,712	36,838	46,235	38,640	44,500	44,500	61,260
Derivative Liabilities (ST)	421	2,486	3,758	15,902	9,294	25,025	25,025	12,801	6,563	6,430	6,300	6,300	5,040
Other Current Liabilities	92,894	56,858	44,296	70,281	30,250	37,207	37,207	31,922	32,791	31,150	29,590	29,590	29,590
Total Current Liabilities	147,831	97,808	100,806	138,270	69,209	103,708	103,708	82,362	86,423	76,220	80,390	80,390	95,890
Reserve-Based Credit Facility	251	111,528	143,294	141,237	126,061	113,785	113,785	106,573	-	-	-	-	-
Term Facility	-	-	-	-	-	-	-	-	136,163	166,320	194,030	194,030	231,600
Senior Notes	675,000	675,000	657,511	637,314	633,322	641,762	641,762	650,758	648,820	648,820	648,820	648,820	648,820
Derivative Liabilities (LT)	2,377	5,556	6,908	10,091	3,354	7,227	7,227	10,265	9,450	8,510	7,660	7,660	6,130
Other LT Liabilities	44,889	48,383	48,797	12,115	17,189	17,215	17,215	14,187	21,016	21,230	21,440	21,440	21,650
Shareholders' Equity	531,373	160,231	106,537	58,879	76,138	10,226	10,226	13,250	3,698	10,680	8,740	8,740	40,960
Book Value	\$ 97.38	\$ 29.46	\$ 19.02	\$ 8.20	\$ 8.38	\$ 1.05	\$ 1.29	\$ 1.36	\$ 0.37	\$ 1.08	\$ 0.88	\$ 0.88	\$ 4.00
Current Ratio	0.9x	0.6x	0.8x	0.6x	0.4x	0.3x	0.3x	0.4x	0.5x	0.6x	0.6x	0.6x	0.6x
Debt/Cap.-Net of Cash	54.5%	83.0%	85.5%	92.6%	90.6%	98.2%	98.2%	97.6%	97.5%	97.6%	97.9%	97.9%	93.5%

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

I, Joel K. Havard, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

- 1** - A large cap, core holding with a solid history
- 2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
- 3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
- 4** - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically two to three years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	38	30%	11%	89%
Hold/Neutral	77	61%	8%	92%
Sell	11	9%	0%	100%

As of 9 August 2017

Other Disclosures

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