



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

REXX - NASDAQ - as of	3/8/17	\$0.60
Price Target		NA
52-Week Range	\$0.23 -	\$2.43
Shares Outstanding (mm)		97.4
Market Cap. (\$mm)		\$58.4
1-Mo. Average Daily Volume		1,291,800
Institutional Ownership		25.7%
Debt/Total Capital	Q4'16	98.2%
ROE	FY'16	nm
Book Value / Share	Q4'16	\$0.10
Price / Book Value		5.7x
Dividend & Yield		NA
LTM EBITDA Margin		31.1%

Adjusted EBITDA / Share - FY 12/31

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.12	--	\$0.14	--	--
2Q	\$0.26	--	\$0.15	--	--
3Q	\$0.05	--	\$0.17	--	--
4Q	\$0.14	--	\$0.19	--	--
Year	\$0.57	\$0.73	\$0.65	--	\$0.82
P/E	1.1x		0.9x		0.7x

Revenue (\$mm)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$31	--	\$46	--	--
2Q	\$31	--	\$50	--	--
3Q	\$34	--	\$53	--	--
4Q	\$48	--	\$56	--	--
Year	\$144	\$209	\$205	--	\$261

Company Description: State College, PA – based Rex Energy is a junior exploration and production company operating in the Appalachian and Illinois basins. In 2015 the company produced 45 Bcf of gas and 4.5 Mmboe of oil and NGLs from its ~1,480 net wells. At year-end the company had proved reserves of approximately 406 Bcf and 46 Mmboe of crude oil and NGLs.

Energy

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Rex Energy Corp.

REXX -- NASDAQ – Neutral-4

Q4'16 Volume +12% Yr/Yr, Pricing -6%; Adjust Production and Cash Flow Forecasts

Investment Highlights

- Rex Energy reported Q4'16 adjusted EBITDA of \$13.2M vs. \$16.7M a year ago, or \$0.14 per share vs. \$0.31 on an 80% larger share base. The consensus forecast was for \$0.16 per share.
- Production was 194.9 Mmcf/d in Q4, with 2.9 net wells tied into sales. Guidance for 2017 is for 194-204 Mmcf/d, despite the Illinois and Utica Basin asset sales which accounted for ~19 Mmcf/d.
- Average realized pricing of \$3.18/Mcfe improved mo/mo as well as yr/yr in all categories except crude. The company's hedge positions were bolstered in Q4 and we calculate now cover ~80% of 2017 volume at \$3.30/Mcfe and ~40% of 2018 volume at \$3.05/Mcfe. "All in" production costs were \$3.36/Mcfe, down ~17% yr/yr, but interrupting the sequential declines dating to Q1'14. Cash costs were \$2.38/Mcfe for Q4, 10% lower yr/yr but also up vs. Q3.
- Despite a \$4M reduction in debt in Q4, the debt to total capitalization ratio rose to 98% at year-end, reflecting the impact of a \$30M asset impairment and higher current liabilities. However, the borrowing base was reaffirmed at \$190M after the Q1'17 Utica asset sale, putting liquidity at ~\$90M entering 2017.
- We are trimming our post-divestiture production outlook to 198 Mmcf/d but raising our pricing forecast and allowing for flattening cost reductions. Accordingly, we are reducing our adjusted EBITDA forecast for 2017 from \$72.1M to \$63.9M and inaugurating a 2018 forecast of \$83.5M. We maintain our Neutral / 4 rating.

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

ADDITIONAL DISCUSSION

Rex continues to improve the well performance at its Utica and Marcellus development with longer laterals and increased frac staging, while reducing total costs. With joint venture participation securing the modest pace of development currently scheduled through 2018, we believe the company can replace the production contributed by the divestitures of the Illinois Basin and Warrior South (Utica) assets and prove up reserves and expand production into 2018.

Heavy lifting remains to be done, however, on the balance sheet front. Notwithstanding the ~\$70M raised from the asset sales, a 98% debt to total capitalization ratio and the erosion of shareholder's equity remain worrisome. Our forecast does see assets beginning to rebuild through 2017 and cash flows sufficient to keep the company well within the limits of its debt covenants, but with a much tighter rein on growth potential.

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 and the company's current balance sheet condition and NASDAQ listing price waiver, which is granted through June 12.

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 base 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	Q1'17E	Q2'17E	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	46,070	50,340	53,270	55,710	205,390	261,400
Field Service Revenue	41,461												
Other Revenue	118	42	13	(6)	5	5	17					-	30
Total Revenues	\$ 339,448	\$ 171,993	\$ 30,507	\$ 31,265	\$ 34,039	\$ 48,027	\$ 143,838	\$ 46,070	\$ 50,340	\$ 53,270	\$ 55,710	\$ 205,390	\$ 261,430
Costs & Expenses:													
Lease Operating & Production	100,248	118,999	30,146	25,221	26,333	28,694	110,394	28,180	31,430	32,600	33,070	125,280	138,070
D, D & A	97,030	104,744	19,408	14,750	15,109	16,503	65,770	14,650	16,440	17,150	17,500	65,740	78,050
G&A	38,997	29,435	6,063	4,837	5,116	5,384	21,400	4,760	5,150	5,190	5,100	20,200	20,920
Exploration	9,445	3,011	993	803	216	224	2,236	240	360	570	580	1,750	1,840
Field Service Exp.	30,912												
Other Operating	380	5,595	329	704	9,899	(176)	10,756					-	
Operating Profit	\$ 62,436	\$ (89,791)	\$ (26,432)	\$ (15,050)	\$ (22,634)	\$ (2,602)	\$ (66,718)	\$ (1,760)	\$ (3,040)	\$ (2,240)	\$ (540)	\$ (7,580)	\$ 22,550
%	18.4%	-52.2%	-86.6%	-48.1%	-66.5%	-5.4%	-46.4%	-3.8%	-6.0%	-4.2%	-1.0%	-3.7%	8.6%
Interest Inc.	-	-	-	-	-	-	-	-	-	-	-	-	-
(Interest Exp.)	(37,459)	(47,806)	(13,032)	(11,439)	(9,646)	(9,404)	(43,521)	(9,500)	(9,600)	(13,250)	(13,500)	(45,850)	(50,500)
Realized Hedging Gain (Loss)	7,280	60,176	4,049	(29,169)	16,866	(24,261)	(32,515)	-	-	-	-	-	-
Unrealized Hedging Gain (Loss)	31,596	-	-	-	-	-	-	-	-	-	-	-	-
Gain (Loss) on Asset Disposal	(331)	477	30	4,307	10	(164)	4,183	-	-	-	-	-	-
(Impairment Exp)	(132,603)	(345,775)	(14,184)	(25,139)	(9,563)	(29,275)	(78,161)	-	-	-	-	-	-
Inc. / (Loss) from Equity-Method Inv.	(813)	(411)	-	-	-	-	-	-	-	-	-	-	-
Other Non-Op. Inc. / (Exp.)	45	(115)	(8,480)	95,502	384	(1,670)	85,736	-	-	-	-	-	-
Pre-Tax Income	\$ (69,849)	\$ (423,245)	\$ (58,049)	\$ 19,012	\$ (24,583)	\$ (67,376)	\$ (130,996)	\$ (11,260)	\$ (12,640)	\$ (15,490)	\$ (14,040)	\$ (53,430)	\$ (27,950)
Income Tax Exp. (Benefit)	(26,433)	(24,227)	2,092	(393)	(8,106)	8,221	1,814	(4,280)	(4,800)	(5,890)	(5,340)	(20,310)	(10,620)
%	37.8%	5.7%	-3.6%	-2.1%	33.0%	-12.2%	-1.4%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%
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)	-	-	-	-	-	-
Net Income	\$ (49,024)	\$ (372,938)	\$ (62,246)	\$ 15,999	\$ 4,802	\$ (67,376)	\$ (108,821)	\$ (6,980)	\$ (7,840)	\$ (9,600)	\$ (8,700)	\$ (33,120)	\$ (17,330)
Shares Outstanding	54,566	54,392	56,003	71,804	90,803	97,398	79,256	98,250	98,740	99,230	99,730	98,988	101,462
EPS - GAAP	(\$0.90)	(\$6.86)	(\$1.11)	\$0.22	\$0.05	(\$0.69)	(\$1.37)	(\$0.07)	(\$0.08)	(\$0.10)	(\$0.09)	(\$0.33)	(\$0.17)
EPS - Operating, Adjusted	\$0.43	(\$0.79)	(\$0.27)	(\$0.07)	(\$0.14)	(\$0.78)	(\$1.63)						
Margin Analysis													
Production margin	66.3%	30.8%	1.1%	19.3%	22.6%	40.2%	8.4%	38.8%	37.6%	38.8%	40.6%	29.2%	39.2%
D, D & A as % of revenues	28.6%	60.9%	63.6%	47.2%	44.4%	34.4%	1.6%	31.8%	32.7%	32.2%	31.4%	0.9%	0.7%
G&A as % of revenues	11.5%	17.1%	19.9%	15.5%	15.0%	11.2%	14.9%	10.3%	10.2%	9.7%	9.2%	9.8%	8.0%
Rate of Change Analysis													
Total Revenues	42.7%	-49.3%	-43.6%	-31.7%	-9.4%	39.1%	-16.4%	51.0%	61.0%	56.5%	16.0%	42.8%	27.3%
Adjusted EBITDA	29.3%	-51.4%	-76.3%	-15.2%	-72.4%	-20.7%	-46.7%	103.7%	-22.4%	263.3%	40.0%	41.2%	30.7%
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.	4/11- Europe offtake announced; 4/25- borrowing base reduction, Sr preferred & debt exchanges; 6/14- announcement 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	NASDAQ listing price waiver to June 12	Second Lien notes interest rate steps up		Forecasting ~198 Mmcf/d @ 61% gas	Forecasting ~229 Mmcf/d @ 55% gas

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	Q4'16E	FY'16E	Q1'17E	Q2'17E	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)	(6,980)	(7,840)	(9,600)	(8,700)	(33,120)	(17,330)
D, D & A	97,030	104,744	19,408	14,750	15,109	16,503	65,770	14,650	16,440	17,150	17,500	65,740	78,050
Deferred Compensation Exp. Reversal	5,672	6,449	(27)	1,164	990	1,072	3,199	1,000	1,000	1,000	1,000	3,200	3,200
(Increase) Decrease in Wrkg. Cap.	(5,115)	3,752	4,075	9,288	(12,778)	32,830	33,410	(27,560)	4,270	2,930	2,440	(17,920)	(3,420)
Operating C.F.	48,560	(257,993)	(38,790)	41,201	8,123	(16,971)	(6,442)	(18,890)	13,870	11,480	12,240	17,900	60,500
Asset Sales (Adjustments)	546	77,226	19,532	119	21,158	-	40,809	30,000	-	-	-	30,000	-
Acquisitions - Acreage	(169,423)	(28,242)	(5,266)	(634)	(402)	(500)	(6,802)	(500)	(500)	(500)	(500)	(2,000)	(5,500)
Acquisitions - Production	-	-	-	-	-	-	-	-	-	-	-	-	-
Capex PP&E	(391,422)	(221,099)	(15,068)	(22,670)	(10,902)	(10,902)	(59,542)	(17,000)	(19,000)	(21,000)	(18,000)	(75,000)	(35,000)
Dividends, JV Distributions	(2,335)	(9,660)	(2,105)	(1,723)	(613)	18	(4,423)	-	-	-	-	-	-
Free C.F.	(514,074)	(439,768)	(41,697)	16,293	17,364	(28,355)	(36,400)	(6,390)	(5,630)	(10,020)	(6,260)	(29,100)	20,000
ST Debt Drawn	209,895	229,314	46,500	3,900	5,000	-	55,400	6,390	5,630	10,020	6,260	28,300	-
(ST Debt Repaid)	(263,152)	(108,335)	-	(2,057)	(15,176)	(12,276)	(29,509)	(25,000)	-	-	-	(25,000)	(16,000)
LT Debt Drawn	325,000	-	-	-	-	-	-	-	-	-	-	-	-
(LT Debt Repaid)	(2,721)	(1,519)	(184)	(20,197)	(3,992)	-	(24,373)	-	-	-	-	-	-
Stock Issued	154,988	-	-	-	-	-	-	-	-	-	-	-	-
(Stock Repurchased)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net C.F.	(90,064)	(320,308)	4,619	(2,061)	3,196	(40,631)	(34,882)	(25,000)	-	-	-	(25,800)	4,000
Adjusted EBITDA	174,469	84,861	6,937	19,024	4,536	13,241	45,272	14,130	14,760	16,480	18,540	63,910	83,500
Adj. EBITDA/Share	\$ 3.20	\$ 1.56	\$ 0.12	\$ 0.26	\$ 0.05	\$ 0.14	\$ 0.57	\$ 0.14	\$ 0.15	\$ 0.17	\$ 0.19	\$ 0.65	\$ 0.82
Adj. EBITDA Margin	51.4%	49.3%	22.7%	60.8%	13.3%	27.6%	31.5%	30.7%	29.3%	30.9%	33.3%	31.1%	31.9%
Balance Sheet Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16E	FY'16E	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash	17,978	1,091	24,891	3,438	2,524	3,697	3,697	500	500	500	500	500	4,500
Accounts Receivable	43,936	19,483	24,315	31,644	21,655	25,448	25,448	27,600	30,200	32,000	33,400	33,400	41,800
Derivative Assets (ST)	29,265	34,260	29,012	4,760	5,461	1,873	1,873	1,690	1,520	1,370	1,230	1,230	980
Other Current Assets	38,164	3,847	3,186	48,285	1,290	2,757	2,757	2,760	2,760	2,760	2,760	2,760	2,760
Total Current Assets	129,343	58,681	81,404	88,127	30,930	33,775	33,775	32,550	34,980	36,630	37,890	37,890	50,040
Net PP&E	1,224,208	1,001,215	971,500	905,763	888,484	855,444	855,444	870,010	886,220	904,290	919,290	919,290	881,740
Derivative Assets (LT)	4,904	9,534	8,460	1,526	3,367	2,212	2,212	1,990	1,790	1,610	1,450	1,450	1,020
Other LT Assets	43,266	38,610	2,489	2,490	2,492	2,492	2,492	2,490	2,490	2,490	2,490	2,490	2,490
Total Assets	1,401,721	1,098,506	1,063,853	997,906	925,273	893,923	893,923	907,040	925,480	945,020	961,120	961,120	935,290
ST & Current Portion of LT Debt	1,176	590	9,934	172	201	764	764	135	135	135	135	135	155
Accounts Payable	53,340	37,874	42,818	51,915	29,464	40,712	40,712	46,070	50,340	53,270	55,710	55,710	65,360
Derivative Liabilities (ST)	421	2,486	3,758	15,902	9,294	25,025	25,025	25,030	25,030	25,030	25,030	25,030	20,020
Other Current Liabilities	92,894	56,858	44,296	70,281	30,250	37,207	37,207	35,350	33,580	31,900	30,310	30,310	30,310
Total Current Liabilities	147,831	97,808	100,806	138,270	69,209	103,708	103,708	106,585	108,950	110,200	111,050	111,050	115,690
Reserve-Based Credit Facility	251	111,528	143,294	141,237	126,061	113,785	113,785	95,180	100,810	110,830	117,090	117,090	116,690
Senior Notes	675,000	675,000	657,511	637,314	633,322	641,762	641,762	641,770	641,770	641,770	641,770	641,770	641,770
Derivative Liabilities (LT)	2,377	5,556	6,908	10,091	3,354	7,227	7,227	6,500	5,850	5,270	4,740	4,740	3,790
Other LT Liabilities	44,889	48,383	48,797	12,115	17,189	17,215	17,215	17,390	17,560	17,740	17,920	17,920	18,100
Shareholders' Equity	531,373	160,231	106,537	58,879	76,138	10,226	10,226	39,615	50,540	59,210	68,550	68,550	39,250
Book Value	\$ 9.74	\$ 2.95	\$ 1.90	\$ 0.82	\$ 0.84	\$ 0.10	\$ 0.13	\$ 0.40	\$ 0.51	\$ 0.60	\$ 0.69	\$ 0.69	\$ 0.39
Current Ratio	0.9x	0.6x	0.8x	0.6x	0.4x	0.3x	0.3x	0.3x	0.3x	0.3x	0.3x	0.3x	0.4x
Debt/Cap.-Net of Cash	54.5%	83.0%	85.5%	92.6%	90.6%	98.2%	98.2%	94.8%	93.6%	92.6%	91.7%	91.7%	94.5%

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	35	29%	14%	86%
Hold/Neutral	71	59%	6%	94%
Sell	15	12%	7%	93%

As of 8 March 2017

Other Disclosures

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