WEALTH PRESERVATION
Equity Research Report

Expand Energy Corporation

NASDAQ: EXE

Current Price	Market Cap	Dividend Yield	Forward P/E	EV/EBITDA
$104.05	**$24.8B**	**2.2%**	**12.7x**	**7.2x**

RECOMMENDATION: HOLD / WATCHLIST — CYCLICAL OPPORTUNITY

One-Line Thesis:

North America's largest natural gas producer with fortress-level debt reduction trajectory, positioned for secular LNG and power demand growth, but cyclical commodity exposure and below-WACC returns currently preclude a high-conviction wealth preservation BUY; attractive entry at lower prices.

RETURN PROFILE	BEAR CASE	BASE CASE	BULL CASE	WEIGHTED
Total CAGR (10Y)	2.8%	9.4%	15.8%	9.4%
10Y Price Target	$88	$155	$265	$166
Dividend Component	2.2%	2.8%	3.5%	2.8%

Report Date	Analyst	52-Week Range	Beta	Sector
February 22, 2026	**Moschovakis Capital Research**	**$91.01 — $126.62**	**0.46**	**Energy / Natural Gas E&P**

This report has been adapted from the standard Wealth Preservation Framework to account for Expand Energy's cyclical commodity exposure. Sections are annotated where standard thresholds are adjusted for the cyclical nature of natural gas E&P businesses.

Metric	Value
Recommendation	HOLD / WATCHLIST
Current Price	$104.05
Fair Value (Base Case)	$155.00
Margin of Safety	+49.0% upside to fair value
Target Entry Price	$85.00 — $90.00 (for high-conviction BUY)
Wealth Preservation Score	52 / 100 (Marginal — Cyclical Adjustment)

Return Profile	Value
Dividend Yield (Current)	2.2%
Expected Dividend Growth	5.0% — 8.0% CAGR
Expected Price Appreciation (Base)	7.2% CAGR
Total Expected Return (Base)	9.4% CAGR
Bear Case Total Return	2.8% CAGR
Bull Case Total Return	15.8% CAGR
Probability-Weighted Return	9.4% CAGR

Risk Assessment	Value
Wealth Preservation Score	52 / 100
Downside Protection Score	48 / 100
Quality Score	54 / 100
Risk Level	MODERATE-ELEVATED (Cyclical)
Probability of >50% Loss	12%
Recession Profile	VULNERABLE (Commodity-Driven)

Investment Thesis

Expand Energy is North America's largest natural gas producer following the October 2024 merger of Chesapeake Energy and Southwestern Energy. The combined entity controls approximately 7.5 Bcfe/d of production across premier Haynesville and Marcellus/Utica basins, providing geographic and market diversification. The company joined the S&P 500 in 2025, signaling institutional acceptance of its transformed business model.

The investment case rests on three pillars: (1) secular demand growth for natural gas driven by LNG export capacity expansion, AI/data center power demand, and electrification trends; (2) aggressive balance sheet repair with $1.25 billion of gross debt reduction since the merger and a target of at least $1 billion more in 2026; and (3) North America's lowest-cost production scale, which positions the company to generate meaningful free cash flow even in depressed commodity environments.

However, this is fundamentally a cyclical commodity business. Natural gas prices remain the primary earnings driver, and volatility introduces capital preservation risk that conflicts with our standard wealth preservation mandate. The trailing ROIC of approximately 5.9% falls below the company's WACC of 7.75%, indicating current value destruction — though this reflects the depressed gas price environment of the integration year rather than normalized economics. At the current price of $104, we classify EXE as a HOLD/WATCHLIST with a target entry price of $85-90 for a full position, where the margin of safety compensates for commodity risk.

1.1 Initial Screening

Screening Question	Answer	Assessment
Is the sector understandable?	Yes — Natural gas E&P is a straightforward commodity business	PASS
Is the sector in secular decline?	No — Gas demand growing via LNG, power, AI/data centers	PASS
Is the sector defensive or cyclical?	HIGHLY CYCLICAL — Commodity price-driven earnings	CAUTION
Sector-level tailwinds?	LNG exports, AI power demand, electrification, coal-to-gas switching	FAVORABLE
Sector valuation vs. history?	EV/EBITDA ~7.2x vs. 5Y avg ~6.5x — slightly above	NEUTRAL

Cyclical Adjustment Note: Under the standard framework, highly cyclical sectors require "exceptional balance sheet strength AND valuation discount to proceed." Expand Energy is actively building a fortress balance sheet through aggressive debt reduction. However, the current valuation does not offer the deep discount typically required for cyclical wealth preservation candidates. This is the primary reason for our HOLD rather than BUY recommendation.

1.2 Sector Tailwinds — Natural Gas Demand Drivers

- LNG export capacity expansion: U.S. LNG exports set to roughly double by 2030 with new terminal capacity coming online; EXE signed a 15-year supply agreement with Lake Charles Methanol
- AI / data center power demand: Estimated to add 10-15 Bcf/d of incremental gas demand by 2030; natural gas is the baseload fuel of choice for hyperscale data centers
- Coal-to-gas switching: Natural gas continues displacing coal in U.S. power generation, providing structural floor for demand
- Industrial and residential growth: Electrification of transport and heating sustains gas-fired power generation requirements

Sector Verdict: CONTINUE WITH HEIGHTENED SCRUTINY — Understandable business with powerful secular tailwinds, but highly cyclical nature demands exceptional balance sheet strength and valuation discipline.

2.1 Solvency Check

Metric	Value	WP Threshold	Assessment
Debt-to-Equity	0.28x	<1.0x (ideally <0.5x)	✓ EXCELLENT
Interest Coverage (EBIT/Int)	~10.0x	>5.0x min; >8.0x preferred	✓ STRONG
Current Ratio	0.81x	>1.5x	✗ BELOW THRESHOLD
Free Cash Flow (FY25)	$1.73B positive	Positive in 4/5 years	✓ STRONG
Debt Maturity Schedule	Well-laddered; IG rated	No cliff >30% in 2yr	✓ PASS
Cash as % of Total Debt	11.8% ($613M / $5.2B)	>20% preferred	✗ MONITOR
Credit Facility Available	$3.5B facility capacity	N/A	✓ STRONG

Stress Test: If revenue dropped 30% for 2 years (severe recession / gas price collapse to $2/MMBtu): The company would remain solvent — the investment-grade balance sheet with 0.28x D/E provides substantial cushion. The base dividend of $2.30/share ($547M annually) would likely be maintained given the low 30% payout ratio, though the variable dividend would be eliminated. No dilutive equity raise would be necessary given the $3.5B credit facility and strong asset base.

Solvency Assessment: ADEQUATE — The debt-to-equity ratio is excellent and improving rapidly ($660M reduction in 2025, $1B+ targeted in 2026). The below-threshold current ratio of 0.81x is a concern but mitigated by the massive $3.5B undrawn credit facility. For a cyclical commodity producer, the balance sheet is rapidly approaching fortress status.

2.2 Earnings Quality Check

Quality Metric	Finding	Assessment
Operating CF vs Net Income	OCF $4,575M vs NI $1,819M — OCF is 2.5x NI	✓ EXCELLENT
Receivables vs Revenue Growth	Stable; no aggressive recognition issues	✓ PASS
One-time Items	FY24 had net loss due to merger costs; FY25 clean	✓ PASS
Financial Restatements	None in past 5 years (post-bankruptcy)	✓ PASS
Adjusted vs GAAP Earnings	FY25 adj EPS ~$6.10 vs GAAP $7.57; gain on derivatives	MONITOR

Earnings Quality: ACCEPTABLE — Cash flow generation substantially exceeds reported earnings, a positive indicator. The divergence between GAAP and adjusted figures warrants monitoring but is primarily due to mark-to-market commodity hedging, which is standard for E&P companies.

2.3 Dilution Check

Dilution Metric	Value	Assessment
Shares Outstanding (Current)	238.2M	—

Dilution Metric	Value	Assessment
Shares 1 Year Ago	134.2M	+77% (Merger)
Shares 3 Years Ago (CHK)	~131M	Stable pre-merger
Organic Dilution Rate	<1.5% annually (SBC)	ACCEPTABLE
Buyback Activity	$318M in share repurchases (2025)	✓ POSITIVE
CEO Comp as % of NI	<1%	✓ ALIGNED

Dilution Assessment: ACCEPTABLE — The 77% share count increase is entirely due to the Southwestern Energy merger, not organic dilution. Excluding the M&A event, annual dilution from stock-based compensation is approximately 1-1.5%, which is within acceptable bounds. Management has demonstrated commitment to reducing share count via the $1B buyback authorization.

2.4 Dividend Sustainability

Dividend Metric	Value	Assessment
Current Yield	2.2% (base dividend only)	Below 2.5% sweet spot
Base Dividend Per Share	$2.30/year ($0.575/quarter)	20 consecutive quarters
Total Shareholder Returns (2025)	$865M (div + variable + buybacks)	STRONG
Payout Ratio (EPS)	30% ($2.30 / $7.57)	✓ EXCELLENT
FCF Payout Ratio	32% ($547M / $1,725M)	✓ EXCELLENT
Dividend Coverage (FCF/Div)	3.2x	✓ ROCK SOLID
Maintained Through Downturns	N/A — Company restructured 2021	UNPROVEN

Dividend Sustainability: SUSTAINABLE (with caveats) — The base dividend is extremely well-covered with a payout ratio of just 30% of earnings and 32% of FCF. The 3.2x FCF coverage provides substantial cushion. However, the company only began paying dividends post-restructuring, so there is no proven track record through a severe downturn. The variable dividend framework adds flexibility but introduces income volatility.

Stress Test: If earnings dropped 40%, the base dividend coverage would be approximately 1.9x (estimated EPS of $4.54 vs $2.30 dividend) — ADEQUATE. The base dividend appears sustainable through moderate downturns but would face pressure in a severe/prolonged gas price collapse.

2.5 Capital Efficiency: ROIC Assessment

Metric	Value	Assessment
ROIC (TTM)	~5.9%	BELOW WACC
WACC	7.75%	—
ROIC vs WACC Spread	-1.85%	VALUE DESTROYING
ROE (FY2025)	8.3%	Acceptable
ROIC Trend	Improving (from negative in FY24)	IMPROVING

ROIC Verdict: MARGINAL — IMPROVING | ROIC: ~5.9% vs WACC: 7.75% | Trend: Improving

Cyclical Adjustment: The below-WACC ROIC is the single largest fundamental concern for wealth preservation investors. However, this metric is heavily influenced by the depressed gas price environment of the integration period and the large goodwill/intangible base from the merger. At normalized gas prices ($4.00-4.50/MMBtu), management estimates ROIC would exceed 10%, well above WACC. Consensus 2026E EPS of $8-9 implies significant ROIC improvement. The trend from negative (FY24) to ~6% (FY25) to an estimated 9-11% (FY26E) is constructive, but investors must have conviction in natural gas price recovery.

2.6 Valuation Screening

Metric	Current	5Y Avg*	10Y Avg*	vs. History	Assessment
P/E (TTM)	13.7x	~15x	~18x	Below	FAIR
P/E (Forward 2026E)	12.7x	—	—	—	ATTRACTIVE

Metric	Current	5Y Avg*	10Y Avg*	vs. History	Assessment
EV/EBITDA	7.2x	~6.5x	~7.0x	Near Avg	FAIR
P/FCF	14.3x	~10x	~12x	Above	FULL
Dividend Yield	2.2%	—	—	—	Low for WP
P/Book	1.44x	~1.5x	~1.8x	Below	FAIR

**Historical averages approximated using legacy Chesapeake and sector comps due to limited operating history as Expand Energy.*

Valuation Verdict: FAIR — The stock is trading near historical average multiples on most metrics. The forward P/E of 12.7x is attractive relative to the S&P 500 and reflects the cyclical discount applied to commodity producers. However, for wealth preservation, "fair value" is insufficient — we require a margin of safety. Margin of Safety to Base Case Fair Value: ~+49%. This apparent discount reflects the market's commodity risk premium rather than overlooked value.

3.1 Competitive Cohort

Dimension	EXE	EQT	Coterra (CTRA)	Best for WP
Debt/Equity	0.28x	0.48x	0.18x	CTRA
EV/EBITDA	7.2x	9.5x	5.8x	CTRA
Dividend Yield	2.2%	1.5%	3.2%	CTRA
FCF Yield	7.0%	4.5%	10.0%	CTRA
ROIC	~5.9%	~4.5%	~9.0%	CTRA
Production Scale	#1 (7.5 Bcfe/d)	#2 (6.5 Bcfe/d)	Smaller / Diversified	EXE
Beta	0.46	0.55	0.50	EXE
Payout Ratio	30%	35%	40%	EXE
Gas Exposure	92%	95%+	55% gas / 45% oil	CTRA (diversified)

Peer Assessment: Coterra Energy (CTRA) emerges as the superior wealth preservation candidate among natural gas peers, offering higher returns on capital, lower leverage, better dividend yield, and critically, oil/gas diversification that reduces pure commodity concentration risk. EXE's advantage lies in unmatched production scale and the lowest beta in the group, reflecting the market's recognition of its diversified basin portfolio.

3.2 Wealth Preservation Quality Score

Component (Max Points)	EXE Score	Rationale
Balance Sheet Fortress (40)	28	D/E <0.5x (15pts), Int. Cov >8x (15pts), but FCF history limited post-merger (-2)
Income Reliability (30)	14	Yield 2.2% <2% threshold (8pts), Div growth new (3pts), <10yr history (3pts)
Capital Efficiency (15)	4	ROIC 5.9% (4pts), trend improving but below WACC (+0)
Valuation (15)	8	Trading ~40th percentile of limited range (8pts)
TOTAL (100)	54	Marginal — better alternatives likely exist

Score Interpretation: At 54/100, EXE falls in the "Marginal; likely better alternatives exist" category (45-60 range). This is primarily driven by the low ROIC, short dividend track record, and cyclical nature. However, the score is trending upward as the balance sheet improves and normalized earnings begin to reflect the merged entity's true earning power.

4.1 Competitive Moat Assessment

Moat Type	Evidence	Durability (1-10)	WP Value
Cost Advantage (Scale)	#1 U.S. gas producer; lowest-cost basin positions	7	Good
Efficient Scale	Basin consolidation; uneconomic for new entrants to replicate	6	Good
Market Access	Pipeline-connected to Gulf LNG & Eastern demand centers	7	Good
Switching Costs	Limited — commodity product	2	Poor
Brand/Pricing Power	None — price taker in commodity market	1	Poor

Primary Moat: Cost Advantage through Scale — Durability: 7/10. As North America's largest gas producer, EXE benefits from fixed cost leverage, basin-level efficiencies, and market-connected infrastructure that smaller competitors cannot replicate. The merger with Southwestern unlocked $500M+ in annual synergies, further widening the cost advantage. However, as a commodity producer, EXE ultimately lacks pricing power — the moat protects margins but not revenue.

Moat Erosion Risk: MODERATE. Natural gas E&P is fundamentally a price-taking business. While EXE's scale provides resilience, technological disruption (renewable energy displacing gas) and regulatory risk (methane emissions rules, drilling restrictions) could erode the value proposition over a 10+ year horizon. The 15-year Lake Charles Methanol SPA provides partial long-term demand visibility.

4.2 Management Quality & Capital Allocation

CEO Transition: Nick Dell'Osso led the company through the successful Chesapeake-Southwestern merger integration, achieving 80% of the $500M synergy target within the first year. In February 2026, Michael Wichterich assumed the role of Interim CEO. While leadership transitions introduce uncertainty, Wichterich is the current Chairman and a long-tenured board member with deep industry experience.

Capital Allocation (2025)	Amount	Assessment
Operating Cash Flow	$4,575M	STRONG generation
Capital Expenditures	$2,850M	Disciplined; reduced guidance twice
Debt Reduction	$660M	STRONG — above initial target
Shareholder Returns	$865M	Balanced: base + variable div + buybacks
Free Cash Flow	~$1,725M	Robust after capex

Management Quality: GOOD | Capital Allocation Track Record: STRONG

Management has demonstrated disciplined capital allocation by: reducing capex guidance twice during 2025 (from $2.925B to $2.85B), exceeding debt reduction targets, and maintaining a balanced return framework that prioritizes the balance sheet while rewarding shareholders. The CEO transition introduces moderate uncertainty but the operational team remains intact.

4.3 Recession Performance History

Critical Limitation: Expand Energy in its current form has no recession history — the Chesapeake-Southwestern merger closed in October 2024. Legacy Chesapeake Energy went through Chapter 11 bankruptcy in 2020, which makes historical recession analysis problematic. The restructured entity emerged with a clean balance sheet, but this bankruptcy history is a significant negative signal for wealth preservation investors.

Period	Revenue Impact	Dividend Action	Stock Impact	Recovery
2020 (Legacy CHK)	Severe decline	N/A (Bankruptcy)	-100% (Ch. 11)	Re-emerged 2021
2022 Gas Crash	-40% revenue	Maintained base	-35% peak to trough	~12 months
Q4 2024 Integration	Merger disruption	$0.575 base maintained	-15%	~6 months

Recession Profile: VULNERABLE (Commodity-Driven) — The bankruptcy history of legacy Chesapeake, despite the clean post-emergence balance sheet, places this company firmly in the VULNERABLE category for wealth preservation purposes. Gas price collapses can cause severe earnings compression regardless of operational efficiency.

4.4 Catalyst Identification

Catalyst	Timeline	Probability	Impact	Risk to Downside
Nat gas price recovery ($4.50+)	2026-2027	55%	HIGH — doubles FCF	LOW
LNG export capacity ramp	2026-2030	70%	HIGH — structural demand	LOW
$1B+ debt reduction (2026)	FY2026	80%	MEDIUM — multiple expansion	LOW
Merger synergy capture ($600M)	By end 2026	85%	MEDIUM — cost savings	LOW
Lake Charles Methanol FID	2026	50%	MEDIUM — 15yr volume lock	MODERATE
AI/data center gas demand	2026-2030	65%	HIGH — new demand driver	LOW
Permanent CEO appointment	2026	90%	LOW-MED	MODERATE

5.1 Total Return Model (10-Year Horizon)

For a cyclical commodity producer, we model total returns using normalized earnings rather than trailing figures, and incorporate a range of natural gas price assumptions in each scenario.

Component	Bear	Base	Bull
Assumed Gas Price (Avg 10Y)	$3.00/MMBtu	$4.00/MMBtu	$5.50/MMBtu
Dividend Yield Component	2.2%	2.8%	3.5%
EPS Growth CAGR	0%	6.0%	10.0%
Multiple Change (Annual)	-1.0%	+0.4%	+2.3%
Total Return CAGR	2.8%	9.4%	15.8%

5.2 Scenario Analysis

BEAR CASE (25% weight) — "Prolonged Gas Glut"

Assumptions: Natural gas prices remain depressed ($3.00/MMBtu avg) due to oversupply, LNG export delays, and mild winters. EPS stabilizes around $5.50 (below consensus). Multiple compresses to 8x forward earnings as market loses patience. Debt reduction slows but continues. Base dividend maintained but variable eliminated.

Bear Case Metric	Value
Revenue CAGR	2.0%
EPS (10Y Normalized)	$5.50
Terminal P/E	8.0x (through-cycle trough)
10-Year Price Target	$88
Cumulative Dividends (10Y)	~$28/share
Total Return CAGR	2.8%

BASE CASE (50% weight) — "Normalization & Growth"

Assumptions: Gas prices normalize to $4.00-4.50/MMBtu driven by LNG demand growth and AI/data center power needs. EXE achieves full synergies, ROIC exceeds WACC, production grows to 8+ Bcfe/d. EPS reaches $10-11 by Year 5, growing to $13+ by Year 10. Multiple stabilizes at 12x normalized earnings. Balance sheet reaches near-net-debt-free status. Dividend grows 5-8% annually.

Base Case Metric	Value
Revenue CAGR	5.0%
EPS (Year 10)	$13.00

Base Case Metric	Value
Terminal P/E	12.0x
10-Year Price Target	$155
Cumulative Dividends (10Y)	~$35/share
Total Return CAGR	9.4%

BULL CASE (25% weight) — "Natural Gas Supercycle"

Assumptions: Structural demand surge from LNG, AI, and electrification drives gas prices above $5.50/MMBtu. EXE leverages scale to generate outsized returns. EPS reaches $15+ by Year 5, $20+ by Year 10. Multiple expands to 13x as market assigns premium for scale and LNG positioning. Aggressive buybacks reduce share count 15-20%. Dividend doubles.

Bull Case Metric	Value
Revenue CAGR	8.0%
EPS (Year 10)	$20.00
Terminal P/E	13.0x
10-Year Price Target	$265
Cumulative Dividends (10Y)	~$50/share
Total Return CAGR	15.8%

Probability-Weighted Expected Return

Scenario	Price Target	Total CAGR	Weight	Contribution
Bear	$88	2.8%	25%	0.7%
Base	$155	9.4%	50%	4.7%
Bull	$265	15.8%	25%	4.0%
EXPECTED	$166	9.4%	100%	9.4%

5.3 Downside Protection Analysis

Downside Metric	Value
Bear Case Price Decline from Current	-15.4% ($104 → $88)
Bear Case Total Return (incl. dividends)	+2.8% CAGR (capital preserved)
Historical Max Drawdown (52-week)	-26.2% ($126.62 → $91.01)
Probability of >50% Permanent Loss	~12% (bankruptcy legacy, commodity risk)
Dividend Floor (base only)	$2.30/share = 2.2% income even if price stagnates

Critical Downside Check: The bear case total return of +2.8% CAGR is positive, meaning capital is preserved even in the downside scenario. This passes the most critical wealth preservation gate. However, the margin is thin — and a more severe bear case (gas below $2.50 sustained) could result in negative total returns.

6.1 Wealth Preservation Scoring

Input 1: Downside Protection Score

Factor	Points	Rationale
Starting Score	50	Neutral baseline
Bear case return positive	+15	Bear case CAGR +2.8%
D/E <0.5x	+10	D/E = 0.28x, excellent
Dividend maintained through downturn	+0	No recession track record
Max historical drawdown <40%	+10	Max drawdown ~26%
Current yield >3%	+0	Yield = 2.2%
Bear case >20% price decline	-0	Bear case decline is -15.4%
Bankruptcy history	-15	Legacy CHK Chapter 11 (2020)
Commodity price dependency	-10	Highly cyclical; gas price-driven
TOTAL	60	—

Input 2: Return Adequacy Score

Base Case Total Return CAGR: 9.4% → Score: **70 points** (8-10% range = 70 points). Exceeds the 7% hurdle rate comfortably.

Input 3: Quality Score

From Stage 3 calculation: **54 points**

Composite Wealth Preservation Score

Component	Score	Weight	Weighted
Downside Protection	60	45%	27.0
Return Adequacy	70	30%	21.0
Quality Score	54	25%	13.5
COMPOSITE WP SCORE	—	—	61.5

WP Score: 61.5 / 100 — "Acceptable but not compelling; reduced position or wait for better entry"

6.2 Decision Thresholds — Absolute Requirements

Absolute Requirement	Result	Pass/Fail
Bear case total return >= 0%	+2.8% CAGR	✓ PASS

Absolute Requirement	Result	Pass/Fail
Base case total return >= 7%	9.4% CAGR	✓ PASS
Solvency: FORTRESS or ADEQUATE	ADEQUATE	✓ PASS
Dividend sustainability: ROCK SOLID or SUSTAINABLE	SUSTAINABLE	✓ PASS
Probability of >50% permanent loss <10%	~12%	✗ MARGINAL FAIL

Decision: EXE passes 4 of 5 absolute requirements. The marginal failure on the permanent loss probability (12% vs 10% threshold) is driven by the bankruptcy history of legacy Chesapeake and inherent commodity price risk. While the restructured balance sheet substantially mitigates this risk, we cannot classify this as a high-conviction BUY under strict wealth preservation criteria.

6.3 Position Sizing Recommendation

WP Score	Expected CAGR	Downside Protection	Rec. Size	Rationale
61.5	9.4%	Bear case +2.8%	€50 (Reduced)	Acceptable, not ideal; cyclical risk

7.1 Criteria Assessment

BUY Criteria	Required	EXE Result	Met?
WP Score >= 65	65+	61.5	✗
Base case return >= 8% CAGR	8%+	9.4%	✓
Bear case return >= 0%	0%+	+2.8%	✓
Div yield + growth >= 5%	5%+	~8% (2.2% + 5.8% growth)	✓
Margin of safety >= 10%	10%+	~49% to base fair value	✓
Understandable business	Yes	Yes	✓
Management: GOOD+	GOOD+	GOOD	✓
Recession profile: not VULNERABLE	RESILIENT/SENSITIVE	VULNERABLE	✗

EXE passes 6 of 8 BUY criteria but fails on the WP Score threshold (61.5 vs 65 required) and recession profile (VULNERABLE due to commodity exposure and bankruptcy history). These are meaningful gaps for a wealth preservation mandate.

RECOMMENDATION: HOLD / WATCHLIST

Current Price: $104.05 | Target Entry: $85.00 — $90.00

Why HOLD, Not BUY: Expand Energy is a high-quality cyclical business with genuine secular tailwinds and an improving balance sheet. The base case return of 9.4% CAGR comfortably exceeds our 7% hurdle rate. However, the combination of (1) below-WACC current ROIC, (2) legacy bankruptcy history, (3) commodity price dependency, and (4) insufficient WP Score prevents a high-conviction BUY recommendation at current prices.

What Would Change Our Assessment to BUY:

- Price decline to $85-90 range (providing 15-20% additional margin of safety)
- ROIC sustainably exceeds WACC for 2+ consecutive quarters
- Natural gas prices stabilize above $4.00/MMBtu with structural demand confirmation
- Completion of $1B+ debt reduction in 2026 (moving toward FORTRESS solvency)
- Permanent CEO appointment providing strategic continuity

Expected Outcome (10 Years) — Base Case:

Metric	This Position (Base)	HYSA (4%)	Outperformance
Total Return CAGR	9.4%	4.0%	+5.4%

Metric	This Position (Base)	HYSA (4%)	Outperformance
Cumulative Return	~145%	~48%	+97%
€100 Becomes	€245	€148	+€97

Downside Protection Check	Result
Bear case preserves capital	✓ Yes (CAGR +2.8%)
Dividend provides income floor	✓ Yes (2.2% base, well-covered)
Balance sheet provides safety	✓ Yes (D/E 0.28x, IG rated, improving)

Risk Category	Score (1-10)	Key Concern	Mitigation
Balance Sheet	3	Current ratio <1.0x	$3.5B credit facility; aggressive deleveraging
Earnings Volatility	8	Gas price drives 90%+ of earnings	Scale provides cost advantage; hedging program
Competitive Threat	4	EQT, Coterra compete for basins	#1 position; merger synergies
Regulatory Risk	5	Methane rules, drilling restrictions	Low-emissions operations; bipartisan gas support
Management Risk	6	CEO transition in progress	Strong operational team; Chairman as interim CEO
Valuation Risk	4	Fair value, not cheap	Forward P/E 12.7x below market; FCF yield 7%
Commodity Price Risk	9	Gas price collapse would compress earnings	Hedging; low cost structure; scale
AGGREGATE	5.6	—	—

Key Risk: Natural Gas Price Sensitivity

Gas Price ($/MMBtu)	Est. Annual EPS	Implied P/E	Dividend Covered?	FCF Positive?
$2.50 (Stress)	$3.00	34.7x	✓ Yes	✓ Barely
$3.00 (Bear)	$5.50	18.9x	✓ Yes	✓ Yes
$3.50	$7.00	14.9x	✓ Yes	✓ Yes
$4.00 (Base)	$9.00	11.6x	✓ Yes	✓ Strong
$4.50	$11.00	9.5x	✓ Yes	✓ Strong
$5.50 (Bull)	$14.00+	7.4x	✓ Yes	✓ Very Strong

Quarterly Review

- Earnings vs expectations — focus on adjusted EBITDAX and FCF generation
- Base dividend maintained or increased
- Balance sheet metrics: track D/E progression toward 0.20x target
- ROIC trajectory — must demonstrate path to exceeding WACC
- Production guidance and capex discipline
- Natural gas price environment and forward curve
- CEO search progress and strategic continuity

Exit Triggers

Condition	Action
Base dividend cut	Reassess immediately; likely sell
Debt/Equity rises >0.60x	Sell — reversal of deleveraging thesis
ROIC fails to exceed WACC by FY2027	Sell — value destruction confirmed
Gas price <$2.50 for 6+ months	Reduce position; reassess thesis
Regulatory ban on new drilling	Sell — moat permanently impaired
Better opportunity with 10+ point higher WP Score	Replace position
Price reaches $150+ with forward return <5%	Take profits; reassess

Upgrade Triggers (HOLD → BUY)

Trigger	Threshold
Price decline to entry zone	$85 — $90 (18-22% below current)
ROIC exceeds WACC	>8% for 2 consecutive quarters
Natural gas price stabilization	>$4.00/MMBtu with structural demand confirmation
Debt reduction completion	Net debt / EBITDAX <1.0x
CEO appointment	Permanent CEO with clear strategic vision
Dividend increase	Base dividend raised to $2.60+/share

Key Assumptions & Sensitivities

- Base case gas price assumption of $4.00/MMBtu is above current strip; if gas remains below $3.50, base case returns compress to ~7%, barely meeting hurdle
- Synergy capture of $600M by 2026 is management-guided; execution risk remains but 80% achievement in Year 1 provides confidence
- 10-year terminal P/E of 12x assumes natural gas retains relevance as energy transition fuel; renewable disruption could compress multiples
- Debt reduction targets of $1B+ annually are achievable at current FCF levels but depend on commodity prices remaining constructive

Limitations

- Limited operating history as Expand Energy (merged Oct 2024); financial history is a patchwork of legacy Chesapeake and Southwestern data
- Legacy Chesapeake bankruptcy (2020) introduces data discontinuity; pre-2021 metrics are not comparable to the restructured entity
- Commodity price forecasting is inherently unreliable; scenario analysis provides ranges rather than point estimates
- CEO transition creates uncertainty around strategic direction and capital allocation priorities
- Natural gas E&P; does not fit the standard wealth preservation profile — this analysis requires cyclical adjustments that introduce subjectivity

Confidence Level: MEDIUM
The thesis depends on natural gas demand growth materializing (high confidence in secular trend, lower confidence in timing) and ROIC improvement above WACC (dependent on commodity prices). The balance sheet trajectory provides genuine comfort, but commodity cyclicality introduces uncertainty that cannot be fully modeled.

Key Metrics Summary

Metric	Value
Wealth Preservation Score	61.5 / 100
Fair Value Range	$88 (Bear) — $155 (Base) — $265 (Bull)
Current Price	$104.05
Margin of Safety to Base	+49%
Expected Total Return (Base)	9.4% CAGR
Bear Case Return	+2.8% CAGR

Metric	Value
Dividend Yield + Growth	2.2% + 5.8% = 8.0%
ROIC vs WACC	5.9% vs 7.75% (IMPROVING)
Probability of Permanent Loss	~12%
Recommendation	HOLD / WATCHLIST — Entry at $85-90