Ramaco Resources, Inc.(Q3 2017 Earnings)

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Corporate Speakers:

- Michael Windisch; Ramaco Resources, Inc.; CAO
- Randall Atkins; Ramaco Resources, Inc.; Executive Chairman
- Michael Bauersachs; Ramaco Resources, Inc.; CEO, President and Director
- Marc Solochek; Ramaco Resources, Inc.; CFO

Participants:

- Jeremy Sussman; Clarksons Platou Securities, Inc.; Analyst
- Mark Levin; Seaport Global Securities LLC; Analyst
- David Gagliano; BMO Capital Markets; Analyst

PRESENTATION

Operator: Welcome to Ramaco Resources Third Quarter 2017 Earnings Conference Call.

(Operator Instructions)

I would now like to introduce your host for today's conference, Mr. Michael Windisch, Chief Accounting Officer for Ramaco Resources. Sir, you may begin.

Michael Windisch: On behalf of Ramaco Resources, I would like to welcome all of you to our third quarter earnings conference call. With me this morning is Randy Atkins, our Executive Chairman; Mike Bauersachs, our President and CEO; and Marc Solochek, our Chief Financial Officer.

Before we start, I would like to share our normal cautionary statement regarding forward-looking statements. Certain statements discussed on today's call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent Ramaco's expectations or beliefs concerning future events and it is possible that the results discussed will not be achieved. These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of Ramaco's control, which could cause actual results to differ materially from the results discussed in the forward-looking statements.

Any forward-looking statement speaks only as of the date of which it was made and except as required by law Ramaco does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. New factors emerge from time to time and is not possible for Ramaco to predict all such factors. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements found in the company's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K and our Form 10-Q. The risk factors and other factors noted in the company's

SEC filings could causes its actual results to differ materially from those contained in any forward-looking statements.

With that said, let me introduce Randy Atkins, our Executive Chairman.

Randall Atkins: Thanks, Mike. As always, on behalf of all of us at Ramaco Resources, I want to thank everyone for joining us today. The end of the third quarter marks the 1-year anniversary of when we went from being a coal reserve company with just a handful of employees and 1 mine ready to activate to now being the multi-mine producing entity we are today.

Before we address some of the metrics of the September quarter, let me offer up a few milestones from our first year. By year-end, we will hire roughly 250 new employees, mostly in West Virginia. We are deeply gratified to be part of helping miners and their families, especially in Southern West Virginia. We will continue to staff up in 2018 and thus far, we've had absolutely no issues with securing talented and qualified miners. We began washing coal at our Elk Creek prep plant on October 28th. Having our own processing on site will materially help us operationally. It will also save us approximately $15 a ton in trucking and third-party wash costs.

We also began development mining in our Berwind mine this quarter and we have now placed roughly half of our 2018 production into the domestic market at what we project to be a substantial per ton cash margin. We have now sold coal to most major North American steel groups and coking plants, and we'll be working throughout 2018 to place the balance of the tons primarily into the export markets of what we hope are aggressive pricing. And of course, this year we went public. From a standing start at this time last year, we think overall this is a very solid performance. From a financial perspective, Marc Solochek will be providing some detailed information, which you just saw from our 10-Q, which we filed yesterday. As we have said before, do not look at 2017 as representative of our financial performance once we are fully operational in 2018.

In brief summary, for the quarter, we reported revenues of $14 million and a net loss of roughly $6 million. For the 9 months, we have revenues of $37 million and a roughly $13 million loss. We had roughly $29 million of current liquidity at the end of the quarter, which we believe is sufficient with projected cash flow to cover our 2018 CapEx of roughly $34 million.

Again, let me go back and focus you on some of our marketing highlights. As I mentioned, we have now committed for '18 approximately 1.1 million tons of both our met coal, as well as specially thermal quality production into the North American markets. This is roughly 50% of our projected 2.2 million tons of 2018 production. Our average sale price is above $76 per committed tons. Our guidance on forecasted cash cost per ton at El Creek in 2018 at full production and before SG&A is still in the low 50s. On markets overall, we note some continued cautious optimism. We see fundamental strength, both in the domestic and overseas met markets heading into '18. The benchmark for price curve through Q3 '18 is now at or above $160 per ton, which is rebounded from the low $150s in September.

Some of our peers have provided guidance already that they will be cutting their CapEx in 2018. This leads us to conclude that, in general, domestic production will not be expanding. We also see the benchmark price realistically hovering in a band between about $130 to $150 per ton. That backs us into a mine price in the high $70s to the $90s. Given the cost structure of many of our peers, these price levels did not really incentivize new production as well.

Overseas steel markets in Europe and South America, which are our main export markets, still appears strong. Indeed for the first time in a while foreign hot rolled steel imported in the U.S. is more expensive than domestic steel by roughly $25 a ton. This implies a strong overseas demand. And I think 1 of the most important factor that our investors should continue to focus on at Ramaco is our projected low cost of mining. We think we will have some of the lowest production costs in the met coal space. We will achieve this from a combination of advantage geology, a conservative balance sheet and new infrastructure. As noted earlier, we are continuing to project overall cash mine costs in the low 50s at Elk Creek and indeed, we believe some of our individual mines may operating even below those levels.

Our main focus is going to continue to be to create strong free cash flow margins on the back of a low cash costs and fundamentally avoid long-term debt. We continue to believe that we're on track to be cash positive in 2018 and to implement a regular dividend policy by this time next year.

And at this time, I'd like to go ahead and turn it over to Mike Bauersachs to provide some additional details.

Michael Bauersachs: Thank you, Randy. There are indeed a number of updates that we want to provide for the third quarter, as well as a revised guidance for the remainder of the year and 2018. In summary, during the third quarter, we continue to execute on our capital and production build out. We've made a great deal of progress on our new mine startups, and as mentioned by Randy earlier, on contracting for the sale of coal in 2018. I will expand on these efforts later in my comments.

Prior to that, I want to remind everyone that during the third quarter, as we have throughout 2017, we continued to operate in development mode. Our productivities and operating costs were negatively impacted by the need to align our production and stockpiles with the completion of our Elk Creek preparation plant. During the third quarter, it was imperative to react quickly to these circumstances outside of our control, namely, the delay in commissioning the plant. It was all hands on deck to create the necessary stockpile space for the larger amounts of raw coal and to manage inventories to bridge the gap to the opening of our Elk Creek preparation plant. For example, our surface mining crews have been hauling coal to stockpiles, as well as helping create temporary stockpile space. Now that the plant is operational, we should be able to expeditiously work through these types of inefficiencies. By the end of the fourth quarter, we should be well positioned to orchestrate our minds, preparation plant, loadout in concert with one another.

Prior to diving in to more operational and marketing details, I would like to convey what I believe are our critical success factors for creating shareholder value in 2018. We will continue to create a safety-focused culture and promote our philosophy that safety is everyone's responsibility. Our current aggregate NFDL rate across all of our operations at the end of the third quarter remains 0. We intend to prove out what we believe will be our industry leading low-cost platform. We will continue our efforts to hire and retain the best employees, at both the hourly and management levels. We will remain committed to maintaining one of the cleanest balance sheets in the coal industry. We plan to fund our future dividends out of cash flow.

Last but not least, we intend to secure predictable base load coal sales dominated by North American steel and coke customers. This will go a long way into decreasing execution risk, creating a balance in our sales portfolio between domestic and export customers. This is especially important because we are a new entrant into the metallurgical coal marketplace. We do however want to retain a significant portion of uncommitted and unpriced tons as upside.

There are those who have question where the Ramaco is for real and specifically whether the key forward-looking risks can be overcome. In our view, the paramount risks are whether an experienced management team can actually start a coal company from scratch and can a start-up company successfully break into a very complicated metallurgical coal market. By the end of my comments, I believe you will agree that we are on the cusp of removing most of the doubts about our ability to migrate through those challenges. We also believe, assuming that we put much of this risk behind us and prove out our low-cost profile that analysts, current investors and prospective investors should consider valuing us at a higher multiple than our peers.

Let me start with some comments regarding our sales and marketing efforts. Our guidance for coal production next year is 2.2 million tons. We expect approximately 2 million tons to be produced at Elk Creek, including 200,000 high-quality steam tons from our surface mine. Echoing some of the comments from other producers, we have seen quite a bit of interest in our limited steam coal production. It now appears that our steam production will actually be a meaningful contributor to our overall profitability. Should metallurgical coal market strengthen from our expected pricing levels, we could likely increase 2018 production by an additional 200,000 to 300,000 tons, which would all have metallurgical quality. As Randy said earlier, we currently have 1.14 million tons sold and priced for 2018 at an average price FOB mine of slightly over $76 per ton. This includes approximately 150,000 steam tons. These sales are spread out between multiple new customers. We are pleased by the confidence that these customers have placed in us, as well as the substantial margin we should earn at this average price point. We are also optimistic that our uncommitted sales will generate a healthy margin, mostly in the export market and hopefully push up our average sales price for the year.

Our exclusive sales agent, Joe Czul, and our international agent continue to convey our unique story to potential customers in parts of the world other than North America. Much like our domestic customers, we have played host to numerous Elk Creek property visits to reinforce the advantages that we currently have and expect to maintain and expand going forward. While there is much work to do, we feel confident that in 2018 we will be able to add multiple high-quality international metallurgical coal buyers to our already robust list of customers. Note that we entered into a coal terminal arrangement in the third quarter at Newport News to support our international shipping efforts through the first quarter of 2018. We are currently negotiating a longer-term arrangement to support our logistics efforts for the normal international contracting season in 2018 and beyond.

We currently project producing a total of 530,000 tons in 2017. It is possible that we actually only sell around 450,000 tons, depending on what materializes in ongoing fourth quarter export negotiations. Realizations are likely to be similar to what we experienced in prior quarters, with some upside potential for new export business. During the third quarter, we continue to develop our coal trading business out of Knox Creek plant. We're now purchasing coal from an additional local producer. We now anticipate selling approximately 50,000 clean tons per month for sale to third parties. To support the majority of this business, we entered into a multi-month sales agreement with a nearby coke plant. We hope to extend our existing business into the next year and are currently working with 1 of our existing coal suppliers to assist with the development of 1 of their new mines, which will also generate royalties from 1 of our controlled properties. These are the sorts of opportunities that we believe will add value to our own production and sales at Knox Creek, when our Berwind production comes online.

One of the things that we're very excited about in the metallurgical marketplace has been the amount of interest we've had in our new Berwind low-volatile mine, which is in close proximity to our Knox Creek plant. During visits with domestic customers, we've been surprised by the amount of interest in this future production. We believe that we are the only company who is adding substantial low-volatile production, which in the case of Berwind could ramp up to the 1 million ton per year level. The execution on site at Berwind has been exceptional, the phase up is complete and we are in the process of establishing power and infrastructure onsite. Note that our initial infrastructure will include an oversized 60-inch belt to support multiple mining sections. We have hired our Berwind superintendent and several additional support employees. We anticipate some minimal amount of development coal production in November.

At Elk Creek, our goal for the third quarter, which obviously slid into the fourth quarter, was to align our production with the startup of our preparation plant. Unfortunately, the enhancements at our mines occurred well in advance of the startup of the plant, resulting in a large buildup of raw coal stockpiles on site at Elk Creek. Our current stockpile estimate is 300,000 raw tons, which has negatively impacted our cost structure by approximately $2 to $2.50 per ton. Fortunately, now with the preparation plant running, we can bridge to our expected normalized costs. To provide a bit more insight into our cost bridge, our current cash costs of approximately $76 per ton in the third quarter will be reduced over time by 3 key components. With our Elk Creek preparation plant operational, we will experience better recoveries and greatly reduce trucking and processing costs. Our Eagle mine should experience substantially higher clean ton per foot of recovery in the dual mining area we have now reached. Our Alma mine should increase its feet of advance due to much better mining conditions. We are already experiencing many of the projected improvements at our deep mines. In October, production at our 2 active deep mines reached levels that we have projected throughout 2018. Unfortunately, in the fourth quarter, we will not be able to enjoy all of the projected savings and efficiencies that I just mentioned, primarily due to the delay in the plant becoming operational. However, we remain confident that the cash cost structure before G&A will migrate back into the [50s] during the first quarter of 2018 and reach expected levels after all capital improvements are fully completed. We expect all of the delayed work that has negatively impacted our cost to be completed in the first quarter of 2018. Our preparation plant became operational in late October. We plan to ship our first train out of Elk Creek sometime next week. By year-end, our refuse belt should be completed, resulting in additional savings.

As I mentioned earlier, our 2 deep mines at Elk Creek are operating well and are both now operating in optimum conditions. Our third deep mine is in the high-quality #2 gas seam. The base up is near completion and we will be adding power and other infrastructure to the site in the next few weeks. We expect this mine to hit normalized production sometime in the first quarter and to produce 300,000 tons in 2018. While our surface mining crew has been somewhat diverted in order to create stockpile space, they are now fully focused on ramping up surface mine production. We've had multiple production shops on site and our highwall miner is currently operating 1 [shift] per day. The surface mine operation including our highwall miner is expected to produce approximately 620,000 tons in 2018 and should be our lowest cost production.

In summary, execution, quickly reacting to circumstances beyond our control and avoiding mistakes others have made in the past is what Ramaco is all about. Since our last call, we have made considerable progress. We have hired over 185 employees to date and anticipate ending 2017 with approximately 250 employees. We are proud of the difference that we've been able to make in the households of each of these partners in our success. Clearly, we have become an employer of choice in the communities in which we operate and intend to work hard to maintain that reputation.

We quickly advanced the development of our Berwind reserve to the point of beginning development production this month. We now have an operational preparation plant at Elk Creek. We have successfully placed approximately half of our projected production for 2018 at attractive projected margins. We have 3 active Elk Creek mines and expect to start the fourth mine in the next couple of months. Clearly, we believe Ramaco Resources is for real. Moreover, with multiple key risks behind us, it's time for the markets to realize that Ramaco Resources is well positioned to create substantial shareholder value.

Thank you for your attention and I will now turn over the microphone to Marc Solochek for his summary of the key financial metrics for the third quarter.

Marc Solochek: Thank you, Mike. Let's there be any misunderstanding, having started mining coal, we are not and will never be happy to report a loss, which we did for the third quarter. As have been said, 2017 was always going to be a development year. 2018 will be more representative of what we are capable of achieving. Having said that the delay in completion of the Elk Creek prep plant had a profound negative effect on our operations. It restricted our production, it increased coal handling cost at the mines, it resulted in lower recoveries and it increased our trucking costs.

For the third quarter ended September 30, 2017, Ramaco Resources lost $6.2 million or $0.16 per share. We had revenue were $14.4 million on the sale of 157,000 tons; 101,000 tons was company mined coal and 56,000 tons was purchased from third parties. The average realization was $91.89 per ton at point of sale, which includes the cost of transportation from the mine to the point of sale. The net realization FOB the mine for these sales were $72.33. Our reported cost per ton was $94.10, which again includes the cost of transportation as well as mining costs and cost of purchased coal.

Our cost per ton FOB the mine thus excluding transportation costs was $74.54 per ton for the quarter. This is substantially higher than we expect in the future. As has been previously discussed, our third quarter costs were impacted by a variety of factors, most notably the delay in placing the Elk Creek preparation plant and service, but also the continuing need to cut more rock at the Eagle mine in anticipation of reaching a location where the Eagle and #2 gas seams merge into more favorable geologic conditions and cutting fewer feet of advance per shift, due to having to operate at less than optimum staffing and equipment in order to balance production with our coal stockpile capacity and other constraints.

In addition, adverse mining conditions issues experienced early in the quarter at the Alma mine, as it was migrating towards its current location, negatively impacted our feet of advance per shift in that mine. The Alma mine is now in much better mining conditions and its feet of advance are improving month after month. There really weren't any significant surprises on the expense side per se.

The expenses were in line with what we expected to incur. The higher costs per ton were a function of lower production for the various reasons that I've already discussed. In the third quarter, we had $11.5 million in capital expenditures, $5.6 million of this was primarily for mine infrastructure and mining equipment and a $3.7 million was for the Elk Creek facility. Looking ahead, we have between $2.5 million and $3 million left to spend on the Elk Creek facility this year and we expect about $5 million more to be spent for mining equipment and infrastructure costs for our 2 new deep mines developments, the Elk Creek #2 gas and the Berwind Pocahontas #3 . That pretty much covers our expected capital expenditures in the fourth quarter.

Our balance sheet does remain strong. We have $29 million in cash and cash equivalents at September 30. Given our outlook for the fourth quarter, operations and CapEx of about $15 million, we believe this should be more than sufficient to meet our liquidity requirements over the balance of the year. And looking forward to 2018, we currently expect to spend about $34 million, the bulk of that will be placed on maintenance capital and enhancements to the Elk Creek preparation plant and impoundment. We expect, with our liquidity moving into 2018 and our operating cash flow from 2018, that we will be more than able to build this program.

With that, I'll turn it back to Randy for question.

Randall Atkins: Thanks, Marc. This completes our formal remarks for the quarter. And at this time, of course, I would like to open it up to field questions from analysts or the investor community that are out there.

I will turn it back to the moderator.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions)

Jeremy Sussman of Clarkson.

Jeremy Sussman: So I just want to make sure I heard some numbers correctly around 2018. So in projecting cash costs in the low 50s, I think $34 million in CapEx, I think you said you expect to be cash positive and have a dividend policy in place sort of this time next year, I guess, first, did I hear those correctly?

Michael Bauersachs: You did.

Jeremy Sussman: And I guess maybe along those lines, can you first talk about kind of the $34 million figure next year. It's maybe a bit lower -- clearly a bit lower than what you'll be spending in 2017, so I guess sort of maybe the bridge on that front. And then second, as a follow-up, I guess, can you talk about maybe how investors should be thinking about how you view an eventual dividend policy sort of what types of triggers should we be thinking about there?

Michael Bauersachs: Jeremy, why don't I start maybe to talk about the capital, what will be focused on next year and then maybe I'll let Randy to talk about the dividend policy if that's okay. Our focus next year on capital is going to be at least primarily focused on basically boosting our infrastructure capabilities in and around our Elk Creek preparation plant. We planned a very extensive raw coal handling facility that will allow us to, for example, handle 5 different coals and blend them in more complex ways into our plant.

And it also allows us some flexibility to potentially maybe increase some surface production in the future because we will be able to totally segregate in steam coal tons from our metallurgical tons. I think -- when we think about the capital on the clean side, we also want to expand our stockpile space to give us more and more flexibility to continue to both blend but also have larger stockpile space that ultimately could reach 150,000 to 200,000 tons.

We think that's going to be a huge advantage going forward and absolutely are committed to expend capital to do that. Elk Creek, of course, will be around for decades and this is going to be a huge advantage. The remainder of the capital, we continue to focus on a couple of mine developments. In particular, our Berwind mine will continue to be in kind of development mode for plus/minus 20 to 23 months. And obviously we're committed to add infrastructure, but the majority of capitals in and around the plant. The other piece of capital, it's noteworthy, we have budgeted and it's a bit discretionary, but we continue to believe having access to the Norfolk Southern at Elk Creek is important. I think that the capital that we've included in there makes a lot of sense, it includes a road and a direct ship loadout on the NS. So that one will continue to evaluate, but I think it's probably a good thing for Elk Creek to have access to both rail roads. Randy, you want to talk about the dividend?

Randall Atkins: Yes. I think, Jeremy, as we approach looking at dividends, it's pretty similar to what we discussed earlier this year when we were out on the road. Essentially, we will pay dividends out of free cash flow. We are not interested in going out to borrow money to pay dividends. And by this time next year, we predict that we will have sufficient free cash flow that on a pretty conservative basis we will be in a position to start considering a quarterly dividend at a level which we think is going to be comfortable for us and certainly is predicated of course on whatever CapEx we've got to look forward to, as well as what we think operations look like.

And I think candidly with that in mind, that's a little bit of the way we constructed our book in terms of sales, because we were the new kid on the block, we wanted to get out there, we wanted to get some domestic business that we could basically have it somewhat of a foundational book of revenue that would let us first of all get into club, so to speak, domestically and then give us the optionality to hopefully look at some higher numbers on export. So I think we're [postured] in just about where we wanted to be. Obviously, this year is going to be dinged by virtue of the delay primarily in the plant and also to a certain extent at Berwind with the delay in the permit. But I think next year, as I said, this time we are looking at being able to have that free cash flow that we could start returning some of it to our shareholders. And then we also said, when we did the IPO, if we find ourselves out there with more than sufficient cash flow then we would always be in a position to consider even further means of returning cash back to our shareholders in the form of a buyout. I don't think we'll be there at that point next year with respect to buybacks, but I do think we will probably be there with respect to dividends.

Jeremy Sussman: Maybe just as a quick follow-up. I think in your opening remarks, you'd mentioned success with the majority of your domestic mills or coke plants. And sort of just very, very rough math that I'm doing off the top of my head, seems like you probably locked in kind of somewhere in the [mid 20s] per ton cash margins, assuming your low 50s cost guidance. So can you maybe just kind of talk through the process and how those conversations went and all of that?

Randall Atkins: Well, I think, your bunny has a good nose in terms of the margin. I think in terms of the process, we've had of course, Joe Czul, out there doing our primary domestic marketing. I think we were, as we've said all along, we were dinged by the fact of the coal that we were providing to a lot of these domestic customers was essentially being washed by a third party. We were getting some of the recoveries in qualities that we really wanted, which I think will obviously be remitted when we start running it through our own plant. And we have been aggressively starting to now ramp up our marketing with respect to export customers as well. And once again, we are in the process of getting a lot of test shipments to -- Mike was just down at the mine here this week, I'll let him maybe give a little bit more color with one of our export customers. So Mike you want comment at all on the marketing efforts?

Michael Bauersachs: Yes, I'll just chat a little bit about the domestic stuff. Obviously it was a pretty interesting process and it all happened very quickly. We were fortunate to be able to hear our potential customers had a good view of the operations and what was coming. And as you can see, we had pretty good success in convincing them that the quality of coals that we will have and the infrastructure will have and the advantages will have on our operations will play well for them in the future. I will say that we reached out for quite a bit of business, and in many cases we actually didn't get as many times as we want it and there were actually a couple pieces of business that we lost, because of where we kind of maintain our levels. Internationally, it's been the same sort of thing -- actually I had a potential customer, who I think we may convert to a customer in the next couple weeks, on site, on Monday, and also had the ability to take that specific customer underground at our Eagle mine and while there’s nothing anymore impressive than being underground at a cap mine with 12 CMs in it and that looks like you're in the only basin, that's mining metallurgical high quality, which is the highest quality coal we have by the way; high-quality metallurgical coal. So in any event, I spend a real good week actually.

Randall Atkins: Let me make one other point, Jeremy, because I know there's been a little grumbling amongst our peers, which has been publicly reported about our pricing for '18 on some of the domestic business. I think the one thing that people lose side of is our cost structure again lined up against most of our peers. To your earlier comment on margin, I would just point to our investor group that, we are able to sell at lower numbers than our peers and still make very, very nice margins. That's not the case with everybody else; we're lucky, again, a lot of that is geologically driven, but I think that's one factor to keep in mind when you look at our marketing efforts.

Operator: Mark Levin of Seaport.

Mark Levin: Just a quick question. I want to go back to your last pricing comment, Randy. So when you think or when you have discussions with Joe, as you try to move the remaining 50% into the export market, do you feel like you will have to discount those tons maybe to where the market is at all, just given the -- given you're a new entrant to the market. I think, I'm modeling somewhere along the neighborhood of a 15% or so discount to the benchmark price. Would that number or should we expect that number or

A, is that number right, and then B, should that number be wider in 2018 or 2019 as you move coal to new places than maybe would you expect longer term?

Randall Atkins: I'll make a couple of quick comments and then let Mike chime back in. So I think our experience out there has been that of course the benchmark is more geared to players that are focused on the Asian market a little bit more than the European and South American markets. So we see a little bit softer pricing in Europe and South America than we would at a straight benchmark. But I think as far as the approach, needless to say, the domestic pricing has been lower than export, because it's term business; you kind of have probably agreed to take a lower price for the stability of the longer-term. I think on export, we don't really feel we've got that same need to accept dramatic discounts by virtue of the fact that we're basically doing that on spot business. I think at some point, the international markets may evolve into more of a term or quality-term type business perhaps with indexing, but I think for the time being it's not there yet, and I think again we don't expect to have too much of a discount issue with respect to export. Mike, you want to chime in here.

Michael Bauersachs: Yes. First of all, I think, I can pretty much agree with your 15% number. We see guys like [Walkers] more like 5%, but the quality of our coals and that sort of thing, I think that's probably pretty good. I will say that as we add more and more customers to the list, there is always -- being the first time here in the marketplace, there's always a little bit about I think pressure to, I would say, pull in those customers, because we want customers that we have for 20 years, not 1 year, and I think we're going to do our very best to expand that customer list.

We have approximately 6 new customers that we can count in our portfolio today in North America and we hope to have 4 or 5 new customers internationally. So you'll see us do a little bit of test stuff, Mark. These guys want to hold, maybe they want 20,000, 30,000 tons. We'll probably be a little more aggressive with those, but I think when people see our qualities overall for the year, I think they're going to want to do business with us.

Mark Levin: And the second question, just want to make sure I understood correctly, so you were sitting here, I guess in November -- almost mid-November and it sounds like to me by Q1 of 2018, we will begin -- or we will have seen cash costs that will be somewhere in the [50s] maybe low 50s even. I just want to make sure that I heard that correctly and so your visibility around that number sitting here only a couple of months away from Q4, I assume, is pretty high. What could go wrong between now and that very short period of time that would keep you from being where you want to be in the first quarter?

Michael Bauersachs: Mark, just to kind of give you the road on guidance, I would foresee our costs in the fourth quarter, of course, not experiencing all of those pluses being more in the 60s and I think you will see us migrate into the 50s in the first quarter and then lower than that as time goes on as everything kind of kicks in. Things that could go wrong continue to be something unforeseen at a coal mine, but what I can tell you is, I've been in the mines.

The conditions are just fantastic right now. So I don't anticipate any real negative things coming out of the existing deep mines. We're starting up 2 mines -- 2 additional deep mines, as we work our way into next year at Berwind and #2 gas mine; we could always have some startup issues. Surface mine, everything we've seen there should be lined up with our production. So I feel real good about the production side. I think that we like others are concerned about transportation. We have a little bit more limited stockpile space today than we will have as we end 2018. So trying to make sure that we can coordinate and shuffle transportation and stuff for me is probably as big a concern as anything, making sure we can move the tons and we continue to work at bugs in the plant, but the good thing is, I mean, the plant even delayed is a great piece of work. So over time in next couple of decades, it is going to be great for us.

Operator: Michael Dudas of Vertical Research.

Michael Dudas: Hello, can you hear me?

Operator: David Gagliano of BMO Capital Markets.

David Gagliano: I got a few questions, first on the operating side and then on the marketing side. On the operating side, I heard a lot in the prepared remarks, thanks for giving more detail, I think embedded in that was the reduction in production targets for the year went from 720,000 to 530,000 tons. Did I hear that correctly?

Michael Bauersachs: Yes, that's correct, David.

David Gagliano: So can you clarify how much of that 25% cuts in the full-year target, obviously in just 3 months. How much of that is tied to the prep plant issues versus the mining issues?

Michael Bauersachs: Well directly or indirectly all of it. You can imagine with having 300,000 tons of stockpile space at the mines, we’ve had any number of times where we've actually had to idle the mines because they've been gobbed out in the stockpiles. As you can tell, I made a point to make sure that I mentioned that our surface mining crews have absolutely not been focused on surface mining, which is a huge chunk at those times, David. We will be more or like 25,000, 30,000 tons from those guys, not over a 100,000 tons. We’ve had everybody focused on things that likely in a better situation they wouldn't be focused on. So indirectly or directly, it's all been focused on the problems of the plant being done on time.

David Gagliano: And then just so, I know for sure are the prep plant problems now resolved?

Randall Atkins: I can give you a little more feedback on the plant. So the plant is operational. We continue to work through, a few bugs here or there. Every time you start up a plant, you're going to have times when it goes down for some sort of issue and it takes well over a year to build something; there is always going to be something, that's an issue. But we are, for the most part, running at the feed rates that we want to see. We have 1 clean coal stacking to complete and they're finishing up the link to the loadout, which should be complete this week.

Everything should be in place to load a train. I will say that there is virtually no sheeting on the plant, Dave, that our refuse belts are not in place but we have the ability to load refuse in trucks and take those to the impound. But as far as operational, yes; optimum levels, no. But every day we make improvement there and I think as we look in the next week or 2, we should be, from a feed rate standpoint, doing really well. And we just need to continue to finish up all those things around the edges, which will take another couple of months to do. But really good looking plant if you look at the components and all of that stuff. So we're happy with that. We just wish it was done it 2 to 3 months sooner.

David Gagliano: And then moving onto the 2018 plans, 2.2 million tons, little lower than what we had thought -- it's about 200,000 to 300,000 tons that we had expected lower. And then there was some commentary that there is a potential 200,000 to 300,000 tons if met prices warrant. So, was there a decision to defer the second service mine, is that what's happened in the 2018 plant over the last few months?

Michael Bauersachs: Yes, I mean we deferred that out of 2018 and there are number of reasons, but if you recall my comments on capital, one of the things that we think we needed in place was to just have more handling capabilities on the raw and clean side and that's where the capital is being spent. We also would like to have that outlet in place on the Norfolk Southern before we turn that second surface mine loose. What I will say is, we've been lucky to get a couple of deep mine permits, which will be fairly easy to face up and bring online, if we choose to -- another one in the #2 gas as a matter fact.

So those additional potential tons are basically deep mine tons that we think we could very quickly bring, online and indeed the surface mine, we just think it's the right decision from a coordination of all of our different qualities and stuff online. It's -- the steam tons, of course, have been a surprise for us from a pricing standpoint, but again, you definitely don't want to intermingle steam tons with metallurgical tons and with the capabilities we have onsite, David, that we think it could be a little bit difficult to do that and we're going to wait and see what the infrastructure looks like and how it functions and when you have 5 or 6 different raw coal piles in addition to 3 raw coal silos, you have got a great deal of building to handle stuff differently then. So the right answer, I think, is to wait.

David Gagliano: So we'll be removing that also from 2019 and 2020 that's really where I’m going with this question, 200,000 to 300,000 tons?

Michael Bauersachs: Removing the surface mine entirely -- the second surface mine?

David Gagliano: Yes, since it's been removed from the plan in 2018, since we are seeing pretty consistent issues here with production and expectations. Is it more realistic or reasonable to remove that surface mine from 2019 and 2020 expectations as well?

Michael Bauersachs: I don't think that's true, David. I think there are couple of things we're looking at, for example, if we look at 2019 and 2020, would we start a second surface mine and still only utilize one highwall miner, which would be maybe half of what we said we would produce and do it with the right sized capital. I think you can tell just from that comment that we continue to look at the possibilities. So I think what might be more reasonable is to cut it in half as far as expectations for '19 and '20 and let us continue to evaluate it.

David Gagliano: And then just switching over to the marketing questions. Couple questions. In prepared remarks you said the net-back price is in the, I think you said, high $70s to mid $90s with global at $130 to $150. I just want to clarify, was that for domestic mines or is that what you think the net-back price will be for export volumes?

Michael Bauersachs: No, export.

David Gagliano: That was export? I'll follow up with you offline on that one.

Michael Bauersachs: Basically what we're doing is, we are deducting, obviously, transportation costs, quality differential, handling cost, et cetera, if that’s where you’re coming from.

David Gagliano: Yes, that’s where I’m coming from, it's a little different than what we had previously. I am just trying to--

Michael Bauersachs: I'm think you are starting from a fairly low future looking, not benchmark, but really fairly conservative pricing internationally. In any event, we can talk about that more offline there.

David Gagliano: And then just a very last question strategically here. Obviously, you made some comments about your cost structure versus your peers and how that helps you compete on pricing versus your peers. But strategically, in your view, is selling at lower prices versus your peers is it a good strategy longer term?

Michael Bauersachs: No. I think our cost structure of course gives us a huge advantage and of course being in startup mode, Dave, we felt like it was extremely important. And unlike what you have seen from some of our competition to have a good chunk of our production place domestically.

And remain to be seen whether others who haven't chosen to place that many tons domestically will be right or wrong, but for us, in the mode we were in, it was a risk we were unwilling to take. And we felt strongly about making sure that we had a good chunk of North American demand in our portfolio. That being said, as time goes on, I think that changes a bit for us. So I think you'll see us, especially with established customers, being able to be more aggressive in the future.

Operator: (Operator Instructions)

And I'm showing no further questions. I'd like to turn the call back to Randy Atkins for closing remarks.

Randall Atkins: Thank you. Again, on behalf of all of us, we appreciate you being on the line here with us this morning and we'll look forward to catching up again in a few months. Thank you.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude the call. You may now disconnect. Everyone have a wonderful day.