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EDITED TRANSCRIPT

METC.OQ - Q2 2018 Ramaco Resources Inc Earnings Call

EVENT DATE/TIME: AUGUST 07, 2018 / 1:00PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Ramaco Resources, Inc. Second Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded. I would now like to turn the conference over to Michael Windisch, Chief Accounting Officer of Ramaco Resources. Sir, you may begin.

Michael P. Windisch - *Ramaco Resources, Inc. - CAO*

Thank you, Ashley. On behalf of Ramaco Resources, I would like to welcome all of you to our second quarter earnings conference call. With me this morning is Randy Atkins, our Executive Chairman and CFO; Mike Bauersachs, our President and CEO; and Chris Blanchard, our Chief Operational 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 these forward-looking statements.

Any forward-looking statements speaks only as of the date, which it is 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 it 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 cause its actual results to differ materially from those contained in any forward-looking statements.

With that said, I'd like to introduce Randy Atkins, our Chairman and CFO.

Randall W. Atkins - *Ramaco Resources, Inc. - Executive Chairman & CFO*

Thanks, Mike. First I want to thank everyone for joining us today for our call to discuss the second quarter results. To begin, last quarter, we reported our first profit. This quarter, we increased that profit by over 90%, indeed, virtually every important financial and operating metric improved. And frankly, first, I want to thank our miners and operational personnel for very impressive job this quarter. We obviously hope to continue this momentum into the balance of the year, and we are optimistic that we are on track to have a very strong year.

So let's start with some of the financial milestones that we released yesterday. Revenue for the quarter rose to $65 million. Our net income basically doubled from roughly $5 million to $10 million and that translated to a jump in net earnings per share from $0.13 to $0.25 per share. Quarterly adjusted EBITDA also grew substantially from about $9 million to almost $15 million, which gives us roughly $24 million of total EBITDA for the year. There is still, however, very much room for improvement.

Looking back, we probably could have done better with our rail lines, frankly, especially the Norfolk Southern, which has not -- which has continued to not deliver reliable and consistent rail performance we expect. This nonperformance has negatively impacted our revenues, especially in our purchase coal operations at Knox Creek. This quarter, we also encountered some unexpected geological issues this time hitting a sandstone falls at our Berwind mine, which I'm going to let Mike Bauersachs discuss more in depth in a moment.

Operationally, however, each our mines at Elk Creek are now performing extremely well. We have now brought our cost back in line with our original guidance for the year. As you recall, we have guided to 2018 costs in the high 50s to low 60s. This quarter, our cash mining costs dropped to roughly $56 from almost $65 last quarter. This brings our 6-month average down below $60 per ton, which is obviously where we would like it to stay.

On sales and marketing updates with the exception of maybe a [test shipment] or two we are basically now sold out through the year at roughly 2.2 million overall tons. This breaks down to roughly 1.8 million tons of company-mined coal and 460,000 tons of our purchased coal sold through our operations at Knox Creek.

Let me break this down. As we have said before, 1.1 million domestic tons were committed in 2017 at an average price of roughly $78. The balance of our remaining 700,000 company tons for '18 were sold for export, 450,000 of these export tons were sold at an average price of $108 FOB mine and an additional 260,000 tons are yet to be delivered but have been priced against the index. On about 500,000 tons of sales for this quarter, we averaged about $91 of revenue per ton company produced coal, about the same as the first quarter. Through some strong cash management, which I alluded to, we improved to about $36 per ton cash margin, up about 1/3 from last quarter's $27 per ton margin. And on a 120,000 tons of purchased coal, we averaged revenue of slightly more than $101 per ton, and we're basically flat on margin, due in large measure to negative rail service. We've also now initiated discussions on 219 -- 2019 domestic sales with several of our existing customers. They have come to market slightly ahead of last year. At this point, we have not printed any business, but we are optimistic that the potential 2019 domestic sales figures certainly for us will be much stronger than in 2018.

I would note that the forward price curve is now about $175 per ton in 2019 versus about $130 per ton in the fall of last year. Even the forward curve after 2020 is now roughly $170 per ton. It is too early now to meaningfully address the sales split between our domestic and export business for 2019. However, I would concur with remarks from some other public met producers that the domestic steel groups will need to compete more aggressively on price for the 2019 business, against what we feel would be continuing attractive export opportunities. Ramaco will no longer be selling as a first-time producer into the 2019 domestic market. This year, we will sell to those markets, which can deliver the best value to our shareholders. We are hoping for some strong pricing, obviously, in 2019 based on a combination of a better overall market as well as the fact that we now have successfully demonstrated that our coal worked well in most of the import domestic as well as foreign steel mills.

To talk a little bit about capital, we have spent about $28 million thus far on capital expenditures, which have been primarily development CapEx. We have guided that we hope to end the year with roughly about $34 million of maintenance and growth CapEx with an additional $5 million in capitalized development costs. We will be discussing with our board over the next few month where we want to plan our 2019 spending and at what levels. We are also hopeful that we will continue to generate some meaningful cash flow over that period, and we'll be discussing in the coming months whether we direct that cash flow toward new production, cash distribution in some form to shareholders or some combination thereof.

In terms of a forward view on the macroenvironment, we continue to remain encouraged. We saw some weakness in international benchmark pricing in the past month. But we also see some continued structural strength, which we hope will lead to some price strengthening over the next several months.

A few signposts we look at, as I noted, the forward benchmark -- the current spot benchmark is only about $170 per ton, but the 2019 forward curve is about $175. We are seeing domestic steel interest well in advance of the annual RFPs for 2018. Our guess is that they see the same structural conditions we do and are hoping to get in front of any price increases possibly later this year.

Met long-haul performance was down 10% in Q2 from Q1 and 5% down year-over-year. We have seen reports of issues at least one long-haul operation in cap, which may have some forward supply repercussions. And speaking of supply, we continue to see a noticeable lack of development CapEx for new production. In China, we continue to see strong steel production with the first half of '18, up 6% year-over-year. Chinese rebar and steel margins are at year-to-date heights. And we have also seen reports, they've discussed the potential increase in infrastructure spending, which may be an offset to tariff-related issues. All of the above leads us to harbor some optimism moving into 2019, and our challenge will be to continue to execute on the ground in 2018 for the balance of the year and maintain mine cost discipline.

With that, I'm now going to turn the floor over to Mike Bauersachs to provide a review of our operational performance for the quarter.

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Thank you, Randy. At the outset, I would like to thank all of our employees for their dedication, and the pride that they're taking in everyday tasks. Without their efforts, we would not have had such a successful second quarter. We believe our second quarter results eliminate any questions about the quality and low cost profile of our active operations. We've also confirmed that our infrastructure deployment at Elk Creek is fully operational and meeting our expectations. The presentation includes an updated slide illustrating the continued advancement of our raw coal feed in the Elk Creek plant. While our [feed rate] dropped slightly in June, it still exceeded our normalized rates. Production from our Elk Creek surface mine and associated Highwall Miner operation, where we previously reported production problems, stabilized in the second quarter, and has become a predictable contributor to our sales volumes. The surface mine also exceeded our expectations relative to the percentage of coal that is sold as metallurgical.

While it will produce lower volumes then we originally projected, we are increasingly confident that the surface mine will be a long-term contributor to our overall sales mix. As we continue to work on revised mining plans, we are optimistic that we could see some increase from current production levels, which are presently projected at approximately 275,000 tons for 2018. We hope to provide updated guidance during next quarter's conference call.

All of our deep mines at Elk Creek operated at high levels of productivity in the second quarter. This included our new No. 2 gas mine, which had its first full quarter production. The qualities that we're experiencing at this mine are net positive for our overall coal blends. During the second quarter, this mine operated at nearly the same high productivity levels, as our other Elk Creek mines, which have been among the most productive metallurgical deep mines in the nation. We've included a slide that illustrates the continued ramp up of our Elk Creek mines.

The second quarter also illustrated how much more efficient our on-site logistics are when we are operating in better conditions. Going forward, we've taken actions to reduce the impacts of poor weather. The upgrade of our main haul road at Elk Creek is nearly complete. By paving it, we will dramatically mitigate weather-related issues during winter months and periods of wet weather. We also look forward to enjoying reduced trucking and maintenance costs as a byproduct of this expenditure. Our employees will also enjoy better year-round travel conditions.

Given the foregoing, we are extremely optimistic about our Elk Creek operations.

Turning to our Berwind mine. You will recall that our low volatile mine is operating in development mode and is projected to advance in the Pocahontas #3 Seam to a point where we intend to drive the slope up into the more prolific Pocahontas #4 Seam. We successfully worked our way through old mine works, which I reported on last quarter. After we transitioned mining into solid coal, we had a sandstone fall across the entire mining section. We have since relocated the active section and are mining in other areas of the mine. Since this move, our mining has been productive, and we anticipate increased volumes quarter-over-quarter. Due to this continued mining, there should not be a material change to our 2018 production projections at Berwind. Unfortunately, the relocation of the mining section and our expected relocated mining route to reach the thicker Pocahontas #4 Seam will delay the onset of accessing and mining the Pocahontas #4 Seam. We are conducting additional core drilling to determine the extent of the sandstone fault areas. To date, this drilling data has been positive. However, drilling is ongoing on dense spacing for the entirety of our Pocahontas #3 mains corridor. While we are optimistic, based on core holes drilled so far, it is possible that fault could still be encountered. If this fault zone cannot be avoided, all options remain on the table. This would include, in the worst case, drilling and shooting our way through the fault zone. We should complete core drilling in the third quarter and anticipate being able to provide a more concrete update and plan forward during our third quarter conference call.

While it is unlikely that we will repeat the record low cash costs or operations experienced during the second quarter, it is possible with the first 6 months behind us, we are more confident that our previously issued cost guidance of $58 to $61 per ton is achievable for 2018. We also believe that we will reach our previously issued full year production guidance of between 1.8 million and 2 million tons. Although at this point, we believe that it is more likely that we will hit the midpoint of that guidance.

Relative to coal sales, we're basically sold out for the remainder of the year. We have provided 3 slides that illustrate domestic, export and purchased coal sales volumes for 2018. The only substantial addition we expect could be a test shipment or 2 of export coal likely to Asia. We look forward to entering the 2019 domestic coal sale season in the coming quarter. The number of customers have already sent out solicitations. This contracting season, we will no longer be limited by not being able to send test shipments to customers in advance as well as not having an operational preparation plant at Elk Creek. We entered these discussions being the incumbent supplier at 5 domestic customers as well as having proven that we can meet shipment schedules and quality commitments. Our marketing position has also enhanced by our ability to alternatively contract for international business. All of this now places us in a position to meet our full revenue potential in 2019. We anticipate placing our terms with those customers, who have appreciated our quality the most. This will likely reduce the number of domestic customers, but should maximize our revenues going forward.

From a performance standpoint, one of the only negatives for the quarter is the negative variance in purchased coal profitability. The negative variance is due to a number of converging issues. All of our trading is currently conducted at our Knox Creek infrastructure, which is served by the Norfolk Southern railway, shipping problems and elevated demurrage prompted us to pursue domestic business at slightly lower prices to control stockpiles. Demurrage costs also lowered purchased coal margins in the second quarter. In concert with this issue, we also experienced poor recoveries and substantially reduced production from one of our suppliers. Reduced volumes from our Berwind mine during the quarter, due to the issues mentioned previously, also caused us to include increased volumes of purchased coal on an important test shipment. With less of our higher quality Berwind coal in the blend, the lower quality purchased coal component was at a higher percentage and had to be washed at unfavorable gravities to achieve the required qualities, thereby reducing the number of sale tons. While our purchased coal operations remain profitable for the quarter, we anticipate that we will return to more normalized profit levels in the third and fourth quarter. And as rail performance continues to negatively impact our Knox Creek shipments, while CSX performance at Elk Creek has steadily improved. We continue to have frequent dialogue with both railroads about improving performance. At this point, as we review the number of vessels in late times at Norfolk Southern, Lambert's Point Port, it's more likely than not that there shipment problems will continue well into the fourth quarter. Fortunately, the majority of our high-margin coals are shipped on the CSX.

One of the questions typically asked, especially during times when the industry is experiencing elevated pricing is about employee turnover. I can confirm that, even with our favorable operating conditions, we are experiencing slightly elevated employee turnover levels. Exit interviews indicate that the majority of the voluntary terminations were related to reduced commute times or increased pay. At this time, we are able to continue to attract highly qualified miners to fill these vacancies. However, the labor markets have tightened considerably. We are continuing to closely monitor turnover levels, and we will reactive if turnover places us in a position of losing significant numbers of key operating employees, such that our productivity and production would be negatively impacted.

I assume that most of you have noticed that we've released our earnings a week or so earlier than our historical time frame. We are now seeing the benefits from the implementation of our new accounting reporting system. This system has not only made our external reporting more efficient and timely, it has also provided our operating personnel with more relevant and detailed information more quickly. We anticipate that the new system, alongside our experienced accounting staff, will provide us with the opportunity to provide investors with more timely reporting going forward. Our goal continues to be among the early reporters of earnings each quarter.

Having now generally delivered on the first phase of our development and production, it is important to implement continuous improvement throughout the company. Our financial software is just one example of the steps we are taking.

As we review remaining capital projects, it now appears that we need to increase our capital spending projections to between $36 million and $40 million for the year. Most of the increase relates to timing changes, as opposed to committing to any new major capital expenditures. One of the capital items we recently completed is the new office at Elk Creek. The office provides a place to collaborate our efforts and to host meetings for things like retraining and safety. We've also taken delivery of our mobile roof support equipment, which enables additional mining beginning in September at our Eagle Mine. We are continuing to evaluate additional production, likely in the form of new deep mines at Elk Creek, development of the Glen Alum tunnel seam, which I discussed briefly last quarter, remains at the top of the list because it should enhance our overall quality. We look forward to discussing capital spending and corresponding production growth guidance for 2019 on our third quarter conference call.

In summary, the second quarter of 2018 was a record for Ramaco Resources. Our Elk Creek deep mines were running on all cylinders with industry-leading productivities. Additionally, our surface mine has now become a more reliable contributor. While we are having some geologic issues at our Berwind mine, it should have a near-term impact. With the second quarter behind us, I can assure you that we have no intention of resting on our laurels. We are in constant improvement mode and are using all of the tools at our disposal to make the company even more profitable going forward. We expect our growth trends to continue into 2019 as we fully realize our revenue potential, especially in strong industry markets.

Thank you for your attention, and I'll be glad to respond to questions after we've completed our prepared remarks. Chris Blanchard, our Chief Operating Officer, is also present and will be able to answer questions.

I'll now ask Mike Windisch to provide a summary of some of the accounting and financial metrics for the quarter.

Michael P. Windisch - *Ramaco Resources, Inc. - CAO*

Thank you, Mike. As Randy mentioned previously, this quarter's performance ended June 30 was financially solid for Ramaco Resources. During the 3-month period, we reported net income of $10.2 million or $0.25 per share and adjusted EBITDA of $14.9 million. Both represent significant increases, both sequentially and year-over-year.

For the first half of the year, net income totaled $15.5 million or $0.38 per share, and adjusted EBITDA was $24.2 million. Our performance was driven by increased production revenue as well as our cash mining costs decreasing to levels we've previously guided to. Capital expenditures totaled $14.7 million during the quarter and $27.5 million during the first half. We expect this pace to slow significantly in the back half of the year. We also recognize income tax expense of $642,000 this quarter and approximately $1.4 million for the 6-month period. This represents an effective tax rate of 8.5%, which is our projection for the full year. Cash taxes are still anticipated to be less than $400,000 for 2018.

During the quarter, we added $9 million in short-term borrowings to meet normal working capital requirements. This was comprised of a $6 million increase in borrowings from a third party as well as a $3 million short-term note from a related party. We are currently negotiating a larger ABL facility to help us manage working capital on a longer term basis, which is particularly impacted by higher priced export sales.

With that, I would like to turn the call back over to Randy Atkins for some closing remarks before we open the line to Q&A.

Randall W. Atkins - *Ramaco Resources, Inc. - Executive Chairman & CFO*

Great. Thank you, Mike. As I said, I appreciate everyone being on the call now, and we would be delighted to field questions from anybody out there in the audience.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Michael Dudas of Vertical Research.

Michael Stephan Dudas - *Vertical Research Partners, LLC - Partner*

I appreciate the updated -- the quicker financials and the presentations, very helpful, we look forward to more in the future. So first for Mike, looking at the -- I think, reminding us about your qualities of coal and some of the spreads that have been blowing out and moving about a bit for the domestic and potential international market, how that might play into your current customer mix? I can understand you want to be first movers -- your first customer has been quite important to you, but how quality needs and the production shortfalls, some of the things that you've indicated in the call, could lead to better -- different markets for some of your coal that you can blend and potentially sweeten up potential revenue and pricing as we move into 2019?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

I think the great thing about our situation right now, Mike, is we've got lots of alternatives. This time last year, we had very few. And I think that we very well could see more of our tons placed internationally. There was a pretty good -- when you look at the numbers for year-end, the domestic producers ended up being and -- of course, our largest buyers. As we look at our quality mix, I mean, there are the 5 or so domestic customers. There are probably 3 other guys that really like our qualities a lot, which is our strong -- really is an AB kind of coal kind of in the middle. And the important thing is to get the premium for being in the middle of the zone as opposed to selling for a high-vol B coal. And in some cases, this year we did sell as a high-vol B coal for some of the reasons we discussed. I think, you'll see us sell, let's say, plus/minus 50% domestically. But the rest being going export, but also having our buyers appreciate our AB quality more, even though we can ship an A coal versus the AB coal that we really want to make sure our customers value the most.

Randall W. Atkins - *Ramaco Resources, Inc. - Executive Chairman & CFO*

And, I think, Mike -- this is Randy. Also as we look at potential production into '19, our bias is probably going to be toward the As, either to be able to sell that as a pure A or blended up in some of our existing coal. So we've got a stronger AB or at least an A that we could elevate some of our existing blends for. So that's why we are optimistic on -- pricing deck.

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Well, Mike, one of the other thing that's changed, I mentioned that our surface mine really as a percentage of production has performed better as far as the number of tons that have gone metallurgical. And we really, after looking back at the first 6 months, we really don't make a B coal, it's a better quality coal than that. So anyway, that's helpful?

Michael Stephan Dudas - *Vertical Research Partners, LLC - Partner*

No, it is. Second question is, maybe you can elaborate a little bit more on the issues with the NS, frustrating as it may be, is there a sense of how much of an impact in Q2? And what you could see looking into the fourth quarter and any way to mitigate such issues as you're thinking about the '19 business and certainly on the blending and mixing front?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

I mean, we do think that Norfolk Southern is going to get better. It is frustrating. We don't think that there's going to be much of an impact on us in the third and fourth quarters because we found some alternate places to ship some of those tons. And just not that bigger impact, really, when you look at our Berwind production and you look at our purchased coal. In essence, what it causes us to do is to change the mix a little bit on where the coal goes. So we have entered into some domestic pieces of business that should have more reliable cycle times coming out of Knox Creek at pretty good margins, by the way.

Randall W. Atkins - *Ramaco Resources, Inc. - Executive Chairman & CFO*

And, Mike, also looking forward needless to say, when we ramp up Berwind that's going to be a Norfolk Southern customer. So that's frankly what we're hoping to get every issue resolved with the Norfolk Southern before we really get to that level of production that becomes a meaningful issue for us.

Michael Stephan Dudas - *Vertical Research Partners, LLC - Partner*

No, that makes sense. My follow-up question is, Mike or Chris, intrigued about your comments on labor and turnover may be some metrics about how many you have. Are you looking for -- are you short folks, long folks. And as this impact permeates as we've seen in reasonable markets, do you think it'll be a limitation to your potential growth plans or more importantly other of your customers that you -- or your -- the suppliers or vendors that you buy the purchased [coal] for more, others are competing with you in the marketplace. Is this something to be really nervous about or just keep a watch?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Mike, I'm going to let Chris Blanchard deal that one up. Go ahead Chris.

Christopher L. Blanchard - *Ramaco Resources, Inc. - Senior VP & COO*

So we still are running around 300 employees at our operations. The turnover levels have tipped up some, some of that is sort of natural to the industry right after the miner's vacation period in July. But we are able to replace them with experienced miners. I mean, we're not running any of our mines shorthanded currently. The pool of available miners has contracted. Appreciably, you can tell in the number of applications that are turned in. But I would say, we are only slightly nervous about it on a go-forward basis on the ability to staff the mines at Elk Creek. I think, we still have a extremely desirable place for employees to work, given the total package of focus on safety and coal mines that you can stand up and walk around and that are productive and that they're given everything they need to be productive and safe. So I think total packages were okay, and we just are reverting sort of back to the normal levels of turnover for the industry. At our Berwind operation, going forward, the labor pool in the McDowell County, far Southern part of West Virginia and Southwest part of Virginia is still pretty wide open, and there is available labor there. The larger part of our ramp-up will be there, as we go forward.

Operator

Our next question comes from Jeremy Sussman of Clarksons.

Jeremy Ryan Sussman - *Clarksons Platou Securities, Inc., Research Division - Analyst*

So if I think about sort of the ramp, I guess, in Q1 you produced around 400,000 tons, this past quarter close to 500,000 tons. So good to see the ramp, good to see the surface mine performing better. I guess, as we think about kind of the back half of the year, anything we should take note of when we think about kind of production levels?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

I'm going to let Chris deal with that.

Christopher L. Blanchard - *Ramaco Resources, Inc. - Senior VP & COO*

Jeremy, this is Chris. The only real thing to keep in mind for Q3 and Q4 is, Q3 has the one vacation period in July, which we've already gone through. And then we have 2 vacation periods in Q4, which just 3 weeks cumulative of lower production. But aside from that, I mean, we might see the numbers. If the numbers are flat in Q3 and Q4, it's actually showing a continued improvement over Q2. But we don't see anything big that should pull this down.

Jeremy Ryan Sussman - *Clarksons Platou Securities, Inc., Research Division - Analyst*

That's helpful. And maybe switching gears, I guess, on the pricing front, it looks like you've continued to sign export met coal contracts pretty much in line with market price. I think this past quarter in the $107 per ton range or so. Obviously, that's well above kind of the legacy domestic contract. So I guess how -- as we head into 2019, how should we kind of think about the dynamic of export versus domestic volume and pricing?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

So, Jeremy, as I kind of touched on, I think, we haven't settled into a split between domestic and export for '19 yet. Obviously, there is factors to weigh on each side. We probably would have all things equal, perhaps better rail service and logistics on domestic business that we would export, but we'd obviously have potentially better pricing on exports than we would domestic. I think we'll get some clarity, probably, within the next -- well, certainly this quarter. But frankly, probably within the next 30 to 60 days on where a lot of the domestic buyers are seeing the market. And I think, we will be guided in part by what kind of pricing expectations we see. Obviously, we continue to see a pretty good market out there into '19. I think they have jumped, the domestic has jumped in early this year. Because as I said, they do want to get burned with a ramp up toward the fourth quarter and that's certainly conceivable if you saw China perhaps jump in with some meaningful infrastructure spending. So the jury is out on how we're going to split our '19 book. Mike?

Michael P. Windisch - *Ramaco Resources, Inc. - CAO*

Yes, I think as we look at some of the processes that are ongoing and there is no doubt that more of the convergence in pricing. The real question is where does it all shake out. But I think from our perspective, and where we priced coal this year for any number of reasons, obviously, we should see appreciable increase in our domestic pricing. And I can tell you whether that will equal sort what these export numbers are today or not. But far closer to that than when we entered into business this year.

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

No, in '17 rather.

Michael P. Windisch - *Ramaco Resources, Inc. - CAO*

Yes.

Operator

Our next question comes from Lucas Pipes of B. Riley.

Lucas Nathaniel Pipes - *B. Riley FBR, Inc., Research Division - Senior VP & Equity Analyst*

I want to take another crack at the -- on the pricing side. And kind of if you had to sign -- if you were signing domestic business today, what do you think that would roughly shake out? And putting that differently, I think, you mentioned in your prepared remarks on the Q3 call, you'll be giving 2019 guidance. If you were putting a budget together for 2019 today, on the pricing side, what sort of price would you plug in there? I would appreciate your thoughts.

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Lucas, I can give you a definitive answer, the price would be higher. But beyond that, obviously, we don't want to try and sit there and throw darts at the board and give you precise numbers. But I think, you all on the line, obviously, are very close to the markets and can understand where the prices seem to be right now. I think it's really going to be a question, frankly, more on the buy side. We're not going to sell tons and what we feel is not a fair value to our shareholders, just to have domestic business. So I think, it's going to be a function of how aggressive the domestic steel groups will be in terms of their pricing for '19.

Christopher L. Blanchard - *Ramaco Resources, Inc. - Senior VP & COO*

I think, too, it's just really different situation, really for the entire industry. we've seen huge trends with call being potentially sourced to Asia. If you note, on the call, I mentioned that we might send some test shipments that way. We're working on them. We just have more alternatives. And one thing is for sure, we will not sell coal at the prices we sold for this -- for 2017. No question. And I think that you'll see a substantial change in the domestic pricing for us. It's difficult to talk about, especially when there are so many RFPs outstanding, and we've got so many different discussions that are ongoing. So I think, the right answer is to say that it should be substantially better for us. Maybe a little bit different for others, but substantially better for us domestically.

Lucas Nathaniel Pipes - *B. Riley FBR, Inc., Research Division - Senior VP & Equity Analyst*

That's very good to hear. And maybe switching over to the operational side. Michael, Chris, you've both veterans of the industry, you've seen a lot of mines getting developed over your careers. And I wonder if you could maybe elaborate on the probability of the worst-case scenario at Berwind? And if you could, also, elaborate on what that worst-case scenario would mean, both in terms of capital cost as well as production delays?

Michael P. Windisch - *Ramaco Resources, Inc. - CAO*

I think, I'll start by saying, it's all of the steps that we've taken and the things that we've done, I think, so far are positive. I'm going to get Chris kind of jump in and chat a little bit about it. I describe generally what some of these things could be, but let's let Chris jump in. He's obviously been in the mine every week for the last -- for many months, and he knows what's going on. And he's in-charge of the drilling program we've undertaken. So I'll let him jump in and give you more details.

Christopher L. Blanchard - *Ramaco Resources, Inc. - Senior VP & COO*

Lucas, so the worst-case scenario at Berwind is their current drilling program that we're doing shows that the sandstone intrusion cuts off our alternate route to the Pocahontas 4. In that case, then we have to back up and do the economics and determine whether we drive through the sandstone channel, which at one location we know it's 800 feet horizontally through the channel. There may be some shorter places, but obviously that's in the several million-dollar range to the -- to drive through the sandstone channel like that, and probably also several months of development work in the way. So that's the worst-case. We've got -- we've drilled 9 holes thus far, I mean, they're all relatively deep holes and sort of virgin territory to get to, so it takes a while to develop size and drill the holes. And we've got at least 5 more before we'll be able to be extremely confident that we, in fact, will not hit that sandstone channel. But with 9 of them drilled so far, everything has been as expected or favorable as far as same conditions encountered. So cautiously optimistic, but until all the data is in, of course, we don't know for certain, intermediate term, by having to pullback from the rock the first time, Mike mentioned, were delayed about 6 months in reaching the Pocahontas 4 horizon, which pushes that from the end of '19 into the beginning of '20. But at this point, as we sit here today, that's -- that is the magnitude of the effect.

Michael P. Windisch - *Ramaco Resources, Inc. - CAO*

And, look, just to reiterate what Chris said, when we look at this issue right now, it's really more of a Q3 or 4 '19 issue moving it out maybe at least 4 months to 6 months. But it is not certainly anything that we're going to have a impact on our earnings before that point in time.

Lucas Nathaniel Pipes - *B. Riley FBR, Inc., Research Division - Senior VP & Equity Analyst*

Got it. No, that's very helpful. And maybe just one quick follow-up on that is, when would all the data be in? So when would you complete the drilling program?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

We should, I mean, before the end of the third quarter. I would say probably, unless we encounter some sort of issues in the field, weather-related type issues, sometime before the end of September.

Operator

Our next question comes from Mark Levin of Seaport Global.

Mark Andrew Levin - *Seaport Global Securities LLC, Research Division - MD & Senior Analyst*

A couple of quick questions. One on the balance sheet. It looks like cash at the end of the quarter was about $5 million down from $7 million. I know there's a big receivable number. Maybe you can talk about how you expect the cash situation to trend is -- what's the optimal liquidity level for the company at this point? And yes -- just sort of how you see the balance sheet evolving and where the free cash goes?

Christopher L. Blanchard - *Ramaco Resources, Inc. - Senior VP & COO*

Yes, I think you've asked a couple of questions there, Mark, and I'll keyed it up and then perhaps let Mike Windisch also add some. So basically, we're -- the good and bad news is, we have sold sufficiently that we've got a pretty good size book of receivables, which we have previously kind of carried out of our own pocket, and we are now in the process of negotiating, as Mike said, an ABL facility, which will essentially take that burden of off our own cash and put it basically into a receivable. So we expect to have that completed before the end of probably September. And at that point, we will basically just manage our -- do a cash management from that. In terms of an optimal cash position, I would say, for a company of our size, I would say, we would be comfortable in keeping probably a $10 million to $15 million cash balance, certainly that much availability. So I think that answers both the questions I heard, unless there is another one.

Mark Andrew Levin - *Seaport Global Securities LLC, Research Division - MD & Senior Analyst*

No, that's great. And then on the CapEx, I know you guys raised it again. I think you raised it last quarter, you've raised it this quarter. Maybe just some color as to what you've seen over the last 6 months to cause you to raise the CapEx as you have? And then, again, thinking out in 2019, is this sort of the new run rate we should think about for CapEx next year? Or are these more one-off stuff this year?

Michael P. Windisch - *Ramaco Resources, Inc. - CAO*

We think that -- well, we did some of our CapEx this year, Mark, which we then had to capitalize some of the development costs. So that's probably bumped up this quarter a little bit from what we had expected before. Obviously, we have been in development mode, since we, frankly, got started back in late '16. So our heavy cash spend is really in the rearview mirror right now. As we look forward, other than initiating some potentially new projects, it's pretty much going to be just a finish up of some development CapEx as well as our normal maintaining CapEx. And I think there's a slide that we've put in the earnings deck here, which kind of gives you an idea we see that the back half of this year dropping substantially from the front half. And then, as I said, we'll sit down with the board as we do our '19 plan and are going to come up with an idea about where we want to spend in '19, whether we want to put in some new mines, Mike alluded to the Glen Alum as being sort of one of the ones we're looking strongly at. And sort of see where we come out of that -- at that point for next year.

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

I'll note, too, Mark, that some of the things that we have done that we decided that we really needed to do included plus/minus $4 million for this pay toll road. But I can tell you, having been on-site recently, it's going to make a huge difference in the reliability and the velocity of our trucking and also costs. I mean you really can justify it very quickly on cost structure changes. So it's something we felt like we needed to do because we don't want to repeat the first quarter. We want the rest of the quarters to look like this quarter. So if we would have...

Mark Andrew Levin - *Seaport Global Securities LLC, Research Division - MD & Senior Analyst*

No, that makes perfect sense. Let me shift, really quickly to the rails. You've called out Norfolk Southern service, I'm just curious, like, how rates have been trending, maybe the rates you're paying in Q1 versus the rates you are paying in Q2, and what you expect to pay in Q3?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Yes, I mean, we've had some fluctuation, but it hasn't been huge. I mean, it's been over the course of first 6 months, maybe we've had $3 change or so in the rates. I mean, you know how it goes, if we could predict what the pricing will be that comes down, it's going to come down a bit. But it's held within a pretty tight range. And frankly, as pricing itself within a pretty tight range. So it's always increased whenever you see the export numbers where they are.

Mark Andrew Levin - *Seaport Global Securities LLC, Research Division - MD & Senior Analyst*

That makes sense. Now -- and I realize it's tied to that. I'm just curious if would expect maybe more specifically just given that prices and come down quarter-over-quarter. If you would see some relief on the rate side a little bit?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

I mean, if it continues to move down from the $170 or so range, I mean, you'll have a couple of dollars in relief.

Mark Andrew Levin - *Seaport Global Securities LLC, Research Division - MD & Senior Analyst*

Okay. That's perfect, Mike. And then just a final question, I think going back to some previous ones about the domestic versus export. Realizing last year, you guys were a new company and breaking into new blends, maybe you took a bit of a discount to the prevailing market price. As you think about '19 versus '18, do you feel like you will have to be and -- or will be in that situation again? Or do you feel like having been in the blend for a year, people having a chance to sort of test burn and in terms of test burn use. (inaudible) coals that the pricing that you guys will get will be very similar to serve market-based pricing?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Absolutely, Mark. I mean, there's no question. So you can tell by the shipments, we've done what we said we would do. The qualities, by and large, been what we thought they would be. And in many cases, do the surface mine being better, better. We basically, look, some of this is having started up, all these coal mines, we basically figured out we really don't have a B coal. It's either A or AB and I think going forward, you'll see us price much more strongly into our customer base domestically, which is really where the deficit has been this year.

Christopher L. Blanchard - *Ramaco Resources, Inc. - Senior VP & COO*

And, Mark, just to add to that, for may be a statement of the obviously. But when we priced all of the domestic stuff in 2017, obviously, we had some issues with test shipments, deliveries, being able to watch around coals, et cetera, that is all behind us. And so this year, we will be starting fresh and pretty much on equal footing with any other producer.

Mark Andrew Levin - *Seaport Global Securities LLC, Research Division - MD & Senior Analyst*

That's probably the best news. That's great to hear. And congratulations not only on that, but congratulations on what I think, is your best quarter as a public company.

Operator

Our next question comes from Curt Woodworth of Crédit Suisse.

Curtis Rogers Woodworth - *Crédit Suisse AG, Research Division - Director & Senior Analyst*

So on Berwind, just to clarify, assuming the sandstone issue is somewhat mitigated, is the best case scenario the 4-month delay? So instead of like a late '19 ramp into Pocahontas #4, you'd be more like a 2Q event. And then if it is more of a serious issue than it would be more like a 8- to 9-month delay? So like a late 2020 entry into #4.

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Yes, I think, that's at least with the data we have right now that's a pretty good approximation. 4 months in the best case and that's just because of driving around the channel. And 4 months plus another 4 to 6 months if we would have to go through the sandstone. 2Q of '20 for the Pocahontas 4 in the sort of base case and 4Q or 1Q '21 in the worst case.

Christopher L. Blanchard - *Ramaco Resources, Inc. - Senior VP & COO*

And, Curt, as you're familiar from our ramp of production at Berwind, we weren't going to be into meaningful production at Berwind until we hit the 4. So when we're going through where we are now on the 3 Seam, we have never predicted that to be more than couple of hundred thousand tons. So it's not going to bother anything in terms of our overall production slate until, as I said, probably later in '19.

Curtis Rogers Woodworth - *Crédit Suisse AG, Research Division - Director & Senior Analyst*

Okay. Understood. And then, Mike, for Elk Creek, given that the surface high wall is operating better, the initial plan, I think, was contemplating adding a second surface high wall unit in the Glen Alum wasn't really discussed. So is your thinking now that you kind of wouldn't do that and you're more serious about the Glen Alum? And can you kind of talk about what it could -- production base could look like for Elk Creek in 2019?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Yes, I think we have a number of options that were looking at. Probably our 2 coal mines, deep mines, that we would probably lean towards putting in, depending on the circumstances. Glen Alum tunnel, I think, is fairly high on the list. The problem is, by the time you buy equipment, put development in, maybe you have an impact of 9,000 tons or so. The -- as we look at next year though, I think, with the lead times and those kind of things, I think, you should start to think about it as plus/minus 1.8 million to 2 million tons. And then we'll see how that -- we'll see how our planning goes. I think Elk Creek can ultimately by itself peak 2.5 million tons, we push it hard enough, and I think we can. It's just going to take more deep mines to make up for the surface mine. I will tell you, right now, I mean, we think the surface mine has the potential to be better than 275,000 tons. We need to utilize the Highwall Miner more, and I think we will going forward. So it -- one of the questions that we continue to ask ourselves is, do we need a little bit more equipment on the surface mine to continue to open up wall for the Highwall Miner. So we're looking at that. But I think roughly you could see us commit to put 2 deep mines in, in the next 6 months or so, which would be a nice increase.

Curtis Rogers Woodworth - *Crédit Suisse AG, Research Division - Director & Senior Analyst*

Okay. And that's interesting. And then on the tons you're selling on index. Can you tell us what the index ASP was this quarter? And then looking out to the back of the year, can you give us any guidance on, if we were looking at, like, say the East Coast [Platts'] price for high-vol A, what would be the appropriate discount to apply to that, assuming like $30 rail or how should we model that?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Yes, when we think about -- we're basically selling 2 different coals internationally. One is kind of priced of a high-vol A index, but it's a high-vol A index minus, say, 3% or 4%, 5%, plus/minus 5%, I think. I think on the B side, we are plus about that. So when you put them together, it's what you say, rateably it's 50-50 or so. So that's kind of how we are -- how our qualities are priced. I think -- in the future, I think, we can do better on the B side then we're doing now. You're pretty much right on the rail. When we look at coal and above, let's say, we're back at the mine. And what would realize, let's just say, it's a $110 or so.

Operator

And we have a question from the line of Timothy Healy of Healy Group.

Timothy Healy

I would, like -- I believe it's probably a political problem for you to answer it. But the basic question here seems to be, whether or not, you really have full support from Norfolk Southern in your successful efforts here to develop this business. It seems to me looking at the Norfolk Southern 10-year stock picture of their dining out on their business. And I'm just concerned that because you're the new kid on the block, so to say, whether or not Norfolk Southern is going to have -- being able to provide those (inaudible) to move your product because you're going to produce it, but will it get the Norfolk?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

It's a good question. But one that I think is going to be fine. I mean, really, we've been a fairly minor player to be honest up to this point, which you can see in the production. As our production becomes more meaningful, I know that we will get more attention. We're the -- really one of the only guys on the NS that are increasing production or plan to increase production substantially. And when you become more or less plus/minus 1 million tons supplier, it's a big difference from where we are today. Having had lots of discussions with NS, I do know that they've leased equipment. They've brought on cruise. We know how hard it is to hire people in that part of the country, and -- in their defense where they really missed it, in my opinion, they underestimated the amount of steam coal that they're shipping on their rail line and exporting as a percentage of their overall shipments, and it remains a much bigger question, Mark, whether steam coal will continue at the trends that are at today versus what's been more a traditional heavy met shipment. So I think, we're going to be okay, but we continue to push them to improve. And again, once we're more meaningful, I think it will absolutely get better.

Operator

And I'm showing no further questions at this time. I'd like to turn the call back over for any closing remarks.

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

As always, we very much appreciate everybody being on the line. We're looking forward to another good quarter ahead as well as the balance of the year. And we will keep everyone posted. Thank you so much.

Christopher LaFemina - *Jefferies LLC, Research Division - Senior Equity Research Analyst*

Thanks.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.
