# Final Transcript

Q3 2019 Ramaco Resources, Inc. Earnings Call

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## Corporate Participants

**Randall Atkins** *Ramaco Resources, Inc. - Founder, Executive Chairman, and Director*

**Michael Bauersachs** *Ramaco Resources, Inc. – Founder, President, Chief Executive Officer and Director*

**Chris Blanchard** *Ramaco Resources, Inc. – Chief Operating Officer*

**Jeremy Sussman** *Ramaco Resources, Inc. – Chief Financial Officer*

## Conference Call Participants

**Mark Levin** *Seaport Global — Analyst*

**David Gagliano** *BMO Capital Markets — Analyst*

**Lucas Pipes** *B. Riley FBR — Analyst*

**Daniel Scott** *Clarksons — Analyst*

## Presentation

### Operator

Good morning, ladies and gentlemen, and welcome to the Ramaco Resources Inc. third quarter 2019 earnings conference call. At this time, all participants are in a listen only mode. Later, we will conduct a question and answer session and instructions will follow at that time.

*[Operator instruction]*

I would now like to turn the conference over to your host today, Mr. Jeremy Sussman, Chief Financial Officer. Sir, please go ahead.

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### Jeremy R. Sussman — Chief Financial Officer

Thank you. On behalf of Ramaco Resources, I'd like to welcome all of you to our third quarter 2019 earnings conference call. With me this morning is Randy Atkins, our executive chairman, Mike Bauersachs, our president and CEO, and Chris Blanchard, our chief operating officer.

Before we start, I'd like to share our normal cautionary statement. 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 result to differ materially from results discussed in the forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made and except as required by law, Ramaco does not undertake any obligation to update or revise any forward-looking statements, 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, included on our Annual Report on Form 10-K. 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.

Lastly, I'd encourage everyone on this call to go to our website, ramacoresources.com, and download today's investor presentation, which is found under the events calendar. With that said, let me introduce our executive chairman, Randy Atkins.

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**Randall W. Atkins — Founder, Executive Chairman, and Director**

Thank you, Jeremy. As always, I want to thank everyone for joining us today to discuss our third quarter results.

We have predicted in our last earnings call in August that we felt the market looked like it was going to become more turbulent. Unfortunately, we were correct. The M=met coal markets always seem to go through some form of perennial manic-depressive kind of cycle. We are seeing the depressing side of that experience at the moment. Since we went public in early 2017, we have lived through mostly stronger met markets with benchmark prices hovering around $200 per ton as recently as this June. The landscape now in November has a US benchmark closer to 130. And candidly, some question as to whether that price really reflects underlying true demand.

We have said before that met coal is a proxy for steel, which in turn is a proxy for wider macroeconomic health. As we look around the world, we see today that that underlying economic outlook is at best opaque. With this somewhat sobering backdrop, as an introduction, we are happy that we have locked in almost all of our 19 sales over a year ago at much stronger prices than where you're seeing today. As a result, we have reported that year-to-date we have cash margins approaching $40 per ton and pricing levels at roughly $110 per ton pretty much through the rest of the year. We are now essentially sold out through calendar year end and expect to come in at just under 2 million tons sold.

We realized by late this summer that the 2020 domestic sale process would be dramatically more challenging than 2019 in terms of both basic customer demand and also pricing into our lower benchmark environment. As a result, for 2020, we decided to dial back the amount of our higher-quality blends we would place domestically and have saved most of our valuable quality blends to hopefully sell into what we believe will be a stronger market condition later in 2020. As you may recall, last year we placed about 80 percent of our production domestically. For 2020, that figure will look more like roughly 60 percent at the midpoint of production guidance. We are also keeping a good deal on production optionality on the table, which will enable us to either dial up or down dependent upon where we see the market settling in 2020.

Next year we look like we can either exercise some production discipline and produce roughly 1.8 million tons on the downside or slightly step on the gas and go to about 2.3 million tons. Either way, we feel comfortable we can continue to rely on our low-cost, low-debt structure to produce superior returns. We still continue to maintain our long-term production guidance to 4-4.5 million tons and expect to announce next month some of the production add-ons we discussed earlier in the year, which we expect to begin in calendar 20.

As turbulent as the market looks right now, we know markets change. On a 10-year curve, met benchmark prices have ranged from over $300 to below $80. Reflecting on that, we humbly know we can control what we can control and what we cannot. And one thing we cannot control is price. But one thing that we can control is our balance sheet. I always remind everyone that we took some care at the outset to design Ramaco to be conservatively averaged. This hopefully enables us to not only financially withstand the historic volatility of the met coal space, but also to take advantage of some opportunities in these types of cyclically down markets. We started as a bit of a contrarian play and we will continue to do that as we grow in a prudent fashion.

We have already started to see some supply contraction from the recent downturn. Met supply, we believe, has contracted probably in the 4-5 million ton range. We've also witnessed three major bankruptcies in the last two quarters. In line with that, we are starting to see some asset dispositions now being offered by some of our peers who are either higher-cost miners over-leveraged or perhaps both. As a result, we are actively looking at some of these situations to see if we can accelerate our growth curve, either from a reserve, logistical or production standpoint, in a cost-effective but opportunistic manner. We have also increasingly heard from both our domestic and international customers that they're attracted to the security of supply from a financially stable and growing counterparty. We hope as time goes by that this factor will become more important and perhaps help us in some competitive manner.

To pivot, let me offer some brief comments on Q3 financials, which Jeremy will fill in with greater detail. This quarter we achieved roughly 14 million in adjusted EBITDA. For the first nine months of 2019, it is more than 46 million. That is a 32 percent bump from 2018. We are also looking forward to having our strongest full year yet for calendar 2019. Despite the lingering effects of silo issues we faced in both Q1 and Q2, we have been able to hold Elk Creek mine costs in the mid 60s. Chris will discuss those in further detail. We continue to believe that certainly outside of our peers with longwall production, we will have some of the lowest mining cost in the space for over the next several years. We are currently being somewhat penalized by higher cost at our development mine at Berwind, until we hit the Pocahontas 4 seam next summer, which will have a much lower cost environment. We also had some negative inventory items this quarter, which Jeremy again will address.

Our total CapEx was a little over $14 million in Q3 and we are projecting 2019 overall CapEx spend in the $35 million range, which excludes the capitalization of our Berwind development costs.

Overall, considering the headwinds in the market, we are satisfied with how we have fared thus far in 2019 and are looking forward to both perhaps taking advantage of more opportunities as they present themselves in 2020 as well as hopefully some firmer market conditions as we move into the New Year. And with that, I would like to now turn it over to Mike for some updates on operations and marketing.

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**Michael D. Bauersachs — Founder, President, Chief Executive Officer and Director**

Thank you, Randy. My comments regarding our third quarter will be relatively brief, focusing mostly on markets and our forward-looking strategy. Our operations perform well during the quarter and shipments to customers track closely with our plan. Most importantly, our safety performance has been particularly good in 2019. Chris Blanchard will follow up with more operational details, including an update relative to our Berwind development mine. Overall it's good to add another consistent quarter to our operating history.

There is no doubt as an industry we've entered a more challenging marketplace for 2020. Ramaco was structured to be able to deal with the soft sort of market conditions and fluctuations we are currently facing. While downturns are unfortunate, this should always be expected, and Ramaco remains well positioned for continued profitability through the current low pricing environment. Unlike many of our competitors, Ramaco's recently concluded quarter benefited from having an outsized domestic book business. We did not experience the large selling price declines because our exposure to index pricing was relatively small. This will continue into the fourth quarter. However, we do predict a slight decline in sales volumes for the fourth quarter due to a small amount of deferrals from one of our customers.

The domestic contracting season was negatively impacted by reduced amounts of coal purchases from customers year-over-year and by the diversion of high quality coals from the international marketplace to domestic markets. We witnessed firsthand a number of blend changes. In some cases we saw very high quality, high volume coals that were previously unavailable being injected into coal blends. These changes have in some cases altered where our coal fits in customer's needs. To date, we have committed more of our lower quality coals for 2020 sales, leaving us with the ability to upgrade our realizations if markets improve. As we view actions by others who have reported, it is clear that fewer tons have been placed for next year versus prior years and coal producers are dealing with an increase in their own inventories.

From a macro perspective, economies in most parts of the world are suffering. Steel prices are depressed and exporters of steel have oversupplied markets. Likewise, we have an oversupply of coke production and in turn, decreased coking coal demand both domestically and internationally. We've also seen coke for sale from producers, who normally consume their own coke production. China continues to be a key market participant in their decision to impose port restrictions has undoubtedly had an impact on the market.

Ramaco has recently participated in a number of international tenders. In several cases, the validity of bids have been allowed to expire with little to no coal being purchased. It is clear that international customers are still uncertain on their plans for 2020. Our marketing efforts continue to be focused on improving our international exposure. As we've previously discussed, we've made key personnel moves to expand these efforts. We continue to focus a large portion of our efforts in growth regions in Asia while still not ignoring the transportation and logistical advantages of shipping to Europe and South America. It continues to be our goal to have a direct relationship with our customers.

We continue to be encouraged by developments in India. Recent projections continued to suggest that it will be a substantial growth market. Increasing blast furnace production from 49 million tons to 92 million by 2025. By 2031, India predicts additional growth to 166 million tons. Unlike China, India will need to import increasing amounts of metallurgical coal to fuel this growth.

In light of the aforementioned headwinds, our actions have included extra focus on securing baseload sales. These tons provide us with a minimum level of sold tons to run our mines. Currently, we have committed approximately 1.4 million tons for 2020. The average price for new volumes of 1.3 million tons is approximately $91 per ton and is indicative of how difficult it has been to secure baseload tonnage. The remaining volume is index priced, with the capability of producing as much as 2.3 million tons, our uncommitted tons allow us to be opportunistic as the market continues to evolve.

New business is likely to be international and index based. But we're in ongoing discussions with one existing domestic customer about some new volumes. Should additional opportunities not materialize, we also have the option to run our mines at more or less contracted levels. It's difficult to predict where full year 2020 will end up, so at this point, we are not issuing official volume guidance.

Meanwhile, Ramaco remains one of the only organic growth stories in the sector. The current market continues to discourage investment and indeed is forcing production cutbacks. We have witnessed production curtailments at a number of mines in close proximity to our operations. Ramaco’s plans to reach the 4.5 million ton run rate remains intact. While the timing of capital deployment may fluctuate, we continue to be committed to our growth plans. Our current targets include adding processing capacity at Elk Creek and developing the high volatile, A Jawbone seam at our Knox Creek complex. Both of these projects have compelling rates of return even at today's pricing levels.

We also are in a very good position to take advantage of opportunities that might present themselves. We are currently reviewing both infrastructure-based additions as well as coal properties that have synergies with our existing platform. Ramaco views the current downturn as an opportunity to pursue acquisitions and capital deployment. In summary, our low-cost advantages to this have allowed us to place profitable baseload business for 2020 while retaining a significant amount of unplaced business to take advantage of what we believe will be an improving marketplace. Should improved markets not materialize, we are confident that we can curtail a portion of our production or win crucial spot business. I would now like to turn things over to Chris Blanchard, who will provide some operating highlights relative to our third quarter.

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**Christopher L. Blanchard — Chief Operating Officer**

Thanks, Mike. As 2019 wins to a close, 2020 markets don't appear to be nearly as strong as we projected six months ago. However, Ramaco's operations are in position to perform and succeed at our projected pricing levels and also react quickly to any market recovery. Our base operations are nearing full production and maturitym and our development project at Berwind is approaching its final stage. Most importantly, our operations personnel continue to strive for excellence in safety and compliance. Our incidence rate is down over 50 percent from the same point in 2018. Accident rates are running below industry average. Safety and environmental compliance continues to be a strong focus area for the company. This is reflected by the fact that two of our operations will be recognized for safety performance by the state of West Virginia. And our Knox Creek plant has won both safety and environmental awards in Virginia this year.

Probably the biggest operational milestone which was reached in the third quarter was completing all the work to install the supplemental silo supports at the Elk Creek plant. As we have discussed on previous calls, these additional supports on the silos were not required to make the silos was operational, but were installed by Ramaco after the first silo failed as a failsafe backup system to eliminate the future possibility of any other undetected weld failures. While the Elk Creek plant has had the capability to reach full feed rates for most of 2019, by virtue of the permanent bypass bell we installed, the consistency of maintaining full utilization of the plant was challenged until the silo system was brought back on line. Once back in full service with the silos in August, the Elk Creek plant has operated at much higher run rates and has had its second and third highest throughput months since inception.

The plant operating at full capacity in August and September, coupled with the miner's vacation period in July, allowed us to reduce raw coal inventories at our Elk Creek operations by approximately 75,000 tons during the third quarter. Raw coal inventories at Elk Creek were below 400,000 raw tons at the end of the quarter, with production shifts being moderated at Elk Creek due to market conditions in the fourth quarter, as well as two scheduled vacation periods, raw inventory levels are expected to continue to decline through the balance of 2019.

While the primary mines at Elk Creek have reached a steady state and have the capability to ramp production as the market demands, we continue to deploy capital to ensure that our Elk Creek plant can match the mine's output. To give us future flexibility and to maximize the ability to dispose of the fine fraction of the waste rock, we have broken ground and continue to work on our plate press addition to the Elk Creek plant. This is a second set of presses which will bring our total presses at Elk Creek to four, and give us flexibility to dispose of waste rock in either solid or slurry form at full plant feed rates at both our current capacity as well as at the higher levels contemplated with a full plant upgrade.

Our current plate press expansion has foundations complete, the basement floor and conveyor installed, and should be under-roof early in the first quarter of 2020. Anticipating a typical ramp-up or break-in period, we expect full operational capability on the additional presses by May 2020.

While we plan to monitor shifts work at Elk Creek at our mines in the fourth quarter to manage inventory levels, we do expect mining rates to stay at the same levels and costs to be controlled. We have now completed a high voltage power project for our high wall miner at Oak Creek, which we expect to lower cash costs by over a dollar per ton on already our lowest unit cost of production for the remainder of its projected and permitted mine life. We continue to retreat mine at our Alma Mine and we'll move back to full seam pillar extraction at our Eagle Mine as well in the fourth quarter. Finally, our #2 gas mine will complete mining in a lower coal zone early in the fourth quarter and should benefit from higher clean tons per foot and subsequent lower cost to close our calendar year 2019.

As our mines continue to expand, we look for opportunities to expand our mineral control and advantage geologic conditions as we were able to do at our Eagle Mine earlier this year. The addition of a lease at this mine ultimately is expected to extend our dual seam mining conditions at Eagle for an additional 12 months longer than we projected at this time last year.

Turning to our development projects, we have continued to mine throughout the third quarter towards our upslope location at our Berwind mine. Geology and the thinner Pocahontas #3 seam continues to be challenging and challenging to predict. Our primary development section mined through two areas during the quarter of very local low coal heights with extremely difficult roof and floor conditions. Giving us some optimism, in September this section had its best productivity month on record. While the relative lack of thickness in the seam will always present its challenges, where this mine is encountered softer sandstone or shale roofs, productivity levels have met or exceeded our production targets, allowing the mine to be break even or marginally profitable, even with the lower coal heights and doing the development work required for the upper seam. However, where the cutting conditions have become harder, the productivity levels and repair costs increase to a point where mining only makes sense as a means to the Pocahontas #4 seam end. At the end of October, our slope development section had less than 1000 feet of section advance remaining to reach the slope bottom. Once development around the slope bottom is complete and slope excavation work commences, we are budgeting approximately eight months of construction work to access the thicker Pocahontas #4 seam.

Both legacy and our own core drilling program has defined a large reserve of thicker Pocahontas #4 seam coal. Where we are routinely mining 32 inches or less of coal in the Pocahontas #3, with a fine grained sandstone roof and floor, the upper seam, the Pocahontas #4, is nearly double that on average. Where we project having to mine out of seam rock in the Pocahontas #4 is more often a black shale, as opposed to the sandstones we mine currently. Therefore, productivities are projected to be materially higher, breakdowns and repair costs will be substantially lower, our clean ton per foot will average at or above 3.0 clean tons per foot similar to our Elk Creek operations.

Furthermore, as our mining progresses west and south, the coal quality is projected to continue strengthening, moving closer to mid-volatile coal than a low-volatile one. We've had significant interest in this coal from both domestic and international buyers, and our confident it will be well received by the market. Finally, on the operations side, we remain poised to adjust as the market warrants. At Elk Creek, we currently hold four additional fully permitted mines — two high-vol A, and two high-vol B — and are working to bring one of the high-vol A permits to a state of readiness if additional production is warranted. We expect to receive two additional low-vol deep mine permits early in 2020, one of which has drift access, allowing it to be brought online with low capital investment and reasonably short timelines. Lastly, at Knox Creek, we have largely completed reestablishing ventilation at the Tiller deep mine, which will serve as the access point to our high-vol A Jawbone reserves. We estimate seven to nine months of development work at this mine to bring it in to production once this project is approved. I would like to now turn the call over to our chief financial officer, Jeremy Sussman, for a detailed discussion of financial results and performance.

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**Jeremy R. Sussman — Chief Financial Officer**

Thank you, Chris. In terms of third quarter financial highlights, Randy hit on a number of the key points, but I want to dig into the details a bit more. Third quarter 2019 adjusted EBITDA was 13.6 million, which was a 24 percent increase from the third quarter of 2019, adjusted EBITDA of $11 million. Third quarter 2019 revenue was 61.4 million, which compared to third quarter 2018 revenue of $62.2 million. Third quarter net income was $5.5 million versus $6.2 in Q3 of 2018. Lastly, third quarter 2019 earnings per share was 14 cents, which compared to the prior year period of 15 cents.

I want to point out something that we noted in our press release. In the third quarter of 2019, the company's effective tax rate was approximately 17 percent. In fact, it has been 17 percent in each of the first three quarters of 2019. However, we have also been and continue to be consistent that cash taxes should be minimal.

Specifically, we expect cash taxes to be less than $100,000 in 2019 as the company continues to benefit from a large well or net operating loss position. I point this out for your modeling purposes.

Turning to operational metrics, third quarter 2019 price per ton on company-produced coal is $111, which compared to 2018 price per ton of $90. This was the principal reason for the 24 percent year-on-year increase in third quarter 2019 EBITDA. Third quarter 2019 sales of company-produced tons was 510,000, exactly in line with the year ago period. Third quarter 2019 production was 460,000 tons compared to 449,000 tons in the third quarter of 2018. The increase came entirely from our Berwind development mine, with third quarter 2019 production more than double the same period in 2019 at Berwind. Production at Elk Creek was down 17,000 tons in third quarter of 2019 versus the same period a year ago.

In terms of cash costs, third quarter 2019 cash cost per ton sold on company produced coal was $80, which compared to the year ago period of $65 per ton. I'd like to put some context to these figures. First, I'd note that these numbers are inclusive of our development Berwind mine, which by nature of its development status is much higher costs than Elk Creek at the present time. Over a third of the year-on-year increase in cost per ton sold was simply due to the impact of Berwind, with Berwind’s third quarter 2019 sales up 120 percent from Q3 of 2018. Second, about 15 percent of the cost increase was due to higher sales-related cost, mainly royalties, with third quarter realized pricing up $21 per ton year-on-year. Third, as noted in our press release, Q3 2019 Elk Creek cash cost per ton sold were $73, which is higher than our first half 2019 average of $65 per ton.

As I mentioned earlier, third quarter 2019 sales of company-produced tons meaningfully exceeded production. Between the lingering inventory overhang from the Q4 2018 silo failure coupled with the material weakness in the met coal market this past quarter, we elected to sell coal from inventory rather than run the mines as hard as we could have. While this had a positive effect of getting our coal inventory down to $9.9 million as of September 30, compared to the 14.2 million at year end 2018, it had a negative effect on our cost structure for our produced coal this past quarter.

Specifically, we spread the fixed cost component of our costs over fewer tons — over fewer produced tons — this past quarter. I'd note that we have the labor force in place to produce considerably more tonnage and then we produced this past quarter, which we believe will position us well for our plans to continue to grow the company. Under normal circumstances, we continue to view Elk Creek as a mid-60s per ton cash cost mine.

Looking ahead to guidance, we expect company production of 1.83 million tons for 2019, which would compare to the 1.75 million tons produced in 2018. As you may have noticed from our release, we now expect just 2.5 percent of total sales volume to be steam coal versus 4 percent previously, with the balance, of course, being metallurgical coal.

Overall, we expect just under 2 million tons of total coal sold in 2019. We anticipate 2019 cash cost per ton sold at Elk Creek of $66 excluding inventory changes. We have just over 1.9 million tons of 2019 fixed price business committed at $110 per ton average.

Now moving to capital expenditures, third quarter 2019 CapEx was $14.3 million inclusive of capitalized development costs, which compared to third quarter 2018 CapEx of $12.4 million. We anticipate an overall 2019 CapEx spend of $34.5 million excluding capitalized development costs.

As Mike and Randy noted in their prepared remarks, Ramaco was built to withstand market turbulence, and I'd like to expand on this a bit and go through our balance sheet, which we believe sets us apart from our publicly traded peers. First, referring to the slide deck, as we show on slide eleven, our debt to EBITDA metrics are among the best in the industry, if not the best. I'd remind everyone that as of September 30, our net debt stands at just $11 million. Given our lack of meaningful interest expense, cash taxes and other below the line cash items, I'd remind everyone that when stress testing how Ramaco may hold up in a downturn, EBITDA minus maintenance CapEx of about $6 a ton should get you almost all of the way there. Second, at just $13 million, Ramaco's legacy liabilities are about 98 percent below our direct peer group average and by far among the lowest of this peer group.

I'd like to now turn to some of our current and forward views on the macro environment. Metallurgical coal spot prices have fallen almost 40 percent year to date, with spot prices a bit above the $130 per ton mark right now. However, despite the fall in spot prices, the forward curve is hovering above the $150 per ton level and is in a contango state. Local CapEx in the met coal space remains low. We estimate that met coal CapEx as a whole was 70 percent below peak levels last year, as the high cost of capital for many producers and ESG pressures continue. Furthermore, we are starting to meaningfully see supply come offline, with one investment bank recently suggesting that 5 percent of total US met coal supply has come offline just since August. We think a large part of the spot price decline this year has been driven by the uncertainty of Chinese port restrictions. As we show on Slide 16, the arbitrage of international coal into China has seen a $28 per ton average spread since the beginning of August, versus a near zero dollar ton spread since mid 2017.

If history is a guide, we look for that gap to shrink once there is a bit more certainty in the market. Before I turn it over for questions, I'd remind investors that at its core, Ramaco is a low-cost producer with very little debt or legacy liabilities. We have designed our operations to be resilient in turbulent times and of course take advantage of strength in markets in good times. This now concludes management's prepared remarks.

At this time, I'd like to open the line up for any questions you may have on our third quarter 2019 results or outlook. Operator?

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**Questions and Answers**

*(Operator instructions)*

**Operator**

Our first question comes from the line of Mark Levin of Seaport Global. Your line is now open.

**Mark Levin — Analyst, Seaport Global**

Great, thanks very much. So a couple of questions about guidance. So I guess it's not guidance technically, but the comment regarding production volume or in 2020, the range you gave a 1.8-2.3, maybe you can book market it. Today's met prices, Randy, are you closer to 1.8, and at 175, you're closer to 2.3? Is there some sort of, you know, pricing parameters that would give us an idea of where you would expect to fall within that range?

**Randall W. Atkins — Founder, Executive Chairman, and Director**

I think, Mark, the way to look at is almost like a seesaw. You know, you've got price and demand. So because we've got a very low-cost profile, we can make money even in this market. So it's really a question of assessing really where the underlying demand is. And I think, you know, our view is, given the cyclicality of the met pricing environment, where we said in November of 2019 perhaps is not going to be the same place pricewise we would sit in six months from now. Nor will it necessarily be the same demand equation.

[00:36:09] So I think what we've done is we've really told you physically what we're in a position to do from a production standpoint, but not necessarily trying to guide you to actually what sales we would suggest that we're actually going to land on for next year.

**Michael D. Bauersachs — Founder, President, Chief Executive Officer and Director**

It's kind of a difficult point in the market timing-wise, Mark, because, as I kind of mentioned, you know, a lot of our high potential customers still don't know what they're going to do and have chosen to not enter the marketplace. I do believe we get a lot more clarity in th next 45 to 60 days or so, to be honest.

**Mark Levin — Analyst, Seaport Global**

That makes perfect sense. And if you if you think about what CapEx, I know you guys are getting ready to do your budgeting meetings, so I don’t want to… I know you're not necessarily position to be completely accurate or maybe don't even want to go there. But when you think about what cash cost would look like at the lower ton rate versus the higher ton rate or what CapEx might look like at that sort of 1.8 million versus the 2.3, what would those numbers or what would those ranges potentially look like?

**Jeremy R. Sussman — Chief Financial Officer**

I mean, Mark, I think as you said, well we'll be in a better position to kind of go through go through some of the key numbers for you when we when we report full year results, certainly after our budget meeting. But as I said in my prepared remarks, at its core, Elk Creek is certainly a mid-60s cash cost per ton mines. We're comfortable that we can manage to those levels. But we'll give you some more specifics as we go forward.

**Mark Levin — Analyst, Seaport Global**

That's perfect. And then my last question just has to do with the domestic met pricing. And it sounds like you guys made some strategic decisions based on what you were seeing in the marketplace when you were negotiating over the summer. Maybe you can give us some color about, you know, the tenor of negotiations. And, you know, obviously, it sounds like you guys are going to hold back more of the high-quality stuff. I don't know if you're willing to give kind of a pricing breakdown for the higher quality versus the lower quality. But, you know, if you are, that's great. And then also just kind of how things sort of progressed and what you saw this round domestically versus maybe a year ago.

**Michael D. Bauersachs — Founder, President, Chief Executive Officer and Director**

It really was a completely different kind of kind of setting, Mark. Most of the discussions with customers started with the fact that they were going to buy less coal and make less coke. And, you know, as we saw kind of phase one kick in, we saw a lot of coals coming back into the marketplace that traditionally weren't there. I mean, for example, our coals probably would have had a higher rank in some of the blends if it were not for some of the coals that got placed quickly and you know, you can't blame customers for wanting to make strong coke. So, you know, we understood that. It was very important for us with our heavy load of existing business domestically to get a base load, you know, to get a good amount of base load demand, or business, to sustain our operations. So we were very focused on that. We were focused on, you know, on volume and price. And, you know, I think it obviously had an impact where we ended up.

But with that being said, our higher quality coals have more of a tendency to be based off a high-vol A type index in the international marketplace, and because of that, we feel like if things recover over the next six months or so that we're going to have a really good opportunity to have higher priced business internationally. And because of the way things develop domestically, our higher quality coals were not generating the sort of demand that we know that we saw, for example, last year. So hopefully that helps a little bit.

**Randall W. Atkins — Founder, Executive Chairman and Director**

And I think, Mark, just to echo on what Mike said, somewhat of a statement of the obvious ,last year when the domestic pricing in negotiations were occurring, that was in the backdrop of a rising market price-wise. This year, it was completely the opposite. So it was really a question of where you catch a falling knife, and I think our approach was simply to step back from the table and say, you know, we're not going to try and predict where that knife will go one way or the other, but we're going to preserve optionality on our best coals so that we can preserve some pricing upside. I think, you know, in terms of your question about what the price might be, again, I think that's a market driven decision and it remains to be seen.

**Michael D. Bauersachs — Founder, President, Chief Executive Officer and Director**

And, of course, to make sure we can run our operations. And unlike much of our competition, who did not make that decision, end up sending out warren notices instead.

**Mark Levin — Analyst, Seaport Global**

Got it. Great. Thanks for the color, gentlemen. Appreciate it.

**Randall W. Atkins — Founder, Executive Chairman and Director**

Thanks Mark.

**Operator**

Your next question comes from the line of Daniel Scott of Clarksons. Your line is open.

**Daniel Scott — Analyst, Clarksons**

Thanks. Good morning, guys. When I look at the results and I think about your contract book for next year shifting to a lot more exports, what is your level of confidence in being able to place that step-up in tonnage in the export markets? What kind of typical geographies are we looking at for destinations? And if that market stays soft, is the domestic window closed for you or is there still some optionality to return tons domestically?

**Michael D. Bauersachs — Founder, President, Chief Executive Officer and Director**

Yeah. Good question. And you know, the good thing about the progress that we've made in the last six months is getting all kinds of exposure because of our focus to change our mix. I mean, we knew we had a heavy domestic book and our focus even before the downturn that we've experienced was to expand on the export side. I will say that we've leaned towards the growth area. I mean, we think our highest potential is probably more or less in Asia, because it tends to be more consistent from a marketplace. And I can say that we're kind of on-deck at a couple of places, one of them more or less because of dissatisfaction with some of the quality of coals that they're that they're currently buying and that ours would be a good fit and fit nicely into the blend. And so, it's like trying to predict something that is constantly evolving. I mean, it's difficult to say, hey, I'm 100 percent sure we can do it. I can't say that because there are a lot of things that are out of our control. But we've done everything right. We've put all the things in place to do it. And I like the fact that we are having some discussions with some customers versus what we're seeing, for example, in Europe with a lot of uncertainty on buying. So difficult to say now, but we'll know a lot more in the next 60 days.

**Daniel Scott — Analyst, Clarksons**

Okay, great. And I think your comments were that if, you know, markets get even weaker, that you have the capacity to just basically run at the 1.3 that's contracted. Can you do that without really blowing up the cost structure? And that's something you could run with with decent margins at that level?

**Randall W. Atkins — Founder, Executive Chairman and Director**

And we didn't say we would run it at 1.3. We would run higher than that, and frankly, we've got some discussions right now which again, as Mike alluded to, in the next 60 days, probably cover several hundred thousand more tons. But so we've basically covered ourselves on the downside and as I said, let ourselves the optionality to capture some price upside as we go forward 20.

**Michael D. Bauersachs — Founder, President, Chief Executive Officer and Director**

And I did forget to answer the question about domestic business. We still do have some some ongoing discussions and are hopeful that that we're still able to do a little bit more domestically. So I don't know that we totally write that off at this point either.

**Daniel Scott — Analyst, Clarksons**

Okay. And not to dwell on the negative. So on the positive, if you kind of looking at that 1.8 to 2.2 band, you can ratchet in if markets dictated, is there are a lot of variability in the actual operating cost structure there or is it pretty steady?

**Christopher L. Blanchard — Chief Operating Officer**

This is Chris, the operating costs all in that band will stay pretty flat. Obviously, the higher we get, the lower they'll go. But sort of our base case is pretty consistent with what we've done this year. And what Jeremy's outlined is our view of Elk Creek going forward.

**Daniel Scott — Analyst, Clarksons**

And the last for me. Jeremy gave some extra color on the cost. In the release, there was the comments about the sales from inventory had a negative impact on cost per unit. And I think you cleared it up in your comments, saying that you basically spread your cost over fewer tons produced. So it wasn't cost per ton sold, it was cost per ton produced. Is that the right way to think about it?

**Jeremy R. Sussman — Chief Financial Officer**

Yes. I mean, if you think about Dan, we produced 460,000 tons and sold 510,000 of our produced coal, whether it be from this quarter or, of course, prior quarters. And so essentially, as I noted, we have the workforce in place to produce considerably more than we did in Q3. And we think that's the right thing to do, given our structure and given given where we are, frankly, on the cost curve. So, yeah, I think long story short, you're thinking about it correctly.

**Michael D. Bauersachs — Founder, President, Chief Executive Officer and Director**

You know, I might add, Jeremy, that the byproduct is eliminating inventories is an increase in liquidity. So we continue to see our cash position gain when we're eliminating inventories. So that's a good thing.

**Randall W. Atkins — Founder, Executive Chairman, and Director**

And then as our cash position obviously grows, then that gives us more optionality to look around at some other opportunities.

**Daniel Scott — Analyst, Clarksons**

Yeah, on that comment, sorry just one last one in there. I would have thought going into the earnings season with pricing where it's at that maybe some of the growth programs might take a pause. But it sounds like not only are they not necessarily pausing, but at the same time, you could be opportunistic in MNAs. Is that fair?

**Randall W. Atkins — Founder, Executive Chairman, and Director**

I think I think that you're you hit the right word. We'd be opportunistic. Obviously, we like to try to buy things at a very reasonable price and we are looking at some opportunities as we speak. And then, as we talked about last quarter on some of our in-house growth opportunities, we told the board the last meeting we wanted to kind of sit tight and see where the market looked. We're going to be back having a discussion with our board late this year. And at that time, we're going to put back on the table some of these ideas and see what direction we want to go.

**Michael D. Bauersachs — Founder, President, Chief Executive Officer and Director**

I think importantly to keep in mind, as you know, Berwind continues to progress and it's been a core development and growth project. And we're getting very close to that slug bottom where we're going to start. It's exciting.

**Daniel Scott — Analyst, Clarksons**

All right, guys, thanks very much. Appreciate it.

**Randall W. Atkins — Founder, Executive Chairman, and Director**

Thanks, Don.

**Operator**

Thank you. The next question comes from the line of Lucas Pipes with B. Riley FBR. Your line is now open.

**Lucas Pipes — Analyst, B. Riley FBR**

Hey, good morning, everyone.

**Randall W. Atkins — Founder, Executive Chairman, and Director**

Morning, Lucas.

**Lucas Pipes — Analyst, B. Riley FBR**

I wanted to follow up on this MNA point. What sort of return parameters would you be looking at?  And if it's production related, would it be and production immediately or a year away, two years away? If you could describe some of the parameters in more detail that would be very helpful. And then secondly, along at the MNA line, what sort of financing opportunities would you be looking at? Would you, for example, consider debt as part of as part of that or would you take on legacy liabilities? You mentioned in your prepared remarks that currently you hardly have any in comparison to your peers. So  a little bit more context around that would be very helpful. Thank you.

**Michael D. Bauersachs — Founder, President, Chief Executive Officer and Director**

Yeah, sure. Lucas, obviously our focus is always on geology when we look at opportunities. And when we have a preference of either adding to existing mines or putting in production that is in advantaged geologic areas. So I would say that sort of the first line of things that you might see doesn't even necessarily need to be a large MNA thing. It could, for example, be doing some additional leasing and adding things that would be in many cases created from a geologic perspective, an advantage, geology over time. So I think there's a very good chance that you'll see some of that.

I think you'll also see us focus on infrastructure that can give us more capabilities and flexibility to enhance our our ability potentially wash coal or ship coal. Those sort of things. We continue to have a huge aversion to liabilities and prefer to structure transactions that try to at least minimize them. You know, that being said, occasionally you take those sort of things. We took a measured approach when we did Knox Creek, for example. So what you won't see is any large, I think, MNA from us, more next door stuff, more opportunistic stuff, more leasing type stuff. But these things could really have a pretty big impact, in many cases on our cost structure and continue to perpetuate our low cost operations that we have. So I guess based on that, you know, we have and we continue to have a great relationship with our banks. And I'll let Randy and Jeremy kind of jump in and talk some of them, I think.

**Randall W. Atkins — Founder, Executive Chairman, and Director**

Lucas, to your first question about ROIs, of course, we would like to have a higher ROIs on anything we do as possible. But I would think an easy way to look at it is we like paybacks probably in the 1 to 3 year range, which gives you some notion of a return you can kind of back into without having to be numerically precise.

In terms of our opportunities, we've got dry powder. We've got dry powder built into our existing debt instrument on the revolver. We've got dry powder that we're discussing as I think we've we've alluded to before with perhaps some equipment financing that we've already put in place before. What we don't want to do is probably go out and finance against our balance sheet, per say, as a sort of a cash flow loan of some form. Nor as you asked, do we like to accept legacy liabilities. But on the other hand, we're certainly always aware that we're in a position because of our balance sheet to perhaps opportunistically do some things which might involve AROs that others might not be able to do. So that's kind of a broad-based answer to your question, but I think that's probably about as precise as we can get.

**Lucas Pipes — Analyst, B. Riley FBR**

That's very helpful. I appreciate all that color. My second question would follow up on some of the comments regarding pricing and demand. Randy, it sounded like it's pretty weak out there. I think you made a comment in your prepared remarks that you're not sure if current pricing is even reflecting demand. Could you elaborate on that and when you drive in around in Central Appalachia, what sort of inventories are you looking at? What's your sense, is demand just really, really weak, maybe weaker than the market is realizing today? I would appreciate your perspective. Thank you.

**Randall W. Atkins — Founder, Executive Chairman and Director**

Well, I think, of course, not everybody's reported, but I think everyone would probably reasonably consistent with each other. I think, as Mike said earlier, certainly the domestic mills have cut back on their buying for this year. You know, it's the manta, as I said, metro reflects steel demand and steel demand is a function of the general economy. So as we've been a little weaker this year, I think it's instead of rising tide carrying all boats, it's a sinking tide carrying our boats.

So I think as you go around Central App and Chris, of course, who is down there constantly, could probably comment as knowingly as anybody here at the table, bbut I think you are seeing larger stockpiles. You're seeing some people cut back on a lot of shifts and production. You're generally seeing the reality of people that have higher cost and higher debt structures being faced with situations where in many cases they can't sell their coal to meet cost. And so you're seeing shut-ins, you're seeing some dispositions taking place. And, you know, once again, not with any smugness at all, but we do feel that we've designed ourselves to be able to withstand these kind of turbulent times and perhaps hopefully thrive in them. So that's that's basically where we are.

**Michael D. Bauersachs — Founder, President, Chief Executive Officer and Director**

Lucas, our book business for the fourth quarter is going to allow us to continue to reduce our inventories. But no doubt, and we see it in the coal fields, increased inventories have basically put people in a position where they have to reduce shifts. And it's not necessarily just five days a week, it's four days a week in some cases that we're seeing in some of the areas that we operate in. The encouraging thing is that the people are taking a sort of proactive approaches to it.

And in many cases, these guys don't have the cash position or the cost structure to allow to perpetuate very long. So, you know, it's difficult to see those sort of things and even layoffs happen. It is encouraging, you know, production to shut in. I think, as we look not only at the inventories there, but port levels and inventories there, they're elevated and it reflects the weakness in Europe. So, you know, we watch those things on a monthly basis because we know we've got our space at the ports too. In any event, hopefully that gives you a little bit of color. I do think that people are taking the right actions in the coalfields to reduce supply.

**Randall W. Atkins — Founder, Executive Chairman, and Director**

And I think, Lucas, we alluded that we thought we’ve seen about 4-5 million tons come out of the market here. To be perfectly candid, if you look forward to next year, we've don't have a crystal ball more than anybody else, but I could frankly see that number double. So that's that's the kind of contraction in supply that I think you're seeing. And, of course, you have, when you have situations like this, that also makes the financing for those who do have weaker balance sheet that much tougher.

**Lucas Pipes — Analyst, B. Riley FBR**

Yeah, that's that's very substantial amount of supply, that's very helpful. I appreciate all the color and best of luck.

**Randall W. Atkins — Founder, Executive Chairman and Director**

Thanks Lucas.

**Operator**

Your last question comes from the line of **David Gagliano** of *BMO Capital Markets.* Your line is open.

**David Gagliano — Analyst, BMO Capital Markets**

Great. Thanks for taking my questions. I'll try and be brief here. I just wanted to ask a couple of clarification questions relative to comments that were made historically. First question is related to the comments that were made in August. I think I understand, but back in August, there was a plan in place for a September board meeting for approval of the prep plant expansion. What happened there?

**Randall W. Atkins — Founder, Executive Chairman, and Director**

Very simply, at that board meeting, we were sitting there in the middle of the downdraft that we sort of saw coming in early August when we last spoke. And it was in the depths of the negotiation situation where we were seeing prices drop and demand drop. So basically, I suggested to the board, we stepped back from the table, take a look and see where the market might be in a few months and clarify it at that time.

**David Gagliano — Analyst, BMO Capital Markets**

So that project is officially deferred, correct?

**Randall W. Atkins — Founder, Executive Chairman, and Director**

It's just basically on hold. I wouldn't say it was deferred.

**David Gagliano — Analyst, BMO Capital Markets**

Understood. Okay. And then just from May, back in May, we've talked about 2020 volumes, obviously lower now, but back in May, there was very specific guidance provided for 2021, 2022, 2023. In fact, the numbers for 2021 were 3.1 million tons, I believe, 2022 was 3.6 million tons, 2023 was north of four, 4.2-4.5 I think it was. Are those numbers still intact given these projects that are on hold?

**Randall W. Atkins — Founder, Executive Chairman, and Director**

Yeah, I think the short answer is the overall end number is intact. The timing to get to where those numbers are has been probably modestly deferred, at least, you know, from the standpoint of what we thought was going to happen in 2020. We sort of visualized a reasonably steady demand and I think, you know, 2020 looks like it's going to be a lower demand factor really across the entire board. So I think, you know, we certainly can't sit here today and predict what we are going to see in 21, 22 and 23. But we are still committed to move forward at those levels of production in the future as the market warrants.

**Michael D. Bauersachs — Founder, President, Chief Executive Officer and Director**

You know, these are all good projects, Dave. They deserve the capital even in this sort of market. But it's obviously prudent to not stress, to not put the company under stress from capital deployment. And, you know, hopefully we'll have a lot clearer vision on the rest of the coal we place for the rest of the year and can give you a lot better idea, I think after the next quarter, how things sort of readjust. But one thing's for sure, all the projects make great sense, have great returns, even in numbers that we see today. It's just a matter of making sure that we deploy the capital at the right time, and don't stress ourselves.

**David Gagliano — Analyst, BMO Capital Markets**

OK, that makes sense, that's very helpful, actually. So at some point between May and now we crossed over a threshold that made these projects, made the timing of these projects obviously less attractive. So can you give us more color on what that threshold is? Like the go, no-go decisions, what's the price? What's the price that we should be thinking about where we're going to move forward with these projects?

**Randall W. Atkins — Founder, Executive Chairman, and Director**

Yeah. David I think I think that the short answer to your question is it's a more subjective than an objective decision. I think we want to get some general comfort of where the market looks like it is. And that's not a magic price number. Because as I said, there is a there's a little bit of a disconnect between price and demand out there right now. So we want to sort of see the market stabilize. And I think once the market is stabilized, we are in a position to move rather quickly to initiate these.

**Michael D. Bauersachs — Founder, President, Chief Executive Officer and Director**

And to take that a step further, I think what all that then creates is, people who are prudent, capital is free cash flow. And we put ourselves in that category. And, you know, the key factor, if you look at what we will do is as we have free cash flow, we will deploy it in these good projects. And it's difficult to predict where we end up from a cash standpoint right now with the tons we've placed for next year.

**David Gagliano — Analyst, BMO Capital Markets**

Okay, and I said, I'll keep it short. I have one more, and it's not related at all. But just when we go back to near-term guidance, and maybe our math is wrong, but when we back into an implied fourth quarter cash cost at Elk Creek, it's down quite a bit versus the third quarter, even though volumes are down. And I'm trying to reconcile whether we did our math wrong. What should we be expecting for cash cost at Elk Creek in the fourth quarter?

**Michael D. Bauersachs — Founder, President, Chief Executive Officer and Director**

I think third quarter cash costs were up a little bit for all the reasons Jeremy outlined. And we expect all of those onetime occurrences generally, as I mentioned in my remarks, are number two, gas mine. It actually has now completed, but it was mining in a lower coal and it completed those reserves in the third quarter and has moved back to where it will be probably equally productive from a foot per standpoint, but much thicker coal seam. So where that has always been one of our lower cost producers, it was one of the laggards at Elk Creek, although so we expect that to rectify itself. And we've done some cost control measures at Elk Creek. Like I mentioned on the high wall miner, just several things that will bring our cost back in line or perhaps even a little bit lower than we've seen at other points this year.

**David Gagliano — Analyst, BMO Capital Markets**

Okay. So to get to the $66 target for the year, it implies at least in our math a weighted average, $66 implies a weighted average house cost of $59 a ton of Elk Creek in the fourth quarter. Is that reasonably accurate, sub-$60 in 4Q cash costs at Elk Creek?

**Jeremy R. Sussman — Chief Financial Officer**

So Dave, I would just note that we are in our guidance tables, we do have a footnote that says that the per ton guidance doesn't include the potential inventory adjustments. So we can we can kind of go through the math offline on that. But just keep that that dynamic in mind.

**David Gagliano — Analyst, BMO Capital Markets**

Thanks. I'll don’t want to take up too much time on the call. Thank you.

**Jeremy R. Sussman — Chief Financial Officer**

Thanks, Dave. Appreciate it.

**Operator**

I would now like to turn the conference back to Randy Atkins.

**Randall W. Atkins — Founder, Executive Chairman and Director**

So, again, I would like to thank everybody for joining the call this time. And we look forward to catching up with you again. I guess it will be after the first of the year to discuss our year end results.

**Operator**

Ladies and gentlemen. This concludes today's conference call. Thank you all for joining. You may now disconnect.