Final Transcript

Q4 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*

Daniel Scott *Clarksons — Analyst*

Presentation

Operator

Good morning ladies and gentlemen and welcome to Ramaco Resources Inc. Fourth Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode.

[Operator instructions]

I would now like to turn the call over to your host Jeremy Sussman, Chief Financial Officer.

Jeremy R. Sussman — Chief Financial Officer

Thank you. On behalf of Ramaco Resources, I'd like to welcome all of you to our fourth 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 items discussed on today's call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent Ramaco's expectations or beliefs concerning future events and it is possible that the results discussed will not be achieved.

These forward-looking statements are subject to risks uncertainties and other factors many of which are outside of Ramaco's control which could cause actual results to differ materially from the results discussed in the forward-looking statements.

Any forward-looking statement speaks only as of the date 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 in our Annual Report and Form 10-K.

These risk factors and other factors noted in the company's SEC filings could cause actual results to differ materially from those contained in any forward-looking statements.

Lastly, I'd encourage everyone on this call to go on to our website, ramacoresources.com and download today's investor presentation under the Events Calendar.

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

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 fourth quarter and 2019 year-end results. So as not to bury the lede, we had a very good year in 2019. Indeed, it was our strongest year since we went public. We reached over $55 million in EBITDA on coal sales of roughly $230 million. We sold 1.9 million tons that were priced at an average of about $109 a ton. More importantly, we have equally maintained a strong cost discipline at our main operating asset at the Elk Creek complex, which averaged annual mine cost of $67 per ton. And indeed, over the last two months costs have been at $60 or below.

We managed that performance bookended by physical headwinds in the early part of 2019 created by our 2018 silo failure at Elk Creek and ended 2020 in one of the more trying marketing environments the industry has faced in several years.

The sales and marketing landscape as we speak is at best tenuous. We have seen some bounce back in benchmark pricing over the last few weeks, with Australian low-vol prices bumping near $160. Atlantic seaborne high-vol prices, however, are still hovering in the $130 range. With most domestic business for 2020 already contracted, we look at the state of export steel markets around the world and see some cause for a modest, medium-term optimism. But we think any real market resilience will probably be back-ended into the second half of 2020.

At this point, we have placed roughly 1.5 million tons for 2020, with about 1.4 million tons of that sold domestically at around $93 a ton and about 100,000 of export tons priced at index. At the midpoint of our production guidance, that would put us about 80% sold for 2020. Ideally we would like to place another 500,000 to 600,000 tons into a strengthening export market and hit full production for the year in the 2 million to 2.1 million ton range.

When we look back to the dark days of the state of the markets in September of 2019, we made a decision at that time to dial back selling a larger amount of our quality blends domestically. The idea was that we would have those more valuable blends available to sell into what we hoped would be a stronger export market later in 2020. We will see how this plays out, but we feel we are somewhat advantaged to participate in the export markets as we move forward into the next 10 months of 2020.

Indeed, we are beginning to see more sales activity in Western Europe and South America, certainly more than we had previously seen over the last several months. We are also now actively engaging with some Asian markets that we have not approached in years past. and are hopeful that we can make some inroads there in 2020.

At the moment, the lower dry bulk rates are actually favoring the Asian markets over some of our traditional European customers. And speaking of Asia, the situation with the cona … coronavirus in China certainly creates an unusual market dynamic in the months ahead. For human as well as business reasons, we remain optimistic that the virus can be contained over the next few months. If so, we take the view that there may be some fiscal stimulus, certainly within China, to make up for the lost months of normal economic activity. That stimulus may have a positive impact on overall steel usage and met coal demand. We are of course hopeful that the virus will run its course quickly.

We are also providing production guidance for 2020 a bit wider than normal, with the range being between 1.8 million and 2.1 million tons. All of this production, with the exception of roughly 200,000 tons at Berwind, will be our high-vol tons at Elk Creek. We are also guiding to a mine cost range of $63 to $67 at Elk with a hope that we will be able … toward the lower end of that range. This cost structure at Elk is certainly borne out by the performance over the last few months. Finally, we are also maintaining our long-term production guidance to 4 million to 4.5 million tons.

Over the last few quarters, we have discussed some production and infrastructure add-ons such as the addition of plant capacity at Elk Creek and the new Jawbone High-Vol mine at our Knox Creek complex. All of these projects remain on the table and importantly we will have the financial capability to move forward when we so choose. However, out of prudence, until we see better market clarity, we are planning to keep our powder dry and remain posed to move forward on these projects as conditions dictate.

As always, our fundamental long-term strategy is to operate conservatively in a volatile business and control what we can by maintaining a low debt, low ARR liability capital structure and a strong balance sheet in uncertain times in these markets. We've also recently taken some structural steps to improve our liquidity levels with our revolver lender, which Jeremy will speak about. And we also look forward to having more flexibility in equipment financing for some of our new projects.

We think that in 2020, you're going to see some meaningful supply contraction in cap. Met supply we believe is already contracted in the 4 million to 5 million ton range. And a good guess is that this figure might even double by year-end. We are still seeing new bankruptcies. Many of our peers are still operating either higher cost mines, are over-leveraged, or both. We are always 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 low-cost and opportunistic manner.

In a moment, Mike and Chris will fill in more detail on our overall mine operations and development activities. But right now, I'd like to turn the floor over to Jeremy for some updates on markets and the state of our finances.

Jeremy R. Sussman — Chief Financial Officer

Thank you, Randy. In terms of our fourth quarter financial highlights, you hit on a number of the key points, but I want to dig into the details a bit more. Fourth quarter 2019 adjusted EBITDA was $9.0 million, which was a 28% increase from the $7.0 million in the same period of last year. Fourth quarter 2019 adjusted EBITDA would have been $2.7 million higher were it not for some volume carrying over into the first part of 2020.

Full year 2019 adjusted EBITDA was $55.4 million, which was 35% above that for 2018, and of course a new annual record for the company. Fourth quarter 2019 revenue was $46 million, which compared to $44 million in the same prior … in the same period in the prior year. Full year 2019 revenue was $230 million, which compared to $228 million in 2018. Fourth quarter net income was $2 million versus $3 million in the same period of 2018. Fourth quarter earnings per share was $0.05, which compared to the prior year of $0.08. Lastly, full year 2019 diluted EPS was $0.61 versus $0.62 in 2018.

In 2019, the company recorded income tax expense of $5 million for an effective annual tax rate of 17%. However, actual cash taxes paid in 2019 were less than $3,000, i.e. next to nothing. Ramaco expects to continue to pay minimal taxes for the foreseeable future though our effective tax rate is likely to remain in the 13% to 18% range. As of December 31, 2019, I would remind everyone that we have federal net operating loss carryforwards for income tax purposes totaling about $81 million.

Fourth quarter 2019 price per ton on company produced coal was $104, which compared to the prior period in 2018 of $96. Full year 2019 price per ton on company produced coal was $109 which compared to the 2018 price per ton of $92 per ton. Fourth quarter 2019 sales of company produced tons was 420,000 which compared to the fourth quarter 2018 of 315,000. For the full year, sales of company produced tons was just under 1.9 million versus 1.7 million in 2018. This marks the third consecutive year of production growth for Ramaco.

Now in terms of cash costs, fourth quarter 2019 cash cost per ton sold on company produced coal was $74, which compared to $68 per ton in the prior year. Full year 2019 cash cost per ton sold on company produced coal was $73 versus $63 in 2018.

I'd like to put some context to these figures. I would note that these numbers are inclusive of our development Berwind mine, which by nature of its development status is much higher cost than Elk Creek at the present time. Excluding Berwind, our fourth quarter cash cost per ton at Elk Creek was $66 which compared to the same period of 2018 of $64 per ton. For the full year, cash costs at Elk Creek were $67 compared to $60 in 2018.

The majority of the increases year-over-year of costs at Elk Creek were due to a combination of higher sales-related costs, such as royalties, as well as lower productivity due to what we view as generally one-off events. Specifically in the first half of 2019 productivity was hampered by the lingering effects of the November 2018 silo failure. For much of the second half of 2019, production was lower than originally anticipated based on a weakening metallurgical coal market.

The good news, as Randy noted, is that with recent signs of life in the market, we've been able to run the mines at closer to capacity the past couple of months which have lowered our Elk Creek costs closer to 2018 levels during that time.

Now moving to capital expenditures, fourth quarter 2019 CapEx was $12 million, which consisted of $4 million of maintenance CapEx and $7 million of growth CapEx. Total fourth quarter 2018 CapEx was $8 million. For the full year capital expenditures were $46 million which consisted of $15 million of maintenance CapEx, with over $30 million of growth CapEx. Full year 2018 CapEx was $48 million.

Looking ahead to 2020, I'd point you to our guidance tables in the press release. However, I'd like to highlight a few items. First, in 2020 we expect total production of 1.8 million tons to 2.1 million tons, up modestly at the midpoint versus 2019 levels. We expect metallurgical coal will account for more than 96% of total volume. Second, we are guiding to 2020 cash costs at Elk Creek of $63 to $67 per ton versus $67 in 2019. Third, we anticipate total CapEx of $25 million to $30 million in 2020 versus the $46 million in 2019. Over half of our anticipated 2020 CapEx is directed to growth. We show the maintenance versus growth splits in our guidance tables.

Next, I'd like to highlight a few areas which we view as key competitive advantages for Ramaco. First, as we show on Slide 11, our debt-to-EBITDA metrics are among the best in the industry. As of December 31, our net debt stands at just $7 million. We have an industry-leading total debt-to-EBITDA position of 0.2 times based on 2019 adjusted EBITDA. 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 should get to almost all of the way there.

Second at just $15 million, Ramaco's legacy liabilities are 98% below our direct peer group average and by far among the lowest of our peers.

I'd now like to turn to some of our current and forward views on the macro environment. Benchmark … benchmark Australian metallurgical coal spot prices, while still below where they were this time last year. have risen almost 25% from their second half 2019 lows to $159 per ton as of this morning, which we show on Slide 13. The forward curve remains above $150 per ton through 2022.

Now as we show on slide 16, U.S. steel prices are up more than 20% from their second half 2019 lows. And importantly, U.S. steel capacity utilization has averaged 82% for the past month for the first time since early 2019. Coupled with the domestic coal supply declines that Randy mentioned, we would not be surprised to see some U.S. steel mills looking for more volume in the second half of 2020.

With all that said, there still remains a good deal of uncertainty in the global marketplace, especially with the recent spread of the coronavirus in China and beyond. However, one thing we do know is that as we show on slide 15 the arbitrage of international coal into China is almost $25 per ton.

If history is a guide, we look for that gap to shrink once there is a bit more certainty in the market. I'd remind investors 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 good times.

I would now like to turn the call over to our President and CEO, Mike Bauersachs. Mike?

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

Thank you, Jeremy. 2019 was truly a benchmark-type year for Ramaco Resources. This occurred despite some of the headwinds previously mentioned. Our 2019 performance demonstrates that Ramaco Resources has the ability to perform even better when we can run our operations without restrictions.

As we sit here today, we can point to a number of game-changing events that have both happened and some that are close to completion in 2020. In each case, they have both near-term and strategic importance to the company.

The first that, I will discuss is the execution of a coal lease, which we have referred to in public filings as the McDonald property. Ramaco Resources leased the McDonald tracts on January 3, 2020. The two newly leased tracts are immediately adjacent to our Elk Creek mining complex and were included in mine plans of existing and planned mines at the time of the company's public offering. After operating adjacent to these tracts for the past few years and being able to review additional geologic information, the company now projects to mine approximately 10 million McDonald tons in conjunction with our most recent long-term mine plans.

Our recent SEC compliant reserve study of the McDonald tracts added over 21 million proven and probable reserves to our Elk Creek reserve base. These reserves occur in approximately 20 different coal seams. This is a traditional lease, and there was no additional consideration paid or liabilities assumed in conjunction with the lease.

The lease property became available in 2019, after the former base lease was terminated. The prior lessee who controlled the property since 1978 did not produce commercial amounts of coal from the property during their possession of the lease. In fact, the last commercial mining on these tracts was in the 1960s. The configuration and location of the tracts lend themselves to be mined and processed far more efficiently from Ramaco's Elk Creek property than from any other access point.

In many cases, these reserves are immediately adjacent to existing or planned Ramaco mines, thereby not requiring additional capital to develop the reserves. The McDonald reserves are expected to exhibit and perpetuate the same geologic advantages that we are experiencing from our existing Elk Creek mines. I personally believe these tracts, especially if compared to other properties on an acreage basis, are among the most valuable in Appalachia.

Another of the impactful developments at Elk Creek is the capital deployment on two new plate presses. Our two existing presses have proven to be valuable, as we altered placement of waste between our impoundment and combined refuse areas. When the two new additional presses become active in the second quarter, we will have enhanced capabilities that will also support additional production growth at Elk Creek. Spending this capital alongside acquiring synergistic reserves will help sustain Elk Creek's advantages for decades to come.

Turning to our Berwind mine, itt is also noteworthy that, we are within days of reaching the slope bottom. The slope to the low-cost Pocahontas 4 Seam will land in coal that is twice as thick as the development mining that we have been conducting in the Pocahontas 3 Seam. This milestone dramatically lowers the risk profile for this development, and Ramaco is now poised to make a large step forward to roughly 500,000 tons of low-vol production in 2021.

We've already had a great deal of interest from potential customers in the Pocahontas 4 Seam quality. We feel confident that the coal will be well received in the marketplace going forward.

Overall, our increasingly large reserve base is a tremendous advantage. It now stands at around 265 million tons, including reserves added at the end of 2019. We are currently negotiating additional leases, which should push our reserves to near 300 million tons. Within this reserve base we have projects that we are working on which could result in new company mines, contract mines, leases or subleases with third-parties as well as packaging properties and permits for potential divestitures.

Our willingness to focus on reserves first is one of the key differentiating strategies at Ramaco Resources. We are confident that this orientation will result in continued growth, non-mining income, and create long-term value for our stakeholders. While we see others continually focusing on acquiring legacy operations with short reserve lives and assumption of substantial liabilities, we prefer to develop properties which are focused on geologic advantages. Even though development can be challenging, like our Berwind mine, spending capital on long-lived assets that will operate for decades is certainly a key to success.

Another key to success is always being opportunistic. We recently completed a transaction in early January to acquire multiple permits from various affiliates of Omega Highwall Mining. Consideration for the transaction contained assumption of a limited amount of ARO liability, estimated at approximately $800,000, carrying some minor lease defaults and paying advanced royalties under two assumed lease instruments. The total out-of-pocket consideration was less than $65,000 most of which is recoupable against future royalty payments.

The permits are in close proximity to Ramaco's Knox Creek preparation plant and load out infrastructure, and provide immediate access to two separate mining areas. One area is a deep mine permit in the Jawbone seam, which contains approximately 2.65 million tons of geologically advantaged mid-volatile metallurgical coal. The second is a metallurgical surface mine in the Tiller and Red Ash seams that is spade ready for production. It contains approximately 800,000 tons of coal that can be mined via the surface and highwall mining methods. The surface mine is expected to have relatively low mining ratios, translating to a low-cost structure likely in the mid-60s per ton.

An annualized run rate would be approximately 150,000 tons for the surface mine. The combination of close proximity to Knox Creek and geology make these two mining permits likely to become active in the next 24 months. The fully permitted surface mine is one of the areas subject to market conditions that could positively impact 2020 production and earnings. If activated during 2020, we should be able to produce around 75,000 tons. It is likely that the surface mine will be operated utilizing third-party contractors who would be managed by Ramaco operations personnel.

While it is exciting to discuss the strategically advantaged course that we are on, we also need to discuss the current marketplace and how things shaped up for us in the fourth quarter.

As we look at our competition, due to our heavy domestic book at fixed pricing, Ramaco had a substantial advantage in the fourth quarter. That business allowed the company to sell coal at approximately $104 per ton. While we have a robust book of domestic business for 2020, we will need to continue to sell coal throughout the year to operate at optimum levels. Fortunately, as we make decisions going forward, our low-cost structure provides us with more flexibility than others.

From a market penetration standpoint, Ramaco will ship its first test shipment to Asia in the first quarter. We hope to convert that trial into some amount of term business in the back half of the year. While we believe traditional Atlantic Basin markets remain the primary target, it is also important to be a player in the only growth markets for metallurgical coal in the world.

On another positive note, relative to overall efficiency, we experienced a good rail service in 2019. And our primary rail provider has been willing to participate and engage us in rate discussions that acknowledge the realities of the current market. Working closely with stakeholders is critical to success in a difficult market.

The realities of the current market continue to discourage investment. There are very few entities, especially those that operate in Central Appalachia, that actually have future development options capable of doubling production.

In summary, Ramaco continues to differentiate itself with an outsized and advantaged reserve base, smart infrastructure deployment, low costs, low liabilities and an opportunistic orientation. We look forward to enacting our plans for 2020 and continue to believe that the advantages that we built will sustain us through the current challenges and provide our shareholders with a successful year.

I would now like to turn things over to Chris Blanchard, who will provide some operating highlights relative to our fourth quarter 2019 and prospects for 2020.

Christopher L. Blanchard — Chief Operating Officer

Thanks, Mike. Before delving into some of the operational details and updates, I do want to commend and to recognize the employees of Ramaco for their commitment and performance in 2019 on both the human safety and environmental fronts. In fact, the fourth quarter of last year was the company's best quarter of what was by far our best year-to-date in these two arenas.

At the end of each day, providing a safe workplace for our miners and being good stewards in the communities in which we operate are the foundation upon which our production and cost profile can be built. It's truly a team effort and it is reflected throughout the organization at all levels.

Shifting to an operations update, I'll start with our primary 2020 growth project, which is the Berwind development. As we speak today, we have essentially reached the end of our mainline development at the Berwind mine in the thin Pocahontas Number 3 Seam. Midway through the fourth quarter of 2019, we extended our main line in the lower seam by approximately 1,500 feet, so that our inter-seam slope could be positioned to emerge in some of the most advantaged Pocahontas Number 4 Seam conditions above, and with a slightly shorter slope development distance. Advanced mining in domains will be completed in early March with slope mobilization to commence immediately thereafter. I expect slope excavations to begin by the end of the month.

Our slope project will be managed by a third-party company who specializes in these projects with support from Ramaco mine personnel. We anticipate eight months of slope development work and we'll, of course, update this performance at our next quarterly call.

While slope operations are underway, the Berwind mine will continue to produce low volatile coal to fill existing commitments and to fill test orders with new customers. Free from the requirements of the mainline development, and mining to a specific location for the purpose of the slope, we expect to be more selective in mining areas, be more able to reduce mining heights and ultimately be more productive than we have been historically, which naturally will reduce our operating costs from this mine and ultimately of the company as a whole.

We expect fourth quarter 2020 production from the Pocahontas number 4 Seam at Berwind. Productivity from the seam are expected to double, based solely on the geology of the upper seam compared to the lower. Coal heights will be greatly increased. Less out of seam dilution will result in lower equipment costs, lower transportation costs and lower processing costs. Once our first section is established in the upper seam we will quickly work to complete the ventilation work to activate our second super section and mobilize the equipment to the seam.

While conditions in the current Pocahontas number 3 Seam have been challenging, we are excited and optimistic about the near and long-term for this mine as we move to the much more prolific Pocahontas number 4 Seam.

Shifting to the Elk Creek property, as Randy briefly mentioned, when external restrictions are removed this complex can truly demonstrate its low-cost production potential. 2019 was a year of missed opportunities in this regard due to high inventory levels in the first half of the year resulting from the late 2018 silo failure. We throttled our mines production back to match the limited capabilities of our preparation plant while the silos were being bolstered.

While the market was in a much more favorable place early last year, we were not able to participate nearly as much as we would have liked. In the third and fourth quarters, just as we were able to ramp operations and fully utilize the Elk plant, the market weakened with deferred shipments and lower steel production reducing excess volume opportunities. Consequently, our operating cash costs were higher than we would have liked. Though I would note that cash costs have been running below the low end of 2020 guidance over the past two months, as spot prices have been begun to recover and steel production has shown signs of improvement.

The acquisition of the McDonald lease was timely. While the lease was not required for our mine plans, one of our operating sections was in close proximity to this lease and we will cross the property lines before the end of this month. Throughout the next 10 to 15 years of operations at Elk Creek, we expect to have a minimum of one unit operating in this lease and could have as many as three. This reserve, with its superior geology, will allow Elk Creek to maintain a competitive and advantaged cost profile regionally for years.

As we completed 2019 and enter 2020 our preparation plant is running well. With some assistance from the two planned mine vacation periods in the fourth quarter, we have worked through a large portion of our inventory and have been able to operate our mines at closer to full capacity. The results have been as expected. As I previously mentioned costs have moved significantly lower at Elk Creek. There were always -- there will always be some variability to these numbers, but we believe that cash costs are sustainable in the low-to-mid $60.

As a new preventative maintenance program is rolled out and fully implemented and as we would start the replacement and rebuilds of some of our initial underground equipment this year, the repair costs at our highest unit cost mine will also be reduced.

As Mike mentioned, we will complete the Elk Creek plant's plate press expansion this year. We should commission the second press building, housing our third and fourth press by late April 2020, and following a normal troubleshooting and testing period, have them fully operational and in service by the middle of May.

In the near-term, these presses will give us more operational flexibility to determine our course and find material ratios. Longer term this expansion will allow us to handle the full preparation plant expansion we envision completing.

With some apparent green shoots in the metallurgical coal markets, we remain cautiously optimistic about 2020, particularly the second half of the year. From an operational standpoint, we plan to remain nimble to be able to adjust to the changing conditions whichever direction the market chooses.

This now concludes management's prepared remarks. At this time, I'd like to open the line up for any questions you might have on our fourth quarter 2019 results or outlook. Operator?

Questions and Answers

[Operator instructions]

Operator

We have your first question comes from the line of Mark Levin from The Benchmark Company. Your line is now open.

Mark Levin — Analyst, Seaport Global

Great. Thanks very much. First question has to do with cash costs. I think you referenced at Elk Creek you are around $60 the last couple of months. I was just curious what's behind that, and how sustainable you think that is?

Christopher L. Blanchard — Chief Operating Officer

Mark, this is Chris. Primarily what's behind that is we have been running all of our underground mines that they're fully -- full schedule of slated production days not … not being restricted by inventory levels at our mines, where we've had to limit production. It's more production across the same fixed cost, bringing those costs down.

Mark Levin — Analyst, Seaport Global

Got it. And then, just as you kind of think about the pricing environment, I realize most of what you guys are selling is under domestic fixed-price contracts, but in terms of what you're actually seeing in the export market, can you talk about what kind of discounts you're seeing to U.S. index prices out in the market? How competitive it is? I know Asian prices have ramped. But I'm just curious what kind of discounting, if there is in the -- amongst the -- versus the U.S. indices?

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

I think Mark there are clearly customers overseas that are asking for discounts. They're bearing by quality grade. Obviously, different discounts requested for different types of coals. We have basically been looking at the export markets, but we haven't executed anything recently, simply because we're not prepared to put really what we have is we think higher quality blends into a market that really hasn't firmed yet.

Our view on the market in general is, obviously, we're trying to get -- the market is trying to get sort of back on its knees a little bit and we expect that's going to take probably several months, but we think that probably by the second half of the year from a combination of strengthening steel utilization as well as hopefully perhaps some stimulus coming out of Asia from the Chinese, that we look forward to sort of a second half which will have perhaps pricing being closer to the benchmarks, as opposed to discounts.

Mark Levin — Analyst, Seaport Global

That makes a lot of sense. [Crosstalk] Yeah I'm sorry.

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

But Mark, I'd like to just add, I mean, indeed I think we've seen double-digit type discount asks. You can tell by our contracting position that we've been a bit resistant to that. I think it is a wait-and-see kind of thing, because volumes do need to move. We have more options than lots of the competition. But hopefully, things will improve so.

Mark Levin — Analyst, Seaport Global

That makes sense.

[Crosstalk]

Yeah, that makes a lot of sense. Let me ask you a little bit about the quarterly cadence of volume this year, in terms of how to think about modeling the quarters. Maybe Jeremy can provide some color in terms of how to think about waiting each quarter as the year progresses?

Jeremy R. Sussman — Chief Financial Officer

Sure Mark. So what I would say is 2019 is probably not a good guide, because if you recall we had the silo issue in the first half of the year. And we -- in the second half of the year, things picked up nicely in Q3 and then of course the market fell, so in Q4 that affected our production.

I'd say the only real variability at this point that we see is we do have a bit more lakes business than normal, which you would -- as you would expect would mean our Q1 volume will be a bit lighter than the rest of the year. So I'd say right now other than sort of your normal, minor vacations typical seasonality that's really the only thing that we could -- that we would highlight, you know, as a modeling point for you.

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

The only thing I would add is we do like some of the permits that we've acquired at Knox Creek. And I think you could see us do something in the second half there that would add another 75,000 or so tons to our production. Just because the mid-wall quality is something that if we had we could move that at good numbers today so.

Mark Levin — Analyst, Seaport Global

That makes sense. And then you referenced I think rail rates that your primary rail provider has been accommodative to some degree. Can you maybe talk about just directionally like what type of rates you were getting in 2019? And then what's kind of a reasonable expectation for 2020?

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

Yeah, rates have been volatile. What's been a pleasant surprise is that we do have -- we've been having good discussions. I mean, I think you could see – I think you could see rate fluctuations as you look at export business that could be $10 to $15 different in a bad market versus a good market. And that's a lot of variability, but when you look at the end pricing, participating together in that and trying to continue to build market is important both to the railroads and to us.

So that's kind of the range that you're seeing depending on what type of business it is. So, for example, new business might have a better pricing than some of the existing business, but that's kind of the range of stuff that we've seen, Jeremy -- sorry, Mark.

Mark Levin — Analyst, Seaport Global

On average, what would you kind of build into your model? Like, if you're trying to arrive at a net back price for 2020, what do you think is a reasonable? Is it $25, is it $30?

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

It's been so -- in all of our discussions have been different, for example, on Asia, on Europe, on Brazil, pretty hard to pick one. I think, if we look at the year and look at recovery, I think you picked something in the mid-to-high 20s, is the target and we go from -- we sort of go from there.

Mark Levin — Analyst, Seaport Global

Okay. No, that's very helpful. And then last question for Jeremy and then I'll get out and let other people ask questions. Minimum liquidity like what's the bottom sort of liquidity number you're willing -- you guys are willing to run with?

Jeremy R. Sussman — Chief Financial Officer

I mean, Mark, I don't know if we have necessarily a number in mind. What I will say is we're very comfortable with our liquidity, especially with a heavier mix of domestic as opposed to export business than our customers -- excuse me, than our peer group, which generally has more favorable payment terms.

I would just say, we feel confident in where we are and I don't want to necessarily put a number on it. But hopefully you can kind of see where we are with our guidance, where we are with CapEx and kind of back into a level that you think. So, I'll leave it at that.

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

And, Mark, I'll add, I think I alluded to it in my remarks, that we've recently tweaked our revolver with our main lender, which is going to provide us a great deal more liquidity through our revolver mechanism, by changing around some definitions and, obviously, some seasoning from our relationship with them. So, to echo Jeremy, we're in a good spot.

Mark Levin — Analyst, Seaport Global

Great. Super. Thanks guys.

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

Thanks, Mark.

Operator

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

Daniel Scott — Analyst, Clarksons

Yes. Thanks guys. Mark asked almost every conceivable question. But you maybe could comment on your comment -- on your committed tonnage and pricing. You went from 1.3 million tons at $91 to 1.4 million tons at $93. That implies a pretty good uptick in pricing. Am I reading too much into that? Was it a pretty nice add to the contract book this quarter?

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

Yes, it was. I think we would have probably rather added some more tons, maybe, even than some of the higher numbers, but it exhibits kind of what Randy alluded to, some higher quality coals that are available. And so, that's worked out well to change the book. That being said, we're continually focused on additional volumes. We've allowed ourselves to remain opportunistic there.

That being said, we still have coal to move. And a lot of our competitors still have a big chunk of coal to move, if you look at the numbers. But I like our cost structure compared with the other guys.

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

Yeah, and I think, Dan, to echo again what we've said before, we've got a pretty good situation, because we've got a strong balance sheet, we've got a lot of liquidity. We're not going to try and chase deals down, when we think that there is a reasonable prospect that the market will improve. So we're, obviously, going to do everything we can to move tons as we feel appropriate, but we're not going to just chase tons for the sake of moving them.

Daniel Scott — Analyst, Clarksons

Good, I wouldn't expect you too. And then, when I think about your cost guidance, it continues to be just for Elk Creek. As Berwind ramps up to full capacity, I guess, by the end of the year, will you transition that guidance into being something that's more of the whole portfolio?

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

Yes. As we get the mine into full production and out of development mode we will certainly transition the guidance that way as well.

Daniel Scott — Analyst, Clarksons

Okay. And can you give us any feel on what that magnitude or what that range might look like, or is it too early to tell?

Jeremy R. Sussman — Chief Financial Officer

I mean, Dan, I don't think you're going to get enough production from the Pocahontas number 4 seam, where it's going to really meaningfully affect 2020. I think, as Randy alluded to in his comments, it's really -- Berwind's really more of a transition from 2020 into 2021. So that's really when you'll see the bigger change in guidance and would be reflected more in our 2021 numbers, than anything we really could do in 2020.

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

From an overall, just, perspective, we will begin to see clean ton per foot, which is the largest impactful thing in the Poca 4 looking more like our Elk Creek coal mines.

The conditions in the mine will probably be a little bit more adverse from a methane standpoint and things. One of the other of course impactful things is, we do truck this coal on the road. And so, if you sort of look at the Elk Creek costs and add a little bit to it, then add maybe $15, I don't know Chris, what do you think — $12 to $15? It depends on recoveries of course, but it's still going to be a very competitive coal mine from a cost perspective.

Christopher L. Blanchard — Chief Operating Officer

Yes. Sort of an FOB underground mine produced price should match or possibly even beat Elk Creek before the logistics -- the extra logistics that we have at Berwind compared to Elk Creek. So, we are really optimistic about it and looking forward to it and frankly, wish we would have more meaningful volumne this year as opposed to '21, but we're well on the way.

Daniel Scott — Analyst, Clarksons

All right. Thanks for the color guys. Appreciate it.

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

Thanks, Dan.

Operator

Next question comes from the line of David Gagliano from BMO Capital Markets. Your line is now open.

David Gagliano — Analyst, BMO Capital Markets

Hi, thanks for taking my questions. Also, I'll try and keep it tight. I did just want to ask a question on slide 7. Obviously, we've got the 2020 numbers and the 2023 numbers. And I've asked this question previously, but if you can just give us a sense as to how you build that gap between 2020 and 2023, i.e. what should we be assuming for 2021 and 2022 volumes? Thanks.

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

So David, I think without going in through mine-by-mine and year-by-year, which is going to be more granular detail than we can roll here out on a call, basically by '23 just to kind of get you comfortable with the end numbers here, we've got about 2.5 million tons from Elk. We've got about 750,000 tons out of Berwind. Our Jawbone mine, which we anticipate putting in somewhere in that time period would be about 0.5 million tons. We've got our RAM Mine up in Pennsylvania, it's about another 0.5 million tons. And Mike has referenced that we've now brought on potentially -- probably add some tons around Knox for about another 300,000 tons.

And frankly, between now and '23, which is four years, the way we operate is we tend to hit a lot of singles and doubles. We don't try to hit as many grand slams and homers. And so therefore, count on probably incrementally being able to add around those numbers, several hundred thousand more tons that we will pick up, given the normal sort of development approach that we take to building our overall portfolio.

David Gagliano — Analyst, BMO Capital Markets

Okay. That's helpful. Thank you. I think for 2021 for example, Randy, so you gave me the 2.5 million at Elk Creek by 2023. We know in 2021 Berwind is going to 500 -- I think that was a number I heard on the call 500,000 tons roughly, we think for 2021, so 500,000 tons from Berwind. Is two million tons reasonable at Elk Creek? And is it reasonable to expect some production out of the RAM Mine in 2021 as well?

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

I think probably missing from your equation is we're waiting on a permit from RAM, so I'm not going to count that right now until we've got it in the hand, but the Jawbone mine is certainly something that we've already done work on in '19, pretty significant work we practically right to the face. So I think we would probably look at probably at least 0.25 million tons of more coming out of Jawbone by '21.

I think the numbers at Elk will probably be closer to two, numbers at Berwind will probably be a little bit north of 500, maybe six, as we ramp up to that 750,000 tons as a sort of normalized full production at Berwind. So, that gets you probably about two eight, give or take, for '21.

David Gagliano — Analyst, BMO Capital Markets

All right. Perfect. Thank you, very much. Very helpful. Thanks.

Operator

There are no further questions. I'll turn the call back over to the management.

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

All right. Well once again, we appreciate everybody being on the call this time. We look forward to catching up in another few months and hopefully we'll have a much stronger market we'll be talking about at that time. Take care and thanks very much.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day. You may now disconnect.