# Final Transcript

Q3 2021 Ramaco Resources, Inc. Earnings Call

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## Corporate Participants

**Randall Atkins** *Ramaco Resources, Inc. – Founder, Chairman, Chief Executive Officer*

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

**Jason Fannin** *Ramaco Resources, Inc. – Chief Commercial Officer*

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

## Conference Call Participants

**Tom Bishop** *BI Research — Analyst*

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

**Nathan Martin** *The Benchmark — Analyst*

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

**Presentation**

**Operator**

Good morning. My name is Richard, and I'll be your conference operator today. I would like to welcome everyone to the Ramaco Resources Quarterly Conference Call.

*[Operator instructions]*

I will now turn the conference to your host, Jeremy Sussman, Chief Financial Officer. Please go ahead.

**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 2021 Earnings Conference Call. With me this morning is Randy Atkins, our Chairman and CEO; Chris Blanchard, our Chief Operating Officer; and Jason Fannin, our Chief Commercial 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 concerning future events. These 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 statements speak 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.

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 Chairman and CEO, Randy Atkins.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Thank you, Jeremy. As always, we welcome everybody joining us today. The past few weeks have been a very good run for Ramaco. We want to discuss today, not only our third quarter results, but also some significant post quarter results and events.

When we last spoke after the second quarter, we felt we were on the verge of a very special positive transition in our overall business. Basically since the end of the second quarter, our stock prices climb from $5.50 a share to roughly $17. Our market cap has similarly grown from about $240 million in June to over $700 million today. We take great pride in what we've accomplished, and we've done this in less than five years starting from scratch. As a commentary of where we currently find ourselves, I'm reminded of that line, which goes “Who says Christmas can't come a little early?” We are now three quarters through having our best year financial and operational performance since we went public.

As impressive as that is, what it fails to convey is the transformational period we now find ourselves in. Over the past few months, and indeed especially over the past few weeks, a combination of factors have come together almost at once to move us forward into a different dimension as a public company.

I realize most of the recent news is already in front of you, but many points bear noting again. We will print our strongest year of financial results. I won't handicap our full year 2021 projections now, but Q4 will undoubtedly be the highest quarter we have had since we went public. It is an understatement to say that full year 2021, we will show a multiple of our 2020 results of only $19 million of EBITDA.

What is more impressive is that I can tell you that 2022 will also show a significant multiple of EBITDA from what we will do in 2021. We feel comfortable that our 2022 announced domestic sales, on about only half of our production, will translate into roughly $325 million in sales, and about $190 million of EBITDA. Analysts can do their own math on what the other half of our sales will generate, but it clearly positions us into a different and much larger financial category as a public company.

We have already disclosed 2022 domestic sales of basically 1.7 million tons, priced at an average of $196 per short ton FOB mine. Our cash mining cost for today in the first quartile of the industry, and our main Elk Creek complex has produced cash mining cost averaging $63 per ton through September. We expect to show consistent low mine cost carrying into next year.

In commenting on 2022, we feel that both the domestic and international markets have continuing underlying strength and some distance left to run. There may be occasional gyrations in price, but there's a fundamental demand for steel and met coal, which does not match available supply. Essentially, the lack of capital availability and overall ESG pressures have created an inelastic dynamic, which will continue to put an artificial damper on any meaningful new long-term supply creation.

Looking short-term on the market, we are also one of the few coal groups that has maintained dry powder of unsold production for Q4. We started the quarter with roughly 180,000 tons left to sell and have about 100,000 left. Some tons might slip into 2022 because of export logistics, but all of our new Q4 sales will be indexed export sales into a market which is showing current low vol Atlantic benchmark pricing north of $430 per ton. These sales will match against our low cost of production, and Jason Fannin will talk more about our sales in a moment.

Speaking of sales, our sales for 2022 and the balance of 2021 provide the financial foundation for moving us over 200% up from the 1.7 million ton production level we showed at the end of 2020. We will be at least at 3.7 million tons or more by the end of 2023. Ultimately, we hope to turn this to over 5 million tons in the next few years.

As part of the planning for execution of that production ramp, earlier in Q3, we engineered a creative $35 million unsecured baby bond issuance. This provided us liquidity to capture what we hoped might be a strong near-term opportunity to acquire the Amonate assets from our neighbors at Coronado. This transaction, announced last week, had our two companies circling each other frankly for years.

The industrial logic of using the contiguous idled Amonate prep plant to wash our Berwind coal has always been compelling. Frankly, you can see the plant from the face of the Berwind mine. As much as the awarded trucking cost were a draw, we were close to the full production, until rather we were closer to full production at Berwind, we frankly did not feel we had the liquidity to make the purchase. The baby bond solved the liquidity issue, and then the management at Coronado very professionally negotiated to allow us to move forward to acquire what was for them a non-core asset.

The combination of Berwind and Amonate operating together now creates a very formidable mine complex. It has a base production level of 1.5 million tons a year of low cost, high quality low-vol coal, as well as a long life 100 million ton reserve base. We also believe the combined mine has some further production upside above the 1.5 million ton level. Our basic economics at Berwind change overnight from the trucking savings alone. Combining that with the ability to double production, makes this a highly compelling deal for us, which somewhat now brings me to the, "where do we go from here" moment.

First, we start returning capital back to our shareholders. We hope our shareholders have already noticed that this has been a very good year for them already, in that we have over a 500% increase in our stock price, but we hope to make things even a bit better in the years ahead.

For a long time, we have advertised that we wanted to be a dividend-paying company. However, beginning life as essentially a startup, we needed to reach a point of being comfortable we had achieved a critical mass in terms of both size and liquidity, as well as sustainable free cash flow generation. Basically, we wanted to ensure that once we started paying a dividend, we would continue on that path, and indeed, grow it over the years. Our board has now approved the payment of the regular dividend, and we will announce details of that before year end and after our next board meeting.

Next, we wanted to look forward to make sure we were securely on track to reach our overall production threshold of approximately 5 million tons. Reviewing our portfolio of organic growth projects, we can easily add incremental new tons to get there. First, there is the 500,000 ton expansion of our Elk Creek prep plant. Then we add another 500,000 tons from our Jawbone mine near Knox Creek, as well as 250,000 tons from the newly acquired Laurel fork mine, which came with the Amonate purchase. These projects, along with the 3.7 million tons from our current Elk Creek and Berwind mines, push us to roughly 5 million tons. If we were able to complete the permitting of the RAM Mine in Pennsylvania, that will push us over 5 million tons.

As important as the tonnage, we can complete the expenditure to complete all these projects from internally generated free cash. We may look to equipment lines where appropriate, but we are essentially now in the position of being self-financed to achieve all of our overall future production goals. We will always continue to be opportunistic, but we do not feel the need to look at the purchase of the existing operation of other companies to get where we would like to be.

So where does that put Ramaco? My answer would be to expect we will continue to meaningfully grow and return capital to our shareholders at the same time. As for growth, for 2022, we are already looking at a 10x of our 2020 EBITDA and that counts only half of our production. We expect to grow using a fortress balance sheet with little to no debt, little to no ARO or other liabilities, and to end up, bluntly, with a lot of cash.

Ramaco becomes a very formidable cash-generation machine, which will continue to throw off increasingly larger amounts of free cash flow from adding low-cost production. We hope to continue to be somewhat insulated from market pressures because of that low cost of production, as well as our strong financial condition.

We also look forward to hopefully soon sharing with you what we regard as a future transition for Ramaco, that is both in addition to and beyond its core business as a supplier of metallurgic coal to our steel customers. Many in the financial community have commented that one of the headwinds for coal-related equities, even in the strong market conditions, is the lack of a credible vision for what comes next. We live in a world faced with the declining use of the commodity as a thermal coal feedstock. Looking further in the future, there is concern that perhaps hydrogen might one day supplant met coal as one of the base ingredients in blast furnace steel production. Although, with respect to met coal, that expensive possibility may probably be almost two decades away, we are still starting to look ahead. I will leave you that in the months ahead, we will be describing what our version of the concept of the future for Ramaco may look like and what comes next.

Now with that, I would like to turn the floor over to the rest of the Ramaco team to dive into more detail on finances, operations, and market. So Jeremy, please run down our financial metrics.

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

Thank you, Randy. I'll start by going over our third quarter 2021 financial highlights. This quarter was both our highest overall third quarter of adjusted EBITDA in our history and indeed, our third highest quarter overall. Earnings per share of $0.16 was up more than 240% from a year ago, while third quarter adjusted EBITDA of $17.8 million was up over $17 million from a year ago. I would note that revenue for this past quarter was negatively impacted by a sales mix, whereby 75% of our coal was previously contracted at lower legacy 2020 domestic price contracts versus only 48% in the first half of 2021.

Turning to our forward outlook, for the third time this year we are increasing our 2021 production and sales guidance. We now anticipate overall 2021 production of 2.2 million to 2.4 million tons, up from 2.175 million to 2.4 million tons previously, and compared to 1.7 million tons in 2020. We have increased our 2021 sales guidance from 2.2 million to 2.4 million tons to now 2.3 million to 2.4 million tons. We now anticipate 2021 cash costs of $63 to $65 per ton at our Elk Creek complex, up from $61 to $65 per ton previously, but down from $70 per ton in 2020. The increase is due to higher sales related costs, as spot pricing continues to both move higher and hit new records each month. We now expect total year end 2021 capital expenditures of $26 million to $28 million up from $23 million to $26 million previously, simply due to incorporating our newly planned spend at the Amonate complex. Chris will discuss the Amonate acquisition in more detail.

In terms of our booked 2022 sales, we now have roughly 1.7 million tons secured with North American customers at $196 per ton. Our year-to-date 2021 cash costs are $67 per ton overall. If we adjust upward for higher sales related costs on these booked tons and keep everything else constant, we would be looking at margins of over $115 per ton, or over $190 million in adjusted EBITDA.

Now moving to our balance sheet, I am pleased to announce that our principal lender KeyBank has increased our revolver from $30 million to $40 million on the back of our anticipated production and earnings growth. We have also extended the maturity date of our revolver to year end 2024. I am also happy to note that we continue to be the only publicly traded U.S. coal company with virtually no net debt. Furthermore, we ended the quarter with another record liquidity figure of $74 million. These liquidity metrics, of course, do not reflect the payment of the Amonate acquisition, which we expect to close later on this month.

Importantly, however, we anticipate that the fourth quarter of 2021 will produce the strongest quarter of EBITDA on record for Ramaco. This year, we started with an $89 per ton average price for our domestic contracts. For 2022, we start with half of our production now priced at $196 per ton for our domestic contracts. For 2022, we expect to produce more EBITDA, frankly by a wide margin, than Ramaco has cumulatively generated since inception. While we will be internally refining our 2022 budget over the next month or so, at this time we expect 2022 production of approximately 3.1 million tons. This incorporates roughly 200,000 tons of production from the Laurel Fork mine from our new Amonate reserves.

When the additional production from the rest of the acquired Amonate reserves reaches full production capacity of 700,000 tons by year end 2023, we anticipate that we will be producing at an overall 3.7 million ton per annum run rate. We now have fully permanent growth to hit what we are now calling a medium-term goal of 5 million tons per year of production. We show this progression on Slide 6 and Slide 7. We expect the capital expenditures for achieving all new production to be internally financed from free cash.

With that said, I would now like to turn the call over to our Chief Operating Officer, Chris Blanchard.

**Chris Blanchard — Chief Operating Officer**

Thanks a lot, Jeremy. As mentioned, we certainly have a lot of exciting activity moving forward. However, before discussing that I want highlight some of the operational milestones that have been reached since our last call.

First, we completed a very solid quarter at our Elk Creek complex. Despite the welcome increase in our sales related cost from higher pricing, there has been some less welcome inflationary pressures on our raw material pricing. Nevertheless, cost controls remained firm and overall cash cost for the company remained low at roughly $71 overall, but at $67 for our main Elk Creek complex.

Our third quarter performance also saw some impact from an unfortunate surge in COVID-19 cases amongst our workforce and their families, which widely tracked with similar cases throughout Appalachia and the nation. In response to this, we rolled out a vaccine incentive program throughout the entire company for the workforce. I'm happy to report that it was well received. The percentage of our workforce that is fully vaccinated now is well over double where it was prior to the program rollout just two months ago. We hope these steps leave us much better insulated from any possible future surges in the virus.

We also… we have also reached a number of operational milestones in the past several months. At Big Creek, our surface mine reached full production levels during September. Our high vol miner on that job was delayed slightly by logistics issues related to COVID-19, but reached full production in October. The mid volatile quality from this mine has met expectations and we look forward to shipment on our first sales later this month into the strong pricing environment.

At our Berwind mine slope construction activities increased pace during the third quarter and we reached the Pocahontas #4 seam in that horizon in October. Work continues there on infrastructure related tasks, but nominal coal production has started and will ramp throughout the fourth quarter as we transition from construction to production. Looking ahead at Berwind, this first operating section will be developing the main line entries and setting up the start areas for the second and future mining sections.

As previously noted, we expect to reach full base level production from the Berwind mine in the second quarter of 2022 when we transition equipments and crews from our adjacent Triad, Pocahontas #4 as it exhausts its reserves. By year end 2022, we will be at full 750,000 annual tons of low vol production from Berwind mine.

Turning to the future, the Amonate acquisition. When this transaction is closed in a few weeks, we will have acquired advantaged low vol reserves in five primary seams, the existing idle preparation plant and several active mining permits. We will immediately start on mine development and rehab construction projects to make this acquisition accretive as quickly as possible. The first of the two most critical projects will be the restart of an adjacent underground mine in the low volatile, mid volatile Pocahontas #3 seam referred to as Laurel Fork. This mine has been on care and maintenance while controlled by Coronado and can be brought into production quickly within, we hope, six months.

Our second priority project, while underground teams are working at the mine, is simultaneously to refurbish and modernize the existing Amonate preparation plan. Our current plans are to bring plant into production at less than full capacity as quickly as possible with 50% utilization expected by early summer. This will allow us to begin use of the plant to capture our avoided trucking cash cost savings earlier. We expect the full refurbishment of the preparation plant to continue throughout 2022 reaching full name plate processing by the end of the year. This will coincide with the full ramp up of the Berwind complex beginning. We expect to continue some work at the plant into 2023 with a rail and load out upgrade to be more efficient loading trains for our customers.

Additional operational and cost synergies will be realized as additional mining units are deployed in our Berwind mine to mine the adjacent Amonate reserves. These reserves were all but stranded without access as they are located well below drainage and miles from any processing facilities. However, we are able to access them underground by simply mining across the property line from our existing Berwind mine. We expect this additional production to start coming online when the plant reaches full production with expected upper productivity levels of up to 1.4 million to 1.5 million tons per annum of high quality, low volatile coal.

Also, while not part of our current planning, we believe there are multiple other opportunities in other reserves and seams acquired with Amonate to further extend our Big Creek operation and provide additional production to our Knox Creek preparation plan. That largely hits the high points of what we've been doing in the field the past quarter and what we've plan to accomplish in 2022. It's productive year thus far and it seems we will only step on the gas as the year changes.

With that, I'd like to yield the floor to our Chief Commercial Officer, Jason Fannin to give some color on the market supporting our growth plans.

**Jason Fannin — Chief Operating Officer**

Thanks, Chris, and good morning, everyone. In my remarks, I will share an overview of what we are seeing in the market and our current and forward sales outlook. We see the current supply demand imbalance remaining well into 2022 and likely beyond. There remains a severe global shortage of hard coking coal relative to the amount required to make coke to support pig iron production going forward. The market is very exposed to any sort of supply disruption or demand increase.

On the supply side, year-to-date 2021, U.S. met coal production is down 15% from 2019 levels according to HIS, suggesting much of the production that was idled due to COVID-19 demand destruction never returned despite current record prices. On the demand side, with steel pricing and production remaining strong, we believe that coking coal supply deficit and historically strong price momentum will last longer than past market up swings, providing strong tailwinds for Ramaco.

Turning to our sales book, during the third quarter, we continued to fulfill domestic commitments booked during the low point of the market during August last year with our sales mix split around 75% domestic and 25% seaborne. However, we were also able to add three new customers to our customer base during the quarter. Looking ahead to the fourth quarter, with the addition volumes from our Berwind low vol mine and Big Creek mid vol mine which will largely move seaborne, our domestic seaborne split will move closer to 50% seaborne.

Anecdotally, we have been getting way more inbound calls from customers asking for spot trains. Then we have availability forward, thus allowing us to be very selective and pushing for pricing above prevailing indices.

Moving on to 2022, we have recently concluded our most successful domestic coking coal sales efforts since inception, having placed 1.67 million tons into the North American market for 2022 at an average price of about $196 per net ton at the mine. Based on our projected 2022 production of roughly 3.1 million tons, this leaves roughly 1.5 million tons remaining to be sold next year. Thus, we expect our 2022 sales mix closer to 50-50 domestic versus export. In terms of 2022 exports, we are similarly seeing more demand for our coal than what we will have available supply for at least for the early part of the year. As a result, Q1 prices being discussed are in excess for 2022 book domestic pricing.

With that said, I would now like to return the call to the operator for the Q&A portion of the call. Operator?

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**Questions and Answers**

**Operator**

*[Operator instructions]*

Our first question comes from the line of Lucas Pipes from B. Riley Securities. Please ask your question.

**Lucas Pipes — Analyst, B.Riley**

Good morning everyone, and congratulate on the terrific job across multiple fronts. My first question is in regards to Amonate. It sounds like there's some really terrific synergistic opportunities with this acquisition. I wondered, is there a way to put a value on that? How would you frame up the savings between crossing the boundary line, unlocking the additional reserves, et cetera, I would really appreciate that perspective.

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

Well, Lucas, I mean, I think first and foremost, obviously, we've been developing our Berwind mine since 2017, so obviously we're basically at the advantaged Pocahontas #4 seam now, which we hit a few weeks ago. So we're trucking that coal right now to our Knox Creek prep plant. Let's call it on a clean ton basis, kind of low double digits per ton. When we hit full Berwind capacity, that's 750,000 tons a year. So, just on the trucking savings alone, I think when we say millions of dollars, it's significant.

The second thing to note that is, the Amonate coal is owned in fee. So, effectively there's no royalties that – no meaningful royalties that need to get paid on the mining of those tons. So clearly, take upper single digit royalty rates and put it on spot pricing today and you come up with a pretty big cost savings on top of that. So, when we say in our slide deck that we think this is a 1.5 year payback or less, we're incredibly excited about this opportunity and we certainly thank the Coronado team for their hard work on this transaction as well.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Yeah, and I would just echo what Jeremy said, but and add to that, obviously we're picking up 700,000 tons of additional production. It's low-cost production. It's going to be very accretive to us. It ties in operationally with what we've already got started at Berwind. So in most cases we'll be mining, frankly, just through our own existing Berwind mine to get some to some of the seams that we're calling in the Amonate area. So there's just a host of synergies across the board Lucas. So it's a very meaningful acquisition for us.

**Lucas Pipes — Analyst, B.Riley**

Terrific. No, really, really helpful and congrats on seeing that value and being able to transact on it. My second question Randy, in your prepared remarks, you mentioned on kind of what might come next and kind of preparing the company for the future longer-term. It sounds like we should stay tuned for more details, but I wanted – if you could share just a little bit more color specifically around the potential capital intensity? Are we talking tens of millions of dollars on an annual basis? More or less than that? And any additional color on what direction you may take on that would very much appreciate.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

We don't want to sort of open the kimono too soon. But it will be something that I think will be a very logical transition for us, and it will not be capital intensive from the standpoint of what we're talking about at the moment.

**Lucas Pipes — Analyst, B.Riley**

Okay. That's helpful. And then my last question, I'll turn it over. Randy, you touched on kind of walking and chewing gum at the same time in terms of pursuing growth and also capital returns. And I wondered if you are able to shed a little bit more light on what you envision from a capital return perspective kind of beyond what's been announced so far now? How you think about that over the course of what will be a very strong 2022?

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Sure, Lucas. And I'm sure as you can appreciate, as I've said in the remarks, we have a board meeting in early December the way it was teed up is that the Board recommended we go ahead and proceed with the dividend beginning in the first quarter of next year. They wanted to sort of see how we finished up the year, which I think by December, we'll have a pretty good sense of. And so I don't want to handicap what the board's decision will be. But as I said, we hope to start with a highly competitive dividend in our space and continue to grow it over the years.

**Lucas Pipes — Analyst, B.Riley**

Okay. Thank you very much. Randy, Jeremy, and team, and continued best of luck. Great job.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Thank you.

**Operator**

Our next question is from the line of David Gagliano of BMO Capital Markets. Your line is open.

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

Hi, and congratulations as well on very impressive operational turnaround over the last few years. Just in terms of the capital spending plans for 2022, can you give a sense – and actually into 2023, what are the overall expectations for CapEx given everything going on at the company?

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

So, David, it's Jeremy here. And thanks again. So, from a maintenance perspective, that's unchanged, let's call it $6 to $7 a ton. Maybe talking about it in context of the overall Amonate acquisition, you know, we earmarked about call it $22 million, $23 million worth of capital. The majority of that is going to be in 2022. So, I think if you recall it $15 million, $15 million, $17 million somewhere in that range. And then, obviously, we're going through the budgeting process as we speak right now, clearly, kind of Randy went through the slate of kind of potential growth which, again, we kind of lay out for you guys on Slide 6 and 7. So, I would say the kind of last component of that mix is kind of dependent on the budgeting process, which we're going through as we speak.

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

Okay. All right. That's helpful. And then just on the cash cost commentary, obviously the contracts in North America already done, fabulous price, implied cash costs $82 a ton for that piece of the pie, if we can sort of slice it up that way. So implicitly, 1.67 million tons at $82. Can you talk about the costs of the remaining kind of 1.5 million tons and/or in association with that, is there additional costs that we should be thinking about on top of $82 number now. I think that $82 number was basically price driven or the inflationary cost that we should be adding as well? Thanks.

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

Yes. David, I'll tee it up and then let Chris chime in. So I think you're a little heavy on the $82, we're at $63 right now at Elk Creek. I don't see us jumping $20. But as far as 2022 is concerned, there's going to be some pressure. Obviously, we've got sales related call cost increase. We'll probably have modest increase in terms of inflationary costs for parts and equipment. There may even be labor cost increases in there. But I don't think we're going to be near the number that you've cited. Chris, you want to chime in here on more granular basis?

**Chris Blanchard — Chief Financial Officer**

Yeah, I mean, whatever number you choose to use for your model for those costs on the first 1.6 million, 1.7 million, frankly, the cost basis for the additional production will be largely the same as that, just however you would factor sales related costs, whether you currently higher – those spot prices are currently higher than what we booked. So depending on how you want to model that, but the base cost of producing the coal on the additional 1.5 million tons would be the same.

And then, I'm not sure that we have put a lot of color on it, but at full production, we expect the mining cost at Berwind to basically be in line with our Elk Creek cost, within a few dollars of the Elk Creek cost, productivities will be a little bit lower due to the low vol seam and some of the geology there. But as we get into the full production there, we expect that to be much less of a drag on our overall cash cost, as it has been historically.

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

Okay. Just to come back to that $82 number I referenced, it was just – because I glanced over it. And I think perhaps what we're doing is adding, including SG&A in there. But it's basically $196 realized price and then the expected EBITDA coming from the overall 1.67 million tons. So if you back into it, you back into an $82 implied cost. That's what I was referencing. It's just the map on the numbers that were provided. So I guess the question is, does that imply the $82 number include SG&A and how much?

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

Yeah, so basically David, we're taking the – so I think, Randy was talking about Elk Creek mostly. So when we look at the 1.67 million tons that does include some portion of low vol. So yeah, I would get basically to just above $80 on an all-in basis, certainly below $80 from Elk Creek cash cost. So yes, it does not include SG&A, but there's a little bit of a mix in that to think about.

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

Okay. Understood. So overall for the company, cash cost $82 is a reasonable number for next year, for the times that have been committed. That's the assumption that's embedded in the numbers provided, is that correct overall for the company?

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

So yes, that – yes, that also includes low vol. And remember, you're not going to have the trucking savings from the Berwind mine until the plant is up and running, which we've earmarked sometime in Q2. So the first portion of the year, you will see higher costs than the back half of the year because again, back half of the year of course will include the trucking savings.

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

Okay. That's helpful. Thank you. And then just to switch back to the capital allocation question from Jeremy earlier – sorry, from Lucas earlier. Obviously, even with all the numbers that we just talked about, quite a bit of free cash flow as Lucas referred to. So does the capital allocation plan beyond the regular dividend include special dividends? And how would you think about that relative to buybacks if that's something that's on the cards as well, given the ownership structure?

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Yeah, I think David, of course, all cards are on the table, but I think the reality check here is we're going to walk before we run. And we've just talked about creating a regular dividend. We will certainly decide what we want to do in terms of capital allocation once we get beyond our first steps and take a look of course, at whatever other capital requirements we might need for purposes of buildout of the remaining production slate, et cetera. But I'm not going to game ahead what our plans are for dividends beyond payment of a regular dividend at this point.

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

Okay. And then just the last question for me, sorry, on the capital allocation piece, you mentioned obviously the vision of the future and then you mentioned logical, not capital intensive. Does it include M&A activity acquisition?

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

No, it does not. No, it does not. So when we get to that point, which I hope to be able to talk about hopefully before the end of the year, we'll sketch that out in enough detail, so that you'll understand what we're talking about.

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

Okay. Sounds good. Thanks very much.

**Operator**

Our next question is from the line of Nathan Martin from The Benchmark. Please ask your question.

**Nathan Martin — Analyst, The Benchmark**

Hey, good morning guys. And also like to echo my congratulations on the acquisition as well as the successful 2022 domestic contracting fee.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Great. Thanks, Nate.

**Nathan Martin — Analyst, The Benchmark**

I think most of my questions have been addressed, but maybe drilling down on costs a little bit more. Can you guys quantify any of those inflationary pressures you're seeing? Obviously labor seems to be pretty tight too. Do you foresee any issues hiring for your plans for the Amonate Assets? And then maybe if you could give us an idea of kind of what portion of your costs are sales price sensitive or transportation related? Thanks.

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

So, Nate, I'll just start. So in terms of the cost that we've discussed over the last 10 minutes or so just to be clear, all we're doing is taking our year-to-date cash costs company-wide, adding sort of the sales related component increase. So that's everything from royalties, severance taxes. So let's call that about 13%, 14% and that's how we get to the number where we back into kind of the $190 of EBITDA. So we're not making any assumptions in terms of other cost increases, decreases. As we said in our prepared remarks, the other portion is sort of keeping costs constant from the year-to-date. But I'll let Chris talk about kind of the hiring or inflationary pressures or anything of that nature.

**Chris Blanchard — Chief Financial Officer**

So I mean, obviously we're enjoying met prices where they are and that translates into the steel prices where they are. And so we've already seen increases in steel surcharges on a lot of our raw materials that have carried through already in the costs this year. So while we don't necessarily expect those to drop off, I'm not sure we expect them to go too much higher either. And then the other pressure is just on the labor side, and labor is tight throughout all the areas that we work. We are maintaining our workforce. I think we have a compelling wage and benefit package that we're enhancing as we roll into 2022. And if we need to make changes there to remain the employer of choice, we'll do that, of course. But right now, don't see any issues with staffing our growth plans, and the way that it rolls in next year with the build out at Amonate, it's not – it's a meaningful growth year-over-year, but it doesn't happen immediately January 1, 2022, if that somewhat answers your question.

**Nathan Martin — Analyst, The Benchmark**

Yeah, that's very helpful guys, appreciate that color. Maybe back to transportation just for a second, how has service been there? I think Randy, you mentioned in prepared remarks that some transportation delays might have affected things or could affect things here in the fourth quarter. Any more color there? Maybe what kind of pricing you guys seeing from the rail at this point? Thanks.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

I'll let Jason pick that up on the transportation.

**Jason Fannin — Chief Commercial Officer**

Yeah, as Randy did mentioned in his prepared remarks, some of our Q4 open tons could potentially slip into 2022, even though they'll likely be earmark for sales this quarter. Just basis, some of the slowdown we've seen on the logistics side. As your question on rates, their seaborne rates are largely driven by indices. So certainly, they've moved up as the seaborne pricing has moved up as well, but not unexpectedly.

**Nathan Martin — Analyst, The Benchmark**

And are those rates still kind of on a quarter lag almost for the rails?

**Jason Fannin — Chief Commercial Officer**

We have a mixed basket of rates. Some are and some are a month lag.

**Nathan Martin — Analyst, The Benchmark**

Got it, Jason. Thanks. Thanks for that. And then maybe just finally you guys, I think mentioned updating the load out at Amonate, which rail would those funds be shipping on?

**Chris Blanchard — Chief Financial Officer**

That's currently a Norfolk Southern load out, and it would remain there, just go from a single car type situation to more of a batch way load out.

**Nathan Martin — Analyst, The Benchmark**

Got it. Thanks for that, Chris. Yes, I appreciate your thoughts guys. And I'll leave it there. Thanks again for your time, and best of luck in the fourth quarter.

**Operator**

Our next question is from the line of Tom Bishop from BI Research. Your line is open.

**Tom Bishop — Analyst, BI Research**

Good morning and congratulations on your good fortune here as going forward.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Thanks Tom. We like your stuff.

**Tom Bishop — Analyst, BI Research**

Notwithstanding the very bright future, we had a pretty big miss in Q3, as far as analysts are concerned, that $0.16 versus the consensus of $0.33. But looking ahead, analysts are out there at $0.52 for Q4, which makes me a little nervous giving the $0.16 in Q3 and at $3.90 for 2022, which includes $0.97 in Q1, which makes me a little nervous. And I was just wondering, what would you say they should keep in mind in their estimates that they might not be.

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

Thanks, Tom. So, yeah, not commenting on estimates specifically, but I think one thing in Q3 that we tried to highlight in this release was 75% of our coal went domestic this quarter. And yeah, at basically $80 a ton, remember this is coal that we contracted in the worst part of COVID in summer of 2020.

In the fourth quarter, we will have a higher export percentage than we had in the third quarter. I would put it sort of somewhere between first half of the year and third quarter. So let's call it about 60% domestic, about 40% export, somewhere in that range. So that means about 60% of our coal, again, will be on these low price legacy contract which is better than 75% which was the case in the third quarter. Now, as it relates to next year, those $80…

**Tom Bishop — Analyst, BI Research**

40% is indexed?

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

I'm sorry?

**Tom Bishop — Analyst, BI Research**

And the other 40% that's exported, that's indexed?

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

Either indexed or indexed link, yes, that's correct. So that's more based on where the pricing is today. The 60% that goes domestic is based on pricing that was signed well over a year ago. And so, as it relates to next year, that $80 contract gets replaced by $196 a ton contract. And that's a clean slate, basically when the calendar turns over those legacy contracts go from 80 to 196. So all I can say is, the fact that we've booked what we believe is about $190 million of EBITDA on basically just half of our tons next year.

We're incredibly excited about that. If spot holds where it's at, clearly spot pricing is actually well above where that $196 level is contracted. We'll let you all make your own assumptions on kind of where pricing goes on the unpriced portion for next year. But needless to say, we're excited to get the heaviest quarter of these domestic contracts behind us.

**Tom Bishop — Analyst, BI Research**

Yeah, me too. I just wanted to ask about the tax situation, there was… the amount of income tax in the current quarter was $1.6 million, which is basically… and there's basically nothing in the first half. And I believe you said it was kind of going to go back to minimal going forward. One, is that true? And two, is the one point, what happened with this unusual $1.6 million in Q3?

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

I'll take that as well. So just when we give our effective tax rate guidance, remember, this is all non-cash. So, I mean, we're paying virtually no cash taxes in 2000 – we're guiding to virtually no cash taxes being paid in 2021. I think it was sort of a confluence of factors.

I'd say the first half of the year was unusually low. It came in around I think, 9% or so excluding discrete items. And we've always been guiding to tax rates in the kind of low to mid double-digits. So inherently Q3, Q4 was going to be higher. And Q3, I think was unusually high, in part based on sort of how we forecast our taxes quarterly. The reality is we had a good problem, which is spot prices continued to go up, our forecasts went up and therefore our expected tax rates sort of had to get chewed up a little bit in Q3. So again though, this is all non-cash, which is – I think the biggest thing I'd just like to emphasize.

**Tom Bishop — Analyst, BI Research**

Okay. But as far as models… in Q4 and 2022, kind of what should we be thinking?

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

So with 2022, I'd say, we're going through the budgeting process right now. So when we kind of give 2022 cost guidance, et cetera, that's when we'll come out with a tax rate. For the fourth quarter, I'd say it'd be closer to the third – the guidance of 10% to 15%, implies sort of closer to somewhere in between — lower than the third quarter, higher than the first half of the year. So somewhere in between that 9% to kind of 20% range.

**Tom Bishop — Analyst, BI Research**

Okay. And you have mentioned several times, sales related cost increases and then you said something about royalties and another thing that I didn't catch, and I was just wondering if you could just tell us how that works and the percentages, roughly?

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

Yeah, I mean, without getting too specific, basically within the sales related cost component, probably a little over half is just direct royalties. The majority of the rest is things like severance taxes, and then there's kind of a small other bucket. I mean, I think that's about as a good a breakdown as we'll give.

**Tom Bishop — Analyst, BI Research**

Okay. That's what I thought you said, severance taxes, what – that's a new one for me, sorry.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Yes. I mean, it's basically just taxes on mining the coal that ultimately goes to the state, you know?

**Tom Bishop — Analyst, BI Research**

All right. Okay. Well, thank you.

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

Thank you.

**Operator**

We have another question from David Gagliano from BMO Capital Markets. Please ask your question.

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

Hi, just a really quick clarification on the fourth quarter. I think you said, Jeremy, can you just go through the volumes again better actual tons that are open for pricing at this point and the mix between domestic and export?

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

Yeah, so I think David, we're looking at about 60%, call it domestic, 40% export give or take, and that'll get you about to 1.4 million tons for the full year of fixed price business. That of course, we have at $89 a ton. As Jason mentioned, we do have about 100,000 tons open, we've got another sort of 100,000 tons that are committed, but committed at index or again in index linked. The hope is, of course, all the trains show up on time and we're able to get everything out by December 31.

The reality is, I mean, it doesn't matter what industry you're in, labor's tight, supply chains are tight. So of that 100,000 tons that are open, I certainly wouldn't be surprised if some of that flipped into to 2022.

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

Okay. And so somewhere between 100,000 and 200,000, that's kind of open on pricing and…

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

That's open on pricing, yes, with about…

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

Open on pricing, sorry, depending on when it ships, right. And then 40% of that is export and 60% of that is domestic. Is that what you were saying?

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

No. So almost all of that is going to be export. So if you take our overall Q4 number, whatever number you back into, I think we kind of give the full year guidance. So you can back into the Q4 number, that total number, what we're saying is about 60% of that will be domestic, about 40% of that will be export.

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

Okay. And then just the last question for me, given prices are all over the place, as you know, given all the different mixes, all different ultimate destinations. Can you give us some color on just like a reasonable – I asked this question on other calls too, so it's just a consistent question, a reasonable realized price for the fourth quarter, given everything that we've talked about with the open times.

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

I mean, again, I think at least with the 60%, you basically know what that number is. The open tons, I'd say what's committed and indexed is more on the high vol side, David. What's open, so that 100,000 tons that's left to be sold, the majority of that is kind of low vol, mid vol. Which I think is what you would expect given that's coming from, of course our mines that are ramping up. Hence, we're one of the probably only players that actually has open tons for Q4.

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

Okay and then just in terms of…

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Bottom line, David, is open tons are all going to be indexed. And we're looking at low vol numbers of over $400, obviously a ton at the moment.

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

Right. Just to kind of manage expectations appropriately. When we see those $400 per ton numbers, should we be lagging our assumptions? Should we be applying discounts? And if so, what kind of discounts? That's really where I'm going with this, just want to make sure everyone's kind of…

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

I think we're going to turn the table on you. Jason, tell him about our non-discounts.

**Jason Fannin — Chief Operating Officer**

Yeah, no discounts. I mean, again, just getting back to the global imbalance on supply and then looking, I think when you drill down into the U.S. supply into the seaborne market in Q4, I think Ramaco is one of the few companies that has available volume still to place in Q4. We're not entertaining any talk of discounts and essentially pricing at index basis is right around the time of shipment or just before some sort of period average. So, I mean, we're effectively capturing all or more than all of the current numbers.

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

Okay. That's helpful. Thanks very much.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference over back to Mr. Randy Atkins, Chairman and CEO.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Great. Well, again, thanks everybody for being on the call. We will look forward to our next one, which I guess will be next year, but we also look forward to a very strong fourth quarter. And again, thanks very much.

**Operator**

That concludes today's call. Thank you for participating. You may now disconnect.