

# Final Transcript

Q1 2019 Ramaco Resources, Inc. Earnings Call

**Event Time:** 05/08/2019 09:00 EST

## Corporate Participants

**Michael Windisch** *Ramaco Resources, Inc. - Chief Accounting Officer*

**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

**David Gagliano** *BMO Capital Markets - Analyst*

**Scott Schier** *Clarksons – Analyst*

**Mark Levin** *Seaport Global – Analyst*

**Michael Dudas** *Vertical Research – Analyst*

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

**Steven Levy** *Kalorama Corporation – Analyst*

## Presentation

### Operator

Good morning, my name is Nora, and I'll be your conference operator today. At this time I'd like to welcome everyone to the Ramaco Resources Inc. first quarter 2019 conference call. All lines have been placed on mute to prevent any background noise. After a speaker's remarks, there will be a question and answer session.

(Operator instructions)

Speaker Michael Windisch, Chief Accounting Officer, you may begin your conference.

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### **Michael P. Windisch** — *Chief Accounting Officer*

Thank you Nora. On behalf of Ramaco Resources, I'd like to welcome all of you to our first quarter 2019 earnings conference call. With me this morning is Randy Atkins, our chief executive chairman, Mike Bauersachs, our President and CEO, and Chris Blanchard, our Chief Operating Officer.

Before we start, I'd like to share our normal cautionary statement. Certain statements discussed on today's call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent Ramaco's expectations or beliefs concerning future events, and it is possible that the results discussed will not be achieved. These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of Ramaco's control, which could cause actual result to differ materially from 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 on our Annual Report on Form 10-K. The risk factors and other factors noted in the Company's SEC filings could cause its actual results to differ materially from those contained in any forward-looking statements.

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

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

As always, I want to thank everyone for joining us today to discuss our first quarter 2019 results. I also want to discuss our footprint and organic growth plan. Mike will be making some remarks on operations. And because I know many of you on the call this morning are mining analysts, we're offering you today that rare opportunity to take a shot at formerly one of your own fraternity, as we welcome the newest member of our team and CFO Jeremy Sussman. We've thrown Jeremy in the deep end on his first week, and he will be making some remarks later on the Ramaco investment pieces, as well as to provide some macro perspective on the market.

As an overview, we had a strong first quarter, especially considering we're still dealing with operational issues stemming from what I affectionately call the silo hangover from last year. We are extremely proud we were able to overcome these headwinds, demonstrate some substantial resiliency, and emerge even stronger. Also, even though we are still several weeks out, from where we sit today we are on track for our second quarter to be the highest adjusted EBITDA on record for the company. I also fully anticipate Ramaco will be generating substantial cash throughout the balance of the year.

As we look back on Q1, we managed to produce adjusted EBITDA of 14 million, which was our second-best quarter. It is probably unfair to bookend comparison with Q4 on many metrics, due to the 3-week work stoppage because of the silo. But on a year over year comparison, EBITDA was up almost 50 percent from Q1 2018.

We knew we would face, in Q1, carryover headwinds at Elk, where the prep plant would run well below capacity, because we are still in the process of reinforcing the remaining two silos. We are also dealing with a massive raw coal stockpile situation at Elk, which curtailed our ability to operate our mines at full capacity. Indeed, as Mike Bauersachs will explain, we would've produced roughly 100,000 more tons at Elk this quarter had we not cut back shifts. Despite all this, we were able to hold costs at Elk to \$63 per ton, and indeed have now lowered our overall 2019 Elk Creek cost guidance to between \$63 to \$67 per ton.

As we look forward, the plant at Elk Creek still remains on track to be functioning at full capacity before the end of June. This is in line with our prior expectations. At that point, we will alleviate the operational burden and the financial impacts we have been dealing with since frankly November.

So let's start with some metrics for Q1. Revenues were up 30 percent from the 4<sup>th</sup> quarter of 2018, company production hit 478,000 tons, up 16 percent from Q4, and as noted, without curtailments production could've been higher. Cash margins of \$39 per ton on company produced coal improved by 26 percent from Q4. We also spend \$8 million on CAPEX in Q1, which was a 36 percent year-over-year decline. On sales, I'm also pleased that first quarter pricing was \$104 per ton, while this was a quarterly record, it could've been \$5 per ton higher if it were not for almost 20 percent of our volume being priced as carryover replacement tons from 2018.

Without the negative impact from these lower priced carryover tons, Q1 adjusted EBITDA would've been over \$16 million, and would've been a quarterly record. The good news is these lower priced carryover shipments are now basically behind us. We only have 20,000 tons in Q2 and nothing in the backend of the year. We hope to continue from this strong start, and as we look ahead for the rest of 2019, we are predicting a materially better year than last year. For production at Elk Creek, we continue to estimate roughly 1.8 million tons. We expect about a quarter million tons of the lower volume development mining in the 30-inch Pocahontas #3 seam at Berwind, which will continue through mid-2020. When we reach the lower cost Pocahontas #4 low vol seam next year at Berwind, we expect ultimate full production of 750,000 tons per year. Given that seam thickness in the Pocahontas #4, we also anticipate future mine costs in the \$80 per ton range, with the potential for some future logistical cost improvements.

Combined, our two mining complexes in Elk and Berwind should put us over 2 million tons of production overall for 2019, which is about a 14 percent bump from last year. On marketing, we also hope to sell over 2.2 million tons as we work down our stockpiles. As of today, we have sold forward almost 2 million tons, or about 90 percent of our overall projected sales. We have sold both domestically and for export, and at both fixed and indexed pricing. We are also very pleased that all of our domestic business this year is to repeat customers. Our fixed priced sales from Elk Creek should provide us cash margins in roughly the \$50 per ton range. We'd expect margins to continue to expand throughout the year, from the \$39 per ton levels in Q1, as the effect of the lower priced carryover tons wears off.

We are also continuing to explore various ways to increase overall production and sales. Having rebounded from the silo failure, we will plan to discuss with the board later this month the possibility of accelerating some attractive near-term opportunities to increase production, which we had planned for development in later years.

At Elk Creek, we are looking at expanding the throughput capacity at the prep plant by roughly 500,000 tons per year above the current nameplate. When we do that, we will accelerate some new mine production in the #2 Gas and Glen Allen seams, which we had originally slated to start in the 2020-2021 period.

We are also considering adding some new high vol A production at our Knox Creek complex, which would give us an additional 500,000 tons of production from the Jawbone seam at full capacity. As I've said, we are not greenlighting these projects yet, but assuming we start later in the year, most of the CAPEX impact would be in 2020 and forward. As Berwind ramps up and Elk Creek continues to produce as expected, we expect close to a 3 million ton annual production rate in 2021, and by 2022 and 2023, we expect to have production approaching the 4 to 4.5 million range.

As we start generating meaningful free cash flow, as we've said several times before, we anticipate exploring with our board to start to return cash to shareholders in the form of a recurring dividend. Ultimately, we anticipate being a coal company that both grows as well as returns cash to shareholders. I believe few of our peers can say

that they aim to double the size of their company over the next 3 or 4 years, especially without taking on a lot of new debt and other ARO liabilities.

So in summary, we hope that 2019 will be a year where we can demonstrate some momentum, and then let our cash flows speak for themselves, and hope the market properly reflects that.

And with that, I would like to turn over the floor to Mike Bauersachs.

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

Thank you Randy. My comments for the first quarter are relatively brief, because little has changed since our last call. Most first quarter items were discussed in some detail with our year end results just a few weeks ago. But overall, the first quarter approximated our 2019 internal operating plan. Our plan anticipated being impacted by shipping some lower priced carryover business from 2018. We also anticipated that infrastructure limitations would cause reduced production, which in turn would cause slightly reduced shipping levels. I will elaborate a bit more on a few of these key impacts.

As I mentioned during our most recent conference call, we continue to be challenged by the size of our Elk Creek raw coal inventories, which were over 450,000 raw tons at the end of the first quarter, and exceeded 500,000 raw tons during April 2019. Stockpile inventory started to decrease slightly in the second half of April. We expect this reduction to continue and accelerate through the remainder of the second and third quarters of this year. Assuming productivities at the Elk Creek mine remain at similar levels to the first quarter, it will take the majority of 2019 to process and ship this stockpiled production.

During the first quarter, we lost the opportunity to run 121 continuous miner unit shifts at Elk Creek due to the increased production rates at the underground mines, coupled with the capacity limitations at the Elk Creek plant during the silo-related affairs. In addition to the limitation on production due to inventory levels, we also incurred additional handling costs placing excess raw tons in ancillary stockpiles, which had a measurable negative impact on our cost performance.

While we were dealing with silo-related impacts, our mines have been exceeding budgeted expectations. In particular, our deep mine feet per shift exceeded our plan in the first quarter and continues to do so. It is relatively easy to imagine the improved financial results going forward as we reduce missed shifts and resume shipping and washing coal at our nameplate capacity.

I put in a few of the above referenced key metrics from the first quarter operation of our Elk Creek deep mines on slide #11 to help point out how we believe the rest of the year should shape up as the impacts from the silo interruption and the resulted

stockpile buildup dissipate. The slide depicts the missed shifts for the quarter at Elk Creek, the quarterly feet per shift, and a formula that utilizes our average clean tons per foot to calculate the missed clean coal production in the first quarter. Even taking into account that we would likely only have washed half the tons at normal preparation plant capacity, not deferring between 50,000 to 100,000 clean tons from the first quarter could have turned a solid first quarter into a stronger one.

While we have obviously missed near-term opportunities due to temporary stockpile and infrastructure limitations, when this is compared against improved productivities, it bodes well for cost, production, and shipment performance for the remainder of the year. For all practical purposes, we have completed bolstering the key components of our silos to avoid any potential similar failures and allow for long-term safe usage of the remaining silos. I can also report that our permanent bypass is being fully utilized, and in turn we have seen improvement in our plant performance in April. We have placed some coal into the silos and anticipate full utilization in the next week or so. With these milestones achieved, we expect a quick migration back to normal capacity as the second quarter advances.

In contrast to 2018, our surface mine at Elk Creek has had some positive geologic variances thus far in 2019. Our plan had the surface mine transitioning to an area where the data indicated the upper seams would have less metallurgical characteristics, and would have to be sold as a thermal product. We planned and budgeted to sell up to 150,000 tons of surface coal as a steam product in 2019, which would've been twice the amount sold in 2018. As the mine has moved into these zones, we have had more favorable results on the mined coal. While this has had limited impact on the first quarter, we now expect that at least one-third or 50,000 of these previously thermal tons will be sold as metallurgical tons for a substantial difference in revenue. The bulk of this product shifting will be in the second and third quarters of 2019.

We are currently in the shoulder season from a marketing perspective. Year to date, we continue to see good results for our coal qualities and shipment reliability. We've seen improved performance from both the CSX and NS railroads. As illustrated on Slide #12, we continue to believe our domestic market portfolio for 2019 is in great shape. This allows us to be fairly selective on export business, especially if we see some sort of temporary market price escalation. We believe we'll see domestic customers come out fairly early for 2020 business, likely early to mid-summer. It appears to us that it's not a matter of getting their coal, it's more about being able to buy the coal they want and prefer their blends.

There's no doubt that a very large portion of the best metallurgical coals stay in the U.S. Our current marketing efforts have been focused on advancing our direct coal sales into Asia. We hope to have some updates on this during the next earnings call. In summary, on the marketing front, while many have predicted pricing declines as the year goes on, we continue to see a receptive marketplace both domestically and internationally.

I'm also pleased to announce that Kevin Karaszia has agreed to join Ramaco Resources as its Senior Vice President of Coal Sales and Marketing. His first day with the company is actually today. Kevin has both the domestic and international sales experience to take Ramaco Resources to the next level. This is the first step in migrating away from exclusive agents, except for areas where it makes sense to have targeted international agents. In summary, we are pleased with our position at this point in the year, we are excited at the opportunity to run our mines at their full capacities. Additionally, we remain focused on organic growth opportunities and synergistic opportunities that can propel Ramaco Resources' growth over the coming years.

I would now like to turn things over to Jeremy Sussman, who will provide some financial highlights relative to our first quarter, discuss some positive changes to our previously issued guidance, and provide a reminder of the overall investment thesis at Ramaco Resources. This will include the comparison of some key metrics to our peer group.

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

Thank you Mike. In terms of first quarter financial highlights, Randy hit many of the key points, but I want to touch a bit more on cost, as this was one of only two revisions to guidance. The operating at Elk Creek has done a tremendous job of overcoming the challenges of the November silo failure. Our first quarter 2019 cash costs came in at \$63 per ton at Elk Creek, up just a dollar per ton year-over-year, despite our prep plant and stockpile issues carrying over from the fourth quarter. Given our ability to control costs this quarter in the face of this challenging operational issue, we are now guiding to an overall lower 2019 cash cost per ton outlook at Elk Creek, from \$63-\$69 per ton, to \$63-\$67 per ton now. As I noted, almost all other key 2019 guidance was reiterated, including total company production of 1.8-2.2 million tons, total sales of 2.0-2.4 million tons, including purchased coal, and total capital expenditures of \$35-\$40 million.

I would note that our 2019 capital expenditure guidance does not include the expenditures of any of the potential developments Randy and Mike spoke about. As we proceed in the analysis and approvals for these projects, we will provide further guidance.

The only other change to guidance relates to our sales mix. Prior to the favorable surface mine developments that Mike just talked about in his remarks, we had anticipated that 94 percent of our 2019 sales mix would be metallurgical coal, with the remaining 6 percent being thermal coal. I'm pleased to say we now expect 96 percent of our sales this year to be metallurgical coal.

Now, turning back to the first quarter, net income was \$6.9 million. This compared to \$5.3 million in the first quarter of 2018. The 2019 increase was due to higher volumes

and prices, as previously mentioned. Without the negative impact from lower priced carryover tons resulting from November's silo failure, first quarter 2019 net income would've been approximately \$9 million.

I'd now like to turn to some of our forward views on the macro environment. We obviously like the conditions in this market, and expect we will remain in a supply deficit for the foreseeable future. In fact, there are a number of large metallurgical coal players that are facing financial challenges, even in the current favorable market conditions. Frankly, we view this as a sign of a healthy market. Lower cost operators with good balance sheets are generating solid margins, while higher cost players with challenging balance sheets are struggling. As such, we continue to remain encouraged that the market still has legs well into 2020 and beyond.

Now, a couple of signposts that we're looking at. First, met coal stock prices have remained above \$200 per metric ton for the vast majority of the year. The 2020 met coal curve is up to \$186 per ton. At the time of our earnings call just a few weeks ago in March, the 2020 curve \$183 per ton, and at the beginning of this year, the 2020 curve was \$177 per ton. So while stock prices continue to be volatile, the forward curve continues to march higher. Second, Chinese metallurgical stockpiles on the ground are at their lowest level since early October. This is despite the fact that the Chinese production is up 10 percent year over year in the first quarter of 2019, which is a record high.

Now, on a personal note, let me say that I'm delighted to be joining a first-class organization in Ramaco. It is a company that I've long admired from the other side of the table, and now that I'm here, it's clear that we have a strong group of very talented employees. In their prepared remarks, Mike and Randy referred to a slide deck. I'd encourage all the listeners on the call to download the slides. You'll notice they're a bit different from past earnings calls, as we really wanted to highlight what I'll refer to as the Ramaco investment thesis, or said another way, the reason I moved my family to Kentucky to become a part of Ramaco, leaving behind a job that many of you on the call know that I loved.

At its core, Ramaco is a low-cost producer with very little debt or legacy liabilities, and we hope to double the size of the company in the next 3-4 years, while returning cash to shareholders on the way. As you see on slide #14, while many met coal producers like to tout their cost structures, we believe... we truly believe we are in the first corps pile of the U.S. cost curve for metallurgical coal. Our cash costs at Elk Creek came in at \$60 per ton last year, and \$63 per ton in the first quarter of 2019, generally ahead of our direct peers. At the same time, slide #16 shows that we have by far the lowest legacy liabilities of among our peer group, while slide #15 shows that our net debt to EBITDA levels are very much toward the lower end of the peer group.

In short, we believe we have the right people, right access, and right balance sheet to put us in a position to execute on our goals that I discussed a moment ago. This now concludes management's prepared remarks. At this time, I'd like to open up the line to any questions you may have on the first quarter 2019 results or outlook. Operator?

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## Questions and Answers

### **Mark Levin — Analyst, Seaport Global**

OK, great, and congratulations Jeremy. Good to talk to you on this end now. Just a couple of quick questions, mostly related to comments regarding Elk Creek, the prep plant capacity expansion, and also potential new production at Knox Creek. So maybe some more color around timing, when you would expect to have a better idea on potentially sanctioning these projects. How soon, I think you mentioned 500,000 tons a piece at both Elk Creek and, and Knox Creek, how soon would that production be able to be ramped to that full million of incremental? Is that a 2020 full year impact? Is that a...if you were to sanction it. And any type of color around what the CAPEX might be?

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

Mark, this is Randy. Um, first I just want to reiterate that we have not yet taken this through the board, which we expect to sometime later this month. And once we do that, we would also expect probably to file future further guidance about exactly what we would be doing, with some more metrics so the market would have some transparency there. With that being said, I'm going to let Chris Blanchard pick it up and give you some more granular detail on the mining metrics.

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

Mark, with regard to the production ramp, assuming this was greenlighted appropriately sometime in the second quarter, we would start to see the effects of the new production in the second half of 2020, so it would be backloaded in 2020, and we would be at the full additional million run rate in 2021. Um, as far as the CapEx impact, it's probably best to defer any color on that until the projects are actually greenlighted.

### **Mark Levin — Analyst, Seaport Global**

That makes sense Chris. And in terms to what it would do to the overall cost profile of the business, and maybe even mix as well.

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

The mix would be stronger. The full million tons would be high vol A production, half a million additional at Elk Creek and the half a million annual run rate at Knox Creek would all be high vol A, so the mix would get stronger. Um, the overall cost profile

would probably creep up a little bit. These mines are going to have a slightly higher cost profile than what we're currently running. Closer to Elk Creek than they are to Berwind.

**Mark Levin — Analyst, Seaport Global**

Closer to Elk Creek than to Berwind. Got it. And when you think about, um, Berwind in 2020, I think you mentioned getting to the Pocahontas seam for middle of the year next year. And when you look at your guidance this year for production at Berwind, what do you think is a reasonable step up in 2020 versus 2019?

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

Perhaps as much as 50 percent more in 2020 than we have in 2019. We won't reach the #4 seam until June, July of 2020, and then there will be some development work in the back half of the year before we can move those operating sections into the thicker #4 seam. We really won't see the full step change until 2021 at Berwind.

**Mark Levin — Analyst, Seaport Global**

Got it, got it, got it. And my last question just has to do with the cadence of EBITDA. I think in the press release on your remarks you mentioned Q2 would be a record quarter, best quarter. When you think about Q3 and Q4, do you expect, um, given some of the issues will have been behind you, the carryover tons I think that Mike mentioned will be behind you, should Q3 and Q4 continue the trend of, you know, Q2 being better than Q1, would Q3 be better than Q2, Q4 better than Q3? I realize, um, pricing will have a lot to do with it, but just kind of assuming the market stays where it is?

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

Mark, I think, you know, we hope obviously that Q2 is going to print very favorably. I would say for the balance of the year, we would like to, at least at this point, I think we would like to guide toward a flat after that from where we hit in Q2. But we will certainly be able to give you a little bit more guidance as we get further out in the quarter.

(crosstalk)

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

It's Jeremy. I would just remind you that we do still have about 20,000 tons of carryover volume still in Q2, a lot less than in Q1, but just keep that in mind for modeling purposes.

**Mark Levin — Analyst, Seaport Global**

Got it. And I lied, one last question. I think on the last call, um, Mike Bauersachs, I asked a question about logistics, you know, rail and port and the year over year increase, and maybe referenced a \$3-\$4 increase this year over last year, and I believe, I could be wrong, an all-in sort of cost closer to like \$40 per ton. What are the trends that you guys are seeing on the logistics side? I know met prices are, you know, staying high, which impacts logistics costs and rail costs. But what are you guys seeing in the last three months as it relates to, you know, rail costs?

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

Things have been pretty stable, even less than that number that we threw out last quarter. So I think at these levels, we've seen pretty much stability in the marketplace and the same thing on the rail side, Mark.

**Mark Levin — Analyst, Seaport Global**

Great. I appreciate. Congrats on a great quarter and all the great progress, and to you Jeremy specifically on your new position.

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

Thank you Mark.

**Operator:**

We have another question from the line from Lucas Pipes of B. Riley FRB.

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

Good morning everyone, and congratulations Jeremy. This is a great, great, great move and very exciting and happy for you. I wanted to follow up on some of Mark's questions, maybe ask a bit more pointedly, and that's the 4.5 million ton target by 2023. Could you walk us kind of through a bridge year by year, how lines could evolve? I know you touched on it in the prepared remarks. And similar to Mark's question, what sort of CAPEX would be associated with that growth?

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

Yeah, just kind of walking through the...and again, um, we still have a lot of work to do to make sure we bring on all this additional production, and work with our board, et cetera. But if you know you look at 2019, let's just say midpoint 2 million tons, working our way up to about 2.5 million tons or so, maybe a little better than that, in 2020, 3.1 in 2021, probably around 3.6 in 2022, working our way to somewhere between 4.2 and 4.5 in 2023. The one difference maker with some of the things we've thrown out, with Berwind and with Knox Creek, is we continue to anticipate production in Pennsylvania at our RAM mine, which continues to be a bit of a challenge permitting-wise, but I do think we continue to make good progress to try to

get that to the finish line. That's approximately a 350-500,000 tons, depending on how we choose to mine it.

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

Got it. And in terms of CAPEX, what would be a good yardstick to think about?

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

I'll let Chris take a rough range maybe. It's, um, some of it does vary in how we'll deal with the RAM Mine, um...

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

I mean, just for modeling purposes, you know at this point, back of the envelope, 5 years out, you want to use somewhere in the neighborhood of \$20 per annual ton of incremental production, I think that would get you in the ballpark for all development, permitting, equipment, maintenance, CAPEX, everything that goes into these new mines.

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

OK, alright thank you for that. Maybe switching topics, when I think about your 2019 sales contract position, mostly, mostly fixed year prices, \$113, and mostly in the domestic market of course. So a couple of questions on the back of that. First, as you look out to 2020, any preference to potentially shift more into the export market? And then two, there were some moving pieces on the contract, this year was the carryover tons but of course also selling a lot of it into the domestic market. Do you have a sense for what your price realizations could look like in the current market, kind of market to market, just kind of curious as it relates to the earnings potential for 2020? Very much appreciate your thoughts, thank you.

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

First of all, we're not going to try to give you our book for what we're going to price coal for in 2020. So... (laughter), with that being said, I'll let Mike speak to the sort of international balance.

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

I think, Jeremy, we were just in a really kind of interesting position domestically. We have a lot of guys who really like our coal, I think, um, we felt like with a lot of the things we're doing, it was good to go ahead and price forward, et cetera, and of course the numbers were very good. I do think you'll see the balance tip back, especially as we enter that sort of Asian market directly. We're working very hard on a couple things there. I think our sales mix could shift back to more 50-50 type levels as we look forward. And of course, the marketplace for some of the coals we're selling, low vol

lies and otherwise, are right now better than \$113. I think you could see our overall numbers move up as the year goes on depending on how the marketplace shifts.

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

OK. Well, that's very helpful and, uh, best of luck to all of you, and Jeremy congratulations again.

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

Thanks Lucas.

**Operator:**

We have another question from the line of David Gagliano from BMO Capital Markets. Your line is open.

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

OK, thanks for taking my questions. First of all, since... Randy, since you opened the door to take some shots at Jeremy, I'm going to take you up on that offer. (crosstalk) Yes. Jeremy, congrats on the move. I'm looking forward to consensus estimates now being more realistic now that you're not in the mix. (laughter) Congrats, seriously. And I hope your time as CFO is much more successful than your time as a sell side analyst. (laughter) Randy, thank you, thank you for the opportunity. Jeremy, you know I'm kidding, by the way.

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

Nothing but love.

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

It's part of our analyst outreach program, David.

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

Exactly. Turning to questions, just some clarification questions. Obviously, hit on a lot of topics here pretty quickly, and I missed some of those details. Just on some near-term questions... on the inventory sales commentary, I think it's implied about 200,000 tons of sales out of inventory for 2019, none of which were sold in the first quarter I believe. But I didn't quite, I also didn't quite follow the near-term timing of those inventory sales. Should we assume about 65,000 tons of inventory sales each quarter, 2Q through 4Q?

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

You're talking about carryover tons, David?

(crosstalk)

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

Inventory, actually.

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

Yeah, sales of tons in inventory, I think that's a pretty good assumption on the clean side of it, yes.

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

OK. And on the pricing of those inventory tons, are those going to be sold at spot market prices, or are there any contract deferrals tied to those inventory sales?

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

Yeah, no, those will be basically placed on our existing sales, um, I wouldn't anticipate any of those being spot. I mean, they're all the same qualities, et cetera, that we've got in our specs for our existing business.

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

OK. And then just longer-term, one clarification. I thought you said that you expected 2020 volumes to be 3.1 million tons just now, and then going to 3.4 in 2021 and 4.2 in 2022. Did I get those numbers right?

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

You're off by a year, David. I think we mentioned that 2 million tons this year, 2.5 next year, 3.1 in 2021, and then moving up to 4.2-4.5 in 2023.

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

Alright, perfect, that's what I needed. Thank you very much, and again, congrats Jeremy.

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

Thank you.

**Operator:**

Another question from the line of Michael Dudas of Vertical Research. Your line is open.

**Michael Dudas — Analyst, Vertical Research**

Can't compete with Dave's very comedic introduction, but uh, good on all those thoughts and well done in hiring Jeremy. Looking forward to that first big burst of analyst investigator (unintelligible) in Lexington he'll be hosting.

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

We're looking forward to hosting, Matt.

**Michael Dudas — Analyst, Vertical Research**

Absolutely. Randy and Mike, maybe a little more thoughts on what drove your announcement today about accelerating the CAPEX and getting ahead of the curve on some of these development projects. It is a level of comfort with the operation, the ability to effectively develop the plant and the mines at a better and more efficient rate than maybe what we've seen in the past? Or has the market gotten that much better, demand that much stronger, that you want to get ahead of the curve while others may try to chase some of the market in the coming years?

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

I think, Mike, it's a combination of a number of those factors. When you look at what happened to us back in the fourth quarter, we really had a body blow with respect to the closure of Elk Creek for several weeks. And I think we've done a, not to pat ourselves on the back, but I think we've done a pretty good job of coming back from that pretty well. So I think, with that wind in our sails, we've started to step back and say, "Alright, we knew what our menu was kind of looking forward for the next several years. We think we're comfortable, particularly where we look in terms of our cash generation, um, to be able to deploy some of that frankly a little bit nearer term, to developing out some of our additional tonnage, but we do think we've got some other opportunities, particularly down in Jawbone and the Tiller, that frankly, you know, when we started we didn't really think were there, and we now have discovered that we think that's a very attractive opportunity for us. So, um, I think it's a number of factors, but I do think that we're comfortable going to the board to start some serious discussions about moving some of this forward. And as a result, we'll hopefully be able to glean a little bit of that performance in earlier years.

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

Mike, one other trend that we're seeing, and you know, as you know with us, we've at many times gone the opposite direction of others, as we see our competitors paying dividends, large dividends in many cases, and buying back shares, we think the opportunity for us is to do what we do best, which is put coal mines in. And as Randy

indicated, we did have a very pleasant surprise as we reviewed the opportunity to go to the Tiller seam at Knox Creek. All of our infrastructure is in place there, the Tiller mine was in much better shape than we thought it would be, there's still work to be done to get to the point where we would be in Jawbone, but to have all of those planets kind of align at Knox Creek with excess capacity at a prep plant that's washing metallurgical coal, I think the right answer for us is to get after it. So, in any event, hopefully that helps a bit.

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

Mike, you know, in our DNA is to be a little bit of a contrarian. You know, we started this company in the depths of, you know, the worst coal recession that we've had in quite some time, and I think if we look out, we're reasonably comfortable there's a pretty bright future in the met space. So we're comfortable in, uh, in trying to place some bets in that direction.

**Michael Dudas — Analyst, Vertical Research**

You've certainly been contrarians throughout the careers, I was watching you especially Mike over the years, so I appreciate those thoughts. And then my follow-up, maybe for Jeremy, as you dive into your due diligence in your first week at the organization, and recognizing all the varied myriad capital structures we've seen in the mining sector in general and coal in particular, um, your early vision on, and you mentioned some of the (unintelligible) you have a great, very strong balance sheet, but you know balancing that, not getting too ahead of yourself with the cash flow and setting up a stronger balance sheet relative to optimal bet levels and cash allocation to shareholders, you know, which might be different certainly than what we've seen throughout the other mining and coal space.

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

Kind of...Thanks for the question, Mike, echoing what Randy said on the contrarian side, I think we clearly see supply being challenged going forward, whether it's here, whether it's abroad. You look at places like India, where they've doubled their steel production over the last 10 years. And they have virtually no met coal, so if you think about they're at 100 million tons today, they're growing 7 percent per year, that's 7 million tons of steel, that means they need 3-4 million tons of new met coal every year. I think when you look at all the supply that's coming online, or lack thereof I should say, it's not enough to keep up with demand. Our view is that we want to continue to grow, but we want to grow the right way, and you look at Elk Creek, costs at the low 60s per ton range, that beats some of the long walls out there. So we want to continue to grow low cost production, but at the same time we're mindful that investors do care about dividends, so I mean as Randy said in his remarks, we are going to look to balance that going forward, and that's certainly a discussion that uh, an ongoing one that we continue to have. So thank you for the question though.

**Michael Dudas — Analyst, Vertical Research**

No, I appreciate the response. One final question, maybe for Mike. You mentioned in your remarks about targeting Asia with some of the product. Um, is that traditional Asia? And are you, is there a need for the quality of the coal that you'd like to sell over there, is there a diversity argument that they're looking at given what Jeremy mentioned, that there's not...that the supply response that they're seeing? And how comfortable can you get that those customer base to look at a name or company like Ramaco can supply tons to that market?

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

Yeah, that's a great question, and what we've found with more time being spent there, and of course with Kevin on board now, with his experience in that area, I know we'll be spending more time in that part of the world, but the main reasoning really is diversity. You know, with continued production impacts out of Australia that always seem to happen, it never fails, what we're seeing from customers is that first of all they like the quality of the coal, no question about it, and getting some high vol in particular in some of their blends, or in many cases — of course, a lot of these customers also want mid vol, which we can also make — but they really want diversity, and when you think about entities such as Steel Authority of India, for example, there are only a few U.S. suppliers that ship coal there, and with the growth Jeremy mentioned, it only makes sense that they'd want additional suppliers in their mix.

**Michael Dudas — Analyst, Vertical Research**

Thanks gentlemen.

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

Thanks Mike.

Operator:

We have another question from the line of Scott Schier of Clarksons. Your line is open.

**Scott Schier — Analyst, Clarksons**

Good morning everyone, and congratulations on the move Jeremy. Just one question left from me today. This was touched on a little bit earlier, but I was hoping you could elaborate a little bit on the impact of the 2018 carryover tons. You mentioned you have some remaining in the second quarter. Would it be possible to quantify any potential impact of these going forward, or how should we think about this?

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

I really think it's pretty much behind us, just 20,000 tons, more like a \$40 per ton mark in difference for 20,000 tons or so is the impact. Shipping, more like \$80 business instead of \$113 business, so...pretty minor. With most of it obviously behind us.

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

But as you know, it was a big impact in Q1. It was almost 20 percent of our volume. So that's a nice tailwind for us going forward.

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

I'd also say that we're very proud we made up the tons we would've shipped in December with our customers, our customers are happy. All of our existing customer base in 2018 took tons in 2019, so we were able to work our way through all of these issues with really very minimal impact from a force majeure standpoint.

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

And Scott, I don't want to do the old "woulda, shoulda, coulda" routine, but I mean we did make some comments as to what life might have looked like had we not had the silo incident, both in terms of additional production, which was at Elk roughly 100,000 tons, and also frankly what the results would have been like, which would've been closer to a 16 handle and a 14 handle for the quarter.

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

I would say that 100,000 tons is pretty interesting when you look at the clean tons per foot and the slide, which is really good to look at. I don't think you could take that and multiply it by 4. I mean, we absolutely didn't have the washing capacity, even at full capacity, to wash all those tons. But it shows what the opportunity was, and there will be somewhere between 0-100 for that opportunity as we roll into the second, third, and fourth quarter.

**Scott Schier — Analyst, Clarksons**

Great, that's very helpful, thank you very much. That's all from me today. Thanks for taking my questions, congratulations again Jeremy, and good luck going forward.

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

Thanks Scott.

Operator:

(Operator instructions)

We have another question from the line of Steven Levy of the Kalorama Corporation. Your line is open.

**Steven Levy — Analyst, Kalorama Corporation**

Thank you, thank you for taking my question. I was wondering if you could provide any further color on the status of your insurance claims related to the silo failure that you discussed in your earlier conference call this year?

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

Sure. Since that call, we have had a number of points of contact with the insurance company, we actually met with the insurance company physically and laid out some of the things they were potentially not looking at closely enough, including at least the thesis for what we believe the cause of the silo is. And of course, we'll also say that we don't think anyone will ever know exactly what caused it. The changes we're making to the silos going forward I think would prevent whatever it would be to happen again because of the bolstering we're doing to the remaining silos. But we're not at a point where they've denied the claim, we're not at a point where they've accepted the claim, so we do expect maybe one more site visit in the next week or so, and we should know at least from a standpoint of if the claim is accepted or not in the next couple of weeks. So, we're, obviously we've been fine without any proceeds, we've made things work, but we continue to believe it should be a covered issue.

**Steven Levy — Analyst, Kalorama Corporation**

Great, thank you very much.

**Operator**

Thank you. And I'm not showing any further questions at this time. I would now like to turn the call back over to Randy Atkins for any further remarks.

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

Great. Well thank you very much everyone for being on the line today, we hope we gave you a little bit more insight. Again, we're very happy to welcome Jeremy to the clan here, and we look forward to speaking with you again in a few months on the second quarter.

**Operator:**

This concludes today's conference call.