Final Transcript

Q2 2019 Ramaco Resources, Inc. Earnings Call

Event Time: 08/14/2019 09:00 EST

Corporate Participants

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

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

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

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

Conference Call Participants

Matt Key *B. Riley FBR — Analyst*

Mark Levin *Seaport Global — Analyst*

Scott Schier *Clarksons — Analyst*

Mason Stark *Analyst, Wilshire Phoenix*

Presentation

Operator

Good morning ladies and gentlemen, and welcome to the Ramaco Resources second quarter 2019 earnings call. At this time, all participants are in listen-only mode. After a speaker's remarks, we will conduct a question and answer session.

(Operator instructions)

I would now like to introduce the host for today's conference, Jeremy Sussman, Chief Financial Officer. Mr. Sussman, you may begin.

Jeremy R. Sussman — Chief Financial Officer

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

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

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

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

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

Thank you Jeremy. As always, I want to thank everyone for joining us today to discuss our second quarter results. There is an old Chinese curse which goes, "Yours shall be a life lived in interesting times." I think the events of the last few weeks in both the financial and coal markets certainly bear this out. But despite the turbulence, we are happy to discuss today that we have printed our financially successful quarter since we got started.

After my comments, Mike and then Chris will make some remarks on both recent operations and the sales and marketing landscape. Jeremy will then provide more detailed comments on our financial results, as well as his macro perspective on the market.

Those who have gotten used to tolerating my one-liners last week I remarked at an investor conference that you don't really know who's wearing a bathing suit until the tide goes out. This summer, we have seen a riptide, with some unusual and severe stress in certainly the coal space. It feels like not a week goes by that we don't see another coal company either filing for bankruptcy, auctioning off assets, reorganizing, or announcing a senior resignation or management change. The thermal coal market has pretty much dropped off the shelf. Even met coal benchmark prices, which have held pretty steady at reasonably strong levels over the past year, have now dropped by over 30 percent. If you're in the coal business, these are the times that try you.

But as turbulent as the market looks right now, I want to point out that Ramaco was born as a contrarian investment play in the depths of the last coal rout earlier this decade. We took some care at the outset to design this company to be very conservative in terms of both leverage and AR liabilities, so it could financially withstand the historic volatility in the met space. I believe we have largely succeeded. We have basically the lowest debt and legacy liabilities in the industry. We were also in successful in choosing reserves that were geologically advantaged, and as a result we have some of the lowest cash mining cost in the industry. As we look as where the markets now sit, we are extremely

comfortable that we're in a strong position to overcome these headwinds, demonstrate some resiliency, and emerge in very good shape.

An extra benefit to us is that our customers also realize all that. We've heard from both our domestic and international customers that they're attracted to not only our coal qualities, but the security of supply from a financially stable and growing counter-party. As we set sail shortly on the marketing discussions with our 2020 domestic customers, it is gratifying to be in that position. On our last earnings call we were on track for our second quarter to be the highest adjusted EBITDA on record for the company. I am delighted to report that I actually got that one right. We achieved over $19 million (unintelligible) for almost $30 million in adjusted EBITDA for the first 6 months of 2019, which is a 36 percent bump from last year. We look forward to continued strong results for the balance of 2019. I might add that we sold more than 940,000 tons of company-produced coal in the first half, and are close to completely sold out in price through year end at an average of roughly $115 per ton.

As Mike is going to discuss, we completed the silo rehab this past month at Elk Creek, and are back to full processing capacity. Despite the lingering effects of the silo incident in the second quarter, we have been able to hold Elk Creek mine costs in the mid-60s, and are still leaving our overall 2019 Elk cost guidance at between 63 and 67 per ton. Chris will discuss some further details on cost. And although Jeremy is going to provide a deep dive on financials, some selective metrics for Q2 are as follows.

We saw price realizations of $116 per ton and cash margins up $45 per ton on company-produced coal. This improved by 23 percent from Q1. CapEx for the quarter grew from $8 million in Q1 to almost $12 million this quarter. We are on track for a 2019 overall CapEx spend still in the $35-40 million range, likely coming in toward the upper end. This estimate, I might point out, also includes the capitalization of our losses at the Berwind complex, as we continue its development until we hit the Pocahontas 4 seam by summer of next year.

Building from this strong start, we look ahead to the balance of 2019 predicting that the second half will look very similar to the first half in terms of both production and earnings. For production at Elk Creek, we continue to estimate roughly 1.8 plus million tons. At Berwind, we expect about 250,000 tons from the Pocahontas 3 seam continuing through mid-2020. On sales and marketing, we continue to guide that we will sell roughly 2.2 million tons for 2019. Since we are in the middle of the annual North American sales negotiations for 2020, we basically can not to discuss either forward pricing or volumes on this call. I can say that we are now engaged with every major domestic steel company, and in most cases are an incumbent supplier.

As I mentioned on our last call, we are continuing to explore various ways to increase our overall sales profile in some of the export markets which Mike will address. At our Elk Creek complex, now that we are back to some degree of normalcy, we are looking to expand the capacity of the prep plant by roughly 500-600,000 tons of clean coal per year, above the nameplate throughput capacity. This would take our Elk overall production targets to 2.5-2.6 million tons. Assuming we that greenlight this project at our next board meeting in late September, we would initiate a portion of the roughly $8 million in total new CapEx for this project in late Q3, Q4 calendar 2019, with the balance being spent next year. The project, we anticipate, will take 10-12 months to complete once we initiate.

We also discussed on our last call adding some new highball A production at our Knox Creek complex, in what we call the Tiller Jawbone mine. This would ultimately add 500,000 tons of production in the Jawbone Highball A seam at full capacity. Given the current turbulence in the market, we are considering to defer moving forward on deploying the CapEx for a full opening of that new mine until we see some clear direction in the overall market. We continue, however, to be active in pursuing various additional accretive add-on or bolt-on opportunities around all of our mine complexes. We hope to be in a position to offer clear guidance on a number of these projects as the year progresses. As Berwind ramps up and Elk Creek, as expected, to produce, we are currently guiding to roughly a 2.3 million company-wide annual production rate in 2020. I'd note that this number does not include any of the potential expansion projects we just discussed. We continue to guide that by 2022-2023, we will have production in the 4-4.5 million ton range.

In summary, although we see some choppiness in the near-term both financial and coal markets, we feel the intermediate outlook is still good. We have just experienced our best quarter, and are essentially sold out through the balance of 2019 at very attractive prices. We expect this will produce a record year on earnings for us as the balance of the year plays out. As for our stock price, we have designed our operations to take advantage of strength in the market at good times, and to weather the storm and be resilient in turbulent times. We continue to operate on the theory that ultimately our cash flow generation will speak for itself, and we're confident that the stock market will ultimately reflect that value over time. However, it is certainly not reflecting it today for us, or frankly any other coal name. I would note that at current levels we're trading at roughly 2 times EB to EBITDA ratio on 2020 consensus numbers.

Considering our strong fundamentals, I think I am safe to say that we are perhaps the most undervalued name in our peer group, so if anyone likes a bargain, I would suggest another look. With that, I would like to turn over the floor to Mike to talk about some operations.

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

Thank you Randy. Our overall results were very good, and are indicative of a clean quarter from an operations standpoint. Mining and shipping occurred without any noteworthy incidents, our infrastructure modifications undertaken due to the silo collapse have been completed, the two remaining silos have been modified and became fully operational in August. Their use has decreased our preparation plant downtime, and should enable us to work through the last remaining impact from the silo collapse: high raw coal inventories. We also have a permanent silo bypass in place. This provides redundancy but also allows us to feed coal to the plant that might have a tendency to flow well through the silos.

We anticipate consistent performance from our Elk Creek mines for the remainder of 2019. Each mine is currently operating in good mining conditions. In the case of the Alma mine, we have taken delivery of mobile roof supports, and will be conducting secondary mining for the remainder of the year.

The biggest impact in the third and fourth quarters will likely relate to the multiple vacation days in which the mines will be idle. Development mining at our Berwind mine is continuing without any adverse geologic conditions. The second section is now fully functional and production is increasing. It's mining mostly in-seam versus cutting additional height in our development section.

Our view of Appalachian production is that depletion and lack of capital will create production voids going forward. Thus, we continue to look for smart capital deployment. As Randy mentioned, our current shortlist includes potentially adding processing capacity at the Elk Creek preparation plant and ultimately developing a mine in the high volatile A jawbone seam at our Knox Creek complex.

Both of these projects have compelling rates of return. In all cases, as Randy noted in his remarks, these investments will only occur when both market conditions warrant and an appropriate level of liquidity is available. Fortunately, our low per-unit costs and good balance sheet affords us opportunities that others can't pursue. In any event, we plan to take up these investment options at our upcoming board meeting in September. At this point, it is too early to comment on which project or projects will receive the green light to proceed.

We are witnessing some unprecedented occurrences in the coal industry. We currently have 3 of our direct and closest competitors in the metallurgical sector in bankruptcy or reorganization. Many of their operating assets are for sale, but to date we have not found assets that are compelling enough to pursue. In our view, some of their mines lack the capital to continue to operate. A company's infrastructure in many cases is equally challenged.

During the last few years, we have had a stable metallurgical coal pricing environment. It is hard to envision that many of the assets now in bankruptcy will be able to operate in a less attractive marketplace, let alone secure sufficient capital to upgrade the mines and rebuild equipment. We opportunistically acquired geologically advantaged metallurgical coal assets, spent the capital to develop them properly, and continue to deploy capital to keep them productive. We paid our dues and have been able to enter into a traditional bank deal with a strong regional bank. We bought assets, and avoided the assumption of long-term liabilities which continue to weigh heavily on most of our competitors.

From a marketing standpoint, we're pleased with our current position. We have a domestic book of business with 80 percent, or approximately 1.7 million tons, committed to the North American markets. This business includes almost all domestic coke buyers. We remain confident in our ability to market our coal and retain a large portion of our position in customer blends as we enter domestic negotiations for 2020. While exports are currently a small part of our current business, we still intend to grow that business. Depending on how pricing develops with North American customers, our outsize domestic business could be modified downward, in favor of more exports. Our new head of marketing, Kevin Karaszia, has recently physically circled the world, meeting with a large number of potential new export customers. Our pursuit of new international business should result in increasing number of test cargos over the next 6 months.

While international customers have welcomed the recent pullback in coal prices, their biggest concern seems to be the cost of iron ore, as well as the underlying health of the economies where they directly or indirectly ship their product. Our take on the marketplace as a whole is the recent fall in international indexes is primarily rated to the pullback in demand, especially in Europe, and in short term uncertainties regarding Chinese port restrictions, as opposed to oversupply. Alongside that news, India continues to grow. We just saw an announcement from Tata Steel relative to plans to increase steel production capacity from 18.5 million tons to 30 million tons by 2025. The intermediate fundamentals look solid for strengthening demand. While we see a slightly lower but still profitable metallurgical market, the steam market is in very poor shape. In most cases, from a spot perspective, it is now virtually nonexistent. Many of our major direct competitors have substantial exposure to the steam markets. While we have sold some steam coal, it has been far less of our sales mix than even we anticipated going into 2019, at just 4 percent of our last overall mix. For clarification, all of our limited steam coal production is generated by our surface mine at Elk Creek.

Overall, from a business development perspective, we remain focused to acquiring synergistic infrastructure and reserves, versus acquiring another company's operating assets. Most of our current activity is focused on leasing coal. We continue to have a bias for developing mines. We are also focused on cost savings investments. Most of the current opportunities to deploy capital are internal projects that meet our investment criteria and high operational standards. One of the benefits of a less robust market might be that some assets could become available at lower up-front costs.

In summary, coal production increases within the metallurgical coal industry have not materialized. It's evidence that there's still a number of weak producers and undercapitalized mines that may be unable to sustain current production levels, let alone grow them. If production can't be grown or maintained in what has been a very good market, we believe it to be more likely than not that production will be reduced by marginal players in a moderating market. We continue to believe that our business strategy is not only viable, it has been proven to be insightful, especially in light of recent bankruptcies. We look forward to advancing these efforts in the second half of the year.

I would now like to turn things over to Chris Blanchard, who will provide some operating highlights relative to our second quarter.

Christopher L. Blanchard — Chief Operating Officer

Thanks Mike. As Mike and Randy have both mentioned, second quarter operations were largely in line with our previous expectations and guidance. We are also pleased with continued strong performance from operations in both employee safety and in regulatory and environmental compliance. Having one of the strongest work forces, nearly 400 miners now, in southern West Virginia and southwest Virginia certainly helps.

I would like to point out a couple of operational highlights from the quarter and looking ahead for the second half of 2019. Turning first to our Elk Creek complex, at our Eagle Mine we completed mining in a challenging geologic area in May and first half of June. We had anticipated these conditions in advance, but as a result of actually mining through them, overall productivity for this mine was reduced by 10 percent as measured by feet per shift, for the second quarter compared to the first quarter. This resulted in production of over 20,000 clean tons less quarter over quarter. These conditions and the lower production also led to a higher cost of just over $7 per clean ton produced from this mine for the quarter.

Mining was completed at Eagle, and productivities have returned to first quarter levels by the end of June. This has also continued into the third quarter. Through the acquisition of an adjacent lease, we have extended our projected full seam mining area for an additional 12 months. We expect mining rates and mining costs at our Eagle Mine to return to the first quarter levels for the balance of 2019.

As Mike mentioned, at our Alma Mine we have completed advance mining on one of our sections and have begun to retreat mine. We have approximately 14,000 feet of panels to be retreated, and we expect that given the mining conditions

this should last for the remainder of 2019 and into 2020 before we return to advance mining. The secondary recovery will be fully mechanized and we expect productivity to remain relatively steady during the period with a reduction of mine costs throughout. We expect cash costs at Alma to decline $2-$3 per clean ton for the remainder of 2019, based upon the reduction of bolting costs and reduced maintenance costs during pillaring activities.

The Elk Creek high wall miner operation will complete construction of a high voltage line power project in the third quarter. This will enable the high wall miner to operate on the existing Elk Creek power system instead of relying on diesel generators for electricity. This should further reduce one of our lowest unit cost operations by another $2 per ton going forward.

At the Elk Creek plant, as Mike mentioned, both remaining silos are now back online. Our permanent bypass system remains in place, allowing redundancy, as well as the ability to perform required maintenance on either system without having to idle the preparation plant itself. Ultimately, the higher utilization rates that we will realize will help us reduce our raw coal stockpiles, and lower our unit washing costs. We have also now broken ground for the expansion of our existing plate press facilities at the Elk Creek plant. This will give our current operations more flexibility when disposing of the ultra-fine rock generated from the preparation plant, as well as provide us with the additional capacity required should we undertake the full preparation plant upgrade that's currently under consideration.

Switching to our development project at the Berwind mine, the mine plan is still progressing as we work our way towards the Pocahontas #4 seam. We anticipate completing mining to slope bottom on or before year end, and are budgeting roughly 8 months for slope development with production in the Pocahontas #4 seam to begin immediately thereafter in mid-year 2020.

With the program of horizontal drilling that we have already completed, coupled with the vertical core holes that we've drilled from the surface, we are as certain that the coal industry can get that there are no further anomalies in front of us and remain confident in our ability to reach the Pocahontas #4 seam with substantially thicker coal, averaging 55 inches.

I would now like to turn the floor over to Jeremy to provide a more detailed comment on our financial results as well as provide some macro perspectives on the market.

Jeremy R. Sussman — Chief Financial Officer

Thank you Chris. In terms of second quarter financial highlights, Randy hit a number of the key points. But I want to dig into the details a bit more.

Second quarter EBITDA of $19.1 million was the best in company history, 28 percent above the previous high of $14.9 million in second quarter of 2018. Second quarter 2019 revenue of $65.8 million was also a quarterly record, and compared favorably to revenue of $55.3 million in the same period one year ago. Record revenue came on the back of the best quarter of realized pricing in the company history. Specifically, price per ton on company-produced coal was $115 in Q2, which compares to $91 in Q2 of 2018.

Q2 2019 net income was $10.6 million, which compared to $10.2 million in Q2 of 2018. Second quarter 2019 earning per share of 26 cents was another quarterly record, and compared to earning per share of 25 cents one year ago. I would point out that while the company's effective tax rate was 17 percent in both the first quarter and second quarter of 2019, actual cash taxes payable for all of 2019 are expected to be less that $200,000. Moving to capital expenditures, second quarter 2019 CapEx was $11.5 million, which compared favorably to second quarter 2018 CapEx of $14.7 million. We are on track for 2019 overall CapEx spend in the $35-40 million range, likely coming in toward the upper end, which includes capitalized losses for the remainder of the year at our Berwind and Knox complex.

As noted in our earnings release, we are reiterating all key production, sales, and cost guidance for 2019. Specifically, we expect company production of 1.8-2.2 million tons this year, with roughly 1.6-1.9 of that coming from our flagship Elk Creek complex. We continue to expect to sell between 2.0-2.4 million tons of overall coal this year, with 96 percent of those sales being metallurgical coal. Furthermore, we continue to expect the cash-cost-per-ton at Elk Creek of $63-67 dollars this year. First half cost-per-ton sold of $65 at Elk Creek put us nicely in that range.

Now, as Randy noted in his prepared remarks, Ramaco was built to withstand market turbulence. I would like to expand on this a bit. We believe there are a number of distinct areas that set Ramaco apart from its peers, and I will go through five of them now.

Number one: cash costs. Simply put, you cannot fake geology. We have among the highest clean-ton-per-foot metrics in the industry. As a result, we believe our cash costs of $55 per ton at Elk Creek in the first half of 2019 make us the lowest cost met coal producer among our publicly traded peer group.

Number two: balance sheet flexibility. As we show on Slide 11, our debt to EBITDA matrix are among the best in the industry. Based on first half 2019 results, our debt-to-EBITDA ratio was just 0.2 times. I'd remind everyone that as of June 30th, our net debt stands at under $10 million. Given our lack of meaningful interest expense, cash taxes, and other below-the-line cash items, when stress-testing how Ramaco may or may not hold up in a downturn, EBITDA minus

maintenance CapEx should get you almost all the way there. With our maintenance CapEx coming in at around $6-7 per ton or so, we are confident we are built to withstand a prolonged downturn should one arise.

Number three: liabilities. At just $13 million, Ramaco's legacy liabilities are 98 percent below our direct peer group average, and by far the lowest cost among this group. This is one of the major advantages to building Ramaco the way we've built it, i.e. the right way: developing geologically advantaged green field mines.

Number four: management ownership. As we show on Slide 10, our management team currently owns about 12 percent of the company. None of our peers are materially above 1 percent. Simply put, we are aligned with our shareholders.

Number five: lack of thermal coal. As I noted earlier, just 4 percent of our coal this year is expected to be sold into the thermal coal markets. Among our direct peers, we are just one of two publicly traded companies that produce at least 95 percent of our tons as met coal. And of those two, we are the only one which is a large domestic met coal supplier.

I'd now like to turn to some of our current and forward views on the macro environment. As Randy noted, metallurgical coal spot prices have fallen roughly 30 percent year to date, with prices just below the $160 per ton mark. However, despite the fall in stock prices, the forward curve is trading at similar levels to one year ago. Specifically, as we show in Slides 13, this time last year, the 2021 curve was at $161 per ton. It is currently at $160 per ton, i.e. down exactly one dollar a ton year over year. Furthermore, the forward curve is in a modest (unintelligible) state.

Global CapEx in the met coal space remains historically low. We estimate that met coal CapEx as a whole was 70 percent below peak levels last year, as the high cost of capital from many producers and ESG pressures continue. With three large U.S. met coal bankruptcies occurring in the last couple months, we'd expect further high-cost supply to get rationalized.

Now, turning to the demand side. Chinese steel production rose 10 percent in the first half of 2019. While U.S. hot rolled coil prices are down about 30 percent year over year, we are encouraged by the fact they are up roughly 15 percent off of their recent lows after three domestic price hikes have been announced by the steel makers. We'd also note that U.S. steel capacity (unintelligible) has averaged above 80 percent for the past 12 months for the first time since the 2007-2008 timeframe.

Lastly, we think a large part of the met coal spot price decline this year has been driven by the uncertainty of Chinese import restrictions. As a result, as shown on Slide 16, the ARB of international met coal into China is now the second highest it has been at any point over the last four years, at over $30 per ton. If history is a guide, we look for that gap to shrink once there is a bit more certainty in the market, which could have a positive impact on overall net pricing.

Now, before I turn it over for questions, I remind investors that at its core Ramaco is a low-cost producer with very little debt or legacy liabilities, and as Randy noted, we have designed our operations to be resilient in turbulent times, and of course take advantage of strong markets in good times. This now concludes management's prepared remarks. At this time, I would like to open up the line for any questions you may have on our second quarter 2019 results or outlook. Operator?

Questions and Answers

(Operator instructions)

Operator

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

Mark Levin — Analyst, Seaport Global

Great, thanks and congratulations on a terrific quarter, some of the best in company history. So congratulations to all of you. My question relates more to contracting strategy in 2020. Not looking for guidance, and I realize you guys are right in the middle of negotiations, but clearly most of the tons, the overwhelming majority of your tons, were placed into the domestic market in 2019. Maybe you can frame for us how you're approaching 2020? A year ago HRC prices were in a bit of different spot, met coal prices were as well. Should we expect the mix of export versus domestic to change materially in 2020 versus 2019?

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

Mark, I'll go ahead and address that. You know, it really is too early to say what our mix will be. The good thing is we're working from just a huge solid domestic position. We have the ability to back down. And of course, our future growth prospects really are focused on the international markets. So we're going to be prepared to shift depending on what happens with our pricing negotiations. I suspect you would not see us dip below 60 percent domestic, but we're prepared to at least go to that point. The good thing is, when we look at the competition and look at their costs and look at our costs and look at a little bit of weakness, we know that some of the highest quality coals are in some of the coal mines that aren't necessarily in the best of shape.

So we still believe we'll have a very solid domestic contracting season. I'd much rather be in our position than most of our other competitors, because we're protecting our position. We look to try to protect all of it, to be honest with you. And our growth ultimately goes to the export market.

Mark Levin — Analyst, Seaport Global

No, that's great, that's really good color, appreciate it. And then with regard to the growth projects that you've talked about in the past, it sounds like with regard to the prep plant capacity addition, that's likely to happen, it sounds like the board meeting is in September. How much of that additional 500,000 tons would hit in 2020? It sounds like there's a 10-12 month duration for the project. Should we expect any incremental tons from that project in 2020, or is that more or less a 2021 event?

Randall W. Atkins — Founder, Executive Chairman and Director

To sort of address the overall growth projects that we're talking about right now, Mark, I think on the prep plant that's a project we view with a high level of confidence. That will provide us an uplift in any market. I think as far as your specific question relating to tons, we would expect that if we got started this year we would bump another 100-150 of incremental tons into 2020, from where we would be if we didn't do the upgrade. And as I said, as far as the Jawbone mine, I think right now, per your question to Mike about the market overall, if this year is somewhat similar to last year, I suspect sometime, certainly by the middle part of this quarter, maybe about that time late September, we should have pretty good visibility about what the domestic market situation looks like. As far as putting in a new mine like Jawbone, which is a multi-year project, as we sit here in mid-August, late-August, you know, we're going to take a fairly pragmatic view. We're certainly going to grow tons, but we're not going to grow tons at the expense of being rather conservative about our approach.

That all makes sense. And my last question has to do with CapEx in 2020 and going forward. I think Jeremy did a great job mentioning how you guys could drive this down to maintenance CapEx levels in a more stress test scenario, which is very good to hear. But when you're thinking about 2020, if we just kind of assume the curve sort of stays where it is or in this general range, is there a way to think about how CapEx in 2020 would look relative to 2019, assuming you go forward with the Knox Creek prep plant expansion?

Randall W. Atkins — Founder, Executive Chairman and Director

Well the prep plant, just to be clear, Mark, is at Elk Creek.

Mark Levin — Analyst, Seaport Global

I'm sorry - Elk Creek. My apologies, yes - Elk Creek.

Randall W. Atkins — Founder, Executive Chairman and Director

Jeremy, do you want to anecdotally touch on that?

Jeremy R. Sussman — Chief Financial Officer

Yes, so I think we gave you the maintenance CapEx levels, which sort of sticks to $6 to $7 per ton, and as Randy noted in his prepared remarks, you'd be looking at about 2.3 million tons next year if we don't go ahead with anything and we just got the numbers of what the plant would allow us to add. Look, I think above and beyond that, we want to get through this board meeting, get through budgeting and whatnot, but I think those are good numbers to kind of start with and then once we've got more firm plans that we're ready to announce on growth, we'll go through those levels with you guys.

Mark Levin — Analyst, Seaport Global

All right, great. Thanks very much.

Operator

Thank you. Our next question comes from the line of Scott Schier with Clarksons. Your line is now open.

Scott Schier — Analyst, Clarksons

Good morning everyone. Congratulations on a record quarter. You mentioned that there are some assets that may become attractive at a certain price point. Can you just walk us through your thinking around your capital allocation priorities going forward? What's your preference between existing development opportunities, asset acquisitions, and returns to shareholders?

Randall W. Atkins — Founder, Executive Chairman and Director

I'll let Mike go on some of the specifics. Obviously all of our projects, we anticipate being something that would be very accretive to shareholders, so we're not going to pull the trigger on anything that doesn't look like it meets a fairly high level of return. As far as the distinction between sort of organic projects which are ones that we control versus third party projects that we would acquire, I think our bias has always been towards organic projects that are essentially either within our areas of control of our existing mining complexes or certainly very simple add-on or bolt-on opportunities surrounding those complexes.
And with that said, Mike, maybe you want to add a little bit more color?

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

Yes, I think our priorities continue to be probably cost savings type things that could be in the form of acquisitions that could enable us to run the mines that we put in better. We continue to have a huge bias on putting our own coal mines in. You could hear throughout my comments, we just think we do a really good job putting coal mines in and doing it the right way. What's been proven to be true is some of the better reserves that are available are greenfield or projects that haven't been active, that are in spots sort of in between where existing infrastructure is at.

In the end, geology wins, and so we're going to bet on geology and then we'll figure out all the infrastructure stuff later, because ultimately -- you know, those are the tough projects, but those are the long-lived projects that have advantages. So I guess you could call us a bit of a contrarian with how other people have behaved, because they have a tendency to buy existing production. We just go the other direction. I think the strategy has proven out pretty well at this point.

Randall W. Atkins — Founder, Executive Chairman and Director

And I'll also say, Scott, as we move forward and get a more mature book with a little bit larger production, we will be in a position to dedicate, obviously, our free cash flow toward these type of activities as opposed to trying to use it, or use our cash flow, rather, to pay debt or legacy liabilities. So that gives us a certain leg up.

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

I will also add, and I know Randy usually notes this, that we continue to keep dividends on the table. We look at them. We, at this point, have a great deal of really quick return type capital investments in front of us, even at a slightly declining market. That being said, we're again substantial owners of the shares and we're not against dividends either.

Scott Schier — Analyst, Clarksons

Okay, great. That's very helpful. Thank you for that. Switching gears a little bit to more of a market question, can you talk a little bit more about what you're seeing in the domestic market? Do you expect U.S. pricing to continue to follow the decline in Aussie seaborne, or is it really kind of diverging into two different markets?

Randall W. Atkins — Founder, Executive Chairman and Director

I'll make the first comment, Scott, before Mike gets into it, which is we're not going to touch anything relating to pricing in the domestic negotiation. In terms of trying to give guidance as to whether we think it's up, down or sideways, we're certainly not going to make a comment on that in this discussion.

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

Yes, it's really a bad time to talk about it because there's just stuff ongoing, really even as we're standing here. With that being said, we are very close to the marketplace in which we operate, and we see even recent earnings releases with high cash costs, et cetera. One would think that a lot of people would not have much ability to alter what they're willing to sell coal for based on a lot of what we're seeing, and we've actually physically been in coal mines and, frankly, we wouldn't operate hardly any of them. We'd shut them down and fix them, which would be a tough thing to do.

Randall W. Atkins — Founder, Executive Chairman and Director

So Scott, I thought it was going to be Lucas that was going to ask the question like he did last year, about what are our price and who our customers for this coming year, but you jumped the shark.

Scott Schier — Analyst, Clarksons

Yes, I thought we had to switch it up a little bit this year.

Randall W. Atkins — Founder, Executive Chairman and Director

That's good, that's good.

Scott Schier — Analyst, Clarksons

All right, thank you very much, guys. Good luck going forward.

Operator

Thank you. *(Operator instructions)*

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

Matt Key — Analyst, B. Riley FBR

Hi, good morning everyone. This is Matt Key asking a question for Lucas today. Just a quick one for me today since most of my questions have already been asked. Elk Creek costs per ton came in at the high end of its 2019 guidance range in 2Q. What exactly drove this, and do you see cash costs improving in the back half of 2019 at Elk Creek? Thank you.

Chris Blanchard

This is Chris. So Elk Creek did come in at the high end, but it was driven largely by two things. Fifty percent of the increase was based on sales related increases, higher royalties based on higher revenue, and the other 50 percent was on the cash costs at our Eagle mine, which resolved by the end of the quarter and have returned to first quarters levels. So that was geology at Eagle and basically higher coal prices drove it. We have several things I outlined where we have some cost savings going forward, so I think we'll see us pull back safely into the range as we finish the year.

Jeremy R. Sussman — Chief Financial Officer

But we're comfortable with the $63 to $67 range at this point, and we'll leave it at that.

Matt Key — Analyst, B. Riley FBR

Got it, thank you. That's very helpful. One more, I guess I'll sneak in here. Based on your current CapEx guidance, you have roughly $15-20 million remaining on the 2019 budget. Could you remind me exactly where that capital is being allocated and if you would expect it to be evenly spread between 3Q and 4Q? Thank you.

Randall W. Atkins — Founder, Executive Chairman and Director

Go ahead, Jeremy.

Jeremy R. Sussman — Chief Financial Officer

Yes, in terms of second half CapEx, most of the growth capital is being allocated to Berwind, as Randy and Chris both talked a bit about in the prepared remarks. There's a little bit of capital being spent at the Elk Creek plant as well, not necessarily the upgrade per se but just sort of general items, and then your normal maintenance CapEx. So we're comfortable with where our first half CapEx came in, and again, you should look to similar levels, as you noted, in the second half, give or take.

Matt Key — Analyst, B. Riley FBR

Got it. That's very helpful. Congrats on the record quarter, and best of luck moving forward.

Randall W. Atkins — Founder, Executive Chairman and Director

Thank you.

Operator

Thank you. We have no further questions in the queue at this time. I would now like to turn the call back to Randy Atkins.

My apologies - we did have a questioner join the queue. It looks like it's coming from the line of Mason Stark with Wilshire Phoenix. Your line is now open.

Mason Stark — Analyst, Wilshire Phoenix

Hi gentlemen. Thank you very much, good morning. Two questions that haven't been addressed on the call. The first one: I was interested to see the transportation costs came in less than I was expecting this quarter. I was wondering if you could go through if, is there a mix, and it's interesting also just because you had a slightly, a bit more shift internationally, so I was wanting to see if there was something going on in the variance between Q2 and Q1.

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

Yes, I think from our perspective when we think about transportation, typically of course we're shipping the majority of our coals domestically and we don't--you know, basically we sell that coal FOB mine. You've seen a pretty large shift

from us really focusing in on the domestic business based on the pricing that we received, and from a fluctuation in transportation cost standpoint and things going to the quarter, things that we pay for the freight on, we've actually seen a moderating, slightly moderating cost as the second quarter advances and into the third quarter, albeit I would definitely say not necessarily a sea change in any sort of activity. I think we'd just say slightly downwards.

As we see where the domestic numbers come out and as we look at the international pricing and how it advances through the end of the year, I will say historically, if international pricing remains in the range that it is or slightly lower, we should see a pullback in transportation and/or even loading costs, to some extent. That would be just a general comment.

Jeremy R. Sussman — Chief Financial Officer

And I would just remind you, if you're looking at the transportation costs towards the end of the release, in the reconciliation of non-GAAP measures, all of our domestic sales are FOB mine, so the transportation is borne by the steel mills. If we're exporting coal, we'll see it on that front, and given that the large portion of our book is domestic versus export, one extra cargo on the export front here or there in a particular quarter will cause that number to fluctuate.

Mason Stark — Analyst, Wilshire Phoenix

Got it, understood. Okay. Then the second question I had was sort of an overall market. As you alluded to with the recent bankruptcy filings of some of your competitors and that you think some of those mines might not be able to come back into operation, if you had to give a ballpark, what kind of potential impact do you think you could see in terms of a decline in the overall supply in the marketplace going forward if you're right?

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

I think as we sit here and look at production, I think there's a very good chance that it could be a million or 2 million tons that basically go off the radar. When you look how really tight things are and then you look at the spectrum of really high-quality coals, I think that quite a few of them are in those higher-cost coal mines. So a million or two tons coming off the market could have a big impact on pricing and availability of the best quality coals.

Jeremy R. Sussman — Chief Financial Officer

The other thing I would add is just with the recent decline in pricing, there have been a lot of growth projects that have been pondered, and you just sort of wonder out loud, are some of these companies willing to put half a billion dollars in for a new mine in this environment? We don't know the answer right now, but certainly I think the decline in price would

cause a number of folks to think about pulling back, at least on some of the bigger projects. I'd view that as a positive as well.

Mason Stark — Analyst, Wilshire Phoenix

Got you, thanks. All right, thank you very much, and good luck in the second half this year.

Randall W. Atkins — Founder, Executive Chairman and Director

Thanks Mason. Okay, if there is no further questions, once again we appreciate everybody being on the line, and we'll look forward to catching up with everybody, I guess it would be in November. Thanks again and have a good day.

Operator

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