Final Transcript

Q2 2020 Ramaco Resources, Inc. Earnings Call

Event Time: 08/07/2020 11:00 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

Mark Levin *Benchmark Company — Analyst*

Lucas Pipes *B. Riley — Analyst*

Scott Schier *Clarksons — Analyst*

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to Ramaco Resources Inc., Second Quarter 2020 Earnings Conference Call. At this time all participants are in a listen-only mode.

[Operator instructions]

It is now my pleasure to introduce Chief Financial Officer Jeremy Sussman,.

Jeremy R. Sussman — Chief Financial Officer

Thank you. On behalf of Ramaco Resources, I'd like to welcome all of you to our second quarter 2020 earnings conference call. With me this morning is Randy Atkins, our Executive Chairman; Mike Bauersachs, our President and CEO; and Chris Blanchard, our Chief Operating Officer.

Before we start, I'd like to share our normal cautionary statement. Certain items discussed on today's call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent Ramaco's expectations concerning future events and it is possible that the results discussed will not be achieved.

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

Any forward-looking statement speaks only as of the date on which it is made and except as required by law, Ramaco does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

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

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

Thank you Jeremy. As always, I want to thank everyone for joining us today to discuss our second quarter results. We're trying something a little bit different today given the current situation, by we're calling in from essentially two different parts of the country. Part of our management team is in West Virginia, part of our management team is now out in Wyoming.

So, I started last quarter's call by quoting some Chinese proverbs about operating in interesting times. I'm not sure how to characterize this quarter other than by saying, I'm sure we would all like to never repeat the experience of operating in this kind of an environment again. First, I want to point out that, for Ramaco, this quarter reflects only two months of economic activity for us, not three. We were essentially closed for much of the month of April. And that in and itself is a condition of course we hope never to repeat.

Under the adage that sometimes it's better to be lucky than smart, it's also true that sometimes you get lucky by working hard. And I think all of our team worked extremely hard and creatively last quarter. Fortunately, despite all the overall macro conditions, we were able to post a financially solid first half and second quarter. As you know, on the numbers we booked EBITDA of roughly 19 million in the first half and almost 11 million for the second quarter. This was up about 30% quarter-over-quarter. Net income also bumped about 35% for the same period, and of course, Jeremy will follow me with some more granular detail on economic and financial statistics.

One unusual item that was in April was that we received approximately $8.4 million in PPP or Paycheck Protection financing from the U.S. Treasury. As a result, we have been able to book $7 million of that this quarter as other income. As a result of securing that facility, we brought back about 200 miners that had been furloughed in late March given the effects of the pandemic. That financing has now been completely expended on qualified expenditures. We have also been advised by both our auditors and outside counsel that based on recent clarified accounting standards we could treat this as other income this quarter, since we properly qualify under the PPP for expected loan forgiveness. We will be applying for such forgiveness later this year per discussions we've had with our PPP agent bank, and Jeremy again can certainly supply some additional detail on the accounting treatment.

When we looked at our operating results for the second quarter during the month of May and June, when we actually did operate, we had strong cost results at our Elk and booked mine costs of about $64 per ton. We also managed to increase our liquidity this quarter by about $13 million, which came from funds received from the PPP facility and a separate equipment line. And we continue our central focus, which is to remain very conservatively geared in order to ride this market turmoil out and be poised to react with some degree of financial, as well as operating, agility when the market conditions seem to normalize.

And with respect to the market in general there are some macro trends which we pointed out in our earnings release, which could lead somebody to become modestly optimistic. I'm afraid from our perspective that optimism is tempered by a heavy dose of humility. There are uniquely way too many unknowns at this play at the moment, all of which are outside of normal market forces, which temper an ability to really make much clarity in terms of prediction. In reality, it would be pretty foolish to provide any meaningful, strong sentiment on where the market will move on a forward macro basis, frankly, even six weeks ahead, much less six months or a year.

But with that being said, the tea leaves are out there for any of us to read, and I'll provide just sort of a short list of some of the headlights we're looking at.

First of all, general economic conditions in the U.S. seem to be creeping forward. They're somehow looking for a reason to have some continued momentum. U.S. steel capacity is up about 59% utilization since last month. U.S. manufacturing of passenger cars has jumped from about 2,000 units in April to about 140,000 units in June, which is clearly below the 200,000 some units for the same period of '19. But that trend is probably what the U.S. steel groups are now looking at as they restart blast furnaces and certainly are approaching the 2021 domestic tender season. The forward curve is telling you that hope maybe around the corner, the current pricing in first quarter of 2021 is now about $136 a ton FOB Australia, against a current spot of about $107. That's about a 25% upward bet on a wider worldwide recovery.

Turning to China, the Chinese are in between domestic and imported met coal hovers around a record $50 a ton. And certainly China's domestic steel production has essentially fully rebounded.

And lastly, the same supply constraints which have been hanging around the hoop all year, have now no doubt become aggravated by current market conditions. You've now got three demons. One is the extremely lousy

market pricing conditions. You combine that with the fact that most producers have higher mining costs per ton than us and add to that the fact that most producers have little or no access to any new liquidity. This is kind of a perfect storm designed to precipitate some degree of supply contraction at some point, and one of my favorite one liners is that the market could always remain irrational longer than you can remain liquid. So, we'll see.

It also goes without saying that the dance of the 2021 domestic tender season is now upon us. We have submitted, I guess, the last one this week of all our final bids for both high vol and low vol coals, and I will again this year sadly disappoint Lucas Pipes, who I suspect is on the line, and not provide him a list of either our customers or our bid prices. But as you know we have successfully executed in the domestic markets over the past few years. Hopefully we'll be able to do so again this year. And I'm sure by the next time our next earnings call rolls around, we will be able to report on frankly where everybody ended up in the dance.

We're also making some new inroads into export markets we hadn't explored before. This past quarter we did our first test shipment to a group in Brazil. We also entered into a pretty interesting market arrangement with a highly regarded trading group in Brisbane, Australia called Square Resources. We hope Square will be able to provide us a window into several of the Asian markets we've not yet touched. And we look forward, over time, to building our Asian presence as the years move forward.

On the development front, we are pursuing a policy of frankly keeping our powder dry until we can see more clarity. We've talked before about some pretty interesting low vol, low cost new mine projects, which I'm not going to iterate here in any detail, but we feel we could bring on one or more of these online in a relatively short timeframe, and at a very reasonable CapEx we've discussed.

Because we could operate and execute on these projects so quickly, at this point we don't feel the need to pull the trigger on anything until we can see some real strength in the market direction. But once we see that clarity, we've got both the existing liquidity to prudently advance several of these projects at once, all within a six to 12-month time horizon. Ultimately if we add all these projects up, they could provide a very meaningful new level of production for us.

So to conclude my remarks, let me say that we continue to stay the course with frankly the same gospel we have preached for some time. We are low debt, we are low ARO, we're low mine cost, we're strong liquidity, and we've got a taste for being opportunistic. We're very comfortable with this operating philosophy, particularly in

this kind of a market. And we operate to cover the downside in these frankly perilous times, but when we see finally a little bit of upside, we feel we can react quickly. And hopefully we'll be rewarded at some point for degree of prudence.

So now let me turn the platform back to Jeremy to provide some detail on our financial results. So Jeremy?

Jeremy R. Sussman — Chief Financial Officer

Thank you, Randy. In terms of second quarter 2020 financial highlights, please remember, as Randy pointed out, we only had Elk Creek running for a little over two months. With that caveat, EPS of $0.06 was up from Q1 2020 EPS of $0.05 and compared to $0.26 a year ago. Revenue was $36 million, down 13% from Q1 and down 45% from the same period of 2019. Other income totaled $8.5 million as we recognized roughly $7 million of income for the anticipated forgiveness of funding under the Payment Protection Program loan. This was based on our Q2 2020 usage of flow in proceeds, largely for eligible payroll expenses. The accounting for this funding as the grant is based on guidance issued in June from the American Institute of CPAs and blessed by our independent auditors.

On the operational side, Q2 sales were 362,000, down 27% from the same period of 2019. Despite a lengthy furlough in April, Q2 2020 production of 390,000 tons exceeded our sales, which were weaker than originally projected based on demand contraction from COVID-related issues. Second quarter average price per ton came in at $91, which compared to $116 in the same period of 2019. Cash margins came down on the back of lower pricing and higher costs. Margins on company produced coal were $17 per ton in the second quarter of 2020, down 35% from Q1 and down 62% from the same period of 2019. Cost of company-produced coal came in at $74 per ton in Q2, up 4% from $71 per ton the same period of last year.

It is important to put second quarter costs into some context. First, Elk Creek overall mine costs came in at $72 per ton for the entire quarter. Excluding April, mine cash cost at Elk Creek averaged $64 per ton in the second quarter. While the April furlough was necessary from a cash management standpoint, the limited mine production caused overall Elk Creek mine cash costs to be adversely impacted by having fixed costs spread over fewer tons.

I also want to touch upon capital expenditures a bit. Last quarter we made the decision to stop virtually all of our growth CapEx, a decision which is still in place today. During our last call, I said that there would be some

growth CapEx leading into the second quarter. This was certainly the case as Q2 CapEx came in at $9.1 million. While this was down roughly 21% from the same period of 2019, and it still included roughly $6 million of growth CapEx from two items. Specifically, the final $3.4 million of our $8 million plate press project at Elk Creek was spent in Q2, which Chris will touch upon later. In addition, roughly $3 million was spent at our Berwind Development Complex. Subsequently, in early July, we made the difficult decision to reduce our workforce at Berwind by over 60%, which materially lowered our spend there.

Looking forward, we are now at maintenance CapEx levels on both cash and an accrual basis and would expect third quarter 2020 CapEx to come in roughly two-thirds below Q2 2020 levels. This is in line with our historical guidance of $6 to $7 per ton of maintenance CapEx. In Q2, as Randy noted, we took on $13.2 million of new debt, consisting of $4.75 million of new equipment debt and $8.4 million from the PPP. As we said, we anticipate ultimate forgiveness for all or most of the original PPP loans.

Moving on, our trailing 12 months net debt to adjusted EBITDA level remains the envy of the industry. It's just under 0.3 times as of June 30. In addition, we have liquidity of $31.8 million as of June 30. This is despite a number of working capital items that were treated as a first half 2020 use of cash. First, I point out that inventories have risen by $10.2 million since the beginning of the year. Second, when comparing second quarter 2020 to the first quarter, we had a $1.4 million increase in accounts receivable and a $4.9 million decrease in accounts payable, which I would note now sit at their lowest quarter end level since 2016. We anticipate working capital items to be a source of cash in the back half of the year, especially in the fourth quarter.

Lastly, as Randy noted, I'd remind investors that we have designed our operations to be resilient in turbulent times and to take advantage of strength in markets in good times. We do not know when, but good times will roll again one day as they usually do.

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

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

Thank you, Jeremy. The second quarter of 2020 marks one of the most unusual quarters experienced to-date at Ramaco Resources. As the quarter progressed, we dealt with some of the worst uncertainty that we face as a public company, with the primary concern being both our employees, and how our customers will be impacted by the pandemic, and in turn the impact to our contracted sales. Our view today is that things have seemed to

stabilize, with demand from the auto sector picking up and some domestic customers restarting blast furnaces idled earlier this year.

While we will continue to face challenges during the back half of 2020, from a demand and shipment standpoint, it appears to be manageable, and we hope to see continued steady improvement, especially in the domestic space. From a macro perspective, we continue to see slow recoveries and reduced demand in the traditional Atlantic Basin markets. China, the most influential mover in the marketplace, continues to recover nicely from steel production standpoint. Conversely, they appear to be more actively enforcing import quotas, keeping downward pressure on seaborne coking coal pricing.

Recovering from COVID disruptions in the increasingly important India marketplace has been challenging, but recent data shows improvement. While there are concrete instances of production cutbacks, most sources point to a continued oversupply of coal production, particularly from the U.S., traditionally a swing supplier in the seaborne market.

It appears that the real key to near term recovery will need to be in the form of government stimulus and even more impactful for the metallurgical sector, infrastructure spending. Like others we were recently surprised by the European Union's ability to unite to enter into a stimulus effort for all members through shared borrowing. While recent projections show that the EU is expecting their economy to shrink by about 8.7% in 2020, they project a rebound in 2021 to growth of 6.1%. That stimulus should help reach their goal. This and additional actions domestically and internationally could have positive impacts on the near-term prospects for our customers, and in turn metallurgical coal producers.

We're taking small but positive steps in our efforts to expand our international sales position. We all floated our first shipment in Korea in the second quarter with positive feedback from our customer. We just recently loaded a vessel bound for Europe, the first loading this year for a large new customer there. In another first, we agreed to trial cargo to a large high volatile coking customer in Brazil, which will mark Ramaco's first shipment at any kind to South America.

While the markets and opportunities for large quantities of international business remains murky, it's still very positive to know Ramaco's success in securing business with new customers during this unprecedented time in the market. Since we last spoke, domestic customers have provided more guidance relative to material adverse

change and force majeure impacts. Additionally, we've had an instance where a smaller customer has opted to take 10% fewer contracted tons. The cumulative impact of these events will certainly have a material impact on our back-half performance. All of this uncertainty continues to make it difficult to provide any meaningful shipment guidance.

We can also confirm that most domestic and other North American customers have come out for 2021 business. While it's too early to determine where everything settles out, we remain confident in our ability to differentiate our products from the competition. We also have confidence in our staying power, long reserve life, and some of the lowest costs in the industry. Our well capitalized mines should be targeted by buyers who increasingly need to be worried about insolvencies and associated performance risk.

One additional focus for 2021 is our effort with regard to our low sulfur products. Elk Creek has historically had comparatively low sulfur, but our mining has migrated into a couple of new areas that will allow us to market and ship an even better product. As our customers face increasingly new restrictions on their emissions and have fewer producers who can make a low-sulfur product, we hope to be part of their solution.

Relative to production, following a furlough during most of April, we recalled our Elk Creek workforce. We've developed plans to match production with our expected lower shipment volumes for the second half of 2020. All of our mines at Elk Creek are running well. We also extended our July 4th holiday week by adding one furlough week for some employees. It remains to be seen if additional similar actions will be required in the second half. We continue to go to great lengths to address health and safety concerns related to COVID-19. Our operations are diligently following guidelines and we remain committed to doing everything possible to keep our employees safe. Chris will provide a more detailed discussion of our pandemic response.

At our Berwind mine, we've had to make the difficult decision to make a substantial reduction in our workforce. The mine is continuing to operate at substantially reduced levels. We continue to ship coal to our primary customer, who has altered their consumption downward for the remainder of the year. We do want to make it clear that management has a number of options for the path forward at Berwind. It includes having the option to develop a small block of coal in the Pocahontas #4 seam, accessible near our Berwind infrastructure. Access to this reserve is above drainage, and coal can be developed in a few months if market conditions supported.

Alternatives also include proceeding with our Berwind slope, which will take approximately six months to complete. We continue to believe that our high-quality, low-pressure Berwind Pocahontas #4 seam coal will be a great fit for a long list of customers, both domestic and abroad, who continue to express interest and inquire about availability for trial shipments.

We continue to labor over CapEx decisions in light of current market weakness and virus uncertainty. As we see how things develop over the third quarter, and where we end up with domestic settlements, we are hopeful to provide more color on growth CapEx in our third quarter call. Our guidance continues to remain suspended today.

Last quarter, I discussed the lack of capital and the fact that we continue to see lack of investment in the sector. We also discussed challenged cost structures and predicted that there will be more failures and potentially more bankruptcies from some of our competition. Unfortunately, during the last week or so, we saw another competitor file for Chapter 11. We also reminded investors that we remain actively focused on taking advantage of opportunities that present themselves. In fact, Ramaco just entered into an agreement with the debtor in the Blackjewel bankruptcy to acquire a couple of permits that provide access to high quality Jawbone seam reserves that we control. This small transaction was surgical in nature, but could create meaningful value and allow us to avoid capital expenditures in the future. Indeed, we remain focused on similar situations.

Ramaco Resources continues to perform at profitable levels in less than ideal conditions, especially compared to our peers. While management believes that Ramaco's substantially undervalued by the market, the market cap gap between much larger producers is narrowing. In some cases our valuation is greater than much larger competitors. It would appear that investors are beginning to see the differences in management philosophy that make a company like Ramaco able to withstand downturns. ARO liabilities, while not immediately due, still result in eventually spending the cash. Debt will be repaid, a result in entering bankruptcy. Ramaco maybe the only company in the coal sector to have not pledged the majority of its assets against debt. As we've said previously, we remain confident that the way our company is structured will prove to be one of the winning strategies that ultimately benefit from the current virus-induced downturn.

In summary, I would like to thank everyone who is participating in this call, especially those analysts who continue to cover METC. Like others in the sector, Ramaco is facing a clear set of challenges as we work our way

through the remainder of 2020. As a management team, we're not just focused on problems and obstacles, we're also focused on opportunities.

I would now like to turn things over to Chris Blanchard who will provide some additional insight into our second quarter and our operations in general.

Christopher L. Blanchard — Chief Operating Officer

Thank you, Mike. We'll do a few key operational milestones from the second quarter, and some of our strategies for the remainder of 2020 that I will briefly discuss this morning. First, our primary operational concern as always remains the health and safety of our workforce. During this period of the COVID-19 global pandemic, our focus has widened to consider how the virus can affect our miners, both at home and at work. We've taken what we believe to be prudent and proactive steps as the pandemic has developed and we continue to adapt our policies and procedures as conditions have changed over the past month.

As previously mentioned, one of the most material steps taken was the furlough of operations during the month of April following the March declaration of a global pandemic and the uncertainty that was created throughout both the steel sector, as well as the coal space. Most of our operations were idled three weeks during April to assess the situation and to develop action and prevention plans. We returned focused upon social distancing, personal protective equipment and sanitation of all common areas and equipment.

Face coverings were provided to all employees prior to any of the now widespread recommendations or requirements. We continue to require face coverings in all enclosed areas or where social distancing is not possible. We are now also having all offices and buildings deep sanitized on a regular schedule. Also, despite our focus on limiting and minimizing capital spending during the current period, we are deploying additional capital dollars for additional personnel carriers so that our underground miners can travel in multiple machines and have more space from their co-workers during these otherwise congested portions of the workday.

As the coronavirus continues to spread and cases increase in the locations of West Virginia and Virginia, where our miners live, we continue to adapt our policies to the latest governmental guidelines and modify our work rules to provide the most flexibility for our workers' families while also providing the safest locations for them to work. Contingency and action plans are in place for different COVID-19 scenarios that may occur.

Now turning to one of our capital projects that we discussed earlier, during the second quarter, we completed construction, commissioned and brought into full operation our second plate press building at the Elk Creek plant. We have now upgraded Elk Creek to have a total of four operational fine refuse plate presses. Where our first two presses gave us some needed relief and flexibility on disposal of our fine waste rock, the second edition containing the third and fourth presses gives us the excess capacity and confidence that Elk Creek now has the technology in place to plate refuse economically for the entire life of the Elk Creek complex.

The additional presses also give Elk Creek enough rateable capacity to be able to handle the future disposal needs of the preparation plant even after the prep plant throughput upgrade, which is under consideration and is a part of our medium-term growth strategy. We believe that long term, the permitting of new sites for disposal of waste rock in Central Appalachia will turn more towards combined refuse placement in a way from traditional slurry impoundments. And now Ramaco is positioned to operate successfully under either scenario. With this project complete, we do not anticipate any similarly material capital spending at Elk Creek in 2020, with planned projects limited to maintenance capital for the expansion of our mines underground, and maintenance of our existing fleet of equipment.

Turning to the state of our actual operations, Elk Creek mines all generally continue to operate in favorable mining conditions. Naturally, these are coal mines and we have ebbs and flows at each location, but overall, the complex is poised to perform and exceed expectations for the foreseeable future. We have also moved into areas of our reserve where we're actually seeing the qualities of our coals improve month-over-month, which is certainly counter to the generally deteriorating quality of the Central Appalachian Basin as a whole.

We clearly saw a contrast in cash costs between quarters. In the first quarter costs were lower as our production sales and deliveries were largely in balance and closer to capacity. In the second quarter, however, we saw costs creep upward as production was negatively impacted by the furlough, and some deferrals of shipments. Even more pronounced was the stark difference between April 2020, and the cost in the remainder of the quarter. This serves to emphasize the competitive advantage that Ramaco has as a result of favorable geology, a solid and experienced workforce, and judicious investments in the best infrastructure and equipment to access those reserves. When we operate our mine at or even near capacity, our cash costs will be amongst the lowest in the industry.

As we move throughout the second half of 2020, Ramaco's strategy is to match our production profile with our customers' delivery schedule and needs while still remaining nimble to participate in spot sales and export tenders as they arise. At the same time management will continue to take a disciplined approach to potential spot sales. While there is no doubt that with our cost advantages and production profile we could usually underbid our peers, with the current supply overhang in the coal space this is one race to the bottom that we do not need to win. We'll continue to focus on prudently targeting synergistic markets and key customers, while positioning the company for the eventual return to normalcy.

Turning to Berwind and following the same principles that we're following at Elk Creek, we had to recently make some very difficult decisions. In addition to the decision in early April to idle our slope construction project, in June we throttled back production shifts, and finally in July we were forced to make permanent production reductions as a result of the state of the overall coal market and the reduced needs of our customers. Unfortunately, these changes had to be made.

I want to formally recognize all of our Berwind employees' efforts. Since inception, these miners have safely mined and developed this coal mine through at times extremely challenging mining conditions. I look forward to the future when we're able to continue our production ramp up at Berwind and bring to fruition the planning and efforts that have been exerted the past couple of years.

Our Berwind slope project remains on a hot idle status with all excavation equipment and infrastructure in place for near immediate restart. Once restarted and excavation commences, we believe we can see daylight in the low volatile Pocahontas #4 horizon within six months, and can quickly move to lower costs, higher productivity, and higher quality production.

Within the initial six months of P4 seam coal production starting, or approximately 12 months following the slope construction commencement, we believe we can mine at the fully budgeted production capacity of 650,000 to 750,000 annual clean tons. The thicker coal seam conditions will result in higher productivities, higher plant recoveries, less mechanical downtime and less usage of consumables related to the sandstone strata of the current Berwind mine seam conditions. All of these will put our produced mine costs substantially lower than our current experience has been with the development in the Pocahontas #3 seam.

While we continue to balance our liquidity, customer requirements and production growth plans through this period of uncertainty, we continue to look at other potential low volatile production options. One potential development area would be the access and mine a small reserve in the Pocahontas #4 seam located in close proximity to the initial development in our Berwind P3 mine. Access to these tons is permitted and requires only very modest capital expenditure.

These tons will be of similar quality to the long-term coal that we expect to mine and deliver from our Berwind P4 reserve. While this reserve is not contiguous with the Berwind P4 mine, it does give us another option in the short term with less uncertainty and variability than our current development mining in the thinner Pocahontas #3 seam. Dependent on our targeted production rate in this reserve, this coal mine could provide a bridge for Ramaco's low volatile portfolio through 2021 until, and until the main Berwind P4 mine is fully operational.

We look forward to crystallizing our production and development strategy over the next few months as the domestic and export tenders and sales process run their course. We remain committed to the overall growth of Ramaco's annual production from its current levels to over 4 million annual tons, and believe that given the appropriate market, this could be completed within 24 months. This now concludes management's prepared remarks, and I will turn the program back to Randy.

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

Great. Thank you, Chris. Thank you, Mike. So at this point, we'd be happy to take some questions from any of the analysts or investor community out there. So moderator, if you could proceed?

Questions and Answers

[Operator instructions]

Operator

And our first question comes from the line of Lucas Pipes with B. Riley.

Lucas Pipes — Analyst, B. Riley

Randy I may have missed it in the prepared remarks, but would you be able to fill us in on domestic pricing in 2021 ideally by customer and by product? (crosstalk) More seriously, of course, I wondered is there anything that's been able to clean on 2021 demand based on the amount of timing of domestic tenders to-date?

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

Sure. Well, I appreciate that remark Lucas, because you've been basically email bombing me for the last two weeks to try and get this pricing information and I'm glad you have come to the realization that we're probably not going to step up again this year on your behalf, but keep trying, Lucas we appreciate it. So, I think as far as the '21 tender season is concerned, as I said, it's — they came out a little bit early. I think the reality check is that the steel companies are probably, again, trying to sort of feel their way through a fog in terms of assessing their own demand requirements for '21. We felt last year they probably under bought just a little bit, but I suspect in hindsight, that probably proved precedent on their stand — from their standpoint.

I think looking at '21, the size tenders that they've come out with are a little bit better than the '20 numbers. We're not exactly dealing in a market environment where we have a surging benchmark to price against. So, we have to approach this with a certain realism there. And we've got some producers that are obviously in various forms of continued really financial distress. So, that will play a role, I'm sure in how some of our peers look at and bid into the market.

So, I think in general, a number of commentators and some of our peers have also taken the posture that they view maybe the second half of next year as being a little brighter than right now. I really can't disagree with that notion. But I again, as I mentioned in my remarks, we've got a lot of humility in terms of trying to view forward markets, when you could have things like resurgence of the virus that might impede or even reverse any positive steps in economic recovery. By the same token, you might have steps that would develop a vaccine quickly, maybe get everybody back on their feet a little bit quicker and that might have a very positive impact on the market.

So, I think, again, for all of us, at least on our side of the table here, we approach the market with a certain realism. We approach the market with a certain optimism. But, as I said, most importantly, we approach our market view with a lot of humility. So, I hope that kind of addressed most of your issues.

Lucas Pipes — Analyst, B. Riley

Very, very helpful. Just a quick follow-up, kind of immediately on the domestic market now. You are in the enviable position of not having substantial leverage like some of your peers. So, is there kind of a school of thought where you say, look, this is right now we would try this contract in the middle of a pandemic. But let's hold off, let's maybe just keep more powder dry and plan on selling more in the international market that may recover by 2021. Is that kind of — to what extent is that — could that be a part of the strategy? And then, secondly, then that is for me, really intrigued by the new partnership in the Asia Pacific market and wondered if you could kind of give us a sense of what percent of sales may go to Asia over the coming year. So, I would really appreciate there your perspective on these. Thank you.

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

Sure. Thanks again. So, I think, maybe part one, we're not going to get too granular with you, but I think, obviously, our leverage position certainly gives us some wind in our sails, but candidly I think our cost position equally provides us a little bit of differentiation with our peers as we approach pricing decisions. But as Mike certainly alluded to, we've got some pretty good quality coals and we're not sort of a dual thermal producer. So, I think that gives us a little bit of, as I said, additional wind in our sails because we're dealing with pure met products that are of high quality and low cost. So I think that that gives us a pretty good seat at the table to take some realistic approaches. And, you kind of know what our general percentages of markets, let's call it percentage penetration have been in years gone by on domestic, part of that's by design, part of that’s sort of opportunistic. I think we kind of approach with the general same philosophy we have in years past, so we'll see.

The arrangement with Square, which we are viewing as a very positive development, came around from your colleague, Mr. Sussman here, who in the past life as an analyst had done some work in Australia and had met this group who had reached out frankly, to him, trying to find frankly what they regarded as an ideal U.S. domestic partner in which to grow a relationship and expanding into some Asian markets that they handled. They are pretty decent sized both trading and sales group. I think they handled a little bit under 10 million tons a year of met, which is a pretty healthy number, and they are in a vast array of markets over there throughout

the Asian basin. Sitting here in Kentucky, West Virginia or Wyoming it's pretty tough to keep your finger on the daily pulse of any markets that are very, very far away. And they have offices, frankly, throughout the Far East. And we will look forward to building that relationship over time. We think they're very good people and a very experienced knowledgeable group, and we look forward to that relationship.

Lucas Pipes — Analyst, B. Riley

Thank you very much. I appreciate that, and very best of luck.

Operator

Thank you. And our next question comes from the line of Mark Levin with Benchmark.

Mark Levin — Analyst, Benchmark Company

OK great, thanks very much. Lucas asked a lot of domestic related questions. I know you guys have sent a high proportion or sold a high proportion of your volume into the domestic market. I recall, and I can't remember when it was, it might've been a conference call or two ago, Mike Bauersachs actually was talking about trying to kind of keep a foothold there. I mean, is it reasonable to assume in '21 that you would at least sell half or more than half of your volume into the domestic market or have things changed so monumentally that that shouldn't necessarily be the case?

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

I think I'm going to let Mike follow up on this and give a perhaps more expansive answer, but I think just in general, Mark, you got to be kind of opportunistic when you're talking about the spot sales, you're never quite sure when that market is going to develop and what volume and certainly what pricing characteristics. So, our approach, as I said, let's cover the downside and the upside will kind of take care of itself. We always start with pretty healthy load of domestic business. And then, once we've kind of feel we got that covered we're going to kind of keep some dry powder for the export business. So, what that number looks like percentage wise? It's probably going to bounce around.

But Mike, why don't you pick up on that remark and talk about maybe some of the new export opportunities we're looking at, and also the ones we've kind of started an execution on?

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

Yes, first of all, Mark, we continue to make our domestic or North American sales a real key priority for us and to have contract sales that have kind of a 12 month kind of look ahead is really important. It helps us think about what capital we can deploy and have some certainty and I think you'll see us continue to have an outsized amount of our coal sales that are domestic.

And I mentioned some of the quality differential things that we're looking at this year. I mean, we really think that there are a number of our customers that are really going to like some of this stuff that we put in front of them, because it's important for many of our customers, and especially with the low sulfur products we've got at Elk Creek, internationally, we continue and we've got internal call sales guys that are very experienced internationally. And while the Atlantic Basin continues a slow recovery, I think it's going continue to be difficult to do large amounts in the Atlantic Basin, which is one of the reasons why we continue to focus on Asia. And, of course, it's a successful test shipment to Korea.

And one of the challenges of course, with Asia is just the distance from the Eastern ports. And while we think that growth mode is good in that part of the world, and that's where the growth is going to be, you just have to, you have to build a presence. But I think that probably the market we're maybe the most optimistic about really is Brazil and South America. We think our coals are a great fit for those — for many of those customers down there, and I think you'll see us really focused on trying to grow the market share that we have down there, with basically being set up to participate in virtually all of the tenders in that part of the world now. So, hopefully that that helps a little bit.

Mark Levin — Analyst, Benchmark Company

No, that was very helpful. Two quick questions...

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

Mark, before we go to your next question let me just add one sort of coda to that. So, as we talked about, frankly, I think in last quarter's call and I alluded to in my earlier remarks today, we've got a couple of pretty interesting development projects, they're all low vol. That could potentially add a little bit under 1 million tons for us, which is a very meaningful percentage of new production, particularly against sort of where we are coming out this year, which is somewhere where I think we give a bandwidth of about a somewhere in south of 2 million tons this year. So, if we were able to add, that kind of tonnage for next year, that gives us a pretty good delta in terms of exploring some other export opportunities, which we might want to not lock in necessarily today. And since we could bring those things on somewhere, a 6 to 12 month timeframe depending upon course, which specific project it is, I think that gives us a lot more runway as we sit here in August of '20, as to where we think we could perhaps end up by even August '21, much less the full year.

So that doesn't really, I think, help you too much on modeling. But from a general perspective the market does start to look stronger, and we think it's got some real the legs under it, we're probably going to be in the position to take some serious looks at starting up one or more new projects. I guess the Berwind really wouldn't call it that new project. But we're certainly ready to pull the trigger on a couple of things that could certainly change the perspective for '21 again if we're looking at a good market.

Mark Levin — Analyst, Benchmark Company

That's very helpful, two quick ones and then I'm going to get off and let someone else ask a question if they have them. The first is the reference to 12% of the sales potentially being at risk due to force majeure letters. Maybe Jeremy or you Randy can give me some ideas and thoughts about how your model the back half of the year with that kind of out there? I mean, what's the best way for us to approach modeling your shipments in the back half given that kind of footnote that you have in your release?

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

Well, I'm going to let Jeremy take that, but I mean, that's a perfect example of why sitting here as a producer talking to you all, who're trying to constructively create models for — with as much accuracy as you can, and you're dealing with matters that are pretty much certainly beyond the control of the producer and frankly, in some respects, perhaps beyond the control of even the customer. So Jeremy take a stab at that from a numbers standpoint?

Jeremy R. Sussman — Chief Financial Officer

Yes, I mean, that's one of the reasons why we've elected to still not give any official guidance Mark. So, the reality is we've given you the committed tons as the contracts were signed and certainly we're going to work with our customers, given I think both sides value the long-term relationships and, hopefully preserve as much if not all of that as we can, whether it's calendar 2020, into '21, we'll just have to see.

Mark Levin — Analyst, Benchmark Company

And my follow one was, in a previous time you guys were going through, we talked about — I think Chris was talking about doubling production or be in position to double production over the next, I can't remember it was 18 or 24 months. What is the total incremental capital that would be required to double your production from this point onward, if you had to approximate it?

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

Well, I think, I'll certainly let Chris sort of target the general part of your question. But I think, we're moving numbers around. We would certainly define that with high specificity at such point as we were going to pull the trigger, but I think in our previous calls, we've said that that number, depending upon which number of mines, and of course, which mines we would bring on, that could look somewhere in the $10 million to $15 million capital, new capital rather, expenditure. And that probably, as I said, gets us to certainly the tonnage at Berwind that Chris alluded to, which is kind of a max out of 750,000 plus tons. And then, we've got a couple other smaller properties we could develop. So maybe Chris just roll back the time machine on our last call to just give a couple of high-level comments on these production opportunities?

Christopher L. Blanchard — Chief Operating Officer

Yeah, thanks Randy. So those numbers are roughly in line and obviously it depends which projects we would tackle. But on the low vol side, somewhere between 10 and 15 gets you all the way there for all of the projects. And then looking at the high vol side, there's a number of expansion mines we could do at Elk Creek that are a little bit lower, and then we have a little bit larger capital expenditure if we choose to do the plant upgrade. But depending on how quickly and how many of those we put in place all within that 24-month period, probably 15

on the low side up to 20 — slightly over 20, if we were to do everything all at once, if that answers your question generally.

Mark Levin — Analyst, Benchmark Company

Yes, so essentially, it's — to get to 4 million, only other 20 million of capital, incremental capital on the high side?

Christopher L. Blanchard — Chief Operating Officer

I was just going to say, a lot of the reason the capital spend is a little bit lower than you'd expect is we transition a lot of our mobile equipment fleet from our development mining at Berwind into our thicker Pocahontas floor, so you get a lot of a lot of bang for your capital buck at that expansion project.

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

Mark. Also, this is Randy, as we look at the market in general, we've had periods we still sort of remember with a certain sense of fond nostalgia, the 2016 market where the benchmark ran from about $60 to $80 in early part of the year to touching $300 toward the end of the year. And I can assure you, if we find ourselves in another uplift like that, perhaps not even as dramatic a proportion, but you would find that we would be in a position to kind of move with pretty real dispatch to ramp-up some more permanent production, which I think would get us to the 4 to 4.5, less incrementally than we would if we were kind of getting a couple singles and doubles as we go along in just kind of sort of a flatter market like we are experiencing today.

Mark Levin — Analyst, Benchmark Company

Perfect, thanks very much.

Operator
Thank you. And our next question comes from the line of Scott Schier with Clarksons.

Scott Schier — Analyst, Clarksons

Hi, good morning everyone. On the restart of development activities once we start to see market recovery, how quickly and flexible will you be in this restart, will it be more immediate once you see demand starting to return or will there be a little bit of a lag effect for getting workers back and kind of just to make sure the price of recovery holds?

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

Thanks, Scott. I think again I'm going to sort of maybe make a sort of a brief remark and then turn it back over to Chris. So, I think, from an ability to react, one of our hallmarks is we think we're pretty nimble and opportunistic. We have, of course, discussed with our Board, pretty much all of these development projects in reasonable detail. So, they're very familiar with them. We've got, dry powder in the sense of our liquidity that we could spend some money pretty quickly, needless to say, because we haven't borrowed much money or our banks are pretty comfortable with where we are. And aside from our own liquidity, we probably have additional resources we could draw upon if necessary to expand the spend.

But with that, Chris, why don't you again, kind of reiterate some of the more operational detail as it would relate to some of these production increases?

Christopher L. Blanchard — Chief Operating Officer

So I think once we have a little bit of clarity both on market direction and the demand and the needs of our customers, it would be — we could deploy capital and deploy the dollars for the development projects as fast or as slowly as we needed. From the workforce standpoint, we're doing everything we can at this point to protect the workforce in place, and unfortunately we've had to make the reductions we did at Berwind. However, at least as it stands right now, we believe that we could grow the workforce as needed to staff the mines that are part of the expansion, in large part because of the development time on the Berwind slope and some of the other developments running between six months and 12 months.

Scott Schier — Analyst, Clarksons

Okay, great, that's helpful. And then moving on to costs, without the impact of some of the higher costs from Berwind at least in the third quarter, do you think it's reasonable to assume the cash costs to get lower into the

mid 60s, now that they're really just kind of being driven by Elk Creek? Obviously assuming it's relatively stable, and then there aren't any additional COVID-19 impacts?

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

Thanks, Scott. I'm going to let the both Mike and Chris comment on that. So Mike, why don't you start on costs?

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

Yes. Sure. I mean, not having that impact with that development mining does absolutely impact our entire sort of cost structure when you look at the average number. And when we look at our coal mines at Elk Creek, we continue to be in really good conditions. I'll let Chris kind of kind of add on top of that. But yes, I mean, I think we feel it's very helpful to have a cost structure like that when you're in this kind of environment, but Chris?

Christopher L. Blanchard — Chief Operating Officer

No, I think we would see — we would expect our cost to return to that range. I would remind everybody on the call that the fourth quarter historically is one of the weaker quarters because of the two holiday periods that are in that quarter already, but excepting that normal shutdown period we expect we can run Elk Creek and with the sort of minimal impact from the Berwind development project that they should be in that range, absent external coronavirus COVID-type impacts.

Scott Schier — Analyst, Clarksons

OK, that’s good to hear. I think that will do it for me, thanks for taking my questions. Best of luck.

Operator
Thank you. I will now turn the conference back over to Executive Chairman Randy Atkins for closing remarks.

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

Great, thank you moderator. Well, again, as always, we appreciate everybody participating in this call for Q2. As I said these are pretty strange times. And like all of us, we're doing our best to cope with kind of sailing through

some pretty unchartered waters. We knock on wood, hope we're being pretty good stewards for our investors. We hope to be able to certainly improve on that as the market conditions we all hope improve. And most importantly, I would say to everybody on the call, please stay safe, stay well, and we'll look forward to speaking with you here in a few months. Thank you very much.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.