Final Transcript

Q3 2020 Ramaco Resources, Inc. Earnings Call

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Corporate Participants

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

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

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

Conference Call Participants

David Gagliano *BMO Capital Markets — Analyst*

Mark Levin *Benchmark Company — Analyst*

Lucas Pipes *B. Riley — Analyst*

Curt Woodworth *Credit Suisse — Analyst*

Presentation

Operator

Good morning, ladies and gentlemen and welcome to Ramaco Resources Inc Third Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instruction will follow at that time.

[Operator instructions]

I would now like to turn the conference over to your host today, Mr. Jeremy Sussman, Chief Financial Officer. Sir, the floor is yours.

Jeremy R. Sussman — Chief Financial Officer

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

Before we start, I'd like to share our normal cautionary statement. Certain items discussed on today's call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent Ramaco's expectations concerning future events. These statements are subject to risks, uncertainties and other factors many of them 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 the 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. I suspect, like many of us, we had a long night last night, and it's probably going to be a long few days. But as always, I'd like to thank everyone for joining us today to talk about our third quarter results.

Like many of our peers, we've come through this quarter, which has been marked by continued market softness and wide uncertainty as we approach '21. As you saw in our release, this quarter was clearly not exemplary from a financial perspective, but it has positioned us to end 2020 in perhaps the strongest financial condition we've been in from a liquidity standpoint, and with some very hopeful markers on sales and marketing for the years ahead.

I'm going to let Jeremy drill down on our financial individual metrics for Q3, but it's almost as if we had a tail of two quarters in three months. July and August continued to show the effects of market weakness that's plagued the industry since COVID-19 hit at the end of the first quarter. September, however, turned out to be a particularly strong sales month — for the month, for the quarter, and it has carried that forward. This has created some very positive momentum for us. First, we're going to have two record export quarters for sales. Second, we now have new acceptance of our coals into some export markets that we have not tapped before. And third, this has enabled us to end the year with what we believe will be the strongest liquidity position we have had at any year-end.

Let me focus on that last point for a second. Since COVID-19 hit in the first quarter, we have been focused all year on maintaining and building liquidity as a firewall against the overall market and operating confusion, which has gripped not only us, but every industry. I can assure you that up until last month, if you had bet me that we would end the year with both this level of liquidity and our revolver completely paid down, you would have won a very good bottle of Kentucky product for me. We're also on track to produce a modest level of free cash flow for this year, excluding growth CapEx. And we're hopeful we build on this progression into 2021 to the point of perhaps being in a position to consider a dividend at some point next year. Again, I want a sense we will be in a small club in the coal space by ending the year with more cash than we began this year.

I'd also like to spend a moment and make some comments on the general markets and how we've approached them this year and how we're going to look forward into '21. As many of you know, we have traditionally

weighted our coal sales domestically. Logically, as a new company, we wanted to get into as many domestic blends as we could before we started to build any kind of an export book. This year, we found certain larger domestic steel companies were particularly unreliable. They canceled higher-priced contracted tons and pretty much forced our hand to look overseas for 2021. So I'm somewhat happy to say that we have now booked almost 800,000 tons of new export sales for '20 and '21 within the last 60 days, and many of these sales are to first-time customers.

Indeed, the last quarter of this year, we will — it will be our strongest sales quarter we have ever had. Of our overall projected 2020 sales of about 1.8 million tons, almost 50% of that will be export for the first time. And we're projected to end the year at an average sales price of roughly about $86 a ton.

For 2021, we have now sold roughly 1.1 million tons for North American delivery at about $84 per ton, all of which is our high-vols. We were unwilling to place more domestic tons into September at what we perceive as still fire sale prices and into a market which is now starting to show some signs of life. We expect to have as much as another 1 million-plus tons available in '21 to place into these higher, hopefully higher-priced export markets. Indeed, we just greenlighted at our last board meeting a week ago a small 250,000 ton low-vol Pocahontas 4 met seam, low-vol met seam near our Berwind complex, which we are calling Triad.

Mike is going to speak a little bit more on that in a moment. It's about a $1.5 million CapEx spend, and will operate with mine costs in the mid-70s. We'll speak about it more, but we regard that mine as somewhat of a bridge for our low-vol product until we're willing to continue the larger Berwind slope when we feel the low-vol markets then stabilize.

I will close with some brief reflections on the state of the markets. Met coal is simply a proxy for steel, which is, in turn, a proxy for GDP. Domestically, from the start of the third quarter until the end, U.S. Steel capacity has risen from 50% to 70%. This is on the back of both strong auto sales and significantly stronger housing markets driven by low interest rates. With third quarter GDP up almost 40%, we do not think that trend is going away.

And overseas, China as always continues to be somewhat inscrutable. But they're sitting on about a $70 per ton arbitrage right now between export and domestic met prices. This is probably set to correct sometime within the next 90 days. And when it does, all benchmark prices should move forward, and hopefully upward.

Europe, of course, is still a question mark because of the recent wave of COVID outbreak. But it still had a 13% positive bump in third quarter GDP. South America, after two quarters of contraction also seems to be rebounding, and we're seeing some strong interest in met coal from Brazil.

So to close, this year has once again proven the fragility and uncertainty of the markets in general. With that said, we're poised to end the year in a very strong financial condition from a balance sheet perspective. And hopefully 2021 will hold much greater promise for the met markets, and also, of course, for a higher level of earnings for us.

So at this point, I'm going to turn the floor back to Jeremy to provide us some of the financial milestones for the quarter.

Jeremy R. Sussman — Chief Financial Officer

Thank you, Randy. In terms of third quarter 2020 financial highlights, I'm going to try and break it into two areas. First, overall metrics; second, liquidity on our balance sheet.

To begin with, I believe the metrics do not tell the real story of the third quarter from our perspective. Overall, third quarter 2020 EPS revenue and adjusted EBITDA were all down from a year ago. We will have company here, as I suspect every public coal company will be reporting substantially lower earnings this quarter. This is, of course, due to the fact that benchmark pricing fell by almost 30% year-over-year between Q3 2019 and Q3 2020 on the back of COVID-19 demand-related concerns. Losing roughly 90,000 tons of already-contracted $91 per ton priced annual business in the third quarter to force majeures hurt us in all three phases: volume, costs and, of course, pricing.

In total, Q3 adjusted EBITDA of $0.6 million was negatively affected by $2.6 million from higher-priced contracted business getting resold into the spot market. While we were successful in reselling this coal, it was of course done at spot prices, which were hitting a multiyear low during the quarter. However, as Randy touched on, we are able to place almost 800,000 tons of new 2020 and 2021 sales into the international market in the last 60 days or so, which gives us some excellent momentum heading into the end of the year.

On the cost front, in July and August, we were negatively affected by having extremely high inventories. We effectively produced for just half of the month in July, given the combination of the July 4 holiday week as well as an extra week's furlough to manage stockpiles. Based on stronger sales, our costs return to more normalized level in the low to mid-60s per ton range at Elk Creek in September. Our stronger sales let us run the mines at capacity, given that we literally shipped as much coal in September as we did in July and August combined.

Based on our current book of business for Q4, we'd expect to build on the momentum we saw in September from an overall cost and production standpoint, though, this of course will be partially offset by the normal thanks giving and Christmas week holidays. One other thing to keep in mind on the met financial front. When comparing results to the second quarter, I would note that other income fell from $8.5 million in Q2 to $1.7 million in Q3. Q2 contained $7.3 million of other income related to the anticipated forgiveness of funding under the payment protection program loan.

I now want to shift to another positive impact of our strong September and October sales, and that is liquidity in our balance sheet. I will start with capital expenditures. Earlier in the year, we noted that because of COVID-19 related uncertainty in the market, we stopped all major growth projects. And, due to timing, we expected that we would finally see CapEx at pure maintenance levels in Q3. I can proudly say that we achieved that goal with Q3 CapEx coming in at $2.5 million, which compared to $9.1 million in Q2. Fourth quarter CapEx should come in closer to Q3 than in the first half of the year, with a small creep due to CapEx associated with the $1.5 million Triad mine.

Now the key credit metric that we are especially proud of is our trailing 12-month net debt to adjusted EBITDA ratio. Simply put, this remains among the best in the industry at under 0.7 times as of September 30.

Now in terms of liquidity, this stood at $20.7 million at the end of the third quarter. While this is down from June 30, I'd remind everyone that working capital has been a roughly $10 million use of cash through the first three quarters of 2020 on the back of meaningful inventory and accounts receivable bills. We expect Q4 working capital to be a meaningful source of cash.

Based on the combination of strong September shipments, which led to an unusually large accounts receivable balance at the end of Q3, as well as record anticipated fourth quarter shipments of over 500,000 total tons, year-

end 2020 liquidity is anticipated to be above $30 million. This is roughly in line with June 30 levels and compares to $22 million at the end of year-end 2019.

As Randy noted in his remarks in the press release, we are likely the only publicly-traded met coal producer that should be able to say we ended the year with more liquidity than we began with. This was accomplished without pledging our mining complex for debt or issuing new diluted equity. Simply put, we will end the year in a very strong position from a liquidity standpoint.

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

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

Thank you, Jeremy. The third quarter of 2020 was substantially impacted by the worldwide pandemic. COVID-19 continues to impact our operations. To date, we had nine of our employees diagnosed with the virus. Fortunately, none of these employees had serious cases and all are back at work. Ramaco continues to keep all sanitizing, social distancing and personal protective equipment policies in place. We continue to adopt best practices as well as comply with any changing guidelines from the CDC and our state and local health departments. Maintaining a healthy and safe work environment is our top priority.

To add a bit of granular comments to Randy's market commentary, over the course of the third quarter, our North American customers displaced approximately 200,000 tons out of 2020. These lost tons, due to their above market prices, will obviously weigh on our financial results for the remainder of the year. While we could allow the realities of losing these tons to dominate the script for Q3, that is fortunately not the case. The third quarter became the quarter when we transitioned to a more balanced company from a sales perspective. Due to restocking by customers, combined with intense marketing efforts that were already underway, we've been able to place over 400,000 tons of seaborne volumes into the Atlantic basin in the back half of 2020.

While the pricing for much of the new international volume during the second half is less than desirable, it is influenced by a couple of large shipments of semi-soft high volatile coal, a new product offered from our Elk Creek complex. This allows us to better utilize a portion of our production mix at Elk Creek, which do not meet typical metallurgical specifications. Selling these tons as a semi-soft metallurgical coal, while priced lower than our typical product, is far better than marketing them into otherwise weaker markets.

During the third quarter, our mines operated at productivity levels exceeding our targets and better than the same period in 2019. Unfortunately, due to the aforementioned displacement of shipments, the utilization of our operations has been severely curtailed. At our underground operations alone, we have over 25% fewer underground shifts than our original budget. And almost 13% fewer shifts than the same period last year. This has resulted in losing production of nearly 300,000 tons, split between the second and third quarters of 2020.

The production cuts occurred in the form of additional furlough periods in July. Due to elevated clean coal inventory levels at Elk Creek, we were also forced to briefly idle our preparation plant for a portion of a week during August.

Fortunately, since the start of September, we've been able to move tons in a more balanced manner. Operationally, the Elk Creek mines and facilities are back to near full capacity by the end of the third quarter. As Jeremy also mentioned, the impact of lower incremental costs on these additional tons can be clearly seen in our cost performance. Continuing to operate at these levels allows us to reduce inventories, providing us with more flexibility going into the first quarter of 2021, which will be challenging due to the substantial amount of Lakes business we have placed for next year.

At our Knox Creek and Berwind operations, we have not returned to pre-pandemic production levels. We are staffing the Berwind #3 mine at a little more than care and maintenance levels. Production is continuing at the mine to fulfill 2020 term business as well as to complete development of airways required for long-term ventilation of the larger Berwind Pocahontas #4 reserve.

As mentioned in the press release, we're acting on one of the items that we have in our internal lineup: the Triad mine in the Pocahontas #4 seam. It has a short-term life, but can be developed with very little capital. It has the opportunity due to advantaged coal heights, minimal out-of-seam dilution and substantially higher plant recoveries, to make a sizable contribution to earnings in 2021. This coal is projected to have petrographic characteristics similar to our future Berwind production, allowing it to be a source for test shipments. We will begin excavation and construction in the fourth quarter, low-vol production will transition from the Berwind mine to the Triad mine likely in the first quarter.

I do want to take a moment to recognize our high wall miner operation at Elk Creek. It received the National Mining Association Sentinels of Safety award, which recognizes coal and mineral mining operations for recording the most hours in a calendar year without a single lost time injury. It was 1 of just 20 mining operations in the United States, six of which were coal mines, to receive the award for its performance in 2019. This operation is also a great example of a safe mine also being productive. This operation continues to be amongst the most productive and low-cost mines in the Ramaco organization. We applaud their efforts and the rest of the employees at Elk Creek for showing that safety is everyone's responsibility.

During the third quarter, Ramaco Resources joined with a number of other metallurgical coal producers to transform the Virginia Coal and Energy Association into the Metallurgical Coal Producers Association. We believe that it is important to differentiate what we do as an industry and the positive impacts we have on society in general and the environment. We think that this effort is well-timed as everyone in the space is facing unprecedented challenges. Well-documented challenges like the lack of access to capital markets and difficult insurance markets are impacted by the perception of our business. We hope that this effort and other parallel efforts will help us turn the tide on how metallurgical coal mining is viewed not only by our stakeholders, but the general public.

In summary, we remain cautiously optimistic that the worst of the COVID impacts are behind us. We've taken clear steps forward to diversify our customer base and look forward to further cementing some of those relationships during the fourth quarter and early 2021.

Thanks to everyone who is participating in this call, especially those who continue to cover METC. I would now like to turn things back to Randy in advance of taking questions.

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

Great. Thanks, Mike, for the round-up. So moderator, we will turn it back to you to address any questions that the audience might have.

Questions and Answers

[Operator instructions]

Operator

Our first question comes from the line of Mark Levin from the Benchmark Company. Your line is open.

Mark Levin — Analyst, Benchmark Company

Great, thanks very much. Appreciate all the color. A couple of quick questions. Just kind of thinking about Q4, it sounds like Q4, you're going to — you're going to have a banner shipment quarter. Should that imply that cost would be lower sequentially? And then also, I think you referenced a full year price, and I just want to make sure I got that right so that we could back into the fourth quarter price. So maybe just any, any color you're willing to give? You've obviously provided production thoughts, and it sounded like price. So maybe just kind of, you know, fourth quarter — 3Q to 4Q bridge?

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

So Mark, this is Randy. Thanks for your questions. Let me break that down in sort of two parts. So in terms of costs, we had, as I said, kind of a pretty junky July and August, which needless to say, costs were higher, production was lower, and as we've been able to ramp production, which we continue to feel will be much stronger in Q4, then obviously our costs have come down.

And as far as pricing, Jeremy, you want to talk about Q4?

Jeremy R. Sussman — Chief Financial Officer

So Randy mentioned in his prepared remarks, we kind of project to end the year at close to $86 a ton. Mark, the way I think about to that is we've given you our 2020 committed sales volumes as we, I think clearly note, that includes everything, which may -- which includes what's been force majeure. So when you kind of take into account the moving parts, including what's been force majeure, what's been resold in index and where the index is today, I think that's kind of how we're getting to that number.

Mark Levin — Analyst, Benchmark Company

Got it. No, that's very helpful. I'm going to ask the requisite 2021 question, although I know you guys have not provided guidance. But just if we were to assume that met prices remained under pressure, and hopefully that will not be the case, hopefully they will rebound in the first quarter. But just for the sake of argument, if met prices stayed depressed or around where they are right now, any idea of how you think CapEx would look next year? And then, I guess, as a corollary, if the market recovered, let's say, in the kind of the 145-150 range, what might CapEx look like under that scenario?

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

Well, I think to answer -- this is Randy, again. To answer your last question first, so we've got, as both Mike and I alluded to, we've got this small mine Triad, which we'll start spending on this quarter, which will bleed over a little bit into the first quarter of next year. In terms of CapEx, we're kind of at maintenance levels other than that. And other than, the larger spend for us, of course, is the continuation of the Berwind slope when we decide to push the button on that, which is about another $10-plus million spend to get us to production in the "Pokey" 4. And we're not going to push that button until we, frankly, some decent stabilization in the low-vol markets.

There's a lot of moving pieces, as you're probably as aware as anybody in the industry, as to how low-vol metrics are moving around the table right now. So it's a little bit unsettled. But we're breaking into some low-vol markets overseas that we've never encountered before. And so we're kind of hopeful on '21 in terms of low-vol stabilization, not only domestically, which we probably won't have to consider too much until probably next summer, early fall. But in the interim, we're looking forward to sort of seeing how our low-vols begin to play out into the export markets. If that kind of addresses your two points.

Mark Levin — Analyst, Benchmark Company

Yes, that's perfect, Randy. And I think the other thing — just last sort of like sort of in the weeds question, I guess, SG&A was up, and I was reading the queue and it mentioned that just growing the internal sales team was a part of it. Is that — the quarterly run rate for SG&A that we saw this quarter, is that the one that you would just kind of annualize or think about as a new run rate going forward?

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

I'll let Jeremy take that.

Jeremy R. Sussman — Chief Financial Officer

Yes. So Mark, I think in terms of Q4, that's probably reasonable. With that said, there is some overlap. So I would — I think it's reasonable for Q4, while I don't want to get too of these for next year, I would not annualize it for next year. There will be some things that roll off.

Mark Levin — Analyst, Benchmark Company

Thanks so much, appreciate all the color this morning.

Operator

Your next question comes from the line of Curt Woodworth from Credit Suisse. Your line is open.

Curt Woodworth — Analyst, Credit Suisse

Thank you, good morning. You know Randy, with respect to your comments that you could be in a position to return some capital to shareholders next year. Just curious if you could expand on that? What would you need to see? I mean, clearly, given the liquidity position and if you're going to run a maintenance CapEx, you should be fairly free cash-generative. So if you could just kind of outline your thoughts on potential timing on that?

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

Sure. So we've said in the past, Curt, as you know, we hope to grow up, so to speak, and be out probably four or five years out from our IPO and be in a posture that we were throwing off some free cash because we've got a very low debt structure, of course, and we have low-cost structure. And sort of those hallmarks, I think, are beginning to bear fruit as we mature our portfolio and start to get into slightly higher numbers of production. So

without trying to get over my skis in terms of what our forward projections for '21 are, the market, of course, as it always does, can move around quite a bit on us. But we have some scenarios where we would end the year next year with some pretty decent free cash flow.

And in terms of looking to what we would do with that, I think we always look at sometime around in the third quarter to sort of look as to what we want to do for the balance of the year. I would expect sometime in sort of the September, October period of next year, we would consider what it is we might want to do, depending upon how we look financially. But the nice thing is to have free cash and with a little bit of luck, knock on wood, we'll be in a very good position next year to at least be able to make that decision one way or the other.

Curt Woodworth — Analyst, Credit Suisse

That's great to hear. And then on Triad, is the expectation that you could run close to the 250,000 ton rate all of next year? Or is it more back-end loaded because you're going to have a ramp-up in 1Q?

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

Sure. I'll let Mike take that.

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

Yes, sure. It's — we're going to have a couple of options. I mean, a lot of it comes down to what kind of shifts we run and those sort of things. Our objective would be to run it all. Obviously, that would help cost structures and everything else. And it's critical that we get that coal out in the market and do test shipments and stuff in advance of the Berwind slope. So the objective would be to run it all. The good thing is, with the conditions that we have, to have a reasonable cost structure we don't have to. So it's one of the reasons why it made sense to pull the trigger. We could run a little over half of those tons over the last three quarters if we choose to. So lots of flexibility there.

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

Yeah, and Curt, just to put sort of an underline on what Mike just said. When we looked at placing low-vol for the '21 domestic market, we kind of pulled back and said, look, we don't really think the price structure that we're looking at here in September, early October of this year is going to be reflective of what full '21 is going to look like. So we deliberately took the decision to scale back what we were potentially capable of putting into the domestic market because we want to save some of that. No sense in selling your coal for a cheaper price than what you think, hopefully, the market will look like somewhere in the next curve of the next four to six months.

Curt Woodworth — Analyst, Credit Suisse

Yes, agreed. Makes sense. And then, I guess, with respect to the export market, you commented that you have roughly, I think, 1 million tons available for export. But then you also commented that in the last 60 days, you sold 800,000 tons, which is sort of a mix. Can you comment at all on what your export book looks like today for '21 in terms of volume and price?

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

Sure. I'll let Jeremy take that one.

Jeremy R. Sussman — Chief Financial Officer

Yes. So Curt, I think when we talk about the 800,000 tons, just to clarify our remarks, that includes back half of 2020, of course, in the spot market and then some fixed price business for 2021. So I think we've given kind of an overall pricing for 2021 of $84 a ton. I don't think we want to necessarily at this point get into a breakdown of the various regions. But needless to say, right now, it's a very, very good sign, at least when I look at where we were a year ago versus where we are today, we're certainly, as Randy noted, breaking into new markets that we hadn't broken into before.

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

Yeah, and I think, Curt, the most encouraging thing for me, we as I said in my remarks, we've traditionally been a domestic house. We placed practically 80% to 90% of our tons in various years in the domestic markets. And as a result, we really haven't had much about an export book. Well, literally, within the last few months, we have

gotten trial shipments into some markets and some customers that we, frankly, did not have before. And as a result, we're kind of hopeful that some of those foreign export steel groups are now saying, well, we want to look at met Ramaco coals on par with some of the more established domestic producers, which we think is a very good thing, at least as far as our future export book looks like.

Curt Woodworth — Analyst, Credit Suisse

And in terms of the export penetration, is it — are you trying to market this as more of a pure high-vol A to displace the low-vol? Or is it I know that can kind of go both ways, it's AB blend. But it seems like to some degree, there is a growing or increasing appetite or shifting of coke blends more globally to have acceptance of high-vol, higher-vol AB type (unintelligible). I think traditionally, it's mainly just Europe that typically bought that. Is that somewhat fair?

Jeremy R. Sussman — Chief Financial Officer

Yes. I think that's a fair point. I mean, our coal tees itself up as being pretty very close, of course, to a pure AB blend. And some of our export customers look at it as an A, some of it look at as a blend, some of it look it as a B. I mean, it depends on which country you're trying to market to and what their particular blend specifications are. So we've got a coal that I think works well in a number of different markets, which suits us well. Obviously, we're not a huge low-vol producer at this point. But we certainly — as we go forward, if we are really more — when we put in Berwind at some point, we'll have a pretty decent balance in terms of our overall quality book. So that's going to open up, again, some other opportunities for us.

Curt Woodworth — Analyst, Credit Suisse

Great, thanks very much for your time.

Operator

Thank you. Your next question comes from the line of Lucas Pipes from B. Riley. Your line is open.

Lucas Pipes — Analyst, B.Riley

Good morning everyone. I know it's early, but I have another question on 2021 and wanted to hone in a little bit on the cost side. Just based on your response to the prior questions on Triad. Should we kind of assume for an average cost, the kind of mid-70s on Triad and then kind of mid-60s on your remaining productions on Elk Creek to come up with a reasonable kind of weighted average, or would you say that there are a couple of other considerations here you should?

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

I'll let Jeremy start on that.

Jeremy R. Sussman — Chief Financial Officer

Yes. I mean I think Lucas with Triad, we've kind of given the numbers since it's a new mine. And obviously, you guys need to be able to model it. And with Elk Creek, I think the answer is it depends. I think costs should trend in the direction that you are suggesting. Clearly, you'll — the biggest variable is being able to run the mines more efficiently. I mean, this year, you saw what the cost could look like in Q1 in the low-60s when we were able to run the mines well, and that's presumably at a higher realist price, which means higher royalties than at least what we've got locked in already.
So at the same time, it's the coal business. This year, COVID came and kind of knocked everyone in the industry back a bit where you can't run as efficiently, and so you lose kind of the economies of scale. And so I think bottom line is we're going through a pretty detailed planning session over the next, call it one to two months, and I think we'll come out with some more official guidance probably next time we speak. But directionally, I think you're thinking about it correctly, at least year-over-year.

Lucas Pipes — Analyst, B.Riley

Very helpful, I appreciate that. And then taking a step back again on the exports versus staying domestic question. Can you just elaborate on kind of how we should think about that? Is it that you didn't like the pricing in the domestic market, just kind of given where we were here over the summer negotiating during a pandemic? Or is it that, that market is just maybe shrinking due to changes in the industry on the steel side? Can you elaborate a little bit more? Kind of what's pushing more of your sales focus?

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

Yes. I'll make a comment, and then I'll let Mike also chime in here. So all — it's a little bit about timing, as you well know better than anybody, Lucas. So as we got into the traditional domestic sales season, which is kind of August, September, we were coming off of July and August of exceedingly low demand from the domestic markets based on COVID and this complete uncertainty as to where we, frankly, still were as a country. So in terms of — if you had to pick a perfect storm, we hit it in terms of being at a point where the steel companies domestically could take the posture, gee whiz, prices are low, we're not going to give you too much benefit. And indeed, many of them did that. And of course, as I mentioned, some of them canceled contracts that were at higher prices and a few other things, which did not please us. And so I think we stepped back from the table and said, look, we've got some pretty good coals. I think at that point in certainly September when we were finalizing contracts, the market had begun to breathe a little life into itself.

And we sat back and said, do we really want to bite the bullet and take really low prices to move volumes at this level right now? Or do we want to step back a little bit? Because, again, the good news for Ramaco is, we don't have the same pressures that some of our peers do. We don't have a lot of interest coverage we've got to make. We've got very low-cost structures when we're running hard. So we just said, all right, '21 looks like it's going to be a better time for us. Let's see what the options are there, and we decided to place our book accordingly.

Mike, do you want to kind of add a few comments to that?

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

Yes, I'll jump in a little bit. I do think that the comment about the markets shrinking is certainly true, we believe it will be true, just especially with some of the consolidation and things we're seeing. So it's another thing that we kept in mind as we continue to push our products overseas. We've had at least one domestic customer that we've had firm business with that, two years in a row, we've had pushback on those volumes. So a lot of the things pointed to having a bigger piece of the pie overseas. And indeed, as all of these domestic discussions were going on, we were getting momentum. And I think the momentum that continued to build helped us make the decision to pull back a bit. And certainly, as we've seen, and you'll see in the fourth quarter as we ship, it's a big change for us. And frankly, having more diversity, I think, is good. So hopefully, that momentum continues

into next year. And if you just look at the numbers, maybe we could be 60/40 in favor of domestic or closer to 50%. We'll just kind of see how it goes.

Lucas Pipes — Analyst, B.Riley

Gentlemen, really appreciate the color. Very helpful. Best of luck and thank you.

Operator

Thank you. Your next question comes from the line of David Gagliano from BMO Capital Markets. Your line is open.

David Gagliano — Analyst, BMO Capital Markets

Hi, thanks for taking my questions. I think a lot of them have been covered. I just have some assumption questions for clarification purposes. 2021, the commentary for volumes was, obviously, $1.1 million committed and priced in North America. And then I think in the press release, you said around 1 million tons open for the export market or left for the export market. So is that a reasonable assumption for 2021 total volumes now, is it about 2.1 million tons? Or should we be thinking about something else?

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

That's a fair number, David.

David Gagliano — Analyst, BMO Capital Markets

Okay. And then just on the Triad mine, I may have missed this. Is it expected to basically be like kind of a quick hitter here where we get 250,000 tons of production in 2021? Is that the number?

Randall W. Atkins — Founder, Executive Chairman, and Director
Well, I think the beauty of the Triad is it's a low-cost operation for us. We can somewhat have it modulated in terms of production to produce at all in '21 if we think the markets justify. We want to kind of slow walk it. We

can do that. I mean, it's not a lot of production, but at the same time, we can make a very nice margin on it, given its cost structure and its CapEx. So we'll just wait to see how '21 begins to play itself out. If we saw a spike, we can dial it up. If we see markets contract, we can dial it down.

David Gagliano — Analyst, BMO Capital Markets

And then just the last one. For the fourth quarter, I'm a — can you just help me understand? So the slides, obviously, it says your sales book is 2 million tons committed. 1.8 million tons priced, an average price of $88, the over 500,000 tons in the fourth quarter implies about 1.7 million tons. So I guess it goes into the, obviously, the deferrals piece of this. Is it right to assume that we've got roughly 200,000 tons that are kind of being pushed away or that are not going to come through in terms of this — this committed and priced of 1.8 million tons at a fixed price of $88? Is that reasonably about 200,000 that goes away?

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

Yes. We've said, and I think our earlier public statements, David, that we had a round number of about 200,000 tons, as you correctly point out, that we're force majeured, principally to two customers. And those were, frankly, nicely priced tons in the low mid-90s, and they decided to just cancel them and walk away based on their perceptions of their operating situation of COVID. And so that was 200,000 tons. We then had to replace out into the markets, needless to say, at much lower prices.

David Gagliano — Analyst, BMO Capital Markets

Okay. And I'm sorry, was that domestic or export? I missed that piece.

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

That was domestic. That was domestic.

David Gagliano — Analyst, BMO Capital Markets

OK. That's it from me, thanks.

Operator
Thank you. Speakers, I'm showing no further questions at this time. I would like to turn the conference back to Mr. Randall Atkins.

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

Okay, thank you so much. Well, as always, we deeply appreciate you all being on the call today and your attention to us, and we will look forward to having our next call, I guess it will be next year. And I have a feeling the rest of this year is going to be a pretty interesting one. So best of luck to all. Thank you.

Operator

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