Final Transcript

Q1 2023 Ramaco Resources, Inc. Earnings Call

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Corporate Participants

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

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

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

Conference Call Participants

Nathan Martin *The Benchmark — Analyst*

Lucas Pipes *B. Riley Securities — Analyst*

Curtis Woodworth *Credit Suisse — Analyst*

Presentation

Operator

Welcome to the Ramaco Resources First Quarter 2023 Earnings Conference Call.

[Operator instructions]

I would now like to turn the call over to Jeremy Sussman, Chief Financial Officer. Sir, please go ahead.

Jeremy R. Sussman — Chief Financial Officer

Thank you. On behalf of Ramaco Resources, I'd like to welcome all of you to our first quarter 2023 earnings conference call. With me this morning is Randy Atkins, our Chairman 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. These statements are subject to risks, uncertainties and other factors, many of which are outside of Ramaco's control, which could cause actual results to differ materially from the results discussed in the forward-looking statements.

Any forward-looking statements 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. I'd also like to remind you that you can find a reconciliation of the non-GAAP financial measures that we plan to discuss today in our press release, which can be viewed on our website, ramacoresources.com, Lastly, I'd encourage everyone on this call to go on to our website and download today's investor presentation under the Events Calendar.

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

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

Thanks Jeremy. Good morning to everyone, and thanks for joining the call. We have a lot to unpack this morning.

First off, we executed well in Q1. Fortunately, we had a strong quarter and ended up a bit ahead of what was expected. Also yesterday, we filed a separate press release and shareholder letter related to the significant news on our rare earth deposits in Wyoming. I will discuss the independent confirmation on this discovery may lead to a unique new direction for us.

To start, in terms of our quarterly performance, I'm happy to note that with some help from the rails, we managed to ship coal in Q1 with much better results. We told our investors that our goal in '23 is to execute. Thus far, this year, we are steadily working to reverse the operational setbacks we incurred in '22. Last quarter, adjusted EBITDA jumped 50% to $48 million from year-end, and earnings per share jumped 75% to $0.57 per share. In Q1, we also achieved both record production and sales. As a result of our better-than-expected performance, we are increasing our full year production and sales guidance, which Jeremy will talk about in more detail in a moment.

In addition, despite continued inflationary and wage pressures, our cash mine costs fell almost $10 per ton from Q4 to Q1. Elk Creek cash costs declined more than 10% sequentially to $90 per ton in Q1, which likely puts Elk among the lowest cash cost mines in the country. In addition, as second half production ramps at Berwind, our overall company-wide mine costs should decline even further. I am pleased to note that the first section at the Berwind #1 mine restarted earlier than anticipated and has been ramping production since March in line with expectations. The board recently approved pulling forward the start of the second section of Berwind from '24 into mid-'23, which should add approximately 300,000 tons of additional production on an annualized basis by late this year, and the extra tonnage will continue to reduce mine cash cost.

We can also report that our Maben mine recently produced its first tons. In addition, the startup is imminently from our roughly year-long project to increase Elk Creek's prep plant capacity by 50% from 2 million to 3 million tons on an annualized basis. We will ramp production at Elk commiserate with that processing capacity. On the marketing front, we now have 81% of our forecasted ‘23 production contracted with almost 2 million tons sold at a fixed price of just under $200 per ton. Our sales team continues to aggressively reach out to new markets to increase our global footprint. And since the start of the year, we have sold our first tons to India, Japan and

Indonesia. Overall, we now have about 700,000 tons of production at midpoint of guidance, which is not contracted for and will be sold at index pricing.

While worldwide benchmark pricing continues to move lower, our strong contracted position somewhat insulates Ramaco a bit more than our peer group.

As far as looking down the road for the balance of '23, we will have a substantial second half increase in production and sales guidance as we ramp up Berwind and the Elk plant. By Q3, we should be running at a 4 million to 4.5 million ton per year annualized production and sales rate. Chris Blanchard will have more to say on all our operations in a moment as well.

I would now like to turn to perhaps today's major announcement. This week, we received an independent assessment that our Brook Mine may contain one of the largest unconventional rare earth deposits in the United States, as well as one of the most significant mines in this country of valuable rare earth elements containing magnetic properties. I've laid out a good deal of background on this in my shareholder letter. To borrow a phrase from the play Hamilton, “It is nice to have Washington on your side.” The journey which led us to this point started with our research partnership with the Department of Energy's National Energy Technology Laboratory. Several years ago, we provided NETL samples of our Brook Mine coal as part of a national assessment they were performing to identify major areas of deposits in the U.S. of critical and strategic rare elements. They came back to us about a year later, candidly surprised that they had found exceptionally high concentration levels of magnetic REEs in our deposits, indeed levels in line with some of the highest recorded concentrations found in China. That clearly got our attention.

Over the past two years, we have embarked on an extensive core drilling and chemical analysis to determine the extent of the deposits. The technical detail on the geological and chemical analysis is contained in the exploration target report from Weir International, our independent reserve engineers. That report is now on our website. It is important to recognize that what we have discovered in our reporting on today encompasses less than 1/3 of the ultimate area of the Brook Mine. That area is permitted, and we could fast track initial production on the site by later this year, subject to further assessment.

We will also do additional future work to determine the scale and dimension of the entire deposit contained across the whole property. That then begs the question where we go from here. First, working with NETL and others, we will continue further geological assessment, drilling and chemical analysis on the entire property so we can understand the overall scope of the deposit. We will also study the best manner to process what is largely a clay-type deposit into an REE concentrate. The good news is that given the softer nature of the clays, it will be less costly and more environmentally friendly to process and typical REEs found in harder conventional mineral structures.

We also intend to study some novel mining techniques, which we might deploy to capture more of the clay and perhaps less on the coal. Overall, the mining approach will basically be straightforward old-fashioned surface mining. And of course, as we proceed with our diligence, we will study the economics around the entire proposition. When I said this was a unique find, I meant it, as this is really the only unconventional REE play in the United States at this time, and much of what we will be doing certainly on processing will be a matter of first impression.

As I said in my shareholder letter, we will look at this development with the same financial discipline that we have deployed in all our met coal business. This will not be a bet-the-farm approach, although eventually, it might lead to Ramaco developing a very valuable farm. Our idea is to take this a step-by-step almost modular approach to make sure we are proceeding correctly in what is a fast-moving new area of critical minerals. We intend to fund this project from internal cash flow and apply the same conservatism and discipline that we have through our other development projects.

And unlike many discussed critical mineral projects, this one is currently already permitted, shovel ready and in a position to begin mining by later this year, should we so choose.

We also hope to be materially helped by our partnership with the DOE's National Labs. They have unique visibility into the overall REE space as well as access to new techniques and science that will benefit the whole process. In summary, we will, of course, update our shareholders on a regular basis as we move forward. But in closing, this important mineral discovery opens a door for Ramaco to transform into a very different type of company going forward.

We would no longer solely be a met coal, but we could also become an important producer of REE critical minerals and their constituent products, especially magnetics. I would also note from an investment standpoint that there are currently not many operating REE producers in the U.S., and they tend to be valued very differently than coal companies. We hope as this unfolds, this could turn out to be a very positive experience for Ramaco and for its investors. As they say, a brave new world. And with that, I would like to turn the floor over to the rest of the team to discuss more detail on finance, operations and markets. So Jeremy, please start with a rundown on our financial metrics in the overall market.

Jeremy R. Sussman — Chief Financial Officer

Thank you, Randy. As you noted, it is nice to have a quarter that beat expectations and saw a meaningful sequential earnings growth. Our first quarter net income was up 75% from the fourth quarter of 2022 on better production, sales, pricing and cost metrics across the board. Overall production of 834,000 tons in Q1 was up 20% compared with Q4 as new mines ramped up production. Total sales volume of 757,000 tons was up 12% from the fourth quarter. We saw a meaningful improvement in rail service in the first quarter, and we applaud the efforts of our railroad partners. Company produced cash mine costs were $105 per ton, which was 8% better than Q4.

As Randy mentioned, cash cost at Elk Creek were $90 per ton, down $11 per ton sequentially. We expect to continue to operate near this level at Elk Creek throughout the year. At the same time, we anticipate overall cash costs to fall meaningfully to fall throughout the year as both Berwind and Maben ramp up production, and we achieved better economies of scale as a whole. Realized pricing was $185 per ton in Q1, up $3 per ton from the fourth quarter. Pricing was negatively impacted by $6 per ton due to our final API2 index linked cargo that was shipped in early January.

Now, turning to our outlook, I would like to touch on a few of the key areas in our guidance tables. First, we are maintaining our full year 2023 guidance across the board with the exception of production and sale. We are raising both of these metrics by 100,000 tons on the back of a strong first quarter. We now anticipate production of 3.1 million to 3.6 million tons and sales of 3.3 million to 3.8 million tons. Second, while we are maintaining our book tax rate of 20% to 25%, I would point out that our cash tax rate is likely to be around just 5% to 10%. Third, as it relates to the second quarter, sales are expected to increase modestly versus first quarter levels of 757,000 tons. In addition, U.S. metallurgical coal spot pricing is currently down roughly 25% from first quarter averages.

Thus, if indices remain at current levels for the duration of Q2, we anticipate our Q2 average realized pricing would fall about 9% to 11% from first quarter levels of $185 a ton. While this concludes my financial remarks, I'm now going to give our sales and marketing update with Jason currently traveling in Asia.

As Randy noted, our sales team continues to make solid inroads into parts of the world where steel production and demand for high-quality metallurgical coal is structurally growing. On the back of our new Asian business, we now have 2.7 million tons or 81% of our forecasted production committed. We will continue to layer in new export business throughout the year as we continue to ramp up production. In terms of the overall market, we are seeing both signs of strength and some signs of weakness out there. So let's start with positives.

First, U.S. and Chinese steel production are close to year-to-date highs. As it relates to the U.S., it is good to see both steel capacity utilization and pricing moving in the same direction. Indeed, U.S. hot rolled prices are around $11.60 per ton, up more than 75% from their recent lows, while steel capacity utilization is at a 9-month high above 76%. Second, Chinese credit growth has been increasing throughout the year with total lending hitting an all-time high in the first quarter. Strong Chinese credit growth is often a leading indicator to an increase in overall economic activity, which of course, would be positive for metallurgical coal. Third, despite strong industry-wide margins, global coal CapEx remains just a fraction of what it has been historically, given increased financing, permitting and overall ESG challenges, barriers to entry into the coal space have never been higher.

Now on to the negative side. Since last quarter, there have been both increased economic concerns in the western world and in China. In the Western world, inflation and bank failures have, of course, dominated the headlines. None of this economic backdrop is providing any near-term uplift in the market. Expanding on China a bit, PMI unexpectedly fell into contraction territory in April, declining to 49.2% from 51.9% in March. While steel production remains strong, the combination of steel, iron ore and met coal prices in China are currently near year-to-date lows on lackluster demand. Given current weak steel margins, there is increasing talk of steel production cuts in China, which could reduce near-term met coal demand. In addition, some of the supply disruptions we saw earlier this year have cleared up, especially in Australia. As a result, we are seeing more met coal offered for sale, which has had a negative impact on prices recently.

However, looking ahead, we would generally agree with the shape of the forward met coal curve, which suggests a 15% to 20% rebound in pricing heading into next year. We would expect steel mills to lead stock once met coal prices begin to stabilize as we believe inventories are generally pretty low. Furthermore, we hope that strong Chinese credit growth will turn into increased housing and infrastructure activity, which should lead to better downstream demand later this year. In the meantime, we will look to continue to execute on new sales and control those factors which we indeed have control of such as production and costs.

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

Chris Blanchard — Chief Operating Officer

Thank you Jeremy. As Randy alluded, in the first quarter we passed a number of operational milestones with additional steps in our production ramp and the expansion of our prep plant at Elk Creek ongoing. Both of these will start hitting in the second quarter and continue accelerating through the balance of the year. Most importantly, though, the new growth mines and sections that we added in 2022 at Elk Creek completed the ramp-up periods and have all reached steady state levels of coal production. Economies of scale, stabilization of the workforce and training our new employees all led to higher productivity levels and helped drive our costs into the $90 per ton range at Elk Creek. Even while the pressures haven't yet subsided on wage increases in competition, higher sales-related costs and the inflationary pressures on fuel, steel, chemicals and other consumable products.

Relating to the Elk Creek plant upgrade itself, this project is entering its final weeks. The final deliveries of critical equipment were made earlier this week and the last stages of installation will take place over the next two weekends. We anticipate a tie-in late this month. We expect that the new circuitry will increase the overall plant feed rate from 700 tons per hour to 1,050 raw tons per hour. This 50% increase equates to an annualized run rate increase from approximately two million to 3 million clean tons per year at our expected recovery levels.

Later this summer, we expect to break ground on the final stage of the Elk Creek plant enhancements, which will expand our clean coal storage area to allow further segregation or coals and better blending opportunities to meet more customer needs. Importantly, except in normal maintenance and advancement capital at our mines at

Elk Creek, we do not expect to expand any additional project or growth CapEx to serve the plant expansion through the remainder of 2023.

Turning to the low ball and mid ball mines at our Berwind and Knox Creek operations, we've taken several positive steps forward. First and foremost, on March 7 we brought our Berwind mine backing the production after approximately 9 months spent recovering and rehabilitating from the July explosion. During the intervening months, we made a few substantial ventilation and safety enhancements to the mine. The chief amongst these is installing upgraded dual mine fans in parallel with a backup diesel generator on site so that we can ensure no buildup of any components in the future, whether electricity is interrupted to the mine or not. This will also allow us to perform our routine fan maintenance without idling the mine or interrupting normal ventilation.

Production at Berwind has begun in line with our expectations. We expect the final development mining to be completed on our #1 section by mid-summer, allowing us the option of mining into the thick owned fee-coal that we acquired with the Amonate assets during the third quarter of 2023. Feed position, coupled with the elimination of all trucking and the run of mine production built directly to the Berwind prep plant should dramatically lower the combined cash costs from historical development cash cost levels we have experienced.

We are also moving forward with the addition of the second mining unit at the Berwind mine during the third quarter following the completion of the mine's second shaft. Ventilation excavation should be completed in mid-summer with production commencing from the second section shortly thereafter. This expansion puts Berwind mine back on the production ramp that we had previously projected prior to 2022 ignition events. As the bulk of the growth in Ramaco's medium-term production is at the Berwind complex, one of our biggest areas of focus is now on the recruiting, training, the building the workforce at Berwind and Knox Creek areas in what remains a very competitive labor market.

Lastly, we are pleased that our Maben operation has reached its first production earlier this month. Surface production has commenced, and our first call has been shipped from the mine and processed at the Berwind plant. In our initial bits, the quality of the coal and the mining conditions have been excellent. The Highwall Miner will start mining its initial panel in the next several days, and we expect the mine to be ramped up to its full productivity by the end of June. Dual-seam coal from the Maben mine have excellent metallurgical properties as a standalone product or to improve the blends with other low volatile coals.

We are continuing our exploration and the examination of this property and have already started permitting several additional mining areas that have not been included in the reserves for the profit. Engineering and planning work will continue for the potential future development of this complex with additional surface mines and underground mining [indiscernible]. Summarizing the operations, nearly all the development work, capital projects and advanced hiring that was done in 2022 set the table for a strong first quarter of 2023 and the continued ramp of production as we moved through the last 3 quarters of this year. We expect to exit '23 running in excess of 4 million ton per year -- clean ton per year run rate with the flexibility to grow and expand our coal portfolio is best makes sense with the needs of our customers and as the market dictates.

This now concludes management's prepared remarks. I will now turn the call over to the operator for the question-and-answer session of the call. Operator?

Questions and Answers

Operator

[Operator instructions]

Our first question is coming from Lucas Pipes with B. Riley Securities. Please go ahead.

Lucas Pipes — Analyst, B. Riley

Thanks much operator, good morning everyone. My first question is in regards to cadence of shipments over the course of this year. I wondered if you could maybe provide a little bit of color on Q2, Q3, Q4? Would really appreciate that. Thank you very much.

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

Sure, Lucas. I'll take a first stab, and then Jeremy can certainly chime in here. So this quarter, we'll probably be around 800,000 tons. As I mentioned, we've got Berwind ramping and we've got Elk, which is just about to flip the switch to really increase processing by 50%. So we'll look at Q3 and probably roughly 900 to 1 million tons, and then Q4 probably add another 100,000 tons on top of that like 1 million to million one.

Lucas Pipes — Analyst, B. Riley

That's helpful. Thank you. And then on the rare earth opportunity, what sort of capital budget would you say you're allocating to this opportunity for both 2023 and 2024? Thank you.

Jeremy R. Sussman — Chief Financial Officer

Well, the short answer is for '23, we've probably allocated about $5 million. And we focused primarily on testing drilling analysis. We have not formed the economics yet of what the operational phase of this would look like. As I said, this is really a project of first impression because if you look at most REE producers, really around the world, but certainly in the U.S., they are in a hard mineral. Uranium, lithium, cobalt things like that. Here, we would be essentially finding the REEs in much softer materials like clay. So obviously, both the mining as well as the processing is entirely different. So working, as I said, with partners at the NETL and other private groups, we're now focusing on how would be the best way to really start to create an appropriate business plan for some operation like this. As I said, once we start to do this, we'll do it on a step-by-step basis and certainly keep the investment community apprised as we go.

Lucas Pipes — Analyst, B. Riley

Very helpful. Thank you. Then one last question, turning back to this year in operations. With the growing sales and production outlook over the course of this year, how would you expect cost to evolve? And I'd assume royalties with declining prices would also play into that? So I would appreciate your color on the cost for this year. Thank you.

Chris Blanchard — Chief Operating Officer

Lucas, this is Chris. So on the cost front, we'd expect the Elk Creek costs to stay more or less in line with the way they were in Q1. But as the production ramps up at Berwind and Knox Creek, we'd expect those costs to decline sequentially quarter-over-quarter as we get more production each quarter going in and overall pull the total company down slightly.

Lucas Pipes — Analyst, B. Riley

Got it. Thank you very much gentlemen and best of luck.

Operator

We'll take our next question from Nathan Martin with The Benchmark Company. Please go ahead. Your line is open.

Nathan Martin — Analyst, The Benchmark Company

Hey, good morning guys. Congrats on the quarter, and thanks for taking my questions. I wanted to start with logistics. I'm sure you'd agree this has been a bit of a storm on your side for 2022 at least. It sounds like you got some help from the rails in the first quarter, but it would be great to get an update on rail, truck, port service? And then maybe just for modeling purposes, I think I noticed a pretty sizable quarter-over-quarter jump in transportation costs. Anything there to speak over or this is an anomaly?

Jeremy R. Sussman — Chief Financial Officer

Thanks, Nate. So yes, it's Jeremy here. I guess I'll start with the transportation costs. So as you know, we pay transportation costs. It's a pass-through, but you record it on the revenue and the cost line for our export business. And in the first quarter, actually, about 2/3 of our volume was export. So certainly, that's the highest portion that we've had on a percentage basis. So it was more of a mix issue, I would say, than necessarily a higher rail rate. Rail rates did go up a little bit. But I will say each company is different. We're a bit more real-time basis. So in the second quarter, our rail rate is not going to be based on a higher Q1 index. So that will help us a little bit as well in the second quarter. And what was the first part of your question again, Nate?

Nathan Martin — Analyst, The Benchmark Company

Yes. Just an update overall, Jeremy, on health services from a logistics standpoint of this rail truck report.

Jeremy R. Sussman — Chief Financial Officer

Yes. So I mean, listen, the rail did a great job in Q1. I mean, if you look back to where we were this time last year, we in the first quarter of 2022, about 20% of our scheduled shipments didn't happen because of transportation issues. This quarter, it was really just a couple of trains. So I really applaud the rail on their hiring efforts and certainly hope the recent efforts that they've made continue to pay off throughout the course of the year.

Nathan Martin — Analyst, The Benchmark Company

Okay. Great. Appreciate all that color, Jeremy. And then good to hear as well, things progressing at Berwind, Elk Creek prep plant expansion sounds like starting up later this month. You guys obviously raised full year guidance by about 100,000 tons this year and looks like that flowed through to '24 based on your slides. As you think about the timing of potential expansion from here, and again, kind of looking at the tables on your slides, which projects are kind of on debt next, how much production could they add maybe as you look ahead to '24, even '25. And maybe what portion of that CapEx has been approved? Thanks.

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

Alright, this is Randy. I'll let Chris go on the granular. But basically, all we've greenlighted so far for this year beyond what we've already talked about is the Berwind expansion. I think what we wanted to do is to kind of see how the market stabilizes here in Q2 and into early Q3. We have a few more projects that we could look to greenlight, which probably not result in too much '23 production but would certainly become much more meaningful in '24. And Chris, you want to sort of elaborate a little bit?

Chris Blanchard — Chief Operating Officer

Yes. I mean so one thing is, as you can see from our first quarter results, we did outproduce our sales a little bit. So we have built some inventory. And even with the planned upgrade coming on, we'll work through that. So probably the first thing that would come on, on that list, given all the right market conditions would be the RAM #3 surface mine. And then behind that on the list that we've got in the slide deck is probably the Jawbone mine at Knox Creek. Past that, we have a lot of other projects that are lower tier or earlier in their development that we look at, but those are the two that you would target. Neither of those, to answer your question, has been approved by the Board to greenlight and move forward on that.

Jeremy R. Sussman — Chief Financial Officer

Yes. Maybe just from a high level in round numbers, the '23 million CapEx that you see on there, that's all been approved. And just looking at '24, probably about half of it roughly has been approved. And obviously, we'll continue to have these conversations with the Board as we progress throughout the year.

Nathan Martin — Analyst, The Benchmark Company

Great. Appreciate those comments, guys. And then maybe, Randy, thank you for all your thoughts earlier on the rare earth element development, the deposit there at Brook Mine. I know you're also working on some other coal-to-products products research. And by the way, congrats, I think on your appointment to the IEA Advisory Board there. Maybe could you spend a minute or two and update us on that side of the house and comment on how those pursuits could potentially be additive to Ramaco in the future as well?

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

Sure. So as you probably know, we filed a tracking stock, and it's got a lot of detail in the S-1 on that on our whole operations, which we kind of historically called Ramaco Carbon. And in that beyond the rare earth, we've got a blanket of intellectual property, which covers about, I don't know, 60-odd patents in various processes. And they're basically properties on different types of uses of carbon from coal that we feel could be used to make advanced carbon products and materials, which have got obviously a much higher value than the use of coal for conventional purposes.

The ones we're focused on right now, which we think have the most interest, certainly both in terms of potential size as well as, frankly, far along in development are the ability to take coal and use that as a feedstock to make synthetic graphite. There was a press release that we put out a month or so ago on that. We're working with Oak Ridge National Labs on that. Where basically, we both have some IP around that. They have not only more of a processing secret sauce, but also a lot more equipment to do some of the testing on. So we're moving on a path with them to be able to do development, which would probably use principally met coal, but it may have some applications in thermal, but that could be a very meaningful use of coal.

The other is carbon fiber. So this goes back to processes that were developed, frankly in the '70s, where you can basically take what amounts to a pitch-like substance and use that as a precursor to make carbon fiber from coal instead of petroleum. That has a potential game-changing cost impact, frankly, on the materials business. If you could use carbon fiber as a substitute for steel and aluminum, that could have some important longer-term implications. So both of those projects actually we've been working on with Oak Ridge. And hopefully, some exciting stuff will come out of that in the relative near future, I would say, from a commercialization standpoint. I would look to probably a 12-month time frame to be able to have some meaningful commercial possibilities on both of those fronts.

And then lastly, we are working on the ability to use carbon from coal to make graphites that can be used in such things as concrete additives as well as some ink injection. And those are not quite as far along as the first two that I mentioned, but potentially have other implications as well. So perhaps a bit long-winded, but it's an area that I'm obviously very interested in.

Nathan Martin — Analyst, The Benchmark Company

Yes. And that's how I want to give you that quick platform and just curious how much capital are you guys investing in this business at this point?

Randall W. Atkins — Founder, Chairman, and Chief Executive Officer
Really extremely nominal capital. We're probably spending less than, I would say, $1 million to $2 million a year. Most of the heavy lifting, frankly, comes from the national labs because a lot of this research requires some pretty heavy-duty and sophisticated equipment and manpower. We have some of the equipment and manpower out at our operation in Sheridan, but we were relying a lot on the national labs who have immense amounts of equipment, capital and talent to do a lot of the heavy lifting.

Nathan Martin — Analyst, The Benchmark Company

Got it. Appreciate that. And then just one last item. You did bring up the S-1 for the tracking stock. It looks like holders are expected to vote on June 12. So first, is that correct? And then can you maybe just remind us what revenue streams or royalties are expected to kind of flow through those new shares?

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

Sure. So you are correct. The 12th is indeed the date that we will have the shareholder vote, which will be a vote to approve the distribution of the tracking stock. I think in terms of referring to the amounts that will be involved in potential dividend distributions beyond that, I'd have to refer you back to the S-1 because we've kind of got our hands legally tied about doing too much discussion on that in advance of the proxy solicitation and the vote. But rest assured, right before the proxy -- pardon me, right before the shareholder meeting, we will be doing further communications on the tracking stock where we'll be much more explicit in terms of what's going to be expected in terms of actual cash dividend distributions and the rollout.

Nathan Martin — Analyst, The Benchmark Company

Got it. Very helpful. Appreciate those thoughts. Best of luck going forward, guys.

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

Thank you.

Operator

Thank you. We'll take our next question from Curt Woodworth with Credit Suisse. Please go ahead. Your line is open.

Curtis Woodworth — Analyst, Credit Suisse

Yes, thank you. Good morning Randy, Jeremy and team. I just wanted to follow up on the rare earth kind of conversation. I'm admittedly a neophyte when it comes to this. Some of the language around this being potentially one of the largest unconventional deposits discovered and you've been drilling for 18 months. I would think you've got a decent idea of potential salable production. And you noted that it's shovel-ready, it's permitted.

And you kind of said you could fast track it, but then at the same time, you also said you're going to kind of go slow and have a modular approach. So I guess I'm just curious what are the next steps in terms of milestones you need to see, in terms of when you potentially would accelerate production? Could you frame any sort of economic upside to the potential EBITDA or cash flow that this could create? I realize it's early days. And then you also talked about potentially, I think your comment was producing constituent products like magnetic products, which I assume would mean more downstream manufacturing of the element. So yes, again, any more color you can provide on some of those things would be helpful. And admittedly, I know it's still very early days, but thank you.

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

Sure, Curt. I think the -- let me take you somewhat sequentially through our whole thought process here. And that will hopefully articulate some answers to several of your questions.

So we bought this property, I guess, about 12 years ago as an opportunistic thermal reserve. And shortly into that development phase and permitting phase, we recognized that it was going to be pretty tough to deploy capital to justify a new thermal coal mine, and that was not frankly, what our MO was anyway. So we began to explore all sorts of other alternative uses for coal, and that led us to the national labs and working with the national labs, then led us to explore with them, frankly, just testing our coal for other purposes.

That's how, of course, the whole entire idea of the rare earth proposition came about, which we frankly didn't really get too much detail from them until 2019. And at that point, we sort of slowly began to stick our toe in the water to do some further drilling assessment. When that looked like it was coming back promising that we then this year, particularly after we sort of merged the two entities, Ramaco Carbon and Ramaco Coal, we decided to explore much more thorough drilling program to really analyze what the opportunity would be.

And frankly, right now, we've really only got chemical results back on about 1/3 of — a little bit more than 1/3 — of the core drilling that we have done of the 100 holes. So we have a lot more delineation to do, I'd almost think of this as like a junior miner proposition where we're kind of taking as I call it, step to step, but there's certainly a sequencing to trying to delineate the size of the deposit, how it lays out the contours, et cetera, before we can essentially come up with what we think is an appropriate mine plan for the whole proposition. And as I also mentioned, this has really been testing done on really less than 1/3 of the overall site. So we obviously have the ability to somewhat dramatically increase the scope and scale of the overall proposition as we get into it.

But what we have found to date, obviously, with a lot of help from the National Labs, is that this is not only an interesting but perhaps as we got the quote from the national labs that this is indeed probably the largest unconventional deposit play on rare earths that they've seen in the states.

So we are trying to approach this with a fairly methodical idea of what would be the highest value proposition to the company. And it also has, of course, some national strategic implications as well because of the predominance of magnetic REEs and what we seem to have found. So the food chain in terms of the REE business is that you can take it, obviously, from just simply mining the deposit to making it into a concentrate to an oxide and then eventually actually up to a metal or a magnet. So we're certainly going to explore what the implications and economics of having a vertically integrated operation are. But that's very early game for us.

I think our next steps are really going to be to define the mining proposition and the processing proposition to take it to concentrate, which, of course, is the first step. And again, as I mentioned, because this is unconventional deposits, which are softer than uranium and cobalt, it’s going to be expected to be much easier to process, much less expensive and much more environmentally friendly. Indeed, the interesting thing as we've gotten into it is if you look to the largest REE producer in the world, which is China, I think the figure is about 80% of the value of all their REEs come from unconventional plays because again, the economics of mining and processing that type of an REE are much more attractive from a number of propositions and certainly from an economic one.

So I think where we are today is we technically have a permit, which is rare in the REE space because, again, most of these are junior miners where just are looking to try to find the deposit and then it probably takes you 5 or 10 years to permit. We've got a permit. So we could start mining as quickly as probably late this year, but we do start that mining is a function of doing proper assessment as well as planning on how the processing would occur because we're not going to obviously mine until we know what to do with the material. But we hope to be in a position to be able to assess that fairly quickly. Again, we're getting a lot of help on this. And I would look to be in a position to hopefully report by the next quarter what our progress is. And we will develop the economics on this, which is, once again, a very unique proposition where we're not being able to look through a lot of comparables in our space that we can rely on to backstop what the economics look like.

But I would think of it more in terms of a normal coal mining proposition from a mining perspective on economics. And then from the processing, once again, we feel we will hopefully look at it, again, somewhat like a met coal preparation plant operation with perhaps some unique characteristics thrown in for processing the type of material that we're really looking for. And once we understand that, then the question as to how far we take it up the food chain is one that will develop economics around and certainly report more on in the future.

But it's a very exciting proposition. And as I said in my note, this was clearly something that we hadn't gone to look for. It's I won't say it's fallen into our lap, but it's certainly something that we were looking for other alternative uses for coal. And this certainly seems to be potentially a very exciting and hopefully potentially a very profitable one.

Curtis Woodworth — Analyst, Credit Suisse

Great. Thanks very much for the color.

Operator

This will conclude the Q&A portion of today's call. I would now like to turn the floor over to Randall Atkins for additional or closing remarks.

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

Thank you. Well I again appreciate everybody being on the call this morning. These are interesting times, both on a macro basis and certainly for Ramaco, and we will look forward to keeping everyone abreast of our activities and certainly for the call for next quarter. I hope everyone has a nice weekend. And bet well on the Derby. Take care.

Operator

Thank you. This concludes today's Ramaco Resources First Quarter 2023 Earnings Conference Call. Please disconnect your line at this time, and have a wonderful day.