

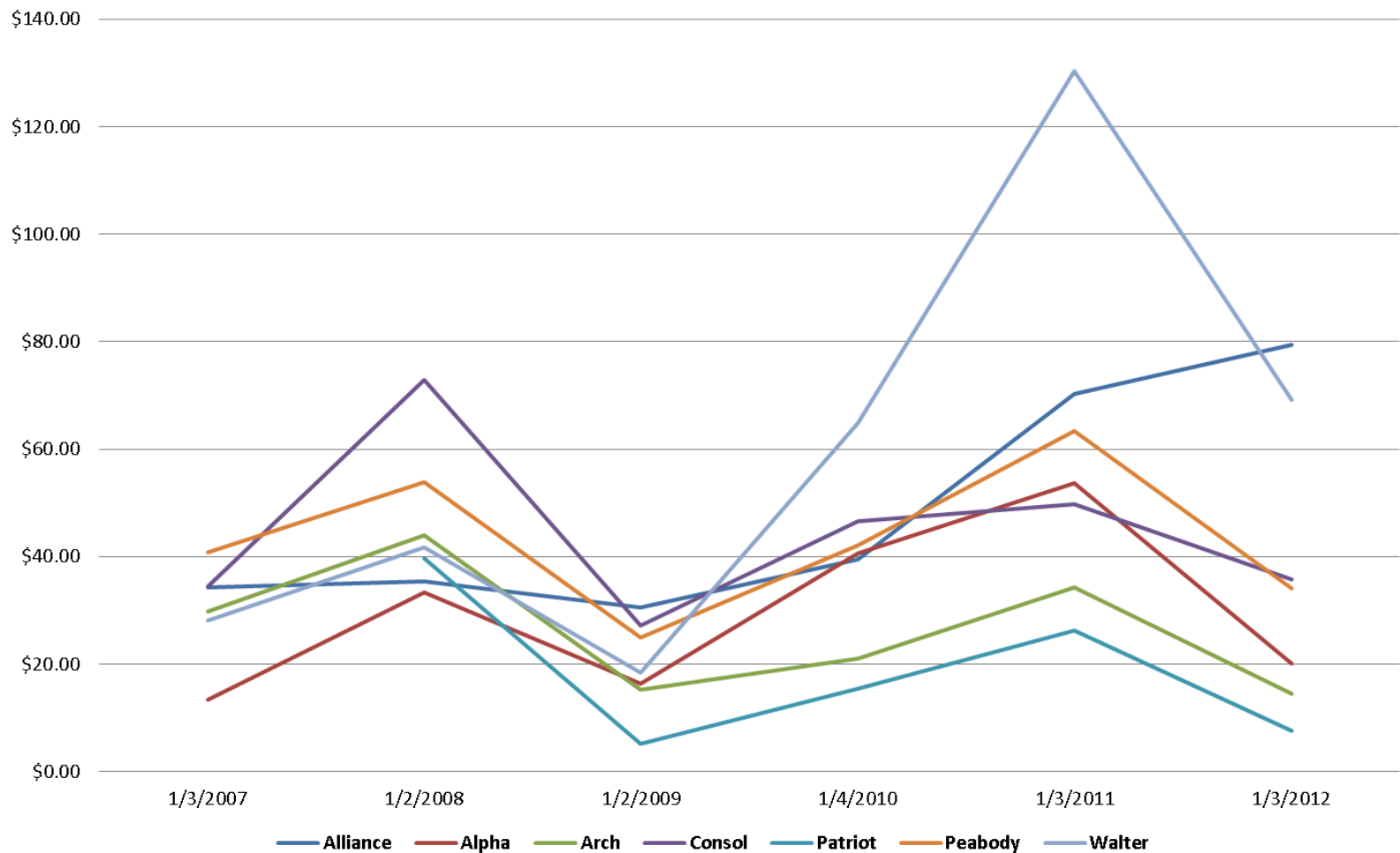
**DOYLE TRADING COMPANY' S
LUNCH AND Q&A**

“The Dog That Didn’t Bark”

SILVER BLAZE

Sir Arthur Conan Doyle

7 Coal Companies Stock Prices 2007 - 2012



IN THE BEGINNING

RAILROADS/FORESTRY COMPANIES

STEEL COMPANIES

UTILITIES

OIL COMPANIES

FINANCE

INTERNATIONAL STEEL

QUERY: NEXT UP?

INTERNATIONAL MINING HOUSES?

NOT SO FAST

INTERNATIONAL COST CURVE FOR COALS DELIVERED TO ASIA

TAX POLICY INCLUDING CHANGES TO CAPITAL GAINS

LIABILITIES:

ENVIRONMENT: AIR/WATER

UNITED MINE WORKER TRUST FUNDS

RETIREES/MEDICAL

RECLAMATION

BLACK LUNG

WHY M&A IS SO UNSATISFYING?

**A. KNOWLEDGEABLE (MINING) MONEY
HELD IN AUSTERITY PROGRAMS**

B. NON-MINING MONEY: “COAL IS DEAD”

**C. WHY BUY AN UNCOMPETITIVE
CLOSED PROPERTY IN A SHRINKING MARKET**

D. STRATEGY: PORTER MATRIX*

PORTER MATRIX*

	OPERATIONAL EXCELLENCE	PRODUCT DIFFERENTIATION	DOMINATE NICHE
COMPETITORS			
THREAT OF NEW COMPETITORS			
THREAT OF SUBSTITUTES			
BARGAINING POWER OF SUPPLIERS			
BARGAINING POWER OF CUSTOMERS			

HOTEL CALIFORNIA:

**“YOU CAN CHECK OUT BUT YOU
CAN NEVER LEAVE”**



**“THE ONLY THING WORSE THAN
OUR BARRIERS TO ENTRY
ARE OUR BARRIERS TO EXIT.”**

A. ARCH (ACI): ICG ASSET SALE FAILED IN 2012

**B. CONSOL (CNX): ELKCREEK/ITMANN/AMONATE ASSET
SALE FAILED 2011**

**C. ALPHA NATURAL RESOURCES (ANR): KY THERMAL
PROPERTIES ASSET SALES**

WHO IS SATISFIED WITH THEIR INVESTMENT?

- A. SEVERSTAL: \$1B FOR PA LOW-VOL OPERATOR (PBS)**
- B. ESSAR: \$600M FOR WV MET/EKY THERMAL (TRINITY)**
- C. ARCH (ACI): \$3.4B FOR ICG**
- D. ALPHA NATURAL RESOURCES (ANR): \$7.1B FOR (MEE)**

WHO IS SATISFIED WITH THEIR INVESTMENT ?

E. MECHEL: \$900M FOR BLUESTONE

**F. WALTERS ENERGY (WLT): \$1.1B WRITEOFF FOR
WESTERN FUELS**

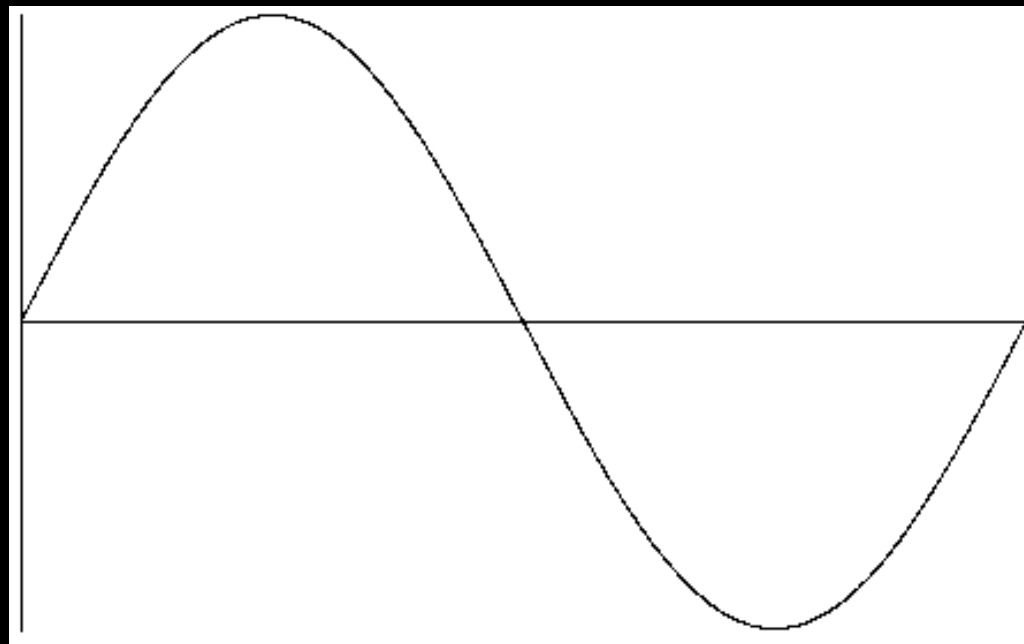
G. JAMES RIVER (JRCC): \$475M FOR IRP

H. CLIFFS (CLF): \$757M FOR INR

**I. PEABODY: 10.5X FUTURE EBITA FOR MACARTHUR
COAL (AUS)**

WHY DON'T ACQUISITIONS WORK?

A. TIMING



COMMODITY CYCLE

WHY DON'T ACQUISITIONS WORK?

**B. INHERENT VOLATILITY OF COMMODITIES
6 MONTHS TO CLOSE; PRICE CAN CRATER**

**C. FINANCING VALUATIONS; BANKS DON'T LIKE
THIS RISK**

D. POLITICAL RISK

WHY DON'T ACQUISITIONS WORK?

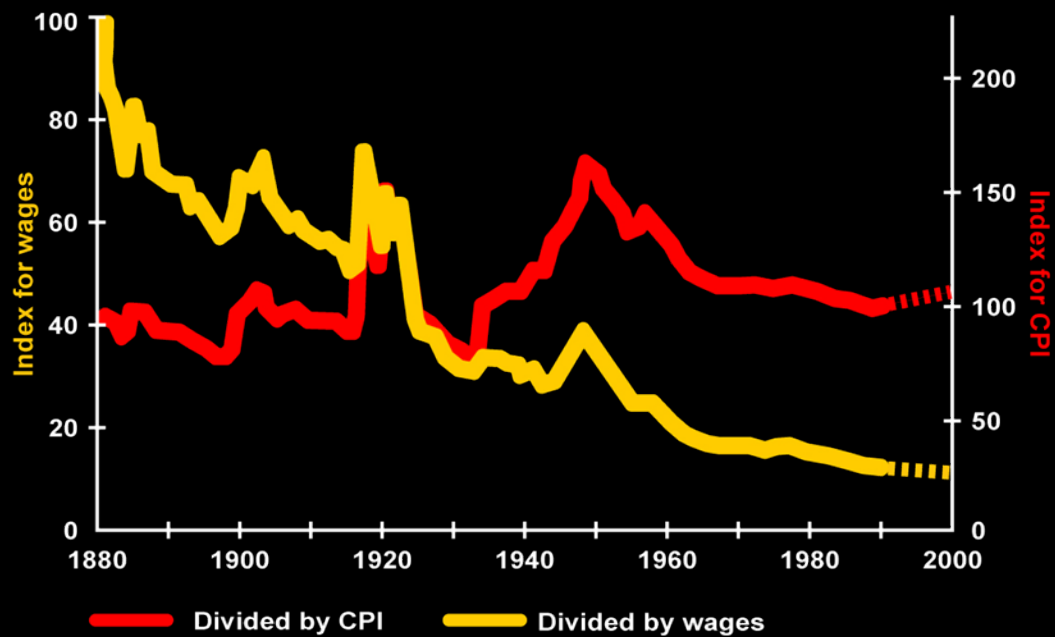
E. RECENCY FALLACY

**F. DISCIPLINE: SAVE CASH DURING GOOD TIMES;
BUY ASSETS AT BOTTOM**

WHY DON'T ACQUISITIONS WORK?

G. CULTURE CLASH

**H. NEMESIS FOLLOWS
HUBRIS**



Source: "The Ultimate Resource 2" by Julian Lincoln Simon

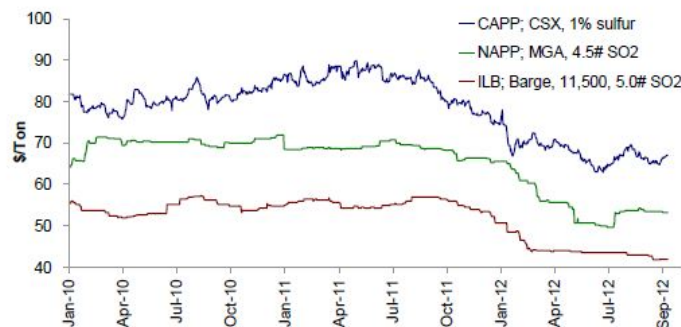
Figure 11-2. The Price of Coal Relative to the Consumer Price Index and Wages in the United States

Coal Market Overview: Grim Thermal Coal Outlook

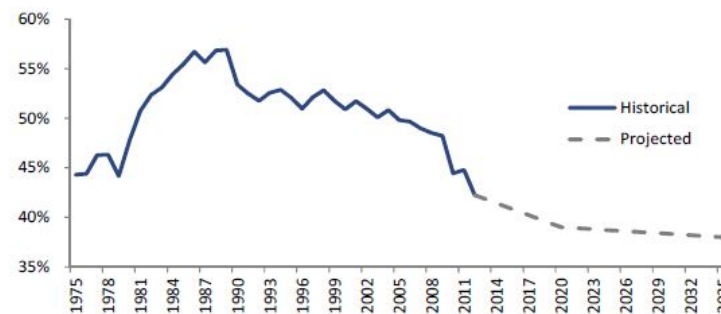
U.S. thermal coal markets are changing in an adverse fashion.

- ▶ EPA regulatory initiatives and low natural gas prices have created a fundamental change in our industry
 - Coal's share of electricity generation has dropped from 43% in the first half of 2011 to 36% in the first half of 2012 and is not expected to recover its historically dominant position
 - Declining domestic demand has caused a sharp decline in thermal coal prices, with current CAPP pricing down \$12.30 per ton (-15.5%) YOY
- ▶ Global demand for U.S. thermal coal exports has also declined as have international thermal coal prices
 - Decreased Chinese demand and increased international supply has slowed U.S. exports and decreased international prices by \$25.80 per ton (-21%) YOY
 - Thermal export pricing for 2013 is generally below the cost of production for U.S. eastern producers
- ▶ The outlook for U.S. thermal coal is very uncertain with decreasing demand and prices occurring at the same time environmental and regulatory changes are increasing production costs

2013 U.S. Thermal Coal Forward Pricing (1)



Coal's Share of U.S. Electricity Generation (2)



(1) Source: ICAP

(2) Source: EIA

Coal Market Overview: Weak Metallurgical Markets

Met market fundamentals and pricing have also substantially weakened.

- ▶ Global economic growth has slowed, specifically in China, Europe and the U.S., resulting in a significant decrease in met coal demand and prices
 - Steel capacity utilization has dropped globally, with U.S. utilization at the lowest rate since December 2010
 - Globally, steel prices have significantly declined and steel producers are looking at all opportunities to reduce raw material costs
- ▶ Despite slowing demand, met coal production has been increasing, primarily in Australia, which has further weakened pricing and market demand for U.S. metallurgical coal
- ▶ The Q4 2012 benchmark settlement decreased to \$170 per metric ton⁽¹⁾, which is \$80 per metric ton (32%) lower than the \$250 average benchmark settlement over the last two years
 - Many analysts are not projecting a meaningful correction in met coal prices prior to 2015

Met Coal Benchmark Settlement Pricing⁽²⁾
(\$ per metric ton)



(1) Source: ICAP
(2) Source: EIA