Evolution of U.S. Coal Producers through 2018

16th Coaltrans USA

Miami, FL

January 28, 2016
About Doyle Trading Consultants

We give our clients an edge by providing the following:

- **Daily**: DTC’s highly regarded daily market commentary and price recap (global & US coverage)
- **Weekly**: DTC’s ‘Week Ahead’ email (previews key drivers and important data release dates)
- **Monthly**: A comprehensive summary and analysis of the major market drivers and price curves; DTC’s Supply & Demand Forecast; Utility Inventory Forecast (& commentary)
- **Intra-monthly**: Timely reports on global steel production, monthly export/import data (company specific), US generation & inventory data, etc.
- **Quarterly**: Company-specific mining costs, priced positions and earnings summaries; quarterly production data and analysis; changes in institutional ownership of coal equities
- **Much, much more**: DTC monitors natgas vs coal dispatch economics; seaborne coal negotiations; steam coal export break-even economics; etc.
- **Quarterly Coal Outlook and Price Forecast**: DTC launched its *Quarterly Outlook and Price Forecast* in April 2014.
- **Bespoke Consulting**: available upon request.

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Clean Power Plan – Surviving a Regulatory Game Changer

- Most comprehensive analysis on Clean Power Plan available
- Identifies likely compliance path for each state, as well as surviving coal plants
- Calculates impact on coal burn through 2030 under various compliance scenarios

New DTC Report!

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Agenda

• Consolidation + Restructurings
  • Creating many opportunities
  • Steady M&A deal flow expected
  • Constructive consolidation?

• US coal market in 2018
  • Supply and demand forecast
  • Productivity by region

• Wrap up
Consolidation + Restructurings: the path forward
M&A Waves 1 and 2

• Wave 1: Global Steelcos Enter US Met Market (June ‘08 – Mar ‘10)
  • ArcelorMittal/Midvol Mining and Concept Mining (June/July of 2008); Severstal/PBS Coals (Oct 2008); Mechel/Bluestone (Feb 2009); Metinvest/United Coal (Apr 2009); Essar/Trinity (Mar 2010)

• Wave 2: U.S. Producers Bet on Met (Dec ‘10 – Aug ‘11)
  • Alpha/Massey (Dec 2010); Walter/Western (Jan 2011); Arch/Intl Coal Group (May 2011); Peabody/Macarthur Coal (Aug 2011)
Coking coal bets ill-timed
Debt was primary means to fund deals

• Net debt surged from 10% of EV in March ‘10 to 44% by Dec ‘12 and 78% by Dec ‘15
• Easy access to capital made debt attractive, but interest payments drive irrational decisions
• Highly levered companies do not fare well in weak markets
‘Amend and extend’ no more

- Investors less willing to fund cash burn for future upside
- Ability to refinance much harder today than 12 months ago
- Bid for coal securities (debt and equity) has evaporated
- Distressed investors are licking wounds, eying oil and gas opportunities

Source: FTN

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Capital markets largely closed for coal

• **Debt**
  - Peabody Energy: priced $1 billion of senior secured second lien notes on March 16\textsuperscript{th} 2015 at 10% coupon; currently trading at $18
  - Murray Energy: priced $1.3 billion of senior secured notes on April 10\textsuperscript{th} at $96.86 with 11.25% coupon; currently trading at $17
  - Bowie?

• **Equity**
  - CNXC: down 56% from July ‘15 IPO
  - FELP: down 92% from June ‘14 IPO
  - Bowie Resources: received $313 mm in common/preferred equity from Blackstone in November 2015
Leverage + weak market – access to capital = restructurings

• Wave of bankruptcies, but unable to support market
  • Alpha: significant production cuts
  • Arch: limited impact on supply
  • Patriot: assets change hands
  • Walter: production cuts pending

• Fixing balance sheet, but not addressing the market

• Leaner companies post-reorg. hold advantages, pressuring rest of industry
M&A Wave 3: Bolt-On and Fire Sale Transactions

Alliance/Patriot’s WKY Coal Assets

Westmoreland/Buckingham Coal

Jim Justice/ Mechel’s Bluestone

Cline Acquires Foresight Reserves interest from Riverstone

Cline Group/ Coalspur Mines Ltd

Westmoreland/ BHP’s San Juan Mine

Murray/50% of LP Interest in Foresight

Cloud Peak/49% Interest in Gateway Pacific

Alliance/ White Oak

Revelation/ Alpha’s Wise & Letcher County Assets

Revelation (Hoops)/ JW Resources

Murray/Colombia Natural Resources

Booth Energy/ TECO Coal

Blackhawk/ Patriot

Rosebud/CNX’s 49% of Western Allegheny Energy

VCLF/Patriot’s Federal

Bowie Resource Peabody’s CO/NM Assets

Cloud Peak/49% Interest in Gateway Pacific

SunCoke/Convent Marine Terminal

Murray/Colombia Natural Resources

Booth Energy/ TECO Coal

Blackhawk/ Patriot

Rhino’s Deane Complex/ Quest Energy

Seneca Coal/ CLF’s assets

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On the Sales Block

- **Every Coalco**: Non-core assets; export capacity; JVs
- **Bankruptcy Auctions**: Alpha, Walter
- **CONSOL**: Buchanan, Baltimore
- **Peabody**: anything but core assets (PRB, ILB, Australia?)
- **Assets with sales contracts**
- **Everything has a price!**

Potential Buyers

- **Coal King Pins**
- **Traders**
- **Private Equity**: Blackstone investment in Bowie
- **Consolidators?** Blackhawk, Bowie, Justice, Rosebud, Westmoreland, Alliance, Murray Energy, Revelation, Booth, Corsa, VCLF
- **Reorganized coal companies**
- **Overseas Entities**: not as likely this go around

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Market Reaction to Peabody’s Asset Sale

November 20: Peabody announces sale of CO/NM assets to Bowie Resources for $358 mm cash

- Bowie to assume approx $105 mm of related liabilities
- Deal releases Peabody of +$300 mm of self-bonding reclamation liabilities
- Assets projected to generate $70 mm of pre-tax/capex cash flows in 2016

- BTU shares up 15.9% at open on 11/23, but rally faded and ended day up 3.7%
  - Equity down 70%
  - 6.00% senior unsecured notes due Nov 15, 2018 down 54% to $9
  - $1.5 billion outstanding – will BTU use cash from sale to buy back?

- 10.00% second lien notes due March 2022 down 29% to $18

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Bifurcated deal flow

• Small transactions of non-core mines from distressed producers to local buyers for nominal amount
  • Producers shedding liabilities, buyers adding contiguous reserves
• Operating assets sold to strategic buyers for ‘fair value’ prices
  • Disconnect between seller expectations and buyer considerations still exists
• Market needs shift to “constructive consolidation”
Constructive Consolidation

• Acquisitions that result in supply cuts
  • Alliance’s acquisition of Patriot’s WKY assets (Jan 2015)
  • Murray’s investment in Foresight Energy (Mar 2015)
  • Alpha asset auction

• Difficult to justify
  • Why acquire to close?
  • ARO impacts valuation

• Radical change needed to accelerate return to balance
The marginal producer matters

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2014</th>
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<tbody>
<tr>
<td>Number of Producers</td>
<td>571</td>
<td>390</td>
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<tr>
<td>Average production</td>
<td>2.0 mm tons/yr</td>
<td>2.6 mm tons/yr</td>
</tr>
<tr>
<td>25 Largest Producers</td>
<td>982.0 mm tons (84%)</td>
<td>886.7 mm tons (88%)</td>
</tr>
<tr>
<td>Prod. with &lt;1 mm tons/yr</td>
<td>59.7 mm tons</td>
<td>40.3 mm tons</td>
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</table>

Number of U.S. Coal Producers by Volume

Sources: DTC Quarterly Coal Outlook

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U.S. coal market in 2018
Supply cuts accelerate in ’16, then stabilize

- Every basin impacted
- Lower cost base after restructurings results in ‘sticky’ supply, even in depressed market
- Utility stockpiles are another buffer to demand, delaying need for new purchases
- Constructive consolidation needed to accelerate closures

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tr>
<td>Capp</td>
<td>91</td>
<td>80</td>
<td>76</td>
<td>70</td>
</tr>
<tr>
<td>CO/UT</td>
<td>35</td>
<td>30</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>ILB</td>
<td>128</td>
<td>114</td>
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<td>Napp</td>
<td>116</td>
<td>96</td>
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<tr>
<td>PRB</td>
<td>415</td>
<td>370</td>
<td>365</td>
<td>360</td>
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<tr>
<td>Other</td>
<td>116</td>
<td>103</td>
<td>103</td>
<td>99</td>
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<tr>
<td>Import</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
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<tr>
<td>Total</td>
<td>911</td>
<td>803</td>
<td>784</td>
<td>767</td>
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</tbody>
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Productivity gains evasive
Demand declines will slow after 2016

• Utility demand braces for a 60 mm ton YoY decline in 2016
  • Will feel worse than 2015 due to high utility stockpiles
  • Upside/downside to forecast driven by weather and natgas
  • Long-term stabilization between 600 - 650 mm tons/yr
• Exports – more push than pull

<table>
<thead>
<tr>
<th>Demand</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td>Utility</td>
<td>750</td>
<td>690</td>
<td>700</td>
<td>700</td>
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<tr>
<td>U.S. met</td>
<td>20</td>
<td>19</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Industrial</td>
<td>41</td>
<td>38</td>
<td>37</td>
<td>36</td>
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<tr>
<td>Res/Com</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Met export</td>
<td>46</td>
<td>30</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>Thermal exp.</td>
<td>25</td>
<td>20</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>884</td>
<td>799</td>
<td>805</td>
<td>804</td>
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Wrap up
Conclusion

• Steady stream of M&A between 2016 and 2018
  • Bifurcation between distressed sales and strategic acquisitions
  • Constructive consolidation a must!

• Restructurings continue, but assets slow to close

• Pain is not over, but demand declines not as severe as 2015

• Radical change needed for near term return to sustainable market
Thank You

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