Industrials and Energy
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WARRIOR

Warrior Met Coal, Inc.
NYSE: HCC

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Terms to Know – Warrior Met

Coal Terms

Ash – Impurities consisting of silica, iron, alumina, and other incombustible matter that are contained in and can affect the burning characteristics of coal.

Bituminous Coal – A common type of coal with moisture content less than 20% by weight. It is dense and black and often has well-defined bands of bright and dull material.

Coke – A hard, dry carbon substance produced by heating coal to a very high temperature in the absence of air. Coke is used in the manufacture of iron and steel.

Hard coking coal "HCC"– A type of steelmaking coal that is a necessary ingredient in the production of strong coke. It is evaluated based on the strength, yield and size distribution of coke produced, which is dependent on the rank and plastic properties of the coal. Hard coking coals trade at a premium to other coals due to their importance and because they are a limited resource.

Pig Iron – The product of smelting iron ore (also ilmenite) with a high-carbon fuel and reductant such as coke, usually with limestones as a flux.

PCI Coal – Coal used by steelmakers for pulverized coal injection (PCI) into blast furnaces to use in combination with the coke used to produce steel. The use of PCI allows a steel maker to reduce the amount of coke needed in the steel making process.

Thermal Coal – Coal used by power plants and industrial steam boilers to produce electricity, steam or both. It generally is lower in BTU heat content and higher in volatile matter than steelmaking coal.

Mining Terms

Assigned Reserves – Coal that is planned to be mined at an operation that is currently operating, currently idled or for which permits have been submitted and plans are eventually to develop the mine and begin mining operations.

Recoverable Reserves – Metric tons of mineable coal that can be extracted and marketed after deduction for coal to be left behind within the seam (i.e. pillars left to hold up the ceiling, coal not economical to recover within the mine, etc.) and adjusted for reasonable preparation and handling losses.

BF-BOF – Blast Furnace – Blast Oxygen Furnace is a steel production method that utilized met coal where a combination of iron ore and limestone is heated in a blast furnace to form iron. This iron is converted into steel using a basic oxygen furnace.

EAF – Electric Arc Furnace is a steel production method that takes existing scrap steel and recycles it into newly finished steel.

Continuous Miner Unit – A machine used in underground mining to cut coal from the seam and load onto conveyors or shuttle cars in a continuous operation. In contrast, a conventional mining unit must stop extracting in order to begin loading.

Longwall Mining – - A form of underground mining that employs a shearer with two rotating drums pulled mechanically back and forth across a long exposed coal face. A hydraulic system supports the roof of the mine while the drums are mining the coal. Conveyors move the loosened coal to an underground mine conveyor that transports coal to the surface. Longwall mining is the most efficient underground mining method.

Logistics/Other Terms

Inferred Resources – That part of a mineral resource for which quantity and grade or quality are estimated on the basis of adequate geological evidence and sampling. The level of geological certainty associated with an indicated mineral resource is sufficient to allow a qualified person (as defined in the SEC rules) to apply modifying factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Because an indicated mineral resource has a lower level of confidence than the level of confidence of a measured mineral resource, an indicated mineral resource may only be converted to a probable mineral reserve.

Indicated Resources – That part of a mineral resource for which quantity and grade or quality are estimated on the basis of adequate geological evidence and sampling. The level of geological certainty associated with an indicated mineral resource is sufficient to allow a qualified person (as defined in the SEC rules) to apply modifying factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Because an indicated mineral resource has a lower level of confidence than the level of confidence of a measured mineral resource, an indicated mineral resource may only be converted to a probable mineral reserve.

CSR – Refers to coke "hot" strength, generally a quality reference in a simulated reaction condition in an industrial blast furnace.

Demurrage Costs – Costs payable to the owner of a ship when a company charters the boat but fails to load it in time.

McDuffie Terminal – Warrior's coal exporting terminal in the Port of Mobile in Mobile, AL.

Investment Narrative

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Industrials and Energy Committee – Warrior Met Coal Pitch

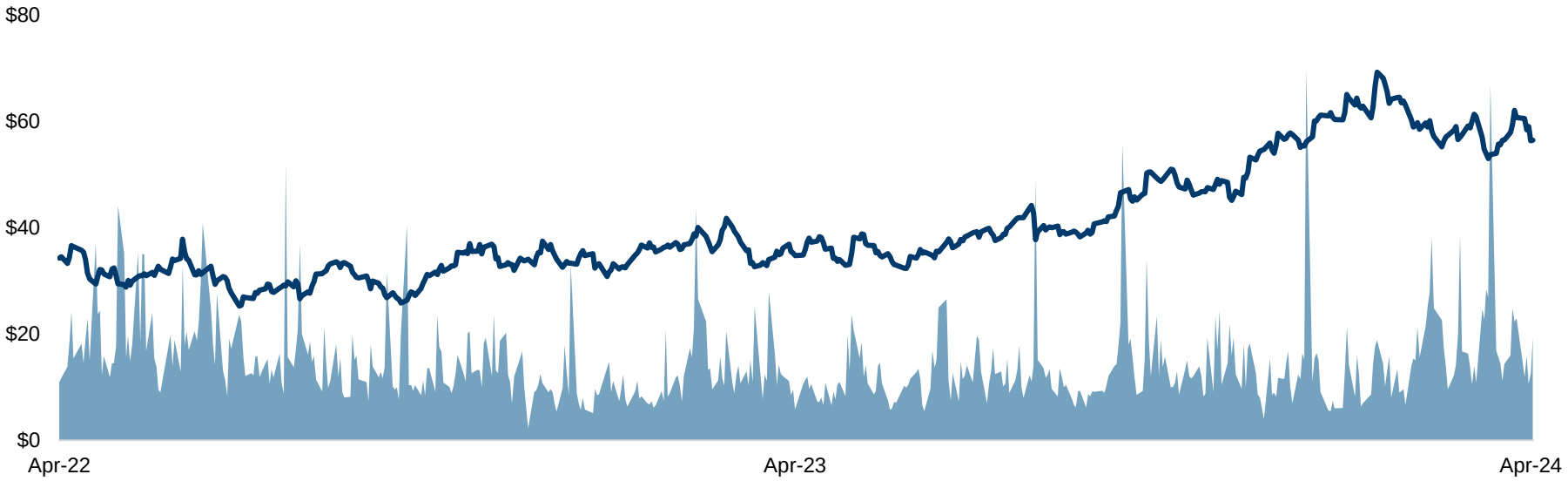
A Hot Commodity Trading at a Steel

Market Cap	$2.95B
4/5 Close	$56.48
Average Volume	813.04K
52 Week Range	$31.97 – $69.97
NTM EV/EBITDA	4.26x
EBITDA Margin	37.5%

- Recommendation: **LONG** with a **PT of $105.96**, representing a upside of 88% from 4/5/24 close

Investment Thesis Introduction

1. High realized prices and operational efficiency result in industry-leading margins, and a clean balance sheet drives robust free cash flow generation
2. Downcycle investment into Blue Creek Mine will yield massive returns amid a global steel shortage
3. Disciplined financial policy enforcement and expiring NOLs set the scene for future share buybacks when the cycle reverses



Company Overview

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Industrials and Energy Committee – Warrior Met Coal Pitch

Pure-play Metallurgical Coal Producer and Exporter

Three Longwall Mines with Two on the Way(1)

Mine 4

- 1 Longwall
- 12-15% Disc.
- 35+ Years

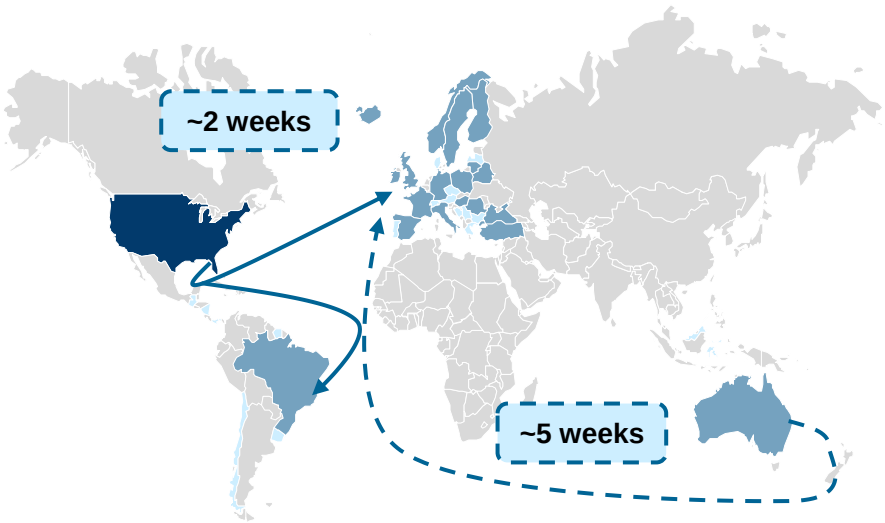
Mine 7

- 2 Longwalls
- 0-5% Prem.
- 20+ Years

Blue Creek

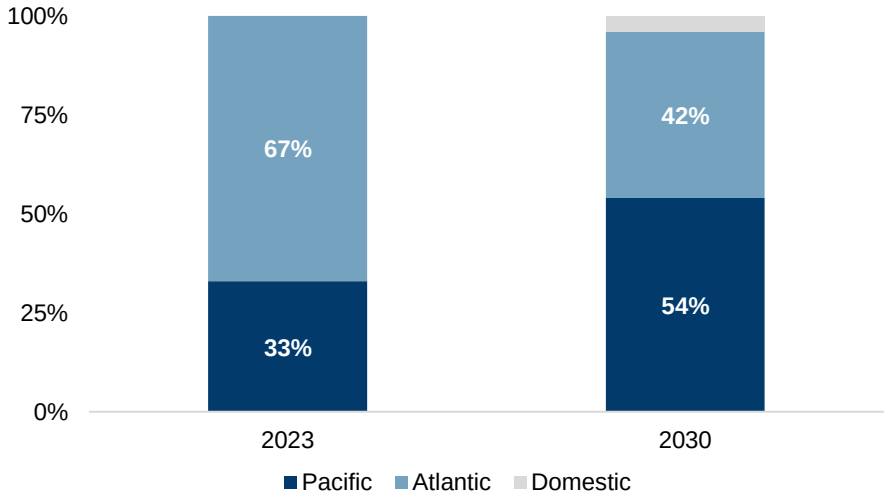
- 1-2 Longwalls
- 12-15% Disc.
- 40+ Years

Shipping Time Advantage to Key End Markets



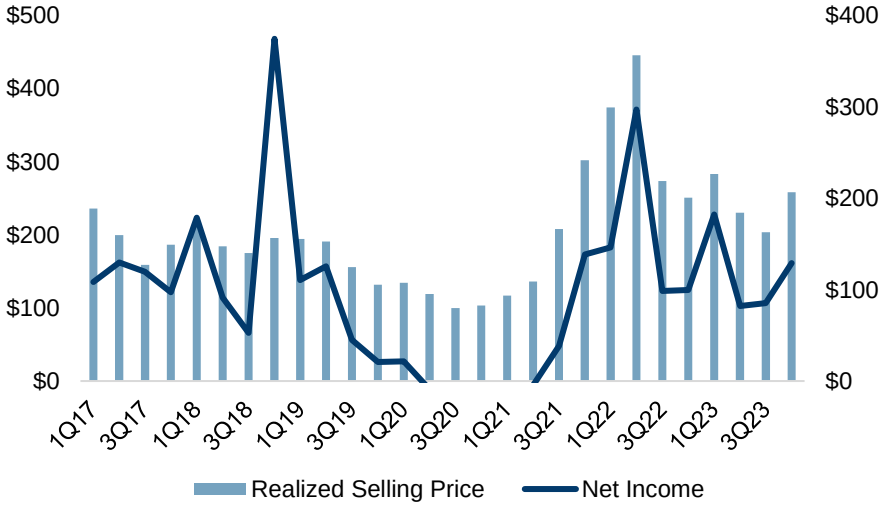
Shifting Sales Profile to Target Developing Countries

Customer Revenue by Geography(3)



"Variable Cost Structure"

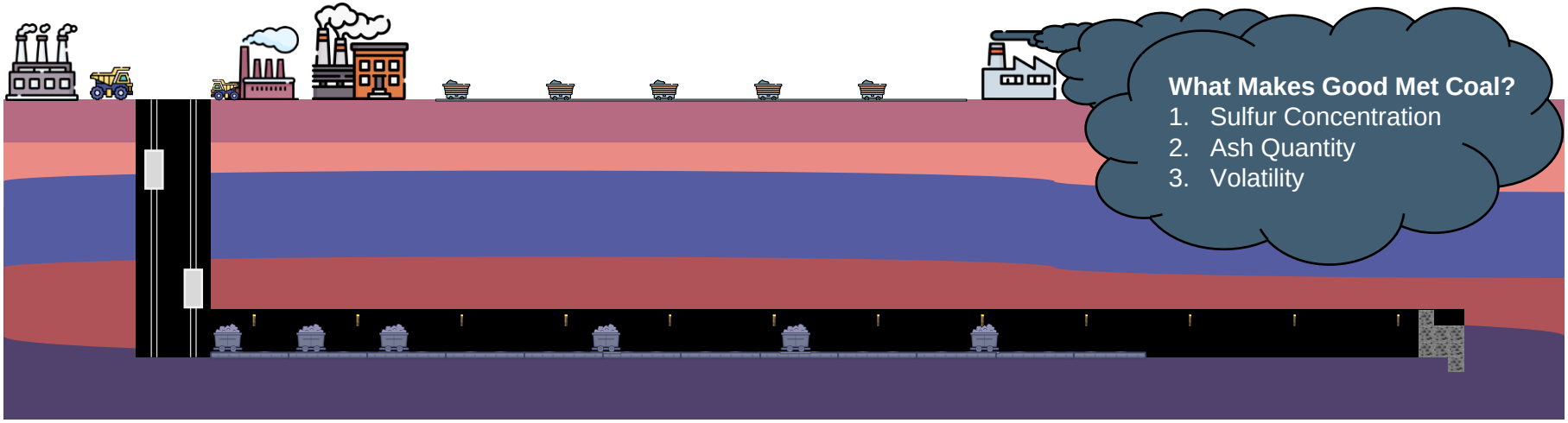
HCC Realized Selling Price and Net Income (in millions)(1)



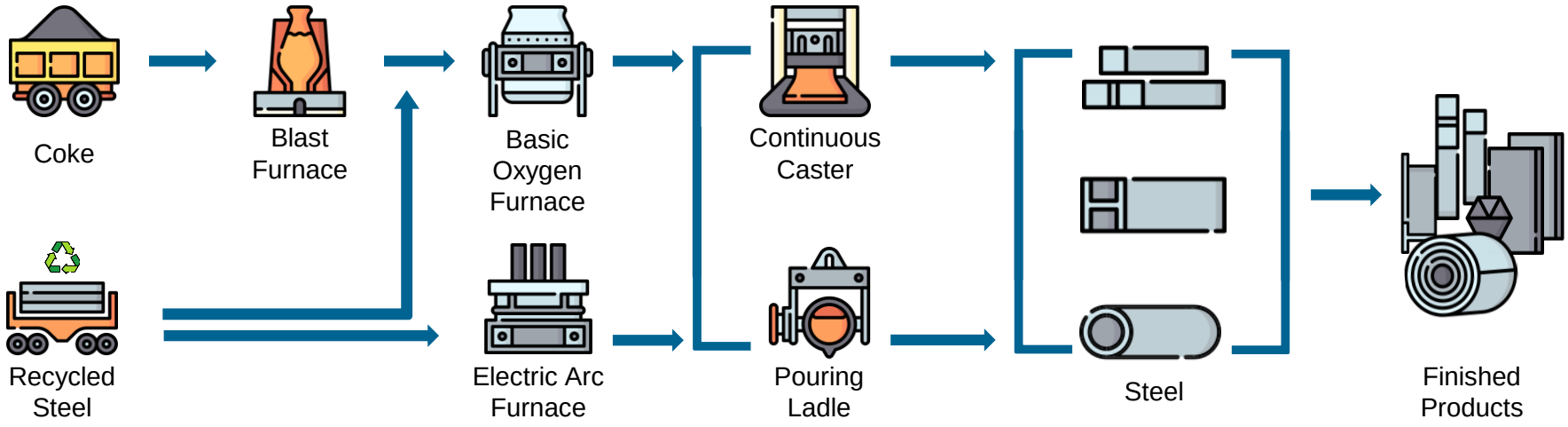
(1) HCC 10-K (2) Respective Company Filings (3) HCC FY23 IR Presentation

A Leading Provider of an Essential Component of Steelmaking

Longwall Mining Outline



Blast Furnace-Blast Oxygen Furnace (BF-BOF) Steelmaking Process



Industry Overview

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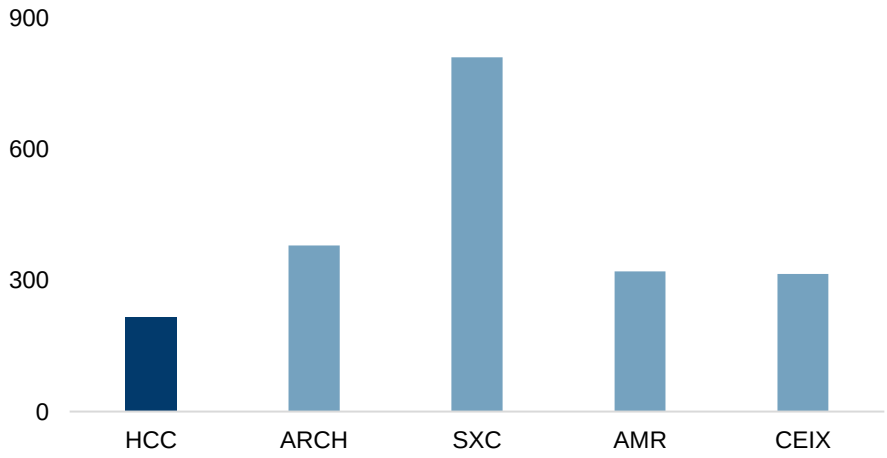
Comps, Comps, Comps!!

Superior Margins and Cost Advantage over Domestic Competitors

Ticker	Company Name	NOPAT Margin	Net Debt/ EBITDA	ROIC
HCC	**Warrior Met Coal**	**27%**	**(3.03x)**	**37%**
ARCH	Arch Resources	19%	(0.22x)	33%
SXC	SunCoke Energy	4%	1.28x	7%
AMR	Alpha Met. Resources	22%	(0.25x)	35%
CEIX	Consol Energy	27%	(0.07x)	29%

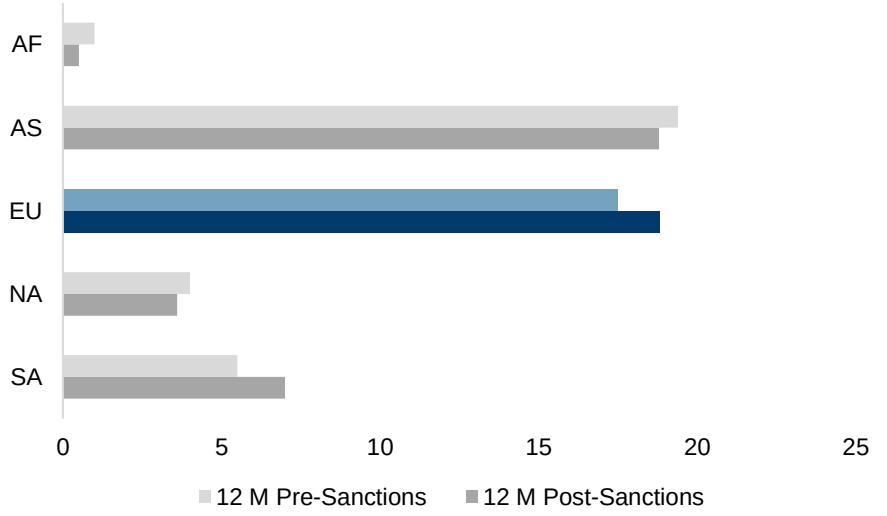
Average Mine to Port Distance (miles)(1)



Shipping Time Advantage Enabled U.S. Exporters to Pick Up Russian Slack

Ticker	Company Name	NOPAT Margin	Net Debt/ EBITDA	ROIC
BTU	Peabody Energy	25%	(0.38x)	24%
BHP	BHP Group	28%	0.49x	16%
RIO	Rio Tinto plc	25%	0.18x	11%
AMR	Alpha Met. Resources	22%	(0.25x)	35%
CEIX	Consol Energy	27%	(0.07x)	29%

Total U.S. Met Coal Exports by Destination (million short tons)(2)

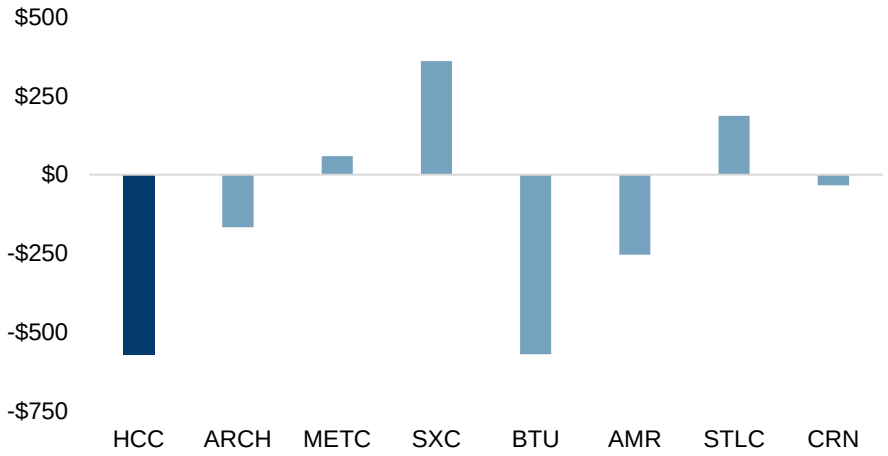


(1) Respective Company Filings (2) U.S. Energy Information Administration

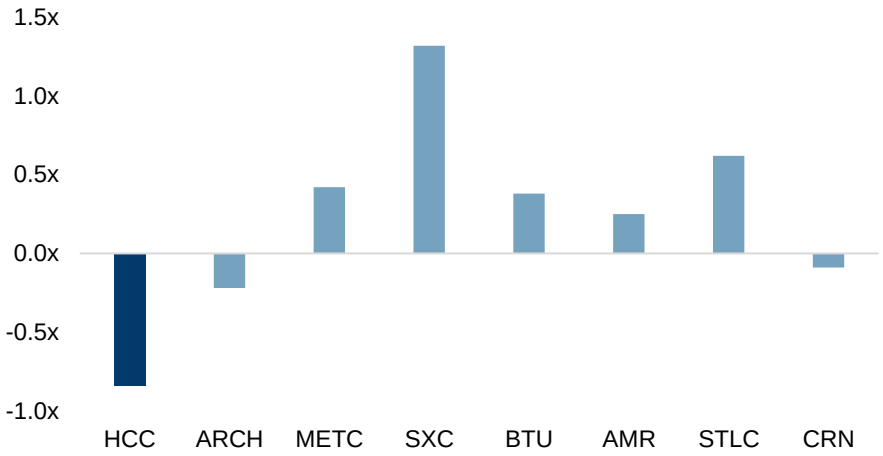
Killer Balance Sheet De-risks Investment

Favorable Relative Debt Metrics

Net Debt vs. Comps(1)

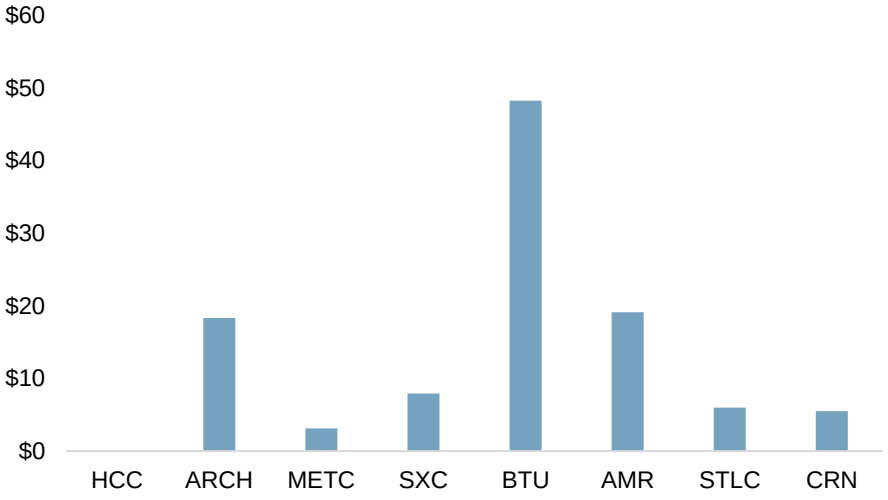


Leverage Ratio vs. Comps(1)



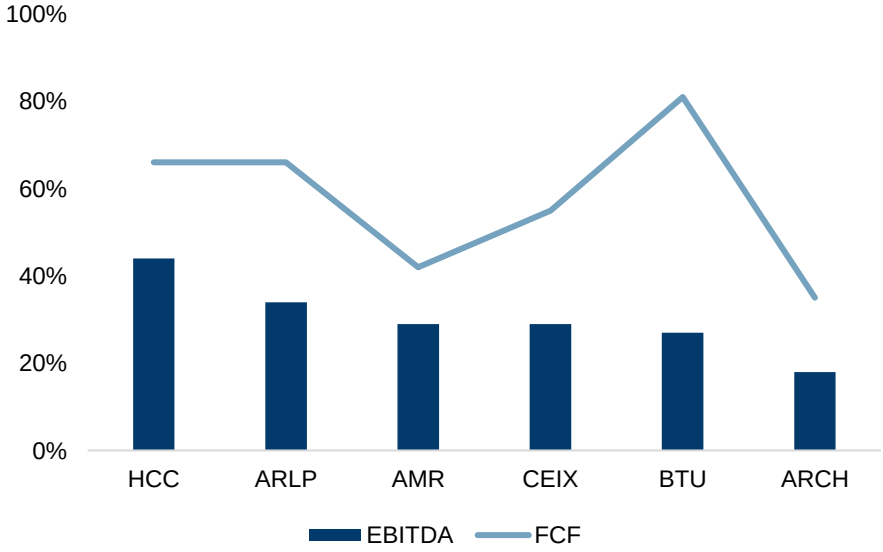
Pension Obligations (oh wait there aren't any)

Total Annual Pension Expense vs. Comps (in millions)(1)



Industry Leading Margins

EBITDA Margin and FCF Conversion Relative to Peers(3)



(1) CapIQ (2) HCC Filings (3) HCC Investor Relations

Investment Thesis

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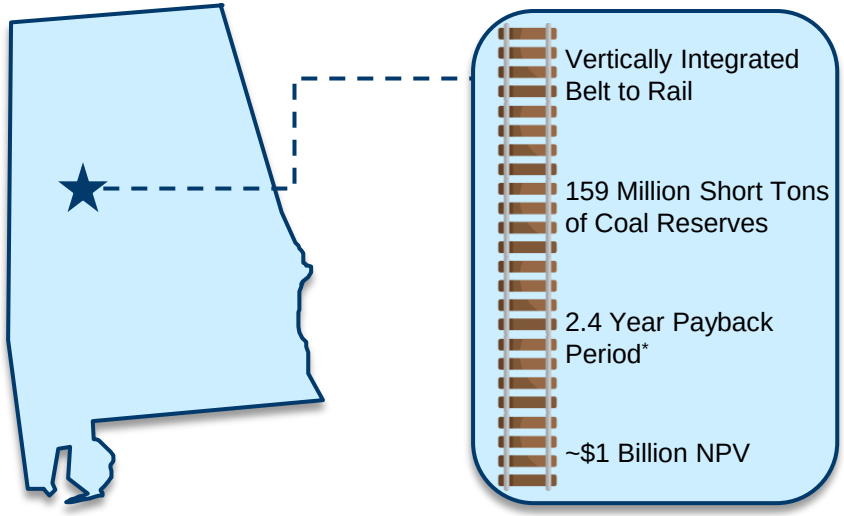
Industrials and Energy Committee – Warrior Met Coal Pitch

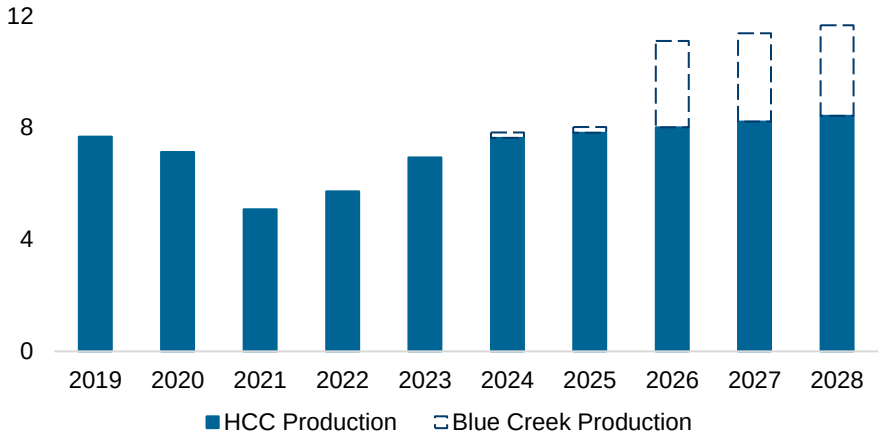
Blue Creek Will Revolutionize American Steelmaking Coal

One of North America's Few Untapped Greenfields…



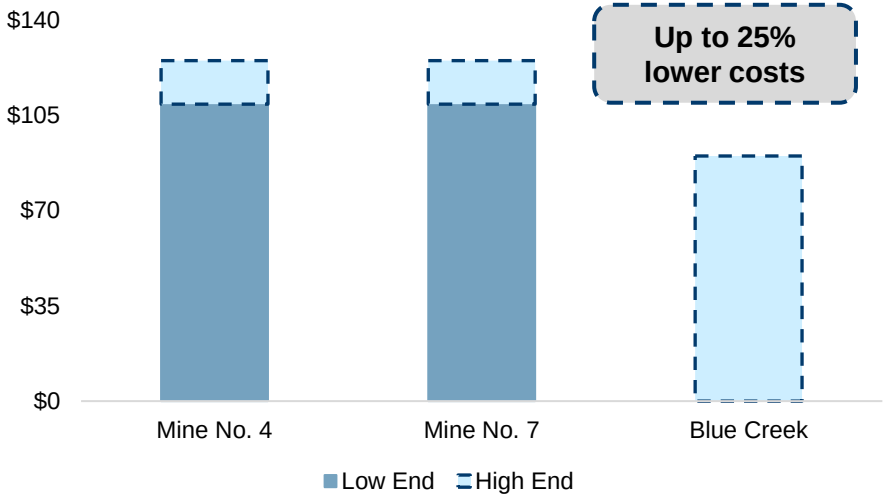
…Increasing Output by up to 60%...

HCC Production Over Time (million short tons)(1,2)



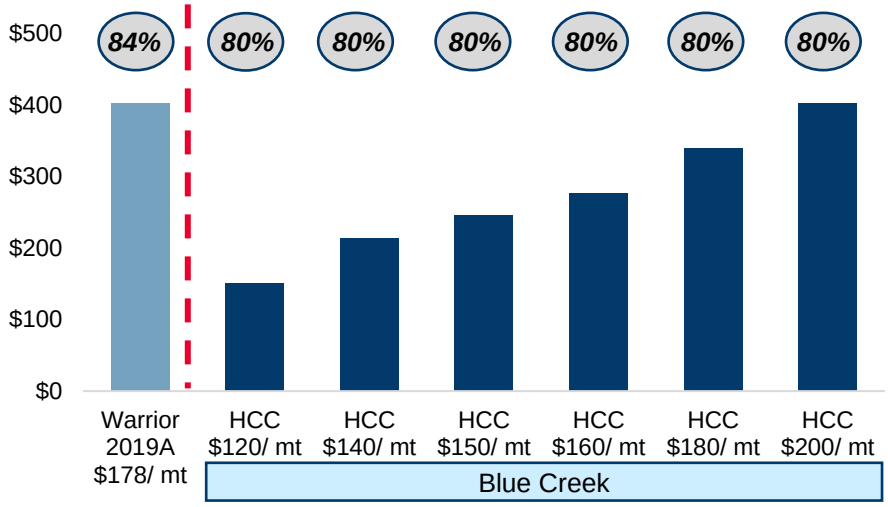
…While Operating at Lower Costs…

Cash Cost of Sales per Short Ton(1)



…Effectively Generating FCF at all Spot Prices

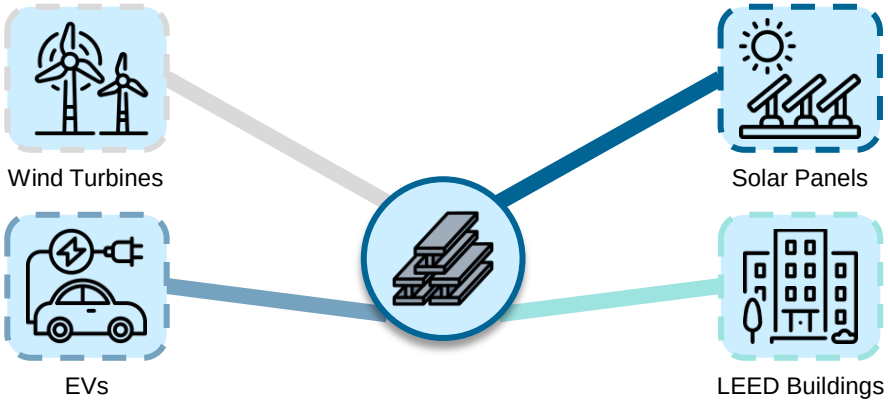
Incremental FCF and FCF Conversion Rate(1)



(1) HCC Filings (2) InE Estimates + Mgmt. Guidance *Assuming Spot Price of $150 per Ton

The World Needs More Steel

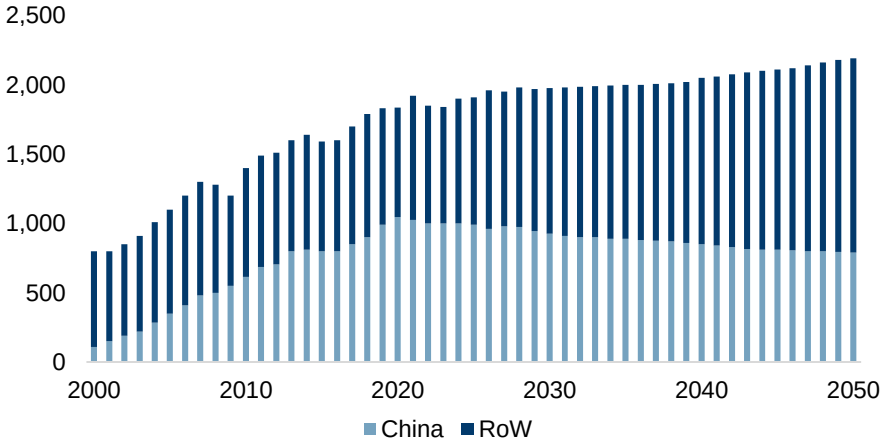
Critical Piece of an Environmentally-Sustainable World



High-quality steel is required for the production of key green technologies at the core of **global decarbonization initiatives**

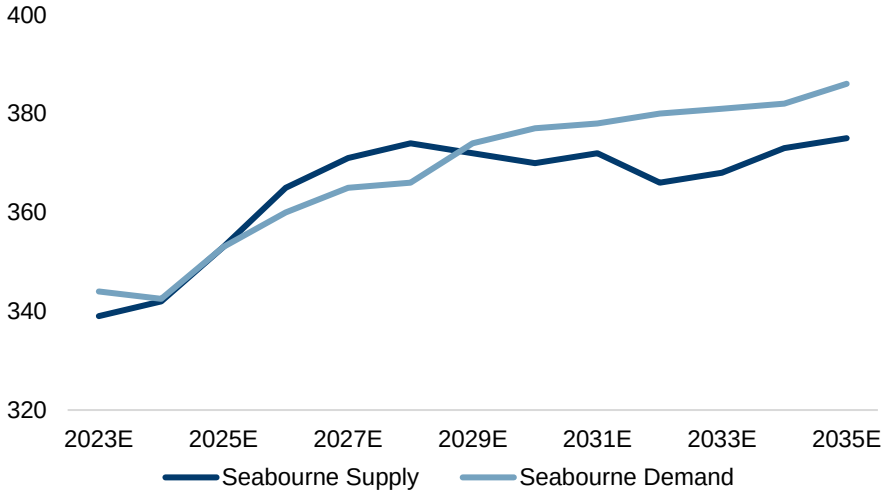
Emerging Countries Driving Long-Term Growth

Global Steel Demand (millions of metric tons)[1]



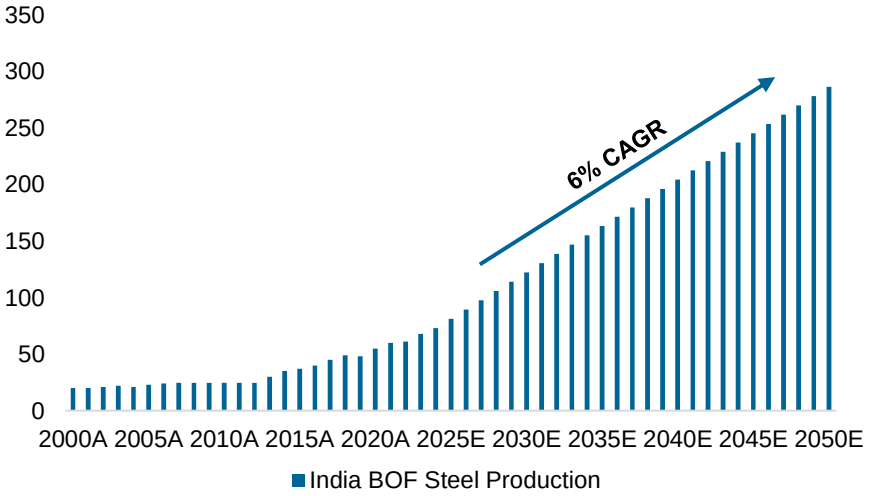
Steelmaking Coal Demand is Outpacing Supply

Seabourne HCC Supply / Demand (millions of metric tons)[1]



Key Markets are Rapidly Ramping Usage

India BF-BOF Steel Production (in million tons)[1]



(1) Wood Mackenzie Coal Supply and Market Services

Management are Experienced, Disciplined Capital Allocators

Over 140 Combined Years in the Coal Business

Walter J. Scheller, III
Chief Executive Officer

Dale W. Boyles
Chief Financial Officer

Jack K. Richardson
Chief Operating Officer

Kelly K. Gant
Chief Administrative Officer

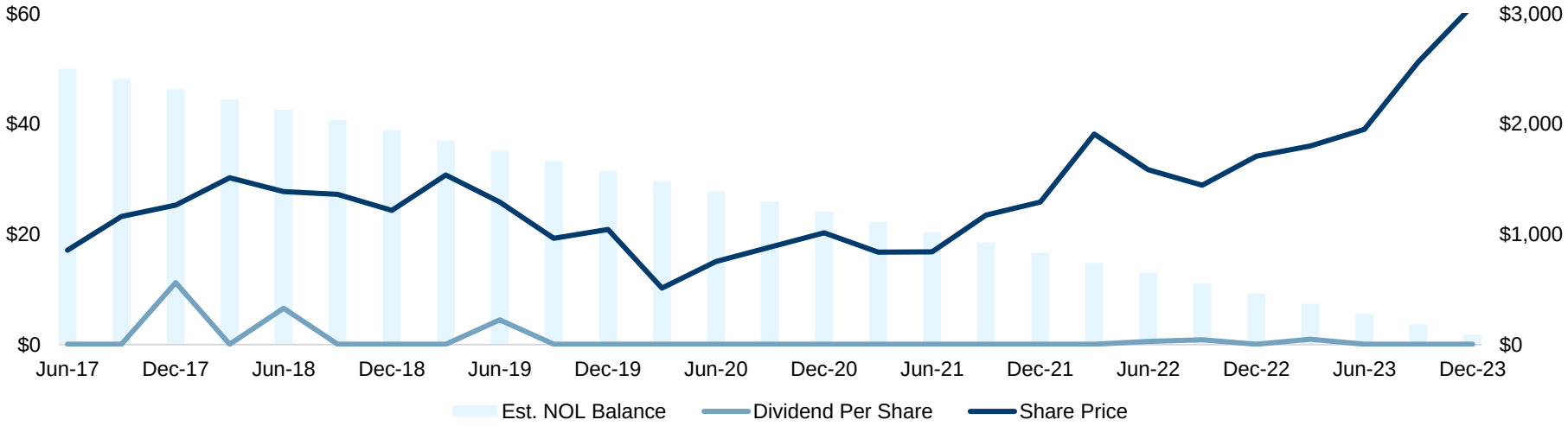
Charles Lussier
Chief Commercial Officer

Brian M. Chopin
Chief Accounting Officer

Companies Represented:

Management Stuck to Their Capital Allocation Strategy and Stockpiled Cash

Quarterly Dividend Payments, Share Price, and Est. NOL Balance (in millions) [1,2]



(1) HCC Filings (2) InE Estimates

Valuation

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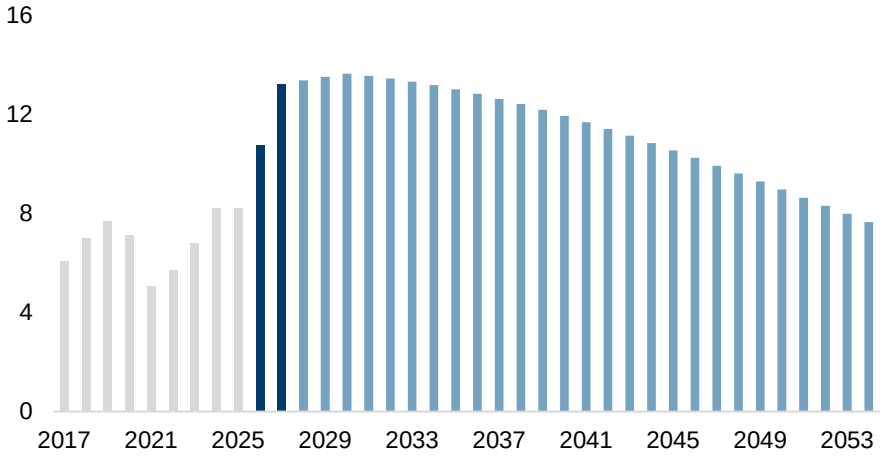
Industrials and Energy Committee – Warrior Met Coal Pitch

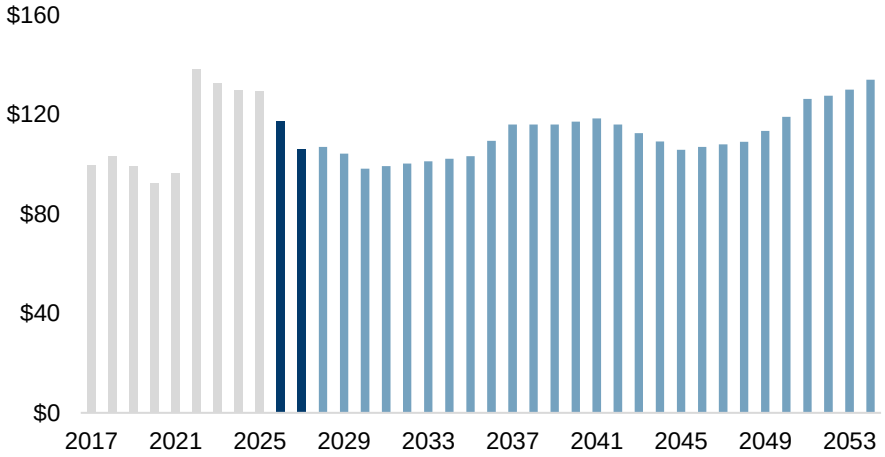
Thesis in the Model

Blue Creek Increases Production by 60% While Reducing Cost Averages

HCC Metric Tons Produced (in Millions)(1,2)

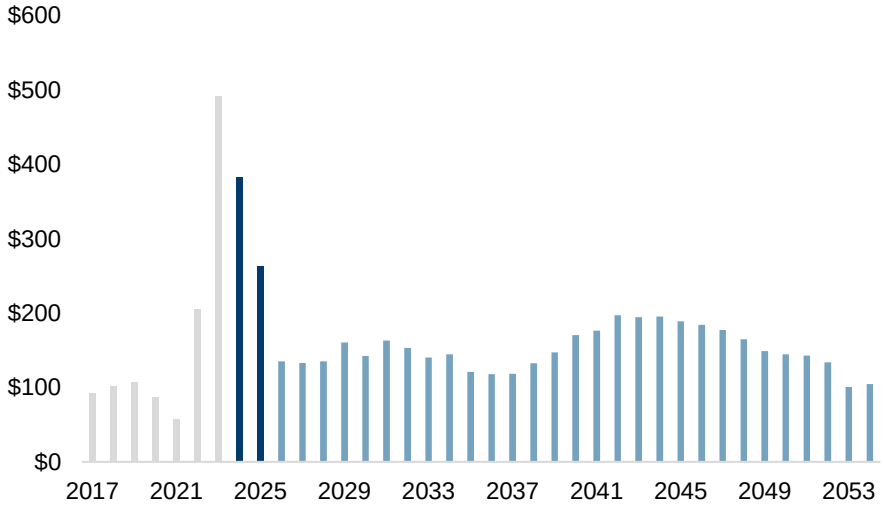


HCC Cash Cost of Sales per Metric Ton(1,2)



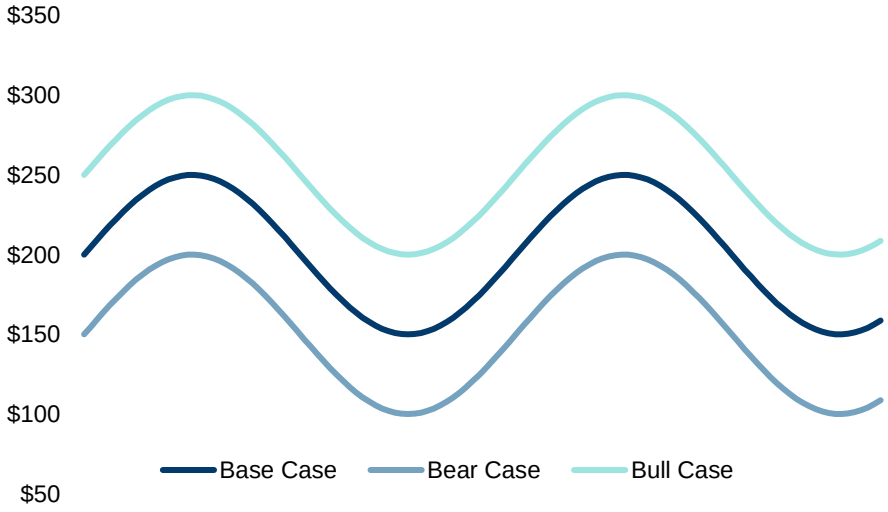
Peaking Capex Normalizes to Maintenance Levels

HCC Capital Expenditures (in Millions)(1,2)



Coal Pricing Scenarios

Average Selling Price per Metric Ton(2)



(1) HCC Filings (2) InE Estimates

Cover Sheet

Base Case DCF

Assumptions		
Model Date		4/5/2024
Today's Date		4/7/2024
Discount Rate		12%
Long Term Growth Rate		0%
Terminal Multiple		6.00x
Diluted Shares Outstanding		52,045
Current Share Price	$	56.48
Cash		747,227
Debt		173,242
Preferred Stock / Other		-
Tax Rate		21%

Long Term Growth Rate Method - Base Case		
Terminal Value		
PV of Terminal Value		-
PV of Free Cash Flow		4,940,517
Implied Enterprise Value		**4,940,517**
Less: Debt		173,242
Less: Preferred/ Other		-
Plus: Cash		747,227
Implied Equity Value		5,514,502
Diluted Shares Outstanding		52,045
Implied Share Price	$	105.96
Upside / (Downside)		88%
Implied NTM EBITDA Multiple		9.74x

Bear Case Spot Prices

Long Term Growth Rate Method - Bear Case		
Terminal Value		
PV of Terminal Value		-
PV of Free Cash Flow		2,375,504
Implied Enterprise Value		**2,375,504**
Less: Debt		173,242
Less: Preferred/ Other		-
Plus: Cash		747,227
Implied Equity Value		2,949,489
Diluted Shares Outstanding		52,045
Implied Share Price	$	56.67
Upside / (Downside)		0%
Implied NTM EBITDA Multiple		14.81x

Bull Case Spot Prices

Long Term Growth Rate Method - Bull Case		
Terminal Value		
PV of Terminal Value		-
PV of Free Cash Flow		7,729,279
Implied Enterprise Value		**7,729,279**
Less: Debt		173,242
Less: Preferred/ Other		-
Plus: Cash		747,227
Implied Equity Value		8,303,264
Diluted Shares Outstanding		52,045
Implied Share Price	$	159.54
Upside / (Downside)		182%
Implied NTM EBITDA Multiple		9.05x

(1) InE Estimates

Appendix

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Industrials and Energy Committee – Warrior Met Coal Pitch

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XII. Thesis in the Model
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Appendix

I. Historical FCF
II. BC EBITDA / Spot Price
III. Safety Leaders
IV. Legislation Summary
V. Strike Summary
VI. EAF Feasibility

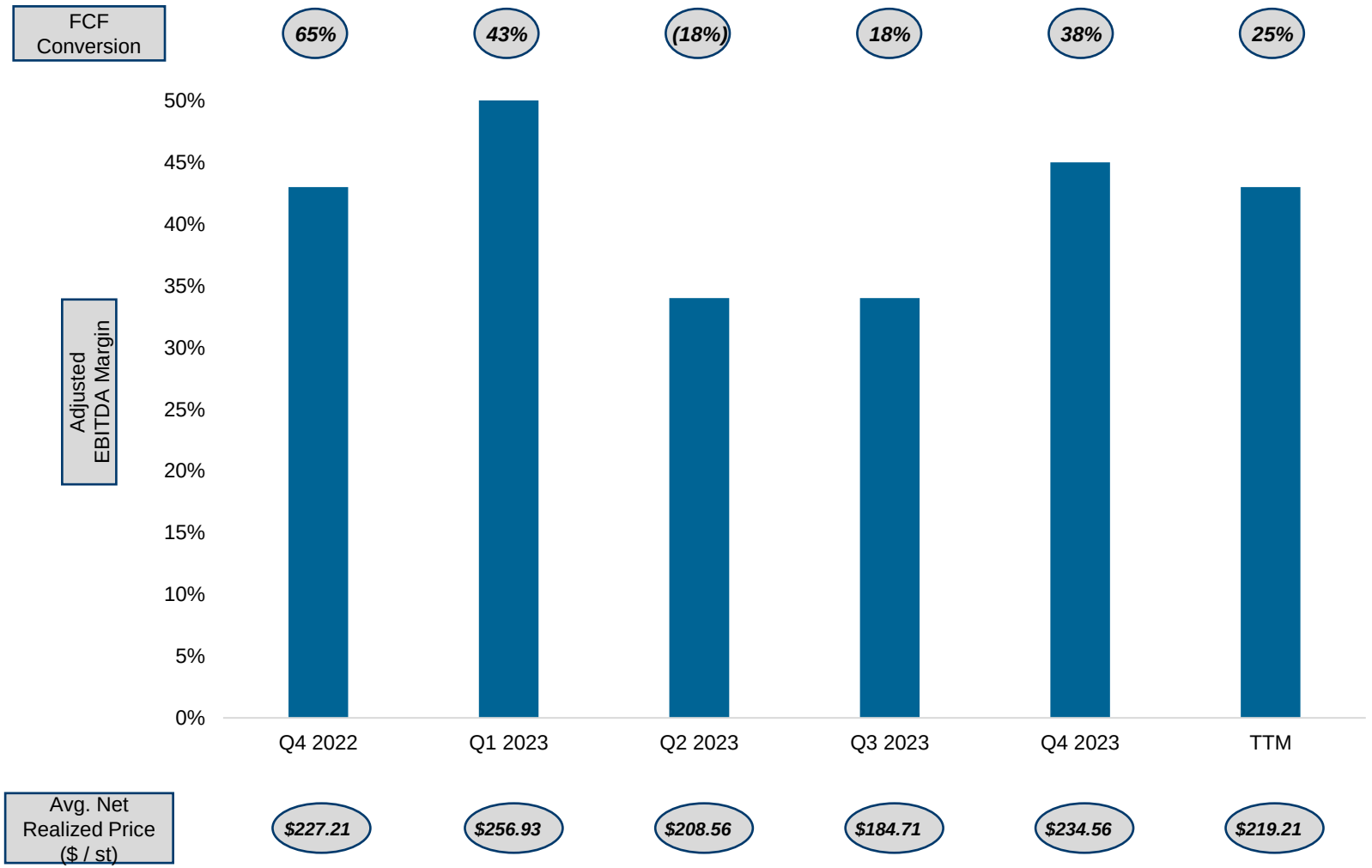
Model Appendix

I. Cover
II. Spot Price Math
III. Variance

Historical FCF Despite Blue Creek Spend

Generated Significant FCF

FCF on Conversion of Adjusted EBITDA Margins[1]

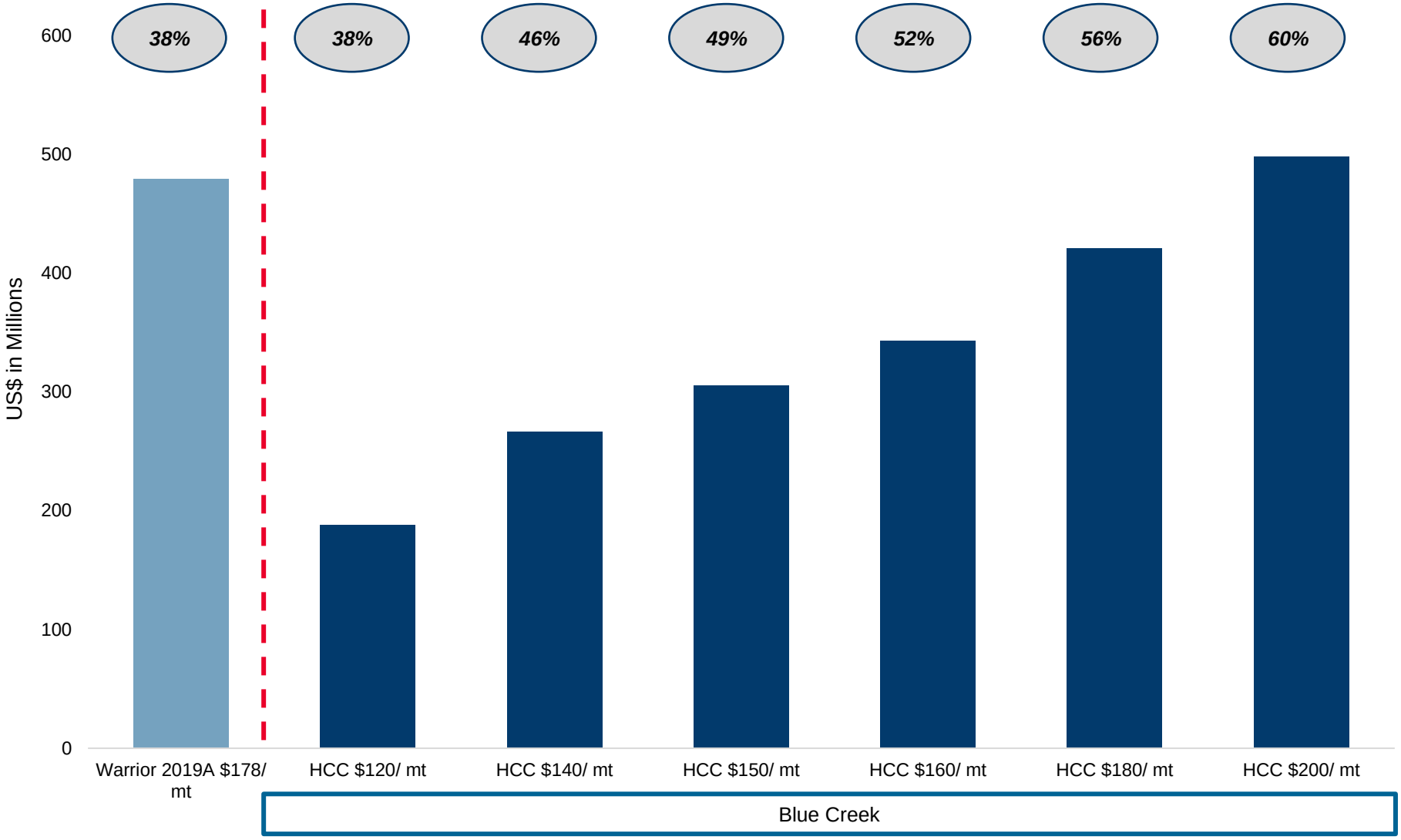


(1) HCC Investor Relations

Powerful EBITDA Generation

Blue Creek Remains Profitable Through-the-Cycle

Incremental Adj. EBITDA and Adj. EBITDA Margin



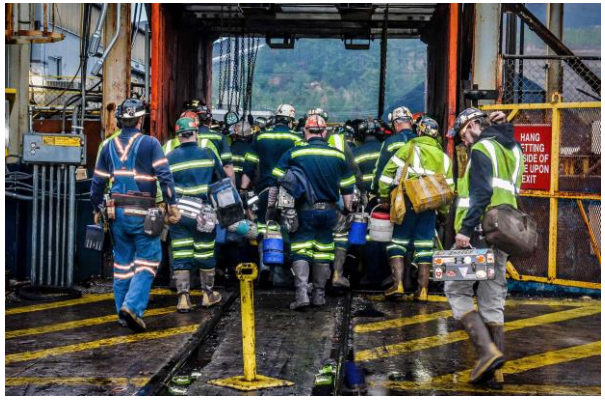
Industry-Leading Safety Standards

Strong Track Record

Total Reportable Incident Rate

	FY 2020	FY 2021	FY 2022	FY 2023
Tons Produced (000s St)	7,862	5,605	6,315	7,646
% increase/decrease	-7%	-29%	13%	21%
Mine 4	3.94	0.93	2.05	2.02
Mine 7	3.06	1.34	1.61	1.82
Total Company	3.36	1.25	1.74	1.9
Industry Average	4.4	4.77	4.68	4.39
% higher/lower vs. national rate	**-23.7%**	**-73.8%**	**-62.8%**	**-56.7%**

- Superior safety record compared to industry average
- Focus on safety managed through a rigorous training program
- As production and man hours increased in 2023, there was slight increase in the reportable incident rate



Summary of Relevant Legislature

Surface Mining Control and Reclamation Act – requires that comprehensive environmental protection and reclamation standards be met during the course of and following completion of mining activities.

Clean Air Act – regulate air emissions affect coal mining operations both directly and indirectly. Direct impacts on coal mining may occur through permitting requirements and/or emission control requirements relating to particulate matter, such as fugitive dust, or fine particulate matter measuring 2.5 micrometers in diameter or smaller.

Clean Water Act – restricts the discharge of pollutants, including dredged and fill materials, into waters of the United States.

Resource Conservation and Recovery Act – establishes standards for the management of solid and hazardous wastes generated at operational facilities. Besides affecting current waste disposal practices, RCRA also addresses the environmental effects of certain past hazardous waste treatment, storage and disposal practices.

Comprehensive Environmental Response, Compensation, and Liability Act – imposes investigation and cleanup requirements for threatened or actual releases of hazardous substances. Under CERCLA, joint and several liability may be imposed on operators, generators, site owners, lessees and others regardless of fault or the legality of the original activity that caused or resulted in the release of the hazardous substances.

Endangered Species Act – protects species threatened or endangered with possible extinction. Protection of threatened, endangered and other special status species may have the effect of prohibiting or delaying mining permit obtainment and may include restrictions on activities in areas containing the affected species.

Climate Change Legislation (Various) – specifically addresses the emission of GHGs, and how to address direct emissions as a result of operations.

(1) U.S. Department of State

Strike Summary and Result (why doesn't matter)

Cause of the Strike:

- In **2016**, following the bankruptcy of Walter Energy, Warrior Met Coal was established.
- The new company asked workers to take a pay & benefits cut to keep mines open, but promised those benefits would be restored after five years.
- The 2016 contract cut wages by $6 an hour, the 2021 contract only raised by $1 an hour.
- In short, the new contract **was not what workers were promised**. Workers and the UMWA authorized a strike.

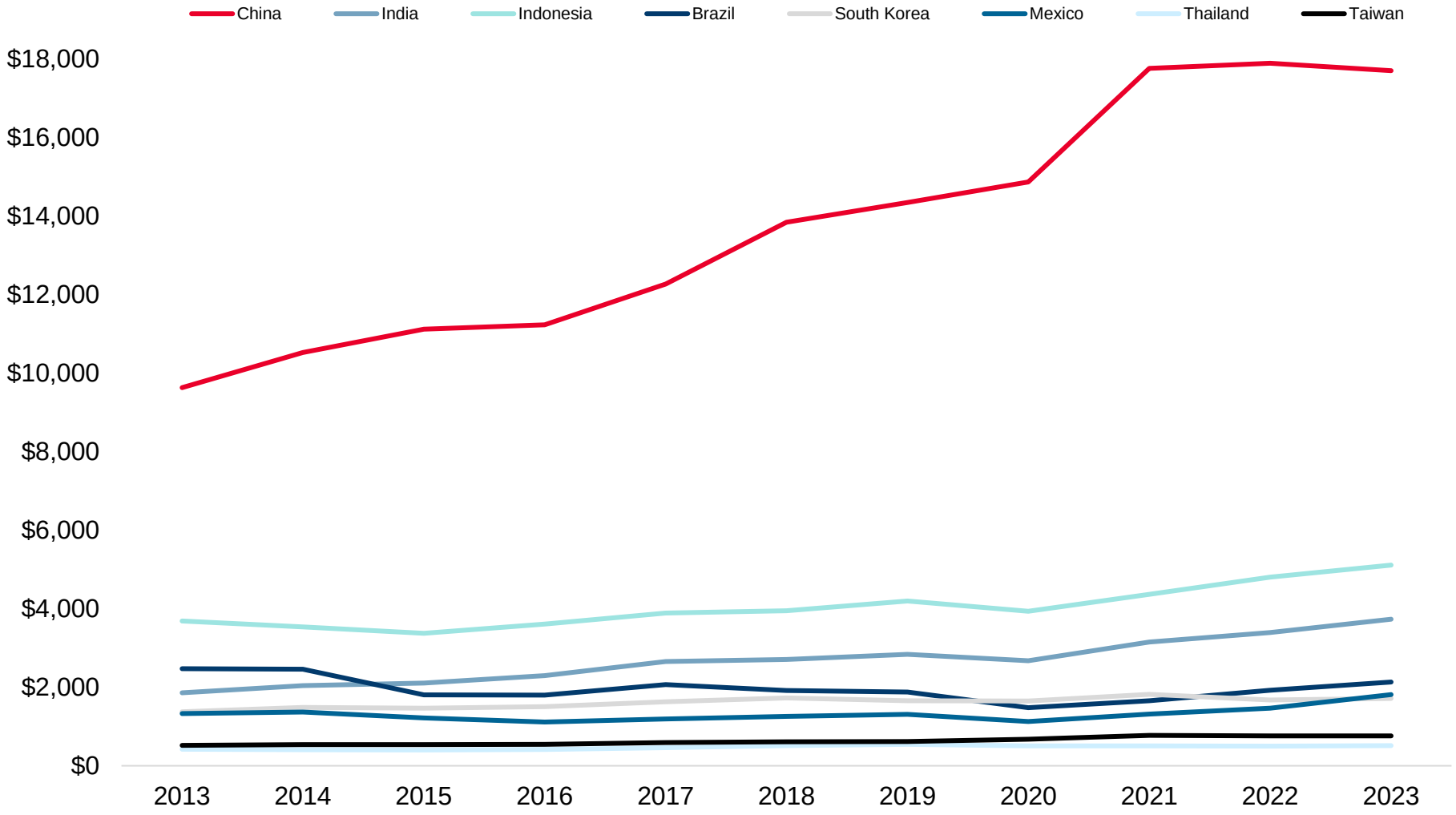
Outcome:

- In **February 2023**, the union decided to end the strike and offer an **unconditional return to work** – there was little hope that workers and management could reach an agreement.
- Unconditional return to work meant workers could go back to the same conditions they left.
- In other words, **workers lost the battle.**

Limited Feasibility of EAF Implementation

The Premium Choice for Developing Countries

End Market GDP (in Billions)[1]



(1) World Bank Open Data

Model Appendix

CULVERHOUSE
INVESTMENT MANAGEMENT GROUP

Industrials and Energy Committee – Warrior Met Coal Pitch

Cover Sheet (Collapsed)

Assumptions		
Model Date		4/8/2024
Today's Date		4/7/2024
Discount Rate		12%
Long Term Growth Rate		0%
Terminal Multiple		6.00x
Diluted Shares Outstanding		52,045
Current Share Price	$	56.48
Cash		747,227
Debt		173,242
Preferred Stock / Other		-
Tax Rate		21%

Culverhouse Investment Management Group
Warrior Met Coal, Inc. (NYSE: HCC)
Reccomendation: BUY at 7.5%

CH: Caleb Claiborne
All Values in Thousands, Except per Share Amounts

Calender ended	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
	2017	2018	2019	2020	2021	2022	2023	2024	2054
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY54
Fiscal Year Ended	A	A	A	A	A	A	A	E	E
Revenue	1,169,092	1,378,007	1,268,309	782,738	1,059,216	1,738,738	1,676,625	1,504,262	1,027,798
Cost of Sales	620,952	726,817	750,573	658,906	583,181	737,652	947,755	950,123	889,118
Gross Profit	548,140	651,190	517,736	123,832	476,035	1,001,086	728,870	554,138	138,680
Opex	124,739	142,903	134,344	150,971	232,282	199,662	187,464	227,594	124,569
EBIT	423,401	508,287	383,392	(27,139)	243,753	801,424	541,406	326,544	14,111
Taxes	(38,592)	(225,814)	65,417	(20,144)	49,096	141,806	72,790	72,212	4,055
NOPAT	461,993	734,101	317,975	(6,995)	194,657	659,618	468,616	254,332	10,056
D&A	75,413	97,209	97,330	118,092	141,418	115,279	127,356	180,511	98,360
Capex	(92,625)	(101,620)	(107,278)	(87,488)	(57,893)	(205,242)	(491,674)	(328,343)	(89,418)
(Increase) Decrease in NWC	42,250	(1,743)	(4,254)	28,287	(34,551)	(95,252)	23,620	(44,865)	69,763
UFCF								61,635	88,760
Discounted UFCF								55,031	2,645
Discount Period								1.00	31.00
EBITDA	498,814	605,496	480,722	90,953	385,171	916,703	668,762	507,056	112,471
EBITDA Margin	*42.7%*	*43.9%*	*37.9%*	*11.6%*	*36.4%*	*52.7%*	*39.9%*	*33.7%*	*10.9%*

Long Term Growth Rate Method - Base Case		
Terminal Value		
PV of Terminal Value		-
PV of Free Cash Flow		4,940,517
Implied Enterprise Value		**4,940,517**
Less: Debt		173,242
Less: Preferred/ Other		-
Plus: Cash		747,227
Implied Equity Value		5,514,502
Diluted Shares Outstanding		52,045
Implied Share Price	$	105.96
Upside / (Downside)		88%
Implied NTM EBITDA Multiple		9.74x

Long Term Growth Rate Method - Bear Case		
Terminal Value		
PV of Terminal Value		-
PV of Free Cash Flow		2,375,504
Implied Enterprise Value		**2,375,504**
Less: Debt		173,242
Less: Preferred/ Other		-
Plus: Cash		747,227
Implied Equity Value		2,949,489
Diluted Shares Outstanding		52,045
Implied Share Price	$	56.67
Upside / (Downside)		0%
Implied NTM EBITDA Multiple		14.81x

Long Term Growth Rate Method - Bull Case		
Terminal Value		
PV of Terminal Value		-
PV of Free Cash Flow		7,729,279
Implied Enterprise Value		**7,729,279**
Less: Debt		173,242
Less: Preferred/ Other		-
Plus: Cash		747,227
Implied Equity Value		8,303,264
Diluted Shares Outstanding		52,045
Implied Share Price	$	159.54
Upside / (Downside)		182%
Implied NTM EBITDA Multiple		9.05x

(1) InE Estimates

Coal Price Case Math

Sample First 10 Years

k	t	g(t)	g(t) +1 *50	Base Case	Bear Case	Bull Case
0	0	0	0	200	150	250
1	0.1	0.094108	4.705416	204.7054	154.7054	254.7054
2	0.2	0.187381	9.369066	209.3691	159.3691	259.3691
3	0.3	0.278991	13.94956	213.9496	163.9496	263.9496
4	0.4	0.368125	18.40623	218.4062	168.4062	268.4062
5	0.5	0.45399	22.69952	222.6995	172.6995	272.6995
6	0.6	0.535827	26.79134	226.7913	176.7913	276.7913
7	0.7	0.612907	30.64535	230.6454	180.6454	280.6454
8	0.8	0.684547	34.22736	234.2274	184.2274	284.2274
9	0.9	0.750111	37.50555	237.5056	187.5056	287.5056
10	1	0.809017	40.45085	240.4508	190.4508	290.4508

(1) InE Estimates

Variance from Street

in thousands, except per share amounts

Calendar Ended	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec	31-Dec	31-Dec
Fiscal Year Ended	2024				2025				2024	2025
	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	FY24	FY25
	E	E	E	E	E	E	E	E	E	E
Metric Tons Produced										
Model	1,596	1,745	1,989	1,838	1,756	1,920	1,989	1,838	7,168	7,502
Street	1,920	1,940	1,960	1,980	1,970	1,980	1,990	2,000	7,800	8,080
Variance	-17%	-10%	1%	-7%	-11%	-3%	0%	-8%	-8%	-7%
Metric Tons Sold										
Model	1,596	1,745	1,989	1,838	1,756	1,920	1,989	1,838	7,168	7,502
Street	1,970	1,980	1,960	1,960	1,980	2,000	1,999	2,000	7,870	8,150
Variance	-19%	-12%	1%	-6%	-11%	-4%	-1%	-8%	-9%	-8%
Total Revenues										
Model	323,109	361,585	421,492	398,076	388,129	432,706	456,566	429,140	1,504,262	1,706,541
Street	477,600	430,500	408,500	416,700	441,900	429,700	425,000	442,400	1,733,000	1,682,900
Variance	-32%	-16%	3%	-4%	-12%	1%	7%	-3%	-13%	1%
Net Income / (Loss)										
Model	51,389	64,494	80,674	75,099	80,150	94,750	107,432	99,872	271,656	382,204
Street	133,700	97,620	80,490	87,340	95,160	88,690	87,260	97,160	398,940	341,630
Variance	-62%	-34%	0%	-14%	-16%	7%	23%	3%	-32%	12%

(1) Visible Alpha (2) InE Estimates