



The Transformation of Consol Energy (CEIX)



Blue Outlier
CAPITAL

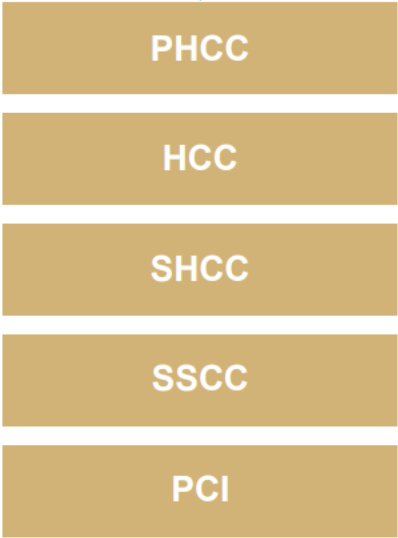
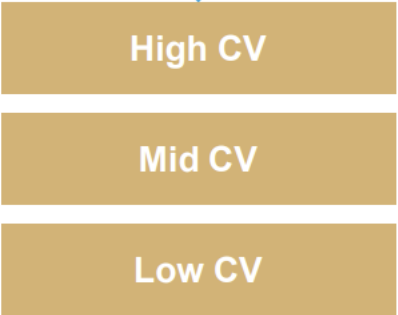
Ryan Rahinsky
ValueX Vail
June 2024



Thermal / steam coal

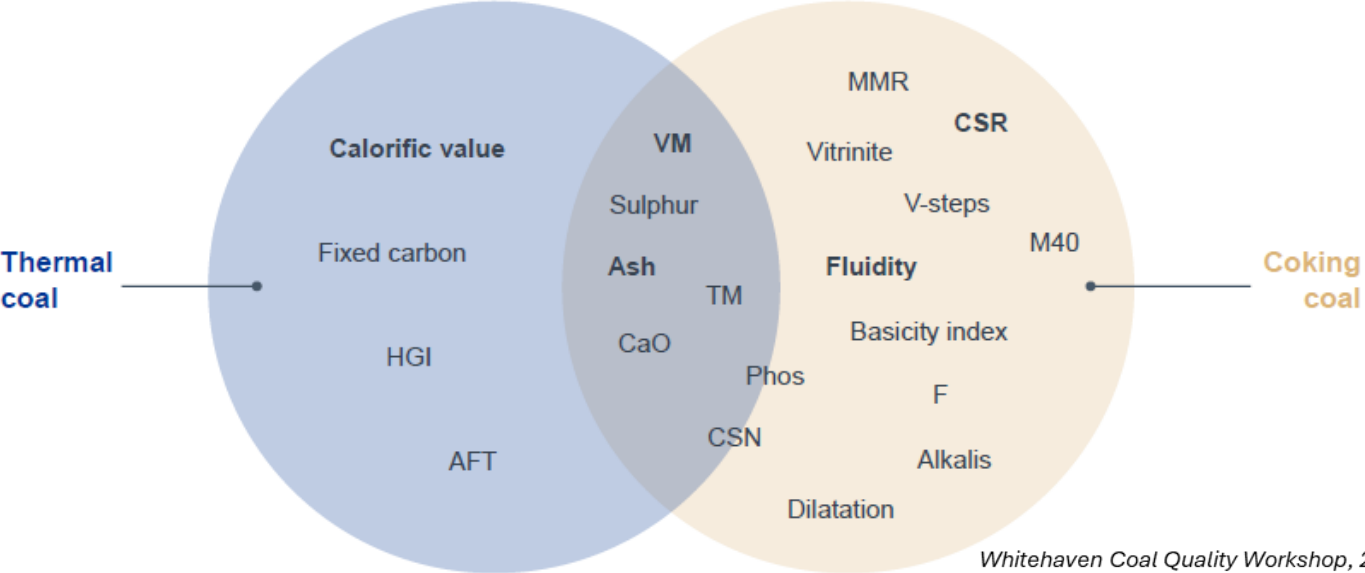
Met / coking coal

Used primarily in industrial uses and power generation



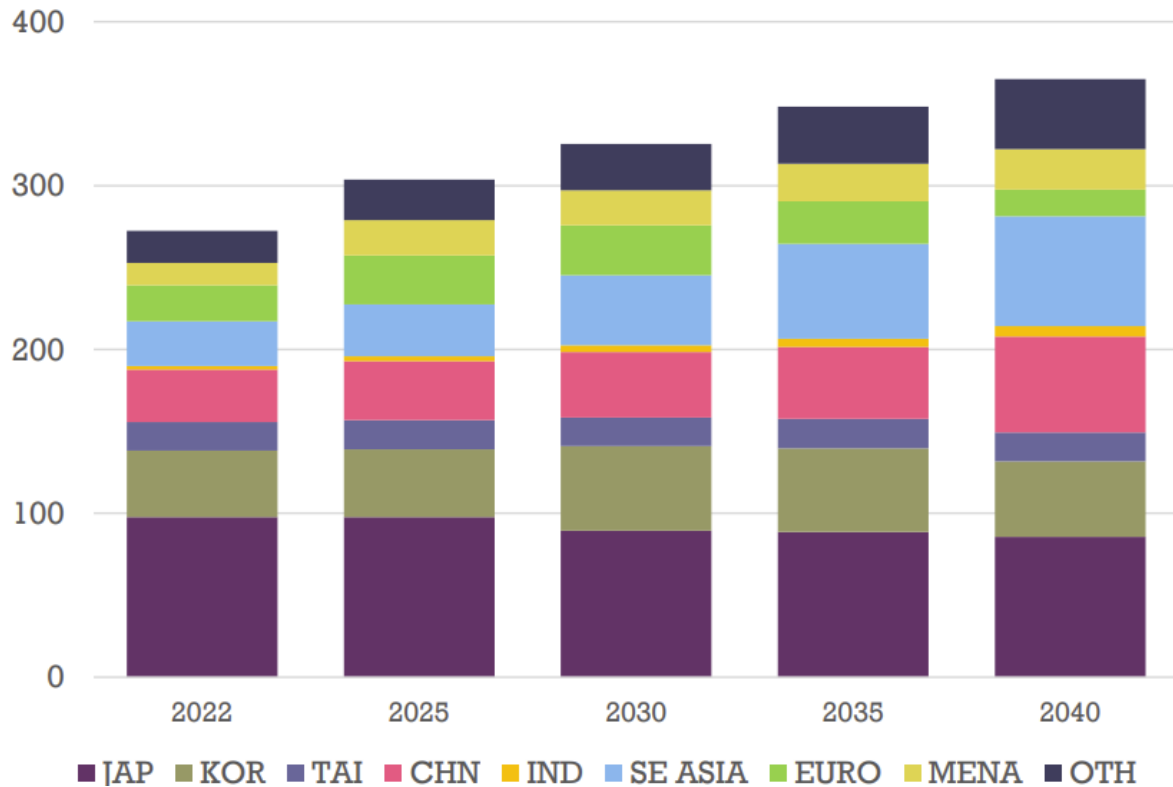
Used primarily in steel production

Whitehaven Coal Quality Workshop, 2023



Whitehaven Coal Quality Workshop, 2023

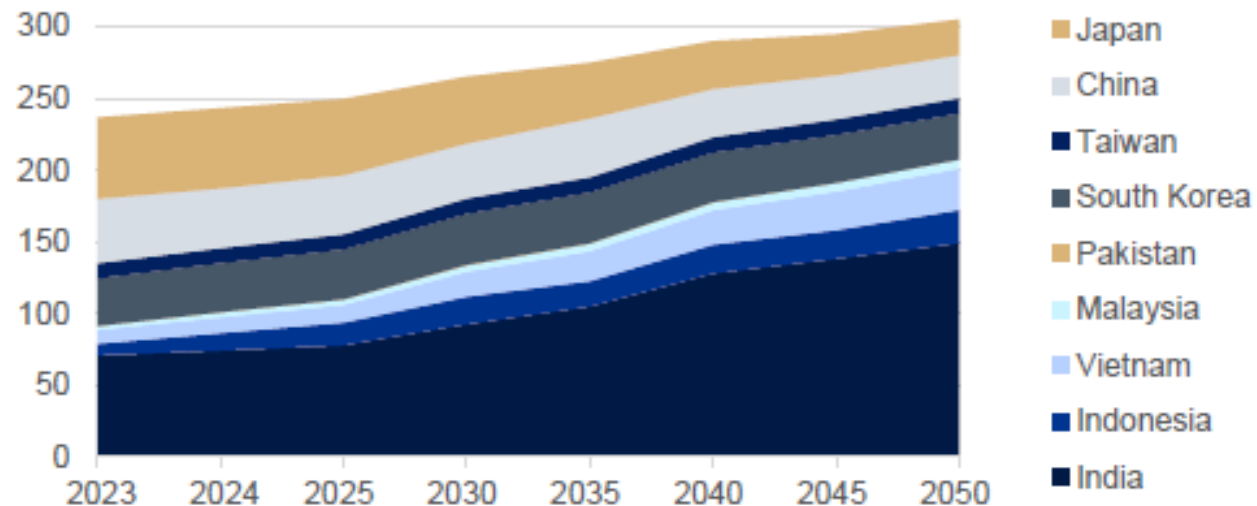
High-CV Thermal Coal Demand Forecast (Mt)



Forecast and Graphic by Commodity Insights, 2023

- India and SE Asia development (cement/brickmaking)
- High efficiency power plants, electricity demand growth from ai/data centers
- Forecasted to grow ~28% through 2040

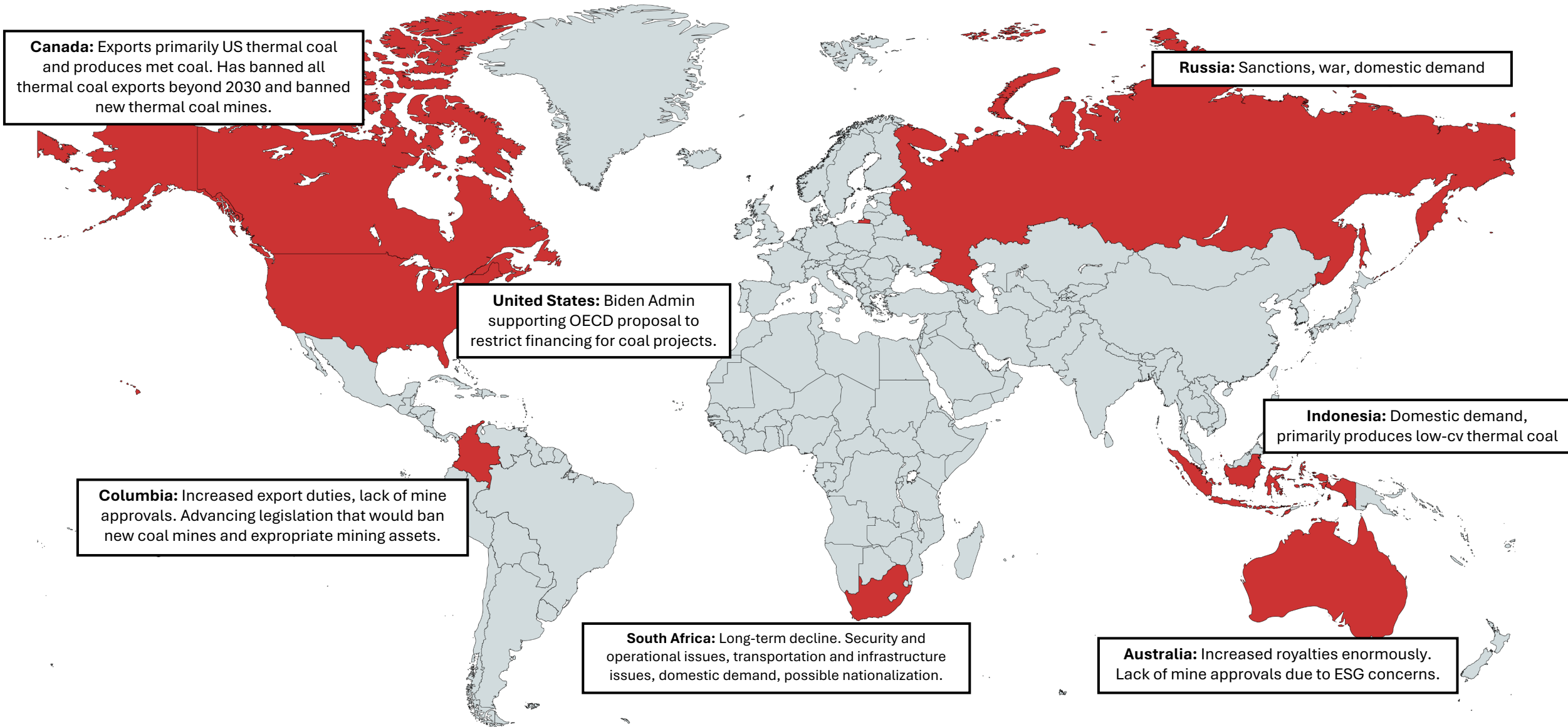
Seaborne Metallurgical Coal Demand Forecast (Mt)



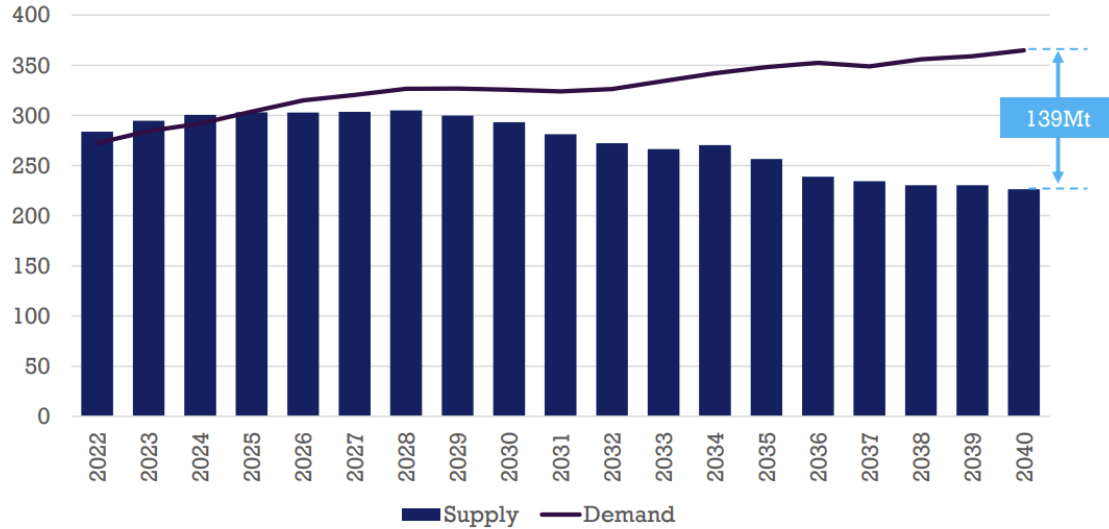
Forecast and Graphic by Wood Mackenzie, 2024

- India and SE Asia development (steel)
- Steel needed for energy transition
- Forecasted to grow ~30% through 2050

Major Exporters of High-CV Thermal / Met Coal



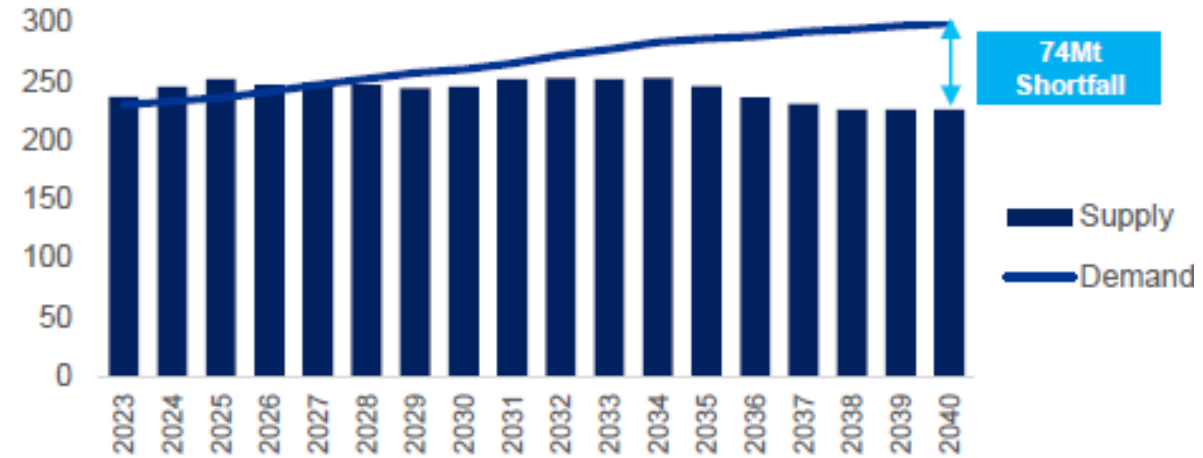
High CV Thermal Coal Supply / Demand



Forecast and Graphic by Commodity Insights, 2023

Demand forecasted to grow ~28% from 2023 to 2040, while supply falls by ~23%

Metallurgical Coal Supply/Demand

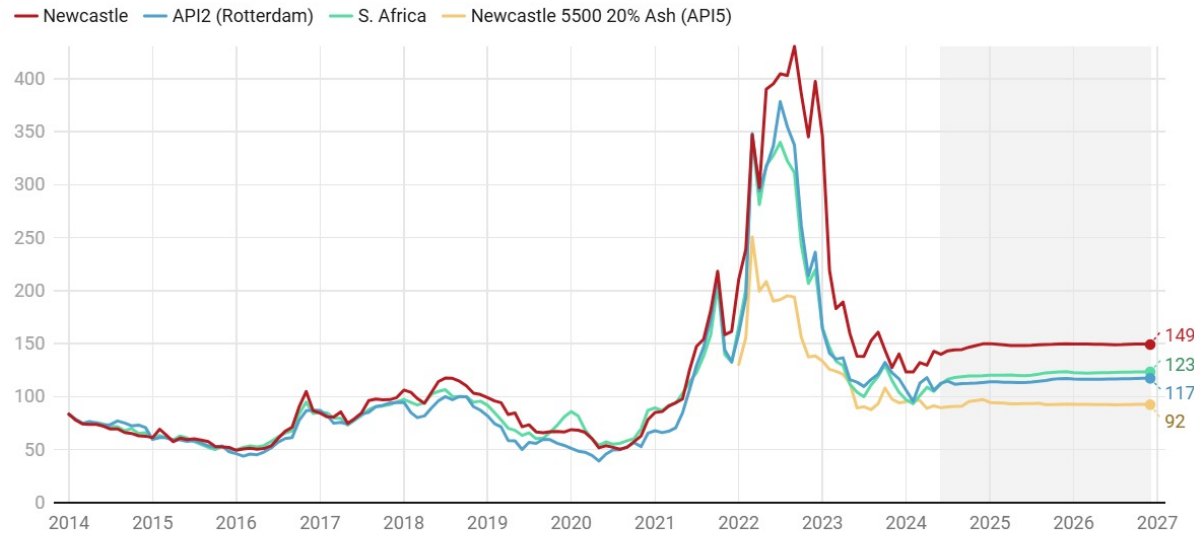


Forecast and Graphic by Commodity Insights, 2023

Demand forecasted to grow ~30% from 2023 to 2050, while supply falls by ~5%

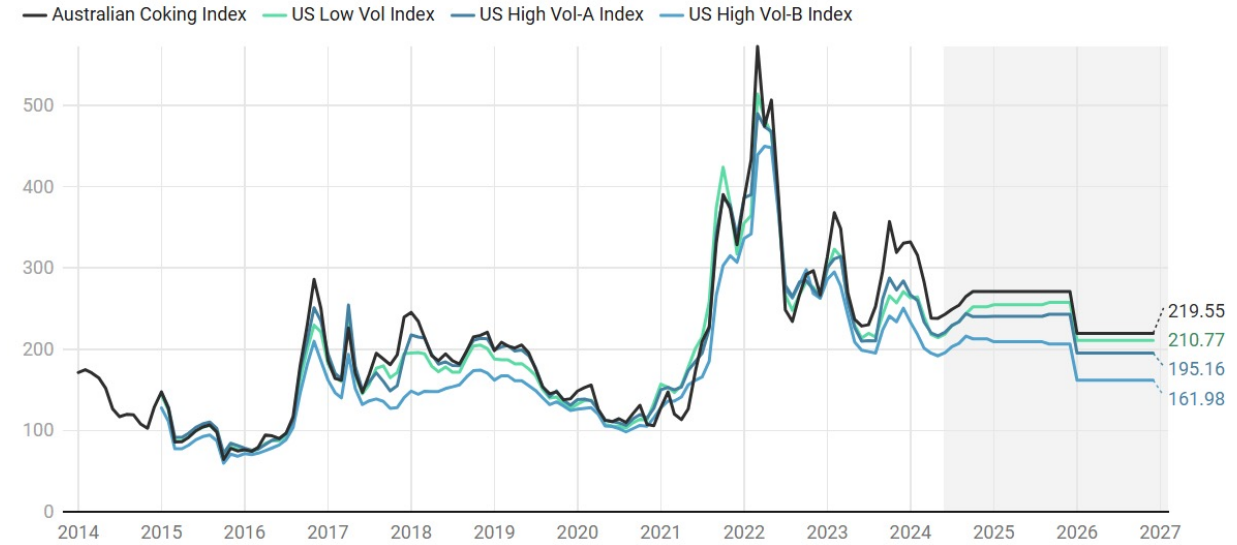
Higher for Longer

Seaborne Thermal Indexes



Source: [TheCoalTrader](#) • [Download image](#) • Created with [Datawrapper](#)

Atlantic Metallurgical Coal Prices



Source: [TheCoalTrader](#) • Created with [Datawrapper](#)

- Increased costs from inflation and higher royalties/duties structurally shifted the cost curve
- Made high sunk cost assets like Consol into high margin cash machines
- Prices will need to continue to rise to incentivize additional supply
 - Even high prices immediately following the Russian invasion of Ukraine didn't result in meaningful new supply
 - Thermal coal prices rose beyond that of metallurgical coal to incentivize met coal to sell as thermal
- What do prices do in the future with a growing inelastic demand and a supply in terminal decline?

Consol Energy

- Worlds premium low-cost high CV coal exporter
- Started in 1864 as Consolidation Coal
 - Diversified into natural gas in early 2000s
 - Spun off gas assets in 2017 (CNX)
- PAMC - largest underground coal mine complex in North America
- Significant logistical benefits
 - Serviced by two railroads (CSX & NSC)
 - Fully own their own export terminal with ~20 mt per year capacity
 - Compared to total US exports of all thermal bitumen of ~39mt in 2023
- Export industrial pivot
 - Export was 32% of annual sales volume in 2017, 61% in 2023



West Virginia Regional Visitor Center

Pennsylvania Mining Complex (PAMC)

- Production capacity of 28.5mt/yr
 - Mostly high CV thermal, with ~9% being sold as metallurgical coal
- ~583.5Mt of reserves and resources – over 20 years of production
 - ~80% reserves directly owned and require no royalty
- ~179,181 acres of mineral and/or surface rights
 - ~17,665 surface acres owned directly
- \$2.5B+ invested since 2009, \$1.4B book value
- Optimized for efficiency and low cost
 - Benefits from scale, centralized operations, served by two railroads
- Non-union workforce



Consol Energy

Itmann No. 5 Mine

- Began development in 2019, currently ramping up into full production
- Low-vol metallurgical coking coal
- 900k tons per year capacity
- 28.4 mt of reserves, 30 year mine life
- Controls approximately 20,224 contiguous acres of mining rights
 - Majority (95%) of the acreage is held under coal leases subject to industry standard royalties
- Book value of ~\$104.6 million



Consol Energy

Baltimore Export Terminal

- Only major coal terminal located on the East Coast of the United States served by two railroads (Norfolk Southern and CSX)
- Throughput capacity of ~20 million tons
 - ~19.0 million tons of coal exported in 2023
- Adjusted EBITDA for 2023 was \$80 million, \$52 million for 2022
 - With continued export pivot, earnings likely sustainable
- Export optionality and capacity a core competitive advantage



Consol Energy

Reserves and Resources

- ~1.9B mt in total reserves and resources
 - 87.7% thermal and 12.3% metallurgical
 - ~1.3B mt excluding active mines (PAMC & Itmann)
- Mason Dixon and River Mine Properties
 - Among the largest undeveloped Pittsburgh Seam (high CV thermal coal) properties remaining
 - Mason Dixon Mine 273.9 mt (96% owned)
 - River Mine 610.6mt (100% owned)
 - Over 141,000 acres of coal mineral and/or surface rights within the North Appalachian region
 - ~5,151 surface acres fully owned
 - Reserves provide future optionality

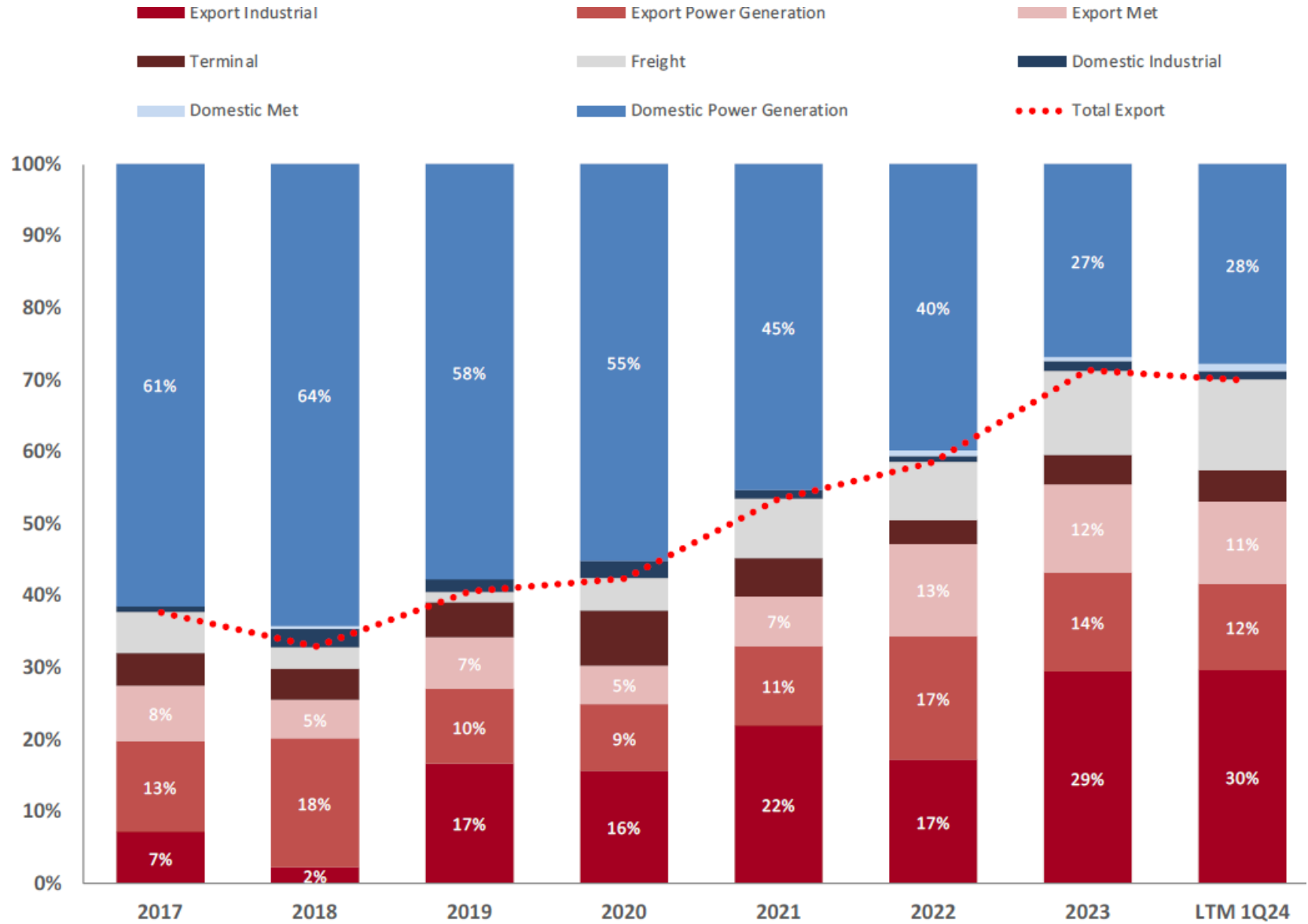


Consol Energy

Export Pivot

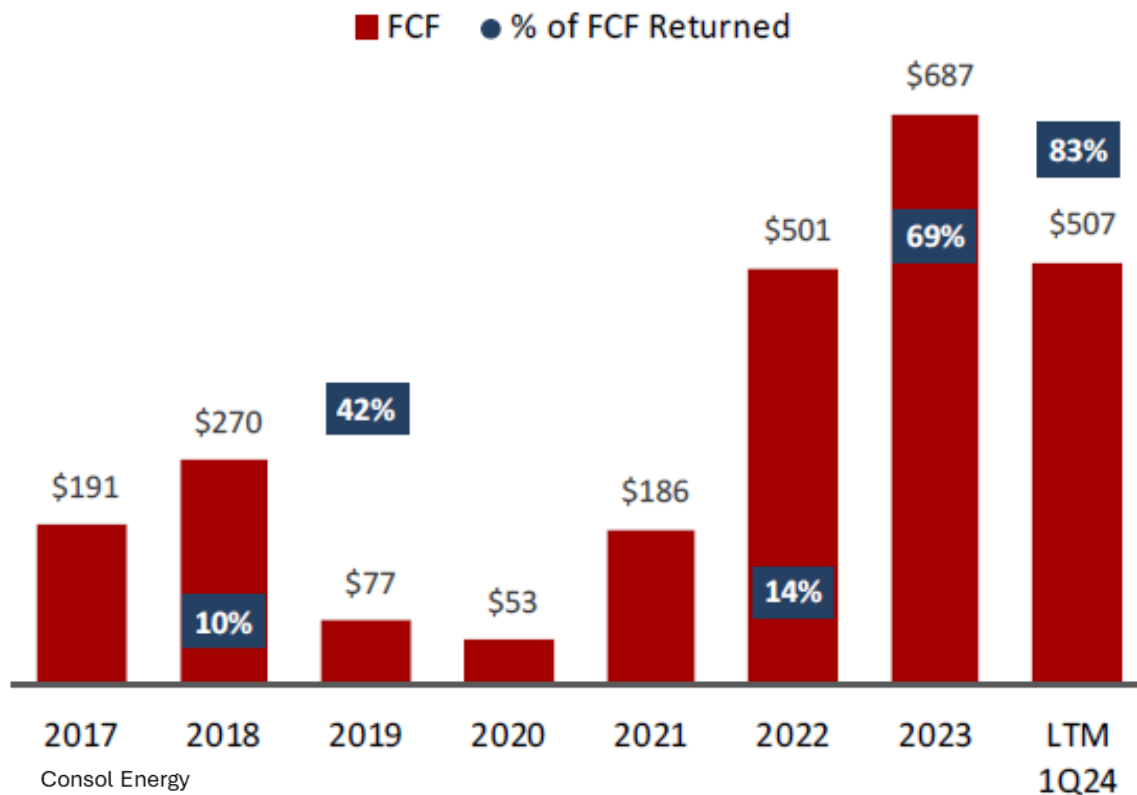
Sales to Power Generation Market decreased from 74% to 40% since 2017.

Sales to Export Industrial Market increased from 7% to 30% since 2017.

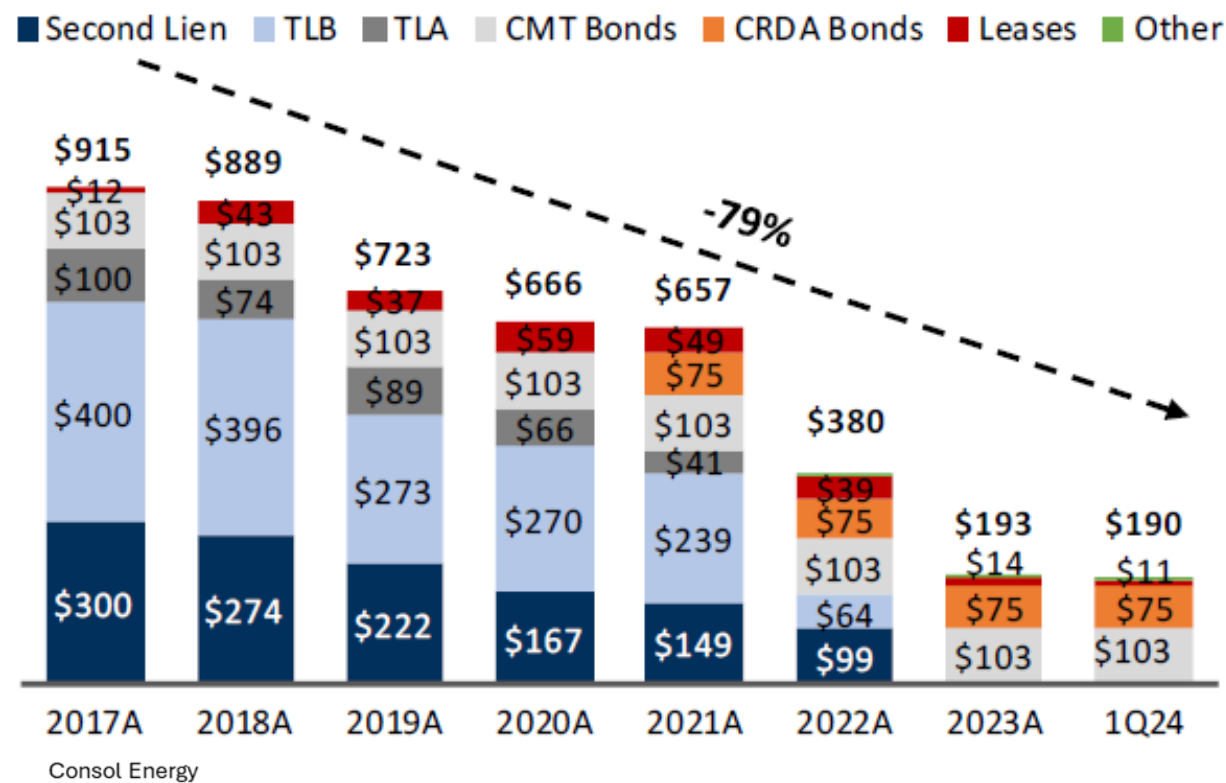


Financial Transformation

CEIX Free Cash Flow Generation (\$MM)²



Absolute Debt Levels (\$MM)



- Paid off all their high interest debt, sit at a net cash position
- Pivoted to share cannibalization strategy
 - Reduced share count by ~18% since December 2022
- High FCF yield, 75%+ of FCF targeted to buybacks

Management and Incentives

- Chairman and CEO Jimmy Brock started at Consol in 1979 as a coal miner
 - Owns roughly 1.6% of the company, most of his net worth

Compensation:

- Long-term incentive pay is the largest single portion of compensation (61.6% for CEO, 47.3% for other managers)
 - **60% tied directly to free cash flow per share**
 - 30% tied to non-power generation revenue (export/industrial pivot)
 - 10% tied to scope 1 and 2 emissions reduction
 - +/- 20% modifier, tied to total stock return compared to XOP
- 23% of total compensation for managers tied to short term performance measures
 - 30% PAMC production volume
 - 20% cash costs per ton
 - 10% Itmann operating EBITDA
 - 10% Export terminal EBITDA
 - 10% Permit exceedances (violations)
 - 20% Individual contribution



Chairman and CEO Jimmy Brock

Takeaways

- Transformed company
 - Industry leading assets
 - Export / Industrial pivot
 - Deleveraged, net cash position
 - High FCF yield
 - Share cannibalization strategy
 - Large reserves and future optionality
 - Management aligned and properly incentivized
- Transformed industry
 - Shifted cost curve due to inflationary factors and higher royalties / duties
 - Producing countries becoming increasingly hostile
 - Raising royalties / duties, not approving or banning mines, nationalization threats
 - United States now the best jurisdiction
 - Industrial demand growth from India/SE Asia development
 - Electricity demand growth from ai and datacenters
- Severe long-term supply/demand imbalance
 - Higher prices



Greene County

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