

# American Resources Corporation

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## American Resources strikes acquisitions to bolster its metallurgical coal footprint

- Produces and sells metallurgical coal, which is used for steel making
- One of the biggest coal producers in eastern Kentucky
- Currently owns a variety of complexes where metallurgical coal can be processed and transported, mostly by rail

### What American Resources does:

American Resources Corporation (NASDAQ:AREC) has spent the past several years consolidating assets to build out its metallurgical carbon platform. It is staffed by a team of former private equity executives and consultants with a sentimental attachment to Appalachia and its coal, who are keen to stage a turnaround in how business is done there.

The company distinguishes itself from struggling rivals - many of whom have plunged into bankruptcy - by their low-cost, efficient operations.

A quest for new ways to improve the intricate work of supplying various grades of coal to steel producers has been on the to-do-list for American Resources' management since its founding partners made their first investment in the industry in eastern Kentucky back in 2006.

American Resources operates five complexes located primarily within Pike, Perry, Knott and Letcher Counties in Kentucky and Wyoming County in West Virginia. The company's primary focus is on supplying steel mills and electric arc furnaces with metallurgical Carbon, PCI and specialty alloy metals along with metal products.

The company has gobbled up a number of struggling coal operations across Central Appalachia. Its takeovers include McCoy Elkhorn Coal, Dean Mining LLC, ICG Knott County, Wyoming County Coal, Empire Kentucky Land, the PointRock Mine and Perry County Resources.

American Resources management has a proven record of restructuring high-cost businesses in short order while maximizing the core value of their operations. By running operations with low or no legacy costs, American Resources Corporation works to maximize margins for its investors while being able to scale its operations to meet the growth of the global infrastructure market.

After stripping out about \$15 million in costs from the Perry County Resource complex in the first step of a restructuring, American Resources' team laid out a detailed plan to boost its performance and profitability and ensure it thrives.

### How is it doing:

American Resources has had an active few months. On September 10, the group revealed that it has further reduced its environmental liabilities through the remediation of certain idled, non-core permits.

The company said it has been able to expedite its environmental reclamation process during the coronavirus (COVID-19) pandemic, receiving \$400,000 of associated reclamation bonds. American Resources also said it

**Price:** 1.53

**Market Cap:** \$56.78 m

### Share Information

**Code:** AREC

**Listing:** NASDAQ

<b>52 week</b>	<b>High</b>	<b>Low</b>
	<b>4.92</b>	<b>0.32</b>

**Sector:** Coal

**Website:**  
[www.americanresourcescorp.com](http://www.americanresourcescorp.com)

### Company Synopsis:

*American Resources Corporation is a supplier of raw materials to the rapidly growing global infrastructure marketplace. The company's primary focus is on the extraction, processing, transportation and selling of metallurgical Carbon and PCI to the steel industry.*

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has made progress in the reclamation process that would represent roughly \$7 million in additional bonds.

At the end of August, the company signed a carbon processing agreement with a third-party. Under the terms of the deal, American Resources will provide carbon processing, storage and loading services at its Davidson branch Preparation Plant, located at the Perry County Resources complex in Hazard, Kentucky.

The agreement will begin immediately under an initial trial period and then carry a one-year term if both parties approve, with an option to renew on an annual basis.

American Resources also recently added a pair of continuous miners at the Perry complex, which it anticipates restarting in September.

To draw money from the complex, the company signed a lease agreement with a third-party operator, which will pay American Resources a royalty on the number of tons produced from the mine, as well as an environmental exclamation fund royalty that will go toward restoring the land once the mine is closed.

On the financial front, for its second quarter ended June 30, 2020, American Resources reported net income of \$1.3 million, or \$0.05 per share, compared with a net loss of \$8.96 million, or a loss of \$0.38 per share in the same period a year earlier. Its earnings before interest, taxes, depreciation, and amortization, or EBITDA was \$5.7 million.

In the boardroom, in early July, the group bolstered its board with the addition of financial industry executive Michael Layman as an independent director. Layman currently serves as general partner and chief executive of Emerald Shoals Targeted Opportunities Fund LP, a hybrid growth fund backed by a network of ultra-high net worth individuals seeking novel opportunities to invest in high-growth catalyst driven companies.

### **Inflection points:**

- When American Resources scouts for acquisitions, it is on the prowl for coal miners of sound quality which have broken away from the pack in a difficult sector
- Over the next year, American Resources plans to have five continuous miners at Perry County in operation with two super sections and one bridge section

### **What the boss says:**

Reflecting on the company's second-quarter performance and its outlook for the future, Mark Jensen, American Resources' CEO said: "Our team continued to execute on the strategic transformation of the company to become a more diversified infrastructure company,"

"We made significant progress in advancing our efforts to better our industry-leading position as a stable, long-term and low-cost supplier of metallurgical carbon. Additionally, we were able to demonstrate our ability to innovate and adapt by generating high-margin revenue from our recently established American Metals LLC subsidiary, which further diversifies our business model, while continuing to divest and monetize non-core assets," he added.

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