

# Capital Link 4<sup>th</sup> Annual MLP Investing Forum

March 2, 2017



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*Chief Financial Officer*



# Forward-Looking Statements

**This presentation contains forward-looking statements and information that are based on the beliefs of Alliance Resource Partners, L.P. and Alliance Holdings GP, L.P. (the “Partnerships”) and those of their respective general partners (the “General Partners”), as well as assumptions made by and information currently available to them. When used in this presentation, words such as “anticipate,” “project,” “expect,” “plan,” “goal,” “forecast,” “intend,” “could,” “believe,” “may,” and similar expressions and statements regarding the plans and objectives of the Partnerships for future operations, are intended to identify forward-looking statements.**

**Although the Partnerships and their General Partners believe that such expectations reflected in such forward-looking statements are reasonable at the time such statements are made, neither the Partnerships nor the General Partners can give assurances that such expectations will prove to be correct. Such statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, actual results may vary materially from those the Partnerships anticipated, estimated, projected or expected.**

**The Partnerships have no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.**

# Alliance Overview

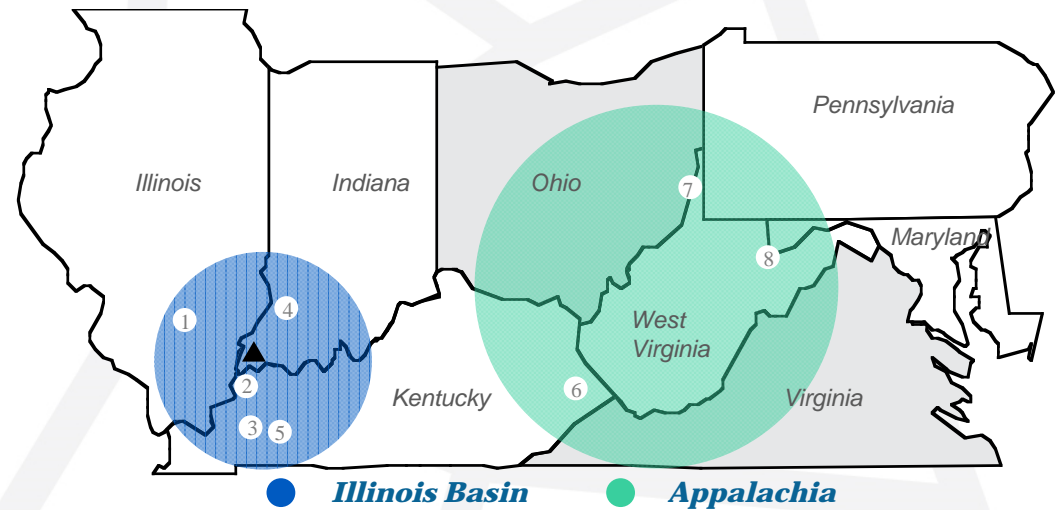


# Well Positioned Operations in Strategic Coal Basins

## Business overview

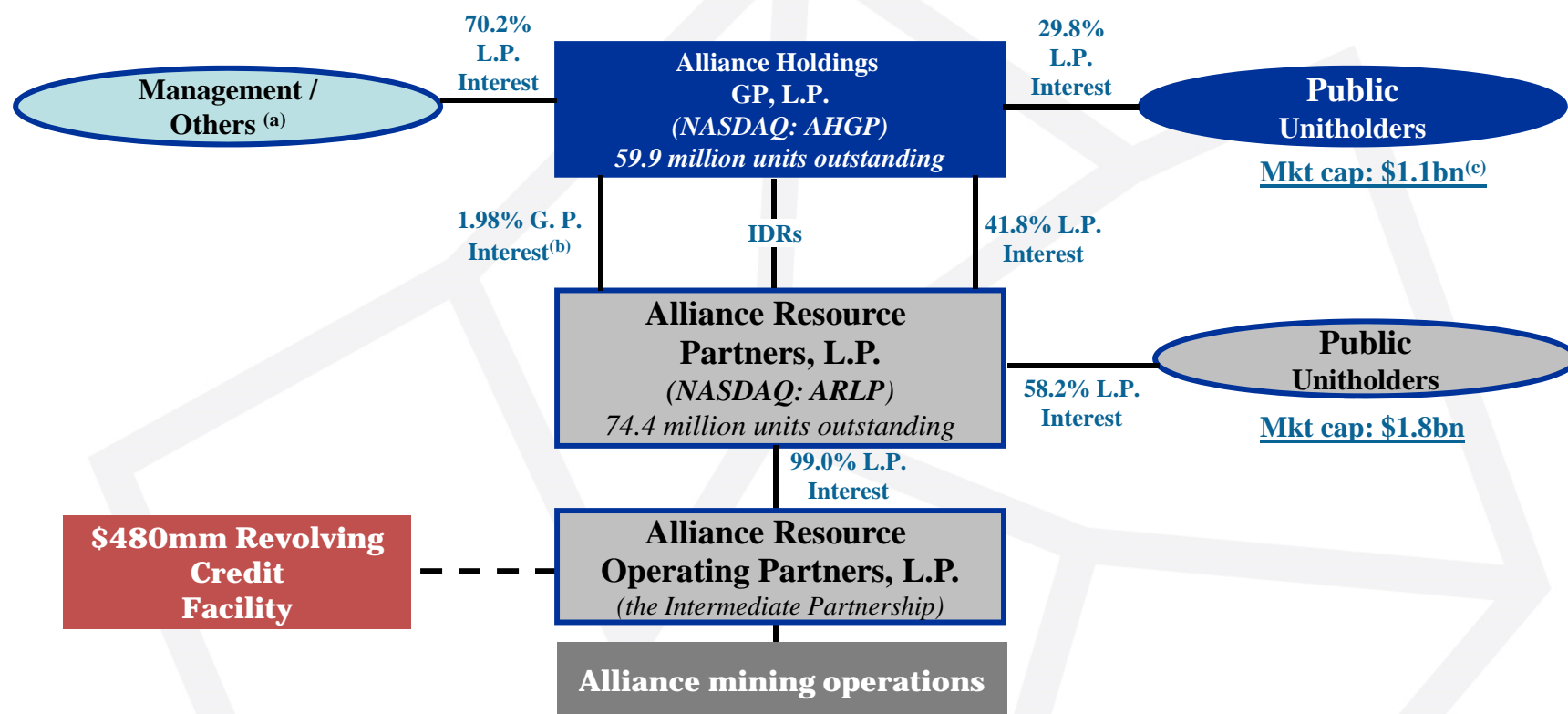
- First (1999) and largest publicly traded master limited partnership involved in production and marketing of coal
- Largest coal producer in the Illinois Basin and 2<sup>nd</sup> largest coal producer in the eastern United States with over 35mm tons produced in 2016
- Currently operates 8 underground mining complexes in Kentucky, Indiana, Illinois, Pennsylvania, and West Virginia with 1.8bn tons of coal reserves as of December 31, 2016

## Coal Operations



- |                         |                                  |
|-------------------------|----------------------------------|
| 1. Hamilton Complex     | 6. MC Mining Complex             |
| 2. River View Complex   | 7. Tunnel Ridge Complex          |
| 3. Dotiki Complex       | 8. Mettiki Complex               |
| 4. Gibson South Complex | ▲ Mount Vernon Transfer Terminal |
| 5. Warrior Complex      |                                  |

# Alliance Has Two Publicly-Traded Entities



- **All cash flows generated from operations within ARLP**
- **All debt is at the Intermediate Partnership level**
- **ARLP and AHGP combined equity market capitalization of \$2.9 billion<sup>(c)</sup>**

(a) Includes control group comprised of present members of Alliance management and others, all of whom are subject to a transfer restrictions agreement  
 (b) Includes general partner interest held directly in ARLP's Intermediate Partnership.  
 (c) Market capitalizations adjusted for value of ARLP units owned by AHGP as of market close on February 17, 2017

# Alliance – Where We Are Today

**Contract sales portfolio with strong, highly-rated customers (domestic electric utilities) provides revenue visibility and stability**

**Consistently an industry leader in mine safety and health since ARLP's formation in 1999**

- **2016 NFDL rate of 1.92 (46% below national average)**

**Strategically positioned, long-lived, low-cost mines that generate stable cash flow**

**Conservative financial strategy & strong balance sheet**

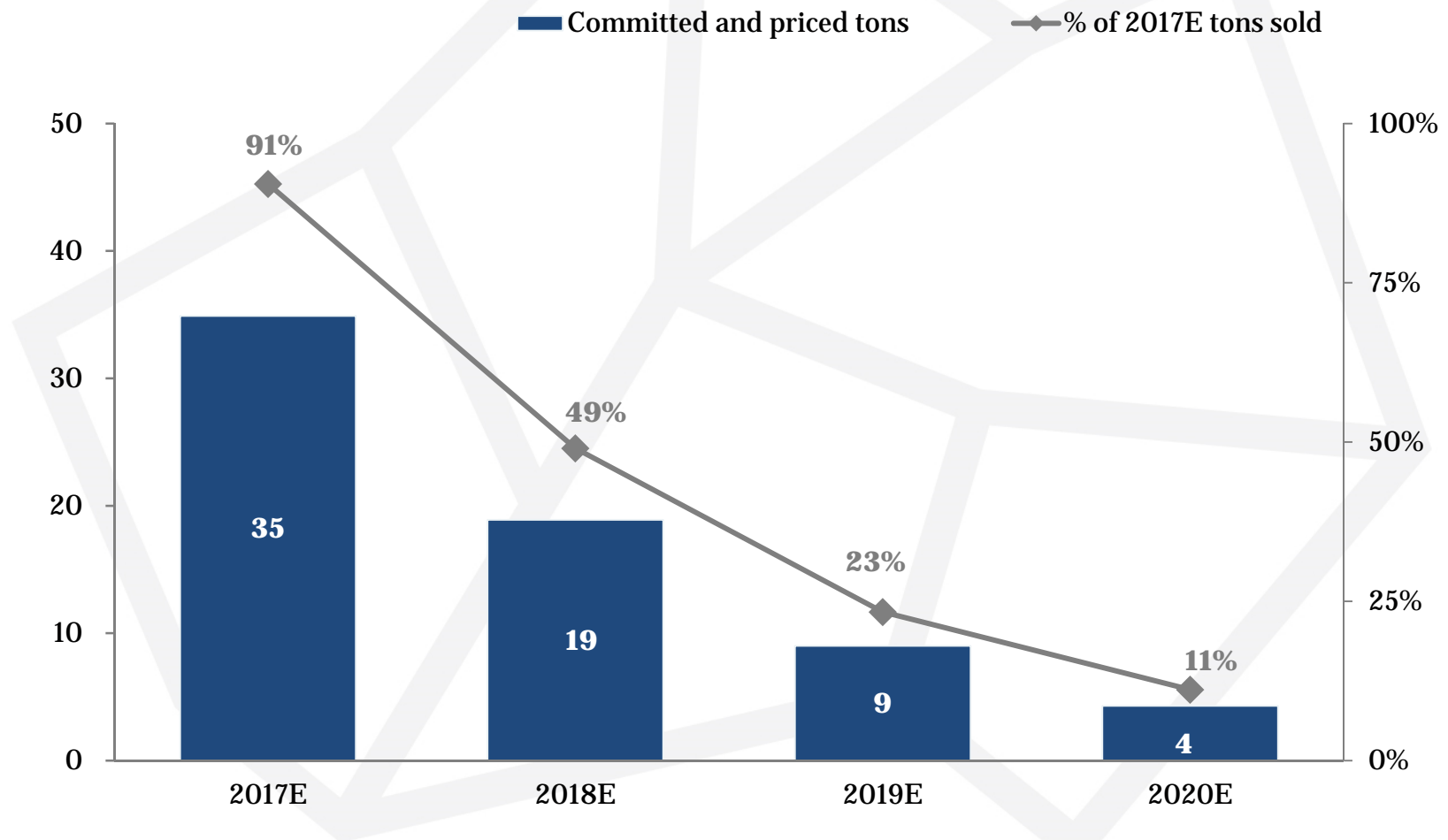
- **Low leverage and strong liquidity**

**Disciplined and experienced management team with a proven track record**

*Source: NFDL national average based on data from Mine Safety Health Administration*

# Sales Contract Portfolio

## Alliance Contracted Position – January 2017



Note: 2017E tons sold based on midpoint of Company guidance

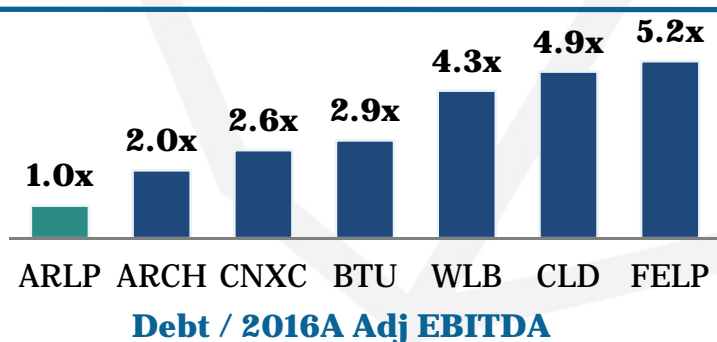


# Conservative Balance Sheet and Robust Liquidity

## December 2016 Capital Structure

\$mm	Maturity	\$mm	x 2016 Adj EBITDA	Commentary
\$297mm revolving credit facility (non-extending)	May – 2017	\$100	0.1x	Represents portion of facility that will mature in May 2017
\$480mm revolving credit facility (extending)	May – 2019	\$155	0.2x	In May 2017, balance expected to be \$255mm after non-extension
\$100mm Cavalier minerals lending facility	Sep – 2024	\$0	0.0x	Expected to draw down in full in May 2017 and use proceeds to pay down extending R/C facility
\$250mm term loan A	May – 2017	\$50	0.1x	Will amortize remaining \$50mm and be paid off as scheduled on May 23, 2017
6.72% Series B senior notes	Jun – 2018	\$145	0.2x	
AR securitization facility		\$100	0.1x	
Capital leases		\$113	0.2x	
<b>Total debt</b>		<b>\$663</b>	<b>1.0x</b>	
<b>2016 Adjusted EBITDA</b>		<b>\$693</b>		

### Low Leverage



- **Facilities provide sufficient liquidity**
  - ❖ \$480 Million Revolving Credit Facility
  - ❖ Cavalier's \$100 Million Credit Facility
- **4Q2016 liquidity \$575.2 million**

Source: Company filings

Note: Balance sheet data as of 12/31/16 except for FELP and WLB which are as of 09/30/16. BTU reflects pro forma emergence from bankruptcy and midpoint of 2016E EBITDA guidance.



## 2016 in Review and 2017 Outlook

\$mm	2016 Actual	2017 Estimate
<b>Tons Sold (000's)</b>	36,680	<b>38,550</b>
<b>Coal Sales Revenue</b>	\$1,862	<b>\$1,745</b>
<b>Adjusted EBITDA</b>	\$693	<b>\$583</b>
<b>Interest Expense (net)</b>	\$31	<b>\$30</b>
<b>Net Income</b>	\$340	<b>\$283</b>
<b>Maintenance Capex<sup>1</sup></b>	\$167	<b>\$163</b>
<b>Growth Capex / Acquisitions</b>	-	-
<b>Distributable Cash Flow</b>	\$491	<b>\$379</b>
<b>Distributions Paid to Partners</b>	\$248	<b>\$212</b>
<b>Distribution Coverage Ratio</b>	1.98x	<b>1.79x</b>

Source: Company filings. Note: All estimates for 2017E reflect midpoint of management guidance

(1) For the 2017 planning horizon, average annual estimated maintenance capital expenditures are assumed to be \$4.25 per produced ton compared to the estimated \$4.75 per produced ton in 2016. Reflecting the anticipated utilization of used equipment previously acquired from third parties and redeployment of used equipment from our idled operations to other ARLP mines, we are currently estimating actual maintenance capital expenditures in 2017 of \$3.80 per ton produced. Our actual maintenance capital expenditures vary depending on various factors, including maintenance schedules and timing of capital projects, among others.

# The Alliance Strategy for Success

## **Focus on:**

- Low-cost operations
- High return organic development projects
- Disciplined acquisitions
- Strong Balance Sheet

## **Strengths:**

- Strategically positioned operations
- Empowered, dedicated workforce
- Long-lived, low-cost mines generating stable cash flow
- Conservative financial strategy
- Disciplined management team with a proven track record of success
- Significant equity ownership by Craft family and Management Investor group

**We place a high priority on doing what we say and delivering consistent, reliable results for our stakeholders**

# Alliance has Responded



# ARLP Proactively Responded to Difficult Market Conditions in 2016....

## ➤ **Optimized Operations**

### ❖ **Adjusted production in response to market conditions**

- ◆ Shifted production to lowest cost mines
  - *Idled Gibson North, Pattiki and Onton; Elk Creek depleted 1Q2016*
- ◆ Reduced unit shifts and production days
  - *Brought production volumes more in line with contracts coal sales*
  - *Produced below installed capacity*

### ❖ **Lowered operating expenses**

- ◆ 2016 Segment Adjusted EBITDA Expense per ton improved 9.2% compared to 2015 levels (expected to be comparable to 2015 levels at beginning of the year)
- ◆ 2017E Segment Adjusted EBITDA Expense per ton expected to be 6%-8% below 2016

### ❖ **Reduced capital expenditures**

- ◆ 2016 capital expenditures reduced \$122 million year-over-year to \$91mm
- ◆ Midpoint guidance of 2017 capital expenditures to remain measured at \$155mm

Source: Company filings

## ...ARLP Proactively Responded to Difficult Market Conditions in 2016

- **Reduced unitholder distributions to annualized \$1.75 (vs \$2.70 prior)**
  - ❖ Preserves approximately \$140 million of annual cash flow
  - ❖ Savings used to pay down debt in 2016 of \$255.4 million
  - ❖ 2017E distribution coverage ratio of 1.79x ensures ARLP can meet all obligations to lenders and unitholders with a comfortable “margin of safety”
- **Focused on liquidity**
  - ❖ \$575.2 million of liquidity at end of 4Q2016
  - ❖ Extended credit facility to May 2019 with ~\$480mm total facility size
    - ◆ *Secured sufficient capacity in the near-term*
  - ❖ Cavalier Minerals’ \$100 million facility
  - ❖ Expanded capital sale-leaseback program

Source: Company filings

# Alliance Is The Coal Industry Leader

- **Delivered solid performance throughout the downturn in the coal industry**
  - ❖ Profitable
  - ❖ Solid cash flows
  - ❖ Strong balance sheet
- **Responding to challenging markets**
  - ❖ Production, expense and cost reductions
  - ❖ Reduced unitholder distributions provides excess cash to reduce debt
- **Positioned to emerge with strength**
  - ❖ Strategically-located, low-cost operations

# Coal Industry Update



# Industry Commentary

## Coal is Here to Stay

- **Near-Term Outlook Improving in Alliance's Key Markets**
- **Long-Term Markets are Stable**
- **Trump Election Provides Coal Demand Growth Potential in Alliance's Primary Markets**

## Current Issues

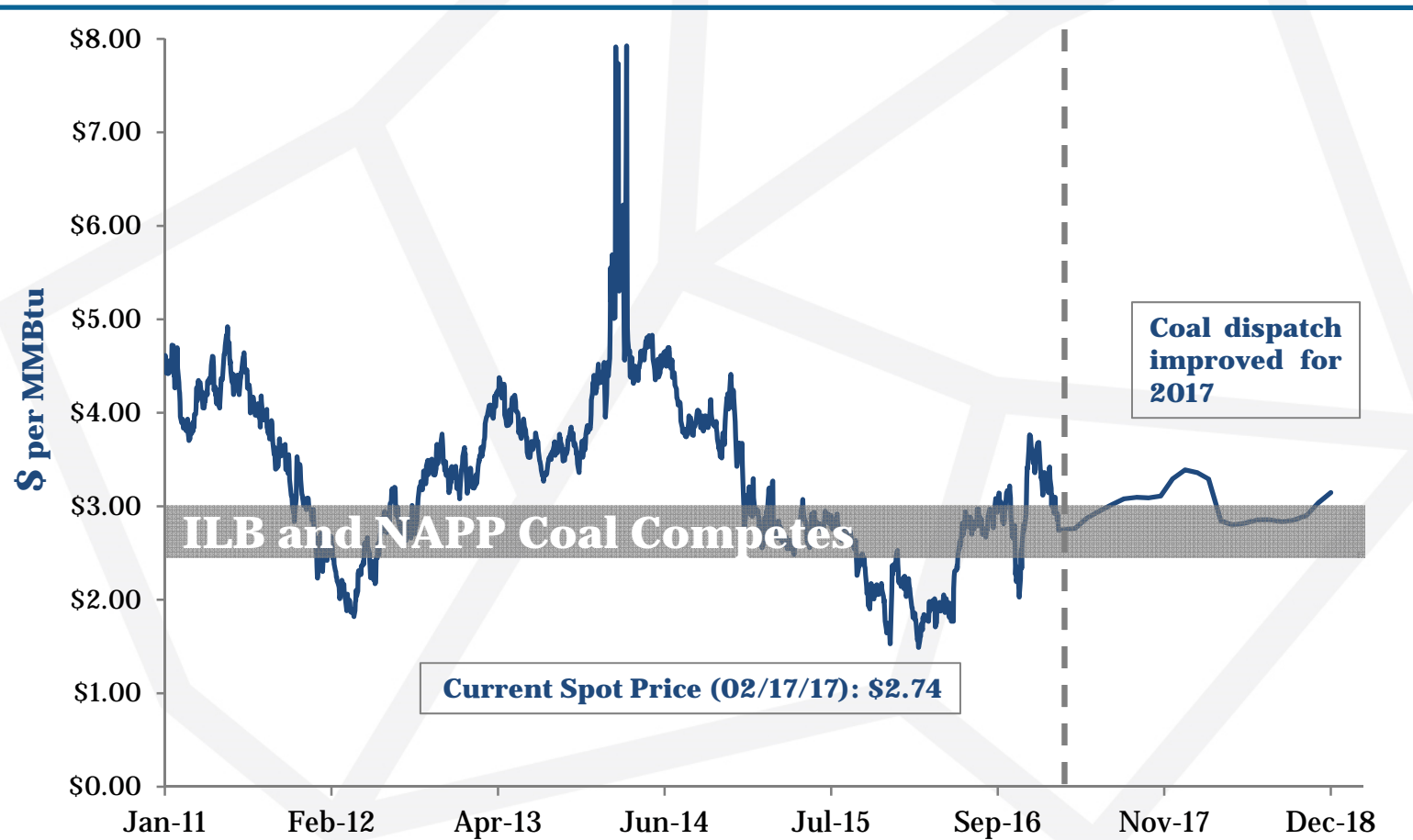
- **Regulatory Impact on Coal Demand**
  - ❖ Stream Protection Rule
  - ❖ Clean Power Plan (CPP) stayed by the Supreme Court
    - Trump administration likely to have favorable impact on ultimate outcome
    - Impact to be felt 2022+ if adopted; Illinois Basin growth potential forecasted if it is not adopted
- **Natural Gas Competition**



# Near-Term Headwinds are Abating

*Natural gas prices have recovered, allowing coal plants to dispatch more frequently*

**Henry Hub Natural Gas Prices**



Source: Henry Hub Spot Price and NYMEX Natural Gas Futures per Bloomberg as of February 17, 2017

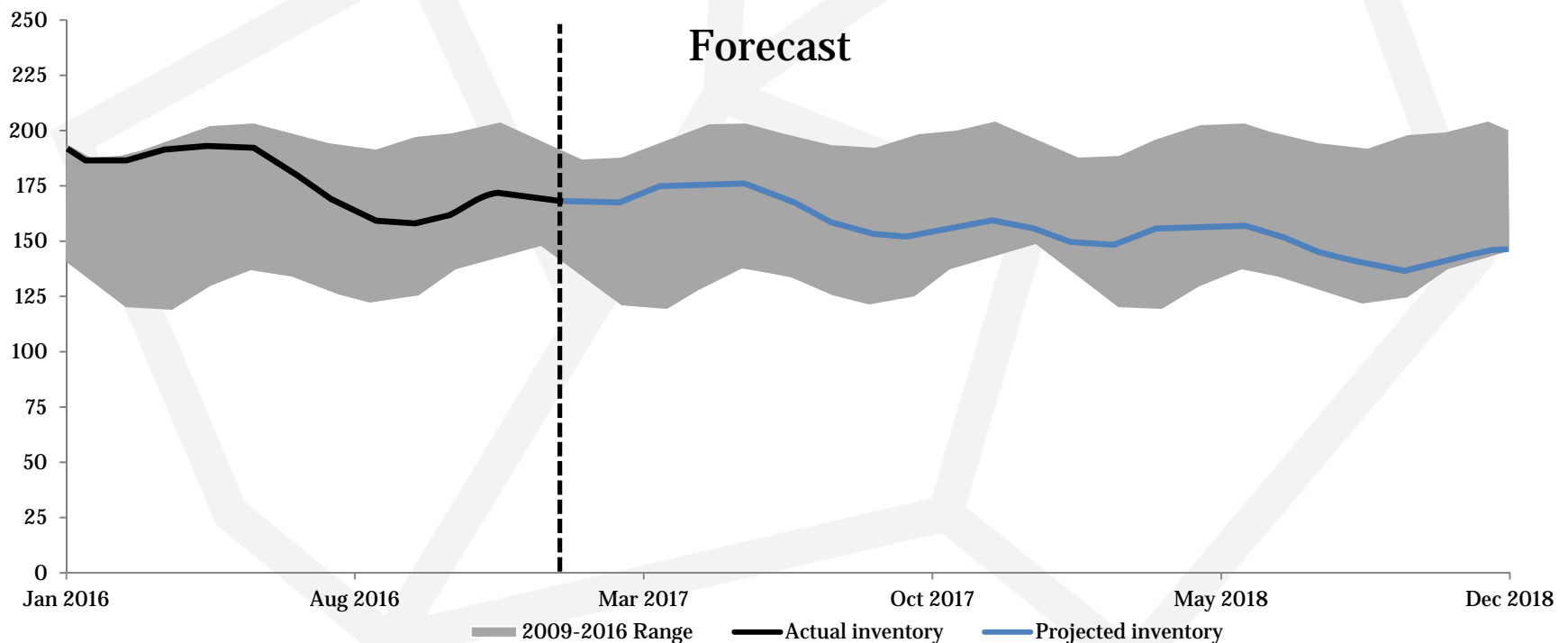
# Near-Term Headwinds are Abating

*During 2016, inventories came down and approached normal levels*

- *EIA Short-Term Energy Outlook forecasts inventory drawdown over the course of 2017 and 2018*

## U.S. Electric Power Coal Stockpiles

Million short tons

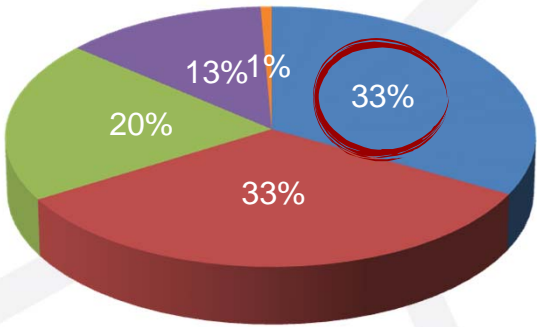


Source: EIA Short-Term Energy Outlook, February 2017

Note: Colored band around stockpiles represents the range between the minimum and maximum from Jan. 2009 - Dec. 2016

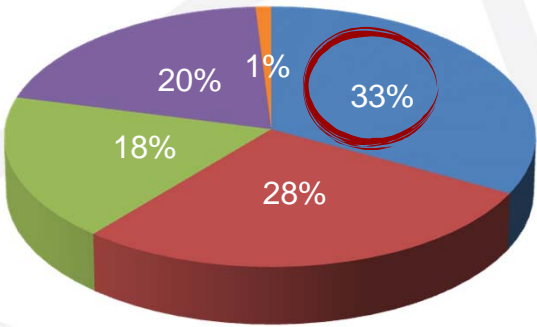
# Coal's Share of America's Electricity Generation

U.S. Electricity Generation in 2015



- Coal
- Natural Gas
- Nuclear
- Renewables (Including Hydro)
- Other

U.S. Electricity Generation in 2020 (e)



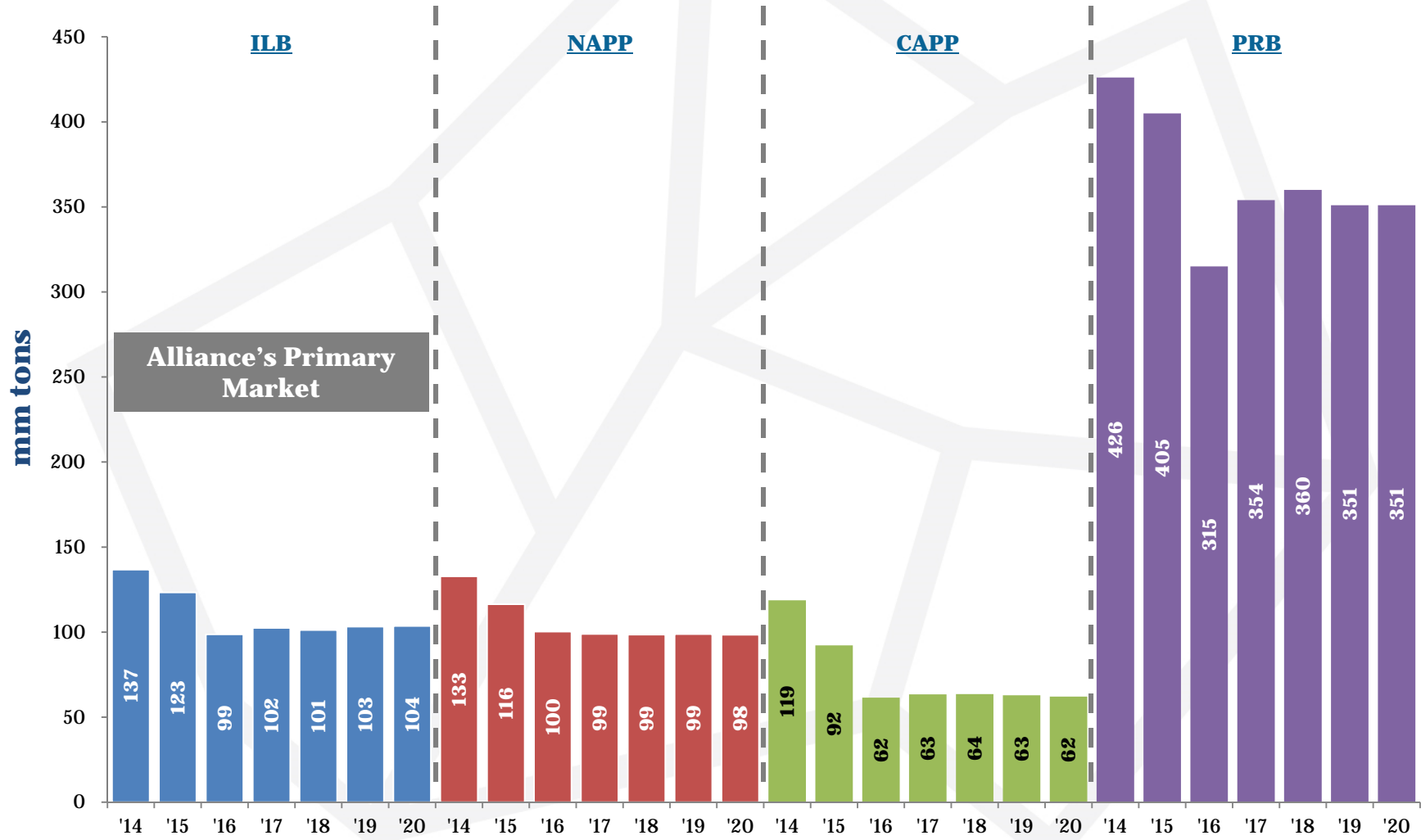
- Coal
- Natural Gas
- Nuclear
- Renewable (Including Hydro)
- Other

**Coal remains a substantial source of U.S. electricity generation**

Sources: EIA Annual Energy Outlook 2016 (May 2016 release)

# Alliance Markets Stabilizing in Medium-Term

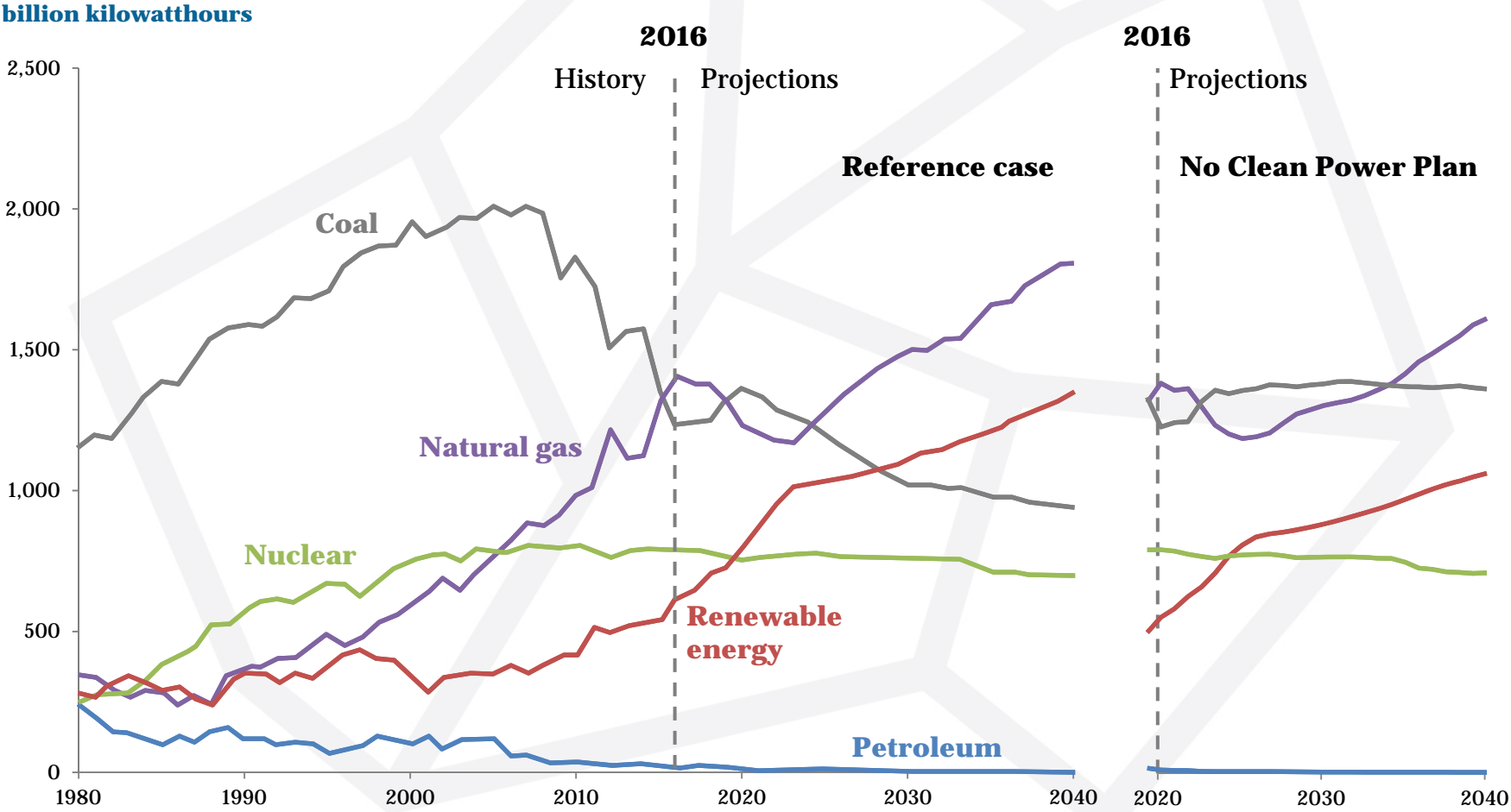
## Production by Basin – Alliance Forecast



Source: Alliance Estimates, November 17, 2016

# Coal's Share of America's Electricity Generation

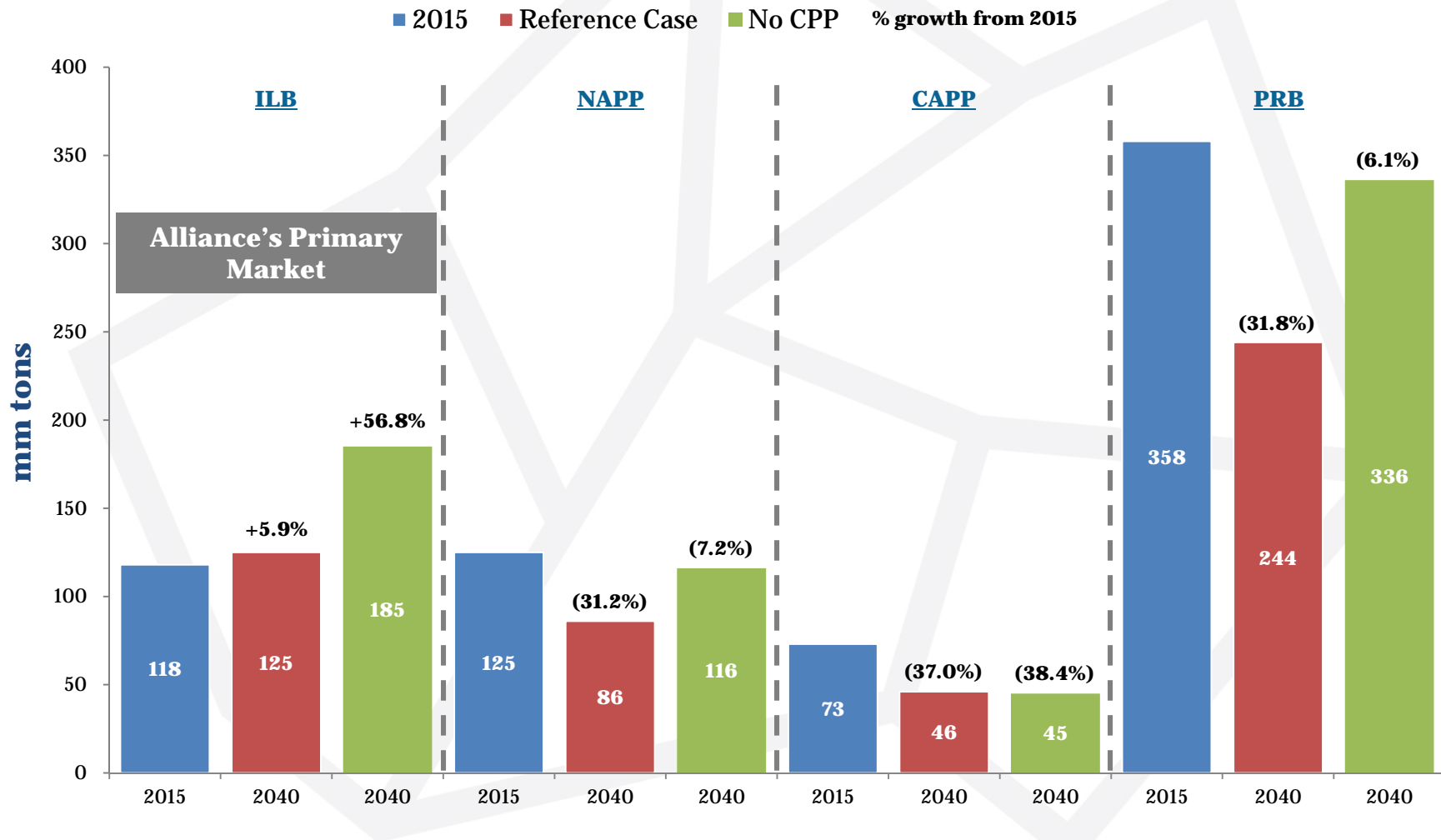
## U.S. Net Electricity Generation from Select Fuels



Source: EIA Annual Energy Outlook, January 2017

# Alliance Markets Remain Resilient Long-Term

## AEO Production Forecast



Source: EIA – 2016 Annual Energy Outlook, May 17, 2016; Alliance Estimates

# Question & Answer

