

Atlas Energy Solutions, Inc.
First Quarter 2023 Financial & Operational Results
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Presenters

Bud Brigham, Executive Chairman & CEO

John Turner, President & CFO

Kyle Turlington, Vice President of Investor Relations

Jeff Allison, Executive Vice President, Sales & Marketing

Chris Scholla, Chief Supply Chain Officer

Q&A Participants

Chase Mulvehill – Bank of America

Derek Podhaizer – Barclays

Jim Rollyson – Raymond James

David Smith – Pickering Energy Partners

Doug Becker – Capital One

Michael Scialla – Stephens

Keith Mackey – RBC Capital Markets

Operator

Greetings and welcome to the Atlas Energy Solutions First Quarter 2023 Financial and Operational Results Conference Call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero, on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Kyle Turlington, Vice President of Investor Relations. Thank you, Kyle, you may begin.

Kyle Turlington

Hello, and welcome, everyone, to the Atlas Energy Solutions conference call and webcast for the first quarter of 2023. With us today are Bud Brigham, Chairman and Chief Executive Officer and John Turner, President and CFO. Both Bud and John will be sharing some comments, after which we will open the call up for Q&A. Before we begin our prepared remarks, I would like to remind everyone that this call will include forward-looking statements as defined under the U.S. security laws. Such statements are based on the current information and management's expectations as of this statement and are not guarantees of future performance.

Forward-looking statements involve certain risk, uncertainties and assumptions that are difficult to predict. As such, our actual outcomes and results could differ materially. You can learn more about these risks and our registration statement on form S-1 filed with the U.S.

Securities and Exchange Commission on January 31st, 2023, in connection with our initial public offering, our quarterly report on form 10-Q and our other SEC filings. You should not place undue reliance on forward-looking statements, and we undertake no obligation to publicly update these forward-looking statements. We will also make reference to certain non-GAAP financial measures such as adjusted EBITDA, adjusted free cash flow and other operating metrics and statistics. You will find the GAAP reconsideration comments and calculations in yesterday's press release.

With that said, I will now turn the call over to Bud Brigham.

Bud Brigham

Thanks, Kyle. Hello, and welcome to the Atlas Energy Solutions earnings call and webcast for the first quarter of 2023. This is our very first earnings call as a public company, and I want to welcome our new investors. Thank you for believing in us and supporting our mission. I also want to congratulate our early existing investors. What you have helped us create is very special, and we're only just beginning.

I would like to start this call with some preliminary remarks about who we are and the Atlas mission before getting into the normal course operational and financial commentary. I've said it before, but I really did not expect to take a third company public. We're here because this is a very special company with a lot of opportunity ahead of it, and we're excited to be taking the next major steps forward, in my view, to accelerate the Permian's maturation from a world-class oilfield to an even more differentiated world-class energy manufacturing center.

The oilfield In general, and the Permian particularly, have been evolving and I believe that Atlas is uniquely positioned given, one, that we have the scale that is necessary and sustainable to match the going scale of Permian operators; two, our E&P experience, including with infrastructure and right of ways; and three, our track record in the basin to deliver the next constructive disruption to accelerate the Permian's transformation. The prior constructive disruption, sourcing local sand, was extremely beneficial to the Permian and further differentiated it relative to other basins. By securing what I call the Ghawar of sand reserves and building state of the art plants with redundancy, Atlas emerged from that disruption in an advantaged position as a premier proppant producer in the Permian.

In addition, Atlas has delivered industry-leading environmental benefits by reducing energy consumption, emissions and the aerial footprint of our mining operations, benefiting from our giant open dune deposits and our unique dredging operations, with more to come. Atlas has been sold out of proppant, and our customers continue to sign new contracts of increasing term. We think that excitement over the Dune Express and its societal and environmental benefits are part of this, but the market, as evidenced by the demand for our product, has been telling us it needs more Atlas proppant.

Our expansion project has been underway since last year. It is on time and on budget, and we expect it to grow our production capacity by roughly 50% as we exit the year. So with all that said about our proppant production, Atlas has commenced the next constructive disruption in logistics and delivery systems. As everyone in the region knows all too well, the Permian road infrastructure and communities are intensely pressured and negatively impacted by heavy hauling, particularly of mission critical proppant on our commercial roadways, which are shared with the residents and workers in the community.

Given our differentiated scale of production of this mission critical element that must be delivered to every Permian horizontal well, as well as our E&P and infrastructure experience, Atlas is uniquely positioned to deliver a step change advancement in delivery systems, thereby enhancing reliability, dependability, and efficiencies with major environmental and societal benefits. These initiatives are very much underway. They will enable Atlas to reduce emissions and save lives, while making the Permian Basin a better place to live and work.

I call this sustainable, environmental and social progress, or SESP. It's also what I term the harmony of capitalism. It's the reason our country enjoys among the cleanest and safest air and water of any major country. By responsibly focusing on our fiduciary obligation to create value for shareholders, all the legitimate stakeholders, including our employees, our communities, and the environment, also benefit. It's virtuous and its sustainable, compounding constructively for all our stakeholders. As a result of our intense focus on our fiduciary obligation to our shareholders, I would put our company's environmental and societal accomplishments up against any peer.

As you can see in our presentation, our innovative and unique logistics platform has been delivering profit from our state of the art production facilities, utilizing our fit for purpose logistics assets, all the way to the blender. This asset base continues to grow as deliveries of equipment progress, and as we obtain new logistics work around the basin. We've successfully completed jobs with payloads close to 100 tons per truck, which is roughly four times the industry standard, and which illustrates the potential of our logistics offering to drive efficiencies for our customers, even prior to the Dune Express in service date. And of course, this is being implemented to ultimately integrate with our Dune Express, which will compound to further advance logistics in the Permian.

The Dune Express puts the use of proceeds in our offering. It's an innovative and state of the art 42 mile conveyor system to transport profit into the heart of the Permian, and its construction is very much underway. I should also point out that these logistical initiatives, particularly the Dune Express are very personal to me, given that I grew up in midland. The current situation in the region is unacceptable, and we intend to change it.

We estimate that for deliveries fulfilled using the Dune Express, we'll be able to cut out on average, 70% of the miles driven on public roads, as compared to deliveries performed from competitor plants in the Winkler Trend. We think that's going to be powerful in terms of

avoiding traffic accidents and protecting human lives. Again, the reason we started looking at this project was to drive returns to shareholders, but it's such a wonderful thing to deliver high-impact infrastructure that provides major safety benefit to the Permian basin community. It's also very rewarding for me personally, given that it will be located right there in the community I grew up in.

Now, to get into the update on the business and industry. We're pleased with our first quarter results. We remain very bullish about the company's prospects and have an optimistic outlook for the industry. Briefly, regarding the outlook for our industry, in my view, the macro headlines, which were created by excessive government spending and associated subsequent monetary disruptions, may mask but does not change the underlying major structural problems that we have with energy. Given the lack of capital invested in energy over the last seven years, I am very concerned about our ability to meet the demand growth that is coming, particularly in the developing world, over the next one, three, and even five or 10 years. In my view, a lot of responsibility and opportunity will fall to the Permian as a premier oil producing basin in the U.S.

Regarding our performance, we are proud of the operational execution that underpins this quarter for Atlas, as the company set new quarterly operational and financial records on sales volumes, sales, adjusted EBITDA, and adjusted free cash flow. The margins generated by this enterprise are better than any company I've been associated with. Thus, our financial metrics, as illustrated in our presentation on slide 13, compared very favorably with the best performers in the oil and gas industry.

Atlas has generated meaningful value for its equity holders, and over time, our exceptional margins, cash generation and growth should be recognized in the market. The company is well capitalized on the heels of our recent IPO. And as will be discussed further, we are progressing nicely on the execution of our growth initiatives, including the Kermit facility expansion and construction of the Dune Express.

Briefly, regarding the dividend. This will be our sixth distribution over the last 20 months. The last four distributions have been \$15 million per quarter, and we're distributing \$15 million again this quarter. At our current run rate, that's approximately 19% of our adjusted free cash flow of approximately \$77 million in the first quarter of 2023. For the time being, this should be considered a variable distribution. During the course of this year and next, we will look forward at our forecasts on a quarterly basis to be sure that we retain plenty of flexibility to fund and complete our growth CapEx projects.

The fact that we enjoy such exceptional margins that were over 90% contracted this year and that we expect to be about 80% contracted for 2024 by year end, should provide us a good deal of flexibility in this regard. However, if conditions change and our forecast change as well, we can retain more of our free cash flow in subsequent quarters for our high rate of return growth CapEx projects. Also, during the course of this year, and possibly next, our board will be

deliberating, developing and implementing a longer term dividend policy that we are in a window of substantial CapEx investment with both our Kermit plant expansion and the Dune Express. They will both be completed over the course of the next 18 months to generate a material expansion of our production revenue and cash flow capability. We expect given our strong margins, that in the process of winding down these substantial capital investments, Atlas will become an even more powerful distributing enterprise.

With regard to the broader industry outlook, activity levels across the Permian drilling and completions market remained robust during the first quarter, with the Permian adding 33 new rigs year-over-year. The Permian is very important to the global oil supply picture, as it contains some of the most economic rock in North America with low oil price break-evens. Importantly, today, given the higher or cut that is exhibited by most Permian wells, the Permian economics are not particularly sensitive to natural gas pricing. That's important to keep in mind for us as we're selling 100% into the Permian, so we're not exposed to the negative dynamics affecting surface providers with a footprint in the gas basins.

In fact, we potentially stand to benefit from the relocation of equipment from gas basins. For every incremental frac crew that relocates from gas basins to the Permian, there is incremental Permian sand demand associated with that crew. That incremental sand increases the total sand demand in the Permian and provides market tailwinds.

Regarding the sand market in the Permian, given our highly contracted position, we were not a large participant in the spot market during the first quarter. Our contracting strategy allows us to have stable, consistent and forecastable pricing. Our expectations for the second quarter average pricing have us landing in the mid to low 40s range for Mine Gate pricing. This continued light and selected participation in the stock market.

We are expecting profit and consumption to continue to increase as long as oil prices remain in the current range, which I view is likely prior to eventually heading higher. We also expect completions efficiencies to continue to drive proppant consumption for frac upwards across a range of oil prices, as completion cycle times continue to improve with increased simal-frac adoption, which we see as currently only about 10% to 15% of the market. This is expected to drive growing demand in future periods.

Restating and summarizing on our capital projects, and John will cover the numbers, we are progressing nicely on our Kermit facility expansion, which we still expect to come online in Q4 this year, on time and on budget. In fact, the new silos for the expansion are going vertical right now. And as I mentioned earlier, we officially kicked off the process of building the Dune Express during the last quarter. We broke ground on March 21st. Just a reminder, we have previously secured the necessary right of ways, obtained all required federal and state permitting and previously secured two anchor contracts to take delivery of sand from the Dune Express.

We have ordered more than 50% of the equipment and materials required for the project, which have generally contracted, providing for greater budget visibility. We've also ordered more than 40% of the services related to installation and labor, which again, means we're derisking the project's overall cost by agreeing to pricing with many of our vendors. We've cleared about 15 miles of the route, of which five miles has been graded, and we've laid about 15 acres of caliche paths for our transfer stations, lay down yards and overhead crossings. While we're still early in the construction, all of this activity gives us increased comfort in our planned timeline for commercial and service, which we anticipate will occur in the fourth quarter of 2024.

In summary, and then I will turn it over to John, we're very pleased with the performance of the company, and we're optimistic in our outlook for the remainder of the year. We view the macro setup as compelling and are extremely excited about our transformational logistical initiatives. We appreciate your support as stockholders, and we're working hard to create value.

With that, I'd like to turn the call over to John Turner, our President and Chief Financial Officer, to discuss our financial results in more detail.

John Turner

Thank you, Bud. Today, I will review our first quarter 2023 operating results and comment on our financial position. We had a strong quarter from a revenue standpoint and generated a quarterly reported adjusted EBITDA of \$84 million, representing a strong margin of 55%. As we'll get into, this was an excellent quarter despite elevated plant operating costs, which we'll moderate going forward for the rest of 2023.

In the first quarter of 2023, we set a company record for quarterly sales volume at 2.8 million tons. This annualized as to a run rate of just over 11 million tons per year. We were highly contracted in the first quarter and remain highly contracted for the remainder of 2023. We expect to renew and to add incremental contract growing for 2024 and beyond as we move through the year and expect that as we grow our logistics fleet and get closer to the Dune Express in service day, that our contract position will continue to grow on a logistics front as well.

For the first quarter, we generated record sales of \$153 million, representing a 2% sequential increase. On product sales, our volumes grew by approximately 91,000 tons, representing a 3% sequential increase. Mine Gate pricing in the first quarter of 2023 was \$0.76 per ton higher than it was in the fourth quarter of '22. For our service sales, which is revenue generated by our logistics business, we saw a sequential decrease of 2.7 million, which was associated with lower than expected freight pricing experienced during the quarter. As a reminder, prior to the start of 2023, our service sales were limited to our asset light, low margin well site coordination services business. Proppant logistics is an area of significant focus, growth and margin potential for us as we build out our fleet and ultimately transition to a logistics model in the Delaware basin, that includes shortened hauls off the Dune Express.

Cost of Sales excluding DD&A decreased by \$4.7 million quarter-over-quarter to \$63 million. This decrease in COGS was primarily associated with a meaningful reduction in our contract labor and last mile logistics costs. As we continue to transition our dredge mining operations fully in house, we expect our mining costs to continue to moderate in subsequent quarters, as our electric dredges exhibit improving utilization rates over the course of 2023. As electric dredging increases, our mining costs and associated emissions will decrease considerably on a per ton basis, and this is a significant component of our overall cost of goods sold. So by extension, we see COGS moderated as we move through the year.

SG&A expense for the quarter was \$8.5 million dollars, representing a sequential increase of 7.6%. This increase was largely associated with an increase in stock and unit-based compensation. Interest expense net came in at \$3.4 million for the quarter. Most of this was associated with our term loan, which bears interest in 8.47% and has a 2027 maturity. DD&A expense for the quarter increased to \$8.5 million representing a sequential increase of 9.3%. This increase was due to higher depletion expense associated with higher sales volumes and additional depreciable assets placed in the service as compared to the prior period.

We generated net income of \$63 million for the first quarter, representing an impressive net income margin of 41%. Given that our IPO occurred in the middle of the quarter, our diluted earnings per share for the first quarter only included income allocated to the Class A shareholders for the last three weeks of the period. So you'll see diluted earnings per share of \$0.03 presented on our income statement. Of course, we generated \$63 million net income for the period as a company and we have 100 million shares outstanding across our Class A and B share classes, which works out to be \$0.63 per share.

Net cash provided by operating activities for the quarter was \$54 million, despite a \$22 million increase in accounts receivable. This increase was due to timing, and we have seen our accounts receivable balance normalize since the end of the quarter. Adjusted EBITDA for the period was \$84 million dollars, representing a sequential increase of 12% and adjusted EBITDA margin of 55%. Adjusted free cash flow, which we defined as adjusted EBITDA less maintenance CapEx, was \$77 million representing a sequential increase of 15% and adjusted free cash flow margin of 50%.

During the first quarter, we converted 92% of our adjusted EBITDA to adjusted free cash flow, given our low levels of acquired maintenance capital expenditures, and we are primarily investing that cash flow back into the business today. Results were strong across the board and are highlighted by our strong margin profile.

Capital expenditures for the quarter were \$68 million. This includes \$61 million spent on growth projects, which is primarily the Kermit expansion, and \$7 million spent on maintenance capital projects. We expect our capital spending on growth projects to increase through the

year now that the Dune Express project has commenced. We expect capital expenditures for maintenance to grow modestly over the course of the year.

Note that as previously mentioned, we are funding the 2023 CapEx associated with the build out of our logistics fleet with capital leases, so you won't see those expenditures hitting the investing section of our cash flow statement. And instead, you will see us making payments in the financing section of the statement of cash flows over the course of the four to seven year lease terms. As Bud mentioned earlier, we've been distributing \$15 million per quarter and are doing so again this quarter. That's a \$0.15 per share dividend for our Class A shareholders and a corresponding \$0.15 per unit distribution for new unit holders. For now, I'll reiterate this as a variable dividend, and we'll continue to evaluate our plans as we work with the board to develop and communicate a formal return of capital framework.

Turning to the balance sheet, we ended the quarter with a cash balance of \$353 million. After the IPO, we took steps to de risk our liquidity position by investing our cash into insured bank accounts and T-Bills. As of March 31st, 2023, our total liquidity was \$427 million dollars. This was comprised of \$353 million in cash and equivalents and \$74 million of availability underneath our ABL facility, under which we had no borrowings outstanding. The principal balance of our term loan sits at \$141 million, and our current capital lease balance is \$27 million dollars, so the total amount of debt outstanding is currently \$168 million, leaving us in a net cash position of \$185 million at the end of the year, which translates to a total debt to latest 12 month EBITDA multiple of 0.5 times. Our outstanding share count at the end of the quarter inclusive of both our Class A and B shares was 100 million shares.

That concludes our prepared remarks for the first quarter of 2023. I will now turn the call back over to the operator to open the line for questions.

Operator

Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two, if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please while we pull for questions.

Thank you. Our first question is from Chase Mulvehill with Bank of America. Please proceed with your question.

Chase Mulvehill

Hey. Good morning, everybody. Hope everybody's doing well.

Bud Brigham

Good morning.

John Turner

Good morning, Chase.

Chase Mulvehill

Good morning. Just wanted to kick it off with a question about Permian frac sand fundamentals. Obviously, you provided some nice color in the presentation on the supply and the demand side, in terms of your outlook there, but can you talk about what you're seeing out in the market today? Is pricing momentum continuing to, you know, out in the market in the Permian, you know, are fundamentals continuing to tighten? And just kind of your thoughts around the ability for the market to absorb kind of any incremental capacity that's coming into the market?

Bud Brigham

Yeah. Thank you. This is Bud, and I'll start with some general comments, and these guys may want to add to it, John, or Jeff. As we stated on the call, we are sold out of sand. We've been over 90% contracted, which in our view is an uncomfortable level of contracting, contracted volumes, but of course, we want to keep our customers happy. We'd like to have more flexibility to participate in the spot market. It seems pretty steady right now. Jeff was talking about the fact that Halliburton stated in their call that since 2019, fleets have seen a 60% improvement in efficiencies. So we see demand continues to be up and to the right, and we're continuing to add contracts and add term on our contracts.

John or Jeff, I don't know if you all want to add anything to that.

John Turner

You can go.

Jeff Allison

Yeah. This is Jeff Allison, Executive Vice President Sales and Marketing. I'll just add to the fact that with the product offerings that we have historically had with a good product, large inventory and many, many years of running room with this, coupled with our new offerings on the logistic side on the trucking as well as the Dune Express, there's a definite bifurcation here that we're exhibiting within the sand and logistics market. And the customers are recognizing that.

As a result, we went on a quest last year to strategically target customers that are aligned with our long-term goals. And we were very successful with that, as Bud said, over 90% contracted. And as we move forward in the tangibility of our Dune Express and our logistics line come on, we're seeing a very large attraction into added contracts with these current customers, as well as new contracts. And last year, we bought on contracts three to five years in duration. So we still see a strong market and a strong demand for our products and services.

Chase Mulvehill

Okay. Awesome. Great color. Oh, sorry. Go--

Bud Brigham.

Yeah. I might just add, one thing on that is we were talking about the fact that our current expectations are that as we exit the summer, for 2024 to be about 50% contracted. When we exit the year, we expect to be about 80% contracted in 2024. So hopefully that helps with the visibility.

Chase Mulvehill

Absolutely. Absolutely good color. Appreciate that. And just kind of related follow up, obviously, it sounds like things are staying tight on the frac sand side. I mean, you've got continued growth on the logistic side. So directionally, how should we think about 2Q EBITDA. Should we think about it growing flat? How should we think about 2Q directionally versus 1Q?

John Turner

Yeah. Hey. This is John Turner, Chase. As far as the second quarter EBITDA, look, I mean, we're going to have similar sales that we did in the first quarter. I think we're going to have some additional, obviously, logistics sales coming on, but our real opportunity there is, and we talked about it, and we'll talk about it again a little bit later. I'm sure someone is going to ask a question about our OpEx. Our operating margins are going to improve as we continue to improve our operating costs. So obviously, we think that something that's a little North of what we're doing today as far as EBITDA goes but looking like it's going to be a pretty similar quarter.

Bud Brigham

Yeah. I mean, as you know, Chase, the dredging is a unique advantage that we have, and we're in a transition in-house to our own dredging operations, which is going to drive down our costs. And so that'll show up in subsequent quarters and really improve our cost to mine and enhance our margins. And obviously, it's also very environmentally beneficial as well.

Chase Mulvehill

Yep. All makes sense. I appreciate the color. It was great seeing everybody at the walk the other week.

John Turner

Yep. Thanks, Chase.

Operator

Thank you. Our next question is from Derek Podhaizer with Barclays. Please proceed with your question.

Derek Podhaizer

Hey. Good morning, guys. I know you already talked about it in your prepared remarks, about your installation from the natural gas activity weakness that we're seeing across a lot of these

basins, primarily Haynesville, Eagle Ford, Mid-Con, a little bit in the Northeast. Bud, maybe can you talk about any threats that we should be thinking about? I don't know if there's any scenario where outside mines, whether they're regional or other local basin mines, and other basins could come in and disrupt the Permian supply and demand dynamics that we're seeing? Maybe just expand a little bit more on your level of insulation from that natural gas weakness that we're seeing.

Bud Brigham

Yeah. This is Bud. I'll start these and guys may want to add to it. Obviously, the disruption occurred back in, excuse me, 2017 and '18, because the cost of transport sand from, whether it was Illinois and Wisconsin or from central Texas, was just so high relative to local sand. And so it is kind of interesting that we tend to get grouped with the other oilfield service providers in the Permian, given there has been cost inflation, and the concern that operators have about that cost inflation and pushing back. And then as frac crews and other equipment that's on wheels moves into the Permian, there's more supply of services relative to the demand, which could provide the potential to reduce the cost of those services.

And the irony is that it goes the other way for us. The more frac crews that come into the Permian, the more sand demand there is, which is a tailwind for us. And it means more demand for our sand because sand from outside the basin, when you're talking \$100 delivered sand from from Illinois and Wisconsin with Northern White, it's just not competitive with what Atlas provides here in the basin. So it actually plays to our benefit, the softness and natural gas and equipment moving into the Permian.

And one thing as you know as well, is that the Permian is the highest rate of return drilling in the country. And so it's therefore a bit insulated, even when oil prices do get a little bit soft, operators tend to migrate their activity to the Permian, particularly to the Delaware basin, where the Dune Express is located, because that's the one area where they can generate a return on capital. And today, the half cycle returns are extremely attractive. So John, I don't know if you want to add anything to that.

John Turner

No, I mean, I think that's just--like Bud said, and then also, we exited '22, or I guess entered '23 with 60 million tons of production capacity last year. We're estimating that we're going to see around 10 million tons come on this year, and that includes the five million tons that we're bringing on. So I mean, when you look at that, that brings you to around 70 million tons of production capacity and that's still below the estimates out there for 2023 sand. I think Rystad has 77 million tons out there per year.

Derek Podhaizer

Great. Appreciate all that color. Just as a follow up, I mean, we're hearing a lot of talk from the E&Ps, just on the public stage, and their earnings call talked about profit as an area of service price relief in the back half of the year. I mean, hearing from you and hearing from your largest

peer, it doesn't really seem to be the case. So I'm hoping that you could just help us reconcile those comments from what we're hearing from the E&Ps as far as profit and prices coming down, but from what we're hearing from you and your peers, as far as contracted volumes pricing remaining elevated, sold out markets. Just help us reconcile that for us would be great.

Bud Brigham

Well, I mean, it's a matter of supply and demand. And as John pointed out, the supply of sand locally is South of current demand, and that's why roughly 10% of the demand is being met by Northern White, which tell you there was not enough supply to meet the demand because that is just not cost competitive with the local sand. Now that said, the land rush for sand, of course happened in 2017 and '18, and we tied up--the best reserves were tied up then. It's a little bit like oil and gas, and what happened with shale. And now you do have some tier three, tier four, some lower tier deposits that are being mined locally, which is beneficial for those local operators because the transportation cost is lower. But it's more quality reserves and it's like a small oilfield, that it goes on to decline faster. It's just not sustainable over the long term. So those volumes that are out there do help on the margins, but as these guys talked about, that's 10 million tons that's added in the course of this year, five million largely from those smaller deposits, which helps on the margin, but in terms of the total supply stack, it's just not that material.

Derek Podhaizer

Great. Appreciate the color, guys. I'll turn it back.

Operator

Thank you. Our next question is from Jim Rollyson with Raymond James. Please proceed with your question.

Jim Rollyson

Good morning, Bud and John.

Bud Brigham

Good morning.

John Turner

Hi, Jim.

Jim Rollyson

Bud, you talked a little bit about Dune Express, just obviously kicked off construction, ordered a bunch of your long lead time items. Maybe spend a minute just on kind of how pricing, availability, delivery times, things like that for the Dune Express--I mean, at the end of the day, I think you summed it up, that you still feel like you're on time for 4Q '24 operating date, but just kind of curious some of the sausage making on how available the equipment is and pricing, meeting your expectations, delivery times, etcetera.

Bud Brigham

Well, yeah, thank you for the question. And maybe I'll start, and John can really get into more of the detail on it, but we have a history of building our own projects. We built both plants. We're doing our expansion and of course, the Dune Express, and we're very good at it. Our team is really good at it. Having control of all the all the processes helps us control the budget, and also the timing, and so we've been able to deliver as we are with the current expansion, on time and on budget. And we're off to a really good start on the Dune Express, which frankly, is not as complex a project as building our plants and the current expansion. So very optimistic about delivering. We've worked hard to under promise and over deliver.

John, do you want to talk more about the specifics on that?

John Turner

Yeah. So as we said on the call, we've ordered more than 50% of our equipment and materials and we expect this number to continue to go up, probably be close to 70% by the end of--70 plus or minus percent by the end of June. When we put this project together, like Bud said, we built all of our projects. Where we saw it when we were planning, where we saw supply chain pressures come in, and we built that into our timetable. We feel real good about, obviously, the equipment that we've ordered, and about the costs and the plans coming online at the end of '24. Everything as we see it right now, still on time and on budget. We got we got a pretty good start out of the gate here.

We've broken ground on the Texas side. We've cleared right of way. We plan to start on the New Mexico side, probably in the next couple of months. As far as supply chain goes, we haven't seen anything that we did not anticipate, and we did factor the long lead time items into the original forecast. So overall, we feel really good about where we stand on the project right now.

Bud Brigham

And this is Bud. I might remind everybody that doesn't know. We built five miles worth of conveyor in our two plants, which have worked very, very well. We've had no problems with them over the five years plus of their operation. So anyway, that's helpful. The folks that know that we've built conveyors and they're very efficient and reliable.

Jim Rollyson

Great. That's good color and helpful. And just one other question, Bud, for you. Seeing a couple of the larger operators in the Permian, like Pioneer and just yesterday, Devon, now working--the guys that are acreage blessed that can do this, but working on three mile laterals, and I'm just curious kind of how you view that as an opportunity for you guys because that's obviously, when you start going out that far, that's a lot of sand that has to be delivered in a fairly short period of time for that type of completion. So curious if those moves are helping you on the

demand side of things as you think about delivering capacity on the Dune Express down the road?

Bud Brigham

No, thank you. No, it's a real good point and just one of a number of trends that are going to play out that are going to increase the demand for proppant. Obviously, the longer laterals, it's just another example of efficiencies that our industry continues to drive, whether it's drilling wells, and completing wells that all drive up demand for proppant. I mean, the longer laterals mean every rig out there working, and every frac crew out there working is going to be pumping and needing more sand.

The other thing is, as operators get into more of the tier two, and tier three rocks, we think that's going to require for the tight rocks, higher proppant loading. In fact, in our Non-Op business, we're still seeing when operators experiment with higher loading, and as they step into new areas. In most cases, not all but in most cases, they're seeing better economics. And I think, particularly as you move down the road, and you get further into the simul-fracs, we're going to see more of this development, drilling and more simul-fracs. So all of these things are going to compound together and increase the sand demand as we go forward, so thank you for the question.

Jim Rollyson

Yeah. Appreciate your answer. Thanks.

Operator

Thank you. Our next question is from David Smith with Pickering Energy Partners. Please proceed with your question.

David Smith

Hey. Good morning, and congratulations on a strong first quarter.

Bud Brigham

Thank you.

John Turner

Thank you, Dave.

David Smith

Was hoping to circle back to the comments about production costs. If I'm triangulating correctly, I'm guessing your average production cost per ton came down around \$0.50 or so sequentially. Wanted to check if that's in the ballpark, if that's fully due to progress on bringing your mining operations, the dredge mining operations fully in house, and how you see production cost per ton trending this year relative to Q1, if there's any range of cost per ton improvement that you might be comfortable providing?

John Turner

Yeah. This is John Turner. In the first quarter, our planned OpEx was around \$10.77 a ton before royalties -- I believe was what the number was. And you look at that was down from a high of just around \$13 a ton in Q4 '22. The biggest decline down from that was due to contract mining and third party labor costs, which are really associated with bringing the dredge mining in house.

In 2021, our plan OpEx was around \$6.50 a ton, and when you compare that with our costs today, the biggest difference is cost associated with bringing that dredge mining operation in-house. So yes, as we continue to bring that process fully in-house, we expect our cost to continue to go down and continue to decrease down to those lower levels that we've achieved in the past. So yes, that's a good observation, and our OpEx is trending in the right direction. We've already seen it happen here early in the second quarter as well.

David Smith

That was great color, appreciate it. If I could ask one more. Also, congratulations on the approximately 200 payloads in Q1, delivered with over 70 tons per truckload. Am I correct that those deliveries started sometime in March? And more importantly, how should we think about those volumes progressing through the year?

Chris Scholla

Yeah. This is Chris Scholla, Chief Supply Chain Officer. Just to give you some color of our delivery timeline and our intense evolution of our logistics operations, January 3rd, we started our logistics operation with our first single trailer deliveries utilizing Atlas drivers and assets. On March 20th, we delivered our first double trailer to the website with a 70 plus ton payload. And then April 5th, we delivered our first triple trailer to the well site with almost 100 ton payload. And to put that in perspective, as we talked about earlier, that's about four times the standard payload that you see delivered to location today.

I think a big part of your future look question is, look, seeing is believing, right? We've had major operators and service companies out to see our logistics operation running in the field in person. Seeing the fit for purpose double and triple trailers being delivered to the websites, it really brings reality to the transformational logistics solutions that we'll be delivering in the Permian. We've seen a high level of interest and expect additional customers to transition to Atlas logistics solutions throughout Q2 and the rest of the year. From that perspective, look, there just aren't a lot of customers that don't want to be a part of a 70% reduction of associated traffic on public roads. That's what we see as our progression on logistics.

David Smith

You just answered my follow up question, so thank you and that's all I got.

Bud Brigham

Great. Thank you.

Operator

Thank you. Our next question is from Doug Becker with Capital One. Please proceed with your question.

Doug Becker

Thank you. Curious how conversations are going around signing up additional customers with the Dune Express? How important to you view signing up contracts in advance, and is it reasonable to expect some more news on this front over the next, say, six months?

John Turner

Yeah.

Bud Brigham

Yeah. I think for some in the market, the Dune Express sounded like an ambitious concept, and now it's very real. So I think the level of discussion, and Jeff can speak more specifically to it, has increased. It's really unusual for companies to contract out as far ahead as those two majors did, for deliveries on the Dune Express. I mean, as you know, we have a history as operators and typically, the only contract out next budget year, unusually at times and it would be unusual you might go out a couple of years. And so for those two majors to step out like they did was really unusual.

Now, I do think now that the Dune Express is here, it's real in their minds, and it's and it's happening. Jeff can speak to the fact that the discussions have increased, but a lot of them are just trying to bridge their way forward to be there and be in the front of the line to be on the Dune Express deliveries once it's up and running.

Jeff, do you want to add to that?

Jeff Allison

Yeah. Thanks, Bud. This kind of follows on to the question that was asked earlier about we're seeing more simul-frac activity, three mile laterals, meaning more proppant, and more efficient logistics solutions. And this plays right into Atlas Energy Solution's strength as we move forward. And what we're seeing is what we have coupled with that right now is we have tangible assurity to these customers that this project is in fact going forward. We got construction beginning. We've had several tours on our locations, demonstrating that the trucks are running, the heavy payloads are running. And this assurity coupled with the tangibility of what our solutions offer is, and as Chris Scholla mentioned earlier with regard to the sustainable benefits from the environmental social safety perspective, is acting as a very large attractant to these things in terms of long term commitments.

So Bud mentioned earlier on in the conversation, we expect these on a quarter-by-quarter basis to grow our contract volume commitments to grow and coupled with some of their roll offs that are expected as well. So look for a real favorable contracting session moving forward in the next six months.

Doug Becker

That certainly sounds encouraging. And just everything you've been talking about today, the outlook for Permian frac sand and supply, demand looks very favorable. What are your thoughts on just formally moving forward with phase two of the permit expansion?

Bud Brigham

Yeah. I mean, a couple of comments on that. We are going to have material growth in our production as we exit the year with this first expansion coming online. Let me just say that I think that we're very optimistic about our ability to grow production very efficiently. When you look back at our original plant design, the production expectations from those plants was three million tons a plant, three to four, and we're producing five and a half million tons from each plant. So I think a potential phase two expansion would come next year, but I think--I'm very optimistic that we're going to be able to maybe exceed expectations in terms of CapEx relative to production growth in the foreseeable future. John, you can probably be more specific.

John Turner

Yeah. I mean, but really, what we're looking at is like Bud said, originally our plants were designed to produce six million tons total. We're on a run rate right now of 11 million tons. We're going to evaluate the situation as we move into the end of this year and to early next. The Dune Express itself is 13 million tons, and we're going to look at all the different options and see what kind of efficiencies we get out of the current operations. We've been very efficient in the past, and it's not taking the plant expansion off the table, it's just looking at what's the best way to achieve those additional volumes for the Dune Express.

Bud Brigham

Yeah, what's the most productive capital to put toward to grow our production, and we think we have some--we're very encouraged by our opportunities in front of us to grow production very efficiently, just to put it put it in summary form.

Doug Becker

Makes sense. Thank you.

Bud Brigham

You bet.

Operator

Thank you. Our next question is from Michael Scialla with Stephens. Please proceed with your question.

Michael Scialla

Good morning, everybody. Just was a little surprised on your decision to pay a variable dividend while you're in the growth mode here. Just want to see if you can give us any indication of things the board will be considering as it looks to implement a longer term shareholder return program?

Bud Brigham

Yeah. Maybe I'll start and then John will add. This company has really remarkable margins, in fact, it's very hard to find companies that have margins and generate cash the way that this company does. And I also think there's some fundamental reasons that our industry has transitioned to distributing capital back to investors. Personally, I think it's really important because it just demonstrates the transparency of your business and your ability to generate cash and return that capital to investors and transparency with regard to your value creation.

And in the case of this company, while we do have significant CapEx in front of us, we raised \$300 million in the offering, and we're generating very substantial cash flows. We are 90%, contracted this year, over 90%. We think we're going to exit the year over 80% contracted next year. We just feel like we've got great visibility on the cash generation from this enterprise to accomplish both, to fund these high growth CapEx projects, high rate of return CapEx projects, and to continue to strip capital back to investors. And I do think as those those CapEx investments wind down during the course of next year, that we'll become an even more powerful distributing enterprise. So I think it's--to me, it's an important message to send our investors that you are very important to us.

John, do you want to add anything?

John Turner

And I think that as we move through the year with the board, I mean, I think it's going to be, hey, look, guys, what's the highest return on investment for our investors? And hey, obviously, I think if there's multiple ways to getting return back to investors, either through returning cash, investing in growing the stock price to additional growth projects, we have that.

Bud Brigham

And potentially buying shares.

John Turner

And potentially buying shares at some point. So I mean, they will be considering all those different factors when we announce that, but we want to get closer to the launch of the Dune Express. When we say the launch, the finishing, the completion of the Dune Express, so we can build in a fixed dividend--plan would be to build in a fixed dividend and then grow that fixed dividend over time.

Michael Scialla

Appreciate all the color. That's great. I guess with the Kermit plan expansion on time and on budget, you said you're at kind of a run rate of 11 million tons per year. Can you give us any sense on what you'd expect in the fourth quarter, given where you're contracted, maybe both in terms of production and how the CapEx cadence will look over the course of the year?

John Turner

So there was two questions there. One was that as far as where we'll be in the fourth quarter production and on CapEx cadence?

Michael Scialla

Right. Sorry, one to two questions together there. Sorry about that.

John Turner

Well, obviously, I think that as far as capital expenditures go, we'll be completing the Dune Express, but we will be--

Bud Brigham

In the fourth quarter this year, we'll be completing the expansion.

John Turner

Yeah. We'll be completing the expansion, sorry, and we'll be right in the middle of the Dune Express forecast. I don't think we've provided guidance on what the timing of that of that CapEx will be, but--

Bud Brigham

Generally, we're comfortable with what the analyst numbers that we've seen out there.

John Turner

Yeah, that's right. And then on the--

Bud Brigham

I probably should restate that color, that this company has had a history of delivering more production relative to CapEx in the past. So we're always innovating, and we're always updating our modeling and analysis. And so we are optimistic that we can (INAUDIBLE) expectations as we go forward as we have in the past. But we will also, in addition to working on a dividend policy with the board, over time, we'll also be working on a policy regarding forward guidance. But at this point in time, we're comfortable with what the analysts have out there in general.

Michael Scialla

Gotcha. Appreciate it, guys.

Bud Brigham

Yeah. Thank you.

Operator

Thank you. Our next question is from Keith Mackey with RBC Capital Markets. Please proceed with your question.

Keith Mackey

Hey. Good morning, and thanks for taking my questions. Just wanted to start off with your sand contracting, really, approach. So you're highly contracted currently, but we do consistently hear E&P commentary in the market about getting cost down. So just how do you think about looking for whether to contract the next ton of sand or letting it float in the market? Is there a specific price where you'll be agnostic to taking on the risk of where the forward market may go or is there other factors that really drive it?

Bud Brigham

Well, this is Bud. I'll start, but then Jeff will probably--he's definitely on the front lines on the market. But I'll just say that, again, there's a real bifurcation when you look at pressure pump (inaudible). The supply demand dynamic there is very different from sand. We still have 10% of the supply in the basin being provided by Northern White. So it's just a completely different environment for us and market for us relative to some of the other oilfield service providers.

We have a Non-Op company, so we do have real-time data on the cost inflation that has occurred. And I'll just say that the rate of return on drilling projects at the current oil prices is very attractive. The tier one rocket is around 100% plus or minus, and even in the tier two rocket is 40% to 60% IRR. So I think the rate of return on projects for operators is very attractive at these levels.

Jeff, do you want to answer more specifically on how the market's shaping up for--

Jeff Allison

Yeah. I'll answer. It's really, really--we manage our contracts and our clients on a portfolio basis, which means that we approach each one case-by-case. And what goes into consideration is obviously strategic value, pricing, and how they align with our strategic goals, as well. And we're finding that in most cases, the high-quality customers in the basin do in fact align with that. So again, case-by-case basis.

Keith Mackey

Got it. That's helpful. And just on the Dune Express, good to hear that you've got a bunch of the materials ordered. As you've made those orders, relative to any agreements you would have had before or anything you would have done before, during the spring, perhaps or in the winter? What inflation or deflation, if any, have you seen on the actual materials you've ordered relative to the pre-order phase?

John Turner

I'd say it's coming in right where we thought it was. We've been in the market prior coming up to this project with our Kermit expansion. So things like steel cost, belts, drives. We had a pretty good handle on where the costs were going or where we thought they would be. We haven't seen any surprises on that front yet. And we did have a number of POs prepared, that were written that we were working on before we decided to launch. But we haven't--like we said earlier, we've done these projects before. We forecast in long lead time items and also, and part of that, used our current market information to forecast--we've factored that into the forecast when we were putting this together, so we haven't really seen any surprises on that side.

Keith Mackey

Got it. That's it for me. Thanks so much.

Operator

Thank you. There are no further questions at this time. I'd like to hand the floor back over to Bud Brigham for any closing comments.

Bud Brigham

Thank you, operator. Thank you all for joining our call. We really appreciate your participation and look forward to reporting on our second quarter results.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.