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HNRG - Q4 2015 Hallador Energy Co Earnings Call

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CORPORATE PARTICIPANTS

Brent Bilsland *Hallador Energy Company - President & CEO*

Andy Bishop *Hallador Energy Company - CFO & Treasurer*

Larry Martin *Sunrise Coal, LLC - CFO*

Rebecca Palumbo *Hallador Energy Company - Director of IR*

CONFERENCE CALL PARTICIPANTS

Operator

Mark Levin *BB&T Capital Markets - Analyst*

Derek Hernandez *FBR & Company - Analyst*

Michael Goldenberg *Luminus Management - Analyst*

PRESENTATION

Operator

Good day, and welcome to Hallador Energy Company's 2015 Year-End Earnings Conference Call. All participants will be in listen-only mode. (Operator Instructions)

After today's presentation, there will be an opportunity to ask questions. (Operator Instructions) Please note this event is being recorded. I would now like to turn the conference over to Becky Palumbo, Director of IR. Please go ahead.

Rebecca Palumbo - *Hallador Energy Company - Director of IR*

Thank you, Andrew, and good afternoon to everyone. Thank you for joining us today to discuss Hallador Energy's fourth quarter and full-year 2015 earnings. With me on the call are Brent Bilsland, our CEO and President; Larry Martin, CFO for Sunrise Coal; and Andy Bishop, CFO for Hallador.

Following the remarks made by management, we'll open the call for Q&A. This conference call is being webcast live on our website and a replay will be available for your convenience followed by a transcript later this week. If you have a question after the call, please reach out afterwards.

Before I turn the call over to Brent, let me remind you that the various remarks we make on today's call regarding future expectations constitute forward-looking statements. And the cautionary language regarding forward-looking statements in our Form 10-K filed on Friday, March 11, apply to the remarks we make today.

And with that, I'll turn it over to Larry.

Larry Martin - *Sunrise Coal, LLC - CFO*

Good afternoon, everyone. I wanted to go over our operating results for the fourth quarter and the year 2015. Our net income for the fourth quarter was \$500,000 or \$0.02 a share and year-to-date we made \$20.1 million or \$0.68 per share. Our free cash flow for the quarter was \$9.3 million or \$0.32 a share and totaled \$44 million or \$1.51 a share for the year. Adjusted EBITDA was \$15.4 million for the quarter, equated to \$0.53 a share; \$90.8 million for the year, \$3.13 a share. We reduced our debt in the fourth quarter by \$16.6 million, which equated to \$0.57 per share and year-to-date was \$56.9 million reduction, \$1.97 per share.



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We paid dividends \$1.2 million for the quarter, which was \$0.04 a share and a total of \$4.8 million for the year, \$0.16 a share. And we define our free cash flow as pre-tax income plus depreciation, amortization, less CapEx. And we define adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, plus the amortization of our stock compensation.

At the end of the year, we had bank debt of \$250 million and this coupled with our \$16 million of cash left us with a net debt of \$234 million. Our debt target for the end of 2016 coming up, we expect our debt to be somewhere between \$220 million to \$225 million at the end of the year. And at the end of 2015, our leverage ratio was 2.67 times.

With all that being said, I would like to turn the conference over to Brent Bilisland to give his comments and insight.

Brent Bilisland - Hallador Energy Company - President & CEO

Hello, everybody, and thank you for joining our call. For 2016, we are forecasting sales of 6.0 million to 6.5 million tons. At a minimum, we already have 5.6 million tons already under contract. In some cases, our customers have the ability to increase contracted tonnage and/or are required to purchase their distilled tonnage needs from our company.

In addition to our contracted position, we are experiencing some customers coming out for RFP now that we fully expect our customers to purchase additional tons in 2016. Clearly, our average price for 2016 is \$43.88 a ton.

On the cost side of the equation, Oaktown's cash costs for the fourth quarter was \$28.98 a ton. For 2016, we are forecasting our costs to be \$28 to \$30 a ton. Going forward, we expect our SG&A to be \$12 million annually and cost associated with Prosperity and Carlisle to be \$9 million annually.

In the fourth quarter, we continued to generate cash and these funds were used to pay down debt, \$16.6 million in addition to paying a quarterly dividend of \$1.2 million. In the 16-month since purchasing the Oaktown mine, we have repaid \$100 million of bank debt equal to \$3.42 a share.

As of year-end, our debt to trailing 12-month EBITDA was 2.67 times, but our own covenants have also stepped down to 2.75 times. This step down in our covenant coupled with our reduced sales for 2016 has led us to request a modification of our loan covenants. Such a modification will require 51% consent from our bank group.

In speaking with PNC Bank, our lead bank today, they stated we are on track to receive the required consent this week. This increased liquidity will allow us to continue to operate conservatively and/or participate in consolidating the current industry.

On the personnel for us, effective April 1, 2016, Larry Martin, Sunrise's current CFO will become CFO of Hallador Energy. Andy Bishop has been Hallador's CFO for the last 26 years and will become a consultant to Hallador where he will continue to file our 10-Ks and 10-Qs.

This move is something we have been planning for a long time and as we continue to wind down our Denver office and transition those functions to Terre Haute, Indiana office. I want to personally thank Andy for his 26 years of service and we look forward to continue working with him for the foreseeable future.

With that, I'm going to open up for questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. (Operator Instructions)

Mark Levin, BB&T.



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Mark Levin - *BB&T Capital Markets - Analyst*

A quick question. Not so much as it relates to 2016 but 2017. It looks like for 2016 you've got most of the coal put to bed that needs to be put to bed and priced at least around the minimum. But when you think about targets for 2017 and how the market looks in 2017, if you were in our shoes and trying to model 2017 and trying to think about what a reasonable sales forecast given what you know about supply and demand fundamentals in the Illinois basin, would you assume flat with 2016, down from 2016 or how would you think about it?

Brent Bilisland - *Hallador Energy Company - President & CEO*

I think sitting here at this juncture, 2017 is going to look very similar to 2016.

Mark Levin - *BB&T Capital Markets - Analyst*

That's a fair question (multiple speakers)

Brent Bilisland - *Hallador Energy Company - President & CEO*

We kind of see this contraction -- if you look at the 4th of July, we had 65-degree weather; Christmas day, we had 64-degree weather. This week, we had 60-degree weather. This has kind of created a glut of BTUs that's just going to take some time to work its way through the system. And we see that process taking the better part of 2016, at least the first half of 2017 before we think we return to something more normal. So that's just kind of how we see the market and that's how we think 2018 looks much better than 2016 and 2017.

Mark Levin - *BB&T Capital Markets - Analyst*

And is there a -- I know you guys have already reworked contracts but I wanted to just kind of see where you were today given the weather again, the mild weather. Is there any further risk for deferrals at this point or do you feel pretty confident about the way things look today as it relates to 2016?

Brent Bilisland - *Hallador Energy Company - President & CEO*

I think in relation to 2016, I think we're in pretty good shape. These things change but I think the customer has done a lot of work trying to get their position straightened out in 2016. A lot of those tons did get put into 2017. And I think customers' models -- I think their models are showing burning less tons in 2017 and so therefore they're playing it much more short than they have in the past. So I don't -- to answer your question, I don't see the deferrals being as great in 2016 as they were in 2015.

Mark Levin - *BB&T Capital Markets - Analyst*

And then last question, Brent, as it relates to cost. It looks like Q4 cost per ton were about \$32.45, you were \$31.82 in Q3 and about \$30 in the earlier period. And I think as I understand if you're guiding to \$28 to \$30 next year, is that \$28 to \$30 just inclusive of Oaktown or is that the all-in company-wide costs for the 6 million tons or so plus or minus that you'll sell this year?

Brent Bilisland - *Hallador Energy Company - President & CEO*

That's just Oaktown.



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Mark Levin - *BB&T Capital Markets - Analyst*

Just Oaktown. So when you think about the all-in costs, so if it's \$28 to \$30 at Oaktown and then you layer on what's left, what do you think is a reasonable way to think about 2016 Oaktown plus?

Brent Bilsland - *Hallador Energy Company - President & CEO*

For 2016, it will be \$28 to \$30 mark plus the around \$9 million we expect for the idle cost at Prosperity and Carlisle.

Mark Levin - *BB&T Capital Markets - Analyst*

Got it, plus the \$9 million. And then when you think about 2017 in costs, would you again assume that same plus \$9 million or does that number change at all?

Brent Bilsland - *Hallador Energy Company - President & CEO*

Well, I think we'll continue to evaluate Carlisle and it really comes down to how quickly we think we can get the production there back up line. Currently, we see adding tons there in 2017. And as that changes, we'll adjust accordingly.

Operator

Lucas Pipes, FBR & Company.

Derek Hernandez - *FBR & Company - Analyst*

This is Derek Hernandez on for Lucas today. I want to follow up a little bit on the cost guidance going forward into 2017. I know we have the guide for Oaktown in 2016. Just wondering how you may anticipate seeing that evolve into 2017? I know previously you had targeted Oaktown costs altogether in possibly the mid-to-low 20s per ton and kind of just wondering how that outlook looks possibly over the next few years as well?

Brent Bilsland - *Hallador Energy Company - President & CEO*

I think the cost structure will be solely dependent -- maybe not solely dependent, it will be very much influenced by what tonnage volume we're running. So, as we move to 6.5 million tons, 7 million tons, you're going to see our cost go back down and approach \$27 at Oaktown. If we're running at 5.6 million tons, I think we're going to be more in that \$29-ish range. And so, that's what's influencing our costs. If you watch our sales -- as we layer in more sales, I think that will push us to one end or the other of our cost range.

Derek Hernandez - *FBR & Company - Analyst*

And in terms of potentially looking at supplier costs or other operational costs that you may be able to pull out that are more independent of volumes. Do you see many opportunities there into the coming years?



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Brent Bilisland - Hallador Energy Company - President & CEO

Yes, I think we're every day working on getting input cost down and we've seen a fair amount of those costs continue to drop as vendors fight for business and the overall cost of the base commodity has gone down. Price of oil is down, price of tires is down, price of steel is down, so roof-control costs are coming down. So these costs dropped, it will help our bottom line, but we don't see drastic changes.

Derek Hernandez - FBR & Company - Analyst

And then I guess finally you mentioned potentially participating in consolidation in the industry. I was just wondering if there were any regions or coal types or operation types that you may be looking at more specifically, anything that catches your eye outside of potentially immediately accretive acquisitions?

Brent Bilisland - Hallador Energy Company - President & CEO

Well, I think in general we think there's a lot of pressure on the industry and the higher cost producers are in for a rough time. The trick is, can you find the right asset at the right price. Do not look for us to be going outside the Illinois basin. Our expertise is in the Illinois basin. So, if we were to buy something that's where we would be looking.

Operator

(Operator Instructions)

Michael Goldenberg, Luminus Management.

Michael Goldenberg - Luminus Management - Analyst

Do you have a large overlay between your lenders in term loan and the revolver?

Brent Bilisland - Hallador Energy Company - President & CEO

All of our 17 banks that are in our current credit facility, they're both in the term loan and in the revolver. There's no differentiation.

Andy Bishop - Hallador Energy Company - CFO & Treasurer

Correct. Same percentage in both.

Michael Goldenberg - Luminus Management - Analyst

So in making the decision, that's what I meant to kind of making the decision on behalf of all the debt as opposed to in [anyway preferencing] one tranche versus the other?

Brent Bilisland - Hallador Energy Company - President & CEO

Correct.



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Andy Bishop - Hallador Energy Company - CFO & Treasurer

Yes, but it's all the debt.

Michael Goldenberg - Luminus Management - Analyst

And I understand what you're saying about if the markets improve, then 2017 will look same as 2016. As a sense right now just looking at the forward, obviously have less contracted in 2017 versus 2016, so the revenue may be down a little unless the market recovers. My question is when you're going to solve this issue with the revolver, do you plan to -- are you going to be complaint just for 2016 or even if there's a step down in 2017, you're going to rework in such a way that you're not going to have to face this issue next year if, for example, the market does not recover?

Brent Bilsland - Hallador Energy Company - President & CEO

We're asking for a covenant modification that we believe we could comply with through the end of the term of the loan, which is in 2019.

Michael Goldenberg - Luminus Management - Analyst

So you're preparing for something. Even if there's a step down, you may not need to -- you will not need to go over this again.

Andy Bishop - Hallador Energy Company - CFO & Treasurer

Correct.

Brent Bilsland - Hallador Energy Company - President & CEO

Correct.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Becky Palumbo for any closing remarks.

Rebecca Palumbo - Hallador Energy Company - Director of IR

Thank you everyone for joining us today. We look forward to hearing from you again next quarter. Good afternoon.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.



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