PARTICIPANTS

Corporate Participants

Christina Kmetko – Investor Relations Consultant, NACCO Industries, Inc.
J.C. Butler, Jr. – President, Chief Executive Officer & Director, NACCO Industries, Inc.
Elizabeth I. Loveman – Senior Vice President & Controller, NACCO Industries, Inc.

Other Participants

Douglas S. Weiss – Analyst, DSW Investment, LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the NACCO Industries Fourth Quarter and Full Year 2023 Earnings Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Thursday, March 7, 2024.

I would now like to turn the conference over to Christina Kmetko, Investor Relations. Please go ahead.

Christina Kmetko, Investor Relations Consultant, NACCO Industries, Inc.

Thank you. Good morning, everyone, and welcome to our fourth quarter and full year 2023 earnings call. Thank you for joining us this morning. I'm Christina Kmetko, and I'm responsible for investor relations at NACCO. Joining me today are J.C. Butler, President and Chief Executive Officer; and Elizabeth Loveman, Senior Vice President and Controller. Yesterday, we published our 2023 fourth quarter and full year results and filed our 10-K. This information is available on our website. Today's call is also being webcast. A webcast will be on our website later this afternoon and available for approximately 12 months.

Our remarks that follow, including answers to your questions, contain forward-looking statements. These statements are subject to several risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements made here today. These risks include, among others, matters that we described in our earnings release, 10-K, and other SEC filings. We may not update these forward-looking statements until our next quarterly conference call.

We'll also be discussing non-GAAP information that we believe is useful in evaluating the company's operating performance. Reconciliations for these non-GAAP measures can be found in our earnings release and on our website.

With the formalities out of the way, I'll turn the call over to J.C. for some opening remarks. J.C.?

J.C. Butler, Jr., President, Chief Executive Officer & Director, NACCO Industries, Inc.

Thank you, Christy, and good morning, everyone. As we put 2023 behind us, I'm pleased to be looking forward to 2024. We expected 2023 to be challenging, and it ended up being more difficult than we expected. That said, challenges are what make us stronger, and I definitely believe that we are entering 2024 in a very strong position. Our teams have delivered on our two key strategies to protect the core and grow and diversify, and we emerged from 2023 with a solid foundation for future growth. The unfavorable comparisons we experienced throughout 2023 should turn favorable in 2024 and lead to continuing improvement in the future.

Before I get into our fourth quarter highlights, I'd like to recognize our outstanding employees. I'm extremely proud of the way these talented, dedicated, and motivated individuals have worked to make our operations run efficiently despite any challenges they may face. They continue to find new and exciting ways to support our existing customers while growing and diversifying our company. I want to thank each of them for the hard work and many contributions that they've put forth to strengthen us today and to secure new opportunities for our future. I'm honored each and every day to work alongside such an amazing team.

The most notable item this quarter is the impairment at Mississippi Lignite Mining Company. In mid-December, MLMC received a force majeure notice from its customer. This notice was the result of an issue affecting one of the two boilers at the Red Hills Power Plant. This one unit is still not functioning, and the timeline for resolution is uncertain. This issue is expected to result in a significant decline in customer demand during 2024 while the power plant is running on just one unit.

Without getting into all the accounting details, I'll just say it was this anticipated reduction in demand that contributed to the company taking a noncash impairment charge of $65.9 million during the 2023 fourth quarter. The combination of this noncash impairment charge and substantially lower operating results at our Coal Mining and Minerals Management segments resulted in substantial consolidated operating and net losses for the fourth quarter and full year.

Christy will go into more detail about our fourth quarter earnings and provide an overview of our outlook in a minute; but, first, let me talk about some of our accomplishments during the year.

I'll start with the Coal Mining segment. During 2023, MLMC successfully completed the move to a new mine area and overcame unfavorable mining conditions to remove the last remaining coal from the prior mine area. This moved to a new mine area was a multiyear project. We've known that a move to a new mine area would be required since the mine was built back in the late 1990. So, this was no surprise. The new mine area is just across the state highway from the prior mine area, so it will not change the economics of hauling the coal in a meaningful way, but we did have to get equipment to the new mine area. You see a photo of the dragline walking across the state highway in our upcoming annual report.

As anticipated, MLMC's costs began to improve after the move to the new mine area, which contributed to improved fourth quarter results compared to the third quarter. While this move was challenging and expensive, it sets us up nicely for the future. We expect production costs at MLMC to decline significantly in 2024 from recent levels. These costs, however, are expected to remain above historical levels through 2024 until the boiler issue at the power plant is resolved and a pit extension in the new mine area is complete.

Shifting to Minerals Management, the Catapult Mineral Partners team, which oversees our Minerals Management segment, successfully negotiated and closed on a $37 million acquisition in the Midland section of the Permian Basin. This acquisition of oil and gas mineral interests is Catapult's largest acquisition to-date. The Catapult team has done a great job of growing and diversifying our portfolio of mineral interests over the last few years.

Prior to 2020, our income related to oil and gas mineral interests was highly concentrated in the Appalachian Basin, largely focused on natural gas. We still have these legacy interests and profit from owning them, but we now own oil and gas interests in other major basins across the country as well. We're also now more diversified in terms of operators and stages of development, ranging from producing oils to undeveloped mineral interests. We think this business is well-positioned for the future based on work done thus far, and we continue to invest.

In 2024, Minerals Management is targeting additional investments of up to $20 million. Future investments, as well as development of new wells on existing owned reserves beyond those included in our current forecast would be accretive to future results.

In 2023, North American Mining made significant progress on operational and strategic projects to improve profitability. While its fourth quarter operating results were down from the prior year, full year operating profit was up 52% compared with 2022. I think this improvement in results is a very positive sign that the team is making meaningful progress toward building North American Mining into a very successful business platform for us.

North American Mining continues to grow. Our North American Mining team succeeded in winning a bid for a 6-year contract extension with its largest customer and secured a new 15-year contract to mine phosphate, building on its goal to diversify into additional minerals.

Wrapping up my North American Mining comments, let me mention Sawtooth Mining, which is the exclusive contract miner for Lithium Americas Thacker Pass lithium project in Northern Nevada. Construction of Thacker Pass commenced in the 2023 first quarter. With that, we began requiring equipment for the project and have acquired $23 million of equipment to-date. We expect to continue to recognize moderate income prior to the commencement of Phase 1 lithium production.

Moving to our Mitigation Resources of North America business, this team continues to advance existing mitigation projects and build on the substantial foundation that is established over the past several years. I'm very pleased with the level of growth Mitigation Resources has achieved since first starting five years ago, and I'm very enthusiastic about their prospects.

During 2023, this business invested in people and data analytics to make even more informed decisions about which markets to target. We anticipate that Mitigation Resources will further expand and develop its business model in 2024, with a focus on generating a modest operating profit by 2025 and achieving sustainable profitability in future years.

Our team continues to look for ways to create additional value by utilizing our core mining competencies, including reclamation and permitting. Among the ways we are doing that is through development of utility scale solar projects on reclaimed mining properties. In 2023, we formed ReGen Resources to pursue such projects, including the potential development of a solar farm on reclaimed land at Mississippi Lignite Mining Company.

I continue to be very optimistic about our outlook as we look past 2023. I have a lot of confidence in our team, and I'm pleased with the way all of these businesses continue to advance their strategies, including efforts to protect our coal mining business.

With that, I'll turn the call back over to Christy to cover our results for the quarter and our outlook in more detail. Christy?

Christina Kmetko, Investor Relations Consultant, NACCO Industries, Inc.

Thank you, J.C. I'll start with some high-level comments on our consolidated fourth quarter financial results, and then add detail on our individual segments.

We reported a consolidated net loss of $44 million or $5.88 per share loss compared with net income of $13.8 million or $1.84 per share last year. As J.C. mentioned, our fourth quarter results included $65.9 million pre-tax asset impairment charge. I note that while the impairment relates solely to Mississippi Lignite Mining Company, we recorded $60.9 million in the Coal segment and $5.1 million at Minerals Management because certain land assets were included within that business.

We generated consolidated adjusted EBITDA of $7.1 million compared with $23.6 million in 2022. Adjusted EBITDA excludes the impairment charge. These lower results were primarily due to significant decreases in our Coal Mining and Minerals Management earnings.

Our Coal Mining segment reported an operating loss of $62.3 million, which includes the impairment charge of $60.8 million. This compares to a loss of $4.7 million in third quarter 2023 and operating profit of $3.7 million in fourth quarter 2022. We generated segment adjusted EBITDA of $3.2 million this past quarter compared to $8.1 million last year. The decrease in segment adjusted EBITDA was primarily due to the substantial decline in Mississippi Lignite Mining Company results, as well as a decrease in earnings at our unconsolidated operations because of lower customer requirements. Higher employee-related expenses also contributed to the decline. Decrease in Mississippi Lignite Mining Company results was primarily the result of fewer tons delivered in part due to the issue affecting the power plants. The decrease in tons delivered contributed to an increase in the cost per ton sold and a $900,000 write-down of coal inventory to net realizable value.

Excluding the impairment, the primary reason behind the decline in Minerals Management's results is significantly lower natural gas and oil prices. To put this more in-context, current natural gas prices, as measured by the Henry Hub Average Natural Gas Spot Price, declined 51% from 2022; and oil prices, as measured by the West Texas Intermediate Average Crude Oil Spot Price, decreased 5% from the prior year.

At North American Mining, improved fourth quarter 2023 earnings at Sawtooth in North American Mining's active quarry were more than offset by a $500,000 loss on sale of a dragline, $400,000 of higher outside service costs compared with 2022 related to business development activities and the impact of the substantial completion of services at Caddo Creek in 2022. As a result, North American Mining's fourth quarter 2023 operating loss of $600,000, increased over the prior year. Segment adjusted EBITDA was positive and comparable to 2022 despite the higher operating loss because results at the mining operations improved when the impact of depreciation expense was excluded.

Looking forward at our Coal Mining segment, we expect strong 2024 operating profit compared with the significant 2023 loss and substantially higher segment adjusted EBITDA. These anticipated increases are primarily due to an improvement in results at Mississippi Lignite Mining Company and higher earnings at Falkirk and Coteau. We are expecting MLMC to incur a loss in 2024, but it is expected to be significantly less than in 2023.

As J.C. mentioned, we are anticipating lower production costs. However, while production costs are projected to decline significantly from recent levels, they are expected to remain above historical levels through 2024 when a pit extension in the new mine area is complete. Lower depreciation/amortization expense as a result of the lower depreciable value of MLMC's assets after the impairment is expected to contribute to the improved results.

An extended delay in repairs to the Red Hills Power Plant could significantly affect the company's 2024 outlook. An anticipated increase in 2024 earnings at the unconsolidated Coal Mining operations is driven primarily by an expectation for increased customer requirements at Coteau and Falkirk, as well as a higher profit per ton management fee at Falkirk beginning in June 2024 when temporary price concessions end. We expect operating profit to be higher in the second half of 2024 compared with the first half due to anticipated improvements at MLMC, increased demand at the unconsolidated Coal Mining operations, and the end of the Falkirk price concessions in June of 2024.

As a result, the impact of the new and modified contracts J.C. mentioned, we expect North American Mining to achieve consecutive quarterly growth in operating profit and segment adjusted EBITDA in 2024, leading to significantly improved full year results over 2023.

Finally at Minerals Management, we expect 2024 operating profit and segment adjusted EBITDA to decrease moderately compared with the prior year, excluding the 2023 impairment charge. The forecasted reduction in profitability is primarily driven by current market expectation for natural gas and oil prices and modest expectations for development of additional new wells by third party lessees. Lower operating expenses are expected to partially offset the anticipated profit decline.

Overall, at a consolidated level, we expect to generate net income in 2024 versus the 2023 net loss. Adjusted EBITDA is also expected to increase significantly over 2023. These improvements are primarily due to increased profitability at the Coal Mining segment from improved results in Mississippi Lignite Mining Company, Falkirk, and Coteau. Growth at North American Mining is also expected to contribute to the higher 2024 net income.

Lastly, from a liquidity standpoint, we ended the quarter with consolidated cash of $85 million and debt of $36 million. We had availability of $105 million under our revolving credit facility. During the fourth quarter, we repurchased approximately 66,000 shares for $2.3 million under an existing share repurchase program. In 2024, we expect cash flow before financing activities to be a moderate use of cash.

We will now turn to any questions you may have.

QUESTION AND ANSWER SECTION

Operator: Thank you. And, ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Doug Weiss from DSW Investments. Your line is open.

<Q – Doug Weiss – DSW Investment, LLC>: Hey. Good morning.

<A – J.C. Butler – NACCO Industries, Inc.>: Good morning.

<A – Christy Kmetko – NACCO Industries, Inc.>: Hey, Doug.

<Q – Doug Weiss – DSW Investment, LLC>: Hey. Is it possible to say how much those sort of additional costs are per quarter for the work you're doing on the coal – on the Mississippi Lignite coal mine?

<A – J.C. Butler – NACCO Industries, Inc.>: I'm not sure I understand the question.

<Q – Doug Weiss – DSW Investment, LLC>: So, in other words, as you're sort of operating dual mines and moving the equipment and so forth, once that process is completed, how much costs will just drop out of the quarters?

<A – J.C. Butler – NACCO Industries, Inc.>: Liz, I'll give this a shot and see what you think. I – so, I mean, I'm not going to give you an exact dollar amount, but I would say that our costs are going to return to where they were prior to us incurring these additional costs to move into the new mine area. We've sort of doubled up on costs, and it was less efficient while we were doing this. But I think once we get established over there and obviously are delivering full volumes – mining full volumes when the plant's up and running again, I think we'll return to historical cost levels.

Liz, do you – is that fair?

<A – Liz Loveman – NACCO Industries, Inc.>: I would agree. I would also say, you mentioned we are operating at two mine areas. We've already moved over to the new mine area. We're not operating at the previous mine area.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. Okay. Great.

<A – Liz Loveman – NACCO Industries, Inc.>: We're just [ph] having pit extension. Right(00:18:53). We're working on the pit extension.

<Q – Doug Weiss – DSW Investment, LLC>: Right.

<A – J.C. Butler – NACCO Industries, Inc.>: Just to – yeah. Just to clarify, the prior mine area, which we call Mine Area 1, is now in reclamation. And the costs when we're in reclamation is really more of a balance sheet exercise than it is a income statement exercise because we've accumulated reserves to cover reclamation of that mine area. So, as we expend costs, those really just come out of that reserve. So, at this point, the costs are really all attributable to normal operations in the new mine area. They're just not at the efficiency levels we expect because we're delivering it – we're mining at half rate because the power plant's only running on one unit, and we're getting this initial pit extended to the length we want it to be.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. Then have you – do you have any visibility on when that second boiler will come up?

<A – J.C. Butler – NACCO Industries, Inc.>: Our guys at the mine site are in regular communication with the power plant, as typical in all of our operations. They are certainly discussing the timeline. It's really entirely in our customers' control, but I would say I think they are – from everything we can tell, they're handling this very professionally, and I expect they're going to get this thing back up and running during the year. But I'm not going to put any dates out there. I think it's really up to our customer to decide if they're going to talk about that publicly, but it's expected to be during the course of 2024.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. Okay. In the Coal division, the SG&A expense, does that – should I think about that being applied to all your coal operations or just the consolidated coal operations? In other words, does the unconsolidated already include SG&A that's [ph] off (00:20:59) income statement? Or is it – or does it all flow into your income statement?

<A – J.C. Butler – NACCO Industries, Inc.>: Well, it's kind of a combination of the two. With respect to the unconsolidated mines, which is really a majority of the Coal Mining segment, we – the way the contracts work is, we do receive some compensation in our fees to cover some overhead costs that we incur. You can't really see that split out because it's all just a part of the fee. But the fees that we receive are – some of those are targeted directly towards SG&A costs that we incur in that segment. And so there's – internally, we can see that there's a netting that covers a lot of those expenses. But externally, you can't really see that.

Now, some of the Coal segment SG&A is related to our consolidated operations at Red Hills as well. So, I'd really say you kind of have to just spread it across and think of the Coal segment as a unit, think of it as a business. And those SG&A costs are all attributable to that segment. However, some of those are by contract. We're doing the work like we're providing IT platforms and HR and benefits backbone, and we're getting a G&A fee to cover that.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. Okay. Makes sense. And just in terms of while the other boiler is off-line, how do you think about the volume in those quarters? Is it – because it looked like they were already operating sub capacity. So, is it actually a 50% reduction or is it less than that because they were already not at full capacity?

<A – J.C. Butler – NACCO Industries, Inc.>: Well, I mean, it's – the two units are similar and they're the same size, right? It's a 50/50 kind of proposition. I think – well, I know that the plant is operating at 50% of the level that it would probably be operating if both boilers were operating.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. Okay.

<A – J.C. Butler – NACCO Industries, Inc.>: It's [indiscernible] (00:23:26) because if the plants are going to be dispatched, they're going to probably dispatch it fully. And if it's not going to be dispatched, it's not. So, I think it's kind of – I think it's, for the most part, a 50/50 proposition.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. Okay. Got it. So – and congratulations on that, on the new phosphate contract. Is it possible to give some sense of how large that could be?

<A – J.C. Butler – NACCO Industries, Inc.>: It is not a major contract, but I think it's a very important step in our growth of that business. For years, we mined lime rock in Florida using draglines underwater or draglines digging lime rock that's underwater. The dragline, of course, was above the surface.

The – so, we've expanded into lithium. I think that's a very exciting development for us. We've expanded outside of Florida. We're mining other minerals. We're doing sand and gravel and other things. We've, for a long time, had had our sights on trying to get into phosphate mining. And we discovered an opportunity that really was several years in the making that we think gives us a nice entry into mining yet another mineral. Florida is a huge contributor to global phosphate production.

So, I think this new contract is a pretty exciting one for us. It is a – it's a dragline operation, but, of course, it's dry. And we're very pleased to start up – get that started up sometime this year.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. Great. How much of the CapEx that you've given in your disclosures is for Thacker Pass this year?

<A – J.C. Butler – NACCO Industries, Inc.>: I don't know that. Liz?

<A – Liz Loveman – NACCO Industries, Inc.>: We did not call out specifically the Thacker Pass, but we did last year for 2023 when it was material. So, I think you can deduce from that that it's not a material amount this year.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. And...

<A – J.C. Butler – NACCO Industries, Inc.>: And I just – sorry. I would just – on your CapEx question, I would just add that there is a part of the CapEx. I'm not going to say how much, but there is a part of our 2024 CapEx that is CapEx from 2023 that wasn't spent. We're always looking for ways that we can defer capital spending. It's always a smart thing to do if you can figure out how to either spend less capital or spend it later from a present value standpoint, makes good sense. So, there's a piece of our 2024 CapEx that's a carryover from 2023.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. Got it. On Thacker Pass, my sense is that, that kind of new scope of work for you, is – how do you think – how do you kind of add the operational capabilities you need to do that? How different is it from the work you're doing – the dragline work you're doing? And are there operational risks there that you're sort of planning for?

<A – J.C. Butler – NACCO Industries, Inc.>: I mean, there's – it's really very, very, very similar to the work that we do in our coal mining operations. We're going to run a full fleet of equipment. It's more similar to our coal mining operations than it is the lime rock business where we are really operating very specific pieces of equipment in kind of a specialized sort of thing. At the Thacker Pass project, we're going to – we're doing all the work related to mining. It is very, very, very similar, almost identical to the work that we do. There's virtually no operating risk for us. We're operating the same types of equipment or use. It's a very similar contract structure. We apply the same disciplines that we do in our other operation.

So, we don't really see any operational risk in this operation at all...

<Q – Doug Weiss – DSW Investment, LLC>: Okay.

<A – J.C. Butler – NACCO Industries, Inc.>: ...which is another reason why it's so exciting.

<Q – Doug Weiss – DSW Investment, LLC>: Right. And then I know you reimbursed for the capital equipment. Do you keep that equipment after the project is completed?

<A – J.C. Butler – NACCO Industries, Inc.>: We do.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. Then just a really quick bookkeeping question. The EBITDA you report in your headline results of around $7-plus million is slightly different than on your sub-table where you break out EBITDA and it's sort of $6-plus million. Did – is – could you say what that – what I'm – what the plug is between those two numbers? I can follow up too if that's not an easy one.

<A – Christy Kmetko – NACCO Industries, Inc.>: We're looking. I think the $6.4 million is segment-adjusted EBITDA. Is that the number you're referring to in that...

<Q – Doug Weiss – DSW Investment, LLC>: Yeah. Yes.

<A – Christy Kmetko – NACCO Industries, Inc.>: The $7.1 million is on page 10 of the release, that consolidated adjusted EBITDA. So, we have two different EBITDA metrics. One is segment-adjusted, and our segment-adjusted stops at operating profit, whereas the consolidated adjusted is more of a traditional EBITDA.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. All right. Well, thanks.

<A – Christy Kmetko – NACCO Industries, Inc.>: [indiscernible] (00:28:51) $7.1 million is on page 10 of the release.

<Q – Doug Weiss – DSW Investment, LLC>: Oh, okay. And just last question. There's no – do you get any insurance recovery related to the force majeure?

<A – J.C. Butler – NACCO Industries, Inc.>: At the Red Hills Mine? Mississippi Lignite Mining Company?

<Q – Doug Weiss – DSW Investment, LLC>: Yeah.

<A – J.C. Butler – NACCO Industries, Inc.>: Yeah. So, that's to be determined. I mean, we obviously cover business interruption insurance and we have a team of people that are working on that. I don't – we're certainly not at the point where we want to disclose what we think we're going to receive with respect to recoveries. But I will tell you that we've got a – we have a team of people that are very focused on that right now.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. All right. Great. All right. Well, thank you for all the answers, and talk to you soon.

<A – J.C. Butler – NACCO Industries, Inc.>: Doug, I really appreciate the questions and your interest in the company. Thanks for calling.

<Q – Doug Weiss – DSW Investment, LLC>: Yeah. Great. Have a good day.

Operator: Thank you. [Operator Instructions]

Christina Kmetko, Investor Relations Consultant, NACCO Industries, Inc.

I don't think we're going to have any more questions. So, thank you, everybody, for dialing in. We'll close with just a few reminders. A replay of our call will be available online later this morning. We'll also post a transcript on our website when it becomes available. If you have any questions, please reach out to me. You can reach me at the phone number on the press release.

I hope you enjoy the rest of your day, and now I'll turn it back to Ludy to conclude the call.

Operator: Thank you, Christy. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.