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## — PARTICIPANTS

### Corporate Participants

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

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

## — MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the NACCO Industries Q3 2022 Earnings Conference Call. My name is Lauren I'll be coordinating your call today. [Operator Instructions]

I will now hand you over to your host, Christina Kmetko, to begin. Christina, please go ahead.

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

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Thank you. Good morning, everyone, and welcome to our 2022's third quarter earnings call. Thank you for joining us this morning. I am Christina Kmetko and I am responsible for Investor Relations at NACCO Industries. Joining me today are: J.C. Butler, President and Chief Executive Officer; and Elizabeth Loveman, Vice President and Controller.

Yesterday, we published our third quarter 2022 results and filed our 10-Q. This information is available on our website. Today's call is also being webcast. The webcast will be on our website later this afternoon and available for approximately 12 months.

Our remarks that follow, including answers to your questions, could contain forward-looking statements. These statements are subject to a number of 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 have described in our earnings release issued last night and in our 10-Q and other filings with the SEC. We disclaim any obligation to update these forward-looking statements, which may not be updated until our next quarterly earnings conference call, if at all.

In addition, we will 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.

In a moment, I will discuss our results for the quarter, but, first, let me turn the call over to our President and CEO, J.C. Butler, for some opening remarks. J.C.?

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

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Thank you, Christy, and good morning, everyone. Our third quarter results, while down from last year, exceeded our expectations, specifically our Minerals Management and Coal Mining segments. On the surface, our operating profit and net income both decreased from the third quarter of 2021, but there are several items in those numbers that are skewing the comparison and making it difficult to see the results of the underlying operations.

Christy will go into more detail about our earnings and provide an overview of our outlook in a minute, but, first, let me highlight the progress we made this quarter at each of our segments. Our

Minerals Management segment reported an increase in operating profit over the prior year, but more importantly, a 54% increase in segment adjusted EBITDA, which is a much better indicator of its underlying results.

Once again, substantially higher natural gas and oil prices in 2022 drove the improvement at Minerals Management, as did increased production from new wells on company leases. The Minerals Management team is also showing continued success in its efforts to grow and diversify.

During the quarter, Catapult Mineral Partners, which is our business that manages the oil and gas part of this segment, completed an \$11.4 million acquisition of mineral interest in the Texas portion of the Permian Basin and the Wyoming portion of the Powder River Basin. This acquisition includes approximately 12,000 gross acres and 800 net royalty acres.

Our team at Catapult continues to look for attractive acquisitions of mineral and royalty interest and it is targeting additional investments and mineral and royalty interest of up to \$10 million in 2023.

In the Minerals Management segment, our forecast assumes oil and gas market prices in 2023 will moderate to levels in line with 2021 averages. As we've seen throughout 2022, commodity prices are inherently volatile. And increases in natural gas and oil prices above current expectations could result in improvements to our current 2023 forecast. In addition, the development of additional wells on existing reserves or future acquisitions could be accretive to future results.

At our Coal Mining segment, we continue to work diligently to support our existing customers so that they can continue to produce affordable and reliable energy. Coal Mining revenues increased this quarter over the prior year, due to an increase in the contractually agreed upon sales price at Mississippi Lignite Mining Company. Conversely, earnings decreased. This decrease was expected and decline was less than we anticipated.

Total customer requirements for coal were higher than we projected and the power plant served by Mississippi Lignite Mining Company operated at a higher level than anticipated. I should note that the owner of the power plant served by our Sabine Mine in Texas, previously announced that it intends to retire the power plant in 2023. Our forecast assumes deliveries at Sabine cease in the first quarter of 2023, at which time Sabine expects to begin final reclamation. Our customer is responsible for funding mine reclamation.

Despite the announced [ph] closure of the power plant (5:05) and the ongoing political and regulatory challenges the coal mining industry faces, we continue to believe the use of coal as a fuel source for electricity in the United States will continue for the foreseeable future.

Our North American mining segment had lower operating profit in the third quarter of 2022, as employee-related costs rose and we recorded an \$800,000 charge for a voluntary retirement program implemented during the quarter. The voluntary retirement program was focused on reducing employee costs by allowing those eligible for retirement to do so early, as we right-size our operations to a more appropriate level. Putting this type of program in place is never an easy decision. All of our employees are an important part of our team, and many of these were very long-term employees. As a result of this program, we expect the North American Mining segment to benefit from future cost savings beginning in 2023.

I'd also like to note that Lithium Americas continues to make progress on the Thacker Pass project. This operation is part of our North American Mining segment. In October of 2022, Lithium Americas provided an update that noted all key state level permits had been issued and construction is expected to begin in 2023. These steps bring them closer to the start-up of this project. We continue to work closely with Lithium Americas as they advance the Thacker Pass project.

The Mitigation Resources of North America team continues to work on existing mitigation projects and development of several interesting new projects. Mitigation Resources is currently developing over 10 mitigation banks and permittee-responsible mitigation projects in Tennessee, Alabama, Mississippi and Texas, and is making strong progress towards its goal to be a top 10 provider of stream and wetland mitigation services in the Southeast United States.

Overall, I'm very pleased with the way all of these businesses are advancing their strategies. Before I turn the call back to Christy, I want to mention one other item. We hold a minority investment in Midwest AgEnergy, a North Dakota-based ethanol business. Last week, Midwest AgEnergy announced that it finalized an agreement where its equity holders, including NACCO, would sell their interests for cash. This transaction is expected to close before the end of 2022.

That said, there can be no assurance that the transaction will be finalized in the anticipated timeframe or at all. As such, the amount and timing of cash proceeds we will receive will be dependent on the terms of the transaction. Because we adjust the value of this investment each quarter, we do not expect the sale to have a material impact on our 2022 results based on current estimates.

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

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

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Thank you, J.C. I'll start with the consolidated results for the third quarter of 2022 and then provide additional detail at the segment level not already covered by J.C. I will also provide some insights on our expectations for the 2022 fourth quarter and full year, as well as a high-level overview of our current expectations for next year. While we are providing this first look, more color will be provided with our year-end earnings release once we have finalized our 2023 annual operating plan.

On a consolidated basis, our operating profit decreased to \$9.8 million from \$27.6 million in the third quarter of 2021. Consolidated net income also declined to \$10.6 million, or \$1.45 per diluted share, from \$24.8 million, or \$3.47 per diluted share, last year.

As J.C. mentioned, there are several items that make it difficult to compare between periods. The largest driver of the decrease in earnings between periods is \$10.3 million related to the Bisti Fuels contract termination payment recognized in the 2021 third quarter. In addition, the 2022 third quarter includes a charge of \$3.9 million at the Minerals Management segment related to a write-off of legacy coal reserves and the \$800,000 charge as a result of the voluntary retirement program that J.C. discussed.

Consolidated adjusted EBITDA, which excludes the impairment charge and contract termination fee, moderately decreased to \$22.1 million from \$23.3 million in the third quarter. The decrease was primarily driven by lower earnings in the Coal Mining segment and higher unallocated employee-related expenses, partly offset by improved earnings in the Minerals Management segment and income from our equity interest in Midwest AgEnergy.

Moving to a discussion of our segments, excluding the prior-year contract termination settlement, operating profit and segment adjusted EBITDA at our Coal Mining business decreased significantly, due to a decline in earnings of unconsolidated operations because of a reduction in the per ton management fee at the Falkirk Mine and the termination of the Bisti Fuels contract. Substantially lower earnings at Mississippi Lignite Mining Company, resulting from the impact of inflation on costs, and an increase in the Coal Mining segment's operating expenses, also contributed to the decline.

J.C. already mentioned the primary drivers of the decrease in North American Mining's results. So let me focus on their third quarter 2022 segment adjusted EBITDA. The decrease in segment adjusted EBITDA from last year was less than the decrease in operating profit because results at North American Mining's active mining operations improved when the impact of depreciation expense was excluded.

Finally, third quarter 2022 operating profit and segment adjusted EBITDA in the Minerals Management segment increased as a result of higher natural gas and oil prices and increased production.

Looking forward, we expect fourth quarter operating profit at the Coal Mining segment to be comparable to the prior-year quarter. Segment adjusted EBITDA is expected to increase modestly, primarily due to improved EBITDA at Mississippi Lignite Mining Company, where increased depreciation expense associated with capital expenditures in recent years continues to negatively affect operating profit.

For the full year we expect Coal Mining operating profit and segment adjusted EBITDA to decrease significantly from 2021, both including and excluding the contract termination payments received. The expected reductions are primarily the result of reduced earnings at both the consolidated and unconsolidated Coal Mining operations, as well as higher operating expenses recognized in the first nine months of 2022.

In 2023, we expect coal deliveries to decrease moderately from 2022 levels because of the expected cessation of Sabine deliveries in the 2023 first quarter and current expectations of customer requirements.

Coal Mining operating profit and segment adjusted EBITDA for the 2023 full year are expected to decrease significantly compared with 2022, including and excluding the \$14 million GRE termination payment received this year. The decline is primarily the result of an expected significant reduction in earnings at Mississippi Lignite Mining Company and an anticipated modest decrease in earnings of unconsolidated operations, driven by the reduction in the per ton management fee at Falkirk for all 12 months in 2023, compared with 7 months in 2022, as well as the assumption that deliveries at Sabine cease in the first quarter of 2023. The per ton management fee at Falkirk will return to prior levels in mid-2024 and increase annually, according to an index which tracks broad measures of US inflation.

At North American Mining, we expect tons delivered, operating profit and segment adjusted EBITDA to increase in the fourth quarter, primarily because of anticipated increased earnings under existing contracts, including the Sawtooth Mining contract. Excluding the effect of the charge for the voluntary retirement program, full year operating profit is expected to increase over 2021. We anticipate North American Mining segment adjusted EBITDA for the 2022 full year to increase significantly compared with the prior year, including and excluding the third quarter voluntary retirement charge.

In 2023, North American Mining's full year operating profit and segment adjusted EBITDA are anticipated to increase significantly over this year, due to increased results from active mining operations and an expected reduction in operating expenses, in part due to a reduction in employee-related costs resulting from the voluntary retirement program.

Finally, at our Minerals Management segment, we anticipate operating profit and segment adjusted EBITDA in both the 2022 fourth quarter and full year to continue to increase significantly over the respective prior year periods, primarily driven by current expectations for natural gas and oil prices and increases in production volumes. Conversely, in 2023, operating profit and segment adjusted EBITDA are expected to decrease from this year, primarily driven by current market expectations for natural gas and oil prices, and anticipated reduction in volumes as existing wells follow their

natural production decline and limited forecasted development of additional new wells by third-party lessees. As J.C. mentioned, increases in natural gas and oil prices above current expectations could result in improvements to our 2023 results.

To summarize, on a consolidated basis, we expect a significant increase in consolidated operating profit, net income and consolidated adjusted EBITDA in the fourth quarter of 2022, due to anticipated higher results at the Minerals Management and North American Mining segments, as well as income from our Midwest AgEnergy equity interest. For the 2022 full year, excluding the settlements associated with the GRE/Rainbow Energy transaction recognized this year and the termination fee recognized last year, we expect consolidated operating profit, net income and consolidated adjusted EBITDA to improve significantly over 2021.

Looking forward, in 2023, we expect consolidated net income to decrease significantly, largely because of the \$30.9 million of pre-tax contract termination income recognized during 2022. Excluding the settlement income, net income is expected to decrease substantially from significantly reduced royalty income in the Minerals Management segment and lower earnings in the Coal Mining segment, as well as an anticipated reduction in income from our Midwest AgEnergy interest. These reductions are expected to be partially offset by lower income tax expense and improved results in the North American Mining segment.

Lastly, from a liquidity standpoint, we ended the quarter with consolidated cash of \$92.8 million and debt of \$18.3 million. In addition, we had availability of \$119.3 million under our revolving credit facility. For the 2022 full year, we anticipate cash flow before financing activities to be significantly lower than last year because of higher capital expenditures. In addition, because of 2023 forecasted capital expenditures and an expected substantial decrease in net income, we anticipate a significant use of cash in 2023.

We will now turn to any questions you may have.

**QUESTION AND ANSWER SECTION**

Operator: Thank you. [Operator Instructions]

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

It doesn't appear that we have any questions. So thank you for listening. We'll close with a few final reminders. A replay of our call will be available online later this morning. We'll also post a transcript on the Investor Relations website when it becomes available. If you have any questions, please feel free to reach out to me. You can reach me at the number on the press release. I hope you enjoy the rest of your day.

And now, I'll turn it back to the operator to conclude the call.

Operator: Thank you. This concludes today's call. Please note that the telephone replay will be available shortly. If you would like to listen to the replay, then please dial the following numbers: the US local number on 1-929-458-6194; or the US toll free number on 1-866-813-9403. And please use the following access code, 249652. Thank you for joining the call today. You may now disconnect your lines.

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