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NC - Q4 2013 NACCO Industries Earnings Conference Call

EVENT DATE/TIME: MARCH 05, 2014 / 3:00PM GMT

THOMSON REUTERS

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Michael Hexen - *Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q4 2013 NACCO Industries earnings conference call. My name is Derek, and I will be your operator for today. At this time, all participants are in a listen-only mode. We will facilitate a question and answer session at the end of the conference. (Operator Instructions). Also, as a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to Ms. Christina Kmetko, Investor Relations.

Christina Kmetko - *NACCO Industries, Inc. - IR Consultant*

Thank you. Good morning, everyone, and thank you for joining us today. Yesterday a press release was distributed outlining NACCO's results for the fourth quarter and year ended December 31, 2013. If you have not received a copy of this earnings release and would like a copy of the K, you may obtain copies of these items on our website at NACCO.com.

Our conference call today will be hosted by Al Rankin, Chairman, President and Chief Executive Officer of NACCO Industries. Also in attendance representing NACCO Industries is J.C. Butler, Senior Vice President Finance, Treasurer and Chief Administrative Officer; Mark Barrus, NACCO's Vice President and Controller; and Elizabeth Loveman, NACCO's Director of Financial Reporting. Al will provide an overview of the quarter and then open up the call to your questions.

Before we begin, I would like to remind participants that this conference call may contain certain 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. Additional information regarding these risks and uncertainties was set forth in our earnings release and in our 10-K.

In addition, certain amounts discussed during this call are considered non-GAAP numbers. The non-GAAP reconciliations of these amounts are included in our 2014 fourth-quarter earnings release, which is available on our website.

I will now turn the call over to Al Rankin. Al?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Thanks, Christy. NACCO had net income of $22.6 million or $2.85 a share and revenues of $312 million in the fourth quarter. And that compared with income of $23.6 million or $2.80 a share and revenues of $318 million in the fourth quarter a year earlier.

For the year ended December 31, 2013, NACCO had net income of $44.5 million or $5.47 a share and revenues of $932 million. And that compared with income of $42.2 million or $5.02 a share and revenues of $873 million for the year ended December 31, 2012. For the full 2013 year, NACCO generated negative cash flow before financing activities of $7.6 million, which was comprised of net cash provided by operating activities of $53.1 million plus net cash used for investing activities of $60.7 million and included $52.7 million of capital expenditures, primarily related to equipment and coal reserve acquisitions as part of North American Coal's plan to improve results and mining efficiencies at Reed Minerals by increasing production capacity and reducing expenses. The Company had cash on hand of $95.4 million as of December 31, 2013, and that compared with $139.9 million as of December 31 a year earlier. Debt at the end of the year was $184 million, and that compared with $178 million a year earlier.

In November 2011, the Company's Board of Directors approved the repurchase of up to $50 million in the Company's outstanding Class A common stock. And in November 2013, the Company's Board of Directors terminated the 2011 stock repurchase program and approved a new stock repurchase program. That program provided for the purchase of up to $60 million of the Company's outstanding Class A common stock through December 31, 2015.

In total, under the 2011 stock repurchase program, NACCO repurchased approximately 624,000 shares of Class A common stock for an aggregate purchase price of $35.6 million, including $30.4 million of stock purchased during 2013. As of December 31, 2013, the Company had purchased approximately 16,100 shares of stock for $900,000 under the 2013 stock repurchase program.

Turning to the individual subsidiary companies, North American Coal had net income for the fourth quarter of $5.6 million and revenues of $46.1 million compared with net income of $8.3 million and revenues of $50.8 million for the fourth quarter of 2012. Fourth-quarter 2013 income before taxes was $4.2 million compared with $13.3 million for the fourth quarter of 2012.

Revenues decreased in the fourth quarter of 2013 compared with the fourth quarter a year earlier, primarily due to fewer tons delivered and lower metallurgical coal prices at Reed Minerals, as well as lower royalty and other revenues in 2013 compared with 2012. Higher deliveries at Mississippi Lignite Mining Company due to increased customer requirements partially offset the decline in fourth-quarter 2013 revenues.

Income before taxes and net income in the fourth quarter of 2013 decreased compared with the fourth quarter a year earlier. The decline in income before taxes was primarily attributable to the substantial operating loss at the Reed Minerals operation, primarily as a result of fewer tons delivered, lower metallurgical coal prices and a charge of $4.0 million or $2.6 million after taxes of $1.4 million for the non-cash write-off of impaired goodwill. Lower royalty and other income in the fourth quarter of 2013 compared with 2012 also contributed to the decline in income before income taxes. These unfavorable items were partially offset by improved results at Mississippi Lignite Mining Company and at the unconsolidated mining operations, primarily due to higher tons delivered in 2013 compared with 2012.

A significant decrease in income before income taxes was substantially offset by an income tax benefit in the fourth quarter of 2013 compared with income tax expense in the fourth quarter a year earlier, which resulted in only a small decrease in net income. The 2013 benefit was attributable to a shift in the mix of taxable income toward entities with lower effective tax rates and an adjustment to the full-year effective tax rate caused by an increase in taxable income at the unconsolidated project mines, which resulted in a higher tax benefit from completion.

For the year ended December 31, 2013, North American Coal reported net income of $31.9 million and revenues of $193.7 million compared with net income of $32.8 million and revenues of $132.4 million for the year ended in December of 2012. In 2013 North American Coal generated negative cash flow before financing activities of $26.7 million. That was comprised of net cash provided by operating activities of $29.5 million, less net cash used for investing activities of $56.2 million, which included $52.7 million of capital expenditures primarily related to equipment and coal reserve acquisitions as part of North American Coal's plan to improve results and mining efficiencies at Reed Minerals by increasing production capacity and reducing expenses.

Looking forward, North American Coal expects improved operating performance overall at its coal mining operations in 2014. At the unconsolidated mining operations, steam coal tons delivered in 2014 are expected to increase over 2013, providing customers achieve currently planned power plant operating levels in 2014. Demery Resources Company's Five Forks Mine commenced delivering coal to its customer in 2012, and full production levels are expected to be reached in late 2015. Liberty Fuels also commenced production of lignite coal in 2013 for Mississippi Power Company's new Kemper County Energy Facility. Production levels at Liberty Fuels are expected to increase gradually from 0.5 million to 1 million tons in 2014 to full production of approximately 4.7 million tons of lignite annually in 2019.

Unconsolidated mines currently in development are expected to continue to generate moderate income in 2014. The three mines in development are not expected to be in full production for several years. In the first quarter of 2013, mining permits needed to commence mining operations were issued for the Caddo Creek Resources Company and the Camino Real Fuels projects in Texas. Caddo Creek expects to begin making initial coal deliveries in late 2014, and Camino Real Fuels expects initial deliveries in the latter part of 2015 and expects to mine approximately 3 million tons of coal annually when in full production.

Caddo Creek Mining Company is developing a lignite mine in Mercer County, North Dakota, from which it expects to deliver approximately 2.5 million tons of coal beginning in May 2016.

The consolidated coal mining operations are expected to improve significantly. Tons sold at Reed Minerals are expected to increase in 2014 compared with 2013, and productivity improvements and increased mining efficiencies are expected in the second half of 2014. As part of its overall Reed Minerals improvement program, North American Coal plans to temporarily idle the higher cost Reed Minerals mining area during the last three quarters of 2014 while it files a revised mining permit. This new mining permit will allow for a larger contiguous mining area that is expected to improve productivity and reduce costs. While this mining area is temporarily idled, North American Coal will continue to supply current customers with coal mined from a nearby operation.

However, these improvements at Reed Minerals are expected to be somewhat offset by reduced results at Mississippi Lignite Mining Company due to fewer deliveries in 2014 compared to 2013 because of two significant planned outages at the customer's power plant in 2014. Deliveries at Mississippi Lignite Mining Company are expected to increase over the longer term as a result of continued operational improvements in the customer's power plant.

North American Coal also has project opportunities for which it expects to continue to incur additional expenses in 2014. In particular, the company continues to move forward to obtain a permit for its Otter Creek reserve in North Dakota in preparation for construction of a new mine.

Limerock deliveries in 2014 are expected to be lower than 2013 as customer requirements are expected to decline. Substantial declines in royalty and other income are also expected in 2014 from the high levels realized in 2013. And as a result, net income is expected to decrease significantly in 2014 compared with 2013.

The decrease in 2014 net income is expected to occur largely in the first half of 2014 due to significant losses at Reed Minerals in the first half of the year and substantially lower royalty and other income. Productivity improvements and increased mining efficiencies are expected to result in a slight profit at Reed Minerals in the second half of 2014, but are unlikely to offset the large operating losses expected at Reed in the first half of the year, fewer deliveries for the year at Mississippi Lignite Mining Company and significantly lower royalty in other income. Cash flow before financing activities in 2014 is expected to be positive as compared with the negative cash flow before financing activities in 2013.

Over the long-term, North American Coal's goal is to increase earnings of its consolidated mines by approximately 50% over 2012 results over the following five years through the development and maturation of its new mines and normal escalation of contractual compensation at its existing mines.

Also, North American Coal has a goal of at least doubling the earnings contribution from its consolidated mining operations over the following five years from 2012 levels due to benefits from anticipated continued operational improvements at Mississippi Lignite Mining Company's customer's power plant and from the Company's execution of its long-term plan at Reed Minerals operations. The Company views its acquisition at Reed Minerals as a metallurgical coal strategic initiative, which includes significantly increased volume of profitability for the Company over the long-term.

North American Coal also expects to continue its efforts to develop new mining projects. The Company is actively pursuing domestic opportunities for new or expanded coal mining projects, which include prospects for power generation, coal to liquids, coal to chemicals, coal gas education, coal drying and other clean coal technologies. North American Coal also continues to pursue additional non-coal mining opportunities, particularly in aggregates and international value-added mining services projects, particularly in India.

Turning to Hamilton Beach, net income in the fourth quarter was $14.2 million, and revenues were $192.9 million for the fourth quarter. That compared with net income of $12.8 million and revenues of $181.1 million for the fourth quarter a year earlier.

Revenues increased in the fourth quarter of 2013 compared with a year earlier, primarily due to an increase in sales volumes of products with higher price points and sales of new products as a result of strong fourth-quarter promotions and placements, mainly in the US consumer and Canadian retail markets and in the commercial market. The improvement in revenue was partially offset by lower sales volumes at Hamilton Beach's international consumer markets and unfavorable foreign currency movements as the Canadian dollar weakened against the US dollar.

Operating profit and net income increased in the fourth quarter of 2013 compared with the fourth quarter of 2012, primarily as a result of the increase in sales. The higher selling, general and administrative expense, mainly due to higher employee-related costs and advertising expense and unfavorable foreign currency movements, partially offset the improvements in operating profit and net income.

For the year ended December 31, 2013, Hamilton Beach reported net income of $25.1 million and revenues of $548 million compared with net income of $21.2 million and revenues of $522 million in 2012.

During 2013 Hamilton Beach generated cash flow before financing activities of $38.5 million, which was comprised of net cash provided by operating activities of $40.8 million less net cash used for investing activities of $2.3 million.

Looking forward, Hamilton Beach's target consumer, the middle-market mass consumer, continues to struggle with financial and economic concerns. As a result, sales volumes in the middle-market portion of the US small kitchen appliance market in which Hamilton Beach participates are projected to grow only moderately in 2014. International and commercial product markets in which Hamilton Beach participates are also anticipated to grow in 2014 compared with 2013.

Hamilton Beach expects sales volumes to grow more favorably than the market due to improved placements in sales volumes in 2014 compared with 2013. The Company continues to focus on strengthening its North American consumer market position through product innovation, promotions, increased placements and branding programs, together with appropriate levels of advertising for the Company's highly successful and innovative product lines. Hamilton Beach expects the FlexBrew coffee maker launched in late 2012 and the Hamilton Beach Breakfast Sandwich Maker, launched in early 2013, to continue to gain market position. The Company is continuing to introduce innovative products and upgrades to certain products in several small appliance categories. These products, as well as other new product introductions in the pipeline for 2014, are expected to affect both revenues and operating profit positively.

As a result of these new products and execution of the Company's strategic initiatives both domestically and internationally, Hamilton Beach expects an increase in revenues in 2014 compared with 2013 at more than the 2014 market forecast rate of increase.

Overall, Hamilton Beach expects full-year 2014 net income to be comparable to 2013. The anticipated increase in sales volumes attributable to the continued implementation and execution of Hamilton Beach's strategic initiatives is expected to be substantially offset by the cost to implement these initiatives and by increased advertising and promotional costs. Product and transportation costs, as well as the negative effects of foreign currency fluctuations, are currently expected to increase modestly in 2014 compared with 2013. Hamilton Beach continues to monitor both currency effects and commodity costs closely and intends to adjust product rises and product placements as appropriate if these costs increase more than anticipated. Hamilton Beach expects cash flow before financing activities in 2014 to be substantial but down significantly from 2013.

Longer-term, Hamilton Beach will work to take advantage of the potential to improve return on sales through economies of scale derived from market growth and a focus on its five strategic volume growth initiatives. The first is enhancing its placements in the North American consumer business through consumer-driven innovative products and strong sales and marketing support. The second is enhancing Internet sales by providing best-in-class retailer support and increased consumer content and engagement. Third is participating in the only the best market with a strong brand and broad product line. The fourth is expanding internationally in the emerging Asian and Latin American markets by increasing product offerings and expanding its distribution channels in sales and marketing capabilities. And the fifth is achieving global commercial market leadership through a commitment to an enhanced product line for chains and for distributors serving the global food service and hospitality markets.

During 2013, Hamilton Beach made strides in the execution of its strategic initiative and expects to continue to do so in 2014.

At Kitchen Collection, net income of $1.6 million and revenues of $75.3 million were reported for the fourth quarter of 2013, and that compares with net income of $4.1 million and revenues of $88.9 million for the fourth quarter a year earlier. During the fourth quarter of 2013, the Company recorded charges totaling $2 million or $1.3 million after-tax of $700,000, of which $1.1 million is for impairment of certain leasehold improvements in furniture and fixtures and $600,000 is related to employee severance costs as part of a program to close underperforming stores, and $300,000 is for the write-down of certain inventory to fair market value. In the fourth quarter of 2012, Kitchen Collection reported charges totaling $900,000 related to asset impairments and employee severance.

The decline in Kitchen Collection revenues was primarily the result of the loss of sales from the closure of unprofitable Le Gourmet Chef and Kitchen Collection stores since December 31, 2012, and a decrease in comparable-store sales in both store formats. The decline in comparable-store sales was predominantly due to a decrease in customer visits and store transactions at both store formats and a decrease in the average sales transaction at the Le Gourmet Chef stores, mainly as a result of discounting inventory at stores we are closing. The decrease in revenue was partially offset by sales of newly opened Kitchen Collection stores and improvement in the average sales transaction value at the Kitchen Collection stores. The decline in customer visits appears to be largely the result of an overall decline in traffic during the 2013 holiday shopping season at the enclosed and outlet malls where the Company's stores are located.

At December 31, Kitchen Collection operated 272 stores compared with 261 stores a year earlier, and Le Gourmet Chef operated 32 stores compared with 51 stores a year earlier.

The decrease in Kitchen Collection's fourth-quarter 2013 net income was primarily the result of lower operating margins for Kitchen Collection and Le Gourmet Chef comparable stores, mainly caused by reduced sales, a shift in mix toward lower margin product categories and unfavorable margins from liquidation of inventory at closed stores. The increase in store closings and asset impairment charges in the fourth quarter of 2013 compared with a year earlier also contributed to the decline in net income.

For the year ended December 31, 2013, Kitchen Collection reported a net loss of $6.9 million and revenues of $196 million. That compared with a net loss of $3.1 million and revenues of $225 million a year earlier. For the 2013 full year, Kitchen Collection generated negative cash flow before financing activities of $12.2 million, which was comprised of net cash used for operating activities of $10.1 million, net cash used for investment activities of $2.1 million.

Looking forward, consumer traffic to all mall locations, particularly outlet malls, continued to decline in 2013, especially in the fourth quarter. Prospects for 2014 are uncertain. Fewer households were established in 2013, and this trend is expected to continue in 2014 because the middle-market consumer remains under pressure as a result of economic and financial concerns. These concerns are expected to continue to dampen consumer sentiment and limit consumer spending levels for Kitchen Collection's target customer in 2014.

In this context, Kitchen Collection expects to close over 50 stores in 2014 with the majority closing in the first quarter as part of a program to close underperforming stores and align the business around core stores which perform with acceptable profitability. Kitchen Collection plans to maintain a lower number of stores in 2014 and as a result expects 2014 revenues to decrease compared with 2013.

The net effect of closing stores early in 2014 and the anticipated opening of a small number of new stores during the second half of 2014 is expected to contribute significantly to improved operating results with the objective of approaching breakeven operating profit in 2014 compared with the significant loss in 2013.

As part of Kitchen Collection's program to align its business, the Company plans not only to close unprofitable stores, but also to reduce expenses through a number of cost reduction programs at its headquarters, distribution center and remaining corporate stores and by terminating its medical benefit program. This program is expected to be largely implemented in the first half of 2014 and generate significant improvements during the second half of the year.

In addition, Kitchen Collection is focused on driving consumer interest back toward higher-margin products. Over the longer term, Kitchen Collection plans to focus on comparable store sales growth around a solid core store portfolio. Kitchen Collection expects to accomplish this by enhancing sales volume and profitability through continued refinement of its formats, an ongoing review of specific product offerings, merchandise mix, store displays and appearance, while improving inventory efficiency and store inventory controls. A particular focus will be on increasing sales on higher-margin products. The Company will also continue to evaluate, and as lease contracts permit, close or restructure leases for underperforming or loss generating stores. In the near-term, Kitchen Collection expects to add stores cautiously and focus its growth on its core Kitchen Collection stores with new stores expected to be located in sound positions and strong outlet malls. Kitchen Collection also expects to focus on growth opportunities in e-commerce.

Also, I should note that at NACCO and other, which includes parent company operations, there was a loss in the fourth quarter from continuing operations of $1.5 million in 2013, and that compared with a loss from continuing operations of $4.5 million in the fourth quarter of 2012. Fourth-quarter 2012 net loss from continuing operations included a charge of $3 million, or $2 million after-tax of $1 million, related to the closed mine asset retirement obligations for water treatment at the Company's non-operating subsidiary, Bellaire Corporation.

That completes my review of the fourth-quarter and full-year 2013 results for NACCO, and I would happy to answer any questions that you may have at this time.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). [Michael Hexen].

Michael Hexen - - *Analyst*

I have a few questions. First, it looks like your core businesses are the ones that are generating your cash flow. The unconsolidated mines and Hamilton Beach are continuing to perform well. One question on the outlook for Hamilton Beach. You say that net income in 2014 should be comparable to 2013, but you said cash flow from financing -- cash flow before financing should be down significantly. Is that due to working capital or CapEx changes?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

This is for Hamilton Beach you are talking about?

Michael Hexen - - *Analyst*

Yes, for Hamilton Beach.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

I think I said that cash flow before financing activities in the future will be comparable to the prior year, but it will be -- I think you are right. I just have to go back and recollect now. It related to extremely good collections at the end of the year. And so it's really a working capital issue, not a fundamental issue. We either got it in 2013 or 2014, and at the end of the year, that can vary. So from my vantage point, it's not a significant issue. It really relates to the extraordinarily high cash flow in 2013.

Michael Hexen - - *Analyst*

Right. That's what it looked like to me was you got a significant inflow of working capital in 2013. What I'm trying to figure out, is that going to shift back negative, or would it be sort of flat working capital like you would have seen in 2012 and 2011?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

I think what you would see is that we have probably more receivables outstanding at the end relative to sales at the end of 2014 than at the end of 2013. So it would be a consumption of working capital as opposed to a decrease in working capital.

Michael Hexen - - *Analyst*

So should we be looking for cash flow before financing comparable to 2012 in the $20 million to $25 million range?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Well, certainly you've got just the core elements of operational performance. The income, we said, is going to be roughly comparable. Depreciation and amortization, roughly comparable. And so the rest is working capital. So I don't exactly remember the numbers from 2012, but it's still going to be very -- I think the best way to think about it is that we don't anticipate major capital expenditures in the business. And so whatever cash flow there is, it's free cash flow, and it's very attractive from that point of view.

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

Now it's J.C. If I could just add, really what the number is for the 12 months is dependent on what comes in in December and what comes in in January. The reported cash flow number in that business really can swing a lot in just a few days of collections, depending on what happens with the way the calendar falls and what happens with the customer. So whether the total is X or Y really just varies on a few days around the new year at the end of the year.

Michael Hexen - - *Analyst*

Okay. Great. Then on to Kitchen Collections, you said the outlook is uncertain, and you are going to close over 50 stores this year. You also said you plan to open a small number of stores. How much capital investment are you talking about, and is it worth it for such a small operation? It doesn't seem like investing in new stores is going to move the needle much either way.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Well, I think what I would say is we do want to have a solid core in this business. We think there are a few situations where we can open stores that can be profitable that are consistent with the results that we get in the better locations in outlet malls. And so we are being very careful about where new stores go, and economic hurdles are high. And our hope is they will add to the strong core. The second piece is the capital investment is extremely low, so it's not a significant factor.

Michael Hexen - - *Analyst*

And you talk about approaching breakeven operating profit this year from Kitchen Collections. Should we also be looking for something like breakeven cash flow before financing?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

I would think that certainly it's going to be enormously better, and I think it's also worth pointing out that one of the reasons for the adverse cash flow in 2013 was that the holiday selling season was disappointing, I think not only for us but for other stores in the kinds of malls that we are in. And, therefore, the inventory that we had, which is good inventory, will be sold in January and February, not in December. And certainly it's our hope that we will have a much better ability to forecast sales in 2014 in the fourth quarter than we did in 2013. Because we think they would fall in a way to a level that's probably sustainable, and our task is to in large measure now do business profitably with the footstep traffic that's going through those malls and only be in malls where there are enough footsteps and traffic to generate the volume needed to make some profitability.

So I don't anticipate that the excess use of working capital that we had in 2013 will be there in 2014. As to the operating results, we do expect losses in the first half, but we expect to be at a much better position as we move through the year. So I think you are right that our estimate is that the cash flow situation will be significantly better and hopefully approaching breakeven.

Michael Hexen - - *Analyst*

Okay. And is your long-term plan for Kitchen Collection to continue to downsize as leases expire and you are able to close stores, or do you think you are going to get to a core base of stores that you might look to sell at some point?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Well, I think we are going to get -- we are focusing on managing the business that we have today in this uncertain retail environment. And we feel that the program to withdraw from the stores that are not profitable at the store level should be largely complete in 2014 with a very small number of stores, perhaps, drifting into 2015.

So our objective is to be at the core and then to continue to do things that will improve the core as we look forward. So our hope certainly is that the contraction process will reach a conclusion, and then we will be focused on building the core and not contracting. And hopefully, certainly if at some point traffic levels begin to turn up, we should be extremely well positioned to benefit from that. That's really the strategy at this point.

Michael Hexen - - *Analyst*

Okay. Going on to your mine operations, you said that royalties are going to be down significantly in 2014. What are the nature of those royalties, and why are they going to be down?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Well, they come and go, and there's not a lot of predictability. It depends on whether some of our reserves are being mined through and whether and what the volumes of other minerals are coming from some of the others. J.C, do you want to expand on that at all?

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

Al, you are spot on with that. It's that we really are not in control of how this happens. Right. It's things that we owned that third parties are extracting, and it really depends on their own plans and what they decide to do in the course of a period of time. 2013 was an extraordinarily high year for royalties, and it's not at all surprising that it is -- we expect it to be down. But the reality is you don't ever really know how this is going to turn out.

Michael Hexen - - *Analyst*

And do those relate to Reed or to Mississippi Lignite or to both?

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

No, no, these are royalties that we are being -- we are receiving with respect to coal or -- it's primarily coal but to some extent it's oil and gas that is in primarily the Eastern part of the United States where we don't have any operations. This is others. It's wherever the Company started. We still retain some mineral rights in those areas. And for years other people have been mining those since we got out of those businesses.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

And so you have got some coal reserves of that type. We have people who come in and drill our coal reserves in the East for methane gas. We have certain areas around the country where we have other minerals, oil and particularly gas royalties that come that are highly dependent on the timing of those operations and the price of natural gas. So they are entirely unrelated to the other parts of the business that we talk about.

Michael Hexen - - *Analyst*

Is there any way to think of like a normal royalty year and how much above normal 2013 was?

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

I would love to know that 2013 was a normal year, but there's really no way to think about a normal year for them.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

What I do from an operating point of view is I focus on the operating pieces of the business, and anything else that comes in we view as additional good fortune.

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

I would just go back to that. I don't want to leave the impression that we are entirely passive on this. We do have folks in our coal business that do spend time talking to these folks, trying to get some idea of what their plans are. And certainly we are encouraging them to direct their activities towards our reserves, but ultimately we can't control it.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

In addition I would just add, so you really have a good fix on this, these are, as J.C. said, related in essentially all cases to mineral rights we had from the past. These are not situations where we have gone out and acquired new mineral rights in order to make money from those properties.

Michael Hexen - - *Analyst*

Right. But it sounds like in most cases it's third parties wanting to mine coal. So the extent to which they are motivated to that is going to depend on what's happening with coal prices, I assume?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

And some of them are associated with existing coal mining operations owned by others. And to the extent that they mine through our reserves, in the end those royalties sources will not continue over the long-term.

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

I think it's also important to point out that these mines are largely underground mines in the East, and their mining operation will span several mineral owners. So just depending on where their operations happen to be, this week they may be mining on our reserves, and they may move beyond our reserves into the neighbor's reserves and so the neighbor collects royalties. Then three weeks later, they get back into ours. It really just depends on the ebb and flow of their own specific underground mine plans and how they operate.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Any other questions?

Michael Hexen - - *Analyst*

Sure. Again, on the consolidated mine, you said you expect improved operating performance and you talked about cash flow before financing being positive. What about for EBITDA and net income? Are those expected to be up also, despite the reduced royalties and planned outages at the Mississippi lignite customer's plans?

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

You are asking about net income for next year in North American Coal?

Michael Hexen - - *Analyst*

And EBITDA, right.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

For the (multiple speakers)?

Michael Hexen - - *Analyst*

Consolidated operations, not including unconsolidated mines just the consolidated mines.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Well, I think what we said is that we do expect that 2014 results will have net income that decreases significantly in 2014 compared to 2013. And we related that particularly to substantial declines in royalty and other income.

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

What we said in the earnings release, and I will just reiterate it, is that we expect improvements at Reed, but we have the significant outages at MLMC's Red Hills, the power plant that is served by the Red Hills MLMC mine. And those, too, somewhat offset each other. But, in fact, that's what we should expect. (inaudible) offset results.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

So what we said is that we expect improved operating performance overall at coal mining operations. So we have got some pluses and minuses, as J.C. indicated, significant improvement at Reed, some drop off at Mississippi Lignite Mining Company. We've got some unconsolidated operations that are coming online. We've got some other areas that are pluses and minuses. But the big change is not in the coal side so much as in the royalty side that we just discussed. And the way we are really looking at this is that if we look forward over the next four years or so, we expect to increase our profits from both the consolidated mines and the unconsolidated mines over the next few years.

So our perspective is really not a single year perspective next year. It's that we look at our consolidated and unconsolidated mining operations, and we see some real opportunity over the next few years to improve the volumes and the profits. But in 2014, we do expect to have net income go down significantly because those programs won't all have kicked in in the mining operations. We had the pluses and minuses I've described, but we do not have the royalties which we enjoyed in 2013 and, therefore, that income will go down.

Michael Hexen - - *Analyst*

Got it. So what kind of covered investment are you expecting for the consolidated mines this year? What kind of CapEx?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

J.C.? The big CapEx expenditures in the last -- in 2012 and 2013.

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

Yes, there was substantial CapEx expenditures that we've disclosed in 2012 and 2013. There is some additional CapEx anticipated early in 2014. In fact, some of that has already been made, primarily with respect to the consolidated mines.

Elizabeth Loveman - *NACCO Industries, Inc. - Director of Financial Reporting*

J.C., we have in the 10-K 2014 CapEx and North American Coal of $59.4 million.

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

I was just flipping through the K trying to find that page, so thanks for pointing that out. That has largely already been met.

Michael Hexen - - *Analyst*

Sorry, you said $59.4 million?

Elizabeth Loveman - *NACCO Industries, Inc. - Director of Financial Reporting*

Correct.

Michael Hexen - - *Analyst*

With Reed in particular, it looks like you are looking for better improved performance, but you are temporarily idling the higher-end cost part of the mine. Are you buying coal from a nearby third-party? Is that what you are saying?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

No. We have additional reserves. You are seeing the CapEx that is described in 2013. We have additional reserves that we acquired as part of the Reed transaction back in 2012. We also have additional reserves that we acquired last year related to these capital expenditures that we mentioned. We are going to be utilizing some of our own reserves in order to serve the customers that have been served by this other operation that we are going to idle later in the year.

Michael Hexen - - *Analyst*

So I was trying to put it altogether, what you're saying about cash flow before financing for each segment and then taking off interest in taxes, it looked like cash flow before financing for the entire company may be somewhere between $50 million and $55 million in 2014. I wanted to make sure that that was in the neighborhood and then ask about what your plans for that cash flow is going to be.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Well, at this point, our plans for future cash flow are really to carry out the programs that we identified at North American Coal that particularly relate to Reed, relate to completing the development of mines that are under development where we have the capital responsibility. And then we have no significant capital expenditure plans for either Kitchen Collection or Hamilton Beach. And, as you know, we do have an active share repurchase program underway with considerable further approval in place. And, of course, we have an existing dividend, and we consider our dividend usually once a year. So at this point, our focus is on carrying out the programs we have and the whole company continuing to complete our share buyback program and our dividend policy.

Michael Hexen - - *Analyst*

And one last question on your capital structure. It looks like your leverage is fairly minimal, given the cash that you are generating or expect to be generating. Can you comment on what a target leverage level might be or what you think your debt capacity might be?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

At this point, we are comfortable with where we are. Obviously, there is some debt capacity there. But for the time being, we've got these very specific programs, and really we are not focused on a target debt capacity at this stage of the game. We want to carry out the programs we have and see where we are.

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

Just to add to that with respect to North American Coal, we do have a pretty conservative approach to leverage at North American Coal that has been beneficial to us in looking at specific equipment financing, as well as in speaking to potential customers historically and currently. Our conservative approach to life serves us well when we are talking about long-term relationships with future customers.

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Michael Hexen - - *Analyst*

Okay. Great. Thanks. Thanks for the time.

Operator

At this time, I am showing no further questions in queue.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Okay. I think if there are no further questions, we will stop at that point. There is an opportunity to address further questions to Christy, and she will describe how to do that in the wrap-up. So I think we will close at this point. Christy?

Christina Kmetko - *NACCO Industries, Inc. - IR Consultant*

Thank you, everyone, for joining us today. We do appreciate your interest. And if you do have additional questions, you can reach me at 440-229-5130. Thanks.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Okay. Thank you all very much.

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

Thank you.

Operator

Ladies and gentlemen, and for the replay, you may dial 1-888-286-8010. Again, that number is 888-286-8010 with an access code of 44654439. Again, that's 44654439 and will be available for eight days.

This concludes today's conference. We thank you for your participation. You may now disconnect. Have a great day.