

07-Mar-2019

# NACCO Industries, Inc. (NC)

Q4 2018 Earnings Call

## CORPORATE PARTICIPANTS

Christina Kmetko

*Investor Relations Consultant, NACCO Industries, Inc.*

Elizabeth I. Loveman

*Vice President & Controller, NACCO Industries, Inc.*

John C. Butler

*President, Chief Executive Officer & Director and President & Chief Executive Officer – The North American Coal Corporation, NACCO Industries, Inc.*

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## OTHER PARTICIPANTS

Paul Owen Moomaw

*Analyst, Nixon Capital LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning. My name is Chris, and I will be your conference operator today. At this time, I would like to welcome everyone to the NACCO Industries, Inc. 2018 Fourth Quarter and Full Year Earnings Analyst Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you. Christina Kmetko, you may begin your conference.

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Christina Kmetko

*Investor Relations Consultant, NACCO Industries, Inc.*

Thank you. Good morning, everyone, and welcome to our 2018 fourth quarter earnings call. I am Christina Kmetko and I am responsible for Investor Relations at NACCO Industries. I will be providing a brief overview of our quarterly results and business outlook, and then I will open up the call for your questions.

Joining me today are J.C. Butler, President and Chief Executive Officer of both NACCO and North American Coal; and Elizabeth Loveman, NACCO's Vice President and Controller. Yesterday, we published our fourth quarter and full year 2018 results and filed our 10-K. Copies of our earnings release and 10-K are available on our website at [nacco.com](http://nacco.com). For anyone who is not able to listen to today's entire call, an archived version of this webcast will be on our website later this afternoon and available for approximately 12 months.

As 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 in either our prepared remarks or during the following question-and-answer session.

We disclaim any obligation to update these forward-looking statements which may not be updated until our next quarterly conference call, if at all. Additional information regarding these risks and uncertainties were set forth in our earnings release and in our 10-K.

Now, let me provide the highlights for this quarter. Our revenues increased 47.7% to \$39.1 million from \$26.4 million in last year's fourth quarter. Our consolidated pre-tax income from continuing operations more than doubled, increasing to \$14.9 million, up from \$5.8 million in 2017. And finally, our consolidated income from continuing operations increased 13.8% to \$11 million or \$1.57 per share for the fourth quarter of 2018, compared with \$9.7 million or \$1.40 per share last year in the fourth quarter.

I would note that last year's fourth quarter after tax results included a favorable tax adjustment of \$4.5 million or \$0.65 per share related to tax reform legislation. Our effective income tax rate for the full year was 17.5%, which is above the range we provided last quarter because a shift in our mix of earnings resulted in less of a benefit from percentage depletion than we anticipated when we provided that last quarter.

Now, let me discuss the detail behind these improvements. Coal deliveries increased to 10 million tons in the fourth quarter, up from 9.2 million tons last year. Limestone deliveries at our North American Mining division also increased to 8.9 million yards from 7.9 million yards in the fourth quarter of 2017. Higher customer requirements at Mississippi Lignite Mining Company resulted in an increase in tons delivered. The increase in tons delivered as well as the recognition of \$3 million from contractual settlements contributed to the increase in revenue and pre-tax income. In addition to the improvements at Mississippi, higher royalty income and the absence of a \$1 million asset impairment charge taken in 2017 at Centennial also contributed to our higher income before tax.

Looking forward, we expect consolidated pre-tax income to increase in 2019 compared with 2018, and we expect our effective income tax rate to be within the range of 13% to 15%, slightly below the 2018 rate. I would like to point out that the current year pre-tax income included the \$3 million in contractual settlements that I mentioned earlier as well as \$2.8 million of favorable adjustments to Centennial mine reclamation liabilities. Excluding these items, we expect 2019 pre-tax income to increase significantly compared with 2018, primarily because of continued improved results at Mississippi Lignite Mining Company and higher royalty income.

We expect Mississippi Lignite Mining Company's pre-tax income to increase for two reasons. First, Mississippi sells lignite at contractually agreed-upon prices that are subject to changes in the level of established indices over time. We anticipate changes in these indices will result in an increase in revenue during 2019. Second, an anticipated decline in diesel prices is expected to reduce the cost per ton of coal delivered in 2019 compared with 2018, which will also result in higher income.

Our North American Coal Royalty Company generates revenue from royalty-based leases under which we receive income based on the sale of natural gas and to a lesser extent oil and coal extracted primarily by third parties.

We have experienced significant increases in royalty income in both 2017 and 2018 compared with prior years, primarily because of the number of gas wells being developed and operated by third parties to extract our Ohio Utica shale oil and gas assets. We expect royalty income to continue to increase in 2019 compared with last year based on the number of wells currently in development and operating in Ohio. The expected increase depends on a number of factors outside of our control which we have outlined in more detail in our earnings release.

Lastly, we expect capital expenditures to be approximately \$23 million compared with \$20.9 million last year and \$15.7 million in 2017. However, even with the increased capital expenditures in 2019, we expect cash flow before financing activities to increase significantly over the past year.

Before I open up the call for questions, let me provide a few final pieces of information about our balance sheet. We ended the fourth quarter with consolidated cash on hand of \$85.3 million and debt of \$11 million. This compares to consolidated cash on hand of \$101.6 million and debt of \$58.1 million at the end of 2017.

Also, during the fourth quarter, we repurchased approximately 28,700 shares of our Class A common stock for an aggregate purchase price of approximately \$1 million under our \$25 million stock repurchase program. Since the beginning of our program in February of 2018, we have repurchased a total of approximately 39,000 shares for an aggregate purchase price of \$1.3 million. That concludes my prepared remarks.

I will now open up the call for your questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Your first question comes from Paul Moomaw of Nixon Capital. Your line is open.

Paul Owen Moomaw  
*Analyst, Nixon Capital LLC*

Q

Good morning. Thanks for that clarification on the increase in MLMC pre-tax income. So I think you're saying that it would grow year-over-year excluding the special items that we saw in 2018?

Elizabeth I. Loveman  
*Vice President & Controller, NACCO Industries, Inc.*

A

Correct.

Paul Owen Moomaw  
*Analyst, Nixon Capital LLC*

Q

And is there any color you could give on just the good things that are happening at MLMC that would make it be a good year for 2019?

John C. Butler  
*President, Chief Executive Officer & Director and President & Chief Executive Officer – The North American Coal Corporation, NACCO Industries, Inc.*

A

I think those were both in the – this is J.C. Butler, sorry. Those were both in the earnings release and I think Christy mentioned them as well. It's a fixed price contract, coal sold at a price that's determined by a formula that's based on several indices. Our belief is that those indices will continue to grow this year, which will get us into higher price. We also anticipate there's going to be good, strong deliveries, power plants can operate well and take a fair amount of coal is our belief. You get a two-fold benefit when that happens. You get extra tons sold and it also drives down the cost per ton of coal sold. So, those help profitability at MLMC pretty significantly when all the right forces come together. Of course, if the power plant doesn't take coal, if the indices go the wrong way, the other thing could happen as well.

Paul Owen Moomaw  
*Analyst, Nixon Capital LLC*

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Well, sure. Thanks very much. That's very helpful, appreciate it.

**Operator:** There are no further questions at this time. I will now return the call to our presenters.

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## Christina Kmetko

*Investor Relations Consultant, NACCO Industries, Inc.*

Okay. Thank you for joining us today. We do appreciate your interest. If you have any additional questions, please feel free to give me a call. My number is available on the earnings release. Thanks so much and have a great day, everyone.

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## John C. Butler

*President, Chief Executive Officer & Director and President & Chief Executive Officer – The North American Coal Corporation, NACCO Industries, Inc.*

Thank you.

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**Operator:** To listen to a recording of this call dial 800-585-8367 or 855-859-2056 or internationally on 404-537-3406 and enter the conference ID number to listen. This concludes today's conference call. You may now disconnect.

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