Endeavour Silver Corp.

Conference Call Transcript

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Speakers:

Meghan Brown
Director, Investor Relations

Dan Dickson
Chief Financial Officer

Godfrey Walton
President and Chief Operating Officer

OPERATOR:

Thank you for standing by. This is the conference operator. Welcome to the Endeavour Silver 2016 First Quarter Financial Results Conference Call. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an operator by pressing star, and zero.

I would now like to turn the conference over to Meg Brown, Director of Investor Relations. Please go ahead.

MEGHAN BROWN:

Thank you operator and good morning everyone. Welcome to the Endeavour Silver Corp. First Quarter Conference Call. In the room here today in Vancouver we have the company's CFO, Dan Dickson, as well our President and COO, Godfrey Walton. Our CEO, Bradford Cooke, is also on the line for Q&A.

Before we get started, I'm required to remind you that certain statements on this call will contain forward-looking information within the meaning of applicable securities laws. These may include statements regarding Endeavour's anticipated performance in 2016 and future years, including revenue and cost forecasts, silver and gold production, grades and recoveries, and the timing and expenditures required to develop new silver mines in mineralized zones. The company does not intend to and does not assume any obligation to update such forward-looking statements or information other than as required by applicable law.

Thank you, and with that I'll turn the call over to Endeavour's CFO, Dan Dickson.

DAN DICKSON:

Thanks Meg, and thanks for everyone being on our Q1 quarterly call. I think I'll just quickly touch on the highlights of the company, give an overtone of what we've seen in the marketplace and what's been important for Endeavour for the first quarter, and then we'll open it up for questions.

It's been an interesting first quarter for Endeavour and our peer group. We've come out of the doldrums and the five-year lows in the silver and gold price. Endeavour opened the year at

CA$2.00 share price and we're close to $5.00 now, so almost 150% return here four months into the year.

We came into the year focusing on improving our balance sheet with where prices were and over the first quarter we've done that. We did announce in January that we would be contracting our silver production and positioning ourselves for growth into the future by focusing some exploration dollars on the Terronera asset.

For the first quarter we increased our earnings 35% year-over-year to $1.8 million or $0.02 per share. Our cash flow from operations dipped with the lower prices. It dipped 46% to $7.5 million. Mine operating cash flow before taxes also fell 41% to $11.5 million. This is all just a reflection of revenues and where silver prices were. We averaged $15.18 per ounce silver for Q1 where today we're sitting north of $17 per ounce. Our gold price averaged $1,219 per ounce and again we were touching $1,300 the past couple of weeks; now we're back into the $1,200s. But we've really seen a shift in the sentiment in our space and even I would say management's outlook for the year. We were pretty conservative in what we were estimating for silver and gold prices in our budget and we're already gone above that for the year and we hope this will continue through 2016.

Our cash costs, despite the lower gold credit, rose only 6% to $7.63 per ounce of silver, which is a very healthy cash cost compared to our peer group, and our all-in sustaining costs fell 17% year-over-year to $11.12 per ounce of silver, net or by-product credits.

The key for us, as I touched on, is the balance sheet. Improving our balance sheet was going to be important for us in 2016. Our working capital rose 70% to $29.3 million compared to year end, and our cash and cash equivalents stayed at $20 million; partly, we completed the ATM raise that we announced in November 2015. Over the course of that ATM offering we raised $16 million for our treasury, and then this morning we announced a new sales agreement with Cowen, who ran our last program, that allows us to raise up to $40 million over the next two years if we see an opportunistic time.

From an operating standpoint, we announced our operating statistics in early April. Our silver production was down to 1.5 million ounces of silver, but gold stayed relatively flat at just under 16,000 ounces of gold in the quarter. So silver equivalent production was 2.7 million ounces, slightly lower than last year at this time. So with that, I'll open it up to questions.

OPERATOR:

Thank you. We will now begin the question and answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speaker phone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause a moment as questioners queue.

As a reminder, if you would like to ask a question, please press star and then one.

The first question comes from Ralph Bixler, Private Investor. Please go ahead.

RALPH BIXLER:

Hi. I'd like to hear a little bit more about where you are with the optical scanning tests for ore separation that you announced a month ago or so for the El Cubo mine.

GODFREY WALTON:

Hi Ralph. This is Godfrey Walton. We are moving forward with the laser testing of ore. We've actually done two sorts of ore sorting. One is XRF and one is laser. Both actually work very well on a lab basis and in the next few weeks we'll be doing a two-tonne test of run of mine material to see how well that works. Once we've completed that and assessed that then we can look at moving forward and doing a little larger scale test at Cubo.

RALPH BIXLER:

What would the timeline be for installation if you accept one of these methods?

GODFREY WALTON:

My guess, it's going to be about a month after we've done the testing and assuming it's positive, and it's been positive so far, what we're initially looking at is processing the stockpiles that we have at El Cubo. We have quite a few stockpiles in front of the plant and they would be an easy way of doing further testing before actually putting it into the flowsheet.

RALPH BIXLER:

I see. What kind of capital investment are we looking at?

GODFREY WALTON:

That's still very much under discussion, so I'd rather not discuss that at this time.

RALPH BIXLER:

Okay. Thank you.

GODFREY WALTON:

Thanks.

OPERATOR:

As a reminder, if you'd like to ask a question, please press star, then one. The next question comes from Graham Tanaka of Tanaka Capital Management. Please go ahead.

GRAHAM TANAKA:

Hi. Just wondering if you could give us sort of an indication of where, what prices you need in terms of a bringing El Cubo back into full production, or whatever going forward to crank up production at different levels. Thanks.

DAN DICKSON:

Yeah, Graham. This is Dan. We have a plan for the year that we put into place and we make estimates at the beginning of the year based off what we see, what the trends have been and what we have opened up, what ore has been opened up already, so it's hard to make a quick shift to increase production with underground mining with volatile prices. We can make changes at El Cubo and at Bolañitos. We announced that we were going to be cutting development capital. In our previous call, a lot of questions were asked about when we could start developing El Cubo again, and we estimate it's between $20 and $22 per ounce of silver and we have to see it sustained at that level to make that capital investment. At Bolañitos, $18 to $20 per ounce silver is what we need. There are opportunities that we've still got ahead of us that we can make that shift and maybe do it in three to five months, and at Guanacevi, we're really at capacity. With the higher prices we can start going back and looking at some lower grade material, which would extend the life, but we wouldn't increase production on an annualized basis. Until we get north of $18 per ounce silver and we see the prices are settled in there, that's kind of when we make those shifts.

GRAHAM TANAKA:

Okay. At those prices, $20 to $22 per ounce for El Cubo, $18 to $20 per ounce for Bolañitos, what would those generate? What kind of ROI or profit margins would that generate?

DAN DICKSON:

Yes. Lots goes into that calculation. The key thing for us right now is where the peso is sitting. We've seen a huge depreciation in the peso over the last year and a half, like a lot of currencies compared to the U.S. dollar, and we've really benefitted from that at all our operations. ROI depends on what number we're starting off with. It's really just comes to the development. Historically we've developed at El Cubo north of $12 million of development to make sure we can operate at 2,200 tonnes per day, and at Bolañitos, our underground development last year in 2015 was significantly lower at about $4 million in development. The prior year before that it was about $6 million. The rate of return at Bolañitos has been very significant. We're getting a little bit deeper and lower grade material in the mine now, so I don't have the number of what the specific ROI would be, but we'd have to put the mine plans together to identify how many kilometres of development would be required. But we know $20 to $22 per ounce silver is basically what we need. We try to run 15% to 20% rate of return on our project so it'd be somewhere in that range for the $20 to $22 per ounce at El Cubo.

GRAHAM TANAKA:

Okay. That 15% to 20% rate of return is pre-tax or net income or all-in?

DAN DICKSON:

After tax, after tax cash flow.

GRAHAM TANAKA:

The cash flow just at the mine or with some coverage of corporate overhead?

DAN DICKSON:

No. That would be just at the mine.

GRAHAM TANAKA:

Thank you.

DAN DICKSON:

No problem.

OPERATOR:

Once again, if you'd like to ask a question, please press star, then one. The next question comes from Jessica Fung of BMO Capital Markets. Please go ahead.

JESSICA FUNG:

Hi, great. Good morning guys. Just a couple of questions for you just in terms of nitty gritty at the operations. At El Cubo we noted, you guys noted anyway, that your opex there was flat year-on-year because of the planned care and maintenance. Do you expect these costs to be carried through the rest of the year or could we expect a significant drop in opex at El Cubo now that you guys have halted the mining there?

DAN DICKSON:

Yes, halted the development at El Cubo. Yes, we do actually expect a drop. We had some severance costs go through in Q1. We also obviously scaled back some training programs. We announced on January 28th we were going to be stopping development. We had some residual development that ended up going through to the income statement because we don't see El Cubo having a life longer than 2016. So I expect that costs per tonnes—and we saw it in March, to come down into the mid-70s range and going forward.

JESSICA FUNG:

Okay, perfect. Then switching over to Bolañitos where you guys are processing the stockpiles, I just want to make sure my numbers are okay here. It looks like you guys might have processed about 60,000 tonnes out of your 75,000 tonnes of stockpiles in the first quarter?

DAN DICKSON:

No. We actually only processed about 9,000 tonnes from our stockpile.

JESSICA FUNG:

Oh, okay. But your mining rate was still 850 tonnes per day, is that right?

DAN DICKSON:

No, we mined closer to 1,400 tonnes per day. Godfrey, do you recall our mining rate at Bolañitos?

GODFREY WALTON:

Yes. Bolañitos was around 1,400 tonnes per day and we're actually projecting about 900 tonnes per day for the balance of the year.

JESSICA FUNG:

Okay. So you guys were at 1,400 in the first quarter. All right, I must have misread that. Okay, perfect. Thank you very much.

GODFREY WALTON:

Okay. Thanks, Jessica.

OPERATOR:

This is a final reminder if you'd like to ask a question, please press star and one. The next question comes from Heiko Ihle of HCW. Please go ahead.

HEIKO IHLE:

Hey guys, good morning.

DAN DICKSON:

Morning, Heiko.

GODFREY WALTON:

Good morning.

HEIKO IHLE:

The Mexican peso has markedly improved. I mean we're looking at almost 18 to the dollar, 17 point something to U.S. dollar. When, if ever, would you consider hedging some of your peso exposure?

DAN DICKSON:

Yes, that's a very fair question. We've considered it. We haven't locked in a lot of it, and for those that are on the call, about 63% of our costs are incurred in pesos and the biggest part of that is labour, which is about 33% of our overall costs. What the peso did from January 1 to the end of the quarter, basically travelled from 17 to 1 up to 18 to 1, higher than 18 to 1 and then back down to 17.5 to 1, so it's kind of made a full circle return. We're confident and based off discussions with the advisors that we still see some weakness in the peso, so at this point we're not going to enter into any hedge contracts but it's something that we look at probably on a bi-monthly basis, consistently looking at and making that assessment, but at this point we don't see ourselves entering into any hedge programs against the peso.

HEIKO IHLE:

Fair enough, fair enough. Your working cap stands at just under $30 million which is quite impressive. Anything big? Any items that we didn't see in this quarter that we may see in the next quarter? Anything we should be looking out for?

DAN DICKSON:

No. During the quarter we restructured our debt by turning the line of credit into a two-year term loan, which we're basically paying down quarterly, so that's gone in the future of the year. Other than that we have some severance costs expected at the end of the year at El Cubo, some at Bolañitos, but again, we disclosed that back on the year-end call. So at this point we expect the year to go relatively smoothly compared to guidance. I mean we want to be on guidance by the end of the year and if you look at our track record over the last five years we've been able to meet or beat or guidance, so we don't expect any changes at this point.

HEIKO IHLE:

Fair enough. I was done until you just brought it up; remind me what's the severance cost expense for El Cubo again, please?

DAN DICKSON:

El Cubo severance will be about $3 million to $3.5 million.

HEIKO IHLE:

Excellent, and that's based on what peso price? Or is that paid in USD?

DAN DICKSON:

That was based on 17—I believe it was a 17 to 1 peso estimate at the time.

HEIKO IHLE:

Okay, excellent. Thank you guys.

DAN DICKSON:

Thank you.

OPERATOR:

There are no more questions at this time. This concludes the question and answer session. I would like to turn the conference back over to Dan Dickson, Chief Financial Officer, for any closing remarks.

DAN DICKSON:

Thanks operator, and thanks everybody for attending our first quarter call. We appreciate everybody's engagement, and it is proxy season so we'd encourage everyone to vote. We value votes in proxy season. It's been a volatile last couple of years in the precious metals market but we're seeing some - for lack of a better word - hope in the market and some turnaround and positive sentiment to precious metal producers. We'll continue to perform at our current assets and the key will be the Terronera project, where we've got two drill rigs turning at this point and hope to deliver some good news on that as we go throughout the year. So, thanks a lot and talk to you guys again in August for our next quarterly call. Thank you.

OPERATOR:

This concludes today's conference call. You may disconnect your line. Thank you for participating and have a pleasant day.