Endeavour Silver Corp.

Fourth Quarter 2016 Earnings

Conference Call Transcript

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Time: **10:00AM PT/1:00PM ET**

Speakers: **Meghan Brown**

Director, Investor Relations

Dan Dickson

Chief Financial Officer

Bradford Cooke

Chief Executive Officer

OPERATOR:

Welcome to the Endeavour Silver fourth quarter and year end 2016 earnings 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, then zero.

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

MEGHAN BROWN:

Thank you operator. Good morning everyone and welcome to the Endeavour Silver 2016 earnings conference call. On the call today we have the Company's VP Corporate Development, Dale Mah, and our CFO, Dan Dickson, who will walk you through the financial results. Our CEO, Brad Cooke, will be joining the call shortly and he will be available for the question period.

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 2017 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.

With that, I will turn the call over to Dan Dickson.

DAN DICKSON:

Thanks Meg. Thanks everyone on the call for joining our 2016 annual earnings call. I'll go through our financial highlights for the year. I want to remind all our participants when Endeavour came into 2016 the silver price was down in the $14 per ounce range and we were focused on ensuring we had maximized our cash flow from operations and really for the first six

months of 2016 we limited our investment at all three operations to ensure we strengthened our balance sheet. We successfully did that in the first six months and in July we came back to the market with revised guidance to increase our production. On annualized basis we had a very good year. We delivered on all-in sustaining costs, meeting our guidance. We beat our guidance on cash costs and we met our silver equivalents guidance for production for the year.

With that, net earnings ended up being $0.03 a share at $3.9 million. EBITDA was $27.8 million, down from last year because of the reduction in production across all three operations, as planned. Cash flow from operations was $24 million, and mine operating cash flow was just under $53 million for the year.

Revenue decreased 15% to $157 million, however realized prices increased and we realized $16.85 per ounce for silver and $1,253 per ounce for gold.

As I touched on, cash costs significantly beat guidance coming in at $6.78 per ounce of payable silver, a 19% decrease to 2015. Additionally, all-in sustaining costs came in at $12.43 per ounce, a significant drop from 2015.

At the end of the year we did hold on to a little more bullion than we've had in the past, just driven by the trend that happened in Q4 with silver and gold prices, but needless to say our cash and cash equivalents increased 254% for the year, up to $72.3 million, and our working capital increased to $81.6 million.

We were able to reduce our debt from $22 million down to $9 million, and we were able to raise $53 million through two public financings.

Overall, on a 2016 basis, I'll reiterate we met our production guidance, we beat our cash cost guidance, and we met our all-in sustaining guidance on a full year basis.

For the fourth quarter, in July we announced we were going to reinvest. We saw an opportunity for growth for the Company, and an opportunity to extend mine lives, and we took that opportunity with the cash and the balance sheet that we had. So in Q4

we saw more spending; our exploration expenditures went up to about $4.5 million for the quarter, and we reinvested in mine development at each operation, which is why we saw an increase in our all-in sustaining costs for the quarter.

From a financial standpoint, we lost $0.04 per share on a $5.2 million loss in the quarter. Our EBITDA decreased to a negative $1.8 million. Again, that just stems from an increase in our exploration expenditures which are expensed on the income statement. Cash flow from operations, which includes our exploration expenditures, was negative $1.1 million. Revenue fell 32% year-over-year to $29 million. Again, we increased our bullion inventory. We had about $6 million worth of inventory at year-end. Our realized silver price for the quarter was $17.03 per ounce, which was consistent with the Q4 spot price, and our realized gold price was slightly below the quarterly spot price at $1,139 per ounce. Cash costs were still $9.39 per ounce, a decrease from Q4 of 2015, while all-in sustaining costs jumped 16% to $20.11 per ounce. Again, that comes from the investments that we're making, primarily in the fourth quarter here, for the future of Endeavour.

Before I open it up for questions, I want to reiterate we're seeing a change in the market. The silver price is down today and we're seeing a sell-off across the silver space, but particularly we're seeing a sell off here in Endeavour. Right now, it's a one-day event; probably more than what we expected with these results. Nonetheless, I want to point out that we meet all our guidance for 2016 and in fact we beat our guidance on cash costs. We revised our guidance upwards from a production standpoint in July and we met that revised upward guidance. So, all in all, we feel 2016 was a very successful year. We strengthened the balance sheet, and in Q4 we saw the opportunity to reinvest in the Company for growth and to extend mine lives and grow the Company going forward, because we do feel that the sentiment changed half way through the year, that there was a lot more wind behind our backs with regards to prices, interest in the Company and opportunities out there. So, with that I'd like to open 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 for a moment as callers join the queue.

The first question is from Mark Magarian with UBS. Please go ahead.

MARK MAGARIAN:

Hi there, guys. I just wanted to confirm that obviously the market's not taking today's numbers well but from my perspective, just because it's some of the fourth quarter component sort of stood out, maybe surprising but obviously not if you really think about what you guys are saying. As far as your guidance for 2017, can you discuss that and how that's going to still be in line with your previous statement in terms of all-in sustaining costs of production?

DAN DICKSON:

Yes. Thanks, Mark. We put out guidance for 2017 on January 25th. We had obviously a lot of this data when we put that guidance out, so we were well aware of where Q4's metrics were sitting. So we have no change to our 2017 guidance and today's results haven't changed our 2017 guidance.

For those that aren't familiar with that press release, we guided that we'd do roughly similar production for 2017: 5.2 to 5.7 million ounces of silver, and 50,000 to 53,000 ounces of gold. On a silver equivalent basis it equals about 8.9 to 9.7 million ounces of silver equivalents.

On a cost basis, we expect cash costs in 2017 to be somewhere between $6.50 and $7.50 per ounce for the year, and all-in sustaining costs between $14.50 and $15.50 per ounce. The increase in all-in sustaining costs over 2016 is a function of reinvesting in our operations. So, for 2015 and 2016 when prices were falling and we were trying to protect our balance sheet and the long-term future of the Company, we had to restrain from mine development at our operations. As with any underground mining operation you have to reinvest into mine development for the long-term benefit of those mines. The Q4 mine development expenditures of $4.5 million at Guanacevi isn't realized in one quarter; it's going to be realized over the next three or four years at Guanacevi.

So I don't get too caught up on quarterly metrics of all-in sustaining costs. It's not the silver bullet that explains the Company's future. As an accountant, I take the whole financial statements and cash flows and what that long-term benefit will be from that investment.

So, the increase in all-in sustaining costs represents us putting money back into the ground to further develop our veins and to have future production, and then exploration to extend those mine lives at El Cubo, Bolañitos and Guanacevi.

So to shortly answer your question, Mark, we don't expect our 2017 guidance to change from these results.

MARK MAGARIAN:
Thanks.

OPERATOR:
Once again, if you have a question, please press star, then one. The next question comes from Howard Flinker from Flinker and Company. Please go ahead.

The next question is from Howard Flinker of Flinker & Company. Please go ahead.

HOWARD FLINKER:
Remind me—I've got a specific question and a bigger question. Remind me at what price did you sell stock? In your financing.

DAN DICKSON:
Pardon me?

HOWARD FLINKER:

When you sold stock during the year, what was the price? I forgot.

DAN DICKSON:

Our average realized price was US$2.50. That was done through an at-the-market financing facility where we sold stock over about a six-month period.

HOWARD FLINKER:

US$2.50, okay.

This came up in another conference call and I'm kind of curious about this in a contrarily positive way. Have you heard stories about short sellers in your stock?

DAN DICKSON:

Yes, Howie. We hear stories here and there about it all the time. I mean we don't have any hard evidence on some of that stuff but obviously throughout industry we see a lot of reports coming out now on short sellers and we're not aware of anything like that for Endeavour.

HOWARD FLINKER:

Okay. That's it for me. Thanks.

DAN DICKSON:

I should clarify, just reminding.

HOWARD FLINKER:

Yes.

DAN DICKSON:

We actually did two at-the-market financings in 2016. On the first we raised US$16 million at an average price of US$2 per share and the second we raised $40 million at an average of about US$4 per share

HOWARD FLINKER:

Oh, I see. So it's not quite $2.50.

DAN DICKSON:

No.

HOWARD FLINKER:

It's the $2 plus the $4.

DAN DICKSON:

Yes, exactly.

HOWARD FLINKER:

U.S.

DAN DICKSON:

Yes.

HOWARD FLINKER:

Okay, thanks.

OPERATOR:

Once again, if you have a question, please press star, then one.

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 for any closing remarks.

DAN DICKSON:

Thanks operator and thanks to our participants. We had a strong list of participants on the call this quarter and for obvious reasons with what's happening out in the market today I hope that if anybody else has further questions, they're more than welcome to contact the Company and we're happy to help and answer those questions, and get our story out there in the market. So, thank you again and I hope everyone has a good day.

OPERATOR:

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