Endeavour Silver Corp.

Second Quarter 2015 Financial Results

Conference Call Transcript

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Speakers:

Meghan Brown
Director, Investor Relations

Brad Cooke
Chief Executive Officer

Dan Dickson
Chief Financial Officer

Godfrey Walton
President and Chief Operating Officer

Terry Chandler
Vice President Corporate Development

OPERATOR:

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

MEGHAN BROWN:

Thank you, Operator. Good morning everyone. Welcome to the Endeavour Silver Corp. Second Quarter conference call. On the call today we have the company's CEO, Brad Cooke, as well as our president and COO, Godfrey Walton, our CFO, Dan Dickson, and our VP Corporate Development, Terry Chandler.

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 endeavours anticipated performance in 2015 and beyond including revenue and cost forecasts, silver and gold production, grades and recoveries and the timing and expenditures required to develop new silver mines and mineralized zones. The company does not intend to and does not assume any obligation to update such forward looking statements or information other than is required by applicable law. And with that I will turn the call over to Endeavour's CEO, Brad Cooke.

BRADFORD COOKE:

Thank you very much, Meg, and welcome everybody to this Q2 financial results conference call. As usual, I'd like to start with a quick summary of the news release this morning. In a nutshell Endeavour had yet another decent quarter in the face of falling metal prices. And our earnings came in at a net loss of around a million dollars or one cent per share.

Cash flow from operations before working capital came in at 11 million dollars or 25 million for the first half of the year. And revenue was about 48 million dollars on the quarter. Cash costs decreased 13% to $8.60 per ounce of silver net of the gold credit.

All-in sustaining costs also decreased 18% to 16.86 per ounce of silver payable.

We are on track to beat our cash cost and all-in sustaining cost guidance for the year and with the successful ramp-up of the phase two mining expansion at El Cubo and there are additional declines in cash and all-in sustaining costs expected in Q3 and Q4.

Working capital at the end of the quarter was 27 million dollars. And we did have a net swing of 9.5 million dollars net cash added to the balance sheet, which we used to reduce the Scotiabank line of credit by about four million dollars to $25 million. And the balance is added to our cash holdings. So, they grew by five and a half million dollars to $31.8 million at the end of Q2.

Turning to our operations, silver production was up 8% to 1.8 million ounces. Gold production was down 11% to 13,430 ounces. But equivalent production was basically flat at 2.7 million ounces on the quarter. That's using a 70 to 1 ratio. And we are on track to meet the high end of our silver production guidance and the low end of our gold production guidance for 2015.

As I already mentioned the phase two El Cubo mine expansion to 22,000 tonnes per day was completed on time, on budget at the end of the quarter. And while we didn’t see a lot of the benefit of that mine expansion during Q2, there was a slow ramp up until right at the end of June. And it was also a period of slightly higher capital spending. Hence the all-in sustaining costs being a little bit higher than maybe we, or others, were expecting. But nonetheless El Cubo was on track to meet its guidance for year end. Guanaceví is already ahead of plan for production this year and is expected to beat our guidance. Bolañitos is on plan and expected to meet guidance.

We did elect in July to slow our spending at Terronera because of the lower metal prices. And we have postponed the prefeasibility study now until the new year. We are, however, going to push ahead as best we can given the reduced metal prices and reduced cash flow. It is not our outlook that we'll have to put up with this for the rest of the year. We're not saying that the metal prices are going to go on a run but they do typically put in their year low during the summer. And I don’t think we should allow the current metal prices to colour our view for the rest of the year.

Last but not least I'd like to congratulate our operations teams for once again performing in the regional mine rescue competitions in Mexico. El Cubo took first place in both the first aid and benchmen competitions. Bolañitos took second place and this is up against 14 teams including Fresnillo so we're very pleased that our guys have put a clear focus on this and that their performance reflects that. Both the El Cubo and Guanaceví mine rescue teams now move on to the Mexican national competition later this summer.

I think there's one other note I'd like to focus on before I open this up for Q&A. You know, with the falling metal prices, not just this year but ever year now for four consecutive years, all of the companies in our sector have been looking at paring costs and it's become an annual ritual of what can we do this year? I would like to point out that Endeavour has been remarkably successful at paring back our costs and if we even just take a two-year look back at our all-in sustaining costs we're looking at a 37% reduction in all-in sustaining costs from Q2 of 2013 to Q2 of 2015. That's a reduction from $27 all-in all the way to the current 16 and a half, plus or minus. And again with the phase two ramp-up done at El Cubo, we are planning for lower all-in sustaining costs for the rest of the year.

That's a pretty remarkable achievement. A portion of that obviously is the lower peso foreign exchange rate to the U.S dollar. But only about two thirds of our costs are denominated in Pesos. So, the translation is about half of the reduction comes from the FX and the other half is real savings.

In fact if we look at our consolidated costs per ton trend in the last year, we've actually seen a 20% reduction just year-on-year. From Q2 of 2014 we were at $104 all in direct costs operating per tonne. And in Q2 of this year we came in at $83. So, a very significant reduction in operating costs, only half of which can be attributed to the change in the exchange rate and the rest of it is real savings. So, I think operator, on that note let's open this up for Q&A.

OPERATOR:

Thank you, we'll now being the question and answer session. If you would like to ask a question, please press star and 1 on your touchtone phone. You will hear a tone to indicate you're in queue. For those using a speaker phone it may be necessary to pick up your handset before pressing any keys. If you wish to remove yourself from the question queue you may press star and 2. There will be a brief moment while we poll for questions.

The first question is from Brian Martin of Raymond James, please go ahead.

BRIAN MARTIN:

Hey guys, thanks for taking my question. I just want to dig in a little bit more on these costs you've delivered in the Q2. I seem to be tracking well below full-year guidance for the year. Should we be looking for similar numbers for the back half of the year given the fall in the peso?

DAN DICKSON:

Hey Brian, it's Dan. We noted in our press release that we were on track to beat our cost guidance for the year and we think it's very doable to at least meet our first half cost metrics in the second half of the year. And the peso's been a big contributor to that. And then also just what we've been doing at site. Obviously in this price environment we're looking to cut costs wherever we can. Over the last four years, as Brad alluded to, we've been doing this every year. So, we're not taking big cuts anymore. It's kind of what meat is left around the bone that we can scrape off so to speak. But we're focused on making sure our costs stay where we can be at least free cash flow neutral.

BRIAN MARTIN:

Great, thanks. And just at El Cubo, what should we be looking at in terms of throughput levels and grades in the back half of the year?

GODFREY WALTON:

Hi Brian, it's Godfrey. During July El Cubo was sitting around 22,000 tonnes a day. And so it is moving up and down a bit but it's doing quite well. Grade wise I think you're going to be looking at very similar grades to what was published in Q2, I mean, 112 in silver and about 1.5, 1.6 for gold.

BRIAN MARTIN:

Great, thanks Godfrey. And just lastly on the line of credit, you guys paid it down to $25 million, planning on making any more payments on that in the back half of the year?

DAN DICKSON:

Yep, right now actually it's sitting at $23 million. We made another payment subsequent to quarter end. We'll see how it goes, depending on where prices are. We're looking to push that down and to work with our bank to see where we're going to be at because the credit facility's due in July 2016 but we're looking at alternatives as we speak and see what we can do to push that out to 2017 or even 2018.

BRADFORD COOKE:

And or replace it; there are various proposals on the table. So, currently part of our cash management plan is to look to free cash flow, first to reduce the line, and second to fund long term and growth projects, and third to beef up the balance sheet. So it's obviously a judgment call going forward but we've been pretty successful at managing our cash and reducing our line to date.

BRIAN MARTIN:

Great, thanks a lot guys. Congrats on a good quarter.

BRADFORD COOKE:

Thank you.

OPERATOR:

As a reminder it is star 1 to ask a question. The next question is from Paul Renken of VSA Capital, please go ahead.

PAIL RENKEN:

Thanks guys, I appreciate the call here and just wanted to ask the question, as given the cost environment that you're looking at going forward are you going to make any adjustments to your underground cut-off grades as you go into this second half?

GODFREY WALTON:

Thanks Paul, this is Godfrey. We are looking at that and we are evaluating just what price actually to use for our resume resource estimate as we go forward. We're probably going to be looking at a range of prices just to get a sense of how the reserves and resources do change with price. So, we're looking at it. We haven't come up with a new number at this point but it's something that will be looked at in Q3.

BRADFORD COOKE:

And I think the point there Paul is that I think we need to see whether these new low prices are going to last the rest of the year or if we're going to get a typical rebound. The other thing is that we don't want to allow today's price to colour our outlook even two months from now. We'd like to see how Q3 looks before we make any commitments to changing cut-off grades or anything else like that.

PAIL RENKEN:
Yeah, thanks guys.

OPERATOR:
There are not more questions at this time. I'll hand the call back over to Brad Cooke for any closing comments.

BRADFORD COOKE:
Well, that was short and sweet. Thank you very much guys for attending on this presumably hot summer's day. It's not a bad day here in Vancouver. And we'll look forward to our next conference call in November for our Q3 financials when we'll have our first look at the new reduced operating costs at El Cubo. So, operator, thank you very much.

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