PARTICIPANTS

Corporate Participants

Christina Kmetko – Investor Relations Consultant, NACCO Industries, Inc.
J.C. Butler, Jr. – President, Chief Executive Officer & Director, NACCO Industries, Inc.
Elizabeth I. Loveman – Senior Vice President & Controller, NACCO Industries, Inc.

Other Participants

Douglas S. Weiss – Analyst, DSW Investment, LLC
Nachy Kanfer – Partner, Industrious Labs
John Huber – Analyst, Saber Capital Management LLC

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the NACCO Industries' First Quarter 2024 Earnings Conference Call. Our host for today is, Christina Kmetko, Investor Relations. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session.

I would now like to turn the call over to your host, Christina Kmetko. You may begin.

Christina Kmetko, Investor Relations Consultant, NACCO Industries, Inc.

Good morning, everyone, and welcome to our first quarter 2024 earnings call. Thank you for joining us this morning. I'm Christina Kmetko. I'm responsible for investor relations at NACCO. Joining me today are J.C. Butler, President and Chief Executive Officer; and Elizabeth Loveman, Senior Vice President and Controller. Yesterday, we published our 2024 first quarter results and filed our 10-Q. This information is available on our website. Today's call is also being webcast. The webcast will be on our website later this afternoon and available for approximately 12 months.

Our remarks that follow, including answers to your questions, contain forward-looking statements. These statements are subject to several risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements made here today. These risks include among others, matters that we have described in our earnings release, 10-Q and other SEC filings. We may not update these forward-looking statements until our next quarterly earnings conference call. We'll also be discussing non-GAAP information that we believe is useful in evaluating the company's operating performance. Reconciliations for these non-GAAP measures can be found in our earnings release and on our website.

With the formalities out of the way. I'll turn the call over to J.C. for some opening remarks. J.C.?

J.C. Butler, Jr., President, Chief Executive Officer & Director, NACCO Industries, Inc.

Thank you, Christy and good morning, everyone. I'm glad to be on the call this morning since we have a lot of good news to report. I mentioned during our year-end call that I am optimistic about our 2024 outlook, as we move past a tough 2023. We expected unfavorable 2023 comparisons would turn favorable in 2024. So, I'm pleased to report that our first quarter operating results were in line with those expectations. Our consolidated operating profit increased 162% over the prior year, driven by significantly improved earnings at our Minerals Management and North American Mining segments.

Christy will go into more detail about our first quarter earnings and provide an overview of our outlook in a minute, but first, let me give you an update on our operations. I'll start with some positive operational news about our Coal Mining segment. I'm pleased to report that repairs to the damaged boiler at the Red Hills Power Plant are expected to be completed during the second half of 2024.

As you can see from our financials, the Coal Mining segment's revenues decreased primarily due to fewer coal deliveries as a result of this issue. While the Red Hills Power Plant is still only operating on one boiler, it is helpful to have a greater visibility on our customers' time line for resolution. As we've discussed for several quarters, Mississippi Lignite Mining Company's Red Hills Mine completed the move to a new mine area in 2023. This move sets us up nicely for the future and we expect production costs at MLMC to decline significantly in 2024 to 2023 levels. These costs, however, are expected to remain above historical levels through 2024 until the boiler issue at the power plant is resolved, deliveries return to normal and a pit extension is completed later this year.

Before I move to our other segments, I want to comment on the Environmental Protection Agency's recent announcement of new rules for coal-fired power plants. On April 25, EPA issued a pre-publication version of the final rules for Mercury Air Toxics Standards in greenhouse gas emissions, which require compliance as early as 2027 and 2030. If these rules are ultimately enforced as drafted, they will be applicable to the power plants that we serve.

While we are still in the process of analyzing these new rules, I'd like to note that similar previous efforts by the EPA were met with extensive litigation, and we're anticipating a similar response to these rules. As you can imagine, this is a very high priority for us. It's worth noting that the United States is experiencing strong overall growth in the demand for electricity. MLMC supplies coal to the Red Hills Power Plant, which supplies electricity to TVA. TVA just announced in their 10-Q filing earlier this week that they experienced an all-time record high-peak power demand during Q1. If these EPA rules go into effect as written, it's hard to see how the country adequately replaces the energy generated by these power plants.

Shifting to our other segments. I mentioned earlier that our Minerals Management and North American Mining segments generated improved operating results in the first quarter. At Minerals Management, the higher first quarter income was the result of higher production volumes and included earnings from the large acquisition of mineral interest that closed in December.

The Catapult Mineral Partners team, which oversees this segment, has done a great job of growing and diversifying our portfolio of mineral interests over the last few years. We now own a larger portfolio of mineral interests. We are more diversified in terms of operations, geographic footprint and stages of mineral development, ranging from producing wells to undeveloped mineral interests. The catapult team is again targeting mineral interests of up to $20 million in 2024.

Our North American Mining segment also delivered strong year-over-year earnings improvement. North American Mining's operating profit improved 184% and segment adjusted EBITDA increased 70% compared with 2023. I'm proud of the significant progress that North American Mining team has made on operational and strategic projects that contributed to the improved 2024 first quarter results.

Our Sawtooth Mining operation is the exclusive miner for the Thacker Pass lithium project owned by Lithium Americas Corporation. Sawtooth Mining is contributing moderate income to the North American Mining segment during the current construction phase of that contract and is expected to continue to do so until we enter the production phase, which is expected to occur in the 2027/2028 timeframe. More information about this project is available on the Lithium Americas' website.

The North American Mining team continues to evaluate and pursue new business opportunities, including diversification into additional minerals, as we did in 2023 with a new contract to mine phosphate for a customer in Florida. Overall, I believe we're making meaningful progress towards building this segment into a very successful business platform.

Finally, moving to our Mitigation Resources of North America business, this team continues to advance existing mitigation projects and build on the substantial foundation it has established over the past several years. Mitigation Resources added a new project in the first quarter by acquiring an attractive piece of land near a high-growth area in Central Florida. We anticipate that Mitigation Resources will further expand its business model in 2024 with a focus on generating a modest operating profit in 2025 and achieving sustainable profitability in future years.

Overall, I continue to be very optimistic about our outlook in 2024 and beyond. I have a lot of confidence in our team and I'm pleased with the way all of these businesses continue to advance their strategies, including efforts to protect our Coal Mining business.

With that, I'll turn the call back over to Christy to cover our results for the quarter and our outlook in more detail. Christy?

Christina Kmetko, Investor Relations Consultant, NACCO Industries, Inc.

Thank you, J.C. Let me begin with high-level comments about our consolidated first quarter financial results. Then, I'll provide some detail on our individual segments. We reported consolidated income before taxes of $5.6 million, compared with $4.4 million last year, a 28% increase. A shift in our mix of earnings led to an effective income tax rate of 18% this quarter versus a negative rate of 30% in first quarter 2023, which resulted in a $2.3 million year-over-year increase in income tax expense.

Due to the higher income tax expense, our first quarter 2024 consolidated net income decreased to $4.6 million or $0.61 per share compared with $5.7 million or $0.76 per share last year. We generated EBITDA of $11.2 million. This was modestly higher than the prior year EBITDA of $10.8 million. The operating profit and EBITDA growth was primarily due to significant improvements in earnings at our Minerals Management and North American Mining segments.

Minerals Management generated operating profit of $7.9 million and segment adjusted EBITDA of $8.9 million an over 30% increase in both metrics compared with the prior-year quarter. The improved earnings were due to higher production volumes, including contributions from a large acquisition of mineral interest near the end of last year.

At North American Mining, operating profit of $2.4 million and EBITDA of $4.6 million increased significantly compared with last year. The first quarter improvements were primarily due to favorable pricing and delivery mix. Improved margins at the limestone quarry as a result of recent contract amendments also contributed to North American Mining's favorable results.

The improvement in operating profit at both Minerals Management and North American Mining were partly offset by lower Coal Mining results.

Our Coal Mining segment reported an operating loss of $417,000 and generated segment adjusted EBITDA of $1.8 million. This compares to operating profit of $313,000 and segment adjusted EBITDA of $4.6 million in 2023. J.C. noted that the Coal Mining segment's revenues decreased primarily due to the boiler issue at Mississippi Lignite Mining Company. However, the revenue decrease was offset by a reduction in cost of sales, resulting in comparable quarter-over-quarter results.

Lower earnings at our unconsolidated operations, primarily due to reduced customer requirements at Coteau contributed to the decrease in the Coal Mining segment's results.

Looking forward at our Coal Mining segment, we expect strong 2024 operating profit compared with a significant 2023 loss, which included a $60.8 million impairment charge. Higher segment adjusted EBITDA, which excludes the impairment charge, is also projected.

These anticipated increases are primarily due to an improvement in the results of Mississippi Lignite Mining Company and higher earnings at Falkirk and Coteau in the second half of 2024. While MLMC is expected to incur a loss in 2024, largely attributable to reduced coal deliveries, while the power plant is operating with only one boiler, the loss is projected to be significantly less than 2023, excluding the impairment charge. This is primarily because production costs are expected to decrease compared with last year.

In addition, the effect of the impairment charge taken last year will result in lower depreciation and amortization expense and contribute to lower production costs in 2024 and beyond.

The projected increase in full year 2024 earnings at the unconsolidated mining operations is driven primarily by an expectation for increased customer requirements at Coteau and Falkirk, as well as a higher per ton management fee at Falkirk, beginning in June 2024, when temporary price concessions end.

Turning to North American Mining, we expect substantial quarterly growth in operating profit and segment adjusted EBITDA in each remaining 2024 quarter, leading to significantly improved full year results over 2023. Improvements at existing operations as well as contributions from new and modified contracts will all contribute to the improvement in results.

Finally, at Minerals Management, we expect 2024 operating profit and segment adjusted EBITDA to decrease moderately compared with the prior year, excluding the 2023 impairment charge. The forecasted reduction in profitability is primarily driven by current market expectations for natural gas and oil prices, as well development and production, assumptions on currently owned reserves.

Overall, at a consolidated level, we expect to generate net income in 2024 compared with the substantial 2023 net loss. Adjusted EBITDA, which excludes any impact from the prior-year impairment is also projected to increase significantly over 2023. These improvements are mainly due to increased profitability at the Coal Mining segment. Growth in North American Mining is also expected to contribute to the higher 2024 net income.

Before I turn the call over to questions, let me close with some information about our balance sheet and cash flow. We ended the quarter with consolidated cash of approximately $62 million and debt of $50 million. We had availability of $100 million under our revolving credit facility. During the first quarter, we repurchased approximately 128,000 shares for $4.3 million under an existing share repurchase program. In 2024, we expect cash flow before financing activities to be a moderate use of cash.

We will now turn to any questions you may have.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And we will take our first question from Douglas Weiss with DSW Investments. Douglas, your line is open.

<Q – Doug Weiss – DSW Investment, LLC>: Hi. Good morning.

<A – J.C. Butler – NACCO Industries, Inc.>: Good morning.

<A – Christy Kmetko – NACCO Industries, Inc.>: Good morning.

<Q – Doug Weiss – DSW Investment, LLC>: A question on the Mining business. Once you've started a project, how much is the ongoing capital expense on those projects on an annual basis?

<A – J.C. Butler – NACCO Industries, Inc.>: Are you talking about a Coal Mine, or are you talking about a North American Mining project?

<Q – Doug Weiss – DSW Investment, LLC>: North American Mining.

<A – J.C. Butler – NACCO Industries, Inc.>: Yeah. It entirely depends on the project. In some instances, we own the equipment and we'll maintain that equipment over the life of the contract and that's all included in the fee structure that we receive. In other instances, the customer is responsible for funding those things. So, it's really very contract-specific. I guess, I would add that most of the operations that we do inside North American Mining – I'll just use an example, right. We might acquire a dragline that will operate at a quarry for a phosphate mine somewhere else for somebody.

And the up-front capital is the most significant piece typically of that project. Over time, you're going to have repairs to the dragline, you're going to have planned outages where you need to do periodic upgrades and improvements. But for the most part, I think you could think of the North American Mining project of having a majority of its CapEx up-front, although there will be some over time.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. So, to the extent you're not bringing on new projects, is it fair to say that the fairly high proportion of the EBITDA in that division will convert to cash flow? Just sounds like – yeah.

<A – J.C. Butler – NACCO Industries, Inc.>: I think that's a safe assumption. As opposed to – I'll compare that to a manufacturing business, where you're constantly replacing things on your manufacturing line. The mining business is typically not like that. But you will go through – as we saw in our Red Hills Mine, you go through periods of time when you do have to reinvest, but generally EBITDA is true EBITDA. You can think of it as cash flow.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. And would you be able to say what sort of returns you're looking for on that sort of up-front investment in terms of you get a new project and you spent $20 million or whatever on the dragline. What sort of EBITDA do you hope to earn on that in the years that follow?

<A – J.C. Butler – NACCO Industries, Inc.>: Well, I mean, I think given the fact that these are multiyear projects with investment up-front, I'd point you to like an IRR calculation. And we target things that are in the mid-high-teens in general.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. Great. And when you guide to quarterly growth for that business, do you mean sequential growth, like the second quarter will be better than the first quarter and so on?

<A – J.C. Butler – NACCO Industries, Inc.>: Generally, yes.

<Q – Doug Weiss – DSW Investment, LLC>: Yeah. Okay.

<A – J.C. Butler – NACCO Industries, Inc.>: But like any business, you can't draw a straight-line through all those points and have it look like a nice, neat graph.

<Q – Doug Weiss – DSW Investment, LLC>: Right. Sure, sure. I guess moving on to your royalty businesses. You give disclosures in the K on your reserves, but I found with other royalty businesses, those reserves aren't really that communicative in terms of the real reserve life of those assets. And I wondered if you could just speak generally about what you think the sort of economic life is, particularly for your gas assets, I guess Appalachia would be the largest one. Yeah. Go ahead.

<A – J.C. Butler – NACCO Industries, Inc.>: Yeah. The Appalachia assets are our legacy assets. I mean, we've acquired those over decades and decades. I wouldn't be surprised if some of those have been acquired in the early part of the 1900s, as we are establishing our underground Coal Mining business in that part of the country, that's where the company started. From a gas standpoint, the wells – so, let's just go through history, right. We acquired these – we acquired the natural gas reserves as part of acquiring all our minerals historically.

In many instances, we mined the coal or somebody else ended up mining the coal. We sold the surface, at some point, if that was owned and we've owned these natural gas assets for a very, very long time. You get, sort of, I guess probably 10 years at most to go. And fracking became kind of the prevalent – horizontal fracking became kind of a prevalent way of producing the minerals in Appalachia. And then pipelines came in sort of in the 2017/2018 timeframe, which is when we said this things about to get super-sized. So, we made a conscious decision to, let's go hire people that are experts in this area and develop our Catapult Mineral Partners business, so they oversee those assets.

I mean, a lot of that's been developed, but there's a lot of wells yet to be developed. If you look at the typical decline curve on a well, and it varies, but on average these things can last for decades. They have a large – any kind of horizontal fracking well has large production up-front and it tails off pretty quickly, but then it can run for a very, very long time, it can run for decades. And I mean, I know there are royalty companies out there that focus on just buying the tails of wells from people.

So, you take the natural gas assets in Appalachia and you translate that to what we're buying elsewhere, and we're targeting a broad portfolio of mineral interests, meaning when we buy a package, it typically has got producing wells, it's got wells that have been drilled but not completed, so we're not producing, it's got wells that have been permitted, but nobody's taken any action on the permits, and there are undeveloped reserves. So, one of the things I love about this business is a majority of the value we're paying for these assets is focused on the producing wells, because that's what a lot of people are paying for, a lot of people are interested in what's the cash flows I'm going to get out of this right away. And we, of course, look at that and we appreciate that.

But we're also acquiring a lot of reserve interests that are going to start – be developed and produce in years to come. So, I see this business as accumulating more and more and more of that, which just provides a much stronger and longer runway for profitability to come out of this part of the business. It's kind of a wide-ranging answer. Does that address your question?

<Q – Doug Weiss – DSW Investment, LLC>: Yeah. I think so. As you look at opportunities to acquire, are you seeing better value on the oil side or on the gas side?

<A – J.C. Butler – NACCO Industries, Inc.>: It varies. It really – in many instances, it gets to a specific dynamics around the transaction, like, really, why is somebody selling, has somebody had a fund for the last 20 years and they're closing out the fund and they need to sell, has somebody been getting their funding from a private equity firm and that goes away, and so they need to raise some capital by selling some wells. I mean, what's their motivation. That's really probably the greatest driver of swings in value from my experience.

<Q – Doug Weiss – DSW Investment, LLC>: Okay.

<A – J.C. Butler – NACCO Industries, Inc.>: I mean, do prices affect the value of mineral interests? They do on the margin, but it doesn't swing as much as you would think it might, based on monthly, quarterly changes in oil and gas prices.

<Q – Doug Weiss – DSW Investment, LLC>: Right. Okay. Makes sense. On MLMC, once you finish the – you're all done with the move-in locations and so on. What's a good, normalized cost of goods sold there?

<A – J.C. Butler – NACCO Industries, Inc.>: We don't disclose that. And your point about, we're moved and we're done. We're moved, we're almost done. You'll note in our disclosures that we talk about a pit extension. So, we went over, we established the new pit. We're operating over there. It's going very well. We're very pleased with the way that's playing out. We did – in part of the plan, we knew when we got there we were going to make the initial pit longer. As you can imagine, right, a longer pit is going to be a more efficient way to mine. It's like getting – it's larger scale, you make it a bigger pit.

So, we're still extending that pit this year. It'll be done later this year, at which point the costs really drop to where they think they should be, which is much more in line with historical levels. We're hitting a double punch right now, because we're self-inflicted wound. It's the smart thing to do to extend the length of this pit, which adds to our costs. The other thing you've got is the power plant that's just operating on one of the two boilers. So, our production is only at about half what it would normally be, which puts – it's not efficient, makes a higher cost operation. So, I think we're headed back to historical levels that we feel quite good about. We just have to get a couple more quarters behind us.

<Q – Doug Weiss – DSW Investment, LLC>: Right. Okay. And then just touching on North American Mining again. You had a really nice step-up in your EBITDA margin this quarter. Is that sustainable or are those margins going to move around quarter-to-quarter?

<A – J.C. Butler – NACCO Industries, Inc.>: Well, everybody's margins move around quarter-to-quarter. But with that qualifier, I think there have been some fundamental shifts in the business, some of which are strategic in nature, tactical in nature. We've been working on some things over the last few years and you've seen in prior quarters, we've disclosed that even last year, we put pause on new business development while we were straightening out some operational matters. We feel good about where those are. One of the other things we've done is sign up some new contracts.

We're always tweaking our contract structure, because these contracts will run for a bunch of years. So, we're always tweaking the contract structure to think about how do we best serve our customers while thinking about the economics of our business. And I think you've got a combination of some new contracts, some amended contracts, as well as some operational and strategic improvements we put in place that are paying dividends. And I think that we are headed towards a stronger performance in that business going forward, because of those things. Is it going to be consistent every single quarter? Probably not. But I feel good about where we're headed.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. Makes sense. And just, you have an unconsolidated income line in that division. Can you say what that is? Which asset that – or what mine that is?

<A – Elizabeth Loveman – NACCO Industries, Inc.>: It's just some smaller, historical mines that – or locations that we account for as a variable interest entity. And so, under the equity method.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. And let me know if there's anyone in queue, because I don't want to stop anyone else from asking questions.

<A – J.C. Butler – NACCO Industries, Inc.>: You have great questions. So, we're more than happy to have – I appreciate your interest. We're happy to answer your questions.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. Great. Well, thank you. So, on the Coal segment, I'm curious using the Sabine Mine as sort of a case study, where you received several years of payments after the mine closed. Could you just talk a little bit about how good the economics are of those sort of closure payments relative to the prior operating earnings of the mines?

<A – J.C. Butler – NACCO Industries, Inc.>: So, I'll speak generally, right. Generally, during production, in our management fee contracts, which in the Coal Mining segment are Coteau, Falkirk, Coyote Creek, and Sabine. So, generally during production, that's when you're doing a lot of work, you've got a lot of people, a lot going on, so the fee is higher. In the initial years, the first few years after you go into final mine reclamation, there's still a lot of work to be done. There's a lot of dirt moving going on, there's a lot of regulatory things that we're dealing with, a lot of land issues – or I shouldn't call them issues, it's really just land matters related to ramping up the mine.

And so, the fee is still pretty robust, although generally not what it was during production. And then after a few years, we'll go into a period that is the tail end of final mine reclamation, which is really more the dirt work is done, it's monitoring water, it's looking for erosion, it's making sure that the things that were planted are growing as they should. So, the fee steps down generally in the later years of a contract. Now, every contract is different with respect to how that works and what we're responsible for and what the customer's responsible for. But in each instance, the customer still continues to pay 100% of the cost, and this is really just related to the fee that we receive. But it's a kind of a step-down structure as the amount of work that's required decreases.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. And then, I guess just a couple quickly on your new projects. So, on the remediation business, how big a business do you think that could be looking out 3 to 5 years?

<A – J.C. Butler – NACCO Industries, Inc.>: Well, I mean, we've not said how big we think it can be, we haven't disclosed that. I will tell you that the business, which we started, five, six years ago is on a much faster growth trajectory than we anticipated when we started it. We've been very pleased with our ability to leverage sort of the North American coal environmental reputation as a way to propel that business into having a lot of credibility, even though it was essentially a start-up.

Number of the people that are in that business came from our Coal Mining operations. And it's really been helpful as we've got going. We've also got a great relationship with the Army Corps of Engineers in the areas where we operate, which has been helpful to us. So, I guess, I'd add to the fact that the mitigation part of the business is growing faster than we thought it would. We've branched out now to also start doing abandoned mine land reclamation. You saw our disclosures that we are the preferred provider of abandoned mine land services in the State of Texas, which is a big deal. And we've been doing some other remediation projects as well that are neither mitigation banks nor abandoned mine reclamation.

So, we're seeing growth opportunities in a number of areas, kind of organically grown. And it's on a great growth trajectory. The question we always kick around is, at what point does this thing become a segment? And I don't know. I would say hopefully sooner or later, I think the people in the business would say, they hope later rather than sooner because you get a lot more attention when you're a segment. But this is a business that's growing very nicely, very rapidly. And the disclosure we put out is, we think they're going to be profitable at an operating profit level in 2025, it will be sustainable future years.

One of the reasons is, because particularly on the mitigation banking side, you acquire a piece of property and then it takes a year or so to get your mitigation banking instrument with the Army Corps of Engineers, and then you sell the credits over extended period of time, can be 10 years. So, the initial years on this business on the mitigation banking side was planting a lot of seeds by initiating projects. We're now getting into the period we're going to start seeing very attractive income from the credit sales out of those banks. So, not a direct answer to your question, but I hope that was helpful.

<Q – Doug Weiss – DSW Investment, LLC>: Yeah. Yeah. That's great. And then, I think last question, just on the – you gave some additional detail in the K on your solar project. Can you talk a little bit about how large an investment you're contemplating there? And do you continue to think it's going to be a very high ROI?

<A – J.C. Butler – NACCO Industries, Inc.>: Yeah. I mean, the returns are pretty attractive on the project as we're viewing them. I think our approach is primarily, although not entirely, but our approach is primarily that we're going just to serve as developers. We have knowledge that I think is somewhat unique with respect to properties that would be attractive for solar farms, including reclaimed mine land, whether that's ours or others. A lot of people are scared off that stuff. We understand what the risk and opportunities are with respect to those properties.

And so, our investments are really going to be in the development phase, which is acquiring the land or securing the land to lease or other means. And then, working on interconnect studies and finding EPC contractors and getting – the whole thing put together into a package. I think it's very possible that we will end up right, as the thing's ready to go. It's all going to – it's in a nice box with a bow on it.

You sell it to somebody who's in the business of owning and operating these things over the long-term including constructing them. Do we keep an ownership interest in some way in those? We could. It could be an ownership interest in the solar farm itself. It could be – we retain the land and collect a lease payment. I mean, there's a whole bunch of ways we could think about this. I do know when you get into big solar farms, the capital can be very, very substantial. And given our desire to protect the daylights out of our balance sheet, we're not going to bite off something that's bigger than we're comfortable dealing with.

<Q – Doug Weiss – DSW Investment, LLC>: Right. No. That makes a lot of sense. Okay. Well, actually, one last quick one is just on the boiler. I think in your filing, you said second half, you think it'll be repaired. Do you have a pretty good visibility or are you just kind of watching along with everyone else?

<A – J.C. Butler – NACCO Industries, Inc.>: Well, I mean, we're next-door, right. The mine is next-door to the power plant, so we have great relationship with the folks over at the power plant, because of the nature of the operation, 100% of their fuel comes from our mine. They're our only customer. So, it makes it very important to have a close, transparent relationship. So, our folks on the scene stay in close touch with the people over at the power plant. And I think everybody feels good about the progress that's being made. It's really our customer's project, so I don't want to say that much about it, because it's their disclosure, not ours, but it's progressing nicely and we feel good about it. I think they feel good about it.

<Q – Doug Weiss – DSW Investment, LLC>: Great. Okay. Well, thanks again for all the answers and talk to you next quarter.

<A – J.C. Butler – NACCO Industries, Inc.>: Yeah. Once again, we appreciate your interest.

<A – Christy Kmetko – NACCO Industries, Inc.>: Thanks, Doug.

<Q – Doug Weiss – DSW Investment, LLC>: Thanks.

Operator: And your next question comes from Nachy Kanfer with [indiscernible] (sic) [Industrious Labs]. Your line is open.

<Q – Nachy Kanfer – Industrious Labs>: Hey. Great quarter. Thanks.

<A – J.C. Butler – NACCO Industries, Inc.>: Yeah. Thank you. Good morning.

<Q – Nachy Kanfer – Industrious Labs>: Yeah. Good morning. Picking up with that last question, I've got a few questions on Mississippi. Can you provide an update on the financial health of your customer over there? Have they emerged from whatever restructuring they were in with respect to their balance sheet?

<A – J.C. Butler – NACCO Industries, Inc.>: I mean, from what I understand, from Southern's disclosures, that's all been settled.

<Q – Nachy Kanfer – Industrious Labs>: Right.

<A – J.C. Butler – NACCO Industries, Inc.>: You're talking about is the restructuring with the bondholders...

<Q – Nachy Kanfer – Industrious Labs>: Right.

<A – J.C. Butler – NACCO Industries, Inc.>: ...correct? Yeah. And that's been resolved. I think Southern disclosed that a couple quarters ago, maybe three quarters, four quarters ago.

<Q – Nachy Kanfer – Industrious Labs>: Yeah. I mean, what I've seen from disclosures is that they're not putting any additional capital into it. And there was certainly no cash reserve in the business prior to restructuring. So, what I'm trying to understand is, how strong is your counterparty and its ability to maintain a position of buying the amount of lignite you guys want them and projecting to buy for the next several years?

<A – J.C. Butler – NACCO Industries, Inc.>: Well, I think the ultimate – I mean, I think the real question is, does TVA need the electrons? And if you look at TVA's latest Q, which was just recently filed, they've had record demand for electrons, because that ultimately is how this plays out. And TVA has tremendous need. We see that through the operation of the power plant. And ultimately, if TVA needs the electrons, they're going to buy them from the plant and that means that the plant needs coal in order to fuel the plant. So...

<Q – Nachy Kanfer – Industrious Labs>: Sure.

[indiscernible] (00:39:50)

<Q – Nachy Kanfer – Industrious Labs>: Well, someone's going to have to put in capital, right? I mean, are you saying that TVA might actually put in capital for repairs or for ongoing CapEx?

<A – J.C. Butler – NACCO Industries, Inc.>: I mean, I'm not...

<Q – Nachy Kanfer – Industrious Labs>: How I should think about...

<A – J.C. Butler – NACCO Industries, Inc.>: I'm not privy to the details. But my understanding is, there's a provision in the waterfall with respect to the mechanics of the bonds that provides for capital that's needed for maintenance and repairs. And that...

<Q – Nachy Kanfer – Industrious Labs>: Yeah. It builds on. Right. I'm trying to understand the – whatever the new bond structure is, which I am not privy to, I'm trying to understand...

<A – J.C. Butler – NACCO Industries, Inc.>: We don't have – we're not privy to the terms of that agreement.

<Q – Nachy Kanfer – Industrious Labs>: Okay. All right. Thanks. And then, I appreciate your comments at the beginning about the Mercury Standard. My understanding from some of the technical documents that EPA put out and as you stated, it's pre-publication is that EPA was actually projecting a relatively low additional OpEx requirement at Red Hills, was under $1 million a year. Your comment suggests that actually, sort of, judicial relief of some sort, a pretty pessimistic outlook on compliance across the board. Just trying to square those two. And is the truth somewhere in the middle or how should I think about that?

<A – J.C. Butler – NACCO Industries, Inc.>: I think the whole thing is subject to massive litigation. I think it's – I mean, one, the rules aren't final yet and two, I think this is going to be litigated just like prior EPA rules have been litigated. There's a interesting piece in the journal yesterday about – or at least I read it online last night and I assume it was a yesterday article, about the challenges that the rules face.

<Q – Nachy Kanfer – Industrious Labs>: There's no question of litigation, I agree with you. But the Mercury Standards that are in effect for non-lignite, coal-fired power plants are, in fact, I mean, they have survived. That was a decade ago.

<A – J.C. Butler – NACCO Industries, Inc.>: Correct.

<Q – Nachy Kanfer – Industrious Labs>: So, I guess what I'm trying to understand is, in terms of uncertainty, of course, on how the court will look at this and future administrations, of course, might look at this very differently as well. But trying to understand what the actual cost of compliance might be at your customer, even like ballpark order of magnitude, like is it tens of thousands, tens of millions, somewhere in between?

<A – J.C. Butler – NACCO Industries, Inc.>: I think it would be inappropriate for me to publicly speculate on information that I don't know.

<Q – Nachy Kanfer – Industrious Labs>: Sure.

<A – J.C. Butler – NACCO Industries, Inc.>: I mean, and I'm not – we don't operate any power plants. I'm not privy to that kind of information.

<Q – Nachy Kanfer – Industrious Labs>: Sure. Make sense. Last question. So, there was this $60 million impairment charge in the last quarter. Can you help me understand, thinking of the Mississippi business and the core asset, which is this long-term sales agreement. How much of the book value of that asset went away with that $60 million impairment charge? Does that question makes sense? Like is the asset half the size that I used to think it was? Is it 90% of the size I used to think it was?

<A – J.C. Butler – NACCO Industries, Inc.>: Liz and I are looking at each other, trying to think about that.

<A – Elizabeth Loveman – NACCO Industries, Inc.>: So, I think you could see the coal supply agreement. I think you're talking about the intangible related to the coal supply agreement?

<A – J.C. Butler – NACCO Industries, Inc.>: Are you talking about all the assets?

<Q – Nachy Kanfer – Industrious Labs>: I'm talking about the enterprise value of the Mississippi business, basically. How much smaller is it than it was in the quarter?

<A – J.C. Butler – NACCO Industries, Inc.>: I think we've never disclosed the asset value related to a specific.

<A – Elizabeth Loveman – NACCO Industries, Inc.>: In our risk factor in the 10-K previously, we said our assets at risk were around $130 million. And we took $69 million.

[indiscernible] (00:44:15)

<Q – Nachy Kanfer – Industrious Labs>: Yeah. Okay. That's really helpful. Thank you. And so, when you were determining the – this is going back a quarter, I'm sorry, but when you were looking in the financials and deciding how much to write off, was it primarily the relatively short-term decrease in sales that factored into that overall $60.8 million figure? Or was that also additional thinking around the license of that agreement?

<A – J.C. Butler – NACCO Industries, Inc.>: Well, the trigger was that December, I think it was 15th issue at the power plant and as we're sitting there at year-end, you have this big event at the plant, which nobody at that moment in time can assess exactly the extent of the damage or what it's going to take to repair it. It, of course, calls into question, what will our near-term deliveries be? They pretty quickly figured out that they could operate the plant they believed on one boiler. We know they can, but they didn't see any other reasons related to this incident to prevent that.

So, as we look at the situation where we could have an extended period of time, where there is reduced deliveries to the plant, given the fact that a mining operation is largely a fixed cost operation that affects our economics pretty significantly, as we're seeing it. So, it's really that trigger with respect to the near-term, when you think about NPV of an asset, it's near-term dollars count more than far out in the future dollars. And of course, you had to go through all the GAAP required exercise to figure out your impairment. But it was the short-term effect of that that really triggered this assessment.

<Q – Nachy Kanfer – Industrious Labs>: Okay. That makes sense. And I think last question. How should I think about the macro with respect to your other unconsolidated operations? Is there a different way I should think about that compared to the Mississippi situation?

<A – J.C. Butler – NACCO Industries, Inc.>: I mean, our absolute math rule doesn't apply to our mines, it applies to our customers' power plants. And those are all lignite-fired power plants. So, each of them, of course, have their own technologies with respect to their boilers and their environmental controls. And I think each of them will be assessing these independently.

<Q – Nachy Kanfer – Industrious Labs>: Okay. Appreciate your time with me this morning.

<A – J.C. Butler – NACCO Industries, Inc.>: Yeah. Thanks for your question.

Operator: And your next question comes from John Huber with Saber Capital. John, your line is open.

<Q – John Huber – Saber Capital Management LLC>: Hi. Yes. Thanks for the thoughtful reply. This has been a great call, a lot of good education and I appreciate the history on the – some of the Minerals Management history there was quite interesting. My question is on that business. I follow a few of the royalty companies and I think the market for the minerals has been quite – it's been quite competitive over the last few years. And I'm just wondering if you guys share that view?

And if so, I'm wondering what kind of what advantage you guys have, like what kind of networks do you have, what advantage you think gives you guys the ability to earn the returns that you're generating, which according to what I'm looking at, I'm looking at like $68 million of investment capital over last few years. And I think you did around $19 million of profit. So, that looks like a pretty good return. So, I'm just kind of wondering how you guys are viewing your advantage in what I think is a pretty competitive market right now?

<A – J.C. Butler – NACCO Industries, Inc.>: Yeah. So, let's go back to the history. And, look, I would love to say that we're earning that kind of return on the investment, $68 million. But I went through the history lesson of where we got the Appalachian minerals, which are the biggest income producers for us. And our cost basis in those things is like zero, as they were acquired eons ago. So, there's a bunch of that Appalachian stuff that has no meaningful asset on the balance sheet. So, when we look internally at our numbers, our returns right now are astronomical.

We believe, over time, as we make investments, that we think this business is going to be a – ultimately, as we get more and more and more new money invested, we think we're going to earn high-teens. I'd like to think low-20s, but high-teens on our investments. And it's this interesting point, we're investing in a business that's got extraordinarily high returns and it's going to blend down to something in the high-teens, as you've noted. But what's our advantage? I think our big advantage, one is, I think we've assembled a great team of people that are very thoughtful about their analysis.

And one of the things that makes them a great fit for us is, they take a very long-term view of investing in the space, which is partly how they're wired. It's 100% how we're wired, if you've spent time looking at the company. We're perfectly happy to take decades-long views of investments. So, when we acquire minerals, we're perfectly happy to acquire minerals that won't be developed for 10 or 15 years, because we're building that base that's going to deliver dividends way out into the future. And you don't have to pay a lot for those, but we're willing to look at those packages.

I think a number of the competitors, certainly not all, but a number of the other people that play in this space are either doing so with money that's coming out of private equity firms or they're borrowing money or they're operating a YieldCo, which means they've got to constantly be feeding the YieldCo model, which means their primary interest is in producing wells. And that's what they want to buy and that's what they did up.

You start diluting that with things that aren't going to get developed for 2 years, 5 years, 10 years, 15 years, they're less interested in that. So, it's less frothy in that part of the market, at least generally speaking. And in every kind of market, there's exceptions to the rule. But generally, that's kind of what we see. And it's the long-term view that we think gives us an advantage.

<Q – John Huber – Saber Capital Management LLC>: Interesting.

<A – J.C. Butler – NACCO Industries, Inc.>: Is that helpful?

<Q – John Huber – Saber Capital Management LLC>: Yeah, very helpful. I noticed you have a few in the somewhat undeveloped acreage in the Williston Basin. How much do you think – I don't know if you guys have a way to break this down, but of the $68 million that you've spent since

2020, how much of that is undeveloped or how much of that is sort of untapped potential for future production?

<A – J.C. Butler – NACCO Industries, Inc.>: I don't know. I will give you a very honest answer and say, I don't know.

<Q – John Huber – Saber Capital Management LLC>: Okay.

<A – J.C. Butler – NACCO Industries, Inc.>: The way it is – I think the way it is flipping into the K.

<A – Elizabeth Loveman – NACCO Industries, Inc.>: I mean, we have provided some of that data in our 10-K. So, I don't know if you've looked through that, but that would provide you some additional information.

<A – J.C. Butler – NACCO Industries, Inc.>: Where is that, Liz?

<A – Elizabeth Loveman – NACCO Industries, Inc.>: I'll give you the – if you start on page 46 of the 10-K.

<Q – John Huber – Saber Capital Management LLC>: Yeah. I see the amount of acreage. I was just trying to get a sense for how much, maybe if you had a view of what – what I'm really trying to do holistically is get a sense from a strategic level, how are you guys thinking about the capital that you're investing in this? So, you've touched on you give me a nice background, that was super helpful. I think you mentioned like high-teens returns. Obviously, you have this sort of legacy assets – these legacy assets that have been part of the company for decades and decades.

But when you look at a project, I mean, I'm sure you're coming up with some sort of IRR calculation, but I'm trying to get a sense for how you compare that to perhaps other uses of capital within the business, including perhaps buying your own stock back, which you've done some also. Just wanted to get a sense for what types of return hurdle rates you're looking at for this minerals business.

<A – J.C. Butler – NACCO Industries, Inc.>: So, when we look at investments in this business, you're right, I mean, we're looking at IRR kind of metrics as well as other metrics. But IRR is certainly a piece of it and all of the IRR's cousins, like NPV and ROCE calculations, things like that. When we're looking at projects, I mean, we're looking at the projects as stand-alone projects where I'm thinking about them in the context of what does it cost to add this to the portfolio and there's an overhead component certainly.

But when we look at stuff, we're trying to buy things that we think are going to deliver IRRs in the high-teens, understanding that the undeveloped – anything that's not producing, we're discounting what its value might be in the future, because you just don't know. We've got high confidence that it's going to get developed. But we don't know exactly when and we certainly don't know what prevailing oil and gas prices will be at the time. So, we're shooting for high teens based on what we have a reasonable sense of achieving.

And the other stuff is over and above, it can outperform. It can underperform, too. But we think by buying lots of highly diversified packages of mineral interests, we're getting a lot of exposure to a lot of acres and a lot of basins and we're getting oilier, we used to be very gas-heavy and that's creating the right dynamics that we're looking for. And I will tell you over time, a lot of the Appalachian natural gas has been developed and so, we're going to be way out on the decline curve eventually. And so, it won't be as meaningful to the portfolio at that point.

<Q – John Huber – Saber Capital Management LLC>: So, sounds like – is what you're saying, it sounds like you may be interested more in acquiring oil assets than a lot of the legacy stuff, the

Appalachian, a lot of the stuff in the Gulf Coast is more gas-related, but some of the Permian, the Rockies that's more oily, is that kind of where you'd like to go?

<A – J.C. Butler – NACCO Industries, Inc.>: Yeah. I mean, if you go back to 2018, all of our ags were in Appalachian natural gas, right. That's what we had. And so, if you think about diversify, we want to be in other basins, we want to have more oil, we want to have more operators. We like the space, we like this asset category a lot. And so, we want to diversify that position into other things in the United States.

<Q – John Huber – Saber Capital Management LLC>: Yeah. That's great. The Catapult team, this $20 million, I had a question on maybe I don't know what you can share with us, like how their incentivized. But what happens if you can't find assets that meet your hurdle rate? Is it something where, hey, if we don't get to the $20 million, that's okay or...

<A – J.C. Butler – NACCO Industries, Inc.>: Without getting into the nitty-gritty details of our incentive plans, we take a one-team approach to incentive everybody that participates in incentive plans, all operate so that we're all incentivized to help each other, make it a team sport, watch sports you're going to always know that wins. So, if they invest, that's great; if they don't invest, that's okay too, because everybody participates in the same incentive programs that are tied to total company performance.

<Q – John Huber – Saber Capital Management LLC>: Yeah. That's great. Okay.

<A – J.C. Butler – NACCO Industries, Inc.>: We think if you carve people off into individual groups, they're going to start – people, by their very nature, it's true of me, it's true of everybody, right. Everybody will start just focusing on what they're interested in. And that's not how you build a company for the next 100 years.

<Q – John Huber – Saber Capital Management LLC>: No. Well-said. That's exactly I would completely agree. And that's music to my ears. You don't want to have – I've seen too many situations where you have incentive structures where, hey, we're going to allocate up to $20 million and that typically means we're going to allocate $20 million, come hell or high water. And that's not necessarily the best use of capital. If there's some other source of return that you can generate elsewhere within the business. That's great.

I had a quick question on – and thank you for that, again, that really helpful on the minerals. On the CapEx in North American Mining, I was reading the filings this morning, so I may have missed this or misunderstood this, but I believe that the $23 million of CapEx that you spent at the Nevada project is reimbursed by the mine owner. Is that correct?

<A – J.C. Butler – NACCO Industries, Inc.>: Yes. From a cash standpoint, it will be reimbursed over five years. From a GAAP standpoint...

<A – Elizabeth Loveman – NACCO Industries, Inc.>: Revenue is recognized over the useful life of assets.

<A – J.C. Butler – NACCO Industries, Inc.>: As a GAAP and cash...

[indiscernible] (00:59:41)

<Q – John Huber – Saber Capital Management LLC>: Right. Okay. So, you get paid back over five years in cash. And then, of that $33 million that I think you've guided to in that business, what percentage of that is reimbursable, if any?

<A – Elizabeth Loveman – NACCO Industries, Inc.>: Just small amount. The majority of that is for the remaining North American Mining business, not for Sawtooth.

<A – J.C. Butler – NACCO Industries, Inc.>: Right.

<Q – John Huber – Saber Capital Management LLC>: Got you. Okay, okay.

<A – J.C. Butler – NACCO Industries, Inc.>: And I'm sorry, but Christy's telling me that we've got, like, one minute left on this call before we get cut off. You're the first third caller we've ever had, so we're super excited that you called today.

<Q – John Huber – Saber Capital Management LLC>: No problem. No. My questions are answered. Yeah. I appreciate the thoughtful replies. And, yeah, I can follow up later with a couple other quick questions, but, no, great call. I appreciate the answers.

<A – J.C. Butler – NACCO Industries, Inc.>: Great. Thank you.

Operator: Well, thank you so much, everyone. At this time, I'll turn it back over to Christina Kmetko for closing remarks.

Christina Kmetko, Investor Relations Consultant, NACCO Industries, Inc.

Okay. Well, with that, we will conclude our very robust Q&A session. As J.C. said, that was very informative for everybody. Before we conclude, I would like to provide a few reminders. A replay of the call will be available later this morning. We'll also post a transcript on the website when it becomes available. And if you do have any follow up questions, please reach out to me. My phone numbers are on the release, so I hope everyone has a great day and I'll turn it back over to Bailey to conclude the call.

Operator: This concludes today's conference call. A replay of the conference will be available for seven days, ending May 9, 2024. To access the replay, please dial 1-800-645-7964 or 17578496722, then enter the playback ID, 9435, followed by the pound key. Thank you for attending.