PARTICIPANTS

Corporate Participants

Christina Kmetko – Investor Relations Consultant, NACCO Industries, Inc.
J.C. Butler, Jr. – President, Chief Executive Officer & Director, NACCO Industries, Inc.

Other Participants

Douglas S. Weiss – Analyst, DSW Investment, LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the NACCO Industries Second Quarter 2024 Earnings Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we'll conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Thursday, August 1, 2024.

I would now like to turn the conference over to Christina Kmetko. Please go ahead.

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

Thank you. Good morning, everyone, and welcome to our second quarter 2024 earnings call. Thank you for joining us this morning. I'm Christina Kmetko and 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 second 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 morning 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've 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. We're halfway through the year, and I'm pleased to be talking about another strong quarter. Our 2024 second quarter operating profit increased substantially from a year ago. Looking at the reported numbers, it's up 321%. I need to point out that within those results is a $4.5 million gain on sale of a legacy land asset. Excluding the gain, our

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operating profit still increased over 60% from last year's second quarter. This increase was driven by a significant improvement in results in our Coal Mining and North American Mining segments.

Christy will go into more detail about our second 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 our Coal Mining segment, which saw the biggest year-over-year improvement.

I'm pleased to report that customer repairs to the damaged boiler at the Red Hills power plant are progressing, and we believe the boiler issue should be resolved and the plant fully operational by the fourth quarter. As you can see from our financials, the Coal Mining segment's revenues decreased primarily due to fewer coal deliveries as a result of the plant running on only one boiler. We look forward to seeing deliveries increase as the plant returns to normal operations with two boilers.

Despite lower customer demand, Mississippi Lignite Mining Company's Red Hills mine operated more efficiently this quarter than during 2023. If you recall, last year, we were in the midst of moving to a new mine area and contending with difficult mining conditions related both to the move and to new weather – and to adverse weather. This year, we are established in the new mine area and mining conditions have improved, allowing us to operate more efficiently, which helped year-over-year results. Our production costs still remain above historical levels, and they're expected to stay high until deliveries return to normal later this year.

I'd also like to note the improvement in our earnings and our unconsolidated coal mining operations. You may recall that when Rainbow Energy acquired the Coal Creek Station power plant in 2022, we provided temporary price concessions to help facilitate the transaction. At the end of May, these price concessions ended, which contributed to the increase in our Coal Mining segment results.

Our North American Mining segment also delivered strong year-over-year earnings improvement. North American Mining's operating profit improved 39% and segment adjusted EBITDA increased 36% compared with 2023. I am pleased with the progress the North American Mining team has made on operational and strategic projects that contributed to the improved 2024 second quarter results. This includes diversification into additional minerals such as mining phosphate for a new customer in Florida. Overall, I believe we are making meaningful progress towards building this segment into a very successful business platform.

At Minerals Management, second quarter operating profit increased over the prior year because of the gain on sale I mentioned previously. Excluding the gain, Mineral Management's earnings were down year-over-year, primarily due to a 39% decline in Minerals Management revenues, largely driven by substantially lower natural gas and oil prices.

The Catapult Mineral Partners team, which oversees this segment, has done a great job of growing and diversifying our portfolio of mineral interest over the last few years. They have expanded our portfolio of mineral interest, and we are more diversified in terms of operators, geographic footprint and stages of mineral development, ranging from producing wells to undeveloped mineral interest. The Catapult team is targeting mineral interest investments of up to $20 million in 2024.

Finally, moving to our Mitigation Resources of North America business. Results were down year-over-year due to a change in the mix of projects. However, this team continues to execute existing mitigation and reclamation projects and build on substantial foundation it has established over the past several years. As I mentioned last quarter, Mitigation Resources is advancing its business plan more quickly than we anticipated. As this business matures, we believe it can provide solid rates of return on capital employed.

Overall, I continue to be very optimistic about our outlook for the remainder of 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 some high-level comments about our consolidated second quarter financial results, then I'll provide some detail on our individual segments. For the 2024 second quarter, we reported consolidated income before taxes of $6.2 million and net income of $6 million or $0.81 per share. This compared to income before taxes of $3.3 million and net income of $2.5 million or $0.34 per share in 2023. EBITDA was $13.5 million compared with $9.2 million last year. The $4.5 million pre-tax gain on sale that J.C. mentioned earlier is included in these results.

While our operating profit increased even after excluding the gain, the same can't be said for income before taxes, net income and EBITDA. A $2.6 million year-over-year unfavorable change in other expense more than offset the operating profit improvement. This change was driven by higher net interest expense due to an increase in debt levels and lower cash levels as well as unfavorable changes in the market value of equity securities. It is worth noting that neither of those unfavorable changes are tied directly to operations.

Excluding the gain on sale, operating profit grew primarily due to significant improvements in earnings at our Coal Mining and North American Mining segments. These unfavorable items were partly offset by lower Minerals Management and Mitigation Resources gross profit, as J.C. already discussed, and an increase in unallocated employee-related expenses.

Our Coal Mining segment reported operating profit of $2.8 million and generated segment adjusted EBITDA of $5.7 million. This compares to an operating loss of $4.7 million and just below breakeven segment adjusted EBITDA in 2023. J.C. generally discussed the reasons for the higher Coal Mining segment results. I would note that in addition to the favorable Mississippi Lignite Mining Company results and higher Falkirk pricing, an increase in customer requirements at the unconsolidated operations as well as higher Sabine reclamation earnings also contributed to the profit improvement.

At North American Mining, operating profit of $3.1 million and EBITDA of $5.5 million increased significantly compared with last year. The second quarter improvements were due to several factors: an increase in customer requirements; favorable pricing and delivery mix; improved margins at the limestone quarries, resulting from mutually beneficial contract amendments; and commencement of the new 15-year contract to mine phosphate that J.C. mentioned.

Looking forward, we expect our Coal Mining segment operating profit to increase significantly in both the 2024 second half and full year compared with the respective 2023 period. This improvement occurs with or without the $60.8 million impairment charge taken in fourth quarter 2023. Higher segment adjusted EBITDA, which excludes the impairment charge, is also projected for both periods. These anticipated increases are primarily due to an expected substantial improvement in results at Mississippi Lignite Mining Company and higher earnings at the unconsolidated coal mining operations.

The projected increase in second half 2024 earnings at the unconsolidated coal 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 due to the cessation of temporary price concessions. Second half 2024 results are also expected to increase significantly over the 2024

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first half due to current expectations that the boiler issue at Mississippi Lignite Mining Company's customer's plant will be resolved, and the plant will be fully operational by the fourth quarter of 2024.

Turning to North American Mining, we expect operating profit and segment adjusted EBITDA to increase in both the 2024 second half and full year over the respective 2023 periods but decreased from the 2024 first half. The year-over-year improvements are primarily due to mutually advantageous limestone contract amendments, a scope of work expansion with another customer, and the second quarter 2024 commencement of mining at the new phosphate mine. Earnings in the second half are expected to moderate from the first half of the year due to anticipated lower customer requirements.

Finally, at Minerals Management, we expect 2024 second half and full year operating profit and segment adjusted EBITDA to increase over the respective 2023 periods, excluding the fourth quarter impairment charge of $5.1 million. These improvements are primarily driven by current market expectations for natural gas and oil prices as well as development and production assumptions on currently owned reserves. Based on current market expectations, operating profit in the second half of 2024 is expected to increase moderately compared with the first half, excluding the $4.5 million gain on sale recognized in the second quarter.

As I've mentioned, our second half 2023 results included a pre-tax impairment charge totaling $65.9 million. My upcoming comments about our expected consolidated results exclude the effect of this charge.

We expect our consolidated second half operating profit to increase compared with both the first half of 2024 and second half of 2023. These improvements are primarily due to anticipated increases in profitability at the Coal Mining segment and contributions from North American Mining growth and profit improvement initiatives. We also expect consolidated net income in the 2024 second half and full year to increase compared with the respective 2023 period. This improvement is anticipated to be partly offset by higher income tax expense and an increase in net interest expense because of additional borrowings and lower cash levels.

All that said, we are taking steps to terminate our defined benefit pension plan. We anticipate the termination will result in a non-cash settlement charge in the 2024 fourth quarter, which is expected to partly offset the improvement in the second half operating profit. As a result, we are projecting that consolidated net income and adjusted EBITDA will decrease in the second half of 2024 compared with the first half of the year. While the company anticipates that third quarter net income will improve significantly over the second quarter, fourth quarter net income is expected to be substantially lower than both the third quarter and prior year fourth quarter, mainly as a result of the anticipated non-cash pension settlement charge.

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 $61 million. We had availability of $89 million under our revolving credit facility. During the second quarter, we repurchased approximately 108,000 shares for $3.3 million under an existing share repurchase program. In 2024, we expect cash flow before financing activities to be a use of cash.

We will now turn to any questions you may have.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from Douglas Weiss from DSW Investment. Please go ahead.

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

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

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

<Q – Doug Weiss – DSW Investment, LLC>: Just first question on North American Mining. It sounds like you're optimistic about the growth prospects for that business. And I wondered if you could just talk a little bit about where you see the greatest opportunities to add customers both in terms of product lines and whether you're expanding business with existing customers or completely new customers?

<A – J.C. Butler – NACCO Industries, Inc.>: It's a good – excellent question. I would say, we've had considerable success with expanding our relationships with existing customers. That's happened quite frequently over the last several years as we started growing this business. But we also have added a lot of new customers. We've added a lot of new geography. We've increased the range of equipment that we operate as well. I mean, about nine years ago, eight years ago, we really got focused on growing this business. At the time, we were operating draglines to mine lime rock underwater for customers in Florida. And we said, gosh, it doesn't have to be a dragline. It doesn't have to be this limestone and it doesn't have to be in Florida, and that's really where we've been pushing ever since with a lot of success.

So, I think what you're going to see and what we expect to happen is growth with existing customers, but I also think we're going to be adding new customers, new contracts, expanding the range of equipment that we operate. And a good example of that is we're currently operating a surface miner, which is a lot like the machines that you see planting asphalt on highways, but they're much larger. We're currently using that with a customer to mine lime rock with great success, and we think that it's a tricky piece of equipment, and we've got particular expertise in operating that piece of equipment. And we think there's a lot of opportunities there. As an example, we, of course, will continue to expand operating our dragline piece of the business.

Again, it's specialized complicated piece of equipment we've got particular skills in operating. And we operate truck shovel operations, too. So, I think the opportunities that we have are pretty substantial across the board. I guess, I'd add to that, we have customer relationships in that segment that really aren't delivering significant profit yet. And a great example of that is the lithium operation in Northern Nevada. That's currently in the development stage. It's been in development stage for a few years. We expect that to really ramp up over the next few years, and we should be producing lithium and earning substantially more money there a few years from now. So, some of the future growth is already under contract. Others are in various stages of development. Is that helpful?

<Q – Doug Weiss – DSW Investment, LLC>: Yeah, that's great. So if one of your aggregate customers is expanding business with you, is that because they feel like you're just better at those particular tasks, and it's cheaper for them to have you do it than do it themselves. Is that what's happening?

<A – J.C. Butler – NACCO Industries, Inc.>: Yeah. I mean, this is what we do. It's been a couple of years ago, but I remember having dinner with one of the very, very large producers of aggregates, some of their regional senior leadership team, and I said we are great at identifying the markets and understanding the products we need and figuring out how to capitalize on all of that.

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He said, we are not miners. And we need your expertise to make sure we've got the products we need, in the quantities we need and the qualities we need when we need them. And this is our expertise, and we come in. And I think in every instance, we've improved productivity, we've improved cost positioning. We help our customers be successful in their business.

<Q – Doug Weiss – DSW Investment, LLC>: On the phosphate side, are you seeing opportunity to bring on more phosphate customers?

<A – J.C. Butler – NACCO Industries, Inc.>: Well, I mean, as a guy who has worked in business development for a long time, I will say, absolutely, right? We're looking at all sorts of additional customers. But I will tell you, we've spent a number of years looking for the right opportunity to start providing mining services into that part of the mining world. So, this is really very new and very fresh for us. But sure, there's no reason we couldn't buy more phosphates.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. Great. So, moving on to Mineral Management. I asked you a little bit last quarter about the reserve base. And another way I thought of asking a similar question, do you have a sense – if the goal were not to grow your inventory, but just to replenish the depleted inventory or the drilled inventory, do you have a sense of what the capital cost of that would be?

<A – J.C. Butler – NACCO Industries, Inc.>: No is the short answer. We're on a $20 million a year pace, which is a reinvestment pace, and that is growing the business. So, it's going to be a number less than $20 million, but I don't know what that number would be.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. And on a more granular level there. I was a little surprised to see the oil production down given the investments you made last year. I don't know if you're able to provide any sort of color on whether that was just short term...?

<A – J.C. Butler – NACCO Industries, Inc.>: No, it's a good question. I would say, part of this is, because unlike a number of other mineral investors, who – those guys – any of them are private equity backed, who are doing this with a lot of leverage, they're buying primarily active producing wells because they need to feed the machine, whether they're a YieldCo or trying to service their debt or satisfy their sponsor needs. We're really doing this for the very long term, and we're happy to buy things that are producing as well as things that might produce in 2 years, 5 years, 10 years or longer.

So, you shouldn't necessarily assume that because we did a significant acquisition that that's going to immediately drop to the bottom line. We value these acquisitions, when we're looking at the package that's being offered. We look at the whole range of assets there, assign values to them in a sort of a very detailed NPV kind of approach, making estimates about when we think things might get developed. And that's how we assess value and what we're willing to pay. But it's not all producing wells that are going to immediately show results on the bottom line.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. Makes sense. On the coal operation, your projected capital spend for the second half is a little higher than the first half. And I think in some prior calls, you had commented that you were going to be limiting capital spend on your coal assets. So, I was just curious whether that is a bit of a change in approach or whether there's just some onetime things that you need to spend on?

<A – J.C. Butler – NACCO Industries, Inc.>: Well, so I'd say – I just want to clarify, you used the word limiting. And I would tell you that we – I mean, we certainly spend a lot of time with our operating folks and our engineers thinking about what is the most effective and efficient way to invest capital. I mean, obviously, you don't want to overinvest. We want to find the exact right tool to do the job when we're looking to spend capital. We would not limit, tell these guys, gee, you can only have half as much as you need, because that's going to adversely affect their ability to operate. It's going to adversely affect their ability to be efficient and optimize efficiency. So, we balance that out very carefully.

What we are doing – the only place in the Coal Mining segment where we really spend capital is at MLMC. And as we've come through the development of Mine Area 3 and really now fully operating over there, we've expected the CapEx to drop off over time. The shift between quarters or the shift between first part of the year and the last part of the year is probably more related to timing of some of those investments, or onetime things. But we overall expect the CapEx in our Coal Mining business, which is really only focused at the Red Hills mine MLMC because of the structure of the other contracts, where the customer pays the CapEx, we really think that CapEx is going to drop off significantly over the next several years compared to what it's been.

<Q – Doug Weiss – DSW Investment, LLC>: Okay. And then I had asked you early in the year whether you thought you would get an insurance recovery on the boiler outage. Do you have any more visibility on that?

<A – J.C. Butler – NACCO Industries, Inc.>: I mean, I'll give you a mixed answer here. Yes, we have more visibility to that. But we have a team of people that are continuing to work on that. The other part of the answer is I'm not prepared to make any kind of statement about what that might be.

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

<A – J.C. Butler – NACCO Industries, Inc.>: I think it would be very premature for me to throw out a number.

<Q – Doug Weiss – DSW Investment, LLC>: Got it. On free cash flow, it looks – so far this year, working capital has been a drag on free cash. Does that reverse later in the year so that you generate cash on the operating line, or – I didn't catch – there was a comment made at the end of the presented remarks that I think it's something to that effect.

<A – J.C. Butler – NACCO Industries, Inc.>: Liz or Christy, have you got?

<A – Christy Kmetko – NACCO Industries, Inc.>: We did include in our disclosure that we expect to have a use of cash in 2024.

<Q – Doug Weiss – DSW Investment, LLC>: The operating cash flow line or...?

<A – Christy Kmetko – NACCO Industries, Inc.>: We just said cash flow before financing, which is – that's our operating cash minus CapEx.

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

<A – J.C. Butler – NACCO Industries, Inc.>: But Doug, working capital for us...

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

<A – J.C. Butler – NACCO Industries, Inc.>: If you think about our businesses, we are not like a typical manufacturing company that's constantly looking at days outstanding, whether it's receivables or payables or inventory levels. We're not really manufacturing anything. Inventory will go up and come down. So, I'll give you a very specific example of that. If we're getting – and I'm not saying we're doing that right now. This is just an example. But if we're getting ready to do a significant capital project on a dragline somewhere, in anticipation of that, we'll probably bring in more parts because we need them ready when we take a dragline down in order to go tackle that project. And then, those parts will be put into the dragline and it will flow through working capital that affects you. It goes through all the normal cycle.

Similarly, we build inventory at Mitigation Resources of North America as we create mitigation credits. But working capital for us very much kind of normalizes over time. It's not a thing like you would see in a manufacturing business where we're dealing with supply chain issues and other things that will affect that from quarter to quarter.

<Q – Doug Weiss – DSW Investment, LLC>: Right. No, that makes sense. Okay. So last question, kind of a broad one, but if you look at your kind of three disclosed business lines as well as the mitigation work you're doing, would you say that you feel one segment is offering you higher ROIs at this point and that there's some desire to invest more money into one of the segments versus others?

<A – J.C. Butler – NACCO Industries, Inc.>: I mean, I would tell you that if you think about our – and I'm going to go inside a segment, if you went inside our management fee, unconsolidated coal mining operations, those things have – we have very, very, very little capital invested in those and they generate very substantial returns, right, super high return on total capital in a traditional sense. There's really not an opportunity to invest in growing that. We have the contracts we have in the Coal Mining segment. And [ph] I'm sure we wonder if (00:30:29) somebody call us up and say, hey, I want to build a new coal-fired power plant where you guys do a management fee contract with us, but I don't see that happening in the short term. So, that's probably our highest return on total capital.

I'd say our second highest return on total capital is the returns that we earn off of our legacy natural gas assets in Appalachia, Southern Ohio, because we bought those decades and decades and decades ago. I would guess all of those were bought more than 40 years ago. And so, we have just extremely low cost basis. We've owned them for a long time. We end up with horizontal fracking and pipelines coming into the area. I mean, that piece inside Minerals Management generates tremendous returns. Our investments that we're making are actually blending down the return on total capital in that business. But we think that's [ph] why (00:31:31) we want to continue to invest and grow.

So, your question is really one of capital allocation, I think is it we want to direct money more to one segment than the other? I would say that we're very pleased with the portfolio of businesses that we have. I'd also tell you that we're continuing to have an entrepreneurial [ph] bent (00:31:58). We're creating new businesses right now that, I think, are going to – we'll be talking more about those in the years ahead. And we feel good about investing in all of them. I think our overall objective here is to create a portfolio of businesses that are all generating good returns and don't have us with any kind of significant risk in any one area.

If you think back a bunch – 10 years ago, we were essentially tied to coal mining for power generation, and there's a lot of risk in that – political risk, really. So, having a diversified portfolio of businesses, and we think all of them delivered good returns on total capital, to me feels like kind of the right thing to do for the business overall. That's also going to give us, I believe, over time, very substantial cash flows going forward to allow us to grow this business – because we've got so many avenues for growth now, including ones in development, I think it's going to give us lots of avenues for growth that will make this substantially more diversified and bigger company in the future.

So, is that causing us to pick and choose, like, gee, we want to put money into the favorite business and maybe not in the other ones? I think, right now, we feel like all these businesses have great potential, and we're going to continue to invest in them. Of course, only doing so when we find projects that meet our criteria for it's a good fit with the business, the customer is a good cultural fit, it's an opportunity where we believe we can be successful, and the contract terms are attractive to us.

<Q – Doug Weiss – DSW Investment, LLC>: Right. No, it makes sense. All right. Well, that's all I got. I appreciate the time and talk to you next quarter.

<A – J.C. Butler – NACCO Industries, Inc.>: I appreciate your questions. I'm glad it makes sense to you because we think it makes sense to us. So, we appreciate your questions and your feedback.

Operator: [Operator Instructions] And there are no further questions at this time. I will turn the call back over to Christina for closing remarks.

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

Okay. With that, we will conclude our Q&A session. I would like to provide a few reminders before we end the call. A replay of our call will be available later this morning. We'll also post a transcript on the website when it becomes available. If you have any questions, please reach out to me. You can reach me at the phone number on the press release. I hope you enjoy the rest of your day, and I'll turn it back to Julie to conclude the call. Thank you.

Operator: Thank you. A replay of this call will be available until Thursday, August 8, 2024, at 11:59 PM by dialing 888-660-6345 with the playback passcode 45083, followed by the pound key. Thank you.

Ladies and gentlemen, this concludes today's conference call. You may now disconnect. Thank you.

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