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SWC - Q4 2014 Stillwater Mining Co Earnings Call

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PRESENTATION

Operator

Greetings and welcome to the Stillwater Mining Company's fourth quarter results.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, and Chief Executive Officer, Mr. Mick McMullen. Thank you Mr. McMillan you may begin.

Mick McMullen - *Stillwater Mining Company - CEO*

Thank you very much and thanks everybody for dialing in for our fourth quarter and full-year 2014 results. I have here with me Chris Bateman, our Chief Financial Officer, and Greg Wing, who was previously our Chief Financial Officer and has been working an extended handover period with us, as well as Mike Beckstead our IR Manager. We have an investor deck that is available for people and I will talk to that before taking questions. If we go to slide 2 on the deck, the forward-looking statements, I'd like people to read that at their leisure and also take note of the cautionary note at the bottom of that to investors regarding mineralized material.

Going on to slide 3, our fourth quarter highlights, consolidated net income that we reported was $14.7 million or $0.04 per share on a diluted basis. We had $22.4 million growth in cash and cash equivalents plus liquid investments over the quarter. Importantly, our All-in Sustaining Costs were reduced to $725 per mined ounce, approaching management's target of the low $700s that we set about a year ago. I would like people to know that whenever I talk about mine ounces, we always refer to a combination of palladium and platinum in a ratio of approximately 3.4 palladium to 1 platinum.

Mined production during the quarter was relatively strong at was 137,600 ounces and recycled ounces of palladium, platinum, and rhodium was just under 116,000 ounces. Overall, it was a relatively good quarter for us. We ended the year quite strongly and that trend of production and cost control has continued into 2015. For the full year 2014, we had net income attributable to common stockholders of $70.3 million, which equates to $0.56 per diluted share. We grew our cash and liquid investments by $65.5 million prior to paying back $30 million of Montana state bonds we had. We ended the year with $531.5 million of cash and liquid investments.

So earlier in last year I set a target for the Company to grow our cash. We managed to self-fund all of our capital projects, which were not small, and in addition to that we retired debt and we grew our cash balance. Importantly for us, we managed to reduce our all-in sustaining costs quite significantly. We had guided the market to $780 to $830 an ounce and we came in at $784 for the year. Mine production was 517,700 PGM ounces at the midpoint of the guidance range and recycling ounces, again, a mix of palladium, platinum, and rhodium was just under 470,000 ounces.

We did retire that $30 million of Montana state bonds that was costing us 8% interest. We feel retiring debt at face value that's costing us 8% was a very good use of shareholders funds. Importantly, we managed to decrease corporate overhead and exploration spend by about 35% year-on-year to $37.8 million. We also had a modest increase in proven and probable reserves at our Montana mines despite producing 570,000 ounces. So the developed state of the mines has continued to grow. We've continued to invest in development and fill out of our large mineralized resource base or reserve base. And we expect to continue that program, we're not cutting back on the spend of expanding the developed state of the mine.

Moving to slide 5, you can see here the fourth quarter results for Q4 2014 versus Q4 2013. Mined production ounces was down slightly, again. And the fourth quarter in 2013 was also typically strong quarter. Despite the slightly smaller production, we did managed to reduce the cash cost year-on-year. All-in sustaining costs again were also down by about 3%. Corporate overhead went up slightly for the relevant periods. Capital expenditure went down very slightly as well and you can see a small drop in recycling ounces for the previous period.

We go to slide 6 and we look at the full-year results year-on-year, again, a slight reduction in ounces. We had a 8.5% increase on total cash costs for the relevant period of the prior year. I would like to note that 2013 did include a re-bricking of aiding our furnace which had a significant amount of metal that came out in the order of $20 million to $22 million that did push our cash cost down in 2013. So, when we look at our all-in sustaining costs, where we strip that affect out, we did have a 3.6% reduction year-on-year in all-in sustaining costs.

Corporate overhead, again, I'm pleased to say that we've managed to reduce that quite significantly. Capital expenditures came down by just over 5%, year-on-year, and again, we did see a drop in recycling ounces. 2013 was a year of very high growth, it saw 38% growth from the prior year. And the market has sort of dissipated a bit in terms of where some of that metal has gone and we're probably back to a more normal trend line of growth in comparison to 2013.

Slide 7 I think is an important slide for us. We have delivered on our guidance, and again, this is the guidance that we updated in the middle of last year when we had already improved on it once. You can see from this slide that we have delivered on every single one of those metrics that we'd set ourselves and in some cases we've come in at the very bottom end of the cost range. We think this is important for the Company to be able to ensure that the market has confidence in us being able to deliver on what we say. And we're very pleased with the effort that's gone into this given the changes of that we had at the Company during the course of last year.

Moving on to slide 8, I will hand over to Chris Bateman, our Chief Financial Officer, to discuss our net income.

Chris Bateman - *Stillwater Mining Company - CFO*

Thanks, Mick. Fourth quarter earnings were $14.7 million. This is achieved notwithstanding a reduction of $101 an ounce in our basket price to $882 an ounce. In addition, we took a pre-tax charge of the $4.4 million for reorganization costs. Net income for the year was $70.3 million, compared to a loss of $270.2 million in 2013.

Mick McMullen - *Stillwater Mining Company - CEO*

Thanks. We just go to slide 9. This is a table that we've started publishing with our results and I think it's important for stakeholders to understand where our costs have been and where we've taken them to. If you look on our cost per ton milled basis during the course of-- from the end of 2013 to the end of 2014. We managed to reduce our cost at the Stillwater Mine by 15%, on a per-ton basis, and at the East Boulder mine by 20%, on a per-ton basis, and as a Company by 17%.

I will draw people's attention to the mining line. You can see clearly that a very large component of our costs is the mining costs, hence why most of the changes that we've made or areas that we're focusing on for cost reductions has been in the mining area. We had a very good reduction in cost at the Stillwater Mine from Q3 to Q4 and, again, we also had some fairly substantial reductions in administration, which is silent administration costs, over the same period. That administration cost reduction came about partly as a result of the royalty we had, which again, as the price was reduced, the value of the royalty went down. But also the volumes were very strong at the Stillwater Mine in Q4 and the fixed administration cost spread across a larger tonnage managed to reduce that down on per-ton basis.

So overall, to reduce our cost at the Stillwater Mine from $275 a ton to $204 a ton was a pretty good result. I will still say that at $204 a ton our costs are still quite high relative to other mines and even relative to East Boulder and we feel that there is significant amount of work still to be done in this area. We have seen that the byproduct credit has fallen over the course of the year. This is related to our nickel and copper production. We have a small amount of nickel and copper in the ore and as the prices for those two metals has fallen, the value contribution from those credits has fallen also.

At East Boulder, we saw again, really each quarter, we just saw consistent reductions in costs and really the drop from Q3 to Q4 to a large extent has been driven by the increased volumes that we've seen coming out of the mine as Graham Creek -- the first open block at Graham Creek has started to ramp up production. Again, we're pleased with the direction that we're moving. We feel that there is still much work to be done in this area. And we think that there is a lot of potential still to further reduce our costs.

Moving to slide 10, all-in sustaining costs, this is a measure that we introduced last year. So that investors, shareholders, could really try and get a good handle on how the business is tracking in terms of the spend that we need to spend to keep the business running over a long period of time. All-in sustaining costs is our cash costs. We back out the recycling credit, we add on the corporate G&A and then we also add on our sustaining capital for the mines, necessary to keep the mines running over a long period of time, and we arrive at an all-in sustaining cost number.

We saw during the course of last year a gradual reduction in Q3, we had a few one-off items where our development got significantly ahead of budget. And you can see as well some higher SG&A cost there, but that's more normalized in Q4. We've seen a very good result in the quarter of $725. Again, directionally, over the course the quarter, we saw costs coming down month-by-month and it's a pleasing result. We had indicated to the market last year that we'd like to see, we had a goal, it wasn't a guidance, but we had a goal of getting our costs into the low $700s. And we'd said we'd like to do that by the end of 2015. I think by the end of 2014 we've made very good progress on that. We will be vigilant on costs and we need to continue to drive those costs down.

Going to slide 11, on the operational improvements, some of the things that we have done at the mines during the course of last year, which were accomplished with a lot of very hard work from our sites, has been we've obviously reduced the headcount quite significantly. We also had some stoping blocks that were being produced either at a loss or less profitably than they could be if we got the infrastructure in place. We took the difficult decision last year in the middle of the year to take some of those stoping blocks oft line, perhaps caught some people off guard in terms of us electing to take our guidance range down for production. We felt that that was important because those ounces, if we wait for those infrastructure projects to be completed, those ounces can be produced at a significantly higher margin than what we were producing them at before.

That has had a significant impact in terms of our productivity at the mine site, our productivity has increased quite significantly. The headcount, as we've taken that down, we stood at 1,690 people Company-wide at the end of the year. We've achieved that through voluntary and involuntary programs as well as through natural attrition. It's had minimal impact on mine production. We're continuing to evaluate our optimal staffing levels to make sure that we are right sized. And I will say that attrition is at historically low levels of what we're seeing is the downturn in other commodities has impacted the job market. So we think that there's more work to do in this area. We really are very keen to invest in technology and invest in infrastructure to make sure that we produce these ounces at the cheapest possible cost and to empower our workforce to be as productive as they possibly can.

Moving onto slide 12, I might hand over to Chris Bateman again just to discuss our cash.

Chris Bateman - *Stillwater Mining Company - CFO*

Thanks, Mick. We generated $22.4 million in cash and liquid investments, and I'll remind you, that's in light of the $101 reduction in the basket price. We finished the year with $531.5 million in cash and liquid investments. Operations generated the cash and the main uses of cash came with a big tax payment in the fourth quarter, as well as finishing off with our planned capital program for the year. You'll also see, we've released cash from working capital in the area of recycling.

Moving on to slide 13, EBITDA. You'll see from slide 13 that we've had a generally improving trend over the last three years. In terms of 2014, we finished the year with EBITDA of $179 million, $42 million of which occurred in the fourth quarter.

Mick McMullen - *Stillwater Mining Company - CEO*

If we move to slide 14 now, we'll just touch on the metallurgical complex in our recycling business. We still expect to grow this business. What we have seen in the recent past has been that scrap steel prices have been relatively low, which has impacted on the volume of material available. We still like the business very much, it's a very low-risk business, technology is proven, we've got a long track record in it. We hedge all of our positions out, so we take no risk in it. We have a lot of excess capacity in the business. We are starting to take trial shipments of other types of products, but are not auto-capped to try and increase our utilization. We'd like to have a bigger push into this business in the course of 2015. I think 2014 our focus as a Company was very much on the mines and corporate and foreign operations. For 2015, our focus is increasingly turning to this business.

What we're finding is that customers are very much starting to regard recycled ounces as an attractive lower risk long-term supply than mine ounces, particularly given geopolitical risk of many of our mine competitors. We are starting to transition this business from a base of short-term contracts to long-term supply agreements. We had signed some five years supply agreements and we also have a mix of one- and two-year agreements signed, and they have a combination of anything from a fixed tonnage that people have to deliver us, to exclusivity, to a range of durations. But we feel that moving this business to a more traditional offtake style really will allow us to plan better for the business and will also underpin the value of the business as we go forward. So as I said, 2015, there's much work to do in this area and it is getting a lot more attention for us as we go forward.

Turning to slide 15, on our projects in Montana, Graham Creek was a 8,800 foot development to the west of the East Boulder mine. We completed that during 2014. And again, we came in ahead of guidance there, we guided the market to having production out of that in Q3, we started in Q2 of last year. That extra production out of that area has allowed us to add an extra shift to the East Boulder Mill. So last year, the early part of the last year, the mill was running four days a week, it now runs five days a week and that's added approximately 2,000 ounces a month of production for us. We've advanced the drill up of the next stoping block at Graham Creek. The first stoping block, the 758, has gone very well for us. So well, in fact, that we have dragged forward the drill out of that next stoping area and we'd like to really see if we can get into that faster.

Our Blitz project is our main project. It's a circa $200 million spend to do this and we are part of the way through that. We did some surface drilling to intersect the J-M Reef, to really more to guide the tunnel boring machine and these things take a long way to turn. We had progressed by year-end to about 7,300 feet in the TBM drive and then we have a parallel conventional drive above it which is a bit further out at just under 9,000 feet. We added a second crew to that TBM in October, a third crew is planned to be added in the second quarter of this year. We feel that advancing this project as quickly as we can is quite important for us as a Company. And importantly, we expect to be in a position for underground definitional drilling of that mineralized reef by the third quarter of this year. We would like to drill that out as much as we can, as fast as we can, because that provides additional certainty for shareholders as we go forward.

Coming onto slide 16, our portfolio of assets. We have the Marathon PGM copper asset in Canada. We have spent a lot of time and effort looking at different alternatives for this project. I will say that the fall in the Canadian dollar and the fuel price has improved the outlook for the project, but it still does not give me an adequate return that would justify us developing it at this time. We have significantly reduced our activity up there. We've scaled back our headcount quite a bit. We are doing some limited success-based exploration work going forward. We spent in the order of $4 million in 2014 on the project, of which $800,000 was exploration. We expect to spend in the range of $1 million to $3 million going forward on this project at this time.

Our Altar copper gold asset, down in Argentina. It is a non-core asset. We are doing a minimum level of spend on that at the moment. We are also looking at alternatives to realize value from that project. We've spent a lot of time and effort during the course of last year on looking at different alternatives for development and we did quite a bit of work on concentrate treatment methods. We've had some success in that area. We spent approximately $2.5 million on the project in 2014. And we expect to spend in the order of $3 million to $5 million going forward on the project. Again, we believe that that asset is, as a copper asset, a very large asset, is a non-core asset for us for being a PGM company. But we do believe that the thing does have significant value, it is a very large copper / gold asset that we think has reasonable value.

So we'll turn to slide 17 here on the guidance for 2015. The guidance that we're putting out for production is a range of 520,000 to 535,000 PGM ounces, again, combined palladium and platinum in a ratio of approximately 3.4 palladium to one platinum. Our total cash costs, we're guiding to a range of $482 to $520 an ounce. Our all-in sustaining costs, regarding to a range of $730 to $780. Our G&A, we're now splitting out exploration separate to G&A. So our G&A we're guiding to a range of $30 million to $40 million. And our exploration regarding to a range of $4 million to $6 million. I'll turn over to Chris to discuss our capital guidance, because we are doing something new as we go forward here.

Chris Bateman - *Stillwater Mining Company - CFO*

Thanks. Historically we've provided capital guidance that included non-cash items, particularly capitalized interest and capitalized depreciation largely in the Blitz project. What we'd like to do going forward is to provide capital guidance on a cash basis specifically excluding the capitalized interest and capitalized depreciation. So, in total, we are expecting capital expenditures of $125 million to $135 million in 2015, of which $42 million to $47 million will be in project capital expenditures and $83 million to $88 million in sustaining capital expenditures.

Mick McMullen - *Stillwater Mining Company - CEO*

Good, thanks, Chris. So just coming onto the summary, the fourth quarter of last year demonstrated continued momentum in both operational and financial performance. We had strong cash generation profitability and our liquidity position improved. We think that those results came from the continued focus on controlling costs. We've improved the state of our Montana mines through investment and increased our proven and probable reserves to 22.2 million ounces combined palladium and platinum during the course of the year.

We've made very good progress on strengthening the health of the business. We've enhanced our capacity to withstand market volatility, of which we've seen quite a lot over the last four to five months. We see ongoing favorable long-term PGM fundamentals, particularly for palladium, perhaps less so for platinum. But we think we're very well positioned going forward. We will continue to focus absolutely on costs first and we would like to get ourselves into a position where we have a very strong bulletproof balance sheet to be able to withstand all eventualities that may come our way.

That concludes my talk. I will just, like to say as the final handoff to Greg Wing that we're very appreciative of Greg's efforts over the 10 or 11 years that he's been with the Company. He has provided a lot of insight into the historical nature of the business and has also been a very professional manager over the course of the extended handover period we've had and has provided valuable, helpful both for myself and Chris Bateman as we've done the handover. So, I just like to say as a closeout thanks very much.

And that's the end of everything that I've got. I'd be happy to take questions from anybody if they have them.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Sam Dubinsky, Wells Fargo.

Sam Dubinsky - *Wells Fargo - Analyst*

Great. Thanks for taking my question, guys, and congrats on the cost guidance. How should we think about the linearity of cost reductions going forward? Are there any contractual pay hikes or any mining moves we should be modeling in?

Mick McMullen - *Stillwater Mining Company - CEO*

Well, I think the last contractual pay rise that we have for our union workforce was a 4% pay rise at the East Boulder Mine which came into effect at the end of last year. And so the Stillwater Mine got their pay rise in the middle of last year, and that's the end of the four year contract, so both of those contracts are up for renewal in the course of this year. And it's probably not appropriate for me to comment at this stage on what that may or may not hold.

Sam Dubinsky - *Wells Fargo - Analyst*

But a potential pay hike is in the numbers?

Mick McMullen - *Stillwater Mining Company - CEO*

Well, I think if you look at our Q4 numbers, versus our guidance, we obviously have come in below that and there was a contractual pay raise for the East Boulder operation that did come into effect at the end of last year.

Sam Dubinsky - *Wells Fargo - Analyst*

Great. And then, is there any chance you monetize your copper and gold assets in 2015 or does it make more sense to develop them more and maybe wait for commodity prices to come back a little bit?

Mick McMullen - *Stillwater Mining Company - CEO*

Well, look, as I say, I'm always open to all options that would deliver shareholder value. And I will say for our Argentinian asset, we did a lot of work last year which I think is very beneficial in terms of actually having a decent plan for the asset now. Clearly the copper price having fallen is probably not the right environment. Clearly we have a very strong balance sheet, so I wouldn't say that we're in a rush to do anything on any assets. That asset, while it's not for us as a development asset, is a very substantial copper gold asset and I think at some stage will have real value.

I don't think it's the right thing for shareholders for us to rush to try and do something with it just for the sake of moving at all. So again, we're open to all options that create shareholder value. But we haven't set a firm date when we have to do something one way or the other.

Sam Dubinsky - *Wells Fargo - Analyst*

And then in terms of capital allocation, I'm not sure if you're allowed to, but is there any chance you could maybe slug away at some of that convertible debt on your balance sheet?

Mick McMullen - *Stillwater Mining Company - CEO*

Well, there are ways you could do that. It does have an embedded equity component to it and because of the long term before the first call date does trade at a reasonably healthy premium at this stage. But again, you can see what we did with the [$30] million of other debt that we had. If we see opportunities where-- we would always be open to whatever we felt was the best thing for shareholders.

Sam Dubinsky - *Wells Fargo - Analyst*

Okay, and then my last question, could you just give competitive dynamics with more detail in the recycling business? I know BASF just announced-- I think they're doubling capacity at one of their facilities for recycling. And how does that impact your business or the market?

Mick McMullen - *Stillwater Mining Company - CEO*

Yes, that's in the UK. They still need to smelt that material somewhere. What we probably see is that-- it is a fairly competitive market out there. Probably the bigger impact we're seeing, at this particular time, is the low scrap steel price is negatively impacting volumes that are just available for everyone. So that's probably the bigger challenge we have at this stage.

But there is no doubt that people are starting to realize that recycling, while it's not a very high margin business, can be, not always, can be a very low-risk business. We do know some people who thought it was a low-risk business and didn't have the appropriate controls in place and it turned out to be quite a high-risk business. We've been in the business for very long period of time, we're very comfortable in it. So I think it's probably the bigger issue for us not so much as new competition but it's just the material that's available.

Sam Dubinsky - *Wells Fargo - Analyst*

Okay, great. Thank you very much; good luck.

Unidentified Speaker - *Stillwater Mining Company*

Thanks, Sam.

Operator

Sam Crittenden, RBC Capital Markets.

Sam Crittenden - *RBC Capital Markets - Analyst*

Thanks very much, good afternoon, everyone. A question on Blitz. I just wondered if you could remind us the time frame that you think you could be mining in that deposit? And then, do you expect that to be generally similar to what's in the Stillwater Mine now? And would you plan to do a reserve update here at some point once you're able to drill it?

Mick McMullen - *Stillwater Mining Company - CEO*

Sure, and I think your point about once you're able to drill it is the key point here. Is that we need to push that 56 incline out so that we can get a drill platform underground and drill it out, because drilling it from surface will not get you a PNP reserve. I think in the third quarter of this year we expect to be out there and be able to drill that out. Our goal is to drill as much as we can during the course of 2015.

Subject to those drill results, we would like to update the end of 2015 reserve update, which would be early 2016, with any positive outcome of that. And at that stage, we could give the market a lot more guidance in terms of production levels. At this stage, the first production we would see out of that area would be 2018.

We do have a small reserve block, it's called block 10, which is there, it's about approximately 300,000 ounces, and the grade in that is approximately 0.7 of an ounce to the ton. So we can't really give answers as to what's after that, because we need to do the drilling, but that's what the first reserve part looks like. So reasonably good grade, really the key for us with Blitz is the way it's being set up with the infrastructure and the rail haulage. Whatever we mine out of there should come at a lower cost per ton because it's being set up very similar to the way East Boulder Mine has been set up.

Sam Crittenden - *RBC Capital Markets - Analyst*

And then, in the past you've talk about market tightness in the PGM market. I'm just curious what kind of situation you are seeing at the moment?

Mick McMullen - *Stillwater Mining Company - CEO*

Yes. I would say that the platinum market is not tight at this stage, and you're seeing that in the price. We are predominantly palladium, but platinum does affect us, obviously. A year ago, platinum was set for 40% of our revenue, today it's maybe 30%, possibly even less.

Palladium, I wouldn't say it's overly tight but the underlying dynamics still look very, very strong for palladium. The moves that we're seeing in Europe now, I believe in some cities, London and Paris being two of them, to move away from diesel cars is not very good for platinum demand but excellent for palladium demand. As you know, Europe has for a long period of time really been a diesel and therefore platinum story. I think it's going to become increasingly a petrol gasoline engine, therefore palladium story.

So I think we're going to see quite a bit more divergence between the two metals, even more so than what we see today. So platinum not very tight; palladium, moderately tight but getting tighter.

Sam Crittenden - *RBC Capital Markets - Analyst*

Okay, thanks very much, Mick.

Mick McMullen - *Stillwater Mining Company - CEO*

Thanks.

Operator

John Bridges, JPMorgan.

John Bridges - *JPMorgan Chase & Co. - Analyst*

Good morning, Mick, everybody. I'd like to first add to your thanks for Greg Wing, been a great partner over the years, really appreciate your help over the time.

And then, just wondered, after you've got the expansions at Graham's Creek and Blitz in place, would the bigger footprint mean that you'd have a bigger sustaining capital number that we should factor into our numbers over the longer term?

Mick McMullen - *Stillwater Mining Company - CEO*

Not materially, I don't think. At this stage, we're not giving guidance past the end of 2015, but no. I think broadly what we've said is what we, by definition, if it's sustaining CapEx, it should be pretty similar year in, year out. So I think the numbers that we put forward are about correct on a go-forward basis broadly.

John Bridges - *JPMorgan Chase & Co. - Analyst*

Okay. You mentioned you did poke a couple of holes into the J-M Reef when you were over there in Blitz. Did you happen to assay those things?

Mick McMullen - *Stillwater Mining Company - CEO*

We certainly do assay them, we don't put the results out. They're more-- because they're not close enough space to be truly representative of the Reef, they're more to determine where the Reef is and therefore where we need to steer that TBM machine because it has not a very small turning radius.

John Bridges - *JPMorgan Chase & Co. - Analyst*

But you weren't disappointed?

Mick McMullen - *Stillwater Mining Company - CEO*

Well, all I can say is that we are pushing on as hard as we can.

John Bridges - *JPMorgan Chase & Co. - Analyst*

Okay. You spoke about making long-term contracts for the supplier of the recycled material. Interesting development. How do you manage long-term commitments under a supply contract against the seems to be quite volatile supply of this material to your smelter.

Mick McMullen - *Stillwater Mining Company - CEO*

Well, and that's exactly what we're trying to move towards long-term contracts. You know, historically, the business, we've had relationships with people, but from a truckload-to-truckload basis you never really knew what was coming. What we're trying to do is move the business towards more like what, say, a smelter that was treating copper or zinc or nickel concentrates would have, which is a book of off-takes which would have a variety of durations, a variety of customers, tonnages, product types.

And it's early days in this stage, but we've had some reasonable success in that. And that's what we're trying to build and will hopefully get more progress on it in 2015 is to build a business that we can, if not give formal guidance on, but at least give some broad range of what we expect the business to be to the market, because at this stage we give no indication on a forward-looking basis what that business will look like, because we haven't been able to.

John Bridges - *JPMorgan Chase & Co. - Analyst*

Okay. Well done on the results, guys; well done.

Mick McMullen - *Stillwater Mining Company - CEO*

Thank you.

Operator

Andrew Quail, Goldman Sachs.

Andrew Quail - *Goldman Sachs - Analyst*

Hey, Mick, hey, Chris, congratulations on a very strong quarter afoot. Looks like everything is going the right way in the money front.

Just wanted to come back, I think you touched on earlier, Mick, 2015 focus on obviously the recycling segment. Can you maybe just give us some color about what you would think would be a fair sort of run rate going forward? And I thought sort of the fourth quarter was obviously lower than the year average.

Is there something -- I know you got some initiatives up your sleeves but, maybe don't give away the secrets, but can you just elaborate on what you're actually doing and what you guys expect out of this sector?

Mick McMullen - *Stillwater Mining Company - CEO*

Well, it's a bit hard to give details at this stage, I think, given where we are so, I think, the fourth quarter, if you look at where that is, that's probably where the market has been in the fourth quarter and probably where it is now. I think that we'll need to deliver on a few of these things before we can start giving any sort of market idea. We do expect -- depending on what happens to the scrap steel price, but we do expect metal out of recycling to probably grow at the order of 8% to 10% a year. And I'd like to think that we could at least maintain our market share in that.

Andrew Quail - *Goldman Sachs - Analyst*

Right. And I think you guys touched on, obviously, some byproduct credits here. And I know there's small stuff, but you sense some pretty violent moves in some of these commodities. If you do see a copper price above $3, does that sort of knock off dollars? How many dollars can you knock off of your cash costs?

Mick McMullen - *Stillwater Mining Company - CEO*

It's not huge, to be honest with you. But if you look at slide 9 in the deck, you can see our byproduct credits. This is on a per-ton basis. So you'd like to convert it to per ounce. But on a per-ton basis, we've probably lost-- Q2 we had a sort of timing of sales, not an issue, but there was a lot of sales from Q1 that ended up in Q2. But if you average earlier in the year, we were probably running $25, maybe $26 a ton of byproduct credits. And now we're down to $20 a ton byproduct credits, so $6 a ton is in the context of things, or $5 a ton is a reasonable proportion of our cost per ounce.

I'd like to think it's going to go back up. I'm not so sure I see a catalyst in the very short-term that's going to drive that copper or nickel price back up. I'd like it to go back up. We're not going to change our business plan around what happens. But I am just pointing out that the cost reductions on a per-ton basis we've seen over the last year have come in spite of that falling byproduct credit.

Andrew Quail - *Goldman Sachs - Analyst*

Exactly. Thanks very much, guys.

Mick McMullen - *Stillwater Mining Company - CEO*

Yes.

Operator

(Operator Instructions)

Matthew Griffiths, Bank of America.

Matthew Griffiths - *Bank of America Merrill Lynch - Analyst*

Hi, thanks, guys; thanks for taking the question. I was just wondering if you could maybe give a bit of detail on what's driving the mining cost reductions at Stillwater and East Boulder? I mean, obviously, I'm assuming headcount is a big part of it. Maybe if it's possible to split that out and talk about some of the other drivers and whether or not the Q4 numbers are sustainable? And finally, whether or not -- is this something that is preventing you from achieving the same costs at Stillwater as you see at East Boulder over the course of time?

Mick McMullen - *Stillwater Mining Company - CEO*

Sure. Look, obviously, headcount was a fairly substantial part of it. Moving the people that we did in the middle of last year out of some of these high-cost stoping blocks has also been a fairly important part and we move them into much more productive areas of the mines. So on a ton-per-man per-hour basis, just broadly, some of those stopes that we turned off, we were getting one ton-per-man per hour, maybe 0.8 sometimes. And some of the stoping blocks we put those same people into are now getting three tons-per-man per hour.

Admittedly, lower grade stopes, and that's why you've seen our head grade come down slightly during the course of the year. But when you're getting three times the tonnage out per person and labor is at that mine 60% of your costs, it makes an enormous difference to your cost per ounce. We've seen some small benefits from a cheaper fuel price, for instance, but to be honest with you, labor when it's 60% of your cost is the main driver of everything you do. So headcount reduction, better productivity per person, has been a significant driver. We've invested quite a bit of money on infrastructure, which hasn't really started to pay off just yet because we won't go back into those stoping areas until the third quarter, probably late in the third quarter, I'd guess.

In terms of can we get the cost down as low as we can on a per-ton basis as East Boulder? The answer is potentially yes. And again, this is not what's built into our guidance, but potentially we can get close to that once we've spent the money on infrastructure. These mines are very large, and it's all about logistics. And if we get the logistics right, which the setup for the logistics at the East Boulder Mine is significantly better, then we can hopefully get our workforce to be more productive because we can move men and materials around much easier.

I think I've said in the past that anywhere we're hauling ore on rail is significantly cheaper. Truck haulage of some of those stopes that we turned off was running at between $40 and $60 a ton. If we wait until that rail gets out there later this year, it's a maximum of $2 a ton. So there's a significant difference in cost between having to haul with trucks versus get on rail (inaudible) underground. So that's sort of what we're waiting for and that's the advantage that East Boulder has is that all of its ore haulage is on rail.

Matthew Griffiths - *Bank of America Merrill Lynch - Analyst*

And just one other question on Blitz. You talked about adding, I guess, two extra crews. Does that have an impact on the timing of the project?

Mick McMullen - *Stillwater Mining Company - CEO*

Not at this stage. We're just seeing how we go getting out there. There's still a fair few unknowns in terms of, obviously, the drill-out that has to happen. It has the potential to help, but at this stage 2018 is the number we're sticking with.

Matthew Griffiths - *Bank of America Merrill Lynch - Analyst*

Thanks a lot. (multiple speakers)

Mick McMullen - *Stillwater Mining Company - CEO*

We've only put that second crew on not that long ago. I'd like to get the third crew on, then we see how things go. And at that stage we can update the market in terms of (inaudible).

Matthew Griffiths - *Bank of America Merrill Lynch - Analyst*

All right, that's great. Thanks a lot.

Operator

John Tumazos, John T Independent Research.

John Tumazos - *John Tumazos Very Independent Research, LLC - Analyst*

Thank you very much. You probably touched on this, but the platinum price has been a little soft. I think today it's $41 or $42 under gold. And after the Americana tragedy several years ago, it surged to just round $200 over gold. Do you see industrial demand being strong with world auto sales and the dip in gasoline probably benefiting at least January data for auto sales in China and the US for sure? And is it investment demand that is soft? Looks like people are selling platinum to buy something else. If you could talk a little more about the sectors of the market, that would be very helpful.

Mick McMullen - *Stillwater Mining Company - CEO*

Sure. I did touch on it briefly earlier so, yes, auto sales in Asia and North America have been very strong. Unfortunately for platinum, most of those vehicles are gasoline engines, which predominantly use palladium and a bit of rhodium for their catalyst. So the fundamentals for gasoline engines look great, which is great for palladium. Platinum is predominantly used in diesel engine catalyst, which is Europe, to a large extent. Europe's got some issues in terms of deflationary [pressures] and car sales have been relatively muted in terms of an increase. And on top of that, you're now seeing some cities actually looking to either ban or further tax diesel cars because that turned out to be perhaps not quite so environmentally friendly as first thought. So that's one of the big issues for platinum.

The other big issue is that platinum is used -- a significant portion of it is used in jewelry. It has a high degree of substitution with gold in the jewelry market and therefore you see a high degree of correlation between gold and platinum. The reason platinum trades at above gold last year was that you had a five-month long strike in South Africa, which did have some spec longs jump in the middle, it pushed the price up relative to gold. But it's now come back down and it trades, I think the last thing I saw had a 0.85 correlation coefficient with gold. If gold goes down, it will drag platinum down for sure.

So they are two quite different metals. Platinum is a part industrial metal, based on auto demand but also has a high degree of correlation with gold. Palladium, on the other hand, approximately 75% of demand is autos. And it really is driven by the auto market for gasoline engines.

John Tumazos - *John Tumazos Very Independent Research, LLC - Analyst*

Thank you very much.

Mick McMullen - *Stillwater Mining Company - CEO*

Thank you.

Operator

Garrett Nelson, BB&T Capital Markets.

Garrett Nelson - *BB&T Capital Markets - Analyst*

Hi, thanks, congrats on the result. It's good to see this story play out with the cost reductions.

It looks like higher mill throughput was the primary driver of the production increase at the Stillwater mine in Q4. Was that sort of a one-time increase or do you expect throughput to continue at that high level here in 2015?

Mick McMullen - *Stillwater Mining Company - CEO*

Well, yes, look, the increased production did come from higher mill throughput and in order to do that, we had to mine more tons. Grade didn't really improve hugely, so that wasn't the driver. That increase in all bind and all milled came about really as a direct result of us getting the productivity improvements at the mine.

We think that they're not one-offs, we believe that they're sustainable. But I think that the numbers that we have for our guidance for 2015 really, we've got a 15,000-ounce range. We feel pretty confident in that range. So we won't sit back and not look for further improvements, but I think you should use the range that we're using -- that we've given as the numbers that we're comfortable with at this stage.

Garrett Nelson - *BB&T Capital Markets - Analyst*

Okay. And then, on Graham Creek would you say that production is fully ramped at this point from that project?

Mick McMullen - *Stillwater Mining Company - CEO*

No. No, because we've developed it in stoping blocks that are approximately 2,000 feet to 2,200 feet long. And we can, in theory, fit about four of those into Graham Creek and we've got one running at the moment. And so the next one is being drilled out now. And, as I said, that first block went very well and so we advanced the drill out of that. We need to drill that out, we need to understand where we can put the infrastructure internally and work on some things like vent. And then at that stage we can see whether we can ramp that up further. But the short answer is no, it is not ramped up fully.

Garrett Nelson - *BB&T Capital Markets - Analyst*

Got it. Okay, thanks a lot.

Operator

(Operator Instructions)

There are no more questions. I'd like to turn the call back over to Mr. McMullen for closing comments.

Mick McMullen - *Stillwater Mining Company - CEO*

Okay, thank you. And thanks, everybody, for taking the time to dial in. And we look forward to talking to you on the next conference call. Thank you.

Operator

Thank you. This will conclude today's teleconference. You may disconnect your lines at this time. Thank you for participating. Have a great day.

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