THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

SWC - Q3 2015 Stillwater Mining Co Earnings Call

EVENT DATE/TIME: OCTOBER 30, 2015 / 4:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Mick McMullen *Stillwater Mining Company - President, CEO, Director*

Chris Bateman *Stillwater Mining Company - CFO*

CONFERENCE CALL PARTICIPANTS

David Gagliano *BMO Capital Markets - Analyst*

Andrew Quail *Goldman Sachs - Analyst*

Lucas Pipes *FBR & Co. - Analyst*

John Bridges *JPMorgan - Analyst*

PRESENTATION

Operator

Greetings. Welcome to Stillwater Mining Company's third quarter results. At this time all participants are in a listen-only mode. A question answer and session will follow the formal presentation.

Operator

(Operator Instructions).

Operator

As a reminder this conference is being recorded. I would now like to turn the conference over to your host, Mr. Mick McMullen. You may begin.

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

Thank you very much. And thank you everyone for joining on a Friday for our third quarter 2015 results. I'm here with Chris Bateman, our CFO, and Mike Beckstead, our Head of HR, and Brent Wadman, our VP of Legal. We have an earnings deck that people can refer to, which I will talk to as I go through this presentation. If you look at slide two of that on the forward-looking statements, I would like people to read that. And in particular, just take time to go through each of those areas of that slide.

Turning to slide three on the third quarter highlights. The third quarter was characterized by some excellent cost control, our all-in sustaining costs came in at $677 per PGM ounce. And for clarity of PGM ounce, is when we refer to a mix of palladium and platinum in a ratio for this quarter of 3.4 of palladium to 1 platinum. That was well below our goal that I had set 1.5 years ago of being in the low-$700s.

Mine ounces were up 4% year-on-year to just over 128,000 PGM ounces. Our sales were lower by just under 11,000 ounces than production. Given where we saw prices go in the quarter, we didn't feel the need to rush to sell all of our metal. And as it's turned out, that's been the correct decision. I think it's been very good in terms of both the cost result and the production result, that we've achieved that during a quarter when we have made quite significant change to our business, and I think it's a testament to the hard work of our people onsite. Our Recycling business saw a quite significant jump in processed ounces, so approximately 161,000 ounces, which was a 37% year-on-year increase. We did, however, record a net loss attributable to stockholders of around about $11.9 million, or $0.10 a share, compared to net income in the previous period of the prior year of $18.1 million.

Obviously we saw PGM prices move lower significantly during the course of the quarter. Our realized price of $693 per mined ounce was the lowest quarter for the last five years. That loss also includes a non-cash loss of approximately $4 million before tax, or $2.5 million after tax, which relates to the repurchase of the convertible debentures. We also had about $1.7 million of before tax, or $1.3 million after tax, reorganization costs that were associated with the restructure that we did in the month of August.

I have been very clear before that I don't really like debt. We saw an opportunity during the quarter to repurchase some of our convertible debentures at a price below par. We felt that was a useful opportunity for us, a good use of our cash, and we took the opportunity to purchase about $63.3 million face value of those back. We ended the quarter with about $460 million of cash and cash equivalents, plus liquid investments. So a very strong liquidity balance still. Again despite all of the changes we made during the quarter to the business, our safety performance continues to be very good, and we are running about 6% better than where we were at this time last year.

Turning to slide four, just looking at the table you can see production was up. Average realized price was down significantly from the prior year almost 30%. Our cash costs were down about 16%. All-in sustaining costs down about 19%. And you can see there that we saw a reduction in SG&A, sustaining capital spend, and project capital spend. So overall I would say operationally an excellent quarter for us, somewhat overshadowed by the fall in the PGM prices, which have since recovered. And the significant increase in our PGM amounts as processed, I think is also very encouraging because this is an area in the business that we felt that we wanted to grow a year ago, and we have been fairly successful in doing so.

Slide five just shows where we are for the three quarters of the year-to-date versus the same period for the prior year. You can see again, despite making some significant changes to the business, our production is actually up relative to the prior year. Metal price down, obviously. Cash cost down. All-in sustaining costs down, and PGM ounces up. So again, I think given the vision that we set for the business, both a year and a half ago, and more recently on the last earnings call, I think that we have made some significant steps in the right direction, and we are now looking to take the business to the next level. Turning to slide six, I'm going to turn it over to Chris Bateman, our CFO, and he can talk about our net loss and income performance.

Chris Bateman - *Stillwater Mining Company - CFO*

Thank you Mick. As Mick has mentioned, the loss for the quarter was $11.9 million, and there were two non-routine expenditures in there, which included the reorganization costs after tax of $1.3 million, and the early debt extinguishment. The biggest effect on earnings in the quarter was the drop in sales prices. We were at $693 for the quarter compared to $842 last quarter, and $983 the corresponding quarter in 2014. So that had an impact. The excellent cost performance on the quarter will start to flow through next quarter, and wouldn't have been reflected in this quarter's cost of goods sold. Turning to slide seven, the main driver of the change in cash balance, we had $11.7 million margin contributed from margin. That's down from about $30 million in the prior quarter, and as I said, driven by the sharp reduction in prices. Recycling working capital was stable for the quarter. We are seeing a higher level of tolled ounces than purchased ounces than we have seen in prior years. And the Recycling business remains strong in Q3, as we said at the last conference call. Capital, cash capital for the quarter was are $25.2 million, and the biggest expenditure related to the repurchase of the debt where we expended $61 million.

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

Thanks Chris. Moving to slide eight, we put this in here if people want to model how our performance is going at a site level. And you can see, particularly at the Stillwater Mine, we have had some very good success at driving our mining costs per ton down. And overall we have seen a very strong performance, actually at both sites. If you were to extend this back to the prior year, you could see that we have a very good performance at East Boulder, in terms of driving costs down. East Boulder costs of sort of stabilized at around this level now, but the Stillwater Mine continues to come down quite significantly. And this is where we have really focused most of our attention in terms of opportunities for cost reduction. So overall, I think, a very tight performance in Q3, in terms of our costs per ton. And again, against a backdrop of some quite significant changes made in the business. Turning to slide nine, so all-in sustaining costs, this is the measure that we use to track the long-term health of the business. Again I think the result of $677 for Q3 was an excellent result. We are tracking for year-to-date at about $742. So I think that really highlights just how strong that Q3 performance was. We have kept our guidance range unchanged at this stage for all-in sustaining costs. I think that the reorganization plan that we implemented during Q3 has demonstrated that we can deliver significant sustainable reductions in all-in sustaining costs. And you can see from the graph on the top right of that page, just how successful we have been at that.

In January of last year we put out a goal of, it wasn't guidance but a goal of reducing our all-in sustaining costs in towards the low-$700s. I think we can say that we are achieving that now. We have now thought about what would our next goal be. We think at this stage getting our costs down sustainably into the mid-$600s in the medium term is the appropriate goal for the Company at this stage.

Turning to slide 10 on our Met Complex and Recycling business, again continued to achieve growth. The backdrop of the overall market, the overall market is fairly challenging. I think there has been a perception in some areas that there is what's called a wave of supply coming from Recycling. We don't see that. We see actually the overall Recycling market as having been down to flat at best. So I think the fact that we've increased our volume by 37% year-on-year is a very strong signal about how successful we have been at expanding this business.

We continue to move our business away from short-term contracts to long-term supply agreements to underpin the business. And the weighted average length of contract we have now is approximately two years. We saw net income before taxes in this Recycling business of about $3.3 million in Q3, which was a 60% increase from the prior quarter. And as I noted on the last call, we see the profits lag the actual volume by 2 to 3 months, just due to our metal outturn times. So overall we see this as a really strong part of our business. We continue to look to grow it. We continue to look to other types of products in the PGM space that we can put through our facility. And I think that the success that we have had has been very good. We still would like to build on that success, and really take this business to the next level. Turning to slide 11 on the reorganization, so we implemented the reorg plan that we announced last quarter. I think the price decline in Q3 really gave validation to that plan, and as to why we needed to do it. We moved quickly and I think we took concise action to protect shareholder interests. And I think it's very important to position the Company to be able to withstand all phases of the PGM pricing cycle, and secure our long-term future for shareholders. Most of those changes have occurred at the Stillwater Mine, and the updated mine plan there focuses on mining the most profitable stopes. And that's not necessarily a high grading strategy. In fact it's quite the opposite. It's going after those stopes where we have the best productivity, and the lowest haulage cost, and the best infrastructure access. We reduced our development rates slightly. The developed state, which is how many months of reserves we have developed, is the highest it's ever been in the history of the Company. We are continuing to add to that. We felt that it wasn't appropriate to continue to add to that, but it wasn't also appropriate to cut into it. So the development rate that we have at the moment is basically keeping us at status quo.

We reduced our head count during the quarter by about 159 people, both through natural attrition and through workforce reduction. So we ended the quarter with 1,442 people within the Company. We took a reorganization charge of $1.7 million before tax associated with that restructure. And we expect that those employee reductions will result in annual labor savings of between $10 million to $12 million. That took place in the third week of August, and so the full impact of that saving was not felt during Q3.

Going to slide 12, I'll just talk very briefly about our Blitz project, which is our main development asset. So every year we do a drill program from surface. That drill program is really aimed at sort of identifying where the J-M Reef is located, and allowing us to move our tunnel boring machine in the correct direction. But we did see grades consistent with historical off-sharp mineralization in the 0.6 to 0.7 of an ounce to the ton range. There are three components of this project, two of which have been underway. The third was a portal in decline which comes in from the far end, which is called the Benbow Portal. We had said previously we expected to get the permit on that by year-end. We got that permit in August. And we started construction on that in early September. Total spend by the end of the third quarter was just under $73 million. We anticipate total costs of this project to be around about $205 million. And you can see of the other components, the tunnel boring machine has progressed about 8,900 feet by the end of the quarter, and the conventional drive is a little bit further along than the TBM. On slide 13 we had talked briefly about our portfolio management update, so Marathon, which is our PGM Copper asset up in Ontario, had been held by Mitsubishi in a joint venture with us. They own 25%. We purchased that interest at the end, subsequent to the end of the quarter for total consideration of $5.2 million, which was $1 million cash payment, and 25% of the cash held in the subsidiary. I think that provides us with some flexibility in terms of the way we take the project forward. We are doing some limited success-based exploration there, and we have identified a quite large anomaly that's been untested by drilling, that does appear to have some narrowish but quite high-grade copper nickel PGM mineralization associated with it. At Altar, again, we are continuing to do some work there. Our geophysical program has highlighted some quite interesting targets, and we will look to see if we can drill those during the next field season, as a means of progressing that project along.

Slide 14 I will discuss briefly the PGM market commentary, and I guess this is a view that we hold. Not necessarily the widely held view, but it is a view that we hold. So the PGM prices obviously fell very heavily during the third quarter. Palladium got as low as $524 an ounce. Platinum was down to a low of $908. For palladium especially these price levels were not reflective of the underlying supply/demand fundamentals. Where we expect the metal to be in deficit for 2015, and for the foreseeable future. We see palladium in a structural deficit going forward. And so for the price to fall from the level it started the quarter, to get down as low as $524 towards the end of August, we just did not think that reflected underlying fundamentals. We think that the palladium price movements seem to have been driven in large part by commodity fund liquidation of physical metal, combined with some short-term weakness in the Chinese market, particularly the auto market. Palladium prices have since recovered by about 28% from their lows, and fundamentals have started to influence pricing again. We have seen very strong North American auto sales, which as we all know is predominantly gasoline engine cars, which is palladium. We have seen actually surprisingly strong European auto sales. Both of those have been partially, not fully but partially offset by Chinese weaker auto sales which do appear to have recovered through the course of September and October.

Platinum prices are a little bit different in our view. They have recovered by a much more modest 9% from the Q3 lows, which we think is reflective of the less robust fundamentals compared to palladium. You've seen relatively weak European diesel sales and Asian jewelry sales, which were a very large component of platinum demand, have been quite weak as well. It's worthwhile commenting at this point on the European diesel market. It's obviously experiencing somewhat of a downturn, associated with some of the events around emissions testing. And we continue to see what's likely to happen is that diesel's market share in Europe will continue to fall, and the slack will be picked up in large part by gasoline engines, and to some extent hybrids. Both gasoline engines and hybrids use for a large part palladium. Again, we think that's why you've got a relative difference in the fundamentals between palladium and platinum. Turning to the next slide where we have the South African platinum industry cost curve, this is provided by HSBC. It's a forward-looking cost curve, so this is based on the guidance provided by the companies there, in terms of where they think they will get their costs to, not where they are today. And I think this is illustrative of why we also see the platinum and palladium markets to be somewhat different. Depending on which analyst you look at, and where the prices are on any given day, somewhere between 70% to 80% of the South African platinum industry loses money at current prices, on a cash plus CapEx basis. We think that's not a sustainable industry long-term, and something will have to change in the business there for the survivors to be able to take their businesses forward.

So what we see in the platinum industry especially is relatively weak demand, and supply not coming off in the immediate term, and therefore we expect to see that the price differential between platinum and palladium will continue to move closer, as we see the underlying fundamentals for palladium to be significantly stronger than for platinum.

Moving to slide 16, our guidance, this is unchanged from the last quarter. I think we're on track for meeting this. And at this stage we don't believe it's appropriate to change that, irrespective of the very strong cost performance that we had in Q3. So in summary on the last slide, I think that our third quarter was defined by excellent operational performance, overshadowed by a continued decline in PGM prices. And as I have said we have seen those prices bounce very strongly since then, particularly for palladium. We have implemented our reorganizational plan. We expect to see the full benefit of those later savings in Q4, given that we really only had five weeks of the previous quarter with those benefits. We are achieving the goal that we put out before, of being in the low-$700s for our all-in sustaining costs. We are now introducing a new metric, or a new goal to get our all-in sustaining costs into the mid-$600s in the medium term. We've made very good progress on our Recycling business, and again we look to find other types of products that are PGM bearing to put into that business. We repurchased $63.3 million of our converts at a price of $0.964 on the dollar. So again, any time we can buy debt back at less than face value, we think that's a good return for shareholders.

Despite that, we maintained a very strong balance sheet. I think one of the best liquidity profiles you will see in the mining space. Ended the quarter with $460 million of cash and cash equivalents plus liquid investments. And I think that strong cash position provides us lots or optionality in the current market environment, and I think also it provides shareholders some reassurance that this business is strong, and can survive all parts of the cycle. So with that, I would like to hand it over to see if anybody has some questions. And Chris and I would be happy to take them.

QUESTIONS AND ANSWERS

Operator

Thank you. At this time we'll be conducting a question answer and session.

Operator

(Operator Instructions).

Operator

One moment, please, while we poll for questions. Our first question is from David Gagliano with BMO Capital Markets. Please proceed with your question.

David Gagliano - *BMO Capital Markets - Analyst*

Hi. Thank you for taking my questions. I had a couple of quick ones. First of all, I just wanted to do a quick reconciliation. The production versus the sales volumes. I missed it if it was mentioned in the prepared remarks. But should we expect that to reverse, that inventory build to reverse in the next couple of quarters?

Chris Bateman - *Stillwater Mining Company - CFO*

Yes, Dave, we should. So strong mining performance, we saw an inventory build in the Columbus complex. And we weren't in a hurry in Q3 when the prices dipped viciously, to get that out the door. So we should see that reversing in Q4.

David Gagliano - *BMO Capital Markets - Analyst*

Okay. All of it in Q4? Just so I can, for modeling purposes?

Chris Bateman - *Stillwater Mining Company - CFO*

Oh, I think a good portion, let's see how the rest of the quarter goes. And obviously if we have stronger mining performance at the back end, it won't flow through. But we are flushing that through the system.

David Gagliano - *BMO Capital Markets - Analyst*

Okay. On the $10 million to $12 million of savings tied to the restructuring on the labor side, you mentioned that not much of it flowed through. Can you tell us how much actually did flow through in the quarter?

Chris Bateman - *Stillwater Mining Company - CFO*

As Mick mentioned, there was five weeks of the lower labor rates. So five over 52.

David Gagliano - *BMO Capital Markets - Analyst*

Just prorate it?

Chris Bateman - *Stillwater Mining Company - CFO*

Yes.

David Gagliano - *BMO Capital Markets - Analyst*

Okay, perfect.

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

That's about right.

David Gagliano - *BMO Capital Markets - Analyst*

Perfect. Just the last thing. I was wondering if you could comment a little bit more. I noticed on the Recycling volumes jumped up quite nicely quarter-over-quarter, even though underlying prices were weak. Which typically you see recycle volumes maybe come down a little bit. I was wondering if you could give us a little more color on the driver there, and if that's sustainable moving forward?

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

Yes, Dave. Look, as I said, in one of the previous quarters, we have won a couple of significant contracts, fairly large contracts. And it just took a while for that volume to start flowing through. And what we also saw, if you read through the detail of the Q, we did see some higher grade material come through. So whilst tons per day was up, I think it was 20%, ounces were up 37%. So we saw a bit of a change of mix of material as well. And that also gave us a pretty good bump in terms of ounces processed during the quarter. And we think it's sustainable at this stage. Obviously as contracts run off and you have to renew them, you need to continue doing that. But our goal is to try and maintain the business, and actually as we start to look at some of these other types of products, from say the petroleum refinery catalyst business, we think there's a big opportunity to sort of move into that market. It's early days yet. So we're not just sitting back on our laurels, resting. We would like to find some more volume for that.

David Gagliano - *BMO Capital Markets - Analyst*

Okay. Perfect. Thank you very much.

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

Okay, if there's no more questions, we might wrap this up. And I would like to thank everyone for their time on a Friday.

Operator

We do have one more question in the queue, if you would like to take it?

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

Sure. That's fine.

Operator

That is Andrew Quail with Goldman Sachs.

Andrew Quail - *Goldman Sachs - Analyst*

Hey, Mick. Team, thanks very much for taking my question. Good quarter. Especially on the costs. Just a couple of questions. When you talk about the medium term, you said that's something you're targeting for the next 12 months. Maybe by the end of the time next year, we might be getting to that mid-$600?

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

Well, I think when I started, and I gave a goal of getting to the mid-$700s in the medium term also, that was January of last year. And we've achieved that now. So I'm thinking medium terms within the 1 to 2-year type timeline sort of thing?

Andrew Quail - *Goldman Sachs - Analyst*

Okay. And last one on cash. I think it's good that you guys bought back those convertibles, especially under par. Is there a look, is there a strategy going forward on this? Is there a cash balance that you guys are comfortable with in the business? Obviously you're producing free cash flow. But is there a cash balance where you will not go below?

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

There is. We don't give that out. But I think we would look at it, just on any given day we would look at where can we deploy our cash to get a reasonable return. And if you can't get a reasonable return, we don't feel the need to spend it. So I think in this market, having more cash rather than less is a good strategy. If we look at other mines--

---

Andrew Quail - *Goldman Sachs - Analyst*

Would it be around like the $100 million? Do you know if it's --?

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

I think probably a bit north of that would be where we would be comfortable. Just given the style of our business, we don't really sort of disclose what the number is, but I think a bit north of $100 million would be where we would want to be.

Andrew Quail - *Goldman Sachs - Analyst*

Thanks guys.

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

Thanks Andrew.

Operator

(Operator Instructions).

Operator

One moment, please, while we poll for questions. Our next question comes from Lucas Pipes with FBR Capital Markets. Please proceed with your question.

Lucas Pipes - *FBR & Co. - Analyst*

Hey, good morning everybody. Thanks for taking my question.

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

Sure.

Lucas Pipes - *FBR & Co. - Analyst*

So I wanted to follow up a little bit on the sustaining capital. If I look at Q3, it annualizes pretty nicely below 2015 guidance, and I wondered if that's sustainable as we look into 2016, if that's something maybe where we could expect further, essentially further savings in terms of free cash flow?

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

Well, we haven't given our 2016 guidance yet, so you'll probably need to wait until we give that. But clearly one of the big changes we made with this new mine plan at the Stillwater Mine, has been that we aren't adding to our developed state, which is your sustaining CapEx broadly. We aren't continuing to add to that. So the rate that we were spending sustaining capital at, was not just sustaining the business but was actually adding to our developed state. We are now spending at a rate where we're not eating into our developed state, but we're also not adding to our developed state, if that sort of makes sense.

Lucas Pipes - *FBR & Co. - Analyst*

Got it. No, that makes a lot of sense. So in a way, one way to think about it would be that your prior sustaining CapEx had some component of a growth CapEx to it, and now it's really just sustaining?

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

Correct. That would be a fair assessment.

Lucas Pipes - *FBR & Co. - Analyst*

Great. Well, good job, and appreciate you taking my questions.

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

Thank you very much.

Operator

Our next question comes from John Bridges with JPMorgan. Please proceed with your question.

John Bridges - *JPMorgan - Analyst*

Hi. Morning, Mick, everybody. Just following on from that one, on the developed state, was that increase in developed state a result of improved productivity or was it that you had excess people, because you were cutting back on your production and you put them into development?

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

That's a good question, John. I would say a bit of both. I would say that if you look historically, we have typically always done sort of more development than budget. And so if you do more development than budget, then you end up increasing your developed state, and you spend more sustaining CapEx than you want to. But also as productivity is improved, we have seen development pull ahead. And also as we did some reorganization last year, and some people came out of production areas because we didn't have the infrastructure in place. And then they went on to development infrastructure projects. And now we've sort of said, okay, the developed state at the Stillwater Mine is broadly about five years. And at the East Boulder Mine it's broadly about six years. So that's a pretty big developed state for an underground mine. So we just didn't feel the need, in this price environment especially, to continue to add to that.

John Bridges - *JPMorgan - Analyst*

Yes, that's a big insurance policy. But then palladium is very volatile. On Blitz, you said you are getting nice grades on that. Have you thought more about what sort of production you can pull out of Blitz next year, or is that something that we can look forward to at the end of Q4?

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

I think, just given that we sort of run our reserves and everything at the end of the year, we sort of need to wait until we get that out of the way. And we're still targeting first production there in about 2018.

John Bridges - *JPMorgan - Analyst*

Okay.

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

But I think that the key thing for this quarter just finished, has been getting the permit for the Benbow Portal actually ahead of time, which allowed us to accelerate some of the work there before it got cold. That was really the one thing that was hanging out there, that we needed to get that permit in place.

John Bridges - *JPMorgan - Analyst*

Brilliant. Well done on the results.

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

Thanks, John.

Operator

There are no further questions at this time. I would like to turn the call back over to Mick McMullen for closing remarks.

Mick McMullen - *Stillwater Mining Company - President, CEO, Director*

Well, thank you everyone for taking the time on a Friday. And I look forward to speaking to you again, when we present our fourth quarter results. Thank you.

Operator

This concludes today's teleconference. Thank you for your participation. You may disconnect your lines at this time.
