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SWC - Q4 2016 Stillwater Mining Co Earnings Call

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PRESENTATION

Operator

Greetings and welcome to the Stillwater Mining Company fourth-quarter 2016 results conference call.

(Operator Instructions)

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Mick McMullen, President and Chief Executive Officer.

Thank you, Sir, you may begin.

Mick McMullen - *Stillwater Mining Company - President and CEO*

Thank you very much.

Thank you, everyone, for joining in. I am joined here by Chris Bateman, Mike Beckstead and Brent Wadman. We will be going to the Q4 and annual results presentation deck.

There is a deck that is loaded up. I will refer to the slide numbers as I go through that. Then we will have a brief Q&A session at the end. I do note that we will be taking questions predominantly around the operations. If investors or other stakeholders have questions relating to the proposed Sibanye transaction, they will need refer to our preliminary proxy that's been filed or the final proxy when it's filed.

Going to slide 2 of this deck, the forward-looking statements. Again, this is a standard thing we have in each quarter. I'd like people to refer to that. In particular, refer to the discussion and the commentary around the Sibanye transaction.

Going to slide 3, this is additional information specifically regarding the proposed transaction. I will be reading this out. The communication does not constitute the solicitation of any vote proxy or approval.

The Company has filed with the SEC a preliminary proxy statement it plans to file with the SEC and mail to its shareholders a definitive proxy statement in connection with the proposed transaction in Sibanye. The preliminary proxy statement contains, and other relevant documents including the definitive proxy statement will contain, important information about the proposed transaction and related matters. Stillwater and Sibanye shareholders are advised to read the preliminary proxy statement and other relevant documents filed with the SEC, including the definitive proxy statement, when they become available because they will contain important information about the proposed transaction.

The preliminary proxy statement and other relevant documents, including the definitive proxy statement, may also be obtained free of charge on the SEC's website when available. Stillwater shareholders may obtain free copies of the definitive proxy statement by contacting our Investor Relations Department or via email.



Stillwater, Sibanye, and their respective directors and officers may be deemed participants in the solicitation of proxies of Stillwater shareholders in connection with the proposed transaction. Stillwater shareholders and other interested persons may obtain without charge more detailed information regarding the officers of Stillwater and Stillwater's annual report and Form 10K, the fiscal year ended December 31, 2016, which would be filed with the SEC to day. Regarding the Directors of Stillwater and Stillwater's proxy statement filed with the SEC on March 2016 for its 2016 annual meeting and shareholders.

Additional information regarding the interests of participants in the solicitation of proxies in connection with the proposed transaction will be included in the definitive proxy statement that Stillwater intends to file with the SEC.

Moving on to slide 4. As everyone I am sure will know, on the 9th of December, we announced that Stillwater will be acquired subject to the transaction closing by Sibanye gold. This is an all-cash transaction at \$18 per share and represents an aggregate purchase price of approximately \$2.2 billion. Stillwater's Board of Directors conducted a review of the Company's strategic opportunities and, following a very thorough process, we unanimously determined that this transaction was the best way to maximize shareholder value.

Going to slide 5. The key transaction terms were outlined here. As I said, it's \$18 a share in cash. That represents a 25% premium to our 30-day VWOP prior to the announcement, 23% premium to the closing price on the day before announcement, and an approximately 61% premium to our 52-week VWOP.

Sibanye has committed bridge financing of approximately \$2.7 billion in place to fund this transaction and to repay certain of our existing indebtedness. I do note that subsequent to the announcement of the transaction, Sibanye has announced that they have successfully syndicated that bridge finance, with approximately \$1 billion of excess demand.

The proposed transaction is subject to several approvals. One of which the Antitrust approval has been achieved. In addition, Stillwater needs a majority of our total outstanding shares to vote in favor of the deal. Approval of the transaction by Sibanye shareholders is required. So they need a majority of the shares voted.

In addition, Sibanye will need at least a 75% majority of the shares voted in favor of the REITs offering that they are proposing. There are other various regulatory approvals required, most of which the timing is outside of our control, including the CFIUS clearance here in the US and the approval of the South African Reserve Bank for the transaction. We were advised by Bank of America, Merrill Lynch, and Jones Day and Holland & Hart as our legal advisers.

The transaction does include various break-up and reverse break-up fees. The breakup fees is around \$16.5 million, plus expense reimbursement of up to \$10 million. The reverse break is approximately double that, so \$33 million, plus reimbursement of expenses up to \$10 million and payable in specified circumstances. I would point people to the preliminary proxy that's been filed to get the detail of those circumstances.

We expect this transaction to close in the second quarter of this year. However, as I previously noted, several of the approvals that are required for the transaction, our government regulatory approvals and the timing of which is outside of our control.

So moving to the operational part of the presentation. The fourth quarter highlights that we had reasonably strong sales year on year, up approximately 14,500 ounces. Costs of metals sold was down slightly. We did see PGM production broadly flat with the prior year.

We did have some fairly severe winter weather in Montana during Q4. We did lose some shifts at the operations. The Interstate to the mines was actually closed for several days. We were operating the mines, but we just couldn't physically get our people to the operations to continue working. So we lost we estimate approximately 3,000 ounces during Q4 from weather.

As we noted in the Q3 call, we have an infrastructure project at the Stillwater mine, which we believe will result in higher productivity and lower costs once completed. But they are in a high-grade/low-cost stopes, which we did take offline in December. We expect them to come back online in March. So we did see a bit of a higher-cost profile as a result of that. But again, we believe that's approximately a three-month exercise to get that work done.



Those two factors really did drive a little bit of an increase in our all-in sustaining cost to \$661 an ounce. I would also note that prices have been recovering, and therefore our royalty does go up as the price goes up. We had about \$15 an ounce during Q4 that we spent on productivity enhancement projects that are included in our AISC. We're only starting to see the benefit of that spend from Q3 and Q4 now. We do expect to see more benefit from that towards the back half of the year.

Recycling had another very strong quarter, just under 170,000 ounces processed. Despite a bit of a higher cost profile, cash and cash equivalents, plus highly liquid investments, did go up to \$450 million. That's in spite of -- we are starting to spend quite a bit of money on our capital project at Blitz.

At the end of the day, we ended up making consolidated net income of about \$6 million or roundabout \$0.05 per diluted share. Our average basket price for the quarter for fourth quarter was \$741 an ounce. As we sit here today this morning, it was approximately \$839 an ounce. So we have seen a near on \$100-an-ounce increase in our basket price from today back to the average of fourth quarter. So overall, I think it was a solid quarter. But we think we can improve on that result.

Moving on to slide 7, the full-year highlights. We did achieve all of our guidance targets for the year. We had a record safety performance, which comes on a record safety performance for the prior year. So I think it's quite pleasing that we have improved our costs; we have improved our production; we have improved productivity; and we have done all that with actually much better safety. I think that's a very good testament to our operations people. Often people sort of assume that you can't have safety and production at the same time. Our view is that you do have safe production, and I think this result is evidence of that.

Total PGM mine sales of just under 550,000 ounces which is up quite a bit from the previous year. Costs of metals sold, again, down approximately \$70 an ounce. We saw around about a 25,000-ounce-a-year increase in mine production, again, despite that slight drop off in Q4.

All-in sustaining cost average for the year at \$622, per PGM-mined ounce, which again compares to \$709 for the previous year. This was a record recycling year for us, at 668,000 ounces. We do continue to see opportunities in that market to continue to grow, in particular because we have a lot of excess capacity. Total income for the year was about \$9.5 million or \$0.08 per share.

Just before I move off slide 7, the average basket price for the year was \$694, which again compares to \$834 today. So compared to the average price of last year, we have seen a reasonable recovery in our basket price.

Slide 8, I think it's important for a management team to be able to have the market's confidence that when we say we will deliver on something, we deliver. We have clearly, for the full third year in a row, delivered on all of the metrics that we've put forward. I think it's quite pleasing that not only have we just delivered on the guidance, but I think we have convincingly delivered on all of the guidance metrics that we've put forward.

Sustaining capital was about right in the middle of our guidance. Project capital was probably at the slightly lower end of that. It does reflect the fact that we have managed to get more work done for the same dollars.

Going to slide 9. This is our sort of standard schematic, just to remind people of the asset base. We've got the Stillwater mine, the East Boulder mine, the Blitz Project off to the right-hand side of the page there. Again, this oil body that we own 100% of is approximately 28 miles or roundabout 45 kilometers long. It truly is a world-class oil body. You can see the reserves there, very high grade reserves, both in metric and imperial.

East Boulder continued to have another strong quarter. It continues to just increase its production quarter on quarter, costs down slightly. Stillwater Mine, down slightly on production, which again really was driven by that weather and taking those high-grade stopes offline. And costs were broadly flat with the previous year. We do think that when we bring those stopes back online, the infrastructure we're doing should assist us on that cost profile a bit.

Slide 10, looking at our cash cost. We put this in so that anybody who is preparing a model on us has reasonably good information. You can see that cost were relatively flat at both operations on a dollar-per-ton basis. Clearly, as we've said, before particularly at the Stillwater mine the biggest bucket of cost is the mining cost. So therefore, we are actually focusing all of our effort on driving that down. We would like to think that we might

see a slight improvement in our byproduct credits given that the copper and nickel prices are starting to recover. The recycling credits are dipping flat to up slightly over the last few quarters.

Going on to slide 11, mine productivity. Anybody who has followed the Company will know that this has really been the big driver of our cost-reduction efforts. The 32 E infrastructure project, this is the one I've referred to over at the Stillwater mine. We are spending actually some reasonable dollars on this. It's required us to take those better stopes offline. But what it does mean is that when that comes back online in March sometime, we will have much more efficient rail voltage for these areas and allows us to open up a few other stope blocks around that area.

The other projects we've talked about before, lining our waste dump to allow us to use ANFO explosives. We have seen a bit of an increase in productivity and development from that. I think it's fair to say that our technology and automation efforts, we are spending some dollars on. We see as a reasonable opportunity for improvement, and we are far from best practice in this area.

I think the maintenance tracking and optimization does hold some opportunities for us. We have to make a few changes in the way we do things. But I believe there are some good opportunities here to improve fleet availability which, again, will allow us to improve productivity.

Going on to slide 12. In the met complex, as I said earlier, record year for the recycling business. We continue to see a shift toward purchase material from tolled. The net effect of which is broadly about the same earnings on per ton of feed. But obviously, our working capital goes up more when we purchased the material. So we do have a reasonably large amount of working capital tied up in this at the moment.

We have been looking at efforts to release some funding from that fairly cheaply. We do have a lot of excess capacity here. We see that the recycle market probably is growing in the CAGR of 5% to 7.5%. Our also stated goal has been to maintain our market share within that market.

We have the excess capacity, and we think we have got a few advantages over our competitors, given our scale. But also on that slide, you can see a little robotic assaying machine. This allows us to turn assays around very, very quickly, certainly much quicker than I think anyone else in the industry. We find that being able to offer faster outturn times for people is an advantage.

Going on to slide 13, Blitz is obviously where we are focusing a lot of our effort at the moment. You can see here that in Q3 we sort of upscaled the size of the project. We are now looking at production of 270,000 ounces to 330,000 ounces a year when we ramp this up fully by 2021 to 2022.

We have previously said that first production out of Blitz would be by late 2017, early 2018. We are reconfirming that. We're still on track for that. Obviously, being able to set the mine on up as a whole new mine with all of the learnings that we've had from the other operations, we do expect that this thing will have our lowest-cost ounces.

The grade is coming out quite nicely. That first stope block there, the 10,000-inch stope block, is approximately 0.85 of an ounce of (Inaudible). This is quite an exciting project for us. We have seen the TBM advance rates pick up quite significantly over the last three or four months, and the contractor that's working at the far end at the (inaudible) decline is progressing nicely as well.

Coming on to the last slide, 14, the summary. Obviously, the main news in Q4 was the proposed acquisition by Sibanye. We had a present decent Q4, notwithstanding a couple challenges. We made all of our 2016 guidance targets. Did that with a very good safety record. Recycling, again, a record year for us. Maintained our strong balance sheet. We are still funding all of our sustaining CapEx and growth projects and still adding a bit of cash. At Blitz, the critical path items to first production continue to be ahead of schedule.

That's really all I had to talk about today on the fourth-quarter results. I am happy to open it up to any questions.



QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Andrew Quail, Goldman Sachs.

Andrew Quail - Goldman Sachs - Analyst

Thanks for taking my question. Just two industry questions for you, mate. One is what are the trends you're seeing in costs on-site? Are you starting to see maybe the deflation that we've seen for the last 4 to 5 years is coming to an end or is limited in scope?

And two, with Altar, obviously the copper prices -- what do the economics look like now that copper is above \$2.70 and is this something that would get revisited above \$3 or is now sort of a time scoping studies and stuff would be looking more encouraging?

Mick McMullen - Stillwater Mining Company - President and CEO

I think in the general industry area, as we have said before, the majority of our costs are actually all labor related so we haven't really had big benefits from cheaper fuel or cheaper equipment purchases for arguments sake. I do here, anecdotally, within the industry that perhaps the days of sort of discounted machinery deals are probably coming to an end. But that's not much of our cost. We haven't really seen much of a benefit from that.

I think as it specifically relates to us and our costs going up, it was volume, for us, and sustaining CapEx spend. But really volume actually was what drove our Q4 cost increase. So again, if you'd had the same volume ounces from the previous couple quarters, our cost per ounce would've been significantly lower. I think you are starting to see and probably have been for about six months now the deals that you could get on fleet discount of the 20% or 30%, I think they're probably gone, but that's not really benefited us to be fair.

We have been doing quite a bit of work on Altar, actually, over the last 12 months. If you recall, we did drill there last season basically a year ago. We had some quite good results. We're actually down at Altar drilling now as we speak.

And our view is that it's worthwhile for shareholders to spend that circa \$6 million on exploration because we reckon there's a favorite value to be added for that spend. And obviously, we have always said that it was a non-core asset for us, and to get the right result on it for shareholders we felt that you needed a better government in Argentina, which we've got.

You needed to re-scope the project, which we have done, and this expiration is part of that, and you needed a copper price market and I think we're getting that. We have never felt that it was worthwhile for shareholders to just buy or sale the asset at a low price. We have always felt there was some value in the asset.

Andrew Quail - Goldman Sachs - Analyst

Okay. Thanks, mate.

Operator

(Operator Instructions)

Lucas Pipes, FBR.



Lucas Pipes - *FBR Capital Markets & Co. - Analyst*

Mick and team, I want to congratulate you on the great work you have done over the last year plus, bringing costs down and then culminating in the announced deal. Really good job in a difficult market.

I wanted to ask a little bit on the operation side. I know you spend a lot of time benchmarking assets -- where would you say Stillwater East Boulder fit in today? What's the progress been most recently? Thank you.

Mick McMullen - *Stillwater Mining Company - President and CEO*

Again, benchmarking there's no two mines that are ever the same so you sort of like to get a wide range of similar assets as you can and benchmark them. And so you sort of end up with a pool of productivity in area and you want to land in the pool is the best way I can describe it.

We would still probably be, depending on which metric you look at, we're still probably only 50% of the average in Western Australia I would say in general. And I am not comparing us to like a big blockade or something like that -- this is our narrow-ish, mechanized, whether it's deep or long travel time to the face mines.

And we do think there's some opportunities to improve the productivity. But obviously each successive bit gets a bit harder. We haven't got all the way I would say, and we think there is still some opportunities to wring a bit more out of it.

Lucas Pipes - *FBR Capital Markets & Co. - Analyst*

Got it. Got it. Good luck with everything, and I appreciate your insights as always.

Operator

Sara Heston, ASA Gold.

Sara Heston - *ASA Gold - Analyst*

I know that the government clearance and approval is out of your hands. Have you received any updates, though, on the timing of those, particularly with regard to the change of administration in the US, has that impacted anything, either if it's delays in timing or how they are approaching things?

Mick McMullen - *Stillwater Mining Company - President and CEO*

Sara, as I said at the start, we can't really comment on anything to do with the transaction apart from what we publicly said. And so I think the best answer is we don't actually know and you will need to wait until we file the final proxy to get another update.

Sara Heston - *ASA Gold - Analyst*

Okay. Thanks.

Operator

Mr. McMullen, we have no further questions at this time. I would now like to turn the floor back over to you for closing comments.

Mick McMullen - *Stillwater Mining Company - President and CEO*

Okay. Thank you very much everyone for your time, and we look forward to talking to you at some point in the future. Thank you.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

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