Endeavour Silver Corp.

2021 First Quarter Financial Results Conference Call

Conference Call Transcript

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Speakers:

Bradford Cooke
Chief Executive Officer

Dan Dickson
Chief Financial Officer

Don Gray
Chief Operating Officer

Galina Meleger
Director Investor Relations

Operator:

Welcome to the Endeavour Silver Corp. 2021 First Quarter Financial Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity for you to ask questions.

I would now like to turn the conference over to Galena Meleger, Director, Investor Relations, for opening remarks. Please go ahead.

Galena Meleger:

Thank you, Operator. Good morning, everyone, and welcome to the Endeavour Silver 2021 First Quarter Financial Results Conference Call.

With me on the line today, we have the Company's Chief Executive Officer, Bradford Cooke, our Chief Financial Officer, Dan Dickson, and our Chief Operating Officer, Don Gray.

Before we get started, I'm required to remind you that certain statements on today's call will contain forward-looking information within the meaning of applicable securities laws. These may include statements regarding Endeavour's anticipated performance in 2021, and future years, including revenue and cost figures, silver and gold production, grades and recoveries, and the timing and expenditures required to develop new silver mines in mineralized zones. We do not intend to, and do not assume any obligation, update such forward-looking information, other than as required by applicable law.

On behalf of Endeavour Silver, I'd like to thank you again for joining today's call, and I will now turn it over to our CEO, Bradford Cooke.

Bradford Cooke:

Thanks very much, Galena, and welcome, everybody, to this Q1 financial results call.

Endeavour had a very good start to the year, lots going on. We pre-released our metal production at 1.04 million ounces of silver, up 22% year-on-year, 10,900 ounces of gold, up 31% year-on-year, for silver equivalence of 1.9 million ounces at an 80:1 ratio, up 26%, compared to Q1 last year.

Our costs were pretty much flat year-on-year. Cash costs of $7.86 per ounce payable silver, net of the gold credits. All-in costs were up a little bit, 8% to $19.94, and again net of the gold credit, and that led to revenues of $35.1 million, up 58%. That was partly due to, obviously, higher production and higher prices, but also we held back some metal for sale during the first quarter, partly due to the downturn in metal prices in late March, and we fully plan to sell much of that inventory here in 2021 at higher prices.

That impacted our cash flow. We had $5.2 million of cash flow from operations, but that was up sharply from last year, and of course earnings of $12.2 million, or $0.08 per share, up sharply compared to a loss of $16 million last year in Q1. A good chunk of that, though, was the reversal of our historical impairment of the El Cubo asset, which we sold here just recently, offset probably by increased exploration activities, evaluation activities, and a higher tax expense. We would have taken an adjusted loss in the first quarter, but then that's offset by the rise in finished goods inventory.

So, again, a busy quarter, a profitable quarter for us, and we're looking for another very good quarter here in Q2.

Those are really the financial highlights from our release today, and I think, rather than carry on, why don't we just open this up for Q&A, and we'd be happy to answer your questions.

Operator:
We will now begin the question-and-answer session. We will pause for a moment as callers join the queue.

The first question comes from Heiko Ihle with H.C. Wainwright. Please go ahead.

Heiko Ihle:
Hey, there, thanks for taking my questions, and I just want to thank Brad for everything he's done for the firm. Dan, best of luck to you, and I think you're taking over a very well, well, well-oiled machine here.

Bradford Cooke:
Thank you very much, Heiko. We appreciate that.

Dan Dickson:

Yes, thanks, Heiko.

Heiko Ihle:

Always and gladly. You've increased your finished goods inventory by quite a bit in the quarter. You're at 530,000 ounces of silver, just under 1,700 ounces of gold. In the past, you've done really well trading silver, but just briefly, where do you stand right in regards to dollar terms of finished goods as of today, and, philosophically, what do you anticipate future accumulations of finished goods might look like? Yes, I know that it might be more intelligent to ask this question after the AGM tomorrow, but, yes, just curious, maybe, your philosophies there.

Bradford Cooke:

Yes, I think Dan and I shared a similar view, that this is a sales strategy that we've used from time to time, and it's based on the seasonality to silver and gold, and sometimes quarterly moves in silver and gold. We did this successfully last September, when the metal prices fell sharply at the end of the month, and rather than sell all of our metal last September, we decided to hold onto it, because we felt that the (inaudible 6:26) markets and there would be a nice rebound. In fact, there was a very nice rebound and we were able to take significant additional profit from the sale of that inventory in Q4 last year, and so this example is exactly the same. Metals had a great first quarter, they tipped over and fell in March. Rather than push all of our metal out at quarter end, we felt that there would be a nice balance here in Q2, and, in fact, there has been.

Dan Dickson:

Yes, Heiko. To add to that question of where we sit today, generally, we hold about 300,000 ounces of silver just because of out-turn timelines. Ultimately, that can get down as low as 50,000 ounces of silver. We did sell a big portion of the 525,000 ounces of silver that we had at March 31, with this recent runup into the $26, $27. As Brad touched on, it's more of a short-term strategy of watching short-term patterns and trying to sell not when the prices are falling, but, hopefully, when they're rising.

Heiko Ihle:

You've been extremely successful with that stuff in the past, and I hope it continues like that, so congratulations. Then, just a quick clarification. The impairment reversal for Cubo is completely done now that this is closed, or is there any lingering tax implications or other costs, or anything that we should focus on for Q2 and beyond?

Dan Dickson:
For Q2, we'd recognize the full gain on sale. Ultimately, what we reversed in Q1, as of March 31, was historical balance that would have been remaining after depreciation, and April 9, we would have recognized the full sale, so there's contingent payments that would be coming, and we have a fair value for the share value of VanGold as of April 9, is what we recognized, so there'll be a residual amount that we'd recognize and a gain in Q2.

Heiko Ihle:
Got it, wonderful, and once again congratulations to both of you, and thank you, Brad.

Bradford Cooke:
Thanks, Heiko.

Operator:
The next question comes from Mark Reichman with Noble Capital Markets. Please go ahead.

Mark Reichman, your line is now open.

Mark Reichman:
Thank you. I just wanted to focus a little bit on the costs. The all-in sustaining costs were impacted by the higher corporate G&A and the higher capital expenditures at Guanacevi, which I guess you could kind of look at as an investment, but then the direct operating costs were impacted by the higher labour costs. I was just wondering if Dan could maybe talk a little bit about how he sees those costs trending. For example, in terms of the all-in sustaining costs, I know the higher capital expenditures are to develop El Curso, so that should benefit down the road. So, how do you see those line items trending, Dan?

Dan Dickson:
Yes, thanks for the question, Mark. You're right, Q1's were a little bit higher, but at Guanacevi, we were well ahead from a mine development standpoint, one of our best development quarters in a long time, actually, which ultimately just means either we'll do less

come year end or continue on, but it should dissipate a little bit. We're getting ahead of ourselves now, which is great for future flexibility. Ultimately, we did have a budget from an all-in sustaining cost, which includes our capital expenditures, and that's unchanged for the year for Guanacevi.

As far as labour costs and impacting our operating costs, we are seeing a little bit of pressure on labour. I would imagine it's industry-wide. Things are picking up. A lot of companies are out there looking for operating staff and capable operating staff. We brought on a lot of really good people last year. We had a very good year, we feel, from a production standpoint, with what we were dealing with in 2020. Some of the bonuses went through on our labour costs in Q1, higher than what we accrued for at year end, so that did impact Q1 a bit. Hopefully, we'll see labour costs come down. But, as we're seeing across the world, the global supply chain seems to be quite constrained right now, and having issues with that, and I don't expect that to change in the next six months.

Maybe a little bit increase in our costs, but we're going to work our best to mitigate that, look for solutions, and try to get our tonnage up a little bit to where plan was. We were on plan from an ounce production standpoint. It would be nicer if our tonnes had improved (audio interference 11:13). So, hopefully, on a per tonne basis, our costs improve throughout the year and we expect to hit our guidance that we delivered to the market in January.

Mark Reichman:
That's very helpful. Thank you, Dan.

Dan Dickson:
Thanks for the question, Mark.

Operator:
The next question comes from Cosmos Chiu with CIBC. Please go ahead.

Cosmos Chiu:
Thanks, Brad and Dan, and, Dan, congratulations. I guess the big day is tomorrow.

Dan Dickson:
Yes, thanks, Cosmos.

Cosmos Chiu:
I guess my question is what took so long? Joking aside, I do have some real questions here. At Guanacevi, as you talked about, royalties were higher in the quarter due to higher royalties at Porvenir Cuatro—sorry about the pronunciation. Could you talk a bit more about the mine plan going forward for the rest of 2021? Should we expect tonnage continue to come out from that area and, hence, higher royalties?

Dan Dickson:
Yes, I think the key to Q1 was we did have a little bit higher production from El Curso. It's between our Porvenir Cuatro mine, which you're probably familiar with, and Milache. We did mine a little bit more from El Curso, just due to some of the areas that we're in, and a little bit less from Milache, where we don't have that royalty. But, the impact on that royalties, when we did our guidance, we guided $22 silver, $1,760 gold. We sold our silver at $27, and I think gold was slightly below that $1,760, so we had higher royalties in that, on that basis, but also the grade that's coming out of El Curso—the grades at Guanacevi were about 15% on a silver equivalent basis above plan, and, again, just in an area of that El Curso, you saw our drill results that we put out a couple weeks ago with regards to El Curso and Guanacevi and what we were finding on Santa Cruz—to our surprise, ultimately, the grades have been better than what we expected. Obviously, an increase in our costs and royalties, but our margins are still extremely good from that area.

Cosmos Chiu:
For sure, and that leads in well to my next question here, in terms of El Curso. As you mentioned, earlier this month you put out some very good drill results coming out of Guanacevi. I think I saw over 2,000 grams per tonne. A lot of it, I just want to confirm, is coming from El Curso, and I guess the other part of my question, after confirming that, is, I guess—in the press release you mentioned the El Curso, Milache and Porvenir Cuatro could all become one continuous ore body, potentially, over 1.5 kilometres by about 400 metres. When would we find out more about this potential here? Then, could you maybe talk about, potentially, when this concept, one continuous ore body, could come into the mine plan?

Dan Dickson:

Yes, there's a lot there. The drill holes that came out a couple weeks ago were mainly the El Curso ore body, infilling and step-out drilling there. We are also drilling the Santa Cruz Sur ore body, which we're actually mining from, as well. We're just drilling that at depth and continuing to have positive results there. But, I'd say the majority of the drill holes that came out two weeks ago were from the El Curso ore body.

If you go on to our website, and even in our presentation, we have a beautiful longitudinal section between Porvenir Cuatro and Milache, showing the ore body of El Curso, which gives a pretty good understanding of the size and scope of that ore body. There are some slivers in there which is owned by Frisco, who we've acquired or leased the El Curso concessions from, that own some slivers, and we're working with them to, hopefully, acquire some of that ground, to be able to mine that, as well, because we do think it's continuous all the way through. Obviously, we've drilled out Milache, we've proved that. Porvenir Cuatro, we actually mined a lot of that ore from that mine. So, we feel it's continuous, but the scope and scale of it is pretty clean to see just through our website or our presentation.

Cosmos Chiu:

Yes, I've seen that long section, as well. I guess my question is we'll find out later on how this kind of—how this exploration results will impact the mine plan some time later on.

Dan Dickson:

Yes, when it comes down to total resources and total tonnes in the resources, we're still drilling that area and we'll come up with a resource estimate later on in the year and publish that.

Brad, I don't know if you have any more colour you'd like to provide with regards to El Curso and our drill results there.

Bradford Cooke:

Yes, just to answer your question, Cosmos, the El Curso claim was a thing that we leased from Frisco, and the two gaps between El Curso and Milache and El Curso and Porvenir Cuatro are other properties owned by Frisco. We expressed interest, they expressed interest, and so we're hoping we can consummate a way to add those gaps, if you will, to the existing lease agreements, and then we would be able to drill them and prove that

that's one continuous ore body. The gaps, themselves, are only a couple hundred metres wide, I think, and it's pretty easy to project that this thing should be continuous.

Cosmos Chiu:

Of course. Maybe switching gears a little bit, at Terronera, as you mentioned, you're targeting a feasibility study by Q3 2021. The last PEA was sometime in 2020, and I think, Dan, or maybe Brad, you touched on it, labour costs have increased. I don't think that's the only cost that has increased in the past year. Steel prices have gone up. Other input costs have gone up. So, I guess my question is, as you do this, finalize the feasibility study at this point in time, have you seen costs increase, how have you factored it into your study here, and how are you managing that risk?

Bradford Cooke:

I'll answer it from a higher level. Basically, the feasibility study is still underway, so we still have an opportunity to finalize costs here in the next month or two, but the main cost drivers, at least on capital, are the design of the mine and the plant, and most of those we've put pins in already.

Dan, do you want to add to that?

Dan Dickson:

Yes, I think it's definitely a risk, you always look at it, and that's what we paid to manage to do. Ultimately, we are seeing some input increases, which could increase the capital upfront costs or sustaining capital. From an operating standpoint, we think there is a lot of levers there that we can improve our operating costs from the PFS in 2020. So, ultimately, when all the numbers come out, which you're right, it'll be early Q3, we'll have that, and we still expect to have a very economic project when it's all said and done.

Cosmos Chiu:

Okay, for sure, and then maybe one last question from me here. Dan, as you take the CEO seat, Brad's not leaving, I guess he's going to be Executive Chairperson, and in the press release talked about Brad continuing with the Company, growing the Company. One side of it is, for sure, building Terronera. The other side, I think we've talked about in the past, is potential acquisitions. Bigger picture. Brad, we've seen so many competitors diversify into gold, diversify beyond LATAM. You've always talked about in the past it is harder to make acquisitions with silver assets. Anything that you can share with us in terms of industry-wide or company-specific at this point in time?

Bradford Cooke:

Sure. In terms of growing the business through the drill bit, that is organically, I think we've been more successful than most, not only with finding new resources every year at our operating mines, but of course the discovery of Terronera and the emerging resources at Parral.

In terms of our silver/gold mix, we've always been a silver-dominant producer, but with a healthy gold credit, and we see more of that in our future. Terronera—let me say that the operations this year probably are going to be about 60/40 silver/gold revenue. Terronera, I think, comes in around 65/35. Parral is 100% silver. So, not only are we, I think, one of the most, if not the most, silvery of the silver producers, we will skew more towards silver with our existing development pipeline.

That leads to M&A. My view is that we have room to take on gold and still remain a primary silver producer, because there's nothing to buy in silver. We're not allergic to buying a gold-dominant asset. It's just that we would like to remain more than 50% silver revenue, even after M&A.

Cosmos Chiu:

Great, thanks, and those are all the questions I have. Congrats again, Dan, and Brad, as well.

Dan Dickson:

Thank you, Cosmos.

Bradford Cooke:

Thank you.

Operator:

The next question comes from Howard Flinker with Flinker & Co. Please go ahead.

Howard Flinker:

Hi, Brad. My two minor questions are what price did you get in your sale of ATM in quarter one?

Bradford Cooke:
Oh, that's a Dan question. Thanks for your question, Howie. Dan, do you want to take that?

Dan Dickson:
That's a very good question. We would have averaged just about US$5.00 per share price. It's actually in our financials, but I don't have it specifically off the top of my head right now. It's a good question, Howard, but it's just north of US$5.00.

Howard Flinker:
Like $5.01, $5.02?

Dan Dickson:
Pardon, Howard?

Howard Flinker:
Five-oh-one, $5.02, something like that?

Dan Dickson:
Just north of that, yes.

Howard Flinker:
Okay, and how many shares are actually outstanding now, as compared to the average?

Dan Dickson:
We have about 167 million shares outstanding right now.

Howard Flinker:
Right now 167.

Dan Dickson:
Yes.

Howard Flinker:
Okay, thank you.

Bradford Cooke:
Just carrying on from your question, we had this ATM facility available to us all the way back to last July, but we just wanted to use it primarily for any equity portion of Terronera project financing, but we're very patient, we didn't touch it, until the nice runup in the share price here in the first quarter, and we did tap that ATM for $30 million. We closed out the first quarter with $86 million in cash and $113 million of working capital. Suffice to say that we now feel that any equity component at Terronera is covered.

Howard Flinker:
Thank you.

Operator:
The next question comes from Justin Stevens with PI Financial. Please go ahead.

Justin Stevens:
Hey, guys. I think most of what I had to ask has already been covered off, but a couple left on my list here. Obviously, some good results that you guys put out recently from the drilling at Guanacevi, well covered off there. I was wondering—I mean, you've spent, I'd say, a good chunk of what you've been budgeting for brownfields drilling this year already in Q1. Should we expect, perhaps, you guys will revisit your drilling budget maybe mid-year, as long as you continue to get the good hits that you've been seeing so far?

Bradford Cooke:
I would just say that we have done this in the past when we're having a good year and there's excess cash flow, and then we looked on how to put that cash flow to work, and it's probably the case this year, as well.

Justin Stevens:
Got it. Obviously, we've seen the nice release out of Guanacevi. Can you give some rough timing for when we might see some of Bolanitos' results?

Dan Dickson:

I would say soon, they would be up next, and following that, Terronera results and some Parral results.

Justin Stevens:

Got it, yes, and just on the Terronera results, obviously, Q3 is surprisingly soon—I don't know how it got to be May already—but in terms of the drilling that you've done there, are you expecting of that to make it into the updated resources that will then hit the feasibility study, or is it going to be sort of a more parallel development?

Bradford Cooke:

No, what we're doing now—in fact, I think this year—we put the pin in the reserve and resource at the end of last year, so all of the work this year will be a (inaudible 25:18).

Justin Stevens:

Got it. Yes, that makes sense, given the way these timelines work and things have to fit together. Okay, that's it for me. Thanks, guys.

Dan Dickson:

Thank you.

Operator:

This concludes the question-and-answer session. I would like to turn the conference back over to Bradford Cooke, CEO, for any closing remarks.

Bradford Cooke:

Well, thank you, Operator, and thanks, everybody for tuning in today. This is actually my final quarterly call on behalf of the Management Team of Endeavour. I'm now formally handing the reins over to Dan and Christine, and I just want to say that we've had a great run, but we're not half done yet and we look forward to—I look forward to listening in on Dan in future calls. So, again, thanks all, and look forward to our second quarter financial results.

Dan Dickson:

Thanks, Brad.

Operator:

This concludes today's conference call, you may disconnect your lines. Thank you for participating and have a pleasant day.