Endeavour Silver Corp.

2020 First Quarter Financial Results

Conference Call Transcript

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Speakers:

Bradford Cooke
Chief Executive Officer

Godfrey Walton
President and Chief Operating Officer

Dan Dickson
Chief Financial Officer

Galina Meleger
Director, Investor Relations

OPERATOR:

Welcome to the Endeavour Silver Q1 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 to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

I would now like to turn the conference over to Galina Meleger, Director of Investor Relations. Please go ahead.

GALINA MELEGER:

Thank you, Operator. Good morning, everyone, and welcome to the Endeavour Silver 2020 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, Godfrey Walton.

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 2020, 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 to, 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 our call, and I'll now turn it over to our CEO, Brad Cooke.

BRADFORD COOKE:

Thank you very much, Galina, and welcome, everybody, to this conference call on our first quarter financials.

I'd like to start by pointing out that the numbers released today show that we're not out of the woods yet, but we did make great strides during the first quarter, both in operations and in our financial performance. Let me explain.

From the operational point of view, we were significantly better compared to both the first quarter and the fourth quarter last year. Our Q1 production was actually in general line with our guidance for the year, prior to the government-mandated suspension of our mining operations.

One of the key takeaways of our operational performance was the sharp decline in our cash cost, 37% down year-on-year, and that reflects primarily the success of our operational turnaround and our transition into higher grade orebodies at our largest silver mine, Guanacevi.

All-in sustaining cost also fell, but only 5%, and that reflects the still elevated sustaining CapEx that we are investing to achieve a similar turnaround at Bolanitos over the next three months, compared to what we achieved already at Guanacevi.

I should point out that the significant headline net loss, almost half of that can be attributed to foreign exchange event. Basically, the 25% depreciation of the Mexican peso devalued both our peso receivables and caused a deferred income tax expense.

Other extraordinary items that hit our bottom line include the still elevated care and maintenance costs at our now closed El Cubo in Q1. Those costs will decline going forward. There's really no more severance to be had at Cubo, and there's a significant reduction in security costs coming.

We still report high, or relatively high mine depletion due to our short reserves lives and we're working through our exploration group to try to extend those reserve lives. Guanacevi has been a success from that point of view.

Even though the government shut us down April 1, the government has now declared in Mexico that municipalities with low or no COVID-19 cases can look to start up May 18, and since each of our three mines are located in such municipalities, we're now in the advanced planning stages to bring our three mines back to production in May.

So, moving to the first quarter highlights, metal production was 857,000 ounces of silver and

8,500 ounces of gold, and on an equivalent basis, that's 1.5 million ounces of silver equivalent at an 80:1 ratio, and 1.8 million ounces at the current 110 ratio, and that drove about $22 million in revenues.

Cash flow and net income, as I pointed out, were negative, primarily due to the significant foreign exchange expense.

Balance sheet at the end of the quarter was $15 million cash, $27 million working cap, no long-term liabilities. We have some term loans on equipment.

Operating costs, we basically cleared the quarter with a cash cost of $7.85 per ounce of payable silver, and the all-in sustaining costs were $18 and change.

A couple more quick highlights from the operations.

I've already highlighted that Guanacevi, the turnaround is now complete, we are able to tick that box, and what was our largest money loser last year made a small amount of money on a mine site operating basis in Q1.

Moving to the development projects, we do expect in June to release the final optimization of our prefeasibility study and the economics therein, using our in-house expertise, as well as an independent engineering firm. So, Terronera is advancing steadily.

On the exploration front, we do have some decent drill news coming from both Guanacevi and Bolanitos. We expect those news releases in the coming months.

So, those are the highlights for the quarter, and I think now, Operator, let's just open it up for Q&A.

OPERATOR:

Will do. Thank you. We will now begin the question and answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

The first question is from Heiko Ihle of H.C. Wainwright. Please go ahead.

HEIKO IHLE:
Hey, guys. Thanks for taking my questions.

BRADFORD COOKE:
Hello, Heiko.

HEIKO IHLE:
Hey, there. This question may be a bit out there, but, I mean, you're talking about higher maintenance costs at El Cubo. How much of a potential—given all the social distancing issues that we're having in the world, is there a way that you can use the workers from Bolanitos to take care of some of that maintenance work and thereby save some costs, in order to then also some create some distancing that you're probably required to do?

DAN DICKSON:
Hey, Heiko, it's Dan. I hope all is well. The main thing in Q1 at El Cubo was just getting all the fleet, effectively, maintained, raising the mill in the plant, getting things all cleaned up. We haven't gone to close, or anything like that, just kind of putting everything as it is. We also had about $200,000 of severance costs in what we spent at El Cubo, and depreciation of the plant, light vehicles, office and IT equipment. So, you'll see that care and maintenance cost at El Cubo come down significantly going forward. I think we have a staff of about 10 security and 10 individuals, so a total of 20/25 people there. Bolanitos and El Cubo are about 45 minutes away, so that's real social distancing in that context. Ultimately, the key for us at Cubo going forward is just maintaining security at the site and monitoring the tailings facility with the town right there, but you're talking about $200,000 for next quarter, compared to what we just spent for $1 million.

BRADFORD COOKE:
So, that significant reduction includes the reduction in the security staff, as well, and Dan's numbers reflect current numbers, right?

DAN DICKSON:
Yes.

BRADFORD COOKE:

We are still working diligently to find a way to restart Cubo. It does require us to do some land acquisitions and/or exploration. It's a work in progress, so nothing to say on that yet, but that's the whole purpose of continuing to keep Cubo on care and maintenance.

HEIKO IHLE

Maybe I'm the eternal optimist, but I have a feeling that mine at some point in time will reopen. I don't want to open Pandora's box too much here, but I'll bring it up, since you put it into the third paragraph of your earnings release, with almost half the net loss being due to the 25% devaluation of the Mexican peso. At what point in time, if ever—and the answer might be never—at what point in time would you ever consider hedging some currencies, or something, just to avoid future large-scale impacts and swings that, you know, may get taken a little bit out of context by some folks reading earnings releases?

BRADFORD COOKE:

Well, the peso devaluation is a good news/bad news. It hits our assets, but it's great for our costs, so we don't mind a lower peso at all. We would not hedge the peso, it would impact our costs. We think the direction of the peso is more and more depreciation relative to the dollar.

HEIKO IHLE:

Okay. I understand that, but, I mean, you might still—at some point in time things might go the other way for you, and just because you've won so far, it doesn't mean you're going to come out ahead for good, no?

BRADFORD COOKE:

Well, it's a fair question from a conceptual point of view, but from a practical of view, we've been in Mexico 16 years and the peso's gone in one direction, and one direction only. It was 10:1 in 2003, it's 24:1 right now.

HEIKO IHLE:

Okay, fair enough. Thank you, guys. I'll get back in queue.

BRADFORD COOKE:

Okay. Thanks for your questions.

OPERATOR:

The next question is from Joseph Reagor of Roth Capital Partners. Please go ahead.

JOSEPH REAGOR:

Good morning, guys. Thanks for taking my questions, as well. I guess, maybe following on Heiko's questions about currency, what percentage of your total cost do you think benefit from the weaker peso going forward?

DAN DICKSON:

Yes, it's Dan. Thanks, Joe, for the question. Thirty percent of our costs are directly tied to labour and our cost of sales, so a 25% reduction in our labour costs for the foreseeable can be built in pretty quickly, and then of the remaining 70% of costs, about half of that comes from—sourced out of Mexico and tied to the Mexican peso. Eventually, you'll see those costs adjust a lot quicker than what typically you'd see from a labour standpoint, but, generally, we're expecting about 45% to 50% of our costs be affected by the depreciation of the peso.

JOSEPH REAGOR:

Okay. So, in a sense, by Q3, if we stay at this level, we could be looking at a 10% to 12% reduction in costs?

DAN DICKSON:

Yes, that's fair.

BRADFORD COOKE:

Yes, and keep in mind that most of the depreciation was in the last two weeks of March, so it hit our assets right away, but it hasn't hit our costs yet, it's just hitting our costs now.

JOSEPH REAGOR:

Okay. Then, on the COVID-19 front, what should we expect as far as capital spending in Q2? Given that you guys spent almost half the quarter with your mines shut down, I would anticipate it's a lower capital spend, and that the guide at the beginning of the year for capital spending has probably been reduced, in general, as well, right?

DAN DICKSON:

Yes, no, that's fair, for the quarter. I mean, ultimately, we still have all the mine development and the plants that we had, everything's just going to be delayed by six weeks to seven weeks. So, in Q1, we spent, or had total additions of about $9 million. In Q2, it'll probably be closer to

$5 million, just because of the delay of six/seven weeks.

JOSEPH REAGOR:

Okay. Then, shifting gears a bit, at Guanacevi, royalties as a percent of revenue kind of spiked in Q4 of last year and they stayed elevated in Q1 of this year. Is that a reflection of mining from an area where you guys pay a higher royalty, is that just some kind of short-term issue, or is there something else at work there?

BRADFORD COOKE:

No, you're exactly right, Joe. It's Brad here. We have a new property, last year, called El Curso, a new discovery, that we developed in Q4, and have been producing since late last year, and that particular property has quite a high royalty on it to a Mexican group, whereas the other portions of the Guanacevi operating unit have much, much lower royalties, so it's just that. We did put an emphasis in Q1 on mining the El Curso area, simply because it's got phenomenally higher grades, but we do also have in our plan this year to go back to a more reasonable mix of Curso versus other ores. Milache, for instance, we're just about caught up on the mine development, so it should be able to do more percentage tonnes to the plant going forward, and Santa Cruz Sur also is in the advanced stages now of development and should also do a higher contribution going forward, maybe not in Q2, because we basically spent seven weeks standing still, but certainly Q3 and onwards.

JOSEPH REAGOR:

Okay, that's helpful. Then, last thing. I know you guys used a little bit of the ATM in Q1, a little more to start Q2. What's left available to you guys on that?

DAN DICKSON:

We filed a new base shelf, you would have seen, April 27, it got finalized. That sterilized the remaining amount on that ATM, which was about $500,000, so that ATM program is now over.

JOSEPH REAGOR:

Okay, that's helpful. Thanks, guys.

BRADFORD COOKE:

You're welcome.

OPERATOR:

The next question is from Chris Thompson of PI Financial. Please go ahead.

CHRIS THOMPSON:

Hey, good morning, guys. Thanks for taking my questions. Yes, look, tough quarter. I've got a couple of maybe tough questions here. Firstly, the standby costs, I guess, for the three operating mines. Dan, you said $5 million for the Q2. Is that we can anticipate the costs to be?

DAN DICKSON:

That's not costs, that was capital expenditures for Q2. In our original guidance for 2020, total capital spend for 2020 was going to be $32 million. In Q1, we spent $9 million. Joe's question just asked how much would our cost of capital, or we're going to spend on capital in Q2. Typically, that $32 million is going to split pretty evenly through the year, so $8 million to $9 million a quarter, and just because we've been shut down for six/seven weeks this quarter, I don't see that spend being larger than the $5 million just for Q2, but we still need to get to that $32 million, and maybe that goes into 2021 a little bit, Chris, but that won't change because of COVID. We still have our mine development programs that we have to get done and get accelerated, so we can maintain these production levels.

CHRIS THOMPSON:

Okay, thanks for the clarification on that. Just looking at, I guess, Guanacevi—and by the way, congratulations for bringing down those costs. Obviously, Santa Cruz Sur, Milache coming on stream. You did mention, I guess, in your text P4E was behind plan. I'm just trying to understand what component of mill feed is that. Is that minor or major?

BRADFORD COOKE:

Yes, we'll need to explain that. We use in-house the extension of the Porvenir Cuatro orebody onto the El Curso property. We call that orebody P4E, Porvenir Cuatro Extension. Maybe in Q4, it was still under development, but I don't think we referred to that one behind plan. Maybe SCS, maybe Santa Cruz Sur.

DAN DICKSON:

Santa Cruz Sur, we're slightly behind from a development standpoint, and that just reflected that in March, when we saw silver dip into the 12 handle, we focused on increasing production from El Curso, which has higher gold grades and higher silver grades, and then just kind of moved away from Santa Cruz. So, we'll pick up the development again at Santa Cruz. Ultimately, what we're looking for, what we originally were looking for, and depending where prices go, basically a third of our production coming from Santa Cruz Sur, a third coming from Milache and a third coming from El Curso. What we've never had in the past—I shouldn't say never. What we haven't had in the recent past at Guanacevi, Chris, is just that flexibility. So, as soon as we got stuck in one area, we weren't hitting our tonnage—in Q1, we were just short of a thousand tonnes per day and our goal is to get up to 1,200 tonnes per day. So, having Santa Cruz Sur catch up from development allows us to hit the 1,200 tonnes per day for the next eight months, so to speak.

CHRIS THOMPSON:
Okay, thanks for that. Just remind us, what's the turnaround time you're looking for for Bolanitos and El Compas? They are somewhat delayed, I get it, but, obviously, hopefully, following the same track as Guanacevi, but maybe quantify the turnaround time there for us.

BRADFORD COOKE:
Yes, we started the turnaround at Guanacevi after the first quarter last year, so it took, basically, a year. We started the turnaround at Bolanitos in Q3 last year, and it will take about a year. Of course, this quarter was pretty much discounted, but we do expect to break through in Q3.

CHRIS THOMPSON:
Right, okay. I'm looking at the depreciating, I'm looking at the dwindling cash position right now, and I'm a little concerned you might not have the luxury of time here for this turnaround. At what point do you actually maybe just dial it back and just live off of Guanacevi? I know it's a tough question, but I have to ask it.

DAN DICKSON:
No, that's a fair question, Chris. I think you'll see, once you get through the numbers with Q1, Bolanitos cost per tonne came down to $68.25, or even $68.50, which is an improvement, and we can get lower from that standpoint. What Bolanitos was short on was tonnes this quarter. I think we came in around 8,700 tonnes and we want to be up around the 100,000, is in the plan. Ultimately, we have two areas. One, San Miguel, which we discovered last year. We've got about 300 metres more development in there to get that to full capacity and be really contributing at Bolanitos, so we're not far away there. Then, we also have a vein we call Melladito, which is about 300 metres away from working, so that needs some development to get in there, but it will give us flexibility to be able to get above the 1,000 tonnes per day to the

1,200 tonnes per day later this year.

So, as Brad touched on, we're about three months away from seeing Bolanitos turn around. We've done a good job from a cost standpoint. Now, it just means getting these tonnes to where it's historically been. We're not that far. That's why we expect, hopefully, by Q3, the middle of Q3, just because of the delay—like I say, with the COVID delay, but Bolanitos is a lot closer to the turnaround and it's just hitting that tonnage output now.

BRADFORD COOKE:
If I could add, Chris, that the cash costs are already down at Bolanitos, and the reason is, is that the operational turnaround, the changes in management, the change of mining method, the addition of new equipment, all that's had an impact, but we saw an elevated capital investing, which is the accelerated mine development at San Miguel and Melladito. That 300 metres remaining to do at San Miguel is not to get to the ore, we're already at the ore. Now we have to drive sills and raises and ramps, and then it'll be fully ready for production. So, not that much time left to and not that much capital investment left to get Bolanitos, get that up and running in the proper way.

DAN DICKSON:
On the second part of your question with regards to El Compas, maybe it's not as easy to see for Compas. Compas is a very small mine, contributor for us, with it being a million silver ounces, and costs were elevated in Q1. We made a change. We've been moving from contractors to employees. So, we did onboarding and training in March and got rid of the contractor that was mining underground, and our mine tonnes, actually, dipped significantly in March, but we expect that to come back up, now that our staff is all in place and ready to go. So, hopefully, here, in late May, we can get going, we can ramp up relatively quickly at Compas, and if we can hit the tonnes and grade, then our costs should—again, it's hard to see in Q1, but those costs are going to come down significantly with the contractors out of the mine.

CHRIS THOMPSON:
Great, okay, thanks. Then, Dan, maybe the final question for you here. Your equipment leases and loans, did you push those out by three months?

DAN DICKSON:
Yes, we have $11.5 million of total equipment loans, and it's all to do with the turnaround and

refreshing our fleet, and we went to Sandvik, and just to be careful, at the start of the COVID-19 and the shutdown April 1, the government had come out and said shut down till April 30, but as we've seen globally, those goalposts have continued to change and we want to just protect ourselves. So, with Sandvik, we approached them immediately and they're very happy to work with us on it, and we just delayed principal payments by three months, so we didn't have to pay any of that until August, and it just gives us a little bit of flexibility. Now, I think we're probably being too conservative. Those are in place now as is, and with us hopefully getting going here May 18, we'll be fine, but at the time you're looking for any alternatives to save cash in case this would have gone through the summer in Mexico.

CHRIS THOMPSON:

Right, okay. Guys, thank you very much.

BRADFORD COOKE:

Thanks for your questions.

OPERATOR:

The next question is from Craig Hutchison of TD Bank. Please go ahead.

CRAIG HUTCHISON:

Hi, guys. Thanks for taking my call. I think most of my questions have been answered, but I'm just wondering, once you guys get the green light from the Mexican government to go ahead and restart these operations, how long do you think it's going to take to kind of get you back up to full running capacity?

BRADFORD COOKE:

Godfrey, if you're on the line, you want to handle that one?

GODFREY WALTON:

Sure. Craig, thanks for your question. We are doing a little bit of prep work to make the start-up a little bit faster, but I think it's going to be probably, say, three weeks to get up and running properly. We have a few maintenance issues that we've taken care of during the shutdown. Guanacevi should come up very, very quickly, but Bolanitos and Compas should be probably the slower ones coming up. Compas may be more like three weeks to four weeks, Bolanitos probably two to four, and Guanacevi, I think it'll be up and running in about two weeks.

CRAIG HUTCHISON:

Okay, perfect, and just following up on the question on the ATM, I know you guys mentioned that the new shelf sterilized the old ATM. Are you now able to access the new financing ATM, or is that still—

BRADFORD COOKE:

The base shelf.

DAN DICKSON:

We haven't put in a prospectus supplement on a new ATM program to date. You have to file a new prospectus to get a new ATM in place.

CRAIG HUTCHISON:

Okay. So, that's not in place at the moment, okay. Thank you, guys.

BRADFORD COOKE:

Thanks for your question.

OPERATOR:

The next question is from Bhakti Pavani of Alliance Global Partners. Please go ahead.

BHAKTI PAVANI:

Good morning, guys. Thank you for taking my questions. I just have a couple of questions. Considering the ramp-up timeframe at each of the individual mines once the restrictions have been lifted, during that time, do you have any stockpiles currently on site that maybe you can process while you ramp up production?

BRADFORD COOKE:

Thanks for your question, Bhakti. It's Brad. Maybe I'll defer to Godfrey on this one.

GODFREY WALTON:

Hi, Bhakti. Thanks for the question. Yes, we do have about 15,000 tonnes of stockpiled material at Guanacevi, so we'll be processing that very quickly, and also we have stockpiles, smaller stockpiles at Bolanitos and at Compas, so that we will be using those to start up the plants, and then the development that we're doing ahead of totally ramping up will help to supply the tonnes as we go forward from there.

BHAKTI PAVANI:

Got it, and the second question is from the cost standpoint, you know, once the operations open up, do you expect to incur any additional costs in order to comply or mitigate with the safety measures due to COVID?

GODFREY WALTON:

Hi, this is Godfrey again. We don't expect a lot of extra costs, there will be some, but we implemented a number of temperature checking and disinfecting and cleaning, so it's added a little bit, but in the overall scheme of things it's not a lot and not significant.

BHAKTI PAVANI:

Okay, that's it from my side. Thank you very much.

BRADFORD COOKE:

Thanks, Bhakti.

OPERATOR:

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

BRADFORD COOKE:

Thanks, Operator, and thank you all for listening in today. Again, not out of the woods yet, but good progress in the quarter. Ahead of schedule on Guanacevi, and even though we had to shut down in Q1—or sorry, Q2, and we'll get a later start, mid/late May for the three operations, this is what we're anticipating. I think Bolanitos was in the next three months of operations will also show the turning of the corner that we have previously forecast. I think, operationally, it's a work in progress, but we've been able to tick the Guanacevi box and we fully expect to tick the Bolanitos box this summer. Keep your eyes peeled for news coming up in May/June. We have good drill results coming from Guanacevi, good drill results coming from Bolanitos, and a final prefeasibility update on Terronera.

So, with that, Operator, let's finish the call.

OPERATOR:

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