Endeavour Silver Corp.
Third Quarter 2015 Financial Results
Conference Call Transcript

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Speakers:

Meghan Brown
Director, Investor Relations

Bradford Cooke
Chief Executive Officer

Dan Dickson
Chief Financial Officer

Godfrey Walton
President and Chief Operating Officer

OPERATOR:

Thank you for standing by. This is the Chorus Call Conference Operator. Welcome to the Endeavour Silver Third Quarter 2015 Financial Results. 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, simply press star and one on your touch-tone phone. Should anyone need assistance during the conference call, they may signal an Operator by pressing star and zero on their telephone,

At this time I'd like to turn the conference over to Meg Brown, Director of Investor Relations. Please go ahead, Ms. Brown.

MEGHAN BROWN:

Thank you, operator. Good morning or good afternoon and welcome to Endeavour Silver's Third Quarter Conference Call. On the phone today we have the Company's CEO, Brad Cooke, as well as our President and COO, Godfrey Walton, and our CFO, Dan Dickson.

Before we get started, I'm required to remind you that certain statements on this call will contain forward-looking information within the meaning of applicable securities laws. These may include statements regarding Endeavour's anticipated performance in 2015 and future years, including revenue and cost forecasts, silver and gold production, grades and recoveries, and the timing and expenditures required to develop new silver mines in mineralized zones. The Company does not intend to and does not assume any obligation to update such forward-looking statements or information other than as required by applicable law.

Thank you and with that I'll turn the call over to Endeavour's CEO Brad Cooke.

BRADFORD COOKE:

Thanks Meg, and welcome everybody to this Q3 conference call on our financial results released today. In general we had a strong quarter in Q3, both from operations and financially, with revenue, mine operating cash flow, operating cash flow and EBITDA all up quarter-on-quarter and year-on-year. We did end up with a net loss however of $14 million, and the main drag on our bottom line performance was the falling Mexico peso and its impact on current assets, on deferred income taxes, and a write-down of marketable securities.

On the operational front, we saw silver production up 11% to 1.8 million ounces, gold production up 9% to 15,300 ounces, and silver equivalent production up 10% at 2.9 million ounces.

We're on track to meet or beat all of our operating cost and production guidance for the year. So three great solid quarters to start the year.

Going to the individual mines—actually before I do that let's just look at costs. Clearly we've been benefiting from a lower peso, but that's only about half the story. Once again our operating team has been able to deliver improved efficiencies and higher productivity at each of the three mines, and that's reflected in our consolidated operating costs per tonne: down 38% over the last five quarters from $103 to $75 in Q3. We take great pride in our ability to react to circumstances and continue to look to trim the costs and maintain an operating margin.

At Guanaceví we are ahead of plan for the year, primarily due to slightly higher throughput, recoveries and grades. Bolañitos is also ahead of plan for the year in the context of our ramp-down to 1,000 tonnes per day, and with the development of the L-Asunción vein it's continuing to expand and replace the falling production from the Lucero group of veins. Both of those mines are on track to meet or beat their guidance for the year.

At El Cubo we accomplished the phase 2 expansion in Q2 to 2,200 tonnes per day, but we did back off in Q3 to average about 2,000 tonnes per day and it was just due to some unexpected events: lower than expected personnel and equipment availability and slower than planned mine development. We are playing catch up here in the fourth quarter and we're pushing to make sure the mine development gets back on plan by year end.

Notwithstanding, we're going to see El Cubo meet its annual silver production guidance, but fall short on the gold guidance.

So all in all, we're on track for a very solid year of very significantly higher production, significantly lower costs and I believe this will be our sixth consecutive year of meeting or beating our production and cost guidance.

So that's the overview. Operator, I think we'll just open it up for questions.

OPERATOR:

Great. Thank you. We will now begin the question and answer session. If you would like to ask a question, please press star and one on your touch-tone phone. You will hear a tone to indicate you're in queue. For participants using a speaker phone, it may be necessary to pick up your handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star and two. There will be a brief moment while we poll for questions.

The first question today comes from Brian Martin with Raymond James. Please go ahead.

BRIAN MARTIN:

Hi guys. Thanks for taking my question. Just wanted to dig in a little bit on these costs, especially at Guanaceví, at $79 a tonne. What should we be looking at going forward in the fourth quarter or even into next year?

GODFREY WALTON:

Hi Brian. This is Godfrey. I think you're going to see similar costs to Q3. Assuming the peso stays where it is and on the operating side of things we look like we've got pretty good control on the costs and we may be able to tighten those up, so we don't expect any big jumps as we go forward.

BRIAN MARTIN:

Great. Thanks guys. That's all I've got.

OPERATOR:

As a reminder, if you wish to ask a question, please press star and one on your touch-tone phone.

The next question is from Andy Schopick, a private Investor. Please go ahead.

ANDY SCHOPICK:

Thank you. Brad, I'm going to ask you to venture an opinion based on your many years of experience in this business and in running the company. Under the current conditions that exist in the whole mining sector, do you wish to venture any opinion about the viability right now of the sector and the ability to continue under the current gold and silver price conditions? And what's different about the situation this time compared to prior years, say before 2008?

BRADFORD COOKE:

That's several questions in one, Andy. Thanks for your question. I think what's different from the 2003 to 2008 move up in the silver price is that previously it was initially fundamentally driven, that is real growing industrial demand primarily for electronic products, and I think electronic demand peaked on an annual basis during that period up in the 6% range. Now it's growing only at about 3% and so real demand has pulled back. But what pushed it to its high from 2009 to 2011 was not real demand at all; it was actually the move of investment demand. These comments can speak for gold as well. So that boom was excessive. In Greenspan's terms it was probably irrational exuberance and we're still paying for it with a four-year correction. I think the correction is just about done but that's an opinion.

To the rest of your question, yes, I think the—first of all, the mining group, we're a pretty resilient bunch so we'll roll with the punches no matter how tough, and so you've seen the entire sector, gold and silver, continuously reduce costs and pare back operations to stay alive. This has been four years in a row now that the sector has been doing that.

How much more is possible? In general, not a lot. For Endeavour we still have a little bit more to capture at El Cubo. Q3 was really our first full quarter with the expanded rate at El Cubo and we didn't get to our forecasted rate. We hope to get there here in Q4. I think there's a little bit more grade to capture at El Cubo which will have a very nice additional impact on costs. So, I think everybody has got a little bit more they can trim but not a lot, and then you're basically, from a fundamental point of view, you're at steady state.

We are finally seeing some failures but they're at the very junior end of the sector, in both gold and silver. You're only seeing the smallest companies with the toughest debt-cash ratios going under and I think you'll see a little bit more of that, but like I said, we're a resilient bunch, Andy, so probably not a lot.

I don't see any huge change on the fundamental side from the point of view of mine shutdowns. Interestingly enough, Andy, according to some research groups, there was a supply-demand deficit last year of about 11 million ounces. I believe that was Mining Focus out of London, and they are forecasting an almost doubling of that supply-demand gap this year. So it does imply that we must be getting close to the bottom and that fundamentals will in fact reassert themselves as that gap between supply and demand grows.

Does that help?

ANDY SCHOPICK:
Yes. I appreciate the answer, and as far as the last part's concerned, let me just say that that situation existed with platinum as well and yet platinum prices continue to dive. So I'm not sure that I'm overly confident or optimistic about any supply-demand ratio because I really don't know what the distortions are out there relative to China or somewhere else, but in any event certainly it is not the only factor in terms of determining a bottom.

BRADFORD COOKE:
True enough, and coming back to the concept of investment demand, or jewellery demand in the case of India, China is on track to come close to if not break its 2013 record for gold imports. India is on track to beat its record last year for silver imports. So there's still real growth coming out of the Far East. It's just that we've seen so much selling out of inventory; in the case of gold it was from the ETFs. In the case of silver, I honestly don't know where it's come from.

ANDY SCHOPICK:
Yes, I've heard that from other places as well. All right. Thank you very much.

BRADFORD COOKE:
Thanks for your questions.

OPERATOR:
Once again as a reminder, if you wish to ask a question, please press star and one on your touch-tone phone.

There seems to be no questions at this time. I'll turn the conference back over to Mr. Brad Cooke for closing comments.

BRADFORD COOKE:

Thank you very much everybody. We've had three very solid quarters. We expect Q4 to be similarly solid and we'll have survived yet another year of lower metal prices. As I mentioned just a couple of minutes ago, I think we can probably do a little bit better on the cost side, especially at El Cubo, and I am looking after this four-year correction for a turning of the tide in the coming months. Who can say when, but we can run our business at these prices for the foreseeable future. I guess if you were to ask me if we could do this for five or 10 years, we've been remarkably successful at doing what we have to do, so I think there's your answer.

Again, thanks for joining in and we'll talk to everybody for our year-end call in the New Year. Over to you, operator.

OPERATOR:

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