TRANSCRIPTION

Company: **Jervois Global**
Date: **21 October 2022**
Time: **9:00am, AEDT**
Duration: **33 Minutes**
Reservation Number: **10025307**

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Operator:

Thank you for standing by, and welcome to the Jervois Global - Q3 Results Investor Call. All participants are in listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you'll need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr. Bryce Crocker, CEO. Please go ahead.

Bryce Crocker:

Harmony, thank you very much and a pleasure to be here today. Before I start on the call, I'd just like to make a reference. Obviously, it's been a very sad week for Australian mining with Peter Bradford passing. When we had our strategy session recently at Finland, and as we have done over a number of years when peers come up, who we believe are strong competitors and companies that we'd look to as being success stories, particularly in the Australian market. IGO is typically at the top. Obviously, thoughts go out to IGO, the employees, Peter's family, and a very sad week in Perth. Other than obviously the background context, which is very tragic.

We are pleased to be here today to talk about the journey that Jervois, we're making, with regard to our platform in cobalt and nickel that we've achieved thus far. Since we've started the quarterly reporting and operating results, following the acquisition of Freeport Cobalt, now, Jervois Finland, we cautioned against reading too much into the quarterly results. There's going to be volatility in the quarterly reporting that comes through the P&L, and investors, and certainly we and our Board look through this at the substance and the earnings over the cycle of the underlying business.

So if we move through, we've got the disclaimer, and if we just perhaps move through to the highlights, please, on slide four.

With regard to ICO, many of you would've seen the recent opening ceremony up at the site. We've commenced initial commissioning and celebrated the opening of the mine, which was attended by US and Australian dignitaries, including the Governor of Idaho, Ambassador Sinodinos, the Australian ambassador to the United States, representatives from the US Department of Energy and Commerce, and obviously the Idaho Congressional Delegation, had representatives there as well. It was an excellent event.

I'll talk about Idaho further in the today's materials.

If we move on to Jervois Finland, we saw a 20% increase in quarterly sales volumes. The financial results, as I mentioned at the start, were affected by the flow through of feed costs associated with purchases in a higher price environment, which we flagged as affecting Q3 on the last quarterly call. Last quarter, we downgraded EBITDA guidance largely due to the cobalt price, Q3, where EBITDA was essentially nil as a reflection of this, when adjusted for a cobalt price during the quarter of approximately $25 a pound, which again was lower than the 27.50 upon which the prior guidance was based. However, optimistic on the 2023 outlook. Reminder, I guess, that the last quarter has essentially been as weak as the cobalt market ever reaches, and the pricing floor was $25 a pound. This bodes well for when demand returns and illustrates the material change the EV's already having on the cobalt market.

Despite global EV production today being a relatively nominal figure of around a million cars a month, we are on the cusp, of certainly an up tick in demand of a scale that is going to be difficult for the supply side to accommodate.

Just moving on to SMP, certainly a part of the business that I'm particularly excited about. We've progressed detailed engineering for the refinery restart, received the environmental license with regard to the construction for the stage one underpinning the bankable feasibility study that was released earlier this year. Just returned from another week with the team at SMP. And I guess for context, when we published the restart feasibility study for 55 million CapEx, the NPV was around 140 US million dollars and the IRR was in the mid 30s on a post-tax basis. If you overlay current commodity prices and feed stock payabilities, post-tax NPV will rise to over $300 million. IRR will move up into the mid 50s. On the same inputs, the facility run rate EBITDA step changes about two times from the 30 to 35 US EBITDA that we had up to 60, 65 million. And I guess this also excludes the impact today of electrolytic nickel or class one, and where premiums currently reside and most importantly, where we expect them to trend in coming years when we bring Sao Miguel back onto the market from late next year.

Some of you may have sat in a Macquarie presentation, we presented at a conference yesterday, where our commercial team outlined the plating and melting grade premiums today, where they are in Midwest in the US, SMP’s traditional core market, they're trading at about a buck 50 per pound over the LME price. The assumption in the published BFS was that all-exported nickel would be sold at flat. That's a nil premium, and just an example of further upside in the current nickel market and why we are enthusiastic with regard to restarting Brazil.

You would've seen, obviously, there's been a suite of announcements coming through of legislative and programs in the US with the Inflation Reduction Act, the American Battery Materials Initiative that came overnight, Mineral Security Partnership, and the awarding of grants under the Bipartisan Infrastructure Law. All of these have significant implications for critical minerals producers, including incentives for domestic manufacturing and battery components, incentives for the extraction, processing of the batteries, critical materials domestically within the US. We remain highly engaged with both the US executive and legislative branches to ensure that we optimize our exposure to these policy drivers.

Just moving on to slide number five, please.

Some financial highlights here. Resilient year to date, financial performance, Jervois Finland adjusted EBITDA, year to date, $26.2 million. Group revenue year to date US$280.9 million, 84.6 million for the quarter. We ended the quarter with 52.3 million in cash and also over 150 million in physical cobalt inventory.

Moving on to slide six, seven with Jervois Finland, so I won't go through the consumer segments in the usual level of detail. As I mentioned, there was a Macquarie thematic call that our commercial team presented on overnight, where they did a much better job than I. It's also filed with the ASX this morning. After our last quarterly, as we predicted at the time, the cobalt market stabilized. However, overall, it does remain weak. We indicated previously that China's the key - when their economy pauses, cobalt is dumped on export markets. That's had an impact over the course of recent months.

Their rolling COVID lockdowns, and ample supply flowing in, particularly from Indonesia. This has moderated near term pricing recovery, and I do want to stress that despite the headwinds in certain traditional markets, the outlook for cobalt does remain positive across 2023. Aerospace is very strong. This is the largest demand segment outside of batteries, both civilian, and military rebounding robustly.

Broadly, we see demand as stable or growing in parallel with GDP in the key industrial markets that we operate in. Whilst EV demand does remain robust, there's significant consumer interest in not only cobalt, but also nickel units. OEMs are active purchasing out on the curve in 2024, 2025, supporting the price of both commodities. And our commercial team has certainly seen a material pickup in inbounds associated with the OEMs in the last period.

Moving to slide eight, touching on sales performance. So sales performance, sales volume up 20% on the prior quarter. However, as you can see from the graph, it's really just a return to the historical run rate following Q2.

Inventories remain above normalized levels. The key benefit of the arrangement we put in place with Mercuria is allowing us flexibility to manage working capital in a way that reconciles with market conditions. James will touch on this.

Weakness in demand across Q3 has led to us decreasing our full-year sales guidance from 5,500 to 5,750 tonne range to 5,400 to 5,600 tonnes for the calendar year. The lower end then is essentially underpinned by a repeat of Q3 with regard to sales tonnage.

I'll then pass across to James to take you through the financials in further detail.

James May:

Thanks, Bryce. Turning to page nine, we can see the quarterly revenue chart on the left-hand side showing revenue for the quarter of 84.6 million. This revenue was 8% lower than the prior quarter. Sales volumes are 23% higher, offset by the impact of a 32% decline in the average cobalt price compared to Q2.

Overall, the quarterly revenue performance of 84.6. It's a strong result in the context of both the cobalt market volatility that we've seen in recent months and also the historical sales performance of the business through time. As we foreshadowed in our last quarterly update back in July, temporary margin compression is occurring in the second half as the cost of cobalt raw materials purchased in prior higher-priced periods and held in inventory flow through to the P and L.

We managed price risk for our raw materials inventory based on how purchases are priced under the structure of our supply contracts including QPs. However, a proportion of our inventory is fully priced at any point in time in the cycle, and therefore, we do occasionally generate inventory gains and losses that flow through to EBITDA in periods where prices are volatile.

Despite the impact of temporary headwinds in the market, our operations continue to perform extremely well. We retain a sharp focus on addressing cost pressures, maximizing efficiencies, and managing our product mix to generate the best possible margin outcomes for the business. As Bryce noted, our sales volume guidance has been revised down slightly for 2022 from 5,400 to 5,600 tonnes for the current outlook and the cobalt price for both Q3 and the spot assumption underpinning Q4 has reduced from 27.50 to around $25 a pound, and as a result, the EBITDA guidance for the full-year 2022 has been revised to a range of $27.5 million to $32.5 million based on those current assumptions.

If we just turn to page 10. Working capital, it shows a stable position with a net position relatively flat in financial terms and a slight increase in physical cobalt inventories. In addition to our cash position of over 50 million at quarter end, our balance sheet was supported by physical cobalt inventories largely in the form of finished goods, totaling over US$150 million. We have previously guided the market that the optimal range for our inventories is to have a target range of 90 to 110 days. We are still sitting above that level at 30th of September at around 160 days. As we indicated in our last quarterly release, our aim is to reduce inventories back to this target range. However, we have determined that the optimal strategy to do this is to carefully manage the pace of the industry unwind. The approach is designed to preserve value in periods where physical cobalt markets have been relatively illiquid and to support management of near-term supply chain risks, particularly the reemerging risks of potential disruption in the DRC.

As we release cash from working capital reductions, we will use that cash to repay the Mercuria loan. The key purpose of the Mercuria facility is to buffer temporary working capital increases due to higher cobalt prices and spikes in inventory volumes, and we have drawn down on that loan for this purpose during the course of the year. As working capital normalizes, it is prudent to pay down the loan and look to reduce leverage in the business.

Finally, in accordance with accounting standards, we reviewed the inventory recorded on our balance sheet at 30th of September to assess whether the cost recorded was in excess of the inventory's net realizable value. We determined that the cost was more than NRV and recorded a 17 million non-cash charge in the quarter. These types of accounting adjustments are rare in the history of the business and have occurred only historically during environments of extreme price volatility, such as what occurred this year, with a peak-to-trough decline in the cobalt price of around 40% between May and July this year. In view of this and the non-cash nature of the adjustment, we have excluded this adjustment from its impact on adjusted EBITDA. A reconciliation of statutory profit to EBITDA and adjusted EBITDA is included in the appendix for further reference.

With that, Bryce, I'll turn back to you to talk further about ICO.

Bryce Crocker:

Thanks, James. So we've just returned, as I said, from the opening ceremony. It's busy. We're averaging about 250 people per day on site. The camp is now essentially fully occupied with the operation running 24/7. That's obviously led to a significant uplift in productivity, albeit we are still seeing continued challenges with turnover associated with the US labor market.

Starting on the mine, I guess, the multiple ore faces are open. Running to slide 12, if you look on the bottom right graph with the circles, you can indicate that there's been good progress since the last quarterly. Staffing turnover in the mine has actually improved with the opening of the accommodation camp at site, and the underground infrastructure is now being conversion from outside to underground shops occurring now, and that's going to steadily occur across November as all equipment transfers from the surface to underground ahead of the upcoming winter.

On the surface, major equipment installs are essentially all complete. Focus now is really electrics, piping, mechanical completion, testing. Crusher and ore conveying, tailings thickness in its final stages. Filters essentially nearly complete. On the concentrator, activities are heavily focused on completing the final steel to support equipment placing and then final mechanical and electrical tie-in. The main substation's complete. Teams pulling the cables today when I spoke to them. Currently, first ore expected to be processed late November with continuous concentrate production across December, both copper concentrate and cobalt concentrate.

Touching on the expansion. Sunshine drill plans for next summer continue. In the interim, all the drilling on the RAM deposit, which is the core ICO mineral resource, that's now migrated underground. That will continue over winter and we have a strong focus on resource expansion, particularly tied in to the US government initiatives that I referred to earlier.

If you move to slide 13 please, with São Miguel Paulista. Ausenco are busy with a large team working out of the plant, as I mentioned, focused on advanced engineering and procurement. These work streams are really the first part of the 55 million capital cost. The POX study optimization continues. That's linked to the ongoing commercial negotiations for ICO cobalt concentrate. We also announced that Carlos Braga joins us with a long resume, including McKinsey, A.T. Kearney, and his leadership now consolidates the Jervois Brazil management team, which is largely complete. I spoke earlier around the tailwind that market conditions represent for São Miguel Paulista and we are genuinely excited to be adding a third operating asset to the portfolio in 2023.

I'll pass back to James for corporate.

James May:

Thanks, Bryce. On page 14, starting with a cash position for the group. On the chart, you can see the opening cash balance at 30th of June was 57.6 million US, and we then drew down remaining ICO bond proceeds from escrow in July, representing the inflow bar that you see here. The major expenditure in the quarter, capital expenditure at ICO, where, due to the progression of the project, we invested a further 24 million US in the period as we look to bring the asset into commissioning and the run-up to sustainable nameplate production that's expected in Q1 2023.

You'll also see the acquisition of SMP during July. That closing process triggered a payment under the acquisition structure that equates to about 9.5 million US, and you'll see some additional other costs there, including interest payments, to arrive at the closing cash balance. Overall, we continue to maintain a balanced funding strategy. The aim is to support our growth objectives and continue to provide flexibility to navigate market volatility including the working capital peaks and troughs that we spoke about earlier. Bryce, I'll hand back to you to summarize.

Bryce Crocker:

Thanks, James. So obviously, Jervois Finland has faced a number of headwinds during the quarter, however the fundamentals of the business are strong and certainly we've got a lot of confidence in its outlook moving forwards. We're genuinely excited around the future of the company. The company is going to be fundamentally transformed across 2023, where we'll end the year with three operating assets providing far greater diversity and resilience to market volatility. I've touched on SMP, but it's just an example of the headwinds that have affected Jervois Finland, they're tailwinds in the case of São Miguel Paulista. So we're really excited to be bringing that asset forward to complement the rest of the portfolio.

The balance sheet is underpinned by over US$200 of US as cash and physical cobalt at the quarter end and together with the outlook for our operating sites, underpins the unique investment case that Jervois is. So hope I've conveyed we're excited for the future and I'll open it up the questions. Thanks, operator.

Operator:

Thank you. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question.

Your first question comes from Andrew Hines from Shaw and Partners. Please go ahead.

Andrew Hines:

Thanks. We're all working out how do we get used to the volatility of these operations, Bryce? Obviously, a difficult quarter that last one and trying to model this going forward is all going to be very interesting. But I guess the key question I've got, Bryce I know it's just a quarter and I agree with you. I think the outlook for this industry and certainly going forward looks much better. You've got a lot on your plate over the next 12 months. I guess the key question I get asked by investors is, have you got the capacity to deliver all this both financially and with the management team? Are you taking on too much as you go through this process and are you able to fund everything that's on your plate in terms of all the expansions? Have you got the liquidity available to do all that? Perhaps if you address both those. Thanks, Bryce.

Bryce Crocker:

James, why don't you take the easy question on the financials and liquidity to start?

James May:

Thanks, Bryce. Look, I think the answer there is, Andrew, we continue to have a range of options available. We're blessed by owning a hundred percent of all of our core assets and add together with the financial resources that Bryce spoke about, the current cash position and the perhaps too healthy position we have in terms of inventories, we do have a balance sheet that is able to support us moving forward with the near term. I think notwithstanding that, we are obviously a growing company and we'll look to continue to explore all options in terms of what the right funding mix is for the various activities we want to pursue in 2023, particularly on SMP.

Bryce Crocker:

I guess just to add a but little color, Andrew. There is a process on the SMP. We're engaged with a number of counterparties. I think that certainly the value of SMP is materially different to what we paid, but I also think that the value of SMP, as you may have gathered through the tone, is going to be even greater in the future. So we're running a process, we'll see what comes in. We've got flexibility in terms of how we do look at funding that particular asset. There's also flexibility under the existing Mercuria facility. But also you'll be aware that we're actually quite a conservative group in many ways and we do believe that we want to participate and be in a strong position to participate in what's likely to transpire in the industry in the years to come. But certainly São Miguel is something that provides a high degree of flexibility where we can look at opportunities both at the asset level and then trade that off against alternatives.

Andrew Hines:

That's great. Thanks. Obviously, the other question of that question was just the capability of the management team and I certainly note you've built a very good team together and I often talk to investors and say that the Jervois management team is one of the best that I see in the small cap resource land. But there's a lot happening and I know you are super busy traveling around the globe. Are you trying to take on too much at the same time?

Bryce Crocker:

Apologies for oversighting the second limb. I'm very conscious of organizational stretch and I think certainly the discussions that I have with the Board and our management are and how we're trying to position ourselves in the market as being differentiated is that many companies don't deliver what they say. I do believe that we've got a team that has the capability to deliver. I think that Carlos Braga coming on in Brazil is an example of someone who's yet another outsized candidate to be joining a company the size of Jervois given his resume, and he's got the contacts and the relationships in that country. And when you do go down to Brazil, you'll see that certainly the quality of the team that we have there is strong.

For those that have visited Idaho, they can see that Matt Lengerich, who's handling the operations and Mike Romaniuk who's been doing construction, again, extremely, extremely capable. Mike Romaniuk will swing down as Project Director and make himself about as popular in Brazil as he's made himself in Idaho. But he's effective. And ultimately we do believe that transitioning the portfolio to three operating companies in 2023, it's the right thing to do. And certainly, I'm very focused on delivering that and I do believe that we've got the organizational depth and certainly between Peter and I and other members of the Board in terms of our industry contacts, the quality of the individuals we have around the sites, it filters down from the corporate level as well. So I am confident that we've got the organizational capacity to deliver what we need to. And I guess the other just aspect to touch on is I had a number of meetings down in Brazil a couple of weeks ago. Obviously, the Kokkola refinery is the preeminent cobalt refinery in the world and having that technical expertise in house, again, for those on the phone that have gone through Kokkola and visited the team and understand the capacity we have there. Again, we're not taking our eye off the ball in Finland, but certainly, as we pertain to operational readiness, et cetera, there's going to be a significant amount of training and an ability to use that technical capacity that we gain through the Freeport Cobalt acquisition of what's now Jervois Finland.

Andrew Hines:

Thanks, Bryce.

Operator:

Thank you. Your next question comes from Adam Baker from Macquarie. Please go ahead.

Adam Baker:

G'day, Bryce and team. I think we all saw this week, the US$2.8 billion in US government handouts to some of these critical mineral projects in the US. Just wondering if you've investigated this opportunity for ICO or any... Now you've got your downstream at SMP, but any potential opportunities there for the tapping into the US debt markets and given that it is a critical minerals project and with China having about 80% of the refinery capacity in the cobalt sector at the moment?

Bryce Crocker:

Certainly, Adam, we've had extensive discussions with, and it's public, with each of the DOD, DOE, DFC and the Administration, both prior Administration and the Biden-Harris

Administration. And clearly there's a lot of support right now for transitioning their economy and supporting that. And clearly, we believe that we're an important contributor to it. I think that the representation you saw at the mine opening reflects that and we're continuing to discuss with them about what is the right approach to optimize the overall footprint, both not only for Jervois but particularly for the United States with regard to its economic and national security interests.

Adam Baker:

Sure. Thanks. And SMP stage two BFS that that'll be December quarter. How should we think about the... Apologies, I meant the supplemental stage one BFS for the December quarter, but yeah, how should we think about the stage two SMP BFS and the potential Jervois Finland expansion?

Bryce Crocker:

I think for this stage two, I do believe that ultimately São Miguel strongly believe that it's going to get back up to 25,000 tonnes. But I guess it comes back partly to Andrew's question on organizational capacity and focus. I do believe that the right strategy is just to get it operational, get it started, and then debottleneck. Once we're the restart really study a targeted number of 10,000 tonnes of nickel, 2,000 tonnes of cobalt. I do believe that there's upside to that, and I believe that the right way to really quantify that upside is to get into operations and then we'll start throwing additional material at the site in terms of purchases from the traders and the commercial team, recycled units, and just see where they can stretch to without additional capital. It's a much better approach in terms of capital intensity. So the stage 2 BFS in terms of a larger capital project that's not currently on the cards in terms of what we're looking at.

With regard to Jervois Finland's expansion, that's continuing. They're going through and in the final stages of appointments for the various work streams. And again, I think that certainly the ability to expand within Europe on a Brownfield site that we've lost none of our enthusiasm for that. And certainly the OEMs who we're talking to equally, these are units that are genuinely wanted. They're not units that are wanted today. Clearly we're not one to sugar coat the market, and you can see that the market as of right now, is weak, hence the Q3 results, but certainly the inbounds that are coming from OEMs and the overall sentiment, particularly when you see some of the hedging and some of the forward sale and purchases that are occurring by the OEMs in large volumes in cobalt out in that 2024, '25 period that I mentioned, depending the price, the outlook and the need for Jervois Finland's expansion is genuinely real once we start moving out to that same timeframe.

So certainly we remain excited by the expansion in Jervois Finland, and we've had various discussions with the Finnish State, et cetera, when we're across there recently for the Board and strategy session that I referred to earlier.

Adam Baker:

Sure, thanks. Just quite interested in your comments about the inbound interest in for SMP refinery. You seen quite a lot of MHP getting converted out of Indonesia at the moment. Just wondering if this is something that you got knocking on your doors or just if you could expand on your comments on that.

Bryce Crocker:

I think the nickel market's undergoing a structural change and the Chinese never fail to surprise, I guess. They surprised on nickel pig in terms of their ability to do it in China. Then they're surprised on their ability to export it to Indonesia and now they're surprising on their proficiency for ramping up HPALs faster than what most people expected. Certainly there's a significant volume coming out of Indonesia now then upwards of 20,000 tonnes contained a month. That's having a significant impact on pricing. So MHP pricing's back into the sixties on nickel, cobalt less, and this is a structural change that we think provides a cocoon or a halo for São Miguel because you've got a protection, you're essentially buying a raw material in and Indonesia the forecast, and what we are certainly seeing from our sources is that supply growth is going to continue and we see structural pressure on those payabilities.

We used 75% for the BFS and I don't see that returning anytime soon. And obviously we've also got, with the removal on the demand side, the electrolytic nickel market, again, a structural change. You've essentially taken 25% of available units off the market via Norilsk through self sanctioning, and obviously the LME is looking at excluding that material from delivery.

Again, that's an enormous quantity of material for a part of the market, that São Miguel via itsa product Tocantins, which is a 99.9% nickel product. It's higher grade than LME. A premium product, sold traditionally into the US, also Europe, but particularly the US Midwest into specialty steel. All the circumstances are really providing a window to the work that really underpins how exciting for São Miguel and it's future in a way that just wasn't necessarily apparent even six to nine months ago.

Adam Baker:

Sure. Thanks for that, Bryce. I'll hand it on.

Operator:

Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. We'll pause for any further questions to register. Thank you. There are no further questions at this time. I'll now hand back to Mr. Crocker for closing remarks.

Bryce Crocker:

Okay. Well thank you all for your time. Hope I conveyed we're enthusiastic about the remainder of 2022 and into 2023 and look forward to hosting you again next quarter. Thanks very much.