

HD Event Brief of Q4 2013 Peabody **Energy** Corp. Earnings Conference Call - Final

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OVERVIEW

BTU reported 2013 revenues of \$7b, diluted loss per share from continuing **operations** of \$1.12 and adjusted diluted EPS of \$0.34. Expects 1Q14 adjusted diluted EPS from loss of \$0.10 to earnings of \$0.14.

FINANCIAL DATA

1. 2013 revenues = \$7b.

2. 2013 diluted loss per share from continuing **operations** = \$1.12.

3. 2013 adjusted diluted EPS = \$0.34.

4. 2013-end cash = \$444m.

5. 2013-end liquidity = \$2.1b.

6. Expects 1Q14 adjusted diluted EPS from loss \$0.10 to earnings of \$0.14.

PRESENTATION SUMMARY -

2013 Financials (M.C.)

1. Highlights:

1. Achieved many objectives outlined at beginning of year.

1. Significantly reduced cost.

2. Lowered CapEx.

3. Maximized cash flow that allowed to continue deleveraging plan.

2. Success of aforementioned improvements helped to partially offset effects of challenging markets, along with some specific items that affected 4Q13.

2. Income Statement:

1. Revenues \$7b.

1. Lower realized pricing in:

1. US.

2. Australia.

2. Shipments rose to 252m tons as higher Australian and trading and brokerage volumes offset planned reduction in US shipments.

3. Adjusted EBITDA:

1. \$1.05b vs. \$1.84b in 2012.

1. While reduced by nearly \$800m from lower prices, was partly offset by \$340m in savings from cost initiatives.

2. US **mining operations** declined \$1.12b, primarily due to lower volumes and realizations.

3. Australian contributions of \$317m impacted by approx. \$700m from lower pricing.

1. 4Q13 volumes and cost affected by \$100m related to longwall commissioning delays at North Goonyella and now resolved labor action at Metropolitan Mine, which increased cost approx. \$5 per ton.

2. While equipment issues at North Goonyella have taken longer to remedy than originally expected, identified technical issues and plans to be at full production capacity in 2Q.

4. Incurred \$507m in pretax charges for asset impairments in 4Q13 and recorded \$31m pretax charge related to global settlement with Patriot **Coal** and United Mine Workers of America.

1. More than 80% of impairment charge relates to:

1. Change in contractor cost structure and expected **coal** quality at shorter-lived Australian Mine.

2. Adjustment of MDL 162 resource tenement towards estimated recoverable value.

3. Write-off of valuable reserves associated with closure of small US contract **mining** operation that supported Atlantic export strategy.

5. Income Taxes:

1. Total benefit of \$448m driven by:

1. Remeasurement of foreign tax accounts.

2. \$124m tax benefit from impairments and settlement charges.

3. Normal tax benefits that was larger-than-expected due to reduced earnings.

6. Diluted loss per share from continuing **operations** \$1.12.

1. Includes \$1.63 per share relating to impairment and settlement charges.
7. Adjusted diluted EPS \$0.34.
8. US:
 1. Volume and revenue per ton down 4%.
 2. Aggressive cost containment initiatives and higher productivity led to 3% decline in unit cost for Midwest and West regions.
 3. Increased labor productivity nearly 9% by:
 1. Improving **mining** methods.
 2. Reducing work force by 12%.
 4. Aforementioned helped mitigate cost impact of lower volumes.
9. Australia:
 1. Volumes increased to 34.9m tons on higher metallurgical shipments related to increased productivity at PCI mines.
 2. Revenues per ton declined 22% in 2013 on lower realizations for metallurgical and export thermal **coal**.
 3. Shipped 15.9m tons of met **coal** at avg. price of \$117 per short ton.
 4. Sold 11.4m tons of seaborne thermal **coal** at avg. price of \$79 per short ton.
 5. Cost per ton down 4% from prior-year; lowest since 2010.
 1. Made structural cost reductions by converting four mines and two preparation plants to owner-operator status.
 2. Advanced productivity improvements at PCI mines.
 6. Aforementioned improvements and 20% reduction in Australian work force resulted in total productivity gains of 27%.
10. Trading & Brokerage:
 1. Results continued to be impacted by:
 1. Low volatility and pricing in seaborne market that led to decline in mark-to-market earnings and reduced export margins.
 2. Lower US brokerage volumes and margins primarily related to Patriot **Coal**.
 3. Compressed margins on US and Asian exports.
 2. Expects results to remain constrained at approx. 5% of adjusted EBITDA until market conditions improve and volatility returns.
3. Other Metrics:
 1. Operating cash flow \$722m.
 2. Reduced CapEx by over \$650m vs. 2012 levels.
 1. Allowed to reduce debt by over \$200m.
 2. Expected to total \$275-325m in 2014.
 1. Investments focused on maintaining production levels.
 3. Liquidity \$2.1b.
 4. Cash \$444m.

5. 3Q13 credit facility refinancing allowed to increase liquidity, extend maturities and gain financial flexibility with significant covenant headroom.

4. Outlook:

1. 1Q14:

1. Adjusted EBITDA \$170-230m.

2. Adjusted diluted EPS from loss \$0.10 to earnings of \$0.14.

3. Ranges reflect:

1. Lower pricing in Australia and US.

2. Several large contract reopeners in US at lower prices, primarily in Midwest.

3. Ongoing longwall commissioning activities of top **coal** caving system at North Goonyella.

4. Longwall moves in Colorado and Australia.

2. With operational improvements to be completed in 1Q14, expects improved results in 2H14 on:

1. Increasing volumes.

2. Lower cost per ton.

3. Expectations of improving markets.

3. 2014:

1. US volumes 185-195m tons with increased Western shipments offsetting slightly lower Midwest volumes.

2. Australia sales 35-37m tons including:

1. Higher metallurgical volumes of 16-17m tons.

2. Export thermal volumes of 11-12m tons.

3. Remainder from domestic contracts.

3. Revenue per ton to decline 5-8% in US.

4. Lower US cost per ton 1-3% vs. 2013 due mainly to cost improvements in west.

5. Australian cost targeted to be low-to-mid \$70 per ton range as further cost reduction efforts are partly offset by increasing mix of higher cost metallurgical **coal**.

2013 Business Review (G.B.)

1. Global **Coal** Markets:

1. Demand reached new highs.

1. **China** and India drove record imports.

2. Germany and Japan added new **coal** generation.

3. Higher natural gas prices in US resulted in utilities switching back to **coal**.

2. Strong supply.

3. Seaborne prices declined as shipments outpaced demand.

4. Producers responded by reducing CapEx and closing high-cost mines leading to improved market conditions in 2014 as supply demand balance improves.

5. Metallurgical **Coal**:

1. Seaborne supplies increased nearly 30m tons led by Australia.

2. New projects, take-or-pay agreements, lack of weather disruptions and lower Australian dollar resulted in growth in exports.

1. Australia widened **lead** over other competitors.

3. **Chinese** imports increased over 40%.

1. Overtaken Japan as largest importer.

2. Imported only 10% of metallurgical **coal** needs and rising cost, declining domestic quality and transportation advantages continued to support additional imports.

3. Near-term markets likely to improve once Co. moves past temporary demand barriers like near-term cyclical lows from **Chinese** New Year and new trend of reducing industrial production in winter as seasonal conditions reduction strategy.

4. Sees improving metallurgical **coal** fundamentals as 2014 progresses with demand growth that exceeds increases to supply.

6. Seaborne Thermal Markets:

1. New **coal** generation in number of key countries supporting import demand.

2. **Chinese coal** generation increased 7%, while domestic **coal** production increased only 1% leading to record thermal **coal** imports of nearly 250m tons.

1. **China** targeting build out of 100 gigawatts of **coal**-fueled generation by 2016 and more than 20 **coal**-to-gas plants by 2020.

3. India's **coal** generation rose 8% driving 25m ton increase in thermal **coal** imports to new record 135m tons.

1. Imports have tripled over last four years as domestic production continues to lag demand.

4. Japanese **coal** use increased every month in 2013 over prior year as new **coal** generation was added to replace nuclear capacity.

1. Advanced **coal** plant has been slated to be built at site of former Fukushima nuclear plant.

5. European **coal** generation remains strong as utilities closed 12% of their gas plants in 2013 due to high natural gas prices.

1. Germany bringing on 6 gigawatts of new **coal** generation resulting in country's highest **coal** usage since 1990.

6. South Korea, Indonesia, and other Asian countries have added new **coal** generation and IEA now forecasts that **coal** use will continue to grow and overtake natural gas as Southeast Asia's main fuel for power generation.

7. BTU expects that some 70 gigawatts of new **coal** generation will come online in 2014 and looks for 30-40m ton increase in seaborne thermal demand this year with **China** and India accounting for two-thirds of growth.

7. **China**:

1. Taking path to improve emission to maintain **energy** security.

2. All analysis suggest that **China** will continue to increase **coal** use for electricity generation and **coal**-to-gas applications more than offsetting reduction in direct uncontrolled use of **coal** in residences and small businesses.

3. Nation will continue to build out advanced **coal** generation and placed emissions control equipment on existing plants.

4. Net result will be that **China** will use far more **coal**, but more cleanly than today.

1. Same model that US used from 1950-2010.

8. Longer-term global **coal** demand will rise as urbanization and industrialization trends in Asia continue leading to:

1. Steel production growth.
2. New **coal** generation being built.
3. **Coal** being converted into synthetic natural gas.
4. Amid high international natural gas prices and nuclear usage declines, growing pushback against carbon policies and high-cost renewables.
9. For all aforementioned reasons, IEA and other observers project that **coal** will surpass **oil** as world's largest **energy** source in coming years.
2. Supply:
 1. Looks for production growth to moderate with:
 1. Significant slowdown in new developments.
 2. Closure of mines at high-end of cost curve.
 2. US thermal **coal** exports are likely to continue to pullback as export declines accelerated in Dec. to lowest levels of 2013.
 3. **China** projecting **coal** production to only modestly increase this year as larger new mines in west offset closure of hundreds of smaller **operations** in east.
 4. Large number of projects that have been canceled in past six quarters could **lead** to significant supply shortage over time as demand continues to increase and existing production capacity begins to decline.
3. US:
 1. Seeing strong market indicators, particularly in Powder River Basin after working through stockpile overhang that have prevailed for last two years.
 2. **Coal** demand increased 5% as utilities switched back to **coal**.
 1. Natural gas generation declined 11% on rising gas prices.
 3. **Coal** shipments dipped 3% and more than 200 mines have closed over last two years.
 1. Many of these mines are in east where Central Appalachia down some 13% last year.
 4. Combination of increased demand and lower production removed stockpile overhang in PRB.
 1. Customer inventories fell at fastest rate in more than a decade.
 5. 2014 starting off with below-normal temperatures resulting in record natural gas withdrawal and heating degree days more than 10% above avg. in **coal**-heavy regions.
 6. Benchmark gas prices exceeded \$5 per **million** Btu in recent days and far higher than that in some regions.
 7. Customer interest in spot **coal** supplies has increased in recent weeks.
 8. PRB inventories currently at 52 days of supply.
 1. 27 day improvement from 2012-end.
 2. Prices up nearly 40% from lows of last year.
 9. PRB and Illinois Basin best-positioned **coal** regions over longer-term with projected demand growth of some 100m tons by 2016 related to basin switching and increased capacity utilization.
 10. Coals fueled 40% of US electricity in 2013 and will be a major part of US **energy** mix for decades to come.
4. Other Details:
 1. Plans to expand on 2013 successes in areas of:
 1. Safety.

2. Operational excellence.
3. Cost reduction.
4. Capital discipline.
2. Six steps to continue to create shareholder value:
 1. Will continue to drive strong operational performance building on safety and productivity gains.
 1. Includes capturing benefits of North Goonyella longwall top **coal** caving system as it begins to operate at designed levels.
 2. Will target additional cost improvements as Co. fully realizes value of recent owner-operator conversions.
 1. After Co. completes converting Moorvale Mine in Queensland in 2Q, more than 90% of Australian production will be owner-operated.
 3. Will continue tight CapEx program as Co. benefits from investments made in recent years.
 4. Will continue to explore **sale** of non-strategic assets as part of long-standing role as portfolio managers.
 5. Will position Co. for growth using leading reserve position, Asian business development opportunities and global **coal** trading network.
 1. Looking forward to work with Shenhua on Asian **coal** trading as Co. implements new JV.
 6. Will advance major new global advocacy initiative and pursue improved **energy** policies around world.
 3. Launching comprehensive global campaign to build awareness and support to:
 1. Eliminate **energy** poverty.
 2. Increase access to low-cost .
 3. Improve emissions through advanced technologies.
 1. Initiative aimed at advancing public policy framework and investment climate for Co. and industry.
 2. Actions occur as challenges to **coal** exist in some key markets, but also as desire for low-cost **energy** growth.

QUESTIONS AND ANSWERS

OPERATOR: (Operator Instructions)

Michael Dudas with Sterne, Agee.

MICHAEL DUDAS, ANALYST, STERNE, AGEE & LEACH, INC.: First question for Greg, as you characterized the global markets for thermal and met, which market do you think is going to be quicker to correct the oversupply condition and begin to drive more meaningful or visible pricing?

GREG BOYCE, CHAIRMAN AND CEO, PEABODY **ENERGY** CORPORATION: Well, I think you're going to see a number of markets change. I think our view is that US exports are going to continue to decelerate and come down during the course of 2014. But also more importantly our view is that the supply growth that we've been seeing out of Australia this year is going to be significantly tempered through 2014. What we saw was a number of projects that were sanctioned and started during the heady days of seaborne pricing were completed, came into the market, and were brought online, and we don't see new projects of substance through 2014. So certainly the level of growth that we saw out of Australia will be tapered and tempered, and we see reductions, continued reductions in US exports.

MICHAEL DUDAS: My follow-up on the met side, looking at the Australian cost curve, can you guesstimate -- not speak to your position, but relative to other producers, is there an element of production that's loss making at current or near current high-quality coking **coal** prices? And are we going to see some of that wash itself off if prices stay low through the first half of the year during 2014?

GREG BOYCE: Yes, I would have to say that is our view that at today's current pricing there is still production coming out from both the US and Australia that is not sustainable. And we should see those rationalizations continue to unfold during the course of 2014.

We've always maintained that in order to be able to attract investments in the met **coal** sector that pricing was going to have to be say \$200 a ton for new capital and greenfield projects. So at some point here through 2014 and into 2015 we are going to have demand exceeding supply and we are going to have a period of time where we are going to have a supply short in the marketplace until new capital is sanctioned and new projects are built. Our view is that's not going to happen until people's views, everyone's views is that pricing is going to be at a higher level for a longer period of time.

MICHAEL DUDAS: Thank you Greg

OPERATOR: Paul Forward with Stifel.

PAUL FORWARD, ANALYST, STIFEL NICOLAUS: I wanted to ask about the 5% to 8% price decline you are anticipating in the US, can you talk about how much of that is going to be mix shift back toward the PRB, and how much of that is -- you mentioned in the press release the lower contract prices in the Illinois Basin, but can you break it down a little bit for us mix versus the contracts?

MIKE CREWS, EVP AND CFO, PEABODY **ENERGY** CORPORATION: Sure, this is Mike, there's a combination of two and I think you've hit on both. We referenced in the remarks we do have some large reopeners that come in and that's just a function of contract timing and when those contracts reopen, so we have some of that coming in this year that primarily impacts the Midwest but there's also some impact on the West. But then also within the West, we are projecting higher volume so you are going to have a higher mix of PRB **coal**, so you are going to get some lower realization per ton from a mix basis as well in the West.

PAUL FORWARD: All right, and shifting over to the met **coal** market, just appreciate the comments, Greg on Australia, I was just wondering also Peabody's view that kind of negative thesis on met **coal** pricing is partly based on the idea that over the next couple of years **China** will be able to grow domestic supply. What's your view on **China**'s internal met **coal** supply growth potential?

GREG BOYCE: Well, we have a more tempered view than others I believe in terms of what **China** will do with their met **coal** growth. I mean met **coal** is quote, a strategic commodity in **China**. They have been growing their imports.

When you look at the location of their new steel production capacity, it is designed to handle a much greater level of imports, and then you have got to look at the quality components of **Chinese** met **coal** versus what they can access in the international markets. As they continue to work on their emissions profiles from their industrial base our view is they will continue to use imports to help balance the quality parameters of what they have internally, so you know we see steel demand in **China** continuing to grow.

We think a good portion of that met **coal** demand growth will come from international supply. It's not to say that they won't provide some growth internally, but it will not in our view be able to sustain and meet their total demand growth.

PAUL FORWARD: Okay, thanks.

OPERATOR: Evan Kurtz with Morgan Stanley.

EVAN KURTZ, ANALYST, MORGAN STANLEY: My question is just on Australian costs, I kind of think about all the positives out there, there's a lot on the list, you have carbon tax repeal, a weaker Aussie dollar, the full year benefits from a lot of the owner operator conversions you did, the absence of Metropolitan, and correct me if I'm wrong, but maybe a fading headwind from Goonyella given the \$5 a ton hit in the fourth quarter. Do you think that your guidance for kind of low to mid-\$70s next year in 2014 is perhaps a little bit on the conservative side, maybe you can just walk me through some of those pieces and how you're thinking about all those?

MIKE CREWS: Sure Evan, this is Mike. When you think about, let's start with some of the things that may impact costs going up. First off, you're always going to have higher stripping ratios from year-to-year so you're going to have higher overburden removal costs. You're also going to have just your normal escalations or inflation around labor, services, input costs, and things like that.

We do have a higher mix of higher costs to produce metallurgical **coal** that's going to raise costs on an average basis overall. Now, what offsets that? Some of the issues that you mentioned, our cost reduction initiatives, our productivity improvements, are all going to be going in the other direction. To the extent the carbon tax is repealed, that is a benefit, which we've said previously is a \$1 to \$2 per ton, that has not happened yet.

We think the range that we have provided is reflective of the pluses and minuses, but I think once we get a little further into the year, we also have the potential for lower exchange rates. We have got about 25% of

the book open right now so every \$0.05 change in exchange rates is about \$35 million. So based upon our hedge book and the current forward strip on the Australian dollar we'd estimate that foreign-exchange benefits us some \$0.75 to \$1 per ton but the bias on the Australian dollar is to weakness, so there could be some potential benefit there.

And then finally why we look at we and we've talked about our cost reduction initiatives, we still think we have more room to run and continued optimization around owner operator. And we will continue to try and drive to the lower end of the range of the guidance we've provided.

EVAN KURTZ: Great, that's helpful. And maybe just as a follow-up, is it possible for you to break out the difference of the \$5 per ton that hit you took from North Goonyella and Metropolitan between the two, and do you view North Goonyella as being a year-on-year improvement or net neutral or a headwind in 2014?

MIKE CREWS: Well, for the impact, the split between North Goonyella and Metropolitan, about 80% of the fourth quarter impact related to North Goonyella and we've indicated we are still going to have some ongoing commissioning into the first quarter so there will be a full-year impact just from what happens the first quarter.

EVAN KURTZ: Great, thanks so much

GREG BOYCE: I would just reemphasize if we didn't have a mix change to more metallurgical coal in 2014, the Australian dollar or the Australian cost guidance for 2014 would be lower. We are still getting cost improvement benefits from our owner operator conversions from our productivity improvements. But they get masked once you start adding a higher component of metallurgical coal in the mix, our metallurgical coal mines are by nature higher costs than our thermal coal mines.

OPERATOR: Jerry Sussman with Clarkson's

JEREMY SUSSMAN, ANALYST, CLARKSON CAPITAL MARKETS: Greg, I just wanted to follow-up quickly on the Aussie dollar question, so just to clarify if we stay at the current level of say \$0.87 on the \$1, would you guys see an additional benefit this year relative to what you have given? And then next year I presume you're less hedged so maybe talk about the potential impact on that as well?

MIKE CREWS: So based upon the hedge position we have on right now there's about 25% open, and we assume an all-in effective rate that is actually going to be better than 2013. And that's at that \$0.87 forward, so based upon that we would project within our cost guidance that we would benefit from lower exchange rates by \$0.75 to \$1 per ton. To the extent the dollar weakens further we could have some additional benefit.

JEREMY SUSSMAN: And then for next year?

MIKE CREWS: Yes, in 2015, we are in the mid-50% hedged so all in, an all-in effective rate based upon the 2015 forward would be somewhat consistent with 2014.

JEREMY SUSSMAN: Okay. Much appreciated, and then just maybe shifting gears to the PRB, Greg you mentioned that you've seen an increased amount of requests I guess for spot business, if I heard correctly, can you maybe elaborate a bit in terms of what you've seen maybe over the past month. And then at 52 days worth of inventory, which is likely falling I would suspect, can you just talk about your general expectation for pricing throughout the year?

GREG BOYCE: Well, we turned over the year with about 10% to 15% open position and that's a little higher than we normally would, and we do that, as we've talked in the past because of our expectations of where prices may go during the course of a year. Obviously we don't have a price number to talk about, but suffice it to say, our view is, prices have come up from their lows in 2013 and we see positive pressure because of where inventories are at, where the weather continues to be, where gas prices are now above that \$5 level. And we've talked about it before, we don't believe that there are significant amounts of latent capacity in the Powder River Basin, and so we see that market strengthening considerably based on its current trend rates, particularly in stockpiles.

EVAN KURTZ: Excellent. Very much appreciated.

OPERATOR: David Gagliano with Barclays.

DAVID GAGLIANO, ANALYST, BARCLAYS CAPITAL: I just wanted to see if we can try and get some numbers around some of the commentary. First of all, on the met side, at what Pacific Basin benchmark price would cause you to cut your 2014 met coal volume targets? That's my first question.

GREG BOYCE: Well suffice it to say we manage our portfolio to make money in market conditions, and currently the market conditions we have, but I wouldn't be in a position to signal what our curtailment numbers are in the marketplace. I think we've shown that we made decisions to curtail **operations** when they're not profitable to continue to operate and so we have been active portfolio and operating managers and we would continue to do so.

DAVID GAGLIANO: If prices stay where they are in the spot market, the spot market indices that we see, will you continue to run at the 16 **million** to 17 **million** ton target run rate?

GREG BOYCE: Our current plans are to maintain our production where we are at today through these market conditions.

DAVID GAGLIANO: Okay. And then my follow-up, on the US side, what were the prices of the 15 I think it was roughly 15 **million** tons that you sold for 2014 delivery, and 10 **million** tons for 2015 delivery, what with the prices for those tons, if you could break it out by region that would be very helpful. Thanks.

MIKE CREWS: I appreciate that Dave as well as the consistency of that question quarter in and quarter out, but as you know we don't disclose the prices at which we are contracting on that. We do give obviously the breakout in terms of what the realized prices are when those occur. But as we did say, we are contracting at levels nicely above where we were contracting in 2013 at the depths of that spot price.

OPERATOR: Meredith Bandy with BMO.

MEREDITH BANDY, ANALYST, BMO CAPITAL MARKETS: I just wanted to ask, first of all, you mentioned Greg that you don't believe there's significant latent capacity in the PRB, where do you think is Peabody's capacity, especially in the US, given where your CapEx budget is, assuming you didn't really change any CapEx?

GREG BOYCE: Well we've got similar capacity to others in our **operations**. We can kick up over time and run our existing equipment a bit harder. And that would be the first activity that you would see us do in order to increase tons. We've got a few **operations** in the Midwest that are not operating on a seven-day schedule, so we could add those. And we've already increased our guidance for the PRB for this year versus last year.

So I think the immediate issues would be over time in the PRB, over time and maybe another day of **operations** at some of our Midwest **operations**. Once you get beyond that, we like others, will have to begin to source equipment to have any significant increase in production.

MEREDITH BANDY: Okay so would you say it's fair to say 5% to 10% above where you are operating today would be doable with that CapEx?

GREG BOYCE: Yes, I think that's a fair range, 5% to 10%.

MEREDITH BANDY: Okay, all right, thanks very much

OPERATOR: Timna Tanners with Bank of America.

TIMNA TANNERS, ANALYST, BOFA MERRILL LYNCH: So I want to shift back to Australia. Two questions there. We haven't heard from you since the Wilkie Creek decision, so I just wondered if you could please elaborate on what you're thinking there in light of that decision to shut the mine, and what it says about your **operations** in Australia more broadly. And then I have a follow-up.

MIKE CREWS: Sure Timna, this is Mike. As you know we've had an ongoing **sale** process for quite some time. We spent a lot of time with a tremendous amount of buyer interest, but given where the market conditions are, the profit outlook based upon the current market pricing in the forward strip, and some of the all-in costs of that mine around some of the logistical costs there, we've not generated sufficient buyer interest for us to act on that. So what we've done today is we have proceeded to close the mine. I think when you look at that, I would not draw broader conclusions around the rest of the portfolio. As we discussed when we put the mine up for **sale**, it's really non core to us, down in Queensland it's the only thermal mine separated, it goes out of the port of Brisbane, so it's not really within the core strategy that we have for Queensland and the rest of the met and thermal portfolio.

TIMNA TANNERS: Okay, that's helpful. Just wanted to know in addition, easy one, it's just if you could remind us on the Aussie dollar hedge position if you have one and how much. And then further to Australia, just thinking about the lower CapEx number, it doesn't apply much growth obviously from Macarthur, so just thinking, how do you think about the Macarthur growth, what would that take, what would you need to see there to maybe get that back into expansion mode?

MIKE CREWS: On a hedge basis for calendar 2014 we are hedged at about three quarters of our requirements, so 25% of that's open at an average age rate in the low 90s. And then beyond that, as I mentioned previously, the hedge position is in the upper 50s for 2015. With a little bit higher exchange rate, hedge rate versus 2014.

GREG BOYCE: Yes, this is Greg. Maybe I'll talk a bit about Australian growth and what we've been focused on. Obviously in these market conditions what we've been most focused on with the Macarthur asset base was obviously at Coppabella and Moorvale and recently at Middlemount is getting those **operations** up to their full capacity and optimizing the value of those assets in the existing market. Beyond that, we've been spending considerable amount of time and some resources doing additional drilling and engineering work on the reserve base that we bought.

As I said in our last call, I mean what we are seeing in that reserve base is a much stronger reserve in terms of quality and quantity than we had originally anticipated. If you remember, we put on hold the development of the Codrill Mine, we still have that in the portfolio as an option when we think that the markets are ready for new volumes. But in addition we've identified a number of other opportunities that we are continuing to advance as well. We have not forestalled growth activities in terms of we are continuing to develop the engineering and the reserve base and the technical database so we maintain our optionality when we think the time is right to begin to allocate larger amounts of capital into that platform.

OPERATOR: Brian Yu with Citi.

BRIAN YU, ANALYST, CITIGROUP: My question is a follow up on some that were asked previously, can you give us a breakdown with West and Midwest, how that 5% to 8% decline in average prices is going to work, just within those two regions?

MIKE CREWS: We would just say that the greater percent of that would be in the Midwest. You do have a bit of a weighting issue going on but the primary area there relates to those longer lived contracts that are now rolling up for reopeners.

BRIAN YU: Okay, and the second one is on CapEx, it was a positive surprise for 2014. We are getting to a \$0.70 to \$0.80 per ton CapEx, and I remember in the past you've said that number should be \$1.25 maybe to \$1.50. Is this sizable delta sustainable? Is this the new normal going forward? Or if not, how long do you think you can keep CapEx down at these levels?

GREG BOYCE: In terms of our CapEx, we've talked in the past, we think we can keep these CapEx levels low for the next several years. And let me just take a minute and explain why. If you look at our capital spend over the last five years, we started out in the US by recapitalizing our major **operations** in the Powder River Basin, north shale specifically. We implemented a trunks category five years ago that placed new equipment, upsized equipment, both in terms of trucks and large loading shovels into the Powder River Basin.

We then went in the Southwest and built El Segundo, brand-new equipment to build that mine. In the Midwest you'll know that we built Bear Run, again with brand-new equipment. Now the average loading shovel has got a 20 to 25 year life, trucks have a 10 year life, and so the replacement -- what we did is we significantly renewed our **mining** equipment platform in the US, so that our replacement cycle has been put on a hiatus because we are early in the lives of all of that equipment.

Then you roll forward to Australia and we converted all of our **operations** or a significant portion of them to owner operated during 2013 and now finishing up with Moorvale in 2014, again, all of that is new equipment. So when you look at sustaining capital, the biggest component of that is replacement capital for mobile **mining** equipment. And we've got now a number of years where we are in the early life of that equipment.

As you get 4 years out we will start to see some of that sustaining capital spend begin to come back in as we manage the replacement of our mobile fleet and our equipment fleet so that we are not looking at 10 years from now and having to do it all at once. So that's the biggest reason why we've got this great window of low capital spend for the sustaining platform, and it's very fortuitous to us because we've got these couple of years left of paying for these leases in the Powder River Basin. We don't see significant increase in sustaining capital until we get beyond that LDA payment schedule.

BRIAN YU: Okay, Thanks for all the detail.

OPERATOR: Justine Fisher with Goldman Sachs.

JUSTINE FISHER, ANALYST, GOLDMAN SACHS: The first question I have is on PRB production and I know that you guys had said that you could probably increase production by 5% to 10% without spending a lot more capital, and based on your guidance if you did around 185 **million** tons last year and it could go

up by as much to as 10 million tons this year, it seems like you are producing into some of the higher demand that you said you're seeing in the PRB. If you guys do that, and if we hear from other PRB producers that they do the same, what will prevent that from putting a cap on some of the pricing that you realize on kind of utility seed producers bringing on tonnage almost immediately into a better pricing environment?

GREG BOYCE: Well, I can't speak for others, I mean obviously we're not going to begin to spend over time and work extra hard unless we are getting significantly higher pricing for our product. And so we will just have to see how the current low inventories, high demand translates during the course of the remainder of the year.

JUSTINE FISHER: Okay, and then my second question is on the met coal market. You had said before that you expect US met coal production cuts, and frankly, that's something that we've been looking for as well, and I wanted to ask you because you are a US producer, but you don't have US met operations, what do you think is going to drive eventually the cuts that we need to see in the US? Because we also think that there's a lot of production that's not making money right now, but again, it's still being sold, and I know you cited reasons in Australia, the production has increased and the exports have increased, but in the US, we are finding it a little bit confusing. And some reasons I can think of are maybe again, producers have a lot of liquidity so maybe they're just selling money losing tons because they can afford to, that maybe they don't want to give up market share, so I can think of some reasons why, but what do you think will be the catalyst for getting the production cuts that we need to see out of the US?

GREG BOYCE: I think a couple of things. I think there was a view that if they could wait out the price horizon in international met coal that they could continue to run and produce tons into the international market. To a certain degree they were supported by reductions in terms of rail cost to the ports.

Our view is, if you listen to the calls from the railroads, I think they have done what they can, so there's no more to be added there. And in fact, prices have come down, so we are starting to see shipments come down. We think you can only have that strategy of losing money and waiting and sitting for so long. That's a perception from outside the East, I'll let you ask that question to the other folks on their call.

JUSTINE FISHER: I will try to. Thank you very much

GREG BOYCE: Thanks

OPERATOR: John Bridges of JPMorgan. John Bridges, your line is open, possibly take yourself off mute

JOHN BRIDGES, ANALYST, JPMORGAN CHASE & CO.: Hello?

GREG BOYCE: John are you there?

JOHN BRIDGES: I am, I am, sorry I got called off another call. Yes, I just wanted to ask you a big picture question with respect to US, with this amazing weather we've been suffering from, we hear stories that some of these coal-fired power plants which are supposed to be taken off-line in a year or two are running, and given the long lead times for new gas pipelines and things for the alternative power sources, just wanted to know your view on the practicality of some of these plants?

GREG BOYCE: That's a great question John. I guess it's our view that we are going to see some serious review of previous decisions as to the exact timeframe that some of these plants are going to be retired, because you are right, they are being run today, and we are seeing more and more evidence that people are concerned about the ability to supply power, particularly in swing periods, whether it be the summer or the winter. I mean comments from even the FRC commissioners around grid instability, we are seeing some folks begin to say well maybe we shouldn't target shutting down by 2017, we need to run these plants for a couple more years. And I guess as we see what's unfolding this winter, I think we are hearing more and more conversations around that and likely will see some decisions turned into a little bit longer run timeframe before they are actually shuttered. Now obviously some of those closures are -- have been negotiated settlements, I don't know what flexibility they have with those, but certainly the ones that were more voluntary in nature we think folks will take a closer look at.

JOHN BRIDGES: Okay, great, and just a follow-up. I just wondered what the problem was with Goonyella and the top caving, what problems have you been having?

GREG BOYCE: Thanks for that question John, because I know there's been a lot of interest around what's happening in North Goonyella and maybe I'll just take a minute to give a bit of a background and where we stand today. First in terms of the technology that we are using, this long wall, top coal caving technology. Historically at North Goonyella we have been mining about 4 meters of a 6.5 meter seam using conventional long wall technology, which means you've got a set of shields and you've got the shear that runs in front of those shields and so you're getting single side recovery of the coal that you're cutting. And

we've always struggled with the size of the equipment to be able to support the roof conditions at North Goonyella, complex geology and you all have lived through some of the ups and downs of geologic impacts in North Goonyella.

So what we did is, we looked at this technology called long wall top **coal** caving and what it did is, first of all it significantly larger, stronger gear. The shields, the shear, everything is sized much larger so that it has the capacity to withstand the geologic conditions in the roof. Second of all what it does is when you install it, you reduce the height of the thickness of the **coal** that you actually cut on the front side with the shear and the backside of the shields now have a conveyor on them where you allow the **coal** that you leave when you cut to cave down onto the conveyor, so you're in essence recovering both sides of the long wall. And that allows us then to go from only **mining** 4 meters of a 6.5 meter seam to getting the entire 6.5 meter seam.

Now this equipment is Caterpillar equipment so we are working with the largest equipment manufacturer of its type in the world. This Caterpillar equipment is a result of their **acquisition** of Bucyrus and a **company** called DBT which was a German **company** that designed and built these long walls for years in this industry, in fact we have a DBT long wall at Twenty Mile, which is one of the most productive long walls in the US.

So we have done this in cooperation with Yang **Coal**. Yang **Coal** was the first **company** to install one of these systems at their Austar Mine in Australia in 2006. So they had the operating experience and the benefit of that knowledge.

I'd also note that BHP Billiton has installed one of these long walls at their Broadmeadow Mine in Queensland as well. So the people that are involved in this, the technology that we are using is well-known. Like with any of these systems, when you introduce big gear and new systems, which are to a certain degree specially engineered for each application, you have issues.

Now, we would normally have a startup curve during commissioning that may last 60 days. But in the case of North Goonyella, this particular installation I would say two things, one, the installation of the equipment itself was delayed from when we originally thought it was going to take place. A lot of that was things that we did not plan as effectively as I would've liked in terms of our roads. As you can imagine when you bring extra heavy equipment underground you have got to have very good roads to bring it in on. We did a lot of work, but we also struggled.

But more importantly, we have had an unusual amount of what I would call significant equipment related issues. The rear conveyor that I talked about is having alignment problems that kept us from running it, the shear that cuts the **coal** on the front of the long wall has a control module on it, it's like the control module in your vehicle that you drive, we were losing those every 24 hours for some unknown reason.

I talked about the shields have to support the weight of the roof of the **coal** mine, and they have relief valves in them when the pressure gets too high because the last thing you want to do is catastrophically fail a shear. Well those hydraulic valves were -- have had issues in manufacturing. And then there's a monorail system that all the hoses and all of the other equipment moves back and forth across in the top of this shield system so that the shear can move back and forth and we've had issues with that. So unusual things to occur.

Now, where do we stand today? Good news is, the rear conveyor and the control system and the hydraulic valves, we have all -- we have got engineering fixes for those, we've got temporary fixes that we are operating under right now. And Caterpillar has designed and is sourcing and will be supplying during this quarter the replacement gear for those. The monorail system has got some additional engineering work to do, but again, we are putting on some temporary closures to that.

So all of that is on track. I've had a number of conversations with my counterpart at Caterpillar. There's no question that we have got the focus and the alignment between our organizations to continue to make this work. Once we get all of those things repaired then we will be back on to what I would call a normal commissioning cycle, and by that I mean, okay now we are **mining** at very high rates, what do we need to do to balance our underground gas flows and to maintain our maintain our production.

I will tell you that everything we see when this system runs we are even more excited than we originally envisioned it because of the size, it's supporting the geologic conditions that we had hoped it would, and also when it produces **coal**, it produces **coal** at a higher rate than we originally envisioned. So we've got full confidence that we're going to get this thing up and running. None of us -- we're all disappointed in the time that is taking, including Caterpillar, but it is a long-term solution to North Goonyella and it is going to increase the reserve base, increase the recovery, and ultimately lower costs as it's finally up and running. So I hope for everybody that bit of color helps understand what we have been going through at North Goonyella.

JOHN BRIDGES: Best of luck Greg, and thanks for the answer.

OPERATOR: Caleb Dorfman with Simmons and **Company**.

CALEB DORFMAN, ANALYST, SIMMONS & **COMPANY**: Greg, you talked about 20 **million** to 30 **million** tons of additional **coal** consumption basically in 2014. With gas prices about \$5 right now brings me to the thought, what is your gas price assumption for that gain and what type of additional upside could we possibly see to that 20 **million** to 30 **million** that year?

GREG BOYCE: The 20 **million** to 30 **million** tons would've been relating to the seaborne market. We expect the US demand to be up a similar amount. So if you netted it across everything we are looking at a 40 **million** to 60 **million** across the globe, but I guess just to be sure everybody understands we see 20 **million** to 30 **million** up in the US and we see the seaborne thermal market up 20 **million** to 30 **million** as well.

MIKE CREWS: In terms of the gas price, that would've actually assumed probably a lower gas price than what we are seeing right now in the spot market, something consistent with the forward strip, or maybe even a little bit below what the very current forward strip is given the upward movement that has occurred in the last week or two there.

GREG BOYCE: Saying it another way I guess is if gas prices stay where they're at today, we will see more US demand than what we are currently forecasting.

OPERATOR: Mitesh Thakkar with FBR.

MITESH THAKKAR, ANALYST, FBR & CO.: Greg, color on the PRB and Illinois Basin market, just one follow-up question on that. When you think about the inventory levels going forward, (technical difficulty) and stuff like that, how do you think about a normalized inventory level for PRB and Illinois Basin and where we are?

GREG BOYCE: Well, if we focused on the PRB for a minute, normalized, everybody's got a bit of a different view, but we think getting down to, we've always said getting down into the low 50s was a great target. Normalized is probably closer that 50, right at that 50 number, people would say yes, that's historically what a normalized number would've looked like. The Illinois Basin, it's a bit of a moving target, and the reason I say that is we went through such a long period of time where the Illinois Basin was more constrained, we've obviously seen demand growth pick up in the Illinois Basin, it's at a higher level, at least the last set of numbers we see, it's probably at 70 days supply. Probably historical -- I would've thought historical for the Illinois Basin might've been somewhere in that 55 to 60 day range.

MITESH THAKKAR: Great, and how much increase in production do we expect in the PRB this year?

GREG BOYCE: If you look at our forecast of 20 **million** to 30 **million** increase in demand in the US, a fair share of that is going to come from the Powder River Basin.

OPERATOR: Ladies and gentlemen, that brings us to the top of the hour. I'll turn it over to Mr. Boyce for any closing comments.

GREG BOYCE: Well thank you operator, and thank you everyone for your interest in BTU. I want to really extend my appreciation to the entire Peabody team for the hard work, their accomplishments, for the delivering of value in what has been difficult markets and I thank all of you for your continued interest. We are going to continue to execute on our key priorities. And we look forward to keeping you apprised of our progress in our upcoming calls. Thank you.

OPERATOR: Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation. You may now disconnect.

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