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BTU.N - Peabody Energy Corporation - Special Call

EVENT DATE/TIME: DECEMBER 28, 2020 / 4:00PM GMT

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Peabody Investor Call Exchange Transaction Conference Call. (Operator Instructions) As a reminder, this conference is being recorded today, Monday, December 28, 2020. I would now like to turn the conference over to Julie Gates. Please go ahead, ma'am.

Julie Gates - *Peabody Energy Corporation - VP of IR & Communications*

Thank you, and welcome to our conference call to discuss the proposed terms of the capital structure extension transactions related to Peabody Energy's revolving credit facility and senior notes due 2022 and announced on December 24. With me today are Peabody President and CEO, Glenn Kellow; and CFO, Mark Spurbeck. The call today involves, in part, our view of the future for Peabody's businesses. Any statements referring to the expected future plans and performance of Peabody and its subsidiaries are forward-looking statements, and actual future results may differ materially from such statements. Please refer to our SEC filings and transaction documentation, where we include a description of the factors and risks that might cause our future results to differ from what we'll be discussing today.

Today's call will include prepared remarks, and we will not take questions at the conclusion of the call. You will be able to access presentation slides for this call on the Peabody Investor Relations website. With that, I'll turn things over to Glenn.

Glenn L. Kellow - *Peabody Energy Corporation - President, CEO & Director*

Thanks, Julie, and good morning, everyone. If you're following along in the slide deck, let's begin on Slide 5. This launch is significant for Peabody and its many stakeholders, including its customers, employees, suppliers, regulators, shareholders and creditors. After laying the foundation with an unprecedented deal amongst our surety providers, in November and after many months of thoughtful deliberation and negotiation among the company, its revolving credit facility lenders and an ad hoc group of the largest holders of senior notes due 2022, we are pleased to announce the execution of a transaction support agreement to effect an exchange transaction that provides Peabody with an extended maturity profile through 2024 and relief from certain financial maintenance covenants while preserving operating liquidity and financial flexibility.

By closing the transaction, Peabody will fulfill a condition to the global surety agreement we announced on November 9, ensuring the company realizes the benefits of that agreement namely the resolution of all outstanding collateral requests and stand still on future collateral requests through at least December 31, 2024.

All future collateral postings will be made within predefined limitations under the agreement. We strongly believe the proposed transaction will provide numerous benefits to all our stakeholders and lay the foundation for future success and value creation. This proposed transaction, together with the surety agreement, provides a greater line of sight into future liquidity requirements and flexibility needed to continue to pursue operational improvements across the platform, but particularly within our met segment. Further, it provides time to realize these benefits, as well as an ongoing recovery in seaborne markets. We entered into the transaction support agreement with all of the RCF lenders, and bondholders that collectively hold approximately 65% of our 2022 notes. These creditors have agreed to exchange their current debt holdings for a combination of cash and debt instruments issued by Peabody Energy Corporation and by the entities that indirectly own the equity of the Wilpinjong mining complex as we will further discuss in this conference call.

As noted in our press release, the exchange offer is conditioned upon satisfying a 95% participation threshold for the 2022 notes. The company has the ability to lower these thresholds at any time with the consent of 2/3 of the 2022 noteholders party to the TSA and a majority of the RCF lenders. Given the broad stakeholder support for the transaction, and our view that the transaction represents the best path forward for the company and stakeholders, the company is fully incentivized to close on the transaction and extend its debt maturities.

I will now turn the call over to Mark, who will walk through the files of the transaction.

Mark A. Spurbeck - *Peabody Energy Corporation - Executive VP & CFO*

Thanks, Glenn, and good morning, everyone. Turning to Pages 7 and 8 of the presentation. Peabody is seeking to extend the maturities of both the senior secured notes due March 2022 and the revolving credit facility due September 2023 to December 2024, gain relief from the revolving credit facility's net leverage covenant and preserve the global surety agreement.

To achieve these objectives, the TSA contemplates an exchange of the company's senior notes due 2022 at par for a combination of $194 million of new structurally senior notes due December 2024 issued by a Delaware LLC entity that indirectly owns the Wilpinjong mine and the Delaware seacorp. Together, we will refer to these entities as the new co-issuers.

$255.58 million of new Peabody 2024 notes also due December 2024, issued by Peabody Energy Corporation. We will refer to the restricted credit group under the company's existing debt facilities throughout this call and in the presentation as RemainCo, and $9.42 million in cash and 100 basis points of exchange fees if participating 2022 noteholders tender their bonds by their early tender deadline of January 8, 2021, at 5:00 p.m. Eastern Time.

Furthermore, the notes exchange provides participating holders of 2022 notes, additional economic consideration in the form of an offer from the company to repurchase $22.5 million in principal of new Peabody 2024 notes at 80% of par value within 15 days after closing, valuable collateral enhancement in the form of structurally senior equity pledges from the subsidiaries that indirectly own the equity of the Wilpinjong mine, materially increased interest rates relative to the existing 2022 notes, 100% excess cash flow sweep at Wilpinjong, providing for power paydown over time under certain conditions, call protection on both new debt securities and an option under certain circumstances to exchange the new structurally senior notes into new Peabody 2024 notes in an amount that is subject to certain limitations in the company's existing credit documents.

The second component of the transaction involves in exchange of the company's revolving credit facility commitments at par for a combination of $206 million of new structurally senior term loans due December 2024, issued by the new co-issuers, a $324 million new RemainCo LC facility. That will provide support for existing and future letters of credit at RemainCo, $10 million in cash, 100 basis points of exchange fees and the elimination of the net leverage covenant that the company was at risk of reaching in the fourth quarter of this year.

As mentioned previously, the company has secured the support of 100% of the revolving credit facility lenders and signatories -- as signatories to the TSA.

In summary, the proposed transaction will extend the company's March 2022 and September 2023 maturities to December 31, 2024, gain relief from the credit agreement net leverage ratio covenant, and together with the previously announced global assurity collateral standstill agreement, provide Peabody time to focus on and deliver strategic initiatives and benefit for potential improvements in seaborne markets.

Before we continue discussing the transaction details, I would like to spend a couple of minutes and provide you with a brief overview of the Wilpinjong mine, which provides credit support for the $400 million of new co-issuer debt issued in the transaction.

Turning to Slide 10. Wilpinjong is a leading thermal coal surface mine in Australia and part of Peabody's Seaborne Thermal Mining segment. It is a doser case, truck and shovel operation in one of the largest coal mines in Australia. Peabody produced and sold approximately 14 million tons of coal from Wilpinjong in 2018 and 2019 into both the domestic and export markets. We have a long-term coal supply agreement with a domestic customer that accounted for approximately 57% of Wilpinjong's tons sold and 29% of the mine's of revenues in 2019.

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As we have discussed on recent earnings calls, we have made significant and meaningful investments to extend the mine's life through 2030 and believe we have significant extension opportunities beyond that date. The charts on the right-hand side of Page 10 illustrates the consistent performance and cash flow potential of Wilpinjong. We have reliably produced and sold over 13 million tons per annum and achieved cost per ton below $23 for several years.

In 2020, despite the challenges and disruptions associated with the COVID-19 pandemic we expect to achieve even lower costs of approximately $20 per ton. This low-cost structure, coupled with expected lower capital expenditures in the future as we finalize the current extension efforts, positions Wilpinjong to generate substantial cash flow and a variety of seaborne pricing environments.

Importantly, Wilpinjong is one of Australia's lowest cost coal mining operations. As you can see on Page 11, the mine is positioned in the first decile of the Australian thermal coal cost curve. We expect stable cash flows in coming years with cash cost per ton projected in the low to mid-20s.

Turning to Page 13. We provide an overview of the sources and uses associated with the transaction as well as the company's pro forma capitalization. The co-issuers will issue $400 million of new structurally senior debt in the form of term loans and notes to exchange funded RCF commitments in 2022 notes at par.

Additionally, assuming 100% participation of the 2022 notes in the exchange offer, note holders would receive $255.58 million of new Peabody 2024 notes issued by Peabody Energy Corporation, which will benefit from a repurchase offer for $22.5 million in principal value of notes at a price of 80% at par within 15 days of closing.

Upon completion of the exchange, the company will have approximately $1.5 billion of funded debt obligations in addition to an undrawn $324 million RemainCo LC facility that will be mostly utilized at closing.

On Page 14, you see a summary pro forma corporate structure. A couple of quick notes I want to highlight: First, the new structurally senior term loans and notes will be issued by the new co-issuers, which are included in the dash box on the left-hand side of the page. One co-issue is PIC AU Holdings LLC, a company that holds the equity of an entity that in turn owns the Wilpinjong mining complex. The other co-issuer is PIC AU Holdings Corporation, a newly formed Delaware corporation with no assets.

Second, the new Peabody 2024 notes and new RemainCo LC facility, will be issued by Peabody Energy Corporation and will be Perry pursue in security and right of payment with the existing first lien term loan due 2025 and senior notes due 2025.

Finally, participating 2022 noteholders will provide consents to release collateral and remove substantially all covenants under the 2022 notes indenture. Any remaining 2022 notes that do not participate in exchange will become unsecured obligations following the transaction and be junior to all of the company's other funded debt obligations.

Additionally, the terms of the new Peabody 2024 notes and new RemainCo LC facility includes limits on the company's ability to make cash repurchases of unexchanged 2022 notes as well as repayment of those notes in cash at maturity.

On Page 15, we present the key terms of the exchange offer with the RCF lenders and the proposed exchange offer with the 2022 noteholders. We have discussed these terms earlier, but I would like to take a moment to emphasize the early tender premium of 100 basis points cash fee and the early tender deadline of January 8, 2021.

Further, the $9.42 million of cash consideration being offered to 2022 noteholders in the exchange only available to those noteholders that tender their bonds by their early deadline.

Continuing on Page 16. We have laid out the terms of the new structurally senior debt issued by the co-issuers. Both the term loans and notes have similar terms and are secured on a pari-passu basis by equity pledges from the entities that indirectly own the Wilpinjong mine.

On account of certain contractual restrictions, the notes cannot benefit from lien directly on the assets of the Wilpinjong mining complex.

I'll take a moment to highlight some of the other key terms. The new co-issuer debt will feature an exchange option that will obligate Peabody to offer new Peabody 2024 notes and term loans in exchange for the new structurally senior notes in term loans under certain conditions.

Please refer to the offering memorandum from the triggering events in the amounts that are subject to this provision. The interest rate on the notes and term loans will be 10% per annum, paid quarterly in cash. 100% of the annual excess cash flow generated by Wilpinjong will be utilized to pay down the new structurally senior notes and term loans at par shared on a pro rata basis.

The debt will have call protection of 2-year non-call, 105 for 6 months and par thereafter. While there will be no financial maintenance covenants, the debt documents will contain generally restrictive covenants, including limited ability to issue debt, limited restricted payment and permitted investment baskets with certain carve-outs, and no ability to designate new or existing subsidiaries as unrestricted.

Turning to Pages 17 and 18, you'll see an overview of the terms of the new RemainCo LC facility and new Peabody 2024 notes. Both facilities will be issued by RemainCo and thus share certain terms.

I will first discuss these and then move to the mid-terms of each debt instrument. First, both facilities will mature on December 31 and in 2024.

Second, the collateral supporting both securities will be enhanced and include a second lien on the equity pledges securing the new co-issuer notes and term loans, a pledge of the 35% of first tier foreign equity that is currently unencumbered, and priority liens on any collateral that currently does not have a perfected lien, subject to certain thresholds.

Third, they will have substantially tighter covenants, including restrictions on RemainCo's ability to issue material, new debt or liens elimination of most of the permitted investments, restricted payment baskets, except de minimis carve-outs, limited ability to affect cash repurchases of a nonparticipating 2022 notes or repay these notes in cash at maturity and no ability to meet any new or existing subsidiaries is unrestricted.

And last but not least, the facilities will permit us to affect open market debt repurchases of existing first lien term loan due 2025 and senior secured notes due 2025 at any time, subject to 2 requirements: RemainCo liquidity must be greater than $200 million; and within 30 days of each fiscal quarter end, the company will be required to make an offer to repurchase $1 of debt from holders of the new Peabody 2024 notes and RemainCo LC facility for every $4 in principal amount of debt repurchased in the preceding quarter at the weighted average price paid for repurchase debt over that quarter.

Moving to the new RemainCo LC facility. Some points to highlight include: the facility will have a $324 million maximum capacity, and RemainCo will retain the ability to issue new letters of credit under the facility up to the $324 million maximum.

To the extent, any existing letters of credit roll off or expire. The interest rate on posted LCs will increase to 6% per annum from the current RCF rig pricing, payable quarterly in cash, in the event any LCs are drawn by the beneficiaries, the applicable interest rate on such amounts will be LIBOR plus 6% per annum.

The LC facility will have only one financial covenant, a $125 million minimum RemainCo liquidity and call protection of 2-year non-call, 103 for 6 months and par thereafter.

Finally, the terms of the new Peabody 2024 notes that will be issued to participating 2022 noteholders include a higher interest rate than the existing 2022 notes with 2.5% per annum paid in kind and compounding semiannually, in addition to the current 6% cash coupon and call protection of 2-year non-call 104.25 for 1 year and par thereafter.

On Page 19, you see an expected timeline and the key dates associated with the 2022 notes exchange offer. January 8, 2021 is the deadline for 2022 noteholders to receive to $9.42 million of cash consideration and the 100 basis points cash early tender premium.

The exchange offer is expected to expire on January 25, 2021, such that closing will happen on or before January 29, 2021, which is a critical date to ensure Peabody preserves the benefits of a global surety agreement.

Finally, we ask that you take notice of the additional information provided on Page 21 and direct any questions pertaining to the transaction to our investment bankers at Lazar, who are happy to speak with individual noteholders as necessary to answer questions. I will now hand the call back to Glenn to provide a few concluding remarks.

Glenn L. Kellow - *Peabody Energy Corporation - President, CEO & Director*

Thank you, Mark. To conclude, the transaction we discussed today, along with our successful surety stanfill agreement reached in November, our key steps forward in achieving our comprehensive financing objectives, namely, extending our debt maturities and providing for covenant relief while also providing for operating liquidity and financial flexibility.

With this added flexibility, we believe we will have time to pursue additional operational improvements underway within our seaborne met segment and capture eventual seaborne market cycles.

Finally, we believe this proposed transaction lays the foundation for future success and value creation. Thank you for your continued support in Peabody, and happy holidays.

Operator

And this concludes the Peabody Energy presentation. Thank you for participating.
