Amerigo Resources Ltd.

Full Year 2024 Earnings Conference Call

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Length: 35 minutes

CORPORATE PARTICIPANTS

Graham Farrell
Amerigo Resources Ltd. — Investor Relations

Aurora Davidson
Amerigo Resources Ltd. — President & Chief Executive Officer

Carmen Amezquita
Amerigo Resources Ltd. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Paulson Partners

Terry Fisher
CIBC World Markets — Analyst

John Polcari
Mutual of America Capital Management — Analyst

PRESENTATION

Operator

Good afternoon. My name is Sylvie and I will be your conference operator today. At this time, I would like to welcome everyone to the Amerigo Resources Full Year 2024 Earnings Conference Call. Note that all lines have been placed on mute to prevent any background noise. After the formal remarks, there'll be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw from the question queue, please press star then number two. Thank you.

Mr. Graham Farrell, Investor Relations, you may begin the conference.

Graham Farrell — Investor Relations, Amerigo Resources Ltd.

Thank you, operator. Good afternoon and welcome, everyone, to Amerigo's quarterly conference call to discuss the Company's financial results for the fourth and full year of 2024. We appreciate you joining us today. This call will cover Amerigo's financial and operating results for the fourth quarter and full year ended December 31, 2024. Following our remarks, we will open the conference call to a question-and-answer session.

Our call today will be led by Amerigo's Chief Executive Officer, Aurora Davidson, along with the Company's Chief Financial Officer, Carmen Amezquita.

Before we begin our formal remarks, I would like to remind everyone that some of the statements on this conference call may be forward-looking statements. Forward-looking statements may include, but are not necessarily limited to, financial projections or other statements of the Company's plans, objectives, expectations, or intentions. These matters involve certain risks and uncertainties. The Company's actual results may differ significantly from those projected or suggested by any forward-looking statements due to a variety of factors, which are discussed in detail in our SEDAR filings.

I will now hand a call over to Aurora Davidson. Please go ahead, Aurora.

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

Thank you, Graham. Welcome to Amerigo's earnings call for the fourth quarter and 2024 annual results.

On the annual earnings call a year ago, I mentioned we were excited about 2024 and spoke about the inevitability of higher copper prices and what Amerigo shareholders could expect under such conditions. These expectations included share buybacks, the eventual deployment of performance dividends, and our well-established quarterly dividend. We also predicted an increase in our share price, bringing our dividend yield down closer to other high-dividend-paying stocks. That increase in share price would reflect the market's increasing recognition of Amerigo's ability to continue to operate efficiently and pay its quarterly dividend. In other words, the expectation was that Amerigo would shine as a total return vehicle for investors in 2024.

I am pleased to report that those expectations were all met. From my perspective, the foundation of this was another excellent operational performance by MVC. As you have seen in our production and financial results news releases, MVC beat production and cash cost guidance. It also operated safely and in full environmental and regulatory compliance. Our team has clearly internalized these principles. We produce copper and financial margins without accidents or environmental incidents.

Operational excellence involves focus, attention to detail and a long-term mindset. The following are only a few examples of MVC's operational excellence. They include plant availability of 97%, three consecutive years of operations without lost time accidents, and the implementation of multiple risk mitigation projects. Our Company's best practices include staying within our circle of competence and focusing on our key variables. We don't try to optimize everything but concentrate on the most impactful. We also follow conservative financial practices and are constantly taking steps to build a business that lasts over the long term. Once you can develop and maintain efficient operations and low costs, well, now you're talking, and Amerigo does this regularly. In 2024, MVC beat its cash cost guidance again, posting a cash cost of $1.89 per pound in the year.

Another success driver in 2024 was a stronger copper price, which rose 8% from 2023 to an average price of $4.15 per pound. Carmen will provide more details following my remarks, but I want to mention why low costs are so important. The cheaper a company can operate, the more resilient it is. Operating with low costs is not just about saving money; it is a prerequisite for long-term business success.

Remember that we produce copper from the current and historic tailings from El Teniente. The size of our resource has never been in question and we have built our business to make sure we are there to generate value from it for as long as possible. In 2024 Amerigo generated operating cash flow before changes in working capital of $47.1 million. But as I've said before, we are a cash flow story, not an earnings story. The reason why I repeat this again and again when speaking to shareholders is that I think you should follow our operational cash flow number like a hawk. Cash flow, not reported earnings, determines long-term value. And with Amerigo's capital return strategy, or CRS as we now call it, your shares in Amerigo are, in fact, your share of Amerigo's free cash flow. Cash flow is a true measure of our business health. So there you have it. Strong production, increased copper prices, and low cost resulted in robust cash flow generation in 2024.

So, how did we use our excess cash flow in 2024? Well, in much the same way as we have used it over the last three years. We have returned it to shareholders. Let me jump right into the details of the success of our CRS. Amerigo's capital return strategy was implemented in October 2021. Since then, $78.1 million has been returned to shareholders via buybacks and dividends at an allocation rate of 67% dividends and 33% buybacks. Regarding dividends, a cumulative dividend of CAD$0.42 has been paid to shareholders for $52.5 million. This includes our first performance dividend, which was paid after a relatively short period of higher copper prices in the late spring of 2024. We are confident this was the first of many performance dividends.

Regarding buybacks, so far Amerigo has allocated $25.5 million to purchase and cancel 21.6 million shares, or 11.9% of the shares that were issued and outstanding when the CRS was launched. The average copper price over this period was $4.03 per pound. Despite short periods of volatility, the copper price hasn't started the kind of upward movement we anticipate from the fundamental mismatch between supply and demand, and yet over this period our CRS has proven it can effectively capture the benefit of short bursts of higher copper prices for shareholders. We are eagerly waiting to show how effective the CRS will be with a sustained rise in copper prices. Since inception of the CRS, the actual amount of capital returned to shareholders is impressive, but what is even more impressive is the total returned to shareholders over the period. I will discuss this subject in more detail through 2025, just as last year.

I talked about how growth and your personal return on invested capital should matter more to you than production growth. I want to highlight how well Amerigo has performed for shareholders since the CRS was implemented. It is pretty remarkable in both absolute and relative terms. In a qualitative risk-adjusted comparison to our peers in the copper industry, Amerigo's performance rises to even higher levels. Remember, we have no resource expropriation, debt, or growth capital expenditure risk.

To give you a peek of the upcoming discussions, we recently ran some numbers to measure the returns from share appreciation and dividends from October 2021 to mid-February 2025. Over that period, Amerigo had a 91% total return, outperforming copper peers, copper ETFs, LME copper, and copper futures. If you go back to the textbooks, the key factors that impact total returns are capital allocation decisions, organizational structure, a focus on long-term versus short-term results, operational efficiency, and margins. Amerigo excels in all of these areas. Of course, factors outside the Company's control, such as market conditions, also play a role in the Company's success, so let me briefly address these market conditions and our outlook.

Our view on copper continues to be bullish and the consensus is not whether copper prices will rise, but by how much. The reason behind this has been mentioned in our calls many times before. It is the interaction of growing demand in traditional and emerging sectors with a constrained copper supply. The move from an average LME copper price of $3.85 in 2023 to $4.15 in 2024 confirms this trend; however, there has been volatility within this price buildup. In 2024, for example, we moved from a low monthly price of $3.77 in February to a record monthly price of $4.59 in May. Then we retreated to $4.05 in December. Our view is that the average copper price this year will again increase, but we will probably see even more short-term volatility.

So far this year, market reactions have been quite pronounced, likely as a nervous response to a changing global trade landscape. Although some market participants anticipate tariffs to be imposed on copper, which is the most probable cause for the record arbitrage between the COMEX and LME copper prices, no copper tariffs have been imposed yet, which could be read as confirmation of the copper market tightness. A recent report from RBC Capital Markets reported that mining copper production in 2024 was 5% below the original guidance and 2025 guidance came in 5% below expectations. The world mines are producing less copper, which is expected to continue. At the same time, demand is expected to double in the next 15 or 20 years. This is a huge disconnect.

Copper demand grew by around 0.5 million tons in 2024. To put this in perspective, only two copper mines worldwide, Escondida and Collahuasi, produce this much copper annually. If you start increasing this demand growth in response to growth in new sectors, whether it’s electrification, AI, or renewable energy, you can easily see that significant deficits will build up. Although copper prices have increased since 2020, miners have still not been incentivized to invest in more copper projects. This can only mean higher copper prices are required to bring on this much-needed supply. Remember that the incentive price must also be maintained over the long-term to be believed by the industry. Only then will capital be allocated to increase the supply of copper. Something has to give in to the copper supply/demand dynamics. We think it will rapidly increase copper prices, leading to even more exciting times for Amerigo.

I will close my remarks by saying that, as an organization, we have a multi-year track record of deploying the firm's resources to earn the best possible return for shareholders. We have maintained a clear focus on maximizing long-term per-share value, avoiding growth for growth's sake, and saying no to marginal opportunities. We will continue to focus on our strong business fundamentals, which are crucial to Amerigo's success. They allow us to be a consistent and predictable compounding machine for shareholders. We will continue to proactively watch for events that could interrupt that compounding process and avoid or mitigate them as best we can. We will continue to maintain our financial and capital allocation discipline and celebrate ending 2025 without debt on our balance sheet. I am confident that in 2025 we will continue to benefit from our unique company strengths. We have a long-term business at MVC that produces additional copper for Chile. MVC has excellent operating performance and generates operational cash flow predictably. Excess cash flow is quickly, flexibly, and efficiently returned to shareholders.

Amerigo's Chief Financial Officer, Carmen Amezquita, will now discuss the Company's financial results. Carmen, please go ahead.

Carmen Amezquita — Chief Financial Officer, Amerigo Resources Ltd.

Thanks, Aurora. I will now present the 2024 annual financial report from Amerigo and its MVC operation in Chile.

In 2024, the Company had another successful year with net income of $19.2 million; earnings per share of $0.12, or CAD$0.16; and EBITDA of $68.8 million. This was possible due to an increased copper production of 64.6 million pounds, an average MVC copper price of $4.15 per pound, and effective cost management.

Revenue in 2024 increased 22% to $192.8 million compared to $157.5 million in 2023. Our top-line revenue number comprised a high gross value of copper tolled on behalf of DET of $269 million compared to $220.7 million in 2023 due to high copper production and copper prices. From this gross revenue we deducted notional items, including DET royalties of $75.4 million, smelting and refining of $25.2 million, transportation of $1.6 million, and positive fair value adjustments to settlement receivables of $3.2 million. Revenue also included increased molybdenum revenue of $22.9 million compared to $19.4 million in 2023 due to stronger molybdenum production of 1.3 million pounds in 2024 compared to 1.2 million pounds in the prior year.

Tolling and production costs increased 3% from $143.3 million in 2023 to $147.4 million in 2024, which can mostly be attributed to the increase in production. Some of the costs that increased year-over-year were other direct tolling, line, and depreciation, which were then offset by a decrease in power costs and grinding media costs. The gross profit after the revenue and production costs was $45.4 million, a 221% increase from $14.2 million in 2023.

General and administration expenses were $5.3 million compared to $5 million in 2023. Then there were other losses of $4.2 million compared to other gains of $1.3 million in the prior year. The loss of 2024 was comprised of foreign exchange losses of $0.6 million and two non-cash accounting items, dismantling provision costs of $2 million and equipment and supply write-downs of $1.6 million. The dismantling provision costs are related to MVC's obligation to dismantle, remove from site, and dispose of two power generators and their associated infrastructure. These generators were written off for accounting purposes in 2022 when they ceased to operate and a provision for the removal was recognized at the end of 2024, when the timing and cost to remove the equipment could be estimated. You will see this as a liability in the statement of financial position with both a current and long-term portion. This obligation was calculated based on the estimated cost to dismantle the equipment and has been recorded as a liability at its present value of the expected cash outlays. These dismantling costs are expected to be incurred over three years and, as the work is completed, the liability will decrease.

The other non-cash items included in other losses include equipment and supply write-downs of $1.3 million and a $0.3 million adjustment to our plant supplies and consumable inventory. The expense related to the derivative to related parties, including changes in fair value, was $1.8 million compared to $0.8 million in the prior year. This was due to changes in discount rates and adjustments to expected future production.

Finance expense was $2.2 million compared to $2.9 million, which decreased primarily due to less interest being charged on the loan as the balances decreased from the prior year as it is being repaid. An income tax expense of $12.7 million was recognized with a current income tax expense of $18.1 million and a deferred tax recovery of $5.4 million.

Moving on to the balance sheet, on December 31, 2024, the Company held cash and cash equivalents of $35.9 million, restricted cash of $4.4 million, and had a working capital deficiency of $6.5

million. Borrowings at year end were $10.7 million. The Company held a higher amount of cash at the end of 2024 than our target amount of $25 million. This was due to administrative delays in payments normally made at the end of each month caused by the year-end holidays. For example, a $4 million power bill was submitted to MVC late and was paid in the first days of 2025 rather than at the month's end as usual. There was also $8.1 million in current income tax liabilities to be paid in April 2025 related to MVC's 2024 income tax. Note that, in line with the Chilean tax requirements, MVC pays monthly tax installments based on a percentage of revenue that may or may not be close to the final corporate tax for a given year. Then, in April of the following year, when a tax declaration is filed for the previous year, any difference in the amount owing versus the installment payments made is paid at that time.

Regarding cash flows during the year, Amerigo generated cash flow from operations of $47.1 million. The net cash flow generated in the year, which includes the changes in working capital, was $59.8 million. In terms of uses of cash, $9.3 million was used in investing activities, in other words for CapEx payments, and $29.4 million was used in financing activities, which is where the shareholder returns can be seen.

During 2024, Amerigo returned $21.2 million to shareholders. This included $19.3 million in dividends paid, including four quarterly dividend payments of CAD$0.03 per share as well as the Company's first performance dividend of CAD$0.04 per share. That is a total of CAD$0.16 per share in dividends during 2024. In addition, $1.8 million was used to repurchase 1.4 million shares. Also included in financing activities were bank repayments of $9.8 million during the year, bringing our loan balance on December 31, 2024 to $10.7 million.

As a final comment, we reported a provisional copper price of $4.08 per pound on our Q4 2024 sales. The final settlement prices for October, November, and December 2024 sales will be the average LME prices for January, February, and March 2025, respectively. Each 10% change from the $4.08 per pound provisional price would result in a $7.4 million change in revenue in Q1 2025 regarding Q4 2024 production. We now know the January price, which was $4.07 per pound. Today's copper price is $4.27 per pound.

We will report Amerigo's Q1 2025 financial results in May 2025 and want to thank you for your continued interest in the Company. We will now take questions from call participants.

Q & A

Operator

Thank you. Ladies and gentlemen, if you do have any questions at this time, please press star followed by one on your touchtone phone. You will then hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press star followed by two. If you are using a speakerphone, you will need to lift the handset first before pressing any keys. Please go ahead and press star one now if you do have any questions.

And your first question will be from Paulson Partners[sp]. Please go ahead.

Paulson Partners

Hi. I noticed that there was a large power outage in the last few days in Chile and I wondered how that has affected you and what was the issue and whether you expect a recurrence.

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

Yes. There was a nationwide blackout on Tuesday in Chile. In the case of MVC, we were affected by the blackout, and so was El Teniente, for a period that lasted less than a day. Our operations are back to normal and the effects of the blackout were really not material enough to be reported; otherwise, we would have reported that to the market. So there was no major issue there. It was related to an infrastructure problem that was presented in Chile and that had a big effect for most of the country.

Paulson Partners

And do you consider it a one off?

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

It hadn't ever occurred before and it's not expected to occur again, but I cannot comment any further on that.

Paulson Partners

Right. Thank you.

Operator

Thank you. Next question will be from Terry Fisher at CIBC World Markets. Please go ahead.

Terry Fisher — Analyst, CIBC World Markets

Well, congratulations on an excellent year and a really excellent quarter. My only question is about the share repurchases, that it looks that, from year to year, in spite of the shares that were repurchased, the total outstanding is about the same. So options are being exercised and I assume some cash comes in from the exercise of options and I'm just wondering how the board looks at this, because we have lots of other public companies where it's kind of a precedent, more tech companies, where options get exercised and they go out and repurchase basically that amount of stock or a bit more. So if I could just get some guidance around that.

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

There are two parts to your question, Terry, here. One question that I would like to point out is how are most of the options that are in the money and are exercised at Amerigo work. Most of our option exercises are cashless options. That means that we basically get an amount of shares equal to the benefit that was realized through the share appreciation less the taxes associated with that benefit. This results in a lower issuance of shares and it allows the persons that have exercised their options to have an easier choice to keep their shares rather than have to sell a portion of those shares to get the cash that they would need to buy the shares and pay the taxes, if you know what I mean.

So the cashless mechanism in and by itself reduces significantly the amount of shares that are issued. It incentivizes option holders to keep their shares, because there is no cash transaction involved. And what we stated last year quite clearly, I think it was at the third quarter earnings call, was that our commitment was to buy back at least the same number of shares through the buyback program that were issued in the year so that there would be the same or a slightly declining year-on-year shares outstanding balance. Does that answer your question?

Terry Fisher — Analyst, CIBC World Markets

Yes, I'm sorry, I must have missed that call where you made that statement, because that certainly would have registered with me. Anyway, that's a great answer and that's all I had today. Thanks for everything.

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

Thank you, Terry.

Operator

Once again, ladies and gentlemen, if you do have any questions, please press star followed by one on your touchtone phone.

Next we will hear from John Polcari at Mutual of America Capital Management. Please go ahead.

John Polcari — Analyst, Mutual of America Capital Management

Thank you. I have several quick questions on the molybdenum. What has current prices been approximately for the last quarter or so? Hello?

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

I'm sorry, I lost the sound for a little bit and I couldn't hear the question from Mr. Polcari. Can you repeat that again?

John Polcari — Analyst, Mutual of America Capital Management

Certainly. I was inquiring as to what the approximate average cost for pricing for molybdenum was for the last quarter.

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

Around $0.21. It has been quite stable through 2024 and so far this year as well. $21 per pound, sorry.

John Polcari — Analyst, Mutual of America Capital Management

Right. I understand. Is there a difference in volume of molybdenum that's extracted depending on whether the old tailings or new tailings? Are the new tailings, do they contain much less? I know it's only 1 million plus, 1.3 million in annual production, but is it more productive from the older tailings?

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

There is more molybdenum content in the historic tailings than in the fresh tailings, but that doesn't affect our production plan decisions.

John Polcari — Analyst, Mutual of America Capital Management

Got it. What would be the most concerning variable cost for the whole business going forward? The one, say, most impactful variable cost that you would be concerned about?

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

I would put it in a different way. I think that the most important driver that could vary from year to year is the exchange rate of the Chilean peso versus the US dollar.

John Polcari — Analyst, Mutual of America Capital Management

Okay. Which has been, from our perspective, not the most favourable movement.

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

The Chilean peso has been more weaker against the US dollar in recent years than it was historically, so we have benefited from that.

John Polcari — Analyst, Mutual of America Capital Management

Okay. The allocation of free cash flow between dividends and stock repurchases, I understand you’re not going to come out with the definitive split, it would be the decision of recommendations of the board; however, do you have a metric that you use internally? Do you have at least, whether you can disclose it or not, some level that you review quarterly at which point maybe you would be more aggressive on the stock repurchases? Or is it just something you address from time to time? I wonder just how specifically you define the allocation of free cash in terms of maybe, especially with zero debt, perhaps permanently raising the quarterly dividend to perhaps CAD$0.04, which would impede perhaps future stock buybacks, or whether you would hold more significant cash in terms of buying opportunities for stock repurchases. In other words, the thought process on what valuations might you reallocate free cash flow?

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

The thought process hasn't changed much from what we have disclosed. The short answer is that we can do both. At these copper prices, we can do both buybacks and performance dividends. As you know, we want to maintain at least $25 million in cash as our healthy cash reserve and when we are above the $25 million mark and there is a healthy copper price outlook, that's quite important to understand, then we are into the territory of additional distributions, which are the performance dividends and the buybacks. One doesn't preclude the other. Buybacks don't eliminate performance dividends and performance dividends don't eliminate buybacks.

And the board looks at factors every quarter when making the specific capital allocation decisions within the framework that we have established. So we look at copper price, we look at copper outlook, we look at our share price, et cetera. So those decisions change and they have to change, they have to respond to real-time information from quarter to quarter, but the framework doesn't change. We have established very clearly how the capital return strategy works and we work within those parameters.

John Polcari — Analyst, Mutual of America Capital Management

So, with the balance sheet extremely strong, minimal, well no debt actually, and cash levels above target, going forward, would there be any consideration, at higher copper prices, for an increase in the permanent dividend to perhaps CAD$0.04 or CAD$0.03 or is that more of—?

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

I understand what you mean and that’s a decision that the board will make when we are debt free. We’re not there yet. We will be there and that’s a decision that will certainly have to be looked at with detail by the board. But it will happen later on in the year.

John Polcari — Analyst, Mutual of America Capital Management

Thanks. And my last question is regarding the relationship with Codelco. Is there any opportunity or discussion or thought to expanding the size of the operation as Codelco expands its own larger operations, which would lead to Amerigo’s ability to process even more tailings under additional agreements or expansion of current agreements?

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

Are you talking Codelco beyond El Teniente or are you talking El Teniente?

John Polcari — Analyst, Mutual of America Capital Management

Well, beyond El Teniente.

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

Well, we have a long-term relationship with Codelco. When Codelco looks at establishing similar tailings reprocessing projects, I'm sure that we will be a preferred candidate to look and have those discussions with them, but they're not there yet. So that's the short answer.

With respect to El Teniente and the measure that El Teniente produces more tailings and they are sent for depositing in their deposit, we have access to all of their fresh tailings.

John Polcari — Analyst, Mutual of America Capital Management

Great. Thank you and well done on the quarter.

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

Thank you, John.

Operator

Thank you. And at this time, Ms. Davidson, we have no further questions. Please proceed.

Aurora Davidson — President & Chief Executive Officer, Amerigo Resources Ltd.

Perfect. Well, thank you all for taking the time to be on the call today with us. Thank you, Carmen. Thank you, Graham. The recording and script will be available on the Amerigo website in the next few days. We will have our next earnings call in May to report first quarter results. In the meantime, we will keep you updated through our website, and as you know, you can reach out to us any time with your questions. Thank you for your continued interest in Amerigo.

Operator

Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending, and at this time we ask that you please disconnect your lines.