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Hallador Energy Company NasdaqCM:HNRG

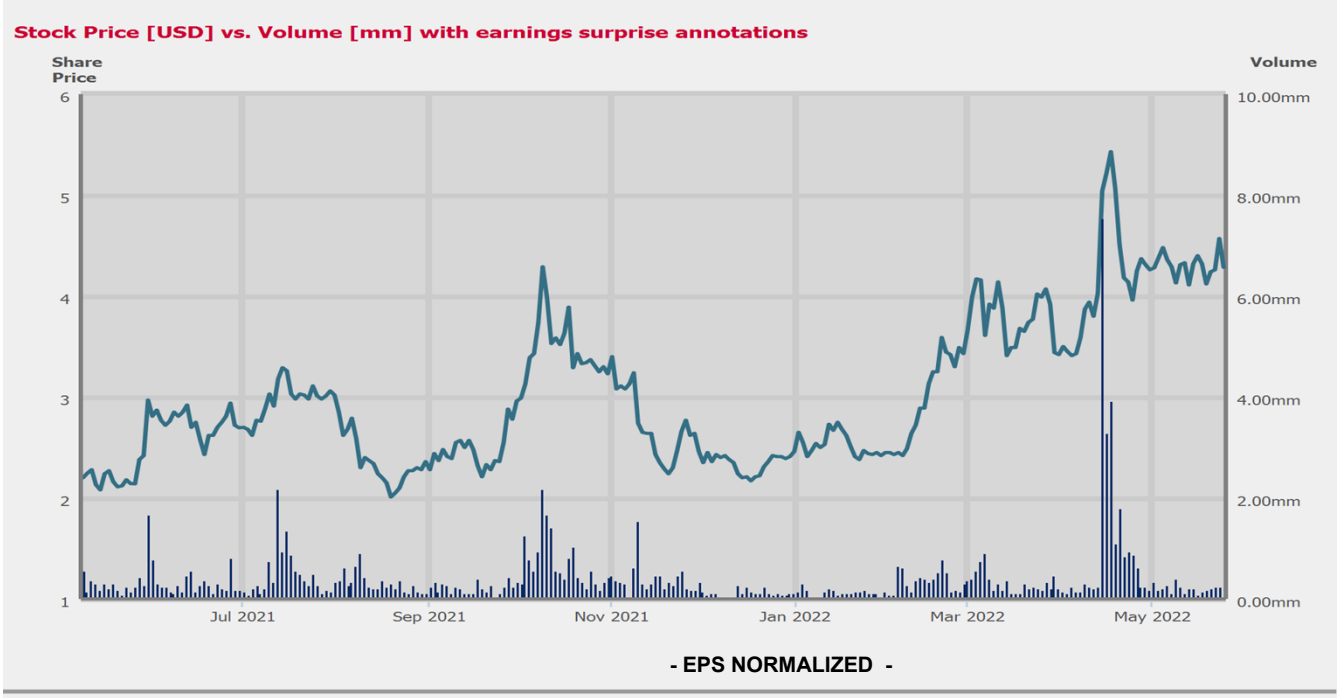
FQ1 2022 Earnings Call Transcripts

Tuesday, May 24, 2022 6:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-			-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	(0.02)	NA	NA	0.11	NA	NA	0.10
Revenue (mm)	66.70	NA	NA	248.90	NA	NA	280.80

Currency: USD
Consensus as of Nov-16-2021 3:44 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2021	0.06	(0.10)	NM
FQ3 2021	0.01	(0.07)	NM
FQ4 2021	(0.02)	(0.32)	NM

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Table of Contents

Call Participants 3
Presentation 4
Question and Answer 6

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Call Participants

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Brent K. Bilsland
President, CEO & Chairman

Lawrence D. Martin
CFO, EVP & President of Sunrise Coal

Rebecca Palumbo
Director of Investor Relations

ANALYSTS

John Moran

Unknown Analyst

ATTENDEES

Unknown Attendee

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Presentation

Operator

Good afternoon, and thank you for attending today's Hallador Energy First Quarter 2022 Earnings Call. My name is Jason, and I'll be the moderator for today's call. [Operator Instructions] I would now like to pass the conference over to our host, Rebecca Palumbo, with Investor Relations.

Rebecca Palumbo
Director of Investor Relations

Thank you, Jason. Everyone, we appreciate that you took the time to join us today. Yesterday afternoon, we released our first quarter 2022 financial and operating results on Form 10-Q, which is now posted on our website.

On today's call, we have Brent Bilsland, our President and CEO; and Larry Martin, our CFO. After the prepared remarks, our management team will be available to answer your questions.

Before we begin, please note that the discussion today may contain forward-looking statements that are statements related to future, not past events. In this context, forward-looking statements often address our expected future business and financial performance. While these forward-looking statements are based on information currently available to us, if one or more of these risks or uncertainties materialize or if our underlying assumptions provide incorrect, actual results may vary differently from those we projected or expected, for example, our estimates of mining costs, future sales, legislation and regulations.

In providing these remarks, we have no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise as such may be required by law. For a discussion of some of those risks and uncertainties that may affect our future results, you should see the risk factors described from time to time in the reports we file with the SEC.

As a reminder, this conference call is being recorded. In addition, a live and archived webcast of this earnings call conference will also be available on Hallador's website. We encourage you to ask questions during our Q&A. [Operator Instructions]

Now with the preliminaries out of the way, Larry, you can start.

Lawrence D. Martin
CFO, EVP & President of Sunrise Coal

Good afternoon, everyone, and thank you, Becky. So I'm going to review our operating results. Before I start, I'd like to define adjusted EBITDA as operating cash flows plus current income tax expense less the effects of certain subsidiaries and equity method investments plus bank interest less the effects of working capital changes plus other amortizations.

Our net loss for the quarter was $10.1 million or $0.33 a share. Our adjusted EBITDA was $2.6 million, and we borrowed an additional $8.3 million of bank debt. Our bank debt at 3/31 was $120.1 million. Our net debt was $115.8 million, and our debt-to-EBITDA leverage ratio was 3.03x.

I would like to now turn the call over to Brent Bilsland, our CEO, for his comments on the quarter.

Brent K. Bilsland
President, CEO & Chairman

Thanks, Larry. The world is in the middle of an energy crisis, which has increased prices of most everything related to energy. In Q1, Hallador was in the unfortunate position of having a sales price hedged so we could not take advantage of significantly higher market prices, while our input costs significantly increased year-over-year due to supply disruptions and inflationary pressure.

Additionally, our productivity was low as we integrated and expanded the newer workforce. 1.4 million tons were shipped at an average price of $41.40 during the quarter. Q1 production costs were $39.54 per ton, which represented a $4.42 per ton increase over Q4 of '21.

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During Q1, we generated $3 million in operating cash flow and increased our debt -- bank debt by $8.3 million. As of the end of March, our bank debt, as Larry said, was $120.1 million. Liquidity was $20.6 million, and our leverage ratio came in at 3.03, which was a violation of our covenant of 3x.

The company was successful in executing an amendment with our banks, loosening our debt-to-EBITDA covenant for Q1 and Q2. In May, we issued through 2 tranches of $5 million a piece a total of $10 million in convertible notes to add to our March 31 liquidity of $20.6 million. Again, this is $10 million in addition to that number.

The notes were purchased by parties affiliated with 4 of our Board members and one unrelated party. We modified our existing sales contract during the quarter, resulting in our average sales price increasing for the balance of 2022 through 2025. As the sales market is the strongest it has been in many, many years, we anticipate negotiating additional price increases for '22 and '23 later in this year.

On the production front, we improved mining productivity by 20% in April and May, which is leading to significant production cost improvements. These production cost improvements, coupled with our anticipated sales price increases, are expected to increase our margins from Q1 and return them to our historical greater than $10 per ton margins by as early as June.

Looking at the third quarter, we anticipate closing on the acquisition of the Merom power plant in Q3, subject to certain regulatory and financial approvals. Merom is expected to significantly add to the profitability of our company in '22 and beyond. In the event we are unsuccessful in securing additional price increases later in the year and/or production cost improvements do not continue and additionally, we are unable to close on the Merom transaction, we may seek an additional covenant waiver for Q3.

Our current 2023 -- looking at next year, our current 2023 average sale price is already $4 a ton higher than 2022. We improved that by $2 -- both by $2 during the quarter. Additionally, we reopened on price for about 20 -- excuse me, we have available for sale about 25% of our coal production in 2023. Now we assume we'll be shipping these tons to our newly acquired Merom plant in 2023 as this is currently our highest value use of these tons; however, the fallback position, these tons could be sold in the open market at prices today that would produce margins we currently expect would exceed $50 per ton.

So in summary, though we are disappointed with our first quarter results, we have never been more optimistic about the growth potential of our company. We have made material improvements on our sales price and cost structure in Q2. Additionally, we are making progress towards our goal of completing the Merom purchase in Q3 with a backdrop of extremely robust coal and power markets in '22 and '23. Traditionally, Hallador has generated $50 million of adjusted EBITDA annually. In 2023, with current coal prices and with the expectation we will close on Merom in 2022, we expect our 2023 adjusted EBITDA to grow to over $150 million.
So with that, I'll open up the call to questions.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from [Neil Rowe] as a private investor.

Unknown Attendee

Hi, Brent. My question relates to on May 2, and this information was released on May 6. You had the write-up on the $5 million in notes to the related Board of Director parties. And then subsequent to that, over the last 3 weeks some time, an additional $5 million has been provided by somebody not related to the company. Are the terms identical? Or are they different from what the Board got?

Brent K. Bilsland
President, CEO & Chairman

Well, just to clarify, the first tranche was exclusively Board members. The second tranche was 3 Board members plus an unrelated party. All of those terms are materially identical.

Unknown Attendee

Okay. And you talked about the sales going forward and getting more per ton of late, and the prospects look good. I was somewhat surprised on the 10-Q to see the news about how much of the sales in the first quarter have been hedged. Therefore, the higher prices weren't taken advantage of, but that's probably maybe my bad on not knowing the details of that. But how much of the forward sales are already hedged versus being able to garner what the market is?

Brent K. Bilsland
President, CEO & Chairman

Yes. So there's a couple of different things at play here. On the coal side, we've got, as I said, 25% of our sales position, which is about 1.7 million tons, is available for sale next year. If we were to sell that on the open market, those prices would be at margins today of $50 a ton or more, which we just not historically seen margins of that level, right?

However, we think we're most likely to acquire the Merom power plant in the third quarter. And so the best use of those tons is to not sell them on the open market but to deliver them to the Merom power plant and convert those into electrons.

The power markets and capacity markets, which are the 2 main revenue streams for a power plant, are extremely strong as well. As we saw at the end of the day, that makes us more money. So that's why we haven't been out aggressively marking those tons because we're holding them back for ourselves. And we have no reason to believe today that we won't close on the power plant in the third quarter. So we will be trying to modify some of our existing sales contracts with customers that we think will lead to price increases in the back half of 2022. And the equity raise was to make sure that we have ample liquidity on our balance sheet to make sure we kind of get to the promised land.

We think that the power plant, in prior calls, we had said it would not be profitable in 2022. We are reversing that statement to say it would be profitable in 2022. And this could be as early as July. So we're down to 35, 40 days, something like that would be the earliest we could close on the plant. Again, we are waiting for financial and regulatory approvals, which we've made a lot of progress on. I don't want to get into the details on that. But sitting here today, we're pretty happy. So we think that both the existing business will be much more profitable in the second half of this year, and it will be extremely profitable next year, and that the power plant is likely to add to profitability starting in the third quarter.

Unknown Attendee

Good. I have, if I may, another question. On the Merom plant, it's -- as I understand, it's going to be Hallador's responsibility on any environmental liabilities and problems. I mean, what does that look like? This is sort of like getting into new territories, isn't it? And what are the risks and how has that been evaluated? And what do you think might be the outcome?

Brent K. Bilsland
President, CEO & Chairman

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Well, just to clarify, we're not taking -- those press releases say we are assuming certain environmental responsibilities, not assuming liabilities, that's a keyword. We think that we have done a good job of drawing a line in the sand as to assets that we are taking and assets that we are not taking.

We are purchasing a power plant, a rail facility and a CCR-certified landfill. We think all of those individually and together are assets. And so I think from that perspective, we worked very hard to make sure that we have not stepped into huge exposures on the environmental front and that we have path to create value out of all 3 of those assets.

Unknown Attendee

I got one last question, if I may. Sorry to keep running here. When -- and the longer things go as they are, and if you get the Merom plant and it goes on and on, a lot of things are going on in the country where the prospects of maybe things being as they are with the need for energy could go on a lot longer than some of the talk has been in recent years.

Having said all that, the end game where you convert solar power and your understanding of how that would work or who the expert is going to help with that, what are going to be the cost? It's my understanding it goes from day 1. It isn't that way, and then suddenly it's over. What -- how do you view that out in the future? And again, it seems like more and more out there in time, but eventually, how that would all work?

Brent K. Bilsland
President, CEO & Chairman

Yes. So our goal today is to acquire a coal-fired power plant and to run it as a coal-fired power plant as long as the market signals are telling us that, that's what should be done. And the thing that's kind of raised its ugly head here, I mean, you had the commissioner -- a FERC commissioner last week out saying that the transition to renewables has happened too fast. It is defying the laws of physics of what is possible.

And I think what everyone is realizing is the country has been at a tremendous pace to shut off generation, to close generation that has an on switch. You can turn on a coal-fired power plant, a gas-fired power plant, a nuclear power plant. But solar panel and windmill don't have an on switch. You can't turn them on. They come on when the wind blows and the sun shines. Solar goes home every night. Batteries or what the world is looking to kind of move electrons from times of scarcity to demand, but the scale of that and there's some idiosyncrasies to the technology of that is not fully ready to be realized yet.

And so in the meantime, the grid operators are all struggling to keep the lights on. You've seen MISO come out, which is the area -- 15 states on Canadian providence, that the Merom power plant happens to sit in as do our mines and say that they may have to shed load this summer. They declared an emergency alert January 1, 2, 3. They've had some other events of warnings since then.

The grid operators, whether it's PJM, MISO, ERCOT, CAISO, are all warning that there -- we've kind of gone through our reserve capacity, right? Renewables work pretty well. And I'm not making an argument that we're not transitioning there as the country because I think we are. But today, they need something to back it up. And eventually, transmission lines will get better and batteries will get better, and this will work out. But is that 10 years, or is it 20 years?

Our president says that we're going to be 80% renewables in 6 years. I don't think that's possible. Our grid operators say we might hit 80% in 28 years. I think that's realistic.

Where will the Merom power plant cease to make economic sense? None of us know the answer to that today. I think it's longer than most people think. And we just saw the capacity markets. For the March auction, the capacity markets in MISO hit the maximum legal limit. And not everyone got filled at the maximum legal limit. So there are the capacity crisis going on in MISO, in my opinion.

So what that does is it helps the economics of all generation that has an on switch. Eventually, that will not be the case. We can't say today what year that is. So we have designed a structure with our counterparty that when Hallador decides that it's no longer economic to run the plant, then we have a PPA in place with Hoosier Energy to convert the interconnection to renewable power. And they have rights to purchase a certain percentage of that energy.

So there's some proprietary things in there, so we don’t -- I can't speak to all of it. But at that point in time, we will look to redevelop that asset. And where I think the great value is if you look at the transition today, every time a power plant is retired regardless of what form that power plant is, all the renewable developers race to acquire a property or lease

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property around that asset because they want to reuse the substations and they want to utilize the existing transmission line of the grid.

Well, as time goes on, when you transition to renewables, it takes roughly 3 to 4x as much renewable to create the same amount of electrons as they flow power. But there are today 3 to 4x as many transmission lines and substations. So that means once the existing infrastructure gets filled up, which I think we're flirting with that limit today, and that means new interconnections, new transmission lines, new substations all have to be built, and that's at a much higher cost.

So one of the advantages that we have at Merom is we have the right, so to speak, to reuse the existing substation and have access to those transmission lines. So that creates a considerable cost advantage. And it adds a lot of certainty because those rights already exist, and those assets already exist.

So we think we've found a way to basically have a very valuable asset in our interconnection rights at the end of the plant life whenever that day may be. I hope that answered your question. That's a long...

Unknown Attendee

That's a great answer.

Brent K. Bilsland
President, CEO & Chairman

Well, it looks like we have another investor in the queue.

Operator

Our next question comes from [Eric Wagner]

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Unknown Attendee

Yes. You guys are doing a great job. Keep up the good work. Two quick questions. With the acquisition of the utility plant, how dilutive will that be to the existing stockholders? And the other question was, when you've been doing your hedging, is that amount or level of hedging determined by the bank loan? Or how do you come up with the amount of hedging that you need to do to keep the business going?

Brent K. Bilsland
President, CEO & Chairman

Well, under our current PPA with Hoosier, they are acquiring all of the energy and capacity from the date that we closed, which, again, is not an exact known date until the end of May of '23. So we're not really hedged. We have set the price in terms of those electrons with our -- with the counterparty, which is Hoosier, seller of the asset.

And then we have PPAs with them that extend from June 1, '23 through the end of '25 for certain amounts of energy and capacity. Well, but they rely on the plant, they just don't rely as heavily on the plant. So it's roughly like 1/3 of the capacity of 20-some-odd percent of the energy. So hedging beyond that, that is something we're evaluating now as to how much hedging we want to do or not do. As long as we have bank debt, we like having a certain amount of forward sales.

That being said, one thing that is happening here is we are converting fuel, coal that we produce today into electrons. And I would say that the electron market, because we can sell a day ahead at MISO, is a much more liquid market than the coal market. So from that perspective, I think the liquidity of our sales opportunities has improved dramatically with the acquisition of the power plant.

Operator

Our next question comes from [Robert Baker].

Unknown Analyst

Can you hear me okay?

Brent K. Bilsland

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President, CEO & Chairman

Yes. Thank you.

Unknown Analyst

So the first question I had is regarding the operating costs for the most recent quarter and actually over the last several quarters. I know from previous quarterly calls, a portion of that is attributed to just hiring new -- or increasing headcount and getting productivity up.

But how much of the increase in costs over the last 4 quarters from roughly $30 up to about the 39.5 this quarter could be attributed to productivity? You've also mentioned some issues with the supply chain. And I'm presuming that means supplies, equipment and so forth. If you could just speak to somewhat of the individual factors that have driven the increase in costs.

Brent K. Bilsland
President, CEO & Chairman

Yes. So a couple of different things going on there. From an input perspective, we're seeing inflationary pressure. And that's where our existing supplier says, "Hey, this widget now costs 20% more," right? And we expect that cost increase to be -- I don't know if permanent is the right word, but I expect that to last for another couple of years just because we're seeing inflation everywhere, right? The gas pump, the food, everything, labor.

Another type of input pressure we're seeing is a supplier will come to us and say, "I can only fill 80% of your order," right? So if you want [roof bolt glue], I can only get you X amount of [roof bolt glue] or metal plate or what -- name your item, right?

And so then that forces us then to go out to a nontraditional supplier who knows these items are in short supply, and that person will say, "All right, I can get it for you, but it's going to cost 3x what you normally pay." And so we expect that type of inflationary pressure to dissipate as the supply chains kind of get caught up.

But you've got a lot of different factors at play here. We've seen disruption from the invasion of Ukraine to the lockdowns in Shanghai, which is really surprising to see if some vendors saying, "Well, gosh, we can't get a material out of Shanghai that we normally rely on, so we're going in other places." So all of this from freight surcharges, all of this has led to cost pressure on the inputs. The -- to answer your question, I would say the input price increases we've seen has been about half of our cost increases.

The other half has been on the labor side. So we've had -- in September of 2021, we started hiring a lot more workforce as we responded to the increased demand for coal. So I would say the increased demand for coal was happening late in the third quarter, early in the first quarter of last year due to the reopening of every market from the COVID kind of slowdown.

And then we saw the invasion of Ukraine in February that really just set an already tight energy market on fire, right? I mean, last night, I think the forward strip on natural gas was $8 for the next -- for the year, for the forward 12 months, $8. It's been decades since we could say we saw gas prices that high, which means coal plants are going to dispatch in front of gas everywhere at much, much, much higher coal prices, right?

Plus we're seeing so much coal go to export. So come back to the labor front, we hired 120 new people, right? So roughly 20% of our workforce, and we've seen a lot of turnover in those new 120 people. Our existing workforce, we've not seen as much turnover, right? Those people are more ingrained to our way.

So it's one thing just to train 120 people, it's another thing to train 120 people that's probably turned over once in the last 6 months. And so it takes us a while to get those people ingrained to our way and see the productivity increases.

We saw a 20% productivity increase in April, and I've seen those financials. So the cost there, improvement was significant, arguably better than I was expecting. We've not released what that is yet because we want to make sure -- we want to look at May and make sure that, that's going to be the improvement that we think we see.

And so as we talk about what does our business look like for the balance of this year is kind of -- it's kind of 3 fronts, right? It's get our -- keep our cost structure in line, increase our average sale price for the coal that we're getting and then close on the Merom plant. Those are the 3 buckets that all lead to much better profitability.

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And so on one hand, we've got this very unusual time in our company where our first quarter results were poor, and yet we feel we are possibly a month away from having significantly better results. And we have even more confidence that come 2023 that our company looks to be 3x more profitable than it's historically been.

So our game plan is to make sure we pack enough liquidity around our company to make sure that we make it to the promised land. And that's the game plan, I think, we have in place, and that's what we're working on.

And again, even when you look at cost increases that may be permanently $5, $4 a ton higher than they were a year ago, we're looking at sales prices that are $80, $90, over $100. I mean, tell me your timeframe, right? But we're talking about dramatically higher prices.

So as we reopen and reprice our existing production, the results are going to be dramatic to the profitability of the company. And so then if you look at what does that do to the stock price a year from now if we are at $150 of EBITDA, right? I mean, look at the multiples coal companies typically trade at less the debt, and you have a dramatically higher valuation for this company. So from that perspective, I think we're on the cusp of dramatically better things.

Unknown Analyst

Okay. A couple of follow-ups to that, if I understood it correctly. Had the turnover of the new hires improved? Like you're saying the first 100 -- roughly 120 new people, there was fair amount of turnover there. As you've replaced the turnover, has that kind of attrition that comes from people joining and then moving on for whatever reason, has that improved over the last 6 months or so?

Brent K. Bilsland
President, CEO & Chairman

I think it's marginally better. I think that higher interest rates and higher inflationary prices will eventually slow this economy down. And that's why our turnover and our growth in people will improve.

When exactly will that happen? It's hard to put an exact number on it. I think it happens gradually between now and the end of the year.

Unknown Analyst

Okay. And then in terms of supply chains and obtaining equipment or consumables or however they're referred, is there anything that concerns you about being able to obtain everything you need where it's not just you have to pay a price that's 2 or 3x more than you normally would, but it's just not available at any price.

Brent K. Bilsland
President, CEO & Chairman

Well, I think we worry about that every day. That's our job. We worry about that every day. I think we have -- we're in a period of time where you have to fight and work at getting your inputs. And because of that, I mean, we are trying to carry higher inventory levels to make sure we don't run out of anything. And so far, the industry has done a good job of making sure nobody has run out of anything, but I wouldn't say we've stopped worrying about it.

Unknown Analyst

Yes. Fair enough. And you haven't experienced anything like that directly at being unable to obtain equipment needed or anything?

Brent K. Bilsland
President, CEO & Chairman

So far, we've been able to obtain everything. I wouldn't say it wasn't without a struggle, and we definitely have paid premium prices. And that's the part that we think that, again, we think higher interest rates, higher inflationary costs eventually slows the economy down, right? That's why they're raising rates is to try to get that in check.

The problem is walling off Russia is a, I don't know, once-in-a-lifetime event. I mean, you're talking about the world's largest exporter of natural gas, the second largest exporter of oil, the third largest exporter of coal.

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So when Europe says, we're no longer going to use these BTUs, we're going to source that from somewhere else. So they're looking at the Middle East. They're looking at Africa, and they're looking at the United States. Those are the 3 closest markets to Europe to replace Russia. And so for that -- and we've seen an underinvestment in fossil fuels for the last 5 years in the United States. So now we're at a period of time where all of that industry is being asked to ramp up and ship every last BTU that you can. I don't care if it's coal. I don't care if it's gas or it's oil, right?

And Europe is saying, "We're willing to pay a premium price to make sure we don't freeze this winter even if we have to do that with government money." And so it's created this bonanza that -- for the industry, for the fossil fuel energy industry. And the good news is our margins are going up. The bad news is it's hard. You have to fight harder to get all the inputs to make that profitability happen.

So we're up to the task. It is something we work on every day. And quite frankly, it's been going on for a little while, which is why you've seen input prices kind of, or cost structure creep up. We were not expecting it to creep up as much as it did in the first quarter, but we are very focused on that now. And I think we have a good plan to widen those margins back out, widening out now just due to our April results and what we see as price increases starting in June and beyond.

Unknown Analyst

Okay. And then one last question. I just want to make sure I understood some here correctly. When you were speaking earlier about using the tonnage for the Merom plant instead of selling it into the market, and you had mentioned a $50/ton margin. Is that the -- just say -- is that selling the coal for $50 a ton? Or the margin would be $50, so you sell it for X and after cost, it would be $50 a ton?

Brent K. Bilsland
President, CEO & Chairman

I'm talking about the margin, not the sales price. And I want to clarify something. Those are the prices that we would receive if we didn't take it to the plant, and we sold it on the open market. We want to take it to the plant because we think it's a higher value at the plant.

Now those concepts change every day. And we may sit here 3 months from now and say, "No, it makes more sense to sell those tons," but that's one of the things that the plant gives us is that kind of optionality. It looks to me is that the plant will 99 times out of 100 be the best use of those tons just from a freight perspective. But that may not always be the case. But again, we have that optionality, and we think we're taking into the plant because it's a greater value than selling them on the open market. We just want to clarify that we have that option.

Unknown Analyst

Right. Okay. So given this instance of $50 a ton margin currently, what would the equivalent margin be for the tons going to the plant instead of being sold in the open market?

Brent K. Bilsland
President, CEO & Chairman

That's not something we've disclosed. And quite frankly, it gets a little complex because are we talking about power prices that we've agreed to sell to our -- through our bilateral contracts? Are we talking about spot prices on the market? So from that perspective, because the plant acquisition is not closed, we have not discussed that.

I think our point is it's better used to take them to the plant. We think that's more profitable than $50 per ton margin. So from that perspective, that's our plan. And I think at a high level we've talked about, we expect EBITDA next year to grow over $150 million of adjusted EBITDA. So do the math. I think it's a unique opportunity to profit in a very short order when we're talking about, what, 7 months from now we'll be on a [indiscernible] if not before, if not before. We really think before because we really think we're getting -- we're going to be closing on this plant in the third quarter.

Operator

[Operator Instructions] Our next question is from John Moran with Robotti & Co.

John Moran

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Brent, I just had a question about your liquidity and whether or not the $10 million you raised is sufficient. It seems like all that would do is replace what you sort of would have generated typically in the last couple of quarters. And it also seems only logical that the banks are going to want more liquidity if you bring Merom into the mix. That's the first question.

Second is just around that negotiation with your banks. Because if you say that you can make a $50 margin on the 1.7 million tons that are not sold next year, if I'm a bank and you could do that today, is that not a difficult negotiation? I mean, it seems like they could be in a position where they really don't have much risk left in the loan if you simply sell those tons today. And I don't -- they don't care about the company beyond the loan, I wouldn't assume. So anyway those 2 questions.

Brent K. Bilsland
President, CEO & Chairman

So from a liquidity perspective, we may add more liquidity. I think we're -- again, we think that the closing of the plant materially improves our company. We think that we could be as close as 35 days away from that, again, that's subject to regulatory approvals and financial approvals. So we're in conversations with our banks about what that looks like today, and those conversations are positive. So we have a game plan for that.

As far as, is the bank going to force us to sell coal in the open market, the bank, I think would -- as all of us would, will always support what's the highest value position for those tons. And so from that perspective, no, I think they are encouraging us to use our assets to the most profitable position. Banks don't want to tell you how to run your company.

John Moran

Maybe just one more. You kind of referenced this optionality that you would have if you succeed with Merom. Do you really have optionality? Or do you have to run Merom at 100% once you own it? And if so, I think can you buy coal from third parties? Or could you buy profitably from third parties to run Merom?

Brent K. Bilsland
President, CEO & Chairman

So the majority of the tons going to that plant this year once we own it will not be from Hallador. Next year, there will be a mix between Hallador and another supplier's tons.

Do we have to run that plant wide open? We have obligations to our counterparty to produce so many electrons under our PPAs. And so we have to have enough fuel to do that and to meet our capacity requirements in MISO. But after that point, if it was more profitable to sell the tons, we could do so. If it was more profitable to run the plant, we could do that.

So all we're trying to say is the plant does mean us flexibility. And the thing -- we have people call us and say, "Well, you don't have your -- all your approvals yet, so you don't know you can close on the plant." We say, "Well, in the unlikely event that we didn't close on the plant, then as a fallback position, we could sell these tons and still be much more profitable than we have historically been next year."

So what we're trying to say -- maybe I'm doing a; poor job of it, is we have multiple tracks to profitability later this year and next year. And that's something that I think the bank look at that and say, "Well, gosh, this amount of profitability coming down the pipe."

Could we be debt-free late next year or early in 2024? I think those things are possible. So from that perspective, the banks are happy about we are right on the cusp of profitability improving.

John Moran

For the 2023 tons that you're renegotiating, are you giving away anything for -- are you trading volumes in outer years to do that? Are you giving up anything for that? Or why -- what is your leverage of your customers for these renegotiated tons?

Brent K. Bilsland
President, CEO & Chairman

Mostly we've been doing these blend and extends, where we will sell them more tons in outer years.

John Moran

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Okay.

Brent K. Bilsland
President, CEO & Chairman

You don't forget, at most, half of our production will be going to Merom. The other half will be sold on the open market. So as we go out to '23 and '24 and '25, we will dramatically open up. Well, not dramatically. We will open up on some of those tonnage. And so we have customers now who are saying, "Oh my gosh, look at the gas forward curve for the next 3 years, it's flirting -- it's over $5 and flirting with 6."

So if you're a utility who's struggling to get tonnage now and you see all these -- the gas curve, it just keeps improving. So we are seeing utilities start to talk about, some have flipped where it's gone from we want to say really short contracted to now they want to go longer contracts.

And so we're seeing quite -- we're seeing some business getting repriced at prices I've never seen in my career, and I've been doing this 18 years. We've got people in our sales department who've been doing this for 35-plus, these are the highest prices we've ever seen.

And so when you're into these negotiations, when a customer comes to you and says, "Look, I need more tons for '23. I need more tons for '24." That offers us an opportunity to say, "All right, can we blend and extend these prices? I'll sell you more tons in the outer years, but I want some of that price increase in '23" or maybe I've got to sell a few tons in various windows to make that work.

So those are the type of deals that we're -- I don't think we're giving up anything. I think we're just doing new business at much higher prices as is everybody else.

I mean, there is an energy crisis going on. The state -- the country of Russia has been shut off from Europe or restricted from Europe. And those markets, which have for decades gone to Russia are looking for new suppliers. The United States is on their short list.

Operator

Our next question comes from [Ted Waters], another private investor.

Unknown Attendee

Brent, I had a question about your 2023 adjusted EBITDA. If you can hit $150 million, what would your free cash flow look like? Basically, looking at what would your ability to pay down debt in '23 if you could hit those numbers?

Brent K. Bilsland
President, CEO & Chairman

Larry will probably have a more accurate opinion of that. So I'll let him answer this one.

Lawrence D. Martin
CFO, EVP & President of Sunrise Coal

So yes, so I don't have our free cash flow calculated. But with our current projections and Brent's numbers that he was talking about with EBITDA, our bank debt would paid up -- our net -- we would be net debt-free in the fourth quarter next year.

Unknown Attendee

And would you be certain to be able to hedge some of those electrons once you close the plant for '23?

Brent K. Bilsland
President, CEO & Chairman

Yes, we would be in position to do that. We can't do that today until we acquire the plant.

Lawrence D. Martin
CFO, EVP & President of Sunrise Coal

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So we have interested parties.

Unknown Attendee

For sure.

Brent K. Bilsland
President, CEO & Chairman

Correct.

Operator

There are no more questions waiting at this time, so I'll pass the call back over to the management team for any closing remarks.

Brent K. Bilsland
President, CEO & Chairman

Well, I want to thank everyone for their interest in Hallador and again, just reiterate how excited we are about the future. I'm not going to say it's not going to be a bumpy path to get there, but it's just we see so much opportunities. And I think we're positioning ourselves to take advantage of that opportunity in very short order. So I thank everyone for their interest, and we look forward to talking to you on our next call. Thank you.

Operator
That concludes the Hallador Energy First Quarter 2022 Earnings Call. Thank you for your participation. You may now disconnect your lines.

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