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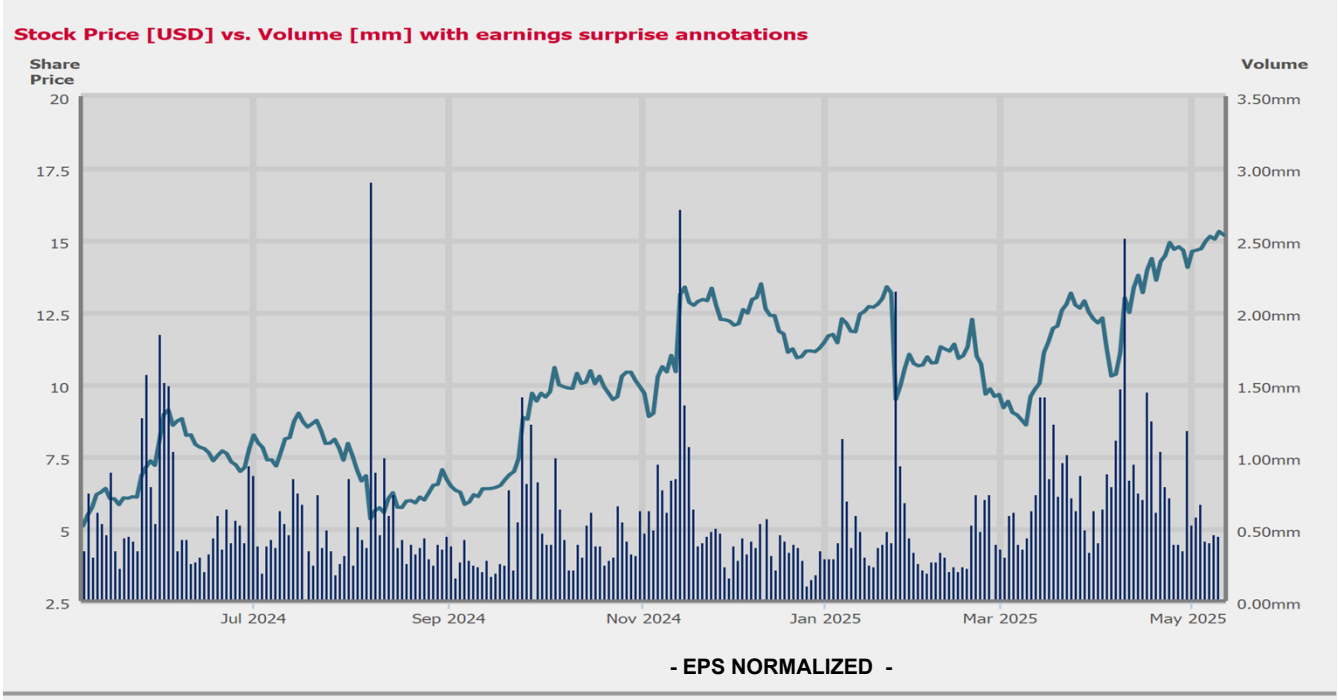
Hallador Energy Company NasdaqCM:HNRG FQ1 2025 Earnings Call Transcripts

Monday, May 12, 2025 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2025-			-FQ2 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.16)	0.23	NM	(0.16)	(0.63)	NA
Revenue (mm)	98.70	117.79	19.34	98.70	394.60	NA

Currency: USD
Consensus as of Apr-04-2025 5:45 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2024	(0.08)	(0.22)	NM
FQ3 2024	(0.10)	0.04	NM
FQ4 2024	(0.13)	(0.15)	NM
FQ1 2025	(0.16)	0.23	NM

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Call Participants

EXECUTIVES

Brent K. Bilsland
President, CEO & Chairman

Marjorie A. Hargrave
Chief Financial Officer

ANALYSTS

Nicholas Giles
B. Riley Securities, Inc., Research Division

ATTENDEES

Sean Mansouri
Elevate Ir

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Presentation

Operator

Good afternoon. Thank you for attending Hallador Energy's First Quarter 2025 Earnings Conference Call. [Operator Instructions] As a reminder, this call may be recorded.

I'd now like to turn the conference over to Sean Mansouri, the company's Investor Relations adviser with Elevate IR. Please go ahead, Sean.

Sean Mansouri
Elevate Ir

Thank you, and good afternoon, everyone. We appreciate you joining us to discuss our first quarter 2025 results. With me today are President and CEO, Brent Bilsland; and CFO, Marjorie Hargrave. This afternoon, we released our first quarter 2025 financial and operating results in a press release that is now on the Hallador Investor Relations website. Today, we will discuss those results, as well as our perspective on current market conditions and our outlook. Following prepared remarks, we will open the call to answer your questions.

Before we begin, a reminder that some of our remarks today include forward-looking statements subject to a variety of risks, uncertainties and assumptions contained in our filings from time to time with the SEC and are also reflected in today's press release. 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 prove incorrect, actual results may vary materially from those we projected or expected. In providing these remarks, Hallador has no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law to do so.

And with the preliminaries out of the way, I'll turn the call over to President and CEO, Brent Bilsland.

Brent K. Bilsland
President, CEO & Chairman

Thanks, Sean, and thank you, everyone, for joining us this afternoon. We are pleased with our first quarter performance as we returned to top line growth and saw material improvements in our bottom line and cash flow generation, underscoring the strength of our strategic shift to a vertically integrated independent power producer. January and February offered a strong backdrop as the combination of colder weather and higher energy pricing enabled us to benefit from increased dispatch volumes. We also saw improvement in our coal production through the first 3 months of the year as our 2024 restructuring efforts continue to take hold.

During the quarter, we leveraged our strong counterparty relationships to strategically deploy targeted firm energy sales, helping to offset price volatility and weather-related demand fluctuation. This enabled us to maximize the value of our Merom Power Plant in a way that balances challenging periods, while also gives us flexibility to capture upside opportunities in periods of elevated pricing like what we saw in January and February.

Before diving into our first quarter operational highlights, I'd like to provide an update on our ongoing negotiations with a leading global data center developer. We're making meaningful progress in our negotiations for the long-term supply of capacity and energy from our facility. We understand that our partner has demonstrated their commitment to the opportunity through significant investment around land, transmission capacity and equipment, as well as the previously announced exclusivity agreement with us that runs through early June of 2025. Given the inherent complexity of these multiparty agreements, at this time, it is uncertain whether we will execute definitive agreements before the current exclusivity period expires. We are actively evaluating whether to agree to our counterparty's request for an additional exclusivity period. In the event the current exclusivity period expires without definitive agreements or an additional exclusivity period, we would continue negotiations on a nonexclusive basis, while evaluating proposals from interested third parties. During the last several months, we have received multiple unsolicited third-party inquiries with respect to the availability of our future energy and capacity. Ultimately, we remain well positioned to execute a strategic transaction that delivers long-term value to our shareholders.

Stepping back to the broader market, we continue to believe that the prevailing industry trend of retiring dispatchable generators such as coal in favor of non-dispatchable resources like wind and solar will lead to an unbalanced energy equation and extended volatility in the energy markets. We believe this volatility makes our subsidiary, Hallador Power, much more valuable due to the enhanced reliability we provide versus non-dispatchable generators. To further capitalize on these dynamics, we are actively

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exploring opportunities to acquire additional dispatchable assets that would enhance our scale and diversify our revenue streams while reinforcing our position in the evolving energy market.

Hallador is uniquely positioned to transform underperforming or retiring assets to serve high-growth end users such as data centers and onshore manufacturing with limited impact to retail customers. This model for growth is enabling us to continue our shift away from the discounted pricing related to our 2022 plant acquisition to higher wholesale market pricing next year and ultimately, to premium pricing associated with supporting data centers and other large load end users. Notably, the positive momentum that we are seeing from the current administration on both the federal and state levels should make transactions of this sort more feasible than they would have been under prior administration.

We are also currently evaluating the addition of natural gas co-firing at Merom. While we are still in the evaluation process, by adding the capability to co-fire with gas and/or coal, we believe it will provide fuel flexibility to our counterparty, while also providing Hallador with the ability to capitalize on the best fuel cost scenario and better control our operating expenses. Additionally, we believe that the ability to co-fire with natural gas and/or coal will also provide increased resiliency in times where gas availability is limited, as we have seen in various winter storms across the last several years. Moreover, leveraging coal supply from our own operations at Sunrise could help manage input costs by providing what is essentially an at-cost fuel supply, providing a release valve if third-party fuel pricing gets out of control, while also supporting our local workforce.

From a pricing standpoint, forward indicators continue to trend positively. The forward power curves indicate that the margins earned on energy produced at Merom and the value of accredited capacity sales assigned to the plant continue to increase, as we saw in the most recent MISO auction, where accredited capacity sold at prices in excess of $600 per megawatt day in the highest demand summer season. We are seeing strong indications for both energy and capacity prices in 2025 and beyond, and we're encouraged by our negotiations related to supporting the data center development within the state of Indiana for many years to come.

Subsequent to quarter-end, we completed scheduled maintenance on one of our units at the plant. Our second unit is currently undergoing scheduled maintenance and is expected to return online July 2. We typically schedule these outages during shoulder seasons when pricing tends to be lower, and we generally limit our firm electricity sales during these periods to guard against any unforeseen forced outages. Despite these outages, we've already contracted approximately 3 million megawatt hours for the balance of 2025 at an average price of $37.20 and 3.4 million megawatt hours for 2026 at an average price of $44.43, reflecting strong market demand and pricing momentum. Following 2026, we are optimistic that we can sell energy at higher prices in support of data center development and/or to traditional wholesale customers.

Shifting to our coal operations. We continue to see improvements from the restructuring of our Sunrise Coal division announced in early 2024. We spent the majority of last year optimizing production, headcount and strategy to best support our electric operations and our existing third-party contracts. Looking ahead, this restructuring should provide us with greater flexibility to quickly scale if we see coal prices increase to a point that justifies restarting production at our more expensive units.

With renewed support at both the federal and state levels for coal mining and coal-fired power generation, as well as improving market dynamics, we believe that we are well positioned to pursue growth and/or expansion opportunities, including the potential to increase our coal production in the back half of 2025 or 2026 if the market supports doing so. In the meantime, we expect to produce approximately 3.8 million tons of coal this year, having delivered 1.1 million tons in the first quarter to Merom and other customers. We supplement our own coal production with low-cost third-party purchases to diversify supply, enhance sales flexibility and optimize fuel costs and margins at Merom.

Looking ahead, we continue to see growing demand for reliable power, particularly as grid volatility grows with the retirement of dispatchable generation and the demand growth environment. This demand, paired with supportive regulatory sentiment and Hallador's ability to deliver dependable energy, positions us well for sustained growth. Our pursuit of dual fuel capabilities and potential acquisitions of other dispatchable generation assets reflects our confidence in the long-term economics and viability of our platform. With a robust contracted sales book, strengthening fundamentals and ongoing interest from high-demand end users, we believe we are well positioned to materially strengthen our opportunities for growth and cash flow generation for many years to come.

I will now hand the call over to our CFO, Marjorie Hargrave, to take you through our financial results. Marjorie?

Marjorie A. Hargrave
Chief Financial Officer

Thank you, Brent, and good afternoon, everyone. Jumping right into first quarter results. On a segment basis, electric sales for the first quarter increased to $85.9 million compared to $69.7 million in Q4 and $60.7 million in the prior year period, while coal sales were $54.8 million for the first quarter compared to $42.4 million in Q4 and $66 million in the prior year period. The increase in electric

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sales was primarily due to new contracts entered into in Q1 2025 that were not in effect in 2024, as well as higher energy pricing and dispatch volumes. The expected year-over-year decline in coal sales was driven by our decision to reduce coal production as part of the restructuring of our Sunrise Coal division. On a consolidated basis, total operating revenue increased to $117.8 million for the first quarter compared to $94.8 million in Q4 and $111.6 million in the prior year period.

Net income for the first quarter improved to $10 million compared to net losses of $215.8 million in Q4 and $1.7 million in the prior year period. The large loss in Q4 was primarily driven by a noncash long-lived asset impairment for Sunrise Coal.

Operating cash flow for the first quarter increased to $38.4 million compared to $32.5 million in Q4 and $16.4 million in the prior year period, with the increase driven by higher power pricing and improved coal mining margins in the first quarter 2025.

Adjusted EBITDA, a non-GAAP measure, which is reconciled in our earnings press release issued earlier today, increased significantly to $19.3 million for the first quarter compared to $6.2 million in Q4 and $6.8 million in the prior year period, reflecting the improving trends in our power business.

We invested $11.7 million in capital expenditures during the first quarter of 2025 compared to $14.9 million in the year ago period. As of March 31, 2025, our forward energy and capacity sales position was $630.4 million compared to $685.7 million at the end of Q4 and $657.5 million as of March 31, 2024. When combined with our forward fuel sales of $422.7 million as well as intercompany sales to Merom, our total forward sales book as of March 31, 2025 was approximately $1.5 billion.

During the first quarter, we reduced our total bank debt to $23 million compared to $44 million at December 31, 2024 and $77 million at March 31, 2024. Additionally, we did not utilize our ATM program in the first quarter and have not utilized it since Q2 2024.

Total liquidity at March 31, 2025 was $69 million compared to $37.8 million at December 31, 2024 and $39.5 million at March 31, 2024.
This concludes our prepared remarks. We will now open it up for questions from those participating in the call. Operator, back to you.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Nick Giles of B. Riley Securities.

Nicholas Giles
B. Riley Securities, Inc., Research Division

Brent, if I heard correctly, it sounds like there was a request for an extension of the exclusivity period, but you may consider not renewing exclusivity, given other unsolicited offers. So given that you appear to be in the late innings of a deal with the initial counterparty, how should we think about renewing versus not? What would other potential customers ultimately compete on?

Brent K. Bilsland
President, CEO & Chairman

Yes. Thank you, Nick. Look, we're -- we said we're -- it's uncertain whether the deal gets done before the expiration. Our counterparty has requested that we agree to an extension. And we're evaluating if that's something that we want to do or not. We feel really good about this. We made a lot of progress, but we're also encouraged by the interest that we see from other parties. And so, as we continue to make progress over the next month, we'll evaluate whether it's in our shareholders' best interest to grant an extension or to continue to negotiate nonexclusively while entertaining other interest.

Nicholas Giles
B. Riley Securities, Inc., Research Division

Maybe just as a follow-up, with the EPR submitted by Hoosier having received approval, I have to imagine really a key hurdle has been cleared in reaching a definitive agreement. So just curious how you would describe final steps from here? Are there any other major considerations with the initial counterparty? Or would you describe it as down to the final details?

Brent K. Bilsland
President, CEO & Chairman

Yes. Again, our deal is in front of the [meter]. And so what you've seen with Hoosier is a powered land development. We'll be selling to the bus bar. And so, as long as the power is taken somewhere in MISO Zone 6, which is pretty much the entire state of Indiana and the northern third of Kentucky, we don't really -- it's not of great importance to us where the power is taken off. So I don't want people to get overly focused on one powered land opportunity and assume that that's us or our only opportunity.

As far as where the negotiations are, yes, I think all the major -- most of the major points have been negotiated. And we've made great progress with the utility, with the developer. I really think it's more down to the hyperscaler negotiating the finer points of the transaction with the developer and making sure all of those points align with all 4 counterparties.

Nicholas Giles
B. Riley Securities, Inc., Research Division

Brent, that makes sense. And one more, if I could. I mean, it's good to hear an update on the potential to co-fire with natural gas. So I was just wondering if you could add any color around potential timing, capital intensity. If I remember correctly, there was a requirement to do something like this early in the 2030s, but it sounds like you may be pulling that forward now. So I appreciate any additional color.

Brent K. Bilsland
President, CEO & Chairman

Yes. I mean, current law says that we must co-fire by 2032. We expect the Trump administration to probably roll that back. That being said, we've said for quite some time, we feel that either the government at some point will require us to put a gas line to Merom or the customer will pay us to do so. And so we feel it was appropriate to begin analyzing this process so that we can better update the shareholder on capital cost, timing, feasibility, that sort of thing. We think the project is very feasible. We've hired a contractor to analyze it that it has been successful in co-firing other coal-fired power plants across the country. And everything we're hearing to date is very positive towards our situation. We think it's probably something that's very feasible and probable to be able to be accomplished

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in a reasonable time frame. So it's something we're evaluating from now. We expect to update the shareholders more on that in the future, but we're still in the early innings of that process.

Nicholas Giles
B. Riley Securities, Inc., Research Division

Got it. No, that's helpful. Maybe if I could, just a clarifying question. I mean, you've talked about -- you talked in the past about the advantage of contracting energy sales on a contingent basis. So I was wondering if you could clarify whether any long-term deal with a hyperscaler or the likes, should we think of this as contingent? Should we think about this as a firm basis? Just how should we think about structure here?

Brent K. Bilsland
President, CEO & Chairman

Yes. We've negotiated that structure to be a unit contingent basis for well over a decade in length.

Nicholas Giles
B. Riley Securities, Inc., Research Division

Got it. Okay. Well, Brent, I really appreciate all the color. If there's -- I'll go ahead and jump back in the queue. But if there aren't any other analysts, then please, operator, let me know and I'll continue to ask a couple more, if that's okay.

Operator
Thank you. Ladies and gentlemen, this concludes our question-and-answer session and today's conference call. Thank you for participating. You may now disconnect.

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