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Hallador Energy Company NasdaqCM:HNRG

FQ2 2025 Earnings Call Transcripts

Monday, August 11, 2025 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2025-			-FQ3 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.15)	0.19	NM	0.02	0.12	NA
Revenue (mm)	91.73	102.89	12.17	96.98	394.99	NA

Currency: USD
Consensus as of Jun-30-2025 1:49 PM GMT

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- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2024	(0.10)	0.04	NM
FQ4 2024	(0.13)	(0.15)	NM
FQ1 2025	(0.16)	0.23	NM
FQ2 2025	(0.15)	0.19	NM

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Call Participants

EXECUTIVES

Brent K. Bilsland
President, CEO & Chairman

Todd Telesz
Chief Financial Officer

ANALYSTS

Jacob G. Sekelsky
Alliance Global Partners, Research Division

Jeffrey Scott Grampp
Northland Capital Markets, Research Division

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

ATTENDEES

Sean Mansouri
Elevate Ir

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Presentation

Operator

Good afternoon, and thank you for attending Hallador Energy's Second Quarter 2025 Earnings Conference Call.

[Operator Instructions] As a reminder, this call will be recorded. I would 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 second quarter 2025 results. With me today are President and CEO, Brent Bilsland; and CFO, Todd Telesz. This afternoon, we released our second 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 may 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

Thank you, Sean, and thank you, everyone, for joining us this afternoon. We delivered a strong second quarter with year-over-year improvements in revenue, net income and adjusted EBITDA, along with another period of positive cash flow from operations. Our performance reflects the operational resilience of our platform, particularly as we navigated seasonal spring softness in the energy market and a scheduled outage at one of our generating units at Merom.

The strength of our remaining unit and higher-than-expected market pricing in the end of June helped offset those headwinds, while our coal operation benefited from improved cost efficiency and stronger recovery rates. As a result of these operational enhancements and our planned outage at Merom, we expected and saw coal inventory levels rise in the quarter. These increased inventory levels should position us for an active second half of the year as both units return to full dispatch and coal customer shipments remain strong.

As part of our ongoing strategy to manage the potential impacts of inconsistent weather and fluctuating energy prices, we continue to supplement periods of weaker pricing with select firm energy sales. These sales provide downside protection during periods of mild weather and soft pricing, but still give us the flexibility to capitalize on upside pricing during stronger periods. In late June, we expanded our relationship with an existing counterparty by executing a $35 million prepaid firm energy sale with delivery scheduled throughout 2025 and 2026. In conjunction with this sale, we made minor amendments to our credit agreement, including moving a required principal payment from October of 2025 to January of 2026 and redefining certain covenants to enhance our operating flexibility for the remainder of 2025.

We used a portion of the prepaid proceeds to fully cash collateralize our term loan balance of $19 million, with the remaining balance of the proceeds supporting ongoing operations and liquidity. We requested the structure as we believe that it will give us additional optionality as we evaluate refinancing structures related to our current credit facility. We are also seeing increased momentum in our commercial strategy to secure a long-term power purchase agreement.

Since concluding exclusive discussions with a global data center developer in May, we've engaged with a broader slate of potential partners, including utilities whose proposals offer compelling scale, simpler execution and faster implementation. The current market backdrop driven by accelerating demand for accredited capacity and resilient baseload power presents a meaningfully more attractive landscape than when we initiated our RFP process last year. While we continue to speak with our original counterparty, we are

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encouraged by the level of engagement from new participants, each bringing unique opportunities to monetize our energy and capacity offerings.

We're in the process of gathering and evaluating multiple offers from a variety of sources, including utilities and data center developers. The attributes of these offers and discussions have varied in terms of price, execution risk, start date, term length and structure. Regardless of which direction we ultimately seek to pursue, we remain optimistic that these conversations will culminate in a long-term agreement or agreements that enhance shareholder value.

We've long maintained the belief that the industry shift away from dispatchable generation and favorable of intermittent renewables will create long-term imbalances and greater market volatility. This environment increases the value of reliable baseload assets like our Merom Generating Station. To build on that position, we continue to evaluate opportunities to acquire additional dispatchable generation, which we believe can diversify our portfolio, expand the scale of strategic transactions and enhance our financial profile in a rapidly evolving power market. We are continuing to evaluate the potential of adding natural gas capabilities at Merom, creating a dual fuel configuration that could enhance reliability, flexibility and cost control. The ultimate decision of whether to co-fire, when to implement the change and the associated cost and funding in connection with such a change is inherently dependent on the type of long-term PPA transaction, if any, that we ultimately reach.

The multitude of potential PPA options and structures has resulted in us pushing forward with base level planning or in other words, planning those things that are consistent regardless of the ultimate deal structure. But delaying implementation on more bespoke elements until we have additional clarity on the customer desires and regulatory requirements. We continue to invest in the long-term value of Merom through disciplined maintenance and capital planning.

One of our units was offline for scheduled maintenance for most of the second quarter and into early Q3, a process we intentionally time during the spring shoulder months when power demand and pricing are typically lower. We also limit firm power sales during these periods to avoid potential exposure to the spot market in the event of an unplanned outage with our other unit. That said, pricing in late June exceeded expectations, and we were able to capitalize on those conditions with our remaining online units. As we've stated in the past, we believe Merom has the capacity to produce up to 6 million megawatt hours annually.

Beginning in 2026, our average contracted sales prices across both Hallador and Sunrise Coal step up meaningfully compared to current levels. With respect to energy sales, our largest PPA contract will see an increase of more than $20 per megawatt hour in 2026 as compared to 2025 on expected volumes of approximately 1.6 million megawatt hours. On the coal side of the business, our average contracted sales price across all contracts in 2026 is approximately $4 per ton higher than the average contracted sales price in 2025.

As discussed in our recent earnings call, we are actively evaluating strategic transactions that could expand our scale, diversity of our generation footprint and support the growing demand of large load users. By targeting the repurposing of retiring or underutilized assets to serve industrial and AI-related demand, we believe Hallador can deliver capacity that is additive to the grid rather than cannibalizing existing reliability. positioning us to create long-term value for customers, shareholders and the grid at large. Encouragingly, we are also seeing growing policy support at both the state and federal levels that we believe could further bolster this strategy moving forward.

Turning to our coal operations. We continue to realize the benefits of the restructuring efforts we implemented last year within our Sunrise Coal division. That initiative was focused on aligning production, headcount and operations to better support both our internal generation needs and existing third-party contracts. As a result, we've seen improved cost performance and more efficient recoveries. We did see increasing inventory levels due to the slowed internal shipments while we completed our planned maintenance at Merom, but expect these levels to normalize as we move through the shoulder season into the warm summer months.

We believe Sunrise is well positioned to quickly scale if market conditions shift, particularly if pricing strengthens to levels that justify restarting production at higher cost units. This structure provides us with the flexibility to meet increased demand while maintaining a disciplined operational profile. With growing support for coal and coal-fired generation at both the federal and state level, we believe Hallador through our mining subsidiary, Sunrise Coal, is positioned to quickly capitalize on opportunities for expanding production. Market conditions have strengthened relative to last year, and we continue to assess whether it makes economic sense to bring additional production online in the second half of 2025 or into 2026.

For now, we expect to produce approximately 3.7 million tons in 2025, with roughly 2.1 million tons already produced during the first half of the year from our Oaktown Mining Complex. To supplement internal production, we continue to source coal from third-party suppliers, typically at favorable pricing to diversify supply risk and provide added flexibility in the event of spot market strength. This optionality enables us to optimize fuel cost at Merom while positioning us to capture margin upside in a rising coal market.

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Looking ahead, we remain focused on unlocking the full value of our dispatchable generating assets while continuing to evaluate strategic acquisitions and enhancements. The momentum we're seeing across federal and state policy, combined with growing interest from potential partners for long-term PPAs reinforces our confidence in the path ahead. We believe Hallador is uniquely positioned to capitalize on the trends that are reshaping the energy sector. To support this next phase of growth, in June, we announced the appointment of Todd Telesz as our new Chief Financial Officer. Todd brings deep experience across the power and utility sectors, most recently serving as CFO of Tri-State Generation and Transmission, a cooperative serving 40 systems across 4 states.

Prior to that, he was CEO of Basin Electric, one of the nation's largest G&T cooperatives and previously held senior leadership roles at CoBank, where he supported energy and utility clients for approximately 17 years. Todd's background in finance, generation and cooperative power favorably positions him to efficiently support Hallador's continued growth plans. I will now publicly welcome Todd to Hallador and hand the call over to him to take you through our financial results. Todd?

Todd Telesz
Chief Financial Officer

Thank you, Brent, and good afternoon, everyone. I'm pleased to address you for the first time as Hallador's Chief Financial Officer. I joined the company in late June, and it's been a privilege to step into this role at such a pivotal time in Hallador's transformation. With a background rooted in the power and utility sectors, including generation, cooperative finance and strategic operations, I'm excited to contribute to Hallador's continued momentum as we advance both our organic growth initiatives and acquisition strategy.

Now let's jump into our second quarter results. On a segment basis, electric sales for the second quarter were $60 million compared to $85.9 million in Q1 and $60 million in the prior year period. While third-party coal sales increased to $38.1 million for the second quarter compared to $30.2 million in Q1 and $32.8 million in the prior year period.

Electric sales in Q2 were subdued due to typical spring seasonality, which brings milder weather and lower power demand as well as a planned maintenance outage at 1 of our 2 generating units at Merom that remained offline for the majority of the quarter. The increase in coal sales in the second quarter was primarily driven by higher third-party coal shipments. Despite these increased shipments, coal production efficiency gains resulted in elevated inventory levels at quarter end. On a consolidated basis, total operating revenue was $102.9 million for the second quarter compared to $117.8 million in Q1 and $93.8 million in the prior year period. Net income for the second quarter was $8.2 million compared to $10 million in Q1 and a $10.2 million loss in the prior year period.

Operating cash flow for the second quarter was $11.4 million compared to $38.4 million in Q1 and $23.5 million in the prior year period, with the decrease primarily driven by the aforementioned lower pricing and planned outage at Merom compared to Q1 and a larger $45 million PPA secured in Q2 of last year. Adjusted EBITDA, a non-GAAP measure, which is reconciled in our earnings press release issued earlier today, was $3.4 million for the second quarter compared to $19.3 million in Q1 and a $5.8 million loss in the prior year period.

We invested $13 million in capital expenditures during the second quarter of 2025 compared to $13.2 million in the year ago period, bringing our 2025 year-to-date CapEx to a total of $24.7 million. As of June 30, 2025, our forward energy and capacity sales position was $619.7 million compared to $630.4 million at the end of Q1 and $685.7 million at December 31, 2024. When combined with our third-party forward fuel sales of $371.5 million as well as intercompany sales to Merom, our total forward sales book as of June 30, 2025, was approximately $1.4 billion. Our total bank debt was $45 million at June 30, 2025, compared to $23 million at March 31, 2025, and $44 million at December 31, 2024.
The expected increase from March 31, 2025, was driven by higher revolver balance. Additionally, we did not utilize our ATM program in the second quarter and have not utilized it since Q2 2024. Total liquidity at June 30, 2025, was $42 million compared to $69 million at March 31, 2025, and $37.8 million at December 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]

First question and it comes from the line of Nick Giles with B. Riley Securities.

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

Brent, you started to walk us through kind of how you're viewing longer-term agreements with other counterparties. And so my first question was, are you really more open to multiple agreements to avoid customer concentration? And as a follow-up to that, your prior counterparty was a data center developer. Could new counterparties serve different end markets? Or do you think it's would still be kind of in the data center realm?

Brent K. Bilsland
President, CEO & Chairman

Thanks, Nick. Well, ultimately, the hyperscalers are driving all the new demand, and it's significant, and it continues to tighten the market, particularly for capacity. Look, we're -- we stopped our exclusive discussions in May. We're still speaking with that counterparty, but we've opened it up to other counterparties as well. And we've been particularly encouraged by what we're seeing out of the utilities. They've been much more aggressive, particularly than what they were a year ago. And so we're right now in the process of gathering multiple bids and having discussions with various parties and trying to evaluate those offers. So as far as counterparty risk, these are all investment-grade counterparties ultimately that I think would be our customer. And is it going to be we tie up with one of them or tie up with 2 of them? I think it's probably going to be more like that rather than us doing 5 or 6 deals.

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

Understood. And my second one would be just back to the decision to co-fire. I think you mentioned it's inherently dependent on the PPA. Should we expect that the end user funding such an upgrade is really a core part of the discussions? Or is there anything else that you would highlight from an economics perspective that's different from the first agreement. I think a key part of that was that pricing would be above the forward curve, things like that.

Brent K. Bilsland
President, CEO & Chairman

Yes. Thanks, Nick. Look, as far as co-firing, we have some customers that are interested in that being a part of the transaction and others that it is not a requirement of the transaction. So ultimately, we've got to get a little further down the line of continuing to gather these offers, evaluate these offers. And they bring various -- and look at it cumulatively from value.

Of course, we all run immediately to who's going to pay the most. But we also have to take into consideration attributes like who can start accepting -- paying us for capacity and energy next year. And does the facility have to be built? Or is it going to a utility who already has an open position and customer base that already exists. And so what's the length of time that this discussion will go -- or this contract will have? And also importantly, what are the volumes, right? We typically see utilities wanting to take bigger volumes than data center developers and not requiring as much of a ramp.

So that's -- those are all the things that we're trying to look at the overall value and say, which deal brings the most value to the Hallador shareholder and the most certainty of execution and cumulatively look at that from a risk-rated position and decide which path we're going to go down. I mean I'll remind you, our Board of Directors owns 25% of the company, right? So we -- our interests are very much aligned with that of the Hallador shareholder.

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

That's very helpful. One more, if I could. Todd, I want to congratulate you on your appointment and joining Hallador at such an exciting time. Just would be great to hear your thoughts around liquidity management between now and any deal. Obviously, Hallador

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has been successful in kind of some -- executing some forward sales to pull forward some cash. Is there more of that, that could be done between now and any deal? What other levers could you pull?

Todd Telesz
Chief Financial Officer

Thanks, Nick. It's very good to be here and to join the Hallador team. I think as we look forward, there's opportunities to perhaps continue to execute on prepays as we've done in the past. But also, I think as you look at the forward look and the open position that we have and some of the cash flow visibility that we have, I think there will be an ability to refinance the existing capital structure within the existing bank group and maybe with some additional lenders as well. So we're in the midst of those conversations, and I think we will look to achieve that over the course of 2026.

Operator

Our next question comes from Jeff Grampp with Northland Capital Markets.

Jeffrey Scott Grampp
Northland Capital Markets, Research Division

Brent, I believe -- so the press release from today talked about the dynamics continuing to play into your favor in regards to this larger scale PPA. I believe you said originally pricing was at a premium to the curve at that point in time. Markets have only gotten stronger since then. So is it fair to conclude that the bias on terms is probably better from that point in time? Or what's your conviction level in that kind of outcome at this point in time?

Brent K. Bilsland
President, CEO & Chairman

Yes, Jeff, actually, the curve has dropped a little bit since that period of time. But I would say we've seen much stronger capacity markets certainly. And so we just -- honestly, we're running we're having very competitive conversations. And I don't know that we've seen the final numbers yet, right? So we've -- some counterparties were talking a lot about structure. Others are talking about structure and price term. And so we're just -- we're trying to get all this information gathered so that we can look at that and see what brings the most value.

We've seen other data center deals price in the market. It's always hard to get your arms around those from the headline number, right? There's a lot of factors that get played into that. But I think where we're most encouraged is that when we went out for RFP a year ago, from what we saw then versus what we've seen today, we've seen the utilities be much more aggressive, willing to do much longer deals. And I think they realize that the market is just running out of accredited capacity and how it or has it.

And we're trying to figure out how can we structure that and leverage that to get the most value for our shareholders.

Jeffrey Scott Grampp
Northland Capital Markets, Research Division

Understood. That's really helpful. For my follow-up, on the acquisition side of things, you guys seem to be more communicative about that potential than maybe quarters past. So I was just hoping to hear a bit more about what inning you'd say you're in, in terms of looking at deals? Like is this something that you and the team are kind of building towards? Or are you guys actively in the market today for acquisitions?

Brent K. Bilsland
President, CEO & Chairman

Well look, we we're having conversations, right? And I guess the reason we've been more communicative about it is if there's somebody out there who is interested, we wanted to pick up a phone and call us, right? We certainly have our eyes on several things, and we've inquired about a lot of different assets, and we'll see where those conversations go. I mean they always kind of go the same. They go slowly and then suddenly very quickly. And so we're expecting some assets to come for sale. And we're trying to get the company in a position where we can take advantage of that because we feel that particularly buying coal-fired assets is kind of our niche, and we're one of the few players doing it, and we see value there for the shareholders. So we'll see if we can be successful in acquiring one or more of those assets.

Operator

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Our next question is from Jake Sekelsky with Alliance Global Partners.

Jacob G. Sekelsky
Alliance Global Partners, Research Division

Curious, going back to the coal-firing opportunity at Merom, should we expect to see economics wrapped around that at some point in the coming quarters? Or is that more of an internal exercise at this stage?

Brent K. Bilsland
President, CEO & Chairman

Well, look, we -- like I said, we -- it's going to depend to some degree as to -- we know we can do it, right? Pipeline is 5 miles away. We've done some work on securing easements. So we know it's doable. We've gone out to get preliminary work done on what is this going to cost, what would it look like? What would the timing be? How would we go about doing it.

So then it really kind of comes down to who ultimately is going to be the long-term buyer of the output from the Merom power plant, right? And so we're talking to multiple counterparties about transactions that are somewhere in the ZIP code of a decade in length. And so that will drive, is this a project that we want to go forward with? Or is this something that we will postpone to years down the road.

And so we don't really want to put out cost today until it becomes a more actionable item. And because if it's something we delay for 5 years, all the costs are going to change, right? And we don't want to mislead somebody saying, well, it costs X today and then we get down there and it costs X plus Y. So as that becomes -- I think we wanted to direct to the market and to the investors that we can co-fire the plant with gas. And we'll evaluate, again, ultimately, if that's what the customer is -- wants us to do.

Operator

It comes from Nick Giles with B. Riley Securities.

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

I guess my follow-up is really what's your level of appetite to reenter into exclusivity with any of these counterparties? Or said differently, as we think about an upcoming deal, should we expect to see a definitive agreement as the next announcement?

Brent K. Bilsland
President, CEO & Chairman

Well, as far as exclusivity, I don't think we really have an appetite at this time to do that. We it's -- we think it's a seller's market, and we want as many -- we want to be able to see as many opportunities as possible. And so that's kind of where we're at today is trying to gather as much information as possible, talk to as many interested parties as possible and ultimately trying to transact in a structure that brings the most value to the shareholders. So I think it's unlikely we would go forward in exclusivity anytime soon. And then the second part of your question as far as further announcements, look, a PPA of this magnitude would be a special event.

So we would disclose that with a special 8-K and probably even have an investor call to follow on that. We wouldn't wait. I don't think, for a quarterly filing unless it was just a day or 2 or 3 in front of a quarterly filing, then we might try to coordinate that timing. But otherwise, I think it will be a special event because I think it will be very, very -- a big influence on the company.

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

Got it. And in some ways, deals taking a little longer could have favored Hallador as economics continue to improve. But is this really something that we should think about as being wrapped up before year-end? Or is there any kind of time line you have in mind in progressing to that final agreement?

Brent K. Bilsland
President, CEO & Chairman

Yes. It's always tough to put timing on these things, right, because we're dealing with other counterparties whom we do not control their timing. So I'll -- I guess I'll decline to answer that. I don't think that -- again, we feel this market has we continue to see interest from a broader and broader group, and I think that's a good thing for the company. And so I don't feel like we've wasted our time, so to speak.

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Certainly, we all would like to get to a deal and get it announced as quickly as possible. But ultimately, we continue to attract more interest. And I think ultimately, that will lead to good things. So we'll try to be patient on our end, and we hope that our investors are patient with us because we're hopeful that good things are coming.

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

No, I appreciate that. And apologies if I missed this in your prepared remarks. I read in the release that the amended credit agreement deferred certain covenant requirements until the third quarter. And I was wondering if you could add any color around that.

Todd Telesz
Chief Financial Officer

Sure. Sure. Thanks, Nick. We basically postponed a couple of payments into early next year, January and March. And then we defeased, I'll say, with a [small D] that term loan for $19 million. So that is -- those payments will come out of that piece of the puzzle. And so -- and it's really around that and some timing of some leverage covenants as well.

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

Got it. I promise this will be my last question. Can you remind us of any major CapEx spend between now and any deal? Should we expect you to run at kind of similar quarterly run rates through the balance of 2025 and into 2026? I know there were some changes on the regulatory front maybe in 2Q, if I'm not mistaken. So I was wondering if that might have benefited Hallador.

Todd Telesz
Chief Financial Officer

Yes, Nick, I mean -- this is Todd. Your intuition is correct. I think as we look at the remainder of this year, we're seeing probably CapEx that's going to be a little bit lighter than we initially expected. So I think you could expect the full year to look very much like the first half as we've seen a little bit of delay in some of the ELG-related capital expenditures.

Operator

And this concludes our Q&A session. I will pass it back to Brent Bisland for closing remarks.

Brent K. Bilsland
President, CEO & Chairman

I just want to thank everybody for taking the time to dial in today and for your ongoing interest in Hallador Energy, and we'll continue to work to bring value to the shareholder. Thank you very much.

Operator
Thank you. And this concludes our conference. Thank you for participating. You may now disconnect.

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