Silvercorp Metals Inc.

Fourth Quarter & Full Year Fiscal 2024 Financial Results Conference Call

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Length: 20 minutes

CORPORATE PARTICIPANTS

Lon Shaver
Silvercorp Metals Inc. — President

CONFERENCE CALL PARTICIPANTS

Joseph Reagor
ROTH Capital Partners — Analyst

Felix Shafigullin
Eight Capital — Analyst

PRESENTATION

Operator

Thank you for standing by. Good afternoon. My name is Jenny and I will be your operator today. At this time I would like to welcome everyone to the Silvercorp Fourth Quarter and Full Year Fiscal 2024 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will 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 your question, please press star, then the number two. Thank you.

I would now like to turn the conference over to Lon Shaver, President of Silvercorp. Please go ahead.

Lon Shaver — President, Silvercorp Metals Inc.

Thank you, Jenny. On behalf of Silvercorp, I'd like to welcome all of you for joining this call to discuss our fourth quarter and full fiscal 2024 financial results, which were released yesterday after the market close. A copy of the news release, the MD&A, and the financial statements for today's call are available on our website.

Before we get started, I'm required to remind you that certain statements on today's call will contain forward-looking information within the meaning of applicable securities laws. Please review the cautionary statements included in our news release and presentation as well as the risk factors described in our most recent 10-Q, Form 40-F, and annual information form.

Kicking off with the quarterly financial results, with respect to the quarter, despite the regular impact of the Chinese New Year slowdown, our mines operated above expectations, as reflected in our previously released production numbers.

Revenue in Q4 totaled $43 million, marking a 25% increase compared to the same period last year. This growth reflects a $5.4 million increase from higher volumes of gold, silver, and zinc sold as well as a $3.3 million increase from higher realized prices for silver, gold, and lead. Based on the production and realized pricing for the quarter, silver was 55% of revenue on a net basis compared to 57% in Q4 of last year.

Our fourth quarter net income attributable to equity shareholders was $5.5 million, or $0.03 per share, and that compared to net income of $200,000, or $0.00 per share, for the same period last year. The main contributor to the increase was the previously mentioned factors affecting revenue, a $2 million increase in mark-to-market gain on investments, which offset a $3.2 million increase in income tax expenses.

On an adjusted basis, with adjustments made to remove the impacts of non-cash and one-time items, earnings for the quarter were $3.8 million, or $0.02 per share, compared to $5 million, or $0.03 per share, for the same period last year. The year-over-year decrease was due to a $2.5 million increase in withholding tax paid on funds distributed out of China.

Cash flow from operating activities totaled $10.2 million in Q4 and that compared favourably to $5.7 million in the prior year quarter. The increase was mainly due to the previously mentioned factors impacting revenue and net income. Before changes in non-cash operating working capital, our cash flow was $14.2 million versus $11.6 million in Q4 of last year.

Capital expenditures totaled approximately $13.4 million in Q4. That was up from $9.5 million in the same quarter last year, primarily due to increased tunnel and ramp development activities at Ying.

We ended the quarter with $185 million in cash and cash equivalents and short-term investments and this figure does not include our investments in associates and other companies, which had a total market value of $112 million on March 31st.

To quickly cover the full year financial results, revenue for fiscal 2024 was $215 million. That was up 3% compared to the prior year and this reflected a $19.9 million increase due to higher realized silver and gold prices as well as a $5.3 million increase from more gold sold. This was offset by a $12.6 million decrease from lower volumes of silver, lead, and zinc and a $5.5 million decrease from a lower realized zinc price.

Net income attributable to equity shareholders was $36.3 million, or $0.21 per share, compared to $20.6 million, or $0.12 per share, in the prior year. This increase primarily reflects the factors already mentioned affecting revenue, a $10 million increase in mark-to-market gains on investments, and an offsetting negative impact of $5.2 million from foreign exchange fluctuations.

Our adjusted earnings for the year were $39.3 million, or $0.22 per share, compared to $37 million, or $0.21 per share, in the prior year. Our cash flow from operating activities after changes in non-cash working capital for the year was $91.6 million. That was up from $85.6 million in the prior year due to these factors mentioned above affecting revenue and net income. Capital expenditures were approximately $64 million in fiscal 2024. That was up from $58 million in the prior year and these expenditures were in line with our guidance for the year of $64.7 million.

With respect to the quarterly production, as we previously reported, we mined 195,000 tonnes of ore and milled 237,000 tonnes of ore, up 7% and 32%, respectively, compared to the same quarter last year. We produced, on a consolidated basis, approximately 1.2 million ounces of silver, 1,900 ounces of gold, 12.5 million pounds of lead, and 4.6 million pounds of zinc in the quarter, representing increases of 4%, 92%, 15%, and 27%, respectively, in silver, gold, lead, and zinc production.

The cash cost per ounce of silver, net of by-product credits, was $1.22 in the fourth quarter compared to $0.92 in the prior year quarter. The increase reflects a $4.8 million increase in production costs, offset by a $4.4 million increase in by-product credits. The all-in sustaining cost per ounce of silver net of by-product credits was $14.36 in Q4 compared to $13.85 in Q4 of fiscal 2023. The increase primarily reflects the same factors that impacted the cash costs as well as a $1.3 million increase in sustaining CapEx.

Full year production recap: Looking at the results for the full year, we mined and milled 1.1 million tonnes of ore in fiscal 2024. That was up 5% and 3%, respectively, compared to fiscal 2023. Metal production totaled 6.2 million ounces of silver, 7,300 ounces of gold, 63 million pounds of lead, and 23 million pounds of zinc last year. Silver and lead production decreased by 6% and 7%, respectively, over fiscal 2023 due to lower head grades and the mining of 58,000 tonnes of gold ore, which contributed to a 65% year-over-year increase in gold production.

For the year, the cash cost per ounce of silver, net of by-product credits, was negative $0.38 compared to negative $0.42 in fiscal 2023. The increase reflects a $3.6 million decrease in by-product credits, but that was offset by a $3.2 million decrease in expensed production costs. The all-in sustaining cost per ounce of silver, net of by-product credits, in fiscal 2024 was $11.38 compared to $9.73 in fiscal 2023. The increase reflects the same factors that impacted cash costs and a $4.3 million increase in sustaining CapEx, an $800,000 increase in corporate expenses, and overall less silver sold during the year compared to the prior year.

Looking ahead to guidance for fiscal 2025, we announced our production and cost guidance in April along with the Q4 production results. We expect to produce between 6.8 million to 7.2 million ounces of silver, 7,900 to 9,000 ounces of gold, 64 million to 69 million pounds of lead, and between 27 million to 30 million pounds of zinc, representing production increases of approximately 9% to 17% in silver, between 8% and 23% in gold, 2% to 10% in lead, and between 16% and 29% increases in zinc compared to our actual fiscal 2024 results.

In terms of cost guidance, we are anticipating between $77 and $79.70 per tonne on a cash cost basis, which is in line with fiscal 2024's actual figure of $78.86 per tonne. On an all-in sustaining basis, we're anticipating a cost between $143.60 and $152.30 per tonne. This is higher than last year's figure of $140.40 per tonne as we look to increase spending at Ying this fiscal year.

This is a good segue to discuss our growth projects, which we have previously disclosed, and relates to our plan to enhance Ying's operational efficiencies by transitioning certain mining areas from cut-and-fill resuing to shrinkage stoping. As part of this initiative, we have budgeted $27 million in fiscal

2025 for ramp and tunnel development, aiming to improve underground access and material handling by replacing existing shafts with a new trackless system. By this weekend we will have received 14 out of 20 new LHDs, so those are load-haul-dump shovels for ore handling underground, which will be implemented across Ying in a staged approach.

In anticipation of the increase in mine productivity, we plan to add 1,500 tonnes per day of flotation capacity at the No. 2 mill at a cost of $7.2 million. This expansion is expected to be completed later this year and will boost Ying's total production capacity to 4,000 tonnes per day. Furthermore, we plan to install two more XRT ore sorters for less than a $2 million expenditure to address the expected increase in dilution from more shrinkage mining method. Construction on the third tailings storage facility is on track for completion by the third quarter of 2024. With $10.8 million spent to date and remaining expenditures of $16 million, the total cost of construction is expected to be below the original estimate. We plan to release an updated mineral resource and reserve estimate and mine plan for Ying in June. The upcoming technical report will incorporate all work programs, including drilling completed up to the end of 2023, and provide a life-of-mine plan reflecting all of these anticipated changes going forward.

With regards to Kuanping, the satellite project north of Ying, we expect to receive all permits and licenses for this project in the third quarter of 2024 and have allocated $1 million for mine construction in the fiscal 2025 budget.

Turning to the Adventus announcement on April 26th, Silvercorp and Adventus jointly announced the signing of a definitive arrangement agreement whereby Silvercorp will acquire Adventus by way of a plan of arrangement. This is an all-share transaction, with each Adventus common share exchanged for 0.1015 shares of Silvercorp. This implies consideration of $0.54 per Adventus share based on yesterday's closing price for Silvercorp, which was a 28% premium to the Company's pre-announcement closing price. Key stakeholders of Adventus, including the company's directors and senior officers, Mr. Ross Beaty and Wheaton Precious Metals, who collectively represent approximately 20% of Adventus shares, have committed to voting in favour of the transaction at the special meeting set for late June. Furthermore, we've secured support from Salazar, who's expressed welcoming to us coming in as their new joint venture partner in the transaction. Along with the acquisition, Silvercorp and Adventus completed a private placement whereby we acquired approximately 67 million shares of Adventus at a price of $0.38 per share for aggregate proceeds of approximately $25.6 million. Silvercorp currently holds about 15% of Adventus. This placement was done to help settle debt owed to Trafigura and Altius as well as to provide funding for predevelopment activities at the El Domo project.

More details are outlined in the news release, but I just want to make some key comments about this transaction. The El Domo project adds meaningful resources to Silvercorp. It is a permitted project that we can apply our development skills and financial capacity to and, once built, El Domo will make a meaningful contribution to our production profile and financial results while adding country and commodity diversification at the same time. This acquisition takes us into the prospective and mining-friendly jurisdiction of Ecuador, a country receptive to foreign investment and development. We believe the above factors should lead to a re-rating for the Company, unlocking value for all shareholders. We look forward to providing the market with updates on the progress of the transaction as well as our plans for the El Domo project over the coming months.

With that, operator, I'd like to open the call for questions.

Q & A

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you would like to ask a question, please press star then the number one on your telephone keypad. If you would like to withdraw your question, please press star, then the number two. If you are using a speakerphone, please lift the handset before pressing any keys. Once again, that is star one should you wish to ask a question. One moment please for your first question.

Your first question is from Joseph Reagor from ROTH Capital Partners. Please ask your question.

Joseph Reagor — Analyst, ROTH Capital Partners

Hey, Lon. Thanks for taking my questions. Can you hear me all right?

Lon Shaver — President, Silvercorp Metals Inc.

Yes. Hi, Joe. Thanks.

Joseph Reagor — Analyst, ROTH Capital Partners

So first, in your early part of your prepared remarks, I didn't catch it perfectly, but there was a comment about, I guess, a repatriation tax on taking some cash out of China. Can you walk us through that comment? I apologize if I didn't hear it correctly.

Lon Shaver — President, Silvercorp Metals Inc.

Yeah. This is a standard tax. It’s a 10% withholding tax that applies to dividends that are paid out of China, which applies to us and applies to other foreign entities that are shareholders in a domestic corporation in China.

Joseph Reagor — Analyst, ROTH Capital Partners

Okay. So, on that note, of the current cash balance the Company has, how much is held in China? Because, obviously, you’d have to repatriate a good portion of that to advance the El Domo project.

Lon Shaver — President, Silvercorp Metals Inc.

It’s roughly a 50-50 split between what’s held in China at the operations and our subsidiaries as well as outside of China.

Joseph Reagor — Analyst, ROTH Capital Partners

Okay. All right. That’s helpful. And then kind of a big-picture question. There’s been some news, not involving you guys but other companies, mining companies having issues with taking Chinese investments, Canadian government not approving it. Not necessarily denying it, but not approving it, ah, for anybody who’s Canadian listed. Do you see any risk for you guys because of the differences between Chinese government and Canadian government right now?

Lon Shaver — President, Silvercorp Metals Inc.

Well, we don't see any risk because, as the way the rules are defined, us as a Canadian company which is a majority shareholder in a Chinese operation but with no Chinese ownership or government influence, we don't meet the criteria for a review. So we're not anticipating any impacts from that.

Joseph Reagor — Analyst, ROTH Capital Partners

Okay. Thanks. I just wanted you to clarify that for all of us. All right, I'll pass it on.

Lon Shaver — President, Silvercorp Metals Inc.

Okay. Thanks, Joe.

Operator

Thank you. Once again, please press star one should you wish to ask a question.

Your next question is from Felix Shafigullin from Eight Capital. Please ask your question.

Felix Shafigullin — Analyst, Eight Capital

Hi, Lon. Thanks for taking my question.

Lon Shaver — President, Silvercorp Metals Inc.

Hi, Felix.

Felix Shafigullin — Analyst, Eight Capital

Just a quick question on the outlook. So, if we compare it to last year, right, I think we're seeing kind of, in the outlook that you provided, we're seeing lower cash costs on Ying, and I think, if I'm correct, well, yeah, so let's just stick to Ying then, so it's lower cash costs at Ying compared to last year, so fiscal 2024. What's behind this lower cost estimate for Ying for next year?

Lon Shaver — President, Silvercorp Metals Inc.

Well, a lot of that will be driven by, looking at the tonnages that we're anticipating, we're looking at a growth in tonnage out of Ying, and so, from a higher tonnage spreading [inaudible] cost allocation across, that's what's driving the lower cost on a per-tonne basis.

Felix Shafigullin — Analyst, Eight Capital

So just increasing the throughput then?

Lon Shaver — President, Silvercorp Metals Inc.

Yes. Mainly, yeah.

Felix Shafigullin — Analyst, Eight Capital

Okay. Okay. All right. That makes sense. Thanks.

Lon Shaver — President, Silvercorp Metals Inc.

Okay. Thanks, Felix.

Operator

Once again, please press star one should you wish to ask a question.

There are no further questions at this time. I will now turn the conference back over to Lon Shaver for any closing remarks.

Lon Shaver — President, Silvercorp Metals Inc.

That's great. Thank you, operator. I'd like to thank everyone for tuning in today. This is the wrap up for the call. As always, if anyone has any additional questions, please don't hesitate to call or email us and we'll be happy to answer those questions in due course. Have a great day.

Operator

Thank you. Ladies and gentlemen, the conference has now ended. You may disconnect your lines. Thank you for participating and have a wonderful day.