

SYAAF Earnings Call Transcript

Date: 2025-10-27

Quarter: 3

Operator: Thank you for standing by, and welcome to the Syrah Resources Q3 Quarterly Report Update. [Operator Instructions] I would now like to hand the conference over to Mr. Shaun Verner, Managing Director and CEO. Please go ahead.

Shaun Verner: Thank you. Good morning, and thanks to everyone for joining us on the call today. With me is our CFO, Steve Wells; and our EGM of Strategy and Business Development, Viren Hira. So after a very challenging 12 months, it's great to be able to report on a more productive quarter with a positive Balama natural graphite ramp-up of operations following restart, sales, strengthening market conditions for Balama fines and supportive policy and market tailwinds for the Vidalia business. This morning, we'll work through the presentation provided with the quarterly report to update you on the important developments in the quarter, and then we'll be happy to answer any questions at the end. So turning to Slide 3, and I wanted to first remind everyone of our clear and differentiated investment proposition. Syrah is the leading integrated natural graphite and active anode material producer outside China with the hard one investment and capability in place, providing a lead time [indiscernible]. Vertical integration from mine to end customer offers a secure source of high-quality critical mineral supply outside China. Our unique asset base is OpEx cost competitive with China and leading ex China and well placed to generate strong margins over the longer term. Our leading sustainability position, including external assessment provides full auditability and traceability from raw material through to finished products. And finally, in response to expected continued strong growth in our end markets, we have clear expansion opportunities that we can execute in line with the needs of our customers and government stakeholders. Moving on to Slide 4, and let me spend a moment now talking about our most important values of safety and sustainability. As we continue to develop a position as a leading critical minerals producer, we're guided by 3 core objectives: being positive for the communities in which we operate, being sustainable for the environment and providing secure supply for our customers. I'm pleased to say that in the quarter, our performance on key metrics measuring safety and sustainability were very strong. Our people and our local communities are critical to our success and the resolution of community and national issues impacting Balama in Q2 this year continued to progress positively through Q3. The health, safety and security of employees and contractors will always remain Syrah's highest priority. As we strive for zero harm in our operations, I'm pleased to report that our total recordable injury frequency rate remains very low at 1.1 incidents per million hours worked across the group, a result which any operation globally could be proud of. During the quarter, I also had the opportunity to meet with President Chapo of Mozambique and Minister Pale of Mineral Resources and Energy Portfolio, who both reaffirmed the importance of Balama to Mozambique and their support for the operation. And we also note in recent days that Total has removed its force majeure notice for its \$20 billion LNG project in Cabo Delgado, demonstrating increased confidence in the new government's ability to manage security and developments following the election. Our safety focus is underpinned by our work on critical risk hazard management and in-field leadership interactions. Syrah's operations are clearly aligned with leading global sustainability standards. Last year, Balama became the first graphite operation globally and the first mining operation in Mozambique to achieve the Initiative for Responsible Mining Assurance or IRMA 50 level of performance for sustainability. This achievement highlights nearly a decade of strengthening our differentiated

performance, including a strong safety record, investment in training and developing a highly skilled workforce, ongoing community development and human rights due diligence. Along with our ISO certification and external auditing required under our U.S. government funding arrangements, we continue to prioritize health and safety and environmental management systems, confirming our commitment to operating sustainably and driving continuous improvement in this area. A final point I wanted to reiterate on sustainability is the global warming potential of our integrated natural graphite anode product relative to other suppliers. The independent life cycle assessment, or LCA, completed on Syrah's integrated operations by Minviro from Balama origin to Vidalia customer gate estimated 7.3 kilograms of CO2 equivalent per kilogram of anode material produced, which is around 50% lower than equivalent natural graphite anode material from a benchmark supply route in Heilongjiang province in China and 70% below synthetic graphite benchmarks from China. We believe that these efforts give Syrah a competitive advantage as the most sustainable source of integrated natural graphite anode material available at scale today. On Slide 5 and turning now to a more detailed look at our performance and highlights in the third quarter. As we previously reported, after restarting operations in mid-June, in July, we recommenced shipments from Balama and removed the force majeure declaration that had been in place since December 2024. We ran a 6-week production campaign throughout the quarter and produced 26,000 tonnes of natural graphite. Difficult to make clear comparisons with prior periods given that we were ramping up operations after an extended outage, but comparisons will be more relevant in future quarters. Recovery of 68% was below our target as we restarted and worked through some initial maintenance requirements and utilization of older ore feed stockpiled through the outage. But the team focused heavily on quality and volume to meet the 2 initial break box sales in line with customer expectations. Given the outage period had depleted finished product inventory completely, we essentially sold everything we produced in the quarter with approximately 24,000 tonnes sold. With the breakbulk shipments [indiscernible] to Indonesia and our first ever bulk shipment to the U.S., we were pleased to be able to meet some of the pent-up demand resulting from the production outage in this first campaign. Our weighted average sales price for the quarter was USD 625 per tonne, CIF delivered. Our C1 operating cost during the operating period was USD 585 FOB per tonne and the freight averaged \$92 a tonne. Importantly, this provides strong indications of better than historical pricing and a good basis for lower C1 costs as we can increase volumes, indicating positive future cash flow opportunity. At Vidalia, as we previously announced, the business claimed and received a \$12 million cash paid Section 45X tax credit for the 2024 calendar year in connection with the operations of the anode material facility. Ongoing tax credits are expected in line with the relevant legislation annually, subject to the phasedown period from the start of the next decade. We continue to work through highly detailed and extensive qualification requirements at Vidalia and are making positive progress, albeit slower than we would like. Our product quality and performance are excellent, and we continue to deal constructively with a highly complex mix of policy, commercial and technical factors. We're focused on achieving sales as early as possible, but expect that material sales volumes will only occur in 2026. But we emphasize that our work here will pay off with our investment and development experience demonstrating the considerable time required for others to follow. Our cash flow from operations of negative USD 3 million includes receipts from sales of natural graphite shipments of \$12 million, along with the \$12 million tax credit I just mentioned. Excluding the tax credit, our cash outflow from operations reduced markedly from the prior quarter with production and sales ramp-up and inventory availability to facilitate further improvement in the quarters ahead. We're highly focused on getting Balama to operational cash flow breakeven as quickly as possible. Finally, the company had a strong cash balance of \$87 million following the equity raising that was completed in Q3, noting that there are restrictions on use under our funding arrangements. I'll now hand over to Steve to provide some further detail on our financials and cash flow movements in the quarter.

Stephen Wells: Thanks, Shaun, and good morning, everybody. I'll turn your attention to the waterfall chart on Slide 6, which shows our cash flow through the quarter. As Shaun mentioned, our cash outflow from operations in the quarter was \$3 million and reflects revenue, operating costs and the positive benefit of the \$12 million Section 45X tax credit, which is an operating cost tax credit and can be received as a direct cash payment rather than a credit against future tax liabilities. While we won't have

this benefit every quarter, as we noted in our ASX release at the time, we received this credit. We estimate Section 45X credits to be roughly \$7 million to \$9 million per annum prior to phase down of the credit in accordance with current legislation. In terms of timing, it is likely that direct payments for further 45X credits will be ordinarily received in the second half of the following calendar year. Other movements to call out in this quarter were the equity raising that was launched at the end of July and completed in August and delivered net proceeds of \$44 million. The company also received a \$6.5 million disbursement from its loan with the DFC, which net of USD 2.2 million of refinancing repayments led to a \$4 million net proceeds from borrowings. While operating cash flow was marginally negative as articulated, we also had a net cash inflow from borrowings so that excluding the net proceeds from the equity raise, the group was cash flow neutral for the quarter. In all, we closed the quarter with a cash balance of USD 87 million, which is made up of \$27 million of unrestricted cash and \$60 million of restricted cash for lender reserves and for use in each of our operating assets. We also have further liquidity available under the DFC facility, which is part of the ongoing DFC loan restructuring discussions. With that, I'll hand it back to Shaun.

Shaun Verner: Thanks, Steve, and I'll spend some time now providing an update and our perspectives on various market developments and the government policy backdrop. On Slide 7, you can see on the left-hand chart that the global EV demand picture remains strong, though volatile month-to-month. Over the first 9 months of the year, global EV sales were up 28% on a year ago with strongest growth in China, positive developments in Europe and the spike in demand in the U.S. in Q3 prior to the expiry of the Section 30D consumer tax credit rebate. Anode production growth in China continues to increase strongly, reflecting not only the EV market, but also the rise of energy storage system requirements for data centers and other stationary storage applications. But of course, on the supply side of the picture, synthetic graphite anode material production overcapacity in China has resulted in intense competition for market share and destructive pricing behavior in the domestic market. Prices for synthetic graphite anode material, especially lower-grade products remain below estimated production costs in many cases. Anode margins are also impacted by higher coke feedstock costs and low capacity utilization, which industry observers estimate to be around 40% on average across the Chinese industry. In natural graphite anode material production, finished anode material producers have driven precursor margins and upstream feedstock margins lower over successive spherical graphite purchasing cycles in China. Although a few of the larger anode material producers remain profitable, many Chinese feedstock and precursor suppliers are not currently operating due to poor margins and low demand driven by domestic market price substitution. In the ex-China market, natural graphite anode material demand remains positive and a significant structural shift is underway driven by policy. China export controls and U.S. government tariffs and the anti-dumping and countervailing duty implementation are seeing a shift to lower Chinese exports evident in the charts on the right-hand side of the slide. And that's being replaced by supply from Indonesia for anode material into the U.S. This is positive for both Balama supplying Indonesia and Vidalia, where increasing demand for ex-China supply for commercial and policy reasons is becoming evident for coming years supply. There are continuing deep market challenges and financial pressures across the global battery and input materials sector arising from the dominance of incumbent Chinese producers in both cell production and feedstock and precursor supply. Policy actions are key to the evolution of both demand and pricing for ex-China supply, and we're seeing positive developments in this area. On Slide 8, encouragingly, government policy settings are delivering material potential support to Syrah's strategy to become the leading ex-China integrated natural graphite and anode material producer. Over the course of 2025, we've seen key U.S. government policy changes, in particular, the anti-dumping and countervailing duties investigation and combined preliminary tariff imposition of at least 105% and various other additive import tariffs and policy instruments, including the definition of prohibited foreign entities impacting future availability of the 45X tax credit to battery and auto manufacturers in the U.S., a credit which is hugely important to their profitability. On the supply side, increasing concern arising from China's further export license controls announced in the last few weeks on graphite anode and processing equipment similar to those imposed on rare earth exports are also driving ex-China purchasing diversification decisions from our customers. The combination of these factors is leveling the playing field for ex-China supply and Syrah's major investment and capability build will allow us to capitalize on both the competitiveness and

value of Balama feedstock and our anode material from Vidalia for OEM and lithium-ion battery manufacturers in the U.S. Turning now to Slide 9 and a summary of our key strategic priorities and milestones for the coming 6 to 12 months. In this current final quarter of 2025, we'll drive further campaign production to support increasing natural graphite shipments to ex-China customers with a particular target on further breakbulk shipments into the anode material supply chain. This will generate important revenue for the company as we continue to progress our technical qualification steps with Vidalia customers and drive towards sales there, in line with evolving commercial and policy conditions. At an industry level, we're awaiting the final determinations for the anti-dumping and countervailing duties investigation in the U.S., which are due before the end of the year. However, we understand that this timing may be impacted by the U.S. government shutdown. The preliminary duties are finalized. They will be in place for a minimum of 5 years, providing important stability and a mass leveling of the competitive position for Syrah relative to Chinese imports into the U.S. Geopolitical developments, vulnerabilities caused by a concentrated structure of graphite supply and anticipated demand growth, particularly outside China, led to higher strategic interest and transactions being announced in the graphite and battery sector globally. Taking advantage of these conditions, Syrah has commenced a process advised by Macquarie to review strategic partnering options to enable strengthened position from which to pursue opportunities. At Vidalia, we're making strong progress in technical qualification with high-quality product, but immediate customer purchasing intent remains uncertain given the complex policy and market interactions, and we do not expect commencement of material commercial sales volumes from Vidalia this quarter, but rather from 2026. Concurrent with moving our Vidalia operations to commercial sales volumes, we're also targeting additional customer and financing commitments ahead of a potential expansion investment decision, hopefully in 2026. We're optimistic that there are both improving market and policy fundamentals now and a number of clear positive catalysts ahead that have the potential to deliver significant value to shareholders. Our asset and corporate teams are working very hard to deliver against these objectives safely, and we look forward to communicating further progress. I'm now happy to move to any questions.

Operator: [Operator Instructions] Your first question comes from Mark Fichera with Foster Stockbroking.

Mark Fichera: Just a question on the partnering process. Just can you give maybe an indication or flavor for what types of companies in terms of industry participants or people or companies potentially outside the industry that could be considered.

Shaun Verner: Thanks, Mark. So we've previously talked about potential interest in downstream partnering for expansion of Vidalia. And given the fairly significant policy and market developments that we're seeing at the moment, we're seeing increased interest across the supply chain that's prompted us to, I think, more broadly view what options might be out there. And that's the genesis of the process with Macquarie. We have an open mind around the types of potential partners. But clearly, within the supply chain and across the broader battery and auto supply chain, there is significant interest. And the government policy developments have, I think, prompted broader interest from a wider range of financial investors. So we are keeping an open mind. We're at the early stages of that process. We're not communicating any sort of time line or milestones at this point. But our objectives are clearly to identify high-quality aligned partners and get to a position that will strengthen the balance sheet and derisk our growth options.

Operator: [Operator Instructions] Your next question comes from Ben Lyons with Jarden Securities Limited.

Ben Lyons: Apologies, I haven't had a chance to go through all of the detailed disclosure yet. However, previously, we've talked about advanced conversations with potential customers for Vidalia getting near to actually signing formal offtake agreements. Just wondering if you can possibly give us an update on any materially advanced conversations that are close to finalization.

Shaun Verner: Yes. Thanks, Ben. We haven't made any specific disclosure around that in this quarter. What I would say is that our Phase 3 project remains very high on the list of potential suppliers to a number of key customers. We are progressing with technical qualification with a number of customers outside our offtakes with Tesla and Lucid. The key issues at the moment really revolves around the uncertain policy environment. And I think customers are no doubt looking to understand the outcomes

of the anti-dumping and countervailing duties investigation and also considering the potential issues around the 45X prohibited foreign entity material cost ratio requirements for non-Chinese purchasing over the coming years as well. So there are a number of uncertainties, not least of which also the export controls and whether those are implemented more stringently out of China. And I think final decisions on further offtakes from customers are really pending greater visibility on some of those key items. And as I said in the call, we expect the anti-dumping and countervailing duty outcomes, which were expected in December, probably to move into January, but that will be absolutely key to Phase 3 offtakes.

Ben Lyons: Okay. I completely understand, supportive policy backdrop, but it would be good to get greater certainty to really get those customers to sign up.

Shaun Verner: Thanks, Ben.

Operator: Thank you. There are no further questions at this time, and that does conclude our conference for today. Thank you for participating. You may now disconnect.