Peabody Energy (NYSE: BTU) Announces Improved Operating Results for The Quarter Ended June 30, 2001

PRNewswire
ST. LOUIS

Peabody Energy today reported EBITDA* of $109.4 million and income from continuing operations of $9.9 million for the first quarter of fiscal year 2002, an increase of $28.8 million and $25.0 million, respectively, over prior year U.S. results. Current-year results were positively affected by an $11.5 million after-tax gain related to an expected refund of previously paid excise taxes. These comparisons exclude the results of our Australian operations, which were sold in January 2001.

First quarter diluted earnings per share before extraordinary items totaled $0.22 per share, which includes $0.26 per share related to the excise tax refund. First quarter net income also reflects an extraordinary loss from debt extinguishment of $27.6 million, or $0.62 per share.

FIRST QUARTER RESULTS

"We experienced a strong first quarter that bodes well for the fiscal year," said Peabody Energy Chairman and Chief Executive Officer Irl F. Engelhardt. "During the quarter, we significantly reduced debt following a successful initial public offering of one-third of the company. We also improved our long-term earnings profile by reaching coal sales agreements at improved market prices, for terms extending as much as five years."

First quarter U.S. revenues rose 9 percent to $657.3 million, driven by strong customer demand. U.S. sales volume for the quarter totaled 46.8 million tons, compared with 43.8 million tons in the prior year. Average revenues per ton improved slightly from the prior-year quarter, as the company continued to fulfill sales commitments made during softer market conditions.

First quarter EBITDA totaled $109.4 million, a $28.8 million increase over U.S. EBITDA during the prior-year period. This improvement was driven by stronger sales volumes; increased contributions from coal trading; improved results from Powder River Basin operations and Black Beauty Coal Company; and positive results from resource management activities related to increased coal royalties and property transactions. Average operating costs increased slightly, primarily due to longwall moves at three Eastern U.S. operations, weather conditions in Appalachia and higher energy costs at Western U.S. operations. First quarter operating profit totaled $50.1 million, compared with prior-year U.S. operating profit of $28.3 million.

Income from continuing operations of $9.9 million includes an $11.5 million after-tax gain ($0.26 per share) related to favorable litigation results in June 2001 that enables certain coal companies to collect refunds of excise taxes paid for the periods of 1991 to 1993. For comparative purposes, an Internal Revenue Service ruling was issued in May 2000, allowing refunds for the periods of 1994 to 1998. As a result, the company had recorded a $13.0 million after-tax gain in the prior-year period.

CAPITAL STRUCTURE

Peabody received net proceeds of $452 million following the May 22, 2001 initial public offering of 17.25 million shares of common stock. The company reduced total debt by 27 percent during the quarter, to $1,021 million. The company benefited from a 31 percent reduction in interest expense compared with the prior-year quarter, related to the improved debt levels.

"Our focus over the past three years has been to reduce debt," said Executive Vice President and Chief Financial Officer Richard A. Navarre. "We have lowered total debt by more than $1.5 billion, improving our net debt to capitalization ratio from 79 percent at March 2000 to 47 percent at June 2001. As a result, we expect net interest expense to be approximately $125 million for the full fiscal year. Our financial flexibility permits a balanced focus on earnings and growth."

As a result of the debt reduction and improved company prospects, Peabody has received an upgrade from credit rating agency Fitch for the company's senior secured credit facility, to BB+ from BB-, its senior unsecured notes to BB from B+, and its senior subordinated notes to B+ from B-.

GROWTH INITIATIVES

In the first quarter, Peabody invested $43 million in capital expenditures aimed at improving the company's cost structure and expanding capacity to meet long-term customer commitments. Full-year capital expenditures are expected to total $240 million to $260 million. Peabody is developing five new mines in Illinois, Indiana and Kentucky to satisfy long-term contracts from low-cost production sources. The company is also expanding the Lee Ranch Mine in New Mexico to satisfy new customer commitments.

For the period January 1 to June 30, Peabody entered into sales commitments at higher prices for 17 million tons in fiscal year 2002, 41 million tons in fiscal year 2003, 33 million tons in fiscal year 2004, 24 million tons in fiscal year 2005 and 14 million tons in fiscal year 2006. As a result of the new business, Peabody has unpriced sales positions of 3 percent of anticipated fiscal year 2002 production of 181 million tons and 17 percent of anticipated fiscal year 2003 production of 194 million tons. This includes anticipated production for the Rawhide Mine in the Powder River Basin and the Colony Bay surface mine in Southern West Virginia. Both mines are expected to resume production prior to the end of calendar year 2001.

Peabody also continues to make progress in the permitting, transmission access, design and partner selection for the Thoroughbred Energy Campus, a 1,500 megawatt electricity generating plant to be fueled by a 5 to 6 million ton-per-year coal mine on company-controlled property in Western Kentucky.

MARKET OVERVIEW

U.S. coal demand and pricing remained strong in the first fiscal quarter. Government reports estimate that coal use is running 6 percent ahead of last year, and coal's share of U.S. electricity generation increased to an estimated 53.1 percent through March. Capacity utilization at coal-based plants rose to record levels during the first calendar quarter, and eased slightly during the second quarter, primarily due to mild weather in the Midwest and a softer economy. While industry and company estimates suggest that coal stockpiles have increased slightly over the last quarter, stockpiles remain at levels approximately 27 percent below the high levels of a year ago.

During the first quarter of the calendar year, natural-gas-fired generation declined approximately 1%. Despite recent decreases in natural gas prices, the average cost to generate electricity from coal-based plants remains substantially lower than that of natural gas.

Longer term, the Department of Energy reports that more than 26,000 megawatts of planned coal-based generating plants have been announced within the past year. Peabody is currently holding discussions for new long-term coal supply agreements with several of the developers of these plants.

OUTLOOK

"I am pleased by the company's performance and our prospects amid the strong industry fundamentals," said Engelhardt. "Peabody entered the year with the industry's largest position of production to be priced within the strengthened market. We significantly improved our long-term earnings profile since January 1 by entering into multiple-year sales commitments at higher prices. We also are finding a number of high-return investment opportunities using our leading reserve base."

Looking forward, management expects second quarter EBITDA of $80 million to $85 million and diluted earnings per share at a near-break-even level. Management expects the improved market conditions to have a significant impact on results beginning in the next calendar year (Peabody's fourth fiscal quarter). The company is targeting fiscal year 2002 EBITDA of $380 Million to $400 million, before special items.

The estimated weighted average diluted shares outstanding are expected to total 54.1 million shares for the second quarter and 51.5 million shares for the full fiscal year 2002.

Peabody Energy is the world's largest private-sector coal company. Its coal fuels more than 9 percent of all U.S. electricity generation and more than 2 percent of worldwide electricity generation.

Certain statements in this press release are forward looking as defined in the Private Securities Litigation Reform Act of 1995. These statements involve certain risks and uncertainties that may cause actual results to differ materially from expectations as of the date of this release. These risks include, but are not limited to, changes in coal and power markets, economic conditions and weather; railroad performance; the ability to successfully implement operating strategies; regulatory and court decisions; future legislation and other risks detailed from time to time in the company's reports filed with the Securities and Exchange Commission. These factors are difficult to accurately predict and may be beyond the control of the company.

* EBITDA (also called adjusted EBITDA) is defined as income from continuing operations before deducting net interest expense, income taxes, minority interests and depreciation, depletion and amortization. EBITDA is not a substitute for operating income, net income and cash flow from operating activities as determined in accordance with generally accepted accounting principles as a measure of profitability or liquidity. It is presented as additional information because management believes it a useful indicator of our ability to meet debt service and capital expenditure requirements. Because EBITDA is not calculated identically by all companies, the presentation herein may not be comparable to similarly titled measures of other companies.

Condensed Income Statement for the Quarter Ended June 30, 2001 and 2000
(Dollars in Millions, Except Per Share Data)

	Current Year	Pro Forma (A) Prior Year (U.S. Only)	Prior Year (includes Australia)
Tons Sold (Millions)	46.8	43.8	47.1
Revenues	$657.3	$603.7	$673.0
Operating Costs	525.4	501.4	548.8
Depreciation, Depletion and Amortization	59.3	52.3	60.5
Selling and Administrative	22.5	21.7	22.8
Operating Profit	50.1	28.3	40.9
Interest Income	(1.3)	(4.5)	(4.6)
Interest Expense	34.5	50.0	51.5
Income Tax Expense (Benefit)	4.3	(4.3)	0.3
Minority Interests	2.7	2.2	2.2
Income (Loss) from Continuing Operations	9.9	(15.1)	(8.5)
Income from Discontinued Operations	-	-	8.8
Income (Loss) Before Extraordinary Item	9.9	(15.1)	0.3
Extraordinary Loss from Debt Extinguishment, Net of Taxes	(27.6)	-	-
Net Income (Loss)	$(17.7)	$(15.1)	$0.3
Diluted EPS:			
Income Before Extraordinary Item	$0.22		$0.01
Extraordinary Loss from Debt Extinguishment	(0.62)		-
Net Income (Loss)	$(0.40)		$0.01
Weighted Average Diluted Shares Outstanding	44,213,833		27,511,978
EBITDA	$109.4	$80.6	$101.4

(A) Excludes results from discontinued operations and Australian operations, which were sold in January 2001.

Supplemental Financial Data for the Quarter Ended June 30, 2001 and 2000

	June 2001	June 2000 (A)
Tons Sold (in Millions)		
East	13.1	12.8
West	30.1	28.2
Trading and Brokerage	3.6	2.8
Total	46.8	43.8
Revenues - Coal and Trading Operations	Dollars per Ton	
East	$24.76	$24.47
West	8.21	8.11
Trading and Brokerage	19.56	20.63
Total	13.70	13.69
Operating Costs (B) - Coal and Trading Operations		
East	$20.92	$20.41
West	6.14	5.93
Trading and Brokerage	16.10	20.21
Total	11.03	11.08
Gross Margin - Coal and Trading Operations		
East	$3.84	$4.06
West	2.07	2.17
Trading and Brokerage	3.46	0.42
Total	2.67	2.61
Selling and Administrative	$(0.48)	$(0.50)
Depreciation, Depletion and Amortization	$(1.27)	$(1.19)
Other Operating Costs and Revenues	$0.15	$(0.28)
Operating Profit	$1.07	$0.64

	Dollars in Millions	
EBITDA	$109.4	$80.6
Capital Expenditures	$43.0	$18.0

(A) Excludes results from discontinued operations and Australian operations, which were sold in January 2001.

(B) These costs exclude depreciation, depletion and amortization; selling and administrative expenses; and certain other costs related to past mining activities.

Condensed Balance Sheet as of June 30 and March 31, 2001

(In Millions)	June 30	March 31
Cash and Cash Equivalents	$31.2	$62.7
Receivables	162.5	147.8
Inventories	212.6	210.2
Assets from Coal/Allowance Trading Activities	128.4	172.3
Other Current Assets	32.9	37.0
Total Current Assets	567.6	630.0
Net Property, Plant and Equipment	4,312.7	4,322.6
Investments and Other Assets	265.3	256.9
Total Assets	$5,145.6	$5,209.5
Current Maturities of Debt	$27.7	$36.3
Liabilities from Coal/Allowance Trading Activities	116.4	163.7
Accounts Payable and Accruals	506.9	577.0
Total Current Liabilities	651.0	777.0
Long-Term Debt	993.3	1,369.3
Deferred Taxes	562.5	570.7
Other Long-Term Liabilities	1,829.7	1,819.8
Total Liabilities	4,036.5	4,536.8
Minority Interests	41.9	41.5
Stockholders' Equity	1,067.2	631.2
Total Liabilities and Stockholders' Equity	$5,145.6	$5,209.5

Debt Analysis as of June 30, 2001

(In Millions)

Balance - March 31, 2001	$1,405.6
Debt Repayments	(385.0)
Amortization of Debt Discount	0.4
Overall Decrease	(384.6)
Balance - June 30, 2001	$1,021.0

Summary:

Senior Notes	$316.4
Senior Subordinated Notes	407.4
Black Beauty	207.6
Other	89.6
	$1,021.0

This information is intended to be reviewed in conjunction with the company's filings with the Securities and Exchange Commission.

MAKE YOUR OPINION COUNT - Click Here
http://tbutton.prnewswire.com/prn/11690X65473463

SOURCE: Peabody Energy

Contact: Vic Svec of Peabody Energy, +1-314-342-7768

Website: http://www.peabodyenergy.com/