THE MIKE ALKIN SHOW
TALKING STOCKS OVER A BEER

Announcer: Free and clear from the chatter from Wall Street, you're listening to Talking Stocks Over a Beer, hosted by hedge fund veteran and newsletter writer Mike Alkin, who helps ordinary investors level the playing field against the pros, by bringing you market insights and interviews with corporate executives and institutional investors. Mike sifts through all the noise of mainstream financial media and Wall Street to help you focus on what really matters in the markets. And now, here's your host, Mike Alkin.

Mike Alkin: Welcome to the podcast this Tuesday, December 18th, 2018. Hope you had a good weekend. I'm coming at you a day later than usual. I had some stuff I had to get done yesterday. But you're gonna take a ride with me right now, as I am driving into Manhattan from my house on Long Island. I have a lunch that I have to go to, which we'll talk about in a little bit. You're gonna enjoy what could be, should be a 30-minute drive, which normally takes an hour-and-a-half to two hours, sometimes two-and-a-half hours, depending on traffic. That is after leaving after rush hour, But we just can't make up the traffic around here.

Anyway, last night, big night. I stayed up. It was a big football night, Saints and Panthers. I'm just not a Panthers fan. I'm not a Cam Newton fan. I'm not a fan of his play. I'm a huge fan of Drew Brees. It was good, Saints squeaked out a win. I'm not on the Saints bandwagon, but I always enjoy watching them play. Then, I stayed up late, I had the Islanders, and I know, I know. I got plenty of emails when I said [inaudible 00:02:12] were in first place earlier, but they're hanging in tough. They're a young team. Tavares is gone, thank God. See you. See you, John. But, they're playing really well.

Took my kid to the game Saturday night back at the Old Barn, the Nassau Coliseum, where they abandoned to go play in the Barclays Center, which was a disaster. You heard me talking about that, but they're playing about half their home games back at the 40-year-old monstrosity called the Nassau Coliseum. But hey, it's home, It's cozy. So, I took my kid. We went and saw them play the Red Wings. They won 3-2, so It was a good game. 4-3 in overtime, actually, I should say.

Last night, they were out playing in Colorado, so they're just starting to play well. They went through a little tough a really tough stint. It was a late night, you know, a little later night game for East Coast time. It was great, I love that. Football's starting, and I've got hockey starting an hour later, and I'm reading. It's a good night. I helped my kids with some stuff. It's Christmastime, right? So, you're around the house. My wife's online shopping, and wrapping a few things, and the kids are just bopping around, but it was good.

I have the Islanders play, and it's a great game. Going into Colorado, always a tough place to play. The altitude is so much higher. It's tough for visiting teams. The Avalanche are actually a really good team this year, so I was like, shit, they're starting a four-game round-trip. They're going to lose in Colorado. They played spectacularly, and they won four-one, so God, I was like a kid. [inaudible 00:03:46] three-one, though, with a few minutes to go and I was pacing in my little man cave, because I was thinking, "Oh God, this is so typical. They're going to give it up," and I was all stressed out. I couldn't look for a few seconds when the Av's had the puck in the Islander's zone and they're flying around.

They won, and then I sit down and I'm just doing a little reading and I fall asleep on my couch in my man cave. Instead of going right up to bed like I should, I don't. After that, I wanted to get a little extra reading done. Well, sure enough, the little extra reading, I fall asleep and I wake up and it's five a.m. Like, really? Right, so now I'm pissed off at myself, because I didn't get a great night's sleep. You know, you fall asleep on the couch it's like, aw, come on.

The body ain't what it used to be. I got some aches and pains in my neck and my shoulder, and I feel my knee. Then, I thought my wife had said she had closed up for the night. That's kind of our term. If you shut the lights, and you make sure the dog went out, put the alarm on, and you're good to go. Somewhere along the way, I thought she told me that, and she didn't. As I'm going through the house to work my way up to my bedroom, every light in the house is on. Every single light. I'm having flashbacks to when I was growing up, and I could see my grandfather. My grandparents raised me. Just saying, "What am I? Ben Franklin? Did I invent electricity? Does money grow on trees?"

I hear myself, every single light in the house is on. Everything. There's music playing, so clearly there was a miscommunication. My wife thought I was going to shut everything off, but that wasn't the point. Now I'm roaming around the house, I don't know, 5:15, and I'm hearing myself ranting out loud, saying, "Are you kidding me? What is this? Look at this. If you looked from the street looking in, you'd be like, they got a party going on." That's, like, normal, and I'm sitting there, ranting and raving to myself.

I'm not in a good mood for that. I wind up, I go to bed, and I get up, and I wake up to my son playing his rap music. Now, I don't know if I shared this with you in the past, my rap music story, but back in August I was in Singapore, in Hong Kong. I was in a hotel in Singapore and I was there. It was a trip, and I was meeting that day with some investors. I got an early start, and I'm in the hotel in the gym in the morning. I don't know, it's about five a.m. and there's not a soul in the gym, and it's perfect.

I forgot my earbuds, so rather than run upstairs I said, "Ah, okay. Nobody's in here." I don't want to be rude ever, and play my music, but I'll play it loud off my phone because no one's in here, so that's fine. I'm working out. I'm getting into a good workout, and I'm working out pretty hard. I lose sight of where I am, and I'm not really hearing the music. A couple of people start to come into the gym, and somebody says to me, "Excuse me. That music's offensive." I was like, oh geez. At first I think it's the sound.

Turns out, what it was, it was somehow, and I give up trying to figure out Apple iTunes, and who's lists are who's. My kids are always changing passwords to something. Just, whatever's there I play. I think I have a playlist that I think I know called Dad's Playlist, but it gets populated with whatever. Well, sure enough, my son's music is on there. Now, he's 12. He's going to be 13 in a few months. We monitor ... My wife really does monitor any social media. She's all over him like a hawk. He's a good kids, but he's 12 and he's a knucklehead, right? 12-year-old boy. He's a bright kids, but God, he can do some stupid things, so you got to be all over him.

I try too, but I'm oblivious to some things, so my wife is all over that. Anyway, the music thing, they always figure a workaround, my kids. No expletives with the music. You go to the Apple iTunes store, you look at the top 20 songs, everything is. It's rap with really bad language, and the words don't make sense, so we tell him, "You can't buy the expletive songs," and somehow they work their way into the playlist and wow, that happened to be playing in the hotel that day.

I go back to the room and I listen to some of these songs, and I start to get really pissed off. I'm like, "You got to be kidding me." A, I have no idea what they're saying. B, the language is so vulgar it's crazy, and C, he's not listening to these. I think there were 340, some-odd songs. I just deleted the whole damn thing. I'm not even giving the choice. They're just gone. Called up later that day, or whenever I called, and told him, read him a little bit of a riot act and that was that.

Well, here he is back, once he's back to the- Somewhere along the way I get these back, and he's got a few rap songs, and I hear it this morning. He then hits me with, "Dad, can you take me to a concert in March?" What they typically do, the way we kind of around the house is, you know, my wife is the day-to-day rule-maker, and she's in charge of the house. I mean, that's how it works. She'll tell me, "I have a heart the size of Texas," but sometimes I'm a little clueless on the judgment part, on what's perfect for kids, what's right or wrong. She makes the rules, we all follow them, it works beautifully for our family. It might not work for everyone, but that fits well in this particular instance.

What tends to happen is, the kids will go to mom, and mom will say no. Then, they come to me, of course, like kids do, and for a while I would say, "Oh yeah, sure, that sounds reasonable," because she's more of a stickler on the day-to-day, and I'm more flexible ... Until I'm not. They're smart, so they know that and they come to me. Well, I've learned after my wife's reminded me a thousand times. I finally learned that, check with mom, what did mom say? I'm going to get overruled anyway. We go with that.

When he came to me this morning, he said, "Dad, can you take me to a concert," he caught me off-guard. I said, "Yeah, sure. Yeah, I'm happy to go." I was thinking, "Yeah, I'll chaperone." I didn't think to ask who it was, and it's some rapper that he wants to go see, so my wife, of course, reminds me, "Are you out of your mind? No." Then, of course, print off the music, print off the words, and it's just not happening. I have to, of course, say no. Then, of course, she's, "Dad, why can't you make your own decisions?" That's been my morning so far.

Then, I felt compelled to ... I reverted back. I was my grandpa. I was ranting about the lights on, and what am I? Ben Franklin? I was hearing my grandfather in myself. It was kind of funny. Anyway, that's been my day. Turn to the markets a little bit. So far, by the way, traffic's not too terrible. I hate to jinx myself, but I'm a little surprised, and go with it.

You know, it's been tough, right? Market's been getting hammered. You know, right? I'm not going to rehash. I talk about this stuff fairly regularly. I'm trying to trade more attention. The economy's slowing down, people concerned about that. Rate hikes, right? You know, if they're going to hike too much, it overshoots, and what's that going to do? Powell spoke in New York a few weeks ago it looked like he sort of backed off, and the market got a little relief. Maybe that's too little, too late, right?

You think there are reasons to bring the cautions out for the price and time now. Again, not bombastically, but hey, know what you own and make sure you're not being piggish with any gains that you might've had. I chuckle, because now people are saying, "Hey, what should I do?" Oh, okay. I don't know. Let's see. The S&P's down, what, eight this month? It's being hammered. It was hammered last month. What should you do now? You got to start playing. You've got to start thinking forward, thinking ahead. Think two steps ahead.

Right now, I don't know. I was reading a really good piece this morning. Bloomberg interview with Stan Druckenmiller. Without doubt, the greatest hedge fund manager ever. 30% in yields. No down years until he retired in 2010. Really doesn't get better than that. The pragmatic, brilliant, just a stunning portfolio manager. Now, he runs his own family office, and he's basically saying he sees a tough outlook for three to five, you know, next three to five years. Really, he said, "Hey, really you shouldn't be raising rates right now." We are where we are, and I'm driving. I don't have my notes here on it in front of me, but essentially, you don't want to put the brakes on too fast here, and send the markets into more of a tailspin.

He was talking, and he made a really good point in saying, "During these times ..." Like, now. Now's not when he's out there shorting stocks, typically. You can get these final snapback rallies. He talks about, and you can. Everyone's inclination, because I see it. On the inbounds that I get, because people know me as a guy who likes a short stock, so it'll be there for a long time, but now what should I be doing? Well, the market's already had a huge move, right?

The way Druckenmiller positioned it is, hey, now I'm thinking the Fed's going to have to come down. You can see the two-year note come from 270 down to 50 basis points in the not-too-distant future. If that's the case, you to own treasuries. The rates go down, bond prices go up, right? That's a different tune than you would've heard not long ago. Everyone's anticipating. The rates just keep going up, and up and up. What we're seeing, the challenges that the Fed is having from trying to get out of what Global Central Bank easing has done for all these years. It's tough sledding out there.

He mentioned that he's been short the financials. Banks do well when interest rates go up, and they don't do well when their rates are down. Just start to think about that when you're thinking about how to position your portfolio for what's going on. Don't just run out bombastically and, "Oh, I got to get those shorts. I got to buy. I got to do this." You know? I hate to say that you should've been doing, but hopefully you have started to exhibit a little bit of caution with the portfolio, and just continue to be cautious.

Oftentimes, cash is a wonderful hedge. Just something to think about. We're going to talk about the uranium today. I have coming on the podcast as my guest, Arthur Hyde, and Arthur is a good friend of mine, along with his partner Adam Rodman. They run a hedge fund focused solely on uranium investments. Which, listeners know, as do I. Their fund is called Segra Resource Partners, and yes, there's four or five of us in the world who do that. Dedicated funds, and this is one of them. Art and I are going to talk about the world of nuclear power, and uranium, so let's get it going.

Arthur, hi. Welcome the podcast.

Arthur Hyde: Thanks for having me on, Mike. Nice to speak with you.

Mike Alkin: You bet, buddy. For the listeners who don't know, Arthur, and I'm going to call him Art. Art runs, along with his partner, Adam Rodman, a uranium-focused hedge fund called Segra Resource Partners. Art, Adam and I are buddies. Competitors and buddies. Hey, that could happen, right?

Arthur Hyde: Right.

Mike Alkin: In the small world of uranium, you know, you get to know, but I met Adam through a good friend of mine down in Dallas, which is where the fund is based, and we've gotten to know each other over the years. I have a great deal of respect for Adam and Art, and I love chatting with them. They have really, really smart views, I think, and really worth listening to.

Art, for those who don't know, tell us your background.

Arthur Hyde: Sure, definitely. Segra Capital Management is a Dallas-based global diversified hedge fund manager, and we launched, as Mike said, Segra Resource Partners, which is our uranium and nuclear power-specific vehicle in the second quarter of this year. We had been focused on the trade for several years previously in our main fund. We maybe came at this a little bit differently than some other folks in the industry. If you've been following uranium for a while, you'll see that there's a handful of guys that have just been around since the last cycle. They really are resource investors. Often Canadian or Australian in base, and they come into this from a supply side. They know the mining companies.

Our background is really more in emerging markets, and under-followed markets. A big part of our process at Segra has always been to look at Chines capital flows, and Chinese outbound investment, and to try to look at where which markets, which industries, those capital flows were moving towards. Back in, I guess it was 2015, there were several IPOs in China, and a few of them were nuclear power focused. These companies were literally raising billions of dollars with the express intent of building nuclear reactors and then acquiring uranium.

We had a background of actually trading the cycle at previous roles in the up cycle in 2008-09, and then post-Fukushima from the short side, actually. When those IPOs occurred, it piqued our interest. We started to look at market dynamics, and wrap our arms around some of the big picture macro trends in the industry. Since then we've spent the last three years getting to know both the ins and outs of the macro, but also the micro. We think company-specific analysis is super-important here, as I know you do, Mike.

I think what's maybe a little bit different about our background within this sector is that, we really do come at it from the EM side, and from the demand side, which maybe makes our point of view a bit different from your average uranium-focused investor.

Mike Alkin: Well, you know, Art, you just said something that's fascinating, because as you do, I do, we talk to investors, potential investors who inquire from around the world. We, and mostly are institutional investors. Some high net worth individuals. What you tend to find is, at least should be interesting to hear your view. To me, when I'm talking about uranium opportunity, and the uranium cycle, and the power cycle, when I'm speaking with Asian investors, you don't have to sell them on the growth of nuclear power. When you're speaking with Western investors it's a completely different initial conversation, because there's skepticism about it.

You mentioned the EM aspect to it. You were familiar with nuclear power, because that's where it's growing. I was mentioning there on the podcast before you came on, I was in Hong Kong, back in August, and it's just such a different set of conversations. I think, as you concluded, I've concluded, nuclear power's a growth business, and I think that's something that gets lost on people.

Arthur Hyde: I think that's really well-put, and we'd agree with your sentiment completely. Typically, when we walk in investors through the way we see supply and demand shaping up, you know, a lot of our conversations are spent with, okay, why does this opportunity exist? If you're so right, and the story is this interesting and misunderstood, how can that be? The capital markets tend to be efficient, and I think you're right. You know, traditionally, the demand centers of nuclear power and of uranium were, in the United States, and Western Europe, and Japan, and if you're an investor in those markets over the last 8 to 10 years, you haven't seen a lot of positive headlines.

I think that investors in the US, investors in Canada are massively skewed by headlines around [inaudible 00:22:54] in the US, and this feeling that nuclear power is too expensive, and too complicated to build. You got a diametrically opposed view with Asian investors. They tend to get the macro very quickly, and it's a question of, how do you play, what companies do you look at? I think they- [crosstalk 00:23:14]

Yeah, it's a very different conversation, a smart point. I think that bias is, again, what creates this opportunity.

Mike Alkin: You know, and you said something to is, you looked at it from the demand side. I've said this on the podcast a billion times. When I started, like you guys, I'm a general, just like you guys are, right? Which, I think, if we could talk about that is how it really helps when you're looking at elongated cycles, and things that are in really long bear markets, or bull markets, because the "experts" tend to buy into the existing narrative. When you come at it with a financial framework that's unbiased and say, "Let me look at this with a fresh set of eyes," you're not engulfed in the prevailing sentiments.

When I came at it, it was, hey, I'm a Westerner. I really don't know about nuclear power. I see the asset class that's been destroyed.

I see the commodity that's been annihilated. That's interesting, but is there demand? That's how I came at it. Like you guys did, I know you did as well. Build out every reactor in the world. Just look at it, look at it, and you can see it. It's a growth business, and that is such a big story, because I'm curious to hear your view.

When I did that, Art, it was, once I got the demand side down, and then you understand the economics of supply, it actually got pretty easy. Then, you start to say, there's no choice. You can't sell it for 25 or 20 or 18, and pull it out for 40 or 50. That doesn't work, right? That makes those decisions, from a corporate standpoint, much easier. How did you guys start to, once you got the demand side, how did you start to think about it?

Arthur Hyde: Well, now I'll say a few things. I mean, yeah, I think there's a very simple narrative to nuclear that's been around for a while. I think Rick Rule likes to say, the line's something along the lines of, if uranium prices don't go up, the lights go out. I think there is some simplicity there that may be accurate. Yet, he's obviously a very intelligent investor. What I'd say is that, when you get past the basic supply and demand dynamics that people have talked about, there's a much more nuanced set of research that I think you need to do to really understand what's driving things.

When we approached it, and again, we started looking at it in 2015, we found specific companies that we found very interesting. We had some skepticism on the macro. We did look at the space and say, we hadn't seen supply discipline, you hadn't seen a new generation of reactors delivered into China yet. You know, these Gen III reactors were still being built. There wasn't certainty in terms of delivery dates.

What I'd highlight is that, in the last 18 months, the number of positive headlines, the number of positive fundamental shifts that have taken place in the sector is absolutely astounding. Many of the question marks we had in our macro thesis have been answered. Supply discipline has been swift and is impacting the market today. I think what you're left with is a group of investors that maybe have followed this, sitting around, saying, "Well, if we're so right, why haven't prices moved?" That's where I think the gain theory of the fuel buyer, and producers really come to the play. I know you've talked about it in the past.

Mike Alkin: Let's talk about that. You know, one of the things that I don't know if you heard one of them. I wouldn't expect you to, because you're busy, but I had mentioned that I had spoken at the NEI conference in Boston to a bunch of fuel buyers. Afterwards, Andrea Jennetta from Fuel Cycle Week approached me and said, "What are you doing here? Why are you talking about cost? You've put down the fuel buyers." I was like, "Wow. We're two ships sailing past each other in the night, and not seeing each other. I don't. Let me explain to you. I just talk economics of mining, and the costs are too high, and the price is too low, and it's going to flip on its head. I think fuel buyers are incredibly bright people."

When I spoke that at the conference, I said to them, "Kudos to you for holding out in the market. You've done a wonderful job." The miners, and I said the quote, "... Should be ashamed of themselves, that they increased production during a downturn, and for so many reasons the last several years have been horrific stewards of shareholder capital." Not all of them, but most of them, in diluting shareholders till kingdom come by not making wise decisions on exploration, or development or production. She said, "Wow." I said, "No, the fuel buyer is exceptionally bright. There just comes a point in time where, no matter how bright they are, the economics of those people who supply them don't work, and things have to change."

Talk about your view on fuel buyers, and how you view [inaudible 00:28:33].

Arthur Hyde: It's a good topic, and I think people don't necessarily focus on it enough. I think you're a hundred-percent right. There's a tendency, especially a few people tweeting about uranium, to say that utilities are stupid. I think quite the opposite. I think they're extremely intelligent, and tend to be pretty well informed. What I'd say is that there's just no market incentive structure that tells them to make a decision today. What I mean by that, let's just think about what's happened.

Let's take it back to last Summer. You know, uranium's trading at $18, $20, $21. If you're sitting in a fuel buyer's seat, you know that out into the middle of the next decade you're under cover. You have a sense for what your delivery will look like. You also see the Bloomberg screen showing, let's say $21 a spot. When you call Cameco, or you call a US producer and you say, "I'd like the quotes for deliveries into the middle of the next decade," you would likely get a response with a five or six handle. Maybe Cameco comes back and says, "We're going to start at 50 and escalate it." A US producer might be at 60 and be escalating.

There's no fuel buyer in the world that's incentivized to go to their boss and say, "I know that the screen's showing 21, but these guys are telling me the real offer is at 60, and they're telling me that the $31 or $32 I see quoted as turn pricing is a fallacy, and that there's not really towns there." I think that's what was happening. I think there was no incentives for somebody to cross a hundred-percent bid offer in a commodity, to be the first one to lock up towns.

We talked to a lot of utilities, a lot of market participants, and 18 months ago I would say they were not hyper-focused on uranium per se, because they hadn't seen supply discipline hit, but they weren't of the view that they weren't buying because they thought prices should be lower. You know, there wasn't a lot of people in those seats saying, "Well, I'm not buying at 21, because I think I'm going to buy at 12." They didn't necessarily have a strong view on price, and honestly, a lot of them knew that even the cost structure of the industry, they probably had to buy somewhere higher. They just didn't think 50 seems fair, or it didn't seem actionable.

If you fast forward to today, and sorry to be long-winded on this one, and you think about what is-

Mike Alkin: Hey, I am always long-winded, so you can be as long-winded as you want. I'm always long-winded.

Arthur Hyde: Segra team does too. If you think about what Cameco's done, you've got to think of their clients. Their clients are under-supplied into the middle of the next decade. They know they can't pay that massive bid offer spread. Nobody wants to be the first one in the pool. Nobody's incentivized to do so. Nobody's getting a bonus based on being the first one to buy at 50 rather than 70. Cameco sits there and says, "Okay. We're going to close that bid offer spread actively. We're going to take pounds off the market, we're going to close McArthur, and we're actually going to buy spot in order to compress that $21 price up towards our 50 offer."

This is what people don't understand, you know, there's a line. I think Tim said it in their last earnings call. He said, "You know, if we're buying pounds at 50 or 60, we'll do so. That'll just prove that we're in a much better market environment, and that the market's seeing what we see." Something like that. All these analysts, and all these market commentators are saying, "They can produce at X. Why would they ever buy a pound at $50? How does that make sense?" The answer is that, it doesn't matter what the price amount per pound is. Let's say Cameco's able to push spot from $29 today up to 40. I don't know exactly what time period, but let's say they're able to do it.

Now, you have that same call with a fuel buyer. What's changed is, last time we talked the bid was at 21, and the offer was at 50. Well, now the market's doubled, spot's at 40, and now Cameco's only charging me a 25% claim into the market, but things are really moving. That's when all the fuel buyers pull back the chart and see how extreme these moods can be, and somebody crosses the line. I think that incentive structure, and understanding exactly what Cameco's doing is extremely important to understand what is going to shift this market, and understand how quickly it can happen.

Mike Alkin: Art, you just ... It's so important. You and I, we talk about it all the time. I talk about it on the podcast, the power of incentives, and it's so important. Especially here. Let's take a little step back and talk about ... Hang on. Hey, Art, right now I'm driving into the city, and Garrett, you can keep this on the podcast, that's okay.

Art and I are actually having lunch together today. He's North of the city, I'm East of the city, and we're converging into the city. I'm driving, he's going to be taking a train. We're actually having lunch with the CEO of Energy Fuels, Mark Chalmers. We're going to visit with him today. I just had to get my easy pass out so I didn't get one of those tickets in the mail, because I forgot because I'm talking on the phone.

Let's roll back. Let's step back, because you said something that's interesting, is well hey, wait a second, the markets typically are pretty efficient in most things. Thank God they're not, because you and I wouldn't have jobs, ever. How does a fuel buyer, how does uranium get to 21 if the price to pull it out of the ground is much ... You know, 40, 50, pick a number? We'll talk about how the mining companies, or most of them are full of shit with the prices that they say their costs are. How is it possible that there is such a disconnect in the market? To me, it's the most inefficient, opaque market I've ever seen, and married that within the incentives to not peel the onion back as a fuel buyer, talk to me about, how does that disconnect happen?

Arthur Hyde: Yeah, I'm happy to. I think that the how did we get here question is definitely important.

Mike Alkin: Yup.

Arthur Hyde: I think that people don't fully appreciate how many different converging factors drove the bear market. People look back and they say, "Okay, Fukushima hit, and it took Japan's 40-some-odd reactors offline." Remove 10% of global demand, and that is really the driving factor. What they fail to really understand is that, there was also a big supply shift. I mean, Kazakhstan ramped up from 4% of the world supply in the early-2000s to 40. Yet, you had some of the best assets in the world, Cameco's in Canada come on full-steam, all right into this drop in demand. Those converging factors that made the bear market as long as it's been, but the other key component is contracting.

You know, if you step back, in its most simple terms, if this is your first time caring about uranium, and you're trying to learn about contracting, just think about it as whether your pantry's full or not. You know, these utilities, because reactors are 60-some-odd year assets, they tend to hold a certain amount of inventory, but they also tend to forward contracts, a significant portion of their uranium demand, and that's actually positive for the market. It was symbiotic. There was a connection between utilities committing capital for long periods of time, five to ten years, and miners being able to sit on those contracts, go out and actually develop assets.

You got this match between a long reactor cycle. It takes six to eight years to build a reactors, I think eight to ten years to build a mine. In order to incentivize that capex on the mining side, you needed these long contracts. Apology to just be going through some 101 here, but ...

Mike Alkin: This is awesome for the- Keep going.

Arthur Hyde: Yeah. If it's your first time it's very important.

Mike Alkin: Yeah, exactly. Those who don't know.

Arthur Hyde: It tends to drive headlines, it just doesn't really matter all that much. You've got this contracting cycle, and what people forget is that, right before Fukushima you had four or five years of heavy, heavy contracting. You had uranium sites who started to move, and everybody hit the market. When that happened, you had-

Mike Alkin: And, they did that because their biggest fear is not having enough supply, so when prices go up it's because there's a shortage, so they run out and try and make sure they secure it. So, sorry.

Arthur Hyde: Correct. As prices rise you generally see two things. You see an increase in contraction. Actually, historically you see an increase in inventory, which is maybe a different topic we can touch on later.

You tend to see security and supply concerns really drive a lot of the dynamics of this market, or at least we had in previous cycles. Why does that come back to where we are today?

Well, the combination of having the pantry full into this disaster, and this incremental supply coming online, means that you had an extremely deep fair market. Only now are you starting to see those contracts roll off. I mean people can incorrectly, can frame utilities as dimwitted. I think they're extremely smart. Cameco has actually played the cycle pretty well, I mean, I think Tim and Grant are extremely smart people who understand exactly what the future looks like. They understand supply and demand dynamics.

If they had started to make real supply reduction a few years back, we wouldn't be forcing utilities into this current dilemma, which is, I know I've got a supply/demand issue that gets really extreme into the middle of the next decade, and I know I'm on contract. Here is the issue because of this delay. If that makes sense.

Mike Alkin: Yeah. No, it does. Here you are, you're coming up and the utility market is coming up a period where those contracts are starting to roll off. We've seen supply cut pretty dramatically. Now, you and I get asked this question a lot by people on Twitter, or people who will email you and they'll say, "Well, what are your supply and demand numbers?" Now, what I always say is, I think we are currently in a very big deficit, and we are going to get into a dramatic deficit over the next several years.

Now, I don't share my numbers publicly, because, and you and I have said this, and you just said this to me earlier today when we were speaking, you guys don't do it because you're not a charity. I don't do it because I'm not a charity. Right? We have investor obligations, and they're the beneficiary of that. But, we see a major supply deficit that's forming, or has formed. The supply has only now just started to come up. Supply was increasing, and increasing and increasing during the downturn.

People ask me, and I'm sure you guys get this question as well, "How did that happen?" Well, you know, I think there were two things that stand out to me that were pretty obvious when I started looking at it. One, nobody ever anticipated the restart of the Japanese reactors, which were 13% of world demand that went offline after Fukushima. Nobody thought it would take this long to get them back up and running.

Secondly, I think the market looked at the end of the megatons to megawatts program. This is where, in 1993 to 2013, the Russians were incentivized by the US to down blend about 22-thousand intercontinental ballistic nuclear weapons from high enriched uranium to low enriched uranium. The US didn't want to see that when the wall fell, and Russia was broke. They didn't want to see it wind up on the black market. That was putting about 20-million pounds a year at times into the market. I think the industry looked and said, "Okay, well Japan's going to come back online too, and this is ending, so it's going to be all good."

In the interim, you had this massive, a big increase in supply that came online, and that takes a while to reverse. Now, we've seen these reductions in supply. For you, that I think there's a significant primary- Obviously, there's always a primary mined supply. That's what the secondary's what makes up the difference, but I see big deficits coming into the future, and starting now. How are you guys thinking about that?

Arthur Hyde: I think you're right. I think the one thing that people forget in this market is, even at that peaky-full market that we had, you know, in 2008 and '09, you didn't actually have a deficit. Our current deficit, which is largely due to a series of supply cuts, you know, we've taken close to 59 pounds out of the market in the last 18 months. It's the first deficit we've really had since the early-90s. I think that you have a market that's due to megatons to megawatts, due to the sticky nature of contracting and a lack of rationality on the supply side, hasn't had to really act like your average commodity for, you know, 30 years. I think that, if we think back to what drove the last move it was the perception of a supply shortage.

Mike Alkin: Yeah.

Arthur Hyde: If Cameco, and Kazatomprom, and Taleden hadn't cut any pounds, we were still going to get to a deficit. It was just going to happen five or six years out, depending on how you run the numbers. What these cuts have done is, it's pushed that event to today. I don't think utilities yet fully grasp what that means.

Let's just go back. When Cameco made the initial McArthur shutdown decision, I think they believed it would be enough to force utility to cross that bid offer. I think they believed the headline alone would force conversations to occur, and they could sit down and rationally argue why we needed higher prices to support the industry, and to make sure that nuclear reactors stayed online globally.

What happened right after the initial shutdown, the 11-month shutdown decision, was 232. It threw a monkey wrench in their plans, because those utilities that would've come right to the table and started conversations pushed things out. Regulatory uncertainty is never a friend of markets, and nobody's going to commit to additional supplies when you might have the US government coming in and requiring you to purchase domestically.

I think the 11-month shutdown was maybe enough to get the conversation started. It's obviously been pushed down. As a result, you've now fired those workers. It's now going to be a longer restart. I think the answer is, we are in a deficit, and the question then, Mike, is, if we're in a deficit and you're so right, why haven't prices moved? I think that's more where you get into a regulatory discussion about 232, and what the resolution will be to this market.

Mike Alkin: For listeners who aren't familiar, Section 232 was to a petition filed to the Department of Commerce by Energy Fuels and Ur-Energy to producing US miners. On the grounds of national security, they want the government to require US nuclear power plants to buy 25% of their uranium from them. The US consumes 50-million pounds of uranium per year, and it produces under 2-million pounds. It imports almost all of its uranium needs for its nuclear power plants.

Why does that matter? Well, nuclear power is 20% of the US electric grid, so one out of every five homes or businesses are powered by nuclear power. Which is, in and of itself, most people in the US who are casual, people living their lives probably wouldn't recognize that. They think nuclear power's a thing of the past, but it's meaningful. The view by the miners is, hey listen, of those imports, any given year 35%, 40%, more than 40% can come in from Kazakhstan, Russia and Uzbekistan.

For those of you, just casual observers of life would know that while we are not at war with any of those countries, certainly they don't have the US's best interests at heart, one could argue. For more keen observers, and those paying more attention to geopolitical winds that blow, you can make a very strong argument that we're in Cold War 2.0 with the huge anti-Russian sentiment. The Russians, and the Chinese use energy as a geopolitical weapon, and it's a powerful tool for them.

Kazakhstan, while not a Soviet nation, a Soviet bloc country anymore, you know, it could be very strongly argued that will march to the beat of Russia. Should Russia, which controls half of the world's nuclear power enrichment, uranium enrichment, and by extension could be argued controls Kazakhstan and other countries, Uzbekistan, through their own political will, that that can have a serious national security risk to the US. Don't forget, it's not just nuclear power that light our homes and businesses. The Navy relies on it for its aircraft carriers and nuclear submarines, so that's the complaint that Art's talking about. Section 232. That was filed in January right after McArthur River, Cameco announced the temporary closure.

That threw a wrench, and the Commerce Department picked up the investigation. They agreed to do it in July, and they have to rule on it, whether or not they recommend to President Trump by April of 2019. That caused a delay in the contracting cycle that the utilities are aware. Arthur, like you, we go to all these conferences and we sit in meals together, and we hear the tone, and the tone is markedly different than it was 18 months ago.

One of the things I want to drill down on, a couple of things is the cost curve. One of the things, and when I spoke at the NEI in Boston I said to the fuel buyers, "You know, by the way, great job. Kudos for not buying all this time. You've gotten much better prices, but when you look at the presentations many of these companies present, they're not a full representation of what the actual cost structure is." Yet, during a very long bear market, it's in the best interests of these companies to present their cost structure when they're out looking to raise capital in the best light.

It's not a violation of any ... It's just where they put it in their PNLs. They may be presenting a certain type of cost and saying it's their cost, may not include depreciation and amortization, may not include sustaining capital costs. It may not include marketing costs. It may not include transportation cost. When you actually analyze these costs, their costs are meaningfully higher. Can you talk about your view of what the cost curve looks like?

Arthur Hyde: Definitely. I think that this is one of, if not the most misunderstood dynamic in the uranium market. I believe that companies have portrayed their costs in a certain light for the right reason. They don't want to close shop. They need capital to survive. They're trying to make their way through a bear market. They're trying to retain their employees. At the end of the day, showing- [crosstalk 00:50:45]

Mike Alkin: It shows up in their net income. It's not like they're hiding it, they're just putting it in different buckets.

Arthur Hyde: Yeah. Right, exactly. Well, exactly, but I think, especially for an investor, you know, this podcast is more focused on investors may be approaching the market for the first time, if you pull up just a group of company presentations, you'll see costs anywhere from the mid-20s to the mid-30s, give or take. Some a little bit lower. Then, you'll sit there and say, "Well, isn't all this supply coming on at 40?" The answer is, it's not, because the majority of the time the costs that they're showing are significantly skewed. They can be skewed because they're showing a C1 instead of an all-in. It can be skewed because they're showing some specific years when they may have been high-grading.

Mike Alkin: C1 is just a cash cost to produce.

Arthur Hyde: Correct.

Mike Alkin: It's not the cost, like the PNA and the sustaining cost. Go ahead, Art. I'm sorry.

Arthur Hyde: Yeah, and listen. If you've got a currently producing mine, and you're going through a short bear market, C1 might be interesting to look at, because you might keep that mine open as long as you're still covering your cash cost. What we're talking about here is, on an industry that's been through an extremely deep bear market, the decision process for most of these assets is not a question of keeping the doors open. They're usually already on care and maintenance, or they're still in development stages.

What these companies need to do to justify bringing on additional production is to actually go out and, in many cases, spend significant capex on getting an asset up and running. They have to go out and hire teams of people to operate that asset. I think the biggest disconnect is, if you talk to management teams, the same guys with a mid-$20 cost estimate in their presentation, when you ask them what type of contracts they need to justify bringing on assets, often now it would be at the $60 range.

That disconnect is, I think, where a lot of investors get lost, because they don't really understand the all-in cost of these entities. As an industry, they'd be better off if all of these corporations got together and said, "We're going to create an AISC, like the gold industry has." In that case, utility buyers would see the all-in costs of the industry, and they would sit there and say, "Huh. We're going to need higher prices to justify pounds, and we're going to understand when a company comes to us and says they need a $60 price, because that's what they really need to produce."

What we have now is, every company out, kind of competing with each other for capital, and arguing that they're the lowest core [inaudible 00:53:30] cost, when in reality they aren't. As a result, you have skepticism on the buyer side, because they think that there's all these assets out there just waiting to come online at lower prices when there aren't at all. I think kind of damages investor's psyche, because you meet with these management teams, and they'll spend half the time talking about how great their project is, and half the time talking about how terrible the next guy's is. So, I think ...

Mike Alkin: Go ahead, Art. Yeah, because I'm going to touch on that when you finish, yup.

Arthur Hyde: Yeah, it's a lot of mud-slinging, and a lot of skepticism, and at the end of the day you also need to sit down and spend your time trying to compare assets on an apple-to-apple basis. It's a whole 'nother conversation to talk about whether [inaudible 00:54:16] to pounds is a good way to think about valuation. For a million reasons, I don't think it is ...

Mike Alkin: Me neither.

Arthur Hyde: ... But, I think a lot of early investors will focus on dynamics like that to figure out whether a company's cheap or expensive. I'd say they have to spend a lot more time looking into the details of the assets. Compare a long-life, high-grade asset in the bases in Canada to a ISR project in the US. If only because they have very different lives. You know, you're talking about a lot of assets in the US that can produce half-a-million to a million pounds, but they're only running for four to six years.

At the end of the day, trying to think about what a levelized cost of production is for a company. Once it runs through the pattern that it currently has defined, how it's going to prove up its secondary resources and bring them into production, how much capital that requires, I'm just trying to say there's a lot of work that goes into understanding what the real cost of these companies are.

Mike Alkin: Right.

Arthur Hyde: A cursory view is, I think, really going to hurt people as the cycle does turn. Yeah.

Mike Alkin: Well, you know, it's so fascinating. When you go to the Nuclear Energy Institute conference, there's a sign at the door as you check in, don't talk pricing. Essentially, you know, we're still all the industry participants. They're worried about collusion, that you can't be seen as colluding on price. I find it so fascinating, because you just said, what jumped out at me, I've been meeting with CEOs and CFOs of companies for 20 years.

I mean, like you and Adam, you can do these meetings in your sleep. You could look at a PNL, a balance sheet or a cash flow statement after being the generalist professional investor for all these years, and without even really knowing what industry the company is, look at the numbers and get a sense for what type of industry they're in. Meeting with these guys, it's just what we do for a living.

You've had exposure, I've had exposure, to countless executive teams from industries far and wide. When I first started meeting with the uranium CEOs, what's jumped out at me was, all you guys do is mud sling. All you do is slam everyone else's project, and say how you're the lowest cost. One of the things I like to do as an investor are, is lift myself out of the room and look at it through my mind's eye. Like, I'm up in the corner looking down on the conversation, and what would a casual observer think?

As I started to do that, met more and more of these management teams, I thought, you guys are all in the fair market, and you're all fighting to stay alive for that investor capital, and you're all fighting about why this guy's project isn't as good as your project. At the end of the day, it's the cycle you should be focused on. What I found was, most of them were following the same data that's out there that you and I, when we've done the work, think is not accurate.

Rather than focus on what's going to drive the macro market, they were focused on ... Because, that's what matters. No macro market in their favor, and it doesn't work, but the macro market could help drive their capital decisions, their capital-raising decisions, [inaudible 00:57:52] things, but it struck me that these guys are just sitting there, and fighting on the cost side.

I went back. People worry about collusion on the price side. All you need to do is show the industry just what you said. I would say this to management, which is, "Tell people what your real costs are. Who are you pandering? At the end of the day, you need the utilities to understand your cost structure. If everyone just said what your true cost structure is, that's actual, honest cost structure. That is going to get the customer of your product to recognize you need much higher prices." That's not the path this industry has taken, and it has never made sense to me.

It just goes on to more and more management teams I've met in this industry, and not to name names, which I won't, and I know you won't, but it's so important to be with a good management team. The rest of the time they're just diluting the living daylights out of shareholders and telling you what their costs are going to be. You and I know, when you go through these cost structures, they're a lot higher.

Arthur Hyde: Well, what's so funny is, I guess I'd say two things. One, and I think you know this, Mike, but the reason there's all that fear about looking like your colluding on price was because there was this large uranium cartel on the-

Mike Alkin: The Cartel.

Arthur Hyde: ... Late '60s and '70s.

Mike Alkin: Exactly, yup.

Arthur Hyde: If somebody wants to, you know, really dork out over the Christmas break and read a book, you know, there's a book called, The Great Uranium Cartel by Earle Gray. It's about how this- [crosstalk 00:59:39]

Mike Alkin: It's only in hard copy too.

Arthur Hyde: Yeah, you got it on Amazon, but it's worth reading, and you know, it shows how in, I think it was 1976, this was on the front page of every newspaper in the world that this huge uranium cartel had been cornering the market for years. As a result of that, the industry has a long memory, and people are very nervous about trying to talk about where cost should be, and where prices should be set, because they're going to be viewed as doing the same thing.

Mike Alkin: Exactly.

Arthur Hyde: That's one point. The only other thing I'd say is, you know, when you sit down with these CEOs and that sort of thing, for your average investors sitting at home just reading about these companies it can be a little bit difficult. When you push the CEOs on where they really need prices to be, they'll tell you. It's not as if they're not thinking about it. I mean, let's just take 232, because we were talking about it a moment ago.

Let's say 232 passes in favor of the US producers tomorrow. Okay. You're going out and hiring hundreds of people into an industry that hadn't been hiring for five or six years. You are scaling up 10 to 12 projects in five or six states. You are full steam ahead. You probably need 60-ish drill rigs, because again, these are- [crosstalk 01:00:58]. Where are you getting those drill rigs? You're competing with the oil cash for a lot of that talent, and for a lot of that hardware.

If you think that going back to some 2014 cost estimate when you were high-grading because you were in a bear market, it's going to be a good representation-

Mike Alkin: For those who don't know, and it's a very important point, listeners, high-grading has helped some of these companies survive the downturn, but explain what that is.

Arthur Hyde: Yeah, so to put it very simply, you're choosing where you are mining, you know, from a high SR standpoint, to maximize current production, and keep your costs low per-pound. The result can be stranded pounds. Unless you have a plan to circle back and look at those fields a second time, you're actually not optimizing the asset. The reason I highlighted it's because, a lot of presentations will show producing assets in 2014, when a lot of producers, I believe, were high-grading assets to try to survive through a three-year down market. Those assets, oftentimes, are subsequently shut, and as a result you have a skewed understanding of where costs are going to be when we re-ramp.

If you add in all the cost inflation from rushing to hire all the same individuals, getting those drill rigs, and trying to ramp up production as fast as possible to meet a Department of Commerce quota, Commerce Department quota, you're going to not produce those pounds anywhere near what your average investor would think you do, based on your presentation. I think 232's going to result in a ton of cost inflation. I think those pounds are probably priced more in the 60s or 70s. I think that people need to be cognizant of that.

When you meet with the management team and you talk to these companies, ask, "Congress comes out tomorrow in your favor, who are you hiring? Where are you getting your drill rigs? Where's your capital spending going? How much do you have to raise? How are you going to do it? Do you have bank access?" These are all questions that are extremely important, and management teams that have thought about these dynamics and have a plan will create value for shareholders.

Those that are going to worry about that when the ruling comes out, I would just be skeptical of. Again, I don't want to go down the road of single names, but just to say that, it's much more complex than, does 232 go one way or the other?

Mike Alkin: You know, the other plan of cost chart, and when I spoke to the NEI group I brought this up. I said, "Look, here's primary supply, here's secondary supply, and here is demand. You see that white space? That's all on the chart. That's all new supply that needs to come online." I put on this stuff, I put on a slide that showed over 30 projects. I said, "A lot of these projects are going to be needed to fill this massive supply deficit that's warming." I put next to each one the price that's required from the pre-feasibility study standpoint, or the PEA. It goes PEA, then PFS.

I said, "Here's the required price, with the exception of the one in Spain, and a couple of tiny ones that don't matter. It's a minimum of $50, and many of these projects need $60, $65 uranium. It's because that's the required internal rate of return that's to generate the financing. To get people to be willing to finance these projects, it's based on this commodity price, on this uranium price. It's not a number pulled out of thin air. Also, many of these feasibility studies were done years ago, and there's mining inflation, so these prices are too low."

Even though, in a feasibility study they put their best foot forward, and you have to look at what the IRR is based on, and what the NTV and all the finance project and stuff, but that too is going higher. The US has that specific inflation, but a lot of these studies are old. I think in such a long bear market, people forget that that mining inflation exists.

Look, I know you got to catch a train, and we're running out of time here. I'm going to have you back too, but we're kind of time-squeezed today. Any parting thoughts on uranium that you want to share with listeners?

Arthur Hyde: Yeah, I guess I'd say that I think the macro in this trade is pretty fantastic. Clearly, we're spending a tremendous amount of time on it. We're dedicating a ton of time and resources to the space, and I think that's valid. I would just say that, in this trade specifically I think the micro is just as important. I think there are some great companies out there. I think there's a lot of snake oil. I think that investors should approach the space with a ton of skepticism.

I would just argue that, making sure that you understand what you are buying, the regulatory risks, the project risks, whether the management team is the right team in place to take you to a path in production, is where you need to spend your time. I think that, from what I see, whether it's on Twitter or other posts, there's plenty of commentators who say, "Well, it's only 10 million bucks, so it's got to run." Everybody looks back at the chart of [inaudible 01:06:36] in the last cycle and thinks they have the next one.

I would just say, there's a lot of positives in this trade, but things are so mispriced that you don't need to take flyers. You don't need to approach this as a basket of options. You don't need to buy the worst and assume they're going to run the most. There are quality businesses, quality companies, quality management teams which are drastically mispriced. It just takes a lot of work to understand who they are. That's, I guess, where I'll leave it.

Mike Alkin: Great. All right, well I'm going to have you back soon, and ...

Arthur Hyde: The only other thing I'd say is, if people are interested in continuing the conversation, I guess you can just-

Mike Alkin: Oh. Yes, I'm sorry.

Arthur Hyde: ... Why don't you email me. It's Arthur, A-R-T-H-U-R, @segra, S-E-G-R-A, capital.com. Thanks so much.

Mike Alkin: All right, Art. Talk to you later.

Well, I hope you enjoyed the conversation with Art. Art and Adam, just super-smart guys. We've gotten to know each other a lot of the years and I really enjoy talking with them. You kick out, and believe me, you know, we're somewhat time-constrained today, and I'll have him back on soon, and we'll talk about other stuff. It's always good to get some insights, and I'm aware. Obviously, we're both bullish on uranium, and there's always a positive feedback with Brighton, and we'll get back and we'll hash out the bearish stuff. I talk about uranium a lot. I get asked plenty of the bearish stuff, and people know where to find me. Hope you enjoyed the conversation with Art. Hope you have a good week, and I'll talk to you next week.

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