

Royal Gold

Fiscal 2017 First Quarter Earnings Conference  
Call

November 3, 2016 at 12:00 p.m. Eastern

**CORPORATE PARTICIPANTS**

**Karli Anderson**, *Vice President of Investor Relations*

**Tony Jensen**, *President and CEO*

**Stefan Wenger**, *CFO and Treasurer*

**Bill Heissenbuttel**, *Vice President Corporate Development*

**Bruce Kirchoff**, *Vice President, General Counsel and Secretary*

## **PRESENTATION**

### **Operator**

Good afternoon and welcome to Royal Gold's Fiscal 2017 First Quarter Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then 1 on your touchtone phone. To withdraw your question, please press star, then 2. Please note this event is being recorded.

I would now like to turn the conference over to Karli Anderson, Vice President of Investor Relations. Please go ahead.

### **Karli Anderson**

Thank you, Laura. Good morning and welcome to our discussion of Royal Gold's first quarter fiscal 2017 results. This event is being webcast live, and you will be able to access a replay of this call on our website. Participating on the call today are Tony Jensen, President and CEO; Stefan Wenger, CFO and Treasurer; Bill Heissenbuttel, Vice President Corporate Development; and Bruce Kirchoff, Vice President, General Counsel, and Secretary. Tony will open with an overview of the quarter and an operational update, followed by Stefan with a brief financial update. After management completes their opening remarks, we'll open the line for a Q&A session.

This discussion falls under the safe harbor provision of the Private Securities Litigation Reform Act. A discussion of the company's current risks and uncertainties is included in the safe harbor and cautionary statement in today's press release and slide presentation and is presented in greater detail in our filings with the SEC.

Now I will turn the call over to Tony.

### **Tony Jensen**

Good morning and thank you for joining the call. Today we're pleased to report record financial performance as transactions we completed over the last several quarters are now contributing to our quarterly results.

To start out the call, I want to discuss two notable developments in the context of Royal Gold's vision and strategy on Slide 4. First, I want to congratulate Centerra Gold for its successful acquisition of Thompson Creek Metals. Upon closing the Centerra/Thompson Creek deal, we amended our gold stream to a gold-copper stream. While we are generally not interested in selling any of our gold interests, we knew this amendment was key to a successful transaction. One of our strategic goals is to invest at the tranches, and copper was trading at near 20-year lows relative to gold at the time, which certainly made that decision easier. Long-term our revenue profile is still very much gold-focused. Protecting our investment in Mount Milligan was our highest priority in 2016, and we are happy to have closed this chapter successfully.

The second development is our recent acquisition of a 3.75 percent royalty at Cortez Crossroads. This acquisition is consistent with our strategic goal to reinvest in long-lived properties. Cortez has been a company builder for Royal Gold. The mine is in its fifth decade of continuous operation and has contributed revenue to Royal Gold for the last 25 years. I'll discuss how this new acquisition complements our Cortez portfolio in a moment.

Now, turning to our quarterly results on Slide 5. We set records for revenue and EBITDA and essentially matched our prior volume record in the first fiscal quarter. Performance was driven by strong production at Pueblo Viejo, Mount Milligan, and Andacollo as well as improved gold price, which was up 19 percent over the prior-year quarter. We completed our streaming transactions at Pueblo Viejo, Andacollo, Wassa, and Prestea just a few quarters ago, and we are already benefitting from their impressive production growth.

Turning to Slide 6, I've summarized the notable operating updates at some of our principal properties. At Mount Milligan, Royal Gold maintained the value of its streaming interest following the Centerra transaction, and we will benefit from an established global operator and solid balance sheet. At Pueblo Viejo, we are pleased to see Barrick increase its production guidance to a range of 670 to 700,000 ounces of gold for calendar 2016. In addition, silver recovery achieved its best quarterly performance to date through process refinements and higher preheater availability. We expect to make our final \$75 million advance payment to Rainy River in the coming weeks as New Gold has reported that they have completed about 60 percent of construction progress and capital spending. New Gold continues to expect production at Rainy River in mid-2017. At our newest interest at Cortez Crossroads, Barrick reports that they now have two shovels working in the pipeline complex, and Crossroads stripping has commenced again. Production from Crossroads is expected in 2018.

Turning to Slide 7, we've highlighted some of our compelling long-term initiatives in our portfolio. As I've said before, the beauty of our business model is that our shareholders benefit from these projects at no additional cost to Royal Gold. At Peñasquito, Goldcorp expects the new Pyrite Leach to contribute beginning in 2019, with an incremental 100,000 to 140,000 ounces of gold production and 4 to 6 million ounces of incremental silver production annually. Remaining calendar 2016 production is expected to strengthen with Goldcorp now mining higher-grade ore.

At Pueblo Viejo, Barrick is evaluating the opportunity to expand the tailings facility, which could potentially convert a significant portion of nearly 8 million ounces of gold and 44 million ounces of silver from resources to reserve. At Mount Milligan, Centerra reports the tie-in of the secondary crusher is complete and commissioning is underway. The secondary crusher is expected to increase throughput to greater than 60,000 tons per day. Centerra is also talking about opportunities to increase gold and copper recoveries by adding additional floatation capacity, expanding regrind capacity, developing a geometallurgical model for blending, and leaching the floatation tails.

Finally, at Wassa and Prestea, underground development continues to — with efforts underway, to achieve commercial production at both underground deposits in 2017. In the near term, Golden Star reports that it has received a mining lease from its ["manpon?" ph] deposit and is working to obtain an environmental permit. This is a small, high-grade deposit which will help bridge the gap between the open-pit and the underground production at Prestea. We continue to like the exploration opportunity at Wassa and Prestea as well as Golden Star's 1,200 square kilometer land position in the Ashanti gold belt in Ghana. This is the largest land package of any company operating in Ghana.

Although it's still too early to put Pascua-Lama in this slide of active projects, I'd like to remind you of our leverage that we have to this project with a 5.45 percent NSR royalty on the Chilean side. And it's good to see Barrick start to explore opportunities to bring this project back into their active development portfolio.

On Slide 8, we thought it would be a good time to review the scope of our interest at Cortez. Royal Gold has owned interest in the Cortez area since 1987. Our royalties include interest in the western area of the Cortez land package, involving the deposits Pipeline, South Pipeline, Gap, and Crossroads. We also have an interest in the southern end of the Goldrush Deposit which is just off the eastern portion of this slide. We know the mine very well, and many of you will remember that I was the mine manager in the early 2000s, and Mark Isto, our Vice President of Operations, was the mine superintendent in the early 1990s, and, in my opinion, he deserves some partial credit for the discovery of Pipeline.

Now turning to Slide 9, we summarized the details of each of our interests, which encompass both net value royalties and gross smelter return royalties. These royalties are additive, so we have a significant economic interest in many of the Cortez deposits. If you refer to Barrick's 43-101 report issued earlier this year, you'll see that they are forecasting a nice increase in volume starting in 2018 from Crossroads and growing to over half a million ounces annually through 2024.

Finally, on Slide 10, I'll recap our interest at the exploration stage Goldrush Deposit. In 2013, Royal Gold purchased a 1 percent royalty on the southern portion of this deposit depicted in green on this slide. Barrick completed a feasibility study on Goldrush in 2015, and at that time, they reported an 8.6 million ounce resource at 10.6 grams per ton. We estimate the mineralization within our royalty area is approximately 1 million ounces. Barrick reports that Goldrush is one of their most compelling exploration opportunities, and we are monitoring this development closely.

Let me now turn the call over to Stefan for some financial review.

### **Stefan Wenger**

Thank you, Tony. On Slide 11, I've summarized a few of our financial highlights. As Tony mentioned earlier, the September quarter was an excellent one for Royal Gold. First quarter revenue of \$118 million was up 59 percent from last year and set a new record. Our strong revenue was driven by over 88,000 GEOs, an increase of 35 percent over the previous year, together with a robust price improvement that saw gold price increase to \$1,335 per ounce, an increase of over 19 percent.

Our effective tax rate was 21 percent for the quarter, generally in line with our tax rate from the most recent June quarter of 22 percent. DD&A was approximately \$455 per GEO for the quarter, on the low end of our guidance of DD&A per ounce of between \$450 and \$500 for fiscal 2017.

We ended the quarter with \$470 million in total liquidity. This includes \$165 million of working capital, plus \$305 million of revolver capacity. In addition to our \$470 million of liquidity, we also have a significant amount of gold in Silver Stream inventory on the balance sheet that's recorded at cost. The market value of that inventory is about \$40 million. We advanced \$20 million to Golden Star in early October, and we are preparing to fund \$75 million to New Gold for Rainy River in the next couple of weeks. That leaves just one remaining near-term commitment, which is the last \$10 million advance for Wassa and Prestea, which we plan to fund in January 2017. We have now funded \$1.1 billion in net investments over the last six quarters, and during that period, we only increased debt by \$345 million, without issuing equity.

I'll now turn the call back over to Tony.

**Tony Jensen**

Thanks, Stefan. Turning to Slide 12, in closing, it was a solid and straightforward quarter. We are obviously pleased with the contributions our recent acquisitions have made to our record financial results. Our vision and strategy are unchanged. We will remain gold-focused and opportunistic. We'll look to deploy capital and long-lived high quality assets. Our latest investment at Crossroads ticks those boxes. It's a gold royalty in an historic gold camp known for its longevity and was purchased at the right price. We are focused externally again and continue to look for opportunities that will provide our shareholders exposure to quality assets with upside potential.

Operator, that concludes our prepared remarks, and we'd be happy to entertain some questions.

**QUESTIONS AND ANSWERS****Operator**

Thank you. At this time, if you would like to ask a question, you may press star, then 1 on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then 2. At this time, we will pause momentarily to assemble our roster.

And our first question will come from Josh Wolfson of Dundee Capital Markets.

**Josh Wolfson**

Thanks. Tony, first question for you — when you look at the balance sheet, which more or less is projected to improve substantially following the final New Gold payment, and you look at that, as you mentioned, no material capital requirements, how are you looking to deploy excess cash? And, I guess, what sort of liquidity do you see being available for deals? And in the event that the market softens, at what point do you start to consider looking at increasing the dividend?

**Tony Jensen**

Yeah, Josh, thanks very much for the multiple questions there. Hopefully, I'll be able to catch them all, but let me start with our current liquidity at about \$470 million, and we very much are looking for adding new pieces of business, so the first — after we get done funding our current activities that we've committed to at Wassa, Prestea, and Rainy River -- we'll turn our focus, then, to adding new pieces of business as well as paying down our credit facility. We have \$345 million drawn on our credit facility, so there's plenty of opportunity for us to maintain a very strong balance sheet and continue to grow the company, but that's where we'd look to.

As you are likely aware, we usually look at our dividend policy in our November meeting of each year, which is just coming up in a couple of weeks, and we've been able to pay a dividend ever since 2000 and grow it every year since 2001, and we take a lot of pride in that, so I can't front-run that, but I can tell you that it is part of our strategic elements that we discuss with the Board, to pay a growing and sustainable dividend. So that's about all the further I could comment on that until the Board has a chance to consider a dividend.

**Josh Wolfson**

Okay. And then I have another question for Stefan, if I can sort of squeeze two in there. Where — when it comes to New Gold projected receivables, are you expecting to have any sort of delay between production at the site level and revenues that you will receive?

**Stefan Wenger**

Yeah, Josh. Thanks for the question. As I think about New Gold, we'll start to received our first revenue from New Gold sort of mid to late next year, and I don't believe there will be any delay in our revenue recognition like there is on Mount Milligan, because Mount Milligan is shipping a concentrate. I'm looking at Tony and Bill to confirm, but they're both going to produce ["adoray?" ph] that should be a much faster clearing time for us, but we'll develop more of the commentary on that as we get closer to production.

**Stefan Wenger**

Yeah, Josh, let me take a stab at another comment there. I think we are on a monthly payment schedule from Rainy River, so our other projects — some of our other projects, like Pueblo Viejo, are on a quarterly basis, so we should — we should see more of that more regularly.

**Josh Wolfson**

Okay, and then the last one is in terms of their working capital outflows this quarter and last quarter, what was the source of that, and, I guess, are you expecting a reversal in the coming quarters?

**Stefan Wenger**

Sure. So you're looking at our cash flow statement. We had a couple of things going on this quarter. As you know, we built inventory, and we also had an increase in royalty revenue, and our royalty revenue, we collect those receipts after the quarter, so we built the royalty receivables and inventory, which was about \$9 million in working capital. And then we also had some tax payments during the period that amounted to about \$10 million that also impacted that working capital. I don't see those going on in the future. You know, I think we'll get to a point where we level out that inventory build, and particularly in the last quarter, we saw a higher inventory from Mount Milligan, which was more timing but also continued growth in the Pueblo Viejo stream that caused that inventory build. So I don't expect those same items to happen in the future.

**Tony Jensen**

Just to follow on that as well, Stefan mentioned in his prepared remarks that the inventory now in our international business has grown to about \$40 million, and, of course, that's not recognized — that's recognized at cost on the balance sheet, so you don't see the true value of that in the current assets.

**Josh Wolfson**

Got it. Okay. Thank you very much for answering those questions.

**Tony Jensen**

Thanks, Josh.

**Operator**

Again, if you would like to ask a question, please press star, then 1 at this time. Again, it is star, then 1 to ask a question.

## **CONCLUSION**

### **Tom Jensen**

Well, Operator, I'll take that as a sign that it was a very clean and straightforward quarter, and people are understanding our message clearly, and I'd just like to thank everybody for joining us today. We very much are excited about our record performance, and we look forward to reporting our next quarter to you in due course. Thank you very much.

### **Operator**

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.