

## Royal Gold

### Royal Gold's Fiscal 2017 Fourth Quarter and Year-End Conference Call

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Eastern

#### **CORPORATE PARTICIPANTS**

**Tony Jensen** – *Chief Executive Officer*

**Stefan Wenger** – *Chief Financial Officer*

**William Heissenbuttel** – *Vice President Corporate Development*

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

**Mark Isto** – *Vice President, Operations*

**Bruce Kirchhoff** - *Vice President, General Counsel and Secretary*

## **PRESENTATION**

### **Operator**

Good day and welcome to the Royal Gold Fiscal 2017 Fourth Quarter and Year-End 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 and then one on your touchtone phone. To withdraw your question, please press star and then two. Please note this event is being recorded. I would now like to turn the conference over to Karli Anderson, Vice President, Investor Relations. Please, go ahead.

### **Karli Anderson**

Thanks, Carrie. Good morning and welcome to our discussion of Royal Gold's fourth quarter and 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; Mark Isto, Vice President, Operations, and Bruce Kirchhoff, Vice President, General Counsel and Secretary. Tony will open with a brief overview of the quarter, followed by Stefan with the 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 on our filings with the SEC. Now, I'll turn the call over to Tony.

### **Tony Jensen**

Thank you, Karli. Good morning, everybody, and thank you for joining the call.

I'll begin on Slide 4. Fiscal 2017 was a record breaking year for Royal Gold. We posted new records for revenue, cash flow, volume, and dividends. This includes revenue of \$441 million, cash flow from operations of \$266 million, volume of over 350,000 gold equivalent ounces, and \$61 million return to shareholders and dividends. These results were the highest in our 36 years as a public company.

We paid down \$95 million in debt and expanded a revolving credit facility. We now have over \$850 million in available liquidity. We have no additional capital commitments, so all cash flow going forward will be available for acquisitions, debt reduction, and dividends. As we pursued our growth opportunities that drove these record results, we stayed disciplined in our capital structure. We focused on per share results. We funded our investments out of cash, debt and cash flow without any stock dilution.

Turning to our quarterly results, we had very strong revenue in operating cash flow quite consistent with the average of the other three quarters of the fiscal year, and all financial measures were up notably compared to the prior year quarter. The earnings were impacted by three non-cash items related to foreign exchange, compensation, and mark-to-market of securities. Collectively these non-cash items totaled \$0.04 charged to our quarterly earnings.

In addition, we incurred higher expiration and legal cost that impacted quarterly earnings by about \$0.02. As we look forward, three projects are currently under development or expansion and we are not required to make any further capital contributions to any of the three. We have

sequential growth catalysts expected with Rainy River in 2017, Cortez Crossroads in 2018 and Peñasquito Pyrite Leach in 2019. All three projects continue to advance during the quarter, and I'll speak more about them later.

On Slide 5, Royal Gold entered a new phase of growth during fiscal 2017 driven by investments made through the bottom of the market. The chart on the left side compares fiscal 2017 cash flow to prior years. Our operating cash flow is up 56% over 2016 while the gold price was flat. The chart on the right side provides detail on the drivers of our revenue.

Growth from some of the interest we added two years ago provided the catalyst to our record financial results. Pueblo Viejo contributed an incremental \$52 million in revenue relative to what it generated in the prior year, followed by incremental gains in Andacollo – in Mount Milligan, while the rest of the portfolio was relatively stable.

Turning to Slide 6, our 39 operating properties continued to deliver solid performance. Barrick reiterated its calendar 2017 production guidance at Pueblo Viejo for 625,000 to 650,000 ounces of gold. The mine recorded 14% higher throughput and approved gold recoveries relative to a year ago, slightly offset by lower grades. Barrick also announced that they are exploring the opportunity to add a bio-leach and flotation circuit at Pueblo Viejo, which could enhance processing of lower grade ore and possibly extend the mine life, which is already over 25 years.

Golden Star reiterated its guidance of 255,000 to 280,000 ounces of gold production for this calendar year. Production from Lama Deposit is providing a nice source of incremental volume and is helping to smooth the transition from open pit to underground production. Commercial production was declared at Wassa underground in January, and Golden Star currently expects that Prestea underground will attain commercial production in the fourth calendar quarter of this year. And according to our stream agreement, we expect our interest at Wassa and Prestea to increase 9.25% to 10.05% on January 1 of next year.

In Mount Mulligan, Centerra reports that it expects to achieve the gold production at the low end of their guidance, which is 260,000 to 290,000 ounces of gold, and between 55 million and 65 million pounds of copper production in calendar 2017. If the lower end of the production guidance is met, that would require 60% of the gold and 50% of the copper produced in the second half of this calendar year. That would result in record annual gold production for the mine, and Centerra continues to work towards higher throughput in approved recoveries at the site. As a reminder, there is about a five-month lag between production and delivery to us. Centerra's late calendar 2017 production will be delivered to Royal Gold in the first half of calendar 2018.

As shown in the chart at the bottom of the Slide 6, we continue to estimate that we will have about 85% of our revenues from precious metals even with our new Mount Milligan copper contributions which began in April. And I should add that is great to see these first deliveries at a time when copper prices are beginning to strengthen. Now I'll turn the call over to Stefan.

### **Stefan Wenger**

Thanks Tony. On Slide 7, I've summarized a few of our financial highlights. Fourth quarter revenue of \$109 million was up 16% from last year. The gold price average \$1,257 per ounce for the quarter in line with the year-ago quarter, thus higher volume drove the increased revenue. Due to the low-cost nature of our business coupled with our low share count, relatively small changes to the P&L are notable. As Tony mentioned earlier, we incurred a few non-cash items in our Q4 that impacted our reported earnings per share by about \$0.04 collectively. These

include a non-cash adjustment to certain of our Canadian deferred tax liabilities, which are recorded locally in Canadian dollars and get marked for book purposes to U.S. dollars each quarter. With the pullback in the U.S. dollar in late June, we were required to make an adjustment that affected reported earnings by about \$0.02. We also had additional non-cash compensation expenses that affected EPS by about \$0.01 per share as our record cash flow triggered the vesting of some of our performance shares. And finally, we had a mark-to-market adjustment on the value of some outstanding warrants that also impacted reported EPS by about \$0.01 per share. We also incurred higher exploration in legal costs that collectively impacted quarterly earnings by about \$0.02 per share. Exploration expenses will continue to be success based and we are currently expecting costs will average about \$3 million per quarter in fiscal 2018 with the large expand expected during the summer season, particularly in the June quarter. Legal costs in fiscal 2018 will be higher than fiscal 2017 due to trial preparation.

DD&A was about \$460 per GEO for both the fourth quarter and the full fiscal year 2017. Looking ahead to fiscal 2018, we currently expect DD&A to be between \$450 and \$500 per GEO. Our effective tax rate increased to 31% in Q4 due in part to the adjustment to deferred tax liabilities that I just mentioned. Our effective tax rate for the full-year was 22%.

For fiscal 2018, we expect an effective tax rate in the range of between 20% to 25%. We paid \$61 million in dividends during fiscal 2017 resulting in a 23% cash flow payout ratio. We paid down \$95 million on our revolver in fiscal 2017. We currently have \$750 million available in a drawn balance of \$250 million.

Our net debt to EBITDA ratio is currently just under 1.7 times resulting in a borrowing rate on our drawn revolver of LIBOR Plus 1.75% or about 3% all-in before tax. And we also incurred commitment fees of 35 basis points per annum on the undrawn capacity. In fiscal 2018, we will continue to apply free cash flow to debt reduction and when we are at or below 1.5 times net debt to EBITDA, we will have a decrease in our drawn interest margin to LIBOR Plus 1.5% and lower undrawn fees of 30 basis points.

We ended the quarter with about \$860 million in total liquidity, an increase from \$460 million last quarter. This includes about \$110 million of working capital plus \$750 million of our expanded revolver capacity. In fiscal 2018, we expect to pay down debt aggressively, while maintaining the increased credit facility to fund acquisition opportunities. We will continually evaluate our capital structure to determine the most advantageous cost of capital for future opportunities. Now, I'll turn the call back to Tony.

### **Tony Jensen**

Thanks, Stefan. I'll transition our focus from the past to the future on Slide 8. As I mentioned earlier, we have a growth catalyst to look forward to this calendar year as well as each of the two subsequent years. Leading off with the Rainy River project in Ontario, we are on the cusp of construction completion. New Gold expects first production next month, and I should add that our board will be at the site in two weeks' time that firsthand look at the progress.

Commissioning of the primary pressure in conveyor system was completed in May as planned. In the mining rate, June averaged approximately 125,000 tons per day, and New Gold expects to build momentum throughout the remaining summer months. Work continues with authorities to obtain the schedule to permit, which is necessary for the long-term operations of the tailings facility. New Gold recently guided that this permit is expected before the end of the calendar year.

Our first investment was just over two years ago, so we are keen to have royalty revenue – sorry, stream revenue generated from Rainy River in just the next few months, and we look forward to more than a decade of strong contributions thereafter. Royal Gold has a stream of 6.5% on the gold and 60% of the silver at Rainy River, which has an impressive 3.9 million ounces of gold and 10 million ounces of silver reserves.

Turning to the Cortez Crossroads deposit. Barrick reports that it continues to conduct stripping and dewatering at the Crossroads pit and perforation for ore production, which is expected to begin in calendar 2018. We anticipate production will be weighted to the second half of the calendar year. Royal Gold has 4.5% net value royalty and 5% gross smelter return royalty on the total of 2.7 million ounces of reserves at Crossroads. As a result, we will be talking a lot more about Crossroads next year.

Finally, the Penasquito Pyrite Leach project continues to advance. Gold Corporate reiterated its expectation that start up to begin in early calendar 2019 and reported it achieved 14% construction progress and 94% engineering completion at the end of June. The project is expected to generate an incremental 100,000 to 140,000 ounces of gold and 4 to 6 million ounces of silver beginning in 2019.

Goldcorp also reported that it is constructing a carbon pre-flotation project to mitigate the organic carbon content before mineral is treated in the Pyrite Leach process. Both gold and silver are subject to our 2% in SR royalty, which also includes lead and zinc.

Wrapping up on Slide 9, Royal Gold invested in our industry, as traditional providers of capital are minimizing their exposure to the gold business. It's gratifying to see the outcome of these efforts manifest themselves in a record finance results. Just as important, it is terrific to see Mount Milligan in stronger hands, Andacollo and Pueblo Viejo thriving, Wassa and Prestea posting their best ever financial results, and Rainy River nearing their production start. Look for Royal Gold to do more of the same. We will continue to focus on per share returns, to repay debt, to diligently return capital to shareholders, and to be prepared for future opportunities.

With that, operator we're happy to open the line for any questions there might be.

## **QUESTIONS AND ANSWERS**

### **Operator**

We'll now begin the question-and-answer session. To ask a question, you may press star and then one on your touchtone phone. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press star and then two. At this time, we will pause momentarily to assemble our roster. The first question comes from Lucas Pipes of FBR & Company. Please go ahead.

### **Lucas Pipes**

Yes. Good morning, everybody and thanks for taking my question.

### **Tony Jensen**

Good morning, Lucas.

### **Lucas Pipes**

Tony, I wanted to kind of follow up a little bit in terms of the Pueblo Viejo anniversary, I think it was two years ago and five days, and I wonder if you could maybe get some perspective, both looking back and then also looking forward with that asset? Thank you.

### **Tony Jensen**

Lucas, thanks for the more theoretical type question. We are just extremely pleased that we have had the opportunity to participate on one of the world's best and lowest cost gold properties. We just don't get that opportunity very often. And we were positioned at the time to do that in other business, and I mention those remarks in my prepared comments. We structured that we think in a very, very intelligent way, particularly around the silver. We were a bit nervous with the recovery on the silver. We thought it could get there over time, but we structured that in a way that we minimized our exposure to the silver recovery, and it's really great to see that the folks at Barrick and Goldcorp have now gotten the silver up to levels that I think are close to the feasibility study work that was originally anticipated. The project is gone from strength to strength, and we just like to hear that they are starting to think about new ways to maybe even improve the project further. But if I remember Mark, if you can correct me. I think the cash cost were around \$450 ounce of the project. And it's just a wonderful piece of business for us to be part of. It's going quite well, and Bill, if you can help me on this project, I think with this comment, I think I just heard you say the other day that we have almost 20% of our deposit.

### **William Heissenbittel**

Little bit less...

### **Tony Jensen**

A little less than 20% of our deposit already returned on the project after being there for a couple years, so it's just a great piece of business for us, Lucas.

### **Lucas Pipes**

Great to hear. And then I have a little bit of a kind of higher-level question. When I think about the refinancing of your revolver, have a tremendous amount of firepower and obviously you've been very successful in layering in growth over the years. Kind of when I think about your business, it also makes it harder for you to find opportunities of size that really moves the needle given your success. How do you think about that? And, yes, I would appreciate your perspective. Thank you.

### **Tony Jensen**

First let me say that we are very excited to already have a layer of growth built into the company. We have those three bids that I spoke of in my prepared remarks, and we don't feel like we have to immediately correct a declining production balance in our company. That gives Bill and his team a little bit of a chance to look out a little bit further. We've been in this business a long, long time and we've seen the cycles that happen in the business and it's a very, very flexible product. We may not be doing the major restructuring and balance sheet type work that we did two years ago or 18 months ago, but there are still very interesting opportunities for us out there. We continue to be quite creative. We've introduced to the public the Peak Gold project that could be a very interesting way for us to create our own type of, pieces of business going forward. And we just don't look at that as being our main new model, but it's just one of many arrows in the quiver that we want to continue to foster. We're always challenging ourselves to look creatively. When you say it's hard to move the needle as a large company, that's absolutely true, but we still believe around the steep end of our growth curve. I'd love to be able to say we're the smallest of the three biggest and for us we can still do a \$100 million and \$200 million deal that's meaningful and I'm not sure that our two very well healed competitors are able to have anything meaningful with those kinds of levels of deal structure. We're still excited about the business and yes, we might have to work a little bit harder and be a little bit more creative, but the opportunities are there.

**Lucas Pipes**

Great. And if I may squeeze in just a few follow-ups because your comments were super helpful and just wanted to expand on some points you raised if that's all right. The first was you mentioned that the Peak Gold project, I noticed you spend a fair bit of exploration capital on that project and two follow-ups on that. One, where do you see exploration spending in 2018? And then where do you think this project fits in your portfolio?

**Tony Jensen**

Plan around \$3 million a quarter, but let me give you a little more specificity in that. This is in Alaska, although we do have the capability and we have drilled all year long there. We tend to spend more of our money in the June quarter. And then the second highest would be the September quarter and then kind of balanced out and maybe even the lowest would be the December quarter I would imagine. If you can kind of think about that level of spending, but maybe move it back and forth a little bit weighted to those quarters that I just mentioned, it's all success based as Stefan mentioned in his prepared remarks. We are very excited about getting the property to the level that it is right now. We announced 1.3 million ounces of gold and 3.5 grams right near surface mine of all. It's still a very, very early day for this project and we're excited about the targets that we see in the projects. We continue to expect to spend going forward. But it's still a little bit too early for us to transition into your next question that's where does it fit with Royal Gold going forward? There's going to come a time where somebody else is better equipped to take this project to the next level, and we certainly will look for ways to exit into our core business when that happens, and I might just remind you that we already have a very nice royalty on the projects. We're already well into our core business on the project, but we think we can perhaps have some strategic value with this. We enjoy thinking about what it is that we might be able to do with a partner or a successor on the project.

**Lucas Pipes**

Great, great that's helpful. I have a few more, but I'll jump back in the queue for now. Thank you.

**Tony Jensen**

Thank you, Lucas.

**Operator**

Once again, if you have a question, please press star and then one. The next question comes from Mike Jalonen from Bank of America. Please go ahead.

**Michael Jalonen**

Hi, Tony. Hello everyone. I just a couple of questions, Lucas asked my question on Peak. I guess that project still has to reach its Peak I guess much more spending going on?

**Tony Jensen**

Well that would offset.

**Michael Jalonen**

But the legal costs Stefan, you cryptically mentioned higher in 2018, what would be the definition of higher, millions of dollars or...?

**Stefan Wenger**

It's hard to say specifically what our costs for the valley litigation will be next year. But I can guide generally higher than this year. We are entering into an expected trial in the second half of

calendar 2018. And we expect to be quite active there. I thought I'll have to be more general with the guidance there on the spending for the legal costs.

**Michael Jalonon**

Second half of 2018, is that calendar or fiscal?

**Stefan Wenger**

That's calendar.

**Michael Jalonon**

Maybe I can ask a question a different way, what was your legal costs in fiscal 2017?

**Stefan Wenger**

We had overall G&A for fiscal 2017 of about \$33 million, about \$10 million of that is non-cash compensation expense. Think of our base G&A about \$20 million and it was probably high; call it \$23 million of cash this year because of higher legal costs related to the valley litigation.

**Tony Jensen**

Would you say that's consistent with what we anticipate?

**Stefan Wenger**

Yes. I'd expect we have about the same G&A run rate next year. You might have higher litigation costs by a couple of million dollars spread throughout the year.

**Tony Jensen**

Is somewhere around \$23 million to \$25 million in overall G&A.

**Stefan Wenger**

That's correct.

**Tony Jensen**

Including the additional legal expense that we anticipate.

**Stefan Wenger**

Yes.

**Michael Jalonon**

Before our non-cash comp, I assume.

**Stefan Wenger**

Before non-cash comp. That's right Mike.

**Michael Jalonon**

And then maybe just on – you had 350,000 GOEs in fiscal 2017. I have you been reading through the release, was there any guidance for fiscal 2018 like Franco provides or do you not provide that number?

**Stefan Wenger**

Mike, we haven't provided a lot of guidance, you remember last year on our Investor Day, we did go up five years. And if I could just kind of talk generally around that subject, we expect somewhat of a flat production guidance for next year similar to what we did in fiscal 2017. You'll



have noted that Rainy River pushed out a little bit of its production timing start up. That pushed out a little bit of what we anticipated in fiscal 2018, but overall the growth profile is still very much intact like we had guided the market a year-ago at this time.

**Michael Jalonon**

Okay. Those are my questions. And hopefully it's sunny at Rainy River in a couple weeks for you guys.

**Stefan Wenger**

Thanks Mike. Appreciate the comments.

**Operator**

The next question comes from Andrew Kaip from BMO. Please go ahead.

**Tony Jensen**

Good afternoon, Andrew.

**Andrew Kaip**

Good afternoon and thanks for taking my call and congratulations on a decent quarter.

**Tony Jensen**

Thank you.

**Andrew Kaip**

You indicated that you are going to begin talking more and more about Crossroads in 2018, I thought I would just jump start the discussion and ask you if there's any additional information you can provide us on what you think is going to materialize at Crossroads and what deliveries are going to be contributed? You've indicated that we should be thinking about it ramping up more towards the second half of fiscal year 2018, but any additional color would be advantageous for us.

**Tony Jensen**

Let me start off with some general comments than I'll ask Mark to give you some more detailed knowledge of how the Crossroads deposits kind of ramps up and such. But you remember that Cortez was our first royalty that started Royal Gold's modern business model and we're very excited to be back in a stronger way there. We've never gone away from Cortez, but it hasn't been a very significant model. When I first joined the company, it was 90% of our revenue. We're very excited to see that come back. When I was the mine manager at Cortez, we actually permitted the Crossroads deposit and it has about 600 feet of strips on top of it and now Barrick is a long, long way into that strip. Every load of material they bring out of that pit the more economical and a forward-looking basis that deposit gets. We're quite confident that this is a very routine piece of business for those folks. They know very much how to move the material and this is largely heap leach. We won't compete for the middle of the pipeline complex with higher Cortez yields grade. Expect a lot of this to come into the heap leach and because of that you'll see some delay in the first ore on the pad and delay out the backside. But Mark, can you beyond those general comments, could you kind of give a feel for is this a slower start up in the first couple years?

**Mark Isto**

Yes. I mean you were talking about the second half of 2018. It would be more like the fourth quarter is our expectation. Then as you pointed out that are being heap leach feel that there is

additional time to consider production from the heap leach versus mill type ore. It would be modest production I think that we would expect in routine and ramping up significantly for fiscal 2019.

**Andrew Kaip**

Really fiscal 2019 is probably when you are going to be in a position where you can give us a sense of what kind of production contribution Crossroads is going to represent for...?

**Tony Jensen**

We should be reporting very strong production in 2019 I would think.

**Mark Isto**

Yes, correct.

**Andrew Kaip**

All right. That's helpful. Thank you.

**Tony Jensen**

Okay, thanks for the question Andrew.

**Operator**

And this concludes our question-and-answer session. I would now like to turn the conference back over to Tony Jensen for any closing remarks.

**CONCLUSION**

**Tony Jensen**

Well thank you very much for taking time to join us today. We very much appreciate your interest and continued support at Royal Gold and we very much look forward to updating you on progress during our next quarterly call. Thank you, everybody.

**Operator**

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines. Have a great day.