

Royal Gold

Fiscal 2017 Second Quarter Earnings Conference Call

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Eastern

CORPORATE PARTICIPANTS

Tony Jensen - *President and CEO*

Stefan Wenger - *CFO and Treasurer*

Bill Heissenbuttel – *Vice President, Corporate Development*

Mark Isto - *Vice President, Operations*

Bruce Kirchhoff - *General Counsel and Secretary*

Karli Anderson - *Vice President of Investor Relations*

PRESENTATION

Operator

Good day and welcome to Royal Gold Fiscal Year 2017 Second 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 (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one (1) on your telephone keypad; to withdraw your question, please press star (*) then two (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, Operator. Good morning and welcome to our discussion of Royal Gold's second 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; 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 Mark with some comments on operations and Stefan with the financial updates. 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 will turn the call over to Tony.

Tony Jensen

Thanks Karli. Good morning and thank you for joining the call. Today, we are reporting solid and straightforward financial results, including record operating cash flow and impressive revenue growth, amid continued strong performance from our portfolio of 38 producing assets.

On Page 4, you'll see a rolling five quarter comparison of the key metrics. In the second quarter of fiscal '17, we recorded substantially higher volume from Andacollo and Pueblo Viejo, offset by lower volume from Mount Milligan, Wassa and Prestea. While total gold equivalent ounces were in line with the year ago quarter, recall in that prior period we reported record volume, including 14,000 ounces of true up deliveries from Pueblo Viejo, Wassa and Prestea. So you can see what was previously considered an exceptional quarter is now become the new base from which we expect additional growth.

Turning to Page 5, we are particularly pleased with our strong performance that has been anchored by three of the four large royalty deals, structure restreaming deals Royal Gold did in 2015, including Pueblo Viejo, Andacollo, as well as Wassa and Prestea. Our fourth deal we announced in 2015 was a stream on New Gold's Rainy River project in Ontario. While development continues to progress, New Gold has advised the first production target date by three months to September of this year, citing slower than planned ramp up of mining rates, which impacts delivery of construction materials to complete the mine infrastructure. Mark will speak more on this later.

When we described our deal with Rainy River in our earnings call nearly 18 months ago, we talked about the quality of the project, including upside potential, cost competitiveness, and the favorable jurisdiction. None of those attributes have changed. With 3.8 million ounces of golden in reserves, this 21,000 ton per day operation is expected to produce 325,000 ounces of gold per year for the first nine years. We stockpiled material providing a 14 year life in total based on current project parameters.

There is an additional 2.9 million ounces of gold and resource that we did not include in our valuation that represents upside optionality for our shareholders. While a three month delay is certainly disappointing, Royal Gold's economic return expectations remain essentially unaffected. So we expect future volume growth with Rainy River when production commences, but also growth from Cortez Crossroads and the Penasquito Pyrite Leach over the next couple of years.

Before turning the call over to Mark, I'd like to emphasize that we have now completed all our scheduled payments associated with the \$1.4 billion in transactions we announced about 18 months ago. All cash flow going forward will be available for acquisitions, debt reduction, and dividends.

I'll now turn the call over to Mark Isto who will provide some operational updates.

Mark Isto

Thanks, Tony. Turning to Slide 6, I will highlight both the recent performance as well as near term growth prospects in some of our key properties. At Penasquito, Goldcorp reports that it is undergoing significant stripping at the Penasco pit while initiating stripping at Chile, Colorado. Goldcorp is guiding to calendar 2017 production of 410,000 ounces of gold, compared to production of 465,000 ounces of gold produced in calendar 2016. Goldcorp recently completed a review and optimization of their life of mine production plan resulting in lower production in 2017, due to high grade and Phase 5D pit being exhausted at the end of 2016 and exposure to high grade ore in Penasco Phase 6 not being reached until 2018. Goldcorp expects the new Pyrite Leach project to contribute gold production beginning in the first quarter of 2019. The project will recover gold now reporting tailings and they expect an incremental 100,000 to 140,000 ounces of gold production and 4 to 6 million ounces of incremental silver production.

On Slide 6, we've included a picture of the prepared project site from Goldcorp's recent Investor Day presentation. Royal Gold has a 2% royalty on gold, silver, lead, and zinc at Penasquito. At Pueblo Viejo, Barrick chalked up its best ever year for gold production, reporting 700,000 ounces attributable and we are waiting their estimate for calendar 2017 production. Gold recovery performance is attributed to lower levels of total organic carbon in the ore, while improved availability of system components in the lime boil circuit contributed to higher silver recoveries and production. We remain impressed with the size of this deposit, with about 20 years of current reserves and we understand that Barrick is evaluating an opportunity to expand its tailings facility, which could potentially convert an additional 7.7 million ounces of gold and 44 million ounces of silver from resources to reserves.

At Mount Milligan, Centerra is forecasting calendar 2017 gold production of 260,000 to 290,000 ounces, a substantial increase over the 204,500 ounces of gold production in calendar 2016. Centerra reports a commissioning of the secondary crusher is underway and they are optimizing the mine and mill to gradually increase gold and copper recoveries. An increase in calendar 2017 production versus 2016 is attributed to achieving higher mill throughput. Centerra expects

to have the secondary crusher fully operational and supporting throughput of 62,500 tons per day. We remain focused on gold and copper recovery. Centerra has laid out a series of recovery improvement options, which are being systematically reviewed and include additional rougher flotation capacity, additional regrind capacity, and the development of a geometallurgical model.

Finally, at Wassa and Prestea, Golden Star is forecasting calendar 2017 production of 255,000 to 280,000 ounces of gold, well above their calendar 2016 actuals of 194,000 ounces. Commercial production at Wassa underground was declared a few weeks ago, Wassa underground will contribute to the 2017 production growth, along with the Prestea underground deposit where commercial production is expected later this year.

Beyond 2017 impressive growth forecasts, we continue to believe that there is potential for additional additions to reserves from both Wassa and Prestea underground deposits and are pleased that they plan to dedicate some of their recent offering proceeds to additional exploration.

Turning to Slide 7, you'll see an aerial view of New Gold's Rainy River project. New Gold recently announced that first production will be delayed three months to September 2017. The schedule revision is attributed to an increase in construction materials due to redesign work, coupled with the slower than planned ramp up of the mining rate. Open pit mining achieved an average of 100,000 tons per day in January, while the revised schedule assumes an increase in the rate to 120,000 tons per day over the next seven months. Long truck cycle times to deliver construction materials and difficult to handle clay overburden are identified as two key issues. Additional mining equipment was procured in the September quarter and contractors with small equipment have been employed to move overburden. Approximately 24 million tons of overburden and waste have been moved through late January. New Gold reports that the primary crusher and conveyer are 80% complete and commissioning of the crusher is scheduled to commence in March, followed by commissioning of the sag and ball mills during the June quarter.

I will now turn the call over to Stefan.

Stefan Wenger

Thanks, Mark. On to Slide 8, we thought it would be a good time to review the scope of our amended gold and copper stream at Mount Milligan. Last year, we amended our 52.25% gold stream at Mount Milligan to a gold copper stream, where we will receive 35% of the payable gold production at \$435.00 per ounce and 18.75% of copper production for 15% of the copper's spot price. The amended stream goes into effect for concentrates shipped after the closing of the Thompson Creek acquisition by Centerra Gold. That deal closed in late October and there is a maximum of five months between shipment and delivery to us. We expect to begin receiving deliveries of gold and copper under the amended stream agreement in April.

As Mark mentioned, Centerra recently announced calendar year 2017 guidance and is expecting total payable gold production of 260,000 to 290,000 ounces, of which 91,000 to 101,000 ounces of gold is expected to be delivered to Royal Gold. When you consider that Royal Gold received 105,000 ounces of gold on its original stream interest in calendar 2016, the calendar 2017 guidance results in nearly the same amount of gold even with the new 35% stream rate and we also get 18.75% of the copper. Centerra is forecasting 55 million to 65 million pounds of payroll copper production in 2017, with 10 million to 12 million pounds expected to be delivered to Royal Gold. Having said that, it is important to remember that

Centerra is guiding to a back end weighted production profile and with the five month lag between production and delivery to Royal Gold we would expect to receive that late calendar 2017 Mount Milligan production in calendar 2018.

On Slide 9, I've summarized a few of our financial highlights. Second quarter revenue of a \$107 million was up 9% from last year, as Tony mentioned, while GEOs were in line with the prior year. We benefited from a stronger gold price. Our effective tax rate was 15.7% in Q2 and 18.5% for the full six months ended December 31. Our Q2 rate was lower than the prior year's December quarter, due to certain tax items in the prior year quarter associated with the liquidation of our Chilean subsidiary. For fiscal 2017, we expect that our full year effective tax rate will be around 20%. DD&A was \$451.00 per GEO for the quarter, and \$453.00 per GEO for the six months ended December 31, both on the low end of our original guidance of DD&A per ounce of between \$450.00 and \$500.00 per GEO for fiscal 2017. We are now tightening our DD&A per GEO guidance to a range of between \$450.00 and \$475.00 per ounce for the full year.

We paid \$15 million in dividends during the quarter, resulting in a 22% cash flow payout ratio and for the full calendar 2016, we paid a total of \$60 million in cash dividends, resulting in a 25% cash flow payout ratio, proud of our track record of growing and sustaining our strong dividend every year since 2001. We ended the quarter with about \$420 million in total liquidity, this includes about \$115 million of working capital plus \$305 million of revolver capacity. We advanced \$20 million to Golden Star in early October and paid \$75 million to New Gold for Rainy River in November. On January 3rd, we funded our final scheduled payment of \$10 million to Golden Star for Wassa and Prestea. We have now funded \$1.4 billion in new stream and royalty acquisitions over the last seven quarters and we're only required to increase net debt by \$345 million during this period, without issuing equity.

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

Tony Jensen

Thanks, Stefan. On Slide 10, our second quarter results support the corporate attributes of a quality company, namely good margins, accretive growth, embedded optionality, and disciplined return to shareholders. Our gross margins are nearly twice as high as the Senior Gold's and the SMP. We continue to expect near-term volume to increase with the new additions from Rainy River and Crossroads. We have nearly 200 streaming in royalty interest that introduced optionality into our business, as several of them are receiving investments in further exploration and development activity at no cost to us, like the Penasquito Pyrite Leach Project that is also expected to deliver near-term growth and our dividend has grown at 20% CAGR since 2001. These attributes are attractive, not just within the precious metal sector, but also the broader market, as well.

Wrapping up on Slide 11, I'd like to extend a special welcome to Sybil Veenman, who recently joined our Board of Directors. Sybil is the Former Vice President, Senior Vice President and General Counsel at Barrick. She is well known for her legal expertise in transactions and governance as well as ethics and corporate social responsibility. She is already up to speed and hard at work and we look forward to benefiting from Sybil's contributions and I'm particularly delighted to have her join us on the Board.

Operator, with that that concludes our prepared remarks. We'd be happy to entertain any questions.

QUESTIONS AND ANSWERS

Operator

Thank you, Mr. Jensen. Ladies and gentlemen, we will now begin the question and answer session. To ask a question, you may press star (*) then one (1) on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If your question has been addressed, you may withdraw from the queue by pressing star (*) then two (2). Again, it is star (*) one (1) if you would like to ask a question and we'll pause just a moment to assemble our roster. The first question will come from Josh Wolfson of Dundee Capital Partners. Please go ahead.

Josh Wolfson

Hey, good afternoon, everybody, I just wanted to ask you, related to Rainy River at this point, New Gold has talked about a bit of funding gap. When you look at this, what the potential opportunity could be in terms of maybe streaming from that particular asset's additional metal or from the company's other assets' metal, would that be within the bounds of, I guess, the risk management the Company would be looking to?

Tony Jensen

Josh, thanks for the question and we generally would like to own more of everything that we have. We like our investments significantly and so given the opportunity, we'd be looking at that at all of our assets. We can't comment specifically with regard to anything we might do at Rainy River any other New Gold asset, but I think you can understand that we look at some of these things as opportunities and not as negatives.

Josh Wolfson

Okay, understood. So there's, just in terms of, I guess, risk mitigation, obviously, your guys are evaluating both asset specific risk and then exposure to specific companies, as well, I'm assuming, right?

Tony Jensen

Absolutely, you got it right.

Josh Wolfson

Okay, no, that's it for me. Thank you.

Tony Jensen

Thanks, Josh.

Operator

The next question will come from Tanya Jakusconek of Scotia Bank. Please go ahead.

Tanya Jakusconek

Yes, good morning, gentlemen.

Tony Jensen

Good morning, Tanya.

Tanya Jakusconek

I have a question on the security package of Rainy River stream. Tony or Stefan, can you just review the security package? I don't think you've filed any information on that.

Tony Jensen

Tanya, as you know, Bill Heissenbuttel comes from the banking background and we really look for Bill to help us with our security aspects of our transactions. So let me turn the call, turn that question to Bill.

Bill Heissenbuttel

How are you? So the obligations under the stream agreement are unsecured with respect to the Rainy River assets. That ranks us pari passu with the banks and the notes with respect to those assets. Once they are in production, there will be a collection account that is established and our share of proceeds from gold and silver sales will go into that collection account and we'll have a first lien on that account.

Tanya Jakuscone

And can you just remind us, are there any penalties for the delay in startup?

Bill Heissenbuttel

No, we don't, we're not like a project finance bank that would have a sort of failure to achieve completion by such and such a date. That really has never been part of the contracts that we've executed.

Tanya Jakuscone

And then just on the covenants, I know that New Gold has released that there is one leverage covenant, are there any others that we should be aware of?

Bill Heissenbuttel

There are no other financial covenants in that contract.

Tanya Jakuscone

Okay, great, thank you so much.

Tony Jensen

Thanks, Tanya.

Operator

As a reminder, if you would like to ask a question, please press star (*) then one (1). The next question will come from Mike Jalonen of Bank of America. Please go ahead.

Mike Jalonen

Hi, Tony, everyone there.

Tony Jensen

Good morning, Mike.

Mike Jalonen

Tony, during a question, I guess this came to me. Right now you mention you have no more capital or spending needs, having made the last payment for Golden Star. What's more important going further, is it growing the dividend or acquisitions or are they kind of in competition with each other? And also, maybe just one other question, I guess you do have another payment coming on Euromax, I guess, if they ever get that permitted, [indiscernible]?

Tony Jensen

Right, so Mike, I think, let's talk about the dividend first. We always have said that we want to pay a growing sustainable dividend. I don't think we would, well, we never have and I don't necessarily think we would do a special dividend of any sort. So I think kind of steady expectations of what we've done in the past would be a good reflection of what we likely will do in the future. But we're very much interested in continuing to grow our business. We have a nice piece of growth already in place between '17, '18 and '19 with the likes of the assets we talked about, Rainy River coming in '17, late '17 now; Cortez Crossroads in '18; and then Pyrite Leach at Penasquito in '19. So there is growth that's already bought and paid for in the portfolio, but nonetheless, we'd like to continue to add to that. So that would be a priority for us and then also servicing our debt and moving into a net cash position is certainly a priority for us.

So I hope that kind of answers the potential use of cash flow. But with regard to Ilovitza, we're continuing to evaluate that on a daily basis. I look at it more as an option rather than a commitment and we'll just see how that project develops and if we decide to continue to support the project, we will. We'll certainly let you know what that issue is or how that unfolds, but today we're, the status of the project hasn't changed much from our standpoint.

Mike Jalonen

Okay, well, thank you for that.

Tony Jensen

Thanks, Mike.

Operator

And again, if you would like to ask a question, please press star (*) then one (1). We'll pause just a moment for any additional questions.

CONCLUSION

Tony Jensen

Well, Operator, this is a very straight forward and solid quarter, so it doesn't surprise me there's not a tremendous amount of questions. We're very pleased with how the Company performed and how the assets performed and we look forward to continuing to update you as our Company progresses and continues to grow into the future. Thank you very much for joining the call today.

Operator

Thank you, Mr. Jensen. Ladies and gentlemen, the conference has concluded. Thank you for attending today's presentation. You may now disconnect your lines.