Royal Gold, Inc. NasdaqGS:RGLD

Earnings Call

Thursday, November 2, 2023 5:00 PM GMT

CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 7

* Capability needed to view estimates data. Please contact your account manager.

COPYRIGHT © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Call Participants

EXECUTIVES

Alistair Baker
Vice President of Investor Relations & Business Development

Daniel K. Breeze
Vice President of Corporate Development - RGLD Gold AG

Martin Raffield
Vice President of Operations

Paul K. Libner
CFO & Treasurer

William H. Heissenbuttel
President, CEO & Director

ANALYSTS

Brian MacArthur
Raymond James Ltd., Research Division

Jackie Przybylowski
BMO Capital Markets Equity Research

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Presentation

Operator

Hello, and welcome to today's Royal Gold's 2023 Third Quarter Conference Call. My name is Bailey, and I'll be your moderator for today. [Operator Instructions]

I'd now like to pass the conference over to Alistair Baker, Vice President of Investor Relations and Business Development. Alistair, please go ahead.

Alistair Baker
Vice President of Investor Relations & Business Development

Thank you, operator. Good morning, and welcome to our discussion of Royal Gold's Third Quarter 2023 Results. This event is being webcast live, and you will be able to access a replay of this call on our website. Speaking on the call today are Bill Heissenbuttel, President and CEO; Martin Raffield, Vice President of Operations; Paul Libner, CFO and Treasurer; Randy Shefman, General Counsel; and Dan Breeze, Vice President, Corporate Development of RG AG are also available for questions.

During today's call, we will make forward-looking statements, including statements about our projections and expectations for the future. These statements are subject to risks and uncertainties that could cause actual results to differ materially from these statements. These risks and uncertainties are discussed in yesterday's press release and our filings with the SEC. We will also refer to certain non-GAAP financial measures, including adjusted net income and adjusted net income per share. Reconciliations of adjusted net income and adjusted net income per share to the most directly comparable GAAP measures are available in yesterday's press release, which can be found on our website.

Bill will start with a preview of the quarter. Martin will give some commentary on the portfolio, and Paul will provide a financial summary. After the formal remarks, we'll open the lines for a Q&A session.

Now I'll turn the call over to Bill.

William H. Heissenbuttel
President, CEO & Director

Good morning, and thank you for joining the call.

I'll begin on Slide 4. Our third quarter was quiet and steady. We turned in good financial results with revenue, operating cash flow and earnings all up compared to the same quarter of last year, and we maintained our strong margins.

Revenue was $139 million for the quarter and operating cash flow was $98 million. Earnings were $49 million, or $0.75 per share. After a minor adjustment, adjusted earnings were $0.76 per share. We made a dividend payment of $0.375 per share for the quarter.

We also continued our focus on the balance sheet and repaid a further $75 million of the outstanding balance on the revolver, and we increased our available liquidity at the end of the quarter to about $770 million. So far in 2023, we have repaid $250 million of the outstanding balance on the revolver.

If you recall, we drew $200 million at the end of December last year to help fund the second of two royalty acquisitions on the Cortez Complex. We have now fully repaid that draw, and we've added a cash flowing asset with multi-decade production potential without diluting shareholder exposure.

While interest costs have risen recently, we believe that paying debt service costs for a short period is a worthy trade-off for full exposure to long life assets. Barring further business development investments in the short term, we will continue to allocate free cash flow to further reduce the outstanding debt balance.

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Our capital allocation strategy of using non-dilutive financing to acquire high-quality assets has been effective over the long term and our commitment to that strategy helps explain why we have the lowest share count in the GDX index.

I'll now turn the call over to Martin to provide some comments on the portfolio.

Martin Raffield
Vice President of Operations

Thanks, Bill. Turning to Slide 5, I'll give some comments on third quarter revenue. Overall, revenue for the quarter was $139 million, with volume of 72,000 gold equivalent ounces, or GEOs.

Our royalty segment contributed revenue of $40 million, a 21% increase over the prior year quarter. The positive variance was driven by higher quarter-over-quarter metal prices and higher revenue from the Cortez Legacy Zone. Also, new revenue from both the Cortez CC Zone and King of the Hills royalties. This was partially offset by Peñasquito, where we recognized no royalty revenue in the quarter due to the production suspension that started in early June. Peñasquito is one of our principal properties and is generally an important revenue driver, so we are pleased that the strike has been settled and operations are ramping up, and we look forward to seeing royalty contributions restart before the end of the year.

Revenue from our stream segment was flat compared to last year, at $99 million. The largest variances were due to higher revenue from Khoemacau, Rainy River and Andacollo, which were offset by lower contributions from Mount Milligan and Pueblo Viejo.

I'll turn to Slide 6 and give some comments on multiple developments at operations. At Mount Milligan, Centerra reported that production in the quarter was impacted by mine sequencing with the mining of some residual ore waste transition material, as well as lower recoveries because of elevated pyrite to chalcopyrite ratios from blending low-grade gold, high-grade copper ore mined in Phase 9 with high-grade gold, low-grade copper ore mined in Phase 7.

As a result, Centerra's lowered 2023 gold production guidance to 150,000 to 160,000 ounces and expects copper production to come in at the low end of the 60 million to 70 million pound guidance range. Centerra is expecting medium-term recoveries for gold and copper to be similar to those seen in 2023 and is undertaking metallurgical reviews to increase recoveries. For 2024, Centerra expects higher levels of gold and similar levels of copper production compared to 2023 guidance levels.

Also at Mount Milligan, Centerra has launched an asset optimization review to assess productivity and cost efficiency opportunities alongside mine plan optimization, and their goal is to drive incremental operational improvements. They expect the review to be completed in 2024.

At Pueblo Viejo, equipment design deficiencies impacted ramp-up of the expansion project during the quarter, and gold production was impacted by lower ore grade process due to the mine sequencing as well as lower mill throughput and recovery associated with the commissioning of the mill. Barrick is working to address these issues.

Approximately 81,000 ounces of silver were deferred during the quarter and the total deferred amount was 688,000 ounces at the end of September. We don't expect any material deliveries of deferred ounces for the remainder of the year, while the expansion was commissioned and ramps up to full production levels, and we expect it will take several quarters to deliver the entire deferred amount after the plant is running at full capacity.

At Cortez, Barrick released the results of a conceptual preliminary economic assessment on the Fourmile Project which indicates the potential gold production profile of 300,000 to 400,000 ounces per year in addition to the Cortez Complex production profile of 950,000 ounces to 1.2 million ounces per year over 10 years. Barrick has stated that ongoing drilling demonstrates the potential to increase the grade and size of the project and work is underway to assess an underground exploration decline to support a pre-feasibility study.

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Both of the royalty acquisitions we completed last year on the Cortez Complex provide exposure to this project, and we're pleased to see the upside potential advancing so quickly.

And finally, we are pleased to see continued positive developments at smaller assets in the portfolio, including significant reserve and resource growth at the King of the Hills mine in Western Australia; first gold produced last week at the Bellevue Gold Project in Australia; construction progress at Côté in Ontario with first production expected in early 2024; first production expected at Mara Rosa in Brazil in the first half of 2024; and strong quarterly production at Rainy River in Ontario and progress towards first ore production in the second half of 2024 for the new underground mine zone.

I'll now turn the call over to Paul for a review of our financial results.

Paul K. Libner
CFO & Treasurer

Thanks, Martin. I'll now turn to Slide 7 and give an overview of the financial results for the quarter. For this discussion, I'll be comparing the quarter ended September 30, 2023, to the prior year quarter.

Revenue was up 5.5% to $139 million for the quarter. As Martin mentioned in his remarks, contributions from the new Cortez royalties and the ramp-up at Khoemacau were large drivers to our increased revenue this quarter. Metal prices also contributed to the increase in our revenue this quarter as the price of gold was up 12%, silver was up 23% and copper was up 8%. Gold remains a dominant revenue source, making up 78% of our total revenue for the quarter, followed by silver at 11% and copper at 10%. At 78%, Royal Gold has the highest gold revenue percentage compared to major peers in the royalty and streaming sector.

Turning to Slide 8, I'll provide a bit more detail on specific line items. G&A expense increased to $10 million and was due to higher corporate costs and higher employee-related costs, which include non-cash stock compensation expense. While we are not directly exposed to inflationary pressures that have impacted operating costs in the mining sector, we have seen some inflation impact on our cash G&A. Although we did see an increase over the prior year, our margins remain high and the small employee count and a focus on cost control, our cash G&A costs remain low at about 5% of total revenue.

Our DD&A expense increased to $40 million from $38 million in the prior year. On a unit basis, this expense was $558 per GEO for the quarter compared to $497 per GEO in the prior year. The higher overall DD&A per GEO this quarter was a result of revenue mix. Specifically, we had higher overall revenue contributions from our Cortez royalties in the current quarter, which royalties carry a higher average depletion rate. In addition, we had no revenue from Peñasquito, which has one of our lowest depletion rates in the portfolio. These two factors resulted in the higher DD&A per GEO for the quarter, as there were no other significant changes to our depletion rates during the period.

Provided that Peñasquito can return to full capacity by the end of the fourth quarter, we are currently forecasting that our DD&A per GEO will be near the upper end of our previously provided guidance range of $490 to $540 per GEO for the fourth quarter.

Interest expense decreased to $7.3 million in the quarter from $8.8 million in the prior period. The decrease was due to our continued focus on debt servicing during the quarter as we had lower average amounts outstanding under our revolving credit facility when compared to the prior year. The all-in interest rate for borrowings under our credit facility was 6.7% at the end of the third quarter.

Tax expense for the quarter was $11 million, resulting in an effective tax rate of 17.8%. This compares to a similar tax expense of $11 million and an effective tax rate of 19.3% in the prior year period. We continue to expect our effective tax rate, absent discrete tax items, to be in the range of 17% to 22% for the fourth quarter and full year.

Net income for the quarter was up over the prior year to $49 million, or $0.75 per share. After adjusting for a small change in the fair value of equity securities, our adjusted net income was $50 million, or $0.76 per share, which is 5.5% higher than our adjusted net income in the prior year quarter, up $47 million or $0.71 per share. Our operating cash flow was strong again this quarter at $98 million compared to $95

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

million in the prior year. The increase during the quarter was a result of higher royalty revenue, primarily from the addition of Cortez interests we acquired in 2022.

I will now turn to Slide 9 and provide a summary of our financial position at the end of the quarter. During the quarter, we repaid $75 million on our revolving credit facility and reduced the amount drawn to $325 million. As Bill mentioned, we have repaid $250 million of our revolver balance so far this year. And in keeping with our approach to capital allocation, we expect to repay the remaining $325 million before the end of 2024, absent significant business development activity and as cash flow allows. The $675 million undrawn revolver capacity, combined with $93 million of working capital, provided us total available liquidity of just under $770 million at the end of the quarter.

That concludes my comments on our financial performance for the quarter, and I'll now turn the call back to Bill for closing comments.

William H. Heissenbuttel
President, CEO & Director

Thanks, Paul. We had a solid quarter, and our portfolio generally performed well. However, we did see short-term production delays and interruptions at a small number of our larger assets. As a result, we expect that total sales for 2023 may come in at the low end of, or slightly below, our initial April sales guidance of 320,000 to 345,000 GEOs. The main drivers for this are well known, and they are 1) the slower-than-anticipated ramp-up of the plant expansion of Pueblo Viejo and 2) the 4.5-month suspension of operations at Peñasquito. We hope that these issues are behind us now, and we are pleased that Newmont has restarted operations at Peñasquito, and we feel confident that Barrick is working to address production levels at Pueblo Viejo.

Finally, I want to comment briefly on the metal and jurisdictional mix of our portfolio, both of which are important differentiators for Royal Gold. Gold has remained strong this year with strong central bank demand and has performed well despite steady increases in interest rates. As Paul highlighted, 78% of our revenue came from gold this quarter, which is the highest among our large cap peers. And jurisdictionally, the two most significant revenue sources for this quarter were Canada and the U.S., which combined provided about 53% of our revenue. We seek to acquire precious metal assets in safe jurisdictions operated by high-quality counterparties, and we believe the transactions we've completed over the past couple of years will continue to enhance our shareholders' exposure to gold revenue in low-risk jurisdictions.

Operator, that concludes our prepared remarks. I'll now open the line for questions.

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Question and Answer

Operator

[Operator Instructions] Our first question today comes from the line of Jackie Przybylowski from BMO Capital Markets.

Jackie Przybylowski
BMO Capital Markets Equity Research

I have a couple, so maybe I'll start with a quick one just to get it out of the way. On Peñasquito, you mentioned that the mine restarted after the strikes. Can you just remind us what, if any, of the lag you expect to see between the mine restart and sales or production to your credit?

William H. Heissenbuttel
President, CEO & Director

Yes. Jackie, this is Bill. At the Peñasquito royalty, we get paid on provisional and final settlement. So if either of those occur in the fourth quarter, we should receive revenue. There isn't a delay that we have in some of the streams. What I can't tell you and Martin can interject if he disagrees, is how fast they're going to start up. That's just an unknown for us.

Jackie Przybylowski
BMO Capital Markets Equity Research

Yes. That's fair. I appreciate that. I guess it's the difference between a royalty and a stream, in-kind, where you're accepting delivery, right? This is a little quicker?

William H. Heissenbuttel
President, CEO & Director

It is quicker, but I would say the delays in the streams are unique to two contracts. So that doesn't apply to all the streams with a few months' delay.

Jackie Przybylowski
BMO Capital Markets Equity Research

Got it. That's helpful. If I can ask -- I think this is probably the first opportunity If I had to ask you both. The press release you put out in September about the ACG transaction--I've read through the disclosures that ACG had on its website as well as your disclosure. And maybe I'm not enough of a legal expert, but if you can maybe just simplify it a little bit, is that opportunity completely off the table for you now? Or is there still -- I know it's obviously delayed from the original timeline, but is there still an opportunity at some point that could rematerialize?

William H. Heissenbuttel
President, CEO & Director

Well, the original transaction has terminated. Our involvement was based on the satisfaction of certain conditions precedent and those conditions were not satisfied. The assets still remain with the seller. To say, could it come back? Yes, it might come back, but we're not going to know that for a period of time.

Jackie Przybylowski
BMO Capital Markets Equity Research

Okay. No, that's helpful. The disclosures that ACG had on its website, it sounded like -- it sounded like they were sort of still working on it, but it was -- I was -- I don't know, it's just my poor reading of the -- of the text. I think I had a hard time understanding exactly what they're saying.

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

William H. Heissenbuttel
President, CEO & Director

Yes. As we said today, what I would say is just assume there is no transaction there.

Jackie Przybylowski
BMO Capital Markets Equity Research

Okay. That's helpful. And maybe just on like a bigger picture on that point, Bill. What is your outlook for new royalty or stream transactions right now? Is there a lot, sort, of in the pipeline? Is there a lot that you guys are kind of working on or how optimistic are you at the moment?

William H. Heissenbuttel
President, CEO & Director

I'm always optimistic. We're always busy from a business development perspective, but maybe if I can get Dan to chime in here and give you his perspective as head of our Business Development team.

Daniel K. Breeze
Vice President of Corporate Development - RGLD Gold AG

Sure, Bill. Jackie, hope you're doing well. Thanks for the question there.

Yes, I agree with Bill. It's been quite busy for us, Jackie. And I think where we're seeing a lot of the activity right now is in, let's call it, the sub-$100 million range, so more on the royalty side. And I think that's just a function of where the equity markets are right now. As you know, it's really difficult for smaller companies to raise equity and so they're talking to groups like ours. Maybe that will change with gold at $2,000 here or so, and maybe that window will open up. But right now, they're very interested to talk to a group like ours, so we're -- we're quite active on that side. We're looking at geology. We're looking at the land packages. Our geologists are quite busy and we're just trying to look for good investments with interesting upside, so that's really where a lot of the focus is right now.

And if you look at what Martin talked about in the comments there and the various royalties that are just starting to produce, we've had good success with these smaller royalties, so we would happily add more of those in the portfolio.

But we always talk, Jackie, about this $100 million to $300 million range. That's still very much intact, and so we do see opportunities in that range. It's more development-type project financing that we're seeing and more on the gold side as well. So overall, quite busy for us right now.

Jackie Przybylowski
BMO Capital Markets Equity Research

That's great. I mean...

Daniel K. Breeze
Vice President of Corporate Development - RGLD Gold AG

Does that help?

Jackie Przybylowski
BMO Capital Markets Equity Research

Yes, absolutely. It's totally understandable in light of the relatively high cost of other sort of project financings that yours would be fairly attractive, but also, if equity and debt are unavailable, it makes it difficult to do those bigger streams. So I appreciate that. That's helpful color. Thanks, Dan and thanks, Bill. That's all for me.

Operator

[Operator Instructions] Our next question today comes from the line of Brian MacArthur from Raymond James.

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Brian MacArthur
Raymond James Ltd., Research Division

My question has to do with the deferred silver stream at PV. And can you just remind me when we finally get this up and running, how this trigger works? Do you get back -- I mean, once they get the fixed rate 70% and it works, you're entitled to 75% of the silver, as I understand it. But to catch up, do you go right and get 100% of the silver when the trigger works? Or is there a scale in function because you made the comment it would take a number of quarters going forward. I mean any details you could give us on that would be helpful.

William H. Heissenbuttel
President, CEO & Director

Yes, Brian, well, the thing that sticks in my mind is, I believe and someone on the team can correct me, if the recovery goes above somewhere around 52.5%, we start to recoup the silver, so it is gradual. We don't jump to a given number. The reason there's deferred silver is we could not demand from Barrick more than 100% of their share of the silver, so it's not as though we can go beyond that.

But that's really -- to me, that's the number I'm looking for. If the recovery gets above that 52.5%, we'll start to see it. And I think, at that point, we can probably do a better job of helping you figure out when it might come in.

Brian MacArthur
Raymond James Ltd., Research Division

Okay. But you do -- you do get -- like technically just in the stream rate, you get 75%. You can't go over 100%. But at the minute you get the trigger, then you can go and take -- you can basically sweep all the silver that comes out any quarter, theoretically. Is that fair?

William H. Heissenbuttel
President, CEO & Director

Theoretically -- their share.

Brian MacArthur
Raymond James Ltd., Research Division

Okay. Right. Their share. Okay. I think I've got that. I just have always -- because I noticed last year, you did get some -- you did catch up some and then it went the other way. So I was just trying to figure out exactly because it is starting to build up to be a significant amount right now. So I was just trying to figure out how fast that would come out going forward.

Operator

Thank you. There are no additional questions waiting at this time. So I'd like to pass the call back over to Bill Heissenbuttel for any closing remarks.

William H. Heissenbuttel
President, CEO & Director

Well, thank you very much for taking the time to join us today. We certainly appreciate your interest in Royal Gold, and we look forward to updating you on our progress during our next quarterly call. Take care.

Operator
This concludes today's conference call. Thank you all for your participation. You may now disconnect your lines.

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Copyright © 2023 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2023 S&P Global Market Intelligence.