Royal Gold

Fiscal 2016 Second Quarter Conference Call

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CORPORATE PARTICIPANTS

Karli Anderson - *Vice President Investor Relations*

Tony Jensen- *President and Chief Executive Officer*

Stefan Wenger - *Chief Financial Officer and Treasurer*

Bill Heissenbuttel - *Vice President of Corporate Development and Operations*

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

PRESENTATION

Operator
Good afternoon and welcome to the Royal Gold Fiscal 2016 Second Quarter 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. 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, Gary. Good morning and welcome to our discussion of Royal Gold's second quarter fiscal 2016 results. This event is being webcast live, and you'll 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 Operations; and Bruce Kirchhoff, Vice President, General Counsel and Secretary.

Tony will open with an overview of the quarter, followed by Bill Heissenbuttel with the corporate development and operational update, and then Stefan Wenger will a financial update. After Management completes their openings 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 taking the time to join us today. On our last earnings call in November, we told you we successfully integrated $1.4 billion in new interest into our portfolio. Three of those new interests have proven immediately accretive and just one quarter later, we're reporting record revenue and strong financial results.

I'll begin on Slide 4. Looking back over the second quarter, these strong results reflect our key themes of growth, quality and opportunity. From a growth standpoint, record results were driven by our streaming business. Higher volume more than offset lower gold price. Existing working capital and strong operating cash flow position us comfortably to fund our remaining stream transaction commitments which should contribute to further volume improvements in calendar 2017.

With respect to quality, we are delighted to see our first contributions from Pueblo Viejo during the December quarter, and we look forward to a multi-decade partnership with Barrick and Goldcorp on this world-class asset. In addition, Mount Milligan continues to perform well within the first quartile of cash costs and slightly exceeded design capacity of 60,000 tons per day during the last week in December.

With respect to opportunity, we deployed capital over the last nine months during a period of gold price weakness with a focus on asset quality and current and near-term production. While our portfolio continues to grow and diversify, our valuation does not yet reflect our strong performance. In my

opinion, our valuation has never been more compelling as we trade at levels not seen since the financial crisis.

On Slide 5 we summarize the new records that we set in the December quarter, record revenue, volume and dividends. Our recent streaming transactions have been the catalyst for this impressive growth. The chart at the bottom of the page details relative contributions to our streaming segment from each of our current streaming properties—Andacollo, Wassa, Prestea, Mount Milligan and Pueblo Viejo. I'll point out that the deliveries from Pueblo Viejo reflect our initial sales only.

We ended 2015 with nearly 12,000 Pueblo Viejo ounces of gold in inventory and we will receive our first silver deliveries in the current quarter. We expect to see another step change in 2017 when Rainy River starts to contribute to our streaming portfolio. We continue to pay out nearly one third of our operating cash flow in dividends. Our yield is about 3% and is competitive with dividends paid in any industry as evidenced by the S&P average yield of 2.3%.

You can see on Slide 6 that a weaker gold price experienced in late 2015 did not keep us from delivering record revenue and excellent operating cash flow per share. We continue to measure our financials on a per share basis and have considered our capital raises and deployments carefully. We only have 65 million shares outstanding and last issued equity in October of 2012 when gold price was at $1750 per ounce. We are pleased with our recent decision to deploy capital when gold price was trading near $1100 per ounce.

We are encouraged by the recent attention gold price has received over the last several weeks, and its resiliency against other commodities and strength in other currencies is hard to ignore. We are now well positioned for margin expansion.

I would now turn the call over to Bill to speak about our operating results and some of these new streaming transactions. Then Stefan will discuss our financial results later on the call. Bill?

Bill Heissenbuttel
Thanks Tony. Turning to Slide 7, we've updated the status of our recent streaming agreements. Last quarter, we told you about our annual volume expectations for these interests, and all of them are performing well relative to their guidance.

Collectively these four transactions are expected to bring an estimated $125,000 incremental net gold equivalent ounces, or GEOs, per year once Rainy River is in production. You'll see that at the currently producing Pueblo Viejo, Andacollo, Wassa and Prestea mines, the operations are well on pace to achieve our full year estimated net GEOs.

Our thesis on these transactions was predicated on today's reserves as well as the opportunity for future resource conversion. In this respect, we are pleased to learn of some early success at the Wassa F Shoot that Golden Star announced yesterday. We continue to view this as an excellent exploration option.

Development and exploration activity is well underway at Wassa and Prestea, where we recently upsized our investment, and effective January 1, 2016, we have a slightly larger interest in those two properties. We are benefitting from Wassa and Prestea's open pit production today, and we will benefit from the underground development in the near future.

On Slide 8 we've summarized calendar year results at some of our property interests. The actual production reflects full calendar 2015 results with the exception of Peñasquito where Goldcorp has not

yet reported and the volumes reflect actual totals through the September quarter.

Andacollo's shortfall during the year was attributable to lower mill throughput due to a tailing signer (ph) failure in the first calendar quarter of last year and the earthquake that impacted the operation in the third calendar quarter.

Strong results at Cortez were related to their production on our ground in early 2015. As you may recall, Cortez had produced 83% of the ounces expected to be subject to our royalty interest for the full year within the first six months of the calendar year, and lower production in the second half of calendar 2015 was in accordance with the mine plan.

Mount Milligan's throughput increased during the fourth calendar quarter and contributed to payable gold production at the top end of Thompson Creek's guidance.

For the full calendar year, payable gold production at Mount Milligan increased by 23% over the prior year. We congratulate the Mount Milligan team on achieving throughput in excess of their design capacity of 60,000 tons per day.

At Pueblo Viejo, the effect of the oxygen plant motor failures in November was somewhat offset by Barrick's installation of portable compressors in December, which was able to return production capacity to 95%. One of the two repaired motors has arrived in the Dominican Republic, the second expected on site by the end of the month. Our other property interests finished the year largely in line with expectations.

Rubicon Minerals released an updated geological model and resource statement for the Phoenix Gold project that included a significant reduction in resources compared to previous statements provided by Rubicon.

We were surprised at the magnitude of this change and immediately began the process of conducting our own analysis of the mineralization. We expect to complete our review in the March quarter, and we'll monitor the ongoing Rubicon sale process as we consider our carrying value of the asset. Although Rubicon only comprises less than 2% of our NAV, this development is receiving our attention.

As many of you know, Royal Gold's initial success was through exploration at Cortez. While we generally want to leave exploration work to others, on occasion we may see rare opportunities, as was the case with our peak gold joint venture in Alaska.

In calendar 2015, we conducted initial regional exploration and received sufficient encouragement to continue funding this project in calendar 2016. While it is very early in the exploration cycle at Peak Gold we want to guide that we will spend about $2 million per quarter throughout the next four quarters.

I'll now turn the call over to Stefan.

Stefan Wenger
Thank you, Bill. Slide 9 illustrates our financial highlights for the second quarter of fiscal 2016. We recorded record revenue of $98 million and an income of $0.23 per share.

We generated EBITDA of $70 million for the quarter compared with $48 million in the prior year quarter. Operating cash flow increased to $52 million, up from $30 million in the December 2014 quarter despite an 8% decline in the average gold price as well as a significant investment in stream inventory during the quarter.

As we guided in our last conference call, ounces in inventory at December 31 grew to 25,600 compared with 11,500 in inventory at September 30.

Cost of sales increased to $23 million, reflecting the significant increase in string sales during the period; however, on a per ounce basis, cost of sales was $370 per stream ounce, which is a reduction from the prior year quarter at $435 per ounce, as we now have a number of our streaming purchases defined as a percentage of the spot price rather than at a flat rate.

DD&A for the December quarter was $40 million or $455 per GEO, reflecting the large increase in GEO volume compared with previous quarters. We now expect DD&A of $450 to $500 per GEO for fiscal 2016, down slightly from last quarter's guidance.

Looking forward to the March quarter, we expect somewhat lower stream volume compared to the December quarter. We get deliveries based on final settlements at Mount Milligan, which represents a lag of four to six months post production. As such, our March quarterly deliveries will largely be based on Mount Milligan's September quarterly production, which was slightly lower than average.

We also received final catch-up deliveries from Wassa and Prestea in the December quarter. Partially offsetting this should be higher sales associated with our Pueblo Viejo stream.

Turning to Slide 10, I've summarized our liquidity position. Working capital totaled $142 million at December 31, when combined with the $300 million of availability under our revolving credit facility, total liquidity at December 31 was about $440 million.

We have just two near-term conditional commitments that we will fund over the next 12 months, $70 million at Wassa and Prestea and $75 million at Rainy River. We expect to fund these commitments from operating cash flow and existing cash on hand.

I will now turn the call back over to Tony.

Tony Jensen
Thank you, Stefan. On Slide 11, you'll see an example of Royal Gold's valuation relative to its peers. While Royal Gold generated 25% of the industry's economics for the 12 months ended September 30, 2015, we are trading at just 15% of the industry's market capitalization.

On Slide 12, we provide further analysis to this point, demonstrating that our current market cap reflects just one time street consensus net asset value without any value ascribed to Mount Milligan despite its contributions to our ongoing strong financial results.

We recognize that there is concern with Thompson Creek's financial situation that is being reflected in our valuation; however, I would like to remind you that we have a strong security position at Mount Milligan that the mine is performing very well and that has proven to be a very attractive asset. We expect Mount Milligan will continue to operate regardless of Thompson Creek's financial situation.

On Slide 13, we chart Royal Gold's impressive history of returning capital to shareholders. While many companies are reducing or eliminating their dividends, Royal Gold's board voted in November to increase its dividend for a 15th straight year. This is a reflection of the confidence that Management and the board has in our company. Our calendar 2016 dividend of $0.92 per share leads our peers on a per share and yield basis.

Wrapping up, on Slide 14, I'd like you to take away the following three points: First that our recent transactions are already driving record operating and financial results with more growth to come. Second, we are continuing to diversify our company with quality assets. We are excited to be associated with Pueblo Viejo so early in its life, and we are looking forward to Rainy River's contributions in the near future. Finally, our valuation has never been more compelling. We are trading at levels not seen since the financial crisis when our cash flow per share and dividend per share were only 41% and 30% respectively of what they are today.

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

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster. The first question comes from Garrett Nelson with BB&T Capital. Please go ahead.

Garrett Nelson
Hi everyone. It's good to see the new streaming deals really start to drive EBITDA improvement, and also, thanks for the new disclosure on the streaming business that's very helpful from a modeling standpoint. It looks like you had about 25,700 ounces in inventory at the end of the quarter. Would you expect that inventory number to increase, decrease or stay about flat by the end of March?

Tony Jensen
Garrett, I'll just ask Stefan to answer that question.

Stefan Wenger
Sure, thanks, Tony, and hello, Garrett. As we guided last quarter, we expected a large inventory build during this quarter as the new streams came on. Now, I would expect as we look ahead inventory to stay within about 5,000 ounces of that level plus or minus, and as I guided in my discussion, we do expect slightly lower deliveries in the March quarter than the December quarter.

Garrett Nelson
Okay. And can we assume that you're done with new deals for the time being and that you're in a phase right now of digesting everything that you acquired last year unless something very lucrative were to come along?

Tony Jensen
Garrett, I think that's a reasonably accurate statement. We very much still have the door open to new business opportunities. We want to be opportunistic there, but we don't feel compelled to have to grow. We already recognize that we have a tremendous growth profile built into the company from the last nine months of work, and we'll just be very selective. We're going to watch the leverage ratios in our company as well. We're equity shy, so we want to be very careful with any kind of debt we might put in the company.

Garrett Nelson
Okay. And also one of the impacts of the new streaming deals is that your total revenue mix has become even more levered to gold. I notice that gold accounted for about 90% of your total revenue during the quarter, which is up from about 70% a couple of years ago. I'm just curious whether that

was one of your goals heading into the new deals that you entered into last year in terms of wanting to become more of a gold pure play or whether the streams were just the best deals that came along.

Tony Jensen
Garrett, we've always said that we wanted to be at least 70% precious metal, and we always are focusing on gold whenever we can. We were just fortuitous during the last, this last cycle of new business opportunities to be dealing with a lot of companies that were pure precious metal companies. So, we're pleased to see that grow. We're not actively going out looking for base metal deals by any starch of imagination, but we're still guided by our goal of at least having 70% precious in our company.

Garrett Nelson
Okay. Great. Thanks a lot, Tony.

Tony Jensen
Thank you, Garrett.

Operator
Again, if you have a question, please press star then one. The next question comes from Phil Russo with Raymond James. Please go ahead.

Phil Russo
Yeah, hi there Tony, Bill, Stefan, Karli. Just one question here, and thanks for the call and the color on Mount Milligan there. Is there a scenario, and I'm thinking a Chapter 11 scenario for Thompson Creek, where you would stop receiving ounces from that mine for a period of time? I'm just curious on your thoughts there.

Tony Jensen
Well, Phil, there are many, many different ways this could all play out, and I've always said that we want to be a catalyst to see a solution here out of any kind of court-type system. There are scenarios if it were to go all the way to bankruptcy that there could be an interruption in our production or we just can't specify exactly what might happen in bankruptcy court. But that's why I wanted to emphasize in my prepared remarks that we thought long and hard about this, even at a point when Thompson Creek was not into a financial situation. Years, in fact, ahead of that when all the commodity prices were going at a high price, we felt it was important to have security on this asset, and we feel it's a very strong security position if we have to rely on it. Sure, we don't want to rely on it, but we have that in the back if we do need it.

Phil Russo
Great. That's all I had. Thanks. Thanks a lot. Good quarter.

Tony Jensen
Thank you, Phil.

Operator
The next question comes from Tanya Jakusconek with Scotia Bank. Please go ahead.

Tanya Jakusconek
Yes, good morning everybody.

Tony Jensen
Good morning, Tanya.

Tanya Jakusconek
Thank you. I have two questions, and the first one is actually on Pueblo Viejo. Maybe, Tony, can you talk about how the Silver Circuit is doing at Pueblo Viejo? Has that been resolved at all or are we still a bit delayed with the motors being delayed?

Tony Jensen
And Tanya, allow me to be a little bit general in the response to that question because this is really Barrick's place to talk in detail, but let me just say that the Silver Circuit works best when all of the rest of the circuit is working, and the fact that we had some autoclaves offline in December would have impacted the Silver Circuit as well, we believe. So, I don't think it's a very good test to look in the December quarter for how the Silver Circuit actually is capable of running.

Having said all that, as you know, we put a minimum silver recovery into our transaction with Barrick of 70%, and of course they anticipate having a lot higher silver recovery than that. So, regardless of what the circuit does, they have to pay us the 70% level. So, there's encouragement for them to do better than the 70%, and we're quite happy with that. We're pleased if they can get higher and they take that excess, but we're also quite comfortable having the security of having a 70% recovery factor on that circuit.

Tanya Jakusconek
Okay. And then Tony, just on the silver, are we looking at similar inventory levels as you are looking at for the gold at Pueblo Viejo? Should we model it in that?

Tony Jensen
Yes, when Stefan answered the question that Garrett asked, he was really talking about gold equivalent ounces there. So, we're going to have to give you better disclosure on reporting as far as what we hold in gold and what we hold in silver, but he was referring to that 25,000 ounce level plus or minus 5 as a gold equivalent basis.

Tanya Jakusconek
Okay. Okay and then thank you for that. And just my second question actually has to do with Phoenix. Can you just talk a little bit about your technical due diligence? What exactly are you going to do and who exactly is doing that for you in your technical team?

Tony Jensen
Well, look, our entire technical team is led by Marcus. I don't know if you know him Tanya, but he is a very well-seasoned individual in this sector. Beyond that, we've got some consultants that we are employing, rather not and don't feel I need to go into the details on who they exactly are, but they are obviously people that we have good confidence in that are experienced in these type of deposits.

So, what we're doing is going back into the raw data, and we're using a bit of a stage-and-gauge process of looking at what was just recently done by Rubicon, looking at the most critical assumptions that they made in determining whether we believe in those assumptions. And if we find that there is room for other interpretations, then we'll continue to move towards a resource estimation ourselves, but we're just into that process now.

We have a goal, as I think Karli guided in our press release, that we want to come to a quick conclusion on this, but there are other factors that play here as well. You'll have noted that Rubicon has hired TD and BMO to conduct a strategic review and we're very anxious to hear how that process is going to play out as well. So, all of those things, I think, keep us in a position of not making any firm decisions in

this quarter.

Tanya Jakusconek
And Tony, you think with looking at the raw data and doing your own valuation by the end of March you will be in a position to have a view on the deposit yourself?

Tony Jensen
Yeah, I think we will. It's an aggressive—I'll grant you that's an aggressive feat of engineering, but I think we'll have certainly a good feel for how we think the deposit opportunity really stacks up in it. And again, if we're not to the point where we're completely satisfied in it, we'll certainly tell the market that, but we have an internal goal of having this all understood in the March quarter.

Tanya Jakusconek
Okay. Good. Looking forward to hearing on that. Thank you.

Tony Jensen
Thanks Tanya.

CONCLUSION

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

Tony Jensen
Well, thank you very much, operator, and thank you all for joining us for our update and our 2Q. We were very proud of the results that we have today. We're very confident in this company, and we look forward to updating you in the very near future as additional developments come about. Thanks for joining us.

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