Royal Gold, Inc.

Royal Gold, Inc. 2016 Third Quarter Earnings Conference Call

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CORPORATE PARTICIPANTS

Tony Jensen – President and CEO
Stefan Wenger – CFO and Treasurer
Bill Heissenbuttel – VP, Corporate Development and Operations
Karli Anderson - Vice President of IR

PRESENTATION

Operator
Good morning everyone and welcome to the Royal Gold's Fiscal 2016 Third Quarter Earnings Conference Call. All participants will be in a 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). To withdraw your question you may press star (*) and two (2). Please also note that today's event is being recorded.

At this time, I'd like to turn the conference call over to Ms Karli Anderson, Vice President of Investor Relations. Ma'am please go ahead.

Karli Anderson - Vice President of IR
Thank you, operator. Good morning and welcome to our discussion of Royal Gold's third quarter of 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 with an operational update and then Stefan will provide the 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. I will now turn the call over to Tony.

Tony Jensen - President and CEO
Good morning and thank you for joining the call. Today I'd like to brief you on the key elements of our strong third quarter results and we'll update you on some of our key development assets as well. I'll begin on slide 4. Reviewing our third quarter performance throughout our corporate objectives of providing shareholders exposure to growth, quality and opportunity, we demonstrated growth in March quarter as revenue; volume and EBITDA were all 20% to 30% higher than the prior-year quarter driven by higher volumes associated with the new business we added in calendar 2015. And Bill will speak later on the presentation to Rainy River, Wassa, Prestea, and Cortez Crossroads which are expected to contribute to growth in the near term. With regard to quality, we are pleased to see that Mount Milligan our largest revenue source is now rated among the lowest-cost copper mines in the world by Wood Mackenzie. And our second largest source of revenue, Pueblo Viejo, had strong performance during the quarter and registered all-in sustaining cost of slightly less than $500 per ounce. We continue to position the company for additional opportunity. We paid down $50 million of our debt and extended our credit facility by two years which will provide us access to capital through 2021. Existing liquidity of nearly $500 million and strong cash flow positions us to comfortably fund our near term commitments and evaluate new business.

Turning more specifically to quarterly results on slide 5. We reported revenue of $93.5 million, an increase of 26% from the year ago, driven by 30% higher volume associated with new business interest at Pueblo Viejo, Andacollo, Wassa, and Prestea. Comparing results to the recent December quarter, you will likely recall that we had record revenue and record volume at that time due to robust sales at Mount Milligan as well as reconciling payments from Wassa and Prestea. We guided towards and

realized lower volumes for the March quarter due to those exceptional sales. Looking ahead, we currently expect the June quarter will have the similar volume to the March quarter. We also previously disclosed that we expected to record nearly $100 million to impairments which were associated primarily with Phoenix, Inata, and Wolverine. As a result, we have a loss for the quarter but after adjusting for those items earnings were $0.29 per share. We are obviously disappointed that these investments did not achieve their expected return. Impairments are simply not in our DNA. And to emphasize this point, prior to this quarter we have only realized $30 million in total property write-downs against investments of $3.5 billion in the last 15 years.

Moving onto dividends, we paid $15 million during the quarter or $0.23 per share marking the start of our 16th straight year of higher dividends. We also released our updated reserves last night showing a 21% increase to 6.4 million gold equivalent ounces. This impressive growth is a result of our new stream acquisitions in 2015. If you divide our royalty and stream interest on the balance sheet by our reserves, our carrying costs averages $453 per gold equivalent ounce.

Turning to slide 6, our cash flow per share continues to grow in top $1.00 in the March quarter. In addition to the volume expansion over the last several quarters, the inflection point in the gold price is also certainly welcomed. Royal Gold share account is essentially unchanged in nearly four years. Existing shareholders directly participate in the expansion of our business in the form of higher cash flow per share and higher dividends per share.

On slide 7, the six properties shown on this slide represented 75% of our revenue in the March quarter. Since the start of the year, operators of these properties have informed us as to their production expectations for calendar 2016. You'll see that our three largest interests Mount Milligan, Pueblo Viejo, and Andacollo are scheduled for notable production increases. I will turn the call over Bill to speak about our key producing and development assets in more detail

Bill Heissenbuttel - VP, Corporate Development and Operations
Thanks Tony, turning to slide 8. Mount Milligan operations focused on increasing mill throughput in calendar 2015, the mill is now operating close to design capacity achieving an average throughput rate of 58,100 tons per day in the first quarter of calendar 2016. Thompson Creek also approved the construction of the secondary crusher which is expected to be completed by calendar year end and increase throughput to 62,500 tons per day. Mount Milligan's focus this year will be on improving recoveries by optimizing mine and mill operations and balancing the circuit at these higher levels of production. For the quarter, the mine produced approximately 53,000 payable ounces of gold, which was an increase of 16% from the prior year quarter as higher throughput offset lower rates and recoveries. With regard to costs, Mount Milligan C1 cash costs ranked in Wood Mackenzie's list of 255 copper mines ranked by costs and even with the economic impact of our stream included, it's cash cost in calendar 2015 was $0.55 per pound, still one of the world's lowest cost copper mines. In just over two years of production to-date, we've already received in excess of $210 million in gross revenue from gold sales related to Mount Milligan.

Turning to slide 9, Pueblo Viejo has solidified its status as our second largest gold stream on a net basis in just the second quarter of deliveries. We received about 10,600 ounces of gold and 210,000 ounces of silver during the March quarter, which related to gold production for the December through February period and silver production for January and February. You'll likely remember that production was impacted during much of this time due to the motor failures in the oxygen plant. Barrick was highly successful in remediating the problem and achieved production in the March quarter that was notably

above their annualized rate for calendar 2016 and the prior year quarter. For the first quarter of 2016, Pueblo Viejo's all-in sustaining costs were $496 per ounce, the second lowest all-in sustaining costs in the portfolio. The company continues to expect attributable production of 600,000 to 650,000 ounces of gold in 2016, but all-in sustaining cost guidance for the year was just reduced to $550 to $590 per ounce down from $570 to $620 per ounce.

On slide 10, we are pleased to see Golden Star make steady progress on improving the cost structure of the open pit mines while the higher grade underground mines at Wassa and Prestea are under construction. Quarterly production of 53,000 ounces of gold was consistent with expectations and Golden Star estimates cash operating costs below $750 per ounce for the March quarter. The new underground projects are scheduled to begin contributing to production beginning late this calendar year from the Wassa underground and in mid-2017 for the Prestea underground. Of expected 2016 gold production of 180,000 to 205,000 ounces, 20,000 to 25,000 ounces are expected to come from the Wassa underground project. And longer term, Golden Star expects these new sources of ore at Wassa and Prestea will increase annualized production levels to an estimated 240,000 ounces. Now, I'd like to talk briefly about additional projects within the portfolio that are expected to layer on growth in the near term.

Turning to slide 11, development work is well underway at Rainy River where New Gold estimates construction is 35% complete at the end of April. Royal Gold has invested $100 million in to the project to date and our second and final investment of $75 million is scheduled to occur once the project reaches 60% of construction completion. We understand from yesterday's release that New Gold is making some modifications to the tailings and water management design which will require additional regulatory approval. We support New Gold in its remedial efforts and its decision to expand the geotechnical drilling to include the tailings management facility at the same time in order to address these issues in a timely manner. Despite the deferral of expenditures on these facilities until approval is received, we understand the company believes it can maintain the mid-2017 commencement of production.

And finally on slide 12, you'll see an image of our interest at Cortez. This property has always been important to us since it was where we created our first royalty. We have received about $250 million in royalty revenue from this property compared to an aggregate investment cost of about $11 million. Much of the mining was focused off of our ground, subject to our royalty interest at Cortez Hills for the past several years but some of that open pit equipment will now be utilized to develop the Crossroads deposit. We have 3.7 million ounces of reserves subject to our interest at Cortez with about 3 million ounces at Crossroads alone. Barrick has commenced stripping on the project which they expect will be in production in 2018. Our total royalty interest at Crossroads is 5.6% so we expect Cortez to be a significant contributor again in the near future. I'll now turn the call over to Stefan.

Stefan Wenger - CFO and Treasurer
Thanks, Bill. On slide 13, I've summarized a few of our financial highlights. As Tony mentioned, we recorded a loss of $1.04 per share for the quarter; however, after adjusting for the impairment charges, net income per share was $0.29. Revenue of $93.5 million was up nicely from a year ago based on increased volume, somewhat offset by a 3% decline in the gold price. DD&A was approximately $480 per GEO for the quarter and for the full nine months, our DD&A rate was $453 per GEO. I expect that we will end the fiscal year with a full year rate of between $450 and $475 per GEO, which is on the low-end of our previous guidance. We recorded a tax benefit of $8.3 million for the quarter, resulting in a tax rate of 10.6%. However, adjusting for the impairment previously discussed, our tax rate would have

been about 20%, consistent with our earlier guidance. We ended the March quarter with about 12,000 ounces of gold and 210,000 ounces of silver in inventory. Looking forward, we expect to maintain gold equivalent inventory at any given quarter end of between 15,000 and 25,000 ounces, depending on the timing of deliveries to Royal Gold. Looking forward to the June quarter, we expect GEO volume to be roughly in line with the March quarter. Our strong cash flow allowed us to repay $50 million of debt and to distribute $15 million in dividends during the quarter. You can see on this slide that our liquidity of nearly $500 million is comprised of about $150 million of working capital plus $350 million of revolver capacity. Last month, we also extended the maturity of our revolver by two additional years to 2021. We are well equipped to satisfy our remaining outstanding commitments as well as to consider new business opportunities.

On slide 14, we've demonstrated our excellent track record for returning capital to shareholders. We have one of the highest dividend yields in our business and we are proud of our commitment to returning capital to shareholders and to have delivered a dividend increase in each of the last 15 years, including in both the good times and the bad times. This is a reflection of management's confidence in the business. I'll now turn the call back over to Tony.

Tony Jensen - President and CEO
Thanks, Stefan. Speaking more globally, we are very pleased with the new contributions we are seeing in the financial statements from Pueblo Viejo, Andacollo, Wassa, and Prestea, which have made a meaningful contribution to Royal Gold as compared to a year ago. These assets have helped grow and diversify our company and are now generating significant cash flow.

Strategically we wanted to be in a position to invest capital opportunistically, and we believe our investments in 2015 were well timed in terms of the gold price cycle and industry need. The quarterly performance was in line with our expectation and we anticipate steady volume in our final quarter for fiscal 2016. We expect sales growth in fiscal 2017 as Mount Milligan improves operational performance and we get into a full cycle of gold and silver deliveries from Pueblo Viejo.
We are closely monitoring the development work at Wassa, Prestea, and Rainy River and look forward to their contributions. These additions coupled with a renewed focus on Crossroads should pave the way for incremental growth through 2018. And, of course, we will always look to be opportunistic in adding any new business along the way.

Operator, that concludes our prepared remarks and we're happy to answer any questions.

Question-and-Answer Session

Operator
Ladies and gentlemen, at this time we will begin the question and answer session. To ask a question, you may press star (*) then one (1). If you are using a speakerphone we do ask that you please pick up your handset before pressing the keys to ensure the best sound quality. To withdraw your question, please press star (*) then two (2). Again, it is star (*) and then one (1) to join the question queue. Our first question comes from Mike Jalonen from Bank of America. Please go ahead with your question.

Mike Jalonen – Bank of America
Thank you and good morning, Tony and all. I just had a couple of questions. Both yourself and Stephan mentioned evaluating new business opportunities on how with the four deals you did a year ago you hit the gold price cycle well and you have $501 million of liquidity, but obviously the gold cycle

has changed obviously for the better for the company - the producers and the royalties are benefiting also share price-wise, but what about for business opportunities I would think? Is it getting more difficult to do deals? Are the prices rising because the producers are in a better position financially?

Tony Jensen - President and CEO
Well, Mike, thanks for the question. First of all, I just want to emphasize that we did deploy over $1 billion last year and so we moved our entire financial portfolio in a new direction with those investments. So I also want to emphasize, in my closing remarks, I talked about incremental growth through 2018. So the point there being is that we don't feel compelled to have to do a deal right away. We think we've got a great portfolio the way it is. But speaking directly to your question, there is obviously more equity opportunities for gold producers than what we've seen over the last, say, 12 maybe 18 months. So that certainly is an alternative source of capital that we will have to compete against. But there is still lot of troubled balance sheets in the marketplace today and we always are looking for opportunities to do business where our source of capital makes sense to that capital structure. So probably not as lucrative of a business environment this year as what we saw last year. We've been saying that on the call a couple of - for a couple of quarters now that we like the quality and the portfolio of new business opportunities a year ago at this time a bit more than we do today. But I wouldn't expect that we would be deploying another $1 billion dollars this year which surely we think there are some deals in the marketplace that would be attractive to us.

Mike Jalonen - Bank of America
And if I can just follow on, thanks for that explanation and certainly the deals you did last year obviously the timing was spectacular. This morning – Golden Star did a $15 million equity deal and did they come to you first or they just go right to the equity markets?

Tony Jensen - President and CEO
No, they didn't come to us. We've made our investments there and we're very happy with those investments and so we're pleased to see them look for other sources of capital. As we've always said, we really don't want to be the primary and only source of capital in any particular project.

Mike Jalonen - Bank of America
Okay. Maybe just one more question before I turn it over. What's the annual production at Crossroads is going to be? Is there a number?

Tony Jensen - President and CEO
In all honesty, we do have that number. We do get the detail from Barrick but we are not at liberty to share it. But I think if you look at the production – sorry the reserve there I think it was just little under 3 million ounces of gold. And as I recall, it was probably close to a five year mine life, so a secure mine life something like that once it's in production, but Mike, we are going to have an analyst – sorry, an investor conference in early June and we hope to provide a little bit more clarity on that asset at that time.

Mike Jalonen - Bank of America
Okay, I'll be there. Thank you.

Tony Jensen - President and CEO
Thanks for your questions.

Operator
Our next question comes from Andrew Quail from Goldman Sachs. Please go ahead with your question.

Andrew Quail - Goldman Sachs
Yeah. Hi, Tony and team, thanks for the call and congratulations on a good quarter. A follow up from Mike's question actually. Do you guys have - splitting into two I suppose you would say the primary producers of gold and precious metals, are you seeing any sort of I suppose trends in more of the base metals guys. I suppose you've done the last couple deals except the Barrick PV - but are you seeing that the base metal guys made money more than say the primary producers at the moment?

Tony Jensen - President and CEO
Andrew, I will ask Bill to answer that question.

Bill Heissenbuttel - VP, Corporate Development and Operations
Andrew, so the answer is a bit of yes and no. Obviously with the base metal prices where they are, you are not going to have the project development need for financing, but I would say some of the larger balance sheet issues that you are going to find are with the larger base metal companies and I would say that's probably where we see more of the opportunity today.

Andrew Quail - Goldman Sachs
And I suppose my other question is on Mount Milligan, you are saying that Thompson Creek obviously they are scheduling the secondary crusher. Was there a need or if there is a need if prices correct for those guys to need more financing and if so, would you be happy to put in more for – maybe 100% of the gold?

Tony Jensen - President and CEO
Well, they have sufficient –

Andrew Quail - Goldman Sachs
Hypothetical.

Tony Jensen - President and CEO
Yeah, they have sufficient capital on the balance sheet to go ahead and finish up the secondary crusher. And they are largely committed to them and, in fact, they're talking about commissioning that by the end of this year so that's well underway. I think broader issue to your question is servicing their capital structure. And while you have seen the cash cost at the operation are still quite healthy even after our stream isn't considered, we would rather not put additional money in just because it's a very large exposure to us at this time. We've always enjoyed diversified portfolio. We are going to work towards moving to a more diversified portfolio as we have over the last year. But, Andrew, the bottom line that I want to end this particular question on is that we are going to do what's right for our shareholders, and we will just assess that potential opportunity when it comes to us and we won't rule anything out at this point.

Andrew Quail - Goldman Sachs
As far as one more, just on leverage, it obviously peaks at the moment, given your investments last year and you put through your model, you guys de-lever pretty quickly. Is there a level of debt that you guys are comfortable with going through the cycle?

Tony Jensen - President and CEO
Andrew, let me ask Stefan to answer that question.

Stefan Wenger - CFO and Treasurer
Sure, hi, Andrew. We think about a conservative amount of leverage being appropriate in our capital structure. When we did the deals at the end of last summer, our initial leverage at that point was just under 3 times and today, we are close about 2 times, levered toward 2 times today and by the end of the year, I would see us closer to 2. But as we look at new opportunities, we think there is room in the capital structure for additional indebtedness, but you wouldn't see us be comfortable for any long period of time over 3 times net debt to EBITDA.

Andrew Quail - Goldman Sachs
Thanks very much for the questions guys.

Tony Jensen - President and CEO
Thanks, Andrew.

Operator
Our next question comes from Stephen Walker from RBC Capital. Please go ahead with your question.

Stephen Walker - RBC Capital
Thank you, operator. Good morning. Just briefly on the legal dispute with Vale and Voisey's Bay, can you give us an update on that Tony if you would?

Tony Jensen - President and CEO
So, Stephen, the concentrate from Long Harbour is now in part going to – sorry, concentrate from Voisey's Bay is now going to Long Harbour, and there are some deductions that are being incurred against our royalty that we disagree with regard to Long Harbour. So we have added those to our litigation claim that has been outstanding and we are in the discovery process. We are very active in that whole process. And we are very much looking forward to getting our day in court to be able to argue our position. We think that our position is very traditional with regard to how net smelter return royalty should be calculated. So we were in a bit of that type of pattern I would say until maybe 18 months or so before the matter is heard before the court.

Stephen Walker - RBC Capital
Great, and thank you for the timing on that, a potential timing. Also with respect to Euromax's Ilovitza project, can you set some or give us your thoughts on where that stands and I guess some flexibility that you have around making further investments in the project?

Tony Jensen - President and CEO
Right, we have – Stephan showed a slide where we have our committed – rather firmly committed investments of $125 million still going and that's really for Wassa, Prestea, and Rainy River. We look at as an option and purely that – we will make that decision once the option is ripe. We will have a look at how the market looks at that time, we will look at the feasibility study and see if we are satisfied with it and if we think it's a good piece of business, we will move ahead and go. We just look it as an option at this point, Stephen.

Stephen Walker - RBC Capital
I mean, with the capital that sunk so far, do you have a residual royalty or ownership or anything at that point or is it just waiting until the appropriate time to invest the remainder of the capital within the transaction?

Tony Jensen - President and CEO
I don't remember the details; I am going to have Bill speak to this in just a minute if he can remember the details. But we do have mechanisms in there where we can get our money back. We also have mechanisms in there I believe where we can convert into a royalty if we wish to do that, so this is all part of the optionality that we have on the project. Did I get that right?

Bill Heissenbuttel - VP, Corporate Development and Operations
The only thing I would add, I think it's a conversion into a smaller stream as opposed to a royalty.

Stephen Walker - RBC Capital
Okay. Thanks for that Bill and thank you Tony.

Tony Jensen - President and CEO
Thanks, Stephen.

Operator
Once again, if you would like to ask a question please press star (*) and then one (1). Our next question comes from Lucas Pipes from FBR & Company. Please go ahead with your question.

Derek Hernandez - FBR & Company
Hi, good afternoon. This is Derek Hernandez on for Lucas Pipes. Just want to follow up on Andrew's question earlier with regards to potentially looking at other additional royalties or streams. Is there a possibility of looking beyond base or precious metals? Is that a consideration for the company?

Tony Jensen - President and CEO
Derek, we are really not focused at all on anything, but gold and silver, and why should I even hesitate when I say silver. I mean, we really like gold and we really want to stay our core investment there. I think, we have somewhere, Stefan, in the order of 90% of our revenue coming from gold…

Stephen Walker - RBC Capital
That's correct.

Tony Jensen - President and CEO
…at present and we have always said that we wanted to maintain a precious portfolio over 70%. If we had a base metal opportunity that came to us at the right return and right quality of project, we would probably take a look at it, but don't expect that to be a big investment, but probably rather a marginal investment.

Derek Hernandez - FBR & Company
I see, thank you very much.

Tony Jensen - President and CEO
Thanks, Derek.

Operator
And ladies and gentlemen, with that we will conclude today's question-and-answer session. I would like to turn the conference call back over to management for any closing remarks.

Tony Jensen - President and CEO
Well, thank you everybody for joining us today and we, as always, appreciate your interest in our company and our results and we look forward to continuing to update you along the way. All the best.

Operator
Ladies and gentlemen, that does conclude today's conference call. Thank you for attending. You may disconnect your telephone lines.