Royal Gold, Inc.

Royal Gold Fiscal 2016 Fourth Quarter and Year End Earnings Call

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CORPORATE PARTICIPANTS

Tony Jensen - *President, CEO*

Mark Isto - *VP, Operations*

Stefan Wenger - *CFO, Treasurer*

Bill Heissenbuttel – *VP, Corporate Development*

Bruce Kirchhoff - *VP, General Counsel and Secretary*

Karli Anderson

PRESENTATION

Operator
Good afternoon and welcome to Royal Gold's Fiscal 2016 Fourth Quarter and Year End Earnings 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) on your telephone keypad; to withdraw your question, please press star (*) then two (2). Please also note that this event is being recorded.

I would now like to turn the conference over to Karli Anderson. Please go ahead.

Karli Anderson
Thank you, Operator. Good morning and welcome to our discussion of Royal Gold's fourth quarter and full year 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; Mark Isto, VP, Operations; Stefan Wenger, CFO and Treasurer; Bill Heissenbuttel, VP, Corporate Development; and Bruce Kirchhoff, VP, General Counsel and Secretary.

Tony will open with an overview of the quarter, followed by Mark with an operational update and Stefan with a financial update. After management completes their opening remarks, we'll open the line for a Q&A session.

This discussion falls under the Safe Harbor provision of the Private Securities Litigation Reform Act. A discussion of the Company's current risks and uncertainties is included in the Safe Harbor and cautionary statement in today's press release and slide presentation and is presented in greater detail in our filings with the SEC.

Now I will turn the call over to Tony.

Tony Jensen
Good morning and thank you for joining the call. Today I'd like to focus our discussion on the excellent fourth quarter results, but I would first like to reflect a bit on the fiscal year. Fiscal 2016 was a year of peaks and valleys. We closed $1.4 billion of new investments in the first fiscal quarter at a point in the gold price cycle that we viewed favorably. These new investments at Andacollo, Pueblo Viejo, Wassa and Prestea are already among our top five revenue producers and we look forward to Rainy River's contribution in about a year.

We then turned our attention to liquidity concerns at Thompson Creek for much of the remainder of the fiscal year to protect our investment at Mount Milligan. We were very pleased with the outcome of those efforts and I'll speak more about that later.

The fiscal year was also of two minds with regard to gold market sentiment. The gold price experienced a six-year low in December, only to be followed with renewed market appreciation for the safe haven and strong currency characteristics of gold in calendar 2016. While the path was not linear, from the start to end of the fiscal year we delivered on our corporate objectives of providing shareholder exposure to growth, quality and opportunity.

Now focusing on the quarterly results, I'll begin on slide 4. We can also apply the objectives of growth, quality and opportunity to the quarterly results. We recorded solid growth across all our

financial metrics. Our new investments are now fully integrated into our financial results, with the first recorded sale of silver from Pueblo Viejo during the quarter. The new business added, in fiscal 2016, contributed about 25% of revenues during the quarter.

We have often said good mines get better and we have a lot of embedded opportunities in the portfolio that are worth noting. For example, Mount Milligan is already one of the lowest cost copper mines in the world, but there is room for improvement. We look forward to Centerra Gold's ownership of the asset and their plans to evaluate opportunities to boost gold and copper recoveries. Similarly, at Peñasquito, Goldcorp reported that it will move forward with the Pyrite Leach Project, which is expected to increase annual gold and silver production.

At Pueblo Viejo, Barrick plans to commission a tailings expansion prefeasibility study in the second half of the calendar year, which could move a significant portion of the nearly 8 million ounces of gold and 45 million ounces of silver in measured and indicated resources to reserves. And at Wassa and Prestea, Golden Star began stoping at the Wassa underground deposit, which will supplement volume from the open pit.

We look forward to additional exploration in both Wassa and Prestea, which we believe will result in increased mine lives at both operations. The mines I just mentioned contributed about 60% of our revenue during the quarter, so any improvements have the potential to be important to the Company. And, of course, the beauty of the business model is that we don't have to commit any additional capital for these potential enhancements.

After a very active year from a business development standpoint, our liquidity position continues to strengthen. We paid down another $25 million of our revolver during the fourth quarter. We currently have the liquidity of over $500 million in strong cash flow. Stefan will speak more about liquidity and other financial matters in just a moment.

Turning to slide 5, we reported another quarter of double-digit growth in our financial results. Revenue of $94 million is an increase of 28% over the prior year. The out-performance is driven by streaming revenue from Andacollo, Pueblo Viejo, Wassa and Prestea. These assets offset lower than budgeted revenue at Mount Milligan, Peñasquito, as well as our first quarter without Voisey's Bay revenue.

We anticipate Vale will continue to deduct costs from our royalty that are the subject of litigation. As such, we do not expect any Voisey's Bay royalty revenue until the litigation is resolved.

Our streaming business drove substantially higher net gold equivalent ounces, which were up 21% and contributed in part to 38% higher reported earnings. Operating cash flow increased 12% and we continued our 16-year tradition of paying a growing a sustainable dividend, with an increase of 5% over the year ago quarter.

We also built inventory during the quarter, totaling about 20,000 ounces of gold and 324,000 ounces of silver with a current market value of $33 million. This compares to an inventory market value of $18 million at the end of the March quarter.

Turning to slide 6, we highlight Centerra Gold's proposed acquisition of Thompson Creek Metals. Those two companies announced the plan of arrangement agreement on July 5th and we hosted a conference call later that day in support of the transaction. Centerra and Thompson Creek indicate they expect the deal to close in the second half of 2016. Royal Gold executed a binding letter agreement with Centerra that calls for our stream agreement to be

amended. Our amended agreement includes both gold and copper production from Mount Milligan and is designed to be value neutral to Royal Gold. We believe the Centerra transaction of Thompson Creek Metals is an excellent outcome for all stakeholders.

As I highlighted in the previous slide, we welcome Centerra Gold's focus, gold focus and are excited to hear about their plans for Mount Milligan. Specifically, Centerra is talking about opportunities to increase gold and copper recoveries by adding additional flotation capacity, expanding regrind capacity, developing a geo-metallurgical model and leaching the flotation tails. We certainly support these efforts.

Onto slide 7, we developed a pro forma comparison of the amended gold and copper streams versus the current gold only stream. To recap, the current stream is for 52.25% of the gold for a payment of $435.00 an ounce. The amended agreement will be 35% of the gold at the same $435.00 per ounce payment. It will include 18.75% of the copper at a payment of 15% of the spot price for each ton delivered. This is the same information we provided in our call on July 5th.

It's important to note that this modified stream will be applicable to production after the closing date of the transaction. There is about a five-month lag between concentrate shipment and final settlement. So we would expect that we will start receiving deliveries of the gold and copper under the new amended agreement, starting approximately five months after the Centerra Thompson Creek deal closes. Until then, the current stream agreement continues.

As I mentioned earlier and as presented on this slide, we expect the amended stream to be value neutral to Royal Gold on a discounted cash flow basis at consensus gold and copper prices. I will now turn the call over to Mark to provide more details on our operations.

Mark Isto
Thanks, Tony. We're now turning to slide 8. Pueblo Viejo is our third largest source of revenue and one of the world's most prolific mines. We're pleased to see that Barrick reiterated its full year 2016 production guidance of 600,000 to 650,000 ounces of gold. During the quarter, we saw improved gold recoveries due to more favorable ore types being processed and silver recovery improving to 60% through process enhancements.

Turning to slide 9, we're pleased to see that $420 million Peñasquito Pyrite Leach Project was recently approved by Goldcorp's Board. Goldcorp states that the Pyrite Leach Project is expected to recover approximately 40% of the gold and 48% of the silver currently reporting to tailings. And we will add, incrementally, annual gold production of between 100,000 and 140,000 ounces and between 4 million and 6 million ounces of silver.

All permits are in hand for construction to commence next month, with a forecast for commercial production from the Pyrite Leach Project in the first quarter of 2019. Royal Gold has a 2% Net Smelter Return royalty on all metals produced from Peñasquito.

On slide 10, we are actively monitoring underground development at Wassa and Prestea through monthly operational updates and quarterly site visits. Last month, Golden Star announced that it began stoping at the mid-grade F Shoot area in its Wassa underground deposit using long-haul open stoping and plans to access the higher grade B Shoot in early 2017.

Underground development rates at Wassa continue to trend upwards and currently average 10

to 12 meters per day. The underground projects are scheduled to contribute to production beginning in late this calendar year from the Wassa underground and in mid-2017 from the Prestea underground. Golden Star expects 2016 gold production of 180,000 to 205,000 ounces, which includes 20,000 to 25,000 ounces coming from the Wassa underground project. The new sources of underground ore at Wassa and Prestea will increase annualized production levels to an estimated 240,000 ounces once in full production.

Finally, I'll wrap up my comments with a brief update on Rainy River presented on slide 11. New Gold estimates the construction is 40% complete at Rainy River and they continue to target first production in mid-2017. Royal Gold has invested $100 million in the project to date and our second and final investment of $75 million is scheduled to occur once the project reaches a spending level of 60% of the estimated cost at completion, which is expected to occur near the end of the third or the beginning of the fourth calendar quarter of 2016.

New Gold states that they continued to make good progress with respect to the challenges encountered at the water management and tailings management facilities. New Gold submitted revised construction designs for the water management facility and they anticipate receiving the permanent amendments to begin remedial work in the coming weeks. New Gold also plans to submit its final designs for the tailings management facility by mid-August and expects final approvals early in the fourth calendar quarter.

I'll now turn the call over to Stefan.

Stefan Wenger
Thanks, Mark. On slide 12, I have summarized a few of our financial highlights. As Tony mentioned, fourth quarter revenue of $94 million was up nearly 30% from a year ago, based on increased volume and a 6% increase in the gold price. DD&A was approximately $470.00 per GEO for the quarter, resulting in a full year rate for fiscal 2016 of $460.00 per GEO. Looking forward to fiscal 2017, we expect that DD&A per GEO will be between $450.00 and $500.00.

For the fourth quarter, our effective tax rate was about 22% and for the full year, our normalized effective tax rate was approximately 20%. We utilized our strong operating cash flow to repay another $25 million of debt and to distribute $15 million in dividends during the quarter. Our current liquidity of over $500 million includes about $140 million of working capital, plus $375 million of revolver capacity.

Our remaining commitments include $75 million to New Gold for Rainy River and $30 million to Golden Star for Wassa and Prestea. We expect to fund the balance for Rainy River around the end of September and the balance for Wassa and Prestea with $20 million in October and the last $10 million in January of 2017.

While we have been focused on paying down our revolving credit facility over the past few quarters, during the next couple of quarters, we expect that debt repayments will cease while we fund our remaining commitments. We expect to resume paying down the revolver during calendar 2017. I'll now turn the call back over to Tony.

Tony Jensen
Thanks, Stefan. We're very pleased with the quarterly results and the significant investments that we made to the portfolio over the last fiscal year. We are focused externally again, and we will continue to look for opportunities that will provide our shareholders exposure to quality assets with upside potential.

On slide 13, I will leave you with our vision and strategy that we shared at our Investor Day. We don't need to be the largest company in our business, but we do want to be the most valuable. We believe the results that we have delivered today, strong financial and operational growth, combined with the potential for expansion at several properties at no cost to Royal Gold, are certainly consistent with that goal.

Operator, that concludes our prepared marks and we'll be happy to 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 (1) on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2). At this time, we will pause momentarily to assemble our roster.

Again, if you have a question, please press star (*) then one (1).

Our first question comes from Mike Jalonen from Bank of America. Please go ahead.

Mike Jalonen
I guess I've been called worse, Tony.

Tony Jensen
Yes, Mr. Jalonen, we know who you are.

Mike Jalonen
Yes, just calling on Voisey's Bay there. So you basically said it, no revenue until the litigation is resolved, which we saw there in the fiscal quarter. What is the timeline for this being resolved and is Vale accruing the money that will be owed to you? Are they keeping it in a separate account, assuming they lost? That's my question.

Tony Jensen
Yes, Mike, let me just start with the latter first. I think that's a question you have to ask Vale, I don't think we have that transparency in how they're going to account for this. But, as you know, we've been very active in our position that we think that the deductions that they're making are inappropriate, essentially turning an NSR into an NPI-type royalty. So we feel very strongly about it and we're defending ourselves very actively.

We have gone through a lot of the litigation process already from a discovery standpoint and we're going to be thorough and dedicated and we think that the schedule that's before the court now would call for a trial somewhere in the very early part of 2018. So that's the guidance that we would give that, until we have clarity from the court, that we should not be or you should not be expecting any revenue to be in our financial results on a quarterly basis.

Mike Jalonen
How long before this court would make a decision, do you think? Or is that just up in the air?

Tony Jensen
Yes, I'm looking at Bruce Kirchhoff, our General Counsel, and he's not able to make a prediction

there. But certainly, it would take some time after the hearing that happens.

Mike Jalonen
Where would the hearing be held? What court?

Tony Jensen
Yes, it'd be in St. John's.

Mike Jalonen
I'd better book my ticket. Okay, well thanks. Good luck.

Tony Jensen
Thanks, Mike. Thanks for the question.

Operator
Our next question comes from Lucas Pipes of FBR & Co. Please go ahead.

Lucas Pipes
Hey, good morning, everybody.

Tony Jensen
Good morning, Lucas.

Lucas Pipes
So, Tony, if I understood you correctly there in your closing remarks of your prepared remarks, I think you mentioned, "Looking externally again." I was hoping if you could maybe define this a little bit more narrowly in terms of size, location, timing. I would appreciate your thoughts on that subject.

Tony Jensen
Yes, I'll be very, very general on that, Lucas. As you can imagine, we don't comment on any specifics with regard to business development, but we had wanted to keep our powder dry during the course of the first part of this calendar year, I should say, until we got clarity on the Mount Milligan situation. We think there's obviously a good result there. We never left the business development space. Bill and his team were active in monitoring and watching all things that were coming across the space.

But we are now in a position where we think that Mount Milligan is such that we can look for new opportunities. We've said that we have over $0.5 billion in liquidity and, certainly, a transaction the size of several hundred million dollars would be of interest to us.

Lucas Pipes
That's helpful and at the same time, I think you also would like to grow the dividend. Broadly speaking, do you have a preference of one over the other or are they not even mutually exclusive?

Tony Jensen
Yes, we think a good company ought to do both and that's exactly what we're striving to do. We've been able to do that over the last 16 years and that would certainly be the focus of our board and our management team.

Lucas Pipes
Very helpful, I appreciate your thoughts. Thank you.

Tony Jensen
Thanks, Lucas.

Operator
Our next question comes from Andrew Kaip of BMO. Please go ahead.

Andrew Kaip
Good morning, Tony.

Tony Jensen
Good morning, Andrew.

Andrew Kaip
Look, I'm just wondering, along the theme of the previous color, you also have some organic opportunities within your portfolio, and I'm just wondering what your view on some of those opportunities are. Probably the most significant would be Euromax and the Ilovitza project. Can you comment on how you see that developing and how that fits into that organic pipeline?

Tony Jensen
Okay, Andrew, you're speaking softly or the line is softly, so just for the benefit of the rest of the callers, let me try to paraphrase what I think you said and you can correct me if that's not quite right. But you're talking about other capital commitments we have within the Company and, specifically, I think you were talking about the Ilovitza project and there we have an option to put $160 million into the construction of the project to get 25% of the gold. Before I go on and answer that, is that a proper paraphrase of your question?

Andrew Kaip
Well done.

Tony Jensen
Okay. So yes, Stefan spoke about what we have yet to deliver on our Rainy River transaction, that's $75 million. Mark mentioned sometime near the end of September, plus or minus whatever, we'd expect to pay out the other bit. And then we have $30 million left on Wassa/Prestea. So those are easily handled out of cash flow.

I think the one that you're most focused on, Andrew, is the $160 million from Ilovitza. First of all, we don't have a schedule where we could time that. There are still some deliverables that they have to achieve before we would ever get serious about putting a timeframe around that. But moreover, we look at that as a complete option. We'll look at it, at the time, if it makes sense to us to invest, we will. So that's one that we don't put quite in the same category as Wassa/Prestea and Rainy River.

Andrew Kaip
All right, at the same point in time, it does represent an opportunity for your company and I'm just wondering, what is your current thinking about moving, well, what is your current thinking about how that's going to develop?

Tony Jensen

Yes, we're getting into the areas where we're just not able to provide detail and comment on that specificity. But all I can give you is just a general statement to say that, as in any business opportunity, we'll look at that at the time it comes into us and we'll make our decision based on the facts on the table at that time.

Andrew Kaip
All right, thanks very much.

Tony Jensen
Thanks, Andrew.

Operator
Our next question is a follow-up from Lucas Pipes of FBR & Co. Please go ahead.

Lucas Pipes
Hey, thank you very much for taking the follow-up question and it's a broad industry question. Tony, you're extremely well connected across the gold space and I was wondering how is the industry looking at production growth right now?

Prices have had an exceptional run this year. Is there a sense of urgency to add production back? Or folks, based on the more recent experience, you mentioned December was the low, are they still more hesitant to add production again? I would appreciate your big picture thoughts on that.

Tony Jensen
Well, let me speak to my thoughts only and not put my opinion upon any producer out there. But I think this industry is one that's hungry for margin. We certainly have seen some escalating gold price over a number of years that really didn't lead to margin expansion. We saw production expansion during that period of time. So I think there'll be a natural tendency for people to be looking for margin expansion. We're seeing some the larger companies that are starting to right-size, would be my words, not theirs, right-size their portfolio for sustainability and all that makes good sense to me.

Lucas Pipes
And does that, I want to say attitude or approach to this market, does that reduce the set of opportunities in your opinion? Or how would you say it impacts Royal Gold's strategy, if at all?

Tony Jensen
Yes, the kind of projects that we're going to be interested in are going to be the higher-quality projects and I think there'll still be opportunity for us in those areas. But today, I think the biggest opportunity for Royal Gold would be more on the base metal side where there are still balance sheets that are stressed and that market hasn't come back as much as gold and silver have in the recent six months or so.

So I think, and that's just a natural for us. That's the place where we can get assets that are very long-lived. It's a natural arbitrage between us and the base metal companies. They covet the base metal, we covet the precious metal. So that's really, I think, where the future of our business lies, at least in the near term.

Having said that, we will not give up on opportunities that might be in the precious metal producer space either.

Lucas Pipes
And just to clarify, when you say base metals, would you do royalties or streams on base metal operations but only underwrite the precious part of it? Or would you look at, essentially, copper, zinc mine, et cetera? If you could clarify that, I would appreciate it.

Tony Jensen
Lucas, thank you for putting that question back, because I don't want to miscommunicate here. We're very much looking for base metal mines with precious metal byproducts, and we really only desire the precious metals.

Lucas Pipes
Perfect. Great. Thank you very much.

Tony Jensen
Thanks, Lucas.

Operator
Our next question comes from Shane Nagle of National Bank. Please go ahead.

Shane Nagle
Thanks, Operator. Thanks for taking my question guys. Stefan, just real quickly on the accounting treatment for Voisey's Bay here, going forward, will you just be booking the receivable for your expected revenue over that time period, maybe offset by the liability related to the Labrador tax? Or is there some different form of treatment there given the ongoing litigation?

Stefan Wenger
Sure, Shane, thanks for the question. Actually, for the last three quarters or so, we've just been booking the Voisey's Bay royalty on a cash basis. So we are not booking any revenue or expected revenue on an accrual basis for Voisey's Bay. We're just booking cash when it's received and that's been the case for all of this fiscal year. So until we got better clarity or we started receiving payments, we will not have any revenue or accrued revenue for Voisey's Bay.

Shane Nagle
And the same goes for the tax liabilities, as well, I'm assuming?

Stefan Wenger
That's correct.

Shane Nagle
Okay, so it will be some sort of cash settlement in 2018 or 2019 or whenever that's settled?

Stefan Wenger
Yes, we really wouldn't have any accounting until we receive some cash or the litigation was settled in some way.

Shane Nagle
Okay and then, Tony, maybe real quick just on the Rainy River, the tailings management facility. The timeline there with their revised plan, does it give you any pause on their expected time line? Or maybe asked another way, now that Mount Milligan is resolved, is there anything was

in the portfolio that maybe gives the team there a little bit of concern, going forward?

Tony Jensen
Well, I was going to ask Mark to answer that question until you broadened it right there [multiple voices] and I'm just searching through my mind. Our portfolio is running very, very well right now, so not anything that we would have had concerns on, we would've guided the market to that would be material, so nothing on that standpoint.

You know that the management team is focused on the Voisey's Bay litigation and has been. We're not taking our eye off the ball, but Bruce is working on that. And with regard to Rainy River's construction there, we're very much focused on a quality project over the long term and we have encouraged and we didn't really need to emphasize this to New Gold because they know how to do things right. We want to make sure that they take the time and get the skills and resources they need to build a quality project for the next decade and a half or two decades. So we're quite comfortable with how that's coming together, Shane.

Shane Nagle
Great, thanks, guys.

Tony Jensen
Thanks very much.

Operator
Again, if you have a question, please press star (*) then one (1).

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

CONCLUSION

Tony Jensen
Well, thanks, Operator, and thank you for joining the call today. We surely appreciate your interest and continued support of Royal Gold and we'll look forward to updating you on our next quarterly conference call. Thanks, everyone.

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