Royal Gold

Fiscal 2019 Full Year and Q4 Conference Call

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CORPORATE PARTICIPANTS

Alistair Baker – *Director of Business Development*

Tony Jensen – *President and Chief Executive Officer*

Mark Isto – *Vice President Operations*

Bill Heissenbuttel – *Chief Financial Officer and Vice President Strategy*

Dan Breeze – *Vice President Corporate Development of RGLD*

Bruce Kirchoff – *Vice President General Counsel and Secretary*

PRESENTATION

Operator
Good day and welcome to the Royal Gold, Inc. Fiscal 2019 Full Year and Fourth 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. To ask a question, press*, then 1 on your touchtone phone. To withdraw your question, press*, then2. Please note today's event is being recorded.

I would now like to turn the conference over to Alistair Baker, Director of Business Development. Please, go ahead.

Alistair Baker
Thank you, Rocco. Good morning and welcome to our discussion of Royal Gold's Fourth Quarter and Fiscal Year 2019 Results. This event is being webcast live, and you will be able to access a replay of this call on our website. Participating on the call today are Tony Jensen, President and CEO; Bill Heissenbuttel, CFO and Vice President Strategy; Mark Isto, Vice President, Operations; Dan Breeze, Vice President, Corporate Development of RGAG; and Bruce Kirchhoff, Vice President General Counsel and Secretary.

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 of today's press release and slide presentation and is presented in greater detail in our filings with the SEC. Tony will give you an overview of the fiscal year, followed by Mark with an update on recent developments in our operating portfolio. Bill with then provide a financial update on the quarter and Tony will wrap up the call with some closing comments. We'll then open the lines for a Q&A session. Now I will turn the call over to Tony.

Tony Jensen
Good morning and thank you for joining the call. I will begin on slide 4. Fiscal 2019 was a successful year for Royal Gold on several fronts. We adopted the theme: Solid, Steady, Successful for fiscal 2019, and I'm pleased to report that our financial, operating and business development activities during the year reflect that theme. The overall operating performance was strong achieving production volume for the year of 335,000 gold equivalent ounces. Our financial performance was solid generating revenue for the full year of $423 million with 78% coming from gold and operating cash flow of $253 million. Earnings for the full year were $94 million, or $1.43 per share.

We used strong cash flow to strengthen the balance sheet and reduce debt by $150 million during the year. We extended our credit facility on more favorable terms and currently have approximately $900 million of liquidity available, which positions us well to take advantage of business development opportunities. We raised our dividend for the 19th straight year, which is now $1.06 per share on a calendar year basis.

We resolved the dispute regarding the calculation of the royalty at Voisey's Bay during the first fiscal quarter and are pleased to have this world-class asset back and contributing revenue, particularly given Vale's plans to extend the mine life through 2034.

We added the high-quality, long-life Khoemacau development project to our stream portfolio during the third fiscal quarter. The project developer, Cupric Canyon Capital, expects the project will begin production in mid-2021 and operate for a 21-year mine life. We have a streamline on 80% of the payable silver from this project, which may be increased to 100% at Cupric's election. Cupric has completed project financing, and construction is well underway. Mark will provide a further update on the project progress in his remarks.

As you can see, this is a solid, steady, and successful year, but we also faced some headwinds at a couple of our principal properties. Water restrictions during the winter caused throughput reductions at Mount Milligan in the third and fourth fiscal quarters, and a blockade at Peñasquito caused the temporary operating shutdown during much of the fourth quarter.

Metal prices also caused some negative pressure on revenues with the 3% lower gold price and a 20% lower copper price compared to 2018, although the silver price is about 7% higher year-over-year. I'm pleased that each of these issues improved by fiscal year-end. Mount Milligan is achieving throughput in recovery targets. Peñasquito is back in full production, and community dialogue is ongoing. Gold has begun to display its value as a macroeconomic insurance.

I'll now turn the call over to Mark and discuss some of the activity at Khoemacau, as well as development at some of our key producing properties.

Mark Isto
Thanks, Tony. Starting on slide 5, I'd like to briefly mention some of the recent developments at Khoemacau. Cupric announced last month that they closed the project financing with the addition of the final $85 million of equity, $70 million which came from Resource Capital and $15 million from GNRI, the project sponsor. In addition to our investment and other sources of financing available, Cupric now has a total of $650 million available for project development, debt repayment, and working capital, all from experienced finance providers mining industry.

Cupric has been actively advancing the project, as you can see in the photos. The top photo shows the President of Botswana at the groundbreaking ceremony on June 28. The next photo shows one of the three boxcut excavations for the mine portals and the bottom photo shows progress on the pipeline to the Haka well field, one of the water sources for the project.

Cupric has reported that there are almost 700 workers on-site, and about 7.8% of the project capital has been spent since the beginning of calendar 2019. Although the project advance has been tempered by a slightly longer close for the project financing than anticipated, the five-year underground mining contract was awarded to Barminco, who is currently mobilizing to start work in December. We just completed a site visit last month and are pleased with the quality of the project team, the support being provided by Fluor and Cupric's overall progress on the project.

Moving to slide 6, I'd like to discuss some of the recent developments at several of our key operating properties. As Tony mentioned, at Mount Milligan, Centerra has started to access newly permitted water sources in April, and spring melt water allowed milling operations to return to full capacity in May. Centerra reported that mill throughput ramped up quickly and averaged over 53,000 tonnes per day for

the quarter with an average throughput of 60.6 thousand tonnes per day in June. Due to the usual time difference between the production at Mount Milligan and the receipt of stream deliveries, we expect the mill throughput increase will be reflected in stream deliveries approximately five months later, likely in our second fiscal quarter of 2020.

While we are pleased to see this improvement, we also note that Centerra has reported hot and dry weather again this summer and that water captured from spring runoff was less than anticipated. Centerra has maintained a focus on finding new, supplemental water sources and reported some interesting results from groundwater exploration in areas within a couple of kilometers of the tailing site.

In one of these areas, they believe they've encountered an aquifer, and while engineering is ongoing, Centerra has applied for licenses to draw water by the beginning of October. Centerra has cautioned that if additional groundwater sources are not available and/or dry weather conditions persist in the second half of the calendar year, Mount Milligan production may need to be managed in the first calendar quarter of 2020 to conserve water resources until the 2020 spring melt.

Despite the current dry conditions, Centerra expects the previous production guidance of 155,000 ounces to 175,000 ounces of gold and 65 million to 75 million pounds of copper for calendar 2019 will be achieved.

Now turning to Rainy River, operating performance continued to improve this quarter. New Gold reported the mill achieved throughput, recovery and availability targets with production of 66,000 ounces of gold and 66,000 ounces of silver for the quarter. Throughput for the quarter averaged 21,000 tonnes per day and reached 24.2 thousand tonnes per day in June, while plant availability averaged 88% for the quarter and 93% for June. Gold recovery also improved to 93% for the quarter with ongoing circuit optimizations.

Lowergrade ore was mined during the quarter as operations continued the planned transition from Phase 1 to Phase 2 of the open pit. Milled grades are expected to be lower for the second half of the calendar year as Phase 1 is depleted and mining operations shift to Phase 2. Work is continuing on a comprehensive mine optimization study to increase cash flow generation and New Gold expects to complete an updated life of mine plan in the fourth quarter of the calendar year. New Gold expects that full 2019 calendar year performance will meet the previous annual guidance of between 245,000 ounces and 270,000 ounces of gold.

Continuing to slide 7, I'll provide some comments on Peñasquito and Wassa. Operations at Peñasquito resumed on June 17th after dialogue with the blockade leaders restarted in a process sponsored by the Mexican federal government. Newmont Goldcorp has reported that operations ramped back up in June and concentrate inventories are not back to normal. Our royalty revenue for the quarter was significantly impacted as a result of the blockade, and we're pleased to see the operation has returned to normal levels.

Newmont Goldcorp also announced that Peñasquito is the first of the Goldcorp operations to go through the full potential program, and a team of experts have been on-site working with the operations team. So far, the interface between the mine and the mill has been defined as a particular area of

focus. We expect that the benefits of this program should be seen in the 2020 Peñasquito business plan, and we look forward to incremental improvements that are identified.

With respect to production, Newmont expects that for the remainder of the calendar 2019 and into calendar 2020, mined grade will steadily improve as stripping in the Penasco pit is completed. Newmont Goldcorp's forecast for calendar 2019 production from April 18th onwards is 165,000 ounces of gold, 25 million ounces of silver, 180 million pounds of lead, and 245 million pounds of zinc.

Now I'll turn to Golden Star. You'll note that we've started to break out our disclosure for Wassa separately from Prestea this quarter, as Golden Star's successor, Wassa, has made a relatively more material asset with our portfolio compared to Prestea. Starting with exploration, recent results reported by Golden Star have been positive at Wassa, Prestea, and Father Brown satellite deposit. Subsequent to the quarter-end, Golden Star announced significant mineralization has been identified in Wassa, down plunge to the south at the existing resource, demonstrating extensions of the deposit, and further drilling will be completed in the current quarter to update the year-end reserve and resource statements.

At Father Brown, Golden Star reported attractive drill results and has paused drilling to update the mineral resource model during the third calendar quarter and determine if a viable underground mining project exists for Father Brown. At Prestea, Golden Star also reported initial high-grade extension drilling results from the underground, and results confirmed ore body extensions to the north of the current reserves. The exploration program for the third calendar quarter of 2019 will focus on further delineation drilling of the mineralization in this area as well as definition drilling between the 17 and 21 levels.

With respect to operations this quarter was more challenging for Golden Star. At Wassa, the biggest negative impact for the quarter was the mining of unexpected low-grade material on the hanging wall stokes in Panel 1. While Golden Star is investing to accelerate development and increase definition drilling to be able to manage the future grade profile, they expect the grade for the areas to be mined near term will be lower than originally planned and below the overall average reserve grade.

As a result, production in the second half of calendar 2019 is forecast to be marginally lower than during the first half of the year. The production guidance at Wassa for the full calendar year has been reduced to between 150,000 ounces and 160,000 ounces.

At Prestea, the previously announced operational review by CSA Global identified a range of issues affecting operational performance causing low mining rate, excessive dilution, and higher cost. Golden Star has taken immediate steps to address key items identified and is forecasting that operating performance in the second half of calendar 2019 will be similar to the first half and full year guidance will be reduced from 40,000 ounces to 45,000 ounces.

With regards to our investment, we've recovered approximately 60% of our initial advanced payment with respect to Wassa and Prestea, and in our opinion, the production profile and exploration upside good or better today than at the time of our original assessment.

I will now turn the call over to Bill to discuss our financial results.

Bill Heissenbuttel
Thanks, Mark, I'll turn your attention to slide 8 and give an overview of the financial results for the quarter. I will be comparing our quarterly results to the comparable quarterly period in fiscal 2018. I'll start with a high-level summary of three key measures: revenue, earnings and cash flow.

Revenue this quarter was $115.7 million, and volume was 88,400 gold equivalent ounces, which are both in line with the fourth quarter of fiscal 2018. Metal prices had a negative effect this quarter, and, although gold was relatively unchanged, silver was down 10%, and copper down 11%. Net earnings attributable to Royal Gold common shareholders was $26.5 million, or $0.40 a share in line with the prior year quarter.

As we have been reporting since July 1, 2018, we mark-to-market our equity investments every reporting period, and this quarter we recognized a $3.5 million non-cash charge. Net income, excluding this non-cash charge, was $29.5 million, or $0.45 per basic share net of tax.

Cash from operations was approximately $72.3 million, down from $77 million in the prior year quarter, primarily due to higher cash taxes paid this period. Returning to the income statement, I note that while total revenue was consistent compared to last year, the temporary shutdown of Peñasquito caused the relative contribution of revenue from our stream and royalty businesses to change significantly this quarter.

With the lower royalty revenue primarily from Peñasquito, approximately 78% of revenue came from our streamsegment compared to 72%. This has implications for our cost of sales and depreciation. Because our cost of sales is specific to our stream business, a higher relative stream revenue resulted in a 7% higher cost of sales, even though total revenue was lower. We expect that the revenue mix should return to more typical levels, now that Peñasquito has resumed full production.

Similarly, DD&A expense rose to $479 per gold equivalent ounce, as streams are newer assets and typically have a higher per metal unit depletion charge than our more mature royalty portfolio.

G&A expense for the quarter decreased to $6.4 million down from $10.9 million. The prior year quarter included G&A spending on the Vale litigation, which has subsequently been resolved, and our recent G&A expense levels are more representative of our typical spending on overhead.

We incurred exploration expense for the quarter of approximately $650,000 for our share of continued work at Peak Gold to support permitting activities. While this is a relatively low expense, our low share account makes this worth approximately $0.01 per share.

Our effective tax rate for the quarter was 19.4% and the full year rate was 16.4%, which is lower than the 18% to 22% guidance I provided on the last quarterly call. The full-year tax rate was lower than forecast, mainly because we received a smaller contribution of revenue from higher tax jurisdictions than what we expected, mostly due to the Peñasquito shutdown and lower revenue fromMulatos.

With respect to inventory, at the end of June, we held approximately 32,000 GEOs in inventory. This was a bit higher than my guidance on the last quarterly call and is due to the variability we sometimes see in concentrate settlement dates, with respect to Mount Milligan and Andacollo.

As we have noted previously, we expect the September quarter's stream volume to be less due to the Mount Milligan production restrictions during the March quarter. As such, we anticipate stream segments sales to be approximately 60,000 gold equivalent ounces, based on our forecast deliveries, and inventory levels between 20,000 to 25,000 GEOs at the end of the September quarter. We also expect to increase our exploration activities at Peak and anticipate our share of the expenses to be in the range of $1.4 million to $1.6 million in the September quarter.

I'll now turn to slide 9 and finish my comments with a summary of our financial position and liquidity. Our liquidity remains strong at the end of the quarter. We ended June with cash of $119 million and working capital of $121 million. We drew $220 million on a revolving credit facility to partially fund the repayment of our $370 million of convertible bonds, which leaves undrawn an available capacity of $780 million on a revolver.

The combination of our working capital in the undrawn revolver provides us with total liquidity of about $900 million. The only significant near-term funding commitment is our investment in the Khoemacau project which we expect to begin funding in late calendar 2019. We believe that we'll fund approximately $60 million toward the end of this calendar year, $125 million in calendar 2020, and the remainder in early calendar 2021, all on a quarterly installment basis as the project development advances.

The convertible notes we issued in 2012 provided us with a key piece of low cost capital that helped finance our acquisitions in 2015, which were completed without equity dilution. Going forward, we will continue to focus on growing the company out of cash flow to the greatest extent possible. We're also comfortable accessing reasonable amounts of low-cost debt when appropriate which is the role of our current credit facility. During the quarter, we extended the maturity of that facility by two years to June 2024 and achieved a modest reduction in our borrowing costs. And we certainly appreciate the continued strong support of the commercial banks that make up our syndicate.

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

Tony Jensen
Thanks, Bill. I'll conclude on slide 10. Fiscal 2019 was another solid and steady year for Royal Gold, and we successfully executed on several strategic objectives. We turned in a strong financial performance, and we finished the year with a stronger balance sheet, higher dividends, continued access to liquidity for future transactions, Voisey Bay contributing revenue to the portfolio again, and high-quality Khoemacau growth project added to the portfolio. Royal Gold is very well positioned, and we have the right team in place with the skills and depth required to capitalize on opportunities.

Rocco, that concludes our prepared remarks, and we'd be happy to open the line now for some questions if there are any.

QUESTIONS AND ANSWERS

Operator
Yes, sir. Thank you. We will now begin the question-and-answer session. To ask a question, you may press*, then 1 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 the*, then2. At this time, we will

pause momentarily to assemble our roster. Once more, ladies and gentlemen, just as a reminder, that's*, then 1 if you'd like to ask a question. Please hold while we poll for questions.

Today's first question comes from Tanya Jakusconek of Scotia Bank. Please go ahead.

Tanya Jakusconek
Good morning, everybody. I just wanted to ask some guidance questions if I could for the new fiscal year, maybe just on taxes and depreciation levels.

Tony Jensen
Yes. Tanya, we're going to do that probably after our first fiscal quarter. I just like to give our team a chance to see how the early part of the year developed, so we'll deal with that on the next quarterly call.

Tanya Jakusconek
Okay. Maybe then, Tony, on to you for just what you're seeing out there with the move in the gold price. Do you see gold opportunities at this point?

Tony Jensen
Tanya, first of all, I'd like to have more of the team be heard from, so let me just turn to Dan Breeze, who's in our Zug office, and ask him to comment on what he's seeing there. He's leading that initiative for us.

Tanya Jakusconek
Great. Thank you, Dan.

Dan Breeze
Hi, Tanya. Sure. So, we're seeing a pretty robust set of opportunities right now. We're looking at things that are coming into us, but also being proactive on the outgoing basis to be creative and look for those opportunities as well, and I say, despite the gold price move, therehave not been very many and certainly not very large equity raises to date. So, that means that Royal Gold has a pretty healthy basket of early-stage opportunities for us to review as well. We feel very good about the environment right now. We're very busy.

Tanya Jakusconek
In terms of the opportunities that you're seeing, is it more on the financing side? Is it in that $200 million to $300 million range that we previously talked about?

Dan Breeze
Yes, we're seeing those opportunities stll, Tanya, but also again, I think it goes back to the smaller opportunities that are still there for us. The equity has not really come through yet, and so we're also seeing earlier-stage opportunities. So, it's a pretty wide range across the spectrum that we're looking at right now, up to that $200 million to $300 million level.

Tanya Jakusconek
Okay. Great. Thank you so much.

Tony Jensen
Thanks, Tanya. Thanks for the questions.

Operator
Our next question today comes from Carey MacRury of Canaccord Genuity. Please go ahead.

Carey MacRury
Hi. Good morning, guys. Two questions for me, one on Peñasquito. Given that the mine just ramped up at the end of Q2, just wondering what the lag is between the concentrate production there and when you receive royalty revenue. Then, secondly on Cortez with the new Nevada JV, how do you see that Cortez Crossroads pipeline ramping up over the next year or so? Do you expect that to change at all?

Tony Jensen
Carey, let me ask Mark Isto to talk to Peñasquito, and then I'll probably jump in on some Cortez questions there.

Mark Isto As far as the Peñasquito question, we get receipts on shipments at the end of each quarter, so that's basically anything that they ship out during the quarter we receive notification on and royalty payment on in the following months after the quarter. Does that answer your question?

Carey MacRury
So, there could be about a one-month delay then?

Mark Isto
Yes. Well, we experience basically—we get the full quarter one month after the quarter. So, we get July—for the second quarter, it occurs in July.

Carey MacRury
Okay. Great.

Tony Jensen
In regard to the Nevada joint venture, Mark and I and another one of our colleagues, Rusty Craft, had a chance to go out to Cortez just a couple of weeks ago, I guess it was, Mark, and see that project maturing. Particularly, they were focused on Crossroads, and it was gratifying to see if memory serves the three out of the four, the significant loading units in the Crossroads pit. It's a very large pit. They're bringing it down methodically, and we're quite pleased that really all of the surface equipment, barring just one shovel and a set of trucks over on the west side of the pipeline area, they're bringing down a small sliver of bench there. Most all the rest of the equipment is over on our ground.

We asked a similar question to them, Carey, as to what you're asking of us I think now on just how might the Nevada joint venture benefit or impact our interests there, and we don't really see much of a difference. We think that the equipment that is there at Cortez is likely to stay and continue to produce ounces on Crossroads. And there's a big portion of Crossroads that goes to the heap leach pad, so it doesn't compete against the other ores coming into the Cortez Mill. There is a fraction that does go through the Cortez Mill, and we don't see any kind of other ores upsetting that in the near term.

So, we feel good that we have a project that now is in full swing at Crossroads, and we're continually meeting the new team as it comes through. We saw some new faces when we were out there, and we'll continue to foster those newer relationships.

Carey MacRury
So, do you see Crossroads contributing significantly more in the back half of 2019, or is that more of a 2020 timeline still?

Tony Jensen

Carey, I think what I'd just say is let this last month be a guide for the next couple of months until we get a little bit better understanding there. The new engineering team that's in place is doing a life of mine review on Crossroads, and they told us to expect that early in the new year. So, I don't want to get too far out ahead of any kind of prediction there, but, judging from the homogeneity of the deposit and the amount of equipment they have in there, I think there's a reasonable guide what we did this year is probably pretty good for the next quarter or two.

Carey MacRury
Okay. Great. Thank you.

Tony Jensen
Thanks, Carey.

Operator
Ladies and gentlemen, as a final reminder, if you'd like to ask a question, please press star, then one at this time.

Today's next question comes from Adam Graf of B. Riley FBR. Please go ahead.

Adam Graf
Thanks, guys. Actually, I wanted to also ask about Cortez, which you guys have just finished discussing. So, I think I'm good.

Tony Jensen
Great, Adam. Appreciate that, and I think, operator, that concludes the roster of questions that we have.

Operator
Yes, sir. That is correct.

CONCLUSION

Tony Jensen
Very good. Well, look, thank you very much for joining us today, and we appreciate your interest on discussing what we think is a pretty straightforward and solid quarter. We look forward to continuing that trend into our new fiscal year of 2020. We'll look forward to updating you on activities of the company in about three months' time.

Thanks very much for joining us.

Operator
Thank you, sir. Today's conference has now concluded. We thank you all for attending today's presentation. You may now disconnect and have a wonderful day.