Royal Gold, Inc.

Fiscal 2020 Full Year and Fourth Quarter Conference Call

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CORPORATE PARTICIPANTS

Alistair Baker - *Vice President Investor Relations and Business Development*

Bill Heissenbuttel - *President & CEO*

Paul Libner - *CFO & Treasurer*

Mark Isto - *Executive Vice President & COO*

PRESENTATION

Operator
Good morning and welcome to the Royal Gold, Inc. Fiscal 2020 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 your question you may press star then one on your touchtone phone. To withdraw your question please press star then two.

Please note this event is being recorded. I would like to turn the conference over to Alistair Baker. Please go ahead.

Alistair Baker
Thank you, Operator. Good morning and welcome to our discussion of Royal Gold's fourth quarter and Fiscal Year 2020 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 Bill Heissenbuttel, President and CEO, Paul Libner, CFO and Treasurer, and Mark Iso, Executive Vice President and COO.

Dan Breeze, Vice President Corporate Development of of RGAG and Randy Shefman, General Counsel are also available for questions.

During today's call we will make forward looking statements, including statements about our projections or expectations for the future. These statements are subject to risks and uncertainties that could cause actual results to differ materially from these statements. These risks and uncertainties are discussed in today's press release in our filings with the SEC. We will also refer to certain non-gap financial measures including adjusted debt income, adjusted debt income per share, and net debt.

Reconciliations of these non-gap financial measures to the most directly comparable gap measures are available in today's press release which can be found on our website. Bill will give you an overview of the fiscal year, followed by Mark with an update on our operating results. Paul will then provide a financial update for the quarter and Bill will wrap up the call with some closing comments. We'll then open the line for a Q and A session.

Now I will turn the call over to Bill.

Bill Heissenbuttel
Good morning. And thank you for joining the call. Before beginning, I would like to note that the Royal Gold team continues to manage its business remotely and as such our participants are in separate locations. We'll do our best to respond in a coordinated manner to any of your questions.

I'll begin on slide four. Fiscal 2020 was a very strong year for Royal Gold. Despite the most challenging external circumstances that any of us have seen before, we've realized annual records for revenue, operating cash flow, and earnings. Our revenue was $499 million, up 18% from Fiscal 2019. Gold equivalent ounce of volume was 320,000. Was down slightly from the prior year due mostly to the reduction in revenue at Andacollo that we have discussed previously and impacts from COVID-19 related production disruptions.

However, this volume reduction was offset by the significantly higher realized gold price that drove our revenue increase. Our gold weighted revenue stream was a significant beneficiary of the market fundamentals for our most important metal.

Earnings for the year were robust at $199 million, or $3.03 per share. After adjustments, earnings were $162 million, or $2.47 per share. Paul will go into more detail on the GEO volumes and earning adjustments in his remarks.

Operating cash flow was $342 million, up 35% from Fiscal 2019. This strong financial performance provided the funds to reduce net debt by $115 million, contribute $136 million to the Khoemacau project and pay dividends of $71.5 million, all without raising equity and diluting shareholders.

As of June thirtieth, our cash of $319 million exceeded the $305 million of debt outstanding under our revolving credit facility, leaving us in a very favorable net debt position. We also undertook a leadership change in January, and the transition to the new leadership team has gone very well especially in light of the highly unusual operating circumstances we have all found ourselves in during the past few months.

Our entire team has operated with great professionalism and dedication while managing the enumerable personal and family challenges everyone has had to deal with during the pandemic. All told, our business performed very well and we're in a great position as we start Fiscal 2021.

With that I'll turn the call over to Mark for a discussion of Khoemacau and a few other notable properties.

Mark Isto
Thanks Bill. On slide five I'd like to start with an update of the Khoemacau project in Botswana currently under development by Khoemacau Copper Mining, or KCM. As I mentioned in our last quarterly call, a sixth month state of emergency had been declared by the government of Botswana and travel restrictions came into effect on April second to help prevent the spread of COVID-19.

However, mining was declared an essential service. The restrictions remained in place through May twenty-first and while construction and mining development continued during that period some activities were curtailed, particularly with respect to the process plant refurbishment. Since then, construction manning and the activity level has largely returned to normal. However, after a review of the project schedule KCM now expects that shipment of first concentrate will be pushed out from mid-year to later in the third quarter of calendar 2021, a delay that is not unexpected in today's environment.

The delay notwithstanding, KCM has done an excellent job with advancing underground development and construction completion reached approximately 54% at the end of June with 81% of the capital committed. Slower progress in the quarter reduced our funding requirement below previous expectations and we made our fourth contribution to the advanced stream payment on July fifth of $11.1 million. We have now advanced approximately $147 million towards the project.

The photo on the slide shows an aerial view of zone five looking northeast with a south box cut in the foreground. The following three slides will provide a view on construction progress across the site. On slide six, the photo on the left shows a south box cut in early July. A view of the underground development and a photo on the lower right shows construction underway on the central box set infrastructure.

All three box cuts are the subject of active underground development, which has been advancing ahead of plan with a high level of quality being achieved by Barminco, the mining contractor.

Turning to slide seven, the photo on the left shows progress on the Administration area. And the photo on the right shows the zone five man camp area. Moving to the Boseto mill facility on slide eight, the photo on the left shows the secondary and tertiary pressure facilities and refurbishment work underway for preparing to sandblast and paint.

The photo on the right shows an area of new construction activity in the concentrate regrind area with progress on the regrind mill at Jameson Cell Foundations. Overall the progress is progressing well, and the project is taking shape nicely.

Moving on to slide nine, I'd like to highlight a couple of recent developments at Mount Milligan and Penasquito. Starting with Mouth Milligan, Centerra reported that operations returned to planned levels during May after reducing throughput in mining rates in April due to COVID-19 manpower reductions. They reported the process plant operated at approximately 60% of target throughput, and mining operations were partially shut down for approximately four weeks during April with reductions in gold and copper for the quarter.

Centerra also reported that a wet spring and a substantial snowpack allowed Mount Milligan to pump water starting in April. By the end of June they'd pumped more water than in the entire 2019 pumping season and have over six million cubic meters of water in storage. They also reported continued efforts to explore for groundwater sources around the existing infrastructure and will continue to do so for the remainder of calendar 2020.

Centerra continues to look for a long term water supply solution and is working with regulators and several stakeholder groups.

Turning to Penasquito, Newmont announced that operations ramped up after government imposed COVID-19 related shutdown was lifted and production in the process plant reached pre-COVID production levels of about 110,000 tons per day by mid-June. Recall that operations were placed on care and maintenance for about 35 days from April twelfth through mid-May.

According to Newmont now that operations are restarted they will continue to apply their full potential program to eliminate constraints, reduce cost, and increase productivities with the goal of extending mine life through resource conversion. Newmont also provided updated production guidance for calendar 2020 of 510,000 ounces of gold, 20 million ounces of silver, 360 million pounds of zinc, and 190 million pounds of lead.

I'd like to briefly touch on Golden Star's announced sale of Prestea to FGR. While negotiations for the separation of the stream between Wassa and Prestea are ongoing and completion requires final board approval, we think that this is a good development for all parties. The sale of Prestea allows Golden Star to focus on exploration and the various phases of growth management as outlined at Wassa and management of Prestea will become the sole focus of a new owner who will be motivated to invest and improve the operations.

Wassa has the potential to become a world class operation. And Golden Star has done a commendable job of adding mineral resources and improving performance. We look forward to seeing focused advancement at both Wassa and Prestea.

I'll now turn the call over the Paul to discuss our financial results.

Paul Libner
Thanks Mark. I'll turn your attention to slide 10 and give an overview of the financial results for the quarter. For purposes of this discussion I will be comparing the fourth quarter of Fiscal 2020 to the prior year quarter. We recorded revenue of $120 million on volume of 70,100 gold equivalent ounces or GEOs. While revenue was up about four percent, GEOs were down nearly 21% quarter over quarter. Primarily due to lower Andacollo sales resulting from the strike in October and November, an impact with have discussed with the market for a few quarters.

The decrease was also attributable to lower stream sales from Mount Milligan and Pueblo Viejo. The lower stream sales however were somewhat offset by higher royalty contributions from Cortez and Penasquito. Despite lower volumes, metal prices had a significant positive effect during the quarter with gold and silver prices up 31% and 10% respectively, while copper was down 12%.

Gold continued to be the most significant driver for our revenue and accounted for 84% of our total revenue for the current quarter, up slightly from 80% in the prior year quarter. D&A expense for the quarter was $6.5 million, in line with $6.3 million in the prior year quarter. Our D&A expense for the quarter was $45.4 million, or $648 per GEO, down slightly from our previous guidance range but up from $495 per GEO in the prior year quarter.

As I discussed in our last call, recent reserve reductions at Mount Milligan and Rainy River had caused our depletion rates on those interests to increase. Interest expense decreased to two million this quarter from $6.1 million in the prior quarter due to overall reduced debt levels. Earnings were $49 million, or 75 cents per share, up 85% compared to the prior year quarter.

There were several adjustments to our earnings specific to the quarter which included a 17 cent gain due to the release of an uncertain tax liability which resulted from a settlement with the foreign tax authority specific to withholding tax. A 10 cent gain due to the increase in the fair value on our equity holdings. A two cent charge due to the complete impairment of our royalty interest at El Toqui, and a three cent reversal for the combined tax effects of these adjustments.

As Bill mentioned, we also saw some relatively large adjustments to the full fiscal year earnings which included a 61 cent tax benefit, which combines the release of the uncertain tax liability I just mentioned and the effect of Swiss tax reform from earlier in the fiscal year. A five cent charge due to the one time non-cash employee compensation expense we recognize in the March quarter as a result of recent senior management retirements.

A two cent gain due to the increase in fair value on our equity holdings and a two cent charge due to the full impairment of our El Toqui royalty interest. After elimination of these adjustments our adjusted EPC was 53 cents per share for the quarter and $2.47 per share for the fiscal year. Cash from operations was approximately $91.6 million for the quarter, up significantly from $72.3 million in the prior year quarter.

The increase is primarily due to an increase in revenue proceeds, lower income taxes paid, and a decrease in the amount of interest paid on our outstanding debt. At the end of June we held approximately 25,000 GEOs in inventory which was higher than the guidance range I provided during our last quarterly call. The increase was primarily due to an Andacollo delivery that was received earlier than forecasted.

Looking forward to the September quarter and absent any potential new operational impacts due to COVID-19 we expect stream segment sales to be in the range of 53,000 to 58,000 GEOs. And inventories for the quarter end to be in the range of 25,000 to 30,000 GEOs. With respect to our Fiscal 2021 DD&A and effective tax rate guidance, it is a bit too early for us to provide this information at this time. But I expect we can provide this guidance on our next quarterly call.

I'll now turn to slide 11 and provide a summary of our financial position. Our liquidity remains strong and we ended the year with cash of $319 million, working capital of $320 million, and with our credit facility we had access to just over one billion of total liquidity.

You will remember from our last call that we drew $200 million on our credit facility in early April. This was a precautionary measure and we did it to ensure cash is readily available to support our current commitments in the event COVID-19 operational impacts worsened. While the environment appears to have stabilized and revenue contributions have largely returned to normal across the portfolio, we remain cautious on the outlook.

Although there is no immediate requirement for the funds we will keep the draw proceeds on our balance sheet for the time being. The company will revisit this position as the overall operating environment returns to normal and as we continue to further meet our investment commitment at Khoemacau, which also includes establishing a better understanding of KCM's ultimate financing needs at Khoemacau.

At the end of June we had an outstanding revolve balance of $305 million with $695 million undrawn. We remain committed to reducing our debt and absent any funding required for new business opportunities we expect to manage our debt levels accordingly. In line with that approach, we paid down $30 million on our revolving credit facility in early July, leaving us with $725 million of undrawn capacity.

During the fiscal year we contributed $136 million toward the Khoemacau project including a $48 million advance payment in the current quarter. As Mark noted earlier we also made an $11 million advance payment in July and now have contributed $147 million towards the project. We expect to contribute a further $35 to $45 million during the remained of calendar 2020.

In calendar 2021 our remaining contribution will be between $25 and $78 million depending on whether KCM exercises its option to increase the stream rate and raise the advance payment from $212 million up to $265 million. We expect remaining payments to be made on a quarterly basis in proportion to the total capital spend of the project and we anticipate making these payments from our available cash resources.

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

Bill Heissenbuttel
Thanks Paul. 2020 was a year of significant change for Royal Gold. I took over the CEO role at the beginning of January and a new generation of leadership was appointed at the same time. All of this internal change occurred shortly before the onset of significant global challenges in a very uncertain business environment.

I am very pleased to say that the team looked past the challenges and remains focused on all key aspects of our business. Our company remains healthy and despite COVID related revenue impacts during Fiscal 2020 at several operations in our portfolio, the bulk of our asset base

continued to generate revenue and cash flow highlighting one of the main benefits of our business model. In addition to a portfolio of 187 assets, 41 of which produced revenue of almost $500 million, our cash overhead remained low representing about four percent of revenue.

It is this combination of revenue diversification and high cash margins that should allow us to withstand the potential uncertainty of future COVID-19 impacts. We increased our dividend year on year by six percent, improved our net debt position by $115 million, and funded $136 million towards our Khoemacau stream all without diluting our shareholders by issuing equity.

We ended the year with a healthy balance sheet and our access to liquidity positions us to act on new business opportunities. While we are encouraged by the recent strength in the gold price, we are also mindful of long term returns and will continue to pursue new business opportunities with a disciplined approach.

I think we are in a great position and I look forward to using these advantages to continue to deliver accretive growth and results for all shareholders.

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

QUESTION AND ANSWER

Operator
Speakers, your lines are now live. We will now begin the question and answer session. If you would like to ask a question, please press star then one on your touchtone phone. If you're 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. Again, it is star then one to ask a question.

Our first question will come from Jim Stuckert who is a retired board member. Please go ahead.

Jim Stuckert
Thank you. Well Bill, Paul, and Mark, great report. Glad to see that the new team has continued the tradition of the former team. All shareholders have to like that. I'd just like to know if there's any comment relative to Contango ORE that you could reveal.

Bill Heissenbuttel
Yeah, Jim, nice to hear from you. Certainly appreciate all you've done over the years. With Peak and with Contango COVID-19 has put us on a back foot a little bit. We've had to be mindful of the health conditions in the state. At the beginning part of this year I think the state was actually closed. We really couldn't do much. We have to be really mindful with the village. And take care of the community there.

There really hadn't been much going on. Strategically it's consistent with what we've always said. It is non-core. We're not gonna build it. We're not going to operate it. And we'll look for the right time, the opportune time to (INAUDIBLE) with that investment.

Jim Stuckert
Okay. Well then as a follow up not for that particular property but anything on Pascua-Lama.

Bill Heissenbuttel
Yeah, I think with Randgold coming in with Mark Bristow coming in I'm encouraged. He seems to have put new breath into that project. With that being said, I think one of the things Barrick has said is that they're almost going back to square one. They're gonna go back and as effectively to my understanding rebuild the geologic model and take a really fresh look at the project.

That's gonna delay it a little bit. But I think that the new management is really, they're taking a more serious look if you will as to what to do there. Mark, I don't know if there's anything else you'd like to add to that.

Mark Isto
No, I think you've given a good description.

Jim Stuckert
Well I certainly realize those two are long term projects and potentials. Every now and then I like to just hear if there's any upgrade. So that's super. I appreciate your comments.

Bill Heissenbuttel
Alright. Thanks Jim.

Operator
Our next question will come from Tanya Jakusconek with Scotiabank. Please go ahead.

Tanya Jakusconek
Yes, good morning everybody. I just wanted to circle back on the M&A opportunities that you're seeing out there. On your Q3 call you mentioned that you were seeing opportunities from base metal operators. So streams from base metal operators in the 100 to 500 million range with most of them available at the upper end. Has that changed?

Bill Heissenbuttel
Tanya, afternoon. Thanks for the question. The one thing we don't get to do a lot here is let Dan Breeze talk a little bit about his area of expertise. Dan, can I turn that over to you?

Dan Breeze
Yeah thanks Bill. Hi Tanya, thanks for the question. I hope you're well--

Tanya Jakusconek
--Hi Dan. You too.

Dan Breeze
Yeah, no, look. The environment's really, really quite good for us right now. And you've heard from Paul about our balance sheet strength and cash generation. We feel very good right now. You're right, you know, what's happening with the precious metals right now. They're obviously strengthened versus base metals and there are certain opportunities that we're starting to see now where those biproducts are looking to potentially get monetized in some way.

It's been interesting for us to look at those. We're obviously being very disciplined right now on that front. I think the other part that we're seeing more of right now is in this higher price environment is projects starting to move forward and looking for financing as well. Earlier stage projects. We're encouraged by that development as well.

In terms of the size, yeah, the 100 to $500 million range still holds. Obviously that's the real sweet spot for us here at Royal Gold just given our size versus the peer group. That's great for us to see. There are some that maybe are a little bit bigger than that but that's really where the focus is right now in that range. Hopefully that helps you.

Tanya Jakusconek
Okay. What about completing your technical due diligence because of the current travel restrictions? How are you getting around that in terms of doing that technical due diligence? Has that opened up since Q3?

Bill Heissenbuttel
Yeah. I'm gonna defer that over to Mark to speak to but we certainly are finding creative ways to get things done on the desktop and remotely. But Mark do you want to add some comments there?

Mark Isto
Yeah, I can give a few comments. It's a good question. We've spent a lot of effort in trying to figure out, how we can effectively do it and get comfortable that we're getting the same experience that we would on a site visit which is difficult to do as you might expect. But we've worked on three projects now where we've done things remotely. We're using third party, video tools where possible.

We've used drone photography to help us out to get a better picture of site. We're using interactive geological tools to create virtual core shed visits which frankly has turned out exceptionally well. We'll certainly use tools that we're developing now on our due diligences going forward regardless of COVID-19.

I think we're being successful at doing it. We have yet to go to the board yet and get their blessing on it, but I feel very confident that we put up a very strong case with virtual diligence. But it is very project specific.

Tanya Jakusconek
Are you seeing travel restrictions being lifted in areas that you're interested in or is it still pretty much locked down?

Mark Isto
Yeah, we're pretty much still seeing things locked down. We're even, obviously we try to take a visit to our existing assets on an annual basis, the larger ones. Our view is we likely won't be doing any traveling certainly for the calendar year. And maybe well into next year. We really have to be very diligent about these tools being effective.

Tanya Jakusconek
Can I ask just on the, you mentioned opportunities on the project, starting to--the financing start ups for projects. What about this royalty portfolios. Are those shaking out?

Dan Breeze
Tanya, yes, it's Dan here again. I'll turn over to Bill to add some comments as well. But certainly the environment is such that we are seeing portfolios available right now. I think it's just a function of the environment right now. We're looking at those. We're pretty disciplined.

Sometimes with these portfolios the challenge is you try to find one or two of the core assets to really focus in on and you get a bunch of other things that you may not want. There's a bit of a challenge there. But we're looking at those things as well.

Tanya Jakusconek
Okay. And can I just make sure that you're still focused on gold or gold and silver.

Dan Breeze
We are.

Bill Heissenbuttel
Yeah. (INAUDIBLE) strategically. Yeah strategically that we're focused on precious metals but as you can tell from the percentage of revenue we're still weighted to gold and we like that. As I always say if you're looking at five opportunities some are gold, some are silver, and some are base metal we're going to focus on the gold ones first and then move on, move down the list.

Tanya Jakusconek
Okay. Good. Good luck.

Bill Heissenbuttel
Thank you.

Dan Breeze
Thanks for your question.

Operator
Again, if you'd like to ask a question it is star then one; star then one to ask a question.

Our next question will come from Carey MacRury with Canaccord Genuity. Please go ahead. Carey, your line is live. Your line may be muted on your end.

Carey MacRury
Sorry about that. Good morning. Tony last year mentioned that you guys were close to meeting the criteria of being included in S&P 500. Given where gold prices are presumably, that potentially has moved up. Just wondering if you have any thoughts on that.

Bill Heissenbuttel
Yeah. It is something that we have looked at very closely. As you probably know there's not much you can do about it. We've made sure that the folks who are on the committee that make those selections know who we are. But beyond that there is no lobbying you can do. You can't go make a marketing presentation. You just have to make them aware of the company.

I did find it interesting in the paper this morning that Barrick was thinking of moving to their primary listing in the NYSE. I don't know what that would bring but we've done all we can quite frankly and it's up to us to keep them updated as to what we're doing. But ultimately that decision is theirs.

Carey MacRury
And as of today you meet the criteria and presumably you have some names follow that could be an opportunity.

Bill Heissenbuttel

Yeah, I mean when we look at it we look at it on a market cap basis. But there are a number of other tests. I don't, I'm not in charge of the criteria so I don't want to say yes we qualify. But we feel good about where we sit relative to eligibility.

Carey MacRury
Great. Thank you.

Operator
Our next question will come from Brian MacArthur with Raymond James. Please go ahead.

Brian MacArthur
Yeah, my question comes, has to do with the loss of Prestea stream structure. I'm just curious, I think this is interesting. It's obviously being restructured. Were they three individual contracts there or how was the security set up? I'm a little surprised they can just go sell it and obviously it's up to your Board of Directors' approval. But I'm just curious how that works, and it brings into the whole question of security in this industry as you set these things up.

I don't know if you can give any more color about how that's set up.

Bill Heissenbuttel
Yeah. Right now, it's one contract. We basically have two mines feeding into one contract. What is being proposed is that we effectively separate those contracts into two. It wouldn't change the security per se. I mean we currently have security over the assets in both mines and, where we're ultimately get to I think will be we'll still have security over both mines., it's doable. I will say in a lot of our streams we often provide the operator with the ability to do things like bring a joint venture partner in where they can take over some of the obligations.

This is actually to us it's not unusual. It's something that we contemplate in the streams all the time. Because these are life of mine contracts. We have to build some flexibility in for these guys to deal with changes at the mines where we have those streams.

Brian MacArthur
You'll just have two separate contracts going forward.

Bill Heissenbuttel
Exactly.

Brian MacArthur
Okay. Great. Thanks very much. I just wasn't entirely clear how that was being done. Thanks very much.

Operator
Our next question will come from Kip Keen with S&P Global Market Intelligence. Please go ahead.

Kip Keen
Yeah thanks for taking the question. Just to circle back on M&A, are you seeing any opportunities sort of evaporate given financing markets in terms of some of the earlier stage projects? Or picking up? Or are you just sort of seeing all boats rising here? What's it look like?

Bill Heissenbuttel
Dan, do you wanna jump back in?

Dan Breeze
Yeah, sure. And thanks for the question. I'd say that obviously in the equity markets we've seen the equity markets open up quite a lot here in the last three to six months or so. That's obviously been something new here versus the last year or so. But we're actually quite happy to see that happen as far as the capital structure goes. These projects need equity, they need streaming, they need debt as well. It helps the projects move forward in general. I wouldn't say it's been a deterrent from our perspective.

Kip Keen
Okay. Thanks.

Dan Breeze
You're welcome.

Operator
This concludes our question and answer session. I'd like to turn the conference back over to Bill Heissenbuttel for any closing remarks.

CONCLUSION

Bill Heissenbuttel
I'd just like to thank everybody for their interest in Royal Gold and we certainly look forward to updating you in the near future on our progress. Hope everyone stays healthy. Thank you.

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