Royal Gold, Inc.

Fiscal 2021 First Quarter Conference Call

November 5, 2020 at 12:00 p.m. Eastern

CORPORATE PARTICIPANTS

Alistair Baker - *Vice President of Investor Relations & Business Development*

Bill Heissenbuttel - *President and Chief Executive Officer*

Paul Libner - *Chief Financial Officer and Treasurer*

Mark Isto - *Executive Vice President and Chief Operating Officer*

Dan Breeze - *Vice President Corporate Development RGAG*

Randy Shefman – *Vice President and General Counsel*

PRESENTATION

Operator
Good day and welcome to the Royal Gold Inc. Fiscal 2021 First Quarter 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. After today's presentation, there will be an opportunity to ask questions. To ask a 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 now 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 first quarter of 2021 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 Isto, Executive Vice President and COO. Dan Breeze, Vice President, Corporate Development of RGAG; and Randy Shefman, Vice President and 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 those statements. These risks and uncertainties are discussed in today's press release and our filings with the SEC. We will also refer to certain non-GAAP financial measures, including adjusted net income, adjusted net income per share, net debt and net cash. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures are available in the press release, which can be found on our website.

Bill will give you an overview of the quarter, followed by Mark with an update on our operating results. Paul will then provide a financial update, and Bill will wrap up the call with some closing comments. We'll then open the lines for a Q&A session.

Now, I'll turn the call over to Bill.

Bill Heissenbuttel
Good morning and thank you for joining the call. Before beginning, I would like to remind you that Royal Gold continues to operate remotely, and the coordination of our responses to your questions may be impacted.

I'll begin on slide 4. Our first quarter was a strong start to fiscal 2021, and we recognized record revenue of $147 million, driven by solid operating results across the portfolio, combined with higher gold, silver and copper prices. GEO volume for the quarter was 77,000, with 85% of revenue sourced from precious metals. The strong revenue and low fixed costs of our business produced healthy earnings and cash flow. Earnings for the quarter were $107 million, or $1.63 per share. After adjustments, which Paul will comment on in more detail, earnings were $54 million, or $0.82 per share. Operating cash flow came in at $94 million.

In addition to the strong financial performance, we also completed two transactions this quarter, both of

which carry strategic importance. The first was the sale of our ownership interest in the Peak Gold project to Kinross. Peak is a unique project, and we got involved a few years ago through a low-risk earn-in arrangement. We always said the strategy was to advance the project as far as we could and then transfer our ownership to a company with the experience, the commitment to the highest environmental and social standards and the financial strength to move the project forward from there.

We worked over the past five years to define the value of the resource and the time came this year to transfer our interest to a company with permitting, development and operating capability. Kinross, with a long and successful history of operating responsibly in Alaska, was the ideal candidate. We received cash of $61 million for our project interest and equity in our JV partner, and we also received additional royalty interests on the Peak Gold land package, which is in line with our core business.

So not only are we able to refocus our efforts on our core business, we may see a shorter time period to recognition of royalty revenue, given that Kinross' integration plan with Fort Knox could shorten the permitting time relative to a standalone project. While we don't intend to take direct ownership in projects again, we believe our approach at Peak was successful, and we remain exposed to this high-quality project through royalty interests, consistent with our strategy.

The second transaction in the quarter was the separation of the original Golden Star agreement into two streams to allow the sale by Golden Star of the Prestea and Bogoso mines to Future Global Resources. This transaction is designed to maintain the value of Royal Gold's investment, with the end result that each of the Wassa mine and the Prestea-Bogoso mines are now in the hands of operators who have sole focus on those operations and have significant reinvestment plans or concepts that should benefit these mines in the long term. We look forward to seeing how Golden Star executes on its ambitious plans for Wassa and to seeing how Future Global Resources improves operating performance at Prestea and Bogoso.

And finally, we continued to strengthen our balance sheet during the quarter. We repaid $30 million of our outstanding revolving credit facility balance during the quarter and paid down another $75 million in early October after we received the proceeds from the Peak sale. As of October 2, we had $200 million outstanding on our revolver, leaving us with approximately $1.1 billion of total available liquidity.

I would like to mention one final item. In mid-September, we provided a summary of a potential new transaction on our website in error, and then promptly clarified in a press release that no agreement had been reached regarding the transaction and no assurance could be provided that an agreement would be reached. At this time, our resources are focused on other priorities, and we will not be providing any further comment at this time or in the future, unless a definitive agreement were to be reached.

With that, I'll turn the call over to Mark for some comments on our portfolio, including an update on progress at Khoemacau.

Mark Isto
Thanks, Bill. Our portfolio performed well during the quarter. In particular, throughput at Mount Milligan was consistently strong, and given stored water inventory, Centerra does not expect any interruptions to operations in the medium term due to water. Rainy River had an excellent quarter, with mill throughput reaching a record of 27,000 tons per day, bumping up against the maximum allowable under their existing permit. Wassa, which I'll speak to in a little more detail in a few minutes, also saw record underground production, which approached 5,000 tons per day.

Now moving on to slide 5, I'll give an update of the Khoemacau project in Botswana, currently under

development, called Khoemacau Copper Mining, or “KCM.” At the end of the quarter on September 28, the government of Botswana extended the COVID-19 state of emergency for a further six months from September to March 2021. Although mining remains designated an essential service, Khoemacau is impacted by travel restrictions imposed as part of the emergency mandate. These restrictions are complicating the movement of national and ex-pat personnel and delays are being experienced in delivery of materials and equipment at site.

While construction and mining activities are generally progressing well, there have been some delays in select areas of the project due to additional in-country lockdowns during the quarter. KCM is monitoring the situation closely and continues to expect shipment of first concentrate late in the third quarter of calendar 2021, consistent with what we reported in our last quarterly call.

Despite these challenges, KCM continues to show excellent progress in advancing underground development, and overall construction completion reached approximately 70% at the end of September, with 87% of total capital committed. We made our fifth contribution to the advanced stream payment on October 5 of $32.5 million and have now advanced approximately $179 million towards the project. Underground development continues to advance according to plan, and the photo on that slide shows the first order delivery to surface on August 19, an important milestone for the project.

Turning to slide 6. An isometric view of the central mines is presented with actual progress shown in brown together with planned development in purple. Development runs generally in a North-South direction along the strike of the ore body. As you can see, development cross-cut the ore body along the top development level in two areas, providing full exposure to the mineralization in these locations, and was the source of ore shown in the preceding slide.

I've shown photos before of progress on the box cuts, and here you can see a photo of the central box cut and how it connects to the underground declines.

In addition, I'd like to draw your attention to progress on the return air system shown in red. The photograph shows surface assembly of the raise boring machine inside the box cut, which will develop the ventilation return airway to surface. Completion of this step is key to establishing a permanent ventilation circuit for the central mine, which will then be repeated for the other two mines.

Good underground development progress is being made across the project, with cumulative advance in the three mines reaching over five kilometers at the end of September.

Turning to slide 7, you can see some of the progress at the Boseto mill and on the surface infrastructure. The photo on the top left shows work underway in Jameson cells and the photo on the bottom left shows installation of the surge tank platform. The photo on the right shows the Khoemacau bay at the Botswana Power Company substation currently being commissioned. This is the tie-in to the dedicated project power line that runs from the Boseto mill and on to Zone 5, which will replace the current diesel power units.

Moving to slide 8, I'd like to spend a few moments on Wassa and some of the work underway by Golden Star. As Bill mentioned, with the sale of the Prestea-Bogoso operation, Golden Star has become solely focused on Wassa, which has the potential to become a world-class operation. Golden Star continues to report an increasing mining rate, which averaged almost 5,000 tons per day during the September quarter. They also reported progress on the new paste fill plant, the electrical upgrade and the Genser natural gas fired power facility, which are all capital projects expected to support further increases to the production rates. Commissioning of these projects is expected in the current quarter.

At Wassa, Golden Star initiated drilling on up-dip extensions of the B-Shoot and are planning to initiate drilling down-dip of the B-Shoot in the current or coming quarter. They also expect to complete a PEA on the expansion of the mine into the southern extension area in January of 2021. Golden Star is now expecting to increase exploration activities on both near-mine targets, within 2 to 10 kilometers of Wassa, as well as on their larger landholding. It's exciting to see Golden Star's focus on delivering significant growth potential at Wassa.

At Prestea-Bogoso, FGR's focus has been on continued efforts to establish long-hole stoping as a primary underground mining method, while also evaluating additional surface oxide material for potential open pit mining. We look forward to seeing FGR's progress toward reaching consistent production once they've established themselves as the new owner.

I'll now turn the call over to Paul for a discussion of our financial results.

Paul Libner
Thanks, Mark. I'll turn your attention to slide 9 and give an overview of the financial results for the quarter. For purposes of this discussion, I'll be comparing the first quarter of fiscal 2021 to the prior year quarter.

We recorded record revenue of $147 million on volume of 76,900 gold equivalent ounces, or GEOs. The increase in our revenue, when compared to the prior year quarter, was mainly due to increase metal prices, as the average price of gold, silver and copper were up 30%, 43% and 13%, respectively.

From a volume standpoint, our GEOs were down just under 5% when compared to the prior year, primarily due to lower gold sales from our Mount Milligan gold stream. The lower gold stream sales at Mount Milligan, however, were partially offset by higher royalty contributions from Peñasquito.

Gold continues to be the most significant revenue driver and accounted for 75% of our total revenue for the current quarter, with silver at about 10%. The contribution from copper increased to approximately 11%, compared to 8% in the prior year quarter. The copper increase in the current period was due to stronger copper sales from Mount Milligan.

G&A expense for the quarter was $7.5 million, in line with $7.4 million in the prior year quarter. Our G&A expense, which also includes non-cash compensation expense, was in line with a typical quarter, and is what we anticipate going forward, absent any large or unusual items.

Our DD&A expense for the quarter was $46.3 million, or $602 per GEO, up from $480 per GEO in the prior year quarter. The increase in our DD&A expense during the quarter was primarily due to higher copper sales from Mount Milligan and higher gold sales at Pueblo Viejo, partially offset by lower gold sales at Andacollo. The increase in our DD&A expense was also attributable to higher depletion rates at Mount Milligan and Rainy River, which we also discussed during our prior fiscal year. Looking forward, we are forecasting our DD&A for fiscal 2021 to range between $590 and $640 per GEO.

Exploration costs, which are specific to the Peak Gold joint venture, decreased to $600,000 in the current quarter from $2.6 million during the prior year quarter. The decrease in our exploration cost was primarily due to reduced exploration and advancement activities at site due to COVID-19 considerations. With the sale of our joint venture interest at Peak Gold effective September 30, we do not expect to incur additional exploration costs in the future.

Earnings were $107 million or $1.63 per share, up 52% compared to the prior year quarter. As Bill

mentioned earlier, there were several adjustments to our earnings specific to the quarter, which included a $0.52 per share gain due to the sale of our interest in the Peak Gold joint venture; a $0.04 per share gain due to the increase in fair value on our equity holdings, which also included the sale of our equity position in Contango ORE as part of the Peak Gold sale; a $0.37 per share gain due to two discrete tax benefits specific to the quarter. These discrete tax benefits included the release of an uncertain tax liability related to a settlement with the foreign tax authority and a change due to the reliability of certain deferred tax assets held by our Swiss subsidiary. Finally, the combined tax effect of these adjustments is a $0.12 per share reversal.

After elimination of these adjustments, our adjusted EPS was $0.82 per share for the quarter compared to adjusted EPS of $0.60 per share during the prior year quarter.

We had another very strong quarter of operating cash flow, as our cash from operations was up 32% to $94 million compared to $71 million in the prior year quarter. The increase was driven by higher stream and royalty revenue less the cost of sales specific to our stream revenue.

At the end of September, we held approximately 36,000 GEOs in inventory, which was higher than the guidance range I provided during our last quarterly call. The increase was primarily due to deliveries that were received earlier than forecasted.

Looking forward to the December quarter, and absent any potential new operational impacts due to COVID-19, we expect stream segment sales to be in the range of 52,000 to 57,000 GEOs, and the inventories for the quarter end to be in the range of 23,000 to 28,000 GEOs.

With respect to our fiscal 2021 effective tax rate, we expect this to range between 19% and 23%, absent any unusual or discrete items.

I'll now turn to slide 10 and provide a summary of our financial position. Our liquidity position continued to strengthen, as we ended the quarter with a cash of $413 million, working capital of $414 million and a net cash position of $138 million.

During the quarter, we repaid $30 million on our revolving credit facility, and in early October, we repaid an additional $75 million. Upon the $75 million repayment in early October, we now have $200 million outstanding and $800 million available under our revolving credit facility. Combined with our available cash resources, this provides us with about $1.1 billion of total liquidity.

We believe we have sufficient liquidity to adequately cover our G&A expenditures, any remaining commitments at Khoemacau and our expected dividend payments for the foreseeable future. However, we also remain cautious with respect to the operating environment amid potential COVID-19 impacts. We remain committed to reducing our debt, and absent the requirement to fund any new business opportunities, we expect to manage our debt levels accordingly once the operating environment returns to normal.

With respect to Khoemacau, we made an $11 million advance payment in July, a $32.5 million advance payment in early October and have now contributed $179 million towards the project. We expect to contribute a further $33 million to $86 million to the stream depending on whether KCM exercises its option to increase the stream rate and raised the advance payment from $212 million up to $265 million. The remaining payments will be made on a quarterly basis and in proportion to the total capital spend at the project. We expect these remaining payments will be weighted towards the first half of calendar 2021, 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. Our financial and operating performance in the first fiscal quarter provided us a strong start to fiscal 2021. Our portfolio is performing well, and our balance sheet is in excellent shape. We expect the current macroeconomic climate to remain positive for precious metal prices in the near term. And while the recent gold price strength is good for our underlying business, we are also mindful of long-term returns as we consider new business opportunities.

In the meantime, the stronger gold price is increasing the value of optionality in our portfolio. For example, in Australia, we're seeing some interesting developments at Red 5's King of the Hills project, where we have a 1.5% NSR on a 16-year life, 2.4 million ounce gold reserve, with first production targeted in mid-calendar 2022. Again, in Australia, Bellevue Gold is aggressively exploring and adding to the 2.3 million ounce resource at their Bellevue Gold project, where we have a 2% NSR. And finally, at Peak Gold, we have a 3% NSR on the area where Kinross is targeting to start production in 2024 of 1 million gold equivalent ounces over a 4.5-year mine life. I think we're in a great position, and I look forward to maintaining discipline and focus while we continue to deliver results for all shareholders.

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

QUESTIONS and ANSWERS

Operator
Speakers, your lines are now open. We will now begin the question-and-answer session. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

Again, if you'd like to ask a question, it is star then one. It looks like there are no questions at this time, unless anyone has a question, it is star, one.

CONCLUSION

So, no questions here. I would like to turn the conference back over to Bill Heissenbuttel for any closing remarks.

Bill Heissenbuttel
Thanks, operator, and thanks to all of you for taking the time to join us today. We certainly appreciate your interest in Royal Gold, and we look forward to updating you on our progress during our next quarterly call. Take care.

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