

Royal Gold, Inc. NasdaqGS :RGLD

M&A Call

Tuesday, August 5, 2025 2:00 PM GMT

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Call Participants

EXECUTIVES

Alistair Baker
Senior Vice President, Investor
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Daniel K. Breeze
Senior Vice President, Corporate
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William H. Heissenbuttel
President, CEO & Director

ANALYSTS

Derick Ma
TD Cowen, Research Division

Presentation

Operator

Good morning, everyone, and thank you for joining us on today's Kansanshi gold stream acquisition. My name is Drew, and I'll be the operator on today's call. [Operator Instructions] It's now my pleasure to hand over to Alistair Baker, Senior Vice President, Investor Relations and Business Development, to begin. Please go ahead when you're ready.

Alistair Baker
Senior Vice President, Investor Relations and Business Development

Thank you, Drew. Good morning, and welcome to the call to discuss Royal Gold's agreement to acquire a gold stream on First Quantum's Kansanshi mine. This event is being webcast live, and a replay of this call will be available on our website. Speaking on the call today are Bill Heissenbittel, President and CEO of Royal Gold; and Dan Breeze, Senior Vice President, Corporate Development of RG AG.

During today's call, we will make forward-looking statements and provide forward-looking information within the meaning of applicable securities laws, including statements about our projections and 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 this morning's press release and in our respective filings with the SEC. I'll now turn the call over to Bill.

William H. Heissenbittel
President, CEO & Director

Good morning, and thank you for joining the call. I'll begin on Slide 3 [4]. I am pleased that we announced this morning the acquisition of a \$1 billion life of mine gold stream from First Quantum's Kansanshi mine in Zambia. This is a transaction that clearly meets our strategic criteria for investment, and I'd like to highlight a few of the items that attracted us to this opportunity. Firstly, First Quantum is a first-tier counterparty with a long record of successful operations, and we are pleased to establish our first streaming relationship with the company.

First Quantum developed Kansanshi and has operated without interruption since 2005. Secondly, Zambia is a well-established mining jurisdiction with a government that strongly supports the mining industry. In 2023, mining was the second largest contributor to Zambia's GDP and the government launched a strategy in 2024 to further support and promote the mining sector. Thirdly, Kansanshi is a long-life, large-scale copper producer with a significant gold by-product credit, and First Quantum is in the final stages of completing a major expansion to the processing plant to further grow production.

I'll turn the call over to Dan to talk about Kansanshi and the stream in more detail, then I'll make some closing comments at the end with respect to funding and liquidity.

Daniel K. Breeze
Senior Vice President, Corporate Development - RGLD Gold AG

Thanks, Bill. Moving to Slide 5, I'll give an overview of the gold stream. We've agreed to pay \$1 billion in cash consideration to acquire gold stream referenced to copper production from Kansanshi. The stream rate will start at 75 ounces of gold per million pounds of copper produced until the delivery of 425,000 ounces, then drop down to 55 ounces per million pounds of copper until the delivery of a total of 650,000 ounces and then finally drop down to 45 ounces per million pounds of copper for the remainder of the mine life. The stream covers the entire mining lease and its life of mine, and we have granted First Quantum two options to accelerate deliveries and reduce the stream rates, which I'll describe in a moment.

The gold stream counterparty is a Canadian-based SPV and is guaranteed by all entities within the Kansanshi ownership chain from the project company through to the parent. The stream effective date is today, and we expect to receive deliveries of approximately 12,500 ounces this year. We further expect gold deliveries to average around 35,000 to 40,000 ounces per year over the next decade. We've also made a commitment to support First Quantum's local social programs over the mine life.

Moving on to Slide #6, I will provide more detail on the acceleration options. We granted First Quantum options to accelerate stream deliveries given their desire for flexibility with respect to the stream obligations should their financial condition materially improve in the future. The acceleration options result in the potential reduction of the stream rates and thresholds by up to 30% with the accelerated delivery of up to \$300 million of gold.

The first option will be available if First Quantum achieves a minimum BB credit rating or maintains a net debt-to-EBITDA ratio of 2.25x or less for three consecutive quarters from March 31, 2026. If one of these occurs, First Quantum will have one year to exercise the option and deliver up to \$200 million in gold deliveries and reduce the stream rates and delivery thresholds by up to 20%. If they choose to do this, they will have up to 14 months to deliver the gold after exercise.

The second option will be available if First Quantum achieves an investment-grade credit rating or maintains a net debt-to-EBITDA ratio of 1.25x or less for four consecutive quarters and demonstrates compliance with certain other operating conditions. If these occur, First Quantum will have one year to exercise the option and deliver up to \$100 million in gold deliveries and reduce the stream rates and delivery thresholds by up to a further 10%.

If they choose to do this, they will have up to seven months to deliver the gold after exercise. We believe this flexibility is a benefit to both parties. For First Quantum, they will benefit from a lower ongoing obligation, and we will benefit from accelerated gold deliveries. The cash payment per ounce will be 20% of the spot price for each ounce delivered but will increase to 35% if one of the conditions in the first option is met. No cash price will be paid for the accelerated gold deliveries.

I'll now move to Slide 7 and provide a brief overview of Kansanshi. Kansanshi was developed by First Quantum and has operated since 2005. Since then, First Quantum has increased the processing capacity and is in the final stages of completing the S3 concentrator expansion. Upon completion, First Quantum expects copper production to ramp up steadily from 160,000 to 190,000 tonnes this year to approximately 275,000 tonnes by the end of the decade.

The latest technical report published in 2024 shows steady copper and gold production through the end of the 2030s before declining in the latter years of the mine life. Mining is expected to continue through 2046 and, with processing of stockpiled ore, through 2049. I'll turn the call back to Bill for a discussion of liquidity and closing comments.

William H. Heissenbuttel
President, CEO & Director

Thanks, Dan. Royal Gold has a long history of using our revolving credit facility as a strategic and flexible financing tool. We recently extended the credit facility maturity by two years to 2030 and increased the accordion feature from \$250 million to \$400 million. We have exercised the accordion and expect to close on the expanded commitment with our lending syndicate today, which will increase the total available on the credit facility to \$1.4 billion.

To fund the Kansanshi stream, we used available cash and a draw of \$825 million on the credit facility. After this draw, and with the increased accordion, we will have \$575 million available on the credit facility. You'll see the updated numbers tomorrow with the release of our second quarter results, but using our March 31 trailing 12-month adjusted EBITDA of \$628 million, and our March 31 cash balance of \$240 million less the cash used for this acquisition, the implied net debt to EBITDA ratio is 1.2x.

As we previously discussed, we intend to draw approximately \$400 million further on the credit facility among closing the Sandstorm and Horizon acquisitions, which we expect in the fourth quarter. We estimate that with additional liquidity sources and the cash flow through to closing of these transactions, we'll end the year with a net debt to adjusted EBITDA ratio of approximately 1.5x, but that figure excludes the pro forma contributions from the Kansanshi and Sandstorm/Horizon transactions as we move forward. Our diversified portfolio generates significant cash flow, and we are comfortable using leverage to acquire high-quality assets if we can pay it down quickly, and we have a record of disciplined debt repayment.

We ended 2022 with \$575 million of outstanding debt after a series of debt-financed acquisitions, and we completely repaid that amount within seven quarters. In today's higher metal price environment and with the combined cash flow from Kansanshi and the Royal Gold, Sandstorm and Horizon portfolios, we expect to repay the outstanding debt within two years after closing the Sandstorm and Horizon acquisitions. This estimate assumes no further business development investments over that period of time, and we expect to do all of this while maintaining our commitment to the dividend.

I'll provide some closing comments to put this transaction in perspective. With respect to timing, we have always said that we can't pick the timing for acquisitions and today's announcement of the Kansanshi gold stream acquisition is an example of a good opportunity that came up while we are busy closing another major transaction. However, the Kansanshi gold stream is an excellent addition to our portfolio, and we had to act while it was available. It also provides one reason why we used shares as consideration for the Sandstorm transaction as we wanted to conserve liquidity and balance sheet flexibility for this opportunity.

Sandstorm management was aware of this opportunity prior to the announcement of the Sandstorm acquisition and has been consistently supportive of the investment. With respect to the contribution to the portfolio, this slide shows where the Kansanshi gold stream fits after completion of the Sandstorm and Horizon transactions. On a NAV basis, it will rank second at a weighting of about

9% between Mount Milligan and Pueblo Viejo, and it brings the Mount Milligan weighting down to about 12% from 13%. As a large gold stream, that will increase our gold weighting to about 80% of NAV from 78% previously, with 90% of NAV from gold and silver. And as a jurisdiction, Zambia will be weighted at about 9%, with Canada at about 24% and the U.S.A. at 11%.

I will now end where our discussion started. This acquisition is consistent with our long-term strategy of growth through the addition of high-quality and long-life precious metals assets with good operators in mining-friendly jurisdictions. Kansanshi is a world-class operation, and we expect it will be an important contributor for decades that complements the medium- to long-term growth we are adding from Sandstorm and Horizon. Operator, that concludes our prepared remarks. We are joined by members of our management team, and I'll now open the line for questions.

Question and Answer

Operator

[Operator Instructions] We'll now take our first question from Derick Ma from TD Cowen.

Derick Ma
TD Cowen, Research Division

In terms of the acceleration options, are they tied to a specific gold price? And when do these options expire?

William H. Heissenbuttel
President, CEO & Director

Dan, do you want to take that one?

Daniel K. Breeze
Senior Vice President, Corporate Development - RGLD Gold AG

I can. Derick, thanks for the question. So, on your first question, they're not tied to a gold price. And on your second question, the expiry is really just the trigger, and as soon as those conditions that we outlined are achieved, it starts a one-year option period. And First Quantum is -- it's their option, but if they want to exercise the option, they have up to one year after those conditions are met to exercise. And it's a onetime option for both of those.

Derick Ma
TD Cowen, Research Division

Okay. Understood. And then in terms of asset security on the deal, when do you typically look for asset security? And how do you get comfortable from an extreme security standpoint when looking at this deal specifically given the ongoing situation at First Quantum's other major asset in Panama?

William H. Heissenbuttel
President, CEO & Director

Yes. Thanks for the question. I mean whether we require security or not is totally dependent on the structure of the company at the time. So we don't enter these with the view that we have to be secured or we're absolutely willing to be unsecured. Everything is case specific. With respect to this transaction, we spent a lot of time looking at a First Quantum model as a whole. And we made certain adjustments such as Cobre Panama never comes back into production. A bond issue can't be refinanced and must be repaid at maturity. And we looked at it under a number of different metal price assumptions and just got comfortable that under some extreme assumptions that this company is going to be able to work its way through any issues, notwithstanding a restart of Cobre Panama.

Operator

With that, we have no further questions. So, I will hand back over to Bill Heissenbuttel for some closing comments.

William H. Heissenbuttel
President, CEO & Director

Well, thank you for taking the time to join us today. I look forward to updating you in the near future. Goodbye.

Operator
That concludes today's call. You may now disconnect your lines.

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