


# Royal Gold, Inc. NasdaqGS:RGLD

*Earnings Call*

*Thursday, May 4, 2023 5:00 PM GMT*

CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 7

# Call Participants

## EXECUTIVES

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

**Mark E. Isto**
*Executive VP & COO of Royal Gold Corp.*

**Paul K. Libner**
*CFO & Treasurer*

**William H. Heissenbuttel**
*President, CEO & Director*

## ANALYSTS

**Cosmos Chiu**
*CIBC Capital Markets, Research Division*

**Joshua Mark Wolfson**
*RBC Capital Markets, Research Division*


Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

# Presentation

**Operator**

Ladies and gentlemen, welcome to the Royal Gold 2023 First Quarter Conference Call. My name is Felicia, and I'll be your operator today. Please note, there will be a Q&A session on this call. [Operator Instructions] I will now hand you over to your host, Alistair Baker, Vice President, Investor Relations and Business Development. Alistair, please go ahead.

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

Thank you, operator. Good morning, and welcome to our discussion of Royal Gold's First Quarter 2023 Results. This event is being webcast live, and you will be able to access a replay of this call on our website. Speaking on the call today are Bill Heissenbuttel, President and CEO; Mark Isto, Executive Vice President and COO of Royal Gold Corporation; and Paul Libner, CFO and Treasurer; Randy Shefman, General Counsel; Dan Breeze, Vice President, Corporate Development of RG AG; and Martin Raffield, Vice President of Operations, are also available for questions.

During today's call, we will make forward-looking statements, 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 yesterday'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, adjusted EBITDA margin and cash G&A expense. Reconciliations of adjusted net income, adjusted net income per share, adjusted EBITDA, adjusted EBITDA margin and cash G&A expense to the most directly comparable GAAP measures are available in yesterday's press release, which can be found on our website.

Bill will start with a review of the quarter. Mark will provide some commentary on the portfolio, and Paul will wrap up with the financial summary. After the formal remarks, we'll open the lines for a Q&A session. I'll now turn the call over to Bill.

**William H. Heissenbuttel**
*President, CEO & Director*

Good morning, and thank you for joining the call.

I'll begin on Slide 4. Our first quarter of 2023 provided a strong start to the year. It was a fairly quiet quarter for us, and our portfolio performance was strong and steady. Revenue was $170 million for the quarter, and operating cash flow was $109 million, which were both up nicely from the same period last year. Earnings were $64 million or $0.97 per share. After a minor adjustment, adjusted earnings were $0.96 per share. We paid $25 million in dividends at our increased rate for 2023 of $1.50 per share, which is a 7% increase over the 2022 level. We have an unmatched record in the precious metals sector for consistent dividend increases, and we have increased the dividend for 22 consecutive years.

We made a payment on our revolver of $75 million, and we ended the quarter with liquidity of almost $650 million. Additionally, we completed an investor update 2 weeks ago and went into detail on some of our newer assets and where we have seen some interesting developments at those additions. We also discussed our 2023 guidance during that update and provided an overview of our 2022 ESG report, which is available on our website. We have advanced our report significantly in the ESG area, and the report contains some good detail on how we're tracking data like GHG emissions and water use in our portfolio. It also includes disclosure in alignment with TCFD guidelines as well as our first climate scenario analysis for the portfolio. ESG reporting is an evolving subject area, so I encourage you to review the report and provide us any feedback.

I'll now turn the call over to Mark to provide some comments on the portfolio.


Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

**Mark E. Isto**

*Executive VP & COO of Royal Gold Corp.*

Thanks, Bill. Turning to Slide 5, I'll give some comments on first quarter revenue. Overall volume for the quarter was a very strong 90,000 GEOs, which is up over 4% from this time last year. Our royalty segment contributed $55 million in revenue, down slightly from the prior year quarter. Lower contributions from Penasquito and Voisey's Bay were partially offset by strong revenue at Cortez from the Legacy Zone and our new CC Zone. We also received our annual revenue payment from Red Chris in the quarter and new royalty revenue of about $850,000 from King of the Hills in Australia.

Our stream segment revenue was about $115 million, up about 9% compared to the prior year quarter. Higher contributions from Khoemacau, Mount Milligan, Xavantina and Rainy River more than offset lower revenue from Andacollo. Please note that we received one shipment each of gold and copper equating to about 6,000 GEOs from Mount Milligan in mid-February, earlier than our original, end of March forecast. The early delivery allowed these shipments containing this 6,000 GEOs to be sold in the March quarter rather than our original expectation of during the June quarter. These timing differences are not unusual for us, and, while they don't impact results on a long-term basis, they can have a fairly significant impact on how one quarter compares to the next.

I'd like to spend a moment on this point and turn to Slide 6 to review the sequence of mine production through the stream metal sales. We have three large stream interest in mines that produce metal concentrate: Mount Milligan, Andacollo and Khoemacau. As shown in the schematic, the process of mining ore to delivering metal to Royal Gold can take up to 5 months due to the timing required to ship concentrates from the mine site to the smelter and the payment provisions of the offtake contract. Once metal is delivered, we usually plan to sell it steadily over the period that ends when we receive the next delivery from our counterparty. We aim to have zero metal in inventory for any particular counterparty when we receive the next shipment from the same counterparty.

Selling deliveries steadily allows us to realize pricing that is consistent with average metal prices over those periods. While this approach works well, it may cause complications for forecasting our revenue based on guidance provided by mine operators. The first complication is the production guidance provided by our counterparties for a specific period won't impact Royal Gold in that same period. For example, Centerra expects 2023 Mount Milligan gold production of 160,000 to 170,000 ounces with production of 30% to 35% of the concentrate containing that gold in the fourth quarter. The typical lag we see at Mount Milligan between production at the mine and metal deliveries to Royal Gold is up to 5 months. So we likely won't receive metal deliveries from the expected strong fourth quarter of production until sometime in the second quarter of 2024. We won't recognize revenue until the sales of those deliveries are complete.

The second complication is that delivery timing is uncertain. We prepare our delivery forecast and sales guidance based on our near maximum contractual delivery timing, so we can receive deliveries earlier than we forecast. That's what happened in this quarter with the 6,000 GEOs from Mount Milligan I mentioned earlier. In this case, we sold metal and recognized revenue in the first quarter that we otherwise expected to receive and sell in the second quarter. While this may mean that Royal Gold's revenue may be variable from one quarter to the next, the resulting short-term variability is not a long-term concern for us. It also does not necessarily mean that production at the underlying asset is weaker or stronger from one quarter to the next.

These timing issues are more significant for stream agreements on operations that produce concentrates, and they are generally not a factor for stream agreements on operations that produce dore or our royalty portfolio where time between metal production, deliveries and sales is more limited. The timing effects associated with delivery are generally up to about five months for Mount Milligan and Andacollo and about one month for Khoemacau. Our selling process would typically take one month following delivery but will vary depending on the cadence of deliveries.

I'll now turn to Slide 7 and give a handful of comments on recent development at operations. We provided more fulsome commentary during our Investor Update two weeks ago, so I'll only mention developments that have occurred since then. At Khoemacau, where operations are continuing at nameplate capacity, KCM has provided silver production guidance of 1.5 million to 1.7 million ounces for 2023. This is in line


Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

with the mine plan but lower than the life-of-mine average of 1.8 million to 2 million ounces per year. This is because the silver grade in the upper portion of the Zone 5 deposit is lower than the average reserve grade, and we expect the grade to increase as mining progresses deeper into the ore body.

At Pueblo Viejo, Barrick reported yesterday that first ore had been fed through the crusher of the expanded plant. They're working on commissioning the new plant infrastructure and expect to complete commissioning and move into the ramp-up phase in the current quarter. This is about a quarter delayed from their previous expectations. While we had no prior notice of this delay, this is a large and complex project, so we felt it prudent to provide a timing allowance, reflecting reduced production, which we included in our sales guidance for 2023.

Pueblo Viejo silver deliveries were approximately 362,200 ounces in the quarter, including the deferral of an additional 5,700 ounces, resulting in a remaining balance of 518,400 deferred ounces. We expect the silver recovery could remain highly variable while the expanded plant ramps to full production and performance levels, and we don't expect material deliveries of deferred silver this year. We continue to see this as a cash flow timing issue and don't expect it to have any lasting impact on silver revenue.

At Cortez, Barrick has advised that contained gold and proven and probable reserves at the Legacy Zone was 2.7 million ounces at the end of 2022. Recall, our overlapping royalties on this area are equivalent to an approximate gross royalty of 9.4%, and 2023 production guidance for this area is expected to range from 450,000 to 480,000 ounces. The remainder of production from Cortez in 2023 will be covered by the CC Zone royalty which has an approximate 1.6% gross royalty rate. Based on Barrick's disclosure, we expect production from this area to be approximately 535,000 ounces.

Barrick also reported yesterday that the record of decision for Goldrush will likely be delayed until the second half of this year. They also reported the continuation of test stoping and development and don't expect this delay to affect their 2023 outlook.

Finally, at Andacollo, Teck has advised that 2023 gold production will range from 22,000 to 27,000 ounces of gold in concentrate. Keep in mind that deliveries to Royal Gold include a fixed 89% payability factor on this production. I'll now turn the call over to Paul for a review of our financial results.

**Paul K. Libner**
*CFO & Treasurer*

Thanks, Mark. I will now turn to Slide 8 and give an overview of the financial results for the quarter. For this discussion, I will be comparing the quarter ended March 31, 2023 to the prior year quarter. Revenue was $170 million for the quarter, an increase of 5%. The main driver of the higher revenue this quarter was stronger operating performance at many of our interests as well as new revenue of approximately $6 million from the addition of Cortez royalty interest we acquired during the second half of 2022.

With respect to metal prices and compared to the prior year quarter, the price of gold was up slightly by 1%, silver was down 6% and copper was down 11%. Gold remains the dominant revenue source making up 71% of our total revenue followed by copper at 14% and silver at 12%.

Turning to Slide 9. G&A expense increased to $11 million and $8.9 million in the prior quarter. The increase was primarily due to higher employee-related costs, which costs also include non-cash employee stock compensation expense. Although inflationary pressures continue to have an impact on many within the metals and mining sector, our cash G&A costs have remained low or less than 5% of total revenue.

Our DD&A expense decreased to $46 million from $48 million in the prior year quarter. On a unit basis, this expense was $514 per GEO for the quarter compared to $555 per GEO in the prior year period. The DD&A rate on a unit basis declined in the current quarter due to lower depletion rates at Mount Milligan and Pueblo Viejo, which were the result of reserve additions at the end of 2022. The decrease was partially offset by increased depletion expense at Khoemacau, which was the result of higher silver sales due to the continued ramp up when compared to the prior year quarter.

Interest expense increased to $9.2 million for the quarter from $900,000 in the prior period. The increase was due to higher average amounts outstanding under our revolving credit facility and higher interest rates when compared to the prior period. The all-in interest rate for borrowings under our credit facility


Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

was 6.2% at the end of the first quarter. Tax expense for the quarter was $16 million, resulting in an effective tax rate of 19.9%. This compares to $15 million and an effective tax rate of 18.8% in the prior year period.

Earnings for the quarter were down slightly over the prior year to $64 million or $0.97 per share. After a minor adjustment for a change in the fair value of equity securities, our adjusted earnings were $63 million or $0.96 per share. Adjusted earnings in the prior year quarter were $65 million or $0.99 per share. The main contributor to the lower earnings this quarter when compared to the prior year was higher interest expense.

Our operating cash flow was strong this quarter at $109 million compared to $101 million in the prior year. The increase during the quarter was the result of higher proceeds received from our stream segment and new proceeds received from the recently acquired additional Cortez royalty interest.

I will now turn to Slide 10 and provide a summary of our financial position at the end of the quarter. During the quarter, we repaid $75 million on the revolving credit facility and reduced the amount drawn on the facility to $500 million. The $500 million undrawn revolver capacity, combined with $134 million of working capital, provided us total available liquidity of approximately $634 million at the end of the quarter. In keeping with our approach to capital allocation, we expect to repay the $500 million outstanding revolver balance as cash flow allows. Absent any further business development activity and at current metal prices, we anticipate repaying this amount by around mid-2024.

Beyond our current debt outstanding, we have no other material financial commitments remaining. Shortly after quarter end, we made a $2.4 million exploration payment to a subsidiary of Ero Copper related to the successful conversion of resources at Xavantina. After this payment, we are potentially obligated to fund additional advanced payments of up to $4.4 million if Ero meets certain exploration and resource conversion targets through the end of 2024.

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

**William H. Heissenbuttel**
*President, CEO & Director*

Thanks, Paul. This was a quiet and steady quarter for Royal Gold. Our portfolio performed well, and we saw continued progress at several assets in the portfolio that should provide interesting news flow in the near to medium term. I hope you found the discussion on timing helpful. Recent announcements regarding Centerra's 2023 production expectations at Mount Milligan, and Pueblo Viejo expansion, and the Goldrush Record of Decision are good examples of how timing issues can impact expectations for a particular time period, in 2023 in particular. However, we take a longer-term view of events and are pleased with our portfolio performance.

We remain focused on the balance sheet and rebuilding our liquidity in the quarter after a very active year in 2022, and I think we're very well positioned to remain active in 2023.

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


Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

# Question and Answer

**Operator**

[Operator Instructions] The first question comes from Josh Wolfson from RBC Capital Markets.

**Joshua Mark Wolfson**
*RBC Capital Markets, Research Division*

Two quick questions for me. First one is for the Cortez Legacy royalty, which outperformed our expectations and I guess what the guidance implies for the year, Barrick had talked about a bit of a weaker result this quarter and then results improving through the rest of the year. But given the royalty payout was so high this quarter, I'm just wondering if expectations have changed at all based on the first quarter performance or if this was as expected.

**William H. Heissenbuttel**
*President, CEO & Director*

Josh, thanks for the question. I might turn that one over to Mark for a response.

**Mark E. Isto**
*Executive VP & COO of Royal Gold Corp.*

Yes, sure. I guess my view is that we would look at the full year guidance as the best view on the future for the year. I mean, they delivered about 37% on the midpoint of the guidance during the first quarter. So I would just take it as a strong first quarter, but we wouldn't change our view for the rest of the year. We would uphold the guidance that they pulled.

**Joshua Mark Wolfson**
*RBC Capital Markets, Research Division*

Okay. Got it. It sounds like it did perform a bit better, but maybe too soon to make any conclusions.

**Mark E. Isto**
*Executive VP & COO of Royal Gold Corp.*

I would agree with your statement.

**Joshua Mark Wolfson**
*RBC Capital Markets, Research Division*

Okay. Got it. Mildly optimistic there. And the second question is, I may have missed this, but the company does typically provide some sort of stream production guidance for the upcoming quarter. Was there a number that the team felt comfortable with issuing? Or should we just look at the annual figures for production of this year?

**William H. Heissenbuttel**
*President, CEO & Director*

Yes. Josh, we moved away from the quarterly stream segment sales forecast when we went to first the six-month guidance and then full-year guidance. The only time we do it is in February for the first quarter. But we don't -- we haven't continued that -- what we used to do a couple of years ago. So I'd stick with the annual guidance as something to look to.

**Operator**

The next question we have comes from Cosmos Chiu from CIBC.


Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

**Cosmos Chiu**
*CIBC Capital Markets, Research Division*

I guess you sort of answered this question, but I'll ask you anyways. You did over 90,000 GEOs in Q1. Your 2023 guidance, which is still pretty fresh, 320,000 to 345,000. And so I know there's timing differences and whatnot, but if I were to sort of multiply out Q1, you would exceed the top end. So again, how should we look at it? Like, again, I know the guidance is pretty fresh. I know the 6,000 ounces that contributed to Q1. But either way, how should we look at it?

**William H. Heissenbuttel**
*President, CEO & Director*

Yes. Cosmos, I guess what I would just caution you just don't annualize what we just did. As you say, the guidance we gave was 2 weeks ago. we remain comfortable with it. And you actually noted the 6,000 GEOs. We didn't expect them in the first quarter. We expected them in the second quarter and then they arrived early. So again, I'd keep an eye on the longer-term number.

**Cosmos Chiu**
*CIBC Capital Markets, Research Division*

Maybe I ask a different way. When would you start reviewing and potentially updating your guidance? Again, this is only two weeks old. But when does that process sort of start?

**William H. Heissenbuttel**
*President, CEO & Director*

My view is we look at it every time we come to one of these meetings. It's part of the quarterly analysis. And if we felt the need to adjust the range, we don't say, "Okay, it's going to be the August meeting," or at some other point. So it's regularly reviewed on a quarterly basis, and we'd let you know if we needed to make an adjustment.

**Cosmos Chiu**
*CIBC Capital Markets, Research Division*

Of course. Maybe switching gears a little bit, a follow-up on my buddy, Josh's question. In terms of Cortez, thanks, Alistair, once again, and team for giving us guidance, 9.4% of Legacy and 1.6% of CC. Clearly, that's very simplistic and there's a lot more behind it in terms of different zones and whatever. Based on what you know, like how is that reconciling so far in terms of your expectations? And what's actually sort of coming through? Again, I understand that's early stage. I guess I'm just trying to get to -- from what -- your perspective, as you have more information, like how is it reconciling so far to what you had expected?

**William H. Heissenbuttel**
*President, CEO & Director*

Yes. Cosmos, looking at it, we only have had two quarters of the Rio Tinto royalty, and we only had one quarter of the Idaho royalty, really. I mean, [indiscernible] of full quarters. So it might be a little early to reconcile. But Mark, is there anything you've seen in the numbers that would make us want to adjust the 9.4% and the 1.6% or how we describe these things?

**Mark E. Isto**
*Executive VP & COO of Royal Gold Corp.*

No, I don't think so. I think the -- we've always tried to provide a guidance, gross royalty on the Legacy Zone, as we call it now. And historically, it's been a very accurate way to present it to the public. So that's why we continue to do it. So I'm very happy with how we approach it and how we try to convey that information.

**Cosmos Chiu**
*CIBC Capital Markets, Research Division*

Good to hear.


Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

**Mark E. Isto**
*Executive VP & COO of Royal Gold Corp.*

Cosmos, and maybe...

**William H. Heissenbuttel**
*President, CEO & Director*

I don't -- sorry, I would just say, I don't think you really would want us to go through GSR1, GSR2, GSR3, NVR1 and NVR1C, NVR2 and NVR3. We're trying to make your life easier with it. But if we see some issue with where production is falling, we would certainly consider reclassifying how we describe it.

**Cosmos Chiu**
*CIBC Capital Markets, Research Division*

I agree. Don't give me any more details. Even better, if you can just give me a number, I think that's even better. But you should simplify as much as you can.

And then one last question here. In terms of your balance sheet, again, great to see that you're repaying your debt, especially in today's higher interest rate environment. Is the plan to kind of pay it back as quick as possible and just continue with it? Or how do we look at it in terms of balancing out potential opportunities out there?

**William H. Heissenbuttel**
*President, CEO & Director*

Well, we're not going to let repayments under the revolver trump a good investment opportunity. So you're correct in saying the goal is to pay it back as quickly as possible in the absence of a business development opportunity. But if we see a good opportunity, and we have to take the balance back up, we would certainly consider doing that. We don't -- the top of our strategic goals is not to reduce this to zero before we do anything else.

**Operator**

No other questions on the phone line. I'll hand back to the management team if they want any closing remarks.

**William H. Heissenbuttel**
*President, CEO & Director*

Yes. Great. Thank you to everyone 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. Have a good day.

**Operator**
Thank you, everyone. This does conclude today's call. You may now disconnect your lines.


Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.
The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.
THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.
© 2023 Capital IQ, Inc.


Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.