

Royal Gold, Inc. (RGLD)



STANLEY DEMPSEY is Chairman and Chief Executive Officer of Royal Gold, Inc., a Denver-based, publicly-owned precious metals royalty company. Mr. Dempsey is a lawyer, geologist and a mining executive. He received degrees in Geology and Law from the University of Colorado, and completed the Program for Management Development at the Harvard Business School. Mr. Dempsey was Chairman of AMAX Australia Limited from 1981 to 1983 and a Vice President of AMAX, Inc., from 1977 to 1983. He was also Deputy Chairman of Australian Consolidated Minerals Corporation from 1981 to 1983. Mr. Dempsey held various engineering, legal and operating positions within AMAX including Senior Vice President of Climax Molybdenum Company, Vice

President of AMAX Exploration, Inc., Director of Environmental Affairs and Division Attorney-western operations. Mr. Dempsey practiced law as a partner of the Washington, DC, and Denver firm of Arnold & Porter from 1983 to 1986. Mr. Dempsey is active in trade, professional, civic and environmental organizations. He is past Chairman of the Board for Mountain States Employers Council, former Chairman of the Colorado Mining Association, past President of the Rocky Mountain Mineral Foundation, and former Chairman of the Lands Committee of the National Mining Association. Mr. Dempsey has served as Chairman of the Colorado Historical Society, and President of the Mining History Association. He is presently a Director of the World Gold Council, the National Mining Association, the Nevada Mining Association and Mountain States Employers Council.

SECTOR – PRECIOUS METALS

(WAG620) TWST: Could we begin with a brief historical sketch and an overview of Royal Gold?

Mr. Dempsey: The company is a precious metals or gold royalty company that's been in business for about 20 years. We shifted to the royalty model in about 1991, emphasizing mineral-related activities that result in our owning a royalty. A royalty is a share of production in a mine.

TWST: Can you tell us the advantages of using the royalty model?

Mr. Dempsey: The interest we own in a mine, the share of production, is free of cost and free of most of the operating risk involved in mining. We don't have any environmental risk. We receive income from the labors of major companies such as Placer Dome, Newmont and Barrick.

TWST: How much competition do you have in this space?

Mr. Dempsey: At this point in time, none. There have been royalty companies in the past, but they've metamorphosed into other types of companies or have been acquired.

TWST: Can you give us a sense of the general health of gold at this time?

Mr. Dempsey: Gold is in the early stages of a new bull market. It has very strong fundamentals. With the dollar weakening, gold has been appreciating. It's up about 20% for the year.

TWST: Would the increasing prosperity of India and China have anything to do with that?

Mr. Dempsey: India of course is a traditional consumer of gold for jewelry. They had a very good monsoon season, so

they've been very strong in the marketplace. China of course is a juggernaut in every commodity, and they have certainly been taking steps in the right direction to liberalize the regulation with regard to ownership of gold. There is a new gold exchange in Shanghai and that's adding to the strength of gold.

TWST: What do you expect to accomplish at Royal Gold over the next couple of years?

Mr. Dempsey: Our plan is to maximize the revenue coming from our existing royalties and add new royalties. We'd like to double the company in the next two years.

TWST: Do you see any challenges or problems in front of you at all? Is there anything to worry about?

Mr. Dempsey: Not really. Gold being in a strong position has opened up the entire industry to new projects and given us a lot more opportunities. So we're not seeing any particular clouds on the horizon.

TWST: What are your thoughts on acquisitions, partnerships and alliances?

Mr. Dempsey: Of course, we just completed an acquisition at the end of last year, a major acquisition of a company called High Desert. We're on the lookout constantly. We also see the opportunity to grow the company by financing late-stage mines or the reconstruction of balance sheets at existing mines.

TWST: In what parts of the world are the companies that you're involved with most active?

Mr. Dempsey: We've been very active in Europe in the past. We're also active in South America. We've had some activity in Australia, but I'd say the bulk of it in the last six months has been in South America.

TWST: Would you sketch out any benchmarks or milestones that you might be passing over the next few years?

Mr. Dempsey: Of course, we've been flirting with the \$0.5 billion market cap area, and the next milestone is twice that.

TWST: What would you reasonably expect the company to look like three or four years down the road?

Mr. Dempsey: I think this model would allow a company 3 or 4 times the size that we have now. The model involves very few employees, so I don't see a lot of growth in G&A other than in higher regulatory requirements that are being imposed now. But the company will be very similar to what it is now. It will just have a much higher revenue stream if we can make that happen.

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TWST: Do you foresee any changes in the position of gold three to four years from now? Could anything go wrong?

Mr. Dempsey: There is always the possibility of changes in central bank activity, etc., but I'm cautiously optimistic that gold as an asset class is back in favor. When it is in favor, that will be a fairly long-time cycle I think.

TWST: Would you tell us about your own background and that of a couple of your key colleagues?

Mr. Dempsey: I am a lawyer and a geologist, and I spent a lot of my career working with a company called AMAX. I was in the senior management of that company. I worked in the molybdenum business, the iron ore business, and was the head of AMAX's iron ore division in Australia. I have also practiced law, between working at AMAX and Royal, with a firm called Arnold & Porter. I've been with Royal about 15 or 16 years.

Don Baker, who is our head of business development, has a PhD in Geology and an MBA. He had a distinguished career as a geologist with AMAX and Homestake. And Tony Jensen, who is our new President, has had a long career with Placer Dome, one of the leading gold companies. Tony is a mining engineer and also has business training. He is one of the strongest young mine managers in the industry. He just came to us from operating Cortez Mines, which is a million-ounce plus per year gold mine, one of the largest in Nevada. He also had experience on the business side with Placer Dome and has been involved in their treasury function.

TWST: When you're evaluating a potential operation that you might invest in, do you go out and visit the site?

Mr. Dempsey: Yes, I do.

TWST: How much time do you spend there?

Mr. Dempsey: As long as it takes. Usually we can examine a property in a few days, but we'll go and stay out until we've seen it all. We do use an awful lot of outside consultants to help us with this work, but obviously I have a lot of years of looking at mines.

TWST: Is the company's balance sheet quite strong.

Mr. Dempsey: It's very strong. We have \$35 million in cash and no debt.

TWST: Do you see any reason to alter or improve your capital structure?

Mr. Dempsey: We're always looking at having enough cash to do the acquisitions that we want to do, so we're trying to keep a solid war chest.

TWST: Can you imagine any political or economic considerations that could in any way affect you over the next few years?

Mr. Dempsey: Only major changes in government attitudes toward gold affect us, and of course catastrophic events in a mine. One of the benefits of Royal Gold is that all of our operations are in the hands of very high quality operators, the largest gold mining companies in the world, so that risk is mitigated largely.

TWST: Do you have an active investor relations program?

Mr. Dempsey: We do; our Vice President, Karen Gross, is very active. We tour Europe once or twice a year and have road shows in the US to support the stock, particularly with institutional investors.

TWST: Do you feel that at this point you're reasonably well understood by Wall Street?

Mr. Dempsey: I think reasonably well. We're never known well enough, but yes, I think people have a pretty fair understanding of the model.

TWST: Do you have some analyst coverage?

Mr. Dempsey: Yes, we do. It's mainly in Canada.

TWST: Could you give us the two or three best reasons why the long-term investor in particular should take a good look at Royal Gold?

Mr. Dempsey: If they're investing in this asset class, if they're investing in gold, they want to look at a stock that represents as much option value as possible. They're looking for exposure to changes in gold price, and a number of our company's royalties are leveraged because they're sliding-scale royalties. That gives the investor tremendous exposure to leverage against the gold price.

TWST: Would you give us a summary statement of the company vision?

Mr. Dempsey: The vision is to continue to grow by adding additional royalty revenue based on the operations of quality operators and quality deposits. We think the public pays a healthy multiple for the company because it has restricted itself to high quality investments.

TWST: Thank you. (MC)

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