

*Presented by Stan Denny*



# Stock Price Multiple

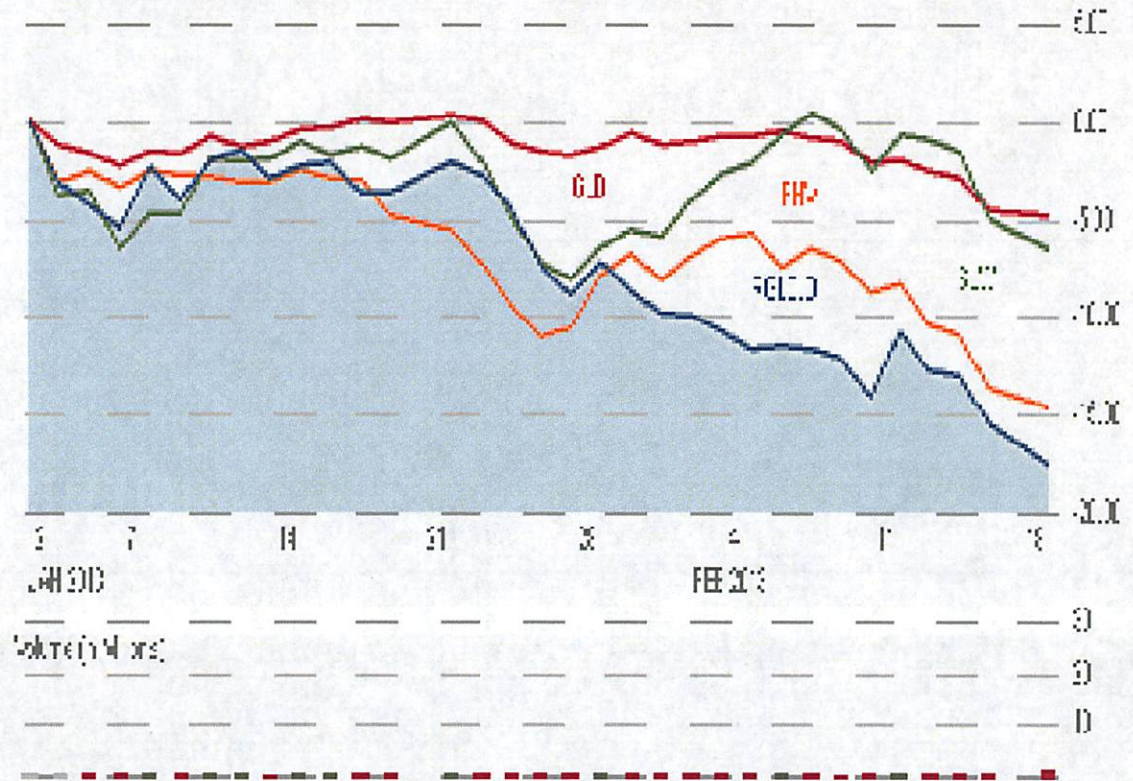
February 20, 2013

World Class Royalty Company



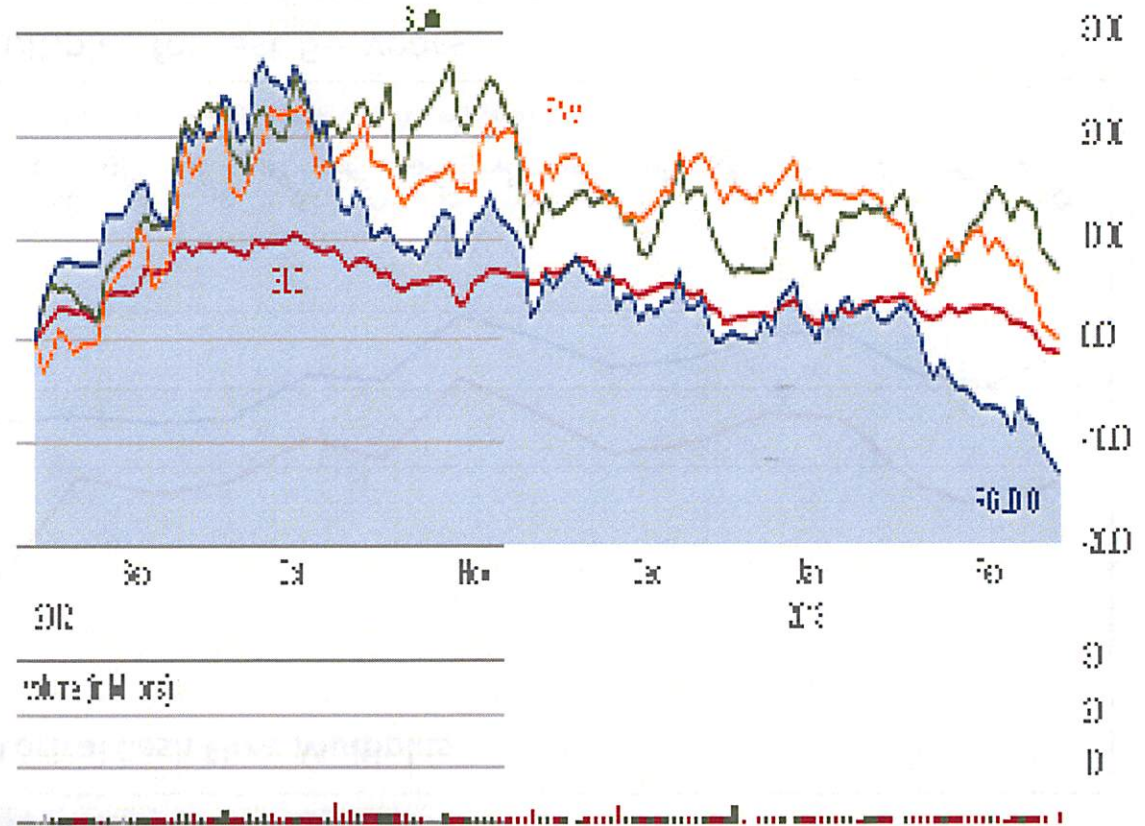
# Current Stock Price Downtrend

- Royal Gold closed at \$68.37 on February 19, 2013, down over 16% YTD
- Gold and peer equities have also traded down during this period
- YTD, FNV is down over 13%, SLW and Gold are off by about 5%

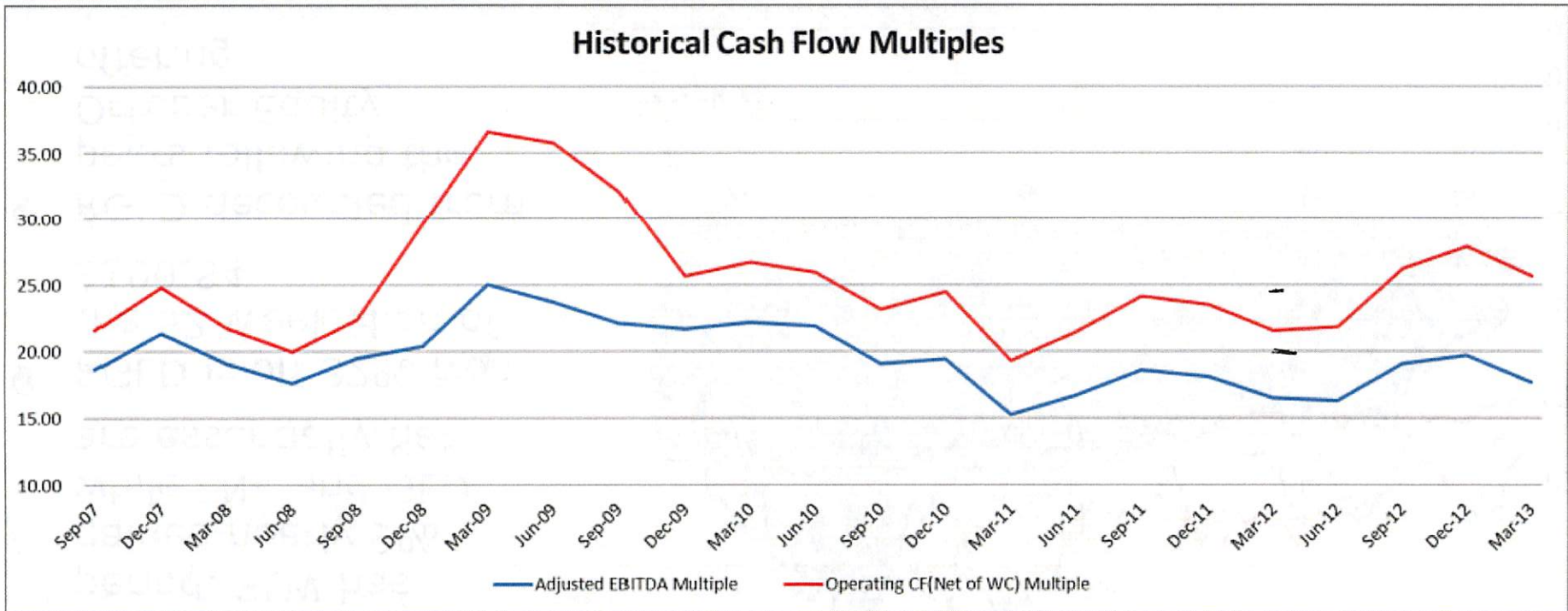


# Current Stock Price Downtrend

- For the last 6 months, RGLD is down 12%. During the same period, SLW has gained nearly 9% while FNV and GLD are essentially flat
- RGLD is off 32% from the 52 Week High of \$100.84
- RGLD decoupled from peers following the October Equity offering



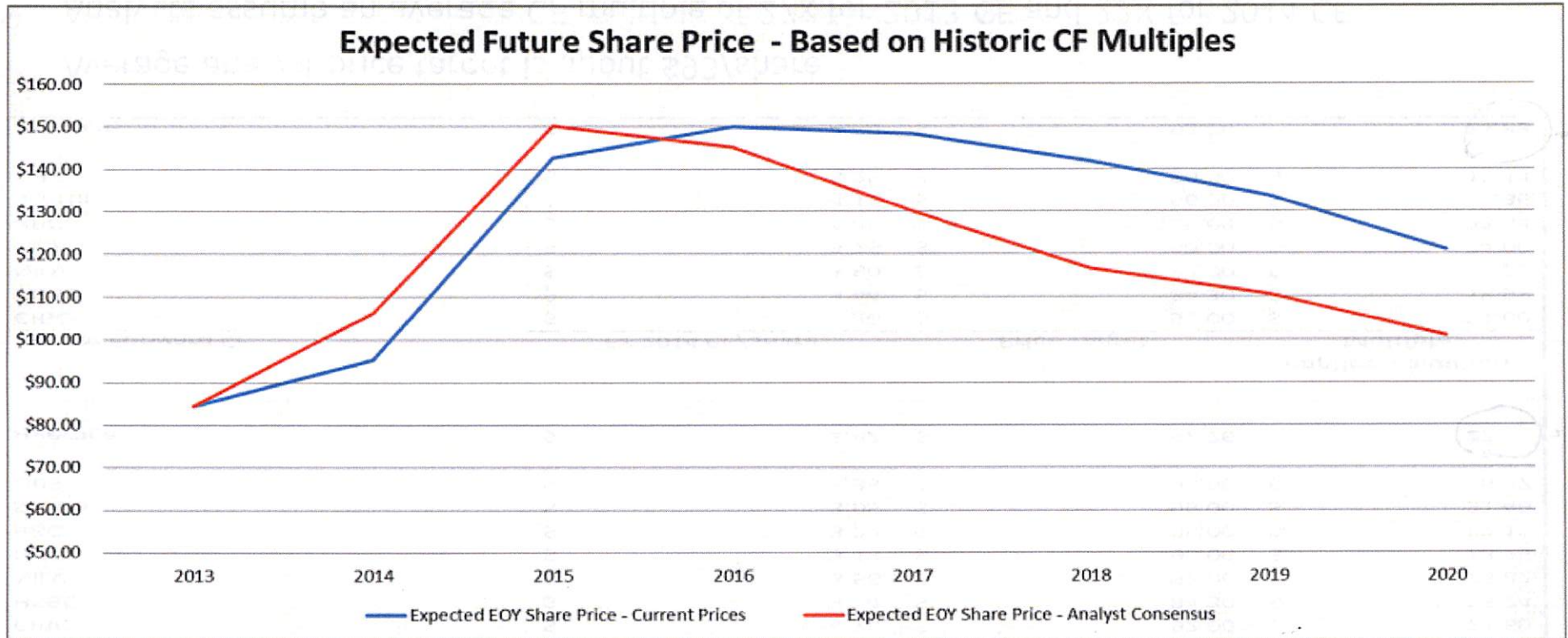
# RGLD Equity Valuation– Cash Flow Multiples



- The chart represents actual CF multiples for last 5+ years
- Average multiples during this period were 20X EBITDA and 25X Operating CF
- At \$68.37, RGLD is currently trading at approximately 16X EBITDA and 22X Operating CF
- This represents 80% of expected value for EBITDA and 88% for Operating CF



# RGLD Equity Valuation– Cash Flow Multiples



- The Chart above assumes that RGLD maintains historic CF multiples
- Average multiples during this period were 20X EBITDA and 25X Operating CF
- Using historic CF multiples, a reasonable target for RGLD is \$150/share by 2015



# RGLD Equity Valuation– Cash Flow Multiples

<b>Analyst CF Targets for RGLD</b>					
<b>1-Year Forward CF</b>	<b>FY 2013 CF/Share</b>		<b>Price Target</b>		<b>Implied Valuation Multiple</b>
CIBC	\$	4.26	\$	92.00	\$ 21.60
HSBC	\$	3.34	\$	84.30	\$ 25.24
MLV	\$	3.56	\$	92.00	\$ 25.82
NBF	\$	3.13	\$	90.00	\$ 28.75
RBC	\$	3.27	\$	105.00	\$ 32.11
Scotia	\$	3.05	\$	96.00	\$ 31.48
UBS	\$	3.35	\$	90.00	\$ 26.87
<b>Average</b>	\$	<b>3.42</b>	\$	<b>92.76</b>	<b>27.41</b>
<b>2- Year Forward CF</b>	<b>FY 2014 CF/Share</b>		<b>Price Target</b>		<b>Implied Valuation Multiple</b>
CIBC	\$	4.26	\$	92.00	\$ 21.60
HSBC	\$	4.44	\$	84.30	\$ 18.99
MLV	\$	3.80	\$	92.00	\$ 24.21
NBF	\$	3.75	\$	90.00	\$ 24.00
RBC	\$	4.46	\$	105.00	\$ 23.54
Scotia	\$	4.11	\$	96.00	\$ 23.36
UBS	\$	5.25	\$	90.00	\$ 17.14
<b>Average</b>	\$	<b>4.30</b>	\$	<b>92.76</b>	<b>21.83</b>

- Average analyst price target is about \$93/share
- Analysts assume an average CF multiple of 27x for 2013 CF and 22X for 2014 CF
- This is consistent with our historical average for CF multiples



# RGLD Equity Valuation– NPV Multiples

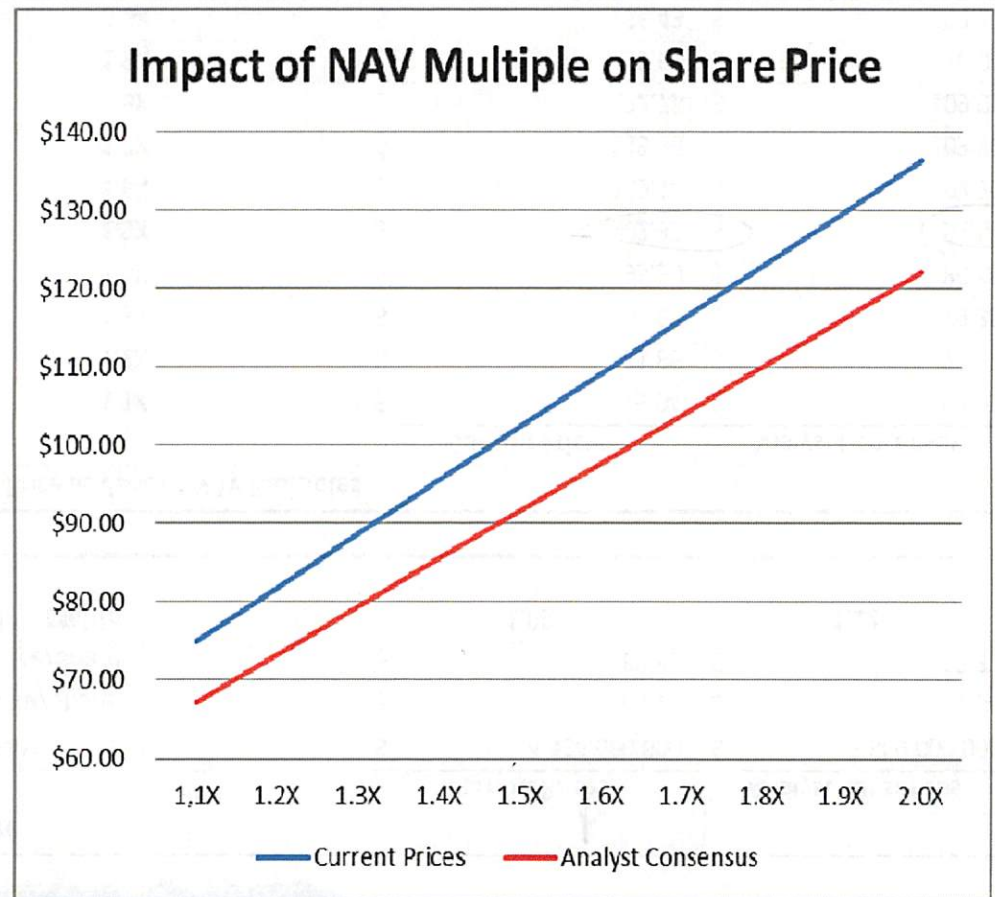
- Current NPV per share is \$68 at Current Prices and \$61 at Analyst Consensus prices
- This indicates that RGLD is trading at 1.0X NPV at current prices
- Using a 1.5X NPV multiple would result in a price of \$102/share at current prices and \$92/share at Analyst Consensus

NPV/Share		
	Current Prices	Analyst Consensus
Current NAV	\$ 4,434,000,000	\$ 3,969,000,000
Current NAV/Share	\$ 68.21	\$ 61.06
Current Price/Share	\$ 68.32	\$ 68.32
Current NAV Multiple	1.00	1.12

Expected Price at Various NAV Multiples		
	Current Prices	Analyst Consensus
1.1X	\$ 75.04	\$ 67.17
1.2X	\$ 81.86	\$ 73.27
1.3X	\$ 88.68	\$ 79.38
1.4X	\$ 95.50	\$ 85.48
1.5X	\$ 102.32	\$ 91.59
1.6X	\$ 109.14	\$ 97.70
1.7X	\$ 115.96	\$ 103.80
1.8X	\$ 122.78	\$ 109.91
1.9X	\$ 129.61	\$ 116.01
2.0X	\$ 136.43	\$ 122.12

# RGLD Equity Valuation– NPV Multiples

- Current NPV per share is \$68 at Current Prices and \$61 at Analyst Consensus prices
- This analysis indicates that RGLD is trading at 1.0X NPV at current prices
- Using a 1.5X NPV multiple would result in a price of \$102/share at current prices and \$92/share at Analyst Consensus





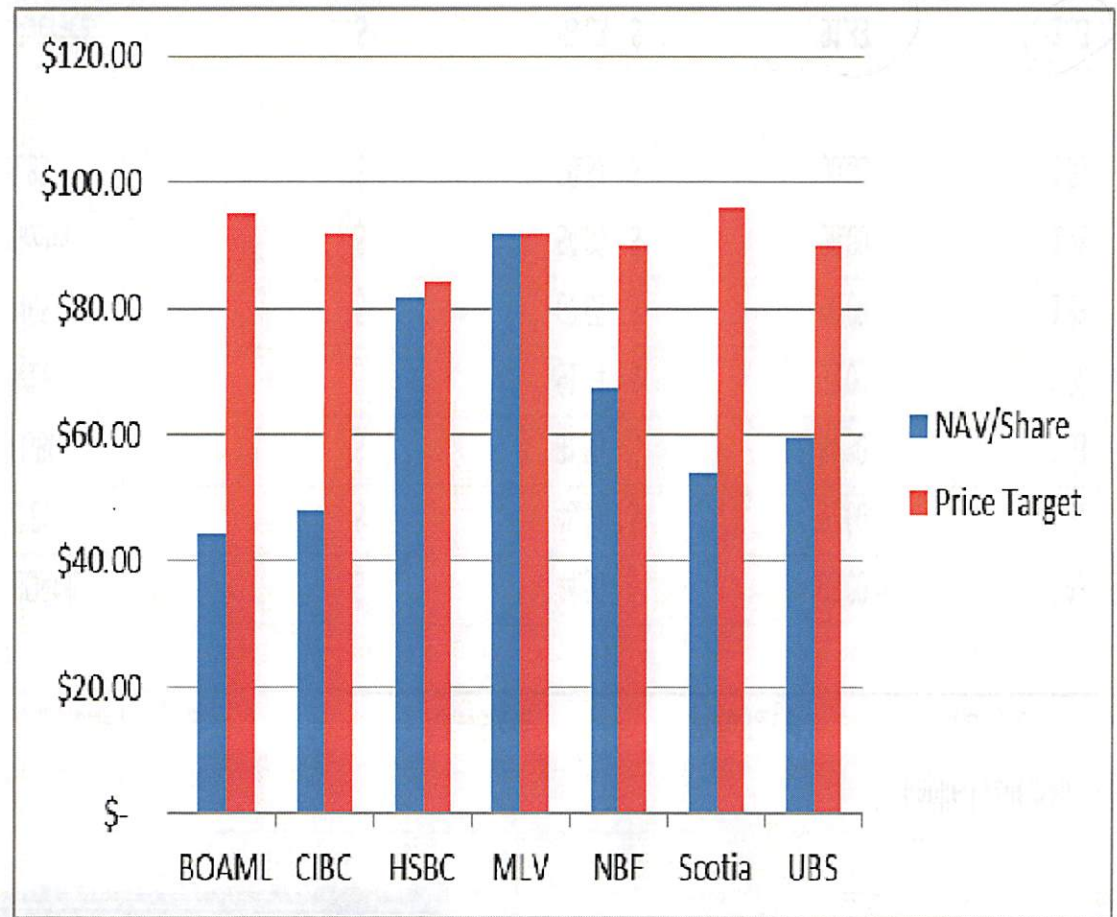
# RGLD Equity Valuation– NPV Multiples

- Average Analyst NPV per share is \$64
- Average Analyst implied NPV multiple is 1.5X
- Average Analyst Price target using NPV multiples is \$91/share

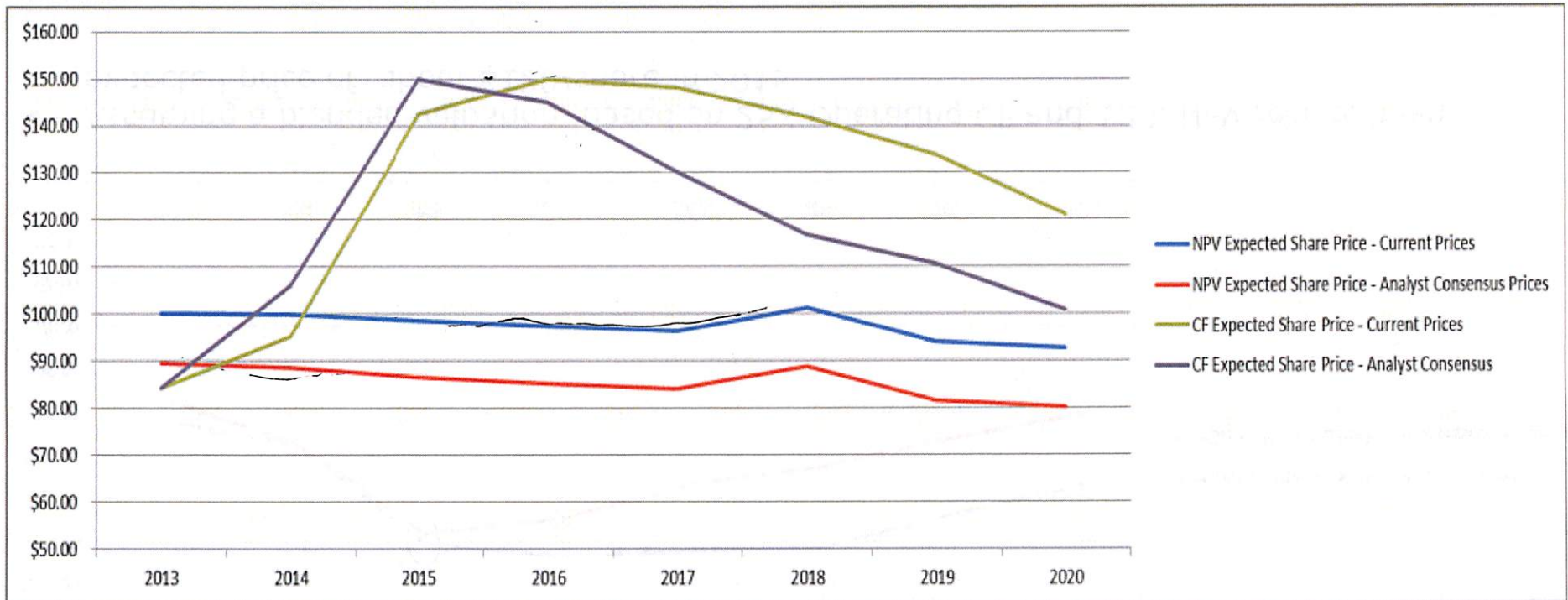
Analyst NPV Targets	NAV/Share	Price Target	Implied Valuation Multiple
BOAML	\$ 44.50	\$ 95.00	2.13
CIBC	\$ 48.11	\$ 92.00	1.91
HSBC	\$ 81.59	\$ 84.30	1.03
MLV	\$ 91.74	\$ 92.00	1.00
NBF	\$ 67.65	\$ 90.00	1.33
Scotia	\$ 54.00	\$ 96.00	1.78
UBS	\$ 59.57	\$ 90.00	1.51
Average	\$ 63.88	\$ 91.33	1.53

# RGLD Equity Valuation– NPV Multiples

- Average Analyst NPV per share is \$64
- Average Analyst implied NPV multiple is 1.5X
- Average Price target using NPV multiples is \$91/share

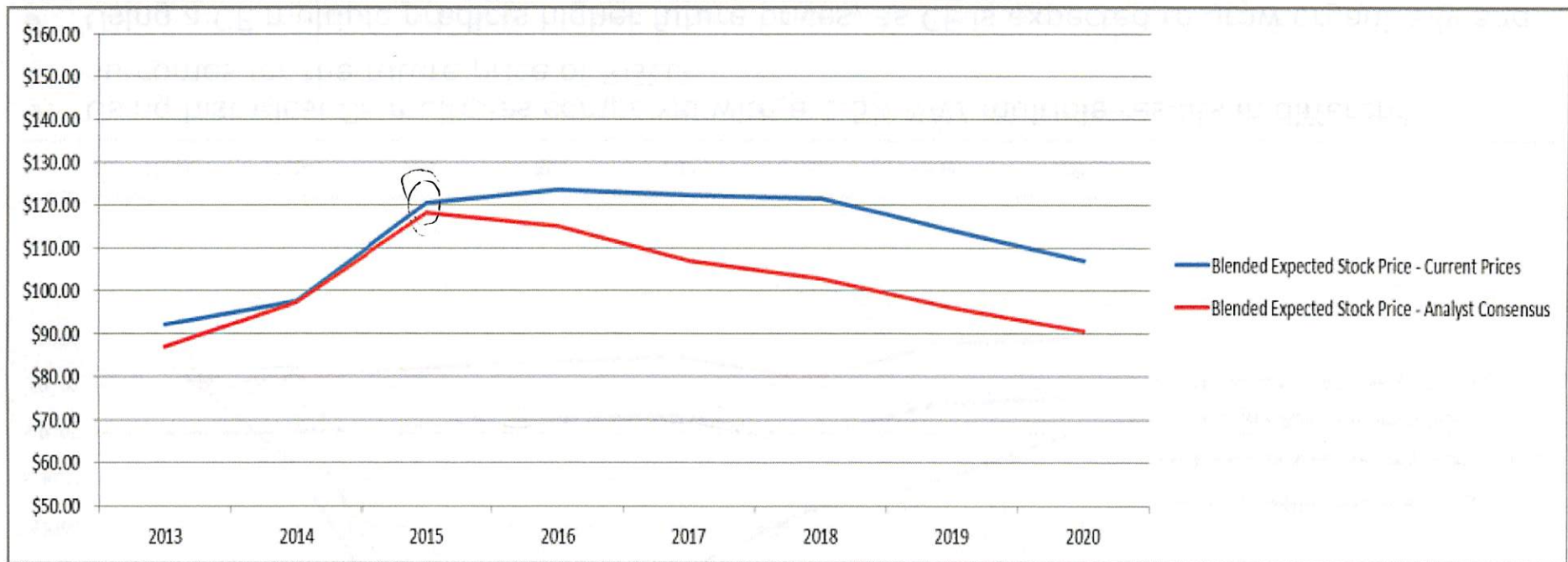


# RGLD Equity Valuation– Expected Share Price



- Using historical CF multiples compared with a 1.5X NAV multiple results in different outcomes for the future price of RGLD
- Using a CF multiple predicts higher future prices, as CF is expected to grow organically and as NPV erodes in future periods as no new future business development success is assumed to add to NPV

# RGLD Equity Valuation– Expected Share Price



- Assuming a blended valuation, based on 25X Operating CF and 1.5X NPV results in an expected price of about \$120/share in 2015



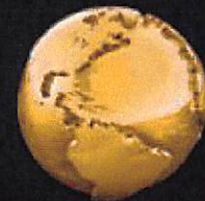
ROYALGOLD, INC

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Member of World Gold Council



World Class Royalty Company



Thanks for inviting me to speak

## Intro

- I'll talk a little bit my views on the conference theme "Is Bigger Better"
- Then I will talk about stock market prices for gold shares, and components of stock market multiples, including size

## Background

- By way of background, I have been fortunate to work with both large and small firms
  - The first half of my career was with Climax Moly and AMAX,
  - And I have been with Royal Gold now for more than 25 years, as it has grown from a small producer to a world class gold royalty company

## Royal Gold

- For those of you who do not know about Royal Gold
  - It is one of the largest royalty companies in the world
  - We earn our revenue almost entirely from top line based royalties which shield us from much of the operating and capital costs of a mine.
  - We acquire properties and earn our revenue from purchase of existing royalties (usually prospector royalties), the creation of royalties by financing new mines or expansions, and through M&A activity.
  - We have grown from 5 royalty properties to 191 properties today **(Slide 9)**

- The royalty model is highly profitable since most of our revenue ends up as cash flow. The table on the left of this slide showing market cap per employee makes the point **(Slide 3)**

## General observations on size

- My Climax/AMAX years convinced me that size does make an enormous difference in mining
  - AMAX had first class people. They were the very best at what they did. And the outside consultants were the best that could be obtained
  - AMAX had the money to do things right. I would observe that mining operations are not forgiving of poor practices. You simply cannot cut corners on any aspect of an operation.
  - The major negative that I observed in the big company setting is that they can become bureaucratic and petty corporate politics sometimes interfere with decision making
- My experience at Royal Gold supports the view that it is possible to start a mining firm from scratch, but that it is very hard to get started as an operator
  - Royal got started as a miner, with operations in California and Colorado – mines like the Camp Bird mine here in Colorado
  - We had some good properties and good people, but we kept running out of money. We had trouble putting together reserves, and doing the kind of metallurgical work we needed to do to get the best metallurgical response from our ores. Likewise, environmental costs were a killer. And we were not prepared to cut corners on safety.

- We supported our operating “habit” by doing some deal making that kept us in cash. We were better at buying and flipping mines than we were at operating.
- We also got lucky and made a major discovery in Nevada, and managed to keep a royalty on the property when we sold out to a major (**Slide 6**)
- Our discovery of South Pipeline gave us a cornerstone property for converting ourselves into a royalty company (**Slide 7**)
- We finally decided to get out of operations, and to put our deal making skills to work buying and managing royalties (**Slide 8**)
- I will observe that one of the joys of small companies is the ability to make things happen fast, and the lack of corporate politics. Even though Royal Gold is now a large company with a market cap of about \$4 billion, we still has only 21 employees.
- Summing up, I have tried it both ways, and bigger is better

The rest of my talk deals with valuation of gold shares, and in particular, the premium that the market assigns to such shares





- My colleague Bill Heisenbuttel, who is Royal Gold’s corporate development VP, gave a talk last month at the National Western Mining Conference in Denver. As part of that talk he commented on the premium, and I will quote “It is important to understand gold equity valuations. I attended a good business school with a strong finance focus and I thought I knew how to calculate a cost of equity and a cost of capital. Upon joining this industry, I was faced with the gold space where companies trade at high cash flow multiples and



actually receive a share price premium to the discounted cash flow of the company's assets. I would ask myself 'What do you mean you discount the cash flows and then multiply that by 1.5X or 1.75X?'. That was not in any of the textbooks I still have at my desk. But these premiums are real and have been for a long time. One of the keys to receiving the premium is having enough revenue from gold. We believe that to be considered a "gold share" you need about 70% of your revenue to come from gold."

- **(Slide 13)** CIBC prepared the charts on the right. The red bars in the charts are the NAV and cash flow multiples for royalty companies. The yellow bars are the valuation metrics for gold senior and intermediate companies. The green bars are those same measurements for senior and intermediate base metal companies.
- **(Slide 14)** As just pointed out, royalty companies trade at higher premiums than other in the gold space. This chart was taken from work done by Merrill Lynch. You might not be able to see all of the names in this chart, but those green bars at the right high end are Royal Gold and Franco Nevada. The high valuation reflects the view of the market that we provide exposure to the metal without the direct exposure to operating costs, capital expenditures, site management, political risk, and environmental liabilities. And these multiples have, again, been consistent over time.
- **(Slide 15)** One more chart deals with price earnings multiple. Again, Royal Gold ranks at the top of the list. Although we do not typically use P/E ratios in our industry, it is very common in the rest of the market place, so I thought you might like to see how our P/E compares to some other industry and mining sector titans. Our 45X multiple is more than twice anybody else/s on the list!

# Royal Gold, Inc.

-  One of three leading precious metals focused royalty companies in the world
  -  Earn almost all revenue from top line (NSR/GSR) royalties
  -  Revenue earned from investments in existing royalties and finance
  -  Passive investor with no direct control of exploration, development or operational decision making
  
-  A highly efficient business model
  -  Almost 90% of revenue reports as EBITDA
  -  High valuation multiple within the precious metals industry reflects high margins and lower risk

## Market Capitalization

(US\$ 000s/Employee as of 2/28/12)

 ROYALGOLD, INC	\$200,000
	\$ 10,029
 BARRICK	\$ 1,964
<b>RioTinto</b>	\$ 1,504
 NEWMONT <small>The World's Goldminers</small>	\$ 896
	\$ 707
 BOEING	\$ 349
	\$ 254
<b>WAL*MART</b>	\$ 96

**COLORADO SME SECTION**

**62<sup>nd</sup> Annual Meeting**

**April 26 – 28, 2012 at The Broadmoor, Colorado Springs, Colorado**  
**“Does Size Matter?”**  
**(Is Bigger Always Better?)**

**Thursday, April 26, 2012**

**10:30 AM – 5:30 PM Conference Registration – Golf Club Mezzanine**

**Afternoon Session – Robert Trent Jones Room**

1. 1:00 – 1:30 “Stirred Milling: Reducing Operational Costs and Improving Process Performance”  
Jon Allen, Metso Minerals
2. 1:30 – 2:00 “Rare Earths, Beryllium and Uranium Deposits of Round Top Peak, Sierra Blanca,  
Hudspeth County, Texas”  
Stan Korzeb, Texas Rare Earth Resources Corporation
3. 2:00 – 2:30 “Development Aspects of Gran Colombia Gold Corp's Marmato Project in  
Colombia”  
Don East, Medoro Resources/Gran Colombia Gold
4. 2:30 – 3:00 “Development of Midway Gold Corp's Pan Project”  
Rick Moritz, Midway Gold

**Coffee Break – 3:00 PM – 3:30 PM – Golf Club Mezzanine**  
**SPONSORS: Boyer & Seeley, Inc., Cyanco, Sulliden**

5. 3:30 – 4:00 “Small Mine Development – The Bear Lodge Project”  
Jaye Pickarts, Rare Element Resources, Inc.
6. 4:00 – 4:30 “Sand Farming Refractory Ore”  
Jody Kelso, JRKelso & Associates, LLC
7. 4:30 – 5:00 “Training the Climax Way”  
Chris Young, FMI – Climax Molybdenum Company

**Opening Cocktail Reception – 6:30 PM – 7:30 PM – Pompeiiian Room – Broadmoor Main**  
**SPONSORS: Goldcorp, Metso Minerals**

**Dinner – 7:30 PM – 8:30 PM – Broadmoor Main Ballroom**  
**SPONSORS: Newmont Mining Company, Outotec North America, Polysius Corporation,  
Thyssen Krupp**

**Keynote Address: “A User's Guide to the Brain”**  
Michelle Brown, Sentis

**Friday, April 27, 2012**

**7:00AM – 5:00PM Conference Registration – Golf Club Mezzanine**

**7:00AM – 8:00AM – Continental Breakfast - Golf Club Mezzanine**

**SPONSORS: Freeport McMoRan – Climax Molybdenum Company, Intrepid Potash, Rare Element Resources, Inc., Silver Wheaton**

**Morning Session – Robert Trent Jones Room**

8. 8:00 – 8:30 “Big Picture Optimization of Tailings Disposal and Water Recovery from Tailings”  
Christian Kujawa, Paterson & Cooke USA Ltd.
9. 8:30 – 9:00 “Metal Streaming – A New Method for Mine Financing – Silver Wheaton – A Case History”  
Randy Smallwood, Silver Wheaton
10. 9:00 – 9:30 “The Application of Acid Bake-Leach Process for the Treatment of Enargite Concentrates”  
Sadegh Safarzadeh, University of Utah
11. 9:30 – 10:00 “Size & Its Impact on Stock Market Multiples for Gold Mining Shares”  
Stan Dempsey, Royal Gold

**Coffee Break – 10:00 AM – 10:30 AM - Golf Club Mezzanine**

**SPONSORS: Anglo Gold Ashanti NA/Cripple Creek & Victor Gold Mining Company, Magotteaux, Inc., TetraTech**

12. 10:30 – 11:00 “Tower Hill Mining's Livengood Project”  
Jim Komadina, International Tower Hill Mines
13. 11:00 – 11:30 “Haile Gold Mine Flowsheet Review and Design Considerations”  
Jim Wickens, Romarco Minerals, Inc.
14. 11:30 – 12:00 “Startup of the Leadville Mill”  
Nick Michael, Union Milling

**Lunch – 12:00 to 1:30 PM – Donald Ross Room**

**SPONSORS: Huntsman, Resource Capital, Samuel Engineering**

**Keynote Address: “The Business of Humor: Using Positive Humor in the Workplace”**  
Craig Zablocki

**Afternoon Session – Robert Trent Jones Room**

15. 2:00 – 2:30 “Case Studies of Sustainable Water Treatment Solutions for Mine Impacted Water”  
David Kratochvil, Bioteq Environmental Technologies
16. 2:30 – 3:00 “Update on HPGR in Hard Rock Applications”  
Holger Plath, Thyssen Krupp
17. 3:00 – 3:30 “The Direct Reduction of Iron from Its Ore Using Traditional Techniques”  
Brett Carlson, South Dakota School of Mines

**Coffee Break – 3:30 PM – 4:00 PM – Golf Club Mezzanine**

**SPONSORS: CH2M Hill, Moly Cop USA, PERI**

18. 4:00 – 4:30 “Ore Characterization & Process Mineralogy in the Age of Bigger Plants”  
Wolfgang Baum & Phil Thompson, FLSmidth

19. 4:30 – 5:00 “Mt. Hope Project Update”  
Bruce Hansen, General Moly

**Friday Evening Activities – Access via Broadmoor Shuttle Only – Shuttle runs to and from  
Cheyenne Lodge from West Tower Lobby from 6:15 PM – 11:00 PM**

**SHUTTLE SPONSORS: Endeavour Silver, Hazen Research, Inc., Kemira Minerals &  
Metals**

**Cocktail Reception – 6:30 PM to 7:30 PM – Cheyenne Mountain Lodge**

**COCKTAIL RECEPTION SPONSORS: FLSmidth, SRK**

**Keys to Excellence with Heather Davis on the Piano, sponsored by Quinn Process Equipment**

**Dinner Dance – 7:30 PM – 11:00 PM – Cheyenne Mountain Lodge**

**DINNER SPONSORS: Gold Resource Corporation, Lyntek, Inc.**

**Music by Big Horn Band, sponsored by Quinn Process Equipment**

**Presentation of 2012 Arthur C. Daman Lifetime Achievement Award to Tom Plouf**

***Saturday, April 28, 2012***

**Continental Breakfast – 8:00 AM – 9:00 AM – Golf Club Mezzanine**

**SPONSORS: Golder, TIC – The Industrial Company, Paterson & Cooke USA Ltd.**

***Morning Session – Robert Trent Jones Room***

20. 9:00 – 9:30 “The Energy Fuels/Titan & Denison Acquisition – Bigger is Better”  
Steve Antony, Energy Fuels

21. 9:30 – 10:00 “Development of Large Mill Circuit Pumps – Weir Minerals”  
Ron Bourgeois, Weir Minerals

**Bloody Mary Break – 10:00AM – 10:30 – Golf Club Mezzanine (Spouses/Significant Others Welcome)**

**SPONSOR: Weir Minerals**

22. 10:30 – 11:00 “Hydrometallurgical Recovery of Tellurium Dioxide from Cadmium Telluride  
Photovoltaic Manufacturing Scrap”  
Caelen Anderson, Colorado School of Mines

23. 11:00 – 11:30 “In Collaborative Research, Is Bigger Always Better?”  
Terry Braden, Amira International

24. 11:30 – 12:00 “North Bullfrog Project, One of Nevada's Newest Gold Discoveries”  
Carl Brechtel, Corvus Gold

**Lou Cope Best Presentation Award & Wagner Equipment Student Scholarship Awards**

**STUDENT SPONSORS: Colorado Mining Association, Wagner Equipment**

**1:00 PM – 5:00 PM – Golf Tournament – East Course**

**SPONSORS: Celerant Consulting, Chemstar Products, Colorado Mining Association, Cyanco,  
Enercon Engineering, FLSmidth, Gekko Systems, General Moly, Len & Rosa Harris,  
McLelland Laboratories, RDI, RMCMI, Roche Engineering, Inc., Stine Consulting LLC, Tetra  
Tech, Texas Rare Earth Resources Corporation, Transera International**

**5:30 PM – 7:00 PM – Golf Reception – Golf Club Porch (Back up is Arnold Palmer Room)**

**SPONSORS: Irathane Systems, Knight Piésold and Co., Mill Man Steel, Inc.**

## **Student Sponsorship Opportunity**

MPD is committed to investing in our future by sponsoring academic scholarships for students in related collegiate disciplines and NEEDS YOUR SUPPORT to ensure we will be able to support our future. This year we have invited three outstanding students to attend the conference and present a paper pertaining to their studies/research. The winner will receive a \$2,000 scholarship and the runners up will each receive \$500.

**\*We are offering a special Gold Star to be added to your name badge should you choose to contribute to the MPD Student Sponsorship Program. We ask a minimum of \$25.00 as sponsorship, but leave the actual amount up to your discretion. Individual and corporate support is welcome.\***

### **2012 Executive Committee**

<b>Jens Lichter (Chairman)</b>	<b>Lyntek, Inc.</b>
<b>Brett Berg</b>	<b>CH2M Hill</b>
<b>Steve Hearn</b>	<b>Huntsman</b>
<b>Mike Jensen</b>	<b>Camber Process Equipment</b>
<b>Mark Jorgensen</b>	<b>CH2M Hill</b>
<b>Bob Keller</b>	<b>Wagner Power Systems</b>
<b>Bob Kilborn</b>	<b>FMI – Climax Molybdenum Company</b>
<b>John (Buzz) Kyle</b>	<b>Lyntek, Inc.</b>
<b>Nick Lynn</b>	<b>Lyntek, Inc.</b>
<b>Patty Lynn</b>	<b>Acker, LLC.</b>
<b>Jim Metsa</b>	<b>Weir Minerals</b>
<b>Jenny Pergola</b>	<b>Pumps Plus, Inc.</b>
<b>Jaye Pickarts</b>	<b>Rare Element Resources, Inc.</b>
<b>Gill Porter</b>	
<b>Rick Quinn</b>	<b>Quinn Process Equipment</b>
<b>Jim Thompson</b>	<b>Pumps Plus, Inc.</b>

### **Honorary Members**

**Len Harris**  
**Graham Karklin**