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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Franco-Nevada Corporation Q3 2019 Results Conference Call. (Operator Instructions) Note that this conference is being recorded on Tuesday, November 12, 2019. And I would like to turn the conference over to Mr. David Harquail. Please go ahead, sir.

David Harquail - Franco-Nevada Corporation - CEO & Director

Yes. Thank you, Sylvie. Good morning, everyone. Welcome to Franco-Nevada's third quarter financial Results. Accompanying this call is a presentation, which is available on our website at franco-nevada.com. You'll also find it posted on our website the full financial disclosures supporting our -- materials supporting our disclosure.

Before we begin formal remarks, we would like to remind participants that some of today's commentary may contain forward-looking information, and we refer you to our detailed cautionary note on Slide 2 of this presentation. This is David Harquail, and I am the current CEO of Franco-Nevada and a Board member.

On Slide #3 is an outline of the current directors and executive management of Franco-Nevada. Almost all the faces you see are here today and will be available for questions. We've highlighted on the slide steps that are being taken to renew both our Board and executive team. Jennifer Maki and Elliott Pew have joined the Franco-Nevada Board in just the last 6 months. Also in September, we announced our intention that effective May 6, at our Annual meeting in 2020, I will transition to a nonexecutive role -- Chair Role, and Pierre Lassonde will transition to Chair Emeritus. On the same day, our intention is for Paul Brink to become our new President and Chief Executive Officer, and if so approved by the shareholders, join the board. All these changes have been part of a long-term, well-communicated processes that has had the unanimous support of our Board, executives and major shareholders. We believe the transition will be seamless, while at the same time preserving the DNA and discipline of what makes Franco-Nevada successful. I will now call on Sandip Rana, our CFO, to provide a few -- brief review of our results. He will then be followed by Paul Brink, currently our President and Chief Operating Officer, to provide some corporate updates. We will then be happy to take any of your questions. Sandip, the floor is yours.

Sandip Rana - Franco-Nevada Corporation - CFO

Thank you, Dave. Good morning, everyone. As you will have seen from the press release issued yesterday, the company delivered another quarter of strong financial results. In fact, third quarter was a quarter of milestones for the company. We received the first delivery of gold and silver ounces

from Cobre Panama in third quarter. This is a precious metal stream that was originally entered into in August 2012. It has been a long time coming, but it was worth the wait. First Quantum Minerals has built a world class operation, and we look forward to receiving gold and silver ounces from the mine for years to come. The second milestone for the company was financial. Q3 2019 is the first quarter the company has exceeded \$200 million in revenue. In fact, revenue for the quarter was \$235.7 million, a 38% increase over Q3 2018 and Q2 2019.

As you turn to Slide 4, you will see the key financial results for the 3 months ended September 30, 2019; June 30, 2019; and September 30, 2018. The company had a strong quarter with increases across all financial metrics when comparing to the periods mentioned. A number of new financial records have been achieved for the quarter. These are all highlighted. With the increase in revenue and due to the lower cost nature of our business model, adjusted EBITDA and adjusted net income were also significantly higher in Q3 2019 versus prior periods shown on the slide. Adjusted EBITDA was \$192.9 million or \$1.03 per share and adjusted net income for Q3 2019 was \$101.6 million or \$0.54 per share. These strong financial results continue to showcase the strength of the Franco-Nevada business model, increases in commodity prices flow directly to EBITDA and earnings for our company. From an operational standpoint, our royalty and stream assets continue to perform well.

As you turn to Slide 5, the chart illustrates the gold and gold equivalent ounces sold for each of the last 5 quarters. The GEOs earned for Q3 2019 were 133,219, a record for the company, compared to approximately 120,000 in Q3 2018. The increase in GEO sold was due to the first deliveries of gold and silver from Cobre Panama. The company sold approximately 21,500 GEOs from this asset during the quarter. In addition, the company had strong performance from its Hemlo NPI with its leverage to gold price. The Beacon Tasiast, where we are benefiting from recently completed expansions and Brucejack where the royalty began being paid in December of last year. The company did have lower deliveries and sales from Antapaccay and Antamina, but that was as expected.

Also, I would like to highlight that the company did receive significant contributions from its PGM assets during the quarter. This was a combination of higher palladium prices and an increase in production at the Stillwater and Sudbury mines.

Turning to Slide 6, we have 2 charts on the page. The first highlights the total revenue earned by the company for the previous 5 quarters. For third quarter, revenue earned, as mentioned, was \$235.7 million, a 38% increase. The company benefited from a combination of higher mining asset revenue with all commodities contributing to the increase and the energy assets having a strong third quarter. Bottom chart highlights the energy revenue and the average WTI oil price for the last 5 quarters. Third quarter was a stronger quarter for energy compared to prior year as we recorded the first revenues associated with the recent Marcellus royalty acquisition, and we continue to have strong production performance from our Orion asset. With respect to the Marcellus royalty, the quarter did reflect revenues from the effective date of the transaction, March 1, 2019. As a result, an additional \$9 million in revenue was recorded in the third quarter. The company did fund \$28.7 million with its Continental Royalty Venture, with an additional \$1.8 million accrued in accounts payable on the balance sheet at the end of the quarter.

On Slide 7, we illustrate the commodity mix of our revenue as well as highlight the jurisdiction in which the revenue is generated. As shown, 84% of revenue for the quarter was generated by gold and gold equivalent assets with 64% being from gold, 10% silver, 7% PGMs and 3% other. The geographic revenue profile has revenue being sourced 85% from the Americas, with Latin America accounting for 48%.

One of the strengths of the business model is the diversification of our portfolio. Slide 8 aims to highlight this. The first chart illustrates that only 3 assets contributed more than 10% of our revenue in third quarter. Those 3 assets Cobre Panama, Candelaria and Antapaccay in total generated 37% of our revenue. The second chart highlights how revenue is distributed from a legal ownership perspective. The company has offices located in Canada, United States, Australia and Barbados, and holds many assets in each of these entities. The third chart highlights our operator diversity. Our largest exposure to revenue being generated by any one operator is 14%, which is First Quantum who operates Cobre Panama. We are fortunate to have royalties and streams on many properties mined by some of the most reputable mining companies in the world.

One of the key elements of our business model is the generation of high margins. As you can see on Slide 9, the company achieved margin of 81.8% in the third quarter. The increase in commodity prices resulted in a significant increase in revenue during the quarter. And on the cost side, we did have an increase in stream and other costs, which was \$38.7 million compared to \$33.4 million in Q3 2018. The increase is a result of the increase in stream GEOs, the company sold particularly related to Cobre Panama. The company consistently achieved strong margins regardless of what commodity cycle we are in.



One area that our Board and management is very proud of is focus on cost management. We like to stress the strength of our business model and the scalability.

I think that this cannot be more illustrated clearly than Slide #10. Here, we have highlighted our quarterly revenues and our quarterly general and administrative expenses since our IPO. Since 2008, our revenues have grown from approximately \$25 million to \$235 million this quarter. That is almost a tenfold increase. This, while our G&A has remained fairly stable over this time period. General and administrative costs have approximated \$5 million to \$8 million per quarter for the last 12 years. For third quarter 2019, G&A was less than 3% of our revenue. Management believes we can continue to add to our portfolio and grow our business without adding significant overhead to the company.

To add another financing option for the company, Franco-Nevada implemented an aftermarket equity program, also known as an ATM, in July. If you turn to Slide 11, I will highlight some of the key elements of this program. The program will allow the company to issue from treasury up to \$200 million worth of common shares. All sales would be at the discretion of management. There is no requirement that mandates actual sales having to take place under the ATM Program. The program provides the company with another tool in managing its balance sheet and the liquidity available to the company. We look at the ATM Program, the \$1.1 billion in credit facilities and the significant cash that the company will continue to generate as sources of capital to help finance future transaction. The company did use the ATM Program during the quarter, selling 884,000 shares for gross proceeds of \$84.3 million.

Before I turn it over to Paul, I would like to mention that there is no material update to the CRA audit currently underway. We continue to provide information and answer questions from CRA. The company did receive the previously highlighted reassessment for its Canadian subsidiaries reassessing the 2014 and 2015 taxation years to increase income by adjusting the timing of deductions for upfront payments. This is approximately \$1.6 million reassessment.

And with that, I will now turn it over to Paul.

Paul Brink - *Franco-Nevada Corporation - President & COO*

Thank you, Sandip. The ramp-up at Cobre Panama continues to go well. First Quantum declared commercial production on September 1, a month ahead of schedule. The 3-mill trains made up of 7 mills are now operational, and 72 million tonnes per annum of throughput is expected by year-end. Throughput is expected to increase to 85 million tonnes per annum with the addition of the eighth full mill. First Quantum has confirmed the 2019 guidance for Cobre of 140,000 to 175,000 tonnes per annum of copper production. As we indicated on our last call, we expect GEOs delivered to Franco to be at the high end of our guidance for Cobre, that is close to 40,000 GEOs in 2019. Q3 was the first quarter that we received deliveries from Cobre. Total GEOs delivered were 22,942 ounces, and the GEOs sold was slightly less at 21,526 ounces. We did benefit from faster payment terms on the initial short-term concentrate sales contracts during the quarter as the contracts moved to longer-term, timing of deliveries will be a bit slower, and it's our conservative estimate for Q4 deliveries.

Turning to Slide 13. In July, we invested \$300 million to acquire a 1% overriding royalty from Range Resources, covering their operated position in the core of the Marcellus play in Pennsylvania. The effective date of the transaction was March 1. During the 7-month period from the effective date until the end of Q3, we recorded \$13.1 million in revenue for an average of approximately \$1.9 million per month. We continue to expect the royalty to generate approximately \$25 million in 2020, assuming a \$2.50 per Mcf price for natural gas. The ongoing revenue growth rate will depend on Range's capital plans over the next few years.

Turning to our guidance on Slide 14. We expect that our mining GEOs will be at the higher end of our guidance range for the year. We've narrowed the guidance closer to the top end of the range, and it now is 490,000 to 500,000 GEOs. Our energy guidance was increased in Q2, following the addition of the Marcellus royalty and the performance of the existing portfolio. We're maintaining it at that level, which is \$100 million to \$115 million.

As always, we're positioned to make substantial investments and currently have available capital shown on Slide 15 of \$1.4 billion. Our working capital and marketable securities together totaled \$359 million, and we had \$245 million drawn on our debt facilities at September 30. Subsequently, we've repaid an additional \$65 million, leaving \$180 million in debt outstanding as of today. We're seeing good acquisition opportunities at present.

We're most active on the mining side. In precious metals, there's potential for both smaller transactions, that's less than \$100 million; mid-sized transactions, greater than \$500 million; and we're also seeing some larger transactions upwards of \$1 billion. We continue to be opportunistic in other commodities and believe we have room for incremental non-precious transactions. With that, I'll hand it back to the operator and welcome any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question will be from Cosmos Chiu at CIBC.

Cosmos Chiu - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Equity Research Analyst*

Congratulations on a very strong Q3. And congratulations, David and Paul. Maybe my first question is on Cobre Panama here. Paul, as you mentioned, your -- it seems like the deliveries are moving into more long-term contracts in Q4. Could you maybe, again, walk us through how that changes in terms of the deliveries to Franco-Nevada? I'm just wondering when does Franco-Nevada get paid on these contracts? Is it when the concentrate gets shipped out? Or is it when the smelter gets to concentrate? Or is it when First Quantum actually gets paid? And again, how does the switching over to long-term contracts impact that?

Paul Brink - *Franco-Nevada Corporation - President & COO*

The -- it's just a small timing impact overall, Cosmos. The -- in terms of how we get paid, when the concentrate ships, the -- we get the bulk of our payment as a provisional payment. And then at a later date, you -- once the concentrate is actually being processed, you get a final settlement that is an adjustment. But economically, it's really that provisional payment, which is the major driver. The -- for the initial contracts that we entered into, we were getting those payments in anything 20 to 30 days after the concentrate shipped. More typical longer-term contracts, that will move out to maybe 30 to 40 days on average. So just as you transition, you -- it's a couple of weeks to a month's difference in terms of the timing -- with no major impact.

Cosmos Chiu - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Equity Research Analyst*

So it's going to really just impact Q4 as you transition to those other contracts?

Paul Brink - *Franco-Nevada Corporation - President & COO*

Yes. Exactly.

Cosmos Chiu - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Equity Research Analyst*

Okay. And then I don't know if this is related to Cobre Panama as well. But Sandip, I realize, I noticed that your taxes as a percentage of earnings in Q3 is slightly lower than previous quarters. I somewhat remember that, I believe, the Cobre Panama stream is a bit more tax efficient. Again, is the lower percentage in taxes, a result of the Cobre Panama deliveries in Q3. And what should we expect in terms of a tax rate on a go-forward basis?



Sandip Rana - *Franco-Nevada Corporation - CFO*

Cobre Panama is in a tax-efficient structure. It is just due to number of stream ounces we did receive and sell in Q3, it did impact the tax rate. So it is slightly lower. Going forward, I think a reasonable estimate is between 15% and 16% as the long-term tax rate for the company.

Cosmos Chiu - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Equity Research Analyst*

Great. And then maybe switching gears a little bit here at Marcellus. Certainly, there was a catch-up payment in Q3, given it started in March, or it got rolled back or started -- the contract was retroactive since March. I just want to make sure, I think you highlighted the 15.9% of your revenue in Q3 coming from energy. I just want to make sure that -- I guess what I'm trying to get to is that number seems a bit inflated? I guess that includes your payment, your onetime payment from Marcellus. To confirm that, number one? And number two, what would be a more normalized number, if I was to take out that Marcellus contribution? And if you can also talk about that 20% target, you're still trying to get -- or not trying to get to, but the 20% cap? And if that's still the case?

Sandip Rana - *Franco-Nevada Corporation - CFO*

Cosmos, Sandip here. You are right in that percentage for energy. It is the \$9 million catch-up payment for the stub period is included. If you were to pull that out going forward, obviously, it will depend upon how the other commodities do in gold and silver and the stream ounces from those assets. But I think around 14% -- 13% to 14%, I think, is a reasonable number for energy.

Paul Brink - *Franco-Nevada Corporation - President & COO*

And Cosmos, in terms of the outlook, the -- you will recall, the -- we think of that 80-20 as a rough guide to the 20% being the maximum amount of energy on non gold that we'd want over the longer term. And looking at any deals where it's asset quality that is #1 for us. So as we look at them, we're obviously -- that's what drives any individual deal. Right now, we're most active, as I mentioned, on the precious metal side. And so that's the most likely area in terms of incremental additions.

Cosmos Chiu - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Equity Research Analyst*

Sure. And then again, on energy as well, I noticed that your contribution to Continental, \$19.6 million in Q3, slightly lower than what you did in Q2. Is that just a function of, you had contributed a lot in the first half, and so now just kind of rounding it out in the second half? And then now from that perspective, I believe there's still some contributions needed in year 2020? Like how should we look at it? Is it going to be more front-end loaded once again? Or is it going to be based on activity, acquisition activity at Continental? Or is it more kind of like evenly spread out in the quarters in 2020?

Jason O'Connell - *Franco-Nevada Corporation - VP of Oil & Gas*

Cosmos, this is Jason O'Connell. Just thinking about how those contributions are made, they have been fairly regular in terms of monthly payments historically. We're seeing a bit of a slow up towards the end of the year here. It's a function of how continental ultimately is able to buy acreage on the ground. And so we expect that number probably be a little bit lower towards the end of the year as Continental has, I guess, approaches their \$120 million cap for the year. Going forward, in 2020, we still have in place a contribution limit of \$100 million. So we expect them to be pretty close to that amount. It could be more or less, again, depending on just the pace of their acquisitions throughout the year. And then following that, there's about \$50 million or so remaining that would come in 2021, before the end of our commitment.



Cosmos Chiu - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Equity Research Analyst*

Okay. And then maybe one last question, if I may. Congrats on getting very good scores on ESG. But my question is, as a royalty streaming company here, your ESG score will be in part dependent on the actions and reactions of some of your partners, the producers, the operators. How do you manage that risk? And how do you make sure that you can maintain that good standing, the high standing in the ESG surveys?

David Harquail - *Franco-Nevada Corporation - CEO & Director*

Cosmos, it's David here. As you know, the -- we're very active on the World Gold Council right now. And I'm quite proud that, as an industry, now we've had 26 gold companies now agreed to a common set of standards on ESG. And these are now going to be in the next 2 years, where all companies are being to implement. It's an audit process in terms of a third-party verification that we're fulfilling the functions on ESG. So I've talked to my colleagues in the Oil & Gas industry, and they're quite jealous of what we're doing right now in the gold industry. In terms of what we can do, we don't control the operations. That's absolutely clear. But we absolutely control how we allocate capital. So we've institutionalized in our due diligence process where we do look at all community issues, we look at tailings risk, we look at environmental risks of every one of our assets. It's something that's integral now in business development, and it's integral in terms of the Board review of these assets. As well as, we -- on our more significant assets, we visit a number of them actually several times a year, we try to touch at least our major assets at least once a year and sort of our second-tier assets every second year, we'll review as part of those visits any ESG issues that we're concerned with. And it's something that we will bring up with the company if there's an issue or we'll look at trying to isolate that risk of our company and sell those assets. We have not yet gotten to a circumstance where we've needed to sell an asset. I think we're lucky that most of our operators are either members of the World Gold Council or at the ICMM. They're following very high standards and they're working hard to improve those. So we did have a slide #16, so I'm happy you brought up the question. We're very proud that at least we've been able to be proactive on this business. And I think we've now got the rating agencies recognizing what we're doing. And so we just found out a few weeks ago that we're now ranked #1 by Sustainalytics out of 104 precious metals companies. So this is something I'm going to [tout] as long as we're #1. And MSCI has now appreciated the form of business that we're doing, and we're now ranked AA. I understand that there's no other company in the mining business that's ranked higher than that. So we're ranked on that level for 2019. So very pleased to be where we are, and we'll continue to be proactive and try to stay ahead of the curve.

Operator

Next question will be from Carey MacRury at Canaccord Genuity.

Carey MacRury - *Canaccord Genuity Corp., Research Division - Analyst of Metals and Mining*

Question for Paul. You mentioned some of the business development opportunities. I'm just wondering if you can give a little bit more color. Are those on producing assets, development assets, maybe M&A related?

Paul Brink - *Franco-Nevada Corporation - President & COO*

Carey, we're seeing opportunities across the board. So some of the themes that we've spoken of before, asset sales coming out of some of the major companies. We're seeing some project builds in the precious metal space and also seeing some byproduct opportunities. So it really is across the spectrum of the type of opportunities that we typically see.

Carey MacRury - *Canaccord Genuity Corp., Research Division - Analyst of Metals and Mining*

And in terms of development assets, do you think the market's there for equity and debt? Or how do you think about that in terms of, obviously, a stream can be difficult to fund the project on a 100% basis?

Paul Brink - *Franco-Nevada Corporation - President & COO*

As we're all aware, there's not a lot of equity available. There is some debt and there are streams. So I think there are a few assets that are able to move ahead in this market, obviously, with good assets with good sponsors.

Operator

Next question will be from Mike Jalonen at Bank of America.

Michael Jalonen - *BofA Merrill Lynch, Research Division - MD*

Just had a question on Hemlo. You may have seen Barrick's presentation with a 5-year guidance from a week ago where had a great slide on exploration at Hemlo, showing 500 meters of down plunge extent of the sea zone. I'm just wondering how that impacts your NPI in the future?

Sandip Rana - *Franco-Nevada Corporation - CFO*

Mike, Sandip here. Yes. So that -- those results are on our property, and we're very excited. Obviously, because it's an NPI, there'll be development costs associated with it, so it is hard to know exactly what the impact will be. But Hemlo, as you can see from this quarter, the leverage of the gold price is quite significant. So we're actually quite encouraged with what Hemlo will provide to us going forward.

Michael Jalonen - *BofA Merrill Lynch, Research Division - MD*

Where they're working? Is that all on Franco NPI ground?

David Harquail - *Franco-Nevada Corporation - CEO & Director*

Yes, David here. It's -- yes, if you look at the down plunge, it's going to the Northwest. That's on what was called the Interlake claims, and that's on the ground. There is some work that Barrick has done on what's called a golden ceptor further to the west. But the majority of what they focused and highlighted, that was all on Franco-Nevada's Interlake claims.

Operator

(Operator Instructions) And your next question will be from Tanya Jakusconek at Scotiabank.

Tanya M. Jakusconek - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Congrats on a great quarter. A question for Sandip first. Just coming back to Cobre Panama, Sandip, can you talk a little bit about the fact that we didn't reach the 58 million tonnes per annum until after January 1, 2019. And just getting the \$100 discount on your gold delivery prices, is that the case that you saw in Q3?

Sandip Rana - *Franco-Nevada Corporation - CFO*

Yes. So because they didn't reach the 58 million tonnes, we do get the \$100 deduction per ounce -- gold ounce going forward until the return is achieved by Franco, the 5%. And so that will go on for probably 3 to 4 years.



Tanya M. Jakusconek - Scotiabank Global Banking and Markets, Research Division - Analyst

Okay, 3 to 4 years from now, and it is showing up in your costs?

Sandip Rana - Franco-Nevada Corporation - CFO

Yes, correct.

Tanya M. Jakusconek - Scotiabank Global Banking and Markets, Research Division - Analyst

Okay, that's helpful. And what is the remaining balance that we can...

Sandip Rana - Franco-Nevada Corporation - CFO

I'd have to get back to you on that one. Off the top of my head, it's approximately \$40 million.

Tanya M. Jakusconek - Scotiabank Global Banking and Markets, Research Division - Analyst

Okay, that's helpful. And then maybe for Paul. Just coming back on your M&A opportunities that you see out there, you mentioned the greater than \$1 billion. I mean that -- from our last conference call, I think we were seeing more smaller type opportunities, sort of, under \$500 million or thereabouts. So clearly, we've had the change in landscape. Are those opportunities of over \$1 billion, are those project builds or by product opportunities?

Paul Brink - Franco-Nevada Corporation - President & COO

So those would be by product opportunities, Tanya. And I guess the shift has been with the weakness with base metal prices and with strong precious metal prices back to stage where you've got a good arbitrage on byproduct.

Tanya M. Jakusconek - Scotiabank Global Banking and Markets, Research Division - Analyst

Yes, I just wanted to see whether it was the byproduct or the project builds. Okay. So it's back to byproducts. Well, it's good to see. I mean, on the base metal side, but good to see the opportunities there.

Operator

(Operator Instructions) And at this time, Mr. Harquail, we now have no further questions. I would like to turn the call back to you. .

David Harquail - Franco-Nevada Corporation - CEO & Director

Thank you, Sylvie. Thank you for participating on the call. We expect to release our year-end 2019 results after market close on March 9, and we'll have a conference call similar to this one, the following morning. Again, thank you for your interest in Franco-Nevada, and we'll talk then.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed concludes your conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines. Enjoy the rest of your day.

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