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**Hilary Chak** *Canaccord Genuity Corp., Research Division - Associate*

**Kip Keen** *S&P Global Market Intelligence Metals & Mining - Research Analyst*

## PRESENTATION

### Operator

Good morning. My name is Omar, and I will be your conference operator today. At this time, I would like to welcome everyone to the Sandstorm Gold Royalties fourth quarter conference call. (Operator Instructions) Please be aware that some of the commentary may contain forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. After the speaker's remarks, there will be a question-and-answer session. (Operator Instructions)

Thank you. Mr. Nolan Watson, you may begin your conference.

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### **Nolan Allan Watson** - *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

Well, thank you, operator. Good morning, everyone, and thank you for calling into this 2019 fourth quarter earnings call. This morning, Erfan, our CFO, is going to walk us through the Q4 and annual results; and Dave Awram will provide a brief update on a few of the assets. And then as usual, I'll turn it over to the operator for a question-and-answer period. And if anyone has a question that does not need to be part of the live Q&A, you can ask those questions through the web portal, and we'll make sure that we get back to each person with a direct response from us after this call.

Before I hand it over to Erfan, I want to provide a brief business update. And at this time, we're going to walk through our prepared PowerPoint presentation on the web portal. So if you're able to do so, please turn your attention there now.

The first thing I'd like to do is provide a comparison of our 2020 guidance with our 2019 actual results and provide context for what we see unfolding in 2020. As we know, 2019 was a record in terms of ounces sold, revenue, operating cash flow. In 2020, what we're currently expecting is similar gold equivalent production levels as 2019, and so we're giving the same guidance range for production that we did at the beginning of 2019, which is 60,000 to 70,000 attributable gold equivalent ounces.

It's worth noting that as the gold price continues to increase, which is something that we're excited about, the number of "gold equivalent ounces" we get from silver streams and our copper stream on Chapada and our diamond stream on Diavik results in fewer gold equivalent ounces. Another way to put that is that, for example, if we're going to have the same number of silver ounces year-over-year, but the gold price goes up more than the silver price, which is what has been happening, the silver sale is converting to fewer gold equivalent ounces. So our overall guidance for 2020 is the same as what it was for 2019 in terms of gold equivalent ounces, but the actual amount of metal we're expecting to sell is higher in 2020.

It's also important to note that in Q4 2019, we had 1,500 ounces from our Bachelor Lake fixed downstream. And as is stipulated in the contract, those fixed ounce deliveries are now done and the stream has turned into a royalty. So our Q1 2020 production is expected to be lower than our Q4 2019 production by approximately that 1,500 ounces. But our quarterly production is expected to immediately jump in Q2 and going forward, when Americas gold and silver start delivering their contractually required fixed ounces, we expect to be hitting quarterly production records by the end of the year.



As our investors are all aware, the majority of our revenue is from gold. And as the gold price goes up, it gives us higher overall revenue and higher operating cash flow. Based on a \$1,500 per ounce gold price that would translate into an estimated \$97.5 million of revenue for 2020, which would be a record for our company. Operating cash flow, which is cash flow after G&A and after taxes, i.e., it's basically free cash flow, is expected to be approximately USD 70 million, which would also be a substantial record for the company.

Moving on to the next slide. As we have discussed in the past, in both 2018 and 2019, we used some of our cash flow to repurchase some of our shares on the open market as part of a normal course issuer bid, and we have subsequently canceled those shares. One question we're often getting from investors is, what did we pay on average for those shares. From this graph, you can see that in 2018, we repurchased a total of 2.3 million shares at an average price of \$4.29 per share. And in 2019, we repurchased a total of 8.7 million shares at an average price of \$5.36 per share, which is materially below today's current share price. So we believe that these repurchases were the right decision and in the shareholders' best interest. Going forward, we will continue to evaluate the benefits of share buybacks versus dividends and we'll provide a further update on our thoughts in the latter half of this year.

And although I know investor opinions on this topic are split, it's my personal goal to become a dividend-paying company in the not-too-distant future. Sandstorm, I believe, has hit its inflection point, both in terms of cash flow, but also in terms of available capital to do new deals and grow the company. As we sit here today, our debt has been nearly paid off and by next quarter, we will have the full \$300 million debt facility to draw on for future acquisitions. When you combine that with some planned noncore asset sales, plus expected proceeds of further warrant exercises and cash flow from operations, we have nearly \$0.5 billion of firepower to grow the company. Never before has Sandstorm being this well positioned to materially grow. And although we will be patient to find the acquisitions that are in the shareholders' best interest, we now have sufficient financial capacity when we do find those right acquisitions.

Overall, the business is performing well. We're hoping that 2020 brings us another cash flow record. And we're optimistic about our ability to continue adding streams and royalties this year.

So that's the business update. And with that, I'm going to hand things over to Erfan to discuss the financial results.

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**Erfan Kazemi - Sandstorm Gold Ltd. - CFO**

Thank you, Nolan, and good morning, everyone. I'm glad you're here with us. 2019 has been a great year for Sandstorm. And I'd like to take your some time to highlight a few of the things that contributed to making this another record year for the company.

For those of you joining us on the webcast, I'd like to turn your attention to Slide 8. This bar chart shows Sandstorm's annual gold equivalent ounces sold every year since 2010. It's encouraging to see a very clear growth trend over the last decade. And up until now, Sandstorm has recorded record production every year. Personally, I'm looking forward to seeing this chart in just a few years when Sandstorm is expected to reach 125,000 gold equivalent ounces in 2024.

As Nolan mentioned, Sandstorm sold approximately 64,000 gold equivalent ounces in 2019, which represents approximately 11% growth over 2018's production numbers. I'll discuss a few contributing factors to this in a moment. But first, I'd like to take you through how this translated into revenue. Sandstorm realized \$89.4 million in revenue for the year ended 2019. This is a 22% increase over 2018 and an all-time record for the company. The increase in the price of gold over the course of the year has amplified these production results. We saw an average realized gold price of just over \$1,400 per ounce, which is a significant bump when compared with the last 4 years. If the current trend in the gold price continues, Sandstorm is well positioned to benefit from the stronger gold market.

This is highlighted further on the next slide in the summary table of Sandstorm's year-end results. About halfway down, you'll see the Sandstorm's average cash cost per attributable ounce in 2019 was \$286, up slightly from 2018. However, with the higher gold price, our net margin per attributable gold ounce was \$1,115, an increase of approximately \$125 per ounce when compared to the previous years. This increase in operating margin, combined with record production, resulted in cash flow from operating activities of \$57.3 million. That's a 20% increase in cash flows compared to 2018.



It's certainly nice to see some excitement around the price of gold again and I anticipate that we'll be seeing this trend continue for the next while.

Next, let's look at Sandstorm's 2019 production in a little bit more detail and highlight some specific assets. Production came from 23 producing assets in 2019, and you can see the breakout by asset on Slide 11. If you're already familiar with Sandstorm's portfolio, you may notice significant growth in a few assets. The most notable change in production was from Yamana silver stream. Under the stream agreement, Sandstorm began receiving silver ounces from Yamana's Cerro Moro Mine in the second quarter of 2019. This is an exciting milestone for the company as it represents the largest stream to come online in the history of Sandstorm. And at nearly 11,000 gold equivalent ounces, it was the largest contributor to the production this year. In 2020, we anticipate an even greater number of ounces from Cerro Moro since we'll be receiving ounces for a full 4 quarters.

Another asset that I'd like to highlight on this list is Aurizona. First gold pour was announced at the Aurizona mine in May 2019. And Sandstorm began receiving royalty revenue in the third quarter. Aurizona is a past-producing mine operated by Equinox Gold. Aurizona was one of Sandstorm's very first deals back in 2009, and it's encouraging to see this project back online. The mine is expected to produce over 130 ounces annually over an initial 6.5-year mine life. Sandstorm's royalty on Aurizona is on a sliding scale between 3% and 5%. At gold prices between \$1,500 and \$2,000 per ounce, our royalty is 4%. Above that, it becomes 5%.

With commercial production at Aurizona coinciding with the rise in the gold price this year, we're excited about this asset's contribution to Sandstorm's revenue over the coming years.

One final project that I think is worth mentioning is the Fruta del Norte Mine. Around this time last year, Sandstorm announced the purchase of a 0.9% NSR royalty on precious metals produced at Lundin Gold's Fruta del Norte project. And less than a year later, we're starting now to receive our first royalty payment from the mine. Lundin Gold has announced it expects commercial production to start in the second quarter of 2020, so we anticipate more royalty revenue from this project over the coming year.

We often get asked about the geographical diversification of our portfolio of producing assets. On this next slide, we have a chart that breaks down our sales and royalty revenue by jurisdiction. In 2019, the majority of Sandstorm's revenue came from mines located in North America at approximately 47%, with 30% of revenue coming from mines right here in Canada. With the addition of Cerro Moro and Aurizona this year, sales and revenue from South America increased to 34%, while the remaining 19% came from other jurisdictions around the world.

I'd now like to turn our attention to the fourth quarter results. Slide 13 is a summary of gold equivalent ounces sold, total revenue, and average realized gold price for the quarter there as ended. During Q4, Sandstorm sold just over 16,000 attributable gold equivalent ounces, resulting in nearly \$24 million in revenue. This was another strong quarter for Sandstorm. In fact, the last 3 quarters of 2019 were the 3 best quarters in the history of Sandstorm in terms of gold production and revenue.

The next slide is a summary of the fourth quarter financial results. As mentioned, total revenue for the quarter was \$24 million, and the company sold over 16,000 attributable gold equivalent ounces. This represents a 37% increase in revenue and a 14% increase in ounces sold over the same period in 2018, largely due to the new assets that I previously mentioned.

Cash flows from operating activities totaled \$15.7 million, a 45% increase from fourth quarter in 2018. This was largely due to both an increase in ounces sold and the gold price. From the fourth quarter, it's also worth noting the addition of the \$75 million accordion feature with the Sandstorm's \$225 million credit facility. This uncommitted portion gets Sandstorm access to up to \$300 million. As Nolan laid out at the beginning of this call, this facility is in addition to our expected operating cash flows as well as our debt and equity investments that we can monetize to support our corporate development effort.

Lastly, as we noted in our press release, we are up listing to the New York Stock Exchange this February. This is another step on a long list of milestones as we continue our evolution in becoming a world-class investment vehicle. I believe that Sandstorm's in a strong position as we enter a new decade. And as a management team, we're looking forward to continuing growing the company. We're glad to have the support of shareholders like you and appreciate your commitment to Sandstorm.

And with that, I'll turn things over to Dave for an asset update.



**David I. Awram** - Sandstorm Gold Ltd. - Co-founder, Senior EVP & Director

Great. Thanks, Erfan. The asset update this quarter will be brief as I touch upon exploration in some of our larger deals. As you all know, it's exploration upside that adds additional free value to our streams and royalties. So we pay a lot of attention as to how it unfolds on projects. So for a first Lundin company, Lundin Mining, we're going to speak about Chapada. We hold the copper stream over the entire asset greater than 650 square kilometers in area. For 2020, a \$10 million exploration program is in place, including a 50,000 meter drill program. The focus is near-mine targets as displayed on this map on Slide 16. And you can see there are numerous areas that we are looking at. We're just recently back from the site visit, and we're just as excited as their team is on the potential that they see there.

Chapada continues to examine options of plant and processing expansion. I'm sure that the plans for expansion will help be determined by exploration success over the next couple of years.

Next, we look over to the other Lundin company Lundin Gold, where Fruta del Norte has ramped up to commercial status, with production of almost 29,000 ounces in 2019. What is really remarkable about Fruta del Norte though is that despite having exploration concessions of over 64,000 hectares, there have only been 18 holes drilled outside of the Fruta deposit ever done. Lundin has a budget for an extensive exploration and has developed drill-ready targets and is just waiting on permits. Our primary focus is the Suarez pull-apart basin where Fruta is hosted to the far north, north. After extensive mapping, geochemistry and geophysics programs, 3 drill-ready targets are ready in Barbasco, Puente Princesa and Gata Salvaje. There is an almost 16,000-meter drill program planned in this area, targeting the same epithermal gold silver target that Fruta is known as. This major trend, that Fruta is part of it, is very underexplored. So we expect Lundin Gold to have some great success over the next few years as they continue their work.

And with that, I'll pass it over to Omar to begin the Q&A session.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Our first question is from [Laurence Penney], private investor.

### Unidentified Participant

Gentlemen, thanks for all your hard work and the great results. So with the expanded credit line, I know you can't say too much, but do you have any deals in the works that we may see close in the next quarter or 2?

**Nolan Allan Watson** - Sandstorm Gold Ltd. - Co-founder, President, CEO & Director

Yes. Thanks for the question. So we are always working on deals. It's a part of what we do. And about half of our employees are devoted solely to corporate development. So we are working on a number of things. There's one thing that I've learned over the years, it's that it's almost impossible to predict which deals are going to close and which ones aren't. And so I won't speculate on whether something will close next quarter or the quarter after that. But what I will say is that not only do we have the firepower, financially, to do more and larger deals than we have in the past, we are looking at a number of them. And I do think over the next year or 2, you're going to see Sandstorm grow quite a bit.

**Unidentified Participant**

Can I ask another quick one?

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**Nolan Allan Watson** - *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

Sure.

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**Unidentified Participant**

I know it's the Board of Directors decision, but do you think, by the end of the year, we could see a dividend.

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**Nolan Allan Watson** - *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

So I'm going to have to defer to them because I don't know what that final decision will be. And candidly, I'm not quite sure what acquisitions we're going to make and what our deposition is going to be at the end of the year when we have to make that decision about a potential dividend. I would say that if we haven't done a lot of deals, paying a dividend, to me, would make a lot of sense. And so my vote on that issue would be, yes. But there's more information that we just don't know about yet and so that decision may change.

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**Operator**

Our next question is from [Alfred Hellreich], private investor.

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**Unidentified Participant**

Hello, I'm [Alfred Hayley] from Switzerland. I would like to know what are the conditions of your credit lines, which you always use? That's the one. And the second question I had is, how many numbers of shares are currently outstanding?

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**Nolan Allan Watson** - *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

Yes. So what I would refer people to is the TSX for exact numbers of shares outstanding because that number is changing on a weekly basis. Sometimes there are share buybacks. We're not actively in the share buybacks right now, but there's also warrants being exercised, so I prefer people to look at that. The exact number is changing dramatically and we have had a bunch of warrant exercises recently.

In terms of the credit line, there's 2 parts of it. There's a base part that's \$225 million, and then there's a \$75 million accordion feature. What that means is there are no conditions effectively for drawing down that first \$225 million. We just have to give the bank's notice, and we're entitled to draw on it for any purpose. We can use it for acquisitions, we can use it for share buybacks. We can use it for anything we want. The other \$75 million, the banks have pre-agreed to allow us to have a \$300 million total credit facility, but we would have to get the commitment from other banks, which we would anticipate taking no more than a couple of weeks. So we would have to give the banks a couple of weeks notice to get them to -- and tee up for the other \$75 million. Does that answer the question?

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**Operator**

Our next question is from Hilary Chak, Canaccord Genuity.

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**Hilary Chak** - *Canaccord Genuity Corp., Research Division - Associate*

Congrats on a great quarter. I just had a question about the longer-term guidance. So I see that it was revised downward to 125,000 GOs in 2024 from -- on your previous estimate, which was 140,000 in 2023. And I assume a lot is attributed to Hod Maden and I was just wondering if you can explain like why that was revised downward?

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**Nolan Allan Watson** - *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

Yes. So towards the end of this year, beginning of next year, we're going to have a feasibility study completed on Hod Maden and then we will update more accurately what we anticipate our long-term guidance to be. In the meantime, we actually haven't changed our long-term guidance. So our policy for the past couple of years is to guide for the current year and then to guide 4 years out. So for example, last year, we gave guidance for what we thought 2019 would be and what we thought 2023 would be. 2023, it was up to 140,000 ounces. And 2023 happens to be based on the pre-feasibility study in Hod Maden a year where they were milling higher grade ounces. And in that same pre-feasibility study, 2024 was going to be slightly lower grade and slightly lower production from Hod Maden. And so we're continuing to keep that policy going forward of guiding the current year, i.e. 2020 and then 4 years out which is now 2024. So we haven't changed it. Our internal models are still same, 140,000 ounces in 2023. We're just sticking with our policy of guiding 4 years out.

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**Operator**

(Operator Instructions) Our next question is from Kip Keen, S&P Global Market Intelligence.

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**Kip Keen** - *S&P Global Market Intelligence Metals & Mining - Research Analyst*

I just wondered if you might give a general commentary on appetite for financing from -- through streams and royalties, say, versus traditional equity markets. Just kind of give me a sense of what you're seeing out there? We've seen a nice pick up in the gold pricing. Obviously, a bit more financing activity in late 2019, but nothing gangbuster. We just -- Could you give me a sense of that?

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**Nolan Allan Watson** - *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

So you're referring to the appetite by other companies in the industry to use stream and royalty financing as an alternative?

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**Kip Keen** - *S&P Global Market Intelligence Metals & Mining - Research Analyst*

Yes. Precisely.

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**Nolan Allan Watson** - *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

Yes. I would say that it depends. In the market right now, we're seeing a bit of a bifurcation between gold companies in the industry and base metal companies in the industry. So gold prices are higher. Equity is becoming slightly more available to the average gold company. And lending capacity of gold companies is a little bit higher because they can hedge at higher prices when they're doing project development financing. We still are seeing some appetite with -- if we look at our internal deal pipeline, there are some things in there that our precious metal company is looking for streams and royalty financings. But I would say that, that deal flow is lower today than it was a year or 2 or 3 years ago. But where we're seeing things change dramatically is base metal companies, which, on average, are much larger than precious metal companies. Those base metal prices are down. Those base metal companies have more stressed balance sheets. And so we're seeing some larger companies look at doing byproduct stream financings on their gold or silver byproducts. And so I would say that the total amount of deal flow in the collective streaming industries pipeline is probably higher today than it was a year ago, but it's more oriented towards those base metal companies.

**Kip Keen** - *S&P Global Market Intelligence Metals & Mining - Research Analyst*

Would you say that Sandstorm has -- would you say that the base metal market, the byproduct market, is a place where you guys can play with the capital you have available? Or is it of something that's too big for you guys?

**Nolan Allan Watson** - *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

So with close to \$0.5 billion of capital that we have available to us over the next year, we think that, that goes a long way to being able to do some of those larger transactions. That available capital to us assumes that what we buy does not bring any additional lending capacity. But I can guarantee you, if we are doing \$0.5 billion size stream. It is not going to be one that is several years away from production, it would be something that is in production immediately or the mine is currently being built. So it would bring more lending capacity, so we would be able to do technical and larger deals than just those \$0.5 billion in size. So Sandstorm is very quickly becoming, I think, a serious player in those larger potential transactions. Having said that, those transactions are very hard to land and so I'm not saying we will be able to land one. But theoretically, if we found one we like and we wanted to do it and it passed our diligence and we could buy it at the right price, we think we can land some of those.

**Operator**

We have reached the end of the question-and-answer session. And I will now turn the call back over to Mr. Nolan Watson for closing remarks.

**Nolan Allan Watson** - *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

Great. Thank you, Omar, and thanks, everyone, for phoning in today's earnings call. I know that there's a lot of earnings calls happening out there right now, so we appreciate you taking the time. And as always, if anyone has any further questions, we'll be here at the office, so feel free to call us, and hope everyone has a great day.

**Operator**

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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