PIR (04.23.2023): Triple Flag Precious Metals (TFPM)

Recent Trade Alerts						
Trade	Ticker	Description	P/L (bps)	Date	Sector	Notes
Second-Leg Add	QIN2023	Silver Futures	N/A	04-20-2023	Futures	Pullback in BQ
Sell Full	HGK2023	Copper Futures	-40	04-20-2023	Futures	Closed below RP
Sell Full	BTCUSD	Bitcoin	-77	04-21-2023	Crypto	Closed below RP

YTD Monthly Gain/Loss

Portfolio Allocation

The perfect precious metals business would look something like this:

- ➢ Direct exposure to precious metals upside prices
- ➢ No direct exposure to inflating mining costs and margin compression
- ➢ Small team with skin in the game
- ➢ High margins and abundant free cash flow
- ➢ Long runway for organic growth without further capex investment

That company already exists, and it's our latest portfolio addition: **Triple Flag Precious Metals (TFPM).**

TFPM is a founder-led precious metals royalty and streaming business. The company has 94% exposure to gold and silver, operates a small (<13 employee) team where everyone owns shares in the business (founder owns ~2%), and generates robust free cash flow at 90% margins.

Royalty and streaming businesses are among the safest ways to play the PM theme becuase they have no direct mining operational risks. This leads to higher market multiples (20-25x cash flow) than their producer peers.

TFPM has a top-tier portfolio of 229 assets, 29 generating revenue. Here are a few statistics on the portfolio:

➢ 87% of assets are in the bottom half of the cost curve
➢ 36% exposure to junior miners
➢ 23-year average mine life
➢ Focused on the safest, most mining-friendly geographies

TFPM will generate ~140K Gold Equivalent Ounces (or GEOs) annually over the next five years, thanks to its acquisition of Maverick Metals in 2022 and organic growth via its existing asset base.

Here's why we're so excited about this opportunity: **TFPM is growing GEO production right into the next precious metals and royalty/streaming super cycle.**

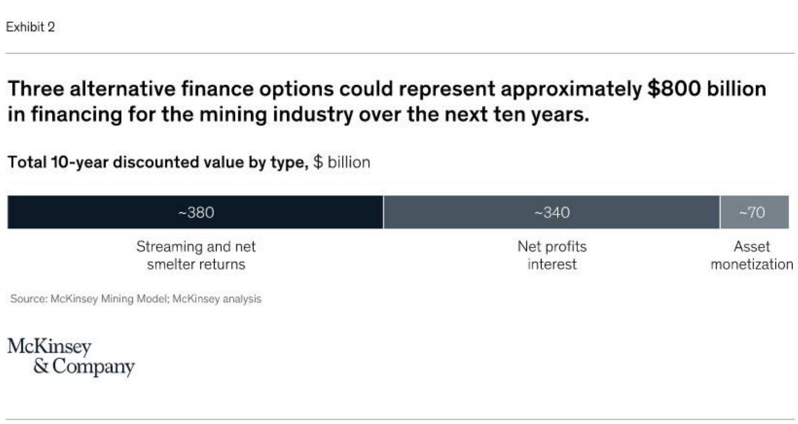
TFPM could generate **over $300M in free cash flow** if we're directionally correct on precious metals prices *without* a single dollar of additional capital investment. **Investors will have no issue valuing TFPM at 20-25x cash flow**, *especially* during a PM super cycle as institutions chase a safe, high-yield way to gain exposure to an expanding $380B market.

The company is a $35-40 stock in a few years if precious metal prices stay where they are and a $50+ stock if they rise further *and* TFPM adds incremental GEO production.

Today, you can buy the stock for ~$16/share (225%+ upside).

Royalty & Streaming Overview & Value Proposition

Royalty and Streaming (R&S) is an alternative financing option for producing, developing, and exploration mining companies. It indirectly competes with equity and debt and, according to McKinsey, will [become a $380B business over the next decade](). Here's how they work.



In a **Royalty** agreement, you provide upfront capital to a company in exchange for a fixed percentage of its top-line revenue.

A **Stream** allows you to buy a company's production asset (gold, copper, by-product, etc.) at a predetermined price, usually much lower than the spot market, which you then resell at the spot price.

The main difference between royalties and streams is that royalties typically appear earlier in a mine's development (think junior mining projects). In contrast, streams occur in later-stage mine expansion projects.

Mining companies use R&S financing because it allows them to **maintain equity**, **reduce their cost of capital**, and **gain access to funding** through royalties/streams on non-essential production by-products.

Why Miners Choose R&S Financing

Let's use copper as an example. Copper miners don't *just* produce copper. Instead, they extract gold and silver as by-products from the same ore body.

R&S companies come along and say, *"Hey. We see you have tons of gold and silver by-product. Why don't you let us buy it from you at a discount and use that money to find more copper?*

The mining company gets cash for something they don't use, and the R&S company gets precious metals at a discounted price. It's a win-win.

	Stream	Equity	Debt
Non-dilutive form of funding	✓		?
Initial value creation for both parties	✓		
Improves project IRR	✓		?
Flexible financial or hedging covenants	✓	✓	
Endorses technical merits of mine/project	✓		
Share production and operating risk	✓	✓	
Partner retains full operational control	✓	✓	✓
Expedited due diligence & closing process	✓	✓	
Tailored transaction structure	✓		✓
No fixed payments	✓	✓	

There are other reasons why mining companies choose R&S financing over debt or equity. For instance, R&S is *less dilutive* than equity financing when it focuses on a single asset (like by-products) or when the producing company's equity trades below NAV.

On the debt side, R&S offers longer, more flexible payment terms; no fixed obligations; limited restrictions on the use of cash, and provide more flexible covenant agreements. This is even **more important** as Fed Funds rates near 5% (see below).

DEBT IS FAVOURABLE?

…but the cost of debt has risen substantially

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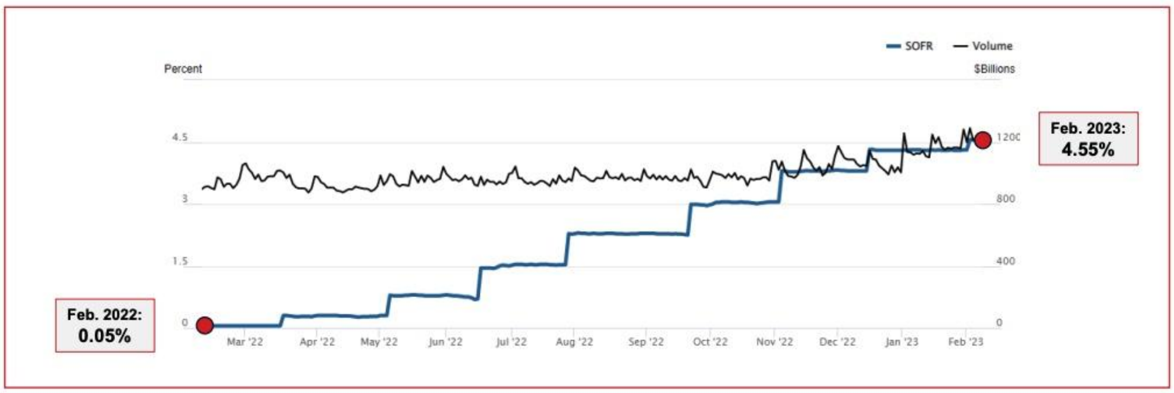
- **The Secured Overnight Financing Rate ("SOFR"), which is the basis for many companies' cost of debt, has increased dramatically over the past year**
- The portion of cash flows needed to service that debt has also substantially increased, squeezing margins



Think about it this way. Traditional debt financing includes a fixed principal and interest payment. So, regardless of the underlying metal price, producers *must* pay that fixed rate.

R&S payment terms fluctuate *with* underlying metals prices, turning a fixed cost into a variable cost and dramatically improving the operating model.

The good news is that **we're entering the Goldilocks Zone for PM R&S companies.**

Higher PM prices and negative miner sentiment from the prior bust mean mining companies are historically cheap. However, this makes issuing equity *highly dilutive*, while higher interest rates make debt financing more expensive and less flexible.

It's the perfect environment for someone like TFPM.

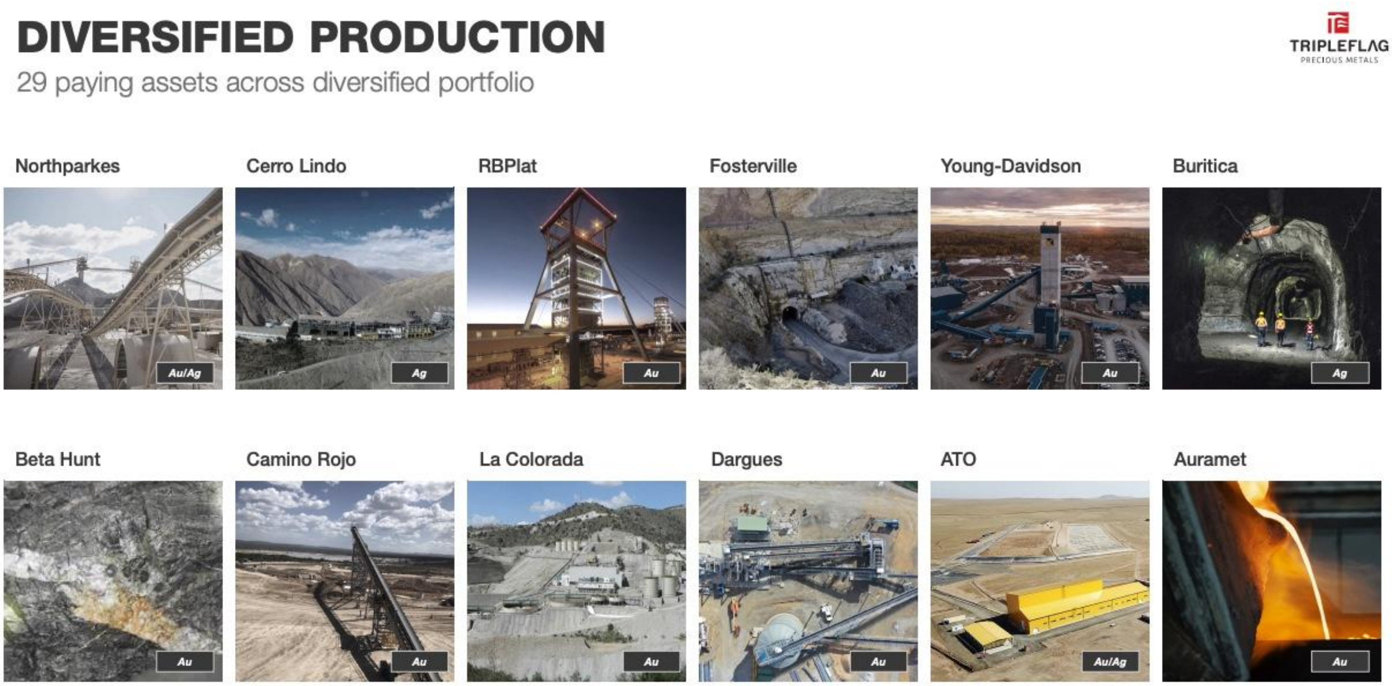
Triple Flag Precious Metals (TFPM): Time To Shine

Shaun Usmar founded TFPM in 2016 while living on a friend's couch in a UK flat. Before founding TFPM, Shaun led Barrick Gold's turnaround as CFO and was one of the earliest employees at Xstrata.

Usmar runs a tight, low-overhead ship. The company has ~13 full-time employees that all own shares in TFPM. In addition, Usmar personally owns ~2% of the company.

TFPM has a simple business model: Do accretive deals with high-quality precious metals mining projects at attractive return profiles.

The company has invested over $1B in acquiring 229 top-tier portfolio assets. These assets include mega deals like the Cerra Lindo gold mine, Northparkes gold/silver mine, and Buritica gold mine. Check out more of their portfolio below.



We like TFPM over larger R&S companies like Franco-Nevada or Wheaton Precious Metals for three main reasons.

First, TFPM is **small enough that smaller deals can still significantly impact** the company's GEO production and profits. More prominent players like FNV or WPM need larger deals to move their market caps.

Second, **smaller miners have a cost of capital disadvantage compared to their larger peers.** Good luck getting a <12% interest loan from a bank if you're a junior miner. As a result, TFPM is drowning in deal flow because the larger R&S players won't write smaller checks.

Third, every TFPM employee has skin in the game. You *don't* see that in the R&S space.

Let's break down the company's business model and growth algorithm to see how we reach a $6B market cap in the next 3-5 years.

How TFPM Becomes A $6B Business

There are three main growth levers in TFPM's business:

➢ GEO production volumes
➢ Reserve replacement ratios
➢ Precious metals prices

GEO production volume growth is a function of organic portfolio growth and M&A. The company will generate 100K GEOs this year without investing a new dollar in production. They can do that because TFPM's entire land portfolio land package spans ~8,800 km^2. Yet the company generates revenue from only 1% (or 85 km^2) of that land.

Then there are Reserve Replacement Ratios (or RRR). High reserve replacement ratios extend the life of a mine and, in turn, TFPM's future cash flow stream. A ratio under 1 means the mine extracts more metal than its replacing.

TFPM's top three mining projects have RRRs above 1 (see below).

GROWTH FROM RESERVE REPLACEMENT

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Examples of long-term reserve replacement from Core Assets

	Replacement Factor	Historical Reserve	Reserve Depletion	Reserve Addition	Current Reserve
Northparkes	**1.0x**	998 koz Au 2001	(1,420) koz Au 2002 – 2021 *1,022 koz Au production* [1]	1,402 koz Au 2002 – 2021	980 koz Au 2021
Cerro Lindo	**1.1x**	27.5 Moz Ag 2009	(50.6) Moz Ag 2010 – 2021 *34.6 Moz Ag production* [1]	54.7 Moz Ag 2010 – 2021	31.5 Moz Ag 2021
Fosterville	**1.3x**	1,004 koz Au 2006	(3,632) koz Au 2006 – 2021 *3,401 koz Au production* [2]	4,646 koz Au 2006 – 2021	2,018 koz Au 2021

Replacement Factor represents reserves added per reserve depleted

The higher the RRR, the more revenue TFPM generates from its mining assets.

Precious metals prices are the last and most volatile growth lever. The company obviously has no control over PM prices. Still, they play a crucial role in determining TFPM's revenues and profits, as higher PM prices equal greater profits.

Now that we know the company's growth levers, we can back into our $6B future market cap (see below).

Year	2023	2024	2025
GEO Production	100	130	156
% Growth		*30.00%*	*20.00%*
Avg. Gold Price	$1,900	$2,000	$2,100
Less: Avg. Cash Costs	$165	$166	$167
Net GEO Margin	$1,735	$1,834	$1,933
Total FCF	$173,500	$238,420	$301,548
FCF Multiple	25	25	25
Market Cap	$4,337,500	$5,960,500	$7,538,700
Per Share	$22	$30	$38
Upside	132.56%	182.17%	230.40%

You only need a napkin to outline TFPM's path to a $6B market cap. That's what I love about this business and metals/mining in general. It's simple.

We can also back into our valuation through a dividend approach. For example, TFPM currently pays a 1.5% dividend, among the highest in the industry. In addition, the company only uses ~30% of its FCF for its dividend. This makes sense given today's robust deal flow environment and investment opportunities within the $380B market.

Using the above assumptions, TFPM would pay ~$91M in dividends by 2025 and be worth $6B, assuming today's 1.5% annual dividend yield.

TFPM is at the nexus of two significant trends in precious metals.

It benefits from higher precious metals prices as we enter the next PM super cycle. And it will take share of a $380B R&S market as traditional financing sources vanish due to historically cheap PM miner valuations and structurally higher interest rates.