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Operator: The conference will begin shortly. To raise your hand during Q&A, you can dial star one one. Good day and thank you for standing by. Welcome to the Deterra Royalties FY2022 Results call. At this time, all participants are in a listen only mode. After the speaker's presentation, there'll be a question and answer session.

To ask a question during the session, you'll need to press star one one on your telephone. Please be advised that today's conference is being recorded. I'd now like to hand the conference over to Mr Julian Andrews, Managing Director and Chief Executive Officer of Deterra Royalties. Please go ahead, sir.

Julian Andrews: Thank you. Good morning and welcome to Deterra Royalties Financial Year '22 Results call. I'm Julian Andrews, MD and CEO of Deterra and I'm joined today by Brendan Ryan, our Chief Financial Officer, and Matthew Schembri, who heads our investor relations.

I'll begin with some introductory remarks and then Brendan will provide a review of our financial results. Following that, I'll provide some comments on our approach to growth and the outlook in that regard, and then we'll hand back to the operator and open the line for questions.

I'll start with an overview of the business highlights. FY22 has truly been a year of organic growth for Deterra. We've reported book revenues, $265 million, up 83% on prior comparable period. On the strength of the royalty we hold over BHPs Mining Area C mine, or MAC.

MAC had an outstanding year, producing 111 million wet metric ton, an increase of 80% on the prior year as the South Flank expansion continues its ramp up to full production. The expansion is now ahead of schedule and BHP is to be commended for its impressive execution of this US$3.6 billion capital project which will grow Mining Area C into the world's largest iron ore operation.

We benefit from this volume growth, both from our exposure to top line revenue, our royalty revenue increased 54% to $219 million, not withstanding some softening in the pricing on the prior period, and from a capacity payment which this year was $46 million.

We have also been positioning the business for further growth through opportunities to add to our portfolio. We've evaluated a large number of potential acquisitions and investments, although value has been difficult to identify in the market conditions that prevailed for much of the year.

However, we do believe the markets are shifting in a direction that will create more opportunities for our business, as miners and developers look beyond traditional debt and equity markets for additional sources for capital. And the liquidity we have from the $350 million facility we put in place earlier this year provides the flexibility and capacity to act opportunistically.

In keeping with our approach to prioritising shareholder returns, the Directors have declared a fully franked dividend of $0.2208 per share, which combined with the $0.1168 per share interim dividend paid in March, brings the total dividend for FY22 to $0.3376 per share fully franked, which is equal to 100% of net profit after tax.

When we listed in 2020, I spoke about bringing in new investment proposition and way to invest in the resources sector to the ASX. One that offers high margins and strong visibility on earnings, cashflow, and dividends, without the same exposure to operational margins and capital risk with traditional miners.

This remains the case and is very much evident in our results today. We have what we believe to be one of the highest quality public royalties globally that provides top line exposure to a world class iron ore operation.

The business model is scalable and can generate very high margins as revenues increase on a fixed cost base which is illustrated in the EBITDA margins we've reported. We have a focus on returning earnings to shareholders, again evident in the dividend we've announced today.

We have substantial organic growth and a focus on value accretive investment. And we have a focus on ESG, both in our investment processes and our everyday operations, as demonstrated by our achievement of our commitment for net zero direct emissions.

Another important element of the model that is becoming more and more relevant is this inflation protection. We've seen an increase in commentary on cost pressures in the mining sector, be they in labour or other supply chains, and more recently, we've seen these being factored into cost guidance.

It's worth making the point, and it's one that I think bears repeating, that our revenue royalty payments are not impacted by any change in operating margins driven by cost inflation. In fact, to the extent they reflect it in pricing. We're leveraged to those factors as any increase will be reflected in our royalty receipts.

With that, I'll hand over to Brendan who will take you through the financial results in more detail.

Brendan Ryan: Thanks Julian. Good morning everyone. My task is fairly easy given the clean and simple nature of these results. If you can turn to slide 8 so I can address the financial highlights of FY22.

As you can see, total Group revenue for the period amounts to $265 million. This includes MAC royalty revenue of $219 million, MAC capacity payment of $46 million, plus circa $400,000 in revenues from our two smaller Western Australia mineral sands royalties.

This $265 million in revenue delivered a healthy $257 million in earnings for the period. This represents an EBITDA margin of 97%, driven by the small team and low overhead cost structure of the royalty business model as discussed by Julian.

Finally, this resulted in both record NPAT and dividends for financial year '22 of $178 million. Based on this result, the Board have declared a fully franked final dividend of $0.2208 per share. In combination with the interim dividend, this will equate to a full year dividend of $0.3376 per share which is equal to 100% of net profit after tax.

Moving to slide 9, I'd quickly like to discuss the performance of Mining Area C. Overall, you can see from the yellow line on the chart, the significant ramp up at MAC. The ramp up over the past six months resulted in record sales volumes delivered by MAC in FY22, including setting four consecutive quarterly sales records.

Accordingly, BHP recently announced the South Flank ramp up to a full capacity of 80 million wet metric tons per annum is ahead of schedule with an average rate of 57 million wet - million wet metric tons per annum achieved in the June '22 quarterly.

Based primarily on these record sales volumes, total MAC royalty revenue for the financial year '22 was $219 million. And this was supplemented with the $46 million annual one off capacity payment which has now been [unclear] from 59 million ton to 105 million ton.

On slide 10, we've tried to reflect a simplified illustration of the P&L. What this slide demonstrates is the lean cost structure and transparency of cashflow distributed to shareholders.

On the revenue side, as discussed earlier, we show the three sources of cash that contributed to the $265 million, being MAC royalty revenue, MAC capacity payment, plus smaller amounts from the Wonnerup and Yalyalup operations.

On the right hand side of the chart, we show the distribution of these cashflows. Total costs for FY22 were $8.8 million. Of this, $7.6 million relates to the normal ongoing operating expenses, with a further $0.4 million in D&A.

We've also specifically called out in our accounts, $0.7 million in one off BD costs for the period. Net tax of $77.1 million shows an effective tax rate of close to 30% and this results in net profit after tax as $178.5 million for the year.

Now turning to slide 11. The objective of this slide is to show the organic growth in shareholder return. As you'll see from the chart, in H2, the Board have declared a final dividend of $116.7 million, equal to $0.2208 per share.

This builds on the H1 interim dividend of $61.7 million, giving a full year dividend payout of $0.3376, which represents a payout of 100% of NPAT of $178.5 million. In terms of capital management framework, you will note that we continue to prioritise shareholder returns, although recognise the intent to invest in growth.

We intend to optimise the use of debt for future acquisitions. Specifically cashflow from these new royalties will at least in part be utilised to pay down debt. We also intend to maintain target leverage within the range of 0% to 15% of enterprise value over time.

On slide 12, we describe the capital management framework with respect to funding new acquisitions. You will remember in February we announced the refinancing of $350 million in bilateral credit facilities which increase our total credit limits from $40 million to $350 million, extended existing maturities to three, four, and five years, and were designed to build lending relationships with five major banking groups.

We are very pleased with the outcome and timing of these new increased facilities and these facilities now provide Deterra with the increased flexibility to act on growth opportunities as the market changes.

The framework also aims to demonstrate the intent not to cross subsidise new growth opportunities with MAC revenues. The expectation being that new investments are capable of providing returns greater than their own cost of capital.

Hopefully you'll recognise from these slides we are working hard to deliver upon our commitments. In terms of corporate structure, we continue to run a small and lean team, trying to maximise return. In terms of capital structure, we retain a conservative balance sheet with $350 million in liquidity to build flexibility for value of [unclear] opportunity.

And in terms of returns, this result continues our record of maximising return of surplus cashflow to shareholders. The simplicity and scalability of the Deterra business model is unique on the ASX and our small team - small and focused team, will continue to work hard to deliver maximum value to our shareholders.

With that Julian, I'll pass it back to you.

Julian Andrews: Thank you Brendan. In terms of strategy and outlook, on slide 14 we have provided an overview of the royalty and streaming sector to provide some context. As we have said before, we are pursuing a well-established business model that has some very successful exponents.

But there are some important differences in our approach. In particular many of our peers are focused on precious metals. We are not, which is an important differentiator, and enables us to focus on a less well-served niche. One in which we have significant scale.

On slide 15 we have set out our approach to inorganic growth. We have been consistent in talking about our focus on bulk space and battery metals in well-developed jurisdictions that are in production, or have clear line of sight to production, and a broad investment range of $100 million to $300 million. This remains the case.

We have seen a steady flow of opportunities in the past year, largely in the secondary area as royalty holders look to monetise assets held in broader portfolios. Many of those have been outside of our target range. But we have maintained our focus on commodities where we believe we can complete effectively. In particular bulk commodities, such as iron ore and fertilisers, and base metals, including copper and nickel. In geographies with well-developed mining infrastructures, primarily Australia and the Americas.

To date we have not seen any opportunities that we have felt able to execute that are priced to deliver value to our shareholders. But we have a meaningful pipeline of opportunities, and remain active in this space.

Turning to primary opportunities. I mentioned earlier that we believe markets are shifting in a direction that will create more opportunities in this space, as miners and developers look beyond traditional debt and equity markets for funding, as we have started to see some of these sources tighten up. Debt has become more expensive and more difficult to access, and equity markets are less-supportive in recent times.

With the liquidity we have in place we are well-positioned in these markets to step in and provide the long-term capital that will fund the projects that are needed to meet the substantial growth in supply that many believe is required for some of these commodities.

It's also worth noting that royalties or streams can be used for other purposes than developing projects. In fact historically approximately half this type of capital has been applied to other uses, such as M&A or de-leveraging balance sheets.

On the ESG front, we have made solid progress on our framework in FY22, having conducted a materiality assessment, which is an important step in framing our ESG governance in reporting going forward. Having implemented and refined our ESG investment policy, and importantly we have reported on our direct emissions and met our net-zero commitment for the year.

We will continue to build on this framework, particularly in the area of our social investment and engagement. We will continue to refine our approach to ESG risk management and investment policy.

In closing, FY22 has been a year of substantial organic growth for the business. It's driven significant increases in revenue, earnings and dividends. We are optimistic about the opportunities FY23 will bring. It's a simple business model with a compelling investment thesis. We provide investors with a unique exposure to one of the core assets of one of the world's best operations in one of the world's best iron ore provinces.

Our revenue based royalties offer shareholders a distinctly lower risk profile, when compared to a mining company, and provide significant protection against cost inflation. By prioritising returns to shareholders, we provide investors with a unique exposure to income from a high margin investment business with a world class cornerstone asset. We have growth options, both from the continued ramp-up of the South Flank expansion at Mining Area C and from value focused M&A.

With that we will close for comments and be happy to take any questions. Thank you.

Operator: Thank you. As a reminder, to ask a question you will need to press star-one-one on your telephone. Please stand by while we compile the Q&A roster. Once again, that’s star-one-one for questions.

Our first question comes from the line of Rahul Anand from Morgan Stanley. Rahu, your line is open, please go ahead.

Rahul Anand: (Morgan Stanley, Analyst) Oh hi Julian and Brendan, good morning, thanks for the opportunity. Look, for one is around volumes at South Flank. So obviously you're ramping up really well and ahead of schedule. I was wondering whether you can provide any colour on whether in your knowledge or understanding there is potential to push the system beyond nameplate? If perhaps you've had any conversations with BHP.

Then in terms of slide 21, I mean the west part of the South Flank and North Flank area, which is Mudlark and Tandanya, seems to be under-explored. Any sort of idea on what type of iron ore that is, whether it's similar and continuous to South Flank?

Julian Andrews: Yes, sure, thanks Rahul, thanks for the question. So on the first, look, we, as you say, we're certainly very pleased with the ramp-up profile at Mining Area C. I think there's still some further to go there, South Flank is ramping up quickly, but there's still some substantial volumes to come.

Obviously we saw, as everybody else did, some of the commentary that BHP had earlier this week around potential growth options in their broader iron ore system in the Pilbara. Look, we haven’t had any sort of discussions with BHP beyond what has been said in the public domain. It's worth just reiterating the point, I know we make it every time, but we don’t have access to any non-public information on BHP's plans in that regard.

But certainly I think, you mentioned the chart on slide 21, what that does show is that we hold a royalty over an area, not over a particular deposit. So to the extent there are other deposits in that royalty area that BHP chooses to develop at some point in the future, we would benefit from that to the extent it falls within the royalty area. In terms of options to extend further beyond the [100 and the 80] South Flank and the original North Flank operation at Mining Area C. Look, it's a new operation. There's, I notice that BHP did talk about opportunities to de-bottleneck some of it, they’ve got a range of those opportunities. They’ll look at it from a system-wide perspective I am sure.

Brendan Ryan: Yes, listen, we do talk to BHP and sort of try to find out as much as we can. In this case the Company line is that they are investigating, they have studies in place to get to that 330 million tonne. They have not divulged how they will get there. Whether South Flank goes beyond nameplate capacity is not known at this point in time. One would think there is potential for that, but there's also obviously using up the existing Yandi infrastructure capacity. As well as potentially some more from the Western Ranges sort of development that they have recently done.

So we know the area pretty well. We have worked closely with people who know the assets very well and have a good feel for what might happen. But we can't go beyond what's in the public because we can't sort of say that for sure, we're not in control of that.

Rahul Anand: (Morgan Stanley, Analyst) Yes, no, that makes sense. Thanks for that. Look, second question, just around opportunities. Rising interest rates are obviously perhaps a better environment in terms of availability of opportunities. We have seen that in terms of M&A activity from some of the majors. But for you guys, I mean have you seen a rise in terms of the number of I guess opportunities that are hitting your desk at the moment? Are you seeing any sort of trend in terms of where they're coming from, whether it's bulks, base, anything you can provide there?

Julian Andrews: Yeah, look as I sort of alluded to in some of the comments, I think we are starting to see, and we are expecting see, going forward that there is a bit of a shift in the nature of the opportunities we are seeing. So over much of the past year we saw a lot of secondary opportunities where we had people looking to sell existing royalties or streams.

We are now seeing, and expecting to see, even further more of those opportunities to be a source of funding. As you say, as those debt markets become more difficult, we believe that our offer becomes even more compelling. We, in particularly we are able to provide a sort of patient and long-term view on some of these projects and look through sort of short-term, some short-term issues. So we certainly expect to see more of those. We have started to see more of those.

I think the other point to make in that regard is that it's not just about funding projects. It's also about supporting M&A activity, as you say, which we have certainly seen an uptick in that. As well as potential, so addressing balance sheet issues.

Brendan Ryan: I think opportunities across bulks and base, there's a lot of projects out there we're close to FID that are now, where the equity markets were abundantly available in recent times, are now sort of a little bit harder to access. So we think that we form a part of that debt-equity and royalty funding package. Yes, we think that we are a lot more competitive and a lot more sort of compelling offer for the market at the moment.

Julian Andrews: Also it's not just about interest rates either, it's cost inflation on capital cost is also a factor that we expect is going to start to drive opportunities for us. As well as the cost of these projects increases, developers may be looking for additional capital. There may be projects out there that were potentially funded, but are now looking at increases in CapEx and looking for a bit of top-up funding, which is where we think a royalty or a stream can be particularly powerful.

Rahul Anand: (Morgan Stanley, Analyst) Yes, no, that makes sense. Thank you very much for that. That's my two, I'll pass it on, thanks.

Brendan Ryan: Thanks Rahul.

Julian Andrews: Thanks Rahul.

Operator: Thank you. Once again ladies and gentlemen, to ask a question please press star-one-one on your telephone. Our next question comes from the line of Glyn Lawcock from Barrenjoey. Please go ahead.

[Aside discussion]

Glyn Lawcock: (Barrenjoey, Analyst) A couple of question, just if you look back at the opportunities you've missed, I wonder if you've taken the opportunity to say, should we maybe have been less conservative in your assumptions? Have you spent any time looking back at what maybe you've missed? Just curious if you've sort of tried to benchmark anything against [inaudible] or test anything, back-test it? Thanks.

Julian Andrews: Yes, Glyn, thanks for the question. Absolutely we do, as you'd expect of anybody, we do, do a bit of a, we do look back and look at opportunities and think, are we comfortable with where we ended up knowing the outcome? I think when we've looked back at the opportunities that we have seen in the give-or-take 18 months that we have been looking at these, I think there's probably a couple of points to make in that regard.

The first one is, there haven't, the focus has been very much in that secondary space. Although we have seen quite a number of opportunities, many of them have actually been in the precious space. So there haven't been as many outside of precious as there have been in precious. There have been a number that we have seen that haven't transacted, and there have obviously been some that have.

So when we look back, to sort of the core of your question, I think we're comfortable with where we ended up in terms of our evaluation of those opportunities. I don't think there's any regret in terms of having missed opportunities. It'd be nice to obviously, it would be nice to find some opportunities. But I don't think there's a real sense that we were being too conservative.

Glyn Lawcock: (Barrenjoey, Analyst) Okay. All the opportunities so far have been maybe Australia-based. Would you, have you been thinking in opportunities maybe across the rest of the globe? Would you look at something like iron ore in Sweden?

Julian Andrews: Yes, look, so we certainly have been look at opportunities in other parts of the world. As I alluded to, we have certainly seen opportunities in Australia, but we have seen opportunities in the Americas as well, both North America and South America. We have taken a very close look at some of those.

I think that to your specific question, I mean our focus is on jurisdiction that have sort of a well-established mining infrastructure, well-established sort of legal framework. Because as you appreciate, our interest is ultimately a contractual interest, rather than operating interest. But yes, certainly we do look globally at opportunities.

Brendan Ryan: Glyn, for context, there's only been half a dozen royalty assets for sale in the non-precious space over the period that we have been a public company. Of which, and as Julian says, we have no regrets in terms of where we were at in some of those processes and where the assets have traded at.

So overall we do look back, we keep a close eye and we are making sure that we are sort of both not to conservative, nor too aggressive. We try to be very balanced in the way we think about these things. But yes, no regrets at this point in time. [The bid asked], some of the assets have not closed that we have been looking at. That's because the bid asked for it is just too high. That may change now the world's changing a little bit.

But during that period from November 2020 when we demerged from Iluka, the market went, it almost doubled from the time that we sort of demerged. As you know, it's finally coming back to somewhere that's sort of more normal where we think that we can be more competitive.

Glyn Lawcock: (Barrenjoey, Analyst) Yes, okay. Just a quick final one, have you received the money now from BHP to be able to pay the dividend?

Julian Andrews: Yes, we received the money 30 days after the year end. So we received it and rang our bell in our office on Friday 29 July I think it was.

Glyn Lawcock: (Barrenjoey, Analyst) All right, good to know. Thanks.

Operator: Thank you. Our next question comes from the line of Robert Stein of CLSA. Robert, your line is open, please go ahead.

Robert Stein: (CLSA, Analyst) Hi guys, thanks for the opportunity to ask a question. First one, just on commodity exposure. There's a whole host of sort of iron ore royalties in private hands up in the Pilbara. So Hancock, Wright, Rhodes royalties and the like. Are you adverse to trying to sort of centralise all those up into one vehicle so investors can get exposure to that lower operational leverage iron ore exposure?

Julian Andrews: Yes, absolutely. I mean we, clearly we have the iron ore exposure, we like the iron ore exposure. Certainly if we saw good opportunities to add to that, certainly we would do so.

Brendan Ryan: We're a natural vehicle for that, but it requires multiple parties, and requires sort of a simplification of some of the structures up there as well I would expect.

Robert Stein: (CLSA, Analyst) So given that’s the case, then given $350 million is the undrawn facility and the investment size that you guys are looking to target, that would obviously require a significant amount more capital. What would be the mechanism by which you would employ to try to enact that? Is it a - would you go back and tap capital markets, would it be debt raised? How would you, just conceptually, how would you go about executing something like that?

Julian Andrews: Yes, look, Rob, it's difficult to sort of give a specific answer to a hypothetical. But we, whether we have some - we have some debt capacity in place at $350 million, which is really sized I think relative to our targets. To be clear, we believe that the business has additional debt service capacity if it's needed. Particularly if we were to bring in new assets that were cash generating, that also provides a couple of extra degrees of freedom on terms of how they could be funded.

But look, it would depend very much on the size and where the markets are at the time. But large investments, equity is always an option, additional debt is an option. It may be that for those type of opportunities, it may be that scrip's an attractive currency for the vendor. It's really, it's difficult to say.

Brendan Ryan: There's almost too many variables to sort of give you a hypothetical answer. But yes, but all option are open I suppose.

Robert Stein: (CLSA, Analyst) Cool. Then just a last one on the sort of, the M&A front. $350 million is quite I guess limiting in the respect of the types of sizes, royalty transactions that are out there, given some of the recent data points that are out there in market. Are you flexible on that sort of $350 million size? If you saw something - I'm just trying to get a figure, I'm just trying to get a conceptualisation around scale and capacity of potential additional royalties, given the MAC royalty is so big and is the prime vehicle why investors invest in the stock. The prime, sorry, reason why investors invest in the stock.

If you were going to add or dilute that exposure in some respects, what sort of size investment should people be sort of conceptualising that would take?

Julian Andrews: Yes, so look, there's probably a couple of elements to that, Rob. The first one, the $100 million to $300 million target range that we have spoken about for a while now is, it is exactly that. It's a sweet spot or a target range, it's indicative. To be clear, we would certainly and have looked at opportunities below that. I think there's naturally a lower limit to that in terms of wanting to be sure we're getting something meaningful for the investment of time and effort.

We would certainly go beyond that as well. But there aren't - notwithstanding a couple of recent data points, as you point out - there aren’t a lot of opportunities that much larger than that. But clearly we would pursue those if we thought that they could be value accretive.

In terms of the $350 million facility, to be clear, we saw an opportunity early this year to extent the credit facilities we had in place, and to do it on terms that lowered our overall margin and pushed out the [tenor]. We are very pleased we took that opportunity. In terms of sizing that, as I said, we certainly, we landed on the $350 million as being a number that would give us, we thought, sufficient liquidity to act on opportunities. At the same time balance obviously the investment that goes into holding that facility, but it – to be clear that $350 million is not a limiting factor on our activity. We were materially oversubscribed and we picked five banks. We had more than that available to pick from on the basis that we wanted to build those relationships to be able to expand those with – build those relationships to be able to expand those quickly and easily, if necessary.

So it depends on the opportunity and it depends on the structure that we think is optimal for the organisation at the time of acquisition. But, yeah, we believe we have more available, should we need it, at short notice. But, yes, the intent was deliberate in February; an opportune time to be raising debt as well as building those longer-term relationships.

Robert Stein: (CLSA, Analyst) Thanks, guys. That's great colouring and congrats on the great result. Appreciate it.

Brendan Ryan: Thanks, Rob.

Operator: Thank you. As a reminder, to ask a question, you need to press star-one-one on your telephone. Our next question comes from Chen Jiang from Bank of America. Chen, your line is open; please go ahead.

Chen Jiang: (Bank of America, Analyst) Good morning, Julian and Brendan. Thank you. Just a follow-up question to that secondary royalties space. Given the competitiveness of that space - I know you can't tell us your [hurdle rate], your internal rate of return – but are you willing to pay a premium to compete with your peers if the asset is very attractive? I have another one after this. Thank you.

Julian Andrews: I think that we have seen – there's no question we've seen some transactions that have priced it at fairly aggressive pricing levels and ones that we didn't feel we could support in a way that it deliver value. It is a competitive space, but, to be clear, we've, I think, right from the beginning, talked about discipline. To us, that discipline means we need to stay focused on that value. So we won't be overpaying for assets simply to get a deal done.

I think the other thing, Chen, to think about, though is that a lot of the difference in valuation can sometimes be the technical side of conversion of reserve to resources and how that impacts value and depending on how your – if you're just including reserves or a conversion factor of reserved resources or even beyond that.

So valuation is based on the underlying asset and the optionality of the underlying asset. Whilst some assets [unclear] that lower cost of capital may also be a factor, people are factoring in greater expansion potential or extension potential from those assets, just as a – so it may not always just be the cost of capital.

Chen Jiang: (Bank of America, Analyst) Right, right. Thanks for that. You mentioned value and variables. What are the key variables when you're assessing opportunities in the secondary market? You mentioned the resources and the reserves. I guess every company will have their own commodity price assumptions. I'm just trying to understand what are the key variables that drive your valuations that you're thinking about [unclear] versus paying a premium to acquire the asset? Thanks.

Brendan Ryan: Yes. You picked the main three: cost of capital, commodity price and reserve [of] resource are the main three on a top-line revenue-type royalty. They are the key variables, but…

Julian Andrews: To Brendan's point, I think, of those three, probably the one in which you'd see the greatest variation is around the view of the deposit and that conversion and the potential for extension and expansion is probably the greatest variable when you look across the different views on value.

Brendan Ryan: There [may also just – people] with different commodity views as well. Some people taking position on commodity price as well, but, yes, they're definitely sort of the three big variables in a revenue-type royalty.

Chen Jiang: (Bank of America, Analyst) Thanks for that. I have a last one, if that's okay?

Julian Andrews: Sure, yes.

Chen Jiang: (Bank of America, Analyst) So secondary space is very competitive. How about primary royalty? Are you – how open are you – talk to or approach any [unclear] miners in the early stage to create primary royalties, if secondary…

Julian Andrews: Yes, look, we…

Chen Jiang: (Bank of America, Analyst) …is too competitive? Thanks for that, yes.

Julian Andrews: Yes. Exactly. I think to be clear, we certainly see that opportunity to create new royalties and streams as being a really key part of the growth story. As I mentioned in the prepared remarks, we see – we're seeing that market shift a bit in a way that we think is going to drive more opportunities for us and particularly our ability to provide patient long-term capital will become more and more compelling, I think, for miners.

That's right across the spectrum from juniors who are looking for development capital early on in the phase, right through to larger, more-established companies that might be looking for additional funding. It may be to support M&A. It may be to just address some balance-sheet issues or it may be just to provide some additional capital for projects that are a bit more advanced.

In terms of where our focus is, we have talked about focusing on production or projects that have a clear line of site to production. That is still our focus. However, we do – that – we do look across the spectrum a bit further and we are aware that there may be opportunities earlier in the phase and over time it may be that we look to act on some of those. I think at the moment much of our focus is on – is somewhat more advanced projects.

Chen Jiang: (Bank of America, Analyst) Right, right. So more focused on the advanced project. Okay. Just a last one, just to follow-up. You mentioned the opportunity has shift. Do you mean shift to the secondary or you think more opportunities in the primary space?

Julian Andrews: I think we're – we are beginning to see and we expect to see more opportunities in the primary space. I think that when you look back, certainly since late '20, when we were first established, debt markets have been pretty strong, as have equity support for the resources sector. So it has been very competitive from a source of capital perspective.

Brendan Ryan: During that period, over the last couple of years, you've seen a lot of people bring projects through the natural phase of drilling through sort of early [unclear] DFS sort of stages and now are approaching their FID decision. The good news for us – well, in terms of we think that we form a natural part of that debt equity and royalty financing package, particularly now that debt is that little bit more expensive, equity is a little bit harder to access than it has been over the last 24 months.

We think that we form a natural part of that hybrid of debt equity that form a natural part of that financing package and quite compelling for operators, because we are very aligned with the operator in terms of they only pay us when their project goes well and we're only very expensive if they go very, very well.

Chen Jiang: (Bank of America, Analyst) Right, great. Thanks, Julian. Thanks, Brendan. I'll pass down. Thank you.

Julian Andrews: Thank you.

Operator: All right, thank you. Our next question comes from the line of Peter O'Connor from Shaw and Partners. Peter, please ask your question.

Peter O'Connor: (Shaw and Partners, Analyst) Julian, Brendan, Matt. I think that's me, yes?

Julian Andrews: Yep.

Brendan Ryan: Yep.

Julian Andrews: Hi, how are you?

Peter O'Connor: (Shaw and Partners, Analyst) Okay, great. Sorry. I didn't – she didn't introduce me or I didn't hear it. Same as Glyn. Hey, I just want to explore the notion of your patience and your pragmatism and your judiciousness, and I applaud all of the above for what you've done, so congrats.

But where does it leave you going forward? Dialling back to the early 2000s, we saw a case of companies like yourself talking about exactly the same factors and the missing deal after deal and other companies coming in and doing deals around them. So with that in mind, that backdrop, I just want to ask about valuation metrics.

So you're in a data room. You're putting forward a bid. I know you're going to tell me to look at all the obvious stuff like [IRR] and MPV and sensitivity analysis, et cetera. Is free cash flow yield part of this process and forward curves and the shape of commodity price as opposed to one locked-in anchor price?

How do you think about the profile of the cash flows from a – you're talking about commodity prices. Everybody's got a different view, but how do you think about the profile of the commodity deck, not just the anchor price perhaps and the forward curve [that seeps] into that?

Julian Andrews: Yes. Look, we – so we won't run through all the obvious ones, as you say because I think we've talked to those before. But the direct question, we do think about shapes of profile and I think we do – we truly – do try to spend quite a bit of time thinking about how the optionalities that's inherent in potential price curves can drive value.

I think that – so we do spend quite a bit of time looking at that. Then that really factors into our view on the type of returns we would seek.

So we don't go out and anchor on a requirement of a return for a [unclear] without understanding the optionality inherent within an opportunity, whether that's around the deposit or whether it's around the price curve or whether it's about development profiles or what it might be.

Brendan Ryan: I think also, Peter, there's a symbiosis between what price [unclear] using and what optionality you believe and the different scenarios that we run. So we run multiple scenarios. Some in a world that – where prices go high, what does that mean for the reserve resource conversion and what might that look like in terms of expansion extension?

Then we run negative – adverse cases where the price goes down and we try to think about those cases quite systematically and thoughtfully about actually what are the possible scenarios, knowing that there is no one central – like, no one central case captures the true value of these assets.

It's going to – and the better the optionality in the asset, the more of these upside cases you can potentially run and the better the expected value would be in terms of the outcome of the multiple scenario analysis.

Julian Andrews: As Brendan said, it's important to know that often that optionality is asymmetric. It's not a symmetric distribution of potential [assets]. Yes.

Peter O'Connor: (Shaw and Partners, Analyst) So as part of your lessons-learnt process, which I think Glyn asked about, you must try and back-solve what the winning bid and did and try and work out where you missed. So on that basis, the first question is, have you participated, Brendan, in half a dozen or so non-PM royalties that you mentioned since you've listed? Have you been in those data rooms actively?

Then secondly, when you've back-solved, where do you think that [inaudible] the gap [inaudible] your view and what the winning bid was?

Julian Andrews: So to your first, I mean, we're not going to comment on specific projects, but I think it's fair to assume that given what we do and our focus on growth opportunities, it's fair to assume that we're actively looking at most opportunities that come to market.

In terms of when we go back and – we do go through a process of when – transactions close, we do go through a process of assessing where we sought value and what's implied in some of those deals that have closed. As we touched on earlier, there's a number of different factors, but often it comes down to what we think's perhaps a different view on what the future of this asset might be and whether that's reflected ultimately in a cost to capital that's applied to it or whether it's just reflected in the modelling. I think that's a – that's probably the key element for much of this.

Brendan Ryan: Yes. I think to your point, when you try to back-solve, as the question earlier, it comes down to cost of capital – which is probably – I'd probably – there's less variation in there is my guess, but there's obviously the price [deck] again, probably not as much variability though, [reserve] resource conversion very important.

For undeveloped projects where there's been some process for undeveloped, it's also when it will start and how it will start and how it will ramp up are also important sort of additional assumptions that we add in. So – and that's potentially where there might be some differentiation between prices [unclear] as well.

Peter O'Connor: (Shaw and Partners, Analyst) Okay. Lastly, to Rob's question about the Pilbara and the private royalties, have you initiated any discussions with any of the Pilbara royalties or WA royalties in iron ore that were mentioned?

Julian Andrews: Yes. Look, as I said, I don't think we're going to comment on any specific opportunities in that way.

Peter O'Connor: (Shaw and Partners, Analyst) Okay. Would you initiate or are you a passive player in this regard? Are you waiting for them to come to you?

Julian Andrews: I think, you know, looking more broadly just across the opportunities that – more broadly, clearly there are opportunities that come to us. There are processes or vendors who are looking to sell. We're also active in terms of identifying projects or counterparties where we think we could be a good partner for them and we are active in approaching those where we think there's an opportunity that's mutually attractive.

Peter O'Connor: (Shaw and Partners, Analyst) So thinking about a private royalty, that - they're looking for a liquidity event, and is that where Deterra would use paper as part of the funding and you'd welcome a major shareholder to do that?

Julian Andrews: Yes. Look, I think – again, it's difficult to talk to the hypotheticals, but that certainly is something that we can offer to counterparties if they are looking to – for that liquidity, but retaining exposure to similar assets is certainly something we can offer that we think our competitors can't.

Brendan Ryan: It depends as much to the seller's structuring as much as ours as well.

Peter O'Connor: (Shaw and Partners, Analyst) Okay. Thanks, guys. Congratulations on a record result.

Julian Andrews: Thank you.

Operator: Thank you. Our next question comes from the line of Matt Greene from Credit Suisse. Matt, your line is open; please go ahead.

Matt Greene: (Credit Suisse, Analyst) Hi. Good morning, gents. You've answered a lot on the call, but I'm just keen to dial in a bit on your comments on pursuing streams. I think if we look at the – your large North American peers, clearly there's a lot of values in streams and, on a relative sense, a royalty, I guess, is quite a simple contract. I mean, your peers have small trading arms that are domiciled in usually favourable tax jurisdictions.

So if Deterra were to pursue a streaming model, what does that look like for you guys?

Julian Andrews: Yes. So, to be clear, certainly we do – when we talk about royalties more broadly, we include streams in that. So we are quite – we would certainly look at stream opportunities. I think, at the end of the day, that the structure that works, will depend on the counterparty, where the project's located, where the counterparty's domiciled.

That's one of the benefits, I think, of royalties or streams in particular as a source of capital is they do have that flexibility in a way that perhaps debt, for example, doesn't necessarily. So we are – we certainly do look at those – do look at streams as a source of opportunity, I suppose. Yes.

Brendan Ryan: Yes. We pitch streams and royalties to parties depending on what we think is best suited to that opportunity.

Matt Greene: (Credit Suisse, Analyst) Sure. Okay, but in terms of the construction of Deterra as a company, can you – do you have the people in place to be able to put a stream in or do you have to expand your personnel and, I guess, domicile that trading arm into a more favourable tax jurisdiction? How does Deterra as a company change if you were to bring a stream into the portfolio?

Julian Andrews: So, to be clear, we could write a stream tomorrow, but it would – clearly we're domiciled in Australia and that would come with certain – that comes with tax implications of being domiciled in Australia. I think it's difficult to speculate on what works, because ultimately the tax outcome is really going to be a function of where the project's located, where the counterparty's located, where we're located and we're aware of those and certainly we think about those when we think about how to pitch the opportunity.

If you look at our annual report, to your point, we are not structured with overseas entities at present. That doesn't mean that may not happen in the future, but that will depend on the circumstances and the opportunity.

Matt Greene: (Credit Suisse, Analyst) Okay. That's helpful. Thanks.

Operator: Thank you. Our next follow-up question comes from the line of Rahul Anand from Morgan Stanley. Rahul, your line is open; please go ahead.

Rahul Anand: (Morgan Stanley, Analyst) Hi, thanks for the opportunity again. Look, perhaps one for Brendan. Look, I was going through the other expenses line and I noticed the increase from $4.6 million to $7.6 million.

Now, you do mention that $4.6 million was on an eight-month basis. So if I do annualise the number, the underlying inflation in the other line is about 17% and the employee benefits is about 6%. Could we perhaps touch a bit upon the other expenses, the 17% inflation? What's driving that and how sticky is that going forward?

Brendan Ryan: Yes. Listen, I think we're a new organisation. We were probably understaffed for the first year on a relative basis, so there is some – that – as you said, some to do with the employee base. But things – there's been general – [unclear] insurances have inflated across the industry.

But generally speaking the bigger increase is predominately in our [BD] base costs, which includes subscriptions and a few other things where we're getting our – getting all of – we don't have the team to have our own economic department, but rely on third party information to help get informed on certain commodities. As we look at more commodity sets, we get some information.

Likewise, I think there's some – I think there's just some normalisation of our fees as we work out what we need and what we didn't need. So there's a – I wouldn't say that was inflation. I'd say that was more right sizing the business than getting it up and running. So don't read too much into that, if – don't expect it to be going – increasing at that level year-on-year. I think that was more of a – actually eight months getting ourselves in place versus a more steady state where we're at now. Does that help, Rahul?

Rahul Anand: (Morgan Stanley, Analyst): Yes, it does. Yes. So I guess inflation type growth going forward, yes, from here?

Brendan Ryan: Yes, well we don’t suffer from inflation much at all. You know, I think the biggest salaries are Julian and I and the Board and they've all stayed sort of flat. So you know, inflationary pressure, we're at the behest of the market with D&O insurance which is sort of, in Australia, it's been quite - it has been escalating. But in saying that, we're fairly sort of solid there.

Otherwise, the fees that we've incurred are more around sort of that right sizing as opposed to inflationary pressures on those fees.

Julian Andrews: And that's another point just to make there is we have intentionally called out those variable business development costs separately. Those are - those will fluctuate more with the level of business development activity.

Rahul Anand: (Morgan Stanley, Analyst): No, that's perfect. Thank you very much for the colour. Appreciate that. I'll pass it on.

Brendan Ryan: Thanks Rob.

Operator: Thank you. Our next follow up question comes from Peter O'Connor from Shaw and Partners. Peter, your line is open. Please ask your question.

Julian Andrews: Peter. Hi Peter.

Peter O'Connor: (Shaw and Partners, Analyst) Sorry guys. Yes, got it. You mentioned a really interesting comment before, Brendan, you said - you used the word pitch. What proportion of the time you spend on BD work is pitching and what proportion of your time is spent on inbound deals coming towards you or data [unclear] coming towards you?

Brendan Ryan: Yes, good question, Peter. As we've - we've started from scratch a year and a half ago thereabouts and we've been building our coveted asset list. So we build a list of the assets that we would like to get involved in and we try to find opportunities when we think that - you know, there might be a market opportunity where we can offer a financing solution that is sort of bespoke to that group that is actually valuable to them and to us.

So we pitch - we're increasingly pitching. I think as we've developed that list of assets that we like, as we sort of get to understand them and do the background work on those, that we can offer a meaningful pitch to the people, more than just sort of - more than a hypothetical.

We go to them and we sort of pitch increasingly on that asset list. And as it happens with the market changing, we are seeing more opportunities. So we're - earlier on when we came out of the gate, the market sort of - equity was so - was very competitive as a proposition for funding.

We believe that we're actually a lot more competitive now and we're pitching a lot more often. I won't tell you what proportion wise. It changes over time and it depends month on month. But a lot more of late with the changing market conditions.

Peter O'Connor: (Shaw and Partners, Analyst) So hypothetical again but you've seen the market change and you've not been successful yet in either deals coming in or pitching. Going forward, it feels like from your answer that pitching is the more likely outcome?

Brendan Ryan: Yes, look, I think the secondary market was quite hot for the last period because people were trying to monetise at the top of the cycle. That's what people were trying to do. And we saw a lot of processes around on secondary market based on that sort of dynamic.

You know, I think now we will probably - as we become a more natural part of that debt equity sort of royalty funding package, we think that we are a natural part of those solutions. So I think that we will see more coming - more work in that primary sector. Which in some ways, we like quite a lot because we can sort of get access to the primary information. It actually de-risks some of what you do as well.

Peter O'Connor: (Shaw and Partners, Analyst) Thanks, Brendan.

Operator: Thank you. Our next follow up question comes from the line of Chen Jiang from Bank of America. Chen, your line is open. Please ask your follow up question.

Chen Jiang: (Bank of America, Analyst) Sorry. I'm good. My question has been asked. Thank you.

Brendan Ryan: Thank you.

Operator: Thank you. Once again, to ask a question, please press star one one.

Julian Andrews: Okay, well look…

Operator: No further questions. All right, we have some questions from Reg Spencer from CGF, please go ahead. Reg, your line is open. Please ask your question.

Reg Spencer: (CGF, Analyst) For some reason, it wasn't registering my question. But just a broader one on new investment opportunities. If you look at the commodity markets that arguably offer the best growth opportunities or where significant capital investment is required and current run rates are inadequate, can you provide a bit more of a comment on which of those markets that you guys are focusing are of more interest than others?

Julian Andrews: Yes, so look, as you say, there's certainly a lot of focus on some of the sort of electrification driven commodities. Certainly in some of the base metals and some of the battery metals. We - that falls within our ambit, it's no question. So copper, nickel, those type of metals certainly of interest to us.

Some of the battery metals as well. I think when we think about those, often those are earlier stage opportunities. So that introduces a level of complexity as well. As well as just sort of an understanding of how that - how we can participate in the value creation around some of those commodities.

Because there is quite a significant degree of processing associated with some of them. So there's some extra complexity around those but certainly you know, longer term, there are some - some of those commodities have pretty attractive fundamentals.

Reg Spencer: (CGF, Analyst) So just so I understand, there's not one commodity market that you're most interested in over than others. You have a set of criteria and subject to those opportunities meeting that criteria, you're relatively ambiguous about which part of those focus markets that you'd be looking at.

Julian Andrews: Yes, I think that's probably fair to say. I mean within that broader range, obviously there is an element of focus around - we certainly do - we do spend a bit of time looking in the bulk space as well. But yes, in that base of battery sector, particularly in the base, there are a couple of - that's an area where we see some attractive opportunities as well.

Brendan Ryan: In some of the EV related, you know, the battery metals, it is, as Julian said, it's harder to price because you don’t necessarily know what product they're producing and where that sits in the value chain and what price they will receive. So that just makes it a little bit harder.

As that matures - as the market matures in some of those commodities, that should become more transparent. But you know, until that point, it gets a little bit harder to price some of those. Not impossible. You have to do your homework.

But it's certainly harder than some of the traditional [unclear] base where they have an exchange traded sort of commodity price and a number of [analysts] helping to think about the long term sort of price dynamics.

Reg Spencer: (CGF, Analyst) And I suppose given that you would be looking to fund any new opportunities, at least initially, through your debt facilities, you'd want a commodity market where you do have transparent pricing and with pricing maybe less volatile. I presume that comes into consideration as well.

Brendan Ryan: Yes, volatility is not a bad thing but it's certainly - particularly with [unclear] volatility, you know, on the upside. But yes, no, definitely we do like to get a firm hand on our internal view of the commodity dynamic and the cost curve and the supply side and demand side of the situation.

Reg Spencer: (CGF, Analyst) Great. Thanks very much, guys.

Brendan Ryan: Thank you.

Operator: Thank you. We have our next follow up from Peter O'Connor from Shaw and Partners. Peter, your line is open. Please go ahead.

Peter O'Connor: (Shaw and Partners, Analyst) Sorry, guys. Reg nailed it. I'm all good.

Brendan Ryan: Okay, thanks Peter.

Operator: All right. Thank you all very much for your questions. I'd now like to hand the call back to Julian for closing remarks.

Julian Andrews: Look, thank you very much. I think we're out of time. So appreciate your interest and thank you very much again for your time this morning.

Brendan Ryan: Cheers.

Operator: That concludes today's conference call. Thank you for participating. You may now disconnect.

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