24 February 2021 ASX: DRR

# INTERIM PERIOD FINANCIAL RESULTS AND OUTLOOK

Deterra Royalties Limited (ASX: DRR) (**Deterra** or **Company**) is pleased to release a results and outlook presentation for the interim period to 31 December 2020. An investor and analyst briefing will be held at 10:00 (AWST) / 13:00 (AEDT) today by Mr Julian Andrews, Managing Director and Chief Executive Officer, and Mr Brendan Ryan, Chief Financial Officer.

The live audio webcast and on-demand replay of the results briefing will be available at www.deterraroyalties.com.

This document was approved and authorised for release by Deterra's Managing Director.

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# FY21 Interim Period Financial Results and Outlook

**24 February 2021**

Julian Andrews
Managing Director and Chief Executive Officer

Brendan Ryan
Chief Financial Officer

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This presentation has been prepared by Deterra Royalties Limited ("Deterra", "DRL", "the Company"). By accessing this presentation you acknowledge that you have read and understood the following statement.

The material in this presentation is general background information about Deterra and its activities current as at the date of the presentation on 24 February 2021. This presentation provides an indicative outlook for the Deterra business and the 2021 financial year. The information in this presentation is given in summary form and does not purport to be complete. Information in this presentation is provided to assist sophisticated investors with their own analysis of the Company but should not be relied upon as a predictor of future performance. The current outlook parameters supersede all previous key physical and financial parameters. The information in this presentation is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investors. Investors should consider these factors and consult with their financial, legal or other professional adviser.

This information is based on Deterra forecasts and as such is subject to variation related to, but not restricted to, economic, market demand/supply and competitive factors. This presentation should be read in conjunction with Deterra's other periodic and continuous disclosure announcements which are available at www.asx.com.au.

**Forward-looking Statements**

This presentation contains certain statements which constitute "forward-looking statements". Often, but not always, forward-looking statements can generally be identified by the use of forward-looking words such as "may", "will", "expect", "plan", "believes", "estimate", "anticipate", "outlook" and "guidance", or similar expressions, and may include, without limitation, statements regarding plans; strategies and objectives of management; anticipated performance; estimates of future expenditure; expected costs; estimates of future royalty income, product supply, demand and consumption; statements regarding future product prices; and statements regarding the expectation of future Mineral Resources and Ore Reserves.

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No independent third party has reviewed the reasonableness of the forward-looking statements or any underlying assumptions.

**Past performance**

Investors should note that past performance metrics and figures in this presentation are given for illustrative purposes only and cannot be relied upon as an indicator of (and provide no guidance as to) future Deterra performance, including future share price performance. Any such historical information is not represented as being, and is not, indicative of Deterra's views on its future financial condition and/or performance.

**Non-IFRS Financial Information**

This document may contain non-IFRS financial measures including cash production costs, non-production costs, Royalty EBITDA, Underlying Group EBITDA, EBIT, free cash flow, and net debt amongst others. Deterra management considers these to be key financial performance indicators of the business and they are defined in the pre-quotation disclosure (22 October 2020). Non-IFRS measures have not been subject to audit or review.

To assist shareholders in their understanding of Deterra, pro forma financial information has been prepared to reflect the business as it is now structured and as though it was in effect from 1 January 2019.

All figures are expressed in Australian dollars unless stated otherwise.

In accordance with ASX Listing Rule 15.5, Deterra confirms that this presentation has been authorised for release to ASX by Deterra's Managing Director.



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# FY21 Interim Period Business Highlights

**Successful demerger & ASX listing**

- Board and management team now fully in place
- Implemented lean corporate structure with outsourced functional support
- Modest working capital facility in place

**Lean business model delivering strong financial performance**

- Revenue of $53.9 million with an NPAT of $33.3 million (incl transaction cost)
- Underlying EBITDA of $47.8 million at an Underlying EBITDA margin of 97%
- Declared an Interim Dividend of 2.45 cents per share (fully franked) equal to 100% of Post-demerger Period NPAT

**Developing revenue growth options**

- MAC South Flank 90 per cent complete with production scheduled mid 2021
- Yalyalup and Wonnerup North approvals should extend life of these assets
- Commenced identification and evaluation of new royalty opportunities



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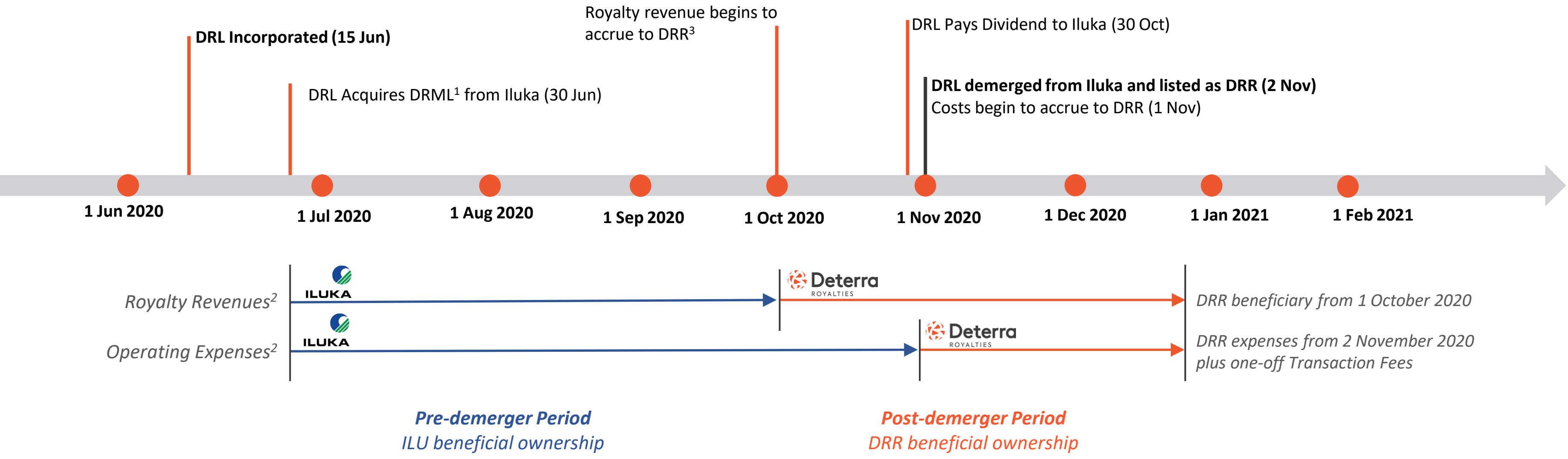
# Demerger of Deterra Royalties

## Deterra Royalties Limited (DRL) was successfully demerged from Iluka Resources on 2 November 2020




(1) Deterra Royalties (MAC) Limited, the entity which holds the MAC Royalty, the Doral royalty interests, the Sheffield royalty interest and the Cable Sands royalty interest.
(2) Under the terms of the separation agreements, Iluka Resources was entitled to DRL earnings to 30 September 2020 and responsible for costs to 31 October 2020.
(3) DRR is defined as shareholders of Deterra Royalties Limited (DRL) following the implementation of the demerger on 2 November 2020.



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# FY21 interim period financial highlights

| Statutory accounts[1] | Attributable to[2]: ILUKA | Attributable to[2]: Deterra Royalties |
|---|---|---|
| Total Revenue $53.9M | Revenue $29.3M | Revenue $24.6M |
| Underlying EBITDA[3] $47.8M | Underlying EBITDA $24.4M | Underlying EBITDA $23.4M |
| NPAT $33.3M | NPAT $20.4M | NPAT $12.9M |

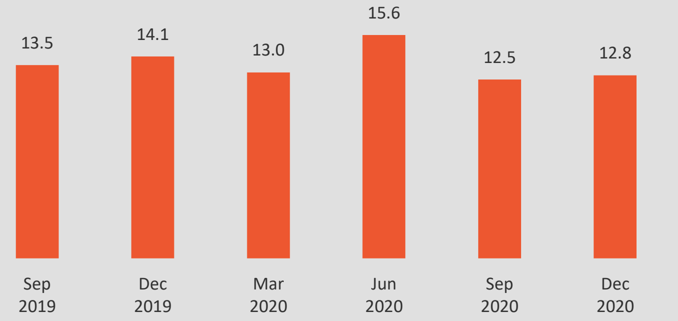
(1) Refers to interim period results for period 15 June to 31 December 2020.
(2) See notes on slide 4.
(3) See notes on slide 2 – Non-IFRS Measures.

# Mining Area C performance

**December 2020 sales volume up Q-on-Q despite South Flank tie-in activity**

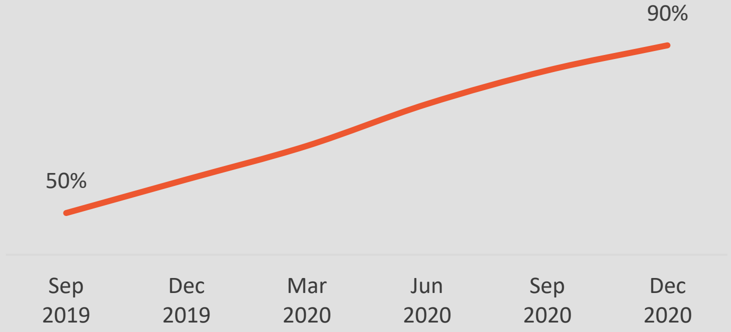
**BHP South Flank project is now 90% complete and remains on track for first production in the middle of 2021 calendar year**

**MAC quarterly sales volume (Mdmt)**




| | | | | | | |
|---|---|---|---|---|---|---|
| **Implied moisture and stock movements versus BHP reported production** | 9.4% | 5.6% | 9.3% | 4.9% | 10.7% | 6.2% |
| | **Dec H 2019** | | **Jun H 2020** | | **Dec H 2020** | |
| **Sales (Mdmt)** | 27.6 | | 28.6 | | 25.3 | |

**South Flank project completion (%)**




Source: BHP.

Source: BHP Operational Review for the half year ended 31 December 2020 and similar prior Operational Reviews.

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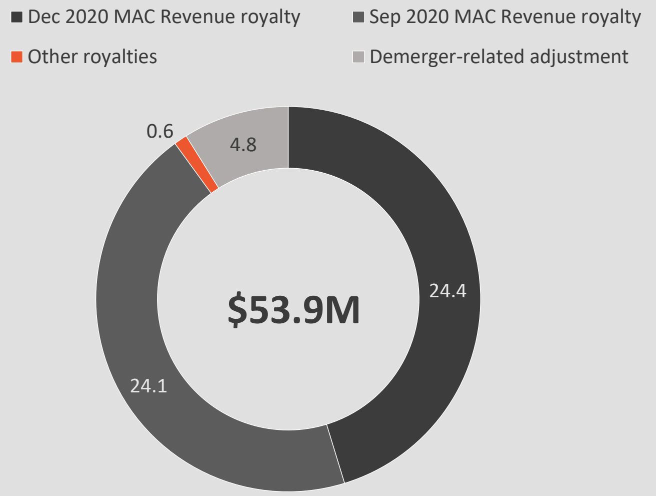
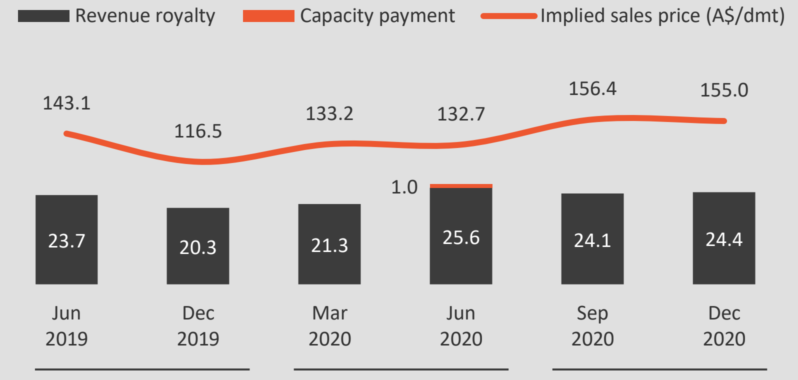
# Financial results

# Mining Area C royalty performance

**The MAC Royalty performed strongly in a backdrop of a robust iron ore price environment**




| | Dec H 2019 | Jun H 2020 | Dec H 2020 |
|---|---|---|---|
| Production royalty revenue (A$M) | 44.0 | 46.9 | 48.4 |
| Implied sales price (A$/dmt) | 129 | 133 | 156 |

(1) On 30 June 2020, Deterra Royalties Limited (DRL) acquired Deterra Royalties (MAC) Limited (DRML). The acquisition has been treated as an asset acquisition and the June 2020 quarter royalty receivable that was recognised in the transaction amounted to $21.7M. The adjustments include $1M increase for the receipt of a capacity payment and $3.8M for higher revenue royalties than forecast at 30 June 2020. The threshold production for future capacity payments is now 57 Mdmt.



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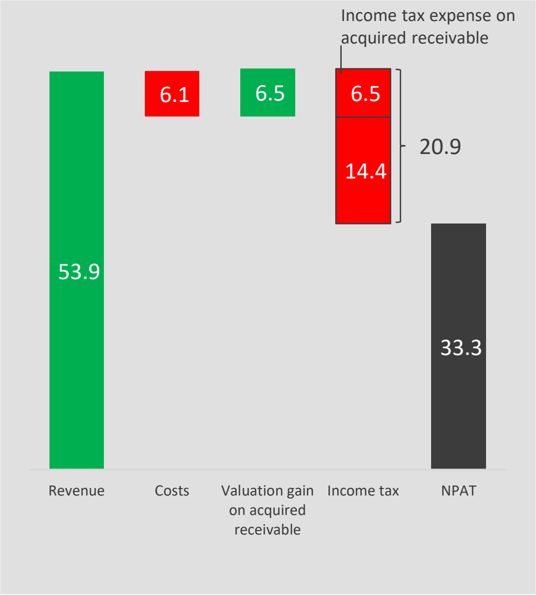
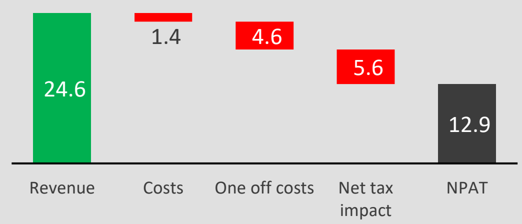
# Financial performance

## attributable to Iluka and Deterra Royalties

**Earnings 15th June 2020 to 31st December 2020 attributable to Iluka and Deterra Royalties** ($M)

100% of NPAT

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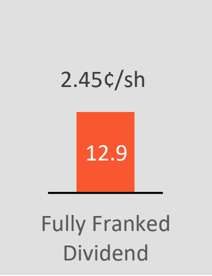
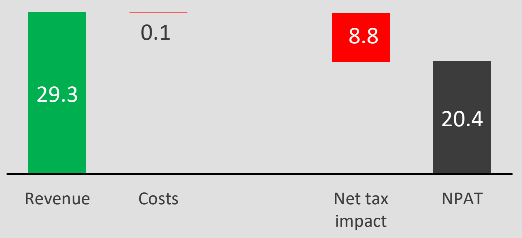
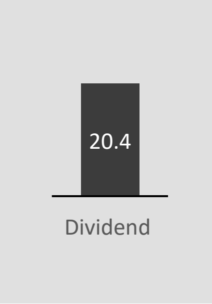



ILUKA



# Shareholder returns

**Low debt and scaleable corporate structure designed to support the flow of dividends to shareholders**

- Intent to pay out 100% of NPAT[1], franked to the maximum extent possible
- Conservative capital structure limits interest costs
- Lean and scaleable corporate structure and cost base
- Earnings sensitive to iron ore prices, sales volumes, foreign exchange rates and one off expenses

**Interim dividend of 2.45cps, fully franked**

(1) Deterra's approach to dividends and dividend policy will be determined by the Deterra Board at its discretion and may change over time.

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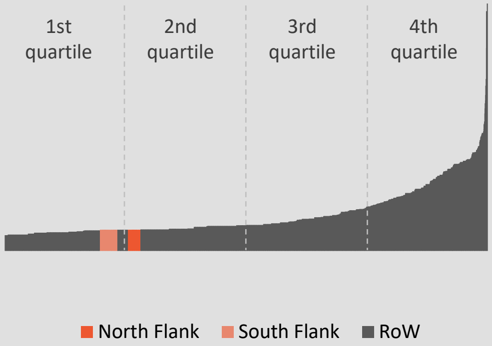
# Strategy and outlook

# Mining Area C operation and South Flank expansion (MAC royalty)

## Low-risk exposure to a large, low-cost iron ore mining complex that will grow its volumes by approximately 2.4 times

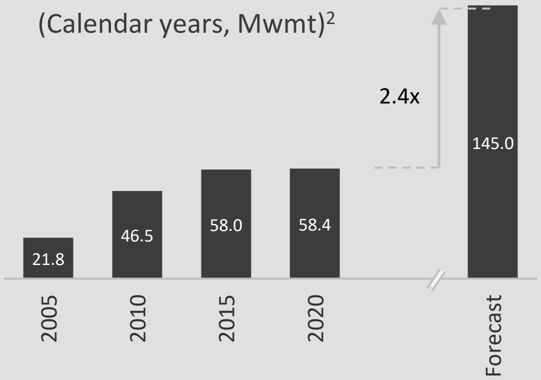
### Low-cost operations with long life

**Iron ore total cash cost curve (2023F)[1]**



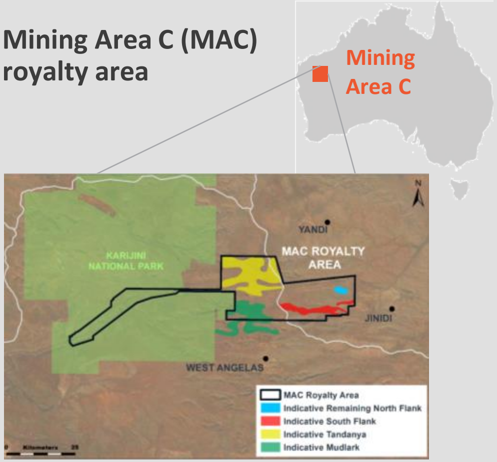

### Significant near-term growth

**Mining Area C production and sales volumes**
(Calendar years, Mwmt)[2]




### Resource upside in a low-risk jurisdiction

**Mining Area C (MAC) royalty area**




(1) As presented in the Demerger Booklet (Deterra Royalties Limited), published by Iluka Resources on 10 September 2020. Total cash costs are defined as direct cash cost associated with mining, processing and transport of marketable products, including G&A costs directly related to mine production, royalties, levies and other indirect taxes.
(2) BHP reported MAC production volumes on a wet basis.



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# Growth strategy focused on value accretive investment

**Deterra will seek to build a portfolio of royalty interests focusing on earnings growth and diversification by making complementary and value accretive investments**

Key objectives of this strategy is to achieve:

- Multiple sources of earnings growth – new royalties with attractive returns, exposure to mine life extensions and production increases
- Greater cash flow resilience and lower risk – through portfolio diversification over time
- Scaleable cost structure – limited incremental operating cost required for new investments
- Disciplined approach – to investment and capital allocation



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# Considering ESG in new investments

**Deterra seeks to create sustainable value by applying strong ESG policies and practices in making new investments**

Account for ESG risks and opportunities when evaluating investment opportunities

Seek contractual protections and sufficient disclosure and transparency to facilitate the Company's ongoing assessment of ESG risk management and performance

Continue to monitor operators' ESG commitments and performance

# Six key drivers of success

| Maximise value from portfolio | Execute disciplined growth |
|---|---|
| 1 Robust cashflows with strong embedded growth in MAC | 4 Increase scale and diversification through complementary acquisitions |
| 2 Low cost, scaleable corporate structure | 5 Disciplined capital allocation |
| 3 Maximise franked dividends (100% NPAT)[1] | 6 Strong balance sheet and significant debt capacity |

**Maximise shareholder value**

(1) Deterra's approach to dividends and dividend policy will be determined by the Deterra Board at its discretion and may change over time.



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# For more information

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# Portfolio of royalties

| Project | Counterparty | Location | Commodity | Status | Royalty Key Terms |
|---|---|---|---|---|---|
| Mining Area C (MAC) | BHP Billiton Minerals Pty Ltd;<br>Itochu Minerals & Energy of Australia Pty Ltd;<br>Mitsui Iron Ore Corporation Pty Ltd | Pilbara, WA | Iron Ore | Producing | 1.232% of MAC product revenue<br>$1 million per 1mdmt increase in capacity |
| Yoongarillup / Yalyalup Project (under two royalty agreements) | Doral Mineral Sands Pty Ltd | South West, WA | Mineral sands | Producing | 2% of revenue from sales of Minerals |
| Eneabba Project | Sheffield Resources Limited | Mid West, WA | Mineral sands | Exploration | 1.5% of gross revenue from sales of Minerals |
| Wonnerup Project | Cable Sands (W.A.) Pty Ltd | South West, WA | Mineral sands | Development | $0.70 per tonne of Valuable Heavy Mineral |
| St Ives Gold Project | St Ives Gold Mining Company Pty Ltd | Eastern Goldfields, WA | Minerals | No known activity | 3% of gross revenue (subject to conditions) |



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# Underlying EBITDA and earnings adjustments

| Earnings and earnings adjustments[1] | Pre-demerger Period | Post-demerger Period | Total Period[2] |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Net Profit After Tax** | **20,393** | **12,948** | **33,341** |
| *add back income tax expense* | 8,757 | 5,648 | 20,917 |
| *add back income tax expense on acquired receivable* | 6,512 | | |
| **Profit before tax** | **35,662** | **18,596** | **54,258** |
| *less Valuation gain on acquired receivable* | (6,512) | | (6,512) |
| *add back Net finance costs and FX gains* | | 77 | 77 |
| **Operating profit before finance cost** | **29,150** | **18,673** | **47,823** |
| *Adjustments to Underlying earnings* | | | |
| *add back one-off demerger expenses* | | 4,637 | 4,637 |
| *less demerger-related adjustments relating to prior period revenue* | (4,848) | | (4,848) |
| *Total adjustments* | (4,848) | 4,637 | (211) |
| **Underlying EBIT** | **24,302** | **23,310** | **47,612** |
| *add back Depreciation and Amortisation* | 116 | 54 | 170 |
| **Underlying EBITDA** | **24,418** | **23,364** | **47,782** |
| | | | |
| Adjusted Revenue | 24,418 | 24,593 | 49,011 |
| Underlying EBITDA margin (%) | 100% | 95% | 97% |

(1) See notes on slide 2 – Non-IFRS Measures.
(2) Refers to interim period results for period 15 June to 31 December 2020.



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# Income statement

| Statement of profit or loss | Pre-demerger Period | Post-demerger Period | Total per financial report |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| MAC royalty | 24,067 | 24,382 | 48,449 |
| MAC royalty adjustments | 4,848 | | 4,848 |
| Other royalties | 351 | 211 | 562 |
| **Total Royalty Revenue** | **29,266** | **24,593** | **53,859** |
| Valuation gain on acquired receivable | 6,512 | | |
| Demerger expenses | | (4,637) | |
| Other costs | (116) | (1,360) | |
| **Profit before tax** | **35,662** | **18,596** | **54,258** |
| Income tax expense on acquired receivable | (6,512) | | |
| Income tax expense | (8,757) | (5,648) | (20,917) |
| **Net Profit After Tax (NPAT)** | **20,393** | **12,948** | **33,341** |
| **Total and continuing earnings per share:** | | | |
| Basic earnings per share ($) | 0.0386 | 0.0245 | 0.0631 |
| Dividend per share ($) | NA | 0.0245 | 0.0245 |
| Payout ratio (%) | NA | 100% | |

- Pre-demerger income recognises value gain of $6.5M on the receivable asset that formed part of the acquisition of the royalty portfolio.
- Offsetting income tax expense of $6.5M



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# Balance sheet

| $'000 | 31-Dec-20 |
|---|---|
| Cash and cash equivalents | 188 |
| Trade and other receivables | 25,092 |
| Income tax receivable | 363 |
| Prepayments | 1,114 |
| **Total Current Assets** | **26,757** |
| Royalties intangible assets | 9,055 |
| Property, plant, and equipment | 29 |
| Right-of-use assets | 332 |
| **Total Non-Current Assets** | **9,416** |
| **Total Assets** | **36,173** |
| Trade and other payables | 382 |
| Provision for annual leave | 11 |
| Lease liability | 65 |
| **Total Current Liabilities** | **458** |
| Lease liability | 279 |
| Borrowings | 16,386 |
| Deferred tax | 5,987 |
| **Total Non-Current Liabilities** | **22,652** |
| **Total Liabilities** | **23,110** |
| **Net Assets** | **13,063** |

- December quarter 2020 MAC royalty recognised as a receivable with an associated deferred tax liability
- Royalty assets are valued at cost with the MAC royalty to be amortised over 30 years
- $40M debt facility to be used for general corporate and working capital purposes (drawn amount fully repaid in January)



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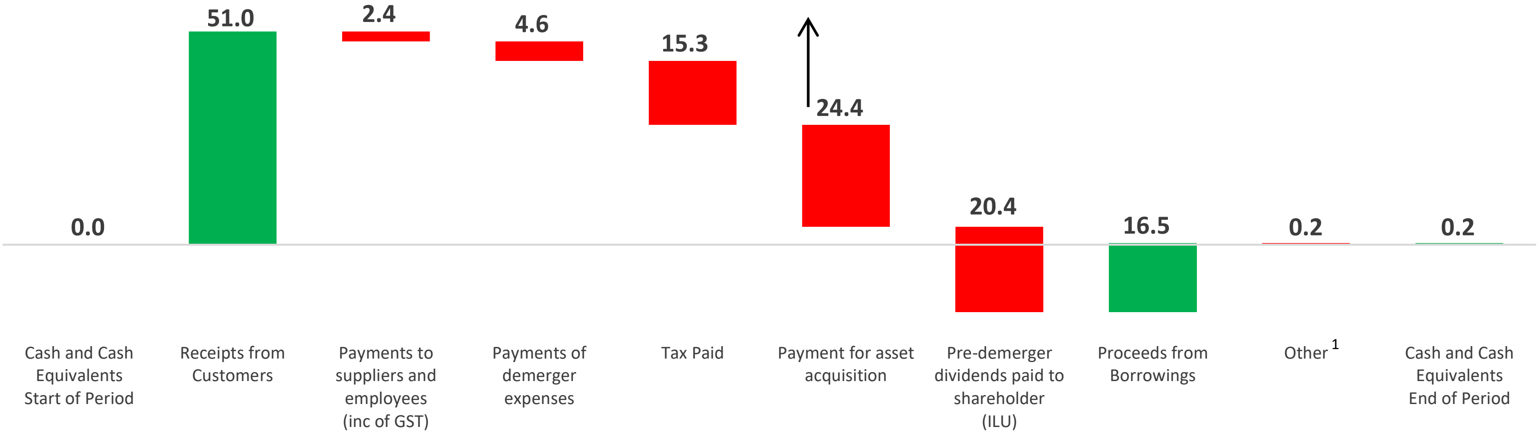
# Financial performance

## FY21 interim period cash flow was impacted by acquisition of the MAC asset and dividends distributed pre-demerger

**Cashflow 15th June 2020 to 31st December 2020**
($M)

| *Assets and liabilities recognised as a result of the acquisition* | $M |
|---|---|
| Royalty receivable, net of tax payable – June 2020 royalty | 15.2 |
| Intangible assets - Royalty | 9.2 |
| **Net assets acquired at 30 June 2020** | **24.4** |




(1) Other includes; Interest received, interest expense, Payments for property, plant, equipment, Payment of borrowing establishment fee, Payment of lease liability.

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