Saracen

Saracen Mineral Holdings Limited
FY2020 Financial Results

Underlying net profit after tax up 173% to record A$258m on rising production

Saracen set for further earnings growth as production jumps to ~700,000ozpa in FY24, before climbing to ~800,000ozpa in FY27

19 August 2020

HIGHLIGHTS

- **Statutory NPAT up 105% to a record A$189.7m** (FY2019: A$92.5m)
- **Underlying NPAT[1] up 173% to a record A$257.5m** (FY2019: A$94.2m)
- **EBITDA[2] up 104% to a record A$447.6m** (FY2019: A$219.5m)
- **Underlying EBITDA[3] up 140% to a record A$530.9m** (FY2019: A$221.2m)
- **Revenue up 93% to A$1,074.0m** (FY2019: A$555.6m)
- **Gold production rises 47%** to a **record 520,414oz** (FY2019: 355,077oz)
- **All-In-Sustaining-Costs ("AISC") steady at A$1,101/oz** (FY2019: A$1,030/oz)
- **Cash and equivalents increased to A$372.0m** at 30 June 2020 (A$154.4m at 30 June 2019) after spending **A$272.6m on exploration and growth**
- **Debt of A$321.5m; Net Cash position of A$48m** just seven months after drawing down A$400m to partly fund the acquisition of 50% of the Kalgoorlie Super Pit
- **Strengthening balance sheet supports ongoing investment in exploration and growth**; This includes the "future-proof" strategy of investing capital in the short term to de-risk production and lower costs in the future
- **FY21 guidance 600 - 640,000ozs** at an **AISC of $1,300 - $1,400/oz; Flight to 800,000ozpa underway**

Saracen Mineral Holdings Ltd (**ASX: SAR**) is pleased to report record financial and operational results for the year ended 30 June 2020.

Statutory net profit after tax (**NPAT**) rose 105% to A$190 million and EBITDA rose 104% to A$448 million, reflecting record production volumes, steady costs and a strong Australian-dollar gold price.

Gold sales increased to 528,693oz at an average price of A$2,138/oz (FY2019: 350,904oz at A$1,726/oz). AISC remained relatively steady at A$1,101/oz (FY2019: A$1,030/oz).

Revenue rose 93% to A$1,074 million (excluding 27,264oz or A$60.3 million of gold sales derived from pre-commercial mine development activities, which was offset against the capital development cost of these new growth projects). See Table 1 for key results.

Underlying NPAT was A$258 million and underlying EBITDA was $531 million after adjusting for "one-off" items including the fair value adjustment to KCGM stockpiles required as per the statutory purchase price accounting requirements, following the acquisition of 50% of the Kalgoorlie Super Pit (refer to Tables 2 and 3).

At 30 June 2020, Saracen held cash and equivalents of A$372 million, up from A$154 million a year earlier. This was after spending a record A$273 million during the year on growth projects and exploration.

Debt was A$322 million after drawing down A$400 million to help fund the Super Pit acquisition.

Saracen Managing Director Raleigh Finlayson said that FY2020 was a landmark year for Saracen.

"These results show Saracen has successfully made the transition to the big league of ASX gold producers," Mr Finlayson said.

"Our production rate is now running at +600,000oz a year and our cost base is still tight. This means we are perfectly positioned to capitalise on the strong gold price and continue generating strong growth in our cashflow.

"Our cashflow and robust balance sheet also ensures we can continue to grow through exploration and development, underpinning future increases in production and mine lives.

"And all our operations are based in the Tier-1 location of Western Australia which, in conjunction with our future-proofing strategy, adds further certainty to the outlook for our business."

Overview

Saracen Mineral Holdings (ASX: SAR) is pleased to report strong financial results for FY2020. Headlines include:

- 93% increase in revenue to A$1,074m
- 140% increase in underlying EBITDA to A$531 million
- 173% increase in underlying NPAT to A$258 million

Key financial (and operating) results are presented below.

Table 1 - Key results for the financial year ended 30 June 2020

	FY20	FY19	% Variance
Key financials (A$m)			
Revenue	1074.0	555.6	93%
EBITDA[2]	447.6	219.5	104%
Underlying EBITDA[3]	530.9	221.2	140%
Profit before income tax	284.8	131.4	117%
NPAT	189.7	92.5	105%
Underlying NPAT[1]	257.5	94.2	173%
Operating cash flow	478.2	228.1	110%
Net cash at end	47.8	129.1	-63%
Margins (%)			
Underlying EBITDA[3]	49%	40%	
Underlying NPAT[1]	24%	17%	
Production			
Gold produced (koz)	520.4	355.1	47%
AISC (A$/oz)	1101	1030	7%
Average gold price realised (A$/oz)	2142	1722	24%

Underlying NPAT

Calculation of underlying NPAT is presented below.

Table 2 - Reconciliation of underlying NPAT to statutory NPAT

	FY20	FY19	% Variance
Reconciliation			
Underlying NPAT	257.5	94.2	173%
Adjust for (net of tax):			
- Expensing of deferred exploration costs	0.5	0.4	
- Loss on disposal of fixed assets	0.2	0.4	
- Obsolete stock write down	0.4	0.9	
- KCGM stamp duty	31.7	0.0	
- KCGM transaction cost	10.9	0.0	
- Impact of fair value uplift on KCGM stockpiles	24.1	0.0	
Statutory NPAT	189.7	92.5	105%

Underlying EBITDA

Calculation of underlying EBITDA is presented below.

Table 3 - Reconciliation of underlying EBITDA

	FY20	FY19	% Variance
Reconciliation			
Underlying EBITDA	530.9	221.2	140%
Adjust for:			
- Expensing of deferred exploration costs	0.7	0.4	
- Loss on disposal of fixed assets	0.3	0.4	
- Obsolete stock write down	0.6	0.9	
- KCGM stamp duty	31.7	0.0	
- KCGM transaction cost	15.6	0.0	
- Impact of fair value uplift on KCGM stockpiles	34.4	0.0	
EBITDA	447.6	219.5	104%

Underlying EBITDA and underlying NPAT are presented to assist investors with their understanding of the Company's operational performance in the financial year ended 30 June 2020, in light of the material one off impacts associated with the Company's purchase of its 50% share of the Super Pit ("KCGM").

Under Australian Accounting Standards, the KCGM acquisition is deemed a Business Combination (rather than an Asset Acquisition) and is therefore accounted for using the "acquisition method". This method requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date, and all transaction costs to be expensed rather than capitalised.

The two major items associated with this transaction, impacting Saracen's statutory financial reporting are:

Stamp Duty charge

This one off transaction cost of ~A$32 million has been expensed through the FY2020 Profit and Loss Statement rather than capitalised to the Balance Sheet.

KCGM Ore Stockpiles

The book value of the acquired KCGM ore stockpiles are required to be reset to fair value. Given the strong gold price environment, this has resulted in a significant one off increase in the value of the mined stockpiles acquired when reported on to Saracen's Balance Sheet. This increased value is then expensed to the Profit and Loss statement (as a non-cash mine operating cost) as the stockpiles are drawn down. This accounting treatment has materially affected statutory reporting of the 1.0g/t "Marginal Stockpile" at KCGM. Prior to the acquisition, the value of this stockpile had been recorded in the KCGM Accounts at ~A$415/oz. After the fair value adjustment, this stockpile is now recorded on Saracen's Balance Sheet at ~A$1,000/oz.

In relation to Saracen's FY2020 Accounts, ~60,000oz were drawn from the run-of-mine and Marginal Stockpiles during the financial year, resulting in a non-cash operating expense in the Profit & Loss of ~A$60 million compared to a non-cash operating expense of ~A$25 million if the statutory fair value uplift had not been applied. It is expected that this Marginal Stockpile will be fully drawn down over the next 3 to 4 years of the KCGM operation.

Treatment of gold sales derived from development activities

As disclosed in the quarterly reports, A$60.3 million of gold sales (27,264oz, FY2019: 29,022oz) during the financial year were derived from (pre-commercial) mine development activities.

As required under Australian Accounting Standards, this amount was offset against the capital development cost of these projects and is not accounted for as Sales Revenue in the statutory accounts.

The ounces are included in gold produced but excluded from AISC A$/oz calculations.

Treatment of costs associated with third party ore

During the December quarter 2019, all agreements to purchase third party ore from other parties were completed. This ore was included in the blend processed through the Carosue Dam plant during the year.

The costs associated with this third-party ore of A$35 million are included in the Mine Operating Costs in the statutory accounts.

The ounces are included in gold produced but excluded from AISC A$/oz calculations.

Saracen has no further contracted obligations to purchase third party ore.

Income tax

During the year, Saracen made income tax payments of A$53 million and recognised an income tax expense of A$95 million (FY2019: A$39 million).

The FY2020 remaining income tax payable is estimated to be ~A$30 million, with cash payment anticipated in December 2020.

In addition, Saracen has estimated stamp duty payable of A$34m on three acquisition transactions made in FY2020.

Saracen will release its inaugural Tax Transparency Report during the current September quarter 2020.

Growth capital and exploration

Growth related project development and exploration expenditure totalled A$273 million.

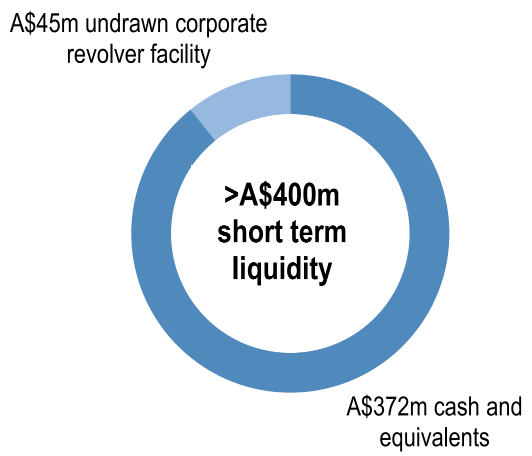
Table 4 - Project development and exploration expenditure for the financial year ended 30 June 2020

	A$m
KCGM Super Pit	
Morrison open pit development	34.8
OBH open pit development	9.4
Carosue Dam	
Deep South underground development	28.8
Carosue Dam mill expansion	20.8
Karari decline development	11.8
Dervish decline development	5.9
Million Dollar open pit development	4.5
Thunderbox	
Thunderbox underground development	34.8
D Zone open pit development	25.7
Kailis open pit development	7.4
Exploration and other	
Miscellaneous growth items	30.3
Exploration	58.3
TOTAL	**272.6**

Liquidity

At 30 June 2020, Saracen had **greater than A$400 million** of available liquidity.

Figure 1 - Short term liquidity at 30 June 2020



As part of the A$1.1 billion Super Pit acquisition, the Company drew down on a A$400 million term loan in November 2019 which resulted in a net debt position of ~A$200 million. Following strong free cashflow generation during H2 of FY2020, the Company elected to make an early repayment of A$40 million against this loan in addition to its scheduled amortisation payment of A$38 million. At 30 June 2020, the outstanding balance of the term loan was A$322 million and the Company had moved from a net debt position of A$200 million to a net cash position of A$48 million in just seven months.

Dividend policy

Saracen's dividend policy has stated that the Company will declare a dividend in the event that it has a cash balance of A$150m or more (refer to ASX announcement 19th August 2019 "Record profit as production rises and costs fall").

Since then, Saracen has acquired a 50% stake in KCGM. As part of this purchase, the Company borrowed A$400m.

In light of this, the dividend policy has been amended such that a dividend will be declared when the Company has a minimum net cash balance of A$150m. The target payout ratio of 20-40% of NPAT remains.

This change reflects the significant change in the Company's balance sheet as a result of the KCGM acquisition. It also takes into account the Company's strategy to rapidly repay the debt associated with the KCGM acquisition and the significant investment planned to grow the business during FY2021.

Given this change, Saracen will not pay a dividend in respect of FY20.

The Saracen Board retains absolute discretion as to the timing and size of any dividend payments, based on financial results, and the growth capital and exploration requirements for the business. In light of the current positive gold price environment, the Board will continue to monitor the Company's financial position during FY2021 in its consideration of this discretion.

Hedging update

As at 30 June 2020, the hedge book comprised **493,200 ounces** at an average delivery price of **A$2,094/oz**.

Corporate Structure:

Ordinary shares on issue:	1,107.6m
Unvested employee performance rights:	13.5m
Market capitalisation:	A$6.4b (share price A$5.75)
Cash and bullion (30 June):	A$369m
Debt (30 June):	A$321m
Substantial shareholders:	Van Eck Global 10.0% BlackRock Group 9.8%

For further information please contact:

Investors:
Morgan Ball
Chief Financial Officer
Troy Irvin
Corporate Development Officer
Email: info@saracen.com.au
Contact (08) 6229 9100

Media Enquiries:

Read Corporate
Paul Armstrong / Nicholas Read
Email: info@readcorporate.com
Contact: (08) 9388 1474

Authorised for release to the ASX by Jeremy Ryan, Manager Legal / Company Secretary.

[1] Underlying NPAT stands for Underlying Net Profit After Tax. Underlying NPAT is a financial measure which is not prescribed by the International Financial Reporting Standards (IFRS) and represents the net profit after tax under IFRS, adjusted for specific items. The Directors believe that Underlying NPAT is an appropriate measure to assist investors with their understanding of the Company's operational performance in the financial year ended 30 June 2020. Underlying NPAT has not been subject to any specific review procedures by the auditor but has been extracted from the financial statements by the Company as set out in Table 2 above.

[2] EBITDA stands for Earnings Before Interest, Tax, Depreciation and Amortisation and is a financial measure which is not prescribed by the International Financial Reporting Standards (IFRS). EBITDA has not been subject to any specific review procedures by the auditor but has been extracted from the financial statements by the Company.

[3] Underlying EBITDA is a financial measure which is not prescribed by the International Financial Reporting Standards (IFRS) and represents the EBITDA, adjusted for specific items. The Directors believe that Underlying EBITDA is an appropriate measure to assist investors with their understanding of the Company's operational performance in the financial year ended 30 June 2020. Underlying EBITDA has not been subject to any specific review procedures by the auditor but has been extracted from the financial statements by the Company as set out in Table 3 above.