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Pierre Lassonde, Franco-Nevada: “Very Few People ‘Get’ This… But It’s Worth So Much Money”

*Pierre Lassonde is one of the ‘superstars’ of the resource sector. He co-founded Franco-Nevada, the largest royalty and streaming company in the mining sector. The company was acquired by Newmont Mining in 2002, and then split off in ’07 at a value of $1.2 billion. Its current market cap is nearly $9 billion.1 On the phone from his home in the South of France, he shared what he feels are some of his most valuable insights on investing.*

*Mr. Lassonde says timing isn’t nearly as important as recognizing great business models – like Franco-Nevada or NewGold -- and being patient.*

*Franco-Nevada is currently the top holding of Sprott's new ETF, the Sprott Gold Miners ETF (NYSE: SGDM). As of July 31, 2014, the ETF had a 16.74% weighting in Franco-Nevada Corporation, which is subject to change. For more information and disclosures, please visit*[*www.SprottETFs.com*](http://www.sprottetfs.com/)*. Our affiliate, Sprott Asset Management LP, is the sub-advisor to the Sprott Gold Miners ETF.*

**Hello, Mr. Lassonde. Before we get into your success with Franco-Nevada, what is the most important thing you’ve learned about making money in resources?**

Well, I could give you a very ‘tart’ answer – like ‘buy low, sell high’ – but anyone could tell you that. I think that the answer is different depending on whether you’re talking about bullion or stocks. I don’t deal much in bullion, even though I do own some.

For the stocks, it’s a whole different ballgame. I’ve been very fortunate – the four companies that I helped create and whose boards I’m on have all done very, very well. One is a 100-plus bagger; I’ve got another 100-bagger coming; and I’ve got two others that are very solid. So I freely tell what I see as the most important keys to investing.

These companies have four things in common:

One – they have a great CEO. They know how to execute, and they know how to deal with a problem when they see one. They just have a great CEO, whether it’s Randall Oliphant or David Harquail in the mining business. These two guys are simply two of the best CEOs around.

Two – they have great business models. Franco-Nevada, for instance, has a wonderful business model. One of the best, I think, that I’ve ever seen in any business. When you think about it, it’s a bullet-proof ‘Warren Buffet-plus-plus’ business model. They don’t come any better. NewGold’s business model has also been very solid; the company is delivering. One of the other two companies is in high-tech and the other is a gas company, and they each have their own niche. The high-tech company will be my second 100-bagger. It’s another one of those great business models with a fabulous CEO.

The third thing is that they should have bullet-proof balance sheets. Look at Franco, with the financing we’ve done today [Franco-Nevada just announced a raise for $500 million] we’re going to have over $1.3 billion in cash, no debt and we’ve got tremendous free cash-flow. And I’d say that’s an absolutely vital ingredient -- bullet-proof balance sheets and free cash-flow with low cash costs. The low cash costs are very, very important.

My final thing is to be in companies who are able to seize opportunities when others don’t even see them or aren’t able to seize them. Those are the four things.

As to the price you pay – well, timing is something that I find very difficult, and I prefer not to dwell on. It’s not always as important as it seems. Let’s look at an example. We did a Franco-Nevada issue near the all-time high. A lot of people were sort of worried about the timing here, but you know something? Anyone who’s ever bought a Franco-Nevada issue, at any time in the last 25 years, has made money. Since the last time we issued stock, the share price is up 53%. Prior to that, it was up 45 or 47%. We’ve never issued stock at less than 42% higher from the previous issue, ever.

I’ve been fortunate a few times to have the right timing, but what’s most important is buying companies that have fundamentals and buying them over six months, a year, or two years. I’ve been in New Gold since ’93. Franco-Nevada I’ve been in since ’85, in one form or another. I’m a long-term investor, and when you have a great CEO, a great business model, and a great balance sheet, you just need to be patient.

Unfortunately, it doesn’t apply to 100%, or even 80% of the mining business – exploration, for instance, is Russian roulette. That’s not investing, it’s speculating. There are around 3,000 companies that are in exploration. A lot of them have almost nothing but a prayer. There’s not a whole lot where you would put your money for the long run.

**So do you avoid early-stage exploration stocks?**

Mostly, yes – though I do have people looking for the next Hemlo, or the next Voisey’s Bay. Whoever finds one of those, the premium they get to their share price will be beyond belief, because it’s been way too long since we’ve had a really significant new discovery – a Hemlo, at like 20 million ounces of gold, or a GoldStrike, with around 40 million ounces, a Voisey’s Bay or a Diamond Fields. It’s been over 20 or 25 years since we’ve had one of those discoveries. The world is just panting for one and I think it would be helpful to bring back the risk-taking attitude that’s completely gone from that sector.

But those companies I look at are 1 in a 1,000. You can look at 999 dogs before you find one. It’s very difficult.

**In 2007, you left major miner Newmont Mining and went back to Franco-Nevada, a royalty & streaming company. Is that because Franco-Nevada’s model of owning streams and royalties is a better model than owning and operating mines?**

I left Newmont simply because I didn’t want to be in the grave at 62 -- the youngest millionaire in the grave. I didn’t want that. I took a year’s sabbatical and was going to do something else with my life. Then the new CEO of Newmont decided that the Franco-Nevada they owned didn’t provide any value to them and just wanted to realize on it. We put our hands up and said “look, I think we can do something with it and we’d love to buy it back.” When you look at the purchase price of $1.2 billion and what it’s worth today, at around $9 billion, I don’t have to draw a picture.

**About your business model at Franco-Nevada: you spent $2 million in ‘83 on a deal that has generated over $800 million. You’ve acquired many more royalties since then. How were you able to make deals with miners that gave you such impressive upside?**

As a matter of fact, over its lifetime, cash flows from that deal will probably be around $1.2 billion total. Here’s the thing – why the Franco business model is so incredibly powerful – and very few people understand this. None of our competitors do. They don’t understand what we have when we create a royalty. I’m not talking about a stream; I’m talking about a royalty -- like the GoldStrike royalty or the Detour royalty. We get a free perpetual option on

1. the discoveries made on the land by the operators, and
2. the price of gold.

Think about this – if someone hands you a free perpetual option on 6 million acres of land, and you don’t have to put up a penny, don’t you think that at some point, you’re going to get lucky?

That’s what it is. We have put together a land package by purchasing and creating royalties where we end up with a free perpetual option. It’s the optionality value of the land, the value of the operator spending money on our land, and the optionality to higher gold prices. And that is worth so much money. And yet, when the analysts calculate an NAV, none of them ever look at the optionality that we have in our portfolio. Frankly, it’s what’s worth the most. It’s absolutely what’s worth the most, and it’s what’s given us the GoldStrike billion dollar royalty, the Detour billion dollar royalty, the Tasiast royalty, and so on.

When you buy a stream, on the other hand, you get price optionality. You’re buying, say, 100,000 ounces of gold for the next 25 years. So you get optionality on the price of the commodity, but you don’t get much optionality on the land. In the case of Cobre Panama streaming deal, they’re going to start milling around 200,000 tonnes a day. That’s already so big, it’s not like it could be expanded. And there’s already 50 years of reserves. Even if they find another 20 years of reserves, it doesn’t matter. The optionality is worth something maybe 50 years down the road. But for the next 50 years, it’s not worth a great deal. And that’s the problem with streaming. You don’t get much optionality.

With royalties you get a lot of optionality, and that’s the strength of the Franco-Nevada business model. That’s why it’s so powerful.

**At its core, are you simply taking advantage of a need for capital? Why do these companies agree to hand over so much upside?**

Well, the plain reality, Henry, is that 99% of the royalties that we have were bought from prospectors who created those royalties when they found the ore bodies. We just offered to buy them. These people had never owned an option, they needed money -- maybe they were getting a divorce, or whatever it was – and we created a market to sell these royalties. That’s how we got the GoldStrike royalty. The people who owned it were going into bankruptcy; they needed money.

In the case of Detour, we created the royalty ourselves. The junior company wanted to buy the land and they didn’t have any money. We agreed to give them the capital to buy the land and said “give us our money back and give us a 2% royalty forever.” And they agreed. They needed the money and nobody else wanted to give them any.

So these royalties occurred through various circumstances, but the majority of the royalties we own were existing royalties – we didn’t create them. The downside of royalties is that their average size is only 2 to 4% of a project. We wouldn’t want to create anything any bigger. So it’s difficult to put big amounts of money into that kind of royalty. That’s why Franco-Nevada also does streaming; you can put up to a billion dollars in a streaming deal where you agree to purchase several hundreds of thousands of ounces of gold over many years. You can do far larger deals, but, like I said, you don’t get very big optionality on the land.

**What types of deals are you looking at? Are these companies that are looking for project finance in order to bring their mine into production? Or are they very early exploration, looking for the next big gold deposit?**

We do deals spanning the entire spectrum. We do $2 million deals where we think we can get a small land package with a royalty on it, if we believe it’s in the right place and it’s got the right ‘smell.’  At the other end of the scale, we finance construction and production. Of course, you can put the most money in financing the final stages of a construction project.

We used to do exploration at Franco – we had three or four geologists and we would spend our own money in search of new deposits. That’s how we found the Midas deposit. Nowadays, we’d rather fund really good geologists. We buy some stocks; we buy royalties; and then let them run with the project.

With Detour, for example, we helped fund an acquisition. There was something on the property – though it couldn’t yet be called an ore body. Placer Dome had drilled part of it, so we knew that there was something there. It wasn’t economic at $400 gold. But we’re very happy with how that has turned out for us.

**Are you seeing any more big opportunities out there?**

Oh yeah, we do. We just raised another $500 million. Don’t you think we saw opportunity out there when we decided to raise all that money? There are still opportunities out there. But, to be truthful, we need the exploration companies to get back to making discoveries. Otherwise the whole industry, particularly the gold mining industry, is going to go very flat production-wise. Even if the gold price starts to go up, it could take five or six years before production increases in response. So there’s a real need for venture capital. Otherwise, we’re going to see a really flat production profile for the next five or six years.

1 <http://finance.yahoo.com/q?s=FNV.TO>