



Gold Resource Corporation (GORO)

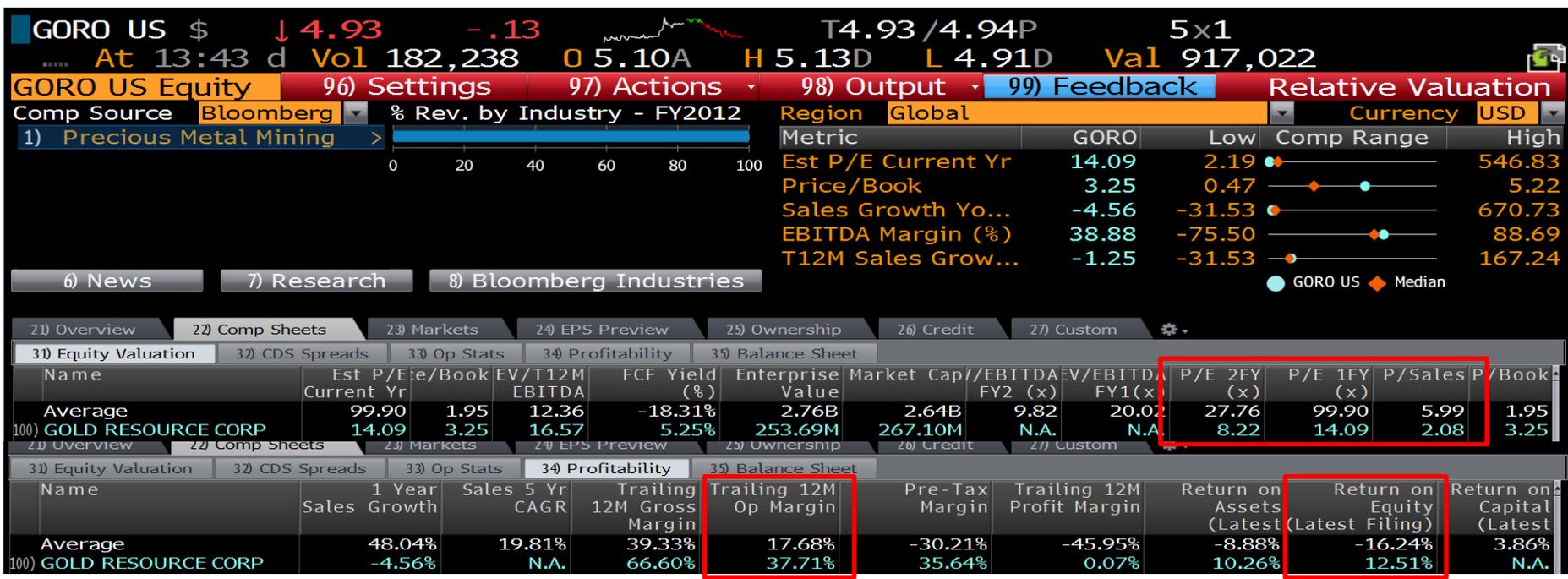


April 2014

Gold Resource Corp. (GORO) – Investment Thesis

Regal Point Capital believes that equity in Gold Resource Corporation represents the most compelling value of any precious metals mining company today.

- Valuation**
 - GORO has the potential to be a long term multi-bagger, but even today it trades at a drastic discount to peer multiples.
- Margins**
 - GORO is a low cost producer:
 - Operating margins on a T12M basis are more than double the industry average.
- Skin in the Game**
 - Those that know GORO best, the insiders, have been buying shares while institutional investors have been forced sellers.
- Fortress Balance Sheet**
 - GORO has almost no long-term debt.
 - GORO is the only known company that allows shareholders the option to convert cash dividends into gold or silver bullion.



GORO US \$ ↓ 4.93 - .13 T4.93 / 4.94P 5x1
 At 13:43 d Vol 182,238 O 5.10A H 5.13D L 4.91D Val 917,022

GORO US Equity 96) Settings 97) Actions 98) Output 99) Feedback Relative Valuation

Comp Source Bloomberg % Rev. by Industry - FY2012 Region Global Currency USD

1) Precious Metal Mining >

Metric	GORO	Low	Comp Range	High
Est P/E Current Yr	14.09	2.19		546.83
Price/Book	3.25	0.47		5.22
Sales Growth Yo...	-4.56	-31.53		670.73
EBITDA Margin (%)	38.88	-75.50		88.69
T12M Sales Grow...	-1.25	-31.53		167.24

6) News 7) Research 8) Bloomberg Industries

Name	Est P/E	e/Book	EV/T12M	FCF Yield (%)	Enterprise Value	Market Cap	EBITDA/FY2 (x)	EBITDA/FY1 (x)	P/E 2FY (x)	P/E 1FY (x)	P/Sales	P/Book
Average	99.90	1.95	12.36	-18.31%	2.76B	2.64B	9.82	20.0	27.76	99.90	5.99	1.95
100) GOLD RESOURCE CORP	14.09	3.25	16.57	5.25%	253.69M	267.10M	N.A.	N.A.	8.22	14.09	2.08	3.25

Name	1 Year Sales Growth	Sales 5 Yr CAGR	Trailing 12M Gross Margin	Trailing 12M Op Margin	Pre-Tax Margin	Trailing 12M Profit Margin	Return on Assets (Latest)	Return on Equity (Latest Filing)	Return on Capital (Latest)
Average	48.04%	19.81%	39.33%	17.68%	-30.21%	-45.95%	-8.88%	-16.24%	3.86%
100) GOLD RESOURCE CORP	-4.56%	N.A.	66.60%	37.71%	35.64%	0.07%	10.26%	12.51%	N.A.

Sources: Bloomberg

Gold Resource Corp. (GORO) – The Perfect Storm



“The time to buy is when there’s blood in the streets.” – Baron Rothschild

2013 brought "The Perfect Storm" for GORO shareholders. The stock price fell off a cliff from **\$15.80 to \$4.53 – a painful loss of over 70%**. The dramatic sell-off was triggered by the following factors:

• External Factors

- **Precious Metal Prices:** In 2013, the prices of **gold and silver fell by 28% and 36%** respectively.
 - **YTD precious metal returns have turned positive as global central banks continue to print money at an unprecedented rate.**
- **Institutional Selling:** Several large institutional holders were forced to sell, depressing the share price.
 - **Recently, the institutional selling seems to have subsided.**
- **Taxes:** In October, Mexican President, Enrique Peña Nieto, signed into law an 8% tax on profits of mining companies with operations in Mexico.
 - **The new tax is not necessarily permanent and even if it is, GORO is already considering expanding into different jurisdictions.**

• Internal Factors

- **Slashed Dividend:** In 2013 dividends were slashed from \$.06/share to \$.01/share. GORO aims to pay shareholders 1/3 of cash flows from mine site operations. As the price of gold and silver fell, so did GORO’s cash flows.
 - **The new lower cost structure should allow GORO to start increasing dividend payments in the near future.**
- **Management Turnover:** Investors never want to see turnover in the C-suite but, both the CEO and CFO left the company in 2013. In each instance it was a natural career progression and there was no legitimate cause for alarm.
 - **Former CEO, Bill Reid, father of current CEO, Jason Reid continues to consult the company on its next project. The previous CFO, Brad Blacketor, was recruited by a competitor.**
- **Misunderstood Accounting Treatment:** Unlike competitors, GORO is classified as an “exploration stage” company, not a mining company. As an “exploration stage” company, GORO isn’t permitted to capitalize exploration and mining costs. Instead they are required to write these off in the period they occur.
 - **As a result reported earnings are much less than they would be otherwise.**

Sources: Bloomberg, GORO Form 10-K

Gold Resource Corp. (GORO) – Price vs Value

“Price is what you pay. Value is what you get.” -Warren Buffett

The following chart will scare the typical trader but will excite the patient value investor. It's clear what has happened to the share price over the last 5 years. Readers can judge for themselves what has happened to the value of this company based on their production growth alone.

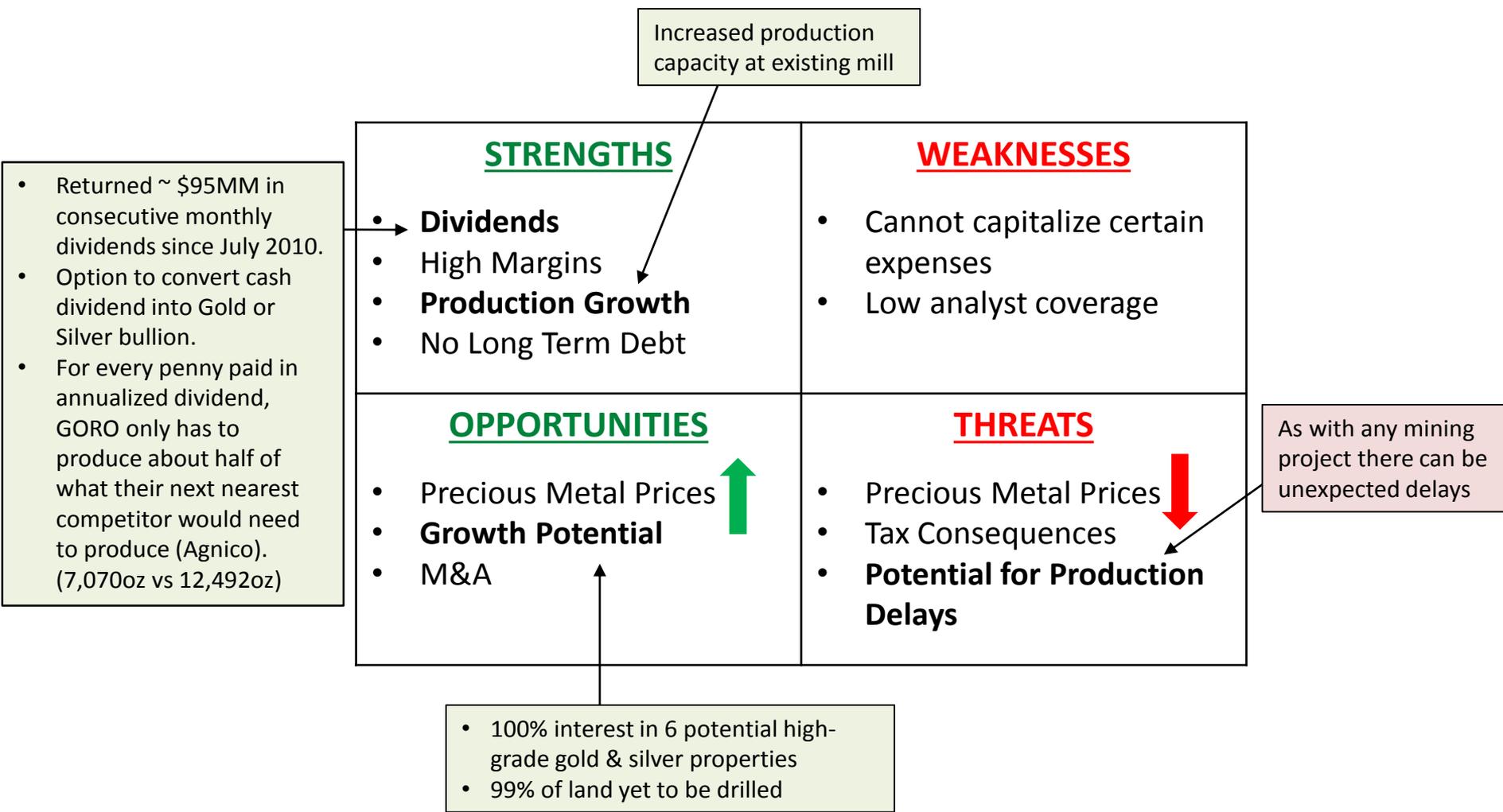


*AuEq: Gold Equivalent

Sources: Yahoo, GORO Form 10-K

Gold Resource Corp. (GORO) – Smooth Sailing Ahead

The following SWOT analysis shows smooth sailing ahead for GORO shareholders.

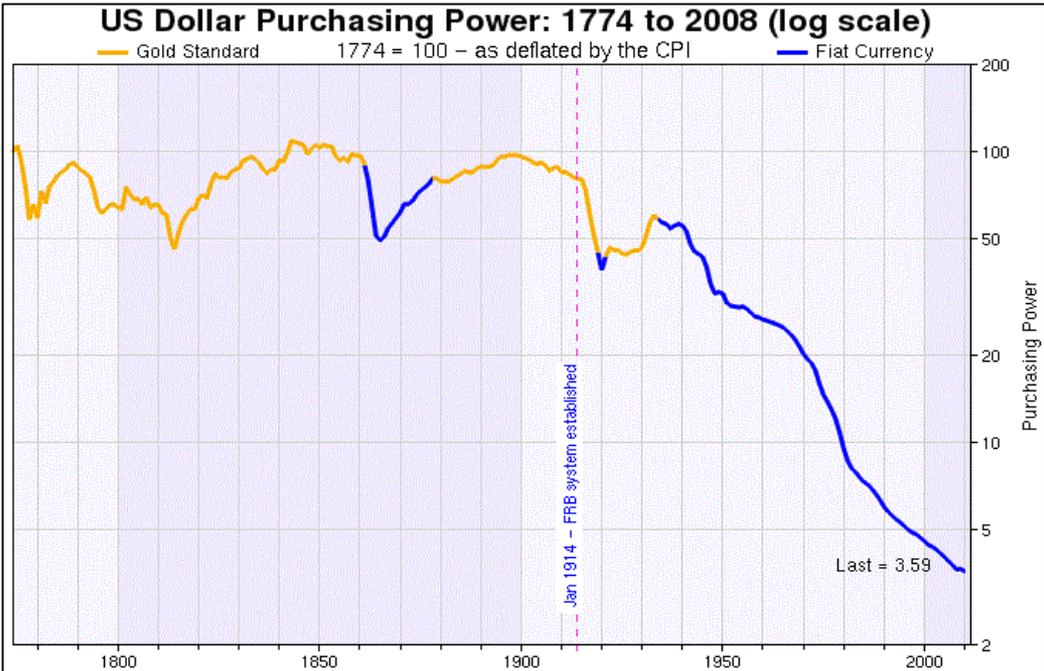


Source: GORO form 10-K

Gold Resource Corp. (GORO) – Precious Metals: The Money Business (1)

GORO is in the business of selling money. Gold and silver have been used as forms of money for over 5,000 years. Even today, gold and silver can be traded for goods and services in any country in the world.

- Gold and silver have been used as money because they have the specific qualities that money must have to function correctly: **durability, portability, divisibility, consistency, limited availability, and most importantly, it must be TRUSTED TO MAINTAIN VALUE.**
- In the 1920's, the world chose the US dollar as the world's reserve currency. At the time the dollar was considered to be "as good as gold." The newly created **Federal Reserve System was charged with maintaining the value of the US dollar.**
- Trust in the dollar's value has been eroding for many years, and this distrust has accelerated since the **US went off the Gold Standard in 1971.**
- **Without gold or silver limiting the supply of money,** governments have spent money at an ever increasing rate. **As more money was needed, more money was created** (borrowed) adding to the existing supply of money. And as more and more money chased the same amount of goods and services, prices naturally increased.



The US dollar has lost over 95% of its value while gold and silver have maintained their value. For example, in the 1920's, a finely tailored suit would cost a man around \$20-- which was the price of 1oz of gold. Today, a finely tailored suit will cost a man around \$1,200 - \$1,500---the recent price range of 1oz of gold.

"By a continuing process of inflation, government can confiscate, secretly and unobserved, an important part of the wealth of their citizens."
-John Maynard Keynes

Sources: BLS

Gold Resource Corp. (GORO) – Precious Metals: The Money Business (2)

- Every major world reserve currency ever used has had a limited life as Figure 1 makes clear.
- What is not clear, is the exact timing of when trust in the currency evaporates and hyperinflation ignites. But we do know this -- when the panic starts, everyone panics together.
- Gold and silver are the only known forms of currency that have maintained their value, and hence, continue to be trusted by people around the world. They are no nations' liability and there is no known way to manipulate their supply.

Gold Supply

- There is currently an estimated 177k tonnes of gold above-ground.
- Total value of all gold (at current spot price ~\$1,300): \$6.8T.
- In 2013 an estimated 2,865 tonnes were mined. **This represents a 1.6% increase in supply.**

Silver Supply

- There is currently an estimated 802K tonnes of silver above-ground.
- Total value of all silver (at current spot price ~\$20): \$515.7B.
- In 2013 an estimated 25k tonnes were mined. **This represents a 3.2% increase in supply.**

US Dollar Supply

- M3 money supply is over \$15T and has been growing at about 5% per year.
- There are no limits on the amount of US dollars that can be created out of thin air.
- The Fed created almost \$1,000,000,000 in a little over the past year. It took them approximately 100 years to create the first \$1T.

Figure 1

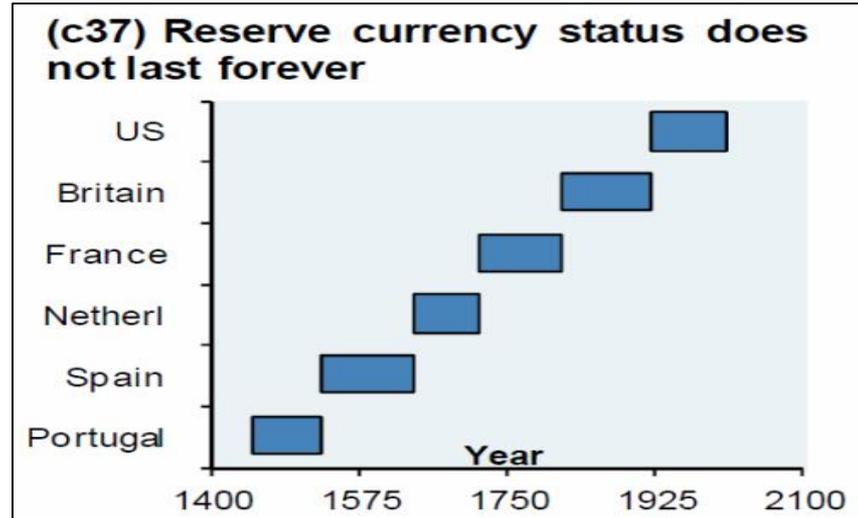
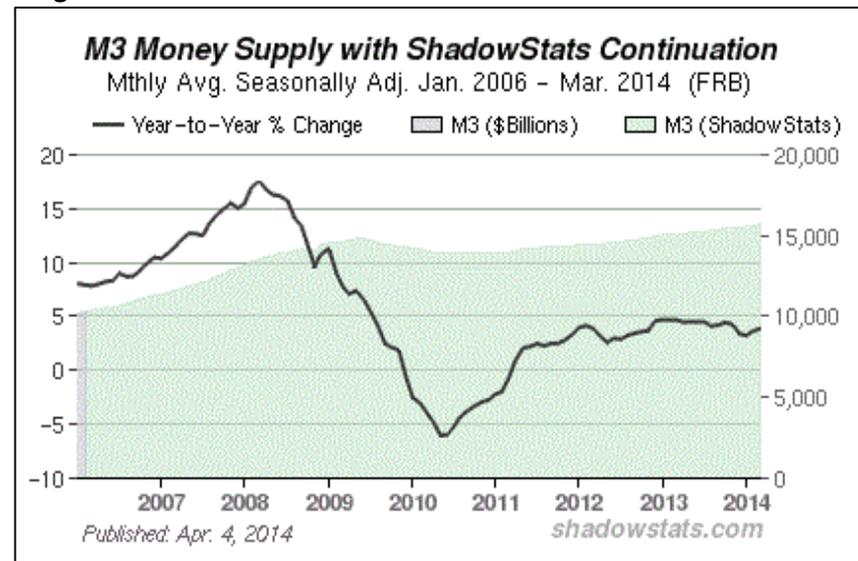


Figure 2



Sources: JP Morgan, shadowstats.com

Gold Resource Corp. (GORO) – Physical V. Paper

There are two ways to buy gold: futures contracts, which represents a paper claim on the metal or bullion, which is the physical metal. The physical metal represents a better value than the futures contracts as it cannot be manipulated.

- **Gold Bullion banks operate on a fractional reserve basis**, meaning there is only a fraction of bullion held in the vaults for each claim being made.
- At the COMEX* the amount of **gold available for delivery (registered)** is decreasing to dangerous levels.
- **Recently, the COMEX had only 1 ounce of available registered gold in their vaults for every 107 ounces being traded.**
- Kyle Bass, renowned money manager, advised the University of Texas to take physical delivery of \$1 billion in gold: [Kyle Bass Recommends Taking Delivery Video](#) (2 min.)



*COMEX: The primary market for trading metals such as gold, silver, copper, and aluminum. Formerly known as the Commodity Exchange Inc., the COMEX merged with the New York Mercantile exchange in 1994 and became the division responsible for metal trading.

Sources: World Gold Council, Silver Institute

Gold Resource Corp. (GORO) – Conclusion

- **Are precious metals good investments?**
 - Precious metals are not good investments—**they are money.**
- **GORO is a great potential investment!**
 - A business that sells money will always have a customer.
 - As central banks around the world compete to devalue their currencies, the demand for physical gold and silver is sky rocketing.
 - GORO has a strong balance sheet, low cost structure, and plenty of growth potential.
 - Their fundamentals are set to improve dramatically over the next few years as margins and production rise. Any increase in the price of precious metals is icing on the cake.
 - GORO's dividend should grow in the near future.
 - By allowing shareholders to convert cash dividends into physical bullion, GORO has the most attractive dividend strategy we have ever come across.
 - “If you can't hold it, you don't own it” — Mike Maloney
- **Regal Point Capital is going for the gold!**
 - **GORO is currently one of our top ten long positions.**
 - We also hold DIM (deep-in-the-money) call options and employ put –writing strategies at various strikes and expirations.
 - As always, “caveat emptor.”



He Who Has the Gold
Makes the Rules

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