# Silver Wheaton CEO Randy Smallwood on Miners Vs. ETFs

## Description

In the final part of my interview with **Silver Wheaton** (TSX:SLW, NYSE:SLW) CEO Randy Smallwood, we discuss the advantages of owning a streaming metals company over an exchange traded funds, or ETFs, as well as his philosophy on capital allocation.



Below is the transcript of our conversation; it has been lightly edited for clarity. You can find part one and two of this interview here and here.

**Robert Baillieul: ETFs have made it easy to add precious metals to a portfolio. In the U.S. we have the SPDR Gold Trust (NYSEMKT:GLD) and the iShares SIlver Trust (NYSEMKT:SLV). Here in Canada we have the COMEX Silver ETF (TSX:HUZ). Why should I bother looking at a miner or a streamer like Silver Wheaton.**

**Randy Smallwood:** That's a great question. Where did ETFs come from? ETFs came from people who were concerned with the risk of investing into the mining space. And what we've seen in the traditional mining industry with the operators out there is that the problem they have is that as commodity prices climbed, so did their costs.

The market didn't expand nearly as much as anyone expected. So people were looking at the increases in commodity prices and felt safer in the ETF.

Well, I would challenge anyone that's invested in an ETF to take a good look at the streaming model and have a look at Silver Wheaton as an option. Because what we deliver is cost confidence. You know what our costs are going to be on a per-ounce basis. The capital cost, the upfront payment is all made and committed to and clear so there's no cost surprises.

So you get that same, in fact, *better* exposure to the commodity price because we have leverage. We do have that base cost around $4 and some odd cents per ounce.

But on top of that you get exploration and expansion growth. And accretive acquisitions. So we continue to add value to exploration success at our operations. So that goes right back into our shares. And we give them the opportunity to expand in terms of making new acquisitions where we add in value.

So one of the facts that I think is really important is that an investor in Silver Wheaton had about one and a half ounces per share behind a share of Silver Wheaton. That same share, so that same share all of the way through and not adding any more shares, now has over six and a half ounces per share.

So we grow and you get the benefit of that growth that you don't get in an ETF. With an ETF, you get one ounce, and it stays an ounce. The only thing you get is the commodity price exposure. With Silver Wheaton you get that same commodity price exposure, you get leverage on that commodity price, and you get gold within. And we pay a dividend.

And the final coup de grâce in this is that our company is very efficient. Our company has a total of 28 employees in the company right now. When you take our G&A [general and administrative expense] and compare it to the fees that you pay for an ETF, we deliver all of that for less than what the ETFs do. And when you consider that we pay a dividend, we actually pay you to own our stock.

And we deliver all of the above. We are a much more attractive investment than an ETF.

It's an area, and we have seen that. We have that the streaming companies, especially in the silver space, have taken market share compared to the ETFs. And it's an area that we put a lot of focus into trying to educate people the strengths that we provide. And we think we compare very favourably against an ETF.



**Baillieul: What is your approach to managing investor capital when you work in such a volatile industry? Or I guess another way to say it is, what is your capital allocation philosophy?**

**Smallwood:** Well again, the simplicity of our business model is attractive. Our cash flow, the cash that we get in, we have two uses for that; new acquisitions or paying a dividend for our shareholders.

Right now we're still a growth focused company so 80% of our cash flow goes into buying into new opportunities. Only 20% is returned to shareholders as a dividend. We have a very unique dividend policy where it's actually tied to our cash flow. So 20% of our cash flow goes back to our shareholders in the form of a dividend and the other 80% is being invested back into the ground.

Our business model is based on having a bank balance of zero. We want ounces in the ground. We don't want cash in the bank. We're not believers in holding cash. We don't think it makes sense in this world. Our capital allocation that's really how it's driven.

Again, with 28% total employees in the company there's not a lot of G&A required here. There's not a lot of overhead. It's a very efficient company. It's current a growth focused company.

Longer term, five or ten years out when we get what I think a comfortable level is, the company will shift more into a yield side and shift more of those cash flows back with the revenues we will be generating I don't know if we will be able to put it into the ground fast enough. So that's when we shift ourselves into a yield focus.

But currently we're a growth focused. We continue to look for opportunities to put that capital back into the ground.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

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