UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 001-39329

Royalty Pharma plc

(Exact name of registrant as specified in its charter)

England and Wales	**98-1535773**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

110 East 59th Street

New York, New York 10022

(Address of principal executive offices and Zip Code)

(212) 883-0200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A ordinary shares, par value $0.0001	RPRX	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting ordinary shares held by non-affiliates of the registrant as of June 30, 2021, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $16.6 billion based upon the closing price reported for such date on the Nasdaq Stock Market LLC. This determination of affiliate status is not necessarily a conclusive determination for any other purposes.

As of February 11, 2022, Royalty Pharma plc had 432,963,472 Class A ordinary shares outstanding and 174,212,681 Class B ordinary shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2022 Annual General Meeting of Shareholders, or Proxy Statement, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2021. Except with respect to information specifically incorporated by reference in this Annual Report on Form 10-K, the Proxy Statement shall not be deemed to be filed as part hereof.

ROYALTY PHARMA PLC

PART I

Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains statements reflecting our views about our future performance that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking words such as "may," "might," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue," the negative of these terms and other comparable terminology. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our current and prospective assets, our industry, our beliefs and our assumptions. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. You should evaluate all forward-looking statements made in this Annual Report on Form 10-K in the context of the numerous risks outlined in Part I under Item 1A. under "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

These risks and uncertainties include factors related to:

- sales risks of biopharmaceutical products on which we receive royalties;
- the ability of RP Management, LLC (the "Manager") to locate suitable assets for us to acquire;
- uncertainties related to the acquisition of interests in development-stage biopharmaceutical product candidates and our strategy to add development-stage product candidates to our product portfolio;
- the assumptions underlying our business model;
- our ability to successfully execute our royalty acquisition strategy;
- our ability to leverage our competitive strengths;
- actual and potential conflicts of interest with the Manager and its affiliates;
- the ability of the Manager or its affiliates to attract and retain highly talented professionals;
- the effect of changes to tax legislation and our tax position; and
- the risks, uncertainties and other factors we identify elsewhere in this Annual Report on Form 10-K and in our other filings with the U.S. Securities and Exchange Commission.

Although we believe the expectations reflected in the forward-looking statements are reasonable, any of those expectations could prove to be inaccurate, and as a result, the forward-looking statements based on those expectations also could be inaccurate. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Annual Report on Form 10-K should not be regarded as a representation by us that our plans and business objectives will be achieved. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. We are under no duty to update any of these forward-looking statements after the date of this Annual Report on Form 10-K to conform our prior statements to actual results or revised expectations.

PART I

Item 1. BUSINESS

Overview

We are the largest buyer of biopharmaceutical royalties and a leading funder of innovation across the biopharmaceutical industry. Since our founding in 1996, we have been pioneers in the royalty market, collaborating with innovators from academic institutions, research hospitals and not-for-profits through small and mid-cap biotechnology companies to leading global pharmaceutical companies. We have assembled a portfolio of royalties which entitles us to payments based directly on the top-line sales of many of the industry's leading therapies, which includes royalties on more than 35 commercial products, including AbbVie and Johnson & Johnson's Imbruvica, Astellas and Pfizer's Xtandi, Biogen's Tysabri, Johnson & Johnson's Tremfya, Gilead's Trodelvy, Merck's Januvia, Novartis' Promacta, Vertex's Kalydeco, Orkambi, Symdeko and Trikafta, and ten development-stage product candidates. We fund innovation in the biopharmaceutical industry both directly and indirectly - directly when we partner with companies to co-fund late-stage clinical trials and new product launches in exchange for future royalties, and indirectly when we acquire existing royalties from the original innovators.

Our capital-efficient business model enables us to benefit from many of the most attractive characteristics of the biopharmaceutical industry, including long product life cycles, significant barriers to entry and noncyclical revenues, but with substantially reduced exposure to many common industry challenges such as early stage development risk, therapeutic area constraints, high research and development costs, and high fixed manufacturing and marketing costs. We have a highly flexible approach that is agnostic to both therapeutic area and treatment modality, allowing us to acquire royalties on the most attractive therapies across the biopharmaceutical industry.

The success of our business has been the result of a focused strategy of actively identifying and tracking the development and commercialization of key new therapies, allowing us to move quickly to make acquisitions when opportunities arise. We acquire royalties on approved products, often in the early stages of their commercial launches, and development-stage product candidates with strong proof of concept data, mitigating development risk and expanding our opportunity set. From 1996 through 2021, we have deployed more than $22 billion of cash to acquire biopharmaceutical royalties, representing more than 50% of all royalty transactions during this period. From 2012, when we began acquiring royalties on development-stage product candidates, through 2021, we have deployed more than $17 billion of cash to acquire biopharmaceutical royalties, representing approximately 60% of all royalty transactions during this period.

In 2021, we generated cash from operating activities of $2.0 billion, Adjusted Cash Receipts (as defined in "—Non-GAAP Financial Results") of $2.1 billion and Adjusted Cash Flow (as defined in "—Non-GAAP Financial Results") of $1.8 billion. We deployed $2.7 billion of cash in 2021 for royalties and related securities.

Portfolio Overview

Our portfolio consists of royalties on more than 35 commercial products and ten development-stage product candidates. We believe that end market sales of the therapies in our portfolio are important drivers of our financial performance as a substantial portion of our royalties are based on end market sales. In addition, end market sales are a strong indicator of the importance of the therapies to both patients and the marketers. The following table provides an overview of our current portfolio of royalties:

Product(s)	Marketer(s)	Product Detail	2021 Royalty Receipts (in millions)	2021 End Market Sales (in millions) (1)
Approved Products				
Cystic fibrosis franchise (2)	Vertex	Cystic fibrosis	$702	$7,573
Tysabri	Biogen	Relapsing forms of multiple sclerosis	369	2,063
Imbruvica	AbbVie, Johnson & Johnson	Hematological malignancies and chronic graft versus host disease	353	6,943
Promacta	Novartis	Chronic immune thrombocytopenic purpura and aplastic anemia	174	2,016
Xtandi	Pfizer, Astellas	Prostate cancer	158	4,582
Januvia, Janumet, Other DPP-IVs	Merck & Co., others	Diabetes	151	5,288
HIV franchise (3)	Gilead, others	Human immunodeficiency virus (HIV)	78	16,315
Nurtec ODT/Biohaven payment (4)	Biohaven, Pfizer	Migraine	70	455
Prevymis	Merck & Co.	Prophylaxis of CMV in adult recipients of stem cell transplant	38	370
Farxiga/Onglyza	AstraZeneca	Diabetes	36	3,365
Tremfya	Johnson & Johnson	Plaque psoriasis and psoriatic arthritis	36	2,127
Cabometyx/Cometriq	Exelixis, Ipsen, Takeda	Kidney, liver and thyroid cancers	34	1,590
Crysvita	Ultragenyx, Kyowa Kirin	X-linked hypophoshatemia	17	179
Evrysdi	Roche	Spinal muscular atrophy	16	659
Emgality	Lilly	Migraine prevention & episodic cluster headache	15	577
Erleada	Johnson & Johnson	Prostate cancer	14	1,291
Trodelvy	Gilead	Metastatic triple-negative breast cancer	13	380
IDHIFA	Bristol Myers Squibb	Relapsed/refractory AML with an IDH2 mutation	12	Not disclosed
Orladeyo	BioCryst	Hereditary angioedema prophylaxis	7	117
Tazverik	Epizyme	Epithelioid sarcoma and follicular lymphoma	3	32
Oxlumo	Alnylam	Primary hyperoxaluria type 1	1	60
Other products (5)(6)			311	—
Total royalty receipts			$2,609	
Development Stage Product Candidates				
Aficamten (7)	Cytokinetics	Obstructive hypertrophic cardiomyopathy (Phase 3)	—	—
BCX9930	BioCryst	Paroxysmal nocturnal hemoglobinuria (Phase 3)	—	—
CPI-0209	MorphoSys	Hematological malignancies and solid tumors (Phase 2)	—	—
Gantenerumab	Roche	Alzheimer's disease (Phase 3)	—	—
Omecamtiv mecarbil (8)	Cytokinetics	Heart failure (Phase 3)	—	—
Otilimab	GlaxoSmithKline	Rheumatoid arthritis (Phase 3)	—	—
Pelabresib	MorphoSys	Myelofibrosis (Phase 3)	—	—
PT027	AstraZeneca	Asthma (Phase 3)	—	—
Seltorexant	Johnson & Johnson	MDD with insomnia symptoms (Phase 3)	—	—
Zavegepant	Biohaven	Migraine (Phase 3)	—	—

CMV is Cytomegalovirus, AML is Acute Myelogenous Leukemia, IDH2 is isocitrate dehydrogenase-2 and MDD is Major Depressive Disorder.
Amounts shown in the table may not add due to rounding.

Notes:

(1) Represents end market sales for the year ended December 31, 2021 as reported by respective product marketers or based on Visible Alpha projections as of February 9, 2022 where marketers have not reported end market sales. Sales shown for Crysvita represent Europe, the Middle East and Africa only. For the majority of our royalties, royalty receipts lag product performance by one quarter and can generally be estimated by applying our publicly disclosed royalty rate to the preceding quarter's marketer-announced net revenues on a product-by-product basis.

(2) The cystic fibrosis franchise includes the following approved products: Kalydeco, Orkambi, Symdeko/Symkevi and Trikafta/Kaftrio.

(3) The HIV franchise includes the following approved products: Atripla, Truvada, Emtriva, Complera, Stribild, Genvoya, Descovy, Odefsey, Symtuza and Biktarvy. Royalties are received on the emtricitabine portion of sales only.

(4) Includes royalty receipts for Nurtec ODT of $7.7 million and quarterly redemptions of $15.6 million of the Series A Biohaven Preferred Shares (presented as *Proceeds from available for sale debt securities* on the Statement of Cash Flows).

(5) Excludes duplicate end-market sales where we have multiple royalties on the same product: Kombiglyze, Nesina, Onglyza and Soliqua.

(6) Other products primarily include royalties on the following products: Bosulif (a product co-developed by our joint venture investee, Avillion, for which receipts are presented as *Distributions from non-consolidated affiliates* on the Statement of Cash Flows), Lexiscan, Soliqua, Nesina, Cimzia, Letairis, Entyvio, Myozyme and Mircera. Other products includes a one-time $45.0 million milestone payment that we received on Soliqua and contributions from the Legacy SLP Interest (defined below).

(7) Royalty was acquired in January 2022.

(8) The financial royalty asset associated with omecamtiv mecarbil was written off in the year ended December 31, 2020 given the uncertainty around the future of omecamtiv mecarbil at the time.

Biopharmaceutical Industry and the Role of Royalties

Our business is supported by significant growth and unprecedented innovation within the biopharmaceutical industry. Global prescription pharmaceutical sales are projected to grow from approximately $0.9 trillion in 2021 to approximately $1.3 trillion in 2026, representing a CAGR of 7% according to EvaluatePharma despite more than $130 billion in cumulative sales being lost to expected patent expiries during the same period. The growth of the biopharmaceutical industry is driven by global secular trends, including population growth, increasing life expectancy and growth of the middle classes in emerging markets. In addition, a dramatic acceleration of medical research in recent years has led to a better understanding of the molecular origins of disease and identification of potential targets for therapeutic intervention. This has created research and development opportunities for new drugs. The significant pace of biopharmaceutical innovation coupled with the proliferation of new biotechnology companies and the increasing cost of drug development has created a significant capital need over recent years that we believe will provide a sustainable tailwind for our business.

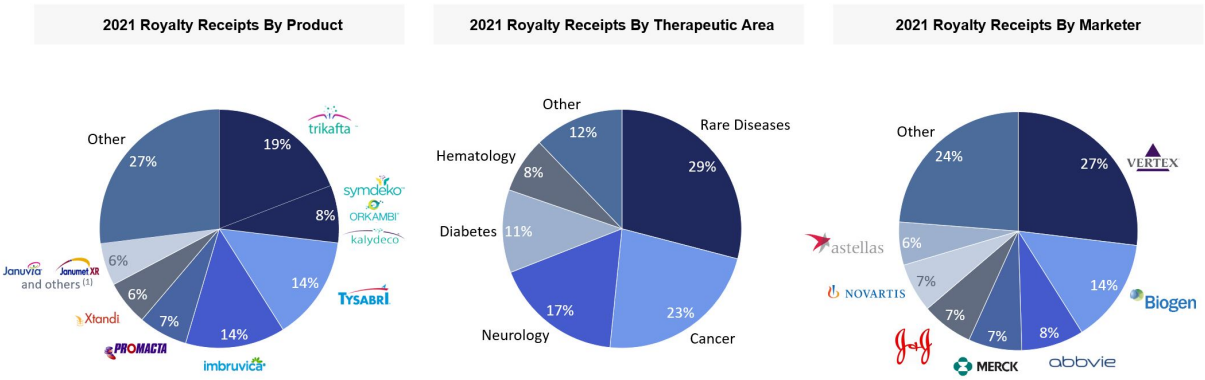
Royalties play a fundamental and growing role in the biopharmaceutical industry. As a result of the increasing cost and complexity of drug development, the creation of a new drug today typically involves a number of industry participants. Academia and other research institutions conduct basic research and license new technologies to industry for further development. Biotechnology companies typically in-license these new technologies, add value through applied research and early-stage clinical development, and then either out-license the resulting development-stage product candidates to large biopharmaceutical companies for late-stage clinical development and commercialization, or commercialize the products themselves. As new drugs are transferred along this value chain, royalties are created as compensation for the licensing or selling institutions. Biotechnology companies are also increasingly creating royalties on existing products within their portfolios, known as synthetic royalties, in order to provide a source of non-dilutive capital to fund their businesses. As a result of this industry paradigm, the development of a single new drug can lead to the creation of multiple royalties. Given our leadership position within the biopharmaceutical royalty sector, we are able to capitalize on the growing volumes of royalties that are created as new therapies are developed to address unmet medical needs.

Our Business Model

We believe that the following elements of our business and product portfolio provide a unique and compelling proposition to investors seeking exposure to the biopharmaceutical sector.

Our portfolio provides direct exposure to a broad array of blockbuster therapies. As of December 31, 2021, our portfolio included royalties on 14 therapies that each generated end-market sales of more than $1 billion, including five therapies that each generated end-market sales of more than $3 billion. The therapies within our royalty portfolio are marketed by leading global biopharmaceutical companies for whom these products are important sources of revenue. Given the marketers' significant focus on and investment in these products, they are motivated to invest substantial resources in driving continued sales growth.

Our portfolio is highly diversified across products, therapeutic areas and marketers. Our portfolio consists of royalties on more than 35 marketed biopharmaceutical therapies which address a wide range of therapeutic areas, including rare diseases, cancer, neurology, immunology, hematology and diabetes. In the year ended December 31, 2021, no individual therapy accounted for more than 19% of our royalty receipts, no therapeutic area accounted for more than 29% of our royalty receipts and no marketer represented more than 27% of our royalty receipts. The royalties in our portfolio entitle us to payments based directly on the top-line sales of the associated therapies, rather than the profits of these therapies. As such, the diversification of our profits directly reflects the diversification of our royalty receipts, rather than varying levels of product-level profitability, as would typically be expected within a biopharmaceutical company. The graphic below shows the diversification within our 2021 royalty receipts by product, therapeutic area and marketer.



Note: Only categories of at least 5% are separately presented in the charts.
(1) Comprised of royalty receipts from Januvia, Janumet and other DPP-IVs

The key growth-driving royalties in our portfolio are protected by long patent lives. The estimated weighted average royalty duration of our portfolio is approximately 13 years based on projected cumulative cash royalty receipts. Our largest marketed royalty in 2021 was on Vertex's cystic fibrosis franchise, and existing patent applications covering Trikafta, the most significant product in that franchise, are expected to provide exclusivity through 2037. Our right to receive royalties is perpetual, but we expect that the 2037 patent expiration for Trikafta may result in potential sales declines based on potential generic entry. Several of our marketed royalties have unlimited durations and could provide cash flows for many years after key patents have expired.

Simple and efficient operating model generates substantial cash flow for reinvestment in new biopharmaceutical royalties. Our capital-efficient operating model requires limited operating expenses and no material capital investment in fixed assets or infrastructure in order to support the ongoing growth of our business. As a result, we generate high Adjusted Cash Flow relative to our Adjusted Cash Receipts and we convert the vast majority of our Adjusted Cash Flow into operating cash flow. In 2021, we generated cash from operating activities of $2.0 billion, Adjusted Cash Receipts of $2.1 billion and Adjusted Cash Flow of $1.8 billion. We deployed $2.7 billion of cash in 2021 for royalties and related securities. Our high cash flow conversion provides us with significant capital that we can deploy for new royalty acquisitions and also use to grow our dividend to shareholders.

Our business model captures many of the most attractive aspects of the biopharmaceutical industry, but with reduced exposure to many common industry challenges. The biopharmaceutical industry benefits from a number of highly attractive characteristics, including long product life cycles, significant barriers to entry and non-cyclical revenues. We have a highly flexible approach that is agnostic to both therapeutic area and treatment modality, allowing us to acquire royalties on the most attractive therapies from across the biopharmaceutical industry. We focus on the acquisition of royalties on approved products or development-stage product candidates that have generated strong proof of concept data, avoiding the risks associated with early stage research and development. By acquiring royalties, we are able to realize payments based directly on the top-line sales of leading biopharmaceutical therapies, without the costs associated with fixed research and development, manufacturing and commercial infrastructure.

Our unique role in the biopharmaceutical ecosystem positions us to benefit from multiple compounding growth drivers. As a result of our significant scale and highly flexible business model, we believe that we are uniquely positioned to capitalize on multiple compounding growth drivers: an accelerating understanding of the molecular origins of disease, technological innovation leading to the creation of new treatment modalities, an increasing number of biopharmaceutical industry participants with significant capital needs, competitive industry dynamics which reward companies that can rapidly execute broad clinical development programs, increasing U.S. Food and Drug Administration ("FDA") drug approvals which reached an all-time high in 2018 and the potential for multiple royalties to be created from each new drug that reaches the market.

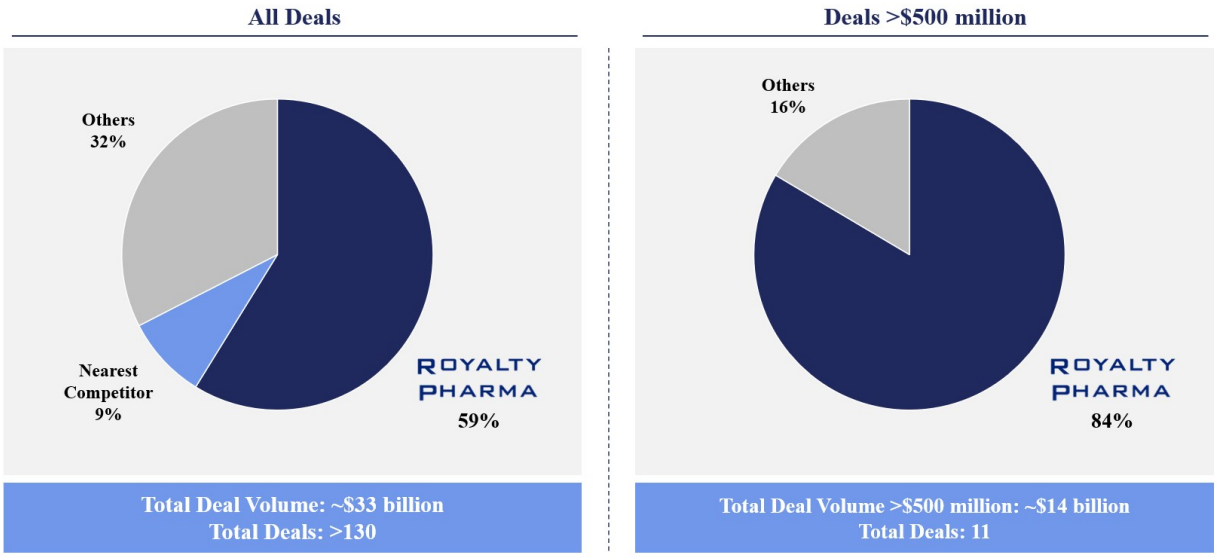
We have the ability to access innovation from across the biopharmaceutical ecosystem. Our approach is to first assess innovative science in areas of significant unmet medical need and then evaluate how to acquire royalties on therapies that we believe are attractive. We closely follow a broad range of therapeutic areas and treatment modalities and are therefore able to move quickly when we identify compelling opportunities to acquire new royalties.

We have deep access to attractively priced investment grade debt that provides a significant cost of capital advantage. We believe that we have an attractive cost of capital that enables us to acquire high-quality biopharmaceutical royalties at competitive prices while still creating value for our shareholders. As of December 31, 2021, we had an aggregate principal amount of $7.3 billion of senior unsecured notes outstanding with a weighted average coupon of 2.24% and a weighted-average maturity of approximately 13 years. In addition, we have an undrawn $1.5 billion senior unsecured revolving credit facility.

We have a talented, long-tenured team with extensive experience and deep industry relationships. Our team has significant experience identifying, evaluating and acquiring royalties on biopharmaceutical therapies. Together they have been responsible for more than $22 billion of acquisitions of biopharmaceutical royalties and related assets. Our acquisitions have included many of the industry's leading therapies across the past three decades, such as Humira, Imbruvica, Trikafta, Lyrica, Tecfidera, Truvada, Xtandi, Neupogen, Remicade and Rituxan, among others. Our long history of collaboration has resulted in deep relationships with a broad range of participants across the biopharmaceutical industry.

We are the leader in acquiring biopharmaceutical royalties. We are the leader within the space, having executed transactions with an aggregate announced transaction value of more than $17 billion from 2012 through December 31, 2021. We estimate this to represent an estimated market share of approximately 60% by value. This compares to our next nearest competitor, which we believe has executed $2.8 billion of transactions, which we estimate to represent market share of 9%. Given the scale of our business relative to our competitors, we have a particularly strong leadership position within large royalty transactions. Since 2012, there have been 11 transactions with an aggregate value of more than $500 million each. We executed 9 of these 11 royalty transactions, for a total aggregate transaction value of $11.6 billion of cash and estimated market share of more than 80%, in this transaction size range. The charts below show our market share since 2012 across all transaction sizes and in royalty transactions with an aggregate value of more than $500 million.

Royalty Market Share by Transaction Value Since 2012



Note: Graphs above include transactions through December 31, 2021 and exclude royalty debt transactions from market share calculations.

Our Strategic Plan to Grow the Portfolio

We intend to grow our business by continuing to partner with constituents across the biopharmaceutical value chain to fund innovation. The three key pillars of our growth strategy are summarized below.

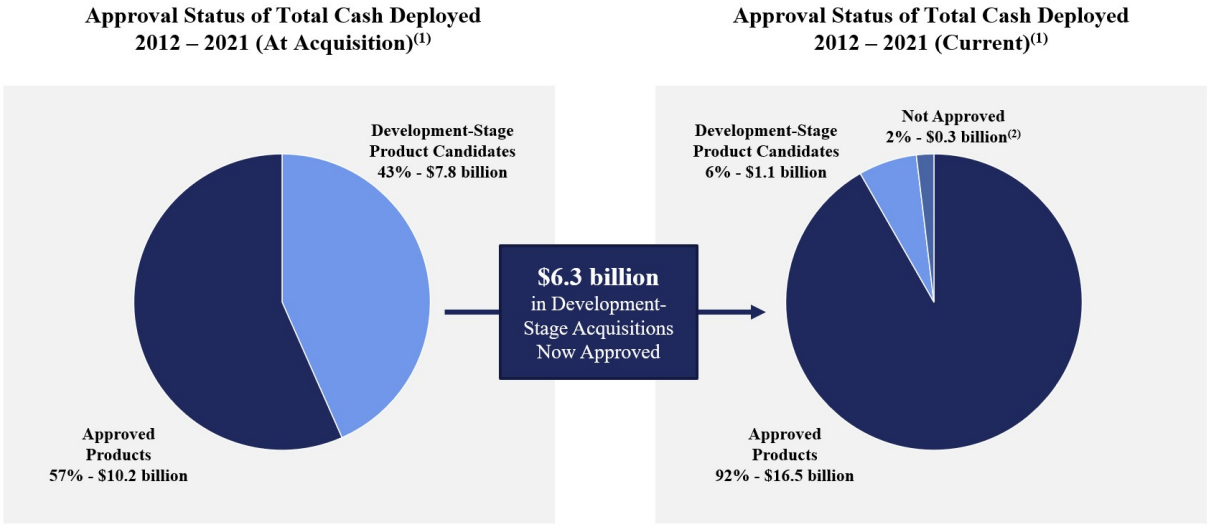
- ***Acquisition of royalties on approved products which provide dependable cash flows.*** We intend to continue capturing a leading share of royalties on approved products, particularly those that are early in their life cycles, so that we can participate in the growth that is generated as they penetrate their markets, and enter new indications or geographies.

- ***Acquisition of royalties on attractive development-stage product candidates.*** We intend to supplement our diverse portfolio of royalties on approved products with acquisitions of royalties on development-stage product candidates that have generated strong clinical proof of concept data to minimize risk and provide attractive upside potential.

- ***Acquisition of royalties in connection with merger and acquisition ("M&A") transactions.*** We acquire royalties in connection with M&A transactions in a number of ways: by purchasing non-strategic assets following the closing of acquisitions, by partnering with biopharmaceutical companies to acquire other biopharmaceutical companies that own significant royalties, or in select circumstances, by seeking to acquire biopharmaceutical companies on our own that have significant royalties or products that could be out-licensed to create royalties.

We acquire royalties in a number of ways including by acquiring existing royalties, acquiring new synthetic royalties and by funding R&D in exchange for future royalties and/or milestones. During the early years of our business, we focused our acquisitions on royalties on approved biopharmaceutical products. However, as we grew and diversified our business, we began acquiring royalties on development-stage product candidates that had demonstrated strong clinical proof of concept. These development-stage transactions have broadened our landscape of potential opportunities where we are able to leverage our scientific expertise and financial strength.

From 2012 through 2021, we deployed $7.8 billion of cash to acquire royalties and milestones on development-stage product candidates. Products underlying $6.3 billion of these acquisitions have already been approved, representing a success rate to date of 81%, while products underlying $0.3 billion were not approved and products underlying $1.1 billion are still in development.



Notes:
(1) Reflects cash deployed for royalty acquisitions from 2012 through 2021.
(2) Not approved includes investments in vosaroxin, palbociclib, and Merck KgaA's anti-IL17 nanobody M1095.

In recent years, we have increased the scope of our investments beyond royalties to include additional assets such as equity investments and the acquisition of businesses with significant royalty assets. Our broad scope maximizes our total addressable market and has allowed us to provide a broad range of solutions to our partners across the biopharmaceutical ecosystem.

Our approach is to first assess innovative science in areas of significant unmet medical need and then evaluate how to acquire royalties on therapies that we believe are attractive. We have a strong base of institutional knowledge of important therapeutic areas and key industry trends. Our team of scientific experts actively monitors the evolving treatment landscape across many therapeutic areas and treatment modalities in order to identify new opportunities. We analyze a wide range of scientific data and stay in constant communication with leading physicians, scientists, biopharmaceutical executives and venture capital firms. This allows us to quickly assess and gain conviction in the value of assets when acquisition opportunities arise.

We take a disciplined approach in assessing opportunities and seek to acquire exposure to therapies based on the following key product characteristics:

- **Clinically validated:** therapies that have received regulatory approval or have strong clinical proof-of-concept data that gives us confidence in the clinical and commercial profile.

- **High unmet need:** therapies that address areas of significant unmet medical need that also represent large commercial opportunities.

- **Significant benefits to patients:** therapies that have potential to disrupt or significantly enhance the treatment paradigm for patients and physicians based on compelling clinical data.

- **Unique competitive positioning:** therapies that are well-positioned to be leaders in their respective categories and are expected to maintain a competitive advantage in the long-term.

- **Growth potential:** therapies where we see strong long-term potential, based on our in-depth evaluation and in-house expertise.

- **Strong marketer:** therapies marketed by biopharmaceutical companies that have the resources, capabilities and commitment to successfully develop them and maximize their commercial potential.

- **Intellectual Property:** therapies that have strong patent portfolios and offer durable, long-term cash flows.

- **Attractive value proposition:** therapies that we believe provide value-add to the healthcare system.

Our focus is to create significant long-term value for our shareholders by acquiring both approved and development-stage product candidates through a variety of structures. In evaluating these acquisition opportunities, we focus on the following financial characteristics:

- **Long duration cash flows:** we prioritize long-duration assets over short-duration assets that may boost near-term financial performance. The durability of our cash flows also allows us to add leverage to our portfolio, enhancing returns and providing capital that we can use to acquire additional assets.

- **Attractive risk-adjusted returns:** we focus on generating attractive returns on our investments on a risk-adjusted basis. We do not target the same return for all assets and evaluate opportunities across the risk spectrum.

- **Growth and scale:** we seek assets that are accretive to our long-term growth profile and additive to our overall scale.

We conduct extensive due diligence when evaluating potential new opportunities. We have end-to-end capabilities that span clinical and commercial analysis, valuation and transaction structuring. We have a highly focused and experienced team that conducts proprietary primary market research, forms its own views on the clinical and commercial outlook for the product, and builds its own financial models, allowing us to generate direct insights and allowing us to take significant accountability and ownership for our investments. We invest significant time and resources across all levels of the organization, including senior leadership, in the evaluation of potential opportunities.

Our Portfolio

Commercial Products

The key royalties in our marketed portfolio related to approved products include the ones listed below. Descriptions of estimated royalty expiration dates are based on our estimates of patent expiry dates (which may include estimated patent term extensions) or estimates of the dates on which the royalties otherwise expire and are based on each product's key geographies; duration may differ in other geographies. Royalty expiration dates can change due to patent, regulatory, commercial or other developments. In addition, the royalties in our portfolio are subject to the underlying contractual agreements from which they arise and may be subject to reductions or other adjustments in accordance with the terms of such agreements.

Cystic fibrosis franchise

Our cystic fibrosis franchise consists of our right to receive royalty payments on the sale of various products marketed by Vertex for use in the treatment of cystic fibrosis, including Kalydeco (ivacaftor), Orkambi (lumacaftor and ivacaftor), Symdeko/Symkevi (tezacaftor and ivacaftor) and Trikafta/Kaftrio (elexacaftor, tezacaftor and ivacaftor). Vertex's cystic fibrosis franchise represents the leading treatments for cystic fibrosis, providing treatment options for approximately 90% of cystic fibrosis patients.

We added the cystic fibrosis franchise to our portfolio in November 2014 and purchased an additional residual royalty interest in November 2020. Our right to receive royalties is perpetual, but we expect that the 2037 patent expiration for Trikafta may result in potential sales declines based on potential generic entry. Total global end market sales for the cystic fibrosis franchise during 2021 were approximately $7.6 billion and we collected $702 million in related royalty receipts over the same period. Global end market sales of the cystic fibrosis franchise are projected to grow to approximately $10.4 billion in 2026, according to Visible Alpha.

Tysabri

Tysabri (natalizumab) is a monoclonal antibody marketed by Biogen for the treatment of relapsing forms of multiple sclerosis (RMS), including clinically isolated syndrome, relapsing-remitting disease and active secondary progressive disease. Tysabri competes in the high efficacy segment of the multiple sclerosis market, often reserved for patients with aggressive disease at onset and patients who have failed front-line therapies.

We added Tysabri to our portfolio in February 2017. Our right to receive royalties is perpetual. Total global end market sales for Tysabri during 2021 were approximately $2.1 billion and we collected $369 million in related royalty receipts over the same period. Global end market sales of Tysabri are projected to be approximately $1.7 billion in 2026, according to Visible Alpha.

Imbruvica

Imbruvica (ibrutinib) is a first-in-class small molecule Bruton's tyrosine kinase inhibitor that is the leading therapy in chronic lymphocytic leukemia, relapsed/refractory mantle cell lymphoma and other blood cancers. Imbruvica is marketed by AbbVie and Janssen, a subsidiary of Johnson & Johnson. A robust clinical program supports Imbruvica's use across a wide range of patient populations and cancer types, including 11 FDA approvals in six distinct indications.

We added Imbruvica to our portfolio in July 2013. We estimate that our royalties will substantially end between 2027 and 2032. Total global end market sales for Imbruvica during 2021 were approximately $6.9 billion and we collected $353 million in related royalty receipts over the same period. Global end market sales of Imbruvica are projected to grow to approximately $7.9 billion in 2026, according to Visible Alpha.

Promacta

Promacta (eltrombopag) is an oral, small molecule activator of the thrombopoietin receptor used to increase the number of platelets in the blood, marketed by Novartis for the treatment of chronic immune thrombocytopenia and aplastic anemia.

We added Promacta to our portfolio in March 2019. We estimate that our royalties will substantially end between 2025 and 2028. Total global end market sales for Promacta during 2021 were approximately $2.0 billion and we collected $174 million in related royalty receipts over the same period. Global end market sales of Promacta are projected to be approximately $600 million in 2026, according to Visible Alpha.

Xtandi

Xtandi (enzalutamide) is an oral, small molecule androgen receptor inhibitor marketed by Pfizer and Astellas for the treatment of non-metastatic and metastatic castration-resistant prostate cancer as well as metastatic castration sensitive prostate cancer.

We added Xtandi to our portfolio in March 2016. We estimate that our royalties will substantially end between 2027 and 2028. Total global end market sales for Xtandi during 2021 were approximately $4.6 billion and we collected $158 million in related royalty receipts over the same period. Global end market sales of Xtandi are projected to grow to approximately $6.3 billion in 2026, according to Visible Alpha.

Januvia, Janumet, other DPP-IVs

We hold patents covering the DPP-IV inhibitors which entitle us to royalty payments on the sale of various products, including Januvia (sitagliptin)/Janumet (sitagliptin and metformin) marketed by Merck & Co.; Tradjenta (linagliptin)/Jentadueto (linagliptin and metformin) marketed by Boehringer Ingelheim and Lilly; and Nesina (alogliptin) marketed by Takeda and Teijin Pharma, which have been approved for the treatment of type 2 diabetics in substitution of, or in addition to, insulin therapy.

We added the DPP-IV inhibitors to our portfolio in June 2011. Our royalties on Januvia and Janumet will expire in 2022 and royalties on the other DPP-IVs have substantially ended. Total global end market sales for the DPP-IV inhibitors during 2021 were approximately $5.3 billion and we collected $151 million in related royalty receipts over the same period.

HIV franchise

Our HIV franchise consists of our right to receive royalty payments on the sale of various products, including Atripla, Biktarvy, Complera, Descovy, Emtriva, Genvoya, Odefsey, Stribild, Symtuza and Truvada, which have been approved for the treatment and prevention of HIV and acquired immune deficiency syndrome. Gilead is the primary marketer for the products in our HIV franchise.

We added the HIV franchise to our portfolio starting in July 2005. Our royalties substantially ended in 2021. Total global end market sales for the products in the HIV franchise during 2021 were approximately $16.3 billion and we collected $78 million in related royalty receipts over the same period.

Nurtec ODT/Biohaven fixed payments

Nurtec ODT (rimegepant) is an oral, small molecule calcitonin gene-related peptide receptor antagonist marketed by Biohaven and Pfizer for the acute treatment and prevention of migraine.

We added Nurtec ODT to our portfolio in June 2018 and purchased an additional interest in Nurtec ODT as part of our expanded funding agreement with Biohaven in August 2020. We estimate that our royalties will substantially end between 2034 and 2036. Total global end market sales for Nurtec ODT during 2021 were estimated to be approximately $455 million and we collected $8 million in related royalty receipts over the same period. In addition, as a result of the approval of Nurtec ODT in February 2020, we received $63 million in fixed payments from Biohaven during the year ended December 31, 2021, which represent the first four of 16 consecutive quarterly payments to be received from Biohaven relating to the Series A Biohaven Preferred Shares. Global end market sales of Nurtec ODT are projected to grow to approximately $2.4 billion in 2026, according to Visible Alpha.

Prevymis

Prevymis (letermovir) is a first-in-class prophylactic marketed by Merck & Co. for the prophylaxis of cytomegalovirus infection and disease in adults who have received an allogeneic hematopoietic stem cell transplant.

We added Prevymis to our portfolio in June 2020. We estimate that our royalties will substantially end in 2029. Total global end market sales for Prevymis during 2021 were approximately $370 million and we collected $38 million in related royalty receipts over the same period. Global end market sales of Prevymis are projected to grow to approximately $450 million in 2026, according to Visible Alpha.

Farxiga/Onglyza

Farxiga (dapagliflozin) is a first-in-class selective inhibitor of human sodium-glucose co-transporter 2 indicated as both monotherapy and as part of combination therapy with Onglyza, a dipeptidyl peptidase-4 inhibitor, to improve glycemic control as an adjunct to diet and exercise in adults with type 2 diabetes. Farxiga received FDA approval in May 2020 for the treatment of patients with heart failure with reduced ejection fraction in both patients with and without type 2 diabetes. Farxiga and Onglyza are both marketed by AstraZeneca.

We added Farxiga/Onglyza to our portfolio in November 2017. We estimate that our royalties will substantially end in 2025. Total global end market sales for Farxiga/Onglyza during 2021 were approximately $3.4 billion and we collected $36 million in related royalty receipts over the same period. Global end market sales of Farxiga/Onglyza are projected to grow to approximately $4.2 billion in 2026, according to Visible Alpha.

Tremfya

Tremfya (guselkumab) is an anti-interleukin 23 marketed by Johnson & Johnson for the treatment of adults living with moderate to severe plaque psoriasis, and for adults with active psoriatic arthritis. Tremfya is also in clinical development for ulcerative colitis and Crohn’s disease.

We added Tremfya to our portfolio in July 2021. We estimate that our royalties will substantially end between 2031 and 2032. Total global end market sales for Tremfya during 2021 were approximately $2.1 billion and we collected $36 million in related royalty receipts for the partial period subsequent to acquisition in July 2021. Global end market sales of Tremfya are projected to grow to approximately $5.4 billion in 2026, according to Visible Alpha.

Cabometyx/Cometriq

Cabometyx (cabozantinib) is a multi-tyrosine kinase inhibitor approved for the treatment of patients with advanced renal cell carcinoma (RCC) both as monotherapy and in combination with Bristol Myers Squibb's Opdivo (nivolumab) as a first line treatment. Cabometyx is also approved for hepatocellular carcinoma in patients previously treated with sorafenib. Cometriq is approved for progressive, metastatic medullary thyroid cancer. Cabometyx and Cometriq are marketed by Exelixis in the United States and by Ipsen in regions outside the United States and Japan. Cabometyx is marketed in Japan by Takeda.

We added Cabometyx/Cometriq to our portfolio in March 2021. We estimate that our royalties will substantially end between 2026 and 2029. Total global end market sales for Cabometyx/Cometriq during 2021 were estimated to be approximately $1.6 billion and we collected $34 million in related royalty receipts for the partial period subsequent to acquisition in March 2021. Global end market sales of Cabometyx/Cometriq are projected to grow to approximately $3.4 billion in 2026, according to Visible Alpha.

Crysvita

Crysvita (burosumab) is a monoclonal antibody against fibroblast growth factor 23 marketed by Ultragenyx and Kyowa Kirin that has received European Commission ("EC") conditional marketing authorization for the treatment of X-linked hypophosphatemia with radiographic evidence of bone disease in children one year of age and older and adolescents with growing skeletons. In October 2020, this authorization was expanded to include older adolescents and adults.

We added a royalty on Crysvita sales in Europe to our portfolio in December 2019. Our royalties expire when we receive aggregate royalties equal to $608 million if that happens prior to December 31, 2030, and otherwise when we receive aggregate royalties of $800 million. We estimate that our royalties will substantially end between 2033 and 2038. End market sales for Crysvita in Europe during 2021 were $179 million and we collected approximately $17 million in related royalty receipts over the same period. End market sales of Crysvita in Europe are projected to grow to approximately $400 million in 2026, according to Visible Alpha.

Evrysdi

Evrysdi (risdiplam) is a survival motor neuron 2 splicing modifier marketed by Roche, and is the first oral treatment approved for infants, children and adults with all types of spinal muscular atrophy.

We added Evrysdi to our portfolio in July 2020. Key patents on Evrysdi in the United States expire in 2035, but our royalty will cease when aggregate royalties paid to us equal $1.3 billion. Total global end market sales for Evrysdi during 2021 were approximately $659 million and we collected $16 million in related royalty receipts over the same period. Global end market sales of Evrysdi are projected to grow to approximately $2.9 billion in 2026, according to Visible Alpha.

Emgality

Emgality (galcanezumab-gnlm) is a monoclonal antibody calcitonin gene-related peptide receptor antagonist indicated for the preventive treatment of migraine and for the treatment of episodic cluster headache marketed by Lilly.

We added Emgality to our portfolio in March 2019. We estimate that our royalties will substantially end in 2033. Total global end market sales for Emgality during 2021 were approximately $577 million and we collected $15 million in related royalty receipts over the same period. Global end market sales of Emgality are projected to grow to approximately $1.4 billion in 2026, according to Visible Alpha.

Erleada

Erleada (apalutamide) is an oral, small molecule androgen receptor inhibitor indicated for the treatment of patients with non-metastatic castration-resistant prostate cancer and for the treatment of patients with metastatic castration sensitive prostate cancer. It is marketed by Johnson & Johnson.

We added Erleada to our portfolio in February 2019. We estimate that our royalties will substantially end in 2032. Total global end market sales for Erleada during 2021 were approximately $1.3 billion and we collected $14 million in related royalty receipts over the same period. Global end market sales of Erleada are projected to grow to approximately $4.0 billion in 2026, according to Visible Alpha.

Trodelvy

Trodelvy (sacituzumab govitecan-hziy) is an antibody-drug conjugate for the treatment of adult patients with metastatic triple-negative breast cancer. Trodelvy was initially developed by Immunomedics and is now marketed by Gilead following the acquisition of Immunomedics in 2020. Gilead is exploring monotherapy and combinations of Trodelvy across numerous cancer indications and lines of therapy.

We added Trodelvy to our portfolio in January 2018. Our right to receive royalties is perpetual. Total global end market sales for Trodelvy during 2021 were approximately $380 million and we collected $13 million in related royalty receipts over the same period. Global end market sales of Trodelvy are projected to grow to approximately $2.3 billion in 2026, according to Visible Alpha.

IDHIFA

IDHIFA (enasidenib) is an oral, targeted therapy approved by the FDA for the treatment of adult patients with relapsed or refractory acute myeloid leukemia with an isocitrate dehydrogenase-2 mutation. It is marketed by Bristol Myers Squibb.

We added IDHIFA to our portfolio in June 2020. We estimate that our royalties will substantially end in the U.S. in 2033. End market sales for IDHIFA are not disclosed by Bristol Myers Squibb. We collected $12 million in related royalty receipts in 2021. We also hold rights to receive up to $55 million in outstanding regulatory milestone payments from Bristol Myers Squibb. Visible Alpha does not currently have estimates available for global end market sales of IDHIFA in 2026.

Orladeyo

Orladeyo (berotralstat) is a first-in-class oral inhibitor of plasma kallikrein marketed by BioCryst for the prevention of hereditary angioedema attacks.

We added Orladeyo to our portfolio in December 2020 and purchased an additional interest as part of our expanded funding agreement with BioCryst in November 2021. Our right to receive royalties is perpetual, but we expect that the 2036-2039 patent expirations for Orladeyo may result in potential sales declines based on potential generic entry. Total global end market sales for Orladeyo during 2021 were estimated to be approximately $117 million and we collected $7 million in related royalty receipts over the same period. Global end market sales of Orladeyo are projected to grow to approximately $600 million in 2026, according to Visible Alpha.

Tazverik

Tazverik (tazemetostat) is a first-in-class, oral EZH2 inhibitor marketed by Epizyme that was granted accelerated approval for the treatment of epithelioid sarcoma and follicular lymphoma.

We added Tazverik to our portfolio in November 2019. We estimate that our royalties will substantially end in 2034. Total global end market sales for Tazverik during 2021 were estimated to be approximately $32 million and we collected $3 million in related royalty receipts over the same period. Global end market sales of Tazverik are projected to grow to approximately $400 million in 2026, according to Visible Alpha.

Oxlumo

Oxlumo (lumasiran) is a small interfering ribonucleic acid therapeutic targeting hydroxyacid oxidase 1 for the treatment of primary hyperoxaluria type 1 marketed by Alnylam. Oxlumo was approved by the FDA in November 2020.

We added Oxlumo to our portfolio in April 2021. We estimate that our royalties will substantially end between 2034 and 2035. Total global end market sales for Oxlumo during 2021 were approximately $60 million and we collected $1 million in related royalty receipts over the same period. Global end market sales of Oxlumo are projected to grow to approximately $350 million in 2026, according to Visible Alpha.

Development-Stage Product Candidates

Our current portfolio includes ten development-stage product candidates. These development-stage product candidates have not yet been approved, and therefore have not generated any royalties (and we have not collected any related royalty receipts) to date.

Aficamten

Aficamten is a small molecule cardiac myosin inhibitor, in Phase 3 development by Cytokinetics for obstructive hypertrophic cardiomyopathy (oHCM). We added aficamten to our portfolio in January 2022. If approved, global end market sales of aficamten are projected to grow to approximately $400 million in 2026, according to Visible Alpha.

BCX9930

BCX9930 is an oral Factor D inhibitor in Phase 3 clinical development by BioCryst as monotherapy for paroxysmal nocturnal hemoglobinuria and other complement-mediated diseases. We added BCX9930 to our portfolio in December 2020 and purchased an additional interest as part of our expanded funding agreement with BioCryst in November 2021. If approved, global end market sales of BCX9930 are projected to grow to approximately $200 million in 2026, according to Visible Alpha.

CPI-0209

CPI-0209 is a second-generation enhancer of zeste homolog 2 inhibitor, in Phase 2 development by MorphoSys for hematological malignancies and solid tumors. We added CPI-0209 to our portfolio in July 2021. Visible Alpha does not currently have estimates available for global end market sales of CPI-0209 in 2026.

Gantenerumab

Gantenerumab is an anti-amyloid-beta monoclonal antibody, in Phase 3 development by Roche for Alzheimer’s disease. We added gantenerumab to our portfolio in July 2021. If approved, global end market sales of gantenerumab are projected to grow to approximately $1.9 billion in 2026, according to Visible Alpha.

Omecamtiv mecarbil

Omecamtiv mecarbil is an oral, small molecule cardiac myosin activator in Phase 3 clinical development by Cytokinetics for the treatment of heart failure with reduced ejection fraction.

We added omecamtiv mecarbil to our portfolio in 2017. In November 2020, results from the Phase 3 GALACTIC-HF trial of omecamtiv mecarbil in patients with heart failure were presented at the American Hearth Association Scientific Sessions which showed that the trial met the primary composite endpoint of reduction in cardiovascular death or heart failure events, but did not meet the secondary endpoint of reduction in cardiovascular death. Cytokinetics subsequently regained global rights to develop and commercialize omecamtiv mecarbil when Amgen and Servier elected to terminate their collaboration agreement. Following the Phase 3 results and termination of the collaboration announced in 2020, given the uncertainty around the future of omecamtiv mecarbil at the time, we recognized an impairment charge of $65 million related to the write-off of the associated financial royalty asset of $90 million and its associated provision of $25 million in the year ended December 31, 2020. If approved, global end market sales of omecamtiv mecarbil are projected to grow to approximately $200 million in 2026, according to Visible Alpha.

Otilimab

Otilimab is a fully human monoclonal antibody that inhibits granulocyte-macrophage colony-stimulating factor, in Phase 3 development by GlaxoSmithKline for rheumatoid arthritis. We added otilimab to our portfolio in July 2021. We are also entitled to 100% of future regulatory and success-based milestone payments on otilimab. If approved, global end market sales of otilimab are projected to grow to approximately $250 million in 2026, according to Visible Alpha.

Pelabresib

Pelabresib is a bromodomain and extra-terminal inhibitor, in Phase 3 development by MorphoSys for myelofibrosis. We added pelabresib to our portfolio in July 2021. If approved, global end market sales of pelabresib are projected to grow to approximately $200 million in 2026, according to Visible Alpha.

PT027

PT027 is an investigational fixed dose combination of the inhaled corticosteroid, budesonide and albuterol, a short-acting beta-2 agonist for the treatment of asthma in Phase 3 development.

In 2018, we entered into an agreement with Avillion II, which was amended in July 2021, to fund up to approximately $122.5 million over multiple years to fund a portion of the costs for Phase 2 and 3 clinical trials of Avillion II, which is a party to a co-development agreement with AstraZeneca to advance PT027 through a global clinical development program for the treatment of asthma in exchange for royalties, a series of success-based milestones, and other potential payments. We estimate that our royalties will substantially end in 2030, but AstraZeneca is entitled to certain buyout rights which, if exercised, would result in earlier expiration. If approved, global end market sales of PT027 are projected to grow to approximately $500 million in 2026, according to Visible Alpha.

Seltorexant

Seltorexant is a selective orexin 2 receptor antagonist currently in Phase 3 development for the treatment of major depressive disorder with insomnia symptoms by Johnson & Johnson. We added seltorexant to our portfolio in January 2021. Visible Alpha does not currently have estimates available for global end market sales of seltorexant in 2026.

Zavegepant

Zavegepant is a small molecule calcitonin gene-related peptide receptor antagonist in clinical development by Biohaven for the acute treatment and prevention of migraines in Phase 3 development. In November 2021, Biohaven and Pfizer announced a strategic commercialization arrangement for Pfizer to commercialize zavegepant in markets outside of the United States upon approval.

We added zavegepant to our portfolio in June 2018 and purchased an additional interest as part of our expanded funding agreement with Biohaven in August 2020. We estimate that our royalties will substantially end between 2034 and 2036. As a result of an additional transaction in 2020, we are also entitled to success-based milestone payments. If approved, global end market sales of zavegepant are projected to grow to approximately $650 million in 2026, according to Visible Alpha.

Royalty Portfolio Summary

The table below provides a summary of the estimated royalty expiration and the royalty rates for our portfolio:

Product	Therapeutic Area	Estimated Royalty Expiration[1]	Royalty Rate[2]
Approved Products			
Cystic fibrosis franchise	Rare disease	2037[3]	For combination therapies, sales are allocated equally to each of the active pharmaceutical ingredients; tiered royalties ranging from single digit to subteen percentages on annual worldwide net sales of ivacaftor, lumacaftor and tezacaftor, and mid-single digit percentages on annual worldwide net sales of elexacaftor
Tysabri	Neurology	Perpetual	Contingent payments of 18% on annual worldwide net sales up to $2.0 billion and 25% on annual worldwide net sales above $2.0 billion
Imbruvica	Cancer	2027-2032	Tiered royalty in the mid-single digits on annual worldwide net sales
Promacta	Hematology	2025-2028	Tiered royalty ranging from 4.7% to 9.4% on annual worldwide net sales
Xtandi	Cancer	2027-2028	Royalty slightly less than 4% on annual worldwide net sales
Januvia and Janumet	Diabetes	2022	Low-single digit royalty on annual worldwide net sales
Nurtec ODT	Neurology	2034-2036	2.1% royalty on annual combined worldwide net sales of Nurtec ODT and zavegepant up to $1.5 billion and 1.5% on annual combined worldwide net sales above $1.5 billion. 0.4% incremental royalty on all Nurtec ODT worldwide net sales.
Prevymis	Infectious disease	2029	Low-double digit royalty on annual worldwide net sales up to $300 million
Farxiga/Onglyza	Diabetes	2025	Payments to Royalty Pharma equivalent to low-single digit downward tiered royalty on annual worldwide net sales
Tremfya	Immunology	2031-2032	Mid-single digit, tiered royalty on annual worldwide net sales
Cabometyx/Cometriq	Cancer	2026-2029[4]	3% royalty on annual worldwide net sales
Crysvita	Rare disease	2033-2038[5]	10% royalty on annual EU, U.K. and Switzerland net sales
Evrysdi	Rare disease	2030-2035[6]	Total royalties are tiered at 8% on worldwide annual net sales up to $500 million, 11% on net sales between $500 million and $1 billion, 14% on net sales between $1 billion and $2 billion, 16% on net sales over $2 billion; Royalty Pharma is entitled to approximately 43% of total royalties
Emgality	Neurology	2033	Low-single digit royalties on annual worldwide net sales
Erleada	Cancer	2032	Low-single digit royalties on annual worldwide net sales
Trodelvy	Cancer	Perpetual	4.15% royalty on annual worldwide net sales up to $2 billion, declining stepwise based on sales tiers to 1.75% on annual worldwide net sales above $6 billion
IDHIFA	Cancer	2033	Tiered royalty in the low-double digits to mid-teens based on annual worldwide net sales
Orladeyo	Rare disease	2036-2039[7]	9.50% royalty on direct annual net sales of up to $350 million, 4.50% on sales between $350 million and $550 million, no royalty on sales over $550 million; tiered percentage of sublicense revenue in certain territories
Tazverik	Cancer	2034[8]	Royalties in the mid-teens percentages on annual worldwide net sales, stepping down on annual worldwide net sales above certain sales thresholds
Oxlumo	Rare disease	2034-2035	Royalties in the mid- to high-single digits based on annual worldwide net sales
Development Stage Product Candidates			
Aficamten[9]	Cardiology	—	4.5% royalty on annual worldwide net sales up to $1 billion and 3.5% on net sales above $1 billion, subject to certain potential step-downs
BCX9930	Rare disease	—	4.0% royalty on annual worldwide net sales up to $1.5 billion, 3.0% royalty on annual worldwide net sales between $1.5 billion and $3.0 billion, and 1.0% royalty on annual worldwide net sales above $3.0 billion
CPI-0209	Cancer	—	3.0% royalty on annual worldwide net sales
Gantenerumab	Neurology	—	Total royalties tiered between 5.5% and 7.0% on annual worldwide net sales; Royalty Pharma is entitled to 60% of total royalties
Omecamtiv mecarbil	Cardiology	2032-2033	Mid-single digit royalty on worldwide net sales
Otilimab	Immunology	—	Tiered double-digit total royalties on annual worldwide net sales; Royalty Pharma is entitled to 80% of total royalties
Pelabresib	Cancer	—	3.0% royalty on annual worldwide net sales
PT027	Respiratory	2030[10]	Tiered royalties in the low-single digits on annual worldwide net sales[11]
Seltorexant	Neurology	—	Mid-single digit royalty on worldwide net sales
Zavegepant	Neurology	2034-2036	2.1% royalty on annual combined worldwide net sales of Nurtec ODT and zavegepant up to $1.5 billion and 1.5% on annual combined worldwide net sales above $1.5 billion. Up to a 3.0% incremental royalty on zavegepant worldwide net sales up to $1.5 billion and up to 2.0% incremental royalty on zavegepant worldwide net sales above $1.5 billion.

Notes:

(1) Dates shown represent our estimates as of current reporting date of when a royalty will substantially end, which may depend on clinical trial results, regulatory approvals, contractual terms, commercial developments, estimates of patent expiration dates (which may include estimated patent term extensions) or other factors and may vary by geography. There can be no assurances that our royalties will expire when expected.

(2) The royalties in our portfolio are subject to the underlying contractual agreements from which they arise and may be subject to reductions or other adjustments in accordance with the terms of such agreements.
(3) Royalty is perpetual; year shown represents Trikafta expected patent expiration and potential sales decline based on timing of potential generic entry.
(4) Royalties on net sales of cabozantinib products in the United States through September 2026 and non-U.S. markets through the full term of the royalty.
(5) Royalties expire when we receive aggregate royalties equal to $608 million if that happens prior to December 31, 2030, and otherwise when we receive aggregate royalties of $800 million.
(6) Key patents on Evrysdi in the United States expire in 2035, but our royalty will cease when aggregate royalties paid to us equal $1.3 billion.
(7) Royalty is perpetual; years shown represent estimated United States patent expiration for Orladeyo and potential sales decline based on timing of potential generic entry.
(8) Represents the estimated patent expiration date in the United States.
(9) Royalty was acquired in January 2022.
(10) AstraZeneca is entitled to certain buyout rights which, if exercised, would result in earlier expiration.
(11) Represents the portion of the royalties owed to Avillion II attributable to our minority ownership stake in Avillion II.

There can be no assurance that our royalties will expire when expected. Any reductions in the durations of royalties relative to our estimates may adversely affect our financial condition and results of operations. See “Risk Factors” in Item 1A, Risk Factors for further information.

Fixed Payment Arrangements

The table below provides a summary of our fixed payment arrangements:

Funding Arrangement	Therapeutic Area	Key Terms[1]
Biohaven Series A Preferred Shares	Neurology	16 consecutive quarterly payments of $15.6 million to Royalty Pharma from the three months ended March 31, 2021 through the three months ended December 31, 2024 totaling $250.0 million (2.0 times the $125.0 million total purchase price of Series A Biohaven Preferred Shares that Royalty Pharma acquired in 2019).
Biohaven Series B Preferred Shares	Neurology	24 consecutive quarterly payments of $14.8 million to Royalty Pharma from the three months ended March 31, 2025 through the three months ended December 31, 2030 totaling $354.5 million (approximately 1.8 times the $200.0 million total purchase price of Series B Biohaven Preferred Shares that Royalty Pharma has agreed to acquire between the three months ended March 31, 2021 and the three months ended December 31, 2024).
Zavegepant Success-Based Milestones	Neurology	Success-based milestone payments to Royalty Pharma ranging from 1.9 to 2.95 times the funded amount of $250.0 million, depending on achievement of specific regulatory approvals for zavegepant. 40 consecutive quarterly payments commencing on the first day of the second calendar quarter following a milestone event. If zavegepant’s first regulatory approval in migraine is achieved, Royalty Pharma will receive total success-based milestone payments of $475.0 million, or 1.9 times the funded amount, related to this specific approval. Incremental payments of up to 1.05 times the funded amount could be triggered by certain additional regulatory approvals.
MorphoSys Development Funding Bonds	Not applicable	Payments to Royalty Pharma totaling approximately 2.2 times the amount drawn by MorphoSys. Up to $350.0 million in potential funding is available to be drawn through July 15, 2022, with a minimum draw of $150.0 million. 36 consecutive quarterly payments to Royalty Pharma commencing in the ninth quarter following the quarter of the applicable funding date. As of February 15, 2022, the Development Funding Bonds remain undrawn.
Cytokinetics Commercial Launch Funding	Cardiology	Payments to Royalty Pharma totaling 1.9 times the amount drawn for up to five tranches totaling $300.0 million in potential funding to Cytokinetics, including an initial $50.0 million tranche that was funded in the three months ended March 31, 2022. Each subsequent tranche has a 12-month draw period following achievement of certain clinical and regulatory milestones. 34 consecutive quarterly payments to Royalty Pharma commencing on the last business day of the seventh quarter following the quarter of the applicable funding date for each tranche.

(1) Our fixed payment arrangements are subject to the underlying contractual agreements and legal instruments from which they arise and may be subject to reduction, accelerations, and other adjustments in accordance with the respective terms of such agreements and instruments.

Competition

We face competition from other entities that acquire biopharmaceutical royalties, including competitors to the Manager that are in the similar business of acquiring biopharmaceutical royalties. There are a limited number of suitable and attractive acquisition opportunities available in the market. Therefore, competition to acquire such assets is intense. The Manager is subject to competition from other potential royalty buyers, including from the companies that market the products on which royalties are paid, financial institutions and other entities. These potential royalty buyers may be larger and better capitalized than us. The Manager may not be able to identify and obtain a sufficient number of asset acquisition opportunities to invest the full amount of capital that may be available to us. There can be no assurance that we will continue to acquire biopharmaceutical products and companies that hold biopharmaceutical royalties that are acceptable to us.

The products that provide the basis for the cash flows of the biopharmaceutical products in which we invest are also subject to intense competition. The biopharmaceutical industry is a highly competitive and rapidly evolving industry. The length of any product's commercial life cannot be predicted. There can be no assurance that one or more products will not be rendered obsolete or non-competitive by new products or improvements made to existing products, either by the current marketer of such products or by another marketer. Adverse competition, obsolescence or governmental and regulatory action or healthcare policy changes could significantly affect the revenues, including royalty-related revenues, of the products which serve as the security or other support for the payments due under the biopharmaceutical products that we hold.

Competitive factors affecting the market position and success of each product include:

- effectiveness;
- safety and side effect profile;
- price, including third-party insurance reimbursement policies;
- timing and introduction of the product;
- efficacy of marketing strategy;
- governmental regulation;
- availability of lower-cost generics and/or biosimilars;
- treatment innovations that eliminate or minimize the need for a product; and
- product liability claims.

If a product for which we have a royalty receivable or other interest is rendered obsolete or non-competitive by new products, including generics and/or biosimilars, or improvements on existing therapies or governmental or regulatory action, such developments could have a material adverse effect on the ability of the payor with respect to a biopharmaceutical asset to make payments to us, and consequently could materially adversely affect our business, financial condition and results of operations. If additional side effects or complications are discovered with respect to a product, and such product's market acceptance is impaired or it is withdrawn from the market, continuing payments with respect to biopharmaceutical products, including royalty payments and payments of interest on and repayment of the principal, relating to such product may not be made on time or at all.

Corporate Responsibility

We are the largest buyer of biopharmaceutical royalties and a leading funder of innovation across the biopharma industry. We play an important role in providing capital to the biopharma ecosystem and thereby positively impact human health. Our responsibility to stakeholders is based around three key areas: integrity (maintaining the highest ethical standards), culture (promoting an inclusive and diverse workforce) and taking responsibility (being a responsible citizen). We do not directly conduct biopharmaceutical research and development or manufacture or market the biopharmaceutical assets in which we participate. We strive to invest in novel therapies that address unmet patient needs and to support ethical business practices that drive innovation, competition and patient choice.

Integrity

We maintain the highest standards of integrity and trust in our role as investors and partners to the biopharma industry. This is recognized in our market-leading position and the high esteem with which we believe we are held in the industry. We conduct thorough diligence and monitoring with all of our investment positions. The biopharmaceutical companies and academic and non-profit institutions with which we work typically have well-developed and transparent environmental, social and governance (ESG) policies, which seek to benefit wider society through sustainable and ethical business practices.

Culture

A diverse, talented and motivated workforce is essential to maintain our competitive advantages and to successfully execute our business strategy. We consider it highly important to strive for an appropriate gender balance: currently approximately 50% of the workforce of our Manager are women.

Responsibility

We are committed to good corporate citizenship and actively support the work of a number of patient advocacy groups and medical research foundations, including the American Heart Association, the Alliance for Lupus Research, Children of Bellevue, the Melanoma Research Alliance, the National Multiple Sclerosis Society and the Prostate Cancer Foundation. Over one-third (by value) of the transactions we have completed since our founding have been with leading academic and non-profit institutions. By partnering with these institutions, we have provided capital which has been used to further scientific research (for example, the Cystic Fibrosis Foundation) or to help fund capital projects. These diverse organizations are united in their quest to advance science, the careers of scientists and human health around the globe.

Employees

Our directors and executive officers manage our operations and activities. However, we do not currently have any employees or any officers other than our executive officers. Pursuant to the management agreement entered into in connection with our initial public offering (the "Management Agreement") with the Manager, the Manager performs corporate and administration services for us.

As of December 31, 2021, the Manager had 66 employees. None of these employees are represented by labor unions or covered by any collective bargaining agreement. We believe that the Manager's relations with its employees are satisfactory.

Human Capital Resources

Because we are "externally managed," we do not employ our own personnel, but instead depend upon the Manager and its executive officers and employees for all of the services we require. Under the Management Agreement, the Manager manages the assets of our business and sources and evaluates royalty acquisitions. Accordingly, our success is dependent upon the expertise and services of the executive officers and other personnel provided to us through the Manager. The Manager is responsible for the selection of these executive officers and other personnel, and our Board of Directors reviews personnel with the Manager with the objective of evaluating the Manager's internal capabilities. The Management Agreement requires the Manager's executives to devote substantially all of their time to managing us, Royalty Pharma Investments 2019 ICAV ("RPI" or "RPI 2019 ICAV") and any legacy vehicles related to Royalty Pharma Investments, an Irish unit trust ("Old RPI") unless otherwise approved by our Board of Directors. The Management Agreement also provides for the development of succession plans for the senior management of the Manager by the Management Development and Compensation Committee of our Board of Directors in consultation with the Manager.

Governmental Regulation and Environmental Matters

Our business has been and will continue to be subject to numerous laws and regulations. Failure to comply with these laws and regulations could subject us to administrative and legal proceedings and actions by various governmental bodies. See “Risk Factors” in Item 1A, Risk Factors for further information. Our compliance with these laws and regulations has not had a material impact on our capital expenditures, earnings, financial condition or competitive position in excess of those affecting
others in our industry.

We believe that there are no compliance issues with laws and regulations that have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, that have adversely affected, or are reasonably expected to adversely affect, our business, financial condition and results of operations, and we do not currently anticipate material capital expenditures arising from environmental regulation. We believe that climate change could present risks to our business. Some of the potential impacts of climate change to our business include increased operating costs due to additional regulatory requirements and the risk of disruptions to our business. We do not believe these risks are material to our business at this time.

U.S. Investment Company Act Status

We intend to conduct our business so as not to become regulated as an investment company under the U.S. Investment Company Act. An entity generally will be determined to be an investment company for purposes of the U.S. Investment Company Act if, absent an applicable exemption, (i) it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities or (ii) it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis, which we refer to as the ICA 40% Test.

We do not hold ourselves out as being engaged primarily, or propose to engage primarily, in the business of investing, reinvesting or trading in securities, and believe that we are not engaged primarily in the business of investing, reinvesting or trading in securities. We believe that, for U.S. Investment Company Act purposes, we are engaged primarily, through one or more of our subsidiaries, in the business of purchasing or otherwise acquiring certain obligations that represent part or all of the sales price of merchandise. Our subsidiaries that are so engaged rely on Section 3(c)(5)(A) of the U.S. Investment Company Act, which, according to certain SEC staff interpretations, generally may be available to an issuer that invests at least 55% of its assets in “notes, drafts, acceptances, open accounts receivable, and other obligations representing part or all of the sales price of merchandise, insurance, and services,” which we refer to as ICA Exception Qualifying Assets and that does not issue any redeemable securities, face-amount certificates of the installment type or periodic payment plan certificates.

In a no-action letter, dated August 13, 2010, to our predecessor, the SEC staff promulgated an interpretation that royalties that entitle an issuer to collect royalty receivables that are directly based on the sales price of specific biopharmaceutical assets that use intellectual property covered by specific license agreements are ICA Exception Qualifying Assets under Section 3(c)(5)(A). We rely on this no-action letter for the position that royalty receivables relating to biopharmaceutical assets that we hold are ICA Exception Qualifying Assets under Section 3(c)(5)(A) and Section 3(c)(6), which is described below.

As the parent of one or more subsidiaries that rely on Section 3(c)(5)(A), we currently are excepted from registration as an investment company based on Section 3(a)(1)(C) and/or Section 3(c)(6) of the U.S. Investment Company Act. To ensure that we are not obligated to register as an investment company, we must not exceed the thresholds provided by the ICA 40% Test. For purposes of the ICA 40% Test, the term “investment securities” does not include U.S. government securities or securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on Section 3(c)(1) or Section 3(c)(7) of the U.S. Investment Company Act, such as majority-owned subsidiaries that rely on Section 3(c)(5)(A). We also may rely on Section 3(c)(6), which, based on SEC staff interpretations, requires us to invest, either directly or through majority-owned subsidiaries, at least 55% of our assets in, as relevant here, businesses relying on Section 3(c)(5)(A). For a subsidiary to be “majority-owned,” a parent entity must own a majority of the voting securities of the applicable security. Therefore, the assets that we and our subsidiaries hold and acquire are limited by the provisions of the U.S. Investment Company Act and the rules and regulations promulgated thereunder.

If the SEC or its staff in the future adopts a contrary interpretation to that provided in the no-action letter to Royalty Pharma or otherwise restricts the conclusions in the SEC staff's no-action letter such that royalties are no longer treated as ICA Exception Qualifying Assets for purposes of Section 3(c)(5)(A) and Section 3(c)(6), or the SEC or its staff in the future determines that the no-action letter does not apply to some or all types of royalty receivables relating to biopharmaceutical assets, our business will be materially and adversely affected. In particular, we would be required either to convert to a corporation formed under the laws of the United States or a state thereof (which would likely result in our being subject to U.S. federal corporate income taxation) and to register as an investment company, or to stop all business activities in the United States until such time as the SEC grants an application to register us as an investment company formed under non-U.S. law. It is unlikely that such an application would be granted and, even if it were, requirements imposed by the Investment Company Act, including limitations on our capital structure, our ability to transact business with affiliates and our ability to compensate key employees, could make it impractical for us to continue our business as currently conducted. Our no longer qualifying for an exemption from registration as an investment company would materially and adversely affect the value of your Class A ordinary shares and our ability to pay dividends in respect of our Class A ordinary shares.

Corporate Information

Our predecessor was founded in 1996 and we were incorporated under the laws of England and Wales on February 6, 2020. We are a holding company, and our principal asset is a controlling equity interest in Royalty Pharma Holdings Ltd. ("RP Holdings"). Our principal executive offices are located at 110 East 59th Street, New York, NY 10022, and our telephone number is (212) 883-0200. Our Internet site is www.royaltypharma.com. Our website and the information contained therein or connected thereto is not incorporated into this Annual Report on Form 10-K. Our agent for service in the United States is CSC North America located at 251 Little Falls Drive, Wilmington, Delaware, 19808.

Available Information

Our reports filed with or furnished to the SEC pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available, free of charge, on the Investors section of our website at https://royaltypharma.com as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The SEC maintains a website at http://www.sec.gov that contains reports, and other information regarding us and other companies that file materials with the SEC electronically. We use the Investor section of our website as a means of disclosing material information. Accordingly, investors should monitor our website, in addition to following our press releases, SEC filings, and public conference calls and webcasts.

Item 1A. RISK FACTORS

Described below are certain risks that we believe apply to our business. You should carefully consider the following information about these risks, together with the other information contained in this Annual Report on Form 10-K, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business.

Summary of Risk Factors

Our business is subject to a number of risks, including risks that may adversely affect our business, financial condition and results of operations. These risks are discussed more fully below and include, but are not limited to, risks related to:

Risks Relating to Our Business

- sales risks of biopharmaceutical products on which we receive royalties;
- the growth of the royalty market;
- the ability of the Manager to identify suitable assets for us to acquire;
- uncertainties related to the acquisition of interests in development-stage biopharmaceutical product candidates and our strategy to add development-stage product candidates to our product portfolio;
- potential strategic acquisitions of biopharmaceutical companies;

- our use of leverage in connection with our capital deployment;
- our reliance on the Manager for all services we require;
- our reliance on key members of the Manager's senior advisory team;
- our ability to successfully execute our royalty acquisition strategy;
- our ability to leverage our competitive strengths;
- actual and potential conflicts of interest with the Manager and its affiliates;
- interest rate and foreign exchange fluctuations;
- the assumptions underlying our business model;
- our reliance on a limited number of products;
- the ability of the Manager or its affiliates to attract and retain highly talented professionals;
- the competitive nature of the biopharmaceutical industry;

Risks Relating to Our Organization and Structure

- our organizational structure, including our status as a holding company;

Risks Relating to Our Class A Ordinary Shares

- volatility of the market price of our Class A ordinary shares;
- our incorporation under English law;

Risks Relating to Taxation

- the effect of changes to tax legislation and our tax position; and

General Risk Factors

- the impact of COVID-19, or the future outbreak of any other infectious or contagious diseases, on our operations.

Risks Relating to Our Business

Biopharmaceutical products are subject to sales risks.

Biopharmaceutical product sales may be lower than expected due to a number of reasons, including pricing pressures, insufficient demand, product competition, failure of clinical trials, lack of market acceptance, obsolescence, lack of acceptance by government healthcare programs and private insurance plans, loss of patent protection, the impact of the COVID-19 global pandemic or other factors and development-stage product candidates may fail to reach the market. Unexpected side effects, safety or efficacy concerns can arise with respect to a product, leading to product recalls, withdrawals or declining sales. As a result, payments of our royalties may be reduced or cease. In addition, these payments may be delayed, causing our near-term financial performance to be weaker than expected.

The royalty market may not grow at the same rate as it has in the past, or at all, and we may not be able to acquire sufficient royalties to sustain the growth of our business.

We have been able to grow our business over time by primarily acquiring royalties. However, we may not be able to identify and acquire a sufficient number of royalties, or royalties of sufficient scale, to invest the full amount of capital that may be available to us in the future, or at our targeted amount and rate of deployment, which could prevent us from executing our growth strategy and negatively impact our results of operations. Changes in the royalty market, including its structure and participants, or a reduction in the growth of the biopharmaceutical industry, could lead to diminished opportunities for us to acquire royalties, fewer royalties (or royalties of significant scale) being available, or increased competition for royalties. Even if we continue to acquire royalties, they may not generate a meaningful return for a period of several years, if at all, due to the price we pay for such royalties or other factors relating to the underlying products. As a result, we may not be able to continue to grow as we have in the past, or at all.

Acquisitions of royalties from development-stage biopharmaceutical product candidates are subject to a number of uncertainties.

We may acquire more royalties on development-stage product candidates that have not yet received marketing approval by any regulatory authority. There can be no assurance that the FDA, the European Medicines Agency ("EMA") or other regulatory authorities will approve such products or that such products will be brought to market timely or at all, or that the market will be receptive to such products. For example, in January 2016, we partnered with Pfizer to provide up to $300 million in funding for Pfizer's ongoing Phase 3 clinical trials, the PALLAS and PENELOPE-B trials, of Ibrance (palbociclib) for the adjuvant treatment of breast cancer. On May 29, 2020, Pfizer reported that the independent data monitoring committee for the PALLAS trial had concluded after the recent interim analysis that the PALLAS trial is "unlikely to show a statistically significant improvement in the primary endpoint of invasive disease-free survival." Subsequently on October 9, 2020, Pfizer announced that the Phase 3 PENELOPE-B trial did not meet the primary endpoint of improved invasive disease-free survival in women with hormone receptor-positive (HR+), human epidermal growth factor-negative early breast cancer who have residual invasive disease after completing neoadjuvant chemotherapy. If the FDA, the EMA or other regulatory authority approves a development-stage product candidate that generates our royalties, the labeling, packaging, manufacturing, adverse event reporting, storage, advertising, promotion and recordkeeping for the product will be subject to extensive and ongoing regulatory requirements. The subsequent discovery of previously unknown problems with the product, including adverse events of unanticipated severity or frequency, may result in restrictions on the marketing of the product, and could include withdrawal of the product from the market.

In addition, the developers of these development-stage product candidates may not be able to raise additional capital to continue their discovery, development and commercialization activities, which may cause them to delay, reduce the scope of, or eliminate one or more of their clinical trials or research and development programs. If other product developers introduce and market products that are more effective, safer or less expensive than the relevant products that generate our royalties, or if such developers introduce their products prior to the competing products underlying our royalties, such products may not achieve commercial success and thereby result in a loss for us.

Further, the developers of such products may not have sales, marketing or distribution capabilities. If no sales, marketing or distribution arrangements can be made on acceptable terms or at all, the affected product may not be able to be successfully commercialized, which will result in a loss for us. Losses from such assets could adversely affect our business, financial condition and results of operations.

While we believe that we can evaluate the likelihood of a development-stage product candidate's approval and achieving significant sales, there can be no assurance that our assumptions will prove correct, that regulatory authorities will approve such development-stage product candidates, that such development-stage product candidates will be brought to market timely or at all, or that such products will achieve commercial success.

Our strategy of acquiring royalty interests in development-stage product candidates, including by co-funding clinical development and acquiring securities of biopharmaceutical companies, is subject to risks and uncertainties.

We intend to continue to provide capital to innovators to co-fund clinical development of a product candidate in exchange for a share of the future revenues of that asset and when we do so, we do not control its clinical development. In these situations, the innovators may not complete activities on schedule or in accordance with our expectations or in compliance with applicable laws and regulations. Failure by one or more of these third parties to meet their obligations, comply with applicable laws or regulations or any disruption in the relationships between us and these third parties, could delay or prevent the development, approval, manufacturing or commercialization of the development-stage product candidate for which we have provided funding.

We seek to further expand our market opportunity by acquiring securities issued by biopharmaceutical companies. Where we may acquire equity securities as all or part of the consideration for business development activities, the value of those securities will fluctuate, and may depreciate in value. We will likely not control the company in which we acquire securities, and as a result, we may have limited ability to determine its management, operational decisions and policies. Further, while we may seek to mitigate the risks and liabilities of such transactions through, among other things, due diligence, there may be risks and liabilities that such due diligence efforts fail to discover, that are not disclosed to us, or that we inadequately assess. In addition, as a result of our activities we receive material non-public information about other companies from time to time. Where such information relates to a company whose equity securities we hold, we may be delayed or prevented from selling such securities when we would otherwise choose to do so, and such delay or prohibition may result in a loss or reduced gain on such securities.

We may undertake strategic acquisitions of biopharmaceutical companies with significant royalty assets. Our failure to realize expected benefits of such acquisitions or our incurrence of unanticipated liabilities, could adversely affect our business, financial condition and results of operations.

We may acquire companies with significant royalty assets or where we believe we could create significant synthetic royalties. These acquired or created royalty assets may not perform as we project. Moreover, the acquisition of operating biopharmaceutical companies will result in the assumption of, or exposure to, liabilities of the acquired business that are not inherent in our other royalty acquisitions, such as direct exposure to product liability claims, high fixed costs and an expansion of our operations and expense structure, thereby potentially decreasing our profitability. The diversion of our management's attention and any delay or difficulties encountered in connection with any future acquisitions we may consummate could result in the disruption of our on-going business operations. Despite our business, financial and legal due diligence efforts, we have limited experience in assessing acquisition opportunities, and we ultimately may be unsuccessful in ascertaining or evaluating all risks associated with such acquisitions. Moreover, we may need to raise additional funds through public or private debt or equity financing to acquire any businesses or products, which may result in dilution for shareholders or the incurrence of indebtedness. As a result, our acquisition of biopharmaceutical companies could adversely affect our business, financial condition and results of operations.

We use leverage in connection with our capital deployment, which magnifies the potential for loss if the royalties acquired do not generate sufficient income to us.

We use borrowed funds to finance a significant portion of our deployed capital. The use of leverage creates an opportunity for an increased return but also increases the risk of loss if our assets do not generate sufficient income to us. The interest expense and other costs incurred in connection with such borrowings may not be covered by our cash flow. In addition, leverage may inhibit our operating flexibility and reduce cash flow available for dividends to our shareholders. The level of our indebtedness could limit our ability to respond to changing business conditions. The various agreements relating to our borrowings may impose operating and financial restrictions on us which could affect the number and size of the royalties that we may pursue. Therefore, no assurance can be given that we will be able to take advantage of favorable conditions or opportunities as a result of any restrictive covenants under our indebtedness. There can also be no assurance that additional debt financing, either to replace or increase existing debt financing, will be available when needed or, if available, will be obtainable on terms that are commercially reasonable. Additional risks related to our leverage include:

- our royalties may be used as collateral for our borrowings;
- in the event of a default under secured borrowings, if any, one or more of our creditors or their assignees could obtain control of our royalties and, in the event of a distressed sale, these creditors could dispose of these royalties for significantly less value than we could realize for them;

- we have to comply with various financial covenants in the agreements that govern our debt, including requirements to maintain certain leverage ratios and coverage ratios, which may affect our ability to achieve our business objectives;

- our ability to pay dividends to our shareholders may be restricted; and

- to the extent that interest rates at which we borrow increase, our borrowing costs will increase and our leveraging strategy will become more costly, which could lead to diminished net profits.

We do not employ our own personnel and are entirely dependent upon the Manager for all the services we require.

Because we are "externally managed," we do not employ our own personnel but instead depend upon the Manager, its executive officers and its employees for all of the services we require. The Manager selects and manages the acquisition of royalties and similar payment streams that meet our investment criteria and provides all of our other administrative services. Accordingly, our success is dependent upon the expertise and services of the executive officers and other personnel provided to us through the Manager. The Management Agreement has an initial term of ten years, after which it can be renewed for an additional term of three years, unless either we or the Manager provide notice of non-renewal 180 days prior the expiration of the initial term or renewal term. The Manager may not be removed during the initial or any renewal term without cause. While our agreement with the Manager requires its executives to devote substantially all of their time to managing us and any legacy vehicles related to Old RPI or RPI unless otherwise approved by the board of directors, such resources may prove to be inadequate to meet our needs.

The success of our business depends upon key members of the Manager's senior advisory team who may not continue to work for the Manager.

We depend on the expertise, skill and network of business contacts of the advisory professionals of the Manager, who evaluate, negotiate, structure, execute, monitor and service our assets in accordance with the terms of the Management Agreement between us and the Manager. Our future success depends to a significant extent on the continued service and coordination of the senior advisory professionals of the Manager, particularly Mr. Legorreta. Pursuant to the Management Agreement, executives of the Manager must devote substantially all of their business time to managing us, unless otherwise approved by the board of directors. Despite this, Mr. Legorreta and other key advisory professionals may have other demands on their time now and in the future, and we cannot assure you that they will continue to be actively involved in our business. Each of these individuals is an employee of the Manager and is not subject to an employment contract with us. The departure of any of these individuals or competing demands on their time in the future could impact our ability to achieve our business objectives. This could adversely affect our financial condition and results of operations.

The senior advisory professionals of the Manager have relationships with participants in the biopharmaceutical industry, financial institutions and other advisory professionals, which we rely upon to source potential asset acquisition opportunities. If the senior advisory professionals of the Manager fail to maintain such relationships, or to develop new relationships with other sources, we will not be able to grow our current asset portfolio. In addition, we can offer no assurance that these relationships, even if maintained, will generate asset acquisition opportunities for us in the future.

There can be no assurance that the policies and procedures we have established to mitigate conflicts of interest will be effective in doing so.

Pursuant to the Management Agreement, the Manager cannot manage another entity that invests in or acquires royalties other than any legacy vehicle related to Old RPI or RPI. Every executive of our Manager is subject to a non-compete agreement that is effective for 18 months following termination of their employment with the Manager for any reason. We are a beneficiary of this agreement. In addition, executives of the Manager must devote substantially all of their business time to managing us and any legacy vehicle related to Old RPI or RPI, unless otherwise approved by the board of directors. Despite this, the ability of our Manager and its officers and employees to engage in other business activities, subject to the terms of our Management Agreement, may reduce the amount of time our Manager, its officers or other employees spend managing us.

Furthermore, there could be conflicts of interest between us and our senior advisory personnel. For instance, Mr. Legorreta, our Chief Executive Officer, is also a co-founder of and has significant influence over Pharmakon Advisors, which shares physical premises with the Manager. Pharmakon manages BioPharma Credit PLC (LSE: BPCR) and other investment vehicles that collectively are leading providers of debt capital to the biopharmaceutical industry. Mr. Legorreta has a substantial investment in BioPharma Credit. Even though he has the involvement with Pharmakon and BioPharma Credit PLC described above, Mr. Legorreta does not have any material constraints on the time he has available to devote to us and the Manager. From time to time, the Manager and Pharmakon may pursue similar investment opportunities for their respective clients, although we believe that actual conflicts of interest are rare due to the differing investment strategies of Pharmakon and us, and the fact that royalty holders, rather than Pharmakon and us, determine the type of transaction they seek. Under arrangements with Pharmakon, the Manager subleases office space to Pharmakon, and the parties may provide research, business development, legal, compliance, financial and administrative services to one another. The Manager and Pharmakon reimburse each other to the extent that one of them provides materially more services to the other than they receive in return. In consideration of the support provided to Pharmakon by the Manager, certain employees of the Manager receive compensation from Pharmakon. In addition, Mr. Legorreta has founded and participates in two foundations that provide medical research funding.

In addition, the structure of our Manager's compensation arrangements may have unintended consequences for us. We have agreed to pay our Manager or its affiliates quarterly operating and personnel expenses (the "Operating and Personnel Payments"), a portion of which is based on the mark-to-market value of security investments, including equity securities and derivative financial instruments, at the end of each quarter and is payable to the Manager regardless of whether we realize any gain on the security investments when sold. Consequently, the Manager may be incentivized to have us make security investments regardless of our expected gain on such investments, which may not align with our or our shareholders' long-term interests.

To service our indebtedness and meet our other ongoing liquidity needs, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control. If we cannot generate the required cash, we may not be able to make the required payments under our indebtedness.

As of December 31, 2021, our total principal amount of Notes outstanding was $7.3 billion**.** In addition, we have up to $1.5 billion of available revolving commitments under our unsecured revolving credit facility (the "Revolving Credit Facility"). Except for RP Holdings, our subsidiaries that do not guarantee the Notes will have no obligation, contingent or otherwise, to pay amounts due under the Notes or to make any funds available to pay those amounts, whether by dividend, distribution, loan or other payment. We cannot assure you that our business will generate sufficient cash flow from operations to enable us to pay our indebtedness or to fund our other liquidity needs.

Absent sufficient cash flow and the ability to refinance, we could also be forced to sell assets to make up for any shortfall in our payment obligations. However, the terms of the agreements that govern our existing outstanding debt limit, our and our subsidiaries' ability to sell assets and also restrict the use of proceeds from such a sale. Accordingly, we may not be able to sell assets quickly enough or for sufficient amounts to enable us to meet our obligations on our indebtedness.

Our business is subject to interest rate and foreign exchange risk.

We are subject to interest rate fluctuation exposure through any borrowings under our Revolving Credit Facility and our investments in money market accounts and marketable securities, the majority of which bear a variable interest rate. To the extent that interest rates generally increase, our borrowing costs will increase and our leveraging strategy will become more costly, leading to diminished net profits.

Certain products pay royalties in currencies other than U.S. dollars, which creates foreign currency risk primarily with respect to the Euro, Canadian Dollar, Swiss Franc and Japanese Yen, as our functional and reporting currency is the U.S. dollar. In addition, our results of operations are subject to foreign currency exchange risk through transactional exposure resulting from movements in exchange rates between the time we recognize royalty income or royalty revenue and the time at which the transaction settles, or we receive the royalty payment. Because we are entitled to royalties on worldwide sales for various products, there is an underlying exposure to foreign currency as the marketer converts payment amounts from local currencies to U.S. dollars using a quarterly average exchange rate. Therefore, cash received may differ from the estimated receivable based on fluctuations in currency. As a result, significant changes in foreign exchange rates can impact our results.

Information about the biopharmaceutical products underlying the royalties we buy available to us may be limited and therefore our ability to analyze each product and its potential future cash flow may be similarly limited.

We may have limited information concerning the products generating the royalties we are evaluating for acquisition. Often, the information we have regarding products following our acquisition of a royalty may be limited to the information that is available in the public domain. Therefore, there may be material information that relates to such products that we would like to know but do not have and may not be able to obtain. For example, we do not always know the results of studies conducted by marketers of the products or others or the nature or amount of any complaints from doctors or users of such products. In addition, the market data that we obtain independently may also prove to be incomplete or incorrect. Due to these and other factors, the actual cash flow from a royalty may be significantly lower than our estimates.

Our future income is dependent upon numerous royalty-specific assumptions and, if these assumptions prove not to be accurate, we may not achieve our expected rates of returns.

Our business model is based on multiple-year internal and external forecasts regarding product sales and numerous product-specific assumptions in connection with each royalty acquisition, including where we have limited information regarding the product. There can be no assurance that the assumptions underlying our financial models, including those regarding product sales or competition, patent expirations or license terminations for the products underlying our portfolio, are accurate. These assumptions involve a significant element of subjective judgment and may be and in the past have been adversely affected by post-acquisition changes in market conditions and other factors affecting the underlying product. Our assumptions regarding the financial stability or operational or marketing capabilities of the partner obligated to pay us royalties may also prove and in the past have proven to be incorrect. Due to these and other factors, the assets in our current portfolio or future assets may not generate expected returns or returns in line with our historical financial performance or in the time periods we expect. This could negatively impact our results of operation for a given period.

We make assumptions regarding the royalty duration for terms that are not contractually fixed, and a shortened royalty term could result in a reduction in the effective interest rate, a decline in income from royalties, significant reductions in royalty payments compared to expectations, or a permanent impairment.

In accordance with generally accepted accounting principles in the United States GAAP, we classify most royalty assets that we acquire as financial assets that are measured at amortized cost using the prospective effective interest method described in ASC 835-30. The effective interest rate is calculated by forecasting the expected cash flows to be received over the life of the asset relative to the initial invested amount, net of any purchased receivables. A critical component of such forecast is our assumptions regarding duration of the royalty.

The royalty duration is important for purposes of accurately measuring interest income over the life of a royalty. In making assumptions around the royalty duration for terms that are not contractually fixed, we consider the strength of existing patent protection, expected entry of generics, geographical exclusivity periods and potential patent term extensions tied to the underlying product.

The duration of a royalty usually varies on a country-by-country basis and can be based on a number of factors, such as patent expiration dates, regulatory exclusivity, years from first commercial sale of the patent-protected product, the entry of competing generic or biosimilar products, or other terms set out in the contracts governing the royalty. It is common for royalty durations to expire earlier or later than anticipated due to unforeseen positive or negative developments over time, including with respect to the granting of patents and patent term extensions, the invalidation of patents, litigation between the party controlling the patents and third party challengers of the patents, the ability of third parties to design around or circumvent valid patents, the granting of regulatory exclusivity periods or extensions, timing for the arrival of generic or biosimilar competitor products, changes to legal or regulatory regimes affecting intellectual property rights or the regulation of pharmaceutical products, product life cycles, and industry consolidations.

If an unexpected shortening of a royalty term were to occur, it could result in a reduction in the effective interest rate, a decline in income from royalties, a significant reduction in royalty payments compared to expectations, or a permanent impairment.

Our reliance on a limited number of products may adversely affect our business, financial condition and results of operation.

While our current asset portfolio includes royalties relating to over 35 marketed products and ten development-stage product candidates, the top five product franchises accounted for 67% of our royalty receipts in the year ended December 31,
2021. In addition, our asset portfolio may not be fully diversified by geographic region or other criteria. Any significant deterioration in the cash flows from the top products in our asset portfolio could adversely affect our business, financial condition and results of operations.

We face competition in acquiring assets and locating suitable assets to acquire.

There are a limited number of suitable and attractive opportunities to acquire high-quality royalties available in the market. Therefore, competition to acquire such royalties is intense and may increase. We compete with other potential acquirers for these opportunities, including companies that market the products on which royalties are paid, financial institutions and others. These competitors may be able to access lower cost capital, may be larger than us, may have relationships that provide them access to opportunities before us, or may be willing to acquire royalties for lower projected returns than we are.

Biopharmaceutical products are subject to substantial competition.

The biopharmaceutical industry is a highly competitive and rapidly evolving industry. The length of any product's commercial life cannot be predicted with certainty. There can be no assurance that one or more products on which we are entitled to a royalty will not be rendered obsolete or non-competitive by new products or improvements on which we are not entitled to a royalty made to existing products, either by the current marketer of such products or by another marketer. Current marketers of products may undertake these development efforts in order to improve their products or to avoid paying our royalty. Adverse competition, obsolescence or governmental and regulatory action or healthcare policy changes could significantly affect the revenues, including royalty-related revenues, of the products which generate our royalties.

Competitive factors affecting the market position and success of each product include:

- effectiveness;
- safety and side effect profile;
- price, including third-party insurance reimbursement policies;
- timing and introduction of the product;
- effectiveness of marketing strategy and execution;
- governmental regulation;
- availability of lower-cost generics and/or biosimilars;
- treatment innovations that eliminate or minimize the need for a product; and
- product liability claims.

Products on which we have a royalty may be rendered obsolete or non-competitive by new products, including generics and/or biosimilars, improvements on existing products or governmental or regulatory action. In addition, as biopharmaceutical companies increasingly devote significant resources to innovate next-generation products and therapies using gene editing and new curative modalities, such as cell and gene therapy, products on which we have a royalty may become obsolete. These developments could adversely affect the sales of the biopharmaceutical products that generate our royalties, and consequently could adversely affect our business, financial condition and results of operations.

Marketers of products that generate our royalties are outside of our control.

In the case of our royalty receivables, our cash flow consists primarily of payments supported by royalties paid by marketers. These marketers may have interests that are different from our interests. For example, these marketers may be motivated to maximize income by allocating resources to other products and, in the future, may decide to focus less attention on the products generating our royalties or by allocating resources to develop products that do not generate royalties to us. There can be no assurance that any marketer or person with whom the marketer has a working relationship has adequate resources and motivation to continue to produce, market and sell the products generating our royalties. Aside from any limited audit rights relating to the activities of the marketers that we may have in certain circumstances pursuant to the terms of our arrangements with the licensor, we do not have oversight rights with respect to the marketers' operations and do not have rights allowing us to direct their operations or strategy nor do our agreements contain performance standards for their operations. We also have limited information on the marketers' operations.

In these circumstances, while we may be able to receive certain information relating to sales of products through the exercise of audit rights and review of royalty reports we receive from the licensor, we will not have the right to review or receive certain information relating to products that the marketers may have, including the results of any studies conducted by the marketers or others, or complaints from doctors or users of products. The market performance of the products generating our royalties may therefore be diminished by any number of factors relating to the marketers that are outside of our control.

The marketers of biopharmaceutical products are, generally, entirely responsible for the ongoing regulatory approval, commercialization, manufacturing and marketing of products.

Generally, the holders of royalties on products have granted exclusive regulatory approval, commercialization, manufacturing and marketing rights to the marketers of such products. The marketers have full control over those efforts and sole discretion to determine the extent and priority of the resources they will commit to their program for a product. Accordingly, the successful commercialization of a product depends on the marketer's efforts and is beyond our control. If a marketer does not devote adequate resources to the ongoing regulatory approval, commercialization and manufacture of a product, or if a marketer engages in illegal or otherwise unauthorized practices, the product's sales may not generate sufficient royalties, or the product's sales may be suspended, and consequently, could adversely affect our business.

License agreements relating to products may, in some instances, be unilaterally terminated or disputes may arise which may affect our royalties.

License agreements relating to the products generating our royalties may be terminated, which may adversely affect sales of such products and therefore the payments we receive. For example, under certain license agreements, marketers retain the right to unilaterally terminate the agreements with the licensors. When the last patent covering a product expires or is otherwise invalidated in a country, a marketer may be economically motivated to terminate its license agreement, either in whole or with respect to such country, in order to terminate its payment and other obligations. In the event of such a termination, a licensor may no longer receive all of the payments it expected to receive from the licensee and may also be unable to find another company to continue developing and commercializing the product on the same or similar terms as those under the license agreement that has been terminated.

In addition, license agreements may fail to provide significant protection for the licensor in case of the licensee's failure to perform or in the event of disputes. License agreements which relate to the products underlying our royalties are complex, and certain provisions in such agreements may be susceptible to multiple interpretations. The resolution of any contract interpretation disagreement that may arise could narrow what the licensor believes to be the scope of its rights to the relevant intellectual property or technology, or decrease the licensee's financial or other obligations under the relevant agreement, any of which could in turn impact the value of our royalties and adversely affect our business, financial condition and results of operations. If a marketer were to default on its obligations under a license agreement, the licensor's remedy may be limited either to terminating certain licenses related to certain countries or to generally terminate the license agreement with respect to such country. In such cases, we may not have the right to seek to enforce the rights of the licensor and we may be required to rely on the resources and willingness of the licensor to enforce its rights against the licensee.

In any of these situations, if the expected payments under the license agreements do not materialize, this could result in a significant loss to us and adversely affect our business, financial condition and results of operations.

The insolvency of a marketer could adversely affect our receipt of cash flows on the related royalties that we hold.

If a marketer were to become insolvent and seek to reorganize under Chapter 11 of Title 11 of the U.S. Code, as amended, or the Bankruptcy Code, or liquidate under Chapter 7 of the Bankruptcy Code (or foreign equivalent), such event could delay or impede the payment of the amounts due under a license agreement, pending a resolution of the insolvency proceeding. Any unpaid royalty payments due for the period prior to the filing of the bankruptcy proceeding would be unsecured claims against the marketer, which might not be paid in full or at all. While royalty payments due for periods after the filing may qualify as administrative expenses entitled to a higher priority, the actual payment of such post-filing royalty payments could be delayed for a substantial period of time and might not be in the full amount due under the license agreement. The licensor would be prevented by the automatic stay from taking any action to enforce its rights without the permission of the bankruptcy court. In addition, the marketer could elect to reject the license agreement, which would require the licensor to undertake a new effort to market the applicable product with another distributor. Such proceedings could adversely affect the ability of a payor to make payments with respect to a royalty, and could consequently adversely affect our business, financial condition and results of operations.

Unsuccessful attempts to acquire new royalties could result in significant costs and negatively impact subsequent attempts to locate and acquire other assets.

The investigation of each specific target royalty and the negotiation, drafting and execution of relevant agreements, disclosure and other documents requires substantial management time and attention and results in substantial costs for accountants, attorneys and others. If a decision is made not to complete a specific acquisition, the costs incurred for the proposed transaction would not be recoverable from a third party. Furthermore, even if an agreement is reached relating to a specific target asset, we may fail to consummate the acquisition for any number of reasons, including, in the case of an acquisition of a royalty through a business combination with a public company, approval by the target company's public shareholders. Multiple unsuccessful attempts to acquire new royalties could hurt our reputation, result in significant costs and waste the Manager's time. The opportunity cost of diverting management and financial resources could negatively impact our ability to locate and acquire other assets.

Most of our royalties are classified as financial assets that are measured at amortized cost using the effective interest method as a result of which our GAAP results of operations can be volatile and unpredictable.

In accordance with GAAP, most of the royalty assets we acquire are treated as investments in cash flow streams and are thus classified as financial assets. Under this classification, our financial royalty assets are treated as having a yield component that resembles loans measured at amortized cost under the effective interest accounting methodology. Under this accounting methodology, we calculate the effective interest rate on each financial royalty asset using a forecast of the expected cash flows to be received over the life of the financial royalty asset relative to the initial acquisition price. The yield, which is calculated at the end of each reporting period and applied prospectively, is then recognized via accretion into our income at the effective rate of return over the expected life of the financial royalty asset.

As a result of the non-cash charges associated with the application of the effective interest method accounting methodology, our income statement activity in respect of many of our royalties can be volatile and unpredictable. Small declines in sell-side equity research analysts' consensus sales forecasts over a long time horizon can result in an immediate non-cash income statement expense recognition, even though the applicable cash inflows will not be realized for many years into the future. For example, in late 2014 we acquired the cystic fibrosis franchise royalty, which is classified as a financial royalty asset. Beginning in the second quarter of 2015, declines in near-term sales forecasts of sell-side equity research analysts caused us to recognize non-cash provision expenses to the income statement and build up a corresponding cumulative allowance which reduced the gross balance for this financial royalty asset. Over the course of 10 quarters, we recognized non-cash provision expenses as a result of these changes in forecasts, including a non-cash expense of $743.2 million in 2016, ultimately reaching a peak cumulative allowance of $1.30 billion by September 30, 2017 related to this financial royalty asset. With the approval of the Vertex triple combination therapy, Trikafta, in October 2019, sell-side equity research analysts' consensus sales forecasts increased to reflect the larger addressable market and the extension of the expected duration of the Trikafta royalty. While small reductions in the cumulative allowance for the cystic fibrosis franchise were recognized as provision income in 2017 and 2018, there remained a $1.10 billion cumulative allowance that was fully reduced by $1.10 billion in 2019 as a result of an increase in sell-side equity research analysts' consensus sales forecasts associated with the Trikafta approval. The financial statement impact caused by the application of the effective interest accounting methodology could result in a negative perception of our results in a given period.

Sales of the products that generate our royalties are subject to uncertainty related to healthcare reimbursement policies, managed care considerations and pricing pressures.

In both the U.S. and non-U.S. markets, sales of biopharmaceutical products, and the success of such products, depends in part on the availability and extent of coverage and reimbursement from third-party payors, including government healthcare programs and private insurance plans.

In the United States, pharmaceutical product pricing is subject to enhanced government regulation, public scrutiny and calls for reforms. Some states have implemented, and other states are considering, pharmaceutical price controls or patient access constraints under their Medicaid program. There have also been recent state legislative efforts that have generally focused on increasing transparency around drug costs or limiting drug prices. In addition, the growth of large managed care organizations and prescription benefit managers, as well as the prevalence of generic substitution, has hindered price increases for prescription drugs. Continued intense public scrutiny of the price of drugs, together with government and payor dynamics, may limit the ability of producers and marketers to set or adjust the price of products based on their value. There can be no assurance that new or proposed products will be considered cost-effective or that adequate third-party reimbursement will be available to enable the producer or marketer of such product to maintain price levels sufficient to realize an appropriate return. Outside the United States, numerous major markets, including the EU, Japan and China, have pervasive government involvement in funding healthcare, and, in that regard, fix the pricing and reimbursement of pharmaceutical products. Consequently, in those markets, the products generating our royalties are subject to government decision-making and budgetary actions.

These pricing pressures may adversely affect our current royalties and the attractiveness of future acquisitions of royalties.

The products that generate our royalties are subject to uncertainty related to the regulation of the healthcare industry.

The U.S. healthcare industry is highly regulated and subject to frequent and substantial changes. For example, the U.S. Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (the “ACA”) was enacted by Congress in March 2010 and established a major expansion of healthcare coverage, financed in part by a number of new rebates, discounts, and taxes that had a significant effect on the expenses and profitability on the companies that manufacture the products that generate our royalties. These companies and their products face uncertainty due to federal legislative and administrative efforts to repeal, substantially modify or invalidate some or all of the provisions of the ACA.

Other U.S. federal or state legislative or regulatory action and/or policy efforts could adversely affect the healthcare industry, including, among others, general budget control actions, changes in patent laws, the importation of prescription drugs from outside the United States at prices that are regulated by governments of various foreign countries, revisions to reimbursement of biopharmaceutical products under government programs, restrictions on U.S. direct-to-consumer advertising or limitations on interactions with healthcare professionals. No assurances can be provided that these laws and regulations will not adversely affect our business, financial condition and results of operations.

In addition, many of the products in our portfolio benefit from regulatory exclusivity. If, in an effort to regulate pricing, regulatory exclusivity is not maintained, our business, financial condition and results of operations may be adversely impacted.

The biopharmaceutical industry may be negatively affected by federal government deficit reduction policies, which could reduce the value of the royalties that we hold.

In an effort to contain the U.S. federal deficit, the pharmaceutical industry could be considered a potential source of savings via legislative proposals. Government action to reduce federal spending on entitlement programs, including Medicare, Medicaid or other publicly funded or subsidized health programs, or to lower drug spending, may affect payment for the products that generate our royalties. These and any other cost controls and/or any significant additional taxes or fees that may be imposed on the biopharmaceutical industry as part of deficit reduction efforts could reduce cash flows from our royalties and therefore adversely affect our business, financial condition and results of operations.

Sales of products that generate our royalties are subject to regulatory approvals and actions in the United States and foreign jurisdictions that could harm our business.

The procedures to approve biopharmaceutical products for commercialization vary among countries and can involve additional testing and time. Such procedures may include on-site inspections by regulatory authorities at clinical trial sites or manufacturing facilities, which inspections may be delayed by travel restrictions imposed in response to the COVID-19 pandemic or other pandemics. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or by the FDA. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval and many include additional risks, such as pricing approval.

There can be no assurance that any of these regulatory approvals will be granted or not be revoked or restricted in a manner that would adversely affect the sales of such products and on the ability of payors to make payments with respect to such royalties to us.

The manufacture and distribution of a biopharmaceutical product may be interrupted by regulatory agencies or supplier deficiencies.

The manufacture of products generating our royalties is typically complex and is highly regulated. In particular, biopharmaceutical products are manufactured in specialized facilities that require the approval of, and ongoing regulation by, the FDA in the United States and, if manufactured outside of the United States, both the FDA and non-U.S. regulatory agencies, such as the EMA. With respect to a product, to the extent that operational standards set by such agencies are not adhered to, manufacturing facilities may be closed or production interrupted until such time as any deficiencies noted by such agencies are remedied. Any such closure or interruption may interrupt, for an indefinite period of time, the manufacture and distribution of a product and therefore the cash flows from the related biopharmaceutical asset may be significantly less than expected.

In addition, manufacturers of a product may rely on third parties for selected aspects of product development, such as packaging or to supply bulk raw material used in the manufacture of such product. In the United States, the FDA requires that all suppliers of pharmaceutical bulk materials and all manufacturers of pharmaceuticals for sale in or from the United States adhere to the FDA's current "Good Manufacturing Practice" regulations and guidelines and similar requirements that exist in jurisdictions outside the United States. Licensees generally rely on a small number of key, highly specialized suppliers, manufacturers and packagers. Any interruptions, however minimal, in the operation of these manufacturing and packaging facilities could adversely affect production and product sales and therefore adversely affect our business, financial condition and results of operations.

Product liability claims may diminish the returns on biopharmaceutical products.

The developer, manufacturer or marketer of a product could become subject to product liability claims. A product liability claim, regardless of its merits, could adversely affect the sales of the product and the amount of any related royalty payments, and consequently, could adversely affect the ability of a payor to make payments with respect to a royalty.

Although we believe that we will not bear responsibility in the event of a product liability claim against the developer, manufacturer, marketer or other seller of the product that generates our royalty, such claims could adversely affect our business, financial condition and results of operations due to the lower than expected cash flows from the royalty.

We are typically not involved in maintaining, enforcing and defending patent rights on products that generate our royalties.

Our right to receive royalties generally depends on the existence of valid and enforceable claims of registered and/or issued patents in the United States and elsewhere in the world. The products on which we receive payments are dependent on patent protection and on the fact that the manufacturing, marketing and selling of such products do not infringe, misappropriate or otherwise violate intellectual property rights of third parties. Typically, we have no ability to control the prosecution, maintenance, enforcement or defense of patent rights, but must rely on the willingness and ability of our partners or their marketers to do so. There can be no assurance that these third parties will vigorously prosecute, maintain, enforce or defend such rights. Even if such third parties seek to prosecute, maintain, enforce or defend such rights, they may not be successful.

The patent position of biotechnology and pharmaceutical companies generally is highly uncertain, involves complex legal and factual questions and has been the subject of much litigation. Furthermore, changes in patent laws or interpretation of patent laws in the United States and in other jurisdictions could increase the uncertainties surrounding the successful prosecution of patent applications and the successful enforcement or defense of issued patents by our partners, all of which could diminish the value of patent protection relating to the biopharmaceutical assets. As a result, the issuance, scope, validity, enforceability and commercial value of the patent rights of our partners and their marketers are highly uncertain. In addition, such third parties' pending and future patent applications may not result in patents being issued which protect their products, development-stage product candidates and technologies or which effectively prevent others from commercializing competitive products, development-stage product candidates and technologies. Moreover, the coverage claimed in a patent application can be significantly reduced before the patent is issued, and its scope can be reinterpreted after issuance.

Even if the patent applications our partners and their marketers license or own do issue as patents, they may not issue in a form that will provide them with any meaningful protection, prevent competitors or other third parties from competing with them or otherwise provide them with any competitive advantage. Competitors or other third parties may be able to circumvent patents of our partners and their marketers by developing similar or alternative products in a non-infringing manner. The issuance of a patent is not conclusive as to its inventorship, scope, validity or enforceability, and may be challenged in the courts or patent offices in the United States and abroad. Such challenges may result in loss of exclusivity or in patent claims being narrowed, invalidated or held unenforceable, which could limit the ability of our partners and their marketers from preventing others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of their products, development-stage product candidates and technologies.

Any loss or reduction in the scope or duration of patent protection for any product that generates our royalties, or any failure to successfully prosecute, maintain, enforce or defend any patents that protect any such product may result in a decrease in the sales of such product and any associated royalties payable to us. Any such event would adversely affect the ability of the payor to make payments of royalties to us or may otherwise reduce the value of our royalty interest, and could consequently adversely affect our business, financial condition and results of operations. In cases where our contractual arrangements with our partner permit us to do so, we could participate in patent suits brought by third parties but this could result in substantial litigation costs, divert management's attention from our core business and there can be no assurance that such suits would be successful.

The existence of third-party patents in relation to products may result in additional costs for the marketer and reduce the amount of royalties paid to us.

The commercial success of a product depends, in part, on avoiding infringement, misappropriation or other violations of the intellectual property rights and proprietary technologies of others. Third-party issued patents or patent applications claiming subject matter necessary to manufacture and market a product could exist or issue in the future. Such third-party patents or patent applications may include claims directed to the mechanism of action of a product. There can be no assurance that a license would be available to marketers for such subject matter if such infringement were to exist or, if offered, would be offered on reasonable and/or commercially feasible terms. Without such a license, it may be possible for third parties to assert infringement or other intellectual property claims against the marketer of such product based on such patents or other intellectual property rights.

Even if the marketer was able to obtain a license, it could be non-exclusive, thereby giving its competitors and other third parties access to the same technologies. In addition, if a marketer of a product that generates our royalties is required to obtain a license from a third party, the marketer may, in some instances, have the right to offset the licensing and royalty payments to such third party against royalties that would be owed to our partner, which may ultimately reduce the value of our royalty interest. An adverse outcome in infringement or other intellectual property-related proceedings could subject a marketer to significant liabilities to third parties, require disputed rights to be licensed from third parties or require the marketer to cease or modify its manufacturing, marketing and distribution of any affected product, any of which could reduce the amount of cash flow generated by the affected products and any associated royalties payable to us and therefore adversely affect our business, financial condition and results of operations.

Disclosure of trade secrets of marketers of products could negatively affect the competitive position of the products underlying our biopharmaceutical assets.

The marketers of the products that generate our royalties depend, in part, on trade secrets, know-how and technology, which are not protected by patents, to maintain the products' competitive position. This information is typically protected through confidentiality agreements with parties that have access to such information, such as collaborative partners, licensors, employees and consultants. Any of these parties may breach the agreements and disclose the confidential information or competitors might independently develop or learn of the information in some other way, which could harm the competitive position of the products and therefore reduce the amount of cash flow generated by our royalty interest.

The internal computer systems of our counterparties may fail or suffer security breaches, which could result in a significant disruption of their ability to operate their business effectively, adversely affect the cash flow generated by the related biopharmaceutical products, and adversely affect our business, financial condition and results of operations.

The internal computer systems and cloud-based computing services of our counterparties and those of their current and any future collaborators and other contractors or consultants are vulnerable to damage or interruption from computer viruses, data corruption, cyber-based attacks, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. We have been subject to cyber-based attacks and unauthorized access in the past. If such an event were to occur in the future and cause interruptions in their operations, it could result in a disruption of their development and commercialization programs and business operations, whether due to a loss of trade secrets or other proprietary information or other similar disruptions. To the extent that any disruption or security breach were to result in a loss of, or damage to, a counterparties' data or applications, or inappropriate disclosure of confidential or proprietary information, our partners' operations may be harmed and the development and commercialization of their products, development-stage product candidates and technologies could be delayed. Such an event may reduce the amount of cash flow generated by the related biopharmaceutical products and therefore adversely affect our business, financial condition and results of operations.

Our ability to pay periodic dividends to our shareholders or make share repurchases may be limited by applicable provisions of English law and contractual restrictions and obligations.

Under English law, we will only be able to declare dividends, make distributions or repurchase shares (other than out of the proceeds of a new issuance of shares for that purpose) out of profits available for distribution. Profits available for distribution are accumulated, realized profits, to the extent that they have not been previously utilized by distribution or capitalization, less its accumulated, realized losses, to the extent that they have not been previously written off in a reduction or reorganization of capital duly made. The amount of our distributable reserves is a cumulative calculation. We may be profitable in a single financial year but unable to pay a dividend or make share repurchases if our accumulated, realized profits do not offset all previous years' accumulated, realized losses. Additionally, we may only make a distribution if our net assets are not less than the amount of our aggregate called-up share capital and distributable reserves, and if, and to the extent that, the distribution does not reduce the amount of those assets to less than that aggregate.

Subject to the terms of our indebtedness or other contractual obligations, the approval and payment of any interim dividends are at the sole discretion of our board of directors, which may change our dividend policy at any time and the payment of any final dividends will be subject to majority approval by holders of Class A ordinary and Class B ordinary shares and in each case will be paid out of profits available for that purpose under English law. Our Articles of Association authorize the board of directors to approve interim dividends without shareholder approval to the extent that such dividends appear justified by profits available for such purpose. The board of directors may also recommend final dividends be approved and declared by shareholders at an annual general meeting. No such dividend may exceed the amount recommended by the board of directors.

There can be no assurance that any dividends, whether quarterly or otherwise, will or can be paid or that any shares will or can be repurchased. Our ability to pay dividends to our shareholders or make share repurchases depends on a number of factors, including among other things, general economic and business conditions, our strategic plans and prospects, our business and acquisition opportunities, our financial condition and results of operations, working capital requirements and anticipated cash needs, contractual restrictions and obligations, including fulfilling our current and future capital commitments, legal, tax and regulatory restrictions, restrictions and other implications on the payment of dividends by us to our shareholders or make any share repurchases and such other factors as our board of directors may deem relevant.

A shareholder who receives a distribution under circumstances where he or she knows or has reasonable grounds for believing that the distribution is unlawful in the circumstances is obliged to repay such distribution (or that part of it, as the case may be) to us.

If we were determined to be an investment company under the U.S. Investment Company Act of 1940, applicable restrictions could make it impractical for us to continue our business as contemplated and could adversely affect our business, financial condition and results of operations.

We intend to conduct our business so as not to become regulated as an investment company under the U.S. Investment Company Act. An entity generally will be determined to be an investment company for purposes of the U.S. Investment Company Act if, absent an applicable exemption, (i) it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities; or (ii) it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis, which we refer to as the ICA 40% Test.

We do not hold ourselves out as being engaged primarily, or propose to engage primarily, in the business of investing, reinvesting or trading in securities, and believe that we are not engaged primarily in the business of investing, reinvesting or trading in securities. We believe that, for U.S. Investment Company Act purposes, we are engaged primarily, through one or more of our subsidiaries, in the business of purchasing or otherwise acquiring certain obligations that represent part or all of the sales price of merchandise. Our subsidiaries that are so engaged rely on Section 3(c)(5)(A) of the U.S. Investment Company Act, which, as interpreted by the SEC staff, requires each such subsidiary to invest at least 55% of its assets in "notes, drafts, acceptances, open accounts receivable, and other obligations representing part or all of the sales price of merchandise, insurance, and services," which we refer to as the ICA Exception Qualifying Assets.

In a no-action letter, dated August 13, 2010, to our predecessor, the SEC staff promulgated an interpretation that royalty interests that entitle an issuer to collect royalty receivables that are directly based on the sales price of specific biopharmaceutical assets that use intellectual property covered by specific license agreements are ICA Exception Qualifying Assets under Section 3(c)(5)(A). We rely on this no-action letter for the position that royalty receivables relating to biopharmaceutical assets that we hold are ICA Exception Qualifying Assets under Section 3(c)(5)(A) and Section 3(c)(6), which is described below.

To ensure that we are not obligated to register as an investment company, we must not exceed the thresholds provided by the ICA 40% Test. For purposes of the ICA 40% Test, the term investment securities does not include U.S. government securities or securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on Section 3(c)(1) or Section 3(c)(7) of the U.S. Investment Company Act, such as majority-owned subsidiaries that rely on Section 3(c)(5)(A). We also may rely on Section 3(c)(6), which, based on SEC staff interpretations, requires us to invest, either directly or through majority-owned subsidiaries, at least 55% of our assets in, as relevant here, businesses relying on Section 3(c)(5)(A). Therefore, the assets that we and our subsidiaries hold and acquire are limited by the provisions of the U.S. Investment Company Act and the rules and regulations promulgated thereunder.

If the SEC or its staff in the future adopts a contrary interpretation to that provided in the no-action letter to Royalty Pharma or otherwise restricts the conclusions in the SEC staff's no-action letter such that royalty interests are no longer treated as ICA Exception Qualifying Assets for purposes of Section 3(c)(5)(A) and Section 3(c)(6), or the SEC or its staff in the future determines that the no-action letter does not apply to some or all types of royalty receivables relating to biopharmaceutical assets, our business will be materially and adversely affected. In particular, we would be required either to convert to a corporation formed under the laws of the United States or a state thereof (which would likely result in our being subject to U.S. federal corporate income taxation) and to register as an investment company, or to stop all business activities in the United States until such time as the SEC grants an application to register us as an investment company formed under non-U.S. law. It is unlikely that such an application would be granted and, even if it were, requirements imposed by the Investment Company Act, including limitations on our capital structure, our ability to transact business with affiliates and our ability to compensate key employees, could make it impractical for us to continue our business as currently conducted. Our ceasing to qualify for an exemption from registration as an investment company could materially and adversely affect the value of our Class A ordinary shares and our ability to pay dividends in respect of our Class A ordinary shares.

The equity performance awards payable to an affiliate of the Manager may create incentives that are not fully aligned with the interests of our shareholders.

Subject to certain conditions, at the end of each fiscal quarter, an affiliate of the Manager is entitled to a distribution in the form of equity from RP Holdings in respect of each Portfolio equal to 20% of the Net Economic Profit (defined as the aggregate cash receipts for all new portfolio investments in such Portfolio less Total Expenses (defined as interest expense, operating expense and recovery of acquisition cost in respect of such Portfolio)) for such Portfolio for the applicable measuring period (the "Equity Performance Awards"). The right to Equity Performance Awards may create an incentive for the Manager to make riskier or more speculative asset acquisitions than would be the case absent such Equity Performance Awards. In addition, the Manager may cause us to incur more debt or otherwise use more leverage in connection with asset acquisitions, as generally the use of leverage can increase the rate of return on an investment and therefore our profits. This Equity Performance Awards structure may encourage the Manager to cause us to borrow money to finance additional asset acquisitions or to maintain leverage which poses higher risks for our business when it would otherwise be appropriate to not use such leverage. Under certain circumstances, the use of borrowed money may increase the likelihood of default, which would disfavor our shareholders. In addition, there is no correlation between our profits and the obligation of our board of directors to pay dividends to shareholders. Consequently, you may receive limited or no dividends while an affiliate of the Manager remains entitled to Equity Performance Awards based on our Net Economic Profit. In addition, even though Equity Performance Awards are payable on a portfolio-by-portfolio basis (with portfolios comprised of investments made during sequential two-year periods) in order to reduce the risks that affiliates of the Manager will be paid Equity Performance Awards on individual investments even though our overall portfolio of investments is not performing well, Equity Performance Awards may nevertheless be payable to affiliates of the Manager when our overall portfolio of investments is not performing as well as the individual portfolios that are used as the basis for measuring the Equity Performance Awards.

Our board of directors may make decisions with respect to the cash generated from our operations that may result in no dividends paid to our shareholders or no repurchases made of our ordinary shares.

Our board of directors is under no obligation to pay dividends, make distributions or repurchase our ordinary shares and it may decide to use cash to fund asset acquisitions or operations in lieu of paying dividends, making distributions or repurchasing our ordinary shares. We will pay Equity Performance Awards to an affiliate of the Manager based on our Net Economic Profit regardless of whether any dividends are paid to our shareholders or any ordinary shares are repurchased. Our board of directors' decisions with respect to our cash may result in no dividends to our shareholders and no ordinary shares repurchased. Furthermore, our board of directors' decisions with respect to dividends or repurchases of ordinary shares may adversely affect the market price of our Class A ordinary shares. In the event that we generate positive income, but pay limited or no dividends, holders of Class A ordinary shares may, if they have made certain elections for U.S. federal income tax purposes with respect to their Class A ordinary shares, have a tax liability on our income in excess of the actual cash dividends received by such holders. If our board of directors decides to approve limited or no dividends or repurchases of ordinary shares, the primary remedy for holders of Class A ordinary shares will be to sell their shares at prevailing market prices, including at a loss, which prices may be low due to unfavorable or inconsistent dividends or repurchases of our ordinary shares.

The royalties that we acquire may fall outside the biopharmaceutical industry, and any such assets, and the cash flows therefrom, may not resemble the assets in our current portfolio.

We have discretion as to the types of healthcare assets that we may acquire. While we expect the Manager to acquire assets that primarily fall within the biopharmaceutical industry, we are not obligated to do so and may acquire other types of healthcare assets that are peripheral to or outside of the biopharmaceutical industry. Consequently, our asset acquisitions in the future, and the cash flows from such assets, may not resemble those of the assets in our current portfolio. There can be no assurance that assets acquired in the future will have returns similar to the returns expected of the assets in our current portfolio or be profitable at all.

The Manager may be the subject of a change of control resulting in a disruption in our operations that could adversely affect our business, financial condition and results of operations.

There could be a change of control of the Manager and, in such a case, the new controlling party may have a different philosophy, employ advisory professionals who are less experienced, be unsuccessful in identifying asset acquisition opportunities or have a track record that is not as successful as that of the Manager prior to such a change of control. If the foregoing were to occur, we could experience difficulty in making new asset acquisitions, and the value of our existing assets, our business, financial condition and results of operations could materially suffer.

The Manager's liability is limited under the Management Agreement, and we have agreed to indemnify the Manager against certain liabilities. As a result, we could experience unfavorable operating results or incur losses for which the Manager would not be liable.

Pursuant to the Management Agreement, the Manager does not assume any responsibility other than to render the services called for thereunder. Under the terms of the Management Agreement, the Manager and its affiliates (including RPI EPA Holdings, LP ("EPA Holdings")) and their respective officers, directors, stockholders, members, employees, agents and partners, and any other person who is entitled to indemnification (each, an "Indemnitee") is not liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary's stockholders or partners for acts or omissions performed in accordance with and pursuant to the Management Agreement, except those resulting from acts constituting fraud, bad faith, willful misconduct, gross negligence (as such concept is interpreted under the laws of the State of New York) and a material breach of the Management Agreement that is not cured in accordance with its terms or a violation of applicable securities laws.

In addition, to the fullest extent permitted by law, we have agreed to indemnify the Indemnitees from and against any and all claims, liabilities, damages, losses, penalties, actions, judgments, costs and expenses (including amounts paid in satisfaction of judgments, in compromises and settlements, as fines and penalties and legal or other costs and reasonable expenses of investigating or defending against any claim or alleged claim) of any nature whatsoever, known or unknown, liquidated or unliquidated that are incurred by any Indemnitee or to which such Indemnitee may be subject by reason of its activities on behalf of us or any of our subsidiaries to the extent that such Indemnitee's conduct did not constitute fraud, bad faith, willful misconduct, gross negligence (as such concept is interpreted under the laws of the State of New York), material breach of the Management Agreement that is not cured in accordance with the terms of the Management Agreement or a violation of applicable securities laws. As a result, we could experience unfavorable operating results or incur losses for which the Manager would not be liable.

Operational risks may disrupt our businesses, result in losses or limit our growth.

We and the Manager rely heavily on our respective financial, accounting, information and other data processing systems and cloud computing services, as well as those of our current and future collaborators, contractors or consultants. Such systems are vulnerable to damage or interruption from computer viruses, data corruption, cyber-based attacks, unauthorized access, natural disasters, pandemics, such as the current COVID-19 pandemic, terrorism, war and telecommunication and electrical failures. If any of these events occur and such systems do not operate properly or are disabled or if there is any unauthorized disclosure of data, whether as a result of tampering, a breach of network security systems, a cyber-incident or attack or otherwise, we could suffer substantial financial loss, increased costs, a disruption of our business, loss of trade secrets or other proprietary information, liability to us, regulatory intervention or reputational damage.

Furthermore, federal, state and international laws and regulations relating to data privacy and protection, such as the European Union's General Data Protection Regulation, which took effect in May 2018, and the California Consumer Privacy Act, which took effect in January 2020, can expose us to enforcement actions and investigations by regulatory authorities, and potentially result in regulatory penalties and significant legal liability, if our information technology security efforts or data privacy and protection compliance efforts fail. In addition, we operate a business that is highly dependent on information systems and technology. Our information systems and technology and that of the Manager may not continue to be able to accommodate our growth, and the cost of maintaining such systems may increase from its current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could adversely affect our business, financial condition and results of operations.

A disaster or a disruption in the public infrastructure that supports our business, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, could adversely affect our ability to continue to operate our business without interruption. Our disaster recovery programs and those of the Manager may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

In addition, sustaining our growth may require us or the Manager to commit additional management, operational and financial resources to identify new professionals to join the team and to maintain appropriate operational and financial systems to adequately support expansion. Due to the fact that the market for hiring talented professionals is competitive, we may not be able to grow at the pace we desire.

We are subject to the U.K. Bribery Act, the U.S. Foreign Corrupt Practices Act and other anti-corruption laws, as well as export control laws, import and customs laws, trade and economic sanctions laws and other laws governing our operations.

Our operations are subject to anti-corruption laws, including the U.K. Bribery Act 2010 ("Bribery Act"), the U.S. Foreign Corrupt Practices Act of 1977, as amended the ("FCPA"), the U.S. domestic bribery statute contained in 18 U.S.C. §201, the U.S. Travel Act, and other anti-corruption laws that apply in countries where we do business. The Bribery Act, the FCPA and these other laws generally prohibit us and our employees and intermediaries from authorizing, promising, offering, or providing, directly or indirectly, improper or prohibited payments, or anything else of value, to government officials or other persons to obtain or retain business or gain some other business advantage. Under the Bribery Act, we may also be liable for failing to prevent a person associated with us from committing a bribery offense. We and the marketers of products that generate our royalties operate in a number of jurisdictions that pose a high risk of potential Bribery Act or FCPA violations, and we participate in collaborations and relationships with third parties whose corrupt or illegal activities could potentially subject us to liability under the Bribery Act, FCPA or local anti-corruption laws, even if we do not explicitly authorize or have actual knowledge of such activities. In addition, we cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing laws might be administered or interpreted.

We are also subject to other laws and regulations governing our international operations, including regulations administered by the governments of the United Kingdom and the United States, and authorities in the European Union, including applicable export control regulations, economic sanctions and embargoes on certain countries and persons, anti-money laundering laws, import and customs requirements and currency exchange regulations, collectively referred to as the Trade Control laws.

There is no assurance that we will be completely effective in ensuring our compliance with all applicable anti-corruption laws, including the Bribery Act, the FCPA or other legal requirements, including Trade Control laws. If we are not in compliance with the Bribery Act, the FCPA and other anti-corruption laws or Trade Control laws, we may be subject to criminal and civil penalties, disgorgement and other sanctions and remedial measures, and legal expenses, which could have an adverse impact on our business, financial condition, results of operations and liquidity. Likewise, any investigation of any potential violations of the Bribery Act, the FCPA, other anti-corruption laws or Trade Control laws by the United Kingdom, United States or other authorities could also have an adverse impact on our reputation, our business, financial condition and results of operations.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations will involve substantial costs. Because of the breadth of these laws and the narrowness of the statutory exceptions and safe harbors available, it is possible that some of our business activities or our business arrangements with third parties could be subject to challenge under one or more of such laws. It is possible that governmental authorities will conclude that our business practices or the business practices of the marketers of products that generate our royalties may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations or the operations of the marketers of products that generate are royalties are found to be in violation of any of these laws or any other governmental regulations, we or marketers of products that generate our royalties may be subject to significant criminal, civil and administrative sanctions, including monetary penalties, damages, fines, disgorgement, individual imprisonment and exclusion from participation in government-funded healthcare programs, such as Medicare and Medicaid, additional reporting requirements and oversight if we or marketers of products that generate our royalties become subject to a corporate integrity agreement or similar agreement to resolve allegations of non-compliance with these laws, reputational harm, and we or marketers of products that generate our royalties may be required to curtail or restructure operations, any of which could adversely affect our ability to operate our business and our results of operations.

The risk of our being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. The shifting compliance environment and the need to build and maintain robust and expandable systems to comply with multiple jurisdictions with different compliance and/or reporting requirements increases the possibility that a healthcare company may run afoul of one or more of the requirements.

The EU directive on alternative investment fund managers (the "AIFM Directive") may significantly increase our compliance costs.

The AIFM Directive has been implemented into the national law of the majority of member states of the European Economic Area and the United Kingdom (each an "AIFM state"). The AIFM Directive sets out minimum conditions related to the marketing of interests in alternative investment funds (such as our Class A ordinary shares) in the AIFM states and may impact our ability to attract investors in the AIFM states and may significantly increase our and the Manager's compliance costs. Such conditions include requirements for us to register with the competent authority in the relevant AIFM in order to market the Class A ordinary shares to investors, state requirements to file periodic reports with the competent authority in the relevant AIFM state and requirements to comply with disclosure and reporting obligations in respect of investors in the relevant AIFM state. Such reports and disclosures may become publicly available. While such conditions are met in relation to the AIFM states where our Class A ordinary shares will be marketed, there can be no guarantee that this will continue to be the case. The AIFM Directive does not, however, prohibit an investor in such AIFM state from subscribing for our Class A ordinary shares at their own initiative in circumstances where such Class A ordinary shares have not been marketed in such AIFM state and we may issue our Class A ordinary shares to such investors, as long as they have provided us and the Manager with representations that they have done so at their own initiative.

In each AIFM state, our Class A ordinary shares may only be offered to investors in accordance with local measures implementing the AIFM Directive. Investors, together with any person making or assisting in the decision to invest in us, who are situated, domiciled or who have a registered office, in an AIFM state where our Class A ordinary shares are not being offered pursuant to private placement rules implementing the AIFM Directive may invest, or effect an investment in our Class A ordinary shares, but only in circumstances where they do so at their own initiative. Any investor acquiring our Class A ordinary shares at their own initiative in such AIFM state should note that as we have not been registered for marketing in that AIFM state, no reports will be filed with the competent authority in the relevant AIFM state by or in respect of us and no investor shall be entitled to receive any disclosure or report that is mandated in respect of an alternative investment fund being marketed pursuant to the AIFM Directive.

Risks Relating to Our Organization and Structure

We are a holding company with no operations and rely on our subsidiaries to provide us with funds necessary to meet our financial obligations and to pay dividends.

We are a holding company with no material direct operations. Our principal asset is our controlling equity interest in RP Holdings. As a result, we are dependent on loans, dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations and to pay dividends on our Class A ordinary shares. Our subsidiaries are legally distinct from us and may be prohibited or restricted from paying dividends or otherwise making funds available to us under certain conditions. If the cash we receive from our subsidiaries pursuant to dividend payments is insufficient for us to fund our obligations, or if a subsidiary is unable to pay dividends to us, provided that we have sufficient distributable profits, our net assets exceed the total of our called-up share capital and distributable reserves and any dividend would not reduce our net assets to less than such total, we may be required to raise cash through the incurrence of debt, the issuance of equity or the sale of assets to fund the payment of the dividends. However, there is no assurance that we would be able to raise cash by these means. If the ability of any of our subsidiaries to pay dividends or make other distributions or payments to us is materially restricted by regulatory or legal requirements, bankruptcy or insolvency, or our need to maintain our financial strength ratings, or is limited due to operating results or other factors, it could adversely affect our ability to pay our operating costs and other corporate expenses and we may be unable to, or our board may exercise its discretion not to, pay dividends.

Our structure will result in tax distributions to the owner of the RP Holdings Class C Special Interest.

RP Holdings is treated as a partnership for U.S. federal income tax purposes and has owners that are subject to U.S. federal income taxation. To the extent permitted by applicable law, RP Holdings is required to make cash distributions, or tax distributions, to the owner of the RP Holdings Class C Special Interest, calculated using an assumed tax rate that is generally uniform for all recipients regardless of their tax status. Funds used by RP Holdings to satisfy its tax distribution obligations will not be available for reinvestment in our business.

Risks Relating to Our Class A Ordinary Shares

The market price of our Class A ordinary shares may be volatile, which could cause the value of your investment to decline.

The market price of our Class A ordinary shares may be highly volatile and could be subject to wide fluctuations. Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of Class A ordinary shares in spite of our operating performance. In addition to the factors discussed in this Annual Report on Form 10-K, our operating results could be below the expectations of public market analysts and investors due to a number of potential factors, including:

- market conditions in the broader stock market in general, or in our industry in particular;
- variations in our quarterly operating results or dividends to shareholders;
- additions or departures of key management personnel at the Manager;
- timing and rate of capital deployment, including relative to estimates;
- changes in our portfolio mix or acquisition strategy;
- failure to meet analysts' earnings estimates;
- publication of research reports about our industry;
- third-party healthcare reimbursement policies and practices;
- litigation and government investigations;
- changes or proposed changes in laws or regulations or differing interpretations or enforcement thereof affecting our business;
- no results, or projected results, from marketers of products that generate our royalties;
- results from, and any delays to, the clinical trial programs of development-stage product candidates underlying our biopharmaceutical assets or other issues relating to such products, including regulatory approval or commercialization;
- adverse market reaction to any indebtedness that we may incur or securities we may issue in the future;
- changes in market valuations of similar companies or speculation in the press or investment community;
- announcements by our competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments;
- litigation;
- economic and political conditions or events; and
- adverse publicity about us or the industries in which we participate or individual scandals.

These and other factors may cause the market price of and demand for our Class A ordinary shares to fluctuate significantly, which may limit or prevent our existing shareholders from reselling their Class A ordinary shares at or above the purchase price.

The stock market in general has from time to time experienced extreme price and volume fluctuations, including in recent months. In addition, in the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against public companies. This type of litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Our Articles of Association provide that the courts of England and Wales will be the exclusive forum for the resolution of all shareholder complaints other than complaints asserting a cause of action arising under the Securities Act and the Exchange Act, and that the U.S. federal district courts will be the exclusive forum for the resolution of any shareholder complaint asserting a cause of action arising under the Securities Act and the Exchange Act.

Our Articles of Association provide that the courts of England and Wales will be the exclusive forum for resolving all shareholder complaints other than shareholder complaints asserting a cause of action arising under the Securities Act and the Exchange Act, and that the U.S. federal district courts will be the exclusive forum for resolving any shareholder complaint asserting a cause of action arising under the Securities Act and the Exchange Act. This choice of forum provision may limit a shareholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits. If a court were to find either choice of forum provision contained in our Articles of Association to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our results of operations and financial condition.

U.S. investors may have difficulty enforcing civil liabilities against our company, our directors or members of senior management and the experts named herein.

We are a public limited company with our registered office in England and our subsidiaries are incorporated in various jurisdictions, including jurisdictions outside the United States. One of our directors is not a resident of the United States, and a substantial portion of our assets and the assets of this director are located outside the United States. As a result, it may be difficult for investors to effect service of process on this director in the United States or to enforce in the United States judgments obtained in U.S. courts against us or this director based on the civil liability provisions of the U.S. securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of England may render you unable to enforce a judgment against our assets or the assets of our directors and executive officers. In addition, it is doubtful whether English courts would enforce certain civil liabilities under U.S. securities laws in original actions or judgments of U.S. courts based upon these civil liability provisions. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in the United Kingdom. An award for monetary damages under the U.S. securities laws would likely be considered punitive if it does not seek to compensate the claimant for loss or damage suffered and is intended to punish the defendant. The enforceability of any judgment in the United Kingdom will depend on the particular facts of the case as well as the laws and treaties in effect at the time. The United States and the United Kingdom do not currently have a treaty providing for recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. As a result of the above, public holders of our Class A ordinary shares may have more difficulty in protecting their interest through actions against our management, directors or major shareholders than they would as shareholders of a U.S. public company.

The rights of our shareholders may differ from the rights typically offered to shareholders of a U.S. corporation and these differences may make our Class A ordinary shares less attractive to investors.

We are incorporated under English law. The rights of holders of our Class A ordinary shares are governed by English law, including the provisions of the Companies Act 2006 (the "U.K. Companies Act"), and by our Articles of Association. These rights differ in certain respects from the rights of shareholders in typical U.S. corporations and these differences may make our Class A ordinary shares less attractive to investors.

The City Code on Takeovers and Mergers (the "Takeover Code") applies, among other things, to an offer for a public company whose registered office is in the United Kingdom (or the Channel Islands or the Isle of Man) and whose securities are not admitted to trading on a regulated market in the United Kingdom (or the Channel Islands or the Isle of Man) if the company is considered by the Panel on Takeovers and Mergers (the "Takeover Panel") to have its place of central management and control in the United Kingdom (or the Channel Islands or the Isle of Man). This is known as the "residency test." The test for central management and control under the Takeover Code is different from that used by the U.K. tax authorities. Under the Takeover Code, the Takeover Panel will determine whether we have our place of central management and control in the United Kingdom by looking at various factors, including the structure of our board of directors, the functions of the directors and where they are resident.

If at the time of a takeover offer the Takeover Panel determines that we have our place of central management and control in the United Kingdom, we would be subject to a number of rules and restrictions, including but not limited to the following: (i) our ability to enter into deal protection arrangements with a bidder would be extremely limited; (ii) we might not, without the approval of our shareholders, be able to perform certain actions that could have the effect of frustrating an offer, such as issuing shares or carrying out acquisitions or disposals; and (iii) we would be obliged to provide equality of information to all bona fide competing bidders.

Given that our central management and control is currently not situated within, and our current intention is not to have it in the future situated within the United Kingdom (or the Channel Islands or the Isle of Man), but to have such management and control situated within the United States, we do not currently envisage that the Takeover Code will apply to an offer for us.

Under English law, and whether or not we are subject to the Takeover Code, an offeror for us that has acquired (i) 90% in value of; and (ii) 90% of the voting rights carried by the shares to which the offer relates may exercise statutory squeeze-out rights to compulsorily acquire the shares of the non-assenting minority. However, if an offer for us is conducted by way of a scheme of arrangement the threshold for the offeror obtaining 100% of Company shares comprises two components (i) approval by a majority in number of each class of Company shareholders present and voting at the shareholder meeting; and (ii) approval of Company shareholders representing 75% or more in value of each class of Company shareholders present and voting at that meeting.

As an English public limited company, certain capital structure decisions will require shareholder approval, which may limit our flexibility to manage our capital structure.

We are a public limited company incorporated under the laws of England and Wales. English law provides that a board of directors may only allot shares (or rights to subscribe for or convert into shares) with the prior authorization of shareholders, such authorization stating the aggregate nominal amount of shares that it covers and valid for a maximum period of five years, each as specified in the articles of association or relevant shareholder resolution. We have obtained authority from our shareholders to allot additional shares for a period expiring on May 31, 2025, which authorization will need to be renewed upon expiration (i.e., at least every five years) but may be sought more frequently for additional five-year terms (or any shorter period).

English law also generally provides shareholders with preemptive rights when new shares are issued for cash. However, it is possible for the articles of association, or for shareholders to pass a special resolution at a general meeting, being a resolution passed by at least 75% of the votes cast, to disapply preemptive rights. Such a disapplication of preemptive rights may be for a maximum period of up to five years from the date of adoption of the articles of association, if the disapplication is contained in the articles of association, or from the date of the shareholder special resolution, if the disapplication is by shareholder special resolution. In either case, this disapplication would need to be renewed by our shareholders upon its expiration (i.e., at least every five years). We have obtained authority from our shareholders to disapply preemptive rights for a period expiring on May 31, 2025, which disapplication will need to be renewed upon expiration (i.e., at least every five years) to remain effective, but may be sought more frequently for additional five-year terms (or any shorter period).

English law also generally prohibits a public company from repurchasing its own shares by way of "off market purchases" without the prior approval of shareholders by ordinary resolution, being a resolution passed by a simple majority of votes cast, and other formalities. Such approval may be for a maximum period of up to five years but may be sought more frequently. English law prohibits us from conducting "on market purchases" as our shares are listed on the NASDAQ and will not be traded on a recognized investment exchange in the United Kingdom.

The United Kingdom's vote in favor of withdrawing from the European Union may have a negative effect on global economic conditions, financial markets and our business, which could reduce the market price of our Class A ordinary shares.

The withdrawal of the United Kingdom from the European Union (commonly referred to as "Brexit") took effect on January 31, 2020. On December 30, 2020, the United Kingdom passed legislation giving effect to a trade and cooperation agreement, with the EU, which became effective on May 1, 2021. The trade and cooperation agreement covers the general objectives and framework of the relationship between the United Kingdom and the European Union, including as it related to trade, transport, visas, judicial, law enforcement and security matters, and provides for continued participation in community programs and mechanisms for dispute resolution. Notably, under the trade and cooperation agreement, U.K. service suppliers no longer benefit from automatic access to the entire EU single market, U.K. goods no longer benefit from the free movement of goods and there is no longer the free movement of people between the United Kingdom and the European Union. Since a significant proportion of the regulatory framework in the United Kingdom is derived from European Union directives and regulations, the impact on the regulatory regime with respect to obtaining marketing approval of our development-stage product candidates in the United Kingdom remains unclear. The United Kingdom will no longer be covered by the centralized procedures for obtaining European Union-wide marketing authorization from the EMA and, unless a specific agreement is entered into, a separate process for authorization of drug products will be required in the United Kingdom. Depending on the outcome of these developments, we could face new regulatory costs and challenges that could adversely affect our operations and the market price of our Class A ordinary shares.

If our Class A ordinary shares are not eligible for deposit and clearing within the facilities of DTC, then transactions in our securities may be disrupted.

The facilities of The Depository Trust Company ("DTC") are a widely-used mechanism that allow for rapid electronic transfers of securities between the participants in the DTC system, which include many large banks and brokerage firms. While our Class A ordinary shares are eligible for deposit and clearing within the DTC system and DTC has agreed to accept our Class A ordinary shares for deposit and clearing within its facilities in certain specified circumstances, DTC will generally have discretion to cease to act as a depository and clearing agency for the Class A ordinary shares, including to the extent that any changes in U.K. law change the stamp duty or stamp duty reserve tax ("SDRT") position in relation to the Class A ordinary shares. If DTC determined at any time that the shares were not eligible for continued deposit and clearance within its facilities, then we believe the shares would not be eligible for continued listing on a U.S. securities exchange and trading in the shares would be disrupted. While we would pursue alternative arrangements to preserve our listing and maintain trading, any such disruption could adversely affect the market price of our Class A ordinary shares.

The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the requirements of the U.S. Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), and the requirements of the U.K. Companies Act and, if applicable, the Takeover Code. The requirements of these rules and regulations increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources.

We are obligated to file with the SEC annual and quarterly information and other reports that are specified in the Exchange Act, and therefore will need to have the ability to prepare financial statements that are compliant with all SEC reporting requirements on a timely basis. In addition, we are subject to other reporting and corporate governance requirements, including certain requirements of Nasdaq and certain provisions of the Sarbanes-Oxley Act and the regulations promulgated thereunder, which will impose significant compliance obligations upon us.

We are required to comply with Section 404 of the Sarbanes-Oxley Act, which requires management assessments of the effectiveness of internal control over financial reporting and disclosure controls and procedures. If we are unable to maintain effective internal control over financial reporting or disclosure controls and procedures, our ability to record, process and report financial information accurately and to prepare financial statements within required time periods could be adversely affected, which could subject us to regulatory consequences, including sanctions by the SEC, negatively affect investor confidence in our financial statements, restrict access to capital markets and adversely impact the market price of our Class A ordinary shares.

Our compliance with the requirements under the Exchange Act, the Sarbanes-Oxley Act, the U.K. Companies Act and, if applicable, the Takeover Code and the rules and regulations thereunder increases our legal and financial compliance costs and makes some activities more time consuming and costly. These rules and regulations have made it more difficult and more expensive for us to obtain directors' and officers' liability insurance, and we may in the future be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers. We may not be able to predict or estimate accurately the amount of additional costs we may incur or the timing of such costs.

Risks Relating to Taxation

Our structure involves complex provisions of tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

Our tax treatment, including Irish, U.K. and U.S. federal income tax treatment, depends in some instances on determinations of fact and interpretations of complex provisions of applicable tax law for which no clear precedent or authority may be available. You should be aware that our tax position is not free from doubt, and that applicable tax rules are generally subject to ongoing review by legislative and administrative bodies and relevant tax authorities, as well as by the Organization for Economic Co-operation and Development ("OECD"), which is continuously considering recommendations for changes to existing tax rules. These review processes could result in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. No ruling will be sought from the relevant tax authority regarding any of the tax issues discussed herein, and no assurance can be given that the relevant tax authorities will not challenge any of our tax positions and that such challenge would not succeed. If any such position is successfully challenged, our tax liabilities could materially increase, which would have an adverse effect on our profitability and cash flows.

There have been significant changes both made and proposed to international tax laws that increase the complexity, burden and cost of tax compliance for all multinational groups. We expect to continue to monitor these and other developments in international tax law.

We could be liable for significant taxes due to changes in our eligibility for certain income tax treaty benefits or challenges to our tax positions with respect to the application of income tax treaties.

Our subsidiaries expect to receive revenue from both U.S. and non-U.S. sources. We expect that our subsidiaries generally will be eligible for benefits under the applicable income tax treaties between Ireland and the jurisdictions where income is sourced. However, no assurances can be provided in this regard, and it is possible that a taxing authority could successfully assert that any of our subsidiaries does not qualify for treaty benefits as a result of its failure to satisfy the applicable requirements to be eligible to claim treaty benefits. If a taxing authority were to challenge our position regarding the application of an applicable income tax treaty, we could become subject to increased withholding taxes, and such taxes could be significant.

Specifically, with respect to certain U.S.-source income, we expect that our subsidiaries will be eligible for benefits under the U.S.-Ireland income tax treaty (the "Treaty"), and, under that Treaty, will not be subject to any U.S. withholding taxes on such U.S.-source payments. Our current treaty position with respect to U.S.-source payments relies in part on U.S. citizens or tax residents (as defined for purposes of the Treaty) owning, directly or indirectly, at least 50% of the beneficial interest in, or at least 50% of the aggregate vote and value of, each of our subsidiaries that earns U.S.-source income. Our treaty position is based on the current U.S. status of the majority of the existing indirect investors in RP Holdings and Old RPI. Subject to certain exceptions, the existing indirect U.S. investors in RP Holdings have the right to exchange their interests for our publicly traded Class A ordinary shares. Such publicly traded Class A ordinary shares could be further transferred on the public market to other persons. Therefore, it is possible that over time U.S. persons will own indirectly in the aggregate less than 50% of the interests in our subsidiaries. We currently expect that our Class A ordinary shares and other existing indirect interests in RP Holdings and Old RPI in the aggregate will continue to be owned in sufficient amount by U.S. citizens or tax residents, and that we will be able to establish such ownership, for purposes of satisfying the 50% ownership requirement under the Treaty. However, there is no assurance that RP Holdings and Old RPI will continue to be owned directly or indirectly by sufficient U.S. citizens or residents or that we will be able to establish to the IRS' satisfaction such ownership for purposes of satisfying the 50% U.S. ownership requirement under the Treaty. It is possible that if the indirect U.S. ownership in our subsidiaries becomes lower than 50% (or we cannot establish such ownership) we may in the future be able to qualify for another applicable exemption from U.S. withholding under the Treaty, but there can be no assurance in this regard. A substantial portion of our revenue is, and is expected to continue to be, derived from U.S.-source royalties. Therefore, if our subsidiaries failed to qualify for an exemption from U.S. withholding tax under the Treaty (by satisfying either the 50% U.S. ownership requirement or an alternative Treaty exemption) and such royalties were subject to a 30% U.S. withholding tax, our financial position, profitability and cash flows could be adversely affected.

Furthermore, on August 25, 2016, the Irish Department of Finance announced that, in the context of the publication by the United States Treasury Department of a revised U.S. Model Income Tax Convention in February 2016, discussions have begun with the United States Treasury on updating certain elements of the Treaty. It is at this time not clear what elements of the Treaty may be updated, or when any such updates would go into effect. However, certain elements of the revised U.S. Model Income Tax Convention could, if included in an update to the Treaty, result in our subsidiaries being unable to qualify for the benefits of the Treaty or eliminate or reduce the benefits of the Treaty that otherwise would have been available to us. If our subsidiaries are unable to qualify for the benefits of the Treaty, or if any benefits of the Treaty that otherwise would have been available to us are eliminated or reduced, then all or a portion of our income may become subject to increased withholding taxes, and such taxes could be very significant and materially and adversely affect our financial position, profitability and cash flows.

If our subsidiaries are considered to be engaged in a U.S. trade or business, we could be liable for significant U.S. taxation.

In general, if a foreign corporation, such as Royalty Pharma plc, is considered to be engaged in a U.S. trade or business, such corporation's share of any income that is effectively connected with such U.S. trade or business will be subject to regular U.S. federal income taxation (currently imposed at a maximum rate of 21%) on a net basis and, potentially, an additional 30% U.S. "branch profits" tax on distributions attributable to income that is effectively connected with such U.S. trade or business. In addition, it is possible that such corporation could be subject to taxation on a net basis by state or local jurisdictions within the United States. We intend to conduct our activities, through our subsidiaries, such that no income realized by us will be effectively connected with the conduct of a U.S. trade or business or otherwise subject to regular U.S. federal income taxation on a net basis. If we are able to conduct our activities in this way, income or gains realized by us will not be subject to U.S. net

federal income taxation. However, no assurance can be provided in this regard. The proper characterization of our income and gains for U.S. tax purposes is not certain, and it is possible that all or a portion of our income and gains could be characterized as income that is "effectively connected" with the conduct of a U.S. trade or business. If our income and gains were characterized as effectively connected with a U.S. trade or business, we would be subject to significant U.S. taxes plus interest and possible penalties, and our financial position, cash flows and profitability could be materially and adversely affected.

We expect to operate, and expect that RP Holdings will operate, so as to be treated solely as a resident of the U.K. for tax purposes, but changes to our management and organizational structure and/or to the tax residency laws of other jurisdictions where we operate may cause the relevant tax authorities to treat us or RP Holdings as also being a resident of another jurisdiction for tax purposes.

Under current U.K. tax law, a company that is incorporated in the U.K. is regarded as resident for tax purposes in the U.K. unless (i) it is concurrently treated as resident for tax purposes in another jurisdiction (applying the rules of that other jurisdiction for determining tax residency) that has a double tax treaty with the U.K. and (ii) there is a residency tie-breaker provision in that tax treaty which allocates tax residence to that other jurisdiction.

Based upon our anticipated management and organizational structure, we believe that we and RP Holdings should be regarded as tax resident solely in the U.K. However, because this analysis is highly factual and may depend on future changes in our management and organizational structure, as well as future changes in the tax residency laws of other jurisdictions where we operate, there can be no assurance regarding the determination of our tax residence in the future.

As U.K. tax resident companies, we and RP Holdings will be subject to U.K. corporation tax on our worldwide taxable profits and gains. Should we (or RP Holdings) be treated as resident in a jurisdiction other than the U.K., we (or RP Holdings, as applicable) could be subject to taxation in that jurisdiction and may be required to comply with a number of material and formal tax obligations, including withholding tax and/or reporting obligations provided under the relevant tax law, which could result in additional costs and expenses.

We believe that we should not be subject to material U.K. corporation tax in respect of certain profits of our non-U.K. tax resident subsidiaries as a result of the U.K.'s "controlled foreign companies" rules but it cannot be guaranteed that this will continue to be the case.

As U.K. tax resident companies, we and RP Holdings will be subject to the U.K.'s "controlled foreign companies" rules (the "U.K. CFC Rules"). The U.K. CFC Rules, broadly, can impose a charge to U.K. tax on U.K. tax resident companies that have, alone or together with certain other persons, interests in a non-U.K. tax resident company (the "Controlled Foreign Company") which is controlled by a U.K. person or persons. The charge under the U.K. CFC Rules applies by reference to certain types of chargeable profit arising to the Controlled Foreign Company, whether or not that profit is distributed, subject to specific exemptions. The types of profits of a Controlled Foreign Company that can potentially be subject to a U.K. corporation tax charge under the U.K. CFC Rules include business profits of the Controlled Foreign Company that are attributable to assets or risks that are managed by activities in the U.K., or certain finance profits of the Controlled Foreign Company that arise from capital or other assets contributed, directly or indirectly, to the Controlled Foreign Company from a connected U.K. tax resident company.

Certain non-U.K. entities in which we hold a greater than 25% interest, including RPI (which is Irish tax resident) and Old RPI (which is Irish tax resident and which is held indirectly by us through our participation in RP Holdings), will be Controlled Foreign Companies for U.K. tax purposes. We and RP Holdings will therefore be required to apply the CFC Rules in respect of our direct and indirect interests in these entities on an ongoing basis. We do not expect material U.K. corporation tax charges to arise under the U.K. CFC Rules in respect of our royalty assets or our financing arrangements, however no assurances can be given that this will continue to be the case. The U.K. CFC Rules are highly complex and fact-dependent, and changes to, or adverse interpretations of, these rules, or changes in the future activities of RPI or other non-U.K. companies in which we hold an interest, directly or indirectly, may alter this position and could impact our group's effective tax rate.

We believe that dividends received by us and RP Holdings should be exempt from U.K. corporation tax, but it cannot be guaranteed that this will continue to be the case.

U.K. tax resident companies are subject to U.K. corporation tax on receipt of dividends or other income distributions in respect of shares held by them, unless those dividends or other distributions fall within an exempt class. We believe that dividends received by us from RP Holdings, and dividends received by RP Holdings from RPI, should fall within such an exempt class and therefore should not be subject to U.K. corporation tax. However, a number of conditions must be met in order for such dividends to qualify for this tax exemption, including (in respect of dividends paid by RPI, which are tax resident in Ireland) conditions relating to the application of Irish tax law. As such, it cannot be guaranteed that these conditions for the

U.K. tax exemption in respect of distributions will continue at all times to be satisfied. If distributions received by us or by RP Holdings were not to fall within an exempt class, such distributions would likely be subject to U.K. corporation tax at the then prevailing corporation tax rate.

Even where distributions fall within an exempt class, certain anti-avoidance and recharacterization rules may also apply. For instance, if RPI were to constitute an "offshore fund" for U.K. tax purposes that has at any time in an accounting period more than 60% by market value of its investments in debt securities, money placed at interest (other than cash awaiting investment), certain contracts for differences, or in holdings in other offshore funds with, broadly, more than 60% of their investments similarly invested, RP Holdings' shareholding in RPI may be subject to U.K. corporation tax as a deemed "loan relationship", with the result that dividends received by RP Holdings from RPI could be subject to U.K. tax as deemed interest and RP Holdings may be subject to U.K. corporation tax on increases in the fair market value of its shareholding in RPI. The term "offshore fund" is defined for U.K. tax purposes through a characteristics-based approach and, broadly, can include arrangements constituted by a non-U.K. resident body corporate in which a reasonable investor would expect to be able to realize their investment entirely, or almost entirely, by reference to net asset value. We believe and have been advised that RP Holdings' shareholding in RPI should not fall within these rules, however no guarantee can be offered that this will continue to be the case. Changes to, or adverse interpretations of, the offshore funds rules, or changes in the nature of our investments, may alter this position and could impact our group's effective rate.

Distributions that we pay to individual and other non-corporate U.S. Holders will not be eligible for taxation at reduced rates, which could potentially adversely affect the value of our Class A ordinary shares.

Distributions made to non-corporate U.S. Holders will not be eligible for taxation at reduced tax rates generally applicable to dividends paid by certain U.S. corporations and "qualified foreign corporations" because of our status as a passive foreign investment company ("PFIC"). The more favorable rates applicable to qualifying corporate dividends could cause individuals to perceive investment in our Class A ordinary shares to be less attractive than investment in the shares of other corporations because of our PFIC status, and this perception could adversely affect the value of our Class A ordinary shares.

General Risk Factors

Cyber-attacks or other failures in telecommunications or information technology systems could result in information theft, data corruption and significant disruption of our business operations.

We utilize information technology systems and networks to process, transmit and store electronic information in connection with our business activities. As use of digital technologies has increased, cyber incidents, including deliberate attacks and attempts to gain unauthorized access to computer systems and networks, have increased in frequency and sophistication. These threats pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data. We have been subject to these attacks in the past and expect to be subject to them in the future. There can be no assurance that we will be successful in preventing cyber-attacks or mitigating their effects. Any cyber-attack or destruction or loss of data could adversely affect our business. In addition, we may suffer reputational harm or face litigation as a result of cyber-attacks or other data security breaches and may incur significant additional expense to implement further data protection measures.

Changes in the application of accounting standards issued by the U.S. Financial Accounting Standards Board or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are prepared in accordance with GAAP, which are periodically revised, interpreted and/or expanded. From time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies. It is possible that future accounting standards we are required to adopt may require changes to the current accounting treatment that we apply to our consolidated financial statements and may require us to make significant changes to our systems. Such changes could adversely affect our financial condition and results of operations.

The current outbreak of the novel coronavirus, or COVID-19, or the future outbreak of any other infectious or contagious diseases, could materially and adversely affect our results of operations, financial condition and cash flows. Further, the spread of the COVID-19 outbreak has caused severe disruptions in the U.S. and global economy and financial markets and could potentially create widespread business continuity issues of an as yet unknown magnitude and duration.

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in Wuhan, China. COVID-19 has since spread to over 100 countries, including every state in the United States. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020 the United States declared a national emergency with respect to COVID-19.

The outbreak of COVID-19 has severely impacted global economic activity and caused significant volatility and negative pressure in financial markets. The global impact of the outbreak has been rapidly evolving and many countries, including the United States, have reacted by instituting quarantines, mandating business and school closures and restricting travel. Many experts predict that the outbreak will trigger a period of global economic slowdown or a global recession. COVID-19 or another pandemic could have material and adverse effects on us due to, among other factors:

- a general decline in business activity;
- the destabilization of the markets could negatively impact our partners in the biopharmaceutical industry and the sales of products generating our royalties;
- difficulty accessing the capital and credit markets on favorable terms, or at all, and a severe disruption and instability in the global financial markets, or deteriorations in credit and financing conditions which could affect our access to capital necessary to fund business operations or address maturing liabilities on a timely basis;
- the potential negative impact on the health of our Manager's highly qualified personnel, especially if a significant number of them are impacted;
- a deterioration in our ability to ensure business continuity during a disruption;
- interruptions, shortages, delivery delays and potential discontinuation of supply to our partners, which could (i) delay the clinical trials of the development-stage product candidates underlying our assets and result in a loss of our market share for products generating our royalties or development-stage product candidates underlying our assets, if approved, and (ii) hinder our partners' ability to timely distribute products generating our royalties and satisfy customer demand;
- travel restrictions, shelter-in-place policies or restrictions and other disruptions, which could cause or continue to cause delays and other direct impacts at our partners' manufacturing sites, which could impact the ability of our partners to manufacture development-stage product candidates underlying our biopharmaceutical assets and products generating our royalties; and
- potential interruptions to our partners' clinical trial programs of development-stage product candidates underlying our biopharmaceutical assets, including: (i) the potential diversion of healthcare resources away from the conduct of clinical trials to focus on pandemic concerns; (ii) changes in hospital or research institution policies or government regulations, which could delay or adversely impact our partners' ability to conduct their clinical trials; and (iii) pauses to or delays of trial procedures (particularly any procedures that may be deemed non-essential), patient dosing, shipment of our partners' development-stage product candidates, distribution of clinical trial materials, study monitoring, site inspections and data analysis due to reasons related to the pandemic, each of which could cause or continue to cause a disruption or delay to the development or the approval of development-stage product candidates underlying our biopharmaceutical assets.

To date, certain marketers of some of our portfolio products have commented that the performance of these products have been impacted by the COVID-19 pandemic. However, the COVID-19 pandemic has not resulted in a material effect to our results of operations and liquidity and we do not believe it is reasonably likely to in the future. Nevertheless, COVID-19 presents material uncertainty which could adversely affect our results of operations, financial condition and cash flows.

Legal claims and proceedings could adversely affect our business.

We may be subject to a wide variety of legal claims and proceedings. Regardless of their merit, these claims can require significant time and expense to investigate and defend. Since litigation is inherently uncertain, there is no guarantee that we will be successful in defending ourselves against such claims or proceedings, or that our assessment of the materiality of these matters, including any reserves taken in connection therewith, will be consistent with the ultimate outcome of such matters. The resolution of, or increase in the reserves taken in connection with, one or more of these matters could adversely affect our business, financial condition and results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our executive offices are located at 110 East 59th Street, New York, NY 10022, and are provided by the Manager. We believe that our office facilities are suitable and adequate for our business as it is contemplated to be conducted.

Item 3. LEGAL PROCEEDINGS

From time to time, we may be a party to various claims, charges and litigation matters arising in the ordinary course of business. Management and legal counsel regularly review the probable outcome of such proceedings. While we cannot feasibly predict the outcome of these matters with certainty, we believe, based on examination of these matters, experience to date and discussions with counsel, that the ultimate liability, individually or in the aggregate, will not adversely affect our business, financial condition or results of operations.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II.

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A ordinary shares are traded in the Nasdaq Global Select Market under the symbol "RPRX". Our Class B ordinary shares are not listed on any stock exchange nor traded on any public market. As of February 11, 2022, there were 2 shareholders of record of our Class A ordinary shares and 2 shareholders of record of our Class B ordinary shares. The number of record holders does not include persons who held our Class A ordinary shares in nominee or "street name" accounts through brokers or other institutions on behalf of shareholders.

Use of Proceeds

None.

Dividends

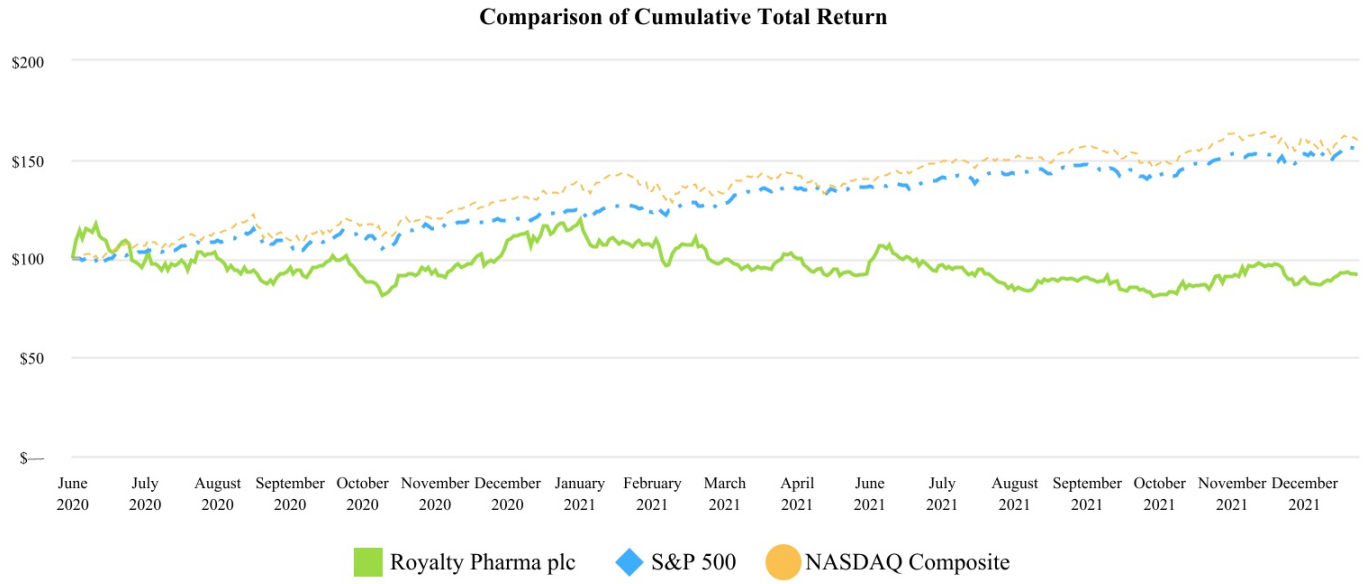
In the year ended December 31, 2021, we declared and paid four quarterly cash dividends of $0.17 per Class A ordinary share for an aggregate amount of $285.2 million to holders of our Class A ordinary shares. Future dividends are subject to declaration by the board of directors. To the extent approved and payable, we intend to pay dividends on or about March 15, June 15, September 15 and December 15 to holders of record on or about the twentieth day of each such prior month.

Securities Authorized for Issuance Under Equity Compensation Plans

See Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" for information regarding securities authorized for issuance.

Stock Performance Graph

The graph below compares the cumulative total stockholder return, calculated on a dividend-reinvested basis, on our Class A ordinary shares, the Standard & Poor's 500 Index ("S&P 500") and the Nasdaq Composite Index ("Nasdaq Composite"). The graph assumes an initial investment of $100 in our Class A ordinary shares at the market close on June 16, 2020, which was our initial trading day and its relative performance is tracked through December 31, 2021. The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our Class A ordinary shares.



The above performance graph shall not be deemed soliciting material or to be filed with the SEC for purposes of Section 18 of the Exchange Act, nor shall such information be incorporated by reference into any of our other filings under the Exchange Act or the Securities Act.

Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities in the year ended December 31, 2021.

Issuer Purchases of Equity Securities

None.

Item 6. Reserved

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand our results of operations and financial condition, cash flows and other changes in financial condition. MD&A is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements and the accompanying notes to our consolidated financial statements included in our Annual Report on Form 10-K. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in Special Note Regarding Forward-Looking Statements and the section titled "Risk Factors" in Part I, Item 1A.

Royalty Pharma plc is an English public limited company incorporated under the laws of England and Wales that was created for the purpose of consolidating our predecessor entities and facilitating the initial public offering ("IPO") of our Class A ordinary shares that was completed in June 2020. "Royalty Pharma," the "Company," "we," "us" and "our" refer to Royalty Pharma plc and its subsidiaries on a consolidated basis. After the consummation of the Exchange Offer Transactions (as defined below) and execution of the Management Agreement (collectively, the "Reorganization Transactions") in February 2020 and before the consummation of the IPO, "Royalty Pharma," the "Company," "we," "us" and "our" refer to Royalty Pharma Investments 2019 ICAV ("RPI 2019 ICAV"). Prior to the Reorganization Transactions, "Royalty Pharma," the "Company," "we," "us" and "our" refer to Royalty Pharma Investments, an Irish unit trust ("Old RPI").

Business Overview

We are the largest buyer of biopharmaceutical royalties and a leading funder of innovation across the biopharmaceutical industry. Since our founding in 1996, we have been pioneers in the royalty market, collaborating with innovators from academic institutions, research hospitals and not-for-profits through small and mid-cap biotechnology companies to leading global pharmaceutical companies. We have assembled a portfolio of royalties which entitles us to payments based directly on the top-line sales of many of the industry's leading therapies, which includes royalties on more than 35 commercial products, including AbbVie and Johnson & Johnson's Imbruvica, Astellas and Pfizer's Xtandi, Biogen's Tysabri, Johnson & Johnson's Tremfya, Gilead's Trodelvy, Merck's Januvia, Novartis' Promacta, Vertex's Kalydeco, Orkambi, Symdeko and Trikafta, and ten development-stage product candidates. We fund innovation in the biopharmaceutical industry both directly and indirectly - directly when we partner with companies to co-fund late-stage clinical trials and new product launches in exchange for future royalties, and indirectly when we acquire existing royalties from the original innovators.

Our capital-efficient business model enables us to benefit from many of the most attractive characteristics of the biopharmaceutical industry, including long product life cycles, significant barriers to entry and noncyclical revenues, but with substantially reduced exposure to many common industry challenges such as early stage development risk, therapeutic area constraints, high research and development costs, and high fixed manufacturing and marketing costs. We have a highly flexible approach that is agnostic to both therapeutic area and treatment modality, allowing us to acquire royalties on the most attractive therapies across the biopharmaceutical industry.

We classify our royalty acquisitions by the approval status of the therapy at the time of acquisition:

- **Approved Products** – We acquire royalties in approved products that generate predictable cash flows and may offer upside potential from unapproved indications. Since inception in 1996 through 2021, we have deployed $15.0 billion of cash to acquire royalties on approved products. From 2012 through 2021, we have acquired $10.2 billion of royalties on approved products.

- **Development-Stage Product Candidates** – We acquire royalties on development-stage product candidates that have demonstrated strong clinical proof of concept. From 2012, when we began acquiring royalties on development-stage product candidates, through 2021, we have deployed $7.8 billion to acquire royalties on development-stage product candidates.

While we classify our acquisitions in these two broad categories, several of our acquisitions of royalties on approved products were driven by the long-term potential of these products in other, unapproved indications. Similarly, some of our royalty acquisitions in development-stage product candidates are for products that are approved in other indications.

We acquire product royalties in a variety of ways that can be tailored to the needs of our partners. We classify our product royalty acquisitions according to the following structures:

- **Third-party Royalties** – A royalty is the contractual right to a percentage of top-line sales from a licensee's use of a product, technology or intellectual property. The majority of our current portfolio consists of third-party royalties.

- **Synthetic/Hybrid Royalties** – A synthetic royalty is the contractual right to a percentage of top-line sales created by the developer and/or marketer of a therapy in exchange for funding. A synthetic royalty may also include contingent milestone payments, or be structured as a long-term stream of fixed-payments with a predetermined schedule. In many of our synthetic royalties, we may also make investments in the public equity of the company, where the main value driver of the company is the product on which we concurrently acquired a royalty.

- **Research & Development ("R&D") Funding** – We have historically funded ongoing R&D, typically for large biopharmaceutical companies, in exchange for future royalties and/or milestones if the product or indication we are funding is approved. We have also made upfront R&D payments to biotechnology companies to acquire royalties and/or milestones on development-stage product candidates.

- **M&A** – We acquire royalties in connection with M&A transactions, often from the buyers of biopharmaceutical companies when they dispose of the non-strategic assets of the target company following the closing of the acquisition. We also seek to partner with companies to acquire other biopharmaceutical companies that own significant royalties. We may also seek to acquire biopharmaceutical companies that have significant royalties or where we can create royalties in subsequent transactions.

Background and Format of Presentation

In connection with our IPO, we consummated an exchange offer on February 11, 2020 (the "Exchange Date"). Through the exchange offer, investors representing 82% of the aggregate limited partnership in the various partnerships owned by Old RPI (the "Legacy Investors Partnerships"), exchanged their limited partnership interests in the Legacy Investors Partnerships for limited partnership interests in RPI US Partners 2019, LP, a Delaware limited partnership or RPI International Holdings 2019, LP, a Cayman Islands exempted limited partnership (together, the "Continuing Investors Partnerships"). The exchange offer transaction together with (i) the concurrent incurrence of indebtedness under a new credit facility and (ii) the issuance of additional interests in Continuing Investors Partnerships to satisfy performance payments payable in respect of assets acquired prior to the date of the IPO are referred to as the "Exchange Offer Transactions."

Following our IPO, we operate and control the business affairs of Royalty Pharma Holdings Ltd, ("RP Holdings") through our controlling ownership of RP Holdings' Class A ordinary shares (the "RP Holdings Class A Interests") and RP Holdings' Class B ordinary shares (the "RP Holdings Class B Interests"). We include RP Holdings and its subsidiaries in our consolidated financial statements. RP Holdings is the sole owner of RPI 2019 ICAV, which is an Irish collective asset management entity formed to facilitate our Exchange Offer Transactions.

As a result of the Exchange Offer Transactions, we own, through our subsidiary RPI 2019 Intermediate Finance Trust, a Delaware statutory trust ("RPI Intermediate FT"), an 82% economic interest in Old RPI. Through our 82% indirect ownership of Old RPI, we are legally entitled to 82% of the economics of Old RPI's wholly-owned subsidiaries, RPI Finance Trust, a Delaware statutory trust ("RPIFT") and RPI Acquisitions (Ireland), Limited ("RPI Acquisitions"), an Irish private limited company, and 66% of Royalty Pharma Collection Trust, a Delaware statutory trust ("RPCT").

The remaining 34% of RPCT is owned by the Legacy Investors Partnerships and Royalty Pharma Select Finance Trust, a Delaware statutory trust ("RPSFT"), which is wholly owned by Royalty Pharma Select, an Irish unit trust. From the Exchange Date until the expiration of the Legacy Investors Partnerships' investment period on June 30, 2020 (the "Legacy Date"), the Legacy Investors Partnerships had the option to participate proportionately in any investment made by Old RPI. Following the Legacy Date, Old RPI ceased making new investments and each of Old RPI and the Legacy Investors Partnerships became legacy entities. Following the Legacy Date, we have made and plan to make new investments solely through our subsidiaries.

Following management's determination that a high degree of common ownership exists in Royalty Pharma both before and after the Exchange Date, Royalty Pharma recognized Old RPI's assets and liabilities at the carrying value reflected on Old RPI's balance sheet as of the Exchange Date. Old RPI is our predecessor for financial reporting purposes. The results of operations in the following discussion is comprised of the financial results of Old RPI prior to the Reorganization Transactions, RPI 2019 ICAV subsequent to the Reorganization Transactions and before the consummation of the IPO, and Royalty Pharma plc subsequent to the consummation of the IPO.

Understanding Our Financial Reporting

In accordance with U.S. GAAP, most of the royalties we acquire are treated as investments in cash flow streams and are thus classified as financial assets. These investments have yield components that most closely resemble loans measured at amortized cost under the effective interest accounting methodology. Under this accounting methodology, we calculate the effective interest rate on each financial royalty asset using a forecast of the expected cash flows to be received over the life of the financial royalty asset relative to the initial acquisition price. The yield, which is calculated at the end of each reporting period and applied prospectively, is then recognized via accretion into our income at the effective rate of return over the expected life of the financial royalty asset.

The preparation of our financial statements in this manner requires the use of estimates, judgments and assumptions that affect both our reported assets and liabilities and our income and revenue and expenses. The most significant judgments and estimates applied by management are associated with the measurement of income derived from our financial royalty assets, including management's judgment in forecasting the expected future cash flows of the underlying royalties and the expected duration of the financial royalty asset. Our cash flow forecasts are generated and updated each reporting period by manually compiling sell-side equity research analysts' consensus sales estimates for each of the products in which we own royalties. We then calculate our expected royalty cash flows using these consensus sales forecasts. In any given reporting period, any decline or increase in the expected future cash flows associated with a financial royalty asset is recognized in our income statement as non-cash provision expense or provision income, respectively.

As a result of the non-cash charges associated with applying the effective interest method accounting methodology, our income statement activity in respect of many of our royalties can be volatile and unpredictable. Small declines in sell-side equity research analysts' consensus sales forecasts over a long time horizon can result in an immediate non-cash income statement expense recognition, even though the applicable cash inflows will not be realized for many years into the future. For example, in late 2014 we acquired the cystic fibrosis franchise royalty, which is classified as a financial royalty asset. Beginning in the second quarter of 2015, declines in near-term sales forecasts of sell-side equity research analysts caused us to recognize non-cash provision expenses to the income statement and build up a corresponding cumulative allowance which reduced the gross balance for this financial royalty asset. Over the course of 10 quarters, we recognized non-cash provision expenses as a result of these changes in forecasts including non-cash provision expense of $743.2 million in 2016, ultimately reaching a peak cumulative allowance of $1.30 billion by September 30, 2017 related to this financial royalty asset. With the approval of the Vertex triple combination therapy, Trikafta, in October 2019, sell-side equity research analysts' consensus sales forecasts increased to reflect the larger addressable market and the extension of the expected duration of the Trikafta royalty. While small reductions in the cumulative allowance for the cystic fibrosis franchise were recognized as provision income in 2017 and 2018, there remained a $1.10 billion cumulative allowance that was fully reduced by $1.10 billion recognized in 2019 as a result of an increase in sell-side equity research analysts' consensus sales forecasts associated with the Trikafta approval. This example illustrates the volatility caused by our accounting model. Therefore, management believes investors should not look to income from royalties and the associated provision for changes in future cash flows as a measure of our near-term financial performance or as a source for predicting future income or growth trends.

Our operations have historically been financed primarily with cash flows generated by our royalties. Due to the nature of our accounting methodology for our financial royalty assets, there is no direct correlation between our income from royalties and our royalty receipts. As noted above, income from such royalties is measured at amortized cost under the effective interest method accounting methodology. Given the importance of cash flows and their predictability to management's operation of the business, management uses royalty receipts as the primary measure of our operating performance. Royalty receipts refer to the summation of the following line items from our GAAP Statement of Cash Flows: *Cash collections from financial royalty assets*, *Cash collections from intangible royalty assets*, *Other royalty cash collections*, *Proceeds from available for sale debt securities* and *Distributions from non-consolidated affiliates*.

In addition to analyzing our results on a GAAP basis, management also reviews our results on a non-GAAP basis. The closest comparable GAAP measure to each of the non-GAAP measures that management review is *Net cash provided by operating activities*. The key non-GAAP metrics we focus on are Adjusted Cash Receipts, Adjusted EBITDA and Adjusted Cash Flow, each of which is further discussed in the section titled "Non-GAAP Financial Results."

Adjusted Cash Receipts and Adjusted Cash Flow are used by management as key liquidity measures in the evaluation of our ability to generate cash from operations. Both measures are an indication of the strength of the Company and the performance of the business. Management uses Adjusted Cash Flow to compare its performance against non-GAAP adjusted net income used by companies in the biopharmaceutical industry. Adjusted EBITDA, which is derived from Adjusted Cash Receipts, is used by our lenders to assess our ability to meet our financial covenants.

Refer to the section titled "Non-GAAP Reconciliations" for additional discussion of management's use of non-GAAP measures as supplemental financial measures.

Portfolio Overview

Our portfolio consists of royalties on more than 35 marketed therapies and ten development-stage product candidates. The therapies in our portfolio address therapeutic areas such as rare disease, cancer, neurology, infectious disease, hematology and diabetes, and are delivered to patients across both primary and specialty care settings. The table below includes royalty receipts for the years ended December 31, 2021 and 2020 in order of contributions to royalty receipts for the year ended December 31, 2021.

(in thousands)			Royalty Receipts Years Ended December 31,	
	Marketer(s)	**Therapeutic Area**	**2021**	**2020**
Products				
Cystic fibrosis franchise (1)	Vertex	Rare disease	$ 702,140	$ 551,338
Tysabri	Biogen	Neurology	369,149	345,845
Imbruvica	AbbVie, Johnson & Johnson	Cancer	352,911	322,071
Promacta	Novartis	Hematology	173,621	143,741
Xtandi	Pfizer, Astellas	Cancer	158,103	146,374
Januvia, Janumet, Other DPP-IVs (2)	Merck & Co., others	Diabetes	151,158	143,753
HIV franchise (3)	Gilead, others	Infectious disease	78,038	293,808
Nurtec ODT/Biohaven payment (4)	Biohaven, Pfizer	Neurology	70,188	3,667
Prevymis	Merck & Co.	Infectious disease	37,505	21,492
Farxiga/Onglyza	AstraZeneca	Diabetes	36,378	25,004
Tremfya	Johnson & Johnson	Immunology	35,718	—
Cabometyx/Cometriq	Exelixis, Ipsen, Takeda	Cancer	33,722	—
Crysvita	Ultragenyx, Kyowa Kirin	Rare disease	16,741	9,454
Evrysdi	Roche	Rare disease	16,098	273
Emgality	Lilly	Neurology	15,481	9,529
Erleada	Johnson & Johnson	Cancer	14,227	7,876
Trodelvy	Gilead	Cancer	13,395	3,031
IDHIFA	Bristol Myers Squibb	Cancer	12,404	6,111
Orladeyo	BioCryst	Rare disease	6,740	—
Tazverik	Epizyme	Cancer	2,794	522
Oxlumo	Alnylam	Rare disease	1,248	—
Other products (5)			310,783	310,510
Total royalty receipts			**$ 2,608,542**	**$ 2,344,399**

(1) The cystic fibrosis franchise includes the following approved products: Kalydeco, Orkambi, Symdeko/Symkevi and Trikafta/Kaftrio.
(2) Januvia, Janumet, Other DPP-IVs include the following approved products: Tradjenta, Onglyza, Kombiglyze, Galvus, Eucreas and Nesina. The Other DPP-IVs are marketed by Boehringer Ingelheim, AstraZeneca, Novartis and Takeda.
(3) The HIV franchise includes the following approved products: Atripla, Truvada, Emtriva, Complera, Stribild, Genvoya, Descovy, Odefsey, Symtuza and Biktarvy. Royalties are received on the emtricitabine portion of sales only.

(4) Includes royalty receipts for Nurtec ODT of $7.7 million for the year ended December 31, 2021 and quarterly redemptions of $15.6 million of the Series A Biohaven Preferred Shares (presented as *Proceeds from available for sale debt securities* on the Statement of Cash Flows) in 2021. For the year ended December 31, 2020, the amount also includes a payment from Biohaven in respect of an expired option to exercise additional funding of the Biohaven Series A Preferred Shares which is presented as *Proceeds from available for sale debt securities* on the Statement of Cash Flows in 2020.

(5) Other products primarily include royalties on the following products: Bosulif (a product co-developed by our joint venture investee, Avillion, for which receipts are presented as *Distributions from non-consolidated affiliates* on the Statement of Cash Flows), Lexiscan, Soliqua, Nesina, Cimzia, Letairis, Entyvio, Myozyme, Mircera and Lyrica. Other products for the year ended December 31, 2021 includes a one-time milestone payment of $45.0 million that we received on Soliqua. Other products for the year ended December 31, 2020 includes a one-time $21.3 million distribution from Avillion in respect of the Merck KGaA Asset (defined below) for which the receipt is presented as *Distributions from non-consolidated affiliates* in both the operating and investing section of the Statement of Cash Flows. Subsequent to the Exchange Offer Transactions, other products also includes contributions from the Legacy SLP Interest (defined below).

Financial Overview

Financial highlights

- Net cash provided by operating activities totaled $2.0 billion, $2.0 billion and $1.7 billion for the years ended December 31, 2021, 2020 and 2019, respectively. *Net cash provided by operating activities* is the closest comparable GAAP financial measure to the supplemental non-GAAP liquidity measures that follow.
- Adjusted Cash Receipts (a non-GAAP metric) totaled $2.1 billion, $1.8 billion and $2.1 billion for the years ended December 31, 2021, 2020 and 2019, respectively.
- Adjusted EBITDA (a non-GAAP metric) totaled $1.9 billion, $1.6 billion and $2.0 billion for the years ended December 31, 2021, 2020 and 2019, respectively.
- Adjusted Cash Flow (a non-GAAP metric) totaled $1.8 billion, $1.5 billion and $1.6 billion for the years ended December 31, 2021, 2020 and 2019, respectively.

Understanding Our Results of Operations

In connection with our IPO, Royalty Pharma plc became a holding company whose principal asset is a controlling equity interest in RP Holdings, which is the sole equity owner of RPI 2019 ICAV, an entity that is included in our consolidated financial statements. We report non-controlling interest related to four minority interests in our subsidiaries held by third parties.

1. The first minority interest is attributable to the Legacy Investors Partnerships' 18% ownership interest in Old RPI. The value of this non-controlling interest will decline over time as the assets in Old RPI expire.

2. The second minority interest is attributable to the RP Holdings Class C ordinary share (the "RP Holdings Class C Special Interest") held by RPI EPA Holdings, LP ("EPA Holdings"), an affiliate of the Manager. Income will not be allocated to this non-controlling interest until certain conditions are met.

3. The third minority interest is attributable to the RP Holdings Class B Interests held indirectly by the Continuing Investors Partnerships, which represent an approximate 29% ownership interest in RP Holdings as of December 31, 2021 and are exchangeable for our Class A ordinary shares. The value of this non-controlling interest will decline over time if the investors who indirectly own the RP Holdings Class B Interests conduct exchanges for our Class A ordinary shares. During the year ended December 31, 2021, 44,763 thousand RP Holdings Class B Interests were exchanged for our Class A ordinary shares.

4. The fourth minority interest is attributable to a de minimis interest in RPCT held by RPSFT as a result of a 2011 reorganization transaction. The value of this non-controlling interest will decline over time as the royalty assets owned by RPCT expire and is expected to be substantially eliminated by the end of 2022.

The fourth non-controlling interest related to ownership in RPCT held by RPSFT, is the only non-controlling interest that existed prior to the Exchange Offer Transactions and is reflected in our financial statements through December 31, 2019. The non-controlling interest related to the Legacy Investors Partnerships' 18% ownership interest in Old RPI is reflected in our financial statements from and after the Exchange Date. The other two non-controlling interests are reflected in our financial statements from and after the date of our IPO. All of the results of operations of RP Holdings, Old RPI and RPCT are consolidated into our financial statements.

Following the IPO, EPA Holdings is entitled to receive Equity Performance Awards through its RP Holdings Class C Special Interest. Equity Performance Awards owed to EPA Holdings will be recognized as an equity transaction when the obligation becomes due and will impact the income allocated to non-controlling interest related to the RP Holdings Class C Special Interest at that time. We do not currently expect any material Equity Performance Awards to be payable until certain performance conditions are met, which we do not expect to occur until the mid-2020s.

Total income and other revenues

Total income and other revenues is primarily comprised of income from our financial royalty assets, royalty revenue from our intangible royalty assets, and royalty income arising from successful commercialization of products developed through joint R&D funding arrangements. Most of our royalties on both approved products and development-stage product candidates that are not accounted for as R&D funding expense are classified as financial assets as our ownership rights are generally passive in nature. In instances in which we acquire a royalty that does include more substantial rights or ownership of the underlying intellectual property, we classify such royalties as intangible assets.

We recognize interest income related to our financial royalty assets. Royalty revenue relates solely to revenue from our DPP-IV patent estate for which the patent rights have been licensed to various counterparties. For the years ended December 31, 2021 and 2020, the royalty payors accounting for greater than 10% of our total income and other revenues in any one year are shown in the table below:

		Years Ended December 31,	
Royalty Payor	**Product(s)**	**2021**	**2020**
Vertex	Cystic fibrosis franchise	33 %	29 %
AbbVie	Imbruvica	17 %	19 %
Gilead	HIV franchise, Letairis, Lexiscan, Trodelvy (1)	*	14 %
Biogen	Tysabri	*	10 %

(1) We began recognizing income related to Trodelvy in the three months ended June 30, 2020.
*Represents less than 10%.

Income from financial royalty assets

Our financial royalty assets represent investments in cash flow streams with yield components that most closely resemble loans measured at amortized cost under the effective interest method. We calculate the effective interest rate using forecasted expected cash flows to be received over the life of the royalty asset relative to the initial acquisition price. Interest income is recognized at the effective rate of return over the expected life of the asset, which is calculated at the end of each reporting period and applied prospectively. As changes in sell-side equity research analysts' consensus sales estimates are updated on a quarterly basis, the effective rate of return changes. For example, if sell-side equity research analysts' consensus sales forecasts increase, the yield to derive income on a financial royalty asset will increase and result in higher income for subsequent periods.

Variables affecting the recognition of interest income from financial royalty assets on individual products under the prospective effective interest method include any one of the following: (1) additional acquisitions, (2) changes in expected cash flows of the underlying pharmaceutical products, derived primarily from sell-side equity research analysts' consensus sales forecasts, (3) regulatory approval of additional indications which leads to new cash flow streams, (4) changes to the estimated duration of the royalty (i.e., patent expiration date) and (5) changes in amounts and timing of projected royalty receipts and milestone payments. Our financial royalty assets are directly linked to sales of underlying pharmaceutical products whose life cycle typically peaks at a point in time, followed frequently by declining sales trends due to the entry of generic competition, resulting in natural declines in the asset balance and periodic interest income over the life of our royalties. The recognition of interest income from royalties requires management to make estimates and assumptions around many factors, including those impacting the variables noted above.

Revenue from intangible royalty assets

Revenue from intangible royalty assets is derived from sales of Januvia, Janumet and other DPP-IV products by our licensees.

Other royalty income

Other royalty income includes primarily income from financial royalty assets that have been fully amortized by the expected expiry date and royalty income from synthetic royalties arising out of R&D funding arrangements. Occasionally, a royalty asset may be amortized on an accelerated basis due to collectability concerns, which, if resolved, may result in future cash collections when no financial royalty asset remains. Similarly, we may continue to collect royalties on a financial royalty asset beyond the estimated patent expiration date by which the financial asset was amortized in full. In each scenario where a financial royalty asset has been fully amortized, income from such royalty is recognized as *Other royalty income*.

Provision for changes in expected cash flows from financial royalty assets

The provision for changes in expected future cash flows from financial royalty assets includes the following:

- the movement in the cumulative allowance for changes in expected future cash flows; and
- expense or income related to the provision for current expected credit losses subsequent to adoption of ASU 2016-13 on January 1, 2020.

The provision for changes in expected cash flows is the current period activity resulting from adjustments to the cumulative allowance for changes in expected cash flows, which is netted against the non-current portion of *Financial royalty assets, net* balance on the consolidated balance sheets. As discussed above, income is accreted on our financial royalty assets using the effective interest method. As we update our forecasted cash flows on a periodic basis and recalculate the present value of the remaining future cash flows, any shortfall when compared to the carrying value of the financial royalty asset is recorded directly to the income statement through the line item *Provision for changes in expected cash flows from financial royalty assets*. If, in a subsequent period, there is an increase in expected cash flows or if actual cash flows are greater than cash flows previously expected, we reduce the cumulative allowance previously established for a financial royalty asset for the incremental increase in the present value of cash flows expected to be collected. This results in provision income (i.e., a credit to the provision).

Most of the same variables and management's estimates affecting the recognition of interest income on our financial royalty assets also impact the provision. In any period, we will recognize provision income or expense as a result of the following factors: (1) changes in expected cash flows of the underlying pharmaceutical products, derived primarily from sell-side equity research analysts' consensus sales forecasts, (2) regulatory approval of additional indications which leads to new cash flow streams, (3) changes to the estimated duration of the royalty (i.e., patent expiration date) and (4) changes in amounts and timing of projected royalty receipts and milestone payments.

Upon the adoption on January 1, 2020 of ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), we recorded a cumulative adjustment to *Retained earnings* of $192.7 million to recognize an allowance for current expected credit losses on our portfolio of financial royalty assets. The *Provision for changes in expected cash flows from financial royalty assets* reflects the activity for the period, primarily new financial royalty assets with limited protective rights and changes in the underlying cash flow forecasts used in the effective interest model to measure income from our financial royalty assets.

R&D funding expense

R&D funding expense consists of upfront and ongoing R&D payments we have made to counterparties to acquire royalties and/or milestones on development-stage product candidates. Ongoing R&D payments are made as the related development-stage product candidates undergo clinical trials with our counterparties. These expenditures relate to the activities performed by our counterparties to develop and test new products, to test existing products for treatment in new indications, and to ensure product efficacy and regulatory compliance prior to launch.

General and administrative expenses

General and administrative ("G&A") expenses include primarily Operating and Personnel Payments, legal expenses, other expenses for professional services and share-based compensation. The expenses incurred in respect of Operating and Personnel Payments are expected to comprise the most significant component of G&A expenses on an ongoing basis.

Under the Management Agreement, we pay Operating and Personnel Payments equal to 6.5% of the Adjusted Cash Receipts for each quarter and 0.25% of the value of our security investments under GAAP as of the end of each quarter. The operating and personnel payments for Old RPI, an obligation of the Legacy Investors Partnerships as a non-controlling interest in Old RPI and for which the expense is reflected in our consolidated net income, are payable in equal quarterly installments and calculated as the greater of $1 million per quarter and 0.3125% of royalties from Royalty Investments (as defined in the limited partnership agreements of the Legacy Investors Partnerships) during the previous twelve calendar months.

Prior to the Exchange Date, operating and personnel payments were fixed and grew at 5% annually and were not linked to any financial line item.

Equity in losses/(earnings) of non-consolidated affiliates

Legacy SLP Interest

In connection with the Exchange Offer Transactions, we acquired an equity method investment from the Continuing Investors Partnerships in the form of a special limited partnership interest in the Legacy Investors Partnerships (the "Legacy SLP Interest") in exchange for issuing shares in our subsidiary. The Legacy SLP Interest entitles us to the equivalent of performance distribution payments that would have been paid to the general partner of the Legacy Investors Partnerships and a performance income allocation on a similar basis. The performance income allocation attributable to us is equal to the general partner's former contractual rights to the income of the Legacy Investors Partnerships.

As the Legacy Investors Partnerships no longer participate in investment opportunities, the value of the Legacy SLP Interest is expected to decline over time. Our equity method investee, the Legacy Investors Partnerships, also owns a non-controlling interest in Old RPI.

The Avillion Entities

The Avillion entities (as defined below) partner with global biopharmaceutical companies to perform R&D in exchange for success-based milestones and/or royalties once products are commercialized.

In December 2017, our equity method investee Avillion Financing I, LP ("Avillion I") received U.S. Food and Drug Administration ("FDA") approval of a supplemental New Drug Application for Pfizer's Bosulif to expand its label into front-line chronic myeloid leukemia, which triggered a series of contractual fixed payments from Pfizer to Avillion I over a 10-year period, which we recognize through receipt of *Distributions from non-consolidated affiliates* on the Statement of Cash Flows.

In 2019, we entered into an amended agreement with BAv Financing II, LP ("Avillion II", or, together with Avillion I, the "Avillion Entities"), to invest $19.0 million to fund approximately 50% of the costs of a Phase 2 clinical trial for the use of Merck KGaA's anti-IL 17 nanobody M1095 (the "Merck KGaA Asset") for the treatment of psoriasis in exchange for certain milestone and royalty payments. During 2020, our involvement in the development for the Merck KGaA Asset ceased. We do not expect to record significant earnings or losses in the future related to this investment.

In July 2021, we entered into an amended agreement with Avillion II to increase our investment from $105.0 million to $122.5 million over multiple years to fund a portion of the costs for Phase 2 and 3 clinical trials of Avillion II, which is a party to a co-development agreement with AstraZeneca to advance PT027 through a global clinical development program for the treatment of asthma in exchange for royalties, a series of success-based milestones, and other potential payments.

Other expense/(income), net

Other expense/(income), net primarily includes the change in fair market value of our equity securities and the unrealized (gains)/losses on our available for sale debt securities, including related forwards and derivatives. Other expense/(income), net also includes losses on extinguishment of debt and interest income.

Net income attributable to non-controlling interest

Subsequent to our IPO, net income attributable to non-controlling interest includes the RP Holdings Class B Interests held by the Continuing Investors Partnerships and will include net income attributable to the Class C Special Interest held by EPA Holdings once certain conditions have been met. Future net income attributable to the non-controlling interest related to the RP Holdings Class B Interests held by the Continuing Investors Partnerships will decline over time if the investors who indirectly own the RP Holdings Class B Interests conduct exchanges for our Class A ordinary shares.

As of and following the Exchange Date, the net income attributable to non-controlling interest also includes the Legacy Investors Partnerships' approximately 18% share of earnings in Old RPI. As the Legacy Investors Partnerships no longer participate in investment opportunities, the related net income attributable to this non-controlling interest is expected to decline over time.

Net income attributable to non-controlling interest also includes RPSFT's 20% share of earnings in RPCT, which is a consolidated subsidiary of Old RPI. We expect net income attributable to this non-controlling interest to decline over time as the royalty assets owned by RPCT expire and to be substantially eliminated by the end of 2022.

Results of Operations

In this section, we discuss the results of our operations for the year ended December 31, 2021 compared to the year ended December 31, 2020. For a discussion of the year ended December 31, 2020 compared to the year ended December 31, 2019, please refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

The comparison of our historical results of operations for the years ended December 31, 2021 and 2020 is as follows:

(in thousands)	Years Ended December 31,		2021 vs. 2020 Change	
	2021	2020	$	%
Income and other revenues:				
Income from financial royalty assets	$ 2,065,083	$ 1,959,975	$ 105,108	5.4 %
Revenue from intangible royalty assets	171,248	143,382	27,866	19.4 %
Other royalty income	53,132	18,996	34,136	179.7 %
Total income and other revenues	2,289,463	2,122,353	167,110	7.9 %
Operating expenses:				
Provision for changes in expected cash flows from financial royalty assets	452,842	230,839	222,003	96.2 %
Research and development funding expense	200,084	26,289	173,795	661.1 %
Amortization of intangible assets	22,996	23,058	(62)	(0.3)%
General and administrative expenses	182,826	181,715	1,111	0.6 %
Other operating expenses	—	65,053	(65,053)	(100.0)%
Total operating expense, net	858,748	526,954	331,794	63.0 %
Operating income	1,430,715	1,595,399	(164,684)	(10.3)%
Other expense/(income)				
Equity in losses/(earnings) of non-consolidated affiliates	19,490	(44,459)	63,949	(143.8)%
Interest expense	166,142	157,059	9,083	5.8 %
Other expense/(income), net	3,882	(219,155)	223,037	(101.8)%
Total other expense/(income), net	189,514	(106,555)	296,069	(277.9)%
Consolidated net income	1,241,201	1,701,954	(460,753)	(27.1)%
Net income attributable to non-controlling interest	621,473	726,914	(105,441)	(14.5)%
Net income attributable to controlling interest	$ 619,728	$ 975,040	$ (355,312)	(36.4)%

Total income and revenues

Income from financial royalty assets

Income from financial royalty assets by product for our top products for the years ended December 31, 2021 and 2020 is as follows, in order of contribution to income for the year ended December 31, 2021.

(in thousands)	Years Ended December 31,		2021 vs. 2020 Change	
	2021	2020	$	%
Cystic fibrosis franchise	$ 762,885	$ 611,948	$ 150,937	24.7 %
Imbruvica	385,350	396,285	(10,935)	(2.8)%
Tysabri	211,422	218,370	(6,948)	(3.2)%
Xtandi	107,833	102,791	5,042	4.9 %
Promacta	73,372	53,314	20,058	37.6 %
Tazverik	70,326	56,464	13,862	24.6 %
Other	453,895	520,803	(66,908)	(12.8)%
Total income from financial royalty assets	$ 2,065,083	$ 1,959,975	$ 105,108	5.4 %

Income from financial royalty assets increased by $105.1 million, or 5.4%, in the year ended December 31, 2021 compared to the year ended December 31, 2020, primarily driven by the performance of the cystic fibrosis franchise, including additional interest income attributable to the residual royalty interest that we acquired in the three months ended December 31, 2020. We also recorded $57.0 million in income in the year ended December 31, 2021 related to newly acquired assets in 2021, primarily Cabometyx/Cometriq, Tremfya and Oxlumo. The increase in income was partially offset by declines from the maturity of our royalties from the HIV franchise.

Revenue from intangible royalty assets

Revenue from intangible royalty interests increased by $27.9 million, or 19.4%, in the year ended December 31, 2021 compared to the year ended December 31, 2020, primarily related to the expected recovery of underpaid royalties on Tradjenta of approximately $16.5 million based on a legal judgment received in a litigation with Boehringer Ingelheim.

Other royalty income

Other royalty income increased by $34.1 million, or 179.7%, in the year ended December 31, 2021 compared to the year ended December 31, 2020, driven primarily by increased income from Nurtec ODT and Trodelvy that arose from our R&D funding agreements with Biohaven and Immunomedics, respectively. Other royalty income in the year ended December 31, 2021 also includes income from the HIV franchise, a fully amortized financial royalty asset, and Letairis, which was also fully amortized, but for which we expect minimal residual royalty income.

Provision for changes in expected cash flows from financial royalty assets

The breakdown of our provision for changes in expected future cash flows includes the following:

- movement in the cumulative allowance for changes in expected future cash flows; and
- expense or income related to the provision for current expected credit losses subsequent to adoption of ASU 2016-13 on January 1, 2020.

As the former activity is a combination of income and expense items, the provision breakdown by product, exclusive of the provision for current expected credit losses, is as follows, based on the largest contributors to each year’s provision income or expense:

(in thousands)

Product	2021	Product	2020
Tazverik	$ 210,567	IDHIFA	$ 87,835
Imbruvica	189,999	Imbruvica	46,872
Emgality	68,716	Tysabri	40,931
Cystic fibrosis franchise	48,636	Soliqua	32,735
Tysabri	(96,103)	Xtandi	(187,059)
Other	43,940	Other	53,339
Total provision, exclusive of provision for credit losses	**465,755**	**Total provision, exclusive of provision for credit losses**	**74,653**
Provision for current expected credit losses	(12,913)	Provision for current expected credit losses	156,186
Total provision expense	**$ 452,842**	**Total provision expense**	**$ 230,839**

In the year ended December 31, 2021, we recorded total provision expense of $452.8 million, of which $465.8 million and $12.9 million related to provision expense for changes in expected cash flows and provision income for current expected credit losses, respectively. We recorded provision expense for Tazverik, Imbruvica, Emgality and the cystic fibrosis franchise, primarily due to significant declines in sell-side research analysts' consensus sales forecasts. The provision expense was partially offset by provision income from a significant increase in sell-side equity research analysts' consensus sales forecasts for Tysabri. The current expected credit loss activity in the year ended December 31, 2021 resulted in provision income that was primarily driven by a significant decrease in current expected credit losses related to Tazverik as a result of the corresponding significant decline in the financial asset value. This was partially offset by provision expense for credit losses recognized as a result of the increases to our portfolio of financial royalty assets with limited protective rights, primarily related to zavegepant from a $100.0 million funding payment we made to Biohaven upon the start of the oral zavegepant Phase 3 program and a new royalty interest in Cabometyx/Cometriq.

In the year ended December 31, 2020, we recorded total provision expense of $230.8 million, of which $74.7 million and $156.2 million related to provision expense for changes in expected cash flows and provision expense for current expected credit losses, respectively. We recorded provision expense for IDHIFA, which was acquired in the year ended December 31, 2020, and for Imbruvica and Tysabri due to declines in sell-side research analysts' consensus sales forecasts. The provision expense was partially offset by provision income from a significant increase in sell-side equity research analysts' consensus sales forecasts for Xtandi. We recognized provision expense for current expected credit losses as a result of our adoption of the new accounting standard in the year ended December 31, 2020. The provision expense for current expected credit losses in the year ended December 31, 2020 was driven primarily by certain additions to our portfolio of financial royalty assets, including the additional tranche of Tazverik and our acquisition of the zavegepant royalty.

R&D funding expense

R&D funding expense incurred in the year ended December 31, 2021 was comprised of $193.2 million in upfront R&D funding and $6.9 million in ongoing R&D expenses, primarily under our co-funding agreement with Sanofi. The increase of R&D funding expense of $173.8 million, or 661.1%, in the year ended December 31, 2021 as compared to the year ended December 31, 2020 was primarily driven by upfront R&D funding of $103.2 million related to an additional royalty on a development-stage product that we acquired from BioCryst in November 2021 and $90.0 million related to royalties on two development-stage products acquired from MorphoSys in July 2021.

R&D funding expense incurred in the year ended December 31, 2020 was comprised of $20.5 million in ongoing development-stage funding payments, primarily under our co-funding agreement with Sanofi, and $5.8 million in upfront funding related to a royalty on a development-stage product that we acquired from BioCryst.

G&A expenses

G&A expenses were relatively flat in the year ended December 31, 2021 compared to the year ended December 31, 2020.

Other operating expenses

Other operating expenses were $65.1 million in the year ended December 31, 2020 due to the recognition of a non-cash impairment charge related to the write-off of our omecamtiv mecarbil financial royalty asset balance of $90.2 million, net of cumulative allowance of $25.2 million. During the three months ended December 31, 2020, it was announced that omecamtiv mecarbil, a development stage product, did not meet the clinical trial objectives. There was no comparable activity in the year ended December 31, 2021.

Equity in losses/(earnings) of non-consolidated affiliates

We recorded equity in losses of non-consolidated affiliates of $19.5 million for the year ended December 31, 2021 compared to equity in earnings of non-consolidated affiliates of 44.5 million for the year ended December 31, 2020.

Equity in earnings of the Legacy SLP Interest was $8.9 million and $62.0 million during the years ended December 31, 2021 and 2020, respectively. Equity in losses of the Avillion Entities was $28.4 million and $17.6 million during the years ended December 31, 2021 and 2020, respectively.

Interest expense

Interest expense increased by $9.1 million, or 5.8%, in the year ended December 31, 2021 as compared to the year ended December 31, 2020, primarily driven by interest expense related to the $1.3 billion senior unsecured notes issued in July 2021 (“2021 Notes”) offset by the lower interest expense related to the $6.0 billion senior unsecured notes issued in September 2020 (the “2020 Notes”), which had a lower weighted average interest rate compared to the senior secured credit facilities that were in place during the year ended December 31, 2020. We refer to the 2020 Notes and 2021 Notes, collectively, as the “Notes”.

Refer to the “Liquidity and Capital Resources” section for additional discussion of the Notes and our debt refinancings in 2020.

Other expense/(income), net

Other expense, net of $3.9 million in the year ended December 31, 2021 was primarily comprised of net losses on equity securities of $48.1 million, including losses on MorphoSys ordinary shares and Epizyme common stock, partially offset by a gain on Biohaven common shares; and losses of $21.5 million on our derivative financial instruments related to our treasury rate lock contracts that were unwound and settled in connection with the issuance of the 2021 Notes. The losses were partially offset by interest income of $50.9 million related to our Series A Biohaven Preferred Shares and a gain of $17.9 million on the unrealized change in fair value of our available for sale debt securities.

Other income, net of $219.2 million in the year ended December 31, 2020 was primarily comprised of net gains on equity securities of $247.1 million, of which $292.3 million was driven by the redemption of our investment in Immunomedics common stock upon Gilead’s acquisition of Immunomedics in October 2020 and $66.0 million was related to an increase in share price of our investment in Biohaven common shares. These gains were partially offset by a loss of $120.1 million related to a decrease in share price of our investment in Epizyme common stock. In the year ended December 31, 2020, we also recognized $42.1 million in losses on our derivative financial instruments, primarily related to Epizyme warrants as a result of the decrease in Epizyme common stock price. Additionally, we recognized a loss on debt extinguishment of $30.5 million related to the debt refinancings completed in the year ended December 31, 2020.

Net income attributable to non-controlling interest

Net income attributable to the Continuing Investors Partnerships was $297.3 million and $317.0 million in the years ended December 31, 2021 and 2020, respectively. The net income attributable to the Continuing Investors Partnerships reflects a partial period of net income subsequent to the IPO in the year ended December 31, 2020 compared to the full period of net income in the year ended December 31, 2021. The decrease in net income attributable to Continuing Investors Partnerships was primarily driven by lower net income attributable to RP Holdings in the year ended December 31, 2021. The decrease was further driven by the ongoing exchanges in 2021 by investors in the Continuing Investors Partnerships who indirectly own the RP Holdings Class B Interests for our Class A ordinary shares, resulting in a decline in the Continuing Investors Partnerships' ownership of RP Holdings.

Net income attributable to the Legacy Investors Partnerships, which arose in February 2020 in connection with the Exchange Offer Transactions, was $266.6 million and $321.0 million in the years ended December 31, 2021 and 2020, respectively. The net income attributable to the Legacy Investors Partnerships reflects a partial period of net income subsequent to the Exchange Date in the year ended December 31, 2020. The decrease in net income attributable to the Legacy Investors Partnerships was primarily driven by lower net income attributable to Old RPI in 2021.

Net income attributable to RPSFT was $57.6 million and $88.9 million in the years ended December 31, 2021 and 2020, respectively. We expect net income attributable to RPSFT to continue to decline as the royalty assets owned by RPCT mature.

Key developments and upcoming events relating to our portfolio

The key developments impacting our cash receipts and income and revenue from our royalty interests are discussed below:

Commercial Products

- **Cystic fibrosis franchise.** In October 2019, Vertex received approval from the FDA for Trikafta for the treatment of patients with cystic fibrosis ages 12 years and older who have at least one copy of the F508del mutation.

  In August 2020, Vertex announced that the EC had granted marketing authorization of Kaftrio in combination with ivacaftor for the treatment of patients with cystic fibrosis ages 12 years and older with one F508del mutation and one minimal function mutation, or two F508del mutations in the cystic fibrosis transmembrane conductance regulator gene.

  In December 2020, the FDA expanded the eligibility for Trikafta to include people with cystic fibrosis ages 12 and older with certain mutations that are responsive to Trikafta based on in vitro data.

  In April 2021, Vertex announced EC approval for Kaftrio in combination with ivacaftor for the treatment of patients with cystic fibrosis ages 12 and older who have at least one F508del mutation.

  In June 2021, Vertex announced that FDA approved Trikafta for the treatment of children with cystic fibrosis ages 6 through 11 who have at least one F508del mutation or have certain mutations that are responsive to Trikafta based on in vitro data.

  In January 2022, Vertex announced that the EC granted approval for the label expansion of Kaftrio in combination with ivacaftor for the treatment of cystic fibrosis in patients ages 6 through 11 years old who have at least one F508del mutation in the cystic fibrosis transmembrane conductance regulator gene.

- **Tysabri.** In April 2021, Biogen announced that the EC granted marketing authorization for a subcutaneous injection of Tysabri to treat relapsing-remitting multiple sclerosis. Biogen also announced that it had received a Complete Response Letter from the FDA for its sBLA for subcutaneous Tysabri. The Complete Response Letter indicates that the FDA is unable to approve Biogen's filing as submitted. Biogen announced that it is evaluating the Complete Response Letter and will determine next steps in the United States.

In August 2021, Biogen announced results from Phase 3b NOVA study evaluation every six-week dosing with Tysabri intravenous administration in relapsing-remitting multiple sclerosis. Results show that every six-week Tysabri intravenous administration provides a high level of efficacy in controlling multiple sclerosis disease activity in patients who switched from the approved every four-week dosing regimen.

- **Imbruvica.** In April 2020, Imbruvica received FDA approval for use in combination with rituximab for the treatment of previously untreated patients with chronic lymphocytic leukemia (CLL) or small lymphocytic lymphoma (SLL).

  In August 2020, the EC granted marketing authorization for Imbruvica in combination with rituximab for the treatment of adult patients with previously untreated CLL. This milestone marked the 11th FDA approval for Imbruvica since it was first approved in 2013 and sixth in CLL.

  In June 2021, Phase 3 GLOW study results for Imbruvica in combination with Venetoclax for the treatment of first-line CLL and SLL demonstrated superior progression-free survival versus chlorambucil plus obinutuzumab as a first-line treatment of CLL. The study also showed improved duration of remission and significantly improved depth of remission. AbbVie has indicated that approval could occur in 2022.

  In August 2021, AbbVie announced that the U.S. District Court for the District of Delaware had issued a decision holding patent rights relating to Imbruvica were valid and infringed by a generic product from Alvogen and Natco. The decision, which is subject to appeal, prohibits regulatory approval of that generic product until the last AbbVie patent expires. Previously, AbbVie entered into several settlement and license agreements with other generic companies. Consequently, AbbVie does not expect any generic product entry prior to March 30, 2032, assuming pediatric exclusivity is granted.

- **Xtandi.** In December 2019, Astellas and Pfizer announced that the FDA approved Xtandi for the treatment of patients with metastatic castration sensitive prostate cancer.

  In May 2021, Astellas and Pfizer announced that the EC approved Xtandi for the treatment of patients with metastatic hormone-sensitive prostate cancer.

  In September 2021, Astellas Pharma and Pfizer announced that Xtandi plus androgen deprivation therapy (ADT) reduced the risk of death by 34% compared to placebo plus ADT in the Phase 3 ARCHES study in men with metastatic hormone-sensitive prostate cancer. The primary results from the ARCHES trial were published in 2019.

  Astellas and Pfizer have indicated that there could be a potential readout of the Phase 3 EMBARK trial for high-risk non-metastatic prostate cancer in the second half of 2022.

- **Nurtec ODT.** In February 2020, Biohaven announced that the FDA approved Nurtec ODT for the acute treatment of migraine in adults. The FDA approval of Nurtec ODT triggered a redemption provision related to our investment in the Series A Biohaven Preferred Shares, which entitles us to receive a fixed payment amount of $250.0 million payable in equal quarterly payments from March 31, 2021 through December 31, 2024.

  In May 2021, Biohaven announced that the FDA approved Nurtec ODT for the preventative treatment of migraine, indicated for adult patients with episodic migraine who experience less than 15 headache days per month.

  In November 2021, Biohaven announced a strategic collaboration with Pfizer for the commercialization of rimegepant outside the United States. Pfizer also gains rights outside the U.S. to zavegepant, which is being studied in an intranasal delivery and an oral formulation in Phase 3 clinical trials for migraine indications.

  Biohaven has indicated it expects an EMA decision on Vydura (rimegepant) in the first half of 2022.

- **Trodelvy.** In April 2020, Immunomedics announced that the FDA granted accelerated approval of Trodelvy for the treatment of patients with metastatic triple-negative breast cancer (TNBC) who have received at least two prior therapies for metastatic disease.

In September 2020, Gilead and Immunomedics announced that Gilead would acquire Immunomedics for approximately $21 billion in cash. In 2018, we entered into a partnership with Immunomedics whereby we acquired a tiered sales-based royalty on Trodelvy for $175.0 million and acquired 4,373,178 shares of Immunomedics common stock for $75.0 million. Gilead's acquisition of Immunomedics closed in October 2020, resulting in gross cash proceeds upon redemption of our Immunomedics common stock of approximately $385 million.

In April 2021, Gilead announced the FDA granted full approval to Trodelvy for adult patients with unresectable locally advanced or metastatic TNBC who have received two or more prior systemic therapies, at least one of them for metastatic disease. The approval is supported by data from the Phase 3 ASCENT study.

In April 2021, Gilead announced that the FDA granted an accelerated approval of Trodelvy for use in adult patients with locally advanced or metastatic urothelial cancer who have previously received a platinum-containing chemotherapy and either a programmed death receptor-1 or a programmed death-ligand 1 inhibitor. The accelerated approval was based on data from the international Phase 2, single-arm TROPHY study.

In June 2021, Gilead announced superior outcomes to standard of care in second-line treatment of metastatic TNBC in the Phase 3 ASCENT study. Trodelvy more than doubled overall survival as a second-line treatment in the new ASCENT subgroup analysis.

In October 2021, Gilead announced a collaboration with Merck & Co. to investigate Trodelvy in combination with Keytruda as a first-line treatment for people with locally advanced or metastatic TNBC.

In November 2021, Gilead announced that the EC granted marketing authorization for Trodelvy as a monotherapy indicated for the treatment of adult patients with unresectable or metastatic TNBC who have received two or more prior systemic therapies, at least one of them for advanced disease. The EC's decision is supported by results from the Phase 3 ASCENT study, where Trodelvy reduced the risk of death by 49% and improved median overall survival to 11.8 months versus 6.9 months with physician's choice of chemotherapy.

In January 2022, Gilead announced it has entered into two clinical trial collaboration and supply agreements with Merck & Co. to evaluate the combination of Trodelvy and Merck's anti-PD-1 therapy Keytruda in first-line metastatic non-small cell lung cancer (NSCLC). As part of the collaboration, Merck will sponsor a global Phase 3 clinical trial of Trodelvy in combination with Keytruda as a first-line treatment of patients with metastatic NSCLC. Additionally, the companies recently established an agreement whereby Gilead will sponsor a Phase 2 signal-seeking study evaluating combinations that include pembrolizumab in first-line NSCLC.

Gilead has indicated that it expects progression-free survival data as well as the first planned interim analysis of overall survival data from the Phase 3 TROPiCS-02 trial in hormone receptor positive/human epidermal growth factor receptor 2 negative metastatic breast cancer in March 2022.

- **Cabometyx.** In January 2021, Exelixis announced that the FDA approved Cabometyx for patients with advanced renal cell carcinoma (RCC) as a first-line treatment in combination with Bristol Myers Squibb's Opdivo. The approval was based on the Phase 3 CheckMate -9ER trial, in which the combination of Cabometyx and Opdivo significantly improved overall survival while doubling progression-free survival and objective response rate versus sunitinib as a first-line treatment for patients with advanced RCC.

  In March 2021, Ipsen announced that the EC approved the combination of Cabometyx and Opdivo for the first-line treatment of advanced RCC.

  In May 2021, Exelixis announced results from cohort six of COSMIC-021, a Phase 1b trial evaluating Cabometyx in combination with atezolizumab in patients with locally advanced or metastatic solid tumors, including patients with metastatic castration-resistant prostate cancer (CRPC). In high-risk patients, the combination of Cabometyx and atezolizumab resulted in objective response rates of 27% and 18% per investigator assessment and Blinded Independent Radiology Committee, respectively.

In June 2021, Exelixis and Ipsen announced that COSMIC-312, a Phase 3 trial evaluating Cabometyx in combination with atezolizumab versus sorafenib in patients with previously untreated advanced hepatocellular carcinoma. The trial met one of its primary endpoints by demonstrating significant improvement in progression-free survival at the planned primary analysis. However, a prespecified interim analysis was not statistically significant for the second primary endpoint of overall survival. Based on the preliminary overall survival data, Exelixis anticipates that the probability of reaching statistical significance at the time of the final analysis is low.

In August 2021, Exelixis announced that their partners Takeda and Ono received approval in Japan for Cabometyx in combination with Opdivo for the treatment of unresectable or metastatic RCC. Approval is based on the CheckMate -9ER trial of Cabometyx in combination with Opdivo, which demonstrated superior overall survival and doubled mean progression-free survival and objective response rate versus sunitinib, with a favorable safety profile.

In September 2021, Exelixis announced detailed results from the expanded Cohort 6 of the Phase 1b COSMIC-021 trial of Cabometyx in combination with atezolizumab in patients with metastatic CRPC, which included patients with metastatic CRPC who had been previously treated with novel hormone therapies enzalutamide and/or abiraterone acetate used along with prednisone. Following discussions with FDA, Exelixis will not pursue a regulatory submission for the combination regimen based on cohort 6 of COSMIC-021. CONTACT-02, a global Phase 3 pivotal trial that initiated enrollment in June 2020 may serve as a basis for future regulatory applications.

In September 2021, Exelixis announced FDA approved Cabometyx for patients with previously treated radioactive iodine-refractory differentiated thyroid cancer. The approval was based on the Phase 3 COSMIC-311 pivotal trial.

Exelixis has indicated it expects Phase 3 data from the COSMIC-313 trial in 1L RCC in the first half of 2022 and initial Phase 3 data in the second half of 2022 from CONTACT-01 in metastatic NSCLC and CONTACT-03 in advanced or metastatic RCC.

- **Evrysdi.** In August 2020, the FDA approved Evrysdi, the first at-home, orally administered treatment for spinal muscular atrophy (SMA) in adults and children ages 2 months and older.

  In March 2021, Roche announced that the EC approved Evrysdi for the treatment of SMA in patients two months of age and older, with a clinical diagnosis of SMA Type 1, Type 2 or Type 3 or with one to four splicing modifier of motor neuron 2 copies.

  In June 2021, Evrysdi was approved in Japan for the treatment of SMA.

- **Orladeyo.** In December 2020, BioCryst announced that Orladeyo was approved by the FDA for prophylaxis to prevent attacks of hereditary angioedema (HAE) in patients ages 12 years and older.

  In January 2021, Orladeyo was approved in Japan, becoming the first and only prophylactic HAE medication approved in the region.

  In April 2021, BioCryst announced that the EC approved Orladeyo for the prevention of recurrent HAE attacks in patients 12 years and older.

  In April 2021, BioCryst announced approval of Japanese National Health Insurance System price listing of Orladeyo for prophylactic treatment of HAE.

- **Oxlumo.** In July 2021, Alnylam announced results from ILLUMINATE-C, a Phase 3 open-label study of lumasiran in patients of all ages with advanced primary hyperoxaluria type 1 associated with progressive decline in renal function. Results from the primary analysis at six months demonstrated a substantial reduction in plasma oxalate from baseline in patients with advanced disease, including those on hemodialysis. The safety and tolerability profile of lumasiran following six months of treatment was encouraging across all ages, with no drug related serious adverse events and injection site reactions as the most common adverse event.

In December 2021, Alnylam submitted a supplemental New Drug Application for lumasiran to the FDA and a Type II Variation with the EMA for the reduction of plasma oxalate in the treatment of patients with advanced primary hyperoxaluria type 1.

Development-Stage Product Candidates

- **Aficamten.** In February 2022, Cytokinetics announced positive topline results from Cohort 3 of the REDWOOD-HCM Phase 2 trial. Results from Cohort 3 showed that substantial reductions in the average resting LVOT-G as well as the post-Valsalva LVOT-G were achieved for patients with oHCM and a resting or post-Valsalva LVOT-G of ≥50 mmHg whose background therapy included disopyramide and in the majority a beta-adrenergic blocker. The safety and tolerability of aficamten were consistent with prior experience in REDWOOD-HCM with no treatment interruptions and no serious adverse events attributed to treatment reported by the investigators.

  In December 2021, Cytokinetics announced the FDA granted Breakthrough Therapy Designation for aficamten for the treatment of symptomatic oHCM based on results from REDWOOD-HCM. Cytokinetics has indicated it plans to initiate a pivotal study of aficamten in oHCM in the first quarter of 2022.

- **Gantenerumab.** In October 2021, Roche announced that gantenerumab, an anti-amyloid beta antibody developed for subcutaneous administration, has been granted Breakthrough Therapy Designation by the FDA for the treatment of people living with Alzheimer's disease. This designation is based on data showing that gantenerumab significantly reduced brain amyloid plaque, a pathological hallmark of Alzheimer's disease, in the ongoing SCarlet RoAD and Marguerite RoAD open-label extension trials, as well as other studies. Roche has indicated it expects Phase 3 data from the GRADUATE 1/2 trial in Alzheimer's disease in the fourth quarter of 2022.

- **Omecamtiv mecarbil**. In November 2020, Amgen, Cytokinetics and Servier presented the results of GALACTIC-HF study, a Phase 3 trial of omecamtiv mecarbil in patients with heart failure, at the American Heart Association Scientific Sessions. The trial met the primary composite endpoint of reduction in cardiovascular death or heart failure events, but did not meet the secondary endpoint of reduction in cardiovascular death. Cytokinetics subsequently regained global rights to develop and commercialize omecamtiv mecarbil when Amgen and Servier elected to terminate their collaboration agreement effective, May 2021. Following the Phase 3 results and termination of the collaboration, we wrote off the full value of our financial royalty asset given the uncertainty around the future of omecamtiv mecarbil.

  In February 2022, Cytokinetics announced that FDA has accepted and filed the company's New Drug Application (NDA) for omecamtiv mecarbil. The FDA assigned the NDA a standard review with a PDUFA target action date of November 30, 2022. The FDA also indicated that it is currently not planning to hold an advisory committee meeting to discuss the application. The submission is supported by GALACTIC-HF, which demonstrated a positive effect on the primary composite endpoint of cardiovascular death or heart failure events in patients with heart failure and reduced ejection fraction who were receiving standard of care plus omecamtiv mecarbil.

- **Otilimab**. GlaxoSmithKline has indicated it expects Phase 3 data from the contRast trials in rheumatoid arthritis in the second half of 2022.

- **Pelabresib:** In December 2021, MorphoSys presented the latest data from the Phase 2 MANIFEST study evaluating pelabresib in the treatment of myelofibrosis. As of September 10, 2021, the data cut-off, a total of 84 JAK inhibtor-naive patients were enrolled and received the first-line combination of pelabresib and ruxolitinib. The data showed 68% (n=57) of patients treated with the combination achieved a greater than or equal to 35% reduction in spleen volume (SVR35) from baseline at week 24 and 60% (n=47) maintained SVR35 at week 48. Most patients also saw their symptoms reduced, with 56% (n=46) achieving greater than or equal to 50% reduction in total symptom score from baseline at week 24.

- **PT027.** In September 2021, AstraZeneca and Avillion announced positive results from MANDALA and DENALI, two Phase 3 trials evaluating PT027 (albuterol/budesonide) in patients with asthma. PT027 is a potential first-in-class inhaled, fixed-dose combination of albuterol, a short-acting beta2-agonist, and budesonide, an inhaled corticosteroid. In MANDALA, PT027 demonstrated a statistically significant and clinically meaningful reduction in the risk of severe exacerbations compared to albuterol, when used as a rescue medicine in response to symptoms. In DENALI, PT027 showed a statistically significant improvement in lung function measured by forced expiratory volume in one second, compared to the individual components albuterol and budesonide, and compared to placebo. The safety and tolerability of PT027 in both trials was consistent with the known profiles of the components. AstraZeneca has indicated PT027 regulatory submissions will occur in the first half of 2022.

- **Zavegepant.** In December 2019, Biohaven announced positive topline results from the Phase 2/3 trial of intranasal zavegepant for the acute treatment of migraine.

  In March 2021, Biohaven announced that it enrolled the first patient in a Phase 2/3 clinical trial of oral zavegepant for the preventive treatment of migraine. Accordingly, per the agreement with Biohaven announced in August 2020, Royalty Pharma paid $100 million to Biohaven for the achievement of this milestone, bringing the total zavegepant funding to $250 million.

  In December 2021, Biohaven announced positive topline results from the second pivotal clinical trial evaluating the safety and efficacy of intranasal zavegepant for the acute treatment of migraine in adults. The Phase 3 study achieved its co-primary regulatory endpoints of pain freedom and freedom of most bothersome symptom at 2 hours and showed broad efficacy by demonstrating statistically significant superiority to placebo across a total of 15 prespecified primary and secondary outcome measures. Biohaven plans to file an NDA for zavegepant with the FDA in the first quarter of 2022 and other countries thereafter.

Non-GAAP Financial Results

In addition to analyzing our results on a GAAP basis, management also reviews our results on a non-GAAP basis. There is no direct correlation between income from financial royalty assets and royalty receipts due to the nature of the accounting methodology applied for financial royalty assets. Further, income from financial royalty assets and the provision for changes in expected cash flows related to these financial royalty assets can be volatile and unpredictable. As a result, management places importance on royalty receipts as they are predictable and we use them as a measure of our operating performance. Refer to section titled "*Non-GAAP Reconciliations*" for additional discussion of management's use of non-GAAP measures as supplemental financial measures and reconciliations from the most directly GAAP comparable measures of *Net cash provided by operating activities*.

Adjusted Cash Receipts is a measure calculated with inputs directly from the Statement of Cash Flows and includes (1) royalty receipts by product: (i) Cash collections from royalty assets (financial assets and intangible assets), (ii) *Other royalty cash collections*, (iii) *Distributions from non-consolidated affiliates*, plus (2) *Proceeds from available for sale debt securities;* less (3) *Distributions to non-controlling interest*, which represents contractual distributions of royalty receipts and proceeds from available for sale debt securities to our historical non-controlling interest attributable to a de minimis interest in RPCT held by certain legacy investors and to the non-controlling interest that was created as a result of the Exchange Offer Transactions in February 2020 related to the Legacy Investors Partnerships' ownership of approximately 18% in Old RPI. Adjusted Cash Receipts is most directly comparable to the GAAP measure of *Net cash provided by operating activities*.

Adjusted EBITDA and Adjusted Cash Flow are similar non-GAAP liquidity measures that are both most closely comparable to the GAAP measure, *Net cash provided by operating activities*. Adjusted EBITDA is important to our lenders and is defined under the Credit Agreement as Adjusted Cash Receipts less Payments for operating and professional costs. Payments for operating and professional costs are comprised of *Payments for operating and professional costs* and *Payments for rebates* from the Statement of Cash Flows.

Adjusted Cash Flow is defined as Adjusted EBITDA less (1) *Ongoing development-stage funding payments*, (2) *Interest paid*, net of *Interest received*, (3) Other (including *Derivative collateral posted*, net of *Derivative collateral received*, and *Termination payments on derivative instruments*) and (4) *Investments in non-consolidated affiliates*, plus (1) *Contributions from non-controlling interest- R&D*, all directly reconcilable to the Statement of Cash Flows.

Adjusted Cash Receipts and Adjusted Cash Flow are used by management as key liquidity measures in the evaluation of our ability to generate cash from operations. Both measures are an indication of the strength of the Company and the performance of the business. Management also uses Adjusted Cash Flow to compare its performance against non-GAAP adjusted net income used by companies in the biopharmaceutical industry. Adjusted EBITDA, as derived from Adjusted Cash Receipts, is used by our lenders to assess our ability to meet our financial covenants.

The following is a discussion of our results on a non-GAAP basis for the years ended December 31, 2021 and 2020. For a discussion comparing our results on a non-GAAP basis for the years ended December 31, 2020 and 2019, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

The table below includes the royalty receipts and non-GAAP financial results for the years ended December 31, 2021 and 2020 by product in order of contribution to royalty receipts for the year ended December 31, 2021.

(in thousands)	Years Ended December 31,		2021 vs. 2020 Change	
	2021	**2020**	**$**	**%**
Products				
Cystic fibrosis franchise (1)	$ 702,140	$ 551,338	$ 150,802	27.4 %
Tysabri	369,149	345,845	23,304	6.7 %
Imbruvica	352,911	322,071	30,840	9.6 %
Promacta	173,621	143,741	29,880	20.8 %
Xtandi	158,103	146,374	11,729	8.0 %
Januvia, Janumet, Other DPP-IVs (2)	151,158	143,753	7,405	5.2 %
HIV franchise (3)	78,038	293,808	(215,770)	(73.4) %
Nurtec ODT/Biohaven payment (4)	70,188	3,667	66,521	*
Prevymis	37,505	21,492	16,013	74.5 %
Farxiga/Onglyza	36,378	25,004	11,374	45.5 %
Tremfya	35,718	—	35,718	— %
Cabometyx/Cometriq	33,722	—	33,722	— %
Crysvita	16,741	9,454	7,287	77.1 %
Evrysdi	16,098	273	15,825	*
Emgality	15,481	9,529	5,952	62.5 %
Erleada	14,227	7,876	6,351	80.6 %
Trodelvy	13,395	3,031	10,364	*
IDHIFA	12,404	6,111	6,293	103.0 %
Orladeyo	6,740	—	6,740	— %
Tazverik	2,794	522	2,272	*
Oxlumo	1,248	—	1,248	— %
Other products (5)	310,783	310,510	273	0.1 %
Total royalty receipts	**$ 2,608,542**	**$ 2,344,399**	**$ 264,143**	**11.3 %**
Distributions to non-controlling interest	(479,604)	(543,952)	64,348	(11.8) %
Adjusted Cash Receipts (non-GAAP)	**$ 2,128,938**	**$ 1,800,447**	**$ 328,491**	**18.2 %**
Payments for operating and professional costs	(184,511)	(179,709)	(4,802)	2.7 %
Adjusted EBITDA (non-GAAP)	**$ 1,944,427**	**$ 1,620,738**	**$ 323,689**	**20.0 %**
Interest paid, net	(127,295)	(95,492)	(31,803)	33.3 %
Investments in non-consolidated affiliates	(34,855)	(40,155)	5,300	(13.2) %
Ongoing development-stage funding payments	(6,876)	(20,479)	13,603	(66.4) %
Other	(16,093)	9,804	(25,897)	(264.1) %
Contributions from non-controlling interest- R&D	7,339	8,482	(1,143)	(13.5) %
Adjusted Cash Flow (non-GAAP)	**$ 1,766,647**	**$ 1,482,898**	**$ 283,749**	**19.1 %**
Fully diluted Class A ordinary shares outstanding	**607,176**	**607,111**		

*Percentage change is not meaningful.

(1) The cystic fibrosis franchise includes the following approved products: Kalydeco, Orkambi, Symdeko/Symkevi and Trikafta/Kaftrio.
(2) Januvia, Janumet, Other DPP-IVs include the following approved products: Tradjenta, Onglyza, Kombiglyze, Galvus, Eucreas and Nesina. The Other DPP-IVs are marketed by Boehringer Ingelheim, AstraZeneca, Novartis and Takeda.
(3) The HIV franchise includes the following approved products: Atripla, Truvada, Emtriva, Complera, Stribild, Genvoya, Descovy, Odefsey, Symtuza and Biktarvy. Royalties are received on the emtricitabine portion of sales only.
(4) Includes royalty receipts for Nurtec ODT of $7.7 million and quarterly redemptions of $15.6 million of the Series A Biohaven Preferred Shares (presented as *Proceeds from available for sale debt securities* on the Statement of Cash Flows) for the year ended December 31, 2021. For the year ended December 31, 2020, the amount also includes a payment from Biohaven in respect of an expired option to exercise additional funding of the Biohaven Series A Preferred Shares which is presented as *Proceeds from available for sale debt securities* on the Statement of Cash Flows.
(5) Other products primarily include royalties on the following products: Bosulif (a product co-developed by our joint venture investee, Avillion, for which receipts are presented as *Distributions from non-consolidated affiliates* on the Statement of Cash Flows), Lexiscan, Soliqua, Nesina, Cimzia, Letairis, Entyvio, Myozyme, Mircera and Lyrica. Other products for the year ended December 31, 2021 includes a one-time milestone payment of $45.0 million that we received on Soliqua. Other products for the year ended December 31, 2020 includes a one-time $21.3 million distribution from Avillion in respect of the Merck KGaA Asset for which the receipt is presented as *Distributions from non-consolidated affiliates* in both the operating and investing section of the Statement of Cash Flows. Subsequent to the Exchange Offer Date, other products also includes contributions from the Legacy SLP Interest.

Adjusted Cash Receipts (non-GAAP)

Adjusted Cash Receipts increased by $328.5 million to $2.1 billion in the year ended December 31, 2021 compared to the year ended December 31, 2020, primarily driven by an increase in royalty receipts from the cystic fibrosis franchise, including royalty receipts related to the residual interest in the cystic fibrosis franchise that we acquired in October 2020, fixed payments from Biohaven on the Series A Biohaven Preferred Shares and new assets acquired subsequent to the year ended December 31, 2020. Offsetting the increase in royalty receipts was a decline in royalty receipts from maturing assets, primarily the HIV franchise, Lyrica and Letairis. Additionally, we received one-time payments of $45.0 million related to a commercial milestone for Soliqua and $21.3 million from Avillion II in connection with the cessation of our involvement in the Merck KGaA Asset development in the years ended December 31, 2021 and 2020, respectively. The increase in Adjusted Cash Receipts was further driven by a decrease in distributions to non-controlling interest, primarily due to a decline in royalty receipts from maturing assets in the year ended December 31, 2021 and a non-recurring distribution to the Legacy Investors Partnerships made in connection with the Exchange Offer Transactions that occurred in the three months ended March 31, 2020.

Below we discuss the key drivers of royalty receipts.

Royalty Receipts

- **Cystic fibrosis franchise** – Royalty receipts from the cystic fibrosis franchise, which includes Kalydeco, Orkambi, Symdeko/Symkevi and Trikafta/Kaftrio, which are marketed by Vertex for patients with certain mutations causing cystic fibrosis, increased by $150.8 million in the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase was primarily driven by the performance of Trikafta in the United States, including its rapid uptake in children 6 through 11 years old and the launch of Kaftrio in Europe. The year ended December 31, 2021 also benefited from a clawback adjustment related to Vertex's agreement with French authorities around reimbursement for Orkambi, which had reduced royalty receipts in the three months ended March 31, 2020 by approximately $41 million (to reflect a true-up in prior periods where we collected royalties on sales in France at a higher selling price). Following our acquisition of the residual interest in the cystic fibrosis franchise from the Cystic Fibrosis Foundation in the three months ended December 31, 2020, we are entitled to all royalty receipts on annual worldwide net sales above $5.8 billion. We received royalty receipts related to the residual interest in the cystic fibrosis franchise in the year ended December 31, 2021.

- **Tysabri** – Royalty receipts from Tysabri, which is marketed by Biogen for the treatment of multiple sclerosis, increased by $23.3 million in the year ended December 31, 2021 compared to the year ended December 31, 2020, primarily driven by continued patient growth.

- **Imbruvica** – Royalty receipts from Imbruvica, which is marketed by AbbVie and Johnson & Johnson for the treatment of blood cancers and chronic graft versus host disease, increased by $30.8 million in the year ended December 31, 2021 compared to the year ended December 31, 2020, primarily driven by continued global penetration in patients with chronic lymphocytic leukemia and favorable pricing. This increase was partially offset by modest market share losses in the United States, lower new patient starts due to the COVID-19 pandemic as well as the impact of COVID-19 inventory stocking.

- **Promacta** – Royalty receipts from Promacta, which is marketed by Novartis for the treatment of chronic immune thrombocytopenia and aplastic anemia, increased by $29.9 million in the year ended December 31, 2021 compared to the year ended December 31, 2020. This growth was primarily driven by increased use in chronic immune thrombocytopenia and as first-line treatment for severe aplastic anemia in the United States.

- **Xtandi** – Royalty receipts from Xtandi, which is marketed by Pfizer and Astellas for the treatment of prostate cancer, increased by $11.7 million in the year ended December 31, 2021 compared to the year ended December 31, 2020, primarily driven by demand across various prostate cancer indications.

- **Januvia, Janumet, Other DPP-IVs** – Royalty receipts from the DPP-IVs for type 2 diabetes, which includes Januvia and Janumet, both marketed by Merck & Co., increased $7.4 million in the year ended December 31, 2021 compared to the year ended December 31, 2020.

- **Nurtec ODT** – Royalty receipts from Nurtec ODT, marketed by Biohaven and Pfizer for the acute treatment of migraine, were $7.7 million in the year ended December 31, 2021. In addition, as a result of the approval of Nurtec ODT in February 2020, we received $62.5 million in fixed payments from Biohaven in the year ended December 31, 2021, which represent the first four of 16 consecutive quarterly payments to be received from Biohaven relating to the Series A Biohaven Preferred Shares.

- **Tremfya** – Royalty receipts from Tremfya, which is marketed by Johnson & Johnson, were $35.7 million in the year ended December 31, 2021. We acquired the Tremfya royalty in July 2021.

- **Cabometyx/Cometriq** – Royalty receipts from Cabometyx/Cometriq, which is marketed by Exelixis, Ipsen and Takeda, were $33.7 million in the year ended December 31, 2021. We acquired the Cabometyx/Cometriq royalty in March 2021.

- **HIV franchise** – Royalty receipts from the HIV franchise, which is based on products marketed by Gilead that contain emtricitabine, including Biktarvy, Genvoya and Truvada, among others, decreased by $215.8 million in the year ended December 31, 2021 compared to the year ended December 31, 2020. This decrease was driven by the maturity of our royalties from the HIV franchise in 2021.

Distributions to Non-Controlling Interest

Distributions to non-controlling interest decreased by $64.3 million to $479.6 million in the year ended December 31, 2021 compared to the year ended December 31, 2020, which positively impacted Adjusted Cash Receipts. The decrease in distributions to non-controlling interest is primarily due to a decline in royalty receipts from maturing assets, primarily the HIV franchise, and a non-recurring distribution to the Legacy Investors Partnerships made in connection with the Exchange Offer Transactions that occurred in the three months ended March 31, 2020. Partially offsetting these decreases was a distribution to non-controlling interest related to the one-time milestone payment we received on Soliqua in the year ended December 31, 2021.

Adjusted EBITDA (non-GAAP)

Adjusted EBITDA increased by $323.7 million to $1.9 billion in the year ended December 31, 2021 compared to the year ended December 31, 2020 as a result of the factors noted above in “Adjusted Cash Receipts (Non-GAAP).” Payments for operating and professional costs, the only adjustment between Adjusted Cash Receipts and Adjusted EBITDA, increased slightly in the year ended December 31, 2021 as a result of higher Operating and Personnel Payments under the terms of our Management Agreement offset by a decrease in non-recurring professional services fees, restructuring fees and refinancing fees incurred in the year ended December 31, 2020 in connection with the Exchange Offer Transactions and the IPO.

Adjusted Cash Flow (non-GAAP)

Years ended December 31, 2021 and 2020

Adjusted Cash Flow increased by $283.7 million to $1.8 billion in the year ended December 31, 2021 compared to the year ended December 31, 2020 primarily for the same reasons noted above in "Adjusted Cash Receipts (Non-GAAP)" and "Adjusted EBITDA (non-GAAP)." The adjustments between "Adjusted EBITDA (non-GAAP)" and "Adjusted Cash Flow (non-GAAP)" increased by $39.9 million in the year ended December 31, 2021 compared to the year ended December 30, 2020. The increase was driven by a $31.8 million increase in net interest paid in the year ended December 31, 2021 due to a shift to semi-annual interest payments on the 2020 Notes and a $16.1 million one-time payment related to the settlement of treasury rate lock contracts in connection with the 2021 Notes issuance. This increase was partially offset by lower ongoing development-stage funding requirements under our co-funding agreement with Sanofi and lower funding requirements by the Avillion entities in 2021 following the cessation of our involvement in the Merck KGaA Asset development in 2020.

Non-GAAP Reconciliations

Adjusted Cash Receipts, Adjusted EBITDA and Adjusted Cash Flow are non-GAAP measures presented as supplemental measures to our GAAP financial performance. These non-GAAP financial measures exclude the impact of certain items and therefore have not been calculated in accordance with GAAP. In each case, because our operating performance is a function of our liquidity, the non-GAAP measures used by management are presented and defined as supplemental liquidity measures. We caution readers that amounts presented in accordance with our definitions of Adjusted Cash Receipts, Adjusted EBITDA and Adjusted Cash Flow may not be the same as similar measures used by other companies. Not all companies and analysts calculate the non-GAAP measures we use in the same manner. We compensate for these limitations by using non-GAAP financial measures as supplements to GAAP financial measures and by presenting the reconciliations of the non-GAAP financial measures to their most comparable GAAP financial measures, in each case being *Net cash provided by operating activities*.

We believe that Adjusted Cash Receipts and Adjusted Cash Flow provide meaningful information about our operating performance because the business is heavily reliant on its ability to generate consistent cash flows and these measures reflect the core cash collections and cash charges comprising our operating results. Management strongly believes that our significant operating cash flow is one of the attributes that attracts potential investors to our business.

In addition, we believe that Adjusted Cash Receipts and Adjusted Cash Flow help identify underlying trends in the business and permit investors to more fully understand how management assesses the performance of the Company, including planning and forecasting for future periods. Adjusted Cash Receipts and Adjusted Cash Flow are used by management as key liquidity measures in the evaluation of the Company's ability to generate cash from operations. Both measures are an indication of the strength of the Company and the performance of the business. Management uses Adjusted Cash Receipts and Adjusted Cash Flow when considering available cash, including for decision-making purposes related to funding of acquisitions, voluntary debt repayments, dividends and other discretionary investments. Further, these non-GAAP financial measures help management, the audit committee and investors evaluate our ability to generate liquidity from operating activities.

Management believes that Adjusted EBITDA is an important non-GAAP measure in analyzing our liquidity and is a key component of certain material covenants contained within the Company's credit agreement. Noncompliance with the interest coverage ratio and leverage ratio covenants under the credit agreement could result in our lenders requiring the Company to immediately repay all amounts borrowed. If we cannot satisfy these financial covenants, we would be prohibited under our credit agreement from engaging in certain activities, such as incurring additional indebtedness, paying dividends, making certain payments and acquiring and disposing of assets. Consequently, Adjusted EBITDA is critical to the assessment of our liquidity.

Management uses Adjusted Cash Flow to evaluate its ability to generate cash and performance of the business and to evaluate the Company's performance as compared to its peer group. Management also uses Adjusted Cash Flow to compare its performance against non-GAAP adjusted net income measures used by many companies in the biopharmaceutical industry, even though each company may customize its own calculation and therefore one company's metric may not be directly comparable to another's. We believe that non-GAAP financial measures, including Adjusted Cash Flow, are frequently used by securities analysts, investors and other interested parties to evaluate companies in our industry.

The non-GAAP financial measures used in this Annual Report on Form 10-K have limitations as analytical tools, and you should not consider them in isolation or as a substitute for the analysis of our results as reported under GAAP. We have provided a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure, in each case being *Net cash provided by operating activities* below.

To arrive at Adjusted Cash Receipts, we start with the GAAP line item, *Net cash provided by operating activities*, and adjust for the following items from the Statement of Cash Flows: to add back (1) *Proceeds from available for sale debt securities* (primarily the redemption of Biohaven Preferred Shares), which are cash inflows that management believes are derived from royalties and form part of our core business strategy, (2) *Distributions from non-consolidated affiliates* which are cash inflows from investing activities, (3) *Interest paid*, net of *Interest received*, (4) Development-stage funding payments, (5) *Payments for operating and professional costs*, (6) *Payments for rebates* and (7) *Termination payments on derivative instruments*, and to deduct (1) *Distributions to non-controlling interest*, which represents distributions to our historical non-controlling interest attributable to a de minimis interest in RPCT held by certain legacy investors and to a new non-controlling interest that was created as a result of the Exchange Offer Transactions in February 2020 related to the Legacy Investors Partnerships' ownership of approximately 18% in Old RPI and (2) Derivative collateral posted or (received), net, both of which are excluded when management assesses its operating performance through cash collections, or, Adjusted Cash Receipts.

To arrive at Adjusted EBITDA, we start with *Net cash provided by operating activities* and adjust for the following items from the Statement of Cash Flows: to add back (1) *Proceeds from available for sale debt securities* (primarily redemption of Biohaven Preferred Shares), (2) *Distributions from non-consolidated affiliates* which are cash inflows from investing activities, (3) *Interest paid*, net of *Interest received*, (4) Development-stage funding payments and (5) *Termination payments on derivative instruments*, and to deduct (1) *Distributions to non-controlling interest* and (2) Derivative collateral posted or (received), net.

To arrive at Adjusted Cash Flow, we start with *Net cash provided by operating activities* and adjust for the following items from the Statement of Cash Flows: to add back (1) *Proceeds from available for sale debt securities* (primarily redemption of Biohaven Preferred Shares), (2) *Distributions from non-consolidated affiliates* classified as Cash used in investing activities, (3) *Upfront development-stage funding payments* and (4) *Contributions from non-controlling interest- R&D*, and to deduct (1) *Distributions to non-controlling interest* and (2) *Investments in non-consolidated affiliates*. This is intended to present an Adjusted Cash Flow measure that is representative of cash generated from the broader business strategy of acquiring royalty-generating assets that are available for reinvestment and for discretionary purposes.

(in thousands)	Years Ended December 31,	
	2021	**2020**
Net cash provided by operating activities (GAAP)	$ 2,017,536	$ 2,034,629
Adjustments:		
Proceeds from available for sale debt securities (1), (2)	62,500	3,000
Distributions from non-consolidated affiliates – investing (2)	523	15,084
Interest paid, net (2)	127,295	95,492
Ongoing development-stage funding payments (3)	6,876	20,479
Upfront development-stage funding payments (3)	193,208	5,810
Payments for operating and professional costs	184,511	179,709
Termination payments on derivative instruments	16,093	35,448
Distributions to non-controlling interest (2)	(479,604)	(543,952)
Derivative collateral received, net (2)	—	(45,252)
Adjusted Cash Receipts (non-GAAP)	**$ 2,128,938**	**$ 1,800,447**
Net cash provided by operating activities (GAAP)	$ 2,017,536	$ 2,034,629
Adjustments:		
Proceeds from available for sale debt securities (1), (2)	62,500	3,000
Distributions from non-consolidated affiliates – investing (2)	523	15,084
Interest paid, net (2)	127,295	95,492
Ongoing development-stage funding payments (3)	6,876	20,479
Upfront development-stage funding payments (3)	193,208	5,810
Termination payments on derivative instruments	16,093	35,448
Distributions to non-controlling interest (2)	(479,604)	(543,952)
Derivative collateral received, net (2)	—	(45,252)
Adjusted EBITDA (non-GAAP)	**$ 1,944,427**	**$ 1,620,738**
Net cash provided by operating activities (GAAP)	$ 2,017,536	$ 2,034,629
Adjustments:		
Proceeds from available for sale debt securities (1), (2)	62,500	3,000
Distributions from non-consolidated affiliates – investing (2)	523	15,084
Upfront development-stage funding payments (3)	193,208	5,810
Distributions to non-controlling interest (2)	(479,604)	(543,952)
Investments in non-consolidated affiliates (2), (4)	(34,855)	(40,155)
Contributions from non-controlling interests-R&D (2)	7,339	8,482
Adjusted Cash Flow (non-GAAP)	**$ 1,766,647**	**$ 1,482,898**

(1) Receipts from the quarterly redemption of the Series A Biohaven Preferred Shares are presented as *Proceeds from available for sale debt securities* on the Statement of Cash Flows for the year ended December 31, 2021. A payment from Biohaven in respect of an expired option to exercise additional funding of the Biohaven Series A Preferred Shares is presented as *Proceeds from available for sale debt securities* on the Statement of Cash Flows for the year ended December 31, 2020.

(2) The table below shows the line item for each adjustment and the direct location for such line item on the Statement of Cash Flows.

Reconciling Adjustment	Statement of Cash Flows Classification
Proceeds from available for sale debt securities	Investing activities
Investments in non-consolidated affiliates	Investing activities
Distributions to non-controlling interest	Financing activities
Interest paid, net	Operating activities (*Interest paid* less *Interest received*)
Derivative collateral (received)/posted, net	Operating activities (*Derivative collateral received* less *Derivative collateral posted*)
Contributions from non-controlling interest- R&D	Financing activities
Distributions from non-consolidated affiliates - investing	Investing activities

(3) Our lenders consider all payments made to support R&D activities for products undergoing late-stage development similar to asset acquisitions as these funds are expected to generate operational returns in the future. All ongoing and upfront development-stage funding payments are reported in R&D funding expense in net income and are added back in aggregate to *Net cash provided by operating activities* to arrive at Adjusted EBITDA. As a result, Adjusted EBITDA captures the full add-back for R&D funding payments while Adjusted Cash Flow only reflects the add-back for the upfront portion of development-stage funding payments due to the fact that ongoing development-stage funding payments are considered an ongoing business expense.

(4) We consider all payments to fund our operating joint ventures that are performing R&D activities for products undergoing late stage development similar to asset acquisitions as these funds are expected to generate operational returns in the future. As a result, amounts funded through capital calls by our equity method investees, the Avillion Entities, are deducted to arrive at Adjusted Cash Flow, but are not deducted in Adjusted EBITDA.

Investments Overview

Ongoing investment in new royalties is fundamental to the long-term prospects of our business. New investments provide a source of growth for our royalty receipts, supplementing growth within our existing portfolio and offsetting declines for products in our portfolio that have lost market exclusivity. We evaluate an array of royalty acquisition opportunities on a continuous basis and expect to continue to make acquisitions in the ordinary course of our business. Our team has established a strong track record of identifying, evaluating and investing in royalties tied to leading products across therapeutic areas and treatment modalities. We invest in approved products and development-stage product candidates that have generated robust proof of concept data. We invest in these therapies through the purchase of royalties, by making hybrid investments and by acquiring businesses with significant existing royalty assets or the potential for the creation of such assets.

For the year ended December 31, 2021, we invested $2.7 billion in royalties and related assets across five separate transactions. While volatility exists in the quantum of our new acquisitions on a year-to-year basis due to the unpredictable timing of new investment opportunities, we have consistently deployed significant amounts of cash when measured over multi-year periods. Our approach is rooted in a highly disciplined evaluation process that is not dictated by a minimum annual investment threshold.

Included below is a table of investment activity over each of the last ten years based on the type of investment at the acquisition date. Amounts presented in the table below reflect cash paid at the acquisition date; any associated contractual payments are reflected in the period in which cash was paid.

(in thousands)	Average	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Approved / marketed royalties	$ 1,018,039	$ 1,819,903	$ 1,404,221	$ 1,848,711	$ 269,554	$ 2,200,480	$ 1,197,210	$ 337,882	$ 468,427	$ 510,000	$ 124,000
Development-stage royalties (1) (2)	778,633	830,713	894,469	445,699	569,592	220,093	99,242	120,285	3,428,530	391,287	786,417
Totals	$ 1,796,672	$ 2,650,616	$ 2,298,690	$ 2,294,410	$ 839,146	$ 2,420,573	$ 1,296,452	$ 458,167	$ 3,896,957	$ 901,287	$ 910,417

(1) Development stage royalties include: direct R&D funding arrangements and funding arrangements executed through our joint venture partnership with the Avillion Entities, investments in development-stage product candidates, and investments in securities primarily made in connection with acquisitions of royalties on development stage products from the seller.
(2) In 2014, acquisitions of development-stage royalties included $3.3 billion for the acquisition of royalties on the cystic fibrosis franchise. At the time of the investment, Kalydeco was the only approved product in the franchise, while the vast majority of the value of our investment was tied to development-stage product candidates.

Summary of royalty acquisition activity

- In January 2022, we acquired a royalty interest in aficamten from Cytokinetics, Incorporated ("Cytokinetics") for $150.0 million comprised of an upfront payment of $50 million and two additional $50 million payments, conditional upon the initiation of potential pivotal clinical trials for oHCM and nonobstructive hypertrophic cardiomyopathy, respectively. Additionally, we will provide Cytokinetics long-term capital of up to $300 million ("Cytokinetics Commercial Launch Funding") to support potential commercialization of omecamtiv mecarbil and further development of aficamten. The Cytokinetics Commercial Launch Funding is available in five tranches, including an initial tranche of $50 million funded upon closing and four additional tranches in the aggregate amount of $250 million to be funded upon the occurrence of certain regulatory and clinical development milestones.

- In November 2021, we acquired incremental royalty interests in BCX9930 and Orladeyo (berotralstat) from BioCryst for an upfront cash payment of $150 million. Additionally, we paid $50 million to purchase 3,846 thousand shares of common stock in BioCryst, which was calculated based on the volume-weighted average price of BioCryst common stock over a period preceding the closing of the transaction. The funds from this transaction will enable further advancement of BCX9930 and support additional investment in the global launch of Orladeyo (berotralstat).

- In June 2021, we announced a long-term strategic funding partnership with MorphoSys AG ("MorphoSys") to support MorphoSys' acquisition of Constellation Pharmaceuticals, Inc. ("Constellation"), which closed on July 15, 2021. We agreed to provide up to $2.025 billion of funding to MorphoSys, comprised of an upfront payment of $1.425 billion, additional milestone payments of up to $150 million, up to $350 million of capital ("Development Funding Bonds"), which MorphoSys may draw over a one-year period from the close of its acquisition of Constellation. MorphoSys is required to draw a minimum of $150 million of Development Funding Bonds. In connection with the closing of MorphoSys' acquisition of Constellation, we purchased 1,337,552 ordinary shares of MorphoSys for $100 million at a price of €63.35 per ordinary share, based on the average trading price of the ordinary shares over a period preceding the closing of the acquisition.

- In April 2021, we acquired a royalty interest in Oxlumo from Dicerna Pharmaceuticals, Inc. for an upfront cash payment of $180 million and up to $60 million in contingent sales-based milestone payments. Oxlumo, which has been approved by the FDA and EMA for the treatment of primary hyperoxaluria (PH) type 1, is marketed by Alnylam.

- In March 2021, we acquired a royalty interest in the cabozantinib products Cabometyx and Cometriq from GSK for an upfront payment of $342 million and up to $50 million in additional payments contingent on the achievement of regulatory approvals of cabozantinib for prostate cancer and lung cancer in the United States and Europe.

- In January 2021, we acquired a royalty interest in seltorexant from Minerva Neurosciences, Inc. for an upfront payment of $60 million and up to $95 million in additional milestone payments, contingent on the achievement of certain clinical, regulatory and commercialization milestones. Seltorexant is currently in Phase 3 development for the treatment of major depressive disorder (MDD) with insomnia symptoms by Johnson & Johnson.

- In December 2020, we acquired royalty interests from BioCryst on (1) Orladeyo (berotralstat) to support the launch of the product in hereditary angioedema (HAE) and (2) its development stage Factor D inhibitor BCX9930 in exchange for an upfront cash payment of $125 million.

- In October 2020, we acquired the residual royalty interest in Vertex's cystic fibrosis franchise owned by the Cystic Fibrosis Foundation. The agreement includes an upfront payment of $575 million and a potential milestone payment of $75 million.

- In August 2020, we entered into an expanded agreement with Biohaven for up to $450 million to fund the development of zavegepant and the commercialization of Nurtec ODT. Biohaven received an upfront payment of $150 million at closing and received an additional $100 million payment in March 2021 upon the start of the oral zavegepant Phase 3 program. We will receive a royalty on Nurtec ODT and zavegepant and success-based milestone payments based on zavegepant regulatory approvals. We are also committed to provide further support for the ongoing launch of Nurtec ODT through the purchase of committed, non-contingent Commercial Launch Preferred Equity (defined below) for a total of $200 million payable on a quarterly basis from the three months ended March 31, 2021 through the three months ended December 31, 2024. In return, Biohaven will pay a series of equal fixed payments from the three months ended March 31, 2025 through the three months ended December 31, 2030.

- In July 2020, we acquired a royalty on risdiplam, a development-stage product for the treatment of Types 1, 2 and 3 spinal muscular atrophy (SMA) from PTC Therapeutics, Inc. in exchange for an upfront payment of $650 million. Evrysdi (risdiplam) was subsequently approved by the FDA in August 2020, representing the first, oral treatment approved for infants, children and adults with all SMA types.

- In June 2020, we acquired a royalty on (1) Prevymis, an approved product to prevent cytomegalovirus infection in stem cell transplants, from AiCuris Anti-infective Cures GmbH in exchange for an upfront payment of $220 million and (2) IDHIFA, an approved product for the treatment of adult patients with relapsed or refractory acute myeloid leukemia (AML) with an isocitrate dehydrogenase-2 mutation, from Agios Pharmaceuticals, Inc. in exchange for an upfront payment of $255 million.

- In March 2020, we acquired a royalty on Entyvio, an approved product for the treatment of ulcerative colitis and Crohn’s disease, from The General Hospital Corporation in exchange for an upfront payment of $86.6 million.

- In the fourth quarter of 2019, we agreed to pay $320 million to acquire from Ultragenyx Pharmaceutical, Inc. a royalty on the European sales of Crysvita, an approved product for the treatment of x-linked hypophosphatemia, a rare genetic orphan disease that has a profound impact on bone development in adults and children, subject to certain caps.

- In the fourth quarter of 2019, we agreed to pay up to $330 million to purchase a royalty owned by Eisai, on future worldwide sales outside Japan of Tazverik (tazemetostat), a novel targeted therapy in late-stage clinical development with the potential to be approved in several cancer indications. We acquired a portion Eisai’s future worldwide royalties on net sales by Epizyme of Tazverik outside Japan, for an upfront payment of $110 million plus up to an additional $220 million for the remainder of the royalty upon FDA approval of Tazverik for certain indications. The FDA approved Tazverik in January 2020 for epithelioid sarcoma which triggered our obligation to fund the second $110 million tranche in November 2020. In June 2020, the FDA approval of additional indications triggered our recognition of a liability for the final tranche of $110.0 million, which was paid in November 2021.

- In the fourth quarter of 2019, we made a $100 million investment in Epizyme. In exchange for an upfront payment of $100 million, we received (1) shares of Epizyme common stock, (2) a warrant to purchase an additional 2.5 million shares of Epizyme common stock at $20 per share over a three-year term and (3) Epizyme’s royalty on sales of Tazverik in Japan payable by Eisai. We also lowered Epizyme’s royalty on Tazverik above certain sales thresholds and granted Epizyme an 18-month put option to sell an additional $50 million of its common stock to RPIFT at then-prevailing prices, not to exceed $20 per share. Epizyme exercised its put option on December 30, 2019, which resulted in Epizyme issuing RPIFT 2.5 million shares on settlement in February 2020.

- In the first quarter of 2019, we entered into a preferred share purchase agreement with Biohaven through which we purchased $125 million in Series A Preferred Shares, providing us with a fixed return on redemption of two times our investment on FDA approval of Biohaven’s pipeline product, Nurtec ODT, for migraine treatment. The FDA approved Nurtec ODT for the acute treatment of migraine in adults in February 2020.

- In the first quarter of 2019, we acquired the following: (1) a royalty on Promacta, an approved product for the treatment of chronic immune thrombocytopenia and aplastic anemia, from Ligand Pharmaceuticals in exchange for an upfront payment of $827 million, (2) a royalty on Lilly's Emgality, an approved product for the treatment of migraine, from Atlas Ventures and Orbimed for $260 million and (3) a royalty on Johnson & Johnson's Erleada, an approved product for the treatment of prostate cancer, from the Regents of the University of California for $105.4 million and potential future milestones.

Additionally, in April 2021, we entered into an agreement with MSCI Inc. ("MSCI"), a leading provider of critical decision support tools and services where we will assist MSCI to design a classification framework and index methodologies which will expand MSCI's thematic index suite with the launch of new indexes. In return, we will receive a portion of MSCI's revenues from those indexes. The financial statement impact associated with this transaction was not material for the year ended December 31, 2021.

Liquidity and Capital Resources

Overview

Our primary source of liquidity is cash provided by operations. For the years ended December 31, 2021, 2020 and 2019, we generated $2.0 billion, $2.0 billion and $1.7 billion, respectively, in *Net cash provided by operating activities*. We believe that our existing capital resources, cash provided by operating activities and our Revolving Credit Facility will continue to allow us to meet our operating and working capital requirements, to fund planned strategic acquisitions and R&D funding arrangements, and to meet our debt service obligations for the foreseeable future. We have historically operated at a low level of fixed operating costs. Our primary cash operating expenses, other than R&D funding commitments, include interest expense, our Operating and Personnel Payments, and legal and professional fees.

We have access to substantial sources of funds in the capital markets and we may, from time to time, seek additional capital through a combination of additional debt or equity financings. In June 2020, we completed our IPO and received net proceeds of approximately $1.9 billion from the IPO after deducting underwriting discounts and commissions of approximately $86.3 million. In February 2020, in connection with the Exchange Offer Transactions, we repaid outstanding debt held by RPIFT in full and issued new long-term debt at RPI Intermediate FT. In September 2020, we repaid in full our senior secured credit facilities entered into in February 2020 using the proceeds of the 2020 Notes in addition to cash on hand. In July 2021, we issued an additional $1.3 billion of senior unsecured notes. Additionally, we have a Revolving Credit Facility which provides for borrowing capacity of up to $1.5 billion that remains undrawn and available to us as of December 31, 2021. As of December 31, 2021 and 2020, we had total long-term debt outstanding of $7.1 billion and $5.8 billion, respectively.

We have historically funded our acquisition program through free cash flow, equity contributions and debt. Our low operating costs coupled with a lack of capital expenditures and low taxes have contributed to our strong financial profile, resulting in high operating leverage and high conversion of our Adjusted Cash Receipts to Adjusted Cash Flow. We expect to continue funding our current and planned operating costs (excluding acquisitions) principally through our cash flow from operations and our acquisition program through cash flow and issuances of equity and debt. In the past, we have supplemented our available cash and cash equivalents on hand with attractive debt capital to fund certain strategic acquisitions.

Our ability to satisfy our working capital needs, debt service and other obligations, and to comply with the financial covenants under our financing agreements depends on our future operating performance and cash flow, which are in turn subject to prevailing economic conditions and other factors, many of which are beyond our control.

Cash flows

The following table and analysis of cash flow changes presents a summary of our cash flow activity for the year ended December 31, 2021 compared to the year ended December 31, 2020. For a discussion of the year ended December 31, 2020 compared to the year ended December 31, 2019, please refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

(in thousands)	Years Ended December 31,		2021 vs 2020
	2021	2020	Change
Cash provided by (used in):			
Operating activities	$ 2,017,536	$ 2,034,629	$ (17,093)
Investing activities	$ (1,870,280)	$ (2,759,320)	$ 889,040
Financing activities	$ 385,112	$ 1,487,172	$ (1,102,060)

Analysis of Cash Flow Changes

Operating activities

Years ended December 31, 2021 and 2020

Cash provided by operating activities decreased by $17.1 million in the year ended December 31, 2021 compared to the year ended December 31, 2020, primarily driven by an increase of $187.4 million in upfront R&D funding and an increase of $27.2 million in interest paid. The increase was driven by upfront R&D funding payments of $103.2 million related to an additional royalty on a development-stage product acquired in connection with our expanded funding agreement with BioCryst and $90.0 million related royalties on two development-stage products acquired from MorphoSys. The increase in interest paid was primarily due to the shift from quarterly to semi-annual interest payments with the issuance of the 2020 Notes, for which we did not make any interest payments on the 2020 Notes in the year ended December 31, 2020. The higher uses of cash were partially offset by an increase in cash collections from financial royalty assets of $193.9 million.

Investing activities

Years ended December 31, 2021 and 2020

Cash used in investing activities decreased by $889.0 million in the year ended December 31, 2021 compared to the year ended December 31, 2020, primarily driven by a $1.3 billion increase in the overall net cash provided by marketable securities which was partially offset by a decrease of $268.9 million in proceeds from equity securities. We received $116.0 million related to the sale of our Cytokinetics common stock and a portion of our Biohaven common shares in the year ended December 31, 2021, as compared to $384.8 million received from the full redemption of our investment in Immunomedics common stock upon its acquisition by Gilead in the fourth quarter of 2020. The decrease in cash used in investing activities was further offset by an increase of $85.1 million in purchases of equity securities. We purchased $135.1 million of equity securities in Morphosys and BioCryst in the year ended December 31, 2021, compared to purchases of equity securities of $50.0 million related to the exercise of the Epizyme put option in the year ended December 31, 2020.

Financing activities

Years ended December 31, 2021 and 2020

Cash provided by financing activities decreased by $1.1 billion in the year ended December 31, 2021 compared to the year ended December 31, 2020, primarily driven by the $1.9 billion net proceeds received from our IPO in June 2020. Offsetting the decreases in cash provided by financing activities were net proceeds of $1.3 billion from issuance of 2021 Notes in the year ended December 31, 2021 compared to the net proceeds of $727.9 million related to the debt refinancings in the year ended December 31, 2020.

Sources of Capital

As of December 31, 2021, our cash and cash equivalents and marketable securities totaled $1.5 billion and $581.9 million, respectively. As of December 31, 2020, our cash and cash equivalents and marketable securities totaled $1.0 billion and $983.3 million, respectively. We intend to fund short-term and long-term financial obligations as they mature through cash and cash equivalents, sales of marketable securities, future cash flows from operations or the issuance of additional debt. Our ability to generate cash flows from operations, issue debt or enter into financing arrangements on acceptable terms could be adversely affected if there is a material decline in the sales of the underlying pharmaceutical products in which we hold royalties, deterioration in our key financial ratios or credit ratings, or other material unfavorable changes in business conditions. Currently, we believe that we have sufficient financial flexibility to issue debt, enter into other financing arrangements and attract long-term capital on acceptable terms to support our growth objectives.

Borrowings

Our borrowings at December 31, 2021 and 2020 consisted of the following (in thousands):

	Date of Issuance	Maturity	December 31, 2021	December 31, 2020
Senior Unsecured Notes:				
$1,000,000, 0.75% (issued at 99.322% of par)	9/2020	9/2023	$ 1,000,000	$ 1,000,000
$1,000,000, 1.20% (issued at 98.875% of par)	9/2020	9/2025	1,000,000	1,000,000
$1,000,000, 1.75% (issued at 98.284% of par)	9/2020	9/2027	1,000,000	1,000,000
$1,000,000, 2.20% (issued at 97.760% of par)	9/2020	9/2030	1,000,000	1,000,000
$600,000, 2.15% (issued at 98.263% of par)	7/2021	9/2031	600,000	—
$1,000,000, 3.30% (issued at 95.556% of par)	9/2020	9/2040	1,000,000	1,000,000
$1,000,000, 3.55% (issued at 95.306% of par)	9/2020	9/2050	1,000,000	1,000,000
$700,000, 3.35% (issued at 97.565% of par)	7/2021	9/2051	700,000	—
Total senior unsecured debt			7,300,000	6,000,000
Unamortized debt discount and issuance costs			(203,930)	(183,416)
Total long-term debt			**$ 7,096,070**	**$ 5,816,584**

Senior Unsecured Notes

On July 26, 2021, we issued $1.3 billion of the 2021 Notes with a weighted average coupon rate of 2.80% and requiring annual interest payments of approximately $36.4 million, paid semi-annually. On September 2, 2020, we issued $6.0 billion of the 2020 Notes with a weighted average coupon rate of 2.125% and requiring annual interest payments of approximately $127.5 million, paid semi-annually. We used the net proceeds from the 2020 Notes offering, together with available cash on hand, to repay in full the senior secured credit facilities. Indentures governing the Notes contain certain covenants, which we were in compliance with as of December 31, 2021.

Senior Unsecured Revolving Credit Facility

On September 15, 2021, we entered into an amended and restated revolving credit agreement (the “Credit Agreement”). The Credit Agreement amends and restates the credit agreement that our subsidiary, RP Holdings, as borrower, entered into on September 18, 2020, which provided for a five-year unsecured Revolving Credit Facility with borrowing capacity of up to $1.5 billion for general corporate purposes. The Credit Agreement extends the maturity of the Revolving Credit Facility to September 15, 2026. The Credit Agreement contains certain customary covenants, which we were in compliance as of December 31, 2021. The Revolving Credit Facility remains undrawn and available to us as of December 31, 2021.

Senior Secured Credit Facilities

On February 11, 2020, in connection with the Exchange Offer Transactions and using funds contributed by RPI Intermediate FT and the Legacy Investors Partnerships, RPIFT repaid its outstanding debt and accrued interest, and terminated all outstanding interest rate swaps. RPI Intermediate FT, as borrower, entered into a term loan credit agreement with Bank of America, N.A., as administrative agent, the lenders party thereto from time to time and the other parties thereto. In September 2020, we repaid in full the outstanding principal amounts of term loans under the senior secured credit facilities with the net proceeds from the 2020 Notes and available cash on hand.

RPIFT Senior Secured Credit Facilities

The RPIFT Senior Secured Credit Facilities were repaid in full in February 2020 and new senior secured credit facilities were issued by RPI Intermediate FT in connection with the Exchange Offer Transactions.

Uses of Capital

Acquisitions of royalties

We acquire product royalties in a variety of ways that can be tailored to the needs of our partners. We classify our product royalty acquisitions by the following structures:

- **Third-party Royalties** – A royalty is the contractual right to a percentage of top-line sales from a licensee's use of a product, technology or intellectual property. The majority of our current portfolio consists of third-party royalties.

- **Synthetic / Hybrid Royalties** – A synthetic royalty is the contractual right to a percentage of top-line sales created by the developer and/or marketer of a therapy in exchange for funding. A synthetic royalty may also include contingent milestone payments, or be structured as a long-term stream of fixed-payments with a predetermined schedule. In many of our synthetic royalties, we also make investments in the public equity of the company, where the main value driver of the company is the product for which we concurrently acquired a royalty.

- **R&D Funding** – We have historically funded ongoing R&D, typically for large biopharmaceutical companies, in exchange for future royalties and/or milestones if the product or indication we are funding is approved. We have also made upfront R&D payments to biotechnology companies to acquire royalties and/or milestones on development-stage product candidates.

- **M&A** – We acquire royalties in connection with M&A transactions, often from the buyers of biopharmaceutical companies when they dispose of the non-strategic assets of the target company following the closing of the acquisition. We also seek to partner with companies to acquire other biopharmaceutical companies that own significant royalties. We may also seek to acquire biopharmaceutical companies that have significant royalties or where we can create royalties in subsequent transactions.

Distributions to Shareholders/Unitholders

We paid dividends to holders of our Class A ordinary shares of $285.2 million in the year ended December 31, 2021. We do not have a legal obligation to pay a quarterly dividend or dividends at any specified rate or at all.

We made distributions of $285.4 million to shareholders/unitholders prior to the IPO in June 2020. We paid dividends to holders of our Class A ordinary shares of $112.5 million in the year ended December 31, 2020 subsequent to the IPO.

We made distributions of $739.3 million to unitholders in the year ended December 31, 2019.

Other Funding Arrangements

In June 2021, we announced a long-term strategic funding partnership with MorphoSys to support MorphoSys' acquisition of Constellation, which closed on July 15, 2021. As part of the partnership, we agreed to provide MorphoSys up to $350 million of Development Funding Bonds, which MorphoSys may draw over a one-year period from the close of its acquisition of Constellation. MorphoSys is required to draw a minimum of $150 million of Development Funding Bonds. In return, we expect to receive a return of 2.2 times the amount funded on the Development Funding Bonds payable on a quarterly basis over nine years, with the first payment beginning two years after the funding. As of December 31, 2021, MorphoSys has not drawn any amount under the Development Funding Bonds.

On August 7, 2020, we entered into the Series B Biohaven Preferred Share Purchase Agreement ("Series B Biohaven Preferred Share Agreement") with Biohaven where we committed to acquire 3,992 shares of Series B Biohaven Preferred Shares at a price of $50,100 per preferred share (the "Commercial Launch Preferred Equity"), for a total of $200.0 million payable on a quarterly basis from the three months ended March 31, 2021 through the three months ended December 31, 2024. In the three months ended March 31, 2021, we began purchasing the Series B Biohaven Preferred Shares and have a remaining commitment of $129.6 million under our Commercial Launch Preferred Equity as of December 31, 2021.

We have other funding arrangements where we are contractually obligated to fund R&D activities performed by our development partners and to provide additional capital related to our equity method investment in the Avillion entities. As our committed capital requirements are based on phases of development, the completion of which is highly uncertain, only the capital required to fund the current stage of development under such funding arrangements is considered committed capital requirements which approximate $41.0 million as of December 31, 2021.

We also have certain milestone payments that are contingent on the successful achievement of certain development, regulatory approval or commercial milestones. As such, these contingent milestone payments are not considered contractual obligations. In the year ended December 31, 2021, we made a $100.0 million payment to Biohaven related to a development milestone that was achieved upon the start of the oral zavegepant Phase 3 program.

Debt service

As of December 31, 2021, the future principal and interest payments under our Notes over the next five years and thereafter are as follows:

(in thousands)

Year	Principal Payments	Interest Payments
2022	$ —	$ 167,384
2023	1,000,000	163,850
2024	—	156,350
2025	1,000,000	156,350
2026	—	144,350
Thereafter	5,300,000	2,070,250
Total (1)	$ 7,300,000	$ 2,858,534

(1) Excludes unamortized debt discount and issuance costs of $203.9 million as of December 31, 2021, which are amortized through interest expense over the remaining life of the underlying debt obligations.

Operating and Personnel Payments

Under the Management Agreement, we pay quarterly Operating and Personnel Payments equal to 6.5% of the Adjusted Cash Receipts for such quarter and 0.25% of our security investments under GAAP as of the end of each quarter. Because the Operating and Personnel Payments is determined based on Adjusted Cash Receipts, the amounts are fixed. The expenses incurred in respect of Operating and Personnel Payments are expected to comprise the most significant component of G&A expenses on an ongoing basis.

Guarantor Financial Information

Our obligations under the Notes are fully and unconditionally guaranteed by RP Holdings, a non-wholly owned subsidiary (the "Guarantor Subsidiary"). Our remaining subsidiaries (the "Non-Guarantor Subsidiaries") do not guarantee the Notes. Under the terms of the indenture governing the Notes, Royalty Pharma plc and the Guarantor Subsidiary each fully and unconditionally, jointly and severally, guarantee the payment of interest, principal and premium, if any, on the Notes. As of December 31, 2021, the par value and carrying value of the total outstanding and guaranteed Notes was $7.3 billion and $7.1 billion, respectively.

The following financial information presents summarized combined balance sheet financial information as of December 31, 2021, and summarized combined statement of operations information for the year ended December 31, 2021 for Royalty Pharma plc and RP Holdings. All intercompany balances and transactions between Royalty Pharma plc and RP Holdings are eliminated in the presentation of the combined financial statements. RP Holdings' most significant asset is its investment in operating subsidiaries, which has been eliminated in the table below to exclude investments in Non-Guarantor Subsidiaries. Our operating subsidiaries hold the majority of our cash and cash equivalents, marketable securities and financial royalty assets. As a result, our ability to make required payments on the Notes depends on the performance of our operating subsidiaries and their ability to distribute funds to us. There are no material restrictions on distributions from the operating subsidiaries. Amounts presented below do not represent our total consolidated amounts as of December 31, 2021 or for the year ended December 31, 2021.

Summarized Combined Balance Sheet

(in thousands)	**As of December 31, 2021**
Current assets	$ 95,946
Current interest receivable on intercompany notes due from Non-Guarantor Subsidiaries	16,974
Non-current assets	4,145
Non-current intercompany notes receivable due from Non-Guarantor Subsidiaries	2,039,576
Current liabilities	59,030
Current interest payable on intercompany notes due to Non-Guarantor Subsidiaries	16,974
Non-current liabilities	7,095,450
Non-current intercompany notes payable due to Non-Guarantor Subsidiaries	2,039,576

Summarized Combined Statement of Operations

(in thousands)	**Year Ended December 31, 2021**
Interest income on intercompany notes receivable from Non-Guarantor Subsidiaries	$ 50,423
Operating expenses	187,863
Interest expense on intercompany notes payable with Non-Guarantor Subsidiaries	50,423
Other expenses	11,320
Net loss	199,183

Critical Accounting Policies and Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses. Certain of these policies are considered critical as they have the most significant impact on our financial condition and results of operations and require the most difficult, subjective, or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain. On an ongoing basis, we evaluate our estimates that are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The result of these evaluations forms the basis for making judgments about the carrying values of assets and liabilities and the reported amount of income and expenses that are not readily apparent from other sources. Because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our most critical accounting policies relate to our financial royalty assets and the full descriptions can be found in Note 2–Summary of Significant Accounting Policies to our consolidated financial statements. Similarly, the most significant judgments and estimates applied by management are associated with the measurement of our financial royalty assets at amortized cost using the prospective effective interest method. The application of the prospective approach to calculate interest income from our financial royalty assets requires management's judgment in forecasting the expected future cash flows of the underlying royalties. These estimates and judgments arise because of the inherent uncertainty in predicting future events.

We evaluate financial royalty assets for impairment on an individual basis by comparing the effective interest rate at each reporting date to that of the prior period. If the effective interest rate for the current period is lower than the prior period, and if the gross cash flows have declined (expected and collected), management records a provision for the change in expected cash flows. The provision is measured as the difference between the financial royalty asset's amortized cost basis and the net present value of the expected future cash flows, calculated based on the prior period's effective interest rate. The amount recognized as provision expense increases the financial royalty asset's cumulative allowance, which reduces the net carrying value of the financial royalty asset.

Factors Impacting Expected Future Cash Flows

The amounts and timing of forecasted expected future cash flows are largely influenced by sell-side equity research analyst coverage, commercial performance of the product and the royalty duration.

- *Analyst coverage*. Forecasts of expected future cash flows are developed from sales projections of the underlying biopharmaceutical products as published in sell-side equity research analyst reports. In projecting future cash flows, our policy is to rely on sell-side research analysts' consensus sales forecasts for a product to derive annual sales projections for each financial royalty asset over the periods for which we are entitled to royalties or milestones. When royalty-bearing biopharmaceutical products have no coverage, limited sell-side equity research analyst coverage or where sell-side equity research analyst estimates are not available for the full term of the royalty, particularly for the later years in a product's life, management uses reasonable judgment to make assumptions about the growth or decline in the sales of these products based on historical data, market trends and management's own expertise.

- *Commercial performance*. The approval of a product for use in new indications can extend the date through which we are entitled to royalties or milestones on that product. For certain financial royalty assets, such as the cystic fibrosis franchise, we are entitled to royalties on approved combination products and may be entitled to royalties on future combination products, which, once approved, create new cash flow streams which were not initially contemplated and whose sales were previously not reflected in expected future cash flows. We generally do not recognize income from, or forecast sales for, unapproved products or indications. If a product is removed from all or a portion of a market, subsequent sell-side equity research analysts' forecasts will reflect the expected drop in sales. Both the new cash flow streams and the cessation of cash flow streams related to a product's performance in the market over the royalty term can materially affect our forecast of expected future cash flows.

- *Royalty duration.* The duration of a financial royalty asset can be based on a number of factors, such as regulatory and marketing approval dates, patent expiration dates, the number of years from first commercial sale, the first date of manufacture of the patent-protected product, strength of patent protection, the entry of generics or a contractual date arising from litigation, which are all impacted by the time in the product's life cycle at which we acquire the financial royalty asset. Royalty duration varies by geography as United States, European Union and other jurisdictions may be subject to different country-specific patent protection terms or exclusivity based on contractual terms. Products may be covered by a number of patents and, for products whose royalty term is linked to the existence of valid patents, management is required to make judgments about the patent providing the strongest patent protection to align the period over which management forecasts expected future cash flows to the royalty term.

Significant Assumptions Applied in Developing Forecasted Expected Future Cash Flows

The most significant assumptions used in forecasting the expected future cash flows for our royalties and requiring management's judgement include (1) estimates of the duration of the royalty, which includes consideration of the strength of patent protection and anticipated entry of generics, and (2) sales trends and product growth rates in outer years of the royalty term, which are primarily based on statistical models.

The royalty duration is important for purposes of accurately measuring interest income over the life of a financial royalty asset. In making assumptions around the royalty duration for terms that are not contractually fixed, management considers the strength of existing patent protection, expected entry of generics, geographical exclusivity periods and potential patent term extensions tied to the underlying product. It is common for royalty durations to expire earlier or later than anticipated due to unforeseen developments over time, including with respect to the granting of patents and patent term extensions, the invalidation of patents, litigation between the party controlling the patents and third party challengers of the patents, the ability of third parties to design around or circumvent valid patents, the granting of regulatory exclusivity periods or extensions, timing for the arrival of generic or biosimilar competitor products, changes to legal or regulatory regimes affecting intellectual property rights or the regulation of pharmaceutical products, product life cycles, and industry consolidations.

When royalty-bearing pharmaceutical products have limited or no coverage by sell-side equity research analysts, or where sell-side equity research analyst estimates are not available for the full term of our royalty, particularly for the later years in a product's life, we generally incorporate a statistical curve developed using historical sales data and available consensus sales projections to forecast product sales over the remaining life of the product. In cases where the statistical curve is not used, we use reasonable judgment to make assumptions about the growth or decline in the sales of these products based on historical data, publicly available information for the marketer, industry data and market trends and our own expertise.

Even though we believe interest income from financial royalty assets and the associated non-cash provision for changes in future cash flows are not indicative of our near-term financial performance and should not be used as a source for predicting future income or growth trends, changes in the aforementioned assumptions could result in a material impact to our financial statements. A shortened royalty term can result in a reduction in interest income, significant reductions in total royalty payments over time compared to expectations or a permanent impairment. If the effective interest rate is lower for the current period than the prior period, and if the gross cash flows have declined (expected and collected) this would result in the immediate recognition of non-cash provision expense even though the applicable cash inflows will not be realized for many years into the future. Changes in sell-side equity research analyst consensus sales forecasts directly impact future interest income and recognition of any provision income or expense in a similar manner.

Below is a summary of the sensitivity of our current year results in relation to the royalty duration for our top three financial royalty assets based on net carrying value as of December 31, 2021. Because these are long-dated financial royalty assets, we have assumed a change of two years in the estimated duration to sensitize the financial statement impact. The effect of a change in estimated duration is the factor that would have the most significant impact on our consolidated statement of operations. There have not been any significant changes to the estimated duration of expected future cash flows for our top three financial royalty assets during the years ended December 31, 2021, 2020 and 2019, with the exception of the cystic fibrosis franchise due to the FDA approval of Trikafta in 2019, which extended the expected duration at that time.

If the duration of these financial royalty assets were extended by two years by assuming the statistically projected growth trends continue and all other royalty terms and assumptions remain unchanged, any impact to interest income would not be reflected until the subsequent period and is therefore not disclosed below. However, an extended duration for a financial royalty asset could result in the reduction of any cumulative allowance for changes in expected future cash flows, which would be recognized in the current period as provision income and is reflected in the table below for these top three financial royalty assets. If the duration for these financial royalty assets were shortened by two years by eliminating the estimated expected future cash flows for the final two years while keeping all other royalty terms and assumptions unchanged, we would recognize immediate incremental provision expense in the current period as a result of applying the prospective method of the effective interest rate methodology. The disclosure of the duration sensitivity below does not include any consideration of the related allowance for current expected credit losses. The impact of these sensitivity assumptions is summarized as follows (in thousands):

			Year Ended December 31, 2021	
	Estimated Royalty Duration (a)	Change in Duration Assumption Applied	Provision (Income)/Expense for Changes in Expected Cash Flows	
Cystic fibrosis franchise	2037 (b)	+/- 2 years	$ (48,636)	$ 261,265
Tysabri	(c)	+/- 2 years	$ (16,617)	$ 173,098
Imbruvica	2027-2032	+/- 2 years	$ (99,398)	$ 173,129

(a) Dates shown represent our estimates as of the date of this Annual Report on Form 10-K of when a royalty will substantially end, which may depend on clinical trial results, regulatory approvals, contractual terms, commercial developments, our estimates of patent expiration dates (which may include estimated patent term extensions) or other factors and may vary by geography. There can be no assurances that our royalties will expire when expected.
(b) Royalty is perpetual; year shown represents Trikafta expected patent expiration and potential sales decline based on timing of generic entry.
(c) Under terms of the agreement, RPIFT acquired a perpetual royalty on net sales of Tysabri. Management has applied an end date of 2031 for purposes of accreting income over the royalty term, which is periodically reviewed.

Recent Accounting Pronouncements

See Note 2–Summary of Significant Accounting Policies to our consolidated financial statements for additional information on recently issued accounting standards.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

We are subject to certain risks which may affect our results of operations, cash flows and fair values of assets and liabilities, including volatility in foreign currency exchange rates and interest rates. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because the nature of the marketable securities we hold. In order to manage our exposures, we follow established risk management policies and procedures, including the use of derivative financial instruments, such as swaps, rate locks and forwards. We do not enter into derivative instruments for trading or speculative purposes. The counterparties to these contracts are all major financial institutions.

Foreign Currency Exchange Risk

Our results of operations are subject to foreign currency exchange risk through transactional exposure resulting from movements in exchange rates between the time we recognize royalty income or royalty revenue and the time at which the transaction settles, or we receive the royalty payment. The current portion of *Financial royalty assets, net* and *Accrued royalty receivable* account for the most common types of transactional exposure. Because we are entitled to royalties on worldwide sales for various products, there is an underlying exposure to foreign currency as the marketer converts payment amounts from local currencies to U.S. dollars using a quarterly average exchange rate. Therefore, cash received may differ from the estimated receivable based on fluctuations in currency. In addition, certain products pay royalties in currencies other than U.S. dollars, which also creates foreign currency risk primarily with respect to the Euro, Canadian Dollar, Swiss Franc and Japanese Yen, as our functional and reporting currency is the U.S. dollar. To manage foreign currency exchange risk, we may periodically utilize non-deliverable forward exchange contracts. We do not currently have any foreign exchange contracts in place.

Interest Rate Risk

We are subject to interest rate fluctuation exposure through our investments in money market accounts and marketable securities, the majority of which bear a variable interest rate. As of December 31, 2021, we held cash and cash equivalents of $1.5 billion, of which $887.8 million was cash, $598.3 million was invested in interest-bearing money market funds and $55.0 million was invested in commercial paper and certificates of deposit. We also held $581.9 million in marketable securities at December 31, 2021 which was invested in commercial paper and certificates of deposit.

As of December 31, 2020, we had cash and cash equivalents of $1.0 billion, of which $832.7 million was cash, $151.7 million was invested in commercial paper and certificates of deposit and $24.3 million was invested in interest-bearing money market funds. In addition, as of December 31, 2020, we had $983.3 million in marketable securities which was invested in corporate debt securities, commercial paper and certificates of deposit.

The objectives of our investment policy are the preservation of capital and fulfillment of liquidity needs. In order to maximize income without assuming significant market risk, we maintain our excess cash and cash equivalents in money market funds and marketable securities, largely composed of investment grade, short to intermediate term fixed income and debt securities. Because of the short term maturities of our cash equivalents and the short term nature of our marketable securities, we do not believe that a decrease in interest rates would have any material negative impact on the fair value of our cash equivalents or marketable securities.

Our debt portfolio is managed on a consolidated basis and management makes financing decisions to achieve the lowest cost of debt capital and to maximize portfolio objectives. As of December 31, 2021, 100% of our outstanding debt has fixed interest rates. We have a $1.5 billion Revolving Credit Facility with a variable interest rate that remained undrawn as of December 31, 2021. We are subject to interest rate fluctuation exposure related to the Revolving Credit Facility, if drawn.

We may manage our exposure to interest rate volatility on future debt issuances by entering into treasury rate lock contracts to lock in the rate on the interest payments related to anticipated debt issuances. In June 2021, we executed treasury rate lock contracts with notional amounts totaling $600.0 million to fix the interest rate on a portion of the principal related to our 2021 Notes issued in July 2021. The treasury lock contracts were terminated in July 2021.

Credit and Counterparty Risk

We are exposed to credit risk related to the counterparties with which we do business. We are subject to credit risk from our royalty assets, our receivables and our derivative financial instruments. The majority of our royalty assets and receivables arise from contractual royalty agreements that pay royalties on the sales of underlying pharmaceutical products in the United States, Europe and the rest of the world, with concentrations of credit risk limited due to the broad range of marketers responsible for paying royalties to us and the variety of geographies from which our royalties on product sales are derived. The products in which we hold royalties are marketed by leading biopharmaceutical industry participants, including, among others, AbbVie, Amgen, Bristol Myers Squibb, Gilead, Johnson & Johnson, Lilly, Merck, Pfizer, Novartis, Biogen, Roche/Genentech and Vertex. For the years ended December 31, 2021 and 2020, Vertex, as the marketer and payor of our royalties on the cystic fibrosis franchise, accounted for 32% and 27% of our current portion of *Financial royalty assets, net*, respectively, representing the largest individual marketer and payor of our royalties. Refer to "—Understanding Our Results of Operations" within this MD&A for a discussion of the marketers or royalty payors accounting for 10% or more of our total income and other revenues for the years ended December 31, 2021 and 2020.

We monitor the financial performance and creditworthiness of the counterparties to our royalty agreements and to our derivative financial instruments so that we can properly assess and respond to changes in their credit profile. To date, we have not experienced any significant losses with respect to the collection of income or revenue on our royalty assets or on the settlement of our derivative financial instruments. If a counterparty becomes bankrupt, or otherwise fails to perform its obligations under a derivative financial instruments due to financial difficulties, we may experience significant delays in obtaining any recovery under the derivative financial instruments in a bankruptcy or other reorganization proceeding.

Item 8. Financial Statements and Supplementary Data

ROYALTY PHARMA PLC
Index to Audited Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Royalty Pharma plc

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Royalty Pharma plc (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 15, 2022 expressed an unqualified opinion thereon.

Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter
The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of Financial Royalty Assets and related Interest Income

Description of the Matter

As disclosed in Note 6 to the consolidated financial statements, the Company's total financial royalty assets, net, were carried at $14,332,596 thousand as of December 31, 2021. For the year ended December 31, 2021, the Company recognized income from financial royalty assets of $2,065,083 thousand. As explained in Note 2 to the consolidated financial statements, the Company's financial royalty assets are measured at amortized cost using the prospective effective interest rate method.

Auditing the valuation of the financial royalty assets and related interest income involved complex auditor judgment, because the assumptions used by management to forecast the expected cash flows from the underlying royalties are forward-looking and are therefore affected by future economic and market conditions, such as the impact of the entry of competing or generic products to the market, among other uncertainties. The key assumptions used in the valuation of the financial royalty assets and related interest income are product growth rates applied to forecasted sales in the later years in the royalty life and the royalty duration.

How We Addressed the Matter in Our Audit

To test the valuation of the financial royalty assets and related interest income, our audit procedures included, among others, evaluating the methodology and completeness and accuracy of the data used to develop the key assumptions identified above. For example, with the support of statistical modelling specialists, we evaluated management's statistical methodology for sales growth forecasts and performed sensitivity analysis over the resulting forecasted product sales. We also tested the inputs to the model, principally comprising historic product sales and third-party analyst estimates of nearer-term sales amounts, by comparing to analyst reports or published sales information. For royalty duration, among other procedures, we compared management's assessment of the likely date of expiry of the Company's cash flows against original purchase agreements, as well as independently assessing the royalty duration against available published information sources, such as those from regulatory bodies, counterparties, and product marketers.

We assessed the historical accuracy of management's estimates by comparing expected cash flows to actual cash receipts. We also evaluated the related disclosures in the consolidated financial statements.

/s/ Ernst & Young

We have served as the Company's auditor since 2003.

Dublin, Ireland
February 15, 2022

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Royalty Pharma plc

Opinion on Internal Control Over Financial Reporting
We have audited Royalty Pharma plc's (the Company) internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and our report dated February 15, 2022 expressed an unqualified opinion thereon.

Basis for Opinion
The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young

Dublin, Ireland
February 15, 2022

ROYALTY PHARMA PLC
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	As of December 31,	
	2021	**2020**
Assets		
Current assets		
Cash and cash equivalents	$ 1,541,048	$ 1,008,680
Marketable securities	581,872	983,279
Financial royalty assets	614,351	587,193
Accrued royalty receivable	53,286	33,155
Available for sale debt securities	66,000	69,984
Other royalty income receivable	15,023	6,011
Other current assets	6,631	8,596
Total current assets	**2,878,211**	**2,696,898**
Financial royalty assets, net	13,718,245	12,368,084
Intangible royalty assets, net	5,670	28,666
Equity securities	269,800	298,689
Available for sale debt securities	204,400	163,016
Investments in non-consolidated affiliates	435,394	454,936
Other assets	4,145	9,997
Total assets	**$ 17,515,865**	**$ 16,020,286**
Liabilities and equity		
Current liabilities		
Distribution payable to non-controlling interest	$ 107,934	$ 126,366
Accounts payable and accrued expenses	5,620	10,775
Interest payable	57,696	42,146
Accrued purchase obligation	—	110,000
Other current liabilities	—	18,600
Total current liabilities	**171,250**	**307,887**
Long-term debt	7,096,070	5,816,584
Total liabilities	**7,267,320**	**6,124,471**
Commitments and contingencies		
Shareholders' equity		
Class A ordinary shares, $0.0001 par value; 432,963 and 388,135 issued and outstanding, respectively	43	39
Class B ordinary shares, $0.000001 par value; 174,213 and 218,976 issued and outstanding, respectively	—	—
Class R redeemable shares, £1 par value; 50 and 50 issued and outstanding, respectively	63	63
Deferred shares, $0.000001 par value, 361,170 and 316,407 issued and outstanding, respectively	—	—
Additional paid-in capital	3,507,533	2,865,964
Retained earnings	2,255,179	1,920,635
Non-controlling interest	4,471,951	5,077,036
Accumulated other comprehensive income	16,491	34,395
Treasury interests	(2,715)	(2,317)
Total shareholders' equity	**10,248,545**	**9,895,815**
Total liabilities and shareholders' equity	**$ 17,515,865**	**$ 16,020,286**

See accompanying notes to these consolidated financial statements.

ROYALTY PHARMA PLC

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Years Ended December 31,		
	2021	**2020**	**2019**
Total income and revenues			
Income from financial royalty assets	$ 2,065,083	$ 1,959,975	$ 1,648,837
Revenue from intangible royalty assets	171,248	143,382	145,775
Other royalty income	53,132	18,996	19,642
Total income and other revenues	**2,289,463**	**2,122,353**	**1,814,254**
Operating expenses			
Provision for changes in expected cash flows from financial royalty assets	452,842	230,839	(1,019,321)
Research and development funding expense	200,084	26,289	83,036
Amortization of intangible assets	22,996	23,058	23,924
General and administrative expenses	182,826	181,715	103,439
Other operating expenses	—	65,053	—
Total operating expenses/(income), net	**858,748**	**526,954**	**(808,922)**
Operating income	**1,430,715**	**1,595,399**	**2,623,176**
Other expense/(income)			
Equity in losses/(earnings) of non-consolidated affiliates	19,490	(44,459)	32,517
Interest expense	166,142	157,059	268,573
Losses on derivative financial instruments	21,532	42,076	39,138
Losses/(gains) on equity securities	48,066	(247,073)	(155,749)
Unrealized gains on available for sale debt securities	(17,859)	(18,600)	—
Interest income	(53,535)	(28,379)	(22,329)
Other non-operating expense/(income), net	5,678	32,821	(393)
Total other expense/(income), net	**189,514**	**(106,555)**	**161,757**
Consolidated net income before tax	1,241,201	1,701,954	2,461,419
Income tax expense	—	—	—
Consolidated net income	1,241,201	1,701,954	2,461,419
Net income attributable to non-controlling interest	621,473	726,914	112,884
Net income attributable to controlling interest	**$ 619,728**	**$ 975,040**	**$ 2,348,535**
Earnings per Class A ordinary share (1):			
Basic	$ 1.49	$ 1.32	N/A
Diluted	$ 1.49	$ 1.32	N/A
Weighted average Class A ordinary shares outstanding (1):			
Basic	414,794	375,444	N/A
Diluted	414,802	375,455	N/A

(1) Represents earnings per Class A ordinary share and weighted average Class A ordinary shares outstanding for the period from June 16, 2020 through December 31, 2020 following our initial public offering ("IPO") in the year ended December 31, 2020. See Note 13–Earnings per Share.

See accompanying notes to these consolidated financial statements.

ROYALTY PHARMA PLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Years Ended December 31,		
	2021	**2020**	**2019**
Consolidated net income	$ 1,241,201	$ 1,701,954	$ 2,461,419
Changes in other comprehensive income/(loss):			
Reclassification of loss on interest rate swaps	—	4,066	6,189
Unrealized gains on available for sale debt securities	11,600	83,120	6,159
Reclassification of unrealized gains on available for sale debt securities	(50,896)	(20,551)	—
Total other comprehensive (loss)/income	**$ (39,296)**	**$ 66,635**	**$ 12,348**
Comprehensive income	**$ 1,201,905**	**$ 1,768,589**	**$ 2,473,767**
Comprehensive income attributable to non-controlling interest	604,323	739,787	112,884
Comprehensive income attributable to controlling interest	**$ 597,582**	**$ 1,028,802**	**$ 2,360,883**

See accompanying notes to these consolidated financial statements.

ROYALTY PHARMA PLC

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(*In thousands***)**

	Class A Ordinary Shares		Class B Ordinary Shares		Class R Redeemable Shares		Deferred Shares		Additional Paid-In Capital	Unitholders'/ Shareholders' Contributions	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Non-Controlling Interest	Treasury Interests	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount							
Balance at December 31, 2018	—	$ —	—	$ —	—	$ —	—	$ —	$ —	$ 3,282,516	$ 1,215,953	$ (10,255)	$ 63,865	$ —	$ 4,552,079
Distributions	—	—	—	—	—	—	—	—	—	—	(739,276)	—	(140,866)	—	(880,142)
Net income	—	—	—	—	—	—	—	—	—	—	2,348,535	—	112,884	—	2,461,419
Other comprehensive income/(loss):															
Unrealized gains on available for sale debt securities	—	—	—	—	—	—	—	—	—	—	—	6,159	—	—	6,159
Reclassification of loss on interest rate swaps	—	—	—	—	—	—	—	—	—	—	—	6,189	—	—	6,189
Purchase of treasury interests	—	—	—	—	—	—	—	—	—	—	—	—	—	(4,266)	(4,266)
Balance at December 31, 2019	**—**	**$ —**	**—**	**$ —**	**—**	**$ —**	**—**	**$ —**	**$ —**	**$ 3,282,516**	**$ 2,825,212**	**$ 2,093**	**$ 35,883**	**$ (4,266)**	**$ 6,141,438**
Contributions	—	—	—	—	—	—	—	—	—	307,646	—	—	1,174,676	—	1,482,322
Transfer of interests	—	—	—	—	—	—	—	—	—	(1,037,161)	—	—	1,037,161	—	—
Cumulative adjustment for adoption of ASU 2016-13	—	—	—	—	—	—	—	—	—	—	(192,705)	—	—	—	(192,705)
Distributions	—	—	—	—	—	—	—	—	—	—	(313,408)	—	(792,357)	—	(1,105,765)
Initial share issuance upon registration of Royalty Pharma plc	—	—	—	—	50	63	—	—	—	—	—	—	—	—	63
Net income prior to IPO	—	—	—	—	—	—	—	—	—	—	479,842	—	145,043	—	624,885
Issuance of Class B ordinary shares to Continuing Investors Partnerships	—	—	535,383	1	—	—	—	—	—	—	—	—	—	—	1
Effect of exchange by Continuing Investors of Class B ordinary shares for Class A ordinary shares and reallocation of historical equity	294,176	30	(294,176)	(1)	—	—	294,176	—	1,402,762	(2,553,001)	(1,261,014)	(24,022)	2,433,098	2,147	(1)
Issuance of Class A ordinary shares sold in IPO, net of offering costs	71,652	7	—	—	—	—	—	—	1,150,383	—	—	—	758,354	—	1,908,744
Share-based compensation and related issuances of Class A ordinary shares	76	—	—	—	—	—	—	—	5,428	—	—	—	—	—	5,428
Other exchanges	22,231	2	(22,231)	—	—	—	22,231	—	307,391	—	—	2,562	(309,566)	(198)	191
Dividends ($0.30 per Class A ordinary share)	—	—	—	—	—	—	—	—	—	—	(112,490)	—	—	—	(112,490)
Net income subsequent to IPO	—	—	—	—	—	—	—	—	—	—	495,198	—	581,871	—	1,077,069
Other comprehensive income/(loss):															
Reclassification of loss on interest rate swaps	—	—	—	—	—	—	—	—	—	—	—	4,066	—	—	4,066
Unrealized gains on available for sale debt securities	—	—	—	—	—	—	—	—	—	—	—	60,617	22,503	—	83,120
Reclassification of unrealized gains on available for sale debt securities	—	—	—	—	—	—	—	—	—	—	—	(10,921)	(9,630)	—	(20,551)
Balance at December 31, 2020	**388,135**	**$ 39**	**218,976**	**$ —**	**50**	**$ 63**	**316,407**	**$ —**	**$ 2,865,964**	**$ —**	**$ 1,920,635**	**$ 34,395**	**$ 5,077,036**	**$ (2,317)**	**$ 9,895,815**

See accompanying notes to these consolidated financial statements.

ROYALTY PHARMA PLC

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

	Class A Ordinary Shares		Class B Ordinary Shares		Class R Redeemable Shares		Deferred Shares		Additional Paid-In Capital	Shareholders' Contributions	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Non-Controlling Interest	Treasury Interests	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount							
Balance at December 31, 2020	388,135	$ 39	218,976	$ —	50	$ 63	316,407	$ —	$ 2,865,964	$ —	$ 1,920,635	$ 34,395	$ 5,077,036	$ (2,317)	$ 9,895,815
Contributions	—	—	—	—	—	—	—	—	—	—	—	—	48,539	—	48,539
Distributions	—	—	—	—	—	—	—	—	—	—	—	—	(614,973)	—	(614,973)
Dividends ($0.68 per Class A ordinary share)	—	—	—	—	—	—	—	—	—	—	(285,184)	—	—	—	(285,184)
Other exchanges	44,763	4	(44,763)	—	—	—	44,763	—	639,126	—	—	4,242	(642,974)	(398)	—
Share-based compensation and related issuances of Class A ordinary shares	65	—	—	—	—	—	—	—	2,443	—	—	—	—	—	2,443
Net income	—	—	—	—	—	—	—	—	—	—	619,728	—	621,473	—	1,241,201
Other comprehensive income/(loss):															
Unrealized gains on available for sale debt securities	—	—	—	—	—	—	—	—	—	—	—	6,335	5,265	—	11,600
Reclassification of unrealized gains on available for sale debt securities	—	—	—	—	—	—	—	—	—	—	—	(28,481)	(22,415)	—	(50,896)
Balance at December 31, 2021	**432,963**	**$ 43**	**174,213**	**$ —**	**50**	**$ 63**	**361,170**	**$ —**	**$ 3,507,533**	**$ —**	**$ 2,255,179**	**$ 16,491**	**$ 4,471,951**	**$ (2,715)**	**$ 10,248,545**

See accompanying notes to these consolidated financial statements.

ROYALTY PHARMA PLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,		
	2021	**2020**	**2019**
Cash flows from operating activities:			
Cash collections from financial royalty assets	$ 2,315,854	$ 2,121,923	$ 1,934,092
Cash collections from intangible royalty assets	151,158	143,753	143,298
Other royalty cash collections	44,123	18,305	27,448
Distributions from non-consolidated affiliates	34,384	42,334	14,059
Interest received	3,135	7,704	20,136
Derivative collateral received	34,660	45,252	360
Derivative collateral posted	(34,660)	—	(45,630)
Termination payments on derivative instruments	(16,093)	(35,448)	—
Ongoing development-stage funding payments	(6,876)	(20,479)	(83,036)
Upfront development-stage funding payments	(193,208)	(5,810)	—
Payments for operating and professional costs	(184,511)	(179,709)	(88,524)
Interest paid	(130,430)	(103,196)	(254,964)
Net cash provided by operating activities	**2,017,536**	**2,034,629**	**1,667,239**
Cash flows from investing activities:			
Distributions from non-consolidated affiliates	523	15,084	—
Investments in non-consolidated affiliates	(34,855)	(40,155)	(27,042)
Purchases of equity securities	(135,134)	(50,000)	(78,999)
Proceeds from equity securities	115,957	384,840	—
Purchases of available for sale debt securities	(70,441)	—	(125,121)
Proceeds from available for sale debt securities	62,500	3,000	150,000
Purchases of marketable securities	(1,196,579)	(1,705,283)	(817,402)
Proceeds from sales and maturities of marketable securities	1,597,851	815,440	725,070
Purchase of warrants	—	—	(8,840)
Acquisitions of financial royalty assets	(2,191,502)	(2,182,246)	(1,721,291)
Milestone payments	(18,600)	—	(250,000)
Net cash used in investing activities	**(1,870,280)**	**(2,759,320)**	**(2,153,625)**
Cash flows from financing activities:			
Distributions to shareholders/unitholders	—	(285,353)	(739,276)
Distributions to non-controlling interest	(479,604)	(543,952)	(154,084)
Distributions to non-controlling interest- other	(153,800)	(181,135)	—
Dividends to shareholders	(285,184)	(112,490)	—
Contributions from non-controlling interest- R&D	7,339	8,482	—
Contributions from non-controlling interest- other	36,874	58,957	—
Scheduled repayments of long-term debt	—	(94,200)	(294,000)
Repayments of long-term debt	—	(11,116,196)	—
Proceeds from issuance of long-term debt, net of discount	1,272,533	11,891,030	—
Debt issuance costs and other	(13,046)	(46,715)	—
Purchase of treasury interests	—	—	(4,266)
Proceeds from issuance of Class A ordinary shares upon IPO, net of offering costs	—	1,908,744	—
Net cash provided by/(used in) financing activities	**385,112**	**1,487,172**	**(1,191,626)**
Net change in cash and cash equivalents	532,368	762,481	(1,678,012)
Cash and cash equivalents, beginning of year	1,008,680	246,199	1,924,211
Cash and cash equivalents, end of year	**$ 1,541,048**	**$ 1,008,680**	**$ 246,199**

See accompanying notes to these consolidated financial statements.

1. Organization and Purpose

Royalty Pharma plc is an English public limited company incorporated under the laws of England and Wales that was created for the purpose of consolidating our predecessor entities and facilitating the IPO of our Class A ordinary shares that was completed in June 2020.

Following our IPO, we control Royalty Pharma Holdings Ltd. ("RP Holdings"), a private limited company incorporated under the laws of England and Wales and U.K. tax resident through our ownership of RP Holdings' Class A ordinary shares (the "RP Holdings Class A Interests") and RP Holdings' Class B ordinary shares (the "RP Holdings Class B Interests"). We conduct our business through RP Holdings and its subsidiaries and include RP Holdings and its subsidiaries in our consolidated financial statements.

RP Holdings is the sole owner of Royalty Pharma Investments 2019 ICAV ("RPI 2019 ICAV"), which is an Irish collective asset management entity formed to facilitate our Exchange Offer Transactions (defined below), and is the successor to Royalty Pharma Investments, an Irish unit trust ("Old RPI"), for accounting and financial reporting purposes. RP Holdings is owned by RPI US Partners 2019, LP, a Delaware limited partnership, RPI International Holdings 2019, LP, a Cayman Islands exempted limited partnership (together, the "Continuing Investors Partnerships"), and Royalty Pharma plc. Old RPI is a unit trust established in August 2011 under the laws of Ireland and authorized by the Central Bank of Ireland pursuant to the Unit Trusts Act, 1990. Prior to the Exchange Offer Transactions, Old RPI was owned by various partnerships (the "Legacy Investors Partnerships").

RP Management, LLC (the "Manager"), a Delaware limited liability company, is an external adviser which is responsible for our management. RP Management (Ireland) Ltd. ("RP Ireland"), is the manager of Old RPI and equivalent to the board of directors of a company or general partner of a partnership and is responsible for the day to day operations of Old RPI. Its functions can be delegated to third parties. RP Ireland delegated responsibility for investment management of Old RPI to its parent company, the Manager, in accordance with the investment objectives and policies of Old RPI.

"Royalty Pharma," the "Company," "we," "us" and "our" refer to Royalty Pharma plc and its subsidiaries on a consolidated basis. After the consummation of the Reorganization Transactions (defined below) and before the consummation of the IPO, "Royalty Pharma," the "Company," "we," "us" and "our" refer to RPI 2019 ICAV. Prior to the Reorganization Transactions, "Royalty Pharma," the "Company," "we," "us" and "our" refer to Old RPI.

We are the largest buyer of biopharmaceutical royalties and a leading funder of innovation across the biopharmaceutical industry. We fund innovation in the biopharmaceutical industry both directly and indirectly—directly when we partner with companies to co-fund late-stage clinical trials and new product launches in exchange for future royalties, and indirectly when we acquire existing royalties from the original innovators.

Reorganization Transactions

In connection with our IPO, we consummated an exchange offer on February 11, 2020 (the "Exchange Date"). Through the exchange offer, investors representing 82% of the aggregate limited partnership in the Legacy Investors Partnerships, exchanged their limited partnership interests in the Legacy Investors Partnerships for limited partnership interests in the Continuing Investors Partnerships. The exchange offer transaction together with (i) the concurrent incurrence of indebtedness under our new credit facility and (ii) the issuance of additional interests in Continuing Investors Partnerships to satisfy performance payments payable in respect of assets acquired prior to the date of the IPO are referred to as the "Exchange Offer Transactions."

As a result of the Exchange Offer Transactions, we own, through our subsidiary RPI 2019 Intermediate Finance Trust, a Delaware statutory trust ("RPI Intermediate FT"), an 82% economic interest in Old RPI. Through our 82% indirect ownership of Old RPI, we are legally entitled to 82% of the economics of Old RPI's wholly-owned subsidiaries, RPI Finance Trust, a Delaware statutory trust ("RPIFT") and RPI Acquisitions (Ireland), Limited ("RPI Acquisitions"), an Irish private limited company, and 66% of Royalty Pharma Collection Trust, a Delaware statutory trust ("RPCT"). The remaining 34% of RPCT is owned by the Legacy Investors Partnerships and Royalty Pharma Select Finance Trust, a Delaware statutory trust ("RPSFT"), which is wholly owned by Royalty Pharma Select, an Irish unit trust. From the Exchange Date until the expiration of the Legacy Investors Partnerships' investment period on June 30, 2020 (the "Legacy Date"), the Legacy Investors Partnerships were offered to participate proportionately in any investment made by Old RPI. Following the Legacy Date, Old RPI ceased making new investments and each of Old RPI and the Legacy Investors Partnerships became legacy entities. Since the Legacy Date, we have made and plan to make new investments through our subsidiaries, including RPI Intermediate FT.

As part of the Exchange Offer Transactions, the Legacy Investors Partnerships and RPI Intermediate FT entered into new credit facilities in the amount of $1.3 billion and $6.0 billion, respectively, the proceeds of which were used to repay the $6.3 billion outstanding debt of RPIFT and, in the case of RPI Intermediate FT, were also available to be used to fund investments. As part of the new credit facilities, RPI Intermediate FT repaid $5.2 billion, its pro rata portion of RPIFT's outstanding debt and accrued interest. RPIFT also terminated all outstanding interest rate swaps in connection with the debt refinancing.

Prior to, and as a condition precedent to the closing of the IPO, various reorganization transactions became effective, including the following:

- the Exchange Offer Transactions (as described above); and
- the execution of a new management agreement with the Manager (the "Management Agreement").

We refer to these transactions collectively as the "Reorganization Transactions."

As Old RPI is our predecessor for financial reporting purposes, we have recorded Old RPI's assets and liabilities at the carrying value reflected on Old RPI's balance sheet as of the Exchange Date. The references in the following notes for the periods prior to the Exchange Date refer to the financial results of Old RPI for the same periods.

IPO

On June 18, 2020, we completed our IPO on the Nasdaq Global Select Market under the ticker symbol "RPRX", in which we issued 89,334 thousand Class A ordinary shares at a price to the public of $28.00 per Class A ordinary share, of which 71,652 thousand Class A ordinary shares and 17,682 thousand Class A ordinary shares were offered by the Company and selling shareholders, respectively. We used the net proceeds from the IPO to acquire RP Holdings Class A Interests and, as a result, we own 100% of RP Holdings Class A Interests.

Upon consummation of the IPO, certain of the Continuing Investors agreed to exchange, pursuant to the Exchange Offer Transactions, interests in the Continuing Investors Partnerships represented by their ownership of 294,176 thousand RP Holdings Class B Interests into an aggregate of 294,176 thousand Class A ordinary shares of Royalty Pharma plc. Upon completion of the exchange, Royalty Pharma plc indirectly owned 294,176 thousand RP Holdings Class B Interests. The remaining investors in the Continuing Investors Partnerships who did not elect to exchange into Class A ordinary shares held 241,207 thousand newly issued Class B ordinary shares of Royalty Pharma plc. As a result, the Continuing Investors Partnerships held a number of our Class B ordinary shares equal to the number of RP Holdings Class B Interests indirectly held by them at such time which are exchangeable on a one-for-one basis for Class A ordinary shares of Royalty Pharma plc.

2. Summary of Significant Accounting Policies

Basis of preparation and use of estimates

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of income, revenues and expenses during the reporting period. Actual results may differ from those estimates.

The precise extent to which the COVID-19 pandemic will impact our operational and financial performance will depend on various factors. To date, certain marketers of some of our portfolio products have commented that the performance of these products have been impacted by the COVID-19 pandemic. However, the COVID-19 pandemic has not resulted in a material effect to our results of operations and liquidity and we do not believe it is reasonably likely to in the future. Due to the nature of our business, the effect of the COVID-19 pandemic may not be fully reflected in certain of our results of operations until future periods.

Basis of consolidation

The consolidated financial statements include the accounts of Royalty Pharma and all majority-owned and controlled subsidiaries, as well as variable interest entities, where we are the primary beneficiary. We consolidate based upon evaluation of our power, through voting rights or similar rights, to direct the activities of another entity that most significantly impact the entity's economic performance. For consolidated entities where we own or are exposed to less than 100% of the economics, we record *Net income attributable to non-controlling interest* in our consolidated statements of operations equal to the percentage of the economic or ownership interest retained in such entities by the respective non-controlling parties.

Following management's determination that a high degree of common ownership existed in Royalty Pharma both before and after the Exchange Date, Royalty Pharma recognized Old RPI's assets and liabilities at the carrying value reflected on Old RPI's balance sheet as of the Exchange Date.

Prior to the Exchange Offer Transactions, our only historical non-controlling interest was attributable to a de minimis interest in RPCT held by RPSFT. As a result of the Exchange Offer Transactions in February 2020, a new non-controlling interest was created related to the Legacy Investors Partnerships' ownership of approximately 18% in Old RPI.

Following the consummation of our IPO in June 2020, two new non-controlling interests were created: (1) a non-controlling interest related to the Continuing Investors Partnerships' ownership in RP Holdings through their ownership of the RP Holdings Class B Interests, which amounted to approximately 29% as of December 31, 2021, and (2) a non-controlling interest related to RPI EPA Holdings, LP ("EPA Holdings"), an affiliate of the Manager through its ownership of the RP Holdings' Class C ordinary share (the "RP Holdings Class C Special Interest"). Income will not be allocated to the latter non-controlling interest until certain conditions are met.

All intercompany transactions and balances have been eliminated in consolidation.

Adjustment to prior period presentation

In connection with the preparation of our condensed consolidated interim financial statements for the three months ended September 30, 2020, we identified an adjustment to the classification of our short-term investments on our consolidated balance sheets, as of December 31, 2019, based on the original maturity dates of the investments. The adjustment resulted in an increase of $37.5 million to *Marketable securities* and a corresponding decrease to *Cash and cash equivalents* on the consolidated balance sheet as of December 31, 2019. In addition, the adjustment resulted in an increase of $388.0 million and $350.5 million in cash activity related to *Purchases of marketable securities* and *Proceeds from sales and maturities of marketable securities*, respectively, within *Net cash used in investing activities* for the year ended December 31, 2019, with a net impact on net cash flow from investing of $37.5 million. The adjustment had no effect on our reported total income and revenues, consolidated net income, total assets, or shareholders' equity for any period. In addition, the adjustment does not impact net cash provided by operating activities in any period. We evaluated the adjustment and determined that, based on quantitative and qualitative analysis, it was not material to the consolidated financial statements as of and for the year ended December 31, 2019.

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation.

Concentrations of credit risk

Financial instruments that subject us to significant concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, financial royalty assets and receivables. Our cash management and investment policy limits investment instruments to investment-grade securities with the objective to preserve capital and to maintain liquidity until the funds are needed for operations. Our cash and cash equivalents and marketable securities balances at December 31, 2021 and 2020 were held with State Street and Bank of America. Our primary operating accounts significantly exceed the Federal Deposit Insurance Corporation limits.

The majority of our financial royalty assets and receivables arise from contractual royalty agreements that entitle us to royalties on the sales of underlying biopharmaceutical products in the United States, Europe and the rest of the world, with concentrations of credit risk limited due to the broad range of marketers responsible for paying royalties to us and the variety of geographies from which our royalties on product sales are derived. The products in which we hold royalties are marketed by leading industry participants, including, among others, AbbVie, Bristol Myers Squibb, Gilead, Johnson & Johnson, Lilly, Merck, Pfizer, Novartis, Biogen, Roche and Vertex. For the years ended December 31, 2021 and 2020, Vertex, as the marketer and payor of our royalties on the cystic fibrosis franchise, accounted for 32% and 27% of our current portion of *Financial royalty assets, net*, respectively, representing the largest individual receivable balance in both years.

We monitor the financial performance and creditworthiness of the counterparties to our royalty agreements so that we can properly assess and respond to changes in their credit profile. To date, we have not experienced any significant losses with respect to the collection of income or revenue on our royalty assets.

Segment information

Our chief operating decision maker is our Chief Executive Officer who reviews financial information presented on a consolidated basis to allocate resources, evaluates financial performance and makes overall operating decisions. As such, we concluded that we operate as one single reportable segment, which is primarily focused on acquiring biopharmaceutical royalties.

Royalty assets

An acquisition of a royalty asset provides the buyer with contractual rights to cash flows relating to royalties from the sales of patent-protected biopharmaceutical products. These acquisitions entitle us to receive a portion of income from the sale of patent-protected biopharmaceutical products by unrelated biopharmaceutical companies. For the majority of our royalties, our rights are protective in nature. In other words, we do not own the intellectual property and we do not have the right to commercialize the underlying products. These contractual cash flow rights have yield components that most closely resemble loans and are classified as financial royalty assets.

In the limited instances where we possess rights to exploit the underlying patents, rights to the intellectual property related to the biopharmaceutical products, or the ability to influence the amount or duration of future royalty payments, these royalties are classified as intangible assets.

Financial royalty assets, net

Although a financial royalty asset does not have the contractual terms typical of a loan (such as contractual principal and interest), we analogize to the accounting guidance within Accounting Standards Codification 310 (“ASC”), Receivables, as it most closely aligns with the underlying economics of our financial royalty assets. Therefore, such financial royalty assets are classified similar to loans receivable and are measured at amortized cost using the prospective effective interest method described in ASC 835-30 *Imputation of Interest*.

The effective interest rate is calculated by forecasting the expected cash flows to be received over the life of the asset relative to the initial invested amount. The effective interest rate is reviewed and adjusted each reporting period as differences between expected cash flows and actual cash flows are realized and as there are changes to expected future cash flows. Income is calculated by multiplying the carrying value of the financial royalty asset by the effective interest rate. The carrying value of a financial royalty asset is made up of the opening balance, or net purchase price for a new financial royalty asset, which is increased by the interest income accrual and decreased by cash receipts in the period to arrive at the ending balance. If the ending balance is greater than the net present value of the expected future cash flows, a provision is recorded to reduce the asset balance to the net present value. The provision is recorded through the income statement as *Provision for changes in expected cash flows from financial royalty assets* and the carrying value of *Financial royalty assets, net* is presented net of the cumulative allowance for changes in expected future cash flows.

The application of the prospective approach to measure financial royalty assets requires management's judgment in forecasting the expected future cash flows of the underlying royalties. The amounts and duration of forecasted expected future cash flows used to calculate and measure interest income are largely impacted by sell-side equity research analyst coverage, commercial performance of the product, and royalty duration, each discussed in further detail below.

- *Analyst coverage.* Forecasts of expected future cash flows are developed from sales projections of the underlying biopharmaceutical products as published in sell-side equity research analyst reports. In projecting future cash flows, our policy is to rely on sell-side research analysts' consensus sales forecasts for a product to derive annual sales projections for each financial royalty asset over the periods for which we are entitled to royalties or milestones. These forecasts are based on input from internal and external market research that analyzes factors such as growth in global economies, industry trends and product life cycles. When royalty-bearing biopharmaceutical products have no coverage, limited sell-side equity research analyst coverage or where sell-side equity research analyst consensus sales estimates are not available for the full term of the royalty, particularly for the later years in a product's life, management uses reasonable judgment to make assumptions about the growth or decline in the sales of these products based on historical data, market trends and management's own expertise. For the majority of the portfolio of financial royalty assets, management utilizes statistical curves based on historical trends to project future sales when sell-side equity research analyst consensus sales estimates end or are not available for the full term of the royalty. In other cases, management may develop and apply growth rate estimates from existing sell-side equity research analysts' consensus sales forecasts to project future sales for products that cannot be modeled through the statistical curves, such as those where the entrance of a biosimilar is expected to impact future sales. Based on the level of detail in sell-side equity research analyst models, management can also be required to apply assumptions to the sales forecasts to estimate the quarterly and geographical allocation from annual sales projections and, for franchised products, to estimate the product mix and pricing mix, or to exclude from projections sales forecasts for unapproved products or indications. Our contractual royalty terms, rates, and any milestones are then applied to the adjusted sales projections to calculate the expected royalty or milestone payments over the term of the financial royalty asset's life, forming the basis for our forecast of expected future cash flows used to calculate and measure interest income.

- *Commercial performance.* The approval of a product for use in new indications can extend the date through which we are entitled to royalties or milestones on that product. For certain financial royalty assets, such as the cystic fibrosis franchise, we are entitled to royalties on approved combination products and may be entitled to royalties on future combination products, which, once approved, create new cash flow streams which were not initially contemplated and whose sales were previously not reflected in expected future cash flows. We generally do not recognize income from, or forecast sales for, unapproved products or indications. If a product is removed from all or a portion of a market, subsequent sell-side equity research analysts' consensus sales forecasts will reflect the expected drop in sales. Both the new cash flow streams and the cessation of cash flow streams related to a product's performance in the market over the royalty term can materially affect our forecast of expected future cash flows.

- *Royalty duration.* The duration of a royalty can be based on a number of factors, such as regulatory and marketing approval dates, patent expiration dates, the number of years from first commercial sale, the first date of manufacture of the patent-protected product, the entry of generics or a contractual date arising from litigation, which are all impacted by the time in the product's life cycle at which we acquire the royalty. Royalty duration varies by geography as United States, European Union and other jurisdictions may be subject to different country-specific patent protection terms or exclusivity based on contractual terms. Products may be covered by a number of patents and, for products whose royalty term is linked to the existence of valid patents, management is required to make judgments about the patent providing the strongest patent protection to align the period over which management forecasts expected future cash flows to the royalty term. It is common for the latest expiring patent in effect at the date we acquire a financial royalty asset to be extended, adjusted or replaced with newer dated patents subsequent to our acquisition of a royalty due to new information, resulting in changes to the royalty duration in later periods. Patents may expire earlier than expected at the time of the acquisition due to the loss of patent protection, loss of data exclusivity on intellectual property, contractual licensing terms limiting royalty payments based on time from product launch, due to recent legal developments or litigation. Macroeconomic factors, such as changes in economies or the competitive landscape, including the unexpected loss of exclusivity to the products underlying our portfolio of royalties, changes in government legislation, product life cycles, industry consolidations and other changes beyond our control could result in a positive or negative impact on our forecast of expected future cash flows.

As part of the preparation of the forecasted expected future cash flows, which relies on the sources and variables discussed above, management is required to make assumptions around the following forecast inputs: (1) estimates of the duration of the royalty, which includes consideration of the strength of patent protection and anticipated entry of generics, (2) product growth rates and sales trends in outer years, (3) the product and pricing mix for franchised products, and (4) the geographical allocation of annual sales data from sell-side equity research analysts' models. The most sensitive of these assumptions relates to management's estimate of the royalty duration in the final years of an asset's life. In some cases, patent protection may extend to a later period than the expiration date management has estimated. Management may apply a shorter royalty term in this situation if, based on its experience and expertise, management believes that it is more likely that the associated patents are subject to opposition or infringement, that the market for a particular product may shift based on pipeline approvals and products, or that product sales may be harmed by competition from generics. For products providing perpetual royalties, management applies judgment in establishing the duration over which it forecasts expected future cash flows.

A shortened royalty term can result in a reduction in the effective interest rate, a decline in the carrying value of the financial royalty asset, a decline in income from financial royalty assets, significant reductions in royalty payments compared to expectations, or a permanent impairment. Additionally, royalty payments may occasionally continue beyond the estimated royalty expiration date for such reasons we cannot foresee such as excess inventory in the channel or additional scope of patent protection identified after expiry, including royalties we may become entitled to from new indications, new compounds, or for new regulatory jurisdictional approvals.

The current portion of *Financial royalty assets, net* represents an estimation for current quarter royalty receipts which are collected during the subsequent quarter and for which the estimates are derived from the latest external publicly available sell-side equity research analyst reports, reported in arrears.

Cumulative allowance and Provision for changes in expected cash flows from financial royalty assets

We evaluate financial royalty assets for impairment on an individual basis by comparing the effective interest rate at each reporting date to that of the prior period. If the effective interest rate is lower for the current period than the prior period, and if the gross cash flows have declined (expected and collected), we record a provision for the change in expected cash flows. The provision is measured as the difference between the financial royalty asset's amortized cost basis and the net present value of the expected future cash flows, calculated based on the prior period's effective interest rate. The amount recognized as provision expense increases the financial royalty asset's cumulative allowance, which reduces the net carrying value of the financial royalty asset.

In a subsequent period, if there is an increase in expected future cash flows, or if actual cash flows are greater than cash flows previously expected, we reduce the previously established cumulative allowance for the increase in the present value of cash flows expected to be collected, resulting in a non-cash credit to the provision line on the income statement. We also recalculate the amount of accretable yield to be received based on the revised remaining future cash flows. The adjustment to the accretable yield is treated as a change in estimate and is recognized prospectively over the remaining life of the financial royalty asset by adjusting the effective interest rate used to calculate income.

Movements in the cumulative allowance for changes in expected future cash flows, which forms part of the *Financial royalty assets, net* line item on the consolidated balance sheet, are accompanied by corresponding changes to the provision. Amounts not expected to be collected are written off against the allowance at the time that such a determination is made. Recoveries of previously written-off amounts are credited to the allowance. In some cases, when a financial royalty asset's contractual cash flows expire, the final royalty payment may differ from the remaining net carrying value. We account for this non-cash true-up at the end of the royalty term as either *Provision for changes in expected cash flows from financial royalty assets* or as *Income from financial royalty assets* on the consolidated statements of operations.

Income from financial royalty assets

We recognize income from financial royalty assets when there is a reasonable expectation about the timing and amount of cash flows expected to be collected. The accretable yield is recognized as income at the effective rate of return over the expected life of financial royalty assets. After acquisition of a financial royalty asset, if we are not able to reliably estimate expected cash flows for a product or if we have not completed the required funding obligations payable over time for an approved product, a financial royalty asset is placed in non-accrual status (e.g., for royalties from products that have not yet received FDA approval or for accelerated royalties). Such financial royalty assets are held at cost and no income is recognized until the reasonable expectation of the timing of the future cash flows to be collected is available or until funding obligations payable over time for an approved product are complete. We evaluate such financial royalty assets held at cost for impairment based on, among other factors, a review of development progress, clinical trial results, and publicly available information around regulatory discussions and approval status. An impairment loss is recognized if, based on current information and events, it is probable that we will be unable to collect amounts due according to the contractual terms of the financial royalty asset, and the amount of loss can be reasonably estimated.

When royalties are received for financial royalty assets that have been fully amortized, such income is recognized as *Other royalty income.*

Allowance for current expected credit losses

On January 1, 2020, we adopted ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13") which requires earlier recognition of credit losses. We now recognize an allowance for current expected credit losses on our portfolio of financial royalty assets with limited protective rights. The credit loss allowance is estimated using the probability of default and loss given default method. The credit rating, which is primarily based on publicly available data and updated quarterly, is the primary credit quality indicator used to determine the probability of default of the marketers responsible for paying our royalties and the resulting loss given default. The allowance for current expected credit losses is presented net within the non-current portion of *Financial royalty assets, net* on the consolidated balance sheets. Any subsequent movement in the allowance for credit losses is recorded as part of the *Provision for changes in expected future cash flows from financial royalty assets* on the consolidated statements of operations.

Refer to Note 7–Cumulative Allowance and the Provision for Changes in Expected Cash Flows from Financial Royalty Assets for further information.

Intangible royalty assets, net

Currently, our only intangible royalty assets are the Januvia and Janumet ("DPP-IV") patents. The DPP-IV patents are finite-life intangible royalty assets whose cost is amortized using the straight-line method over the expected lives of the patents, the majority of which terminate at various dates through 2022. The amortization period commenced concurrent with the sale of the product underlying the royalty asset.

Management reviews the performance of intangible royalty assets periodically for impairment as required by ASC 360-10, *Property, Plant, and Equipment - Overall*. The test for recoverability is performed by comparing the carrying value of the intangible royalty asset with the estimated future undiscounted cash flows generated through royalty payments from sales of the underlying DPP-IV products. When evaluating indicators of impairment, we consider factors such as competitive environment and the product's life cycle stage, recent and prospective sales trends, collectability concerns, and any potential rebate chargebacks that may occur at the end of a royalty's term. An impairment loss is recognized if the carrying value of the intangible royalty asset is not recoverable and its carrying amount exceeds its fair value.

Revenue from intangible royalty assets and Accrued royalty receivable

We earn royalties on sales by our licensees of DPP-IV products covered under patents that we own. We do not have future performance obligations under these license arrangements. Royalty revenue from sales of DPP-IV products is recognized in the period the product is sold. However, under the license agreements, licensees generally provide royalty reports and payments on a one quarter lag. Thus, the accrued royalty receivable is based on an analysis of historical royalties received and sell-side equity research analysts' projected sales, adjusted for any changes in estimates. Royalty-bearing sales are net of certain rebates and other discounts, as permitted under the terms of the license agreements. Because rebates are generally invoiced and paid in arrears by the marketer, royalty reports often reflect deductions in current periods for rebates related to prior periods which we do not have the ability to estimate.

Critical estimates that could cause a change in estimated future cash flows include changes in product demand and market growth assumptions, a change in the pricing strategy of the marketer or reimbursement coverage, and changes in country-specific contractual or patent expiry dates. Actual royalty receipts may differ from estimates and any differences between actual and estimated royalty revenues are adjusted for in the period in which they become known, typically on the basis of royalty receipts.

Milestone payments

Certain acquisition agreements provide for future incoming or outgoing contingent payments based on the commercial, regulatory or clinical performance of the related biopharmaceutical product generally over a multi-year period. For purposes of measuring income from financial royalty assets, commercial milestones payable or receivable are reflected in the cash flows used to forecast expected future cash flows in the period in which the milestone criteria is projected to be satisfied based on sell-side equity research analysts' consensus sales forecasts. Milestones based on regulatory approval or clinical criteria are generally not reflected in the expected future cash flows until such approval is achieved.

Amounts related to outgoing contingent milestone payments are not considered contractual obligations as they are contingent on the successful completion of the defined milestones. Payments under these agreements generally become due and payable upon achievement of certain commercial milestones, and when the contingency is resolved.

Financial instruments

Certain financial instruments reflected in the consolidated balance sheets, (e.g., cash and cash equivalents, certain other assets, accounts payable and certain other liabilities) are recorded at cost, which approximates fair value due to their short-term nature. The fair values of financial instruments other than *Financial royalty assets, net* are determined through a combination of management estimates and information obtained from third parties using the latest market data. The fair value of financial instruments is determined utilizing the valuation techniques appropriate to the type of instrument as discussed in Note 5–Fair Value Measurements and Financial Instruments.

Cash and cash equivalents and Marketable securities

Cash and cash equivalents include cash held at banks and all highly liquid financial instruments with original maturities of 90 days or less. We invest excess cash in marketable debt securities that are classified as trading securities and reported at fair value.

Equity securities and Available for sale debt securities

Our equity securities are measured and recorded at fair value with unrealized gains and losses recorded in earnings. Our equity securities represent investments in publicly traded equity securities. Available for sale debt securities are measured at fair value. The unrealized change in fair value of available for sale debt securities for which we elected the fair value option is recorded within *Unrealized gains on available for sale debt securities* on the consolidated statements of operations. The unrealized change in fair value for the Biohaven Series A Preferred Share is included in *Accumulated other comprehensive income* ("AOCI") and are reclassified to earnings as interest income is recognized. Interest income is recognized when we can reliably estimate forecasted cash flows.

A decline in the market value of any available for sale debt security below its cost that is deemed to have resulted from a credit loss results in a reduction in carrying amount to fair value and is recognized in earnings. The determination of whether a decline in fair value below the amortized cost basis for an available for sale debt security has resulted from a credit loss requires significant judgment and requires consolidation of available quantitative and qualitative evidence in evaluating the potential impairment. Factors evaluated to determine whether a decline in the fair value below the amortized cost basis has resulted from a credit loss include: the extent to which fair value is less than the amortized cost basis, adverse conditions related to the security, an industry, or geographic area, the payment structure of the security, failure of the issuer to make scheduled payments, any changes to the rating of the security by a rating agency, the remaining payment terms of the security, prepayment speeds, the financial condition of the issuer expected defaults, our intent not to sell, and an evaluation as to whether it is more likely than not that we will have to sell before recovery of the cost basis. Assumptions associated with these factors are subject to future market and economic conditions, which could differ from management's assessment.

We may elect to apply the fair value option for certain investments in debt securities where the fair value option better aligns with the economics of such investment. Upon such election, the entire investment is measured at fair value on a recurring basis, with movements in fair value recognized in earnings.

Derivatives

All derivatives are measured at fair value on the consolidated balance sheets with movements in fair value recognized in earnings. Prior to 2017, RPIFT applied hedge accounting to its interest rate swap agreements.

Upon the discontinuation of hedge accounting, the AOCI previously recorded on the cash flow hedges was reversed out of other comprehensive income in line with terms of the associated swap contract until the termination of all of our interest rate swaps in February 2020. This reclassification adjustment is shown on the consolidated statements of operations as part of *Losses on derivative financial instruments*.

Investment in non-consolidated affiliates

Investments in entities that provide us with the ability to exercise significant influence, but not a controlling financial interest, and where we are not the primary beneficiary are accounted for under the equity method. Investments accounted for under the equity method are initially recorded at fair value. If there is a difference between the fair value and the carrying amount of the equity method investment at inception, we quantify the basis difference and amortize it in a rational manner over the life of the investment. Subsequently, we recognize through earnings our proportionate share of the investee's net income or loss, net of any adjustment to reflect the amortization of basis differences. We generally record our share of the results of our investees one quarter in arrears within *Equity in losses/(earnings) of non-consolidated affiliates* in the consolidated statements of operations. The investment is reflected as *Investments in non-consolidated affiliates* on the consolidated balance sheet.

We have variable interests in entities formed for the purposes of entering into co-development arrangements for potential biopharmaceutical products (the "Avillion entities"). The Avillion entities are variable interest entities for which we are not the primary beneficiary as we do not have the power to direct the activities that most significantly influence the economic performance of the entity. In determining whether we are the primary beneficiary of an entity, management applies a qualitative approach that determines whether it has both (1) the power to direct the economically significant activities of the entity and (2) the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant. Management continuously assesses whether we are the primary beneficiary of a variable interest entity as changes to existing relationships or future transactions may result in the consolidation or deconsolidation of one or more of its investees.

When we have committed to provide further support to the investee through capital call commitments and the investment has been reduced to zero, we provide for additional losses, resulting in a negative equity method investment, which is presented as a liability on the consolidated balance sheets.

Research and development funding expense

We enter into transactions where we agree to fund a portion of the research and development ("R&D") performed by our partners for products undergoing late-stage clinical trials in exchange for future royalties or milestones if the products are successfully developed and commercialized. In accordance with ASC 730, *Research and Development*, we account for the funded amounts as R&D expense when we have the ability to obtain the results of the R&D, the transfer of financial risk is genuine and substantive and, at the time of entering into the transaction, it is not yet probable that the product will receive regulatory approval. We may pay funded amounts upfront or over time as the underlying products undergo clinical trials.

Royalty payments owed to the Company on successfully commercialized products generated from R&D arrangements are recognized as *Other royalty income* in the same period in which the sale of the product occurs. Fixed or milestone payments receivable based on the achievement of contractual criteria for products arising out of our R&D arrangements are also recognized as *Other royalty income* in the period that the milestone threshold is met. Milestone thresholds are typically not triggered until after all funding obligations have been completed.

Income taxes

We periodically assess if our activities, as conducted through our subsidiaries, and as currently contemplated, constitute being engaged in the conduct of a trade or business within the United States. Neither the U.S. Internal Revenue Code ("the Code") nor the applicable Treasury regulations provide a general definition of what constitutes being engaged in the conduct of a trade or business within the United States, and the limited case law on the subject does not provide definitive guidance. Based on our periodic assessment, we believe that we are not engaged in the conduct of a trade or business within the United States, and as such, we do not record a provision for U. S. federal income tax for the years presented in the consolidated financial statements.

While we believe we are not engaged in the conduct of a trade or business within the United States or subject to U.S. taxation in that regard, we are subject to U. S. federal withholding tax on certain fixed or determinable annual or periodical gains, profits and income, such as royalties from sources within the United States, unless reduced or eliminated under an applicable tax treaty or provision of the Code. Generally, this tax is imposed by withholding 30% of the payments, or deemed payments, that are subject to this tax. We believe our subsidiaries are eligible for benefits under the U.S.-Ireland income tax treaty, and, under that treaty, are not be subject to any U.S. withholding taxes on U.S.-source royalty payments.

Consequently, because we believe that we are not engaged in the conduct of a trade or business within the United States and our subsidiaries are eligible for benefits under the U.S.-Ireland tax treaty, we do not record a provision for income taxes.

While we do not currently record a provision for income taxes, we are party to certain arrangements that will give rise to a tax provision in the future. We currently have funding arrangements in place that allow our counterparties to draw on capital over a prescribed period of time. When such funding arrangements are drawn and we begin to recognize income from these funding arrangements, such activities will be subject to U.S. taxation and we will record a provision for income taxes in accordance with ASC 740, *Income Taxes*. We also entered into an arrangement with MSCI during 2021 as discussed in Note 16–Related Party Transactions that will become subject to U.S. taxation when we begin to recognize revenue from this transaction.

We operate so as to be treated solely as resident in the U.K. for tax purposes. As a U.K. tax resident company, we are subject to U.K. corporation tax on our worldwide taxable profits and gains. U.K. tax resident companies are subject to U.K. corporation tax on receipt of dividends or other income distributions in respect of shares held by them, unless those dividends or other distributions fall within an exempt class. We believe that dividends received by us from RP Holdings, and dividends received by RP Holdings from RPI, should fall within such an exempt class and therefore should not be subject to U.K. corporation tax. As such, we do not record a provision for U.K. income taxes with respect to the dividends received from RP Holdings or with respect to the dividends received by RP Holdings from RPI.

We are also subject to the U.K.'s "controlled foreign companies" rules (the "U.K. CFC Rules"). The U.K. CFC Rules, broadly, can impose a charge to U.K. tax on U.K. tax resident companies that have, alone or together with certain other persons, interests in a non-U.K. tax resident company (the "Controlled Foreign Company") which is controlled by a U.K. person or persons. The charge under the U.K. CFC Rules applies by reference to certain types of chargeable profit arising to the Controlled Foreign Company, whether or not that profit is distributed, subject to specific exemptions. Certain non-U.K. entities in which we hold a greater than 25% interest, including RPI (which is Irish tax resident) and Old RPI (which is Irish tax resident and which is held indirectly by us through our participation in RP Holdings), will be Controlled Foreign Companies for U.K. tax purposes. We are therefore required to apply the CFC Rules in respect of our direct and indirect interests in these entities on an ongoing basis. We do not expect material U.K. corporation tax charges to arise under the U.K. CFC Rules in respect of our royalty assets and we therefore do not record a provision for U.K. income taxes.

Earnings per share

Basic earnings per share ("EPS") is computed by dividing net income attributable to us by the weighted average number of Class A ordinary shares outstanding during the period. Diluted EPS is computed by dividing net income attributable to us by the weighted average number of Class A ordinary shares outstanding during the period, including the number of Class A ordinary shares that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include the outstanding Class B ordinary shares, Class B ordinary shares contingently issuable to RPI EPA Holdings, LP ("EPA Holdings") related to Equity Performance Awards and unvested restricted share units ("RSUs") issued under our 2020 Independent Director Equity Incentive Plan ("Equity Incentive Plan"). We include potentially dilutive shares in the denominator to compute diluted EPS if (i) the inclusion of the ordinary shares is dilutive for the respective reporting periods, and (ii) contingencies are satisfied as of the end of the reporting period for ordinary shares that are contingently issuable. We use the "if-converted" method to determine the potentially dilutive effect of our outstanding Class B ordinary shares, and the treasury stock method to determine the potentially dilutive effect of the unvested RSUs.

There were no Class A ordinary shares or Class B ordinary shares outstanding prior to June 16, 2020; therefore, no earnings per share information has been presented for any period prior to that date.

Recently adopted accounting standards

In June 2016, the FASB issued a new accounting standard that amends the guidance for measuring and recording credit losses on financial assets measured at amortized cost by replacing the incurred-loss model with an expected-loss model (ASU 2016-13). Accordingly, these financial assets are presented at the net amount expected to be collected. This new standard also requires that credit losses related to available-for-sale debt securities be recorded as an allowance through net income rather than reducing the carrying amount under the current, other-than-temporary-impairment model. With certain exceptions, adjustments are applied using a modified-retrospective approach by reflecting adjustments through a cumulative-effect impact on retained earnings as of the beginning of the fiscal year of adoption. Upon the January 1, 2020 adoption of ASU 2016-13, we recorded a cumulative adjustment to *Retained earnings* of $192.7 million to recognize an allowance for current expected credit losses on our financial royalty assets.

In August 2018, the FASB issued a new accounting standard that eliminates, adds and modified certain disclosures requirements for fair value measurements under Topic 820 (ASU 2018-13). The ASU modifies the disclosures by removing the requirement to disclose the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and the policy for timing of such transfers. The ASU expands the disclosure requirements for Level 3 fair value measurements, primarily focused on changes in unrealized gains and losses included in other comprehensive income/(loss). We adopted this standard as of January 1, 2020 with no material impact on our consolidated financial statements and accompanying notes.

3. Available for Sale Debt Securities

Series A Biohaven Preferred Shares

On April 5, 2019, RPIFT funded the purchase of 2,495 Series A Biohaven Preferred Shares from Biohaven Pharmaceutical Holding Company Ltd. ("Biohaven") at a price of $50,100.00 per preferred share, for a total of $125.0 million (the "First Tranche"). The approval of Nurtec ODT by the U.S. Food and Drug Administration ("FDA") in February 2020 results in a payment due to us of two times the original purchase price of the Series A Biohaven Preferred Shares payable in equal quarterly installments beginning in the three months ended March 31, 2021 through the three months ended December 31, 2024. In the three months ended March 31, 2021, we began receiving payments from the quarterly redemption of the Series A Biohaven Preferred Shares. If Biohaven effects any change of control event, then we will have the option to cause Biohaven to redeem, in a single payment, any outstanding Series A Biohaven Preferred Shares at a price equal to two times the original purchase price of the Series A Biohaven Preferred Shares. Biohaven may redeem at their election, any outstanding Series A Biohaven Preferred Shares, in a single payment, at a price equal to two times the original purchase price. In the event that Biohaven defaults on any obligation to redeem Series A Biohaven Preferred Shares when required, the redemption amount shall accrue interest at the rate of 18% annually until the redemption price for such unredeemed Series A Biohaven Preferred Shares is paid in full, subject to applicable law. If any such default continues for at least one year, we will be entitled to convert all unredeemed Series A Biohaven Preferred Shares into common shares equal to the redemption price, plus accrued interest, divided by the five-day volume-weighted trading price immediately preceding the conversion date.

The Series A Biohaven Preferred Shares are classified as *Available for sale debt securities* in our consolidated balance sheets. The unrealized change in the fair value of the Series A Biohaven Preferred Shares is recorded within *Unrealized gains on available for sale debt securities* on the consolidated statements of comprehensive income.

Series B Biohaven Preferred Shares

On August 7, 2020 we entered into a Series B Biohaven Preferred Share Purchase Agreement ("Series B Biohaven Preferred Share Agreement") with Biohaven where we committed to acquire 3,992 shares of Series B Biohaven Preferred Shares at a price of $50,100 per preferred share (the "Commercial Launch Preferred Equity"), for a total of $200.0 million payable on a quarterly basis between the three months ended March 31, 2021 and the three months ended December 31, 2024. Our commitment to purchase the Series B Biohaven Preferred Shares is recognized as the Series B Forwards. In return, Biohaven will be required to redeem the Series B Biohaven Preferred Shares in a series of equal fixed quarterly payments between March 31, 2025 and December 31, 2030 at a price equal to approximately 1.8 times the original purchase price of the Series B Biohaven Preferred Shares. If Biohaven effects any change of control event, then we will have the option to cause Biohaven to issue to us all unissued Series B Biohaven Preferred Shares and to redeem, in a single payment, any outstanding Series B Biohaven Preferred Shares at a price equal to approximately 1.8 times the Series B original issue price per share. Biohaven may redeem at their election, any outstanding Series B Biohaven Preferred Shares, in a single payment, at a price equal to approximately 1.8 times the original issue price for the Series B Biohaven Preferred Shares. In the event that Biohaven defaults on any obligation to redeem Series B Biohaven Preferred Shares, the redemption amount shall accrue interest on the applicable original issue price at the rate of 18% annually until the redemption price for such unredeemed Series B Biohaven Preferred Shares is paid in full, subject to applicable law. If any such default continues for at least one year, we will be entitled to convert any or all unredeemed Series B Biohaven Preferred Shares into common shares equal to the redemption price, plus accrued interest, divided by the five-day volume-weighted trading price immediately preceding the conversion date.

In the three months ended March 31, 2021, we began purchasing the Series B Biohaven Preferred Shares. As of December 31, 2021, we have acquired 1,406 shares of Series B Biohaven Preferred Shares. We have elected the fair value option to account for the Series B Forwards and the Series B Biohaven Preferred Shares, which are recorded in aggregate on the consolidated balance sheets as *Available for sale debt securities*. We believe the fair value option most accurately reflects the nature of these instruments. The unrealized change in fair value of the Series B Biohaven Preferred Shares and Series B Forwards is recorded within *Unrealized gains on available for sale debt securities* on the consolidated statements of operations.

MorphoSys Development Funding Bonds

On June 2, 2021, we announced a long-term strategic funding partnership with MorphoSys AG ("MorphoSys") to support MorphoSys' acquisition of Constellation Pharmaceuticals, Inc. ("Constellation"), which closed on July 15, 2021. As part of the funding agreement, we agreed to provide MorphoSys up to $350 million of capital (the "Development Funding Bonds"), which MorphoSys may draw over a one-year period from the close of its acquisition of Constellation. MorphoSys is required to draw a minimum of $150 million. As of December 31, 2021, MorphoSys has not drawn any amount under the Development Funding Bonds. Our commitment to fund at least $150 million of the Development Funding Bonds is recognized as the Development Funding Bond Forward. Once drawn, we expect to receive a return of 2.2 times the amount funded on the Development Funding Bonds payable on a quarterly basis over nine years, with the first payment beginning two years after the funding.

We have elected the fair value option to account for the Development Funding Bond Forward as it most accurately reflects the nature of the instrument. The Development Funding Bond Forward is recorded within *Available for sale debt securities* in our consolidated balance sheet. The unrealized change in fair value of the Development Funding Bond Forward is recorded within *Unrealized gains on available for sale debt securities* on the consolidated statements of operations.

The table below summarizes our available for sale debt securities recorded at fair value as of December 31, 2021 and 2020 (in thousands):

	Cost (1)	Unrealized Gains	Fair Value	Current Assets	Non-Current Assets	Total
As of December 31, 2021						
Series A Biohaven Preferred Shares	$ 134,068	$ 29,432	$ 163,500	$ 66,000	$ 97,500	$ 163,500
Series B Biohaven Preferred Shares	70,441	19,759	90,200	—	90,200	90,200
Series B Forwards	—	12,300	12,300	—	12,300	12,300
Development Funding Bond Forward	—	4,400	4,400	—	4,400	4,400
Total available for sale debt securities	**$ 204,509**	**$ 65,891**	**$ 270,400**	**$ 66,000**	**$ 204,400**	**$ 270,400**
As of December 31, 2020						
Series A Biohaven Preferred Shares	$ 145,647	$ 68,753	$ 214,400	$ 69,984	$ 144,416	$ 214,400
Series B Forwards	—	18,600	18,600	—	18,600	18,600
Total available for sale debt securities	**$ 145,647**	**$ 87,353**	**$ 233,000**	**$ 69,984**	**$ 163,016**	**$ 233,000**

(1) Cost for Series A Biohaven Preferred Shares represents amortized cost. Cost for Series B Biohaven Preferred Shares represents the amounts paid to purchase the instruments. There were no costs associated with the Series B Forwards and Development Funding Bond Forward.

4. Derivative Instruments

We have historically managed the impact of foreign currency exchange rate and interest rate risk through various financial instruments, including derivative instruments such as treasury rate lock contracts, interest rate swap contracts and foreign currency forward contracts. Our policy is to use derivatives strategically to hedge existing and future interest rate exposure and to minimize volatility in cash flow arising from our exposure to interest rate risk and foreign currency risk. We may also acquire other financial instruments that are classified as derivatives. We do not enter into derivative instruments for trading or speculative purposes.

Treasury rate lock contracts

In June 2021, we entered into treasury rate lock contracts with notional amounts totaling $600.0 million to manage the impact of fluctuations in the underlying benchmark interest rate associated with the 2021 Notes (as further discussed and defined in Note 11–Borrowings). The treasury rate lock contracts were not designated as hedge instruments. All of the treasury rate lock contracts had collateral requirements. The treasury rate lock contracts were unwound and settled in connection with the issuance of the 2021 Notes and the resulting net loss was recognized in earnings in the year ended December 31, 2021. We paid $16.1 million in July 2021 to terminate our treasury rate lock contracts.

Interest rate swaps

In February 2020, RPIFT terminated all outstanding interest rate swaps in connection with the Exchange Offer Transactions. We paid $35.4 million to terminate these swaps and reclaimed $45.3 million of collateral that was held by the respective counterparties. During the years ended December 31, 2020 and 2019, we recorded unrealized losses of $10.9 million and $72.6 million, respectively, on interest rate swaps in the consolidated statements of operations. We did not enter into any interest rate swaps subsequent to the February 2020 termination discussed above and as of December 31, 2021, we do not hold any interest rate swap contracts.

Epizyme put option and warrant

In November 2019, RPIFT made an equity investment in Epizyme, Inc. ("Epizyme") of $100.0 million. Under the terms of the agreement with Epizyme, we made an upfront payment of $100.0 million for (1) shares of Epizyme common stock, (2) a warrant to purchase an additional 2.5 million shares of Epizyme common stock at $20 per share over a three-year term and (3) Epizyme's royalty on sales of Tazverik in Japan payable by Eisai Co., Ltd ("Eisai"). In addition, Epizyme had an 18 month put option to sell an additional $50.0 million of its common stock to RPIFT at then prevailing prices, not to exceed $20 per share. On December 31, 2019, Epizyme notified RPIFT of its intention to exercise the put option. As a result, we recorded a forward purchase contract equal to the difference between the market value and exercise price of $11.5 million within *Other assets* on the consolidated balance sheets at December 31, 2019. The exercise of the put option was settled in February 2020.

The warrant was recognized at fair value of $5.4 million within *Other assets* on the consolidated balance sheets at December 31, 2020. The fair value of the warrant was not material as of December 31, 2021. We recorded an unrealized loss of $5.4 million, an unrealized loss of $25.4 million and an unrealized gain of $22.0 million on derivative contracts related to the change in fair value of the warrant on the consolidated statements of operations for the years ended December 31, 2021, 2020 and 2019, respectively.

Summary of derivatives and reclassifications

The tables below summarize the change in fair value of the derivatives for the years ended December 31, 2021, 2020 and 2019 and the line items within the consolidated statements of operations where the gains or losses on these derivatives are recorded (in thousands).

	Years Ended December 31,			Location on Consolidated Statements of Operations
	2021	2020	2019	
Derivatives in hedging relationships (1)				
Interest Rate Swaps:				
Amount of loss reclassified from accumulated other comprehensive income into income	$ —	$ 4,066	$ 6,189	Losses on derivative financial instruments
Change in fair value of interest rate swaps	—	(73)	16,954	Losses on derivative financial instruments
Interest expense/(income)	—	114	(9,565)	Interest expense
Derivatives not designated as hedging instruments				
Interest Rate Swaps:				
Change in fair value of interest rate swaps	—	6,908	49,472	Losses on derivative financial instruments
Interest expense/(income)	—	408	(2,681)	Interest expense
Warrant:				
Change in fair value of warrant	5,439	25,375	(21,977)	Losses on derivative financial instruments
Forward purchase contract:				
Change in fair value of forward purchase contract	—	5,800	(11,500)	Losses on derivative financial instruments
Treasury rate lock contracts:				
Change in fair value of treasury rate lock contracts	16,093	—	—	Losses on derivative financial instruments

(1) Certain interest rate swaps were previously designated as cash flow hedges. These swaps became ineffective as debt refinancings occurred between 2013 and 2016. As a result of the termination of interest rate swaps in February 2020, all amounts associated with interest rate swaps previously designated as cash flow hedges and recorded in *Accumulated other comprehensive income* were released into earnings.

5. Fair Value Measurements and Financial Instruments

Fair value hierarchy

We determine the fair value of financial and non-financial assets and liabilities using the fair value hierarchy, which establishes three levels of inputs that may be used to measure fair value as follows:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3: Prices or valuation that require inputs that are both significant to the fair value measurement and unobservable.

Our financial instruments consist primarily of cash and cash equivalents, marketable securities, equity securities, derivatives, available for sale debt securities and long-term debt. Cash and cash equivalents, marketable securities, equity securities, derivatives and available for sale debt securities are reported at their respective fair values in our consolidated balance sheets. For financial instruments which are carried at fair value, the level in the fair value hierarchy is based on the lowest level of inputs that is significant to the fair value measurement in its entirety. Long-term debt and financial royalty assets are reported at their amortized costs in our consolidated balance sheets but for which fair values are disclosed. The remaining financial instruments are reported in our consolidated balance sheets at amounts that approximate current fair values.

Assets and liabilities measured at fair value on a recurring basis

The following table summarizes financial assets and financial liabilities that we measured at fair value on a recurring basis at the dates indicated, classified in accordance with the fair value hierarchy described above (in thousands):

	As of December 31, 2021				As of December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:								
Cash equivalents								
Money market funds	$ 598,253	$ —	$ —	$ 598,253	$ 24,302	$ —	$ —	$ 24,302
Commercial paper	—	13,997	—	13,997	—	77,176	—	77,176
Certificates of deposit	—	40,954	—	40,954	—	74,502	—	74,502
Marketable securities								
Corporate debt securities	—	—	—	—	—	32,754	—	32,754
Commercial paper	—	207,457	—	207,457	—	444,554	—	444,554
Certificates of deposit	—	374,415	—	374,415	—	505,971	—	505,971
Available for sale debt securities	—	—	66,000	66,000	—	—	69,984	69,984
Total current assets	**$ 598,253**	**$ 636,823**	**$ 66,000**	**$ 1,301,076**	**$ 24,302**	**$ 1,134,957**	**$ 69,984**	**$ 1,229,243**
Equity securities	226,787	—	43,013	269,800	298,689	—	—	298,689
Available for sale debt securities	—	—	187,700	187,700	—	—	144,416	144,416
Forwards (1)	—	—	16,700	16,700	—	—	18,600	18,600
Warrant (2)	—	—	—	—	—	5,439	—	5,439
Total non-current assets	**$ 226,787**	**$ —**	**$ 247,413**	**$ 474,200**	**$ 298,689**	**$ 5,439**	**$ 163,016**	**$ 467,144**

(1) The balance as of December 31, 2021 includes Series B Forwards and the Development Funding Bond Forward, recorded within *Available for sale debt securities* in the consolidated balance sheet, related to our obligations to fund acquisitions of the Series B Biohaven Preferred Shares and $150 million of the Development Funding Bonds, respectively. The balance as of December 31, 2020 relates to Series B Forwards, recorded within *Available for sale debt securities* in the consolidated balance sheet. See Note 3–Available for Sale Debt Securities for additional discussion.

(2) Related to the Epizyme transaction as described in Note 4–Derivative Instruments and recorded in *Other assets* in the consolidated balance sheets as of December 31, 2021 and 2020. The fair value of the warrant was not material as of December 31, 2021.

For the years ended December 31, 2021, 2020 and 2019, we recognized a loss of $60.1 million, a loss of $85.4 million and a gain of $104.4 million, on equity securities still held as of December 31, 2021, respectively.

The tables presented below summarize the change in the combined fair value (current and non-current) of Level 3 financial instruments, which relate to equity securities and available for sale debt securities, including the underlying debt securities and related forwards (in thousands).

	Years Ended December 31,	
	2021	2020
Equity Securities		
Balance at the beginning of the year	$ —	$ —
Purchases	35,120	—
Gains on equity securities	7,893	—
Balance at the end of the year	**$ 43,013**	**$ —**

	Years Ended December 31,	
	2021	2020
Debt Securities		
Balance at the beginning of the year	$ 214,400	$ 131,280
Purchases	70,441	—
Unrealized gains on available for sale debt securities (1)	12,900	52,725
Settlement of forwards (2)	18,459	—
Transfer to Level 2	—	(184,005)
Transfer from Level 2 (3)	—	198,526
Unrealized gains on available for sale debt securities (1)	—	15,874
Redemption	(62,500)	—
Balance at the end of the year	**$ 253,700**	**$ 214,400**

	Years Ended December 31,	
	2021	2020
rwards		
lance at the beginning of the year	$ 18,600	—
realized gains (4)	16,559	18,600
tlement of forwards (2)	(18,459)	—
lance at the end of the year	**$ 16,700**	**18,600**

(1) For the year ended December 31, 2021, the unrealized gains on available for sale debt securities is comprised of $11.6 million related to Series A Biohaven Preferred Shares as recorded on the consolidated statements of comprehensive income and $1.3 million related to the Series B Biohaven Preferred Shares as recorded on the consolidated statements of operations. For the year ended December 31, 2020, the unrealized gains on available for sale debt securities related to the Series A Biohaven Preferred Shares as recorded on the consolidated statements of comprehensive income, including $52.7 million prior to transferring out of Level 3 and then $15.9 million after transferring back to Level 3.

(2) Reflects the fair value attributed to the Series B Forwards that were settled in the period as the Series B Biohaven Preferred Shares were acquired, which is included in the fair value of the Series B Biohaven Preferred Shares. See Note 3–Available for Sale Debt Securities.

(3) Includes $14.5 million of unrealized gains on available for sale debt securities included in other comprehensive income while the Series A Biohaven Preferred Shares was classified as a Level 2 asset.

(4) Recorded within *Unrealized gains on available for sale debt securities* on the consolidated statements of operations.

Valuation inputs

Below is a discussion of the valuation inputs used for financial instruments classified as Level 2 and Level 3 measurements in the fair value hierarchy.

Investment in Series A Biohaven Preferred Shares

The fair value of the Series A Biohaven Preferred Shares as of December 31, 2021 and 2020 was based on the cash flows due to us from Biohaven of two times the original purchase price of the Series A Biohaven Preferred Shares payable in equal quarterly installments of $15.6 million following the FDA approval and starting one-year after FDA approval, through December 31, 2024. The FDA approved Nurtec ODT in February 2020, at which point we became entitled to receive a fixed payment amount of $250.0 million payable in equal quarterly payments from March 31, 2021 through December 31, 2024.

The fair value of the Series A Biohaven Preferred Shares as of December 31, 2021 and 2020 was calculated using probability-adjusted discounted cash flow calculations incorporating Level 3 fair value measurements and inputs, including estimated risk-adjusted discount rates and the probability of a change of control event occurring during the investment term, which would result in accelerated payments and redemptions. Assessing the probability that there will be a change of control event over a four-year time period and developing a risk-adjusted discount rate requires significant judgement. Our estimate of a risk adjusted discount rate of 9.5% and 8.3% as of December 31, 2021 and 2020, respectively, could reasonably be different than the discount rate selected by a market participant in the event of a sale of the Series A Biohaven Preferred Shares, which would mean that the estimated fair value could be significantly higher or lower.

Prior to February 2020, we measured our investment in the Series A Biohaven Preferred Shares using a Black-Derman- Toy lattice model, which included the use of Level 3 fair value measurements and inputs. In February 2020, when Nurtec ODT received FDA approval, we began measuring the fair value of the Series A Biohaven Preferred Shares using a discounted cash flow analysis that relied on observable inputs, and therefore, we transferred the Series A Biohaven Preferred Shares from a Level 3 to a Level 2 asset. During the three months ended December 31, 2020, information pertaining to Biohaven’s issuance of debt and its effective interest rate became available and we refined our valuation of the Series A Biohaven Preferred shares as of December 31, 2020 to incorporate this significant unobservable input. As a result, we reclassified the investment from a Level 2 to a Level 3 asset during the three months ended December 31, 2020.

Investment in Series B Biohaven Preferred Shares

The fair value of the Series B Biohaven Preferred Shares and Series B Forwards as of December 31, 2021 and the fair value of the Series B Forwards as of December 31, 2020 were based on probability-adjusted discounted cash flow calculations using Level 3 fair value measurements and inputs, including estimated risk-adjusted discount rates and the probability that there will be a change of control event in different periods of time, which would result in accelerated payments and redemptions. Assessing the probability that there will be a change of control event over the duration of the Series B Biohaven Preferred Shares and developing a risk-adjusted discount rate requires significant judgement. Our expectation of the probability and timing of the occurrence of a change of control event could reasonably be different than the timing of an actual change of control event, and if so, would mean that the estimated fair value could be significantly higher or lower than the fair value determined by management at any particular date. Our estimate of a risk adjusted discount rate could reasonably be different than the discount rate selected by a market participant in the event of a sale of the Series B Biohaven Preferred Shares or the Series B Forwards, which would mean that the estimated fair value could be significantly higher or lower.

MorphoSys Development Funding Bonds

The fair value of the Development Funding Bond Forward as of December 31, 2021 was based on a discounted cash flow calculation using an estimated risk-adjusted discount rate, which is a Level 3 fair value input. Our estimate of a risk adjusted discount rate could reasonably be different than the discount rate selected by a market participant in the event of a sale of the instrument, which would mean that the estimated fair value could be significantly higher or lower. We have elected the fair value option to account for the Development Funding Bond Forward as it most accurately reflects the nature of the instrument.

BioCryst Equity Securities

In November 2021, we purchased 3,846 thousand shares of common stock in BioCryst Pharmaceuticals, Inc.(“BioCryst”), which was calculated based on the volume-weighted average price of BioCryst common stock over a period preceding the closing of the transaction. As part of the transaction, we are restricted from selling the common stock for six months following the close of the transaction. The fair value of the BioCryst common stock as of December 31, 2021 was based on the closing stock price and adjusted for the transfer restriction, which was determined by calculating the value of a put option over the common stock to match the duration of the transfer restriction. This methodology includes the use of Level 3 inputs, including the estimated volatility of the BioCryst common stock, which requires the use of significant judgement. Our estimated volatility could be reasonably different than the actual volatility for the common stock which would mean that the estimated fair value for the common stock could be significantly higher or lower than the fair value determined by management at any particular date.

Other financial instruments

We use third party pricing services for Level 2 inputs used to value cash equivalents, marketable securities, derivative instruments and borrowings, which provide documentation on an ongoing basis that includes, among other things, pricing information with respect to reference data, methodology, inputs summarized by asset class, pricing application and corroborative information. Warrants are valued using a Black-Scholes option pricing model which considers observable and unobservable inputs.

Financial assets not measured at fair value

Financial royalty assets are measured and carried on the consolidated balance sheets at amortized cost using the effective interest method. The fair value of financial royalty assets is calculated by management using the forecasted royalty payments we expect to receive based on the projected product sales for all royalty bearing products as estimated by sell-side equity research analysts’ consensus sales forecasts or, where such consensus sales forecasts are not available, management uses reasonable judgment to make assumptions about the projected product sales. These projected future royalty payments by asset along with any projected incoming or outgoing milestone payments are then discounted to a present value using appropriate individual discount rates. The fair value of our financial royalty assets is classified as Level 3 within the fair value hierarchy since it is determined based upon inputs that are both significant and unobservable. Estimated fair values based on Level 3 inputs and related carrying values for our financial royalty assets as of December 31, 2021 and 2020 are presented below (in thousands).

	December 31, 2021		December 31, 2020	
	Fair Value	Carrying Value, net	Fair Value	Carrying Value, net
Financial royalty assets, net	$ 19,047,183	$ 14,332,596	$ 18,718,179	$ 12,955,277

6. Financial Royalty Assets, Net

Financial royalty assets, net consist of contractual rights to cash flows relating to royalty payments derived from the expected sales of patent-protected biopharmaceutical products that entitle us and our subsidiaries to receive a portion of income from the sale of such products by third parties.

The gross carrying value, cumulative allowance for changes in expected cash flows, exclusive of the allowance for credit losses, and net carrying value for the current and non-current portion of financial royalty assets at December 31, 2021 and 2020 are as follows (in thousands):

		As of December 31, 2021		
	Estimated Royalty Duration (a)	Gross Carrying Value	Cumulative Allowance for Changes in Expected Cash Flows (Note 7)	Net Carrying Value (e)
Cystic fibrosis franchise	2037 (b)	$ 5,335,641	$ (48,636)	$ 5,287,005
Tysabri	(c)	1,846,069	(16,617)	1,829,452
Imbruvica	2027-2032	1,438,730	(236,871)	1,201,859
Xtandi	2027-2028	1,100,065	(172,101)	927,964
Tremfya	2031-2032	881,671	—	881,671
Evrysdi	2030-2035 (d)	727,774	—	727,774
Other	2020-2039	4,697,591	(909,916)	3,787,675
Total		**$ 16,027,541**	**$ (1,384,141)**	**$ 14,643,400**
Less: Cumulative allowance for credit losses (Note 7)				(310,804)
Total financial royalty assets, net				**$ 14,332,596**

(a) Dates shown represent our estimates as of current reporting date of when a royalty will substantially end, which may depend on clinical trial results, regulatory approvals, contractual terms, commercial developments, estimates of patent expiration dates (which may include estimated patent term extensions) or other factors and may vary by geography. There can be no assurances that our royalties will expire when expected.
(b) Royalty is perpetual; year shown represents Trikafta expected patent expiration and potential sales decline based on timing of potential generic entry.
(c) Under terms of the agreement, RPIFT acquired a perpetual royalty on net sales of Tysabri. Management has applied an end date of 2031 for purposes of accreting income over the royalty term, which is periodically reviewed.
(d) Key patents on Evrysdi in the United States expire in 2035, but our royalty will cease when aggregate royalties paid to us equal $1.3 billion.
(e) The net carrying value by asset is presented before the allowance for credit losses. Refer to Note 7–Cumulative Allowance and the Provision for Changes in Expected Cash Flows from Financial Royalty Assets for additional information.

		As of December 31, 2020		
	Estimated Royalty Duration (a)	Gross Carrying Value	Cumulative Allowance for Changes in Expected Cash Flows (Note 7)	Net Carrying Value (e)
stic fibrosis franchise	2037 (b)	$ 5,274,896	$ –	5,274,896
sabri	(c)	2,003,797	(112,720)	1,891,077
bruvica	2027-2032	1,406,291	(46,872)	1,359,419
ndi	2027-2028	1,150,335	(145,565)	1,004,770
macta	2025-2028	686,129	—	686,129
rysdi	2030-2035 (d)	675,440	—	675,440
ner	2020-2039	3,022,213	(634,950)	2,387,263
al		**$ 14,219,101**	**$ (940,107)**	**13,278,994**
ess: Cumulative allowance for credit losses (Note 7)				(323,717)
Total financial royalty assets, net				**$ 12,955,277**

(a) Dates shown represent our estimates as of current reporting date of when a royalty will substantially end, which may depend on clinical trial results, regulatory approvals, contractual terms, commercial developments, estimates of patent expiration dates (which may include estimated patent term extensions) or other factors and may vary by geography. There can be no assurances that our royalties will expire when expected.

(b) Royalty is perpetual; year shown represents Trikafta expected patent expiration and potential sales decline based on timing of potential generic entry.
(c) Under terms of the agreement, RPIFT acquired a perpetual royalty on net sales of Tysabri. Management has applied an end date of 2031 for purposes of accreting income over the royalty term, which is periodically reviewed.
(d) Key patents on Evrysdi in the United States expire in 2035, but our royalty will cease when aggregate royalties paid to us equal $1.3 billion.
(e) The net carrying value by asset is presented before the allowance for credit losses. Refer to Note 7–Cumulative Allowance and the Provision for Changes in Expected Cash Flows from Financial Royalty Assets for additional information.

7. Cumulative Allowance and the Provision for Changes in Expected Cash Flows from Financial Royalty Assets

The cumulative allowance for changes in expected future cash flows from financial royalty assets is presented net within the non-current portion of *Financial royalty assets, net* on the consolidated balance sheets and includes the following activities:

- the movement in the cumulative allowance related to changes in forecasted royalty payments we expect to receive based on projected product sales for royalty bearing products as estimated by sell-side equity research analysts' consensus sales forecasts, and
- the movement in the cumulative allowance for current expected credit losses.

The periodic movement in the cumulative allowance is presented on the consolidated statements of operations as the *Provision for changes in expected cash flows from financial royalty assets*.

Upon the January 1, 2020 adoption of ASU 2016-13, we recorded a cumulative adjustment to *Retained earnings* of $192.7 million to recognize an allowance for current expected credit losses on our portfolio of financial royalty assets with limited protective rights. The current period provision for changes in expected cash flows from financial royalty assets reflects the activity for the period primarily new financial royalty assets and changes in the underlying cash flow forecasts used in the effective interest model to measure income from our financial royalty assets. Refer to Note 2–Summary of Significant Accounting Policies for further information.

The following table sets forth the activity in the cumulative allowance for changes in expected cash flows from financial royalty assets, inclusive of the cumulative allowance for credit losses, as of the dates indicated (in thousands):

	Activity for the Year
Balance at December 31, 2018	**$ (1,982,897)**
Increases to the cumulative allowance for changes in expected cash flows from financial royalty assets	(322,717)
Decreases to the cumulative allowance for changes in expected cash flows from financial royalty assets	1,342,038
Write-off of cumulative allowance (a)	95,158
Balance at December 31, 2019	**$ (868,418)**
Cumulative adjustment for adoption of ASU 2016-13	(192,705)
Increases to the cumulative allowance for changes in expected cash flows from financial royalty assets	(645,612)
Decreases to the cumulative allowance for changes in expected cash flows from financial royalty assets	570,959
Write-off of cumulative allowance (a)	2,964
Write-off of credit loss allowance (b)	25,174
Current period provision expense for credit losses, net (c)	(156,186)
Balance at December 31, 2020	**$ (1,263,824)**
Increases to the cumulative allowance for changes in expected cash flows from financial royalty assets	(912,710)
Decreases to the cumulative allowance for changes in expected cash flows from financial royalty assets	446,955
Write-off of cumulative allowance (a)	21,721
Current period provision income for credit losses, net (c)	12,913
Balance at December 31, 2021	**$ (1,694,945)**

(a) Relates to amounts removed from the allowance at the end of a royalty asset's life to bring the account balance to zero. Write-offs solely impact the asset account and allowance account; there is no impact on the consolidated statements of operations.
(b) Relates to amounts reversed out of the credit loss allowance associated with omecamtiv mecarbil as a result of the write-off of the related financial royalty asset balance of $90.2 million.
(c) In the year ended December 31, 2020, the provision for credit losses was primarily related to certain additions to our portfolio of financial royalty assets with limited protective rights in 2020, mainly the final tranche of Tazverik. In the year ended December 31, 2021,the provision income for credit losses was primarily related to a significant decline in the financial asset value for Tazverik, which was offset by increases in our portfolio of financial royalty assets with limited protective rights in 2021, primarily related to zavegepant.

8. Intangible Royalty Assets, Net

The following schedules of the intangible royalty assets present the cost, accumulated amortization and net carrying value as of December 31, 2021 and 2020 (in thousands).

As of December 31, 2021	Cost	Accumulated Amortization	Net Carrying Value
DPP-IV patents	$ 606,216	$ 600,546	$ 5,670
Total intangible royalty assets	$ 606,216	$ 600,546	$ 5,670

As of December 31, 2020	Cost	Accumulated Amortization	Net Carrying Value
DPP-IV patents	$ 606,216	$ 577,550	$ 28,666
Total intangible royalty assets	$ 606,216	$ 577,550	$ 28,666

The majority of our DPP-IV patents associated with the intangible royalty assets terminate at various dates through 2022. The weighted average remaining life of the intangible royalty assets is less than one year. We project amortization expense will be $5.7 million in 2022.

Our revenue is tied to underlying patent protected sales of DPP-IV products of various licensees. Such revenue from royalty assets is earned from sales occurring primarily in the United States and Europe; however, we do not have the ability to disaggregate our royalty revenue from licensees based on the geography of the underlying sales, as this level of information is not always included in royalty reports provided to us. The marketers paying us royalties on these products do not always provide, and are not necessarily required to provide, the breakdown of product sales by geography. Individual licensees exceeding 10% or more of revenue from intangible royalty assets accounted for 86%, 97% and 91% of our revenues from intangible royalty assets in the years ended December 31, 2021, 2020 and 2019, respectively.

9. Non-Consolidated Affiliates

The Legacy SLP Interest

In connection with the Exchange Offer Transactions, we acquired a special limited partnership interest in the Legacy Investors Partnerships (the “Legacy SLP Interest”) from the Continuing Investors Partnerships for $303.7 million in exchange for issuing shares in our subsidiary. As a result, we became a special limited partner in the Legacy Investors Partnerships. The Legacy SLP Interest entitles us to the equivalent of performance distribution payments that would have been paid to the general partner of the Legacy Investors Partnerships and an income allocation on a similar basis. Our income allocation is equal to the general partner’s former contractual rights to the income of the Legacy Investors Partnerships, net of amortization of the basis difference. The Legacy SLP Interest is treated as an equity method investment as our Manager is also the Manager of the Legacy Investors Partnerships and has the ability to exercise significant influence. The Legacy Investors Partnerships no longer participate in investment opportunities from June 30, 2020 and, as such, the value of the Legacy SLP Interest is expected to decline over time. The Legacy Investors Partnerships also own a non-controlling interest in Old RPI.

The income allocation from the Legacy SLP Interest is based on an estimate, as the Legacy Investors Partnerships are private partnerships that are expected to report on a lag subsequent to the date of this annual report. Management’s estimate of equity in earnings from the Legacy SLP Interest for the current period will be updated for historical results in the subsequent period. During the years ended December 31, 2021 and 2020, we recorded an income allocation of $8.9 million and $62.0 million, respectively, within *Equity in losses/(earnings) of non-consolidated affiliates*. We received cash distributions from the Legacy SLP Interest of $21.0 million and $22.7 million during the years ended December 31, 2021 and 2020, respectively.

The Avillion Entities

We account for our partnership interests in Avillion Financing I, LP ("Avillion I") and BAv Financing II, LP ("Avillion II", or, together, the "Avillion Entities") as equity method investments because RPIFT has the ability to exercise significant influence over the entities. We recorded a loss allocation from the Avillion Entities of $28.4 million, $17.6 million and $32.5 million within *Equity in losses/(earnings) of non-consolidated affiliates* during the years ended December 31, 2021, 2020 and 2019, respectively.

On December 19, 2017, the FDA approved a supplemental New Drug Application for Pfizer's Bosulif. Avillion I is eligible to receive fixed payments from Pfizer based on this approval. Subsequent to the asset sale, the only operations of Avillion I are the collection of cash and unwinding of discount on the series of fixed annual payments due from Pfizer. We received distributions from Avillion I of $13.4 million during each of the years ended December 31, 2021 and 2020, and $14.1 million in the year ended December 31, 2019 in connection with Avillion I's receipt of the fixed annual payments due under its co-development agreement with Pfizer.

In March 2017, RPIFT entered into an agreement with Avillion II, which was amended in 2019, to invest approximately $19.0 million to fund approximately 50% of the costs of a Phase 2 clinical trial for the use of Merck KGaA's anti-IL 17 nanobody M1095 (the "Merck KGaA Asset") for the treatment of psoriasis in exchange for certain milestone and royalty payments. Our involvement in the development for the Merck KGaA Asset ceased in the year ended December 31, 2020, for which we received a distribution of $21.3 million from Avillion II.

In May 2018, RPIFT entered into an additional agreement, which was amended in July 2021, to increase our investment up to $122.5 million from $105.0 million in Avillion II over multiple years to fund approximately 44% of the costs of Phase 2 and 3 clinical trials to advance PT027 through a global clinical development program for the treatment of asthma in exchange for royalties, a series of success-based milestones and other potential payments.

As of December 31, 2021 and 2020, RPIFT had $11.2 million and $28.6 million respectively, of unfunded commitments related to the Avillion Entities. Our maximum exposure to loss at any particular reporting date is limited to the current carrying value of the investment plus the unfunded commitments.

10. Research & Development ("R&D") Funding Expense

R&D funding expense consists of upfront and ongoing R&D payments we have made to counterparties to acquire royalties and/or milestones on development-stage product candidates. Ongoing R&D payments are made as the related development-stage product candidates undergo clinical trials with our counterparties. During the year ended December 31, 2021, 2020, and 2019 we did not enter into any new ongoing R&D funding arrangements.

We recognized R&D funding expense of $200.1 million during the year ended December 31, 2021, comprised of $6.9 million in ongoing R&D expenses, primarily under our co-funding agreement with Sanofi, and $193.2 million in upfront R&D funding. As part of a long-term strategic funding partnership with MorphoSys, which closed on July 15, 2021 (as further discussed in Note 17–Commitments and Contingencies), we allocated $90.0 million of the upfront payment to R&D funding expense, representing two development-stage products acquired in exchange for future royalties. Additionally, we made an upfront payment of $103.2 million to BioCryst to acquire a royalty on a development-stage product in November 2021.

We recognized R&D funding expense of $26.3 million during the year ended December 31, 2020, of which $20.5 million related to ongoing development-stage funding payments, primarily under our co-funding agreement with Sanofi and $5.8 million related to upfront funding for a royalty on a development-stage product that we acquired from BioCryst.

We recognized $83.0 million of R&D funding expense during the year ended December 31, 2019, of which $18.2 million and $62.8 million related to our funding agreements with both Sanofi and Pfizer, respectively. We completed our funding commitments in the fourth quarter of 2019 under our agreement with Pfizer. We did not have upfront development-stage R&D funding expense in 2019.

As of December 31, 2021, we have a remaining commitment of $10.7 million related to our R&D funding agreement with Sanofi.

11. Borrowings

Our borrowings at December 31, 2021 and 2020 consisted of the following (in thousands):

Type of Borrowing	Date of Issuance	Maturity	December 31, 2021	December 31, 2020
Senior Unsecured Notes:				
$1,000,000, 0.75% (issued at 99.322% of par)	9/2020	9/2023	$ 1,000,000	$ 1,000,000
$1,000,000, 1.20% (issued at 98.875% of par)	9/2020	9/2025	1,000,000	1,000,000
$1,000,000, 1.75% (issued at 98.284% of par)	9/2020	9/2027	1,000,000	1,000,000
$1,000,000, 2.20% (issued at 97.760% of par)	9/2020	9/2030	1,000,000	1,000,000
$600,000, 2.15% (issued at 98.263% of par)	7/2021	9/2031	600,000	—
$1,000,000, 3.30% (issued at 95.556% of par)	9/2020	9/2040	1,000,000	1,000,000
$1,000,000, 3.55% (issued at 95.306% of par)	9/2020	9/2050	1,000,000	1,000,000
$700,000, 3.35% (issued at 97.565% of par)	7/2021	9/2051	700,000	—
Unamortized debt discount and issuance costs			(203,930)	(183,416)
Total debt carrying value			7,096,070	5,816,584
Less: Current portion of long-term debt			—	—
Total long-term debt			$ 7,096,070	$ 5,816,584

Senior Unsecured Notes

On July 26, 2021, we issued $1.3 billion of senior unsecured notes (the "2021 Notes") comprised of $600.0 million principal amount of notes due September 2031 and $700.0 million principal amount of notes due September 2051. Interest on each series of the 2021 Notes accrues at the respective rate per annum and is payable semi-annually in arrears on March 2 and September 2 of each year, beginning on March 2, 2022. The 2021 Notes were issued at a total discount of $27.5 million and we capitalized approximately $12.3 million in debt issuance costs primarily composed of underwriting fees. The 2021 Notes have a weighted average coupon rate and a weighted average effective interest rate of 2.80% and 3.06%, respectively.

On September 2, 2020, we issued $6.0 billion of senior unsecured notes (the "2020 Notes" and, together with the 2021 Notes, the "Notes"). We used the net proceeds from the 2020 Notes offering, together with available cash on hand, to repay in full the senior secured credit facilities. Interest on each series of the 2020 Notes accrues at the respective rate per annum and is payable semi-annually in arrears on March 2 and September 2 of each year. The 2020 Notes were issued at a total discount of $149.0 million and we capitalized approximately $40.4 million in debt issuance costs primarily comprised of underwriting fees. The 2020 Notes have a weighted average coupon rate and a weighted average effective interest rate of 2.125% and 2.50%, respectively.

On August 3, 2021, we completed an exchange offer for the 2020 Notes where certain holders elected to tender their unregistered outstanding notes for freely tradable exchange notes that were registered under the Securities Act of 1933.

The Notes may be redeemed at our option at a redemption price equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis at the treasury rate, plus a make-whole premium as defined in the indenture. In each case, accrued and unpaid interest is also required to be redeemed to the date of redemption.

Upon the occurrence of a change of control triggering event and downgrade in the rating of our Notes by two of three credit agencies, the holders may require us to repurchase all or part of their Notes at a price equal to 101% of the aggregate principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, to the date of repurchase.

Our obligations under the Notes are fully and unconditionally guaranteed by RP Holdings, a non-wholly owned subsidiary. We are required to comply with certain covenants under our Notes and, as of December 31, 2021, we were in compliance with all applicable covenants.

As of December 31, 2021 and 2020, the estimated fair value of our outstanding Notes using Level 2 inputs was approximately $7.2 billion and $6.2 billion, respectively.

Senior Unsecured Revolving Credit Facility

On September 15, 2021, we entered into an amended and restated revolving credit agreement (the "Credit Agreement"). The Credit Agreement amends and restates the existing credit agreement that our subsidiary, RP Holdings, as borrower, entered into on September 18, 2020, which provided for a five-year unsecured revolving credit facility (the "Revolving Credit Facility") with borrowing capacity of up to $1.5 billion for general corporate purposes. The Credit Agreement extends the maturity of the Revolving Credit Facility to September 15, 2026. As of December 31, 2021 and 2020, there were no outstanding borrowings under the Revolving Credit Facility.

The Revolving Credit Facility is subject to an interest rate, at our option, of either (a) a base rate determined by reference to the highest of (1) the administrative agent's prime rate, (2) the federal funds effective rate and the overnight bank funding rate, plus 0.5% and (3) the one month adjusted LIBOR, plus 1% or (b) the Eurocurrency Rate or the Alternative Currency Daily Rate (each as defined in the Credit Agreement), plus in each case, the applicable margin. The applicable margin for the Revolving Credit Facility varies based on our public debt rating. Accordingly, the interest rates for the Revolving Credit Facility fluctuates during the term of the facility based on changes in the applicable interest rate and future changes in our public debt rating.

The Credit Agreement that governs the Revolving Credit Facility contains certain customary covenants, that among other things, require us to maintain (i) a consolidated leverage ratio at or below 4.00 to 1.00 (or at or below 4.50 to 1.00 following a qualifying material acquisition) of consolidated funded debt to consolidated EBITDA, each as defined and calculated with the ratio level calculated with further adjustments as set forth in the Credit Agreement and (ii) a consolidated coverage ratio at or above 2.50 to 1.00 of consolidated EBITDA to consolidated interest expense, each as defined and calculated with further adjustments as set forth in the Credit Agreement. All obligations under the Revolving Credit Facility are unconditionally guaranteed by us. As of December 31, 2021, RP Holdings was in compliance with these covenants.

Senior Secured Credit Facilities

On February 11, 2020, in connection with the Exchange Offer Transactions (as discussed in Note 1–Organization and Purpose) and using funds contributed by RPI Intermediate FT and the Legacy Investors Partnerships, RPIFT repaid its outstanding debt and accrued interest, and terminated all outstanding interest rate swaps. RPI Intermediate FT, as borrower, entered into a term loan credit agreement with Bank of America, N.A., as administrative agent, the lenders party thereto from time to time and the other parties thereto. The senior secured credit facilities consisted of a term loan A and term loan B in the amounts of $3.20 billion and $2.84 billion, respectively. In September 2020, we repaid in full the outstanding principal amounts of term loans under the senior secured credit facilities with net proceeds from the 2020 Notes and available cash on hand. Upon refinancing our senior secured credit facilities in September 2020, we recorded a loss on debt extinguishment of $25.1 million as part of *Other non-operating expense/(income), net*, which primarily consisted of unamortized loan issuance costs and original issue discount related to our senior secured credit facilities.

RPIFT Senior Secured Credit Facilities

The RPIFT Senior Secured Credit Facilities were repaid in full in February 2020 in connection with the Exchange Offer Transactions. We recorded a loss on debt extinguishment of $5.4 million as part of *Other non-operating expense/(income), net* during the year ended December 31, 2020.

Principal Payments on the Notes

The future principal payments for our borrowings as of December 31, 2021 over the next five years and thereafter are as follows (in thousands):

Year	Principal Payments
2022	$ —
2023	1,000,000
2024	—
2025	1,000,000
2026	—
Thereafter	5,300,000
Total (1)	$ 7,300,000

(1) Excludes unamortized debt discount and issuance costs of $203.9 million as of December 31, 2021, which are amortized through interest expense over the remaining life of the underlying debt obligations.

12. Shareholders' Equity

Capital structure

Following the completion of our IPO as discussed in Note 1–Organization and Purpose, we have two classes of voting shares: Class A ordinary shares and Class B ordinary shares, each of which has one vote per ordinary share. The Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of shareholders, except as otherwise required by applicable law. Our Class B ordinary shares are not publicly traded and holders of Class B ordinary shares only have limited rights to receive a distribution equal to their nominal value upon a liquidation, dissolution or winding up of the Company.

An exchange agreement entered into by us, RP Holdings, the Continuing Investors Partnerships, RPI International Partners 2019, LP and EPA Holdings (the "Exchange Agreement") governs the exchange of RP Holdings Class B Interests held by the Continuing Investors Partnerships for Class A ordinary shares. Pursuant to the Exchange Agreement, RP Holdings Class B interests are exchangeable on a one-for-one basis for Class A ordinary shares on a quarterly basis. As of December 31, 2021, we have outstanding 432,963 thousand Class A ordinary shares and 174,213 thousand Class B ordinary shares. Each such exchange also results in the re-designation of the same number of our Class B ordinary shares as deferred shares. As of December 31, 2021, we have outstanding deferred shares of 361,170 thousand.

In addition, we have in issue 50 thousand Class R redeemable shares, which do not entitle the holder to voting or dividend rights. The purpose of the Class R redeemable shares was to ensure Royalty Pharma Limited had sufficient sterling denominated share capital at the time it was re-registered as a public limited company to Royalty Pharma plc, as required by the U.K. Companies Act. The Class R redeemable shares may be redeemed at our option in the future. Any such redemption would be at the nominal value of £1 each.

Non-controlling interests

The only non-controlling interest in the year ended December 31, 2019 related to RPSFT, for which the net change in the related balance is as presented in the statements of shareholders' equity. The net change in the balance of our four non-controlling interests for the years ended December 31, 2021 and 2020 is as follows (in thousands):

	RPSFT	Legacy Investors Partnerships	Continuing Investors Partnerships (1)	EPA Holdings	Total
cember 31, 2019	**$ 35,883**	**$ —**	**$ —**	**$ —**	**35,883**
ntributions	—	1,165,258	9,418	—	1,174,676
ansfer of interests	—	1,037,161	—	—	1,037,161
stributions	(112,339)	(594,592)	(85,426)	—	(792,357)
t Income prior to IPO	42,151	102,892	—	—	145,043
ect of exchange by Continuing Investors of Class B ordinary shares for Class A ordinary shares and reallocation of historical equity	—	(750)	2,433,848	—	2,433,098
uance of Class A ordinary shares sold in IPO, net of offering costs	—	—	758,354	—	758,354
ner exchanges	—	—	(309,566)	—	(309,566)
t income subsequent to IPO	46,741	218,137	316,993	—	581,871
ner comprehensive income/(loss):					
Unrealized gains on available for sale debt securities	—	15,015	7,488	—	22,503
Reclassification of unrealized losses on available for sale debt securities	—	(3,612)	(6,018)	—	(9,630)
cember 31, 2020	**$ 12,436**	**1,939,509**	**3,125,091**	**$ —**	**5,077,036**

(1) Related to the Continuing Investors Partnerships' ownership of approximately 36% in RP Holdings through their ownership of the RP Holdings Class B Interests as of December 31, 2020. Royalty Pharma plc owns the remaining 64% of RP Holdings through its ownership of RP Holdings Class A Interests and Class B Interests as of December 31, 2020.

	RPSFT	Legacy Investors Partnerships	Continuing Investors Partnerships (1)	EPA Holdings	Total
December 31, 2020	**$ 12,436**	**$ 1,939,509**	**$ 3,125,091**	**$ —**	**$ 5,077,036**
Contributions	—	35,148	13,391	—	48,539
Distributions	(56,490)	(425,050)	(133,433)	—	(614,973)
Other exchanges	—	—	(642,974)	—	(642,974)
Net Income	57,582	266,570	297,321	—	621,473
Other comprehensive income/(loss):					
Unrealized gains on available for sale debt securities	—	2,038	3,227	—	5,265
Reclassification of unrealized losses on available for sale debt securities	—	(8,946)	(13,469)	—	(22,415)
December 31, 2021	**$ 13,528**	**$ 1,809,269**	**$ 2,649,154**	**$ —**	**$ 4,471,951**

(1) Related to the Continuing Investors Partnerships' ownership of approximately 29% in RP Holdings through their ownership of the RP Holdings Class B Interests as of December 31, 2021. Royalty Pharma plc owns the remaining 71% of RP Holdings through its ownership of RP Holdings Class A Interests and Class B Interests as of December 31, 2021.

RP Holdings Class C Special Interest held by EPA Holdings

EPA Holdings is entitled to Equity Performance Awards (as defined below) through its RP Holdings Class C Special Interest based on our performance, as determined on a portfolio-by-portfolio basis. Investments made during each two-year period will be grouped together as separate portfolios (each, a "Portfolio"). Subject to certain conditions, at the end of each fiscal quarter, EPA Holdings is entitled to a distribution from RP Holdings in respect of each Portfolio equal to 20% of the Net Economic Profit (defined as the aggregate cash receipts for all new portfolio investments in such Portfolio less Total Expenses (defined as interest expense, operating expense and recovery of acquisition cost in respect of such Portfolio)) for such Portfolio for the applicable measuring period (the "Equity Performance Awards"). The Equity Performance Awards will be allocated and paid by RP Holdings to EPA Holdings as the holder of the RP Holdings Class C Special Interest. The Equity Performance Awards will be payable in RP Holdings Class B Interests for which we will issue the same number of Class B ordinary shares, which may be subsequently exchanged for our Class A ordinary shares. We do not currently expect any material Equity Performance Awards to be payable until the performance conditions discussed above are met.

Dividends

The holders of Class A ordinary shares are entitled to receive dividends subject to approval by the board of directors. The holders of Class B ordinary shares do not have any rights to receive dividends; however the RP Holdings Class B Interests are entitled to dividends and distributions from RP Holdings, our consolidated subsidiary. In the year ended December 31, 2021, we declared and paid four quarterly cash dividends of $0.17 per Class A ordinary share for an aggregate amount of $285.2 million to holders of our Class A ordinary shares.

2020 Independent Directors Equity Incentive Plan

On June 15, 2020, our 2020 Independent Director Equity Incentive Plan was approved and became effective, whereby 800 thousand Class A ordinary shares have been reserved for future issuance to our independent directors. As of December 31, 2021, approximately 620 thousand shares remain reserved for future issuance under the Equity Incentive Plan.

RSU activity and share-based compensation

We grant RSUs to our independent directors under the 2020 Independent Director Equity Incentive Plan. Share-based compensation expense is recognized based on estimated fair value of the award on the grant date and amortized on a straight-line basis over the requisite service period of generally one year as part of *General and administrative expenses* in the consolidated statement of comprehensive income. The estimated fair value of RSUs is based on the closing price of our Class A ordinary shares on the grant date.

We recognized share-based compensation of approximately $3.1 million and $5.7 million for the years ended December 31, 2021 and 2020, which is recorded as part of *General and administrative expenses* in the consolidated statement of operations. There were no share-based awards or related expenses in periods prior to the IPO. As of December 31, 2021, the total unrecognized share-based compensation expense related to total outstanding RSUs was less than $1.0 million, which we expect to recognize in the next six months.

13. Earnings per Share

Basic earnings per share ("EPS") is computed by dividing net income attributable to us by the weighted average number of Class A ordinary shares outstanding during the period. Diluted EPS is computed by dividing net income attributable to us, including the impact of potentially dilutive securities, by the weighted average number of Class A ordinary shares outstanding during the period, including the number of Class A ordinary shares that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include the outstanding Class B ordinary shares, Class B ordinary shares contingently issuable to EPA Holdings related to Equity Performance Awards, and unvested RSUs issued under our Equity Incentive Plan. We use the "if-converted" method to determine the potentially dilutive effect of our outstanding Class B ordinary shares, and the treasury stock method to determine the potentially dilutive effect of the unvested RSUs.

Our Class B ordinary shares, Class R redeemable shares, and deferred shares do not share in the earnings or losses attributable to us and are therefore not participating securities. As such, separate presentation of basic and diluted earnings per share for Class B ordinary shares, Class R redeemable shares, and deferred shares under the two-class method has not been presented. Our Class B ordinary shares are, however, considered potentially dilutive shares of Class A ordinary shares because shares of Class B ordinary shares, together with the related RP Holdings Class B Interests, are exchangeable into Class A ordinary shares on a one-for-one basis. For the years ended December 31, 2021 and 2020, Class B ordinary shares contingently issuable to EPA Holdings were evaluated and were determined not to have any dilutive impact. Additionally, Class B ordinary shares in issue were evaluated under the if-converted method for potential dilutive effects and were determined to be anti-dilutive for the years ended December 31, 2021 and 2020, and therefore were excluded from the computation of diluted earnings per shares of Class A ordinary share. As of December 31, 2021 and 2020, we had 607,176 thousand and 607,111 thousand fully diluted Class A ordinary shares outstanding, respectively.

The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted earnings per Class A ordinary share for the year ended December 31, 2021 (in thousands, except per share amounts).

		Year Ended December 31, 2021
Numerator		
Consolidated net income	$	1,241,201
Less: Net income attributable to Continuing Investors Partnerships		297,321
Less: Net income attributable to Legacy Investors Partnerships and RPSFT		324,152
Net income attributable to Royalty Pharma plc - basic and diluted	$	619,728
Denominator		
Weighted average Class A ordinary shares outstanding - basic		414,794
Add: Dilutive effect of unvested RSUs		8
Weighted average Class A ordinary shares outstanding - diluted		414,802
Earnings per Class A ordinary share - basic	$	1.49
Earnings per Class A ordinary share - diluted	$	1.49

Prior to the IPO, our capital structure mainly included unitholder interests. We analyzed the calculation of earnings per interest for periods prior to the IPO and determined that the resultant values would not be meaningful to the users of these consolidated financial statements. Therefore, the basic and diluted earnings per share for the year ended December 31, 2020 are only applicable for the period from June 16, 2020 to December 31, 2020, which represents the period in which we had outstanding Class A ordinary shares. The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted earnings per Class A ordinary share for the year ended December 31, 2020 (in thousands, except per share amounts).

		Year Ended December 31, 2020
Numerator		
Consolidated net income	$	1,701,954
Less: Net income attributable to Continuing Investors Partnerships prior to the IPO (1)		479,842
Less: Net income attributable to Continuing Investors Partnerships subsequent to the IPO		316,993
Less: Net income attributable to Legacy Investors Partnerships and RPSFT		409,921
Net income attributable to Royalty Pharma plc - basic and diluted	$	495,198
Denominator		
Weighted average Class A ordinary shares outstanding - basic		375,444
Add: Dilutive effect of unvested RSUs		11
Weighted average Class A ordinary shares outstanding - diluted		375,455
Earnings per Class A ordinary share - basic	$	1.32
Earnings per Class A ordinary share - diluted	$	1.32

(1) Reflected as *Net income attributable to controlling interest* on the consolidated statements of operations.

14. Indirect Cash Flow

Adjustments to reconcile consolidated net income to net cash provided by operating activities are summarized below (in thousands).

	Years Ended December 31,		
	2021	2020	2019
Cash flow from operating activities:			
Consolidated net income	$ 1,241,201	$ 1,701,954	$ 2,461,419
Adjustments to reconcile consolidated net income to net cash provided by operating activities:			
Income from financial royalty assets	(2,065,083)	(1,959,975)	(1,648,837)
Provision for changes in expected cash flows from financial royalty assets	452,842	230,839	(1,019,321)
Amortization of intangible assets	22,996	23,058	23,924
Amortization of debt discount and issuance costs	20,162	11,715	12,790
Losses on derivative financial instruments	21,532	42,076	39,138
Losses/(gains) on equity securities	48,066	(247,073)	(155,749)
Equity in losses/(earnings) of non-consolidated affiliates	19,490	(44,459)	32,517
Distributions from non-consolidated affiliates	34,384	42,334	14,059
Loss on extinguishment of debt	358	30,272	—
Share-based compensation	2,443	5,428	—
Interest income accretion	(50,896)	(20,551)	—
Unrealized gains on available for sale debt securities	(17,859)	(18,600)	—
Impairment charge	—	65,053	—
Termination of derivative financial instruments	(16,093)	(34,952)	—
Other	4,461	9,621	(2,122)
Decrease/(increase) in operating assets:			
Cash collected on financial royalty assets	2,315,854	2,121,923	1,934,092
Available for sale debt securities	—	—	(150,000)
Accrued royalty receivable	(20,131)	370	2,471
Other receivables	—	—	150,000
Other royalty income receivable	(9,012)	(770)	7,390
Other current assets and other assets	1,857	34,986	(41,028)
(Decrease)/increase in operating liabilities:			
Accounts payable and accrued expenses	(4,586)	(766)	6,496
Interest payable	15,550	42,146	—
Net cash provided by operating activities	**$ 2,017,536**	**$ 2,034,629**	**$ 1,667,239**

Non-cash investing and financing activities are summarized below (in thousands).

	Years Ended December 31,		
Supplemental Schedule of Non-cash Investing/Financing Activities:	2021	2020	2019
Receipt of contribution of investment in Legacy Investors Partnerships (Note 9)	$ —	$ 303,679	$ —
Settlement of Epizyme forward purchase contract	—	5,700	—
Accrued purchase obligation - Tazverik (Note 17)	—	110,000	—
Repayments of long-term debt by contributions from non-controlling interest (1)	—	1,103,774	—
Milestone payable - Erleada (2)	—	18,600	—

(1) Related to the pro rata portion of RPIFT's outstanding debt repaid by the Legacy Investors Partnerships.
(2) Related to the achievement of a sales-based milestone that was not paid as of December 31, 2020 as recorded within *Other current liabilities* on the consolidated balance sheet.

15. Accumulated Other Comprehensive Income

As of December 31, 2021 and 2020, the only component of accumulated other comprehensive income related to the *Unrealized gains on available for sale debt securities* on the Series A Biohaven Preferred Shares. As a result of the termination of interest rate swaps in February 2020, all amounts associated with interest rate swaps previously designated as cash flow hedges and recorded in *Accumulated other comprehensive income* were released into earnings.

The components of accumulated other comprehensive income as of December 31, 2021 and 2020 are as follows (in thousands):

	Unrealized Gains on Available for Sale Debt Securities	Unrealized Losses on Interest Rate Swaps	Total Accumulated Other Comprehensive Income
Balance at December 31, 2019	**6,159**	**(4,066)**	**2,093**
Reclassification to net income	(10,921)	4,066	(6,855)
Activity for the year	60,617	—	60,617
Reclassification to non-controlling interest	(24,022)	—	(24,022)
Reclassification from non-controlling interest	2,562	—	2,562
Balance at December 31, 2020	**34,395**	**—**	**34,395**
Reclassification to net income	(28,481)	—	(28,481)
Activity for the year	6,335	—	6,335
Reclassification from non-controlling interest	4,242	—	4,242
Balance at December 31, 2021	**$ 16,491**	**$ —**	**$ 16,491**

The total reclassification of unrealized gains on available for sale debt securities of $50.9 million in the year ended December 31, 2021 is presented within *Interest income* on the consolidated statements of operations, including $28.5 million attributable to controlling interest noted in the table above and $22.4 million attributable to the non-controlling interest. The total reclassification of unrealized gains on available for sale debt securities of $20.6 million in the year ended December 31, 2020 is presented within *Interest income* on the consolidated statements of operations, including $10.9 million attributable to controlling interest noted in the table above and $9.6 million attributable to the non-controlling interest.

16. Related Party Transactions

The Manager

The Manager is the investment manager of Royalty Pharma and its subsidiaries. The Manager is an affiliate of RP Ireland, the administrator of RPIFT, RPI Intermediate FT and RPSFT. The sole member of the Manager, Pablo Legorreta, holds an interest in us and serves as our Chief Executive Officer and Chairman of the board of directors, and as a director on the board of directors of RP Holdings.

In connection with the Exchange Offer Transactions (discussed in Note 1–Organization and Purpose), the Manager entered into Management Agreements with us and our subsidiaries, the Continuing Investors Partnerships, and with the Legacy Investors Partnerships. Pursuant to the Management Agreements, we pay quarterly operating and personnel expenses to the Manager or its affiliates (“Operating and Personnel Payments”) equal to 6.5% of the Adjusted Cash Receipts (both, as defined in the Management Agreement) for such quarter and 0.25% of the value of our security investments under GAAP as of the end of such quarter. The operating and personnel payments for Old RPI, an obligation of the Legacy Investors Partnerships as a non-controlling interest in Old RPI and for which the expense is reflected in our consolidated net income, is calculated as the greater of $1 million per quarter and 0.3125% of Royalty Investments (as defined in the limited partnership agreements of the Legacy Investor Partnerships) during the previous twelve calendar months.

Prior to the Exchange Date, the Manager received operating and personnel payments payable in equal quarterly installments that increased by 5% annually on a compounded basis under the terms of its management agreement with Old RPI and the Legacy Investors Partnerships. RP Ireland receives an annual management fee payable in advance by Old RPI in equal quarterly installments under terms of the limited partnership agreements of the Legacy Investors Partnerships. After the Exchange Date, operating and personnel payments were calculated in accordance with the methodology discussed in the paragraph above.

During the years ended December 31, 2021, 2020 and 2019, total operating and personnel payments incurred were $145.2 million, $112.5 million and $60.0 million, respectively, including the amounts attributable to Old RPI, and were recognized within *General and administrative expenses* on the consolidated statements of operations.

Distribution Payable to Non-Controlling Interest

The distribution payable to non-controlling interest represents the contractual cash flows required to be distributed based on the Legacy Investors Partnerships' non-controlling interest in Old RPI and RPSFT's non-controlling interest in RPCT. The distribution payable to non-controlling interest as of December 31, 2021 and 2020 included the following (in thousands).

	December 31, 2021	December 31, 2020
Due to Legacy Investors Partnerships	$ 92,608	$ 100,047
Due to RPSFT	15,326	26,319
Total distribution payable to non-controlling interest	$ 107,934	$ 126,366

Acquisition from Epizyme

In November 2019, in connection with a royalty acquisition and an equity investment in Epizyme made by RPIFT, Pablo Legorreta, our Chief Executive Officer, was appointed as a director of Epizyme, for which he received, and continues to receive, compensation in cash and shares of Epizyme, all of which are and will continue to be contributed to the Manager and used to reduce costs and expenses which would otherwise be billed to us or our affiliates. We continue to hold Epizyme common stock as of December 31, 2021.

Acquisition from Bristol Myers Squibb

In November 2017, RPI Acquisitions, a consolidated subsidiary, entered into a purchase agreement with Bristol Myers Squibb ("BMS") to acquire from BMS a percentage of its future royalties on worldwide sales of Onglyza, Farxiga and related diabetes products marketed by AstraZeneca (the "Purchase Agreement"). We agreed to make payments to BMS based on sales of the products over eight quarters beginning with the first quarter of 2018 in exchange for a high single-digit royalty on worldwide sales of the products from 2020 through 2025.

On December 8, 2017, RPI Acquisitions entered into a purchase, sale and assignment agreement ("Assignment Agreement") with a wholly owned subsidiary of BioPharma Credit PLC ("BPCR"), an affiliate of us. We considered BPCR as a related party due to the sole member of the Manager having significant influence over BPCR's investment manager. Under the terms of the Assignment Agreement, RPI Acquisitions assigned the benefit of 50% of the payment stream acquired from BMS to BPCR in consideration for BPCR meeting 50% of the funding obligations owed to BMS under the Purchase Agreement.

We began making installment payments to BMS in 2018 and completed our funding requirement, net of the assigned funding obligations, totaling $162.4 million in the three months ended March 31, 2020. We began to measure this financial royalty asset using the effective interest method once our installment funding obligation was completed and we received our first royalty payment in the three months ended June 30, 2020. As of December 31, 2021 and 2020, the financial royalty asset of $130.9 million and $150.6 million, respectively, included in *Financial royalty assets, net* on the consolidated balance sheets represents only our right to the future payment streams acquired from BMS.

Other transactions

Henry Fernandez, the lead independent director of our board of directors, serves as the chairman and chief executive officer of MSCI, Inc ("MSCI"). On April 16, 2021, we entered into an agreement with MSCI with an initial term of seven years to assist MSCI in the design of a classification framework and index methodologies in order to expand MSCI's thematic index suite with the launch of new indexes. In return, we will receive a percentage of MSCI's revenues from those indexes. No amounts were due from MSCI as of December 31, 2021. The financial statement impact associated with this transaction was not material for the year ended December 31, 2021.

In the year ended December 31, 2020, we reimbursed Pablo Legorreta approximately $1.0 million for the cost of purchasing and donating ventilators to hospitals on behalf of Royalty Pharma.

In connection with the Exchange Offer Transactions, we acquired the Legacy SLP Interest from the Continuing Investors Partnerships in exchange for issuing shares in our subsidiary. As a result, we became a special limited partner in the Legacy Investors Partnerships. The Legacy Investors Partnerships own a non-controlling interest in Old RPI. Refer to Note 9–Non-Consolidated Affiliates for additional discussion.

RPIFT owns 27,210 limited partnership interests in the Continuing Investors Partnership whose only substantive operations are their investment in our subsidiaries. The total investment of $4.3 million is recorded as treasury interests, of which $1.6 million and $1.9 million are held by non-controlling interest as of December 31, 2021 and 2020, respectively.

Based on its ownership percentage of RP Holdings relative to the Company, each Continuing Investor Partnership pays a pro rata portion of any costs and expenses in connection with the contemplation of, formation of, listing and ongoing operation of us and any of our subsidiaries, including any third-party expenses of managing us and any of our subsidiaries, such as accounting, audit, legal, reporting, compliance, administration (including directors' fees), financial advisory, consulting, investor relations and insurance expenses relating to our affairs and those of any subsidiary.

17. Commitments and Contingencies

In the ordinary course of its business, we may enter into contracts or agreements that contain customary indemnifications relating to such things as confidentiality agreements and representations as to corporate existence and authority to enter into contracts. The maximum exposure under such agreements is indeterminable until a claim, if any, is made. However, no such claims have been made against us to date and we believe that the likelihood of such proceedings taking place in the future is remote.

On June 2, 2021, we announced a long-term strategic funding partnership with MorphoSys to support MorphoSys' acquisition of Constellation, which closed on July 15, 2021. As part of the funding agreement, we agreed to make additional milestone payments of up to $150.0 million and provide up to $350.0 million of Development Funding Bonds, which MorphoSys may draw over a one-year period from the close of its acquisition of Constellation. MorphoSys is required to draw a minimum of $150.0 million, for which we have recognized the Development Funding Bond Forward within *Available for sale debt securities* on the consolidated balance sheet as of December 31, 2021 (See Note 3–Available for Sale Debt Securities for additional discussion). Once drawn, we expect to receive a return of 2.2 times the amount funded on the Development Funding Bonds payable on a quarterly basis over nine years, with the first payment beginning two years after the funding. As of December 31, 2021, MorphoSys has not drawn any amount under the Development Funding Bonds.

On August 7, 2020, we entered into a funding agreement with Biohaven, including the Series B Biohaven Preferred Share Agreement, to fund the development of zavegepant and the commercialization of Nurtec ODT in exchange for royalties and success-based milestones. Pursuant to the Series B Biohaven Preferred Share Agreement, we agreed to provide further support for the ongoing launch of Nurtec ODT with the purchase of committed, non-contingent Commercial Launch Preferred Equity for a total of $200.0 million payable on a quarterly basis between March 31, 2021 and December 31, 2024. In return, Biohaven will be required to redeem the Series B Biohaven Preferred Shares in a series of equal fixed quarterly payments between March 31, 2025 and December 31, 2030. During the three months ended March 30, 2021, we began purchasing the Series B Biohaven Preferred Shares. We have a remaining commitment of $129.6 million under the Commercial Launch Preferred Equity, for which we have recognized the Series B Forwards within *Available for sale debt securities* on the consolidated balance sheet as of December 31, 2021. See Note 3–Available for Sale Debt Securities for additional discussion.

In November 2019, RPIFT agreed to pay $330.0 million to purchase Eisai's royalties on future worldwide sales of Tazverik, a novel targeted therapy in late-stage clinical development that was approved by the FDA in January 2020 for epithelioid sarcoma, and with the potential to be approved in several cancer indications. Under the terms of our agreement with Eisai, we acquired Eisai's future worldwide royalties on net sales by Epizyme of Tazverik outside of Japan, for an upfront payment of $110.0 million plus up to an additional $220.0 million for the remainder of the royalty upon FDA approval of Tazverik for certain indications. The FDA approval of Tazverik in January 2020 triggered our obligation to fund the second $110.0 million tranche in November 2020. On November 4, 2021, we funded the final $110.0 million tranche.

We have commitments to advance funds to counterparties through our investment in the Avillion Entities and R&D arrangements. Please refer to Note 9–Non-Consolidated Affiliates and Note 10–Research & Development ("R&D") Funding Expense, respectively, for details of these arrangements. We also have requirements to make Operating and Personnel Payments over the life of the management agreement as described in Note 16–Related Party Transactions, which are variable and primarily based on cash receipts.

Legal Proceedings

We are a party to legal actions with respect to a variety of matters in the ordinary course of business. Some of these proceedings may be based on complex claims involving substantial uncertainties and unascertainable damages. Unless otherwise noted, it is not possible to determine the probability of loss or estimate damages, and therefore we have not established accruals for any of these proceedings in our consolidated balance sheets as of December 31, 2021 and 2020. When we determine that a loss is both probable and reasonably estimable, we record a liability, and, if the liability is material, we disclose the amount of the liability reserved. We do not believe the outcome of any existing legal proceedings to which we are a party, either individually or in the aggregate, will adversely affect our business, financial condition or results of operations.

18. Subsequent Events

In January 2022, we acquired a royalty interest in aficamten from Cytokinetics, Incorporated ("Cytokinetics") for $150.0 million, comprised of an upfront payment of $50 million and two additional $50 million payments which are conditional upon the initiation of potential pivotal clinical trials for obstructive hypertrophic cardiomyopathy and nonobstructive hypertrophic cardiomyopathy, respectively. Additionally, we will provide Cytokinetics long-term capital of up to $300 million ("Cytokinetics Commercial Launch Funding") to support further development of aficamten and potential commercialization of omecamtiv mecarbil. The Cytokinetics Commercial Launch Funding is available in five tranches, including an initial tranche of $50 million funded upon closing and four additional tranches in the aggregate amount of $250 million upon the occurrence of certain regulatory and clinical development milestones.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, have evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) prior to the filing of this Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Annual Report on Form 10-K, our disclosure controls and procedures were, in design and operation, effective to the reasonable assurance level.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act of 1934, as amended). Our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in its 2013 Internal Control-Integrated Framework. Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of December 31, 2021 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Our independent registered public accounting firm, Ernst & Young, has issued an audit report on our internal control over financial reporting as of December 31, 2021. Their report is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the three months ended December 31, 2021 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures were effective to provide reasonable assurance that the objectives of our disclosure control system were met.

Item 9B. OTHER INFORMATION

Not applicable.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item will be presented in our Proxy Statement to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item will be presented in our Proxy Statement, to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item will be presented in our Proxy Statement, to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTORS INDEPENDENCE

The information required by this Item will be presented in our Proxy Statement, to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item will be presented in our Proxy Statement, to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and is incorporated herein by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following exhibits are filed as a part of this Annual Report on Form 10-K:

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	Exhibit	Filing Date/ Period End Date	
3.1	Articles of Association of Royalty Pharma plc	8-K	3.1	6/19/2020	
3.2	Articles of Association of Royalty Pharma Holdings Ltd	8-K	3.2	6/19/2020	
4.1	Form of Class A Ordinary Share Certificate	S-1/A	4.1	6/11/2020	
4.2	Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934				x
10.1	Management and Services Agreement dated June 15, 2020, among the Company and RP Management, LLC	8-K	10.2	6/19/2020	
10.2	Exchange Agreement dated June 16, 2020, among the Company, Royalty Pharma Holdings Ltd, RPI US Partners 2019, LP, RPI International Holdings 2019, LP, RPI International Partners 2019, LP and RPI EPA Holdings, LP	8-K	10.1	6/19/2020	
10.3	Registration Rights Agreement dated June 18, 2020, among the Company and the Persons listed on Schedule A and Schedule B thereto	8-K	10.4	6/19/2020	
10.4†	Form of Deed of Indemnity	S-1/A	10.5	6/2/2020	
10.5†	Director Appointment Agreement, dated June 9, 2020, between the Company and Mr. Germano Giuliani	S-1/A	10.6	6/11/2020	
10.6#	Amended and Restated Purchase and Sale Agreement, dated November 14, 2014, with the Cystic Fibrosis Foundation Therapeutics Incorporated	S-1/A	10.7	6/2/2020	
10.7#	Amendment No. 1 to the Amended and Restated Purchase and Sale Agreement, dated October 13, 2016 with the Cystic Fibrosis Foundation	S-1/A	10.8	6/2/2020	
10.8#	Research, Development and Commercialization Agreement, dated May 24, 2004, between the Cystic Fibrosis Foundation Therapeutics Incorporated and Vertex Pharmaceuticals Inc., as amended	S-1	10.9	5/22/2020	
10.9#	Amendment No. 1 to Research, Development and Commercialization Agreement, dated January 6, 2006 by and between Vertex Pharmaceuticals Incorporated and Cystic Fibrosis Foundation Therapeutics Incorporated	S-1	10.10	5/22/2020	
10.10	Amendment No. 2 to Research, Development and Commercialization Agreement, dated January 1, 2006, by and between Vertex Pharmaceuticals Incorporated and Cystic Fibrosis Foundation Therapeutics Incorporated	S-1	10.11	5/22/2020	
10.11#	Amendment No. 5 to Research, Development and Commercialization Agreement, dated April 1, 2011, by and between Vertex Pharmaceuticals Incorporated and Cystic Fibrosis Foundation Therapeutics Incorporated	S-1	10.12	5/22/2020	
10.12#	Amendment No. 7 to Research, Development and Commercialization Agreement, dated September 1, 2016, by and between Vertex Pharmaceuticals Incorporated and Cystic Fibrosis Foundation Therapeutics Incorporated	S-1	10.13	5/22/2020	

10.13	Amended and Restated Management and Services Agreement dated June 11, 2020, among Royalty Pharma Investments 2019 ICAV and RP Management, LLC	8-K	10.3	6/19/2020	
10.14†	Form of Independent Director Equity Incentive Plan	S-1/A	10.15	6/11/2020	
10.15	Indenture, dated as of September 2, 2020, among Royalty Pharma plc, Royalty Pharma Holdings Ltd and Wilmington Trust, National Association, as Trustee	8-K	4.1	9/2/2020	
10.16	First Supplemental Indenture, dated as of September 2, 2020, among Royalty Pharma plc, Royalty Pharma Holdings Ltd. and Wilmington Trust, National Association, as Trustee	8-K	4.2	9/2/2020	
10.17	Registration Rights Agreement, dated as of September 2, 2020, among Royalty Pharma plc, Royalty Pharma Holdings Ltd, BofA Securities, Inc., Citigroup Global Markets Inc., Goldman Sachs & Co LLC, J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC	8-K	4.9	9/2/2020	
10.18#	Amendment No. 2 to the Amended and Restated Purchase and Sale Agreement, dated October 30, 2020, by and among RPI Finance Trust, RPI 2019 Intermediate Finance Trust and Cystic Fibrosis Foundation	8-K	10.1	11/5/2020	
10.19	Second Supplemental Indenture, dated as of July 26, 2021, Royalty Pharma plc, Royalty Pharma Holdings Ltd. and Wilmington Trust, National Association, as Trustee.	8-K	4.2	7/26/2021	
21.1	List of subsidiaries	S-1	21.1	5/22/2020	
23.1	Consent of Ernst & Young, Independent Registered Public Accounting Firm				x
24.1	Power of Attorney (reference is made to the signature page hereto)				x
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				x
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				x
32*	Certifications of Chief Executive Office and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				x
101.INS	XBRL Taxonomy Extension Instance Document				x
101.SCH	XBRL Taxonomy Extension Schema Document				x
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				x
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				x
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				x
101.PRE	XBRL Taxonomy Extension Presentation Linkbase				x
104	Cover Page Interactive Data File (formatted in iXBRL and contained in Exhibit 101)				x

† Management contract or compensatory plan or arrangement.

Certain information has been excluded from the exhibit because it both (i) is not material and (ii) would likely cause competitive harm to the registrant if publicly disclosed.

* The certifications furnished in Exhibit 32 hereto are deemed to accompany this Annual Report on Form 10-K and are not deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act of the Exchange Act.

Item 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

ROYALTY PHARMA PLC
(Registrant)

Date:	February 15, 2022	/s/ Pablo Legorreta Pablo Legorreta Chief Executive Officer
Date:	February 15, 2022	/s/ Terrance Coyne Terrance Coyne Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Terrance Coyne and George Lloyd, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Pablo Legorreta Pablo Legorreta	Chairman of the Board, Director & Chief Executive Officer (*Principal Executive Officer and Royalty Pharma plc's authorized representative in the United States*)	February 15, 2022
/s/ Terrance Coyne Terrance Coyne	Executive Vice President & Chief Financial Officer (*Principal Financial Officer and Principal Accounting Officer*)	February 15, 2022
/s/ Bonnie Bassler Bonnie Bassler	Director	February 15, 2022
/s/ Errol De Souza Errol De Souza	Director	February 15, 2022
/s/ Catherine Engelbert Catherine Engelbert	Director	February 15, 2022
/s/ Henry Fernandez Henry Fernandez	Director	February 15, 2022
/s/ William Ford William Ford	Director	February 15, 2022
/s/ M. Germano Giuliani M. Germano Giuliani	Director	February 15, 2022
/s/ Ted Love Ted Love	Director	February 15, 2022
/s/ Gregory Norden Gregory Norden	Director	February 15, 2022
/s/ Rory Riggs Rory Riggs	Director	February 15, 2022

DESCRIPTION OF SECURITIES REGISTERED UNDER SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

As of December 31, 2021, Royalty Pharma plc ("Royalty Pharma" or the "Company") had one class of securities registered under Section 12 of the Securities Exchange Act of 1934: our Class A ordinary shares, par value $0.0001 per share, which are listed on the Nasdaq Global Select Market ("Nasdaq") under the symbol "RPRX."

The following description is a summary of our share capital as specified in our Articles of Association. This summary does not purport to be complete and the statements in this summary are qualified in their entirety by reference to, and are subject to, the detailed provisions of our Articles of Association and the U.K. Companies Act.

Capital Structure

Issued Share Capital

We have two classes of voting shares: Class A and Class B, each of which has one vote per share. The Class A ordinary shares and Class B shares vote together as a single class on all matters submitted to a vote of shareholders, except as otherwise required by applicable law. We also have in issue 50,000 Class R redeemable shares, which do not entitle the holder to voting or dividend rights, and deferred shares, which do not entitle the holder to voting or dividend rights. The purpose of the Class R redeemable shares was to ensure we had sufficient sterling denominated share capital at the time we re-registered as a public limited company, as required by the U.K. Companies Act. The Class R redeemable shares may be redeemed at some future point in order to leave the Company with only U.S. dollar denominated share capital. Any such redemption would be at nominal value.

The board of directors has been granted authority from our shareholders to allot and issue new Class A ordinary shares and other shares, and to grant rights to subscribe for or to convert any security into new Class A ordinary shares or other shares, up to a maximum aggregate nominal amount (i.e., par value) of $300,000, for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) on May 31, 2025. Renewal of such authorization is expected to be sought at least once every five years, and possibly more frequently. This authority is in addition to authorities to allot and issue new Class A ordinary shares in exchange for Royalty Pharma Holdings Ltd Class B ordinary shares or the depositary receipts that represent them. The rights and restrictions to which the Class A ordinary shares are subject are prescribed by our Articles of Association.

Class A Ordinary Shares

Voting rights. The holders of Class A ordinary shares are entitled to one vote per share on all matters to be voted upon by the shareholders other than with respect to matters that require a separate class vote in accordance with applicable law.

Dividend rights. Subject to preferences that may be applicable, the holders of Class A ordinary shares are entitled to receive ratably such dividends, if any, as may be approved from time to time by the board of directors out of funds legally available therefor.

Rights upon liquidation. In the event of liquidation, dissolution or winding up of Royalty Pharma the holders of Class A ordinary shares are entitled to share ratably in all assets remaining after payment of liabilities.

Class B Shares

Voting rights. The holders of Class B shares are entitled to one vote per share on all matters to be voted upon by the shareholders other than with respect to matters that require a separate class vote in accordance with applicable law.

Dividend rights. The holders of Class B shares do not have any rights to receive dividends.

Rights upon liquidation. The holders of Class B shares only have limited rights to receive a distribution equal to their nominal value upon a liquidation, dissolution or winding up of Royalty Pharma, following the prior payment of the nominal capital paid up or credited as paid up on each Class A ordinary share as well as an amount of $10,000,000 on each Class A ordinary share upon such liquidation, dissolution or winding up.

Dividends

Under English law, the Company may only pay dividends out of profits available for that purpose. The Company's profits available for distribution are its accumulated, realized profits, to the extent that they have not been previously utilized by distribution or capitalization, less its accumulated, realized losses, to the extent that they have not been previously written off in a reduction or reorganization of capital duly made. The amount of the Company's distributable reserves is a cumulative calculation. The Company may be profitable in a single financial year but unable to pay a dividend if our accumulated, realized profits of that year do not offset all previous years' accumulated, realized losses.

Additionally, the Company may only make a distribution if the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves, and if, and to the extent that, the distribution does not reduce the amount of those assets to less than that aggregate.

Our Articles of Association authorize our board of directors to approve interim dividends without shareholder approval to the extent that the approval of such dividends appears justified by profits. Our board of directors may also recommend a final dividend to be approved and declared by the shareholders at an annual general meeting and may direct that the payment be made by distribution of assets, shares or cash. No dividend may exceed the amount recommended by the board of directors.

Our Articles of Association also permit a scrip dividend scheme under which the board of directors may offer any holders of Class A ordinary shares the right to elect to receive Class A ordinary shares, credited as fully paid, instead of cash in respect of the whole (or some part determined by the board of directors) of all or any dividend subject to certain terms and conditions set out in our Articles of Association.

The entitlement to a dividend lapses if unclaimed for 12 years.

Voting Rights

Under the Articles of Association, each holder of Class A ordinary shares or Class B shares is entitled to one vote for each share that he or she holds as of the record date for the meeting. Neither English law nor any of our constituent documents places limitations on the right of nonresident or foreign owners to vote or hold ordinary shares. The voting at a general meeting must be taken by poll. Subject to any relevant special rights or restrictions attached to any shares, on a poll taken at a general meeting, each qualifying shareholder present in person or by proxy (or, in the case of a corporation, a corporate representative) and entitled to vote on the resolution has one vote for every Class A ordinary share or Class B share held by such shareholder.

An ordinary resolution must be approved by a simple majority, and a special resolution approved by at least 75%, of shareholders attending and voting, whether in person or by proxy.

Amendment to our Articles of Association

Under English law, shareholders may amend the articles of association of a company by special resolution. However, certain provisions of our Articles of Association require a higher threshold of shareholder approval or satisfaction of other procedures before such provision or provisions can be varied.

The article in our Articles of Association which requires voting at a general meeting to be taken on a poll may only be removed, amended or varied by resolution of the shareholders passed unanimously.

Winding Up

In the event of a voluntary winding up of the Company, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by law, subject to the U.K. Insolvency Act of 1986, after effectively applying the Company's property to satisfy the Company's liabilities, divide among the holders of Class A ordinary shares of the Company the whole or any part of the assets of the Company, whether they consist of property of the same kind or not, and vest the whole or any part of the assets in trustees upon such trusts for the benefit of the holders of Class A ordinary shares of the Company as the liquidator, with such sanction, may determine. No shareholder of the Company shall be compelled to accept any assets upon which there is a liability.

On a return of capital on a liquidation, reduction of capital or otherwise, the surplus assets of the Company available for distribution among the holders of Class A ordinary shares shall be applied pro rata (rounded to the nearest whole number).

Rights of Pre-Emption on New Issues of Shares

Under the U.K. Companies Act, the allotment of "equity securities" (except pursuant to an employees' share scheme and as bonus shares) that are to be paid for wholly in cash must be offered first to the existing holders of ordinary shares in proportion to the respective nominal amounts (i.e., par values) of their holdings on the same or more favorable terms, unless a special resolution to the contrary has been passed or the articles of association otherwise provide disapplication from this requirement (which disapplication can be for a maximum of five years after which shareholders' approval would be required to renew the disapplication). "Equity securities" means ordinary shares or rights to subscribe for, or convert securities into, ordinary shares where ordinary shares means shares other than shares that, with respect to dividends and capital, carry a right to participate only up to a specified amount in a distribution. In relation to the Company, "equity securities" will therefore include the Class A ordinary shares, and all rights to subscribe for or convert securities into such shares.

The board of directors has been granted authority from our shareholders to allot and issue new Class A ordinary shares and other shares and to grant rights to subscribe for or to convert any security into new Class A ordinary shares or other shares, up to a maximum aggregate nominal amount (i.e., par value) of $300,000 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) on May 31, 2025. Renewal of such authorization is expected to be sought at least once every five years, and possibly more frequently.

Disclosure of Ownership Interests in Shares

Section 793 of the U.K. Companies Act gives us the power to require persons whom we know have, or whom we have reasonable cause to believe have, or within the previous three years have had, an interest in any shares of the Company to disclose specified information regarding those shares. Failure to provide the information requested within the prescribed period (or knowingly or recklessly providing false information after the date the notice is sent) can result in criminal or civil sanctions being imposed against the person in default.

Under our Articles of Association, if any of our shareholders, or any other person appearing to be interested in the shares of the Company held by such shareholder, has been duly served with a notice under section 793 and fails to give us the information required by such notice or has made a statement which is false or inadequate in a material particular, then our board of directors may, in its absolute discretion at any time by notice, withdraw voting rights and place restrictions on the rights to receive dividends and refuse to register a transfer of such shares.

Alteration of Share Capital/Share Repurchases

Subject to the provisions of the U.K. Companies Act, and without prejudice to any relevant special rights attached to any class of shares, we may, from time to time, among other things:

- increase our share capital by allotting and issuing new shares in accordance with our Articles of Association and any relevant shareholder resolution;

- consolidate all or any of our share capital into shares of a larger nominal amount (i.e., par value) than the existing shares;
- subdivide any of our shares into shares of a smaller nominal amount (i.e., par value) than the existing shares; or
- redenominate our share capital or any class of share capital

The Company may not consolidate, divide, subdivide or redenominate any class of voting shares without consolidating, dividing, subdividing or redenominating (as the case may be) the other classes of voting shares.

English law prohibits us from purchasing our own shares unless such purchase has been approved by our shareholders. Shareholders may approve two different types of such share purchases: "on-market" share purchases or "off-market" share purchases. "On-market" purchases may only be made on a "recognised investment exchange," which does not include Nasdaq, which is the only exchange on which the Company's shares are traded. In order to purchase our own shares, as a Company listed on Nasdaq, we must therefore obtain the approval of our shareholders for an "off-market purchase" (on the basis of a specific purchase agreement with a financial intermediary) to acquire shares that are traded on Nasdaq. This requires our shareholders to pass an ordinary resolution approving an "off-market purchase," where such approval may be for a maximum period of five years. In relation to an "off-market purchase," we may not acquire our own shares until the terms of the contract pursuant to which the purchase(s) are to be made have been authorized by our shareholders.

Transfer and Registration of Shares

Our Articles of Association allow shareholders to transfer all or any of their shares by instrument of transfer in writing in any usual form or in any other form which our board of directors may approve.

The instrument of transfer must be executed by or on behalf of the transferor and (in the case of a transfer of a share that is not fully paid) by or on behalf of the transferee. Our Articles of Association also permit transfer of shares in uncertificated form by means of a relevant electronic system.

We may not charge a fee for registering the transfer of a share.

Our board of directors may, in its absolute discretion, refuse to register a transfer of shares in certificated form if it is not fully paid (provided that the refusal does not prevent dealings in the shares from taking place on an open and proper basis) or is with respect to a share on which we have a lien and sums in respect of which the lien exists are payable and are not paid within 14 clear days after due notice has been sent. If our board of directors refuses to register a transfer of a share, it shall notify the transferor of the refusal and the reasons for it as soon as practicable and in any event within two months after the date on which the instrument of transfer was lodged with us (in the case of a transfer of a share in certificated form) or the instructions to the relevant system received. Any instrument of transfer which our board of directors refuses to register shall (except in the case of fraud) be returned to the person lodging it when notice of the refusal is sent.

Computershare Trust Company, N.A. acts as our transfer agent and registrar. The share register reflects only registered owners of our Class A ordinary shares, Class B shares, Class R redeemable shares and deferred shares. Registration in the Company's share register is determinative of ownership of shares of the Company. A shareholder who holds shares beneficially is not the holder of record of such shares. Instead, the clearance service or depositary (for example, Cede & Co, as nominee for the Depository Trust Company, or DTC, or GTU Ops, Inc., as nominee for Computershare Trust Company, N.A.) or other nominee is the holder of record of those shares. Accordingly, a transfer of shares from a person who holds such shares beneficially to a person who holds such shares beneficially through a clearance service or depositary or other nominee will not be registered in the Company's official share register, as the depositary or other nominee will remain the record holder of any such shares.

In the event that the Company notifies one or both of the parties to a share transfer that it believes stamp duty or stamp duty reserve tax is required to be paid in connection with a transfer of shares of the Company, if the parties

to the transfer have an instrument of transfer duly stamped to the extent required and then provide such instrument of transfer to the Company's share registrar, the buyer will be registered as the legal owner of the relevant shares on the official share register, subject to our rights with respect to the disclosure of interests in our shares.

Takeover Provisions

Regulation of Takeover Bids

Given that our central management and control is currently not situated within, and our current intention is not to have it in the future situated within the United Kingdom (or the Channel Islands or the Isle of Man), we do not currently envisage that the City Code on Takeovers and Mergers (the "Takeover Code") will apply to an offer for the Company. It is possible that in the future circumstances could change that may cause the Takeover Code to apply to us. The Takeover Code provides a framework within which takeovers of companies subject to it are conducted. In particular, the Takeover Code contains certain rules in respect of mandatory offers. Under Rule 9 of the Takeover Code, if a person:

- acquires an interest in shares that, when taken together with shares in which such person is already interested and in which persons acting in concert with such person are interested, carries 30% or more of the voting rights of shares; or
- who, together with persons acting in concert with such person, is interested in shares that in the aggregate carry not less than 30% of the voting rights but is not interested in shares carrying more than 50% of such voting rights and such person, or any person acting in concert with such person, acquires an additional interest in shares that increases the percentage of shares carrying voting rights in which that person is interested,

the acquirer, and, depending on the circumstances, its concert parties, would be required (except with the consent of the Takeover Panel) to make a cash offer for the outstanding shares at a price not less than the highest price paid for any interests in the shares by the acquirer or its concert parties during the previous 12 months.

Under English law, an offeror for the Company that has acquired (i) not less than 90% in value of; and (ii) not less than 90% of the voting rights carried by the shares to which the offer relates may exercise statutory squeeze-out rights to compulsorily acquire the shares of the non-assenting minority. However, if an offer for the Company is conducted by way of a scheme of arrangement the threshold for the offeror obtaining 100% of Company shares comprises two components (i) approval by a majority in number of each class of Company shareholders present and voting at the shareholder meeting; and (ii) approval of Company shareholders representing 75% or more in value of each class of Company shareholders present and voting at that meeting.

Share Issues in the Context of an Acquisition

Our Articles of Association provide the board of directors with the power to establish a rights plan and to grant rights to subscribe for our shares pursuant to a rights plan where, in the opinion of the board of directors, acting in good faith, in the context of an acquisition or potential acquisition of 15% or more of our issued voting shares, to do so would improve the likelihood that:

- an acquisition process is conducted in an orderly manner;
- all our shareholders are treated equally and fairly and in a similar manner;
- an optimum price is achieved for our Class A ordinary shares;
- the board of directors would have time to gather relevant information and pursue appropriate strategies;
- the success of Royalty Pharma would be promoted for the benefit of our shareholders as a whole;
- the long term interests of Royalty Pharma, our shareholders and business would be safeguarded; and/or
- Royalty Pharma would not suffer serious economic harm.

Our Articles of Association further provide that the board of directors may, in accordance with the terms of a rights plan, determine to (i) allot shares pursuant to the exercise of rights or (ii) exchange rights for our shares, where in the opinion of the board of directors acting in good faith, in the context of an acquisition or potential acquisition of 15% or more of our issued voting shares, to do so is necessary in order to prevent:

- the use of abusive tactics by any person in connection with such acquisition;
- unequal treatment of shareholders;
- an acquisition which would undervalue Royalty Pharma;
- harm to the prospects of the success of Royalty Pharma for the benefit of its shareholder as a whole; and/or
- serious economic harm to the prospects of Royalty Pharma,

or where to do so is otherwise necessary to safeguard the long term interests of Royalty Pharma, our shareholders and our business.

Under the Takeover Code, the board of a public company incorporated under the laws of England and Wales is constrained from implementing such defensive measures. However, as discussed above, these measures are included in our Articles of Association as the Takeover Code is not expected to apply to us and these measures are included commonly in the constitution of U.S. companies.

These provisions will apply for so long as we are not subject to the Takeover Code.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-239193) pertaining to the Royalty Pharma plc 2020 Independent Director Equity Incentive Plan; and
2. Registration Statement (Form S-4 No. 333-257188) of Royalty Pharma plc; and
3. Registration Statement (Form S-3ASR No. 333-257883) of Royalty Pharma plc;

of our report dated February 15, 2022, with respect to the consolidated financial statements of Royalty Pharma plc and the effectiveness of internal control over financial reporting of Royalty Pharma plc, included in this Annual Report (Form 10-K) of Royalty Pharma plc for the year ended December 31, 2021.

/s/ Ernst & Young

Dublin, Ireland

February 15, 2022

Exhibit 31.1

CERTIFICATION BY CHIEF EXECUTIVE OFFICER PURSUANT TO SECURITIES EXCHANGE ACT RULE 13A-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Pablo Legorreta, certify that:

1. I have reviewed this Annual Report on Form 10-K of Royalty Pharma plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 15, 2022

/s/ Pablo Legorreta
Pablo Legorreta
Chief Executive Officer

Exhibit 31.2

CERTIFICATION BY CHIEF FINANCIAL OFFICER PURSUANT TO SECURITIES EXCHANGE ACT RULE 13A-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Terrance Coyne, certify that:

1. I have reviewed this Annual Report on Form 10-K of Royalty Pharma plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 15, 2022

/s/ Terrance Coyne
Terrance Coyne
Chief Financial Officer

Exhibit 32

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Royalty Pharma plc (the "Company") for the fiscal year ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and;

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 15, 2022

/s/ Pablo Legorreta

Name: Pablo Legorreta
Chief Executive Officer

/s/ Terrance Coyne

Name: Terrance Coyne
Chief Financial Officer