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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Royalty Pharma Third Quarter Earnings Conference Call. I would now like to turn the call over to George Grofik, SVP, Head of Investor Relations and Communications. Please go ahead, sir.

George Grofik ***Royalty Pharma plc - Senior VP and Head of IR & Communications***

Good morning and good afternoon to everyone on the call. Thank you for joining us to review Royalty Pharma's Third Quarter 2022 results. You can find the press release with our earnings results and slides of this call on the Investors page of our website at royaltypharma.com.

Moving to Slide 3. I would like to remind you that information presented in this call contains forward-looking statements that involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from these statements. I refer you to our 10-K on file with the SEC for a description of these risks.

All forward-looking statements are based on information currently available to Royalty Pharma, and we assume no obligation to update any such forward-looking statements. Non-GAAP financial measures will be used to help you understand our financial performance. The GAAP to non-GAAP reconciliations are provided in the earnings press release available on our website.

And with that, please advance to Slide 4. Our speakers on the call today are Pablo Legorreta, Founder and Chief Executive Officer; Marshall Urist, EVP, Head of Research and Investment; and Terry Coyne, EVP, Chief Financial Officer. Pablo will discuss the key highlights, after which Marshall will provide a portfolio update and Terry will review the financials. Following the concluding remarks from Pablo, we will hold the Q&A session. Chris Hite, our Vice Chairman, will also join the Q&A session.

And with that, I'd like to turn the call over to Pablo.

Pablo Legorreta ***Royalty Pharma plc - Founder, Chairman of the Board & CEO***

Thank you, George, and welcome to everyone on the call. I am delighted to report another quarter of strong execution on our strategy as a leading funder of innovation in life sciences.

Slide 6 summarizes our financial and portfolio achievements in the third quarter, which again underscore our strong momentum and the power of our business model. First, we delivered solid financial performance despite significant headwinds from foreign exchange and a onetime benefit from a Soliqua milestone in the third quarter of last year. Adjusted Cash Receipts, our top line grew by 2%; adjusted EBITDA by 3%; and Adjusted Cash Flow, our bottom line by 26%. Second, we have announced transactions of $3 billion year-to-date, including our innovative R&D funding collaboration with Merck. This is an exciting model for future potential partnerships with large

biopharma, and Marshall will expand on this later. More broadly, our overall rate of capital deployment reflects the strong demand for innovative royalty-based funding solutions.

Third, we saw positive progress across our portfolio. Pfizer closed its acquisition of Biohaven, which has resulted in accelerated value creation to Royalty Pharma. We have a deep development stage portfolio with 13 new molecular entities and approximately 40 projects in late-stage development, impressive figures, which rival many large biotech companies. Lastly, we're raising our full year guidance for Adjusted Cash Receipts. Terry will take you through the details later, but we now expect growth of 29% to 32% compared with 7% to 10% at the time of our Q2 results. This increase largely reflects the acceleration of our commercial launch capital payments resulting from Pfizer's acquisition of Biohaven, which has been one of our most successful partnerships since our IPO. In addition, our overall portfolio of royalties continued to perform exceptionally well. I would also remind you that our guidance excludes the potential benefit of any investments that we may make over the remainder of the year.

On Slide 7, you can see our financials in a little more detail. In the third quarter, we delivered 2% growth in our top line. We estimate that foreign exchange had an approximately 4% negative impact on the quarter. Furthermore, we had a headwind of $37 million relating to a onetime milestone on Soliqua in the prior period. Without the impact of these two factors, we would have delivered another quarter of strong double-digit top-line operational growth.

Consistent with our top line, we grew our adjusted EBITDA by 3%. Adjusted EBITDA is an important non-GAAP measure for us, which is arrived at by deducting operating and professional expenses from our top line. Lastly, our Adjusted Cash Flow, our bottom line grew by 26%. This significant increase primarily reflected differences in the size of the upfront development stage payments in the third quarter compared to last year's third quarter.

Slide 8 shows our track record of strong top-line growth since our IPO in June of 2020. We delivered an impressive 9% growth on Adjusted Cash Receipts year-to-date despite headwinds, which particularly impacted the third quarter, including two of our top royalties ending, HIV and DPP4. This speaks to the power of our business model and our ability to continually replenish our portfolio with market-leading therapies through value-enhancing deals. Few of our peers in biopharma could lose two of their top products and still demonstrate such impressive growth. As I mentioned earlier, Pfizer's acquisition of Biohaven, which closed in October, accelerated value creation to Royalty Pharma shareholders.

On Slide 9, from a bigger picture perspective, I wanted to expand on our Biohaven experience and talk more broadly about how we have become a critical funding partner for successful biotechs. When we look across Immunomedics, Biohaven, Cytokinetics and BioCryst. In all these cases, our partnerships have resulted in Royalty Pharma providing a critical portion of their funding needs, alongside more traditional equity and debt funding. In these instances, our approach was highly customized to each partner's needs, and we use a variety of funding tools. such as royalties, commercial launch capital and equity purchases.

For Royalty Pharma, our investments will generally be validated by the successful development and commercialization of the therapies on which we have royalties. And in certain cases, such as Immunomedics and Biohaven by the accelerated returns we achieve for our shareholders resulting from their acquisitions by larger biopharma companies. This biotech funding model using a variety of sources of capital, including royalties, has proven to be successful for our partners, and we believe should represent the new funding model that the most successful biotechs use in the future.

With that, I will hand over to Marshall to update you on our portfolio.

Marshall Urist ***Royalty Pharma plc - Executive VP and Head of Research & Investments***

Thanks, Pablo. Let's move to Slide 11. We're delighted to announce our recent R&D funding collaboration with Merck. Revitalizing R&D funding partnerships has been an important initiative at Royalty Pharma, and we think this collaboration structure will serve as a model for future transactions between Royalty Pharma and large biopharma companies. We see plenty of opportunity here. The predicted scale of large biopharma R&D spend, $1 trillion cumulatively over the next 5 years, should create opportunities for Royalty Pharma to fund exciting late-stage programs across the industry.

The advantages we can offer to large biopharma are clear. We're a true partner for biopharma, able to participate in clinical development as well as the full trajectory of commercialization around the world. In addition to risk sharing, we can provide capital at scale, allowing the partner to optimize their R&D spend across the broadest opportunity set. In addition, our rigorous diligence process provides independent validation of the opportunity. And as we have consistently demonstrated, we can be flexible and creative in our structure. Lastly, we're long-term partners and have built enduring relationships that reflect our unique role in the life sciences funding ecosystem.

Slide 12 provides the details of our collaboration with Merck. In summary, Royalty Pharma has agreed to provide up to $425 million to co-fund the clinical development of MK-8189, an oral PDE10A inhibitor in Phase 2b development for schizophrenia. Our excitement about this pipeline therapy comes from our view that MK-8189 has the potential to demonstrate efficacy similar to the standard of care with a differentiated safety profile. The structure of this deal highlights our uniquely flexible approach to alignment with our partners. Our investment can be scaled following program de-risking, and Royalty Pharma will make an independent decision to co-fund the Phase 3 program. We agreed to pay $50 million upfront to support the ongoing Phase 2b program. Pending the results of this large randomized controlled study, we have an option to provide $375 million in additional funding if Merck decides to proceed to Phase 3 development. In return for our co-funding, Royalty Pharma will be entitled to a royalty on annual worldwide sales of MK-8189 as well as milestone payments. With U.S. branded schizophrenia sales of around $5.6 billion, this could represent an important royalty stream as we look towards the back half of this decade and beyond.

On Slide 13, I want to expand on the breadth and depth of our portfolio. We now have the potential to receive royalties on approximately 40 projects in late-stage development. The size and diversity of our development stage pipeline, we think, compares well with many of the largest biotech companies. As you can see on our slide, we have considerable therapeutic area diversity in our pipeline, although oncology currently accounts for around half of these projects. Our -- we anticipate our pipeline will continue to grow as we invest in both approved and development-stage medicines in the years to come.

Moving now to Slide 14 and the expected clinical and regulatory events for our portfolio over the next year. We have a significant clinical news expected over the remainder of 2022. The recent Phase 3 results for otilimab were disappointing. However, we anticipate Phase 3 readouts for several potentially transformative therapies over the remainder of the year, including results from Cabometyx in combination with immunotherapy and of course, gantenerumab in Alzheimer's. In 2023, we anticipate readouts from up to seven important Phase 3 programs, including seltorexant in major depressive disorder, Xtandi in non-metastatic prostate cancer, aficamten in obstructive hypertrophic cardiomyopathy and oral zavegepant in migraine prevention.

On the regulatory front, we expect an FDA decision on PT027 in asthma in the coming months. And in 2023, we anticipate FDA approval decisions on Trodelvy in third-line hormone receptor positive, HER2-negative breast cancer, on intranasal zavegepant in migraine and on omecamtiv in heart failure. Many of these milestones present the opportunity to deliver on our mission of accelerating innovation in life science to transform patient lives.

With that, I'll hand it over to Terry.

Terrance Coyne ***Royalty Pharma plc - Executive VP & CFO***

Thanks, Marshall. Let's move to Slide 16. Total royalty receipts were broadly stable in the third quarter versus the year ago period. Growth drivers in the quarter included the cystic fibrosis franchise, Xtandi, Tremfya and the Trelegy royalty, which we acquired in July. We also saw growth contributions from Cabometyx, Promacta, our Biohaven partnership and though not shown on this slide for Evrysdi, Trodelvy and Orladeyo. These positive factors were partially offset by the end of the royalty term for the DPP IV inhibitors, the Soliqua milestone received in the prior period, Imbruvica weakness and the unfavorable FX impact.

Slide 17 shows how our efficient business model generates substantial cash flow to be redeployed. As you're aware, Adjusted Cash Receipts is a key non-GAAP metric for us, which we arrived at after deducting distributions to noncontrolling interest. This amounted to $597 million in the quarter, a growth of 2% compared with last year's third quarter. Without the impact of the Soliqua milestone payment, growth would have been 9%, while growth would have been low double digits if we adjust for the estimated foreign exchange impact. As we move down the column, operating and professional costs were approximately 8% of Adjusted Cash Receipts.

On a year-over-year basis, operating and professional costs declined by 9%. As a consequence, we reported 3% growth in Adjusted EBITDA in the quarter, consistent with the growth in our top line. As Pablo noted, Adjusted EBITDA is an important non-GAAP financial measure for us and one of the three key non-GAAP metrics by which we measure our business performance. When we think of the cash generated by the business to then be redeployed into new value-enhancing royalties, we look to Adjusted EBITDA less net interest paid. Net interest paid in the quarter of $75 million reflected the semiannual timing of the payments on our $7.3 billion of unsecured notes, which occurs in the first and third quarters and offset by the interest received on our cash. which has been approximately $11 million year-to-date. After the $25 million upfront payment for development stage funding of ampreloxetine and other items, we generated Adjusted Cash Flow, our bottom line of $441 million or $0.73 per share for the third quarter. This resulted in an Adjusted Cash Flow margin of 74%, which once again highlights the efficiency of our business model.

Let's now move to Slide 18 and our financial position. We continue to maintain significant financial firepower for future royalty acquisitions. Year-to-date, we have generated Adjusted EBITDA less net interest paid of $1.42 billion. Again, this is the cash the business generates to reinvest or return to shareholders. We have deployed $2.1 billion of capital on royalty acquisitions as well as $362 million on dividends and distribution, bringing our cash and marketable securities to $1.1 billion at the end of September. Shortly after the quarter-end, we received $508 million in net cash related to Pfizer's acquisition of Biohaven, which would bring our pro forma cash and marketable securities to $1.64 billion.

Excluding this pro forma balance sheet adjustment, our leverage stands at 2.8x net debt-to-EBITDA and 3.4x total debt-to-EBITDA. As a reminder, the fixed rate average coupon on our debt is slightly above 2%, which compares with our target returns on royalty acquisitions in the high single-digit to teens percentage range. I would also note that around 60% of our debt matures in 2030 or beyond. Given our financial strength and efficient business model, we feel well positioned to execute on our business plan and create value for shareholders.

On Slide 19, we are raising our full year 2022 financial guidance. We now expect Adjusted Cash Receipts to be in the range of $2.75 billion to $2.8 billion, an increase of between 29% and 32% over the $2.1 billion we delivered in 2021. This substantial raising guidance largely reflects the accelerated Biohaven payment of $458 million we received in October. The other payments underlying our top-line guidance are essentially unchanged from those we described at the end of our Q2 earnings. And consistent with our standard practice, this guidance is based on our portfolio as of today and does not take into account any future royalty acquisitions.

Turning to our operating costs. We expect payments for operating and professional costs to be approximately 8% to 8.5% of Adjusted Cash Receipts in 2022, which is lower versus our guidance from August. Our operating cost guidance reflects both the higher expected Adjusted Cash Receipts and our relatively low fixed cost base. The degree of margin protection provided by our unique business model is, we think, especially impressive in today's inflationary environment. Finally, interest paid for full year 2022 is still expected to be around $170 million, unchanged from our prior expectation.

On Slide 20, I want to drill down further on our Adjusted Cash Receipts guidance. The graphic is illustrative, but provides the various pushes and pulls behind our raised top line outlook for 2022. Starting with the left-hand side, we continue to expect strong performance from our diversified royalty portfolio and the addition of the Trelegy royalties in the second half further enhances this growth. The end of our HIV and DPP IV royalty streams and Imbruvica performance are expected to partially offset the strong growth in our portfolio. As I have noted, the continued strength of the U.S. dollar against key currencies is expected to adversely impact growth by around 3% to 4% or around $65 million to $85 million for full year 2022 compared to full year 2021. As a reminder, we estimate that approximately 40% of our Adjusted Cash Receipts are exposed to regions outside the United States with the euro representing the most significant portion of our ex-U.S. exposure. If you exclude the Biohaven payments, we are tightening the range relative to our previous guidance, maintaining the higher end and increasing the low end.

To deliver high single digits to low double-digit top-line growth is, we think, a tremendous achievement with the loss of two of our prior top royalty streams as well as significant FX headwinds. We believe this speaks to the strength of our unique business model and our diversified royalty portfolio. And on the right-hand side, you can see after layering in the accelerated Biohaven payments, we are guiding to full year top-line growth of between 29% and 32%.

To close, I want to highlight a few factors for 2023 to help with your modeling. First, foreign exchange is expected to adversely impact growth by approximately 3% to 4% for full year 2023 compared to 2022, assuming today's rates remain constant next year. And second, while we are optimistic heading into Pfizer's PDUFA for intranasal zavegepant in the first quarter of 2023, which would result in an accelerated $475 million payment to Royalty Pharma if approved. We do not plan to include that milestone in our 2023 guidance before approval. We plan to provide full year 2023 guidance when we report fourth quarter 2022 earnings early next year. Consistent with our standard practice, this guidance will exclude contributions from any future investments.

With that, I would like to hand the call back to Pablo for his closing comments.

Pablo Legorreta ***Royalty Pharma plc - Founder, Chairman of the Board & CEO***

Thanks, Terry. So another strong quarter of strong business momentum, and we're on track to deliver excellent results in 2022.

My final slide shows that we're executing well against the updated capital deployment plan we set out in May. So far this year, we have brought many important new medicines into our portfolio, ranging from development-stage therapies to unapproved category-leading blockbusters with significant remaining growth potential and including some of the highest caliber marketers in the industry. The $3 billion announced value of this transaction puts us well on track to achieving our five-year capital deployment target of $10 billion to $12 billion and to deliver the attractive compounding growth profile that we described in detail at our Investor Day. Lastly, while our development stage pipeline has grown very nicely over the past couple of years, around 2/3 of the capital we deployed this year has been for approved therapies given the size of the Trelegy deal.

With that, we would be happy to take your questions.

George Grofik ***Royalty Pharma plc - Senior VP and Head of IR & Communications***

We will now open up the call to your questions. Operator, please take the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Geoff Meacham with Bank of America.

Geoffrey Meacham ***BofA Securities, Research Division - Research Analyst***

Just had a couple of quick ones. On gantenerumab, I know it's not in your guidance, but if successful, the royalties could be pretty impactful over time. So how do you think about this from a cash or a planning context? And the second question is from a policy perspective, how does the IRA inform if at all, how royalty is investing when you look at small biologics and same question for longer term, the potential risk of heavy discounts?

Pablo Legorreta ***Royalty Pharma plc - Founder, Chairman of the Board & CEO***

So Terry is going to answer the first question, and then Marshall will answer the question on the IRA.

Terrance Coyne ***Royalty Pharma plc - Executive VP & CFO***

So we're all very eager to see the gantenerumab data later this month. But as you know, we've taken a pretty conservative approach. We did not include gantenerumab in any of our long-term guidance figures, we do -- recognizing that it is higher risk. But if it were to work, I think there's a lot of reasons to be pretty optimistic that it could be a pretty nice selling drug. And so I think at that point, we would look to -- obviously, we want to see the data. But I think if it is -- it looks like it could be a big selling drug, and I think that, that's something that we would look to incorporate into our guidance over time.

Marshall Urist ***Royalty Pharma plc - Executive VP and Head of Research & Investments***

And thanks, Geoff, for your question on the IRA. So three points I'd make there on how we're thinking about it. The first is, as we've highlighted previously that I think that our ability to respond to this immediately and begin to pivot and think about IRA and our new investments immediately kind of highlights the flexible nature of our business model. So we feel really good about our ability to continue

to execute even in the era of the IRA. Second is that there's probably still chapters to be told in terms of exactly how this law will evolve, how it will exactly be implemented. So we're watching and learning with our consultants and alongside everyone else too as that plays out. And then finally, all that being said, we certainly have already started to implement IRA scenario planning in our new investments and thinking through the implications as you said, for things that are small molecules versus large molecules and how that impacts our thesis and looking at different scenarios. That being said, I think our focus on really wanting to add high-quality innovation to our portfolio remains the driver of our strategy.

Operator

Our next question comes from Chris Shibutani with Goldman Sachs.

Chris Shibutani ***Goldman Sachs Group, Inc., Research Division - Research Analyst***

Interested to get your thoughts on the Merck partnership in particular. Are there certain therapeutic categories that you sense that the large cap pharmas might be more willing to engage, noting that this one is in the CNS space? And then secondly, it does seem as if -- that it is a little bit earlier in terms of stage of development, Phase 2b that this partnership has its initial point of intersection. Can you comment about that?

Pablo Legorreta ***Royalty Pharma plc - Founder, Chairman of the Board & CEO***

Sure, Chris. And Marshall and Chris will actually answer your question.

Marshall Urist ***Royalty Pharma plc - Executive VP and Head of Research & Investments***

How about, Chris, I'll answer the second part of your question, then maybe Chris can comment on your first about therapeutic areas and -- or not that people are interested in. I think in terms of the fact that MK-8189 is a little earlier in development, I think it's a good question, and I think it highlights one of the great things about the structure, which is that it is earlier in development. But the way that we have structured this is that we have made a small contribution to the Phase 2b development. And then once we see the data, completely understand the product profile, its efficacy, its safety and the development landscape at the time, we can then make an investment at that point, which would be at a stage where we have typically made the development stage investments in the past. So we think that it's really interesting and novel part of the structure and is really matched -- kind of matching to the program and trying to solve problems with our partners. But I'll pass it to Chris for your first question.

Christopher Hite ***Royalty Pharma plc - Vice Chairman & Executive VP***

On the therapeutic area question, and I referenced back to Marshall's slide in the prepared remarks, we've invested across a number of different therapeutic areas. And so we are agnostic to therapeutic areas. As it relates to the pharmaceutical companies, what I would say is, what we're really striving for when we partner with them is, we want to partner with them on what they perceive to be and what we perceive to be their most important therapeutic programs. And I think in that regard, that's what we've done here with Merck and the way we structured the deal as Marshall just went through. They actually need to decide whether to advance it or not in Phase 3 and only then we get to decide whether to opt in to contribute to that funding in Phase 3, which we think aligns our interest quite well.

Operator

Our next question comes from Chris Schott with JPMorgan.

Hardik Parikh ***JPMorgan Chase & Co, Research Division - Research Analyst***

This is Hardik Parikh dialing in for Chris Schott. The first is a follow-on to Geoff's earlier question. So are the industry still looking for clarity on the IRA, how do you think that kind of impacts your focus on oncology versus other therapeutic areas?

Pablo Legorreta ***Royalty Pharma plc - Founder, Chairman of the Board & CEO***

Sure. Marshall, why don't you take that question?

Marshall Urist ***Royalty Pharma plc - Executive VP and Head of Research & Investments***

Sure. Thanks for the question. So I would say at a high level, nothing about our approach or our focus on various therapeutic areas has really changed in this early period since the IRA. I think we are certainly, as I mentioned, in an earlier question, thinking through the implications for various programs, and I think we have to be comfortable with the IRA scenarios that we work through. But I think we're

still, as I said before, really focused on trying to identify exciting innovation and products that we really want to add to the portfolio, and that will remain our focus.

Hardik Parikh ***JPMorgan Chase & Co, Research Division - Research Analyst***

And then the second question is just in the higher interest rate environment, how have deal terms kind of change to reflect the higher cost of capital?

Pablo Legorreta ***Royalty Pharma plc - Founder, Chairman of the Board & CEO***

Terry, you want to take that question?

Terrance Coyne ***Royalty Pharma plc - Executive VP & CFO***

Yes, sure. So it's dynamic. But I think certainly, I think there's a couple of ways to answer that question. First is the opportunity that I think that we feel like we're seeing a lot of different things that we're able to look at. And as you know, we're super selective when we actually do decide to invest. But I think the top of the funnel certainly is seeing the benefits of the broader macro environment. And then in terms of the terms, certainly, there is some upward sort of pressure driven by higher rates. That's sort of natural that in a higher rate environment that we would expect that our returns would tick up a little bit as well.

Operator

Our next question comes from Stephen Scala with Cowen.

Stephen Scala ***Cowen and Company, LLC, Research Division - MD & Senior Research Analyst***

Congratulations on the good quarter. I have two questions. Regarding the collaboration with Merck for MK-8189 in Phase 2 for schizophrenia, this product was in Phase 2 at Merck in 2017 and perhaps earlier, so at least five years. Why has the product been in development so long? And what is its remaining patent life? It would seem that Merck has really nothing more than modest interest in this product. Secondly, the gantenerumab graduate trials are large and complex and will be presented in 22 days. Between now and then the two studies need to be analyzed, data pooled, presentation prepared. Are you surprised that the data has not been press released yet? And has the data been shared with RPRX? All things considered, one might conclude that the data is not leading to a definitive result. And honestly, the fact that you gave it only passing mention in the prepared remarks, doesn't build confidence.

Pablo Legorreta ***Royalty Pharma plc - Founder, Chairman of the Board & CEO***

Sure. Marshall, why don't you take both questions?

Marshall Urist ***Royalty Pharma plc - Executive VP and Head of Research & Investments***

Sure. So on 8189, during our diligence process and working with Merck, we spent a lot of time understanding how they think about this product, what the strategy is, what the questions are being asked about the product in this next Phase 2b program and got comfortable that we were aligned on what the product profile needed to look like as we head into the next stage and that would be -- and that would constitute an interesting -- potentially interesting product for both of us. And I think that was the basis of our agreement and why we structured this the way that we did, like I mentioned, with a relatively small upfront and then something much larger when we can both really understand this product's ultimate commercial potential. You asked about patent life. As you might imagine, IP diligence is in a really core to Royalty Pharma, an important part of what we do. So you can assume that we were comfortable that there is sufficient runway for -- in terms of patent life for this to be a successful product commercially and to Merck to continue to invest in it post-approval.

Pablo Legorreta ***Royalty Pharma plc - Founder, Chairman of the Board & CEO***

Before you go to gantenerumab, I mean, maybe just a very top-level comment to make here is that, as you know, drug development is sort of not a straight-line exercise, things change over time. And obviously, the history, the past matters. But what is really important is what's going to happen in the future. And that's why we pay most attention to. We obviously look at what's happened historically, the data and all of that. But anyway, I just wanted to interject at it. But go ahead, Marshall, with the other question.

Marshall Urist ***Royalty Pharma plc - Executive VP and Head of Research & Investments***

Sure, Steve. And the second part of your question on gantenerumab. So first, to be clear, we haven't seen anything more than you all have. So we are eagerly awaiting the data as well. I don't think we'd interpret the fact pattern necessarily, the way you describe it, Roche.

We trust in Roche to put the data together, process the data and do it in the right way and put it out there and the data is going to be what it's going to be, and we're excited to see it. I think the way we've talked about it in terms of the fact that there is risk there, the way Terry has talked about it in the context of our long-term projections has been, I think, very consistent. So I think no change on our call here is that we are excited about this product. It would be a really nice addition to our -- to a nice addition of our portfolio. But even without it, we are really excited about our business and our prospects for growth.

Operator

Our next question comes from Terence Flynn with Morgan Stanley.

Justin Phillips ***Morgan Stanley, Research Division - Research Associate***

Justin Phillips on for Terence. Congrats on the quarter. So just one for me. The FDA is hosting an AdCom for AstraZeneca's PT027 today. Any perspective you can share on your view of the -- like the outcomes and remind us of the commercial opportunity?

Pablo Legorreta ***Royalty Pharma plc - Founder, Chairman of the Board & CEO***

Sure. Marshall, another question for you.

Marshall Urist ***Royalty Pharma plc - Executive VP and Head of Research & Investments***

Yes. Excellent. Thanks for asking about PT027. So we -- with the AdCom this morning, I think we feel good about -- really good about the data and the prospects for approval on that one. As a reminder for everyone, this is a first-in-class novel combination of a steroid and a short-acting beta agonist. So using steroid in the on-demand setting or when asthma patients feel shortness of breath is a really interesting idea and one that we are excited about. The commercial opportunity is really exciting. I think when you put together the size of the asthma market, which we all know is one of the largest commercial markets out there. AstraZeneca is long and enduring infrastructure in this setting. And the fact that consensus for PT027 is -- nears $1 billion by 2030 is that we are really excited about the commercial opportunity. So the AdCom today, we've all seen the Phase 3 data. The trial showed a very convincing benefit on asthma exacerbation. So we feel really good about the efficacy and safety profile there, and we're excited to see PT027 play out.

Operator

Our next question comes from Andrew Baum with Citi.

Andrew Baum ***Citigroup Inc., Research Division - Global Head of Healthcare Research and MD***

A couple of questions. First one in relation to the Merck deal. I think this is the first synthetic royalty deal you've done with a large pharma since the PALLAS, Ibrance deal, which obviously didn't have the outcome that arguably you had wanted. I guess the concern is that a large, well-capitalized pharma company just doesn't have the same capital constraints at mid cap and therefore, the assets they're willing to offer up are going to be the worst ones then inherently believe in less. I know your structure in terms of the Phase 2 addresses that de-risked it, but you're still going to be investing up to $300-odd million for the Phase 3. So I just -- when you think about the equivalent opportunities, does that figure in your thinking at all? Or you believe there are other motivations such as assets in noncore areas, which could make fertile returns for royalties? So that's the first question. The second question is, again, to the Merck asset. In terms of allocating that $300-odd million, do you have a say in exactly where and which indications you opt into? And do you have any input to the design of the trial, given you're going to be investing potentially a substantial part of the Phase 3 costs?

Pablo Legorreta ***Royalty Pharma plc - Founder, Chairman of the Board & CEO***

Yes. So a few comments, and then I'll pass it on to Chris. But I think we tend to be passive in this kind of collaboration. And we often do share our views with the companies and then it's sort of up to them to see whether they want to take our comments or not. It has happened in the past that they have actually taken our comments and -- or use perspectives and use that in their own clinical development, how they think about clinical development. The other comment, the way you started the comment was by making reference to the Ibrance transaction we did, which was quite some time ago. And I think just from a very big picture perspective, this kind of financings are quite novel. We're being very creative here. So one thing to just say is that it takes time for us to actually change the mentality among these big companies and how they behave. And it's obviously an effort that we're very excited about because we see huge potential in collaborating with big pharma, but it takes time. We have to go in. We have to talk to senior management and try to explain the benefits of a transaction like the one we did with Merck. And you mentioned that they were cash rich or something to that

extent that they had a lot of cash, which is totally true. A lot of these companies have a lot of cash on their balance sheet. So it's not -- the decision to actually collaborate with us is not driven by their lack of cash or excess of cash. It's actually driven by several other things that are quite important. One is risk mitigation. In that deal, for example. If you look at the amount of capital that's required to bring this drug to market, it's about $1.1 billion. And we're going to contribute about $425 million in total, which is very, very significant for a small share of the economics. And you can then just do the math there and realize that it's a very significant risk mitigation exercise on their part for a small portion of the economics. And then the other benefit they get is that by us investing close to 40%, high 30s percentage of the capital required in this asset -- the development of this asset, it essentially frees up capital that they can redeploy and invest in other assets that they're excited about. And it sort of gives them a greater P&L bandwidth, and they're able to have more shots on goal. Now one key thing here is that when we go and talk to these companies, the very important thing we say to them is, we really want to be collaborating on your top projects, top three, top five, top ten, not the bottom of the list. And what we often say to them is for us to be working with you five or ten years from now, we have to sort of win here, win with you as your partner. So we need to be working on the top -- your top programs and then partner with you on those and not the ones that sort of didn't make the cut. So -- and we go through great lens of understanding a lot of different things that really lead us to conclude that this is one of the top programs of this company, and that's what we often do with others. But Chris, maybe you want to talk about therapeutic areas or other aspects of the question.

Christopher Hite ***Royalty Pharma plc - Vice Chairman & Executive VP***

Sure. Thanks, Pablo. Just to add on to what Pablo said, Andrew, and thanks for the question. Just on the question of allocation, do we have a say, which was, I think, your second question. We're obviously going to see the Phase 2b data and have access to their plans around Phase 3 and their decision to proceed with Phase 3 before we have to opt in. And I think that gives us a lot of comfort in understanding what their program is. But once we opt in, we do not -- we don't have a final say on how they're going to allocate the dollars for schizophrenia or other potential indications. So that's your answer to your second question. As it relates -- just to add on the first part of your question that you asked, pharma, as we talked about it at our Analyst Day, profitable pharma is going to spend over $1.6 trillion in R&D over the next ten years. And as you've seen, there's a lot of large pharmas that partner to launch drugs. And so they want to risk share. And we are happy to risk share on their most important programs, and we can do it in a way that we think is very competitive with risk sharing with other large pharmas. We have a lower cost of capital than most global pharmaceutical companies out there. We're also passive importantly. So we're not going to demand 50-50 commercialization rights in the United States or seats on their JDC as I explained on the second part of your question. So we think there's a lot of advantages to large pharma thinking about us as a potential partner to the most important programs rather than partnering up with another pharma where they have to sit on JDC committees or JSE committees and share commercialization rights in the most important markets in the world.

Operator

Our next question comes from Umer Raffat with Evercore ISI.

Michael DiFiore ***Evercore ISI Institutional Equities, Research Division - Equity Research Analyst***

This is Mike DiFiore in for Umer. Two for me. One, again, it's a question on the Merck deal. I understand that, again, royalty pharma's upfront financing gives them an option to provide bigger financing later for a product that's well aligned with its interest. But Again, the fact that Merck is asking $50 million for this early-stage funding, it doesn't suggest at least now high confidence in this product, especially since it's been in Phase 2 limbo for some time now. Any color to be added here on their confidence in the product? And aside from better safety, how competitive could this unique [MOA] be in terms of efficacy. So that's my first question. Second question is just given the nearly $3 billion of capital deployed year-to-date and the fact that you forecast $1 trillion in cumulative industry spending through 2027. Any thoughts as to when the long-term average annual capital deployment goals of $4 billion to $5 billion that were previewed at your Investor Day may kick in? Are they -- is it more of a near-term thing that we should expect this level of spending or more towards the latter end of the decades?

Pablo Legorreta ***Royalty Pharma plc - Founder, Chairman of the Board & CEO***

Sure. I think the sort of the smaller size of the investment initially for us is more a reflection of the facts that the cost of the first trial is not as big as the later-stage trials, right? So it's commensurate with the overall cost of the initial trial, the Phase 2b. And Marshall can add more things to that. But then regarding the question about capital deployment and the fact that the industry requires huge amounts of capital, whether you look at biotech or big pharma and if you look at five or ten years, but it's in the many several trillions of dollars. As I've explained in the past, we see our business with a core, more predictable, more stable capital deployment that comes from a lot of the

deals that we're doing with biotechs, hybrids and synthetic royalties. And we feel confident that those deals on a yearly basis will probably allow us to deploy close to $2 billion, somewhere between $1.5 billion and $2 billion. And then if you add to that one-off transactions that are larger, and you saw this year, one that's quite large with Trelegy or you saw last year, another one that was quite large with MorphoSys, $2 billion. Those one-offs will increase the overall capital deployment meaningfully. And so getting from the $2 billion to $2.5 billion that we have guided to, to the sort of $4 billion to $5 billion, should happen over time and will also be a function of us having those larger one-off transactions included over the next three to five years. And I think it's likely that we will have those larger transactions. I don't know if every year, but certainly, over a three- to five-year period, there will be several of those. But Marshall, why don't you maybe -- if you want to add anything on the Merck transaction, Merck collaboration question. And Chris, if you want to add anything on the capital deployment, go ahead.

Marshall Urist ***Royalty Pharma plc - Executive VP and Head of Research & Investments***

Sure, Mike. Thanks for the question. So I think in terms of the structure and the amounts involved, it's important to remind everyone, this is a very novel deal structure. This has never been done before in this way. So I think we landed in a really great place in terms of the upfront and then the scale of our commitment to co-fund shoulder-to-shoulder with Merck, the Phase 3 program. So I don't know that I would read a lot into relative confidence about the product in terms of the structure. It's more once this product goes to Phase 3, what's the right deal structure and the right way to fund this program and to co-fund this program together. Second, I would also mention in terms of this program, the trial is in a very large -- the MK-8189, excuse me, is in a very large Phase 2b program. So that is going to give us some really interesting and clear data, and we're really going to know, I think, what this product is at that point. Finally, you asked about how differentiated can it be? I think in schizophrenia alone, we all know that there is still unmet need even with the number of drugs out there, patient cycle on and off therapy over time. And so there is certainly a need for options. But I wouldn't lose sight of the fact that there obviously is a very broad potential development program beyond that, that could go much further. And that was certainly on our mind as we're thinking about the potential profile of 8189. I don't know, Chris, what would you add?

Christopher Hite ***Royalty Pharma plc - Vice Chairman & Executive VP***

I guess the only thing I'd add on capital deployment is, I think we feel really good about how we're deploying capital. We-- at the IPO, we said greater than $7 billion over five years. We upped that to $10 billion to $12 billion at the Analyst Day, and we've deployed around $8 billion since our -- since 2020. So we feel like we're tracking really well, and our opportunity set is only expanding. So we're super excited about the opportunity to deploy capital.

Operator

Our next question comes from Greg Fraser with Truist.

Gregory Fraser ***Truist Securities, Inc., Research Division - Research Analyst***

Curious if you're seeing any changes in the competitive landscape for royalty transactions at the higher end of the spectrum in terms of deal size? And then to the extent that you have to access the debt markets to help fund future deals, how should we think about the potential cost of debt?

Pablo Legorreta ***Royalty Pharma plc - Founder, Chairman of the Board & CEO***

Chris, do you want to take the question on competition, and then maybe Terry, the second question.

Christopher Hite ***Royalty Pharma plc - Vice Chairman & Executive VP***

Sure. We really -- we haven't really seen a whole big change in the competitive landscape. I think we are the largest player in the space. We are an investment-grade rated company. We have tremendous access to capital in the capital markets and our own balance sheet and our free cash flow we generate. So we're quite comfortable in the environment of competing in the largest -- for the largest deals. And as I think we mentioned before, we welcome actually competition coming into the field in the sense of continuing to raise the awareness of synthetic royalties and R&D funding and just a different sort of way that biopharma can access capital rather than just the equity or convertible bond market. So we're really happy where we stand within the competitive landscape.

Pablo Legorreta ***Royalty Pharma plc - Founder, Chairman of the Board & CEO***

I think I'll add also, Chris, when we decided to take royalty from our public in 2020, it was sort of an unknown thing for us. We were very excited about doing in fact, it was going to provide us with a lot of benefits going from 24 years of offering as a private company. And we did it in 2020. We have been operating now as a public company for a little bit more than two years. And I think, at least from my perspective, I see Royalty Pharma has a much, much stronger business today than we were maybe three or five years ago in many, many ways. Our cost of capital has declined significantly. Just on the debt side, I think it's probably gone down by 50% or so. And now we have access to the deepest capital market in the world. And scale has, as Chris mentioned, is obviously a really, really important strategic advantage we have and being public has given us greater scale. And also now as a public company, I think many companies, management teams can see who we are, and it's made us a more visible player in the market and one in which like there's many more companies today that want to do business with us because they can see who we are and how we behave and how we can be really good partners to them. So I think the business is in a really strong position today vis-à-vis competition. And the team also, the team that we have been able to assemble since we went public, which has grown, is really, really strong. And all of those things, I think, bode really well for very strong performance over the next several years. But sorry, maybe, Terry, the other question.

Terrance Coyne ***Royalty Pharma plc - Executive VP & CFO***

Yes. So on the cost of debt, certainly, we continue to view debt as an important tool that we will use to fund our business over time. We're in a fortunate position that 60% of our debt matures in 2030 and beyond, and we're borrowing at very low costs. But over time, we would continue to look to the debt markets as a tool to fund acquisitions and to grow the business. I think the great thing is that we have a lot of financial flexibility. The business generates a lot of cash. We finished after you add in the Biohaven payment, we had around $1.6 billion of cash at the end of the quarter. So that gives us a lot of firepower. But we do have -- we do continue to have nice leverage capacity where we can access the debt markets, and we have a revolver, which is prepayable, and it's a $1.5 billion revolver. So we have a lot of flexibility, I think that -- but we do very much value the access to the investment-grade bond market, and we would expect that over time, we'll continue to be in that market. But it's all kind of deal dependent. And when we're looking at acquisitions, we're also looking at it in the context of the cost of capital for the business at that moment.

Operator

Our last question comes from Ash Verma with UBS.

Ashwani Verma ***UBS Investment Bank, Research Division - Director of Americas Equity Research & US Specialty Pharma Analyst***

So omecamtiv mecarbil there, we are headed into an AdCom next month. What is your view on what kind of label this drug could get from a safety and efficacy standpoint, appears to be a wide range of outcome on the efficacy side, whether it gets like a heart failure with ejection fraction of less than 30 if it includes additional qualifiers, like a refractory population or recently hospitalized? And what are you assuming, whether it would require a PK-guided dosing? And does all that change your view on the potential commercial opportunity for the drug?

Pablo Legorreta ***Royalty Pharma plc - Founder, Chairman of the Board & CEO***

Sure. Thanks for the question. Marshall, why don't you?

Marshall Urist ***Royalty Pharma plc - Executive VP and Head of Research & Investments***

Absolutely. Thanks for the question on omecamtiv. So a lot of those questions on the AdCom and the label and where it might go, are probably great questions for Cytokinetics. We've had a really great partnership with Cytokinetics over the years in terms of our initial deal in omecamtiv and then our synthetic royalty transaction on aficamten earlier this year. So we really believe in the Cytokinetics team, they've been executing really well. We'll look out for what happens at the AdCom and then ultimately next year on the PDUFA date. But I think big picture, we think this product does have the potential to help patients who have severe heart failure and look forward to watching what happens in the months to come.

Operator

There are no further questions. I'd like to turn the call over to Pablo Legorreta for closing remarks.

Pablo Legorreta ***Royalty Pharma plc - Founder, Chairman of the Board & CEO***

Thank you, operator. And thank you to everyone on the call for your continuing interest in Royalty Pharma. If you have any follow-up questions, please feel free to reach out to George Grofik and his team.

Operator

This concludes the program. You may now disconnect. Everyone, have a great day.